IMPORTANT NOTICE

This offering is available only to investors who are either (1) qualified institutional buyers (as defined below) under Rule 144A or (2) addressees outside of the United States.

IMPORTANT: You must read the following before continuing. The following applies to the Offering Memorandum following this page and you are therefore advised to read this carefully before reading, accessing or making any other use of the Offering Memorandum. In accessing the Offering Memorandum, you agree to be bound by the following terms and conditions, including any modifications to them, any time you receive any information from us as a result of such access.

Nothing in this electronic transmission constitutes an offer of securities for sale or solicitation in any jurisdiction where it is unlawful to do so. The securities have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), or the securities laws of any state of the United States or other jurisdiction, and the securities may not be offered or sold within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state or local securities laws.

The following Offering Memorandum may not be forwarded or distributed to any other person and may not be reproduced in any manner whatsoever. Any forwarding, distribution or reproduction of this document in whole or in part is unauthorized. Failure to comply with this directive may result in a violation of the Securities Act or the applicable laws of other jurisdictions.

Any investment decision should be made on the basis of the final terms and conditions of the securities and the information contained in an offering memorandum that will be distributed to you prior to the closing date and not on the basis of the attached Offering Memorandum. If you have gained access to this transmission contrary to any the foregoing restrictions, you are not authorized and will not be able to purchase any of the securities described therein.

Confirmation of your Representation: In order to be eligible to view this Offering Memorandum or make an investment decision with respect to the securities, investors must be either (1) qualified institutional buyers ("**QIBs**") (within the meaning of Rule 144A under the Securities Act) or (2) located outside the United States. This Offering Memorandum is being sent at your request, and by accepting the email and accessing this Offering Memorandum, you shall be deemed to have represented to us that (1) you and any customers you represent are either (a) QIBs or (b) not located within the United States and that the electronic mail address that you gave us and to which this e-mail has been delivered is not located in the United States, its territories and possessions (including Puerto Rico, the U.S. Virgin Islands, Guam, American Samoa, Wake Island and the Northern Mariana Islands), any state of the United States or the District of Columbia; and (2) that you consent to delivery of such Offering Memorandum by electronic transmission.

This Offering Memorandum has been delivered to you on the basis that you are a person into whose possession this Offering Memorandum may be lawfully delivered in accordance with the laws of jurisdiction in which you are located. If this is not the case, you must return the Offering Memorandum to us immediately. You must not deliver or disclose the contents of this Offering Memorandum to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. If a jurisdiction requires that the offering be made by a licensed broker or dealer and the underwriters or any affiliate of the underwriters is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by the underwriters or such affiliate on behalf of the Trustee in such jurisdiction.

This Offering Memorandum has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of 1Malaysia Sukuk Global Berhad, Malaysia, Barclays Bank PLC, CIMB Bank (L) Limited, The Hongkong and Shanghai Banking Corporation Limited, Offshore Banking Unit Labuan or The Bank of New York Mellon, nor any person who controls any of them nor any director, officer, employee nor agent of any of them or affiliate of any such person, accepts any liability or responsibility whatsoever in respect of any difference between the Offering Memorandum distributed to you in electronic format and the hard copy version available to you on request from Barclays Bank PLC, CIMB Bank (L) Limited or The Hongkong and Shanghai Banking Corporation Limited, Offshore Banking Unit Labuan.

You are responsible for protecting against viruses and other destructive items. Your use of this e-mail is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.

The information in this Offering Memorandum is incomplete and will change. The Offering Memorandum is not an offer to sell these securities and is not a solicitation of an offer to buy these securities in any jurisdiction where such offer or sale is prohibited.

OFFERING MEMORANDUM **STRICTLY CONFIDENTIAL**

1Malaysia Sukuk Global Berhad

(Company No. 1000549-U)

(established in Malaysia with limited liability)

US$1,250,000,000 Trust Certificates due 2015

Issue Price: 100%

The US$1,250,000,000 Trust Certificates due 2015 (the "**Certificates**") of 1Malaysia Sukuk Global Berhad (Company No. 1000549-U) (the "**Trustee**") will be constituted by a declaration of trust (the "**Declaration of Trust**") dated on or about June 4, 2010 (the "**Closing Date**") between the Trustee and The Bank of New York Mellon (the "**Delegate**"). Pursuant to the Declaration of Trust, the Trustee (in its capacity as the trustee for and on behalf of the Certificateholders (as defined herein)) will declare that it will hold the Trust Assets (as defined herein) upon trust absolutely for the holders of the Certificates *pro rata* according to the face amount of Certificates held by each Certificateholder in accordance with the Declaration of Trust and the terms and conditions of the Certificates (the "**Conditions**").

On the 4th day in each June and December in each year, or if any such day is not a Business Day (as defined herein), the following Business Day, commencing on December 4, 2010 (each, a "**Periodic Distribution Date**"), the Trustee will pay Periodic Distribution Amounts (as defined herein) to Certificateholders calculated at the rate of 3.928% per annum on the outstanding face amount of the Certificates as at the beginning of the relevant Return Accumulation Period (as defined herein) on a 30/360 day basis.

The Trustee will pay such Periodic Distribution Amounts solely from the proceeds received in respect of the Trust Assets which include payments by the Government of Malaysia (in such capacity, the "**Lessee**") under the Lease Agreement (as defined herein). Unless previously redeemed in the circumstances described in Condition 8 (*Periodic Distribution Provisions*), the Certificates will be redeemed on June 4, 2015 (the "**Scheduled Dissolution Date**") at the Dissolution Distribution Amount (as defined herein). The Trustee will pay Dissolution Distribution Amounts solely from the proceeds received in respect of the Trust Assets which include payments by the Government of Malaysia under the Purchase Undertaking (as defined herein).

An investment in the Certificates involves certain risks. For a discussion of these risks, see "*Investment Considerations*".

On issuance, the Certificates are expected to be assigned a rating of "A-" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("**Standard & Poor's**") and "A3" by Moody's Investors Services Limited ("**Moody's**"). A rating is not a recommendation to buy, sell or hold the Certificates (or beneficial interests therein), does not address the likelihood or timing of repayment and may be subject to revision, suspension or withdrawal at any time by the assigning rating organization.

Applications have been made for the Certificates to be listed on The Stock Exchange of Hong Kong Limited by way of selectively marketed securities (the "**Hong Kong Stock Exchange**"). The Trustee has received approval in-principle for (a) the listing and admission to trading of the Certificates on the Labuan International Financial Exchange Inc. ("**Labuan Financial Exchange**") and (b) the listing of the Certificates on Bursa Malaysia Securities Berhad ("**Bursa Malaysia**") under an exempt regime, pursuant to which the Certificates will be listed but not quoted for trading ("**Bursa Malaysia (Exempt Regime)**").

It is expected that dealing in, and listing of, the Certificates on the Hong Kong Stock Exchange will commence on or about June 7, 2010. Hong Kong Exchanges and Clearing Limited and The Stock Exchange of Hong Kong Limited take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document. Labuan Financial Exchange and Bursa Malaysia each takes no responsibility for the contents of this offering memorandum, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon any part of the contents of this document. Admission of the Certificates to the Official Lists of the Labuan Financial Exchange and Bursa Malaysia (Exempt Regime) shall not be taken to indicate that Labuan Financial Exchange and Bursa Malaysia recommend the subscription or purchase of the Certificates or as an indication of the merits of the Trustee, Malaysia or the Certificates. Investors are advised to read and understand the contents of this offering memorandum before investing. If in doubt, an investor should consult his or her advisors.

The Certificates have not been and will not be registered under the United States Securities Act of 1933, as amended (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction of the United States, and may not be offered, sold or delivered within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. Accordingly, the Certificates are being offered, sold or delivered (i) outside the United States in reliance on Regulation S under the Securities Act ("**Regulation S**") (the "**Regulation S Certificates**") and (ii) within the United States in reliance on Rule 144A under the Securities Act ("**Rule 144A**") only to persons who are "qualified institutional buyers" (each a "**QIB**") within the meaning of Rule 144A, acting for their own account or for the account of one or more QIBs (the "**Rule 144A Certificates**"). Each purchaser of the Certificates in making its purchase will be deemed to have made certain acknowledgements, representations and agreements. Prospective purchasers are hereby notified that sellers of the Rule 144A Certificates may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. The Certificates are subject to other restrictions on transferability and resale — see "*Plan of Distribution*" and "*Transfer Restrictions*".

The Certificates will be represented by one or more global certificates in fully registered form which will be registered in the name of a nominee of The Depository Trust Company ("**DTC**"). It is expected that delivery of the Certificates in book-entry form will be made against payment on the Closing Date through the book-entry facilities of DTC. The Certificate will be issued in minimum denominations of US$100,000 and in integral multiples of US$1,000 in excess thereof.

Beneficial interests in the Certificates will be shown on, and transfers thereof will be effected only through, records maintained by DTC and its direct or indirect participants, including Euroclear Bank S.A./N.V. ("**Euroclear**") and Clearstream Banking, *société anonyme*, Luxembourg ("**Clearstream, Luxembourg**"). Except as described herein, definitive Certificates will not be issued in exchange for beneficial interests in global certificates.

Joint Bookrunners and Joint Lead Managers

Barclays Capital **CIMB** **HSBC**

Co-Lead Managers

Islamic Development Bank **RHB** **Maybank IB**

National Bank of Abu Dhabi **NCB Capital**

The date of this offering memorandum is May 27, 2010.

The Board of Directors of the Trustee and Malaysia accept responsibility for the information contained in this offering memorandum. To the best of the knowledge of the Board of Directors of the Trustee and Malaysia (each having taken all reasonable care to ensure that such is the case), the information contained in this offering memorandum is in accordance with the facts and does not omit anything likely to affect the reliability of such information.

No person is authorized in connection with the offering of the Certificates to give any information or to make any representation other than as contained in this offering memorandum, and, if given or made, such information or representation must not be relied upon as having been authorized by the Trustee, Malaysia, the Joint Lead Managers (as defined under "*Terms and Conditions of the Certificates*"), the Delegate, the Agents (each as defined herein) or any other person. Neither the delivery of this offering memorandum nor any sale of any Certificates shall, under any circumstances, constitute a representation or create any implication that the information contained herein is correct as of any time subsequent to the date hereof or that there has been no change in the affairs of any party mentioned herein since that date.

None of the Joint Lead Managers, the Delegate or the Agents has verified the contents of this offering memorandum, and therefore makes no representation, warranty or undertaking (express or implied), and accepts no responsibility or liability, whether arising in tort, contract or otherwise (save as referred to above), as to the accuracy, adequacy, reasonableness or completeness of this offering memorandum's contents, any statements made (or purported to be made) by the Joint Lead Managers, the Delegate or the Agents, or any other information provided by the Trustee or Malaysia in connection with the Certificates, their distribution or their future performance.

Neither this offering memorandum nor any other information supplied in connection with the Certificates is intended to provide the basis of any credit or other evaluation or should be considered as a recommendation by the Trustee, Malaysia, the Joint Lead Managers, the Trustee, the Delegate or the Agents that any recipient of this offering memorandum should purchase any of the Certificates. Each prospective investor contemplating purchasing any Certificates should make its own independent investigation of the financial condition and affairs, and its own appraisal of the creditworthiness, of the Trustee and Malaysia. None of the Joint Lead Managers, the Delegate or the Agents undertakes to review the Trustee's or Malaysia's financial condition or affairs during the life of the arrangements contemplated by this offering memorandum nor to advise any investor or prospective investor in the Certificates of any information relating to the Trustee or Malaysia coming to its attention.

No comment is made or advice given by the Trustee, Malaysia, the Joint Lead Managers, the Delegate or the Agents in respect of taxation matters relating to the Certificates or the legality of the purchase of the Certificates by an investor under any applicable law.

EACH PROSPECTIVE INVESTOR IS ADVISED TO CONSULT ITS TAX ADVISER, LEGAL ADVISER AND BUSINESS ADVISER AS TO TAX, LEGAL, BUSINESS AND RELATED MATTERS CONCERNING THE PURCHASE OF THE CERTIFICATES.

This offering memorandum does not constitute an offer to sell or the solicitation of an offer to buy any Certificates in any jurisdiction to any person to whom it is unlawful to make the offer or solicitation in such jurisdiction. The distribution of this offering memorandum and the offer or sale of the Certificates may be restricted by law in certain jurisdictions. None of the Trustee, Malaysia, the Joint Lead Managers, the Delegate or the Agents represents that this offering memorandum may be lawfully distributed, or that any Certificates may be lawfully offered, in compliance with any applicable registration or other requirements in any such jurisdiction, or pursuant to an exemption available thereunder, or assumes any responsibility for facilitating any such distribution or offering. In particular, no action has been taken by the Trustee, Malaysia, the Joint Lead Managers, the Delegate or the Agents which is intended to permit a public offering of any Certificates or distribution of this offering memorandum in any jurisdiction where action for that purpose is required. Accordingly, no Certificates may be offered or sold, directly or indirectly, and neither this offering memorandum nor any advertisement or other offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with any applicable laws and regulations.

Persons into whose possession this offering memorandum or any Certificates may come must inform themselves about, and observe, any such restrictions on the distribution of this offering memorandum and the offering and sale of the Certificates. In particular, there are restrictions on the distribution of this offering memorandum and the offer or sale of Certificates in Bahrain, Dubai International Financial Centre, the European Economic Area, Hong Kong, Qatar, Saudi Arabia, Singapore, the United Kingdom, the United States and the United Arab Emirates. See "*Plan of Distribution*".

THE CERTIFICATES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAS ANY OF THE FOREGOING AUTHORITIES PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF CERTIFICATES OR THE ACCURACY OR THE ADEQUACY OF THIS OFFERING MEMORANDUM. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

The Certificates have not been and will not be registered under the Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States. Certificates may not be offered, sold or delivered within the United States, except in transactions exempt from, or in transactions not subject to, the registration requirements of the Securities Act.

The Certificates are being offered and sold outside the United States in reliance on Regulation S and within the United States only to QIBs in reliance on Rule 144A. Prospective purchasers are hereby notified that sellers of the Certificates may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A. For description of these and certain further restrictions on offers, sales and transfers of Certificates and distribution of this offering memorandum, see "*Plan of Distribution*" and "*Transfer Restrictions*".

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENSE HAS BEEN FILED UNDER CHAPTER 421-B OF THE NEW HAMPSHIRE REVISED STATUTES ANNOTATED, 1955, AS AMENDED ("RSA") WITH THE STATE OF NEW HAMPSHIRE NOR THE FACT THAT A SECURITY IS EFFECTIVELY REGISTERED OR A PERSON IS LICENSED IN THE STATE OF NEW HAMPSHIRE CONSTITUTES A FINDING BY THE SECRETARY OF STATE OF NEW HAMPSHIRE THAT ANY DOCUMENT FILED UNDER RSA CHAPTER 421-B IS TRUE, COMPLETE AND NOT MISLEADING. NEITHER ANY SUCH FACT NOR THE FACT THAT AN EXEMPTION OR EXCEPTION IS AVAILABLE FOR A SECURITY OR A TRANSACTION MEANS THAT THE SECRETARY OF STATE HAS PASSED IN ANY WAY UPON THE MERITS OR QUALIFICATIONS OF, OR RECOMMENDED OR GIVEN APPROVAL TO, ANY PERSON, SECURITY OR TRANSACTION. IT IS UNLAWFUL TO MAKE, OR CAUSE TO BE MADE, TO ANY PROSPECTIVE PURCHASER, CUSTOMER OR CLIENT ANY REPRESENTATION INCONSISTENT WITH THE PROVISIONS OF THIS PARAGRAPH.

NOTICE TO RESIDENTS OF THE KINGDOM OF SAUDI ARABIA

THIS OFFERING MEMORANDUM MAY NOT BE DISTRIBUTED IN THE KINGDOM OF SAUDI ARABIA EXCEPT TO SUCH PERSONS AS ARE PERMITTED UNDER THE OFFERS OF SECURITIES REGULATIONS ISSUED BY THE CAPITAL MARKET AUTHORITY.

THE CAPITAL MARKET AUTHORITY DOES NOT MAKE ANY REPRESENTATION AS TO THE ACCURACY OR COMPLETENESS OF THIS OFFERING MEMORANDUM, AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS ARISING FROM, OR INCURRED IN RELIANCE UPON, ANY PART OF THIS OFFERING MEMORANDUM. PROSPECTIVE PURCHASERS OF THE SECURITIES OFFERED HEREBY SHOULD CONDUCT THEIR OWN DUE DILIGENCE ON THE ACCURACY OF THE INFORMATION RELATING TO THE SECURITIES. IF A PROSPECTIVE PURCHASER DOES NOT UNDERSTAND THE CONTENTS OF THIS OFFERING MEMORANDUM HE OR SHE SHOULD CONSULT AN AUTHORIZED FINANCIAL ADVISER.

NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN

ANY OFFER OF CERTIFICATES IN THE KINGDOM OF BAHRAIN WILL BE UNDERTAKEN BY WAY OF PRIVATE PLACEMENT. SUCH OFFERS ARE SUBJECT TO THE REGULATIONS OF THE CENTRAL BANK OF BAHRAIN THAT APPLY TO PRIVATE OFFERINGS OF SECURITIES AND THE DISCLOSURE REQUIREMENTS AND OTHER PROTECTIONS THAT THESE REGULATIONS CONTAIN. THIS OFFERING MEMORANDUM IS THEREFORE INTENDED ONLY FOR "ACCREDITED INVESTORS" (AS DEFINED BELOW, SEE "PLAN OF DISTRIBUTION — BAHRAIN"). THE CERTIFICATES OFFERED IN THE KINGDOM OF BAHRAIN MAY ONLY BE OFFERED IN REGISTERED FORM IN MINIMUM DENOMINATIONS OF U.S.$100,000 (OR EQUIVALENT IN OTHER CURRENCIES).

AVAILABLE INFORMATION

The Trustee has agreed that, for so long as any Certificates are "restricted securities" as defined in Rule 144(a)(3) under the Securities Act, it will during any period that it is neither subject to sections 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), nor exempt from reporting pursuant to Rule 12g3-2(b) thereunder, furnish, upon request, to any holder or beneficial owner of Certificates or any prospective purchaser designated by any such holder or beneficial owner, the information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

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EXCHANGE RATES

References herein to "**US$**", "**$**" or "**U.S. dollars**" are to United States dollars, references to "**€**" are to Euros and references to "**RM**" or "**ringgit**" are to Malaysian ringgit. From September 2, 1998 to July 21, 2005, the ringgit was pegged to the U.S. dollar at an exchange rate of RM3.80 to US$1.00. Since July 22, 2005, the ringgit exchange rate has operated under a managed float against a currency basket comprising the currencies of Malaysia's main trading partners. On May 27, 2010, the middle rate of the Malaysian ringgit as published by Bank Negara Malaysia ("**BNM**") (as defined below) was RM3.3105 to US$1.00. The middle rate refers to the noon rates from the interbank foreign exchange market in Kuala Lumpur. These rates are available from the BNM official website.

The following table sets forth the exchange rate between the ringgit and the U.S. dollar for the last day during, and the average for, the periods indicated.

Year	Period End	Period Average[1]
2005 (through July 21, 2005)[2]	3.8000	3.8000
2005 (from July 22, 2005 through December 31, 2005)	3.7800	3.7704
2006	3.5315	3.6682
2007	3.3065	3.4376
2008	3.4640	3.3333
2009	3.4245	3.5246
2010 (through May 27, 2010)	3.3105	3.3119

Notes:

(1) The average of the monthly average exchange rates for each month of the applicable period.

(2) Malaysia's fixed exchange rate regime ended on July 21, 2005.

Source: Bank Negara Malaysia.

This offering memorandum contains conversions of certain ringgit amounts into U.S. dollars for the convenience of the reader. No representation is made that the ringgit amounts actually represent the U.S. dollar amounts, or could have been or could be converted into U.S. dollars at the rates indicated, at any particular rate, or at all.

FORWARD-LOOKING STATEMENTS

This offering memorandum includes forward-looking statements. All statements other than statements of historical facts included in this offering memorandum regarding, among other things, Malaysia's economy, fiscal condition, debt or prospects may constitute forward-looking statements. Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may", "will", "expect", "intend", "estimate", "anticipate", "believe", "continue" or similar terminology. Although Malaysia believes that the expectations reflected in its forward-looking statements are reasonable at this time, there can be no assurance that these expectations will prove to be correct.

DATA DISSEMINATION

Malaysia was among the first group of countries that subscribed to the International Monetary Fund's Special Data Dissemination Standard, which is designed to improve the timeliness and quality of information of subscribing member countries. This standard requires subscribing member countries to provide schedules indicating, in advance, the date on which data will be released, or the so-called "Advance Release Calendar." For Malaysia, precise dates or "no-later-than-dates" for the release of data are disseminated three months in advance through the Advance Release Calendar, which is published on the Internet under the International Monetary Fund's Dissemination Standards Bulletin Board. Summary methodologies of all information about data, its contents, quality, condition, and other characteristics, also known as metadata, to enhance transparency of statistical compilation are also provided on the Internet under the International Monetary Fund's Dissemination Standards Bulletin Board. The Internet address is http://dsbb.imf.org. The information on such website is not a part of this offering memorandum.

ENFORCEMENT

The Trustee was established by Malaysia and is owned by the Minister of Finance (Incorporated) and the Federal Lands Commissioner. All of the directors of the Trustee reside in Malaysia and substantially all of the assets of the Trustee and of such directors are located outside the United States. As a result, it may not be possible for investors to effect service of process outside Malaysia upon the Trustee or such persons, or to enforce judgments against them obtained in courts outside Malaysia predicated upon civil liabilities of the Trustee or such directors under laws other than Malaysian law, including any judgment predicated upon United States federal securities laws. The Trustee has been advised by its Malaysian legal counsel that there is doubt as to the enforceability in Malaysia in original actions or in actions for enforcement of judgments of United States courts of civil liabilities predicated solely upon the federal securities laws of the United States.

Any judgment obtained or to be enforced in Malaysia must be obtained or enforced in accordance with the laws of Malaysia.

CERTAIN DEFINED TERMS AND CONVENTIONS

Statistical information contained in the sections of this offering memorandum entitled "*Malaysia*" and "*Summary*" is official data publicly available as of the date of this offering memorandum, and in most cases the latest official data publicly available. Financial data contained in the sections entitled "*Malaysia*" and "*Summary*" may be subsequently revised in accordance with Malaysia's ongoing maintenance of its economic data, and such revised data will not be distributed by Malaysia to any holder of the Notes.

References to "**Malaysia**" as a contracting party, to the "**Federal Government**", the "**Government of Malaysia**" or the "**Government**" herein are to the Federal Government of Malaysia.

References to “**BNM**” herein are to Bank Negara Malaysia, the central bank of Malaysia.

The fiscal year of the Government of Malaysia ends on December 31 of each year. The fiscal year ended December 31, 2005 is referred to in this offering memorandum as “**2005**”, and other fiscal years are referred to in a similar manner.

References to tonnes herein are to metric tonnes, each of which equals approximately 2,205 pounds or 1.102 short tonnes. Measures of distance referred to herein are stated in kilometers, each of which equals approximately 0.62 miles.

Totals in certain tables contained in this offering memorandum relating to Malaysia may differ from the sum of the individual items in such tables due to rounding. In addition, certain figures contained in this offering memorandum relating to Malaysia are estimates prepared in accordance with procedures customarily used by Malaysia for the reporting of data. Certain other figures are preliminary in nature. In each case, the actual figures may vary from the estimated or preliminary figures relating to Malaysia set forth in this offering memorandum.

Unless otherwise specified, percentage increases or decreases stated for periods or dates in a particular year represent increases or decreases as compared with the relevant amount for the corresponding period or date in the immediately preceding year.

SUMMARY

The summary highlights selected information from this offering memorandum and may not contain all of the information that may be important to you. You should read this offering memorandum in its entirety before making a decision to invest in the Certificates.

Malaysia

The following information is qualified in its entirety by the detailed information contained in this offering memorandum under the heading "Malaysia".

General

Malaysia is located in Southeast Asia, just north of the equator, and consists of two major landmasses: Peninsular Malaysia and the states of Sabah and Sarawak, which are located on the island of Borneo. Peninsular Malaysia is separated from the states of Sabah and Sarawak by the South China Sea. The total land area of Malaysia is approximately 330,803 square kilometers.

Malaysia has a population of approximately 28.3 million. Kuala Lumpur, the capital and largest city, has an estimated population of 1.7 million. In 2009, approximately 61.9% of the population of Malaysia was Malay and other indigenous peoples (together referred to as "**Bumiputera**"), approximately 22.7% was Chinese, approximately 6.8% was Indian, approximately 1.2% was other races, and approximately 7.4% was non-citizens (mostly foreign workers). Malaysia's population growth rate averaged approximately 2.0% per year from 2005 to 2009.

Government

Malaysia has a federal system of government based on a parliamentary democracy headed by a constitutional monarch called the Yang di-Pertuan Agong. The Yang di-Pertuan Agong is elected for a five-year term by the nine hereditary rulers who are members of the Conference of Rulers. The Federal Constitution lays the framework for the executive, legislative and judicial system of the country. The federal executive power is exercised by the Prime Minister and his cabinet. Dato' Sri Mohd. Najib bin Tun Haji Abdul Razak became Prime Minister in April 2009. Since its formation, Malaysia has been governed by the National Front coalition comprising three major component parties, namely: the United Malays National Organization, or UMNO; the Malaysian Chinese Association; and the Malaysian Indian Congress; and a number of smaller parties that have changed from time to time. The last general elections were held on March 8, 2008. Members of the National Front coalition were elected to 138 out of 222 seats in the House of Representatives.

Economy

Following the appointment of and the transition to a new Prime Minister in April 2009, several initiatives were announced. The "1Malaysia, People First, Performance Now" concept was launched. The concept is based on positive values centered on social justice and acceptance of a multi-racial society. Pursuant to this concept, the Government continues its work to enhance the well-being of people in urban and rural areas to ensure that the benefits of development are enjoyed by all citizens in a safe and peaceful environment.

In an effort to improve efficiency and its delivery system, the Government has announced the Government Transformation Programme ("**GTP**"), based on the 1Malaysia concept. The objective of the GTP is two-fold: first, to help the Government become more effective in its delivery of services and accountable for outcomes that matter most to people; and second, to transform Malaysia into an advanced, united, and just society with high standards of living for all Malaysians irrespective of race, religion or region.

Malaysia is emerging from the aftermath of a deep global recession. As a result, the Government has set priorities to maintain investor and consumer confidence, preserve jobs and create conditions for continued growth. For Malaysia to realign its strategic position in the global economy, the Government believes that it needs to make a major transformation of the domestic economy and be on track to achieve developed-nation status by 2020. To this end, the Government has implemented a New Economic Model ("**NEM**"), a broad roadmap of economic transformation along eight strategic initiatives, which are: re-energizing the private sector, developing a quality workforce and reducing dependency on foreign labor, creating a competitive domestic economy, strengthening the public sector, implementing transparent and market-friendly affirmative action, building the knowledge base and infrastructure, enhancing the sources of growth and ensuring sustainability of growth.

Malaysia has a diversified economy, the principal sectors of which are services, manufacturing, agriculture, mining and construction. Over the past three decades, through the implementation of strategic policies, Malaysia has made progress toward transforming its economy from a focus on agriculture and mining to a focus on manufacturing and services. The manufacturing industry, initially characterized by the production of low-end goods such as textiles and clothing, now produces higher value-added products, including indigenous brand names as well as more capital- and technology-intensive goods such as electrical and electronic products. Malaysia produces and exports a range of primary commodities and manufactured goods, including electronic components and equipment, electrical machinery and appliances, chemicals, textiles, wood products, metal products, petroleum, liquefied natural gas ("**LNG**"), palm oil, rubber, sawn timber, saw logs and tin.

Since independence in 1957, the Government has formulated and implemented a series of five-year development plans for the Malaysian economy. Malaysia is currently at the end of the Ninth Malaysia Plan (2006-2010), with the Tenth Malaysia Plan (2011-2015) scheduled to be launched on June 10, 2010. The Tenth Malaysia Plan is intended to be a unifying document which will incorporate the GTP and the Economic Transformation Plan from the newly released NEM as well as the objectives of the 1Malaysia, People First, Performance Now concept. The emphasis of the plan will be on attracting investment and driving productivity and innovation with a view to transforming Malaysia into a high-income economy by 2020 through principles of inclusiveness and sustainable growth.

The Malaysian economy grew strongly (by 7.1% year-on-year) in the first half of 2008, supported by strong domestic and external demand. However, the sharp and rapid deterioration in global economic conditions following the onset of the global financial crisis, as well as a major correction in commodity prices, led to a significant contraction in Malaysia's exports in the latter part of 2008. Nevertheless, real GDP growth remained positive in the second half of 2008. For the year as a whole, real GDP expanded by 4.7%. The inflation rate in 2008 was 5.4%. Most of the rise in inflation during the year occurred in the third quarter when the inflation rate rose sharply following a 40.4% adjustment to retail fuel prices in June.

The Malaysian economy contracted by 1.7% in 2009, as the global economy experienced a severe downturn. Nevertheless, the accelerated implementation of fiscal stimulus measures, the aggressive easing of monetary policy and comprehensive measures introduced to ensure continued access to financing contributed to subsequent recovery in the second half of the year. External demand provided further impetus to growth in the second half, as the global economy, particularly the regional economies, gradually recovered. The inflation rate was lower in 2009, at 0.6%. In the first quarter of 2010, the Malaysian economy registered strong year-on-year growth of 10.1%. The inflation rate increased by 1.3% on an annual basis in the first quarter of 2010.

In the first half of 2008, monetary policy was confronted with a heightened risk of elevated inflation and the prospect of moderating growth following deceleration of global growth. As the risks to growth became significantly elevated, the decision was made for monetary policy to remain unchanged throughout most of the year. The policy rate was nevertheless reduced by 25 basis points in November 2008 as a pre-emptive measure aimed at providing a more accommodative monetary environment. The Monetary Policy Committee ("**MPC**") reduced policy interest rates by a total of 150 basis points between November 2008 and February 2009 to cushion the impact of the global financial and economic crisis. The Statutory Reserve Requirement ("**SRR**") was also reduced from 4.0% to 3.5%, with effect from December 1, 2008. The MPC decided to raise the Overnight Policy Rate ("**OPR**") by 25 basis points in March 2010, and again in May 2010.

The regulatory and supervisory framework for Malaysian banking institutions is well developed and aligned with international standards and best banking practices. At the onset of the global financial crisis, it was recognized up front that Malaysian financial institutions were sufficiently capitalized with ample liquidity. Confidence of depositors and investors was also intact. The Malaysian financial system remained largely unaffected by the global financial crisis and insulated from systemic liquidity and funding pressures. Ringgit liquidity in the financial system remained high throughout the global deleveraging process. Historically, Malaysia has sustained a high rate of savings by international standards, averaging 36.5% of Gross National Product ("**GNP**") during the five-year period ending 2009. The high rate of savings has been driven predominantly by Malaysia's generally rising real incomes, low inflation and a well-developed financial system. In addition, the Government has attempted to promote private sector savings through savings programs such as the Employees Provident Fund. From 2005 to 2009, gross national savings rose from RM182.8 billion to RM211.2 billion, equivalent to an average growth rate of 6.0%.

The Government is committed to promoting and developing the Islamic banking sector as an important component of the Malaysian banking system. The Government's long-term objective is to create a comprehensive Islamic banking system which operates alongside the conventional banking system.

The 2010 Budget emphasized measures to improve the effectiveness and efficiency of the Government's revenues and expenditures. To enhance the efficiency of Government expenditures, the Government announced measures to restructure the fuel subsidy system which accounts for a significant portion of the Government's annual outlays as well as to review the whole system of subsidies and price controls.

Malaysia maintains relatively prudential rules governing external borrowings by both the private and public sectors. External borrowings are governed by the Exchange Control Act 1953 and related legislation administered by BNM. External borrowings by the Government are also subject to the provisions of the External Loans Act 1963, which sets a ceiling on Government borrowings. Total domestic debt amounted to RM1,441.2 billion as of December 31, 2009, compared to RM1,296.6 billion as of December 31, 2008. Outstanding loans of the banking system increased to RM783.5 billion as of December 31, 2009, compared to RM726.5 billion as of December 31, 2008. Debt servicing of the Government was 9.1% of operating expenditure in 2009 and 8.3% in 2008.

In 2009, Asia's role in supporting the recovery in global trade resulted in a shift in Malaysia's trade pattern. The share of exports to the region increased to 49.3% with the share to China increasing to 12.2%. The share of exports to advanced economies including the U.S., the European Union and Japan, declined to 31.6%. In 2009, the current account recorded a large surplus of RM112.7 billion, or 16.9% of Gross National Income ("**GNI**").

As of May 14, 2010, international reserves of BNM amounted to RM314.2 billion, equivalent to US$96.1 billion.

Summary Economic Information

The following tables provide certain information concerning Malaysia.

Economy

	2005	2006	2007	2008	2009P	1Q 2010P
GDP in constant prices (RM billion)	449.3	475.5	506.3	530.2	521.1	133.9
Nominal (RM billion)	522.4	574.4	642.0	740.9	679.7	183.3
Nominal (US$ billion) (1)	138.0	156.6	186.8	222.3	192.8	54.5
Change in GDP in constant prices (%)	5.3	5.8	6.5	4.7	(1.7)	10.1
Per capita GNI in constant prices (US$) (1)	4,288	4,656	5,170	5,339	4,995	n.a.
Annual inflation rate (%)	3.0	3.3	2.0	5.4	0.6	1.3
Unemployment rate (%)	3.5	3.3	3.2	3.3	3.7	3.6

P Preliminary.

(1) Converted to U.S. dollars at the average exchange rate for the relevant period.

Sources: Department of Statistics, Malaysia.
Bank Negara Malaysia.

Balance of Payments(1) (net)

	2005	2006	2007(4)	2008	2009P(4)
			(US$ million(2))		
Goods(3)	34,036	37,447	37,189	51,311	40,184
Services	(2,538)	(1,970)	689	52	886
Balance on goods and services	31,496	35,477	37,879	51,363	41,071
Income	(6,328)	(4,713)	(4,055)	(7,143)	(3,594)
Current transfers	(4,480)	(4,561)	(4,582)	(5,266)	(5,524)
Balance on current account	20,690	26,202	29,241	38,954	31,952
Capital account	0	(72)	(28)	186	(46)
Financial account	(9,798)	(11,813)	(11,021)	(34,072)	(23,433)
Direct investment	988	53	(2,686)	(7,831)	(7,167)
Portfolio investment	(3,748)	3,467	5,333	(24,676)	404
Other investment	(7,038)	(15,333)	(13,669)	(1,565)	(16,669)
Official sector	(833)	(2,194)	(1,681)	218	1,171
Private sector	(6,205)	(13,139)	(11,987)	(1,784)	(17,841)
Errors and omissions	(7,350)	(7,462)	(5,053)	(8,616)	(4,607)
Overall balance	3,542	6,855	13,139	(3,549)	3,866

P Preliminary.

(1) From the first quarter of 2001, the balance of payments has been compiled in conformity with the guidelines set forth in the Fifth Edition of the Balance of Payments Manual of the International Monetary Fund, or IMF. The merchandise line item has been reclassified as the goods balance; line items previously presented as long-term capital inflows and short-term capital inflows are combined as one line item under the financial account; and the balance on services line item is broken out into two line items: services and income.

(2) The balance of payments accounts are recorded in ringgit. The U.S. dollar amounts in the table reflect the ringgit amounts converted into U.S. dollars at the quarterly average exchange rate for the relevant period.

(3) The goods balance differs from the trade balance in the table under *"Malaysia—External Trade"* in the following ways: (a) the gross exports data under trade balance are adjusted to exclude cross-border transactions between residents; (b) gross imports data are presented on a c.i.f. basis under trade balance and are adjusted to an f.o.b. basis under goods balance; and (c) goods balance data include military goods which are not included in trade data.

(4) The goods and services balance differs from the exports and imports of goods and services in the table under "*Malaysia — The Economy — Gross Domestic Product and Gross National Income*" entitled "GNI by demand aggregates" for 2007 and 2009 as the complete balance of payments data for 2007 and 2009 will only be revised in June 2010.

Source: Department of Statistics, Malaysia.

External Debt

	As of December 31,					As of March 31,
	2005	2006	2007	2008	2009	2010[P]
Total external debt (US$ million). . .	51,790	51,736	56,027	67,380	67,445	65,995
Total external debt/GNP ratio (%) . .	39.7	33.1	29.8	32.9	34.9	n.a.
Total external debt/GDP ratio (%) . .	37.8	32.1	29.2	31.9	34.4	n.a.
External debt service ratio (%)	5.3	4.8	3.8	2.6	6.5	8.0

[P] Preliminary.

Sources: Department of Statistics, Malaysia.
Bank Negara Malaysia.

Government finance

	2005	2006	2007	2008	2009	Budget 2010
			(RM million)			
Current revenue	106,304	123,546	139,885	159,793	158,639	148,446
Less: Current expenditure	97,744	107,694	123,084	153,499	157,067	138,279
Current surplus	8,561	15,852	16,801	6,294	1,573	10,167
Less: Net development expenditure .	27,284	34,961	37,459	41,889	48,996	50,649
Overall balance	(18,724)	(19,109)	(20,658)	(35,594)	(47,424)	(40,482)
Overall balance (% of GNP)	(3.8)	(3.4)	(3.3)	(5.0)	(7.2)	(5.7)
Overall balance (% of GDP)	(3.6)	(3.3)	(3.2)	(4.8)	(7.0)	(5.6)

Sources: Ministry of Finance.
Bank Negara Malaysia.

Consolidated public sector finance

	2005	2006	2007	2008	2009	Budget 2010
			(RM million)			
Public sector overall budget surplus (deficit)	7,252	(1,630)	9,446	(41,685)	(25,889)	(7,954)
Public sector overall surplus (deficit) (% of GNP)	1.5	(0.3)	1.5	(5.8)	(3.9)	(1.1)
Public sector overall surplus (deficit) (% of GDP)	1.4	(0.3)	1.5	(5.6)	(3.8)	(1.1)

Sources: Ministry of Finance.
State governments.
Non-financial public enterprises.

Direct Government debt

	As of December 31,				
	2005	2006	2007	2008	2009
Internal debt (RM million)	198,670	217,220	247,120	286,121	348,600
External debt (US$ million)	7,859	7,011	5,859	5,796	3,988
Total direct Government debt (US$ million)	59,903	67,920	79,723	87,423	104,835
As percentage of GNP (%)	46.0	44.3	43.8	40.9	56.1
As percentage of GDP (%)	43.4	43.4	42.7	39.3	54.4

Source: Ministry of Finance.

Money and Banking

	As of December 31,				
	2005	2006	2007	2008	2009[P]
Total assets of banking system (RM billion)	958.5	1,092.9	1,221.4	1,338.0	1,423.4
Banking system loans (% change)	8.6	6.3	8.6	12.8	7.8
Banking system deposits (% change)	11.1	17.2	7.0	11.9	9.3
Money supply (M3) (% change)	8.3	13.0	9.5	11.9	9.2
Three-month interbank rate (%)[(1)]	3.20	3.65	3.58	3.60	2.18
Net NPL ratio of the banking system (%)	5.8	4.8	3.2	2.2	1.8
Risk-weighted capital ratio (%)	13.7	13.5	13.2	12.6	15.4

P Preliminary.

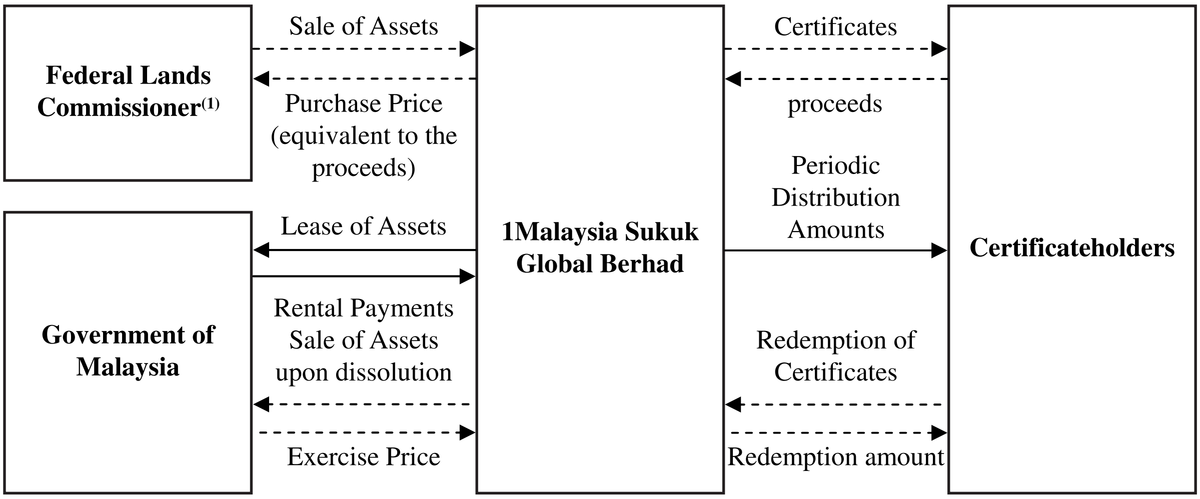
(1) At end of period.

Source: Bank Negara Malaysia.

STRUCTURE DIAGRAM AND CASH FLOWS

Set out below is a simplified structure diagram and description of the principal cash flows underlying the transaction. Potential investors are referred to the terms and conditions of the Certificates and the detailed descriptions of the relevant Transaction Documents set out elsewhere in this offering memorandum for a fuller description of certain cash flows and for an explanation of the meaning of certain capitalized terms used below.

Structure Diagram



Note:

(1) The Federal Lands Commissioner is a public officer appointed by the Yang di-Pertuan Agong under the Federal Lands Commissioner Act 1957 (the "**FLC Act**"). Under the FLC Act, the Federal Lands Commissioner (and his successors in office) shall be a body corporate acting under the name of the "Federal Lands Commissioner", with the power to enter into contracts and acquire, hold and deal with any movable or immovable property vested in it.

Principal cash flows

Payments by the Certificateholders and the Trustee

On the Closing Date, the Certificateholders will pay the issue price in respect of the Certificates to the Trustee and the Trustee will pay such amount to the Federal Lands Commissioner or to its order as the purchase price payable under the Sale and Purchase Agreement for the Assets identified in, and pursuant to, the Sale and Purchase Agreement.

Periodic Payments by the Trustee

On or prior to each Rental Payment Date, the Lessee will pay to the Trustee an amount reflecting the rental due in respect of the Lease Assets, which is intended to be sufficient to fund the Periodic Distribution Amounts payable by the Trustee under the Certificates and shall be applied by the Trustee for that purpose.

Dissolution Payment by the Government of Malaysia

On the Scheduled Dissolution Date, the Trustee will have the right under the Purchase Undertaking (as defined herein) to require the Government of Malaysia to purchase and accept the transfer and conveyance of all of its interests, rights, benefits and entitlements in and to the Lease Assets. The Exercise Price payable by the Government of Malaysia to the Trustee for such purpose is intended to fund the Dissolution Distribution Amount payable by the Trustee under the Certificates.

The Trust may in accordance with the Conditions be dissolved prior to the Scheduled Dissolution Date by reason of redemption where a Dissolution Event (as defined in Condition 14 (*Dissolution Events*)) has occurred and is continuing. In such case, the amounts payable by the Trustee on the Dissolution Date will be funded by the Government of Malaysia purchasing the Trustee's interest, rights, benefits and entitlements in and to the Lease Assets and paying the Exercise Price (as defined herein) to the Trustee pursuant to the terms of the Purchase Undertaking.

SUMMARY OF THE OFFERING

The following overview should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this offering memorandum. This overview may not contain all of the information that prospective investors should consider before deciding to invest in the Certificates. Accordingly, any decision by a prospective investor to invest in the Certificates should be based on a consideration of this offering memorandum as a whole.

*Words and expressions defined in the "Terms and Conditions of the Certificates" shall have the same meanings in this overview. Reference to a "Condition" is to a numbered condition of the Terms and Conditions of the Certificates (the "**Conditions**").*

Parties:

Trustee:	1Malaysia Sukuk Global Berhad (Company No. 1000549-U) (in its capacity as issuer and in its capacity as trustee, the "**Trustee**"), a company incorporated in Malaysia on May 3, 2010 under the Companies Act 1965 with its registered office at 12th Floor, Bangunan Setia 1, 15 Lorong Dungun, Bukit Damansara, 50490 Kuala Lumpur, Malaysia. The Trustee has been incorporated solely for the purpose of participating in the transactions contemplated by the Transaction Documents (as defined below) to which it is a party.
Ownership of the Trustee:	The Trustee is owned by the Minister of Finance (Incorporated) and the Federal Lands Commissioner.
Seller:	The Federal Lands Commissioner (in such capacity the "**Seller**"). Pursuant to the Sale and Purchase Agreement, the Seller will sell to the Trustee, and the Trustee will purchase from the Seller, the Assets in accordance with the terms of the Sale and Purchase Agreement.
Lessor:	The Trustee (in its capacity as lessor, the "**Lessor**"). Pursuant to the Lease Agreement, the Lessor will lease to the Lessee, and the Lessee will lease from the Lessor, the Lease Assets in accordance with the terms of the Lease Agreement.
Lessee:	The Government of Malaysia (in its capacity as lessee, the "**Lessee**"). Pursuant to the Lease Agreement, the Lessee will lease from the Lessor, and the Lessor will lease to the Lessee, the Lease Assets in accordance with the terms of the Lease Agreement.
Obligor:	The Government of Malaysia. In accordance with the terms of the Purchase Undertaking, the Government of Malaysia will, following the service of an exercise notice (the "**Exercise Notice**") by or on behalf of the Trustee, purchase the interests, rights, benefits and entitlements in and to the Lease Assets from the Trustee at the Exercise Price.

	"**Exercise Price**" means the aggregate of: (a) the face amount of the Certificates; (b) all accrued but unpaid Rental (or part thereof) relating to the Lease Assets (if any), to the extent not received by the Trustee in its capacity as Lessor under the Lease Agreement; (c) without duplication or double counting, an amount equal to any accrued but unpaid Services Charge Amount; and (d) without duplication or double-counting, an amount representing any prior ranking claims (as described in items (i) and (ii) of Condition 6(b) (*Trust — Application of Proceeds from Trust Assets*)) in accordance with Condition 6(b) (*Trust — Application of Proceeds from Trust Assets*). "**Services Charge Amount**" means, in respect of a Lease Period, all payments made or incurred by the Servicing Agent in respect of the Services performed in relation to the Lease Assets during that Lease Period.
Servicing Agent:	The Government of Malaysia (in its capacity as servicing agent, the "**Servicing Agent**"). Under the Lease Agreement, the Lessor shall be responsible for obtaining insurance for the Lease Assets to the extent that it is reasonable and commercially practicable in a Shariah compliant manner, paying all proprietorship taxes (if any) in respect of the Lease Assets and performing major maintenance and structural repair on the Lease Assets. In accordance with the terms of the Servicing Agency Agreement, the Lessor will delegate the responsibility to perform, or procure the performance of, major maintenance and structural repair and the payment of proprietorship taxes (if any) and the responsibility for ensuring that the Lease Assets are insured to the extent reasonable and commercially practicable, in a Shariah compliant manner against a Total Loss Event to the Servicing Agent.
Joint Bookrunners and Joint Lead Managers:	Barclays Bank PLC, CIMB Bank (L) Limited and The Hongkong and Shanghai Banking Corporation Limited, Offshore Banking Unit Labuan.
Delegate:	The Bank of New York Mellon (the "**Delegate**"). In accordance with the terms of the Declaration of Trust, the Trustee will unconditionally and irrevocably appoint the Delegate to be its attorney and in its name, on its behalf and as its act and deed to exercise certain future duties, powers, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust in accordance with the terms of the Declaration of Trust. In addition, pursuant to the Declaration of Trust, certain powers will be vested solely in the Delegate.

Principal Paying Agent: The Bank of New York Mellon.

Transfer Agent, Registrar and Replacement Agent: The Bank of New York Mellon.

Summary of the Structure and Transaction Documents:

Summary of the Structure: An overview of the structure of the transaction and the principal cash flows is set out in the section entitled "*Structure Diagram and Cash Flows*".

Summary of the Transaction Documents: A description of the principal terms of the significant Transaction Documents is set out in the section entitled "*Summary of the Principal Transaction Documents*".

Summary of the Certificates:

Certificates: US$1,250,000,000 trust certificates due 2015.

Status of Certificates: Each Certificate will represent an undivided beneficial ownership interest in the Trust Assets (as defined below), will be a limited recourse obligation of the Trustee and will rank *pari passu*, without preference or priority, with all of the other Certificates issued in accordance with the Conditions.

Trust Assets: Pursuant to the Declaration of Trust, the Trustee will declare that it will hold certain assets (the "**Trust Assets**"), consisting of:

(i) all of the Trustee's rights, interest and benefit (present and future) in, to and under the Lease Assets;

(ii) all monies standing to the credit of the Transaction Account;

(iii) all of the Trustee's rights, interest and benefit (present and future) in, to and under the Transaction Documents (excluding any representations given to the Trustee by the Government of Malaysia pursuant to any of the Transaction Documents); and

(iv) all proceeds of the foregoing held by the Trustee,

upon trust absolutely for the Certificateholders *pro rata* according to the face amount of Certificates held by each holder of Certificates in accordance with the Declaration of Trust and the Conditions.

Closing Date: June 4, 2010.

Issue Price: 100% of the aggregate face amount of the Certificates.

Periodic Distribution Dates:	The 4th day in each June and December in each year or, if any such day is not a Business Day, the following Business Day, commencing on December 4, 2010 and, subject to Condition 8 (*Periodic Distribution Provision*s), ending on the Scheduled Dissolution Date.
Periodic Distribution Amounts:	On each Periodic Distribution Date, the Certificateholders will receive a Periodic Distribution Amount determined in accordance with Condition 8 (*Periodic Distribution Provisions*) representing a defined share of the Rental paid by the Lessee to the Lessor pursuant to the Lease Agreement in respect of the Lease Assets for the certificates.
Scheduled Dissolution Date:	June 4, 2015.
Scheduled Dissolution of the Trust:	Upon receipt by the Trustee of the Exercise Price payable in accordance with the terms of the Purchase Undertaking, and unless the Certificates are previously redeemed or cancelled, the Trustee will apply the Exercise Price to redeem each Certificate at the Dissolution Distribution Amount and the Trust will be dissolved by the Trustee on the Scheduled Dissolution Date.
Dissolution Distribution Amount:	In relation to each Certificate, means the aggregate of: (i) the outstanding face amount of such Certificate; (ii) any accrued but unpaid Periodic Distribution Amounts for such Certificate; and (iii) any Additional Dissolution Distribution Amount relating to such Certificate.
Early Dissolution of the Trust:	The Trust may only be dissolved prior to the Scheduled Dissolution Date upon the: (i) occurrence of a Dissolution Event; or (ii) occurrence of a Total Loss Event. In the case of paragraph (i), the Certificates will be redeemed in accordance with Condition 10 (*Capital Distributions of the Trust*) and pursuant to the exercise of the Trustee's rights under the Purchase Undertaking. The Exercise Price payable under the Purchase Undertaking will be used to fund the redemption of the Certificates. In the case of paragraph (ii) the Certificates will be redeemed in accordance with Condition 10 (*Capital Distributions of the Trust*).

Dissolution Events:	The Dissolution Events are described in Condition 14 (*Dissolution Events*). Following the occurrence of a Dissolution Event which is continuing, the Certificates may be redeemed in full at an amount equal to the Dissolution Distribution Amount in the manner described in Condition 14 (*Dissolution Events*).
Total Loss Event:	The occurrence of a Total Loss Event will result in the redemption of the Certificates and the consequent dissolution of the Trust. In accordance with the terms of the Servicing Agency Agreement, the Servicing Agent is responsible for ensuring that the Lease Assets are, so long as the Certificates are outstanding, insured to the extent reasonable and commercially practicable, in a Shariah compliant manner against a Total Loss Event. If a Total Loss Event occurs, the Servicing Agent will be obliged to ensure that all Takaful/Insurance proceeds in respect thereof (if any) are paid in U.S. dollars into the Transaction Account by no later than close of business in Malaysia on the 30th day after the occurrence of the Total Loss Event. If a Total Loss Event occurs and an amount (if any) less than the Takaful/Insurance Coverage Amount (as defined below) is credited to the Transaction Account (the difference between the Takaful/Insurance Coverage Amount and the amount credited to the Transaction Account being the "**Total Loss Shortfall Amount**"), then the Servicing Agent will undertake to pay (in U.S. dollars in same day, freely transferable, cleared funds) the Total Loss Shortfall Amount directly into the Transaction Account as soon as practicable and in any event by no later than close of business in Malaysia on the 31st day after the Total Loss Event has occurred, such that the amount standing to the credit of the Transaction Account on the 31st day following the occurrence of a Total Loss Event represents the aggregate of the insurance proceeds payable in respect of a Total Loss Event (if any) and the Total Loss Shortfall Amount funded by the Servicing Agent in accordance with the terms of the Servicing Agency Agreement. Rentals shall cease to accrue under the Lease with effect from the date on which a Total Loss Event (if any) occurs, and no additional rental payment shall be made in respect of the period between the date on which the Total Loss Event occurred and the date on which the Total Loss Shortfall Amount is paid into the Transaction Account. See Condition 6(a) (*Trust - Summary of the Trust*).

"**Takaful/Insurance Coverage Amount**" means an amount equal to the aggregate of:

(i) the face amount of the Certificates;

(ii) an amount equal to at least thirty (30) days rental payable under the Lease Agreement; and

(iii) without duplication or double counting, an amount equal to any Services Charge Amount outstanding under the terms of the Servicing Agency Agreement in relation to the Lease Assets.

"**Total Loss Event**" means:

(a) the total loss or destruction of, or damage to the whole of the Lease Assets or any event or occurrence that renders the whole of the Lease Assets permanently unfit for any economic use and (but only after taking into consideration any insurances or other indemnity granted in each case by any third party in respect of the Lease Assets) the repair or remedial work in respect thereof is wholly uneconomical; or

(b) the Lessor ceases to own the entirety of the Lease Assets other than in accordance with the terms of the Transaction Documents.

Negative Pledge:

So long as any Certificate remains outstanding, the Government of Malaysia will not create or permit to subsist any Encumbrance over the whole or any part of its present or future property, revenues or assets to secure External Public Indebtedness of the Government of Malaysia unless at the same time or prior thereto, all amounts payable by the Government of Malaysia under the Purchase Undertaking, Lease Agreement and Servicing Agency Agreement are secured at least equally and ratably with such External Public Indebtedness, provided however, that the Government of Malaysia may create or permit to subsist Permitted Encumbrances.

Where:

"**Encumbrance**" means any mortgage, charge, pledge, lien, deed of trust, security interest or other encumbrance or preferential arrangement that has the effect of constituting a security interest whether in effect on the date of issuance of the Certificates or thereafter.

"**External Public Indebtedness**" means any obligation of the Government of Malaysia in respect of money borrowed and guarantees given by the Government of Malaysia in respect of money borrowed by others payable by its items or at the option of its holder in any currency other than the currency of Malaysia which is in the form of, or represented by, bonds, notes, debentures or other like instruments or book entries (whether or not initially distributed by means of a private placement, public offering or otherwise) that is, or was intended at the time of issuance to be, or is eligible to be, traded, quoted, listed or ordinarily purchased and sold on any stock exchange, over-the-counter or other established securities market.

"**Permitted Encumbrance**" means any Encumbrance:

(a) upon any property, project or asset created solely to secure payment of the cost or its purchase, improvement, construction, development or redevelopment (provided that (i) such Encumbrance does not extend to any other assets or revenues of the Government of Malaysia and (ii) in the case of construction, such Encumbrance may extend to unimproved real property for the construction or to any trust account into which proceeds of the applicable External Public Indebtedness are temporarily deposited pending their use for construction);

(b) existing on any property or asset at the time of its acquisition (or arising after its acquisition pursuant to an agreement entered into prior to, and not in contemplation of, such acquisition), and extensions and renewals of any such Encumbrance limited to the original property or asset covered thereby and securing any extension or renewal of the original secured financing;

(c) arising in the ordinary course of the borrowing activities of the Government of Malaysia to secure External Public Indebtedness with a maturity of one (1) year or less;

(d) arising out of the extension, renewal or replacement of any External Public Indebtedness permitted to be subject to an Encumbrance pursuant to paragraphs (a) or (c) above, provided that the principal amount of such External Public Indebtedness is not increased and that, in the case of paragraph (c) above, the maturity of the External Public Indebtedness is not extended by more than one (1) year;

(e) which arises pursuant to attachment, distraint or similar legal process in connection with court proceedings in which the claims are being contested in good faith, or which secures the reimbursement obligation under any bond given in connection with the release of property from any such Encumbrance; and

	(f) arising by operation of law, provided that any such Encumbrance is not created or permitted to be created by the Government of Malaysia to secure any External Public Indebtedness.
Asset Substitution:	Pursuant to the Substitution Undertaking entered into by the Trustee in favor of the Government of Malaysia, the Government of Malaysia has the right to require the Trustee to sell, transfer and convey the Trustee's interests, rights, benefits and entitlements in and to certain of the Lease Assets (the "**Substituted Lease Assets**") in consideration for the transfer and conveyance by the Government of Malaysia (through the Federal Lands Commissioner) of certain new assets (the "**New Lease Assets**"). The Government of Malaysia will be obliged to certify that the value of the New Lease Assets is equal to or greater than the value of Substituted Lease Assets on the relevant Substitution Date. In order to effect the substitution, the Trustee and the Federal Lands Commissioner will enter into a Sale Agreement to effect the transfer and conveyance of the Substituted Lease Assets and the New Lease Assets.
Purchase of Certificates held by Malaysia:	The Government of Malaysia may at any time purchase Certificates in the open market or otherwise (the "**Malaysia Certificates**").
Transaction Account:	The non-interest bearing U.S. dollar denominated account (the "**Transaction Account**") with account number 314599 and maintained in the name of the Trustee with The Bank of New York Mellon.
Limited Recourse:	Each Certificate will represent an undivided beneficial ownership interest in the Trust Assets. No payment of any amount whatsoever shall be made in respect of the Certificates except to the extent that funds for that purpose are available from the Trust Assets. Under no circumstances shall the Delegate or any Certificateholder cause the sale or other disposition of any of the relevant Lease Assets otherwise than to the Government of Malaysia in accordance with the terms of the Transaction Documents and the sole right of the Delegate and the Certificateholders against the Trustee or the Government of Malaysia shall be to enforce the rights and obligations under the Trust Assets in accordance with the Transaction Documents.

Role of Delegate:	Pursuant to the Declaration of Trust, the Trustee will delegate to the Delegate all of the present and future duties, powers, trusts, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust. In particular, the Delegate shall be entitled to: a) deliver an Exercise Notice to the Government of Malaysia in accordance with the Purchase Undertaking; and b) following a Dissolution Event, take any enforcement action against the Government of Malaysia in the Trustee's name.
Denomination of Certificates:	The Certificates will be issued in minimum denominations of US$100,000 and in integral multiples of US$1,000 in excess thereof.
Form and Delivery of the Certificates:	The Certificates are (1) Regulation S Certificates and (2) Rule 144A Certificates. Regulation S Certificates will be represented on issue by beneficial interests in one or more Regulation S Global Certificates, in fully registered form, without coupons attached, which will be deposited with the custodian for, and registered in the name of Cede & Co., as nominee for DTC. Rule 144A Certificates will also be represented on issue by beneficial interests in one or more Rule 144A Global Certificates in fully registered form, without coupons attached, which will be deposited with the custodian for, and registered in the name of Cede & Co. as nominee for DTC. Ownership interests in the Regulation S Global Certificates and the Rule 144A Global Certificates (together, the "**Global Certificates**" will be shown on, and transfers thereof will only be effected through, records maintained by DTC. See "*Global Certificates*" and "*Clearance and Settlement*". Definitive Certificates evidencing holdings of Certificates will be issued in exchange for interests in the relevant Global Certificates only in certain limited circumstances.
Clearance and Settlement:	Holders of the Certificates must hold their interest in the relevant Global Certificate in book-entry form through DTC. Transfers within and between DTC and any other relevant clearing system will be in accordance with the usual rules and operating procedures of the relevant clearing system. See "*Clearance and Settlement*".

Withholding Tax:	All payments by the Government of Malaysia under the Transaction Documents to which it is a party are to be made without withholding or deduction for, or on account of, any Taxes imposed in Malaysia (or any political sub-division or any authority thereof or therein having power to tax). In the event that any such deduction is made, the Government of Malaysia will be required, subject to the exceptions set out in Condition 11 (*Taxation*) pursuant to the Transaction Documents, to pay to the Trustee additional amounts so that the Trustee will receive the full amount which otherwise would have been due and payable under the Transaction Documents. All payments by the Trustee in respect of the Certificates shall be made without withholding or deduction for, or on account of, Taxes unless the withholding or deduction of the Taxes is required by law. The Government of Malaysia has agreed in the Transaction Documents that, if the Trustee is required to make any payment under the Certificates after deduction or withholding for: (i) Taxes; or (ii) as otherwise required by applicable law and is required to pay additional amounts in respect thereof, the Government of Malaysia will pay to the Trustee additional amounts to cover the amounts so deducted as would have been paid had no such deduction or withholding been required.
Use of Proceeds:	The proceeds of the issue of the Certificates will be paid by the Trustee (in its capacity as Purchaser) on the Closing Date to the Federal Lands Commissioner or to its order as the purchase price for the Assets pursuant to the Sale and Purchase Agreement. The proceeds received by the Federal Lands Commissioner will be used by the Government of Malaysia for general purposes.
Listing:	Applications have been made for the Certificates to be listed on The Stock Exchange of Hong Kong Limited. The Trustee has received approval in-principle for (a) the listing and admission to trading of the Certificates on the Labuan Financial Exchange and (b) the listing of the Certificates on Bursa Malaysia under an exempt regime, pursuant to which the Certificates will be listed but not quoted for trading. It is expected that dealing in, and listing of, the Certificates on (i) the Hong Kong Stock Exchange will commence on or about June 7, 2010, (ii) the Labuan Financial Exchange will commence on or about June 8, 2010 and (iii) Bursa Malaysia will commence on or about June 8, 2010.
Certificateholder Meetings:	A summary of the provisions for convening meetings of Certificateholders to consider matters relating to their interests as such is set out in Condition 18 (*Meetings of Certificateholders, Modification, Waiver, Authorization and Determination*).

Tax Considerations:	See the section entitled "*Taxation*" for a description of certain tax considerations applicable to the Certificates.
Governing Law:	The Sale and Purchase Agreement, the Lease Agreement, the Servicing Agency Agreement, the Substitution Undertaking and the Redemption Undertaking, will be governed by, and construed in accordance with, the laws of Malaysia. The Purchase Undertaking, the Declaration of Trust, the Agency Agreement and the Subscription Agreement and any non-contractual obligations arising out of or in connection with the same, will be governed by, and construed in accordance with, English law.
Transaction Documents:	The Declaration of Trust, the Agency Agreement, the Sale and Purchase Agreement, the Lease Agreement, the Servicing Agency Agreement, the Purchase Undertaking, the Substitution Undertaking, the Redemption Undertaking, and any other agreements, deeds, undertakings or documents designated as such by the parties to the Transaction Documents and which can be entered into by the parties from time to time (together the "**Transaction Documents**").
Rating:	On issuance, the Certificates are expected to be assigned a rating of "A-" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("**Standard & Poor's**") and "A3" by Moody's Investors Services Limited ("**Moody's**"). *A securities rating is not a recommendation to buy, sell or hold securities. Ratings may be subject to suspension, reduction or withdrawal at any time by the assigning rating organization.*
Selling Restrictions:	There are restrictions on the offer, sale and transfer of the Certificates in Bahrain, Dubai International Finance Centre, the European Economic Area, Hong Kong, Qatar, Saudi Arabia, Singapore, the United Kingdom, the United States and the United Arab Emirates and such other restrictions as may be required in connection with the offering and sale of the Certificates. See the section entitled "*Transfer Restrictions*".

Waiver of Immunity:	The Government of Malaysia has irrevocably waived, to the fullest extent permitted by applicable law but subject to the reservations set out below, any immunity from jurisdiction to which it might otherwise be entitled in any proceeding which may be brought in any of the courts with jurisdiction under the relevant Transaction Document, it being understood that under current Malaysian law no execution or attachment or any other legal process in the nature thereof can be issued out of any court in Malaysia for enforcement of any judgment or order against the Government of Malaysia by reason of section 33(4) of the Government Proceedings Act 1956 of Malaysia and Order 73 Rule 12 of the Rules of the High Court 1980 of Malaysia. The foregoing waiver constitutes only a limited and specific waiver for the purposes of the Transaction Documents to which the Government of Malaysia is a party and it is not intended to be and under no circumstances should be interpreted as a general waiver by the Government of Malaysia or a waiver with respect to proceedings unrelated to the Transaction Documents to which the Government of Malaysia is a party or the Certificates. In addition, the foregoing excludes a waiver of the Government of Malaysia's rights to immunity with regards to the following: (a) actions brought against the Trustee or the Government of Malaysia under U.S. federal securities laws or any state securities laws; (b) present or future "premises of the missions" as defined in the Vienna Convention on Diplomatic Relations signed in 1961; (c) "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963; (d) any other property or assets used solely or mainly for governmental or public purposes in Malaysia or elsewhere; and (e) military property or military assets or property or assets of the Government of Malaysia related thereto.

INVESTMENT CONSIDERATIONS

An investment in the Certificates involves certain risks. Prospective investors should carefully consider, in the light of their own financial circumstances and investment objectives the following factors, in addition to the matters set forth elsewhere in this offering memorandum, prior to investing in the Certificates. Each of the Government of Malaysia and the Trustee believes that the factors described below represent the principal risks inherent in investing in the Certificates, but the Government of Malaysia and the Trustee may be unable to pay any amounts on or in connection with any Certificate for other reasons and neither the Government of Malaysia nor the Trustee represents that the statements below regarding the risks of holding any Certificate are exhaustive or that the statements below relate to any other risks not described therein. There may also be other considerations, including some which may not be presently known to the Government of Malaysia or the Trustee or which the Government of Malaysia or the Trustee currently deem immaterial, that may impact on any investment in the Certificates.

Prospective investors should also read the detailed information set out elsewhere in this offering memorandum and reach their own views prior to making any investment decision. Words and expressions defined elsewhere in this offering memorandum shall have the same meanings in this section.

Investment consideration relating to the Trustee

The Trustee has no operating history and must rely on payments by the Government of Malaysia.

The Trustee is a newly formed entity and has no operating history. The Trustee will not engage in any business activity other than the issuance of the Certificates, the acquisition of the Trust Assets as described herein, acting in the capacity as Trustee and other activities incidental or related to the foregoing as required under the Transaction Documents.

The Trustee's only material assets, which will be held in trust for Certificateholders, will be the Trust Assets, including its right to receive payments from the Lessee under the Lease Agreement and payments from the Government of Malaysia under the Purchase Undertaking. Therefore, the Trustee is subject to all the risks to which the Government of Malaysia is subject to the extent that such risks could limit the Government of Malaysia's ability to satisfy in full and on a timely basis its obligations under the Transaction Documents. Investors should therefore carefully review the description of Malaysia herein.

The ability of the Trustee to pay amounts due on the Certificates will primarily be dependent upon receipt by the Trustee from the Lessee of all amounts due under the Lease Agreement, from the Government of Malaysia of the Exercise Price under the Purchase Undertaking and payments from the Government of Malaysia under the Servicing Agency Agreement. In the event of any shortfall in such amounts, the ability of the Trustee to meet its payment obligations under the Certificates may be adversely affected.

Investment considerations relating to the Certificates

There is currently no secondary market for the Certificates and there may be limited liquidity for Certificateholders.

There is no assurance that a secondary market for the Certificates will develop or, if it does develop, that it will provide the Certificateholders with liquidity of investment or that it will continue for the life of the Certificates. Accordingly, a Certificateholder may not be able to find a buyer to buy its Certificates readily or at prices that will enable the Certificateholder to realize a desired yield. The market value of the Certificates may fluctuate, and a lack of liquidity, in particular, can have a material adverse effect on the market value of the Certificates. Accordingly, the purchase of the Certificates is suitable only for investors who can bear the risks associated with a lack of liquidity in the Certificates and the financial and other risks associated with an investment in the Certificates. An investor in the Certificates must be prepared to hold the Certificates for an indefinite period of time or until their maturity.

The Certificates may be subject to restrictions on transfer which may adversely affect the value of the Certificates.

The Certificates have not been and will not be registered under the Securities Act or any United States state securities laws, and the Trustee has not undertaken to effect any exchange offer for the Certificates in the future. The Certificates may not be offered in the United States except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the Securities Act and applicable United States state securities laws, or pursuant to an effective registration statement. The Certificates and the Agency Agreement will contain provisions that will restrict the Certificates from being offered, sold or otherwise transferred except pursuant to the exemptions available pursuant to Rule 144A and Regulation S, or other exceptions, under the Securities Act. Furthermore, the Trustee has not registered the Certificates under any other country's securities laws. Investors must ensure that their offers and sales of the Certificates within the United States and other countries comply with applicable securities laws. See "*Transfer Restrictions*".

The ratings on the Certificates may be changed at any time and may adversely affect the market value of the Certificates.

On issuance, the Certificates are expected to be assigned a rating of "A-" by Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc. ("**Standard & Poor's**") and "A3" by Moody's Investors Services Limited ("**Moody's**"). A credit rating may not reflect all risks. The ratings may not reflect the potential effect of all risks related to the transaction structure, the market, the additional factors discussed above or any other factors that may affect the value of the Certificates. A credit rating is not a recommendation to buy, sell or hold securities, and may be revised or withdrawn by the rating agency at any time.

The Declaration of Trust may be modified without notice to Certificateholders.

The Declaration of Trust contains provisions permitting the Delegate from time to time and at any time without any consent or sanction of the Certificateholders to make any modification to the Declaration of Trust if, in the opinion of the Delegate, (i) such modification is of a formal, minor or technical nature, (ii) such modification is made to correct a manifest or proven (to the satisfaction of the Delegate) error, or (iii) except for certain Reserved Matters defined in the Declaration of Trust, such modification, waiver, authorization or determination is not materially prejudicial to the interest of Certificateholders. Unless the Delegate otherwise decides, any such modification shall as soon as practicable thereafter be notified to the Certificateholders and shall in any event be binding upon the Certificateholders.

The United States Internal Revenue Service may treat the Certificates as an interest in a grantor trust for federal income tax purposes, which may result in the Trustee and United States holders being subject to significant penalties.

The Trustee believes that it is appropriate to treat the Certificates as representing debt obligations of Malaysia and intends to do so. However, the United States Internal Revenue Service (the "**IRS**") may seek to characterize the Certificates as interests in a grantor trust for U.S. federal income tax purposes. Under this characterization, the Trustee and United States holders (as defined in "*Taxation—United States Federal Income Tax Considerations*") would be required to comply with certain information reporting requirements applicable to foreign trusts, or risk significant penalties. The Trustee does not expect that it will provide information that would allow either itself or United States holders to comply with these requirements if they were determined to be applicable. Should the IRS characterize the Certificates as interests in a grantor trust and should the Trustee be unable to provide the information necessary for itself and for United States holders to comply with the foreign trust information reporting requirements, both the Trustee and United States holders may be subject to significant penalties that may adversely affect the Trustee's financial position and the returns of United States holders from the Certificates. See "*Taxation—United States Federal Income Tax Considerations—Potential Alternative Characterization*".

Other investment considerations

The Certificates may not be a suitable investment for all investors.

The Certificates may not be a suitable investment for all investors. Each potential investor in the Certificates must determine the suitability of its investment in light of its own circumstances. In particular, each potential investor should:

- have sufficient knowledge and experience to make a meaningful evaluation of the Certificates, the merits and risks of investing in the Certificates and the information contained in this offering memorandum;

- have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Certificates and the impact the Certificates will have on its overall investment portfolio;

- have sufficient financial resources and liquidity to bear all of the risks of an investment in the Certificates, including where the currency of payment is different from the potential investor's currency;

- understand thoroughly the terms of the Certificates and be familiar with the behavior of any relevant indices and financial markets; and

- be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic and other factors that may affect its investment and its ability to bear the applicable risks.

Certificateholders may be adversely affected by a Total Loss Event despite the Trustee's obligation to adequately insure the Lease Assets.

Pursuant to the Lease Agreement, the Trustee is required, among other things, to insure the Lease Assets. The Trustee has delegated this obligation to the Government of Malaysia, as its servicing agent, and the Government of Malaysia has undertaken in the Servicing Agency Agreement, *inter alia*, to insure the Lease Assets in the name of the Trustee against the occurrence of a Total Loss Event at their full reinstatement value. A "**Total Loss Event**" is defined as the total loss or destruction of, or damage to the whole of the Lease Assets or any event or occurrence that renders the whole of the Lease Assets permanently unfit for any economic use and (but only after taking into consideration any insurances, takaful or other indemnity granted by any third party in respect of the Lease Assets) the repair or remedial work in respect thereof is wholly uneconomical and certain other events described herein, See *"Conditions — Condition 10 (Capital Distributions of the Trust)"*.

Nevertheless, should such an event occur, unless the Government of Malaysia (in its capacity as "**Servicing Agent**" under the Servicing Agency Agreement) procures new properties on the date of occurrence of the Total Loss Event that will be made subject to the Lease Agreement, the Lease will be required to terminate and the Certificates will be repaid using the proceeds of the insurance or takaful received by the Trustee. In connection with such termination, potential investors should be aware that (i) rental under the Lease will cease automatically upon the occurrence of a Total Loss Event and accordingly the Periodic Distribution Amount received by Certificateholders will reflect this fact and (ii) there may be a delay in the Trustee receiving the proceeds of insurance or takaful (or shortfall amounts from the Servicing Agent) and therefore in Certificateholders receiving the full

Dissolution Distribution Amount in respect of their Certificates, and no additional Periodic Distribution Amount will be paid in respect of this delay. In connection with this, the Servicing Agency Agreement provides that if sufficient insurance or takaful proceeds are not paid into the Transaction Account within 30 days of the occurrence of the Total Loss Event, Malaysia, as Servicing Agent, shall have failed in its responsibility to properly insure the Lease Assets and accordingly, Malaysia shall be required to pay any shortfall directly to the Transaction Account within 31 days of the occurrence of the Total Loss Event. The Delegate will be entitled to enforce this undertaking against Malaysia on behalf of the Certificateholders.

Certificateholders will be reliant on DTC procedures to exercise certain rights under the Certificates.

The Certificates will be represented on issue by one or more global certificates that will be deposited with a custodian for The Depository Trust Company ("**DTC**"). Except in the circumstances described in the global certificates, investors will not be entitled to receive Certificates in definitive form. DTC and its direct and indirect participants, including Euroclear and Clearstream, Luxembourg, will maintain records of the beneficial interests in the global certificates. While the Certificates are represented by the global certificates, investors will be able to trade their beneficial interests only through DTC and its respective participants.

While the Certificates are represented by the global certificates, the Trustee will discharge its payment obligation under the Certificates by making payments through the relevant clearing systems. A holder of a beneficial interest in a global certificate must rely on the procedures of the relevant clearing system and its participants to receive payments under the relevant Certificates. The Trustee has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interest in a global certificate.

Holders of beneficial interests in a global certificate will not have a direct right to vote in respect of the relevant Certificates. Instead, such holders will be permitted to act only to the extent that they are enabled by the relevant clearing system and its participants to appoint appropriate proxies.

There is no assurance that the Certificates will be Shariah compliant.

The Hongkong and Shanghai Banking Corporation Limited, Offshore Banking Unit Labuan and CIMB Investment Bank Berhad have obtained confirmation from their respective Shariah advisers to the transaction that the Certificates are Shariah compliant as of their date of issue. However, there can be no assurance that the transaction structure or issue and trading of the Certificates will be deemed to be Shariah compliant by any other Shariah board or Shariah scholar. None of the Trustee, Malaysia, the Joint Lead Managers, the Delegate or the Agents makes any representation as to the Shariah compliance of the Certificates and potential investors are reminded that, as with any Shariah views, differences in opinion are possible. Potential investors should obtain their own independent Shariah advice as to the compliance of the structure and the issue and trading of the Certificates with Shariah principles.

TERMS AND CONDITIONS OF THE CERTIFICATES

The following are the Terms and Conditions of the Certificates which will be incorporated by reference into each Global Certificate and each Definitive Certificate (as defined below), in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Trustee and the relevant Joint Lead Managers at the time of issue but, if not so permitted and agreed, such Definitive Certificates will have endorsed thereon or attached thereto such Terms and Conditions.

1Malaysia Sukuk Global Berhad (in its capacity as issuer and in its capacity as trustee, the "**Trustee**") has authorized the issue of its US$1,250,000,000 trust certificates due 2015 (the "**Certificates**").

In these Conditions, references to "**Certificates**" shall be references to the Certificates (whether in global form as a Regulation S Global Certificate or a Rule 144A Global Certificate or in definitive form as a Regulation S Definitive Certificate or a Rule 144A Definitive Certificate).

Each Certificate will represent an undivided beneficial ownership interest in the Trust Assets held on trust by the Trustee (the "**Trust**") for the holders of such Certificates pursuant to a declaration of trust (the "**Declaration of Trust**") to be dated on or about the Closing Date entered into by the Trustee and The Bank of New York Mellon (in its capacity as donee of the powers vested in it under, and delegate of the Trustee pursuant to, the Declaration of Trust, the "**Delegate**", which expression shall include any co-delegate, any replacement delegate and any successor thereto).

These Conditions include summaries of, and are subject to, the detailed provisions of the Declaration of Trust and the Agency Agreement. Payments relating to the Certificates will be made pursuant to an agency agreement to be dated on or about the Closing Date (the "**Agency Agreement**") made between, *inter alios*, the Trustee, the Delegate and The Bank of New York Mellon, as principal paying agent (in such capacity, the "**Principal Paying Agent**" and, together with any further or other paying agents appointed from time to time in respect of the Certificates, the "**Paying Agents**"), The Bank of New York Mellon as replacement agent (in such capacity, the "**Replacement Agent**"), The Bank of New York Mellon as registrar (in such capacity, the "**Registrar**") and The Bank of New York Mellon as transfer agent (in such capacity, the "**Transfer Agent**" and, together with any further or other transfer agents appointed from time to time in respect of the Certificates, the "**Transfer Agents**"). The Paying Agents, the Replacement Agent, the Registrar and the Transfer Agents are together referred to in these Conditions as the "**Agents**". References to the Agents or any of them or to the Delegate shall include their successors.

The Certificateholders are entitled to the benefit of, are bound by, and are deemed to have notice of the following documents (copies of which are available for inspection during usual business hours at the registered office of the Trustee (presently at 12th Floor, Bangunan Setia 1, 15 Lorong Dungun Bukit Damansara, 54090, Kuala Lumpur, Malaysia) and at the specified offices of the Paying Agents):

(i) a sale and purchase agreement between the Trustee (in its capacity as Purchaser) and the Federal Lands Commissioner (in its capacity as Seller) to be dated on or about the Closing Date (the "**Sale and Purchase Agreement**");

(ii) a lease agreement between the Trustee (in its capacity as lessor) and the Government of Malaysia (the "**Government of Malaysia**") (in its capacity as lessee) to be dated on or about the Closing Date (the "**Lease Agreement**");

(iii) a servicing agency agreement between the Trustee (in its capacity as Lessor) and the Government of Malaysia (in its capacity as Servicing Agent) to be dated on or about the Closing Date (the "**Servicing Agency Agreement**");

(iv) a purchase undertaking deed executed by the Government of Malaysia in favor of the Trustee and the Delegate to be dated on or about the Closing Date (the "**Purchase Undertaking**"), containing the form of sale agreement to be entered into by the Government of Malaysia and the Trustee in the circumstances set out in the Purchase Undertaking;

(v) a redemption undertaking deed executed by the Trustee in favor of the Government of Malaysia to be dated on or about the Closing Date (the "**Redemption Undertaking**") containing the form of redemption sale agreement to be entered into by the Government of Malaysia, via the Federal Lands Commissioner, and the Trustee in the circumstances set out in the Redemption Undertaking;

(vi) a substitution undertaking deed executed by the Trustee in favor of the Government of Malaysia to be dated on or about the Closing Date (the "**Substitution Undertaking**") containing the form of substitution sale agreement to be entered into by the Government of Malaysia, via the Federal Lands Commissioner, and the Trustee in the circumstances set out in the Substitution Undertaking;

(vii) the Declaration of Trust; and

(viii) the Agency Agreement,

each as may be amended and restated from time to time.

Each initial Certificateholder, by its acquisition and holding of its interest in a Certificate, shall be deemed to authorize and direct the Trustee, on behalf of the Certificateholders: (a) to apply the proceeds of the issuance towards the acquisition of the beneficial ownership in and to each of the assets described in Schedule 1 (*Assets*) to the Sale and Purchase Agreement as may be substituted from time to time (the "**Assets**"); and (b) to enter into each other Transaction Document to which it is a party, subject to the terms and conditions of the Declaration of Trust as supplemented by these Conditions.

1. INTERPRETATION

Words and expressions defined in the Declaration of Trust and the Agency Agreement shall have the same meanings where used in these Conditions unless the context otherwise requires or unless otherwise stated. In addition, in these Conditions the following expressions have the following meanings:

"**Additional Dissolution Distribution Amount**" has the meaning given to it in Condition 9(b) (*Payment — Cessation/Continuation of Profit Entitlement*);

"**Additional Lease Period**" has the meaning given to it in the Purchase Undertaking;

"**Additional Rental Amount**" means the amount of rental accrued due and payable during any Additional Lease Period;

"**Affected Loss Event Asset**" means any of the Lease Assets in respect of which a Total Loss Event occurs;

"**Business Day**" means a day (other than Saturday or Sunday) on which commercial banks and foreign exchange markets in Kuala Lumpur, London, Singapore and New York are open for general business;

"**Certificateholder**" means a person in whose name a Certificate is registered in the Register (or in the case of joint holders, the first named thereof) save that, for so long as the Certificates are represented by a Global Certificate, each person who has for the time being a particular aggregate face amount of such Certificates credited to his securities account in the records of DTC shall be deemed to be the Certificateholder in respect of the aggregate face amount of such Certificates for the purposes hereof other than for the purpose of payments in respect thereof, the right to which shall be vested, as against the Trustee, solely in the registered holder of such Global Certificate in accordance with and subject to the terms of the Declaration of Trust and such Global Certificates and the expressions "**holder**" and "**holder of Certificates**" and related expressions shall (where appropriate) be construed accordingly;

"**Definitive Certificates**" means the Regulation S Definitive Certificates and the Rule 144A Definitive Certificates;

"**Delegation**" has the meaning given to it in Condition 19 (*Delegate*);

"**Dissolution Date**" means, as the case may be:

(a) the Scheduled Dissolution Date;

(b) the Dissolution Event Redemption Date; and

(c) the date on which the Certificates are redeemed in accordance with the provisions of Condition 10(c) (*Capital Distributions of the Trust - Dissolution following a Total Loss Event*);

"**Dissolution Distribution Amount**" means the sum of:

(a) the outstanding face amount of the Certificates;

(b) any accrued but unpaid Periodic Distribution Amounts; and

(c) any Additional Dissolution Distribution Amount;

"**Dissolution Event**" has the meaning given to it in Condition 14 (*Dissolution Events*);

"**Dissolution Event Redemption Date**" has the meaning given to it in Condition 14 (*Dissolution Events*);

"**Dissolution Request**" has the meaning given to it in Condition 14 (*Dissolution Events*);

"**Dispute**" has the meaning given to it in Condition 22 (*Governing Law and Jurisdiction*);

"**DTC**" means The Depository Trust Company;

"**Encumbrance**" means any mortgage, charge, pledge, lien, deed of trust, security interest or other encumbrance or preferential arrangement that has the effect of constituting a security interest whether in effect on the date of issuance of the Certificates or thereafter;

"**Exercise Notice**" means an Exercise Notice given by or on behalf of the Seller in accordance with the terms of the Purchase Undertaking;

"**Exercise Price**" means the aggregate of:

(a) the face amount of the Certificates;

(b) all accrued but unpaid Rental (or part thereof) relating to the Lease Assets (if any), to the extent not received by the Trustee in its capacity as Lessor under the Lease Agreement;

(c) without duplication or double counting, an amount equal to any accrued but unpaid Services Charge Amount; and

(d) without duplication or double-counting, an amount representing any prior ranking claims (as described in items (i) and (ii) of Condition 6(b) (*Trust — Application of Proceeds from Trust Assets*)) in accordance with Condition 6(b) (*Trust — Application of Proceeds from Trust Assets*).

"**External Public Indebtedness**" means any obligation of the Government of Malaysia in respect of money borrowed and guarantees given by the Government of Malaysia in respect of money borrowed by others payable by its terms or at the option of its holder in any currency other than the currency of Malaysia which is in the form of, or represented by, bonds, notes, debentures or other like instruments or book entries (whether or not initially distributed by means of a private placement, public offering or otherwise) that is, or was intended at the time of issuance to be, or is eligible to be, traded, quoted, listed or ordinarily purchased and sold on any stock exchange, over-the-counter or other established securities market;

"**Extraordinary Resolution**" has the meaning given to it in Schedule 3 (*Provisions for Meetings of Certificateholders*) to the Declaration of Trust;

"**Global Certificate**" means each of the Regulation S Global Certificates and/or the Rule 144A Global Certificates;

"**Issue Date**" means the date of issue of the Certificates;

"**Joint Lead Managers**" means Barclays Bank PLC, CIMB Bank (L) Limited and The Hongkong and Shanghai Banking Corporation Limited, Offshore Banking Unit Labuan, and "**Joint Lead Manager**" means each of them;

"**Lease**" means the lease created pursuant to the Lease Agreement;

"**Lease Assets**" has the meaning given to it in Condition 6(a) (*Trust — Summary of the Trust*);

"**Lease Commencement Date**" means the Closing Date, being the date on which the Lease shall commence pursuant to the Lease Agreement;

"**Lease End Date**" means the Scheduled Dissolution Date, unless:

(a) the Lease is terminated on an earlier date in accordance with the terms of the Lease Agreement or any other Transaction Document, in which case it shall mean the date on which such early termination becomes effective; or

(b) the Lease End Date is extended in accordance with the Purchase Undertaking, in which case it shall mean the last day of the Additional Lease Period;

"**Lease Period**" means the period from, and including, a Rental Payment Date (or with respect to the first Lease Period, from, and including, the Lease Commencement Date) to, but excluding, the immediately following Rental Payment Date (or, with respect to the final Lease Period, the Lease End Date) and shall, where the context allows, include any Additional Lease Period.

"**Lessee**" has the meaning given to it in Condition 6(a) (*Trust — Summary of the Trust*);

"**Lessor**" has the meaning given to it in Condition 6(a) (*Trust — Summary of the Trust*);

"**Liability**" means any loss, damage, cost, charge, claim, demand, expense, judgment, action, proceeding or other liability whatsoever (including, without limitation in respect of taxes) and including any value added tax or similar tax charged or chargeable in respect thereof and legal or other fees and expenses on a full indemnity basis and references to "**Liabilities**" shall mean all of these;

"**Major Maintenance and Structural Repair**" means all structural repair and major maintenance (other than Ordinary Maintenance and Repair), including doing such acts or things and taking such steps to ensure that the Lease Assets suffer no damage, loss or diminution in value, without which the Lease Assets could not be reasonably and properly used by the Lessee;

"**Malaysia Certificates**" has the meaning given in Condition 13(b) (*Purchase and Cancellation of Certificates — Cancellation of Certificates held by the Government of Malaysia*);

"**New Lease Assets**" means the assets specified as such in a Substitution Notice and which shall only comprise of Shariah compliant assets;

"**Ordinary Maintenance and Repair**" means all repairs, replacements, acts, maintenance and upkeep works required for the general use and operation of the Lease Assets and to keep, repair, maintain and preserve the Lease Assets in good order, state and condition;

"**Payment Business Day**" means: (a) a day on which banks in the relevant place of surrender of any Certificate are open for presentation and payment of registered securities and for dealings in foreign currencies; and (b) in the case of payment by transfer to an account, any day which is a day on which commercial banks are open for general business in Kuala Lumpur, London and New York;

"**Periodic Distribution Amount**" has the meaning given to it in Condition 8(b) (*Periodic Distribution Provisions — Determination of Periodic Distribution Amount*);

"**Periodic Distribution Date**" means the 4th day in each June and December in each year or if any such day is not a Business Day the following Business Day, commencing on December 4, 2010 and ending on the Scheduled Dissolution Date;

"**Permitted Encumbrance**" means any Encumbrance:

(a) upon any property, project or asset created solely to secure payment of the cost of its purchase, improvement, construction, development or redevelopment (provided that (i) such Encumbrance does not extend to any other assets or revenues of the Government of Malaysia and (ii) in the case of construction, such Encumbrance may extend to unimproved real property for the construction or to any trust account into which proceeds of the applicable External Public Indebtedness are temporarily deposited pending their use for construction);

(b) existing on any property or asset at the time of its acquisition (or arising after its acquisition pursuant to an agreement entered into prior to, and not in contemplation of, such acquisition), and extensions and renewals of any such Encumbrance limited to the original property or asset covered thereby and securing any extension or renewal of the original secured financing;

(c) arising in the ordinary course of the borrowing activities of the Government of Malaysia to secure External Public Indebtedness with a maturity of one (1) year or less;

(d) arising out of the extension, renewal or replacement of any External Public Indebtedness permitted to be subject to an Encumbrance pursuant to paragraphs (a) or (c) above, provided that the principal amount of such External Public Indebtedness is not increased and that, in the case of paragraph (c) above, the maturity of the External Public Indebtedness is not extended by more than one (1) year;

(e) which arises pursuant to attachment, distraint or similar legal process in connection with court proceedings in which the claims are being contested in good faith, or which secures the reimbursement obligation under any bond given in connection with the release of property from any such Encumbrance; and

(f) arising by operation of law, provided that any such Encumbrance is not created or permitted to be created by the Government of Malaysia to secure any External Public Indebtedness;

"**Person**" means any individual, company, corporation, firm, partnership, joint venture, association, organization, state or agency of a state or other entity, whether or not having separate legal personality;

"**Potential Dissolution Event**" means any condition, event or act which, with the giving of notice, lapse of time, declaration, demand, determination or fulfillment of any other applicable condition (or any combination of the foregoing), would constitute a Dissolution Event;

"**Proceedings**" has the meaning given to it in Condition 22 (*Governing Law and Jurisdiction*);

"**Profit Rate**" means 3.928% per annum;

"**Proprietorship Taxes**" means all Taxes in relation to the Lease Assets imposed, charged or levied by law, regulation or decree against a proprietor, but excluding all Taxes that are imposed, charged or levied by law, regulation or decree against a lessee or a tenant;

"**Record Date**" means the 15th calendar day (whether a Business Day or not) before the date on which any Dissolution Distribution Amount or Periodic Distribution Amount (as applicable) is due to be paid;

"**Redemption and Cancellation Notice**" means a redemption and cancellation notice in substantially the form of Schedule 1 (*Form of Redemption and Cancellation Notice*) to the Redemption Undertaking;

"**Redemption Lease Assets**" means those Lease Assets (as the Government of Malaysia may select in its sole and absolute discretion in accordance with the terms of the Redemption Undertaking) specified as such by the Government of Malaysia in a Redemption and Cancellation Notice which, for the avoidance of doubt, shall be the whole of any individual Lease Asset and not part of any individual Lease Asset;

"**Redemption Sale Agreement**" means an agreement to be executed by the Trustee and the Federal Lands Commissioner pursuant to the exercise of the Redemption Undertaking (if applicable) substantially in the form set out in Schedule 2 (*Form of Redemption Sale Agreement*) to the Redemption Undertaking;

"**Register**" means the register maintained by the Registrar on which, among other things, the names and addresses of the holders from time to time of the Certificates, together with the particulars of the Certificates held by them respectively, and all transfers of Certificates are recorded;

"**Regulation S**" means Regulation S under the Securities Act;

"**Regulation S Definitive Certificates**" means those Certificates which are offered and sold outside the United States in an "offshore transaction" (within the meaning of Regulation S) and for the time being are in substantially the form set out in Part C (*Form of Regulation S Definitive Certificate*) of Schedule 1 (*Form of Certificates*) to the Declaration of Trust and includes any replacements issued pursuant to Condition 16 (*Replacement of Certificates*);

"**Regulation S Global Certificates**" means the global certificates offered and sold outside the United States in an "offshore transaction" (within the meaning of Regulation S) and in substantially the form set out in Part A (*Form of Regulation S Global Certificate*) of Schedule 1 (*Form of Certificates*) to the Declaration of Trust and includes any replacements issued pursuant to Condition 16 (*Replacement of Certificates*);

"**Relevant Powers**" has the meaning given to it Condition 19 (*Delegate*);

"**Rental**" for each Lease Period means an amount equal to the aggregate of:

(a) the Periodic Distribution Amount for the corresponding Periodic Distribution Period as determined in accordance with Condition 8(b) (*Periodic Distribution Provisions — Determination of Periodic Distribution Amount*); and

(b) the Supplementary Rental (if any);

"**Rental Payment Date**" means the date of each Periodic Distribution Date and (if applicable) the last day of an Additional Lease Period;

"**Reserved Matter**" has the meaning given to it in the Declaration of Trust;

"**Return Accumulation Period**" means the period from (and including) a Periodic Distribution Date (or, in the case of the first Return Accumulation Period, the Issue Date) to (but excluding) the next (or, in the case of the first Return Accumulation Period, first) Periodic Distribution Date;

"**Rule 144A**" means Rule 144A of the Securities Act;

"**Rule 144A Definitive Certificates**" means those Certificates which are offered and sold within the United States to "qualified institutional buyers" (within the meaning of Rule 144A) in reliance on Rule 144A and for the time being are in substantially the form set out in Part D (*Form of Rule 144A Definitive Certificate*) of Schedule 1 (*Form of Certificates*) to the Declaration of Trust and includes any replacements issued pursuant to Condition 16 (*Replacement of Certificates*);

"**Rule 144A Global Certificates**" means the global certificates offered and sold within the United States to qualified institutional buyers (within the meaning of Rule 144A) in reliance on Rule 144A and in substantially the form set out in Part B (*Form of Rule 144A Global Certificate*) of Schedule 1 (*Form of Certificates*) to the Declaration of Trust and includes any replacements issued pursuant to Condition 16 (*Replacement of Certificates*);

"**Sale Agreement**" means any sale agreement entered into in connection with the Purchase Undertaking or Substitution Undertaking;

"**Scheduled Dissolution Date**" means June 4, 2015;

"**Securities Act**" means the United States Securities Act of 1933, as amended;

"**Seller**" means the Federal Lands Commissioner in its capacity as seller of the Assets under the Sale and Purchase Agreement;

"**Services**" means the services relating to the Lease Assets to be provided by the Servicing Agent on behalf of the Lessor in respect of Major Maintenance and Structural Repair, Proprietorship Taxes and Takaful/Insurances, in accordance with the terms and conditions of the Servicing Agency Agreement;

"**Services Charge Amount**" means, in respect of a Lease Period, all payments made or incurred by the Servicing Agent in respect of the Services performed in relation to the Lease Assets during that Lease Period;

"**Servicing Agent**" has the meaning given to it in Condition 6(a) (*Trust — Summary of the Trust*);

"**Specified Denomination(s)**" means a minimum denomination of U.S.$100,000 and integral multiples of U.S.$1,000 in excess thereof;

"**Substituted Lease Assets**" means the assets specified as such in a Substitution Notice to the extent that on the Substitution Date they constitute Lease Assets belonging to the Trustee;

"**Substitution Date**" means the date specified as such in a Substitution Notice;

"**Substitution Notice**" means a substitution notice in substantially the form of Schedule 1 (*Form of Substitution Notice*) to the Substitution Undertaking;

"**Supplementary Rental**" means, in respect of a Lease Period, an amount equal to the Services Charge Amount applicable to the immediately preceding Lease Period, save that no Supplementary Rental shall be payable on the first Rental Payment Date;

"**Takaful/Insurance Coverage Amount**" means an amount equal to the aggregate of:

(a) the face amount of the Certificates; plus

(b) an amount equal to at least thirty (30) days Rental payable under the Lease Agreement; plus

(c) without duplication or double counting, an amount equal to any Services Charge Amount outstanding under the terms of the Servicing Agency Agreement in relation to the Lease Assets;

"**Takaful/Insurance Proceeds**" means the proceeds of a claim under the Takaful/Insurances, excluding any third party liability insurance proceeds or any environmental liability insurance proceeds;

"**Takaful/Insurances**" means the insurances in respect of the Lease Assets to be taken out by the Servicing Agent in accordance with the Servicing Agency Agreement;

"**Taxes**" has the meaning given to it in Condition 11 (*Taxation*);

"**Total Loss Event**" has the meaning given to it in Condition 10(c) (*Capital Distributions of the Trust — Dissolution following a Total Loss Event*);

"**Total Loss Shortfall Amount**" has the meaning given to it in Condition 6(a) (*Trust — Summary of the Trust*);

"**Total Loss Surplus Amount**" has the meaning given to it in Condition 10(c) (*Capital Distributions of the Trust — Dissolution following a Total Loss Event*);

"**Transaction Account**" has the meaning given to it in Condition 6(a) (*Trust — Summary of the Trust*);

"**Transaction Documents**" means the Declaration of Trust, the Agency Agreement, the Servicing Agency Agreement, the Purchase Undertaking, the Substitution Undertaking, the Redemption Undertaking, the Sale and Purchase Agreement, the Lease Agreement and the Certificates and any other agreements, deeds, undertakings, or documents entered into pursuant to any of the foregoing or which can be entered into by the parties to any of the foregoing from time to time and are designated as such by the parties thereto and the Delegate; and

"**Trust Assets**" has the meaning given to it in Condition 6(a) (*Trust — Summary of the Trust*).

All references in these Conditions to "**U.S. dollars**", "**U.S.$**" and "**$**" are to the lawful currency of the United States of America.

The rules of interpretation set out in the Declaration of Trust shall apply to these Conditions as if set out herein, *mutatis mutandis*.

2. FORM, DENOMINATION AND TITLE

(a) Form and Denomination

The Certificates will be issued in minimum denominations of U.S.$100,000 and in integral multiples of U.S.$1,000 in excess thereof.

The Certificates shall, on issue, be represented by (a) one or more Regulation S Global Certificates; and (b) one or more Rule 144A Global Certificates. Beneficial interests in the Regulation S Global Certificates will be registered in the name of Cede & Co. as nominee for DTC and shall be deposited with The Bank of New York Mellon as custodian for DTC. The Rule 144A Global Certificates will be offered and sold within the United States to persons that are "qualified institutional buyers" as defined in Rule 144A ("**QIBs**") in transactions made in reliance on Rule 144A. Beneficial interests in the Rule 144A Global Certificates will be registered in the name of Cede & Co. as nominee for DTC and shall be deposited with The Bank of New York Mellon as custodian for DTC.

The Trustee shall issue Definitive Certificates in exchange for the Global Certificates only in accordance with the provisions thereof.

(b) Title

Subject as otherwise provided in a Global Certificate and the definition of "Certificateholders", the Trustee and/or the Delegate may (to the fullest extent permitted by applicable laws) deem and treat those persons in whose names any outstanding Certificates are for the time being registered (as set out in the Register) as the holder of any Certificate or of a particular face amount of Certificates, for all purposes (whether or not such Certificate or face amount shall be overdue and notwithstanding any notice of ownership thereof or of any trust or other interest with regard thereto, and any notice of loss or theft or any writing thereon), and the Trustee and/or the Delegate shall not be affected by any notice to the contrary. All payments made to such holder shall be valid and, to the extent of the sums so paid, effective to satisfy and discharge the liability for moneys payable in respect of such Certificate or face amount.

The Trustee and the Delegate may call for and shall be at liberty to accept and place full reliance on (as sufficient evidence thereof and shall not be liable to any Certificateholder by reason only of either having accepted as valid or not having rejected) an original certificate or letter of confirmation purporting to be signed on behalf of DTC or any other relevant clearing system to the effect that at any particular time or throughout any particular period any particular person is, was or will be shown in its records as having a particular nominal amount of Certificates credited to his securities account.

3. TRANSFERS OF CERTIFICATES

(a) Transfers

Subject to Condition 3(d) (*Closed Periods*) and Condition 3(e) (*Regulations*) and to the provisions of the Agency Agreement, a Certificate may be transferred in whole or in an amount equal to the Specified Denomination(s) by depositing the Certificate, with the form of transfer on the back duly completed and signed, at the specified office of any of the Transfer Agents.

Beneficial interests in the Global Certificates shall be transferable only in accordance with the rules and procedures for the time being of DTC.

(b) **Delivery of New Certificates**

Each new Certificate to be issued upon any transfer of Certificates will, within five business days of receipt by the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Certificate to the address specified in the form of transfer. For the purposes of this Condition 3(b), "**business day**" shall mean a day (other than a Saturday or Sunday) on which banks are open for business in the city in which the specified office of the Transfer Agent with whom a Certificate is deposited in connection with a transfer is located.

Where some but not all of the Certificates in respect of which a Certificate is issued are to be transferred a new Certificate in respect of the Certificates not so transferred will, within five business days of receipt by the relevant Transfer Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Certificates not so transferred to the address of such holder appearing on the Register or as specified in the form of transfer.

(c) **Formalities Free of Charge**

Registration of any transfer of Certificates will be effected without charge by or on behalf of the Trustee or any Transfer Agent but upon payment (or the giving of such indemnity as the Trustee or any Transfer Agent may require) by the transferee in respect of any stamp duty, tax or other governmental charges which may be imposed in relation to such transfer.

(d) **Closed Periods**

No Certificateholder may require the transfer of a Certificate to be registered during the period of fifteen days ending on (and including) the due date for any payment of the Dissolution Distribution Amount or any Periodic Distribution Amount.

(e) **Regulations**

All transfers of Certificates and entries on the Register will be made subject to the detailed regulations concerning transfer of Certificates scheduled to the Agency Agreement (and as amended from time to time). A copy of the current regulations will be mailed (free of charge) by the Registrar to any Certificateholder who requests in writing a copy of such regulations.

Unless otherwise requested by him, each Certificateholder shall be entitled to receive, in accordance with Condition 2(b) (*Form, Denomination and Title — Title*), only one Certificate in respect of his entire holding of Certificates. In the case of a transfer of a portion of the face amount of a Certificate, a new Certificate in respect of the balance of the Certificates not transferred will be issued to the transferor in accordance with Condition 3(b) (*Transfers of Certificates — Delivery of New Certificates*).

4. STATUS AND LIMITED RECOURSE

(a) **Status**

Each Certificate will represent an undivided beneficial ownership interest in the Trust Assets and will be a limited recourse obligation of the Trustee. Each Certificate will rank *pari passu*, without preference or priority, with all other Certificates issued in accordance with these Conditions.

(b) **Limited Recourse**

The proceeds of the Trust Assets are the sole source of payments on the Certificates. Save as provided in the next sentence, the Certificates do not represent an interest in or obligation of any of the Trustee, the Delegate, the Government of Malaysia, any of the Agents or any of their respective affiliates. Accordingly, Certificateholders, by subscribing for or acquiring the Certificates, acknowledge that they will have no recourse to any assets of the Trustee (and/or its directors, officers, administrators, employees or shareholders) (other than to the Trust Assets in accordance with the provisions of the Transaction Documents and, for the avoidance of doubt, excluding the Lease Assets) or the Government of Malaysia (to the extent that it fulfils all of its obligations under the Transaction Documents to which it is a party) or the Delegate or the Agents or any of their respective affiliates in respect of any shortfall in the expected amounts from the Trust Assets to the extent the Trust Assets have been fully discharged in accordance with the Transaction Documents following which all obligations of the Trustee, the Delegate, the Agents and the Government of Malaysia shall be extinguished.

The Government of Malaysia is obliged to make payments under the relevant Transaction Documents to which it is a party directly to the Trustee. The Trustee and the Delegate (acting in the name and on behalf of the Trustee and subject to the Delegate being indemnified) will upon the occurrence of a Dissolution Event have direct recourse against the Government of Malaysia to recover payments due to the Trustee from the Government of Malaysia pursuant to such Transaction Documents.

The net proceeds of the enforcement with respect to the Trust Assets may not be sufficient to make all payments due in respect of the Certificates. If, following distribution of such proceeds, there remains a shortfall in payments due under the Certificates, subject to Condition 15 (*Enforcement and Exercise of Rights*), no Certificateholder will have any claim against the Trustee (and/or its directors, officers or shareholders), the Government of Malaysia (to the extent that it fulfils all of its obligations under the Transaction Documents to which it is a party), the Delegate, the Agents or any of their respective affiliates, or against any assets (other than to the Trust Assets in accordance with the provisions of the Transaction Documents) in respect of such shortfall and any unsatisfied claims of Certificateholders shall be extinguished. Under no circumstances shall the Trustee, the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets other than to the Government of Malaysia or its designee in accordance with the Purchase Undertaking and the sole right of the Delegate and the Certificateholders against the Trustee or the Government of Malaysia shall be to enforce their respective obligations under the Transaction Documents. In particular, no Certificateholders will be able to petition for, or join any other person in instituting proceedings for, the reorganization, liquidation, winding up or receivership of the Trustee (and/or its directors), the Delegate, the Agents or any of their respective affiliates as a consequence of such shortfall or otherwise.

(c) **Agreement of Certificateholders**

By purchasing Certificates, each Certificateholder is deemed to have agreed that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

(i) no payment of any amount whatsoever shall be made by the Trustee, the Delegate (acting in the name and on behalf of the Trustee), or any of the respective agents on their behalf except to the extent funds are available therefor from the Trust Assets;

(ii) no recourse shall be had for the payment of any amount owing hereunder or under any Transaction Document, whether for the payment of any fee or other amount hereunder or any other obligation or claim arising out of or based upon the Transaction Documents, against the Trustee or the Delegate to the extent the Trust Assets have been exhausted following which all obligations of the Trustee and the Delegate shall be extinguished;

(iii) prior to the date which is one year and one day after the date on which all amounts owing by the Trustee under the Transaction Documents to which it is a party have been paid in full, it will not institute against, or join with any other person in instituting against, the Trustee any bankruptcy, reorganization, arrangement or liquidation proceedings or other proceedings under any bankruptcy or similar law;

(iv) no recourse (whether by institution or enforcement of any legal proceeding or assessment or otherwise) in respect of any breaches of any duty, obligation or undertaking of the Trustee arising under or in connection with the Declaration of Trust by virtue of any customary law, statute or otherwise shall be had against any shareholder, officer, employee, administrator or director of the Trustee in their capacity as such and any and all personal liability of every such shareholder, officer, employee, administrator or director in their capacity as such for any breaches by the Trustee of any such duty, obligation or undertaking is expressly waived and excluded to the extent permitted by law; and

(v) under no circumstances shall the Delegate or any Certificateholder cause the sale or other disposition of any of the relevant Lease Assets otherwise than to the Government of Malaysia in accordance with the terms of the Transaction Documents and the sole right of the Delegate and the Certificateholders against the Trustee or the Government of Malaysia shall be to enforce the rights and obligations under the Trust Assets in accordance with the Transaction Documents.

5. NEGATIVE PLEDGE

The Government of Malaysia has covenanted and undertaken in the Purchase Undertaking that, so long as any Certificate remains outstanding, it will not create or permit to subsist any Encumbrance over the whole or any part of its present or future property, revenues or assets to secure External Public Indebtedness of the Government of Malaysia unless at the same time or prior thereto, all amounts payable under the Purchase Undertaking, the Lease Agreement and the Servicing Agency Agreement are secured at least equally and ratably with such External Public Indebtedness, provided however, that the Government of Malaysia may create or permit to subsist Permitted Encumbrances.

6. TRUST

(a) Summary of the Trust

Pursuant to the Declaration of Trust entered into between the Trustee and the Delegate, the Trustee agrees to hold the Trust Assets upon trust absolutely for the Certificateholders as beneficiaries in accordance with the provisions of the Declaration of Trust.

Pursuant to the Sale and Purchase Agreement, the Federal Lands Commissioner will sell, transfer and convey to the Trustee the Assets.

Pursuant to the Lease Agreement, the Trustee in its capacity as lessor of the Lease Assets (in such capacity, the "**Lessor**") will lease the lease assets comprised of the Assets, as such assets may be repaired, refurbished, upgraded or replaced from time to time as a result of any Major Maintenance and Structural Repair and/or any Ordinary Maintenance and Repair or any substitution in accordance with the Substitution Undertaking, in which case the parties to the Lease Agreement shall amend Schedule 1 (*Assets*) to the Lease Agreement to reflect any such substitution (the "**Lease Assets**" provided however that "Lease Assets" shall not include any asset the title to which has been sold, transferred or otherwise conveyed to the Government of Malaysia under the terms of the relevant Transaction Documents) to the Government of Malaysia, in its capacity as lessee of the Lease Assets (in such capacity, the "**Lessee**").

The Lessee will pay the Rental on each Rental Payment Date.

Under the Servicing Agency Agreement, the Trustee will appoint the Government of Malaysia as the Lessor's agent (in such capacity, the "**Servicing Agent**") in respect of the Lease Assets.

The Government of Malaysia will execute the Purchase Undertaking in favor of the Trustee and the Delegate pursuant to which the Government of Malaysia undertakes, following receipt of an Exercise Notice from the Trustee, to purchase all of the Trustee's interests, rights, benefits and entitlements in and to the relevant Lease Assets at the Exercise Price specified in the Exercise Notice.

If, following the receipt of an Exercise Notice pursuant to the Purchase Undertaking, the Government of Malaysia fails to pay all or part of the Exercise Price on the due date for payment thereof, (i) the Government of Malaysia shall irrevocably, unconditionally and automatically (without the necessity for any notice or any other action) continue to act as Servicing Agent in respect of the Lease Assets, and (ii) the Lease Agreement shall be deemed to be extended for a period from and including, the date on which the Exercise Price was due to, but excluding the date on which the Exercise Price is paid in full in accordance with the terms of the Purchase Undertaking. In such circumstances, the Lessor shall be entitled to receive the Additional Rental Amount in respect of such period.

Upon the occurrence of a Total Loss Event, (i) the Lease shall automatically terminate and the Lessor will be entitled (in addition to any amounts payable pursuant to the Servicing Agency Agreement) to any due and unpaid Rental up to the date on which the Total Loss Event occurred, and (ii) the Certificates will be redeemed and the Trust will be dissolved by the Trustee on the date specified in Condition 10(c) (*Capital Distributions of the Trust — Dissolution following a Total Loss Event*). The Certificates will be redeemed in accordance with the order of priority set out in Condition 6(b) (*Trust — Application of Proceeds from Trust Assets*) using the Takaful/Insurance Proceeds payable in respect of the Total Loss Event which are required to be paid into the Transaction Account by no later than close of business in Kuala Lumpur on the 30th day after the occurrence of the Total Loss Event and any Total Loss Shortfall Amount. If a Total Loss Event occurs and an amount (if any) less than the Takaful/Insurance Coverage Amount is credited to the Transaction Account (the difference between the Takaful/Insurance Coverage Amount and the amount credited to the relevant Transaction Account being the "**Total Loss Shortfall Amount**"), then the Servicing Agent will pay the Total Loss Shortfall Amount directly into the Transaction Account as soon as practicable and in any event by no later than the close of business in Kuala Lumpur on the 31st day after the Total Loss Event has occurred. None of the Delegate or Agents is under a duty or obligation to determine or calculate the Total Loss Shortfall Amount or the Takaful/Insurance Coverage Amount.

Under the Redemption Undertaking, the Trustee will grant to the Government of Malaysia the right, provided that a Redemption and Cancellation Notice has been served on the Trustee in accordance with the terms of the Redemption Undertaking, to require the Trustee to sell, transfer and convey its interest, rights, benefits and entitlements in and to the relevant Redemption Lease Assets in consideration for the relevant Malaysia Certificates which the Government of Malaysia shall surrender, and the Trustee shall cancel, in accordance with the Declaration of Trust, these Conditions and the terms of the Redemption Undertaking.

The Trustee will execute the Substitution Undertaking in favor of the Government of Malaysia pursuant to which the Government of Malaysia has the right to require the Trustee to sell, transfer and convey on any Substitution Date all of the Trustee's interest, rights, benefits and entitlements in and to the Substituted Lease Assets in consideration for the transfer and conveyance by the Government of Malaysia to the Trustee of the New Lease Assets (pursuant to a sale agreement). The Government of Malaysia will be obliged to certify that the New Lease Assets are of a value which is equal to or greater than the value of the Substituted Lease Assets on the relevant Substitution Date.

In order to effect the substitution, the Trustee and the Government of Malaysia will enter into a sale agreement to effect the sale of the Substituted Lease Assets to the Government of Malaysia and the sale of the New Lease Assets to the Trustee.

The Trustee will establish a transaction account in New York or the city in which the specified office of the Principal Paying Agent is located (the "**Transaction Account**") in the name of the Trustee which shall be operated by the Principal Paying Agent on behalf of the Trustee for the benefit of the Certificateholders into which: (i) the Government of Malaysia will deposit all amounts due to the Trustee under the Lease Agreement, the Servicing Agency Agreement or the Purchase Undertaking, as the case may be, and (ii) the Delegate will deposit all the proceeds of any action to enforce the Trust Assets taken in accordance with Condition 15 (*Enforcement and Exercise of Rights*).

Pursuant to the Declaration of Trust, 1Malaysia Sukuk Global Berhad will declare that it will hold certain assets (the "**Trust Assets**"), consisting of:

(i) all of 1Malaysia Sukuk Global Berhad's rights, interest and benefit (present and future) in, to and under the Lease Assets;

(ii) all monies standing to the credit of the Transaction Account;

(iii) all of 1Malaysia Sukuk Global Berhad's rights, interest and benefit (present and future) in, to and under the Transaction Documents (excluding any representations given to 1Malaysia Sukuk Global Berhad by the Government of Malaysia pursuant to any of the Transaction Documents); and

(iv) all proceeds of the foregoing (which are held by 1Malaysia Sukuk Global Berhad),

upon trust absolutely for the Certificateholders *pro rata* according to the face amount of Certificates held by each holder in accordance with the Declaration of Trust and these Conditions.

(b) **Application of Proceeds from Trust Assets**

Pursuant to the Declaration of Trust, the Trustee holds the Trust Assets upon trust absolutely for the Certificateholders as beneficiaries. On each Periodic Distribution Date and on any Dissolution Date, the Principal Paying Agent shall apply the monies standing to the credit of the Transaction Account in the following order of priority:

(i) *first,* in accordance with the terms of the Declaration of Trust (to the extent not previously paid) to the Delegate in respect of all amounts owing to it under the Transaction Documents in its capacity as Delegate;

(ii) *second,* to the Principal Paying Agent for application in or towards payment *pari passu* and ratably of all Periodic Distribution Amounts due but unpaid;

(iii) *third,* only if such payment is made on a Dissolution Date, to the Principal Paying Agent for application in or towards payment *pari passu* and ratably of: (i) the Dissolution Distribution Amount; or (ii) the amount payable following a Total Loss Event, as the case may be; and

(iv) *fourth,* only if such payment is made on a Dissolution Date, payment of the residual amount (if any) to the Trustee.

7. COVENANTS

The Trustee covenants that, amongst other things, for so long as any Certificate is outstanding, it shall not (without the prior written consent of the Delegate):

(i) incur any indebtedness in respect of borrowed money whatsoever, or give any guarantee or indemnity in respect of any obligation of any person or issue any shares (or rights, warrants or options in respect of shares or securities convertible into or exchangeable for shares) except, in all cases, as contemplated in the Transaction Documents;

(ii) secure any of its present or future indebtedness for borrowed money by any lien, pledge, charge or other security interest upon any of its present or future assets, properties or revenues (other than those arising by operation of law (if any) and other than under or pursuant to any of the Transaction Documents);

(iii) sell, lease, transfer, assign, participate, exchange or otherwise dispose of, or pledge, mortgage, hypothecate or otherwise encumber (by security interest, lien (statutory or otherwise), preference, priority or other security agreement or preferential arrangement of any kind or nature whatsoever or otherwise) (or permit such to occur or suffer such to exist), any part of its interests in any of the Trust Assets except pursuant to any of the Transaction Documents;

(iv) subject to Condition 18 (*Meetings of Certificateholders, Modification, Waiver, Authorization and Determination*), amend or agree to any amendment of any Transaction Document to which it is a party (other than in accordance with the terms thereof) or its constitutional documents;

(v) except as provided in the Declaration of Trust, act as trustee in respect of any trust other than the Trust or in respect of any parties other than the Certificateholders;

(vi) have any subsidiaries or employees;

(vii) redeem any of its shares or reduce its share capital or pay any dividend or make any other distribution to its shareholders;

(viii) use the proceeds of the issue of the Certificates for any purpose other than as stated in the Transaction Documents;

(ix) put to its directors or shareholders any resolution for, or appoint any liquidator for, its winding up or any resolution for the commencement of any other bankruptcy or insolvency proceeding with respect to it; or

(x) enter into any contract, transaction, amendment, obligation or liability other than the Transaction Documents to which it is a party or as expressly permitted or required thereunder or engage in any business or activity other than:

   (A) as provided for or permitted in the Transaction Documents;

   (B) the ownership, management and disposal of the Trust Assets as provided in the Transaction Documents; and

   (C) such other matters which are incidental thereto.

8. PERIODIC DISTRIBUTION PROVISIONS

(a) Periodic Distribution Amount

A Periodic Distribution Amount representing a defined share of the Rental paid by the Lessee to the Lessor pursuant to the Lease Agreement in respect of the Lease Assets for the Certificates will be distributed by the Trustee to the Certificateholders in accordance with these Conditions.

(b) Determination of Periodic Distribution Amount

The Periodic Distribution Amount payable in respect of each Certificate for any Return Accumulation Period shall be an amount equal to the product of: (a) the Profit Rate, (b) the outstanding face amount of the relevant Certificate, and (c) the number of days in such Return Accumulation Period (calculated on the basis of twelve 30-day months) divided by 360 (such amount being the "**Periodic Distribution Amount**").

If any Periodic Distribution Amount is required to be calculated for a period other than a Return Accumulation Period, such Periodic Distribution Amount shall be calculated by multiplying (a) the Profit Rate, (b) the face amount of the relevant Certificate, and (c) the number of days in the relevant period (calculated on the basis of twelve 30-day months) divided by 360.

9. PAYMENT

(a) Payments in Respect of Certificates

Payment of any Periodic Distribution Amount or the Dissolution Distribution Amount will be made by the Principal Paying Agent in U.S. dollars, by wire transfer in immediately available funds to the registered account of each Certificateholder or by check drawn on a bank that processes payments in U.S. dollars mailed to the registered address of the Certificateholder if it does not have a registered account. Payments of the Dissolution Distribution Amount will only be made against surrender of the relevant Certificate at the specified office of any of the Paying Agents. The Dissolution Distribution Amount and any Periodic Distribution Amount will be paid to the holder shown on the Register at the close of business on the relevant Record Date.

For the purposes of these Conditions, a Certificateholder's "**registered account**" means an account denominated in U.S. dollars maintained by or on behalf of it with a bank that processes payments in U.S. dollars, details of which appear on the Register at the close of business on the relevant Record Date, and a Certificateholder's "**registered address**" means its address appearing on the Register at that time.

(b) Cessation/Continuation of Profit Entitlement

Provided that, upon due presentation, payment is not improperly withheld or refused, no further amounts will be payable on any Certificate from and including the relevant Dissolution Date.

In the event that, upon due presentation, the Dissolution Distribution Amount is improperly withheld or refused, to the extent applicable, the Lease Agreement shall be deemed to be extended for a period from and including the date on which the Dissolution Distribution Amount was due to but excluding the date on which the Dissolution Distribution Amount is paid in full. In accordance with the terms of the Purchase Undertaking, the Government of Malaysia shall continue to lease the Lease Assets from the Trustee (as Lessor) and will continue to act as Servicing Agent in respect of the Lease Assets until but excluding the date on which the Dissolution Distribution Amount is paid in full.

Certificateholders shall be entitled to payment of a defined share in the Additional Rental Amount received from the continuation of the leasing of the Lease Assets (such amount to be the "**Additional Dissolution Distribution Amount**") and the Additional Dissolution Distribution Amount shall be distributed by the Trustee to the Certificateholders as part of the Dissolution Distribution Amount in accordance with these Conditions.

Certificateholders hereby waive the right to receive any interest awarded by a court or regulatory authority under the terms of any judgment but, for the avoidance of doubt, such waiver shall not include a waiver of any right to receive the Additional Dissolution Distribution Amount nor shall it constitute a waiver by the Trustee of any right to receive payment of the Rental received from the continuation of the leasing of the Lease Assets.

(c) **Payments subject to Applicable Laws**

Payments in respect of Certificates are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment, but without prejudice to the provisions of this Condition 9.

(d) **Payment only on a Payment Business Day**

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Payment Business Day, for value the first following day which is a Payment Business Day) will be initiated and, where payment is to be made by check, the check will be mailed, in each case by the Principal Paying Agent, on the due date for payment or, in the case of a payment of the Dissolution Distribution Amount, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of a Paying Agent (if required to do so).

Certificateholders will not be entitled to any additional Periodic Distribution Amount, Dissolution Distribution Amount or other payment for any delay after the due date in receiving the amount due if the due date is not a Payment Business Day, if the relevant Certificateholder is late in surrendering its Certificate (if required to do so) or if a check mailed in accordance with this Condition 9 arrives after the due date for payment.

If the amount of the Dissolution Distribution Amount or any Periodic Distribution Amount is not paid in full when due, the Registrar will annotate the Register with a record of the amount actually paid.

(e) **Agents**

In acting under the Agency Agreement and in connection with the Certificates, the Agents act solely as agents of the Trustee and (to the extent provided in the Declaration of Trust and the Agency Agreement) the Delegate and do not assume any obligations towards or relationship of agency or trust for or with any of the Certificateholders.

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Trustee reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that it will at all times maintain a Paying Agent (which may be the Principal Paying Agent) having its specified office in New York; a Paying Agent (which may be the Principal Paying Agent) located in an EU Member State that is not obliged to withhold or deduct tax pursuant to European Council Directive 2003/48/EC on the taxation of savings income or any law implementing or complying with, or in order to conform to, such Directive; a Registrar; a Replacement Agent and a Transfer Agent (which may be the same entity).

Notice of any such change or any change of any specified office shall be given to the Trustee and the Certificateholders in accordance with the provisions of the Agency Agreement.

(f) **Partial Payments**

In the case of partial payment upon presentation of a Certificate, unless a new Certificate has been issued in accordance with the terms of the Agency Agreement, the Trustee shall procure that a statement indicating the amount and the date of such payment is enfaced on the relevant Certificate.

10. CAPITAL DISTRIBUTIONS OF THE TRUST

(a) **Dissolution on the Scheduled Dissolution Date**

Unless the Certificates are previously redeemed or purchased and cancelled, the Trustee will redeem the Certificates at the Dissolution Distribution Amount and the Trust will be dissolved by the Trustee on the Scheduled Dissolution Date.

(b) **Dissolution following a Dissolution Event**

Upon the occurrence of a Dissolution Event, the Certificates shall become due and payable at the Dissolution Distribution Amount on the Dissolution Distribution Event Redemption Date and the Trustee shall redeem the Certificates at the Dissolution Distribution Amount on the Dissolution Event Redemption Date in accordance with Condition 14 (*Dissolution Events*) if the Conditions set out in Condition 14 (*Dissolution Events*) are satisfied.

(c) **Dissolution following a Total Loss Event**

Upon the occurrence of a Total Loss Event, the Certificates will be redeemed and the Trust dissolved by the Trustee on the date notified by the Principal Paying Agent in a notice given to the Certificateholders in accordance with Condition 17 (*Notices*). The Certificates shall be redeemed at the Dissolution Distribution Amount using the Takaful/Insurance Proceeds required to be paid into the Transaction Account by the Servicing Agent in accordance with the terms of the Servicing Agency Agreement on or before the 30th day following the occurrence of a Total Loss Event (if any) and any Total Loss Shortfall Amount required to be paid into the Transaction Account by the Servicing Agent in accordance with the terms of the Servicing Agency Agreement no later than the close of business in Malaysia on the 31st day after the Total Loss Event has occurred.

Notwithstanding the foregoing, if a Total Loss Event occurs and an amount greater than the Takaful/Insurance Coverage Amount (plus any accrued but unpaid Rental) is credited to the Transaction Account (the difference between the amount credited to the relevant Transaction Account and the Takaful/Insurance Coverage Amount (plus any accrued but unpaid Rental) being the "**Total Loss Surplus Amount**"), then the Servicing Agent will be entitled to retain the Total Loss Surplus Amount as an incentive fee for the performance of its obligations under the Servicing Agency Agreement and any insurance proceeds received thereafter shall be for the Servicing Agent's sole account.

"**Total Loss Event**" means:

(i) the total loss or destruction of, or damage to the whole of the Lease Assets or any event or occurrence that renders the whole of the Lease Assets permanently unfit for any economic use and (but only after taking into consideration any insurances or other indemnity granted in each case by any third party in respect of the Lease Assets) the repair or remedial work in respect thereof is wholly uneconomical; or

(ii) the Lessor ceases to own the entirety of the Lease Assets other than in accordance with terms of the Transaction Documents.

(d) **No other Dissolution**

The Trustee shall not be entitled to redeem the Certificates, and the Trustee shall not be entitled to dissolve the Trust otherwise than as provided in this Condition 10 and Condition 14 (*Dissolution Events*).

(e) **Cancellations**

All Certificates which are redeemed will forthwith be cancelled and accordingly may not be held, reissued or resold by the Trustee.

(f) **Effect of payment in full of Certificates**

Upon payment in full of all amounts due in respect of a Certificate, such Certificate shall cease to represent an undivided beneficial ownership interest in the Trust Assets and no further amounts shall be payable in respect thereof and upon payment in full of amounts due in respect of all Certificates the Trust shall be dissolved.

11. TAXATION

All payments in respect of the Certificates shall be made without withholding or deduction for, or on account of, any tax, levy, duty, registration fee or other charge or withholding of a similar nature imposed in Malaysia ("**Taxes**"), unless the withholding or deduction of the Taxes is required by law. In such event, the Trustee will pay additional amounts so that the full amount which otherwise would have been due and payable under the Certificates is received by the Certificateholders, except that no such additional amount shall be payable in relation to any payment to any Certificateholder:

(i) who is liable for such Taxes in respect of such Certificate by reason of having some connection with a Relevant Jurisdiction other than the mere holding of such Certificate; or

(ii) where the relevant Definitive Certificate is required to be presented for payment and is presented for payment more than 30 days after the Relevant Date (as defined below) except to the extent that a holder would have been entitled to additional amounts on presenting the same for payment on the last day of the period of 30 days assuming, whether or not such is in fact the case, that day to have been a Payment Business Day; or

(iii) where such withholding or deduction is imposed on a payment to an individual and is required to be made pursuant to any law implementing European Council Directive 2003/48/EC on the taxation of savings income or any other Directive implementing the conclusions of the ECOFIN Council meeting of 26-27 November 2000; or

(iv) who presented a Certificate for payment (where presentation is required) and who would be able to avoid such withholding or deduction by presenting the relevant Certificate to another Paying Agent in a different Member State of the European Union.

In these Conditions:

"**Relevant Date**" means the date on which the payment first becomes due but, if the full amount of the money payable has not been received by the Principal Paying Agent or the Trustee on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect shall have been duly given to Certificateholders by the Trustee in accordance with Condition 17 (*Notices*); and

"**Relevant Jurisdiction**" means Malaysia or, in each case, any political subdivision or authority thereof or therein having the power to tax.

The Lease Agreement and the Purchase Undertaking provide that payments thereunder by the Government of Malaysia shall be made without withholding or deduction for, or on account of, any present or future Taxes, unless the withholding or deduction of the Taxes is required by law and, in such case, provide for the payment by the Government of Malaysia of additional amounts so that the full amount which would otherwise have been due and payable is received by the Trustee.

Further, in accordance with the terms of the Lease Agreement and the Purchase Undertaking, the Government of Malaysia undertakes to pay such additional amounts as may be necessary pursuant to this Condition 11 so that the full amount due and payable by the Trustee in respect of the Certificates to the Certificateholders is received by the Trustee for the purposes of payment to the Certificateholders in accordance with and subject to the provisions of this Condition 11.

12. PRESCRIPTION

The right to receive distributions in respect of the Certificates will be forfeited unless claimed within a period of ten years in the case of the Dissolution Distribution Amount and five years (in the case of Periodic Distribution Amounts) from the Relevant Date in respect thereof. None of the Trustee, the Agents or the Delegate shall be responsible or liable for any amounts so prescribed.

13. PURCHASE AND CANCELLATION OF CERTIFICATES

(a) Purchases

The Government of Malaysia may at any time purchase Certificates at any price in the open market or otherwise.

(b) Cancellation of Certificates held by the Government of Malaysia

Pursuant to the Declaration of Trust, if the Government of Malaysia wishes to cancel all or some of the Certificates held by it or on its behalf (the "**Malaysia Certificates**"), the Government of Malaysia may, in accordance with the terms of the Redemption Undertaking, by delivery of a Redemption and Cancellation Notice to the Trustee, require the Trustee to sell, transfer and convey all of the Trustee's interest, rights, benefits and entitlements in and to the Redemption Lease Assets to the Federal Lands Commissioner in consideration for the relevant Malaysia Certificates which the Government of Malaysia shall surrender, and the Trustee shall cancel, in accordance with the Declaration of Trust, the Redemption Undertaking and these Conditions. Following the surrender of the Redemption Lease Assets and the entry by the Government of Malaysia, via the Federal Lands Commissioner, and the Trustee into a Redemption Sale Agreement, the Trustee shall cancel the relevant Malaysia Certificates in accordance with the terms of the Declaration of Trust, the Redemption Undertaking and these Conditions. The Trustee has agreed in the Declaration of Trust and the Redemption Undertaking to execute all such documents and do such further acts and things as the Government of Malaysia may from time to time require to give full effect to any surrender of the relevant Redemption Lease Assets and the cancellation of the relevant Malaysia Certificates.

14. DISSOLUTION EVENTS

Upon the occurrence of any of the following events ("**Dissolution Events**"):

(i) a default is made in the payment of any Periodic Distribution Amount or the Dissolution Distribution Amount and such default is not cured within 30 days of the due date for payment;

(ii) the Trustee defaults in the performance of any other covenant or obligation under the Declaration of Trust, and, if such default is capable of remedy, such default shall continue for a period of 60 days after written notice thereof shall have been given to the Trustee and the Government of Malaysia at the Delegate's specified office by the Delegate or the holder of any Certificate;

(iii) a Malaysia Event occurs;

(iv) the Lessee has disposed of the whole of its leasehold interest under the Lease Agreement; or

(v) at any time it becomes unlawful for the Government of Malaysia to perform or comply with any of its payment obligations under the Lease Agreement, the Purchase Undertaking or the Servicing Agency Agreement or any of the payment obligations of the Government of Malaysia under the Lease Agreement, the Purchase Undertaking or the Servicing Agency Agreement cease to be legal, valid, binding and enforceable and such unlawfulness, illegality, invalidity, failure to be binding or lack of enforceability continues for a period of 12 months,

the Delegate shall give notice of the occurrence of such Dissolution Event to the Certificateholders in accordance with Condition 17 (*Notices*) with a request to such holders to indicate if they wish the Trust to be dissolved. If so requested in writing by the holders of at least 25% of the then aggregate face amount of the Certificates outstanding or if so directed by an Extraordinary Resolution of the Certificateholders (a "**Dissolution Request**"), the Delegate shall (subject in each case to being indemnified to its satisfaction by the Certificateholders) give notice to the Trustee (with a copy to the Government of Malaysia) of the Dissolution Request and, upon receipt of such notice, the Trustee shall promptly exercise its rights under the Purchase Undertaking by serving an Exercise Notice on the Government of Malaysia in accordance with the terms of the Purchase Undertaking and use the proceeds of the resultant sale to redeem the Certificates at the Dissolution Distribution Amount on the date specified in such notice (the "**Dissolution Event Redemption Date**") and the Trust shall be dissolved on the day after the last outstanding Certificate has been redeemed, provided that the obligation of the Government of Malaysia to purchase the Lease Assets pursuant to the terms of the Purchase Undertaking is conditional upon a Dissolution Event having occurred and continuing at the time of service of the Exercise Notice.

As set out in the Purchase Undertaking, each of the following events or circumstances shall constitute a "**Malaysia Event**":

(i) the Government of Malaysia defaults in the payment of any Rental under the Lease Agreement, the Total Loss Shortfall Amount under the Servicing Agency Agreement or the Exercise Price and such default is not cured within thirty (30) days of the due date for payment;

(ii) the Government of Malaysia defaults in the performance of any other covenant or obligation in the Purchase Undertaking and, if such default is capable of remedy, such default shall continue for a period of sixty (60) days after written notice thereof shall have been given to the Government of Malaysia at the Delegate's specified office by the Delegate or the holder of any Certificate;

(iii) any External Public Indebtedness in an aggregate principal amount in excess of US$50,000,000 (or the equivalent amount thereof in any other currency) is accelerated (other than by optional or mandatory prepayment or redemption);

(iv) the Government of Malaysia defaults in the payment of principal or interest in excess of US$50,000,000 (or the equivalent amount thereof in any other currency) payable (whether upon maturity, acceleration by reason of any default or otherwise) in connection with External Public Indebtedness beyond any applicable grace and waiver periods; and

(v) the Government of Malaysia declares a general moratorium with respect to the payment of principal of or interest on any External Public Indebtedness.

15. ENFORCEMENT AND EXERCISE OF RIGHTS

(i) Upon the occurrence of a Dissolution Event, to the extent that the Dissolution Distribution Amount payable in respect of the Certificates has not been paid in full, the Trustee (or, subject to it being indemnified, the Delegate acting on behalf of the Trustee) shall (acting for the benefit of the Certificateholders) take one or more of the following steps:

(A) enforce the provisions of the Purchase Undertaking against the Government of Malaysia; and/or

(B) take such other steps as the Trustee or the Delegate may consider necessary or desirable to exercise all of the rights of the Trustee under the Purchase Undertaking and any of the other Transaction Documents and make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the Declaration of Trust.

(ii) Following the enforcement and ultimate distribution of the net proceeds of the Trust Assets in respect of the Certificates to the Certificateholders in accordance with these Conditions and the Declaration of Trust, neither the Trustee nor the Delegate shall be liable for any further sums and, accordingly, Certificateholders may not take any action against the Trustee, the Delegate or any other person to recover any such sum or asset in respect of the relevant Certificates or the Trust Assets.

(iii) The Delegate shall not be bound in any circumstances to take any action to enforce the Trust Assets or take any action against the Trustee or the Government of Malaysia under any Transaction Document to which either of the Trustee or the Government of Malaysia (as applicable) is a party unless directed or requested to do so: (a) by an Extraordinary Resolution; or (b) in writing by the holders of at least 25% of the then outstanding aggregate face amount of the Certificates and in either case then only if it shall be indemnified to its satisfaction by the Certificateholders against all Liabilities which it may thereby render itself liable to incur or which it may incur by so doing.

(iv) No Certificateholder shall be entitled to proceed directly against the Trustee or the Government of Malaysia unless: (a) the Delegate, having become bound so to proceed, fails to do so within a reasonable period and such failure is continuing; and (b) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against the Trustee or the Government of Malaysia, as the case may be) holds at least 25% of the then outstanding aggregate face amount of the Certificates.

(v) Notwithstanding any provision contained in any Transaction Document, under no circumstances shall the Trustee, the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets other than to the Government of Malaysia or its designee in accordance with the Purchase Undertaking and the sole right of the Delegate and the Certificateholders against the Trustee or the Government of Malaysia shall be to enforce their respective obligations under the Transaction Documents.

(vi) The foregoing paragraphs in this Condition 15 are subject to this paragraph. After enforcing the Trust Assets and distributing the net proceeds of the Trust Assets in accordance with Condition 6(b) (*Trust — Application of Proceeds from Trust Assets*), the obligations of the Trustee in respect of the Certificates shall be satisfied and no Certificateholder may take any further steps against the Trustee (or any steps against the Delegate) to recover any further sums in respect of the Certificates and the right to receive any such sums unpaid shall be extinguished. In particular, no Certificateholder shall be entitled in respect thereof to petition or to take any other steps for the winding up of the Trustee.

16. REPLACEMENT OF CERTIFICATES

Should any Certificate be lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Replacement Agent upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity as the Trustee, the Delegate, the Registrar and the Replacement Agent may require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

17. NOTICES

Save as provided in this Condition 17, notices to the Certificateholders will be sent to them by first class mail (or its equivalent) or (if posted to an overseas address) by airmail at their respective addresses on the Register. Any such notice shall be deemed to have been given on the fourth day (being a day other than Friday, Saturday or Sunday) after the date of mailing.

Until such time as any Definitive Certificates are issued, so long as the Global Certificate representing the Certificates is held in its entirety on behalf of DTC, the relevant notice may be delivered to DTC for communication by them to the Certificateholders. Any such notice shall be deemed to have been given to the Certificateholders on the day on which the said notice was given to DTC.

The Trustee shall also ensure that notices are duly given in a manner which complies with the rules and regulations of any stock exchange on which the Certificates are for the time being listed. Any notice shall be deemed to have been given on the fourth day (being a day other than Friday, Saturday or Sunday) after being so mailed.

Notices to be given by any Certificateholder shall be in writing and given by lodging the same, together with the relevant Certificate or Certificates, with the Principal Paying Agent.

18. MEETINGS OF CERTIFICATEHOLDERS, MODIFICATION, WAIVER, AUTHORIZATION AND DETERMINATION

(i) The Declaration of Trust contains provisions for convening meetings of Certificateholders to consider any matter affecting their interests, including the modification or abrogation by Extraordinary Resolution of the rights of the Trustee, the Government of Malaysia and/or the Certificateholders or the modification of any of the provisions of the Declaration of Trust. The quorum at any meeting for passing an Extraordinary Resolution will be one or more persons present holding or representing in the aggregate not less than 50% of the aggregate face amount of the Certificates then outstanding, or at any adjourned such meeting one or more persons present whatever the outstanding face amount of the Certificates held or represented by him or them, except that any meeting the business of which includes a Reserved Matter, the quorum shall be one or more persons present holding or representing in the aggregate at least 75% of the aggregate face amount of the Certificates then outstanding, or at any adjourned such meeting one or more persons present holding or representing in the aggregate not less than 25% of the then aggregate outstanding face amount of the Certificates. To be passed, an Extraordinary Resolution requires a majority in favor consisting of not less than three-quarters of the persons voting on a show of hands or, if a poll is duly demanded, a majority of not less than three-quarters of the votes cast on such poll and, if duly passed, will be binding on all Certificateholders, whether or not they are present at the meeting and whether or not voting.

(ii) The Declaration of Trust provides that a resolution in writing signed by or on behalf of the holders of at least 90% of the aggregate face amount of the Certificates then outstanding shall take effect as if it were an Extraordinary Resolution. Such a resolution in writing may be contained in one document or several documents in the same form, each signed by or on behalf of one or more such Certificateholders.

(iii) The Declaration of Trust, any other Transaction Document and the Trustee's constitutional documents may only be amended by the Trustee with the consent of the Delegate and the Delegate may, without any consent or sanction of the Certificateholders:

(A) agree to any modification of any of the provisions of the Declaration of Trust or any other Transaction Document or the Trustee's memorandum and articles of association which, in the opinion of the Delegate, is of a formal, minor or technical nature or to correct a manifest error or not materially prejudicial to the interests of the outstanding Certificateholders (other than in respect of a Reserved Matter (as defined in Schedule 3 (*Provisions for Meetings of Certificateholders*) to the Declaration of Trust)); or

(B) (i) agree to waive or to authorize any breach or proposed breach of, any of the provisions of the Declaration of Trust or any other Transaction Document; or (ii) determine that any Dissolution Event or Potential Dissolution Event shall not be treated as such, if, in the opinion of the Delegate, such waiver, authorization or determination is not materially prejudicial to the interests of the outstanding Certificateholders and would not be in contravention of an express direction given by an Extraordinary Resolution or a request made pursuant to Condition 14 (*Dissolution Events*).

(iv) In connection with the exercise by it of any of its powers, authorities and discretions and (in the sole case of the Trustee) trusts under the Declaration of Trust (including, without limitation, any modification), the Trustee and the Delegate shall have regard to the general interests of Certificateholders as a class and shall not have regard to any interest arising from circumstances particular to individual Certificateholders (whatever their number) and, in particular, but without limitation, shall not have regard to the consequences of such exercise for individual Certificateholders (whatever their number) resulting from their being for any purpose domiciled or resident in, or otherwise connected with, or subject to the jurisdiction of, any particular territory or any political sub-division thereof or taxing jurisdiction and the Trustee and the Delegate shall not be entitled to require, nor shall any Certificateholder be entitled to claim, from the Trustee, the Delegate, the Government of Malaysia or any other person, any indemnification or payment in respect of any tax consequence of any such exercise upon individual Certificateholders (except, in the case of the Trustee and the Government of Malaysia to the extent already provided for in Condition 11 (*Taxation*)).

(v) Any modification, waiver, authorization or determination shall be binding on the Certificateholders and, unless the Delegate otherwise decides, shall as soon as practicable thereafter be notified by the Trustee to the Certificateholders in accordance with Condition 17 (*Notices*).

19. DELEGATE

By way of security for the performance of all covenants, obligations and duties of the Trustee to the Certificateholders herein and under the Declaration of Trust, the Trustee will in the Declaration of Trust irrevocably and unconditionally appoint the Delegate to be its attorney and in its name, on its behalf and as its act and deed to execute, deliver and perfect all documents, to exercise all of the present and future duties, powers (including the power to sub-delegate), trusts, authorities (including, but not limited to, the authority to request directions from any Certificateholders and the power to make any determinations to be made under the Declaration of Trust) and discretions vested in the Trustee by the Declaration of Trust, and do any acts, matters or things, that the Delegate may consider to be necessary or desirable and subject in each case to it being indemnified in order to, upon the occurrence of a Dissolution Event, exercise all of the rights of the Trustee under the Purchase Undertaking and any of the other Transaction Documents and make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the Declaration of Trust, (together the "**Delegation**" of the "**Relevant Powers**"), provided that in no circumstances will such Delegation of the Relevant Powers result in the Delegate holding on trust the Trust Assets and provided further that such Delegation and the Relevant Powers shall not include any duty, power, trust, authority or discretion to dissolve the trusts constituted by the Declaration of Trust following the occurrence of a Dissolution Event or Potential Dissolution Event or to determine the remuneration of the Delegate. The Trustee hereby ratifies and confirms all things done and all documents executed by the Delegate in the exercise of all or any of the Relevant Powers.

In addition to the Delegation of the Relevant Powers under the Declaration of Trust, the Delegate also has certain powers which are vested solely in it from the date of the Declaration of Trust.

The appointment of a delegate by the Trustee is intended to be in the interests of the Certificateholders and does not affect the Trustee's continuing role and obligations as sole trustee.

The Declaration of Trust contains provisions for the indemnification of the Delegate in certain circumstances and for its relief from responsibility, including provisions relieving it from taking action unless indemnified. In particular, in connection with the exercise of any of its rights in respect of the Trust Assets, the Delegate shall in no circumstances be bound to take any action unless directed to do so in accordance with Condition 15 (*Enforcement and Exercise of Rights*), and then only if it shall have been indemnified to its satisfaction by the Certificateholders.

The Delegate makes no representation and assumes no responsibility for the execution, delivery, legality, effectiveness, adequacy, genuineness, authenticity, validity, performance, enforceability or admissibility in evidence of the Transaction Documents and shall not under any circumstances have any Liability or be obliged to account to Certificateholders in respect of any payments which should have been paid by the Trustee or the Delegate but are not so paid and shall not in any circumstances have any liability arising from the Trust Assets other than as expressly provided in these Conditions or in the Declaration of Trust.

The Delegate may rely on any opinion, advice, certificate or report of any lawyer, professional adviser, auditor or insolvency official (as applicable) appointed by the Trustee, the Government of Malaysia or any other person called for by or provided to the Delegate (whether or not addressed to the Delegate) in accordance with or for the purposes of the Declaration of Trust or the other Transaction Documents and such opinion, advice, certificate or report may be relied upon by the Delegate as sufficient evidence of the facts stated therein notwithstanding that such certificate or report and/or any engagement letter or other document entered into by the Delegate in connection therewith contains a monetary or other limit on the Liability of the auditors of the Trustee, the Government of Malaysia or such other person in respect thereof and notwithstanding that the scope and/or basis of such certificate or report may be limited by an engagement or similar letter or by the terms of the certificate or report itself and the Delegate shall not be bound in any such case to call for further evidence or be responsible for any Liability or inconvenience that may be occasioned by its failure to do so.

Nothing shall, in any case in which the Trustee or the Delegate has failed to show the degree of care and diligence required of it as trustee, in the case of the Trustee (having regard to the provisions of the Declaration of Trust conferring on it any trusts, powers, authorities or discretions) or as donee and delegate, in the case of the Delegate (having regard to the powers, authorities and discretions conferred on it by the Declaration of Trust and to the Relevant Powers delegated to it), respectively exempt the Trustee or the Delegate from or indemnify either of them against any Liability for its own negligence, willful default, bad faith, or actual fraud or (in the case of the Trustee) breach of trust in relation to their respective duties under the Declaration of Trust.

20. LIMITED RECOURSE

Each Certificate will represent an undivided beneficial ownership interest in the Trust Assets. No payment of any amount whatsoever shall be made in respect of the Certificates except to the extent that funds for that purpose are available from the Trust Assets. Under no circumstances shall the Delegate or any Certificateholder cause the sale or other disposition of any of the relevant Lease

Assets otherwise than to the Government of Malaysia in accordance with the terms of the Transaction Documents and the sole right of the Delegate and the Certificateholders against the Trustee or the Government of Malaysia shall be to enforce the rights and obligations under the Trust Assets in accordance with the Transaction Documents.

21. CONTRACTS (RIGHTS OF THIRD PARTIES) ACT 1999

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of these Conditions, except and to the extent that these Conditions expressly provide for such Act to apply to any of its terms, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

22. GOVERNING LAW AND JURISDICTION

(i) *Governing Law*: The Declaration of Trust (including these Conditions), the Agency Agreement and the Certificates and all non-contractual or other obligations arising out of or in connection with them are governed by, and shall be construed in accordance with, English law.

(ii) *Jurisdiction*: The Trustee and the Delegate have agreed in the Declaration of Trust that the courts of England have non-exclusive jurisdiction to settle a dispute, controversy or claim arising from or connected with the Declaration of Trust including a dispute regarding the existence, validity or termination of the Declaration of Trust or the consequences of its nullity and any non-contractual or other dispute (a "**Dispute**"). The Trustee has agreed that the previous sentence does not prevent the Trustee or the Delegate from taking proceedings relating to a Dispute ("**Proceedings**") in any court of Malaysia with jurisdiction.

(iii) *Service of Process*: In the Declaration of Trust, the Trustee has agreed upon an entity to receive, for it and on its behalf, service of process in any Proceedings in England.

(iv) *Waiver*: Under the Transaction Documents to which it is a party, the Government of Malaysia irrevocably waives, to the fullest extent permitted by applicable law but subject to the reservations in this sub-paragraph (iv), any immunity from jurisdiction to which it might otherwise be entitled in any Proceedings which may be brought in any of the courts, it being understood that under current Malaysian law no execution or attachment or any other legal process in the nature thereof can be issued out of any court in Malaysia for enforcement of any judgment or order against the Government of Malaysia by reason of section 33(4) of the Government Proceedings Act 1956 of Malaysia and Order 73 Rule 12 of the Rules of the High Court 1980 of Malaysia. The foregoing waiver constitutes only a limited and specific waiver for the purposes of the Transaction Documents and it is not intended to be and under no circumstances should be interpreted as a general waiver by the Government of Malaysia or a waiver with respect to proceedings unrelated to the Transaction Documents or the Certificates. In addition, notwithstanding the foregoing, the Government of Malaysia does not waive the right to immunity with regards to the following:

(A) actions brought against the Trustee or the Government of Malaysia under U.S. federal securities laws or any state securities laws;

(B) present or future "premises of the mission" as defined in the Vienna Convention on Diplomatic Relations signed in 1961;

(C) "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963;

(D) any other property or assets used solely or mainly for governmental or public purposes in Malaysia or elsewhere; and

(E) military property or military assets or property or assets of the Government of Malaysia related thereto.

(v) *Final Judgment*: Under the Transaction Documents to which it is a party, the Government of Malaysia irrevocably agrees to be bound by any final judgment rendered against it in respect of any Proceeding from which no appeal has been taken or is available, it being understood that under current Malaysian law, judgments obtained against the Government of Malaysia in a court of a reciprocating country (as listed in the Reciprocal Enforcement of Judgments Act 1958 of Malaysia) in respect of any sum payable by it under the Transaction Documents may be enforced by the courts of Malaysia upon registration of the judgment with the courts of Malaysia under the Reciprocal Enforcement of Judgments Act 1958 of Malaysia within six years after the date of the judgment, or, where there have been proceedings by way of appeal against the judgment, after the date of the last judgment given in those proceedings so long as the judgment:

(A) is not inconsistent with public policy in Malaysia;

(B) was not given or obtained by fraud or duress or in a manner contrary to natural justice;

(C) is not directly or indirectly for the payment of taxes or other charges of a like nature or of a fine or other penalty;

(D) was of a court of competent jurisdiction of such jurisdiction and the judgment debtor being the defendant in the original court received notice of those proceedings in sufficient time to enable it to defend the proceedings;

(E) has not been wholly satisfied;

(F) could be enforced by execution in the country of that original court;

(G) is final and conclusive between the parties;

(H) is for a fixed sum;

(I) is not directly or indirectly intended to enforce the penal laws or sanctions imposed by the authorities of such jurisdiction;

(J) is not preceded by a final and conclusive judgment by a court having jurisdiction in that matter; and

(K) is vested in the person by whom the application for registration was made.

Judgments obtained for a fixed sum against the Government of Malaysia in a court of a foreign jurisdiction with which Malaysia has no arrangement for reciprocal enforcement of judgments may, after due service of process, at the discretion of the courts of Malaysia be actionable in the courts of Malaysia by way of a suit on a debt if such judgment is final and conclusive. However, such action may be met with defences, such as those in paragraphs (A) to (K) above.

GLOBAL CERTIFICATES

Each Global Certificate contains provisions which apply to the Certificates in respect of which it is issued whilst they are represented by the relevant Global Certificate, some of which modify the effect of the Conditions. The following is a summary of those provisions. Unless otherwise defined, terms defined in the Conditions have the same meaning in paragraphs 1 to 8 below.

1. **Form of the Certificates**

The Certificates sold in offshore transactions in reliance on Regulation S (the "**Regulation S Certificates**") will be represented by one or more global Regulation S certificates in fully registered form (the "**Regulation S Global Certificates**"), which will be deposited with a custodian for and will be registered in the name of a nominee for DTC. Beneficial interests in the Regulation S Global Certificates may be held only through DTC and its direct or indirect participants including Euroclear and Clearstream, Luxembourg at any time. See "*Clearance and Settlement—Payments and relationship of participants with clearing systems*".

The Certificates sold within the United States to QIBs in reliance on Rule 144A (the "**Rule 144A Certificates**") will be represented by one or more global Rule 144A certificates in fully registered form (the "**Rule 144A Global Certificates**"), which will be deposited with a custodian for and will be registered in the name of a nominee for DTC. Beneficial interests in the Rule 144A Global Certificates may only be held through DTC and its direct or indirect participants including Euroclear and Clearstream, Luxembourg at any time. See "*Clearance and Settlement—Payments and relationship of participants with clearing systems*". Subject to certain exceptions, beneficial interests in the Rule 144A Global Certificates may only be held by persons who are QIBs, holding their interests for their own account or for the account of one or more QIBs. By acquisition of a beneficial interest in the Rule 144A Global Certificates, the purchaser thereof will be deemed to represent, among other things, that it is a QIB and that, if in the future it determines to transfer such beneficial interest, it will transfer such interest in accordance with the procedures and restrictions contained in the Rule 144A Global Certificates. See "*Transfer Restrictions*".

The Regulation S Global Certificates and the Rule 144A Global Certificates are referred to herein as the "**Global Certificates**". Beneficial interests in the Global Certificates will be subject to certain restrictions on transfer set out therein and in the Agency Agreement and such Global Certificates will bear a legend as set out under "*Transfer Restrictions*". Investors may hold interests in the Regulation S Global Certificates through Euroclear or Clearstream, Luxembourg, if they are participants in those systems. Investors may also hold such interests through organizations other than Euroclear and Clearstream, Luxembourg that are participants in the DTC system. Euroclear and Clearstream, Luxembourg will hold interests in the Regulation S Global Certificates on behalf of their account holders through customers' securities accounts in their respective names on the books of their respective depositories, which in turn will hold such interests in the Regulation S Global Certificates in customers' securities accounts in the depositories' names on the books of DTC. Investors may hold their interests in the Rule 144A Global Certificates directly through DTC, if they are DTC participants, or indirectly through organizations which are DTC participants.

No beneficial interest in the Regulation S Global Certificates may be transferred to a person who takes delivery in the form of a beneficial interest in the Rule 144A Global Certificates unless (i) the transfer is to a person that is a QIB, (ii) such transfer is made in reliance on Rule 144A, and (iii) the transferor provides the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transferor reasonably believes that the transferee is a QIB purchasing the beneficial interest for its own account or any account of a QIB, in each case, in a transaction meeting the requirements of Rule 144A and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. No beneficial interest in the Rule 144A Global Certificates may be transferred to a person who takes delivery in the form of a beneficial interest in the Regulation S Global Certificates unless (i) the transfer is in an offshore transaction in reliance on Rule 904 of Regulation S, and (ii) the transferor provides the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transfer is being made in an offshore transaction in accordance with Regulation S.

Any beneficial interest in the Regulation S Global Certificates that is transferred to a person who takes delivery in the form of an interest in the Rule 144A Global Certificates will, upon transfer, cease to be an interest in the Regulation S Global Certificates and become an interest in the Rule 144A Global Certificates, and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Rule 144A Global Certificates for as long as it remains such an interest. Any beneficial interest in the Rule 144A Global Certificates that is transferred to a person who takes delivery in the form of an interest in the Regulation S Global Certificates will, upon transfer, cease to be an interest in the Rule 144A Global Certificates and become an interest in the Regulation S Global Certificates and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in the Regulation S Global Certificates for so long as it remains such an interest. No service charge will be made for any registration of transfer or exchange of Certificates, but the Trustee may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection therewith.

Upon receipt of the Global Certificates, DTC or the custodian will credit, on its internal system, the respective face amount of the individual beneficial interests represented by each such Global Certificate to the accounts of persons who have accounts with DTC. Ownership of beneficial interests in a Global Certificates will be limited to persons who have accounts with DTC or persons who hold interests through participants, including Euroclear and Clearstream, Luxembourg. Ownership of beneficial interests in the Global Certificates will be shown on, and the transfer of that ownership will be effected only through, records maintained by DTC or its nominee (with respect to interests of participants) and the records of participants (with respect to interests of persons other than participants).

Except in the limited circumstances described below, owners of beneficial interests in Global Certificates will not be entitled to receive physical delivery of certificated Certificates.

2. **Holders**

For so long as all of the Certificates are represented by either or both of the Global Certificates and each Global Certificate is held on behalf of DTC or its nominee, each person (other than another clearing system) who has for the time being a particular aggregate face amount of such Certificates credited to his securities account in the records of DTC (each, a "**Certificateholder**") (in which regard any certificate or other document issued by such clearing system as to the aggregate face amount of such Certificates standing to the account of any person shall be conclusive and binding for all purposes save in the case of manifest error) shall be deemed to be the Certificateholder in respect of the aggregate face amount of such Certificates (and the expression "**Certificateholders**" and references to "**holding of Certificates**" and to "**holder of Certificates**" shall be construed accordingly) for all purposes other than with respect to payments on such Certificates, the right to which shall be vested, as against the Trustee and the Delegate, solely in the registered holder of the relevant Global Certificate in accordance with and subject to its terms. Each Certificateholder must look solely to DTC or its nominee, for its share of each payment made to the registered holder of the relevant Global Certificate.

3. **Cancellation**

Cancellation of any Certificate represented by a Global Certificate will be effected by reduction in the aggregate face amount of the Certificates in the Register and by annotation of the appropriate schedule to that Global Certificate, subject to the rules and procedures of DTC.

4. Payments

Payments of any Dissolution Distribution Amount, Periodic Distribution Amount and any amounts payable in respect of Certificates represented by a Global Certificate will be made upon presentation and, at dissolution, surrender of the relevant Global Certificate at the specified office of the Principal Paying Agent or to the order of the Registrar or such other office as may be specified by the Registrar, all subject to and in accordance with the Conditions and the Declaration of Trust.

Distributions of amounts with respect to book-entry interests in the Certificates held through DTC or its nominee will be credited to the cash accounts of participants in the relevant clearing system in accordance with the relevant clearing system's rules and procedures.

A record of each payment made in respect of the Certificates will be entered into the Register by or on behalf of the Registrar and shall be *prima facie* evidence that payment has been made.

5. Notices

So long as all the Certificates are represented by either or both of the Global Certificates and each Global Certificate is held on behalf of DTC or its nominee, notices to Certificateholders may be given by delivery of the relevant notice to those clearing systems for communication to entitled holders in substitution for notification as required by the Conditions except that, so long as the Certificates are listed on any stock exchange, notices shall also be published in accordance with the rules of such stock exchange. Any such notice shall be deemed to have been given to the Certificateholders on the day after the day on which such notice is delivered to the relevant clearing systems.

6. Registration of Title

The Registrar will not register title to the Certificates in a name other than that of a nominee for the relevant clearing system for a period of fifteen calendar days preceding the due date for any payment of any Periodic Distribution Amount or the Dissolution Distribution Amount in respect of the Certificates.

7. Transfers

Transfers of book-entry interests in the Certificates will be effected through the records of DTC and its direct and indirect participants in accordance with their respective rules and procedures.

8. Exchange for Definitive Certificates

Exchange

The Rule 144A Global Certificates will be exchangeable, free of charge to the holder, in whole but not in part, for Certificates in definitive form ("**Rule 144A Definitive Certificates**") and the Regulation S Global Certificates will be exchangeable, free of charge to the holder, in whole but not in part, for Certificates in definitive form ("**Regulation S Definitive Certificates**" and, together with the Rule 144A Definitive Certificates, the "**Definitive Certificates**") upon the occurrence of an Exchange Event.

For these purposes, "**Exchange Event**" means that in the case of the Global Certificates, if DTC notifies the Trustee that it is no longer willing or able to discharge properly its responsibilities as depositary with respect to the Global Certificates or DTC ceases to be a "clearing agency" registered under the Exchange Act or is at any time no longer eligible to act as such and no qualified successor clearing system satisfactory to the Delegate has been identified within 90 days of receipt of such notice from DTC.

In exchange for the relevant Global Certificate, as provided in the Agency Agreement, the Registrar will deliver or procure the delivery of an equal aggregate face amount of duly executed Definitive Certificates in or substantially in the form set out in the Declaration of Trust.

Delivery

In such circumstances, the relevant Global Certificate shall be exchanged in full for Definitive Certificates and the Trustee will, at the cost of the Trustee (but against such indemnity as the Registrar or any relevant Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Definitive Certificates to be executed and delivered to the Registrar for completion, authentication and dispatch to the relevant Certificateholders. A person having an interest in a Global Certificate must provide the Registrar with (i) a written order containing instructions and such other information as the Trustee and the Registrar may require to complete, execute and deliver such Definitive Certificates and (ii) in the case of the Rule 144A Global Certificates only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a written certification that the transfer is being made in compliance with the provisions of Rule 144A to a purchaser that the transferor reasonably believes to be a QIB purchasing the beneficial interest for its own account or any account of a QIB, in each case, in a transaction meeting the requirements of Rule 144A and that such transaction is in accordance with any applicable securities laws of any state of the United States or any other jurisdiction. Definitive Certificates issued in exchange for a beneficial interest in the Rule 144A Global Certificates shall bear the legends applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*".

Legends and transfers

The holder of a Definitive Certificate may transfer the Certificates represented thereby in whole or in part in the applicable Specified Denomination by surrendering it at the specified office of the Registrar or any Transfer Agent, together with the completed form of transfer thereon. Upon the transfer, exchange or replacement of a Definitive Certificate bearing the legend referred to under "*Transfer Restrictions*", or upon specific request for removal of the legend on a Definitive Certificate, the Trustee will deliver only Definitive Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Trustee and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Trustee that neither the legend nor the restrictions on transfer set out therein are required to ensure compliance with the provisions of the Securities Act and the Investment Company Act. Rule 144A Definitive Certificates will bear the same legend as the legend for the Rule 144A Global Certificates set out under "*Transfer Restrictions*". The Rule 144A Definitive Certificates may not at any time be held by or on behalf of U.S. persons (as defined in Regulation S) that are not QIBs. Before any Regulation S Definitive Certificate may be resold or otherwise transferred to a person who takes delivery in the form of a Rule 144A Definitive Certificate, the transferor and/or transferee, as applicable, will be required to provide the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transferor reasonably believes that the transfer is (i) to a person that is a QIB purchasing the beneficial interest for its own account or any account of a QIB and (ii) in each case in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of United States or any other jurisdiction. Regulation S Definitive Certificates will bear the same legend as the legend for the Regulation S Global Certificates set out under "*Transfer Restrictions*". Before any Rule 144A Definitive Certificates may be resold or otherwise transferred to a person who takes delivery in the form of a Regulation S Definitive Certificate, the transferor and/or transferee, as applicable, will be required to provide the Registrar with a written certification substantially in the form set out in the Agency Agreement to the effect that the transfer is being made to a person in an offshore transaction in accordance with Rule 904 of Regulation S.

RATINGS

It is a condition of the issuance of the Certificates that the Certificates are, upon issue, assigned a rating of "A-" by Standard & Poor's and "A3" by Moody's.

A rating is not a recommendation to buy, sell or hold securities, does not address the likelihood or timing of prepayment and may be subject to suspension, revision or withdrawal at any time by the assigning rating organization. A suspension, reduction or withdrawal of the ratings assigned to the Certificates may adversely affect the market price of the Certificates. See *"Investment Considerations—Investment considerations relating to the Certificates*".

THE TRUSTEE

The Trustee was established in Malaysia on May 3, 2010, with its registered office at 12th Floor, Bangunan Setia 1, 15 Lorong Dungun, Bukit Damansara, 50490 Kuala Lumpur, Malaysia. The Trustee is a special purpose entity formed solely for the purpose of participating in the transactions contemplated by the Transaction Documents.

The Trustee is owned by the Minister of Finance (Incorporated) and the Federal Lands Commissioner. The paid-up capital of the Trustee is RM 2.00, divided into two (2) ordinary shares of RM 1.00 each, each held by the Minister of Finance (Incorporated), a body corporate established under the Minister of Finance (Incorporation) Act 1957, and the Federal Lands Commissioner, a body corporate established under the Federal Lands Commissioner Act 1957. Other than as described herein, as at the date hereof there has been no material change in the capitalization of the Trustee since its establishment.

Business of the Trustee

The Trustee has no prior operating history or prior business and will not have any substantial liabilities other than in connection with the issue of the Certificates. The Certificates are the obligations of the Trustee alone.

The objects of the Trustee are primarily to enter into the transactions contemplated by the Transaction Documents. To satisfy such purposes, the Trustee may enter into the Transaction Documents and other agreements necessary for the performance of its obligations under the transactions contemplated in these, and undertake activities pursuant to or that are not inconsistent with the transactions and documents referred to in this offering memorandum.

The Trustee has not engaged, since its establishment, in any material activities other than those regarding or incidental to the issue of the Certificates and the matters contemplated in this offering memorandum and the Transaction Documents and the authorization of its entry into the other transactions and documents referred to in this offering memorandum to which it is or will be a party.

The Trustee has no subsidiaries.

Pursuant to the terms of the Transaction Documents, the Trustee may not issue any securities other than the Certificates or otherwise incur indebtedness.

Financial Statements

Since the date of its establishment, no financial statements of the Trustee have been prepared. The Trustee is required by Malaysian law to prepare audited financial statements.

The fiscal year of the Trustee ends on December 31 of each year.

Directors

The directors of the Trustee and their principal occupations are as follows:

Director	Principal Occupation	Business Address
Datuk Nozirah binti Bahari . . .	Under Secretary, Loan Management, Financial Market and Actuary Division, Ministry of Finance	Loan Management, Financial Market and Actuary Division Ministry of Finance Level 5, Centre Block, Ministry of Finance Complex No.5 Persiaran Perdana, Precinct 2 Federal Government Administrative Centre 62592 Putrajaya Malaysia
Eshah binti Meor Suleiman	Under Secretary, Investment, MOF (Inc) and Privatisation Division, Ministry of Finance	Investment, MOF (Inc) and Privatisation Division Ministry of Finance Level 5, South Block, Ministry of Finance Complex No.5 Persiaran Perdana, Precinct 2 Federal Government Administrative Centre 62592 Putrajaya Malaysia

The Trustee has no employees and is not expected to have any employees during the term of the Certificates.

SUMMARY OF THE PRINCIPAL TRANSACTION DOCUMENTS

The following is a summary of certain provisions of the principal Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the principal Transaction Documents. Copies of the Transaction Documents will be available for inspection at the offices of the Trustee and the Paying Agents (as defined in the Conditions).

Sale and Purchase Agreement

Pursuant to a sale and purchase agreement (the "**Sale and Purchase Agreement**") dated on or about the Closing Date between the Trustee as purchaser and the Federal Lands Commissioner as seller (in such capacity, the "**Seller**"), the Seller will sell, transfer and convey to the Trustee the beneficial ownership in some or all of the following assets (the "**Assets**"):

No.	Name/Location	Area	State
1.	Hospital Sultan Ismail	Tebrau/Johor Baharu	Johor
2.	Hospital Baru Alor Setar	Hutan Kampong/Kota Star	Kedah
3.	Hospital Jasin	Jasin/Jasin	Melaka
4.	Hospital Alor Gajah	Kelemak/Alor Gajah	Melaka
5.	Hospital Daerah Port Dickson	Tlk. Kemang/Port Dickson	Negeri Sembilan
6.	Hospital Daerah Tampin	Tampin Tengah/Tampin	Negeri Sembilan
7.	Hospital Jempol	Bandar Serting/Jempol	Negeri Sembilan
8.	Hospital C. Highlands	T.Rata/Cameron H'lands	Pahang
9.	Hospital Pekan	Pekan/Pekan	Pahang
10.	Hospital Baru Temerloh	Perak/Temerloh	Pahang
11.	Hospital Klang	Klang/Klang	Selangor
12.	Hospital Selayang	Batu/Gombak	Selangor

The Trustee shall make payment of a purchase price (which shall be an amount equal to the proceeds received by the Trustee in connection with the issue of the Certificates by the Trustee) to the Federal Lands Commissioner through the Government of Malaysia in U.S. dollars in freely available funds (inclusive of any applicable Taxes) for value on the date of the Sale and Purchase Agreement in consideration for the sale, transfer and conveyance of the Assets by the Seller to the Trustee.

The Sale and Purchase Agreement will be governed by, and construed in accordance with, the laws of Malaysia.

Lease Agreement

Pursuant to a lease agreement (the "**Lease Agreement**") dated on or about the Closing Date between the Trustee as lessor (in such capacity, the "**Lessor**") and the Government of Malaysia as lessee (in its capacity as lessee, the "**Lessee**"), the Lessor has agreed to lease to the Lessee, and the Lessee has agreed to lease from the Lessor, the Lease Assets during the term of the lease. The term of the lease will commence on the date of the Lease Agreement and end on the Scheduled Dissolution Date unless (a) the lease is terminated earlier in accordance with the terms of the Lease Agreement or any other Transaction Document, in which case it will terminate the date when such early termination becomes effective or (b) the lease is extended in accordance with the terms of the Purchase Undertaking (see the section entitled "*Purchase Undertaking*" below for further details), in which case it shall end on the last day of the Additional Lease Period and which, save as provided below in respect of a Total Loss Event, will correspond to the period during which any Certificates remain outstanding.

During the term of the lease, the Lessee will agree to pay to the Lessor the rental payments specified in the Lease Agreement for the lease term as specified in the Lease Agreement.

The rental payments due under the Lease Agreement in respect of the Lease Assets will not be less than the Periodic Distribution Amounts payable on the Periodic Distribution Dates in respect of the Certificates.

Under the terms of the Lease Agreement, to the full extent permitted by law, the Lessee has agreed to release from liability, and has agreed that no liability shall attach to, the Lessor (nor any of its directors and officers) (together, the "**Compensated Persons**") as against the Lessee or any third party, in contract or otherwise, for any loss, injury, damage, cost, expense, claim or demand occurring on, or caused directly or indirectly by or due to the usage of, any part of the Lease Assets, and the relevant Compensated Person shall not be liable to reimburse or compensate the Lessee in respect of any claim made against the Lessee for any such loss, injury, damage, cost, expense, claim or demand.

If a Total Loss Event occurs with respect to the Lease Assets, then the lease in relation to such Lease Assets shall automatically terminate and the Lessor will be entitled to all takaful/insurance proceeds payable as a result of the Total Loss Event together with any accrued and unpaid rental payments to the date on which the Total Loss Event occurred. See the section entitled "*Servicing Agency Agreement*" below for further details.

The Lessee shall, at its own cost and expense, be responsible for the performance of all Ordinary Maintenance and Repair required for the Lease Assets. The Lessor shall be responsible for: (i) the performance of all Major Maintenance and Structural Repair; (ii) the payment of any Proprietorship Taxes (if any); and (iii) obtaining insurance for the Lease Assets, to the extent that it is reasonable and commercially practicable, in a Shariah compliant manner, and the Lessee acknowledges that the Lessor may procure that the Servicing Agent, in accordance with the terms and conditions set out in the Servicing Agency Agreement, perform, or shall procure the performance of, all Major Maintenance and Structural Repair and the payment of such Proprietorship Taxes (if any) on behalf of the Lessor.

All payments by the Lessee to the Lessor under the Lease Agreement shall be paid in full without any set off (save as provided in the Servicing Agency Agreement) or counterclaim of any kind and without any deduction or withholding for or on account of tax unless the deduction or withholding is imposed or levied by or on behalf of any relevant taxing authority, in which event the Lessee shall forthwith pay to the Lessor such additional amount so that the net amount received by the Lessor will equal the full amount which would have been received by it had no such deduction or withholding been made.

Under the Lease Agreement, the Lessee bears the entire risk of loss of or damage to the relevant Lease Assets or any part thereof arising from the usage or operation thereof by the Lessee. In addition, the Lessor shall not be liable (and the Lessee will waive any claim or right, howsoever arising, to the contrary) for any indirect, consequential or other losses, howsoever arising, in connection with the Lessee's use or operation of the Lease Assets.

The Lease Agreement will be governed by, and construed in accordance with, the laws of Malaysia.

"**Additional Lease Period**" means the period for which the lease of the Lease Assets continues in accordance with the terms of the Purchase Undertaking.

"**Lease Assets**" means the Assets (as set out in Schedule 1 of the Lease Agreement), as such assets may be repaired, refurbished, upgraded or replaced from time to time as a result of:

(a) any Major Maintenance and Structural Repair and/or any Ordinary Maintenance and Repair; or

(b) any substitution in accordance with the Substitution Undertaking, provided however that "**Lease Assets**" shall not include any asset the title to which has been sold, transferred or otherwise conveyed to the Government of Malaysia under the terms of the relevant Transaction Documents.

"**Major Maintenance and Structural Repair**" means all structural repair and major maintenance (other than Ordinary Maintenance and Repair), including doing such acts or things and taking such steps to ensure that the Lease Assets suffer no damage, loss or diminution in value, without which the Lease Assets could not be reasonably and properly used by the Lessee.

"**Ordinary Maintenance and Repair**" means all repairs, replacements, acts, maintenance and upkeep works required for the general use and operation of the Lease Assets and to keep, repair, maintain and preserve the Lease Assets in good order, state and condition.

"**Proprietorship Taxes**" means all Taxes in relation to the Lease Assets imposed, charged or levied by law, regulation or decree against a proprietor, but excluding all Taxes that are imposed, charged or levied by law, regulation or decree against a lessee or a tenant.

"**Tax**" means any tax, levy, duty, registration fee or other charge or withholding of a similar nature imposed in Malaysia.

"**Total Loss Event**" means: (a) the total loss or destruction of, or damage to the whole of the Lease Assets or any event or occurrence that renders the whole of the Lease Assets permanently unfit for any economic use and (but only after taking into consideration any insurances or other indemnity granted in each case by any third party in respect of the Lease Assets) the repair or remedial work in respect thereof is wholly uneconomical; or (b) the Lessor ceases to own the entirety of the Lease Assets other than in accordance with the terms of the Transaction Documents.

Servicing Agency Agreement

Pursuant to a servicing agency agreement (the "**Servicing Agency Agreement**") dated on or about the Closing Date between the Trustee (in its capacity as Lessor) and the Government of Malaysia as servicing agent (in such capacity, the "**Servicing Agent**"), the Servicing Agent will be responsible for ensuring, on behalf of the Lessor, that the Lease Assets are, so long as the Certificates are outstanding, insured (and, to the extent that it is reasonable and commercially practicable, in a Shariah compliant manner), for the performance of all Major Maintenance and Structural Repair and for the payment of any Proprietorship Taxes charged, levied or claimed in respect of the Lease Assets.

Other than on the first Rental Payment Date (as defined in the Lease Agreement), the Lessor shall reimburse to the Servicing Agent any Services Charge Amount (i) on the Rental Payment Date for the next lease period, (ii) on the date of termination of the lease, if the lease is terminated prior to the Rental Payment Date or (iii) on the date of termination of the lease, in the case of the final lease period.

An amount equal to: (i) the Supplementary Rental to be paid by the Government of Malaysia (as Lessee under the Lease Agreement) to the Lessor as or as part of any Rental under the Lease Agreement; or (ii) the Services Charge Amount that is payable as part of any Exercise Price, shall be set off against the Services Charge Amount to be paid by the Lessor to the Servicing Agent under the Servicing Agency Agreement.

Upon the occurrence of a Total Loss Event, all takaful/insurance proceeds are required to be paid into the Transaction Account by no later than close of business in Malaysia on the 30th day after the occurrence of the Total Loss Event. The Servicing Agency Agreement provides that if the takaful/insurance proceeds paid into the Transaction Account are less than the Takaful/Insurance Coverage Amount (the difference between the Takaful/Insurance Coverage Amount and the amount credited to the Transaction Account being the "**Total Loss Shortfall Amount**"), then the Servicing

Agent will undertake to pay (in U.S. dollars in same day, immediately available funds) the Total Loss Shortfall Amount directly into the Transaction Account as soon as practicable and in any event by no later than close of business in Malaysia on the 31st day after the Total Loss Event has occurred, such that the amount standing to the credit of the Transaction Account on the 31st day following the occurrence of a Total Loss Event, represents the aggregate of the takaful/insurance proceeds payable in respect of a Total Loss Event (if any) and the Total Loss Shortfall Amount funded by the Servicing Agent in accordance with the terms of the Servicing Agency Agreement.

Rentals shall cease to accrue under the lease with effect from the date on which a Total Loss Event (if any) occurs, and no additional rental payment shall be made in respect of the period between the date on which the Total Loss Event occurred and the date on which the Total Loss Shortfall Amount is paid into the Transaction Account.

The Servicing Agency Agreement will be governed by, and construed in accordance with, Malaysian law.

"**Services Charge Amount**" means, in respect of a Lease Period, all payments made or incurred by the Servicing Agent in respect of the Services performed in accordance with the Servicing Agency Agreement in relation to the Lease Assets during that Lease Period.

"**Takaful/Insurance Coverage Amount**" means an amount equal to the aggregate of:

(i) the face amount of the Certificates;

(ii) an amount equal to at least thirty (30) days Rental payable under the Lease Agreement; and

(iii) without duplication or double counting, an amount equal to any Services Charge Amount outstanding under the terms of the Servicing Agency Agreement in relation to the Lease Assets.

Purchase Undertaking

Pursuant to a purchase undertaking (the "**Purchase Undertaking**") dated on or about the Closing Date granted by the Government of Malaysia (as obligor) in favor of the Trustee and the Delegate, the Government of Malaysia, provided there has been no Total Loss Event, irrevocably undertakes to purchase and accept the transfer and conveyance of all of the Trustee's interests, rights, benefits and entitlements in and to the Lease Assets on: (i) the Scheduled Dissolution Date of the Certificates; or (ii) any earlier due date following the occurrence of a Dissolution Event which is continuing, in each case in exchange for payment of the relevant Exercise Price. An amount equal to the Services Charge Amount to be paid by the Government of Malaysia as part of any Exercise Price and any Services Charge Amount to be paid by the Trustee in accordance with the Servicing Agency Agreement which has not been paid at such time by way of payment of Supplementary Rental (as defined in the Lease Agreement) under the Lease Agreement shall be set off against one another.

In order to exercise these rights, the Trustee (or the Delegate as applicable, on its behalf) is required to deliver an Exercise Notice to the Government of Malaysia under, and in accordance with the terms of, the Purchase Undertaking.

The Government of Malaysia agrees in the Purchase Undertaking that, except for the set off of any outstanding Services Charge Amount against the Exercise Price, all payments by it under the Purchase Undertaking will be made in U.S. dollars without set off or counterclaim of any kind and without any deduction or withholding for or on account of Tax unless required by law and, in the event that there is any deduction or withholding, the Government of Malaysia shall pay all additional amounts as will result in the receipt by the Trustee, the Delegate and each other Compensated Person (as defined in the Purchase Undertaking) of such net amounts as would have been received by it if no withholding or deduction had been made.

Subject to payment of the Exercise Price in accordance with the Purchase Undertaking, the Trustee and the Government of Malaysia will enter into a sale agreement (the "**Purchase Undertaking Sale Agreement**") in substantially the form scheduled to the Purchase Undertaking to effect the sale, transfer and conveyance by the Trustee to the Government of Malaysia of the Lease Assets.

If, following receipt of an Exercise Notice pursuant to the Purchase Undertaking, the Government of Malaysia fails to pay all or part of the Exercise Price (after taking into consideration any set off of any outstanding Services Charge Amount), then the Government of Malaysia shall (a) purchase and accept the transfer and conveyance of all of the Trustee's interests, rights, benefits and entitlements in and to such proportion of the Lease Assets that corresponds in value to the amount of the Exercise Price paid by the Government of Malaysia on the Due Date by entering into a Sale Agreement with the Trustee; and (b) irrevocably, unconditionally and automatically (without the necessity for any notice or any other action) continue to lease the remaining proportion of Lease Assets from the Trustee (as Lessor) and continue to act as Servicing Agent in respect of the Lease Assets with effect from and including the due date for payment on the terms and conditions, *mutatis mutandis*, of the Lease Agreement and the Servicing Agency Agreement, save that rental shall accrue on a daily basis in respect of the period from, and including, the due date for payment to, but excluding, the date on which the sale and purchase in respect of the Trustee's interests, rights, benefits and entitlements in and to the Lease Assets occurs (including the payment in full of the outstanding Exercise Price and all other accrued amounts by the Government of Malaysia) at the rate or rates at which Periodic Distribution Amounts shall accrue under the Conditions.

The Government of Malaysia has agreed that certain events or circumstances shall constitute Malaysia Events under the Purchase Undertaking. For a full list of the Malaysia Events, please see Condition 14 (*Dissolution Events*) under the section entitled "*Terms and Conditions of the Certificates*".

The Certificateholders will also have the benefit of a negative pledge and certain other restrictive covenants given by the Government of Malaysia in the Purchase Undertaking, the full details of which are set out in Condition 5 (*Negative Pledge*) under the section entitled "*Terms and Conditions of the Certificates*".

The Purchase Undertaking will be governed by, and construed in accordance with, English law. The Purchase Undertaking Sale Agreement will be governed by, and construed in accordance with, the laws of Malaysia.

"**Exercise Price**" means the aggregate of:

(i) the face amount of the Certificates;

(ii) all accrued but unpaid rental (or part thereof) relating to the Lease Assets (if any), to the extent not received by the Trustee in its capacity as Lessor under the Lease Agreement;

(iii) without duplication or double counting, an amount equal to any accrued but unpaid Services Charge Amount; and

(iv) without duplication or double-counting, an amount representing any prior ranking claims (as described in items (i) and (ii) of Condition 6(b) (*Trust — Application of Proceeds from Trust Assets*)) in accordance with Condition 6(b) (*Trust — Application of Proceeds from Trust Assets*).

Substitution Undertaking

Pursuant to a substitution undertaking (the "**Substitution Undertaking**") dated on or about the Closing Date granted by the Trustee (as obligor) in favor of the Government of Malaysia, the Trustee has granted to the Government of Malaysia the right to require the Trustee to sell, transfer and convey all of its interests, rights, benefits and entitlements in and to certain of the Lease Assets (the "**Substituted Lease Assets**") to the Government of Malaysia (through the Federal Lands Commissioner). In consideration for the sale, transfer and conveyance of the Substituted Lease Assets by the Trustee to the Government of Malaysia, the Government of Malaysia (through the Federal Lands Commissioner) will transfer and convey all of its interests, rights, benefits and entitlements in and to certain new lease assets (the "**New Lease Assets**") to the Trustee. The Government of Malaysia will be obliged to certify that the value of the New Lease Assets is equal to or greater than the value of the Substituted Lease Assets.

In order to exercise these rights, the Government of Malaysia is required to deliver a Substitution Notice to the Trustee under, and in accordance with the terms of, the Substitution Undertaking.

The substitution of the New Lease Assets for the Substituted Lease Assets will become effective on the Substitution Date (as specified in the Substitution Notice to be delivered by the Government of Malaysia in accordance with the Substitution Undertaking) by the Trustee and the Federal Lands Commissioner entering into a sale agreement (the "**Substitution Undertaking Sale Agreement**") in substantially the form scheduled to the Substitution Undertaking.

The Substitution Undertaking and each Substitution Undertaking Sale Agreement will be governed by, and construed in accordance with, the laws of Malaysia.

Redemption Undertaking

Pursuant to a redemption undertaking (the "**Redemption Undertaking**") dated on or about the Closing Date granted by the Trustee (as obligor) in favor of the Government of Malaysia, the Trustee has granted to the Government of Malaysia the right to require the Trustee to sell, transfer and convey the Lease Assets together with all of its interests, rights, benefits and entitlements in and to certain of the Lease Assets (the "**Redemption Lease Assets**") to the Government of Malaysia (through the Federal Lands Commissioner). In consideration for the sale, transfer and conveyance of the Redemption Lease Assets by the Trustee to the Government of Malaysia, the Government of Malaysia will surrender certain Certificates held by it (the "**Malaysia Certificates**") to the Trustee and the Trustee shall cancel such Malaysia Certificates in accordance with the Declaration of Trust, the Redemption Undertaking and the Conditions.

The Government of Malaysia will be obliged to represent and warrant that:

(i) the aggregate face amount of the relevant Malaysia Certificates being cancelled is at least equal in value to the relevant Redemption Lease Assets;

(ii) following the date of redemption and cancellation, the Lease Assets will be at least equal in value to the aggregate face amount of the Certificates then outstanding following redemption of the relevant Redemption Lease Assets and cancellation of the relevant Malaysia Certificates; and

(iii) the sale, transfer and conveyance of the Trustee's interests, rights, benefits and entitlements in and to the relevant Redemption Lease Assets in accordance with the Redemption Undertaking and the relevant Redemption Sale Agreement represents fair and valuable consideration for the surrender of the relevant Malaysia Certificates by the Government of Malaysia and the cancellation of the relevant Malaysia Certificates in accordance with the Redemption Undertaking, the Declaration of Trust and the Conditions.

In order to exercise these rights, the Government of Malaysia is required to deliver a Redemption and Cancellation Notice to the Trustee under, and in accordance with the terms of, the Redemption Undertaking.

The sale, transfer and conveyance of the Redemption Lease Assets will become effective on the Redemption and Cancellation Date (as specified in the Redemption and Cancellation Notice to be delivered by the Government of Malaysia in accordance with the Redemption Undertaking and which shall be a Periodic Distribution Date) by the Trustee and the Federal Lands Commissioner entering into a sale agreement (the "**Redemption Sale Agreement**") in substantially the form scheduled to the Redemption Undertaking.

The Redemption Undertaking and each Redemption Sale Agreement will be governed by, and construed in accordance with, the laws of Malaysia.

The Declaration of Trust

Pursuant to a declaration of trust dated on or about the Closing Date (the "**Declaration of Trust**") between the Trustee and the Delegate, the Trustee agrees to hold the following assets upon trust absolutely for the Certificateholders as beneficiaries in accordance with the provisions of the Declaration of Trust (the "**Trust Assets**"):

(a) all of the Trustee's rights, interest and benefit (present and future) in, to and under the Lease Assets;

(b) all monies standing to the credit of the Transaction Account;

(c) all of the Trustee's rights, interest and benefit (present and future) in, to and under the Transaction Documents (excluding any representations given to the Trustee by the Government of Malaysia pursuant to any of the Transaction Documents); and

(d) all proceeds of the foregoing (which are held by the Trustee).

The Certificates will be constituted by the Declaration of Trust. The proceeds of issuance of the Certificates shall be settled upon the trust created by the Declaration of Trust (the "**Trust**") to be applied towards, *inter alia*, the acquisition of Assets as authorized and directed by the Certificateholders in the Conditions. The Declaration of Trust is governed by, and shall be construed in accordance with, English law.

Pursuant to the Declaration of Trust, the Trustee will, *inter alia*:

(a) hold the relevant Trust Assets on trust absolutely for the holders of the Certificates as beneficiaries *pro rata* according to the face amount of Certificates held by each Certificateholder;

(b) act as trustee in respect of the Trust Assets, distribute the income from the Trust Assets and perform its duties in accordance with the provisions of the Declaration of Trust; and

(c) irrevocably and unconditionally appoint the Delegate to be its attorney.

The Delegate shall, on behalf of the Trustee, exercise all of the present and future duties, powers, trusts, authorities and discretions vested in the Trustee by the Declaration of Trust considered necessary or desirable in order to, upon the occurrence of a Dissolution Event or a Potential Dissolution Event, exercise all of the rights (but not the obligations, duties or covenants) of the Trustee under the Purchase Undertaking and any of the other Transaction Documents, and make such distributions from the Trust Assets as the Trustee is bound to make in accordance with the Declaration of Trust. The appointment of the Delegate is intended to be in the interests of the Certificateholders and does not affect the Trustee's continuing role and obligations as sole trustee.

Certain powers under the Declaration of Trust have been vested solely in the Delegate, including, *inter alia*, the power to waive or authorize a breach of any provision of the Transaction Documents or a Dissolution Event or Potential Dissolution Event. The Delegate is also able to consent to certain types of amendments to the Transaction Documents or the memorandum and articles of association of the Trustee.

Following the ultimate distribution of the net proceeds of the Trust Assets in respect of the Certificates to the Certificateholders in accordance with the Conditions and the Declaration of Trust, neither the Trustee nor the Delegate shall be liable for any further sums and, accordingly, the Certificateholders may not take any action against the Trustee, the Delegate or any other person to recover any such sum or asset in respect of the relevant Certificates or the Trust Assets and the right to receive any such sums unpaid shall be extinguished. In particular, Certificateholders shall not be entitled in respect thereof to petition or to take any other steps for the winding-up of the Trustee.

Certificateholders shall not be entitled to proceed directly against the Trustee or the Government of Malaysia under any Transaction Document to which either of them is a party unless: (i) the Delegate having become bound so to proceed, fails to do so within a reasonable period and such failure is continuing; and (ii) the relevant Certificateholder (or such Certificateholder together with the other Certificateholders who propose to proceed directly against the Trustee or the Government of Malaysia as the case may be) holds at least 25% of the then aggregate face amount of the Certificates outstanding. Under no circumstances shall the Trustee, the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the Trust Assets other than to the Government of Malaysia or its designee in accordance with the Purchase Undertaking. The sole right of the Delegate and the Certificateholders against the Trustee or the Government of Malaysia shall be to enforce their respective obligations under the Transaction Documents.

In the Declaration of Trust, the Trustee shall procure that the Government of Malaysia indemnifies the Delegate and its directors, officers, employees and controlling persons against all losses, liabilities, costs, claims, actions, damages, expenses or demands which any of them may incur, or which may be made against any of them as a result of or in connection with the appointment of or the exercise of the powers and duties by the Delegate under the Declaration of Trust except as may result from its negligence willful default, bad faith or actual fraud or that of its directors, officers, employees or controlling persons or any of them.

The Delegate shall be entitled to receive additional remuneration in respect of any duties performed which the Delegate considers to be outside the ordinary course of its appointment, where expedient or necessary.

The Delegate shall not be bound in any circumstances to take any action against the Trustee or the Government of Malaysia under any Transaction Document to which either the Trustee or the Government of Malaysia, as applicable, is a party unless directed or requested to do so: (a) by an Extraordinary Resolution; or (b) in writing by the holders of at least 25% of the aggregate face amount of the Certificates then outstanding, and in either case, then only if it is indemnified to its satisfaction by the Certificateholders against all Liabilities (as defined in the Conditions) to which it may thereby render itself liable or which it may incur by so doing, and **provided that** the Delegate shall not be held liable for the consequences of exercising its discretion or taking any such action and may do so without having regard to the effect of such action on individual Certificateholders.

In the event that any Certificates are purchased by or on behalf of the Government of Malaysia, in accordance with Condition 13 (*Purchase and Cancellation of Certificates*), the Government of Malaysia may deliver a Redemption and Cancellation Notice to the Trustee in order to exercise its rights under the Redemption Undertaking.

Agency Agreement

Pursuant to an agency agreement dated on or about the Closing Date entered into between the Trustee, the Delegate and the Agents, provision will be made for, *inter alia*, payment of all sums due in respect of the Certificates.

USE OF PROCEEDS

The proceeds of the issue of the Certificates will be paid by the Trustee (in its capacity as Purchaser) on the Closing Date to the Federal Lands Commissioner or to its order as the purchase price for the Assets pursuant to the Sale and Purchase Agreement.

The proceeds received by the Federal Lands Commissioner will be used by the Government of Malaysia for general purposes.

MALAYSIA

The Country

General

Malaysia is located in Southeast Asia, just north of the equator, and consists of two major landmasses: Peninsular Malaysia and the states of Sabah and Sarawak, which are located on the island of Borneo. Peninsular Malaysia is separated from the states of Sabah and Sarawak by the South China Sea. The total land area of Malaysia is approximately 330,803 square kilometers.

Malaysia has a population of approximately 28.3 million. Kuala Lumpur, the capital and largest city, has an estimated population of 1.7 million. In 2009, approximately 61.9% of the population of Malaysia was Malay and other indigenous peoples (together referred to as "**Bumiputera**"), approximately 22.7% was Chinese, approximately 6.8% was Indian, approximately 1.2% was other races, and approximately 7.4% was non-citizens (mostly foreign workers). Malaysia's population growth rate averaged approximately 2.0% per year from 2005 to 2009.

The official language of Malaysia is Bahasa Malaysia, but English is widely spoken.

Government

Peninsular Malaysia attained independence from Britain in 1957 as the Federation of Malaya. In 1963, Malaysia was formed as the successor to the Federation of Malaya, incorporating Sarawak, Sabah and Singapore. In August 1965, Singapore separated from Malaysia. Malaysia now consists of 13 states and three Federal Territories.

Malaysia has a federal system of government based on a parliamentary democracy headed by a constitutional monarch called the Yang di-Pertuan Agong. The Yang di-Pertuan Agong is elected for a five-year term by the nine hereditary rulers who are members of the Conference of Rulers. The Federal Constitution lays the framework for the executive, legislative and judicial system of the country.

The federal executive power is exercised by the Prime Minister and his cabinet. Under the Federal Constitution, the Prime Minister is appointed by the Yang di-Pertuan Agong and, in practice, the Yang di-Pertuan Agong appoints the leader of the political organization that controls a majority of seats in the House of Representatives of the Parliament. The Prime Minister must be a member of the House of Representatives. Dato' Sri Mohd. Najib bin Tun Haji Abdul Razak became Prime Minister in April 2009.

The Federal legislative authority in Malaysia is vested in the Parliament, which consists of the Yang di-Pertuan Agong and two Houses of Parliament known as the Senate (Dewan Negara) and the House of Representatives (Dewan Rakyat). The members of the House of Representatives are elected by popular vote for five-year terms. The members of the Senate, who serve three-year terms, are elected or appointed in the following manner:

(1) two members for each State are elected in accordance with the process set forth in the Seventh Schedule of the Federal Constitution;

(2) two members for the Federal Territory of Kuala Lumpur, one member for the Federal Territory of Labuan and one member for the Federal Territory of Putrajaya are appointed by the Yang di-Pertuan Agong; and

(3) 40 additional members are appointed by the Yang di-Pertuan Agong.

Bills become law when passed by both the House of Representatives and the Senate, and when they receive royal assent from the Yang di-Pertuan Agong. Bills passed by the Senate cannot be presented for royal assent until passed by the House of Representatives. The Federal Constitution, however, provides for circumstances under which bills passed by the House of Representatives but not by the Senate may be presented for royal assent. The Yang di-Pertuan Agong has 30 days to assent to any Bill presented to him by causing the public seal to be affixed to it. However, if the Yang di-Pertuan Agong does not assent within 30 days, the bill becomes law upon the expiration of the time specified. Federal legislative powers are specified in the Federal Constitution and extend to all matters of national importance, including external affairs, defense, internal security, finance, trade, education, other social services and the administration of justice. The powers of the legislative assemblies of the states are also specified in the Federal Constitution and cover such matters as land, Islamic law, forestry and local government. The states' borrowing power is restricted under the Federal Constitution. If any state law is inconsistent with federal law, federal law prevails.

Judicial power in Malaysia is vested in the courts. The superior courts are the Federal Court, the Court of Appeal and the High Courts, while the subordinate courts consist of the Sessions Courts and the Magistrate's Courts. The jurisdiction of the respective superior courts are determined by the Federal Constitution and the Court of Judicature Act 1964, and the jurisdiction of the subordinate courts are provided in the Subordinate Courts Act 1948. The Federal Court determines appeals from decisions of the Court of Appeal and the High Courts. It also has exclusive jurisdiction to determine, *inter alia*, (i) whether a law made by Parliament or by the legislature of a state is invalid on the ground that Parliament or the legislature of a state, as the case may be, has legislated in respect of a matter in respect of which it has no power to make laws, and (ii) disputes on any other question between the states or between the Federation and any state. The Court of Appeal determines appeals from the High Courts. The High Courts determine appeals from the subordinate courts.

Since its formation, Malaysia has been governed by the National Front coalition comprising three major component parties, namely: the United Malays National Organisation, or UMNO; the Malaysian Chinese Association; and the Malaysian Indian Congress; and a number of smaller parties that have changed from time to time. An opposition to the National Front coalition exists, but it has never been able to capture sufficient support to win control of Parliament. The last general elections were held on March 8, 2008. Members of the National Front coalition were elected to 138 out of 222 seats in the House of Representatives. In the same elections, the National Front coalition won the majority of seats in the state legislature in 8 of the 13 states and opposition parties won a majority of seats in the state legislatures of Kelantan, Kedah, Penang, Perak and Selangor. The National Front coalition has since gained a majority of seats in the state legislative assembly of Perak. Under the Federal Constitution, general elections must be held at least every five years.

UMNO is the dominant party in the National Front coalition, holding 78 of the coalition's 138 seats in the House of Representatives. Elections for the UMNO Supreme Council, the highest policy making body of UMNO, are held every three years and were last held on March 27, 2009, at which time Prime Minister Najib was elected President of UMNO.

Recent Developments

Following the appointment of and the transition to a new Prime Minister in April 2009, several initiatives were announced. The "1Malaysia, People First, Performance Now" concept was launched. It is a continuous effort to strengthen unity among people. The concept is based on positive values centered on social justice and acceptance of a multi-racial society. Pursuant to this concept, the Government continues its work to enhance the well-being of people in urban and rural areas to ensure that the benefits of development are enjoyed by all citizens in a safe and peaceful environment. Efforts have been undertaken to improve income and quality of life including measures aimed at eradicating extreme poverty to see that no segment of society is marginalized. Such measures include programs targeted at the development of public and social amenities, housing for the poor and economic advancement of indigenous peoples.

In an effort to improve efficiency and its delivery system, the Government has announced the Government Transformation Programme ("**GTP**"), based on the 1Malaysia concept. The objective of GTP is two-fold: first, to help the Government become more effective in its delivery of services and accountable for outcomes that matter most to people; and second, to transform Malaysia into an advanced, united, and just society with high standards of living for all Malaysians irrespective of race, religion or region. Six National Key Result Areas ("**NKRAs**") were identified to be addressed by relevant ministries, namely: reducing crime, fighting corruption, improving student outcomes, raising the living standards of low-income households, improving rural basic infrastructure, and improving urban public transport. Reflecting the importance of the NKRAs, they are collectively administered by the Cabinet, with accountability for delivery resting on a lead minister, who is appointed and formally monitored by the Prime Minister.

Malaysia is emerging from the aftermath of a deep global recession. As a result, the Government has set priorities to maintain investor and consumer confidence, preserve jobs and create conditions for continued growth. For Malaysia to realign its strategic position in the global economy, the Government believes that it needs to make a major transformation of the domestic economy and be on track to achieve developed-nation status by 2020. To this end, the Government has implemented a New Economic Model ("**NEM**"), a broad roadmap of economic transformation along eight strategic initiatives, which are: re-energizing the private sector, developing a quality workforce and reducing dependency on foreign labor, creating a competitive domestic economy, strengthening the public sector, implementing transparent and market-friendly affirmative action, building the knowledge base and infrastructure, enhancing the sources of growth and ensuring sustainability of growth.

The NEM also factors in elements of inclusiveness (aimed at taking care of the poorest and the most vulnerable members of society) and sustainability (aimed at ensuring that higher growth continues into the future, but not at the expense of degrading the environment). These steps, among others, will set Malaysia on the path to a future more reflective of its people: vibrant, independent, and engaged in the development of all its communities.

On the domestic front, the ruling coalition will continue to garner its support from the electorate. The key challenges are to develop and enhance human capital and move the economy towards innovation-led knowledge-driven activities and higher-income status. The Tenth Malaysia Plan will chart the nation's initiatives in this regard over the next five years. The Tenth Malaysia Plan draws on the foundations laid by the 1Malaysia concept. It also builds upon the GTP and the NEM to offer a package of new policies and strategies to help the nation attain high-income status.

Foreign Relations and International Organizations

Since independence in 1957, Malaysia's foreign policy remains consistent with regards to safeguarding Malaysia's national interests as well as contributing towards a just and equitable community of nations. Malaysia has established a total of 105 diplomatic missions in 83 countries and appointed 53 Honorary Consuls who provide support and assistance in promoting Malaysia's interests abroad. The United States, Japan and Singapore have historically been Malaysia's most important trading partners, and Malaysia also maintains close trading ties with the European Union and other Asian countries. Malaysia is a member of various international inter-governmental organizations, such as the United Nations, the Commonwealth, the Organization of the Islamic Conference, the Non-Aligned Movement, the Group of 77 and the D8 Group of Developing Countries.

Malaysia promotes its economic interests through various bilateral, regional and international fora including discussions on development of the capital markets and surveillance and reform of the international financial network.

Malaysia maintains close ties with its neighboring countries, particularly through its memberships in:

- the Association of Southeast Asian Nations, known as ASEAN, which in addition to Malaysia includes the Philippines, Indonesia, Singapore, Thailand, Brunei Darussalam, Vietnam, Laos, Myanmar and Cambodia;
- ASEAN+3, which includes the ASEAN nations and China, Japan and South Korea;
- the Executive Meeting of East Asia and Pacific Central Banks, known as EMEAP;
- the South East Asian Central Banks, known as SEACEN;
- the South-East Asia, New Zealand, Australia central bank group, known as SEANZA;
- the Asia-Europe Meeting, known as ASEM; and
- the Asia-Pacific Economic Cooperation forum, known as APEC.

Malaysia also participates in various regional and international fora, including on surveillance, capital market development and reform of the international financial framework. Malaysia also maintains close economic ties with countries in the Middle East, Latin America, Eastern Europe and Africa.

Malaysia maintains memberships in a number of supranational organizations, including:

- the International Monetary Fund, known as IMF;
- the World Bank Group;
- the World Trade Organization;
- the Bank for International Settlements;
- the Asian Development Bank;
- the Islamic Development Bank; and
- the Islamic Financial Services Board.

In its relations with the IMF, Malaysia has participated in the New Arrangements to Borrow, whereby Malaysia stands ready to lend to the IMF in the event that supplementary resources are required to avoid or to cope with an impairment of the international monetary system, or to deal with an exceptional situation that poses a threat to the stability of that system. Malaysia also provides bilateral contributions to the Poverty Reduction and Growth Facility, the IMF's lending facility for its poorest members, and the Heavily Indebted Poor Countries Initiative, the IMF's program to reduce the external debt burden for the most heavily indebted poor countries to sustainable levels. Since September 2002, Malaysia has also been included in the IMF's financial transaction plans, whereby Malaysia stands ready to provide financial resources to support the IMF's operations. Malaysia was among the first group of countries to subscribe to the IMF's Special Data Dissemination Standard, which is designed to improve the timeliness and quality of information of subscribing member countries. Malaysia has also complied with the Special Data Dissemination Standard requirement on international reserves and foreign exchange currency liquidity since May 2000.

Malaysia actively pursues its trade and investment interests through goods, services and other trade-related initiatives at the World Trade Organization and in bilateral and multilateral trade agreements. Malaysia also participates in international commodity agreements such as the International Tropical Timber Agreement. Malaysia is one of the founding members of the Islamic Financial Services Board, which was established on November 3, 2002. As a member, Malaysia participates in the development and dissemination of globally-accepted standards and codes for the supervision and regulation of the Islamic financial industry, consistent with Shariah principles.

Malaysia participates in the Chiang Mai Initiative, or CMI, a regional self-help and support mechanism among the ASEAN+3 member countries to supplement existing international financial facilities. The CMI has two components: the ASEAN Swap Arrangement, or ASA, and a network of bilateral swap arrangements, or BSAs. In April 2005, the ASEAN Finance Ministers agreed to increase the size of the ASA from US$1.0 billion to US$2.0 billion. The new agreement on the expanded ASA came into force on November 17, 2005.

Malaysia has entered into three BSA agreements under the CMI. The first was the US$1.0 billion one-way BSA agreement with Japan, entered into on October 5, 2001, and renewed for another three years on October 5, 2004. This was in addition to the US$2.5 billion one-way BSA made available under the New Miyazawa Initiative of Japan entered into on August 18, 1999. Both one-way BSA agreements with Japan have since expired and both countries are currently in the midst of negotiating a two-way BSA. The two other BSA agreements under the CMI are the US$1.0 billion two-way swap arrangement with South Korea, entered into on July 26, 2002, and the US$1.5 billion one-way swap arrangement with China, entered into on October 9, 2002. Malaysia has since renewed the BSAs with South Korea and China, of which the renewed BSA with South Korea, signed on January 7, 2009 amounts to US$1.5 billion. The BSA with China was converted into a two-way BSA and renewed on April 2, 2010.

The process to multilateralize the CMI began in May 2007 with all ASEAN+3 Finance Ministers agreeing to work towards signing one single contractual agreement. The CMI Multilateralisation ("**CMIM**") agreement, amounting to US$120 billion was signed on December 24, 2009 and came into effect on March 24, 2010. Based on an agreed 20:80 ratio between the ASEAN and the Plus 3 countries, Malaysia's contribution to CMIM is US$4.8 billion while its borrowing multiple is 2.5 times its contribution, i.e. US$11.9 billion. This agreement will continue to be active and is to be reviewed every five years.

While Malaysia continues to accord high priority to the rules-based multilateral trading system under the WTO, regional and bilateral trading arrangements continue to be pursued. Malaysia has concluded and signed three bilateral Free Trade Agreements ("**FTAs**") with Japan, Pakistan and New Zealand. At a regional level, Malaysia and its ASEAN partners have established the ASEAN Free Trade Area ("**AFTA**"), and ASEAN has concluded FTAs with China, Japan, Korea and India, as well as Australia and New Zealand. Malaysia is currently negotiating bilateral FTAs with Australia, India and Chile. A Trade and Investment Framework Agreement was signed with the United States in 2004. Malaysia is also a member of the Organization of Islamic Conference Trade Preferential System and D8 Preferential Tariff Agreement.

Affiliations with International Financial Organizations

The following table presents Malaysia's affiliations with major international financial organizations as of December 31, 2009.

Malaysia's Affiliations with Major International Financial Organizations

	Date of Affiliation	(US$ million)	(% of Total Subscription)	Amount Paid in by Malaysia (US$ million)	Malaysia's Approved Borrowing (US$ million)	Malaysia's Outstanding Borrowing (US$ million)
IMF.	March 1958	1,486.6	0.7	1,486.6	—	—
World Bank	March 1958	824.4	0.5	59.5	4,150.0	39.2
International Development Association	September 1960	3.9	0.3	3.9	—	—
Asian Development Bank.	August 1966	54,890.2	2.7	3,860.6	1,997.5	160.7
International Finance Corporation. .	March 1967	15.2	0.6	15.2	—	—
Islamic Development Bank	August 1974					
Islamic Dinar(1)		ID294.0(1)	0.0(1)	ID65.8(1)	ID885.6(1)	ID59.5(1)
U.S. Dollar.		—	—	—	1,241.9	94.7
Multilateral Investment Guarantee Agency	July 1991	11.0	0.6	2.1	—	—

(1) One Islamic Dinar is equivalent to one Special Drawing Right, a unit of account established by the IMF.

Sources: Ministry of Finance.
Bank Negara Malaysia.

Economic Developments since 2005

The following discussion provides an overview of economic developments in Malaysia from 2005 through to 2009. You should also read "—The Economy" for more detailed information regarding the economic developments described below.

Economic Performance in 2005

Despite a moderation in global economic activity during a period of high oil prices and the continued downcycle of the global semiconductor industry, the Malaysian economy remained resilient, expanding by 5.3% in 2005. Private sector activity continued to be the main driver of growth. Growth was underpinned by strong private consumption spending and continued increases in private investment activity. On the supply side, all economic sectors recorded positive growth except construction and mining. The construction sector was affected by lower activity in the civil engineering sub-sector and a decrease in the number of infrastructure projects. The services sector was the main driver of growth, while the manufacturing and agriculture and mining sectors expanded at a moderate pace. Although the unemployment rate rose to 3.8% in the third quarter of 2005, labor market conditions remained favorable as productivity growth continued to improve during that period.

On July 21, 2005, Malaysia shifted from a fixed exchange rate regime to a managed float against a currency basket comprising the currencies of Malaysia's main trading partners. As a small and open economy, the Government believes that a stable exchange rate environment against major trading partners is important to achieve sustainable growth and price stability. In 2005, the ringgit strengthened significantly against major and regional currencies, reversing much of the depreciation that had resulted from U.S. dollar weakness in 2003 and 2004.

As of December 31, 2005, net international reserves of BNM amounted to RM265.2 billion, or equivalent to US$70.2 billion. The reserves position was sufficient to finance 7.7 months of retained imports and was 5.6 times the short-term external debt.

On April 25, 2005, Rating and Investment Information, Inc. ("**R&I**") affirmed Malaysia's foreign currency rating at "A-" and revised the rating outlook from "stable" to "positive". Factors contributing to the positive outlook included sustainable economic growth led by private consumption and capital investment and appropriate management of prices.

On April 28, 2005, Moody's affirmed Malaysia's long-term foreign currency rating at "A3", and maintained a rating outlook of "stable". Factors cited were the healthy liquidity position and absence of imbalances in the economy following two years of strong growth.

On May 25, 2005, Standard & Poor's affirmed Malaysia's long-term foreign currency rating at "A-", and maintained a rating outlook of "stable". Factors cited were Malaysia's dynamic economy, strong external liquidity and public sector being a net external creditor.

On November 18, 2005, Fitch Ratings Ltd. ("**Fitch**") affirmed Malaysia's long-term foreign currency rating at "A-", and maintained the rating outlook of "stable". Factors cited were Malaysia's robust international liquidity position and declining external debt profile and the scope for further improvements in public finances.

The Kuala Lumpur Composite Index, or KLCI, closed at 899.79 points as of December 31, 2005, compared to 907.43 points at the close of trading on December 31, 2004 and 793.94 points on December 31, 2003.

Economic Performance in 2006

The Malaysian economy grew by 5.8% in 2006, underpinned by sustained expansion in domestic demand and strong exports. Private sector activity continued to be strong, supported by resilient consumer spending, up by 6.8%, and an expansion in private investment activity of 9.2%. The services sector recorded higher growth of 7.4% compared to 7.2% in 2005, driven by rapid expansion in all major sub-sectors. Meanwhile, the manufacturing sector strengthened by 6.7% (2005: 5.2%), supported by strong demand for electronics and improved performance in domestic-oriented industries. The unemployment rate fell to 3.3% in 2006, amidst better economic conditions.

The inflation rate was higher in 2006, at 3.6%, compared with 3.0% in 2005, mainly due to adjustments to the administered prices of retail petrol and utilities during the year. As the Government undertook a one-off increase of an average of 18.5% in the price of retail petrol in March 2006, headline inflation rose sharply to 4.8% and remained elevated throughout the rest of the first half of 2006. Nevertheless, evidence suggests that the indirect impact on prices of other goods and services was limited and there was no strong evidence of wage-price pressure. Despite the spike in the inflation rate in March 2006, inflation expectations remained mostly stable throughout the year.

To align monetary conditions to higher rates of inflation amidst relatively strong growth in the domestic economy, the OPR was raised by 50 basis points in early 2006. The strategy of monetary policy was to accommodate the first round effects of a supply shock while remaining vigilant for signs of second round effects.

In 2006, the ringgit appreciated against the U.S. dollar by 7.0% and the Japanese yen by 8.6% but depreciated against the pound sterling by 5.9% and the Euro by 3.4%. Against regional currencies, the ringgit appreciated against the Chinese renminbi by 3.6% but depreciated against the Thai baht by 6.2%, the Indonesian rupiah by 2.1%, the Korean won by 1.5%, the Singapore dollar by 1.4% and the Philippine peso by 1.0%.

As of December 31, 2006, net international reserves of BNM amounted to RM290.4 billion, equivalent to US$82.5 billion. The reserves position was sufficient to finance 7.8 months of retained imports and was 6.9 times the short-term external debt.

On May 25, 2006, Standard & Poor's affirmed Malaysia's long-term foreign currency rating at "A-," and maintained a rating outlook of "stable" citing Malaysia's continued strong external liquidity position.

On August 2, 2006, R&I upgraded Malaysia's long-term foreign currency rating from "A-," to "A", and revised the rating outlook from "positive" to "stable" citing Malaysia's strong external liquidity position, favorable growth trend in terms of quality and fiscal improvement.

On November 20, 2006, Fitch affirmed Malaysia's long-term foreign currency rating at "A-", and maintained a rating outlook of "stable". Fitch cited the balance between Malaysia's robust external finances and the scope for further improvements in public finances.

The KLCI closed at 1096.24 points as of December 31, 2006.

Economic Performance in 2007

The Malaysian economy expanded by 6.5% in 2007, its fastest pace since 2005. All key sectors of the economy expanded, led by robust domestic demand as exports moderated due to a weaker external environment. Private consumption and investment activities expanded strongly during the year. The unemployment rate moderated to 3.2% in 2007 as demand for workers remained strong and fewer redundancies were recorded during the year.

The inflation rate was lower in 2007, at 2.0%, compared with 3.6% in 2006. The absence of major adjustments to price-administered items during the year mitigated the impact of supply factors on domestic prices.

On the monetary policy front, favorable conditions domestically and internationally allowed Malaysia to achieve a growth rate that BNM projected to be close to its potential growth rate. Monetary policy was left unchanged at all eight of BNM's MPC meetings during the year.

In 2007, the ringgit appreciated against the U.S. dollar by 6.8%, the pound sterling by 4.9% and the Japanese yen by 0.5% but depreciated against the Euro by 4.7%. Against regional currencies, the ringgit appreciated against the Indonesian rupiah by 11.5%, the Korean won by 7.5% and the Singapore dollar by 0.4% but depreciated against the Philippine peso by 10.2%, the Chinese renminbi by 0.1% and the Thai baht by 0.05%.

As of December 31, 2007, gross international reserves increased by RM45.3 billion to RM335.7 billion (US$101.3 billion). After taking into account BNM's external liabilities of RM22.2 million, net international reserves were RM335.7 billion. The build-up in international reserves over the course of 2007 reflected a large trade surplus and inflows of foreign and portfolio investment. The level of international reserves was sufficient to finance 8.4 months of retained imports and to cover 6.2 times the short-term external debt.

On July 19, 2007, R&I affirmed Malaysia's long-term foreign currency rating at "A", and maintained a rating outlook of "stable". Factors cited were Malaysia's continued strong external liquidity position and favorable growth trend.

On August 1, 2007, Standard & Poor's affirmed Malaysia's long-term foreign currency rating at "A-," but revised the rating outlook from "stable" to "positive". Factors cited for the outlook revision were the continued improvement to Malaysia's already strong external liquidity position and the expectation of continued reforms to improve the corporate environment.

The KLCI closed at 1445.03 points as of December 31, 2007.

Economic Performance in 2008

The Malaysian economy continued to grow strongly (by 7.1% year-on-year) in the first half of 2008, supported by strong domestic and external demand. However, the sharp and rapid deterioration in global economic conditions following the onset of the global financial crisis, as well as a major correction in commodity prices, particularly crude oil, liquefied natural gas ("**LNG**") and palm oil, in the second half of 2008, led to a significant contraction in Malaysia's exports in the latter part of the year. Given the high degree of openness of the Malaysian economy, the contraction in external demand adversely impacted sectors directly exposed to global demand, particularly manufacturing and trade-related services, which had a subsequent secondary effect on domestic demand. Nevertheless, real GDP growth remained positive in the second half of the year due to continued expansion in public consumption and private consumption. For the year as a whole, real GDP expanded by 4.7%. Reflecting the weaker economic performance in the second half of 2008, the unemployment rate increased slightly to 3.3% in 2008 as businesses became more cautious amidst declining external demand.

The inflation rate was higher in 2008, at 5.4%, compared with 2.0% in 2007. Most of the rise in inflation during the year occurred in the third quarter when the inflation rate rose sharply following a 40.4% adjustment to retail fuel prices in June. As a result, inflation peaked at 8.5% in July 2008. However, following subsequent contraction in global demand and rapid decline in commodity prices, domestic inflation moderated to 4.4% in December.

In the first half of 2008, monetary policy was confronted with a heightened risk of elevated inflation and the prospect of moderating growth following a deceleration of global growth. The balance of risk shifted rapidly during the course of the year. Price pressures were expected to moderate in 2009 as higher prices began to erode the purchasing power of households. Additionally, the global financial turmoil was expected to have an adverse impact on the performance of the Malaysian export sector. Thus, as the risks to growth had become significantly elevated, BNM decided to keep monetary policy unchanged throughout most of the year. The policy rate was nevertheless reduced by 25 basis points in November as a pre-emptive measure aimed at providing a more accommodative monetary environment. To further reduce the cost of intermediation, the Statutory Reserve Requirement ("**SRR**") was also reduced from 4.0% to 3.5%, with effect from December 1, 2008.

In 2008, the ringgit depreciated against the U.S. dollar by 4.5%, the Japanese yen by 22.9% and the Euro by 0.01% but appreciated against the pound sterling by 32.2%. Against regional currencies, the ringgit appreciated against the Korean won by 28.4%, the Indonesian rupiah by 11.3% and the Philippine peso by 10.1% but depreciated against the Chinese renminbi by 10.8%, the Singapore dollar by 4.7% and the Thai baht by 1.2%.

As of December 31, 2008, net international reserves of BNM amounted to RM317.4 billion, or equivalent to US$91.5 billion. The reserves position was sufficient to finance 7.6 months of retained imports and was 4.0 times the short-term external debt.

On January 22, 2008, Fitch affirmed Malaysia's long-term foreign currency rating at "A-", and revised the rating outlook from "stable" to "positive". Factors cited were the country's strong external liquidity position, a strong banking system and structural reforms to improve the country's economic outlook.

On May 15, 2008, Standard & Poor's affirmed Malaysia's long-term foreign currency rating at "A-", but revised the rating outlook from "positive" to "stable." The outlook revision reflected the uncertainty brought about by the drastic change in the overall political landscape after the general election in March. However, the rating "A-" reflected the country's strong external liquidity position, the expected decline in public sector debt and the Government's economic policies that are generally pragmatic and market friendly.

On November 10, 2008, Fitch affirmed Malaysia's long-term foreign currency rating at "A-", but revised the rating outlook from "positive" to "stable". The outlook revision was due to the likely impact of lower oil and other commodity prices on the balance of payments as well as the deterioration in external demand conditions for electronics exports.

The KLCI closed at 876.75 points as of December 31, 2008.

Economic Performance in 2009

The Malaysian economy contracted by 1.7% in 2009, as the global economy experienced a severe downturn. As a highly open economy, the Malaysian economy was significantly affected by the collapse in world trade which started in the second half of 2008. The deterioration in the external sector had by early 2009 begun to deeply affect domestic demand, in particular private consumption and private investment. On the supply side, the manufacturing sector, particularly the export-oriented industries, was severely affected by the deterioration in external demand. Nevertheless, the accelerated implementation of fiscal stimulus measures, the aggressive easing of monetary policy and comprehensive measures introduced to ensure continued access to financing contributed to subsequent recovery in the second half of the year. External demand provided further impetus to growth in the second half, as the global economy, particularly the regional economies, gradually recovered. The recovery in the second half of the year resulted in a lower unemployment rate of 3.7% in 2009, compared to an earlier forecast by the Economic Planning Unit of 4.5%.

The inflation rate was lower in 2009, at 0.6%, compared with 5.4% in 2008. The marked decline in inflation during the year was driven by supply-related factors and reduced demand. A key concern during the year was the risk of deflation. For Malaysia, although inflation was negative between June and November, the deflation was mostly statistical in nature and there was no evidence of deflationary pressures becoming entrenched in the economy.

Growth in the Malaysian economy turned negative for three quarters, with growth in the first quarter contracting at an annualized rate of 6.2%. Initial monetary conditions, however, were well positioned to provide support to the domestic economy. BNM reduced policy interest rates by a total of 150 basis points between November 2008 and February 2009 to cushion the impact of the global financial and economic crisis.

In 2009, the ringgit appreciated against the U.S. dollar by 1.2% and the Japanese yen by 3.4% but depreciated against the pound sterling by 9.1% and the Euro by 0.9%. Against regional currencies, the ringgit appreciated against the Chinese renminbi by 1.2% but depreciated against the Indonesian rupiah by 13.2%, the Korean won by 6.4%, the Thai baht by 3.2%, the Philippine peso by 1.9% and the Singapore dollar by 1.4%.

As of December 31, 2009, net international reserves of BNM amounted to RM331.3 billion, or equivalent to US$96.7 billion. The reserves position was sufficient to finance 9.7 months of retained imports and was 4.3 times the short-term external debt.

On February 1, 2009, Fitch affirmed Malaysia's long-term foreign currency rating at "A-", and maintained a rating outlook of "stable". Factors cited included that the country's external sector resiliency would support the sovereign's credit rating.

On February 6, 2009, R&I affirmed Malaysia's long-term foreign currency rating at "A", and maintained a rating outlook of "stable". R&I stated its view that the deterioration in economic growth originating from shrinking external demand would have limited impact on Malaysia's creditworthiness.

On February 26, 2009, Moody's affirmed Malaysia's long-term foreign currency rating at "A3", and maintained a rating outlook of "stable". Factors cited were the country's moderate economic strength, which were underpinned in turn by the larger size of the Malaysian economy compared to A-rated peers and Malaysia's external sector which, in Moody's view, is highly open and well-diversified.

On April 20, 2009, Standard & Poor's affirmed Malaysia's long-term foreign currency rating at "A-", and maintained a rating outlook of "stable." Factors cited were Malaysia's strong external liquidity position, falling public sector external debt as well as Malaysia's open, diversified and competitive economy.

The Kuala Lumpur Composite Index, or FBM KLCI (as it was renamed in July 2009), closed at 1,272.78 points as of December 31, 2009.

Economic Performance in 1Q 2010

The Malaysian economy registered strong growth of 10.1% (year-on-year) in the first quarter of 2010, led by continued expansion in domestic demand and stronger external demand. The expansion in domestic demand was supported by higher private consumption (5.1% compared to 1.6% in the fourth quarter of 2009) and sustained public sector spending. Robust external demand provided further impetus to domestic growth through its secondary effects on production, employment and overall sentiments. On the supply side, all economic sectors recorded positive growth during the quarter, led by strong growth in the manufacturing and services sectors.

The inflation rate increased by 1.3% on an annual basis in the first quarter of 2010, compared to deflation of 0.2% in the fourth quarter of 2009. The increase in consumer prices was mainly attributable to food and non-alcoholic beverages, which increased by 1.4% in the first quarter of 2010. As of March 31, 2010, the unemployment rate was 3.6% representing an increase in the number of employed persons of 132,900 (or 1.2%) from the end of 2009.

The MPC decided to raise the OPR by 25 basis points in March 2010 and again in May 2010 to normalize monetary conditions and minimize the risk of financial imbalances and under-pricing of risks that could undermine the economic recovery process.

As of May 14, 2010, international reserves of BNM amounted to RM314.2 billion, or equivalent to US$96.1 billion. The reserves position was sufficient to finance 8.3 months of retained imports and was 4.4 times the short-term external debt.

The FBM KLCI closed at 1,320.57 points as of March 31, 2010.

The Economy

Introduction

Malaysia has a diversified economy, the principal sectors of which are services, manufacturing, agriculture, mining and construction. Malaysia produces and exports a wide range of primary commodities and manufactured goods, including electronic components and equipment, electrical machinery and appliances, chemicals, textiles, wood products, metal products, petroleum, LNG, palm oil, rubber, sawn timber, saw logs and tin. Malaysia is one of the world's largest exporters of electronics, rubber gloves and palm oil.

Since independence in 1957, the Government has formulated and implemented a series of five-year development plans for the Malaysian economy. Malaysia is currently at the end of the Ninth Malaysia Plan (2006-2010), with the Tenth Malaysia Plan (2011-2015) scheduled to be launched on June 10, 2010. The earlier five-year plans have been guided by various development policies, namely the New Economic Policy introduced in 1971, the National Development Policy and the National Vision Policy which were embodied in the First, Second and Third Outline Perspective Plans, respectively. The goals of these policies were to eradicate poverty irrespective of race and to restructure society through economic growth. In particular, they were aimed at promoting social stability by increasing participation of Bumiputera in the economy.

Vision 2020, a long-term 30-year plan launched in 1991 by the then Prime Minister Tun Dr. Mahathir bin Mohamad, set a target growth rate of 7.0% per year for the national economy. The economy performed well during the early years of the plan. However, growth was subsequently negatively impacted by several economic crises, specifically the 1997/1998 Asian financial crisis, the September 11 incident in 2001, wars in Afghanistan and Iraq, outbreaks of Severe Acute Respiratory Syndrome and the 2008/2009 global recession. In 2009, the Government established the National Economic Advisory Council to assist in formulating the NEM designed to bring the economy back to its high growth trajectory and to enable Malaysia to reach the goal established in Vision 2020 of becoming a high-income advanced economy by the year 2020. The Tenth Malaysia Plan will be a unifying document which will incorporate the GTP and the Economic Transformation Plan from the newly released NEM as well as the objectives of the "1Malaysia, People First, Performance Now" concept. The emphasis of the plan will be on attracting investment and driving productivity and innovation to transform Malaysia into a high-income advanced economy by 2020 through principles of inclusiveness and sustainable growth.

The Government launched the Capital Market Masterplan ("**CMP 1**") and the Financial Sector Masterplan in February and March, respectively, of 2001, with the goal of providing the development framework of the capital markets and financial sector for the next 10 years. See "*—Financial System—Financial Sector Masterplan*" and "*—Financial System—Capital Markets — Securities Commission.*" With CMP 1 drawing to a close, the strategic direction and initiatives for developing Malaysian capital markets over the next decade to support the transition to a new economic model will be set out in the Capital Market Masterplan 2 ("**CMP 2**") which is currently being formulated by the Securities Commission of Malaysia (the "**SC**"). The formulation of CMP 2 is intended to support economic growth by accessing the capital markets to fund economic diversification projects. The Government launched its Knowledge-Based Economy Master Plan in September 2002, which charts the strategy and implementation framework for the transition of the Malaysian economy to a knowledge-based economy. The Knowledge-Based Economy Master Plan has a long-term timeframe, and envisions the development of a knowledge-intensive economy by 2020, with an agenda to be implemented over three phases: Phase I (2001-2003), Phase 2 (2004-2006) and Phase 3 (2007-2010).

The Government holds direct and indirect equity interests (through its investment arm Khazanah Nasional Berhad) in a number of major corporations, including non-financial public enterprises, involved in certain strategic sectors, including telecommunications, power, transportation, petroleum, construction and services. The principal non-financial public enterprises are Tenaga Nasional Berhad (the largest electricity utility in Malaysia), Telekom Malaysia Berhad (Malaysia's largest telecommunications company), Petroliam Nasional Berhad (also known as PETRONAS, Malaysia's state-owned oil and gas company), Putrajaya Holdings Sdn Bhd (the master developer of the Federal Government Administrative Capital of Putrajaya), Malaysia Airports Holdings Berhad (the operating company for Malaysia's 38 airports) and Malaysia Airlines Berhad (the national air carrier). In 1983, the Government adopted an active privatization program for projects and state-controlled companies. This program was intended to increase economic efficiency and to reduce financial and administrative burdens on the Government. The Privatization Master Plan to guide privatization efforts was formulated in 1991 and is being implemented by the Government, See "—*Privatization.*" In July 2005, the Government also unveiled a 10-year program for Government-linked companies, which is aimed at enhancing international competitiveness.

Gross Domestic Product and Gross National Income

The following table sets out the composition of Malaysia's GNI by demand aggregates at current and constant 2000 prices for the periods indicated.

GNI by demand aggregates

	2005	2006	2007	2008	2009[P]	1Q 2010 [P]
	(RM billion, unless otherwise stated)					
GNI at Current Prices:						
Consumption	298.8	326.9	371.4	427.2	434.8	107.0
Private sector	234.2	258.3	293.0	334.7	338.9	86.7
Public sector	64.5	68.6	78.4	92.5	95.9	20.3
Investment	107.2	119.2	138.4	144.6	136.8	34.3
Private sector	53.7	62.1	76.6	79.8	65.2	n.a.
Public sector	53.5	57.1	61.8	64.8	71.7	n.a.
Change in stocks	(2.8)	(1.7)	0.0	(1.7)	(38.4)	(2.9)
Exports of goods and services	613.7	669.5	706.4	765.4	655.3	183.5
Imports of goods and services	(494.4)	(539.4)	(574.2)	(594.7)	(508.9)	(138.5)
GDP	522.4	574.4	642.0	740.9	679.7	183.3
GDP (US$ billion)(1)	138.0	156.6	186.8	222.3	192.8	54.5
Net factor payments abroad	(23.9)	(17.3)	(14.0)	(23.7)	(12.6)	n.a.
GNI	498.5	557.1	628.1	717.2	667.1	n.a.
GNI (US$ billion)(1)	131.6	151.9	182.7	215.3	189.3	n.a.
Per capita GNI (US$) in current prices(1)	5,038	5,701	6,723	7,761	6,686	n.a.
GNI at Constant 2000 Prices:						
Consumption	274.6	292.3	320.6	349.4	353.5	86.7
Private sector	216.2	230.9	255.3	270.0	278.9	71.1
Public sector	58.4	61.3	65.4	72.4	74.7	15.6
Investment	99.3	106.8	116.8	117.6	111.0	27.1
Private sector	50.8	55.5	62.8	63.4	52.5	n.a.
Public sector	48.4	51.2	53.9	54.2	58.5	n.a.
Change in stocks	(3.1)	0.3	(0.8)	(4.3)	(14.3)	(2.4)
Exports of goods and services	554.3	590.8	614.8	624.6	559.5	151.2
Imports of goods and services	(475.8)	(514.5)	(545.1)	(557.1)	(488.7)	(128.7)
GDP	449.3	475.5	506.3	530.2	521.1	133.9
Net factor payments abroad	(25.0)	(20.5)	(23.5)	(37.0)	(19.4)	n.a.
GNI	424.3	455.0	483.0	493.2	498.4	n.a.

P Preliminary.

(1) Converted to U.S. dollars at the average exchange rate for the relevant period.

Sources: Department of Statistics, Malaysia.
Bank Negara Malaysia.

In 2005, real GDP grew at a rate of 5.3%. The rate of growth was slower than in 2004 due to the impact of persistently high oil prices and a downturn in global demand for electronics. Moderate private investment growth of 3.3% (2004: 46.5%) and a drawdown in inventories also contributed to the slower rate. Nevertheless, growth was supported by public investment activity, which increased by 6.8%. Stable income and employment, in a period of high export earnings and savings, as well as competitive credit market conditions, contributed to sustained strong expansion in consumer spending by 9.1% (2004: 9.8%).

In 2006, real GDP growth expanded by 5.8%, compared to 5.3% in 2005. The positive global growth during the year resulted in strong demand for electronics and primary commodities. Strong external demand had encouraged domestic activity, as private consumption rose in line with income and private investment increased to expand productive capacity. Private consumption remained resilient, increasing by 6.8% in spite of concerns over rising prices during the first half of the year. Private investment expanded by 9.2%, supported by favorable economic conditions. Public sector consumption and investment also played a role, expanding by 5.0% and 5.8% respectively in 2006.

In 2007, real GDP growth continued its strong momentum, expanding by 6.5% during the year. Growth was driven by robust domestic demand despite a weaker external environment which led to a moderation in export growth. Private consumption increased at a faster pace of 10.5%, supported by rising disposable income and favorable labor market conditions. Private investment expanded by 13.1%, underscored by positive business sentiments during the year and was further reinforced by strong inflows of foreign direct investment. Meanwhile, public sector consumption increased steadily by 6.6%, while public sector investment expanded by 5.3%.

In 2008, real GDP growth moderated to 4.7%, amidst the international financial turmoil and rapid deterioration in global economic environment. Growth was supported by robust domestic demand, in particular sustained private consumption and strong public spending. Private consumption remained resilient, increasing by 8.5% despite concerns over the higher general level of prices following the hike in fuel and electricity prices in June 2008. Private investment, however, moderated to 1.0% as capital expansion activities slowed towards year-end following the sharp global economic downturn. Public sector consumption expanded strongly by 10.7% due mainly to higher expenditure on emoluments as well as supplies and services, while public sector investment grew at a slower pace of 0.5%.

In 2009, real GDP growth contracted by 1.7% as the global economy experienced a severe downturn. Given the high degree of openness of the economy, the deterioration in external demand affected employment, income and overall business and consumer sentiment, causing private consumption and private investment activities to decline, particularly in the first quarter. However, accelerated implementation of fiscal stimulus measures, aggressive easing of monetary policy and comprehensive measures to ensure continued access to financing contributed to stabilization of the domestic economy in the second quarter and recovery in the second half of the year. Private consumption grew marginally by 0.7% for the year as a whole, as household spending was affected by high redundancies and a decline in real wages. Private investment declined by 17.2% as businesses deferred or cancelled investment decisions. Public sector consumption increased by 3.1%, while public sector investment expanded by 8.0% following the introduction of two economic stimulus packages designed to mitigate the impact of the global economic downturn.

In the first quarter of 2010, the Malaysian economy registered strong growth of 10.1% year-on-year, led by continued expansion in domestic demand and stronger external demand. Private consumption spending grew by 5.1% year-on-year, supported by continued improvement in labor market conditions amidst an environment of low inflation and improved consumer sentiment. The public sector continued to provide additional impetus to growth, with public consumption registering an expansion of 6.3% during the quarter. Gross fixed capital formation continued its positive growth momentum, growing by 5.4%, supported by sustained public sector capital spending and a modest recovery in private sector business spending activity. Meanwhile, robust external demand provided further impetus to domestic growth through its secondary effects on production, employment and overall sentiments.

Foreign Direct Investment Flows. The following table sets out the foreign direct investment, or FDI, statistics in Malaysia for the periods indicated.

Foreign Direct Investment in Malaysia [1]

	2005	2006	2007	2008	2009[P]
			(RM million)		
FDI in Malaysia (net)	15,396	22,230	29,081	24,134	5,663
			(US$ million)[2]		
FDI in Malaysia (net)	4,065	6,077	8,454	7,382	1,569

P Preliminary.

(1) As per the Balance of Payments concept and methodology.

(2) For the period of 2005-2009, the amount for each quarter was converted from ringgit to U.S. dollars using the end-quarter exchange rate.

Source: The Department of Statistics, Malaysia.

Malaysia continues to attract inflows of FDI, despite global uncertainty and greater competition from emerging economies. From 2005 to 2009, net FDI inflows averaged about RM19.3 billion (or 3.1% of GDP) per year. FDI inflows from 2005 to 2009 were mainly originated in the advanced economies, principally Japan and the United States but also from regional economies such as Singapore and Hong Kong. However, relatively lower net FDI inflow was recorded in 2009, amounting to just RM5.7 billion compared to RM24.1 billion in 2008 due to the sharp deterioration in global economic conditions.

The services sector received the bulk of FDI inflows from 2005 to 2009, accounting for 39% of total net FDI. This development reflected the rising importance of FDI in the services sector and the Government's efforts to liberalize and promote the economic environment in order to attract foreign investors. FDI in the services sector became increasingly broad-based, channeling into major sub-sectors such as the finance, insurance and business services sub-sector as well as wholesale and retail trade and hotels, transport and communications and utilities. Investment in the IT sector also expanded, encouraged by incentives granted to companies setting up offices in the Multimedia Super Corridor, also known as the MSC. See "*—Principal Sectors of the Economy—Services.*"

The manufacturing sector also received significant FDI inflows from 2005 to 2009, amounting to 35.9% of total net FDI over the period. The investments were mainly from multinational corporations with existing investments in Malaysia, particularly in the electrical and electronics sub-sector. In addition, the manufacturing sector in Malaysia continued to attract FDI to new growth areas such as renewable energy and medical equipment. In the oil and gas sector, which accounted for approximately 16.6% of total net FDI from 2005 to 2009, investment in upstream activities was significant as the national oil company, Petroliam Nasional Berhad and its foreign partners were actively engaged in exploration, production and the development of oil and natural gas resources in the country.

As a major initiative to make doing business in Malaysia easier and attract additional FDI, the Government abolished the Foreign Investment Committee ("**FIC**") and repealed its guidelines (the "**FIC Guidelines**") with effect from June 30, 2009. The FIC Guidelines were viewed as a source of regulatory uncertainty and were seen as not in line with international practices. Since June 30, 2009, all individual and corporate transactions involving acquisition of interests, mergers and takeovers of companies and businesses in Malaysia no longer need FIC approval. However, sectors categorized as strategic and of national interest, such as energy, commercial vehicles, water, financial services and communications and multimedia, will continue to be subject to equity conditions as imposed by their respective regulator.

On June 30, 2009, the Government, through the Economic Planning Unit, Prime Minister's Department ("**EPU**") introduced the Guideline on the Acquisition of Properties. Among others things, the Guideline provides as follows:

(a) All property acquisition, except for residential units, requires approval of the EPU when:

   (i) direct acquisition of property valued at RM20 million and above results in the dilution of ownership of property held by Bumiputera interests and/or government agencies; or

   (ii) indirect acquisition of property by other than Bumiputera interests through acquisition of shares results in a change of control of the company owned by Bumiputera interests and/or government agencies, having property more than 50.0% of its total assets, and the said property is valued at more than RM20 million.

(b) foreign interests may purchase residential or commercial property priced at RM500,000 and above per unit; and

(c) under certain circumstances, companies will be required to be at least 30% Bumiputera-owned as well as have minimum paid-up capital of RM250,000.

Foreign Investment Approvals in the Manufacturing Sector. The following table sets out approved foreign investments in the manufacturing sector by industry for the periods indicated.

Approved Foreign Investments in the Manufacturing Sector by Industry(1)

	2005	2006	2007	2008	2009P
			(RM million)		
Food manufacturing	531.9	895.4	369.2	1,070.2	934.2
Beverages and tobacco	77.6	1.0	22.2	60.2	315.0
Textiles and textile products	146.2	152.2	1,300.8	303.0	225.3
Leather and leather products	3.6	1.0	4.6	0.0	0.0
Wood and wood products	77.2	286.4	285.4	496.6	96.8
Furniture and fixtures	63.5	55.0	100.5	17.8	42.1
Paper, printing and publishing	123.8	93.4	1,814.6	480.3	315.9
Chemicals and chemical products	869.5	3,031.5	1,560.2	1,221.1	7,037.7
Petroleum products (inc. petrochemicals)	133.0	605.0	5,335.4	1,246.6	460.2
Rubber products	215.2	257.7	241.8	314.5	127.9
Plastic products	594.8	757.2	565.9	211.4	549.8
Non-metallic mineral products	596.1	962.2	1,007.6	521.7	5,316.0
Basic metal products	430.5	2,288.1	4,989.6	20,446.6	435.3
Fabricated metal products	250.6	616.3	239.2	554.6	775.0
Machinery manufacturing	570.0	656.9	1,219.6	519.3	637.2
Electrical and electronic products	11,318.9	8,601.5	13,737.1	17,332.1	3,975.9
Transport equipment	503.8	216.6	306.5	853.1	541.0
Scientific and measuring equipment	1,364.5	664.6	175.6	378.9	312.9
Miscellaneous	12.4	85.7	150.2	70.7	46.6
Total	17,882.9	20,227.9	33,425.9	46,098.8	22,144.7

P Preliminary.

(1) Actual foreign investments in manufacturing projects in any given year typically differ from the amount of investments approved for that year. This is because planned investments are sometimes made over longer periods than originally anticipated or because actual investment amounts proved to be lower or higher than the amounts approved.

Source: Malaysian Industrial Development Authority.

The manufacturing sector continued to attract significant amounts of foreign investments from January 1, 2005 to December 31, 2009. The average share of approved foreign investments to total investments in approved manufacturing projects during that period was 60.1%. Foreign investments in approved manufacturing projects amounted to RM139.8 billion for that period. Reflecting the continued confidence of foreign investors, approved foreign investments remained strong at RM46.1 billion in 2008 but fell to RM22.1 billion in 2009 in line with the contraction in global investment flows. Foreign investments for the January 1, 2005 to December 31, 2009 period were mainly in the chemical and chemical products, non-metallic mineral products, and electronics and electrical products sub-sectors.

There has been a shift towards higher value-added, higher technology and more capital intensive projects in the manufacturing sector. For example, in the consumer electronics sub-sector, companies are moving towards the utilization of flat-panel display technologies and have diversified into the production of higher value-added products, such as digital audio-video equipment, multimedia speakers, liquid crystal display, plasma television sets and home theatres. In the industrial electronics sub-sector, manufacturers are shifting production to higher value-added products and activities such as personal computers and high-end telecommunication products. In the petrochemical sub-sector, the shift is towards the development of specialty and fine chemicals for use in the food and pharmaceuticals industries, and new areas in the electrical and electronic, automotive and machinery industries, which will enhance that sub-sector's value-added contribution. An increasing number of companies operating in Malaysia are investing in research and development activities. Malaysia has also attracted investments in such new growth areas as solar photovoltaic systems and light-emitting diode production.

Principal Sectors of the Economy

The following table sets out GDP by economic activity at constant 2000 prices for the periods indicated.

GDP by economic activity (at constant 2000 prices)

	2005	2006	2007	2008	2009[P]	1Q 2010[P]	1Q 2010[P]
	(RM million, except percentages)						(% of GDP)
Services	230,043	247,099	272,406	292,555	300,153	76.505	57.1
Manufacturing	137,940	147,154	151,257	153,171	138,809	37,154	27.7
Agriculture, forestry and fishery	35,835	37,701	38,177	39,828	39,992	9,569	7.1
Mining and quarrying	42,472	42,030	42,881	41,831	40,246	10,520	7.9
Construction	14,685	14,639	15,707	16,366	17,321	4,187	3.1
GDP at purchasers' value	449,250	475,526	506,341	530,181	521,095	133,899	100.0
GDP growth (decline) (%)	5.3	5.8	6.5	4.7	(1.7)	10.1	

P Preliminary.

Sources: *Department of Statistics, Malaysia.*
Bank Negara Malaysia.

During the past three decades, through the implementation of strategic policies, Malaysia has made significant progress toward the transformation of its economy from one focused on agriculture and mining to one focused on manufacturing and services. Since the late 1970s, the contribution of the agriculture, forestry and fishery sector has declined from 25.1% of GDP in 1978 to 7.7% in 2009. During the same period, the contribution of the manufacturing sector increased from 19.0% of GDP to 26.6%. The services sector also developed at a faster pace than the overall expansion of the economy, with its share of GDP rising to 57.6% in 2009 from 38.9% in 1978. Within the services sector, the intermediate services segment (comprising the transport and storage, communication, finance and insurance and real estate and business services sub-sectors) has gained importance, with its share of GDP rising from 10.3% in 1978 to 25.1% in 2009, benefiting from the rapid pace of industrialization. At the same time, the contribution of the final services segment (comprising the wholesale and retail trade, accommodation and restaurants, utilities, Government services and other services) remained significant at 32.5% in 2009, compared to 28.6% in 1978. The manufacturing industry, initially characterized by the production of low-end goods such as textiles and clothing, now produces higher value-added products, including indigenous brand names as well as more capital- and technology-intensive goods such as electrical and electronic products. The process of economic transformation in Malaysia involves a strategic shift from labor-intensive to capital-intensive activities utilizing more integrated and technology-driven production processes.

In 2005, real GDP expanded by 5.3%. The services sector was the main driver of growth, with growth of 7.2%, which was underpinned by strong consumer spending, travel and business activity. The manufacturing sector expanded at a moderate pace of 5.2%, in line with the cyclical downturn in the global semiconductor cycle. The agriculture sector expanded further by 2.6% supported by greater production of palm oil. The mining sector declined by 0.4% as a result of a decline in crude oil production caused by shutdowns of several oil fields and plants for maintenance purposes. The construction sector continued to decline by 1.5% due to weak activity in the civil engineering sub-sector.

In 2006, real GDP grew by 5.8% underpinned by robust domestic demand and continued strong exports. The services sector grew by 7.4%, driven by rapid expansion in all major sub-sectors. Growth in the manufacturing sector strengthened to 6.7%, supported by the global electronics upcycle and improved performance in domestic-oriented industries. Meanwhile, the agriculture sector also recorded a strong performance reflecting broad based expansion across both industrial crops and food-related activity, amidst the higher yields and favorable commodity prices. The construction sector registered a mild contraction of 0.3% in 2006, led by a gradual recovery in civil engineering activity and non-residential segments.

In 2007, real GDP expanded by 6.5%. Growth was broad based, reflecting expansion across all key sectors of the economy. The growth was led by the strong performance in the services sector, which grew by 10.2%, supported by robust domestic demand. The mining sector also recorded an improved performance of 2.0% led by higher production of crude oil following the coming on-stream of the Kikeh oil field. Meanwhile, the manufacturing and agriculture sectors recorded moderate expansion of 2.8% and 1.3% respectively in 2007. The former was tempered by weak performance of export-oriented industries while the latter was weighed down by lower production of palm oil and rubber.

In 2008, real GDP registered a growth of 4.7% with favorable growth across all major sectors. Growth in the first half of the year was driven by robust performance of the services sector with further support coming from the manufacturing and agriculture sectors. However, the sharp deterioration in the global economic conditions in the second half of 2008 weakened the performance of sectors directly exposed to global demand, particularly the electrical and electronics industry. The external sector was also affected by the decline of commodity prices. Consequently, the manufacturing and agriculture sectors grew by 1.3% and 4.3% respectively, while the mining sector contracted by 2.4%. The economy, however, continued to be supported by the services sector, which registered a growth of 7.4%.

Real GDP contracted by 1.7% in 2009 amidst the global financial crisis. The manufacturing sector was significantly affected with a decline of 9.4%, as the electronics and electrical cluster contracted at an unprecedented rate. The mining sector also contracted by 3.8% on account of lower production of crude oil and natural gas resulting from the lower external demand. The agriculture sector recorded a marginal growth of 0.4% due to lower production of industrial crops. The services sector provided support to the economy, with a growth of 2.6%, mainly supported by the resilient domestic demand amidst the fiscal stimulus and the accommodative monetary policy. The construction sector recorded a stronger growth of 5.8% due primarily to the implementation of construction-related activities under the Ninth Malaysia Plan and fiscal stimulus packages.

In the first quarter of 2010, real GDP registered strong year-on-year growth of 10.1% with all economic sectors recording positive growth. Strong growth was registered in the manufacturing and services sectors following improvements in both domestic and external demand conditions. The construction sector continued to expand at a pace of 8.7% (year-on-year) during the quarter, supported by the implementation of construction-related projects under the second fiscal stimulus package and the Ninth Malaysia Plan. Meanwhile, the turnaround in the mining sector largely reflected a substantial increase in natural gas production to meet higher external demand. The agriculture sector expanded further, supported mainly by higher rubber production and a moderate increase in palm oil production.

Services. The following table sets out the growth in the services sector for the periods indicated.

Growth in services sector(1)

	2005	2006	2007	2008	2009P	1Q 2010P
			(Annual change (%))			
Intermediate Services	7.3	8.2	11.9	6.4	3.4	8.6
Transport and storage	4.9	6.4	10.1	6.1	(2.8)	9.2
Communication	7.3	7.7	7.0	7.3	6.0	6.8
Finance and insurance	6.3	7.7	10.7	8.3	5.1	6.4
Real estate and business services	11.4	10.9	19.5	2.1	2.4	14.2
Final Services	7.2	6.9	9.0	8.2	2.0	8.5
Utilities	5.7	4.9	4.0	2.1	0.4	16.6
Wholesale and retail trade	9.2	7.0	14.2	9.8	1.2	9.6
Accommodation and restaurants	6.4	5.6	10.3	7.3	2.8	4.9
Government services(2)	7.5	10.0	5.0	10.8	2.0	8.1
Other services(3)	4.3	4.5	5.5	5.3	4.4	4.4
Total services	7.2	7.4	10.2	7.4	2.6	8.5

P Preliminary.

(1) At constant 2000 prices.

(2) Includes general public services (general public administration, external affairs and public order and safety), defense, health, education and others.

(3) Includes imputed rent from owner-occupied dwellings; community, social and personal services, provision of private non-profit services to households; and domestic services of households.

Sources: Department of Statistics, Malaysia.
Bank Negara Malaysia.

The services sector comprises a wide range of activities which can be broadly classified into intermediate services (comprising finance and insurance; real estate and business services; transport and storage; and communication) and final services (comprising wholesale and retail trade; accommodation and restaurants; utilities; Government services; and other services). The services sector grew at an average annual rate of 6.9% (6.9% net of Government Services) between 2005 and 2009.

In 2005, growth in the services sector remained firm, expanding by 7.2%, supported by both intermediate and final services segments, which grew by 7.3% and 7.2%, respectively. The wholesale and retail trade; and accommodation and restaurants sub-sectors continued their rapid expansion, growing by 9.2% and 6.4% respectively, in line with strong consumer demand, expansion in business activities, and continued increase in tourist arrivals. The communication sub-sector registered a growth of 7.3%, driven mainly by the robust performance in the cellular telecommunication segment. The finance and insurance sub-sector increased by 6.3%, supported by strong bank lending and insurance activities as well as steady progress of Islamic finance as a new growth area. The real estate and business services sub-sector grew by 11.4%, reinforced by growth in new activities such as shared services and outsourcing activities.

In 2006, the services sector grew by 7.4%, compared with 7.2% in 2005 driven by rapid expansion in all major sub-sectors. The finance and insurance sub-sector grew by 7.7% due to higher interest and fee-based income following increased financial intermediation activity, product innovation and the emergence of new services such as financial advisory and fund and wealth management. In addition, Islamic banking and takaful activities gathered momentum as eight new players commenced operations. During the year, the Malaysian International Islamic Financial Centre ("**MIFC**") initiative was launched to promote Islamic financial products and services in international currencies for the global market. The communication sub-sector registered a strong growth of 7.7%, driven by higher demand for both cellular telecommunication and internet services. The wholesale and retail trade and accommodation and restaurants sub-sectors grew at a more moderate pace of 7.0% and 5.6% respectively in 2006 compared to 9.2% and 6.4% respectively in 2005 due to a normalization in private consumption trends. Nevertheless, the impact was partially offset by higher tourism activities, particularly from high spending markets such as the Middle East.

In 2007, the services sector continued on a strong growth momentum, registering significant growth of 10.2%, the highest growth rate since 1995. Of importance, the strong performance of the services sector was broad-based, with key drivers being the real estate and business services, finance and insurance, wholesale and retail trade, and communication sub-sectors. Steady increases in incomes amid the high commodity prices and increase to the civil service salary, as well as robust capital market activity and higher tourism activity as a result of the Visit Malaysia Year 2007 led to the strong demand for services during the year. The real estate and business services sub-sector recorded a strong growth of 19.5% during the year supported by strong brokerage activity, in line with the increased turnover in the equity market, with further support provided by the IT-related services as well as professional and consultancy services. The finance and insurance sub-sector grew by 10.7%, driven by increased bank intermediation and fee-based activity following robust underwriting and corporate advisory activity. The robust expansion in private consumption activity had also resulted in the strong growth rates of both the communication and wholesale and retail trade sub-sectors at 7.0% and 14.2% respectively.

In 2008, the services sector expanded by 7.4%, contributing 4.0 percentage points to the overall GDP growth. In the first half of the year, the sector posted a strong performance due to robust domestic demand conditions and expansion in trade and tourism activities. However, growth in the second half-year was affected by the moderation in the services sub-sectors that were dependent on trade and capital market-related activities. The wholesale and retail trade sub-sector expanded by 9.8%, supported by the robust domestic demand in the first half of 2008, continued expansion in hypermarkets and retail outlets as well as the extension of Visit Malaysia Year and Malaysia Mega Sale events. The finance and insurance sub-sector recorded a growth of 8.3%, in line with increased financial intermediation amidst ample liquidity and continued access to financing. The communication sub-sector continued to expand strongly by 7.3%, as increased competition in the telecommunications market and the roll-out of new broadband services provided impetus for higher demand. The transport and storage sub-sector on the other hand, grew at a moderate pace of 6.1%, affected by lower demand for cargo-related services resulting from the global economic slowdown in the latter part of the year.

In 2009, despite the global economic crisis, the services sector grew by 2.6%, providing support to the Malaysian economy. Sub-sectors that are more domestic-oriented remained resilient, supported by the fiscal stimulus and an accommodative monetary policy, while sub-sectors that are dependent on trade and manufacturing activities were affected by the decline in external demand. The finance and insurance sub-sector recorded moderate growth of 5.1% in 2009, reflecting the subdued demand for financing, in tandem with lower economic activity especially in the first half of the year. The wholesale and retail trade sub-sector declined in the first half-year due to cautious consumer spending before turning around in the second half of 2009 amid better domestic economic and labor market conditions. The communication sub-sector remained strong, supported by the aggressive rollout of broadband services and the wider availability of affordable smart phones and Wi-fi-enabled devices in the market. Meanwhile, the transport and storage sub-sector registered a decline of 2.8%, reflecting lower demand for cargo-related transportation services during the year.

In the first quarter of 2010, the services sector registered a growth rate of 8.5% year-on-year. Growth in almost all sub-sectors strengthened, in line with continued improvements in both domestic and external demand conditions. The finance and insurance sub-sector grew by 6.4% following continued expansion in bank lending and favorable increases in fee-based income. Growth in the insurance segment was sustained, reflecting higher premium income. Meanwhile, the real estate and business services sub-sector recorded higher growth of 14.2% supported by strong capital market-related activity and higher property transactions during the quarter. Growth in the wholesale and retail trade sub-sector also registered higher growth of 9.6% due to improved household consumption spending, including for durable goods such as motor vehicles. The communication sub-sector continued to record high growth amidst strong demand for broadband and mobile data services, spurred by competitive packages offered by the telecommunication service providers. The transport and storage sub-sector also grew strongly as a marked increase in trade activities created more demand for cargo-related services.

As part of its effort to promote development of the services sector, the Government launched the Multimedia Super Corridor, or MSC, in 1996. The development of the MSC is the centerpiece of a Government strategy to accelerate the transformation of Malaysia's economy into a high-tech and high value-added economy. The Government considers this transformation necessary for Malaysia to enhance its international competitiveness.

The MSC is being launched in three phases. Phase 1 of the MSC was from 1996 to 2003, and covered only the MSC area, which is a land belt measuring 15 kilometers by 50 kilometers, stretching from Kuala Lumpur City Center to the Kuala Lumpur International Airport. During Phase 1, leading multimedia corporations were invited to locate their business units and research and development facilities in the MSC. At the end of Phase 1, in 2003, the total number of MSC status companies was 973, far exceeding the target of 500 set for the period. As of December 31, 2004, the total number of MSC status companies approved rose to 1,163. Companies that are wholly foreign-owned and joint ventures with majority foreign stakeholders represented 29.0% and 26.4% of the total number of approved applications as of December 31, 2003 and 2004, respectively. Total revenue by MSC status companies for 2004 was RM7.2 billion. Total investment in MSC status companies in 2004 was RM5.1 billion. In 2009, total revenue of the MSC status companies amounted to RM24.8 billion with total investment of RM21.2 billion. As of April 30, 2010, 2,574 MSC companies have been approved. Companies that are wholly foreign-owned and joint ventures with majority foreign stakeholders represented 22.5% of the total number of approved applications. See "—*Gross Domestic Product and Gross National Income*—Foreign Investment Approvals in the Manufacturing Sector and the Multimedia Super Corridor."

The main objective of Phase 2, for the period from 2004 to 2010, is to gradually extend the MSC area to other parts of the country, starting from the northern region of Penang and Kulim Hi-tech Park in Kedah in 2005, and to secure the MSC as a global information and communication technology hub and the preferred location for information and communication technology, multimedia and services innovation and operations in the world. Other than to roll out the MSC to the rest of the country, another focus of Phase 2 is to accelerate the four developmental MSC Flagship Applications, namely multipurpose card, electronic Government, smart school and telehealth; as well as to introduce and increase the adoption of new initiatives to increase competitiveness, such as encouraging smart card use as a common platform to ensure security.

The objective of Phase 3, from 2011-2020, will be to promote information and communication technologies ("**ICT**") in order to develop a balanced social economy. Under the plan, MSC Malaysia will continue to spearhead the transformation of the ICT industry by encouraging increased contribution to GDP by the ICT industry, increasing the total factor productivity of the country through widespread usage of ICT and harnessing the power of ICT to increase quality of life for Malaysians. By the end of Phase 3 in 2020, the MSC Malaysia agenda will have been extended to the whole country. It will constitute a transformation of Malaysia into an innovation-led and knowledge-based economy and society, as envisaged in Vision 2020.

Manufacturing. The following table sets out the change in production indices for the principal industrial products of Malaysia for the periods indicated.

Growth in manufacturing sector

	2005	2006	2007	2008	2009P	1Q 2010P
			(Annual % Change)			
Domestic-oriented industries	**2.8**	**4.5**	**7.6**	**8.0**	**(5.7)**	**17.6**
Food products	7.6	6.4	7.6	9.9	3.2	0.2
Beverages	6.1	(1.5)	15.9	2.6	(2.3)	8.6
Tobacco products	(3.0)	(4.3)	3.5	(5.6)	(6.4)	-1.6
Non-metallic mineral products	2.0	3.3	1.9	9.1	(13.6)	22.0
Iron and steel products	(5.3)	5.6	16.3	(2.9)	(23.3)	35.0
Fabricated metal products	(4.9)	22.4	12.5	6.1	(1.1)	13.8
Transport equipment	8.5	(4.7)	(1.1)	23.4	(12.4)	37.3
Others	(3.7)	(0.3)	10.7	(7.9)	27.0	16.6
Export-oriented industries	**5.7**	**10.0**	**1.1**	**(1.2)**	**(11.1)**	**14.6**
Textiles and wearing apparel	3.4	2.2	(1.9)	0.0	(19.8)	2.7
Wood and wood products	1.5	(2.9)	(1.4)	(4.7)	(16.6)	30.0
Rubber products(1)	(0.4)	12.7	8.6	4.7	(3.0)	36.1
Chemicals and chemical products(1)	11.0	7.6	3.6	(3.5)	(1.7)	24.0
Paper products	7.5	12.4	25.3	(14.4)	(5.5)	25.7
Petroleum products	10.8	8.2	2.5	5.9	(0.8)	-22.1
Electrical machinery, apparatus, appliances and supplies	3.5	13.5	(1.5)	(3.6)	(22.8)	37.2
Electronics	5.2	16.4	3.0	(5.4)	(24.6)	25.5
Electrical	(0.8)	7.9	(10.8)	0.9	(18.8)	65.2
Off-estate processing	8.1	15.4	(8.9)	9.4	(2.1)	4.3
All industries	**5.1**	**8.9**	**2.3**	**0.7**	**(10.0)**	**15.2**

P Preliminary.

(1) Reclassified as export-oriented industries rather than domestic-oriented industries in the second quarter of 2001 since approximately 75.0% of the total output is related to export demand.

Source: Department of Statistics, Malaysia.

The manufacturing sector has been among the most rapidly growing sectors in the Malaysian economy in recent years and a primary contributor to GDP since 1987. During the 1980s, growth in manufacturing came mainly from lower value-added and simple assembly industries related to electrical machinery, semiconductor and electronic assemblies, textiles, petroleum refining as well as iron and steel products. Since the late 1980s, there has been a shift towards capital- and technology-intensive industries. The shift has enabled Malaysia to produce, among other things, telecommunications equipment and parts, sound recording and reproducing apparatus and equipment, automated office equipment and photographic appliances and equipment. The shift occurred along with efforts to develop indigenous brand names, to strengthen upstream and downstream activities that related to the development of small and medium enterprises ("**SMEs**") and to enhance information and communication technology infrastructure.

Manufacturing production expanded at a moderate pace of 5.1% in 2005, affected mainly by the cyclical downturn in the global semiconductor industry. However, the downturn was brief as the global electrical and electronics manufacturers undertook an early inventory adjustment in the first half of 2005. Selected resource-based industries such as chemical products and off-estate processing (which includes processing of crude palm oil and rubber) continued to support the expansion in export-oriented industries. The moderate output expansion in the domestic-oriented industries was due to the contraction in output of construction-related materials, including fabricated metal products, mainly attributable to the subdued performance in the construction sector, which offset the expansion of other industries such as transport equipment, food and beverages industries.

In 2006, growth in manufacturing production strengthened to 8.9% from 5.1% in 2005, underpinned by the continued upturn in the global electronics cycle which began in the second half of 2005. The strong performance in the export-oriented industries was also enhanced by the strong external demand for petroleum, rubber and off-estate processing products. Growth in the domestic-oriented industries was mainly attributable to better performance by industries related to the construction-related cluster, namely iron and steel, non metallic products and fabricated metal products, which benefited both from the gradual improvement in the construction sector as well as strong regional demand. Amidst the favorable performance of the sector, the capacity utilization rate remained stable at 75.0% during the year. The share of the manufacturing sector in GDP rose to 30.9% from 30.7% in 2005.

Growth in manufacturing production expanded by 2.3% in 2007, as growth in the domestic-oriented and selected resource-based industries cushioned the effects of the subdued external demand for electrical and electronics ("**E&E**") products. Resource-based industries such as rubber, petroleum, and chemicals and chemical products expanded further, supported mainly by robust demand from the Asia-Pacific region. The domestic-oriented industries benefited from the recovery in the construction sector and strong growth in private consumption. Against this backdrop, the capacity utilization rate in the manufacturing sector remained stable at 75.7%. In terms of overall contribution to GDP, the manufacturing sector's share declined slightly to 29.9%.

In 2008, manufacturing production expanded at a much slower pace of 0.7%, driven mainly by the domestic-oriented industry. In the first half of the year, growth was strong and broad-based with robust external demand for E&E products emanating largely from non-U.S. markets, and primary-related products which benefitted from rising commodity prices. This was further reinforced by the firm performance of the domestic-oriented industries owing to strong domestic demand. In the second half of the year, the export-oriented industries were severely affected by the rapid deterioration in global demand and the sharp correction in commodity prices particularly towards the end of the year. As a result, production in the export-oriented industries declined by 1.2%. This weakness affected the performance of the domestic-oriented industries but the strong expansion in the consumer-related cluster partly cushioned the overall decline in the manufacturing sector. Despite weakening economic conditions, the capacity utilization rate in the sector was stable at 74.3%. The share of manufacturing remained the second largest contributor to growth with a share of 28.9%.

Manufacturing production contracted by 10% in 2009, recording the sharpest decline of 18.8% year-on-year in the first quarter following a significant drop in global demand. The contraction in the sector stabilized from the second quarter onwards, with production recording a positive growth in the fourth quarter. The E&E cluster was the worst affected by the global downturn, declining by 22.8%. However subsequent improvements in regional demand due to implementation of economic stimulus measures and inventory replenishment provided some support. The primary-related cluster recorded similar trends but fared better, supported by the domestic consumer market. Several industries, such as the chemical and rubber products, turned positive in the third quarter, driven by increasing demand for hygiene and medical products due to the influenza A (H1N1) pandemic. The domestic-oriented industries registered a contraction of 5.7%, affected by the weak labor market conditions and dampened consumer spending. Nonetheless, the food and beverages industry supported growth due to sustained demand for food products. Production gradually recovered to register a positive growth in the fourth quarter as domestic conditions improved, partially due to the implementation of stimulus measures as well as improving external demand. During the year, capacity utilization was lower at 68.7%. Share of the manufacturing sector to GDP fell slightly to 26.6%.

Recovery in the manufacturing sector strengthened in the first quarter, with production registering a very strong growth of 15.2% (year-on-year) (compared with 4.4% in the fourth quarter of 2009). The continued recovery was broad-based, with all clusters registering better growth in line with the expansion in both external and domestic demand. Growth in the export-oriented industries was led by the E&E cluster, which recorded very strong growth of 37.2% (compared with 1.8% in the fourth quarter of 2009), driven in particular by higher regional demand for semiconductors and audio-visual products. Growth in the domestic-oriented industries also strengthened further, driven primarily by strong expansion in the construction-related cluster, particularly in the metal manufacturing industry. Production in the consumer-related cluster also expanded favorably, especially in transport equipment, due to the robust recovery in domestic motor vehicle sales. The overall capacity utilization rate in the manufacturing sector increased to 75.0% in the first quarter (compared with 73.0% in the fourth quarter of 2009), reflecting improving production levels in the sector. The export- and domestic-oriented industries were operating at 77.4% and 66.2% of total capacity respectively (compared with 76.8% and 59.1% respectively in the fourth quarter of 2009).

Agriculture, Forestry and Fishery. The following table summarizes production and export volumes of the major agricultural commodities for the periods indicated.

Agricultural production and export volume

	2005	2006	2007	2008	2009[P]	1Q 2010[P]
	(Period change (%), except for ringgit amounts)					
Crude palm oil						
Production volume[(1)]	7.1	6.1	(0.4)	12.1	(1.0)	1.9
Export volume, crude and processed[(2)]	5.5	9.6	(5.2)	17.1	3.5	10.0
Gross exports, crude and processed (RM million)[(3)]	17,846.1	22,070.3	32,027.4	45,954.6	36,345.0	11,308.2
Saw logs						
Production volume[(1)]	1.6	(2.3)	0.7	(8.9)	(9.5)	n.a.
Export volume[(2)]	8.8	(17.5)	(1.7)	(6.9)	(3.6)	69.5
Gross exports (RM million)[(3)]	2,473.2	2,261.1	2,142.2	2,056.6	2,031.1	569.9
Rubber						
Production volume[(1)]	(3.7)	14.0	(6.6)	(10.6)	(20.2)	30.1[(4)]
Export volume[(2)]	3.9	3.2	(14.2)	(10.2)	(23.2)	44.1
Gross exports (RM million)[(3)]	5,787.2	8,235.0	7,333.7	8,111.7	4,459.8	2,172.7
Sawn timber						
Export volume[(2)]	2.9	(7.3)	(6.1)	0.8	(40.8)	13.3
Gross exports (RM million)[(3)]	3,907.0	4,080.7	4,122.8	3,455.3	3,109.6	654.5
Cocoa beans						
Production volume[(1)]	(16.3)	14.2	10.2	(20.5)	(35.1)	(7.6)
Export volume[(2)]	4.4	37.6	36.4	(58.6)	88.5	142.7
Gross exports (RM million)[(3)]	53.5	76.0	119.3	60.2	130.4	98.5

P Preliminary.

(1) Based upon changes in volume measured in tonnes (except for saw logs and sawn timber, which are measured in cubic meters).

(2) Export volume includes amounts that have been imported and then exported.

(3) RM million in nominal prices.

(4) Jan — Feb 2010

Sources: Department of Statistics, Malaysia.
Malaysian Palm Oil Board.
Department of Forestry (Peninsular Malaysia, Sabah and Sarawak).
Malaysian Cocoa Board.

The agriculture sector may be broadly divided into two groups: industrial crops, principally comprising palm oil, rubber, saw logs and cocoa; and food crops, consisting of fisheries (including aquaculture), livestock, paddy, fruits and vegetables. Historically, the predominant commodities have been palm oil and rubber. Between 2005 and 2009, value-added, a measurement of GDP that is determined by subtracting the input cost (excluding labor) from the value of gross output, in the agriculture sector increased by an average annual rate of 2.8%. Notwithstanding the reduced share of agriculture as a percentage of GDP, total exports and employment, the agriculture sector remains an important sector of the economy because of its linkages with downstream agro-based industries such as the food processing and palm oil processing industries. With the launching of Malaysia's Second Industrial Master Plan in 1996, which emphasizes the development of linkages among the various sectors, the role of the agriculture sector, particularly in the development of resource-based industries, has been greatly enhanced. In addition, the Third National Agriculture Policy, which was launched by the Government and covers the period from 1998-2010, has accorded greater emphasis on developing the sector further as a third engine of Malaysia's economic growth by ensuring a more broad-based and long-term growth, particularly in the food crops sub-sector. Under the policy, various initiatives have been taken to accelerate the transformation of the agriculture sector into a modern, commercialized and technology-driven sector. The objective is to promote non-traditional agricultural activities such as biotechnology, floriculture and horticulture, as well as agro-based industries, complementing the large-scale industrial crops of oil palm, rubber and cocoa.

In 2005, the agriculture sector grew by 2.6%, due mainly to a strong output growth in crude palm oil ("**CPO**") of 8.0%, especially in the first half of 2005. The growth in output was due to increases in mature areas in East Malaysia, as well as significant yield improvements arising from marked improvement in oil extraction rates and harvests of fresh fruit bunches as a result of technological advancements. Rubber output declined by 3.8% due to a prolonged dry weather spell in the first half of 2005 that led to lower latex output. Production of fish and paddy also declined.

In 2006, value-added growth of the agriculture sector grew by 5.2%. The growth was broad based across both the industrial and food crops. The former was supported by higher growth in palm oil, rubber and cocoa output, while food-related activity such as fisheries, livestock, paddy, fruits and vegetables recovered from the adverse weather conditions in the previous year. Growth was mainly supported by an increase in yields, amidst the high commodity prices and favorable weather conditions. The good agriculture practices adopted by the farming community with the application of agriculture inputs, fertilizers and usage of high yielding clones also contributed to the increased yields during the year.

In 2007, the agriculture sector expanded at a moderate pace of 1.3%, supported by food-related activity, particularly livestock, paddy, and vegetables. The strong performance in food-related activity more than offset the weaker performance in key industrial crops, namely crude palm oil and rubber, which account for about 36% of the total value-add in the agriculture sector. Biological yield down-cycle and inconsistent weather patterns were the main contributory factors for the less favorable performance of these industrial crops during the year.

In 2008, the agriculture sector grew at a faster pace of 4.3%, driven mainly by stronger palm oil production, which accounted for about 30% of value add in the agriculture sector. Growth during the year was also supported by higher output of key food-related activities such as fisheries and livestock.

In 2009, the agriculture sector grew at a slower pace of 0.4% in 2009 due to lower production of industrial crops. However, higher output of key food-related industries such as fisheries and livestock provided support to the sector.

In the first quarter of 2010, the agriculture sector grew by 6.8% (year-on-year) supported mainly by higher production of industrial crops. Higher output of forestry and logging reflected increased production throughout the country, including in Sabah and Sarawak. The increase in rubber prices during the quarter to historical highs, due partly to concerns over the effects of adverse weather conditions, encouraged increased tapping activities resulting in higher rubber production, especially among smallholders.

Palm Oil Prices. In 2005, palm oil prices averaged RM1,398 per ton (US$370 per ton, using the average prevailing exchange rate), a decline of 16.0% over the corresponding period in 2004. The decline was attributable to the increase in palm oil supply. In 2006, palm oil prices were RM1,521 per ton, fuelled by strong demand for new uses, namely in the production of biodiesel as well as demand from food producers in the U.S. to substitute palm oil for other edible oils containing *trans fatty* acids. In 2007, palm oil prices were RM2,472 per ton, influenced by robust demand for palm oil, both for edible oil as well as for use as biofuel, which caused CPO prices to be more closely correlated to crude oil prices. In 2008, palm oil prices were RM2,875 per ton, in line with higher global vegetable oil prices following strong demand, especially in the first half of 2008. In 2009, palm oil prices were RM2,257 per ton, due to weaker global demand. In the first quarter of 2010, palm oil prices were RM2,511 per ton due to recovery in demand and the impact of adverse weather on palm oil production.

Mining. The following table summarizes changes in production and export volumes of the major mineral products for the periods indicated.

Mining production and export volume

	2005	2006	2007	2008	2009P	1Q 2010P
	(Period change (%)(1), except for ringgit amounts)					
Crude oil						
Production volume(1)	(8.0)	(5.2)	2.4	1.1	(4.4)	(2.5)
Export volume	1.9	(8.2)	0.0	(2.4)	(0.4)	3.3
Gross exports (RM million)(2)	29,653.5	31,983.5	32,865.3	43,697.9	25,360.1	8,864.2
Natural gas						
Production volume(1)	11.3	(0.4)	1.9	0.3	(4.0)	8.8
Liquefied natural gas export volume	5.4	(1.9)	7.9	(0.1)	(3.0)	2.7
Gross exports (RM million)(2)	21,340.3	23,674.9	26,936.5	40,731.9	31,195.0	10,037.7
Tin						
Production volume(1)	4.1	(16.1)	(4.9)	14.3	(7.4)	n.a.
Export volume	11.7	(42.3)	(13.1)	63.5	(16.9)	44.5
Gross exports (RM million)(2)	935.3	583.1	795.2	1,697.8	1,047.4	407.3

P Preliminary.

(1) Based upon changes in volume measured in tonnes (except for petroleum production, which is measured in barrels, and natural gas production, which is measured in millions of standard cubic feet).

(2) RM million in nominal prices.

(3) Jan-Feb 2010

Sources: Department of Statistics, Malaysia.
PETRONAS.
Department of Minerals and Geoscience, Malaysia.

Malaysia has a wide range of mineral resources. Minerals produced by Malaysia in significant quantities include hydrocarbons (petroleum and natural gas) and tin. Between 2005 and 2009, the mining sector contracted at an average annual rate of 1.1%. The share of the mining sector was approximately 9.5% of GDP in 2005 and 7.7% of GDP in 2009.

From 2005 to 2009, approximately 96.4% of earnings from sales of minerals were attributable to oil and gas sales. Malaysia exploits its oil and gas resources through PETRONAS, Malaysia's state-owned oil and gas company. PETRONAS is wholly-owned by the Government. Pursuant to the Petroleum Development Act 1974, PETRONAS has the "entire ownership in and exclusive rights, powers, liberties and privileges of exploring, exploiting, winning and obtaining petroleum whether onshore or offshore Malaysia." PETRONAS also engages in upstream activities such as the exploration for and production of crude oil and natural gas and engages a number of international oil and gas companies to participate in such activities pursuant to production sharing contracts. PETRONAS generally sells its LNG pursuant to long-term contracts ranging from 15 to 21 years in duration. In addition to Malaysia, PETRONAS has operations in the following countries:

— Algeria	— Egypt	— Niger
— Angola	— Ethiopia	— Pakistan
— Argentina	— Gabon	— The Philippines
— Australia	— India	— South Africa
— Benin	— Indonesia	— Sudan
— Cambodia	— Iran	— Thailand
— Cameroon	— Mauritania	— Turkmenistan
— Chad	— Myanmar	— United Kingdom
— China	— Morocco	— Vietnam
— Equatorial Guinea	— Mozambique	— Yemen

Gas reserves stood at 14.67 billion and 14.66 billion barrels of oil equivalent as of January 1, 2008 and January 1, 2009, respectively, or in each case, a reserve lifespan of 36 years for both cases, based on current production levels. Crude oil reserves (including condensates) as of January 1, 2008 and January 1, 2009 amounted to 5.46 billion barrels and 5.52 billion barrels, respectively, or a reserve lifespan of 22 years for both cases, based on current production levels. The increase in crude oil reserves from 2005 to 2009 was due to the discovery of several deepwater oilfields offshore the state of Sabah, including the Kikeh oil field.

In 2005, the mining sector declined by 0.4% on account of an 8.0% drop in crude oil production following shutdowns of several oil fields and plants for maintenance purposes. Meanwhile, the production of natural gas grew by 11.3% due to strong external demand, resulting in the continued rise in capacity utilization at the Malaysian LNG gas plants in East Malaysia.

In 2006, the mining sector declined by 1.0%, compared to 0.4% in 2005, due to lower production of crude oil and natural gas. The 5.2% decline in crude oil production is attributable to the shutdown of several oil installations for repairs and maintenance. This was mitigated to some extent by the rising contribution of condensates to overall oil production. The 0.4% decline in natural gas production was due to the sequenced shutdown of facilities at the MLNG 2 plant in the state of Sarawak for upgrading to expand capacity.

In 2007, the mining sector rebounded to record a positive growth of 2.0% due to higher output of both crude oil and natural gas, in an environment of stronger energy prices. Production of crude oil rose by 2.4% due to the coming on-stream of Malaysia's first deepwater oil field in Kikeh, Sabah while the that of natural gas expanded by 1.9% following the recommencement of part of the MLNG 2 plant after an upgrade exercise in the previous year.

In 2008, the value-added of the mining sector declined marginally by 2.4% due to lower output of natural gas, while crude oil production registered a small increase. The doubling of crude oil output in Sabah supported a 2.0% increase in the total crude oil production. On the other hand, output of natural gas contracted by 4.9% due mainly to lower external demand for LNG and unplanned maintenance shutdowns at several gas fields in Peninsular Malaysia.

In 2009, the mining sector contracted by 3.8%, largely reflecting the lower output of crude oil and natural gas, following lower external demand and the shutdown of several oil and gas facilities during the year for maintenance purposes. The production of crude oil declined by 4.4% despite a 20% increase in production in Sabah. Meanwhile, the natural gas production declined by 4% due to lower demand from major importers.

In the first quarter of 2010, the mining sector grew by 2.1% due to the surge in the production of natural gas. Meanwhile, the production of crude oil continued to decline.

In 2005, export earnings from crude oil registered a strong increase of 37.9% due in part to the increase in prices and export volume despite the decline in production that resulted from maintenance work on plants. Oil prices recorded highs to average US$55.71 per barrel during the period, an increase of 36.5%, as a result of developments in the international energy markets. Earnings from LNG exports also rose significantly by 24.2% as LNG prices increased in line with oil prices. Average LNG export prices during the period were RM986 per ton, an increase of 15.0%.

In 2006, export earnings from crude oil rose 7.9% due entirely to higher oil prices as export volume declined, in line with the shutdown of several oil facilities for maintenance. Higher export earnings were influenced by the favorable global oil market characterized by strong demand from the U.S. and emerging economies, plus supply constraint in major oil-producing countries. Average export prices of crude oil were US$68.00 per barrel during the year. Likewise, LNG exports increased 10.9%, due to increased global demand for energy.

In 2007, export earnings from crude oil expanded by 2.8% as prices continued to rise against a backdrop of strong global demand amidst tight supply conditions. The rally in price was partly caused by speculative funds and asset managers in the global oil futures market, amidst continued geopolitical concerns in major oil-producing regions. During the year, the average export price of crude oil was US$74.69 per barrel according to the Department of Statistics, Malaysia. LNG exports rose by 13.8% in 2007, due to higher demand especially from Korea.

In 2008, export earnings from crude oil increased by 33.0% due to strong global demand amidst increasingly tight supply conditions, particularly in the first half-year. The average export price of crude oil was US$105.31 per barrel during the year. LNG exports increased significantly by 51.2% due to the higher price of LNG as well as the continued demand by Korea and Japan.

In 2009, export earnings from crude oil contracted by 42.0% reflecting lower export volume and prices following a decline in global demand for crude oil arising from the global financial turmoil. During the year, the average export price of crude oil was US$58.00 per barrel. Meanwhile, LNG exports declined by 23.4% due to lower demand from major importing countries.

In the first quarter of 2010, export earnings from crude oil increased by 69.3% (year-on-year) reflecting higher export volume and prices following the recovery in global demand for crude oil. During the period, the average export price of crude oil was US$74.45 per barrel. LNG exports increased by 2.7% (year-on-year).

Construction. In 2005, the construction sector contracted by 1.5% due to lower activity in the civil engineering sub-sector following the completion of many infrastructure projects as well as lower Government spending on new large infrastructure. However, activity in the residential and non-residential segment remained firm, supported by demand for houses as well as retail and office space.

In 2006, the construction sector improved with a smaller contraction of 0.3% from a 1.6% contraction in 2005, led by a gradual recovery in civil engineering activity, as well as increased activity in the non-residential segment. Meanwhile, growth in the residential segment returned to a more moderate pace following several years of expansion.

In 2007, the construction sector turned around to record a positive growth of 7.3%, after three consecutive years of decline. The expansion was driven mainly by the civil engineering sub-sector and supported by expansion in the non-residential and residential sectors.

In 2008, growth in the construction sector was 4.2% as compared to 7.3% in 2007. The growth was supported by higher activities across the three sub-sectors. In the civil engineering sub-sector, strong growth was recorded in the first half-year following the implementation of projects under the Ninth Malaysia Plan as well as those in the oil and gas industry. Growth in the non-residential sub-sector was robust, driven primarily by the office and retail segments in line with strong business activities and resilient private consumption respectively. The performance in the residential segment was relatively mixed during the year. In the first half of 2008, demand for properties was strong, with the value of property transactions increasing by 35.5%. Nevertheless, demand for properties weakened in the second half-year as consumer sentiment started to decline, first as a result of rising inflationary pressures and later, the deteriorating global economic conditions.

In 2009, growth in the construction sector was 5.8% as compared to 4.2% in 2008, with improved performance across all sub-sectors. Civil engineering and non-residential sub-sectors, in particular, benefited from the implementation of the construction-related activities under the Ninth Malaysia Plan and the fiscal stimulus packages. Meanwhile, the residential sub-sector was initially affected by weakened demand due to uncertainties in the global and domestic economic outlook. Demand, however, recovered from the second quarter as developers introduced attractive financing packages while borrowing cost were lowered following reductions in the OPR by a total of 150 basis points between November 2008 and February 2009.

In the first quarter of 2010, growth in the construction sector was 8.7% (year-on-year) compared to 9.3% in the fourth quarter of 2009, supported by the implementation of construction-related projects under the second fiscal stimulus package and the Ninth Malaysia Plan, benefiting the civil engineering and non-residential construction sub-sectors. Growth in the non-residential construction sub-sector also reflected the on-going construction of office and retail spaces, especially in the Klang Valley. Meanwhile, the residential construction sub-sector continued to expand, supported by better consumer sentiment and low interest rates.

Gross National Savings

Historically, Malaysia has sustained a high rate of savings by international standards, averaging 36.5% of GNP during the five-year period ending 2009. The high rate of savings has been driven predominantly by Malaysia's generally rising real incomes, low inflation and a well-developed financial system. In addition, the Government has attempted to promote private sector savings through savings programs such as the Employees Provident Fund. From 2005 to 2009, gross national savings rose from RM182.8 billion to RM211.2 billion, equivalent to an average growth rate of 6.0%. Gross national savings is the difference between gross national disposable income and final consumption. Gross national disposable income is the total income available to individuals for either final consumption or savings.

In 2005, the savings-investment balance amounted to RM78.4 billion, compared to RM57.3 billion in 2004. Gross national savings remained high, amounting to RM182.8 billion or 36.7% of GNI, compared to RM166.8 billion or 37.1% of GNI in 2004. Private sector savings increased by 19.7% to RM112.3 billion, as both households and corporations enjoyed higher disposable income and cash flows, due to higher export earnings and better employment growth during the year. Meanwhile, public sector savings declined by 3.4% to RM70.5 billion.

In 2006, the savings-investment balance increased to RM96.0 billion. Gross national savings was higher, amounting to RM213.5 billion or 38.3% of GNI. Public sector savings increased by 18.0% to RM83.2 billion, due to larger operating surpluses generated by the non-financial public enterprises ("**NFPEs**"). Meanwhile, private sector savings increased by 16.0% to RM130.3 billion, supported by higher disposable income and cash flows arising from the continued strong export earnings, firm commodity prices and stable employment conditions during the year.

In 2007, the savings-investment balance rose to RM100.4 billion. Gross national savings increased to RM238.8 billion, or 38.0% of GNI. Private sector savings increased by 3.6% to 135.0 billion, reflecting healthy household balance sheets. Meanwhile, public sector savings rose significantly by 24.8% to RM103.8 billion, due mainly to the larger operating surpluses of the NFPEs as a result of high commodity prices and strong export earnings.

In 2008, the savings-investment balance increased further to RM129.5 billion. Gross national savings rose to RM272.5 billion, or 38.0% of GNI. Private sector savings increased by 41.9% to RM191.6 billion, broadly reflecting households' sound financial position. However, public sector savings declined by 22.1% to RM80.9 billion

In 2009, the savings-investment balance moderated to RM112.7 billion. Gross national savings declined to RM211.2 billion or 31.7% of GNI. Private sector savings declined by 37.9% to RM118.9 billion, reflecting sustained household consumption despite a decline in income growth. Nonetheless, public sector savings increased by 14.1% to RM92.3 billion, following larger operating surpluses from NFPEs.

Prices, Employment and Wages

Prices. The following table shows annual inflation rates for the periods indicated.

Annual price increases

	2005	2006	2007	2008	2009
			(%)		
Consumer Price Index (2005=100)	3.0	3.6	2.0	5.4	0.6
Producer Price Index (2000=100)	5.9	5.1	6.7	8.2	(7.4)

Source: Department of Statistics, Malaysia.

Malaysia has historically maintained a low inflation rate compared to regional peer countries. Malaysia measures inflation through the Consumer Price Index, or CPI. The CPI measures prices of final goods and services that are consumed by the average household. The primary final goods and services included in the CPI are food and non-alcoholic beverages, alcoholic beverages and tobacco, clothing and footwear, housing, water, electricity, gas and other fuels, furnishing, housing equipment and routine, health, transport, communication, recreation services and culture, education, restaurant and hotels and miscellaneous goods and services.

Inflation increased to 3.0% in 2005. The increase in inflation in 2005 was primarily due to supply-related factors following a rapid increase in international crude oil prices. All categories in the CPI registered increases in 2005. The most significant increases were in the transport, communication and food and non-alcoholic beverages categories, all of which are sensitive to fluctuations in the prices of commodities. Although the upward trend in international crude oil prices gained momentum in late 2004, pressure on domestic inflation remained relatively subdued, in part due to Government subsidies on retail fuel prices. Nevertheless, faced with rising global crude oil prices, the Government took steps to gradually reduce its subsidies on retail petrol and diesel prices in order to maintain prudent management of its expenditures. As a result, retail prices of petrol and diesel were increased three times during the year, resulting in an aggregate increase of 18.0%. Although there were concerns that the increase in domestic fuel prices could affect the prices of other goods, the effect was mitigated by several factors. It is possible that the increase in prices was deemed as transitory and therefore did not affect wages and the price-setting process. Relatively stronger growth in labor productivity compared to wages, together with the intensification of competition among producers, also contained the secondary effects of higher fuel prices. In addition, capacity expansion among businesses and strong competition in the goods market helped mitigate inflationary pressures. Active surveillance and enforcement efforts undertaken by the relevant Government agencies also ensured that prices of essential goods and services did not increase significantly.

The inflation rate was higher in 2006, at 3.6%, compared with 3.0% in 2005, mainly due to adjustments to the administered prices of retail petrol and utilities during the year. The sharp upturn in international crude prices in early 2006 exerted a heavy burden on the Government's operating expenditures. As subsidies grew, the Government undertook a one-off increase of an average of 18.5% in the price of retail petrol in March 2006. Following this, in March 2006, the headline inflation rate rose sharply to 4.8% and remained elevated throughout the rest of the first half of 2006. The principal concerns relating to the adjustments of administered prices were the scale and pace of the pass-through to prices of other goods and services in the economy, as well as to wages. Evidence suggests that the indirect impact on the prices of other goods and services was limited. For example, while a higher proportion of items in the CPI basket exhibited price increases in the wake of the rise in the prices of retail petrol, this impact moderated in the last six months of the year, indicating that inflationary pressures were not widespread in the economy. There was also no strong evidence of wage-price pressures in 2006, with measures of wage growth remaining relatively subdued. A stronger annual increase in real labor productivity of 3.5% in 2006 (2005: 1.2%) also kept overall cost pressure in the labor market relatively low throughout the year. Despite an initial spike in the inflation rate in March 2006, inflation expectations were mostly stable throughout the year. The Government indicated that the increase in retail petrol prices in March 2006 would be a one-off occurrence, thus limiting the extent to which price pressures cascaded from production costs to the overall price level. An appreciation of the ringgit also mitigated some inflationary pressure during the year by reducing the cost of imports.

The inflation rate was lower in 2007, at 2.0%, compared with 3.6% in 2006. While supply factors remained important, their contribution to overall inflation moderated, as the impact of earlier adjustments to administered prices waned in the first quarter of 2007. The absence of major adjustments to price-administered items during the year also mitigated the impact of supply factors on domestic prices. Of the CPI components, price increases in the food and non-alcoholic beverages category were the main contributors, accounting for 47.1% of the headline inflation rate compared to 29.7% in the previous year. Domestic food prices were largely influenced by the higher world prices for food commodities, including household essentials such as rice, wheat flour and palm oil-based cooking oil. The higher global food prices were underpinned by both structural and cyclical factors. These included stronger demand for food commodities from emerging market economies such as India and China, the use of food crops for the production of alternative fuels such as bio-diesel and ethanol, speculative demand, and adverse weather conditions in food crop producing countries such as Australia. As a result, in many countries, food prices contributed comparatively more to headline inflation than in the previous year. Domestic food prices were also affected by seasonal purchases during the festive seasons and transitory adverse weather conditions which affected domestic farming activities and disrupted supplies. Although the global price of crude oil approached US$100/barrel in 2007, domestic fuel and gas prices remained unchanged because of Government fuel subsidies. Consequently, the contribution of the transport sector to the overall headline inflation, at 18.3%, was lower compared to the 48.6% in the previous year when there was a fuel price adjustment. Nevertheless, as with the preceding year, the increase in the headline inflation rate was partly mitigated by a decline in prices in the communication, and clothing and footwear categories as a result of strong global and domestic competitive pressures. The appreciation of the ringgit exchange rate also, to some extent, mitigated some of the higher prices of imports.

The inflation rate was higher in 2008, at 5.4%, compared with 2.0% in 2007. In the first five months of the year, headline inflation continued its modest upward trend from 2007 as global food and fuel prices rose steadily due to supply-related factors. Most of the rise in inflation during the year, however, occurred in the third quarter when the inflation rate rose sharply following a 40.4% adjustment to retail fuel prices in June — which was the largest adjustment since 1990, as global fuel prices reached historical levels. The benchmark price of West Texas Intermediate crude oil trading on The New York Mercantile Exchange rose to a new record level of US$147.27 per barrel on July 11, 2008. As a result, inflation peaked at 8.5% in July. However, the global financial turmoil and higher inflation had a negative impact on real economic growth by dampening consumption and investment activities. Contraction in global demand combined with an unwinding of positions taken in the commodity markets led to a rapid decline in commodity prices and allowed domestic fuel and food prices to decline, with domestic inflation moderating to 4.4% by December. In light of the burden faced by the general public as a result of the sharp increase in food and energy prices in 2008, the Government introduced a number of measures focused on ensuring an adequate supply of essential goods at affordable prices and on limiting the burden of higher costs on businesses, as well as on consumers, in particular, those in the lower income groups. To mitigate the impact of high food prices, price controls were expanded to include other types of domestically-produced rice (previously only the Super Tempatan 15% rice was controlled), freeing the movement of paddy between states and initiating a price reduction campaign amongst major hypermarkets and retailers. To mitigate the effect of high fuel prices, the Government provided a targeted cash rebate for owners of vehicles below certain engine capacities and raised the eligibility criteria for welfare assistance, from a monthly household income of RM400 to RM720 for Peninsular Malaysia, RM830 for Sarawak and RM960 for Sabah. In addition, the Government also introduced a number of measures aimed at ensuring long-term food security. This included stockpiling essential food items such as palm-based cooking oil, allocating more land for agricultural purposes and allocating funds under Budget 2009 for improving the food distribution system. An investment of RM35 billion over five years was allocated under Budget 2009 for improving the existing public transportation system in the country.

The inflation rate was lower in 2009, at 0.6%, compared with 5.4% in 2008. The marked decline in headline inflation during the year was driven by supply-related factors and subdued demand conditions. Meanwhile, core inflation, an indicator of demand-driven pressure on prices, moderated to 2.7% in 2009 (2008: 4%). Inflation in 2009 was influenced by both external and domestic factors. Externally, the economic weakness that emerged in the second half of 2008 led to disinflationary pressures in both the major and emerging market economies. This impact was particularly evident in the first quarter of 2009. Two major forces responsible for these disinflationary pressures were (a) a significant drop in global commodity prices, especially for crude oil, and (b) an increasing slack in the economy as the global recession deepened. After reaching its historical peak at US$147.27 per barrel in July 2008, oil prices plummeted by more than 60% in January 2009 to US$41.68 per barrel. The sharp reversal had a direct impact on inflation through lower retail fuel prices across the globe. Lower energy costs and lower prices for a wide-range of oil-related inputs also allowed producers to decrease their prices. In an environment of tighter credit conditions, rising unemployment and deteriorating consumer and business confidence, households and businesses restrained their spending activities and contributed to weak global demand conditions, particularly during the early part of the year. A key concern during 2009 was the risk of deflation. Given the base effect of high inflation in 2008 and rapid disinflation, many countries registered negative inflation rates in 2009. For Malaysia, although headline inflation was negative between June and November 2009, the deflation was primarily statistical in nature and there was no evidence of deflationary pressures becoming entrenched in the economy. Although core inflation moderated, it continued to remain positive throughout the year. Consumer and business confidence also remained resilient, underpinned by significant policy measures undertaken by the Government and BNM. More importantly, while demand conditions were relatively subdued during the year, they remained sufficiently strong to mitigate the risk of protracted deflation.

The inflation rate increased by 1.3% on an annual basis in the first quarter of 2010, compared to a decrease of 0.2% in the fourth quarter of 2009. The increase in consumer prices was mainly attributable to food and non-alcoholic beverages, which increased by 1.4% in the first quarter of 2010. The rate of price increase in the transport category turned positive in the first quarter of 2010 to 0.7% from a fall of 7.0% in the fourth quarter of 2009. This follows the lapse of the base effect caused by cumulative reductions in retail fuel prices in the second half of 2008. These price increases, however, were partially mitigated by declines in the prices of clothing and footwear.

To protect the welfare of lower-income groups, the Government maintains a system of administered prices for a number of basic products, estimated to account for 20.9% of the CPI basket. Price adjustments are allowed to reflect changes in economic fundamentals such as higher imported prices and increases in production costs. The Government approves price adjustments based on such changes, as well as agreements arrived at after negotiations with producers, distributors and importers. Producers and distributors, however, are free to lower prices at any time should they wish to do so.

Malaysia also maintains an index of producer prices, namely the Producer Price Index, or PPI, which measures prices of intermediate and final goods charged by domestic producers and paid by importers in Malaysia. The main components of the PPI include inedible raw materials, mineral fuels, lubricants and related materials, animal and vegetable oils and fats, and food and live animals. Although the CPI and the PPI both measure the prices of goods, these indices can diverge for a particular period due to differences in the composition of the indices.

The PPI moderated in 2005, averaging 5.9%. Despite the strong increase in crude oil prices during the year, the commodity-related categories registered slower annual growth following the consolidation in the prices of crude palm oil and rubber in the first half of the year. Excluding these commodity-related categories, producer prices increased slightly by 3.0% during the period due mainly to higher prices for food, live animals, machinery and transport equipment. Annual growth in the PPI for imported goods was 3.4%, in part due to the relative strength of the ringgit against the currencies of Malaysia's trading partners in 2005.

Producer prices moderated to increase at an annual rate of 5.1% in 2006, compared to 5.9% in 2005. In the first half of the year, the increase in producer prices was mainly driven by inflation in the commodity-related categories. However, this trend reversed in the second half of 2006 when international spot crude oil prices declined. Prices paid for imported goods declined by 2.1%, compared to 3.4% in 2005.

Producer prices rose at an annual rate of 6.7% in 2007, compared to 5.1% in 2006, reflecting the impact of higher global commodity prices. Excluding commodity-related products, producer prices increased by 4.6%, compared to 3.6% in 2006. Prices paid for imported goods increased by 4.8%, compared to 2.1% in 2006, mainly reflecting price increases in machinery and transport equipment, manufactured goods classified chiefly by material, chemical and related products, animal and vegetable oils and fats, and food and live animals categories.

Producer prices rose at an annual rate of 8.2% in 2008, compared to 6.7% in 2007, reflecting high global commodity prices. Excluding commodity-related products, producer prices declined to 1.9%, compared to 4.6% in 2007. Prices paid for imported goods also declined to 4.2%, compared to 4.8% in 2007.

Producer prices fell at an annual rate of 7.4% in 2009, compared to an increase of 8.2% in 2008. Excluding commodity-related products, producer prices declined at a relatively slower average annual rate of 1.7%, compared to a 1.9% increase in 2008. Prices paid for imported goods declined by an average of 2.2%, compared to an increase of 4.2% in 2008, reflecting weak global demand conditions and lower commodity prices.

The PPI was reset to base-year 2005 (it was formerly based at the year 2000), following a revision of the PPI basket. The PPI increased by 6.4% on a yearly basis in the first quarter of 2010, compared to a smaller increase of 0.1% in the fourth quarter of 2009. This was mainly due to the 18.4% (year-on-year) increase in commodity-related components. Non commodity-related components of the PPI also increased by 3.2% in the first quarter of 2010. Prices paid for imported goods increased by 2.2% in the first quarter of 2010, compared to 1.4% in the fourth quarter of 2009.

Employment. The following table sets out certain information regarding employment in Malaysia in various sectors of the economy as of the end of the relevant period.

Selected employment information

	As of December 31,				
	2005	**2006**	**2007**	**2008**	**2009[P]**
Labor force (in thousands)	10,413.4	10,628.9	10,889.5	11,028.1	11,315.3
Unemployment rate (%)	3.5	3.3	3.2	3.3	3.7
Employment share by sector (%)					
Agriculture, forestry and fishing	14.6	14.6	14.8	14.0	13.5
Mining	0.4	0.4	0.4	0.5	0.6
Manufacturing	19.8	20.3	18.8	18.2	16.6
Construction	9.0	8.8	8.8	9.4	9.3
Services					
Electricity, gas and water	0.6	0.7	0.6	0.6	0.5
Transport, storage and communications	5.4	5.3	5.1	5.5	5.4
Wholesale and retail trade, hotels and restaurants	22.8	23.1	23.5	23.6	24.2
Finance, insurance, real estate and business services	7.0	7.3	8.0	7.8	8.0
Government services	7.3	6.6	6.8	7.0	7.5
Other services	13.1	12.9	13.4	13.5	14.4
Sub-total	56.2	55.8	57.3	57.9	60.0
Total employed	100.0	100.0	100.0	100.0	100.0

[P] Preliminary.

Source: Department of Statistics, Malaysia.

The following table sets out certain information regarding the employment of foreign workers for semi-skilled and unskilled jobs in Malaysia in various sectors of the economy as of the end of the relevant year.

Foreign workers by sector

	As of December 31,									
	2005		**2006**		**2007**		**2008**		**2009**	
Sector	**Total**	**%**	**Total**	**%**	**Total**	**%**	**Total**	**%**	**Total**	**%**
Domestic servant	320,171	17.7	310,662	16.7	314,295	15.3	293,359	14.2	251,355	13.1
Manufacturing	581,379	32.0	646,412	34.6	733,372	35.9	728,867	35.3	663,667	34.6
Plantation	472,246	26.0	354,124	18.9	337,503	16.5	333,900	16.2	318,250	16.6
Construction	281,780	15.5	267,809	14.3	293,509	14.4	306,873	14.9	299,575	15.6
Services	159,662	8.8	166,829	8.9	200,428	9.8	212,630	10.3	203,639	10.6
Agriculture	—	—	123,373	6.6	165,698	8.1	186,967	9.1	181,660	9.5
Total	1,815,238	100.0	1,869,209	100.0	2,044,805	100.0	2,062,596	100.0	1,918,146	100.0

Source: Ministry of Home Affairs

In 2005, the unemployment rate remained stable at 3.5% as at December 31, 2005. Reflecting growth across all key economic sectors, the number of workers retrenched declined by 19.3% to 16,109 compared to 19,956 in 2004. The number of job vacancies increased significantly to 304,500 compared to 49,975 in 2004. However, this increase was likely due to an increase in reported numbers due to a new Government requirement that made it mandatory for employers to report job vacancies in the JobsMalaysia database before they could apply for foreign workers. The Government approved an additional RM100.0 million for various graduate training programs. The number of foreign workers in the country increased to 1.8 million in 2005 compared to 1.5 million in 2004. In 2005, 32.0% of foreign workers were employed in the manufacturing sector and 26.0% of foreign workers were employed in the plantation sector. In order to discourage the employment of unskilled foreign workers and to promote greater mechanization and automation, the Government increased the levy on foreign workers in the services and plantation sectors by 50.0% in July 2005, while levies in other sectors remained the same.

The unemployment rate fell to 3.3% in 2006, compared to 3.5% in 2005, amidst better economic conditions. The number of retrenched workers declined, with 15,360 persons retrenched in 2006, compared to 16,109 persons in 2005. The number of job vacancies rose, with 834,675 positions vacant compared to 304,500 positions in 2005. Stronger demand for labor was recorded across all sectors, but primarily in the manufacturing, agriculture, construction and services sectors. The rise in job vacancies reflected strong demand for labor amidst firm domestic and external sales, high commodity prices, revival in construction activity and the opening of more retail outlets. Given the demand for labor and low unemployment levels, the Government continued to allow the recruitment of foreign nationals. At the end of 2006, there were 32,950 foreign professionals and highly skilled workers employed in the country, mostly in the services and manufacturing sectors. For semi-skilled and unskilled jobs, the number of foreign workers in the country stood at 1.9 million persons.

In 2007, despite a slightly weaker external environment, domestic labor market conditions were firmer as the Malaysian economy continued to record high growth, supported by robust domestic demand. The unemployment rate moderated to 3.2% in 2007, compared to 3.3% in 2006, as demand for workers remained strong. Fewer redundancies were recorded during the year with 14,035 persons retrenched in 2007, compared to 15,360 persons in 2006. The number of job vacancies was slightly lower in 2007, but remained high with 825,182 positions vacant, primarily in the manufacturing, agriculture and services sectors. The decline in job vacancies can be attributed to fewer job openings in trade-related industries due to a weaker external environment. Given the demand for labor and low unemployment levels, the Government continued to allow the recruitment of foreign nationals. At the end of 2007, there were 36,554 foreign professionals and highly skilled workers employed in the country, mostly in the services and manufacturing sectors. For semi-skilled and unskilled jobs, the number of foreign workers increased by 9.4% to 2.0 million persons.

The strong labor market conditions in 2007 continued into the first half of 2008 but conditions weakened towards end of the year as businesses turned cautious amidst rising cost pressures and declining external demand as a result of the deepening global financial and economic crisis. The unemployment rate increased slightly to 3.3% in 2008, compared to 3.2% in 2007. The number of retrenched workers also increased, with 16,469 persons retrenched in 2008, compared to 14,035 persons in 2007. Close to 70% of the redundancies occurred in the second half-year when the sharp deceleration in global demand affected businesses, especially in the export-oriented industries. Nevertheless, the number of job vacancies rose, with 1,058,980 positions vacant, primarily in the services and manufacturing sectors, compared to 825,182 in 2007. The rise in job vacancies reflected strong demand for workers in the first six months and, to some extent, active promotion of the employment portal of the Ministry of Human Resources in the final quarter of the year. Given the weaker economic conditions, the number of foreign workers for semi-skilled and unskilled jobs increased at a slower rate of 0.9% to 2.1 million persons. At the end of 2008, total foreign professionals and highly skilled workers employed in the country increased slightly to 36,794 persons, mostly in the services and manufacturing sectors.

In 2009, the Malaysian economy experienced the full impact of the global recession and the labor market was adversely affected by the significant deterioration in the global economy especially in the early part of the year. Nevertheless, the implementation of expansionary fiscal policy (including various Government measures to support employment and training) and an accommodative monetary policy domestically encouraged a rebound in business and consumer sentiments, and together with the gradual improvement in the global economic conditions in the second quarter, resulted in a lower unemployment rate of 3.7% in 2009, compared to an earlier forecast of 4.5%. The number of retrenched workers increased to a seven-year high of 25,064 persons in 2009, with one-half of these redundancies occurring in the first quarter. Recruitment activity also slowed down in the first quarter amidst heightened uncertainty about the business outlook. Total vacancies in the first quarter declined from the preceding quarter, but steadily increased from May onwards when business sentiments began to improve with global and domestic economic conditions. For 2009 as a whole, the number of job vacancies increased, with 1,546,347 vacant positions compared to 1,058,980 in 2008, supported mainly by higher job offerings in the second half of the year, particularly in the services, manufacturing and construction sectors. The Government continued to allow the recruitment of foreign nationals throughout the year. At the end of 2009, there were 32,138 foreign professionals and highly skilled workers employed in the country, mostly in the services sector. However, the number of foreign workers in semi-skilled and unskilled jobs declined to 1.9 million persons due to redundancies and early termination of work contracts by employers. In addition, the Government imposed stricter rules on the hiring of new unskilled migrant workers in the manufacturing and services sectors, prohibited the practice of deducting levy payments from the wages of new unskilled foreign workers (which raised the cost of hiring) and stopped the issuance of new licenses for labor outsourcing companies.

As of March 31, 2010, the unemployment rate was 3.6%, representing an increase in the number of employed persons of 132,900 (or 1.2%) from the end of 2009.

Wages. According to data from the Department of Statistics, Malaysia, the real wage per employee in the manufacturing sector increased by 6.3% in 2005. Average nominal wages increased in the private sector by 5.8% as measured by the Malaysian Employers Federation Survey.

The recovery in economic activity since 2005 has not exerted undue pressure on wages, and wage rates have increased at a slower pace during the period 2005 to 2009 primarily due to the absence of general inflationary pressures and high productivity levels. Inflation increased by 2.9% during the period, and increasing competition from low cost and low wage countries ensured that companies in many sectors did not bid up wages, thereby containing wage pressures. Secondly, with continued expansion in productive capacity and improvements in productivity, industries were able to meet demand without creating inflationary pressure.

Real wages per employee in the manufacturing sector remained relatively unchanged in 2006, increased by 2.7% in 2007, decreased by 4.8% in 2008 and increased by 1.9% in 2009. Average private sector nominal wage rates rose from 5.8% in 2006 to 6.0% in 2007 as measured by the Malaysian Employers Federation Survey, in line with better economic conditions and improving productivity. In 2008 and 2009, however, average private sector nominal wage rates increased at a slower rate of 5.9% and 5.6% respectively, consistent with the weaker economic growth and productivity performance.

Monetary Developments

The following tables illustrate the growth of monetary aggregates from January 1, 2005 through the first quarter of 2010 on a year-on-year basis, and the development of total banking system deposits and loans and the three-month interbank rates over that period.

Monetary aggregates

	2005	2006	2007	2008	2009	1Q 2010
			(change in %)			
Currency	5.7	11.1	8.2	11.5	7.5	9.6
M1(1)	8.5	13.7	19.6	8.3	9.8	12.0
M2(2)	15.6	17.1	9.5	13.4	9.5	8.8
M3(3)	8.3	13.0	9.5	11.9	9.2	8.7
Deposits(4)	11.1	17.2	7.0	11.9	9.3	8.4
Loans(5)	8.6	6.3	8.6	12.8	7.8	9.8

(1) Comprises currency in circulation and demand deposits of the private sector.

(2) Comprises M1 plus savings, fixed and foreign currency deposits, negotiable instruments of deposit and repurchase agreement ("**repos**") with commercial banks and Islamic banks.

(3) Comprises M2 plus deposits (including negotiable instruments of deposit and repos) with other banking institutions.

(4) Comprises fixed deposits, demand deposits, savings deposits, repos, foreign currency deposits, Islamic banking deposits and other deposits of commercial banks, finance companies and merchant banks.

(5) Comprises loans of commercial banks, finance companies and merchant banks/investment banks (including loans sold to Cagamas and excluding loans sold to Danaharta).

Source: Bank Negara Malaysia.

Interbank rates

	2005	2006	2007	2008	2009	1Q 2010
			(%)			
Three-month interbank rates (at end of period)	3.20	3.65	3.58	3.60	2.18	2.50
Average three-month interbank rates (for the relevant period)	2.87	3.32	3.59	3.60	2.24	2.33

Source: Bank Negara Malaysia.

In 2005, M1 and M3 expanded at annual rates of 8.5% and 8.3%, respectively. Claims on the private sector were the main drivers of M3 expansion during the period. Sustained inflows of external funds also contributed to M3 growth in 2005. There was a significant increase in M2 in 2005 as a result of the absorption of several finance companies into commercial banks, which resulted in the reclassification of finance company deposits. Consequently, comparisons of M2 figures for 2005 with those from previous years are not meaningful.

In 2006 and 2007, M3 expanded at an annual rate of 13.0% and 9.5%, respectively. The increase in M3 reflected net foreign inflows and higher credit extension by the banking system to the private sector. M1 also increased over the period as the private sector opted for higher transaction balances.

In 2008 and 2009, M3 expanded at an annual growth rate of 11.9% and 9.2%, respectively. Domestic liquidity conditions remained ample despite the global financial and economic crisis. This was evidenced by the sustained pace of lending by the domestic banking system to the private sector. Domestic liquidity conditions were also supported by higher Government spending. In addition, M1, or narrow money, also continued to increase over this period.

In the first quarter of 2010, M1 and M3 expanded at annual rates of 12.0% and 8.7%, respectively. Both domestic and external factors contributed to the increase in broad money during this period. On the external side, M3 expanded due to higher net foreign inflows. On the domestic side, financing by the banking system to the private sector registered a large increase in the first quarter.

Monetary Policy

BNM is responsible for formulating and implementing monetary policy. The principal instruments it has used to implement policy include open market operations, direct borrowing and lending, variations in reserve requirements and recycling of government deposits.

The following table sets out the changes made by BNM to the OPR and the statutory reserve requirement ratio since December 31, 2004.

Changes to the policy rate and statutory reserve requirement ratio[1]

	Date	Statutory reserve requirement ratio (%)	Overnight Policy Rate (OPR) (%)
2005	30.11.05	4.0	3.00
2006	26.04.06	4.0	3.50
2007[2]	—	4.0	3.50
2008	24.11.08	3.5	3.25
2009	24.02.09	1.0	2.00
2010	04.03.10	1.0	2.25
	13.05.10	1.0	2.50

(1) A new interest rate framework was implemented on April 26, 2004. The OPR replaced the three-month Intervention Rate as the indicator of monetary policy stance. To reflect the unchanged stance of monetary policy, the OPR was initially set at the prevailing average interbank overnight rate of 2.70% and increased to 3.00% on November 30, 2005 and increased to 3.25% on February 22, 2005. There have been no changes to the statutory reserve requirement ratio since September 16, 1998.

(2) There were no changes to the statutory reserve requirement ratio or the OPR in 2007.

Source: Bank Negara Malaysia.

The Central Bank of Malaysia Act 2009 states that one of the principle objects of BNM is to promote monetary stability. In promoting monetary stability, BNM is mandated to pursue a monetary policy which serves the interests of the country with the primary objective of maintaining price stability whilst giving due regard to the developments in the economy. In essence, this means that BNM is responsible to ensure that the inflation rate remains low and stable, while at the same time maintaining sustainable economic growth. Sustainable growth in turn is interpreted as achieving growth that is at or close to the economy's potential while minimizing the volatility of output around that potential. Such an objective has been the cornerstone of monetary policy analysis, formulation and implementation by BNM even prior to Central Bank of Malaysia Act 2009, when the Central Bank of Malaysia Act 1958 (revised 1994 and 2003) was in force.

Between 2005 and 2006, monetary policy was confronted with the challenge of rapidly rising and increasingly volatile global commodity prices. Monetary policy was normalized in late 2005 and early 2006 by raising the OPR by a cumulative 80 basis points to 3.50% to align monetary conditions to higher rates of inflation, amidst relatively strong growth in the domestic economy. The strategy of monetary policy was to accommodate the first round effects of the supply shock while remaining vigilant against signs of second round effects. The inflationary pressure proved to be transitory. Headline inflation quickly receded once the initial shock lapsed in the second half of 2005 and first half of 2006, with core inflation remaining benign.

In 2007, the Malaysian economy continued to maintain a firm growth momentum. Favorable conditions domestically and internationally allowed Malaysia to achieve a growth rate that was projected to be close to its potential. Meanwhile, inflation moderated, averaging 2.5% for the year (2006: 3.6%). Under these circumstances, the prevailing monetary conditions were judged to be consistent with the medium term growth and inflation outlook. Monetary policy was left unchanged at all eight policy meetings during the year.

Monetary policy in 2008 operated in a complex environment of rapidly changing inflation, economic and financial conditions. Monetary policy in the first half of the year was confronted with a heightened risk of elevated inflation arising from supply-driven factors, and the risk that domestic demand could be affected by adverse external developments. The balance of risk shifted rapidly during the course of the year. Inflation rose significantly to multi-year highs and peaked at 8.5% in July 2008 following the adjustment of domestic fuel prices by the Government. Notwithstanding the significant rise in headline and core inflation, price pressures were expected to moderate in 2009, as higher prices began to erode the purchasing power of households. In addition, the global financial turmoil was expected to have an adverse impact on the performance of the Malaysian export sector. Thus, the downside risks to growth had become significantly elevated. In light of these considerations, the decision therefore was for monetary policy to remain unchanged.

The Bank's decision to maintain interest rates was justified when the global economy contracted towards the latter part of 2008 and into 2009. Growth in the Malaysian economy turned negative for three quarters, with growth in the first quarter of 2009 contracting markedly by 6.2%. Initial monetary conditions, however, were well positioned to provide support to the domestic economy. Policy interest rates were reduced by a total of 150 basis points between November 2008 and February 2009 to cushion the impact of the global financial and economic crisis on the domestic economy. To ensure greater transmission from the policy rate to retail lending rates, the SRR was also concurrently reduced by 300 basis points. The base lending rates ("**BLR**") of commercial banks were quickly revised from 6.72% in October 2008 to 5.51% in August 2009. The Bank also introduced a number of targeted measures to ensure continued access to financing, temporarily extend safety nets, safeguard the value of wealth and real income of depositors and cushion highly vulnerable borrowers from the full impact of the crisis. Cumulatively, these measures succeeded in containing the severity of the impact of the external developments. Total financing turned around in the second half of 2009, rising from 8.0% to 8.5% by year-end. By the fourth quarter of 2009, the domestic economy had improved significantly and was on a path of firm recovery.

With the perceived threat of a deep and fundamental recession having diminished, the MPC raised the OPR by 25 basis points in March 2010, and again by 25 basis points in May 2010 to 2.50% to normalize monetary conditions and minimize the risk of financial imbalances and under-pricing of risks that could undermine the economic recovery process. Going forward, with price pressures expected to be modest, monetary policy for the rest of 2010 will focus on promoting the sustainability of economic recovery and ensuring that financing continues to be available to the private sector at a reasonable cost. Given lingering uncertainties surrounding the future growth path of the global economy, an accommodative monetary policy stance will be maintained to support and strengthen private investment and consumption.

Financial System

The Malaysian financial system consists of BNM, banking institutions and non-bank financial institutions.

The Central Bank. BNM is a body corporate established pursuant to the Central Bank of Malaysia Act 2009 (the "**CBA**"). The principal objects of the BNM are to promote monetary stability and financial stability conducive to the sustainable growth of the Malaysian economy. The primary functions of the BNM are:

— to formulate and conduct monetary policy in Malaysia;

— to issue currency in Malaysia;

— to regulate and supervise financial institutions which are subject to the laws enforced by BNM;

— to provide oversight over money and foreign exchange markets;

— to exercise oversight over payment systems;

— to promote a sound, progressive and inclusive financial system;

— to hold and manage the foreign reserves of Malaysia;

— to promote an exchange rate regime consistent with the fundamentals of the economy;

— to act as financial adviser, banker and financial agent of the Government of Malaysia.

The Banking and Financial Institutions Act 1989, or the BAFIA, provides a framework for the licensing, regulating and supervising of institutions carrying on bank, finance company, merchant bank, discount house and money-broking activities.

Apart from the BAFIA, BNM also administers the Islamic Banking Act 1983, the Insurance Act 1996, the Takaful Act 1984, the Payment Systems Act 2003, the Development Financial Institutions Act 2002 and the Money-Changing Act 1998. BNM is also responsible for foreign exchange administration under the Exchange Control Act 1953 and administers the Anti-Money Laundering and Anti-Terrorism Financing Act 2001.

Under the CBA, BNM continues to act as lender of last resort and may also extend liquidity assistance to entities not regulated by BNM but that are regarded as systemically important.

BNM manages the foreign reserves of Malaysia under the CBA. As of April 30, 2010, BNM's total assets were RM349.3 billion, of which gross international reserves comprised RM313.9 billion, equivalent to US$96.0 billion, using the weighted average exchange rate since the introduction of the managed float regime.

BNM maintains a close relationship with the Ministry of Finance at all levels, and the Secretary General to the Ministry of Finance is also a member of the Board of Directors of BNM. The Bank is to keep the Minister of Finance informed of policies relating to its principal objects. In this respect, a mechanism has been put in place in the CBA to resolve differences between the Minister of Finance and BNM on such policies. In the event the differences are not resolved, the mechanism provides for the matter to be tabled to the Cabinet for a determination of the policy to be adopted by BNM. In the event the differences remain, the matter is to be laid before the House of Representatives.

The Board of Directors of BNM is responsible for the general administration of the affairs and business of BNM and the approval of the budget and operating plan of BNM. The Board in its oversight role is assisted by the Board Governance Committee, the Board Audit Committee and the Board Risk Committee. The Board consists of the Governor, not more than three Deputy Governors and a maximum of eight other directors. The Governor and the directors are appointed by the Yang di-Pertuan Agong while the Deputy Governors are appointed by the Minister of Finance.

Under the CBA, the Board may extend temporary financing to the Government on terms prevailing in the market in respect of temporary deficiencies of budget revenue. The CBA requires such financing to be repaid as soon as possible and, in any event, no later than three months after the end of the fiscal year of the Government in which the financing is extended. The CBA stipulates that the aggregate amount of financing extended by the Bank and the securities issued by the Government, purchased by BNM excluding such securities acquired for purposes of monetary policy operations, is not to exceed 12.5% of the estimated receipts of the Government for the relevant fiscal year. The CBA also explicitly forbids additional funds to be made available to the Government unless the previous advances have been repaid.

Banking System. The banking system comprises commercial banks, Islamic banks and investment banks. In Malaysia, Islamic and conventional systems coexist and operate in parallel. Islamic banking activities are conducted either by Islamic banks that exclusively carry out Islamic banking, or through Islamic windows or subsidiaries established by conventional banks. An international business and financial center was established in 1990 in the Federal Territory of Labuan. See "— *Labuan International Business and Financial Center*" below. The table below presents information on commercial banks as of the end of the relevant period.

Commercial banks(1)

	As of December 31,				
	2005(2)	2006	2007	2008	2009
	Number of Institutions				
Domestic	19	17	17	20	20
Foreign	14	15	16	19	19
Total	33	32	33	39	39

(1) Includes Islamic banks and Islamic subsidiaries of commercial banks.

(2) Includes Islamic banks, Islamic subsidiaries of domestic commercial banks and finance companies. The latter was subsequently absorbed into their related commercial banks which hold both the commercial banking and finance company licenses.

Source: Bank Negara Malaysia.

	As of December 31,									
	2005		2006		2007		2008		2009	
	Loans	Deposits	Loans	Deposits	Loans	Deposits	Loans	Deposits	Loans	Deposits
	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)	(%)
Domestic	80.1	79.0	79.5	78.9	78.5	77.7	78.6	77.7	79.7	78.3
Foreign	19.9	21.0	20.5	21.1	21.5	22.3	21.4	22.3	20.3	21.7
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank Negara Malaysia.

As of December 31, 2009, the thirty-nine commercial banks (including seventeen Islamic banking institutions) licensed to operate in Malaysia had a total of 2,087 banking offices and total deposits of RM1,028.3 billion, compared to 2,039 banking offices and total deposits of RM936.1 billion as of December 31, 2008. As of December 31, 2009, total loans outstanding of the commercial banks amounted to RM777.7 billion, compared to RM718.7 billion as of December 31, 2008.

As of December 31, 2009, there were 15 investment banks in Malaysia, all of which are domestic institutions. Nine out of the fifteen investment banks are part of the domestic financial conglomerates. Investment banks provide fee-based services, such as underwriting of security issues, providing corporate finance advice on restructuring and, mergers and acquisitions, promoting joint ventures, providing portfolio management and arranging loan syndications. Investment banks in Malaysia are subject to the same set of regulations as the commercial and Islamic banks and are highly capitalized with the risk-weighted capital ratio of 35.3% as at December 31, 2009. The leverage ratio of the investment banks is low, at 8.6 times.

Islamic Banking. The Government is committed to promoting and developing the Islamic banking sector as an important component of the Malaysian banking system. The first Islamic bank in Malaysia, Bank Islam Malaysia Berhad, was established in 1983. The Government's long-term objective is to create a comprehensive Islamic banking system which operates alongside the conventional banking system. This objective is clearly stipulated in section 27 of the new CBA.

In 1993, the Government introduced the "Interest-Free Banking Scheme" as part of the efforts to spur competition in Islamic banking sectors. This scheme allows conventional banks to offer to customers Islamic banking products, subject to specific guidelines issued by BNM. The Government established the National Shariah Advisory Council on May 1, 1997, which has sole authority to issue Shariah (or Islamic law) opinions and decisions on Islamic banking and takaful (Islamic insurance). Under the new CBA 2009, the Shariah Advisory Council is legally recognized as the ultimate decision making body for the ascertainment of Shariah in Islamic banking and takaful. The decision made by this council upon reference by any dispute resolution body including the court shall be binding on them. On October 1, 1999, a second Islamic bank in Malaysia, Bank Muamalat Malaysia Berhad, was established.

In 2004, BNM issued three new licenses to foreign institutions as part of liberalization of the Islamic financial sector and subsequently, in 2005, allowed up to 49.0% foreign equity ownership of domestic Islamic banks (from 30.0% previously). This move is part of an overall effort to spur competition, strengthen the financial linkages and global integration of the domestic Islamic banking system as well as facilitate international trade and investment flows between Malaysia and the rest of the world. It is also a step forward in the development of Malaysia as an international financial centre for Islamic banking and finance.

BNM has also outlined a 10-year plan for Islamic banking and takaful as outlined in the Financial Sector Masterplan, which was launched in 2001. The overall objective is to create an efficient, progressive and comprehensive Islamic financial system that contributes significantly to the effectiveness and efficiency of the Malaysian financial sector while meeting the economic needs of the nation. Under the plan, BNM formulated specific recommendations in three main areas: institutional capacity enhancement, financial infrastructure development and regulatory framework development. See "*—Financial System—Financial Sector Masterplan*."

The Government's inaugural international market issuance of US$600.0 million Islamic Sukuk, or trust certificates, in June 2002 (which matured in 2007) marked a significant development in the global Islamic international financial market. The issuance demonstrated Malaysia's continuous and strong commitment to the development of Islamic banking and finance in the international arena. The issue, based on Islamic principles, created a new asset class for both Muslim and conventional investors, diversified the investor base for Malaysia and set a benchmark for other similar issues. The development of the Islamic financial market is also supported by the SC and by the Labuan Financial Services Authority under the Malaysia International Islamic Financial Centre ("**MIFC**") agenda, particularly on the development of the issuance, listing and trading of foreign currency-denominated Islamic financial instruments, as well as in forging linkages with other Islamic financial centers to expand the global reach of Islamic banking and finance.

The Islamic Financial Services Board ("**IFSB**") was established in Kuala Lumpur on November 3, 2002. The IFSB, comprising members from central banks, monetary authorities and other institutions, is entrusted with the responsibility of developing and promulgating internationally accepted prudential regulatory standards and best practices consistent with Shariah principles for the Islamic financial services community. The IFSB is expected to promote financial soundness and stability in the Islamic financial system and set the stage for its development and integration into the international financial system.

The MIFC initiative was launched in 2006 as part of an effort to position Malaysia as a major hub for international Islamic finance. Under the MIFC initiative, financial institutions are welcomed to use Malaysia as a platform for their Islamic finance activities, particularly on international business, by leveraging on its comprehensive system and conducive environment for Islamic finance business. MIFC focuses on five areas, namely: Sukuk, Islamic fund and wealth management, international Islamic banking, international takaful and human capital development.

According to reports from Bloomberg, Malaysia has the largest Sukuk market globally with a market share of 62.0% of the global outstanding Sukuk (corporate and government), worth US$75.6 billion outstanding, as of December 31, 2009. Of these outstanding Sukuk in Malaysia, 69.0% are corporate Sukuk, which signifies active participation by the corporate sector in the Malaysian Sukuk market.

As for the global Islamic fund and wealth management sector, the Islamic Financial Information Service reported that total assets stood at US$6.8 billion of assets under management in Malaysia or a market share of 13.8% of Islamic funds globally as at December 31, 2009. Malaysia also houses the largest Islamic funds domiciled by number of funds outstanding, with 23.9% (155 out of 648) of the world's Islamic funds. As at December 31, 2009, there are twelve licensed Islamic asset management companies in Malaysia. These achievements are underpinned by strong demand from discerning investors who wish to invest their surplus funds through Shariah-compliant avenues.

As at December 31, 2009, foreign currency Islamic banking business' assets are at US$7.3 billion, registering growth of 11.7% from the end of 2008 (US$6.5 billion). There are three international Islamic banks and seventeen international currency business units of Islamic banks carrying out foreign currency Islamic banking business.

Malaysia, with an established and comprehensive human capital development framework, is well-positioned to develop a proficient pool of Islamic finance talents and experts. Malaysia has several training institutions that offer a wide range of courses and programs, which are tailored to meet the demands and requirements of the Islamic financial industry. These include:

(a) International Centre of Education in Islamic Finance ("**INCEIF**"). INCEIF is a global university in Islamic finance offering certification and post graduate studies in Islamic finance.

(b) Islamic Banking and Finance Institute Malaysia ("**IBFIM**"). IBFIM is an industry-owned Islamic finance training and consultancy provider. IBFIM focuses on Islamic banking, takaful and Islamic capital market programs.

(c) International Shariah Research Academy for Islamic Finance ("**ISRA**"). ISRA is a centre for Shariah and fiqh muamalat research. It serves as a platform for discourse among scholars, academicians, regulators, and practitioners.

(d) International Centre for Leadership in Finance ("**ICLIF**"). ICLIF provides leadership development programs for financial institutions and business corporations.

(e) BNM's Central Banking Services ("**CBS**"). CBS facilitates the sharing of knowledge with central banks of developing economies by providing structured international training courses and seminars on Islamic finance, institution building and financial sector development.

(f) Securities Industry Development Corporation ("**SIDC**"). SIDC is a training and information resource provider for the Islamic capital market industry. SIDC caters to local and foreign regulators, company directors and market professionals.

The Islamic banking industry grew at an average annual rate of 20.8% in terms of assets from 2000 to 2009. As of December 31, 2009, total Islamic banking assets were RM303.3 billion, deposits were RM236 billion and total Islamic financing was RM186.9 billion. The market share of Islamic banking assets, financing and deposits of the total banking system increased in 2009 to 19.6% compared to 18.7% in 2008, 21.6% in 2009 compared to 21.0% in 2008 and 20.7% in 2009 compared to 19.5% in 2008, respectively. In terms of profitability, the Islamic banking sector recorded a pre-tax profit of RM4.7 billion in 2009, compared to RM3.4 billion in 2008. As of December 31, 2009, there are seventeen Islamic banks, three international Islamic banks, and sixteen financial institutions, including three commercial banks, seven investment banks and six development financial institutions providing Islamic financial services on a retail basis. A number of these banks have also set up full-fledged Islamic banking branches. The Islamic Interbank Money Market was introduced in 1994 to enable participants to match their short-term funding requirements based on Islamic principles. As of December 31, 2009, there are eight takaful operators, four retakaful operators and one international takaful operator offering insurance products that conform to Shariah, and the total amount of takaful assets was RM12.4 billion.

Financial Sector Masterplan. BNM announced the Financial Sector Masterplan on March 1, 2001. The Financial Sector Masterplan provides a long-term vision for the development of a resilient, efficient and competitive financial sector that is able to operate effectively in an environment of new technological advances and more sophisticated consumer demand. The emphasis is on enhancing the capacity of the financial sector to support the transition and growth of the domestic economy. The Financial Sector Masterplan comprises three phases: the first being the focus on measures to enhance the capacity and capability of domestic financial institutions; the second being the managed deregulation of the domestic market, whereby existing foreign financial institutions could operate in a more liberalized environment; and the final phase seeing the possibility of introducing new competition in the market place, including the issuance of new licences. The Masterplan, which emphasizes the need for a more diversified financial sector, also sets out the strategic direction of the insurance sector, the role of Islamic banking and *takaful*, the role of development financial institutions, alternative forms of financing such as venture capital, as well as the development of the offshore financial sector in the Labuan International Business and Financial Center. See "*—Labuan International Business and Financial Center*."

With the foundations for strong performance in the financial sector achieved in the first and second phase, the transition into the third phase is currently underway. In line with the broad strategies outlined in the Financial Sector Masterplan, each of the locally incorporated subsidiaries of foreign banks was allowed to open up four additional branches beginning in 2005. Given the strong position of the financial sector and to enhance Malaysia's inter linkages with other economies, BNM announced a liberalization package in April 2009 which encapsulates (i) issuance of new licences to foreign players in the area of conventional banking, Islamic banking and takaful, (ii) increases in foreign equity limits in selected industries and (iii) greater operational flexibilities to foreign players operating in Malaysia in the form of branching and bancassurance arrangements. The objective of the liberalization package is to strengthen the role of the financial sector in supporting the needs of the economy and in being a key contributor to economic growth in its own right. The liberalization plan also aims to pursue opportunities that would bring net benefits and contribute to the development of the Malaysian financial sector and the economy as a whole, while ensuring that overall financial stability and soundness is preserved. In terms of new licenses, BNM is currently assessing applications made by foreign players for the new licences and will announce the successful applicants by June 2010.

Banking System Regulation. The regulatory and supervisory framework for Malaysian banking institutions is well developed and aligned with international standards and best banking practices. Regulation of banking institutions includes requirements relating to licensing, capital adequacy, liquidity levels, reserve levels, lending limits and restrictions on loans to connected parties. Banking institutions licensed under the BAFIA and the Islamic Banking Act 1983 (including subsidiaries) are subject to the supervisory oversight of BNM. BNM also sets guidelines for lending by banking institutions to priority sectors. For example, banking institutions are required to set their own discretionary lending targets for the purchase of homes priced at RM100,000 and under (except for the states of Sabah and Sarawak, where targets will be reviewed in view of the higher price of houses in both those states) and for the financing of SMEs. For commercial banks, a maximum lending margin of 1.75 percentage points above the declared base lending rate of a lending institution applies to housing loans that fall within the lending targets, while for Islamic banks, a maximum profit rate of 9% applies.

Banking institutions are subject to capital adequacy requirements in line with standards specified by the Basel Committee on Banking Supervision and the Islamic Financial Services Board. Forty-seven banking institutions have already adopted Basel II for purposes of determining regulatory capital requirements, with the remaining eight expected to implement the more sophisticated Internal-Ratings Based approaches under the framework by the end of 2010. As at March 31, 2010, the system-wide risk-weighted and Tier-1 capital ratios stood at 14.9% and 13.2%, well above the regulatory minimums of 8.0% and 4.0% respectively.

Banking institutions are also required to hold liquidity buffers, consisting primarily of high quality marketable securities, adequate to cushion the impact of a 30-day liquidity stress having considered the cash flows associated with all assets, liabilities and off-balance sheet commitments.

BNM has implemented measures, including the following, to strengthen the banking system, enhance corporate governance and promote market discipline:

— Prudential standards (including limits) on lending by banking institutions to their related parties (including directors, officers and their interested companies) and credit exposures to a single counterparty (including related parties);

— Banking institutions are required to observe broad principles and minimum standards on corporate governance in the main areas of board responsibility and oversight, management accountability, risk management and internal controls as well as reporting and disclosures. Board members, senior management and officers primarily responsible for control functions must also comply with fit and proper requirements both at appointment and on an ongoing basis;

— Prudential standards which describe the Bank's supervisory expectations regarding the management of risk as well as significant activities undertaken by financial institutions (e.g. credit risk, investments in shares, stress testing, new products);

— Banking institutions are subject to risk-based supervision which is focused on evaluating an institution's risk profile, risk management processes, compliance with applicable laws and regulations, and financial condition. Greater supervisory attention is directed at institutions that are of higher risk or are systemically important;

— Guidelines on the appointment of external auditors and minimum audit standards for internal auditors; and

— Financial reporting standards for banking institutions based on the requirements of FRS 139 Financial Instruments: Recognition and Measurement and FRS 7 Financial Instruments: Disclosures (Malaysia's equivalent of IAS 39 and IFRS 7 respectively). BNM's "Guidelines on Financial Reporting" which was revised in 2010 require further disclosures to be made with respect to loans, impairment provisions and remuneration. Additionally, under Basel II, banking institutions are required to disclose key qualitative and quantitative information on risk exposures, risk assessment processes and corresponding capital levels.

In addition to the above, guidelines specifically implemented for Islamic finance include:

— Guidelines on the governance of Shariah Committees for licensed Islamic banks;

— Guidelines on the recognition and measurement of Profit Sharing Investment Account (PSIA) as risk absorbent;

— Rate of return framework; and

— Guidelines on Musharakah and Mudharabah contracts for Islamic banking institutions

Loan Loss Provision Policy. With the adoption of FRS 139 for financial periods beginning from January 1, 2010, loans that are individually assessed for impairment must fully comply with FRS 139 (provisions for such individual loans were previously established based only on months-in-arrears). However, for the assessment of collective impairment provisions under FRS 139, banking institutions are allowed, as a transitional arrangement, to provide for collective impairment provisions at a level no less than that computed based on a prescribed formula of 1.5% of total loans net of individual impairment provisions. This transitional arrangement is intended to reduce significant duplicative costs to banking institutions associated with impending changes to the impairment standard contemplated by the International Accounting Standards Board. In addition, banking institutions must also comply with BNM's supervisory expectations in respect of the internal valuation processes and methodologies for impairment assessments.

Non-Bank Financial Institutions. Other than banking institutions, the Malaysian financial system also includes provident, pension and insurance funds, development financial institutions, savings institutions and other financial intermediaries. The largest provident and pension fund in Malaysia is the Employees Provident Fund, which was established in 1951. The Employees Provident Fund is funded through mandatory employer and employee contributions and primarily provides retirement benefits to employees contributing to it. As of December 31, 2009, the Employees Provident Fund represented approximately 84.5% of the RM444.5 billion of total assets of provident and pension funds in Malaysia. Under the Employees Provident Fund Act 1991, the Employees Provident Fund is required to invest or reinvest a minimum of 50.0% of its annual investible funds in Government securities. In addition, a minimum of 70.0% of total investments must be in the form of Government securities. On an annual basis, the Government has granted the Employees Provident Fund exemptions from the 50.0% and 70.0% requirements to take account of the limited amount of Government securities in the market. As of December 31, 2009, 25.1% of the Employees Provident Fund's assets were in the form of Malaysian Government Securities. The Employees Provident Fund also invests in quasi-Government and non-Government securities, including domestic bond offerings by NFPEs.

Among the other financial intermediaries, Cagamas Berhad, the national mortgage corporation, was established in December 1986 to promote home ownership in Malaysia by purchasing housing loans from the loan originators and to develop a secondary mortgage market. Cagamas performs the function of an intermediary between the primary lenders of housing loans and investors of long-term funds by issuing mortgage-backed securities. Cagamas commenced its operations in October 1987 by issuing fixed-rate mortgage-backed bonds, and subsequently introduced floating-rate bonds in 1992. In 2004, Cagamas maintained its position as an active issuer of private debt securities, accounting for 22.8% of total private debt securities issued. Cagamas made 18 issues of debt securities with a total value of RM9.3 billion. Among the issues was an Islamic instrument issue totaling RM1.6 billion, the highest volume of Islamic debt issued to date by Cagamas, and the first issue of residential mortgage-backed securities backed by the Government's staff housing loans. The residential mortgage-backed securities are expected to create a yield curve for mortgage-backed securities, and to serve as a benchmark for other asset-backed securities issues.

The Development Financial Institutions ("**DFIs**") in Malaysia are specialised financial institutions established by the Government with specific mandate to develop and promote key sectors that are considered of strategic importance to the overall socio-economic development objectives of the country. These strategic sectors include agriculture, SMEs, infrastructure, maritime, export-oriented sector as well as capital-intensive and high-technology industries.

As specialized institutions, DFIs provide a range of specialized financial products and services to suit the specific needs of the targeted strategic sectors. Ancillary services in the form of consultation and advisory services are also provided by DFIs to nurture and develop the identified sectors. DFIs therefore complement the banking institutions and act as a strategic conduit to bridge the gaps in the supply of financial products and services to the identified strategic areas for the purpose of long-term economic development. The DFIs have, to a large extent, contributed to the development and growth of the targeted sectors.

Given the significant role of DFIs in developing and promoting the identified strategic sectors of the economy, it is important for DFIs to be strong, effective and efficient in performing their mandated roles better. Initiatives taken towards achieving these objectives include strengthening the regulatory and supervisory framework, building capacity and capability, as well as enhancing operational efficiency of these institutions.

One of the significant milestones in providing a comprehensive regulatory and supervisory framework was the enactment of the Development Financial Institutions Act 2002 ("**DFIA**") to ensure financial and operational soundness of the DFIs and that the institutions perform their mandated roles prudently, efficiently and effectively. The DFIA, which became effective on February 15, 2002, takes into consideration the unique roles, functions and objectives of each DFI as well as the relevant provisions in the existing statutes. It also aims to ensure that the DFIs' policies and objectives are consistent with the Government's initiatives and policy direction in developing and promoting the identified targeted sectors to support the national economic development agenda.

As of April 30, 2010, six institutions have been designated as prescribed institutions under subsection 2(1) of the DFIA: Bank Perusahaan Kecil dan Sederhana (SME Bank), which provides financing and advisory services to SMEs involved in manufacturing, services and construction sectors; Bank Pembangunan Malaysia Berhad, which provides medium and long term financing for infrastructure projects, maritime, capital-intensive and high-technology industries in manufacturing sector and other selected sectors in line with the national development policy; Bank Kerjasama Rakyat Malaysia Berhad, a co-operative bank that encourages savings and provides financial services to members and non- members and; the Export-Import Bank of Malaysia Berhad (EXIM Bank), which provides credit facilities to finance and support the exports and imports of goods and overseas projects as well as to provide export credit insurance services and guarantee facilities; Bank Simpanan Nasional, which focuses on retail banking and personal finance especially for small savers; and Bank Pertanian Malaysia Berhad (Agrobank), which accepts savings deposits and provides credit facilities to support development of the agriculture sector.

With the enactment of the DFIA, BNM is the central regulatory and supervisory body for the DFIs. As part of the regulatory and supervisory framework, the Bank monitors the activities and financial performance of these institutions to ensure that they perform their mandated roles in a prudent manner and are supported by strong corporate governance and best practices. In regulating and supervising the DFIs, the Bank is cognizant of the unique characteristics and functions of the DFIs, where the relevant stakeholder ministries of the respective DFIs continue to be accorded the responsibility to provide broad policy direction on the strategic roles and targeted sectors supported by each institution.

Assets of the Financial System. The following table presents information on the composition of the assets of the financial system over the last five years.

Composition of the assets of the financial system

	As of December 31,					
	2005	2006	2007	2008	2009	2009
			(RM billion)			(% share)
BNM	295.4	323.0	424.8	344.5	363.0	13.1
Banking system	958.5	1,092.9	1,221.4	1,338.0	1,423.4	51.3
Provident, pension and insurance funds.	421.8	473.0	525.9	569.6	628.4	22.6
Provident and pension funds	319.3	357.6	394.7	428.0	467.3	16.8
Insurance funds	102.5	115.4	131.2	141.6	161.1.4	5.8
Development financial institutions	99.9	113.6	128.8	144.5	164.7	5.9
Other financial intermediaries.	137.0	155.8	175.3	187.2	196.9	7.1
Total non-bank financial intermediaries (excluding BNM)	658.7	742.4	830.0	901.6	990.0	35.7
Total assets of the financial system	1,912.7	2,158.3	2,476.4	2,573.3	2,776.4	100.0

Source: Bank Negara Malaysia.

From 2005 to 2009, total assets of the financial system grew at an annual compounded rate of 9.7%, to RM2,776.4 billion as of December 31, 2009. During the same period, assets of banking institutions expanded by an average annual compounded rate of 10.4%. Banking institutions remained the largest component of the financial system, accounting for 51.3% of total assets of the system. Assets of non-bank financial intermediaries grew at an average annual rate of 10.7%, accounting for 35.7% of financial system assets as of December 31, 2009 (2005: 34.4%).

Composition of uses of funds remained fairly stable over the period. Loans and advances grew at an annual rate of 9.5% and comprised the largest asset component of the financial system (2009: 37.4%, 2005: 37.7%). Investment in securities also grew strongly during the period in tandem with growth and developments in Malaysian capital markets. Growth in investment in securities was 15.7% annually, amounting to 30.5% of uses of funds as of December 31, 2009 (2005: 24.7%). Components in sources of funds remained fairly stable throughout the period. Deposits mobilized continued to account for the largest share of sources of funds at 50.2% (2005: 48.3%).

Financial Stability. Financial system stability was preserved over the last five years because of a decade of capacity building that was undertaken following the Asian financial crisis. This capacity building focused on strengthening risk management capability, internal controls and governance oversight at the institutional level, improving financial infrastructure and establishing a more robust regulatory and supervisory framework. Stability of the Malaysian financial system endured despite the adverse global and domestic economic conditions and heightened domestic market volatility in the first half of 2009. Domestic financial markets remained orderly despite experiencing heightened volatility and risk aversion in the early part of the global crisis. Because of these fundamental strengths and ample liquidity, the financial system was able to continue carrying out the financial intermediation process, exercising payment and settlement functions, protecting against risks and providing other necessary financial services to the economy effectively and efficiently. The strong aggregate financial positions of Malaysian households and businesses further reinforced the capacity and flexibility of the system to adjust to the more challenging business and employment conditions in 2009 and contributed to greater overall financial stability.

At the onset of the global financial crisis, it was recognized upfront that Malaysian financial institutions were well-capitalized with ample liquidity. Confidence of depositors and investors was also intact. Nonetheless, the threat of risk contagion via trade and financial channels arising from increased inter-linkages that had developed over the years could not be ignored. Malaysia undertook swift, cohesive and coordinated fiscal, monetary and financial policy measures to address potential threats that could affect economic growth and financial stability. These pre-emptive and proactive financial and regulatory measures undertaken by the industry and regulatory authorities were aimed at ensuring the continued smooth functioning of financial intermediation in order to support economic growth. These were channelled via measures to ensure continued access to financing, to enable borrowers to manage temporary strains on cashflows due to the weakened economic and labour conditions, as well as to sustain confidence of depositors and investors in the financial sector. The institutional arrangement, namely the Credit Counselling and Debt Management Agency, established in 2006 to facilitate debt restructuring, manage and provide advice to individuals also played an important role in ensuring that there was an efficient mechanism for viable borrowers to find effective solutions to temporary cashflow strains. These measures acted in concert with accommodative monetary policy and expansionary fiscal policy to maximize the effects of the policy package. The pre-emptive and wide-ranging policy responses worked effectively to preserve confidence and financial stability in spite of challenging domestic conditions.

Objectives	**Policy measures adopted**
Ensure continued access to financing	— Established and expanded special funds and guarantees for SMEs and businesses
	— Provided adequate access by Malaysian banks to foreign currency funding to facilitate continued provision of trade financing
	— Established Danajamin Nasional Berhad, the financial guarantee insurer
	— Intensified close engagement with industry players, businesses and borrowers to understand financing issues facing them
Enable borrowers to manage strains on cashflows due to economic and employment environment	— Proactive restructuring and rescheduling of loans by banks to assist viable borrowers in managing temporary cash flow strains
	— Temporary loan moratorium scheme by banks for redundant workers
	— Facilitated efficient debt workout for businesses through the establishment of the enhanced Corporate Debt Restructuring Committee (which caters to restructuring of both bank borrowings and private debt securities) and expansion of the Small Debt Resolution Scheme
Boost and preserve confidence in the financial sector	— Temporary Government blanket guarantee on deposits until December 31, 2010
	— Allowed insurance companies and takaful operators to access liquidity facility of Bank Negara Malaysia

Capital Position. Compared with the Asian financial crisis, Malaysian financial institutions exhibited greater resilience, ability and pro-activeness during the global financial crisis, in responding to the financial needs of borrowers who were faced with difficulties as a result of the more challenging operating environment. They also better anticipated potential shocks and were more prepared to cope given the higher capitalization levels and stronger solvency positions. Credit continued to be channeled to support the needs of the real sector thus supporting the swift recovery of the domestic economy. The high degree of resilience of the financial sector was clearly evident. Capitalization and solvency positions were sustained at strong levels, supported by strengthened institutional structures and financial infrastructure, and enhanced governance and risk management cultures. In anticipation of a more challenging economic outlook and growing international consensus to emphasize increased levels and quality of capitalization, Malaysian banks, since the fourth quarter of 2008, have undertaken on measures to bolster capital levels. Higher capital levels will also allow the financial institutions to strategically take advantage of future domestic and overseas business opportunities once the global economy recovers from the crisis. Consequently, as at December 31, 2009, the banking system's risk-weighted capital ratio and core capital ratio had improved to 15.4% and 13.8% respectively (13.7% and 10.7% respectively as at December 31, 2005), with an average leverage position of 13.1 times. The capital raising activities were largely concentrated in equity issuances, thus contributed further to the strengthening of capital quality. Approximately 70% of total capital of the Malaysian banking industry was comprised of core Tier-1 capital. The risk-weighted capital ratio and the core capital ratio stood at 14.9% and 13.2% respectively as at March 31, 2010 following dividend payments by banking institutions.

Funding and Liquidity Position. The Malaysian financial system remained largely unscathed by the global financial crisis and insulated from systemic liquidity and funding pressures. Ringgit liquidity in the financial system continued to remain ample throughout the global deleveraging process. As at December 31, 2009, the Malaysian banking system maintained strong liquidity buffers of 17.9% of deposits for liquidity needs maturing in less than one month. Two factors contributed to the continued strong liquidity position exhibited by the Malaysian banks: (i) robust liquidity risk management by banks, supported by rigorous supervision and stringent liquidity compliance requirements based on projected cash flows under normal business conditions and stressed scenarios by Bank Negara Malaysia; and (ii) sound funding structure which is predominantly deposit-based. The strength of the banking system's liquidity position is reinforced by its holdings of high quality liquid assets.

Stress tests. BNM conducts regular scenario-based stress tests on credit, market and liquidity risks at both the system and individual institution levels to provide a forward-looking assessment of the capacity of financial institutions to withstand potentially adverse and significant macro-financial shocks, as well as the resultant implications on earnings and capitalization. The stress scenarios are constructed based on the potential magnitude and extent of spillover effects of the intensification of international financial market duress, prolonged slowdown in global and regional growth, persistent volatility in commodities and energy prices as well as expected price levels in the economy. Multiple scenarios based on domestic growth and financial market conditions that are comparable to the historical worst levels are applied. Using a scenario horizon of one year, shock magnitudes are derived on (i) credit risk losses arising from the incidences of delinquencies, default on and downgrade of securities held; and (ii) market risk losses arising from lower equity prices and further valuation losses on securities held. Moving forward, the Malaysian financial system is expected to continue to have adequate buffers to withstand external risks and domestic challenges. The banking system capitalization is expected to remain above 10% under the most challenging and extreme scenario in the stress tests conducted on credit and market risks. In line with international best practices to strengthen liquidity risk assessment, the scenario-based tests are also conducted to account for the potential strains on liquidity position of banks arising from market-wide and institution-specific events. The risks of potential heightened risk aversion and counterparty concerns, particularly among the interbank players, are limited given the improved market sentiments and the low reliance of the Malaysian banks on interbank funding.

Banking System Lending. The following table sets out the banking system loans by sector at the end of the relevant period.

Banking system loans by sector

	As of December 31,				
	2005	2006	2007	2008	2009
	(% of total loans)				
Agriculture, hunting, forestry and fishing	2.0	2.2	2.1	2.2	2.4
Mining and quarrying	0.1	0.2	0.2	0.3	0.3
Manufacturing	10.9	11.1	11.6	11.2	9.7
Electricity, gas and water supply	0.8	0.8	0.6	0.6	1.0
Wholesale, retail, restaurants and hotels	8.4	8.9	8.8	8.5	7.8
Construction	5.4	5.1	4.9	4.7	4.6
Purchase of residential property	26.7	27.6	27.2	26.5	26.9
Purchase of non-residential property	6.3	7.8	8.6	9.2	9.5
Real estate	2.6	2.8	3.1	3.5	4.1
Transport, storage and communications	2.0	1.9	2.2	3.2	3.2
Financing, insurance and business services	5.4	5.7	6.1	6.6	6.3
Purchase of transport vehicle	16	17.5	16.8	16.0	15.7
Consumption credit(1)	6.6	7.4	7.8	7.8	8.2
Others	6.8	1.0	0.0	0.0	0.3
	100.0	100.0	100.0	100.0	100.0

(1) Includes credit card loans, loans for personal use and loans for the purchase of consumer durable goods.

Source: Bank Negara Malaysia.

Lending to households has increased in recent years, resulting in a more balanced overall credit portfolio of the banking system. Lending to households accounted for 55.1% of total loans as at December 31, 2009. The low-value and high-volume nature of household loans ensures a more efficient distribution of credit risk exposure across this sector. Moreover, household financial assets stood at approximately 2.5 times of total household debt, providing households with adequate flexibility to adjust to a challenging economic environment. The increase in exposure to the household sector also reflects Malaysia's continued efforts to build a more inclusive banking system. At the same time, total lending to SMEs expanded to account for 15.2% of total loans.

Maximum lending limits were introduced in April 1997 to manage bank lending for financing the purchase of shares and investments. Limits were imposed on different forms of credit exposures such as loans and financing, guarantees and holdings of corporate debt securities issued to finance activities in the broad property sector and equity market. As these limits were targeted at areas only where concerns of speculative activity existed, certain specific sub-sectors were excluded. These include the construction of low-cost residential properties, the development of infrastructure projects, public utilities and amenities, the purchase and construction of industrial buildings and factories, the purchase of owner-occupied residential and commercial properties, and the purchase of land for agricultural and industrial activities.

The maximum lending limits for share financing are 20.0% of total loans for commercial banks and Islamic banks. For all banking institutions, the maximum lending limit for loans to the property sector is 20.0% of total loans after excluding exempted property loans.

In 2007 and 2009, the external liabilities of the Malaysian banking system exceeded its external assets. The net external assets of the banking system accounted for 2.3% and 0.2% of total assets of the banking system as of December 31, 2007 and December 31, 2009, respectively. The banking system recorded a net external liabilities position of 0.7% of total assets as of December 31, 2008.

As at December 31, 2009, six domestic banking groups have a presence in 19 countries worldwide. The profit contribution from overseas operations of the domestic banking groups accounted for 16.7% of total group profits.

Asset Quality. The level of net NPLs of commercial banks, investment banks and the banking system as a whole at the end of the relevant period based on three-month classifications is set forth in the following table.

Banking system net NPL ratio

	As of December 31,				
	2005	2006	2007	2008	2009
	three-month classification policy[1]				
			(%)		
Commercial banks[2]	5.6	4.8	3.2	2.2	1.8
Investment banks	12.1	8.4	4.9	3.7	2.9
Banking system	5.8	4.8	3.2	2.2	1.8

(1) Calculated based on a three-month NPL classification policy applied uniformly across the banking system.

(2) Includes Islamic banks and Islamic subsidiaries of commercial banks.

Source: Bank Negara Malaysia.

Since the Asian financial crisis, Malaysian banks have placed strong emphasis on enhancing their risk management infrastructure and practices as well as credit risk assessment processes. Although the costs of such enhancements are far from negligible, investments into such risk management processes have proven beneficial especially in enabling Malaysian banks to manage unanticipated shocks to their operations. Expected increases in the level of delinquencies of household and business loans, resulting from the slowdown in the domestic economy in 2009, did not materialize. In fact over the last five years, the asset quality of the banking system has improved and net NPL ratios have been on a downward trend, driven largely by lower new delinquencies, sustained recoveries and continued loan write-offs. Net NPL ratios of the banking system on a three-month classification policy declined to 1.8% as at December 31, 2009 compared to 5.8% as at December 31, 2005.

Profitability. The profitability of the Malaysian banking system for the last five years is set forth in the following table.

Profitability of the Banking System

	For the calendar year				
	2005	2006	2007	2008	2009[P]
Pre-tax profit (RM' billion)	12.4	12.9	17.7	19.2	17.0
Return on Average Assets (%)	1.4	1.3	1.5	1.5	1.2
Return on Average Equity (%)	16.8	16.2	19.7	18.6	13.9

P Preliminary

For the year ended December 31, 2005, the banking system registered a 7.0% increase in pre-tax profit (2004: RM11.6 billion). The growth in profits reflected continued diversification of the business portfolio of banking institutions where higher revenue was derived from lending and financing activities, sale of wealth management products, provision of remittance services as well as trading and investment activities.

The revenue and profits trend continued in 2006 where the pre-tax profit of the banking system rose by 5.0% to RM12.9 billion driven by higher revenue from core lending and financing activities. Revenue from the provision of remittance and settlement services, as well as trading activities continued to provide additional support to banking institutions profitability. Greater operational flexibility accorded to banking institutions coupled with innovations in the product and delivery channel has also contributed towards improved efficiency and profitability.

The year 2007 saw strong growth in the pre-tax profit of both the conventional and Islamic banking systems resulting in better return on average assets and return on average equity ("**ROE**"). The increase of 36.4% in profits was achieved on account of more diversified income sources driven mainly by sustained growth in revenue from financing and related fee-based activities.

For the 12 months period ended 31 December 2008, the conventional and Islamic banking systems recorded an 8.3% growth in combined pre-tax profits, resulting in ROE of 18.5%. This performance was moderated by persistent volatility and uncertainties in the global and domestic financial markets that resulted in a decline of 27.5% in revenue from treasury related and investment activities. The subdued business conditions, highly competitive financing market and ample liquidity environment posed considerable pressure on financing margins as well as fee-based income of banking institutions.

In 2009, while overall earnings were stronger and registered a broad-based improvement, revenue from lending activities softened on weakened demand for financing (in the first half of the year) following the contraction in domestic economic activities and higher funding expenses due to the larger deposit base. Profitability of the banking system was lower on account of a non-recurring investment impairment provision by an institution for its overseas operations. Adjusting for the one-off provisioning, profitability of the system registered growth of 3.2%.

Government Deposit Guarantee. On September 1, 2005, the Ministry of Finance approved a deposit insurance system to improve the consumer protection infrastructure in Malaysia, following the passage of the Malaysia Deposit Insurance Corporation ("**MDIC**") Act 2005. Under the system, eligible deposits are insured up to the prescribed limit of RM60,000 per depositor, per member institution, inclusive of principal and interest. There is also a separate coverage of RM60,000 per depositor, per member institution, for Islamic deposits, accounts held under joint ownership and trust accounts, sole proprietorships and partnerships. It is expected that the system will provide coverage to 95.0% of depositors in full. The system is funded by the banking institutions through annual flat-rate premiums for the first two years, with a differential premium system implemented since 2008, which is based on the risk management practices of each financial institution. By redistributing the cost of financing the deposit insurance system from the Government to the banks, the deposit insurance system will mitigate the moral hazard associated with a blanket guarantee from the Government, while preserving public confidence in the level and reliability of financial services under a changing business environment and different economic cycles. The principal objective of the deposit insurance system is to contribute to financial stability by providing explicit protection to depositors, while strengthening incentives for sound risk management in the financial system.

On October 16, 2008, the Government announced a blanket guarantee on all ringgit and foreign currency deposits with commercial, Islamic and investment banks, and deposit-taking development financial institutions regulated by BNM. The guarantee, which will expire on December 31, 2010, extends to all domestic and locally incorporated foreign banking institutions. The guarantee was part of an array of pre-emptive and precautionary measures undertaken to boost public confidence and to maintain the stability of the financial system. The blanket guarantee was not and is not expected to be called upon given the strong financial resilience of the banks. Malaysia has a strong regulatory and supervisory framework in place which is reinforced by financial discipline imposed by the MDIC. The MDIC's differential premium system provides strong incentives for banks to adopt sound and rigorous risk management practices including the maintenance of strong capital buffers. The MDIC also has the necessary resolution powers to protect depositors.

On May 11, 2010, the Government announced an enhanced deposit insurance limit of RM250,000. The revised limit is due to take effect on January 1, 2011 following the expiry of the temporary blanket guarantee. As part of an effort to further strengthen financial consumers' protection, the Government will also introduce an explicit Insurance Compensation Scheme for insurance and takaful policyholders. The Insurance Compensation Scheme is expected to be implemented in 2011.

Labuan International Business and Financial Center ("Labuan IBFC"). The Labuan IBFC was established on October 1, 1990 to promote international business activities, both conventional and Islamic, including banking, insurance and insurance-related activities, corporate funding, investment, trust, fund management, leasing and capital markets. The Labuan IBFC offers low or no taxes on income, profits, dividends and interest earned from business activities or transactions carried out by Labuan companies in, from or through the Labuan IBFC. The financial center is supervised by the Labuan Financial Services Authority (the "**Labuan FSA**"), which administers all laws relating to the international banking and financing activities in the Labuan IBFC.

According to the Labuan FSA, as of December 31, 2009, there were 59 Labuan banks with total deposits of US$10,235.3 million, (an increase of 8.8% from US$9,406.2 million in 2008), and total loans outstanding of US$18,462.3 million, (an increase of 5.0% from US$17,576.7 million in 2008). Loans made by banks operating in Labuan are not included as part of loans outstanding of the Malaysian financial system. The insurance industry has registered significant growth in recent years to record US$1.1 billion in total gross premiums written in 2009. The total number of Labuan insurance and insurance related companies is 149 as at the end of 2009. Leasing remains the best performing sector with the amount of assets leased increasing by 23.9% to US$21.9 billion in 2009. As at the end of 2009, there are 136 leasing companies operating in the Labuan IBFC. As concerns the Islamic financial services industry, the retakaful sector continues to exhibit impressive growth of more than 40%. This continued trend of double-digit annual growth was built upon the rapid growth momentum of the takaful industry. Islamic private fund management recorded positive growth in 2009, with US$3.22 billion in assets under management and an increased market share, to 34.2%.

A new legal framework was introduced in February 2010 consisting of four amended acts (Labuan Financial Services Authority Act 1996, Labuan Companies Act 1990, Labuan Trusts Act 1996 and Labuan Business Activity Tax Act 1990) and four new acts (Labuan Financial Services and Securities Act 2010, Labuan Foundations Act 2010, Labuan Limited Partnerships and Limited Liability Partnerships Act 2010, Labuan Islamic Financial Services and Securities Act 2010). The legislative changes were made as part of an ongoing effort to enhance and modernize the Labuan IBFC's legal framework so as to comply with both international best practices and improve competitiveness. The new laws encourage greater product innovation in the Labuan IBFC by permitting the establishment of an array of new entities, both conventional and Islamic, including protected cell companies, foundations, private trust companies, limited liability partnerships and special trusts.

Anti-Money Laundering and Anti-Terrorism Financing Act 2001. The Anti-Money Laundering and Anti-Terrorism Financing Act 2001 ("**AMLATFA**") was enacted in 2001 to criminalize money laundering on the basis of the 1998 Vienna Convention and the 2000 Palermo Convention. This provided the legal infrastructure and regulatory tools for enforcement agencies to freeze and seize with the ultimate aim of confiscating the laundered properties. To enable Malaysia to accede to the United Nations Convention for the Suppression of the Financing of Terrorism, AMLATFA was amended in 2003 and came into force on March 6, 2007. The amendments expanded the scope of the AMLATFA to cover the regulation of terrorism financing activities such as the freezing, seizure and forfeiture of terrorist property and hence the definitions of terrorist property and terrorism financing offence were incorporated under the said amendments by reference to the relevant definitions under the Penal Code. In addition, a new Part VIA was introduced in the AMLATFA on the suppression of terrorism financing offence which, among others, empowers the Minister of Home Affairs to issue orders to be published in the Gazette, to declare an entity as a specified entity and to implement measures taken by the United Nations Security Council. The legal framework continues to be enhanced with the inclusion of 245 serious offences from 37 pieces of legislation and any person dealing with proceeds from the serious offence listed in the Second Schedule to the AMLATFA may be investigated by the relevant enforcement agency for money laundering and terrorism financing.

The Minister of Finance appointed BNM as the competent authority under the AMLATFA on January 15, 2002, and the Financial Intelligence Unit was established within BNM to carry out the functions of the competent authority under the AMLATFA. The AMLATFA requires reporting institutions to promptly report to BNM any transaction where the identity of the person involved, the transaction itself or any circumstances concerning the transaction which gives the reporting institution reason to suspect that it involves proceeds of an unlawful activity. Since 2006, banking institutions are also required to submit cash transaction reports for amounts above RM50,000. The AMLATFA also provides for a waiver of secrecy obligations in relation to any suspicious transaction report made by the reporting institutions. BNM will disseminate financial intelligence on suspected offences to the appropriate domestic enforcement agency to facilitate further investigation and the eventual prosecution of the offender under the AMLATFA and/or other relevant legislation. To foster close cooperation among jurisdictions especially in the sharing of financial intelligence relating to money laundering and terrorism financing, BNM has entered into a Memorandum of Understanding with 28 countries for the exchange of financial intelligence.

To date, the reporting institutions under AMLATFA include financial institutions in the conventional, Islamic and offshore sectors, development financial institutions, money changers and postal remittance services, as well as designated non-financial businesses and professions, or Designated Non-Financial Businesses and Professions ("**DNFBPs**"). The DNFBPs covered include lawyers, notaries public, accountants, company secretaries, casino and other licensed gaming outlets, registered estate agents, trust companies, and dealers in precious metals and precious stones. The AMLATFA regulatory net will be extended incrementally to other classes of DNFBPs. As at April 2010, there were about 38,000 reporting institutions under the AMLATFA.

BNM issued the Standard Guidelines on Anti-Money Laundering and Counter Financing of Terrorism ("**AML/CFT**") to the reporting institutions in November 2006 which, read together with the Sectoral Guidelines, are sector-specific and aimed at addressing a particular money laundering and terrorism financing risk faced by the reporting institution and the steps the reporting institution can undertake to mitigate such risk. It also includes a list of examples of transactions that may trigger suspicion in that particular sector. BNM has issued ten Sectoral Guidelines to date, addressing sectors such as banking, insurance, money changers and non-bank remittance operators, dealers in precious metals or precious stones, licensed gaming outlets, licensed moneylenders and pawnbrokers.

In addition to the foregoing, measures beginning January 1, 2010, Malaysia imposed a requirement whereby travelers entering or leaving Malaysia with cash and/or negotiable bearer instruments exceeding an amount equivalent to US$10,000 must make a declaration in Form Customs No. 22 which is in line with section 23 of the AMLATFA and consistent with Special Recommendation IX by the Financial Action Task Force.

The National Coordination Committee to Counter Money Laundering was established in April 2000 to enhance cooperation among the domestic regulatory agencies and to coordinate the implementation of the national AML/CFT measures to ensure that the national efforts are aligned with regional initiatives and internationally accepted standards.

Consumer Education and Protection Framework. Concerted efforts have been undertaken to encourage more active consumerism and strengthen the overall consumer protection infrastructure. In 2003, BNM together with the financial industry implemented the Consumer Education Programme ("**CEP**") as part of the efforts to increase consumer awareness and financial literacy. Educational materials are made available via financial institutions' branch networks and the banking information and insurance information websites. BNM has also established smart partnerships with government agencies to inculcate smart financial management habits among school children via the School Adoption Programme. In addition, guidelines on product transparency and disclosure were issued in May 2009 to raise the disclosure standards for retail financial products and to support informed decision making by consumers through meaningful and timely disclosures. In February 2005, a basic banking services framework that offered "no-frills" accounts to consumers was introduced to ensure that consumers have access to basic banking services at minimal costs. Broad guiding principles on the imposition of fees and charges were also issued to ensure that charges imposed on financial products and services offered to individuals and SMEs are fair to customers. Also in the pipeline are measures to implement anti-competition policies and to introduce legislation to regulate the processing of personal data and the operations of credit reporting agencies.

The Financial Mediation Bureau ("**FMB**") was launched in 2005, following the merger of the Banking Mediation Bureau and the Insurance Mediation Bureau, as an integrated agency for the resolution of disputes against financial institutions under the supervision of BNM. With the setting up of the FMB, consumers have access to an alternative redress to court process, which is fair, impartial and convenient. The Credit Counselling and Debt Management Agency ("**CCDMA**") was established in April 2006 to provide an avenue for consumers to obtain advice on prudent borrowing practices and financial management education through credit counseling, debt and money management activities. The agency's debt management program also assists consumers, free of charge, in rescheduling or restructuring their loans based on repayment plans and terms that have been agreed upon by both creditors and debtors. BNM also set up the Integrated Contact Centre ("**ICC**") in July 2008, as a move to improve access by the public to information relating to the financial services sector. The ICC serves as a key platform for consumers to obtain information on financial products and services and seek assistance to resolve complaints related to the financial institutions regulated by BNM.

Capital Markets. Reflecting the increasing role of the private sector in driving domestic growth and the continued developmental efforts undertaken by the Government, the Malaysian capital markets have undergone significant changes. Significant developments include the incorporation of the first credit rating agency in 1990 and the promulgation of the Securities Industry Act in 1983 and the Futures Industry Act in 1993 which were subsequently consolidated under the Capital Markets and Services Act 2007 ("**CMSA**") (a legislation to regulate and to provide for matters relating to the activities, markets and intermediaries in the capital markets), and the establishment of the SC in 1993.

Capital market measures introduced by the Government in 2008 and 2009 were aimed at encouraging inflow of foreign funds and investments, strengthening the local stock market, supporting further growth and development of the services sector and the capital markets. Key measures in 2008 include the launch of Asia's first Islamic Exchange Traded Fund, incentives for foreign product listings and origination, listing, distribution and trading of non-ringgit sukuk, the upgrade of the exchange trading platform, the introduction of a market making framework and the liberalization of the bond market approval framework.

Key measures in 2009 include the introduction of foreign equity ownership by way of a full liberalization in the ownership of wholesale fund management companies for qualified and leading fund management companies to establish operations in Malaysia and raising the foreign shareholding limits on unit trust management companies and in existing stockbroking companies to 70% from 49%. Another key measure in 2009 was the deregulation of FIC rules through the liberalization of the rule on 30% Bumiputra participation for initial public offering subscription and the deregulation of the Guidelines on the Acquisition of Interest, Mergers and Takeovers by local and Foreign Interests. In addition, the Main and Secondary Boards of Bursa Malaysia were merged into a single board for established corporations while the MESDAQ market was transformed into a sponsor driven market.

The Government is also supporting high growth potential sectors with the establishment of Ekuiti Nasional Berhad ("**Ekuinas**") in 2009 as a private equity fund with initial capital of RM500 million. The Government-owned Ekuinas may eventually be enlarged to become a RM10 billion fund. In addition as part of efforts to attract foreign high skilled human capital, BNM and the SC would review all visa applications for the financial services and capital market industries as part of efforts to attract international human capital.

Securities Commission. The establishment of the SC marked a significant milestone in the Government's commitment to have a central authority in the regulation and development of Malaysia's capital market. In 2001, the SC launched CMP 1 to provide a comprehensive roadmap for the phased and orderly development of the Malaysian capital markets over a 10-year period. The aim of CMP 1 was to develop an internationally competitive Malaysian capital market that would be an efficient conduit for fund mobilization and allocation underpinned by a strong regulatory framework.

Implementation of CMP 1 was divided into three phases. Phase 1, covering the period 2001 to 2003, focused on strengthening the foundations of the capital markets through enhancing domestic capacity and through developing strategic sectors. Major achievements included the consolidation of five exchanges, the demutualization and listing of the consolidated exchange entity Bursa Malaysia, the implementation of a consolidation policy to build a core of strong domestic intermediaries and progressive deregulation of commission rates. Being the single regulator for the Malaysian corporate bonds and sukuk market, the SC also put in place a set of measures to create a transparent and facilitative framework that has expedited corporate fund-raising, trading and investment activities in this market.

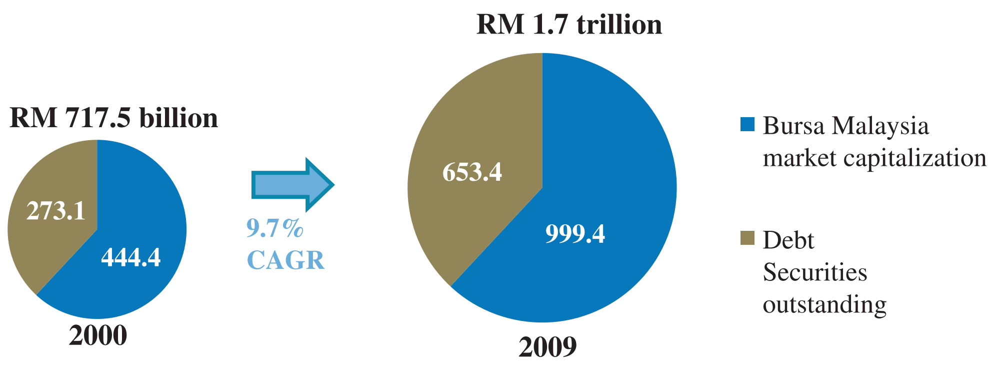
Phase 2, implemented during 2004 to 2005, saw an acceleration in landscape changes in several industry segments and gradual liberalization across industry segments to broaden access to the Malaysian capital market. These changes paved the way for the creation of investment banks and the entry of foreign stockbrokers and fund managers. The benefits of shifting to a disclosure-based regime became apparent as the SC re-engineered many of its processes to achieve sharp reductions in turn-around time for approvals of corporate proposals, particularly the corporate bond and sukuk issuances. This led to tremendous cost-savings for the private sector and improved their ability to raise long-term financing and develop investment products to meet market demands on a timely basis.

The SC implemented many initiatives to enhance the international competitiveness of the Malaysian capital market during Phase 3 which has been implemented from 2006 to the present. This included increasing the intermediation efficiency of domestic the savings through a combination of widened distribution channels as a result of greater deregulation, increased price transparency due to the shift to a single-pricing regime and increased disclosure standards which accelerated the growth of the unit trust industry. The attractiveness of the Malaysian capital markets to domestic and international investors and issuers was enhanced through further efficiencies and cost reductions in the issuance process and through introducing pricing efficiency in the primary market such as the introduction of "Green Shoe" options and price stabilization mechanisms for initial public offerings in early 2008. The nation's position as an international centre of origination and trading for Islamic instruments and for wealth management services was also enhanced through liberalization measures and the provision of tax incentives and fund mandates. Today, the Malaysian capital markets operate in a substantially liberalized environment with some of the world's leading investment banks and fund managers having established operations in Malaysia.

It is anticipated that by the end of 2010, 144 of the 152 recommendations contained in CMP 1 will have been completed. Work on formulating CMP 2 is in progress and is expected to be launched by the end of 2010.

During the CMP implementation period, the objective of building a diverse and resilient capital market was achieved. New market segments were carefully nurtured. Malaysia now has a broad capital market that includes a stock market that provides access to equity capital to almost a thousand listed companies, a bond market that is the third largest in Asia (benchmarked against GDP), one of the largest domestic unit trust industries in the region and a comprehensive and innovative Islamic capital market that is globally regarded as the leading centre for Islamic markets.

Size of capital market more than doubled



Source: SC, Bursa Malaysia

Strong growth across market segments

Market segments (RM billion)	2000	2009	Compound Annual Growth Rate (CAGR) %
Market capitalization	444.4	999.4	9.4
Debt securities outstanding	273.1	653.4	10.2
Unit trust (net asset value)	43.3	191.7	18.0
Derivatives (Notional value)	76.5	241.6	13.6
Islamic capital market	293.7	894.6	13.2

Source: SC, Bursa Malaysia

To facilitate the NEM, support private sector innovation and stimulate financing in the higher-risk services and knowledge-driven sectors that are critical to Malaysia's future, the Government seeks to shift the domestic capital markets from a primarily fundraising model to a liquidity-driven and risk-diversification model that encourages fund management, venture capital and private equity. Towards this end, the SC will encourage the development of capital markets in these areas and integrate these new development initiatives into the Second Capital Markets Master Plan which is currently being formulated by the SC.

Bursa Malaysia. Bursa Malaysia operates a fully integrated exchange, offering a range of exchange-related services, including trading, clearing, settlement and depository services. Bursa Malaysia also provides information services related to the Malaysian securities and derivatives market.

Demutualized pursuant to the Demutualisation (Kuala Lumpur Stock Exchange) Act 2003 and as part of the CMP, the KLSE converted into a public company limited by shares on January 5, 2004. Upon the conversion, KLSE vested and transferred the securities exchange business to a wholly-owned subsidiary, Bursa Malaysia Securities Berhad, and became an exchange holding company and was renamed Bursa Malaysia Berhad on April 14, 2004.

As of December 31, 2009, there were 960 companies listed on Bursa Malaysia Securities with 844 companies listed on Main Market and 116 companies listed on ACE Market. The KLCI, closed at 1,272.78 points as of December 31, 2009, compared to 876.75 points at the close of trading on December 31, 2008 and 1,445.03 points at the close of trading on December 31, 2007. The market capitalization of Bursa Malaysia Securities, including the Malaysian Exchange of Securities Dealing and Automated Quotation (MESDAQ), was RM664 billion and RM999 billion at the close of trading on December 31, 2008 and December 31, 2009, respectively.

Within the domestic derivatives market, the main products that are traded are KLCI futures, CPO futures, three-month Kuala Lumpur Interbank Offer Rate futures, five-year Malaysia Government Securities, or MGS, futures and three-year MGS futures. These products are traded on Bursa Malaysia Derivatives. Other products available for trading are KLCI Option, Crude Palm Kernel Oil Futures and 10-year MGS Futures. The 2009 daily turnover in KLCI futures contracts averaged 8,056 contracts compared to 11,873 contracts in 2008.

Regulatory Framework and Corporate Governance. The broad and rapid growth of Malaysia's capital market has been underpinned by the building of a well-regulated and efficient market that reinforces investor confidence. Supervisory and enforcement oversight has been considerably strengthened to ensure greater compliance with securities laws and conduct requirements. The Malaysian capital market regulatory framework is benchmarked to global standards and ranks highly in terms of investor protection, corporate governance, anti-money laundering and enforcement capabilities.

Malaysia has also made considerable strides in raising the standards of corporate governance.

The Malaysian Code of Corporate Governance (the "**Corporate Governance Code**") was issued in March 2000 and subsequently incorporated into the listing requirements of Bursa Malaysia (the "**Bursa Malaysia Listing Requirements**") Bursa Malaysia, making Malaysia one of the first countries in the region to adopt such a code. The Corporate Governance Code was further revised in 2007 to strengthen the roles and responsibilities of the board and audit committees. In tandem with this, delisting procedures for companies in financial distress were streamlined to provide greater protection to investors.

The SC also adopts a risk-based and principles-based approach to surveillance, supervision and oversight of a broad range of licensed capital market intermediaries and individuals. New provisions have been added to the CMSA to widen the enforcement powers of the SC. The CMSA currently:

- enables the SC, through civil actions, to obtain compensation of up to three times the pecuniary gain made or loss avoided for a range of offences including false trading, stock market manipulation and the use of manipulative and deceptive devices;

- empowers the SC to remove from office any chief executive or director or bar unfit persons from being a director;

- imposes a mandatory duty upon auditors and specific employees of listed corporations to report breaches of securities laws and the rules of the stock exchange to the authority;

- empowers the SC to act against errant directors and officers of publicly listed companies ("**PLCs**") and their related corporations who cause wrongful loss to their company. Previously, the SC's ability to take action against directors was limited to disclosure-related offences in the CMSA;

- makes it an offence for directors and officers of listed corporations to influence any person who prepares or audits the financial statement of a listed corporation to cause the financial statement to be false or misleading; and

- makes it an offence for anyone to falsify or destroy any accounting records or books of a listed corporation or its related corporation.

In addition the Bursa Malaysia Listing Requirements were amended in January 2008 to strengthen the quality of corporate governance amongst listed issuers and enhance investor protection and confidence. The key amendments are in the following aspects:

1. requiring all audit committee members to be non-executive directors;

2. mandating the internal audit function in listed issuers and requiring the internal audit function of listed issuers to report directly to the audit committee;

3. enhancing disclosure in the annual reports of listed issuers to include information pertaining to the internal audit function;

4. expanding the functions of the audit committee to include the review of the adequacy of the competency of the internal audit function; and

5. clarifying that Bursa Malaysia may impose such other requirements relating to the financial-related qualifications or experience that must be fulfilled by at least one audit committee member and the signatory to the statutory declaration in relation to the accounts.

The Companies (Amendment) Act 2007 that came into operation in August 2007 had brought significant changes to the corporate governance framework. In relation to the board of directors in companies, the Companies (Amendment) Act 2007 introduced the business judgment rule with interested directors not permitted to participate or vote. Furthermore, amendments were made to the disclosure of interests in contracts and the functions and powers of the board of directors have been inserted.

The SC uses an array of tools to enforce the securities laws. Criminal charges for example, are preferred in cases involving serious breaches of the law, such as corporate fraud and financial misstatements. In 2009, the SC brought criminal charges against four individuals (including an auditor) who submitted or were involved in submitting false financial information to the SC. The SC also charged two other individuals for their roles in defrauding a PLC.

The SC also pursues actions using its civil powers particularly where there is a clear need to restitute investors who have suffered loss. In addition, the SC has used its civil powers under the securities laws to appoint a receiver over the assets held by a fund manager.

Apart from court based enforcement actions, the SC also pursues administrative actions to achieve swift and effective resolutions. In 2009, for example, the SC meted out 56 administrative sanctions which included the imposition of administrative fines against PLCs, their substantial shareholders, market intermediaries and professionals.

A strong corporate governance framework requires providing the necessary assurance on the rigor of the audit process and the quality and reliability of audited financial statements. Towards this objective, the SC has established the Audit Oversight Board ("**AOB**") in April 2010 to provide independent oversight over the auditors of public listed companies and public interest entities, and to ensure that regulatory framework for auditors is on par with international standards. The AOB is responsible for:

1. implementing policies and programs in ensuring an effective audit oversight system in Malaysia;

2. registering auditors of PLCs and public interest entities;

3. directing the Malaysian Institute of Accountants to establish or adopt the auditing and ethical standards to be applied by registered auditors;

4. conducting inspections and monitoring programs on registered auditors to assess the degree of compliance with auditing and ethical standards; and

5. conducting inquiries and imposing appropriate sanctions against registered auditors who fail to comply with auditing and ethical standards.

The SC has also implemented its investor education blueprint towards achieving an informed and vigilant investor base to ensure they have the necessary knowledge and skills to participate in the market. This is based on the philosophy that investor protection is best achieved through investors possessing the knowledge and skills to take responsibility for their investment decisions.

Malaysia's efforts to enhance corporate governance and investor protection standards have been widely recognized. Malaysia ranked fourth for investor protection in the *World Bank Doing Business Report* in 2009 and 2010. In addition, the World Bank Report on the Observance of Standards and Codes on Corporate Governance accorded Malaysia full marks for compliance with International Financial Reporting Standards.

Overall, the SC places emphasis on achieving its regulatory objectives for investor protection and fair and orderly development of markets and will continue to enhance the standards for transparency and accountability. In addition, emphasis is also placed on ensuring a prudent approach to regulation which, in the past, include the ring-fencing of capital and assets to minimize potential areas of vulnerability to contagion risks, widening oversight to a broad range of participants such as rating agencies and trustees and ensuring activities such as hedge funds and short-selling only operate within a framework of regulatory oversight and transparency. The prudent approach has ensured high levels of investor confidence in regulatory capabilities and financial soundness with the outcome that Malaysia remains among the most stable markets in the region.

The SC has also continuously enhanced its framework in assessing systemic risk through employing a wide range of tools and methodologies to identify potential build-up of risk and to pro-actively address issues of systemic concern. The Malaysian securities regulatory framework has been deemed as being highly compliant by external assessors with the best practices of the International Organization of Securities Commissions ("**IOSCO**") and the SC is also a signatory to the IOSCO Multilateral Memorandum of Understanding which is aimed at facilitating cross-border enforcement. The SC has played a leading role in international and regional regulatory efforts and the SC is currently the vice-chairman of IOSCO's Emerging Market Committee and played a leading role in developing the implementation blueprint for the integration of ASEAN capital markets as well as within the Asian Bond Markets Initiatives, which is aimed at developing a regional bond market within the ASEAN+3 countries.

Public Finances

Fiscal Policy. Fiscal policy in 2005 remained focused on improving the Federal Government's financial position while supporting capacity building to enhance economic growth. Notwithstanding higher petroleum-related expenditure, continued fiscal discipline and prudence in spending, combined with a favorable revenue performance, led to an improvement in the Federal Government's financial position. Federal Government revenue continued to rise, increasing by 6.9% to RM106.3 billion in 2005 due to sustained growth in the Malaysian economy and higher petroleum-related revenue. Operating expenditure was higher by 7.1% (to RM97.7 billion) in 2005. Gross development expenditure increased by 5.8% (to RM30.5 billion) in 2005. The Federal Government registered a smaller overall deficit for the third successive year (to RM18.7 billion or 3.6% of GDP in 2005 from RM20.3 billion or 5.3% of GDP in 2002). The reduction in the fiscal deficit for the third successive year underscored the Government's strong commitment to fiscal consolidation. The Government continued to emphasis efficiency and effectiveness in its financial management by streamlining tax measures, improving tax administration and intensifying collection efforts. Tax administration was enhanced with the setting up of the Fund or Tax Refund to expedite income tax refunds.

The 2006 Budget was the first annual budget under the Ninth Malaysia Plan (2006-10). Fiscal policy in 2006 was thus focused on initiatives to generate greater quality growth in the near term so as to provide a strong foundation for long-term sustainable growth. The 2006 Budget put forth various measures to enhance national resilience and the ability to meet emerging external challenges arising from rising oil prices, higher global interest rates and increasing global competition. With an increased economic growth rate and higher petroleum-related revenue, the Federal Government's fiscal deficit contracted further to RM19.1 billion or 3.3% of GDP from 3.6% in 2005. Total revenue increased by 16.2% to RM123.5 billion. Total Federal Government expenditures (excluding contingent reserves) totaled RM143.5 billion, representing an increase of 11.9% from the actual 2005 expenditure (2005: +6.8%). In terms of development expenditure, special attention was given to both the economic and the social sectors in an effort to reduce income disparities between the rural and urban areas. In addition to improving the efficiency and effectiveness of the public delivery system, the Government introduced several measures to stimulate private investment, including enhancing the business-friendly environment through wide-ranging tax and non-tax measures to improve business competitiveness; diversify sources of growth into new areas with high growth potential; augment human capital development; further develop the capital markets as well as strengthen the development of small and medium-sized enterprises.

The 2007 Budget was aimed at enhancing macroeconomic fundamentals and promoting a more broadly balanced economic structure by placing emphasis on new areas of domestic economic activity. Fiscal policy in 2007 was focused on facilitating the private sector in taking a greater role in economic development as well as in generating new sources of growth in technology and knowledge-intensive sectors. Higher revenue collection allowed the Federal Government to increase its expenditures, while reducing the budget deficit to 3.2% of GDP in 2007. In addition to budgetary allocations, the Government put in place various incentives for the development of industries with high growth potential including ICT, biotechnology, modern agriculture, the halal food industry, tourism and Islamic finance. The Government also enhanced the business environment to attract foreign direct investment and promote private investment by strengthening public service delivery systems as well as improving existing incentives and taxes. In particular, corporate income tax was reduced by two percentage points in two stages, to 27% for the 2007 assessment year and 26% for 2008.

The 2008 Budget outlined wide-ranging tax and tax measures to enhance the nation's competitiveness, strengthen human capital development and ensure the well-being of all Malaysians. Fiscal policy in 2008 also focused on expediting the implementation of projects and programs that had been identified under the ninth Malaysian Plan. In enhancing the nation's competitiveness, more competitive tax regimes coupled with initiatives to strengthen the efficiency of the public service delivery system were among the key measures introduced. In the 2008 Budget, the Government further reduced corporate tax by two percentage points in two stages, to 26% for the 2008 assessment year and then to 25% in 2009, and introduced a single-tier tax system under which profits are only taxed at the company level and dividends received are exempted from tax. As part of the Government's commitment to improving the public delivery system, the Special Task Force to Facilitate Business was established to formulate measures to improve public service by reviewing procedures and recommending alternative processes to reduce the administrative and regulatory cost of doing business in Malaysia. When the global financial crisis intensified in the second half of 2008, a stimulus package of RM7.0 billion was announced on November 4, 2008. The stimulus package was financed through savings obtained from fuel subsidies following the slump in crude oil prices. However, the Federal Government's fiscal deficit for 2008 increased to 4.8% of GDP due to a significant increase in total petroleum subsidies during the year following a sharp increase in world crude oil prices.

The Federal Government's 2009 Budget announced in August 2008 was initially formulated with the principal objective of further strengthening the nation's economic resilience in the face of the two-fold challenges of rising inflation and increased uncertainties. Key elements included a greater focus on measures to ensure that the well-being of Malaysians, especially those in the lower and middle income groups, was protected in an environment of volatile prices. To this end, a broad range of measures were introduced, including an increase in the eligibility criteria for welfare assistance from a monthly income of RM400 to RM720, a one-month bonus for civil servants and a reduction of import duties for several consumer products. In addition, personal income tax rates were reduced from 28% to 27% for those in the top income tax bracket and from 13% to 12% for the RM35,000 - RM50,000 tax bracket. Government spending also continued to be focused on enhancing the efficiency of public transport, improving health care and education, and providing housing incentives for Malaysians. On March 10, 2009, the Government announced an additional stimulus package to mitigate the impact of a more pronounced global economic slowdown. The announced package amounted to RM60.0 billion, to be implemented over 2009 and 2010. Of the total, RM15.0 billion would be in the form of direct fiscal injection (RM10.0 billion in 2009 and RM5.0 billion in 2010), RM25.0 billion for Guarantee Funds, RM10.0 billion for equity investments, RM7.0 billion for private finance initiatives and RM3.0 billion in the form of tax incentives. These stimulus measures resulted in a higher Government deficit of 7.0% of GDP (2008: 4.8% of GDP)

With a view towards a phased consolidation of the fiscal position, the 2010 Budget emphasized measures to improve the effectiveness and efficiency of the Government's revenues and expenditures. To enhance the efficiency of Government expenditures, the Government announced measures to restructure the fuel subsidy system which accounts for a significant portion of the Government's annual outlays as well as to review the whole system of subsidies and price controls. To maintain a sustainable fiscal position without compromising the overall growth and development objectives, the Government will also intensify its public-private partnership program for several high impact projects. Some of these projects include high speed broadband accessibility programs, regional development corridors and public transportation infrastructure projects. To strengthen its revenue streams, the Government has undertaken a study on the feasibility of implementing a goods and services tax. The Government has reviewed the tax assessment system, especially for petroleum related activities, which are currently assessed with a lag of up to a year. With the implementation of these measures, the Federal Government fiscal deficit is expected to narrow to 5.6% of GDP in 2010. With the revised GDP forecast, the Government is able to accommodate new priorities and additional requests from ministries and agencies, amounting to RM12.1 billion.

Consolidated Public Sector Finance. The following table sets out the consolidated public sector finance position for the periods indicated.

Consolidated public sector finance

	2005	2006	2007	2008	2009	Budget 2010
			(RM million)			
General government						
Revenue	94,959	101,955	110,733	128,350	121,206	115,737
Operating expenditure	106,622	117,721	135,049	165,025	172,457	157,841
Current surplus (deficit)	(11,664)	(15,766)	(24,316)	(36,675)	(51,251)	(42,104)
Non-financial public enterprises						
Revenue	241,917	269,477	316,862	368,042	314,305	323,181
Operating expenditure	156,943	168,807	186,790	248,682	170,909	179,332
Current surplus	84,974	100,670	130,072	119,360	143,396	143,849
Public sector current surplus	73,310	84,904	105,756	82,684	92,145	101,745
Net development expenditure	66,058	86,534	96,310	124,369	118,034	109,699
General government	31,685	40,842	44,738	50,523	52,186	55,087
Non-financial public enterprises	34,373	45,692	51,572	73,846	65,848	54,612
Overall budget surplus (deficit)	7,252	(1,630)	9,446	(41,685)	(25,889)	(7,954)
(% of GNP)	1.5	(0.3)	1.5	(5.8)	(3.9)	(1.1)
(% of GDP)	1.4	(0.3)	1.5	(5.6)	(3.8)	(1.1)

Sources: *Ministry of Finance.*
State governments.
Non-financial public enterprises.

The consolidated public sector is made up of the general government and non-financial public enterprises, or NFPEs, with the general government comprising the Federal Government, 13 state governments, statutory bodies and local governments. NFPEs are publicly owned or controlled corporations and enterprises engaged in the production, marketing and distribution of goods and services on a commercial basis, excluding those engaged directly in finance. For reporting and monitoring purposes, only large NFPEs with the Government having more than 50.0% equity ownership, annual sales turnover of at least RM100.0 million, large borrowing requirements and high capital expenditure or which have a large economic impact are included. Currently, 30 NFPEs are monitored. Of these, the major NFPEs are as follows:

Non-Financial Public Enterprises	Principal Activity
Petroliam Nasional Berhad (PETRONAS)	Oil and Gas
Tenaga Nasional Berhad	Power
Telekom Malaysia Berhad	Telecommunications
Malaysian Airline System Berhad	Airlines
Proton Holdings Berhad	Car Manufacturer
United Engineers Malaysia Berhad	Construction
Malaysia Airports Holdings Berhad	Services

In 2005, the consolidated public sector recorded a surplus of RM73.3 billion in the current account, compared to RM75.3 billion in 2004, due to decreased revenue and higher operating expenditures for the general government. The consolidated public sector had an overall surplus of RM7.3 billion.

In 2006, the consolidated public sector recorded a surplus of RM84.9 billion in the current account, compared to RM73.3 billion in 2005, due to increases in revenue being relatively higher than increases in operating expenditure, particularly for NFPEs. The consolidated public sector had an overall deficit of RM1.6 billion.

In 2007, the consolidated public sector recorded a surplus of RM105.8 billion in the current account, compared to RM84.9 billion in 2006, due to higher NFPE surpluses, at RM130.1 billion. The consolidated public sector had an overall surplus of RM9.4 billion.

In 2008, the consolidated public sector recorded a surplus of RM82.7 billion in the current account, compared to RM105.8 billion in 2007, due to higher increases in operating expenditures than revenue, both for the general government and NFPEs. The consolidated public sector had an overall deficit of RM41.7 billion.

In 2009, the consolidated public sector recorded a surplus of RM92.1 billion in the current account, compared to RM82.7 billion in 2008, due to higher current surpluses of NFPEs. The consolidated public sector had an overall deficit of RM25.9 billion.

Government Financial Position. The following table sets out the Government financial position for the periods indicated.

Government finance

	2005	2006	2007	2008	2009	Budget 2010
	(RM million)					
Current revenue	106,304	123,546	139,885	159,793	158,639	148,446
Less: Current expenditure	97,744	107,694	123,084	153,499	157,067	138,279
Current surplus	8,561	15,852	16,801	6,294	1,573	10,167
Less: Net development expenditure	27,284	34,961	37,459	41,889	48,996	50,649
Overall balance	(18,724)	(19,109)	(20,658)	(35,594)	(47,424)	(40,482)
Sources of finance:(1)						
Gross domestic borrowings	31,500	36,100	54,081	60,000	93,500	64,000
Less: Domestic repayment	18,800	18,350	28,281	24,346	36,621	23,500
Net domestic borrowings	12,700	17,750	25,800	35,654	56,879	40,500
Gross external borrowings	651	834	489	472	451	869
Less: External repayment	4,154	3,887	4,803	946	6,737	751
Net external borrowings	(3,503)	(3,054)	(4,314)	(473)	(6,286)	118
Special receipts(2)						
Use of assets(3)	9,527	4,413	(828)	414	(3,169)	(136)
Total financing transactions						
Overall balance (% of GNP)	(3.8)	(3.4)	(3.3)	(5.0)	(7.2)	(5.7)
Overall balance (% of GDP)	(3.6)	(3.3)	(3.2)	(4.8)	(7.0)	(5.6)
Accumulated Government bank balance at period end						

(1) See "—*Fiscal Policy*" for a discussion of certain of the Government's financing plans for 2009.

(2) Includes proceeds from the sale of assets and grants from foreign governments and organizations.

(3) A negative amount indicates the accumulation of assets.

Sources: Ministry of Finance.
Bank Negara Malaysia.

In 2005, the Government's financial position improved significantly. The fiscal deficit continued its downward trend to 3.6% of GDP, or RM18.7 billion, due to higher and more efficient revenue collection as well as prudent expenditure management to achieve cost efficiency and effectiveness.

In 2006, the current account of the Government registered a surplus of RM15.9 billion, or 2.8% of GDP, compared to RM8.6 billion in 2005. The fiscal deficit narrowed to 3.3% of GDP, or RM19.1 billion, from 3.6% in 2005, or RM18.7 billion. The improved fiscal position was mainly due to better efficiency and effectiveness of the public delivery system.

In 2007, the current account of the Government registered a surplus of RM16.8 billion, or 2.6 of GDP, compared to RM15.9 billion in 2006. The fiscal deficit narrowed to 3.2% of GDP, or RM20.7 billion, from 3.3% in 2006, or RM19.1 billion. The improved fiscal position was mainly due to a greater role of the private sector in economic development and also new sources of growth in technology and knowledge-intensive sectors.

In 2008, the current account of the Government registered a surplus of RM6.3 billion, or 0.9% of GDP, compared to RM16.8 billion in 2007. The fiscal deficit widened to 4.8% of GDP, or RM35.6 billion, from 3.2% in 2007, or RM20.7 billion. The diminished fiscal position was mainly due to significant increases in total petroleum subsidies during the year following a sharp increase in world crude oil prices.

In 2009, the current account of the Government registered a surplus of RM1.6 billion, or 0.2% of GDP, compared to RM6.3 billion in 2008. The fiscal deficit widened to 7.0% of GDP, or RM47.4 billion, from 4.8% in 2008, or RM35.6 billion. The diminished fiscal position was mainly due to the implementation of a sizeable fiscal stimulus in response to the negative effects of the global recession on the domestic economy.

The overall balance for 2010 is projected to change from 7.0% of GDP in 2009 to 5.6% of GDP, or RM40.5 billion, in view of greater emphasis on measures to improve the effectiveness and efficiency of the Government's revenues and expenditures.

Government Revenue. The following table sets out Government revenue for the periods indicated.

Government revenue

	2005	2006	2007	2008	2009	Budget[(1)] 2010
			(RM million)			
Direct taxes	53,544	61,572	69,396	82,138	78,375	81,260
Corporate income tax	26,381	26,477	32,149	37,741	30,199	35,689
Petroleum income tax	14,566	20,674	20,453	24,191	27,231	25,047
Personal income tax	8,649	10,196	11,661	14,966	15,590	15,244
Stamp duties	2,460	2,522	3,404	3,492	3,349	3,297
Other	1,488	1,703	1,729	1,748	2,006	1,983
Indirect taxes	27,050	25,058	25,772	30,759	28,129	28,102
Export duties	2,085	2,362	2,322	2,779	1,152	1,460
Import duties	3,385	2,679	2,424	2,635	2,114	1,725
Excise duties	9,321	8,576	8,991	10,683	10,069	10,291
Sales tax	7,709	6,532	6,642	8,373	8,603	7,778
Service tax	2,582	2,684	3,013	3,345	3,344	3,961
Other	1,968	2,225	2,380	2,944	2,847	2,887
Non-tax revenue and receipts[(2)]	25,710	36,916	44,717	46,896	52,135	45,198
Total	106,304	123,546	139,885	159,793	158,639	154,560

(1) After tax measures

(2) Includes investment income, licenses and permits, services fees, dividend payments and other items.

Source: Ministry of Finance.

In 2005, Government revenue collection grew by 7.0% from 2004 to RM106.3 billion. This change was largely due to a higher collection of petroleum income tax on account of high prices of crude oil in 2005. Out of the RM106.3 billion, tax revenue amounted to RM80.6 billion, an increase of 11.9% from 2004. The contribution of tax revenue to Government revenue in 2005 was 75.8% compared to 72.5% in 2004. Direct taxes amounted to RM53.5 billion, which was 9.9% higher than in 2004. The increase in direct tax revenue was attributable to higher collection of petroleum income tax on account of high prices of crude oil. Indirect taxes increased from RM23.3 billion in 2004 to RM27.1 billion in 2005 as a result of increased economic activities during the year. The contribution of direct taxes and indirect taxes to the Government's revenue in 2005 was 50.4% and 25.5%, respectively.

In 2006, Government revenue collection grew by 16.2% from 2005 to RM123.5 billion. This change was largely due to higher dividends received from PETRONAS. Out of the RM123.5 billion, tax revenue amounted to RM86.6 billion, an increase of 7.5% from 2005. The contribution of tax revenue to Government revenue in 2006 was 70.1% compared to 75.8% in 2005. Direct taxes amounted to RM61.6 billion, which was 15.0% higher than in 2005. The increase in direct tax revenue was attributable to higher collection of petroleum income tax on account of high prices of crude oil. Indirect taxes decreased from RM27.1 billion in 2005 to RM25.1 billion in 2006 as a result of lower demand for passenger vehicles. The contribution of direct taxes and indirect taxes to the Government's revenue in 2006 was 49.8% and 20.3%, respectively.

In 2007, Government revenue collection grew by 13.2% from 2006 to RM139.9 billion. This change was largely due to higher dividends received from PETRONAS. Out of the RM139.9 billion, tax revenue amounted to RM95.2 billion, an increase of 9.9% from 2006. The contribution of tax revenue to Government revenue in 2007 was 68.0% compared to 70.1% in 2006. Direct taxes amounted to RM69.4 billion, which was 12.7% higher than in 2006. The increase in direct tax revenue was attributable to a higher collection of corporate income tax on account of strong economic growth of 6.3% in 2007. Indirect taxes increased from RM25.1 billion in 2006 to RM25.8 billion in 2007 as a result of increased economic activities during the year. The contribution of direct taxes and indirect taxes to the Government's revenue in 2007 was 49.6% and 18.4%, respectively.

In 2008, Government revenue collection grew by 14.2% from 2007 to RM159.8 billion. This change was largely due to higher dividends received from PETRONAS. Out of the RM159.8 billion, tax revenue amounted to RM112.9 billion, an increase of 18.6% from 2007. The contribution of tax revenue to Government revenue in 2008 was 70.7% compared to 68.0% in 2007. Direct taxes amounted to RM82.1 billion, which was 18.4% higher than in 2007. The increase in direct tax revenue was due to the strong economic growth of 4.6% in 2008 and high crude oil prices. Indirect taxes increased from RM25.8 billion in 2007 to RM30.8 billion in 2008 as a result of higher demand for passenger vehicles. The contribution of direct taxes and indirect taxes to the Government's revenue in 2008 was 51.4% and 19.3%, respectively.

In 2009, Government revenue collection decreased by 0.7% from 2008 to RM158.6 billion. This change was largely due to a reduced collection of corporate income tax as a result of the global financial crisis in 2009. Out of the RM158.6 billion, tax revenue amounted to RM106.5 billion, a decrease of 5.7% from 2008. The contribution of tax revenue to Government revenue in 2009 was 67.1% compared to 70.7% in 2008. Direct taxes amounted to RM78.4 billion, which was 4.6% lower than in 2008. The decrease in direct tax revenue was attributable to a reduced collection of corporate income tax as a result of the global financial crisis in 2009. Indirect taxes decreased from RM30.8 billion in 2008 to RM28.1 billion in 2009 as a result of low crude oil prices. The contribution of direct taxes and indirect taxes to the Government's revenue in 2009 was 49.4% and 17.7%, respectively.

The 2010 Budget includes a Government revenue estimate of RM154.6 billion, or 21.3% of GDP. Tax revenue is expected to increase by 2.7% due to expected GDP growth of 2.5% in 2010. As announced in the 2010 Budget, petroleum income tax has been reformed from being calculated at the official assessment system and income based preceding year basis to be calculated at the self assessment system and current year assessment basis. This shift will align Government tax collections and cash flow with the economic performance of the country. Of the total estimated revenue for 2010, direct taxes are expected to contribute RM81.3 billion or 52.6% of the overall total revenue, while indirect taxes contribute RM28.1 billion or 18.2% of the overall total revenue. Indirect taxes are expected to decrease by 0.1% due to no collection from sales tax on petrol and diesel in 2010. Thus, tax revenue is expected to contribute RM109.4 billion or 70.8% of the overall Government's revenue in 2010.

Government Expenditure. The following table sets out aggregate Government expenditure for the years indicated.

Government expenditure

	2005	2006	2007	2008	2009	Budget 2010
			(RM million)			
Current expenditure	97,744	107,694	123,084	153,499	157,067	138,279
Development expenditure	30,534	35,807	40,564	42,847	49,515	51,220
Total expenditure	128,278	143,500	163,648	196,346	206,582	189,499
% growth	6.8	11.9	14.0	20.0	5.2	(8.3)

Source: Ministry of Finance.

Government Current Expenditure. The following table sets out Government current expenditure for the periods indicated.

Government current expenditure

	2005	2006	2007	2008	2009	Budget 2010
			(RM million)			
Emoluments	25,587	28,522	32,587	41,011	42,778	42,163
Supplies and services	17,984	20,923	23,622	25,197	26,372	20,846
Asset acquisition	1,603	1,949	2,532	2,835	2,582	525
Public debt charges	11,604	12,495	12,911	12,797	14,222	15,886
Pensions and gratuities	6,809	7,008	8,251	10,022	10,146	10,810
Other grants and transfers(1)	10,903	12,046	14,611	16,949	18,717	16,039
Other expenditure	23,254	24,751	28,570	44,688	42,250	32,010
Total	97,744	107,694	123,084	153,499	157,067	138,279

(1) Includes grants and transfers to state governments as well as public agencies and enterprises.

Source: Ministry of Finance.

In 2005, current expenditure increased by 7.1%, compared to 2004, mainly due to substantially higher subsidies for petroleum products.

In 2006, current expenditure increased by 10.2%, compared to 2005, largely due to charged and locked-in items such as debt service charges, emoluments and supplies and services.

In 2007, current expenditure increased by 14.3%, compared to 2006, on account of significant increases in emolument due to adjustments in salary and cost of living.

In 2008, current expenditure increased by 24.7%, compared to 2007, mainly due to substantial increases in subsidies on account of high prices of crude oil, food, metals and other commodities globally.

In 2009, current expenditure increased by 2.3%, a slower pace compared to 2008, mainly due to the high base effect in 2008 when Government spending surged following inflationary pressures on the domestic economy brought on by high global fuel and food prices as well as prudent spending measures.

Given the improving growth prospects for the Malaysian economy since the fourth quarter of 2009, the Government has been able to accommodate new priorities and additional requests from ministries and agencies, amounting to RM12.1 billion (with RM9.3 billion allocated for current expenditure and RM2.8 billion going to development expenditure). The additional allocation includes priorities that have been set for the nation, including the NKRAs and other urgent needs of the ministries.

Even with this additional allocation, the budget deficit in 2010 is not expected to exceed the target of 5.6% because of improved revenue prospects. The Government remains committed to ensuring fiscal responsibility and sustainability while supporting economic recovery. Quality and efficiency of government spending will be improved while procurement of goods and services, based on competitive bidding, will ensure transparency and value for money. Subsidies will be reviewed to ensure that they are well-targeted while the use of government assets will be optimized. Tax administration will be further enhanced and close scrutiny given to ensuring that findings in the Auditor General's Report are heeded.

Government Development Expenditure. The following table sets out Government development expenditure for the periods indicated.

Government development expenditure

	2005	2006	2007	2008	2009	Budget 2010
	(RM million)					
Defense and security	4,803	4,803	5,702	5,779	3,956	3,728
Economic services	14,957	17,404	20,116	21,353	26,428	25,382
Social services	7,450	9,525	12,893	13,717	17,381	20,308
General administration	3,325	4,076	1,853	1,998	1,749	1,802
Total	30,534	35,807	40,564	42,847	49,515	51,220

Source: Ministry of Finance.

In 2005, Government development expenditure increased by 5.8% to RM30.5 billion compared to a fall of 26.7% in 2004 and was mainly for infrastructure projects such as roads, bridges and water supply in the rural areas. The bulk of the outlays were channeled to the transport and education sub-sectors, which accounted for 25.1% and 12.2% of total development expenditure, respectively.

In 2006, Government development expenditure increased by 17.3% to RM35.8 billion compared to 5.8% in 2005 due to special attention given to both the economic and the social sectors in an effort to reduce income disparities between the rural and urban areas. The bulk of the outlays were channeled to the transport and education sub-sectors, which accounted for 21.6% and 14.9% of total development expenditure, respectively.

In 2007, Government development expenditure increased by 13.3% to RM40.6 billion compared to 17.3% in 2006 to create an enabling environment to boost private sector activities, enhance productive capacity, increase productivity and improve quality of life of the population. The bulk of the outlays were channeled to transport and education sub-sectors, which accounted for 21.0% and 15.5% of total development expenditure, respectively.

In 2008, Government development expenditure increased by 5.6% to RM42.8 billion compared to 13.3% in 2007 focusing on expediting the implementation of projects and programs that had been identified under the Ninth Malaysia Plan. The bulk of the outlays were channeled to the transport and education sub-sectors, which accounted for 21.5% and 18.4% of total development expenditure, respectively.

In 2009, Government development expenditure increased by 15.6% to RM49.5 billion compared to 5.6% in 2008 and focused on enhancing the efficiency of public transport, improving health care and education, and providing housing incentives for Malaysians. The bulk of the outlays were channeled to the transport and education sub-sectors, which accounted for 17.2% and 21.9% of total development expenditure, respectively.

In 2010, the allocation for development expenditure is RM54.0 billion, which is 9.1% higher than 2009, and includes new commitments totaling RM2.8 billion. The bulk of the allocation is expected to be channeled to education and training as well as transportation. The allocation will focus on efforts to facilitate the transformation to a high-income economy by supporting private sector initiatives.

Federal Government Debt

Government Net Borrowing. The following table sets out Government net borrowing for the periods indicated.

Government net borrowing

	2005	2006	2007	2008	2009
			(RM million)		
Net domestic borrowing	12,700	17,750	25,800	35,653	56,879
Government securities	11,700	8,250	17,400	22,101	28,469
Investment issues	1,000	9,500	8,400	14,500	23,500
Sukuk Simpanan Rakyat	—	—	—	—	4,909
Market loans	—	—	—	(948)	—
Net external borrowing[1]	(3,503)	(3,053)	(4,314)	(473)	(6,286)
Project loans	(122)	76	(1,107)	(245)	(448)
Market loans	(3,380)	(3,129)	(3,208)	(228)	(5,838)
Total	9,197	14,696	21,486	35,180	50,593
Interest payments	11,604	12,495	12,911	12,797	14,222
Domestic	9,875	10,989	11,485	11,642	13,312
External[1]	1,729	1,506	1,426	1,155	909

(1) Amounts in original currencies were converted to ringgit using the applicable exchange rate on the relevant transaction date.

Source: Ministry of Finance.

In 2005, the Government continued to fund its financing requirements from domestic sources. Total gross borrowing was RM31.5 billion, with most of the financing coming from Government securities.

In 2006, the Government funded its financing requirements from domestic sources. Total gross borrowing was RM36.1 billion, with most of the financing coming from Government securities.

In 2007, the Government funded its financing requirements from domestic sources. Total gross borrowing was RM54.1 billion, with most of the financing coming from Government securities.

In 2008, the Government funded its financing requirements from domestic sources. Total gross borrowing was RM60.0 billion, with most of the financing coming from Government securities.

In 2009, the Government funded its financing requirements from domestic sources. Total gross borrowing was RM93.5 billion, with most of the financing coming from Government securities.

The following table sets out the direct funded and floating debt of the Government on the dates indicated. For purposes of all debt tables below, "Funded Debt" refers to debt having an original maturity of one year or more and "Floating Debt" refers to debt having an original maturity of less than one year.

Direct Government debt

	As of December 31,				
	2005	2006	2007	2008	2009
Internal (RM million)					
Funded	194,350	212,900	242,800	281,801	344,280
Floating	4,320	4,320	4,320	4,320	4,320
Total internal	198,670	217,220	247,120	286,121	348,600
External (US$ million)	7,859	7,011	5,859	5,796	3,988
Total direct indebtedness (US$ million)(1)	59,903	67,920	79,723	87,423	104,835

P Preliminary.

(1) Exchange rates as at end of period for that year.

Source: Ministry of Finance.

The following table shows historical and estimated payments of principal made and to be made on the direct debt of the Government outstanding as of December 31, 2009.

Summary of direct Government debt payments

	Actual					Estimated		
	2005	2006	2007	2008	2009	2010	2011	2012
	(RM million)							
Repayable:								
In Malaysian ringgit	27,030	28,080	38,911	32,829	44,331	28,298	49,479	50,373
Repayable:(1)								
In U.S. dollars	572	3,192	4,305	1,334	5,554	257	6,171	112
In Euros	3,249	26	24	22	20	4	3	—
In Japanese yen	408	707	626	626	603	770	771	771
Other	3	3	2	2	407	49	56	56
Total foreign currency	4,232	3,928	4,957	1,984	6,584	1,080	7,001	939
Total	31,262	32,008	43,868	34,813	50,915	29,378	56,480	51,312

(1) Converted into ringgit at rates of exchange prevailing as of December 31, 2009.

Sources: Ministry of Finance.

The following table sets out the amount of debt guaranteed by the Government on the dates indicated.

Guaranteed Government debt

	As of December 31,					As of March 31,
	2005	2006	2007	2008	2009	2010
Internal (RM million).	38,101	38,857	44,700	59,336	78,677	79,866
External (US$ million).	5,327	6,199	5,408	2,999	2,617	2,422
Total (US$ million)(1)	16,873	17,974	18,954	20,980	26,459	26,624

(1) Amounts in ringgit were converted to U.S. dollars using the exchange rate of RM3.30 = US$1.00.

Source: Ministry of Finance.

Privatization

Malaysia's privatization policy was first implemented by the Government in 1983, at a time when the Government was looking for an effective policy instrument to stimulate further economic growth. The privatization policy was adopted with the following objectives:

— facilitate economic growth through higher investment from the private sector;

— relieve the financial and administrative burden of Government;

— improve efficiency and productivity of Government enterprises;

— reduce the size and presence of the public sector in the economy; and

— help meet the restructuring objective of the National Development Policy.

To facilitate and accelerate the implementation of the privatization program, the Government introduced the Privatization Master Plan in 1991. In connection with the Privatization Master Plan, the Government prepared the Privatization Action Plan to ensure that privatization plans were undertaken in a systematic and organized manner. Since 1983, a total of 503 projects have been privatized. Since 1983, the Government has received proceeds of RM1.5 billion from the sale of assets and RM4.9 billion from the sale of equity of privatized projects and entities. Major projects privatized include the North-South Highway, the Express Rail Link from Kuala Lumpur to the Kuala Lumpur International Airport, the Light Rail Transit Systems in Kuala Lumpur, the Second Link from Johor to Singapore and the National Sports Complex.

Government entities have primarily been privatized through divestment of shares either by way of private placements or through listings on Bursa Malaysia. Through December 31, 2005, a total of 42 privatized companies have been listed on Bursa Malaysia. Among major companies which have been fully or partially privatized are Telekom Malaysia Berhad, Tenaga Nasional Berhad, Heavy Industries Corporation of Malaysia Berhad, Pos Malaysia Berhad and Malaysia Airports Holdings Berhad. Other modes of privatization have included sales of assets, build-operate-transfer, build-operate-own and build-transfer arrangements, asset leases, management contracts and management buy-outs.

Privatization has played an important role in accelerating economic growth through increased private sector participation, which has led to corporate expansion, and through the generation of multiplier effects in the economy. The implementation of a privatization program has reduced the administrative burden of the Government in terms of recruitment, promotion and training of personnel and resulted in considerable savings for the Government in capital and operating expenditures. From 1983 through 2009, a total of 113,440 public sector employees were transferred to the private sector.

In line with the objectives of the New Economic Policy and the National Vision Policy, the privatization program enabled the Government to increase participation of Bumiputeras in the corporate sector through equity participation in privatized companies. The privatization policy provides that Bumiputeras should hold a minimum of 30.0% equity in all privatized entities. Bumiputera ownership in privatized entities has also increased through the participation of trust agencies such as the National Equity Corporation (Permodalan Nasional Berhad) and management buy-outs of existing Government entities.

The Eighth Malaysia Plan, which covered the five-year period from 2001 through 2005, continued the privatization program, as it contributed to increased efficiency and productivity of the privatized entities. The Eighth Malaysia Plan emphasized viable projects that have a high multiplier effect and which met the Government's social objectives. The Government intends to streamline the implementation process and the regulatory framework to further improve the effectiveness of the privatization program.

During the Ninth Malaysia Plan period, from 2006 to 2010, the implementation process is being streamlined further. The privatization program continues to support a private sector-led growth strategy as well as increase the participation of Bumiputera entrepreneurs in the economy. To inculcate greater professionalism on the part of concessionaires in the implementation of privatized projects, standards will be put in place, performance indicators instituted and a reward and penalty system for tariff review introduced. In this regard, the regulatory framework will be further strengthened. The use of private finance initiatives will facilitate greater participation of the private sector in the areas of management, operations and maintenance to improve the delivery of infrastructure facilities and public services.

To coincide with the start of the Tenth Malaysia Plan, which will cover the five-year period from 2011 through 2015, the Government is currently reviewing its shareholdings in various entities and may at some point in the future opt to divest itself of its holdings in such entities.

Balance of Payments

The following tables set out the balance of payments (net) in ringgit and in U.S. dollars for the periods indicated.

Balance of Payments[1] (net) (RM million)

	2005	2006	2007[3]	2008	2009P(3)
Goods[2]	128,892	137,292	127,673	170,552	141,512
Services	(9,612)	(7,230)	2,373	163	3,219
Balance on goods and services	119,280	130,062	130,047	170,715	144,731
Income	(23,943)	(17,294)	(13,893)	(23,707)	(12,589)
Current transfers	(16,971)	(16,739)	(15,743)	(17,495)	(19,439)
Balance on current account	78,367	96,029	100,410	129,513	112,703
Capital account	0	(264)	(95)	592	(162)
Financial account	(36,991)	(43,182)	(37,710)	(118,501)	(82,948)
Direct investment	3,749	144	(9,142)	(26,058)	(24,851)
Portfolio investment	(14,116)	12,786	18,355	(84,377)	830
Other investment	(26,624)	(56,112)	(46,923)	(8,066)	(58,927)
Official sector	(3,149)	(8,018)	(5,788)	852	4,099
Private sector	(23,474)	(48,094)	(41,135)	(8,918)	(63,026)
Errors and omissions	(27,825)	(27,424)	(17,309)	(29,854)	(15,762)
Overall balance	13,550	25,158	45,296	(18,250)	13,831

P Preliminary.

(1) From the first quarter of 2000, the balance of payments has been compiled in conformity with the guidelines set forth in the Fifth Edition of the Balance of Payments Manual of the IMF. The merchandise line item has been reclassified as the goods balance; line items previously presented as long-term capital inflows and short-term capital inflows are combined as one line item under the financial account; and the balance on services line item is broken out into two line items: services and income.

(2) The goods balance differs from the trade balance in the table under "—*External Trade*" in the following ways: (a) the gross exports data under trade balance are adjusted to exclude cross-border transactions between residents; (b) gross imports data are presented on a c.i.f. basis under trade balance and are adjusted to an f.o.b. basis under goods balance; and (c) goods balance data include military goods which are not included in trade data.

(3) The goods and services balance differs from the exports and imports of goods and services in the table under "— *GNI by demand aggregates*" for 2007 and 2009 as the complete balance of payments data for 2007 and 2009 will only be revised in June 2010.

Source: Department of Statistics, Malaysia.

Balance of Payments[1] (net) (US$ million[2])

	2005	2006	2007[4]	2008	2009P[4]
Goods[3]	34,036	37,447	37,189	51,311	40,184
Services	(2,538)	(1,970)	689	52	886
Balance on goods and services	31,496	35,477	37,879	51,363	41,071
Income	(6,328)	(4,713)	(4,055)	(7,143)	(3,594)
Current transfers	(4,480)	(4,561)	(4,582)	(5,266)	(5,524)
Balance on current account	20,690	26,202	29,241	38,954	31,952
Capital account	0	(72)	(28)	186	(46)
Financial account	(9,798)	(11,813)	(11,021)	(34,072)	(23,433)
Direct investment	988	53	(2,686)	(7,831)	(7,167)
Portfolio investment	(3,748)	3,467	5,333	(24,676)	404
Other investment	(7,038)	(15,333)	(13,669)	(1,565)	(16,669)
Official sector	(833)	(2,194)	(1,681)	218	1,171
Private sector	(6,205)	(13,139)	(11,987)	(1,784)	(17,841)
Errors and omissions	(7,350)	(7,462)	(5,053)	(8,616)	(4,607)
Overall balance	3,542	6,855	13,139	(3,549)	3,866

P Preliminary.

(1) From the first quarter of 2001, the balance of payments has been compiled in conformity with the guidelines set forth in the Fifth Edition of the Balance of Payments Manual of the IMF. The merchandise line item has been reclassified as the goods balance; line items previously presented as long-term capital inflows and short-term capital inflows are combined as one line item under the financial account; and the balance on services line item is broken out into two line items: services and income.

(2) The balance of payments accounts are recorded in ringgit. The U.S. dollar amounts in the table reflect the ringgit amounts converted into U.S. dollars at the quarterly average exchange rate for the relevant period.

(3) The goods balance differs from the trade balance in the table under "—*External Trade*" in the following ways: (a) the gross exports data under trade balance are adjusted to exclude cross-border transactions between residents; (b) gross imports data are presented on a c.i.f. basis under trade balance and are adjusted to an f.o.b. basis under goods balance; and (c) goods balance data include military goods which are not included in trade data.

(4) The goods and services balance differs from the exports and imports of goods and services in the table under "— *GNI by demand aggregates*" for 2007 and 2009 as the complete balance of payments data for 2007 and 2009 will only be revised in June 2010.

Source: Department of Statistics, Malaysia.

Balance of Payments Developments in 2005. In 2005, the current account recorded a surplus of RM78.4 billion, or 15.7% of GNI. The surplus was due mainly to a strong trade surplus, driven by the continued expansion in manufactured and commodity exports and an improvement in the income account.

The financial account recorded a net outflow, amounting to RM37 billion, reflecting mainly the unwinding of speculative portfolio investment, larger repayment of external loans by the official sector and higher extension of trade credits. Net direct investment abroad ("**DIA**") by Malaysian companies was also higher, while net inflows of FDI was sustained at a high level.

After an adjustment of RM27.8 billion for errors and omissions, which includes a foreign exchange loss from revaluation of BNM's international reserves due to strengthening of the ringgit against major currencies, the overall balance of payments recorded a surplus of RM13.6 billion, compared to a surplus of RM83.7 billion in 2004.

Balance of Payments Developments in 2006. In 2006, the current account recorded a higher surplus of RM96 billion, or 17.2% of GNI. The surplus was driven mainly by a stronger trade surplus, a lower services account deficit and an improvement in the income account. The lower deficit in the services account was due mainly to higher tourism receipts, while increased profits and dividends accruing to Malaysian companies investing abroad led to lower income account deficit.

The capital account, comprising capital transfer and acquisition/disposal of non-produced and non-financial tangible and intangible assets, recorded a net outflow of RM0.2 billion. The financial account recorded a larger net outflow of RM43.2 billion in 2006. There were significant inflows of both direct and portfolio investment into Malaysia. However, these net inflows were offset by higher direct investment abroad by Malaysian companies as well as outflows of other investment, reflecting a higher net repayment of external loans by the public sector and a higher placement of assets abroad by banks.

After an adjustment of RM27.4 billion for errors and omissions, which includes a foreign exchange loss arising from revaluation of BNM's international reserves as a result of strengthening of the ringgit against major currencies, the overall balance of payments recorded a surplus of RM25.2 billion.

Balance of Payments Developments in 2007. In 2007, the current account recorded a surplus of RM100.4 billion, or 16.0% of GNI. The larger surplus was due to a sustained large trade surplus and an improvement in the services and income accounts. In particular, the services account recorded its first surplus due mainly to higher tourism and transportation receipts. Higher profits and dividends accruing to Malaysian companies investing abroad as well as higher returns from external reserves contributed to a lower income account deficit.

The capital account recorded a small net outflow of RM0.1 billion in 2007. The financial account recorded a smaller net outflow of RM37.7 billion. Improved economic prospects and investor sentiment contributed to higher net inflows of both FDI and portfolio investment. However, these inflows were offset by higher DIA by Malaysian companies and net outflows of other investment.

After an adjustment of RM17.3 billion for errors and omissions, which includes a foreign exchange revaluation loss arising from revaluation of BNM's international reserve due to strengthening of the ringgit against major currencies, the overall balance of payments recorded a surplus of RM45.3 billion.

Balance of Payments Developments in 2008. In 2008, the current account recorded a larger surplus of RM129.5 billion, or 18.1% of GNI. The larger surplus was due mainly to a higher trade surplus despite a smaller surplus in the services account and a widening deficit in the income account.

The capital account recorded a net inflow of RM0.5 billion in 2008. The financial account recorded a larger net outflow of RM118.5 billion in 2008, due to significant liquidation of portfolio investment by foreign investors, particularly in the second half of 2008, following deleveraging activities as the global financial crisis intensified. During the year, net DIA by Malaysian companies increased, mainly through acquisition of interests and expansion of existing operations abroad. Meanwhile, net inflows of FDI moderated, particularly in the second half of the year, in conjunction with deterioration in the global economy and financial conditions.

After an adjustment of RM29.9 billion for errors and omissions, which includes a foreign exchange revaluation loss arising from revaluation of the international reserves due to strengthening of the ringgit against some major currencies, the overall balance of payments recorded a deficit of RM18.3 billion.

Balance of Payments Developments in 2009. In 2009, the current account recorded a large surplus of RM112.7 billion, or 16.9% of GNI. Despite the sharp contraction in external demand, the current account surplus was supported by a sizeable trade surplus as lower demand for exports induced a corresponding decline in imports. Meanwhile, sustained regional travel activity resulted in further improvement in the services account. The income deficit also narrowed due to lower profits and dividends accruing to foreign direct investors in Malaysia, particularly the electronics and electrical sector.

The capital account recorded a net outflow of RM0.2 billion n 2009. The financial account recorded a lower net outflow of RM82.9 billion in 2009. The lower outflows were largely due to significant moderation in portfolio outflows in the first half of 2009 and net inflows of portfolio flows in the second half of the year. Both net inflows of FDI and net outflows of DIA also moderated along with the weak economic conditions, particularly during the first half of 2009. Outflows in other investments were higher as a result of continued extension of trade credits by Malaysian exporters and placement of deposits abroad by residents.

After an adjustment of RM15.8 billion for errors and omissions, which includes a foreign exchange revaluation loss arising from revaluation of international reserves due to strengthening of the ringgit against some major currencies the overall balance of payments recorded a surplus of RM13.8 billion

External Trade. The following table sets out selected information with respect to external trade for the periods indicated.

External trade

	2005	2006	2007	2008	2009^P	1Q 2010 ^P
			(RM million)			
Gross exports (f.o.b.)	536,234	589,240	604,300	663,494	553,295	158,731
% change	11.4	9.9	2.6	9.8	(16.6)	30.8
Gross imports (c.i.f.)	432,871	478,148	502,045	521,611	434,940	119,777
% change	8.3	10.5	5.0	3.9	(16.6)	35.1
Trade balance	103,363	111,092	102,255	141,883	118,355	38,954
			(US$ million)(1)			
Gross exports (f.o.b.)	141,624	160,749	175,959	199,671	157,427	47,127
% change	11.8	13.5	9.5	13.5	(21.2)	40.8
Gross imports (c.i.f.)	114,323	130,442	146,165	157,017	123,826	35,564
% change	8.7	14.1	12.1	7.4	(21.1)	45.4
Trade balance	27,301	30,307	29,794	42,655	33,601	11,564

P Preliminary.

(1) For the period of 2005-2009, the amount was converted from ringgit to U.S. dollars using the average monthly exchange rate.

Source: Department of Statistics, Malaysia.

In 2005, Malaysia recorded a larger trade surplus of RM103.4 billion, compared to RM81.6 billion in the corresponding period of 2004. Exports increased by 11.4% due to strong performance in the commodities sector, particularly mineral exports, and relatively strong receipts from manufacturing exports. Imports expanded by 8.3% to RM432.9 billion, supported mainly by imports of inputs for manufactured exports as well as higher demand for consumer and capital goods.

In 2006, the trade account recorded a larger surplus of RM111.1 billion, compared to RM103.4 billion in 2005. Exports increased by 9.9%, supported mainly by continued strong demand for primary commodities and sustained expansion in export of manufactured goods. Imports registered a growth of 10.5%, attributable to higher import of intermediate goods as well as pick up in investment activity and sustained private consumer spending.

In 2007, the trade account recorded a surplus of RM102.3 billion, compared to RM111.1 billion in 2006. Exports increased by 2.6%, supported mainly by strong growth in exports of primary commodities. Imports grew by 5%, reflecting mainly imports of inputs for manufactured exports as well as higher demand for consumer and capital goods.

In 2008, the trade account recorded a bigger surplus of RM141.9 billion, compared to RM102.3 billion in 2007. Exports increased by 9.8%, led by the expansion in both commodities and resource-based manufacturing exports. Imports registered a growth of 3.9% due mainly to higher imports of inputs for manufactured exports and consumption goods.

In 2009, the trade account recorded a surplus of RM118.4 billion, compared to RM141.9 billion in 2008. Exports contracted by 16.6%, closely mirroring developments in the global economy. Imports registered a drop of 16.6%, with contractions in all major categories of imports.

In the first quarter of 2010, the trade account recorded a surplus of RM39.0 billion, compared to RM32.4 billion in the fourth quarter of 2009. Both exports and imports expanded strongly, growing by 30.8% year-on-year and 35.1% year-on-year respectively, reflecting an improvement in global conditions and strengthening domestic demand.

Gross Exports. The following table sets out selected information with respect to gross exports for the manufacturing, agriculture and minerals sectors for the periods indicated.

Gross exports

	2005	2006	2007	2008	2009P		1Q 2010P	
	(RM million)				(RM million)	(% share)	(RM million)	(% share)
Manufacturing sector	**432,531**	**473,432**	**473,695**	**491,930**	**430,575**	**77.8**	**119,685**	**75.4**
Electronics and electricals	282,796	300,785	287,696	277,282	246,897	44.6	67,039	42.2
Semiconductors	90,339	93,504	96,653	89,819	92,972	16.8	24,138	15.2
Electronic equipment and parts	118,204	128,004	117,051	106,113	86,115	15.6	25,463	16.0
Consumer electrical products	22,640	19,127	16,461	21,388	18,794	3.4	5,088	3.2
Industrial and commercial electrical	28,840	34,556	29,696	31,088	23,986	4.3	5,407	3.4
Electrical industrial machinery	19,943	22,423	24,297	25,382	21,905	4.0	6,125	3.9
Household electrical appliances	2,829	3,171	3,538	3,491	3,125	0.6	819	0.5
Transport equipment	6,771	8,559	8,210	9,530	10,353	1.9	3,488	2.2
Textiles, clothing and footwear	10,520	10,925	10,631	10,911	9,375	1.7	2,216	1.4
Wood products	8,838	10,243	9,736	9,767	7,978	1.4	2,119	1.3
Rubber products	6,777	9,100	10,326	12,426	12,125	2.2	3,750	2.4
Chemicals and chemical products	31,965	33,725	37,159	40,926	34,161	6.2	10,413	6.5
Manufactures of metal	17,067	22,764	26,372	29,257	22,644	4.1	6,556	4.1
Optical and scientific equipment	12,364	13,588	13,626	14,944	13,095	2.4	4,194	2.6
Agriculture sector	**37,255**	**42,249**	**52,491**	**68,097**	**53,387**	**9.6**	**17,317**	**10.9**
Rubber	5,787	8,235	7,334	8,112	4,460	0.8	2,173	1.4
Saw logs	2,473	2,261	2,142	2,057	2,031	0.4	570	0.4
Sawn timber	3,907	4,081	4,123	3,455	3,110	0.6	655	0.4
Palm oil, crude and processed	17,846	22,070	32,027	45,955	36,345	6.6	11,308	7.1
Minerals	**53,164**	**57,250**	**61,913**	**87,536**	**58,984**	**10.7**	**19,997**	**12.6**
Tin	935	583	795	1,698	1,047	0.2	407	0.3
Crude oil	29,654	31,983	32,865	43,698	25,360	4.6	8,864	5.6
Liquefied natural gas	21,340	23,675	26,936	40,732	31,195	5.6	10,038	6.3
Other exports	**13,283**	**16,035**	**16,201**	**15,931**	**10,349**	**1.9**	**1,733**	**1.1**
Total	536,234	589,240	604,300	663,494	553,295	100.0	158,731	100.0

P Preliminary.

Source: Department of Statistics, Malaysia.

In 2005, exports of commodities rose by 15.1%, driven mainly by stronger mineral exports, which increased by 28.4%. This was in line with the stronger crude oil prices, which rose by 35.9% to an average of US$56.05 per barrel for 2005. In line with the rise in crude oil prices, LNG prices also registered an increase of 17.8%, leading to a rise in LNG exports of 24.2%. Agriculture exports grew at a more moderate pace of 0.2%, as the exports of palm oil declined by 14.4%. The decrease was due to lower palm oil prices, which declined by 18.9%. In 2005, exports of manufactured goods expanded by 10.6%, despite the slower growth in exports of E&E in line with the cyclical downturn in the global semiconductor industry. Exports of resource-based products continued to be robust, led mainly by exports of petroleum, plastic and rubber products. The increase in exports of manufactured goods during this period was due to increases in both volume and prices.

In 2006, exports of manufactured goods increased by 9.5%, due to the strong performance of selected resource-based products, as well as continued growth in exports of E&E products. Exports of resource-based products, particularly wood, petroleum, rubber and chemical products, were supported by higher prices and strong demand from regional countries. E&E exports grew by 6.4%, supported mainly by increased export volume. Primary commodity exports continued to expand at a double-digit rate, growing by 10% due to higher prices. Export receipts from agriculture rose by 13.4%, led mainly by higher exports of palm oil and rubber. In particular, palm oil exports, which had suffered a decline in 2005, recorded positive growth of 23.7% due to both higher export prices and volume. Mineral exports grew at a more moderate pace of 7.7% due to lower export volume of both crude oil and LNG, in line with lower production during the year.

In 2007, growth in exports of manufactured goods moderated to 0.1% as a result of the decline in E&E exports and moderation in non-E&E exports. The weak performance in E&E exports was mainly attributable to a slowdown in demand for computer and parts from the U.S. as well as lower prices. Exports of chemicals and chemical products expanded by 10.2%, supported by demand from the U.S., EU and Asian regions as well as higher prices, in line with the increase in input prices of commodities. Exports of primary commodities increased by 15%, led mainly by higher commodity prices. Agriculture exports grew by 24.2%, led mainly by a significant increase in palm oil exports, which rose 45.4% due to stronger prices. Growth in mineral exports was relatively sustained at 8.1%, driven mainly by higher prices and increases in export volume.

In 2008, exports of manufactured goods grew by 3.8%, supported mainly by regional demand for resource-based manufacturing exports. Exports of electronics declined by 8.3% as semiconductor exports were affected by weak demand for electronic equipment and parts from the advanced economies, as well as lower prices. Electrical exports expanded strongly, growing by 9.9%, driven by consumer electrical goods as well as industrial and commercial electrical products. Exports of resource-based products strengthened in line with the higher input prices of commodities and sustained demand from regional countries. Demand for manufactures of metal increased amidst booming construction activity in China, Vietnam and Singapore. Agriculture exports strengthened by 29.7%, led mainly by strong exports of palm oil and rubber, which were driven by higher prices. Palm oil exports increased by 43.5% as both volume and prices expanded by 17.1% and 22.6% respectively. Mineral exports recorded a robust growth of 41.4%, reflecting mainly higher prices and export volume of crude oil as well as higher price of LNG and continued demand by Korea and Japan for LNG.

In 2009, exports of manufactured goods contracted by 12.5%, with all major segments recording negative growth. Exports of electronics and electrical products fell by 11%, largely reflecting the decline in demand from both advanced and regional countries in the first half year. The sharp fall in commodity prices contributed to a substantial drop in resource-based exports, namely rubber, chemical and petroleum products. Commodity exports contracted by 27.8%, attributed to weaker demand and lower prices. Agriculture exports declined by 21.6% as the fall in prices more than offset the positive growth in export volume. Exports of minerals decreased 32.6% as crude petroleum and LNG experienced lower prices and export volumes.

In the first quarter of 2010, manufactured exports increased by 32.7% year-on-year, led mainly by E&E products, particularly exports of semiconductors to the region. Exports of non-E&E products also expanded further following higher commodity prices and sustained demand from regional countries for resource-based products. Agriculture and mineral exports reversed previous declines, both registering double-digit growth, supported by higher commodity prices and larger export volumes.

The following table sets out gross imports by end use for the periods indicated.

Gross imports by end use

	2005	2006	2007	2008	2009[P]		1Q 2010[P]	
			(RM million)			(% share)	(RM million)	(% share)
Capital goods	58,900	64,172	69,934	69,913	65,769	15.1	16,274	13.6
Capital goods (except transport equipment)	52,334	55,671	60,056	61,377	56,336	13.0	14,752	12.3
Industrial machinery and equipment	13,931	14,142	15,469	15,173	13,383	3.1	n.a.	n.a.
Others	38,403	41,529	44,586	46,204	42,953	9.9	n.a.	n.a.
Transport equipment	6,566	8,501	9,879	8,536	9,433	2.2	1,522	1.3
Intermediate goods	309,667	336,382	358,755	379,136	297,340	68.4	81,515	68.1
Food and beverages, mainly for industry	8,268	10,396	12,620	16,401	13,639	3.1	3,723	3.1
Industrial supplies, not elsewhere specified	96,215	106,648	125,608	137,766	107,733	24.8	30,010	25.1
Metals	27,427	32,795	39,231	41,763	29,896	6.9	n.a.	n.a.
Others	68,788	73,853	86,377	96,003	77,836	17.9	n.a.	n.a.
Fuels and lubricants	27,493	33,646	35,269	46,556	29,782	6.8	8,588	7.2
Parts and accessories of capital goods (except transport equipment)	165,476	174,624	172,810	164,120	132,962	30.6	36,194	30.2
Electronics	105,759	115,467	112,014	100,808	78,375	18.0	n.a.	n.a.
Others	59,716	59,157	60,796	63,312	54,587	12.6	n.a.	n.a.
Parts and accessories of transport equipment	12,216	11,068	12,448	14,293	13,224	3.0	2,999	2.5
Consumption goods	24,288	26,672	28,906	32,304	31,427	7.2	8,337	7.0
Food and beverages, mainly for household consumption	9,275	9,728	10,383	12,601	13,585	3.1	3,708	3.1
Transport equipment, non-industrial	323	343	381	559	448	0.1	163	0.1
Consumer goods, not elsewhere specified	14,690	16,601	18,143	19,145	17,394	4.0	4,466	3.7
Consumer durables	3,466	3,695	4,436	4,444	3,674	0.8	986	0.8
Consumer semi-durables	4,426	5,275	5,600	5,894	4,956	1.1	1,276	1.1
Consumer non-durables	6,797	7,631	8,107	8,807	8,764	2.0	2,204	1.8
Dual use goods	11,225	12,196	12,421	14,121	10,166	2.3	4,231	3.5
Motor spirit	6,424	7,292	8,292	8,973	4,651	1.1	2,247	1.9
Passenger motor cars	4,801	4,903	4,129	5,148	5,516	1.3	1,983	1.7
Others	7,097	6,799	9,243	4,306	3,179	0.7	249	0.2
Retained imports	411,177	446,221	479,261	499,781	407,881	93.8	111,124	92.8
Re-exports	21,693	31,927	22,784	21,830	27,060	6.2	8,653	7.2
Gross Imports	432,871	478,148	502,045	521,611	434,940	100.0	119,777	100.0

P Preliminary.

Source: Department of Statistics, Malaysia.

In 2005, imports increased by 8.3%, reflecting mainly inputs for manufactured exports as well as higher demand for consumer and capital goods. Imports of intermediate goods grew by 7.6% due mainly to demand for electrical and electronics, and resource-based products. Capital imports increased by 6.2%, reflecting further expansion in private investment, while consumption imports rose 6.2% in line with higher disposable incomes.

In 2006, imports expanded by 10.5%, led by higher imports of intermediate goods for manufactured exports. Imports of intermediate goods grew by 8.6%, supported by increased demand for imported components and industrial supplies used by the E&E industry, as well as higher imports of primary and processed materials used by the food and beverages industry. Consonant with strong business sentiment and the pick-up in investment activity, imports of capital goods rose by 9%. Consumption imports increased by 9.8%, in tandem with sustained private consumer spending and consumer confidence.

In 2007, imports increased by 5.0%, reflecting mainly imports of intermediate goods for manufactured exports as well as higher demand for consumer and capital goods. Imports of intermediate goods expanded by 6.7%, reflecting growth in imports of processed industrial supplies, particularly metals, chemicals and chemical products, and semi-manufactured gold. Further expansion in investment activity resulted in higher imports of capital goods while the growth in consumption imports reflected higher imports of food and beverages for household consumption.

In 2008, imports increased by 3.9% due mainly to higher imports of inputs for manufactured exports and consumption goods. Expansion in imports of intermediate goods was led by strong demand for fuel and lubricants and chemicals by resource-based industries. Capital imports were broadly unchanged, while consumption imports increased by 11.8%, along with continued growth in private consumption.

In 2009, imports declined by 16.6% with contractions in all major import categories. Intermediate imports decreased by 21.6%, along with weak external demand for manufactured goods. Imports of capital and consumption goods fell by 5.9% and 2.7% respectively, reflecting lower domestic private investment and cautious consumer spending.

In the first quarter of 2010, imports increased by 35.1% year-on-year due to strong growth in intermediate imports, an increase in imports of consumption goods and sustained capital imports. Imports of intermediate goods registered growth of 37.9% year-on-year, moving in tandem with recovery in manufacturing activity. Positive growth in capital and consumption imports reflected strengthening domestic demand amidst improving business and consumer sentiments.

Direction of External Trade. The following table sets out information on the direction of external trade for the periods indicated.

Direction of external trade[(1)]

	2006		2007		2008		2009P		2009P		1Q 2010P		1Q 2010P	
	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports	Exports	Imports
	(RM million)		(RM million)		(RM million)		(RM million)		(% share)		(RM million)		(% share)	
Selected Southeast Asian trading partners countries total	152,537	116,729	154,347	122,748	169,592	125,770	141,030	108,959	25.5	25.1	41,091	32,144	25.9	26.8
Singapore	90,751	56,188	88,508	57,955	97,784	57,326	77,195	48,115	14.0	11.1	20,528	14,973	12.9	12.5
Thailand	31,177	26,276	29,984	27,006	31,735	29,275	29,853	26,308	5.4	6.0	9,818	7,769	6.2	6.5
Indonesia	14,916	18,166	17,749	21,379	20,736	24,185	17,294	23,030	3.1	5.3	4,911	6,754	3.1	5.6
Philippines	7,974	10,640	8,739	9,775	9,760	6,942	6,962	4,008	1.3	0.9	2,211	1,294	1.4	1.1
Brunei Darussalam	1,268	276	1,381	328	1,494	339	1,561	237	0.3	0.1	298	40	0.2	0.0
Vietnam	6,452	5,183	7,986	6,304	8,083	7,703	8,165	7,260	1.5	1.7	3,327	1,314	2.1	1.1
Japan	52,215	63,568	55,241	65,539	71,800	65,126	54,424	54,288	9.8	12.5	16,399	15,115	10.3	12.6
China	42,660	58,226	53,035	64,903	63,210	66,882	67,241	60,660	12.2	13.9	20,765	15,048	13.1	12.6
Hong Kong SAR	29,144	12,650	27,970	14,676	28,317	13,659	28,845	10,812	5.2	2.5	7,741	3,102	4.9	2.6
Taiwan	16,044	26,220	16,462	28,712	16,233	25,094	14,431	18,467	2.6	4.2	4,448	5,454	2.8	4.6
South Korea	21,291	25,911	23,032	24,933	25,887	24,226	21,100	20,125	3.8	4.6	6,827	6,435	4.3	5.4
India	18,783	4,884	20,204	7,067	24,732	10,302	16,998	7,869	3.1	1.8	5,261	1.953	3.3	1.6
Other Far East countries	1,096	674	1,345	766	1,779	711	1,444	593	0.3	0.1	—	—	—	—
Australia	16,711	8,884	20,400	10,205	24,404	11,765	19,999	9,485	3.6	2.2	5,213	1,898	3.3	1.6
New Zealand	2,475	1,238	2,588	1,671	3,561	2,593	1,902	1,644	0.3	0.4	744	497	0.5	0.4
United States	110,586	60,210	94,519	54,688	82,728	56,454	60,584	48,635	10.9	11.2	14,933	13,254	9.4	11.1
Canada	3,767	2,404	3,281	2,573	3,219	3,256	2,754	2,274	0.5	0.5	733	591	0.5	0.5
European Union total[(2)]	75,149	54,757	77,824	59,941	74,866	61,693	59,968	50,761	10.8	11.7	16,838	12,380	10.6	10.3
United Kingdom	10,714	6,809	9,899	7,266	9,488	7,654	7,082	5,999	1.3	1.4	1,900	1,401	1.2	1.2
Germany	12,774	21,063	14,832	23,423	15,361	22,471	14,830	18,417	2.7	4.2	4,174	4,700	2.6	3.9
Netherlands	21,429	3,375	23,599	3,282	23,443	3,688	18,421	3,520	3.3	0.8	5,369	786	3.4	0.7
Others	30,231	23,511	29,494	25,970	26,573	27,879	19,635	22,825	3.5	5.2	5,395	5,493	3.4	4.6
Other Western European countries[(3)]									—	—				
Russia	1,723	807	2,157	876	3,168	1,670	1,875	922	0.3	0.2	421	211	0.3	0.2
East European countries[(4)]									—	—				
Other European countries[(5)]	4,474	5,425	4,854	6,597	5,723	5,277	4,182	3,669	0.8	0.8	963	1,042	0.6	0.9
Rest of the World	28,388	28,388	28,388	28,388	28,388	28,388	56,517	28,388	10.2	6.5	10,600	7,336	6.7	6.1
Total	589,240	478,148	604,300	502,045	663,494	521,611	553,295	434,940	100.0	100.0	158,731	119,777	100.0	100.0

P Preliminary.

(1) Exports are valued on a free on board (f.o.b.) basis and imports on a cost, insurance and freight (c.i.f.) basis.

(2) Since 2004, data includes the 10 new member states, namely, Hungary, the Czech Republic, Poland, Slovakia, Malta, Slovenia, Cyprus, Estonia, Lithuania and Latvia.

(3) Data refers to Malta, which was not part of the EU prior to 2004, and Gibraltar, Greenland, Iceland, Monaco, Norway, Switzerland and Turkey.

(4) Data refers to the Czech Republic, Slovakia and Poland, which were not part of the EU prior to 2004, and Bulgaria and Yugoslavia.

(5) Since 2004, data refers to Albania, Andorra, Bosnia-Herzegovina, Bulgaria, Croatia, Faroe Islands, Greenland, Gibraltar, Iceland, Liechtenstein, Macedonia, Monaco, Montenegro, Norway, Romania, Switzerland, Turkey and Yugoslavia, which is still counted as one country for these purposes.

Source: Department of Statistics, Malaysia.

In 2005, Malaysia's trade with ASEAN and East Asian countries (excluding Japan) grew by 13.8%, supported mainly by trade with Singapore, Thailand, PR China, Hong Kong and South Korea. Reflecting higher demand for electrical and electronics products, exports to the United States grew by 16.6%, resulting in a higher export share of 19.6%.

In 2006, Malaysia's trade with major trading partners, namely the U.S., Singapore, Japan and EU declined to 52.8% of total trade. In contrast, trade with PR China, Korea, India and Australia recorded a rising trend and accounted for a larger market share. Stronger economic activity in the EU together with improved business and consumer confidence resulted in trade with the EU strengthening, with Malaysia's trade surplus increasing substantially. Trade with North East Asia (excluding Japan) expanded by 11.4%, supported largely by growth in imported components from PR China and Korea.

In 2007, improvement in trade diversification was reflected in further strengthening of trade links to India, West Asia and Australia. Exports to Australia and India were driven by demand for petroleum-related and E&E products, while exports to West Asia were more varied. Diversification within the traditional ASEAN markets also showed improvement with increased trade penetration into emerging new markets such as Vietnam. Export share to the U.S. declined to 15.6%, reflecting a fall in demand for computers and parts as well as office machine components, which more than offset the increased demand for palm oil.

In 2008, Malaysia's trade with major trading partners, namely the U.S., EU and Japan accounted for a lower share of Malaysia's total trade (34.8%). In contrast, trade links with North East Asia (excluding Japan), West Asia, India, Australia and New Zealand strengthened substantially. Trade with ASEAN countries remained robust, with total trade expanding by 6.6%, driven mainly by demand for energy, food and inputs for the manufacturing industry.

In 2009, Asia's role in supporting the recovery in global trade resulted in a shift in Malaysia's trade pattern. The share of exports to the region increased to 49.3% with the share to PR China increasing to 12.2%. The share of exports to advanced economies including the U.S., EU and Japan, declined to 31.6%.

In the first quarter of 2010, trade with ASEAN and East Asian countries (excluding Japan) deepened further (51.4% of total trade) with exports growing by 42.6% year-on-year, supported mainly by demand for E&E and resource-based products. The share of exports to the U.S., EU and Japan declined to 30.3%.

International Reserves

The following tables set out the net international reserves of BNM, in ringgit and U.S. dollars, as of the dates indicated.

Net international reserves of BNM (RM million)

	As of December 31,					As of March 31,
	2005	2006	2007	2008	2009	2010
	(RM million)[1]					
Special Drawing Rights	748.3	756.9	761.0	786.4	7,279.2	6,701.3
IMF reserve position	1,186.3	793.4	617.5	1,127.1	1,515.8	1,395.4
Gold and foreign exchange[2]	263,328.0	288,871.2	334,338.6	315,554.3	322,505.6	303,570.3
Gross international reserves	265,262.7	290,421.5	335,717.0	317,467.7	331,300.6	311,667.0
External liabilities	(22.5)	(22.9)	(22.2)	(22.5)	(23.9)	(24.5)
Net international reserves	265,240.2	290,398.6	335,694.8	317,445.3	331,276.7	311,642.5

(1) In each year, external assets and liabilities were revalued at rates of exchange prevailing on the relevant BNM balance sheet date. Since 1999, international reserves are disclosed on a quarterly basis.

(2) The reclassification of other foreign currency claims on residents from gold and foreign assets to other assets of BNM is also reflected in the historical series as recommended by the IMF.

Source: Bank Negara Malaysia.

Net international reserves of BNM (US$ million)

	As of December 31,					As of March 31,
	2005	**2006**	**2007**	**2008**	**2009**	**2010**
			(US$ million)[1]			
Special Drawing Rights	198.0	214.9	229.8	226.8	2,124.4	2,048.7
IMF reserve position	313.9	225.3	186.5	325.0	442.4	426.6
Gold and foreign exchange[2]	69,687.5	82,017.1	100,928.5	90,984.2	94,128.3	92,816.8
Gross international reserves	70,199.3	82,457.3	101,344.8	91,536.0	96,695.1	95,292.0
External liabilities	(6.0)	(6.5)	(6.7)	(6.5)	(7.0)	(7.5)
Net international reserves	70,193.4	82,450.8	101,338.1	91,529.5	96,688.1	95,284.5

(1) Converted to U.S. dollars at the exchange rate at the end of the relevant period.

(2) The reclassification of other foreign currency claims on residents from gold and foreign assets to other assets of BNM is also reflected in the historical series as recommended by the IMF.

Source: Bank Negara Malaysia.

As of December 31, 2005, gross international reserves increased by RM13.5 billion (US$3.6 billion) to RM265.3 billion (US$70.2 billion). After taking into consideration BNM's external liabilities of RM22.5 million, net international reserves were RM265.2 billion. The increase in reserves during the year was due to foreign exchange inflows generated mainly from the repatriation of export earnings and foreign direct investment.

As of December 31, 2006, gross international reserves increased by RM25.2 billion to RM290.4 billion (US$82.5 billion). After taking into account BNM's external liabilities of RM22.9 million, net international reserves were RM290.4 billion. The build-up in international reserves over the course of 2006 reflected export earnings, inflows of foreign direct and portfolio investment. The level of international reserves was sufficient to finance 7.8 months of retained imports and to cover 6.9 times the short-term external debt.

As of December 31, 2007, gross international reserves increased by RM45.3 billion to RM335.7 billion (US$101.3 billion). After taking into account BNM's external liabilities of RM22.2 million, net international reserves were RM335.7 billion. The build-up in international reserves over the course of 2007 reflected the large trade surplus and inflows of foreign and portfolio investment. The level of international reserves was sufficient to finance 8.4 months of retained imports and to cover 6.2 times the short-term external debt. As of December 31, 2008, gross international reserves decreased by RM18.2 billion to RM317.5billion (US$91.5 billion). After taking into account BNM's external liabilities of RM22.5 million, net international reserves were RM317.4 billion. The reduction of international reserves over the course of 2008 reflected portfolio capital outflows due to the global financial crisis. The level of international reserves was sufficient to finance 7.6 months of retained imports and to cover 4 times the short-term external debt.

As of December 31, 2009, gross international reserves by RM13.8 billion to RM331.3 billion (US$96.7 billion). After taking into account BNM's external liabilities of RM23.9 million, net international reserves were RM331.3 billion. The build-up of international reserves over the course of 2009 was mainly supported by the continued surplus in the current account. Foreign exchange inflows arising from export proceeds and FDI were more than able to cover the external obligations arising from external loans, imports as well as net outflows arising from both direct investment abroad and portfolio investment. The level of international reserves was sufficient to finance 9.7 months of retained imports and to cover 4.3 times the short-term external debt.

As of March 31, 2010, international reserves amounted to RM311.7 billion (equivalent to US$95.3 billion) The reserves position was sufficient to finance 8.6 months of retained imports and to cover 4.4 times the short-term external debt.

As of May 14, 2010, international reserves amounted to RM314.2 billion or equivalent to US$96.1 billion. The reserves position was sufficient to finance 8.3 months of retained imports and was 4.4 times the short-term external debt.

Exchange Rates

Exchange Rate Policy. In conjunction with the implementation of selective exchange control measures, BNM departed from its prior floating exchange rate regime and, on September 2, 1998, adopted a pegged exchange rate for the ringgit of RM3.80 to US$1.00. The introduction of selective exchange control measures and a pegged exchange rate for the ringgit was designed to provide Malaysia with greater independence in the conduct of its domestic monetary policy as well as to protect the Malaysian economy from the potential risks and vulnerabilities of external developments in the international markets. These regulations did not affect trade or foreign direct investment, and full convertibility remained for current account transactions.

On July 21, 2005, Malaysia shifted from a fixed exchange rate regime to a managed float against a currency basket comprising the currencies of Malaysia's main trading partners. Intraregional trade had become very important and was expected to increase further over time, in line with regional efforts to promote closer economic and financial links.

Despite the shift in regime, the primary objective of Malaysia's exchange rate policy continues to be to promote exchange rate stability against the currencies of major trading partners. Being a small and open economy, the Government believes that a stable exchange rate environment against major trading partners is important to achieve sustainable growth and price stability. In addition, greater exchange rate stability between regional countries also promotes the growth of intra-regional trade and investment.

Under the managed float system, the ringgit exchange rate is largely determined by demand and supply of the ringgit in the foreign exchange market. There is neither a trading band, nor a central parity for the exchange rate. BNM has announced that it will not manage or maintain the exchange rate at any specific level, and intervention will be limited to minimizing any excessive volatility and ensuring that the exchange rate is not misaligned. The level of volatility tolerated will depend on market conditions and the underlying macroeconomic fundamentals. The Government remains committed to its longstanding policy of not using the exchange rate to gain international competitiveness.

Exchange Rate Movements. In 2005, the ringgit appreciated against the U.S. dollar by 0.5%, the Euro by 15.3%, the Japanese yen by 14.9% and the pound sterling by 12.2%. Against regional currencies, the ringgit appreciated against the Indonesian rupiah by 6.2%, the Thai baht by 6.1%, the Singapore dollar by 2.4% but depreciated against the Philippine peso by 5.0%, the Chinese renminbi by 2.0% and the Korean won by 1.8%.

In 2006, the ringgit appreciated against the U.S. dollar by 7.0% and the Japanese yen by 8.6% but depreciated against the pound sterling by 5.9% and the Euro by 3.4%. Against regional currencies, the ringgit appreciated against the Chinese renminbi by 3.6% but depreciated against the Thai baht by 6.2%, the Indonesian rupiah by 2.1%, the Korean won by 1.5%, the Singapore dollar by 1.4% and the Philippine peso 1.0%.

In 2007, the ringgit appreciated against the U.S. dollar by 6.8%, the pound sterling by 4.9% and the Japanese yen by 0.5% but depreciated against the Euro by 4.7%. Against regional currencies, the ringgit appreciated against the Indonesian rupiah by 11.5%, the Korean won by 7.5% and the Singapore dollar by 0.4% but depreciated against the Philippine peso by 10.2%, the Chinese renminbi by 0.1% and the Thai baht by 0.05%.

In 2008, the ringgit depreciated against the U.S. dollar by 4.5%, the Japanese yen by 22.9% and the Euro by 0.01% but appreciated against the pound sterling by 32.2%. Against regional currencies, the ringgit appreciated against the Korean won by 28.4%, the Indonesian rupiah by 11.3% and the Philippine peso by 10.1% but depreciated against the Chinese renminbi by 10.8%, the Singapore dollar by 4.7% and the Thai baht by 1.2%.

In 2009, the ringgit appreciated against the U.S. dollar by 1.2% and Japanese yen by 3.4% but depreciated against the pound sterling by 9.1% and the Euro by 0.9%. Against regional currencies, the ringgit appreciated against the Chinese renminbi by 1.2% but depreciated against the Indonesian rupiah by 13.2%, the Korean won 6.4%, the Thai baht by 3.2%, the Philippine peso by 1.9% and the Singapore dollar by 1.4%.

From January 1 to May 27, 2010, the ringgit appreciated against the Euro by 17.7%, the pound sterling by 13.3%, the Japanese yen by 0.8% and the U.S. dollar by 3.3%. Against regional currencies, the ringgit appreciated against the Chinese renminbi by 3.4%, the Singapore dollar by 3.7%, the Thai baht by 1.0%, the Korean won by 8.8%, the Philippine peso by 4.1% and the Indonesian rupiah by 2.2%.

The following table shows exchange rate developments of the ringgit *vis-à-vis* the U.S. dollar, the Singapore dollar and the Japanese yen for the periods indicated.

Exchange rates[(1)]

Ringgit Per US$	**Ringgit Per US$**	**Ringgit Per Singapore $**	**Ringgit Per 100 Yen**
End of Period			
December 2005	3.7800	2.2714	3.2229
December 2006	3.5315	2.3028	2.9675
December 2007	3.3065	2.2938	2.9534
December 2008	3.4640	2.4070	3.8327
March 2009	3.6470	2.4008	3.7091
June 2009	3.5225	2.4302	3.6729
September 2009	3.4745	2.4573	3.8698
December 2009	3.4245	2.4401	3.7076
May 27, 2010	3.3105	2.3497	3.6781

(1) US$ rates are the average of buying and selling interbank rates at noon. Rates for the Singapore $ and Japanese yen are cross rates derived from the rates of such currencies against the US$ and the RM/US$ exchange rate.

Source: Bank Negara Malaysia.

Foreign Exchange Administration Policy

On May 2, 2001, the Government abolished all the measures affecting the repatriation of foreign portfolio funds by non-residents that had been implemented in September 1998. Subsequently, progressive liberalization of the foreign exchange administration policies was undertaken focusing on enhancing competitiveness of Malaysia's economy through reducing the cost of doing business while promoting monetary and financial stability.

In 2003, the overnight limits on foreign currency accounts ("**FCAs**") maintained by resident exporters with licensed onshore banks were increased to US$70 million from US$10 million. In 2004, the overnight limit on FCAs was further increased to US$100 million and the limit was subsequently abolished in 2005. Residents were free to maintain FCAs onshore and offshore.

In 2005, the foreign exchange administration policies for residents investing in foreign currency assets were further liberalized, including those policies regulating lending in foreign currency to non-residents and foreign currency deposits. Residents with or without domestic ringgit credit facilities were free to invest in foreign currency assets using foreign currency funds. Limits on investments in foreign currency assets were only applicable to residents with domestic ringgit borrowing and where the investment was made through the conversion of ringgit. The limit for investment in foreign currency assets by resident companies with domestic ringgit borrowing was increased to RM10.0 million equivalent per calendar year on a corporate group basis from the previous limit of RM10,000 equivalent. For individuals, this limit was increased from RM10,000 equivalent to RM100,000 equivalent per calendar year. In 2007, the limit for investment by resident companies was further increased to RM50.0 million equivalent per calendar year on a corporate group basis.

In 2004, to support diversification of portfolio investments, unit trust companies and fund management companies were allowed to invest abroad up to the full amount of funds belonging to non-residents and up to 10% of net asset value ("**NAV**") of funds attributable to residents. This limit was subsequently increased to 30% of NAV in 2005 and to 50% of NAV in 2007. Flexibility has also been granted since 2007 for unit trust companies and fund management companies to invest abroad 100% of NAV of Islamic funds, foreign currency denominated funds and funds of resident clients without domestic ringgit borrowing. The investment limit of investment-linked funds marketed by resident insurance companies and takaful operators was also increased from 10% of NAV in 2004 to 30% of NAV in 2005 and subsequently, to 50% of NAV in 2007. Resident insurance companies and takaful operators may also invest in foreign currency assets up to 10% and 5% of their total assets, respectively.

In 2005, to enhance access to competitive financing, the thresholds for foreign currency borrowing were increased from RM5.0 million equivalent to RM50.0 million equivalent on a corporate group basis for resident companies and RM10.0 million equivalent for individuals. In 2007, the limit for foreign currency borrowing by resident companies was further increased to RM100 million per corporate group. Resident companies were also free to borrow the full amount of foreign currency proceeds from the listing of shares through initial public offerings on foreign stock exchanges by another resident company within the same corporate group. In 2008, resident companies were free to borrow any amount of foreign currency from their non-resident non-bank parent company, other resident companies within the same corporate group in Malaysia and from the licensed onshore banks and licensed international Islamic banks. Resident companies were also allowed to borrow any amount in ringgit from their non-resident non-bank parent company to finance real sector activities in Malaysia and up to RM1.0 million in aggregate from other non-resident non-bank companies or individuals for use in Malaysia. Residents were also free to refinance outstanding approved foreign currency borrowing including principal and interest.

To facilitate development of the domestic bond market, flexibility was granted in 2004 to multilateral development banks and foreign multinational corporations to issue ringgit-denominated bonds/sukuk in Malaysia. These issuers were allowed to hedge their foreign currency risks with the licensed onshore banks. Additionally, non-resident investors were also allowed to hedge their investments in the bonds/sukuk with the licensed onshore banks. In 2007, further flexibility was also granted to residents and non-residents to issue foreign currency denominated bonds/sukuk in Malaysia.

The rules on hedging were also progressively liberalized to facilitate the management of exchange rate and interest rate risks by residents and non-residents. In 2003, residents were free to sell forward their foreign currency receivables to the licensed onshore banks supported by documentary evidence. Since 2005, residents have been free to hedge current account transactions on an anticipatory basis. Residents have also been free to hedge all capital account transactions and enter into foreign currency interest rate swaps with licensed onshore banks and licensed offshore banks in Labuan. In addition, non-residents are also free to hedge their investments in Malaysia, including portfolio investments, made after April 1, 2005.

In 2007, to widen foreign investors' base in ringgit assets, flexibility was granted to licensed onshore banks to appoint overseas branches of their banking group to facilitate the settlement of ringgit assets by non-resident investors. All limits on ringgit overdraft facilities to non-resident stockbroking companies or custodian banks to facilitate the settlement of ringgit assets to avoid settlement failure due to inadvertent delays on the receipt of funds were abolished.

In 2008, to reduce the cost of doing business in Malaysia, resident companies with export earnings were permitted to pay another resident company in foreign currency for the settlement of domestic trade in goods and services. Residents were also permitted to pay another resident for settlement of foreign currency investment products offered onshore.

Domestic Debt

The following table sets out information on Malaysia's outstanding domestic debt by sector and maturity length as of the dates indicated.

Domestic debt outstanding

	As of December 31,				
	2005	2006	2007	2008	2009
	(RM billion)				
Private	768.2	814.3	897.3	998.6	1,071.2
Loans by banking system	558.1	593.0	644.2	726.5	783.4
Term loans	374.3	405.9	443.3	509.5	574.3
Medium and long-term	351.0	381.0	415.9	476.9	540.0
Short-term	23.3	24.9	27.5	32.6	34.3
Other(1)	183.8	187.1	200.9	217.0	209.1
Local currency corporate bonds(2)	210.1	221.3	253.1	272.1	287.8
Public(3)	213.1	229.1	257.5	298.0	369.9
Government	198.7	217.2	247.1	286.1	348.6
Medium and long-term	194.4	212.9	242.8	281.8	344.3
Short-term (Treasury bills)	4.3	4.3	4.3	4.3	4.3
Khazanah Nasional Berhad bonds	11	10.4	10.4	10.4	13.0
Malaysia savings bonds(4)	3.4	1.5	0	1.5	8.3
Total domestic debt	981.3	1,043.4	1,154.8	1,296.6	1,441.1
% of GDP	189	182	180	175	214(P)
Annual growth (%)	13	6	11	12	11

(P) Preliminary.

(1) Comprises mainly trade bills, trust receipts, overdrafts and revolving credit and foreign currency loans.

(2) Consists of corporate (including non-financial public enterprises), Cagamas, Danamodal and Danaharta bonds with an original maturity period of more than one year and medium-term notes.

(3) Consists of Government securities, Treasury bills, Government Investment Issues, housing loans, a syndicated loan, Khazanah Nasional Berhad bonds and Malaysia savings bonds.

(4) Prior to 2009, Malaysia savings bonds was issued by Bank Negara Malaysia.

Sources: Ministry of Finance.
Bank Negara Malaysia.
Cagamas.
Danaharta.
Danamodal.

Total domestic debt amounted to RM1,441.2 billion as of December 31, 2009, compared to RM1,296.6 billion as of December 31, 2008. The domestic debt consisted of loans extended by the banking system (excluding loans sold to Cagamas and Danaharta) of RM783.5 billion in 2009, compared to RM726.5 billion in 2008; private debt securities of RM287.8 billion, compared to RM272.1 billion in 2008; and public sector debt of RM369.9 billion in 2009, compared to RM298.0 billion in 2008. See "*—Financial System—Banking System Lending*" for more information on banking system loans, and see "*—Public Finances*" for more information on public sector debt.

Outstanding loans of the banking system increased to RM783.4 billion as of December 31, 2009, compared to RM726.5 billion as of December 31, 2008. By type, term loans accounted for 73.3% of outstanding loans of the banking system as of December 31, 2009, compared to 70.1% in 2008, while the other loans comprised mainly overdrafts, revolving credits, trade financing facilities and foreign currency loans. Approximately 94.0% of the term loans in 2009 had medium- and long-term maturities of more than one year, compared to 93.6% in 2008.

Local currency corporate bonds increased at an average annual rate of 9.0% since 2005, from RM210.1 billion as of December 31, 2005, RM221.3 billion as of December 31, 2006, RM253.1 billion as of December 31, 2007, RM272.1 billion as of December 31, 2008 to RM287.8 billion as of December 31, 2009. The public sector's portion of outstanding domestic debt increased at an average annual rate of approximately 13.9% during the same period largely due to increased borrowings by Government from RM213.1 billion as of December 31, 2005, RM229.1 billion as of December 31, 2006, RM257.5billion as of December 31, 2007, RM298 billion as of December 31, 2008 to RM369.9 billion as of December 31, 2009. Most of the public sector's outstanding debt is either medium- or short-term.

The total outstanding Government debt, including external debt, remained manageable at RM361.6 billion as of December 31, 2009 compared to RM306.4 billion as of December 31, 2008 and RM266.7 billion as of December 31, 2007. Debt servicing of the Government was 9.1% of operating expenditure in 2009 and 8.3% in 2008.

External Debt

The following tables set out information on the external debt of Malaysia outstanding by sector and maturity length for the periods indicated, in ringgit and U.S. dollars, respectively. Conversion to U.S. dollars is made using the exchange rate at the end of the relevant period.

External debt outstanding (RM million)

	As of December 31,					As of March 31,
	2005	2006	2007	2008	2009[P]	2010[P]
Medium and long-term debt[(1)]	150,746	141,704	132,978	156,546	155,377	147,267
Government	30,000	25,005	19,602	20,316	13,787	12,738
Non-financial public enterprises	56,233	50,378	41,854	63,146	71,600	68,146
Private sector	64,513	66,322	71,521	73,085	69,990	66,383
Short-term debt[(2)(3)]	46,953	42,800	54,468	79,635	77,760	70,761
Banking sector	38,871	28,812	42,134	72,043	69,029	62,881
Non-bank private sector	8,082	13,988	12,334	7,592	8,730	7,769
Total external debt	197,698	184,505	187,445	236,181	233,136	218,028
% GNP	39.7	33.1	29.8	32.9	34.9	30.0
% GDP	37.8	32.1	29.3	32.0	34.4	29.2
% exports of goods and services	32.2	27.6	26.5	30.9	35.6	33.4
% annual growth	(1.4)	(6.7)	1.6	26.0	(1.0)	(11.6)
Debt service ratio (as % of exports of goods and services[(4)])	5.3	4.8	3.8	2.6	6.5	8.0

P Preliminary.

(1) Medium and long-term debt refers to debt with original maturity of more than one year.

(2) Short-term debt refers to debt with original maturity of one year or less, excluding currency and deposits held by non-residents with resident banking institutions.

(3) The Government has not incurred any short-term external debt.

(4) Measures the principal repayment, excluding prepayment, and the interest payment of the external debt as a proportion of gross exports of goods and services.

Source: Bank Negara Malaysia.

External debt outstanding (US$ million)(1)

	As of December 31,					As of March 31,
	2005	2006	2007	2008	2009P	2010P
Medium and long-term debt(2)	39,490	39,734	39,747	44,661	44,949	44,576
Government	7,859	7,011	5,859	5,796	3,989	3,856
Non-financial public enterprises	14,731	14,126	12,510	18,015	20,713	20,627
Private sector	16,900	18,597	21,378	20,850	20,248	20,094
Short-term debt(3)(4)	12,300	12,001	16,280	22,719	22,495	21,419
Banking sector	10,183	8,079	12,594	20,553	19,970	19,034
Non-bank private sector	2,117	3,922	3,687	2,166	2,526	2,352
Total external debt	51,790	51,736	56,027	67,380	67,445	65,995
% GNP	39.7	33.1	29.8	32.9	34.9	n.a.
% GDP	37.8	32.1	29.2	31.9	34.4	n.a.
% exports of goods and services	32.2	27.6	26.5	30.9	35.8	33.4
% annual growth	(1.4)	(6.7)	1.6	26.0	(1.0)	(11.6)
Debt service ratio (as % of exports of goods and services(5))	5.3	4.8	3.8	2.6	6.5	8.0
RM/US$ (customer rate as of end-year)	3.8173	3.5663	3.3456	3.5052	3.4567	3.3037
RM/US$ (average customer rate as of end-year)	3.8041	3.6941	3.4606	3.3657	3.5595	3.3608

P Preliminary.

(1) Converted to U.S. dollars at the exchange rate at the end of the relevant period.

(2) Medium and long-term debt refers to debt with original maturity of more than one year.

(3) Short-term debt refers to debt with original maturity of one year or less, excluding currency and deposits held by non-residents with resident banking institutions.

(4) The Government has not incurred any short-term external debt.

(5) Measures the principal repayment, excluding prepayment, and the interest payment of the external debt as a proportion of gross exports of goods and services.

Source: Bank Negara Malaysia.

Malaysia's medium- and long-term external debt as of December 31, 2005 was US$39.5 billion. Total external debt including short-term external debt was US$51.8 billion. During the year, the Government did not raise new external loans from the international capital markets. Short-term debt remained low, accounting for 23.7% of total external debt.

Malaysia's medium and long-term external debt as of December 31, 2006 was US$39.7 billion. Total external debt including short-term external debt, was US$51.7 billion. During the year, the Government did not raise new external loans from the international capital markets Short-term debt decreased and accounted for 23.2% of total external debt. The total debt service ratio declined to 4.8% in 2006.

Malaysia's medium and long-term external debt as of December 31, 2007 was US$39.7 billion. Total external debt including short-term external debt, was US$56.0 billion. During the year, the Government did not raise new external loans from the international capital markets. Short-term debt increased and accounted for 29.1% of total external debt. The total debt service ratio declined to 3.8% in 2007. Malaysia's medium and long-term external debt as of December 31, 2008 was US$44.6 billion. Total external debt including short-term external debt, was US$67.4 billion. During the year, the Government did not raise new external loans from the international capital markets. Short-term debt increased and accounted for 33.7% of total external debt. The total debt service ratio declined to 2.6% in 2008.

Malaysia's medium and long-term external debt as of December 31, 2009 was US$44.9 billion. Total external debt including short-term external debt, was US$67.7 billion. During the year, the Government did not raise new external loans from the international capital markets. Short-term debt decreased and accounted for 33.3% of total external debt. The total debt service ratio increased to 6.5% in 2009.

Malaysia's medium and long-term external debt as of March 31, 2010 was US$44.6 billion. Total external debt including short-term external debt, was US$66.0 billion. Short-term debt decreased and accounted for 32.5% of total external debt. The total debt service ratio increased to 8.0% as of March 31, 2010.

Malaysia maintains prudential rules on external borrowings by both the private and public sectors. External borrowings are governed by the Exchange Control Act 1953 and related legislation administered by BNM. External borrowings by the Government are also subject to the provisions of the External Loans Act 1963, which sets a ceiling on Government borrowings. Residents are allowed to borrow in foreign currency up to a certain aggregate limit, but prior approval is required to borrow in excess of the aggregate limit. In general, approval will be granted if the funds are to be used to generate economic benefits for the country.

Under the current foreign exchange administration policy, limits are applicable to borrowing in foreign currency by residents as a prudential measure to manage the large build-up of external debt. However, in enhancing access to competitive financing by resident businesses, the rule on foreign currency borrowing by residents has been progressively liberalized. The limit for borrowing by resident companies was increased to RM100 million equivalent in 2007 from RM50 million equivalent, previously. In 2008, the rule was further liberalized to allow resident companies to borrow any amount of foreign currency from their non-resident non-bank parent companies, other resident companies within the same corporate group in Malaysia and from the licensed onshore banks and licensed International Islamic Banks in Malaysia.

Debt Record

The Government has always paid when due the full amount of principal of, interest on and amortization or sinking fund requirements of its direct or indirect indebtedness in accordance with the terms of such indebtedness.

Litigation

On March 8, 2001, the State Government of Terengganu, one of the States of Malaysia, filed suit in the High Court against the Government and PETRONAS for non-payment of petroleum obtained offshore the state since September 2000. The State's claim that it was entitled to the payment was disputed by the Government and PETRONAS on the basis that the State is only entitled to payments for petroleum found within the State's territorial waters (i.e. not exceeding 3 nautical miles). Thus far, no petroleum is found and produced within the territorial waters of the State of Terengganu.

The Government and PETRONAS have since applied to the High Court for certain issues of law to be determined as preliminary issues prior to a full hearing on the case. The application was heard by the High Court on February 18, 2002 and on August 29, 2002, the High Court ruled in favor of the State Government of Terengganu in deciding that the parties should proceed to full trial. On appeal by the Government of Malaysia and PETRONAS, the Court of Appeals, on August 29, 2003, reversed the High Court's decision and ruled that the preliminary issues be adjudicated prior to the full hearing. The matter is now pending trial in the High Court.

In the meantime, the Government is making payments to the State of Terengganu on an "ex-gratia" basis.

Ongoing Delimitation Issue with Malaysia

Malaysia and Indonesia have been conducting negotiations regarding the delimitation of the two countries' maritime boundaries in the Technical Meeting on Maritime Delimitation between the two countries. The first negotiation was conducted in Jakarta on March 9, 2005 and the most recent one was conducted in Bali on October 14-15, 2009. The technical meetings were a continuation of maritime delimitation negotiations conducted by the two countries since 1969.

The negotiations in the Technical Meeting on Maritime Delimitation between Malaysia and Indonesia pertain to the Malacca Strait (territorial sea and exclusive economic zone), the South China Sea (exclusive economic zone) and the Sulawesi Sea (territorial sea, exclusive economic zone) and continental shelf). The most recent negotiation was conducted successfully and showed positive progress in the delimitation of the two countries' maritime boundaries.

Malaysia is from time to time involved in other litigation or international arbitration, none of which it considers to be material.

TAXATION

Malaysia Taxation

The following discussion summarizes certain Malaysian tax considerations that may be relevant to a holder of a Certificate. This summary is based on Malaysian laws, regulations, rulings and decisions now in effect, which may change. Any change could apply retroactively and could affect the validity of this summary. This summary does not describe all of the tax considerations that may be relevant to all the holders, particularly if such holders are subject to special tax rules. Investors should consult their own tax advisors about the tax consequences of holding the Certificates, including the relevance of the particular situation of the considerations discussed.

Income Tax and Withholding Tax

The Minister of Finance of Malaysia has agreed to grant a specific exemption under Section 127(3)(b) of the Income Tax Act 1967, to the effect that there will be no income tax or withholding tax payable in respect of Periodic Distribution Amounts under the Certificates. The exemption will, however, take effect after the relevant exemption order is gazetted.

Capital Gains

There is no capital gains tax in Malaysia. However gains in relation to disposal of real properties or real property companies are subject to gains tax under the Real Property Gains Tax 1976. Any gains arising from the disposition of the Certificates will not be subject to such real property gains tax. Furthermore, pursuant to Real Property Gains Tax (Exemption)(No. 3) Order 2003, any gains arising from the disposal of real property in relation to the issuance of Islamic securities (such as the Certificates) are exempted from the real property gains tax.

Gift or Inheritance Tax

There is neither gift nor inheritance tax in Malaysia.

Stamp Duty, Registration or Other Duties

Pursuant to specific exemption granted by the Minister of Finance under Section 80(1A) Stamp Act 1949, any Malaysian stamp duty payable in respect of any document in relation to the Certificates is exempted. Therefore there will be no stamp duty payable in Malaysia in relation to the issue or transfer of the Certificates. There are no issue, registration or other duties payable under Malaysian law by the holders of the Certificates in connection with the issue or transfer of the ownership of the Certificates outside Malaysia.

Hong Kong

Withholding tax

No withholding tax in Hong Kong is payable on payments in respect of the Certificates.

Profits tax

Hong Kong profits tax is charged on every person carrying on a trade, profession or business in Hong Kong in respect of assessable profits arising in or derived from Hong Kong from such trade, profession or business.

Under the Inland Revenue Ordinance (Chapter 112 of the Laws of Hong Kong) (the "**Inland Revenue Ordinance**") as it is currently applied, Hong Kong profits tax may be charged on revenue profits arising on the sale, disposal or redemption of the Certificates where such sale, disposal or redemption is or forms part of a trade, profession or business carried on in Hong Kong.

Certain payments on the Certificates will be subject to Hong Kong profits tax where such payment has a Hong Kong source, and is received by or accrues to:

(a) a financial institution (as defined in the Inland Revenue Ordinance) and arises through or from the carrying on by the financial institution of its business in Hong Kong, notwithstanding that the moneys in respect of which the payment is received or accrues are made available outside Hong Kong; or

(b) a corporation carrying on a trade, profession or business in Hong Kong by way of payment derived from Hong Kong; or

(c) a person, other than a corporation, carrying on a trade, profession or business in Hong Kong by way of payments derived from Hong Kong and such payment is in respect of the funds of the trade, profession or business.

Stamp duty

No Hong Kong stamp duty will be chargeable upon the issue or transfer (for so long as the register of holders of the Certificates is maintained outside Hong Kong) of a Certificate.

Estate duty

No Hong Kong estate duty is payable in respect of the Certificates.

United States Federal Income Tax Considerations

TO ENSURE COMPLIANCE WITH INTERNAL REVENUE SERVICE CIRCULAR 230, EACH TAXPAYER IS HEREBY NOTIFIED THAT: (A) ANY TAX DISCUSSION HEREIN IS NOT INTENDED OR WRITTEN TO BE USED, AND CANNOT BE USED, BY THE TAXPAYER FOR THE PURPOSE OF AVOIDING U.S. FEDERAL INCOME TAX PENALTIES THAT MAY BE IMPOSED ON THE TAXPAYER; (B) ANY SUCH TAX DISCUSSION WAS WRITTEN TO SUPPORT THE PROMOTION OR MARKETING OF THE TRANSACTIONS OR MATTERS ADDRESSED HEREIN; AND (C) THE TAXPAYER SHOULD SEEK ADVICE BASED ON THE TAXPAYER'S PARTICULAR CIRCUMSTANCES FROM AN INDEPENDENT TAX ADVISER.

The following is a summary of certain U.S. federal income tax considerations that may be relevant to a holder of a Certificate that is a citizen or resident of the U.S. or a domestic corporation or that otherwise is subject to U.S. federal income taxation on a net income basis in respect of a Certificate (a "**United States holder**"). This summary does not describe any tax consequences arising under the laws of any taxing jurisdiction other than the income tax laws of the U.S. federal government. This summary is based on laws, regulations, rulings and decisions in effect as of the date hereof, all of which are subject to change, which change could apply retroactively and could affect the tax consequences described below. This summary deals only with United States holders that acquire the Certificates at original issuance and that will hold Certificates as capital assets and does not address tax considerations applicable to investors that may be subject to special tax rules, such as banks, financial institutions, regulated investment companies, tax-exempt entities, insurance companies, dealers or traders in securities or currencies, U.S. branch operations of foreign corporations, holders that are subject to the mark to market rules, persons that will hold Certificates as a position in a hedging, "straddle" or conversion transaction, or as part of a "synthetic security" or other integrated financial transaction, persons that have a "functional currency" other than the U.S. dollar or persons who hold Certificates through a partnership or other pass-through entity. Furthermore, this summary does not address alternative minimum tax consequences or the indirect effects on the holders of equity interests in a holder of the Certificates.

No ruling is being requested from the U.S. Internal Revenue Service (the "**IRS**") and no legal opinion is being given regarding the tax consequences of investing in the Certificates and no assurance can be given that the IRS or the courts will agree with the discussions set forth herein. Investors should consult their own tax advisors in determining the tax consequences to them of holding Certificates, including the application to their particular situation of the U.S. federal income tax considerations discussed below, as well as the application of state, local, foreign or other tax laws.

Overview

The Trustee intends to treat the Certificates under the rules applicable to debt instruments for U.S. tax purposes. Under this characterization, United States holders will not be required to take account of income and expenses incurred at the level of the Trust.

Periodic Distribution Amounts

Periodic Distribution Amounts will be subject to taxation under the U.S. tax rules applicable to debt instruments. Accordingly, a United States holder will be required to include Periodic Distribution Amounts in its income as ordinary income at the time that such distributions are accrued or are received (in accordance with the holder's method of tax accounting). Such income will be treated as foreign source income for purposes of calculating that United States holder's foreign tax credit limitation. The limitation on foreign taxes eligible for foreign tax credit is calculated separately with respect to specific classes of income. For this purpose, such income should generally constitute "passive income". Any foreign income taxes withheld from payments of Periodic Distribution Amounts will be included in the income of United States holders as ordinary income and will likewise be deductible to United States holders, or, alternatively, United States holders may be eligible for a U.S. foreign tax credit subject to various limitations. United States holders should consult their own tax advisers regarding the availability of a foreign tax credit and the application of the foreign tax credit rules.

Purchase, Sale and Retirement of Certificates

A United States holder's tax basis in a Certificate generally will equal the cost of such Certificate to such holder. Upon the sale, exchange or retirement of a Certificate, a United States holder generally will recognize gain or loss equal to the difference between the amount realized on the sale, exchange or retirement (less any amounts in respect of accrued Periodic Distribution Amounts, which will be taxable as ordinary income) and the holder's tax basis in such Certificate. Gain or loss recognized by a United States holder generally will be U.S. source capital gain or loss. For United States holders who are individuals, trusts or estates that hold the Certificates for more than one year, capital gains may be taxed at lower rates than ordinary income. The deductibility of capital losses is subject to certain limitations.

Potential Alternative Characterization

The Trustee believes that it is appropriate to treat the Certificates as representing debt obligations of the Obligor and intends to do so. However, the IRS may seek to characterize the Certificates as interests in a grantor trust for U.S. federal income tax purposes. Under this characterization, while the taxation of the income, gain or loss attributable to the Certificates would be essentially the same as the consequences described above, the Trustee and United States holders would be subject to certain information reporting applicable to foreign trusts. United States holders that fail to comply with these information reporting requirements in a timely manner could be subject to significant penalties, including a penalty of up to 35% of the amount paid for a Certificate and 35%

of distributions received from the Trustee. Moreover, a United States holder that fails to file the appropriate information return within 90 days after the date on which the IRS mails notice of such failure to the holder may be liable for a penalty (in addition to the penalty described in the preceding sentence) of US$10,000 for each 30-day period (or fraction thereof) during which such failure continues after the expiration of such 90-day period. A United States holder could also be liable for penalties equal to the greater of US$10,000 or 5% of the gross value of the portion of the trust owned by a United States holder at the close of the year, if the Trustee failed to file a U.S. annual information return and provide each United States holder with a foreign grantor trust owner statement. Similar penalties would be applicable to the Trustee for failure to comply. The Trustee does not expect that it will provide information that would allow either itself or United States holders to comply with foreign trust reporting obligations if they were determined to be applicable. United States holders should consult their own tax advisors as to the potential application of the foreign trust reporting rules and the tax consequences generally with respect to an investment in the Certificates.

Information Reporting and Backup Withholding

Information returns may be required to be filed with the IRS with respect to payments made to certain United States holders of Certificates. In addition, a United States holder may be subject to backup withholding tax in respect of such payments if such holder fails to provide its taxpayer identification number, to certify that such United States holder is not subject to backup withholding, or otherwise to comply with the applicable requirements of the backup withholding rules. Persons holding Certificates who are not United States holders may be required to comply with applicable certification procedures to establish that they are not United States holders in order to avoid the application of such information reporting requirements and backup withholding tax in respect of payments made in the United States or through a U.S.-related financial intermediary. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules from a payment to a holder of Certificates generally may be claimed as a credit against such holder's U.S. federal income tax liability provided that the required information is furnished to the IRS. Holders of Certificates should consult their own tax advisers as to their qualification for exemption from backup withholding and the procedure for obtaining an exemption.

Reportable Transactions

A U.S. taxpayer that participates in a "reportable transaction" will be required to disclose its participation to the IRS. The scope and application of these rules is not entirely clear. A United States holder may be required to treat a foreign currency exchange loss from the Certificates as a reportable transaction if the loss exceeds US$50,000 in a single taxable year, if the United States holder is an individual or trust, or higher amounts for other non-individual United States holders. In the event the acquisition, holding or disposition of Certificates constitutes participation in a reportable transaction for purposes of these rules, a United States holder will be required to disclose its investment by filing Form 8886 with the IRS. A penalty in the amount of US$10,000 in the case of a natural person and US$50,000 in all other cases is generally imposed on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. Accordingly, if a United States holder realizes a loss on any Certificate (or, possibly, aggregate losses from the Certificate) satisfying the monetary thresholds discussed above, the United States holder could be required to file a statement with the IRS, and failure to do so may subject the United States holder to the penalties described above. Prospective purchasers are urged to consult their tax advisers regarding the application of these rules to the acquisition, holding or disposition of Certificates.

THE ABOVE DESCRIPTION IS NOT INTENDED TO CONSTITUTE A COMPLETE ANALYSIS OF ALL TAX CONSEQUENCES RELATING TO THE ACQUISITION, OWNERSHIP AND DISPOSITION OF CERTIFICATES. PROSPECTIVE PURCHASERS OF CERTIFICATES SHOULD CONSULT THEIR TAX ADVISORS CONCERNING THE TAX CONSEQUENCES OF THEIR PARTICULAR SITUATIONS.

ERISA CONSIDERATIONS

The U.S. Employee Retirement Income Security Act of 1974, as amended ("**ERISA**"), and Section 4975 of the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), impose certain restrictions on (i) employee benefit plans (as defined in Section 3(3) of ERISA) that are subject to Part 4, Title I of ERISA, (ii) plans (as defined in Section 4975(e)(1) of the Code) that are subject to Section 4975 of the Code, including individual retirement accounts and Keogh plans, (iii) any entities whose underlying assets could be deemed to include plan assets by reason of a plan's investment in such entities (each of the foregoing, a "**Plan**") and (iv) persons who have certain specified relationships to a Plan or its assets ("**parties in interest**" under ERISA and "**disqualified persons**" under the Code; collectively, "**Parties in Interest**"). ERISA also imposes certain duties on persons who are fiduciaries of Plans subject to ERISA, and ERISA and Section 4975 of the Code prohibit certain transactions between a Plan and Parties in Interest or Disqualified Persons with respect to such Plan. Violations of these rules may result in the imposition of excise taxes and other penalties and liabilities under ERISA and the Code.

ERISA and Section 4975 of the Code prohibit a broad range of transactions involving plan assets and Parties in Interest, unless a statutory or administrative exemption is available. Parties in Interest that participate in a prohibited transaction may be subject to penalties imposed under ERISA and/or excise taxes imposed pursuant to Section 4975 of the Code, unless a statutory or administrative exemption is available. These prohibited transactions generally are set forth in Section 406 of ERISA and Section 4975 of the Code. Certain employee benefit plans, including governmental plans (as defined in Section 3(32) of ERISA), certain church plans (as defined in Section 3(33) of ERISA), and non-U.S. plans (as described in Section 4(b)(4) of ERISA) are not subject to the prohibited transaction rules of ERISA or the Code but may be subject to similar rules under other applicable laws or documents. Accordingly, assets of such plans may be invested in the Certificates without regard to the prohibited transaction considerations under ERISA and the Code described below, subject to the provisions of other applicable federal, state or non-U.S. law ("**Similar Law**").

The term "**plan assets**" is defined in Section 3(42) of ERISA. The U.S. Department of Labor, the governmental agency primarily responsible for the administration of ERISA, has issued a final regulation (29 C.F.R. Section 2510.3-101), which, together with Section 3(42) of ERISA, set out the standards that will apply for determining what constitutes the assets of a Plan (collectively, the "Plan Asset Regulation"). Under the Plan Asset Regulation, if a Plan invests in an "**equity interest**" of an entity that is neither a "publicly-offered security" nor a security issued by an investment company registered under the Investment Company Act, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets, unless it is established that the entity is an "operating company" or that equity participation in the entity by "benefit plan investors" (which are essentially Plans) is not "**significant**". The Plan Assets Regulation generally defines equity participation in an entity by "**benefit plan investors**" as "**significant**" if 25% or more of the value of any class of equity interest in the entity is held by "benefit plan investors". If the assets of the Trustee were deemed to be plan assets of a Plan, the Trustee would be subject to certain fiduciary obligations under ERISA and certain transactions that the Trustee might enter into, or may have entered into, in the ordinary course of business might constitute or result in non-exempt prohibited transactions under ERISA or Section 4975 of the Code and might have to be rescinded.

The Trustee intends that the Certificates be treated as indebtedness and not an "equity interest" for purposes of the Plan Assets Regulation. Nevertheless, each initial purchaser of the Certificates and each subsequent transferee will be deemed to have acknowledged, represented and agreed, by its purchase or holding of Certificates, that (A) it is not and for so long as it holds Certificates will not be (i) a Plan or (ii) a governmental, church or non-U.S. plan unless, under this subsection (ii), its purchase and holding of the Certificates would not result in a violation of any Similar Law, and (B) it and any person causing it to acquire any of the Certificates agrees to indemnify and hold harmless the Trustee, the Trust, the Delegate, the Joint Lead Managers and their respective affiliates from any cost, damage or loss incurred by them as a result of it being or being deemed to be a Plan.

ERISA Transfer Restrictions

Each purchaser or transferee of the Certificates will be deemed to have acknowledged, represented and agreed that (a) it is not and is not acting on behalf of: (i) a Plan or (ii) a governmental, church or non-U.S. plan unless, under this subsection (ii), the purchase and holding of the Certificate would not violate the applicable provisions of any Similar Law and (b) it will not sell or otherwise transfer any Certificates or interest to any person without first obtaining the same foregoing representations and warranties from that person.

PLAN OF DISTRIBUTION

Subject to the terms and conditions stated in the subscription agreement dated May 27, 2010 (the "**Subscription Agreement**") among the Trustee, the Government of Malaysia and the Joint Lead Managers and the co-lead managers named below (the "**Co-Lead Managers**", and together with the Joint Lead Managers, the "**Managers**"), each of the Managers has agreed to purchase, and the Trustee has agreed to sell to that Manager, the face amount of Certificates set forth opposite the relevant Manager's name:

Managers

Joint Lead Managers	
Barclays Bank PLC	US$312,500,000
CIMB Bank (L) Limited	US$312,500,000
The Hongkong and Shanghai Banking Corporation Limited, Offshore Banking Unit Labuan	US$312,500,000
Co-Lead Managers	
Islamic Development Bank	US$ 62,500,000
Maybank International (L) Limited	US$ 62,500,000
National Bank of Abu Dhabi P.J.S.C.	US$ 62,500,000
NCB Capital Company	US$ 62,500,000
RHB Bank Berhad (Singapore Branch)	US$ 62,500,000
Total	**US$1,250,000,000**

The Subscription Agreement provides that the obligations of the Managers to subscribe and pay for or procure subscriptions and payments for the Certificates are subject to the approval of certain legal matters by their counsel and certain other conditions. The Subscription Agreement may be terminated by the Managers in certain circumstances prior to the issuance and subscription of the Certificates.

Pursuant to the Subscription Agreement, the Government of Malaysia will pay the Managers management and selling commissions in an amount equal to 0.25% of the aggregate face amount of the Certificates in respect of the offering and sale of the Certificates. The Managers have agreed to bear certain expenses of the offering.

The Government of Malaysia has agreed to indemnify the Managers against certain liabilities, including liabilities under the Securities Act.

The Certificates are a new issue of securities for which there currently is no market. The Managers have advised the Trustee that they intend to make a market in the Certificates as permitted by applicable law. They are not obligated, however, to make a market in the Certificates, and they may discontinue any such market-making at any time at their sole discretion. Accordingly, no assurance can be given as to the development or liquidity of any market for the Certificates.

The Managers propose to offer the Certificates initially at the offering price on the cover page of this offering memorandum. After the initial offering, the offering price may be changed. The Trustee, the Government of Malaysia and the Managers have not taken any action, nor will the Trustee, the Government of Malaysia and the Managers take any action, in any jurisdiction that would permit a public offering of the Certificates, or the possession, circulation or distribution of this offering memorandum or any other material relating to the Government of Malaysia or the Certificates in any jurisdiction where action for that purpose is required. Accordingly, an investor may not offer or sell, directly or indirectly, any Certificate and may not distribute or publish either this offering memorandum or any other offering material or advertisements in connection with the Certificates, in or from any country or jurisdiction except in compliance with any applicable rules and regulations of such country or jurisdiction.

Bahrain

Each Manager has represented and agreed that it has not offered, and will not offer, Certificates to (i) the public (as defined in Articles 142-146 of the Commercial Companies Law (Decree Law No. 21/2001) of Bahrain) or (ii) any person in Bahrain who is not an "accredited investor". For this purpose, an "**accredited investor**" means:

(a) an individual holding financial assets (either singly or jointly with a spouse) of US$1,000,000 or more;

(b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than US$1,000,000; or

(c) a government, supranational organization, central bank or other national monetary authority or a state organization whose main activity is to invest in financial instruments such as a state pension fund.

Dubai International Financial Centre

Each Manager has represented and agreed that it has not offered and will not offer the Certificates to any person in the Dubai International Financial Centre unless such offer is:

(a) deemed to be an "Exempt Offer" in accordance with the Offered Securities Rules of the Dubai Financial Services Authority (the "**DFSA**"); and

(b) made only to persons who meet the Professional Client criteria set out in Rule 2.3.2 of the DFSA Conduct of Business Module.

European Economic Area

In relation to each Member State of the European Economic Area which has implemented the Prospectus Directive (each, a "**Relevant Member State**"), each Manager has represented and agreed that with effect from and including the date on which the Prospectus Directive is implemented in that Relevant Member State (the "**Relevant Implementation Date**") it has not made and will not make an offer of Certificates which are the subject of the offering contemplated by this offering memorandum to the public in that Relevant Member State except that it may, with effect from and including the Relevant Implementation Date, make an offer of Certificates to the public in that Relevant Member State:

(a) at any time to legal entities which are authorized or regulated to operate in the financial markets or, if not so authorized or regulated, whose corporate purpose is solely to invest in securities;

(b) to any legal entity which has two or more of (1) an average of at least 250 employees during the last financial year; (2) a total balance sheet of more than €43,000,000; and (3) an annual net turnover of more than €50,000,000, as shown in its last annual or consolidated accounts;

(c) to fewer than 100 natural or legal persons (other than qualified investors as defined in the Prospectus Directive); or

(d) in any other circumstances falling within Article 3(2) of the Prospectus Directive,

provided that no such offer of Certificates shall require the Trustee, Malaysia or any Manager to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the Prospectus Directive.

For the purposes of this provision, the expression "**an offer of Certificates to the public**" in relation to any Certificates in any Relevant Member State means the communication in any form and by any means of sufficient information on the terms of the offer and the Certificates to be offered so as to enable an investor to decide to purchase or subscribe for the Certificates, as the same may be varied in that Member State by any measure implementing the Prospectus Directive in that Member State and the expression Prospectus Directive means Directive 2003/71/EC and includes any relevant implementing measure in each Relevant Member State.

Hong Kong

Each Manager has represented, warranted and agreed that:

(a) It has not offered or sold and will not offer or sell in Hong Kong, by means of any document, the Certificates other than (i) to persons whose ordinary business is to buy or sell shares or debentures (whether as principal or agent); or (ii) to "professional investors" within the meaning of the Securities and Futures Ordinance (Cap. 571) (the "**SFO**") and any rules made under the SFO; or (iii) in other circumstances which do not result in the document being a "prospectus" as defined in the Companies Ordinance (Cap. 32) of Hong Kong (the "**CO**") which do not constitute an offer to the public within the meaning of the CO; and

(b) It has not issued or had in its possession for the purposes of issue, and will not issue or have in its possession for the purposes of issue (in each case whether in Hong Kong or elsewhere), any advertisement, invitation or document relating to the Certificates, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to the Certificates which are or are intended to be disposed of only to persons outside Hong Kong or only to "professional investors" within the meaning of the SFO and any rules made under the SFO.

Qatar

Each of the Managers has represented and agreed that it has not offered or sold, and will not offer or sell, directly or indirectly, any Certificates in the State of Qatar, except: (a) in compliance with all applicable laws and regulations of the State of Qatar; and (b) through persons or corporate entities authorized and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in the State of Qatar.

Saudi Arabia

Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a "**Saudi Investor**") who acquires Certificates pursuant to the offering should note that the offer of Certificates is a limited offer under Article 11 of the "Offer of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated October 4, 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated August 18, 2008 (the "**KSA Regulations**"). Each Manager has represented, warranted and agreed that the offer of the Certificates will not be directed at more than 60 Saudi Investors (excluding "Sophisticated Investors" (as defined in Article 10 of the KSA Regulations)) and the minimum amount payable per Saudi Investor will be not less than Saudi Riyal (SR) 1 million or an equivalent amount. The offer of Certificates shall not therefore constitute a "public offer" pursuant to the KSA Regulations, but is subject to the following restrictions on secondary market activity under Article 17 of the KSA Regulations:

(a) A Saudi Investor (the "**transferor**") who has acquired Certificates pursuant to a limited offer may not offer or sell Certificates to any person (referred to as a "**transferee**") unless the offer or sale is made through an authorized person appropriately licensed by the Saudi Arabian Capital Market Authority and the price to be paid by the transferee for such Certificates equals or exceeds SR 1 million, or the offer or sale is otherwise in compliance with Article 17 of the KSA Regulations.

(b) If the provisions of paragraph (a) cannot be fulfilled because the price of the Certificates being offered or sold to the transferee has declined since the date of the original limited offer, the transferor may offer or sell the Certificates to the transferee if their purchase price during the period of the original limited offer was equal to or exceeded SR 1 million.

(c) If the provisions of (a) and (b) cannot be fulfilled, the transferor may offer or sell Certificates if he/she sells his entire holding of Certificates to one transferee.

The provisions of paragraphs (a), (b) and (c) shall apply to all subsequent transferees of the Certificates.

Singapore

Each Manager has acknowledged that this offering memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager has severally represented and agreed that it has not offered or sold any Certificates or caused such Certificates to be made the subject of an invitation for subscription or purchase and will not offer or sell such Certificates or cause such Certificates to be made the subject of an invitation for subscription or purchase, and has not circulated or distributed, nor will it circulate or distribute, this offering memorandum or any other document or material in connection with the offer or sale, or invitation for subscription or purchase, of such Certificates, whether directly or indirectly, to any person in Singapore other than (i) to an institutional investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"), (ii) to a relevant person pursuant to Section 275(1) of the SFA, or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Certificates are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

(a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor, shares, debentures and units of shares and debentures of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Certificates pursuant to an offer made under Section 275 of the SFA except:

(i) to an institutional investor (under Section 274 of the SFA) or to a relevant person defined in Section 275(2) of the SFA, or to any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA;

(ii) where no consideration is or will be given for the transfer; or

(iii) where the transfer is by operation of law.

United Arab Emirates (excluding the Dubai International Finance Centre)

Each Manager has represented, warranted and agreed that:

(a) the Certificates have not been and will not be offered, sold or publicly promoted or advertised by it in the United Arab Emirates other than in compliance with any laws applicable in the United Arab Emirates governing the issue, offering and sale of securities; and

(b) the information contained in this offering memorandum does not constitute a public offer of securities in the United Arab Emirates in accordance with the Commercial Companies Law (Federal Law No. 8 of 1986 (as amended)) or otherwise and is not intended to be a public offer and the information contained in this offering memorandum is not intended to lead to the conclusions of any contract of whatsoever nature within the territory of the United Arab Emirates.

United Kingdom

Each Manager has represented, warranted and agreed that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 ("**FSMA**")) received by it in connection with the issue or sale of any Certificates in circumstances in which Section 21(1) of the FSMA does not apply to the Trustee or Malaysia; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any Certificates in, from or otherwise involving the United Kingdom.

United States

The Certificates have not been and will not be registered under the Securities Act or the securities laws of any state or other jurisdiction of the United States and may not be offered or sold within the United States except in certain transactions exempt from, or not subject to the registration requirements of the Securities Act.

In connection with any Certificates which are offered or sold outside the United States in reliance on an exemption from the registration requirements of the Securities Act provided under Regulation S ("**Regulation S Certificates**"), each Manager has represented, warranted, undertaken and agreed that it will not offer, sell or deliver such Regulation S Certificates as part of its distribution at any time within the United States except in accordance with Rule 903 of Regulation S. Terms used in the two preceding paragraphs have the meanings given to them by Regulation S under the Securities Act.

Until 40 days after the commencement of the offering of any Certificates, an offer or sale of Regulation S Certificates within the United States by the Managers (whether or not participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than in accordance with an available exemption from registration under the Securities Act.

One or more Managers may arrange for the resale of Certificates to QIBs pursuant to Rule 144A and each such purchaser of Certificates is hereby notified that the relevant Manager may be relying on the exemption from the registration requirements of the Securities Act provided by Rule 144A. To the extent that the Trustee is not subject to or does not comply with the reporting requirements of Section 13 or 15(d) of the Exchange Act or the information furnishing requirements of Rule 12g3-2(b) thereunder, the Trustee has agreed to furnish to holders of Certificates and to prospective purchasers designated by such holders, upon request, such information as may be required by Rule 144A(d)(4).

General

Each Manager has represented, warranted and agreed that it will (to the best of its knowledge and belief) comply with all applicable securities laws and regulations in force in any jurisdiction in which it purchases, offers, sells or delivers Certificates or possesses or distributes this offering memorandum and will obtain any consent, approval or permission required by it for the purchase, offer, sale or delivery by it of Certificates under the laws and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or deliveries and none of the Trustee, Malaysia, the Delegate, the Agents or any of the other Managers shall have any responsibility or bear any expense therefor.

None of the Trustee, Malaysia, the Delegate, the Agents or any of the Managers represents that Certificates may at any time lawfully be sold in compliance with any applicable registration or other requirements in any jurisdiction, or pursuant to any exemption available thereunder, or assumes any responsibility for facilitating any such sale.

Other persons into whose hands this offering memorandum comes are required by the Trustee, the Managers and Malaysia to comply with all applicable laws and regulations in each country or jurisdiction in or from which they purchase, offer, sell or deliver Certificates or possess, distribute or publish this offering memorandum or any related offering material, in all cased at their own expense.

These Selling Restrictions may be modified by agreement of the Trustee, Malaysia and the Managers following a change in a relevant law, regulation or directive. Any such modification will be set out in a supplement to this offering memorandum.

TRANSFER RESTRICTIONS

Due to the following significant transfer restrictions applicable to the Certificates, investors are advised to consult legal counsel prior to making any reoffer, resale, pledge, transfer or disposal of Certificates.

The Certificates have not been and will not be registered under the Securities Act or any other securities laws, and may not be offered or sold in the United States except pursuant to an effective registration statement or in accordance with an applicable exemption from the registration requirements of the Securities Act. Accordingly, the Certificates are being offered and sold in the United States only to persons reasonably believed to be QIBs in reliance on the registration exemption in Rule 144A of the Securities Act. The international offering is being made outside the United States in offshore transactions pursuant to Regulation S under the Securities Act.

Any reoffer, resale, pledge, transfer or other disposal, or attempted reoffer, resale, pledge, transfer or other disposal, made other than in compliance with the restrictions noted below shall not be recognized by Malaysia or the Trustee.

Rule 144A Transfer Restrictions

Each purchaser of the Rule 144A Certificates in the United States will be deemed to have acknowledged, represented and agreed that:

(1) It is:

  (a) a QIB as defined in Rule 144A under the Securities Act;

  (b) aware, and each beneficial owner of the Rule 144A Certificates has been advised, that the sale of such Certificates to it is being made in reliance on Rule 144A; and

  (c) acquiring the Rule 144A Certificates for its own account or for the account of one or more QIBs; and

(2) It understands that the Rule 144A Certificates have not been and will not be registered under the Securities Act or the securities laws of any state of the United States and may be offered, sold, pledged or otherwise transferred only:

  (a) outside the United States in an offshore transaction in accordance with Regulation S under the Securities Act;

  (b) pursuant to an exemption from registration under the Securities Act provided by Rule 144 thereunder (if available);

  (c) within the United States to a person whom it reasonably believes is a QIB that is purchasing for its own account or for the account of one or more QIBs, in a transaction meeting the requirements of Rule 144A under the Securities Act; or

  (d) pursuant to an effective registration statement under the Securities Act,

  in each case in accordance with any applicable securities laws of any state of the United States; and

(3) Rule 144A Certificates sold in the offering will constitute "restricted securities" within the meaning of Rule 144 under the Securities Act, and for so long as they remain "restricted securities" such Rule 144A Certificates may not be transferred except as described in paragraph (2) above; and

(4) Rule 144A Certificates will bear a legend to the following effect, unless the Trustee determines otherwise in compliance with applicable law:

“THIS CERTIFICATE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND ACCORDINGLY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED OR DISPOSED OF WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT AS SET FORTH IN THE FOLLOWING SENTENCE.

BY ITS ACQUISITION HEREOF, THE HOLDER (1) REPRESENTS THAT (A) IT IS A “QUALIFIED INSTITUTIONAL BUYER” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (B) IT IS ACQUIRING THE CERTIFICATES REPRESENTED HEREBY IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT, (2) AGREES THAT IT WILL NOT RESELL OR OTHERWISE TRANSFER THE CERTIFICATES EXCEPT (A) WITHIN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QUALIFIED INSTITUTIONAL BUYERS IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A UNDER THE SECURITIES ACT, (B) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (C) PURSUANT TO THE EXEMPTION FROM REGISTRATION PROVIDED BY RULE 144 UNDER THE SECURITIES ACT (IF AVAILABLE) OR (D) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT AND (3) AGREES THAT IT WILL DELIVER TO EACH PERSON TO WHOM THIS CERTIFICATE IS BEING TRANSFERRED A NOTICE SUBSTANTIALLY TO THE EFFECT OF THIS LEGEND.

AS USED HEREIN, THE TERMS “OFFSHORE TRANSACTION” AND “UNITED STATES” HAVE THE MEANINGS GIVEN TO THEM BY REGULATION S UNDER THE SECURITIES ACT. IN CONNECTION WITH ANY TRANSFER, THE HOLDER WILL DELIVER TO THE REGISTRAR SUCH OPINIONS OF COUNSEL, CERTIFICATES AND/OR OTHER INFORMATION AS IT MAY REASONABLY REQUIRE IN FORM REASONABLY SATISFACTORY TO IT AS PROVIDED FOR IN THE DECLARATION OF TRUST TO CONFIRM THAT THE TRANSFER COMPLIED WITH THE FOREGOING RESTRICTIONS AS PROVIDED FOR IN THE DECLARATION OF TRUST.

ANY RESALE OR OTHER TRANSFER OF THIS CERTIFICATE (OR BENEFICIAL INTEREST HEREIN) WHICH IS NOT MADE IN COMPLIANCE WITH THE RESTRICTIONS SET FORTH HEREIN WILL BE OF NO FORCE AND EFFECT, WILL BE NULL AND VOID AB INITIO AND WILL NOT OPERATE TO TRANSFER ANY RIGHTS TO THE TRANSFEREE.”; AND

(5) The Trustee, Malaysia, the Registrar, the Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. If it is acquiring any Certificates for the account of one or more QIBs, it represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

Regulation S Transfer Restrictions

Each purchaser of the Regulation S Certificates and each subsequent purchaser of such Regulation S Certificates in resales, by accepting delivery of this offering memorandum and the Certificates, will be deemed to have represented, agreed and acknowledged that:

(1) It understands that the Regulation S Certificates, unless otherwise determined by the Trustee in accordance with applicable law, will bear a legend substantially in the following form:

“THIS CERTIFICATE HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT”), OR WITH ANY SECURITIES REGULATORY AUTHORITY OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES AND ACCORDINGLY MAY NOT BE OFFERED, SOLD, PLEDGED OR OTHERWISE TRANSFERRED OR DISPOSED OF WITHIN THE UNITED STATES EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT. ”

(2) The Trustee, Malaysia, the Registrar, the Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements.

ERISA Transfer Restrictions

Each purchaser or transferee of the Certificates will be deemed to have acknowledged, represented and agreed that (a) it is not and is not acting on behalf of: (i) a Plan, or (ii) a governmental, church or non-U.S. plan unless, under this subsection (ii), the purchase and holding of the Certificate would not violate the applicable provisions of any Similar Law and (b) it will not sell or otherwise transfer any Certificates or interest to any person without first obtaining the same foregoing representations and warranties from that person.

LEGAL MATTERS

Certain legal matters will be passed upon for Malaysia and the Trustee by the Treasury Solicitor and by Hisham, Sobri & Kadir, Malaysian counsel to the Trustee, as to matters of Malaysian law, and by Allen & Overy LLP, international counsel to Malaysia and the Trustee as to matters of U.S. federal and New York State law. Certain legal matters will be passed upon for the Joint Lead Managers by Zaid Ibrahim & Co., Malaysian counsel to the Joint Lead Managers, and by Clifford Chance, international counsel to the Joint Lead Managers, as to matters of U.S. federal, New York State and English law. In rendering their opinions, Allen & Overy LLP will rely as to all matters of Malaysian law upon the opinion of the Treasury Solicitor and Hisham, Sobri & Kadir of Malaysia, and Clifford Chance will rely as to all matters of Malaysian law upon the opinion of Zaid Ibrahim & Co.

CLEARANCE AND SETTLEMENT

The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of DTC, Euroclear or Clearstream, Luxembourg currently in effect. The information in this section concerning such clearing systems has been obtained from sources that the Trustee believes to be reliable, but none of the Trustee, Malaysia, the Joint Lead Managers, the Agents or the Delegate takes any responsibility for the accuracy of this section. The Trustee and Malaysia only take responsibility for the correct extraction and reproduction of the information in this section. Investors wishing to use the facilities of any of the clearing systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant clearing system. None of the Trustee, Malaysia nor any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Certificates held through the facilities of any clearing system or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

Book-entry ownership

The Certificates will be evidenced on issue by the Regulation S Global Certificate (registered in the name of a nominee of, and shall be deposited with a custodian for, DTC for the accounts of Euroclear and Clearstream, Luxembourg) and the Rule 144A Global Certificate (registered in the name of a nominee of, and shall be deposited with a custodian for, DTC).

The Trustee, and a relevant U.S. agent appointed for such purpose that is an eligible DTC participant, will make application to DTC for acceptance in its book-entry settlement system of the Certificates represented by the Regulation S Global Certificates and the Rule 144A Global Certificates. The Trustee will also make application to Euroclear and/or Clearstream, Luxembourg for acceptance in their respective book-entry systems in respect of the Certificates to be represented by the Regulation S Global Certificates. The Regulation S Global Certificates and Rule 144A Global Certificates will each have a CUSIP, an ISIN and a Common Code. The Rule 144A Global Certificates and the Regulation S Global Certificates will be subject to restrictions on transfer contained in a legend appearing on the front of such Global Certificate, as set out under "*Transfer Restrictions*". In certain circumstances, as described below, transfers of interests in the Rule 144A Global Certificates may be made as a result of which such legend may no longer be required.

Upon the Global Certificates being registered in the name of a nominee of, and deposited with a custodian for, DTC, DTC will electronically record the nominal amount of the Certificates held within the DTC system. Investors may hold their beneficial interests in the Global Certificates directly through DTC if they are participants in the DTC system, or indirectly through organizations (including Euroclear and Clearstream, Luxembourg) which are participants in such system (together, such direct and indirect participants of DTC shall be referred to as "**DTC participants**"). All interests in the Global Certificates, including those held through Euroclear or Clearstream, Luxembourg may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream, Luxembourg may also be subject to the procedures and requirements of such system.

Payments and relationship of participants with clearing systems

Each of the persons shown in the records of DTC as the holder of a Certificate represented by a Global Certificate must look solely to DTC for his share of each payment made by the Trustee to the holder of such Global Certificate and in relation to all other rights arising under such Global Certificate, subject to and in accordance with the respective rules and procedures of DTC. The Trustee expects that, upon receipt of any payment in respect of Certificates represented by a Global Certificate, DTC or its nominee will immediately credit the relevant participants' or accountholders' accounts in the relevant clearing system with payments in amounts proportionate to their respective beneficial interests in the face amount of the relevant Global Certificate as shown on the records of the relevant clearing system or its nominee. The Trustee also expects that payments by DTC participants to owners of beneficial interests in a Global Certificate held through such DTC participants will be governed by standing instructions and customary practices. Save as aforesaid, such persons shall have no claim directly against the Trustee in respect of payments due on the Certificates for so long as the Certificates are represented by such Global Certificate and the obligations of the Trustee will be discharged by payment to the registered holder, as the case may be, of such Global Certificate in respect of each amount so paid. None of the Trustee, the Delegate or any Agent shall have any responsibility or liability for any aspect of the records relating to or payments made on account of ownership interests in any Global Certificate or for maintaining, supervising or reviewing any records relating to such ownership interests.

Transfer of Certificates

Transfers of interests in the Global Certificates within Euroclear, Clearstream, Luxembourg and DTC will be in accordance with the usual rules and operating procedures of the relevant clearing system. The laws of some states in the United States require that certain persons take physical delivery in definitive form of securities. Consequently, the ability to transfer interests in the Rule 144A Global Certificate to such persons may be limited. Because DTC can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in the Rule 144A Global Certificate to pledge such interest to persons or entities that do not participate in DTC, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

Beneficial interests in the Regulation S Global Certificates may only be held through Euroclear or Clearstream, Luxembourg. In the case of Certificates to be cleared through Euroclear, Clearstream, Luxembourg and/or DTC, transfers may be made at any time by a holder of an interest in the Regulation S Global Certificates to a transferee who wishes to take delivery of such interest through the Rule 144A Global Certificates provided that any such transfer will, subject to the applicable procedures of Euroclear, Clearstream, Luxembourg and/or DTC from time to time, only be made upon receipt by any transfer agent of a written certificate from Euroclear or Clearstream, Luxembourg, as the case may be, (based on a written certificate from the transferor of such interest) to the effect that such transfer is being made to a person that the transferor reasonably believes is a QIB within the meaning of Rule 144A purchasing the Certificates for its own account or any account of a QIB, in each case in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States. Any such transfer made thereafter of the Certificates represented by such Regulation S Global Certificates will only be made upon request through Euroclear or Clearstream, Luxembourg by the holder of an interest in the Regulation S Global Certificates to the Delegate or other agent of details of that account at DTC to be credited with the relevant interest in the Rule 144A Global Certificates. Transfers at any time by a holder of any interest in the Rule 144A Global Certificates to a transferee who takes delivery of such interest through the Regulation S Global Certificates will, subject to the applicable procedures of Euroclear, Clearstream, Luxembourg and/or DTC from time to time, only be made upon delivery to any transfer agent of a certificate setting forth compliance with the provisions of Regulation S and giving details of the account at Euroclear or Clearstream, Luxembourg, as the case may be, and DTC to be credited and debited, respectively, with an interest in each relevant Global Certificate.

Subject to compliance with the transfer restrictions applicable to the Certificates described above and under "*Transfer Restrictions*", cross-market transfers between DTC, on the one hand, and directly or indirectly through Euroclear or Clearstream, Luxembourg accountholders, on the other, will be effected by the relevant clearing system in accordance with its rules and through action taken by the custodian of the Global Certificates, the Registrar and the Paying Agent.

On or after the Closing Date, transfers of Certificates between accountholders in Euroclear and/or Clearstream, Luxembourg and transfers of Certificates between participants in DTC will generally have a settlement date three business days after the trade date (T+3). The customary arrangements for delivery versus payment will apply to such transfers.

Cross-market transfers between accountholders in Euroclear or Clearstream, Luxembourg and DTC participants will need to have an agreed settlement date between the parties to such transfer. Because there is no direct link between DTC, on the one hand, and Euroclear and Clearstream, Luxembourg, on the other, transfers of interests between the Global Certificates will be effected through the Paying Agent, the custodian of the Global Certificates, the Registrar and any transfer agent receiving instructions (and where appropriate certification) from the transferor and arranging for delivery of the interests being transferred to the credit of the designated account for the transferee. Transfers will be effected on the later of (i) three business days after the trade date for the disposal of the interest in the relevant Global Certificate resulting in such transfer and (ii) two business days after receipt by the Registrar of the necessary certification or information to effect such transfer. In the case of cross-market transfers, settlement between Euroclear or Clearstream, Luxembourg accountholders and DTC participants cannot be made on a delivery versus payment basis. The securities will be delivered on a free delivery basis and arrangements for payment must be made separately.

For a further description of restrictions on transfer of the Certificates, see "*Transfer Restrictions*".

DTC will take any action permitted to be taken by a holder of Certificates only at the direction of one or more DTC participants in whose accounts with DTC interests in the Global Certificates are credited and only in respect of such portion of the aggregate nominal amount of the relevant Global Certificate as to which such DTC participant or participants has or have given such direction. However, the custodian of the Global Certificates will surrender the relevant Global Certificate for exchange for individual definitive certificates in certain limited circumstances.

DTC is a limited purpose trust company organized under the laws of the State of New York, a "banking organization" under the laws of the State of New York, a member of the U.S. Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code and a "clearing agency" registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participants and facilitate the clearance and settlement of securities transactions between participants through electronic computerized book-entry changes in accounts of its participants, thereby eliminating the need for physical movement of certificates. Direct participants include securities brokers and dealers, banks, trust companies, clearing corporations and certain other organizations. Indirect access to DTC is available to others, such as banks, securities brokers, dealers and trust companies, that clear through or maintain a custodial relationship with a DTC direct participant, either directly or indirectly.

Although Euroclear, Clearstream, Luxembourg and DTC have agreed to the foregoing procedures in order to facilitate transfers of beneficial interests in the Global Certificates among participants and accountholders of Euroclear, Clearstream, Luxembourg and DTC, they are under no obligation to perform or continue to perform such procedures, and such procedures may be discontinued at any time. None of the Trustee, the Delegate or any Agent will have any responsibility for the performance by Euroclear, Clearstream, Luxembourg or DTC or their respective direct or indirect participants or accountholders of their respective obligations under the rules and procedures governing their operations.

While the Global Certificates are lodged with DTC, Certificates represented by individual definitive certificates will not be eligible for clearing or settlement through Euroclear, Clearstream, Luxembourg or DTC.

Individual Definitive Certificates

Registration of title to Certificates in a name other than a custodian or its nominee for DTC will be permitted only in the circumstances set forth in "*Global Certificates—Exchange for Definitive Certificates*". In such circumstances, the Trustee and the Delegate will cause sufficient individual definitive certificates to be executed and delivered to the Registrar for completion, authentication and despatch to the relevant Certificate holder. A person having an interest in a Global Certificate must provide the Registrar with certain information as specified in the Agency Agreement.

Pre-issue trades settlement

It is expected that delivery of Certificates will be made against payment therefor on the Closing Date, which could be more than three business days following the date of pricing. Under Rule 15c6-l under the Exchange Act, trades in the secondary market generally are required to settle within three business days ("**T+3**"), unless the parties to any such trade expressly agree otherwise. Accordingly, purchasers who wish to trade Certificates on the date of pricing or the next succeeding business day will be required, by virtue of the fact the Certificates initially will settle beyond T+3, to specify an alternative settlement cycle at the time of any such trade to prevent a failed settlement. Settlement procedures in other countries will vary. Purchasers of Certificates may be affected by such local settlement practices and purchasers of Certificates who wish to trade Certificates on the date of pricing or the next succeeding business day should consult their own adviser.

GENERAL INFORMATION

Authorization

The entry by the Trustee into the transactions contemplated by the Transaction Documents was authorized by a resolution of its board of directors on May 6, 2010. The Trustee was created on May 3, 2010 for the purpose of issuing the Certificates and entering into the Transaction Documents.

Listing

Applications have been made for the Certificates to be listed on The Stock Exchange of Hong Kong Limited by way of selectively marketed securities. Approvals in-principle have been obtained for (a) the listing and admission to trading of the Certificates on the Labuan Financial Exchange; and (b) the listing of the Certificates on Bursa Malaysia Securities Berhad, under an exempt regime, pursuant to which the Certificates will be listed but not quoted for trading. It is expected that dealing in, and listing of, the Certificates on (i) the Hong Kong Stock Exchange will commence on or about June 7, 2010, (ii) the Labuan Financial Exchange will commence on or about June 8, 2010 and (iii) Bursa Malaysia will commence on or about June 8, 2010.

Documents Available

For so long as any Certificates remain outstanding, copies (and English translations where the documents in question are not in English) of the following documents will be available, during usual business hours on any weekday (Saturdays, Sundays and public holidays excepted), for inspection at the offices of the Trustee and the Paying Agent in New York City:

(a) the constitutional documents of the Trustee;

(b) the Transaction Documents;

(c) the forms of the Global Certificates and the Definitive Certificates;

(d) this offering memorandum and any supplements hereto; and

(e) audited financial statements of the Issuer.

Clearing Systems

The Global Certificates have been accepted for clearance through DTC. The ISIN for the Rule 144A Certificates is US68268AAA97. The CUSIP for the Rule 144A Certificates is 68268AAA9. The ISIN for the Regulation S Certificates is USY64268AA63. The CUSIP for the Regulation S Certificates is Y64268AA6.

Significant or Material Change

There has been no significant change in the financial or trading position of the Trustee and no material adverse change in the financial position or prospects of the Trustee, in each case, since the date of its incorporation.

Litigation

The Trustee is not and has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Trustee is aware) since the date of its incorporation which may have or have in such period had a significant effect on the financial position or profitability of the Trustee.

Financial Statements

The first full financial period of the Trustee will end on December 31, 2010.

The Trustee is required by Malaysian law to prepare audited financial statements. The Trustee will not prepare interim accounts. It will ensure that copies of audited financial statements, when available, are made available free of charge at the registered office of the Principal Paying Agent in New York.

Subsidiaries

The Trustee has no subsidiaries.

Agents and specified offices

The specified offices and contact details of the Principal Paying Agent, the Registrar and the Transfer Agent are set out as follows:

The Principal Paying Agent, the Registrar and the Transfer Agent:

The Bank of New York Mellon
101 Barclay Street
New York, New York 10286
USA

Facsimile: +1 212 815 5915/5802/5803

Attention: Corp Trust Administration

With all correspondence to be copied to:

The Bank of New York Mellon, Singapore Branch
One Temasek Avenue
#03-01 Millenia Tower
Singapore 039192

Facsimile: +65 6883 0338

Attention: Global Corporate Trust

TRUSTEE

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