MONETARY AND FINANCIAL DEVELOPMENTS

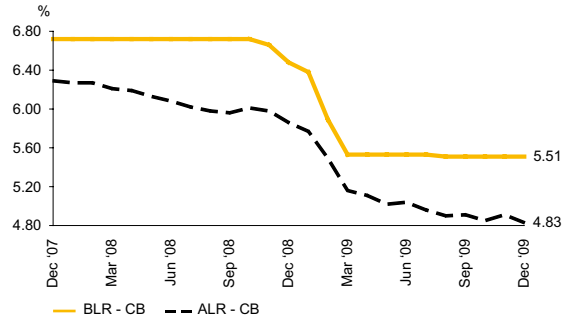
Interest rates were stable

The OPR was left unchanged at 2.00% in the fourth quarter. Reflecting the unchanged OPR, the average overnight interbank rate was stable, moving within a narrow range of 1.99% to 2.01% during the period 1 October – 31 December 2009. Similarly, interbank rates of other maturities were also stable.

In terms of retail lending rates, the average base lending rate (BLR) of commercial banks (CBs) was unchanged at 5.51% from the previous quarter. The average lending rate (ALR) on loans outstanding, however, continued to decrease in the fourth quarter to a historic low of 4.83% in December 2009. The continued downward trend in the ALR on loans outstanding reflected new loans being contracted at lower rates after the reduction in the OPR, while prevailing loans that were set at higher interest rates were repaid.

In terms of retail deposit rates, the average quoted fixed deposit (FD) rates of CBs were unchanged. As at end-December, the average quoted FD rates for tenures between 1 to 12 months ranged between 2.00% and 2.50% respectively.

Lending Rates of Commercial Banks (Average for the period)



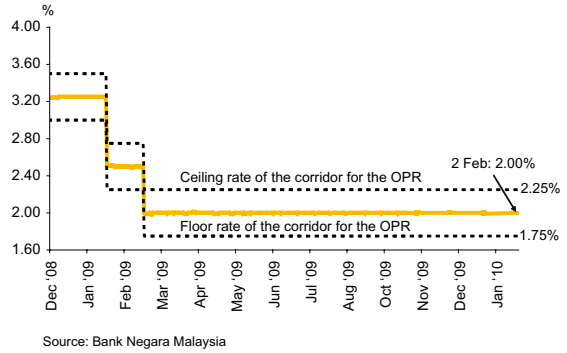
Source: Bank Negara Malaysia

Interest Rates

	2008	2009	
	4Q	3Q	4Q
	At end-period (%)		
Overnight Policy Rate (OPR)	3.25	2.00	2.00
Interbank rates			
Overnight	3.25	1.99	1.99
1-month	3.30	2.07	2.07
Base lending rates (BLR)			
Commercial banks	6.48	5.51	5.51
Average lending rates (ALR)			
Commercial banks	5.86	4.91	4.83
Fixed deposit rates			
Commercial banks			
3-month	3.04	2.03	2.03
12-month	3.50	2.50	2.50

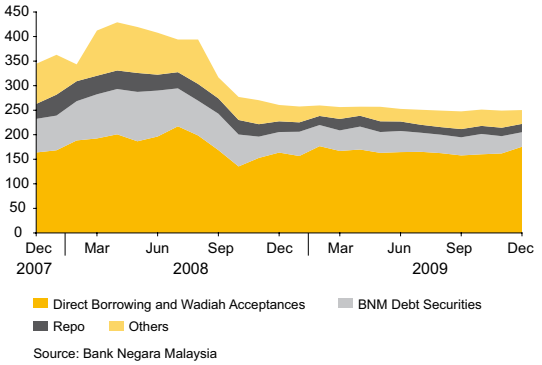
Source: Bank Negara Malaysia

Daily Weighted Average Overnight Interbank Rate



Source: Bank Negara Malaysia

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



Source: Bank Negara Malaysia

M3 rose at a faster pace

Monetary aggregates registered a faster annual increase in the final quarter of 2009, consistent with the pick-up in economic activity. M1, or narrow money, increased by RM9.7 billion during the quarter. On an annual basis, M1 expanded at a faster annual growth rate of 9.8% as at end-December 2009 (end-September 2009: 6.5%). M3, or broad money, also expanded at a faster annual growth rate of 9.1% at end-December 2009 (end-September 2009: 6.8%). On a quarter-on-quarter basis, M3 increased by RM41.5 billion.

Both domestic and external factors contributed to the growth in broad money during the quarter. On the domestic side, the banking system increased its financing to the private sector. Lending activity was further supported by the low interest rate environment. Meanwhile, broad money also expanded due to higher Government spending. On the external side, Malaysia registered net foreign inflows in the fourth quarter reflecting both its trade surplus and financial inflows.

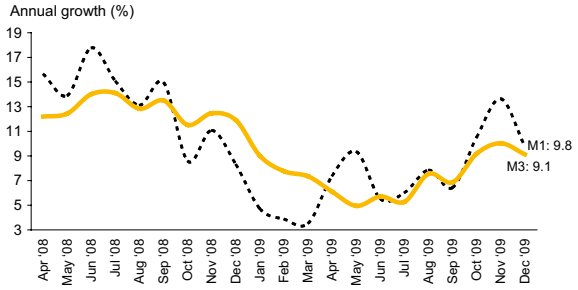
Determinants of Broad Money, M3

	Change during the period				
	2008		2009		
	4Q	Year	3Q	4Q	Year
	RM billion				
M3	**19.1**	**99.1**	**25.0**	**41.5**	**85.1**
Net claims on Govt	23.3	33.6	0.7	13.5	25.7
Claims on private sector	18.3	94.2	20.8	19.9	51.5
Loans	*11.2*	*76.9*	*19.4*	*15.3*	*47.0*
Securities	*7.1*	*17.3*	*1.4*	*4.6*	*4.5*
Net foreign assets[1]	-37.6	-46.2	5.6	6.5	5.6
BNM	*-48.6*	*-12.4*	*0.9*	*1.8*	*-9.4*
Banking System	*11.0*	*33.7*	*4.7*	*4.7*	*15.0*
Other influences	15.1	17.4	-2.2	1.6	2.2

[1]Pre-revaluation

Source: Bank Negara Malaysia

Monetary Aggregates

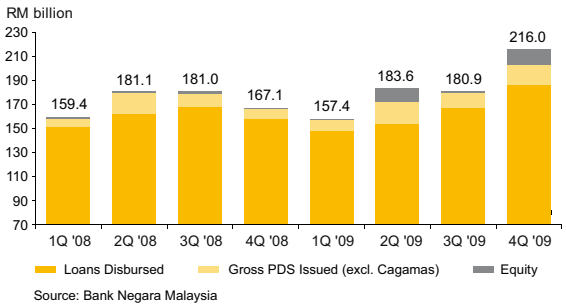


Source: Bank Negara Malaysia

Private sector financing activity strengthened further in the fourth quarter

With the economy regaining strength, coupled with the current low interest rate environment, financing extended to the business and household sectors expanded significantly in the fourth quarter. Total gross financing raised by the private sector through the banking system and the capital market increased to RM216 billion during the quarter (3Q 09: RM180.9 billion). The higher financing reflected increased bank loans disbursed as well as higher private debt securities (PDS) issuances and initial public offerings (IPOs) during the quarter. On a net basis, banking system loans and PDS outstanding rose by 8.5% as at end-December 2009 (end-September 2009: 7.2%).

Gross Private Sector Financing through Banking System and Capital Market



Source: Bank Negara Malaysia

Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)		
	2009	4Q 08	3Q 09	4Q 09	2009	3Q 09	4Q 09
Gross total financing	**737.8**	**167.1**	**180.9**	**216.0**	**7.1**	**-0.1**	**29.2**
Loans disbursed*	655.6	157.9	167.1	186.3	2.4	-0.7	18.0
Gross PDS (excl. Cagamas)	56.1	9.0	12.6	16.4	30.9	20.1	83.7
Equity	26.0	0.2	1.2	13.2	375.5	-43.9	5,818.5
Net total financing (A)+(B)	**83.4**	**16.1**	**25.1**	**30.3**	**8.5**	**7.2**	**8.5**
Banking system	57.1	15.0	22.1	19.7	7.2	6.8	7.2
Loans outstanding (A)	*56.9*	*13.8*	*21.0*	*19.7*	*7.8*	*7.2*	*7.8*
Holding of PDS	*0.2*	*1.1*	*1.1*	*0.0*	*0.4*	*2.2*	*0.4*
PDS outstanding (B)	26.5	2.3	4.2	10.6	10.5	7.3	10.5
Memorandum item							
Gross PDS (incl. Cagamas)	61.3	8.0	13.5	16.4	26.0	23.0	106.8

*Banking system loans include loans sold to Cagamas

Loan Indicators

	During the period (RM billion)				Annual growth (%)			
	2009	4Q 08	3Q 09	4Q 09	2009	4Q 08	3Q 09	4Q 09
Total								
Loan applications	518.7	101.6	135.5	138.6	9.3	-22.6	0.9	36.5
Loan approvals	286.8	60.9	72.6	80.4	-1.5	-30.8	-6.8	32.0
Loan disbursements	655.7	157.9	167.1	186.3	2.4	5.3	-0.7	18.0
Loan repayments	593.8	143.4	145.5	161.8	4.5	-6.8	-0.3	12.8
Change in loans outstanding*	56.9	13.8	21.0	19.7	7.8	12.8	7.2	7.8
Of which:								
Business enterprises**								
Loan applications	237.7	51.3	60.2	61.2	-2.8	-33.6	-17.9	19.2
Loan approvals	127.6	29.5	29.6	37.1	-13.8	-48.0	-24.8	25.8
Loan disbursements	439.2	112.6	109.7	125.7	-3.6	7.1	-9.4	11.6
Loan repayments	406.9	101.9	98.2	112.4	0.9	-11.4	-6.1	10.3
Change in loans outstanding*	7.8	-1.4	5.2	4.8	2.6	13.2	0.5	2.6
SMEs**								
Loan applications	104.5	19.9	28.4	29.7	4.0	-23.5	-0.2	49.2
Loan approvals	45.3	11.5	12.4	12.7	-16.3	-17.0	-10.4	10.3
Loan disbursements	143.3	39.6	35.8	38.2	-12.0	5.1	-16.9	-3.4
Loan repayments	132.2	36.1	33.0	34.8	-9.1	4.5	-13.5	-3.7
Change in loans outstanding*	-5.6	0.0	1.0	-0.2	-4.5	9.3	-4.3	-4.5
Large corporations								
Loan applications	133.2	31.4	31.8	31.5	-7.5	-38.7	-29.1	0.2
Loan approvals	82.3	18.0	17.2	24.4	-12.3	-58.0	-32.6	35.7
Loan disbursements	295.9	73.0	73.9	87.5	1.1	8.2	-5.2	19.8
Loan repayments	274.7	65.8	65.3	77.6	6.5	-18.2	-1.8	18.0
Change in loans outstanding*	13.4	-1.5	4.3	5.0	7.8	16.2	4.0	7.8
Households								
Loan applications	281.0	50.2	75.3	77.4	22.0	-6.9	23.6	54.2
Loan approvals	159.2	31.4	43.0	43.3	11.3	0.6	11.6	37.9
Loan disbursements	216.5	45.4	57.4	60.7	17.3	1.0	21.4	33.8
Loan repayments	187.0	41.5	47.3	49.4	13.4	7.0	14.4	19.0
Change in loans outstanding*	38.6	8.7	11.3	12.1	9.8	9.7	9.1	9.8

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

Source: Bank Negara Malaysia

All major loan indicators improved in the fourth quarter. In the business sector, the increase in demand for new financing was supported mainly by higher loan applications from the *primary agriculture* and *transport, storage and communication* sectors. There were also higher loan disbursements to finance working capital requirements of the *manufacturing; finance, insurance and business services; wholesale and retail trade; construction; real estate* as well as *transport, storage and communication* sectors. In addition, financing extended for merger and acquisition activity during the quarter was also higher by RM1.6 billion, and was channelled to the *electricity, gas and water supply* sector. Despite the notably higher loan disbursements, larger loan repayments and the disposal of non-performing loans (NPLs) in the fourth quarter led to a more modest increase of RM4.8 billion in business loans outstanding (3Q 09: +RM5.2 billion). On an

Loans by Sector

	Loans disbursed					Loans out-standing
	During the period				Share of total	Share of total
	2009	4Q 08	3Q 09	4Q 09		
	(RM billion)				(%)	
Business enterprises	**439.2**	**112.6**	**109.7**	**125.7**	**67.4**	**44.9**
Large corporations	*295.9*	*73.0*	*73.9*	*87.5*	*46.9*	*29.7*
*SMEs**	*143.3*	*39.6*	*35.8*	*38.2*	*20.5*	*15.2*
Selected sectors						
Agriculture, hunting, forestry and fishing	20.8	3.9	5.2	7.0	3.7	2.4
Mining and quarrying	2.3	0.5	0.5	0.5	0.3	0.3
Manufacturing	128.4	34.9	32.3	34.8	18.7	9.7
Construction	40.5	8.0	10.5	12.2	6.5	4.7
Real estate	20.6	4.7	4.2	6.5	3.5	4.1
Electricity, gas and water supply	8.5	1.0	3.4	3.3	1.8	1.0
Wholesale, retail, restaurants and hotels	105.4	27.5	27.1	28.3	15.2	7.8
Transport, storage and communication	22.5	3.3	4.3	6.7	3.6	3.2
Finance, insurance and business services	44.5	15.0	9.7	12.1	6.5	6.3
Households	**216.5**	**45.4**	**57.4**	**60.7**	**32.6**	**55.1**
Purchase of residential properties	55.6	12.3	14.4	16.8	9.0	25.6
Consumption credit	132.6	27.8	35.4	36.1	19.4	21.4
Of which:						
Credit cards	*70.5*	*15.2*	*18.2*	*19.5*	*10.5*	*3.3*
Purchase of passenger cars	*32.8*	*6.8*	*9.0*	*8.2*	*4.4*	*13.3*
Others	28.4	5.2	7.6	7.8	4.2	8.1
Total	**655.7**	**157.9**	**167.1**	**186.3**	**100.0**	**100.0**

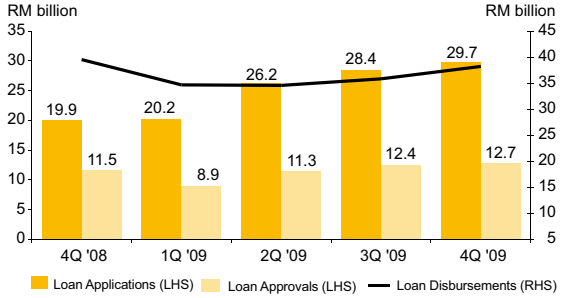
*Include loans to individual businesses.

Source: Bank Negara Malaysia

annual basis, business loans outstanding rose by 2.6% as at end-December 2009 (0.5% as at end-September 2009).

Meanwhile, financing to the household sector remained strong. Households continued to demand loans for the purchase of residential and non-residential properties. Loan disbursements to households also increased during the quarter reflecting higher disbursements for housing, personal and to some extent, credit card loans. Consequently, household loans outstanding expanded further by RM12.1 billion compared with the previous quarter. It rose at an annual growth rate of 9.8% as at end-December 2009 (end-September 2009: 9.1%).

Bank Lending to SMEs



Source: Bank Negara Malaysia

Fund raising activity in the capital market remained healthy

Net funds raised in the capital market during the quarter amounted to RM29.6 billion (3Q 09: RM23.4 billion). Fund raising activity was driven mainly by the private sector, which rose significantly in the fourth quarter, and accounted for 81% of total net funds raised in the capital market. Gross funds raised through private debt securities (PDS) increased to RM16.4 billion (3Q 09: RM13.5 billion). PDS issuances during the quarter were mainly by government-linked companies, financial companies and diversified conglomerates. Of significance, October marked the first issuance of a foreign currency denominated bond by a local firm that acts as a technology provider for the oil and gas industry. While the bulk of the funds raised was for working capital and general business activities (59.7%), financing for new activity accounted for a larger share compared with the previous quarter (4Q 09: 28.3%; 3Q 09: 14.2%). Funds raised in the equity market amounted to RM13.2 billion during the quarter (3Q 09: RM1.2 billion). The substantial increase was due mainly to a large initial public offering by a major telecommunications company amounting to RM11.5 billion in November.

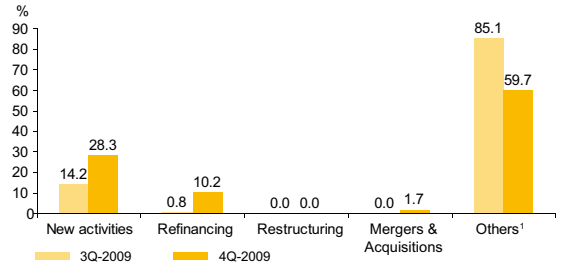
Funds were raised by the public sector through the issuances of the 3.5-year Malaysian Government Securities (MGS), the 10.5-year Government Investment Issues (GII), as well as the re-opening of the 2-year and 5-year Malaysian Government Securities (MGS). After adjusting for redemptions, net funds raised by the public sector amounted to RM5.6 billion.

Funds Raised in the Capital Market

	2008		2009		
	4Q	Year	3Q	4Q	Year
	RM billion				
By Public Sector	**13.9**	**36.2**	**16.6**	**5.6**	**57.8**
Government securities, *net*	14.9	37.7	19.1	5.7	53.3
Malaysian Government Securities	*12.0*	*44.6*	*14.6*	*13.5*	*61.3*
Government Investment Issues	*7.5*	*16.5*	*8.5*	*3.5*	*28.5*
Less: Redemptions	*4.6*	*23.4*	*4.0*	*11.4*	*36.5*
Khazanah Bonds, *net*	(1.0)	(3.0)	(2.4)	-	(2.4)
Savings Bonds, *net*	(0.0)	1.5	(0.1)	(0.1)	6.9
By Private Sector	**(0.5)**	**20.1**	**6.7**	**24.0**	**52.6**
Shares	0.2	5.5	1.2	13.2	26.0
Debt securities, *net*	(0.8)	14.6	5.5	10.8	26.5
Private Debt Securities	*8.0*	*48.7*	*13.5*	*16.4*	*58.6*
Less: Redemptions	*8.7*	*34.0*	*8.0*	*5.6*	*32.0*
Total	**13.3**	**56.3**	**23.4**	**29.6**	**110.3**

Source: Bank Negara Malaysia and Bursa Malaysia

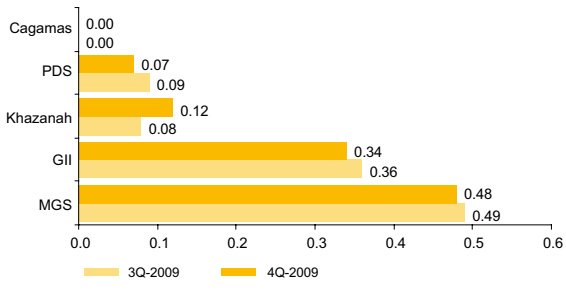
Private Debt Securities Issued by Purpose (% of total)



[1] Includes issuance by non-residents and Cagamas
Includes working capital and general business activities

Source: Bank Negara Malaysia

Liquidity Ratio: Turnover / Outstanding



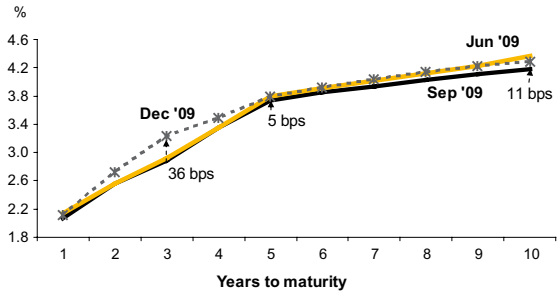
Source: Bank Negara Malaysia

Secondary trading in the bond market declined

Total trading in the secondary market was lower at RM134 billion during the quarter (3Q 09: RM155.6 billion). Government securities (MGS and GII) accounted for 88.4% of the total trade. Overall, liquidity ratios registered a slight decline with the exception of Khazanah papers. In terms of liquidity, MGS was the most liquid paper, registering a liquidity ratio of 0.48.

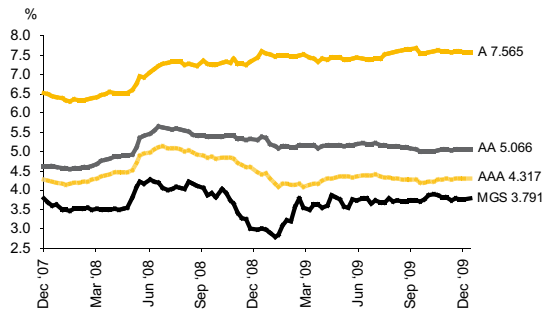
MGS yields trended slightly higher in the fourth quarter of 2009 on expectations for economic recovery following news of positive economic data for the Malaysian economy. The 3-year, 5-year and 10-year MGS yields rose by 36, 5 and 11 basis points respectively. The larger increase in the 3-year MGS yields compared with the longer-dated securities was due to the issuance of a new 3.5-year MGS in November, which became the new benchmark yield. The higher yield reflected the slightly longer maturity of the new benchmark. Yields in the PDS market, especially in higher-rated securities, increased slightly, mirroring the trend in MGS yields.

Trend in MGS Yields



Source: Bank Negara Malaysia

5-year MGS and 5-year Corporate Bond Yield



Source: Bank Negara Malaysia

Bursa Malaysia: Market Turnover

	2008				2009					
	4Q		Year		3Q		4Q		Year	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	36,605	54,438	154,459	313,083	56,208	86,785	57,655	76,246	248,025	302,777
Of which:										
Main Board	31,273	53,316	119,303	301,289	48,805	84,666	48,324	73,719	210,298	292,589
Of which										
Consumer Products	946	2,478	3,671	11,973	3,115	4,484	3,821	3,786	11,296	14,525
Industrial Products	7,609	5,450	17,865	23,704	11,387	10,161	10,147	9,462	44,521	35,974
Construction	3,076	3,967	14,119	30,070	3,526	6,047	2,458	4,663	15,744	22,354
Trading/Services	9,327	20,377	35,826	106,698	16,284	30,141	15,367	27,694	70,507	105,636
Finance	2,652	10,190	10,846	59,459	3,789	18,946	4,207	15,090	17,057	56,555
Properties	3,044	1,805	12,832	12,076	6,521	4,898	4,596	3,491	29,349	19,418
Plantations	2,011	6,284	7,524	39,238	1,508	5,954	1,118	4,411	5,888	21,541
Infrastructure	787	2,170	3,398	10,713	1,106	3,062	1,608	1,783	5,659	10,319
Second Board[1]	2,276	739	10,761	6,521	1,696	788	-	-	10,823	4,040
Mesdaq[2]	1,686	294	11,239	3,921	3,337	607	5,592	1,406	16,696	3,426

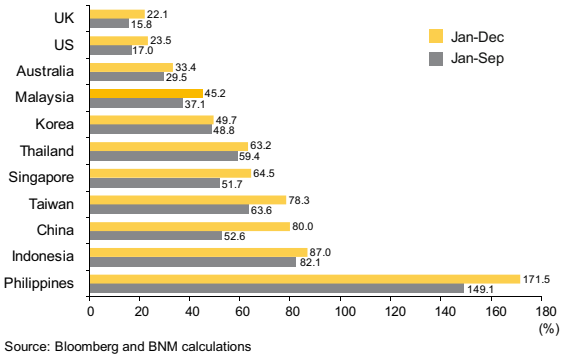
[1]From 3 August 2009, FTSE Second Board was merged with the Main board and renamed as Main Market
[2]From 3 August 2009, Mesdaq market was replaced with ACE Market

Source: Bursa Malaysia

KLCI strengthened further

The FBM KLCI ended the fourth quarter at 1,272.8 (since 3Q 09: +5.9%), in line with other regional markets. Market sentiments continued to improve, led by firmer signs of global and domestic economic recovery. The index was also supported by increased investor interest in anticipation of the re-listing of a major telecommunication company on 19 November 2009. Meanwhile, investors also reacted positively to the announcement that the Abu Dhabi government was committed to helping Dubai meet its debt obligations.

Performance of Selected Global and Regional Markets in 2009 (% growth since end-2009)



Source: Bloomberg and BNM calculations

Market capitalisation rose to RM999.5 billion as at end-2009 (3Q 09: RM910.5 billion), while the daily average turnover increased to 912.7 million units (3Q 09: 892.2 million units) during the quarter.

On 22 February 2010, the FBM KLCI closed lower at 1,266.4 (since end-2009: -0.5%) with market capitalisation increasing to RM1.009 trillion (since end-2009: +0.95%).

Bursa Malaysia: Selected Market Indicators

	As at end				
	2008		2009		
	4Q	Year	3Q	4Q	Year
Price Indices					
Composite	876.8	876.8	1,202.1	1,272.8	1,272.8
FBM30[1]	5,637.7	5,637.7	-	-	-
FBMEMAS[2]	5,726.5	5,726.5	8,097.9	8,507.6	8,507.6
FTSE Second Board[3]	4,007.3	4,007.3	-	-	-
FTSE Mesdaq[4]	3,333.6	3,333.6	4,067.7	4,299.6	4,299.6
Average daily turnover					
Volume (million units)	610.1	630.4	892.2	912.7	999.5
Value (RM million)	907.3	1,277.9	1,377.5	1,208.9	1,220.5
Market capitalisation (RM billion)	663.8	663.8	910.5	999.5	999.5
No. of companies listed	977	977	957	960	960

[1] FBM30 stands for FTSE Bursa Malaysia 30 Index
[2] FBMEMAS stands for FTSE Bursa Malaysia EMAS Index
[3] From 3 August 2009, FTSE Second Board was merged with the Main board and renamed as Main Market
[4] From 3 August 2009, Mesdaq market was replaced with ACE Market

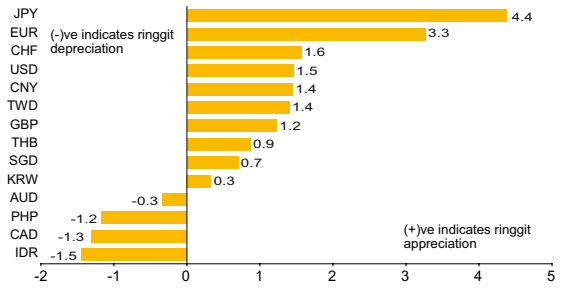
Source: Bursa Malaysia

The ringgit appreciated against major currencies

During the quarter, the ringgit appreciated by 1.5% against the US dollar as further signs of global and regional economic recovery contributed to favourable investor sentiment towards the regional financial markets. The ringgit also appreciated against the Japanese yen (4.4%), euro (3.3%) and pound sterling (1.2%). The Japanese yen depreciated against most currencies due to market expectations of a weaker yen to support economic recovery, while the euro depreciated due to concerns over sovereign-credit issues in several EU countries. Against regional currencies, the ringgit appreciated against the Chinese renminbi (1.4%), Thai baht (0.9%), Singapore dollar (0.7%) and Korean won (0.3%), but depreciated against the Indonesian rupiah (-1.5%) and Phillipine peso (-1.2%).

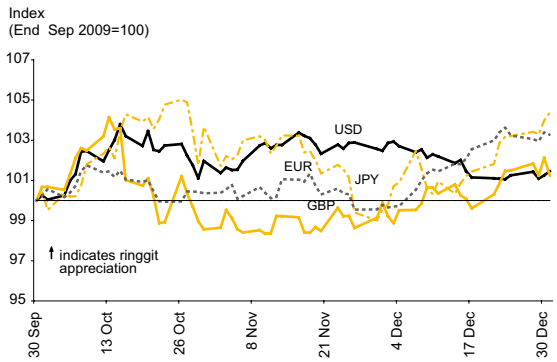
Between 1 January and 22 February 2010, the ringgit appreciated against the US dollar (0.8%), euro (6.1%) and pound sterling (4.5%), but remained stable against the Japanese yen. Against regional currencies, the ringgit appreciated against the Singapore dollar (1.1%), Chinese renminbi (0.8%), Philippine peso (0.7%) and Thai baht (0.2%), but depreciated against the Korean won (-0.8%) and Indonesian rupiah (-0.3%).

Summary of Ringgit Performance Against Selected Currencies Percent Change (1 September - December 2009)



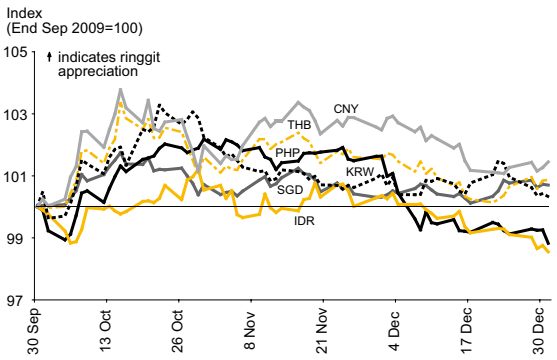
Source: Bank Negara Malaysia

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 08	3Q 09	4Q 09	21 Jul 05	4Q 08	3Q 09
US dollar	3.8000	3.4640	3.4745	3.4245	11.0	1.2	1.5
Euro	4.6212	4.8759	5.0799	4.9191	-6.1	-0.9	3.3
Pound sterling	6.6270	4.9989	5.5679	5.5001	20.5	-9.1	1.2
100 Japanese yen	3.3745	3.8327	3.8698	3.7076	-9.0	3.4	4.4
Singapore dollar	2.2570	2.4070	2.4573	2.4401	-7.5	-1.4	0.7
100 Thai baht	9.0681	9.9398	10.361	10.271	-11.7	-3.2	0.9
100 Philippine peso	6.8131	7.2774	7.3325	7.4196	-8.2	-1.9	-1.2
100 Indonesian rupiah	0.0386	0.0316	0.0359	0.0364	5.9	-13.2	-1.5
100 Korean won	0.3665	0.2750	0.2946	0.2937	24.8	-6.4	0.3
Chinese renminbi	0.4591	0.5076	0.5089	0.5016	-8.5	1.2	1.4

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

Source: Bank Negara Malaysia