MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates remained stable

The Overnight Policy Rate (OPR) was left unchanged at 3.00% during the second quarter of 2012. At the prevailing level of the OPR, monetary conditions continue to be supportive of economic activity.

Reflecting the unchanged OPR, the average overnight interbank rate was stable during the quarter, moving within a range of 2.90% to 3.00% between 2 April and 29 June 2012. Interbank rates of other short-term maturities were also relatively steady.

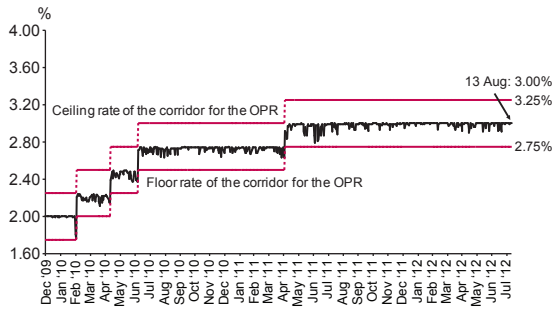
Rates on interest rate swaps and the 3-month Kuala Lumpur Interbank Offer Rate (KLIBOR) futures, however, moderated and remained relatively low, reflecting market expectations for the OPR to remain unchanged.

Retail deposit rates were stable during the quarter. The average quoted fixed deposit (FD) rates of commercial banks were relatively unchanged. As at end-June 2012, the average quoted FD rates of commercial banks for the 1 to 12 months tenures ranged between 2.90% and 3.19% respectively.

Borrowing costs to the economy were also relatively stable during the period. The average base lending rate (BLR) of commercial banks remained at 6.53%, while the weighted average lending rate (ALR) on loans outstanding was also stable at 5.60% as at end-June 2012 (end-March 2012: 5.62%).

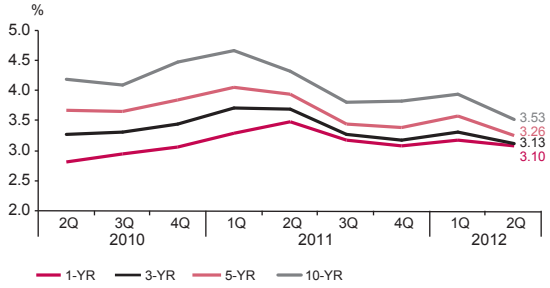
As such, interest rates remained supportive of economic activity.

Daily Weighted Average Overnight Interbank Rate



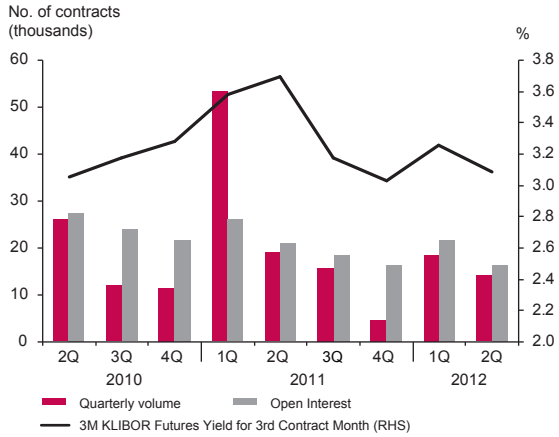
Source: Bank Negara Malaysia

Interest Rate Swap: Rates



Source: Bloomberg

3 Month KLIBOR Futures



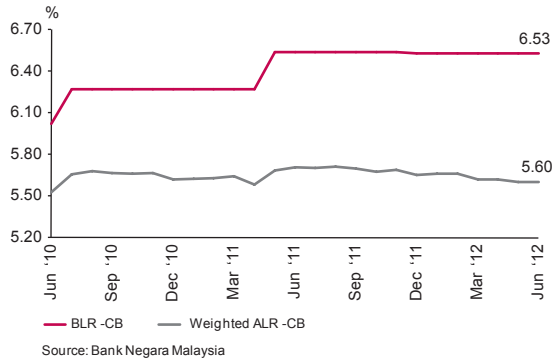
Source: Bursa Malaysia

Interest Rates

	2011	2012	
	2Q	1Q	2Q
	At end-period (%)		
Overnight Policy Rate (OPR)	3.00	3.00	3.00
Interbank rates			
Overnight	2.97	3.00	2.99
1-month	3.08	3.06	3.06
Base lending rate (BLR)			
Commercial banks	6.54	6.53	6.53
Weighted average lending rate (ALR)			
Commercial banks	5.71	5.62	5.60
Fixed deposit rates			
Commercial banks			
1-month	2.95	2.93	2.90
12-months	3.23	3.21	3.19

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				
	2011		2012		
	2Q	1H	1Q	2Q	1H
	RM billion				
M3	**44.9**	**72.9**	**38.8**	**26.6**	**65.4**
Net claims on Govt	-11.4	-15.1	-4.9	-10.1	-14.9
Claims on private sector	37.8	60.5	23.1	53.3	76.4
Loans	*29.3*	*55.8*	*18.4*	*48.9*	*67.3*
Securities	*8.5*	*4.8*	*4.7*	*4.4*	*9.1*
Net foreign assets[1]	69.3	94.5	17.2	-9.4	7.8
BNM	*58.0*	*73.8*	*0.4*	*4.9*	*5.2*
Banking System	*11.2*	*20.7*	*16.8*	*-14.3*	*2.6*
Other influences	-50.7	-67.0	3.3	-7.2	-3.9

[1] Pre-revaluation

Source: Bank Negara Malaysia

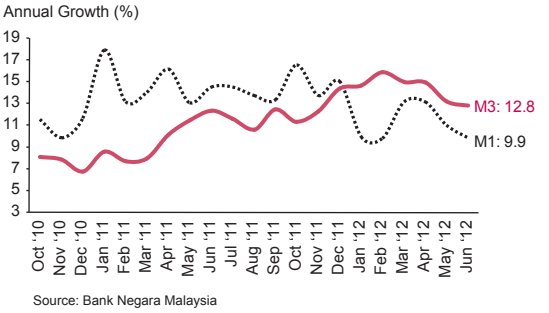
M3 continued to expand

The monetary aggregates grew at a more moderate pace during the second quarter. M1, or narrow money, increased by RM3.5 billion. On an annual basis, M1 expanded by 9.9% as at end-June (end-March 2012: 13.2%). M3, or broad money, grew by 12.8% annually as at end-June 2012 (end-March 2012: 15.0%), and increased by RM26.6 billion on a quarter-on-quarter basis.

The increase in M3 reflected the continued extension of credit to the private sector, particularly to businesses, in line with the sustained pace of economic activity. Nevertheless, the expansion in M3 was partially offset by Government fundraising, as the drawdown of deposits by the private sector was used to finance the purchase of Malaysian Government Securities (MGS) and Government Investments Issues (GII). Meanwhile, net portfolio outflows were also recorded during the quarter, driven mainly by concerns surrounding the European sovereign debt crisis, thereby further moderating M3 expansion.

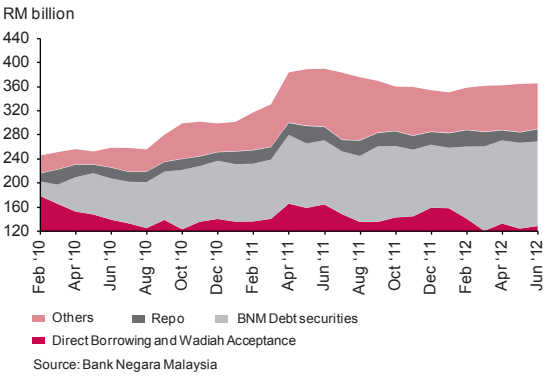
In the banking system, ample liquidity conditions prevailed at both the institutional and system-wide levels. The level of surplus liquidity placed with BNM was relatively stable during the quarter.

Monetary Aggregates



Source: Bank Negara Malaysia

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



Source: Bank Negara Malaysia

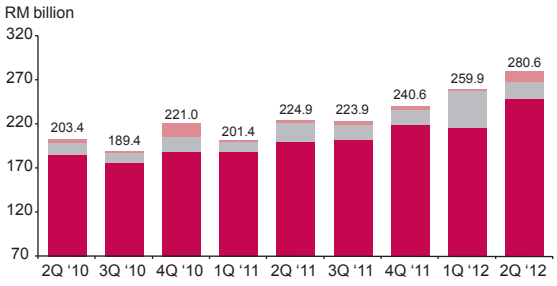
Private sector financing activity strengthened further in the second quarter

In the second quarter, financing conditions remained supportive of economic activity. Total gross financing raised by the private sector through the banking system and the capital market increased to RM280.6 billion (1Q 12: RM259.9 billion). The higher financing reflected increased loan disbursements mainly to businesses and initial public offerings (IPOs) during the quarter. On a net basis, banking system loans and PDS outstanding expanded at an annual growth rate of 13.0% as at end-June 2012 (1Q 12: 13.3%).

All major loan indicators remained broadly in line with economic activity in the second quarter. In the business sector, higher loan disbursements reflected mainly the drawdown of funds to finance working capital in the *manufacturing; real estate; finance, insurance and business services* and *wholesale and retail, restaurants and hotels* sectors. Demand for new financing by businesses also increased with higher loan applications mainly from the *finance, insurance and business services; wholesale and retail, restaurants and hotels* and *construction* sectors. On an annual basis, business loans outstanding expanded at a growth rate of 14.3% as at end-June (1Q 12: 10.8%).

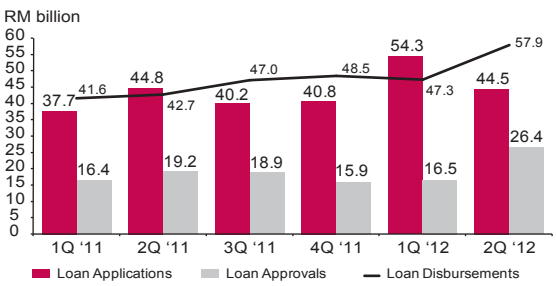
Financing to the household sector continued to expand at a steady pace during the quarter to increase at an annual growth rate of 11.8% as at end-June (1Q 12: 11.9%). Demand for loans was higher across most purposes during the quarter, with increased loan applications especially for the *purchase of residential property*, *passenger cars* and for *personal use*.

Gross Private Sector Financing through Banking System and Capital Market



Source: Bank Negara Malaysia

Bank Lending to SMEs



Source: Bank Negara Malaysia

Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)					Annual growth (%)				
	2011		2012			2011		2012		
	2Q	1H	1Q	2Q	1H	2Q	1H	1Q	2Q	1H
Gross total financing	**224.9**	**426.3**	**259.9**	**280.6**	**540.6**	**10.6**	**8.4**	**29.1**	**24.8**	**26.8**
Loans disbursed*	200.8	389.5	216.7	248.9	465.6	8.4	8.3	14.9	24.0	19.6
Gross PDS (excl. Cagamas)	20.3	31.9	41.9	19.6	61.5	45.9	73.9	260.6	-3.2	93.0
Equity	3.8	4.9	1.3	12.1	13.4	-9.7	-67.6	20.7	215.0	171.2
Net total financing (A)+(B)	**51.2**	**83.9**	**45.8**	**54.3**	**100.1**	**12.8**	**12.8**	**13.3**	**13.0**	**13.0**
Banking system	38.9	64.9	25.0	48.8	73.9	13.1	13.1	12.5	13.0	13.0
Loans outstanding (A)	*35.6*	*64.4*	*19.7*	*44.1*	*63.8*	*13.5*	*13.5*	*12.2*	*12.6*	*12.6*
Holding of PDS	*3.3*	*0.5*	*5.3*	*4.8*	*10.1*	*7.7*	*7.7*	*17.3*	*18.6*	*18.6*
PDS outstanding (B)	15.6	19.6	26.1	10.2	36.3	10.6	10.6	16.5	14.0	14.0
Memorandum item										
Gross PDS (incl. Cagamas)	20.9	33.1	44.8	20.6	65.4	42.0	70.8	266.5	-1.4	97.4

*Banking systems loans include loans sold to Cagamas

Source: Bank Negara Malaysia

Loan Indicators

	During the period (RM billion)					Annual growth (%)				
	2011		2012			2011		2012		
	2Q	1H	1Q	2Q	1H	2Q	1H	1Q	2Q	1H
Total										
Loan applications	199.7	368.2	195.4	220.1	415.6	25.8	26.3	16.0	10.2	12.9
Loan approvals	110.0	197.7	89.8	111.3	201.0	21.7	23.2	2.4	1.1	1.7
Loan disbursements	200.8	389.5	216.7	248.9	465.6	8.4	8.3	14.9	24.0	19.6
Loan repayments	173.8	341.9	205.4	212.0	417.4	7.4	8.1	22.2	22.0	22.1
Change in loans outstanding*	35.6	64.4	19.7	44.1	63.8	13.5	13.5	12.2	12.6	12.6
Of which:										
Business enterprises**										
Loan applications	96.6	176.2	105.3	115.2	220.4	34.9	33.9	32.3	19.2	25.1
Loan approvals	55.5	94.3	45.3	57.9	103.2	29.3	30.7	16.5	4.3	9.3
Loan disbursements	134.8	256.8	152.5	184.2	336.6	7.8	6.1	24.9	36.7	31.1
Loan repayments	116.9	226.7	145.8	154.3	300.1	5.0	4.7	32.8	32.0	32.4
Change in loans outstanding*	11.6	22.9	3.5	25.4	29.0	12.1	12.1	10.8	14.3	14.3
SMEs**										
Loan applications	44.8	82.5	54.3	44.5	98.8	30.7	32.6	44.0	-0.7	19.8
Loan approvals	19.2	35.6	16.5	26.4	42.9	21.1	23.9	0.4	37.8	20.6
Loan disbursements	42.7	84.4	47.3	57.9	105.2	16.6	17.0	13.7	35.5	24.7
Loan repayments	36.6	73.9	46.0	46.8	92.8	13.1	12.2	23.4	27.9	25.6
Change in loans outstanding*	7.5	10.9	4.8	11.8	16.6	14.1	14.1	19.9	22.0	22.0
Large corporations										
Loan applications	51.9	93.7	51.0	70.7	121.7	38.9	35.0	21.7	36.3	29.8
Loan approvals	36.3	58.7	28.8	31.4	60.2	34.1	35.3	28.3	-13.4	2.5
Loan disbursements	92.0	172.5	105.1	126.3	231.4	4.2	1.4	30.7	37.2	34.2
Loan repayments	80.2	152.8	99.9	107.4	207.3	1.7	1.4	37.6	33.9	35.7
Change in loans outstanding*	4.1	12.0	-1.2	13.6	12.4	10.8	10.8	5.1	9.4	9.4
Households										
Loan applications	103.0	191.9	90.2	104.9	195.1	18.4	20.0	1.4	1.9	1.6
Loan approvals	54.6	103.3	44.5	53.4	97.9	14.9	17.0	-8.8	-2.1	-5.3
Loan disbursements	66.1	132.7	64.2	64.8	129.0	9.6	12.9	-3.5	-2.0	-2.7
Loan repayments	57.0	115.3	59.5	57.7	117.3	12.8	15.6	2.1	1.4	1.7
Change in loans outstanding*	15.4	30.1	11.9	16.7	28.6	12.8	12.8	11.9	11.8	11.8

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

Source: Bank Negara Malaysia

Fund raising activity in the capital market remained healthy

Net funds raised in the capital market amounted to RM27.6 billion during the quarter (1Q 12: RM43.5 billion). As in the previous quarter, the bulk of funds were raised by the private sector. Funds raised from the equity market increased significantly to RM12.1 billion (1Q 12: RM1.3 billion), due to a large initial public offering in June. New PDS issuances also remained healthy at RM20.6 billion (1Q 12: RM44.8 billion). Funds were raised mainly to finance new activity and for working capital and general business activities. After adjusting for redemptions, net funds raised by the private sector in the capital market amounted to RM22.6 billion (1Q 12: RM29.8 billion).

In the public sector, net funds raised amounted to RM5.0 billion (1Q 12: RM13.7 billion). Funds were raised through the new issuance of a 3.5-year, 5.5-year and 20-year Malaysian Government Securities (MGS), a 10.5-year and 15-year Government Investment Issue (GII) as well as the re-opening of a 3-year MGS, 7-year MGS and a 7-year GII.

Net Funds Raised in the Capital Market

	2011		2012		
	2Q	1H	1Q	2Q	1H
	RM billion				
By Public Sector	**3.5**	**28.1**	**13.7**	**5.0**	**18.7**
Government securities, *net*	5.0	29.6	15.6	9.6	25.2
Malaysian Government Securities	*16.7*	*31.8*	*12.8*	*16.1*	*28.9*
Government Investment Issues	*10.0*	*19.5*	*12.0*	*11.1*	*23.1*
Less: Redemptions	*21.8*	*21.8*	9.2	17.6	26.8
Khazanah Bonds, *net*	-	-	-	-	-
Savings Bonds, *net*	(1.4)	(1.5)	(1.9)	(4.6)	(6.5)
By Private Sector	**17.3**	**22.5**	**29.8**	**22.6**	**52.4**
Shares	3.8	4.9	1.3	12.1	13.4
Debt securities, *net*	13.5	17.5	28.5	10.5	39.0
Private Debt Securities	*20.9*	*33.1*	*44.8*	*20.6*	*65.4*
Less: Redemptions	*7.4*	*15.6*	*16.3*	*10.1*	*26.4*
Total	**20.8**	**50.6**	**43.5**	**27.6**	**71.1**

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

Source: Bank Negara Malaysia and Bursa Malaysia

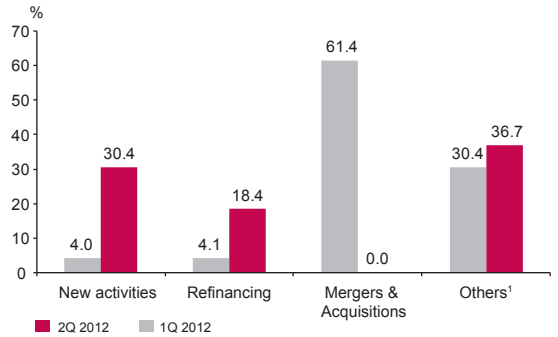
Loans by Sector

	Loans disbursed						Loans out-standing
	During the period					Share of total	Share of total
	2Q 11	1H 11	1Q 12	2Q 12	1H 12		
	(RM billion)					(%)	
Business enterprises	**134.8**	**256.8**	**152.5**	**184.2**	**336.6**	**72.3**	**45.5**
Large corporations	*92.0*	*172.5*	*105.1*	*126.3*	*231.4*	*49.7*	*29.6*
*SMEs**	*42.7*	*84.4*	*47.3*	*57.9*	*105.2*	*22.6*	*15.9*
Selected sectors							
Agriculture, hunting, forestry and fishing	5.9	11.5	5.7	8.1	13.8	3.0	2.3
Mining and quarrying	1.1	2.2	1.4	2.8	4.2	0.9	0.6
Manufacturing	42.0	83.3	46.3	55.4	101.7	21.8	9.1
Construction	10.1	20.3	11.9	11.9	23.8	5.1	3.9
Real estate	8.5	14.9	8.0	15.5	23.5	5.0	5.4
Electricity, gas and water supply	1.2	2.7	1.7	2.1	3.8	0.8	0.8
Wholesale, retail, restaurants and hotels	33.8	64.5	44.1	45.6	89.6	19.3	7.2
Transport, storage and communication	4.3	8.7	4.6	4.9	9.6	2.1	2.7
Finance, insurance and business services	18.7	33.6	21.5	30.0	51.5	11.1	8.0
Households	**66.1**	**132.7**	**64.2**	**64.8**	**129.0**	**27.7**	**54.5**
Purchase of residential properties	15.7	30.7	16.4	15.0	31.5	6.8	25.4
Consumption credit	40.9	81.0	37.1	40.0	77.1	16.6	19.1
Of which:							
Credit cards	*24.2*	*47.4*	*21.4*	*21.5*	*42.9*	9.2	3.0
Purchase of passenger cars	*8.6*	*17.5*	*8.6*	*10.2*	*18.8*	*4.0*	*11.2*
Others	9.5	21.0	10.7	9.7	20.4	*4.4*	*9.9*
Total	**200.8**	**389.5**	**216.7**	**248.9**	**465.6**	**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

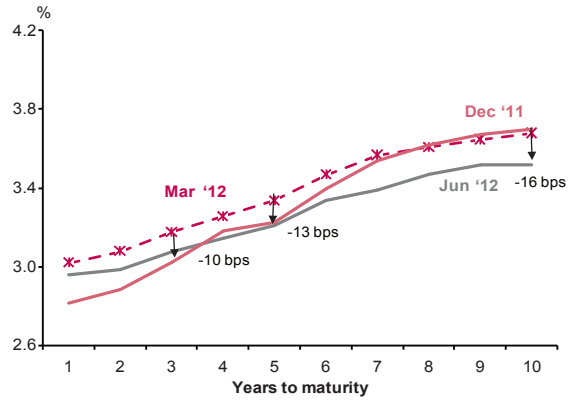
Source: Bank Negara Malaysia

Bond yields declined

MGS yields were on a declining trend in the second quarter. This mainly reflected expectations that domestic monetary conditions would remain accommodative, given moderate domestic growth and lower inflationary pressures amidst increasing signs of slowing global growth particularly in the advanced economies and PR China. The decline in yields was across the board, with the 3-year, 5-year and 10-year MGS recording a decline of 10, 13 and 16 basis points respectively.

In the PDS market, yields on the 5-year AAA and AA corporate bonds also recorded a marginal decline of 1 basis point, in line with the decline in MGS yields. Yields on the 5-year A-rated paper, however, increased marginally by 9 basis points.

Trend in MGS Yields

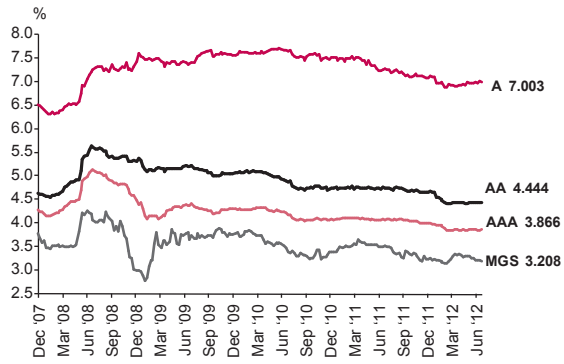


Source: Bank Negara Malaysia

Decline in secondary trading in the bond market

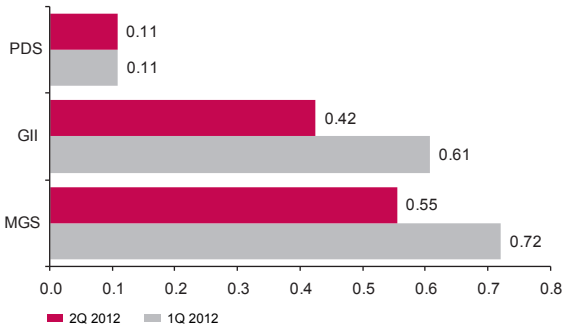
Total trading in the secondary market declined to RM252 billion during the quarter (1Q 12: RM312 billion). Both the MGS and GII segments registered lower liquidity ratios of 0.55 and 0.42 respectively, while the liquidity ratio in the PDS segment was unchanged at 0.11.

5-year MGS and 5-year Corporate Bond Yield



Source: Bank Negara Malaysia

Liquidity Ratio: Turnover / Outstanding



Source: Bank Negara Malaysia

Positive performance of KLCI

The FBM (FTSE Bursa Malaysia) KLCI rose by 2.8 points, ending the second quarter at 1599.2 (end-March 2012: 1596.3). The index decreased in the first half of the quarter reflecting renewed uncertainties over the European sovereign debt crisis and concerns over the prospect for regional and global growth, which prompted investors to reduce holdings of equity assets. In the second half of the quarter, the market returned to its end-1Q 2012 level on expectations of further stimulus by major economies to mitigate the prospects of a slowdown in economic growth.

The positive performance of the local bourse was also supported by domestic institutional buying in June. Market capitalisation increased to RM1.37 trillion at end-June 2012 (end-March 2012: RM1.36 trillion), while the daily average turnover decreased to 1.21 billion units (1Q 12: 2.02 billion units) during the quarter. Open interest in the FBM KLCI futures increased to 32,173 contracts as at end-2Q 2012 (1Q 12: 29,962).

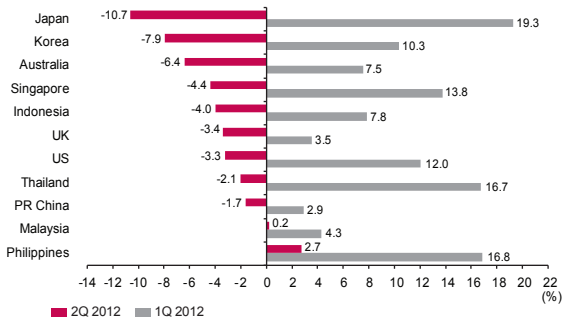
On 13 August 2012, the KLCI ended higher at 1,646.3 points (since end-June 2012: 3.0%), with market capitalisation of RM1.44 trillion (since end-June 2012: 5.0%).

Ringgit depreciated against regional and most major currencies

Global foreign exchange markets experienced significant volatility during the second quarter in light of several high profile events affecting the world economy. Renewed uncertainties over the European sovereign debt crisis and the prospects for regional and global economic growth prompted some investors to reduce holdings of emerging market assets. As a result, the ringgit depreciated by 3.8% against the US dollar in the second quarter, along with most other regional currencies. Against other major currencies, the ringgit depreciated against the pound sterling (-1.6%) and the Japanese yen (-7.0%), while strengthening against the euro (2.0%). Against the other regional currencies, the ringgit depreciated in the range of between 0.7% and 5.4%.

During the period 1 July to 13 August 2012, the ringgit appreciated against the euro (4.7%), US dollar (2.3%), pound sterling (1.9%) and Japanese

Performance of Selected Global and Regional Markets in 2012 (% growth QoQ)



Source: Bloomberg and Bank Negara Malaysia calculations

Bursa Malaysia: Selected Market Indicators

	2011	2012	
	As at end		
	June	Mar	June
Price Indices			
Composite	1,579.1	1,596.3	1,599.2
FBMEMAS[1]	10,842.3	10,939.6	10,917.6
ACE Market[2]	4,198.2	4,583.8	4,354.7
Market capitalisation (RM billion)	1,342.2	1,355.4	1,367.9
No. of companies listed	953	939	927
	During the quarter		
	2Q	1Q	2Q
Average daily turnover			
Volume (million units)	1,038.8	2,019.9	1,205.8
Value (RM million)	1,638.7	1,977.8	1,517.1

[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

	2011				2012					
	2Q		1H		1Q		2Q		1H	
	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion
Turnover	65.4	103.2	167.5	235.0	119.2	116.4	76.0	95.6	195.1	212.0
Of which:										
Main Board	49.5	100.0	133.6	228.4	75.6	109.5	48.7	91.1	124.3	200.5
Of which										
Consumer Products	4.0	5.0	8.1	10.4	9.4	7.8	4.2	6.4	13.6	14.2
Industrial Products	10.5	15.7	29.4	36.9	13.3	16.7	10.7	10.1	24.1	26.8
Construction	2.8	5.9	7.4	14.9	2.8	4.9	1.5	2.8	4.4	7.7
Trading/Services	17.2	36.5	50.6	82.6	29.4	39.9	19.5	37.6	48.9	77.5
Finance	4.7	20.9	9.1	45.5	4.0	19.8	3.2	17.4	7.3	37.3
Properties	6.3	7.2	19.0	16.9	7.8	6.5	4.0	3.6	11.7	10.1
Plantations	1.2	5.2	3.5	13.4	1.7	5.8	1.5	7.1	3.1	12.9
Infrastructure	0.7	2.1	1.8	4.5	2.0	3.4	1.5	3.3	3.4	6.7
ACE Market[1]	10.9	2.1	19.2	3.4	27.7	4.3	19.8	3.2	47.5	7.5

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

Source: Bursa Malaysia

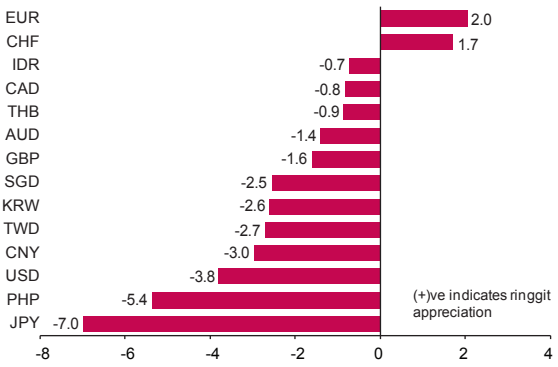
yen (0.9%). The ringgit also appreciated against regional currencies, strengthening against the Korean won, Thai baht, Philippine peso, Indonesian rupiah and Chinese renminbi by between 0.6% and 2.3%. The ringgit remained unchanged against the Singapore dollar.

Market activity for foreign exchange derivatives rose with the increased volatility in the financial markets

The volume of foreign exchange swaps and forwards grew by 10.8% in the second quarter (1Q 12: +1.9%). The rise was driven by hedging activities by local exporters, who were proactively managing their foreign currency exposure through forward selling of the US dollar, taking advantage on the US dollar appreciation against most other currencies.

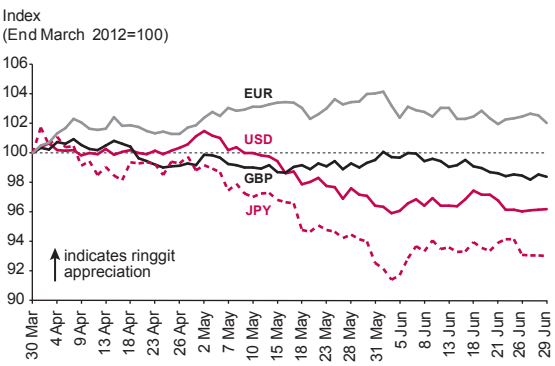
The costs of raising US dollars in the foreign exchange market increased during the quarter due to volatility in global foreign exchange markets, with the 5-year USD/RM cross-currency swaps widening from 133bps in March to 145bps in June. The cross-currency swaps subsequently increased further to 173bps on 12 July 2012, as domestic institutional investors investing abroad resulted in additional demand for dollars. Nevertheless, easing concerns over the European sovereign debt crisis have seen the cross-currency swaps moderate to 149bps on 20 July 2012.

Summary of Ringgit Performance Against Selected Currencies Percent Change (1 April - 30 June 2012)



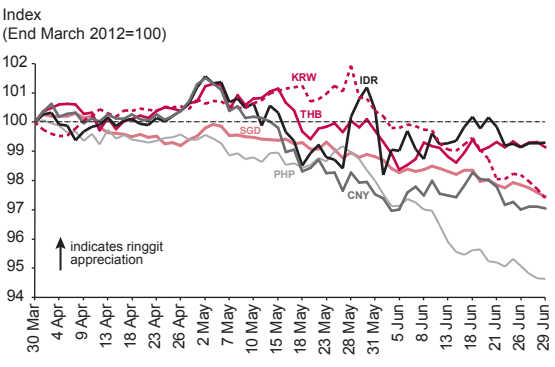
Source: Bank Negara Malaysia

Ringgit Performance Against Major Currencies



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	2Q 11	1Q 12	2Q 12	21 Jul 05	2Q 11	1Q 12
US dollar	3.8000	3.0205	3.0680	3.1895	19.1	-5.3	-3.8
Euro	4.6212	4.3820	4.0955	4.0133	15.1	9.2	2.0
Pound sterling	6.6270	4.8648	4.9008	4.9804	33.1	-2.3	-1.6
100 Japanese yen	3.3745	3.7538	3.7396	4.0198	-16.1	-6.6	-7.0
Singapore dollar	2.2570	2.4577	2.4405	2.5043	-9.9	-1.9	-2.5
100 Thai baht	9.0681	9.8308	9.9433	10.030	-9.6	-2.0	-0.9
100 Philippine peso	6.8131	6.9649	7.1407	7.5447	-9.7	-7.7	-5.4
100 Indonesian rupiah	0.0386	0.0352	0.0334	0.0336	14.8	4.5	-0.7
100 Korean won	0.3665	0.2826	0.2702	0.2775	32.1	1.9	-2.6
Chinese renminbi	0.4591	0.4673	0.4870	0.5018	-8.5	-6.9	-3.0

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

Source: Bank Negara Malaysia