DEVELOPMENTS IN THE BANKING AND INSURANCE SECTORS

Developments in the banking sector

The banking sector remained resilient, underpinned by strong capitalisation and improving non-performing loan (NPL) levels. With strong financial standing, reinforced by favourable funding and liquidity positions, the banking system remained well-poised to support the financing needs of the economy.

Banking System

	4Q 08	3Q 09	4Q 09
Capital position			
Risk-weighted assets (RM billion)	910.8	913.6	928.5
Capital base (RM billion)	115.2	133.5	136.4
Risk-weighted capital ratio (%)	12.6	14.6	14.7
Core capital ratio (%)	10.6	13.1	13.1
Profit before tax (RM million)	**5,039.0**	**5,199.0**	**5,212.1**
Annualised return on equity (%)	18.6	13.2	13.9
Annualised return on assets (%)	1.5	1.2	1.2

Source: Bank Negara Malaysia

The banking system remained well-capitalised with risk-weighted capital ratio (RWCR) and core capital ratio (CCR) of 14.7% and 13.1% respectively. Pro-active capital management activities during the quarter contributed to the increase in the capital base. Consequently, capital in excess of the minimum regulatory requirement registered a comfortable level of RM58.4 billion. Pre-tax profit for the quarter was sustained at RM5.2 billion, supported by an increase in fee-based income and higher investment gains.

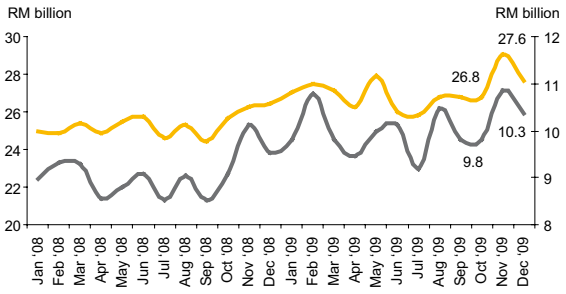
Banking System: Non-Performing Loans (NPL)

	4Q 08	3Q 09	4Q 09
	%		
Net NPL (RM million)	15,888.9	16,007.3	13,885.7
Net NPL ratio	2.2	2.1	1.8
Gross NPL ratio	4.8	4.4	3.7
Large Businesses	5.4	5.0	4.1
Small & Medium Enterprises	6.8	7.0	5.7
Households	4.1	3.6	3.1

Source: Bank Negara Malaysia

The quality of the loan portfolio improved further during the quarter, with the level of net NPLs declining to account for 1.8% of total loans. The improvement was attributable to a number of factors i.e. higher reclassifications to performing status, loan recoveries, write-offs and sale of NPLs during the period. The decline in NPLs was observed in both household and business loan segments.

Banking System: Loan-in-arrears

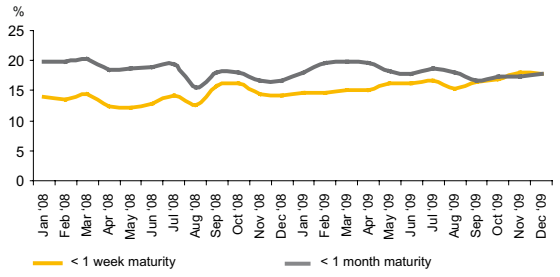


Source: Bank Negara Malaysia

Loan-in-arrears (1-<3 months bucket) rose marginally by 3.9% in the fourth quarter of 2009 to account for 4.8% of total loans. The risk to earnings remained manageable given the high loan loss coverage of 95.2% (3Q 09: 89.5%).

The ability of the banking system to meet its liquidity obligations continued to remain strong during the quarter. The liquidity buffer for maturity buckets of up to one week and one month remained ample at 17.9% for both. Meanwhile, the loan-to-deposit ratio remained satisfactory at 77.9% (3Q 09: 78.9%).

Banking System: Liquidity Buffer to Total Deposit Ratio



Source: Bank Negara Malaysia

Developments in the insurance and takaful sector

The insurance and takaful sector remained sound with a healthy level of capital buffer to withstand shocks to the industry. Profitability recovered owing to the improvements in the equity market and favourable business conditions. Total new business premiums and contributions for the life and family takaful business grew by 8.3% to RM2.4 billion (4Q 08: RM2.3 billlion). The increase was due to growth in the life business sector which partially offset the reduction in investment-linked business. Meanwhile, motor and fire insurance continued to account for the bulk of the increase in gross premiums for the general and general takaful business.

The higher premium income and net capital gains resulted in an improved excess of income over outgo for the life and family takaful business. Operating profit for the general business was also higher, owing to an improvement in new premium income. This was also attributable to the improvement in claims ratio which stood at 60.9% (4Q 08: 62%) on account of lower claims incurred.

The industry Capital Adequacy Ratio (CAR) strengthened to 230.3% (3Q 09: 214.7%) whilst shareholders' equity rose slightly to RM15.1 billion (3Q 09: RM14.2 billion).

Insurance and Takaful Sector: Profitability

	2008		2009		
	4Q	Year	3Q	4Q	Year
	RM million				
Life/family business					
Excess of income over outgo	1,482.7	8,779.6	4,124.4	2,924.8	12,297.3
General business					
Operating profit	316.6	752.4	426.2	782.6	2,028.0

Source: Bank Negara Malaysia