

DEVELOPMENTS IN THE BANKING SECTOR

The banking system continued to demonstrate a high resilience in the third quarter of 2007, supported by strong capitalisation, stable profitability and further improvements in loan quality.

Capitalisation level remained strong

The banking system remained well-capitalised with the risk-weighted capital ratio (RWCR) sustained at 13.1% throughout the quarter. RWCR declined slightly as at end September 2007, mainly due to redemptions of Tier II capital, the distribution of profits by banks, and the growth in lending activities which attributed to an increase in risk-weighted assets.

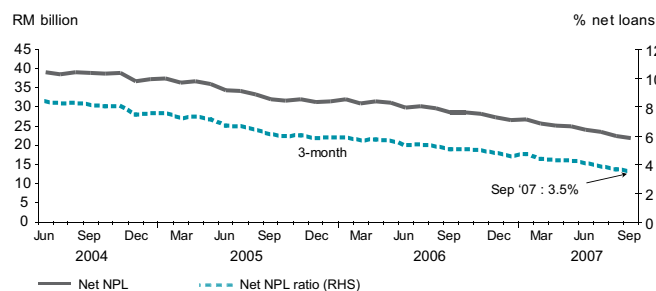
Banking System: Capital Position

	2006		2007		
	3Q	4Q	1Q	2Q	3Q
Capital					
CCR (%)	10.5	10.7	10.4	10.7	10.2
RWCR (%)	13.3	13.5	13.1	13.9	13.1

Profitability remained stable

Profitability of the banking sector remained stable with pre-tax profit remaining steady at RM4.28 billion (2Q: RM4.32 billion). Income arising from interest-related activities improved marginally by RM0.1 billion (1%) while net trading gains recorded an increase

Banking System: Non-performing Loans



of RM0.2 billion (40.5%). These were largely offset by a small decline in fee-based income (-RM0.08 billion or -4.2%). Accordingly, annualised return on average assets and equity remained strong at 1.5% and 18.7% (2Q: 1.4% and 18.6%) respectively.

NPLs continued to improve

The level of non-performing loans (NPLs) continued to improve with the total net NPLs based on the 3-month classification declining by 8.6% to RM21.9 billion (2Q: RM24 billion) as at end of the quarter. The improvement was attributed primarily to higher recoveries (+51.6%) and reclassifications of NPLs to performing status (+47.1%) as well as continued write-offs (+40%) which resulted in lower loan loss provisions (-3.4% to RM3.2 billion). Given the continuous improvement in loan quality, the net NPL ratio declined further to 3.5% of net total loans (2Q: 4.1%).