DEVELOPMENTS IN THE BANKING SYSTEM

The banking system continued to exhibit increased resilience in the fourth quarter, with a high level of capitalisation, marked improvement in profitability and the lowest level of non-performing loans since the Asian financial crisis.

Banking system capitalisation level remained high

The risk-weighted capital ratio (RWCR) and core capital ratio (CCR) of the banking system remained high at 13.8% and 10.8%, despite recording marginal declines. These were due primarily to higher risk-weighted assets (+RM12.6 billion), which outpaced the increase in capital base (+RM0.5 billion). The expansion of capital base was attributed mainly to lower capital deductions for investments in subsidiaries (-RM1.6 billion) post-Bafin mergers, while the higher risk-weighted assets was due mainly to increased lending.

Capital Position Remained Strong

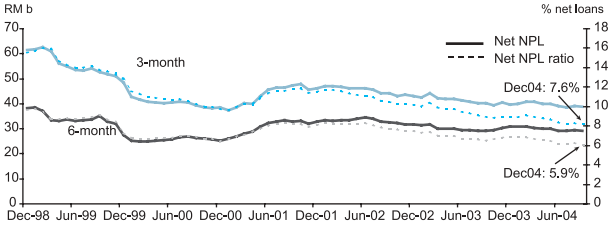
	2003		2004			
	3Q	4Q	1Q	2Q	3Q	4Q
Capital						
CCR (%)	10.9	11.1	11.0	11.7	11.4	10.8
RWCR (%)	13.4	13.8	13.7	14.3	13.9	13.8

Strengthened profitability on account of higher income

The banking system recorded RM3 billion pre-tax profits during the quarter, compared to RM2.8 billion in the previous quarter. The 6.1% increase in pre-tax profits was driven primarily by higher investment (+RM414.2 million), net interest (+RM244 million) and fee-based (+RM177.7 million) incomes. Accordingly, the annualised return on average assets and equity of the banking system improved to 1.4% and 16.5% (3Q2004: 1.3% and 15.5%).

Significant improvements in NPLs

Banking system: Non-performing loans



Net non-performing loans (NPLs) based on the 6-month classification continued trending downwards to RM29 billion to account for 5.9% of total net loans, the lowest level since the Asian crisis (3Q2004: 6.1%). Similarly, the net NPLs based on 3-month classification showed significant improvements to RM37.5 billion or 7.6% of total net loans (3Q2004: 8.1%). The improvement was largely attributed to higher recoveries, reclassifications and write-offs.