

## DEVELOPMENTS IN THE BANKING AND INSURANCE SECTORS

Financial stability remained intact throughout the second quarter supported by well-capitalised financial institutions. Financial intermediation activity remained supportive of domestic economic activity. While the financial market exhibited some increase in volatility following developments related to the sovereign debt crisis in some countries in Europe, the domestic markets remained orderly.

### Developments in the banking sector

The banking sector remained resilient, underpinned by high capitalisation, stable asset quality and strong liquidity position. Lending activities continued to remain robust and broad-based.

Banking System	2009		2010	
	2Q 09	1Q 10	2Q 10	
<b>Capital position</b>				
Risk-weighted assets (RM billion)	904.0	945.4	972.3	
Capital base (RM billion)	133.6	141.9	144.4	
Risk-weighted capital ratio (%)	14.8	15.0	14.8	
Core capital ratio (%)	13.1	13.3	12.9	
<b>Profit before tax (RM million)<sup>1</sup></b>	<b>1,863.0</b>	<b>5,302.8</b>	<b>5,826.2</b>	
Annualised return on equity (%)	11.2	15.9	16.5	
Annualised return on assets (%)	1.0	1.5	1.5	

<sup>1</sup> Profit before tax for 2Q 2009 reflected a significant one-off impairment provision on valuation losses for the overseas investment of one bank.

Source: Bank Negara Malaysia

The risk-weighted capital ratio (RWCR) and core capital ratio (CCR) were 14.8% and 12.9% respectively. Capital buffers remained strong at RM62.7 billion with Tier-1 capital comprising 75.2% of total capital. Pre-tax profit for the quarter was sustained, driven partly by net interest income following the continued expansion in the banks' financing portfolio.

### Banking System: Non-Performing Loans (NPL)<sup>2</sup>

	2009		2010	
	2Q	1Q	2Q	
Net NPL (RM million)	15,791.6	15,366.3	17,717.7	
	%			
Net NPL ratio	2.2	1.9	2.2	
Gross NPL ratio	4.5	3.6	3.6	
Large Businesses	4.7	4.9	5.2	
Small & Medium Enterprises	6.9	5.4	5.4	
Households	3.9	2.8	2.5	

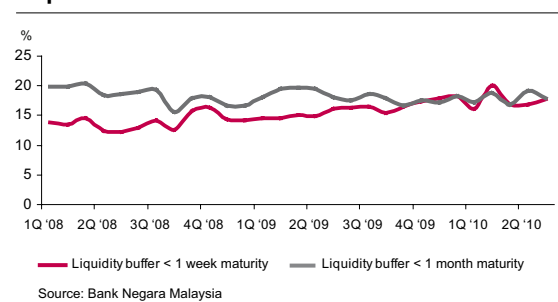
<sup>2</sup> Beginning January 2010, loans are reported based on FRS 139. The adoption of FRS 139 requirement is based on the financial year of the banks. For banks that have adopted FRS 139, the level of NPLs reflects impaired loans.

Source: Bank Negara Malaysia

The high quality of the loan portfolio was maintained during the quarter. Gross NPLs (inclusive of impaired loans) was sufficiently supported by a high loan loss coverage of 93.1%. The level of loans-in-arrears was stable at 4.4% of total loans.

The banking system continued to remain flushed with liquidity that was more than sufficient to meet demands for deposit withdrawals and other liquidity obligations. The liquidity buffer for both the maturity buckets of up to one week and one month was comfortable at 17.1% (1Q 10: 16.8% and 16.9%). Meanwhile, the loan-to-deposit ratio remained manageable at 81.4% (1Q 10: 79.1%).

### Banking System: Liquidity Buffer to Total Deposit Ratio



## Developments in the insurance and takaful sector

The insurance and takaful sector remained resilient with strong Capital Adequacy Ratio of 223.5% (1Q 10: 231%) and excess capital of RM18.5 billion. Profitability was sustained with profits amounting to RM3.5 billion. Premium income remained robust driven by continued demand for insurance protection.

Excess of income over outgo for life insurers amounted to RM3.0 billion on account of lower net unrealised gains especially for the

investment-linked business. The general business recorded higher operating profits attributable to higher income from motor and fire businesses and lower claims incurred.

### Insurance and Takaful Sector: Profitability

	2009		2010		
	2Q	1H	1Q	2Q	1H
	RM million				
<b>Life/family business</b>					
Excess of income over outgo	3,251.9	5,240.0	2,923.3	2,956.9	5,880.2
<b>General business</b>					
Operating profit	530.0	841.7	526.7	577.5	1,104.2

Source: Bank Negara Malaysia