MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates remained stable

The Overnight Policy Rate (OPR) was maintained at 3.00% during the fourth quarter of 2012. At this level of the OPR, monetary conditions remain supportive of the economy.

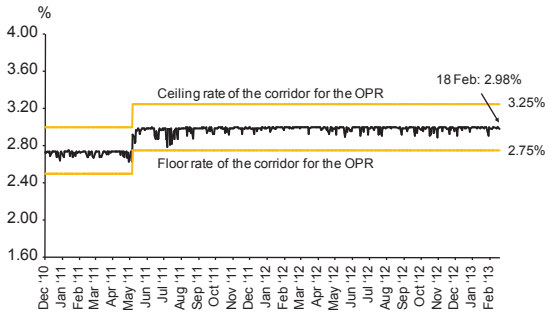
Reflecting the unchanged OPR, the average overnight interbank rate was stable during the quarter, moving within a range of 2.89% to 3.00%, between 1 October and 31 December 2012. Interbank rates of other short-term maturities were also relatively stable.

Rates on interest rate swaps and the 3-month Kuala Lumpur Interbank Offered Rate (KLIBOR) normalised during the period, as some market participants revised down their expectations for an OPR reduction given evidence of sustained domestic economic activity.

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 2012, the average quoted FD rates of commercial banks for the tenures 1 to 12 months ranged between 2.90% to 3.15% respectively.

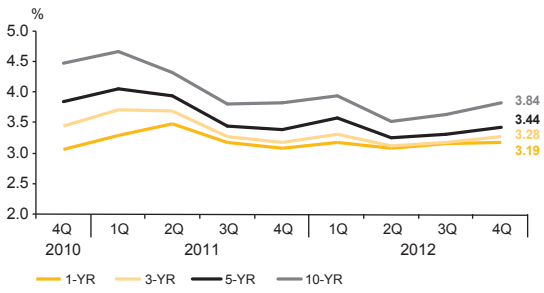
Borrowing costs to the economy were relatively stable during the period. The average base lending rate (BLR) of commercial banks remained unadjusted at 6.53%. The weighted average lending rate (ALR) on loans outstanding continued its gradual moderating trend (end-December 2012: 5.52%; end-September 2012: 5.55%), 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 lending rates continue to be below the levels prior to the global financial crisis.

Daily Weighted Average Overnight Interbank Rate



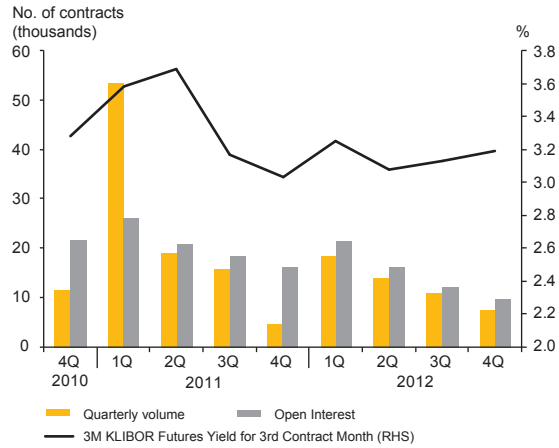
Source: Bank Negara Malaysia

Interest Rate Swap: Rates



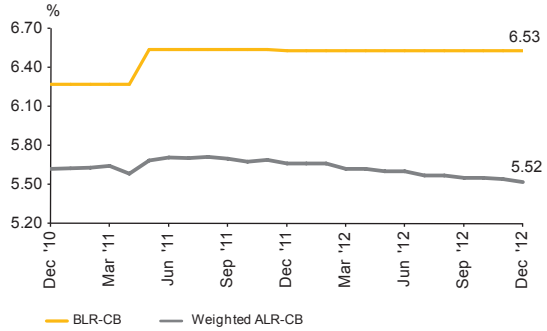
Source: Bloomberg

3-Month KLIBOR Futures



Source: Bursa Malaysia

Lending Rates of Commercial Banks (At end-period)



Source: Bank Negara Malaysia

Interest Rates

	2011	2012	
	4Q	3Q	4Q
	At end-period (%)		
Overnight Policy Rate (OPR)	3.00	3.00	3.00
Interbank rates			
Overnight	2.99	2.99	3.00
1-month	3.05	3.08	3.06
Base lending rate (BLR)			
Commercial banks	6.53	6.53	6.53
Weighted average lending rate (ALR)			
Commercial banks	5.66	5.55	5.52
Fixed deposit rates			
Commercial banks			
1-month	2.95	2.91	2.90
12-months	3.22	3.16	3.15

Source: Bank Negara Malaysia

Moderation in M3 growth

The monetary aggregates grew at a more moderate pace during the fourth quarter of 2012. M1, or narrow money, increased by RM15.4 billion during the period. On an annual basis, M1 expanded by 11.2% as at end-December (end-September 2012: 12.3%). M3, or broad money, increased by RM15.2 billion on a quarterly basis to record an annual growth rate of 8.8% as at end-December (end-September 2012: 12.5%).

M3 continued to expand during the quarter on account of the sustained credit extended to the private sector by the banking system. The placement of proceeds from the Government's fundraising activities, however, exerted a contractionary impact on broad money. The moderation in M3 was also due to the outflows of funds during the period, which was reflected in the moderation of *net foreign assets*.

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.

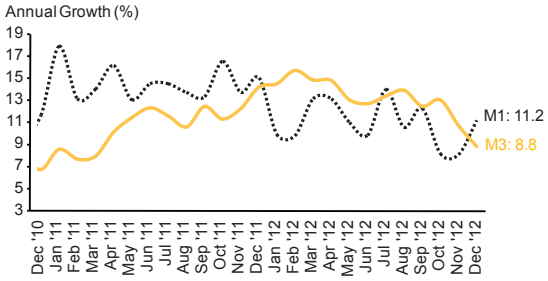
Determinants of Broad Money, M3

	Change during the period				
	2011		2012		
	4Q	Year	3Q	4Q	Year
	RM billion				
M3	**53.7**	**154.8**	**28.9**	**15.2**	**109.5**
Net claims on Govt	8.6	2.8	0.3	-4.9	-3.2
Claims on private sector	35.7	116.4	27.2	25.2	128.4
Loans	*33.4*	*111.8*	*19.5*	*19.2*	*105.5*
Securities	*2.2*	*4.6*	*7.7*	*6.0*	*22.9*
Net foreign assets[1]	7.5	95.8	22.1	-4.1	27.0
BNM	*11.2*	*87.0*	*0.6*	*5.8*	*11.7*
Banking System	*-3.8*	*8.8*	*21.5*	*-9.9*	*15.3*
Other influences	2.0	-60.2	-20.7	-1.0	-42.6

[1] Pre-evaluation

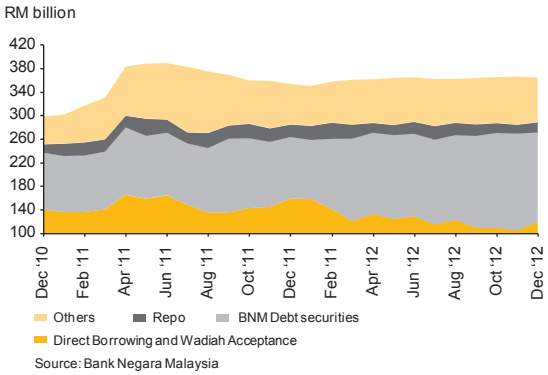
Source: Bank Negara Malaysia

Monetary Aggregates



Source: Bank Negara Malaysia

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

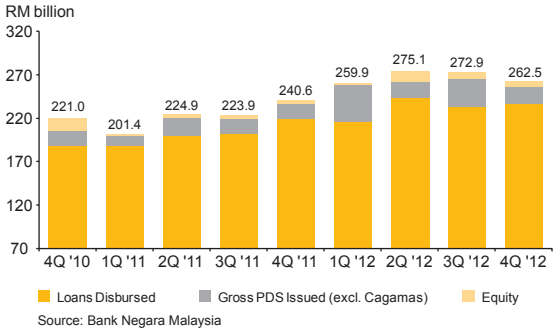


Source: Bank Negara Malaysia

Private sector financing activity was sustained

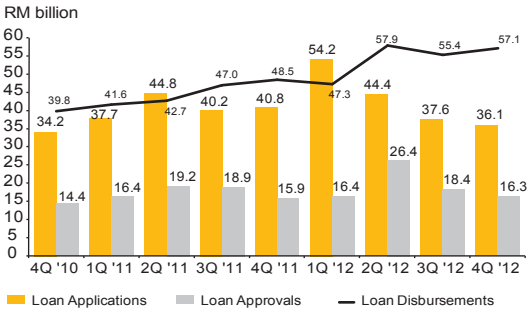
In the fourth quarter, financing conditions remained supportive of economic activity. Total gross financing raised by the private sector through the banking system and the capital market was sustained at RM262.5 billion in the fourth quarter (3Q 12: RM272.9 billion). On a net basis, banking system loans and PDS outstanding expanded at an annual growth rate of 12.4% as at end-December (end-September 2012: 12.8%).

Gross Private Sector Financing through Banking System and Capital Market



Source: Bank Negara Malaysia

Bank Lending to SMEs



Source: Bank Negara Malaysia

In the business sector, while loans outstanding from the banking system moderated due to large repayments during the quarter, loans disbursed to businesses remained strong. Most of the loans were disbursed mainly to the *wholesale and retail, restaurants and hotels; real estate; electricity, gas and water supply* and *agriculture* sectors. Demand for new financing by businesses, however, moderated due to the absence of the large loan applications that were seen earlier in the year. On an annual basis, business loans outstanding expanded at a growth rate of 10.9% as at end-December (end-September 2012: 13.6%).

Financing to the household sector continued to expand by RM17.9 billion during the quarter (3Q 12: RM17.2 billion). On an annual basis, however, household loans outstanding grew at a more gradual pace of 11.5% as at end-December (end-September 2012: 11.9%). Household demand for loans was sustained with loan applications mainly for the *purchase of residential property, passenger cars* and *securities*.

Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)					Annual growth (%)				
	2011		2012			2011		2012		
	4Q	Year	3Q	4Q	Year	4Q	Year	3Q	4Q	Year
Gross total financing	**240.6**	**890.8**	**272.9**	**262.5**	**1,070.5**	**8.9**	**10.8**	**21.9**	**9.1**	**20.2**
Loans disbursed*	219.7	811.3	233.3	236.6	929.9	16.3	12.0	15.4	7.7	14.6
Gross PDS (excl. Cagamas)	17.1	66.9	31.8	19.8	113.1	-2.1	42.6	76.4	16.2	69.0
Equity	3.8	12.6	7.9	6.1	27.4	-73.9	-60.7	106.1	59.6	117.1
Net total financing (A)+(B)	**32.1**	**147.4**	**33.3**	**31.1**	**164.5**	**12.5**	**12.5**	**12.8**	**12.4**	**12.4**
Banking system	31.7	122.5	28.5	26.0	128.3	12.9	12.9	12.9	12.0	12.0
Loans outstanding (A)	*31.2*	*120.2*	*20.9*	*19.7*	*104.4*	*13.6*	*13.6*	*11.9*	*10.4*	*10.4*
Holding of PDS	*0.5*	*2.2*	*7.6*	*6.2*	*23.9*	*3.6*	*3.6*	*28.0*	*36.6*	*36.6*
PDS outstanding (B)	0.8	27.2	12.4	11.4	60.1	9.3	9.3	15.5	18.7	18.7
Memorandum item										
Gross PDS (incl. Cagamas)	17.4	69.6	32.6	23.1	121.1	-5.2	33.4	71.0	33.1	74.1

*Includes banking system loans sold to Cagamas

Source: Bank Negara Malaysia

Loan Indicators

	During the period (RM billion)					Annual growth (%)				
	2011		2012			2011		2012		
	4Q	Year	3Q	4Q	Year	4Q	Year	3Q	4Q	Year
Total										
Loan applications	192.3	745.4	180.0	170.4	766.0	10.9	16.2	-2.6	-11.4	2.8
Loan approvals	104.0	400.3	94.0	95.0	390.1	13.4	16.6	-4.6	-8.7	-2.5
Loan disbursements	219.7	811.3	233.3	236.6	929.9	16.3	12.0	15.4	7.7	14.6
Loan repayments	195.5	725.6	224.0	227.3	867.3	16.5	11.8	19.0	16.2	19.5
Change in loans outstanding*	31.2	120.2	20.9	19.7	104.4	13.6	13.6	11.9	10.4	10.4
Of which:										
Business enterprises**										
Loan applications	95.7	357.9	81.4	70.2	372.1	16.6	19.9	-5.3	-26.6	4.0
Loan approvals	52.5	193.3	41.4	41.7	186.3	20.8	21.3	-10.9	-20.5	-3.6
Loan disbursements	150.8	543.5	163.2	165.3	659.6	21.1	12.5	20.1	9.6	21.3
Loan repayments	137.8	494.7	161.9	164.4	625.0	21.9	11.6	24.4	19.3	26.4
Change in loans outstanding*	13.2	44.8	7.6	5.0	41.2	13.5	13.5	13.6	10.9	10.9
SMEs**										
Loan applications	40.8	163.4	37.6	36.1	172.3	19.3	27.3	-6.3	-11.3	5.5
Loan approvals	15.9	70.4	18.4	16.3	77.5	10.8	21.8	-2.6	2.3	10.0
Loan disbursements	48.5	179.9	55.4	57.1	217.7	21.9	22.3	17.8	17.7	21.0
Loan repayments	43.9	159.7	51.6	55.0	199.5	17.2	16.4	23.3	25.4	24.9
Change in loans outstanding*	8.2	24.8	4.7	2.5	23.8	19.3	19.3	20.3	15.5	15.5
Large corporations										
Loan applications	54.9	194.5	43.8	34.1	199.7	14.6	14.3	-4.4	-37.9	2.7
Loan approvals	36.6	122.9	23.0	25.4	108.8	25.8	21.1	-16.5	-30.5	-11.4
Loan disbursements	102.3	363.6	107.8	108.2	441.9	20.7	8.2	21.4	5.7	21.5
Loan repayments	94.0	335.0	110.3	109.3	425.6	24.3	9.5	24.9	16.4	27.0
Change in loans outstanding*	4.9	20.0	2.9	2.5	17.4	9.8	9.8	9.1	7.8	7.8
Households										
Loan applications	96.7	387.5	98.6	100.2	394.0	5.8	13.0	-0.2	3.7	1.7
Loan approvals	51.5	207.0	52.6	53.3	203.8	6.7	12.4	1.0	3.4	-1.5
Loan disbursements	68.9	267.7	70.0	71.3	270.4	7.1	10.9	5.8	3.6	1.0
Loan repayments	57.7	231.0	62.1	62.9	242.3	5.2	12.0	7.0	9.0	4.9
Change in loans outstanding*	17.8	63.1	17.2	17.9	63.7	12.9	12.9	11.9	11.5	11.5

* 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 were higher at RM37.7 billion during the fourth quarter (3Q 12: RM28.7 billion). The bulk of funds were raised by the private sector through new issuances of private debt securities, amounting to RM23.1 billion (3Q 12: RM32.6 billion). Funds raised were mainly used for new activities and for funding working capital, general corporate purposes and operating expenses. In the equity market, funds raised amounted to RM6.1 billion (3Q 12: RM7.9 billion), mainly via initial public offerings. After adjusting for redemptions, net funds raised by the private sector amounted to RM20.1 billion (3Q 12: RM18.3 billion).

Net funds raised by the public sector were RM17.6 billion in the fourth quarter (3Q 12: RM10.4 billion). Funds were raised through the new issuance of a 7.5-year Government Investment Issue (GII) and the re-opening of the 5-year, 7-year, 10-year and 20-year Malaysian Government Securities (MGS), as well as the issuance of a 5-year and 15-year GII. In addition, funds were also raised through the issuance of a RM1.9 billion Government Housing Sukuk. For the year as a whole, total net funds raised in the capital market amounted to RM137.4 billion (2011: RM82.7 billion).

Net Funds Raised in the Capital Market

	2011		2012		
	4Q	Year	3Q	4Q	Year
	RM billion				
By Public Sector	**15.9**	**45.6**	**10.4**	**17.6**	**46.7**
Government securities, *net*	15.9	47.1	7.8	15.7	48.7
Malaysian Government Securities	*12.9*	*58.8*	*14.2*	*11.6*	*54.7*
Government Investment Issues	*6.1*	*36.4*	*11.1*	*8.0*	*42.2*
Less: Redemptions	*3.1*	*48.1*	17.5	4.0	48.3
Khazanah Bonds, *net*	-	-	-	-	-
Savings Bonds, *net*	(0.0)	(1.6)	-	-	(6.5)
Government Housing Sukuk, net	-	-	2.6	1.9	*4.5*
By Private Sector	**3.5**	**37.1**	**18.3**	**20.1**	**90.7**
Shares	3.8	12.6	7.9	6.1	27.4
Debt securities, *net*	(0.3)	24.5	10.3	14.0	63.3
Private Debt Securities	*17.4*	*69.6*	*32.6*	*23.1*	*121.1*
Less: Redemptions	*17.7*	*45.1*	*22.3*	*9.1*	*57.8*
Total	**19.4**	**82.7**	**28.7**	**37.7**	**137.4**

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

Source: Bank Negara Malaysia and Bursa Malaysia

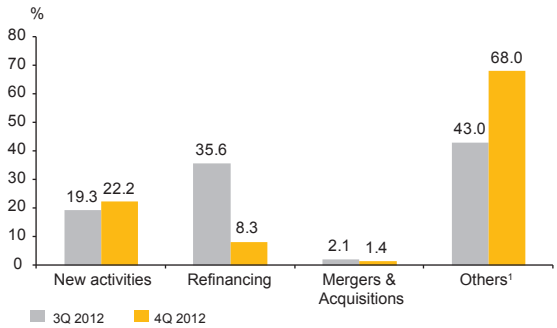
Loans by Sector

	Loans disbursed						Loans outstanding
	During the period					Share of total	Share of total
	4Q 11	2011	3Q 12	4Q 12	2012		
	(RM billion)					(%)	
Business enterprises	**150.8**	**543.5**	**163.2**	**165.3**	**659.6**	**70.9**	**44.4**
Large corporations	*102.3*	*363.6*	*107.8*	*108.2*	*441.9*	*47.5*	*28.4*
*SMEs**	*48.5*	*179.9*	*55.4*	*57.1*	*217.7*	*23.4*	*16.0*
Selected sectors							
Agriculture, hunting, forestry and fishing	6.1	22.9	7.1	8.0	28.8	3.1	2.6
Mining and quarrying	1.3	5.1	1.7	1.9	7.8	0.8	0.6
Manufacturing	47.4	175.6	53.1	51.5	206.2	22.2	8.6
Construction	14.0	45.1	16.1	14.6	54.5	5.9	4.0
Real estate	9.6	33.3	7.8	9.5	40.9	4.4	5.6
Electricity, gas and water supply	1.4	5.6	2.2	3.1	9.1	1.0	0.9
Wholesale, retail, restaurants and hotels	38.0	139.7	42.6	46.2	178.5	19.2	7.4
Transport, storage and communication	6.4	19.7	4.5	3.7	17.7	1.9	2.5
Finance, insurance and business services	16.4	63.0	20.7	18.3	85.0	9.1	6.8
Households	**68.9**	**267.7**	**70.0**	**71.3**	**270.4**	**29.1**	**55.6**
Purchase of residential properties	17.0	64.5	16.3	17.0	64.7	7.0	26.0
Consumption credit	41.6	162.9	42.7	43.4	163.3	17.6	19.2
Of which:							
Credit cards	*23.6*	*93.7*	*23.0*	*24.3*	*90.3*	9.7	3.0
Purchase of passenger cars	*9.3*	*35.7*	*10.8*	*10.6*	*40.2*	*4.3*	*11.3*
Others	10.3	40.3	11.0	11.0	42.4	*4.6*	*10.4*
Total	**219.7**	**811.3**	**233.3**	**236.6**	**929.9**	**100.0**	**100.0**

*Include loans to individual businesses.

Source: Bank Negara Malaysia

Private Debt Securities Issued by Purpose (% of total)



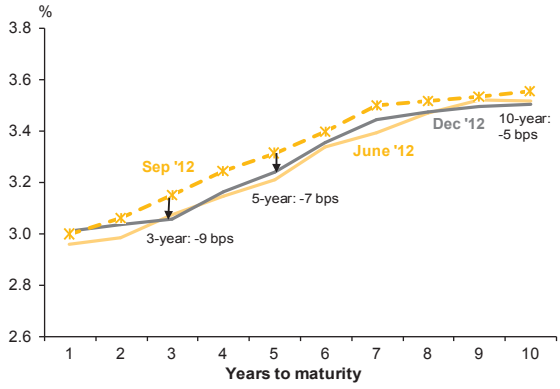
[1] Includes issuance by non-residents & Cagamas and for the purpose of working capital and general business activities

Source: Bank Negara Malaysia

Bond yields declined in the fourth quarter

In October, MGS yields were on a downward trend as a result of non-resident inflows, driven by investors' optimism over the growth prospects in the region including Malaysia, and the announcement of further monetary stimulus in the advanced economies. Towards the end of the year, however, yields increased slightly, as non-resident investors reduced their holdings of emerging market assets, including the MGS, due to increased uncertainty surrounding the US fiscal position. Overall, yields on the 3-year, 5-year and 10-year MGS declined marginally by 9, 7 and 5 basis points respectively in the fourth quarter.

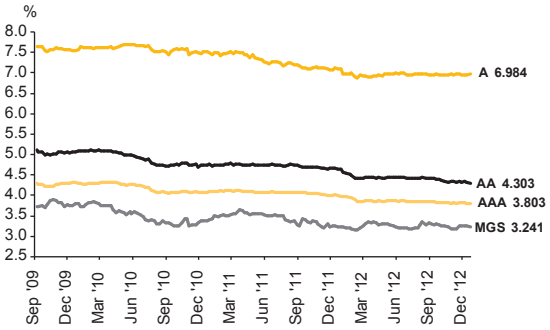
Trend in MGS Yields



Source: Bank Negara Malaysia

In general, corporate bond yields also recorded a decline in the fourth quarter, in line with MGS yields. The 5-year AAA, AA-rated yield recorded a decline of 3 and 9 basis points respectively, while the 5-year A-rated yield increased marginally by 2 basis points.

5-year MGS and 5-year Corporate Bond Yield

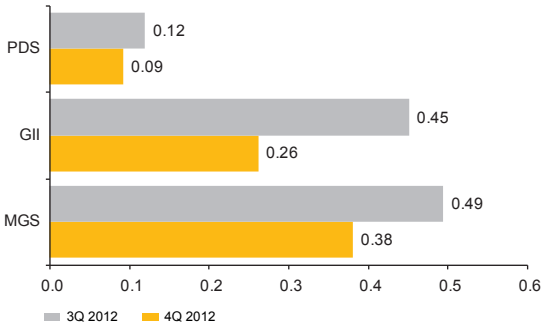


Source: Bank Negara Malaysia

Secondary trading in the bond market declined

Total trading in the secondary market declined to RM185 billion during the quarter (3Q 12: RM248 billion) due to the year-end holiday season. Correspondingly, all segments recorded lower liquidity ratios compared to the previous quarter. The MGS, GII and PDS segments registered liquidity ratios of 0.38, 0.26 and 0.09 respectively.

Liquidity Ratio: Turnover / Outstanding



Source: Bank Negara Malaysia

Positive performance of the KLCI

In the fourth quarter, the FBM (FTSE Bursa Malaysia) KLCI rose by 52.3 points to end the year at 1,689 (end-September 2012: 1,636.7). Earlier in the quarter, expectations of further monetary stimulus from the advanced economies and the release of better-than-expected third quarter domestic growth data kept the FBM KLCI on an upward trend. The trend however, reversed in November on profit-taking and rising uncertainty surrounding the US fiscal position. Nonetheless, the index subsequently recovered

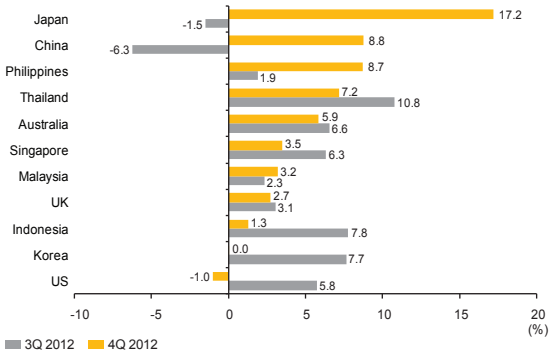
in December to end at an all-time high of 1,689, driven by higher demand by investors for blue-chips stocks. Overall, market capitalisation increased to RM1.47 trillion at end-December (end-September 2012: RM1.42 trillion) while the daily average turnover decreased to 1.05 billion units (3Q 12: 1.20 billion units) during the quarter. Open interest in the FBM KLCI futures increased to 30,550 contracts as at end-December (end-September 2012: 24,896).

On 18 February 2013, the KLCI ended slightly lower at 1,620.9 points (since end-December 2012: -4.0%), with market capitalisation of RM1.42 trillion (since end-December 2012: -3.4%).

Ringgit exhibited mixed performance against major and regional currencies

In the fourth quarter, the ringgit appreciated against the US dollar supported by investor optimism over growth prospects for the region, including Malaysia. The uncertainty surrounding developments in the US economy, however, including the presidential election and concerns over the US fiscal position prompted some investors to unwind their holdings of emerging market assets, thus partially offsetting the ringgit appreciation during the quarter. Overall, the ringgit appreciated by 0.3% against the US dollar in the fourth quarter. The ringgit also appreciated against the Japanese yen (11.1%) and pound sterling (0.8%), but depreciated against the euro (-1.9%). The ringgit's performance against regional currencies was mixed. The ringgit appreciated against the Indonesian rupiah (0.9%), but depreciated against the Thai baht, Chinese renminbi, Philippine peso and Korean won by between 0.4% and 3.9%. The ringgit was unchanged against the Singapore dollar.

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				
	Dec	Year	Sep	Dec	Year
Price indices					
Composite	1,530.7	1,530.7	1,636.7	1,689.0	1,689.0
FBMEMAS[1]	10,489.1	10,489.1	11,106.6	11,438.1	11,438.1
ACE Market[2]	4,068.6	4,068.6	4,304.7	4,214.2	4,214.2
Market capitalisation (RM billion)	1,284.5	1,284.5	1,417.3	1,465.7	1,465.7
No. of companies listed	941	941	931	921	921
	During the quarter				
	4Q	Year	3Q	4Q	Year
Average daily turnover					
Volume (million units)	1,615.5	1,343.8	1,197.8	1,053.6	1,361.3
Value (RM million)	1,411.7	1,566.1	1,683.8	1,509.0	1,667.5

[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					
	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	98.5	86.1	329.2	438.2	73.1	102.7	65.3	93.6	333.5	408.3
Of which:										
Main Board	68.3	81.6	424.5	249.3	49.1	98.7	50.8	91.3	224.2	390.6
Of which										
Consumer Products	8.1	6.0	21.3	19.1	4.5	5.5	4.6	5.0	22.6	24.7
Industrial Products	14.6	10.7	60.5	51.8	10.0	8.9	10.6	8.5	44.6	44.3
Construction	2.7	4.1	25.1	13.5	1.9	3.4	2.1	3.1	8.3	14.3
Trading/Services	20.1	28.2	153.4	86.4	18.6	42.0	20.8	42.1	88.3	161.7
Finance	6.0	15.5	92.1	20.9	3.6	20.2	2.6	17.6	13.5	75.1
Properties	8.4	6.7	31.4	34.3	4.1	5.0	3.7	3.6	19.5	18.7
Plantations	2.0	4.9	23.9	7.4	1.8	7.8	1.1	4.7	5.9	25.4
Infrastructure	1.3	2.6	9.3	4.0	0.9	3.1	1.1	3.9	5.4	13.6
ACE Market[1]	18.7	2.7	7.5	47.7	18.5	3.3	10.0	1.8	76.1	12.6

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

Source: Bursa Malaysia

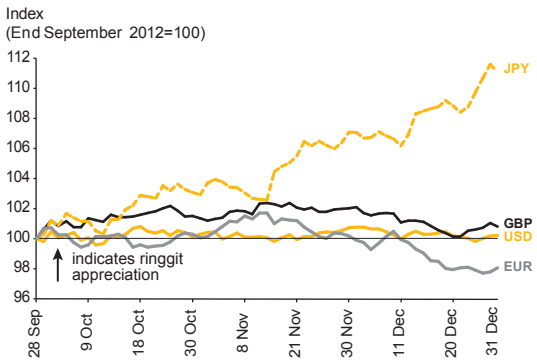
Between 1 January and 18 February 2013, the ringgit appreciated against the Japanese yen (8.0%) and pound sterling (3.0%) but depreciated against the US dollar (-1.3%) and the euro (-2.2%). Against regional currencies, the ringgit strengthened against the Korean won and Singapore dollar by 0.2% and 0.1% respectively but depreciated against the Indonesian rupiah, Chinese renminbi, Philippine peso and Thai baht by between -0.9% and -3.6%.

Activity in the foreign exchange derivatives market was subdued following lower volatility levels

The fourth quarter of 2012 saw the USD/RM pair trade within a stable range of 3.03 – 3.08, amidst a period of low exchange rate volatility. This development, coupled with an absence of market leads, led to reduced demand for hedging and consequently foreign exchange derivatives activity declined by 9.1% compared to the third quarter.

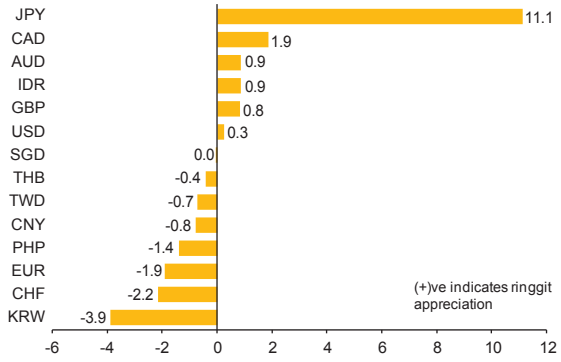
Meanwhile, the cost of borrowing US dollar through the cross-currency swap market increased slightly from 115bps to 124bps during the quarter, as the impact of the increase in the US dollar liquidity arising from monetary easing in developed markets gradually diminished.

Ringgit Performance Against Major Currencies



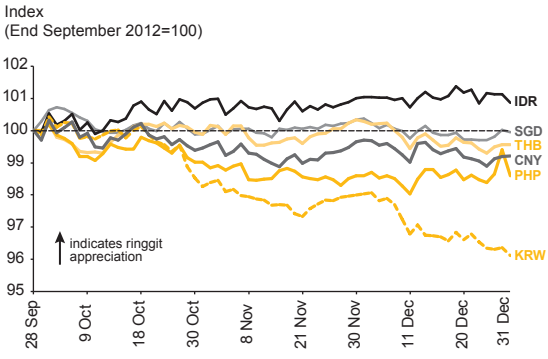
Source: Bank Negara Malaysia

Summary of Ringgit Performance Against Selected Currencies Percent Change (1 October - 31 December 2012)



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 11	3Q 12	4Q 12	21 Jul 05	4Q 11	3Q 12
US dollar	3.8000	3.1770	3.0660	3.0583	24.3	3.9	0.3
Euro	4.6212	4.1118	3.9639	4.0412	14.4	1.7	-1.9
Pound sterling	6.6270	4.8962	4.9829	4.9420	34.1	-0.9	0.8
100 Japanese yen	3.3745	4.0975	3.9536	3.5576	-5.1	15.2	11.1
Singapore dollar	2.2570	2.4427	2.5018	2.5030	-9.8	-2.4	0.0
100 Thai baht	9.0681	10.009	9.9481	9.9910	-9.2	0.2	-0.4
100 Philippine peso	6.8131	7.2468	7.3402	7.4446	-8.5	-2.7	-1.4
100 Indonesian rupiah	0.0386	0.0347	0.0320	0.0317	21.8	9.2	0.9
100 Korean won	0.3665	0.2746	0.2754	0.2865	27.9	-4.2	-3.9
Chinese renminbi	0.4591	0.5034	0.4871	0.4909	-6.5	2.5	-0.8

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

Source: Bank Negara Malaysia