DEVELOPMENTS IN THE BANKING AND INSURANCE SECTOR

The banking sector remains resilient

Strong capitalisation and low level of non-performing loans (NPL) contributed towards the sustained soundness of the banking sector. The strong financial buffer, reinforced by favourable funding and liquidity positions enabled the banking sector to continue extending financing to the economy.

Banking System

	3Q 08	2Q 09	3Q 09
Capital position			
Risk-weighted assets (RM billion)	889.8	904.0	917.6
Capital base (RM billion)	115.5	133.6	133.1
Risk-weighted capital ratio (%)	13.0	14.8	14.5
Core capital ratio (%)	10.6	13.1	12.9
Profit before tax (RM million)	4,022.6	1,863.0[1]	5,102.2
Annualised return on equity (%)	18.7	11.2	13.0
Annualised return on assets (%)	1.5	1.0	1.2

[1]The substantial decline was due to a one-off adjustment in the value of overseas investments of a financial institution

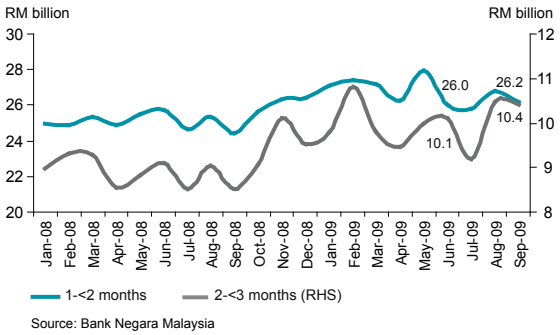
The banking system remained well capitalised with the risk weighted capital ratio (RWCR) and core capital ratio of 14.5% and 12.9% respectively. Capital in excess of the minimum regulatory requirement remained high at RM56 billion. Pre-tax profit for the third quarter improved by 14.3% (adjusted for non-recurring provision made by a financial institution in relation to its investment in an overseas banking subsidiary), attributable to improvements in net financing income and higher treasury gains.

Banking System: Non Performing Loans (NPL)

	3Q 08	2Q 09	3Q 09
	%		
Net NPL (RM million)	16,647.3	15,791.6	15,978.8
Net NPL ratio	2.4	2.2	2.1
Gross NPL ratio	5.1	4.5	4.4
Large Businesses	6.1	4.7	5.0
SMEs	6.9	6.9	7.0
Households	4.1	3.9	3.6

On aggregate, the quality of the banking system's loan portfolio remained high despite the more challenging economic environment in the first half of the year. The net NPL ratio improved to 2.1% as at end of the third quarter despite the marginal 1.2% increase in the level of net NPLs.

Banking System: Loan-in-arrears



Source: Bank Negara Malaysia

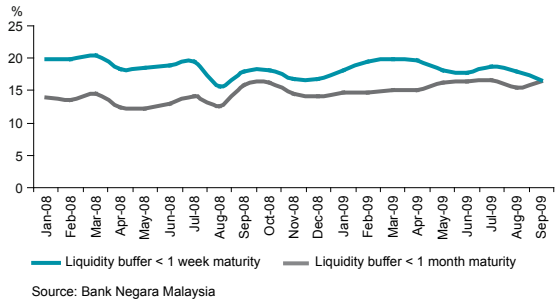
Loan-in-arrears (1-<2 months bucket) increased marginally by 0.7% over the quarter to account for 3.4% of total loans (2Q 09: 3.5% of total loans). Going forward, better labour market conditions and improved business and consumer sentiments will provide support to an improvement in the credit risk outlook.

Banking System: Market Risk Exposure

	3Q 08	2Q 09	3Q 09
Duration weighted position (RM million)	3,411	4,214	4,557
As % of capital base	3.3	3.8	4.0
Net open position (RM million)	6,283	5,377	7,333
As % of capital base	5.4	4.2	5.5

Exposure to interest rate risk increased marginally in 3Q 09 following the increase in holdings of securities, in particular government debt securities.

Banking System: Liquidity Mismatch to Total Deposit Ratio



Source: Bank Negara Malaysia

The ability of the banking system to meet demands for deposit withdrawals and other liquidity obligations remained strong. The liquidity buffer for the maturity buckets of up to one week and one month remained ample at 16.4% and 16.5% of total deposit respectively (2Q 09: 16.4% and 17.7%). Meanwhile, the loan-to-deposit ratio remained satisfactory at 78%.

The insurance and takaful sector continues to strengthen

The insurance and takaful sector remains resilient with healthy level of capitalisation. Profitability improved, driven largely by increased premiums income in almost all business segments as well as favourable results from investment activities in line with the improved capital market conditions.

Excess of income over outgo improved to RM4.1 billion in the third quarter on account of higher premium income for life business and net capital gains. Operating profit for the general business was, however, lower on higher reported claims.

The Capital Adequacy Ratio (CAR) strengthened to 214.7% (2Q 09: 208%) whilst shareholders' equity was sustained at RM14.2 billion (2Q 09: RM14.5 billion). The small decline in shareholders' equity resulted from the transfer of business by one insurance company during the quarter.

Insurance and Takaful Sector: Profitability[p]

	2008		2009		
	2Q	3Q	1Q	2Q	3Q
	RM million				
Life/family business					
Excess of income over outgo	2,568.9	2,161.6	2,042.1	3,200.9	4,125.0
General business					
Operating profit	-10.1	165.9	306.1	506.5	428.7

[p]Preliminary and unaudited