

## DEVELOPMENTS IN THE BANKING SECTOR

The banking sector continued to exhibit high resilience in the first quarter of 2008, supported by strong capitalisation and profitability. Coupled with the continued decline in the level of non-performing loans (NPLs), banking institutions are well-positioned to continue to support economic activities.

### *Banking system remained well-capitalised*

The banking system risk-weighted capital ratio (RWCR) and core capital ratio (CCR) stood at 13.2% and 10.2% respectively following implementation of the Basel II Standardised Approach effective 1 January 2008. During the quarter, capital base expanded by 3.5% following the establishment of an Islamic banking subsidiary and an investment bank as well as issuance of subordinated debt.

|                | 2007 |      |      |      | 2008 |
|----------------|------|------|------|------|------|
|                | 1Q   | 2Q   | 3Q   | 4Q   | 1Q   |
| <b>Capital</b> |      |      |      |      |      |
| CCR (%)        | 10.4 | 10.8 | 10.3 | 10.2 | 10.2 |
| RWCR (%)       | 13.1 | 13.9 | 13.2 | 13.2 | 13.2 |

### *Sustained profitability from diversified income sources*

During the quarter, the banking system registered a growth of 7.1% in unaudited pre-tax profit (PBT) to RM5.7 billion (4Q 2007: RM5.3 billion). The PBT level remained stable

on account of continued revenue generated from financing-related activities and wealth management services. Consequently, the annualised average returns on asset and equity improved to 1.8% (4Q 2007: 1.5%) and 23.5% (4Q 2007: 19.8%) respectively.

### *Continued decline in the level of NPLs*

The NPL level of the banking system continued to improve during the quarter. Total net NPLs based on the 3-month classification declined further by 5.2% to RM19 billion (4Q 2007: RM20.1 billion) to account for 3% of total net loans (4Q 2007: 3.2%). This was attributed mainly to the continued recoveries and reclassifications of NPLs to performing status as well as write-offs during the quarter. The NPL ratio has improved further to 2.9% as at 30 April 2008.

Banking System: Non-performing Loans

