MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates remained stable

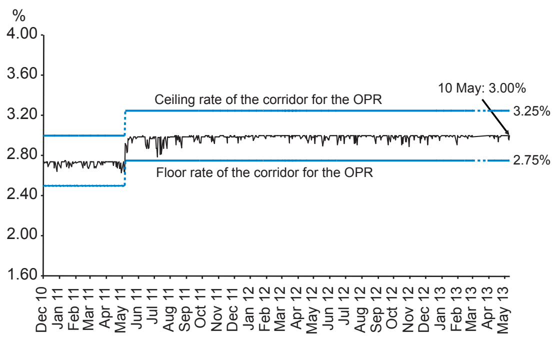
The Overnight Policy Rate (OPR) was maintained at 3.00% during the first quarter of 2013. At the prevailing level of the OPR, monetary conditions remain supportive of economic activity.

Reflecting the unchanged OPR, the average overnight interbank rate was stable during the quarter, moving within a range of 2.91% to 3.00% between 1 January and 31 March 2013. Interbank rates of other short-term maturities were also relatively stable. Rates on interest rate swaps and the 3-month Kuala Lumpur Interbank Offered Rate (KLIBOR) futures remained stable during the period, reflecting market expectations for the OPR to remain unchanged.

Retail deposit rates were stable during the quarter. The average quoted fixed deposit (FD) rates of commercial banks were relatively unchanged. As at end-March 2013, the average quoted FD rates of commercial banks for the tenures 1 to 12 months ranged between 2.91% to 3.15% respectively.

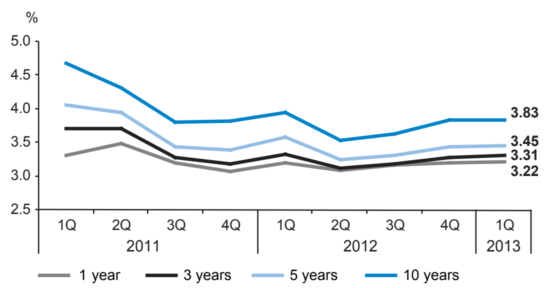
Borrowing costs to the economy were also broadly stable throughout the period. The average base lending rate (BLR) of commercial banks remained unchanged at 6.53%, while the weighted average lending rate (ALR) on loans outstanding edged lower to 5.50% as at end-March (end-December 2012: 5.52%). This reflected the maturity of loans that were contracted during the period of higher borrowing costs prior to the OPR reductions in 2008 and 2009, and the addition of new loans at lower rates. Borrowing costs for businesses and households continued to be supportive of economic activity, as lending rates remained below the levels prior to the global financial crisis.

Daily Weighted Average Overnight Interbank Rate



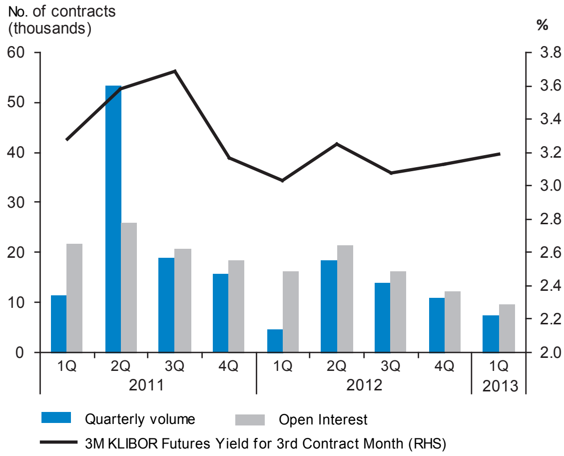
Source: Bank Negara Malaysia

Interest Rate Swap: Rates



Source: Bloomberg

3 Month KLIBOR Futures



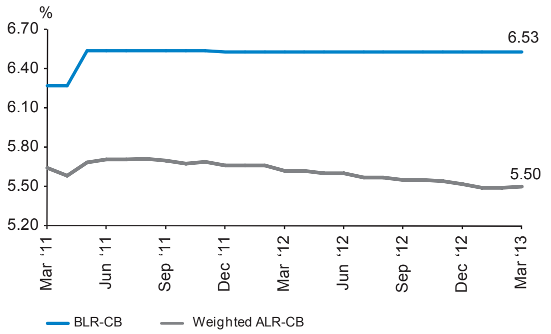
Source: Bursa Malaysia

Interest Rates

	2012		2013
	1Q	4Q	1Q
	At end-period (%)		
Overnight Policy Rate (OPR)	3.00	3.00	3.00
Interbank rates			
Overnight	3.00	3.00	3.00
1-month	3.06	3.06	3.10
Base lending rate (BLR)			
Commercial banks	6.53	6.53	6.53
Weighted average lending rate			
Commercial banks	5.62	5.52	5.50
Fixed deposit rates			
Commercial banks			
1-month	2.95	2.92	2.91
12-month	3.21	3.15	3.15

Source: Bank Negara Malaysia

Lending Rates of Commercial Banks (At end-period)



Source: Bank Negara Malaysia

Determinants of Broad Money, M3

	Change during the period			
	2012			2013
	1Q	4Q	Year	1Q
	RM billion			
M3	**39.1**	**15.1**	**116.0**	**43.9**
Net claims on Govt	2.1	-5.0	3.2	8.6
Claims on private sector	23.1	25.3	129.2	23.9
Loans	*18.4*	*19.2*	*108.6*	*21.5*
Securities	*4.7*	*6.0*	*20.6*	*2.4*
Net foreign assets[1]	17.2	-3.9	20.6	10.7
BNM	*0.4*	*6.0*	*17.7*	*6.3*
Banking System	*16.8*	*-9.9*	*2.9*	*4.4*
Other influences	-3.2	-1.3	-37.0	0.7

[1] Pre-revaluation

Source: Bank Negara Malaysia

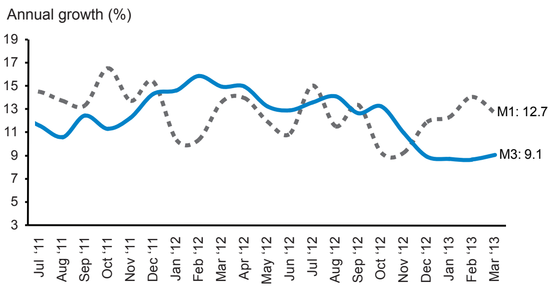
Continued expansion in M3

The monetary aggregates continued to expand in the first quarter. Narrow money, or M1, increased by RM4.1 billion during the period. On an annual basis, M1 expanded by 12.7% as at end-March (end-December 2012: 11.9%). Broad money, or M3, increased by RM43.9 billion to record an annual growth rate of 9.1% as at end-March (end-December 2012: 9%).

The expansion of M3 during the quarter was underpinned by both domestic and external factors. On the domestic side, the expansion was mainly on account of the credit extension to the private sector and higher net claims on the Government. On the external side, M3 expanded following net trade inflows. This was reflected in the increase in *net foreign assets*.

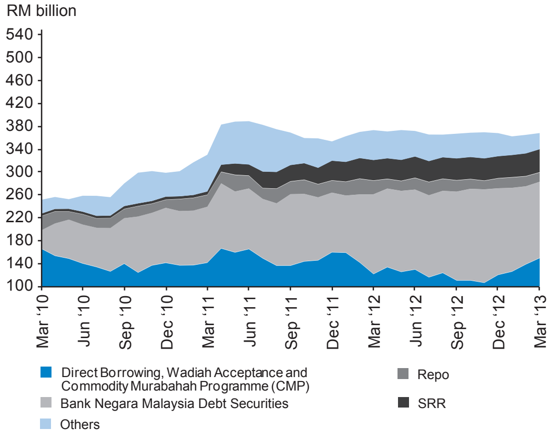
In the banking system, ample liquidity conditions prevailed at both the institutional and system-wide levels. The level of surplus liquidity placed with BNM was relatively stable during the quarter.

Monetary Aggregates



Source: Bank Negara Malaysia

Outstanding Liquidity Placed with Bank Negara Malaysia (At end-period, RM billion)

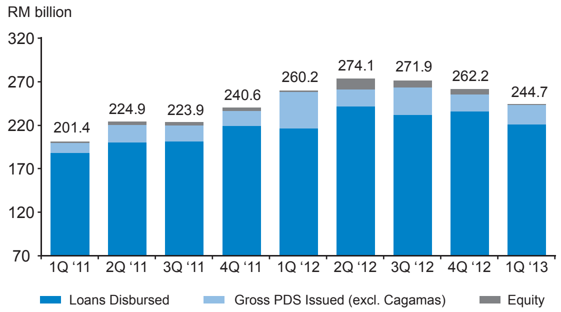


Source: Bank Negara Malaysia

Private sector financing activity remained healthy

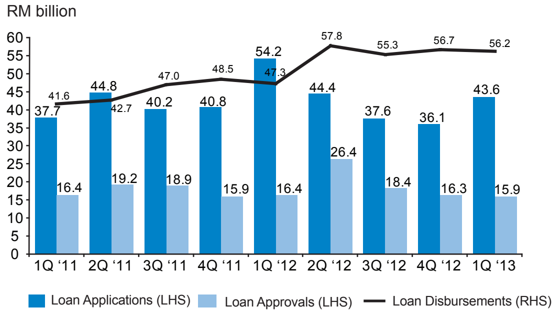
Financing conditions remained supportive of economic activity in the first quarter. Total gross financing raised by the private sector through the banking system and the capital market amounted to RM244.7 billion (4Q 2012: RM262.2 billion). On a net basis, banking system loans and PDS outstanding expanded at an annual growth rate of 11% as at end-March (end-December 2012: 12.4%).

Gross Private Sector Financing through Banking System and Capital Market



Source: Bank Negara Malaysia

Bank Lending to SMEs



Source: Bank Negara Malaysia

In the business sector, while loans outstanding from the banking system recorded a higher increase during the quarter, loan disbursements moderated slightly from the previous high levels in 2012. The high levels in 2012 reflected the extension of several sizeable one-off loans to large corporations. Loans disbursed to SMEs continued to remain strong. Demand for new financing by businesses increased with higher loan applications, mainly from the *real estate; finance, insurance and business services; wholesale and retail; restaurants and hotels;* and *manufacturing sectors*. On an annual basis, business loans outstanding expanded at a growth rate of 11.7% as at end-March (end-December 12: 10.9%).

Financing to the household sector expanded by RM16.2 billion during the quarter (4Q 2012: RM18.2 billion). On an annual basis, household loans outstanding grew by 12.1% as at end-March (end-December 2012: 11.6%), due to increased lending for the *purchase of passenger cars, securities* and *residential properties*. Household demand for loans was sustained with higher loan applications, mainly for the *purchase of residential properties* and *securities*.

Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)			
	2012			2013	2012			2013
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
Gross total financing	**260.2**	**262.2**	**1,068.3**	**244.7**	**29.2**	**9.0**	**19.9**	**-5.9**
Loans disbursed*	217.0	236.2	927.8	221.7	15.0	7.6	14.4	2.2
Gross PDS (excl. Cagamas)	41.9	19.8	113.1	22.1	260.6	16.2	69.0	-47.4
Equity	1.3	6.1	27.4	1.0	19.8	59.6	117.1	-24.9
Net total financing (A)+(B)	**45.8**	**31.1**	**164.5**	**32.5**	**13.3**	**12.4**	**12.4**	**11.0**
Banking system	25.0	26.0	128.4	24.7	12.5	12.0	12.0	11.7
Loans outstanding (A)	*19.7*	*19.8*	*104.5*	*23.4*	*12.2*	*10.4*	*10.4*	*10.6*
Holding of PDS	*5.3*	*6.2*	*23.9*	*1.4*	*17.3*	*36.6*	*36.6*	*28.2*
PDS outstanding (B)	26.1	11.4	60.1	9.1	16.5	18.7	18.7	12.4
Memorandum item								
Gross PDS (incl. Cagamas)	44.8	23.1	121.1	22.6	266.5	33.1	74.1	-49.5

*Banking systems loans include loans sold to Cagamas

Source: Bank Negara Malaysia

Loan Indicators

	During the period (RM billion)				Annual growth (%)			
	2012			2013	2012			2013
	1Q	4Q	Year	1Q	1Q	4Q	Year	1Q
Total								
Loan applications	195.4	170.6	766.2	185.7	16.0	-11.3	2.8	-5.0
Loan approvals	89.8	95.1	390.2	87.2	2.4	-8.6	-2.5	-2.9
Loan disbursements	217.0	236.2	927.8	221.7	15.0	7.6	14.4	2.2
Loan repayments	205.6	227.1	867.1	210.7	22.3	15.8	19.4	2.5
Change in loans outstanding*	19.7	19.8	104.5	23.4	12.2	10.4	10.4	10.6
Of which:								
Business enterprises**								
Loan applications	105.3	70.3	372.1	84.6	32.3	-26.5	4.0	-19.6
Loan approvals	45.3	41.8	186.3	34.5	16.5	-20.4	-3.6	-23.9
Loan disbursements	153.0	164.9	657.6	150.4	25.3	9.4	21.0	-1.7
Loan repayments	146.1	164.3	624.8	146.0	33.0	18.6	26.2	0.0
Change in loans outstanding*	3.6	5.0	41.2	6.8	10.8	10.9	10.9	11.7
SMEs**								
Loan applications	54.2	36.1	172.3	43.6	43.7	-11.4	5.5	-19.5
Loan approvals	16.4	16.3	77.5	15.9	-0.4	2.3	10.0	-2.8
Loan disbursements	47.3	56.7	217.2	56.2	13.7	17.2	20.8	18.8
Loan repayments	46.0	54.7	199.0	52.6	23.4	25.0	24.7	14.3
Change in loans outstanding*	4.8	2.5	23.8	5.6	19.9	15.5	15.5	15.6
Large corporations								
Loan applications	51.1	34.2	199.8	41.0	22.1	-37.7	2.8	-19.8
Loan approvals	28.9	25.5	108.9	18.6	28.9	-30.3	-11.4	-35.8
Loan disbursements	105.7	108.2	440.4	94.1	31.4	5.7	21.1	-10.9
Loan repayments	100.1	109.6	425.8	93.5	38.0	15.7	26.8	-6.6
Change in loans outstanding*	-1.2	2.5	17.5	1.2	5.1	7.8	7.8	8.9
Households								
Loan applications	90.2	100.3	394.0	101.1	1.4	3.7	1.7	12.1
Loan approvals	44.5	53.3	203.8	52.7	-8.8	3.4	-1.5	18.5
Loan disbursements	64.0	71.4	270.2	71.3	-3.9	3.6	0.9	11.5
Loan repayments	59.5	62.9	242.2	64.7	2.1	8.9	4.9	8.6
Change in loans outstanding*	11.9	18.2	63.9	16.2	11.9	11.6	11.6	12.1

* The annual growth is for end-period.
** Include loans to individual businesses.

Source: Bank Negara Malaysia

Lower net financing from the capital market

Net funds raised in the capital market moderated to RM16.7 billion in the first quarter (4Q 2012: RM37.7 billion), reflecting mainly the significantly higher redemption of debt securities (RM32.2 billion; 4Q 2012: RM13.1 billion). Overall gross financing from the capital market, however, remained firm for both the private and public sectors.

In the private sector, RM22.6 billion of gross funds were raised through the issuance of private debt securities, while another RM1 billion was raised through the equity market. Funds were used mainly for refinancing, working capital, general corporate purposes, and operating expenses.

In the public sector, gross funds raised increased to RM25.3 billion (4Q 2012: RM21.6 billion). Funds were raised through the new issuance of a 3.5-year, 5-year and 10-year Malaysian Government Securities (MGS), a 15.5-year Government Investment Issue (GII), and the re-opening of a 3-year and 7-year GII. Funds were also raised through the issuance of a RM1.7 billion Government Housing Sukuk.

Net Funds Raised in the Capital Market

	2012			2013
	1Q	4Q	Year	1Q
	RM billion			
By Public Sector	**13.7**	**17.6**	**46.7**	**8.0**
Government securities, *net*	15.6	15.7	48.7	6.3
Malaysian Government Securities	*12.8*	*11.6*	*54.7*	*13.5*
Government Investment Issues	*12.0*	*8.0*	*42.2*	*10.1*
Less: Redemptions	*9.2*	*4.0*	*48.3*	*17.2*
Khazanah Bonds, *net*	-	-	-	-
Savings Bonds, *net*	(1.9)	-	(6.5)	-
Government Housing Sukuk, *net*	-	1.9	4.5	1.7
By Private Sector	29.8	**20.1**	**90.7**	**8.7**
Shares	1.3	6.1	27.4	1.0
Debt securities, *net*	28.5	14.0	63.3	7.7
Private Debt Securities	*44.8*	*23.1*	*121.1*	*22.6*
Less: Redemptions	*16.3*	*9.1*	*57.8*	*14.9*
Total	**43.5**	**37.7**	**137.4**	**16.7**

Note: Numbers may not add up to total due to rounding

Source: Bank Negara Malaysia and Bursa Malaysia

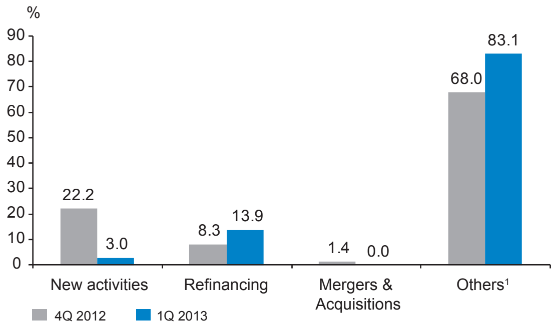
Loans by Sector

	Loans disbursed					Loans out-standing
	During the period				Share of total	Share of total
	1Q 12	4Q 12	2012	1Q 13		
	(RM billion)				(%)	
Business enterprises	**153.0**	**164.9**	**657.6**	**150.4**	**67.8**	**44.1**
Large corporations	*105.7*	*108.2*	*440.4*	*94.1*	*42.5*	*27.9*
*SMEs**	*47.3*	*56.7*	*217.2*	*56.2*	*25.4*	*16.1*
Selected sectors						
Agriculture, hunting, forestry and fishing	5.7	8.1	28.8	8.7	3.9	2.7
Mining and quarrying	1.4	1.9	7.9	2.1	0.9	0.6
Manufacturing	46.1	51.0	203.7	48.1	21.7	8.4
Construction	11.9	14.6	54.4	14.7	6.6	4.1
Real estate	7.9	9.5	40.8	8.4	3.8	5.6
Electricity, gas and water supply	1.7	3.1	9.0	1.9	0.9	0.8
Wholesale, retail, restaurants and hotels	43.9	46.1	178.0	43.5	19.6	7.5
Transport, storage and communication	4.6	3.7	17.7	3.1	1.4	2.5
Finance, insurance and business services	21.5	18.3	85.0	14.5	6.6	6.7
Households	**64.0**	**71.4**	**270.2**	**71.3**	**32.2**	**55.9**
Purchase of residential properties	16.0	16.9	64.1	16.8	7.6	26.2
Consumption credit	37.1	43.3	163.1	41.9	18.9	19.1
Of which:						
Credit cards	*21.4*	*24.2*	*90.2*	*23.2*	10.5	2.8
Purchase of passenger cars	*8.6*	*10.6*	*40.2*	*10.9*	*4.9*	*11.4*
Others	10.8	11.1	43.0	12.6	*5.7*	*10.7*
Total	**217.0**	**236.2**	**927.8**	**221.7**	**100.0**	**100.0**

*Include loans to individual businesses.

Source: Bank Negara Malaysia

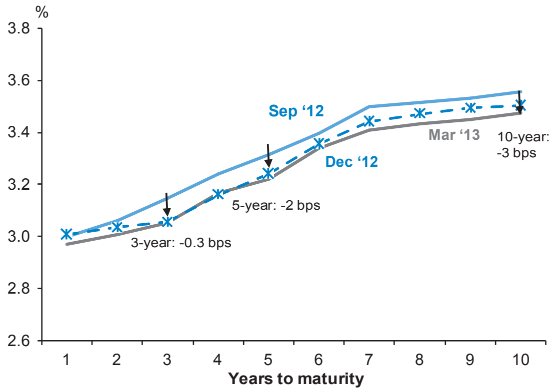
Private Debt Securities Issued by Purpose (% of total)



[1] Includes issuance by non-residents & Cagamas and for the purpose of working capital and general business activities

Source: Bank Negara Malaysia

Trend in MGS Yields



Source: Bank Negara Malaysia

Bond yields were largely stable

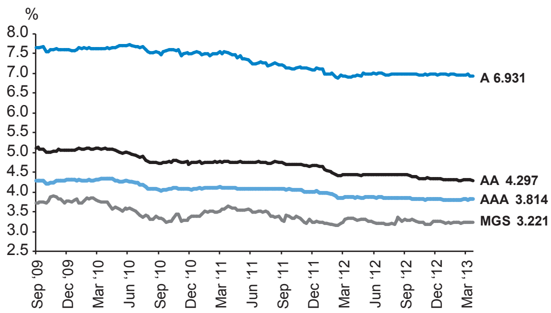
MGS yields were broadly stable in the first quarter, following market expectations for an unchanged overnight policy rate. Yields on the 3-year, 5-year and 10-year MGS recorded a marginal decline of 0.3, 2 and 3 basis points respectively.

Generally, corporate bond yields also recorded a marginal decline in the first quarter, in line with MGS yields. The 5-year AAA-rated yield recorded a marginal increase of 1 basis point, while the 5-year AA and A-rated yield declined by 0.6 and 5.3 basis points respectively.

Higher secondary trading in the bond market

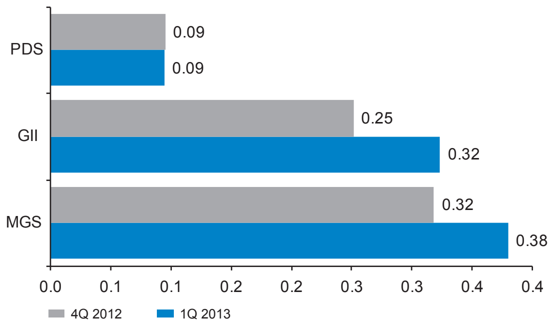
Total trading in the secondary market increased to RM198 billion during the quarter (4Q 2012: RM166 billion). The increase in secondary market trading was broad-based, with the MGS and GII segments registering higher liquidity ratios of 0.38 and 0.32 respectively.

5-year MGS and 5-year Corporate Bond Yield



Source: Bank Negara Malaysia

Liquidity Ratio: Value of Bond Traded / Outstanding



Source: Bank Negara Malaysia

Lower FBM KLCI due to profit-taking

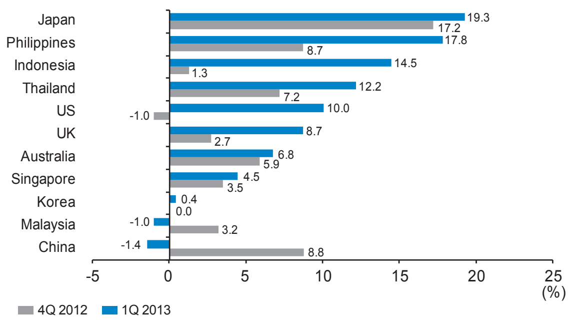
The FBM (FTSE Bursa Malaysia) KLCI fell by 17.3 points, to end at 1,671.6 points, in the first quarter (end-December 2012: 1689.0 points). The index declined in January, due mainly to profit-taking by investors after the index reached an all-time high of 1694.2 points on 7 January. In February and March, the index traded within a narrow range at lower volumes, amid cautious investor sentiments over the timing of the domestic General Election and increased risk aversion by global investors due to the banking crisis in Cyprus. Equity prices, however, rebounded towards end-March, driven mainly by improved domestic sentiments following the better-than-expected fourth quarter economic growth data for Malaysia. Favourable economic data releases in the US and announcements of measures taken to resolve the banking crisis in Cyprus also sustained investor interest. Overall, market capitalisation remained unchanged at RM1.47 trillion as at end-March 2013, while the daily average turnover increased slightly to 1.07 billion units (4Q 2012: 1.05 billion units).

On 10 May 2013, the KLCI ended higher at 1,772.4 points (since end-March 2013: 6.03%), with market capitalisation of RM1.58 trillion (since end-March 2013: 7.22%).

Ringgit exhibited mixed performance against regional and major currencies

Movements of the ringgit and other regional currencies in the first quarter were driven mainly by the uncertainties over the timing of the withdrawal of quantitative easing measures in the US and developments in Europe. These in turn resulted in a withdrawal of funds from emerging market assets. The ringgit was also affected by domestic uncertainties during this

Performance of Selected Global and Regional Markets in 2013 (% growth QoQ)



Source: Bloomberg and Bank Negara Malaysia calculations

Bursa Malaysia: Selected Market Indicators

	2012			2013
	As at end			
	Mar	Dec	Year	Mar
Price Indices				
Composite	1,596.3	1,689.0	1,689.0	1,671.6
FBMEMAS[1]	10,939.6	11,438.1	11,438.1	11,420.5
ACE Market[2]	4,583.8	4,214.2	4,214.2	4,008.3
Market capitalisation (RM billion)	1,355.4	1,465.7	1,465.7	1,472.5
No. of companies listed	939	921	921	915
	During the quarter			
	1Q	4Q	Year	1Q
Average daily turnover				
Volume (million units)	2,019.9	1,053.6	1,361.3	1,070.6
Value (RM million)	1,977.8	1,509.0	1,667.5	1,716.1

[1] FBMEMAS stands for FTSE Bursa Malaysia EMAS Index
[2] From 3 August 2009, Mesdaq market was replaced with ACE Market

Source: Bursa Malaysia

Bursa Malaysia: Market Turnover

	2012						2013	
	1Q		4Q		Year		1Q	
	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion
Turnover	119.2	116.4	65.3	93.6	333.5	408.3	62.1	99.5
Of which:								
Main Board	75.6	109.5	50.8	91.3	224.2	390.6	48.9	97.9
Of which								
Consumer Products	9.4	7.8	4.6	5.0	22.6	24.7	3.1	5.3
Industrial Products	13.3	16.7	10.6	8.5	44.6	44.3	8.7	7.0
Construction	2.8	4.9	2.1	3.1	8.3	14.3	2.4	3.9
Trading/Services	29.4	39.9	20.8	42.1	88.3	161.7	16.6	42.3
Finance	4.0	19.8	2.6	17.6	13.5	75.1	3.5	21.9
Properties	7.8	6.5	3.7	3.6	19.5	18.7	5.1	5.7
Plantations	1.7	5.8	1.1	4.7	5.9	25.4	1.2	4.8
Infrastructure	2.0	3.4	1.1	3.9	5.4	13.6	1.2	4.1
ACE Market[1]	27.7	4.3	10.0	1.8	76.1	12.6	10.5	1.3

[1]From 3 August 2009, Mesdaq market was replaced with ACE Market

Source: Bursa Malaysia

period in the run-up to the General Elections. Overall, the ringgit depreciated by 1.0% against the US dollar, but appreciated against the Japanese yen (8.4%), pound sterling (5.2%) and euro (2.0%). The ringgit's performance against regional currencies was mixed. The ringgit appreciated against the Korean won (3.3%) and Singapore dollar (0.5%), but depreciated against the Indonesian rupiah, Chinese renminbi, Philippine peso and Thai baht by between 0.2% and 5.2%.

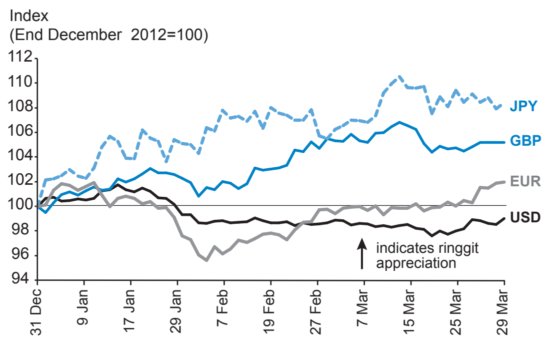
Between 1 April and 10 May 2013, the ringgit appreciated against the Japanese yen (10.9%), US dollar (3.4%), pound sterling (1.8%), and euro (1.7%). The ringgit strengthened against regional currencies by between 2.2% and 4.6%.

Foreign exchange derivatives activity remained subdued

Derivatives activity in the foreign exchange market declined by 5.7% compared to the previous quarter, similar to the lower activity in the foreign exchange spot market. The decrease was due to the Chinese New Year festive season in February and cautious investor sentiments following uncertainties in the European financial markets.

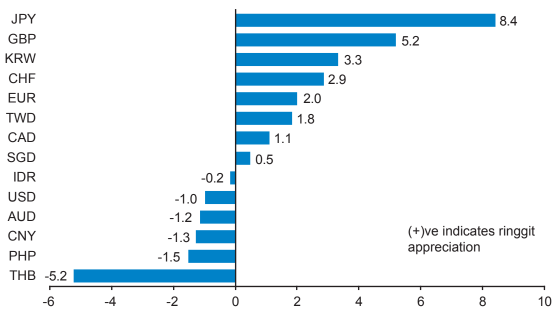
Meanwhile, the cost of borrowing US dollars through the cross-currency swap market remained stable. The 5-year USD/MYR cross-currency swaps traded within the range of 122 to 125 basis points during the quarter. This, however, moderated to around 80 basis points in April, due to the increase in inflows following the announced expansionary monetary measures by the BoJ.

Ringgit Performance against Major Currencies



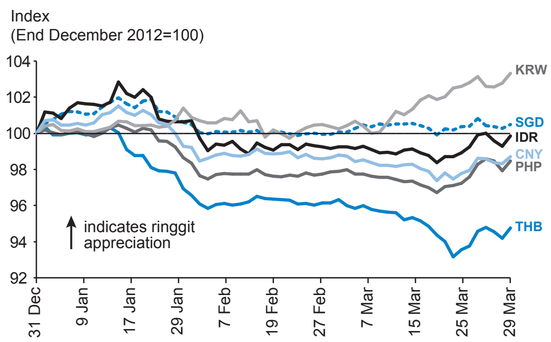
Source: Bank Negara Malaysia

Summary of Ringgit Performance against Selected Currencies Percent Change (1 January - 29 March 2013)



Source: Bank Negara Malaysia

Ringgit Performance against Regional Currencies



Source: Bank Negara Malaysia

Performance of Ringgit against Selected Currencies

RM per foreign currency	As at end				% change since*		
	21 Jul 05	1Q 12	4Q 12	1Q 13	21 Jul 05	1Q 12	4Q 12
US dollar	3.8000	3.0680	3.0583	3.0885	23.0	-0.7	-1.0
Euro	4.6212	4.0955	4.0412	3.9618	16.6	3.4	2.0
Pound sterling	6.6270	4.9008	4.9420	4.6971	41.1	4.3	5.2
100 Japanese yen	3.3745	3.7396	3.5576	3.2811	2.8	14.0	8.4
Singapore dollar	2.2570	2.4405	2.5030	2.4911	-9.4	-2.0	0.5
100 Thai baht	9.0681	9.9433	9.9910	10.545	-14.0	-5.7	-5.2
100 Philippine peso	6.8131	7.1407	7.4446	7.5606	-9.9	-5.6	-1.5
100 Indonesian rupiah	0.0386	0.0334	0.0317	0.0318	21.6	5.1	-0.2
100 Korean won	0.3665	0.2702	0.2865	0.2773	32.2	-2.6	3.3
Chinese renminbi	0.4591	0.4870	0.4909	0.4973	-7.7	-2.1	-1.3

* (+) indicates appreciation of ringgit against respective currency and (-) indicates depreciation.

Source: Bank Negara Malaysia