MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates remained stable

The Overnight Policy Rate (OPR) was left unchanged at 3.00% in the first quarter of 2012. At the prevailing level of the OPR, monetary conditions remain supportive of economic activity.

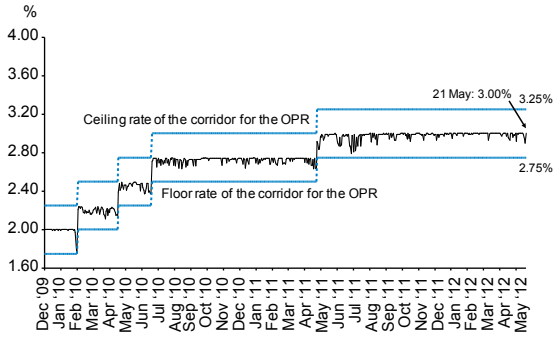
Reflecting the unchanged OPR, the average overnight interbank rate was stable during the quarter, moving within a narrow range of 2.95% to 3.00% during the period 3 January - 30 March 2012. Interbank rates of other short-term maturities were also relatively stable.

Rates on interest rate swaps and the 3-month KLIBOR futures, however, increased in the first quarter as markets revised their earlier expectations for an OPR reduction when confronted with the stronger-than-expected GDP growth in the fourth quarter of 2011, as well as improvements in the global economic and financial conditions.

Retail deposit rates remained stable during the quarter. The average quoted fixed deposit (FD) rates of commercial banks were relatively unchanged. As at end-March 2012, the average quoted FD rates for the 1 to 12 months tenures ranged between 2.93% and 3.21% respectively.

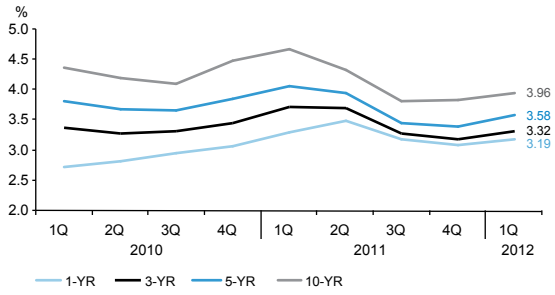
Borrowing costs were also stable in the first quarter. The average base lending rate (BLR) of commercial banks was unchanged at 6.53% throughout the period. The weighted average lending rate (ALR) on loans outstanding remained stable, standing at 5.62% as at end-March 2012 (end-December 2011: 5.65%). The cost of borrowing for businesses and households remained below pre-crisis levels.

Daily Weighted Average Overnight Interbank Rate



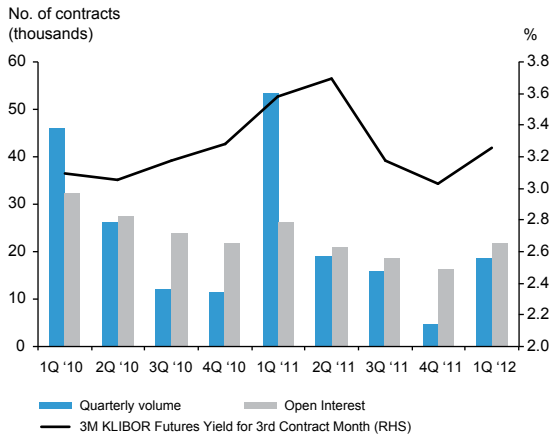
Source: Bank Negara Malaysia

Interest Rate Swap: Rates



Source: Bloomberg

3 Month KLIBOR Futures



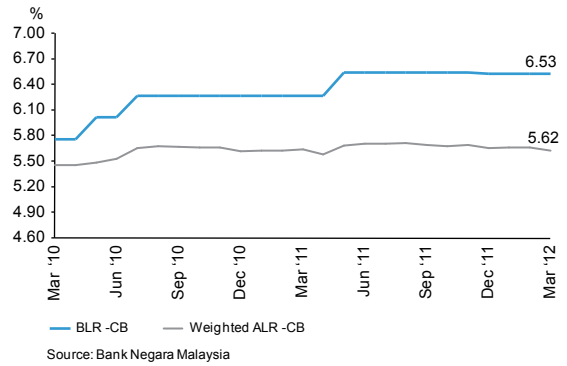
Source: Bursa Malaysia

Interest Rates

	2011		2012
	1Q	4Q	1Q
	At end-period (%)		
Overnight Policy Rate (OPR)	2.75	3.00	3.00
Interbank rates			
Overnight	2.74	2.99	3.00
1-month	2.79	3.05	3.06
Base lending rate (BLR)			
Commercial banks	6.27	6.53	6.53
Weighted average lending rate			
Commercial banks	5.64	5.65	5.62
Fixed deposit rates			
Commercial banks			
1-month	2.71	2.95	2.93
12-month	2.98	3.22	3.21

Source: Bank Negara Malaysia

Lending Rates of Commercial Banks (At end-period)



Source: Bank Negara Malaysia

M3 continued to expand

The monetary aggregates continued to grow in the first quarter of 2012. M1, or narrow money, increased by RM13.3 billion. On an annual basis, M1 expanded by 13.2% as at end-March (end-December 11: 15.1%). M3, or broad money, increased by RM38.8 billion on a quarter-on-quarter basis to record an annual growth rate of 15% as at end-March 2012 (end-December 11: 14.4%).

The increase in M3 reflected the continued extension of credit to the private sector, in line with the sustained pace of economic activity. The increase in net capital inflows, which had an expansionary impact on M3, was reflected in the rise in net foreign assets of the banking system. Nevertheless, the expansion in M3 was partially offset by a drawdown of deposits by the private sector for the purchase of securities issued by the Government.

During the quarter, the higher banking system liquidity from capital inflows was sterilised by Bank Negara Malaysia through the use of various instruments.

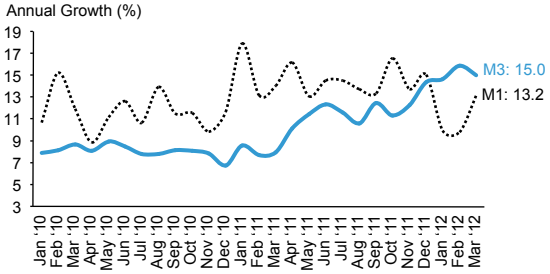
Determinants of Broad Money, M3

	Change during the period			
	2011			2012
	1Q	4Q	Year	1Q
	RM billion			
M3	**28.0**	**55.2**	**156.3**	**38.8**
Net claims on Govt	-3.7	-7.3	-12.0	-4.9
Claims on private sector	22.8	35.7	116.4	23.1
Loans	*26.5*	*33.4*	*111.8*	*18.4*
Securities	*-3.7*	*2.2*	*4.6*	*4.7*
Net foreign assets[1]	25.2	7.5	95.8	17.2
BNM	*15.7*	*11.2*	*87.0*	*0.4*
Banking System	*9.5*	*-3.8*	*8.8*	*16.8*
Other influences	-16.3	19.3	-43.9	3.3

[1] Pre-revaluation

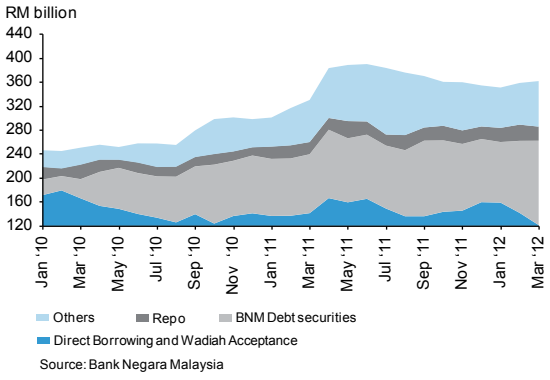
Source: Bank Negara Malaysia

Monetary Aggregates



Source: Bank Negara Malaysia

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



Source: Bank Negara Malaysia

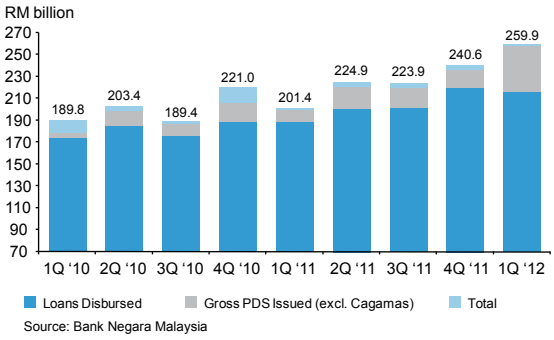
Private sector financing activity strengthened

In the first 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 RM259.9 billion (4Q 11: RM240.6 billion). The higher financing was attributable mainly to the increase in net private debt securities (PDS) issuances. On a net basis, banking system loans and PDS outstanding expanded at an annual growth rate of 13.3% as at end-March 2012 (4Q 11: 12.5%).

In the business sector, while loans outstanding from the banking system moderated slightly due to large repayments during the quarter, loans disbursed to businesses remained high. The bulk of the loans were disbursed to finance working capital in the *wholesale and retail, restaurants and hotels; finance, insurance and business services* and *electricity, gas and water supply* sectors. Demand for new financing by businesses increased with higher loan applications mainly from the *transport, storage and communication; real estate; finance, insurance and business services* and *wholesale and retail, restaurants and hotels* sectors. On an annual basis, business loans outstanding expanded at a growth rate of 10.8% at end-March (end-December 11: 13.5%).

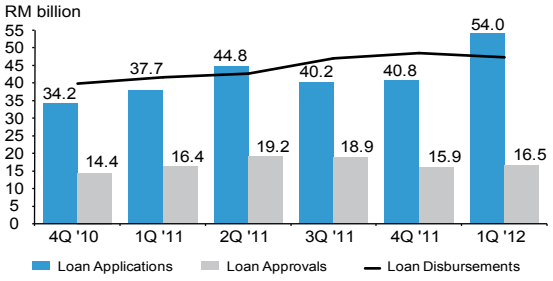
Financing to the household sector expanded more moderately by RM11.9 billion to increase at an annual growth rate of 11.9% at end-March (4Q 11: by RM17.7 billion or 12.9%).

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
	1Q	4Q	2011	1Q	1Q	4Q	2011	1Q
Gross total financing	**201.4**	**240.6**	**890.8**	**259.9**	**6.1**	**8.9**	**10.8**	**29.1**
Loans disbursed*	188.6	219.7	811.3	216.7	8.2	16.3	12.0	14.9
Gross PDS (excl. Cagamas)	11.6	17.1	66.9	41.9	161.3	-2.1	42.6	260.6
Equity	1.1	3.8	12.6	1.3	-89.9	-73.9	-60.7	20.7
Net total financing (A)+(B)	**32.8**	**32.1**	**147.4**	**45.8**	**12.1**	**12.5**	**12.5**	**13.3**
Banking system	25.9	31.7	122.5	25.0	12.4	12.9	12.9	12.5
Loans outstanding (A)	*28.8*	*31.2*	*120.2*	*19.7*	*13.2*	*13.6*	*13.6*	*12.2*
Holding of PDS	*-2.8*	*0.5*	*2.2*	*5.3*	*2.1*	*3.6*	*3.6*	*17.3*
PDS outstanding (B)	4.0	0.8	27.2	26.1	8.7	9.3	9.3	16.5
Memorandum item								
Gross PDS (incl. Cagamas)	12.2	18.3	69.6	44.8	161.3	-5.2	33.4	266.5

*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
	1Q	4Q	2011	1Q	1Q	4Q	2011	1Q
Total								
Loan applications	168.5	192.3	745.4	195.4	26.8	10.9	16.2	16.0
Loan approvals	87.6	104.0	400.3	89.8	25.0	13.4	16.6	2.4
Loan disbursements	188.6	219.7	811.3	216.7	8.2	16.3	12.0	14.9
Loan repayments	168.1	195.5	725.6	205.5	8.8	16.5	11.8	22.2
Change in loans outstanding*	28.8	31.2	120.2	19.7	13.2	13.6	13.6	12.2
Of which:								
Business enterprises**								
Loan applications	79.6	95.7	357.9	105.3	32.6	16.6	19.9	32.3
Loan approvals	38.9	52.5	193.3	45.3	32.8	20.8	21.3	16.5
Loan disbursements	122.1	150.8	543.5	152.5	4.2	21.1	12.5	24.9
Loan repayments	109.8	137.8	494.7	146.0	4.3	21.9	11.6	32.9
Change in loans outstanding*	11.3	13.2	44.8	3.6	10.9	13.5	13.5	10.8
SMEs**								
Loan applications	37.7	40.8	163.4	54.3	35.0	19.3	27.3	44.0
Loan approvals	16.4	15.9	70.4	16.5	27.3	10.8	21.8	0.4
Loan disbursements	41.6	48.5	179.9	47.3	17.3	21.9	22.3	13.7
Loan repayments	37.2	43.9	159.7	46.1	11.4	17.2	16.4	23.7
Change in loans outstanding*	3.4	8.2	24.8	4.8	2.4	19.3	19.3	19.9
Large corporations								
Loan applications	41.9	54.9	194.5	51.0	30.5	14.6	14.3	21.7
Loan approvals	22.4	36.6	122.9	28.8	37.1	25.8	21.1	28.3
Loan disbursements	80.4	102.3	363.6	105.1	-1.5	20.7	8.2	30.7
Loan repayments	72.6	94.0	335.0	99.9	1.1	24.3	9.5	37.6
Change in loans outstanding*	7.9	5.0	20.0	-1.2	17.0	9.8	9.8	5.1
Households								
Loan applications	88.9	96.7	387.5	90.2	22.0	5.8	13.0	1.4
Loan approvals	48.8	51.5	207.0	44.5	19.4	6.7	12.4	-8.8
Loan disbursements	66.6	68.9	267.7	64.2	16.4	7.1	10.9	-3.5
Loan repayments	58.3	57.7	231.0	59.5	18.4	5.2	12.0	2.1
Change in loans outstanding*	14.8	17.7	63.1	11.9	13.2	12.9	12.9	11.9

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

Source: Bank Negara Malaysia

Fund raising activity in the capital market rose significantly

Net funds raised in the capital market increased to RM43.5 billion during the quarter (4Q 11: RM19.4 billion). The bulk of funds were raised by the private sector, particularly through the issuance of private debt securities (PDS). New PDS issuances increased significantly to RM44.8 billion (4Q 11: RM17.4 billion), due mainly to a single large debt issuance to finance a merger and acquisition. Funds raised from the equity market, however, declined to RM1.3 billion. Funds were mainly raised through rights issues (RM0.8 billion), while the rest was raised via initial public offerings and private placements or restricted offers-for-sale. After adjusting for redemptions, net funds raised by the private sector in the capital market amounted to RM29.8 billion (4Q 11: 3.5 billion).

In the public sector, net funds raised amounted to RM13.7 billion (4Q 11: RM15.9 billion).

Funds were raised through the new issuance of 10.5-year and 15-year Malaysian Government Securities (MGS), 3.5-year, 5.5-year and 7.5-year Government Investment Issue (GII), and the re-opening of the 7-year MGS.

Net Funds Raised in the Capital Market

	2011			2012
	1Q	4Q	Year	1Q
	RM billion			
By Public Sector	**24.6**	**15.9**	**45.6**	**13.7**
Government securities, *net*	24.6	15.9	47.1	15.6
Malaysian Government Securities	*15.1*	*12.9*	*58.8*	*12.8*
Government Investment Issues	*9.5*	*6.1*	*36.4*	*12.0*
Less: Redemptions	-	*3.1*	*48.1*	9.2
Khazanah Bonds, *net*	-	-	-	-
Savings Bonds, *net*	(0.1)	(0.0)	(1.6)	(1.9)
By Private Sector	**5.1**	**3.5**	**37.1**	**29.8**
Shares	1.1	3.8	12.6	1.3
Debt securities, *net*	4.0	(0.3)	24.5	28.5
Private Debt Securities	*12.2*	*17.4*	*69.6*	*44.8*
Less: Redemptions	*8.2*	*17.7*	*45.1*	*16.3*
Total	**29.7**	**19.4**	**82.7**	**43.5**

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

Source: Bank Negara Malaysia and Bursa Malaysia

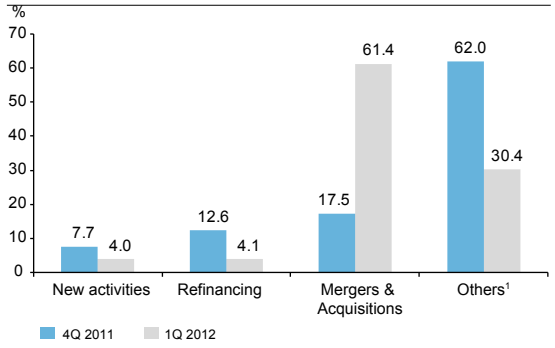
Loans by Sector

	Loans disbursed					Loans out-standing
	During the period				Share of total	Share of total
	1Q 11	4Q 11	2011	1Q 12		
	(RM billion)				(%)	
Business enterprises	**122.1**	**150.8**	**543.5**	**152.5**	**70.4**	**44.8**
Large corporations	*80.4*	*102.3*	*363.6*	*105.1*	*48.5*	*29.4*
*SMEs**	*41.6*	*48.5*	*179.9*	*47.3*	*21.8*	*15.4*
Selected sectors						
Agriculture, hunting, forestry and fishing	5.6	6.1	22.9	5.7	2.6	2.2
Mining and quarrying	1.1	1.3	5.1	1.4	0.6	0.5
Manufacturing	41.2	47.4	175.6	46.3	21.3	9.0
Construction	10.3	14.0	45.1	11.9	5.5	3.9
Real estate	6.4	9.6	33.3	8.0	3.7	5.3
Electricity, gas and water supply	1.5	1.4	5.6	1.7	0.8	1.0
Wholesale, retail, restaurants and hotels	30.8	38.0	139.7	44.1	20.3	7.3
Transport, storage and communication	4.4	6.4	19.7	4.6	2.1	2.8
Finance, insurance and business services	14.9	16.4	63.0	21.5	9.9	7.3
Households	**66.6**	**68.9**	**267.7**	**64.2**	**29.6**	**55.2**
Purchase of residential properties	15.0	17.0	64.5	16.4	7.6	25.8
Consumption credit	40.1	41.6	162.9	37.1	17.1	19.5
Of which:						
Credit cards	*23.3*	*23.6*	*93.7*	*21.4*	9.9	3.1
Purchase of passenger cars	*8.9*	*9.3*	*35.7*	*8.6*	*4.0*	*11.4*
Others	11.4	10.3	40.3	10.7	*4.9*	*9.8*
Total	**188.6**	**219.7**	**811.3**	**216.7**	**100.0**	**100.0**

*Include loans to individual businesses.

Source: Bank Negara Malaysia

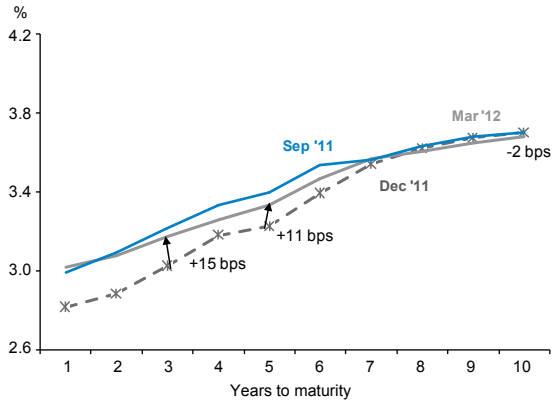
Private Debt Securities Issued by Purpose (% of total)



[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



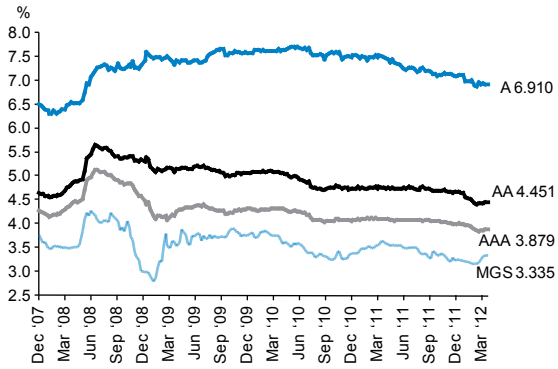
Source: Bank Negara Malaysia

The benchmark yield curve flattened

In the first quarter, MGS yields were influenced by market expectations of an adjustment in the policy rate amid an uncertain global growth environment. In the first six weeks of the year, MGS yields declined as investors priced in a reduction in the policy rate due to a possible softening of the global economic recovery. From mid-February to end-March, yields increased on account of reduced expectations of a cut in the policy rate due to tentative signs of improvement in global growth prospects. Overall, the benchmark 3-year and 5-year MGS recorded an increase of 15 and 11 basis points respectively, while the 10-year MGS recorded a decline of 2 basis points.

Corporate bond yields recorded a decline at the beginning of the first quarter, in line with MGS yields but stabilised between mid-February to March. The 5-year AAA, AA and A-rated papers declined by 11, 20 and 20 basis points respectively.

5-year MGS and 5-year Corporate Bond Yield

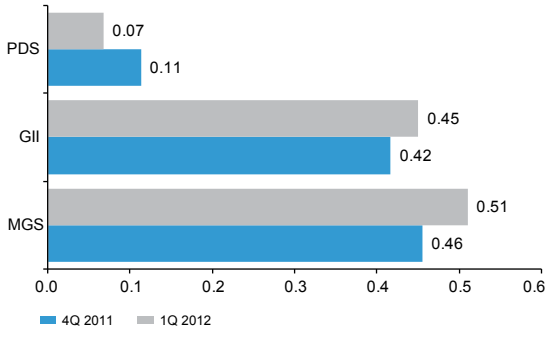


Source: Bank Negara Malaysia

Secondary trading in the bond market increased

Total trading in the secondary market increased to RM220 billion during the quarter (4Q 11: RM209 billion). The improved liquidity conditions were evident in both the MGS and GII segments, which registered higher liquidity ratios of 0.51 and 0.45 respectively. The PDS segment, however, registered a marginally lower liquidity ratio of 0.07.

Liquidity Ratio: Turnover / Outstanding



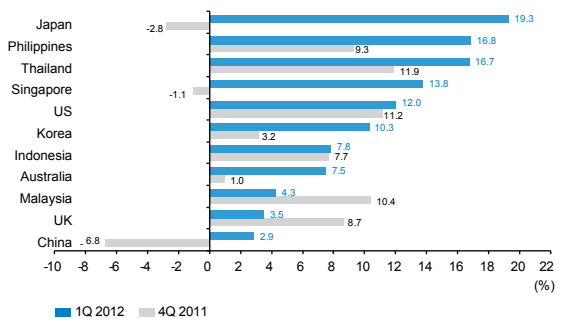
Source: Bank Negara Malaysia

KLCI continued its upward trend

The FBM (FTSE Bursa Malaysia) KLCI rose by 65.6 points, ending the first quarter at 1596.3 (end-December 11: 1530.7), in line with the trends in global and regional markets. The index increased by 4.3% (4Q 2011: 10.4%), reflecting the positive developments made in addressing the European sovereign debt crisis and encouraging economic data releases from the US, which contributed to improving investor confidence. As a result, market capitalisation increased to RM1.36 trillion at end-March 2012 (end-December 2011: RM1.28 trillion), while the daily average turnover increased to 2.02 billion units (4Q 11: 1.62 billion units) during the quarter. Open interest in the FBM KLCI futures increased to 29,962 contracts as at end-1Q 2012 (4Q 2011: 23,505).

On 21 May 2012, the KLCI ended lower at 1538.9 points (since end-March 2012: -3.60%), with market capitalisation of RM1.29 trillion (since end-March 2012: -5.10%).

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



Source: Bloomberg and Bank Negara Malaysia calculations

Ringgit strengthened against regional and most major currencies

The appreciating trend of the ringgit against the US dollar in the final quarter of 2011 continued into the first two months of 2012, following better-than-expected economic data from Asia and the US, and progress in tackling the European sovereign debt crisis, resulting in increased investors' optimism and interest for financial assets in the region. This upward trend, however, was partially mitigated by some withdrawal of funds from the region by international investors in March in reaction to weak data releases in Asia. For the quarter as a

Bursa Malaysia: Selected Market Indicators

	2011			2012
	As at end			
	Mar	Dec	Year	Mar
Price Indices				
Composite	1,545.1	1,530.7	1,530.7	1,596.3
FBMEMAS[1]	10,612.5	10,489.1	10,489.1	10,939.6
ACE Market[2]	4,333.5	4,068.6	4,068.6	4,583.8
Market capitalisation (RM billion)	1,311.0	1,284.5	1,284.5	1,355.4
No. of companies listed	954	941	941	939
	During the quarter			
	1Q	4Q	Year	1Q
Average daily turnover				
Volume (million units)	1,730.1	1,615.5	1,343.8	2,019.9
Value (RM million)	2,233.9	1,411.7	1,566.1	1,977.8

[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	
	1Q		4Q		Year		1Q	
	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion
Turnover	102.1	131.8	98.5	86.1	329.2	438.2	119.2	116.4
Of which:								
Main Board	84.1	128.4	68.3	81.6	249.3	424.5	75.6	109.5
Of which								
Consumer Products	4.0	5.4	8.1	6.0	19.1	21.3	9.4	7.8
Industrial Products	18.8	21.2	14.6	10.7	51.8	60.5	13.3	16.7
Construction	4.6	9.0	2.7	4.1	13.5	25.1	2.8	4.9
Trading/Services	33.5	46.2	20.1	28.2	86.4	153.4	29.4	39.9
Finance	4.4	24.6	6.0	15.5	20.9	92.1	4.0	19.8
Properties	12.8	9.6	8.4	6.7	34.3	31.4	7.8	6.5
Plantations	2.4	8.2	2.0	4.9	7.4	23.9	1.7	5.8
Infrastructure	1.1	2.4	1.3	2.6	4.0	9.3	2.0	3.4
ACE Market[1]	8.3	1.2	18.7	2.7	47.7	7.5	27.7	4.3

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

Source: Bursa Malaysia

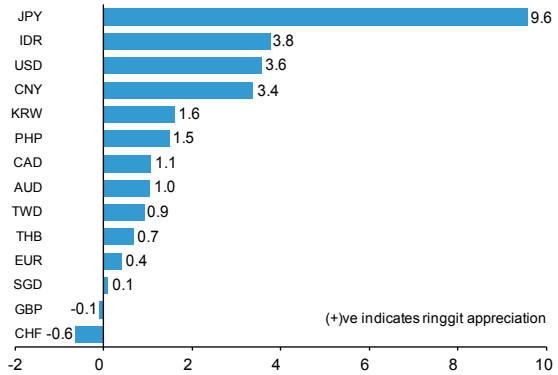
whole, the ringgit appreciated by 3.6% against the US dollar. Against other major currencies, the ringgit appreciated against the Japanese yen (9.6%) and the euro (0.4%), but depreciated marginally against the pound sterling (-0.1%). Against regional currencies, the ringgit strengthened in the range of 0.1% and 3.8%.

During the period of 1 April to 21 May 2012, the ringgit appreciated against the euro (2.3%), but depreciated against the Japanese yen (-5.4%), the US dollar (-2.0%) and the pound sterling (-1.1%). Against regional currencies, the ringgit appreciated against the Korean won (0.7%), but depreciated against the Thai baht, Singapore dollar, Indonesian rupiah, Philippine peso and Chinese renminbi by between -0.6% and -1.6%.

Volume of foreign exchange swaps and forwards continued to rise

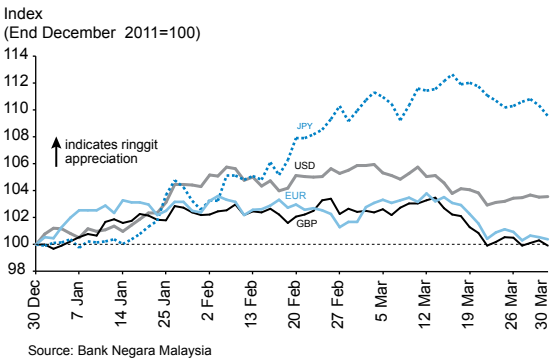
Volume of foreign exchange swaps and forwards rose by 1.9% during the quarter. The rise was mainly driven by hedging activities by local exporters, proactively managing their foreign currency exposure through forward selling of the US dollar, given the anticipation of a stronger ringgit. The growing optimism in the financial market also led to lower costs in the regional and domestic dollar funding markets. Against this backdrop, the 5-year USD/RM cross-currency swap points narrowed by half, from 240bps in Q4 2011 to 125bps in March.

Summary of Ringgit Performance Against Selected Currencies Percent Change (1 January- 31 March 2012)



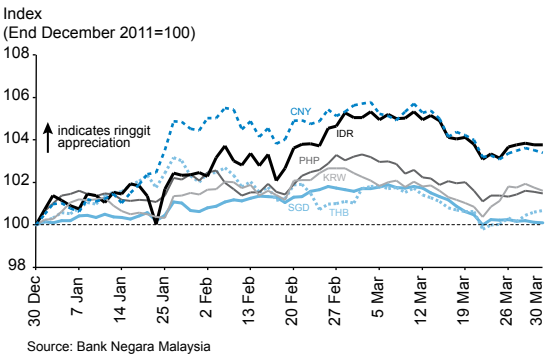
Source: Bank Negara Malaysia

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	1Q 11	4Q 11	1Q 12	21 Jul 05	1Q 11	4Q 11
US dollar	3.8000	3.0259	3.1770	3.0680	23.9	-1.4	3.6
Euro	4.6212	4.2762	4.1118	4.0955	12.8	4.4	0.4
Pound sterling	6.6270	4.8687	4.8962	4.9008	35.2	-0.7	-0.1
100 Japanese yen	3.3745	3.6602	4.0975	3.7396	-9.8	-2.1	9.6
Singapore dollar	2.2570	2.3994	2.4427	2.4405	-7.5	-1.7	0.1
100 Thai baht	9.0681	9.9947	10.009	9.9433	-8.8	0.5	0.7
100 Philippine peso	6.8131	6.9637	7.2468	7.1407	-4.6	-2.5	1.5
100 Indonesian rupiah	0.0386	0.0347	0.0347	0.0334	15.7	4.0	3.8
100 Korean won	0.3665	0.2747	0.2746	0.2702	35.6	1.7	1.6
Chinese renminbi	0.4591	0.4617	0.5034	0.4870	-5.7	-5.2	3.4

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

Source: Bank Negara Malaysia