DEVELOPMENTS IN THE BANKING SECTOR

The banking sector remained resilient supported by strong capitalisation and stable credit quality. Although profitability has moderated by the conditions in the economy, the banking system remained financially sound, and supported by ample liquidity, is well-positioned to continue meeting the financing needs of the economy.

As at end-March 2009, the risk-weighted capital ratio (RWCR) strengthened to 13.4%, whilst core capital ratio (CCR) improved by 0.9 ppts to 11.5%. The strengthened capital ratios resulted from capital raising exercises by a number of banking institutions to boost their capital positions. Meanwhile, excess capital amounted to RM44.6 billion.

Pre-tax profit amounted to RM4.8 billion in the first quarter of 2009. The annualised average returns on assets and equity was 1.7% and 19.9% respectively.

Banking System

	1Q 08	4Q 08	1Q 09
Capital position			
Risk-weighted assets (RM bilion)	833.8	909.6	884.9
Capital base (RM billion)	111.3	115.2	118.9
RWCR (%)	13.3	12.7	13.4
CCR (%)	10.4	10.6	11.5
Profit before tax	5,658.1	5,039.0	4,784.3
Annualised ROE	23.4	18.5	19.9
Annualised ROA	1.8	1.5	1.7

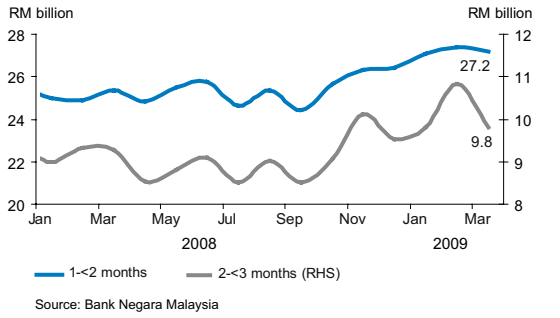
The quality of loan portfolio was preserved despite the challenging environment. The level of gross NPLs registered a small decline of 4% primarily on account of a drop in the business NPLs level, whilst the net NPL ratio stabilised at 2.2% in the first quarter of 2009. The outlook for credit risk, nonetheless, remains challenging particularly in the second half given the lagging behaviour of NPLs.

The potential increase in delinquencies is expected to be manageable, given the comprehensive and pre-emptive measures that have already been put in place to facilitate restructuring and to ensure continued access to financing. These include the establishment of Danajamin Nasional Berhad, SME special funds, Industry Restructuring Loan Guarantee Scheme, Small Debt Resolution Scheme, the re-activation of Corporate Debt Restructuring Committee as well as the Credit Counselling and Debt Management Agency. This is further supported by pro-active efforts undertaken by banking institutions in engaging and assisting borrowers with potential increased financial strains through restructuring and rescheduling of loans.

Banking System: NPL

	%		
	1Q 08	4Q 08	1Q 09
Net NPL (RM million)	19,042.9	15,897.3	16,029.1
Net NPL ratio	3.0	2.2	2.2
Gross NPL ratio	6.1	4.8	4.6
Business (excl. SMEs)	7.9	6.3	5.9
SMEs	8.4	6.8	6.8
Household	5.0	4.2	4.1

Banking System: Loan-in-arrears



Source: Bank Negara Malaysia

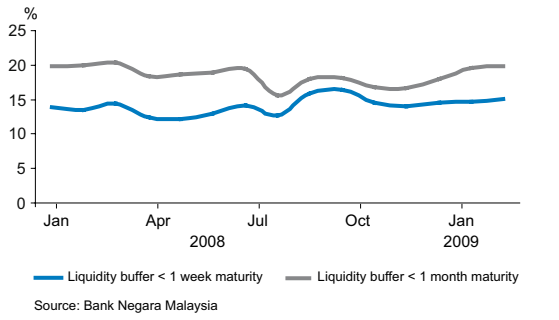
The banking institutions' exposure to interest rate risk, which forms the main component of market risk, increased in 1Q 09 due to higher exposure in interest rate swaps. Interest rate risk, as indicated by the duration weighted position, was manageable, accounting for 6.2% of capital base. Exposure to foreign exchange risk, largely denominated in US dollar, remained minimal at 4.7% of capital base. The level of market risk is expected to remain low supported by hedging and financial institutions pro-active management of interest rate exposures.

Banking System: Market Risk

	1Q 08	4Q 08	1Q 09
Duration weighted position (RM million)	4,967	4,371	6,373
As % of capital base	5.0	4.4	6.2
Net open position (RM million)	4,720	6,219	5,607
As % of capital base	4.3	5.2	4.7

The liquidity buffer of the banking system as at March 2009 for the maturity bucket of up to one month remained ample at 19.9% of the total deposit (4Q 08: 16.6%). Meanwhile, the projected surplus of the banking sector increased to RM128.5 billion (4Q 08: RM116.8 billion) for the maturity bucket of up to one week and RM168.7 billion (4Q 08: RM138.5 billion) for the maturity bucket of up to one month. These were sufficient to meet demand for deposit withdrawals and other liquidity obligations. Loan-to-deposit ratio remained stable at 73.7% as at March 2009.

Banking System: Liquidity Mismatch to Total Deposit Ratio



Source: Bank Negara Malaysia

Developments in the insurance and takaful sector

The insurance and takaful sector sustained a sound position backed by firm capital level. Premiums and contributions were favourable contributing to the moderate level of profitability. Developments in the capital market, nonetheless, continued to pose downward pressure on profitability.

The Capital Adequacy Ratio was 211.3% at the end of March 2009 (4Q 08: 187.6%). Shareholders' equity increased to RM14.5 billion (1Q 08: RM13.4 billion) attributable to capital raising exercises by several insurers.

Excess of income over outgo moderated to RM2.1 billion in the first quarter of 2009 partly on account of higher payments of net policy benefits totalling RM2.5 billion. The moderation also resulted from the 11.3% decline in new investment-linked business.

Operating profit for the general business moderated improved slightly on account for higher earned premium income from the motor and fire business.

Exposure to market movements remained manageable given the improvement in insurers' investment in fixed income securities, which more than offset the decline in value of investments in equity. The ratio of market value to cost for the investment in fixed income securities improved, as a result of the declining yields of AAA and AA rated PDS held by insurance companies. The ratio of liquid assets to benefits/claims was 1.9 times (1Q 08: 2.2 times).

Insurance and Takaful Sector: Profitability

	RM million		
	1Q 08	4Q 08	1Q 09
Life/family business			
Excess of income over outgo	2,696,3	1,369.9	2,029.0
General business			
Operating profit	267.2	327.3	204.6