DEVELOPMENTS IN THE BANKING SYSTEM

The financial position of the banking system remained strong in the third quarter of 2005. The high capital position amidst favourable financial performance and improved asset quality enabled the banking system to continue to support economic growth through expanded lending activities.

Strong capital position

The capital position of the banking system remained high during the quarter. As at end-September 2005, the risk-weighted capital ratio (RWCR) and the core capital ratio (CCR) stood at 13.3% and 10.6% respectively. The decline in RWCR and CCR was attributable to the stronger growth in the risk-weighted assets (+2.8%), driven primarily by market risk charges and higher lending activities by the banking system.

Capital Position Remained Strong

	2004				2005		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Capital							
CCR (%)	11.0	11.7	11.4	11.3	10.9	10.8	10.6
RWCR (%)	13.7	14.3	13.9	14.3	13.8	13.6	13.3

Profitability remained favourable

The banking system recorded pre-tax profits of RM9.1 billion for the period up to 30 September 2005, 2.1% higher compared to the corresponding period in 2004. This was largely on account of higher income from interest-related and fee-based activities as well as trading and investment activities. The annualised return on average assets and equity of the banking system stood at 1.3% and 16.3% respectively.

Continued improvements in asset quality

The quality of banking system assets continued to improve, with net non-performing loans (NPLs) based on 6-month and 3-month classifications declined to RM25.5 billion (-2.1%) and RM32 billion (-6.9%) respectively. The improvement was underpinned by higher recoveries and reclassification of NPLs to performing accounts. With the decline, the net NPL ratios improved further to 4.8% based on 6-month classification (2Q 2005: 5.1%), and 6.1% based on 3-month classification (2Q 2005: 6.7%).

Banking system: Non-performing loans

