MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates remained stable

The Overnight Policy Rate (OPR) was maintained at 3.00% during the fourth quarter of 2013. At the prevailing level of the OPR, monetary conditions remain highly supportive of economic activity.

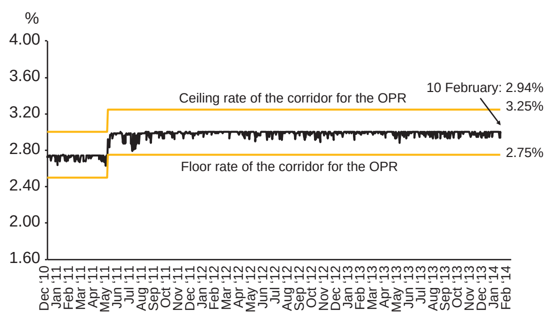
The average overnight interbank rate was stable during the quarter, moving within a range of 2.93% to 3.00% between 1 October and 31 December 2013. Interbank rates of other short-term maturities were also relatively stable.

Rates on interest rate swaps increased during the quarter due to renewed expectations and the eventual announcement by the US Federal Reserve to reduce the pace of asset purchases, which in turn, resulted in a rise in global financial market yields. On the domestic front, the 3-month KLIBOR futures rates traded higher, reflecting a rise in expectations for an OPR increase towards the second half of 2014.

Retail deposit rates were stable during the quarter. The average quoted fixed deposit (FD) rates of commercial banks were relatively unchanged. As at end-December 2013, the average quoted FD rates of commercial banks for the tenures of 1 to 12 months ranged between 2.91% to 3.15%, respectively.

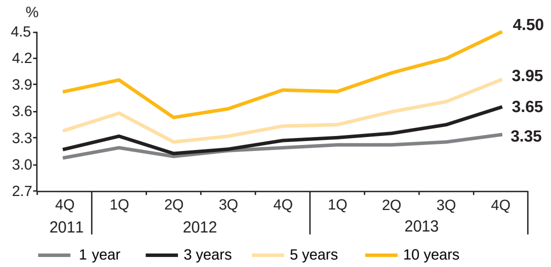
Borrowing costs remained broadly stable throughout the period. The average base lending rate (BLR) of commercial banks remained unchanged at 6.53%. The weighted average lending rate (ALR) on loans outstanding continued its gradual moderating trend (end-December 2013: 5.36%; end-September 2013: 5.40%), reflecting the maturity of loans that were contracted during the period of higher borrowing costs prior to the OPR reductions in 2008 and 2009, as well as the addition of new loans at relatively lower rates. Borrowing costs for businesses and households remained supportive of economic activity as evident from the pace of increase in financing to both households and businesses.

Daily Weighted Average Overnight Interbank Rate



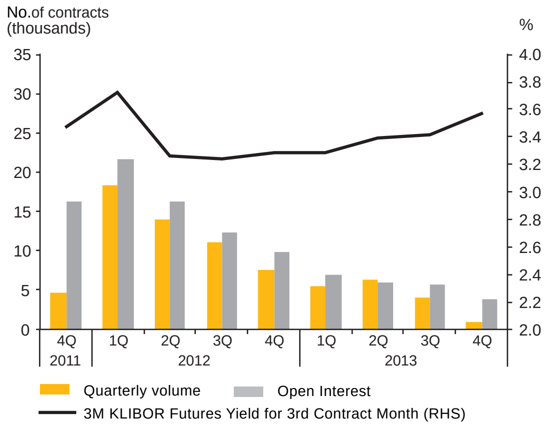
Source: Bank Negara Malaysia

Interest Rate Swap: Rates



Source: Bloomberg

3 Month KLIBOR Futures



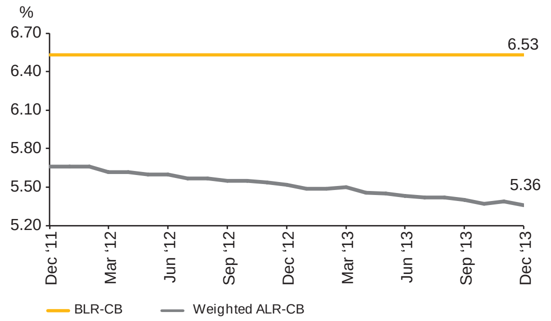
Source: Bursa Malaysia

Interest Rates

	2012	2013	
	4Q	3Q	4Q
	At end-period (%)		
Overnight Policy Rate (OPR)	3.00	3.00	3.00
Interbank rates			
Overnight	3.00	2.93	2.99
1-month	3.06	3.07	3.20
Base lending rate (BLR)			
Commercial banks	6.53	6.53	6.53
Weighted average lending rate			
Commercial banks	5.52	5.40	5.36
Fixed deposit rates			
Commercial banks			
1-month	2.92	2.91	2.91
12-month	3.15	3.15	3.15

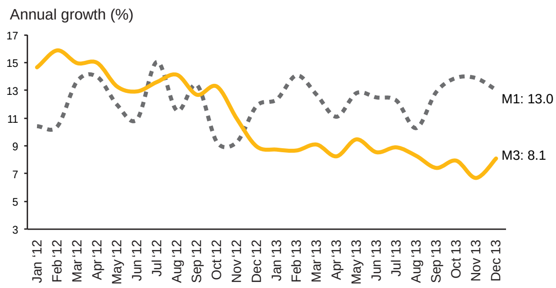
Source: Bank Negara Malaysia

Lending Rates of Commercial Banks (At end-period)



Source: Bank Negara Malaysia

Monetary Aggregates



Source: Bank Negara Malaysia

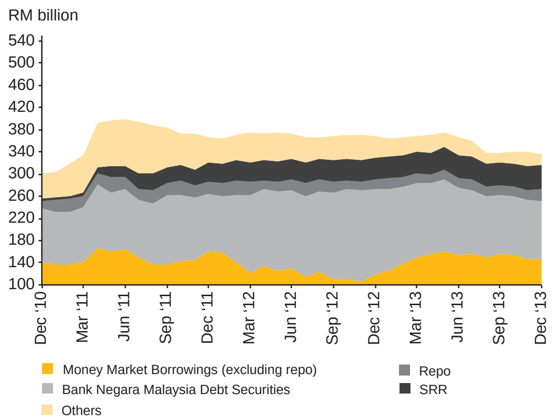
M3 continued to expand

The monetary aggregates continued to experience positive growth during the fourth quarter. M1, or narrow money, increased by RM17.9 billion. On an annual basis, M1 expanded by 13.0% as at end-December (end-September 2013: 12.9%). M3, or broad money, increased by RM25.4 billion on a quarter-on-quarter basis to record an annual growth rate of 8.1% as at end-December (end-September 2013: 7.4%).

The expansion of M3 during the quarter was driven by higher credit extended to the private sector by the banking system. M3 was also lifted by a modest increase in the net foreign assets of the banking system.

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.

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				
	2012		2013		
	4Q	Year	3Q	4Q	Year
	RM billion				
M3	**15.1**	**111.2**	**16.4**	**25.4**	**109.5**
Net claims on Govt	-5.0	-3.3	15.7	-5.0	21.4
Claims on private sector	25.3	128.4	23.7	41.7	119.6
Loans	*19.2*	*105.5*	*23.9*	*33.3*	*109.6*
Securities	*6.0*	*22.9*	*-0.2*	*8.4*	*10.1*
Net foreign assets[1]	-3.9	27.1	-8.8	2.2	-5.7
BNM	*6.0*	*11.8*	*-4.6*	*-4.2*	*-4.6*
Banking System	*-9.9*	*15.3*	*-4.2*	*6.4*	*-1.1*
Other influences	-1.3	-41.0	-14.1	-13.6	-25.8

[1] Pre-revaluation

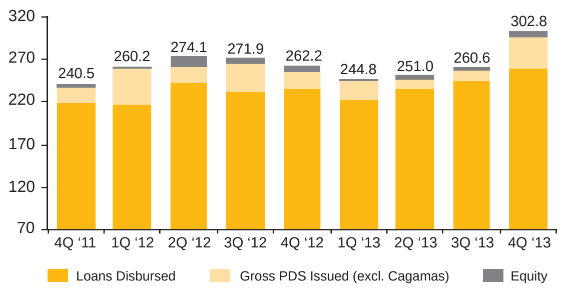
Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

Private sector financing activity strengthened in the fourth quarter

In the fourth quarter, total gross financing raised by the private sector through the banking system and the capital market increased to RM302.8 billion (3Q 2013: RM260.6 billion). On a net basis, outstanding banking system loans and PDS expanded at an annual growth rate of 9.9% as at end-December (end-September 2013: 8.8%).

Gross Private Sector Financing through the Banking System and Capital Market

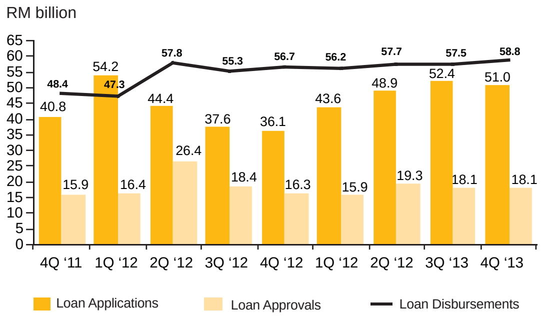


Source: Bank Negara Malaysia

Net lending to businesses by the banking system expanded by RM11.2 billion during the quarter (3Q 2013: RM3.5 billion) with higher loan disbursements mainly to the *wholesale and retail, restaurants and hotels; manufacturing; construction;* and *transport, storage and communication* sectors. On an annual basis, outstanding business loans grew by 8.5% during the quarter (end-September 13: 7.1%). Demand for new financing by large businesses moderated slightly while loan applications by SMEs remained robust.

Net financing to the household sector expanded by RM20.9 billion during the quarter (3Q 2013: RM19.8 billion). On an annual basis, outstanding household loans grew at a stable pace of 12.0% as at end-December (end-September 2013: 11.9%). The level of household loan applications was sustained during the quarter.

Bank Lending to SMEs



Source: Bank Negara Malaysia

Financing of the Private Sector through the Banking System and Capital Market

	During the period (RM billion)					Annual growth (%)				
	2012		2013			2012		2013		
	4Q	2012	3Q	4Q	2013	4Q	2012	3Q	4Q	2013
Gross total financing	**262.2**	**1,068.3**	**260.6**	**302.8**	**1,059.2**	**9.0**	**19.9**	**-4.1**	**15.5**	**-0.8**
Loans disbursed*	236.2	927.8	245.0	259.3	961.2	7.6	14.4	5.5	9.8	3.6
Gross PDS (excl. Cagamas)	19.8	113.1	12.9	36.0	82.1	16.2	69.0	-59.4	81.9	-27.4
Equity	6.1	27.4	2.8	7.4	16.0	59.6	117.1	-64.9	21.3	-41.5
Net total financing (A)+(B)	**31.1**	**164.8**	**31.7**	**49.1**	**146.8**	**12.4**	**12.4**	**8.8**	**9.9**	**9.9**
Banking system	26.0	128.4	26.5	40.3	122.7	12.0	12.0	9.3	10.3	10.3
Loans outstanding (A)	*19.8*	*104.5*	*27.2*	*34.4*	*117.8*	*10.4*	*10.4*	*9.5*	*10.6*	*10.6*
Holding of PDS	*6.2*	*23.9*	*-0.7*	*5.9*	*4.9*	*36.6*	*36.6*	*6.4*	*5.5*	*5.5*
PDS outstanding (B)	11.4	60.4	4.5	14.7	29.0	18.8	18.8	6.9	7.6	7.6
Memorandum item										
Gross PDS (incl. Cagamas)	23.1	121.1	13.4	36.0	83.9	33.1	74.1	-58.9	55.9	-30.8

*Banking systems loans include loans sold to Cagamas

Note: Numbers may not add up due to rounding

Source: Bank Negara Malaysia

Loans by Sector

	Loans disbursed						Loans outstanding
	During the period (RM billion)					Share of total	Share of total
						(%)	
	4Q 12	2012	3Q 13	4Q 13	2013		
Business enterprises	**164.9**	**657.6**	**167.4**	**180.9**	**660.0**	**68.7**	**43.7**
Large corporations	*108.2*	*440.4*	*109.9*	*122.0*	*429.8*	*44.7*	*27.4*
*SMEs**	*56.7*	*217.2*	*57.5*	*58.8*	*230.3*	*24.0*	*16.3*
Selected sectors							
Agriculture, hunting, forestry and fishing	8.1	28.8	7.9	7.0	31.2	3.2	2.6
Mining and quarrying	1.9	7.9	2.1	1.9	8.4	0.9	0.7
Manufacturing	51.0	203.7	49.1	54.1	200.5	20.9	7.9
Construction	14.6	54.4	15.4	17.2	62.2	6.5	4.1
Real estate	9.5	40.8	11.7	10.8	41.6	4.3	5.8
Electricity, gas and water supply	3.1	9.0	2.1	2.0	9.5	1.0	0.8
Wholesale, retail, restaurants and hotels	46.1	178.0	45.2	51.5	185.4	19.3	7.4
Transport, storage and communication	3.7	17.7	4.3	5.8	17.1	1.8	2.4
Finance, insurance and business services	18.3	85.0	22.8	23.6	78.3	8.1	7.2
Households	**71.4**	**270.2**	**77.6**	**78.4**	**301.1**	**31.3**	**56.3**
Purchase of residential properties	16.9	64.1	18.8	20.4	74.4	7.7	26.5
Consumption credit	43.3	163.1	45.7	44.5	174.4	18.1	18.5
Of which:							
Credit cards	*24.2*	*90.2*	*25.8*	*27.3*	*100.2*	*10.4*	*2.8*
Purchase of passenger cars	*10.6*	*40.2*	*11.2*	*9.5*	*41.8*	*4.3*	*11.0*
Others	11.1	43.0	13.1	13.5	52.3	5.4	11.3
Total	**236.2**	**927.8**	**245.0**	**259.3**	**961.2**	**100.0**	**100.0**

*Include loans to individual businesses.

Note: Numbers do not add up due to rounding

Source: Bank Negara Malaysia

Loan Indicators

	During the period (RM billion)					Annual growth (%)				
	2012		2013			2012		2013		
	4Q	2012	3Q	4Q	2013	4Q	2012	3Q	4Q	2013
Total										
Loan applications	172.1	771.6	214.2	209.9	820.1	-11.4	2.6	18.0	22.0	6.3
Loan approvals	95.3	391.0	103.2	98.0	392.5	-8.5	-2.5	9.4	2.8	0.4
Loan disbursements	236.2	927.8	245.0	259.3	961.2	7.6	14.4	5.5	9.8	3.6
Loan repayments	227.1	867.1	224.3	233.7	880.7	15.8	19.4	0.5	2.9	1.6
Change in loans outstanding*	19.8	104.5	27.2	34.4	117.8	10.4	10.4	9.5	10.6	10.6
Of which:										
Business enterprises**										
Loan applications	70.3	372.1	93.6	88.6	358.5	-26.5	4.0	15.0	26.1	-3.7
Loan approvals	41.8	186.3	40.4	37.0	154.8	-20.4	-3.6	-2.5	-11.3	-16.9
Loan disbursements	164.9	657.6	167.4	180.9	660.0	9.4	21.0	3.3	9.7	0.4
Loan repayments	164.3	624.8	157.8	167.6	619.2	18.6	26.2	-2.0	2.0	-0.9
Change in loans outstanding*	5.0	41.2	3.5	11.2	35.5	10.9	10.9	7.1	8.5	8.5
SMEs**										
Loan applications	36.1	172.3	52.4	51.0	196.0	-11.4	5.5	39.3	41.4	13.8
Loan approvals	16.3	77.5	18.1	18.1	71.4	2.3	10.0	-1.5	10.8	-7.9
Loan disbursements	56.7	217.2	57.5	58.8	230.3	17.2	20.8	4.0	3.7	6.0
Loan repayments	54.7	199.0	55.0	54.0	214.2	25.0	24.7	6.8	-1.2	7.6
Change in loans outstanding*	2.5	23.8	2.4	6.9	22.6	15.5	15.5	10.5	12.8	12.8
Large corporations										
Loan applications	34.2	199.8	41.2	37.6	162.4	-37.7	2.8	-5.9	10.0	-18.7
Loan approvals	25.5	108.9	22.3	19.0	83.4	-30.3	-11.4	-3.2	-25.5	-23.3
Loan disbursements	108.2	440.4	109.9	122.0	429.8	5.7	21.1	3.0	12.8	-2.4
Loan repayments	109.6	425.8	102.8	113.5	405.0	15.7	26.8	-6.2	3.6	-4.9
Change in loans outstanding*	2.5	17.5	1.1	4.3	12.9	7.8	7.8	4.6	5.3	5.3
Households										
Loan applications	101.8	399.5	120.6	121.3	461.6	3.2	1.3	20.4	19.1	15.5
Loan approvals	53.5	204.7	62.8	60.9	237.7	3.5	-1.4	18.7	13.8	16.1
Loan disbursements	71.4	270.2	77.6	78.4	301.1	3.6	0.9	10.6	9.9	11.4
Loan repayments	62.9	242.2	66.5	66.1	261.5	8.9	4.9	7.0	5.2	8.0
Change in loans outstanding*	18.2	63.9	19.8	20.9	74.1	11.6	11.6	11.9	12.0	12.0

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

Note: Numbers do not add up due to rounding

Source: Bank Negara Malaysia

Financing activities in the capital market increased

Net funds raised in the capital market increased to RM33.7 billion in the fourth quarter (3Q 13: RM17.8 billion). The bulk of funds was raised by the private sectors, in particular through the issuance of private debt securities.

During the quarter, new PDS issuances increased significantly to RM36.0 billion (3Q 13: RM13.4 billion). Funds raised were mainly used for working capital and general corporate purposes. Funds raised from the equity market also increased to RM7.4 billion (3Q 13: RM2.8 billion). After adjusting for redemptions, net funds raised by the private sector amounted to RM19.5 billion (3Q 13: RM6.4 billion).

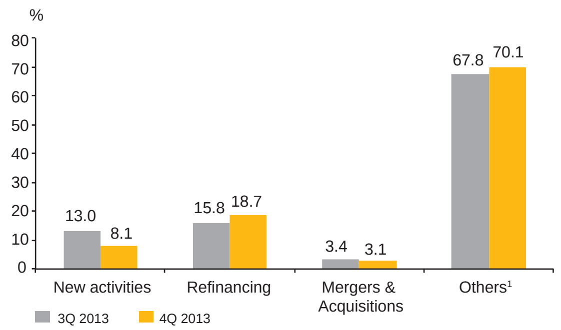
In the public sector, gross funds raised were lower at RM20.4 billion (3Q 13: RM26.6 billion). Funds were raised through the re-opening of a 3-year, 7-year, 10-year and 15-year Malaysian Government Securities (MGS), and new issuances of a 5-year, 10-year and 15-year Government Investment Issue (GII).

Net Funds Raised in the Capital Market

	2012		2013		
	4Q	Year	3Q	4Q	Year
	RM billion				
By Public Sector	**17.6**	**46.7**	**11.4**	**14.3**	**43.9**
Government securities, *net*	15.7	48.7	8.7	14.3	41.9
Malaysian Government Securities	*11.6*	*52.5*	*13.9**	*11.4*	*51.4*
Government Investment Issues	*8.0*	*42.2*	*10.0*	*9.0*	*41.0*
Less: Redemptions	*4.0*	*46.1*	*15.2*	*6.1*	50.6
Savings Bonds, *net*	-	(6.5)	-	-	(2.4)
Government Housing Sukuk, *net*	1.9	4.5	2.7	-	4.4
By Private Sector	**20.1**	**90.7**	**6.4**	**19.5**	**38.3**
Shares	6.1	27.4	2.8	7.4	16.0
Debt securities, *net*	14.0	63.3	3.6	12.0	22.2
Private Debt Securities	*23.1*	*121.1*	*13.4*	*36.0*	*83.9*
Less: Redemptions	*9.1*	*57.8*	*9.7*	*24.0*	*61.6*
Total	**37.7**	**137.4**	**17.8**	**33.7**	**82.1**

Note: Numbers may not add up to total due to rounding
*Adjusted for a Switch Auction of RM2.4 billion during the quarter
Source: Bank Negara Malaysia and Bursa Malaysia

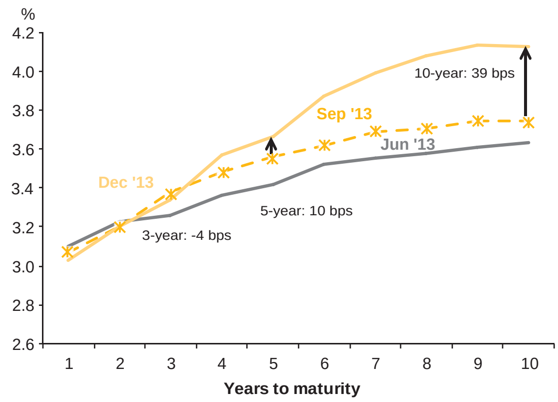
Private Debt Securities Issued by Purpose (% of total)



[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

Bond yields increased

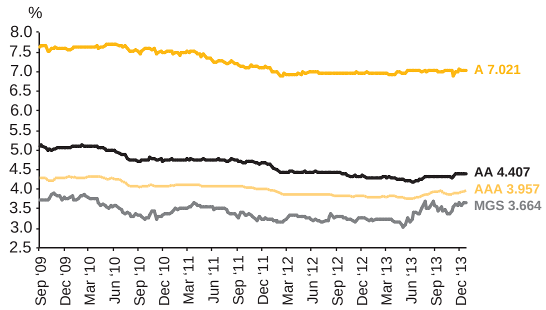
MGS yields increased during the quarter, as the anticipation and eventual announcement of a scale-back in the asset purchase programme by the US Federal Reserve led to the unwinding of portfolio holdings by non-residents . The unwinding by non-residents were mainly concentrated in MGS of 5 to 10 years tenures. As a result, yields on 5-year and 10-year MGS recorded increases of 10 and 39 basis points respectively, while the 3-year MGS recorded a marginal decline of 4 basis points.

In the private debt market, the yield on the 5-year AA and A-rated corporate bonds recorded a slight increase of 7 and 2 basis points respectively, while the 5-year AAA-rated yield decreased marginally by 1 basis points.

Secondary trading in the bond market moderated

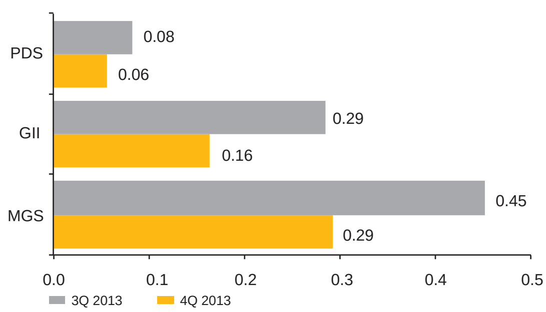
Total trading in the secondary market decreased to RM139 billion during the quarter (3Q 13: RM214 billion), given the year-end holiday season. Both the MGS and GII segments registered lower liquidity ratios of 0.29 and 0.16 respectively, while the liquidity ratio in the PDS segment declined marginally to 0.06.

5 year MGS and 5 year Corporate Bond Yield



Source: Bank Negara Malaysia

Liquidity Ratio: Value of Bond Traded / Outstanding



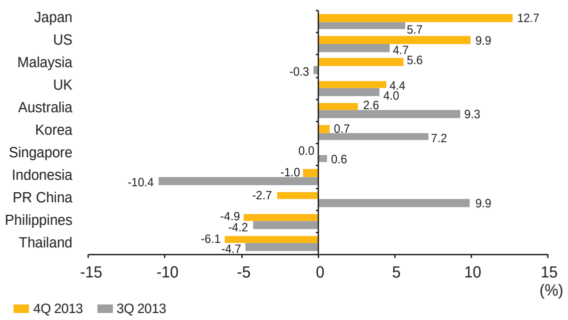
Source: Bank Negara Malaysia

Positive performance of the FBM KLCI

In the fourth quarter, the FBM (FTSE Bursa Malaysia) KLCI increased by 98.3 points, to end the year at 1,867 points (end-September 2013: 1,768.6 points). During the quarter, the index was driven mainly by sustained demand from domestic investors due to the better prospects for global growth and the resolution of the US government shutdown. Positive sentiments in the domestic market were also boosted by the optimism surrounding Malaysia's 2014 Budget. The impact of the discussions and the eventual announcement on the scale-back of the asset purchase programme in the US was relatively limited, as the improving growth outlook in the US was expected to have a positive impact on Malaysian businesses. Overall, market capitalisation increased to RM1.70 trillion at end-December 2013 (end-September 2013: RM1.61 trillion) while the daily average turnover decreased slightly to 1.70 billion units (3Q 13: 1.74 billion units) during the quarter.

On 10 February 2014, the KLCI ended lower at 1,816.1 points (since end-December 2013: -2.72%), with market capitalisation of RM1.68 trillion (since end-December 2013: -1.17%)

Performance of Selected Global and Regional Markets in 2013 (% growth QoQ)



Source: Bloomberg and Bank Negara Malaysia calculations

Bursa Malaysia: Selected Market Indicators

	2012		2013		
	As at end				
	Dec	Year	Sept	Dec	Year
Price Indices					
Composite	1,689.0	1,689.0	1,768.6	1,867.0	1,867.0
FBMEMAS[1]	11,438.1	11,438.1	12,289.7	12,853.6	12,853.6
ACE Market[2]	4,214.2	4,214.2	5,537.2	5,675.8	5,675.8
Market capitalisation (RM billion)	1,465.7	1,465.7	1,611.2	1,702.2	1,702.2
No. of companies listed	921	921	910	911	911
	During the period				
	4Q	Year	3Q	4Q	Year
Average daily turnover					
Volume (million units)	1,053.6	1,361.3	1,739.8	1,704.7	1,567.3
Value (RM million)	1,509.0	1,667.5	2,083.1	2,330.2	2,157.2

[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

	2012				2013					
	4Q		Year		3Q		4Q		Year	
	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion
Turnover	65.3	93.6	333.5	408.3	109.4	131.2	107.4	146.8	386.9	527.8
Of which:										
Main Board	50.8	91.3	224.2	390.6	85.0	126.4	80.0	140.7	305.2	512.3
Of which										
Consumer Products	4.6	5.0	22.6	24.7	6.1	5.4	7.3	5.5	20.9	22.6
Industrial Products	10.6	8.5	44.6	44.3	13.6	10.3	9.6	9.7	51.5	40.4
Construction	2.1	3.1	8.3	14.3	4.9	7.2	2.8	4.6	15.1	25.0
Trading/Services	20.8	42.1	88.3	161.7	31.5	50.8	34.6	81.0	111.4	229.1
Finance	2.6	17.6	13.5	75.1	4.3	28.4	4.0	18.2	17.2	103.2
Properties	3.7	3.6	19.5	18.7	8.6	9.4	8.8	6.7	34.0	35.6
Plantations	1.1	4.7	5.9	25.4	1.4	4.4	1.7	5.6	5.5	19.6
Infrastructure	1.1	3.9	5.4	13.6	1.7	4.9	1.9	5.0	6.5	19.1
ACE Market[1]	10.0	1.8	76.1	12.6	21.2	4.4	24.4	5.5	69.7	13.5

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

Source: Bursa Malaysia

The ringgit depreciated against most major currencies

Movements of the ringgit and other regional currencies in the fourth quarter were driven mainly by external developments. The ringgit and most other regional currencies depreciated against the US dollar as the anticipation and eventual announcement of a scale-back of monetary injections by the Fed resulted in outflows of funds from regional financial markets.

Overall, the ringgit depreciated by 0.7% against the US dollar during the quarter. The ringgit also depreciated against the euro (-2.8%) and pound sterling (-2.6%), but appreciated against the Japanese yen (6.3%). The ringgit exhibited a mixed performance against regional currencies.

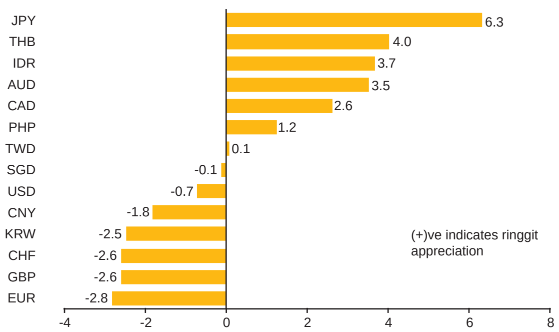
Between 1 January and 10 February, the ringgit depreciated against the US dollar by 1.5%. The ringgit also depreciated against the Japanese yen (-3.8%), pound sterling (-1.1%) and euro (-0.2%), and several regional currencies.

Activity in foreign exchange derivatives was subdued

In the final quarter of 2013, interbank players were cautious and preferred to stay on the sidelines amidst anticipation that the Fed could decide to reduce the pace of their asset purchase programme before the end of the year. This development, coupled with thin liquidity throughout the quarter saw foreign exchange derivatives activity decline by 12.9% compared to the previous quarter.

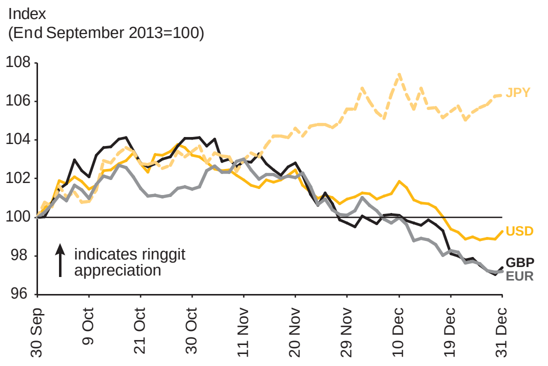
The cost of borrowing US dollar through the cross-currency swap market narrowed in the fourth quarter, with the 5-year USD/MYR cross-currency swaps declining from 90 basis points in September to 70 basis points in December as market volatility moderated. The announcement by the Fed to reduce the pace of its asset purchase programme did not have a major impact to the market, as the decision was already priced into market expectations.

Summary of Ringgit Performance against Selected Currencies Percent Change (1 October - 31 December 2013)



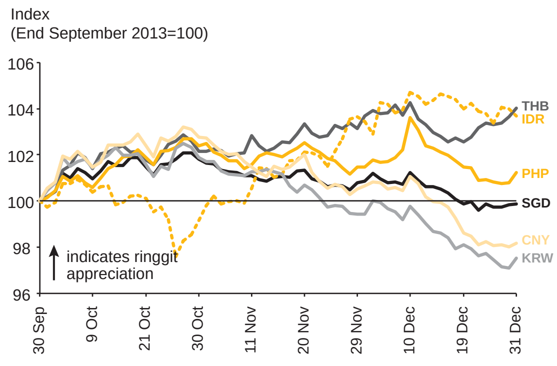
Source: Bank Negara Malaysia

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	4Q 12	3Q 13	4Q 13	21 Jul 05	4Q 12	3Q 13
US dollar	3.8000	3.0583	3.2575	3.2815	15.8	-6.8	-0.7
Euro	4.6212	4.0412	4.3988	4.5263	2.1	-10.7	-2.8
Pound sterling	6.6270	4.9420	5.2666	5.4076	22.6	-8.6	-2.6
100 Japanese yen	3.3745	3.5576	3.3255	3.1281	7.9	13.7	6.3
Singapore dollar	2.2570	2.5030	2.5912	2.5943	-13.0	-3.5	-0.1
100 Thai baht	9.0681	9.9910	10.378	9.9757	-9.1	0.2	4.0
100 Philippine peso	6.8131	7.4446	7.4825	7.3908	-7.8	0.7	1.2
100 Indonesian rupiah	0.0386	0.0317	0.0279	0.0269	43.4	17.8	3.7
100 Korean won	0.3665	0.2865	0.3031	0.3108	17.9	-7.8	-2.5
Chinese renminbi	0.4591	0.4909	0.5324	0.5422	-15.3	-9.5	-1.8

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

Source: Bank Negara Malaysia