

DEVELOPMENTS IN THE BANKING AND INSURANCE SECTORS

Financial stability was maintained throughout the fourth quarter, supported by sound financial institutions and orderly financial markets which provided continued support for financial intermediation in the domestic economy.

On 3 November 2010, the Bank announced the implementation of a maximum loan-to-value (LTV) ratio of 70% for the third house financing facility taken by a borrower. The targeted implementation of the LTV ratio is aimed to support a stable and sustainable property market, and promote the continued affordability of homes for the general public.

Developments in the banking sector

The banking sector remained resilient, with strong capital buffers, sustained profitability, stable loan quality and ample liquidity. The financing portfolio was broad-based, with financing extended to households and small and medium-sized enterprises comprising 55.4% and 14.5% of total outstanding financing respectively.

Banking System				
	2009		2010	
	4Q	3Q	4Q	
Capital position				
Risk-weighted assets (RM billion)	928.5	993.3	1,017.9	
Capital base (RM billion)	142.6	146.5	148.3	
Risk-weighted capital ratio (%)	15.4	14.7	14.6	
Core capital ratio (%)	13.8	13.2	12.8	
Profit before tax (RM million)				
Annualised return on equity (%)	14.0	16.6	16.5	
Annualised return on assets (%)	1.2	1.6	1.5	

Source: Bank Negara Malaysia

Capitalisation was strong with the risk-weighted capital ratio (RWCR) and core capital ratio (CCR) at 14.6% and 12.8% respectively. Approximately 78% of total capital comprised high quality Tier-1 capital mainly in the form of paid-up capital and reserves. Capital in excess of the minimum 8% requirement stood above RM60 billion.

The banking sector recorded a pre-tax profit (PBT) of RM5.7 billion during the quarter (3Q 2010: RM 5.9 billion). This was supported by sustained revenue from financing-related activities. Average returns on assets and equity

stood at 1.5% (3Q 2010: 1.6%) and 16.5% (3Q 2010: 16.6%) respectively.

Loan quality remained stable with fewer new incidences of impairment and prudent write-offs observed during the quarter. Consequently, the level of net NPLs (including impaired financing) improved marginally to account for 2% of total loans. In addition, the level of loans-in-arrears for less than 3 months improved slightly to account for 4.2% of total loans. The loan loss coverage correspondingly strengthened further to 99.5% (3Q 2010: 97%).

Liquidity in the banking system remained ample during the quarter. The liquidity buffers for the maturity buckets of up to one week and one month were at 16.6% and 16% of total deposits respectively (3Q 2010: 18.8% and 19.2%). These were sufficient to meet demand for deposit withdrawals and other liquidity obligations. The loan-to-deposit ratio was stable at 81.4% (3Q 2010: 81.2%).

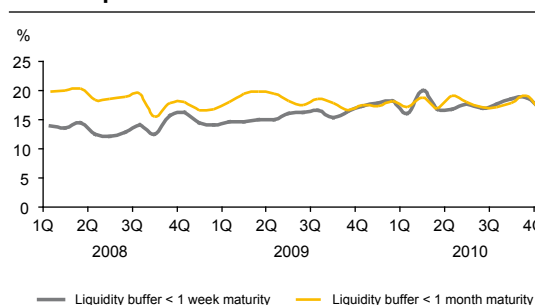
Banking System: Non-Performing Loans (NPL)¹

	2009		2010	
	4Q	3Q	4Q	
Net NPL (RM million)	13,787.9	17,425.7	17,231.2	
	%			
Net NPL ratio	1.8	2.1	2.0	
Gross NPL ratio	3.7	3.3	3.1	
Large businesses	4.2	4.8	4.4	
Small & medium enterprises	5.4	4.9	4.5	
Households	3.1	2.4	2.3	

¹ Beginning January 2010, loans are reported based on Financial Reporting Standards (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

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 resilient with a strong Capital Adequacy Ratio of 225.7% (3Q 2010: 222.7%) and excess capital of RM18.5 billion. The excess of income over outgo for life and family takaful business profits recorded a slight moderation in the fourth quarter to RM3.1 billion (3Q 2010: RM5 billion) due to lower capital gains recorded amidst higher net policy benefits. However, year-on-year, total profits recorded an improvement of 12.6% to RM14.1 billion (2009: RM12.5 billion) on account of improved capital gains and higher net premium income. New business premium contributions grew by 12.5% to RM2.7 billion (3Q 2010: RM2.4 billion) due to the continued growth in investment-linked business.

Similarly, the general insurance and takaful industry also recorded an improvement in

profitability to RM0.56 billion (3Q 2010: RM0.51 billion). This was supported by higher revenue from motor and personal accident businesses. The overall claims ratio stood at 62.8%, with the dominant motor segment which account for about 50% of total premium revenue, continuing to exhibit a significantly higher loss ratio of 79.6% (relative to overall claims). This is attributed mainly to third party motor insurance.

Insurance and Takaful Sector: Profitability^p

	2009		2010		
	4Q	Year	3Q	4Q	Year
	RM million				
Life insurance & family takaful business					
Excess of income over outgo	3,165.8	12,522.7	5,064.1	3,140.8	14,095.0
General insurance & general takaful business					
Operating profit	826.4	2,097.4	514.4	557.7	514.4

^p Preliminary

Source: Bank Negara Malaysia