DEVELOPMENTS IN THE BANKING SYSTEM

The overall financial position of the banking system remained sound during the quarter, with high level of capitalisation, declining non-performing loans (NPLs) and increased profitability.

Capitalisation remained high, supporting higher loan growth

The risk-weighted capital ratio (RWCR) and core capital ratio of the banking system remained strong at 13.5% and 10.9% respectively as at end-March 2004. During the quarter, risk-weighted assets (RWA) expanded by RM12.1 billion (+ 2.3%), reflecting higher loan growth. This was supported by an increase in capital base of RM0.6 billion (+0.8%) which was due mainly to the raising of subordinated debt capital by a number of banking institutions.

Capital Position Remained Strong

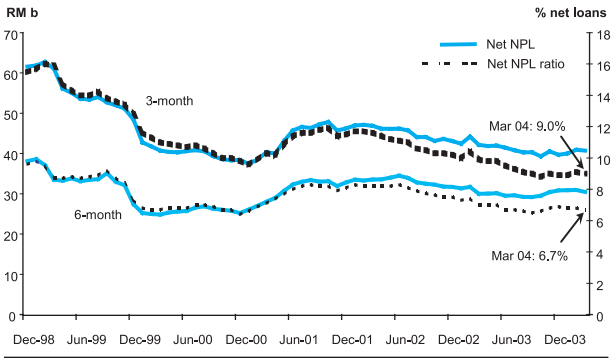
	2003				2004
	1Q	2Q	3Q	4Q	1Q
Capital					
Core-capital ratio (%)	11.0	11.1	10.9	11.1	10.9
RWCR (%)	13.2	13.7	13.4	13.7	13.5

Profitability enhanced by improved market sentiment and asset quality

Pre-tax profits of the banking system increased by RM0.2 billion to RM3 billion in the first quarter. Higher pre-tax profits were driven primarily by increased trading and investment profits (+RM0.4 billion) which reflected improved sentiment in capital markets, as well as lower loan loss provisions (-RM0.4 billion). The annualised return on average assets and equity was marginally higher at 1.4% and 16.6% respectively (4Q2003: 1.3% and 15%).

NPLs of the banking system improved further

Banking system: Non-performing loans



Net NPLs based on the 6-month classification improved by 0.9% to RM30.5 billion, resulting in a decline in net NPL ratio to 6.7% at end-March 2004. The improvement was largely due to write-offs by a number of banking institutions at the end of their financial year and lower incidences of new NPLs during the quarter. The net NPL ratio based on 3-month classification was 9.0% as at end-March 2004.