

DEVELOPMENTS IN THE BANKING SECTOR

The banking system continued to demonstrate strong resilience in the first quarter of 2007, as supported by high level of capitalisation and improved profitability. The banking system lending activities continued to grow amidst further improvement in loan quality.

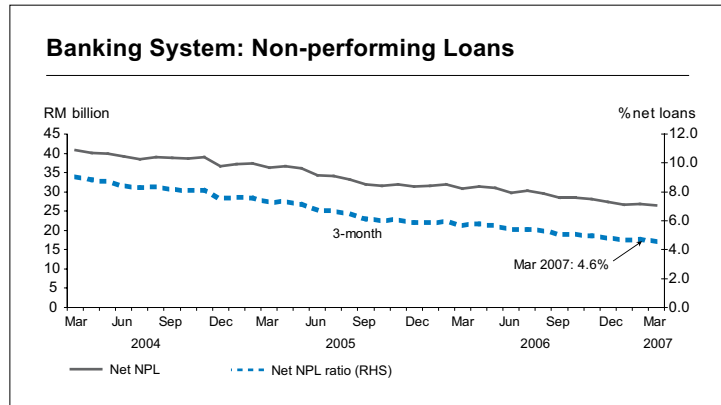
Banking institutions remained well-capitalised

The capitalisation of the banking system remained strong throughout the first quarter albeit higher lending activities. Capital base strengthened by 1.5% following the inclusion of three new investment banks. The risk-weighted capital ratio (RWCR) and core capital ratio (CCR) stood at 13.1% and 10.5% respectively as at end-March 2007.

	2006				2007
	1Q	2Q	3Q	4Q	1Q
Capital					
CCR (%)	10.0	10.0	10.5	10.7	10.5
RWCR (%)	13.1	12.8	13.3	13.5	13.1

Profitability improved on account of higher income

Pre-tax profit registered an increase of 17.8% compared with the corresponding period of 2006 to amount to RM3.7 billion (1Q 2006:



RM3.2 billion and 4Q 2006: 4.3 billion). The favourable performance was attributed mainly to higher income derived from interest related activities (+RM0.8 billion or +13.9%) and fee-based activities (+0.5 billion or +38.3%) as well as treasury business (+RM1 billion or +114.2%). The return on average assets and equity remained unchanged at 1.3% and 16.9% respectively (1Q 2006: 1.3% and 17%).

Continued downtrend in NPLs

Asset quality of the banking system continued to improve during the quarter. Based on the 3-month classification, total net NPLs recorded a decline of 3.4% to RM26.4 billion (4Q 2006: RM27.4 billion). The improvement was attributed primarily to higher recoveries (+12.5%) and reclassifications of NPLs to performing status (+5.9%) as well as continued write-offs. The net NPL ratio consequently declined to 4.6% of net loans (4Q 2006: 4.8%).