DEVELOPMENTS IN THE BANKING SYSTEM

The banking system remained sound with a strong capitalisation level and improved profitability in the first quarter of 2005. Non-performing loans (NPLs) of the banking system declined further during the quarter, resulting in strengthened balance sheets.

Capitalisation remained strong

The risk-weighted capital ratio (RWCR) and core capital ratio (CCR) of the banking system remained strong at 13.7% and 10.8% respectively, although both ratios were marginally lower. The decline in the RWCR was largely due to the twin effects of lower capital base (-RM1.1 billion or -1.4%) and higher risk-weighted assets (+RM13.5 billion or +2.4%). The lower capital base resulted from higher investment in subsidiaries and redistribution of profits to shareholders by some banking institutions during the quarter, whilst higher lending activities led to the expansion in risk-weighted assets.

Banking System: Capital Position

	2003	2004				2005
	4Q	1Q	2Q	3Q	4Q	1Q
Capital						
CCR (%)	11.1	11.0	11.7	11.4	11.2	10.8
RWCR (%)	13.8	13.7	14.3	13.9	14.2	13.7

Profitability improved on account of lower expenses

Pre-tax profits of the banking system increased by RM0.3 billion (+12.2%) to RM3 billion during the first quarter of 2005. The stronger performance was achieved on account of significantly lower loan loss provisions (-50%) and operating expenses (-5.5%), which more than offset the marginal declines in net interest (-2.7%) and fee-based income (-1.9%). This resulted in a substantial increase in gross operating profits net of loan loss provisions to RM2.2 billion (+71.7%) for the quarter. The annualised return on average assets and equity both improved to 1.4% and 16.8% respectively (4Q 2004: 1.3% and 14.9%).

Continued downtrend in NPLs

Net NPLs based on the 6-month classification declined by 4.7% during the quarter to RM27.3 billion with NPL ratio dropping to 5.4% of total net loans (4Q 2004: 5.8%). The improvement was due primarily to lower new loans classified as non-performing as well as higher restructuring and rescheduling of credit facilities during the quarter. Net NPLs based on the 3-month classification recorded a marginal increase of 0.1% to RM36.8 billion or 7.3% of total net loans (4Q 2004: 7.5%).

Banking System: Non-performing Loans

