REGULATION AND SUPERVISION

Developments in the Banking System

The banking sector exhibited resilience in the first quarter of 2003 amidst global uncertainty. The level of capital increased further following improved asset quality and higher profitability, hence enhancing the capacity of banking institutions. This stronger foundation would enable the banking system to support economic activities and enhance the resilience of the banking system in an environment of heightened uncertainty.

Strengthened capitalisation amidst higher profitability

The capital position of the banking system was sustained at stronger levels at end-March 2003. The risk weighted capital ratio (RWCR) improved to 13.1% from 12.8% at end-2002, whilst core capital ratio rose to 10.9% from 11.1% at end-2002. The higher expansion in capital base (2.8%) vis-à-vis expansion in the risk-weighted asset (1%) led to the stronger capital position.

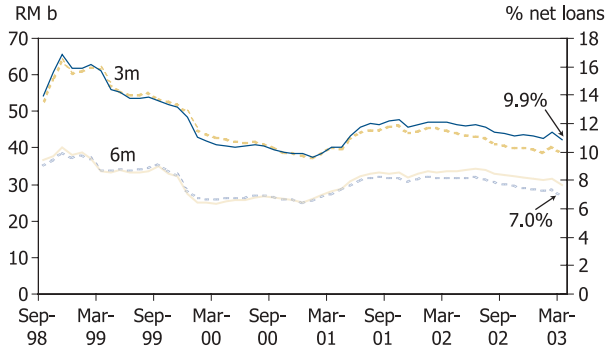
	2002				2003
	Mar.	Jun.	Sep.	Dec.	Mar.
Capital					
Core capital ratio (%)	10.8	10.9	11.0	11.1	10.9
RWCR (%)	12.6	13.2	13.3	12.8	13.1

Tier-1 capital rose by RM1.7 billion or 3%, mainly due to the increase in retained profits of RM1.3 billion and statutory reserves of RM0.8 billion. In tandem with strong lending activities, the risk-weighted assets (RWA) continued to expand.

High profitability sustained as quality of loan portfolio continued to improve

The banking system recorded an increase of 4.2% in net operating income to RM3.1 billion in the first quarter of 2003. This was attributed to the double impact of higher interest income and lower interest expense. As asset quality improved, provisioning requirements declined by RM1.8 billion. During the quarter, there was also substantial recoveries (+RM2.2 billion or 139.7%). As a result, profit before tax increased to RM2.8 billion in the first quarter, 4.4% higher than the level recorded in the preceding quarter.

Banking System: Non-performing Loans



Improved non-performing loans (NPL)

Non-performing loans declined further in the first quarter of 2003. Net NPL on a six-month classification reduced by RM1.8 billion to RM30 billion. Consequently, the net NPL ratio declined to 7.0% at end-March 2003. For the first time since the Asian crisis, the net NPL ratio on a three-month classification fell below 10%. The reduction was brought about by loan conversions and write-offs. The bulk of the conversion was due to the implementation of the restructuring scheme of a large corporate borrower under the CDRC exercise which took place in March 2003.

Total loans-in-arrears rose marginally by 0.3% to account for 10.2% of total outstanding loans at end-March 2003. This was largely attributed to an increase in arrears of between 1-3 months.

Loan loss coverage remained comfortable at 61.2% as end-March 2003, and even stronger at 156.2% if collateral was included.

Danaharta targeting to commence bond redemption by end-2003

Danaharta continued with its recovery efforts in order to maximise the recovery values from the NPLs. With an expected average recovery rate of 56% (48% for acquired loans and 63% for managed loans), Danaharta expects to receive RM29.5 billion from its total portfolio. Danaharta's total recovery collection amounted to RM20.3 billion at end-2002, representing 69% out of the total amount that it expects to recover from its portfolio. In line with the profit sharing arrangement with the selling institutions, Danaharta has, up to end-2002, distributed the surplus recovery amounting to RM371.1 million in cash and 55,899,542 units of securities to 30 financial institutions. In addition, Danaharta has also distributed a sum of RM11.9 billion being the gross cumulative recovery on the managed NPL portfolio. Danaharta has also utilised the cash proceeds to reduce its total borrowings to RM0.4 billion. The remaining RM6.5 billion cash it collected would be used to redeem the first tranche of zero-coupon bonds by end-2003.

Danamodal preparing for closure in 2003

The capital injection by Danamodal stood at RM2.1 billion at end-March 2003 in three banking institutions. Based on its shareholders funds of RM2.2 billion at the end of its financial year on 31 December 2002, and the value it would receive from the disposal of its total investments in equity and debt papers, Danamodal has the capacity to fully redeem its bonds when they mature in October 2003.