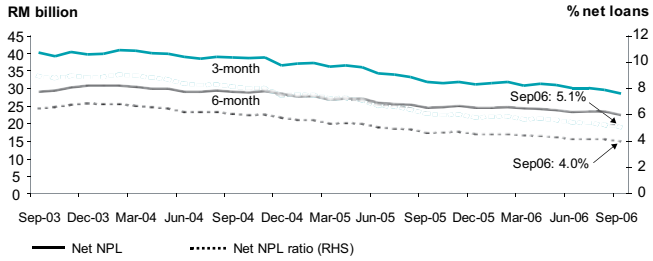
DEVELOPMENTS IN THE BANKING SECTOR

The banking system continued to exhibit resilience and financial strength underpinned by improved key soundness indicators during the third quarter of 2006. Stronger capitalisation and sustained profitability levels were recorded amidst continued downtrend in the level of NPL.

Banking system: Non-performing loans



Capitalisation remained strong on account of higher level of capital base

The banking system remained well-capitalised on account of higher capital base which expanded by 3.1% from the previous quarter. This was mainly attributable to the inclusion of year-end profit by some banking institutions. The RWCR and core capital ratio (CCR) improved to 13.2% and 10.4% respectively.

Banking system: Capital Position

	2005		2006		
	3Q	4Q	1Q	2Q	3Q
Capital					
CCR (%)	10.7	10.7	10.0	10.2	10.4
RWCR (%)	13.5	13.7	13.1	13.0	13.2

Profitability sustained

The banking system recorded encouraging level of pre-tax profit (PBT) totalling RM3.8 billion (+42.2%) on account of higher net interest income (+15%) attained from stronger loans- and financing-related activities (+12.9%), higher net trading and investment income, as well as lower loan loss provisions. For the first nine months of 2006, total PBT improved by 8.1% to RM9.6 billion (Jan-Sep 2005: RM8.9 billion). As a result, the annualised returns on average assets and equity improved to 1.3% and 16.5% respectively (2Q 2006: 1.2% and 15.5% respectively).

Declining trend of banking system NPL level continued

Based on the 3-month classification, the NPL level continued its downward trend as net NPLs declined further by 5.5% to RM28.6 billion (2Q: RM30.2 billion).This was attributable mainly to lower amount of NPL classifications (-8.2%) and higher NPL write-offs (+29.7%) during the quarter. As a result, the net NPL ratio declined to 5.1% (2Q: 5.4%).