

DEVELOPMENTS IN THE BANKING SECTOR

The banking sector continued to exhibit resilience in the second quarter of 2008, supported by strong capitalisation and sustained profitability. Coupled with the continued decline in the level of non-performing loans (NPLs), banking institutions remained well-positioned to continue to support economic activities.

Banking system capitalisation level remained high

As at end-June 2008, the banking system remained well-capitalised with risk-weighted capital ratio (RWCR) and core capital ratio (CCR) of 13% and 10.1% respectively. During the quarter, capital base expanded by 2% due mainly to the issuance of non-cumulative preference shares and issuances of Ringgit denominated subordinated debt by two banking institutions. This partially offset the continued asset expansion of banking institutions and acquisition of subsidiaries. With excess capital of RM39.8 billion, the banking system remains in a strong position to continue supporting the financing needs of the economy.

	2007			2008	
	2Q	3Q	4Q	1Q	2Q
Capital					
CCR (%)	10.8	10.3	10.2	10.3	10.1
RWCR (%)	13.9	13.2	13.2	13.3	13.0

Continued profitability amid more challenging business environment

The banking system recorded a pre-tax profit (PBT) of RM5.2 billion during the quarter (1Q 08: RM 5.7 billion). This was supported

by sustained revenue from financing-related activities and wealth and portfolio management and remittance services. However, this was offset by lower net trading gains (-59%) due to trading losses of some investment and Islamic banks and marked-to-market losses on securities holdings. Accordingly, the annualised average returns on assets and equity stood at 1.7% (1Q 08: 1.8%) and 22% (1Q 08: 23.4%) respectively.

Level of non-performing loans continued to decline

Despite the more challenging environment, asset quality of the banking system improved further during the quarter. Net non-performing loans (NPL) based on 3-month classification declined by 6.7% to RM17.8 bil (1Q 08: RM19 billion) to account for 2.7% of total net loans (1Q 08: 3%). This trend has continued into July as non-performing loans declined to 2.5% of total net loans. This was attributed to continued recoveries and reclassifications of NPLs to performing status, as well as write-offs.

