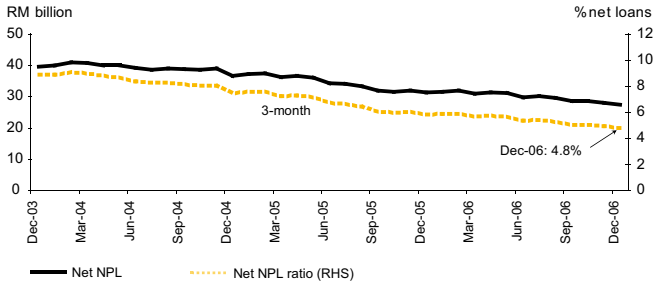
DEVELOPMENTS IN THE BANKING SECTOR

The banking sector remained resilient amidst sustained profitability and strong capitalisation against the backdrop of favourable macroeconomic developments. Coupled with the continued decline in the level of non-performing loans (NPLs), banking institutions are well-positioned to continue to support the increased economic activity.

Banking System: Non-performing Loans



Banking institutions remained well-capitalised

The risk-weighted capital ratio (RWCR) and core capital ratio (CCR) stood at 12.8% and 10% respectively as at end of the final quarter of 2006. Capital base declined marginally (-1.2%) following the completion of merger between two domestic banking groups during the period.

Banking System: Capital Position

	2005	2006			
	4Q	1Q	2Q	3Q	4Q
Capital					
CCR (%)	10.7	10.0	10.0	10.5	10.0
RWCR (%)	13.7	13.1	12.8	13.2	12.8

Sustained profitability from diversified sources

During the quarter, the banking system recorded a strong growth in the level of pre-tax profit (PBT) totalling RM4.4 billion (+15.6%). This was achieved on account of higher fee income (+12.9%) attained from corporate advisory and remittance services, higher net trading and investment income, as well as lower loan loss provisions for the quarter. This contributed to an overall expansion in PBT for the year totalling RM13.9 billion (+12.7%). As a result, the annualised return on average equity improved to 17.3% (end-2005: 16.7%) while the annualised return on assets was sustained at 1.4%.

Continued decline in the level of NPLs

The NPL level of the banking system continued to record a declining trend during the quarter. Total net NPLs based on the 3-month classification declined further by 4.1% to RM27.4 billion as at end of the fourth quarter to account for 4.8% of total net loans (3Q: 5.1%). This was attributed mainly to the higher recoveries as well as the reclassification of NPLs to performing status, and the continued write-offs by banking institutions.