

DEVELOPMENTS IN THE BANKING AND INSURANCE SECTORS

Developments in the banking sector

The banking sector remained resilient with high capital buffers, stable asset quality and strong liquidity position. Financial intermediation function remained orderly and supportive of the economy. The banking system has strong capital buffer to withstand any potential economic and financial shocks.

	2009		2010
	1Q	4Q	1Q
Banking System			
Capital position			
Risk-weighted assets (RM billion)	886.7	928.5	946.0
Capital base (RM billion)	120.4	142.6	140.8
Risk-weighted capital ratio (%)	13.6	15.4	14.9
Core capital ratio (%)	11.6	13.8	13.2
Profit before tax (RM million)			
Annualised return on equity (%)	16.7	16.1	15.2
Annualised return on assets (%)	1.4	1.5	1.4

Source: Bank Negara Malaysia

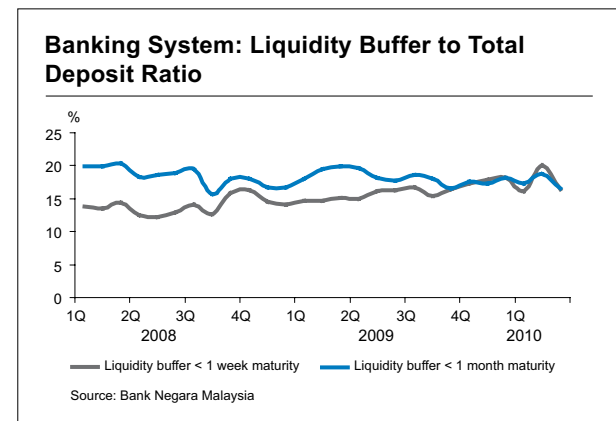
The level of capitalisation of the banking system remained strong albeit slightly lower than the end of 2009 position due largely to seasonal dividend payments by several banking institutions. The high quality of capital remained intact with Tier-1 capital comprising 76.5% of total capital. Capital buffers remained at a comfortable level of RM61.3 billion. Pre-tax profit for the quarter was sustained, supported by increase in net interest income from financing portfolio in tandem with the stronger loan demand and higher economic activities.

	2009		2010
	1Q	4Q	1Q
Banking System: Non-Performing Loans (NPL)¹			
Net NPL (RM million)	16,032.9	13,787.9	14,486.8
	%		
Net NPL ratio	2.2	1.8	1.8
Gross NPL ratio	4.6	3.7	3.5
Large Businesses	4.8	4.1	4.5
Small & Medium Enterprises	6.8	5.6	5.5
Households	4.1	3.1	2.8

¹ Beginning January 2010, loans are reported based on FRS 139. The adoption of FRS 139 requirement is based on the financial year of the banks. For banks that have adopted FRS 139, the level on NPLs reflects impaired loans.

Source: Bank Negara Malaysia

The quality of loan portfolio remained relatively stable during the quarter attributable to prudent underwriting practices and persistent active management of collection and recoveries. Beginning from the financial year 2010, the financing portfolio of banks is reported in accordance to FRS 139 Financial Instruments: Recognition and Measurement. The adoption of FRS 139 has manageable impact as banks have progressively been preparing for its implementation. The amount of impaired loans was slightly higher, particularly in the large business segment. Meanwhile, the quality of SMEs and household loans continued to strengthen, contributing to the stable overall NPL ratio. Loan loss coverage remained high at more than 90%.



The banks maintained sufficiently ample liquidity to meet demands for deposit withdrawals and other liquidity obligations. The liquidity buffer of the banking system for the maturity buckets of up to one week and one month remained comfortable at 16.4% and 16.5% of total deposits respectively (4Q 09: 18.1% and 18.2%). Meanwhile, loan-to-deposit ratio remained satisfactory at 79.2% (4Q 09: 77.9%).

Developments in the insurance and takaful sector

The insurance and takaful sector remained resilient with strong Capital Adequacy Ratio of 241.9% (4Q 09: 230%) and excess capital of RM23.3 billion. The profitability of the sector improved driven by broad-based increase in premium income as well as the favourable returns from investment activities given the positive conditions in the financial markets.

Excess income over outgo of life insurers improved to RM2.9 billion (1Q 09: RM2.0 billion) with improvements registered across all business

segments. Operating profits for the general business also rose from corresponding period in 2009 on account of higher income from motor and personal accident businesses and lower claims incurred.

Insurance and Takaful Sector: Profitability

	2009			2010
	1Q	4Q	Year	1Q
RM million				
Life/family business				
Excess of income over outgo	2,007.8	3,194.7	12,567.2	2,924.1
General business				
Operating profit	311.7	821.9	2,092.9	509.8

Source: Bank Negara Malaysia