MONETARY AND FINANCIAL DEVELOPMENTS

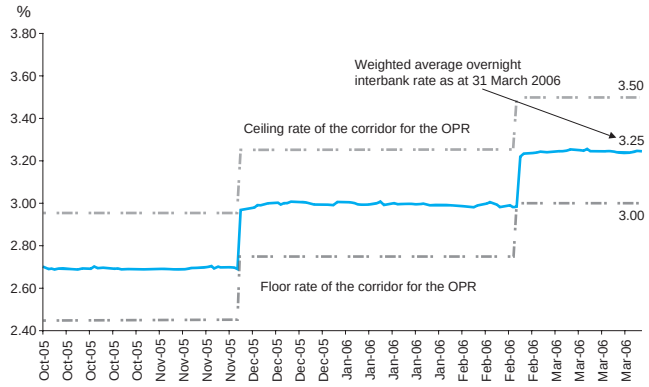
Interest rates rose following the increase in the OPR

In the first quarter of 2006, economic indicators continued to point toward sustained economic growth, supported by sustained private sector demand and strong economic growth in the global and regional economies. The rate of inflation was, however, expected to remain at an elevated level for some time. Thus, to align the interest rates to current economic conditions, the Overnight Policy Rate (OPR) was raised by 25 basis points to 3.25% on 22 February 2006 and by another 25 basis points to 3.50% on 26 April 2006. Despite these two increases, interest rates continue to remain below the neutral level and thus, monetary policy continued to remain supportive of economic activity.

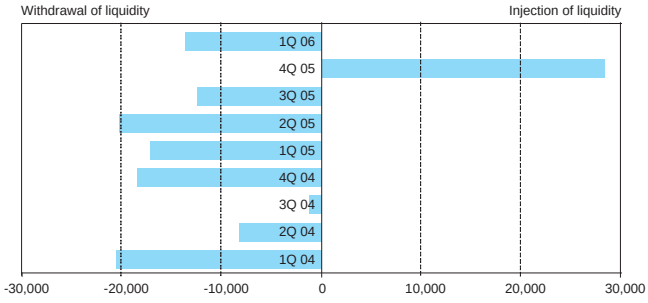
The daily weighted average overnight interbank rate moved within a range of 2.98% – 3.25% during the first quarter of 2006 (4Q 2005: 2.69% – 3.01%). Interbank rates of other maturities also rose by 22 to 24 basis points. Following the increase in the OPR on 26 April 2006, the daily weighted average overnight interbank rate moved within a range of 3.46% – 3.50% during the period 27 April to 26 May 2006, while interbank rates of other maturities rose by 30 to 37 basis points during this period.

In terms of retail interest rates, the average base lending rate (BLR) of commercial banks (CBs) increased to 6.47% at end-March 2006 (4Q 2005: 6.20%), as all CBs adjusted their BLRs upward. The average lending rate (ALR) of CBs rose to 6.29% (4Q 2005: 6.12%). At end-April 2006, the average BLR and ALR of CBs were 6.58% and 6.42% respectively.

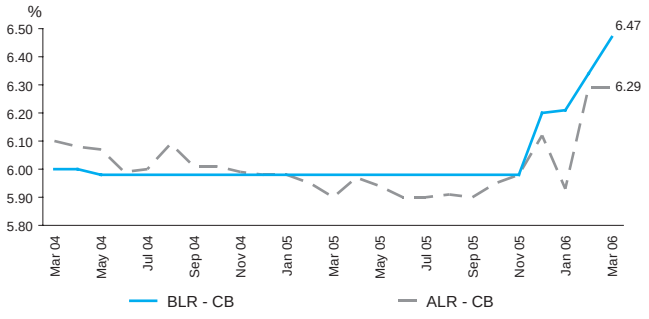
Daily Weighted Average Overnight Interbank Rate



BNM Liquidity Operations
(During the quarter, RM m)



Lending Rates of Commercial Banks
(average for the period)



Interest Rates

	2005		2006
	1Q	4Q	1Q
	At end-period (%)		
Overnight Policy Rate (OPR)	2.70	3.00	3.25
Interbank rates			
Overnight	2.72	3.00	3.25
1-month	2.77	3.12	3.25
Base lending rates (BLR)			
Commercial banks	5.98	6.20	6.47
Average lending rates (ALR)			
Commercial banks	5.90	6.12	6.29
Fixed deposit rates			
Commercial banks			
3-month	3.00	3.02	3.06
12-month	3.70	3.70	3.70

modest pace of M3 growth mainly reflected the slower rate of increase in net external operations. Nonetheless, during the first quarter of 2006, M3 increased further with the expansion of net external operations. Both claims on the private sector and net claims on the Government were also expansionary on M3. In the case of claims on the private sector, the sustained increase in banking system's loans outstanding was partly offset by the lower holding of securities by the banking system.

The average quoted fixed deposit (FD) rates of CBs for the 1-month to 9-month maturities edged upwards to between 3.03% and 3.16% as at end-March 2006 (4Q 2005: 3.01% and 3.08%), while the average rate at the 12-month maturity remained unchanged at 3.70%. By 15 May 2006, the average FD rates for CBs for the 1-month to 12-month maturities had edged up to between 3.11% and 3.73%. In particular, the increase was evident in FD rates for the 6-month and 9-month maturities, which increased to 3.31% and 3.43% respectively (4Q 2005: 3.04% and 3.08% respectively).

Monetary aggregates expanded at more moderate growth rates

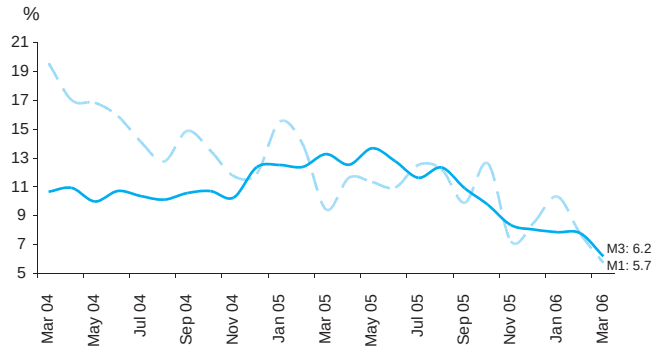
M1 or narrow money, expanded at an annual rate of 5.7% (4Q 2005: 8.5%) at the end of the first quarter, while M3 or broad money increased by 6.2% (4Q 2005: 8%). The more

M3 Determinants

	2005			2006
	1Q	4Q	Year	1Q
	RM billion			
M3	26.4	10.8	49.7	16.5
Net claims on Government	-9.1	12.6	-5.5	2.8
Claims on private sector	8.2	14.2	44.6	4.9
Net external operations[1]	29.0	-23.8	16.5	13.8
Other influences	-1.8	7.7	-6.0	-5.0

[1] Pre-revaluation

Monetary Aggregates: Annual Change



Private sector financing activity remained high

In the first quarter of 2006, gross financing to the private sector from the banking system and the capital market amounted to RM138.3 billion, expanding at an annual rate of 3.3% (4Q 2005: RM151.1 billion; +7.8%). On a quarterly basis, financing was lower compared to the seasonally high level recorded in the fourth quarter. On a net basis, financing of the private sector through banking system loans and PDS outstanding expanded at a combined annual rate of 9.1% (4Q 2005: 9.3%).

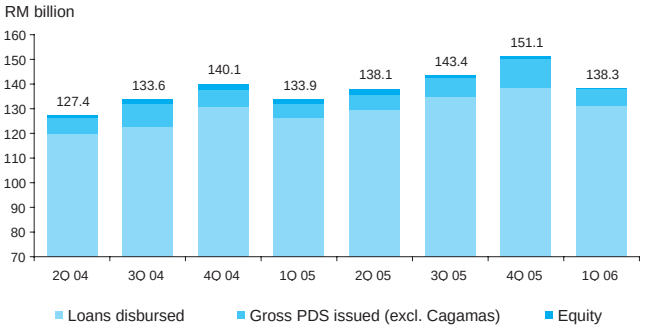
On an aggregate basis, the major loan indicators registered higher levels compared with the corresponding quarter in 2005. In the business sector, loan applications and approvals were sustained, particularly for large corporations. Loan disbursements to businesses continued to be channelled mainly to the manufacturing (33.9% of total loans disbursed to businesses); wholesale and retail trade, restaurants and hotels (27%); finance, insurance

Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)		
	2005	1Q 05	4Q 05	1Q 06	2005	4Q 05	1Q 06
Gross total financing	566.4	133.9	151.1	138.3	8.9	7.8	3.3
Loans disbursed *	529.3	126.6	138.3	131.1	8.4	5.8	3.5
Gross PDS (excl. Cagamas)	30.8	5.3	11.7	6.9	20.3	67.1	30.3
Equity	6.3	2.0	1.0	0.4	-2.5	-55.0	-81.0
Outstanding total financing (A)+(B)	62.2	11.1	17.4	11.1	9.3	9.3	9.1
Banking system	46.3	8.1	13.5	9.9	8.5	8.5	8.7
Loans outstanding (A)	44.2	8.6	10.1	8.2	8.6	8.6	8.4
Holding of PDS	2.1	-0.6	3.5	1.6	6.3	6.3	13.2
PDS outstanding (B)	18.0	2.5	7.3	2.9	11.4	11.4	11.5
Memorandum item							
Gross PDS (incl. Cagamas)	15.2	5.5	15.2	10.6	-58.3	50.4	92.7

* Banking system loans include loans sold to Cagamas

Gross Private Sector Financing through Banking System and Capital Market



Loans by Sector

	Loans disbursed					Loans out-standing
	During the period				Share of total	Share of total
	2005	1Q 05	4Q 05	1Q 06		
	RM billion			%		
Business enterprises	360.1	86.9	94.2	88.3	67.4	39.7
*Large corporations **	*249.5*	*61.0*	*65.0*	*59.3*	*45.3*	*21.8*
*SMEs **	*110.7*	*25.9*	*29.2*	*29.0*	*22.1*	*17.9*
Households	145.2	33.9	37.6	35.3	26.9	55.2
By sector						
Agriculture, hunting, forestry and fishing	13.8	3.1	3.6	3.0	2.3	2.0
Mining and quarrying	1.6	0.5	0.4	0.6	0.4	0.2
Manufacturing	127.0	30.9	31.8	30.0	22.9	10.9
Broad property sector	92.6	22.0	24.0	22.6	17.3	41.1
Construction	*30.4*	*7.4*	*7.7*	*7.4*	*5.7*	*5.2*
Purchase of residential property	*38.5*	*9.2*	*9.7*	*9.0*	*6.9*	*27.0*
Purchase of non-residential property	*14.7*	*3.5*	*3.9*	*3.5*	*2.6*	*6.3*
Real estates	*9.0*	*1.9*	*2.6*	*2.7*	*2.1*	*2.6*
Electricity, gas and water supply	7.1	1.4	1.9	1.8	1.3	0.9
Wholesale, retail, restaurants and hotels	97.5	22.3	25.5	23.8	18.2	8.3
Transport, storage and communication	9.8	1.9	2.4	2.7	2.0	1.8
Finance, insurance and business services	35.7	11.1	9.8	9.5	7.3	5.7
Consumption credit	100.8	23.0	26.5	24.5	18.7	22.4
Of which:						
Credit cards	*42.7*	*10.0*	*11.7*	*11.4*	*8.7*	*3.0*
Purchase of passenger cars	*39.2*	*8.6*	*10.0*	*8.2*	*6.3*	*15.8*
Purchase of securities	11.7	3.2	3.0	3.4	2.6	3.7
Purchase of transport vehicles excluding passenger cars	0.7	0.2	0.1	0.2	0.1	0.4
Others	31.1	6.9	9.4	9.0	6.9	2.7
Total	**529.3**	**126.6**	**138.3**	**131.1**	**100.0**	**100.0**

* In 1Q 2006, loan indicators for SMEs and large corporations are not comparable on an annual and preceding quarter basis as beginning March 2006, financial institutions have begun adopting the Standard SME Definitions as approved by the National SME Development Council, resulting in some reclassification between SMEs and large corporations.

Source: Bank Negara Malaysia

Loan Indicators

	During the period (RM billion)				Annual Growth %			
	2005	1Q 05	4Q 05	1Q 06	2005	1Q 05	4Q 05	1Q 06
Total								
Loan applications	305.4	68.4	72.1	70.2	11.7	16.9	6.4	2.7
Loan approvals	192.2	42.7	47.7	45.5	10.7	14.8	10.4	6.7
Loan disbursements	529.3	126.6	138.3	131.1	8.4	10.2	5.8	3.5
Loan repayments	489.2	117.9	129.2	121.6	6.0	4.8	7.1	3.1
Change in loan outstanding*	44.2	8.6	10.1	8.2	8.6	9.1	8.6	8.4
Of which:								
Business enterprises								
Loan applications	158.5	36.3	36.7	36.3	5.7	19.0	-2.0	-0.1
Loan approvals	92.0	20.1	23.6	21.5	8.4	16.7	9.2	7.1
Loan disbursements	360.1	86.9	94.2	88.3	7.4	11.1	3.7	1.6
Loan repayments	343.7	82.6	91.9	83.6	7.5	9.3	8.7	1.2
Change in loan outstanding*	6.5	-0.1	-0.9	-0.7	3.0	2.8	3.0	2.7
SMEs**								
Loan applications	59.7	13.1	12.9	10.9	10.3	24.4	-7.2	-17.0
Loan approvals	34.5	8.1	7.5	7.5	9.2	42.0	-14.1	-8.3
Loan disbursements	110.7	25.9	29.2	29.0	10.2	9.6	7.5	11.8
Change in loan outstanding*	7.7	1.2	1.5	5.2	8.7	10.5	8.7	13.2
Large corporations**								
Loan applications	98.8	23.2	23.8	25.4	3.2	16.2	1.1	9.3
Loan approvals	57.5	12.0	16.2	14.1	8.0	4.0	24.9	17.6
Loan disbursements	249.5	61.0	65.0	59.3	6.2	11.7	2.1	-2.7
Change in loan outstanding*	-1.2	-1.2	-2.4	-5.9	-0.9	-2.0	-0.9	-4.5
Households								
Loan applications	141.9	31.0	34.6	31.4	18.0	14.0	18.3	1.0
Loan approvals	97.2	21.9	23.4	21.6	12.0	13.3	9.7	-1.0
Loan disbursements	145.2	33.9	37.6	35.3	11.4	10.0	10.8	4.1
Loan repayments	115.1	28.1	29.9	30.7	7.6	4.6	7.3	9.3
Change in loan outstanding*	40.0	8.7	10.7	8.4	15.1	15.2	15.1	14.5

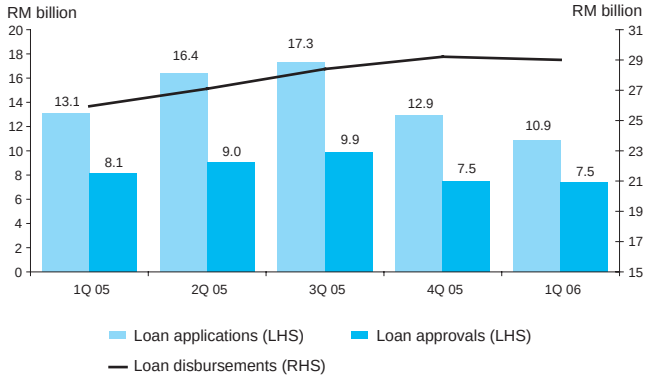
* The annual growth is for end-period.
** In 1Q 2006, loan indicators for SMEs and large corporations are not comparable on an annual and preceding quarter basis as beginning March 2006, financial institutions have begun adopting the Standard SME Definitions as approved by the National SME Development Council, resulting in some reclassification between SMEs and large corporations.

Source: Bank Negara Malaysia

and business services (10.8%); and construction (8.4%) sectors. At the end of first quarter 2006, total loans outstanding to businesses increased at an annual rate of 2.7%, while NPLs as a percentage of loans outstanding to businesses continued to decline, to 11% (end-4Q 2005: 11.2%).

In the household sector, with the exception of loan approvals which recorded slightly lower levels than that recorded in the first quarter 2005, other loan indicators recorded higher levels. Loan disbursements to households were driven mainly by

Bank Lending to SMEs

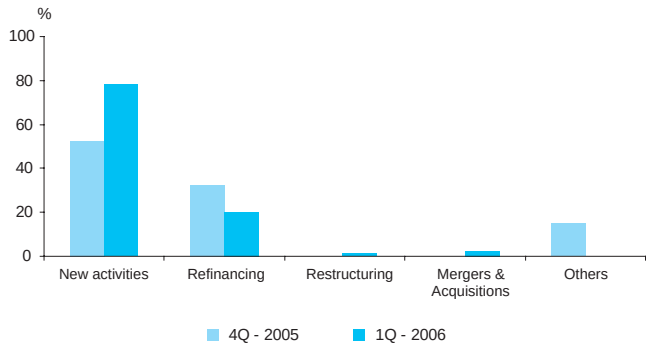


Funds Raised in the Capital Market

	2005			2006
	1Q	4Q	Year	1Q
	RM million			
By Public Sector				
Government Securities, *gross*	4,000	6,500	28,276	5,265
Less Redemptions	-	4,850	15,800	500
Less Government holdings	-	-	-	-
Equals Net Federal receipts	4,000	1,650	12,476	4,765
Khazanah Bonds, *net*	833	-	833	(1,700)
Govt. Investment Issues, *net*	2,000	(1,000)	1,000	-
Merdeka Savings Bond, *net*	357	397	1,516	(500)
Net Funds Raised	7,190	1,047	15,825	2,564
By Private Sector				
Shares	2,009	1,043	6,315	381
Debt securities	5,486	15,161	38,196	10,574
Private Debt Securities (PDS)	5,286	13,801	35,656	6,889
Cagamas	200	1,360	2,540	3,685
Less Redemptions	4,212	4,701	18,617	5,499
Net Issues	1,274	10,461	19,579	5,075
Net issues (excluding Cagamas)	2,634	9,851	22,224	2,992
Net Funds Raised	3,282	11,504	25,894	5,456
Total Net Funds Raised	10,473	12,552	41,719	8,021
Short-term Papers and Notes, *net* [1]	587	456	1,579	1,312
Total	11,059	13,008	43,297	9,333

[1] Refers to Commercial Papers and Cagamas Notes only.

Private Debt Securities Issued by Purpose (% of total)



Capital market remained an important source of financing

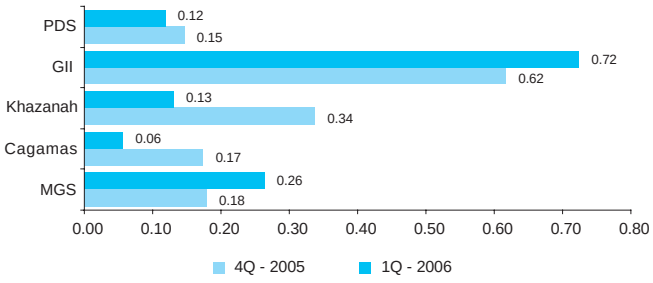
The capital market remained a vital source of financing to the economy, mobilising net funds of RM8 billion during the first quarter of 2006 (4Q 2005: RM12.6 billion), with the bulk of the financing raised from the bond market.

In the private debt securities (PDS) market, gross financing amounting to RM10.6 billion were raised by 25 corporations, mainly from construction and services sectors. Excluding Cagamas, the funds raised were mainly channeled to finance new activities (78.2% of new issuances) and refinancing existing debt (20.3% of new issuances). After adjusting for redemptions of RM5.5 billion, net funds raised through the PDS market amounted to RM5.1 billion (4Q 2005: RM10.5 billion).

Funds raised through the equity market during the first quarter amounted to RM381 million. The bulk of the funds was raised through eight initial public offerings (IPOs) totaling RM306 million. During the quarter, eight new companies were listed on Bursa Malaysia. Of these eight companies, one was listed on the Second Board and seven on the MESDAQ Market.

credit card spending (32.3% total loans disbursed to households); purchase of residential properties (25.7%); and purchase of passenger cars (23.4%). Loans outstanding to households increased by 14.5% on an annual basis. Meanwhile, the ratio of NPLs to household loans outstanding remained stable at 7.4% at end-1Q 2006 (end-4Q 2005: 7.5%).

Liquidity Ratio: Turnover / Outstanding



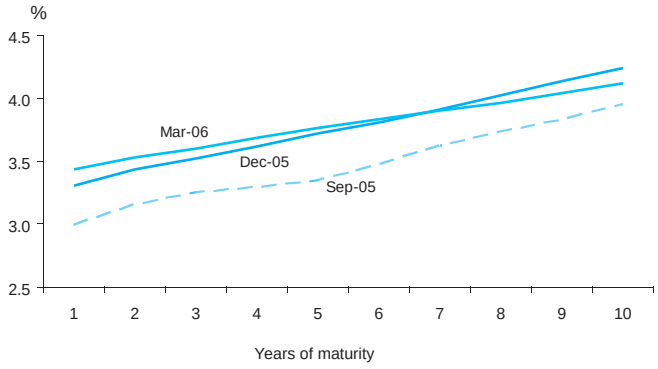
The Government raised a gross total of RM5.3 billion via two reopening of Malaysian Government Securities (MGS) and one issuance of 10-year MGS. On a net basis, funds raised by the public sector were higher during the quarter amounting to RM2.6 billion (4Q 2005: RM1.0 billion).

Higher secondary trading in the bond market

In the secondary market, total turnover increased to RM75.5 billion in the first quarter (4Q 2005: RM69.9 billion). Government Securities accounted for 69% of the total trade, followed by total private debt securities which contributed 27.4% of the total trade. In terms of liquidity, the GII and MGS bonds were the most liquid papers, registering liquidity ratios of 0.72 and 0.26 respectively.

Throughout the first quarter of 2006, sentiments in the bond market were affected by the anticipation of further increases in the interest rate amidst higher inflation.The shorter-end of the MGS benchmark yields moved upwards since February, reflecting market expectations of higher interest rates. In addition, the yields were also influenced by the increase in the US Treasury yields following the increases in the Federal Fund rates. On the other hand, the longer-end of the curve flattened slightly as the demand for the new 10-year MGS issuance was relatively higher than the available new issuance. As a result, the 10-year MGS benchmark yield declined by 12 basis points during the quarter.

Trend in MGS Yield



Bursa Malaysia: Turnover of Corporate Securities

	2005						2006	
	1Q		4Q		Year		1Q	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	30,042	56,261	18,541	35,264	102,338	177,321	45,988	53,671
of which:								
Main Board	21,236	48,384	13,788	32,391	73,816	157,445	26,565	42,744
of which								
Consumer Products	1,018	3,117	647	1,863	3,694	10,197	1,808	4,834
Industrial Products	4,829	5,767	1,633	2,020	12,150	14,143	3,147	3,133
Construction	1,579	3,114	694	1,067	4,141	7,116	3,048	3,120
Trading/Services	4,320	15,710	3,321	12,417	16,008	59,241	6,191	14,985
Finance	3,059	10,495	2,262	8,796	10,108	36,743	2,711	9,046
Properties	3,367	5,602	1,392	1,236	10,649	11,572	4,106	2,040
Plantations	604	2,168	539	2,762	2,144	9,147	518	2,708
Mining	0	1	0	1	0	10	0	1
Second Board	5,537	5,586	1,708	1,175	15,161	12,289	5,837	4,532

Source: Bursa Malaysia

KLCI performance showed improvement

Market sentiment improved despite concerns over increasing global prices of crude oil and domestic inflation. Steady support from both local and foreign institutions provided further strength to the market. During the quarter under review, the KLCI increased by 26.84 points (4Q 2005: -27.75 points), ending the quarter higher at 926.63 (4Q 2005: 899.79). Market capitalisation was also higher at RM732.9 billion (4Q 2005: RM695.3 billion). Trading activity increased and recorded a higher average daily turnover, at 779.5 million units during the quarter (4Q 2005: 303.9 million units).

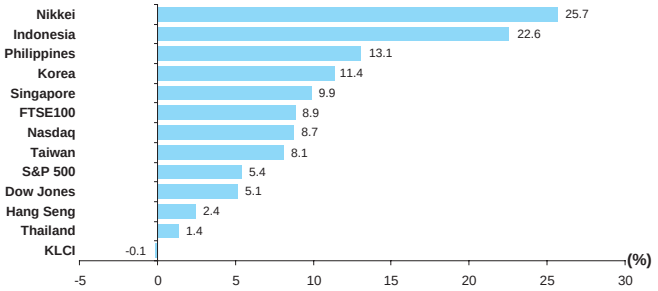
As at 26 May 2006, the KLCI closed higher at 930.75 (since end-December 2005: +3.4%) with market capitalisation increasing to RM732.83 billion (since end-December 2005: +5.4%).

Bursa Malaysia: Selected Market Indicators

	As at end			
	2005			2006
	1Q	4Q	Year	1Q
Price Indices				
Composite	871.35	899.79	899.79	926.63
EMAS	204.98	203.85	203.85	213.36
Second Board	101.76	80.44	80.44	91.14
Average daily turnover				
Volume (million units)	509.19	303.94	414.33	779.45
Value (RM million)	949.41	578.09	716.91	909.67
Market capitalisation (RM b)	694.89	695.27	695.27	732.9
No. of companies listed	982	1,021	1,021	1,025

Source: Bursa Malaysia

Performance of Selected Global and Regional Markets in the First Quarter of 2006 (30 Dec 2005 - 31 March 2006)

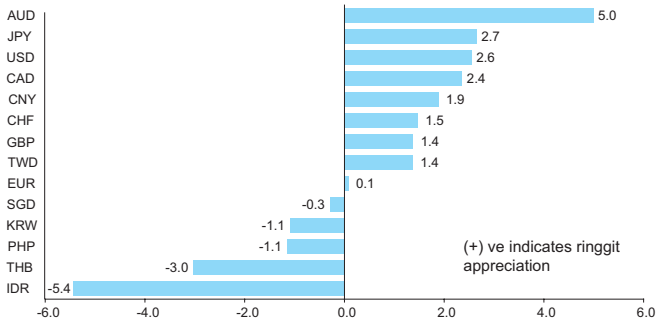


Exchange Rate Developments

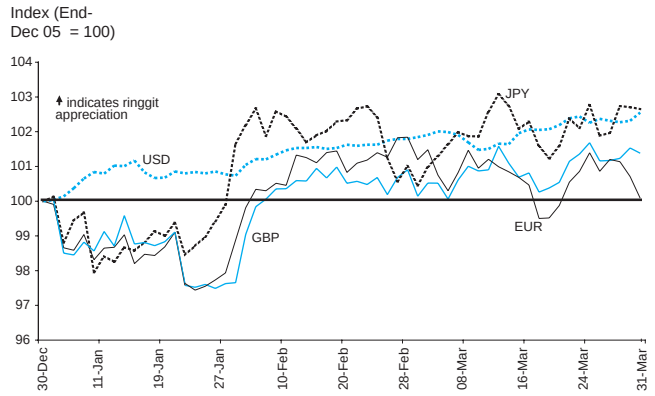
In the first quarter of 2006, the ringgit appreciated against the major currencies. The ringgit strengthened against the US dollar amidst a strong current account performance, renewed capital flows and brighter economic prospects. The US dollar weakened against most currencies including the ringgit due to market perception that the scope for further increases in the Fed Funds rate had become increasingly limited. The Japanese yen weakened against the US dollar as well as the ringgit amidst uncertainty surrounding the ending of Bank of Japan's quantitative easing framework, and as the benchmark interest rate was kept unchanged at near zero percent.

In the same period, the ringgit depreciated against most regional currencies in the range of 0.3% - 5.4%, while appreciating by 1.9% against the Chinese renminbi. The Indonesian rupiah appreciated amidst continued foreign inflows into equity and high-yielding assets. The Thai baht appreciated on market speculation for continued benchmark interest rate increases and foreign inflows into domestic equities. The Korean won and Philippine peso appreciated amidst continued

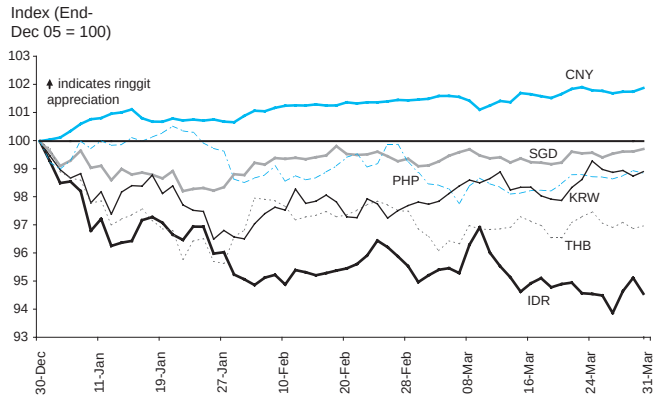
Summary of Ringgit Performance Against Selected Currencies
Percent Change (1 January - 31 March 2006)



Ringgit Performance Against Major Currencies



Ringgit Performance Against Regional Currencies



repatriation of foreign currency earnings. The Philippine peso also appreciated on market confidence for improved government finances.

Over the period 1 April – 29 May 2006, the ringgit strengthened further against the US dollar. Against regional currencies, the ringgit appreciated in the range of 1.5% - 4.8% against the Philippine peso, Indonesian rupiah and Chinese renminbi, while depreciating in the range of 0.2% - 1.4% against the Korean won, Singapore dollar and Thai baht.

Performance of Ringgit Against Selected Currencies

RM per foreign currency	As at end					% change since*			
	30 Jun 97	02 Sep 98	1Q 05	4Q 05	1Q 06	30 Jun 97	02 Sep 98	1Q 05	4Q 05
US dollar	2.5235	3.8000	3.8000	3.7800	3.6860	-31.5	3.1	3.1	2.6
Euro	-	-	4.9125	4.4867	4.4829	-	-	9.6	0.1
Pound sterling	4.1989	6.3708	7.1415	6.5226	6.4337	-34.7	-1.0	11.0	1.4
100 Japanese yen	2.2088	2.7742	3.5446	3.2229	3.1397	-29.6	-11.6	12.9	2.7
Singapore dollar	1.7647	2.1998	2.3034	2.2714	2.2778	-22.5	-3.4	1.1	-0.3
100 Thai baht	9.7470	9.3713	9.7013	9.2049	9.4914	2.7	-1.3	2.2	-3.0
100 Philippine peso	9.5878	8.8302	6.9381	7.1254	7.2077	33.0	22.5	-3.7	-1.1
100 Indonesian rupiah	0.1038	0.0354	0.0401	0.0385	0.0407	155.3	-12.9	-1.4	-5.4
100 Korean won	0.2842	0.2827	0.3734	0.3739	0.3781	-24.8	-25.2	-1.2	-1.1
Chinese renminbi	0.3045	0.4594	0.4509	0.4686	0.4599	-33.8	-0.1	-2.0	1.9

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