DEVELOPMENTS IN THE BANKING SYSTEM

The overall financial position of the banking system remained sound during the quarter. The capital level remained high whilst profitability improved further. Non-performing loans based on the 6-month classification, however, increased marginally to 6.9% of total loans.

Capitalisation remained high amidst expansion in lending activities

The risk-weighted capital ratio (RWCR) of the banking system remained unchanged at 13.4% as at end-December 2003. During the quarter, risk-weighted assets (RWA) expanded by RM4.2 billion (+0.8%) driven mainly by higher lending activities. This was supported by an increase in capital base of RM0.4 billion (+0.6%) which was due mainly to the raising of subordinated debt capital by a number of banking institutions.

Capital Position remained high

	2002	2003			
	Dec	Mar	Jun	Sep	Dec
Capital					
Core-capital ratio (%)	11.1	11	11.1	10.9	10.7
RWCR (%)	13.2	13.2	13.7	13.4	13.4
Net NPL ratio					
6 months	7.5	7	6.8	6.5	6.9
3 months	10.2	9.9	9.5	9.0	8.9

Higher gross operating profit amidst a more diversified revenue base

Gross operating profit of the banking system increased by RM0.2 billion (+5.1%) to RM3.2 billion during the quarter as a result of higher interest income from dealing and investment portfolio as well as fee-based income. In tandem with the higher bond yields, interest income from holdings of debt securities recorded an increase of 11.6% to amount to RM1.2 billion, whilst income from fee-based activities rose to RM1.1 billion (+17.8%). The higher gross operating income offset the increase in operating expenses (+7.2%) incurred during the quarter. The increase in expenses was due mainly to payment of year-end bonuses and higher marketing cost reflecting continued aggressive marketing campaigns undertaken by banking institutions. Underpinned by the improved economic environment, banking institutions made lower additional loan loss provisions of RM2.2 billion whilst recoveries continued to increase strongly to RM1.5 billion during the quarter.

NPLs of the business sectors improved further

During the quarter, net NPLs based on the 3-month definition declined by RM0.6 billion to

Banking System

	NPLs as % of total loans to the sector				
	Dec-02	Mar-03	Jun-03	Sep-03	Dec-03
Business enterprises	**18.1**	**17.4**	**16.3**	**15.9**	**16.1**
of which SME loans	-	*15.8*	*14.8*	*14.9*	*14.7*
Households	**8.6**	**8.6**	**8.5**	**8.2**	**8.1**
Agriculture, hunting, forestry and fishing	8.3	7.7	7.9	7.4	7.4
Mining and quarrying	16.1	14.9	12.4	11.8	13.5
Manufacturing	20.8	18.6	17.4	17.6	16.4
Electricity, gas and water	6.2	6.9	6.2	6.0	28.5
Wholesale and retail, restaurants and hotels	11.9	12.3	11.7	12.1	11.9
Construction	30.1	30.1	28.3	28.2	27.8
Purchase of non-residential property	18.0	17.1	17.2	16.9	16.7
Real estate	29.8	28.3	26.7	27.5	25.5
Transport, storage and communication	14.7	14.2	11.6	9.8	11.1
Financial, insurance and business services	10.5	10.0	9.2	7.9	8.1
Community and social services	21.7	21.5	19.3	14.1	15.2
Purchase of securities	20.6	20.3	19.5	18.4	19.3
Purchase of residential property	8.7	8.9	8.9	8.8	8.7
Consumption credit	9.8	9.9	10.1	9.7	9.6
of which: credit card	*4.1*	*4.6*	*4.7*	*4.4*	*4.7*
Purchase of transport vehicles[1]	5.3	5.1	4.7	4.3	4.3
Others	**16.5**	**20.4**	**21.5**	**15.9**	**11.0**

[1] Includes commercial vehicles

RM39.7 billion to account for 8.9% of total net loans. Almost all the business sectors recorded improvements in NPLs.

The gross NPL ratio for SMEs continued to decline throughout the year to 14.7% at the end of the quarter whilst the gross NPL ratio for the household sector also fell marginally by 0.1 percentage points to 8.1% as at end-December 2003.

Banking system: Non-performing loans

