MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates lowered in line with OPR reductions

The Overnight Policy Rate (OPR) was reduced by 75 basis points in January 2009, and a further 50 basis points in February 2009. To reduce further the cost of intermediation, the Statutory Reserve Requirement (SRR) was also reduced concurrently by 150 and 100 basis points in January and February 2009 respectively. The monetary stimulus was frontloaded to support domestic demand, given the increased downside risks to growth in an environment of diminishing inflationary pressures. The OPR was left unchanged in April in line with the assessment that the accumulated monetary policy measures would be sufficient to support domestic demand.

Interbank rates traded in three distinct ranges during the quarter, reflecting the prevailing rate of the OPR. During the period 1 – 21 January, the daily weighted average overnight interbank rate traded at 3.25%. Following the reduction in the OPR on 21 January to 2.50%, the daily weighted average overnight interbank rate decreased and stabilised at a lower range of 2.49% - 2.51% during the period 22 January – 24 February. With the further reduction in the OPR to 2.00% on 24 February, the daily weighted average overnight interbank rate decreased and stabilised at the lower range of 1.99% - 2.01%. Interbank rates of other maturities also declined in line with the reductions in the OPR.

The accumulated reductions in the OPR were transmitted quickly and substantially to retail lending rates. The average base lending rate (BLR) of commercial banks (CBs) was reduced by a total of 119bps and ended the first quarter at a historically low level of 5.53% (end-December 2008: 6.48%). Accordingly, existing loans with variable rates were re-priced lower. New loans were also contracted at lower rates after the reduction in the OPR. As a result, the average lending rate (ALR) on loans outstanding softened to a historic low of 5.16% in March 2009, compared to 5.86% as at end-December 2008.

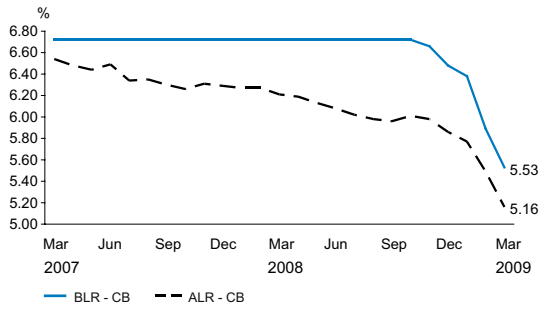
Similarly, the average quoted fixed deposit (FD) rates of CBs decreased in the first quarter. As at end-March, the average quoted FD rates for tenures between 1 to 12 months ranged between 2.02% and 2.52% respectively.

Interest Rates

	2008		2009
	1Q	4Q	1Q
	At end-period (%)		
Overnight Policy Rate (OPR)	3.50	3.25	2.00
Interbank rates			
Overnight	3.50	3.25	2.00
1-month	3.55	3.30	2.06
Base lending rates (BLR)			
Commercial banks	6.72	6.48	5.53
Average lending rates (ALR)			
Commercial banks	6.21	5.86	5.16
Fixed deposit rates			
Commercial banks			
3-month	3.14	3.04	2.04
12-month	3.70	3.50	2.52

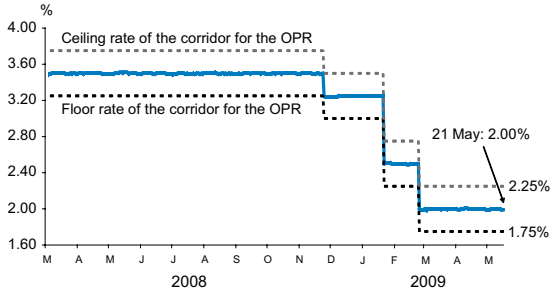
Source: Bank Negara Malaysia

Lending Rates of Commercial Banks (Average for the period)



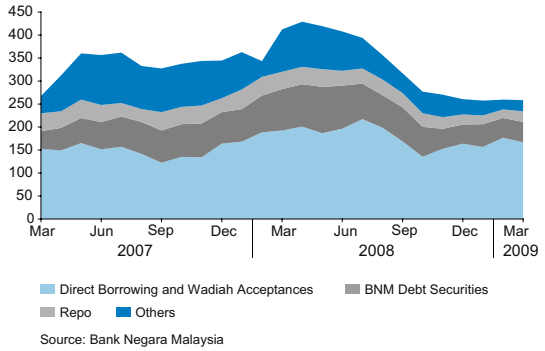
Source: Bank Negara Malaysia

Daily Weighted Average Overnight Interbank Rate



Source: Bank Negara Malaysia

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



Source: Bank Negara Malaysia

Determinants of Broad Money, M3

	Change during the period			
	2008			2009
	1Q	4Q	Year	1Q
	RM billion			
M3	51.6	18.9	98.9	17.6
Net claims on Govt	0.9	23.1	33.4	5.9
Claims on private sector	17.2	18.3	94.2	5.0
Loans	*16.7*	*11.2*	*76.9*	*4.5*
Securities	*0.5*	*7.1*	*17.3*	*0.5*
Net foreign assets[1]	45.8	-37.6	-46.1	3.8
BNM	*52.5*	*-48.6*	*-12.4*	*-4.3*
Banking System	*-6.7*	*11.0*	*-33.7*	*8.1*
Other influences	-12.2	15.1	17.4	3.0

[1] Pre-revaluation

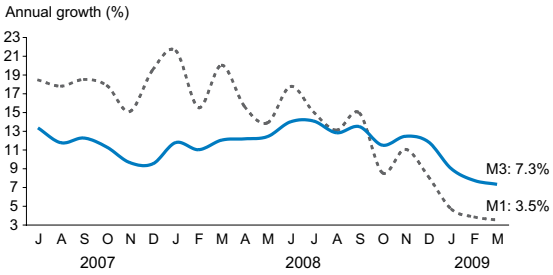
Source: Bank Negara Malaysia

M3 rose at a more moderate pace

Monetary aggregates registered a slower annual increase in the first quarter, a trend that has continued from end-2008. The slower growth is consistent with the more moderate growth of economic activity. M1, or narrow money, decreased by RM3.2 billion during the quarter. On an annual basis, M1 expanded at a modest annual growth rate of 3.5% (end-December 2008: 8.2%). Similarly, M3, or broad money, expanded at a slower annual growth rate of 7.3% at end-March 2009 (end-December 2008: 11.9%). On a quarter-on-quarter basis, M3 increased by RM17.7 billion.

In contrast to the same period last year, the growth in M3 was driven mainly by domestic factors. The main impetus for monetary growth came from strong Government spending, financed mainly by the subscription of Government bonds by the banking institutions. Net foreign assets also increased relative to the preceding quarter, after declining consecutively for two quarters, reflecting the net foreign inflows arising from export proceeds. This had an expansionary impact on broad money.

Monetary Aggregates

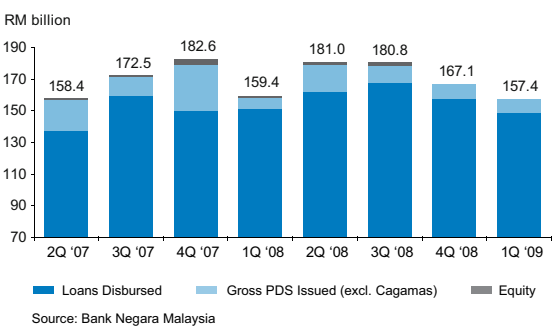


Source: Bank Negara Malaysia

Private sector financing was sustained in the first quarter

Financing for the economy remained adequate and was accessible across all segments of the economy. Liquidity in the financial system remained sufficient to support the demand for financing from both the public and private sectors. Gross financing raised by the private sector through the banking system and the capital market was sustained at RM157.3 billion in the first quarter (quarterly average of RM157.5 billion during the period 2006 - 2008). On a net basis, banking system loans and PDS outstanding rose by 10.7% as at end-March (end-2008: 12.7%).

Gross Private Sector Financing through Banking System and Capital Market



Source: Bank Negara Malaysia

Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)		
	2008	1Q 08	4Q 08	1Q 09	2008	4Q 08	1Q 09
Gross total financing	**688.3**	**159.4**	**167.1**	**157.4**	**6.1**	**-8.5**	**-1.3**
Loans disbursed *	639.9	151.5	157.9	148.2	11.2	5.3	-2.2
Gross PDS (excl. Cagamas)	42.9	6.5	9.0	9.0	-35.5	-68.9	39.1
Equity	5.5	1.4	0.2	0.1	-23.1	-94.2	-89.3
Net total financing (A)+(B)	**110.1**	**22.8**	**16.1**	**7.8**	**12.7**	**12.7**	**10.7**
Banking system	87.2	17.2	15.0	8.6	12.4	12.4	10.9
Loans outstanding (A)	*82.3*	*17.4*	*13.8*	*7.3*	*12.8*	*12.8*	*10.9*
Holding of PDS	*4.9*	*-0.1*	*1.1*	*1.3*	*8.6*	*8.6*	*11.1*
PDS outstanding (B)	27.8	5.5	2.3	0.5	12.4	12.4	9.9
Memorandum item							
Gross PDS (incl. Cagamas)	49.7	10.0	9.0	9.3	-28.4	-68.9	-7.4

* Banking system loans include loans sold to Cagamas

Source: Bank Negara Malaysia

Loan Indicators

	During the period (RM billion)				Annual growth (%)			
	2008	1Q 08	4Q 08	1Q 09	2008	1Q 08	4Q 08	1Q 09
Total								
Loan applications	475.5	111.0	102.5	108.1	3.9	32.9	-21.9	-2.6
Loan approvals	291.8	71.7	61.6	58.9	-2.3	35.0	-30.0	-17.8
Loan disbursements	639.9	151.5	157.9	148.2	11.2	17.2	5.3	-2.2
Loan repayments	567.7	138.9	143.4	138.0	9.4	17.7	-6.8	-0.7
Change in loan outstanding*	82.3	17.4	13.8	7.3	12.8	10.0	12.8	10.9
Of which:								
Business enterprises**								
Loan applications	244.3	55.4	51.3	52.0	-7.0	23.4	-33.6	-6.1
Loan approvals	147.9	38.1	29.5	26.1	-18.5	27.6	-48.0	-31.5
Loan disbursements	455.3	106.4	112.6	100.8	12.2	17.8	7.1	-5.2
Loan repayments	402.8	97.5	101.9	93.5	8.8	19.4	-11.4	-4.1
Change in loan outstanding*	34.4	7.7	-1.4	-1.2	13.2	11.2	13.2	9.5
SMEs**								
Loan applications	100.3	24.1	19.9	20.2	1.2	18.1	-23.5	-16.1
Loan approvals	54.0	12.8	11.5	8.9	-2.0	19.4	-17.0	-30.6
Loan disbursements	164.3	39.9	39.6	34.7	16.0	20.8	5.2	-13.1
Loan repayments	146.6	36.0	36.1	32.3	15.6	22.8	4.5	-10.4
Change in loan outstanding*	10.6	4.3	0.0	-6.8	9.3	9.7	9.3	-0.4
Large corporations								
Loan applications	144.0	31.3	31.4	31.8	-11.9	27.7	-38.7	1.6
Loan approvals	93.9	25.3	18.0	17.2	-25.7	32.2	-58.0	-32.0
Loan disbursements	291.0	66.5	73.0	66.2	10.2	16.0	8.2	-0.5
Loan repayments	256.2	61.4	65.8	61.2	5.2	17.5	-18.2	-0.3
Change in loan outstanding*	23.8	3.3	-1.5	5.6	16.2	12.5	16.2	17.3
Households								
Loan applications	231.2	55.6	51.2	56.1	18.6	43.9	-5.1	0.9
Loan approvals	143.9	33.6	32.1	32.8	22.9	44.4	2.8	-2.2
Loan disbursements	184.6	45.1	45.4	47.3	8.9	16.0	1.0	4.9
Loan repayments	164.9	41.5	41.5	44.4	11.1	13.9	7.0	7.2
Change in loan outstanding*	32.5	6.2	7.9	5.4	9.1	8.2	9.1	8.8

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

Source: Bank Negara Malaysia

As economic activity slowed down further in the first quarter, loan disbursements to the business sector declined, mainly reflecting lower working capital requirements in the manufacturing as well as wholesale and retail, restaurants and hotels sectors. On an annual basis, business loans outstanding expanded at an annual growth rate of 9.5% as at end-March (end-2008: 13.2%). Demand for new financing, however, was sustained as loan applications by businesses were slightly higher compared to the previous quarter.

Financing to the household sector, on the other hand, remained favourable. All loan indicators increased compared to the previous quarter. Loan applications were higher, reflecting the higher demand for the purchase of residential properties and the usage of credit cards. Loan disbursements also increased during the quarter, and were primarily channelled to finance the purchase of residential properties and to support credit card spending. Accordingly, household loans outstanding expanded by RM5.4 billion to increase at a sustained annual growth rate of 8.8% as at end-March (end-2008: 9.1%).

Sustained fund raising activity in the capital market

During the first quarter, net funds raised in the capital market amounted to RM11.6 billion (4Q 08: RM14.3 billion). Most of the funds were raised by the public sector, reflecting the Government's expansionary fiscal policy. Funds were raised through issuances of the 3.5-year Malaysian Government Securities (MGS) and 10.5-year Government Investment Issues (GII), as well as the re-opening of the 5-year MGS. After adjusting for large redemptions, net funds raised by the public sector amounted to RM10.8 billion.

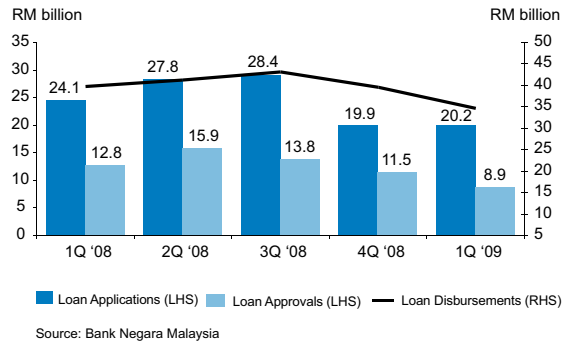
Loans by Sector

	Loans disbursed					Loans out-standing
	During the period				Share of total	Share of total
	2008	1Q 08	4Q 08	1Q 09		
	(RM billion)				(%)	
Business enterprises	**455.3**	**106.4**	**112.6**	**100.8**	**68.0**	**40.1**
Large corporations	*291.0*	*66.5*	*73.0*	*66.2*	*44.6*	*24.1*
*SMEs **	*164.3*	*39.9*	*39.6*	*34.7*	*23.4*	16.1
Households	**184.6**	**45.1**	**45.4**	**47.3**	**32.0**	**53.6**
Selected sectors						
Agriculture, hunting, forestry and fishing	16.1	3.7	3.9	4.2	2.8	2.3
Mining and quarrying	2.3	0.5	0.5	0.7	0.5	0.3
Manufacturing	151.5	36.2	34.9	30.2	20.4	10.4
Construction	34.7	9.3	8.0	8.7	5.8	4.8
Real estate	16.5	4.1	4.7	5.2	3.5	3.7
Electricity, gas and water supply	2.6	0.8	1.0	1.0	0.7	0.6
Wholesale, retail, restaurants and hotels	113.9	25.2	27.5	24.5	16.5	8.1
Transport, storage and communication	17.8	2.7	3.3	5.6	3.8	3.4
Finance, insurance and business services	57.6	14.3	15.0	11.4	7.7	6.7
Consumption credit	121.8	30.1	29.0	31.2	21.0	22.5
Of which:						
Credit cards	*61.0*	*15.5*	*15.3*	*16.7*	*11.3*	*3.3*
Purchase of passenger cars	*37.4*	*9.0*	*8.0*	*8.5*	*5.8*	*14.8*
Total	**639.9**	**151.5**	**157.9**	**148.2**	**100.0**	**100.0**

* Include loans to individual businesses.

Source: Bank Negara Malaysia

Bank Lending to SMEs



Source: Bank Negara Malaysia

Gross funds raised from PDS issuances during the quarter were slightly higher at RM9.3 billion (4Q 08: RM9 billion). In January, issuers delayed their bond issuances in anticipation of a reduction in the OPR by Bank Negara Malaysia. Issuance activity, however, picked up in the subsequent months of the quarter after the reduction in OPR, and as PDS yields stabilised. Fund raising activity in the PDS market was also supported by several large issuances by Government-linked entities. During the period, most of the funds were raised by companies involved in the construction as well as the finance, insurance, real estate and business sectors. The PDS were

issued mainly for working capital purposes and general business activities (48.5%), as well as for refinancing purposes (37.5%).

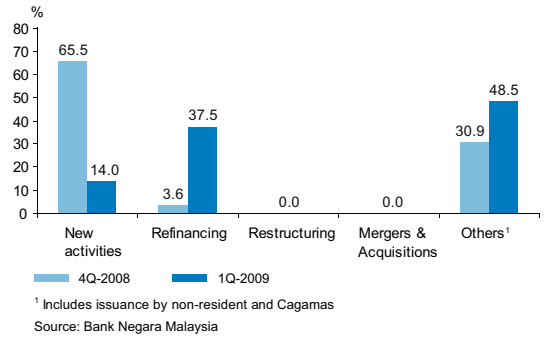
Funds raised in the equity market remained low, amounting to RM144 million (4Q 08: RM222 million) amidst weak market sentiments. Funds were raised through restricted offers for sale (ROFS).

Funds Raised in the Capital Market

	2008			2009
	1Q	4Q	Year	1Q
	RM million			
By Public Sector	**10,633**	**13,859**	**36,188**	**10,806**
Government securities, net	10,633	14,865	37,720	8,811
Malaysian Government Securities	*14,283*	*11,965*	*44,618*	*20,477*
Government Investment Issues	*2,000*	*7,500*	*16,500*	*6,000*
Less: Redemptions	*5,650*	*4,600*	*23,399*	*17,666*
Khazanah Bonds, net	-	(1,000)	(3,000)	-
Merdeka Savings Bonds, net	-	(6)	1,468	1,995
By Private Sector	**2,082**	**451**	**21,114**	**842**
Shares	1,356	222	5,477	144
Debt securities, net	726	229	15,637	698
Private Debt Securities	*9,996*	*8,953*	*49,658*	*9,257*
Cagamas	-	-	-	-
Less: Redemptions	*9,270*	*8,724*	*34,021*	*8,559*
Total	**12,715**	**14,310**	**57,302**	**11,649**

Source: Bank Negara Malaysia

Private Debt Securities Issued by Purpose (% of total)



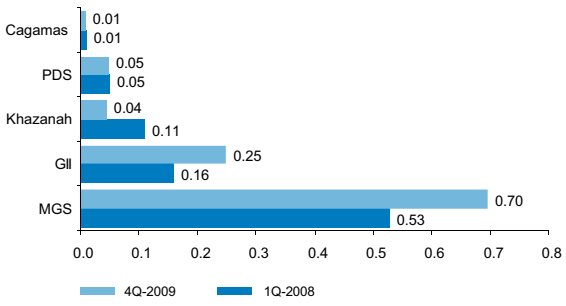
[1] Includes issuance by non-resident and Cagamas

Source: Bank Negara Malaysia

Lower secondary trading in the bond market

Total trading in the secondary market declined to RM131.2 billion during the first quarter (4Q 08: RM165.8 billion). Government securities (MGS and GII) accounted for 91% of the total trade. In terms of liquidity, the MGS was the most

Liquidity Ratio: Turnover / Outstanding

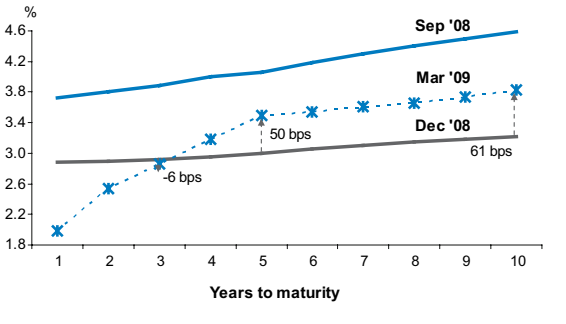


Source: Bank Negara Malaysia

liquid paper, registering a liquidity ratio of 0.53, followed by the GII with a liquidity ratio of 0.16.

At the beginning of the quarter, MGS yields were on a downward trend on expectations of a reduction in the OPR. Following the decision to lower the OPR on 21 January, yields continued on a declining trend. Yields, however, began rising in February, as investors expected a larger supply of MGS for the year, given news of Government plans for additional fiscal stimulus. Yields subsequently declined slightly when the OPR was lowered further on 24 February. Following the announcement of the Second Stimulus Package and the auction calendar of Government securities, yields stabilised as investors gained greater clarity with regard to Government issuances. By end-March, the 5-year and 10-year MGS yield had risen by 50 and 61 basis points respectively. The 3-year MGS yield, however, had fallen by 6 basis points, reflecting increased interest in the shorter-tenure MGS, which is more liquid. This resulted in the steepening of the slope of the yield curve.

Trend in MGS Yields



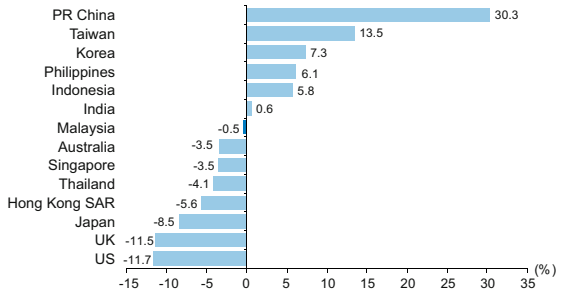
Source: Bank Negara Malaysia

KLCI declined marginally in the first quarter

The KLCI ended the first quarter lower at 872.6 (4Q 08: 876.8), in line with the performance of some major markets. Concerns over the health of the global economy, as well as weaker regional and domestic economic indicators affected the performance of KLCI. Domestic market sentiments, however, improved towards the end of the quarter following the announcement of the Second Stimulus Package and positive developments in the global markets. Market capitalisation declined to RM662.1 billion (4Q 08: RM663.8 billion) and trading activity moderated to a daily average turnover of 454.5 million units (4Q 08: 610.1 million units).

On 26 May 2009, the KLCI closed higher at 1,051.6 (since end-2008: +19.9%), with market capitalisation increasing to RM805.6 billion (since end-2008: +21.4%).

Performance of Selected Global and Regional Markets (31 December 2008 - 31 March 2009)



Source: Bloomberg

Bursa Malaysia: Selected Market Indicators

	As at end			
	2008			2009
	1Q	4Q	Year	1Q
Price Indices				
Composite	1,247.5	876.8	876.8	872.6
FBM30[1]	8,232.9	5,637.7	5,637.7	5,598.5
FBMEMAS[2]	8,423.7	5,726.5	5,726.5	5,701.1
FTSE Second Board	5,884.6	4,007.3	4,007.3	3,872.4
FTSE Mesdaq	4,923.2	3,333.6	3,333.6	2,942.7
Average daily turnover				
Volume (million units)	930.4	610.1	630.4	454.5
Value (RM million)	2,035.2	907.3	1,277.9	688.4
Market capitalisation (RM billion)	952.3	663.8	663.8	662.1
No. of companies listed	989	977	977	969

[1] FBM30 stands for FTSE Bursa Malaysia 30 Index
[2] FBMEMAS stands for FTSE Bursa Malaysia EMAS Index

Source: Bursa Malaysia

The ringgit depreciated against the US dollar

The ringgit depreciated against the US dollar by 5.0% in the first quarter. Against other major currencies, the ringgit was stronger against the Japanese yen (3.3%) and the euro (0.9%), but weaker against the pound sterling (-4.2%). The ringgit recorded a mixed performance against regional currencies. In terms of its trend path, the ringgit continued to depreciate against the US dollar coming into 2009 as the protracted uncertainty in the international financial markets and global economic slowdown dampened sentiments and sustained investors' risk aversion. The ringgit, however, stabilised in March amidst improved investor risk appetite towards financial assets in emerging markets following the additional and more concerted policy measures to address

Bursa Malaysia: Turnover of Corporate Securities

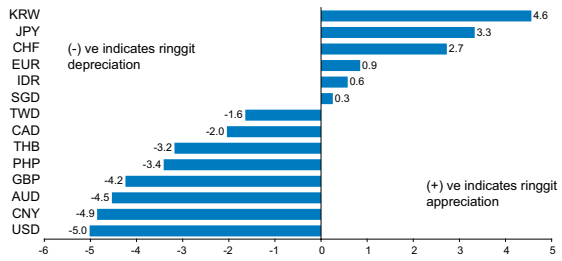
	2008						2009	
	1Q		4Q		Year		1Q	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	53,962	118,044	36,605	54,438	154,459	313,083	26,360	39,927
Of which:								
Main Board	36,488	111,552	31,273	53,316	119,303	301,289	22,657	39,075
Of which								
Consumer Products	931	3,622	946	2,478	3,671	11,973	675	2,096
Industrial Products	3,409	7,002	7,609	5,450	17,865	23,704	3,798	2,401
Construction	4,722	13,820	3,076	3,967	14,119	30,070	2,508	2,936
Trading/Services	10,383	38,521	9,327	20,377	35,826	106,698	8,261	14,423
Finance	3,391	21,975	2,652	10,190	10,846	59,459	1,903	8,095
Properties	4,234	5,027	3,044	1,805	12,832	12,076	2,984	1,895
Plantations	2,262	13,866	2,011	6,284	7,524	39,238	1,085	4,332
Infrastructure	1,148	3,671	787	2,170	3,398	10,713	629	2,405
Second Board	4,098	3,038	2,276	739	10,761	6,521	1,647	498
Mesdaq	5,621	2,438	1,686	294	11,239	3,921	798	193

Source: Bursa Malaysia

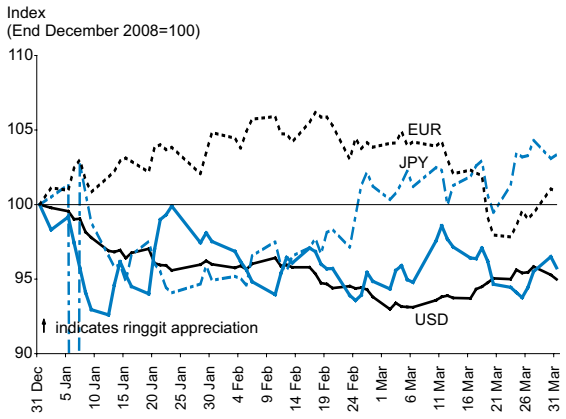
the economic and financial crisis in the developed economies. Sentiments were also supported by the tentative signs of stabilisation in some US economic indicators. Domestically, the ringgit also benefited from positive market reaction to the Second Stimulus Package announced on 10 March. During the period of 1 – 26 May 2009, the ringgit appreciated against the U.S. dollar (4.5%) and the Japanese yen (0.5%). The ringgit however depreciated against the pound sterling (-5.8%) and the euro (-0.9%).

The ringgit recorded a mixed performance against regional currencies. The ringgit appreciated against the Chinese renminbi, the Philippine peso and the Thai baht in the range of 1.2% to 4.4%, but depreciated against the Indonesian rupiah, the Korean won, and the Singapore dollar in the range of 0.4% to 6.9%.

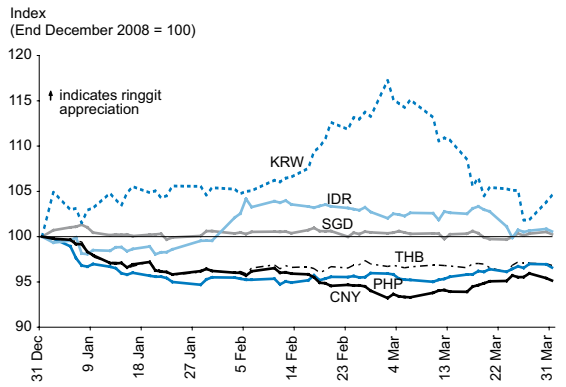
Summary of Ringgit Performance Against Selected Currencies Percent Change (1 January - 31 March 2009)



Ringgit Performance Against Major Currencies



Ringgit Performance Against Regional Currencies



Performance of Ringgit Against Selected Currencies

RM per foreign currency	As at end				% change since*		
	21 Jul 05	1Q 08	4Q 08	1Q 09	21 Jul 05	1Q 08	4Q 08
US dollar	3.8000	3.1875	3.4640	3.6470	4.2	-12.6	-5.0
Euro	4.6212	5.0369	4.8759	4.8348	-4.4	4.2	0.9
Pound sterling	6.6270	6.3586	4.9989	5.2203	26.9	21.8	-4.2
100 Japanese yen	3.3745	3.1912	3.8327	3.7091	-9.0	-14.0	3.3
Singapore dollar	2.2570	2.3102	2.4070	2.4008	-6.0	-3.8	0.3
100 Thai baht	9.0681	10.108	9.9398	10.266	-11.7	-1.5	-3.2
100 Philippine peso	6.8131	7.6421	7.2774	7.5343	-9.6	1.4	-3.4
100 Indonesian rupiah	0.0386	0.0346	0.0316	0.0315	22.7	9.9	0.6
100 Korean won	0.3665	0.3211	0.2750	0.2630	39.3	22.1	4.6
Chinese renminbi	0.4591	0.4545	0.5076	0.5335	-13.9	-14.8	-4.9

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

Source: Bank Negara Malaysia