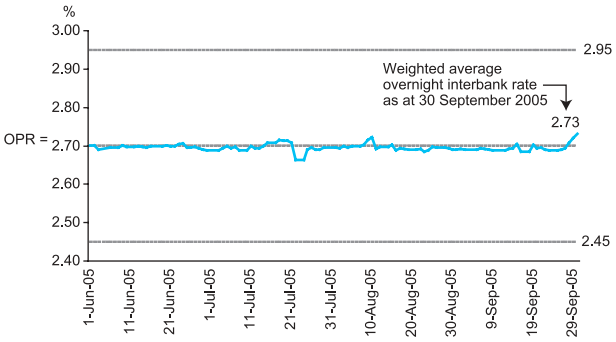
MONETARY AND FINANCIAL DEVELOPMENTS

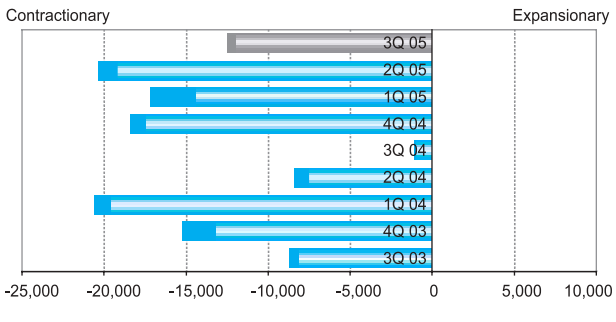
Monetary conditions remained supportive of economic growth

The Overnight Policy Rate (OPR) was maintained at 2.70% during the quarter. The daily weighted average of the overnight interbank rate remained relatively stable, staying within a range of 2.66-2.73%, and averaging 2.70% during the quarter. The 1-month and 3-month interbank rates rose marginally, reflecting expectations of some market participants that interest rates would increase, going forward.

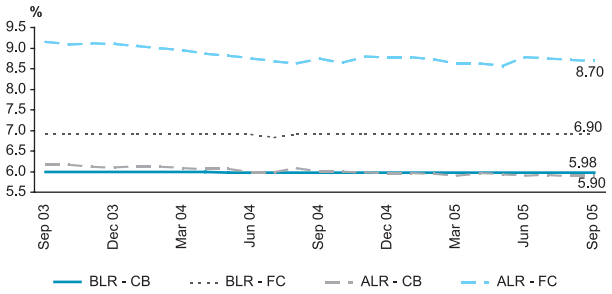
Daily Weighted Average Overnight Interbank Rate



BNM Liquidity Operations
(During the quarter, RM m)



Lending Rates of Commercial Banks & Finance Companies
(average for the month)



Interest Rates

	3Q 04	2Q 05	3Q 05
	At end-period (%)		
Overnight Policy Rate (OPR)*	2.70	2.70	2.70
Interbank rates			
Overnight	2.69	2.70	2.70
1-month	2.79	2.82	2.86
Base lending rates (BLR)			
Commercial banks	5.98	5.98	5.98
Finance companies	6.90	6.90	6.90
Average lending rates			
Commercial banks	6.01	5.90	5.90
Finance companies	8.76	8.78	8.70
Fixed deposit rates			
Commercial banks			
3-month	3.00	3.00	3.00
12-month	3.70	3.70	3.70
Finance companies			
3-month	3.00	3.00	3.00
12-month	3.70	3.70	3.70

* Effective 26 April 2004, the Overnight Policy Rate (OPR) replaced the 3-month intervention rate as the indicator of the monetary policy stance.

The average BLRs of commercial banks (CBs) and finance companies (FCs) remained unchanged at 5.98% and 6.90% respectively. Meanwhile, the average lending rate (ALR) of CBs remained unchanged at 5.90%, while the ALR of FCs was lower at

8.70% (June: 8.78%). The latter reflected, to some extent, the lower lending rates charged on new loans by these institutions.

Financing activity remained strong

In the third quarter of 2005, gross financing of the private sector through the banking system and capital market was higher at RM143.3 billion (2Q 2005: RM138.1 billion), increasing at an annual rate of 7.3% (2Q 2005: 8.4%). The increase was attributed mainly to higher loans disbursed by the banking system and to a lesser extent, a larger amount of PDS issuance. On a net basis, banking system loans and PDS outstanding rose at an annual rate of 9.2% at end-3Q 2005 (end-2Q 2005: 8.8%).

On an overall basis, most major loan indicators were higher on an annual and preceding quarter basis.

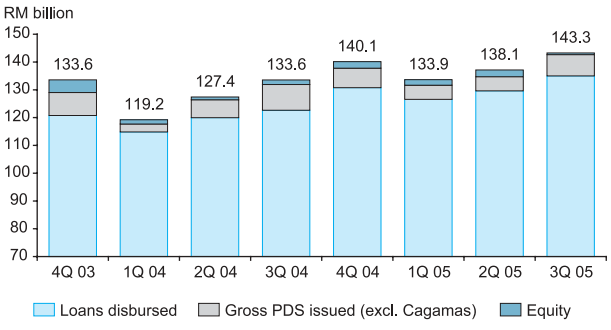
Lending to businesses strengthened during the quarter. Loan approvals and disbursements to businesses expanded at annual rates of 23.7% and 9.5% respectively.

Financing of the Private Sector through Banking System and Capital Market

	During the period (RM billion)				Annual growth (%)		
	2004	Q3 04	Q2 05	Q3 05	2004	Q2 05	Q3 05
Gross total financing	520.3	133.6	138.1	143.3	5.7	8.4	7.3
Loans disbursed*	488.2	122.6	129.6	135.0	10.6	8.1	10.1
Gross PDS (excl. Cagamas)	25.6	9.3	6.1	7.7	-40.2	-5.9	-17.2
Equity	6.5	1.7	2.4	0.6	-16.7	149.2	-62.8
Outstanding total financing (A)+(B)	53.1	14.5	15.0	18.6	8.6	8.8	9.2
Banking system	39.0	11.0	10.2	14.4	7.7	7.6	8.1
Loans outstanding (A)	40.1	9.3	11.0	14.4	8.5	8.3	9.2
Holding of PDS	-1.1	1.7	-0.8	0.0	-3.1	-2.9	-7.6
PDS outstanding (B)	13.0	5.2	4.0	4.2	9.0	10.5	9.4
Memorandum item							
Gross PDS (incl. Cagamas)	36.3	12.7	7.8	9.7	-28.7	4.3	-23.5

* Banking system loans include loans sold to Cagamas.

Gross Private Sector Financing through Banking System and Capital Market



Loans by Sector

	Loans disbursed					Loans out-standing
	During the period				Share of total	Share of total
	2004	3Q 04	2Q 05	3Q 05		
	RM billion				%	
Business enterprises	335.3	83.4	87.8	91.3	67.7	41.3
Large corporations	*234.9*	*58.7*	*60.7*	*62.9*	*46.6*	*24.1*
SMEs	*100.4*	*24.8*	*27.1*	*28.4*	*21.0*	*17.2*
Households	130.3	34.0	35.7	38.0	28.1	53.2
By sector						
Agriculture, hunting, forestry and fishing	13.7	3.5	3.1	4.0	2.9	2.1
Mining and quarrying	2.0	0.4	0.3	0.4	0.3	0.1
Manufacturing	121.5	31.2	32.2	32.1	23.8	11.3
Broad property sector	88.8	22.9	22.4	24.1	17.9	40.8
Construction	*30.3*	*7.6*	*7.4*	*8.0*	*5.9*	*5.5*
Purchase of residential property	*38.8*	*10.4*	*9.4*	*10.1*	*7.5*	*26.5*
Purchase of non-residential property	*12.1*	*3.2*	*3.6*	*3.6*	*2.7*	*6.2*
Real estates	*7.5*	*1.8*	*2.1*	*2.4*	*1.8*	*2.6*
Electricity, gas and water supply	6.4	1.2	2.2	1.6	1.2	0.9
Wholesale, retail, restaurants and hotels	83.7	21.5	24.2	25.6	19.0	8.6
Transport, storage and communication	9.5	1.7	2.2	3.3	2.5	2.1
Finance, insurance and business services	36.5	8.5	7.4	7.4	5.5	5.5
Consumption credit	85.1	22.1	24.9	26.5	19.6	21.5
Of which:						
Credit cards	*36.3*	*9.3*	*10.1*	*11.0*	*8.1*	*2.9*
Purchase of passenger cars	*29.1*	*7.8*	*9.9*	*10.7*	*8.0*	*15.1*
Purchase of securities	12.7	3.2	2.7	2.7	2.0	3.7
Purchase of transport vehicles excluding passenger cars	0.7	0.1	0.1	0.2	0.1	0.5
Others	27.5	6.4	7.8	7.0	5.2	2.9
Total	**488.2**	**122.6**	**129.6**	**135.0**	**100.0**	**100.0**

Source: Bank Negara Malaysia

Loan Indicators

	During the period (RM billion)				Annual Growth (%)			
	2004	3Q 04	2Q 05	3Q 05	2004	3Q 04	2Q 05	3Q 05
Total								
Loan applications	273.3	76.5	80.7	84.0	20.1	21.9	14.6	9.8
Loan approvals	173.6	46.6	47.3	55.6	13.6	16.1	1.6	19.2
Loan disbursements	488.2	122.6	129.6	135.0	10.6	5.8	8.1	10.1
Loan repayments	461.6	118.2	120.6	121.6	7.3	7.5	9.3	2.9
Change in loan outstanding*	40.1	9.3	11.0	14.4	8.5	6.2	8.3	9.2
Of which:								
Business enterprises								
Loan applications	149.9	44.0	42.4	43.1	20.0	29.4	11.7	-2.0
Loan approvals	84.9	22.4	21.7	27.7	9.8	10.1	-8.0	23.7
Loan disbursements	335.3	83.4	87.8	91.3	10.5	5.0	6.0	9.5
Loan repayments	319.8	83.7	84.7	84.7	6.8	8.7	11.5	1.2
Change in loan outstanding*	5.5	-0.4	2.6	4.9	2.6	-0.2	1.4	3.9
SMEs								
Loan applications	54.2	15.2	16.4	17.3	21.7	25.4	12.9	13.9
Loan approvals	31.6	8.8	9.0	11.0	22.0	33.5	7.2	25.8
Loan disbursements	100.4	24.8	27.1	28.4	15.3	12.8	9.2	14.7
Change in loan outstanding*	6.3	2.2	2.0	3.0	7.7	8.1	9.1	9.8
Large corporations								
Loan applications	95.7	28.8	26.0	25.8	19.1	31.6	10.9	-10.4
Loan approvals	53.3	13.7	12.7	16.7	3.7	-1.0	-16.4	22.4
Loan disbursements	234.9	58.7	60.7	62.9	8.6	2.1	4.7	7.3
Change in loan outstanding*	-0.8	-2.6	0.6	1.8	-0.6	-4.9	-3.3	0.0
Households								
Loan applications	120.2	31.5	37.2	38.9	22.1	12.3	15.3	23.6
Loan approvals	86.8	23.4	25.3	26.5	20.5	21.8	11.2	13.2
Loan disbursements	130.3	34.0	35.7	38.0	13.9	11.2	13.4	11.6
Loan repayments	107.0	26.7	28.1	29.1	13.7	12.3	9.8	8.8
Change in loan outstanding*	33.3	10.4	9.2	11.3	14.4	14.2	15.2	14.9

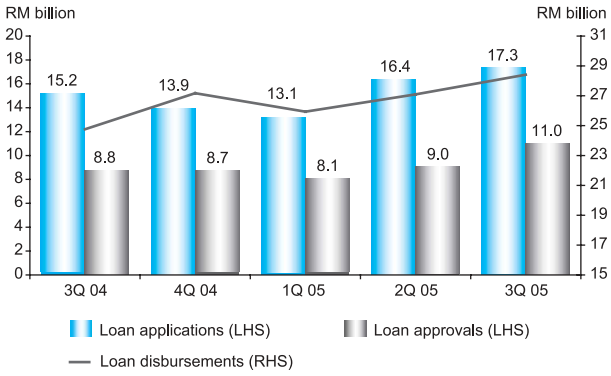
* The annual growth is for end-period.
Source: Bank Negara Malaysia

The increase in loan disbursements to the business sectors, on an annual basis and compared to the preceding quarter, was particularly evident in the wholesale and retail trade, restaurants and hotels; and transport, storage and communications sectors. In terms of share, loans to businesses during the quarter continued to be disbursed mainly to the manufacturing (35.2% of total disbursements to businesses); wholesale and retail trade, restaurants and hotels (28%); construction (8.7%); and finance, insurance and business services (8.1%) sectors. Loan applications also increased quarter-on-quarter, but declined on an annual basis, due to a high base effect arising from a marked increase in the amount of applications by large corporations in 3Q 2004.

In terms of lending to the small and medium enterprises (SMEs), loan applications and approvals increased at annual rates of 13.9% and 25.8% respectively. A total of RM11 billion was approved for 24,715 SME accounts during the quarter (2Q 2005: RM9 billion approved for 21,421 SME accounts). Disbursements to the SMEs were also higher during the quarter.

With loans outstanding to SMEs growing at a faster pace of 9.8% and a pick up in loans outstanding to large corporations, loans outstanding to the business sector as a whole increased at a stronger annual rate of 3.9% at end-September. Meanwhile, the gross NPL ratio of business loans continued to decline (11.5% at end-3Q 2005; 12.3% at end-2Q 2005).

Bank Lending to SMEs

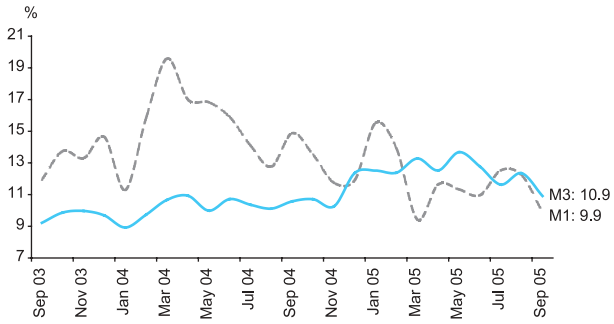


In the household sector, lending remained resilient. Loan applications and approvals grew by 23.6% and 13.2% respectively on an annual basis. Loan disbursements to households, which increased at an annual rate of 11.6%, were driven mainly by credit card spending (29% of total disbursements to households), purchase of passenger cars (28.3%) and purchase of residential properties (26.7%). The growth in household loans outstanding remained relatively stable at 14.9% at end-3Q 2005 (end-2Q 2005: 15.2%). Similarly, the gross NPL ratio of household loans remained relatively stable at 7.4%.

Monetary aggregates continued to expand at sustained growth rates

Narrow money, M1, increased at an annual rate of 9.9% at end-3Q 2005 (2Q 2005: 11%), while, broad money, M3, expanded at an annual rate of 10.9% at end-3Q 2005 (2Q 2005: 12.8%). The main impetus for the expansion in broad money during the quarter was the higher loans extended to the private sector by the banking system, in line with higher domestic economic activity. However, net claims on the Government were contractionary on M3, as the Government deposited the proceeds from the issues of

Monetary Aggregates: Annual Change



M3 Determinants

	Change during the period			
	Yearly	Quarterly		
	2004	3Q 04	2Q 05	3Q 05
	RM billion			
M3	68.0	13.6	8.3	4.3
Net claims on Government	-15.9	-2.7	-4.7	-4.3
Claims on private sector	30.3	10.3	7.3	14.7
Net external operations *	82.0	12.0	12.9	-1.5
Other influences	-28.3	-6.1	-7.2	-4.5

* Pre-revaluation

Malaysian Government Securities (MGS) with Bank Negara Malaysia. In addition, net external operations were also marginally contractionary on M3 due to lower net external assets of the banking system.

Higher net funds raised from the capital market

The capital market continued to play an important role in financing the economy during the third quarter of 2005, mobilising net funds of RM10.9 billion (2Q 2005: RM7.6 billion), attributable largely to the higher amount of funds raised from the bond market.

In the private debt securities (PDS) market, gross financing increased by 24.3% on a quarterly basis to RM9.7 billion (2Q 2005: RM7.8 billion). The higher amount of funds raised were supported by prevailing low yields for medium- to long-term bonds. New PDS were issued by 21 corporations mainly from the construction, finance, real estate and business services sectors. Of the total funds mobilised, a substantial share (57.8% of total) was channeled to finance new economic activity, while funds raised to refinance existing debt accounted for 17.2% of the total. During the quarter, Cagamas MBS Berhad issued its second series of residential mortgaged-backed securities, accounting for 22% of total issuances in the quarter. After adjusting for redemptions, net funds raised through the PDS market was higher at RM4.1 billion (2Q 2005: RM3.7 billion).

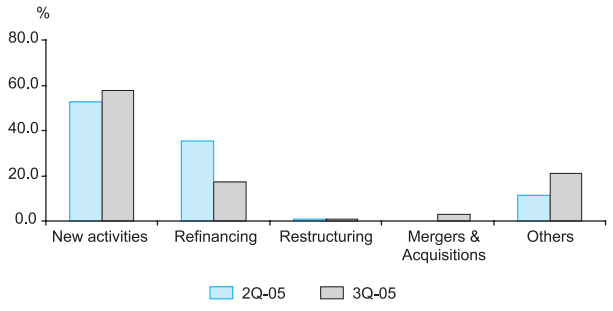
Conversely, funds raised through the equity market were lower, amounting to RM621.8 million (2Q 2005: RM2.4 billion), although a higher number of smaller-sized companies accessed the equity market for financing. Initial public offerings (IPOs) undertaken during the quarter were lower in value despite the higher number of IPOs issued during the period, compared to the previous quarter (3Q 2005: 25 IPOs; 2Q 2005: 14 IPOs). 16 IPOs were listed on the MESDAQ market, five on the Second Board and four on the Main Board.

Funds Raised in the Capital Market

	2004		2005		
	3Q	4Q	1Q	2Q	3Q
	RM million				
By Public Sector					
Government Securities, *gross*	10,389	7,021	4,000	9,543	8,233
Less Redemptions	2,000	1,000	-	8,500	2,450
Less Government holdings	-	-	-	-	-
Equals Net Federal receipts	8,389	6,021	4,000	1,043	5,783
Khazanah Bonds, *net*	(198)	-	833	-	-
Govt. Investment Issues, *net*	740	1,243	2,000	-	-
Merdeka Savings Bond, *net*	495	436	357	378	383
Net Funds Raised	9,426	7,700	7,190	1,421	6,166
By Private Sector					
Shares	1,663	2,316	2,009	2,412	622
Debt securities	12,718	10,083	5,486	7,823	9,726
Private Debt Securities (PDS)	9,268	9,483	5,286	6,843	9,726
Cagamas	3,450	600	200	980	-
Less Redemptions	6,865	4,463	4,212	4,078	5,627
Net Issues	5,853	5,620	1,274	3,745	4,099
Net issues (excluding Cagamas)	2,403	5,494	2,634	3,380	6,359
Net Funds Raised	7,516	7,936	3,282	6,158	4,721
Total Net Funds Raised	16,942	15,636	10,473	7,579	10,887
Short-term Papers and Notes, *net* [1]	(623)	(1,103)	587	82	570
Total	16,319	14,533	11,059	7,661	11,457

[1] Refers to Commercial Papers and Cagamas Notes only.

Private Debt Securities Issued by Purpose
(% of total)

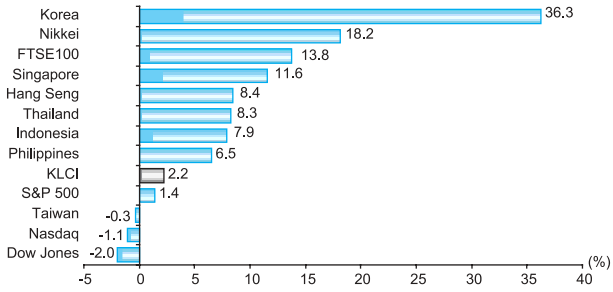


The Government made four issuances of Malaysian Government Securities (MGS), raising gross funds of RM8.2 billion during the quarter. Of significance was the inaugural issuance of a 20-year MGS of RM1 billion on 15 July as part of the Government's efforts to lengthen the benchmark yield curve. On a net basis, the public sector raised RM6.2 billion (2Q 2005: RM1.4 billion).

Improved KLCI performance in the third quarter

Buying interests on several index-linked stocks early in the third quarter of 2005 was encumbered by continued concerns over high global oil prices and increasing domestic inflation. Nevertheless, market performance turned positive in September, with the anticipation of a favourable 2006 Budget. During the quarter, the performance of the KLCI improved by 39.22 points

Performance of Selected Global and Regional Markets in the Third Quarter of 2005
(31 December 2004 - 30 September 2005)



Bursa Malaysia: Selected Market Indicators

	As at end				
	2004		2005		
	3Q	4Q	1Q	2Q	3Q
Price Indices					
- Composite	849.96	907.43	871.35	888.32	927.54
- EMAS	202.35	214.26	204.98	203.73	211.02
- Second Board	108.95	110.87	101.76	87.79	87.48
Average daily turnover					
- Volume (million units)	338.93	441.36	517.97	416.52	423.20
- Value (RM million)	681.55	835.02	965.78	651.99	687.48
Market Capitalisation (RM b)	672.64	722.04	694.89	688.63	715.36
No. of Companies Listed	945	962	982	990	1,007

Source: Bursa Malaysia

Bursa Malaysia: Turnover of Corporate Securities

	2004				2005					
	3Q		4Q		1Q		2Q		3Q	
	million units	RM million	million units	RM million	million units	RM million	million units	RM million	million units	RM million
Turnover	22,031	42,852	27,364	51,771	30,042	56,261	25,824	40,423	27,931	45,374
of which:										
Main Board	15,494	36,763	20,186	45,129	21,236	48,384	18,253	35,778	20,538	40,892
of which										
- Consumer Products	1,154	3,149	899	2,924	1,018	3,117	872	2,072	1,156	3,146
- Industrial Products	2,031	2,719	4,036	4,978	4,829	5,767	2,996	3,076	2,692	3,281
- Construction	1,096	1,706	1,070	1,922	1,579	3,114	810	1,287	1,057	1,648
- Trading/Services	4,296	13,729	5,500	16,991	4,320	15,710	4,055	14,160	4,312	16,954
- Finance	2,008	7,838	1,958	8,090	3,059	10,495	2,173	8,253	2,614	9,199
- Properties	2,230	3,560	3,205	5,468	3,367	5,602	3,767	3,069	2,123	1,665
- Plantations	383	2,127	771	2,171	604	2,168	453	1,951	547	2,266
- Mining	0	4	-	1	0	1	0	7	0	1
Second Board	4,014	4,130	4,227	4,102	5,537	5,586	4,194	2,960	3,722	2,568

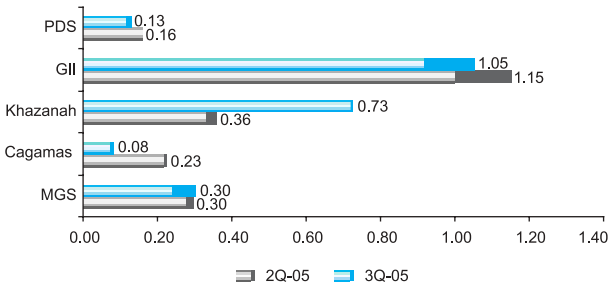
Source: Bursa Malaysia

(2Q 2005: +16.97 points), ending the quarter higher at 927.54 (2Q 2005: 888.32). Market capitalisation recorded a higher level at RM715 billion (2Q 2005: RM688.6 billion). In addition, trading activity increased as a higher average daily turnover of 423 million units was recorded during the quarter (2Q 2005: 417 million units).

Lower secondary trading in the bond market

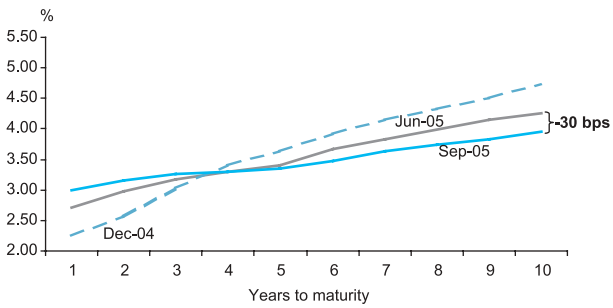
Trading activity in the secondary market declined slightly to RM92.2 billion in the third quarter of 2005 (2Q 2005: RM94.5 billion). MGS contributed 53.4% of total trading activity, while the Government Investment Issues (GII) accounted for 12.6% of the total trade. In terms of liquidity, the GII and Khazanah bonds were the most liquid papers, registering liquidity ratios of 1.05 and 0.73 respectively.

Liquidity Ratio: Turnover / Outstanding



A flatter MGS benchmark yields curve was experienced in the third quarter of 2005. The 3-year MGS yield rose by 9 basis points while the 10-year MGS yield declined by 30 basis points. The shorter-end of the benchmark yields curve was plagued by concerns of higher inflation and the decline in interest by non-resident investors. On the other hand, despite the higher issuance of bonds in the third quarter of 2005, continued high demand by domestic institutional investors pushed the longer-end of the benchmark yields curve lower. In addition, the decline of long-term yields was also due to concerns over the impact of high crude oil prices on global economic growth.

Trend in MGS Yield



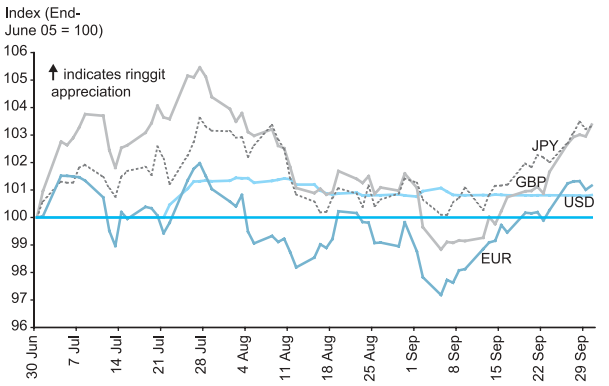
Performance of the ringgit

On 21 July, the ringgit peg to the US dollar was replaced with a managed float system. The ringgit is now monitored against a trade-weighted basket of currencies. The primary motivation for the policy shift was to better position Malaysia to respond and benefit from the structural changes occurring in the region and in the international environment.

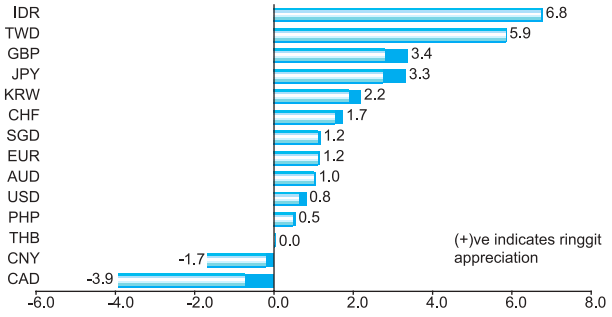
Prior to the unpegging, the ringgit moved with the US dollar, appreciating by 11.9%, 10.4% and 9.7% against the euro, pound sterling and Japanese yen respectively during the period between 1 January - 21 July

2005. The US dollar had strengthened amidst better US economic growth prospects relative to the Euro Area and Japan, as well as market expectations of further increases in US interest rates. Over the same period, the ringgit also appreciated within a range of 0.2% - 7.7% against regional countries, the exception being a depreciation against the Philippine peso (0.6%). Regional currencies depreciated amidst market concerns over high oil prices adversely affecting regional economies.

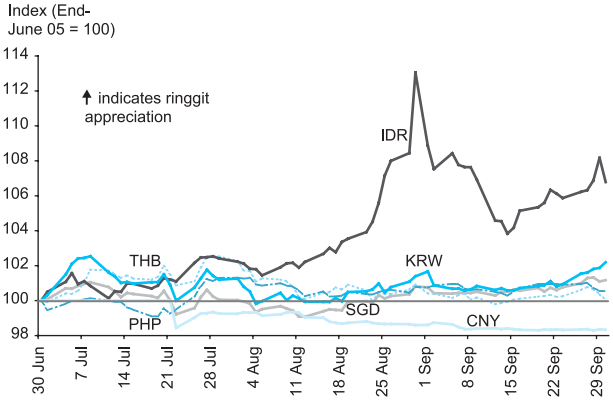
Ringgit Performance Against Major Currencies



Summary of Ringgit Performance Against Selected Currencies
Percent Change (1 July - 30 September 2005)



Ringgit Performance Against Regional Currencies



Performance of Ringgit Against Selected Currencies

RM per foreign currency	As at end							% change since *					
	30 Jun 97	02 Sep 98	3Q 04	4Q 04	1Q 05	2Q 05	3Q 05	30 Jun 97	02 Sep 98	3Q 04	4Q 04	1Q 05	2Q 05
US dollar	2.5235	3.8000	3.8000	3.8000	3.8000	3.8000	3.7692	-33.0	0.8	0.8	0.8	0.8	0.8
Euro	-	-	4.6826	5.1729	4.9125	4.5948	4.5421	-	-	3.1	13.9	8.2	1.2
Pound sterling	4.1989	6.3708	6.8347	7.3169	7.1415	6.8685	6.6438	-36.8	-4.1	2.9	10.1	7.5	3.4
100 Japanese yen	2.2088	2.7742	3.4264	3.7026	3.5446	3.4469	3.3359	-33.8	-16.8	2.7	11.0	6.3	3.3
Singapore dollar	1.7647	2.1998	2.2475	2.3258	2.3034	2.2576	2.2315	-20.9	-1.4	0.7	4.2	3.2	1.2
100 Thai baht	9.7470	9.3713	9.1644	9.7636	9.7013	9.2032	9.1988	6.0	1.9	-0.4	6.1	5.5	0.0
100 Philippine peso	9.5878	8.8302	6.7517	6.7706	6.9381	6.7628	6.7262	42.5	31.3	0.4	0.7	3.2	0.5
100 Indonesian rupiah	0.1038	0.0354	0.0414	0.0408	0.0401	0.0391	0.0366	183.4	-3.3	13.2	11.5	9.4	6.8
100 Korean won	0.2842	0.2827	0.3295	0.3671	0.3734	0.3699	0.3619	-21.5	-21.9	-9.0	1.4	3.2	2.2
Chinese renmimbi	0.3045	0.4594	0.4591	0.4591	0.4591	0.4591	0.4669	-34.8	-1.6	-1.7	-1.7	-1.7	-1.7

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

In the period following the move to a managed float to the remaining part of the third quarter of 2005 (22 July - 30 September 2005), the ringgit appreciated against the major and regional currencies. The initial ringgit appreciation against the US dollar following the policy adjustment was however moderated by market expectations for further US interest rate increases, which would result in widening yield differentials in favour of the US dollar. The euro depreciated amidst uncertainty over the outcome of Germany's elections, while the yen also depreciated amidst market concerns over the impact of high oil prices on the Japanese economy. Regional currencies continued to be adversely affected by market concerns over the impact of high oil prices on import costs and global demand for regional exports, as well as the net sale of equities from some regional economies by foreign investors. The Indonesian rupiah depreciated significantly in the latter part of August on dollar demand for oil imports and market concerns over the impact of high oil prices on government fuel subsidies.