

## DEVELOPMENTS IN THE BANKING SECTOR

The banking system continued to exhibit high resilience in the second quarter of 2007, supported by strong capitalisation and improved profitability. At the same time, lending activities continued to grow amidst further improvement in loan quality.

### **Capitalisation level remained strong**

The banking system remained well-capitalised with the risk-weighted capital ratio (RWCR) sustained above 13% throughout the quarter. As at end-June 2007, although the RWCR remained at 13.1%, the capital base expanded by 3.1%, mainly due to issuance of subordinated debt capital by two banking institutions.

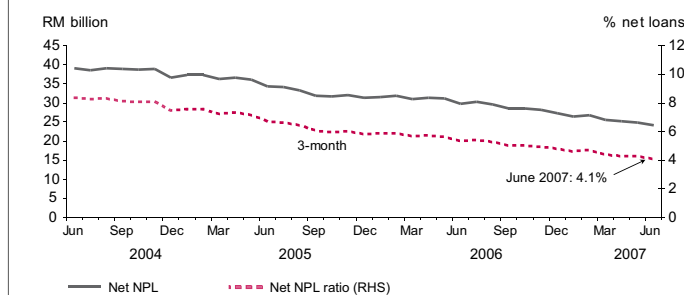
#### Banking System: Capital Position

	2006			2007	
	2Q	3Q	4Q	1Q	2Q
Capital					
CCR (%)	10.0	10.5	10.7	10.4	9.9
RWCR (%)	12.8	13.3	13.5	13.1	13.1

### **Profitability improved on account of higher income**

The pre-tax profit of the banking sector registered a strong growth of 17.6% to RM4.5 billion (1Q: RM3.8 billion). The favourable

#### Banking System: Non-performing Loans



performance was attributed mainly to higher income derived from both interest related activities (+RM0.4 billion or 5.6%) and fee-based activities (+RM0.2 billion or 9.2%). Consequently, the annualised return on average assets and equity improved to 1.5% and 18.8% (1Q: 1.4% and 17.4%) respectively.

### **Continued downtrend in NPLs**

The level of non-performing loans (NPLs) continued to improve with the total net NPLs based on the 3-month classification declining by 6.1% to RM24.1 billion (1Q: RM25.6 billion) as at end of the quarter. The improvement was attributed primarily to higher recoveries (+9%) and reclassifications of NPLs to performing status (+15.5%) as well as continued write-offs. Given the continuous improvement in loan quality, the net NPL ratio declined further to 4.1% of net total loans (1Q: 4.4%).