

DEVELOPMENTS IN THE BANKING SECTOR

The banking sector continued to demonstrate high resilience in the fourth quarter of 2007, 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 institutions remained well-capitalised

The capitalisation of the banking system remained strong despite a slightly lower risk-weighted capital ratio (RWCR) and core capital ratio (CCR) of 13% and 9.9% respectively as at end of the final quarter of 2007. The marginally lower capital ratios were due to higher risk weighted assets (+RM19.7 million or +2.5%) in line with growth in lending activities which was cushioned by a marginal expansion in capital base by 1.5% following the issuance of subordinated debt capital and injection of capital by banking institutions.

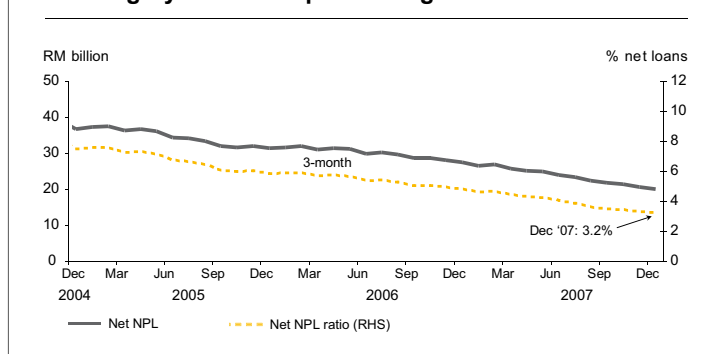
Banking System: Capital Position

	2006	2007			
	4Q	1Q	2Q	3Q	4Q
Capital					
CCR (%)	10.7	10.4	10.8	10.3	9.9
RWCR (%)	13.5	13.1	13.9	13.2	13.0

Profitability remained stable

During the quarter, the banking system registered a strong growth of 21% in unaudited pre-tax profit (PBT) to RM5.2

Banking System: Non-performing Loans



billion (3Q: RM4.3 billion). The favourable performance was attributed mainly to higher net interest income by RM0.4 billion (+6.2%) and net investment gain by RM0.2 billion (+35%), as well as lower loan loss provisions by RM0.6 billion (-48.6%) for the quarter. As a result, there was an overall expansion in PBT for the year by 34.8% to reach RM17.6 billion. Consequently, the return on average equity improved to 19.7% (3Q: 18.7%) while return on assets was sustained at 1.5%.

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 7.4% to RM20.1 billion (3Q: RM21.7 billion) as at end of the fourth quarter to account for 3.2% of net total loans (3Q: 3.5%). This was attributed mainly to the sale of NPL and higher reclassifications of NPLs to performing status and continued write-offs by banking institutions.