

## DEVELOPMENTS IN THE BANKING SECTOR

The banking sector remained resilient in the third quarter of 2008, supported by strong capitalisation, sustained profitability and continued improvement in the level of non-performing loans (NPLs). Given the sound financial position and ample liquidity in the system, banking institutions remained well-positioned to continue meeting the financing needs of the economy.

### Banking system capitalisation level remained high

As at end-September 2008, the banking system remained well-capitalised with risk-weighted capital ratio (RWCR) and core capital ratio (CCR) of 13% and 10.5% respectively. Capital base declined marginally by 0.01% on account of a large investment in a subsidiary by a banking institution. With excess capital of RM41.1 billion, the banking system remains in a strong position to withstand economic and financial shocks to our system.

	2007		2008		
	3Q	4Q	1Q	2Q	3Q
Capital					
CCR (%)	10.3	10.2	10.4	10.5	10.5
RWCR (%)	13.2	13.2	13.3	13.3	13.0

### Continued profitability amid more challenging business environment

The banking system recorded a pre-tax profit (PBT) of RM4.1 billion (2Q 08: RM 4.5 billion) during the quarter, supported by sustained revenue from financing-related activities and fee-related income. The annualised average returns on assets and equity stood at 1.5% (2Q 08: 1.6%) and 18.7% (2Q 08: 20.6%) respectively.

### Level of non-performing loans continued to decline

The asset quality of the banking system recorded a further improvement. Net NPLs based on 3-month classification declined by 4.6% to RM16.7 billion (2Q 08: RM17.5 billion) to account for 2.4% of total net loans (2Q 08: 2.6%). This was attributed to continued recoveries and reclassifications of NPLs to performing status. Net NPL ratio remained unchanged at 2.4% at end-October 2008.

