

MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates were stable

The OPR was left unchanged at 3.50% throughout the second quarter of 2008, as the prevailing level of the policy rate remained consistent with the outlook of slowing economic growth and higher inflation.

Concurrently, the daily weighted average overnight interbank rate moved within a narrow range of 3.49% - 3.51%. Interbank rates for other maturities were also relatively stable during the quarter.

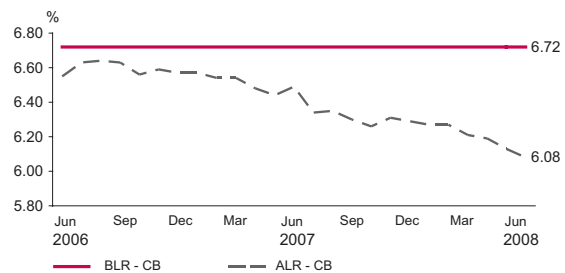
In terms of lending rates, the average base lending rate (BLR) of commercial banks (CBs) was unchanged at 6.72%. The average lending rate (ALR) on the other hand softened to 6.08% as at end-June, compared with 6.21% as at end-March.

The average quoted fixed deposit (FD) rates of CBs for tenures of between 1 to 12 months were relatively stable, ranging between 3.08% and 3.70% at the end of the second quarter. With the higher inflation since May, real FD rates have turned negative.

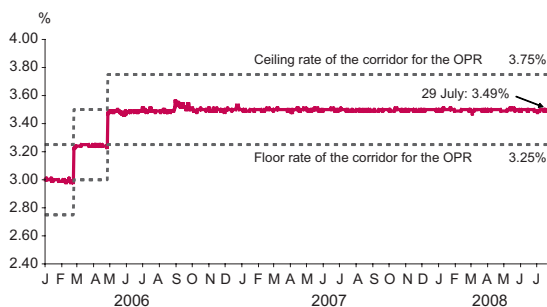
Interest Rates

	2007	2008	
	2Q	1Q	2Q
At end-period (%)			
Overnight Policy Rate (OPR)	3.50	3.50	3.50
Interbank rates			
Overnight	3.50	3.50	3.50
1-month	3.54	3.55	3.56
Base lending rates (BLR)			
Commercial banks	6.72	6.72	6.72
Average lending rates (ALR)			
Commercial banks	6.49	6.21	6.08
Fixed deposit rates			
Commercial banks			
3-month	3.17	3.14	3.14
12-month	3.71	3.70	3.70

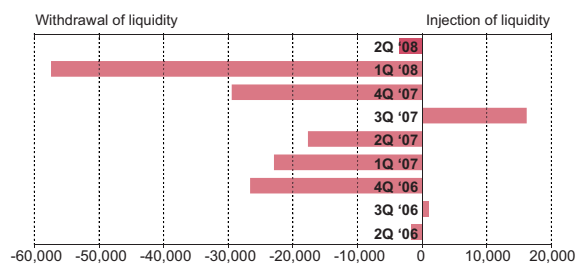
Lending Rates of Commercial Banks (Average for the period)



Daily Weighted Average Overnight Interbank Rate



Bank Negara Malaysia Liquidity Operations (During the quarter, RM million)



M3 expanded at a faster pace

M3, or broad money, continued on its upward trend since the beginning of 2008, rising at an annual rate of 14.2% as at end-June 2008. During the quarter, M3 expanded by RM16.1 billion.

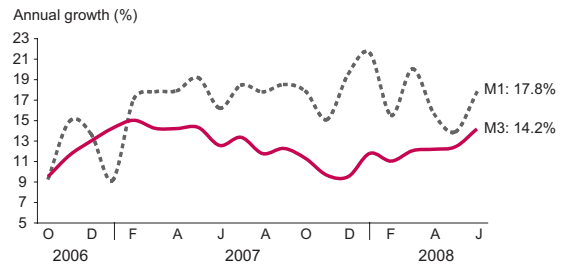
In contrast with the previous quarters, the growth in M3 was underpinned by a strong increase in lending to the private sector. Consequently, lending to the private sector outweighed the contribution of external sector in driving M3 growth. While the external sector remained expansionary on M3, the pace of inflows slowed during the second quarter, as trade-related inflows were partially offset by Malaysian investments abroad and portfolio outflows. Government operations exerted a small contractionary impact, reflecting fund raising activity conducted in the second quarter.

M1, a measure of transactional balances, rose at an annual rate of 17.8% at end-June (end-March 08: 20%), reflecting the strength of economic activity during the second quarter.

Gross private sector financing remained strong

Financing activity in the second quarter remained strong and supported domestic economic activity. Gross financing to the private sector through the banking system and the capital market continued to increase and amounted to RM184.4 billion (1Q 08: RM159.1 billion). This reflected higher loan disbursements and the issuances of private debt securities (PDS). On a net basis, banking system loans and PDS outstanding expanded by 14.1% at end-June (end-March 08: 12.7%).

Monetary Aggregates

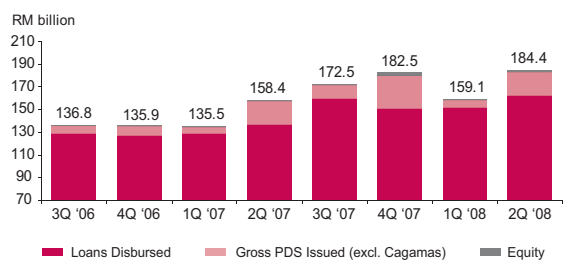


Determinants of Broad Money, M3

	Change during the period			
	2007		2008	
	2Q 07	Year	1Q 08	2Q 08
	RM billion			
M3	-0.6	72.4	51.7	16.1
Net claims on Government	-20.7	-0.6	0.9	-4.5
Claims on private sector	16.1	50.6	17.1	26.3
Loans	12.8	48.1	16.6	23.2
Securities	3.2	2.5	0.5	3.1
Net external operations ¹	40.2	77.5	45.8	4.2
BNM	31.5	50.9	52.5	15.9
Banking system	8.7	26.6	-6.7	-11.7
Other influences	-36.1	-55.0	-12.2	-9.8

¹ Pre-revaluation

Gross Private Sector Financing through Banking System and Capital Market



Financing of the Private Sector through Banking System and Capital Market

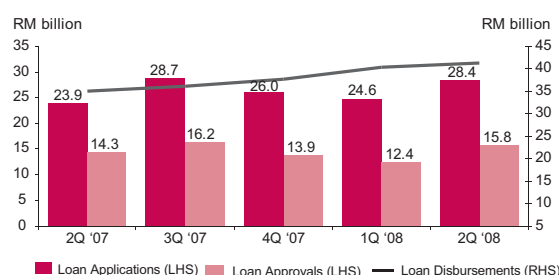
	During the period (RM billion)				Annual growth (%)		
	2007	2Q 07	1Q 08	2Q 08	2007	1Q 08	2Q 08
Gross total financing	648.9	158.4	159.1	184.5	17.4	17.4	16.5
Loans disbursed*	575.3	136.7	151.5	162.4	10.6	17.2	18.7
Gross PDS (excl. Cagamas)	66.5	20.6	6.5	20.4	116.4	26.6	-0.7
Equity	7.1	1.0	1.1	1.7	272.0	-2.2	62.4
Outstanding total financing (A)+(B)	84.0	26.0	22.8	40.8	10.7	12.7	14.1
Banking system	59.7	16.5	17.2	26.8	9.3	10.7	12.0
<i>Loans outstanding (A)</i>	51.2	12.5	17.4	24.3	8.6	10.0	11.7
<i>Holding of PDS</i>	8.5	4.0	-0.1	2.5	17.6	19.6	15.2
PDS outstanding (B)	32.7	13.5	5.5	16.5	17.1	21.4	21.5
Memorandum item							
Gross PDS (incl. Cagamas)	67.6	20.6	10.0	23.2	113.0	60.4	12.8

*Banking system loans include loans sold to Cagamas

Of significance, loans outstanding increased markedly, expanding by 11.7% at end-June (end-March 08: 10%). This expansion reflected increases for both the business and household sectors. Loans outstanding to the business and household sectors expanded at 14.4% and 8.9% respectively (end-March 08: 11.3% and 8.2% respectively).

In the business sector, loan applications and approvals registered negative growth rates due to the high base effect from a large syndicated bridging finance facility provided during the same period in 2007. Nevertheless, the amount of loans applied and approved remained at high levels during the quarter due to higher financing requirements for working capital. Business loan disbursements continued to register a strong double-digit annual growth rate, with funds channeled mainly to the manufacturing; and wholesale, retail, restaurants and hotels sectors.

Bank Lending to SMEs



Loan disbursements to SMEs also registered sustained improvement. Of the total loans disbursed, 23% were directed to SMEs.

For the household sector, demand for loans remained sustained, as reflected by loan applications and approvals. Demand for financing was mainly for the purchase of residential property and passenger cars, and for personal use.

Loan Indicators

	During the period (RM billion)				Annual Growth (%)			
	2007	2Q 07	1Q 08	2Q 08	2007	2Q 07	1Q 08	2Q 08
Total								
Loan applications	457.5	119.5	112.1	128.1	52.1	57.2	34.2	7.2
Loan approvals	298.6	83.2	71.7	80.3	58.6	75.0	35.0	-3.4
Loan disbursements	575.9	136.7	151.5	162.4	10.6	2.5	17.2	18.7
Loan repayments	518.6	123.0	138.9	139.7	8.5	2.6	17.7	13.5
Change in loan outstanding*	51.2	12.5	17.4	24.3	8.6	6.0	10.0	11.7
Of which:								
Business enterprises**								
Loan applications	262.6	72.1	56.5	64.8	63.1	75.5	25.8	-10.1
Loan approvals	181.5	53.9	38.1	40.9	88.4	125.4	27.6	-24.0
Loan disbursements	405.8	96.4	106.4	115.5	9.7	2.0	17.8	19.8
Loan repayments	370.3	87.4	97.5	99.2	5.3	-2.6	19.4	13.4
Change in loan outstanding*	24.5	5.8	7.6	14.1	10.3	6.0	11.3	14.4
SMEs**								
Loan applications	99.1	23.9	24.6	28.4	38.8	26.4	20.5	18.8
Loan approvals	55.1	14.3	12.8	15.9	37.1	42.4	19.4	11.0
Loan disbursements	141.7	35.0	40.3	41.3	5.6	-5.4	22.2	17.9
Loan repayments	126.8	31.9	35.1	35.8	3.5	-9.5	19.7	12.4
Change in loan outstanding*	9.5	1.6	4.6	3.2	9.1	5.7	10.0	11.3
Large corporations								
Loan applications	163.5	48.2	31.9	36.4	82.4	117.4	30.1	-24.5
Loan approvals	126.4	39.5	25.3	25.0	125.2	185.7	32.2	-36.7
Loan disbursements	264.1	61.5	66.1	74.3	12.1	6.7	15.2	20.8
Loan repayments	243.5	55.6	62.4	63.4	6.2	-15.3	19.2	14.0
Change in loan outstanding*	15.1	4.9	2.9	10.9	11.4	6.8	12.3	16.2
Households								
Loan applications	194.9	47.4	55.6	63.3	39.4	35.7	44.0	33.4
Loan approvals	117.1	29.3	33.6	39.4	27.3	24.0	44.4	34.5
Loan disbursements	169.5	40.3	45.1	46.8	12.8	3.9	16.0	16.3
Loan repayments	148.5	35.6	41.5	40.5	17.3	18.0	13.9	13.9
Change in loan outstanding*	24.5	5.9	6.2	8.6	7.4	7.2	8.2	8.9

* The annual growth is for end-period

** Include loans to individual businesses

Loans by Sector

	Loans disbursed					Loans out- standing	
	During the period				Share of total	Share of total	
	2007	2Q 07	1Q 08	2Q 08			
	(RM billion)				(%)		
Business enterprises	405.8	96.5	106.4	115.5	71.2	41.3	
Large corporations	264.1	61.5	66.1	74.3	45.7	23.5	
SMEs*	141.7	35.0	40.3	41.3	25.4	17.8	
<i>Selected sectors</i>							
Agriculture, hunting, forestry and fishing	14.1	3.3	3.7	4.3	2.6	2.2	
Mining and quarrying	2.0	0.6	0.5	0.8	0.5	0.3	
Manufacturing	134.9	32.7	36.2	39.8	24.5	11.9	
Construction	32.6	8.4	9.3	8.7	5.4	5.0	
Real estates	12.3	3.0	4.1	3.6	2.2	3.3	
Electricity, gas and water supply	1.3	0.3	0.8	0.5	0.3	0.6	
Wholesale, retail, restaurants and hotels	91.5	21.7	25.2	29.6	18.2	8.8	
Transport, storage and communication	32.1	4.4	2.7	4.0	2.4	2.6	
Finance, insurance and business services	45.7	13.5	14.3	15.0	9.2	6.3	
Households	169.5	40.3	45.1	46.8	28.8	54.0	
Purchase of residential properties	39.9	9.5	10.5	12.0	7.4	26.1	
Consumption credit	109.4	25.7	29.4	30.1	18.5	22.0	
<i>Of which:</i>							
Credit cards	57.9	13.8	14.7	14.4	8.9	3.4	
Purchase of passenger cars	27.8	6.2	8.4	9.6	5.9	14.4	
Others	20.2	5.1	5.3	4.8	2.9	5.9	
Total	575.3	136.7	151.5	162.4	100.0	100.0	

* Include loans to individual businesses.

Higher financing in the capital market

Net funds raised in the capital market were significantly higher in the second quarter, amounting to RM27.7 billion (1Q 08: RM12.5 billion).

During the quarter, the private sector raised more funds. Gross funds raised from the private debt securities (PDS) market increased in the second quarter to RM23.7 billion (1Q 08: RM10 billion). The significant increase was due to several large issuances, including those issued by a public-owned transportation company, a utility company, a construction company and two large financial institutions. During the quarter, there were also issuances by four non-resident corporations amounting to RM2.8 billion. The PDS issued during the period were mainly for funding new investments (75%) and for refinancing existing debts (14%).

Funds raised through the equity market increased slightly in the second quarter, amounting to RM1.7 billion (1Q 08: RM1.1 billion). A total of RM1.1 billion was raised through five initial public offerings (IPOs); three on the Second Board and two on MESDAQ, while the remaining funds were raised through rights issues and warrants. On a net basis, funds raised by the private sector amounted to RM16.7 billion during the quarter.

For the public sector, net funds raised amounted to RM11 billion (1Q 08: RM10.6 billion). Funds were raised through the re-opening of the 3-year and 5-year Malaysian Government Securities (MGS), as well as through an issuance of the 3-year Government Investment Issue (GII) and issuances of Merdeka Savings Bonds.

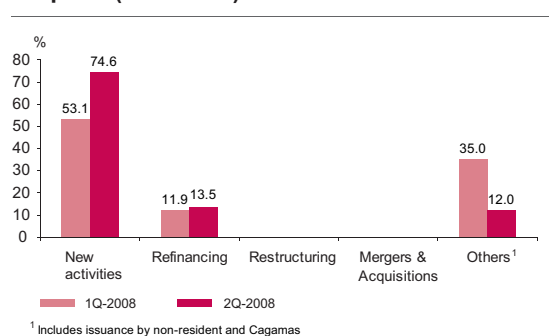
Secondary trading in the bond market increased

Total trading in the secondary market rose to RM153.2 billion in the second quarter (1Q 08: RM102.3 billion). Government securities (MGS and GII) accounted for 89% of the total trade. The MGS was the most liquid paper, registering a liquidity ratio of 0.63, followed by the GII with a liquidity ratio of 0.24.

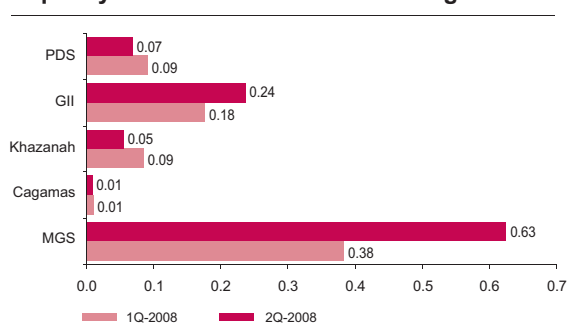
Funds Raised in the Capital Market

	2007		2008		
	2Q	1H	1Q	2Q	1H
	RM million				
By Public Sector	10,656	18,087	10,633	11,016	21,649
Government Securities, net	10,507	19,315	10,633	10,533	21,166
Malaysian Government Securities	9,107	19,215	14,283	7,033	21,316
Government Investment Issues	3,000	6,500	2,000	3,500	5,500
Less: Redemptions	1,600	6,400	5,650	-	5,650
Khazanah Bonds, net	524	(496)	-	(1,000)	(1,000)
Merdeka Savings Bond, net	(375)	(733)	-	1,483	1,483
By Private Sector	11,978	14,296	1,829	16,719	18,548
Shares	1,045	2,171	1,101	1,697	2,799
Debt securities, net	10,934	12,125	728	15,022	15,750
Private Debt Securities	20,971	28,553	9,996	23,749	33,746
Less: Redemptions	10,038	16,427	9,268	8,728	17,996
Total	22,634	32,383	12,462	27,735	40,197

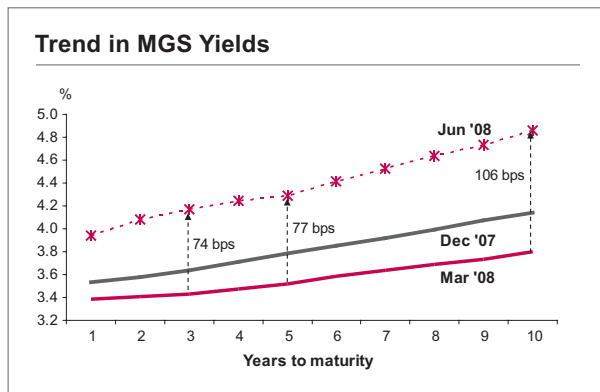
Private Debt Securities Issued by Purpose (% of total)



Liquidity Ratio: Turnover / Outstanding



MGS yields increased in the early part of June on heightened expectations for a rise in inflation. The increase in yields led to the widening of the spread between the 10-year MGS and the shorter and medium-term MGS. Bond yields, however, moderated in the last week of June as investors realised that the earlier sharp increase

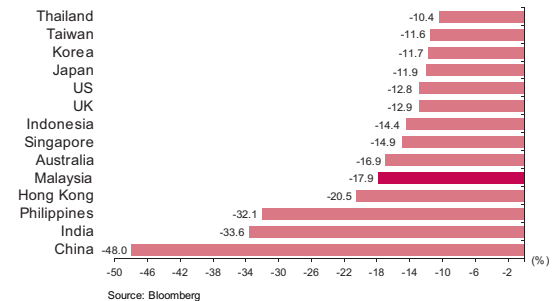


was excessive. As at end-June, the 10-year MGS yields have risen by 106 basis points since end-March 2008, while the 3-year and 5-year MGS have risen by 74 basis points and 77 basis points respectively.

KLCI declined in line with the other regional markets

In the second quarter, the KLCI weakened as in other regional equity markets due to the sustained increase in global crude oil prices and concerns over the extent of the US economic slowdown and its impact on the region. Market sentiments were also affected by the rising domestic inflationary pressures due to higher retail fuel and food prices. However, higher crude palm oil prices supported the plantation stocks and helped cushion the decline in the KLCI. The KLCI ended the second quarter lower at 1,186.6 (1Q 08: 1,247.5). Market capitalisation was lower at RM901.2 billion (1Q 08: RM952.3 billion) and trading activity decreased to a daily average turnover of 567.8 million units (1Q 08: 930.4 million units).

Performance of Selected Global and Regional Markets (31 December 2007 - 30 June 2008)



Bursa Malaysia: Selected Market Indicators

	As at end				
	2007		2008		
	2Q	1H	1Q	2Q	1H
Price Indices					
Composite	1,354.4	1,354.4	1,247.5	1,186.6	1,186.6
FBM30 ¹	8,587.9	8,587.9	8,232.9	7,656.7	7,656.7
FBMEMAS ²	9,107.9	9,107.9	8,423.7	7,900.4	7,900.4
Second Board	110.7	110.7	-	-	-
Mesdaq	137.7	137.7	-	-	-
FTSE Second Board	-	-	5,884.6	5,535.6	5,535.6
FTSE Mesdaq	-	-	4,923.2	4,404.8	4,404.8
Average daily turnover					
Volume (million units)	1,436.2	1,436.2	930.4	567.8	567.8
Value (RM million)	2,303.5	2,303.5	2,032.7	1,302.8	1,302.8
Market capitalisation (RM billion)					
	1,088.3	1,088.3	952.3	901.2	901.2
No. of companies listed	1,012	1,012.0	989	984	984

¹ FBM30 stands for FTSE Bursa Malaysia 30 Index
² FBMEMAS stands for FTSE Bursa Malaysia EMAS Index
Source: Bursa Malaysia

On 28 August 2008, the KLCI closed at 1,070.5 (since end-2007: -25.9%), with market capitalisation lower at RM814.1 billion (since end-2007: -26.4%).

Bursa Malaysia: Turnover of Corporate Securities

	2007				2008					
	2Q		1H		1Q		2Q		1H	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	95,725	158,674	219,356	322,837	53,962	117,591	35,770	82,075	89,732	199,666
Of which:										
Main Board	66,832	141,026	157,698	285,686	36,488	111,119	28,251	79,725	64,739	190,844
Of which:										
Consumer Products	2,178	5,369	4,137	10,498	931	3,600	882	2,923	1,813	6,524
Industrial Products	8,212	12,247	17,386	24,771	3,409	6,970	3,332	6,195	6,741	13,166
Construction	5,265	13,885	12,952	31,655	4,722	13,820	3,317	6,352	8,039	20,173
Trading/Services	17,851	49,632	38,826	95,928	10,383	38,221	9,157	28,415	19,540	66,636
Finance	6,274	23,836	15,590	52,660	3,391	21,975	2,983	18,064	6,374	40,039
Properties	12,666	14,458	29,483	26,504	4,234	4,997	3,045	3,367	7,279	8,365
Plantations	2,148	11,348	3,598	19,986	2,262	13,816	1,520	9,847	3,782	23,663
Infrastructure	968	2,681	2,652	6,293	1,148	3,671	944	2,885	2,091	6,555
Second Board	11,838	8,579	20,600	13,793	4,098	3,035	2,360	1,448	6,458	4,483
Mesdaq	10,210	6,527	27,941	15,373	5,621	2,423	2,510	782	8,132	3,205

Source: Bursa Malaysia

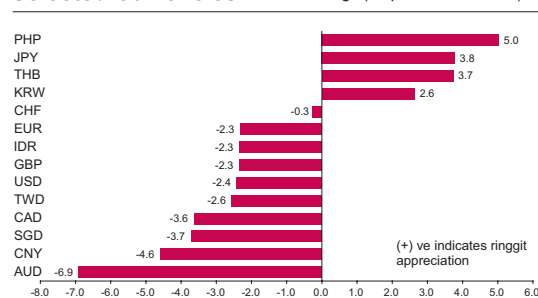
Exchange Rate Developments

During the second quarter, the ringgit depreciated by 2.4% against the US dollar. The strength of the US dollar during this period mainly reflected market expectations for a pause in Fed Funds rate cuts. In addition, higher global fuel and food prices dampened investor sentiments towards the region and led to portfolio outflows. The ringgit depreciated against the euro (-2.3%) and the pound sterling (-2.3%), but appreciated against the Japanese yen (3.8%). The ringgit exhibited a mixed performance against other regional currencies.

During the period 1 July to 28 August 2008, the ringgit depreciated against the US dollar (-3.2%) and the Japanese yen (-0.5%), but appreciated

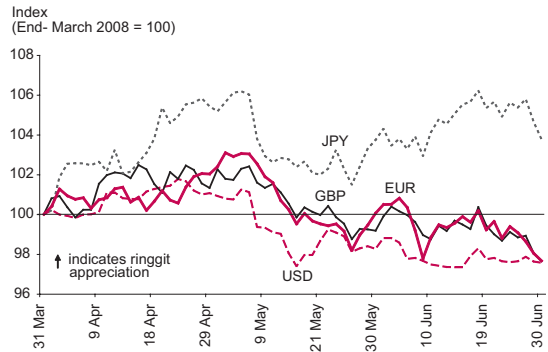
Summary of Ringgit Performance Against Selected Currencies

Percent Change (1 April - 30 June 2008)

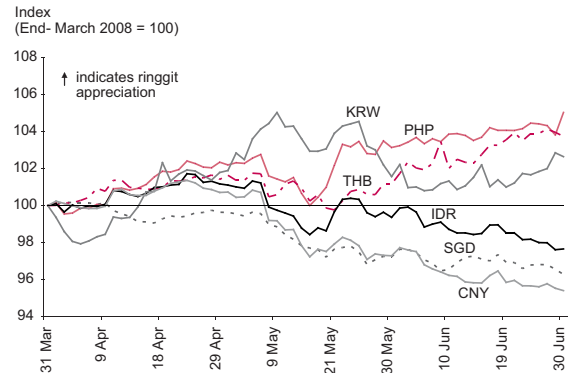


against the euro (3.3%) and the pound sterling (5%). The ringgit depreciated against regional currencies in the range of 1.4% to 4%, with the exception of the Singapore dollar and Korean won against which the ringgit appreciated by 0.4% and 0.3% respectively.

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	2Q 07	1Q 08	2Q 08	21 Jul 05	2Q 07	1Q 08
US dollar	3.8000	3.4560	3.1875	3.2665	16.3	5.8	-2.4
Euro	4.6212	4.6105	5.0369	5.1565	-10.4	-10.6	-2.3
Pound sterling	6.6270	6.7867	6.3586	6.5114	1.8	4.2	-2.3
100 Japanese yen	3.3745	2.9339	3.1912	3.0749	9.7	-4.6	3.8
Singapore dollar	2.2570	2.2781	2.3102	2.3995	-5.9	-5.1	-3.7
100 Thai baht	9.0681	9.8785	10.107	9.7435	-6.9	1.4	3.7
100 Philippine peso	6.8131	7.1649	7.6421	7.2759	-6.4	-1.5	5.0
100 Indonesian rupiah	0.0386	0.0379	0.0346	0.0354	9.0	7.0	-2.3
100 Korean won	0.3665	0.3674	0.3211	0.3128	17.2	17.5	2.6
Chinese renminbi	0.4591	0.4471	0.4545	0.4764	-3.6	-6.2	-4.6

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