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: **This e-mail is intended for the named recipient(s) only. If you are not an intended recipient, please delete this e-mail from your system immediately. You must read the following before continuing.** The following applies to the offering memorandum (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 described in the attached Offering Memorandum (the "Securities") have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "Securities Act"), subject to certain exceptions, and 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 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 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.

Confirmation of your Representation: In order to be eligible to view the Offering Memorandum or make an investment decision with respect to the Securities, investors must be (a) qualified institutional buyers ("**QIBs**") (within the meaning of Rule 144A under the Securities Act) or (b) located outside 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. The Offering Memorandum is being sent at your request and, by accepting the email and accessing the Offering Memorandum, you shall be deemed to have represented to us that (i) you and any customers you represent are (A) QIBs (and to the extent you purchase Securities for the account of one or more persons, you exercise sole investment discretion as to such account, and you are doing so in transactions meeting the requirements of Rule 144A) or (B) outside the United States and that the electronic mail address that you gave us and to which this e-mail has been delivered is not being accessed 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, to the extent that you purchase the Securities, you will be doing so pursuant to Regulation S and (ii) that you consent to delivery of such Offering Memorandum by electronic transmission.

The Offering Memorandum has been delivered to you on the basis that you are a person into whose possession the Offering Memorandum may be lawfully delivered in accordance with the laws of the 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 the 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 Malaysia Sovereign Sukuk Berhad (the "**Trustee**") in such jurisdiction.

The 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 the Trustee, the Government of Malaysia, CIMB Investment Bank Berhad, The Hongkong and Shanghai Banking Corporation Limited or Standard Chartered Bank, 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 CIMB Investment Bank Berhad, The Hongkong and Shanghai Banking Corporation Limited or Standard Chartered Bank.

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 the Offering Memorandum is incomplete and may be changed. 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.

Malaysia Sovereign Sukuk Berhad

(Company No. 1136482-X)

(established in Malaysia with limited liability)

US$1,000,000,000 Trust Certificates due 2025
US$500,000,000 Trust Certificates due 2045
Issue Price for the Series 1 Certificates: 100 per cent.
Issue Price for the Series 2 Certificates: 100 per cent.

The US$1,000,000,000 Trust Certificates due 2025 (the "**Series 1 Certificates**") and the US$500,000,000 Trust Certificates due 2045 (the "**Series 2 Certificates**" and together with the Series 1 Certificates, the "**Certificates**") of Malaysia Sovereign Sukuk Berhad (Company No. 1136482-X) (the "**Trustee**") will each be constituted by a declaration of trust (the "**Declaration of Trust**") dated on or about April 22, 2015 (the "**Closing Date**") between the Trustee and Citicorp International Limited (the "**Delegate**"). Pursuant to each Declaration of Trust, the Trustee (in its capacity as the trustee for and on behalf of the relevant Certificateholders (as defined herein)) will declare that it will hold the relevant Trust Assets (as defined herein) upon trust absolutely for the holders of the relevant Certificates *pro rata* according to the face amount of the relevant Certificates held by each Certificateholder in accordance with such Declaration of Trust and the terms and conditions of the relevant Certificates (the "**Conditions**").

On the 22nd day in each April and October in each year, or if any such day is not a Business Day (as defined herein), the following Business Day, commencing on October 22, 2015 (each a "**Periodic Distribution Date**") and ending on April 22, 2025 for the Series 1 Certificates and April 22, 2045 for the Series 2 Certificates, the Trustee will pay Periodic Distribution Amounts (as defined herein) to Certificateholders calculated at the rate of 3.043 per cent. per annum for the Series 1 Certificates and 4.236 per cent. per annum for the Series 2 Certificates on the outstanding face amount of the relevant 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 relevant Trust Assets which include payments by the Government of Malaysia (in such capacity, the "**Lessee**") under the relevant Lease Agreement (as defined herein). Unless previously redeemed in the circumstances described in Condition 10 (*Capital Distributions of the Trust*), Condition 13 (*Purchase and Cancellation of Certificates*) and Condition 14 (*Dissolution Events*), the Series 1 Certificates will be redeemed on April 22, 2025 and the Series 2 Certificates will be redeemed on April 22, 2045 (in each case, the "**Scheduled Dissolution Date**") at the relevant 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, the Murabaha Agreement and the Wakala Agreement (each as defined herein).

An investment in the Certificates involves certain risks. For a discussion of these risks, see "*Investment Considerations*" beginning on page 27.

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.

Application has been made for the Certificates to be listed on The Stock Exchange of Hong Kong Limited (the "**Hong Kong Stock Exchange**") by way of debt issues to professional investors (as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) only. Approval in principle has been obtained for (a) the Certificates to be listed on, and admitted to the Official List of, the Labuan International Financial Exchange Inc. ("**LFX**") and (b) the Certificates to be listed on, and admitted to the Official List of, 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 April 23, 2015. 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. LFX 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 LFX and Bursa Malaysia (Exempt Regime) shall not be taken to indicate that LFX and Bursa Malaysia recommend the subscription or purchase of the Certificates or as an indication of the merits of the Trustee, the Government of 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 U.S. Securities Act of 1933, as amended (the "Securities Act") or the state securities laws of any state of the United States. The Certificates may be offered and sold only (1) to a person who is a qualified institutional buyer (as defined in Rule 144A under the Securities Act ("Rule 144A")) purchasing for its own account or the account of a qualified institutional buyer in reliance on the exemption from the registration requirements of the Securities Act of 1933, provided by Rule 144A thereof (the "Rule 144A Series 1 Certificates" and the "Rule 144A Series 2 Certificates", and together the "Rule 144A Certificates"); or (2) in offshore transactions in reliance on Regulation S (the "Regulation S Series 1 Certificates" and the "Regulation S Series 2 Certificates", and together the "Regulation S Certificates"), and in each case, in accordance with any other applicable laws, regulations and directives. Prospective purchasers are hereby notified that the seller of the Certificates may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A thereof. 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 Certificates will be issued in minimum denominations of US$200,000 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

CIMB **HSBC** **Standard Chartered Bank**

Co-Managers

Dubai Islamic Bank PJSC **National Bank of Abu Dhabi PJSC**

Dated April 15, 2015

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, the Government of Malaysia, the Joint Lead Managers (as defined under "*Terms and Conditions of the Series 1 Certificates"* and the "*Terms and Conditions of the Series 2 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 nor 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 the Government of Malaysia in connection with the Certificates, their distribution or their future performance.

This offering memorandum includes particulars given in compliance with the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited for the purpose of giving information with regard to the Trustee. Each of the Trustee and the Government of Malaysia accepts full responsibility for the accuracy of the information contained in this offering memorandum and confirms, having made all reasonable enquiries, that to the best of its knowledge and belief there are no other facts the omission of which would make any statement herein misleading

Hong Kong Exchanges and Clearing Limited and the Stock Exchange of Hong Kong Limited take no responsibility for the contents of this offering memorandum, 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 offering memorandum.

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, the Government of 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 the Government of Malaysia. None of the Joint Lead Managers, the Delegate nor the Agents undertakes to review the Trustee's or the Government of 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 the Government of Malaysia coming to its attention.

No comment is made or advice given by the Trustee, the Government of 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 ADVISOR, LEGAL ADVISOR AND BUSINESS ADVISOR 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, the Government of Malaysia, the Joint Lead Managers, the Delegate nor 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, the Government of 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, Brunei, Dubai International Financial Centre, the European Economic Area, Japan, Switzerland, the Republic of China, Hong Kong, Kuwait, State of Qatar (excluding the Qatar Financial Centre), Qatar Financial Centre, Saudi Arabia, Singapore, the United Arab Emirates (excluding Dubai International Financial Centre), the United Kingdom and the United States. See "*Plan of Distribution*".

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

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 (i) outside the United States Regulation S and (ii) 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. Each purchaser and transferee of the Certificates in making its purchase or in accepting transfer will be deemed to have made certain representations, warranties and agreements as set forth under "*Transfer Restrictions*" in this offering memorandum. In addition, each purchaser and transferee of the Certificates will agree that, other than in compliance with the purchase and transfer restrictions described under such caption, it will not offer, sell, pledge or otherwise transfer the Certificates. Any transfer in breach of the transfer restriction set forth in "*Transfer Restrictions*" will be null and void *ab initio*, and will not operate to transfer any rights to any transferee. As a prospective purchaser, you should be aware that you may be required to bear the financial risks of this investment for an indefinite period of time. See "*Plan of Distribution*" and "*Transfer Restrictions*".

IN CONNECTION WITH THE ISSUE OF CERTIFICATES, THE JOINT LEAD MANAGER(S) NAMED AS STABILISING MANAGER(S) (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER(S)) MAY EFFECT TRANSACTIONS WITH A VIEW TO SUPPORTING THE MARKET PRICE OF THE CERTIFICATES AT A LEVEL HIGHER THAN THAT WHICH MIGHT OTHERWISE PREVAIL. HOWEVER, THERE CAN BE NO ASSURANCE THAT THE STABILISING MANAGER(S) (OR ANY PERSON ACTING ON BEHALF OF THE STABILISING MANAGER(S)) WILL UNDERTAKE STABILISATION ACTION. ANY STABILISATION ACTION MAY BEGIN ON OR AFTER THE ISSUE DATE AND, IF BEGUN, MAY BE ENDED AT ANY TIME, BUT IT MUST END NO LATER THAN THE EARLIER OF 30 DAYS AFTER THE ISSUE DATE OF THE CERTIFICATES AND 60 DAYS AFTER THE DATE OF THE ALLOTMENT OF THE CERTIFICATES. ANY STABILISATION SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND REGULATIONS.

NOTICE TO NEW HAMPSHIRE RESIDENTS

NEITHER THE FACT THAT A REGISTRATION STATEMENT OR AN APPLICATION FOR A LICENCE 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 ADVISOR.

NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN

CERTIFICATES ISSUED IN CONNECTION WITH THIS OFFERING MEMORANDUM MAY ONLY BE OFFERED IN REGISTERED FORM TO EXISTING ACCOUNTHOLDERS AND ACCREDITED INVESTORS AS DEFINED BY THE CENTRAL BANK OF BAHRAIN (THE "**CBB**") IN THE KINGDOM OF BAHRAIN WHERE SUCH INVESTORS MAKE A MINIMUM INVESTMENT OF AT LEAST US$100,000 OR ANY EQUIVALENT AMOUNT IN ANOTHER CURRENCY OR SUCH OTHER AMOUNT AS THE CBB MAY DETERMINE.

THIS OFFERING MEMORANDUM DOES NOT CONSTITUTE AN OFFER OF SECURITIES IN THE KINGDOM OF BAHRAIN UNDER ARTICLE (81) OF THE CENTRAL BANK AND FINANCIAL INSTITUTIONS LAW 2006 (DECREE LAW NO. 64 OF 2006). THIS OFFERING MEMORANDUM HAS NOT BEEN AND WILL NOT BE REGISTERED AS A PROSPECTUS WITH THE CBB. ACCORDINGLY, THE CERTIFICATES MAY NOT BE OFFERED, SOLD OR MADE THE SUBJECT OF AN INVITATION FOR SUBSCRIPTION OR PURCHASE NOR WILL THIS OFFERING MEMORANDUM OR ANY OTHER RELATED DOCUMENT OR MATERIAL BE USED IN CONNECTION WITH ANY OFFER, SALE OR INVITATION TO SUBSCRIBE OR PURCHASE CERTIFICATES, WHETHER DIRECTLY OR INDIRECTLY, TO PERSONS IN THE KINGDOM OF BAHRAIN, OTHER THAN TO ACCREDITED INVESTORS FOR AN OFFER OUTSIDE THE KINGDOM OF BAHRAIN.

THE CBB HAS NOT REVIEWED, APPROVED OR REGISTERED THIS OFFERING MEMORANDUM OR RELATED OFFERING DOCUMENTS AND IT HAS NOT IN ANY WAY CONSIDERED THE MERITS OF THE CERTIFICATES TO BE OFFERED FOR INVESTMENT, WHETHER IN OR OUTSIDE THE KINGDOM OF BAHRAIN. THEREFORE, THE CBB ASSUMES NO RESPONSIBILITY FOR THE ACCURACY AND COMPLETENESS OF THE STATEMENTS AND INFORMATION CONTAINED IN THIS OFFERING MEMORANDUM AND EXPRESSLY DISCLAIMS ANY LIABILITY WHATSOEVER FOR ANY LOSS HOWSOEVER ARISING FROM RELIANCE UPON THE WHOLE OR ANY PART OF THE CONTENT OF THIS OFFERING MEMORANDUM. NO OFFER OF CERTIFICATES WILL BE MADE TO THE PUBLIC IN THE KINGDOM OF BAHRAIN AND THIS OFFERING MEMORANDUM MUST BE READ BY THE ADDRESSEE ONLY AND MUST NOT BE ISSUED, PASSED TO, OR MADE AVAILABLE TO THE PUBLIC GENERALLY.

NOTICE TO RESIDENTS OF THE STATE OF QATAR

THIS OFFERING MEMORANDUM DOES NOT, AND IS NOT, INTENDED TO CONSTITUTE AN OFFER, SALE OR DELIVERY OF CERTIFICATES OR OTHER DEBT FINANCING INSTRUMENTS UNDER THE LAWS OF THE STATE OF QATAR AND HAS NOT BEEN, AND WILL NOT BE, REVIEWED OR APPROVED BY OR REGISTERED WITH THE QATAR FINANCIAL CENTRE, THE QATAR FINANCIAL CENTRE REGULATORY AUTHORITY (THE "**QFCRA**"), THE QATAR FINANCIAL MARKETS AUTHORITY OR THE QATAR CENTRAL BANK. THE CERTIFICATES ARE NOT AND WILL NOT BE TRADED ON THE QATAR EXCHANGE. NEITHER THIS OFFERING MEMORANDUM, NOR ANY OF THE DOCUMENTS REFERRED TO HEREIN HAVE BEEN REVIEWED OR APPROVED BY THE QFCRA, THE QATAR FINANCIAL MARKETS AUTHORITY, THE QATAR CENTRAL BANK OR ANY OTHER REGULATORY BODY.

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 section 13 or 15(d) of the United States Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), nor a foreign government as defined in Rule 405 eligible to register securities under Schedule B of the Securities 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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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 the Government of Malaysia's ongoing maintenance of its economic data, and such revised data will not be distributed by the Government of Malaysia to any holder of the Certificates.

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.

References to the "Federal Lands Commissioner" herein are to the Federal Lands Commissioner, a body corporate incorporated under the Federal Lands Commissioner Act 1957 [Act 349] (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.

References in this offering memorandum to "RM", "ringgit" or "Malaysian ringgit" are to the currency of Malaysia; references to "US$" or "U.S. dollar" are to the currency of the United States; references to the "Euro" and "Euros" are to the lawful currency of the member states of the European Union that participate in the third stage of the European Economic and Monetary Union.

The fiscal year of the Government of Malaysia ends on December 31 of each year. The fiscal year ended December 31, 2010 is referred to in this offering memorandum as "2010", and other fiscal years are referred to in a similar manner.

Unless otherwise stated, all annual information, including budgetary information for Malaysia, is based on calendar years. All statistical information, including budgetary information, as at and for year-end periods is subject to future revision and amendment for comparative purposes in the event that the methodology used to compile such information is changed in the future, following an introduction of new data sources, improvements to the existing ones, changes to classifications, or establishment of new principles, regulations and international recommendations that represent a basic methodological framework.

References to tons herein are to metric tons, each of which equals approximately 2,205 pounds or 1.102 short tons. 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 the Government of 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 to the relevant amount for the corresponding period or date in the immediately preceding year.

EXCHANGE RATES

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 March 31, 2015, the middle rate of the Malaysian ringgit as published by Bank Negara Malaysia ("**BNM**") was RM3.7165 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**[(1)]	**Period Average**[(2)]
2010	3.0835	3.2175
2011	3.1770	3.1275
2012	3.0583	3.0645
2013	3.2815	3.1510
2014	3.4950	3.2733
2015 (through March 31, 2015)	3.7165	3.6224

Note:

(1) U.S. dollar rates are the average of buying and selling interbank rates at noon.

(2) The average of the daily 17:00 session exchange rates published by Bank Negara Malaysia for the applicable period.

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. These statements are based on the Malaysia's current plans, objectives, assumptions, estimates and projections. Forward-looking statements speak only as of the date that they are made and involve inherent risks and uncertainties. The Trustee expressly disclaims any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statements contained herein to reflect any change in Malaysia's expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any such statement was based. The Trustee cautions that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Therefore, undue reliance should not be placed on them.

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 the Government of 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 (including judgments obtained in United States 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 upon the civil liability provisions of the securities laws of the United States or any state or territory within the United States.

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

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. 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 330,290 square kilometers.

It is estimated that in 2014 Malaysia had a population of approximately 30.3 million. Kuala Lumpur, the capital and largest city, had a population of 1.7 million. In 2014, approximately 62.1% of the population of Malaysia comprised Malay and other indigenous peoples, approximately 21.8% was Chinese, approximately 6.5% was Indian, and approximately 8.7% was non-citizens (mostly foreign workers). Malaysia's population growth rate averaged approximately 1.4% per year from 2010 to 2014. The Malaysian population mostly lives in urban centers as the urbanization rate of the population was estimated to be approximately 73.6% in 2014.

Political System

Peninsular Malaysia attained independence from Britain in 1957 as the Federation of Malaya. Malaysia consists of 13 States (namely Johor, Kedah, Kelantan, Malacca, Negeri Sembilan, Pahang, Perak, Perlis, Penang, Sabah, Sarawak, Selangor, and Terengganu) and three Federal Territories (namely Kuala Lumpur, Labuan and Putrajaya).

Malaysia has a federal system of government based on a parliamentary democracy headed by a constitutional monarch, Seri Paduka Baginda Yang di-Pertuan Agong. The constitutional monarch is elected for a five-year term. The current constitutional monarch was elected in December 2011. The federal executive power is exercised by the Prime Minister and his cabinet. Under the Federal Constitution, the Prime Minister is appointed by the constitutional monarch and, in practice, the constitutional monarch appoints the leader of the political organization that controls a majority of seats in the House of Representatives of Parliament. Dato' Sri Mohd. Najib bin Tun Haji Abdul Razak became Prime Minister in April 2009 and was reappointed as Prime Minister in May 2013 after his coalition won a majority of seats in the House of Representatives. The federal legislative authority in Malaysia is vested in the Parliament, which consists of the constitutional monarch and two Houses of Parliament known as the Senate or Dewan Negara and the House of Representatives or Dewan Rakyat. Judicial power in Malaysia is vested in the courts and is independent of the Government pursuant to the Federal Constitution.

Since its formation, Malaysia has been governed by the National Front coalition comprising three major component parties: the United Malays National Organization, 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 not captured sufficient support to win control of Parliament in the past. The last general elections were held on May 5, 2013. Members of the National Front coalition were elected to 134 of 222 seats in the House of Representatives. In the same elections, the National Front coalition won the majority of seats in the State legislatures in ten of the 13 States and opposition parties won a majority of seats in the State legislatures of Kelantan, Pulau Pinang and Selangor.

Economy

Following the appointment of 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. The Tenth Malaysia Plan set out Malaysia's initiatives to develop and enhance human capital and move the economy towards innovation-led and knowledge-driven activities and higher-income status over the 2011 to 2015 period. The plan promotes major structural transformations aimed at enhancing competition through an innovative and skilled workforce, the removal of market distortions and the encouragement of private sector entrepreneurship. In an effort to improve efficiency and its delivery system, the Government introduced the Government Transformation Program ("GTP") in 2010, based on the 1Malaysia concept. The objective of the GTP is two-fold: first, to improve the effectiveness of the Government and hold it accountable for key outcomes; 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. Seven National Key Result Areas 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, improving urban public transport and addressing cost of living issues.

In response to the global recession, 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 has implemented various initiatives since 2010 to significantly transform the domestic economy and achieve high-income status by 2020. To this end, the National Economic Advisory Council introduced the New Economic Model, a broad roadmap of economic transformation encompassing eight strategic initiatives. In September 2010, the Government launched the Economic Transformation Program, a comprehensive effort that aims to transform Malaysia into a high-income nation that is both inclusive and sustainable by 2020. It aims to increase Malaysia's gross national income ("GNI") per capita from US$7,590 in 2009 to over US$15,000 in 2020, so that Malaysia may reach the level of other high-income nations.

On October 25, 2013, the Minister of Finance announced the implementation of the new Goods and Services Tax. Adopted in October 2014, this measure is considered key to Malaysia's medium-term fiscal consolidation and efforts to reduce the Government's revenue dependency on commodity products such as petroleum and palm oil. Effective application of the Goods and Services Tax will start from April 1, 2015.

Malaysia has a diversified economy, the principal sectors of which are services and manufacturing sectors, which accounted for 79.9% of gross domestic product ("GDP") in 2014. The commodity sector, consisting of agriculture and mining, accounted for 14.8% of GDP, followed by the construction sector which accounted for 3.9% of GDP in 2014. During the past four 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. 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 22.4% in 2014, 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 33.0% in 2014, 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 (as defined in "*Malaysia*") products, including indigenous brand names, as well as more capital-and technology-intensive goods such as electrical and electronic products.

Malaysian real GDP recorded a 6.0% growth in 2014. This growth was driven by continued strength in private domestic demand, and was further supported by the improvement in external trade performance. Headline inflation averaged 3.2% in 2014, driven primarily by upward adjustments in the prices of several price administered items from late 2013. The implementation of the managed floating price mechanism for fuel in December led to a slight downward adjustment in prices of petrol, reflecting lower global oil prices. During the year, inflationary pressure was contained by more contained global price pressures and stable demand pressures. Core inflation rose to 2.4%, reflecting spillover effects from adjustments in administered prices and higher rentals.

In October 2014, the Minister of Finance announced Malaysia's 2015 budget which was approved by Parliament in December 2014. This budget is the last annual budget to form a part of the Tenth Malaysia Plan. As such, this budget includes strategies and measures that seek to support and implement the main objective of transforming Malaysia into a developed and high income economy. Key measures are set out to facilitate private sector activity and fiscal resources are aimed to revitalize private investment, develop human capital and the people's well-being and strengthen the quality and accountability of the public sector. The budget was revised primarily due to the substantial decline in world crude oil prices. In particular, the real GDP growth rate for 2015 was estimated to be between 4.5% and 5.5%, compared to 5.0% to 6.0% in the original budget; the fiscal deficit target was set to be 3.2% of GDP, compared to 3.0% in the original budget; and operating expenditure of the Government were targeted to be RM212.4 billion, compared to RM223.4 billion in the original budget.

One of the principal objects of the central bank, Bank Negara Malaysia ("BNM"), is to promote monetary stability. In promoting monetary stability, BNM is mandated to pursue a monetary policy that serves the interests of the country, with the primary objective of maintaining price stability, while giving due regard to the developments in the economy. The primary functions of 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; and to act as financial advisor, banker and financial agent of the Government. BNM manages the foreign reserves of Malaysia. As at December 31, 2014, BNM's total assets were RM427.6 billion, of which gross international reserves comprised RM405.4 billion, equivalent to US$115.9 billion.

Summary Economic Information

The following tables provide certain information concerning Malaysia for the years indicated.

Gross Domestic Product, Inflation Rates and Unemployment Rates

The following table sets out GDP by economic activity at constant 2005 prices, annual inflation rates and employment rates for the years indicated.

	2010	2011	2012	2013	2014[P]
	(RM million, except percentage)				
Services	359,829	385,550	410,339	434,460	462,027
Manufacturing	170,261	178,237	186,748	193,237	205,200
Agriculture	51,263	54,250	54,963	56,095	57,528
Mining and quarrying	66,182	62,607	63,243	63,680	65,650
Construction	21,459	22,464	26,640	29,554	32,984
GDP at purchasers' value	676,653	711,760	751,934	787,611	835,040
GDP growth/(decline) (%)	7.4	5.2	5.6	4.7	6.0
Consumer Price Index (%)[(1)]	1.7	3.2	1.6	2.1	3.2
Producer Price Index (%)[(1)]	5.6[(2)]	9.6	0.1	(1.7)	1.4
Unemployment rate	3.3	3.1	3.0	3.1	2.9

Note:

P Preliminary.

(1) Base year 2010 = 100.

(2) Base year 2005 = 100.

Sources: Department of Statistics; BNM.

Foreign Direct Investment

The following table sets out the foreign direct investment ("FDI") statistics in Malaysia for the years indicated.

	2010	2011	2012	2013	2014[P]
	(RM million)				
FDI in Malaysia (net)	29,183	37,325	28,537	38,238	35,085
	(US$ million)[(1)]				
FDI in Malaysia (net)	9,060	12,198	9,239	12,136	10,720

Notes:

P Preliminary.

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

Source: BNM.

Balance of Payments[1]

The following table sets out the balance of payments (net) in ringgit for the years indicated.

	2010	2011	2012	2013	2014[P]
			(RM million)		
Goods[2]	136,751	151,565	125,190	108,230	125,064
Services	(1,444)	(6,272)	(16,210)	(16,693)	(20,546)
Balance on goods and services	135,306	145,293	108,979	91,537	104,518
Primary income	(26,333)	(21,806)	(36,050)	(34,126)	(37,390)
Secondary income	(21,790)	(21,061)	(18,469)	(17,504)	(17,619)
Balance on current account	**87,183**	**102,426**	**54,460**	**39,907**	**49,508**
Capital account	(111)	(133)	241	(21)	281
Financial account	(19,946)	23,265	(23,014)	(15,807)	(76,495)
Direct investment	(13,977)	(9,337)	(24,415)	(5,450)	(17,101)
Portfolio investment	48,467	26,139	63,859	(3,041)	(37,867)
Financial derivatives	(698)	(76)	972	(253)	(975)
Other investment	(53,738)	6,539	(63,431)	(7,062)	(20,553)
Official sector	119	(1,337)	(1,674)	(3,966)	(2,030)
Private sector	(53,856)	7,876	(61,756)	(3,096)	(18,523)
Errors and omissions	(69,754)	(30,876)	(27,814)	(9,431)	(9,801)
Overall balance	**(2,628)**	**94,682**	**3,873**	**14,647**	**(36,507)**

Notes:

P Preliminary.

(1) The balance of payments is compiled based on the Sixth Edition of Balance of Payments and International Investment Position Manual (BPM6) by the International Monetary Fund ("IMF").

(2) The compilation of trade data is based on customs records which do not fully conform to the principles of the Balance of Payments Manual. Therefore, the trade data are adjusted for valuation and conversion to the balance of payments basis. Accordingly, 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 cost, insurance and freight basis under trade balance and are adjusted to a free on board basis under goods balance; (c) goods balance data include transactions of commercial ships and aircrafts that are delivered outside Malaysia, exports/imports of water to/from Singapore, military goods which are not included in trade data; and (d) goods balance data exclude export and import transactions due to no change of ownership.

Sources: Department of Statistics; BNM.

External Debt

The following table sets out information on the outstanding external debt of Malaysia in ringgit for the years indicated.

	As at December 31,				
	2010	**2011**	**2012**	**2013**	**2014 [P]**
			(RM million)		
Offshore Borrowing [(1)]	**227,072**	**257,273**	**257,594**	**324,088**	**367,072**
Medium-and long-term [(2)]	**147,653**	**153,525**	**165,139**	**195,986**	**210,872**
Government	16,746	18,105	16,848	16,763	16,776
Public enterprises	70,383	69,562	71,392	82,141	76,343
Private sector	60,524	65,859	76,899	97,082	117,753
Short-term [(3),(4)]	**79,420**	**103,748**	**92,455**	**128,102**	**156,200**
Banking sector	67,982	92,302	79,981	113,530	139,908
Non-bank private sector	11,438	11,446	12,474	14,573	16,292
NR holdings of domestic debt securities	**118,935**	**163,268**	**223,606**	**229,674**	**223,291**
Government securities	75,012	104,270	132,410	141,669	151,377
Others	43,923	58,998	91,196	88,005	71,914
NR deposits	**34,628**	**43,917**	**58,963**	**77,325**	**87,672**
Others [(5)]	**53,643**	**72,997**	**61,897**	**65,524**	**66,665**
Total external debt	**434,278**	**537,456**	**602,060**	**696,610**	**744,700**
% GNI	56.3	62.2	66.5	73.1	72.1
% GDP	54.5	60.7	63.9	70.6	69.6
% exports of goods and services	58.4	66.3	75.0	86.4	87.4
% annual growth	11.8	23.8	12.0	15.7	6.9
Debt service ratio (as % of exports of goods and services[(6)]	10.6	15.3	17.4	17.6	18.2

Notes:

P Preliminary.

NR Non-residents.

(1) Offshore borrowing is equivalent to the external debt under the previous definition prior to the adoption of a revised definition with effect from the first quarter of 2014. It comprises mainly loans raised, and bonds and notes issued offshore.

(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.

(4) The Government has not incurred any short-term offshore borrowing.

(5) Comprises trade credits, IMF allocation of SDRs and other debt liabilities.

(6) Measures the principal repayment, including prepayment, and the interest payment of the external debt as a proportion of gross exports of goods and services.

Sources: Ministry of Finance; BNM.

Financial Position

The following table sets out the consolidated public sector financial position for the years indicated.

	2010	2011	2012	2013	2014	2015[R]
	(RM million)					
General government						
Revenue	127,189	160,657	188,761	191,554	206,901	211,859
Operating expenditure	167,142	196,126	227,242	236,610	242,978	238,889
Current surplus/(deficit)	(39,953)	(35,469)	(38,481)	(45,056)	(36,077)	(27,030)
Non-financial public enterprises' surplus	123,192	106,970	129,796	139,821	116,414	111,292
Public sector current surplus	83,239	71,501	91,315	94,765	80,337	84,261
Net development expenditure	103,029	101,256	138,368	133,345	155,322	161,372
General government	53,681	51,784	53,017	51,870	49,715	58,594
Non-financial public enterprises	49,348	49,472	85,351	81,475	105,607	102,778
Overall budget surplus/(deficit)	(19,790)	(29,755)	(47,053)	(38,581)	(74,985)	(77,111)
% of GNP	(2.6)	(3.5)	(5.2)	(4.1)	(7.3)	(6.9)
% of GDP	(2.5)	(3.4)	(5.0)	(3.9)	(7.0)	(6.7)

Note:

R Revised Budget.

Source: Ministry of Finance.

The following table sets out the Government financial position for the years indicated.

	2010	2011	2012	2013	2014	2015 [R]
	(RM million)					
Current revenue	159,653	185,419	207,913	213,370	220,626	222,865
Less: Current expenditure	151,633	182,594	205,537	211,270	219,589	212,421
Current surplus	8,020	2,825	2,376	2,100	1,037	10,444
Less: Net development expenditure	51,296	45,334	44,326	40,684	38,451	47,467
Overall surplus/(deficit)	(43,275)	(42,509)	(41,951)	(38,584)	(37,414)	(37,023)
Sources of finance:						
Gross domestic borrowings	60,499	93,312	96,244	100,457	90,740	90,500
Less: Domestic repayment	24,043	48,244	52,900	60,931	53,183	53,569
Net domestic borrowings	36,456	45,069	43,344	39,526	37,557	36,931
Gross external borrowings	4,495	6,469	684	413	274	5,667
Less: External repayment	831	5,918	697	634	634	5,173
Net external borrowings	3,664	550	-13	-221	-359	494
Use of assets(1)	3,155	-3,110	-1,380	-721	216	-402
Overall balance (% of GNP)	-5.6	-4.9	-4.6	-4.1	-3.6	-3.3
Overall balance (% of GDP)	-5.4	-4.8	-4.5	-3.9	-3.5	-3.2

Notes:

R Revised Budget.

(1) A negative amount indicates the accumulation of assets.

Sources: Ministry of Finance; BNM.

Revenue

The following table sets out Government revenue for the years indicated.

	2010	2011	2012	2013	2014	2015R
			(RM million)			
Direct taxes	79,009	102,242	116,937	120,523	126,742	123,248
Corporate income tax	36,266	46,888	51,288	58,175	65,240	72,083
Petroleum income tax	18,713	27,748	33,934	29,753	26,956	15,116
Personal income tax	17,805	20,203	22,977	23,055	24,423	25,064
Stamp duties	4,192	4,929	5,595	6,364	6,458	7,022
Other	2,033	2,474	3,143	3,176	3,665	3,963
Indirect taxes	30,507	32,643	34,706	35,429	37,462	48,136
Export duties	1,810	2,081	1,968	1,930	1,893	1,396
Import duties	1,966	2,026	2,282	2,524	2,670	2,784
Excise duties	11,770	11,517	12,187	12,193	12,925	13,583
Sales tax	8,171	8,577	9,496	10,068	10,939	2,934
Service tax	3,926	4,982	5,583	5,944	6,278	1,874
Other	2,863	3,460	3,190	2,770	2,758	25,565
Non-tax revenue and receipts(1)	50,138	50,534	56,270	57,418	56,421	51,481
Total	159,653	185,419	207,913	213,370	220,625	222,865

Notes:

R Revised Budget.

(1) Includes investment income, licences and permits, services fees, dividend payments and other items.

Source: Ministry of Finance.

Monetary Aggregates

The following table illustrates the growth of monetary aggregates from January 1, 2010 through December 31, 2014 on a year-on-year basis and the development of total banking system deposits and loans over that period.

	2010	2011	2012	2013	2014
			(change in %)		
Currency	9.8	12.2	7.3	9.5	8.2
M1(1)	11.7	15.4	11.9	13.0	5.7
M2(2)	7.2	14.7	9.7	8.4	7.5
M3(3)	6.8	14.3	9.0	7.9	7.0
Deposits(4)	7.1	14.1	8.4	8.3	7.6
Loans(5)	12.7	13.6	10.4	10.6	9.3

Notes:

(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 demand deposits, savings deposits, fixed deposits, negotiable instruments of deposit, repos, foreign currency deposits, and other deposits of commercial banks, Islamic banks and investment banks.

(5) Comprises loans of commercial banks, finance companies and merchant banks/investment banks (including loans sold to Cagamas Berhad and excluding loans sold to Danaharta Nasional Berhad).

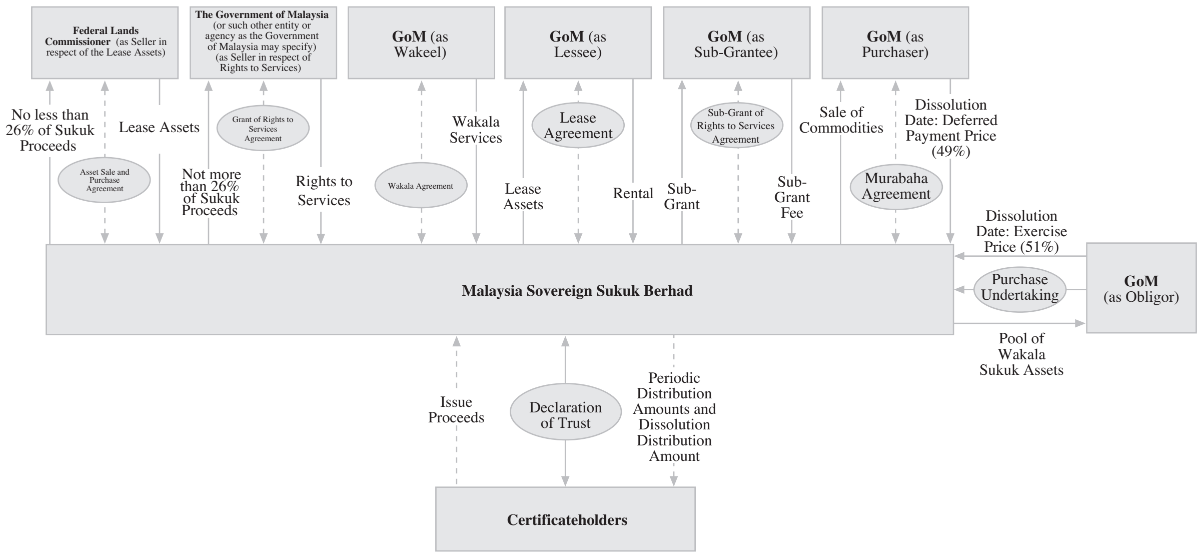
Source: BNM.

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.

Unless otherwise specified, defined terms used in this section should be interpreted as being applicable to either Series 1 Certificates or Series 2 Certificates, mutatis mutandis, as the relevant context may require.

Structure Diagram



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. The Trustee will:

(a) pay no less than 26 per cent. of the issue price to the Government of Malaysia as the purchase price payable under the Asset Sale and Purchase Agreement for the Assets identified in, and pursuant to, the Asset Sale and Purchase Agreement;

(b) pay no more than 26 per cent. of the issue price to Government of Malaysia as the consideration under the Grant of Rights to Services Agreement for the Rights to Services identified in, and pursuant to, the Grant of Rights to Services Agreement; and

(c) apply the remaining of not more than 48 per cent. of the issue price in respect of the Certificates to enter into a commodity murabaha arrangement with the Government of Malaysia. Pursuant to the commodity murabaha arrangement, the Trustee will instruct the Commodity Trading Participant to acquire commodities on behalf of the Trustee (through the Commodity Trading Participant) for an amount equal to up to 48 per cent. of the issue price, which commodities the Trustee will subsequently sell to the Government of Malaysia for a Deferred Payment Price to be paid on a Dissolution Date.

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 will be used to pay 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 Wakala Sukuk Assets at the Sukuk Exercise Price. The Sukuk Exercise Price, together with any Deferred Payment Price payable by the Government of Malaysia to the Trustee will be used 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 Event Redemption Date will be part funded by the Government of Malaysia purchasing the Trustee's interest, rights, benefits and entitlements in and to: (i) the Lease Assets; and (ii) the Rights to Services, pursuant to the terms of the Purchase Undertaking. The remainder of the amounts payable by the Trustee on the Dissolution Event Redemption Date (if any) shall be funded by the Government of Malaysia paying to the Trustee the outstanding Deferred Payment Price in respect of the commodities purchased pursuant to the Murabaha Agreement.

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 relevant Certificates. Accordingly, any decision by a prospective investor to invest in the relevant Certificates should be based on a consideration of this offering memorandum as a whole.

*Words and expressions defined in the relevant "Terms and Conditions of the Series 1 Certificates" or the "Terms and Conditions of the Series 2 Certificates" shall have the same meanings in this overview. A reference to a relevant "Condition" is to a numbered condition of the relevant "Terms and Conditions of the Series 1 Certificates" and/or the "Terms and Conditions of the Series 2 Certificates" (the "**Conditions**").*

Unless otherwise specified, defined terms used in this section should be interpreted as being applicable to either Series 1 Certificates or Series 2 Certificates, mutatis mutandis, as the relevant context may require.

Parties:

Trustee:	Malaysia Sovereign Sukuk Berhad (Company No. 1136482-X) (in its capacity as issuer and in its capacity as trustee, the "**Trustee**"), a company incorporated in Malaysia on March 20, 2015 under the Companies Act 1965 with its registered office at Tingkat 7, Bangunan Setia 1, 15 Lorong Dungun Bukit Damansara, 50490 Kuala Lumpur, Malaysia. The Trustee has been incorporated to act as a financing vehicle for the Government of Malaysia.
Ownership of the Trustee:	The Trustee is owned by the Minister of Finance (Incorporated) and the Federal Lands Commissioner.
Lease Assets Seller:	The Federal Lands Commissioner (in such capacity, the "**Lease Assets Seller**"). Pursuant to the Asset Sale and Purchase Agreement, the Lease Assets Seller will sell to the Trustee, and the Trustee will purchase from the Lease Assets Seller, the Assets in accordance with the terms of the Asset Sale and Purchase Agreement.
Grantor:	The Government of Malaysia, in respect of the Rights to Services under the Grant of Rights to Services Agreement (the "**Grant of Rights to Services Agreement**"). Pursuant to the Grant of Rights to Services Agreement, the Government of Malaysia, shall transfer, by way of a grant to the Trustee, the Rights to Services for the Rights to Services Term subject to the terms as set out in the Grant of Rights to Services Agreement.
Sub-Grantee:	The Government of Malaysia. The Trustee shall, pursuant to the Sub-Grant of Rights to Services Agreement (the "**Sub-Grant of Rights to Services Agreement**") transfer by way of sub-grant to the Government of Malaysia, the Rights to Services for the tenor of the Certificates.
Sub-Grantor:	The Trustee, in respect of the Rights to Services under the Sub-Grant of Rights to Services Agreement (the "**Sub-Grant of Rights to Services Agreement**"). Pursuant to the Sub-Grant of Rights to Services Agreement, the Trustee shall transfer, by way of a sub-grant to the Government of Malaysia, the Rights to Services for the tenor of the Certificates.

Commodity Purchaser:	The Government of Malaysia (in such capacity (the "**Commodity Purchaser**")). The Trustee will, through the Commodity Trading Participant, use no more than 48% of the issue price of the Certificates to purchase commodities (the "**Purchase Price**"). The Commodity Purchaser will, pursuant to the Murabaha Agreement, purchase those commodities from the Trustee for a deferred payment price equal to the aggregate of the Purchase Price plus 1% of the issue price of the Certificates (the "**Deferred Payment Price**") and payable on a Dissolution Date.
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 prior to the occurrence of a Total Loss Event (see further "*Total Loss Event*" below), purchase all the interests, rights, benefits and entitlements of the Trustee in and to the Wakala Sukuk Assets, from the Trustee at the Sukuk Exercise Price (see further "*Summary of the Principal Transaction Documents — Purchase Undertaking*"). The Government of Malaysia will pay the outstanding Deferred Payment Price on a Dissolution Date in accordance with the terms of the Murabaha Agreement.
Wakeel:	The Government of Malaysia (in its capacity as wakeel, the "**Wakeel**"). In accordance with the terms of the Wakala Agreement, the Trustee will delegate to the Wakeel the responsibility to (i) ensure the performance of major maintenance and structural repair in respect of the Lease Assets, (ii) ensure the payment of proprietorship taxes if any in respect of the Lease Assets, (iii) 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 and (iv) collect Rights to Services Fees.
Joint Bookrunners and Joint Lead Managers:	CIMB Investment Bank Berhad, The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank

Delegate:	Citicorp International Limited (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 execute all of the present and future duties, powers, trusts, authorities and discretions vested in the Trustee by the Declaration of Trust. In addition, pursuant to the Declaration of Trust, certain powers will be vested solely in the Delegate.
Principal Paying Agent:	Citibank N.A., London Branch.
Transfer Agent and Registrar:	Citigroup Global Markets Deutschland AG.

Summary of the Structure and Principal 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 Principal 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:

Series 1 Certificates: US$1,000,000,000 Trust Certificates due 2025.

Series 2 Certificates: US$500,000,000 Trust Certificates due 2045.

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 Wakala Sukuk 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 (which are 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:	April 22, 2015.
Issue Price:	100 per cent. of the aggregate face amount of the Certificates.
Periodic Distribution Dates for Series 1 Certificates:	The 22nd day in each April and October in each year or, if any such day is not a Business Day, the following Business Day, commencing on October 22, 2015 and ending on the Scheduled Dissolution Date for Series 1 Certificates.
Periodic Distribution Dates for Series 2 Certificates:	The 22nd day in each April and October in each year or, if any such day is not a Business Day, the following Business Day, commencing on October 22, 2015 and ending on the Scheduled Dissolution Date for Series 2 Certificates.
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 for Series 1:	April 22, 2025.
Scheduled Dissolution Date for Series 2:	April 22, 2045.
Scheduled Dissolution of the Trust:	Upon receipt by the Trustee of: (i) the Sukuk Exercise Price payable in accordance with the terms of the Purchase Undertaking; and (ii) any outstanding Deferred Payment Price payable in accordance with the Murabaha Agreement and unless the Certificates are previously redeemed or cancelled, the Trustee will apply the Sukuk Exercise Price and any Deferred Payment 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:	Means the sum of: (i) the outstanding face amount of the Certificates; (ii) any accrued but unpaid Periodic Distribution Amounts; and (iii) any Additional Dissolution Distribution Amount.
Early Dissolution of the Trust:	The Trust may only be dissolved prior to the Scheduled Dissolution Date: (i) on the Dissolution Event Redemption Date upon the occurrence of a Dissolution Event; (ii) on the Total Loss Dissolution Date upon the occurrence of a Total Loss Event; or (iii) upon redemption and cancellation of all of the outstanding Certificates as a result of the Government of Malaysia holding all of the Certificates and delivering a Redemption and Cancellation Notice on a Redemption and Cancellation Date.

In the case of paragraphs (i) and (ii), 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 Sukuk Exercise Price payable under the Purchase Undertaking, together with any Deferred Payment Price payable under the Murabaha Agreement will be used to fund the redemption of the Certificates.

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 on the Dissolution Event Redemption Date 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 Wakala Agreement, the Wakeel 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 Wakeel 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 Wakeel will (unless it is able to prove beyond any doubt that any shortfall in the proceeds of any Takaful/Insurances is not attributable to its negligence or its failing to comply with the terms of the Wakala Agreement relating to the Takaful/Insurances) 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.

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 Lessee will pay the accrued and unpaid rental up to the date on which the Total Loss Event occurred to the Lessor no later than the Total Loss Dissolution Date.

Pursuant to the Purchase Undertaking, where there has been a Total Loss Event in relation to the Lease Assets the Government of Malaysia irrevocably grants to the Trustee the right to require the Government of Malaysia to purchase and accept the transfer on the relevant Total Loss Dissolution Date specified in the Exercise Notice of all of the Trustee's interests, rights, benefits and entitlements in and to the Rights to Services at the Rights to Services Exercise Price specified in the Exercise Notice. The Rights to Services Exercise Price will be paid into the Transaction Account on the Total Loss Dissolution Date.

See Condition 6(a) (*Trust — Summary of the Trust*).

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

(a) the aggregate of:

- (i) the outstanding 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 Wakala Services Charge Amount outstanding under the terms of the Wakala Agreement.

less

(b) an amount equal to the aggregate of:

- (i) the Rights to Services Value; and
- (ii) the outstanding Deferred Payment Price (after any reduction pursuant to clause 10.1(a) of the Murabaha Agreement).

"**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.

"**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 beneficial interest in the entirety of the Lease Assets other than in accordance with the terms of the Transaction Documents.

"**Rights to Services Value**" means an amount equal to the product of (i) the Net Revenue Limit; and (ii) the unexpired portion of the Rights to Services Term (expressed as a number of years and rounded to the nearest year), provided that if such amount is greater than the Rights to Services Price it shall be equal to the Rights to Services Price.

"**Rights to Services Exercise Price**" means an amount equal to the aggregate of:

(a) the Rights to Services Value; and

(b) 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*),

which price shall be the price for the remaining Wakala Sukuk Assets following the occurrence of a Total Loss Event in respect of the Lease Assets.

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 under the Purchase Undertaking, the Lease Agreement, the Murabaha Agreement, the Sub-Grant of Rights to Services Agreement and the Wakala 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.

"**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.

"**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; or

(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 and Rights to Services Substitution:

Pursuant to the Substitution Undertaking granted by the Trustee in favour 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**") to the Government of Malaysia and/or the Rights to Services (the "**Substituted Rights to Services**") to the Government of Malaysia. In consideration for the sale, transfer and conveyance of the Substituted Lease Assets and/or Substituted Rights to Services by the Trustee to the Government of Malaysia, the Government of Malaysia or such other entity or agency that the Government of Malaysia may specify, will transfer and convey the beneficial ownership interest in certain new lease assets (the "**New Lease Assets**") to the Trustee. The Government of Malaysia will be obliged to certify that the New Lease Assets are capable of being leased and/or that the New Lease Assets have an aggregate value which is equal to or greater than the value of the Substituted Lease Assets and/or Substituted Rights to Services.

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.

In order to effect the substitution, the Trustee and the Federal Lands Commissioner or the Government of Malaysia (or such other entity or agency that the Government of Malaysia may specify), as the case may be, will enter into one or more sale agreements to effect the transfer and conveyance of the New Lease Assets for the Substituted Lease Assets and/or the Substituted Rights to Services.

Purchase of Certificates held by the Government of Malaysia:

The Government of Malaysia may at any time purchase Certificates in the open market or otherwise (the "**Malaysia Certificates**").

Transaction Account for Series 1:

A non-interest bearing U.S. dollar denominated account maintained in the name of the Trustee with Citibank N.A., London Branch.

Transaction Account for Series 2:

A non-interest bearing U.S. dollar denominated account maintained in the name of the Trustee with Citibank N.A., London Branch.

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 Trustee, the Delegate or any Certificateholder have any right to cause the sale or other disposition of any of the relevant Trust Assets otherwise than to the Government of Malaysia or its designee in accordance with the terms of 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.

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$200,000 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 a Regulation S Global Certificate, 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 it will pay to the Trustee additional amounts as may be necessary pursuant to Condition 11 *(Taxation)*, 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 Condition 11 *(Taxation)*.

Use of Proceeds: The proceeds of the issue of the Certificates will be paid by the Trustee on the Closing Date in the following proportion: (i) no less than 26 per cent. to the Government of Malaysia as the purchase price for the Assets pursuant to the Asset Sale and Purchase Agreement; (ii) no more than 26 per cent. to the Government of Malaysia as the purchase price for the Rights to Services pursuant to the Grant of Rights to Services Agreement; and (iii) the remaining of not more than 48 per cent. for the acquisition of commodities to sell to the Government of Malaysia pursuant to the Murabaha Agreement.

The proceeds received by the Government of Malaysia in connection with the sale of the Assets, the Rights to Services and the sale of commodities will be used by the Government of Malaysia for Shariah compliant general purposes, specifically for the redemption of 1Malaysia Sukuk Global Berhad's US$1,250 million Trust Certificates due in June 2015 as well as to finance development expenditures.

Listing: Application has been made for the Certificates to be listed on the Hong Kong Stock Exchange. Approval in principle has been obtained for (a) the Certificates to be listed on, and admitted to the Official List of, the LFX and (b) the Certificates to be listed on, and admitted to the Official List of, Bursa Malaysia (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 April 23, 2015; (ii) the LFX will commence on or about April 23, 2015 and (iii) Bursa Malaysia (Exempt Regime) will commence on or about April 23, 2015.

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, Written Resolutions*).
Tax Considerations:	See the section entitled "*Taxation*" for a description of certain tax considerations applicable to the Certificates.
Governing Law:	The Asset Sale and Purchase Agreement, the Grant of Rights to Services Agreement, the Sub-Grant of Rights to Services Agreement, the Lease Agreement, the Wakala 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, the Murabaha 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 Asset Sale and Purchase Agreement, the Grant of Rights to Services Agreement, the Sub-Grant of Rights to Services Agreement, the Murabaha Agreement, the Lease Agreement, the Wakala Agreement, the Purchase Undertaking, the Substitution Undertaking, the Redemption Undertaking, 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 from time to time designated as such by the parties to the Transaction Documents and the Delegate (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, Brunei, Dubai International Finance Centre, European Economic Area, Japan, Switzerland, the Republic of China, Hong Kong, Kuwait, State of Qatar (excluding the Qatar Financial Centre), Qatar Financial Centre, Saudi Arabia, Singapore, United Arab Emirates (excluding Dubai International Financial Centre), the United Kingdom, the United States and such other restrictions as may be required in connection with the offering and sale of the Certificates. See the section entitled "*Plan of Distribution*".

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, 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 Court 2012 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.

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 was incorporated on March 20, 2015 to act as a financing vehicle for the Government of Malaysia in respect of the issuance of Certificates and any Additional Trust Certificates.

The Trustee's 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 Sub-Grant of Rights to Services Agreement, Purchase Undertaking, the Murabaha Agreement and/or the Wakala Agreement. 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 Sukuk Exercise Price under the Purchase Undertaking, and from the Government of Malaysia the Deferred Payment Price under the Murabaha Agreement or from the Wakeel the Wakala Indemnity Amount under the Wakala 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 Service 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 Certificates contain collective action clauses under which the terms of any one series of securities and/or multiple series of securities may be modified without the consent of all the holders of the securities of that series or all the holders of any other series of securities being aggregated, as the case may be.

The Conditions of the Certificates contain provisions regarding modifications commonly referred to as "collective action" clauses. Such clauses permit defined majorities to bind all Certificateholders, including Certificateholders who did not vote and Certificateholders who voted in a manner contrary to the majority. The relevant provisions also permit, in relation to reserved matters, multiple series of securities (including, without limitation, any trust certificates (such as the Certificates and any Additional Trust Certificates), notes, bonds, debentures or other debt securities issued by the Trustee or the Government of Malaysia, as the case may be, in one or more series with an original stated maturity of more than one year ("**securities**")) to be aggregated for voting purposes (provided that each such series also contains the collective action clauses in the terms and conditions of the securities).

The Government of Malaysia and the Trustee expects that all series of securities issued by the Government of Malaysia and the Trustee in future will include such collective action clauses, thereby giving the Government of Malaysia and/or the Trustee the ability to request modifications (including in respect of Reserved Matters (as defined in the Conditions of the Certificates)) across multiple series of securities. This means that a defined majority of the holders of such series of securities (when taken in the aggregate) would be able to bind all holders of securities in all the relevant aggregated series.

Any modification relating to Reserved Matters, including in respect of payments and other important terms (such as, without limitation, changes to the Scheduled Dissolution Date or any other date for payment of amounts in respect of the Certificates), may be made to the Certificates with the consent of the holders of at least 75% of the aggregate principal amount outstanding of Certificates, and to multiple series of securities with the consent of both (i) the holders of at least 66 ⅔% of the aggregate principal amount of the outstanding securities of all affected series of securities being aggregated and (ii) the holders of more than 50% in aggregate principal amount of the outstanding of the securities in each affected series of securities capable of being aggregated.

Any modification proposed by the Government of Malaysia or the Trustee (as the case may be) may, at the option of the Government of Malaysia or the Trustee (as the case may be), be made in respect of some series of securities only and, for the avoidance of doubt, the provisions may be used for different groups of two or more series of securities simultaneously. At the time of any proposed modification, the Government of Malaysia or the Trustee (as the case may be) will be obliged, inter alia, to specify which method or methods of aggregation will be used by the Government of Malaysia or the Trustee (as the case may be).

There is a risk therefore that the Conditions of the Certificates may be modified in circumstances whereby the holders of securities voting in favour of modification may be holders of a different series of securities and as such, less than 75 per cent. of the holders of the Certificates would have voted in favour of such modification. In addition, there is a risk that the provisions allowing for aggregation across multiple series of securities may make the Certificates less attractive to purchasers in the secondary market on the occurrence of a Dissolution Event or in a distress situation. Further, any such modification in relation to any Certificates may adversely affect their trading price.

In the future, the Government of Malaysia and/or the Trustee may issue debt securities which contain collective action clauses in the same form as the collective action clauses in the terms and conditions of the Certificates. If this occurs, then this could mean that any series of Certificates would be capable of aggregation with any such future debt securities.

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 Certificates, the Conditions of the Certificates and 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 error or (iii) except for certain Reserved Matters defined in the Declaration of Trust, such modification 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 by the Trustee to the Certificateholders and shall in any event be binding upon the Certificateholders.

The U.S. Internal Revenue Service may treat the Certificates as interests in a grantor trust for U.S. federal income tax purposes, which may result in the Trustee and U.S. Holders being subject to significant penalties.

The Trustee believes that it is appropriate to treat the Certificates as representing debt obligations and intends to do so. However, the U.S. 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 U.S. Holders (as defined in "**Certain U.S. 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 U.S. 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 U.S. Holders to comply with the foreign trust information reporting requirements, both the Issuer and U.S. Holders may be subject to significant penalties that may adversely affect the Issuer's financial position and the returns of U.S. Holders from the Certificates. See "*Certain U.S. Federal Income Tax Considerations—Characterization of the Certificates*".

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:

(i) 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;

(ii) 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;

(iii) 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;

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

(v) be able to evaluate (either alone or with the help of a financial advisor) 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 wakeel, and the Government of Malaysia has undertaken in the Wakala Agreement, *inter alia*, to insure the Lease Assets in the name of the Trustee against the occurrence of a Total Loss Event at an amount at least equal to the Takaful/Insurance Coverage Amount. 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 in each case 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, the Lease will terminate automatically and the Certificates will be repaid using the Takaful/Insurance Proceeds received by the Trustee and shortfall amounts from the Wakeel. 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 Wakeel) 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 Wakala 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, the Government of Malaysia, as Wakeel, shall have failed in its responsibility to properly insure the Lease Assets and, accordingly, the Government of 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 the Government of 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.

CIMB Investment Bank Berhad, The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank have obtained confirmation from their respective Shariah advisors 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, the Government of 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 SERIES 1 CERTIFICATES

The following are the Terms and Conditions of the Series 1 Certificates which, together with the Terms and Conditions of the Series 2 Certificates, 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.

Malaysia Sovereign Sukuk Berhad (in its capacity as issuer and in its capacity as trustee, the "**Trustee**") has authorised the issue of its Series 1 U.S.$1,000,000,000 Trust Certificates due 2025 (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 in relation to Series 1 (the "**Declaration of Trust**") to be dated on or about the Closing Date entered into by the Trustee and Citicorp International Limited (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 in relation to Series 1 to be dated on or about the Closing Date (the "**Agency Agreement**") made between, *inter alios*, the Trustee, the Delegate and Citibank N.A., London Branch, 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**"), Citibank N.A., London Branch as replacement agent (in such capacity, the "**Replacement Agent**"), Citigroup Global Markets Deutschland AG as registrar (in such capacity, the "**Registrar**") and Citigroup Global Markets Deutschland AG 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 designated office of the Trustee at Tingkat 7, Bangunan Setia 1, 15 Lorong Dungun Bukit Damansara, 50490, Kuala Lumpur, Malaysia and at the specified offices of the Paying Agents):

(i) an asset sale and purchase agreement between the Trustee (in its capacity as purchaser) and the Lease Assets Seller (in its capacity as seller) in relation to Series 1 to be dated on or about the Closing Date (the "**Asset 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) in relation to Series 1 to be dated on or about the Closing Date (the "**Lease Agreement**");

(iii) a wakala agreement between the Trustee and the Government of Malaysia (in its capacity as Wakeel) in relation to Series 1 to be dated on or about the Closing Date (the "**Wakala Agreement**");

(iv) a grant of rights to services agreement between the Trustee (in its capacity as grantee) and the Government of Malaysia (in its capacity as grantor) to be dated on or about the Closing Date (the "**Grant of Rights to Services Agreement**");

(v) a sub-grant of rights to services agreement between the Government of Malaysia (in its capacity as sub-grantee) and the Trustee (in its capacity as sub-grantor) to be dated on or about the Closing Date (the "**Sub-Grant of Rights to Services Agreement**");

(vi) a murabaha agreement between the Trustee (in its capacity as seller), the Government of Malaysia (in its capacity as purchaser) and CIMB Islamic Bank Berhad (in its capacity as commodity trading participant) in relation to Series 1 to be dated on or about the Closing Date (the "**Murabaha Agreement**");

(vii) a purchase undertaking deed executed by the Government of Malaysia in favour of the Trustee and the Delegate in relation to Series 1 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;

(viii) a substitution undertaking deed executed by the Trustee in favour of the Government of Malaysia in relation to Series 1 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 Trustee and the Government of Malaysia, acting through the Lease Assets Seller and/or the Government of Malaysia or such other entity or agency that the Government of Malaysia may specify, in the circumstances set out in the Substitution Undertaking;

(ix) a redemption undertaking deed executed by the Trustee in favour of the Government of Malaysia in relation to Series 1 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 Lease Assets Seller, in respect of the Redemption Lease Assets or the Government of Malaysia (or such other entity or agency that the Government of Malaysia may specify) in respect of the relevant Redemption Rights to Services (as applicable), and the Trustee in the circumstances set out in the Redemption Undertaking;

(x) the Declaration of Trust; and

(xi) 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 authorise 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 Wakala Sukuk Assets and the purchase and subsequent sale of commodities pursuant to the Murabaha Agreement; 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;

"**Additional Trust Certificates**" means any certificates or securities (other than the Certificates) issued from time to time by the Trustee in the domestic or international markets, such certificates or securities being beneficial ownership interests in either: (i) assets acquired from the Government of Malaysia and associated income arising from the lease of those assets to the Government of Malaysia, and in each case such assets having been purchased by the Trustee and leased back to the Government of Malaysia; or (ii) rights under any other structure in accordance with the principles of Shariah and involving the Trustee and the Government of Malaysia;

"**Aggregation Agent**" means an agent appointed pursuant to the provisions of Condition 19(a);

"**Appointee**" means any attorney, manager, agent, delegate, nominee, custodian or other person appointed or employed by the Delegate in connection with the exercise by the Delegate of its powers or the performance by the Delegate of its duties under the Declaration of Trust;

"**Assets**" has the meaning given to it in the Asset Sale and Purchase Agreement;

"**Business Day**" means a day (other than Saturday or Sunday) on which commercial banks and foreign exchange markets in Kuala Lumpur, London 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;

"**Closing Date**" means April 22, 2015;

"**Commodities**" means any Shariah compliant commodities that are traded on the market operated by Bursa Malaysia Islamic Services Sdn Bhd for the trading of commodities (excluding, for the avoidance of doubt, gold and silver);

"**Deferred Payment Price**" has the meaning given to it in the Murabaha Agreement;

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

"**Delegation**" has the meaning given to it in Condition 20 (*Delegate*);

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

(a) the Scheduled Dissolution Date;

(b) the Dissolution Event Redemption Date; and

(c) the Total Loss Dissolution Date;

"**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;

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

"**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 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 CIMB Investment Bank Berhad; The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank, 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 the Lease Agreement;

"**Lease Assets Seller**" means the Federal Lands Commissioner;

"**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*);

"**Net Revenue Limit**" means the amount specified as such in the Grant of Rights to Services Agreement;

"**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 22^{nd} day in each April and October in each year or if any such day is not a Business Day the following Business Day, commencing on October 22, 2015 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; or

(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, organisation, 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 fulfilment 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 3.043% 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 Amount**" means an amount to be paid by the Trustee to the Government of Malaysia which is equal to the aggregate face amount of the relevant proportion of Malaysia Certificates to be purchased by the Trustee for cash consideration, as specified in the relevant Redemption and Cancellation Notice;

"**Redemption and Cancellation Date**" means the date specified as such in a Redemption and Cancellation Notice;

"**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**" has the meaning given to it in the Redemption Undertaking;

"**Redemption Rights to Services**" means the Rights to Services granted pursuant to the Grant of Rights to Services Agreement which, for the avoidance of doubt, shall be the entirety of the Rights to Services and not any part of such Right to Services;

"**Redemption Sale Agreement**" means an agreement to be executed by the Trustee and the Lease Assets Seller in respect of the Redemption Lease Assets or the Government of Malaysia (or such other government entity or agency that the Government of Malaysia may specify) in respect of the relevant Redemption Rights to Services, as the case may be, 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 20 (*Delegate*);

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

(a) the Periodic Distribution Amount for the corresponding Return Accumulation 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;

"**Rights to Services**" means:

(a) the right to participate in the issuance of driving and vehicle licences and the provision of transfer of vehicle ownership services and other vehicle registration services in Malaysia; and

(b) the right to receive all revenues, distributions and other monies at any time payable in respect of the services set out in paragraph (a) above and all other rights, benefits and entitlements in respect of or derived from such services,

in each case granted by the Government of Malaysia to the Trustee up to an amount equal to the Net Revenue Limit per annum, for the period of the Rights to Services Term in accordance with the terms of the Grant of Rights to Services Agreement;

"**Rights to Services Exercise Price**" means an amount equal to the aggregate of:

(a) the Rights to Services Value; and

(b) 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*),

which price shall be the price for the remaining Wakala Sukuk Assets following the occurrence of a Total Loss Event in respect of the Lease Assets;

"**Rights to Services Price**" means the aggregate purchase price paid for the Rights to Services under the Grant of Rights to Services Agreement;

"**Rights to Services Term**" means the period from (and including) the Closing Date to (and including) the date falling 99 years after the Closing Date subject to the terms of the Grant of Rights to Services Agreement;

"**Rights to Services Value**" means an amount equal to the product of (i) the Net Revenue Limit; and (ii) the unexpired portion of the Rights to Services Term (expressed as a number of years and rounded to the nearest year), provided that if such amount is greater than the Rights to Services Price it shall be equal to the Rights to Services Price;

"**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 April 22, 2025;

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

"**Series 1**" means the series constituted by the Certificates;

"**Series 2 Certificates**" means the U.S.$500,000,000 trust certificates due 2045 to be issued by the Trustee on or about the Closing Date;

"**Specified Denomination(s)** " means a minimum denomination of U.S.$200,000 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;

"**Substituted Rights to Services**" means the rights to services specified as such in a Substitution Notice to the extent that on the Substitution Date they constitute Rights to Services belonging to the Trustee, which, for the avoidance of doubt, shall be the entirety of the Rights to Services granted pursuant to the Grant of Rights to Services Agreement and not any part of such Right to Services;

"**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;

"**Sukuk Exercise Price**" means an amount equal to:

(a) the aggregate of:

(i) the outstanding 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 Wakala 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 Ass*ets)) in accordance with Condition 6(b) (*Trust — Application of Proceeds from Trust Assets*);

less

(b) an amount equal to the outstanding Deferred Payment Price (after any reduction pursuant to clause 10.1(a) of the Murabaha Agreement) due under the Murabaha Agreement;

"**Supplementary Rental**" means, in respect of a Lease Period, an amount equal to the Wakala 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:

(a) the aggregate of:

(i) the outstanding 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 Wakala Services Charge Amount outstanding under the terms of the Wakala Agreement,

less

(b) an amount equal to the aggregate of:

(i) the Rights to Services Value; and

(ii) the outstanding Deferred Payment Price (after any reduction pursuant to clause 10.1(a) of the Murabaha Agreement);

"**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 Wakeel in accordance with the Wakala Agreement;

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

"**Total Loss Dissolution Date**" means 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*);

"**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 Wakala Agreement, the Purchase Undertaking, the Substitution Undertaking, the Redemption Undertaking, the Asset Sale and Purchase Agreement, the Grant of Rights to Services Agreement, the Sub-Grant of Rights to Services Agreement, the Lease Agreement, the Murabaha 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;

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

"**Wakala Services**" means the services relating to the Lease Assets to be provided by the Wakeel on behalf of the Trustee in respect of Major Maintenance and Structural Repair, Proprietorship Taxes and Takaful/Insurances and collection of Rights to Services Fees, in each case, in accordance with the terms and conditions of the Wakala Agreement;

"**Wakala Services Charge Amount**" means, in respect of a Wakala Services Period, all payments made or costs incurred by the Wakeel in respect of the Wakala Services performed during that Wakala Services Period;

"**Wakala Services Period**" has the meaning given to it in the Wakala Agreement;

"**Wakala Sukuk Assets**" means the Lease Assets and the Rights to Services (if any); and

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

All references in these Conditions to "**U.S. dollars**" and "**U.S.$**" 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.$200,000 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 Citibank, N.A., London Branch 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 Citibank, N.A., London Branch 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 together with such evidence as the Registrar or (as the case may be) such other Transfer Agent may reasonably require to prove the title of the transferer and the individuals who have executed the forms of transfer.

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 (15) 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 subject to the terms of the Declaration of Trust 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, each of which represent an undivided beneficial ownership interest in the Trust Assets. In the event that any Additional Trust Certificates are issued, any other assets owned by the Trustee in relation thereto (the "**Additional Trust Certificate Trust Assets**") shall not form any part of the Trust Assets and the Certificateholders shall have no recourse to such Additional Trust Certificate Trust Assets.

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 and the Rights to Services) 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 and/or secured and/or pre-funded to its satisfaction) 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 reorganisation, 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 acknowledges 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, reorganisation, 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 or the Delegate 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 or the Delegate 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 or the Delegate 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 Wakala Sukuk 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 Murabaha Agreement, the Lease Agreement, the Sub-Grant of Rights to Services Agreement and the Wakala 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 Grant of Rights to Services Agreement, the Government of Malaysia will grant to the Trustee the Rights to Services, and pursuant to the Asset Sale and Purchase Agreement, the Lease Assets Seller will sell, transfer and convey to the Trustee the Assets. Pursuant to the Sub-Grant of Rights to Services Agreement, the Trustee will sub-grant to the Government of Malaysia the Rights to Services in return for a fee payable to the Trustee by the Government of Malaysia.

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. The payment obligations of the Lessee under the Lease Agreement shall constitute direct, unconditional, unsecured and general obligations of the Government of Malaysia, without preference to one above the other, and rank equal in right of payment with all other unsecured and unsubordinated External Public Indebtedness of the Government of Malaysia.

Under the Wakala Agreement, the Trustee will appoint the Government of Malaysia as the Trustee's agent (in such capacity, the "**Wakeel**") to perform certain Wakala Services in respect of the Lease Assets.

The Government of Malaysia will execute the Purchase Undertaking in favour of the Trustee and the Delegate pursuant to which the Government of Malaysia undertakes, provided that there has been no Total Loss Event in relation to the Lease Assets and 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 Wakala Sukuk Assets at the Sukuk Exercise Price specified in the Exercise Notice. Where a Total Loss Event has occurred in relation to the Lease Assets, 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 Rights to Services at the Rights to Services 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 Sukuk Exercise Price or any Deferred Payment Price payable in accordance with the Murabaha Agreement 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 Wakeel in respect of the Wakala Sukuk Assets, and (ii) the Lease Agreement shall be deemed to be extended for a period from and including the date on which the Sukuk Exercise Price or any Deferred Payment Price was due to be paid, but excluding the date on which such amounts are paid in full in accordance with the terms of the Purchase Undertaking and the Murabaha Agreement. 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 Wakala Agreement, without double-counting) 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 Malaysia 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 Wakeel (unless it is able to prove beyond any doubt that any shortfall in the proceeds of any Takaful/Insurances is not attributable to its negligence or its failing to comply with the terms of the Wakala Agreement relating to the Takaful/Insurances) 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 Malaysia 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, provided that a Redemption and Cancellation Notice has been served on the Trustee in accordance with the terms of the Redemption Undertaking, the Trustee undertakes to (i) purchase from the Government of Malaysia the Malaysia Certificates on the relevant Redemption and Cancellation Date in consideration for the cancellation of the Malaysia Certificates; (ii) cancel the Malaysia Certificates on the relevant Redemption and Cancellation Date; (iii) if applicable, sell, transfer and convey its interests, rights, benefits and entitlements in and to certain Redemption Lease Assets to the Government of Malaysia (through the Lease Assets Seller) on the relevant Redemption and Cancellation Date; (iv) if applicable, sell and transfer its interests, rights, benefits and entitlements in and to certain Redemption Rights to Services to the Government of Malaysia (or such other entity or agency that the Government of Malaysia may specify) on the relevant Redemption and Cancellation Date; and//or (v) pay the applicable Redemption Amount to the Government of Malaysia (or such other entity or agency that the Government of Malaysia may specify), in each case in accordance with the terms of the Declaration of Trust, these Conditions and the Redemption Undertaking.

The Trustee will execute the Substitution Undertaking in favour of the Government of Malaysia pursuant to which the Government of Malaysia has the right to require the Trustee to (i) 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); and (ii) sell and transfer on any Substitution Date all of the Trustee's interest, rights, benefits and entitlements in and to the Substituted Rights to Services 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 capable of being leased and/or that the New Lease Assets have an aggregate value which is equal to or greater than the value of the Substituted Lease Assets and/or the Substituted Rights to Services on the relevant Substitution Date.

In order to effect the substitution, the Trustee and the Lease Assets Seller or the Government of Malaysia (or such other entity or agency that the Government of Malaysia may specify), as the case may be, will enter into one or more sale agreements to effect the transfer and conveyance of the New Lease Assets for the Substituted Lease Assets and/or the Substituted Rights to Services.

The Trustee will establish a transaction account in London 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 Wakala Agreement, the Murabaha 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, 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 Wakala Sukuk 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 (which are held by it),

upon trust absolutely for the Certificateholders *pro rata* according to the face amount of Certificates held by each holder of the Certificates 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 subject to the terms of the Declaration of Trust. 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, or which it is entitled to receive pursuant to, the Transaction Documents in its capacity as Delegate and to any Appointee appointed in respect of the Trust by the Delegate, in accordance with the Declaration of Trust all amounts owing to it pursuant to its terms of appointment;

(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 of the Dissolution Distribution Amount; and

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

Absent any determination by the U.S. Internal Revenue Service to the contrary, the Declaration of Trust provides that the Government of Malaysia and the Trustee agree to treat the Certificates, and each Certificateholder acknowledges that the Certificates are so treated, as debt instruments for U.S. federal income tax purposes and agree not to take any position contrary to the foregoing on any U.S. federal income tax return or information statement; provided, however, that the foregoing shall not preclude the Trustee from causing the trust to file an entity classification election to elect to be classified as a partnership for U.S. federal income tax purposes.

7. COVENANTS

For so long as any Certificate is outstanding, the Trustee shall not (save as expressly set out below in connection with any Additional Trust Certificates, and 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 or in respect of any Additional Trust Certificates;

(ii) subject to Condition 7(iii), 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 or in respect of any Additional Trust Certificates);

(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; Written Resolutions*), 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 (other than in respect of Additional Trust Certificates);

(v) except as provided in the Declaration of Trust, act as trustee in respect of any trust other than (A) the Trust or in respect of any parties other than the Certificateholders or (B) a trust declared in relation to Additional Trust Certificates or in respect of any parties other than certificateholders or securityholders in respect of such Additional Trust Certificates;

(vi) have any subsidiaries or employees save and except as required or incidental to the issuance of the Certificates or in respect of any Additional Trust Certificates;

(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;

(x) enter into any contract, transaction, amendment, obligation or liability other than (a) the Transaction Documents to which it is a party or as expressly permitted or required thereunder, or (b) any contract, transaction, amendment, obligation or liability in respect of any Additional Trust Certificate;

(xi) engage in any business or activity other than:

(A) as provided for or permitted in the Transaction Documents or as provided for or permitted in any transaction documents in respect of Additional Trust Certiticates;

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

(C) the issuance of Additional Trust Certificates; and

(D) 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 cheque 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 Wakeel in respect of the Lease Assets and the Rights to Services 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 (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 11 (*Taxation*); and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 11 (*Taxation*)) any law implementing an intergovernmental approach thereto.

(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 cheque, the cheque 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 cheque 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 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 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 (the "**Total Loss Dissolution Date**") in a notice given to the Certificateholders in accordance with Condition 17 (*Notices*). The Certificates shall be redeemed at the Dissolution Distribution Amount using: (i) the Takaful/Insurance Proceeds (if any) required to be paid into the Transaction Account by the Wakeel in accordance with the terms of the Wakala Agreement on or before the 30th day following the occurrence of a Total Loss Event; (ii) the Total Loss Shortfall Amount (if any) required to be paid into the Transaction Account by the Wakeel in accordance with the terms of the Wakala Agreement no later than the close of business in Malaysia on the 31st day after the Total Loss Event has occurred; (iii) the Rights to Services Exercise Price required to be paid into the Transaction Account by the Government of Malaysia pursuant to the sale of the Rights to Services under the Purchase Undertaking; and (iv) the outstanding Deferred Payment Price (if any) required to be paid into the Transaction Account by the Government of Malaysia in accordance with the terms of the Murabaha Agreement on such Total Loss Dissolution Date.

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 Wakeel will be entitled to retain the Total Loss Surplus Amount as an incentive fee for the performance of its obligations under the Wakala Agreement and any insurance proceeds received thereafter shall be for the Wakeel'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 beneficial interest in 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, Condition 13 (*Purchase and Cancellation of Certificates*) 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, the Purchase Undertaking, the Wakala Agreement, the Sub-Grant of Rights to Services Agreement and the Murabaha Agreement 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, the Purchase Undertaking, the Wakala Agreement, the Sub-Grant of Rights to Services Agreement and the Murabaha Agreement, 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 purchase the Malaysia Certificates in consideration for the cancellation of the Malaysia Certificates and (i) the sale, transfer and conveyance of its interests, rights, benefits and entitlements in and to certain

Redemption Lease Assets to the Government of Malaysia (through the Lease Assets Seller); and/or (ii) the sale and transfer of its interests, rights, benefits and entitlements in and to certain Redemption Rights to Services to the Government of Malaysia (or such other entity or agency that the Government of Malaysia may specify); and/or (iii) the payment of the applicable Redemption Amount on the Redemption and Cancellation Date in accordance with the terms of the Declaration of Trust and the Redemption Undertaking.

Following the delivery of a Redemption and Cancellation Notice by the Government of Malaysia specifying the relevant Malaysia Certificates, the Redemption and Cancellation Date, the Redemption Lease Assets (if any), the Redemption Rights to Services (if any) and the Redemption Amount (if any), the Trustee shall countersign such Redemption and Cancellation Notice in acknowledgment of its terms. By purchasing a Certificate, each Certificateholder shall be deemed to authorise the Trustee to countersign any Redemption and Cancellation Notices. Following the countersignature of the relevant Redemption and Cancellation Notice, the Trustee shall:

(i) purchase the relevant Malaysia Certificates from the Government of Malaysia on the relevant Redemption and Cancellation Date;

(ii) cancel the relevant Malaysia Certificates on the relevant Redemption and Cancellation Date;

(iii) if applicable, enter into a Redemption Sale Agreement with the Lease Assets Seller on the terms and subject to the conditions set out in the Redemption and Cancellation Notice on or before the Redemption and Cancellation Date, which shall become effective on the Redemption and Cancellation Date and by which all of the Trustee's interests, rights, benefits and entitlements in and to the relevant Redemption Lease Assets will be sold, transferred and conveyed to the Government of Malaysia through the Lease Assets Seller;

(iv) if applicable, enter into a Redemption Sale Agreement with Government of Malaysia (or such other entity or agency that the Government of Malaysia may specify), on the terms and subject to the conditions set out in the Redemption and Cancellation Notice on or before the Redemption and Cancellation Date, which shall become effective on the Redemption and Cancellation Date and by which all of the Trustee's interests, rights, benefits and entitlements in and to the relevant Redemption Rights to Services will be sold and transferred to the Government of Malaysia; and

(v) (subject to the set off provisions contained in the Redemption Undertaking), pay the relevant Redemption Amount to the Government of Malaysia on the relevant Redemption and Cancellation Date.

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;

(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 Sub-Grant of Rights to Services Agreement, the Purchase Undertaking, the Murabaha Agreement or the Wakala Agreement or any of the payment obligations of the Government of Malaysia under the Lease Agreement, the Sub-Grant of Rights to Services Agreement, the Purchase Undertaking, the Murabaha Agreement or the Wakala 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; or

(vi) (A) a "Dissolution Event" occurs in relation to Series 2 as defined in the Terms and Conditions of the Series 2 Certificates, or (B) a "Dissolution Event" or event of default, howsoever described, occurs in relation to any Additional Trust Certificates,

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 and/or secured and/or prefunded 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 Wakala Sukuk Assets at the Sukuk Exercise Price 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 amounts due under the Purchase Undertaking, the Lease Agreement, the Murabaha Agreement or the Wakala Agreement 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 corporate office of the Delegate in Hong Kong by the Delegate or the holder of any Certificate;

(iii) any External Public Indebtedness in an aggregate principal amount in excess of US$75,000,000 (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$75,000,000 (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.

If the Trustee and the Government of Malaysia receive notice in writing from holders of at least 50% in aggregate principal amount of the outstanding Certificates to the effect that the Dissolution Event or Dissolution Events giving rise to any Dissolution Request is or are cured following the Relevant Dissolution Request and that such holders wish the relevant Dissolution Request to be withdrawn, the Trustee and the Government of Malaysia shall give notice thereof to the Certificateholders (with a copy to the Delegate), whereupon the relevant Dissolution Request shall be withdrawn and shall have no further effect but without prejudice to any rights or obligations which may have arisen before the Trustee and the Government of Malaysia gave such notice (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Dissolution Event, Dissolution Resolution, or in each case, any right of any Certificateholder in relation thereto.

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 and/or secured and/or pre-funded to its satisfaction, 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) enforce the provisions of the Wakala Agreement against the Government of Malaysia in its capacity as Wakeel; and/or

(C) enforce the provisions of the Murabaha Agreement against the Government of Malaysia; and/or

(D) take such other steps as the Trustee (or the Delegate acting for and on behalf of the Trustee) may consider necessary or desirable to exercise all of the rights of the Trustee under the Purchase Undertaking, the Wakala Agreement, the Murabaha Agreement 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 and/or secured and/or prefunded 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, the Substitution Undertaking or the Redemption 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.

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, WRITTEN RESOLUTIONS

(a) Convening Meetings of Certificateholders; Conduct of Meetings of Certificateholders; Written Resolutions

(i) The Trustee, the Government of Malaysia or the Delegate (subject to its being indemnified and/or secured and/or prefunded to its satisfaction) may convene a meeting of the Certificateholders at any time in respect of the Certificates in accordance with the Declaration of Trust. The Trustee, the Delegate or the Government of Malaysia, as the case may be, shall determine the time and place of the meeting. The Trustee or the Government of Malaysia, as the case may be, shall notify the Certificateholders of the time, place and purpose of the meeting not less than 21 and not more than 45 days before the meeting in the manner provided in Condition 17 (*Notices*) (with a copy to the Agents, the Trustee and the Government of Malaysia where the meeting is convened by the Delegate, or where the meeting is convened by the Trustee or the Government of Malaysia, the Agents and the Delegate).

(ii) The Trustee, the Government of Malaysia or the Delegate (subject to its being indemnified and/or secured and/or prefunded to its satisfaction by the Certificateholders), as the case may be, shall convene a meeting of Certificateholders if the holders of at least 10 per cent. in principal amount of the outstanding Certificates (as defined in the Declaration of Trust and described in Condition 18 (i) (*Certificates controlled by the Trustee or the Government of Malaysia*)) have delivered a written request to the Government of Malaysia, the Trustee, or the Delegate, setting out the purpose of the meeting. The Trustee, the Government of Malaysia, or the Delegate, as the case may be, shall determine the time and place of the meeting. The Trustee (in respect of a meeting convened by the Trustee or the Delegate) or the Government of Malaysia (in respect of a meeting convened by the Government of Malaysia or the Delegate), as the case may be, will notify the Certificateholders within 10 days of receipt of such written request of the time and place of the meeting in the manner provided in Condition 17 (*Notices*) (with a copy to the Agents, the Trustee and the Government of Malaysia where the meeting is convened by the Delegate, or where the meeting is convened by the Trustee or the Government of Malaysia, the Agents and the Delegate), which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.

(iii) The Declaration of Trust contains provisions relating to the conduct of any meeting.

(iv) The notice convening any meeting will specify, *inter alia*;

(A) the date, time and location of the meeting;

(B) (i) the agenda and (ii) the full text of any Extraordinary Resolution to be proposed for adoption at the meeting;

(C) the record date for the meeting, which shall be no more than five Business Days before the date of the meeting;

(D) the documentation required to be produced by a Certificateholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Certificateholder's behalf at the meeting;

(E) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Certificates are traded and/or held by Certificateholders;

(F) whether Condition 18 (b) (*Modification of these Certificates only*), or Condition 18 (c) (*Multiple Series Aggregation — Two limb voting*) shall apply and, if relevant, in relation to which other series of securities it applies;

(G) if the proposed modification or action relates to two or more series of securities issued by it and contemplates such series of securities being aggregated in more than one group of securities, a description of the proposed treatment of each such group of securities;

(H) such information that is required to be provided by the Trustee or the Government of Malaysia, as the case may be, in accordance with Condition 18 (e) (*Information*);

(I) the identity of the Aggregation Agent and the Calculation Agent, if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 18 (f) (*Claims Valuation*); and

(J) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of securities.

(v) In addition, the Declaration of Trust contains provisions relating to Written Resolutions. All information to be provided pursuant to Condition 18 (a)(iv) shall also be provided, *mutatis mutandis*, in respect of Written Resolutions.

(vi) A "**record date**" in relation to any proposed modification or action means the date,which shall be no more than five Business Days before the date of the meeting, fixed by the Delegate for determining the Certificateholders and, in the case of a multiple series aggregation, the holders of securities of each other affected series that are entitled to vote on a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Two Limb Written Resolution.

(vii) An "**Extraordinary Resolution**" means any of a Single Series Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.

(viii) A "**Written Resolution**" means any of a Single Series Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.

(ix) Any reference to "**securities**" means any trust certificates (including, without limitation, the Certificates and any Additional Trust Certificates), notes, bonds, debentures or other debt securities issued by the Trustee or the Government of Malaysia, as the case may be, in one or more series with an original stated maturity of more than one year.

(x) "**Securities Capable of Aggregation**" means the Certificates and any other securities which include (i) provisions substantially on the terms set out in this Condition 18 (*Meetings of Certificateholders; Written Resolutions*) and Condition 19 (*Aggregation Agent; Aggregation Procedures*) or (ii) terms which provide for the securities to be capable of being aggregated for voting purposes with other series of securities.

(b) **Modification of these Certificates only**

(i) Without prejudice to clause 7.2 of the Declaration of Trust, any modification of any provision of, or any action in respect of, these Conditions or the Declaration of Trust in respect of the Certificates may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.

(ii) A "**Single Series Extraordinary Resolution**" means a resolution passed at a meeting of Certificateholders duly convened and held in accordance with the procedures for meetings contained in Condition 18(a) (*Convening Meetings of Certificateholders; Conduct of Meetings of Certificateholders; Written Resolutions*) and the Declaration of Trust by a majority of:

(A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Certificates; or

(B) in the case of a matter other than a Reserved Matter, more than 50 per cent. of the aggregate principal amount of the outstanding Certificates.

(iii) A "**Single Series Written Resolution**" means a resolution in writing signed by or on behalf of the holders of:

(A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Certificates; or

(B) in the case of a matter other than a Reserved Matter more than 50 per cent. of the aggregate principal amount of the outstanding Certificates.

Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Certificateholders.

(iv) Any Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Certificateholders, whether or not they attended any meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be.

(c) **Multiple Series Aggregation — Two limb voting**

(i) In relation to a proposal that includes any modification to the terms and conditions of, or any action with respect to, two or more series of securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.

(ii) A "**Multiple Series Two Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of securities Capable of Aggregation, duly convened and held in accordance with the procedures for meetings contained in Condition 18(a) (*Convening Meetings of Certificateholders; Conduct of Meetings of Certificateholders; Written Resolutions*) and the Declaration of Trust which is passed by a majority of:

(A) at least $66^{2}/_{3}$ per cent. of the aggregate principal amount of the outstanding securities of affected series of securities Capable of Aggregation (taken in aggregate); and

(B) more than 50 per cent. of the aggregate principal amount of the outstanding securities in each affected series of securities Capable of Aggregation (taken individually).

(iii) A "**Multiple Series Two Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of securities Capable of Aggregation, in accordance with the applicable securities documentation) which, when taken together, has been signed by or on behalf of the holders of:

(A) at least $66^{2}/_{3}$ per cent. of the aggregate principal amount of the outstanding securities of all the affected series of securities Capable of Aggregation (taken in aggregate); and

(B) more than 50 per cent. of the aggregate principal amount of the outstanding securities in each affected series of securities Capable of Aggregation (taken individually).

Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Certificateholders or one or more holders of each affected series of securities Capable of Aggregation.

(iv) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Certificateholders and holders of each other affected series of Certificates Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be.

(v) Any modification or action proposed under Condition 18 (c)(i) may be made in respect of some series only of the securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 18(c) may be used for different groups of two or more series of securities Capable of Aggregation simultaneously.

(d) **Reserved Matters**

In these Conditions, "**Reserved Matter**" means any proposal:

(i) to change the Scheduled Dissolution Date or any other date, or the method of determining the Scheduled Dissolution Date or any other date, for payment of the Dissolution Distribution Amount, Periodic Distribution Amounts or any other amount in respect of the Certificates, to reduce or cancel the amount of Dissolution Distribution Amount, Periodic Distribution Amounts or any other amount payable on any date in respect of the Certificates or to change the method of calculating the amount of Dissolution Distribution Amount, Periodic Distribution Amounts or any other amount payable in respect of the Certificates on any date;

(ii) to change the currency in which any amount due in respect of the Certificates is payable or the place in which any payment is to be made;

(iii) to change the majority required to pass an Extraordinary Resolution, a Written Resolution or any other resolution of Certificateholders or the number or percentage of votes required to be cast, or the number or percentage of Certificates required to be held, in connection with the taking of any decision or action by or on behalf of the Certificateholders or any of them;

(iv) to change this definition, or the definition of "Extraordinary Resolution", "Single Series Extraordinary Resolution", "Multiple Series Two Limb Extraordinary Resolution", "Written Resolution", "Single Series Written Resolution", or "Multiple Series Two Limb Written Resolution";

(v) to change the definition of "securities" or "securities Capable of Aggregation";

(vi) to change the definition of "outstanding" or to modify the provisions of Condition 18(h) (*Certificates controlled by the Trustee or Government of Malaysia*);

(vii) to change the legal ranking of the Certificates or other specified substantive covenants (including, without limitation, the covenant given by the Trustee in Clause 15 of the Declaration of Trust) as appropriate, to be determined on a case-by-case basis;

(viii) to change the law governing the Certificates, the courts to the jurisdiction of which the Trustee and the Government of Malaysia have submitted in the Certificates or in the Transaction Documents, any of the arrangements specified in the Certificates or in the Transaction Documents to enable proceedings to be taken or the Trustee's and the Government of Malaysia's waiver of immunity, in respect of actions or proceedings brought by any Certificateholder, set out in Condition 22 (*Governing Law and Jurisdiction*);

(ix) to impose any condition on or otherwise change the Trustee's obligation to make payments of any amount in respect of the Certificates, including by way of the addition of a call option;

(x) except as permitted by any Transaction Document, to release any agreement guaranteeing or securing payments under the Certificates or to change the terms of any such guarantee or security; or

(xi) to change any of the Government of Malaysia's covenants set out in the Lease Agreement or the Grant of Rights to Services Agreement or any of its covenants or undertakings to make a payment under any Transaction Document to which it is a party.

(e) **Information**

Prior to or on the date that the Trustee or the Government of Malaysia, as the case may be, proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 18(b) (*Modification of these Certificates only*) or Condition 18(c) (*Multiple Series Aggregation — Two limb voting*), the Trustee or the Government of Malaysia, as the case may be, shall publish in accordance with Condition 17 (*Notices*) and Condition 19 (*Aggregation Agent; Aggregation Procedures*), and provide the Delegate with the following information:

(i) a description of the Trustee's and the Government of Malaysia's economic and financial circumstances which are, in the Trustee's and the Government of Malaysia's opinion, relevant to the request for any potential modification or action, a description of the Trustee's and the Government of Malaysia's existing debts and a description of its broad policy reform programme and provisional macroecomic outlook;

(ii) if the Trustee or the Government of Malaysia shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement. Where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;

(iii) a description of the Trustee's or the Government of Malaysia's proposed treatment of external securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other securities and its other major creditor groups; and

(iv) if any proposed modification or action contemplates securities being aggregated in more than one group of securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Certificateholders in Condition 18(a)(iv)(G).

(f) **Claims Valuation**

For the purpose of calculating the par value of the Certificates and any affected series of securities which are to be aggregated with the Certificates in accordance with Condition 18(c) (*Multiple Series Aggregation — Two limb voting*), the Trustee or the Government of Malaysia, as the case may be, may appoint a Calculation Agent. The Issuer shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the Calculation Agent will calculate the par value of the Certificates and such affected series of securities. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Certificates and each other affected series of securities for these purposes, and the same methodology will be promulgated for each affected series of securities.

(g) **Manifest error, etc.**

Subject to clause 7.2 of the Declaration of Trust, the Certificates, these Conditions and the provisions of the Declaration of Trust may be amended without the consent of the Certificateholders to correct a manifest error. In addition, the parties to the Declaration of Trust may agree to modify any provision thereof, but no such modification may be made to the Declaration of Trust, any other Transaction Document or the Trustee's memorandum or articles of association by the Trustee without the consent of the Delegate, and the Delegate may agree to any such modification if, in the opinion of the Delegate, such modification is of a formal, minor or technical nature or it is not materially prejudicial to the interests of the Certificateholders (holding outstanding Certificates) and is other than in respect of a Reserved Matter or any provision of the Declaration of Trust referred to in the definition of a Reserved Matter.

(h) **Certificates controlled by the Trustee or the Government of Malaysia**

For the purposes of (i) determining the right to attend and vote at any meeting of Certificateholders, or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution and (ii) this Condition 18 (*Meetings of Certificateholders; Written Resolutions*) and (iii) Condition 14 (*Dissolution Events*), any Certificates which are for the time being held by or on behalf of the Trustee, the Government of Malaysia or by or on behalf of any person which is owned or controlled directly or indirectly by the Trustee, the Government of Malaysia or by any public sector instrumentality of the Trustee or the Government of Malaysia shall be disregarded and be deemed not to remain outstanding, where:

(i) "**public sector instrumentality**" means Bank Negara Malaysia, any other department, ministry or agency of the government of Malaysia or any corporation, trust, financial institution or other entity owned or controlled by the Government of Malaysia or any of the foregoing; and

(ii) "**control**" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

A Certificate will also be deemed to be not outstanding if the Certificate has previously been cancelled or delivered for cancellation or held for reissuance but not reissued, or, where relevant, the Certificate has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Issuer has previously satisfied its obligations to make all payments due in respect of the Certificate in accordance with its terms.

In advance of any meeting of Certificateholders, or in connection with any Written Resolution, the Trustee or the Government of Malaysia, as the case may be, shall provide to the Delegate a copy of the certificate prepared pursuant to Condition 19(d) (*Aggregation Agent; Aggregation Procedures — Certificate*), which includes information on the total number of Certificates which are for the time being held by or on behalf of the Trustee or the Government of Malaysia, as the case may be, or by or on behalf of any person which is owned or controlled directly or indirectly by the Trustee or the Government of Malaysia, as the case may be, or by any public sector instrumentality of the Trustee or the Government of Malaysia, as the case may be, and, as such, such Certificates shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any meeting of Certificateholders or the right to sign, or authorise the signature of, any Written Resolution in respect of any such meeting.

(i) **Publication**

The Trustee or the Government of Malaysia, as the case may be, shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 19(g) (*Manner of publication*).

(j) **Exchange and Conversion**

Any Extraordinary Resolutions or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, the Conditions may be implemented at the option of the Trustee or the Government of Malaysia, as the case may be, by way of a mandatory exchange or conversion of the Certificates and each other affected series of securities, as the case may be, into new securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Certificates is notified to Certificateholders at the time notification is given to the Certificateholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Certificateholders.

19. AGGREGATION AGENT; AGGREGATION PROCEDURES

(a) **Appointment**

The Trustee or the Government of Malaysia, as the case may be, will appoint an Aggregation Agent to calculate whether a proposed modification or action has been approved by the required principal amount outstanding of Certificates, and, in the case of a multiple series aggregation, by the required principal amount of outstanding securities of each affected series of securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions or the Declaration of Trust in respect of the Certificates and in respect of the terms and conditions or securities documentation in respect of each other affected series of securities. The Aggregation Agent shall be independent of the Trustee and the Government of Malaysia.

(b) **Extraordinary Resolutions**

If an Extraordinary Resolution has been proposed at a duly convened meeting of Certificateholders to modify any provision of, or action in respect of, these Conditions and other affected series of securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Certificates and, where relevant, each other affected series of securities, have voted in favour of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

(c) **Written Resolutions**

If a Written Resolution has been proposed under the terms of these Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Certificates and, where relevant, each other affected series of securities, have signed or confirmed in writing in favour of the Written Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

(d) **Certificate**

For the purposes of Condition19(b) (*Extraordinary Resolutions*) and Condition 19(c) (*Written Resolutions*), the Trustee and the Government of Malaysia will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an

Extraordinary Resolution, the date of the meeting referred to in Condition 18(b) (*Modification of these of Certificates only*) or Condition 18(c) (*Multiple Series Aggregation — Two limb Voting*), as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution.

The certificate shall:

(i) list the total principal amount of Certificates and, in the case of a multiple series aggregation, the total principal amount of each other affected series of securities outstanding on the record date; and

(ii) clearly indicate the Certificates and, in the case of a multiple series aggregation, securities of each other affected series of securities which shall be disregarded and deemed not to remain outstanding as a consequence of Condition 18(i) (*Certificates controlled by the Trustee or the Government of Malaysia*) on the record date identifying the holders of the Certificates and, in the case of a multiple series aggregation, securities of each other affected series of securities.

The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

(e) **Notification**

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 19 (*Aggregation Agent; Aggregation Procedures*) to be notified to the Delegate, the Trustee and the Government of Malaysia as soon as practicable after such determination. Notice thereof shall also promptly be given to the Certificateholders.

(f) **Binding nature of determinations; no liability**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 19 (*Aggregation Agent; Aggregation Procedures*) by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Government of Malaysia and the Delegate and the Certificateholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(g) **Manner of publication**

The Trustee and the Government of Malaysia will publish all notices and other matters required to be published pursuant to the Declaration of Trust including any matters required to be published pursuant to Condition 18 (*Meetings of Certificateholders; Written Resolutions*), this Condition 19 (*Aggregation Agent; Aggregation Procedures*) and Condition 14 (*Dissolution Events*):

(i) on www.malaysia.gov.my;

(ii) through DTC;

(iii) in such other places and in such other manner as may be required by applicable law or regulation; and

(iv) in such other places and in such other manner as may be customary.

20. DELEGATE

By way of security for the performance of all covenants, obligations and duties of the Trustee to the Certificateholders under the Declaration of Trust, the Trustee has in the Declaration of Trust irrevocably and unconditionally appointed 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 Transaction Documents) 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 and/or secured and/or pre-funded to its satisfaction in order to, upon the occurrence of a Dissolution Event or a Potential Dissolution Event, exercise all of the rights of the Trustee under the Purchase Undertaking, the Wakala Agreement, the Murabaha Agreement 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 shall 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. In the Declaration of Trust, the Trustee shall ratify and confirm to its satisfaction 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 Trustee and the Certificateholders expressly waive any requirement of the Delegate to act in the best interests of the Trustee in the Declaration of Trust.

The Declaration of Trust contains provisions for the indemnification and/or securing and/or pre-funding of the Delegate in certain circumstances and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction. 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 and/or secured and/or pre-funded 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 it, 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, wilful default or actual fraud or (in the case of the Trustee only) breach of trust in relation to their respective duties under the Declaration of Trust.

Each of the Trustee and the Delegate shall be subject to such duties and only such duties as are specifically set forth in the Transaction Documents to which it is a party, provided that, in the case of the Delegate, it is only subject to such duties with which it expressly agrees to comply as Delegate and no duties, obligations or covenants of the Trustee in its capacity as trustee or as issuer of the Certificates, shall be imposed on the Delegate by virtue of the Delegation, and no implied duties, covenants or obligations shall be read into these Conditions against the Trustee or the Delegate.

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 Condition 22(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 Court 2012 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 Conditions 22(v)(A) to (K) above.

TERMS AND CONDITIONS OF THE SERIES 2 CERTIFICATES

The following are the Terms and Conditions of the Series 2 Certificates which, together with the Terms and Conditions of the Series 1 Certificates, 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.

Malaysia Sovereign Sukuk Berhad (in its capacity as issuer and in its capacity as trustee, the "**Trustee**") has authorised the issue of its Series 2 U.S.$500,000,000 Trust Certificates due 2045 (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 in relation to Series 2 (the "**Declaration of Trust**") to be dated on or about the Closing Date entered into by the Trustee and Citicorp International Limited (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 in relation to Series 2 to be dated on or about the Closing Date (the "**Agency Agreement**") made between, *inter alios*, the Trustee, the Delegate and Citibank N.A., London Branch, 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**"), Citibank N.A., London Branch as replacement agent (in such capacity, the "**Replacement Agent**"), Citigroup Global Markets Deutschland AG as registrar (in such capacity, the "**Registrar**") and Citigroup Global Markets Deutschland AG 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 designated office of the Trustee at Tingkat 7, Bangunan Setia 1, 15 Lorong Dungun Bukit Damansara, 50490, Kuala Lumpur, Malaysia and at the specified offices of the Paying Agents):

(i) an asset sale and purchase agreement between the Trustee (in its capacity as purchaser) and the Lease Assets Seller (in its capacity as seller) in relation to Series 2 to be dated on or about the Closing Date (the "**Asset 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) in relation to Series 2 to be dated on or about the Closing Date (the "**Lease Agreement**");

(iii) a wakala agreement between the Trustee and the Government of Malaysia (in its capacity as Wakeel) in relation to Series 2 to be dated on or about the Closing Date (the "**Wakala Agreement**");

(iv) a grant of rights to services agreement between the Trustee (in its capacity as grantee) and the Government of Malaysia (in its capacity as grantor) to be dated on or about the Closing Date (the "**Grant of Rights to Services Agreement**");

(v) a sub-grant of rights to services agreement between the Government of Malaysia (in its capacity as sub-grantee) and the Trustee (in its capacity as sub-grantor) to be dated on or about the Closing Date (the "**Sub-Grant of Rights to Services Agreement**");

(vi) a murabaha agreement between the Trustee (in its capacity as seller), the Government of Malaysia (in its capacity as purchaser) and CIMB Islamic Bank Berhad (in its capacity as commodity trading participant) in relation to Series 2 to be dated on or about the Closing Date (the "**Murabaha Agreement**");

(vii) a purchase undertaking deed executed by the Government of Malaysia in favour of the Trustee and the Delegate in relation to Series 2 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;

(viii) a substitution undertaking deed executed by the Trustee in favour of the Government of Malaysia in relation to Series 2 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 Trustee and the Government of Malaysia, acting through the Lease Assets Seller and/or the Government of Malaysia or such other entity or agency that the Government of Malaysia may specify), in the circumstances set out in the Substitution Undertaking;

(ix) a redemption undertaking deed executed by the Trustee in favour of the Government of Malaysia in relation to Series 2 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 Lease Assets Seller, in respect of the Redemption Lease Assets or the Government of Malaysia (or such other entity or agency that the Government of Malaysia may specify) in respect of the relevant Redemption Rights to Services (as applicable), and the Trustee in the circumstances set out in the Redemption Undertaking;

(x) the Declaration of Trust; and

(xi) 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 authorise 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 Wakala Sukuk Assets and the purchase and subsequent sale of commodities pursuant to the Murabaha Agreement; 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;

"**Additional Trust Certificates**" means any certificates or securities (other than the Certificates) issued from time to time by the Trustee in the domestic or international markets, such certificates or securities being beneficial ownership interests in either: (i) assets acquired from the Government of Malaysia and associated income arising from the lease of those assets to the Government of Malaysia, and in each case such assets having been purchased by the Trustee and leased back to the Government of Malaysia; or (ii) rights under any other structure in accordance with the principles of Shariah and involving the Trustee and the Government of Malaysia;

"**Aggregation Agent**" means an agent appointed pursuant to the provisions of Condition 19(a);

"**Appointee**" means any attorney, manager, agent, delegate, nominee, custodian or other person appointed or employed by the Delegate in connection with the exercise by the Delegate of its powers or the performance by the Delegate of its duties under the Declaration of Trust;

"**Assets**" has the meaning given to it in the Asset Sale and Purchase Agreement;

"**Business Day**" means a day (other than Saturday or Sunday) on which commercial banks and foreign exchange markets in Kuala Lumpur, London 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;

"**Closing Date**" means April 22, 2015;

"**Commodities**" means any Shariah compliant commodities that are traded on the market operated by Bursa Malaysia Islamic Services Sdn Bhd for the trading of commodities (excluding, for the avoidance of doubt, gold and silver);

"**Deferred Payment Price**" has the meaning given to it in the Murabaha Agreement;

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

"**Delegation**" has the meaning given to it in Condition 20 (*Delegate*);

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

(a) the Scheduled Dissolution Date;

(b) the Dissolution Event Redemption Date; and

(c) the Total Loss Dissolution Date;

"**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;

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

"**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 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 CIMB Investment Bank Berhad; The Hongkong and Shanghai Banking Corporation Limited and Standard Chartered Bank, 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 the Lease Agreement;

"**Lease Assets Seller**" means the Federal Lands Commissioner;

"**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*);

"**Net Revenue Limit**" means the amount specified as such in the Grant of Rights to Services Agreement;

"**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 22nd day in each April and October in each year or if any such day is not a Business Day the following Business Day, commencing on October 22, 2015 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; or

(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, organisation, 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 fulfilment 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 4.236% 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 Amount**" means an amount to be paid by the Trustee to the Government of Malaysia which is equal to the aggregate face amount of the relevant proportion of Malaysia Certificates to be purchased by the Trustee for cash consideration, as specified in the relevant Redemption and Cancellation Notice;

"**Redemption and Cancellation Date**" means the date specified as such in a Redemption and Cancellation Notice;

"**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**" has the meaning given to it in the Redemption Undertaking;

"**Redemption Rights to Services**" means the Rights to Services granted pursuant to the Grant of Rights to Services Agreement which, for the avoidance of doubt, shall be the entirety of the Rights to Services and not any part of such Right to Services;

"**Redemption Sale Agreement**" means an agreement to be executed by the Trustee and the Lease Assets Seller in respect of the Redemption Lease Assets or the Government of Malaysia (or such other government entity or agency that the Government of Malaysia may specify) in respect of the relevant Redemption Rights to Services, as the case may be, 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 20 (*Delegate*);

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

(a) the Periodic Distribution Amount for the corresponding Return Accumulation 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;

"**Rights to Services**" means:

(a) the right to participate in the issuance of driving and vehicle licences and the provision of transfer of vehicle ownership services and other vehicle registration services in Malaysia; and

(b) the right to receive all revenues, distributions and other monies at any time payable in respect of the services set out in paragraph (a) above and all other rights, benefits and entitlements in respect of or derived from such services,

in each case granted by the Government of Malaysia to the Trustee up to an amount equal to the Net Revenue Limit per annum, for the period of the Rights to Services Term in accordance with the terms of the Grant of Rights to Services Agreement;

"**Rights to Services Exercise Price**" means an amount equal to the aggregate of:

(a) the Rights to Services Value; and

(b) 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*),

which price shall be the price for the remaining Wakala Sukuk Assets following the occurrence of a Total Loss Event in respect of the Lease Assets;

"**Rights to Services Price**" means the aggregate purchase price paid for the Rights to Services under the Grant of Rights to Services Agreement;

"**Rights to Services Term**" means the period from (and including) the Closing Date to (and including) the date falling 99 years after the Closing Date subject to the terms of the Grant of Rights to Services Agreement;

"**Rights to Services Value**" means an amount equal to the product of (i) the Net Revenue Limit; and (ii) the unexpired portion of the Rights to Services Term (expressed as a number of years and rounded to the nearest year), provided that if such amount is greater than the Rights to Services Price it shall be equal to the Rights to Services Price;

"**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 (Fo*rm 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 April 22, 2045;

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

"**Series 1 Certificates**" means the U.S.$1,000,000,000 trust certificates due 2025 to be issued by the Trustee on or about the Closing Date;

"**Series 2**" means the series constituted by the Certificates;

"**Specified Denomination(s)**" means a minimum denomination of U.S.$200,000 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;

"**Substituted Rights to Services**" means the rights to services specified as such in a Substitution Notice to the extent that on the Substitution Date they constitute Rights to Services belonging to the Trustee, which, for the avoidance of doubt, shall be the entirety of the Rights to Services granted pursuant to the Grant of Rights to Services Agreement and not any part of such Right to Services;

"**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;

"**Sukuk Exercise Price**" means an amount equal to:

(a) the aggregate of:

(i) the outstanding 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 Wakala 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 Ass*ets)) in accordance with Condition 6(b) (*Trust — Application of Proceeds from Trust Assets*);

less

(b) an amount equal to the outstanding Deferred Payment Price (after any reduction pursuant to clause 10.1(a) of the Murabaha Agreement) due under the Murabaha Agreement;

"**Supplementary Rental**" means, in respect of a Lease Period, an amount equal to the Wakala 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:

(a) the aggregate of:

(i) the outstanding 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 Wakala Services Charge Amount outstanding under the terms of the Wakala Agreement,

less

(b) an amount equal to the aggregate of:

(i) the Rights to Services Value; and

(ii) the outstanding Deferred Payment Price (after any reduction pursuant to clause 10.1(a) of the Murabaha Agreement);

"**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 Wakeel in accordance with the Wakala Agreement;

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

"**Total Loss Dissolution Date**" means 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*);

"**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 Wakala Agreement, the Purchase Undertaking, the Substitution Undertaking, the Redemption Undertaking, the Asset Sale and Purchase Agreement, the Grant of Rights to Services Agreement, the Sub-Grant of Rights to Services Agreement, the Lease Agreement, the Murabaha 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;

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

"**Wakala Services**" means the services relating to the Lease Assets to be provided by the Wakeel on behalf of the Trustee in respect of Major Maintenance and Structural Repair, Proprietorship Taxes and Takaful/Insurances and collection of Rights to Services Fees, in each case, in accordance with the terms and conditions of the Wakala Agreement;

"**Wakala Services Charge Amount**" means, in respect of a Wakala Services Period, all payments made or costs incurred by the Wakeel in respect of the Wakala Services performed during that Wakala Services Period;

"**Wakala Services Period**" has the meaning given to it in the Wakala Agreement;

"**Wakala Sukuk Assets**" means the Lease Assets and the Rights to Services (if any); and

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

All references in these Conditions to "**U.S. dollars**" and "**U.S.$**" 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.$200,000 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 Citibank, N.A., London Branch 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 Citibank, N.A., London Branch 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 together with such evidence as the Registrar or (as the case may be) such other Transfer Agent may reasonably require to prove the title of the transferer and the individuals who have executed the forms of transfer.

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 (15) 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 subject to the terms of the Declaration of Trust 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, each of which represent an undivided beneficial ownership interest in the Trust Assets. In the event that any Additional Trust Certificates are issued, any other assets owned by the Trustee in relation thereto (the "**Additional Trust Certificate Trust Assets**") shall not form any part of the Trust Assets and the Certificateholders shall have no recourse to such Additional Trust Certificate Trust Assets.

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 and the Rights to Services) 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 and/or secured and/or pre-funded to its satisfaction) 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 reorganisation, 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 acknowledges 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, reorganisation, 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 or the Delegate 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 or the Delegate 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 or the Delegate 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 Wakala Sukuk 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 Murabaha Agreement, the Lease Agreement, the Sub-Grant of Rights to Services Agreement and the Wakala 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 Grant of Rights to Services Agreement, the Government of Malaysia will grant to the Trustee the Rights to Services, and pursuant to the Asset Sale and Purchase Agreement, the Lease Assets Seller will sell, transfer and convey to the Trustee the Assets. Pursuant to the Sub-Grant of Rights to Services Agreement, the Trustee will sub-grant to the Government of Malaysia the Rights to Services in return for a fee payable to the Trustee by the Government of Malaysia.

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. The payment obligations of the Lessee under the Lease Agreement shall constitute direct, unconditional, unsecured and general obligations of the Government of Malaysia, without preference to one above the other, and rank equal in right of payment with all other unsecured and unsubordinated External Public Indebtedness of the Government of Malaysia.

Under the Wakala Agreement, the Trustee will appoint the Government of Malaysia as the Trustee's agent (in such capacity, the "**Wakeel**") to perform certain Wakala Services in respect of the Lease Assets.

The Government of Malaysia will execute the Purchase Undertaking in favour of the Trustee and the Delegate pursuant to which the Government of Malaysia undertakes, provided that there has been no Total Loss Event in relation to the Lease Assets and 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 Wakala Sukuk Assets at the Sukuk Exercise Price specified in the Exercise Notice. Where a Total Loss Event has occurred in relation to the Lease Assets, 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 Rights to Services at the Rights to Services 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 Sukuk Exercise Price or any Deferred Payment Price payable in accordance with the Murabaha Agreement 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 Wakeel in respect of the Wakala Sukuk Assets, and (ii) the Lease Agreement shall be deemed to be extended for a period from and including the date on which the Sukuk Exercise Price or any Deferred Payment Price was due to be paid, but excluding the date on which such amounts are paid in full in accordance with the terms of the Purchase Undertaking and the Murabaha Agreement. 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 Wakala Agreement, without double-counting) 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 Malaysia 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 Wakeel (unless it is able to prove beyond any doubt that any shortfall in the proceeds of any Takaful/Insurances is not attributable to its negligence or its failing to comply with the terms of the Wakala Agreement relating to the Takaful/Insurances) 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 Malaysia 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, provided that a Redemption and Cancellation Notice has been served on the Trustee in accordance with the terms of the Redemption Undertaking, the Trustee undertakes to (i) purchase from the Government of Malaysia the Malaysia Certificates on the relevant Redemption and Cancellation Date in consideration for the cancellation of the Malaysia Certificates; (ii) cancel the Malaysia Certificates on the relevant Redemption and Cancellation Date; (iii) if applicable, sell, transfer and convey its interests, rights, benefits and entitlements in and to certain Redemption Lease Assets to the Government of Malaysia (through the Lease Assets Seller) on the relevant Redemption and Cancellation Date; (iv) if applicable, sell and transfer its interests, rights, benefits and entitlements in and to certain Redemption Rights to Services to the Government of Malaysia (or such other entity or agency that the Government of Malaysia may specify) on the relevant Redemption and Cancellation Date; and//or (v) pay the applicable Redemption Amount to the Government of Malaysia (or such other entity or agency that the Government of Malaysia may specify), in each case in accordance with the terms of the Declaration of Trust, these Conditions and the Redemption Undertaking.

The Trustee will execute the Substitution Undertaking in favour of the Government of Malaysia pursuant to which the Government of Malaysia has the right to require the Trustee to (i) 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); and (ii) sell and transfer on any Substitution Date all of the Trustee's interest, rights, benefits and entitlements in and to the Substituted Rights to Services 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 capable of being leased and/or that the New Lease Assets have an aggregate value which is equal to or greater than the value of the Substituted Lease Assets and/or the Substituted Rights to Services on the relevant Substitution Date.

In order to effect the substitution, the Trustee and the Lease Assets Seller or the Government of Malaysia (or such other entity or agency that the Government of Malaysia may specify), as the case may be, will enter into one or more sale agreements to effect the transfer and conveyance of the New Lease Assets for the Substituted Lease Assets and/or the Substituted Rights to Services.

The Trustee will establish a transaction account in London 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 Wakala Agreement, the Murabaha 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, 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 Wakala Sukuk 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 (which are held by it),

upon trust absolutely for the Certificateholders *pro rata* according to the face amount of Certificates held by each holder of the Certificates 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 subject to the terms of the Declaration of Trust. 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, or which it is entitled to receive pursuant to, the Transaction Documents in its capacity as Delegate and to any Appointee appointed in respect of the Trust by the Delegate, in accordance with the Declaration of Trust all amounts owing to it pursuant to its terms of appointment;

(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 of the Dissolution Distribution Amount; and

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

Absent any determination by the U.S. Internal Revenue Service to the contrary, the Declaration of Trust provides that the Government of Malaysia and the Trustee agree to treat the Certificates, and each Certificateholder acknowledges that the Certificates are so treated, as debt instruments for U.S. federal income tax purposes and agree not to take any position contrary to the foregoing on any U.S. federal income tax return or information statement; provided, however, that the foregoing shall not preclude the Trustee from causing the trust to file an entity classification election to elect to be classified as a partnership for U.S. federal income tax purposes.

7. COVENANTS

For so long as any Certificate is outstanding, the Trustee shall not (save as expressly set out below in connection with any Additional Trust Certificates, and 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 or in respect of any Additional Trust Certificates;

(ii) subject to Condition 7(iii), 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 or in respect of any Additional Trust Certificates);

(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; Written Resolutions*), 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 (other than in respect of Additional Trust Certificates);

(v) except as provided in the Declaration of Trust, act as trustee in respect of any trust other than (A) the Trust or in respect of any parties other than the Certificateholders or (B) a trust declared in relation to Additional Trust Certificates or in respect of any parties other than certificateholders or securityholders in respect of such Additional Trust Certificates;

(vi) have any subsidiaries or employees save and except as required or incidental to the issuance of the Certificates or in respect of any Additional Trust Certificates;

(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;

(x) enter into any contract, transaction, amendment, obligation or liability other than (a) the Transaction Documents to which it is a party or as expressly permitted or required thereunder, or (b) any contract, transaction, amendment, obligation or liability in respect of any Additional Trust Certificate;

(xi) engage in any business or activity other than:

(A) as provided for or permitted in the Transaction Documents or as provided for or permitted in any transaction documents in respect of Additional Trust Certititcates;

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

(C) the issuance of Additional Trust Certificates; and

(D) 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 cheque 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 Wakeel in respect of the Lease Assets and the Rights to Services 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 (i) any fiscal or other laws and regulations applicable thereto in the place of payment, but without prejudice to the provisions of Condition 11 (*Taxation*); and (ii) any withholding or deduction required pursuant to an agreement described in Section 1471(b) of the U.S. Internal Revenue Code of 1986 (the "**Code**") or otherwise imposed pursuant to Sections 1471 through 1474 of the Code, any regulations or agreements thereunder, any official interpretations thereof, or (without prejudice to the provisions of Condition 11 (*Taxation*)) any law implementing an intergovernmental approach thereto.

(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 cheque, the cheque 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 cheque 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 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 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 (the "**Total Loss Dissolution Date**") in a notice given to the Certificateholders in accordance with Condition 17 (*Notices*). The Certificates shall be redeemed at the Dissolution Distribution Amount using: (i) the Takaful/Insurance Proceeds (if any) required to be paid into the Transaction Account by the Wakeel in accordance with the terms of the Wakala Agreement on or before the 30th day following the occurrence of a Total Loss Event; (ii) the Total Loss Shortfall Amount (if any) required to be paid into the Transaction Account by the Wakeel in accordance with the terms of the Wakala Agreement no later than the close of business in Malaysia on the 31st day after the Total Loss Event has occurred; (iii) the Rights to Services Exercise Price required to be paid into the Transaction Account by the Government of Malaysia pursuant to the sale of the Rights to Services under the Purchase Undertaking; and (iv) the outstanding Deferred Payment Price (if any) required to be paid into the Transaction Account by the Government of Malaysia in accordance with the terms of the Murabaha Agreement on such Total Loss Dissolution Date.

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 Wakeel will be entitled to retain the Total Loss Surplus Amount as an incentive fee for the performance of its obligations under the Wakala Agreement and any insurance proceeds received thereafter shall be for the Wakeel'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 beneficial interest in 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, Condition 13 (*Purchase and Cancellation of Certificates*) 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, the Purchase Undertaking, the Wakala Agreement, the Sub-Grant of Rights to Services Agreement and the Murabaha Agreement 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, the Purchase Undertaking, the Wakala Agreement, the Sub-Grant of Rights to Services Agreement and the Murabaha Agreement, 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 purchase the Malaysia Certificates in consideration for the cancellation of the Malaysia Certificates and (i) the sale, transfer and conveyance of its interests, rights, benefits and entitlements in and to certain Redemption Lease Assets to the Government of Malaysia (through the Lease Assets Seller); and/or (ii) the sale and transfer of its interests, rights, benefits and entitlements in and to certain Redemption Rights to Services to the Government of Malaysia (or such other entity or agency that the Government of Malaysia may specify); and/or (iii) the payment of the applicable Redemption Amount on the Redemption and Cancellation Date in accordance with the terms of the Declaration of Trust and the Redemption Undertaking.

Following the delivery of a Redemption and Cancellation Notice by the Government of Malaysia specifying the relevant Malaysia Certificates, the Redemption and Cancellation Date, the Redemption Lease Assets (if any), the Redemption Rights to Services (if any) and the Redemption Amount (if any), the Trustee shall countersign such Redemption and Cancellation Notice in acknowledgment of its terms. By purchasing a Certificate, each Certificateholder shall be deemed to authorise the Trustee to countersign any Redemption and Cancellation Notices. Following the countersignature of the relevant Redemption and Cancellation Notice, the Trustee shall:

(i) purchase the relevant Malaysia Certificates from the Government of Malaysia on the relevant Redemption and Cancellation Date;

(ii) cancel the relevant Malaysia Certificates on the relevant Redemption and Cancellation Date;

(iii) if applicable, enter into a Redemption Sale Agreement with the Lease Assets Seller on the terms and subject to the conditions set out in the Redemption and Cancellation Notice on or before the Redemption and Cancellation Date, which shall become effective on the Redemption and Cancellation Date and by which all of the Trustee's interests, rights, benefits and entitlements in and to the relevant Redemption Lease Assets will be sold, transferred and conveyed to the Government of Malaysia through the Lease Assets Seller;

(iv) if applicable, enter into a Redemption Sale Agreement with Government of Malaysia (or such other entity or agency that the Government of Malaysia may specify), on the terms and subject to the conditions set out in the Redemption and Cancellation Notice on or before the Redemption and Cancellation Date, which shall become effective on the Redemption and Cancellation Date and by which all of the Trustee's interests, rights, benefits and entitlements in and to the relevant Redemption Rights to Services will be sold and transferred to the Government of Malaysia; and

(v) (subject to the set off provisions contained in the Redemption Undertaking), pay the relevant Redemption Amount to the Government of Malaysia on the relevant Redemption and Cancellation Date.

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;

(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 Sub-Grant of Rights to Services Agreement, the Purchase Undertaking, the Murabaha Agreement or the Wakala Agreement or any of the payment obligations of the Government of Malaysia under the Lease Agreement, the Sub-Grant of Rights to Services Agreement, the Purchase Undertaking, the Murabaha Agreement or the Wakala 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; or

(vi) (A) a "Dissolution Event" occurs in relation to Series 1 as defined in the Terms and Conditions of the Series 1 Certificates, or (B) a "Dissolution Event" or event of default, howsoever described, occurs in relation to any Additional Trust Certificates,

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 and/or secured and/or prefunded 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 Wakala Sukuk Assets at the Sukuk Exercise Price 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 amounts due under the Purchase Undertaking, the Lease Agreement, the Murabaha Agreement or the Wakala Agreement 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 corporate office of the Delegate in Hong Kong by the Delegate or the holder of any Certificate;

(iii) any External Public Indebtedness in an aggregate principal amount in excess of US$75,000,000 (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$75,000,000 (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.

If the Trustee and the Government of Malaysia receive notice in writing from holders of at least 50% in aggregate principal amount of the outstanding Certificates to the effect that the Dissolution Event or Dissolution Events giving rise to any Dissolution Request is or are cured following the Relevant Dissolution Request and that such holders wish the relevant Dissolution Request to be withdrawn, the Trustee and the Government of Malaysia shall give notice thereof to the Certificateholders (with a copy to the Delegate), whereupon the relevant Dissolution Request shall be withdrawn and shall have no further effect but without prejudice to any rights or obligations which may have arisen before the Trustee and the Government of Malaysia gave such notice (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Dissolution Event, Dissolution Resolution, or in each case, any right of any Certificateholder in relation thereto.

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 and/or secured and/or pre-funded to its satisfaction, 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) enforce the provisions of the Wakala Agreement against the Government of Malaysia in its capacity as Wakeel; and/or

(C) enforce the provisions of the Murabaha Agreement against the Government of Malaysia; and/or

(D) take such other steps as the Trustee (or the Delegate acting for and on behalf of the Trustee) may consider necessary or desirable to exercise all of the rights of the Trustee under the Purchase Undertaking, the Wakala Agreement, the Murabaha Agreement 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 and/or secured and/or prefunded 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, the Substitution Undertaking or the Redemption 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.

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, WRITTEN RESOLUTIONS

(a) Convening Meetings of Certificateholders; Conduct of Meetings of Certificateholders; Written Resolutions

(i) The Trustee, the Government of Malaysia or the Delegate (subject to its being indemnified and/or secured and/or prefunded to its satisfaction) may convene a meeting of the Certificateholders at any time in respect of the Certificates in accordance with the Declaration of Trust. The Trustee, the Delegate or the Government of Malaysia, as the case may be, shall determine the time and place of the meeting. The Trustee or the Government of Malaysia, as the case may be, shall notify the Certificateholders of the time, place and purpose of the meeting not less than 21 and not more than 45 days before the meeting in the manner provided in Condition 17 (*Notices*) (with a copy to the Agents, the Trustee and the Government of Malaysia where the meeting is convened by the Delegate, or where the meeting is convened by the Trustee or the Government of Malaysia, the Agents and the Delegate).

(ii) The Trustee, the Government of Malaysia or the Delegate (subject to its being indemnified and/or secured and/or prefunded to its satisfaction by the Certificateholders), as the case may be, shall convene a meeting of Certificateholders if the holders of at least 10 per cent. in principal amount of the outstanding Certificates (as defined in the Declaration of Trust and described in Condition 18 (i) (*Certificates controlled by the Trustee or the Government of Malaysia*)) have delivered a written request to the Government of Malaysia, the Trustee, or the Delegate, setting out the purpose of the meeting. The Trustee, the Government of Malaysia, or the Delegate, as the case may be, shall determine the time and place of the meeting. The Trustee (in respect of a meeting convened by the Trustee or the Delegate) or the Government of Malaysia (in respect of a meeting convened by the Government of Malaysia or the Delegate), as the case may be, will notify the Certificateholders within 10 days of receipt of such written request of the time and place of the meeting in the manner provided in Condition 17 (*Notices*) (with a copy to the Agents, the Trustee and the Government of Malaysia where the meeting is convened by the Delegate, or where the meeting is convened by the Trustee or the Government of Malaysia, the Agents and the Delegate), which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.

(iii) The Declaration of Trust contains provisions relating to the conduct of any meeting.

(iv) The notice convening any meeting will specify, *inter alia*;

(A) the date, time and location of the meeting;

(B) (i) the agenda and (ii) the full text of any Extraordinary Resolution to be proposed for adoption at the meeting;

(C) the record date for the meeting, which shall be no more than five Business Days before the date of the meeting;

(D) the documentation required to be produced by a Certificateholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Certificateholder's behalf at the meeting;

(E) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Certificates are traded and/or held by Certificateholders;

(F) whether Condition 18 (b) (*Modification of these Certificates only*), or Condition 18 (c) (*Multiple Series Aggregation — Two limb voting*) shall apply and, if relevant, in relation to which other series of securities it applies;

(G) if the proposed modification or action relates to two or more series of securities issued by it and contemplates such series of securities being aggregated in more than one group of securities, a description of the proposed treatment of each such group of securities;

(H) such information that is required to be provided by the Trustee or the Government of Malaysia, as the case may be, in accordance with Condition 18 (e) (*Information*);

(I) the identity of the Aggregation Agent and the Calculation Agent, if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 18 (f) (*Claims Valuation*); and

(J) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of securities.

(v) In addition, the Declaration of Trust contains provisions relating to Written Resolutions. All information to be provided pursuant to Condition 18 (a)(iv) shall also be provided, *mutatis mutandis*, in respect of Written Resolutions.

(vi) A "**record date**" in relation to any proposed modification or action means the date,which shall be no more than five Business Days before the date of the meeting, fixed by the Delegate for determining the Certificateholders and, in the case of a multiple series aggregation, the holders of securities of each other affected series that are entitled to vote on a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Two Limb Written Resolution.

(vii) An "**Extraordinary Resolution**" means any of a Single Series Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.

(viii) A "**Written Resolution**" means any of a Single Series Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.

(ix) Any reference to "**securities**" means any trust certificates (including, without limitation, the Certificates and any Additional Trust Certificates), notes, bonds, debentures or other debt securities issued by the Trustee or the Government of Malaysia, as the case may be, in one or more series with an original stated maturity of more than one year.

(x) "**Securities Capable of Aggregation**" means the Certificates and any other securities which include (i) provisions substantially on the terms set out in this Condition 18 (*Meetings of Certificateholders; Written Resolutions*) and Condition 19 (*Aggregation Agent; Aggregation Procedures*) or (ii) terms which provide for the securities to be capable of being aggregated for voting purposes with other series of securities.

(b) **Modification of these Certificates only**

(i) Without prejudice to clause 7.2 of the Declaration of Trust, any modification of any provision of, or any action in respect of, these Conditions or the Declaration of Trust in respect of the Certificates may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.

(ii) A "**Single Series Extraordinary Resolution**" means a resolution passed at a meeting of Certificateholders duly convened and held in accordance with the procedures for meetings contained in Condition 18(a) (*Convening Meetings of Certificateholders; Conduct of Meetings of Certificateholders; Written Resolutions*) and the Declaration of Trust by a majority of:

(A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Certificates; or

(B) in the case of a matter other than a Reserved Matter, more than 50 per cent. of the aggregate principal amount of the outstanding Certificates.

(iii) A "**Single Series Written Resolution**" means a resolution in writing signed by or on behalf of the holders of:

(A) in the case of a Reserved Matter, at least 75 per cent. of the aggregate principal amount of the outstanding Certificates; or

(B) in the case of a matter other than a Reserved Matter more than 50 per cent. of the aggregate principal amount of the outstanding Certificates.

Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Certificateholders.

(iv) Any Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Certificateholders, whether or not they attended any meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be.

(c) **Multiple Series Aggregation — Two limb voting**

(i) In relation to a proposal that includes any modification to the terms and conditions of, or any action with respect to, two or more series of securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.

(ii) A "**Multiple Series Two Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of securities Capable of Aggregation, duly convened and held in accordance with the procedures for meetings contained in Condition 18(a) (*Convening Meetings of Certificateholders; Conduct of Meetings of Certificateholders; Written Resolutions*) and the Declaration of Trust which is passed by a majority of:

(A) at least $66^{2}/_{3}$ per cent. of the aggregate principal amount of the outstanding securities of affected series of securities Capable of Aggregation (taken in aggregate); and

(B) more than 50 per cent. of the aggregate principal amount of the outstanding securities in each affected series of securities Capable of Aggregation (taken individually).

(iii) A "**Multiple Series Two Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of securities Capable of Aggregation, in accordance with the applicable securities documentation) which, when taken together, has been signed by or on behalf of the holders of:

(A) at least $66^{2/3}$ per cent. of the aggregate principal amount of the outstanding securities of all the affected series of securities Capable of Aggregation (taken in aggregate); and

(B) more than 50 per cent. of the aggregate principal amount of the outstanding securities in each affected series of securities Capable of Aggregation (taken individually).

Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Certificateholders or one or more holders of each affected series of securities Capable of Aggregation.

(iv) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Certificateholders and holders of each other affected series of Certificates Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be.

(v) Any modification or action proposed under Condition 18 (c)(i) may be made in respect of some series only of the securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 18(c) may be used for different groups of two or more series of securities Capable of Aggregation simultaneously.

(d) **Reserved Matters**

In these Conditions, "**Reserved Matter**" means any proposal:

(i) to change the Scheduled Dissolution Date or any other date, or the method of determining the Scheduled Dissolution Date or any other date, for payment of the Dissolution Distribution Amount, Periodic Distribution Amounts or any other amount in respect of the Certificates, to reduce or cancel the amount of Dissolution Distribution Amount, Periodic Distribution Amounts or any other amount payable on any date in respect of the Certificates or to change the method of calculating the amount of Dissolution Distribution Amount, Periodic Distribution Amounts or any other amount payable in respect of the Certificates on any date;

(ii) to change the currency in which any amount due in respect of the Certificates is payable or the place in which any payment is to be made;

(iii) to change the majority required to pass an Extraordinary Resolution, a Written Resolution or any other resolution of Certificateholders or the number or percentage of votes required to be cast, or the number or percentage of Certificates required to be held, in connection with the taking of any decision or action by or on behalf of the Certificateholders or any of them;

(iv) to change this definition, or the definition of "Extraordinary Resolution", "Single Series Extraordinary Resolution", "Multiple Series Two Limb Extraordinary Resolution", "Written Resolution", "Single Series Written Resolution", or "Multiple Series Two Limb Written Resolution";

(v) to change the definition of "securities" or "securities Capable of Aggregation";

(vi) to change the definition of "outstanding" or to modify the provisions of Condition 18(h) (*Certificates controlled by the Trustee or Government of Malaysia*);

(vii) to change the legal ranking of the Certificates or other specified substantive covenants (including, without limitation, the covenant given by the Trustee in Clause 15 of the Declaration of Trust) as appropriate, to be determined on a case-by-case basis;

(viii) to change the law governing the Certificates, the courts to the jurisdiction of which the Trustee and the Government of Malaysia have submitted in the Certificates or in the Transaction Documents, any of the arrangements specified in the Certificates or in the Transaction Documents to enable proceedings to be taken or the Trustee's and the Government of Malaysia's waiver of immunity, in respect of actions or proceedings brought by any Certificateholder, set out in Condition 22 (*Governing Law and Jurisdiction*);

(ix) to impose any condition on or otherwise change the Trustee's obligation to make payments of any amount in respect of the Certificates, including by way of the addition of a call option;

(x) except as permitted by any Transaction Document, to release any agreement guaranteeing or securing payments under the Certificates or to change the terms of any such guarantee or security; or

(xi) to change any of the Government of Malaysia's covenants set out in the Lease Agreement or the Grant of Rights to Services Agreement or any of its covenants or undertakings to make a payment under any Transaction Document to which it is a party.

(e) **Information**

Prior to or on the date that the Trustee or the Government of Malaysia, as the case may be, proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 18(b) (*Modification of these Certificates only*) or Condition 18(c) (*Multiple Series Aggregation — Two limb voting*), the Trustee or the Government of Malaysia, as the case may be, shall publish in accordance with Condition 17 (*Notices*) and Condition 19 (*Aggregation Agent; Aggregation Procedures*), and provide the Delegate with the following information:

(i) a description of the Trustee's and the Government of Malaysia's economic and financial circumstances which are, in the Trustee's and the Government of Malaysia's opinion, relevant to the request for any potential modification or action, a description of the Trustee's and the Government of Malaysia's existing debts and a description of its broad policy reform programme and provisional macroecomic outlook;

(ii) if the Trustee or the Government of Malaysia shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement. Where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;

(iii) a description of the Trustee's or the Government of Malaysia's proposed treatment of external securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other securities and its other major creditor groups; and

(iv) if any proposed modification or action contemplates securities being aggregated in more than one group of securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Certificateholders in Condition 18(a)(iv)(G).

(f) **Claims Valuation**

For the purpose of calculating the par value of the Certificates and any affected series of securities which are to be aggregated with the Certificates in accordance with Condition 18(c) (*Multiple Series Aggregation — Two limb voting*), the Trustee or the Government of Malaysia, as the case may be, may appoint a Calculation Agent. The Issuer shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the Calculation Agent will calculate the par value of the Certificates and such affected series of securities. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Certificates and each other affected series of securities for these purposes, and the same methodology will be promulgated for each affected series of securities.

(g) **Manifest error, etc.**

Subject to clause 7.2 of the Declaration of Trust, the Certificates, these Conditions and the provisions of the Declaration of Trust may be amended without the consent of the Certificateholders to correct a manifest error. In addition, the parties to the Declaration of Trust may agree to modify any provision thereof, but no such modification may be made to the Declaration of Trust, any other Transaction Document or the Trustee's memorandum or articles of association by the Trustee without the consent of the Delegate, and the Delegate may agree to any such modification if, in the opinion of the Delegate, such modification is of a formal, minor or technical nature or it is not materially prejudicial to the interests of the Certificateholders (holding outstanding Certificates) and is other than in respect of a Reserved Matter or any provision of the Declaration of Trust referred to in the definition of a Reserved Matter.

(h) **Certificates controlled by the Trustee or the Government of Malaysia**

For the purposes of (i) determining the right to attend and vote at any meeting of Certificateholders, or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution and (ii) this Condition 18 (*Meetings of Certificateholders; Written Resolutions*) and (iii) Condition 14 (*Dissolution Events*), any Certificates which are for the time being held by or on behalf of the Trustee, the Government of Malaysia or by or on behalf of any person which is owned or controlled directly or indirectly by the Trustee, the Government of Malaysia or by any public sector instrumentality of the Trustee or the Government of Malaysia shall be disregarded and be deemed not to remain outstanding, where:

(i) "**public sector instrumentality**" means Bank Negara Malaysia, any other department, ministry or agency of the government of Malaysia or any corporation, trust, financial institution or other entity owned or controlled by the Government of Malaysia or any of the foregoing; and

(ii) "**control**" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

A Certificate will also be deemed to be not outstanding if the Certificate has previously been cancelled or delivered for cancellation or held for reissuance but not reissued, or, where relevant, the Certificate has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Issuer has previously satisfied its obligations to make all payments due in respect of the Certificate in accordance with its terms.

In advance of any meeting of Certificateholders, or in connection with any Written Resolution, the Trustee or the Government of Malaysia, as the case may be, shall provide to the Delegate a copy of the certificate prepared pursuant to Condition 19(d) (*Aggregation Agent; Aggregation Procedures — Certificate*), which includes information on the total number of Certificates which are for the time being held by or on behalf of the Trustee or the Government of Malaysia, as the case may be, or by or on behalf of any person which is owned or controlled directly or indirectly by the Trustee or the Government of Malaysia, as the case may be, or by any public sector instrumentality of the Trustee or the Government of Malaysia, as the case may be, and, as such, such Certificates shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any meeting of Certificateholders or the right to sign, or authorise the signature of, any Written Resolution in respect of any such meeting.

(i) **Publication**

The Trustee or the Government of Malaysia, as the case may be, shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 19(g) (*Manner of publication*).

(j) **Exchange and Conversion**

Any Extraordinary Resolutions or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, the Conditions may be implemented at the option of the Trustee or the Government of Malaysia, as the case may be, by way of a mandatory exchange or conversion of the Certificates and each other affected series of securities, as the case may be, into new securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Certificates is notified to Certificateholders at the time notification is given to the Certificateholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Certificateholders.

19. AGGREGATION AGENT; AGGREGATION PROCEDURES

(a) **Appointment**

The Trustee or the Government of Malaysia, as the case may be, will appoint an Aggregation Agent to calculate whether a proposed modification or action has been approved by the required principal amount outstanding of Certificates, and, in the case of a multiple series aggregation, by the required principal amount of outstanding securities of each affected series of securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions or the Declaration of Trust in respect of the Certificates and in respect of the terms and conditions or securities documentation in respect of each other affected series of securities. The Aggregation Agent shall be independent of the Trustee and the Government of Malaysia.

(b) **Extraordinary Resolutions**

If an Extraordinary Resolution has been proposed at a duly convened meeting of Certificateholders to modify any provision of, or action in respect of, these Conditions and other affected series of securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Certificates and, where relevant, each other affected series of securities, have voted in favour of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

(c) **Written Resolutions**

If a Written Resolution has been proposed under the terms of these Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Certificates and, where relevant, each other affected series of securities, have signed or confirmed in writing in favour of the Written Resolution such that the Written Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

(d) **Certificate**

For the purposes of Condition19(b) (*Extraordinary Resolutions*) and Condition 19(c) (*Written Resolutions*), the Trustee and the Government of Malaysia will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to in Condition 18(b) (*Modification of these of Certificates only*) or Condition 18(c) (*Multiple Series Aggregation — Two limb Voting*), as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution.

The certificate shall:

(i) list the total principal amount of Certificates and, in the case of a multiple series aggregation, the total principal amount of each other affected series of securities outstanding on the record date; and

(ii) clearly indicate the Certificates and, in the case of a multiple series aggregation, securities of each other affected series of securities which shall be disregarded and deemed not to remain outstanding as a consequence of Condition 18(i) (*Certificates controlled by the Trustee or the Government of Malaysia*) on the record date identifying the holders of the Certificates and, in the case of a multiple series aggregation, securities of each other affected series of securities.

The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

(e) **Notification**

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 19 (*Aggregation Agent; Aggregation Procedures*) to be notified to the Delegate, the Trustee and the Government of Malaysia as soon as practicable after such determination. Notice thereof shall also promptly be given to the Certificateholders.

(f) **Binding nature of determinations; no liability**

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 19 (*Aggregation Agent; Aggregation Procedures*) by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Government of Malaysia and the Delegate and the Certificateholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

(g) **Manner of publication**

The Trustee and the Government of Malaysia will publish all notices and other matters required to be published pursuant to the Declaration of Trust including any matters required to be published pursuant to Condition 18 (*Meetings of Certificateholders; Written Resolutions*), this Condition 19 (*Aggregation Agent; Aggregation Procedures*) and Condition 14 (*Dissolution Events*):

(i) on www.malaysia.gov.my;

(ii) through DTC;

(iii) in such other places and in such other manner as may be required by applicable law or regulation; and

(iv) in such other places and in such other manner as may be customary.

20. DELEGATE

By way of security for the performance of all covenants, obligations and duties of the Trustee to the Certificateholders under the Declaration of Trust, the Trustee has in the Declaration of Trust irrevocably and unconditionally appointed 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 Transaction Documents) 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 and/or secured and/or pre-funded to its satisfaction in order to, upon the occurrence of a Dissolution Event or a Potential Dissolution Event, exercise all of the rights of the Trustee under the Purchase Undertaking, the Wakala Agreement, the Murabaha Agreement 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 shall 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. In the Declaration of Trust, the Trustee shall ratify and confirm to its satisfaction 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 Trustee and the Certificateholders expressly waive any requirement of the Delegate to act in the best interests of the Trustee in the Declaration of Trust.

The Declaration of Trust contains provisions for the indemnification and/or securing and/or pre-funding of the Delegate in certain circumstances and for its relief from responsibility, including provisions relieving it from taking action unless indemnified and/or secured and/or pre-funded to its satisfaction. 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 and/or secured and/or pre-funded 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 it, 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, wilful default or actual fraud or (in the case of the Trustee only) breach of trust in relation to their respective duties under the Declaration of Trust.

Each of the Trustee and the Delegate shall be subject to such duties and only such duties as are specifically set forth in the Transaction Documents to which it is a party, provided that, in the case of the Delegate, it is only subject to such duties with which it expressly agrees to comply as Delegate and no duties, obligations or covenants of the Trustee in its capacity as trustee or as issuer of the Certificates, shall be imposed on the Delegate by virtue of the Delegation, and no implied duties, covenants or obligations shall be read into these Conditions against the Trustee or the Delegate.

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 Condition 22(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 Court 2012 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 Conditions 22(v)(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 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 (a) the transfer is in an offshore transaction in reliance on Rule 904 of Regulation S, and (b) 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 15 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. 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 March 20, 2015, with its registered office at Tingkat 7, Bangunan Setia 1, 15 Lorong Dungun Bukit Damansara, 50490 Kuala Lumpur, Malaysia. The Trustee is a special purpose entity formed to act as a financing vehicle of the Government of Malaysia.

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 ordinary shares of RM 1.00 each, each held by the Minister of Finance (Incorporated), a body corporate incorporated under the Minister of Finance (Incorporation) Act 1957 [Act 375], and the Federal Lands Commissioner, a body corporate incorporated under the Federal Lands Commissioner Act 1957 [Act 349]. 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. The Certificates are the obligations of the Trustee alone.

The objects of the Trustee are primarily to:

(i) act as the financing vehicle for the Government of Malaysia, including but not limited to undertaking the issuance of securities or raising money or securing the payment of such sum or otherwise and entering into or being a party to all transactions, agreements, deeds, instruments, or other documents necessary with any other party for the performance of its obligations in relation to or in connection with the issuance of securities, including any Islamic transactions thereunder; and

(ii) purchase, acquire, invest in, hold, grant, sell, barter, exchange, lease, pledge, charge, transfer or retransfer, convey or re-convey, assign or re-assign, vest or re-vest or otherwise howsoever deal in, any receivables and any other tangible or intangible assets (including commodities) of a government, bank or financial institution or other corporation entity or person, and/or any interest therein.

To satisfy such purposes, the Trustee may do all such things incidental or conducive to the attainment of, or in connection thereto including acting as trustee.

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.

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
Tuan Haji Mohd Esa Bin Abd. Manaf	Under-Secretary Fiscal and Economics Division Ministry of Finance	Under Secretary Fiscal and Economics Division Ministry of Finance Level 8-9, Centre Block Federal Government Administrative Centre No. 5, Persiaran Perdana Precinct 2 62592 Putrajaya
Dr. Mastura Binti Abdul Karim .	Head of Fiscal Policy Office Fiscal and Economics Division Ministry of Finance	Head of Fiscal Policy Office Fiscal and Economics Division Ministry of Finance, Level 8-9 Centre Block, Federal Government Administrative Centre, No. 5, Persiaran Perdana Precinct 2 62592 Putrajaya

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 relevant principal Transaction Documents and is qualified in its entirety by reference to the detailed provisions of the relevant principal Transaction Documents. Copies of the Transaction Documents will be available for inspection at the designated office of the Trustee and at the specified offices the Paying Agents (as defined in the Conditions).

Unless otherwise specified, defined terms in this section should be interpreted as being applicable to either Series 1 or Series 2, mutatis mutandis, as the relevant context may require.

Grant of Rights to Services Agreement

Pursuant to a grant agreement (the "**Grant of Rights to Services Agreement**") dated on or about the Closing Date between the Trustee as grantee and the Government of Malaysia (or such other entity or agency as the Government of Malaysia may specify), as grantor (in such capacity, the "**Grantor**"), the Grantor will transfer to the Trustee by way of grant the Rights to Services. The Grant of Rights to Services Agreement sets out the manner in which the actual value of the Rights to Services has been calculated, which shall be no less than the price paid by the Trustee as set out in the paragraph below.

The Trustee shall make payment of a price (which shall be an amount no greater than 26 per cent. of the proceeds received by the Trustee in connection with the issue of the Certificates by the Trustee) to the Grantor in U.S. dollars in freely available funds (inclusive of any applicable Taxes) for value on the Closing Date in consideration for the grant by way of transfer of the Rights to Services by the Grantor to the Trustee.

The Grantor acknowledges and agrees that the Grantee shall be entitled to sub-grant the Rights to Services to the Sub-Grantee pursuant to the terms of the Sub-Grant of Rights to Services Agreement (see below for further details).

The Grantor undertakes, at the request of the Trustee, to provide all Approvals that may be required to an Authorised Entity selected by the Trustee or directly to the Trustee (provided that at such time the Trustee is an Authorised Entity) as soon as reasonably practicable if:

- the Regulator conclusively determines that in providing the Rights to Services the Sub-Grantee is not in compliance with the standards and requirements set by the Regulator and, following such determinations, the Trustee wishes to replace the Sub-Grantee with an Authorised Entity selected by the Trustee; or

- the Trustee wishes to sub-grant the Rights to Services to an Authorised Entity.

provided that the Trustee shall not be entitled to exercise such rights above for so long as the Sub-Grant of Rights to Services Agreement continues to subsist.

The Grant of Rights to Services Agreement is governed by, and shall be construed in accordance with, the laws of Malaysia.

"**Approvals**" mean the issuance of all required authorisations and licences by the Regulator in accordance with s.126 of the Road Transport Act;

"**Authorised Entity**" means an entity that has been authorised or licensed by the Regulator or under the Road Transport Act 1987 (Act 333) to exercise the Rights to Services;

"**Net Revenue Limit**" means the amount specified as such in the Grant of Rights to Services Agreement;

"**Regulator**" means the Minister of Transport, charged with the responsibility to regulate the Rights to Services;

"**Rights to Services**" means:

(a) the right to participate in the issuance of driving and vehicle licences and the provision of transfer of vehicle ownership services and other vehicle registration services in Malaysia; and

(b) the right to receive all revenues, distributions and other monies at any time payable in respect of the services set out in paragraph (a) above and all other rights, benefits and entitlements in respect of or derived from such services,

in each case granted by the Government of Malaysia to the Trustee up to an amount equal to the Net Revenue Limit per annum, for the period of the Rights to Services Term in accordance with the terms of the Grant of Rights to Services Agreement;

"**Rights to Services Term**" means the period from (and including) the Closing Date to (and including) the date falling 99 years after the Closing Date subject to the terms of the Grant of Rights to Services Agreement;

Sub-Grant of Rights to Services Agreement

Pursuant to a sub-grant agreement (the "**Sub-Grant of Rights to Services Agreement**") dated on or about the Closing Date between the Trustee as sub-grantor and the Government of Malaysia (or such other entity or agency as the Government of Malaysia may specify), as sub-grantee (in such capacity, the "**Sub-Grantee**"), the Trustee will transfer to the Sub-Grantee by way of sub-grant the Rights to Services.

In consideration of the transfer by way of grant the Sub-Grantee shall on each Periodic Distribution Date pay a fee to the Trustee in U.S. dollars in freely available funds (inclusive of any applicable Taxes) by paying such amount to the Wakeel in accordance with the terms of the Sub-Grant of Rights to Services Agreement.

The Grant of Rights to Services Agreement is governed by, and shall be construed in accordance with, the laws of Malaysia.

Asset Sale and Purchase Agreement

Pursuant to an asset sale and purchase agreement (the "**Asset 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 "**Lease Assets Seller**"), the Lease Assets Seller will sell, transfer and convey to the Trustee the beneficial ownership in and to the following assets (the "**Assets**"):

Assets for Series 1

Title No.	Name / Location	Area (Hectare)
HSD11942	Institut Kanser Negara, Putrajaya, Mukim Bandar Putrajaya	4.31

Assets for Series 2

Title No.	Name / Location	Area (Hectare)
HSD33675	Hospital Serdang, Selangor, Mukim Dengkil	16.21
HSD00075/86	Hospital Slim River, Perak, Mukim Slim River	20.23

The Trustee shall make payment of a purchase price (which shall be no less than 26 per cent. of the proceeds received by the Trustee in connection with the issue of the Certificates by the Trustee) to the Lease Assets Seller, through the Government of Malaysia, in U.S. dollars in freely available funds (inclusive of any applicable Taxes) for value on the Closing Date in consideration for the sale, transfer and conveyance of the Assets by the Lease Assets Seller to the Trustee.

The Asset Sale and Purchase Agreement is governed by, and shall be 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 day prior to the Scheduled Dissolution Date unless:

(i) 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 will terminate on the date on which such early termination becomes effective; or

(ii) 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 has agreed 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 be used to pay the Periodic Distribution Amounts payable on the Periodic Distribution Dates in respect of the Certificates.

Under the terms of the Lease Agreement the Lessee has agreed:

(i) to fully reimburse, compensate, indemnify and hold harmless the Lessor and its directors and officers (together, the "**Compensated Persons**") for any and all obligations, liabilities, actual losses, costs (excluding any opportunity costs and costs of funding), expenses, fees (including legal fees and expenses incurred in connection with any enforcement of the Transaction Documents), damages, penalties, demands, actions and judgments of every kind and nature imposed on, incurred by, or asserted against any of the Compensated Persons arising out of or in connection with:

   (a) the lease, usage or operation of any Lease Assets (including such lease being ineffective under the terms of the Lease Agreement); or

(b) any claims, Encumbrances or legal processes arising out of any act or omission of the Lessee in any way connected with any Lease Assets; and

(ii) to the full extent permitted by law, to release from liability, and has agreed that no liability shall attach to, any Compensated Person 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 any 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 the Lease Assets shall automatically terminate and the Lessor will be entitled to all Takaful/Insurance Proceeds paid 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 "—*Wakala 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 will procure that the Wakeel, in accordance with the terms and conditions set out in the Wakala Agreement, shall perform, or shall procure the performance of, all Major Maintenance and Structural Repair, the payment of such Proprietorship Taxes (if any) and the obtaining of Takaful/Insurance for the Lease Assets on behalf of the Lessor and, to the exent that it is reasonable and commercially practicable, in a Shariah compliant manner.

All payments by the Lessee to the Lessor under the Lease Agreement shall be paid without any set off (save as provided in the Wakala Agreement) 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 a deduction or withholding is imposed by or on behalf of any relevant taxing authority, the Lessee shall pay all additional amounts 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 shall bear 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 (other than any Major Maintenance and Structural Repair which is the responsibility of the Lessor). 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 is governed by, and shall be 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:

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

(ii) 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:

(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 beneficial interest in the entirety of the Lease Assets other than in accordance with the terms of the Transaction Documents.

Wakala Agreement

Pursuant to a wakala agreement (the "**Wakala Agreement**") dated on or about the Closing Date between the Trustee and the Government of Malaysia, the Trustee appoints the Government of Malaysia as its agent (in such capacity, the "**Wakeel**") to perform certain services on its behalf.

Pursuant to the terms of the Wakala Agreement, the Wakeel shall on behalf of the Trustee:

(a) be responsible for ensuring that the Lease Assets are, so long as the Certificates are outstanding, insured as specified in the Wakala Agreement (and, to the extent that it is reasonable and commercially practicable, in a Shariah compliant manner);

(b) ensure that Major Maintenance and Structural Repair (to the extent applicable to the Lease Assets) is carried out;

(c) so long as the Trustee remains the owner of the Lease Assets, pay all Proprietorship Taxes charged, levied or claimed in respect of the Lease Assets; and

(d) collect all Rights to Services Fees due to the Trustee.

The Wakeel shall be entitled to collect and retain for its own account any Rights to Services Fees received in respect of the Rights to Services as an incentive fee for its ongoing performance as Wakeel in accordance with the terms of the Wakala Agreement.

Other than on the first Wakala Services Payment Date, the Trustee shall reimburse to the Wakeel for any Wakala Services Charge Amount:

(i) on the Wakala Services Payment Date for the next Wakala Services Period;

(ii) on the date of termination of the lease under the Lease Agreement, if the lease is terminated prior to a Wakala Services Payment Date; or

(iii) in the case of the final Wakala Services Period, on the Scheduled Dissolution Date, unless:

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

  (b) the lease is extended in accordance with the Purchase Undertaking, in which case on the last day of the Additional Lease Period.

An amount equal to:

(i) the Supplementary Rental to be paid by the Wakeel (as Lessee under the Lease Agreement) to the Trustee (as Lessor) as (or as part of any) Rental under the Lease Agreement; or

(ii) the Wakala Services Charge Amount that is payable as part of any Sukuk Exercise Price,

shall be set off against the Wakala Services Charge Amount to be paid by the Trustee to the Wakeel under the Wakala Agreement.

Upon the occurrence of a Total Loss Event, the Wakeel, on behalf of the Trustee, shall ensure that all Takaful/Insurance Proceeds are paid into the Transaction Account by no later than the close of business in Malaysia on the 30th day after the occurrence of the Total Loss Event. The Wakala 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 Wakeel will (unless it is able to prove beyond any doubt that any shortfall in the proceeds of any Takaful/Insurances is not attributable to its negligence or its failing to comply with the terms of the Wakala Agreement relating to the

Takaful/Insurances) 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 the close of business in Malaysia on the 31st day after the Total Loss Event has occurred.

The Wakala Agreement is governed by, and shall be construed in accordance with, Malaysian law.

"**Rights to Services**" means :

(a) the right to participate in the issuance of driving and vehicle licences and the provision of transfer of vehicle ownership services and other vehicle registration services in Malaysia; and

(b) the right to receive all revenues, distributions and other monies at any time payable in respect of the services set out in paragraph (a) above and all other rights, benefits and entitlements in respect of or derived from such services,

in each case granted by the Government of Malaysia to the Trustee up to an amount equal to the Net Revenue Limit per annum, for the period of the Rights to Services Term in accordance with the terms of the Grant of Rights to Services Agreement;

"**Rights to Services Fees**" means the Sub-Grant Fee and any other fees payable to the Trustee pursuant to the terms of any Sub-Grant Agreement from time to time;

"**Sub-Grant Agreement**" means the Sub-Grant of Rights to Services Agreement or such other agreement entered into from time to time by the Trustee pursuant to which the Trustee has transferred by way of sub-grant any Rights to Services;

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

(i) the aggregate of:

(a) the outstanding face amount of the Certificates;

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

(c) without duplication or double counting, an amount equal to any Wakala Services Charge Amount outstanding under the terms of the Wakala Agreement,

less

(ii) an amount equal to the aggregate of :

(a) the Rights to Services Value; and

(b) the outstanding Deferred Payment Price (after any reduction pursuant to clause 10.1(a) of the Murabaha Agreement).

"**Total Loss Dissolution Date**" means 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*).

"**Wakala Services Charge Amount**" means, in respect of a Wakala Services Period, all payments made or costs incurred by the Wakeel in respect of the Wakala Services performed in accordance with the Wakala Agreement during that Wakala Services Period.

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

"**Wakala Services Period**" means the period from, and including, a Wakala Services Payment Date (or with respect to the first Wakala Services Period, from, and including, the Closing Date) to, but excluding, the immediately following Wakala Services Payment Date (or, with respect to the final Wakala Services Period, the Wakala Services End Date).

"**Wakala Services Term**" means the period from and including the Closing Date to but excluding the Wakala Services End Date.

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 favour of the Trustee and the Delegate, the Government of Malaysia, provided there has been no Total Loss Event in relation to the Lease Assets, irrevocably grants to the Trustee the right to require the Government of Malaysia to purchase and accept the transfer of all of the Trustee's interests, rights, benefits and entitlements in and to the Lease Assets and the Rights to Services (if any) (together the "**Wakala Sukuk Assets**"), at the relevant Sukuk Exercise Price, on:

(i) the Scheduled Dissolution Date of the Certificates; or

(ii) at any time on or prior to a Dissolution Date other than a Scheduled Dissolution Date or a Total Loss Dissolution Date, following the occurrence of a Dissolution Event which is continuing, and in respect of which a notice has been given to the Trustee that a Dissolution Request has been made in accordance with Condition 14 (*Dissolution Events*).

Pursuant to the Purchase Undertaking, the Government of Malaysia, where there has been a Total Loss Event in relation to the Lease Assets, irrevocably grants to the Trustee the right to require the Government of Malaysia to purchase and accept the transfer of all of the Trustee's interests, rights, benefits and entitlements in and to the Rights to Services, at the relevant Rights to Services Exercise Price, on the relevant Total Loss Dissolution Date.

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.

On a Dissolution Date an amount equal to the Wakala Services Charge Amount to be paid by the Government of Malaysia as part of any Sukuk Exercise Price and any Wakala Services Charge Amount to be paid by the Trustee in accordance with the Wakala 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.

The Government of Malaysia agrees in the Purchase Undertaking that, except for the set off of any outstanding Wakala Services Charge Amount against the Sukuk 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 in the event that there is any such deduction or withholding for or on account of Tax unless required by law and, in the event that there is any deduction or withholding required by law, 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 the payment of the outstanding Deferred Payment Price in accordance with the terms of the Murabaha Agreement and the payment of the Sukuk Exercise Price or, as the case may be, the Rights to Services 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 of the Wakala Sukuk Assets or, as the case may be, the sale and transfer of the Rights to Services by the Trustee to the Government of Malaysia.

If, following receipt of an Exercise Notice pursuant to the Purchase Undertaking, the Government of Malaysia fails to pay all or part of the Sukuk Exercise Price or, as applicable, the outstanding Deferred Payment Price when due in accordance with the Murabaha Agreement (after taking into consideration any set off of any outstanding Wakala Services Charge Amount), then the Government of Malaysia shall irrevocably, unconditionally and automatically (without the necessity for any notice or any other action) continue to lease the Lease Assets from the Trustee (as Lessor) and continue to act as Wakeel in respect of the Wakala Sukuk Assets with effect from and including the due date for payment on the terms and conditions, *mutatis mutandis*, of the Lease Agreement and the Wakala 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 Wakala Sukuk Assets occurs (including the payment in full of the outstanding Sukuk 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 Series 1 Certificates*".

The Certificateholders will also have the benefit of a negative pledge given by the Government of Malaysia in the Purchase Undertaking, the full details of which are set out in Condition 5 (*Negative Pledge*).

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

"**Sukuk Exercise Price**" means an amount equal to:

(i) the aggregate of:

(a) the outstanding 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 Wakala 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*),

less

(ii) an amount equal to the outstanding Deferred Payment Price (after any reduction pursuant to clause 10.1(a) the Murabaha Agreement) due under the Murabaha Agreement.

Substitution Undertaking

Pursuant to a substitution undertaking (the "**Substitution Undertaking**") dated on or about the Closing Date granted by the Trustee (as obligor) in favour of the Government of Malaysia, the Trustee irrevocably grants 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) and/or the Rights to Services to the Government of Malaysia (or such other entity or agency that the Government of Malaysia may specify) (the "**Substituted Rights to Services**"). In consideration for the sale, transfer and conveyance of the Substituted Lease Assets and/or the Substituted Rights to Services by the Trustee to the Government of Malaysia, the Government of Malaysia (through the Federal Lands Commissioner) will transfer and convey the beneficial ownership interest in certain new lease assets (the "**New Lease Assets**") to the Trustee. The Government of Malaysia will be obliged to certify that the New Lease Assets are assets capable of being leased and that the New Lease Assets have an aggregate value equal to or greater than the value of the Substituted Lease Assets and/or Substituted Rights to Services.

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 and/or the Substituted Rights to Services 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, the Government of Malaysia or such other entity or agency that the Government of Malaysia may specify in the relevant Substitution Notice entering into one or more sale agreements (the "**Substitution Undertaking Sale Agreement**") in substantially the form scheduled to the Substitution Undertaking.

The Substitution Undertaking and each Substitution Undertaking Sale Agreement are governed by, and shall be 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 irrevocably grants to the Government of Malaysia the right to require the Trustee to purchase from the Government of Malaysia certain specified Certificates held by the Government of Malaysia (the "**Malaysia Certificates**") in consideration for the cancellation of the Malaysia Certificates and (i) selling, transferring and conveying its interests, rights, benefits and entitlements in and to certain Redemption Lease Assets to the Government of Malaysia (through the Federal Lands Commissioner); and/or (ii) selling and transferring its interests, rights, benefits and entitlements in and to certain Redemption Rights to Services to the Government of Malaysia (or such other entity or agency that the Government of Malaysia may specify in the relevant Redemption Notice); and/or (iii) payment of the applicable Redemption Amount to the Government of Malaysia.

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

(a) the aggregate face amount of the relevant Malaysia Certificates is at least equal in value to the aggregate value of the relevant Redemption Lease Assets (if any), the relevant Redemption Rights to Services (if any) and the Redemption Amount (if any) specified in the relevant Redemption and Cancellation Notice; and

(b) the Redemption Amount does not exceed the amount of any unpaid Deferred Payment Price;

(c) on the relevant Redemption and Cancellation Date, immediately following the redemption and cancellation of the relevant Malaysia Certificates and the transfer of the Redemption Lease Assets or Redemption Rights to Services and/or, as the case may be, payment of the Redemption Amount:

 (i) the Lease Assets will be at least equal in value to twenty six per cent. (26%) of the aggregate face amount of the Certificates then outstanding following the cancellation of the relevant Malaysia Certificates;

 (ii) the Lease Assets and Rights to Services will be at least equal in value to fifty one per cent. (51%) of the aggregate face amount of the Certificates then outstanding following the cancellation of the relevant Malaysia Certificates;

 (iii) the aggregate value of the remaining Lease Assets and Rights to Services (when aggregated with (as applicable) the unpaid Deferred Payment Price) will be at least equal to the face amount of the Certificates outstanding; and

 (iv) the remaining Lease Assets are assets that are capable of being leased pursuant to the Lease Agreement; and

(d) the:

 (i) 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; and/or

 (ii) sale and transfer of the Trustee's interests, rights, benefits and entitlements in and to the relevant Redemption Rights to Services in accordance with the Redemption Undertaking and the relevant Redemption Sale Agreement; and/or

(iii) payment of the relevant Redemption Amount (subject to the set off described below),

represents fair and valuable consideration for the relevant Malaysia Certificates which shall be transferred by the Government of Malaysia and cancelled by the Trustee in accordance with the Redemption Undertaking, the Declaration of Trust and the Conditions.

In order to exercise this right, 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 (specifying the relevant Malaysia Certificates to be transferred to the Trustee, the Redemption and Cancellation Date, which must also be a Periodic Distribution Date, the Redemption Lease Assets (if any), the Redemption Rights to Services (if any) and the Redemption Amount (if any)).

Following the exercise of this right, the Trustee shall:

(a) purchase the relevant Malaysia Certificates from the Government of Malaysia on the relevant Redemption and Cancellation Date;

(b) cancel the relevant Malaysia Certificates on the relevant Redemption and Cancellation Date;

(c) if applicable, enter into a Redemption Sale Agreement with the Federal Lands Commissioner on the terms and subject to the conditions set out in the Redemption and Cancellation Notice on or before the Redemption and Cancellation Date, which shall become effective on the Redemption and Cancellation Date and by which all of the Trustee's interests, rights, benefits and entitlements in and to the relevant Redemption Lease Assets will be sold, transferred and conveyed to the Government of Malaysia through the Federal Lands Commissioner;

(d) if applicable, enter into a Redemption Sale Agreement with the Government of Malaysia or such other government entity or agency that the Government of Malaysia may specify in the relevant Redemption Notice on the terms and subject to the conditions set out in the Redemption and Cancellation Notice on or before the Redemption and Cancellation Date, which shall become effective on the Redemption and Cancellation Date and by which all of the Trustee's interests, rights, benefits and entitlements in and to the relevant Redemption Rights to Services will be sold and transferred to the Government of Malaysia or such other government entity or agency that the Government of Malaysia may specify in therelevant Redemption Notice; and

(e) (subject to the set off described below), pay the relevant Redemption Amount to the Government of Malaysia on the relevant Redemption and Cancellation Date.

On a Redemption and Cancellation Date an amount equal to the Redemption Amount to be paid by the Trustee to the Government of Malaysia shall be set-off on the relevant Redemption and Cancellation Date against an equal amount of the Deferred Payment Price to be paid by the Government of Malaysia to the Trustee under the Murabaha Agreement.

The Redemption Undertaking is governed by, and shall be construed in accordance with, the laws of Malaysia.

"**Redemption Amount**" means an amount to be paid by the Trustee to the Government of Malaysia which is equal to the aggregate face amount of the relevant proportion of Malaysia Certificates to be purchased by the Trustee for cash consideration, as specified in the relevant Redemption and Cancellation Notice.

"**Redemption and Cancellation Date**" means the date specified as such in a Redemption and Cancellation Notice.

"**Redemption and Cancellation Notice**" means a redemption and cancellation notice in substantially the form set out in 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 Lease Assets Seller in respect of the Redemption Lease Assets or the Government of Malaysia or such other government entity or agency that the Government of Malaysia may specify in respect of the relevant Redemption Rights to Services pursuant to the exercise of the Redemption Undertaking (if applicable) substantially in the form set out in the Redemption Undertaking.

"**Redemption Rights to Services**" means the Rights to Services granted pursuant to the Grant of Rights to Services Agreement which, for the avoidance of doubt, shall be the entirety of the Rights to Services and not any part of such Right to Services.

Murabaha Agreement

Pursuant to a murabaha agreement (the "**Murabaha Agreement**") dated on or about the Closing Date between the Trustee as the seller of the Commodities (the "**Seller**") and the Government of Malaysia as the purchaser of the Commodities (the "**Purchaser**"), the Purchaser unconditionally and irrevocably requests the Trustee, through the Commodity Trading Participant, to purchase Commodities no later than the Closing Date for an amount that is no more than 48% of the issue proceeds of the Series 1 or Series 2 Certificates, as applicable, (the "**Purchase Price**") and irrevocably and unconditionally undertakes to purchase such Commodities from the Seller (once they have been acquired by the Seller) for a deferred payment price equal to the aggregate of the Purchase Price plus 1% of the issue price of the Series 1 or Series 2 Certificates (as applicable).

The Seller (or the Commodity Trading Participant acting in its capacity as agent, as the case may be, of the Seller), will purchase Commodities from certain suppliers admitted as participants of the Market on immediate delivery and immediate payment terms and will on-sell such Commodities to the Purchaser no later than the Closing Date for the Deferred Payment Price on immediate delivery terms but with payment on a deferred basis such that the outstanding Deferred Payment Price will be immediately due and payable on the Dissolution Date.

The Purchaser irrevocably and unconditionally undertakes to pay to the Seller:

(a) subject to the paragraph below, on each Redemption and Cancellation Date an amount of the outstanding Deferred Payment Price that is equal to the Redemption Amount specified in the relevant Redemption and Cancellation Notice (see further "*Summary of the Principal Transaction Documents*"); and

(b) on a Dissolution Date, an amount equal to the outstanding Deferred Payment Price by crediting such amount to the Transaction Account on the Dissolution Date.

Notwithstanding paragraph (a) above, an amount equal to the Redemption Amount to be paid by the Trustee to the Government of Malaysia pursuant to the Redemption Undertaking on the relevant Redemption and Cancellation Date shall be set off against the amount of the Deferred Payment Price to be paid by the Purchaser to the Seller on that Redemption and Cancellation Date.

The Murabaha Agreement is governed by, and shall be construed in accordance with, English law.

"**BCH System**" means the Bursa Commodity House System, established, owned and operated by BMIS which provides the automated and computerised electronic trading system to carry out trades on the Market.

"**BMIS**" means Bursa Malaysia Islamic Services Sdn Bhd (Company No. 853675-M), a company established under the Malaysian Companies Act 1965, which operates the BCH System, and includes its successors in title, assigns and such other entities into which it is merged or amalgamated or to which its business or undertaking are transferred from time to time.

"**Commodities**" means any Shariah compliant commodities that are traded on the Market (excluding, for the avoidance of doubt, gold and silver).

"**Market**" means the commodity market operated by BMIS for the trading of commodities.

The Declaration of Trust

The arrangements underlying the issue of the Certificates are based on wakala bil-Istithmar principles and the Certificates are also known as Sukuk al-Ayyan al Mutanawwiya (Multi-asset sukuk).

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**"):

(i) all of the Trustee's rights, interest and benefit (present and future) in, to and under the Wakala Sukuk 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 (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 Wakala Sukuk Assets as authorised 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*:

(i) with effect from the execution of the Declaration of Trust, hold the Trust Assets on trust absolutely for the holders of the Certificates as beneficiaries *pro rata* on an undivided basis according to the face amount of Certificates held by each Certificateholder;

(ii) 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

(iii) 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, 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 and/or secured and/or pre-funded to its satisfaction in order to, upon the occurrence of a Dissolution Event or a Potential Dissolution Event, to exercise all of the rights of the Trustee under the Purchase Undertaking, the Wakala Agreement, the Murabaha Agreement 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 authorise 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.

Subject to the next following paragraph, 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:

(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 per cent. 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 Wakala Sukuk Assets other than to the

Government of Malaysia or its designee in accordance with the Purchase Undertaking, the Substitution Undertaking or the Redemption 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 or actual fraud.

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 to enforce the Trust Assets or 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:

(i) by an Extraordinary Resolution (as defined in Schedule 3 of the Declaration of Trust); or

(ii) in writing by the holders of at least 25 per cent. of the aggregate face amount of the Certificates then outstanding,

and, in either case, then only if it is indemnified and/or secured and/or pre-funded 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.

The Agency Agreement is governed by, and shall be construed in accordance with, English law.

USE OF PROCEEDS

The proceeds of the issue of the Certificates will be paid by the Trustee on the Closing Date in the following proportion: (i) no less than 26 per cent. to the Government of Malaysia as the purchase price for the Assets pursuant to the Asset Sale and Purchase Agreement; (ii) no more than 26 per cent. to the Government of Malaysia as the purchase price for the Rights to Services pursuant to the Grant of Rights to Services Agreement; and (iii) the remaining of not more than 48 per cent. for the acquisition of commodities to sell to the Government of Malaysia pursuant to the Murabaha Agreement.

The proceeds received by the Government of Malaysia in connection with the sale of the Assets, the Rights to Services and the sale of commodities will be used by the Government of Malaysia for Shariah compliant general purposes, specifically for the redemption of 1Malaysia Sukuk Global Berhad's US$1,250 million Trust Certificates due in June 2015 as well as to finance development expenditures.

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 330,290 square kilometers and Malaysia has a population of approximately 30.3 million, based on the 2014 estimates of the Department of Statistics, Malaysia ("Department of Statistics"). Kuala Lumpur, the capital and largest city, has an estimated population of 1.7 million as at 2014. In 2014, approximately 62.1% of the population of Malaysia comprised Malay and other indigenous peoples (together referred to as "Bumiputera"), approximately 21.8% was Chinese, approximately 6.5% was Indian, and approximately 8.7% was non-citizens (mostly foreign workers). Malaysia's population growth rate averaged approximately 1.4% per year from 2010 to 2014. The Malaysian population mostly lives in urban centers as the urbanization rate of the population was estimated to be approximately 73.6% in 2014, corresponding to an estimated average density of more than 92 people per square kilometer of land.

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

Political System

Peninsular Malaysia attained independence from Britain in 1957 as the Federation of Malaya (the "Federation"). In 1963, Malaysia was formed as the successor to the Federation, incorporating Sarawak, Sabah and Singapore. In August 1965, Singapore separated from Malaysia. Malaysia now consists of 13 States (namely Johor, Kedah, Kelantan, Malacca, Negeri Sembilan, Pahang, Perak, Perlis, Penang, Sabah, Sarawak, Selangor, and Terengganu) and three Federal Territories (namely Kuala Lumpur, Labuan and Putrajaya).

Malaysia has a federal system of government based on a parliamentary democracy headed by a constitutional monarch, Seri Paduka Baginda Yang di-Pertuan Agong. The constitutional monarch is elected for a five-year term by the nine hereditary rulers, who are members of the Conference of Rulers. The current constitutional monarch was elected in December 2011. The Federal Constitution lays the framework for the executive, legislative and judicial system of the country. It also provides guidance in respect of the relations between the Federation and the States in matters such as the legislative, executive, judicial, and land related matters.

The federal executive power is exercised by the Prime Minister and his cabinet (the "Cabinet"). Under the Federal Constitution, the Prime Minister is appointed by the constitutional monarch and, in practice, the constitutional monarch appoints the leader of the political organization that controls a majority of seats in the House of Representatives of 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 and was reappointed as Prime Minister in May 2013 after his coalition won a majority of seats in the House of Representatives.

The Prime Minister's cabinet comprises members of Parliament who are appointed with the consent of the constitutional monarch. The cabinet formulates Government policies and drafts bills.

The following table sets forth the current members of the cabinet:

Name	Title
Y.A.B. Dato' Sri Mohd. Najib bin Tun Haji Abdul Razak	Prime Minister, Minister of Finance I
Y.A.B. Tan Sri Dato' Haji Muhyiddin bin Mohd. Yassin	Deputy Prime Minister, Minister of Education I
Y.B. Dato' Sri Liow Tiong Lai	Minister of Transport
Y.B. Datuk Seri Palanivel A/L K. Govindasamy	Minister of Natural Resource and Environment
Y.B. Dato' Mah Siew Keong	Minister in the Prime Minister's Department
Y.B. Dato' Seri Mohamed Nazri bin Abdul Aziz	Minister of Tourism and Culture
Y.B. Dato' Seri Hishammuddin bin Tun Hussein	Minister of Defense
Y.B. Dato' Seri Hj. Mohd Shafie bin Hj. Apdal	Minister of Rural and Regional Development
Y.B. Dato' Sri Mustapa bin Mohamed	Minister of International Trade and Industry
Y.B. Datuk Seri Panglima Dr. Maximus Johnity Ongkili	Minister of Energy, Green Technology and Water
Y.B. Dato' Sri Douglas Uggah Embas	Minister of Plantation Industries and Commodities
Y.B. Dato' Seri Dr. Ahmad Zahid bin Hamidi	Minister of Home Affairs
Y.B. Dato' Sri Ahmad Shabery bin Cheek	Minister of Communication and Multimedia
Y.B. Datuk Seri Dr. S. Subramaniam	Minister of Health
Y.B. Dato' Sri Ismail Sabri bin Yaakob	Minister of Agriculture and Agro-base Industry
Y.B. Dato' Seri Ahmad Husni bin Mohamad Hanadzlah	Minister of Finance II
Y.B. Dato' Sri Anifah bin Haji Aman	Minister of Foreign Affairs
Y.B. Mejar Jeneral Dato' Seri Jamil Khir bin Baharom (B)	Minister in the Prime Minister's Department
Y.B. Senator Dato' Sri Idris Jala	Minister in the Prime Minister's Department
Y.B. Tan Sri Datuk Seri Panglima Joseph Kurup	Minister in the Prime Minister's Department
Y.B. Datuk Joseph Entulu Anak Belaun	Minister in the Prime Minister's Department
Y.B. Dato' Sri Hajah Rohani Binti Abdul Karim	Minister of Women, Family and Community Development
Y.B. Datuk Haji Fadillah bin Yusof	Minister of Works
Y.B. Dato' Sri Hasan bin Malek	Minister of Domestic Trade, Co-operatives and Consumerism
Y.B. Dato' Sri Richard Riot Anak Jaem	Minister of Human Resources
Y.B. Datuk Seri Tengku Adnan bin Tengku Mansor	Minister of Federal Territories
Y.B. Dato' Seri Haji Idris bin Jusoh	Minister of Education II

Name	Title
Y.B. Dato' Seri Shahidan bin Kassim	Minister in the Prime Minister's Department
Y.B. Senator Datuk Paul Low Seng Kwan	Minister in the Prime Minister's Department
Y.B. Encik Khairy Jamaluddin bin Abu Bakar	Minister of Youth and Sports
Y.B. Datuk Abdul Rahman bin Haji Dahlan	Minister of Urban Wellbeing, Housing and Local Government
Y.B. Puan Hajah Nancy Binti Shukri	Minister in the Prime Minister's Department
Y.B. Datuk Dr. Ewon bin Ebin	Minister of Science, Technology and Innovation
Y.B. Senator Dato' Sri Abdul Wahid Bin Omar	Minister in the Prime Minister's Department
Y.B. Datuk Ir. Dr. Wee Ka Siong	Minister in the Prime Minister's Department

All Peninsular Malaysia States have hereditary rulers except for the States of Malacca and Penang. These two States, and Sabah and Sarawak, have governors, who are appointed by the Government.

The federal legislative authority in Malaysia is vested in the Parliament, which consists of the constitutional monarch and two Houses of Parliament known as the Senate or Dewan Negara (the "Senate") and the House of Representatives or Dewan Rakyat (the "House of Representatives"). 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; and

(2) 44 additional members are appointed by the constitutional monarch on the advice of the Prime Minister.

Bills become law when passed by both the House of Representatives and the Senate, and when they receive royal assent from the constitutional monarch. 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 constitutional monarch has 30 days to assent to any bill presented to him by causing the public seal to be affixed to it. However, if the constitutional monarch does not assent within 30 days, the bill becomes law upon the expiration of this time period. 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 also 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 and is independent of the Government pursuant to the Federal Constitution. 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 is provided by the Federal Constitution and the Court of Judicature Act 1964, and the jurisdiction of the subordinate courts is provided by 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 over 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: the United Malays National Organization ("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 not captured sufficient support to win control of Parliament in the past. Under the Federal Constitution, general elections must be held at least every five years; the last general elections were held on May 5, 2013. Members of the National Front coalition were elected to 134 of 222 seats in the House of Representatives. In the same elections, the National Front coalition won the majority of seats in the State legislatures in 10 of the 13 States and opposition parties won a majority of seats in the State legislatures of Kelantan, Pulau Pinang and Selangor.

The UMNO is the dominant party in the National Front coalition, holding 88 of the coalition's 134 seats in the House of Representatives. Elections for the UMNO Supreme Council, the highest policymaking body of the UMNO, are held every three years and were last held on October 20, 2013, at which time Prime Minister Najib was re-elected president of the UMNO.

Recent Developments

Crude Oil Prices

Crude oil prices have significantly decreased since June 2014, which had a direct negative impact on net oil and gas exporters such as Malaysia. This decrease in crude oil prices had a direct and indirect impact on Malaysia's revenues contributed by the hydrocarbon sector, dividends received from Malaysia's state-owned oil and gas company Petroliam Nasional Berhad ("PETRONAS"), and oil and tax royalties. Including dividends received from PETRONAS, petroleum income tax and petroleum royalties, the Government derived approximately 30.0% of its revenues from the hydrocarbon sector, which represented approximately 15.0% of gross domestic product ("GDP") in 2014.

Decreased crude oil prices have had and will have a direct impact on Malaysia's commodity exports, including oil, liquefied natural gas ("LNG") and crude petroleum, which together represented about 23.0% of Malaysia's total exports in 2014. The full impact of the recent decrease in crude oil prices on receipts from LNG exports will be delayed, considering that the prices of LNG generally adjust more slowly, pursuant to the terms of long-term supply contracts. However, the decrease in crude oil prices is expected to have a direct impact on fiscal revenue in the current fiscal year, including receipts from petroleum related revenue. In addition, the Government expects decreased crude oil prices to negatively impact the amount of dividend received from PETRONAS. The dividend received from PETRONAS in 2014 was RM29.0 million in 2014, based on PETRONAS' financial performance in the fiscal year 2013.

The Government, however, expects the impact of decreased oil prices to be mitigated by Malaysia's diversified export structure, in terms of both products and markets. Manufactured exports comprised approximately 77.0% of Malaysia's gross exports in 2014, and the manufacturing sector is projected to benefit from the expected improvement in global growth, which should have a positive effect on fiscal revenue. Domestic demand is also expected to remain resilient, as households and non-oil and gas enterprises are expected to benefit from lower oil prices. In particular, lower oil pump prices are expected to raise households' disposable income through lower fuel expenditure and lower inflation, and therefore may help support private consumption.

The Government, pursuant to its tax consolidation initiatives, has decreased its reliance on oil-related receipts and is expected to increase tax collection revenue in 2015 with the implementation of the new Goods and Services Tax ("GST"). See *"Good and Services Tax"*. Pre-emptive measures were also announced on January 20, 2015 as part of the revised 2015 Budget (as defined below) in order to further consolidate Malaysia's fiscal position. See "*Revised 2015 Budget*". In December 2014, the Government also introduced a managed float pricing mechanism for fuel, which allows for the pass-through of lower global oil prices to domestic fuel prices. Compared with November 2014, domestic fuel prices in March 2015 were lower by 25 to 35 sen per liter under the now market-based pricing, contributing to a decline of 1.4 percentage points to headline inflation.

2015 Budget

In October 2014, the Minister of Finance announced Malaysia's 2015 budget ("2015 Budget") which was approved by Parliament in December 2014. The 2015 Budget is the last annual budget to form a part of the Tenth Malaysia Plan, as the Eleventh Malaysia Plan is scheduled to commence from 2016. As such, the 2015 Budget includes strategies and measures that seek to support and implement the main objective of transforming Malaysia into a developed and high income economy as envisioned in the Government's 2020 Vision. Key measures are set out to facilitate private sector activity and fiscal resources are aimed to revitalize private investment, develop human capital and the people's well-being and strengthen the quality and accountability of the public sector. The 2015 Budget comprises seven main strategies: (1) strengthening economic growth; (2) enhancing fiscal governance; (3) developing human capital and entrepreneurship; (4) advancing the Bumiputera agenda (which aims to reduce inequality of income between Bumiputeras and non-Bumiputeras and amongst Bumiputeras themselves); (5) upholding the role of women; (6) developing the Government national youth transformation program; and (7) enhancing the well-being of the people.

Key measures of the 2015 Budget included a confirmation of the implementation of the new GST at a single rate of 6.0% starting from April 1, 2015 (see "*Goods and Services Tax*") and continuation of the Government subsidy rationalization program. Effective in October 2014, the Government decided to reduce the fuel subsidy by 20 sen for RON95 petrol (also known as "regular" unleaded) and diesel, and subsequently adopted a managed float pricing mechanism in December 2014, in which the retail prices of petrol and diesel are linked to global market prices with a corresponding monthly adjustment of retail prices. The fuel subsidy rationalization program in 2014, as well as the continuation of budget and spending rationalization with a decrease in transfers to statutory bodies, is expected to result in substantial savings to the Government and better targeted spending.

Revised 2015 Budget

The 2015 Budget was revised primarily due to the substantial decline in world crude oil prices.

The key macroeconomic assumptions underlying the revised 2015 Budget, as compared to the key macroeconomic assumptions underlying the original 2015 Budget, are as follows:

- an average price of Dated Brent crude oil ("Brent") forecast at US$55 per barrel in the revised 2015 Budget, compared to US$100 per barrel in the original 2015 Budget. Dated Brent is a market term that refers to physical cargoes of crude oil in the North Sea that have been assigned specific delivery dates. Dated Brent prices are used, directly and indirectly, as a benchmark for a large proportion of the crude oil that is traded internationally;

- oil and petroleum-related sources estimated to constitute 21% of total Government revenue, compared with the estimate of 26% in the original 2015 Budget;

- an estimated real GDP growth rate ranging from 4.5% to 5.5%, compared to 5.0% to 6.0% in the original 2015 Budget;

- a fiscal deficit target of 3.2% of GDP, compared to 3.0% of GDP in the original 2015 Budget;

- a forecast average foreign exchange rate of the ringgit at 3.55 against the U.S. dollar, compared to an earlier forecast average foreign exchange rate of 3.24 against the U.S. dollar in the original 2015 Budget;

- an estimated current account surplus ranging from 2% to 3% of gross national income ("GNI"), down from an estimate of 5.1% of GNI in the original 2015 Budget; and

- operating expenditure of the Government targeted to be RM212.4 billion in the revised 2015 Budget, compared to RM223.4 billion in the original 2015 Budget, taking into account savings from the reduced fuel subsidy and the expenditure rationalization measures; development spending targeted to remain unchanged at RM48.5 billion.

Goods and Services Tax

On October 25, 2013, the Minister of Finance announced the implementation of the new GST, a measure considered key to Malaysia's medium-term fiscal consolidation and efforts to reduce the Government's revenue dependency on commodity products such as petroleum and palm oil. The effective application of the new GST is April 1, 2015, with a single tax rate of 6.0% and a threshold of RM500,000 in annual taxable revenue applicable to businesses before such businesses have to be GST-registered. The implementation of the GST constitutes a significant change to Malaysia's single-stage consumption tax system and is expected to substantially contribute to the increase of indirect tax collections over time, thereby broadening and diversifying the Government's revenue base and strengthening tax consolidation initiatives.

Similar to value-added taxes applied in many countries, the GST is a broad-based consumption tax applied at each stage of the supply chain. A GST-registered business can mostly offset the GST incurred in making its supplies against GST charged on the supplies it makes, which means that the GST is effectively levied on value added at each stage of production, with the full burden of the tax falling on final consumers. The GST, however, allows for limited relief and exemptions, the scope of which was expanded by the 2015 Budget. For instance, certain specific goods and services will be subject to a 0% GST rate, such as certain agricultural products, foodstuff, and electricity supply under a certain level for domestic users; certain activities will be exempted, such as residential property, private health care and education, and certain financial services; and certain activities will not fall within the scope of GST, such as supplies made by the Government (issuance of passports and licences, for instance).

In the first fiscal year of its implementation, from April 1, 2015, GST gross revenue collection is expected to be RM23.2 billion, representing an increase of RM5.6 billion compared to gross revenue collection pursuant to the single-stage consumption taxes which will no longer be collected after March 2015. Net revenue collection from GST, after taking into account tax and non-tax assistance packages, is projected to be RM0.7 billion in the first fiscal year of its implementation. The Government expects net revenue collection to increase as the number of GST-registrants increases over time and is expected to exceed the number of GST-registrants the Government had initially forecast.

In conjunction with the adoption of GST, the Government has announced a number of measures in order to assist individuals and businesses, such as an increase in Bantuan Rakyat 1Malaysia (a one-off cash payment to assist low-income and middle-income households), a reduction of individual income tax rates by 1 percentage point to 3 percentage points for all chargeable income bands, the implementation of a more progressive income tax structure for individuals, and a 1 percentage point reduction of the corporate income tax rate in 2015.

2014 Flood

In December 2014, northeast monsoon heavy rains and resulting floods affected approximately 500,000 people in several States, including Kelantan, Terengganu, Pahang, Kedah and Perak. The Government has been providing assistance to local communities and businesses affected by the floods. As of January 2015, damage to infrastructure was estimated to be approximately RM2.9 billion. See "*Natural Disasters*".

New Economic Model

In response to the global recession, 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 has implemented various initiatives since 2010 to significantly transform the domestic economy and achieve high-income status by 2020. To this end, the National Economic Advisory Council ("NEAC") introduced the New Economic Model ("NEM"), a broad roadmap of economic transformation encompassing eight strategic initiatives, which are: (1) re-energizing the private sector, (2) developing a quality workforce and reducing dependency on foreign labor, (3) creating a competitive domestic economy, (4) strengthening the public sector, (5) implementing transparent and market-friendly affirmative action, (6) building the knowledge base and infrastructure, (7) enhancing the sources of growth and (8) ensuring sustainability of growth. Under the NEM, the private sector is the main driver of growth in market-led investment and production increasingly dominated by high value-added goods and services in a competitive environment, and the Government will be an efficient facilitator by ensuring a streamlined, proportionate, market-focused and supportive regulatory framework is in place.

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). The Government believes that 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.

Economic Transformation Program

In September 2010, the Government launched the Economic Transformation Program ("ETP"), which is a comprehensive effort that aims to transform Malaysia into a high-income nation that is both inclusive and sustainable by 2020. It aims to increase Malaysia's GNI per capita from US$7,590 in 2009 to over US$15,000 in 2020, so that Malaysia may reach the level of other high-income nations. To achieve high-income status by 2020, Malaysia's economy must grow by 5.0% to 6.0% per year until 2020. The ETP comprises six Strategic Reform Initiatives ("SRIs") and 12 selected key growth engines or National Key Economic Areas ("NKEAs").

The six SRIs comprise public policy areas aimed at strengthening Malaysia's global competitiveness and include: (1) the Competition, Standards and Liberalization SRI, which seeks to develop an efficient and competitive business environment and culture; (2) the Reducing Government's Role in Business SRI, which aims to rationalize the Government's role in business to avoid crowding out the private sector, increasing the liquidity of the capital markets and improving the Government's fiscal position; (3) the Human Capital Development SRI, which focuses on enhancing and addressing human capital capabilities and needs of the 12 NKEAs, as well as strengthening the skills of Malaysia's labor force; (4) the Public Service Delivery SRI, which aims to accelerate the Government's efforts to become more efficient and facilitative in both business and public-related services; (5) the Narrowing Disparity SRI, which aims to improve Bumiputera representation in market equity, employment, high value-added occupations, and management positions; and (6) the Public Finance Reform SRI, which aims at strengthening the Government's finances to ensure stability and sustainability of public funds, including through the implementation of budget discipline and fiscal reform.

The 12 NKEAs selected are: oil, gas and energy; palm oil and rubber; financial services; tourism; business services; electronic and electrical; wholesale and retail trade; education; healthcare; communication content and infrastructure; agriculture; and greater Kuala Lumpur/Klang Valley. From the 12 NKEAs, 131 Entry Point Projects ("EPP") have been identified that are expected to attract US$444 billion in investments and are projected to create 3.3 million jobs by the year 2020. EPPs are clearly defined projects that are expected to generate quick results and have potential investors already identified, a well-developed implementation plan and clearly articulated funding requirements. The NKEAs receive prioritized public investment and policy support. The ETP is designed to be led by the private sector, while the Government will primarily play the role of a facilitator. Most of the funding (approximately 92.0%) is expected to come from the private sector, with public sector investment being used as a catalyst to spark private sector participation. Since its launch in 2010, the ETP has generated significant investments and has attracted a total committed investment amount of approximately RM775 billion.

Tenth Malaysia Plan

The Tenth Malaysia Plan sets out Malaysia's initiatives to develop and enhance human capital and move the economy towards innovation-led and knowledge-driven activities and higher-income status over the 2011 to 2015 period. The Tenth Malaysia Plan was the first medium-term plan to operationalize the Government Transformation Plan ("GTP") (see "*Government Initiatives*") and the ETP. The Tenth Malaysia Plan seeks to address the medium- and long-run key obstacles that prevented the development of the Malaysian economy, including, at the time of adopting the Tenth Malaysia Plan, decreasing productivity rates and private investment, inefficient use of resources, outflow of talent and insufficient skilled labor and inefficient bureaucracy and insufficient accountability. The plan promotes major structural transformations aimed at enhancing competition through an innovative and skilled workforce, the removal of market distortions and the encouragement of private sector entrepreneurship.

The Tenth Malaysia Plan is built on five key strategies:

- Creating an environment conducive to economic growth, in particular by fostering private investment and initiatives.

- Moving towards inclusive socio-economic development, in particular by ensuring an equitable distribution of income and wealth.

- Developing and retaining a first-world talent base, with an emphasis on development of human capital in order to promote productivity and innovation.

- Building an environment that enhances quality of life to complement and supplement economic growth and accompany Malaysia's transition towards high-income nation status.

- Transforming the Government, so that it becomes an effective facilitator of the transition of Malaysia towards a high-income nation and provides quality service.

As at the date hereof, preliminary Government estimates show that during the Tenth Malaysia Plan period (from 2011 to 2015), real GDP growth is estimated to have grown 5.3% per annum on average, primarily supported by strong domestic demand mainly from private sector activities, low inflation and unemployment rate. Private investment is projected to have grown by 12.9% per annum on average during the Tenth Malaysia Plan period supported by capital spending, particularly in the manufacturing and services sectors. Private consumption is estimated to have expanded by 7.1% per annum on average, supported by favorable employment and wage conditions. The services sector is projected to have grown at 6.4% per annum on average, primarily due to the growth of the wholesale and retail trade sub-sector. The manufacturing sector is projected to have expanded at 4.8% per annum on average, in particular due to resilient domestic demand over the period. Growth of the construction sector is estimated to be 11.1% per annum on average, supported by high activity levels in the infrastructure and residential sub-sectors. The agriculture sector is estimated to have maintained a 2.8% growth rate per annum on average, while the mining sector is estimated to have increased marginally by 0.4% per annum on average, mainly due to lower production of crude oil from the maturing oil fields.

Eleventh Malaysia Plan

The Eleventh Malaysia Plan, covering the period from 2016 to 2020 was announced on October 29, 2013 and is scheduled to be launched on May 21, 2015. It is expected to be the final five year plan before 2020, when the key objectives set out in Vision 2020 for Malaysia are targeted to be obtained. The Eleventh Malaysia Plan is expected to focus on a range of key areas encompassing economic, social, environmental and governance aspects.

The strategic objectives of the Eleventh Malaysia Plan are based on the objectives of the NEM of achieving inclusivity, sustainability and a high-income status. The Eleventh Malaysia Plan's key objectives are as follows: enhancing inclusiveness; improving well-being; human capital development; pursuing environment-friendly growth; strengthening the foundation for economic expansion; and re-engineering economic growth. These objectives will also be prioritized in the interest of ensuring that the benefits of economic restructuring and social transformation are equitably distributed.

Foreign Relations and International Organizations

Since gaining independence in 1957, Malaysia's foreign policy has remained consistent with regard 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 (including 66 embassies, 16 high commissioners, three permanent representatives to the United Nations and the Association of Southeast Asian Nations ("ASEAN"), a Malaysia Friendship and Trade Centre and 19 consulate offices) and appointed 52 Honorary Consuls in 39 countries, who provide support and assistance in promoting Malaysia's interests abroad. Malaysia's key defining foreign policy objectives are as follows: maintaining peaceful relations with all countries regardless of political ideology and system; continuing to adopt an independent, non-aligned and principled stance in regional and international diplomatic affairs; developing relations and economic partnership, as well as close cooperation with all countries, especially with ASEAN and regional partners; promoting peace and stability through capacity building measures and conflict resolution; participating actively in the United Nations; playing a leadership role in international organizations such as ASEAN (which Malaysia will chair in 2015), the Non-Aligned Movement and the Organization of the Islamic Conference; and highlighting Malaysia as a modern, dynamic and progressive Muslim State.

In 2014, by trade volume, China remained Malaysia's primary trading partner for the sixth consecutive year with its share of trade amounting to 14.3%; Singapore was the second largest trading partner, with its share of trade amounting to 13.4%; the European Union was the third largest, with its share of trade amounting to 9.9%; Japan was fourth with a share of 9.5%; and the United States was fifth with a share of 8.1%. Malaysia also maintains close trading ties with other ASEAN countries, such as Thailand and Indonesia (with ASEAN countries' aggregate share of trade amounting to 26.9% in 2014), and the Republic of Korea, Taiwan and Australia.

Malaysia is a member of various international intergovernmental organizations, such as the United Nations, the Commonwealth of Nations, 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 associations, including discussions on the 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 ASEAN, which, in addition to Malaysia, includes the Philippines, Indonesia, Singapore, Thailand, Brunei, 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;
- the Southeast Asian Central Banks;
- the Southeast Asia, New Zealand, Australia central bank group;
- the Asia-Europe Meeting; and
- the Asia-Pacific Economic Cooperation forum.

Malaysia also participates in various regional and international associations, on topics including surveillance, capital market development and reform of the international financial framework and 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 ("IMF");
- the World Bank Group ("WBG");

- the World Trade Organization;
- the Bank for International Settlements;
- the Asian Development Bank;
- the Islamic Development Bank;
- the Islamic Financial Services Board; and
- the International Islamic Liquidity Management Corporation.

In its relations with the IMF, Malaysia is a participant of the enlarged 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 Trust, 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. As at March 18, 2015, Malaysia had a quota subscription to the IMF of Special Drawing Rights ("SDR") SDR1773.9 million and held 18,476 voting shares.

Malaysia has also established a longstanding relationship with the WBG when the country first joined the International Bank for Reconstruction and Development ("IBRD") in 1958. Since 1958, the Government's relationship with the IBRD has evolved and matured towards one of knowledge-sharing and is centered on supporting the Government's vision of developing Malaysia to be a high-income and developed economy through inclusive and sustainable growth. Since 2009, both parties have been collaborating on a number of knowledge sharing and advisory projects under the Reimbursable Advisory Services Agreement, which was recently renewed in November 2014. Areas of collaboration with the WBG include sustainable development, human development, poverty reduction and economic management. Apart from providing advisory services, the WBG has also been publishing the Malaysia Economic Monitor ("MEM") report twice annually. The MEM report provides analysis on policy challenges facing Malaysia, as well as covering recent economic development and issues with a special theme for every report. The MEM series is a key pillar in this partnership and serves as a platform for public discussion, analysis, and sharing of knowledge on the challenges facing Malaysia in achieving the objective of transforming Malaysia into a high-income economy.

In an effort to assist the poorest countries, Malaysia became an International Development Association donor in April 2014, with total contribution amounting to US$27 million. This effort is in line with Malaysia's goal of promoting inclusive and sustainable global growth, as well as further strengthening Malaysia's commitment as a member of the WBG. In addition, Malaysia is working closely with the WBG to establish an office in Kuala Lumpur. The office, which is expected to be functional by August 2015, is expected to provide opportunities for Malaysia to leverage the WBG's global knowledge and expertise, as well as share Malaysia's development policies and implementation experiences with other developing countries in the region.

Malaysia actively pursues its trade and investment interests through goods, services and other trade-related initiatives via its multilateral engagement at the World Trade Organization, as well as in bilateral and regional trade agreements. Malaysia also participates in international commodity agreements, such as the International Tropical Timber Agreement. Malaysia's central bank, Bank Negara Malaysia ("BNM"), is one of the founding members of the Islamic Financial Services Board, which was established in November 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. BNM is also one of the founding members of the newly established International Islamic Liquidity Management Corporation, an international organization established on October 25, 2010 as a result of international collaboration among central banks, monetary authorities and multilateral organizations to issue short-term Shariah-compliant financial instruments in facilitating cross-border liquidity management mechanisms for Islamic financial institutions around the world.

Malaysia participates in the Chiang Mai Initiative (the "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 (the "ASA") and a network of bilateral swap arrangements ("BSAs"). Under the ASA, the ASEAN Finance Ministers agreed in April 2005 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. The ASA have since been renewed in November 2013 for another two years. Under the BSAs, Malaysia, on January 7, 2009 and April 2, 2010, renewed the agreements with the Bank of Korea and the People's Bank of China, respectively. BNM's commitment and eligible maximum drawdown under each BSA is US$1.5 billion.

The decision to multilateralize the CMI was made in May 2006. In the following year, the ASEAN+3 Finance Ministers agreed in principle that a self-managed reserve pooling arrangement governed by a single contractual agreement was the appropriate form of multilateralization. The CMI Multilateralization (the "CMIM") agreement, amounting to US$120 billion, was signed in December 2009 and came into effect on March 24, 2010. This agreement is subject to a review of its key terms and conditions once every five years. The enhanced CMIM agreement came into effect on July 17, 2014. Key enhancements to the CMIM include the doubling of the facility amount to US$240 billion, the introduction of a crisis prevention facility and an increase in the IMF de-linked portion from 20% to 30%. Based on an agreed 20:80 contribution ratio between the ASEAN and the Plus 3 countries, ASEAN contributes US$48 billion, while China, Japan and South Korea contribute US$192 billion, collectively. Malaysia's total commitment to the CMIM is US$9.1 billion and it is therefore eligible to borrow a maximum of approximately US$22.8 billion, *i.e.* 2.5 times the amount of contribution. As part of the CMIM framework, an independent regional surveillance unit known as ASEAN+3 Macroeconomic Research Office ("AMRO") was established in Singapore in 2011 to monitor and analyze regional and financial developments and support decision-making for lending under the CMIM arrangement.

While Malaysia continues to accord high priority to the rules-based multilateral trading system under the World Trade Organization, regional and bilateral trade agreements continue to be pursued. Malaysia has concluded and signed seven bilateral Free Trade Agreements ("FTAs") with Japan, Pakistan, New Zealand, Chile, India, Australia and Turkey. At a regional level, Malaysia and its ASEAN partners have established the ASEAN Free Trade Area Agreement, aimed to accord preferential tariffs to exported goods from member states. In addition, ASEAN has also signed the ASEAN Framework Agreement on Services and the ASEAN Comprehensive Investment Agreement, which seek to provide better access to ASEAN service suppliers and create a favorable investment climate for ASEAN investors, respectively. ASEAN has concluded FTAs with China, Japan, Korea and India, as well as Australia and New Zealand. ASEAN collectively engaged with all FTA partners in the Regional Comprehensive Economic Partnership ("RCEP") negotiations launched in 2012. RCEP aims to make significant improvements over the existing ASEAN+1 FTAs covering areas such as, goods, services, investment and intellectual property rights. Malaysia is currently negotiating bilateral FTAs with the European Union, the European Free Trade Association, as well as a broad regional FTA with a group of eleven other countries under the Trans-Pacific Partnership Agreement. The Trans-Pacific Partnership consists of Australia, Brunei, Canada, Chile, Japan, Mexico, New Zealand, Peru, Singapore, the United States and Vietnam. 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.

ASEAN member states signed the ASEAN Trade in Goods Agreement ("ATIGA") for strengthening the free flow of goods by integrating existing ASEAN commitments and initiatives and new measures related to trade in goods within a single comprehensive framework. Three key agreements were concluded in 2009: the ATIGA, the ASEAN Comprehensive Investment Agreement and the Protocol to Implement the Seventh Package of Commitments under the ASEAN Framework Agreement on Services ("AFAS").

The AFAS, initially entered into in 1995, aims at promoting a liberal trading framework for trade in services and at realizing the free flow of services among member states by 2015 by eliminating substantially all restrictions on trade in services. The ASEAN member states ratified the AFAS in October 2010. ASEAN member states are in the process of negotiating an ASEAN Trade in Services Agreement, which will replace the AFAS. Negotiations are still ongoing on financial services liberalization in the region, which is expected to contribute to regional financial integration, averting financial crises and creating an environment conducive to stable economic growth. In March 2015, ASEAN finance ministers signed the Protocol to Implement the Fifth Package of Financial Services Commitments. Discussions to finalize the Protocol to Implement the Sixth Package of Financial Services Commitments, as well as the negotiation process, have been completed.

ASEAN member states signed the Framework Agreement for an ASEAN Investment Area in October 1998 to establish the ASEAN region as a competitive investment area by January 2010 and achieve free flow of investments in the region by 2020. To improve investment flow, the ASEAN member states signed the ASEAN Comprehensive Investment Agreement in February 2009, which is designed to enable ASEAN to attract investment flows through the adoption of a free and open investment regime and expected to strengthen investment liberalization.

In October 2003, ASEAN member states endorsed the Declaration of ASEAN Concord II, which contemplates the establishment by 2020 of an ASEAN Community consisting of three pillars: security cooperation, economic cooperation and socio-cultural cooperation. In November 2004, ASEAN member states adopted the Vientiane Action Program, which seeks to deepen regional integration of the ASEAN states and narrow the development gap between the more developed and less developed ASEAN member states. The target completion date for the establishment of the ASEAN Community and common trade market was advanced to 2015 during the January 2007 ASEAN summit conference. At this summit, the ASEAN Convention on Counter-Terrorism, ASEAN's first regional anti-terrorism pact was signed.

At the 2007 ASEAN summit conference in Singapore, ASEAN member states signed the Blueprint on ASEAN Economic Community, which will guide implementation of the ASEAN Economic Community by 2015 to transform ASEAN into: (i) a single market and production base; (ii) a highly competitive economic region; (iii) a region of equitable economic development; and (iv) a region fully integrated into the global economy.

ASEAN member states have entered into discussions and agreements with their major non-ASEAN trading partners. In November 2002, the ASEAN member states signed an economic cooperation agreement with China, agreeing to establish the ASEAN-China Free Trade Area by

2015 for the all ASEAN states. As part of these efforts, in November 2004, ASEAN and China signed the trade in goods chapter of their economic cooperation agreement. In January 2007, ASEAN and China signed the services chapter of their economic cooperation agreement, covering more than 60 services, with the goal of increasing market access for services and service providers and expanding trade in services between ASEAN and China. The ASEAN states and China have also agreed to work together to enter into the investment chapter of their economic cooperation agreement.

In November 2007, the ASEAN member states (excluding Thailand) and the Republic of Korea signed free trade agreements on trade in goods and services. Thailand joined in February 2009. The ASEAN-Korea Investment Agreement was signed in June 2009.

The ASEAN member states have also concluded a single-undertaking free trade agreement with Australia and New Zealand. Further, ASEAN has concluded a trade in goods agreement with Japan and India. The negotiations on trade in services and investments between ASEAN member states and India commenced in October 2008 and substantive discussions are ongoing. The ASEAN member states are also awaiting developments regarding a possible free trade agreement with the European Union, and are exploring the possibility of enhancing cooperation in areas such as trade and investment with the Gulf Cooperation Council (comprising Bahrain, Kuwait, Oman, Saudi Arabia, Qatar and the United Arab Emirates) and with Mercosur (comprising Brazil, Argentina, Paraguay and Uruguay).

ASEAN announced that, starting from December 2005, it will regularly convene an East Asia Summit, which, in addition to the ASEAN member states, will include Australia, China, India, Japan, New Zealand and the Republic of Korea. The 2012 Summit was attended by heads of state of the ASEAN member states, as well as by representatives from Australia, China, India, Japan, New Zealand, the Republic of Korea and the United States of America. The Russian Federation was represented by its Foreign Minister. In 2012, negotiations on the Regional Comprehensive Economic Partnership were formally launched for agreeing to an FTA among the ASEAN member states and Australia, China, India, Japan, South Korea and New Zealand.

On September 24, 2011, ASEAN Finance Ministers and the president of the Asian Development Bank signed a shareholders agreement on the establishment of the ASEAN Infrastructure Fund (“AIF”) to finance infrastructure projects across the region. As one of the largest ASEAN-led initiatives, the AIF is aimed toward mobilizing the region’s resources in order to meet its growing infrastructure requirements. The AIF was incorporated in Malaysia in April 2012 as a limited liability company and became fully operational in 2013.

During the 21st ASEAN Summit in Phnom Penh, Cambodia in November 2012, the ASEAN members decided that the date of realization of the ASEAN Community would be December 31, 2015. At the Summit, the ASEAN members also adopted the ASEAN Human Rights Declaration as a comprehensive measure to promote and protect the civil, political, economic and cultural rights of the people of ASEAN.

Affiliations with International Financial Organizations

The following table presents Malaysia's affiliations with major international financial organizations as at December 31, 2014.

	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[(1)]	March 1958	2,570.0	0.74	2,570.0	-	-
International Bank for Reconstruction and Development	March 1958	912.5	0.4	59.5	-	-
International Development Association	September 1960	3.9	0.3	3.9	-	-
Asian Development Bank	August 1966	4,482.0	2.7	224.11	1,997.5	160.7
International Finance Corporation	March 1957	15.2	0.6	-	1,241.9	994.7
Islamic Dinar[(1)]	-	14.0	0.6	2.1	-	-
U.S. Dollar	-	2,570.0	0.74	2,570.0	-	-
Multilateral Investment Guarantee Agency	July 1991	912.5	0.4	59.5	-	-

Note:

(1) As of March 16, 2015, the prevailing IMF rate was SDR 1 per US$1.3692.

Sources: Ministry of Finance; BNM.

Economic Developments since 2010

The following discussion provides an overview of economic developments in Malaysia from 2010 through to 2014. You should also read "The Economy" for more detailed information regarding the economic developments described below.

Economic Performance in 2010

The Malaysian economy recorded an expansion of 7.4% in 2010, driven mainly by domestic demand and private sector activity. The public sector continued to play a crucial role in supporting the domestic economy during the year. External demand also rebounded strongly in the first half of the year, supported by strong regional demand and to some extent, a low base effect. However, the growth momentum softened in the second half of the year, in tandem with the slowdown in global trade and a diminishing low base effect. On the supply side, all economic sectors registered strong performance, in line with robust domestic demand and a rebound in exports. Labor market conditions improved with the unemployment rate at 3.3%, amid the stronger growth in employment relative to the growth in the size of the labor force.

The headline inflation rate remained moderate in 2010, at 1.7%. Higher inflation during the year was driven mainly by domestic supply factors arising from higher food and commodity prices and adjustments to administered prices. Meanwhile, core inflation rose at a more modest pace of 1.5% in 2010.

As the domestic economy improved and the threat of a severe and fundamental economic downturn receded, BNM gradually raised the Overnight Policy Rate ("OPR") by a cumulative 75 basis points to 2.75% in 2010 to normalize monetary conditions. The adjustment to monetary policy aimed to ensure that monetary conditions were appropriate to prevent the risk of financial imbalances.

In 2010, the ringgit appreciated against the U.S. dollar by 11.1%, the Euro by 20.6% and the pound sterling by 15.0%, but depreciated against the Japanese yen by 2.1%. Against regional currencies, the ringgit appreciated against the Korean won by 8.5%, the Chinese renminbi by 7.6%, the Indonesian rupiah by 6.0%, the Philippine peso by 5.4%, the Singapore dollar by 2.3% and the Thai baht by 0.4%.

As at December 31, 2010, net international reserves of BNM amounted to RM328.6 billion. The reserves position was sufficient to finance 8.6 months of retained imports and was 1.7 times the short-term external debt.

The FTSE Bursa Malaysia Kuala Lumpur Composite Index ("FBM KLCI") closed at 1,518.91 points as at December 30, 2010.

Economic Performance in 2011

Despite challenging international macro-economic conditions in 2011, Malaysia's real GDP grew by 5.2% in 2011. Growth was more moderate in the first half of the year, as the Malaysian economy was affected by the overall weakness in the advanced economies and disruptions in the global manufacturing supply chain arising from the earthquake and tsunami that occurred in Japan in March 2011. However, in the second half of the year, Malaysia's economic growth improved due to stronger domestic demand. Consumer spending was supported by broad-based income growth and an improvement in labor conditions, with unemployment rate declining to 3.1% in 2011. Sustained high agricultural commodity prices also supported rural household expenditure. Private investment was supported by the implementation of the ETP and investment opportunities in technology-related, services and resource-based industries. Several Government initiatives such as tax incentives and liberalization measures to attract investments, particularly in the oil and gas and the services sectors contributed to inflows of foreign direct investments. Public investments also supported the economic activities with increased capital spending by non-financial public enterprises ("NFPEs"). The services sector recorded strong growth, led by the wholesale and retail trade, finance and insurance, real estate and business services, as well as communication sub-sectors. The manufacturing sector expanded, mainly due to a strong output of construction-related materials and resource-based industries, and despite the negative impact of decreased output of electrical and electronics. The agriculture sector expanded mainly due to higher output of palm oil and rubber and food commodities. The construction sector continued to grow, but at a more moderate pace, supported mainly by the residential sub-sector. The mining sector was negatively impacted by decreased production of crude oil.

Headline inflation was higher in 2011, at 3.2%. The increase in inflation was due mainly to supply factors, both external and domestic. The impact of external supply factors on inflation was more dominant in 2011. Higher prices of corn and wheat led to higher prices of poultry feed and, in turn, poultry prices in Malaysia. In addition, following the increase in global energy prices in 2011, there were several upward adjustments to prices of administered items such as RON97 petrol (which was determined under a managed float pricing mechanism) and electricity tariffs. Besides the impact from increased external prices, disruptions in domestic supply due to irregular weather patterns and labor shortages had also led to increases in food inflation during the year. Core inflation rose to 2.4% in 2011. Demand pressures were stronger, mainly driven by higher private consumption.

Given the sustained economic activity and demand-induced pressure on inflation, BNM adjusted the degree of monetary accommodation by increasing the OPR by 25 basis points in May 2011 to 3.00%. The Statutory Reserve Requirement ("SRR") of the banking system was also gradually raised from 1.00% to 4.00% in March, May and July 2011.

In 2011, the ringgit depreciated against the U.S. dollar by 2.9%, the Euro by 0.8%, the pound sterling by 2.3% and the Japanese yen by 7.6%. Against regional currencies, the ringgit appreciated against the Thai baht by 2.2%, but depreciated against the Indonesian rupiah by 0.9%, the Korean won by 1.4%, the Singapore dollar by 2.3%, the Philippine peso by 2.9% and the Chinese renminbi by 7.4%.

As at December 31, 2011, net international reserves of BNM amounted to RM423.3 billion. The reserves position was sufficient to finance 9.6 months of retained imports and was 1.7 times the short-term external debt.

The FBM KLCI closed at 1,530.73 points as at December 30, 2011.

Economic Performance in 2012

Malaysia's GDP grew by 5.6% in 2012, mainly due to resilient private consumption and strong private investment despite a deterioration in the external environment that negatively impacted the Malaysian economy. Stable employment conditions, a lower inflation rate, cash transfers to targeted low- and middle-income households and revisions to civil servants' salaries and bonuses in 2012 contributed to the strength of private consumption, which increased by 8.2% compared with 2011. Favorable access to credit also supported private consumption. As the Government pursued its fiscal consolidation efforts, public consumption moderately increased by 5.0% in 2012. The unemployment rate declined marginally in 2012 to reach 3.0%.

Growth was supported by significant increases in both private and public investment, which increased by 22.8% and 14.6%, respectively, compared with 2011. These increases were mainly due to strong capital spending in the consumer-related services sectors, domestic-oriented manufacturing sectors and the construction sector (in particular in connection with the implementation of major infrastructure projects including projects undertaken pursuant to the ETP, particularly in the mining sector).

The services sector expanded mainly due to the strong performance of the wholesale and retail trade, communication, accommodation and restaurant and business services sub-sectors; export-oriented industries were negatively impacted by lower external demand due to tepid economic growth in advanced economies and the slowdown of emerging economies such as China and India. Public investment supported the growth of the construction sector, particularly in relation to the implementation of large-scale public projects such as the Sabah Oil and Gas Terminal, the Second Penang Bridge and an offshore pipeline for Gumusut-Kakap (Sabah); public spending was also channeled through NFPEs into the oil and gas, telecommunications and transport-related industries. The agriculture sector moderately expanded on account of lower output of crude palm oil due to the natural production down cycle, after registering a record high production in 2011. The mining sector benefited from improvement in crude oil output and a moderate increase in natural gas output.

Headline inflation decreased to 1.6% in 2012, due mainly to better-than-expected domestic food supply conditions, contained global price pressures and base effect following the significant increase in the Consumer Price Index ("CPI") during 2011. Core inflation also moderated to 2.1% in 2012.

BNM maintained the OPR at 3.00%.

In 2012, the ringgit appreciated against the U.S. dollar by 3.9%, the Euro by 1.7% and the Japanese yen by 15.2%, but depreciated against the pound sterling by 0.9%. Against regional currencies, the ringgit appreciated against the Indonesian rupiah by 9.2%, the Chinese renminbi by 2.5%, and the Thai baht by 0.2%, but depreciated against the Singapore dollar by 2.4%, the Philippine peso by 2.7%, and the Korean won by 4.2%.

As at December 31, 2012, net international reserves of BNM amounted to RM427.2 billion. The reserves position was sufficient to finance 9.5 months of retained imports and was 1.5 times the short-term external debt.

The FBM KLCI closed at 1,688.95 points as at December 31, 2012.

Economic Performance in 2013

The Malaysian real GDP expanded by 4.7% in 2013, mainly driven by continued significant growth in domestic demand. Despite the weaker external macro-economic environment in the first half of the year, domestic demand remained resilient throughout the year, in particular due to robust private sector activity. Favorable employment conditions (with the unemployment rate increasing marginally to 3.1%), continued wage growth (especially in the domestic-oriented sectors), Government cash transfers to targeted low- and middle-income households and an increase in civil servants' salaries, effective from July 2013, contributed to the strength of private consumption in 2013, which recorded a 7.2% growth in 2013.

Private consumption was also supported by continued access to financing for creditworthy households. Public consumption increased by 6.3% in 2013, mainly due to higher expenditure on supplies and services and sustained expenditure on emoluments. Public sector investment grew by 2.2%, driven by higher capital spending by public enterprises in the oil and gas sector, and the transportation, utilities, and telecommunications services sub-sectors. Private investment continued to register a significant growth of 13.1% in 2013. This growth was driven by capital spending in all major sectors, particularly in domestic-oriented manufacturing and consumer-related sub-sectors.

On the supply side, all sectors recorded positive growth rates, with growth mainly driven by robust activity in domestic-oriented services, particularly in the wholesale and retail trade and the communication sub-sectors. Growth of the manufacturing sector was weaker, due to lower external demand for resource-based products. Growth in the construction sector remained strong, underpinned by the residential and civil engineering sub-sectors. The agriculture sector expanded following higher output of palm oil and food commodities. The mining sector also grew mainly due to higher output of natural gas.

The headline inflation rate was higher at 2.1% in 2013, driven mainly by domestic cost and supply factors, which included the higher cost of poultry feed, disruptions in domestic food supply due to adverse weather conditions and upward adjustments made to prices of several administered items such as petrol, cigarettes, sugar and toll charges. Core inflation moderated to 1.8%.

BNM maintained the OPR at 3.00%.

In 2013, the ringgit appreciated against the Japanese yen by 13.7%, but depreciated against the U.S. dollar by 6.8%, the pound sterling by 8.6% and the Euro by 10.7%. This was mainly due to market expectations in relation to the anticipated reduction in the asset purchase program by the U.S. Federal Reserve Bank which prompted a reversal of capital flows especially between May and August. Against regional currencies, the ringgit appreciated against the Indonesian rupiah by 17.8%, the Philippine peso by 0.7% and the Thai baht by 0.2%, but depreciated against the Singapore dollar by 3.5%, the Korean won by 7.8%, and the Chinese renminbi by 9.5%.

As at December 31, 2013, net international reserves of BNM amounted to RM441.9 billion. The reserves position was sufficient to finance 9.5 months of retained imports and was 1.3 times the short-term external debt.

The FBM KLCI closed at 1,866.96 points as at December 31, 2013.

Economic Performance in 2014

Malaysian real GDP recorded a stronger growth of 6.0% in 2014. This growth was driven by continued strength in private domestic demand, and was further supported by the improvement in external trade performance. Private consumption was supported by favorable income growth and stable labor market conditions (with the unemployment rate estimated to be 2.9% in 2014). Targeted Government transfers to low- and middle-income groups provided additional support to private consumption despite higher inflation in 2014. Public consumption recorded a slower growth of 4.4% in 2014. While spending on emoluments was sustained, growth of Government spending on supplies and services moderated during the year resulting from the Government expenditure rationalization efforts as announced at the end of 2013.

Private investment continued to expand strongly at 11.0% in 2014, driven mainly by the expansion in manufacturing investment, amidst the continued recovery in the external environment and sustained domestic consumption. Public investment contracted by 4.9% in 2014 following lower capital spending by both the Federal Government and public enterprises. The latter was due mainly to the completion and near-completion of some major projects in 2014. On the supply side, all sectors recorded higher growth, driven by domestic activities and the improvement in external trade performance. Growth of the service sector mainly reflected strong activity levels of the wholesale and retail trade and communication sub-sectors. The manufacturing sector benefited from higher global semi-conductor sales. The construction sector registered a higher growth, with stronger performance in the residential and non-residential sub-sectors. The agriculture sector increased following higher output of palm oil and food commodities. The mining sector expanded due to higher output of crude oil.

Headline inflation averaged 3.2% in 2014, driven primarily by upward adjustments in the prices of several price administered items from late 2013. The implementation of the managed floating price mechanism for fuel in December led to a slight downward adjustment in prices of petrol, reflecting lower global oil prices. During the year, inflationary pressure was contained by moderate global price pressures and demand pressures. Core inflation rose to 2.4%, reflecting spillover effects from adjustments in administered prices and higher rentals.

BNM adjusted the degree of monetary accommodation by raising the OPR by 25 basis points to 3.25% in July 2014, amid firm growth prospects and with inflation projected to remain above its long-run average. The normalization of monetary conditions was also aimed at mitigating the risk of a build-up in financial imbalances.

In 2014, the ringgit depreciated against the U.S. dollar by 6.1% and the pound sterling by 0.6% but appreciated against the Euro by 6.5% and the Japanese yen by 6.9%. Against regional currencies, the ringgit depreciated against the Singapore dollar by 1.9%, the Korean won by 2.9%, the Chinese renminbi by 3.8%, the Indonesian rupiah by 4.2%, the Philippine peso by 5.3%, and the Thai baht by 6.1%.

As at December 31, 2014, net international reserves of BNM amounted to RM405.3 billion. The reserves position was sufficient to finance 8.3 months of retained imports and was 1.1 times the short-term external debt.

The FBM KLCI closed at 1,761.25 points as at December 31, 2014.

The Economy

Introduction

Malaysia has a diversified economy, the principal sectors of which are the services and manufacturing sectors, which accounted for 79.9% of GDP in 2014. The commodity sector, consisting of agriculture and mining, accounted for 14.8% of GDP, followed by the construction sector which accounted for 3.9% of GDP in 2014. 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 Tenth Malaysia Plan. 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 the participation of Bumiputera in the economy. The Tenth Malaysia Plan is a unifying document which incorporates the GTP and the ETP from the NEM, as well as the objectives of "1Malaysia, People First, Performance Now" concept ("1Malaysia"). The emphasis of the plan is to attract investment and drive productivity and innovation to transform Malaysia into a high-income advanced economy by 2020 through principles of inclusiveness and sustainable growth.

Vision 2020, a long-term 30-year plan launched in 1991 by the then Prime Minister Tun Dr. Mahathir bin Mohamad to become a fully developed nation by 2020, 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 but growth was 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 ("SARS") and the 2008/2009 global recession. In 2009, the Government established the NEAC 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 NEAC introduced the 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).

Government Initiatives

In 2009, the 1Malaysia 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. Such measures include programs targeted at the development of public and social amenities, housing for the underprivileged and economic advancement of indigenous peoples.

In an effort to improve efficiency and its delivery system, the Government introduced the GTP in 2010, based on the 1Malaysia concept. The objective of the GTP is two-fold: first, to improve the effectiveness of the Government and hold it accountable for key outcomes; 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. Seven 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, improving urban public transport and addressing cost of living issues. Reflecting the importance of NKRAs, the implementation is under the purview of the Performance Management and Delivery Unit and collectively administered by the Cabinet, with accountability for delivery resting on a lead minister who is appointed and formally monitored by the Prime Minister.

The most recent performance indicators for the GTP were published in the GTP 2013 Annual Report in May 2014. The report provides an account of achievements and shortcomings and how the Government plans to continue improving in the interests of all Malaysians. The Government believes that significant results which have been achieved to date are consistent with the objectives set out in the GTP.

The Government launched the Financial Sector Masterplan ("FSMP") and the Capital Market Masterplan ("CMP 1") in the first quarter of 2001 with the goal of providing the development framework for the financial sector and capital markets for the ten years from 2001 to 2010 by recommending strategic initiatives to strengthen fundraising, promote the growth of the investment management industry, enhance market and intermediation competitiveness, provide a strong and facilitative regulatory regime and establish Malaysia as an international Islamic capital markets center. As FSMP approached the end of its 10-year tenure, BNM formulated the Financial Sector Blueprint 2011-2020 ("Financial Sector Blueprint") to chart the development of the Malaysian financial sector and to enable the financial sector to catalyze Malaysia's transition into a high value-added, high-income, developed economy by 2020. This transformation plan relies largely on the private sector to drive greater productivity and innovation to transition to higher value-added activities that will support strong economic growth. The Government's commitment to comprehensive long-term structural reforms is expected to create the enabling environment for the economic transformation to succeed. See *"Financial System — Financial Sector Blueprint*" and "*Financial System — Capital Market-Securities Commission*".

In the Capital Market Masterplan 2 ("CMP 2") the Securities Commission of Malaysia (the "SC") set out the strategic direction and initiatives for developing the Malaysian capital markets from 2011 to 2020 to further accelerate the transformation of the financial system and capital markets to meet the evolving demands of the economy and aimed to leverage the foundation built during CMP 1's tenure to further develop the Malaysian capital markets. The formulation of CMP 2 supports economic growth by accessing the capital markets to fund economic diversification projects. The CMP 2 identified a broad set of strategies aimed at addressing key structural challenges and critical linkages to create a conducive environment for private sector involvement and to further develop capital markets in Malaysia. These growth strategies are complemented by strategies to ensure effective governance and to maintain strong regulatory oversight in order to sustain confidence in the integrity of Malaysia's capital markets and safeguard the interests of investors. 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, with the goal of developing a knowledge-intensive economy by 2020, and contains 136 recommendations encompassing human resource development, information structure, incentives, science and technology development, reorientation of the private and public sectors, as well as addressing the digital divide. Moving forward, initiatives pertaining to a knowledge-based economy covering human capital development, incentives, education, innovation and ICT have been embedded into the Tenth Malaysia Plan and other development plans.

The Government holds direct and indirect equity interests (through its investment arm, Khazanah Nasional Berhad) in a number of major corporations, including NFPEs, involved in certain strategic sectors, including finance, telecommunications, utilities, communication services, information technology ("IT") and transportation. The principal NFPEs are PETRONAS (Malaysia's state-owned oil and gas company), Tenaga Nasional Berhad (the largest electricity utility in Malaysia), Telekom Malaysia Berhad and Axiata Group Berhad (Malaysia's largest telecommunications companies), Malaysia Airports Holdings Berhad (the operating company for Malaysia's 38 airports), UEM Group Berhad (one of Malaysia's largest construction company) and Malaysian Airlines. 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 aimed at improving the performance and competitiveness of these companies in which the Government as a controlling stake in order to support Malaysia's efforts to achieve high-income status by 2020.

Competition Law Regime in Malaysia

The Parliament introduced specific rules to govern competition and to ensure fair market play by approving the Competition Act 2010 ("CA"), which came into force on January 1, 2012. The CA prohibits anti-competitive agreements and the abuse of a dominant market position. Violations are punishable by fines and imprisonment for individual violations.

The Malaysia Competition Commission ("MCC") is the key enforcement agency for the Competition Act and is an independent body established under the Competition Commission Act 2010 ("CCA"), which came into force on January 1, 2011. The CCA provides for the appointment of one chairman and up to a maximum of nine commission members (four from the Government and between three to five members from the public). All members of the MCC are appointed by the Prime Minister upon the recommendation of the Minister of Domestic Trade, Co-operatives and Consumerism of Malaysia ("Trade Minister").

The MCC's main role is to protect the competitive process for the benefit of businesses, consumers and the economy, and is empowered by the CCA to implement and enforce provisions of the CA; issue guidelines in relation to the implementation and enforcement of the competition laws; act as advocate for competition matters; carry out general studies in relation to issues connected with competition in the Malaysian economy or particular sectors of the Malaysian economy; and inform and educate the public regarding the ways in which competition may benefit consumers in, and the economy of, Malaysia.

The CA also established the Competition Appeal Tribunal ("Tribunal"), which has exclusive jurisdiction to review any decision made by the MCC and hears any appeal made against such decision. The Tribunal consists of a president and between seven and 20 other members. The president of the Tribunal is a judge of the High Court appointed by the Prime Minister on the recommendation of the Trade Minister and upon nomination by the Chief Justice of the Federal Court. The remaining members of the Tribunal are appointed by the Prime Minister on the recommendation of the Trade Minister and who, in the Prime Minister's opinion, also have relevant expertise in industry, commerce, economics, law, accountancy or consumer affairs. The Tribunal's decision is also final and binding on the parties to the appeal and can be enforced in the same manner as a judgment or order to the same effect.

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 2005 prices for the years indicated.

	2010	2011	2012	2013	2014P
	(RM billion, unless otherwise stated)				
GNI at Current prices:					
Consumption	476.273	534.282	588.768	637.749	695.803
Private sector	378.791	418.767	461.295	504.045	554.358
Public sector	97.482	115.515	127.473	133.704	141.445
Investment	179.793	197.415	241.562	265.013	282.600
Private sector	98.555	111.626	140.177	160.461	181.456
Public sector	81.238	85.789	101.385	104.552	101.144
Change in stocks(1)	5.955	8.350	2.639	(7.566)	(12.913)
Exports of goods and services	744.034	810.221	803.042	805.962	852.208
Imports of goods and services	608.728	664.928	694.063	714.425	747.690
GDP	797.327	885.339	941.949	986.733	1,070.008
GDP (US$ billion)(2)	247.534	289.326	304.956	313.158	326.934
Net factor payments abroad	(26.334)	(21.806)	(36.050)	(34.126)	(37,390)
GNI	770.993	863.533	905.899	952.607	1,032.618
GNI (US$ billion)(2)	239.358	282.200	293.285	302.328	315.509
Per capita GNI (US$) in current prices(2)	8,373	9,710	9,938	10,106	10,426
GNI at Constant 2005 Prices:					
Consumption	411.768	447.856	481.633	515.327	548,951
Private sector	330.385	353.293	382.384	409.817	438,748
Public sector	81.383	94.563	99.249	105.510	110.203
Investment	158.397	168.393	200.773	217.879	228.089
Private sector	86.699	94.809	116.468	131.703	146.145
Public sector	71.697	73.584	84.305	86.176	81.944
Change in stocks(1)	8.129	3.172	5.629	(1.452)	8.849)
Exports of goods and services	683.391	713.893	700.819	705.260	741.333
Imports of goods and services	585.031	621.555	636.921	649.404	674.483
GDP	676.653	711.760	751.934	787.611	835.040
Net factor payments	(40.910)	(44.357)	(58.364)	(57.126)	(60.415)
GNI	635.743	667.303	693.570	730.485	774.625

Notes:

P Preliminary.

(1) Includes statistical discrepancy.

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

Sources: Department of Statistics; BNM.

In 2010, real GDP growth resumed strongly, recording an expansion of 7.4%. Growth was driven mainly by robust domestic demand and private sector activity. Private consumption expanded firmly, supported by the improvement in labor market conditions, a steady increase in income, more optimistic consumers and continued access to credit. Private investment substantially increased to register 18.4% growth, reflecting the expansion of capital spending across all sectors, particularly the manufacturing, mining and services sectors. The public sector continued to support the domestic economy through the implementation of programs to further enhance infrastructure and the public sector delivery system.

In 2011, real GDP growth was 5.2%, compared to 7.4% in 2010. Growth was more moderate in the first half of the year, particularly in the second quarter, as the Malaysian economy was affected by the overall weakness in advanced economies and the disruptions in the global manufacturing supply chain arising from the earthquake and tsunami which occurred in Japan in March 2011. Private consumption grew by 6.9%, reflecting higher consumer spending due to an improvement in overall labor market conditions with declining unemployment rate and increasing job vacancies. Private investment grew by 9.4%, with higher capital expenditure across all sectors, particularly in the manufacturing, mining and services sectors, driven by strong domestic demand and favorable external conditions in the first half of 2011. Public sector consumption grew by 16.2% in 2011, following higher public expenditure on emoluments, supplies and services and a one-month bonus payment to civil servants during the year. Public sector investment grew by 2.6% in 2011, due to sustained capital spending by NFPEs.

In 2012, real GDP growth was 5.6%. The increased growth was supported by domestic demand, which recorded its highest rate of expansion in ten years, supported by stronger consumption and investment spending, offsetting the impact of a weak external macro-economic environment. Private consumption grew by 8.2%, which principally reflected the effect of favorable income growth amid stable labor market conditions during the year, Government income transfers to low- and middle-income households and access to financing, which remained supportive of consumer spending in 2012. Private investment grew by 22.8%, which was primarily attributable to capital spending in the consumer-oriented services sectors and domestic-oriented manufacturing sectors, and the implementation of major infrastructure projects, particularly in the mining sector. Further, public sector consumption grew at a slower rate of 5.0%, due mainly to a decrease in expenditure on supplies and services as the Government implemented its fiscal consolidation initiatives, while public sector investment grew by 14.6%, driven by higher capital spending by public enterprises in the oil and gas sector, and the transportation, utilities, and telecommunications services sub-sectors.

In 2013, real GDP growth was 4.7%, mainly driven by continued growth in domestic demand. Private consumption grew by 7.2%, underpinned mainly by favorable employment conditions and wage growth. Private investment grew by 13.1%, primarily as a result of capital spending by both domestic and foreign investors in the mining, services and manufacturing sectors. Public sector consumption grew by 6.3%, due mainly to higher expenditure on supplies and services, while public sector investment registered a 2.2% growth, following the decline in Government development expenditure. This was offset by higher capital spending by public enterprises, which was channeled mainly into the oil and gas, transportation and energy sectors.

In 2014, real GDP growth was 6.0%, driven primarily by the continued strength in domestic demand and supported by an improvement in external trade performance. Private consumption grew by 7.1%, supported by favorable income growth and stable labor market conditions. Private consumption growth was also supported by targeted Government transfers to low- and middle-income households. These partially mitigated the negative impact on household spending growth of increased costs of living following upwards adjustments of regulated prices, mostly of subsidized goods. Private investment grew by 11.0% and was mainly driven by the services and manufacturing sectors. Public sector consumption recorded a slower growth rate of 4.4% given the moderate increase in Government expenditure on supplies and services, which was in line with expenditure rationalization initiatives announced by the Government towards the end of 2013, while public sector investment contracted by 4.9% following the decline in Government development expenditure and lower capital spending by public enterprises. The latter mainly reflected the completion and near-completion of several major projects in 2014.

Foreign Direct Investment Flows

The following table sets out the foreign direct investment ("FDI") statistics in Malaysia for the years indicated.

Foreign direct investment in Malaysia

	2010	2011	2012	2013	2014P
			(RM million)		
FDI in Malaysia (net)	29,183	37,325	28,537	38,238	35,085
			(US$ million)(1)		
FDI in Malaysia (net)	9,060	12,198	9,239	12,136	10,720

Notes:

P Preliminary.

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

Source: BNM.

Malaysia continues to attract inflows of FDI, primarily driven by the economy's stable growth prospects and international competitiveness, as evidenced by the various favorable global competitiveness rankings of Malaysia such as Malaysia's ranking (12th in 2014 compared to 15th in 2013) in IMD World Competitiveness Yearbook 2014. From 2010 to 2014, net FDI inflows averaged RM33.7 billion (or 3.6% of GDP) per year. The major contributors of FDI inflows, from 2010 to 2014, were the advanced economies, particularly Japan, the Netherlands and the United States. Among regional economies, there were also sizeable investments from Singapore and Hong Kong.

From 2010 to 2014, FDI inflows were broad-based across sectors. FDI into the manufacturing sector accounted for the largest share of total net FDI during this period, 38.2% of the total, to a certain extent, reflecting ETP initiatives such as in the electronics and electrical products industry. FDI inflows into the services sector accounted for 33.3% of total net FDI during the period from 2010 to 2014, reflecting rising diversification of FDI into the services sector, particularly the financial sub-sector, as well as the wholesale and retail trade sub-sector. Meanwhile, FDI into the mining sector, 26.2% of the total, reflected the strategic acquisitions and exploration and extraction activity in the oil and gas industry.

Net FDI in Malaysia increased to its highest level of RM38.2 billion in 2013, as strong economic fundamentals supported foreign investor confidence. Reflecting uncertainties surrounding global growth in 2014, net inflows of FDI in Malaysia decreased slightly to RM35.1 billion, primarily due to lower net inflows of FDI in the manufacturing sector compared to 2013; net inflows of FDI in the manufacturing sector were RM3.7 billion in 2014 compared to RM14.3 billion in 2013. Further, there was an increase in foreign manufacturing investment approvals from RM30.5 billion in 2013 to RM39.6 billion in 2014.

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 the approval of the Foreign Investment Committee of the Prime Minister's Department of Malaysia, a committee set up to regulate both foreign and local investments in Malaysia. 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 of the Prime Minister's Department of Malaysia (the "EPU"), introduced the Guideline on the Acquisition of Properties, which was revised with effect on March 1, 2014. The Guideline provides, *inter alia*, 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, industrial or commercial property priced at RM1 million and above per unit, subject to the purview of the relevant ministries and/or Government departments or State authorities, if applicable; and

(c) under certain circumstances, foreign interests may purchase agricultural property priced at RM1 million and above or amount to at least five acres, subject to the purview of the relevant ministries and/or Government departments.

The Government liberalized 27 service sub-sectors in 2009, including tourism and computer related businesses. As at the date hereof, the Government has liberalized 45 sub-sectors, allowing foreign investors to take a 100% equity participation in businesses comprised within these sub-sectors, including accounting and taxation services, courier services, private universities and private hospital services. In 2014, the National Auto Policy was passed to further liberalize the automotive industry in Malaysia and open it to foreign manufacturers in an effort to transform Malaysia into a major regional center for producing energy efficient vehicles.

Foreign Investment Approvals in the Manufacturing Sector

The following table sets out approved foreign investments in the manufacturing sector by industry for the years indicated.

Approved foreign investments in the manufacturing sector by industry[(1)]

	2010	2011	2012	2013	2014
			(RM million)		
Food manufacturing	1,215.5	2,567.9	1,118.0	2,297.7	1,547.9
Beverages and tobacco	2.1	25.4	220.6	251.0	65.3
Textiles and textiles products	500.5	236.1	328.0	632.5	635.7
Leather and leather products	0.0	0.0	0.3	1.4	0.5
Wood and wood products	49.3	83.4	149.8	36.9	52.3
Furniture and fixtures	241.2	54.6	81.4	10.0	12.4
Paper, printing and publishing	70.0	318.7	597.4	68.2	555.8
Chemical and chemical products	1,735.6	3,220.6	5,671.2	3,758.0	7,704.2
Petroleum products (including petrochemicals)	1,089.4	968.5	1,376.8	3,243.8	4,726.5
Rubber products	172.7	91.2	1,218.6	794.5	289.4
Plastic products	255.8	271.0	707.3	410.2	129.2
Non-metallic mineral products	2,237.4	1,464.0	310.0	1,339.2	1,299.5
Basic metal products	3,595.5	3,587.4	1,934.0	4,425.8	7,969.1
Fabricated metal products	1,524.3	804.7	605.4	812.0	793.7
Machinery and equipment	1,019.4	251.4	1,241.6	1,205.0	720.6
Electronics and electrical products	11,842.3	18,703.7	3,252.0	8,495.6	10,422.6
Transport equipment	745.4	1,066.3	1,923.8	2,160.4	1,867.7
Scientific and measuring equipment	2,179.8	356.4	177.1	560.1	754.1
Miscellaneous	580.5	77.7	5.7	33.9	46.1
Total	29,056.6	34,148.9	20,919.0	30,536.4	39,592.7

Note:

(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, 2010 to December 31, 2014. The average share of approved foreign investments to total investments in approved manufacturing projects during that period was 57.4%. Foreign investments in approved manufacturing projects amounted to RM154.3 billion for the period. Reflecting uncertainty in the economic environment, approved foreign investments declined to RM20.9 billion in 2012, but increased to RM30.5 billion in 2013 and to RM39.6 billion in 2014. Foreign investments for the January 1, 2010 to December 31, 2014 period were mainly in the electronics and electrical products sub-sector.

In most sectors, companies have transitioned towards higher value-added ("Value-Added") activities and output. Value-Added is a measurement of GDP that is determined by subtracting the input cost (excluding labor) from the value of gross output, primarily in technologically advanced and 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 theaters. 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 new growth areas such 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 2005 prices for the years indicated.

GDP by economic activity (at constant 2005 prices)

	2010	2011	2012	2013	2014[P]
	(RM million, except percentage)				
Services	359,829	385,550	410,339	434,460	462,027
Manufacturing	170,261	178,237	186,748	193,237	205,200
Agriculture	51,263	54,250	54,963	56,095	57,528
Mining and quarrying	66,182	62,607	63,243	63,680	65,650
Construction	21,459	22,464	26,640	29,554	32,984
GDP at purchasers' value	676,653	711,760	751,934	787,611	835,040
GDP growth/(decline) (%)	7.4	5.2	5.6	4.7	6.0

Note:

P Preliminary.

Sources: Department of Statistics; BNM.

During the past four 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 7.9% in 2014. During the same period, the contribution of the manufacturing sector increased from 19.0% of GDP to 24.6%. The services sector also developed at a faster pace than the overall expansion of the economy, with its share of GDP rising to 55.3% in 2014 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 22.4% in 2014, 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 33.0% in 2014, 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 2010, real GDP expanded by 7.4%. The manufacturing sector grew by 11.9%, driven largely by the strong growth in the first half of the year. The services sector registered a growth of 7.4%, with robust growth across all sub-sectors, amid the strengthening of both domestic and external demand. Sustained growth in the production of food crops such as livestock, fish and fruits supported an expansion of 2.4% in the agriculture sector. The mining sector contracted by 0.3%, due to lower production of crude oil. The construction sector expanded by 11.4%, with some moderation in the second half of the year, due partly to the completion of projects financed by the Government's second stimulus package.

In 2011, real GDP grew by 5.2%. The services sector recorded a slightly higher growth of 7.1%, mainly driven by firm domestic demand. Growth in the manufacturing sector expanded, albeit at a more moderate pace of 4.7%, as growth in the domestic-oriented industries outweighed weakness in the export-oriented industries. The agriculture sector recorded faster growth of 5.8%, supported by a recovery in the production of crude palm oil. The construction sector expanded by 4.7%, supported mainly by the residential sub-sector. The mining sector contracted by 5.4%, reflecting the decline in the production of crude oil and condensates.

In 2012, real GDP grew by 5.6%. The services sector grew by 6.4%, as sub-sectors catering to the domestic market, namely retail and telecommunications, benefited from strong consumer spending. The manufacturing sector expanded by 4.8%, benefitting from the recovery of the export-oriented industries. The mining sector grew by 1.0%, reflecting the recovery in the production of crude oil and condensates. The agriculture sector recorded a more moderate growth of 1.3% in 2012, as crude palm oil output was affected by deteriorating weather conditions in the first half of the year, leading to a significant decline in yields. Meanwhile, the construction sector recorded a robust growth of 18.6%, driven mainly by the civil engineering sub-sector.

In 2013, real GDP registered a growth rate of 4.7%. The services sector expanded by 5.9% and remained the largest contributor to growth in 2013, underpinned largely by sub-sectors catering to domestic demand, while the manufacturing sector expanded by 3.5%, attributable to the continued strength in the domestic-oriented industries and better performance of the export-oriented industries in the second half of 2013. Growth in the construction sector remained strong at 10.9%, owing to robust activity in the residential and civil engineering sub-sectors. The agriculture sector grew by 2.1%, due to higher crude palm oil output, reflecting better yields amid favorable weather conditions. The mining sector registered a slower growth of 0.7% in 2013, reflecting the reduction in crude oil product amid maintenance works that occurred in the second half of the year.

Real GDP grew by 6.0% in 2014. The manufacturing sector registered a growth rate of 6.2%, attributable to the stronger performance of the export-oriented industries and expansion in the domestic-oriented industries. The mining sector grew by 3.1%, resulting from higher production of natural gas and crude oil. The agriculture sector grew by 2.6% due to higher production of palm oil as a result of favorable weather conditions. The services sector expanded by 6.3%, and remained the largest contributor to growth, mainly supported by sub-sectors catering to domestic demand. The construction sector grew by 11.6%, due primarily to stronger growth in both the residential and non-residential sub-sectors.

Services

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 6.6% (6.3% excluding Government services) between 2010 and 2014. The following table sets out the growth in the services sector for the years indicated.

Growth in services sector[(1)]

	2010	2011	2012	2013	2014 P
	(Annual change (%))				
Intermediate Services	8.1	6.5	7.5	5.1	5.4
Transport and storage	7.1	5.4	4.9	4.6	5.0
Communication	9.7	8.3	9.5	10.0	9.9
Finance and insurance	8.2	6.8	7.9	1.8	2.0
Real estate and business services	7.6	5.6	7.2	7.5	7.8
Final Services	6.9	7.6	5.7	6.4	7.0
Utilities	7.7	3.6	4.3	4.1	3.5
Wholesale and retail trade	8.3	7.0	4.6	6.4	8.8
Accommodation and restaurants	7.0	6.0	5.4	5.7	6.2
Government services(2)	5.9	12.4	9.4	8.3	6.5
Other services(3)	4.4	5.1	3.9	5.1	4.9
Total services(3)	7.4	7.1	6.4	5.9	6.3

Notes:

P Preliminary.

(1) At constant 2005 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.

Source: Department of Statistics.

In 2010, the services sector grew by 7.4%, with robust growth across all sub-sectors, amid strengthening domestic and external demand. The services sector was the largest contributor to growth, contributing 3.9 percentage points to overall GDP growth in 2010. The services sector expanded by 8.9% in the first half of the year; this increase was primarily due to higher growth in all sub-sectors, particularly the finance and insurance, wholesale and retail trade; communication and transport and storage sub-sectors. In the second half of 2010, this growth slowed to 6.0%, primarily due to the slowdown in external demand which affected the trade and manufacturing-related services sub-sectors. The finance and insurance sub-sector grew by 8.2% as a result of increased net interest and fee-based incomes in the finance segment, which benefited from higher loan growth and a high level of activity in capital market sub-segment during the year. The wholesale and retail trade sub-sector grew by 8.3%, supported by higher household consumption spending, including for durable goods such as motor vehicles. The transport and storage sub-sector grew by 7.1% following improvements in trade activity and robust growth in passenger travel. The communication sub-sector grew by 9.7%, primarily due to increased affordability of both mobile devices and data subscription packages. The broadband penetration rate stood at 55.6% of households as at year-end 2010, surpassing the Government's target of 50%.

In 2011, the services sector grew by 7.1% amid firm domestic demand. The finance and insurance sub-sector grew by 6.8% following strong performance in bank lending and increased collection of insurance premiums. The communication sub-sector registered a growth rate of 8.3%, due mainly to the continued expansion in the broadband segment. The wholesale and retail trade expanded by 7.0%, due to robust growth in private consumption. The resilience in private consumption has also offset the lower tourism-related activity in the accommodation and restaurants sub-sector.

In 2012, the services sector grew by 6.4%, driven primarily by sustained domestic demand and tourism-related activities. The finance and insurance sub-sector grew by 7.9%, reflecting continued access to financing, particularly to businesses, coupled with higher fee-based income and stronger growth of earnings from insurance premiums. The real estate and business services sub-sector recorded a growth of 7.2%, supported by favorable real estate activity, and higher demand for professional services and IT-related services. The accommodation and restaurants sub-sector grew by 5.4%, attributable to higher hotel occupancy rates and increased patronage at food outlets. The increase in private consumption activity supported by the 2012 Budget initiatives contributed to growth in both the communication and wholesale and retail trade sub-sectors of 9.5% and 4.6%, respectively. The communication sub-sector's growth was attributable to strong expansion in the cellular and broadband segments, supported by the introduction of affordable and sophisticated smartphones.

In 2013, the services sector grew by 5.9%, due primarily by sub-sectors catering to domestic demand. The wholesale and retail trade sub-sector grew by 6.4%, benefitting from continued strength in retail spending by households. The accommodation and restaurants sub-sector registered a growth of 5.7%, due to higher tourism-related activities and an increase in patronage of restaurant outlets. The finance and insurance sub-sector expanded by 1.8%, due to lower interest rate margins and insurance premiums. The real estate and business services sub-sector grew by 7.5%, due to increased demand for professional services and computer services, as well as higher values of residential property transactions. The communication sub-sector grew by 10.0%, mainly on account of continued demand for data communication services. The transport and storage sub-sector recorded growth of 4.6%, primarily due to strong growth in passenger travel.

In 2014, the services sector grew by 6.3%, driven primarily by sub-sectors catering to domestic demand. The finance and insurance sub-sector recorded a growth of 2.0% in 2014 due to higher growth in the insurance segment. The wholesale and retail trade sub-sector expanded by 8.8% in tandem with the continued strength in household spending, resulting, in strong sales in retail outlets such as hypermarkets and large-scale superstores. This was further supported by the "1Malaysia Unified Sales" event which aimed to attract more tourists and locals to shop in Malaysia. The communication sub-sector expanded by 9.9%, driven by strong demand for data communication services. The real estate and business services sub-sector grew by 7.8%, driven by the business services segment. Meanwhile, the transport and storage sub-sector registered a growth of 5.0%, supported mainly by trade-related activity.

The services sector remains the primary driver of growth in the Malaysian economy, contributing 55.3% to the GDP in 2014. Currently, growth in the services sector is supported largely by the wholesale and retail, finance and insurance and communications sub-sectors. Labor productivity in the services sector is estimated to increase at an average rate of 2.9% per annum, mainly contributed by the information, communication and technology, real estate and business, finance and insurance, as well as transport and storage sub-sectors. Services exports have also grown steadily at 6% per annum between 2006 and 2014.

As part of its effort to promote development of the services sector, the Government launched the Multimedia Super Corridor ("MSC Malaysia") in 1996. The development of MSC Malaysia 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.

Phase 1 of the MSC Malaysia was from 1996 to 2003, and covered only a land belt measuring 15 kilometers by 50 kilometers, stretching from Kuala Lumpur City Center to the Kuala Lumpur International Airport. Total revenue by MSC Malaysia status companies for 2004 was RM7.2 billion. Total investment in MSC Malaysia status companies in 2004 was RM5.1 billion.

As at the date hereof, 3,632 MSC Malaysia status companies had been approved. Companies that are wholly foreign-owned and joint ventures with majority foreign stakeholders represented 27% of the total number of approved applications. See "*Gross Domestic Product and Gross National Income - Foreign Investment Approvals in the Manufacturing Sector*".

During Phase 2, which was from 2004 to 2010, the MSC Malaysia area was gradually extended to other parts of the country. MSC Malaysia also became the global information and communication technology ("ICT") hub and the preferred location for ICT, multimedia and shared services and outsourcing. Beyond contributing RM33.7 billion to the GDP over the Phase 2 period, MSC Malaysia also achieved the following milestones:

- cumulative revenue of RM121.0 billion, exceeding the initial estimates of RM69 billion by 75%;

- creation of 111,536 knowledge-based jobs, exceeding RMK9 projections of 100,000 jobs by 12%; and

- generated RM37.5 billion worth of exports, exceeding RMK9 projections of RM20 billion by 87%.

Building on the success of Phase 2, the objective of Phase 3, running from 2011-2020, is to further increase ICT uptake across all sectors 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.

In the first four years of Phase 3 of the MSC Malaysia plan, MSC Malaysia status companies achieved:

(i) RM46.8 billion in GDP contribution;

(ii) RM138.3 billion in revenue;

(iii) RM47.8 billion in exports; and

(iv) 147,568 jobs created.

At the start of Phase 3 in 2011, the Multimedia Development Corporation's ("MDeC") mandate was expanded to include Digital Malaysia, the national program to advance the country towards a developed digital economy by 2020 by creating an environment that promotes the use of ICT in all aspects of the economy. Digital Malaysia is expected to result in the connection of communities globally, in order to increase the ICT contribution to total Malaysian GDP to 17%, enhance productivity and improve the people's standards of living. Ultimately, Digital Malaysia aims to turn Malaysia into a developed digital economy that connects and empowers government, businesses and citizens.

Malaysia's digital economy showed marked advancement within the ICT sector, contributing RM161.6 billion to the nation's 2013 GDP of RM986.7 billion, an increase of 38% from 2012.

In 2015, MDeC will refocus and realign its efforts to strengthen MSC Malaysia's industrial development, as well as refocus on the digital transformation program. Strengthening the industrial development focus on deepening existing niches, such as bolstering MSC Malaysia status companies' global footprint, making Malaysia a regional hub for gaming, as well as a global hub for cloud and content services, in order to boost investments in MSC Malaysia. New sources of growth to spur the industry are expected to be developed, specifically focusing on big data analytics, e-commerce and the "internet of things" (the network of physical objects or "things" embedded with electronics, software, sensors and connectivity to provide greater value and service by exchanging data with the manufacturer, operator and/or other connected devices).

MDeC also established a new Enterprise Development division to attempt to drive the "Global Acceleration and Innovation Network", aimed at fast-tracking growth of high potential MSC Malaysia companies, helping them to become regional or global players, with customized intervention programs. This initiative will go hand-in-hand with the set-up of the MDeC Americas office, which is expected to be launched in late 2015. Based in Silicon Valley, the new office is expected to provide high-growth Malaysian companies with a direct link to the North America innovation ecosystem.

MDeC's digital transformation program also aims to deliver sustainable and positive outcomes to businesses, government and the people via a digital government transformation, focusing on citizen-centered online service delivery, promoting Bumiputera ICT entrepreneurship, improving the quality of life of the bottom 40% of the income pyramid community via digital means, and enhancing the digital skills of youth in the interest of future employability and income generation.

Phase 3 will also aim to extend MSC Malaysia's agenda to the whole country, without limitations to any specific location. 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 years indicated.

Growth in manufacturing production

	2010(1)	2011(2)	2012(2)	2013(2)	2014(2)
	(Annual % change)				
Domestic-oriented industries	15.6	10.7	1.7	6.8	7.9
Construction-related cluster	18.9	11.3	3.1	4.9	4.2
Non-metallic mineral products	22.6	12.1	2.9	(0.4)	6.9
Iron and steel products	21.1	2.2	(6.6)	3.4	2.8
Fabricated metal products	15.0	21.8	13.8	12.2	2.8
Consumer-related cluster	13.4	10.2	0.5	8.5	10.9
Food products	3.1	10.9	(2.8)	8.4	7.8
Transport equipment	29.7	(12.0)	3.4	13.8	14.4
Beverages	31.4	9.0	(3.2)	(2.1)	17.7
Tobacco products	0.9	11.8	10.6	(18.0)	4.8
Others	(10.6)	(3.2)	2.3	3.2	3.1
Export-oriented industries	9.7	4.1	6.5	3.3	5.4
Primary-related cluster	5.7	6.5	8.5	0.3	2.1
Textiles and wearing apparel	4.2	13.2	(7.1)	(2.6)	10.8
Wood and wood products	11.7	(5.1)	8.7	(3.1)	7.8
Rubber products	20.8	20.7	3.0	8.2	(1.3)
Chemicals and chemical products	11.5	10.0	10.8	(0.7)	3.6
Paper products	10.4	9.5	3.1	2.3	(1.1)
Petroleum products	(2.4)	3.4	4.7	0.2	0.6
Off-estate processing	(2.3)	8.1	(0.8)	1.7	1.5
Electronics and electrical products cluster	17.4	(0.9)	8.1	10.0	12.1
Electronics	3.1	(4.0)	12.7	18.6	10.5
Electrical	47.8	4.4	0.9	(5.1)	15.4
All industries	11.1	5.7	5.2	4.2	6.1

Notes:

(1) Base year 2005 = 100.

(2) Base year 2010 = 100.

Source: Department of Statistics.

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 and 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 are related to the development of small and medium enterprises ("SMEs") and to enhance ICT infrastructure.

In 2010, growth in manufacturing production increased by 11.1% compared to 2009, driven primarily by the strong growth in the first half of the year with expansions in both the export- and domestic-oriented industries. The pace of growth, however, slowed towards the end of the year primarily due to slower external demand. The export-oriented industry expanded in 2010. Domestic-oriented industry grew by 15.6%, mainly due to strong domestic consumption. Output in the consumer-related cluster was driven by robust growth in the transport equipment industry primarily due to strong demand for vehicles throughout the year and the sustained performance in the food, beverage and tobacco industry. The construction-related cluster also registered a robust growth of 18.9%, benefiting from continued construction activity in the economy and implementation of the Government's stimulus measures. Nevertheless, production growth in the manufacturing sector began slowing in the second half due to the tapering off of stimulus measures. During the year, capacity utilization was higher by more than 80%, reflecting strong production activity during the year. In 2010, share of the manufacturing sector was 25.2% of GDP and remained the second largest contributor to growth for the year.

In 2011, manufacturing production grew by 5.7%, as growth in the domestic-oriented industries outweighed weaker growth in the export-oriented industries. Moderate external demand, particularly from advanced economies, contributed to slower growth of export-oriented industries, which grew by 4.1%. Among the export-oriented industries, the electronics industry contracted by 4.0% and the wood and wood products industry contracted by 5.1%. These decreases, however, were offset by strong growth in the rubber products, as well as chemicals and chemical products industries, which recorded growth rates of 20.7% and 10.0%, respectively. Supply disruptions caused by the global electronics and electrical products supply chain also contributed to the under-performance of the sector. The domestic-oriented industries remained resilient, growing at a rate of 10.7%, displaying strong growth of the fabricated metal products (which grew by 21.8%) and food products (which grew by 10.9%) industries, which were supported by favorable domestic demand conditions.

Manufacturing production grew by 5.2% in 2012, primarily driven by the recovery in export-oriented industries. In the export-oriented industry, which grew by 6.5%, production in the electronics and electrical products cluster, particularly in semiconductors, normalized following the major disruptions arising from the natural disasters in Japan and Thailand in 2011. The electronics and electrical products industries registered growth rates of 12.7% and 0.9%, respectively. The continued demand for chemicals and petroleum products, which grew by 10.8% and 4.7%, respectively, mainly from the Asia-Pacific region, contributed to the expansion in output of the primary-related cluster which grew by 8.5%. The growth in the domestic-oriented industries, which decreased to 1.7%, was supported by private consumption and domestic construction activity.

In 2013, manufacturing production grew at a rate of 4.2%, attributable to the continued strength in the domestic-oriented and export-oriented industries in the second half of 2013. Production in the export-oriented industries, which grew by 3.3%, was supported by stronger exports in both the electronics and electrical products and the primary-related clusters, amid a gradual recovery in the global economy. The electronics and electric products cluster recorded higher growth of 10.0%, buoyed by the electronics product industry, which grew by 18.6%. The primary-related cluster recorded a lower growth rate of 0.3%, slowed by the chemicals and chemical products (which contracted by 0.7%), textiles, wearing apparel and footwear (which contracted by 2.6%) and wood and wood products (which contracted by 3.1%). Domestic-oriented industries recorded stronger growth of 6.8%, mainly driven by resilient private consumption and construction activity.

Manufacturing production grew by 6.1% in 2014, attributable to stronger performance of both the export- and domestic-oriented industries. Growth in export-oriented industries was mainly driven by the growth of the electronics and electrical products cluster, which grew by 12.1%, comprising the electronics and electrical product industries, which grew at 10.5% and 15.4%, respectively, with particularly significant growth in these sectors in the first half of 2014, primarily as a result of rising global demand. The primary-related cluster consisting of chemicals and chemical products (which grew by 3.6%), petroleum products (which grew by 0.6%), textiles and wearing apparel (which grew by 10.8%), wood and wood products (which grew by 7.8%), rubber products (which contracted by 1.3%), off-estate processing (which grew by 1.5%) and paper products (which contracted by 1.1%) displayed positive growth due to improving demand from the Asia-Pacific region. Domestic-oriented industries grew by 7.9%, supported by sustained consumption spending and robust domestic construction activity.

Agriculture, Forestry and Fishery

The following table summarizes production and export volumes of the major agricultural commodities for the years indicated.

Agricultural production and export volume

	2010	2011	2012	2013	2014[P]
	(Period change (%), except for ringgit amounts)				
Crude palm oil					
Production volume(1)	(3.3)	11.3	(0.7)	2.3	2.3
Export volume, crude and processed(2)	4.2	8.9	(3.0)	(0.4)	(3.3)
Gross exports, crude and processed (RM million)(3)	44,730.5	60,309.9	53,067.1	41,737.4	41,641.3
Saw logs					
Production volume(1)	(2.8)	(10.1)	(0.6)	(9.4)	n/a
Export volume(2)	2.8	(23.4)	(9.1)	4.3	2.5
Gross exports (RM million)(3)	2,142.3	1,691.1	1,961.1	1,865.2	2,074.8
Rubber					
Production volume(1)	9.6	6.1	(7.4)	(10.4)	(19.3)
Export volume(2)	28.1	5.0	(18.5)	9.7	(14.8)
Gross exports (RM million)(3)	9,210.5	13,480.7	7,864.1	7,026.6	4,574.5
Sawn timber					
Export volume(2)	(27.5)	(3.1)	(2.0)	(3.9)	(0.5)
Gross exports (RM million)(3)	3,242.6	3,251.9	3,183.2	3,164.2	3,397.8
Cocoa beans					
Production volume(1)	(13.8)	(70.6)	(20.8)	(22.9)	(5.1)
Export volume(2)	64.8	7.3	87.5	(10.0)	118.0
Gross exports (RM million)(3)	273.4	255.4	399.0	359.2	958.9

Notes:

P Preliminary.

(1) Based upon changes in volume measured in tones (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.

Sources: Department of Statistics; Malaysia 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 commodities, principally comprising palm oil, rubber, saw logs, cocoa and pepper; and food commodities, consisting of fisheries (including aquaculture), livestock, rice, fruits and vegetables. Historically, the predominant commodities have been palm oil and rubber, which are export-oriented in nature. The sector has now become more diversified, in particular under the food commodities sub-sector despite the domination of oil palm as the biggest agricultural land use. Between 2010 and 2014, GDP attributable to 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 food processing, palm oil-based as well as wood-based industries. Focus has been continuously given to the development of the agro-based industries, particularly in the development of high value-added products, in tandem with the Third Industrial Master Plan (2006 to 2020). This has resulted in the growth of the agro-based industries during the period from 2010 to 2014, as shown by an increase of the agro-based Value-Added of 12.2%.

The Third National Agriculture Policy, which was launched by the Government and covered the period from 1998 to 2010, emphasized developing the sector further as a third engine of Malaysia's economic growth by ensuring a more broad-based and long-term growth. Under the policy, various initiatives were undertaken to accelerate the transformation of the agriculture sector into a modern, commercialized and technology-driven sector.

In September 2011, the 10-year National Agro-Food Policy ("NAFP") was approved by the Malaysian Cabinet, effectively replacing the National Agriculture Policy. The NAFP policy was put into place to address food supply security in Malaysia, and attempts to guarantee the availability of sufficient food supplies in Malaysia. Further, in line with the effort to develop Malaysia as a high-income nation, the Government anticipates that the NAFP will increase the revenue of farmers as well as agro-entrepreneurs, which will allow the agro-sector to transition into a steady and resilient industry.

In addition, the agriculture sector is also expected to play a significant role towards achieving a high-income economy by 2020 through its 28 Entry Point Projects identified under the NKEA initiative. The NKEA on agriculture, which focuses on palm oil, rubber and high-value agriculture are designed to increase private investment in commercial and large-scale agriculture ventures with the Government providing the hard infrastructure and other supportive measures.

In 2010, the agriculture sector expanded at a pace of 2.4%, supported by sustained growth in the production of food crops such as livestock, fish and fruits. The industrial crops production registered a slower decline due to the rebound in natural rubber production. The production of crude palm oil, however, declined further amid unfavorable weather conditions.

In 2011, the agriculture sector grew by 5.8%. This growth was mainly supported by a recovery in the production of crude palm oil. The production of crude palm oil increased by 11.3% to 18.9 million tons as good weather conditions and firm prices supported strong production. Output of other key crops such as rubber and food crops was sustained by strong regional and domestic demand. Apart from a brief period of adverse weather which led to flooding in key production areas, overall weather conditions were conducive for higher yields of industrial crops during the year.

In 2012, the agriculture sector grew at a more moderate pace of 1.3% due to crude palm oil output being affected by deteriorating weather conditions in the first half of the year, leading to a significant decline in yields. This, however, was offset by strong growth in key food commodities, such as livestock, vegetables and rice, primarily due to strong domestic demand.

In 2013, the agriculture sector grew at a faster pace of 2.1%, driven mainly by higher production of crude palm oil as both yields and the number of matured palm trees increased. Production of food crops, such as livestock, vegetables and fish was also higher in 2013, following efforts to increase food security, as well as ongoing efforts to further improve the agro-food and aquaculture industries.

In 2014, the agriculture sector expanded by 2.6% due to higher production of crude palm oil as a result of favorable weather conditions. Sustained production of food crops, particularly poultry and vegetable, provided further support to the sector during the year.

Palm Oil Prices

In 2010, average palm oil prices were RM2,701 per ton due to recovery in demand and the impact of adverse weather on palm oil production. In 2011, average palm oil prices increased to RM3,279 per ton, influenced by higher demand growth amid moderate growth in supply. In 2012, average palm oil prices were RM2,864 per ton, in line with lower supply of soybean oil, a close substitute to crude palm oil. In 2013, average palm oil prices were RM2.375 per ton, due to high inventories in major consuming countries, particularly China. In 2014, average palm oil prices were RM2,418 per ton, due to lower crude oil prices and higher soybean supply in the second half of 2014.

Mining

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

Mining production and export volume

	2010	2011	2012	2013	2014 P
	(Period change (%), except for ringgit amounts)				
Crude oil					
Production volume(1)	(3.1)	(10.7)	3.0	(1.9)	3.8
Export volume	(0.2)	(23.6)	(5.1)	(0.4)	9.2
Gross exports (RM million)(2)	30,764.7	32,451.7	31,951.4	31,642.9	33,790.1
Natural gas					
Production volume(1)	41.4	0.0	1.3	4.4	1.4
LNG export volume	3.9	8.3	(4.3)	6.2	0.8
Gross exports (RM million)(2)	38,741.6	52,048.8	56,129.1	59,567.0	64,288.9
Tin					
Production volume(1)	10.6	25.3	11.4	(0.8)	1.7
Export volume	47.3	25.5	(12.1)	2.2	(3.1)
Gross exports (RM million)(2)	2,083.5	3,234.4	2,409.8	2,525.7	2,523.25

Notes:

P Preliminary.

(1) Based upon changes in volume measured in tones (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.

Sources: Department of Statistics; 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 2010 and 2014, the mining sector grew at an average annual rate of 2.6%. The mining sector's share of GDP was approximately 7.0% in 2010 and 7.9% in 2014.

From 2010 to 2014, approximately 98% of revenues from sales of minerals were attributable to oil and gas sales. Malaysia manages 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 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), downstream activities (such as the refining and marketing of petroleum products, manufacturing and selling chemical products and trading crude oil, petroleum products and petrochemical products) and logistics and maritime activities (such as energy transportation and logistics, including that used in the transportation of LNG, crude oil, petroleum products and petrochemical products in support of PETRONAS' own marketing and trading activities).

Gas reserves stood at 92.7 trillion and 93.9 trillion standard cubic feet as at December 31, 2013 and December 31, 2014, respectively. The gas reserves as at December 31, 2013 and December 31, 2014 had a reserve lifespan of 36.2 years and 36.7 years, respectively, based on current production levels. Crude oil reserves (including condensates) as at December 31, 2013 and December 31, 2014 amounted to 4.52 billion barrels and 4.69 billion barrels, respectively, and had a reserve lifespan of 17.7 years and 18.5 years, respectively, based on current production levels.

The Value-Added of the mining sector declined by 0.3% in 2010, due to a crude oil output decline of 3.5% as a result of lower production from the maturing oil fields and the shutdown of several oil fields for maintenance.

In 2011, the Value-Added of the mining sector decreased by 5.4%, due to the decline in the production of crude oil and condensates. This decrease was primarily caused by shutdowns of several production facilities for maintenance purposes, declining production from mature fields and lower-than-expected production from new fields. Despite higher demand from Japan following the tsunami in March 2011, output of natural gas rose only marginally by 0.4%, as production was affected by the shutdown of gas processing facilities in Peninsular Malaysia.

In 2012, the mining sector recorded a 1.0% growth rate, mainly due to an increase in production volume, reflecting the recovery in the production of crude oil and condensates. The increase in production of crude oil was driven mainly by higher output from oil fields located offshore from Peninsular Malaysia and Sabah. Output of natural gas declined marginally, affected by a prolonged shutdown of several facilities in Sarawak for maintenance purposes.

In 2013, the Value-Added of the mining sector increased only marginally by 0.7%, due primarily to maintenance works in the latter half of the year, which impacted crude oil production. Output of natural gas recorded stronger growth during the year, driven by higher production from new and marginal fields.

In 2014, the Value-Added of the mining sector grew by 3.1%, as a result of higher production of natural gas and crude oil. Continued demand for LNG from North Asia led to higher production of natural gas, while crude oil output registered higher growth, especially in the second half of the year. This mainly reflected the commencement of production from a new major oil field, namely Gumusut-Kakap (offshore of Sabah).

In 2010, export earnings from crude oil increased by 21.3%, reflecting higher prices amid continued contraction in export volume. During the year, the average export price of crude oil was US$76.51 per barrel. Meanwhile, LNG export earnings increased by 33.5% due to higher demand from major importers such as Japan and Taiwan, as well as the first full-year of natural gas exports to China.

In 2011, export earnings from crude oil increased by 5.5%, due to a continued increase in crude oil prices. Average export prices of crude oil were US$111.67 per barrel during the year. The volume of LNG exports increased by 8.3%, mainly due to higher demand for gas-powered electricity generation in Japan.

In 2012, export earnings from crude oil declined by 1.5%, due to a decrease in export volumes as prices continued to increase. While global crude oil prices were affected by periods of volatility due to geo-political tensions in the Middle East and North Africa, average oil prices for the year remained stable, increasing only slightly from the previous year. During the year, the average export price of crude oil was US$114.98 per barrel. The volume of LNG exports decreased by 4.3% in 2012, due to lower regional demand.

In 2013, export earnings from crude oil declined by 1.0%, due to lower export prices and lower production of crude oil. The average export price of crude oil was US$111.69 per barrel during the year. LNG export earnings increased by 6.1%, due to higher production of natural gas, as well as continued demand by major consuming countries.

In 2014, export earnings from crude oil increased by 6.8%, reflecting the commencement of production at a new major oil field in Sabah. During the year, the average export price of crude oil was US$105.5 per barrel. LNG export earnings expanded by 7.9%, mainly due to continued demand from North Asia.

Construction

The construction sector comprises four sub-sectors: residential; non-residential; civil engineering; and special trade works. Special trade works include demolition works, sites preparation, electrical, plumbing, heat, air-conditioning and other installations, building completion and finishing works, and other specialized construction activities. Growth in the construction sector has been supported by both public and private sector projects. Between 2010 and 2014, a total of 36,617 construction projects were awarded, valued at RM557 billion. The awarded projects comprised private sector projects amounting to RM456 billion (or 82%), with the remaining RM101 billion (or 18%) contributed by public sector projects.

In 2010, the construction sector expanded by 11.4% with some moderation in the second half of the year, primarily due to the completion of projects financed by the second stimulus package. Growth was supported mainly by the non-residential sub-sector, reflecting the construction of commercial properties, particularly purpose-built office and retail space, and the upgrading and repair of public buildings. The expansion in the civil engineering sub-sector reflected the continued progress in the implementation of infrastructure projects, while the residential sub-sector continued to grow, but at a more modest pace.

In 2011, the construction sector continued its expansion with a growth of 4.7%. The lower growth rate compared to 2010 reflected slower activity in the civil engineering and non-residential sub-sectors. The civil engineering and non-residential sub-sector registered a slower growth, especially in the second quarter, following the completion of major highway projects, and maintenance and upgrading work of public buildings under the second stimulus package put in place by the Government to stimulate the domestic economy.

In 2012, the construction sector grew by 18.6%, its highest growth rate since 1995 (which was 21.1%), driven mainly by the civil engineering sub-sector. This reflected the efforts by the Government to improve road and rail accessibility, enhance electricity generation capacity, as well as increase oil and gas output in Malaysia. Growth in the sector was also contributed to by the residential and non-residential sub-sectors. The performance of the residential sub-sector was underpinned by the construction of high-end properties in Klang Valley, Penang and Johor, following successful launches in 2010 and 2011. Industrial projects in the Samalaju Industrial Park, tourism projects in Iskandar, and commercial projects in Klang Valley supported growth in the non-residential sub-sector. Construction of learning and health institutions, such as the Universiti Teknologi Mara campuses and the National Cancer Institute, also provided further impetus to this sub-sector.

In 2013, growth in the construction sector was 10.9%. This growth was supported by robust activity in the residential and civil engineering sub-sectors. Growth in the residential sub-sector was supported by the construction of high-end and high-rise properties in Klang Valley, Penang and Johor. In the civil-engineering sub-sector, higher activity levels in infrastructure, and oil and gas-related projects supported growth. Notable projects were the Tanjung Bin and Janamanjung 4 power plants, the Mass Rapid Transit (Sungai Buloh-Kajang Line), the Sabah Oil and Gas Terminal, the Sabah-Sarawak Gas Pipeline and the Kebabangan Oil and Gas project.

In 2014, the construction sector continued its expansion by 11.6%, owing mainly to higher construction activity in both the residential and non-residential sub-sectors. This growth in the residential sub-sector was attributed to continued progress in high-end housing projects in Johor, Klang Valley and Penang, while construction activities in the non-residential sub-sector were supported by commercial and industrial projects. The civil engineering sub-sector provided further support to the sector, underpinned by existing and new infrastructure projects.

The construction sector continued to grow with the implementation of projects pursuant to the Tenth Malaysia Plan and the ETP. The ETP has contributed to the growth of the civil engineering and special trade sub-sectors especially in connection with the oil and gas and public infrastructure projects.

Notable projects that were completed or are near completion include:

- Extension of Express Rail Link to Kuala Lumpur International Airport 2 ("KLIA2");

- KLIA2;

- Second Penang Bridge; and

- Tanjung Bin, Janamanjung 4 and Kimanis power plants.

Some notable ongoing projects include the following:

- River of Life (a project which includes the cleaning up of the Klang river);
- MY Rapid Transit Line 1 (Sungai Buloh-Kajang);
- Extension of Kelana Jaya and Ampang light rail transit lines;
- Extension of Keretapi Tanah Melayu Berhad Komuter line from Subang Jaya to Subang Skypark Terminal;
- Expansion of Kuantan Port;
- Extension of Duta-Ulu Klang Expressway;
- West Coast Expressway;
- Central spine road from Bentong to Kuala Krai; and
- Sabah Ammonia-Urea Plant.

The commencement of oil and gas related projects such as the Refinery and Petrochemical Integrated Development (RAPID) and ongoing transportation projects are expected to continue to support this sector. Growth in the residential sub-sector is expected to be supported by the ongoing Government's affordable housing initiatives such as Perumahan Rakyat 1Malaysia, Rumah Idaman Rakyat and Rumah Mesra Rakyat. Major industrial and commercial projects, such as LNG Train 9, KL118 (formerly Warisan Merdeka) and Bukit Bintang City Centre are also expected to support the expansion in the non-residential sub-sector.

Gross National Savings

Historically, Malaysia has sustained a high rate of savings by international standards, averaging 33.2% of GNI during the five-year period ending 2014. 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 ("EPF"). From 2010 to 2014, gross national savings rose from RM272.9 billion to RM319.2 billion, equivalent to an average growth rate of 6.3% annually. 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.

The narrowing savings-investment gap in Malaysia in the last five years to an average of 4.5% of GNI in 2013 and 2014, was the result of a significant increase in investment activity. Gross national savings grew by an average of 6.3% from 2010 to 2014, and fixed capital formation grew at an average of 10.1% over the same period. Increased investment activity is considered to be a key to the structural transformation of the Malaysian economy.

In 2010, gross national savings amounted to RM272.9 billion, or 35.4% of GNI. The savings-investment balance amounted to RM87.2 billion with an increase in gross national savings being offset by stronger investment spending by the private sector. Private sector savings amounted to RM187.0 billion, reflecting sound household and corporate sector balance sheets. Public sector savings amounted to RM85.9 billion, attributable mainly to a higher operating surplus of the public enterprises in 2010.

In 2011, the savings-investment balance amounted to RM102.4 billion, compared to RM87.2 billion in 2010. This surplus of savings enabled Malaysia to finance its long-term investment outlays primarily from domestic sources. Gross national savings was higher than in 2010, amounting to RM308.2 billion, or 35.7% of GNI. Public sector savings increased by 2.4% to RM88.0 billion; private sector savings increased by 17.7% to RM220.2 billion, broadly reflecting the sound financial position of the household and corporate sectors.

In 2012, the savings-investment balance narrowed to RM54.5 billion. Gross national savings decreased to RM298.7 billion, or 33.0% of GNI. Private sector savings decreased by 7.9% to RM202.7 billion, while public sector savings increased by 9.0% to RM95.9 billion, due to higher operating surplus of the public enterprises.

In 2013, the savings-investment balance narrowed further to RM39.9 billion. Gross national savings decreased slightly by 0.4% to RM297.4 billion, or 31.2% of GNI, while gross domestic investment grew by 5.4%. Private sector savings continued to decline, albeit at a rate of 1.7% to RM199.3 billion, while public sector savings increased at a slower rate of 2.2% to RM98.1 billion.

The Malaysian economy has undergone rebalancing and structural economic transformation, reflecting the resurgence of domestic demand as a main driver of growth while external demand slowed. Since 2010, gross fixed capital formation has been increasing due to increased private investment and the implementation of significant investment projects pursuant to the ETP. This increase in investment activity has resulted in a narrowing of the savings-investment balance.

Nevertheless, the savings-investment balance recorded a larger surplus of RM49.5 billion, or 4.8% of GNI in 2014. Gross national savings increased by 7.3% to RM319.2 billion, representing 30.9% of GNI, while total gross capital formation grew at a slower pace of 4.8%.

Malaysia's savings-investment balance surplus has been driven mainly by the private sector. In 2014, the widening of the private sector savings-investment surplus, which more than offset the public sector savings-investment deficit, contributed to the higher savings-investment surplus. Private sector savings increased by 18.3% to RM235.7 billion, reflecting higher corporate earnings. Meanwhile, both public sector savings and gross capital formation contracted in 2014. Public sector savings decreased by 14.9%, due to the lower operating surplus of public enterprises.

Private investment has emerged as a major contributor to growth in recent years on account of strong corporate earnings, high capacity utilization, and a favorable investment climate. The implementation of the ETP has catalyzed investments in new growth areas, high value-added industries and infrastructure. Increased private investment is expected to enhance Malaysia's productive capacity, improve efficiency and exports capacity of the economy.

Prices, Employment and Wages

Prices

The following table shows annual inflation rates for the years indicated.

Annual price increases

	2010	2011	2012	2013	2014
			(%)		
Consumer Price Index[(1)]	1.7	3.2	1.6	2.1	3.2
Producer Price Index[(1)]	5.6[(2)]	9.6	0.1	(1.7)	1.4

Notes:

(1) Base year 2010 = 100.

(2) Base year 2005 = 100.

Source: Department of Statistics.

Malaysia has historically maintained a low inflation rate compared to regional peer countries. Malaysia measures inflation through the CPI, published by the Department of Statistics. The CPI measures prices of final goods and services that are consumed by the average household. The 12 primary final goods and services groups 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, household equipment and routine household maintenance, health, transport, communication, recreation services and culture, education, restaurant and hotels and miscellaneous goods and services.

Headline inflation averaged 1.7% in 2010. Higher inflation during the year was driven mainly by domestic supply factors arising from higher food and commodity prices and adjustments to administered prices. Core inflation rose at a more modest pace of 1.5% in 2010. In 2010, there was a series of price adjustments as part of the Government subsidy rationalization program announced in May, including adjustments to the retail prices of fuel and sugar. Disruptions in supply due to adverse weather conditions and labor shortages also led to higher food prices. Compared to previous years, the impact of external factors on domestic prices was more moderate in 2010 and was confined to selected food items. External price pressures were also mitigated in part by the ringgit appreciation in 2010. Demand-driven inflation was relatively contained in 2010, with economic output remaining below its potential and stronger increase in productivity relative to wage growth.

Headline inflation was higher in 2011, at 3.2%. The increase in inflation was due mainly to supply factors, both external and domestic. The impact of external supply factors on inflation was more dominant in 2011. Higher prices of corn and wheat led to higher prices of poultry feed and, in turn, poultry prices in Malaysia. In addition, following the increase in global energy prices in 2011, there were several upward adjustments to prices of administered items such as RON97 petrol (which was determined under a managed float pricing mechanism) and electricity tariffs. Besides the impact from increased external prices, disruptions in domestic supply due to irregular weather patterns and labor shortages had also led to increases in food inflation during the year. Core inflation rose to 2.4% in 2011. Demand pressures were stronger, mainly driven by higher private consumption.

Headline inflation declined to 1.6% in 2012. The decline in inflation during the year was driven mainly by supply factors. Externally, lower global commodity prices and contained inflationary pressures from Malaysia's key import partners, coupled with continued ringgit appreciation, reduced the direct and indirect external cost-related pressures on consumer prices. Domestically, there were significant improvements in domestic food supplies during the year, resulting in lower food prices. The lower inflation was also due to the base effect following the significant increase in the CPI during the previous year. Despite strong domestic demand, demand driven-price pressures remained insignificant during the year following a stronger increase in productivity amid contained cost pressures. Consequently, core inflation moderated to 2.1%.

Headline inflation was higher in 2013, at 2.1%. Inflation during the year was driven mainly by domestic cost and supply factors. Higher cost of poultry feed in the early part of the year and disruptions in domestic food supply due to adverse weather conditions were the main factors that led to higher food inflation. Towards the end of the year, the upward adjustments to prices of several administered items such as RON95, cigarettes, sugar and toll charges also contributed to higher inflation. The inflationary pressures were contained by moderate external price pressures, due to lower global commodity prices. The resulting decline in producer price inflation also helped to ease cost pressures and restrained the extent of consequential effects from adjustments in administered prices to prices of other goods and services. Demand-driven price pressures remained moderate with adequate productive capacity in the Malaysian economy. As a result, core inflation moderated to 1.8% in 2013.

Headline inflation was higher in 2014, at 3.2%. Inflation during the year was driven mainly by domestic cost factors arising from upward adjustments in the prices of several price administered items in late 2013. These adjustments also led to some spillover effects on the prices of other goods and services. Reflecting the spillover effects and higher rental costs, core inflation increased to 2.4% during the year. The extent of the spillover effect was, however, contained as the price adjustments took place at a time of moderate global price pressures and demand pressures. In December 2014, the implementation of the managed float pricing mechanism for fuel led to a slight downward adjustment in petrol prices, reflecting lower global oil prices.

In December 2014, the Government introduced the managed float pricing mechanism for fuel, which allows for the pass-through of lower global oil prices to the domestic fuel prices. Compared with November 2014, domestic fuel prices in March 2015 were lower by 25 to 35 sen per liter under the now market-based pricing, contributing to a decline of 1.4 percentage points to headline inflation. In general, a 10 sen per liter decline in domestic fuel prices leads to a 0.4 to 0.5 percentage point decline in headline inflation. While there is a possibility that the inflation rate could be subject to the volatility in global oil prices, the underlying inflation rate is expected to remain relatively stable in 2015.

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 approximately 20.0% 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 ("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 *food, beverages and tobacco, inedible crude materials, mineral fuels and lubricants, animal and vegetable oils and fats, chemicals, manufactured goods, machinery and transport equipment, miscellaneous manufactured articles* and *miscellaneous transactions and commodities*.

Producer prices rose at an annual rate of 5.6% in 2010, reflecting an increase in global commodity prices. Excluding commodity-related products, producer prices increased by a more moderate rate of 1.6% in 2010. Prices paid for imported goods increased by an average of 1.4%.

Producer prices increased at an annual rate of 9.6% in 2011 (using 2010 as base year), compared to 5.6% in 2010 (using 2005 as base year). The increase in producer prices continued to be driven by higher commodity prices. Excluding commodity-related products, producer prices increased by 3.3%, while prices paid for imported goods increased by 4.0%.

Producer prices remained relatively stable in 2012, rising by 0.1%, compared to an annual increase of 9.6% in 2011. The moderation in producer price inflation was driven mainly by lower global commodity prices. In particular, the prices of commodity-related components of the PPI contracted by 1.3% during the year, compared to an increase of 21.9% in 2011.

Producer prices declined at an annual rate of 1.7% in 2013, compared to an increase by 0.1% in 2012, reflecting lower global commodity prices. In particular, the annual growth of commodity-related components of the PPI declined significantly to (5.6)% during the year. Prices paid for imported goods increased slightly by 0.5%, compared to 1.2% in 2012, mainly reflecting the contained global inflation environment.

Producer prices grew at an annual rate of 1.4% in 2014, and the annual growth of commodity-related components of the PPI increased to 1.2%. Producer prices, however, trended downwards in the second half of the year reflecting the decline in global commodity prices. Prices paid for imported goods also increased slightly by 1.1%.

Employment

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

Selected employment information

	As at December 31,				
	2010	2011	2012	2013	2014[P]
Labor force (in thousands)	12,303.9	12,675.8	13,119.6	13,634.6	13,977
Unemployment rate (%)	3.3	3.1	3.0	3.1	2.9
Employment share by sector (%)					
Agriculture, forestry and fishing	13.6	11.5	12.6	12.7	12.2
Mining and quarrying	0.5	0.6	0.6	0.7	0.6
Manufacturing	17.7	18.1	17.5	16.8	16.7
Construction	9.1	9.2	9.1	9.4	9.0
Services	59.1	60.6	60.1	60.4	61.4
Electricity, gas and water supply[(1)]	1.0	1.0	1.1	1.1	1.1
Transport and storage and information and communication	6.2	6.6	6.5	6.2	5.9
Wholesale and retail trade; accommodation and food services	23.1	23.9	24.2	24.5	25.1
Finance and insurance; real estate and business services[(2)]	8.6	9.4	9.7	9.5	10.2
Public administration and defense; compulsory social security	6.6	6.1	5.5	5.8	5.5
Community, social and other service activities	13.6	13.5	13.1	13.4	13.6
Total employed	100.0	100.0	100.0	100.0	100.0

Notes:

P Preliminary.

(1) Refers to electricity, gas, steam, air conditioning; water supply, sewerage, waste management and remediation activities.

(2) Refers to finance and insurance, real estate, professional, scientific, technical, administrative and support services.

Source: Department of Statistics.

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 at the end of the relevant year.

Foreign workers by sector

	As at December 31,									
	2010		2011		2012		2013		2014	
	Total	**%**	**Total**	**%**	**Total**	**%**	**Total**	**%**	**Total**	**%**
Domestic servant	247,069	13.6	184,092	11.7	142,936	9.1	169,936	7.6	155,591	7.5
Manufacturing	672,823	37.0	580,820	36.9	605,926	38.6	751,772	33.4	747,866	36.1
Plantation	266,196	14.6	299,217	19.0	314,329	20.0	431,611	19.1	317,410	15.3
Construction	235,010	12.9	223,688	14.2	226,554	14.4	434,200	19.3	411,819	19.9
Services	165,258	9.1	132,919	8.4	138,823	8.8	269,321	12.0	270,048	13.0
Agriculture	231,515	12.7	152,325	9.7	143,021	9.1	193,482	8.6	170,680	8.2
Total	1,817,871	100.0	1,573,061	100.0	1,571,589	100.0	2,250,322	100.0	2,073,414	100.0

Source: Ministry of Home Affairs ("MoHA").

In 2010, labor market conditions improved due to improved economic performance. The unemployment rate was 3.3%, following the stronger growth of 2.1% in employment, as compared to the growth of 1.7% in labor force. Net job creation increased by 248,890 jobs in 2010 as compared to 2009. Job creation was supported mainly by expansion in the manufacturing and services sectors. Retrenchments amounted to 7,085 persons, due mainly to the fewer layoffs in the manufacturing sector. The number of vacancies amounted to 1,787,221 vacant positions in 2010, attributable to higher numbers of job openings in the manufacturing sector with 39.0% of total positions vacant and in the services sector with 29.0% of total positions vacant.

In 2011, the unemployment rate decreased to 3.1%, compared to 3.3% in 2010, amidst stable economic conditions. Although unemployment continued to moderate, the number of retrenched workers increased, with 9,450 persons retrenched in 2011, compared to 7,085 persons in 2010. The number of job vacancies increased with 2,259,548 positions vacant compared to 1,787,221 positions in 2010, primarily attributable to stronger demand for labor in the services and manufacturing sectors. In the second half of the year, hiring in the construction sector was particularly strong, reflecting expansion in construction activity during the period. Given the firm demand for labor and low unemployment levels, the Government continued to allow the recruitment of foreign nationals. The Government initiated the Illegal Immigration Comprehensive Settlement Program ("6P Program") in July 2011 to register and legalize illegal immigrants. These efforts were part of a continuous initiative to enhance the management and monitoring of foreign workers. For semi-skilled and unskilled jobs, the number of foreign workers in the country stood at 1.6 million persons.

In 2012, domestic labor market conditions remained stable as the Malaysian economy continued to record steady growth, supported by resilient domestic demand amid slower external demand. The unemployment rate declined to 3.0% in 2012, compared to 3.1% in 2011, as demand for workers remained strong, Increased redundancies were recorded during the year, particularly in the export-oriented industries, with 11,494 persons retrenched in 2012, compared to 9,450 persons in 2011. The number of job vacancies was also lower in 2012, with 1,619,473 positions vacant, primarily in the export-oriented industries, especially in the manufacturing and distributive trade services sectors. At the end of 2012, there were 61,113 foreign professionals and highly skilled workers employed in the country. Foreign workers in semi-skilled and unskilled jobs amounted to 1.6 million persons.

The favorable labor market conditions in 2012 continued into 2013, driven by expansion across all sectors of the economy. Employment thus recorded a 3.8% growth, reflecting a net addition of 487,000 jobs. The unemployment rate remained low at 3.1%, with 11,195 persons retrenched in 2013, compared to 11,494 persons in 2012. The number of job vacancies decreased, with 1,402,690 positions vacant, primarily in the manufacturing and services sectors. The number of registered foreign workers increased markedly in 2013; this increase was partially attributable to the legalization of foreign workers through the 6P Program. At the end of 2013, there were 2.3 million foreign workers registered, mostly in the manufacturing and agriculture sectors.

In 2014, the Malaysian economy experienced stronger growth and the labor market remained stable. The unemployment rate is expected to decline to 2.9%, compared to 3.1% in 2013. Employment gains were mainly recorded in the services and manufacturing sectors, with net job gains of 351,900 jobs and 58,200 jobs, respectively. Retrenchments were also lower at 10,431 workers, compared to 11,195 workers in 2013. For 2014 as a whole, the number of job vacancies decreased, with 1,074,018 vacant positions compared to 1,402,690 in 2013, driven by fewer vacancies across all sectors. During the 2015 Budget speech, the Government announced measures to support the development of a progressive labor market in Malaysia, with a review of the Employment Act 1955 and introduction of the Employment Insurance Scheme to ensure current labor laws remain relevant and supportive of Malaysia's economic transformation. In addition, the Government also announced measures to facilitate and encourage female participation in the labor force.

From 2010 to 2014, the annual unemployment rate for Malaysia has decreased from 3.3% to 2.9% (projected). For the last five years, Malaysia has been able to maintain its unemployment rate at below 4.0 per cent, which indicates that the economy has achieved full employment under ILO standards.

The Government has implemented a number of programs and initiatives to improve the employability of individuals:

- Expanding the access for Malaysians to obtain skills training through the establishment of Public Skills Training Institutions, which aims at meeting the needs of the industries. As at the date hereof, there are 452 Public Skills Training Institutes, which focus on technical and vocational training, established under several ministries/agencies across the country;

- Providing loans through the Skills Development Fund for school leavers and workers to undergo training in public and private skills training institutions. The Skills Development Fund was established to provide financial assistance to workers in the form of loans and funding in order to upgrade skills in the local workforce;

- Enhancing the employability of trainees by providing opportunities for them to acquire two certifications (dual certification) through the Industrial Skills Enhancement Program which aims to provide graduates with specific skills that would make them more marketable in the employment market. All training fees are sponsored by the Government under the Skills Enhancement Program;

- Strengthening the National Dual Training System Program, a training initiative for producing knowledge workers in Malaysia, through various programs such as the Strategic Action Youth 1Malaysia and "Belia Berwawasan" to reduce skills mismatch and provide skills development training for school dropouts;

- Implementing the Accelerated Skills Enhancement Training Program, a fast track program designed to assist Malaysia to generate a competent workforce with specialized skills in a short duration, to equip unemployed graduates with professional qualifications to enhance their employability and income; and

- Implementing the Workforce Technical Transformation Program, a Government program that provides opportunities for school leavers especially those from poor families to pursue skills training that meets the industries' needs.

In order to facilitate access to employment, the Government through the Ministry of Human Resources ("MoHR"), has implemented several initiatives, including a free job services portal, job placement programs, job fairs and job centers.

The subject of graduate employability in recent years has become an issue of concern. In addressing this issue, the Government launched the Graduate Employability ("GE") Blueprint in 2012, which focuses on strengthening the employability of graduates.

Subsequently, the Graduate Employability Taskforce ("GET") was established in 2013 with an allocation of RM200 million in order to strengthen the implementation of the GE Program. The GET is chaired by the Ministry of Education and the EPU. Four working committees have been established under the GET led by various ministries and agencies as an integrated effort of the Government in addressing issues of graduates employability, as well as to monitor the implementation of the GE Blueprint action plan.

Employers are to advertise vacancies first through the JobsMalaysia portal to provide opportunity to Malaysian citizens to apply for the vacancies. If these vacancies are not taken by Malaysian citizens, employers are then entitled to apply for foreign workers.

Employers seeking to apply for foreign workers have to fulfill all the criteria stated by the Government. Such employers have to, among other requirements, provide accommodation with basic amenities, pay minimum wage, have no records on breach of labor and immigration laws.

Employers also have to obtain compulsory coverage of the Workmen Compensation Insurance Scheme and Foreign Workers Hospitalization Scheme (this excludes employers in the plantation sector and is also optional for domestic workers) for their foreign workers. Issuance of work permits will only be given upon such employers securing both insurance schemes.

The sectors allowed to hire foreign workers are manufacturing, services, construction, plantation, agriculture and domestic workers. All foreign workers have to undergo medical examination upon arrival.

The MoHA and MoHR, who manage security and welfare and labor protection respectively, are in charge of the management of the foreign workers schemes.

Wages

The average wages for the private sector and the primary economic sectors from 2010 to 2013 are set out in the tables below.

Mean monthly salaries and wages

	2010	2011	2012	2013
	(RM)			
Mean monthly wage	1,816	1,814	1,916	2,052

Mean monthly salaries & wages by industry, Malaysia, 2010-2013[(1)]

	2010	2011	2012	2013
Industry	**Mean**	**Mean**	**Mean**	**Mean**
	(RM)			
Agriculture, forestry and fishing	889	922	1,015	1,054
Mining and quarrying	3,450	3,410	3,423	3,663
Manufacturing	1,594	1,557	1,723	1,798
Electricity, gas, steam and air conditioning supply	3,036	2,687	2,683	3,203
Water supply; sewerage, waste management and remediation activities	1,472	1,742	1,609	1,637
Construction	1,531	1,575	1,626	1,731
Wholesale and retail trade; repair of motor vehicles and motorcycles	1,383	1,419	1,448	1,568
Transportation and storage	1,983	1,878	1,973	1,996
Accommodation and food and beverage service activities	1,058	1,073	1,163	1,277
Information and communication	3,297	3,102	3,285	3,551
Financial and insurance/takaful activities	3,008	2,948	3,149	3,156
Real estate activities	2,818	3,057	2,812	3,226
Professional, scientific and technical activities	2,648	2,633	2,822	2,982
Administrative and support service activities	1,288	1,227	1,167	1,333
Public administration and defense; compulsory social security	2,391	2,474	2,577	2,870
Education	2,901	2,898	3,137	3,420
Human health and social work activities	2,380	2,352	2,455	2,689
Arts, entertainment and recreation	1,594	1,469	1,436	1,627
Other service activities	1,330	1,316	1,384	1,556
Total	1,816	1,814	1,916	2,052

Note:

(1) Data for the year ended December 31, 2014 is not available as at the date hereof.

Source: Department of Statistics.

A Minimum Wages Order 2012 came into effect on January 1, 2013 in line with the National Wages Consultative Council Act 2011 (the "NWCC Act"). Under section 25 of the NWCC Act, the National Wages Consultative Council has to review the Minimum Wages Order 2012 at least once in every two years. The current minimum wages of RM900 per month/RM4.33 per hour in Peninsular Malaysia and RM800 per month/RM3.85 per hour in Sabah, Sarawak and Labuan are still being reviewed and will be finalized by the Government in 2015. One of the key goals of the minimum wages policy is to ensure that all employees in Malaysia earn more than the poverty line income level of RM800 as the country transforms into a high-income nation. This policy is expected to mainly benefit employees hired in the low-skilled activities.

On average, wages in the labor market grew by 4.2% per annum between 2010 and 2013. Wage growth was supported by continued capacity utilization and improvements in productivity.

Monetary Developments

The following tables illustrate the growth of monetary aggregates from January 1, 2010 through December 31, 2014 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

	2010	2011	2012	2013	2014
			(change in %)		
Currency	9.8	12.2	7.3	9.5	8.2
M1(1)	11.7	15.4	11.9	13.0	5.7
M2(2)	7.2	14.7	9.7	8.4	7.5
M3(3)	6.8	14.3	9.0	7.9	7.0
Deposits(4)	7.1	14.1	8.4	8.3	7.6
Loans(5)	12.7	13.6	10.4	10.6	9.3

Notes:

(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 demand deposits, savings deposits, fixed deposits, negotiable instruments of deposit, repos, foreign currency deposits, and other deposits of commercial banks, Islamic banks and investment banks.

(5) Comprises loans of commercial banks, finance companies and merchant banks/investment banks (including loans sold to Cagamas Berhad ("Cagamas") and excluding loans sold to Danaharta Nasional Berhad ("Danaharta").

Source: BNM.

Interbank rates

	2010	2011	2012	2013	2014
			(change in %)		
Three-month interbank rates (at end of period)	3.01	3.25	3.11	3.42	3.96
Average three-month interbank rates (for the relevant period)	2.72	3.20	3.16	3.17	3.52

Source: BNM.

In 2010 and 2011, private sector liquidity or M3 expanded at an annual rate of 6.8% and 14.3%, respectively. The increase in M3 in 2010 and 2011 reflected net capital inflows and higher credit extension by the banking system to businesses and households. Credit extension increased during this period, notwithstanding upward adjustments in retail lending rates. M1, which reflects transactional balances, also increased over the period.

In 2012 and 2013, M3 expanded at an annual growth rate of 9.0% and 7.9%, respectively. The slowdown in the growth rate between 2011 and 2012 was mainly due to smaller net foreign inflows and between 2012 and 2013 was mainly due to slower increases in bank lending to businesses and households, and net outflows on both trade and financial accounts.

In 2014, M3 expanded by 7.0%, primarily as a result of credit extended by the banking system to businesses and households, although, as intended by policy, lending to households grew at a slower pace compared to 2013. M3 also expanded at a slower pace due to net external sector outflows during the year. BNM gradually raised its SRR ratio from 1.00% to 4.00% in March, May and July 2011. Significant shifts in global liquidity resulted in significant capital flows into emerging economies, including Malaysia. The decision to raise the SRR was, therefore, undertaken as a preemptive measure to manage the risk of a build-up in liquidity, which might have spurred excessive lending and other risk-taking activities, which could result in the accumulation of financial imbalances.

Monetary Policy

The Central Bank of Malaysia Act 2009 (the "CBA") states that one of the principal objects of BNM is to promote monetary stability. In promoting monetary stability, BNM is mandated to pursue a monetary policy that serves the interests of the country, with the primary objective of maintaining price stability, while giving due regard to the developments in the economy. In essence, this means that BNM is responsible for ensuring that the inflation rate remains low and stable, while at the same time supporting 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. This objective has been the cornerstone of monetary policy analysis, formulation and implementation by BNM since even prior to the CBA, when the Central Bank of Malaysia Act 1958 (revised 1994 and 2003) was in force.

The sole instrument that BNM uses to signal the stance of monetary policy is the OPR. The principal instruments used to conduct monetary operations in the interbank market include direct borrowing, repos, the issuance of BNM debt securities and varying the statutory reserve requirement.

The following table sets out the changes made by BNM to the OPR and the SRR ratio since July 2010.

Changes to the policy rate and statutory reserve requirement ratio

	Date[1]	SRR ratio (%)	OPR(%)
		(%)	
2010[2]	July 2010	1.0	2.75
2011	July 2011	4.0	3.00
2012[3]	-	4.0	3.00
2013[3]	-	4.0	3.00
2014[2]	July 2014	4.0	3.25

Notes:

(1) Date reflects the last date of change during the year.

(2) There was no change to the SRR ratio in 2010, 2012, 2013 and 2014.

(3) There was no change to the SRR ratio or OPR in 2012 and 2013.

Source: BNM.

With the economic recovery becoming more entrenched, the focus of monetary policy during the early part of 2010 was on the need to normalize the extraordinary monetary stimulus in 2009. It was recognized that leaving the OPR at a low level for a sustained period could give rise to financial imbalances and create distorted incentives for economic agents, leading to the mispricing of risks, financial disintermediation and excessive credit growth. The OPR was, thus, gradually raised by 25 basis points in March, May and July 2010, bringing the OPR to 2.75% in 2010. With growth maintaining momentum from 2010 and with inflation expected to be higher compared to the previous year, the OPR was raised by 25 basis points to 3.00% in May 2011. The OPR remained unchanged through 2012 and 2013, as the prevailing OPR level was considered appropriate given BNM's assessment regarding the outlook for growth and inflation. In addition, the risks to domestic growth and inflation were assessed to be broadly in balance.

In July 2014, BNM raised the OPR by 25 basis points to 3.25% amid firm growth prospects and expectations of inflation remaining above its long-run average. The normalization of monetary policy was also aimed at mitigating the risk of a build-up of financial imbalances that could undermine the growth prospects of the Malaysian economy. Notwithstanding the increase in the OPR, monetary conditions continued to remain supportive of economic activity during the year.

Over the past several years, the Malaysian economy experienced sustained growth, and inflation remained low and stable. Further, continued moderation of financial imbalances has been observed. BNM continues to monitor a wide range of indicators to ensure that prolonged low interest rates do not induce a broad build-up of financial imbalances. At the current level of the OPR, the stance of monetary policy remains accommodative and supportive of economic activity. The MPC will continue to assess external and domestic developments and their implications for the risks to inflation and the Malaysian economy. The MPC will also continue to monitor the risks of destabilizing financial imbalances to ensure the sustainability of the overall growth prospects.

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 CBA. The principal objects of BNM are to promote monetary stability and financial stability conducive to the sustainable growth of the Malaysian economy. The primary functions of 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; and
- to act as financial advisor, banker and financial agent of the Government.

BNM manages the foreign reserves of Malaysia under the CBA. As at December 31, 2014, BNM's total assets were RM427.6 billion, of which gross international reserves comprised RM405.4 billion, equivalent to US$115.9 billion.

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. BNM's role 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 that 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 is assisted by the Board Governance Committee, the Board Audit Committee and the Board Risk Committee in its oversight role. 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 Constitutional monarch, 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 BNM and the securities issued by the Government and 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.

With respect to its financial stability mandate, the CBA entrusted BNM with the responsibilities to administer regulatory laws, *i.e.* the Financial Services Act 2013 ("FSA") (which replaced the Banking and Financial Institutions Act 1989, Insurance Act 1996, Payment Systems Act 2003 and Exchange Control Act 1953), the Islamic Financial Services Act 2013 ("IFSA") (which replaced the Islamic Banking Act 1983 and Takaful Act 1984), the Money Services Business Act 2011 (which replaced the Money-Changing Act 1998), the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 and the Development Financial Institutions Act 2002.

In 2009, BNM initiated a review of the legal and regulatory framework for the money-changing, remittance services and wholesale currency business industry in Malaysia, with the objective of modernizing and elevating the money-changing and remittance business into a more dynamic, competitive and professional industry, while strengthening safeguards against the threats of money laundering, terrorist financing and other illegal activities. The review led to the enactment of the Money Services Business Act 2011 ("MSBA"), which came into force on December 1, 2011. The MSBA provides for the licensing, regulation and supervision of money-changing, remittances and wholesale currency business under a single piece of legislation, collectively described as money services business.

The enactment of the FSA and IFSA marked another milestone in modernizing Malaysia's financial sector laws. The FSA and IFSA, which came into force on June 30, 2013, amalgamate several laws to govern the financial sector under a single legislative framework for the conventional and Islamic financial sectors respectively, namely, the Banking and Financial Institutions Act 1989, Islamic Banking Act 1983, Insurance Act 1996, Takaful Act 1984, Payment Systems Act 2003 and Exchange Control Act 1953, which were repealed, save for specific provisions under the Insurance Act 1996, as of the same date. The FSA and IFSA provide for a more cohesive and integrated legal framework that delivers a consistent and comprehensive treatment of similar risks, thus minimizing the prospect for regulatory arbitrage and other gaps, while substantially easing the process of review and update going forward.

Key features of the new legislation are, amongst others, greater transparency and accountability of BNM in carrying out its principal objectives to promote financial stability; differentiated intensity of regulation and supervision applied to institutions and markets under BNM's purview, commensurate with the nature of activities and levels of risk posed to the overall financial system; transparent assessment criteria for authorizing institutions to carry on regulated financial business; strengthened provisions for effective enforcement and supervisory intervention, as well as a clear focus on Shariah compliance and governance in the Islamic financial sector.

Another important development in the Malaysian financial sector is the enactment of the Netting of Financial Agreements Act 2015 ("NFA") which came into force on 30 March 2015. The NFA is aimed to secure Malaysia's status as a 'netting-friendly jurisdiction' and reinforce the contractual rights and obligations for transactions in the financial market by providing statutory assurance that close-out netting mechanism is enforceable under the law, when an event of default occurs, thus promoting further development of the Malaysian financial market. Close-out netting reduces the cost of carrying on business and effecting transactions in Malaysia, in particular, derivative transactions, since lower capital can be set aside by financial institutions to meet regulatory requirements while counterparty risks are minimized.

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 full-fledged Islamic banks and Islamic subsidiaries that exclusively carry out Islamic banking business, or through Islamic windows of the 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*". The table below presents information on commercial banks as at the end of each relevant period.

Commercial banks

	As at December 31,				
	2010	2011	2012	2013	2014
	Number of Institutions				
Domestic	20	18	18	18	18
Foreign	20	23	25	25	25
Total	40	41	43	43	43

Note:

"Commercial banks" includes Islamic banks and Islamic subsidiaries of commercial banks.

Source: BNM.

	As at December 31,									
	2010		2011		2012		2013		2014	
	Loans	Deposits	Loans	Deposits	Loans	Deposits	Loans	Deposits	Loans	Deposits
	%									
Domestic	79.3	78.2	78.8	78.8	79.1	78.6	78.9	79.0	79.4	79.1
Foreign	20.7	21.8	21.2	21.2	20.9	21.4	21.1	21.0	20.6	20.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: BNM.

As at December 31, 2014, the 43 commercial banks (including 16 Islamic banking institutions) licensed to operate in Malaysia had a total of 4,237 banking offices and total deposits of RM1,641.6 billion, compared to 4,108 banking offices and total deposits of RM1,137.9 billion as at December 31, 2010. As at December 31, 2014, total loans outstanding of the commercial banks amounted to RM1,332.3 billion, compared to RM878.4 billion as at December 31, 2010.

As at December 31, 2014, there were 11 investment banks in Malaysia, all of which are domestic institutions. Eight out of the 11 investment banks are part of the domestic financial conglomerates. Investment banks provide fee-based services, such as underwriting 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 total capital ratio of 15.9% as at December 31, 2014, with a ratio of liquid assets to short-term liabilities of 42.6 times in 2014.

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 CBA.

In 1993, the Government introduced the "Interest-Free Banking Scheme" as part of its effort to spur competition in Islamic banking sectors. This scheme allows conventional banks to offer Islamic banking products to customers, subject to specific guidelines issued by BNM. The Government established the 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 CBA, 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.

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 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 (the "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 globally. 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 for international business, by leveraging on its comprehensive system and environment conducive to Islamic finance business. MIFC focuses on five areas, namely: sukuk, Islamic fund and wealth management, international Islamic banking, international takaful and human capital development.

The International Islamic Liquidity Management Corporation ("IILM") was established on October 25, 2010. The IILM represents a unique collaboration between several central banks and a multilateral development bank and is a landmark global initiative that aims to assist institutions offering Islamic financial services in addressing their liquidity management in an efficient and effective manner. Malaysia, as the host country for the IILM, has enacted the International Islamic

Liquidity Management Corporation Act 2011, which gives certain privileges and immunities for the entity. The IILM has issued short-term high-quality Shariah compliant financial instruments at both the national level and across borders, meeting the liquidity and risk management needs of the Islamic financial institutions.

As of the date hereof, IILM has issued 14 short-term sukuks, using the wakala structure, for a total of US$8.63 billion, since its first issuance in August 2013. The IILM issuances program is supported by ten financial institutions in a multi-jurisdictional primary dealers network, which distribute and make the market for IILM Sukuk. In Malaysia, IILM sukuk have been accorded regulatory recognition as a liquid asset for purposes of complying with liquidity requirements, and a low risk credit under the capital adequacy framework applicable to banking institutions.

In 2013, IFSA was passed to provide for the regulation and supervision of Islamic financial institutions, payment systems and other relevant entities and the oversight of the Islamic money and foreign exchange markets to promote financial stability and compliance with Shariah law. The IFSA aims to create (i) greater clarity and transparency in the implementation and administration of the law; (ii) a clear focus on Shariah compliance and governance; (iii) a differentiated regulatory regime that reflects the nature of financial intermediation activities and their risks to the overall financial system; (iv) regulation of financial holding companies and non-regulated entities taking into account systemic risks; (v) strengthened business conduct and consumer protection; and (iv) strengthened provisions for effective and early enforcement and supervisory intervention.

Malaysia has the largest sukuk market globally with a market share of 57.4% (or US$172.8 billion) of the global corporate and government sukuk outstanding worth US$300.0 billion in aggregate as at December 31, 2014. Of the sukuk outstanding in Malaysia, 75.4% are corporate sukuk, which the Government believes indicates active participation by the corporate sector in the Malaysian sukuk market. The strength of the Malaysian sukuk market is also reflected through the participation of foreign issuers, issuing sukuk in both ringgit and non-ringgit sukuk. Bursa Malaysia remains the world's leading sukuk listing destination, with the total value of listings amounting to US$34.2 billion.

As for the global Islamic fund and wealth management sector, the SC reported the value of assets under management ("AuM") for Malaysia to be at RM110.6 billion as at December 31, 2014. Based on global market share, Malaysia's Islamic funds AuM ranked second with 26.0% after Saudi Arabia (at 41.0%) as at September 2014. As at the end of 2014, there are 20 licensed Islamic fund management companies in Malaysia.

As at December 31, 2014, foreign currency Islamic banking business' assets are US$7.9 billion, registering growth of 31.7% from the US$2.6 billion at the end of 2010. There are three international Islamic banks and 17 institutions under the international currency business units of Islamic banks carrying out foreign currency Islamic banking business as of the date hereof.

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 Center of Education in Islamic Finance ("INCEIF"). INCEIF is a global university of Islamic finance offering postgraduate programs in Islamic finance. To complement its mission to produce world-class talent for the global Islamic finance industry, INCEIF, as a knowledge leader in Islamic finance, offers industry-focused executive education that includes customized executive programs.

(b) Islamic Banking and Finance Institute Malaysia ("IBFIM"). IBFIM is an industry-owned Islamic finance institute dedicated to producing well-trained, highly competent personnel and executives with the required talent in the Islamic finance industry.

(c) International Shariah Research Academy for Islamic Finance ("ISRA"). ISRA is a center for Shariah and fiqh muamalat research. It also serves as a platform for discourse among scholars, academicians, regulators and practitioners.

(d) International Center for Leadership in Finance ("ICLIF"). ICLIF is an independent non-profit organization dedicated to executive education, research, coaching and advisory services in the areas of corporate governance and leadership development in Malaysia, globally across all industry and government sectors.

(e) BNM's Central Banking Services ("CBS"). CBS facilitates the sharing of knowledge with central banks of developing economies by providing structured international learning programs and seminars on Islamic finance, institution building and financial sector development.

(f) Securities Industry Development Corporation ("SIDC"). SIDC is a leading capital markets education, training and information resource provider in ASEAN. SIDC provides learning programs to local and foreign regulators, company directors and market professionals; it also conducts public investor education seminars on wise investing and investors' rights.

In Malaysia, the Islamic banking industry grew at a compounded annual growth rate of 21.1% in terms of assets from 2005 to 2014. As at December 31, 2014, total Islamic banking assets stood at RM625.2 billion, deposits at RM494.7 billion while total Islamic financing was RM427.9 billion. In terms of profitability, the Islamic banking sector recorded a pre-tax profit of RM5.1 billion in 2014, as compared to RM4.9 billion in 2013. As of December 31, 2014, there were 16 Islamic banks, four international Islamic banks and 11 financial institutions, providing Islamic financial services on a window basis and 17 financial institutions with International Currency Business Units ("ICBU"). 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, 2014, there are 11 takaful operators, four retakaful operators offering insurance products that conform to Shariah, and the total amount of takaful assets as at December 31, 2014 was RM27.0 billion.

Financial Sector Masterplan

BNM announced the inaugural FSMP on March 1, 2001. FSMP 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. FSMP comprises three phases: the first phase focuses on measures to enhance the capacity and capability of domestic financial institutions; the second phase focuses on managing deregulation of the domestic market, whereby existing foreign financial institutions could operate in a more liberalized environment; and the final phase focuses on introducing new competition in the marketplace, including the issuance of new licences. FSMP, 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 DFIs and 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*".

As FSMP moved into its final phase, the liberalization package was announced 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 by supporting the needs of the economy and by 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 licences, five new commercial banking licences and four new family takaful licences were issued in 2010 under the April 2009 liberalization announcement.

Financial Sector Blueprint

The Financial Sector Blueprint ("Blueprint") was launched in 2011 and provides a 10-year strategic plan that charts the future direction of the Malaysian financial system as Malaysia transitions towards becoming a high value-added, high-income economy by 2020. In line with BNM's mandate under the CBA to promote a sound, progressive and inclusive financial sector, the Blueprint provides a vision for the financial sector that best serves Malaysia's objective on moving forward into fulfilling three key roles as an enabler, driver and catalyst of the Malaysian economy. The Blueprint is thus tailored to focus on nine key components supported by 69 recommendations and more than 200 initiatives. Focus areas under the Blueprint include: (i) effective intermediation for a high Value-Added, high-income economy; (ii) development of deep and dynamic financial markets; (iii) greater shared prosperity through financial inclusion; (iv) strengthening of regional and international financial integration; (v) internationalization of Islamic finance; (vi) safeguarding the stability of the financial system; (vii) achieving greater economic efficiency through electronic payments; (viii) empowered consumers; and (ix) talent development for the financial sector.

The financial sector continued to make progress on several fronts towards achieving the vision and strategies outlined in the Blueprint. Among the notable achievements are the implementation of initiatives to improve the efficiency and sustainability of the motor insurance sector, which paved the way for the progressive abolishing of tariffs to proceed in 2016. The process of financial integration in the region also advanced with the conclusion of the Sixth Package of Financial Sector Commitments under the ASEAN Framework Agreement on Services and the ASEAN Banking Integration Framework. The international complexion of the financial system was enhanced with several landmarks, such as foreign currency sukuk and debt issuances, along with initiatives to facilitate wider use of regional currencies and securing Malaysia's status as a 'netting-friendly jurisdiction'.

The enforcement of the FSA and the IFSA on June 30, 2013 strengthens the oversight powers of BNM in promoting financial stability, supports inclusive growth and ensures adequate consumer protection. The FSA and IFSA provide BNM with adequate regulatory and supervisory powers that are more risk-focused and pre-emptive to reflect the complexity, size and nature of the different institutions.

BNM continues to advocate for inclusive financial development on a domestic, regional and international level. There is improved outreach of financial services nationwide, with 99% of adult population in Malaysia having access to banking services, either through a bank branch, an agent or both. The development of the Pembiayaan Mikro framework has enabled access to credit for micro-enterprises. In respect of talent development, several high-level arrangements were established to raise the supply and quality of financial professionals in ensuring that the financial sector remains well-resourced to achieve its mandates.

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 standards, risk management, governance and control standards, prudential limits and reporting and disclosure requirements. Banking institutions and their subsidiaries licensed under the FSA and the IFSA are subject to the supervisory oversight of BNM, which focuses on promoting sound risk management and effective board oversight functions to ensure that risk-taking activities are prudent, sustainable and subject to effective controls.

Banks are subject to capital adequacy requirements in line with standards specified by the Basel Committee on Banking Supervision and the Islamic Financial Services Board. BNM implemented the capital component of Basel III, beginning on January 1, 2013, in line with the global implementation timeline. As at December 31, 2014, Malaysian banking institutions are operating well above the 4.0% Common Equity Tier 1 ("CET1") regulatory minimum applicable in 2014, and the 4.5% minimum applicable in 2015, with the overall banking industry CET1 Capital Ratio at 13.3%.

Banking institutions will also have to comply with the Liquidity Coverage Ratio ("LCR") under Basel III, starting on June 1, 2015, according to the global phase-in implementation timeline. Based on earlier observation data, banking institutions are expected to be able to meet the first interim minimum LCR level of 60%. As of the date hereof, 30 out of 54 banking institutions are already reporting LCR levels above 100%. The LCR will replace the existing Liquidity Framework ("LF"), which has been in place since 1998. The LCR is conceptually similar to the LF, but with improvements in the cash flow assumptions, reflecting the possibility of a more severe liquidity shock scenario, such as that experienced during the past global financial crisis. Under the current LF, banking institutions are required to hold liquidity buffers, consisting primarily of high quality marketable securities, which are adequate to cushion the impact of a 30-day liquidity stress based on evaluations of cash flows associated with all assets, liabilities and off-balance sheet commitments.

Other measures are in place to strengthen the resilience of banking institutions, enhance corporate governance practices and promote market discipline, including:

- Standards on risk management which describe BNM's supervisory expectations regarding the management of risks undertaken by banks (e.g. credit risk, stress testing and new products);

- Prudential standards (including limits) on lending by banks to their related parties (including directors, officers and their interested companies), credit exposures to a single counterparty and investment in shares;

- Minimum standards for corporate governance in the areas of board responsibility and oversight, management accountability, risk management and internal controls, as well as disclosures;

- Fit and proper requirements at entry and on an ongoing basis for board members, senior management and officers primarily responsible for control functions;

- 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 Malaysian Financial Reporting Standard 139 Financial Instruments: Recognition and Measurement ("MFRS 139") and MFRS 7 Financial Instruments: Disclosures (Malaysia's equivalent of IAS 39 and IFRS 7, respectively), and include disclosure requirements 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 banks include:

- The Shariah Governance Framework, which sets out the expectations for the Islamic banks in respect of the governance structure and processes, including roles and responsibilities of the key functions, e.g. the Board of Directors, Shariah Committee and management;

- The policy on investment accounts, which outlines the regulatory requirements, including risk management, to ensure fiduciary duties are discharged in accordance with investment mandates, market conduct regulations for the protection of investors, and disclosure requirements to help investors assess the characteristics and performance of their investments;

- The policy on the rate of return framework which protects the interests of investment account holders under contractual relationships with Islamic banks by outlining the expectation for separate management of funds and a standard methodology for calculating the rate of return to an individual account holder, consistent with the agreed terms of each investment account; and

- The policy on Murabahah and guidelines on Musharakah and Mudharabah contracts, which outline the Shariah and operational requirements of the respective Shariah contract to ensure end-to-end compliance with Shariah.

Guidelines on late payment charges and guidelines on Ibra' or rebates for sale-based financing, which outline market conduct requirements with the objective of promoting transparency and consumer protection. The FSA and IFSA also provide BNM with powers to examine banking institutions and their related corporations and have access to all information necessary to assess the institutions' safety and soundness. Information is provided by banking institutions to BNM on an on-going basis and BNM supervisors conduct base assessment on the institutions using the information. On-site visits are also conducted by BNM supervisors to validate the accuracy of the information provided as well as bridge any information gap, and to assess the effectiveness of the risk management control functions, ranging from policies, underwriting standards and practices.

BNM embraces a supervisory philosophy that emphasizes early detection of potential vulnerabilities and taking pre-emptive actions to address risks. This approach requires BNM supervisors to develop a thorough understanding of individual banking institutions and the banking system as a whole, to promote the safety and soundness of both. BNM supervisors closely monitor trends and developments in the economy, and external developments that may impact either the economy or individual banking institutions. They also maintain close contact with boards of directors, senior management and external auditors of the institutions and other supervisory agencies, both domestic and host authorities, to remain abreast of developments that may affect the safety and soundness of individual banking institutions and the banking system as whole. The assessment of banking institutions is also conducted on a group-wide basis, which includes assessments of all material activities/entities within a banking group (subsidiaries and branches), both domestic and cross-border. BNM supervisors also identify and assess vulnerabilities to banking groups from exposures to distressed non-regulated entities within the group.

Loan Loss Provision Policy

The loan loss provisioning practices of Malaysian banking institutions are subject to MFRS139 which is based on International Accounting Standard 39 issued by the International Accounting Standard Board. In addition, BNM's additional requirements for loan loss provisioning are reflected in the guideline on Classification and Impairment Provisions for Loans/Financing. This guideline sets out the minimum requirements for classification of impaired loans/financing, provisioning for impaired loans/financing and expectations that must be met by banking institutions with the adoption of the international accounting standards, MFRS 139.

In line with the requirements in the financial reporting standards, banking institutions must make provisions when there is objective evidence of impairment. In addition, the banking institutions must also classify a loan as impaired when (i) the principal, interest or both is past due for more than 90 days, (ii) for revolving facilities, the outstanding amount has remained in excess of the approved limit for a period of more than 90 days or three months and (iii) for credits which are scheduled on intervals of three months or longer, as soon as default (*i.e.* non repayment) occurs.

Banking institutions are also required to maintain, in aggregate, collective impairment allowances and regulatory reserves of no less than 1.2% of total outstanding loans and financing (excluding loans or financing with an explicit guarantee from the Government).

Non-Bank Financial Institutions

Other than banking institutions, the Malaysian financial system also includes provident, pension and insurance funds, DFIs, savings institutions and other financial intermediaries. The largest provident and pension fund in Malaysia is the EPF, which was established in 1951. The EPF is funded through mandatory employer and employee contributions and primarily provides retirement benefits to employees contributing to it. As at December 31, 2014, the EPF's assets amounted to RM636.5 billion, or approximately 85.0% of RM753.5 billion of total assets of provident and pension funds in Malaysia.

Under the Employees Provident Fund Act 1991, the EPF 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 EPF exemptions from such 50.0% and 70.0% requirements to take into account the limited amount of Government securities in the market. As at December 31, 2010, 25.8% of the EPF's assets were in the form of Malaysian Government Securities. The EPF also invests in quasi-Government and non-Government securities, including domestic bond offerings by NFPEs.

Among the other financial intermediaries, Cagamas, 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 acts as an intermediary between the primary lenders of housing loans and investors of long-term funds through issuance of highly rated unsecured senior debts and mortgage-backed securities, using both conventional and Islamic principles. Cagamas commenced its operations in October 1987 by issuing fixed-rate mortgage-backed bonds, and subsequently introduced floating-rate bonds in 1992. Cagamas is the leading issuer of AAA debt securities in Malaysia as well as one of the top sukuk issuers in the world. As at December 31, 2014, the Cagamas group has aggregate outstanding issuances of RM31.2 billion unsecured senior debts and mortgage backed securities and remains the largest issuer of corporate debt securities in Malaysia, accounting for 8% of all outstanding debt securities and 22% of all outstanding AAA debt securities in the country. Approximately 50% or RM16 billion of Cagamas' outstanding debt securities are sukuk. This represents a domestic market share of 9% of all outstanding sukuk and 23% of all AAA sukuks, respectively. In 2014, through its wholly-owned subsidiary Cagamas Global P.L.C., the Cagamas group concluded the equivalent of RM3 billion foreign currency benchmark size issuances in offshore Chinese renminbi, Hong Kong dollar, as well as U.S. dollar.

The DFIs in Malaysia are specialized financial institutions established by the Government with a 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 the agricultural, SMEs, infrastructure, maritime and export-oriented sectors, 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 and building capacity and capability, as well as enhancing the 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 (the "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. In the interest of keeping abreast of the changes in other regulatory law governing financial institutions, the DFIA is currently being reviewed and is expected to be tabled at Parliament in 2015.

As of December 31, 2014, six institutions have been designated as prescribed institutions under subsection 2(1) of the DFIA: Small Medium Enterprise Development Bank Malaysia Berhad, 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 the manufacturing sector and other selected sectors in line with the national development policy; Bank Kerjasama Rakyat Malaysia Berhad, a cooperative bank that provides financial services to members and non-members; the Export-Import Bank of Malaysia Berhad or EXIM Bank, which provides credit facilities to finance and support the exports and imports of goods and overseas projects with a concentration in non-traditional markets, 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 or Agrobank, which accepts savings deposits and provides financing and advisory services to support the development of the agricultural sector and communities.

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, BNM 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, BNM 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 at December 31,				
	2010	2011	2012	2013	2014
	(RM billion)				
BNM	398.8	472.8	475.9	474.0	427.8
Banking system	1,513.5	1,744.4	1,882.3	2,058.3	2,251.9
Non-bank financial intermediaries	1,410.9	1,616.8	1,808.9	2,006.9	2,159.2[P]
Provident, pension and insurance funds	724.3	782.5	870.6	940.9	1,013.2
Provident and pension funds	541.5	584.5	653.0	707.2	763.6
Insurance funds	182.7	197.8	217.4	233.6	249.5
DFIs	184.5	204.8	220.4	242.9	263.4
Other financial intermediaries	499.9	626.9	714.8	819.4	877.7
Total assets of the financial system	3,323.2	3,834.0	4,167.1	4,539.2	4,838.9

Source: BNM.

From 2010 to 2014, total assets of the financial system grew at a compound annual growth rate of 9.8% to RM4,838.9 billion as of December 31, 2014. During the same period, assets of banking institutions expanded by an average annual rate of 10.5%. Banking institutions remained the largest component of the financial system, accounting for 46.5% of total assets of the system as of December 31, 2014. Assets of non-bank financial intermediaries grew at an average annual rate of 11.3% from 2010 to 2014, accounting for 44.6% of financial system assets as of December 31, 2014 compared to 44.2% as of December 31, 2013.

Financial Stability

Financial stability has continued to be preserved throughout the last five years. This has been the result of a decade of capacity building and reforms that were undertaken following the Asian financial crisis. Specifically, reforms were focused on strengthening risk management capability, internal controls and governance oversight at the institutional level, improving financial infrastructure, establishing a more robust regulatory framework and adopting a more risk-based and forward looking supervisory framework. Focus was also accorded towards strengthening the capacity and capability of the BNM's regulatory and supervisory resources. Financial intermediation remained uninterrupted, efficient and broad-based, supported by orderly functioning of the financial markets. Strong fundamentals of the Malaysian banks and an ample liquidity environment provided the necessary conditions for the orderly exit of the temporary blanket guarantee on deposits by the Government on December 31, 2014.

Malaysian households and businesses, on aggregate, have continued to maintain sound financial capacity, manageable leverage positions and have demonstrated flexibility to weather the challenges brought about by rising prices and higher borrowing costs in 2010. Household debts, while continuing to rise, are at manageable level and are supported by sound household financials. This has been underpinned by continued income growth, further accumulation of financial assets, favorable employment conditions and a sustained high level of savings. As a pre-emptive response to ensure that developments in the household sector continue to remain within manageable boundaries and do not become a source of financial instability in the future, a broad range of measures have been introduced progressively to ensure effective management of debts and financials by households and sound management of exposures by the banks. The measures include implementation of loan-to-value ("LTV") ratio of 70.0% for the third and subsequent house financing facilities, higher capital charge for housing loans with exceptionally high LTV and longer duration personal financing facilities, prohibition of end and bridging financing facilities to property developments with interest bearing schemes, new credit cards measures, strengthened requirements for banks to adopt responsible lending practices and the introduction of a targeted financial education program (Pengurusan Wang Ringgit Anda).

Financial stability implications from the increased and more volatile portfolio investment flows remained contained. Orderly conditions in the financial markets have been maintained. The increase in volume and movements of such portfolio flows have been efficiently intermediated through a diverse range of asset classes. No material changes in risk-taking behavior of Malaysian financial institutions, businesses and households has thus far been observed. Meanwhile, the contagion risk arising from external developments, largely stemming from fiscal and banking developments in Europe and geo-political tensions in the Middle East, has been well contained with negligible impact on the financial sector given the low and mostly indirect exposures of financial institutions to counterparties in these regions.

Capital Position

Capitalization of the banking sector continued to remain sound with strong financial buffers against potential losses. As at December 31, 2014, the banking system's CET1, Tier 1 capital, and total capital ratio, were 13.3%, 14.0% and 15.9%, respectively, compared to 12.6%, 13.5% and 14.9%, respectively, as at December 31, 2013. This is reinforced by the high quality of capital as more than 80.0% of total capital continues to be in the form of high quality loss-absorbing capital comprising common equity and reserves.

Funding and Liquidity Positions

Ringgit liquidity in the financial system continued to be sufficient. As at December 31, 2014, the Malaysian banking system maintained a liquidity buffer of 15.8% of deposits for liquidity needs maturing in less than one month, well above the minimum requirements under BNM Liquidity Framework that has been in place since 1998. Two factors contributed to the continued strong liquidity position exhibited by the Malaysian banks: (i) liquidity risk management by banks, supported by supervision and liquidity compliance requirements based on projected cash flows under normal business conditions and stressed scenarios; and (ii) funding structures that were predominantly deposit-based. Given the low exposures of Malaysian banks to foreign currency-denominated assets and liabilities, which accounted for less than 15% of total balance sheet exposures (including off-balance sheet exposures in nominal terms), foreign currency funding liquidity risk and the potential direct impact of significant exchange rate fluctuations on balance sheet and profitability remained minimal.

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.

Stress tests are conducted by BNM for assessing the capacity of financial institutions, both at the level of the financial system as a whole and institutional levels, to withstand severe macroeconomic and financial strains. The latest multi-year solvency-based stress test exercise models a series of tail-risk events based on three hypothetical domestic GDP growth paths (one baseline and two adverse scenarios) and the corresponding macroeconomic and financial conditions over a four-year horizon from 2015 to 2018. The effects of the hypothetical scenarios, incorporating simultaneous shocks on revenue, funding, credit and market risks, were applied on financial institutions' income and operating expenses, balance sheet growth and capitalization levels, disregarding any potential loss mitigation responses by financial institutions or policy interventions by the authorities. At the end of the stress horizon, the post-shock aggregate total and CET1 capital ratios of the banking system were more than 11.0% and 8.0%, respectively, under the first adverse scenario, and more than 10.0% and 7.0%, respectively, under the second adverse scenario. At the institutional level, more than 80.0% of the banks remained above the minimum Basel III total, Tier 1 and CET1 capital ratio requirements. Pre-provision net revenue contracted by 18.3% and 22.4%, relative to the baseline scenario in the first adverse scenario and the second adverse scenario, respectively. Losses were driven primarily by credit risk shocks that constituted more than 97.0% of overall losses in both scenarios. Of these losses, defaults of selected large corporate borrowers constituted between 10.0% and 20.0% of total credit losses.

These results indicate that even under severe macroeconomic and financial strains, banks on the whole continue to be well-positioned to absorb the impact of losses from available capital buffers, without taking into account any planned capital raising activities throughout the period.

Banking System Lending

The following table sets out the banking system loans by sector at the end of the relevant year.

Banking system loans by sector

	As at December 31,				
	2010	2011	2012	2013	2014
	(% of total loans)				
Households	55.4	55.1	55.9	56.5	56.9
Manufacturing (including agro-based)	9.4	9.1	8.6	7.9	7.5
Wholesale & retail trade, restaurants and hotels	7.4	7.3	7.4	7.5	7.4
Finance, insurance and business	7.1	7.2	6.7	7.2	7.0
Real estate	4.4	5.1	5.6	5.7	6.4
Construction	4.3	4.0	4.0	4.1	4.3
Education	3.7	3.8	3.9	3.4	2.8
Transport, storage & communication	2.9	3.0	2.5	2.3	2.5
Primary agriculture	2.3	2.2	2.6	2.6	2.4
Electricity, gas & water supply	1.3	1.0	1.0	0.8	1.0
Mining & quarrying	0.4	0.5	0.6	0.6	0.7
Others	1.4	1.7	1.3	1.4	1.3
	100.0	100.0	100.0	100.0	100.0

Source: BNM.

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 56.9% of total loans as at December 31, 2014. The low-value and high-volume nature of household loans ensure a more efficient distribution of credit risk exposures across this sector. Moreover, household financial assets stood at more than two times total household debts with more than 42.0% of the financial assets in the form of highly liquid assets, thus providing households with adequate flexibility to adjust to changes in economic conditions. At the same time, total lending to SMEs expanded to account for 16.9% of total loans. The change in loan portfolio composition of the banks is the result of Malaysia's continued efforts to build a more inclusive banking system with a diversified risk portfolio.

As at December 31, 2014, external assets and liabilities of the Malaysian banking system increased by 19.3% and 21.8%, respectively, with external assets accounting for 10.2% of total assets of the banking system.

As at the date hereof, domestic banking groups ("DBGs") have a presence in 15 countries. Heightened volatility in regional financial markets in 2014 contributed to lower net income from overseas trading and investment portfolios for some DBGs, which resulted in lower, but still healthy, return on equity. Overseas operations contributed between 7.5% and 31% of the profits of individual DBGs in 2014.

Asset Quality

Banking system net impairment ratio[1]

	As at December 31,				
	2010	2011	2012	2013	2014
			(%)		
Commercial banks[2]	2.3	1.8	1.3	1.3	1.1
Investment banks	8.2	2.6	4.7	1.7	3.1
Banking system	2.3	1.8	1.4	1.3	1.2

Notes:

(1) Starting from the financial year 2010, loans are reported based on FRS 139, based on the financial year of the banks.

(2) Includes Islamic banks.

Source: BNM.

Following the Asian financial crisis, Malaysian banks have placed an emphasis on enhancing risk management infrastructure capacity and practices, as well as risk assessment processes. Investment in improving risk management processes has enabled Malaysian banks to better manage unanticipated shocks to their operations.

During the last five years, the asset quality of the banking system has improved as demonstrated by a decline in the level of impairments, which has been driven largely by lower rate of delinquency, sustained recoveries and prudent loan write-offs.

Malaysian banks have also strengthened their capacity and infrastructure to monitor, manage, resolve and recover delinquent and impaired loan accounts. In recent years, banks have introduced specialized debt collection, resolution and recovery units to centrally manage risky credit profiles more efficiently and effectively. Efforts taken by the banks complement the institutional arrangements and mechanisms that have been put in place to facilitate debt management and work out solutions such as the Credit Counselling and Debt Management Agency for individual borrowers, the Small Debt Resolution Scheme for SMEs and the Corporate Debt Restructuring Committee for large businesses.

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				
	2010	2011	2012	2013	2014[P]
Pre-tax profit (RM billion)	23.0	26.2	29.2	29.8	32.0
Return on Assets (%)	1.5	1.6	1.6	1.5	1.5
Return on Equity (%)	16.6	17.4	17.4	15.9	15.2

Note:

P Preliminary.

Source: BNM.

The pre-tax profit of the banking system increased by 13.9% to RM26.2 billion for the year ended December 31, 2011, as compared to RM23.0 billion for the year ended December 31, 2010. The growth was mainly due to a decline in impairment charges (net of recoveries) by 35.1% reflecting improvements in banks' asset quality. Higher net interest/financing, fee-based, net trading and net investment income also contributed to the increase in pre-tax profits, as they grew by 1.2%, 4.5%, 30.1% and 44.3%, respectively, in 2011 compared with 2010.

The pre-tax profit of the banking system increased by 11.5% to RM29.2 billion for the year ended December 31, 2012, as compared to RM26.2 billion for the year ended December 31, 2011. The growth was mainly driven by a 13.7% increase in interest/financing income due to the expansion of the banks' financing portfolio in 2012. In addition, expenses on loan loss provisions reduced significantly, in tandem with lower new delinquencies and improved bad debt recoveries. Fee-based activities also increased by 1.9% in 2012, which further contributed to the overall pre-tax profit growth.

The pre-tax profit of the banking system increased by 1.8% to RM29.8 billion for the year ended December 31, 2013, as compared to RM29.2 billion for the year ended December 31, 2012. The growth was mainly due to financing and funding activities which grew by 5.3% in 2013. Revenue from fee-based business grew by 5.7% in 2013, reflecting the banks' greater focus on fee generation to counteract compressed lending margins. Despite greater volatility from trading and investment portfolios, reflecting more volatile market conditions in 2013, higher net gains were recorded for the year. Operating costs moderately increased by 1.8% in 2013 (the lowest increase in operating costs in the last five years), reflecting the banks' initiatives to improve operational efficiency.

For the year ended December 31, 2014, the pre-tax profit of the banking system increased by 7.4% to RM32.0 billion, as compared to RM29.8 billion for the year ended December 31, 2013. This increase was driven primarily by higher revenue from financing-based and fee-based activities, which grew by 5.3% and 5.7%, respectively, over the same period. The increase in profitability was also partly attributed to continued improvements in loan quality, as reflected by a 34.0% decrease in impairment charges over the same period. Return on Assets and Return on Equity were at 1.5% and 15.2%, respectively, for the year ended December 31, 2014.

Deposit Insurance and Policyholder Protection Schemes

On December 31, 2010, the Malaysia Deposit Insurance Corporation Act 2011 ("MDIC") came into force, with extended and increased coverage of the deposit insurance system. The legislation widened the deposit protection coverage to foreign currency-denominated deposits and increased the coverage limit to RM250,000 per depositor per member institution. The RM250,000 limit provides for 99% of the existing depositors to be protected in full and separate coverage for conventional and Islamic deposits. The new MDIC Act also expands the financial safety net role of MDIC to include protection of insurance and takaful policyholders through the implementation of the Takaful and Insurance Benefits Protection System ("TIPS"). The TIPS replaces the Insurance Guarantee Scheme Fund for the insurance industry, which has been in place since the 1970s to meet the claims of policyholders of failed insurance company using funds pooled from the insurance industry. TIPS provides coverage for ringgit-denominated policies issued in Malaysia, with varying maximum coverage limits for different types of protected benefits. The maximum coverage limits ranged from up to RM10,000 per month for disability or annuity income benefits, to an amount up to RM500,000 on death, permanent disability and critical illness, or property damage claims.

Labuan International Business and Financial Center (the "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 preferential 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 business and financial center.

According to the Labuan FSA, as at the end of December 2014, there were 57 Labuan banks with total deposits of US$9.1 billion (representing a decrease of 15% from US$10.7 billion in 2013) and total loans outstanding of US$32 billion (representing an increase of 15.5% from US$27.7 billion in 2013). 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$1.4 billion in total gross premiums written in 2014. Gross premiums have surpassed the US$1 billion mark for the last five years. The total number of Labuan insurance and insurance-related companies is 209 as at the end of 2014. Leasing remains the best performing sector with an average growth of 19.7% since 2010, with the amount of assets leased increasing by 19.4% to US$45.5 billion in 2014. As at the end of 2014, there were 359 leasing companies operating in the Labuan IBFC. In the area of Islamic Finance, the total Islamic assets decrease by 5.1% to US$2.2 billion, while gross contributions for retakaful industries decrease by 72.2% to US$38 million. The Islamic private fund management recorded US$2.8 billion in assets under management.

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, which continues to be a necessity for both international best practices and competitiveness. The new laws provide an enabling environment for greater product innovation through allowing for 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, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001

The Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (the "AMLA") is the primary statute governing the anti-money laundering and counter financing of terrorism ("AML/CFT") regime in Malaysia. The AMLA was enacted in 2001 and provides 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, the AMLA was amended in 2003 and came into force on March 6, 2007. The amendments expanded the scope of the AMLA 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 offense" were incorporated under the said amendments by reference to the relevant definitions under the Malaysian Penal Code. As part of the Government's continuous effort to strengthen the regulatory framework to combat financial crimes, the AMLA was amended in 2014 to strengthen regulatory requirements, further clarify obligations of reporting institutions and expand the powers of law enforcement agencies.

These amendments include the introduction of a new Part IVA on cross border movements of cash and bearer negotiable instruments, which, amongst others, imposed a declaration requirement for a person entering into or leaving Malaysia with cash and/or negotiable bearer instruments exceeding an amount equivalent to US$10,000, a person who moves into or out of Malaysia through the postal or any other means, cash and/or negotiable bearer instruments exceeding an amount equivalent to US$10,000 and a person who receives cash and/or negotiable bearer instruments exceeding an amount equivalent to US$10,000 from outside Malaysia.

In addition, the penalties upon conviction of an offence were substantially increased under the amendments. A money laundering offence now carries a penalty of up to 15 years of imprisonment and a fine of not less than five times the value of the proceeds of the crime or RM5.0 million, whichever is higher. The amended AMLA came into force on September 1, 2014.

The AMLA is enforced by various ministries and agencies based on the predicate offences under their respective purview as set out under the Second Schedule of the AMLA. Over the years, the scope of these predicate offences has been enhanced to address emerging threats facing the country and to be in line with the international standards on combating money laundering and financing of terrorism and proliferation. As at November 2014, there were 362 offences from 44 pieces of legislations and regulations listed under the Second Schedule of the AMLA.

The Minister of Finance appointed BNM as the competent authority under the AMLA on January 15, 2002, and the Financial Intelligence Unit ("FIU") was established within BNM to receive, analyze and disseminate financial intelligence to the law enforcement authorities to conduct money laundering and terrorism financing investigation. The financial intelligence received may come from various sources including the suspicious transaction reports ("STRs") and cash threshold reports ("CTRs") received from the reporting institutions and other intelligence from the law enforcement authorities and foreign FIUs. The AMLA requires reporting institutions to promptly submit STR to BNM on any transaction where the identity of the person involved, the transaction itself or any circumstances concerning the transaction give 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 AMLA also provides for a waiver of secrecy obligations in relation to any STRs and CTRs made by the reporting institutions. BNM will disseminate financial intelligence on suspected offenses to the appropriate domestic enforcement agency to facilitate further investigation and the eventual prosecution of the offender under the AMLA 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 37 countries for the exchange of financial intelligence. BNM is also able to share financial intelligence with all members of the Egmont Group.

To date, the reporting institutions under the AMLA 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 ("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. In 2010, licensed casinos were also required to report any cash transactions exceeding RM50,000. The AMLA regulatory net will be extended incrementally to other classes of DNFBPs. As at March 2015, there were approximately 26,569 reporting institutions under the AMLA.

BNM issued the Standard Guidelines on AML/CFT to the reporting institutions in November 2006 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. The Standard Guidelines were revised in 2013 to support the more effective implementation of

AML/CFT measures by both regulators and reporting institutions. The Standard Guidelines, now known as AML/CFT Policies, included changes that would promote a more consistent application of AML/CFT requirements throughout the financial sector including the securities industry and financial institutions in the Labuan International Business and Financial Centre, while incorporating the higher expectations brought about by recent changes in international AML/CFT standards.

The revised regulatory requirements reflect a stronger emphasis on the implementation of a risk-based approach to the management and control of AML/CFT risks. This approach seeks to ensure that AML/CFT measures implemented by reporting institutions are proportionate to risk, while responding to concerns that the indiscriminate implementation of AML/CFT measures can result in the exclusion of legitimate consumers and businesses from the formal financial system. BNM has issued five AML/CFT Policies to date, addressing sectors such as banking and deposit-taking institutions, insurance and takaful, money services business, electronic money and non-bank affiliated charge and credit card, DNFBPs and other non-financial sectors.

The national framework for combating financial crimes in Malaysia is supported by the National Coordination Committee to Counter Money Laundering ("NCC") that was established in April 2000. The NCC is chaired by BNM and serves to coordinate inter-agency initiatives and facilitate the exchange of information among 16 ministries and Government agencies involved in combating financial crimes and ensure that the national efforts are aligned with regional initiatives and internationally accepted standards. The institutional structure of the NCC was enhanced in 2012 to allow for greater focus and better oversight by the Committee of strategic priorities to combat financial crime. This led to the formation of a working level committee to provide more effective operational support for the implementation of AML/CFT measures by agencies and ministries under the NCC.

The AMLA also empowers the MoHA to make orders for the implementation of measures to give effect to resolutions adopted by the United Nations Security Council ("UNSC"). For example, in 2011, the MoHA passed the Anti-Money Laundering and Anti-Terrorism Financing (Security Council Regulations) (Al-Qaida and Taliban) Order 2011 to give effect to the sanctions imposed by the UNSC on Al-Qaida, Osama bin Laden and the Taliban.

Malaysian Anti-Corruption Commission Act 2009

Malaysia is a signatory to the United Nations Convention against Corruption and its legislation in respect of bribery laws has been reviewed by the United Nations Office on Drugs and Crime. The principal legislation prohibiting corruption in Malaysia is the Malaysian Anti-Corruption Commission Act 2009 ("ACCA"), which came into effect on January 1, 2009. The ACCA covers bribery of foreign public officials, with such provisions being consistent with the provisions of the U.K. Bribery Act 2010 and the U.S. Foreign Corrupt Practices Act 1977. The ACCA sets out several offenses, including, the offense of corruptly giving and/or receiving graft, the offense of corruptly procuring the withdrawal of a tender, and the offense of bribing an officer of a public body. Under the ACCA, a Malaysian citizen or permanent resident, who commits an offence outside of Malaysia may be subject to prosecution under the Act.

In 2013, to further address issues of corruption, the Government announced efforts to amend the ACCA with regards to corporate liability in line with Section 7 of the UK Bribery Act 2010, to provide for an offense for a commercial organization to fail to prevent bribery. This will ensure that commercial organizations have adequate procedures and checks designed to prevent bribery in their organizations. The amendment is expected to be enacted in the spring of 2015.

The Malaysian anti-corruption agency is the Malaysian Anti-Corruption Commission ("ACC"), established under the ACCA as an independent, transparent and professional body to manage Malaysia's anti-corruption efforts. The ACC is Malaysia's sole anti-corruption body and its jurisdiction includes the investigation and prevention of all forms of corruption and abuse of power in accordance with the ACCA. In order to ensure the ACC remains independent, transparent and professional, the ACCA provided for the formation of a five panel independent body to monitor the ACC. This independent panel body is comprise the Anti-Corruption Advisory Board, the Special Committee on Corruption, the Complaints Committee, the Operations Review Panel and the Consultation and Corruption Prevention Panel, and it advises the ACC, as well as acts to ensure that it functions efficiently, effectively and independently, with transparency and professionalism. Members of the independent panel body represent the public and comprise senior ex-government officials, politicians (both from the Government and opposition), professionals from the business and corporate sector, academicians, lawyers and other well-respected individuals.

Consumer Protection and Education Framework

BNM has undertaken considerable efforts to put in place a coherent financial consumer protection framework and measures to ensure that the continued growth of the financial sector is supported by fair and responsible market practices and conduct, and that consumers are equipped with the set of skills and knowledge necessary to make informed financial decisions. The FSA and the IFSA accord BNM with a clear mandate to foster fair, responsible and professional conduct of financial service providers ("FSPs") that are regulated by BNM. The regulatory and supervisory framework in the area of consumer protection and market conduct seeks to ensure that meaningful product disclosure, responsible lending practices, equitable fees and charges, provision of proper advice and effective dispute resolution mechanisms are in place. BNM discharges its mandate through rigorous monitoring of the behaviors of FSPs against this framework and also undertakes enforcement actions.

Recognizing the important role that empowered financial consumers can play in exerting market discipline on FSPs, thus contributing towards the development of an efficient and competitive financial sector, financial education initiatives in Malaysia are geared towards promoting financial literacy. Financial education programs are accordingly designed and delivered to equip individuals with knowledge on financial management relevant to their stage in life. Particular focus is directed at developing good financial management skills among young individuals. Efforts have already been made to promote financial capability skills from an early age by integrating important aspects of financial education in key subjects in the school curriculum. The longer-term vision is to fully integrate financial education into the school ecosystem in a way that promotes action learning by students in planning and managing their finances on a day-to-day basis. Financial capability programs among adults are tailored to the life stage of an individual, recognizing that just as the lifestyle and behavior of an individual evolves over time, the financial decisions that he has to make will also differ across different stages in his life. These stages include entering the workforce, getting married, raising a family and retiring from work.

BNM has established Laman Informasi Nasihat Khidmat ("LINK"), which provides services through various channels, such as walk-in customer service centers at its headquarters in Kuala Lumpur and five branches nationwide, a call center and mobile services that reach out to rural areas. LINK provides a centralized point of contact to facilitate prompt response to the public on matters under BNM's purview and to provide advisory and information services to financial consumers and small and medium enterprises. LINK also serves as a key platform for consumers to seek assistance to resolve complaints related to FSPs regulated by BNM. In Malaysia, FSP's dedicated complaints unit, LINK at BNM and the Financial Mediation Bureau ("FMB"), are the primary avenues for resolving consumer disputes against FSPs. FMB was established in 2005 to ensure that consumers of all FSPs under the purview of BNM have recourse to an independent, fair and impartial dispute resolution mechanism. FMB serves as a one-stop center for the resolution of disputes against FSPs so that consumers have alternative redress to court processes for their complaints, disputes or claims for resolution. The FMB, which currently operates as a voluntary arrangement, is expected to become a formalized Financial Ombudsman Scheme with expanded powers legislated under the FSA and IFSA. As part of the transformation, BNM proposes to strengthen the governance and operational arrangements of the FMB in line with international best practices and based on the fundamental principles of independence, fairness and impartiality, accessibility, accountability, transparency and effectiveness.

The Credit Counseling and Debt Management Agency 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.

Laws have also been enacted to promote fair competition under the Competition Act 2010 and to regulate the processing of personal data in regards to commercial transactions and the operations of credit reporting agencies under the Personal Data Protection Act 2010 and the Credit Reporting Agencies Act by the relevant regulatory authorities.

Capital Markets

Reflecting the increasing role of the private sector in driving domestic growth and the continued developmental efforts undertaken by the Government, the capital markets of Malaysia have undergone significant changes. Significant developments include the incorporation of the first credit rating agency in 1990, 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 (as amended in 2012) ("CMSA") (a legislation to regulate and to provide for matters relating to the activities, markets and intermediaries in the capital market), and the establishment of the SC in 1993.

Capital market measures introduced in 2010 were aimed at strengthening the structured framework to deal with contagion issues from the global financial markets and ensuring better investor protection. A systemic risk task force was established to identify potential areas of systemic risk along with mechanisms to facilitate early detection of systemic weaknesses. An enhanced enterprise risk management framework was rolled out to strengthen capabilities to identify, assess, measure and aggregate risk issues and controls. Another key measure in 2010 was the introduction of the Malaysian Code on Take-Overs and Mergers 2010 to enhance standards of disclosure and independent advice in relation to buyouts of listed companies. A consultation paper on "sophisticated investors and sales practice" was also released. It reviewed the current criteria used to determine a "sophisticated investor" and requested for feedback on whether the current thresholds should be changed or whether it should include other qualified persons. The paper also reviewed sales practices, which included improving the assessment of client suitability through the "know your client" process, improving disclosure of information through mandating product highlight sheets, tightening requirements for advertising, marketing and promotional materials and improving disclosure of monetary and non-monetary benefits. In enhancing the efficiency in the payment and settlement systems within the capital market, the Listing Requirements and Rules of Bursa Depository were amended to facilitate implementation of the e-dividend initiative, which came on-stream in 2010. The SC, together with BNM and Bursa, also worked together towards the implementation of the Electronic Share Payment initiative, which was introduced on November 22, 2010.

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.

From a capital market comprising mainly equities and Government debt securities in 2000, significant market segments were successfully nurtured for private debt securities and investment management, coupled with the development of a comprehensive and innovative Islamic capital market. The diversification of financing sources through broadening the capital market provided a prudent balance between debt and equity assets and strengthened the resilience of the national financial system. 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 center for Islamic finance.

At the end of 2010, 144 of the 152 recommendations contained in CMP 1 had been completed, with the establishment of a facilitative regime that promoted rapid industry growth and the building of a regulatory and institutional framework that provides investor protection at levels comparable with international jurisdictions. Malaysia is also viewed as providing the most consistent and comprehensive regulatory framework for Shariah compliance.

Capital market segments

Market segments	2004	2014	Compound Annual Growth Rate
	(RM billion)		(%)
Stock market capitalization	722	1,651	8.62
Debt securities outstanding	381	1,110	11.29
Investment management (assets under management)	114	630	18.64
Derivatives (Notional value traded)	246	807	12.61
Islamic capital market	544	1,588	11.30

Sources: SC; Bursa Malaysia.

In 2011, CMP 2 was launched and outlined the strategies to transform the competitive dynamics of the capital markets from 2011 to 2020. This included identifying growth strategies to address key structural challenges and enhance critical linkages to foster a more diverse and innovative environment and to nurture new growth opportunities. Key challenges identified included increasing capacity and efficiency of the capital markets in financing investment requirements for economic growth, addressing structural imbalances between private sector savings and investment, deepening secondary market liquidity, building scale and identifying new growth opportunities, and building capacity and strengthening the information infrastructure. In tandem with the changing intermediation landscape, CMP 2 also outlined the governance strategies to ensure robust regulatory oversight and active stakeholder participation to enhance confidence in the integrity and soundness of Malaysia's capital markets. CMP 2 focused on addressing risk issues through approaches that identified clear points of accountability and ensured effective regulatory oversight and reach, strengthened standards and capabilities in the operation of intermediaries, expanded regulatory focus on stability risks, strengthened corporate governance standards and broadened participation in governance.

Bursa Malaysia

Bursa Malaysia is an exchange holding company established in 1973 and listed in 2005. Today, it is one of the largest bourses in ASEAN, hosting slightly more than 900 diversified companies. Bursa Malaysia operates and regulates a fully integrated exchange offering a comprehensive range of exchange-related facilities including listing, trading, clearing and settlement and depository services. It also offers a diverse spread of products covering equities, derivatives, offshore listings and services and bonds and Islamic offerings.

Following the strong economic growth recorded in Malaysia, the Malaysian equity market has been on an upward trend since 2009, with key indicators demonstrating the resilience of market while foreign investors have gradually increased their holdings in Malaysian public limited companies. Total market capitalization of all listed companies on Bursa Malaysia grew by 149% over the 2009-2014 period, while the benchmark FBM KLCI Index representing the top 30 listed companies increased by approximately 97% over the same period. The Average Daily Value of shares traded on the Exchange has grown by 82%, while foreign ownership increased 3.4 percentage points to reach 23.8% as at December 31, 2014. In tandem with the growth seen in the Islamic assets, Bursa Malaysia also recorded an increase of 94% in the value of Sukuk Listed on Bursa Malaysia. For the derivatives market, Average Daily Contracts traded also went up by 105% due to the strong performance of crude palm oil futures.

In 2014, Bursa Malaysia initiated the retail outreach program to engage, educate and grow the domestic retail participation, especially among the young investors. One of the key initiatives in this area was the launch of the BursaMKTPLC website on April 28, 2014, a one-stop online portal for all traders and investors. BursaMKTPLC is a virtual marketplace designed to provide users with market insights, pricing information and investor education.

Beyond the continuous corporate governance programs undertaken by Bursa Malaysia, the Environmental, Social and Governance (“ESG”) Index was successfully launched in December 2014. The ESG index, FTSE4Good Index Series, rates the listed companies based on their adherence to internationally benchmarked criteria, which may assist in raising the profile of Malaysian corporates and interest in Malaysian capital market in the long term. The ASEAN integration is also expected to attract greater interest from regional investors in ASEAN.

Bursa Malaysia has obtained domestic and foreign awards and recognition such as Top 5 Corporate Governance Recognition from Minority Shareholder Watchdog Group and Most Transparent Company, ahead of the Top 30 FBM KLCI Constituents by Focus Malaysia, fourth among 148 countries for Strength of Investors Protection by the World Economic Forum and fifth among 189 countries for Investor Protection by The World Bank.

Regulatory Framework and Corporate Governance

The growth of Malaysia’s capital markets has been underpinned by the building of a regulated and efficient market that reinforced 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 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"), 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 2012, the Corporate Governance Code was further revised to focus and strengthen the board's structure and its composition, to recognize the roles of directors as mature and responsible fiduciaries. 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 offenses, 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 offenses in the CMSA;

- makes it an offense 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 offense 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 and on November 29, 2012 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 on August 15, 2007 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 allowed only to make quorum at this but not permitted to vote on the contract or proposed contract. 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 2010, the SC brought criminal charges against eight individuals who were involved in fraud or the submission of false financial information. The SC also obtained convictions against seven directors and former directors for misleading financial statements.

The SC also pursues actions using its civil powers, particularly where there is a clear need to provide restitution to 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.

The SC also pursues administrative actions to achieve swift and effective resolutions. In 2010, for example, the SC meted out 29 administrative sanctions, which included the imposition of administrative fines against PLCs, their substantial shareholders, market intermediaries and professionals, and issued 103 supervisory letters for various minor breaches.

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 (the "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 fifth for minority investor protection in the World Bank's Doing Business Report in 2015. 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 SC has also continuously enhanced its framework in assessing systemic risk through employing a wide range of tools and methodologies to identify potential build-ups of risk and to pro-actively address issues of systemic concern. The Malaysian securities regulatory framework has been deemed as being compliant by external assessors with the best practices of the International Organization of Securities Commissions (the "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 the 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

The 2011 Budget provided fiscal support for the timely implementation of programs and projects pursuant to the Tenth Malaysia Plan, the seven NKRAs and the 12 NKEAs while ensuring sustainability of public finances. Fiscal resources were allocated in accordance with the announced key objectives of reinvigorating private investment, intensifying human capital development, ensuring the well-being of the people, strengthening public sector delivery, and in order to complete projects initiated under the Ninth Malaysia Plan. To intensify the role of public-private partnerships in the development of the Malaysian economy, a facilitation fund was established to ensure the viability of private sector-led projects. These projects were carefully selected for their strategic value and expected high multiplier impact on the Malaysian economy. The Government took a prudent approach to its spending to ensure the sustainability of its fiscal condition but sought not to negatively impact the quality of service delivered by the public sector. Subsidies for sugar and fuel, such as RON97 and diesel for specific categories, were further rationalized. Other cost-reducing measures were implemented, such as redeployment of staff or decreases in discretionary spending. Value management has been instituted for all new projects exceeding RM50 million to ensure cost optimization. A rigorous monitoring mechanism was also put in place to ensure greater accountability for timely project implementation. Development programs and projects were implemented on a two-year rolling basis and evaluated annually to assess their progress.

The 2012 Budget was formulated amid moderating world growth, high unemployment and protracted debt problems in the European Union as well as inflationary pressures due to rising commodity prices. The thrusts of fiscal policy in 2012 were to support the resilience of the Malaysian economy, generate growth and support reform initiatives while pursuing fiscal consolidation. Priority was given to accelerating public and private investment, expediting rural transformation programs, upscaling human capital development and at the same time continuing to enhance service delivery of the public sector. The Government also implemented measures to mitigate the effect of rising inflation and cost-reducing measures such as staff redeployment, greater inter-agency cooperation for effective service delivery and decreases in non-critical expenditure. The Government also sought not to negatively impact the quality of service delivery by the public sector while these measures were implemented. In addition, project implementation was closely monitored to ensure timely implementation and contain cost over-runs. Key performance indicators to be used by department heads were formulated for assessing and promoting good governance in public finances while the Auditor-General's recommendations were incorporated in rules and regulations. A review of Government's obligations with long-term fiscal implications was undertaken. Reviewed obligations included the Government debt management, pension liabilities, the administration of housing loan fund for civil servants and the higher education student loan fund.

The 2013 Budget continued to address challenges due to uncertainties in the external macro-economic environment, moderating commodity prices and volatility in global financial markets. The Government established self-imposed guiding fiscal rules including, among others, rules for maintaining an operating surplus at all times, reducing the fiscal deficit to approximately 3.0% by 2015, obtaining a balanced budget by 2020, and for ensuring that Government debt does not exceed 55.0% of GDP. Project implementation was rigorously monitored to ensure timely implementation to avoid cost overruns. Subsequently, the Fiscal Policy Committee chaired by the Malaysian Prime Minister was setup to oversee Malaysia's fiscal management. Its mandate includes formulating strategies to strengthen public finances, ensure fiscal sustainability and long-term macroeconomic stability.

The 2014 Budget focused on fiscal consolidation aimed at achieving a balanced budget by 2020. The Government initiated the Fiscal Transformation Program to further strengthen its financial position and implemented various fiscal reform initiatives to meet long-term sustainability of its fiscal position. Key policy measures under the fiscal reform initiatives included the introduction of the GST, outcome-based budgeting and accrual accounting as well as further implementing subsidy rationalization measures, improving spending efficiency and undertaking stringent auditing. The Government has undertaken subsidy rationalization initiatives to gradually shift from general subsidies that could be obtained without meeting any income-related conditions, to subsidies targeting pre-determined groups. From October 2014, the Government reduced subsidies for RON95 and diesel by 20 sen per liter and subsequently implemented a managed float pricing system in December 2014.

For a description of the 2015 Budget (both original and revised), see "*Recent Developments*".

Consolidated Public Sector Finance

The following table sets out the consolidated public sector finance position for the years indicated.

Consolidated public sector finance

	2010	2011	2012	2013	2014	2015[R]
			(RM million)			
General government						
Revenue	127,189	160,657	188,761	191,554	206,901	211,859
Operating expenditure	167,142	196,126	227,242	236,610	242,978	238,889
Current surplus/(deficit)	(39,953)	(35,469)	(38,481)	(45,056)	(36,077)	(27,030)
Non-financial public enterprises' surplus	123,192	106,970	129,796	139,821	116,414	111,292
Public sector current surplus	83,239	71,501	91,315	94,765	80,337	84,261
Net development expenditure	103,029	101,256	138,368	133,345	155,322	161,372
General government	53,681	51,784	53,017	51,870	49,715	58,594
Non-financial public enterprises	49,348	49,472	85,351	81,475	105,607	102,778
Overall budget surplus/(deficit)	(19,790)	(29,755)	(47,053)	(38,581)	(74,985)	(77,111)
% of GNP	(2.6)	(3.5)	(5.2)	(4.1)	(7.3)	(6.9)
% of GDP	(2.5)	(3.4)	(5.0)	(3.9)	(7.0)	(6.7)

Note:

R Revised Budget.

Source: Ministry of Finance.

The consolidated public sector is made up of the general government and NFPEs, with the general government comprising the Federal Government, 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 and/or of significant impact to the economy are included. Currently, 29 NFPEs are monitored. Of these, among 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
Axiata Group Berhad	Telecommunications
UEM Group Berhad	Construction
Malaysian Airline System Berhad	Air Transport
Malaysia Airports Holdings Berhad	Airports Management

In 2010, the consolidated public sector recorded a surplus of RM83.2 billion in the current account, compared to RM60.7 billion in 2009, due to higher current surplus of NFPEs at RM123.2 billion. After taking into account lower total net development, the consolidated public sector registered an overall deficit of RM19.8 billion.

In 2011, the consolidated public sector recorded a surplus of RM71.5 billion in the current account, compared to RM83.2 billion in 2010, due to lower surplus of the NFPEs. The consolidated public sector registered an overall deficit of RM29.8 billion.

In 2012, the consolidated public sector recorded a surplus of RM91.3 billion in the current account, compared to RM71.5 billion in 2011, due to an increase in NFPEs' surplus. The consolidated public sector registered an overall deficit of RM47.1 billion.

In 2013, the consolidated public sector recorded a surplus of RM94.8 billion in the current account, compared to RM91.3 billion in 2012, due to of higher surplus of NFPEs. The consolidated public sector registered an overall deficit of RM38.6 billion.

In 2014, the consolidated public sector is expected to register a surplus of RM80.3 billion in the current account, compared to RM94.8 billion in 2013, due to a decline in the surplus of NFPEs. The consolidated public sector is expected to record an overall deficit of RM75.0 billion.

Government Financial Position

The following table sets out the Government financial position for the years indicated.

Government financial position

	2010	2011	2012	2013	2014	2015 [R]
	(RM million)					
Current revenue	159,653	185,419	207,913	213,370	220,626	222,865
Less: Current expenditure	151,633	182,594	205,537	211,270	219,589	212,421
Current surplus	8,020	2,825	2,376	2,100	1,037	10,444
Less: Net development expenditure	51,296	45,334	44,326	40,684	38,451	47,467
Overall surplus/(deficit)	(43,275)	(42,509)	(41,951)	(38,584)	(37,414)	(37,023)
Sources of finance:						
Gross domestic borrowings	60,499	93,312	96,244	100,457	90,740	90,500
Less: Domestic repayment	24,043	48,244	52,900	60,931	53,183	53,569
Net domestic borrowings	36,456	45,069	43,344	39,526	37,557	36,931
Gross external borrowings	4,495	6,469	684	413	274	5,667
Less: External repayment	831	5,918	697	634	634	5,173
Net external borrowings	3,664	550	-13	-221	-359	494
Use of assets(1)	3,155	-3,110	-1,380	-721	216	-402
Overall balance (% of GNP)	-5.6	-4.9	-4.6	-4.1	-3.6	-3.3
Overall balance (% of GDP)	-5.4	-4.8	-4.5	-3.9	-3.5	-3.2

Notes:

R Revised Budget.

(1) A negative amount indicates the accumulation of assets.

Sources: Ministry of Finance; BNM.

In 2010, the current account of the Government registered a surplus of RM8.0 billion, or 1.0% of GDP. The fiscal deficit was 5.4% of GDP, or RM43.3 billion. The improved fiscal position was mainly due to lower operating expenditure as a result of fiscal consolidation efforts.

In 2011, the current account of the Government registered a surplus of RM2.8 billion, or 0.3% of GDP, compared to RM8.0 billion in 2010. The fiscal deficit narrowed to 4.8% of GDP, or RM42.5 billion, from 5.4% in 2010, or RM43.3 billion. The improved fiscal position was mainly due to lower development expenditure in 2011.

In 2012, the current account of the Government registered a surplus of RM2.4 billion, or 0.3% of GDP, compared to RM2.8 billion in 2011. The fiscal deficit narrowed to 4.5% of GDP, or RM42.0 billion, from 4.8% in 2011, or RM42.5 billion. The better fiscal position was mainly due to revenue that increased at a slightly higher pace than that of total expenditure during the year.

In 2013, the current account of the Government registered a surplus of RM2.1 billion, or 0.2% of GDP, compared to RM2.4 billion in 2012. The fiscal deficit narrowed to 3.9% of GDP, or RM38.6 billion, from 4.5% in 2012, or RM42.0 billion. The better fiscal position was mainly due to the slower growth of total expenditure.

In 2014, the current account of the Government registered a surplus of RM1.0 billion, or 0.1% of GDP, compared to RM2.1 billion in 2013. The fiscal deficit narrowed to 3.5% of GDP, or RM37.4 billion, from 3.9% in 2013, or RM38.6 billion. The improved fiscal position was mainly due to the effect of measures implemented for improving the effectiveness and efficiency of the Government's revenue and expenditure.

Government Revenue

The following table sets out Government revenue for the years indicated.

Government revenue

	2010	2011	2012	2013	2014	2015[R]
			(RM million)			
Direct taxes	79,009	102,242	116,937	120,523	126,742	123,248
Corporate income tax	36,266	46,888	51,288	58,175	65,240	72,083
Petroleum income tax	18,713	27,748	33,934	29,753	26,956	15,116
Personal income tax	17,805	20,203	22,977	23,055	24,423	25,064
Stamp duties	4,192	4,929	5,595	6,364	6,458	7,022
Other	2,033	2,474	3,143	3,176	3,665	3,963
Indirect taxes	30,507	32,643	34,706	35,429	37,462	48,136
Export duties	1,810	2,081	1,968	1,930	1,893	1,396
Import duties	1,966	2,026	2,282	2,524	2,670	2,784
Excise duties	11,770	11,517	12,187	12,193	12,925	13,583
Sales tax	8,171	8,577	9,496	10,068	10,939	2,934
Service tax	3,926	4,982	5,583	5,944	6,278	1,874
Other	2,863	3,460	3,190	2,770	2,758	25,565
Non-tax revenue and receipts[(1)]	50,138	50,534	56,270	57,418	56,421	51,481
Total	159,653	185,419	207,913	213,370	220,625	222,865

Notes:

R Revised Budget.

(1) Includes investment income, licences and permits, services fees, dividend payments and other items.

Source: Ministry of Finance.

In 2010, Government revenue amounted to RM159.7 billion. Tax revenue collection in 2010 was RM109.5 billion, in line with Malaysia's 7.2% real GDP growth. The contribution of tax revenue to Government revenue in 2010 was 68.6%. Direct taxes amounted to RM79.0 billion. Indirect taxes were RM30.5 billion in 2010 as a result of higher demand for passenger vehicles. The contribution of direct taxes and indirect taxes to the Government's revenue in 2010 was 49.5% and 19.1%, respectively.

In 2011, Government revenue increased by 16.1% to RM185.4 billion from RM159.7 billion in 2010. This increase was primarily due to higher tax revenue collection in 2011 amounted to RM134.9 billion in accordance with sustained economic growth of 5.2%. The contribution of tax revenue to Government revenue in 2011 was 72.7%, compared to 68.6% in 2010. Direct taxes amounted to RM102.2 billion, representing a 29.4% compared to 2010. The increase in direct tax revenue was attributable to a higher collection of corporate income tax by 29.3%. Revenue from petroleum income tax increased by 48.3% in 2011 compared with 2010, mainly due to a higher average Brent crude oil price in 2011 compared to 2010. Indirect taxes increased from RM30.5 billion in 2010 to RM32.6 billion in 2011 as a result of higher demand for passenger vehicles. The contribution of direct taxes and indirect taxes to the Government's revenue in 2011 was 55.1% and 17.6%, respectively.

In 2012, Government revenue increased by 12.1% to RM207.9 billion from RM185.4 billion in 2011. This increase was primarily due to higher tax revenue collection in 2012 that represented RM151.6 billion as a result of Malaysia's 5.6% real GDP growth. The contribution of tax revenue to Government revenue in 2012 was 72.9%, compared to 72.7% in 2011. Direct taxes amounted to RM116.9 billion, representing a 14.4% increase compared to 2011. The increase in direct tax revenue was attributable to a higher collection of corporate income tax. Revenue from petroleum income tax increased by 22.3% in 2012 compared with 2011, mainly due to a slightly higher average crude oil production in 2012 compared to 2011. Indirect taxes increased from RM32.6 billion in 2011 to RM34.7 billion in 2012 as a result of higher demand for passenger vehicles. The contribution of direct taxes and indirect taxes to the Government's revenue in 2012 was 56.2% and 16.7%, respectively. In addition, non-tax revenue and receipts increased by 11.4% in 2012, which was due to higher interests and proceeds on investments as well as higher proceeds from non-revenue receipts in 2012 compared to 2011.

In 2013, Government revenue increased by 2.6% to RM213.4 billion from RM207.9 billion in 2012. The increase was largely due to higher tax revenue collection in 2013 amounted to RM156.0 billion in line with Malaysia's 4.7% real GDP growth. This increase, however, was partially offset by a 12.3% decrease in revenue from petroleum income tax, mainly due to a lower average Brent crude oil price in 2013 compared to 2012. The contribution of tax revenue to Government revenue in 2013 was 73.1%, compared to 72.9% in 2012. Direct taxes amounted to RM120.5 billion, representing a 3.1% increase compared to 2012. The increase in direct tax revenue was attributable to a higher collection of corporate income tax. Indirect taxes increased from RM34.7 billion in 2012 to RM35.4 billion in 2013 as a result of higher demand for passenger vehicles. The contribution of direct taxes and indirect taxes to the Government's revenue in 2013 was 56.5% and 16.6%, respectively.

In 2014, Government revenue increased by 3.4% to RM220.6 billion from RM213.4 billion in 2013. This increase was primarily due to higher tax revenue collection reflecting Malaysia's 6.0% real GDP growth. This increase, however, was partially offset by a 9.4% decrease in revenue from petroleum income tax, mainly due to a lower average Brent crude oil price in 2014 compared to 2013. The contribution of tax revenue to Government revenue in 2014 was 74.4%, compared to 73.1% in 2013. Direct taxes amounted to RM126.7 billion, representing a 5.2% increase compared to 2013. The increase in direct tax revenue was attributable to a higher collection of corporate income tax. Indirect taxes increased from RM35.4 billion in 2013 to RM37.5 billion in 2014 as a result of higher demand for passenger vehicles. The contribution of direct taxes and indirect taxes to the Government's revenue in 2014 was 57.4% and 17.0%, respectively.

Government Expenditure

The following table sets out aggregate Government expenditure for the years indicated.

Government expenditure

	2010	2011	2012	2013	2014	2015[R]
	(RM million)					
Current expenditure	151,633	182,594	205,537	211,270	219,589	212,421
Development expenditure	52,792	46,416	46,932	42,210	39,503	48,500
Total expenditure	204,425	229,010	252,470	253,480	259,092	260,921
% growth	-1.0	12.0	10.2	0.4	2.2	0.7

Note:

[R] Revised Budget.

Source: Ministry of Finance.

Government Current Expenditure

The following table sets out Government current expenditure for the years indicated.

Government current expenditure

	2010	2011	2012	2013	2014	2015 [R]
	(RM million)					
Emoluments	46,663	50,148	60,016	61,001	66,947	67,952
Debt services charges	15,621	17,716	19,537	20,776	22,588	24,379
Grants to state governments	4,689	5,535	5,690	6,046	6,530	7,444
Pensions and gratuities	11,515	13,565	14,079	14,842	18,218	17,656
Supplies and services	23,841	28,949	31,963	33,860	34,259	36,099
Asset acquisition	1,869	2,665	1,770	1,415	1,802	1,157
Subsidies	23,106	36,256	44,075	43,349	39,703	26,757
Grants to statutory bodies	12,407	13,772	15,971	14,761	16,353	14,732
Refunds and write-offs	601	1,009	1,292	1,097	1,336	1,664
Others	11,320	12,980	11,144	14,124	11,853	14,581
Total	151,633	182,594	205,537	211,270	219,589	212,421

Note:

[R] Revised Budget.

Source: Ministry of Finance.

In 2010, current expenditure was RM151.6 billion reflecting the implementation of measures by the Government to reduce discretionary expenditure.

In 2011, current expenditure increased 20.4% to RM182.6 billion, primarily due to a 56.9% increase in spending on subsidies, a 21.4% increase in spending on supplies and services, and a 7.5% increase in emoluments. The significant increase in subsidies was mainly due to higher fuel subsidies following the increase in global crude oil price; spending on supplies and services increased mainly due to higher payment for repair and maintenance as well as professional services.

In 2012, current expenditure increased 12.6% to RM205.5 billion, mainly due to higher subsidies and emoluments following the continuous increase in global crude oil prices and the revision in salary and allowances of civil servants. Emoluments increased substantially by 19.7% as a result of the major revision in civil servants' remuneration packages which took effect from January 1, 2012.

In 2013, current expenditure grew at 2.8% to RM211.3 billion, the slowest pace since 2010 following the normalization of growth in emoluments, slower growth in supplies and services expenditure and a reduction in subsidies and grants to statutory bodies. The decrease in subsidies mainly reflected a 20 sen per liter reduction in subsidies for RON95 and diesel in September 2013.

In 2014, current expenditure increased 3.9% to RM219.6 billion, primarily due to higher emoluments, pension and gratuities as well as grants to statutory bodies. All sub-components of current expenditure have shown an increase except for subsidies and other expenditures. The decrease in subsidies was mainly due to lower fuel subsidies spending following the decrease in global crude oil prices in the fourth quarter of 2014, the increase in the prices of RON95 and diesel in October 2014 and the implementation of a managed float pricing mechanism for RON95 and diesel in December 2014.

Government Development Expenditure

The following table sets out Government development expenditure for the years indicated.

Government development expenditure

	2010	2011	2012	2013	2014	2015 [R]
			(RM million)			
Defense and security	3,970	4,569	4,409	4,649	4,332	4,932
Economic services	26,121	28,156	28,936	24,646	23,338	29,260
Social services	20,784	12,607	12,399	10,884	10,490	12,618
General administration	1,917	1,085	1,187	2,032	1,344	1,690
Total	52,792	46,416	46,932	42,210	39,503	48,500

Note:

[R] Revised Budget.

Source: Ministry of Finance.

In 2010, development expenditure amounted to RM52.8 billion due to the implementation of projects under the Ninth Malaysia Plan which was in its final year, the implementation of a stimulus package of RM5.0 billion and new commitments under four National Key Result Area (NKRAs) covering rural basic infrastructure, urban public transport, low income household and crime. In terms of sectoral allocation, economic services remained the largest recipient (49.5%), followed by social services (39.4%), security (7.5%) and general administration (3.6%).

In 2011, development expenditure declined 12.1% to RM46.4 billion due to the first year implementation of the Tenth Malaysia Plan, of which most approved projects were at an early stage. In terms of sectoral allocation, economic services remained the largest recipient (60.7%), followed by social services (27.2%), security (9.8%) and general administration (2.3%).

In 2012, development expenditure increased 1.1% to RM46.9 billion due to completion of carried-over projects from the Ninth Malaysia Plan. In terms of sectoral allocation, economic services remain the largest recipient (61.7%), followed by social services (26.4%), security (9.4%) and general administration (2.5%).

In 2013, development expenditure declined 10.1% to RM42.2 billion as lower cash flow was required by ministries and government agencies, in line with the development stage of projects. In terms of sectoral allocation, economic services remained the largest recipient (58.4%), followed by social services (25.8%), security (11.0%) and general administration (4.8%).

In 2014, development expenditure declined 6.4% to RM39.5 billion due to the completion of various projects under the Tenth Malaysia Plan, which included infrastructure projects such as roads and bridges, schools, hospitals, housing as well as water supply. In terms of sectoral allocation, economic services remained the largest recipient (59.0%), followed by social services (26.6%), security (11.0%) and general administration (3.4%).

Federal Government Debt

Federal Government Debt

The Federal Government debt is the cumulative total of all government borrowings, which include domestic and offshore borrowings, less repayments that are denominated in a country's home currency.

Government Net Borrowing

The following table sets out Government net borrowing for the years indicated. The net borrowing is government gross borrowings less repayments that are denominated in a country's home currency.

	2010	2011	2012	2013	2014[e]
			(RM million)		
Net domestic borrowing	36,456	45,069	43,344	39,526	37,557
Government securities	18,722	16,720	14,437	12,925	24,557
Investment issues	17,734	28,348	28,907	26,601	13,000
Market loans	-	-	-	-	-
Net external borrowing[(1)]	3,664	550	(13)	(221)	(360)
Project loans	(383)	(195)	(13)	(221)	(360
Market loans	4,047	745	-	-	-
Total	40,120	45,619	43,331	39,305	37,198
Interest payments	15,621	17,716	19,537	20,776	22,588
Domestic	14,963	17,032	19,035	20,291	22,089
External[(1)]	658	684	502	485	499

Notes:

e Estimate.

(1) Amounts in original currencies were converted to ringgit using the applicable exchange rate on the relevant transaction date.

Source: Ministry of Finance.

From 2010 to 2014, the Government funded its financing requirements primarily from domestic sources. Total gross borrowing was RM65.0 billion, RM99.8 billion, RM96.9 billion, RM100.9 billion and RM91.0 billion, respectively, in 2010, 2011, 2012, 2013 and 2014. For the years 2010 to 2014, most of the financing came from the issuance of Government securities.

Direct Government Debt

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,				
	2010	2011	2012	2013	2014
Internal (RM million)					
Funded	386,036	433,705	480,449	518,775	561,732
Floating	4,320	4,320	4,320	4,320	4,320
Total internal	390,356	438,025	484,769	523,095	566,052
External (US$ million)	5,369	5,656	5,447	5,049	4,754
Total direct indebtedness (US$ million)(1)	130,548	142,500	162,173	162,588	165,158
Total direct indebtedness (RM million)	407,101	456,130	501,617	539,858	582,828

Note:

(1) U.S. dollar amounts are calculated using exchange rates as at end of period for each respective year. These exchange rates are as follows: (1) 3.1184 for 2010; (2) 3.2009 for 2011; (3) 3.0931 for 2012; (4) 3.3204 for 2013; and (5) 3.5289 for 2014.

Source: Ministry of Finance.

Direct Government or Federal Government debt, after netting out repayments, stood at RM582.8 billion (US$165.2 billion) as at December 31, 2014, compared with RM539.9 billion (US$162.6 billion) as at December 31, 2013. Of this, internal debt increased to RM566.1 billion, compared with RM523.1 billion as at December 31, 2013.

Summary of direct Government debt payments

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, 2013 and December 31, 2014.

Summary of direct Government debt payments

	Actual					Estimated		
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**
				(RM Million)				
Repayable:								
In Malaysian ringgit	31,004	59,430	61,403	73,030	65,862	62,649	52,863	73,500
Repayable:(1)								
In U.S. dollars	238	5,322	95	100	110	4,429	4,310	39
In Euros	18	16	17	17	12	3	0	65
In Japanese yen	573	580	585	517	511	7.4	0	0
Other	2	0	0	0	0	0	0	0
Total foreign currency	831	5,918	697	634	633	4,439	4,310	104
Total	31,835	65,348	62,100	73,664	66,495	67,088	57,173	73,604

Note:

(1) Amounts are calculated using exchange rates as at end of the period for each respective year.

Source: Ministry of Finance.

The following table sets out the amount of debt guaranteed by the Government on the dates indicated.

Government guaranteed debt

	As of December 31,				
	2010	**2011**	**2012**	**2013**	**2014**
Internal (RM million)	89,262	109,140	136,876	152,315	167,839
External (US$ million)	2,412	2,380	2,015	1,441	1,185
Total (US$ million)(1)	31,076	36,477	46,267	47,434	48,745
Total (RM million)	96,907	116,757	143,109	157,499	172,019

Note:

(1) U.S. dollar amounts are calculated using exchange rates as at end of period for each respective year. These exchange rates are as follows: (1) 3.1184 for 2010; (2) 3.2009 for 2011; (3) 3.0931 for 2012; (4) 3.3204 for 2013; and (5) 3.5289 for 2014.

Source: Ministry of Finance.

Government guarantees are given for selected projects, such as those focused on local development, with a multiplier effect and that are expected to significantly benefit the Malaysian economy and population. Government guarantees are also given for strategic projects, such as public infrastructure projects, *i.e.* the Mass Rapid Transit, Second Penang Bridge (*Jambatan Kedua Pulau Pinang*), Klang Valley Rail System and RapidKL, and basic amenities projects, such as water and electricity. Such government guarantees enable agencies and companies to obtain loans at lower interest rates than those which would apply to unguaranteed loans.

In addition, the Government has issued guarantees in the aggregate amount of RM5.8 billion to 1Malaysia Development Berhad ("1MDB"), a strategic development company, wholly-owned by the Minister of Finance Incorporated ("MoF Inc."), whose stated mission is to support the sustainable long-term economic development and growth of Malaysia. 1MDB's portfolio currently comprises primarily energy assets (power and desalination plants located within Malaysia and overseas, principally in South Asia and the Middle East) and real estate assets, including in prime locations such as in central Kuala Lumpur. In March 2013, as part of an arrangement between the Government and the government of Abu Dhabi, the Government issued a letter of support in connection with one of 1MDB's wholly-owned subsidiaries' debt service obligations under its US$3.0 billion 10-year U.S. dollar bonds. In addition, in February 2015, the Government extended a RM950.0 million standby credit facility to a wholly-owned subsidiary of 1MDB, of which RM600.0 million has been utilized as at the date hereof.

Furthermore, the Government has also extended guarantees to DanaInfra Nasional Berhad (a wholly-owned company under MoF Inc.) to raise funds for Malaysia's most extensive mass rapid infrastructure project, Syarikat Prasarana Negara Berhad that focuses on Klang Valley public transportation projects, and Khazanah Nasional Berhad (the Government's strategic investment fund) to promote economic growth and make strategic investments which are expected to benefit Malaysia.

Public Private Partnership

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: (i) facilitate economic growth through higher investment from the private sector; (ii) relieve the financial and administrative burden of the Government; (iii) improve efficiency and productivity of Government enterprises; (iv) reduce the size and presence of the public sector in the economy; and (v) 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.

The Private Finance Initiatives ("PFI") program was announced as part of the Ninth Malaysia Plan, aimed at facilitating greater participation of the private sector to improve the delivery of infrastructure facilities and public service. It stated many of the key principles on how some of the public sector infrastructure projects would be procured and implemented. PFI and privatization were undertaken as part of the Public Private Partnerships ("PPP") program to further enhance private sector participation in economic development.

The following types of partnership were adopted under the PPP program:

Privatization	Private Finance Initiative
Sale of Asset	Build-Lease-Transfer
Corporatization	Build-Lease-Maintain-Transfer
Land Swap	Build-Lease-Maintain-Operate-Transfer
Build-Operate-Transfer	
Build-Operate-Own	
Management Contract	
Leasing	

Since 1983, a total of 611 PPP projects have been implemented. The Government has received aggregate proceeds of RM6.48 billion from the sale of assets and equity of privatized projects and entities. Major projects implemented include the North-South Highway, the West Coast Expressway, 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, the Women and Children Hospital, the International Islamic University Teaching Hospital, the National Sports Complex and the Children Specialist Hospital.

Government entities have primarily been privatized through divestment of shares either by way of private placements or through listings on Bursa Malaysia. Among major companies which have been listed were Telekom Malaysia Berhad, Tenaga Nasional Berhad, Heavy Industries Corporation of Malaysia Berhad, Proton Holdings Bhd., Pos Malaysia Berhad and Malaysia Airports Holdings Berhad.

PPP 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 PPP 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 2014, a total of 113,487 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 PPP program enabled the Government to increase participation of Bumiputeras in the corporate sector through equity participation. The policy provides that Bumiputeras 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, contributed to increased efficiency and productivity of the privatized entities. The Eighth Malaysia Plan emphasized viable projects that had a high multiplier effect and which met the Government's social objectives. The Government streamlined 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 was streamlined further. The privatization program continued 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 has put in place, performance indicators instituted and a reward and penalty system for tariff review introduced. In this regard, the regulatory framework was further strengthened.

In 2010, Malaysia launched its Tenth Malaysia Plan, which draws on the foundations laid by the 1Malaysia concept. While continuing PPP initiatives, the Government has allocated a sum of RM20.0 billion for the Facilitation Fund. The objectives of the Facilitation Fund are to bridge the viability gap in private sector investment in the implementation of high value projects that have huge spillover effects as well as high strategic impact to the economic development, to become catalyst for private investment in the strategic sectors and to rationalize the Government's involvement in business and increase participation of the private sector in the economy.

Balance of Payments

The following tables set out the balance of payments (net) in ringgit and in U.S. dollars for the years indicated.

Balance of Payments (net)[(1)]

	2010	2011	2012	2013	2014[P]
			(RM million)		
Goods[(2)]	136,751	151,565	125,190	108,230	125,064
Services	(1,444)	(6,272)	(16,210)	(16,693)	(20,546)
Balance on goods and services	135,306	145,293	108,979	91,537	104,518
Primary income	(26,333)	(21,806)	(36,050)	(34,126)	(37,390)
Secondary income	(21,790)	(21,061)	(18,469)	(17,504)	(17,619)
Balance on current account	**87,183**	**102,426**	**54,460**	**39,907**	**49,508**
Capital account	(111)	(133)	241	(21)	281
Financial account	(19,946)	23,265	(23,014)	(15,807)	(76,495)
Direct investment	(13,977)	(9,337)	(24,415)	(5,450)	(17,101)
Portfolio investment	48,467	26,139	63,859	(3,041)	(37,867)
Financial derivatives	(698)	(76)	972	(253)	(975)
Other investment	(53,738)	6,539	(63,431)	(7,062)	(20,553)
Official sector	119	(1,337)	(1,674)	(3,966)	(2,030)
Private sector	(53,856)	7,876	(61,756)	(3,096)	(18,523)
Errors and omissions	(69,754)	(30,876)	(27,814)	(9,431)	(9,801)
Overall balance	**(2,628)**	**94,682**	**3,873**	**14,647**	**(36,507)**

Notes:

P Preliminary.

(1) The balance of payments is compiled based on the Sixth Edition of Balance of Payments and International Investment Position Manual (BPM6) by the IMF.

(2) The compilation of trade data is based on customs records which do not fully conform to the principles of the Balance of Payments Manual. Therefore, the trade data are adjusted for valuation and conversion to the balance of payments basis. Accordingly, 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 cost, insurance and freight ("c.i.f.") basis under trade balance and are adjusted to a free on board ("f.o.b.") basis under goods balance; (c) goods balance data include transactions of commercial ships and aircrafts that are delivered outside Malaysia, exports/imports of water to/from Singapore, military goods which are not included in trade data; and (d) goods balance data exclude export and import transactions due to no change of ownership.

Sources: Department of Statistics; BNM.

Balance of Payments (net) [(1)]

	2010	2011	2012	2013	2014[P]
	(US$ million[(2)])				
Goods[(3)]	42,455	49,531	40,530	34,349	38,212
Services	(448)	(2,050)	(5,248)	(5,298)	(6,278)
Balance on goods and services	42,006	47,481	35,282	29,051	31,934
Primary income	(8,175)	(7,126)	(11,671)	(10,831)	(11,424)
Secondary income	(6,765)	(6,883)	(5,979)	(5,555)	(5,383)
Balance on current account	**27,066**	**33,473**	**17,631**	**12,665**	**15,127**
Capital account	(34)	(43)	78	(7)	86
Financial account	(6,192)	7,603	(7,451)	(5,017)	(23,372)
Direct investment	(4,339)	(3,051)	(7,904)	(1,730)	(5,225)
Portfolio investment	15,047	8,542	20,674	(965)	(11,570)
Financial derivatives	(217)	(25)	315	(80)	(298)
Other investment	(16,683)	2,137	(20,536)	(2,241)	(6,280)
Official sector	37	(437)	(542)	(1,259)	(620)
Private sector	(16,720)	2,574	(19,994)	(983)	(5,660)
Errors and omissions	(11,009)	(13,939)	(4,153)	(12,455)	(10,814)
Overall balance	**39,830**	**27,093**	**6,106**	**(4,813)**	**(18,973)**

Notes:

P Preliminary.

(1) The balance of payments is compiled based on the Sixth Edition of Balance of Payments and International Investment Position Manual (BPM6) by the IMF.

(2) The balance of payments accounts are recorded in ringgit, except for the overall balance. The U.S. dollar amounts in the table for all components except overall balance and errors and omissions, reflect the ringgit amounts converted into U.S. dollars at the annual average exchange rate for the relevant period. The overall balance reflects the change in reserves in U.S. dollar while errors and omissions are computed as the residual.

(3) The compilation of trade data is based on customs records which do not fully conform to the principles of the Balance of Payments Manual. Therefore, the trade data are adjusted for valuation and conversion to the balance of payments basis. Accordingly, 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 a f.o.b. basis under goods balance; and (c) goods balance data include transactions of commercial ships and aircrafts that are delivered outside Malaysia, exports/imports of water to/from Singapore, military goods which are not included in trade data; (d) goods balance data exclude export and import transactions due to no change of ownership.

Sources: Department of Statistics; BNM.

Balance of Payments Since 2010

Balance of Payments in 2010

In 2010, the current account recorded a surplus of RM87.2 billion, or 11.3% of GNI. The trade surplus narrowed as import growth outpaced export growth, but it remained sizeable, supported by strong regional demand and high commodity prices. The services account recorded a deficit, mainly due to higher net payments for transportation and other services. The income deficit increased, due mainly to higher income accrued to foreign portfolio and direct investors in Malaysia.

The financial account recorded a net outflow of RM19.9 billion. Improving global economic conditions and corporate profitability led to higher inflows of FDI. Similarly, direct investment abroad ("DIA") increased as Malaysian companies seized investment opportunities overseas. Of significance was the return of large-scale portfolio inflows into Malaysia, a trend experienced across the region, given the prospects for strong growth of regional economies in 2010. Other investment flows, which largely reflected trade credits and placements of deposits abroad by residents, moderated during the year.

The overall balance of payments recorded a small deficit of RM2.6 billion in 2010. During the year, errors and omissions amounted to RM(69.8) billion or (6.0)% of total trade, partly reflecting foreign exchange revaluation losses on international reserves. Excluding revaluation losses, errors and omissions stood at RM(37.1) billion or (3.2)% of total trade.

Balance of Payments in 2011

In 2011, the current account surplus was higher at RM102.4 billion, or 11.9% of GNI, supported by higher trade surplus amid lower primary income deficit. Improvement in the trade balance was driven primarily by stronger commodity exports, which benefited from higher commodity prices. The primary income deficit was lower as the increase in investment income accruing to Malaysian companies investing abroad outpaced the increase in investment income accruing to foreign investors.

In 2011, the financial account reversed from a net outflow to a net inflow of RM23.3 billion, largely due to the continued inflows of portfolio funds and FDI. Despite heightened uncertainty in the global financial markets, portfolio inflows continued to increase due to the region's strong growth prospects, including Malaysia, as well as expectations of appreciation of regional currencies. Of significance, FDI inflows were also higher, amid robust domestic economic conditions and higher corporate profitability. Similarly, DIA by Malaysian companies increased, reflecting the continued expansion of existing businesses abroad. Other investment outflows, which primarily reflected private sector flows, moderated significantly during the year.

The overall balance of payments turned around to register a surplus position of RM94.7 billion in 2011. During the year, errors and omissions amounted to RM(30.9) billion or (2.4)% of total trade, partly reflecting foreign exchange revaluation gains on international reserves. Excluding revaluation gains, the errors and omissions stood at RM(38.4) billion or (3.0)% of total trade.

Balance of Payments in 2012

In 2012, the current account surplus narrowed to RM54.5 billion, or 6.0% of GNI. Trade surplus was lower due to lower exports, amid weak external demand and lower commodity prices. The services account registered a larger deficit, reflecting the higher deficit in the transportation account and construction services as well as lower net travel receipts. The larger deficit in the income account reflected the higher income accrued to foreign investors in Malaysia and lower income accrued to Malaysian companies investing abroad.

In 2012, the financial account registered a net outflow of RM23.0 billion. Given the excess of global liquidity in 2012, Malaysia continued to experience two-way financial flows, with inflows of foreign funds in the form of FDI and portfolio investment attracted mainly to the country's resilient growth prospects. The non-resident inflows were offset by outflows through two main channels, namely via higher DIA and outflows from other investment, mainly in the form of continued net extensions of trade credits.

The overall balance of payments in 2012 registered a small surplus of RM3.9 billion. During the year, errors and omissions amounted to RM(27.8) billion or (2.1)% of total trade, partly reflecting foreign exchange revaluation losses on international reserves. Excluding revaluation losses, errors and omission stood at RM(20.1) billion or (1.5)% of total trade.

Balance of Payments in 2013

In 2013, the current account balance registered a smaller surplus of RM39.9 billion, or 4.2% of GNI, due mainly to lower trade surplus, amid continued weakness in the advanced economies. The services account remained in deficit, reflecting continued net transportation payments amid higher net travel receipts. The deficit in the primary income account was lower, as the increase in investment income by Malaysian companies investing abroad was higher than the increase in investment income accrued to foreign investors in Malaysia.

In 2013, the financial account registered a net outflow of RM15.8 billion. During the year, Malaysia continued to experience sustained two-way flows involving cross-border financial transactions by both residents and non-residents. In the direct investment account, from an assets perspective, Malaysian companies continued to expand their international presence by undertaking direct investments abroad. From a liabilities perspective, Malaysia continued to attract FDI from multinational companies. The country's well established capital markets and relatively favorable growth prospects remained attractive to foreign portfolio investors. These flows, however, exhibited considerable volatility during the year. Other investment recorded a smaller net outflow, reflecting mainly the continued extensions of trade credits amid banking inflows.

The overall balance of payments in 2013 registered a stronger surplus of RM14.6 billion. During the year, errors and omissions amounted to RM(9.4) billion or (0.7)% of total trade, partly reflecting foreign exchange revaluation gains on international reserves. Excluding revaluation gains, errors and omissions stood at RM(28.0) billion or (2.0)% of total trade.

Balance of Payments in 2014

In 2014, the current account balance was higher at RM49.5 billion, or 4.8% of GNI. This was supported by higher trade surplus amid stronger exports and sustained imports. The services deficit increased, driven by lower net travel receipts as a result of two high profile airline incidents, and higher net transportation payments. The income deficit also widened, due to the higher profits made by foreign direct investors in Malaysia which more than offset income earned by Malaysian companies operating abroad.

In 2014, the financial account recorded a net outflow of RM76.5 billion. Malaysia continued to experience two-way capital flows amid an environment of volatile global financial market conditions in the year. Long-term investment flows remained sizeable, primarily in the form of FDI. The country's well established capital markets, resilient growth performance and on-going structural and fiscal reform measures, also attracted portfolio investments from international investors. These short-term portfolio investments were, however, subjected to heightened volatility in the international financial markets, particularly in the second half of the year. DIA by Malaysian companies and acquisitions of portfolio assets by domestic investors increased during the year. Other investment also recorded a net outflow as net extension of trade credit and repayments of external loans by the public sector had more than offset the net inflows received by the banking sector.

The overall balance of payments in 2014 registered a deficit of RM36.5 billion. During the year, errors and omissions amounted to RM(9.8) billion or (0.7)% of total trade, partly reflecting foreign exchange revaluation gains on international reserves. Excluding revaluation gains, errors and omissions stood at RM(17.4) billion or (1.2)% of total trade.

External Trade

The following table sets out selected information with respect to external trade for the years indicated.

External trade

	2010	2011	2012	2013	2014[P]
			(RM million)		
Gross exports (f.o.b.)	638,822	697,862	702,641	719,992	766,129
% change	15.6	9.2	0.7	2.5	6.4
Gross imports (c.i.f.)	528,828	573,626	606,677	648,695	682,982
% change	21.7	8.5	5.8	6.9	5.3
Trade balance	109,994	124,236	95,964	71,298	83,146
			(US$ million[(1)])		
Gross exports (f.o.b.)	198,324	228,059	227,480	228,504	234,083
% change	26.5	15.0	(0.3)	0.4	2.4
Gross imports (c.i.f.)	164,176	187,459	196,412	205,876	208,678
% change	33.1	14.2	4.8	4.8	1.4
Trade balance	34,148	40,600	31,068	22,628	25,404

Note:

P Preliminary.

(1) For the period from 2010 to 2014, each amount was converted from ringgit to US dollars using the average annual exchange rate for the relevant period.

Source: Department of Statistics.

In 2010, the trade account registered a surplus of RM110.0 billion. Exports expanded by 15.6%, due to broad-based expansion in both manufactured and commodity exports. Imports increased by 21.7% with expansion across all major import categories.

In 2011, the trade account recorded a higher surplus of RM124.2 billion. Exports increased by 9.2%, due mainly to the contraction in exports of electric and electronic products amid sustained growth in exports of commodities and non-electric and electronic products. Imports also increased by 8.5%, reflecting slower imports of capital and intermediate goods.

In 2012, the trade surplus amounted to RM96.0 billion. Exports registered a slower growth of 0.7%, reflecting weaker external demand and lower commodity prices. Imports increased by 5.8%, due mainly to the contraction in intermediate imports.

In 2013, the trade account registered a surplus of RM71.3 billion. Exports increased by 2.5%, supported by the increase in demand for manufactured products. Import growth was higher at 6.9%, supported by the positive turnaround in intermediate imports.

In 2014, the trade account recorded a higher surplus of RM83.1 billion. Exports increased by 6.4%, supported by higher expansion of both manufactured and commodity exports. Imports increased by 5.3%, reflecting slower growth across major import categories, except intermediate imports.

Gross Exports

The following table sets out selected information with respect to gross exports for the manufacturing, agriculture and minerals sectors for the years indicated.

Gross Exports

	2010	2011	2012	2013	2014P	2013	2014P	2014P
	(RM million)					Annual change (%)		% share
Manufactures	**486,849**	**504,127**	**519,897**	**549,337**	**589,329**	**5.7**	**7.3**	**76.9**
of which:								
Electronics, electrical machinery and appliances	271,147	261,006	256,471	264,050	286,156	3.0	8.4	37.4
Electronics	194,412	182,159	178,789	186,838	201,225	4.5	7.7	26.3
Semiconductors	97,975	107,090	101,789	111,442	127,353	9.5	14.3	16.6
Electronic equipment and parts	96,438	75,069	77,000	75,396	73,872	(2.1)	(2.0)	9.6
Electrical machinery and appliances	76,734	78,847	77,682	77,212	84,931	(0.6)	10.0	11.1
Electrical industrial machinery and equipment	24,655	27,659	29,204	30,874	34,311	5.7	11.1	4.5
Industrial and commercial electrical products	22,731	24,508	25,480	24,114	29,184	(5.4)	21.0	3.8
Consumer electrical products	25,804	22,866	18,714	18,225	16,351	(2.6)	(10.3)	2.1
Household electrical appliances	3,544	3,814	4,285	3,998	5,085	(6.7)	27.2	0.7
Chemicals and chemical products	41,557	47,767	47,318	51,901	56,817	9.7	9.5	7.4
Petroleum products	29,217	36,654	52,785	66,827	68,975	26.6	3.2	9.0
Manufactures of metal	26,201	31,011	29,475	34,926	35,302	18.5	1.1	4.6
Optical and scientific equipment	18,319	18,760	22,928	20,837	23,639	(9.1)	13.4	3.1
Rubber products	15,454	17,516	19,466	18,222	17,205	(6.4)	(5.6)	2.2
Textiles, clothing and footwear	9,652	10,939	9,488	10,216	11,592	7.7	13.5	1.5
Wood products	8,378	8,563	8,456	8,437	8,441	(0.2)	0.0	1.1
Agriculture	**71,351**	**94,594**	**80,413**	**68,799**	**69,200**	**(14.4)**	**0.6**	**9.0**
of which:								
Palm oil	44,730	60,310	53,067	41,737	41,641	(21.3)	(0.2)	5.4
Palm kernel oil	2,548	3,853	2,460	2,235	2,636	(9.1)	17.9	0.3
Rubber	9,210	13,481	7,864	7,027	4,574	(10.6)	(34.9)	0.6
Minerals	**73,205**	**90,604**	**92,974**	**96,909**	**104,018**	**4.2**	**7.3**	**13.6**
of which:								
LNG	38,742	52,049	56,129	59,567	64,289	6.1	7.9	8.4
Crude oil and condensates	30,765	32,452	31,951	31,643	33,790	(1.0)	6.8	4.4
Others	**7,417**	**8,538**	**9,358**	**4,947**	**3,582**	**(47.1)**	**(27.6)**	**0.5**
Total	638,822	697,862	702,641	719,992	766,129	2.5	6.4	100.0

Note:

P Preliminary.

Sources: Department of Statistics; BNM

In 2010, exports of manufactured goods increased by 12.6%, with strong growth recorded across major products. Electric and electronic exports rose significantly, benefiting from higher demand in the global electronics industry. Similarly, the robust growth on non-electric and electronic exports was mainly on account of firm regional demand for resource-based products such as chemicals, petroleum and rubber products. In 2010, commodity exports turned around to register a growth of 28.5%, supported by strong regional demand and commodity prices. Agriculture and mineral exports reversed previous declines, registering growth rates of 28.2% and 28.9%, respectively, supported by higher commodity prices and larger export volume.

In 2011, exports of manufactured goods increased by 3.5%, reflecting the contraction in electric and electronic exports amid weaker external demand. The contraction in electric and electronic exports was compounded by global supply disruptions following the tsunami in Japan in the first half of 2011. However, the contraction moderated in the second half as the demand for electric and electronic improved and the impact from the global supply chain disruption receded. Meanwhile, robust regional demand provided support to non- electric and electronic exports, in both resource and non-resource based products. Commodity exports continued to experience strong growth of 28.1%, supported by continued regional demand and favorable commodity prices.

In 2012, manufactured exports recorded a slower growth of 3.1%, due to the contraction in electric and electronic exports and the moderation in non-electric and electronic exports. Demand for manufactured exports from advanced economies was weak throughout the year, while slower economic growth in the region in the second half of 2012 led to moderation in demand for non-electric and electronic products and commodities. This was further compounded by the decline in the prices of major commodities, particularly crude palm oil and natural gas, thus leading to a 6.4% contraction in commodity exports. As a result, growth in agriculture exports weakened by 15.0% and mining exports recorded a weaker growth of 2.6%.

In 2013, manufactured exports expanded faster at 5.7%, supported by improvement in the electric and electronic exports amid sustained non- electric and electronic exports, supported by improving demand from both advanced and regional economies, particularly in the second half of the year. Lower prices of Malaysia's key commodities continued to dampen the commodity export growth in 2013, leading to a contraction of 4.4% in the growth of commodity exports.

In 2014, manufactured exports grew faster at 7.3%, due mainly to higher demand for electric and electronic exports, particularly semiconductors, as manufacturers increasingly diversify away from the personal computers sub-segment into several fast growing sub-segments. The continued growth in the regional economies and strong re-export activity supported the performance of non-electric and electronic manufactured exports such as petroleum products, chemicals and chemical products as well as optical and scientific equipment. Commodity exports grew by 4.5%, as higher prices and strong demand for Malaysia's key commodity exports, particularly crude petroleum and LNG in the first half of 2014 more than offset the decline in commodity prices towards the end of 2014.

Gross Imports

The following table sets out gross imports by end use for the years indicated.

Gross imports by end use

Gross Imports

	2010	2011	2012	2013	2014P	2013	2014P	2014P
	(RM million)					Annual change (%)		% share
Capital goods	**73,769**	**80,348**	**96,098**	**98,202**	**96,142**	**2.2**	**(2.1)**	**14.1**
Capital goods (except transport equipment)	62,896	68,516	78,542	78,352	80,502	(0.2)	2.7	11.8
Transport equipment industrial	10,873	11,833	17,556	19,850	15,640	13.1	(21.2)	2.3
Intermediate goods	**365,681**	**376,428**	**363,714**	**379,455**	**408,383**	**4.3**	**7.6**	**59.8**
Food and beverages, mainly for industry	16,712	22,139	20,176	16,740	17,977	(17.0)	7.4	2.6
Industrial supplies	133,714	155,945	157,920	166,324	172,806	5.3	3.9	25.3
Fuel and lubricants	39,932	41,205	42,036	46,326	58,139	10.2	25.5	8.5
Parts and accessories of capital goods (except transport equipment)	161,945	143,451	126,694	131,615	138,596	3.9	5.3	20.3
Parts and accessories of transport equipment	13,378	13,688	16,888	18,450	20,865	9.2	13.1	3.1
Consumption goods	**34,477**	**39,529**	**43,746**	**47,584**	**50,317**	**8.8**	**5.7**	**7.4**
Food and beverages, mainly for household consumption	14,833	17,374	18,907	20,080	21,494	6.2	7.0	3.1
Transport equipment non-industrial	627	852	1,054	1,434	1,082	36.0	(24.5)	0.2
Consumer goods, n.e.s.	19,017	21,302	23,785	26,071	27,741	9.6	6.4	4.1
Others	**54,900**	**77,321**	**103,119**	**123,455**	**128,141**	**19.7**	**3.8**	**18.8**
of which:								
Dual use goods	15,925	28,587	34,460	28,610	26,088	(17.0)	(8.8)	3.8
Re-exports	35,658	45,551	65,721	92,002	99,115	40.0	7.7	14.5
Total	528,828	573,626	606,677	648,695	682,982	6.9	5.3	100.0

Notes:

P Preliminary.

n.e.s. Not elsewhere specified.

Sources: Department of Statistics; BNM

In 2010, gross imports expanded by 21.7%; all major import categories expanded. Intermediate imports increased by 23.0%, in tandem with the increased manufacturing activity. Capital imports increased by 12.2%, in line with the revival of domestic investment activity. Imports of consumption goods expanded by 9.7%, reflecting positive consumer spending.

In 2011, gross imports growth was 8.5%, compared to 21.7% in 2010, primarily due to lower growth of imports of intermediate goods and capital goods. Growth of intermediate imports was lower at 2.9%, in tandem with the moderation in manufacturing activity. Capital imports registered a more modest growth of 8.9%, driven mainly by the implementation of capital-intensive investment projects in the manufacturing and mining sectors. Growth in imports of consumption goods was higher at 14.7%, supported mainly by higher imports of food and beverage.

In 2012, gross imports increased at a slower pace of 5.8%, reflecting mainly a 3.4% contraction in intermediate imports, in tandem with continued moderation in manufactured exports. The strong growth rates in the import of capital and consumption goods of 19.6% and 10.7%, respectively, reflected the positive effect of improved domestic demand.

In 2013, gross imports increased by 6.9%, due mainly to the 4.3% increase in intermediate imports. Imports of both capital and consumption goods expanded by 2.2% and 8.8%, respectively, supported by continued strength in domestic demand.

In 2014, gross imports expanded by 5.3%, primarily due to an increase in the imports of intermediate goods, which recorded a 7.6% increase over the previous year. This improvement was partially offset by the 2.1% decline in capital imports and slower growth in consumption imports at 5.7%.

Direction of External Trade

The following table sets out information on the direction of external trade for the years indicated.

Direction of external trade(1)

	2010		2011		2012		2013		2014		2014P	
	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import
	(RM billion)										(% share)	
ASEAN	162.2	143.3	171.6	159.5	188.2	169.3	201.6	172.9	213.6	175.5	27.9	25.7
of which												
Singapore	85.3	60.3	88.2	73.7	95.6	80.5	100.3	80.2	108.8	85.7	14.2	12.5
Thailand	34.1	33.0	35.7	34.5	37.6	35.7	39.9	38.6	40.3	39.6	5.3	5.8
Indonesia	18.1	29.4	20.8	35.1	27.6	31.1	33.1	27.9	31.8	27.7	4.1	4.1
Philippines	10.0	11.3	10.9	4.8	10.5	4.8	9.3	4.7	12.0	5.2	1.6	0.8
Brunei Darussalam	1.4	0.2	1.7	0.1	2.1	0.2	2.6	1.0	2.8	0.8	0.4	0.1
Vietnam	11.4	8.3	11.7	10.3	11.8	16.1	13.3	19.0	14.3	15.3	1.9	2.2
Selected East Asian countries	157.1	131.6	172.3	139.7	166.1	155.1	176.2	178.9	182.3	192.3	23.8	28.2
China	80.1	66.4	91.6	75.7	88.8	91.9	97.0	106.3	92.3	115.5	12.1	16.9
Hong Kong SAR	32.4	12.7	31.3	13.6	30.1	13.3	31.3	10.5	37.0	10.8	4.8	1.6
Taiwan	20.2	23.8	23.2	27.1	21.8	25.2	21.7	31.5	24.8	34.4	3.2	5.0
South Korea	24.3	28.7	26.3	23.3	25.4	24.7	26.2	30.7	28.1	31.7	3.7	4.6
G3 countries(2)	196.4	176.9	211.1	179.6	206.3	177.0	202.5	177.4	219.9	178.2	28.7	26.1
United States	61.0	56.3	57.7	55.4	60.8	49.1	58.1	50.7	64.4	52.3	8.4	7.7
Japan	66.8	66.5	81.4	65.4	83.4	62.4	79.2	56.4	82.7	54.7	10.8	8.0
European Union total	68.7	54.1	72.0	58.9	62.1	65.5	65.2	70.3	72.8	71.1	9.5	10.4
United Kingdom	7.2	5.8	7.2	6.1	6.8	6.8	6.8	7.3	7.9	7.1	1.0	1.0
Germany	17.3	21.3	18.5	22.0	16.0	23.2	16.5	22.9	17.9	23.2	2.3	3.4
Netherlands	20.2	3.4	19.3	3.6	18.6	5.0	20.7	5.4	23.4	8.2	3.1	1.2
Other European countries	23.9	23.6	27.1	27.1	20.7	30.5	21.2	34.7	23.6	32.7	3.1	4.8
India	20.9	8.0	28.2	10.2	29.3	11.8	25.7	16.3	31.9	13.3	4.2	2.0
Australia	24.0	10.2	25.7	12.8	29.1	14.6	29.2	16.5	33.0	20.2	4.3	3.0
New Zealand	3.0	2.0	3.0	2.4	3.6	2.4	4.4	2.7	5.2	2.9	0.7	0.4
Canada	3.1	2.9	2.8	2.8	2.9	2.9	2.5	3.2	2.6	3.0	0.3	0.4
Russia	2.2	1.3	2.7	1.1	2.2	1.3	2.0	3.7	2.4	6.8	0.3	1.0
Rest of the World	70.0	52.7	80.5	65.5	75.0	72.4	75.8	77.1	75.2	90.8	9.8	13.3
Total	638.8	528.8	697.9	573.6	702.6	606.7	720.0	648.7	766.1	683.0	100.0	100.0

Notes:

P Preliminary.

(1) Exports are valued on a f.o.b. basis and imports on a c.i.f. basis.

(2) Refers to the United States, the European Union and Japan.

Source: Department of Statistics.

In 2010, trade with ASEAN and East Asian countries (excluding Japan) deepened further to represent 50.9% of total trade. The share of total trade to the advanced economies, including the United States, the European Union and Japan amounted to 32.0%.

In 2011, trade with ASEAN and East Asian countries (excluding Japan) remained significant and represented 50.6% of total trade. The share of total trade to the advanced economies, including the United States, the European Union and Japan remained important, but was lower at 30.7%.

In 2012, trade with ASEAN and East Asian countries (excluding Japan) was higher and represented 51.8% of total trade. The share of total trade to the advanced economies, including the United States, the European Union and Japan remained significant, but was lower at 29.3%.

In 2013, trade with ASEAN and East Asian countries (excluding Japan) continued to increase to represent 53.3% of total trade. The share of total trade to the advanced economies, including the United States, the European Union and Japan was lower at 27.8%.

In 2014, trade with ASEAN and East Asian countries (excluding Japan) was expected to be sustained and to represent 52.7% of total trade. The share of total trade to the advanced economies, including the United States, the European Union and Japan was also expected to be sustained at 27.5%.

Between 2010 and 2014, Malaysia's trade with ASEAN and East Asian countries (excluding Japan) has strengthened, supported by broad-based increase in trade across major products, including manufactured products (*e.g.*, electronics and electrical, petroleum products and chemical products) and commodities (*e.g.*, crude palm oil and LNG). Over the same period, Malaysia's trade with the advanced economies, including the United States, the European Union and Japan, has been on a downward trend in terms of their aggregate share of trade with Malaysia, however such share remained significant. Trade with the United States and the European Union remained primarily in the manufactured products, and mainly in LNG with Japan.

International Reserves

The following tables set out the net international reserves of BNM, in ringgit and U.S. dollars, as at the dates indicated.

Net international reserves of BNM

	As at December 31,				
	2010	2011	2012	2013	2014
	(RM million)[1]				
Special Drawing Rights	6,442.5	6,253.0	6,043.5	6,488.2	6,518.1
IMF reserve position	1,453.5	2,672.2	2,652.8	3,183.2	3,295.3
Gold and foreign exchange[2]	320,774.4	414,432.5	418,535.0	432,209.5	395,559.3
Gross international reserves	328,670.5	423,357.7	427,231.3	441,880.8	405,372.6
External liabilities	(21.4)	(26.7)	(27.3)	(27.9)	(27.1)
Net international reserves	328,649.1	423,331.0	427,204.0	441,852.9	405,345.5

Notes:

(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 have been 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: BNM.

Net international reserves of BNM

	As at December 31,				
	2010	2011	2012	2013	2014
	(US$ million)[1]				
Special Drawing Rights . . .	2,088.0	1,973.5	1,976.3	1,980.8	1,864.2
IMF reserve position	471.1	843.4	867.5	971.8	942.4
Gold and foreign exchange[2]	103,966.0	130,801.3	136,880.2	131,958.1	113,130.8
Gross international reserves	106,525.1	133,618.2	139,724.0	134,910.8	115,937.4
External liabilities	(6.9)	(8.4)	(8.9)	(8.5)	(7.8)
Net international reserves. .	106,518.2	133,609.7	139,715.1	134,902.3	115,929.7

Notes:

(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: BNM.

As at December 31, 2010, gross international reserves were RM328.7 billion or equivalent to US$106.5 billion. After taking into account BNM's external liabilities of RM21.4 million, net international reserves were RM328.6 billion. The international reserves reflected direct investment abroad and net private sector outflows, which more than offset the current account surplus and inflows of FDI and portfolio capital. The level of international reserves as at December 31, 2010 was sufficient to finance 8.6 months of retained imports and was 1.7 times the short-term external debt.

As at December 31, 2011, gross international reserves increased by RM94.7 billion to RM423.4 billion or equivalent to US$133.6 billion. After taking into account BNM's external liabilities of RM26.7 million, net international reserves were RM423.3 billion. The higher reserves reflected mainly the larger current account surplus and inflows of foreign direct investment and portfolio capital. There was also a cumulative unrealized foreign exchange revaluation gain following the strengthening of some of the major currencies against the ringgit during the year. However, the increase in reserves was partly offset by higher direct investment abroad. The reserves position as at December 31, 2011 was sufficient to finance 9.6 months of retained imports and was 1.7 times the short-term external debt.

As at December 31, 2012, gross international reserves rose by RM3.9 billion to RM427.2 billion or equivalent to US$139.7 billion. After taking into account BNM's external liabilities of RM27.3 million, net international reserves were RM427.2 billion. The higher reserves reflected the continued current account surplus which more than offset net capital outflows. It has also taken into account the cumulative unrealized foreign exchange revaluation loss following the strengthening of ringgit against selected major and regional currencies during the year. The reserves position as at December 31, 2012 was sufficient to finance 9.5 months of retained imports and was 1.5 times the short-term external debt.

As at December 31, 2013, gross international reserves increased by RM14.6 billion to RM441.9 billion or equivalent to US$134.9 billion. After taking into account BNM's external liabilities of RM27.9 million, net international reserves were RM441.9 billion. The higher reserves reflected the continued current account surplus, which offset the net capital outflows from the financial account. It has also taken into account the cumulative unrealized foreign exchange revaluation gain following the depreciation of the ringgit against some major and regional currencies. The reserves position as at December 31, 2013 was sufficient to finance 9.5 months of retained imports and was 1.3 times the short-term external debt.

As at December 31, 2014, gross international reserves decreased by RM36.5 billion to RM405.4 billion or equivalent to US$115.9 billion. After taking into account BNM's external liabilities of RM27.1 million, net international reserves were RM405.3 billion. The decline in reserves during the year reflected the relatively higher net capital outflows which offset the current account surplus. It has also taken into account the cumulative unrealized foreign exchange revaluation gain following the depreciation of the ringgit against major and regional currencies. The reserves position as at December 31, 2014 was sufficient to finance 8.3 months of retained imports and was 1.1 times the short-term external debt.

The international reserves of BNM amounted to RM381.5 billion (equivalent to US$109.2 billion, using an exchange rate of 1 US$=RM3.4920) as at March 13, 2015. The reserves position was sufficient to finance 7.8 months of retained imports and was 1.1 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. 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 orderly conditions on the foreign exchange market. 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 2010, the ringgit appreciated against the U.S. dollar by 11.1%, the Euro by 20.6% and the pound sterling by 15.0% but depreciated against the Japanese yen by 2.1%. Against regional currencies, the ringgit appreciated against the Korean won by 8.5%, the Chinese renminbi by 7.6%, the Indonesian rupiah by 6.0%, the Philippine peso by 5.4%, the Singapore dollar by 2.3% and the Thai baht by 0.4%.

In 2011, the ringgit depreciated against the U.S. dollar by 2.9%, the euro by 0.8%, the pound sterling by 2.3% and the Japanese yen by 7.6%. Against regional currencies, the ringgit appreciated against the Thai baht by 2.2%, but depreciated against the Indonesian rupiah by 0.9%, the Korean won by 1.4%, the Singapore dollar by 2.3%, the Philippine peso by 2.9% and the Chinese renminbi by 7.4%.

In 2012, the ringgit appreciated against the U.S. dollar by 3.9%, the Euro by 1.7% and the Japanese yen by 15.2%, but depreciated against the pound sterling by 0.9%. Against regional currencies, the ringgit appreciated against the Indonesian rupiah by 9.2%, the Chinese renminbi by 2.5%, and the Thai baht by 0.2%, but depreciated against the Singapore dollar by 2.4%, the Philippine peso by 2.7%, and the Korean won by 4.2%.

In 2013, the ringgit appreciated against the Japanese yen by 13.7%, but depreciated against the U.S. dollar by 6.8%, the pound sterling by 8.6% and the Euro by 10.7%. This was mainly due to market expectations for a reduction in the asset purchase program by the U.S. Federal Reserve Bank which prompted a reversal of portfolio flows especially between the May and August period. Against regional currencies, the ringgit appreciated against the Indonesian rupiah by 17.8%, the Philippine peso by 0.7% and the Thai baht by 0.2%, but depreciated against the Singapore dollar by 3.5%, the Korean won by 7.8%, and the Chinese renminbi by 9.5%.

In 2014, the ringgit depreciated against the U.S. dollar by 6.1% and the pound sterling by 0.6% but appreciated against the Euro by 6.5% and the Japanese yen by 6.9%. Against regional currencies, the ringgit depreciated against the Singapore dollar by 1.9%, the Korean won by 2.9%, the Chinese renminbi by 3.8%, the Indonesian rupiah by 4.2%, the Philippine peso by 5.3%, and the Thai baht by 6.1%.

Further in 2014, the performance of the ringgit followed two noticeable patterns. Between February and August 2014, the ringgit was broadly on a strengthening trend due to sustained portfolio inflows. From September, however, the ringgit, along with most regional currencies, faced depreciation pressures as investors unwound their holdings of financial assets in the region amidst uncertainty regarding possible changes in U.S. monetary policy and signs of weakness in global growth momentum. For 2014 as a whole, the ringgit depreciated by 6.1% to RM3.4950 against the U.S. dollar.

The following table shows exchange rates of the ringgit versus the U.S. dollar, the Singapore dollar and the Japanese yen for the periods indicated.

Ringgit	Ringgit Per US$(1)	Ringgit Per Singapore $	Ringgit Per 100 Yen
End of Period			
December 2010	3.0835	2.3859	3.7869
December 2011	3.1770	2.4427	4.0975
December 2012	3.0583	2.5030	3.5576
December 2013	3.2815	2.5943	3.1281
March 2014	3.2685	2.5927	3.1770
June 2014	3.2105	2.5703	3.1690
September 2014	3.2715	2.5702	2.9922
December 2014	3.4950	2.6449	2.9255
March 31, 2015	3.7165	2.6997	3.0903

Note:

(1) U.S. dollar rates are the average of buying and selling interbank rates at noon. Rates for the Singapore dollar and Japanese yen are cross rates derived from the rates of such currencies against the U.S. dollar and the RM/U.S. dollar exchange rate.

Source: BNM.

Foreign Exchange Administration Policy

Malaysia maintains a liberal foreign exchange administration policy, in line with Malaysia's commitment to enhance the competitiveness of its economy through the creation of a more supportive environment for trade, business and investment activities.

Malaysian markets are easily accessible by global investors. There is free mobility for inflow and outflow of capital for investment in Malaysia. Currently, non-residents are free to invest in any form of ringgit assets either as direct or portfolio investments. The non-residents are free to remit out divestment proceeds, profits, dividends or any income arising from investments in Malaysia. The ringgit proceeds from such investment can be freely converted into foreign currency with licensed onshore banks.

Residents are free to undertake any amount of investment in foreign currency assets in Malaysia. Residents without domestic ringgit borrowing are free to undertake any amount of investment abroad. Residents with domestic ringgit borrowing are free to convert up to RM1 million (for individuals) and RM50 million (for entities) in aggregate for the group of resident entities with parent-subsidiary relationship per calendar year for investment abroad.

A liberal hedging policy is also in place to further promote risk management culture and support the development of foreign exchange market. As at the date hereof, residents and non-residents are free to hedge ringgit exposure with licensed onshore banks arising from current account and financial account transactions.

To enhance accessibility of financing by businesses, resident entities are free to borrow any amount in foreign currency from licensed onshore banks. To provide additional flexibility of financing for real sector activities in Malaysia, a resident entity is free to borrow any amount in ringgit from its non-resident related entity (other than financial institutions or a special purpose vehicle which is used to obtain borrowing from any person which is not part of the resident entity's group of entities) for such purposes.

Non-residents are also free to borrow any amount in foreign currency from licensed onshore banks. Borrowing in ringgit by non-residents from licensed onshore banks (excluding licensed international Islamic banks) is allowed to finance activities in real sector in Malaysia.

In efforts to promote greater efficiency in the conduct of international trade in line with Malaysia's strong inter-linkages with global and regional economies, residents and non-residents are free to make or receive payment in ringgit and foreign currency for settlement of trade in goods and services.

Domestic Debt

The following table sets out information on Malaysia's outstanding domestic debt by sector and maturity length as of the dates indicated.

	As at December 31,				
	2010	**2011**	**2012**	**2013**	**2014**
			(RM billion)		
Private	1,194.2	1,340.1	1,510.7	1,652.9	1,799.3
Loans by banking system	883.3	1,003.5	1,108.0	1,225.7	1,339.7
Term loans	654.4	758.3	850.7	944.0	1,035.1
Medium- and long-term	630.7	731.5	819.8	916.6	1,004.9
Short-term	23.7	26.7	30.8	27.4	30.2
Other(1)	228.9	245.2	257.3	282.1	305.2
Local currency corporate bonds(2)	310.9	336.6	402.7	427.2	459.6
Public(3)	393.7	439.9	484.8	523.1	566.1
Government	390.4	438.0	484.8	523.1	566.1
Medium- and long-term	386.1	433.7	480.4	518.8	561.7
Short-term (Treasury bills)	4.3	4.3	4.3	4.3	4.3
Malaysia savings bonds(4)	3.3	1.9	—	—	—
Total domestic debt	1,587.9	1,780.0	1,995.5	2,176.0	2,365.4
% of GDP	199.2	201.1	211.8	220.5	221.1
Annual growth (%)	11.2	12.1	12.1	9.0	8.7

Notes:

P Preliminary.

(1) Comprises mainly trade bills, trust receipts, overdrafts and revolving credit and foreign currency loans.

(2) Consists of corporate (including NFPEs), Khazanah, 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, housing loans, a syndicated loan and retail bonds.

(4) Issued by BNM.

Sources: Ministry of Finance; BNM; Cagamas; Danaharta; and Danamodal.

Total domestic debt amounted to RM2,365.4 billion as at December 31, 2014, compared to RM2,176.0 billion as at December 31, 2013. The domestic debt consisted of loans extended by the banking system (including loans sold to Cagamas) of RM1339.7 billion in 2014, compared to RM1,225.7 billion in 2013; private debt securities of RM1,799.3 billion in 2014, compared to RM1,652.9 billion in 2013; and public sector debt of RM566.1 billion in 2014, compared to RM523.1 billion in 2013. See "*Financial System — Banking System Lending*" for more information on banking system loans, and see "*Public Finances*" for more information on public sector debt.

By type, term loans accounted for 77.3% of outstanding loans of the banking system as at December 31, 2014, compared to 77.0% in 2013, while the other loans comprised mainly overdrafts, revolving credits, trade financing facilities and foreign currency loans. Approximately 97.1% of the term loans in 2014 had medium- and long-term maturities of more than one year, compared to 97.1% in 2013.

Local currency corporate bonds increased at an average annual rate of 10.4% since 2010, from RM310.9 billion as at December 31, 2010 to RM459.6 billion as at December 31, 2014. The public sector's portion of outstanding domestic debt increased at an average annual growth of 10.0% during the same period largely due to increased borrowings by Government from RM393.7 billion as at December 31, 2010 to RM566.1 billion as at December 31, 2014. Most of the public sector's outstanding debt is either medium- or long-term.

The total outstanding Government debt, including external debt, remained manageable at RM582.8 billion as at December 31, 2014, compared to RM539.9 billion as at December 31, 2013 and RM501.6 billion as at December 31, 2012. Debt servicing of the Government was 10.2% of operating expenditure in 2014, 10.4% in 2013 and 9.5% in 2012.

External Debt

With effect from the first quarter of 2014, Malaysia used a revised definition of "external debt" to be consistent with the latest international best practice, as explained below. The redefined external debt better reflects the increasing depth and breadth of Malaysia's financial markets and the consequent rise in foreign investors' participation in domestic debt securities. The redefined external debt takes into account the non-resident holdings of local-currency denominated debt papers and other debt-related non-resident financial flows, such as trade credits, currency and deposits, and other loans and liabilities. Under this definition, the external debt includes all liabilities that require payment of principal and/or interest at some point in the future, and are owed to non-residents by residents of an economy irrespective of the currency denomination of the debt. About two-thirds of the increase in the total external debt arising from the redefinition was attributed to the inclusion of non-resident holdings of domestic debt securities, in particular Malaysian Government Securities and Bank Negara Monetary Notes, as external debt.

The following tables set out information on the outstanding external debt of Malaysia for the periods indicated, in ringgit and U.S. dollars, respectively. Conversion to the U.S. dollar figures are based on the exchange rate at the end of the relevant period.

External debt outstanding

	As at December 31,				
	2010	**2011**	**2012**	**2013**	**2014 [P]**
			(RM million)		
Offshore Borrowing [(1)]	**227,072**	**257,273**	**257,594**	**324,088**	**367,072**
Medium-and long-term [(2)]	**147,653**	**153,525**	**165,139**	**195,986**	**210,872**
Government	16,746	18,105	16,848	16,763	16,776
Public enterprises	70,383	69,562	71,392	82,141	76,343
Private sector	60,524	65,859	76,899	97,082	117,753
Short-term [(3),(4)]	**79,420**	**103,748**	**92,455**	**128,102**	**156,200**
Banking sector	67,982	92,302	79,981	113,530	139,908
Non-bank private sector	11,438	11,446	12,474	14,573	16,292
NR holdings of domestic debt securities	**118,935**	**163,268**	**223,606**	**229,674**	**223,291**
Government securities	75,012	104,270	132,410	141,669	151,377
Others	43,923	58,998	91,196	88,005	71,914
NR deposits	**34,628**	**43,917**	**58,963**	**77,325**	**87,672**
Others [(5)]	**53,643**	**72,997**	**61,897**	**65,524**	**66,665**
Total external debt	**434,278**	**537,456**	**602,060**	**696,610**	**744,700**
% GNI	56.3	62.2	66.5	73.1	72.1
% GDP	54.5	60.7	63.9	70.6	69.6
% exports of goods and services	58.4	66.3	75.0	86.4	87.4
% annual growth	11.8	23.8	12.0	15.7	6.9
Debt service ratio (as % of exports of goods and services[(6)]	10.6	15.3	17.4	17.6	18.2

Notes:

P Preliminary.

NR Non-residents.

(1) Offshore borrowing is equivalent to the external debt under the previous definition prior to the adoption of a revised definition with effect from the first quarter of 2014. It comprises mainly loans raised, and bonds and notes issued offshore.

(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.

(4) The Government has not incurred any short-term offshore borrowing.

(5) Comprises trade credits, IMF allocation of SDRs and other debt liabilities.

(6) Measures the principal repayment, including prepayment, and the interest payment of the external debt as a proportion of gross exports of goods and services.

Sources: Ministry of Finance; BNM.

External debt outstanding

	As at December 31,				
	2010	2011	2012	2013	2014[P]
	(USD million)[(1)]				
Offshore Borrowing [(2)]	**72,817**	**80,375**	**83,280**	**97,605**	**104,019**
Medium-and long-term [(3)]	**47,349**	**47,963**	**53,389**	**59,025**	**59,756**
Government	5,370	5,656	5,447	5,048	4,754
Public enterprises	22,570	21,732	23,081	24,738	21,634
Private sector	19,409	20,575	24,861	29,238	33,368
Short-term [(4)(5)]	**25,468**	**32,412**	**29,891**	**38,580**	**44,263**
Banking sector	21,800	28,836	25,858	34,192	39,646
Non-bank private sector	3,668	3,576	4,033	4,389	4,617
NR holdings of domestic debt securities	**38,140**	**51,007**	**72,292**	**69,171**	**63,275**
Government securities	24,055	32,575	42,808	42,666	42,896
Others	14,085	18,432	29,484	26,504	20,379
NR deposits	**11,104**	**13,720**	**19,063**	**23,288**	**24,844**
Others [(6)]	**17,202**	**22,805**	**20,011**	**19,734**	**18,891**
Total external debt	**139,263**	**167,908**	**194,646**	**209,797**	**211,029**
% GNI	56.3	62.2	66.5	73.1	72.1
% GDP	54.5	60.7	63.9	70.6	69.6
% exports of goods and services	58.4	66.3	75.0	86.4	87.4
% annual growth	11.8	23.8	12.0	15.7	6.9
Debt service ratio (as % of exports of goods and services[(7)]	10.6	15.3	17.4	17.6	18.2
RM/US$ (end-period)	3.1184	3.2009	3.0931	3.3204	3.5289

Notes:

P Preliminary.

NR Non-residents.

(1) Converted to U.S. dollars at the exchange rate at the end of the relevant period.

(2) Offshore borrowing is equivalent to the external debt under the previous definition prior to the adoption of a revised definition with effect from the first quarter of 2014. It comprises mainly loans raised, and bonds and notes issued offshore.

(3) Medium- and long-term debt refers to debt with original maturity of more than one year.

(4) Short-term debt refers to debt with original maturity of one year or less.

(5) The Government has not incurred any short-term offshore borrowing.

(6) Comprises trade credits, IMF allocation of SDRs and other debt liabilities.

(7) Measures the principal repayment, excluding prepayment, and the interest payment of the external debt as a proportion of gross exports of goods and services.

Sources: Ministry of Finance; BNM.

As at December 31, 2010, Malaysia's total external debt amounted to RM434.3 billion, equivalent to US$139.3 billion. Short-term external debt accounted for 43.9% of total external debt, while the total debt service ratio amounted to 10.6% in 2010.

As at December 31, 2011, Malaysia's total external debt amounted to RM537.5 billion, equivalent to US$167.9 billion. The increase in external debt during the year was due to the increase in non-resident holdings of domestic debt securities, particularly the government debt securities. An increase in offshore borrowing also contributed significantly to higher external debt. This reflects mainly the net drawdown of offshore borrowing by the banking sector and partly the Government's successful issuance of a dual tranche (five-year and 10-year) Wakala Global Sukuk of US$2.0 billion in July 2011. Short-term external debt increased to 47.7% of total external debt, reflecting mainly higher interbank borrowing. Meanwhile, total debt service ratio increased to 15.3% in 2011.

As at December 31, 2012, Malaysia's total external debt amounted to RM602.1 billion, equivalent to US$194.6 billion. The increase in external debt during the year was due mainly to the increase in non-resident holdings of domestic debt securities of both the government and other domestic debt securities, as well as an increase in non-resident deposits. Short-term external debt accounted for 47.1% of total external debt, while total debt service ratio increased to 17.4% in 2012.

As at December 31, 2013, Malaysia's total external debt amounted to RM696.6 billion, equivalent to US$209.8 billion. The increase in external debt during the year was due mainly to the increase offshore borrowing by the private sector, particularly by the banking sector, and an increase in non-resident deposits. The increase in external debt partly reflected the valuation effects of the depreciation of ringgit. Short-term external debt accounted for 48.6% of total external debt, while total debt service ratio increased to 17.6% in 2013.

As at December 31, 2014, Malaysia's total external debt amounted to RM744.7 billion, equivalent to US$211.0 billion. The increase in external debt during the year was due mainly to the increase in offshore borrowing by the private sector, particularly by the banking sector, followed by an increase in non-resident deposits. The increase in external debt partly reflected the valuation effects of the depreciation of ringgit, particularly in the fourth quarter. Short-term external debt accounted for 48.4% of total external debt, while total debt service ratio increased to 18.2% in 2014.

Malaysia maintains prudential rules on external borrowings by both the private and public sectors. External borrowings are governed by the FSA and related legislation administered by BNM. External borrowings by the Government are also subject to the provisions of the External Loans Act 1963 (revised 1989), 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. The objectives of exchange control policy are to monitor the settlement of payments to, and receipts from, non-residents. In general, approval will be granted if the funds are to be used to generate economic benefits for the country.

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. In 2010, resident companies were allowed to borrow any amount in foreign currency from non-resident non-bank related companies, which include the ultimate holding, parent/head office, subsidiary/branch and/or associate or sister companies. As of June 30, 2013, a resident entity is allowed to borrow in foreign currency in any amount from its resident or non-resident entities within its group, or its resident or non-resident direct shareholder, provided that such entity is not a non-resident financial institution or a non-resident special purpose vehicle which is set up to obtain borrowings from any person which is not part of the resident entity's group.

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.

Ongoing Delimitation Issues

Malaysia shares maritime boundaries with a number of its neighbors including Brunei Darussalam, the Kingdom of Thailand, the Republic of Indonesia, the Republic of the Philippines, the Republic of Singapore, and the Socialist Republic of Vietnam.

While some of the maritime boundaries have been delimited, there still exists a number of maritime boundaries which are yet to be delimited. In this regard, Malaysia and the relevant neighboring countries have agreed to resolve maritime boundaries delimitation through peaceful means, in accordance with the relevant principles of international law, including the 1982 United Nations Convention on the Law of the Sea.

Negotiation relating to the delimitation of maritime boundaries which have not been delimited yet between Malaysia and the Republic of Indonesia is being conducted under the framework of the Technical Meeting on Maritime Boundaries Delimitation between Malaysia and the Republic of Indonesia ("Technical Meeting"). The most recent Technical Meeting was held in February 2015.

Litigation and Arbitration

In addition to proceedings disclosed under the caption "*Ongoing Delimitation Issues*" Malaysia is from time to time involved in other litigation or international arbitration, none of which it considers to be material.

Infections

Since 2006, Malaysia has implemented a National Influenza Pandemic Preparedness Plan which provides action plans and strategic framework for a multi-sectoral response in the event of an influenza pandemic. This plan also includes initiatives to ensure coordination among the Ministry of Health, other governmental departments and agencies and non-governmental organizations and an efficient allocation and use allocation of resources before, during and after an influenza pandemic episode. Pursuant to the National Influenza Pandemic Preparedness Plan, the Government has taken several steps in influenza pandemic preparedness such as (i) stockpiling of antivirals and personal protective equipment, and vaccination of public healthcare providers, (ii) improving capacity and capability in the Government hospitals and laboratories, such as upgrading intensive care unit facilities, installing negative-pressured isolation rooms and upgrading emergency rooms and laboratories, (iii) conducting simulation exercises involving relevant local as well as international agencies in order to assess the effectiveness of the surveillance and response systems, (iv) continuously upgrading the knowledge and skills of the health and medical personnel to provide comprehensive case management, (v) promoting cooperation between private and public health systems to ensure accessibility of treatments, and (vi) strengthening risk communication activities through public health campaigns, press statements, and/or health alerts which are issued on a regular basis. In addition, Malaysia collaborate and communicate with foreign government, technical agencies and international organizations, including the United Nations' World Health Organization, the Global Health Security Agenda and ASEAN.

The National Security Council of Malaysia (the "NSC") is the main governmental agency in charge with the coordination of disaster management and response, including in case of pandemic outbreaks such as the Nipah Virus, SARS, Avian Influenza (H5N1), and dengue outbreaks. The Disaster Management and Relief Committee acts as a platform to facilitate logistical arrangements (provisions of relief supply), preservation of safety and public order during a particular health emergency and the Ministry of Health provides technical expertise and inter-agency coordination in the prevention and control activities with regards to public health incidents.

In 2007, the Crisis Preparedness and Response Centre was established within the Ministry of Health. The Crisis Preparedness and Response Centre is designed to be a one-stop center for coordinating the surveillance of and response to public health emergencies. It is also a communication and collaboration center for promoting and disseminating information through effective and clear communication channels.

Natural Disasters

In December 2014, northeast monsoon heavy rains and resulting floods resulted in loss of lives, affected more than 500,000 people, destroyed property and infrastructure and had a negative effect on economic activities in several states, including Kelantan, Terengganu, Pahang, Kedah and Perak. As of January 2015, damage to infrastructure was estimated to be approximately RM2.9 billion.

The Government has been providing assistance to individuals, local communities and businesses, including indemnification for damage, assistance with repair and reconstruction, an initial allocation of RM500 million for rehabilitation works and welfare programs for flood victims, in addition to a previously announced allocation of RM287 million to the NSC, an initial allocation of RM800 million for repair and reconstruction of basic infrastructure such as schools, hospitals, roads and bridges, Government spending in the amount of RM893 million under the 2015 Budget for flood mitigation projects, assistance to affected businesses in the form of preferential loans to SMEs and micro-enterprises, deferral of certain loan repayments for businesses, access to liquidity through selected financial institutions and exemption of certain levy payments.

In addition, flood mitigation efforts will be improved through innovative solutions taking into account the intensity and frequency of extreme weather events. The Government is considering alternative and new technologies as well as mechanisms for flood mitigation; it will re-assess the effectiveness of existing mitigation measures and take remedial action, as necessary; and the Government will also pursue the implementation of existing initiatives relating to improving flood and weather forecasting and the flood warning system, and integrated water management systems.

Malaysian Airlines

In March 2014, a flight operated by Malaysian Airline System Berhad ("Malaysian Airlines"), the national carrier, disappeared while flying from Kuala Lumpur to Beijing, China and in July 2014, 298 people were killed in a crash involving a Malaysian Airlines plane in Ukraine.

EXPERTS; OFFICIAL STATEMENTS AND DOCUMENTS

Information contained herein that is identified as being derived from a publication of Malaysia or one of its agencies or instrumentalities is included herein on the authority of such publication as an official public document of Malaysia. All other information contained herein is included as an official public statement made on the authority of the Ministry of Finance of Malaysia.

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 order provided under Section 127(3)(b) of the Income Tax Act 1967 has been gazetted on March 30, 2015.

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 monies 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.

CERTAIN U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following is a summary of certain U.S. federal income tax consequences of the acquisition, ownership and disposition of Certificates by a U.S. Holder (as defined below). This summary deals only with initial purchasers of Certificates that are U.S. Holders and that will hold the Certificates as capital assets. The discussion does not cover all aspects of U.S. federal income taxation that may be relevant to, or the actual tax effect that any of the matters described herein will have on, the acquisition, ownership or disposition of Certificates by particular investors (including consequences under the alternative minimum tax or net investment income tax), and does not address state, local, non-U.S. or other tax laws. This summary also does not discuss all of the tax considerations that may be relevant to certain types of investors subject to special treatment under the U.S. federal income tax laws (such as financial institutions, insurance companies, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations, dealers in securities or currencies, investors that will hold the Certificates as part of straddles, hedging transactions or conversion transactions for U.S. federal income tax purposes, persons that have ceased to be U.S. citizens or lawful permanent residents of the United States, investors holding the Certificates in connection with a trade or business conducted outside of the United States, U.S. citizens or lawful permanent residents living abroad or investors whose functional currency is not the U.S. dollar).

As used herein, the term "U.S. Holder" means a beneficial owner of Certificates that is, for U.S. federal income tax purposes, (i) an individual citizen or resident of the United States, (ii) a corporation created or organised under the laws of the United States or any State thereof, (iii) an estate the income of which is subject to U.S. federal income tax without regard to its source or (iv) a trust if a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or the trust has validly elected to be treated as a domestic trust for U.S. federal income tax purposes.

The U.S. federal income tax treatment of a partner in an entity treated as a partnership for U.S. federal income tax purposes that holds Certificates will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are entities treated as partnerships for U.S. federal income tax purposes should consult their tax advisers concerning the U.S. federal income tax consequences to them and their partners of the acquisition, ownership and disposition of Certificates by the partnership.

This summary is based on the tax laws of the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations thereunder, published rulings and court decisions, all as of the date hereof and all subject to change at any time, possibly with retroactive effect.

THE SUMMARY OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. IT IS NOT INTENDED TO BE RELIED UPON BY PURCHASERS FOR THE PURPOSE OF AVOIDING PENALTIES THAT MAY BE IMPOSED UNDER THE U.S. INTERNAL REVENUE CODE. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCES TO THEM OF ACQUIRING, OWNING, AND DISPOSING OF THE CERTIFICATES, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, NON-U.S. AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Characterization of the Certificates

The Government of Malaysia, the Trustee and each beneficial owner of the Certificates agree in the Conditions to treat the Certificates as debt instruments for U.S. federal income tax purposes and agree not to take any position contrary to the foregoing on any U.S. federal income tax return or information statement. This treatment is not binding on the U.S. Internal Revenue Service (the "**IRS**") and no ruling will be sought from the IRS regarding this or any other aspect of the tax classification of the Certificates or the Trust. There can be no assurance that the IRS will not contend, and that a court would not ultimately hold, that, for U.S. federal income tax purposes, either (i) the Certificates are interests in a partnership and that holders of Certificates are partners of such partnership or (ii) the Trust is a grantor trust.

If it is determined that the Certificates are interests in a partnership and that holders of Certificates are partners in such partnership and for U.S. federal income tax purposes, the consequences to U.S. Holders should generally be no worse than the consequences described herein with respect to the treatment of the certificates as obligations subject to the U.S. federal income tax rules governing debt instruments.

If it is determined that the Trust is a grantor trust for U.S. federal income tax purposes, then the information reporting requirements applicable to foreign trusts would apply. The Trustee may not be able, and does not expect, to provide information that would allow either itself or U.S.

Holders to comply with these reporting requirements if they were determined to be applicable. If applicable, failure to comply with these reporting requirements could result in significant penalties, although no penalty will be imposed as a result of any failure which is shown to be due to reasonable cause and not due to willful neglect.

The remainder of the discussion in this summary assumes that the Certificates will be treated as debt instruments for U.S. federal income tax purposes.

Taxation of Periodic Payments

Periodic Distribution Amounts, including any accrued but unpaid Periodic Distribution Amounts included in the Dissolution Distribution Amount, will be taxable to a U.S. Holder as ordinary income at the time they are received or accrued, depending on such holder's method of accounting for U.S. federal income tax purposes. Periodic Distribution Amounts paid by the Trustee on the Certificates constitute income from sources outside the United States.[1]

Sale and Retirement of Certificates

A U.S. Holder generally will recognise gain or loss on the sale or retirement of a Certificate equal to the difference between the amount realised on the sale or retirement and the U.S. Holder's adjusted tax basis of the Certificate. A U.S. Holder's adjusted tax basis in a Certificate generally will be its cost. The amount realised does not include the amount attributable to accrued but unpaid Periodic Distribution Amounts, which will be taxable as ordinary income to the extent not previously included in income. Gain or loss recognised by a U.S. Holder on the sale or retirement of a Certificate will be capital gain or loss and will be long-term capital gain or loss if the Certificate was held by the U.S. Holder for more than one year.

Gain or loss realised by a U.S. Holder on the sale or retirement of a Certificate generally will be U.S. source.

Backup Withholding and Information Reporting

Payments on, and the proceeds of sale or other disposition of Certificates, by a U.S. paying agent or other U.S. intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. Backup withholding may apply to these payments if the U.S. Holder fails to provide an accurate taxpayer identification number or certification of exempt status or fails to comply with applicable certification requirements. Certain U.S. Holders are not subject to backup withholding. U.S. Holders should consult their tax advisers about these rules and any other reporting obligations that may apply to the ownership or disposition of Certificates, including requirements related to the holding of certain foreign financial assets. Failure to comply with applicable reporting requirements could result in the imposition of substantial penalties.

[1] This section and the Sale and Retirement of Certificates section must be amended if the Certificates issue with OID. Also, confirm that the exemption order is expected to be gazetted in time for there to be no withholding on any Periodic Distribution Amounts.

ERISA CONSIDERATIONS

Part 4, Subtitle B, Title I of 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**"), prohibit a broad range of transactions involving (i) employee benefit plans or other plans (including individual retirement accounts and Keogh plans) subject to such provisions, as well as any entities whose underlying assets are treated under ERISA as plan assets by reason of any such plan's investment in such entities (each of the foregoing, a "**Plan**") and (ii) 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**") unless an exemption applies. Investments by ERISA Plans are subject to ERISA's general fiduciary requirements, including the requirement of investment prudence and diversification and the requirement that an ERISA Plan's investments be made in accordance with the documents governing the ERISA Plan.

The prudence of a particular investment must be determined by the responsible fiduciary of an ERISA Plan by taking into account the ERISA Plan's particular circumstances and all of the facts and circumstances of the investment. Violations of these rules may result in the imposition of excise taxes and other penalties and liabilities under ERISA and Section 4975 of the Code.

Governmental plans, certain church plans, and non-U.S. employee benefit plans (as described in Section 4(b)(4) of ERISA) may not be subject to the prohibited transaction rules of ERISA or Section 4975 of the Code, but may be subject to substantially similar rules under other applicable laws ("**Similar Law**"). Accordingly, assets of such plans may not be invested in the Certificates unless the acquisition or holding of Certificates does not result in any violation of Similar Law.

For purposes of ERISA, if a Plan invests in an equity interest of an entity, the Plan's assets include both the equity interest and an undivided interest in each of the entity's underlying assets, unless an exception applies. An exception exists as to an entity if the aggregate ownership by Plans of the value of any class of equity interest in the entity is less than 25% of the total value of such class, disregarding for purposes of such calculation any interests held by persons who have discretionary authority of the investment of the entity's assets or renders investment advice for compensation and certain affiliates thereof. 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.

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 paragraph (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.

PLAN OF DISTRIBUTION

Subject to the terms and conditions stated in a subscription agreement dated April 15, 2015 in relation to Series 1 and a subscription agreement dated April 15, 2015 in relation to Series 2 (each a "**Subscription Agreement**") among the Trustee, the Government of Malaysia and the Joint Lead Managers and the co-managers named below (the "**Co-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

Series 1

Joint Lead Managers	
CIMB Investment Bank Berhad	US$316,666,000
The Hongkong and Shanghai Banking Corporation Limited	US$316,667,000
Standard Chartered Bank	US$316,667,000
Co-Managers	
Dubai Islamic Bank PJSC	US$25,000,000
National Bank of Abu Dhabi PJSC	US$25,000,000
Total	US$1,000,000,000

Series 2

Joint Lead Managers	
CIMB Investment Bank Berhad	US$166,666,000
The Hongkong and Shanghai Banking Corporation Limited	US$166,667,000
Standard Chartered Bank	US$166,667,000
Co-Managers	
Dubai Islamic Bank PJSC	US$0
National Bank of Abu Dhabi PJSC	US$0
Total	US$500,000,000

Each 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. Each Subscription Agreement may be terminated by the Managers in certain circumstances at any time up to the time when subscription moneys have been received and the Certificates issued.

Pursuant to each Subscription Agreement, the Government of Malaysia will pay the Joint Lead Managers management and selling commissions in an amount equal to 0.015% 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.

The Managers and their affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. Each of the Managers may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Trustee, the Government of Malaysia or their respective subsidiaries, jointly controlled entities or associated companies from time to time. In the ordinary course of their various business activities, the Managers and their affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisers) a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the Trustee, the Government of Malaysia or their respective subsidiaries, jointly controlled entities or associated companies, including the Certificates, may be entered into at the same time or proximate to offers and sales of Certificates or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of Certificates. Certificates may be purchased by or be allocated to any Manager or an affiliate for asset management and/or proprietary purposes but not with a view to distribution.

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 organisation, central bank or other national monetary authority or a state organisation whose main activity is to invest in financial instruments such as a state pension fund.

Brunei

This offering memorandum does not, and is not intended to constitute an invitation, offer, sale or delivery of shares or other securities in Brunei Darussalam. This offering memorandum is not intended to be a prospectus. It is for information purposes only. This offering memorandum may not be distributed or redistributed to and may not be relied upon or used by any person in Brunei Darussalam. Any offers, acceptances, subscription, sales and allotments of Certificates, shares or other securities shall be made outside Brunei Darussalam. This offering memorandum is neither registered with nor approved by the Brunei Darussalam Registrar of Companies, Registrar of International Business Companies, the Brunei Darussalam Ministry of Finance, the Monetary Authority of Brunei Darussalam and the Shariah Financial Supervisory Board. The Certificates, shares or other securities are not registered, licensed or permitted by the authority designated under the Mutual Funds Order 2001, the Securities Order 2001, the Shariah Financial Supervisory Board or by any other government agency or under any law in Brunei Darussalam.

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 authorised or regulated to operate in the financial markets or, if not so authorised 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, the Government of 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.

Japan

The Certificates have not been and will not be registered under the Financial Instruments and Exchange Act of Japan (Act No. 25 of 1948, as amended) (the "**FIEA**"). Accordingly, each Manager has represented and agreed that it has not, directly or indirectly, offered or sold and will not, directly or indirectly, offer or sell any Certificates, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organised under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the FIEA and any other relevant laws and regulations of Japan.

Switzerland

This offering memorandum is not intended to constitute an offer or solicitation to purchase or invest in any Certificates. The Certificates may not be publicly offered, sold or advertised, directly or indirectly, in, into or from Switzerland and will not be listed on the SIX Swiss Exchange Ltd. or on any other exchange or regulated facility in Switzerland. Neither this offering memorandum nor any other offering or marketing material relating to the Certificates constitutes a prospectus as such term is understood pursuant to article 652a or article 1156 of the Swiss Code of Obligations or a listing prospectus within the meaning of the listing rules of the SIX Swiss Exchange Ltd. or any other exchange or regulated facility in Switzerland, and neither this offering memorandum nor any other offering or marketing material relating to the Certificates may be publicly distributed or otherwise made publicly available in Switzerland.

The Republic of China ("ROC")

Each Manager has represented and warranted that the Certificates have not been, and will not be, offered, sold or re-sold, directly or indirectly, in the ROC, to investors other than "professional institutional investors" as defined under Paragraph 2, Article 19-7 of the Regulations Governing Securities Firms of the ROC, currently including overseas or domestic banks, insurance companies, bills finance companies, securities firms, fund management companies, government investment institutions, government funds, pension funds, mutual funds, unit trusts, securities investment trust enterprises, securities investment consulting enterprises, trust enterprises, futures commission merchants, futures service enterprises, and other institutions approved by the Financial Supervisory Commission of the ROC.

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.

Kuwait

Each Manager has represented and agreed that the Certificates have not been licensed for offering in the State of Kuwait by the Kuwait Capital Markets Authority or any other relevant Kuwaiti government agency. The offering of the Certificates in the State of Kuwait on the basis of a private placement or public offering is, therefore, restricted in accordance with Decree Law No. 31 of 1990, as amended, and Law No. 7 of 2010 and the bylaws thereto, as amended governing the issue, offering and sale of securities. No private or public offering of the Certificates is being made in the State of Kuwait, and no agreement relating to the sale of the Certificates will be concluded in the State of Kuwait. No marketing or solicitation or inducement activities are being used to offer or market the Certificates in the State of Kuwait.

State of Qatar (excluding the Qatar Financial Centre)

Each Manager has represented and agreed that it has not and will not offer, sell or deliver, 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 authorised 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. This offering memorandum has not been reviewed or approved by the Qatar Central Bank or the Qatar Financial Markets Authority and is only intended for specific recipients, in compliance with the foregoing.

Qatar Financial Centre

This offering memorandum has not been, and will not be, registered with or approved by the Qatar Financial Centre Regulatory Authority and may not be publicly distributed in the Qatar Financial Centre. This document is intended for the original recipient only and must not be provided to any other person. It is not for general circulation in the Qatar Financial Centre and may not be reproduced or used for any other purpose.

Saudi Arabia

Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a "**Saudi Investor**") who acquires any Certificates pursuant to the offering should note that the offer of Certificates is a private placement under Article 10 or Article 11 of the "Offer of Securities Regulations" as issued by the Board of the Capital Market Authority resolution number 2-11-2004 dated 4 October 2004 and amended by the Board of the Capital Market Authority resolution number 1-28-2008 dated 18 August 2008 (the "**KSA Regulations**"). The Certificates may thus not be advertised, offered or sold to any person in the Kingdom of Saudi Arabia other than to "sophisticated investors" under Article 10 of the KSA Regulations or by way of a limited offer under Article 11 of the KSA Regulations.

Each Manager has represented and agreed that any offer of Certificates to a Saudi Investor will comply with the KSA Regulations.

The offer of Certificates shall not therefore constitute a "public offer" pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under Article 17 of the KSA Regulations. Any Saudi Investor who has acquired Certificates pursuant to a private placement may not offer or sell those Certificates to any person unless the offer or sale is made through an authorised person appropriately licensed by the Saudi Arabian Capital Market Authority and:

(a) the Certificates are offered or sold to a "sophisticated investor" (as defined in Article 10 of the KSA Regulations;

(b) the price to be paid for the Certificates in any one transaction is equal to or exceeds Saudi Riyal 1 million or an equivalent amount; or

(c) the offer or sale is otherwise in compliance with Article 17 of the KSA Regulations.

Singapore

This offering memorandum has not been and will not be registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the "**SFA**"). Accordingly, each Manager has represented, warranted and agreed that it has not offered or sold any Certificates or caused the Certificates to be made the subject of an invitation for subscription or purchase and will not offer or sell any Certificates or cause the 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 the Certificates, whether directly or indirectly, to any person in Singapore other than (a) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (b) to a relevant person (as defined in Section 275(2) of the SFA) under Section 275(1) of the SFA, or to any person pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA, or (c) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Certificates are acquired by persons who are relevant persons specified in Section 276 of the SFA, namely:

(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,

securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferable for 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 as defined in Section 275(2) of the SFA, or any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights or interest in that trust are acquired at a consideration of not less than S$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets and further for corporations, in accordance with the conditions specified in Section 275(1A) of the SFA;

(ii) where no consideration is or will be given for the transfer;

(iii) where the transfer is by operation of law;

(iv) pursuant to Section 276(7) of the SFA; or

(v) as specified in Regulation 32 of the Securities and Futures (Offers of Investments) (Shares and Debentures) Regulations 2005 of Singapore.

United Arab Emirates (excluding the Dubai International Financial Centre)

Each Manager has represented and agreed that 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.

Each Manager has acknowledged, that 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 8 of 1984 (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 conclusion 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 the Government of 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 and applicable state securities laws.

In connection with any Certificates which are offered or sold outside the United States in reliance on the 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. See "Transfer Restrictions", for a description of other restrictions on the transfer of the Certificates.

One or more Managers, directly or through their respective U.S. broker-dealer affiliates, 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.

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, the Government of Malaysia, the Delegate, the Agents or any of the other Managers shall have any responsibility or bear any expense therefor.

None of the Trustee, the Government of 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 the Government of 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, the Government of 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.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Managers or any affiliate of the Managers is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Manager or its affiliate on behalf of the Trustee in such jurisdiction.

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 in certain transactions exempt 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 in reliance on 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 the Government of Malaysia or the Trustee.

Rule 144A Transfer Restrictions

Each purchaser of the Rule 144A Certificates (including the registered holders and beneficial owners of the Certificates as they exist from time to time, including as a result of transfers, in each case, as of the time of purchase), must be able to, or by accepting delivery of this Offering Memorandum and the Rule 144A Certificates, will be deemed to have acknowledged, represented and agreed on its own behalf and on behalf of each account for which it is purchasing that:

(1) It is a QIB; is aware the sale of the Certificates to it is being made in reliance on Rule 144A; is acquiring such Certificates for its own account or the account of a QIB as to which the purchaser exercises sole investment discretion; and it and each such account:

   (a) is 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

   (b) will provide notice of the transfer restrictions described in this "*Transfer Restrictions*" to any subsequent transferees.

(2) The purchaser understands and acknowledges that Rule 144A Certificates (or any interest therein) may be purchased, sold, pledged or otherwise transferred only in denominations of US$200,000 and integral multiples of US$1,000 in excess thereof.

(3) It understands that the Rule 144A Certificates are being offered only in a transaction not involving any public offering in the United States, within the meaning of the Securities Act, and 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 Rule 903 or 904 of 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 as to which it exercises sole investment discretion, in a transaction meeting the requirements of Rule 144A; 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.

(4) The purchaser understands that any sale transfer of the Certificates (or of any beneficial interest therein) to a person that does not comply with the requirements set forth in this "*Transfer Restrictions*" will be null and *void ab initio* and not honoured by the Trustee. It further understands that if at any time the Trustee determines in good faith that a holder of the Certificates (or of any beneficial interest therein) is in breach, at the time given, of any of the representations and agreements contained in this *"Transfer Restrictions*", the Trustee may require such holder to transfer such Certificate (or beneficial interest therein) to a transferee acceptable to the Trustee who is able to and who does make all of the representations and agreements set forth in this *"Transfer Restrictions*". Pending such transfer, such holder will be deemed not to be the holder of such Certificates for any purpose, including but not limited to receipt of principal and interest payments on such Certificates, and such holder will be deemed to have no interest whatsoever in such Certificates except as otherwise required to sell its interest therein as described in this paragraph.

(5) 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 (3) above; and

(6) 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 EXCEPT (1) IN ACCORDANCE WITH RULE 144A UNDER THE SECURITIES ACT ("RULE 144A") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (A "QIB") WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR THE ACCOUNT OF ONE OR MORE QIBs AS TO WHICH THE PURCHASER EXERCISES SOLE INVESTMENT DISCRETION AND WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE OFFER, SALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A UNDER THE SECURITIES ACT, AND IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN U.S.$200,000 OR (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, AND, IN EACH CASE, IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER

FROM IT OF THE CERTIFICATES REPRESENTED HEREBY OF THE RESALE RESTRICTIONS REFERRED TO ABOVE. ANY TRANSFER IN VIOLATION OF THE FOREGOING WILL BE OF NO FORCE OR EFFECT AND WILL BE VOID *AB INITIO* AND NOT HONOURED BY THE ISSUER.

IF THE BENEFICIAL OWNER HEREOF IS A U.S. PERSON WITHIN THE MEANING OF REGULATION S, SUCH BENEFICIAL OWNER REPRESENTS THAT (1) IT IS A QIB (2) IT IS HOLDING THE CERTIFICATES REPRESENTED HEREBY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs, AS TO WHICH THE PURCHASER EXERCISES SOLE INVESTMENT DISCRETION; (3) IT, AND EACH ACCOUNT FOR WHICH IT HOLDS CERTIFICATES, WILL HOLD AND TRANSFER AT LEAST U.S.$200,000; (4) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES; AND (5) IT MUST BE ABLE TO AND WILL BE DEEMED TO REPRESENT THAT IT AGREES TO COMPLY WITH THE APPLICABLE TRANSFER RESTRICTIONS, AND WILL NOT TRANSFER THE CERTIFICATES OR ANY BENEFICIAL INTERESTS THEREIN EXCEPT TO A PURCHASER WHO CAN MAKE THE SAME REPRESENTATIONS AND AGREEMENTS ON BEHALF OF ITSELF AND EACH ACCOUNT FOR WHICH IT IS PURCHASING.

THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS CERTIFICATE IT IS NOT A QIB, THE ISSUER MAY (A) COMPEL IT TO SELL ITS INTEREST IN THIS CERTIFICATE TO A PERSON WHO IS (I) A QIB THAT IS OTHERWISE QUALIFIED TO PURCHASE THE CERTIFICATES REPRESENTED HEREBY IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S OR (B) COMPEL THE BENEFICIAL OWNER TO SELL ITS INTEREST IN THE CERTIFICATES REPRESENTED HEREBY TO THE ISSUER OR AN AFFILIATE OF THE ISSUER OR TRANSFER ITS INTEREST IN THIS CERTIFICATE TO A PERSON DESIGNATED BY OR ACCEPTABLE TO THE TRUSTEE AT A PRICE EQUAL TO THE LESSER OF (X) THE PURCHASE PRICE THEREFOR PAID BY THE BENEFICIAL OWNER, (Y) 100 PER CENT OF THE FACE AMOUNT THEREOF OR (Z) THE FAIR MARKET VALUE THEREOF. THE ISSUER HAS THE RIGHT TO REFUSE TO HONOUR A TRANSFER OF AN INTEREST IN THE CERTIFICATES REPRESENTED HEREBY TO A U.S. PERSON WHO IS NOT A QIB.

THE ISSUER MAY COMPEL EACH BENEFICIAL OWNER OF THE CERTIFICATES REPRESENTED HEREBY TO CERTIFY PERIODICALLY THAT SUCH BENEFICIAL OWNER IS A QIB."

(7) The purchaser understands that no representation can be made as to the availability of the exemption provided by Rule 144 for resales of the Certificates offered hereby.

(8) The Trustee, the Government of Malaysia, the Registrar, the Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements. The purchaser agrees that if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of the Certificates are no longer accurate, it shall promptly notify the

Trustee and the Managers. If it is acquiring any Certificate as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and 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 a beneficial interest in the Regulation S Certificates and each subsequent purchaser of such Regulation S Certificates in resales, must be able to or by accepting delivery of this Offering Memorandum and the Certificates, will be deemed to have represented, agreed and acknowledged that:

(1) It is, or at the time the Regulation S Certificates are purchased will be, the beneficial owner of such Regulation S Certificates and it is located outside the United States (within the meaning of Regulation S).

(2) It understands that the Regulation S Certificates have not been and will not be registered under the Securities Act.

(3) 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 (AS DEFINED IN REGULATIONS S UNDER THE SECURITIES ACT) EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT. "

(4) The Trustee, the Government of Malaysia, the Registrar, the Managers and their affiliates, and others will rely upon the truth and accuracy of the foregoing acknowledgments, representations and agreements. The purchaser agrees that if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of the Certificates are no longer accurate, it shall promptly notify the Trustee and the Managers. If it is acquiring any Certificate as a fiduciary or agent for one or more investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account.

LEGAL MATTERS

Certain legal matters will be passed upon for the Government of Malaysia and the Trustee by the Treasury Solicitor and by Adnan Sundra & Low, Malaysian counsel to the Trustee, as to matters of Malaysian law, and by Linklaters, international counsel to the Trustee and the Government of Malaysia as to matters of U.S. federal and English law. Certain legal matters will be passed upon for the Joint Lead Managers by Zaid Ibrahim & Co., Malaysian counsel to the Joint Lead Managers as to matters of Malaysian law, 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, Linklaters will rely as to all matters of Malaysian law upon the opinion of the Treasury Solicitor and Adnan Sundra & Low, 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, the Government of Malaysia, the Joint Lead Managers, the Agents or the Delegate takes any responsibility for the accuracy of this section. The Trustee and the Government of 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, the Government of 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 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 ("indirect participants"). Transfers of ownership or other interests in Certificates in DTC may be made only through DTC participants. In addition, beneficial owners of Certificates in DTC will receive all distributions of principal of and interest on the Certificates from the Trustee through such DTC participant.

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 over 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 advisor.

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 March 31, 2015. The Trustee was incorporated on March 20, 2015 to act as a financing vehicle for the Government of Malaysia.

Listing

Application has been made for the Certificates to be listed on the Stock Exchange of Hong Kong Limited by way of debt issues to professional investors (as defined in the Securities and Futures Ordinance (Cap. 571) of Hong Kong) only. Approval in principle has been obtained for (a) the Certificates to be listed on, and admitted to the Official List of, the LFX and (b) the Certificates to be listed on, and admitted to the Official List of, Bursa Malaysia (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 April 23, 2015, (ii) the LFX will commence on or about April 23, 2015 and (iii) Bursa Malaysia (Exempt Regime) will commence on or about April 23, 2015.

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 designated office of the Trustee and the specified offices of the Paying Agent:

(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 Trustee.

Clearing Systems

The Global Certificates have been or will be accepted for clearance through DTC. The ISIN for the Rule 144A Series 1 Certificates is US56108LAA44. The ISIN for the Rule 144A Series 2 Certificates is US56108LAB27. The CUSIP for the Rule 144A Series 1 Certificates is 56108LAA4. The CUSIP for the Rule 144A Series 2 Certificates is 56108LAB2. The Common Code for the Rule 144A Series 1 Certificates is 121934086. The Common Code for the Rule 144A Series 2 Certificates is 121934191. The ISIN for the Regulation S Series 1 Certificates is USY5749LAA99. The ISIN for the Regulation S Series 2 Certificates is USY5749LAB72. The CUSIP for the Regulation S Series 1 Certificates is Y5749L AA9. The CUSIP for the Regulation S Series 2 Certificates is Y5749L AB7. The Common Code for the Regulation S Series 1 Certificates is 121934124. The Common Code for the Regulation S Series 2 Certificates is 121934221.

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, 2016.

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 Transfer Agent and the Registrar are set out as follows:

The Principal Paying Agent, the Registrar and the Transfer Agent:

Principal Paying Agent

Citibank, N.A., London Branch
c/o Citibank, N.A., Dublin Branch
Ground Floor
1 North Wall Quay
Dublin 1
Ireland
Fax: +353 1 662 2212/2210
Email: ppaclaims@citi.com; ppapayments@citi.com
Attention: Agency and Trust

With all correspondence to be copied to:

Citicorp International Limited
39th Floor, Citibank Tower
Citibank Plaza
3 Garden Road, Central
Hong Kong
Fax: +852 2323 0279
Attention: Agency and Trust

The Registrar and the Transfer Agent

Citigroup Global Markets Deutschland AG
Reuterweg 16
60323 Frankfurt
Germany
Tel: +49 69 1366 1256
Fax: +49 69 1366 1429
Attention: Germany Agency and Trust Department

With all correspondence to be copied to:

Citicorp International Limited
39th Floor, Citibank Tower
Citibank Plaza
3 Garden Road, Central
Hong Kong
Fax: +852 2323 0279
Attention: Agency and Trust

TRUSTEE

Malaysia Sovereign Sukuk Berhad
Tingkat 7, Bangunan Setia 1
15 Lorong Dungun Bukit Damansara
50490 Kuala Lumpur
Malaysia

DELEGATE

Citicorp International Limited
50th Floor, Citibank Tower
Citibank Plaza
3 Garden Road, Central
Hong Kong

PRINCIPAL PAYING AGENT

Citibank N.A., London Branch
c/o Citibank, N.A., Dublin Branch
Ground Floor, 1 North Wall Quay
Dublin 1
Ireland

MALAYSIA

Ministry of Finance
Ministry of Finance Complex
No. 5, Persiaran Perdana, Precinct 2
Federal Government Administration Centre
62592 Putrajaya
Malaysia

REGISTRAR AND TRANSFER AGENT

Citicorp Global Markets Deutschland AG
Reuterweg 16
60323 Frankfurt
Germany

LISTING AGENT

For the Hong Kong Stock Exchange

Linklaters LLP
10th Floor, Alexandra House
18 Chater Road
Hong Kong
China

For Bursa Malaysia Securities Berhad

CIMB Investment Bank Berhad
Level 13, Menara CIMB
Jalan Stesen Sentral 2
Kuala Lumpur Sentral
50470 Kuala Lumpur
Malaysia

For Labuan International Financial Exchange Inc.

CIMB Bank (L) Limited
Level 14(A), Main Office Tower
Financial Park Labuan, Jalan Merdeka
87000 Labuan Federal Territory
Malaysia

To the Delegate as to the laws of England

Clifford Chance
10 Upper Bank Street
Canary Wharf
London, E14 5JJ
United Kingdom

To the Trustee and the Government of Malaysia as to the laws of England and the United States

Linklaters Singapore Pte. Ltd.
One George Street #17-01
Singapore 049145

To the Government of Malaysia as to the laws of Malaysia

Treasury Solicitor
Ministry of Finance Complex
No. 5, Persiaran Perdana, Precinct 2
Federal Government Administration Centre
62592 Putrajaya
Malaysia

To the Joint Lead Managers as to the laws of England

Clifford Chance LLP
3rd Floor, The Exchange Building
Dubai International Financial Centre
PO Box 9380
Dubai
United Arab Emirates

To the Joint Lead Managers as to the laws of Malaysia

Zaid Ibrahim & Co
Level 19, Menara Milenium
Jalan Damanlela
Pusat Bandar Damansara
50490 Kuala Lumpur
Malaysia

To the Joint Lead Managers as to the laws of England and the United States

Clifford Chance
28th Floor
Jardine House
One Connaught Place
Hong Kong

To the Trustee as to the laws of Malaysia

Adnan Sundra & Low
Level 11
Menara Olympia
No. 8, Jalan Raja Chulan
50200 Kuala Lumpur
Malaysia

Malaysia Sovereign Sukuk Berhad

(Company No. 1136482-X)

(established in Malaysia with limited liability)

US$1,000,000,000 Trust Certificates due 2025
US$500,000,000 Trust Certificates due 2045
Issue Price for the Series 1 Certificates: 100 per cent.
Issue Price for the Series 2 Certificates: 100 per cent.

OFFERING MEMORANDUM

April 15, 2015

Joint Bookrunners and Joint Lead Managers

CIMB **HSBC** **Standard Chartered Bank**

Co-Managers

Dubai Islamic Bank PJSC **National Bank of Abu Dhabi PJSC**