MONETARY AND FINANCIAL DEVELOPMENTS

Interest rates remained stable

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

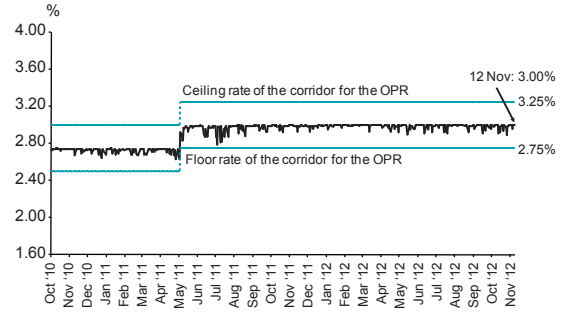
Reflecting the unchanged OPR, the average overnight interbank rate was stable during the quarter, moving within a range of 2.91% to 3.00% between 2 July and 28 September 2012. Interbank rates of other short-term maturities were also relatively stable.

Rates on interest rate swaps and the 3 month Kuala Lumpur Interbank Offer Rate (KLIBOR) futures remained relatively stable during the period, reflecting the continued expectations of market participants for the OPR to remain unchanged.

Retail deposit rates were stable during the quarter. The average quoted fixed deposit (FD) rates of commercial banks were relatively unchanged. As at end-September 2012, the average quoted FD rates of commercial banks for the tenures 1 to 12 months ranged between 2.91% to 3.16% respectively.

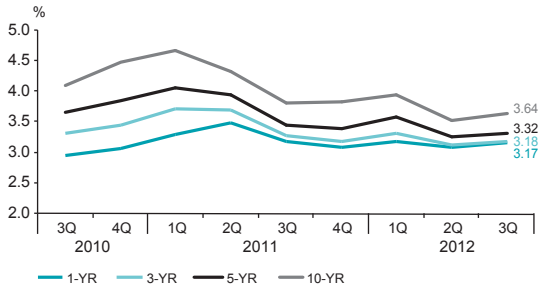
Borrowing costs were also relatively stable during the period. The average base lending rate (BLR) of commercial banks remained unadjusted at 6.53%, while the weighted average lending rate (ALR) on loans outstanding remained stable at 5.55% as at end-September 2012 (end-June 2012: 5.60%). The cost of borrowing for businesses and households remain below pre-crisis levels and supportive of economic activity.

Daily Weighted Average Overnight Interbank Rate



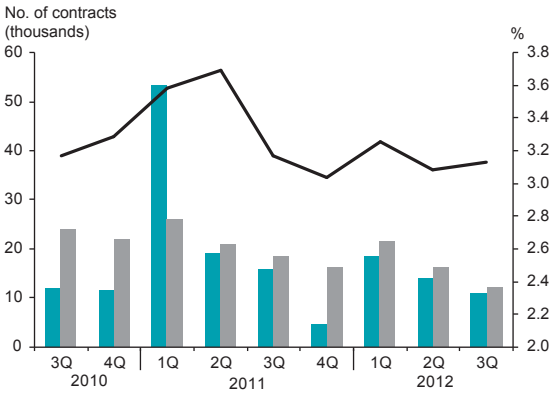
Source: Bank Negara Malaysia

Interest Rate Swap: Rates



Source: Bloomberg

3-Month KLIBOR Futures



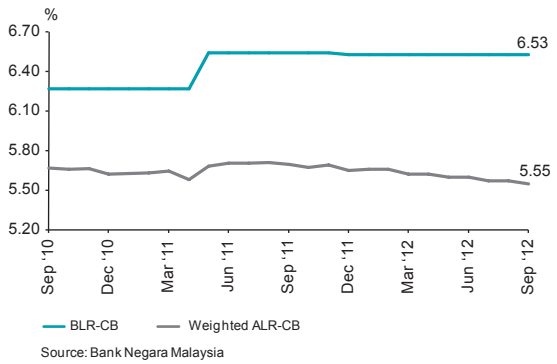
Source: Bursa Malaysia

Interest Rates

	2011	2012	
	3Q	2Q	3Q
	At end-period (%)		
Overnight Policy Rate (OPR)	3.00	3.00	3.00
Interbank rates			
Overnight	2.99	2.99	2.99
1-month	3.09	3.06	3.08
Base lending rate (BLR)			
Commercial banks	6.54	6.53	6.53
Weighted average lending rate (ALR)			
Commercial banks	5.70	5.60	5.55
Fixed deposit rates			
Commercial banks			
1-month	2.95	2.90	2.91
12-months	3.22	3.19	3.16

Source: Bank Negara Malaysia

Lending Rates of Commercial Banks (At end-period)



Source: Bank Negara Malaysia

Determinants of Broad Money, M3

	Change during the period				
	2011		2012		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
M3	**28.2**	**53.7**	**38.7**	**26.7**	**29.0**
Net claims on Govt[2]	10.4	7.6	2.1	-1.2	0.8
Claims on private sector	20.2	35.7	23.1	53.3	26.9
Loans	*22.6*	*33.4*	*18.4*	*48.9*	*19.0*
Securities	*-2.4*	*2.2*	*4.7*	*4.4*	*7.9*
Net foreign assets[1]	-6.1	7.5	17.2	-8.2	21.7
BNM	*2.0*	*11.2*	*0.4*	*4.9*	*0.6*
Banking System	*-8.1*	*-3.8*	*16.8*	*-13.1*	*21.1*
Other influences[2]	3.8	3.0	-3.7	-17.2	-20.4

[1] Pre-revaluation
[2] For the period Dec 2011 - Aug 2012, data for net claims on Government and other influences have been revised due to a compilation error.

Source: Bank Negara Malaysia

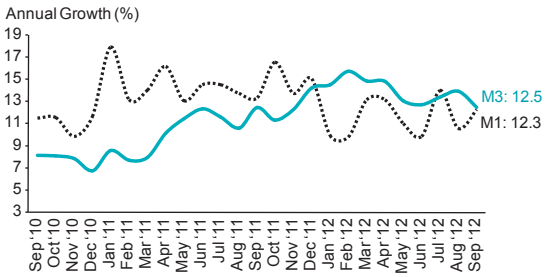
M3 continued to expand

The monetary aggregates continued to expand during the third quarter of 2012. M1, or narrow money, increased by RM8.6 billion. On an annual basis, M1 expanded by 12.3% as at end-September (end-June 2012: 9.9%). M3, or broad money, increased by RM27.5 billion on a quarter-on-quarter basis to record an annual growth rate of 12.5% as at end-September (end-June 2012: 12.8%).

The increase in M3 reflected both domestic and external factors. On the domestic side, M3 expanded following continued credit extension to the private sector, in line with the sustained pace of economic activity by the private sector, as well as higher government spending. On the external side, the expansionary impact on M3 was attributed to the increase in net capital inflows.

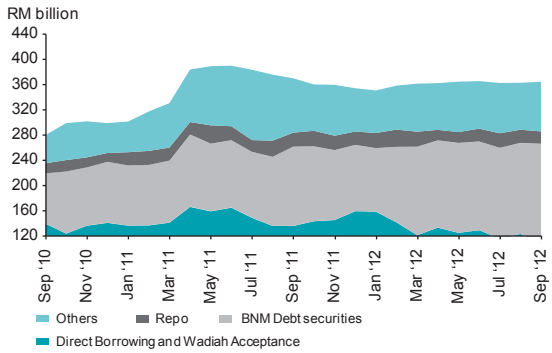
During the quarter, the higher banking system liquidity from capital inflows was sterilised by BNM mainly through the issuance of BNM debt securities.

Monetary Aggregates



Source: Bank Negara Malaysia

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

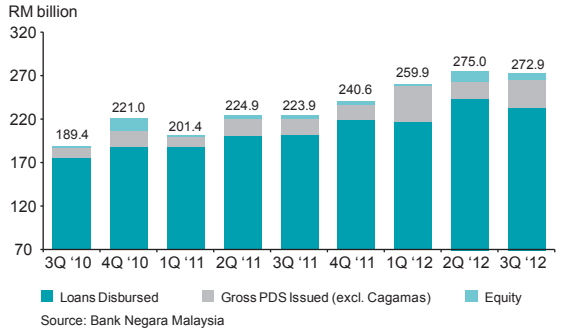


Source: Bank Negara Malaysia

Private sector financing activity was sustained

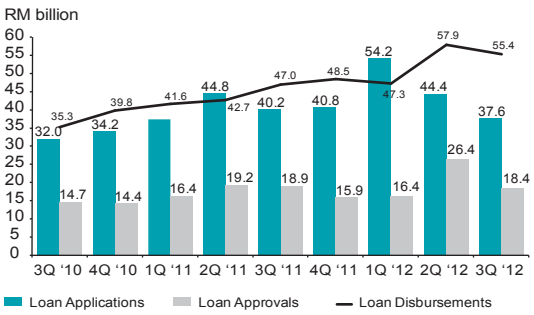
In the third quarter, financing conditions remained supportive of economic activity. Total gross financing raised by the private sector through the banking system and the capital market was RM272.9 billion (2Q 12: RM275.0 billion). The sustained financing was due mainly to the increase in net issuances of private debt securities (PDS) during the quarter. On a net basis, banking system loans and PDS outstanding expanded at an annual growth rate of 12.8% as at end-September (2Q 12: 13.0%).

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 slightly due to large repayments during the quarter, loans disbursed to businesses remained high. Most of the loans were disbursed mainly to the *construction; wholesale and retail, restaurants and hotels; agriculture* and *electricity, gas and water supply* sectors. Demand for new financing by businesses, however, declined slightly due to the absence of the exceptionally large loan applications recorded between March and June. On an annual basis, business loans outstanding expanded at a growth rate of 13.5% as at end-September (2Q 12: 14.2%).

Financing to the household sector continued to expand at a steady pace during the quarter to increase at an annual growth rate of 11.9% as at end-September (2Q 12: 11.8%). Household demand for financing remained resilient during the quarter, with continued loan applications 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		
	3Q	4Q	1Q	2Q	3Q	3Q	4Q	1Q	2Q	3Q
Gross total financing	**223.9**	**240.6**	**259.9**	**275.0**	**272.9**	**18.2**	**8.9**	**29.1**	**22.3**	**21.9**
Loans disbursed*	202.1	219.7	216.7	243.4	233.3	14.8	16.3	14.9	21.2	15.4
Gross PDS (excl. Cagamas)	18.0	17.1	41.9	19.6	31.8	61.1	-2.1	260.6	-3.2	76.4
Equity	3.8	3.8	1.3	12.0	7.9	79.3	-73.9	19.8	214.2	106.1
Net total financing (A)+(B)	**31.4**	**32.1**	**45.8**	**54.3**	**33.3**	**13.4**	**12.5**	**13.3**	**13.0**	**12.8**
Banking system	25.9	31.7	25.0	48.8	28.6	13.1	12.9	12.5	13.0	12.9
Loans outstanding (A)	*24.6*	*31.2*	*19.7*	*44.1*	*20.9*	*13.8*	*13.6*	*12.2*	*12.6*	*11.9*
Holding of PDS	*1.3*	*0.5*	*5.3*	*4.8*	*7.7*	*3.4*	*3.6*	*17.3*	*18.6*	*28.3*
PDS outstanding (B)	6.8	0.8	26.1	10.2	12.4	11.9	9.3	16.5	14.0	15.5
Memorandum item										
Gross PDS (incl. Cagamas)	19.1	17.4	44.8	20.6	32.6	32.4	-5.2	266.5	-1.4	71.0

*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		
	3Q	4Q	1Q	2Q	3Q	3Q	4Q	1Q	2Q	3Q
Total										
Loan applications	184.9	192.3	195.4	220.1	180.0	4.9	10.9	16.0	10.2	-2.6
Loan approvals	98.6	104.0	89.8	111.3	94.1	8.1	13.4	2.4	1.1	-4.5
Loan disbursements	202.1	219.7	216.7	243.4	233.3	14.8	16.3	14.9	21.2	15.4
Loan repayments	188.2	195.5	205.4	210.6	224.0	13.9	16.5	22.2	21.2	19.0
Change in loans outstanding*	24.6	31.2	19.7	44.1	20.9	13.8	13.6	12.2	12.6	11.9
Of which:										
Business enterprises**										
Loan applications	86.0	95.7	105.3	115.2	81.4	1.5	16.6	32.3	19.2	-5.3
Loan approvals	46.5	52.5	45.3	57.9	41.5	6.3	20.8	16.5	4.3	-10.7
Loan disbursements	135.9	150.8	152.5	178.6	163.3	16.6	21.1	24.9	32.5	20.2
Loan repayments	130.2	137.8	145.8	152.9	161.9	14.6	21.9	32.8	30.8	24.4
Change in loans outstanding*	8.7	13.2	3.5	25.1	7.6	14.1	13.5	10.8	14.2	13.5
SMEs**										
Loan applications	40.2	40.8	54.2	44.4	37.6	25.7	19.3	43.7	-0.8	-6.3
Loan approvals	18.9	15.9	16.4	26.4	18.4	28.5	10.8	-0.4	37.6	-2.3
Loan disbursements	47.0	48.5	47.3	57.9	55.4	33.4	21.9	13.7	35.5	17.8
Loan repayments	41.9	43.9	46.0	46.8	51.6	23.6	17.2	23.4	27.9	23.3
Change in loans outstanding*	5.7	8.2	4.8	11.8	4.7	16.1	19.3	19.9	21.9	20.3
Large corporations										
Loan applications	45.8	54.9	51.1	70.8	43.8	-13.2	14.6	22.1	36.4	-4.4
Loan approvals	27.6	36.6	28.9	31.5	23.0	-5.0	25.8	28.9	-13.3	-16.4
Loan disbursements	88.8	102.3	105.1	120.7	107.9	9.3	20.7	30.7	31.2	21.4
Loan repayments	88.3	94.0	99.9	106.1	110.3	10.8	24.3	37.6	32.2	24.9
Change in loans outstanding*	3.0	5.0	-1.3	13.3	2.9	12.8	9.8	5.1	9.3	9.1
Households										
Loan applications	98.9	96.7	90.2	104.9	98.6	8.0	5.8	1.4	1.9	-0.2
Loan approvals	52.1	51.5	44.5	53.4	52.6	9.8	6.7	-8.8	-2.1	1.0
Loan disbursements	66.2	68.9	64.2	64.8	70.0	11.1	7.1	-3.5	-2.0	5.7
Loan repayments	58.0	57.7	59.5	57.7	62.1	12.4	5.2	2.1	1.4	7.0
Change in loans outstanding*	15.2	17.8	11.9	16.7	17.2	12.5	12.9	11.9	11.8	11.9

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

Source: Bank Negara Malaysia

Net funds raised in the capital market increased

Net funds raised in the capital market increased to RM28.7 billion in the third quarter (2Q 12: RM27.6 billion). As in the previous quarter, the bulk of funds were raised by the private sector, in particular from the issuance of private debt securities (PDS). New PDS issuances increased to RM32.6 billion (2Q 12: RM20.6 billion). Funds raised were mainly used for refinancing and for funding working capital, general corporate expenses and operating expenses. Funds raised from the equity market remained healthy at RM7.9 billion (2Q 12: RM12.0 billion), with the bulk raised via initial public offerings. After adjusting for redemptions, net funds raised by the private sector amounted to RM18.3 billion (2Q 12: RM 22.5 billion).

Net funds raised by the public sector also increased to RM10.4 billion (2Q 12: RM5.0 billion). Funds were raised through the new issuance of a 7.5-year Malaysian Government Securities (MGS), a 3.5-year Government Investment Issue (GII), the re-opening of a 5-year, 10-year and 15-year MGS as well as a re-opening of the 5-year and 10-year GII. In addition, funds were also raised via a RM2.6 billion issuance of the Government Housing Sukuk.

Net Funds Raised in the Capital Market

	2011		2012		
	3Q	4Q	1Q	2Q	3Q
	RM billion				
By Public Sector	**1.6**	**15.9**	**13.7**	**5.0**	**10.4**
Government securities, *net*	1.6	15.9	15.6	9.6	7.8
Malaysian Government Securities	*14.0*	*12.9*	*12.8*	*16.1*	*14.2*
Government Investment Issues	*10.8*	*6.1*	*12.0*	*11.1*	*11.1*
Less: Redemptions	*23.2*	*3.1*	9.2	17.6	17.5
Khazanah Bonds, *net*	-	-	-	-	-
Savings Bonds, *net*	(0.0)	(0.0)	(1.9)	(4.6)	-
Government Housing Sukuk, net					*2.6*
By Private Sector	**11.1**	**3.5**	**29.8**	**22.5**	**18.3**
Shares	3.8	3.8	1.3	12.0	7.9
Debt securities, *net*	7.3	(0.3)	28.5	10.5	10.3
Private Debt Securities	*19.1*	*17.4*	*44.8*	*20.6*	*32.6*
Less: Redemptions	*11.8*	*17.7*	*16.3*	*10.1*	*22.3*
Total	**12.7**	**19.4**	**43.5**	**27.6**	**28.7**

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

Source: Bank Negara Malaysia and Bursa Malaysia

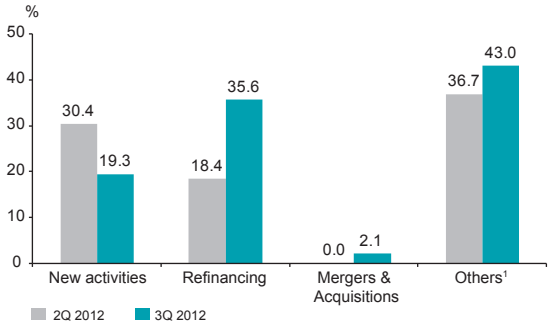
Loans by Sector

	Loans disbursed						Loans out-standing
	During the period					Share of total	Share of total
	3Q 11	4Q 11	1Q 12	2Q 12	3Q 12		
	(RM billion)					(%)	
Business enterprises	**135.9**	**150.8**	**152.5**	**178.6**	**163.3**	**70.0**	**45.0**
Large corporations	*88.8*	*102.3*	*105.1*	*120.7*	*107.9*	*46.2*	*29.0*
*SMEs**	*47.0*	*48.5*	*47.3*	*57.9*	*55.4*	*23.8*	*16.0*
Selected sectors							
Agriculture, hunting, forestry and fishing	5.3	6.1	5.7	8.1	7.1	3.0	2.5
Mining and quarrying	1.6	1.3	1.4	2.8	1.7	0.7	0.6
Manufacturing	44.9	47.4	46.3	55.4	53.1	22.8	8.9
Construction	10.8	14.0	11.9	11.9	16.1	6.9	4.2
Real estate	8.9	9.6	8.0	15.5	7.8	3.4	5.5
Electricity, gas and water supply	1.6	1.4	1.7	2.1	2.2	0.9	1.0
Wholesale, retail, restaurants and hotels	37.2	38.0	44.1	45.6	42.7	18.3	7.3
Transport, storage and communication	4.6	6.4	4.6	4.9	4.5	1.9	2.7
Finance, insurance and business services	13.0	16.4	21.5	24.4	20.7	8.9	7.0
Households	**66.2**	**68.9**	**64.2**	**64.8**	**70.0**	**30.0**	**55.0**
Purchase of residential properties	16.8	17.0	16.4	15.0	16.3	7.0	25.7
Consumption credit	40.3	41.6	37.1	40.0	42.7	18.3	19.1
Of which:							
Credit cards	*22.7*	*23.6*	*21.4*	*21.5*	*23.0*	9.9	2.9
Purchase of passenger cars	*8.8*	*9.3*	*8.6*	*10.2*	*10.8*	*4.6*	*11.3*
Others	9.1	10.3	10.7	9.7	11.0	*4.7*	*10.2*
Total	**202.1**	**219.7**	**216.7**	**243.4**	**233.3**	**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

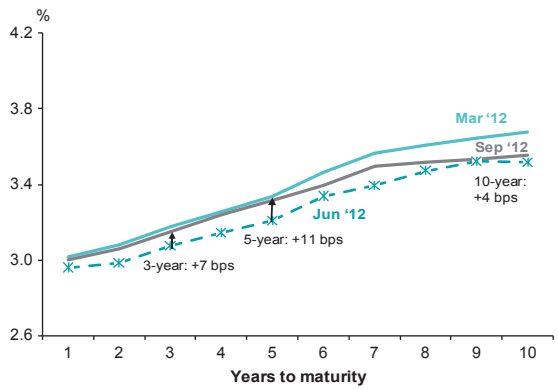
Source: Bank Negara Malaysia

MGS yields increased

From July to mid-August, MGS yields declined, continuing the trend from the second quarter, reflecting expectations that domestic monetary conditions would continue to remain accommodative. The decline in yields was also driven by continued demand by non-residents. This trend reversed during the last six weeks of the third quarter. MGS yields increased following large Government bond auctions in August and September. Overall, yields on the 3-year, 5-year and 10-year MGS increased by 7, 11 and 4 basis points respectively.

In the PDS market, corporate bond yields declined marginally. The 5-year AAA, AA and A-rated yield recorded a decline of 4, 5 and 3 basis points respectively from the previous quarter.

Trend in MGS Yields

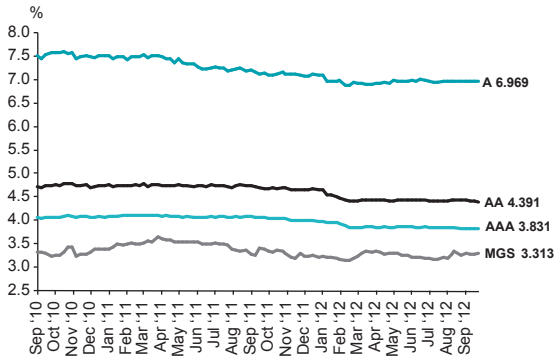


Source: Bank Negara Malaysia

Secondary trading in the bond market declined

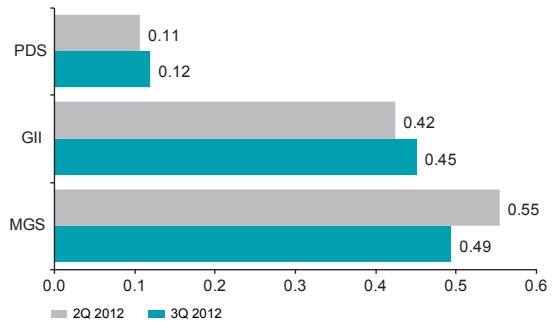
Total trading in the secondary market declined slightly to RM248 billion during the quarter (2Q 12: RM252 billion). The decline in turnover was mainly concentrated in the trading of MGS. The MGS registered a lower liquidity ratio of 0.49, while both the GII and PDS registered higher liquidity ratios of 0.45 and 0.12 respectively.

5-year MGS and 5-year Corporate Bond Yield



Source: Bank Negara Malaysia

Liquidity Ratio: Turnover / Outstanding



Source: Bank Negara Malaysia

Positive performance of KLCI

During the third quarter, the FBM (FTSE Bursa Malaysia) KLCI increased by 37.5 points, ending at 1,636.7 (end-June 2012: 1,599.2). In July and August, expectations for further stimulus measures in the advanced economies contributed to positive market sentiments and kept the indices in Malaysia and the region on an upward trend. There were, nonetheless, intermittent declines in the index following

heightened concerns over the ongoing European sovereign debt crisis. In September, larger and more frequent fluctuations in the movement of the index were recorded. While concerns over global growth prospects and profit-taking activities resulted in notable downward movements, announcement of further monetary easing by the US Federal Reserve lifted investor sentiments in the market. Overall, market capitalisation increased to RM1.42 trillion as at end-September 2012 (end-June 2012: RM1.37 trillion) while the daily average turnover decreased slightly to 1.20 billion units (2Q 12: 1.21 billion units) during the quarter. Open interest in the FBM KLCI futures decreased to 24,896 contracts as at end-3Q 2012 (2Q 12: 32,173).

On 12 November 2012, the KLCI closed higher at 1,637.59 points (since end-September 2012: 0.06 %), with market capitalisation of RM1.44 trillion (since end-September 2012: 1.61%).

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



Source: Bloomberg and Bank Negara Malaysia calculations

Ringgit appreciated against regional and most major currencies

During the quarter, the ringgit appreciated by 4.0% against the US dollar as further monetary easing in the advanced economies and expectations for progress in resolving the European sovereign debt crisis contributed to favourable investor sentiments towards Malaysia and regional economies. Domestically, the stronger than expected economic data for the second quarter added to investor interest towards Malaysia's financial assets. The ringgit also appreciated against the Japanese yen (1.7%) and euro (1.2%), but remained unchanged against the pound sterling. Against regional currencies, the ringgit strengthened in the range of 0.1% and 5.1%.

Bursa Malaysia: Selected Market Indicators

	2011		2012		
	As at end				
	Sept	Dec	Mar	June	Sept
Price indices					
Composite	1,387.1	1,530.7	1,596.3	1,599.2	1,636.7
FBMEMAS[1]	9,397.6	10,489.1	10,939.6	10,917.6	11,106.6
ACE Market[2]	3,598.0	4,068.6	4,583.8	4,354.7	4,304.7
Market capitalisation (RM billion)	1,172.3	1,284.5	1,355.4	1,367.9	1,417.3
No. of companies listed	952	941	939	927	931
	During the quarter				
	3Q	4Q	1Q	2Q	3Q
Average daily turnover					
Volume (million units)	1,018.9	1,615.5	2,019.9	1,205.8	1,197.8
Value (RM million)	1,887.4	1,411.7	1,977.8	1,517.1	1,683.8

[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					
	3Q		4Q		1Q		2Q		3Q	
	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion	Billion units	RM billion
Turnover	63.2	117.0	98.5	86.1	119.2	116.4	76.0	95.6	73.1	102.7
Of which:										
Main Board	47.4	114.4	68.3	81.6	75.6	109.5	48.7	91.1	49.1	98.7
Of which										
Consumer Products	2.9	4.9	8.1	6.0	9.4	7.8	4.2	6.4	4.5	5.5
Industrial Products	7.9	12.9	14.6	10.7	13.3	16.7	10.7	10.1	10.0	8.9
Construction	3.3	6.1	2.7	4.1	2.8	4.9	1.5	2.8	1.9	3.4
Trading/Services	15.7	42.6	20.1	28.2	29.4	39.9	19.5	37.6	18.6	42.0
Finance	5.7	31.1	6.0	15.5	4.0	19.8	3.2	17.4	3.6	20.2
Properties	6.8	7.8	8.4	6.7	7.8	6.5	4.0	3.6	4.1	5.0
Plantations	1.9	5.6	2.0	4.9	1.7	5.8	1.5	7.1	1.8	7.8
Infrastructure	0.9	2.2	1.3	2.6	2.0	3.4	1.5	3.3	0.9	3.1
ACE Market[1]	9.8	1.5	18.7	2.7	27.7	4.3	19.8	3.2	18.5	3.3

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

Source: Bursa Malaysia

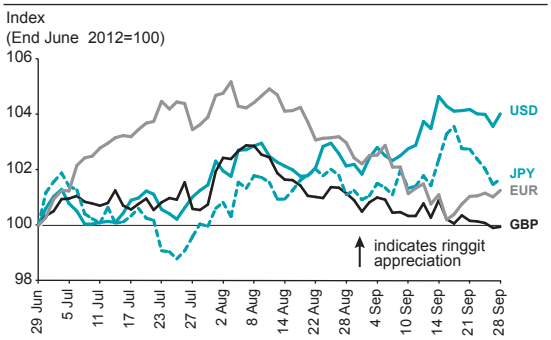
Between 1 October and 12 November 2012, the ringgit remained relatively unchanged against the US dollar (0.1%), but strengthened against the Japanese yen (2.6%), pound sterling (2.3%) and euro (1.7%). Within the region, the ringgit strengthened against the Indonesian rupiah (0.7%), but weakened against the Korean won (-2.2%), Philippine peso (-1.5%), Chinese renminbi (-0.9%) and Thai baht (-0.5%). The ringgit remained relatively unchanged against the Singapore dollar (-0.1%).

Market activity in foreign exchange derivatives rose

The volume of foreign exchange derivatives rose by 13.2% in the third quarter. The rise was primarily driven by activities in the foreign exchange swap market, which expanded by almost 20% from the volume recorded in the second quarter, as local banks continued to mobilise the excess US dollar liquidity in the banking system. There was also strong interest from importers to hedge their foreign currency exposure through forward buying of the US dollar, as the US dollar depreciated against most other currencies and the exchange rate levels became more attractive.

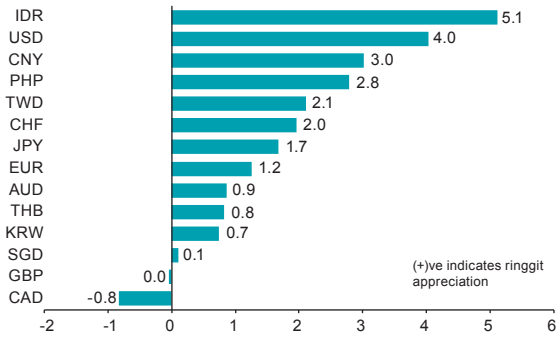
The cost of raising US dollar from cross currency swap transaction has also reduced substantially with the 5-year USD/RM cross-currency swaps narrowing from 153bps in July to 115bps in September. The reduction was mainly due to the increase in US dollar liquidity arising from continued monetary easing in advanced economies.

Ringgit Performance Against Major Currencies



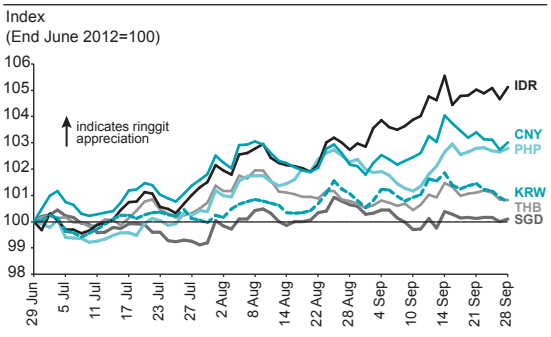
Source: Bank Negara Malaysia

Summary of Ringgit Performance Against Selected Currencies Percent Change (1 July - 28 September 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	3Q 11	2Q 12	3Q 12	21 Jul 05	3Q 11	2Q 12
US dollar	3.8000	3.1910	3.1895	3.0660	23.9	4.1	4.0
Euro	4.6212	4.3160	4.0133	3.9639	16.6	8.9	1.2
Pound sterling	6.6270	4.9738	4.9804	4.9829	33.0	-0.2	0.0
100 Japanese yen	3.3745	4.1663	4.0198	3.9536	-14.6	5.4	1.7
Singapore dollar	2.2570	2.4537	2.5043	2.5018	-9.8	-1.9	0.1
100 Thai baht	9.0681	10.236	10.030	9.9481	-8.8	2.9	0.8
100 Philippine peso	6.8131	7.2746	7.5447	7.3402	-7.2	-0.9	2.8
100 Indonesian rupiah	0.0386	0.0362	0.0336	0.0320	20.7	13.2	5.1
100 Korean won	0.3665	0.2703	0.2775	0.2754	33.1	-1.8	0.7
Chinese renminbi	0.4591	0.4988	0.5018	0.4871	-5.7	2.4	3.0

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

Source: Bank Negara Malaysia