

## IMPORTANT NOTICE

This offering is available only to investors who are either (1) QIBs (as defined below) under Rule 144A who are also QPs (as defined below) or (2) non-U.S. persons (as defined in Regulation S) outside 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”), or the securities laws of any state or other jurisdiction, 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 attached Offering Memorandum or make an investment decision with respect to the Securities, you must be: (i) a person that is outside the United States and is not a U.S. person (within the meaning of Regulation S under the Securities Act); or (ii) a qualified institutional buyer (a “QIB”) within the meaning of Rule 144A under the Securities Act (“Rule 144A”) who is a qualified purchaser (a “QP”) as defined in Section 2(a)(51)(A) of the U.S. Investment Company Act of 1940, as amended, that is acquiring the Securities for its own account or the account of another QIB who is also a QP. By accepting the email and accessing the attached Offering Memorandum, you shall be deemed to have represented that: (i)(A) the electronic mail (or e-mail) address to which, pursuant to your request, the Offering Memorandum has been delivered by electronic transmission is not located in the United States, its territories or possessions; or (B) you are a QIB who is a QP and that the electronic mail (or e-mail) address to which pursuant to your request, the Offering Memorandum has been delivered by electronic transmission is utilized by someone who is a QIB and a QP; and (ii) 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 Wakala 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 J.P. Morgan Securities plc, 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 J.P. Morgan Securities plc.

**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.



## Malaysia Wakala Sukuk Berhad

(Company No. 202101012729 (1413028-M))  
(established in Malaysia with limited liability)

**U.S.\$800,000,000 Trust Certificates due 2031**  
**Issue Price: 100 per cent.**

**U.S.\$500,000,000 Trust Certificates due 2051**  
**Issue Price: 100 per cent.**

The U.S.\$800,000,000 Trust Certificates due 2031 (the “**Series 1 Certificates**”) and the U.S.\$500,000,000 Trust Certificates due 2051 (the “**Series 2 Certificates**”) and together with the Series 1 Certificates, the “**Certificates**”) of Malaysia Wakala Sukuk Berhad (Company No. 202101012729 (1413028-M)) (the “**Trustee**” or “**Issuer**”) will each be constituted by a declaration of trust (the “**Declaration of Trust**”) dated on or about April 28, 2021 (the “**Closing Date**”) between the Trustee and The Hongkong and Shanghai Banking Corporation 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 28th day in April and October in each year, or if any such day is not a Business Day (as defined in the relevant Conditions), the following Business Day, commencing on October 28, 2021 (each a “**Periodic Distribution Date**”) and ending on April 28, 2031 for the Series 1 Certificates and April 28, 2051 for the Series 2 Certificates, the Trustee will pay Periodic Distribution Amounts (as defined in the relevant Conditions) to Certificateholders calculated at the rate of 2.070 per cent. per annum for the Series 1 Certificates and 3.075 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 in the relevant Conditions) 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. 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 28, 2031 and the Series 2 Certificates will be redeemed on April 28, 2051 (in each case, the “**Scheduled Dissolution Date**”) at the relevant Dissolution Distribution Amount (as defined in the relevant Conditions). 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 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 41.**

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 will be made to The Stock Exchange of Hong Kong Limited (the “**HKSE**”) for the listing of the Certificates by way of debt issues to professional investors (as defined in Chapter 37 of the Rules Governing the Listing of Securities on the HKSE) (“**Professional Investors**”) only. The document is for distribution to Professional Investors only.

**Notice to Hong Kong investors: the Issuer confirms that the Certificates are intended for purchase by Professional Investors only and will be listed on the HKSE on that basis. Accordingly, the Issuer confirms that the Certificates are not appropriate as an investment for retail investors in Hong Kong. Investors should carefully consider the risks involved.**

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)**”).

The HKSE has not reviewed the contents of this Offering Memorandum, other than to ensure that the prescribed form disclaimer and responsibility statements, and a statement limiting distribution of this Offering Memorandum to Professional Investors only have been reproduced in this Offering Memorandum. Listing of the Certificates on the HKSE is not to be taken as an indication of the commercial merits or credit quality of the Certificates, the Issuer or quality of disclosure in this Offering Memorandum. Hong Kong Exchanges and Clearing Limited and the HKSE 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 however arising from or in reliance upon the whole or any part of the contents of this Offering Memorandum.

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 or other jurisdiction of the United States and may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S under the Securities Act (“**Regulation S**”)), except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable state securities laws. The Trustee has not been and will not be registered under the U.S. Investment Company Act of 1940, as amended (the “**Investment Company Act**”), in reliance upon the exemption provided by Section 3(c)(7) thereof. The Certificates may be offered and sold only (1) to a person who is a qualified institutional buyer (a “**QIB**”) (as defined in Rule 144A under the Securities Act (“**Rule 144A**”)) who is also a qualified purchaser (a “**QP**”) as defined in Section 2(a)(51)(A) of the Investment Company Act purchasing for its own account or the account of a QIB who is also a QP 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) to non-U.S. Persons 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 (i) 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 and (ii) the Trustee will not be registered under, and purchases of the Certificates will not be entitled to the benefit of, the Investment Company Act. The Certificates are not transferable except in accordance with the restrictions described under “**Transfer Restrictions**”. 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 resales, pledges, exchanges and other transfers — 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 U.S.\$250,000 and in integral multiples of U.S.\$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 SA/NV (“**Euroclear**”) and Clearstream Banking S.A. (“**Clearstream, Luxembourg**”). Except as described herein, definitive Certificates will not be issued in exchange for beneficial interests in global certificates.

The transaction structure relating to the Certificates (as described in this Offering Memorandum) has been approved by the Board Shariah Committee of CIMB Islamic Bank Berhad and the HSBC Global Shariah Supervisory Committee. However, potential investors contemplating purchasing the Certificates 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.

**Joint Bookrunners and Joint Lead Managers**

**CIMB**

**HSBC**

**J.P. MORGAN**

**Co-Manager**

**Islamic Corporation for the Development of the Private Sector**

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

No person is authorized in connection with the offering of the Certificates to give any information or to make any representation other than as contained in this Offering Memorandum, and, if given or made, such information or representation must not be relied upon as having been authorized by the Trustee, the Government of Malaysia, the Joint Lead Managers (as defined in “*Plan of Distribution*”), the Delegate, the Agents (as defined in the Conditions) 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 (the “**Listing Rules**”) for the purposes 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 HKSE 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 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, SHARIAH ADVISOR AND BUSINESS ADVISOR AS TO TAX, LEGAL, SHARIAH, 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 the Kingdom of Bahrain, Brunei, Dubai International Financial Centre, Japan, Switzerland, the Republic of China, Hong Kong, State of Kuwait, State of Qatar (including the Qatar Financial Centre), Kingdom of Saudi Arabia, Singapore, the United Arab Emirates (excluding Dubai International Financial Centre), the United Kingdom and the United States. See “*Plan of Distribution*”.

## **STABILIZATION**

IN CONNECTION WITH THE ISSUE OF THE CERTIFICATES, THE JOINT LEAD MANAGER(S) NAMED AS STABILIZING MANAGER(S) (OR ANY PERSON ACTING ON BEHALF OF THE STABILIZING 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, STABILIZATION MAY NOT NECESSARILY OCCUR. ANY STABILIZATION ACTION MAY BEGIN ON OR AFTER THE ISSUE DATE AND, IF BEGUN, MAY CEASE 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 STABILIZATION SHALL BE CONDUCTED IN ACCORDANCE WITH ALL APPLICABLE LAWS AND REGULATIONS.

## **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 OFFENSE 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 Trustee has not been and will not be registered as an investment company in the United States under the Investment Company Act.

The Certificates are being offered and sold (i) to non-U.S. persons in offshore transactions in reliance on Regulation S and (ii) within the United States only to QIBs who are also QPs in reliance on Rule 144A. Prospective purchasers are hereby notified that (A) sellers of the Certificates may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A and (B) the Trustee will not be

registered under, and purchases of the Certificates will not be entitled to the benefit of, the Investment Company Act. 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*”.

## **VOLCKER RULE**

**Under Section 619 of the U.S. Dodd-Frank Act and its implementing rules (together, the “Volcker Rule”), “banking entities” (as defined under the Volcker Rule) are generally prohibited from, among other things, acquiring or retaining any ownership interest in, or acting as sponsor in respect of, certain “covered funds,” subject to certain exceptions. In addition, in certain circumstances, the Volcker Rule restricts relevant banking entities from entering into certain transactions with covered funds. In general, there is limited interpretive guidance regarding the Volcker Rule.**

**Key terms are defined under the Volcker Rule, including “banking entity”, “ownership interest”, “sponsor” and “covered fund”. “Banking entity” is defined to include U.S. banks, U.S. bank holding companies, non-U.S. banks with a U.S. branch or agency, and the affiliates of the foregoing. “Covered fund” is defined to include an issuer that would be an “investment company,” as defined in the U.S. Investment Company Act of 1940 (the “ICA”), but for section 3(c)(1) or 3(c)(7) thereof. The Trustee intends to rely on section 3(c)(7) in connection with offering the Trust Certificates, and as such, the Trustee may be considered a covered fund under the Volcker Rule.**

**“Ownership interest” is broadly defined and may arise through a holder’s exposure to the profit and losses of a covered fund as well as through any right of the holders to participate in the selection of an investment advisor, manager or board of directors of the covered fund. While it is the Trustee’s belief that the Certificates should not be considered “ownership interests” of the Trust, there is no assurance that they would not be, and none of the Trustee, the Government of Malaysia or the Joint Lead Managers makes any representation regarding the status of the Certificates under the Volcker Rule or with respect to the ability of any investor to acquire or hold the Certificates, now or at any time in the future. Each investor is responsible for analyzing its own position under the Volcker Rule and any similar measures. See “*Investment considerations — Investment considerations relating to the Certificates — The Trustee may be a “covered fund” for purposes of the Volcker Rule.*”**

## **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 RULES ON THE OFFER OF SECURITIES AND CONTINUING OBLIGATIONS AS ISSUED BY THE CAPITAL MARKET AUTHORITY (THE “CAPITAL MARKET AUTHORITY”).**

**THE CAPITAL MARKET AUTHORITY DOES NOT MAKE ANY REPRESENTATIONS 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 CERTIFICATES SHOULD CONDUCT THEIR OWN DUE DILIGENCE ON THE ACCURACY OF THE INFORMATION RELATING TO THE CERTIFICATES. IF A PROSPECTIVE PURCHASER DOES NOT UNDERSTAND THE CONTENTS OF THIS OFFERING MEMORANDUM, HE OR SHE SHOULD CONSULT AN AUTHORIZED FINANCIAL ADVISER.**

## **NOTICE TO RESIDENTS OF THE KINGDOM OF BAHRAIN**

THIS OFFERING MEMORANDUM DOES NOT CONSTITUTE AN OFFER OF SECURITIES IN THE KINGDOM OF BAHRAIN IN TERMS OF ARTICLE (81) OF THE CENTRAL BANK AND FINANCIAL INSTITUTIONS LAW 2006 (DECREE LAW NO. 64 OF 2006). THIS OFFERING MEMORANDUM AND ANY RELATED OFFERING DOCUMENTS HAVE NOT BEEN AND WILL NOT BE REGISTERED AS A PROSPECTUS WITH THE CENTRAL BANK OF BAHRAIN. ACCORDINGLY, NO CERTIFICATES MAY 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', AS SUCH TERM IS DEFINED BY THE CENTRAL BANK OF BAHRAIN, FOR AN OFFER OUTSIDE THE KINGDOM OF BAHRAIN.

THE CENTRAL BANK OF BAHRAIN HAS NOT REVIEWED, APPROVED OR REGISTERED THIS OFFERING MEMORANDUM OR ANY 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 CENTRAL BANK OF BAHRAIN 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 THE 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 MARKETS AUTHORITY OR THE QATAR CENTRAL BANK. THE CERTIFICATES ARE NOT AND WILL NOT BE TRADED ON THE QATAR EXCHANGE. THE CERTIFICATES HAVE NOT BEEN, AND WILL NOT BE, OFFERED, SOLD OR DELIVERED AT ANY TIME, DIRECTLY OR INDIRECTLY, IN THE STATE OF QATAR, INCLUDING THE QATAR FINANCIAL CENTRE, IN A MANNER THAT WOULD CONSTITUTE A PUBLIC OFFERING.

## **SINGAPORE SFA PRODUCT CLASSIFICATION**

In connection with Section 309B of the Securities and Futures Act (Chapter 289) of Singapore, as modified or amended from time to time (the "SFA") and the Securities and Futures (Capital Markets Products) Regulations 2018 of Singapore (the "CMP Regulations 2018"), each of the Trustee and the Government of Malaysia has determined, and hereby notifies all relevant persons (as defined in Section 309A(1) of the SFA), that the Certificates are prescribed capital markets products (as defined in the CMP Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

## **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.

### **IMPORTANT — SERIES 1 CERTIFICATES ISSUED AS SUSTAINABILITY CERTIFICATES**

None of the Trustee, the Government of Malaysia, the Joint Lead Managers or the Sustainability Structuring Agents (as defined herein) accept any responsibility for any social, environmental and sustainability assessment of the Sustainability Certificates (as defined herein) or makes any representation or warranty or assurance whether such Sustainability Certificates will meet any investor expectations or requirements regarding such “green”, “sustainable”, “social” or similar labels. None of the Joint Lead Managers or the Sustainability Structuring Agents is responsible for the use of proceeds for any Sustainability Certificates issued as Sustainability Certificates, nor its impact or monitoring of such use of proceeds. No representation or assurance is given as to the suitability or reliability of any opinion or certification of any third party made available in connection with an issue of Sustainability Certificates issued as Sustainability Certificates, nor is any such opinion or certification a recommendation to buy, sell or hold any such Sustainability Certificates. In the event any such Sustainability Certificates are, or are intended to be, listed, or admitted to trading on a dedicated “green”, “sustainable”, “social” or other equivalently-labeled segment of a stock exchange or securities market, no representation or assurance is given that such listing or admission will be obtained or maintained for the lifetime of the Sustainability Certificates.

NO ASSURANCE IS GIVEN BY THE TRUSTEE, THE GOVERNMENT OF MALAYSIA, THE JOINT LEAD MANAGERS OR ANY OF THE SUSTAINABILITY STRUCTURING AGENTS THAT INVESTING IN THE SUSTAINABILITY CERTIFICATES OR THE USE OF PROCEEDS THEREOF BY THE GOVERNMENT OF MALAYSIA WILL SATISFY, WHETHER IN WHOLE OR IN PART, ANY PRESENT OR FUTURE INVESTOR EXPECTATIONS OR REQUIREMENTS WITH RESPECT TO GREEN BONDS OR SUSTAINABILITY.

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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 in this Offering Memorandum to “**RM**”, “**ringgit**” or “**Malaysian ringgit**” are to the currency of Malaysia; references to “**U.S.\$**” 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, 2020 is referred to in this Offering Memorandum as “**2020**”, 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.

In this Offering Memorandum, unless the contrary intention appears, a reference to a law or a provision of a law is a reference to that law or provision as extended, amended or re-enacted.

## EXCHANGE RATES

Since 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. Since 2016, BNM has been adopting a floating exchange rate arrangement for the ringgit. On March 31, 2021, the middle rate of the Malaysian ringgit as published by BNM was RM4.1590 to U.S.\$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.

<u>Year</u>	<u>Period End<sup>(1)</sup></u>	<u>Period Average<sup>(2)</sup></u>
2016 .....	4.4860	4.1438
2017 .....	4.0620	4.2998
2018 .....	4.1385	4.0352
2019 .....	4.0925	4.1425
2020 .....	4.0130	4.2011
2021 (through April 16, 2021) .....	4.1270	4.0788

*Notes:*

- (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 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 intended to be incorporated by reference to or form part of this Offering Memorandum.

## **ENFORCEMENT**

The Trustee is a wholly owned company of the Minister of Finance (Incorporated). 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”. Words and expressions defined in “Malaysia” shall have the same meanings in this summary.*

### General

Malaysia is a multi-ethnic country 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 330,548 square kilometers and lies entirely in the equatorial zone. Malaysia has a population of approximately 32.7 million, of which approximately 2.9 million were non-citizens (mostly foreign workers) based on the fourth quarter 2020 estimates of the Department of Statistics. Kuala Lumpur, the capital and largest city, had an estimated population of 1.8 million as at 2020. In 2020, approximately 63.6 per cent. of the population of Malaysia comprised Malay and other indigenous peoples (together referred to as “**Bumiputera**”), approximately 20.5 per cent. were Chinese, approximately 6.2 per cent. were Indian, approximately 0.9 per cent. were Others, and approximately 8.8 per cent. were non-citizens (mostly foreign workers). Malaysia’s annual population growth rate averaged approximately 0.8 per cent. per year from 2016 to 2020. The Malaysian population mostly lives in urban centers, as the urbanization rate of the population was estimated to be approximately 76.7 per cent. in 2020, corresponding to an estimated average density of more than 99 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. 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, the 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 January 2019. 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 legislative, executive, judicial, and land-related matters. The federal executive power is exercised by the Prime Minister and 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.

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

Under the Federal Constitution, general elections must be held at least every five years. The most recent general elections were held on May 9, 2018 and resulted in the first change of the ruling party since independence. Members of the Pakatan Harapan coalition were elected to 113 of 222 seats in the House of Representatives. Pakatan Harapan was formed in 2015 and is comprised of four parties: Parti Keadilan Rakyat (“**PKR**”), Democratic Action Party, Parti Pribumi Bersatu Malaysia (“**Bersatu**”), and Parti Amanah Negara. In the process

of forming the Government, another party, Parti Warisan Sabah, extended its support for Pakatan Harapan, which raised the winning coalition's total number of seats to 121. In the same elections, the Pakatan Harapan won the majority of seats in the State legislatures in eight of the 13 states. Pakatan Harapan eventually formed the Government in eight of the 13 states, namely Johor, Kedah, Malacca, Negeri Sembilan, Penang, Perak, Sabah and Selangor. Meanwhile, Barisan Nasional (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) as well as Parti Islam Se-Malaysia assumed the role of opposition parties in the Parliament. In 2019, the Barisan Nasional coalition recovered some ground against the Pakatan Harapan coalition and won a number of by-elections, such as the 2019 Cameron Highlands by-election, the 2019 Semenyih by-election, the 2019 Rantau by-election and the 2019 Tanjung Piai by-election. In 2020, the Barisan Nasional coalition aligned themselves with Perikatan Nasional to form a new government after the collapse of the Pakatan Harapan government, as a result of the 2020 Malaysian political transition.

## **Recent Developments**

### ***COVID-19***

As a small and open economy, external shocks in both directions can have a direct impact on Malaysia. The crisis stemming from the COVID-19 pandemic presents a unique challenge for Malaysia as the Government has to balance between protecting lives and citizens' livelihood. In managing the impact of the COVID-19 pandemic, the Government has introduced a series of stimulus packages and containment measures that included several stages of Movement Control Orders ("MCO"). On March 11, 2020, the Government established the Economic Action Council (the "EAC") to formulate short- and medium-term measures focused on addressing the COVID-19 pandemic and paving the way for economic recovery in Malaysia. The Government also established the Economic Stimulus Implementation and Coordination Unit Between National Agencies ("LAKSANA") to ensure all economic stimulus programs are implemented properly and can effectively reach the targeted groups. The EAC subsequently endorsed a six-stage systematic approach focused on the 6R strategy – Resolve, Resilient, Restart, Recovery, Revitalize and Reform – pursuant to which the following pro-active measures were taken:

#### *Movement Control Orders*

- March 18, 2020 – the Government imposed a full MCO, which included prohibition of mass movements and gatherings, sanctions covering Malaysians travelling abroad, mandatory health check and quarantine measures covering Malaysians returning from overseas, restrictions on entry of all tourists and foreign visitors into Malaysia, and closure of government, public and private premises except those involved in essential services.
- May 4, 2020 – the Government imposed a Conditional MCO, which relaxed the regulations regarding the full MCO to reopen the national economy in a controlled manner. At this stage, in most economic sectors, businesses activities were allowed to resume operations under certain Standard Operating Procedures, including contact tracing, mandatory use of face masks in public and physical distancing, while international and interstate travel remained restricted.
- June 10, 2020 – the Government imposed a Recovery MCO, which further relaxed the restrictions in place and reopened the economy by resuming almost all economic sectors in Malaysia while continuing border controls and enhancing public health.
- January 11, 2021 – the Government announced that relevant MCO restrictions and limitations will be re-introduced into certain states in response to a surge of cases between January 13, 2021 and January 26, 2021, including the implementation of stay-at home orders, the banning of social gatherings, restrictions on travel and limitations on operations of economic sectors.
- March 5, 2021 – the Government announced that Selangor, Johor, Penang and Kuala Lumpur were to exit the re-introduced MCO lockdown and enter into a Conditional MCO.

- April 12, 2021 – the Government has further extended the Conditional MCO until April 28, 2021. In particular, Johor, Kelantan, Penang and Selangor as well as Kuala Lumpur will remain under the Conditional MCO from April 15, 2021 to April 28, 2021, while Sarawak will continue to be placed under the Conditional MCO from April 13, 2021 to April 26, 2021.

#### *Economic Stimulus Packages and Recovery Plans*

As at the date of this Offering Memorandum, the Government has announced six assistance packages, namely, PRIHATIN (RM250 billion), PRIHATIN PKS+ (RM10 billion), PENJANA (RM35 billion), KITA PRIHATIN (RM10 billion), PERMAI (RM15 billion) and PEMERKASA (RM20 billion), amounting to RM340 billion in total value as economic stimulus packages and recovery plans.

- March 27, 2020 – the Government announced the Prihatin Rakyat Economic Stimulus Package (“**PRIHATIN**”) valued at RM250 billion, pursuant to which the nation’s healthcare services were strengthened with additional allocation for, among others, medical equipment, enhanced testing capacity and developing the contact tracing application, and immediate financial assistance was provided to ease the cash flow burden of the ordinary citizen (the “**Rakyat**”) and businesses, including employment retention support, deferment of or restrictions on loan repayments as well as provision of credit facilities.
- April 6, 2020 – the Government announced the Additional PRIHATIN SME Economic Stimulus Package (“**PRIHATIN PKS+**”) worth RM10 billion to provide further support to businesses via soft loans and special grants with a focus on ensuring the survival and easing the financial burden of small and medium enterprises (“**SMEs**”) in Malaysia.
- June 5, 2020 – the Government announced the National Economic Recovery Plan (“**PENJANA**”) totaling RM35 billion alongside the reduction in the number of COVID-19 cases in Malaysia, with the aim of restarting and supporting the economy to operate in a new normal, in particular by providing new tax incentives to attract foreign companies to relocate their operations to Malaysia. In particular, wage subsidies for businesses were extended, moratorium on loans and financing repayments by financial institutions were extended, and all Malaysians aged 18 and above with an annual income of below RM100,000 are eligible for a RM50 incentive under the e-wallet Boost.
- September 23, 2020 – the Government announced the PRIHATIN Supplementary Initiative Package (“**KITA PRIHATIN**”) with an allocation of RM10 billion to enhance existing initiatives and measures, such as the wage subsidy program, special grants to micro-SMEs and also assistance to lower and middle-income households and individuals.
- January 18, 2021 – the Government announced the Malaysian Economic and Rakyat’s Protection Assistance Package (“**PERMAI**”) valued at RM15 billion, which was aimed at providing vital support to businesses through various incentives in addition to strengthening the country’s welfare programs.
- March 17, 2021 – the Government announced the Program to Empower the People and Economy (“**PEMERKASA**”) worth RM20 billion, along with a new fiscal injection by the Government amounting to RM11 billion, which will focus on 20 strategic initiatives to curtail the spread of the COVID-19 pandemic, drive economic recovery, strengthen national competitiveness, ensure a regional and community inclusion agenda, and transform the economy.

The Government has also taken measures to help support businesses and consumers during the COVID-19 pandemic, including but not limited to:

- The Government introduced a number of service tax measures to help companies during the COVID-19 pandemic. In particular, service tax exemption on accommodation and hotel services was given for the period of March 1, 2020 to August 31, 2020. The exemption was also given to the service of providing tobacco and alcohol in hotels.

- In response to MCO announced by the Government, the time period for submission of tax return and payment ended March 31, 2020 was extended to April 30, 2020. Penalties involved for payment made before or on April 30, 2020 were given full remission. The full remission on penalties were then extended to those who made payment before June 30, 2020 in relation to the following taxes and levies:
  - sales tax and service tax;
  - service tax on imported taxable service;
  - tourism tax; and
  - departure levy.
- The Government provided additional tax easements to the tourism sector such as extension of period for deferment of tax instalment payments for the tourism industry to December 31, 2020, an exemption of tourism tax from July 1, 2020 to December 31, 2021 and an extension of the service tax exemption for hotels to December 31, 2021.

As at the date of this Offering Memorandum, the Government is reviewing the national tax structure and regime and in particular undertaking a study on ways to increase the Government's revenue post COVID-19, which include measures such as the reintroduction of Goods and Services Tax ("GST"), imposition of new taxes as well as reviewing tax incentive packages to make them more targeted and strategic. Further to the COVID-19 Fund, there is currently extra fiscal space to allow for larger expenditure through borrowings in a limited period in Malaysia. Furthermore, the Minister of Finance has reiterated that the Government will not be introducing any new additional taxes during the recovery phase of the Malaysian economy against the effects of the COVID-19 pandemic.

#### *Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) Act 2020*

- September 21, 2020 – the Government passed a new Act entitled Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) Act 2020 (the "**Temporary Measures for Government Financing Act**") in Parliament, which will remain in force until December 31, 2022. The Temporary Measures for Government Financing Act allows the Government to obtain additional borrowing to finance measures under the economic stimulus packages and recovery plan, allows proceeds from borrowings to be transferred into the COVID-19 Fund and temporarily lifts the statutory limit of the Government's outstanding debt from 55 per cent. to 60 per cent. of GDP.

#### *COVID-19 Fund*

- September 21, 2020 – the Government established a dedicated trust fund known as the COVID-19 Fund to enable a structured monitoring and transparent reporting of the implementation of programs and projects under the economic stimulus packages and recovery plans. In addition, the Parliament has also approved a total ceiling of RM65 billion under the COVID-19 Fund to finance all stimulus and recovery measures. As at the date of this Offering Memorandum, approximately RM38 billion has been disbursed under the COVID-19 Fund.

#### *Temporary Measures for Reducing the Impact of Coronavirus Disease 2019 (COVID-19) Act 2020*

- September 22, 2020 – the Government passed a new Act entitled *Temporary Measures for Reducing the Impact of Coronavirus Disease 2019 (COVID-19) Act 2020* (the "**Temporary Measures for Reducing the Impact of Coronavirus Disease Act**") in Parliament, which will remain in force for a period of two years from October 23, 2020. The Temporary Measures for Reducing the Impact of Coronavirus Disease Act provides temporary measures to reduce the impact of the COVID-19 pandemic in Malaysia including modifying relevant provisions of several acts. The Temporary Measures for Reducing the Impact of

Coronavirus Disease Act also allows the Government to establish the COVID-19 Mediation Center as an alternative dispute resolution platform for members of the public and SMEs that are unable to perform certain contractual obligations with a sum of up to RM500,000 as a result of the restrictions that have been imposed due to the COVID-19 pandemic.

#### *Vaccination Program*

- February 2021 – the Government started the COVID-19 vaccination and immunization program in Malaysia, which is currently being implemented in phases from February 24, 2021 to February 2022. The COVID-19 vaccination and immunization program will remain open until 80 per cent. of the population have been vaccinated under the Government’s herd immunity target.

As a result of the aforementioned measures, Malaysia has been generally successful in containing the spread of the COVID-19 pandemic, keeping the fatality rate at about 1 per cent. of total positive cases. On the back of the COVID-19 pandemic, the Malaysian economy contracted by 5.6 per cent. in 2020. The economy is projected to expand in 2021 in tandem with the anticipated improvement in global trade, consumer sentiment and business confidence. In addition, the 2021 Budget will implement measures to enhance the well-being of the people, steer the economy towards a sustainable growth path, enable sustainable living and improve public service delivery.

#### **2021 Budget**

On November 6, 2020, the Minister of Finance announced the 2021 Budget in Parliament, which was focused on three integral goals: (i) the Rakyat’s Well-being; (ii) Business Continuity; and (iii) Economic Resilience. Themed “Stand United, We Shall Prevail”, the 2021 Budget is a continuation of the PRIHATIN, PRIHATIN PKS+, PENJANA and KITA PRIHATIN economic stimulus packages and recovery plans. The 2021 Budget is also the largest allocation in history by the Government with a value of RM322.5 billion, an increase of approximately 8.6 per cent. as compared to the preceding year’s budget, of which RM236.5 billion is for operating expenditure, RM69 billion for national development and RM17 billion for the COVID-19 Fund. The Government’s revenue collection for the year 2021 is expected to come from direct tax (RM131.9 billion), indirect tax (RM42.5 billion) and non-tax revenue (RM62.5 billion).

The 2021 Budget comprised the following strategies:

- *Rakyat’s Well-being: ensuring the Rakyat’s well-being by protecting public health, creating and retaining jobs, safeguarding vulnerable groups and improving social welfare*
- *Business Continuity: supporting business continuity by accelerating investments, strengthening strategic sectors and improving access to financing*
- *Economic Resilience: part of the Expansionary Budget and aligned to the 12th Malaysia Plan and the 2030 Shared Prosperity Vision towards inclusive and sustainable socio-economic development*

Key measures of the 2021 Budget include various incentives and assistances schemes focusing on, among others, (1) investing in the public healthcare system to combat the COVID-19 pandemic and other health efforts, (2) implementing cash and repayment assistance as well as subsidy programs, (3) introducing financing and grants to support SMEs, micro-SMEs and entrepreneurs, (4) improving allocations to promote digital infrastructure and sustainable initiatives, (5) introducing tax relief incentives and the extension of existing tax deductions and exemptions, (6) implementing wage subsidies and job hiring schemes, and (7) providing financial support for youths.

As a result of the economic stimulus packages and the 2021 Budget goals, strategies and key measures, the Malaysian economy is projected to expand in 2021. On March 31, 2021, BNM released its revised GDP growth estimates of between 6.0 per cent. and 7.5 per cent. for 2021, representing a significant improvement from the contraction of 5.6 per cent. in 2020. Official GDP growth figures for the first quarter of 2021 are scheduled to be released by May 11, 2021.

## *1Malaysia Development Berhad*

1Malaysia Development Berhad (“**1MDB**”) was formed in 2009 as a Minister of Finance (Incorporated) company envisioned to assist the Government in catalyzing and supporting the strategic and sustainable long-term economic development and growth of Malaysia. The Government, through the Minister of Finance (Incorporated), owns all of the outstanding share capital of 1MDB. The Government also provides certain financial support to 1MDB, including: (i) guarantees from the Government in an aggregate amount of RM5.0 billion; and (ii) a letter of support issued by the Government in March 2013 in connection with one of 1MDB’s wholly owned subsidiary’s debt service obligations under its U.S.\$3.0 billion 10-year U.S. dollar bonds.

However, allegations of corruption and embezzlement emerged in 2015 implicating several senior Government officials, senior 1MDB management and other personnel of major financial institutions consisting of, among other things, payments alleged to have been made to certain Government officials and senior 1MDB officers out of 1MDB funds. To date, several Malaysian elected officials and senior executives of major financial institutions have been the subject of investigations relating to these.

Among those implicated are Malaysia’s former Prime Minister, Najib Razak. In 2018, prosecutors filed several criminal charges against Najib Razak related to, among other things, misappropriation of funds belonging to 1MDB and former 1MDB subsidiary SRC International, money laundering and criminal breach of trust. On July 28, 2020, Najib Razak was found guilty by a Malaysian High Court of all seven charges, among others, of abuse of power, criminal breach of trust and money laundering in relation to RM42 million belonging to SRC International and the Malaysian High Court sentenced him to 12 years’ imprisonment and fined him RM210 million. Najib Razak’s trial in relation to SRC International is the first of a series of trials linked to 1MDB. The Malaysian High Court judgment is currently being appealed by Mr. Razak.

These allegations have also resulted in several criminal investigations in other countries, including the United States. On October 22, 2020, the U.S. Department of Justice announced that it had reached a settlement with the Goldman Sachs Group Inc. and Goldman Sachs (Malaysia) Sdn. Bhd., its Malaysian subsidiary (“**Goldman Sachs**”), pursuant to which Goldman Sachs admitted to conspiring to violate the U.S. Foreign Corrupt Practices Act in a scheme involving 1MDB and certain Government officials, including as part of Goldman Sachs’ role as an underwriter in previous bonds issuances by 1MDB. As part of this settlement, Goldman Sachs agreed to pay the Government a total of U.S.\$3.9 billion, which includes a cash payment of U.S.\$2.5 billion and a guarantee of a full recovery value of at least U.S.\$1.4 billion in assets.

As a result of the funds diverted out of its assets, 1MDB ended up in financial distress and ultimately failed to make a U.S.\$1.1 billion payment to its creditors in April 2016. This necessitated the Government’s intervention in 1MDB’s businesses. Since 2018, the Board of 1MDB has taken steps to recover assets and pursue civil recovery in order to meet its debt obligations. On April 3, 2019, the Government agreed to sell the Equanimity superyacht for U.S.\$126 million to Genting Malaysia Berhad. On February 26, 2021, Malaysian banking group AMMB Holdings Berhad (“**AmBank**”) agreed to pay RM2.83 billion to the Government as part of a global settlement of all outstanding claims and actions in relation to AmBank’s involvement in the scheme involving 1MDB and certain Government officials. On March 3, 2021, Deloitte PLT agreed to pay U.S.\$80 million to the Government as part of a settlement relating to its role in auditing the financial statements of 1MDB and its affiliates from 2013 to 2014.

As at March 31, 2021, 1MDB’s total outstanding indebtedness was estimated at RM32 billion and the Government has financially assisted 1MDB in the form of loans and advances of RM9.63 billion to meet 1MDB’s financial commitments and debt servicing. 1MDB is currently a dormant company. It continues to service its debt and assist in the ongoing asset recovery process by, among other things, being a part of the necessary legal action.

The various investigations into the matters surrounding 1MDB are still continuing. As at March 31, 2021, a total of RM14.15 billion in assets linked to 1MDB’s financial trail had been recovered by Malaysian authorities and merged into a dedicated trust fund administered by the Ministry of Finance, which would allow the Government

to continue fulfilling IMDB's outstanding obligations. In addition, Goldman Sachs is assisting with the asset recovery process and has guaranteed a full recovery value of at least U.S.\$1.4 billion in assets.

### ***Crude Oil Prices***

With the COVID-19 pandemic significantly reducing demand, storage facilities filled rapidly, and the Dated Brent (as defined below) crude oil price fell to its lowest level at U.S.\$17.32 per barrel on April 21, 2020 before stabilizing at about U.S.\$42 per barrel. As at April 13, 2021, the average price of Dated Brent crude oil stood at around U.S.\$61 per barrel and is expected to remain volatile in the near future.

Dated Brent ("**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. These fluctuations in crude oil prices had both a direct and indirect impact on Malaysia's tax revenues contributed by the hydrocarbon sector, dividends received from Malaysia's state-owned oil and gas company, PETRONAS, and oil and tax royalties. Including dividends received from PETRONAS, petroleum income tax and petroleum royalties, the Government derived approximately 24.9 per cent. of its revenues from the hydrocarbon sector, which represented approximately 4 per cent. of GDP in 2020.

### **The Economy**

Malaysia has a diversified economy, the principal sectors of which are the services and manufacturing sectors, which accounted for 80.7 per cent. of GDP in 2020. Meanwhile, the commodity sector, consisting of agriculture and mining, accounted for 14.2 per cent. of GDP, followed by the construction sector which accounted for 4.0 per cent. of GDP in 2020. 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.

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, information and communication, finance and insurance and real estate and business services sub-sectors) has gained importance, benefiting from the rapid pace of industrialization. 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.

GDP at purchasers' value contracted by 5.6 per cent. in 2020, affected by the domestic containment measures amid the spread of the COVID-19 pandemic. The agriculture sector decreased by 2.2 per cent., as a result of lower production of palm oil and rubber following supply disruptions and cutbacks in fertilizers by smallholders in 2019. The mining and quarrying sector decreased by 10.0 per cent., as crude oil and natural gas production were impacted by maintenance closures and weak external demand for commodities. The services sector decreased by 5.5 per cent., as a result of significant decline in food & beverages and accommodation; transportation and storage; and real estate and business services subsectors due to the effects of the COVID-19 pandemic and the resulting travel bans, domestic movement restrictions and quarantines as well as temporary business closure. The manufacturing sector decreased by 2.6 per cent., owing to the decline in non-metallic mineral products, basic metal and fabricated metal products; food, beverages and tobacco; as well as transport equipment and other manufacturing subsectors due to the effects of the COVID-19 pandemic and the resulting MCOs by the Government to curb the spread of COVID-19 infections. The construction sector decreased by 19.4 per cent., following closure of construction activities due to COVID-19, which resulted in all segments declining significantly, coupled with prolonged property overhang issues.

## Financial System

The Malaysian financial system consists of BNM, banking institutions and non-bank financial institutions. BNM is a body corporate which exists under 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:

- (i) to formulate and conduct monetary policy in Malaysia;
- (ii) to issue currency in Malaysia;
- (iii) to regulate and supervise financial institutions which are subject to the laws enforced by BNM;
- (iv) to provide oversight over money and foreign exchange markets;
- (v) to exercise oversight over payment systems;
- (vi) to promote a sound, progressive and inclusive financial system;
- (vii) to hold and manage the foreign reserves of Malaysia;
- (viii) to promote an exchange rate regime consistent with the fundamentals of the economy; and
- (ix) to act as financial advisor, banker and financial agent of the Government.

BNM manages the foreign reserves of Malaysia under the CBA. As at March 15, 2021, BNM's total assets were RM492 billion, of which gross international reserves comprised U.S.\$109.2 billion.

## Summary Economic Information

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

### 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 2015 prices for the years indicated.

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020<sup>P</sup></u>
	(RM million, unless otherwise stated)				
<b>Current Prices:</b>					
Final consumption expenditure					
Public .....	157,023	167,320	172,951	176,673	184,031
Private .....	684,681	760,146	831,334	903,720	861,509
Gross fixed capital formation					
Public <sup>(1)</sup> .....	107,370	109,422	104,546	94,374	74,237
Private .....	211,525	234,520	245,842	252,471	222,150
Change in inventories and valuables <sup>(2)</sup> .....	5,970	6,647	(4,327)	(28,957)	(17,912)
Exports of goods and services .....	834,491	960,778	992,511	985,283	869,931
Imports of goods and services .....	751,363	866,524	895,405	872,871	778,784
GDP at purchasers' prices .....	1,249,698	1,372,310	1,447,451	1,510,693	1,415,163
Balance of primary income .....	<u>(34,592)</u>	<u>(38,658)</u>	<u>(45,082)</u>	<u>(40,267)</u>	<u>(26,227)</u>
<b>GNI .....</b>	<b><u>1,215,105</u></b>	<b><u>1,333,652</u></b>	<b><u>1,402,369</u></b>	<b><u>1,470,426</u></b>	<b><u>1,388,936</u></b>

	2016	2017	2018	2019	2020 <sup>P</sup>
	(RM million, unless otherwise stated)				
<b>Constant 2015 Prices:</b>					
Final consumption expenditure					
Public .....	155,640	164,450	169,631	173,077	180,207
Private .....	672,260	718,702	775,851	835,065	798,986
Gross fixed capital formation					
Public <sup>(1)</sup> .....	105,213	105,499	100,263	89,385	70,249
Private .....	206,977	225,594	235,351	239,027	210,470
Change in inventories and valuables <sup>(2)</sup> .....	297	1,032	(9,050)	(14,649)	(5,226)
Exports of goods and services .....	828,155	900,064	917,462	905,807	826,529
Imports of goods and services .....	739,230	814,571	826,694	806,258	739,189
GDP at purchasers' prices (A+B+C+D-E) .....	1,229,312	1,300,769	1,362,815	1,421,454	1,342,027
Balance of primary income .....	(18,011)	(19,050)	(28,237)	(22,533)	(11,577)
<b>GNI (F+G) .....</b>	<b>1,211,301</b>	<b>1,281,719</b>	<b>1,334,578</b>	<b>1,398,921</b>	<b>1,330,450</b>

*Notes:*

<sup>P</sup> Preliminary.

(1) Includes investment of public corporations.

(2) Includes statistical discrepancy arising from balancing.

Sources: Department of Statistics and Ministry of Finance, Malaysia.

## 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,				
	2016	2017	2018	2019	2020 <sup>P</sup>
<b>Labor Force</b>					
Labor force (in thousands) .....	14,667.8	14,980.1	15,280.3	15,581.6	15,807.2
Employment (in thousands) .....	14,163.7	14,476.8	14,776.0	15,073.4	15,096.1
Unemployment rate (%) .....	3.4	3.4	3.3	3.3	4.5
Labor force participation rate <sup>(1)</sup> (%)					
Total .....	67.7	68.0	68.3	68.7	68.5
Male .....	80.2	80.1	80.4	80.8	80.6
Female .....	54.3	54.7	55.2	55.6	55.4
Number of collective agreements signed in the current year <sup>(2)</sup> ...	308	269	294	298	n/a
Number of workers covered (in thousands) .....	133.7	60.6	46.3	—	—
Labor productivity <sup>(3)</sup> .....					
Agriculture .....	3.1	3.8	2.3	2.1	(5.4)
Mining and quarrying .....	1.8	2.2	(0.2)	0.4	(1.8)
Manufacturing .....	5.9	(4.8)	4.0	(1.6)	(7.9)
Construction .....	3.8	3.9	2.4	1.7	(2.6)
Services .....	8.8	6.8	3.4	3.3	(15.7)
Foreign workers (in thousands) .....	2.0	4.3	3.5	2.9	(6.0)
Foreign workers (in thousands) .....	1,866.4	1,797.4	2,015.8	1,999.6	2,309.6

	As at December 31,				
	2016	2017	2018	2019	2020 <sup>P</sup>
<b>Employment by Industry (in thousands)</b>					
Agriculture, forestry and fishing .....	1,609.9	1,635.0	1,570.3	1,541.1	1,865.9
Mining and quarrying .....	96.3	97.2	90.8	91.0	73.6
Manufacturing .....	2,390.6	2,513.3	2,499.9	2,681.5	2,551.7
Construction .....	1,251.7	1,258.9	1,257.8	1,276.4	1,399.1
Services .....	8,814.3	8,970.9	9,355.2	9,481.5	9,205.5
Electricity, gas, steam and air conditioning supply .....	77.9	62.2	68.8	71.4	n/a
Water supply; sewerage, waste management and remediation activities .....	76.4	81.0	88.6	88.8	n/a
Wholesale and retail trade; repair of motor vehicles and motorcycles .....	2,428.5	2,485.4	2,544.6	2,594.5	n/a
Transportation and storage .....	630.4	658.2	697.9	667.6	n/a
Accommodation and food & beverages service activities .....	1,260.7	1,323.2	1,473.4	1,549.7	n/a
Information and communication .....	208.7	220.3	216.4	213.9	n/a
Finance and insurance/ takaful activities .....	346.9	369.0	338.6	335.1	n/a
Real estate activities .....	82.4	84.5	97.2	92.1	n/a
Professional, scientific and technical activities .....	361.8	348.1	367.7	385.7	n/a
Administrative and support service activities .....	657.0	677.2	747.6	806.2	n/a
Public administration and defense; compulsory social security .....	748.2	742.2	720.2	737.1	n/a
Education .....	928.7	880.3	988.7	962.3	n/a
Human health and social work activities .....	570.3	588.0	551.2	527.7	n/a
Arts, entertainment and recreation .....	80.9	84.3	85.6	79.0	n/a
Others service activities .....	230.8	260.1	264.8	266.1	n/a
Activities of households as employers .....	124.7	106.9	103.9	104.3	n/a
<b>Total employment<sup>(4)</sup> .....</b>	<b>14,163.7</b>	<b>14,476.8</b>	<b>14,776.0</b>	<b>15,073.4</b>	<b>15,096.1</b>

*Notes:*

<sup>P</sup> Preliminary figures based on quarterly averages of data from Labour Force Survey and annual data from Labour Productivity statistics published by the Department of Statistics, Malaysia

<sup>n/a</sup> Not Applicable

(1) The ratio of the labor force to the working age population (15-64 years), expressed as a percentage.

(2) Based on the information in the collective agreement and the feedback from the employer for which cognizance has been given by the Industrial Court for the year.

(3) Annual change (%).

(4) Total includes 'Activities of extraterritorial organizations and bodies'.

Source: Department of Statistics, Ministry of Finance, Ministry of Home Affairs and Ministry of Human Resources Malaysia and BNM.

## Foreign Direct Investment Flows

The following table sets out the FDI statistics in Malaysia for the years indicated.

### Foreign direct investment in Malaysia

	2016	2017	2018	2019	2020 <sup>P</sup>
	(RM billion)				
FDI in Malaysia (net) .....	47.0	40.4	30.7	31.7	13.9

*Note:*

<sup>P</sup> Preliminary.

Sources: Department of Statistics and BNM

## Balance of Payments

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

### *Balance of Payments (net)*

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020<sup>P</sup></u>
	(RM million)				
<b>Balance on goods and services</b> .....	<b>83,128</b>	<b>94,255</b>	<b>97,106</b>	<b>112,412</b>	<b>91,147</b>
Goods .....	102,046	117,113	114,621	123,334	139,133
Services .....	(18,917)	(22,859)	(17,515)	(10,922)	(47,985)
Transport .....	(23,459)	(29,622)	(27,688)	(25,903)	(27,538)
Travel .....	31,515	32,470	30,218	30,818	(7,756)
Other services .....	(26,974)	(25,707)	(20,045)	(15,837)	(12,692)
Primary income .....	(34,592)	(38,658)	(45,082)	(40,267)	(26,227)
Compensation of employees .....	(5,606)	(4,848)	(7,657)	(9,122)	(7,976)
Investment income .....	(28,986)	(33,811)	(37,425)	(31,145)	(18,251)
Secondary income .....	<u>(18,629)</u>	<u>(17,300)</u>	<u>(19,729)</u>	<u>(21,294)</u>	<u>(2,800)</u>
<b>Balance on current account</b> .....	<b><u>29,907</u></b>	<b><u>38,296</u></b>	<b><u>32,295</u></b>	<b><u>50,850</u></b>	<b><u>62,120</u></b>
<b>% on Gross National Income</b> .....	<b><u>2.5</u></b>	<b><u>2.9</u></b>	<b><u>2.3</u></b>	<b><u>3.5</u></b>	<b><u>4.5</u></b>
Capital account .....	102	(26)	(89)	331	(415)
Financial account .....	(249)	(4,730)	11,430	(33,796)	(79,121)
Direct investment .....	13,792	16,171	10,103	5,578	(162)
Assets .....	(42,246)	(24,234)	(23,431)	(31,908)	(17,265)
Liabilities .....	56,038	40,405	33,535	37,486	17,103
Portfolio investment .....	(14,203)	(15,358)	(49,396)	(29,026)	(49,124)
Financial derivatives .....	(802)	(197)	981	(478)	1,614
Other investment .....	<u>964</u>	<u>(5,346)</u>	<u>49,742</u>	<u>(9,870)</u>	<u>(31,448)</u>
<b>Balance on capital and financial accounts</b> .....	<b><u>(148)</u></b>	<b><u>(4,756)</u></b>	<b><u>11,341</u></b>	<b><u>(33,465)</u></b>	<b><u>(79,536)</u></b>
<b>Net errors and omissions</b> .....	<b><u>(23,899)</u></b>	<b><u>(17,132)</u></b>	<b><u>(35,878)</u></b>	<b><u>(8,969)</u></b>	<b><u>(1,990)</u></b>
<b>Overall balance</b> .....	<b><u><u>5,860</u></u></b>	<b><u><u>16,409</u></u></b>	<b><u><u>7,758</u></u></b>	<b><u><u>8,416</u></u></b>	<b><u><u>(19,406)</u></u></b>

Notes:

<sup>P</sup> Preliminary.

Sources: Department of Statistics; BNM.

## External Debt

The following tables set out information on the outstanding external debt of Malaysia for the periods indicated in ringgit.

### External debt outstanding

	As at December 31,				
	2016	2017	2018	2019	2020 <sup>P</sup>
	(RM million)				
<b>Offshore Borrowing<sup>(1)</sup></b> .....	<b>530,938</b>	<b>508,583</b>	<b>565,800</b>	<b>560,708</b>	<b>560,289</b>
<b>Medium- and long-term<sup>(2)</sup></b> .....	<b>322,854</b>	<b>321,094</b>	<b>331,973</b>	<b>344,322</b>	<b>361,387</b>
Government .....	18,464	16,567	16,708	24,021	23,975
Public corporations .....	112,215	115,897	121,531	104,722	120,262
Private sector .....	192,175	188,630	193,735	215,579	217,150
<b>Short-term<sup>(3)(4)</sup></b> .....	<b>208,083</b>	<b>187,489</b>	<b>233,827</b>	<b>216,386</b>	<b>198,903</b>
Banking sector .....	170,977	172,199	204,759	199,505	182,078
Non-bank private sector .....	37,099	15,290	29,068	16,881	16,821
<b>NR holdings of domestic debt securities</b> .....	<b>212,767</b>	<b>207,389</b>	<b>180,224</b>	<b>201,015</b>	<b>220,103</b>
Government securities .....	191,764	186,186	162,139	183,662	206,104
Others .....	21,003	21,203	18,085	17,353	13,999
<b>NR deposits</b> .....	<b>86,537</b>	<b>92,025</b>	<b>98,109</b>	<b>102,928</b>	<b>94,497</b>
<b>Others<sup>(5)</sup></b> .....	<b>84,222</b>	<b>77,221</b>	<b>78,896</b>	<b>80,767</b>	<b>83,566</b>
<b>Total external debt</b> .....	<b>914,464</b>	<b>885,218</b>	<b>923,029</b>	<b>945,419</b>	<b>958,456</b>
% GNI .....	75.3	66.4	65.8	64.3	69.0
% GDP .....	73.2	64.5	63.8	62.6	67.7
% exports of goods and services .....	109.6	92.1	93.0	96.0	110.2
% annual growth .....	9.3	(3.2)	4.3	2.4	1.4
Debt service ratio (as % of exports of goods and services <sup>(6)</sup> ) .....	24.8	15.3	11.8	12.8	13.8

#### Notes:

<sup>P</sup> 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 foreign currency 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.

## Government Financial Position

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

### Government financial position

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020<sup>P</sup></u>	<u>2021<sup>B</sup></u>
	<b>(RM million)</b>					
Current revenue . . . . .	212,421	220,406	232,882	264,415	225,075	236,900
Less: Current expenditure . . . . .	210,173	217,695	230,960	263,343	224,600	236,540
Current surplus . . . . .	2,248	2,711	1,922	1,072	475	360
Less: Net development expenditure . . . . .	40,649	43,032	55,307	52,570	50,101	68,200
COVID-19 Fund . . . . .	—	—	—	—	38,019	17,000
Overall surplus/(deficit) . . . . .	(38,401)	(40,321)	(53,385)	(51,498)	(87,645)	(84,840)
Sources of finance						
Gross domestic borrowings . . . . .	93,876	129,185	131,564	127,478	181,067	191,500
Less: Domestic repayment . . . . .	56,194	88,453	77,137	82,723	94,146	106,700
Net domestic borrowings . . . . .	37,683	40,732	54,427	44,755	86,921	84,800
Gross external borrowings . . . . .	5,982	63	36	7,304	—	4,330
Less: External repayment . . . . .	5,148	405	356	327	331	3,750
Net external borrowings . . . . .	835	(342)	(320)	6,977	(331)	580
Use of assets <sup>(1)</sup> . . . . .	(116)	(69)	(722)	(234)	1,134	(540)
Overall balance (% of GNI) . . . . .	(3.2)	(3.0)	(3.8)	(3.5)	(6.3)	(5.6)
Overall balance (% of GDP) . . . . .	(3.1)	(2.9)	(3.7)	(3.4)	(6.2)	(5.4)

*Notes:*

<sup>P</sup> Preliminary.

<sup>B</sup> Budget estimate, excluding the PEMERKASA stimulus package.

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

Sources: Ministry of Finance; BNM.

## Government Revenue

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

### Government revenue

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020<sup>P</sup></u>	<u>2021<sup>B</sup></u>
	(RM million)					
Direct taxes . . . . .	109,608	116,024	130,035	134,723	112,511	131,870
Corporate income tax . . . . .	63,625	64,465	66,474	63,751	50,065	64,596
Petroleum income tax . . . . .	8,422	11,761	20,082	20,783	12,772	13,000
Personal income tax . . . . .	27,566	28,945	32,605	38,680	38,953	42,439
Stamp duties . . . . .	5,687	5,665	5,924	6,213	5,506	6,503
Other . . . . .	4,308	5,188	4,950	5,296	5,215	5,332
Indirect taxes . . . . .	59,735	61,634	44,026	45,843	41,887	42,500
Export duties . . . . .	980	1,355	1,725	1,126	746	922
Import duties . . . . .	2,905	2,784	2,897	2,733	2,346	2,050
Excise duties . . . . .	11,705	10,112	10,779	10,511	9,855	8,768
Sales tax . . . . .	103	47	3,971	15,385	14,767	15,200
Service tax . . . . .	103	15	1,473	12,283	12,006	12,700
GST . . . . .	41,206	44,290	20,236	—	—	—
Other . . . . .	2,733	3,031	2,945	3,805	2,167	2,860
Non-tax revenue and receipts <sup>(1)</sup> . . . . .	43,078	42,748	58,821	83,849	70,677	62,530
<b>Total</b> . . . . .	<b><u>212,421</u></b>	<b><u>220,406</u></b>	<b><u>232,882</u></b>	<b><u>264,415</u></b>	<b><u>225,075</u></b>	<b><u>236,900</u></b>

*Notes:*

<sup>P</sup> Preliminary.

<sup>B</sup> Budget estimate, excluding the PEMERKASA stimulus package.

(1) Includes investment income, licenses and permits, services fees, non-revenue receipts, revenue from federal territories and other items.

Source: Ministry of Finance.

## Monetary Developments

The following tables illustrate the growth of monetary aggregates from January 1, 2016 through December 31, 2020 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*

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
	<i>(annual change in %)</i>				
Currency .....	11.4	8.1	2.1	6.4	17.7
M1 <sup>(1)</sup> .....	5.6	11.0	1.2	5.8	15.7
M2 <sup>(2)</sup> .....	3.2	5.1	8.9	3.5	4.5
M3 <sup>(3)</sup> .....	3.2	4.9	9.1	3.5	4.0
Deposits <sup>(4)</sup> .....	1.7	4.1	9.2	2.9	4.5
Loans <sup>(5)</sup> .....	5.3	4.1	7.7	3.9	3.4

#### *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 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 and excluding loans sold to Danaharta).

*Source: BNM.*

### *Interbank rates*

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
	<i>(%)</i>				
Three-month interbank rates (at end of period) .....	3.41	3.45	3.65	3.30	1.92
Average three-month interbank rates (for the relevant period) .....	3.48	3.38	3.66	3.46	2.39

*Source: BNM.*

## **SDG Sukuk Framework of the Government of Malaysia**

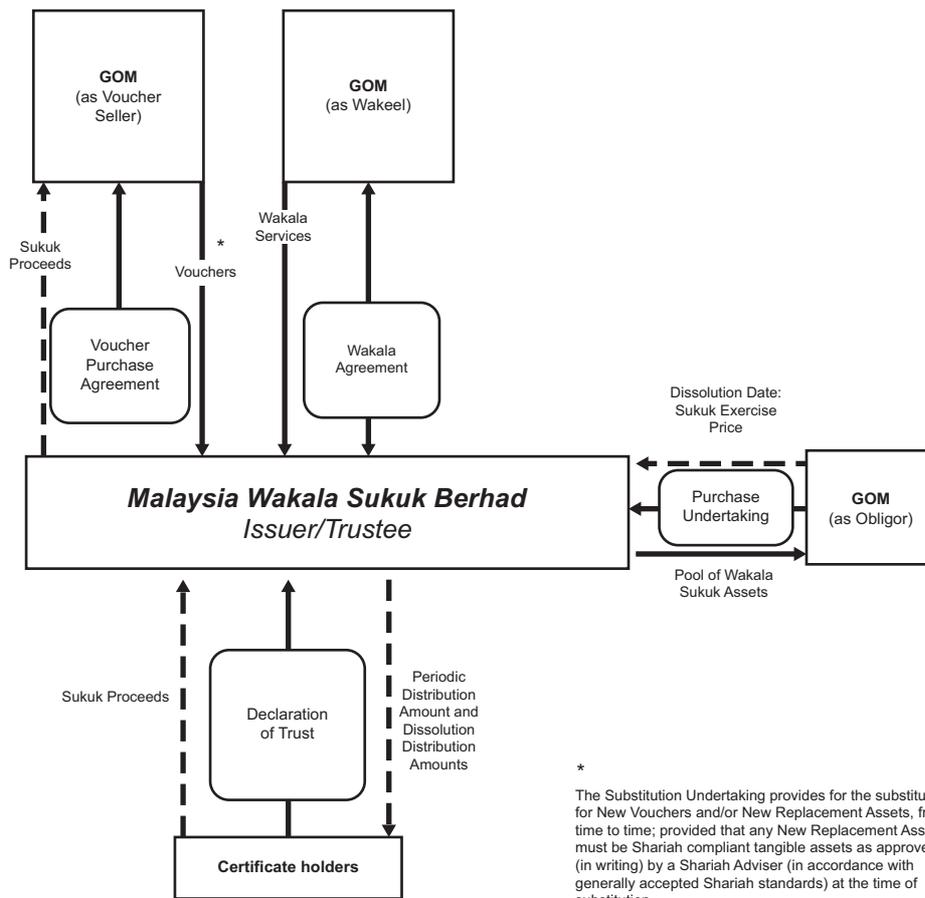
The SDG Sukuk Framework of the Government of Malaysia is attached hereto as Appendix A, as amended from time to time on the Government of Malaysia's website: <https://www.mof.gov.my/en/economy/sustainability>.

## 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 pay 100 per cent. of the issue price to the Government of Malaysia as the purchase price payable under the Voucher Purchase Agreement for the Vouchers identified in, and pursuant to, the Voucher Purchase Agreement.

**Periodic Payments by the Trustee.** On or prior to each Payment Date (in relation to any Vouchers) and/or (in relation to Replacement Assets, if any) Replacement Assets Payment Date (as applicable), the Wakeel will pay to the Trustee an amount reflecting the aggregate proceeds from the sale of Vouchers and/or any Replacement Assets Payment for the relevant Return Accumulation Period and such amounts shall 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: (i) any Vouchers owned by the Trustee but unsold at that time; and (ii) (where the Wakala Sukuk Assets comprise Replacement Assets) the Replacement Assets. The Sukuk Exercise 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 funded by the Government of Malaysia purchasing the Trustee's interest, rights, benefits and entitlements in and to: (i) any Vouchers owned by the Trustee but unsold at that time; and (ii) (where the Wakala Sukuk Assets comprise Replacement Assets) the Replacement Assets, pursuant to the terms of the Purchase Undertaking.

## SUMMARY OF THE OFFERING

*The following overview should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this offering memorandum.*

*This overview may not contain all of the information that prospective investors should consider before deciding to invest in the 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” 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 Wakala Sukuk Berhad (Company No. 202101012729 (1413028-M)) (in its capacity as issuer and in its capacity as trustee, the “**Trustee**”), a company incorporated in Malaysia on April 7, 2021 under the Companies Act 2016 of Malaysia 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.

**Trustee Legal Entity Identifier:** 254900MRLMI21YQTK511.

**Ownership of the Trustee:** The Trustee is wholly owned by the Minister of Finance (Incorporated).

**Voucher Seller and Voucher Purchaser:** The Government of Malaysia as seller (in such capacity, the “**Seller**”) and the Trustee as purchaser (in such capacity, the “**Purchaser**”). Pursuant to a voucher purchase agreement (the “**Voucher Purchase Agreement**”), the Seller will sell, transfer and convey to the Trustee vouchers (which can only be redeemed via an Authorised Entity) (the “**Original Vouchers**”) representing an entitlement to a specified number of travel units (the “**Travel Units**”).

**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 Revocation Event (see further “*Dissolution following a Revocation Event*” below), purchase the interests, rights, benefits and entitlements in and to the Wakala Sukuk Assets from the Trustee at the Sukuk Exercise Price; or (following the occurrence of a Revocation Event) purchase the interests, rights, benefits and entitlements in and to the Residual Assets from the Trustee at the Residual Assets Exercise Price (as applicable) (see further “*Summary of the Principal Transaction Documents — Purchase Undertaking*”).

**Wakeel:** The Government of Malaysia (in its capacity as wakeel, the “**Wakeel**”).

Where the Wakala Sukuk Assets comprise Vouchers, the Wakeel shall act as the Trustee's sole and exclusive distributor to sell Vouchers to Customers in its sole discretion through an Authorised Entity, on the terms of the Wakala Agreement and/or, as applicable, the relevant Distribution Notice. The number of Vouchers designated for distribution and sale (as specified in the Wakala Agreement) shall be calculated by reference to the Voucher Percentage, such that the proceeds from the sale of Vouchers in any Distribution Period, together with (where the Wakala Sukuk Assets also comprise Replacement Assets) the Replacement Assets Payment shall be sufficient to cover Periodic Distribution Amounts.

**Joint Bookrunners and Joint Lead Managers:**

CIMB Investment Bank Berhad; The Hongkong and Shanghai Banking Corporation Limited; and J.P. Morgan Securities plc.

**Joint Sustainable Development Goals Structuring Agents:**

HSBC Amanah Malaysia Berhad and J.P. Morgan Securities plc (the "**Sustainability Structuring Agents**").

**Delegate:**

The Hongkong and Shanghai Banking Corporation 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 exercise certain future duties, powers, authorities and discretions vested in the Trustee by certain provisions of the Declaration of Trust in accordance with the terms of the Declaration of Trust. In addition, pursuant to the Declaration of Trust, certain powers will be vested solely in the Delegate.

**Principal Paying Agent and Replacement Agent:**

HSBC Bank USA, National Association.

**Registrar and Transfer Agent:**

HSBC Bank USA, National Association.

**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 Certificates:**

**Series 1 Certificates:**

U.S.\$800,000,000 Trust Certificates due 2031.

**Series 2 Certificates:**

U.S.\$500,000,000 Trust Certificates due 2051.

**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 28, 2021.

**Issue Price:**

100 per cent. of the aggregate face amount of the Certificates.

**Periodic Distribution Dates for Series 1 Certificates:**

The 28th day in April and October in each year or, if any such day is not a Business Day, the following Business Day, commencing on October 28, 2021 and, subject to Condition 8 (*Periodic Distribution Provisions*), ending on the Scheduled Dissolution Date for Series 1 Certificates.

**Periodic Distribution Dates for Series 2 Certificates:**

The 28th day in April and October in each year or, if any such day is not a Business Day, the following Business Day, commencing on October 28, 2021 and, subject to Condition 8 (*Periodic Distribution Provisions*), 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 profit in respect of the relevant Wakala Sukuk Assets for the Certificates.

**Scheduled Dissolution Date for Series 1:**

April 28, 2031.

**Scheduled Dissolution Date for Series 2:**

April 28, 2051.

**Scheduled Dissolution of the Trust:**

Upon receipt by the Trustee of the Sukuk Exercise Price payable in accordance with the terms of the Purchase Undertaking, and unless the Certificates are previously redeemed or cancelled, the Trustee will apply the Sukuk Exercise Price to redeem each Certificate at the Dissolution Distribution Amount. Thereafter 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 Revocation Event Dissolution Date upon the occurrence of a Revocation 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 paragraph (i), the Certificates will be redeemed in accordance with Condition 10 (*Capital Distributions of the Trust*) and pursuant to the exercise of the Trustee's rights under the Purchase Undertaking. The Sukuk Exercise Price payable under the Purchase Undertaking 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*).

**Dissolution following a Revocation Event:**

The occurrence of a Revocation Event will result in the redemption of the Certificates and the consequent dissolution of the Trust. In this context, pursuant to the Purchase Undertaking, the Government of Malaysia will irrevocably grant to the Trustee the right to require the Government of Malaysia to purchase and accept the transfer and conveyance on the relevant Revocation Event Dissolution Date specified in the Exercise Notice of all of the Trustee's interests, rights, benefits and entitlements in and to the Residual Assets at the Residual Assets Exercise Price specified in the Exercise Notice. The Residual Assets Exercise Price will be paid into the Transaction Account on the Revocation Event Dissolution Date.

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

**“Residual Assets”** means:

- (a) where the Wakala Sukuk Assets comprise Vouchers and Replacement Assets at such time, following the occurrence of a Revocation Event, the unsold Vouchers and the remaining Replacement Assets; or
- (b) where the Wakala Sukuk Assets comprises Vouchers but not Replacement Assets at such time, following the occurrence of a Revocation Event, the unsold Vouchers.

**“Residual Assets Exercise Price”** means, at any time, an amount equal to the aggregate of:

- (a) the outstanding face amount of the Certificates;
- (b) to the extent the Wakala Sukuk Assets comprised Replacement Assets prior to the relevant Revocation Event, all accrued but unpaid Replacement Assets Payments relating to the Replacement Assets (if any), to the extent not received by the Trustee;
- (c) to the extent the Wakala Sukuk Assets comprised Vouchers prior to the relevant Revocation Event, all accrued but unpaid

Distribution Profit relating to the Vouchers (if any), to the extent not received by the Trustee under the Wakala Agreement;

- (d) without duplication or double counting, an amount equal to any accrued but unpaid Wakala Services Charge Amount;
- (e) 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 the Government of Malaysia, the Trustee and the Delegate acknowledge shall be the price for the Residual Assets following the occurrence of a Revocation Event.

“**Revocation Date**” means, in relation to a Revocation Event, the earlier of the date that (A) the Trustee is notified and (B) the Trustee becomes aware that the entity that issues the Vouchers has ceased to be an Authorised Entity.

“**Revocation Event**” means, an event or circumstance where (i) the Revocation Date has occurred; and (ii) the Government of Malaysia is unable within 60 days of the Revocation Date to sell new assets to the Trustee pursuant to a sale agreement or (in its capacity as Wakeel) obtain Vouchers pursuant to a supplemental voucher purchase agreement, in each case for an amount at least equal to the aggregate Voucher Face Value of Vouchers owned by the Trustee but unsold as at the Revocation Date.

**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 Replacement Assets Agreement (if any) 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 a (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 Substitution:**

Pursuant to the Substitution Undertaking granted by the Trustee in favor of the Government of Malaysia, the Government of Malaysia has the right to require the Trustee to sell, transfer and convey the Trustee’s interests, rights, benefits and entitlements in and to certain of the Vouchers (the “**Substituted Vouchers**”) and/or Replacement Assets (the “**Substituted Replacement Assets**”) in consideration for the transfer and conveyance of certain new Vouchers (the “**New Vouchers**”) and/or the ownership interest in certain new Replacement Assets (the “**New Replacement Assets**”) to the Trustee by the Government of Malaysia. The Government of Malaysia will be obliged to certify that the New Replacement Assets and/or New Vouchers are of a value equal to or greater than the value of the Substituted Replacement Assets and/or Substituted Vouchers on the relevant Substitution Date.

The substitution of the New Vouchers and/or New Replacement Assets for the Substituted Vouchers and/or Substituted Replacement Assets will become effective on the relevant 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 Government of Malaysia (or such other government entity or agency that the Government of Malaysia may specify) entering into a sale agreement.

“**Replacement Assets**” means the assets specified in a Substitution Notice and which shall only comprise of Shariah compliant tangible assets (for the avoidance of doubt, excluding investments in a business, shares or equities) as approved (in writing) by a Shariah Adviser (in accordance with generally accepted Shariah standards) prior to the issuance of each relevant Substitution Notice from time to time pursuant to, and in accordance with the terms of, the Substitution Undertaking.

“**Shariah Adviser**” means a Shariah adviser appointed by the Government of Malaysia in relation to Replacement Assets from time to time, with such adviser following the generally accepted Shariah standards at the time of substitution;

**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 HSBC Bank USA, National Association.

**Transaction Account for Series 2:**

A non-interest bearing U.S. dollar denominated account maintained in the name of the Trustee with HSBC Bank USA, National Association.

**Limited Recourse:**

Each Certificate will represent an undivided beneficial ownership interest in the Trust Assets subject to the terms of the Declaration of Trust. No payment of any amount whatsoever shall be made in respect of the Certificates except to the extent that funds for that purpose are available from the Trust Assets.

Under no circumstances shall the Delegate or any Certificateholder cause the sale or other disposition of any of the relevant 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.

**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 U.S.\$250,000 and in integral multiples of U.S.\$1,000 in excess thereof.

**Form and Delivery of the Certificates:** The Certificates are (1) Regulation S Certificates and (2) Rule 144A Certificates.

Regulation S Certificates will be represented on issue by beneficial interests in one or more Regulation S Global Certificates, in fully registered form, without coupons attached, which will be deposited with the custodian for, and registered in the name of Cede & Co., as nominee for DTC. Rule 144A Certificates will 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 to the Government of Malaysia as the purchase price for the Vouchers pursuant to the Voucher Purchase Agreement.

The net proceeds of the Series 1 Certificates received by the Government of Malaysia in connection with the sale of the Vouchers will be used by the Government of Malaysia for Shariah compliant general purposes, including but not limited, to financing or refinancing, in whole or in part, new or existing development expenditure with a social and/or green focus, in accordance with the eligibility criteria described under the SDG Sukuk Framework of the Government of Malaysia attached hereto as Appendix A, as amended from time to time on the Government of Malaysia's website: <http://www.mof.gov.my/en/economy/sustainability>, and as governed by External Loans Act 1963 [Act 403] and Development Fund Act 1966 [Act 406]. Nothing on the Government of Malaysia's website, other than the SDG Sukuk Framework as amended from time to time thereby, is incorporated by reference into, or made a part of, this Offering Memorandum.

The net proceeds of the Series 2 Certificates received by the Government of Malaysia in connection with the sale of the Vouchers will be used by the Government of Malaysia for Shariah compliant general purposes, including but not limited to refinancing prior development expenditure and to finance new development expenditure in 2021, as governed by External Loans Act 1963 [Act 403] and Development Fund Act 1966 [Act 406].

**Listing:**

Application will be made to the HKSE for the listing of the Certificates by way of debt issues to Professional Investors only. Approval in-principle has been obtained for: (a) the listing of the Certificates on the LFX and (b) the listing of the Certificates on Bursa Malaysia under an exempt regime, pursuant to which the Certificates will be listed but not quoted for trading. It is expected that dealing in, and listing of, where applicable, the Certificates on: (i) the HKSE will commence on or about April 29, 2021; (ii) the LFX will commence on or about April 30, 2021; and (iii) Bursa Malaysia will commence on or about April 30, 2021.

**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 Voucher Purchase Agreement, the Wakala Agreement, the Substitution Undertaking (including any sale agreement thereunder) and the Redemption Undertaking will be governed by, and construed in accordance with, the laws of Malaysia.

The Purchase Undertaking, the Declaration of Trust, the Agency Agreement and the Subscription Agreement, and any non-contractual obligations arising out of or in connection with the same, will be governed by, and construed in accordance with, English law.

**Transaction Documents:**

The Declaration of Trust, the Agency Agreement, the Wakala Agreement, the Purchase Undertaking, the Substitution Undertaking, the Redemption Undertaking, the Voucher Purchase 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 (together the "**Transaction Documents**").

**Rating:** On issuance, the Certificates are expected to be assigned a rating of “A-” by Standard & Poor’s and “A3” by 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 the Kingdom of Bahrain, Brunei, Dubai International Financial Centre, Japan, Switzerland, the Republic of China, Hong Kong, State of Kuwait, State of Qatar (including the Qatar Financial Centre), Kingdom of Saudi Arabia, Singapore, the United Arab Emirates (excluding the 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*”.

**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 15c6-1 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.

**Waiver of Immunity:** The Government of Malaysia has irrevocably waived, to the fullest extent permitted by applicable law but subject to the reservations set out below, any immunity from jurisdiction to which it might otherwise be entitled in any proceeding which may be brought in any of the courts with jurisdiction under the relevant Transaction Document, it being understood that under current Malaysian law no execution or attachment or any other legal process in the nature thereof can be issued out of any court in Malaysia for enforcement of any judgment or order against the Government of Malaysia by reason of section 33(4) of the Government Proceedings Act 1956 [*Act 359*] of Malaysia and Order 73 Rule 12 of the Rules of Court 2012 [*P.U.(A)205/2012*] of Malaysia. The foregoing waiver constitutes only a limited and specific waiver for the purposes of the Transaction Documents to which the Government of Malaysia is a party and it is not intended to be and under no circumstances should be interpreted as a general waiver by the Government of Malaysia or a waiver with respect to proceedings unrelated to the Transaction Documents to which the Government of Malaysia is a party or the Certificates. In addition, the foregoing excludes a waiver of the Government of Malaysia’s rights to immunity with regards to the following:

- (a) actions brought against the Trustee or the Government of Malaysia under U.S. federal securities laws or any state securities laws;
- (b) present or future “premises of the 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 considerations relating to Malaysia**

***Malaysia's economic environment is currently challenged by the COVID-19 pandemic.***

In December 2019, a novel form of pneumonia first noticed in Wuhan, Hubei province (COVID-19, caused by a novel coronavirus) was reported to the World Health Organization, with cases soon confirmed in multiple provinces in China. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic, and its outbreak has impacted countries around the world. In containing the spread of the COVID-19 pandemic, governments have imposed lockdowns, enforced business closures, limited international travels and restricted individuals from their usual physical and social activities, resulting in severe economic disruptions.

As a small and open economy, the crisis stemming from the COVID-19 pandemic has presented a unique challenge for Malaysia. In managing the impact of the COVID-19 pandemic, the Government has introduced a series of stimulus packages and containment measures, including several stages of movement control orders. On March 11, 2020, the Government established the EAC to formulate short-and medium-term measures focused on addressing the COVID-19 pandemic and paving the way for economic recovery in Malaysia. The Government also established the LAKSANA to ensure all economic stimulus programs are implemented properly and can effectively reach the targeted groups. As at the date of this Offering Memorandum, the Government has announced a total of six economic assistance packages, and has taken several additional measures to help support businesses and consumers during the COVID-19 pandemic.

Measures to contain the COVID-19 pandemic thus far have resulted in a significant slowdown in economic activity that has, and will continue to, adversely affect economic growth to a degree that we are currently unable to quantify. The Malaysian economy contracted by 5.6 per cent. in 2020 largely as a result of the COVID-19 pandemic and, although the economy is projected to expand in 2021, any prolonged restrictive measures put in place in order to control an outbreak of contagious disease or other adverse public health development in Malaysia may adversely affect Malaysia's economy.

The long-term effects to the global economy and the Malaysian economy of epidemics and other public health crises, such as the on-going COVID-19 pandemic, are difficult to assess or predict, and may include risks to citizens' health and safety, as well as reduced economic activity. We cannot predict the evolution of the COVID-19 pandemic in Malaysia, nor any additional restrictions that may need to be imposed in the future. Additionally, although vaccination efforts have started in Malaysia in February 2021, there can be no assurance that such vaccination efforts will be successful in stemming the rate of new COVID-19 infections or the extent to which such vaccination efforts would result in positive effects on the Malaysian economy. Therefore, we expect COVID-19 to continue having a significant adverse effect on the world economy, which could, in turn, negatively affect Malaysia and its economy.

For more information, see “*Malaysia – Recent Developments – COVID-19*” below.

***The impact of climate change, including the occurrence of floods and drought, has negatively affected Malaysia in the past and may negatively affect it in the future.***

Malaysia is vulnerable to the impacts of global climate change. A global increase in the mean temperature is expected to result in changes in precipitation patterns, sea level rises and more frequent extreme weather events, such as prolonged droughts and flooding. These events could have several consequences, including the destruction of crops and livestock, a decrease in Malaysia’s agriculture productivity and food supply, damage to coastal infrastructure and fragile ecosystems, the outbreak of waterborne diseases leading to adverse impacts on health and biodiversity, disruptions in financial markets, lowering of GDP growth and alterations in migration patterns. Therefore, Malaysia considers climate change mitigation and adaptation efforts as an essential focus point to safeguard its economy, including its food, water and energy resources.

Malaysia has adopted several policies to combat and mitigate the effects of climate change on its people and its economy, including the establishment of the National Disaster Management Agency in 2015 to coordinate responses to natural disasters and disaster preparedness, and the establishment of the Ministry of Environment and Water in 2020, which is tasked with reviewing Malaysia’s climate change policy and setting forth a national legal framework on climate change. However, although Malaysia has taken measures to mitigate the impact of climate change, it cannot assure you that such efforts will be successful, and any natural disasters or other effects associated with climate change could adversely affect Malaysia’s economy and its future growth prospects.

For more information, see “*Malaysia – Climate Change*”.

#### **Investment considerations relating to the Trustee**

**The Trustee has limited operating history and must rely on payments by the Government of Malaysia.**

The Trustee was incorporated on April 7, 2021 to act as a financing vehicle for the Government of Malaysia in respect of the issuance of trust certificates. Since its incorporation and as of the date of this Offering Memorandum, the Trustee has only engaged in the issuance of trust certificates and activities in connection to such issuance activities.

The Trustee’s material assets, which will be held in trust for Certificateholders, will be the Trust Assets, including payments from the Government of Malaysia under the Purchase Undertaking and 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 Wakeel of all amounts due under the Voucher Purchase Agreement and from the Government of Malaysia of the Sukuk Exercise Price or the Residual Assets Exercise Price (as applicable) under the Purchase Undertaking, or any other Transaction Documents (as applicable). 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**

**The Certificates are limited recourse obligations**

The Certificates are not debt obligations of the Trustee. Instead, the Certificates represent an ownership interest solely in the Trust Assets. Recourse to the Trustee in respect of the Certificates is limited to the Trust Assets of

that Series and proceeds of such Trust Assets are the sole source of payments on the relevant Certificates. Upon the occurrence of a Dissolution Event, the sole rights of each of the Delegate and, through the Delegate, the Certificateholders of the relevant Series will be against the Trustee and the Government of Malaysia to perform their respective obligations under the Transaction Documents. Certificateholders will otherwise have no recourse to any assets of the Trustee or the Government of Malaysia in respect of any shortfall in the expected amounts due under the relevant Trust Assets. Reflecting the limited recourse nature of the Certificates, Certificateholders will also not be able to petition for, or join any other person in instituting proceedings for, the reorganization, liquidation, winding-up or receivership of the Trustee as a consequence of such shortfall or otherwise.

The Government of Malaysia is obliged to make certain payments under the Transaction Documents directly to the Trustee, and the Delegate will have direct recourse against the Government of Malaysia to recover such payments pursuant to the Transaction Documents. In the absence of default by the Delegate, investors have no direct recourse to the Government of Malaysia and there is no assurance that the proceeds of the realization of, or enforcement with respect to, the Trust Assets will be sufficient to make all payments due in respect of the relevant Certificates.

After enforcing or realizing the Trust Assets and distributing the proceeds of such Trust Assets in accordance with the Conditions, the obligations of the Trustee in respect of the Certificates shall be satisfied and neither the Delegate nor any Certificateholder may take any further step against the Trustee to recover any further sums in respect of such Certificates and the right to receive any such sums unpaid shall be extinguished. Furthermore, 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 except pursuant to 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 their respective obligations under the Transaction Documents.

**Series 1 Certificates issued as sustainability Certificates (the “Sustainability Certificates”) with a specific use of proceeds, may not meet investor expectations or requirements**

The Trustee and the Government of Malaysia intend to apply the proceeds of the Sustainability Certificates for a combination of Eligible Social Expenditures (as defined in the SDG Sukuk Framework of the Government of Malaysia) and Eligible Green Expenditures (as defined in the SDG Sukuk Framework of the Government of Malaysia) in accordance with the SDG Sukuk Framework of the Government of Malaysia. A prospective investor should have regard to the information set out in Appendix A and determine for itself the relevance of such information for the purpose of an investment in such Sustainability Certificates together with any other investigation it deems necessary.

No assurance is given by the Trustee, the Government of Malaysia, the Joint Lead Managers or the Sustainability Structuring Agents that such use of proceeds will satisfy any present or future investment criteria or guidelines with which an investor is required, or intends, to comply, in particular with regard to any direct or indirect environmental or sustainability impact of any project or uses, the subject of or related to, the Sustainability Framework.

No assurance can be given that Eligible Expenditures (as defined in the SDG Sukuk Framework of the Government of Malaysia) will meet investor expectations or requirements regarding such “green”, “sustainable”, “social” or similar labels (including Regulation (EU) 2020/852 on the establishment of a framework to facilitate sustainable investment (the so-called “EU Taxonomy”) or Regulation (EU) 2020/852 as it forms part of domestic law in the United Kingdom by virtue of the EUWA). Each prospective investor should have regard to the factors described in the Sustainability Framework and the relevant information contained in this Offering Memorandum and seek advice from their independent financial adviser or other professional adviser regarding its purchase of the Sustainability Certificates before deciding to invest.

No representation or assurance is given as to the suitability or reliability of any opinion or certification of any third party made available in connection with the issue of the Sustainability Certificates. For the avoidance of doubt, any such opinion or certification is not incorporated in this Offering Memorandum. Any such opinion or

certification is not a recommendation by the Trustee, the Government of Malaysia, the Joint Lead Managers, the Sustainability Structuring Agents or any other person to buy, sell or hold any such Sustainability Certificates and is current only as of the date it was issued. As at the date of this Offering Memorandum, the providers of such opinions and certifications are not subject to any specific regulatory or other regime or oversight. Prospective investors must determine for themselves the relevance of any such opinion or certification and/or the information contained therein.

While it is the intention of the Trustee and the Government of Malaysia to apply the proceeds of the Sustainability Certificates for Eligible Expenditures as described in Appendix A, there is no contractual obligation to do so. There can be no assurance that any such Eligible Expenditures will be available or capable of being implemented in the manner anticipated and, accordingly, that the Trustee and the Government of Malaysia will be able to use the proceeds for such Eligible Expenditures as intended. In addition, there can be no assurance that Eligible Expenditures will be completed as expected or achieve the impacts or outcomes (environmental, social or otherwise) originally expected or anticipated. None of a failure by the Trustee and the Government of Malaysia to allocate the proceeds of the Sustainability Certificates or to report on the use of proceeds or Eligible Expenditures as anticipated or a failure of a third party to issue (or to withdraw) an opinion or certification in connection with the issue of Sustainability Certificates or the failure of the Sustainability Certificates to meet investors' expectations regarding any "green", "sustainable", "social" or similar labels will constitute a Dissolution Event or breach of contract with respect to the Sustainability Certificates.

The failure of the Sustainability Certificates to meet investor expectations or requirements as to their "green", "sustainable", "social" or equivalent characteristics including the failure to apply proceeds for Eligible Expenditures, or the failure to provide, or the withdrawal of, a third party opinion or certification, the Sustainability Certificates ceasing to be listed or admitted to trading on any dedicated stock exchange or securities market as aforesaid or the failure by the Trustee and the Government of Malaysia to report on the use of proceeds or Eligible Expenditures as anticipated, may have a material adverse effect on the value of such Sustainability Certificates and/or may have consequences for certain investors with portfolio mandates to invest in green assets (which consequences may include the need to sell the Sustainability Certificates as a result of the Sustainability Certificates not falling within the investor's investment criteria or mandate).

**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 in transactions that would not require the Trustee to register under the Investment Company 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 "*Plan of Distribution*" and "*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 and "A3" by 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 (which for these purposes shall be deemed to include any sukuk or other trust certificates representing the credit of the Government of Malaysia) issued directly or indirectly 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 (for the purposes of this investment consideration "*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.*", "**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 expect 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 per cent. 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  $66\frac{2}{3}$  per cent. 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 per cent. 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 favor 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 favor 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 Trustee may be a “covered fund” for purposes of the Volcker Rule**

Under the Volcker Rule, “banking entities” (as defined under the Volcker Rule) are generally prohibited from, among other things, (i) conducting proprietary trading activities in a wide variety of financial instruments unless the transaction is excluded from the scope of the rule (e.g. if conducted for hedging purposes) and (ii) acquiring or retaining any equity, partnership, or other “ownership interest” in, or in “sponsoring”, any “covered funds”(each as defined under the Volcker Rule). In addition, in certain circumstances, the Volcker Rule restricts banking entities from entering into certain transactions with covered funds.

“Covered fund” is defined to include any issuer that would be an “investment company” under the ICA but for section 3(c)(1) or 3(c)(7) thereof. As the Trustee intends to rely on section 3(c)(7), it is expected that the Trustee may be considered to be a covered fund.

The Trustee may be deemed to be a covered fund under the Volcker Rule and, in such circumstances, in the absence of an available exemption, the provisions of the Volcker Rule may severely limit the willingness or ability of banking entities to hold an ownership interest in the Trustee. This may severely impact the market price and liquidity of the Certificates. Any entity that is a banking entity as defined under the Volcker Rule and is considering an investment in the Certificates should consult its own legal advisers and consider the potential impact of the Volcker Rule in respect of such investment.

“Ownership interest” is broadly defined and may arise through a holder’s exposure to the profit and losses of a covered fund as well as through any right of the holders to participate in the selection of an investment advisor, manager or board of directors of the covered fund. While it is the Trustee’s belief that the Certificates should not be considered “ownership interests” of the Trust, there is no assurance that they would not be, and none of the Trustee, the Government of Malaysia or the Joint Lead Managers makes any representation regarding the status of the Certificates under the Volcker Rule or with respect to the ability of any investor to acquire or hold the Certificates, now or at any time in the future. Each investor is responsible for analyzing its own position under the Volcker Rule and any similar measures.

## **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.

### **The occurrence of a Revocation Event will cause a redemption of the Certificates prior to the Scheduled Dissolution Date**

Pursuant to the Purchase Undertaking, where a Revocation Event has occurred, the Trustee will have the right to require the Government of Malaysia to purchase and accept the transfer and conveyance on the Revocation Event Dissolution Date specified in the Exercise Notice of all of the Trustee's interests, rights, benefits and entitlements in and to any Residual Assets at the Residual Assets Exercise Price specified in the Exercise Notice. The Residual Assets Exercise Price will be paid into the Transaction Account on the Revocation Event Dissolution Date. The Trustee (or the Delegate on its behalf) will use the relevant amounts received from the Government of Malaysia as above to redeem the Certificates at their Dissolution Distribution Amount.

The Delegate will be entitled to enforce these undertakings 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**

The Board Shariah Committee of CIMB Islamic Bank Berhad and the HSBC Global Shariah Supervisory Committee have confirmed that the structure of the Certificates and the Transaction Documents are as of the date of issue, in their view, compliant with the principles of Shariah as applicable to, and interpreted by, them. 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 and different Shariah standards may be applicable by different Shariah Boards. 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.

### **Shariah requirements in relation to interest**

In accordance with applicable Shariah principles, each of the Trustee and the Delegate will waive all and any entitlement it may have to interest awarded in its favor in connection with any dispute under any of the Transaction Documents and accordingly Certificateholders will not be entitled to receive any such interest. 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 amounts received from the continuation of the sale and purchase of the Vouchers and/or the Additional Replacement Assets Payment Amount.

### **There can be no assurance as to the impact of a change in the laws governing the Certificates or the Transaction Documents**

The structure of the issue of the Certificates is based on English law and the laws of Malaysia and administrative practices in effect as at the date of this Offering Memorandum. No assurance can be given as to the impact of any possible judicial decision or change to such law or administrative practices in any such jurisdiction after the date of this Offering Memorandum, nor can any assurance be given as to whether any such change could adversely affect the ability of the Government of Malaysia to make payments under the Transaction Documents and/or the Trustee to make payments under the Certificates, or the ability of the Trustee or the Government of Malaysia to otherwise comply with their respective obligations under the Transaction Documents.

### **Investors who hold less than the minimum Specified Denomination may be unable to sell their Certificates and may be adversely affected if Definitive Certificates are subsequently issued**

The Conditions do not permit the sale or transfer of Certificates in such circumstances as would result in amounts being held by a holder which are lower than the minimum Specified Denomination (as defined in the Conditions). However, in the event that a holder holds a principal amount of less than the minimum Specified Denomination, such holder would need to purchase an additional amount of Certificates such that it holds an amount equal to at least the minimum Specified Denomination to be able to trade such Certificates. Certificateholders should be aware that Certificates which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

If a Certificateholder holds an amount which is less than the minimum Specified Denomination in his account with the relevant clearing system at the relevant time, such Certificateholder may not receive the Definitive Certificate in respect of such holding (should Definitive Certificates be issued) and would need to purchase a principal amount of Certificates such that its holding amounts to at least a Specified Denomination in order to be

eligible to receive a Definitive Certificate. If Definitive Certificates are issued, holders should be aware that Definitive Certificates which have a denomination that is not an integral multiple of the minimum Specified Denomination may be illiquid and difficult to trade.

**The market value of the Certificates is subject to fluctuations and may decrease below the Certificates' issue price**

The market value of the Certificates may decrease due to various factors, including factors relating to IMDB and the on-going restructuring with respect to the debt obligations of IMDB and any subsequent developments and any Government obligations with respect thereto that may arise, as well as any related media reports and market reactions. See "*Malaysia — IMalaysia Development Berhad*".

## TERMS AND CONDITIONS OF THE SERIES 1 CERTIFICATES

*The following are the Terms and Conditions of the Series 1 Certificates which will be incorporated by reference into each Global Certificate and each Definitive Certificate (as defined below), in the latter case only if permitted by the relevant stock exchange or other relevant authority (if any) and agreed by the Trustee and the relevant Joint Lead Managers at the time of issue but, if not so permitted and agreed, such Definitive Certificates will have endorsed thereon or attached thereto such Terms and Conditions.*

Malaysia Wakala 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.\$800,000,000 Trust Certificates due 2031 (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 The Hongkong and Shanghai Banking Corporation 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 HSBC Bank USA, National Association, 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**”), HSBC Bank USA, National Association as replacement agent (in such capacity, the “**Replacement Agent**”), HSBC Bank USA, National Association as registrar (in such capacity, the “**Registrar**”) and HSBC Bank USA, National Association 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 (as defined below) 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) a wakala agreement between the Trustee and the Government of Malaysia (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**”);
- (ii) a voucher purchase agreement between the Trustee (in its capacity as Purchaser) and the Government of Malaysia (in its capacity as Seller) in relation to Series 1 to be dated on or about the Closing Date (the “**Voucher Purchase Agreement**”);
- (iii) 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;

- (iv) 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 sale agreement to be entered into by the Government of Malaysia, via such government entity or agency that the Government of Malaysia may specify, and the Trustee in the circumstances set out in the Substitution Undertaking;
- (v) 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 agreement to be entered into by the Government of Malaysia, via such government entity or agency that the Government of Malaysia may specify in respect of the relevant Redemption Vouchers or in respect of the Redemption Replacement Assets (if any), and the Trustee in the circumstances set out in the Redemption Undertaking;
- (vi) the Declaration of Trust; and
- (vii) 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 ownership interests in and to each of the Wakala Sukuk Assets; and (b) to enter into each other Transaction Document to which it is a party, subject to the terms and conditions of the Declaration of Trust as supplemented by these Conditions.

## 1 INTERPRETATION

Words and expressions defined in the Transaction Documents 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 Replacement Assets Period**” has the meaning given to it in the Purchase Undertaking;

“**Additional Replacement Assets Payment Amount**” means the amount of return accrued due and payable during any Additional Replacement Assets 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 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) (*Aggregation Agent; Aggregation Procedures — Appointment*);

“**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;

“**Authorised Entity**” has the meaning given to it in the Voucher Purchase Agreement;

“**Business Day**” means a day (other than Saturday or Sunday) on which commercial banks and foreign exchange markets in Kuala Lumpur, Hong Kong, 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 28, 2021;

“**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 Revocation Event 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*);

“**Distribution Period**” has the meaning given in the Wakala Agreement;

“**Distribution Profit**” means, in relation to a particular Distribution Period, an amount equal to the Voucher Percentage of the Periodic Distribution Amount for the corresponding Return Accumulation Period;

“**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 any of the Regulation S Global Certificates and/or the Rule 144A Global Certificates;

“**Issue Date**” means the date of issue of the Certificates;

“**Joint Lead Managers**” means CIMB Investment Bank Berhad; The Hongkong and Shanghai Banking Corporation Limited; and J.P. Morgan Securities plc, and “**Joint Lead Manager**” means each of them;

“**Replacement Asset Percentage**” means, where the Wakala Sukuk Assets comprise Replacement Assets, the ratio (expressed as a percentage) of (i) the aggregate Value of the relevant Replacement Assets to (ii) the aggregate Value of the Vouchers (if any) and Replacement Assets at that time;

“**Replacement Assets**” means the assets specified in a Substitution Notice and which shall only comprise of Shariah compliant tangible assets (for the avoidance of doubt, excluding investments in a business, shares or equities) as approved (in writing) by a Shariah Adviser (in accordance with generally accepted Shariah standards) prior to the issuance of each relevant Substitution Notice from time to time pursuant to, and in accordance with the terms of, the Substitution Undertaking;

“**Replacement Assets Period**” means the period from, and including, a Replacement Assets Payment Date (or with respect to the first Replacement Assets Period, from, and including, the Replacement Assets Period Commencement Date) to, but excluding, the immediately following Replacement Assets Payment Date (or, with respect to the final Replacement Assets Period, the Replacement Assets Period End Date) and shall, where the context allows, include any Additional Replacement Assets Period;

“**Replacement Assets Period Commencement Date**” means the relevant Substitution Date in relation to the Replacement Assets;

“**Replacement Assets Period End Date**” means the Scheduled Dissolution Date, unless:

- (a) the Replacement Assets are substituted on an earlier date in accordance with the terms of the Substitution Undertaking or any other Transaction Document, in which case it shall mean the date on which such substitution becomes effective; or
- (b) the Replacement Assets Period End Date is extended in accordance with the Purchase Undertaking, in which case it shall mean the last day of the Additional Replacement Assets Period;

“**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;

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

“**New Replacement Assets**” means the Replacement Assets specified as such in a Substitution Notice;

“**New Vouchers**” means the assets specified as such in a Substitution Notice and which shall only comprise of Shariah compliant assets;

“**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, Hong Kong, 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 28th day in April and October in each year or if any such day is not a Business Day the following Business Day, commencing on October 28, 2021 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 fulfillment of any other applicable condition (or any combination of the foregoing), would constitute a Dissolution Event;

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

“**Profit Rate**” means 2.070% per annum;

“**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 Agreement**” means an agreement to be executed by the Trustee and such government entity or agency that the Government of Malaysia may specify in respect of any relevant Redemption Vouchers and/or Redemption Replacement Assets, as the case may be, pursuant to the exercise of the Redemption Undertaking substantially in the form set out in Schedule 2 (*Form of Redemption Agreement*) to the Redemption Undertaking;

“**Redemption Amount**” means an amount to be transferred 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 redeemed 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 substantially in the form of Schedule 1 (Form of Redemption and Cancellation Notice) to the Redemption Undertaking;

“**Redemption Replacement Assets**” has the meaning given to it in the Redemption Undertaking;

“**Redemption Vouchers**” has the meaning given to it in 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*);

**“Replacement Assets Payment Date”** means, where any Replacement Assets are included in the Wakala Sukuk Assets following any substitution, the date of each subsequent Periodic Distribution Date and (if applicable) the last day of an Additional Replacement Assets Period;

**“Replacement Assets Payments”** for each Replacement Assets Period means an amount equal to the aggregate of:

- (a) the Replacement Asset Percentage of 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 Replacement Assets Payments (if any);

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

**“Residual Assets”** means:

- (a) where the Wakala Sukuk Assets comprise Vouchers and Replacement Assets at such time, following the occurrence of a Revocation Event, the unsold Vouchers and the remaining Replacement Assets; or
- (b) where the Wakala Sukuk Assets comprises Vouchers but not Replacement Assets at such time, following the occurrence of a Revocation Event, the unsold Vouchers;

**“Residual Assets Exercise Price”** means, at any time, an amount equal to the aggregate of:

- (a) the outstanding face amount of the Certificates;
- (b) to the extent the Wakala Sukuk Assets comprised Replacement Assets prior to the relevant Revocation Event, all accrued but unpaid Replacement Assets Payments relating to the Replacement Assets (if any), to the extent not received by the Trustee;
- (c) to the extent the Wakala Sukuk Assets comprised Vouchers prior to the relevant Revocation Event, all accrued but unpaid Distribution Profit relating to the Vouchers (if any), to the extent not received by the Trustee under the Wakala Agreement;
- (d) without duplication or double counting, an amount equal to any accrued but unpaid Wakala Services Charge Amount; and
- (e) 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 the Government of Malaysia, the Trustee and the Delegate acknowledge shall be the price for the Residual Assets following the occurrence of a Revocation Event;

**“Revocation Date”** means, in relation to a Revocation Event, the earlier of the date that (A) the Trustee is notified and (B) the Trustee becomes aware that the entity that issues the Vouchers has ceased to be an Authorised Entity;

**“Revocation Event”** means, an event or circumstance where (i) the Revocation Date has occurred; and (ii) the Government of Malaysia is unable within 60 days of the Revocation Date to sell new assets to the Trustee pursuant to a sale agreement or (in its capacity as Wakeel) obtain Vouchers pursuant to a supplemental voucher purchase agreement, in each case for an amount at least equal to the aggregate Voucher Face Value of Vouchers owned by the Trustee but unsold as at the Revocation Date;

**“Revocation Event Dissolution Date”** has the meaning given in Condition 10(c) (*Capital Distributions of the Trust — Dissolution following a Revocation Event*);

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

**“Rule 144A”** means Rule 144A of the Securities Act;

**“Rule 144A Definitive Certificates”** means those Certificates which are offered and sold within the United States to “qualified institutional buyers” (within the meaning of Rule 144A) that are also “qualified purchasers” (within the meaning of U.S. Investment Company Act of 1940, as amended) 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) that are also “qualified purchasers” (within the meaning of U.S. Investment Company Act of 1940, as amended) 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 28, 2031;

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

**“Series 1”** means the series constituted by the Certificates;

**“Shariah Adviser”** means a Shariah adviser appointed by the Government of Malaysia in relation to Replacement Assets from time to time, with such adviser following the generally accepted Shariah standards at the time of substitution;

**“Specified Denomination(s)”** means a minimum denomination of U.S.\$250,000 and integral multiples of U.S.\$1,000 in excess thereof;

**“Substituted Replacement Assets”** means the Replacement Assets specified as such in a Substitution Notice to the extent that on the Substitution Date they constitute Replacement Assets belonging to the Trustee, provided that, for the avoidance of doubt, immediately after substitution thereof pursuant to the Substitution Undertaking, the Substituted Replacement Assets shall no longer constitute Replacement Assets belonging to the Trustee;

**“Substituted Vouchers”** means the vouchers specified as such in a Substitution Notice to the extent that on the Substitution Date they constitute Vouchers belonging to the Trustee;

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

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

“**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 Replacement Assets Payments (or part thereof) relating to the Replacement Assets (if any), to the extent not received by the Trustee;
  - (iii) all accrued but unpaid Distribution Profit (or part thereof) relating to the Vouchers (if any), to the extent not received by the Trustee under the Wakala Agreement;
  - (iv) without duplication or double counting, an amount equal to any accrued but unpaid Wakala Services Charge Amount; and
  - (v) 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*);

“**Supplementary Replacement Assets Payments**” means, in respect of a Replacement Assets Period, an amount equal to the Wakala Services Charge Amount applicable to the immediately preceding Replacement Assets Period, save that no Supplementary Replacement Assets Payments shall be payable on the first Replacement Assets Payment Date;

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

“**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 Voucher Purchase 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*);

“**Value**” means at any time:

- (a) in respect of Vouchers, the aggregate Voucher Face Value of such Vouchers on the Closing Date and any subsequent Vouchers purchased pursuant to the terms of the Transaction Documents whilst the Certificates remain outstanding, less the aggregate Voucher Face Value of any Vouchers which the Government of Malaysia has substituted with Replacement Assets pursuant to the terms of the Transaction Documents provided that following a Revocation Event this amount shall be reduced to zero until new Vouchers have been purchased pursuant to a supplemental voucher purchase agreement; and
- (b) in respect of Replacement Assets (if any), an amount equal to the aggregate Voucher Face Value of any Vouchers that have been substituted by New Replacement Assets (pursuant to the Substitution Undertaking and the relevant Sale Agreement), less the aggregate Voucher Face Value of any Vouchers which substitute any such New Replacement Assets pursuant to the terms of the Transaction Documents,

in each case, in U.S. dollars;

“**Voucher Face Value**” has the meaning given to it in the Voucher Purchase Agreement and each supplemental voucher purchase agreement;

“**Voucher Percentage**” means at any time, the ratio (expressed as a percentage) of (i) the aggregate Value of the relevant Vouchers owned by the Trustee but unsold by the Wakeel to (ii) the aggregate Value of the Vouchers and Replacement Assets (if any) at that time. For the avoidance of doubt, on the Closing Date (and prior to any substitution of Vouchers for Replacement Assets under the Substitution Undertaking) the Voucher Percentage is 100%;

“**Vouchers**” means vouchers sold pursuant to the Voucher Purchase Agreement and each supplemental voucher purchase agreement or Sale Agreement;

“**Wakala Services**” means:

- (a) each of the services relating to Vouchers specified in Clause 4 (*Voucher Services*) of the Wakala Agreement to be provided by the Wakeel on behalf of the Trustee; and
- (b) the services relating to the Replacement Assets (if any) to be provided by the Wakeel on behalf of the Trustee; and

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 actual 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 Period**” has the meaning given to it in the Wakala Agreement;

“**Wakala Sukuk Assets**” means the Vouchers and (only if substituted pursuant to the Substitution Undertaking) the Replacement Assets; 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**”, “**U.S.\$**” and “**\$**” are to the lawful currency of the United States of America.

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

## **2 FORM, DENOMINATION AND TITLE**

### **(a) Form and Denomination**

The Certificates will be issued in minimum denominations of U.S.\$250,000 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 HSBC Bank USA, National Association 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**”) that are also “qualified purchasers” (“**QPs**”) as defined in Section 2(a)(51)(A) of the U.S. Investment Company Act of 1940, as amended, 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 HSBC Bank USA, National Association 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 transferor 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 represents 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 Replacement Assets (if any) and the Vouchers) 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 is deemed to have agreed that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

- (i) no payment of any amount whatsoever shall be made by the Trustee, the Delegate (acting in the name and on behalf of the Trustee), or any of the respective agents on their behalf except to the extent funds are available therefor from the Trust Assets;
- (ii) no recourse shall be had for the payment of any amount owing hereunder or under any Transaction Document, whether for the payment of any fee or other amount hereunder or any other obligation or claim arising out of or based upon the Transaction Documents, against the Trustee or the Delegate to the extent the Trust Assets have been exhausted following which all obligations of the Trustee and the Delegate shall be extinguished;
- (iii) prior to the date which is one year and one day after the date on which all amounts owing by the Trustee under the Transaction Documents to which it is a party have been paid in full, it will not institute against, or join with any other person in instituting against, the Trustee any bankruptcy, 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 Replacement Assets Agreement (if any) 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 Voucher Purchase Agreement, the Government of Malaysia (in its capacity as seller) will sell and transfer to the Trustee (as purchaser) the Vouchers specified therein. As part of the Wakala Services, the Government of Malaysia (in its capacity as Wakeel) will distribute the Vouchers on behalf of the Trustee pursuant to the terms of the Wakala Agreement and the relevant Distribution Notice.

Where any of the Wakala Sukuk Assets are being substituted with Replacement Assets in accordance with the Substitution Undertaking, then pursuant to the relevant sale agreement, the Government of Malaysia, through such government entity or agency that the Government of Malaysia may specify, will sell, transfer and/or convey (as the case may be) to the Trustee the Replacement Assets.

Where the Wakala Sukuk Assets comprise Replacement Assets following any substitution pursuant to the Substitution Undertaking, the Government of Malaysia will pay the Replacement Assets Payments on each Replacement Assets Payment Date. The payment obligations of the Government of Malaysia under an agreement (the “**Replacement Assets Agreement**”) to be entered into by the Government of Malaysia and the Trustee, as approved by the Shariah Adviser (in accordance with generally accepted Shariah standards) upon each such substitution (if any) pursuant to the Substitution Undertaking, 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 Vouchers and the Replacement Assets (if any).

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 Revocation Event 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 there has been a Revocation Event, 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 Residual Assets at the Residual Assets 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 on the due date for payment thereof, the Government of Malaysia shall irrevocably and unconditionally (without the necessity for any notice or any other action) continue to act as Wakeel in respect of the Wakala Sukuk Assets for a period from and including the date on which the Sukuk Exercise Price was due to be paid to, but excluding, the date on which such amounts are paid in full or, where the Wakala Sukuk Assets comprise Vouchers, in respect of the Vouchers, the date upon which there are no more Vouchers remaining for distribution and sale, in accordance with the terms of the Purchase Undertaking. In such circumstances, where the Wakala Sukuk Assets comprise Replacement Assets, the Trustee shall be entitled to receive the Additional Replacement Assets Payment Amount in respect of such period.

Where the Wakala Sukuk Assets comprise Vouchers, following the occurrence of a Revocation Event, 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 Revocation 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*).

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) redeem 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) transfer and convey its interests, rights, benefits and entitlements in and to certain Redemption Replacement Assets to the Government of Malaysia (through such government entity or agency that the Government of Malaysia may specify) on the relevant Redemption and Cancellation Date; (iv) transfer its interests, rights, benefits and entitlements in and to certain Redemption Vouchers to the Government of Malaysia (through such government entity or agency that the Government of Malaysia may specify); and/or (v) transfer the applicable Redemption Amount 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 sell, transfer and convey on any Substitution Date all of the Trustee's interest, rights, benefits and entitlements in and to the Substituted Vouchers and/or Substituted Replacement Assets in consideration for the transfer and conveyance by the Government of Malaysia (or such other government entity or agency that the Government of Malaysia may specify) to the Trustee of the New Vouchers and/or New Replacement Assets (pursuant to a sale agreement). The Government of Malaysia will be obliged to certify that the New Vouchers and/or New Replacement Assets are of a value which is equal to or greater than the value of the Substituted Vouchers and/or Substituted Replacement Assets on the relevant Substitution Date.

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

The Trustee will establish a transaction account (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 Replacement Assets Agreement (if any), the Wakala 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.

**7 COVENANTS**

The Trustee covenants that, amongst other things, for so long as any Certificate is outstanding, it 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; or
- (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 Certificates;
  - (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 profit in respect of the relevant Wakala Sukuk 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.\$, by wire transfer in immediately available funds to the registered account of each Certificateholder. 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.\$ maintained by or on behalf of it with a bank that processes payments in U.S.\$, 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, where the Wakala Sukuk Assets comprise Vouchers, the Distribution Term (as defined in the Wakala 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 addition, in accordance with the terms of the Purchase Undertaking, the Government of Malaysia will continue to act as Wakeel in respect of the Vouchers and such Replacement Assets until but excluding the date on which the Dissolution Distribution Amount is paid in full.

Certificateholders shall be entitled to payment of a defined share in the amounts received from the continuation of the sale and purchase of the Vouchers and/or the Additional Replacement Assets

Payment Amount received in relation to the Replacement Assets (if any) (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 amounts received from the continuation of the sale and purchase of the Vouchers and/or the Additional Replacement Assets Payment Amount received in relation to the Replacement 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.

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.

**(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 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 or if the relevant Certificateholder is late in surrendering its Certificate (if required to do so).

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 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 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 enclosed 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 Revocation Event*

Following the occurrence of a Revocation Event, the Trustee will exercise its rights under the Purchase Undertaking by serving an Exercise Notice on the Government of Malaysia specifying the date on which the Government of Malaysia would be required to purchase and accept the transfer and conveyance of all of the Trustee's interests, rights, benefits and entitlements in and to the Residual Assets, which shall be the date falling five Business Days after the 30th day following the occurrence of the Revocation Event (the "**Revocation Event Dissolution Date**"). The Certificate shall be redeemed on the Revocation Event Dissolution Date at the Dissolution Distribution Amount using the Residual Assets Exercise Price required to be paid into the Transaction Account by the Government of Malaysia pursuant to the sale of the Residual Assets under the Purchase Undertaking.

Following redemption of the Certificates on the Revocation Event Dissolution Date, the Trust will be dissolved.

*(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.

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 Purchase Undertaking and the Wakala 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 Purchase Undertaking and the Wakala 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 redeem the Malaysia Certificates in consideration for the cancellation of the Malaysia Certificates and (i) the transfer of its interests, rights, benefits and entitlements in and to certain Redemption Vouchers to the Government of Malaysia (through such government entity or agency that the Government of Malaysia may specify); and/or (ii) where the Wakala Sukuk Assets comprises Replacement Assets, the transfer and conveyance of its interests, rights, benefits and entitlements in and to certain Redemption Replacement Assets to the Government of Malaysia (through such government entity or agency that the Government of Malaysia may specify); and/or (iii) the transfer 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 Vouchers (if any), the Redemption Replacement Assets (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) redeem 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 Agreement with such government 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 Vouchers will be transferred to the Government of Malaysia through such government entity or agency that the Government of Malaysia may specify;
- (iv) if applicable, enter into a Redemption Agreement with such government 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 Replacement Assets will be transferred and conveyed to the Government of Malaysia through such government entity or agency that the Government of Malaysia may specify; and
- (v) (subject to the set off provisions contained in the Redemption Undertaking), transfer 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 by the Delegate or the holder of any Certificate;
- (iii) a Malaysia Event occurs;
- (iv) at any time it becomes unlawful for the Government of Malaysia to perform or comply with any of its payment obligations under the Replacement Assets Agreement (if any), the Purchase Undertaking or the Wakala Agreement or any of the payment obligations of the Government of Malaysia under the Replacement Assets Agreement (if any), the Purchase Undertaking 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
- (v) (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 Replacement Assets Agreement (if any) 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 by the Delegate or the holder of any Certificate;

- (iii) any External Public Indebtedness in an aggregate principal amount in excess of U.S.\$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 U.S.\$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 Request, 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) 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 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 the Delegate, having become bound so to proceed, (A) fails to do so within a reasonable period, or (B) is unable by reason of an order of a court having competent jurisdiction to do so, and such failure or inability shall be continuing.
- (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 (including by way of teleconference or videoconference call) 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(h) (*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 (which for these purposes shall be deemed to include any sukuk or other trust certificates representing the credit of the Government of Malaysia) issued directly or indirectly 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 66⅔ 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 $\frac{2}{3}$  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 the 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 16 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 Replacement Assets Agreement (if any) 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 macroeconomic 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 Trustee 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 Trustee 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 Condition 19(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(h) (*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 Trustee, 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 appoint the Delegate to be its attorney and in its name, on its behalf and as its act and deed to execute, deliver and perfect all documents, to exercise all of the present and future duties, powers (including the power to sub-delegate), trusts, authorities (including, but not limited to, the authority to request directions from any Certificateholders and the power to make any determinations to be made under the 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 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 gross negligence, willful 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 [Act 359] of Malaysia and Order 73 Rule 12 of the Rules of Court 2012 [P.U.(A)205/2012] 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 contrary to public policy in Malaysia;
  - (B) was not given or obtained by fraud 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 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 Wakala 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 2051 (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 The Hongkong and Shanghai Banking Corporation 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 HSBC Bank USA, National Association, 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**”), HSBC Bank USA, National Association as replacement agent (in such capacity, the “**Replacement Agent**”), HSBC Bank USA, National Association as registrar (in such capacity, the “**Registrar**”) and HSBC Bank USA, National Association 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 (as defined below) 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) a wakala agreement between the Trustee and the Government of Malaysia (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**”);
- (ii) a voucher purchase agreement between the Trustee (in its capacity as Purchaser) and the Government of Malaysia (in its capacity as Seller) in relation to Series 2 to be dated on or about the Closing Date (the “**Voucher Purchase Agreement**”);
- (iii) 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;
- (iv) 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 sale agreement to be entered into by the Government of Malaysia, via such government entity or agency that the Government of Malaysia may specify, and the Trustee in the circumstances set out in the Substitution Undertaking;

- (v) 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 agreement to be entered into by the Government of Malaysia, via such government entity or agency that the Government of Malaysia may specify in respect of the relevant Redemption Vouchers or in respect of the Redemption Replacement Assets (if any), and the Trustee in the circumstances set out in the Redemption Undertaking;
- (vi) the Declaration of Trust; and
- (vii) 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 ownership interests in and to each of the Wakala Sukuk Assets; and (b) to enter into each other Transaction Document to which it is a party, subject to the terms and conditions of the Declaration of Trust as supplemented by these Conditions.

## 1 INTERPRETATION

Words and expressions defined in the Transaction Documents 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 Replacement Assets Period**” has the meaning given to it in the Purchase Undertaking;

“**Additional Replacement Assets Payment Amount**” means the amount of return accrued due and payable during any Additional Replacement Assets 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 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) (*Aggregation Agent; Aggregation Procedures — Appointment*);

“**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;

“**Authorised Entity**” has the meaning given to it in the Voucher Purchase Agreement;

“**Business Day**” means a day (other than Saturday or Sunday) on which commercial banks and foreign exchange markets in Kuala Lumpur, Hong Kong, 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 28, 2021;

“**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 Revocation Event 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*);

“**Distribution Period**” has the meaning given in the Wakala Agreement;

“**Distribution Profit**” means, in relation to a particular Distribution Period, an amount equal to the Voucher Percentage of the Periodic Distribution Amount for the corresponding Return Accumulation Period;

“**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 any of the Regulation S Global Certificates and/or the Rule 144A Global Certificates;

“**Issue Date**” means the date of issue of the Certificates;

“**Joint Lead Managers**” means CIMB Investment Bank Berhad; The Hongkong and Shanghai Banking Corporation Limited; and J.P. Morgan Securities plc, and “**Joint Lead Manager**” means each of them;

“**Replacement Asset Percentage**” means, where the Wakala Sukuk Assets comprise Replacement Assets, the ratio (expressed as a percentage) of (i) the aggregate Value of the relevant Replacement Assets to (ii) the aggregate Value of the Vouchers (if any) and Replacement Assets at that time;

“**Replacement Assets**” means the assets specified in a Substitution Notice and which shall only comprise of Shariah compliant tangible assets (for the avoidance of doubt, excluding investments in a business, shares or equities) as approved (in writing) by a Shariah Adviser (in accordance with generally accepted Shariah standards) prior to the issuance of each relevant Substitution Notice from time to time pursuant to, and in accordance with the terms of, the Substitution Undertaking;

“**Replacement Assets Period**” means the period from, and including, a Replacement Assets Payment Date (or with respect to the first Replacement Assets Period, from, and including, the Replacement Assets Period Commencement Date) to, but excluding, the immediately following Replacement Assets Payment Date (or, with respect to the final Replacement Assets Period, the Replacement Assets Period End Date) and shall, where the context allows, include any Additional Replacement Assets Period;

“**Replacement Assets Period Commencement Date**” means the relevant Substitution Date in relation to the Replacement Assets;

“**Replacement Assets Period End Date**” means the Scheduled Dissolution Date, unless:

- (a) the Replacement Assets are substituted on an earlier date in accordance with the terms of the Substitution Undertaking or any other Transaction Document, in which case it shall mean the date on which such substitution becomes effective; or
- (b) the Replacement Assets Period End Date is extended in accordance with the Purchase Undertaking, in which case it shall mean the last day of the Additional Replacement Assets Period;

“**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;

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

“**New Replacement Assets**” means the Replacement Assets specified as such in a Substitution Notice;

“**New Vouchers**” means the assets specified as such in a Substitution Notice and which shall only comprise of Shariah compliant assets;

“**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, Hong Kong, 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 28th day in April and October in each year or if any such day is not a Business Day the following Business Day, commencing on October 28, 2021 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 fulfillment of any other applicable condition (or any combination of the foregoing), would constitute a Dissolution Event;

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

“**Profit Rate**” means 3.075% per annum;

“**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 Agreement**” means an agreement to be executed by the Trustee and such government entity or agency that the Government of Malaysia may specify in respect of any relevant Redemption Vouchers and/or Redemption Replacement Assets, as the case may be, pursuant to the exercise of the Redemption Undertaking substantially in the form set out in Schedule 2 (*Form of Redemption Agreement*) to the Redemption Undertaking;

“**Redemption Amount**” means an amount to be transferred 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 redeemed 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 substantially in the form of Schedule 1 (Form of Redemption and Cancellation Notice) to the Redemption Undertaking;

“**Redemption Replacement Assets**” has the meaning given to it in the Redemption Undertaking;

“**Redemption Vouchers**” has the meaning given to it in 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*);

**“Replacement Assets Payment Date”** means, where any Replacement Assets are included in the Wakala Sukuk Assets following any substitution, the date of each subsequent Periodic Distribution Date and (if applicable) the last day of an Additional Replacement Assets Period;

**“Replacement Assets Payments”** for each Replacement Assets Period means an amount equal to the aggregate of:

- (a) the Replacement Asset Percentage of 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 Replacement Assets Payments (if any);

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

**“Residual Assets”** means:

- (a) where the Wakala Sukuk Assets comprise Vouchers and Replacement Assets at such time, following the occurrence of a Revocation Event, the unsold Vouchers and the remaining Replacement Assets; or
- (b) where the Wakala Sukuk Assets comprises Vouchers but not Replacement Assets at such time, following the occurrence of a Revocation Event, the unsold Vouchers;

**“Residual Assets Exercise Price”** means, at any time, an amount equal to the aggregate of:

- (a) the outstanding face amount of the Certificates;
- (b) to the extent the Wakala Sukuk Assets comprised Replacement Assets prior to the relevant Revocation Event, all accrued but unpaid Replacement Assets Payments relating to the Replacement Assets (if any), to the extent not received by the Trustee;
- (c) to the extent the Wakala Sukuk Assets comprised Vouchers prior to the relevant Revocation Event, all accrued but unpaid Distribution Profit relating to the Vouchers (if any), to the extent not received by the Trustee under the Wakala Agreement;
- (d) without duplication or double counting, an amount equal to any accrued but unpaid Wakala Services Charge Amount; and
- (e) 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 the Government of Malaysia, the Trustee and the Delegate acknowledge shall be the price for the Residual Assets following the occurrence of a Revocation Event;

**“Revocation Date”** means, in relation to a Revocation Event, the earlier of the date that (A) the Trustee is notified and (B) the Trustee becomes aware that the entity that issues the Vouchers has ceased to be an Authorised Entity;

**“Revocation Event”** means, an event or circumstance where (i) the Revocation Date has occurred; and (ii) the Government of Malaysia is unable within 60 days of the Revocation Date to sell new assets to the Trustee pursuant to a sale agreement or (in its capacity as Wakeel) obtain Vouchers pursuant to a supplemental voucher purchase agreement, in each case for an amount at least equal to the aggregate Voucher Face Value of Vouchers owned by the Trustee but unsold as at the Revocation Date;

**“Revocation Event Dissolution Date”** has the meaning given in Condition 10(c) (*Capital Distributions of the Trust — Dissolution following a Revocation Event*);

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

**“Rule 144A”** means Rule 144A of the Securities Act;

**“Rule 144A Definitive Certificates”** means those Certificates which are offered and sold within the United States to “qualified institutional buyers” (within the meaning of Rule 144A) that are also “qualified purchasers” (within the meaning of U.S. Investment Company Act of 1940, as amended) 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) that are also “qualified purchasers” (within the meaning of U.S. Investment Company Act of 1940, as amended) 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 28, 2051;

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

**“Series 2”** means the series constituted by the Certificates;

**“Shariah Adviser”** means a Shariah adviser appointed by the Government of Malaysia in relation to Replacement Assets from time to time, with such adviser following the generally accepted Shariah standards at the time of substitution;

**“Specified Denomination(s)”** means a minimum denomination of U.S.\$250,000 and integral multiples of U.S.\$1,000 in excess thereof;

**“Substituted Replacement Assets”** means the Replacement Assets specified as such in a Substitution Notice to the extent that on the Substitution Date they constitute Replacement Assets belonging to the Trustee, provided that, for the avoidance of doubt, immediately after substitution thereof pursuant to the Substitution Undertaking, the Substituted Replacement Assets shall no longer constitute Replacement Assets belonging to the Trustee;

**“Substituted Vouchers”** means the vouchers specified as such in a Substitution Notice to the extent that on the Substitution Date they constitute Vouchers belonging to the Trustee;

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

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

“**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 Replacement Assets Payments (or part thereof) relating to the Replacement Assets (if any), to the extent not received by the Trustee;
  - (iii) all accrued but unpaid Distribution Profit (or part thereof) relating to the Vouchers (if any), to the extent not received by the Trustee under the Wakala Agreement;
  - (iv) without duplication or double counting, an amount equal to any accrued but unpaid Wakala Services Charge Amount; and
  - (v) 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*);

“**Supplementary Replacement Assets Payments**” means, in respect of a Replacement Assets Period, an amount equal to the Wakala Services Charge Amount applicable to the immediately preceding Replacement Assets Period, save that no Supplementary Replacement Assets Payments shall be payable on the first Replacement Assets Payment Date;

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

“**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 Voucher Purchase 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*);

“**Value**” means at any time:

- (a) in respect of Vouchers, the aggregate Voucher Face Value of such Vouchers on the Closing Date and any subsequent Vouchers purchased pursuant to the terms of the Transaction Documents whilst the Certificates remain outstanding, less the aggregate Voucher Face Value of any Vouchers which the Government of Malaysia has substituted with Replacement Assets pursuant to the terms of the Transaction Documents provided that following a Revocation Event this amount shall be reduced to zero until new Vouchers have been purchased pursuant to a supplemental voucher purchase agreement; and
- (b) in respect of Replacement Assets (if any), an amount equal to the aggregate Voucher Face Value of any Vouchers that have been substituted by New Replacement Assets (pursuant to the Substitution Undertaking and the relevant Sale Agreement), less the aggregate Voucher Face Value of any Vouchers which substitute any such New Replacement Assets pursuant to the terms of the Transaction Documents,

in each case, in U.S. dollars;

“**Voucher Face Value**” has the meaning given to it in the Voucher Purchase Agreement and each supplemental voucher purchase agreement;

“**Voucher Percentage**” means at any time, the ratio (expressed as a percentage) of (i) the aggregate Value of the relevant Vouchers owned by the Trustee but unsold by the Wakeel to (ii) the aggregate Value of the Vouchers and Replacement Assets (if any) at that time. For the avoidance of doubt, on the Closing Date (and prior to any substitution of Vouchers for Replacement Assets under the Substitution Undertaking) the Voucher Percentage is 100%;

“**Vouchers**” means vouchers sold pursuant to the Voucher Purchase Agreement and each supplemental voucher purchase agreement or Sale Agreement;

“**Wakala Services**” means:

- (a) each of the services relating to Vouchers specified in Clause 4 (*Voucher Services*) of the Wakala Agreement to be provided by the Wakeel on behalf of the Trustee; and
- (b) the services relating to the Replacement Assets (if any) to be provided by the Wakeel on behalf of the Trustee; and

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 actual 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 Period**” has the meaning given to it in the Wakala Agreement;

“**Wakala Sukuk Assets**” means the Vouchers and (only if substituted pursuant to the Substitution Undertaking) the Replacement Assets; 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**”, “**U.S.\$**” and “**\$**” are to the lawful currency of the United States of America.

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

## **2 FORM, DENOMINATION AND TITLE**

### **(a) Form and Denomination**

The Certificates will be issued in minimum denominations of U.S.\$250,000 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 HSBC Bank USA, National Association 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**”) that are also “qualified purchasers” (“**QPs**”) as defined in Section 2(a)(51)(A) of the U.S. Investment Company Act of 1940, as amended, 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 HSBC Bank USA, National Association 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 transferor 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 represents 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 Replacement Assets (if any) and the Vouchers) 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 is deemed to have agreed that notwithstanding anything to the contrary contained in these Conditions or any Transaction Document:

- (i) no payment of any amount whatsoever shall be made by the Trustee, the Delegate (acting in the name and on behalf of the Trustee), or any of the respective agents on their behalf except to the extent funds are available therefor from the Trust Assets;
- (ii) no recourse shall be had for the payment of any amount owing hereunder or under any Transaction Document, whether for the payment of any fee or other amount hereunder or any other obligation or claim arising out of or based upon the Transaction Documents, against the Trustee or the Delegate to the extent the Trust Assets have been exhausted following which all obligations of the Trustee and the Delegate shall be extinguished;
- (iii) prior to the date which is one year and one day after the date on which all amounts owing by the Trustee under the Transaction Documents to which it is a party have been paid in full, it will not institute against, or join with any other person in instituting against, the Trustee any bankruptcy, 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 Replacement Assets Agreement (if any) 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 Voucher Purchase Agreement, the Government of Malaysia (in its capacity as seller) will sell and transfer to the Trustee (as purchaser) the Vouchers specified therein. As part of the Wakala Services, the Government of Malaysia (in its capacity as Wakeel) will distribute the Vouchers on behalf of the Trustee pursuant to the terms of the Wakala Agreement and the relevant Distribution Notice.

Where any of the Wakala Sukuk Assets are being substituted with Replacement Assets in accordance with the Substitution Undertaking, then pursuant to the relevant sale agreement, the Government of Malaysia, through such government entity or agency that the Government of Malaysia may specify, will sell, transfer and/or convey (as the case may be) to the Trustee the Replacement Assets.

Where the Wakala Sukuk Assets comprise Replacement Assets following any substitution pursuant to the Substitution Undertaking, the Government of Malaysia will pay the Replacement Assets Payments on each Replacement Assets Payment Date. The payment obligations of the Government of Malaysia under an agreement (the “**Replacement Assets Agreement**”) to be entered into by the Government of Malaysia and the Trustee, as approved by the Shariah Adviser (in accordance with generally accepted Shariah standards) upon each such substitution (if any) pursuant to the Substitution Undertaking, 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 Vouchers and the Replacement Assets (if any).

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 Revocation Event 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 there has been a Revocation Event, 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 Residual Assets at the Residual Assets 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 on the due date for payment thereof, the Government of Malaysia shall irrevocably and unconditionally (without the necessity for any notice or any other action) continue to act as Wakeel in respect of the Wakala Sukuk Assets for a period from and including the date on which the Sukuk Exercise Price was due to be paid to, but excluding, the date on which such amounts are paid in full or, where the Wakala Sukuk Assets comprise Vouchers, in respect of the Vouchers, the date upon which there are no more Vouchers remaining for distribution and sale, in accordance with the terms of the Purchase Undertaking. In such circumstances, where the Wakala Sukuk Assets comprise Replacement Assets, the Trustee shall be entitled to receive the Additional Replacement Assets Payment Amount in respect of such period.

Where the Wakala Sukuk Assets comprise Vouchers, following the occurrence of a Revocation Event, 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 Revocation 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*).

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) redeem 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) transfer and convey its interests, rights, benefits and entitlements in and to certain Redemption Replacement Assets to the Government of Malaysia (through such government entity or agency that the Government of Malaysia may specify) on the relevant Redemption and Cancellation Date; (iv) transfer its interests, rights, benefits and entitlements in and to certain Redemption Vouchers to the Government of Malaysia (through such government entity or agency that the Government of Malaysia may specify); and/or (v) transfer the applicable Redemption Amount 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 sell, transfer and convey on any Substitution Date all of the Trustee's interest, rights, benefits and entitlements in and to the Substituted Vouchers and/or Substituted Replacement Assets in consideration for the transfer and conveyance by the Government of Malaysia (or such other government entity or agency that the Government of Malaysia may specify) to the Trustee of the New Vouchers and/or New Replacement Assets (pursuant to a sale agreement). The Government of Malaysia will be obliged to certify that the New Vouchers and/or New Replacement Assets are of a value which is equal to or greater than the value of the Substituted Vouchers and/or Substituted Replacement Assets on the relevant Substitution Date.

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

The Trustee will establish a transaction account (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 Replacement Assets Agreement (if any), the Wakala 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.

**7 COVENANTS**

The Trustee covenants that, amongst other things, for so long as any Certificate is outstanding, it 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; or
- (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 Certificates;
  - (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 profit in respect of the relevant Wakala Sukuk 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.\$, by wire transfer in immediately available funds to the registered account of each Certificateholder. 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.\$ maintained by or on behalf of it with a bank that processes payments in U.S.\$, 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, where the Wakala Sukuk Assets comprise Vouchers, the Distribution Term (as defined in the Wakala 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 addition, in accordance with the terms of the Purchase Undertaking, the Government of Malaysia will continue to act as Wakeel in respect of the Vouchers and such Replacement Assets until but excluding the date on which the Dissolution Distribution Amount is paid in full.

Certificateholders shall be entitled to payment of a defined share in the amounts received from the continuation of the sale and purchase of the Vouchers and/or the Additional Replacement Assets

Payment Amount received in relation to the Replacement Assets (if any) (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 amounts received from the continuation of the sale and purchase of the Vouchers and/or the Additional Replacement Assets Payment Amount received in relation to the Replacement 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.

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.

**(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 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 or if the relevant Certificateholder is late in surrendering its Certificate (if required to do so).

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 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 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 enclosed 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 Revocation Event*

Following the occurrence of a Revocation Event, the Trustee will exercise its rights under the Purchase Undertaking by serving an Exercise Notice on the Government of Malaysia specifying the date on which the Government of Malaysia would be required to purchase and accept the transfer and conveyance of all of the Trustee's interests, rights, benefits and entitlements in and to the Residual Assets, which shall be the date falling five Business Days after the 30th day following the occurrence of the Revocation Event (the "**Revocation Event Dissolution Date**"). The Certificate shall be redeemed on the Revocation Event Dissolution Date at the Dissolution Distribution Amount using the Residual Assets Exercise Price required to be paid into the Transaction Account by the Government of Malaysia pursuant to the sale of the Residual Assets under the Purchase Undertaking.

Following redemption of the Certificates on the Revocation Event Dissolution Date, the Trust will be dissolved.

*(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.

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 Purchase Undertaking and the Wakala 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 Purchase Undertaking and the Wakala 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 redeem the Malaysia Certificates in consideration for the cancellation of the Malaysia Certificates and (i) the transfer of its interests, rights, benefits and entitlements in and to certain Redemption Vouchers to the Government of Malaysia (through such government entity or agency that the Government of Malaysia may specify); and/or (ii) where the Wakala Sukuk Assets comprises Replacement Assets, the transfer and conveyance of its interests, rights, benefits and entitlements in and to certain Redemption Replacement Assets to the Government of Malaysia (through such government entity or agency that the Government of Malaysia may specify); and/or (iii) the transfer 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 Vouchers (if any), the Redemption Replacement Assets (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) redeem 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 Agreement with such government 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 Vouchers will be transferred to the Government of Malaysia through such government entity or agency that the Government of Malaysia may specify;
- (iv) if applicable, enter into a Redemption Agreement with such government 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 Replacement Assets will be transferred and conveyed to the Government of Malaysia through such government entity or agency that the Government of Malaysia may specify; and

- (v) (subject to the set off provisions contained in the Redemption Undertaking), transfer 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 by the Delegate or the holder of any Certificate;
- (iii) a Malaysia Event occurs;
- (iv) at any time it becomes unlawful for the Government of Malaysia to perform or comply with any of its payment obligations under the Replacement Assets Agreement (if any), the Purchase Undertaking or the Wakala Agreement or any of the payment obligations of the Government of Malaysia under the Replacement Assets Agreement (if any), the Purchase Undertaking 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
- (v) (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 Replacement Assets Agreement (if any) 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 by the Delegate or the holder of any Certificate;

- (iii) any External Public Indebtedness in an aggregate principal amount in excess of U.S.\$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 U.S.\$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 Request, 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) 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 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 the Delegate, having become bound so to proceed, (A) fails to do so within a reasonable period, or (B) is unable by reason of an order of a court having competent jurisdiction to do so, and such failure or inability shall be continuing.
- (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 (including by way of teleconference or videoconference call) 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(h) (*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 (which for these purposes shall be deemed to include any sukuk or other trust certificates representing the credit of the Government of Malaysia) issued directly or indirectly 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  $66\frac{2}{3}$  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 $\frac{2}{3}$  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 the 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 16 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 Replacement Assets Agreement (if any) 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 macroeconomic 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 Trustee 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 Trustee 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 Condition 19(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(h) (*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 Trustee, 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](http://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 appoint the Delegate to be its attorney and in its name, on its behalf and as its act and deed to execute, deliver and perfect all documents, to exercise all of the present and future duties, powers (including the power to sub-delegate), trusts, authorities (including, but not limited to, the authority to request directions from any Certificateholders and the power to make any determinations to be made under the 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 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 gross negligence, willful 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 [Act 359] of Malaysia and Order 73 Rule 12 of the Rules of Court 2012 [P.U.(A)205/2012] 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 contrary to public policy in Malaysia;
  - (B) was not given or obtained by fraud 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 to non-U.S. persons 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 who are also QPs 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 who are also QPs, holding their interests for their own account or for the account of one or more QIBs who are also QPs. 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 who is also a QP 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 who is also a QP, (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 who is also a QP purchasing the beneficial interest for its own account or any account of a QIB who is also a QP 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 to a non-U.S. person 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 to a non-U.S. person 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 by the Trustee 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 who is also a QP purchasing the beneficial interest for its own account or any account of a QIB who is also a QP 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 and Rule 3(c)(7) under the Investment Company Act, 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 who are also QPs. 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 who is also a QP purchasing the beneficial interest for its own account or any account of a QIB who is also a QP 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 non-U.S. 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 April 7, 2021, 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 wholly owned by the Minister of Finance (Incorporated). The paid-up capital of the Trustee is RM1.00, comprising of one ordinary share of RM1.00, held by the Minister of Finance (Incorporated), a body corporate incorporated under the Minister of Finance (Incorporation) Act 1957 [Act 375]. 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**

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

The Trustee is required by Malaysian law to prepare audited financial statements. The Trustee is expected to file its audited financial statements relating to the fiscal year ended December 31, 2021 by June 30, 2022.

However, the Trustee may apply to the Malaysian Registrar of Companies to extend the periods referred to in this section, and the Registrar may extend such periods as he considers appropriate, upon being satisfied with the reasons provided. The Trustee will not prepare interim accounts.

## Directors

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

<u>Director</u>	<u>Principal Occupation</u>	<u>Business Address</u>
Dr. Sivabalasingam A/L Veerasingam .....	Chief Economist Fiscal and Economics Division Ministry of Finance	Fiscal and Economics Division, Level 8-9, Centre Block, Ministry of Finance Complex, No.5 Persiaran Perdana, Precinct 2 62592 Putrajaya
Imri Dolhadi Bin Ab Wahab .....	Deputy Director Fiscal and Economics Division Ministry of Finance	Fiscal and Economics Division, Level 8-9, Centre Block, Ministry of Finance Complex, 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 offices of the Trustee and 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.*

### **Voucher Purchase Agreement**

Pursuant to a voucher purchase agreement (the “**Voucher Purchase Agreement**”) dated on or about the Closing Date between the Government of Malaysia as seller (in such capacity, the “**Seller**”) and the Trustee as purchaser, the Seller will sell, transfer and convey to the Trustee vouchers (which can only be redeemed via an Authorised Entity) (the “**Original Vouchers**”) representing an entitlement to a specified number of travel units (the “**Travel Units**”).

The Trustee will pay to the Seller (or procure that the Seller is paid) the purchase price set out in the Voucher Purchase Agreement (inclusive of any applicable Taxes) for value on the Closing Date, in consideration for the transfer to the Trustee of the Seller’s rights, benefits, entitlements and interests in, to and under the Original Vouchers.

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

### **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. For the avoidance of doubt, under no circumstances will the Wakeel engage in taking any investment decisions on behalf of the Trustee when providing the Wakala Services, and the Wakeel shall not undertake any investment agency role such as discretionary investment with respect to any monies received by it pursuant to the Transaction Documents or any discretionary substitution of any Vouchers or Replacement Assets.

Pursuant to the terms of the Wakala Agreement, the Wakeel shall:

- (i) (where the Wakala Sukuk Assets comprise Vouchers) act as the Trustee’s sole and exclusive distributor to sell Vouchers to Customers in its sole discretion through an Authorised Entity, on the terms of the Wakala Agreement and/or, as applicable, the relevant Distribution Notice; and
- (ii) (where the Wakala Sukuk Assets comprise Replacement Assets, following any substitution pursuant to the Substitution Undertaking) on behalf of the Trustee carry out all services in respect thereof as approved by the Shariah Adviser (in accordance with generally accepted Shariah standards) upon each such substitution (if any) pursuant to the Substitution Undertaking.

The number of Vouchers designated for distribution and sale (as specified in the Wakala Agreement) shall be calculated by reference to the Voucher Percentage, such that the proceeds from the sale of Vouchers in any Distribution Period, together with (where the Wakala Sukuk Assets also comprise Replacement Assets) the Replacement Assets Payments shall be sufficient to cover Periodic Distribution Amounts.

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

- (i) on the Wakala Services Payment Date for the next Wakala Services Period; or
- (ii) in the case of the final Wakala Services Period of the Wakala Services Term, on the Wakala Services End Date.

An amount equal to:

- (i) the Wakala Services Charge Amount that is payable as part of any Sukuk Exercise Price;
- (ii) the proportion of the minimum sale price to be paid by the Wakeel to the Trustee pursuant to the Wakala Agreement that comprises the Wakala Services Charge Amount; or
- (iii) (where the Wakala Sukuk Assets comprise Replacement Assets following any substitution pursuant to the Substitution Undertaking) the Supplementary Replacement Assets Payments to be paid by the Government of Malaysia to the Trustee as (or as part of any) Replacement Assets Payments under an agreement to be entered into by the Government of Malaysia and the Trustee as approved by the Shariah Adviser (in accordance with generally accepted Shariah standards) upon each such substitution (if any) pursuant to the Substitution Undertaking,

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

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

“**Customer**” means any person who purchases the Vouchers or the Travel Units which such Vouchers represent, other than the Trustee, the Government of Malaysia or an Authorised Entity who purchases the Vouchers or the Travel Units which such Vouchers represent pursuant to the Transaction Documents or other ancillary documents related to the intended sale of the Vouchers, as may be required.

“**Wakala Services Charge Amount**” means, in respect of a Wakala Services Period, all payments made or actual 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 Distribution Period or the last day of an Additional Replacement Assets Period (as appropriate).

“**Wakala Services Period**” means the period from, and including, a Wakala Services Payment Date (or with respect to the first Wakala Service 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 favor of the Trustee and the Delegate, the Government of Malaysia, provided there has been no Revocation Event, irrevocably grants to the Trustee the right to require the Government of Malaysia to purchase and accept the transfer and conveyance of all of the Trustee’s interests,

rights, benefits and entitlements in and to the Vouchers and/or the Replacement Assets (together the “**Wakala Sukuk Assets**”), at the relevant Sukuk Exercise Price, on:

- (a) the Scheduled Dissolution Date of the Certificates; or
- (b) at any time on or prior to a Dissolution Date other than a Scheduled Dissolution Date or a Revocation Event 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 Revocation Event, 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 Residual Assets, at the relevant Residual Assets Exercise Price, on the Revocation Event 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 or Residual Assets 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 Replacement Assets Payments or the Minimum Sale Price (as defined in the Wakala Agreement) under the Wakala 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 or Residual Assets Exercise Price, all payments by it under the Purchase Undertaking will be made in U.S. dollars without set-off or counterclaim of any kind and without any 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 each 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 Sukuk Exercise Price or, as the case may be, the Residual Assets Exercise Price or the Surplus Purchase Price (as defined in the Purchase Undertaking), as applicable, 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, Residual Assets and/or, as applicable, the Surplus Vouchers 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 (after taking into consideration any set off of any outstanding Wakala Services Charge Amount), then:

- (a) where the Wakala Sukuk Assets comprise Vouchers, the Government of Malaysia shall irrevocably and unconditionally (without the necessity for any notice or any other action) continue to act as Wakeel in respect of the unsold Vouchers with effect from and including the Sukuk Due Date and the Distribution Term as specified in the relevant Distribution Notice shall be deemed to be extended for successive periods having the same length as the original Distribution Periods (and each such period shall comprise an “**Additional Distribution Period**”) during the period from, and including, the Sukuk Due Date to, but excluding the earlier of: (i) the date on which the sale and purchase in respect of the Trustee’s interests, rights, benefits and entitlements in and to the relevant Wakala Assets occurs (including the payment in full of the Outstanding Price and all other accrued amounts by the Government of Malaysia); and (ii) the date upon which there are no more Vouchers remaining for distribution and sale; and

- (b) where the Wakala Sukuk Assets comprise Replacement Assets, the Government of Malaysia shall irrevocably and unconditionally (without the necessity for any notice or any other action) continue to act in its respective roles under the relevant agreements related to such Replacement Assets and continue to act as Wakeel in respect of the Replacement Assets with effect from and including the Sukuk Due Date (the “**Commencement Date**”) on the terms and conditions, *mutatis mutandis*, of such agreements related to the Replacement Assets and the Wakala Agreement, save that return shall accrue on a daily basis in respect of the period from, and including, the Commencement Date 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.

If, following the receipt of an Exercise Notice pursuant to the Purchase Undertaking, the Government of Malaysia fails to pay all or part of any Residual Assets Exercise Price on the Residual Assets Due Date (after taking into consideration any set off of any outstanding Wakala Services Charge Amount):

- (a) where Vouchers form part of the Residual Assets, the Government of Malaysia shall irrevocably and unconditionally (without the necessity for any notice or any other action) continue to act as Wakeel in respect of the unsold Vouchers with effect from and including the Residual Assets Due Date and the Distribution Term as specified in the relevant Distribution Notice shall be deemed to be extended for such Additional Distribution Period during the period from, and including, the Residual Assets Due Date to, but excluding, the earlier of:
- (i) the date on which the sale and purchase in respect of the Trustee’s interests, rights, benefits and entitlements in and to the relevant Wakala Sukuk Assets occurs (including the payment in full of the Residual Assets Outstanding Price and all other accrued amounts by the Government of Malaysia); and
  - (ii) the date upon which there are no more Vouchers remaining for distribution and sale; and
- (b) where Replacement Assets form part of the Residual Assets, the Government of Malaysia shall irrevocably and unconditionally (without the necessity for any notice or any other action) continue to act in its respective roles under the relevant agreements related to such Replacement Assets and continue to act as Wakeel in respect of the Replacement Assets with effect from and including the Residual Assets Due Date on the terms and conditions, *mutatis mutandis*, of such agreements related to the Replacement Assets and the Wakala Agreement, save that return shall accrue on a daily basis in respect of the period from, and including, the Residual Assets Due Date 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 relevant Residual Assets occurs (including the payment in full of the Residual Assets Outstanding Price and all other accrued amounts by the Government of Malaysia).

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*” or the section entitled “*Terms and Conditions of the Series 2 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.

“**Residual Assets Exercise Price**” means, at any time, an amount equal to the aggregate of:

- (a) the outstanding face amount of the Certificates;
- (b) to the extent the Wakala Sukuk Assets comprised Replacement Assets prior to the relevant Revocation Event, all accrued but unpaid Replacement Assets Payments relating to the Replacement Assets (if any), to the extent not received by the Trustee;
- (c) to the extent the Wakala Sukuk Assets comprised Vouchers prior to the relevant Revocation Event, all accrued but unpaid Distribution Profit relating to the Vouchers (if any), to the extent not received by the Trustee under the Wakala Agreement;
- (d) without duplication or double counting, an amount equal to any accrued but unpaid Wakala Services Charge Amount; and
- (e) 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 the Government of Malaysia, the Trustee and the Delegate acknowledge shall be the price for the Residual Assets following the occurrence of a Revocation Event;

“**Revocation Date**” means, in relation to a Revocation Event, the earlier of the date that (A) the Trustee is notified and (B) the Trustee becomes aware that the entity that issues the Vouchers has ceased to be an Authorised Entity;

“**Revocation Event**” means, an event or circumstance where (i) the Revocation Date has occurred; and (ii) the Government of Malaysia is unable within 60 days of the Revocation Date to sell new assets to the Trustee pursuant to a sale agreement or (in its capacity as Wakeel) obtain Vouchers pursuant to a supplemental voucher purchase agreement, in each case for an amount at least equal to the aggregate Voucher Face Value of Vouchers owned by the Trustee but unsold as at the Revocation Date;

“**Sukuk Exercise Price**” means an amount equal to the aggregate of:

- (i) the outstanding face amount of the Certificates;
- (ii) all accrued but unpaid Replacement Assets Payments (or part thereof) relating to the Replacement Assets (if any), to the extent not received by the Trustee;
- (iii) all accrued but unpaid Distribution Profit (or part thereof) relating to the Vouchers (if any), to the extent not received by the Trustee under the Wakala Agreement;
- (iv) without duplication or double counting, an amount equal to any accrued but unpaid Wakala Services Charge Amount; and
- (v) without duplication or double-counting, an amount representing any prior ranking claims (as described in items (i) and (ii) of 6(b) (*Trust — Application of Proceeds from Trust Assets*)) in accordance with Condition 6(b) (*Trust — Application of Proceeds from Trust Assets*).

### **Substitution Undertaking**

Pursuant to a substitution undertaking (the “**Substitution Undertaking**”) dated on or about the Closing Date granted by the Trustee (as obligor) in favor of the Government of Malaysia, the Trustee 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 Vouchers (the “**Substituted Vouchers**”) and/or Replacement Assets (the “**Substituted Replacement Assets**”), to the Government of Malaysia or such other government entity or agency that the Government of Malaysia may specify. In consideration for the sale, transfer and conveyance of the Substituted Vouchers and/or Substituted Replacement Assets, by the Trustee to the Government of Malaysia or such other government entity or agency that the Government of Malaysia may specify, the Government of

Malaysia or such other government entity or agency that the Government of Malaysia may specify will transfer and convey certain new Vouchers (the “**New Vouchers**”) and/or the ownership interest in certain new Replacement Assets (the “**New Replacement Assets**”) to the Trustee. The Government of Malaysia will be obliged to certify that the New Vouchers and/or New Replacement Assets are of a value equal to or greater than the value of the Substituted Vouchers and/or Substituted Replacement Assets on the relevant Substitution Date.

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 Vouchers and/or New Replacement Assets for the Substituted Vouchers and/or Substituted Replacement Assets will become effective on the relevant 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 Government of Malaysia (or such other government entity or agency that the Government of Malaysia may specify) entering into a sale agreement (each such sale agreement, the “**Substitution Undertaking Sale Agreement**”) in substantially the form scheduled to the Substitution Undertaking.

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

“**Replacement Assets**” means the assets specified in a Substitution Notice and which shall only comprise of Shariah compliant tangible assets (for the avoidance of doubt, excluding investments in a business, shares or equities) as approved (in writing) by a Shariah Adviser (in accordance with generally accepted Shariah standards) prior to the issuance of each relevant Substitution Notice from time to time pursuant to, and in accordance with the terms of, the Substitution Undertaking.

“**Shariah Adviser**” means a Shariah adviser appointed by the Government of Malaysia in relation to Replacement Assets from time to time, with such adviser following the generally accepted Shariah standards at the time of substitution;

### **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 redeem 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) transferring and conveying its interests, rights, benefits and entitlements in and to certain Redemption Replacement Assets to the Government of Malaysia (through such government entity or agency that the Government of Malaysia may specify); and/or (ii) transferring its interests, rights, benefits and entitlements in and to certain Redemption Vouchers to the Government of Malaysia (through such government entity or agency that the Government of Malaysia may specify); and/or (iii) transfer 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 Replacement Assets (if any), the relevant Redemption Vouchers (if any) and the Redemption Amount (if any) specified in the relevant Redemption and Cancellation Notice; and
- (b) on the relevant Redemption and Cancellation Date, immediately following the redemption and cancellation of the relevant Malaysia Certificates and the transfer of the Redemption Replacement Assets, Redemption Vouchers and/or, as the case may be, transfer of the Redemption Amount, the aggregate value of the remaining Replacement Assets and Vouchers will be at least equal to the face amount of the Certificates outstanding; and

- (c) the:
- (i) transfer and conveyance of the Trustee's interests, rights, benefits and entitlements in and to the relevant Redemption Replacement Assets in accordance with the Redemption Undertaking and the relevant Redemption Agreement; and/or
  - (ii) transfer of the Trustee's interests, rights, benefits and entitlements in and to the relevant Redemption Vouchers in accordance with the Redemption Undertaking and the relevant Redemption Agreement; and/or
  - (iii) transfer 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 Replacement Assets (if any), the Redemption Vouchers (if any) and the Redemption Amount (if any)).

Following the exercise of this right, the Trustee shall:

- (a) redeem 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 Agreement with such government 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 Replacement Assets will be transferred and conveyed to the Government of Malaysia through such government entity or agency that the Government of Malaysia may specify;
- (d) if applicable, enter into a Redemption Agreement with such government 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 Vouchers will be transferred to the Government of Malaysia through such government entity or agency that the Government of Malaysia may specify; and
- (e) if applicable, transfer the relevant Redemption Amount to the Government of Malaysia on the relevant Redemption and Cancellation Date.

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

**"Redemption Agreement"** means an agreement to be executed by the Trustee and such government entity or agency that the Government of Malaysia may specify in respect of any Redemption Replacement Assets and/or the relevant Redemption Vouchers, as the case may be, pursuant to the exercise of the Redemption Undertaking substantially in the form set out in the Redemption Undertaking;

**"Redemption Amount"** means an amount to be transferred 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 redeemed 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 notice substantially in the form set out in the Redemption Undertaking.

“**Redemption Replacement Assets**” means those Replacement 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.

“**Redemption Vouchers**” means those Vouchers (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.

### **The Declaration of Trust**

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

- (a) all of the Trustee’s rights, interest and benefit (present and future) in, to and under the Wakala Sukuk Assets;
- (b) all monies standing to the credit of the Transaction Account;
- (c) all of the Trustee’s rights, interest and benefit (present and future) in, to and under the Transaction Documents (excluding any representations given to the Trustee by the Government of Malaysia pursuant to any of the Transaction Documents); and
- (d) all proceeds of the foregoing (which are held by the Trustee).

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

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

- (a) hold the Trust Assets on trust absolutely for the holders of the Certificates as beneficiaries pro rata according to the face amount of Certificates held by each Certificateholder;
- (b) act as trustee in respect of the Trust Assets, distribute the income from the Trust Assets and perform its duties in accordance with the provisions of the Declaration of Trust; and
- (c) irrevocably and unconditionally appoint the Delegate to be its attorney.

The Delegate shall, on behalf of the Trustee, exercise all of the present and future duties, powers, trusts, authorities and discretions vested in the Trustee by the Declaration of Trust considered necessary or desirable in order, upon the occurrence of a Dissolution Event or a Potential Dissolution Event, to exercise all of the rights (but not the obligations, duties or covenants) of the Trustee under the Purchase Undertaking, the Wakala 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 in the Delegate, including, *inter alia*, the power to waive or authorize a breach of any provision of the Transaction Documents or a Dissolution Event or Potential Dissolution Event. The Delegate is also able to consent to certain types of amendments to the Transaction Documents or the memorandum and articles of association of the Trustee.

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 unless the Delegate, having become bound so to proceed,

- (a) fails to do so within a reasonable period; or
- (b) is unable by reason of an order of a court having competent jurisdiction to do so,

and such failure or inability shall be continuing.

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. 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 and/or secures and/or pre-funds the Delegate and its directors, officers, employees and controlling persons against all actual losses, liabilities, actual 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, wilful default, bad faith or actual fraud or that of its directors, officers, employees or controlling persons or any of them.

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

The Delegate shall not be bound in any circumstances to take any action to enforce rights to 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:

- (a) by an Extraordinary Resolution (as defined in Schedule 3 of the Declaration of Trust); or
- (b) 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 prefunded 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.

### **Shariah Compliance**

Each Transaction Document provides that:

Each of the Trustee and The Government of Malaysia agrees that it has accepted the Shariah compliant nature of the Transaction Documents to which it is a party and, to the extent permitted by law, further agrees that:

- (a) it shall not claim that any of its obligations under the Transaction Documents to which it is a party (or any provision thereof) is in any way *ultra vires* or not compliant with the principles of Shariah;
- (b) it shall not take any steps or bring any proceedings in any forum to challenge the Shariah compliance of the Transaction Documents to which it is a party; and
- (c) none of its obligations under the Transaction Documents to which it is a party shall in any way be diminished, abrogated, impaired, invalidated or otherwise adversely affected by any finding, declaration, pronouncement, order or judgment of any court, tribunal or other body that the Transaction Documents to which it is a party are not compliant with the principles of Shariah.

## USE OF PROCEEDS

The net proceeds of the issue of the Certificates (after deduction of commissions) are estimated to be approximately U.S.\$1,299,805,000. The proceeds of the issue of the Certificates will be paid by the Trustee on the Closing Date to the Government of Malaysia as the purchase price for the Vouchers pursuant to the Voucher Purchase Agreement.

The net proceeds of the Series 1 Certificates received by the Government of Malaysia in connection with the sale of the Vouchers will be used by the Government of Malaysia for Shariah compliant general purposes, including but not limited, to financing or refinancing, in whole or in part, new or existing development expenditure with a social and/or green focus, in accordance with the eligibility criteria described under the SDG Sukuk Framework of the Government of Malaysia attached hereto as Appendix A, as amended from time to time on the Government of Malaysia's website: <https://www.mof.gov.my/en/economy/sustainability> and as governed by External Loans Act 1963 [Act 403] and Development Fund Act 1966 [Act 406]. Nothing on the Government of Malaysia's website, other than the SDG Sukuk Framework as amended from time to time thereby, is incorporated by reference into, or made a part of, this Offering Memorandum.

The net proceeds of the Series 2 Certificates received by the Government of Malaysia in connection with the sale of the Vouchers will be used by the Government of Malaysia for Shariah compliant general purposes, including but not limited to refinancing prior development expenditure and to finance new development expenditure in 2021, as governed by External Loans Act 1963 [Act 403] and Development Fund Act 1966 [Act 406].

# MALAYSIA

## The Country

### General

Malaysia is a multi-ethnic country 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 330,548 square kilometers and lies entirely in the equatorial zone. Malaysia has a population of approximately 32.7 million, of which approximately 2.9 million were non-citizens (mostly foreign workers) based on the fourth quarter 2020 estimates of the Department of Statistics. Kuala Lumpur, the capital and largest city, had an estimated population of 1.8 million as at 2020. In 2020, approximately 63.6 per cent. of the population of Malaysia comprised Bumiputera, approximately 20.5 per cent. were Chinese, approximately 6.2 per cent. were Indian, approximately 0.9 per cent. were Others, and approximately 8.8 per cent. were non-citizens (mostly foreign workers). Malaysia's annual population growth rate averaged approximately 0.8 per cent. per year from 2016 to 2020. The Malaysian population mostly lives in urban centers, as the urbanization rate of the population was estimated to be approximately 76.7 per cent. in 2020, corresponding to an estimated average density of more than 99 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. 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, the 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 January 2019. 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 legislative, executive, judicial, and land-related matters. The federal executive power is exercised by the Prime Minister and 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, following the retirement of Dato' Sri Abdullah Ahmad Badawi, and was reappointed as Prime Minister in May 2013 after his coalition won a majority of seats in the House of Representatives. Following his election victory in 2018, Tun Dr. Mahathir bin Mohamad took office as the Prime Minister in May 2018 under the new Pakatan Harapan coalition. He had previously served as Prime Minister for over 22 years between 1981 and 2003, but under a different political party and coalition. However, in March 2020, the Pakatan Harapan government was ousted and replaced by the Perikatan Nasional government, with Tan Sri Dato' Haji Muhyiddin bin Haji Mohd Yassin as the eighth and current Prime Minister, after Pakatan Harapan lost the majority number of seats required to hold power as the Government. The Perikatan Nasional government is currently in power and the next elections are scheduled to be held on or before September 16, 2023.

The Prime Minister's cabinet comprises members of either Houses 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 ministers of the cabinet:

<b>Portfolio</b>	<b>Officer Bearer</b>
Prime Minister	Tan Sri Dato' Haji Muhyiddin bin Haji Mohd. Yassin
Minister of International Trade and Industry	Dato' Seri Mohamed Azmin bin Ali
Minister of Defence	Dato' Sri Ismail Sabri Yaakob
Minister of Finance	Senator Datuk Seri Utama Tengku Zafrul Tengku Abdul Aziz
Minister of Works	Dato' Sri Haji Fadillah bin Haji Yusof
Minister of Education	Datuk Dr. Mohd. Radzi bin Md Jidin
Minister of Transport	Datuk Seri Ir. Dr. Wee Ka Siong
Minister in the Prime Minister's Department – Sabah and Sarawak Affairs	Datuk Seri Panglima Dr. Maximus Johnity Ongkili
Minister of Environment and Water	Dato' Sri Tuan Ibrahim bin Tuan Man
Minister of Human Resources	Datuk Seri M. Saravanan
Minister of Women and Family	Datuk Seri Rina binti Mohd. Harun
Minister of Higher Education	Datuk Seri Dr. Noraini binti Ahmad
Minister in the Prime Minister's Department – Special Functions	Datuk Seri Mohd Redzuan bin Md. Yusof
Minister of Agriculture and Food Industries	Datuk Seri Dr. Ronald Kiandee
Minister in the Prime Minister's Department – Economy	Dato' Sri Mustapa bin Mohamed
Minister of Home Affairs	Dato' Seri Hamzah bin Zainudin
Minister of Communication and Multimedia	Dato' Saifuddin binti Abdullah
Minister of Housing and Local Government	Datuk Hajah Zuraida binti Kamaruddin
Minister of Rural Development	Datuk Dr. Abd Latiff Haji Ahmad
Minister of Federal Territories	Tan Sri TPr. Annuar Haji Musa
Minister of Youth and Sports	Dato' Sri Reezal Merican binti Naina Merican
Minister of Energy and Natural Resources	Datuk Seri Dr. Shamsul Anuar Haji Nasarah
Minister of Foreign Affairs	Dato' Seri Hishamuddin Tun Hussein
Minister of Science, Technology and Innovation	Tuan Khairy Jamaluddin Abu Bakar
Minister of National Unity	Datuk Halimah binti Mohamed Sadique
Minister of Health	Dato' Sri Dr. Adham bin Baba
Minister of Domestic Trade and Consumer Affairs	Dato' Sri Alexander Nanta Linggi
Minister of Entrepreneurship Development and Cooperative	Dato' Sri Dr. Haji Wan Junaidi bin Tuanku Jaafar
Minister of Tourism, Arts and Culture	Dato' Sri Hajah Nancy Shukri
Minister in the Prime Minister's Department – Parliament and Law	Datuk Seri Haji Takiyuddin bin Haji Hassan
Minister of Plantation Industries and Commodities	Dato' Dr. Mohd. Khairuddin bin Aman Razali
Minister of Education	Senator Datuk Dr. Mohd Radzi bin Md Jidin
Minister in the Prime Minister's Department – Religious Affairs	Senator Datuk Dr. Zulkifli Mohamad Al-Bakri

The federal legislative authority in Malaysia is vested in the Parliament, which consists of the constitutional monarch and two Houses of Parliament, 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 for a maximum of two terms either continuously or otherwise, are elected or appointed in the following manner:

- two members for each State are elected in accordance with the process set forth in the Seventh Schedule of the Federal Constitution;
- two members for the Federal Territory of Kuala Lumpur, one member for the Federal Territory of Labuan and one member for the Federal Territory of Putrajaya are appointed by the constitutional monarch on the advice of the Prime Minister; and
- 40 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 List under the Ninth Schedule of 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 specified in the State List under the Ninth Schedule of 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.

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

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 Magistrates’ 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.

Under the Federal Constitution, general elections must be held at least every five years. The most recent general elections were held on May 9, 2018 and resulted in the first change of the ruling party since independence. Members of the Pakatan Harapan coalition were elected to 113 of 222 seats in the House of Representatives. Pakatan Harapan was formed in 2015 and is comprised of four parties: PKR, Democratic Action Party, Bersatu and Parti Amanah Negara. In the process of forming the Government, another party, Parti Warisan Sabah, extended its support for Pakatan Harapan, which raised the winning coalition’s total number of seats to 121. In the same elections, the Pakatan Harapan won the majority of seats in the State legislatures in eight of the 13 states. Pakatan Harapan eventually formed the Government in eight of the 13 states, namely Johor, Kedah, Malacca, Negeri Sembilan, Penang, Perak, Sabah and Selangor. Meanwhile, Barisan Nasional (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) as well as Parti Islam Se-Malaysia assumed the role of opposition parties in the Parliament. In 2019, the Barisan Nasional coalition recovered some ground against the Pakatan Harapan coalition and won a number of by-elections, such as the 2019 Cameron Highlands by-election, the 2019 Semenyih by-election, the 2019 Rantau by-election and the 2019 Tanjung Piai by-election. In 2020, the Barisan Nasional coalition aligned themselves with Perikatan Nasional to form a new government after the collapse of the Pakatan Harapan government, as a result of the 2020 Malaysian political transition.

### ***2020 Malaysian political transition***

In February 2020, the Malaysian government led by the multi-ethnic Pakatan Harapan coalition collapsed. Over the course of the last week of February 2020, several political parties joined forces and tried to form a new government by claiming majority seats and support in the Dewan Rakyat, the lower chamber of the bicameral Parliament of Malaysia. They accomplished it through the withdrawal of the Bersatu from the Pakatan Harapan coalition and through the support of several Members of Parliament from the PKR. Following these events, then Prime Minister Tun Dr. Mahathir bin Mohamad resigned, before being re-appointed by the constitutional monarch as the interim Prime Minister of Malaysia. In an effort to determine who commanded the support of the majority of parliamentarians, the constitutional monarch conducted a two-day interview process where he met individually with all the members of parliament's lower house.

On February 29, 2020, the constitutional monarch announced that, after hearing representations from the party leaders, he had decided to appoint Tan Sri Dato' Haji Muhyiddin bin Haji Mohd Yassin as the new Prime Minister. On March 1, 2020, Tan Sri Dato' Haji Muhyiddin bin Haji Mohd Yassin was sworn in as the new Prime Minister. He declared his coalition government as the Perikatan Nasional and subsequently announced his cabinet with a roster of 31 ministers and 39 deputy ministers under the new Perikatan Nasional administration.

### **Foreign Relations and International Organizations – International Division**

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. As at the date of this Offering Memorandum, Malaysia has a network of 107 active diplomatic missions in 80 countries (including 62 embassies, 17 high commissioners, two permanent representatives to the United Nations, one permanent representative to the Association of Southeast Asian Nations ("ASEAN"), a Malaysia Friendship and Trade Center, 22 consulate general offices and two consulate offices). These overseas diplomatic missions help to enhance Malaysia's international profile and serve as strategic mechanisms for the achievement of Malaysia's national interests and the implementation of its foreign policy mandate. In addition, Malaysia has also appointed prominent individuals, notably 49 Honorary Consuls in major cities in 42 countries across the globe, who provide support and assistance to Malaysia in achieving its policy of forging greater people-to-people contact, enhancing trade and economic activities and extending consular assistance.

The overarching thrust of Malaysia's foreign policy is to safeguard Malaysia's sovereignty and to defend Malaysia's national interests. The basic principles of Malaysia's foreign policy include: (i) adherence to non-alignment; (ii) a healthy diplomatic and economic relationship with all countries; (iii) being a leading voice in ASEAN; (iv) installing Malaysia as an influential middle power; (v) the peaceful settlement of disputes; (vi) respect for independence, sovereignty, and territorial integrity of other countries; (vii) non-interference in the internal affairs of other countries; (viii) peaceful co-existence; and (ix) mutual benefits in relations. In addition, Malaysia's foreign policy is further shaped by two key components, namely (a) 'Approaches', which is focused on making decisions, influencing decision making and shaping the discourse, and (b) 'Focus', which is focused on security, economy and identity.

In 2020, China was Malaysia's primary trading partner with its share of trade amounting to 18.6 per cent., followed by Singapore with 12.1 per cent., the United States with 10.0 per cent., Japan with 6.9 per cent., Taiwan

with 5.1 per cent., Hong Kong with 4.6 per cent., the Republic of Korea with 4.5 per cent., Thailand with 4.5 per cent., Indonesia with 3.7 per cent., and India with 3.1 per cent. Collectively, these top 10 trading partners contributed 73.1 per cent. of Malaysia's total trade in 2020.

Malaysia is a member of various international intergovernmental organizations, such as the United Nations, the Commonwealth of Nations, the Organization of the Islamic Cooperation, the Non-Aligned Movement, the Group of 77, the D8 Group of Developing Countries, the Asia Middle East Dialogue, the Far East Asia Latin America Cooperation, the Indian Ocean Rim Association, the Asia Europe Meeting and the Asia Pacific Economic Cooperation. At these organizations, Malaysia continues to actively participate in the deliberations and efforts toward finding solutions to various global issues.

Malaysia's economic interests are promoted by maintaining strong relationships with countries that Malaysia has diplomatic ties with, through participation in various bilateral, regional and multilateral platforms. Topics discussed include the development of the capital markets and surveillance as well as reform of the international financial network.

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

- the United Nations Educational, Scientific and Cultural Organization;
- the International Atomic Energy Agency;
- the International Monetary Fund (“**IMF**”);
- the World Bank Group (“**WBG**”);
- the World Trade Organization;
- the Bank for International Settlements;
- the Asian Development Bank (“**ADB**”);
- the Asian Infrastructure Investment Bank (“**AIIB**”);
- the Islamic Development Bank (“**IsDB**”);
- the Islamic Financial Services Board (“**IFSB**”); and
- the International Islamic Liquidity Management Corporation (“**IILM**”).

#### *International Monetary Fund*

Malaysia has been a member of the IMF since 1958 and is a participant in 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.

In 2020, the IMF completed the 2021 Article IV Consultation Discussions with Malaysia, pursuant to which it commented that Malaysian financial plan for the year 2021 (the “**2021 Budget**”) strikes a balance between protecting the vulnerable, sustaining the economy, and initiating fiscal consolidation, and projected that Malaysia’s real gross domestic product (“**GDP**”) is projected to expand between 6.5 per cent. and 7.5 per cent. in 2021, supported by both domestic and external demand. As at March 26, 2021, Malaysia had a quota subscription to the IMF of Special Drawing Rights (“**SDR**”) totaling SDR3,633.8 million and held 37,796 voting shares.

#### *The World Bank Group*

Malaysia has established a longstanding relationship with the WBG since the country first joined the International Bank for Reconstruction and Development (“**IBRD**”) in 1958. Since then, 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 into 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 on a biannual basis. 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 towards achieving the objective of transforming Malaysia into a high-income economy. Malaysia’s total subscription to the IBRD as at December 31, 2020, was U.S.\$1,044.7 million which represents a voting power of 11,210 shares.

On March 28, 2016, the then Prime Minister officially launched the World Bank Group Global Knowledge and Research Hub (the “**Hub**”) in Kuala Lumpur, which works in tandem with the Development Economics Research Group and Indicators Group of the WBG. In its start-up phase from 2016 to 2020, the Hub focused on disseminating Malaysia’s development experiences and policy innovations for the benefit of other countries; conducting original economic research; and sharing global experience and expertise in support of Malaysia’s development priorities. The Government and the WBG agreed in December 2019 to extend the operation of the Hub in Kuala Lumpur for an additional five-year period from 2021 to 2025. Starting from 2021, the Hub has taken on a new name, The World Bank Group Inclusive Growth and Sustainable Finance Hub in Malaysia, to reflect the development ambitions of Malaysia to achieve inclusive growth, greater shared prosperity and developed nation status; and to position itself as a leader in the area of sustainable and Islamic finance.

#### *World Trade Organization*

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.

#### *Asian Development Bank*

Malaysia joined the ADB in 1966 as a founding member and is the tenth largest shareholder of ADB with 289,050 shares, which represents approximately 2.7 per cent. of the total subscribed capital in ADB. Malaysia has 328,164 votes, which represents approximately 2.5 per cent. and 3.8 per cent. of total membership and total regional membership, respectively. Malaysia is placed in the same constituency as Brunei Darussalam, Myanmar, Singapore, Thailand and Nepal, with the post of Executive Director of the constituency rotating between Malaysia and Thailand based on the size of shareholding.

A comprehensive and coherent framework for ADB’s partnership with Malaysia is laid out in the Arrangement of Cooperation signed in 2017. ADB’s assistance to Malaysia has focused on advancing regional cooperation and integration, providing advisory services, building institutional capacity, and promoting sustainable development

and green growth. As at December 31, 2020, Malaysia has received a total of 172 loans from ADB amounting to commitments of approximately U.S.\$2.0 billion in cumulative lending, grants and technical assistance. Malaysia is also the founding member of Brunei Darussalam–Indonesia–Malaysia–the Philippines East ASEAN Growth Area (the “**BIMP-EAGA**”) and the Indonesia–Malaysia–Thailand Growth Triangle (the “**IMT-GT**”), sub regional groupings that are key building blocks for the ASEAN Vision 2025.

#### *Islamic Development Bank*

Malaysia is a member of IsDB, a multilateral development bank that promotes economic development and social progress of member countries and Muslim communities in accordance with the principles of Shariah. The IsDB has 57 member countries across four continents, all of whom are members of the Organization of the Islamic Cooperation. Malaysia became a member of IsDB in August 1974 and currently has a capital subscription of Islamic Dinar 823.1 million, amounting to approximately 1.63 per cent. of total subscribed capital. In 1994, IsDB Regional Office Kuala Lumpur (“**ROKL**”) was established as an operational office for programs and activities in ASEAN. As part of the strategic partnership between IsDB and Malaysia, a Memorandum of Understanding (“**MoU**”) Concerning Cooperation on Islamic Finance, Reverse Linkages, Resource Mobilization and Halal Industry was signed on November 27, 2016, for a period of three years. On March 25, 2021, a new MoU between IsDB and Malaysia was signed for the period of 2021 to 2026 with the addition of Science, Technology and Innovation as one of its cooperation pillars. A Supplementary Agreement was also signed to transform the ROKL into the IsDB Global Center of Excellence.

#### *Islamic Financial Services Board*

Malaysia’s Central Bank, Bank Negara Malaysia (“**BNM**”), is one of the founding members of the IFSB, which was established in November 2002. As a member, Malaysia participates in the development and supports the adoption of globally accepted standards, guiding principles and technical notes for the supervision and regulation of the Islamic financial industry, consistent with Shariah principles. BNM is also one of the founding members of the IILM, 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 to facilitate cross-border liquidity management mechanisms for Islamic financial institutions around the world.

#### *Asian Infrastructure Investment Bank*

Malaysia became a member of AIIB on March 27, 2017. The AIIB commenced operations in Beijing in January 2016 and is a multilateral development bank established to support sustainable economic development through infrastructure investment. The AIIB is capitalized at U.S.\$100 billion and rated AAA by the major international credit rating agencies. At present, the AIIB has 103 approved members, all of whom are members of either IBRD or ADB. Malaysia has a subscription of U.S.\$109.5 million and 3,288 votes in the AIIB, amounting to approximately 0.1 per cent. and 0.3 per cent. of total amount of subscriptions and total number of votes, respectively.

#### *ASEAN+3*

The ASEAN Plus Three (“**ASEAN+3**”) cooperation began in December 1997 with the convening of an Informal Summit among the leaders of ASEAN and China, Japan and the Republic of Korea at the sidelines of the 2nd ASEAN Informal Summit in Malaysia. The ASEAN+3 Summit was institutionalized in 1999 when the leaders issued a Joint Statement on East Asia Cooperation at the third ASEAN+3 Summit in Manila, the Philippines. ASEAN+3 has become one of the most comprehensive cooperation frameworks in the region and its cooperation continue to be broadened and deepened in a wide range of areas, including political-security, trade and investment, finance, energy, tourism, agriculture and forestry, environment, education, health, culture and arts.

#### *Chiang Mai Initiative*

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. Under the ASA, the ASEAN Finance Ministers agreed in April 2005 to increase the size of the ASA from U.S.\$1.0 billion to U.S.\$2.0 billion. The new agreement on the expanded ASA came into force on November 17, 2005, and was last renewed in November 17, 2019 for another two years to promote financial and monetary stability in the region.

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 U.S.\$120.0 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 U.S.\$240.0 billion, the introduction of a crisis prevention facility and an increase in the IMF de-linked portion from 20 per cent. to 30 per cent. Based on an agreed 20:80 contribution ratio between the ASEAN and the Plus 3 countries, ASEAN contributes U.S.\$48.0 billion, while China, Japan and the Republic of Korea contribute U.S.\$192.0 billion, collectively. Malaysia’s total commitment to the CMIM is U.S.\$9.1 billion and it is therefore eligible to borrow a maximum of approximately U.S.\$22.8 billion, i.e. 2.5 times the amount of its contribution. As part of the CMIM framework, an independent regional surveillance unit known as ASEAN+3 Macroeconomic Research Office was established in Singapore in 2011 to monitor and analyze regional and financial developments and support decision-making for lending under the CMIM arrangement. Pursuant to such enhancements, the CMIM members have repeatedly affirmed their commitment to further strengthen the CMIM as part of the regional financial safety net.

The amended CMIM agreement came into effect in June 23, 2020. Key amendments to strengthen the CMIM were to allow for flexibility for the financing period and schedule of disbursement of the IMF linked portion of the CMIM to ensure consistency with the IMF-supported programs. In addition, a legal basis for conditionality was introduced to support members in addressing their risks and vulnerabilities through policy recommendations while respecting country specificities. On March 31, 2021, ASEAN+3 Finance and Central Bank Deputies – AFCDM+3 had agreed upon an Ad Hoc Agreement to Amend the Chiang Mai Initiative Multilateralization Agreement to allow an increase in the IMF de-linked portion from 30 per cent. to 40 per cent. and several other amendments, to ensure CMIM continues to be relevant, and in line with the changing economic and financial environment.

#### *Credit Guarantee and Investment Facility*

In November 2010, the Credit Guarantee and Investment Facility (“**CGIF**”), a trust fund of the ADB, was established under the ASEAN+3 Asian Bond Markets Initiative. The objective of this fund is to promote financial stability and to boost long-term investments in the ASEAN+3 region. CGIF provides guarantees on local currency denominated bonds issued by corporations that otherwise would have difficulty tapping local bond markets to secure longer-term financing and reduce their dependency on short-term foreign currency borrowing to mitigate currency and maturity mismatches. CGIF is currently focusing on product innovations such as project bonds, securitization and green bonds. Several Malaysian companies have benefited from the guarantees provided by CGIF in projects related to education and renewable energy.

Malaysia advocates the “Prosper thy neighbor” policy to enhance economic relations and cooperation with its neighboring and other Asian countries through the BIMP-EAGA, the IMT-GT and other entities. In particular, Malaysia maintains close ties with such countries through its participation and/or membership in:

- ASEAN, which, in addition to Malaysia, includes Brunei Darussalam, Cambodia, Indonesia, Lao PDR, Myanmar, the Philippines, Singapore, Thailand and Vietnam;
- ASEAN+3, which includes the ASEAN member states and China, Japan and Republic of Korea;
- the Asia-Pacific Economic Cooperation forum;

- the Asia-Europe Meeting;
- the Executive Meeting of East Asia and Pacific Central Banks;
- the Southeast Asian Central Banks; and
- the Southeast Asia, New Zealand and Australia central bank group.

Malaysia is also pursuing regional and bilateral trading arrangements to complement the multilateral approach to trade liberalization. Malaysia has signed and implemented 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, increase ASEAN’s competitive edge as a production base in the world market and attract more foreign direct investment to ASEAN. ASEAN member states have also signed and concluded three key agreements in 2009: the ASEAN Trade in Goods Agreement (the “ATIGA”), the ASEAN Comprehensive Investment Agreement (the “ACIA”) and the ASEAN Framework Agreement on Services (the “AFAS”).

The ATIGA aims to achieve free flow of goods in the ASEAN region resulting in fewer trade barriers and deeper economic linkages among ASEAN member states, lower business costs, increased trade, and a larger market and economies of scale for businesses. Through the ATIGA, Brunei, Indonesia, Malaysia, the Philippines, Singapore, and Thailand have eliminated intra-ASEAN import duties on approximately 99.7 per cent. of their tariff lines. Cambodia, Lao PDR, Myanmar, and Vietnam have reduced their import duties to 0-5 per cent. on approximately 98.9 per cent. of their tariff lines. The latest and first protocol to amend the ATIGA was signed in 2019 to enhance the existing ATIGA by simplifying the operational certification procedure for rules of origin therein.

The AFAS, which was signed by the ASEAN Economic Ministers in December 1995, aims at substantially eliminating restrictions to trade in services among ASEAN Member States to improve the efficiency and competitiveness of ASEAN service suppliers. On October 7, 2020, the ASEAN Economic Ministers signed the ASEAN Trade in Services Agreement (“ATISA”). Once the Agreement is ratified, it will supersede the AFAS, including all of its implementing protocols which were previously signed. The ATISA affirms ASEAN’s commitment to free and open trade and regional economic integration, against the present multifaceted challenges of trade tensions, global pandemic and economic uncertainties. The ATISA deepens the integration of the services sectors, and creates a more liberal, stable and predictable environment for service suppliers in the region.

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. The latest and fourth Protocol to amend the ACIA, which is ASEAN’s main economic instrument designed to enable ASEAN members to attract investment flows through the adoption of a liberal, facilitative, transparent and competitive investment regime and environment in ASEAN, was signed in 2020 to enhance the investment environment in ASEAN by agreeing to stronger commitments prohibiting the imposition of performance requirements on investors.

At the 2007 ASEAN summit conference in Singapore, ASEAN member states signed the Blueprint on ASEAN Economic Community (“AEC”), which was intended to guide implementation of the AEC 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. The first phase of the AEC which commenced in 2008 was completed in 2015. The establishment of the AEC in 2015 was a milestone achievement by ASEAN. On November 22, 2015, during the 27th ASEAN Summit in Kuala Lumpur, Malaysia, ASEAN leaders adopted the AEC 2025 Blueprint which is the successor document to the AEC 2015 Blueprint. It is an ambitious document that outlines the measures that will be implemented over the next ten years to create a highly integrated and cohesive, competitive and dynamic ASEAN. The ASEAN Economic

Community Blueprint 2025 (“**AEC 2025**”) will be focusing on innovation, promoting growth through raising productivity as well as addressing concerns highlighted by the private sector, especially in respect of transparency and trade facilitation initiatives such as accelerating work on implementation of the ASEAN Single Window for Customs clearance, the ASEAN Transit Customs System, the ASEAN Self-Certification System and accelerating work on standards and conformance.

The establishment of the AEC has led to an integrated market, a more closely linked ASEAN, an improved business environment and enhanced connectivity; it has positively contributed towards enhancing ASEAN’s overall competitiveness. In addition, the AEC also contributed to the narrowing of the development gap among members and the promotion of equitable development in the region which have contributed to the overall well-being and quality of life of the people in the region. ASEAN collectively is ranked the fifth largest economy in the world and third largest in Asia with a combined estimated GDP of U.S.\$3.1 trillion in 2020.

The ongoing COVID-19 pandemic has proven ASEAN’s ability to weather unpredictable adversity. ASEAN Member States have introduced several measures to strengthen regional economic resilience through the adoption of the ASEAN Comprehensive Recovery Framework (“**ACRF**”) that details ASEAN’s response through the different stages of recovery, in particular by focusing on key affected sectors, setting broad strategies and identifying measures for recovery in line with sectoral and regional priorities post COVID-19. As part of the ACRF, ASEAN is embarking on negotiations to establish the ASEAN Travel Corridor Arrangement Framework, which is aimed at facilitating business travelers and in return, reinvigorate the growth of trade, investment and economic activities. In addition to that, ASEAN’s collaboration with external partners to mitigate the impact of the COVID-19 pandemic, particularly in enabling equitable access and acquisition of vaccines as well as other initiatives, is expected to boost post-pandemic recovery in the region.

ASEAN member states have also entered into respective ASEAN+1 FTAs with their major trading partners as part of ASEAN’s commitment to strengthening its global economic engagement. The FTAs covers the areas of trade in goods, trade in services as well as investment. The existing ASEAN+1 FTAs are as follows:

- ASEAN-China FTA;
- ASEAN-Korea FTA;
- ASEAN-Japan Comprehensive Economic Partnership;
- ASEAN-Australia-New Zealand FTA;
- ASEAN-India FTA; and
- ASEAN-Hong Kong, China FTA.

In addition, ASEAN collectively engaged with its FTA partners in the Regional Comprehensive Economic Partnership (“**RCEP**”) negotiations, which were launched in 2012. The RCEP is an important agenda priority for ASEAN which aims to establish a modern, comprehensive, high-quality and mutually beneficial economic partnership agreement involving the major economies in Asia to build on existing bilateral ASEAN agreements with FTA partners and contribute to economic growth and development. On November 15, 2020, the ASEAN member states, Australia, China, Japan, New Zealand and the Republic of Korea signed the RCEP, which is the world’s largest FTA comprising about 30 per cent. of global GDP and about a third of the world’s population. The scope of the RCEP includes trade in goods and services, investment, economic and technical cooperation, intellectual property, competition, dispute resolution, e-commerce, government procurement and treatment of SMEs.

The ASEAN member states are also awaiting developments regarding a possible FTA with the European Union and Canada, 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), Mercosur (comprising Brazil, Argentina, Paraguay and Uruguay) and the Eurasian Economic Union (comprising Russia, Kazakhstan, Kyrgyzstan, Belarus and Armenia).

The East Asia Summit (“EAS”) has been convened by ASEAN since December 2005. In addition to the ASEAN member states, the EAS initially included Australia, China, India, Japan, New Zealand and the Republic of Korea. After a period of review, the EAS grew from 16 to 18 nations by including the United States and the Russian Federation at the sixth EAS in 2011. The United States and the Russian Federation were initially represented by their respective foreign ministers at the fifth EAS held in 2010. During the 12th EAS held in 2017, Sri Lanka and the Maldives were proposed to be possible members of the EAS while the Prime Minister of Canada attended as a guest. The 15th EAS held in 2020 was hosted online due to the ongoing COVID-19 pandemic.

On September 24, 2011, ASEAN Finance Ministers and the president of the ADB signed a shareholder’s 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, in particular providing loans to finance infrastructure investment projects in the transport, energy, water and sanitation, environment and rural development, and social infrastructure sectors. The AIF was incorporated in Malaysia in April 2012 as a limited liability company and became fully operational in 2013. In 2018, recognizing the need to make infrastructure financing accessible to all, as well as the urgency to mobilize green finance in response to the region’s climate and environmental concerns, two new facilities were created within the AIF on a three-year pilot basis: an Inclusive Finance (“IF”) Facility and an ASEAN Catalytic Green Finance (“ACGF”) Facility. The IF Facility will offer limited concessional loans to members that fall within ADB’s Group A classification. The ACGF Facility aims to leverage the AIF’s existing resources to bridge the viability gap for green infrastructure projects and attract private capital into these projects, helping member countries achieve environmental and climate targets. The AIF’s projects are part of ADB’s project pipeline, based on ADB’s Country Partnership and Strategy and Country Operations Business Plan with the member countries. The AIF project pipeline is confirmed by the respective ASEAN developing member countries through ADB’s country programming missions and must also be approved by the AIF’s Board of Directors.

The Comprehensive and Progressive Agreement for Trans-Pacific Partnership (the “CPTPP”) was signed in Santiago, Chile by 11 participating countries, including Malaysia, on March 8, 2018. The CPTPP entered into force on December 30, 2018 for seven countries, namely Australia, Canada, Japan, Mexico, New Zealand, Singapore, and on January 14, 2019 for Vietnam. For the remaining four signatories, namely Brunei Darussalam, Chile, Malaysia and Peru, the CPTPP will enter into force after their domestic ratification process has been completed.

In the case of Malaysia, the ratification of the CPTPP is still a work in progress. At present, targeted and extensive stakeholder consultations are being undertaken to facilitate the understanding of all the relevant parties regarding Malaysia’s rights and obligations under the CPTPP. In addition, the Government is also undertaking a cost benefit analysis of the CPTPP. The outcomes of these consultations will form the basis of recommendations to be escalated to the Government, to determine the mandate and the way forward for the CPTPP. As at the date of this Offering Memorandum, the CPTPP is a market of 500 million people which accounts for 13.5 per cent. of the world’s GDP and is worth a total of U.S.\$10.2 trillion.

## Affiliations with International Financial Organizations

The following table presents Malaysia's affiliations with major international financial organizations as at December 31, 2020.

	<u>Date of Affiliation</u>	<u>Subscribed Share Capital (U.S.\$ million, unless otherwise stated)</u>	<u>(% of Total Subscription)</u>
IMF .....	March 1958	5,170.90	0.76
International Bank for Reconstruction and Development .....	March 7, 1958	1,044.7	0.43
Asian Development Bank .....	August 1966	4,000	2,717
International Finance Corporation .....	March 20, 1958	126.614	0.63
Multilateral Investment Guarantee Agency (SDR million) .....	July 6, 1991	10.20	0.57
Islamic Development Bank (million Islamic Dinar) .....	March 7, 1975	823.1	1.63
Asian Infrastructure Investment Bank .....	March 27, 2017	109.5	0.1132

*Sources: Ministry of Finance; BNM.*

## Recent Developments

### COVID-19

The COVID-19 pandemic, which began in late 2019 and was declared a pandemic in March 2020 by the World Health Organization has impacted countries around the world. In containing the spread of the COVID-19 pandemic, governments have imposed lockdowns, enforced business closures, limited international travels and restricted individuals from their usual physical and social activities, resulting in severe economic disruptions. In addition, to mitigate the economic impact of the COVID-19 pandemic, containment measures and stimulus and assistance packages were implemented by governments to protect lives and livelihoods as well as support businesses to remain afloat, including but not limited to additional health expenditure as well as assistance in the form of cash transfers, loan moratoriums, credit guarantees and tax incentives. However, there can be no assurance as to whether such measures are or will be sufficient or effective in response to impact of the COVID-19 pandemic, in delivering their policy objectives or in improving the state of the local and global economy.

As a small and open economy, external shocks in both directions can have a direct impact on Malaysia. The crisis stemming from the COVID-19 pandemic presents a unique challenge for Malaysia as the Government has to balance between protecting lives and citizens' livelihood. In managing the impact of the COVID-19 pandemic, the Government has introduced a series of stimulus packages and containment measures that included several stages of MCO. On March 11, 2020, the Government established the EAC to formulate short- and medium-term measures focused on addressing the COVID-19 pandemic and paving the way for economic recovery in Malaysia. The Government also established the LAKSANA to ensure all economic stimulus programs are implemented properly and can effectively reach the targeted groups. The EAC subsequently endorsed a six-stage systematic approach focused on the 6R strategy — Resolve, Resilient, Restart, Recovery, Revitalize and Reform — pursuant to which the following pro-active measures were taken:

#### *Movement Control Orders*

- March 18, 2020 – the Government imposed a full MCO, which included prohibition of mass movements and gatherings, sanctions covering Malaysians travelling abroad, mandatory health check and quarantine measures covering Malaysians returning from overseas, restrictions on entry of all tourists and foreign visitors into Malaysia, and closure of government, public and private premises except those involved in essential services.

- May 4, 2020 – the Government imposed a Conditional MCO, which relaxed the regulations regarding the full MCO to reopen the national economy in a controlled manner. At this stage, in most economic sectors, businesses activities were allowed to resume operations under certain Standard Operating Procedures, including contact tracing, mandatory use of face masks in public and physical distancing, while international and interstate travel remained restricted.
- June 10, 2020 – the Government imposed a Recovery MCO, which further relaxed the restrictions in place and reopened the economy by resuming almost all economic sectors in Malaysia while continuing border controls and enhancing public health.
- January 11, 2021 – the Government announced that relevant MCO restrictions and limitations will be re-introduced into certain states in response to a surge of cases between January 13, 2021 and January 26, 2021, including the implementation of stay-at home orders, the banning of social gatherings, restrictions on travel and limitations on operations of economic sectors.
- March 5, 2021 – the Government announced that Selangor, Johor, Penang and Kuala Lumpur were to exit the re-introduced MCO lockdown and enter into a Conditional MCO.
- April 12, 2021 – the Government has further extended the Conditional MCO until April 28, 2021. In particular, Johor, Kelantan, Penang and Selangor as well as Kuala Lumpur will remain under the Conditional MCO from April 15, 2021 to April 28, 2021, while Sarawak will continue to be placed under the Conditional MCO from April 13, 2021 to April 26, 2021.

#### *Economic Stimulus Packages and Recovery Plans*

As at the date of this Offering Memorandum, the Government has announced six assistance packages, namely, PRIHATIN (RM250 billion), PRIHATIN PKS+ (RM10 billion), PENJANA (RM35 billion), KITA PRIHATIN (RM10 billion), PERMAI (RM15 billion) and PEMERKASA (RM20 billion), amounting to RM340 billion in total value as economic stimulus packages and recovery plans.

- March 27, 2020 – the Government announced the PRIHATIN valued at RM250 billion, pursuant to which the nation's healthcare services were strengthened with additional allocation for, among others, medical equipment, enhanced testing capacity and developing the contact tracing application, and immediate financial assistance was provided to ease the Rakyat and businesses, including employment retention support, deferment of or restrictions on loan repayments as well as provision of credit facilities.
- April 6, 2020 – the Government announced the PRIHATIN PKS+ worth RM10 billion to provide further support to businesses via soft loans and special grants with a focus on ensuring the survival and easing the financial burden of SMEs in Malaysia.
- June 5, 2020 – the Government announced the PENJANA totaling RM35 billion alongside the reduction in the number of COVID-19 cases in Malaysia, with the aim of restarting and supporting the economy to operate in a new normal, in particular by providing new tax incentives to attract foreign companies to relocate their operations to Malaysia. In particular, wage subsidies for businesses were extended, moratorium on loans and financing repayments by financial institutions were extended, and all Malaysians aged 18 and above with an annual income of below RM100,000 are eligible for a RM50 incentive under the e-wallet Boost.
- September 23, 2020 – the Government announced the KITA PRIHATIN with an allocation of RM10 billion to enhance existing initiatives and measures, such as the wage subsidy program, special grants to micro-SMEs and also assistance to lower and middle-income households and individuals.
- January 18, 2021 – the Government announced the PERMAI valued at RM15 billion, which was aimed at providing vital support to businesses through various incentives in addition to strengthening the country's welfare programs.

- March 17, 2021 – the Government announced the PEMERKASA worth RM20 billion, along with a new fiscal injection by the Government amounting to RM11 billion, which will focus on 20 strategic initiatives to curtail the spread of the COVID-19 pandemic, drive economic recovery, strengthen national competitiveness, ensure a regional and community inclusion agenda, and transform the economy.

The Government has also taken measures to help support businesses and consumers during the COVID-19 pandemic, including but not limited to:

- The Government introduced a number of service tax measures to help companies during the COVID-19 pandemic. In particular, service tax exemption on accommodation and hotel services was given for the period of March 1, 2020 to August 31, 2020. The exemption was also given to the service of providing tobacco and alcohol in hotels.
- In response to MCO announced by the Government, the time period for submission of tax return and payment ended March 31, 2020 was extended to April 30, 2020. Penalties involved for payment made before or on April 30, 2020 were given full remission. The full remission on penalties were then extended to those who made payment before June 30, 2020 in relation to the following taxes and levies:
  - sales tax and service tax;
  - service tax on imported taxable service;
  - tourism tax; and
  - departure levy.
- The Government provided additional tax easements to the tourism sector such as extension of period for deferment of tax instalment payments for the tourism industry to December 31, 2020, an exemption of tourism tax from July 1, 2020 to December 31, 2021 and an extension of the service tax exemption for hotels to December 31, 2021.

As at the date of this Offering Memorandum, the Government is reviewing the national tax structure and regime and in particular undertaking a study on ways to increase the Government's revenue post COVID-19, which include measures such as the reintroduction of GST, imposition of new taxes as well as reviewing tax incentive packages to make them more targeted and strategic. Further to the COVID-19 Fund, there is currently extra fiscal space to allow for larger expenditure through borrowings in a limited period in Malaysia. Furthermore, the Minister of Finance has reiterated that the Government will not be introducing any new additional taxes during the recovery phase of the Malaysian economy against the effects of the COVID-19 pandemic.

#### *Temporary Measures for Government Financing (Coronavirus Disease 2019 (COVID-19)) Act 2020*

- September 21, 2020 – the Government passed the Temporary Measures for Government Financing Act in Parliament, which will remain in force until December 31, 2022. The Temporary Measures for Government Financing Act allows the Government to obtain additional borrowing to finance measures under the economic stimulus packages and recovery plan, allows proceeds from borrowings to be transferred into the COVID-19 Fund and temporarily lifts the statutory limit of the Government's outstanding debt from 55 per cent. to 60 per cent. of GDP.

#### *COVID-19 Fund*

- September 21, 2020 – the Government established a dedicated trust fund known as the COVID-19 Fund to enable a structured monitoring and transparent reporting of the implementation of programs and projects under the economic stimulus packages and recovery plans. In addition, the Parliament has also approved a

total ceiling of RM65 billion under the COVID-19 Fund to finance all stimulus and recovery measures. As at the date of this Offering Memorandum, approximately RM38 billion has been disbursed under the COVID-19 Fund.

#### *Temporary Measures for Reducing the Impact of Coronavirus Disease 2019 (COVID-19) Act 2020*

- September 22, 2020 – the Government passed the Temporary Measures for Reducing the Impact of Coronavirus Disease Act in Parliament, which will remain in force for a period of two years from October 23, 2020. The Temporary Measures for Reducing the Impact of Coronavirus Disease Act provides temporary measures to reduce the impact of the COVID-19 pandemic in Malaysia including modifying relevant provisions of several acts. The Temporary Measures for Reducing the Impact of Coronavirus Disease Act also allows the Government to establish the COVID-19 Mediation Center as an alternative dispute resolution platform for members of the public and SMEs that are unable to perform certain contractual obligations with a sum of up to RM500,000 as a result of the restrictions that have been imposed due to the COVID-19 pandemic.

#### *Vaccination Program*

- February 2021 – the Government started the COVID-19 vaccination and immunization program in Malaysia, which is currently being implemented in phases from February 2021 to December 2021. The COVID-19 vaccination and immunization program will remain open until 80 per cent. of the population have been vaccinated under the Government’s herd immunity target.

As a result of the aforementioned measures, Malaysia has been generally successful in containing the spread of the COVID-19 pandemic, keeping the fatality rate at about 1 per cent. of total positive cases. On the back of the COVID-19 pandemic, the Malaysian economy contracted by 5.6 per cent. in 2020. The economy is projected to expand in 2021 in tandem with the anticipated improvement in global trade, consumer sentiment and business confidence. In addition, the 2021 Budget will implement measures to enhance the well-being of the people, steer the economy towards a sustainable growth path, enable sustainable living and improve public service delivery. For more details, see “– 2021 Budget” below.

#### **2021 Budget**

On November 6, 2020, the Minister of Finance announced the 2021 Budget in Parliament, which was focused on three integral goals: (i) the Rakyat’s Well-being; (ii) Business Continuity; and (iii) Economic Resilience. Themed “Stand United, We Shall Prevail”, the 2021 Budget is a continuation of the PRIHATIN, PRIHATIN PKS+, PENJANA and KITA PRIHATIN economic stimulus packages and recovery plans. The 2021 Budget is also the largest allocation in history by the Government with a value of RM322.5 billion, an increase of approximately 8.6 per cent. as compared to the preceding year’s budget, of which RM236.5 billion is for operating expenditure, RM69 billion for national development and RM17 billion for the COVID-19 Fund. The Government’s revenue collection for the year 2021 is expected to come from direct tax (RM131.9 billion), indirect tax (RM42.5 billion) and non-tax revenue (RM62.5 billion).

The 2021 Budget comprised the following strategies:

*Rakyat’s Well-being: ensuring the Rakyat’s well-being by protecting public health, creating and retaining jobs, safeguarding vulnerable groups and improving social welfare*

- Strategy 1 – COVID-19 Pandemic and Public Health;
- Strategy 2 – Safeguarding the Welfare of Vulnerable Groups;
- Strategy 3 – Generating and Retaining Jobs;

- Strategy 4 – Prioritizing the Inclusiveness Agenda; and
- Strategy 5 – Ensuring the Well-being of the Rakyat.

*Business Continuity: supporting business continuity by accelerating investments, strengthening strategic sectors and improving access to financing*

- Strategy 1 – Driving Investments;
- Strategy 2 – Strengthening Key Sectors;
- Strategy 3 – Prioritizing Automation and Digitalization; and
- Strategy 4 – Enhancing Access to Financing.

*Economic Resilience: part of the Expansionary Budget and aligned to the 12th Malaysia Plan and the 2030 Shared Prosperity Vision towards inclusive and sustainable socio-economic development*

- Strategy 1 – Expansionary Budget;
- Strategy 2 – Development Agenda under the 12th Malaysia Plan;
- Strategy 3 – Enhancing the Role of GLC and Civil Society;
- Strategy 4 – Ensuring Resource Sustainability; and
- Strategy 5 – Civil Service.

Key measures of the 2021 Budget include various incentives and assistances schemes focusing on, among others, (1) investing in the public healthcare system to combat the COVID-19 pandemic and other health efforts, (2) implementing cash and repayment assistance as well as subsidy programs, (3) introducing financing and grants to support SMEs, micro-SMEs and entrepreneurs, (4) improving allocations to promote digital infrastructure and sustainable initiatives, (5) introducing tax relief incentives and the extension of existing tax deductions and exemptions, (6) implementing wage subsidies and job hiring schemes, and (7) providing financial support for youths.

As a result of the economic stimulus packages and the 2021 Budget goals, strategies and key measures, the Malaysian economy is projected to expand in 2021. On March 31, 2021, BNM released its revised GDP growth estimates of between 6.0 per cent. and 7.5 per cent. for 2021, representing a significant improvement from the contraction of 5.6 per cent. in 2020. Official GDP growth figures for the first quarter of 2021 are scheduled to be released by May 11, 2021.

### ***1Malaysia Development Berhad***

1MDB was formed in 2009 as a Minister of Finance (Incorporated) company envisioned to assist the Government in catalyzing and supporting the strategic and sustainable long-term economic development and growth of Malaysia. The Government, through the Minister of Finance (Incorporated), owns all of the outstanding share capital of 1MDB. The Government also provides certain financial support to 1MDB, including: (i) guarantees from the Government in an aggregate amount of RM5.0 billion; and (ii) a letter of support issued by the Government in March 2013 in connection with one of 1MDB's wholly owned subsidiary's debt service obligations under its U.S.\$3.0 billion 10-year U.S. dollar bonds.

However, allegations of corruption and embezzlement emerged in 2015 implicating several senior Government officials, senior 1MDB management and other personnel of major financial institutions consisting of, among

other things, payments alleged to have been made to certain Government officials and senior 1MDB officers out of 1MDB funds. To date, several Malaysian elected officials and senior executives of major financial institutions have been the subject of investigations relating to these.

Among those implicated are Malaysia's former Prime Minister, Najib Razak. In 2018, prosecutors filed several criminal charges against Najib Razak related to, among other things, misappropriation of funds belonging to 1MDB and former 1MDB subsidiary SRC International, money laundering and criminal breach of trust. On July 28, 2020, Najib Razak was found guilty by a Malaysian High Court of all seven charges, among others, of abuse of power, criminal breach of trust and money laundering in relation to RM42 million belonging to SRC International and the Malaysian High Court sentenced him to 12 years' imprisonment and fined him RM210 million. Najib Razak's trial in relation to SRC International is the first of a series of trials linked to 1MDB. The Malaysian High Court judgment is currently being appealed by Mr. Razak.

These allegations have also resulted in several criminal investigations in other countries, including the United States. On October 22, 2020, the U.S. Department of Justice announced that it had reached a settlement with the Goldman Sachs Group Inc. and Goldman Sachs, pursuant to which Goldman Sachs admitted to conspiring to violate the U.S. Foreign Corrupt Practices Act in a scheme involving 1MDB and certain Government officials, including as part of Goldman Sachs' role as an underwriter in previous bonds issuances by 1MDB. As part of this settlement, Goldman Sachs agreed to pay the Government a total of U.S.\$3.9 billion, which includes a cash payment of U.S.\$2.5 billion and a guarantee of a full recovery value of at least U.S.\$1.4 billion in assets.

As a result of the funds diverted out of its assets, 1MDB ended up in financial distress and ultimately failed to make a U.S.\$1.1 billion payment to its creditors in April 2016. This necessitated the Government's intervention in 1MDB's businesses. Since 2018, the Board of 1MDB has taken steps to recover assets and pursue civil recovery in order to meet its debt obligations. On April 3, 2019, the Government agreed to sell the Equanimity superyacht for U.S.\$126 million to Genting Malaysia Berhad. On February 26, 2021, Malaysian banking group AmBank agreed to pay RM2.83 billion to the Government as part of a global settlement of all outstanding claims and actions in relation to AmBank's involvement in the scheme involving 1MDB and certain Government officials. On March 3, 2021, Deloitte PLT agreed to pay U.S.\$80 million to the Government as part of a settlement relating to its role in auditing the financial statements of 1MDB and its affiliates from 2013 to 2014.

As at March 31, 2021, 1MDB's total outstanding indebtedness was estimated at RM32 billion and the Government has financially assisted 1MDB in the form of loans and advances of RM9.63 billion to meet 1MDB's financial commitments and debt servicing. 1MDB is currently a dormant company. It continues to service its debt and assist in the ongoing asset recovery process by, among other things, being a part of the necessary legal action.

The various investigations into the matters surrounding 1MDB are still continuing. As at March 31, 2021, a total of RM14.15 billion in assets linked to 1MDB's financial trail had been recovered by Malaysian authorities and merged into a dedicated trust fund administered by the Ministry of Finance, which would allow the Government to continue fulfilling 1MDB's outstanding obligations. In addition, Goldman Sachs is assisting with the asset recovery process and has guaranteed a full recovery value of at least U.S.\$1.4 billion in assets.

### ***Crude Oil Prices***

With the COVID-19 pandemic significantly reducing demand, storage facilities filled rapidly, and the Dated Brent (as defined below) crude oil price fell to its lowest level at U.S.\$17.32 per barrel on April 21, 2020 before stabilizing at about U.S.\$42 per barrel. As at April 13, 2021, the average price of Dated Brent crude oil stood at around U.S.\$61 per barrel and is expected to remain volatile in the near future.

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. These fluctuations in crude oil prices had both a direct and indirect impact on Malaysia's tax revenues contributed by the hydrocarbon sector, dividends received from Malaysia's

state-owned oil and gas company, PETRONAS, and oil and tax royalties. Including dividends received from PETRONAS, petroleum income tax and petroleum royalties, the Government derived approximately 24.9 per cent. of its revenues from the hydrocarbon sector, which represented approximately 4 per cent. of GDP in 2020.

Decreased crude oil prices have had and will continue to have a direct impact on Malaysia's commodity exports, including liquefied natural gas ("LNG") and crude petroleum, which together represented about 4.9 per cent. of Malaysia's total exports in 2020. 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 2020 was RM34,000 million, based on PETRONAS's financial performance in the fiscal year 2019.

## **The Economy**

### **Introduction**

Malaysia has a diversified economy, the principal sectors of which are the services and manufacturing sectors, which accounted for 80.7 per cent. of GDP in 2020. Meanwhile, the commodity sector, consisting of agriculture and mining, accounted for 14.2 per cent. of GDP, followed by the construction sector which accounted for 4.0 per cent. of GDP in 2020. 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.

In line with the Government's commitment to reduce the impact of the COVID-19 pandemic on the economy, public consumption growth expanded to 4.1 per cent. (2019: 2.0 per cent.) on account of expenditure on emoluments as well as stimulus spending. Gross fixed capital formation ("GFCF") declined by -14.5 per cent. (2019: -2.1 per cent.) due to a contraction in public investment and a slower expansion in private investment. Public investments declined by 21.4 per cent. (2019: -10.8 per cent.) mainly due to lower capital spending by public corporations.

Malaysia has sustained over four decades of rapid and inclusive growth as well as reducing its dependence on agriculture and commodity exports to become a more diversified, modern and open economy. The resilience that underpins the Malaysian economy in facing the current difficult environment is derived from the continued strength of the economic fundamentals and a reflection of the structural adjustments and reforms that have been undertaken over the years.

Malaysia's post-independence development has been based on the five-year development plans that establish clear priorities and identify the key focus areas to spur growth, which continues to this day with the upcoming 12th Malaysia Plan (2021-2025) ("**12MP**"). For more details, see "*The 12th Malaysia Plan (2021-2025)*" below. The earlier five-year plans were guided by various the long-term development plans, namely the New Economic Policy introduced in 1971, the National Development Policy and the National Vision Policy, each as embodied in the First, Second and Third Outline Perspective Plans, respectively. The overarching goals of these policies were, among others, to eradicate poverty irrespective of race and to restructure society through economic growth. The Eleventh Malaysia Plan (2016-2020) ("**11MP**"), marked the final phase towards becoming an advanced nation that is inclusive and sustainable by the year 2020. Despite the COVID-19 pandemic which has slowed global economic growth, Malaysia managed to achieve GNI per capita of U.S.\$10,118 in 2020. According to the WBG, Malaysia's GNI per capita is at U.S.\$11,200 according to latest estimates as at March 16, 2021, only U.S.\$1,335 short of the current threshold level that defines a high-income economy, and is likely to transition to a high-income economy between 2024 and 2028, a reflection of the country's economic transformation development trajectory over past decades.

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 in its own mold by 2020, set a target GDP growth rate per annum.

The implementation of Vision 2020 faced challenges following the slowdown in economic growth due to, among other factors, the 1997/98 Asian Financial Crisis in addition to the Global Financial Crisis in 2008/09 and the current COVID-19 pandemic. With the conclusion of Vision 2020, the Government launched the Shared Prosperity Vision 2030, a commitment to make Malaysia a country that achieves sustainable economic growth along with fair, equitable and inclusive economic distribution, across all income groups, ethnicities, regions and supply chain. Its commitment is aimed at strengthening political stability, enhancing the nation's prosperity and ensuring that the Rakyat are united while celebrating ethnic and cultural diversity as the foundation of the nation state. The Shared Prosperity Vision 2030 outlined three objectives, 15 guiding principles, seven strategic thrusts and eight enablers to realize the desired goals and outcomes, in particular the growth of Malaysia's GDP. The aim of the Shared Prosperity Vision 2030 is to provide a decent standard of living to all Malaysians by 2030.

## **Economic Developments since 2016**

The following discussion provides an overview of economic developments in Malaysia from 2016 through to 2020.

### **The Malaysian Economy in 2016**

In 2016, the Malaysian economy recorded a growth of 4.4 per cent. (2015: 5.1 per cent.). The global economic landscape was challenging given the subdued global demand and low commodity prices. International financial markets were also subjected to heightened uncertainty with significant reversal of capital flows from emerging economies. This was driven by the unexpected political developments in the advanced economies, such as the United Kingdom and the United States, and the macroeconomic policies adopted by these economies. Domestically, the economy continued to be impacted by the higher cost of living amid soft labor market conditions. Concurrently, business and consumer sentiments were affected by a confluence of global and domestic factors, including the heightened volatility in financial markets and the prolonged underperformance of the ringgit.

Against these external and domestic challenges, all sectors of the economy recorded a modest expansion during the year. Domestic demand continued to anchor growth, supported mainly by private sector spending. Private consumption growth, in particular, was sustained at 5.9 per cent. (2015: 6.0 per cent.), supported by continued employment and wage growth following an increase in the minimum wage and civil servant salaries. Government measures to boost disposable income such as the temporary reduction in employees' contribution to the Employees Provident Fund ("EPF"), higher Bantuan Rakyat Malaysia ("BRIM") payouts and tax relief to lower income taxpayers also supported household spending. Public consumption growth moderated to 1.1 per cent. (2015: 4.5 per cent.) following the expenditure rationalization adopted by the Government in early 2016 given the lower petroleum-related revenue because of low crude oil prices. GFCF expanded moderately by 2.6 per cent. in 2016 (2015: 3.6 per cent.) driven mainly by lower private investment growth due to weak profitability and business sentiments. Public investment recorded a smaller rate of decline in 2016 (-1.0 per cent.; 2015: -1.1 per cent.) due to the smaller contraction in spending on fixed assets by public corporations given the higher investment in the downstream oil and gas industry, and the transportation and utilities sub-sectors.

On the supply side, all economic sectors continued to expand in 2016, with the exception of the agriculture sector. Agricultural production declined by 3.7 per cent. (2015: 1.4 per cent.), as crude palm oil ("CPO") output was affected by the El Niño weather phenomenon. Growth in the services sector was higher at 5.7 per cent. (2015: 5.3 per cent.), following sustained demand in the consumer-related sectors, and the other sectors posted a positive growth during the year as well.

Labor market conditions remained broadly stable as employment and wages continued to expand during the year. Net employment gains during the year amounted to 96,000 jobs, concentrated in the high-skilled segments such as professional and managerial jobs, while aggregate nominal wages in the private and public sectors grew by 4.7 per cent. and 6.5 per cent., respectively in 2016 (2015: 5.0 per cent. and 4.6 per cent., respectively). While total employment continued to expand, the pace however, was not able to fully absorb new labor market entrants as employers adopted a cautious stance and refrained from expanding their workforce too quickly. Consequently, the unemployment rate rose to 3.4 per cent. in 2016 (2015: 3.1 per cent.).

Headline inflation, as measured by the annual change in the Consumer Price Index (“CPI”), was stable at 2.1 per cent. in 2016 (2015: 2.1 per cent.). Headline inflation during the year was driven mainly by upward adjustments to some administered prices and higher prices of fresh food items due to the El Niño weather phenomenon. The inflationary pressures were, however, offset by the lapse in the impact from the GST implementation and lower domestic fuel prices. Moderate domestic demand conditions and a subdued external price environment also helped contain domestic inflationary pressures. Correspondingly, core inflation was broadly stable, averaging slightly lower at 3.1 per cent. in 2016 (2015: 2.3 per cent.).

Malaysia’s external position remained resilient in 2016. The current account of the balance of payments remained in surplus, but by a smaller amount. The narrowing of the current account surplus reflected the lower trade surplus and the persistent structural deficits in the services and income accounts. Growth in gross exports moderated to 1.2 per cent. in 2016 (2015: 1.6 per cent.), reflecting the subdued global growth and low commodity prices. Gross imports recorded a higher growth of 1.9 per cent. (2015: 0.4 per cent.) driven by higher imports of capital goods amid the ongoing implementation of infrastructure projects and continued expansion in investment activity.

During the year, the financial account of the balance of payments improved against the environment of significant volatile cross-border capital flows. The financial account recorded a smaller net outflow of RM0.2 billion (2015: net outflow of RM55.4 billion) as the direct and other investment accounts turned around to register net inflows and lower net outflows in the portfolio investment account. The direct investment account recorded a net inflow of RM13.8 billion (2015: net outflow of RM1.8 billion), reflecting higher foreign direct investment (“FDI”) while direct investment abroad (“DIA”) moderated. The portfolio investment account recorded lower net outflows of RM14.2 billion (2015: net outflow of RM26.1 billion).

The international reserves of BNM amounted to U.S.\$94.5 billion (equivalent to RM423.9 billion) as at end-2016. As at February 28, 2017, the reserves level amounted to U.S.\$95.0 billion (equivalent to RM426.3 billion). The international reserves were sufficient to facilitate international transactions and to finance 8.5 months of retained imports, totaling 1.1 times the short-term external debt. Furthermore, improved exchange rate flexibility has enabled the economy to reduce its reliance on BNM’s international reserves in 2016.

Malaysia’s external debt stood at RM914.5 billion, equivalent to U.S.\$200.6 billion or 73.2 per cent. of GDP as at end-2016 (2015: RM837.0 billion). The increase in external debt was partly attributed to valuation effects following the weakening of the ringgit against most currencies during the year. Excluding valuation effects, Malaysia’s external debt increased by 6.2 per cent., mainly on account of higher intercompany and interbank borrowings. The profile of Malaysia’s external debt remained healthy, with more than one-third of total external debt being denominated in ringgit, thus limiting the risks arising from foreign exchange fluctuations. The remaining portion of the external debt, denominated in foreign currency, was mostly hedged either naturally using export earnings or through the use of financial instruments. The rollover risks were also contained as more than half of the total external debt was of medium- to long-term maturity. In addition, not all short-term external debts posed a claim on reserves due to the availability of export earnings and external assets which enabled borrowers to meet external obligations without necessarily creating a claim on international reserves.

Overall, the strong fundamentals of the Malaysian economy meant Malaysia is projected to endure such external and domestic challenges. The diversified sources of growth in the economy helped to contain the spillover effects of sector-specific shocks. Stable labor market conditions amid continued wage growth continued to support household spending. Healthy financial institutions and ample domestic liquidity also ensured orderly financial intermediation. Notwithstanding the weak global demand, Malaysia’s external position remained strong, supported by sufficient international reserves and manageable levels of external debt.

In addition, an appropriate and timely monetary policy response and targeted pro-growth measures played a key role in supporting growth during the year. The reduction of the Overnight Policy Rate (“OPR”) by BNM was complemented by measures to increase household disposable income and support business activities. These included policies to create a conducive ecosystem for a sharing economy to thrive, a temporary reduction in employees’ EPF contributions and higher BR1M payouts and tax incentives to spur business activities, particularly among SMEs.

In recognizing the impending challenges posed by global and domestic trends such as ageing populations, the influx of new technologies and slower growth in productivity, critical reforms and structural adjustments remained a priority to ensure the future growth of the Malaysian economy would be sustained. These included efforts to enhance export competitiveness, ongoing investments to modernize physical and virtual infrastructure and policies to develop a high-quality workforce by improving the quality of the education system.

### **The Malaysian Economy in 2017**

In 2017, the Malaysian economy recorded robust growth of 5.8 per cent. (2016: 4.4 per cent.), supported by faster expansion in both private and public sector spending. A key highlight for the year was the rebound in gross exports growth as global demand strengthened. This was due mainly to higher demand from major trading partners following the upswing in the global technology cycle, investment expansion in advanced economies and the turnaround in commodity prices. Altogether, the global technology upturn translated into robust demand for electronics and electrical (“E&E”) products while the stronger regional demand and the revival in investment activity in the advanced economies lifted exports of non-E&E products. Commodity exports also turned around in 2017, supported largely by the recovery in major commodity prices.

While real GDP growth was boosted by the external sector, domestic demand continued to anchor growth. In particular, private consumption growth strengthened to 6.9 per cent. in 2017 (2016: 5.9 per cent.), supported mainly by continued wage and employment growth, with additional impetus from Government measures. Public consumption grew by 5.7 per cent. (2016: 1.1 per cent.) due to higher spending on supplies and services by the Government amid sustained growth of emoluments. GFCF grew at a faster pace of 6.1 per cent. (2016: 2.6 per cent.), driven by improvements in both public and private investments. Public investment recovered to grow at 0.3 per cent. (2016: -1.0 per cent.), supported by continued spending by the Government and public corporations. Private investment growth accelerated to 9.0 per cent. (2016: 4.5 per cent.), as firms benefited from the conducive external and domestic operating environment.

On the supply side, most sectors registered higher growth in 2017. The performance of the two largest sectors, services and manufacturing, benefited from marked improvements in domestic and external conditions, growing at 6.3 per cent. and 6.0 per cent., respectively (2016: 5.7 per cent. and 4.4 per cent.). The construction sector recorded growth of 6.7 per cent. (2016: 7.4 per cent.), while growth in agricultural production rebounded to 5.9 per cent. (2016: -3.7 per cent.). Growth in the mining sector, however, moderated to 0.4 per cent. (2016: 2.2 per cent.), reflecting the voluntary crude oil supply adjustments by PETRONAS, in line with the Organization of the Petroleum Exporting Countries agreement to limit oil production until end-2018.

Labor market conditions improved with stronger employment gains keeping pace with labor force expansion. The labor force expanded by 312,030 persons, while net employment gains amounted to 313,100 jobs, mostly driven by high- and mid-skilled workers. The unemployment rate during the year remained stable at 3.4 per cent. (2016: 3.4 per cent.). The labor force participation rate edged higher to 68.0 per cent. (2016: 67.7 per cent.) and employment growth tripled to 2.2 per cent. (2016: 0.7 per cent.), as employers were optimistic about the business outlook and thus continued to expand their workforce accordingly. The number of documented unskilled and semi-skilled foreign workers in Malaysia decreased during the year, with its share of total employment correspondingly declining to 14.7 per cent. from 14.9 per cent. at end-2016. Aggregate nominal wages in the private and public sectors grew by 6.8 per cent. and 6.3 per cent., respectively in 2017 (2016: 4.7 per cent. and 6.5 per cent.).

Headline inflation increased to 3.7 per cent. in 2017 (2016: 2.1 per cent.), primarily driven by higher domestic fuel prices. Higher global commodity prices and disruptions in domestic food supplies also contributed to the higher headline inflation. However, the stronger ringgit exchange rate from April 2017 helped in part to contain the increase in cost of production. Amid higher external and domestic costs, core inflation also rose, averaging 2.4 per cent. in 2017 (2016: 2.4 per cent.). Nevertheless, demand-driven inflationary pressures remained largely stable given the lack of persistent tightness in capital stock and the absence of significant wage pressures.

Malaysia’s external position improved considerably in 2017, benefiting from the favorable global economic landscape and relatively lower volatility in the international financial markets. Malaysia recorded a higher

current account surplus, largely due to a higher goods surplus following its strong export performance, which more than offset widening deficits in the services and primary income accounts. Gross exports grew strongly by 18.8 per cent. (2016: 1.2 per cent.), driven mainly by export volumes, particularly in manufactured exports. Gross imports also registered double-digit growth of 19.7 per cent. (2016: 1.9 per cent.), mainly reflecting higher imports of intermediate goods, capital goods, and goods for re-exports. The increase in imports was in line with robust manufacturing exports, more rapid investment in the manufacturing and services sectors, and strong global demand.

During the year, the financial account of the balance of payments registered higher net outflows of RM4.7 billion (2016: net outflow of RM0.2 billion), driven mainly by higher outflows in the portfolio and other investment accounts. Higher outflows in the portfolio investment account (2017: net outflow of RM15.4 billion; 2016: net outflow of RM14.2 billion) were driven mainly by continued acquisitions of financial assets abroad by resident institutional investors and fund managers, which more than offset higher portfolio investments by non-residents. These developments reflected significant cross-border capital flows driven by robust domestic growth, improvement in global growth prospects and lower volatility in the financial markets during the year. Meanwhile, the direct investment account recorded a net inflow of RM16.2 billion (2016: net inflow of RM13.8 billion), reflecting a moderation in DIA amid continued FDI.

The international reserves of BNM amounted to U.S.\$102.4 billion as at end-2017 compared to U.S.\$94.5 billion as at end-2016. As at March 15, 2018, international reserves amounted to U.S.\$103.9 billion. The international reserves were sufficient to facilitate international transactions and to finance 7.3 months of retained imports, totaling 1.1 times the short-term external debt. The wide range of monetary policy instruments, exchange rate flexibility and resilient financial markets reduced the Malaysian economy's reliance on BNM's international reserves in managing external pressures.

Malaysia's external debt declined to RM885.2 billion as at end-2017, equivalent to U.S.\$215.9 billion or 64.5 per cent. of GDP (2016: RM 914.5 billion, equivalent to U.S.\$201.9 billion or 73.2 per cent. of GDP). The decrease was mainly attributed to valuation effects following the strengthening of the ringgit against most currencies during the year. Excluding valuation effects, Malaysia's external debt increased by 2.0 per cent. of GDP, mainly on account of increases in interbank borrowing and non-resident deposits. Risks arising from external debt remained manageable, mitigated by Malaysia's currency and maturity profiles. More than a third of external debt is denominated in ringgit (33.9 per cent.), mainly in the form of non-resident holdings of domestic ringgit debt securities and ringgit deposits in domestic banking institutions. The remaining portion of total external debt of RM585.4 billion (66.1 per cent.) is denominated in foreign currency and is subject to prudential and hedging requirements on banking institutions and corporations. In terms of maturity, more than half of the total external debt is skewed towards medium- to long-term tenures (60.3 per cent. of total external debt), indicating limited rollover risks. Additionally, not all short-term external debt poses a claim on reserves.

Overall, the fundamentals of the Malaysian economy continued to strengthen. Improving labor market conditions amid faster wage growth continued to support household spending. Healthy financial institutions and sufficient domestic liquidity also ensured orderly financial intermediation. Furthermore, Malaysia's external position remained strong and well-protected from a sharper depreciation, supported by sufficient international reserves and manageable levels of external debt.

Despite the strong growth in 2017, structural reforms remained a priority to strengthen economic fundamentals and to safeguard the sustainability of the growth momentum. These included efforts to enhance domestic value-added production and exports, promote higher quality domestic and foreign investments, raise productivity and cultivate a future-ready quality labor force.

### **The Malaysian Economy in 2018**

The Malaysian economy expanded at a more moderate pace of 4.8 per cent. in 2018 (2017: 5.8 per cent.). Despite a positive start to 2018, the economy subsequently was confronted with several external and domestic challenges. Major policy and political shifts, arising partly from the global trade tensions and the historic change of

government in Malaysia, became sources of uncertainty for the economy. Unanticipated supply disruptions in the mining and agriculture sectors, as well as commodity exports adversely affected Malaysia's economic performance, resulting in a larger-than-expected moderation in growth.

Domestic demand continued to anchor growth, supported mainly by private sector expenditure. Private consumption growth, in particular, recorded the fastest rate since 2012 at 8.0 per cent. (2017: 6.9 per cent.). Favorable wage and employment growth continued to drive household spending with additional support from the three-month tax holiday (June 1 – August 31) following the temporary reduction of the GST rate to zero, as well as other Government measures such as the fixing of the retail fuel price of RON95 petrol and special payments to civil servants and pensioners.

In line with the Government's commitment to reprioritize expenditures, public consumption growth moderated to 3.2 per cent. (2017: 5.7 per cent.). GFCF expanded at a slower pace of 1.4 per cent. (2017: 6.1 per cent.) due to a contraction in public investment and the slower expansion in private investment. Public investment declined by 5.0 per cent. (2017: 0.3 per cent.) following lower spending by public corporations. Private investment grew at a slower pace of 4.3 per cent. (2017: 9.0 per cent.) amid heightened uncertainty stemming from both external and domestic developments. However, firms, particularly in the export-oriented sectors, continued to increase production capacity and improve efficiency to meet demand.

On the supply side, most economic sectors recorded an expansion, with the exception of the mining sector. The service sector's growth improved to 6.8 per cent. (2017: 6.3 per cent.), the highest since 2011, as improved consumer sentiments and favorable labor market conditions encouraged spending, in particular during the tax holiday period. The manufacturing sector expanded by 5.0 per cent. (2017: 6.0 per cent.) supported primarily by a continued expansion in the E&E cluster. The construction sector recorded a moderate growth of 4.2 per cent. (2017: 6.7 per cent.) due to weaknesses in the property segment while adverse weather that affected palm oil and rubber production led to a marginal growth in the agricultural sector (2018: 0.1 per cent., 2017: 5.9 per cent.). The mining sector, however, contracted by 2.2 per cent. (2017: 0.4 per cent. growth) due to the decline in natural gas production.

In the labor market, employment growth was strong at 2.1 per cent. (2017: 2.2 per cent.), amounting to an additional employment gain of 299,200 persons. Meanwhile, the labor force grew by 2.0 per cent. (2017: 2.1 per cent.), which amounted to 300,200 persons entering the labor force. The labor force participation rate also rose to 68.3 per cent. (2017: 68.0 per cent.). The unemployment rate declined slightly to 3.3 per cent. (2017: 3.4 per cent.). Net employment gains were driven mainly by high- and mid-skilled workers, which grew by 0.9 per cent. and 3.4 per cent. respectively. Reported retrenchments continued to decrease (23,168 persons; 2017: 35,097 persons), below the long-run average of 29,628 persons per annum. Aggregate nominal wages in the private and public sectors grew by 5.7 per cent. and 4.5 per cent., respectively (2017: 6.8 per cent. and 6.3 per cent., respectively).

In 2018, headline inflation grew at a slower pace to 1.0 per cent. (2017: 3.7 per cent.). The moderation mainly reflected the impact of the fixing of retail fuel prices and the zeroization of the GST rate. These factors more than offset upward cost pressures that remained present for some parts of 2018, stemming primarily from elevated global oil prices, the relatively weaker ringgit exchange rate and the implementation of the Sales and Services Tax ("SST"). Core inflation averaged lower at 1.0 per cent. (2017: 2.4 per cent.) amid smaller cost pass-through to retail prices and the absence of excessive demand pressures.

Malaysia's external position remained resilient amid an increasingly challenging global economic environment. The current account of the balance of payments continued to register a healthy surplus of 2.3 per cent. of GNI (2017: 2.9 per cent. of GNI), contributed by the sizeable goods surplus and a smaller services deficit, which more than offset the deficit in the income accounts. Gross exports registered a more moderate growth of 7.3 per cent. in 2018 (2017: 18.8 per cent.) driven by manufactured exports which helped to partially offset the decline in commodity exports. Gross imports growth also moderated to 5.2 per cent. (2017: 19.7 per cent.), on account of weaker intermediate and capital imports.

During the year, movements in short-term flows dominated capital flow developments as the financial account of the balance of payments recorded a net inflow of RM11.4 billion (2017: net outflow of RM4.7 billion). A

reversal of portfolio investments by non-residents (2018: outflows of RM37.4 billion; 2017: inflows of RM4.1 billion), which took place amid increasingly volatile global financial market conditions, were more than offset by substantial inflows in the other investment account (2018: net inflow of RM49.7 billion; 2017: net outflow of RM5.3 billion). Meanwhile, net FDI flows moderated (2018: net inflow of RM30.7 billion; 2017: net inflow of RM40.4 billion), while domestic firms and institutional investors continued to undertake DIA (2018: net outflow of RM20.6 billion; 2017: net outflow of RM24.2 billion).

The international reserves of BNM amounted to U.S.\$101.4 billion as at end-2018 compared to U.S.\$102.4 billion as at end-2017. As at February 28, 2019, international reserves amounted to U.S.\$102.4 billion and remained sufficient to facilitate international transactions to finance 7.5 months of retained imports, totaling 1.1 times the short-term external debt.

Malaysia's external debt stood at RM923.0 billion as at end-2018, equivalent to U.S.\$ 220.5 billion or 63.8 per cent. of GDP (end-2017: RM885.2 billion, equivalent to U.S.\$215.9 billion or 64.5 per cent. of GDP). The higher external debt was driven mainly by the increase in interbank borrowings and corporate loans to finance investment activity as well as valuation effects following the weakening of ringgit against selected regional and major currencies, in particular, during the second and third quarters of the year. Malaysia's external debt exposure remained manageable. Favorable external balance sheet profiles across instruments, maturity and currency were reinforced by external asset holdings of the domestic banks and corporates, further mitigating potential risks.

Malaysia's external position remained healthy, with a current account surplus, adequate international reserves and manageable external debt exposure. These strengths in the external position, along with a flexible exchange rate and a well-developed financial system, effectively mitigated the impact of volatile shifts in capital flows on domestic financial markets. Appropriate foreign exchange intervention and the implementation of financial market measures during this period of volatility also underscored the importance of pragmatic, timely policy responses in managing risks and supporting growth.

### **The Malaysian Economy in 2019**

In 2019, the global economy and global trade expanded by 2.8 per cent. and 1.0 per cent., respectively (2018: 3.5 per cent. and 3.9 per cent., respectively), amid protracted and unresolved trade tensions which exacerbated the cyclical downturn in global manufacturing and investment activities, as well as geopolitical uncertainties. Heightened risk aversion in financial markets led to sustained demand for safe haven assets, exchange rate volatility as well as capital flow reversals from emerging market economies.

The Malaysian economy was affected by these global developments. In addition, weakness in investment activity and supply disruptions in the commodities sector also affected domestic economic activity. Amid this challenging global economic environment and domestic supply disruptions, the Malaysian economy expanded by 4.3 per cent. in 2019 (2018: 4.8 per cent.), supported by resilient private sector spending. In particular, household spending remained firm (7.6 per cent.; 2018: 8.0 per cent.), supported by continued income and employment growth, as well as Government measures. GFCF registered a contraction of 2.1 per cent. (2018: 1.4 per cent.), reflecting slower capital spending by the private sector and a decline in public investment. Private sector investments were affected by the highly uncertain global outlook, a broad-based decline in corporate profitability and continued weakness in the domestic property market. Meanwhile, investments by the public sector were particularly weak due mainly to the completion of large-scale projects by public corporations and the review of several large projects. Public consumption expanded at a moderate pace of 2.0 per cent. (2018: 3.2 per cent.), as continued growth in emoluments was weighed down by lower spending by the Government on supplies and services, in line with the Government's commitment to optimize expenditure without affecting the delivery of public services. Meanwhile, price pressures were subdued throughout the year.

On the supply side, all economic sectors registered an expansion, with the exception of the mining sector. The mining sector continued to contract (2019: -2.0 per cent; 2018: -2.2 per cent.), as crude oil output was weighed down mainly by maintenance works and voluntary supply adjustments by PETRONAS. The services sector

expanded by 6.1 per cent. (2018: 6.8 per cent.), as growth normalized following a robust performance in 2018, when the tax holiday period encouraged greater consumer spending. The manufacturing sector recorded a slower growth of 3.8 per cent. in 2019 (2018: 5.0 per cent.), weighed mainly by weak external demand. Growth in the agriculture sector improved to 2.0 per cent. during the year (2018: 0.1 per cent.), mainly due to a turnaround in oil palm yields from production constraints. Growth in the construction sector moderated to 0.1 per cent. (2018: 4.2 per cent.), reflecting mainly the completion and near-completion of large infrastructure and mixed development projects.

Labor market conditions remained supportive of growth in 2019. Employment grew by 2.0 per cent. (2018: 2.1 per cent.), amounting to an additional employment gain of 297,400 persons, while the unemployment rate remained stable at 3.3 per cent. (2018: 3.3 per cent.). The labor force participation rate also rose to 68.7 per cent. (2018: 68.3 per cent.). In 2019, employment growth was mainly driven by high- and mid-skilled workers, which grew by 3.2 per cent. and 1.5 per cent., respectively. Mid-skilled workers continued to account for the largest share of total employed persons at 60.1 per cent. (2018: 60.4 per cent.), followed by high-skilled workers at 27.5 per cent. (2018: 27.2 per cent.). Aggregate nominal wages in the private and public sectors grew at a slower rate of 4.4 per cent. and 3.7 per cent. in 2019, respectively (2018: 5.7 per cent. and 4.5 per cent., respectively).

Headline inflation was lower at 0.7 per cent. in 2019 (2018: 1.0 per cent.). The decline was amid the extension of fuel price ceilings and a festive season price control scheme on food items, which contained fuel and food inflation. Changes in consumption tax policy in 2018 also continued to exert an overall downward pressure on prices. On the other hand, underlying inflation as indicated by core inflation remained relatively stable at 1.1 per cent. (2018: 1.0 per cent.). This indicates that demand-driven inflationary pressures were relatively subdued amid the lack of impetus from the labor market. Along with the stable real wage growth per worker in the private sector, the presence of spare capacity in domestic industries supported the stability of the underlying inflation.

The Monetary Policy Committee meeting in May 2019 decided to reduce the OPR from 3.25 per cent. to 3.00 per cent. in order to preserve the degree of monetary accommodativeness, thus ensuring a conducive monetary environment for continued growth amid price stability. In addition, the Statutory Reserve Requirement (“SRR”) ratio was reduced from 3.50 per cent. to 3.00 per cent. in November 2019, which further supported the efficient functioning of the domestic financial markets.

Against the background of an uncertain global environment, Malaysia experienced intermittent periods of portfolio flows volatility throughout the year. This was amid concerns over the adverse impact from the U.S.-China trade dispute and a moderating global growth outlook, which affected investor sentiments particularly during the second and third quarter of the year. Nevertheless, sentiments improved leading to a resumption in non-resident portfolio inflows in the fourth quarter of the year following the progress in the trade talks between the U.S. and China.

During the year, the financial account of the balance of payments recorded a significant outflow of RM33.8 billion (2018: net inflow of RM11.4 billion). This was mainly on account of higher investments by residents in portfolio assets abroad. Portfolio investments abroad by residents were higher as domestic institutional investors continued to diversify their risk exposures and investment incomes. The other investment account recorded a net outflow of RM9.9 billion (2018: net inflow of RM49.7 billion), reflecting interbank placements abroad by resident banks. The direct investment account registered a lower net inflow of RM5.6 billion (2018: RM10.1 billion) as higher DIA undertaken by resident entities more than offset the slight improvement in FDI.

The international reserves of BNM amounted to U.S.\$103.6 billion as at end-2019 compared to U.S.\$101.4 billion as at end-2018. The international reserves remained adequate to finance 7.5 months of retained imports and were 1.1 times the short-term external debt.

Malaysia’s external debt stood at RM945.4 billion as at end-2019, equivalent to U.S.\$228.3 billion or 62.6 per cent. of GDP (end-2018: RM923.0 billion, equivalent to U.S.\$220.5 billion or 63.8 per cent. of GDP). The higher external debt was driven primarily by the increase in non-resident holdings of domestic debt securities and

deposits, and external loans by corporations. These were partially offset by the decrease in intercompany loans and interbank borrowings. Risks surrounding external debt were well contained given its favorable maturity and currency profiles and were reinforced by external asset holdings of the domestic banks and corporates, further mitigating potential risks.

### **The Malaysian Economy in 2020**

As with most countries globally, the Malaysian economy was significantly impacted by the COVID-19 pandemic, resulting in a sharp decline in GDP. The economy contracted by 5.6 per cent. in 2020. The adverse external spillovers and the introduction of strict local containment measures to curb the rise in COVID-19 cases contributed to broad-based weaknesses in exports, production, and domestic demand. The largest impact was felt in the second quarter of 2020, with GDP contracting by 17.1 per cent. Growth improved gradually thereafter towards the second half of the year as the economy gradually re-opened, with economic and social activities partially resumed. In response to the COVID-19 pandemic, sizeable economic stimulus packages were introduced by the Government to mitigate the economic impact and support the growth recovery.

Domestic demand contracted by 5.7 per cent. (2019: 4.3 per cent. expansion), weighed by the uncertainties and the responses undertaken by the authorities to contain COVID-19. Private consumption contracted by 4.3 per cent. (2019: 7.6 per cent. expansion) due to large income losses, weak consumer sentiments and movement restrictions, particularly during the second quarter of 2020. GFCF contracted sharply by 14.5 per cent. (2019: -2.1 per cent. contraction), impacted by a weaker external environment and dampening business confidence. Private investment declined by 11.9 per cent. (2019: 1.6 per cent.) amid the heightened uncertainty and lower profitability arising from the disruption in economic activities. Public investment declined by 21.4 per cent. (2019: 10.8 per cent. decline) due to slower project progress and weaker demand conditions in most sectors. However, public consumption growth improved to 4.1 per cent. (2019: 2.0 per cent.), supported by large government spending on COVID-19 related measures under various economic stimulus packages.

On the supply side, all economic sectors recorded a contraction in growth. The services sector contracted by 5.5 per cent. (2019: 6.1 per cent. growth), as COVID-19 and the related containment measures disproportionately affected domestic consumer-oriented industries. The manufacturing sector contracted by 2.6 per cent. (2019: 3.8 per cent. growth), mainly weighed down by restriction on operations, supply-chain disruptions and subdued demand conditions. Meanwhile, the construction sector recorded a contraction of 19.4 per cent. (2019: 0.1 per cent. growth) due to reduced work capacity in compliance with containment measures, labor supply chain disruptions and site shutdowns following COVID-19 pandemic. The mining sector contracted further by 10.0 per cent. (2019: 2.0 per cent. contraction) as crude oil and natural gas production were impacted by maintenance closures and weak external demand for commodities. The lingering effects of severe dry weather conditions in the earlier part of the year and lower palm oil and rubber output led to a decline in the agriculture sector by 2.2 per cent. (2019: 2.0 per cent. growth).

Labor market conditions were significantly impacted by restrictions imposed throughout the year to curb the spread of the COVID-19 pandemic. Employment contracted by 0.2 per cent. while the unemployment rate rose to 4.5 per cent. (2019: 3.3 per cent.) of the labor force. The contraction in employment resulted from the net loss of employment in mid- and low-skilled occupations, which declined by 1.3 per cent. and 5.3 per cent., respectively. From a sectoral perspective, the decline in employment was driven mainly by sectors that were heavily affected by the COVID-19 pandemic, namely, the construction and tourism-related services sectors. Retrenchments rose to 104,432 persons (2019: 29,605 persons). Following these developments, aggregate nominal wages in the private sector declined by 2.4 per cent. (2019: 4.4 per cent. growth) while public sector wages increased modestly by 2.0 per cent. (2019: 3.7 per cent.).

In 2020, headline inflation declined to -1.2 per cent. (2019: 0.7 per cent. growth). The inflation rate decreased in 2020 due to lower fuel and weaker commodity prices, negative economic growth as well as discount on electricity bills as part of the economic stimulus package. However, core inflation remained at 1.1 per cent. (2019: 1.1 per cent.). The major groups which influenced the positive growth include miscellaneous goods and services, housing, water, gas and other fuels, health and food and non-alcoholic beverages.

In 2020, the financial account recorded a higher net outflow of RM79.1 billion (2019: net outflow of RM33.8 billion), driven by higher outflows in portfolio and other investment accounts. The portfolio investment account registered a higher net outflow of RM49.1 billion (2019: net outflow of RM29 billion) due mainly to higher resident investments abroad as domestic institutional investors continued to diversify risk exposures and enhance portfolio returns. In addition, non-residents liquidated domestic equity securities, in tandem with non-residents outflows in the regional equity markets. The other investment account recorded a higher net outflow of RM31.4 billion (2019: net outflow of RM9.9 billion) due to the net repayment of interbank borrowings and the withdrawals of deposit placements from the banking sector. The significant outflows in Malaysia's financial account helped enhance Malaysia's external position by increasing external assets and reducing external liabilities. This resulted in a turnaround of Malaysia's net international investment position ("IIP") from a net debtor to a net creditor position (net IIP as at end-2020: +5.6 per cent. of GDP; end-2019: -2.9 per cent. of GDP).

The international reserves of BNM amounted to U.S.\$107.6 billion as at end-2020 compared to U.S.\$103.6 billion as at end-2019. The international reserves remained adequate to finance 8.5 months of retained imports and were 1.1 times the short-term external debt.

Malaysia's external debt increased to RM958.5 billion as at end-2020, equivalent to U.S.\$235.6 billion or 67.7 per cent. of GDP (2019: RM945.4 billion, equivalent to U.S.\$228.3 billion or 62.6 per cent. of GDP). The higher external debt reflected primarily net issuance of bonds and notes by corporates and higher NR holdings of domestic debt securities. These were partially offset by the lower interbank borrowings and non-resident deposits. Risks surrounding Malaysia's external debt were well contained given its more favorable maturity and currency profiles and were reinforced by external asset holdings of the domestic banks and corporates, further mitigating potential risks.

## **Government Plans, Policies and Initiatives**

### ***The 2030 Agenda for Sustainable Development***

On September 25, 2015, Malaysia, together with the other 192 countries, adopted the 2030 Agenda for Sustainable Development (the "**2030 Agenda**") at the United Nations General Assembly in New York. The sustainable development goals ("**SDGs**") are a universal set of goals, targets, and indicators that each UN member state will be expected to use to frame their agenda and policies over the next 15 years (2016 to 2030), which includes wide economic, social and environmental objectives focused on peace, participation and inclusiveness. With its 17 goals, 169 targets and more than 200 indicators that covers five dimensions (namely, People, Planet, Prosperity, Peace and Partnership), the SDGs will stimulate action over the next 15 years in areas of critical importance for humanity and the planet.

In the process to embrace and implement the SDGs in a systematic and measurable manner, Malaysia has put in place an enabling environment through the following initiatives:

- established a multi-stakeholder, participatory governance structure helmed by the National SDG Council chaired by the Prime Minister;
- held several national SDG symposiums and focus group sessions to promote awareness and participation of stakeholders;
- conducted studies on data readiness and gap analysis;
- undertaken a mapping exercise to align SDGs with Malaysia's five-year national development plans, starting from the 11MP;
- formulated a National SDG Roadmap to guide implementation of the 2030 Agenda and the SDGs; and
- implemented SDG initiative within the framework of the five-year development plans.

Moving forward, Malaysia will implement the 2030 Agenda under the framework of 11MP, 12MP and future five-year development plans where relevant, whereby the means of implementation include:

- localizing SDGs at sub-national levels by replicating the national multi-stakeholder governance structure at state levels;
- mobilizing resources and funding through partnerships with stakeholders including crowd sourcing, social entrepreneurship and Corporate Social Responsibility programs besides public sector funding; and
- strengthening data readiness and filling data gaps to develop a comprehensive dataset for SDG implementation.

Malaysia recognizes that a comprehensive implementation of the SDGs will require the mobilization of resources, including manpower, capacity building, and physical spaces, as well as funding. From a national development perspective, the implementation of SDGs in Malaysia is well aligned with the five-year national development plan, which has always been geared towards an economic, social and environmental agenda and utilizes the government development budget.

In support of the global monitoring and reporting of the 2030 Agenda, Malaysia presented its first Voluntary National Review at the 2017 global High-Level Political Forum, where it committed to undertaking broader country reporting every four years. In November 2019, Malaysia hosted the Malaysia SDG Summit 2019 to create public awareness and understanding on SDGs as well creating a platform between stakeholders to discuss the progress, opportunities, challenges and solutions with various stakeholders, i.e. public and private sectors, academia and non-government organizations.

### *The 12th Malaysia Plan (2021-2025)*

The 12MP aims to achieve a Prosperous, Inclusive and Sustainable Malaysia, in line with the Shared Prosperity Vision 2030 and the 2030 Agenda for Sustainable Development. The policies, strategies and initiatives under the 12MP are designed to address prevailing socio-economic issues and challenges, focusing on efforts to regenerate the economy, strengthen security, wellbeing and inclusiveness, as well as enhance sustainability for the next five-years, 2021 to 2025. The goal of the 12MP is not only to revive economic growth, but also to ensure that Malaysia's prosperity can be distributed more fairly and equitably, without neglecting environmental sustainability.

The 12MP is anchored on three key themes focused on resetting the economy, strengthening security, wellbeing and inclusivity as well as advancing sustainability. The achievement of these objectives is supported by four policy enablers which are developing future talent, accelerating technology adoption and innovation, enhancing connectivity and transport infrastructure as well as strengthening the public sector. Several high-potential industries have been identified as new drivers and sources of growth such as the aerospace industry, advanced electrical and electronics industries as well as biomass and smart agriculture. The Government will also implement strategies to enhance productivity to accelerate the transition to high value-added and high-tech industries.

### *The Digital Economy Blueprint*

The Government of Malaysia, through the Ministry of Communications and Multimedia with the Malaysia Digital Economy Corporation (“MDEC”), continues to promote the development of Malaysia's digital economy. The Government identified the digital economy as one of the key economic growth areas to achieve its national commitment of elevating the country to become a nation of sustainable growth while ensuring fair and equitable distribution across income groups, ethnicities and regions. With MDEC, the Government's critical focus is to develop the digital economy to establish Malaysia as the heart of digital ASEAN.

On February 19, 2021, the Malaysian Digital Economy Blueprint (the “**Digital Economy Blueprint**”) was unveiled by the Government, which embeds a delivery-driven governance framework and a whole-of-nation

approach involving partnerships between the Rakyat, business (private sector) and the Government (public sector). In particular, the Digital Economy Blueprint spells out the efforts and initiatives to deliver the aspirations of MyDIGITAL, which is a national initiative symbolizing the aspirations of the Government to successfully transform Malaysia into a digitally driven, high income nation and a regional leader in the digital economy, where the Rakyat can embrace digitalization to improve their quality of life and standard of living. By achieving inclusive, responsible and sustainable socio-economic development, MyDIGITAL is also designed to complement national development policies such as the Shared Prosperity Vision 2030, the 12MP and the 2030 Agenda for Sustainable Development.

The Digital Economy Blueprint charts the trajectory of the digital economy's contribution to the Malaysian economy by identifying six strategic thrusts, namely: (i) drive digital transformation in the public sector; (ii) boost economic competitiveness through digitalization; (iii) build enabling digital infrastructure; (iv) build agile and competent digital talent; (v) create an inclusive digital society; and (vi) build a trusted, secure and ethical digital environment. These strategic thrusts are supported by 22 strategies, 48 national initiatives and 28 sectoral initiatives across four main sectors, namely agriculture, construction, manufacturing and services.

The implementation of the Digital Economy Blueprint is divided into three phases:

- Phase 1 (2021 to 2022) – aims to accelerate adoption towards strengthening the digital foundation needed for the rapid and smooth rollout of Phase 2 and Phase 3;
- Phase 2 (2023-2025) – focuses on driving digital transformation and inclusion across the digital economy, emphasizing inclusivity among the Rakyat and all levels of businesses; and
- Phase 3 (2026-2030) – charts the pathway for strong, sustainable growth in the decades to come, positioning Malaysia to become a regional market producer.

In November 2020, Malaysia also set up the National Digital Economy and Fourth Industrial Revolution (“4IR”) Council chaired by the Prime Minister to accelerate local capabilities in embracing digitalization. The 4IR is a technological revolution characterized by the fusion of digital technologies, innovation and knowledge across socio-economic activities, which seeks to catalyze the growth trajectory of the digital economy in Malaysia and build a solid foundation to drive digitalization across the nation, including bridging the digital divide. In addition, the COVID-19 pandemic has amplified the importance of the digital economy in ensuring the resilience of economic activities, and the Digital Economy Blueprint is pivotal to mitigate the impact of the COVID-19 pandemic in Malaysia and stimulate further economic growth.

### ***MyDIGITAL***

MDEC is committed to rolling out key digital initiatives announced in MyDIGITAL, to empower a society centered on 4IR technology, progressing towards the ‘Malaysia 5.0’ national strategy vision and shared prosperity for all. MDEC continues to promote Malaysia’s digital economy through various talent development and digital enablement initiatives it had introduced over the last two years.

MyDIGITAL is focused on (i) empowering digitally skilled Malaysians; (ii) accelerating digitally powered businesses; and (iii) attracting digital investments. With the launch of MyDIGITAL, it is projected that the digital economy will contribute 22.6 per cent. of GDP by 2025.

### ***Digitally Skilled Malaysians***

In empowering digitally skilled Malaysians, MDEC has introduced a number of initiatives to provide digital skills training and expand the digital capabilities of Malaysians at all levels, including:

- developing a digital job portal for its #MYDigitalWorkForce movement;
- implementing the ‘Let’s Learn Digital’ initiative to offer digital courses for participants;

- creating the National Digital Skills Training Directory as a source of information for re-skilling and up-skilling opportunities and initiatives; and
- implementing the #myDigitalmaker program, which provides school students with access to digital skills and capabilities training nationwide.

### *Digitally Powered Businesses*

In accelerating digitally powered businesses, MDEC actively promotes the use of emerging technologies such as Artificial Intelligence, Internet of Things, Big Data Analytics, fintech, blockchain and drone tech across all industries in Malaysia. MDEC has also developed and rolled-out various initiatives including 100 Go Digital, SME Digital Accelerator, Smart Automation Grant and SME Digital Quickwins, which is targeted at digitalizing and automating businesses, encouraging SMEs and micro-enterprises to accept and adopt the use of e-commerce and next-gen infrastructure (such as 5G networks and high-speed broadband capabilities) in their businesses and operations.

In February 2020, the SME Business Digitalization Grant was also introduced to support SMEs to adopt digitalization measures for their operations and provide them with the appropriate tools, platforms and skills to do so. In particular, the 50 per cent. matching grant offers up to RM5,000 per company for the subscription of services to go digital, and there is currently a total of 498 SMEs grant recipients. On the online retail side, 335,834 SMEs have also been on-boarded onto e-commerce marketplaces. There is also strong support provided to SMEs from partners in the telecommunication and banking businesses.

### *Digital Investments*

In 2019, Malaysia attracted RM345 billion investments in the Multimedia Super Corridor (“**MSC Malaysia**”), creating close to 185,000 jobs. These investments came primarily from multi-nationals that have opened their global business services and regional operations here in Malaysia. In 2020, a total of 45 MSC Malaysia Status projects were approved with investments totaling RM3.9 billion, paving the way for 3,794 new employment opportunities for Malaysians. Out of the total investments, RM2.6 billion (66.2 per cent.) came from domestic investments, while RM1.3 billion (33.8 per cent.) came from foreign investments. In addition, Malaysia is ranked 2nd in ASEAN and 26th globally in the recent IMD World Digital Competitiveness Ranking 2020.

Global tech firms with operations in Malaysia such as NTT, Hitachi Sunway Information Systems, transcosmos and DKSH CSSC have continually re-invested and expanded in Malaysia, which are critical to the development of Malaysia’s digital and tech ecosystems. In particular, these efforts encourage more data use and management development; amplify the need for more open innovation between local and regional/international marketplace players; boost tech/knowledge transfer; and increase re-skilling within the workforce as next-gen digital and high-tech jobs become available.

### *Government’s Strategic Investments*

The Government holds direct and indirect equity interests (through its investment arm, Khazanah Nasional Berhad (“**Khazanah**”)) in a number of major corporations, including non-financial public corporations (“**NFPCs**”), involved in certain strategic sectors, including finance, telecommunications, utilities, communication services, information technology and transportation. Khazanah was incorporated under the Companies Act 1965 (last amended in 2007, and subsequently repealed in 2016 by the Companies Act 2016) on September 3, 1993 as a public limited company and commenced operations a year later. Except for one share owned by the Federal Lands Commissioner, all the share capital of Khazanah is owned by the Minister of Finance Incorporated, a body incorporated pursuant to the Minister of Finance (Incorporation) Act 1957.

In 2018, the Government of Malaysia initiated a corporate restructuring and reorganization of Khazanah, which involved leadership changes, a refresh of its mandate and objectives, and a review and revaluation of its investments. Khazanah’s mandate is to grow Malaysia’s long-term wealth through a two-fund investment

structure: (i) the Commercial Fund, which is an intergenerational wealth fund aimed at meeting Khazanah's commercial objective to grow financial assets and diversify revenue sources for the nation, targeting a return of Malaysian CPI of 3.0 per cent. on a five-year rolling basis; and (ii) the Strategic Fund, which is a developmental fund aimed at holding strategic assets that bring long-term economic benefit, targeting a return of 10-year Malaysian Government Securities ("MGS") yield on a five-year rolling basis and measurable economic benefits. Khazanah's targets, achievements and future plans of action will be subject to assessment in 2023 by its board of directors.

### *Financial Performance*

Khazanah's profit from operations fell to RM2.9 billion in 2020 as compared to RM7.4 billion in 2019 primarily due to the volatility in global financial markets and an unfavorable economic environment impacted by the COVID-19 pandemic. Dividend income from investee companies rose to RM5.2 billion in 2020 from RM3.8 billion in 2019 but was offset by lower divestment gains of RM2.7 billion in 2020 compared to RM9.9 billion in 2019. The impact of the COVID-19 pandemic led to higher impairments of RM6.0 billion in 2020, particularly in aviation and hospitality assets, compared to RM4.9 billion in 2019. Khazanah declared a dividend of RM2.0 billion in 2020 to the Government. Khazanah's financial position remained strong with debt reduced by 6 per cent. to RM43.1 billion in 2020 from RM45.8 billion in 2019, while realizable asset value ("RAV") cover fell slightly to 2.9 times in 2020 from 3.0 times in 2019.

The principal NFPCs 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 company), Malaysia Airports Holdings Berhad (the operating company for Malaysia's 39 airports), UEM Group Berhad (one of Malaysia's largest construction companies) and Malaysian Airline System Berhad.

### *Digital Service Tax*

On August 1, 2020, the Royal Malaysian Customs Department issued a revised digital service tax guide for non-resident providers, pursuant to which a digital service tax ("DST") of 6 per cent., effective from January 1, 2020, was levied on any digital service provided by a foreign registered person to any consumer in Malaysia. This constituted an extension of the existing SST regime to make non-residents who provide digital services to consumers liable to be registered, with the aim of levelling the playing field for local service providers in the area of digital technology to compete with foreign firms. The provider is mandated to be registered when the total value of digital services provided to consumers in Malaysia exceeds RM500,000 per year.

Under the DST regime, taxable services include:

- software, applications and video games, for example downloading of online software, updates and ad-ons website filters, firewalls, provision of mobile applications, online gaming;
- music, e-books and film, for example provision of music, streaming services, includes subscription-based media / membership;
- advertisement and online platforms, for example offering online advertising space on intangible media platforms, offering platforms to trade products or services;
- search engines and social networks, for example customized search-engine services;
- database and hosting, for example website hosting, online data warehousing, file-sharing and cloud storage services;
- internet-based telecommunication, for example Cloud-PABX, VOIP Phone;

- online training, for example provision of distance learning, e-learning, online courses, pre-recorded webinar; and
- others, for example subscription to online newspapers and journals, provision of other digital content like images, text, information and payment processing services.

### **Competition Law Regime in Malaysia**

The Malaysian Competition Act 2010 (“**CA 2010**”) was passed by the Parliament in 2010 and came into force on January 1, 2012. The CA 2010 prohibits anti-competitive agreements and the abuse of a dominant market position and infringements of the CA 2010 are punishable by fines.

The Malaysia Competition Commission (“**MyCC**”) is the enforcement agency for the CA 2010 and is an independent body established under the Competition Commission Act 2010 (“**CCA 2010**”), which came into force on January 1, 2011. The CCA 2010 provides for the appointment of a 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 MyCC are appointed by the Prime Minister upon the recommendation of the Minister of Domestic Trade and Consumer Affairs, Malaysia.

MyCC’s main role is to promote and protect the competitive process for the benefit of businesses, consumers, and is entrusted to: implement and enforce provisions of the CA 2010; issue guidelines in relation to the implementation and enforcement of the competition laws; advocate for competition matters; carry out market studies in relation to issues connected with competition in the Malaysian economy or particular sectors of the Malaysian economy; and work together with other sector regulators in addressing cross cutting competition issues.

The CA 2010 also established the Competition Appeal Tribunal (“**Tribunal**”), which is an appeal body for decisions made by MyCC. 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 with members who 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.

Currently, there is no general merger control regime under the CA 2010. However, the absence of a general merger control regime does not restrict MyCC from investigating any behavioral conduct arising from a merger transaction which infringes the CA 2010. The Parliament is currently considering certain amendments to the CA 2010, which would improve the existing provisions of the extant legislation as well as introduce a merger control regime, although no legislative action has been taken to date.

Notwithstanding the above, there are sector-specific laws and guidelines in Malaysia that regulate mergers in the context of competition law, driven by the fact that the CA 2010 excludes commercial activities which fall under certain legislation. The sectors are the aviation and the communications and multimedia sectors, enforced by the Malaysian Aviation Commission (“**MAVCOM**”) and the Malaysian Communications and Multimedia Commission (“**MCMC**”), respectively. The aviation sector in Malaysia is regulated by the MAVCOM under the Malaysia Aviation Commission Act 2015 while the communications and multimedia sector in Malaysia is regulated by the MCMC under the Communications and Multimedia Act 1998 (“**CMA**”).

Since the enactment of the CA 2010, MyCC has steadily seen the growth of cases and decisions on infringements, in particular those relating to anti-competitive activities and abuse of dominant positions, including cases and decisions also involving strategic sectors and entities within the Malaysian economy. MyCC has also conducted various market reviews to assess the competition issues in specific sectors of the Malaysian economy with a view toward identifying potential violations and providing recommendations to the Government. MyCC has also provided policy advices to various Ministries and agencies in Malaysia on competition related matters, and has embarked on international cooperation on competition matters, including technical cooperation and capacity building programs.

## 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 2015 prices for the years indicated.

	2016	2017	2018	2019	2020 <sup>P</sup>
	(RM million, unless otherwise stated)				
<b>Current Prices:</b>					
Final consumption expenditure					
Public .....	157,023	167,320	172,951	176,673	184,031
Private .....	684,681	760,146	831,334	903,720	861,509
Gross fixed capital formation					
Public <sup>(1)</sup> .....	107,370	109,422	104,546	94,374	74,237
Private .....	211,525	234,520	245,842	252,471	222,150
Change in inventories and valuables <sup>(2)</sup> .....	5,970	6,647	(4,327)	(28,957)	(17,912)
Exports of goods and services .....	834,491	960,778	992,511	985,283	869,931
Imports of goods and services .....	751,363	866,524	895,405	872,871	778,784
GDP at purchasers' prices .....	1,249,698	1,372,310	1,447,451	1,510,693	1,415,163
Balance of primary income .....	(34,592)	(38,658)	(45,082)	(40,267)	(26,227)
<b>GNI .....</b>	<b><u>1,215,105</u></b>	<b><u>1,333,652</u></b>	<b><u>1,402,369</u></b>	<b><u>1,470,426</u></b>	<b><u>1,388,936</u></b>
<b>Constant 2015 Prices:</b>					
Final consumption expenditure					
Public .....	155,640	164,450	169,631	173,077	180,207
Private .....	672,260	718,702	775,851	835,065	798,986
Gross fixed capital formation					
Public <sup>(1)</sup> .....	105,213	105,499	100,263	89,385	70,249
Private .....	206,977	225,594	235,351	239,027	210,470
Change in inventories and valuables <sup>(2)</sup> .....	297	1,032	(9,050)	(14,649)	(5,226)
Exports of goods and services .....	828,155	900,064	917,462	905,807	826,529
Imports of goods and services .....	739,230	814,571	826,694	806,258	739,189
GDP at purchasers' prices (A+B+C+D-E) .....	1,229,312	1,300,769	1,362,815	1,421,454	1,342,027
Balance of primary income .....	(18,011)	(19,050)	(28,237)	(22,533)	(11,577)
<b>GNI (F+G) .....</b>	<b><u>1,211,301</u></b>	<b><u>1,281,719</u></b>	<b><u>1,334,578</u></b>	<b><u>1,398,921</u></b>	<b><u>1,330,450</u></b>

### Notes:

<sup>P</sup> Preliminary.

(1) Includes investment of public corporations.

(2) Includes statistical discrepancy arising from balancing.

Sources: Department of Statistics Malaysia.

## Foreign Direct Investment Flows

The following table sets out the FDI statistics in Malaysia for the years indicated.

### *Foreign direct investment in Malaysia*

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020<sup>P</sup></u>
	(RM billion)				
FDI in Malaysia (net) .....	47.0	40.4	30.7	31.7	13.9

Note:

<sup>P</sup> Preliminary.

Sources: Department of Statistics and BNM

FDI has been a key driver facilitating Malaysia's productive expansion from a commodity-dependent, agriculture-based economy into an industrialized economy with a vibrant manufacturing base well-positioned in the regional and global trade value chain. The rapid industrialization of developing countries in the 1970s-1980s was a pivotal period, with significant investments by multinational corporations in Malaysia, particularly in the manufacturing and mining sectors. These developments were shaped by the intensification of global manufacturing value chains, technological progress, a favorable demographic profile, and modern domestic infrastructure. At the same time, key domestic policies such as the Promotion of Investments Act (1986, as amended in 2014), the liberalization of foreign equity rules in the manufacturing sector, and the gradual liberalization of foreign equity rules in selected services sub-sectors have continued to attract FDI and enhance the competitive environment in domestic industries.

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, where property constitutes more than 50.0 per cent. 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 amounting 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 per cent. 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.

Malaysia has continued to attract inflows of FDI over recent years, primarily driven by the economy's stable growth prospects and international competitiveness:

- In 2016, FDI in Malaysia recorded a net inflow of RM47.0 billion (2015: RM39.4 billion) and the FDI position registered RM547.4 billion. This was supported by higher net inflow in equity and investment fund shares. The Asia region was the main source of FDI flows with Hong Kong, Singapore and China being the top three countries from the region, accounting for RM35.1 billion (74.6 per cent.), followed by Europe with RM6.7 billion (14.2 per cent.). 50.9 per cent. from FDI flows were channeled to the services sector, mainly in the financial and insurance/takaful activities as well as the utilities subsector. Both the manufacturing and mining and quarrying sectors constituted 43.3 per cent. of total FDI flows.
- In 2017, FDI in Malaysia recorded net inflows of RM40.4 billion (2016: 47.0 billion) and the FDI position expanded to RM595.5 billion. The top contributing regions were from Asia with a share of 68.5 per cent, followed by Europe and Africa. Within Asia, Hong Kong remained the prominent investor country, while China overtook Singapore as the second largest contributor. FDI flows were mainly channeled into the services sector, particularly in real estate, financial and insurance/takaful activities as well as information and communication activities. The mining and quarrying sector was the second highest recipient, followed by the manufacturing sector.
- In 2018, FDI in Malaysia recorded a net inflow of RM30.7 billion (2017: RM40.4 billion) while the accumulated FDI position increased to RM639.7 billion, supported by the services and manufacturing sectors. FDI flows were in a continuous downward trend since 2017 due to lower investment in the mining and quarrying sector. The Asian and Europe regions contributed 47.8 per cent. and 31.8 per cent. of total FDI, respectively, with Hong Kong as the highest contributor from the Asian region. FDI flows were mainly channeled into the services sector, the primary recipients being the real estate, financial and insurance/takaful activities. This was followed by the manufacturing and construction sectors.
- In 2019, FDI in Malaysia recorded a net inflow of RM31.7 billion (2018: RM30.7 billion), an increase of 3.1 per cent. due to a higher injection of equity from Japan in health activity. In terms of position, FDI increased to RM691.6 billion, supported by the services and manufacturing sectors. Major contributors by country for FDI flows were Japan, Hong Kong and the Netherlands while Singapore, Hong Kong and Japan were the top countries for FDI position. FDI flows were mainly channeled to the services sector, particularly in health, real estate and financial activities. The manufacturing sector was the second highest recipient, mainly in the form of debt instruments and equity in refined petroleum and E&E products, respectively, followed by the mining and quarrying sector.
- In 2020, FDI in Malaysia recorded a net inflow of RM13.9 billion (2019: RM31.7 billion) amid the contraction in global economic activity, domestic lockdown measures to contain the COVID-19 pandemic as well as low commodity prices. In terms of position, FDI increased marginally to RM703.5 billion. FDI flows were mainly channeled into the financial services and information communication services sub-sectors as well as the manufacturing and mining sectors. Singapore (30.1 per cent. of net FDI for the year), Thailand (24.7 per cent.) and China (16.9 per cent.) were the top contributors to FDI for the year.

As a result of the COVID-19 pandemic, there have also been a number of policies announced by the Government that are expected to have a positive impact on FDI. For instance, the recently announced PENJANA economic stimulus package provides new tax incentives to attract foreign companies to relocate their operations to Malaysia. In particular, the package: (i) dedicates RM50 million and includes (among other things) advantageous tax rates and allowances, running from July 2020 to December 2021, alongside the reduced processing time for

manufacturing license applications for non-sensitive sectors; and (ii) establishes a RM1.2 billion investment fund to support the digitalization of Malaysian businesses, with half of the fund sourced from international investors. Furthermore, in 2020 BNM amended some of the previously issued foreign exchange administration notices, consolidating approval requirements and streamlining the process of foreign exchange, which will allow Malaysian corporates to tap into foreign capital with greater flexibility.

### Principal Sectors of the Economy

The following table sets out GDP by economic activity at constant 2015 prices for the years indicated.

#### *GDP by kind of economic activity*

	2016	2017	2018	2019	2020 <sup>P</sup>
	(RM million)				
Agriculture .....	93,977	99,509	99,579	101,549	99,331
Mining and quarrying .....	105,368	105,838	103,512	101,438	91,342
Manufacturing .....	273,899	290,464	304,843	316,320	308,054
Construction .....	59,508	63,522	66,194	66,266	53,406
Services .....	680,561	723,361	772,685	820,069	774,857
Plus: import duties .....	16,000	18,076	16,002	15,812	15,037
<b>GDP at purchasers' value .....</b>	<b>1,229,312</b>	<b>1,300,769</b>	<b>1,362,815</b>	<b>1,421,454</b>	<b>1,342,027</b>
	(Annual change (%))				
Agriculture .....	(3.7)	5.9	0.1	2.0	(2.2)
Mining and quarrying .....	2.2	0.4	(2.2)	(2.0)	(10.0)
Manufacturing .....	4.4	6.0	5.0	3.8	(2.6)
Construction .....	7.4	6.7	4.2	0.1	(19.4)
Services .....	5.7	6.3	6.8	6.1	(5.5)
Plus: import duties .....	8.8	13.0	(11.5)	(1.2)	(4.9)
<b>GDP at purchasers' value .....</b>	<b>4.4</b>	<b>5.8</b>	<b>4.8</b>	<b>4.3</b>	<b>(5.6)</b>

Notes:

<sup>P</sup> Preliminary.

(1) Numbers may not necessary add up due to rounding.

Sources: Department of Statistics and Ministry of Finance, Malaysia.

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, information and communication, finance and insurance and real estate and business services sub-sectors) has gained importance, benefiting from the rapid pace of industrialization. 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.

GDP at purchasers' value grew by 4.4 per cent. in 2016. The agriculture sector decreased by 3.7 per cent, attributable mainly to the decline in CPO and rubber productions. The mining and quarrying sector increased by 2.2 per cent., attributed to higher natural gas production following the resumption of operations at the Sabah-Sarawak gas pipeline and the commissioning of new facilities. The manufacturing sector increased by 4.4 per cent., supported by the increase in petroleum, chemical, rubber and plastic products; electrical, electronic and optical products; as well as non-metallic mineral products, basic metal and fabricated metal products subsectors.

The construction sector increased by 7.4 per cent., attributed to the steady performance in civil engineering and residential buildings subsectors. The services sector increased by 5.7 per cent., as a result of higher activity in the wholesale and retail trade, information and communication, as well as food & beverages and accommodation subsectors.

GDP at purchasers' value grew by 5.8 per cent. in 2017. The agriculture sector rebounded by 5.9 per cent., attributed to higher production of palm oil and rubber. The mining and quarrying sector moderated to 0.4 per cent., weighed down by lower production of crude oil and condensate. The manufacturing sector increased by 6.0 per cent., attributed to increase in petroleum, chemical, rubber and plastic products; electrical, electronic and optical products; as well as vegetable and animal oils and fats and food processing subsectors. The construction sector increased by 6.7 per cent., as all segments recorded positive growth led by civil engineering and special construction activities subsectors. The services sector increased by 6.3 per cent., as a result of strong domestic consumption activities.

GDP at purchasers' value grew by 4.8 per cent. in 2018. The agriculture sector grew at a moderate pace of 0.1 per cent., as a result of production constraints following adverse weather conditions affected rubber and palm oil productions. The mining and quarrying sector decreased by 2.2 per cent., as a result of decline in natural gas production as operations in East Malaysia were affected by pipeline repairs and unplanned maintenance shutdown. The manufacturing sector increased by 5.0 per cent., attributed to increase in petroleum, chemical, rubber and plastic products; electrical, electronic and optical products; as well as transport equipment, other manufacturing and repair subsectors. The construction sector increased by 4.2 per cent., following an increase in civil engineering and special construction activities subsectors. The services sector increased by 6.8 per cent., as a result of higher domestic consumption and tourism activities as well as strong demand for ICT, transport and finance.

GDP at purchasers' value grew by 4.3 per cent. in 2019. The agriculture sector increased by 2.0 per cent., owing to recovery in oil palm and rubber subsectors. The mining and quarrying sector decreased by 2.0 per cent., as crude oil output was weighed down mainly by maintenance works and voluntary supply adjustments. The manufacturing sector increased by 3.8 per cent., attributed to the increase in petroleum, chemical, rubber and plastic products; electrical, electronic and optical products; as well as transport equipment, other manufacturing and repair subsectors. The construction sector increased by 0.1 per cent., supported by increase in civil engineering and special construction activities subsectors. The services sector increased by 6.1 per cent., as a result of resilient domestic demand.

GDP at purchasers' value contracted by 5.6 per cent. in 2020, affected by the domestic containment measures amid the spread of the COVID-19 pandemic. The agriculture sector decreased by 2.2 per cent., as a result of lower production of palm oil and rubber following supply disruptions and cutbacks in fertilizers by smallholders in 2019. The mining and quarrying sector decreased by 10.0 per cent., as crude oil and natural gas production were impacted by maintenance closures and weak external demand for commodities. The services sector decreased by 5.5 per cent., as a result of significant decline in food & beverages and accommodation; transportation and storage; and real estate and business services subsectors due to the effects of the COVID-19 pandemic and the resulting travel bans, domestic movement restrictions and quarantines as well as temporary business closure. The manufacturing sector decreased by 2.6 per cent., owing to the decline in non-metallic mineral products, basic metal and fabricated metal products; food, beverages and tobacco; as well as transport equipment and other manufacturing subsectors due to the effects of the COVID-19 pandemic and the resulting MCOs by the Government to curb the spread of COVID-19 infections. The construction sector decreased by 19.4 per cent., following closure of construction activities due to COVID-19, which resulted in all segments declining significantly, coupled with prolonged property overhang issues.

## **Services**

The services sector comprises a wide range of activities which can be broadly classified into intermediate services (comprising transportation and storage, finance and insurance, information and communication and real estate and business services) and final services (comprising utilities, wholesale and retail trade, food & beverages and accommodation, government services and other services). The services sector grew at an average annual rate of 3.9 per cent. between 2016 and 2020.

The following table sets out the growth in the services sector at constant 2015 prices for the years indicated.

***Growth in services sector***

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020<sup>P</sup></u>
	<b>(Annual change (%))</b>				
<b>Intermediate Services</b>					
Transportation and storage .....	5.7	6.2	6.4	6.8	(21.9)
Finance and insurance .....	2.7	4.7	5.4	4.6	2.7
Information and communication .....	8.0	8.6	8.3	6.6	6.0
Real estate and business services .....	6.9	7.6	7.6	7.8	(15.2)
<b>Final Services</b>					
Utilities .....	5.4	2.9	4.9	6.0	(1.3)
Wholesale and retail trade .....	6.3	7.2	8.2	6.7	(6.1)
Food & beverages and accommodation .....	7.2	7.5	9.0	9.6	(26.5)
Government services <sup>(1)</sup> .....	4.8	4.8	4.5	3.7	4.5
Other services <sup>(2)</sup> .....	4.9	5.1	5.5	5.5	(10.5)
<b>Total services<sup>(3)</sup> .....</b>	<b>5.7</b>	<b>6.3</b>	<b>6.8</b>	<b>6.1</b>	<b>(5.5)</b>

*Notes:*

<sup>P</sup> Preliminary.

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

(2) 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 2016, the services sector grew by 5.7 per cent., as a result of higher activity in the wholesale and retail trade, information and communication, as well as food & beverages and accommodation subsectors. The transportation and storage sub-sector increased by 5.7 per cent., due to higher passenger traffic in the land and air transport segment. The finance and insurance sub-sector increased by 2.7 per cent., due to a steady increase in premium income amid lower claims in the motor segment. The information and communication sub-sector increased by 8.0 per cent., due to aggressive promotional campaigns undertaken by telecommunication companies. The real estate and business services sub-sector increased by 6.9 per cent., due to higher demand for professional services, particularly engineering, legal and accounting services. The utilities sub-sector increased by 5.4 per cent., due to higher electric consumption by the industrial, commercial and mining segment. The wholesale and retail trade sub-sector increased by 6.3 per cent., due to expansion in the wholesale trade segment driven by fee or contract basis; food, beverages and tobacco; and other specialized wholesale activities. The food & beverages and accommodation sub-sector increased by 7.2 per cent., due to strong domestic consumption and tourism related activities. The government services sub-sector increased by 4.8 per cent., due to higher emoluments. The other services sub-sector increased by 4.9 per cent., due to strong demand for private education and quality healthcare as well as a continuous effort to promote health tourism.

In 2017, the services sector grew by 6.3 per cent., as a result of strong domestic consumption activities. The transportation and storage sub-sector increased by 6.2 per cent., supported by higher passenger traffic in the land transport segment. The finance and insurance sub-sector increased by 4.7 per cent., due to strong financing activities on account of higher growth in Financial Intermediation Services Indirectly Measured (“**FISIM**”), and interest and fee-based incomes. The information and communication sub-sector increased by 8.6 per cent., due to aggressive promotional activities by telecommunication companies and the introduction of new telephone models. The real estate and business services sub-sector increased by 7.6 per cent., due to sustained demand for professional services, particularly engineering services in the construction sector, as well as legal and accounting services. The utilities sub-sector increased by 2.9 per cent., due to higher consumption in the industrial segment.

The wholesale and retail trade sub-sector increased by 7.2 per cent., due to higher retail activities owing to the stronger sale of cultural and recreation goods as well as information and communication equipment. The food & beverages and accommodation sub-sector increased by 7.5 per cent., due to higher consumer spending and domestic tourism activities. The government services sub-sector increased by 4.8 per cent., due to expenditure in emoluments. The other services sub-sector increased by 5.1 per cent., due to strong demand for private education as well as high-quality and affordable healthcare services.

In 2018, the services sector grew by 6.8 per cent., as a result of higher domestic consumption and tourism activities, as well as strong demand for information and communications technology, transport and finance. The transportation and storage sub-sector increased by 6.4 per cent., due to higher passenger movement driven by the festive season, school holidays and the general election. The finance and insurance sub-sector increased by 5.4 per cent., supported by insurance activities following higher premium income amid lower claims. The information and communication sub-sector increased by 8.3 per cent., due to higher usage of broadband services and smart application. The real estate and business services sub-sector increased by 7.6 per cent., driven by sustained demand for professional services, particularly legal and accounting services. The utilities sub-sector increased by 4.9 per cent., led by sustained demand in water and sewerage. The wholesale and retail trade sub-sector increased by 8.2 per cent., due to higher consumption activities especially with the three-months zero-rated GST. The food & beverages and accommodation sub-sector increased by 9.0 per cent., supported by strong domestic tourism activities and an increase in patronage of restaurants. The government services sub-sector increased by 4.5 per cent., due to expenditure in emoluments. The other services sub-sector increased by 5.5 per cent., due to strong demand for private education and healthcare services.

In 2019, the services sector grew by 6.1 per cent., as a result of resilient domestic demand. The transportation and storage sub-sector increased by 6.8 per cent., due to an increase in the land transport segment, especially in respect of rail services. The finance and insurance sub-sector increased by 4.6 per cent., driven by the finance segment and higher growth in FISIM and fee-based income. The information and communication sub-sector increased by 6.6 per cent., led by communication and computer services segments. The real estate and business services sub-sector increased by 7.8 per cent., due to demand for professional services, particularly legal, accounting and engineering services. The utilities sub-sector increased by 6.0 per cent., led by the water and sewerage segment. The wholesale and retail trade sub-sector increased by 6.7 per cent., due to expansion in the retail segment, particularly with the increasing number of convenience stores. The food & beverages and accommodation sub-sector increased by 9.6 per cent., mainly supported by domestic consumption and tourism activities. The government services sub-sector increased by 3.7 per cent., due to expenditure in emoluments. The other services sub-sector increased by 5.5 per cent., due to sustained demand for private education and healthcare services.

In 2020, the services sector contracted by 5.5 per cent., with most subsectors recording negative growth largely due to worldwide travel bans, domestic movement restrictions and quarantines, which severely affected the tourism-related sub-sectors and airlines. Among the subsectors that have been severely affected are wholesale and retail trade, food & beverages and accommodation, transportation and storage as well as real estate and business services. However, subsectors that correlate with private consumption, such as the finance, insurance and information and communication subsectors, contributed to positive growth that cushioned the overall decline. The information and communication subsector increased by 6.0 per cent., supported by a stronger communication segment resulting from increased usage of internet by households, online transactions and entertainment, as well as learning and work from home activities. The finance and insurance subsector increased by 2.7 per cent., with an expansion in the insurance segment, reflecting the net impact of higher premium amid lower claims. In contrast, the wholesale and retail trade sub-sector contracted by 6.1 per cent., due to disruption to the global and domestic supply chain. The real estate and business services sub-sector decreased with double-digit growth at 15.2 per cent., on the account of lower leasing and renting of property. Similarly, the transportation and storage subsector declined significantly by 21.9 per cent., with all segments severely affected by the border closure and lower trade activities. The food & beverages and accommodation subsector contracted substantially by 26.5 per cent., due to stringent travel restriction on movement and business operation. The utilities sub-sector declined by 1.3 per cent., due to lower usage by the industrial segment. The other services subsector decreased by 10.5 per cent., following lower medical travelers and decline in enrolments in private colleges and universities. Meanwhile, government services subsector increased by 4.5 per cent., due to expenditure in emoluments.

## Manufacturing

The following table sets out the production indices at constant 2015 prices for the principal industrial products of Malaysia for the years indicated.

### *Growth in manufacturing production*

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
			(Index)		
<b>Domestic-oriented industries</b> .....	<b>102.8</b>	<b>108.3</b>	<b>114.0</b>	<b>119.8</b>	<b>111.8</b>
Construction-related cluster .....	104.2	109.3	114.7	119.5	104.9
Non-metallic mineral products .....	104.4	109.1	115.1	120.3	103.1
Basic metals .....	102.1	107.6	112.1	116.6	111.0
Fabricated metal products .....	105.2	110.5	116.0	120.7	102.7
Consumer-related cluster .....	102.0	107.0	113.6	120.2	117.7
Food products .....	105.8	111.7	119.1	127.4	133.2
Transport equipment .....	96.3	101.0	107.7	114.8	110.3
Beverages .....	109.7	119.8	123.7	127.5	108.9
Tobacco products .....	103.2	105.4	107.3	113.6	95.4
Others .....	104.8	107.7	114.4	117.6	112.8
<b>Export-oriented industries</b> .....	<b>105.1</b>	<b>111.9</b>	<b>117.0</b>	<b>120.3</b>	<b>119.4</b>
Primary-related cluster .....	103.5	109.7	113.5	116.6	113.5
Chemicals and chemical products .....	105.3	109.5	114.4	116.8	112.1
Petroleum products .....	103.1	106.7	110.2	113.2	101.3
Textiles, wearing apparel, leather products and footwear products .....	106.8	115.3	120.2	126.6	110.3
Wood and wood products .....	105.6	110.7	115.7	121.6	109.2
Rubber products .....	104.1	110.5	115.8	123.9	189.7
Off-estate processing .....	96.9	114.1	114.1	112.4	108.3
Paper and paper products .....	104.9	110.3	114.7	119.6	115.0
Electronics and electrical products cluster .....	107.4	115.7	122.4	126.3	128.6
Electronics .....	109.4	120.5	128.5	131.9	135.7
Electrical products .....	105.0	110.2	115.4	120.0	120.3
<b>All industries</b> .....	<b>104.3</b>	<b>110.7</b>	<b>116.0</b>	<b>120.1</b>	<b>116.9</b>

Source: Department of Statistics.

The manufacturing sector has been one of the fastest 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 SMEs and to enhance ICT infrastructure.

In 2016, manufacturing production grew by 4.3 per cent., as a result of an increase in all segments namely computer, electronics and optical products; coke and refined petroleum products; as well as chemicals and chemical products, contributing to the growth of the export-oriented industries by 5.1 per cent. while contributing

to the growth of the domestic-oriented industries by 2.8 per cent. as a result of improvement in food products; fabricated metal products, except machinery and equipment as well as other non-metallic mineral products segments.

In 2017, manufacturing production grew by 6.1 per cent., as a result of an increase in all segments, namely computer, electronics and optical products; coke and refined petroleum products; as well as vegetable and animal oils and fats, contributing to the growth of the export-oriented industries by 6.5 per cent. while contributing to the growth of the domestic-oriented industries by 5.3 per cent. as a result of improvement in segments including food products; fabricated metal products, except machinery and equipment as well as motor vehicles, trailers and semi-trailers.

In 2018, manufacturing production grew by 4.8 per cent., supported by an increase in computer, electronics and optical products; chemicals and chemical products as well as rubber products segments, contributing to the growth of the export-oriented industries by 4.5 per cent. while improvement in segments namely food products; motor vehicles, trailers and semi-trailers; as well as other non-metallic mineral products contributed to the growth of the domestic-oriented industries by 5.3 per cent.

In 2019, manufacturing production grew by 3.6 per cent., as a result of an increase in segments, namely coke and refined petroleum products; electrical equipment; as well as rubber products, contributing to the growth of the export-oriented industries by 2.9 per cent. while improvement in food products; motor vehicles, trailers and semi-trailers; as well as other non-metallic mineral products segments contributed to the growth of the domestic-oriented industries by 5.0 per cent.

In 2020, manufacturing production decreased by 2.7 per cent., as a result of a decrease in coke and refined petroleum products; chemicals and chemical products; as well as wood and products of wood and cork (except furniture); manufacture of articles of straw and plaiting materials segments, contributing to the contraction of the export-oriented industries by 0.7 per cent. while decline in fabricated metal products, except machinery and equipment; other non-metallic mineral products as well as other transport equipment segments contributed to the contraction of the domestic-oriented industries by 6.6 per cent.

The E&E segment is projected to accelerate in line with the digital transformation as work from home and virtual communication become part of new business practices. Higher demand for integrated circuits, memory and microchips within the global semiconductor market will further support the segment. The production of chemical and rubber products is expected to expand rapidly in tandem with the increase in demand for disinfectants, sanitizers and rubber gloves. With the economic recovery, consumer-related products will benefit from higher household disposable income, while construction-related products will be supported by major infrastructure and affordable housing projects.

## **Agriculture**

The following table summarizes production and export volumes of the major agricultural commodities for the years indicated.

### ***Agricultural production and export volume***

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020<sup>P</sup></u>
<b>Palm oil</b>					
Production volume ('000 tonnes) . . . . .	17,319	19,919	19,516	19,858	19,137
Export volume ('000 tonnes) . . . . .	15,310	15,188	15,364	17,429	16,216
Gross exports (RM million) . . . . .	41,443	46,085	38,655	39,128	45,656
<b>Natural rubber</b>					
Production volume ('000 tonnes) . . . . .	674	746	603	640	515
Export volume ('000 tonnes) . . . . .	642	616	639	631	565
Gross exports (RM million) . . . . .	3,614	4,726	3,774	3,773	3,286

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*Note:*

<sup>P</sup> Preliminary.

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

The agriculture sector is 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 2016 and 2020, GDP attributable to the agriculture sector grew at an average annual rate of around 7.4 per cent. 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 2016 to 2020, as shown by an increase of the agro-based value-added of 6.2 per cent.

The Third National Agriculture Policy, launched by the Government and covering 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.

Furthermore, the agriculture sector is expected to play a significant role towards achieving a high-income economy by 2020 through 28 entry point projects identified under the NKEA initiative. The NKEA initiative on agriculture, which focuses on palm oil, rubber and high-value agriculture, is designed to increase private investment in commercial and large-scale agriculture ventures with the Government providing the hard infrastructure and other supportive measures.

In addition, sustainable agriculture production is also emphasized under the current National Policy on Biological Diversity 2016-2025. It serves as a national blueprint for the overall biodiversity management in Malaysia as well as to fulfil its obligations under the Convention on Biological Diversity, to which Malaysia became a party in 1994.

In 2016, the agriculture sector declined by 3.7 per cent., mainly due to the decline in CPO and rubber productions. In 2017, the agriculture sector rebounded by 5.9 per cent., supported by higher production of palm oil and rubber. In 2018, the agriculture sector grew at moderate pace of 0.1 per cent., as a result of production constraints following adverse weather conditions affecting rubber and palm oil productions. In 2019, the agriculture sector grew by 2.0 per cent., driven by the recovery in oil palm and rubber subsectors.

The agriculture sector contracted by 2.2 per cent. in 2020 due to lower growth of the oil palm and rubber subsectors following supply disruptions. The oil palm subsector was affected even before the COVID-19 pandemic, as a result of dry weather and cutbacks in fertilizers by smallholders in 2019. The rubber subsector also declined due to unfavorable weather and the effects of MCO to curb the COVID-19 pandemic. The agriculture sector was further affected by the MCO, which led to lower production across most subsectors. The output of livestock and other agriculture subsectors expanded, supported by stable demand for food items.

## Palm Oil Prices

In 2016, average palm oil prices were RM2,652 per ton, due to lower production of CPO, affected by the El Niño weather condition. In 2017, average palm oil prices were RM2,791 per ton, backed by strong demand. In 2018, average palm oil prices were RM2,235 per ton, following increased crude palm oil production as a result of favorable weather condition and expansion in oil palm matured areas. In 2019, average palm oil prices were RM2,127 per ton, attributed to higher palm oil production and stocks. In 2020, average palm oil prices were RM3,030 per ton following lower production of crude palm oil due to shortage of workers amid the COVID-19 pandemic.

## 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*

	2016	2017	2018	2019	2020 <sup>P</sup>
<b>Crude petroleum</b>					
Production volume ('000 tonnes) . . . . .	31,838	31,118	31,054	29,014	25,979
Export volume ('000 tonnes) . . . . .	15,907	15,736	16,496	12,452	13,011
Gross exports (RM million) . . . . .	22,319	28,255	36,649	26,346	18,864
<b>Liquefied natural gas</b>					
Production volume ('000 tonnes) . . . . .	49,816	52,920	49,489	50,885	47,033
Export volume ('000 tonnes) . . . . .	24,868	26,794	23,955	25,498	24,458
Gross exports (RM million) . . . . .	32,709	41,417	42,322	42,484	28,835

Notes:

<sup>P</sup> Preliminary.

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

Malaysia has a wide range of mineral resources and its energy industry is an important sector of growth for the economy. Energy policy in Malaysia is set and overseen by the EPU and the Implementation and Coordination Unit (“ICU”), which reports directly to the Office of the Prime Minister. Minerals produced by Malaysia in significant quantities include hydrocarbons (petroleum and natural gas). Between 2016 and 2020, the mining sector declined at an average annual rate of -2.3 per cent, while the GDP attributable to the mining sector grew at an average annual rate of around 7.6 per cent. As at January 2020, Malaysia held proved oil reserves of 3.6 billion barrels, the fourth-largest reserves in Asia Pacific after China, India, and Vietnam, as well as 41.8 trillion cubic feet of proved natural gas.

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. In December 2020, the State Government of Sarawak and PETRONAS signed a key agreement that enables Petroleum Sarawak Berhad (“Petros”), a state-owned oil and gas exploration firm established and owned by the State Government of Sarawak, to play a greater role in its own oil and gas industry through co-operation with PETRONAS. In particular, the agreement provides for Petros’ greater active involvement in Sarawak’s oil

and gas industry and enables Petros to invest in upstream ventures in the Sarawak's offshore waters. In addition, there are also ongoing discussions between the East Malaysia State of Sabah and PETRONAS, pursuant to which the former is demanding greater involvement for Sabah in its oil and gas operations and a larger share of revenue from Sabah's production.

In 2016, the value-added segment of the mining sector increased by 2.2 per cent., supported by upturn in production of natural gas. In 2017, the value-added segment of the mining sector expanded at moderate pace of 0.4 per cent., weighed down by lower production of crude oil and condensate. In 2018, the value-added segment of the mining sector decreased by 2.2 per cent., due to lower output of natural gas, following unplanned maintenance shutdown and pipeline repairs. In 2019, the value-added segment of the mining sector decreased 2.0 per cent., due to facility closures and maintenance work affecting both crude oil and natural gas output. In 2020, the value-added segment of the mining sector decreased 10.0 per cent., as crude oil and natural gas production were impacted by maintenance closures and weak external demand for commodities.

In 2016, export earnings from crude oil and LNG decreased by 14.4 per cent. and 26.7 per cent., respectively, due to low commodity prices. Average export prices of crude oil were U.S.\$45 per barrel during the year.

In 2017, export earnings from crude oil and LNG were each higher by 26.6 per cent., as a result of price recovery. Average export prices of crude oil were U.S.\$55 per barrel during the year.

In 2018, export earnings from crude oil and LNG grew by 29.7 per cent. and 2.2 per cent., respectively, despite supply disruptions due to unplanned maintenance shutdown and pipeline repairs during the year. Average export prices of crude oil were U.S.\$72 per barrel during the year.

In 2019, export earnings from crude oil declined by 28.1 per cent., while exports of LNG grew marginally by 0.4 per cent., due to recurrence in supply disruptions in the second half of the year. Average export prices of crude oil were lower at U.S.\$67 per barrel during the year.

In 2020, export earnings from crude oil and LNG edged down by 28.4 per cent., and 32.1 per cent., respectively, as a result of lower global demand amid the COVID-19 pandemic. Average export prices of crude oil fell further to U.S.\$45 per barrel during the year.

## **Construction**

The construction sector comprises four sub-sectors: residential buildings; non-residential buildings; civil engineering; and specialized construction activities. Specialized construction activities 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 2016 and 2020, the total value of construction works completed was at RM675 billion. The awarded projects comprised private sector projects amounting to RM398 billion (or 58.9 per cent.), with the remaining RM277 billion (or 41.1 per cent.) contributed by Government-related projects.

In 2016, the construction sector expanded by 7.4 per cent., supported by an increase in the civil engineering, residential buildings and specialized construction activities subsectors. The civil engineering subsector registered a growth of 15.7 per cent., followed by the residential buildings subsector by 8.5 per cent. and the specialized construction activities subsector by 6.1 per cent. Meanwhile, the non-residential buildings subsector contracted 1.1 per cent. In 2017, the construction sector expanded by 6.7 per cent., as all segments recorded positive growth led by the civil engineering and specialized construction activities subsectors. The civil engineering subsector increased by 13.8 per cent., followed by the specialized construction activities subsector by 7.7 per cent., the residential buildings subsector by 2.7 per cent. and the non-residential buildings subsector by 2.2 per cent. In 2018, the construction sector expanded by 4.2 per cent., supported by an increase in the civil engineering, residential buildings and specialized construction activities subsectors. The civil engineering and specialized construction activities subsectors recorded a growth of 15.3 per cent. and 8.7 per cent., respectively. In 2019, the

construction sector expanded by 0.1 per cent., as a result of an increase in the civil engineering and specialized construction activities subsectors. The civil engineering and specialized construction activities subsectors recorded a growth of 6 per cent. and 3.2 per cent., respectively. In 2020, the construction sector contracted by 19.4 per cent., as all segments declined significantly along with the issue of prolonged property overhangs. The civil engineering subsector contracted by 27.9 per cent., followed by the non-residential buildings (-17.3 per cent.), the residential buildings (-17.1 per cent.) and the specialized construction activities subsectors (-7.3 per cent.).

The construction sector continued to grow with the implementation of projects pursuant to the ETP, the Tenth Malaysia Plan (2011-2015) (“**10MP**”), the 11MP and the 12MP. 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 while the sector is expected to benefit from projects earmarked during the 10MP, the 11MP and the 12MP.

As at the date hereof, 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;
- Tanjung Bin, Janamanjung 4, Kimanis, Prai, Hulu Terengganu Hydro and Ulu Jelai Hydro power plants;
- Extension of Kelana Jaya and Ampang light rail transit lines;
- River of Life (a project which includes the cleaning up of the Klang river);
- MY Rapid Transit Line 1 (Sungai Buloh-Kajang);
- 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;
- Janamanjung 5 power plant; and
- Refinery and Petrochemical Integrated Development (“**RAPID**”) Complex in Pengerang.

The civil engineering subsector will continue to be the main driver of the construction sector. Among the major infrastructure projects are Mass Rapid Transit 2 (“**MRT2**”), Light Rail Transit 3 (“**LRT3**”), West Coast Expressway (WCE) and Bayan Lepas Light Rail Transit (“**LRT**”) as well as Pan Borneo and Coastal Highways in Sarawak. Utility projects include the Langat 2 Water Treatment Plant, Baleh Hydroelectric Dam and Sarawak Water Supply Grid Program (Phase 1). The residential subsector is anticipated to improve, supported by various measures taken by the Government to address the property overhang situation. Among the measures include the extension of HOC, exemption of RPGT, the introduction of RTO scheme as well as reduction of foreign ownership threshold. The performance of the non-residential subsector is expected to recover marginally, supported by on-going commercial projects, including Bukit Bintang City Center, Cyberjaya City Center, Forest City and Malaysia Vision Valley 2.0.

## Gross National Savings

Malaysia has sustained a relatively high rate of savings, averaging 27 per cent. of GNI during the five-year period ending 2020. 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 EPF scheme. From 2016 to 2020, gross national savings ("GNS") decreased from RM354.8 billion to RM340.6 billion, equivalent to an average growth rate of 0.6 per cent. annually. GNS 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 savings-investment gap in Malaysia has narrowed from the peak of 17.6 per cent. of GNI in 2008 to 4.5 per cent. of GNI in 2020. The sharp decline reflected the increase in investment activity, particularly during the period of 2012 to 2015. The strong growth in investment activity was in tandem with the on-going structural transformation in the domestic economy, particularly the shift towards high value-added manufacturing and services investment (such as telecommunications, transport and storage, E&E). However, the savings-investment gap in Malaysia has improved recently, from 2.5 per cent. in 2016 to 4.5 per cent. in 2020, corresponding to a weaker investment, which registered a contraction of 1.3 per cent. on average between 2016 and 2020, weighed by the completion of major infrastructure projects. The economy was also confronted with several external and domestic challenges, including trade tension between the United States and the People's Republic of China, volatile commodity prices, as well as unanticipated supply disruptions in the commodity sectors. In 2020, the COVID-19 pandemic has further weighed down on investment activity, resulting in overall investment to record the lowest growth since the Asian Financial Crisis.

In 2016, the savings-investment balance amounted to RM29.9 billion, or 2.5 per cent. of GNI. GNS increased to RM354.8 billion, or 29.2 per cent. of GNI, whereas total gross capital formation grew to 26.7 per cent. of GNI. In 2016, public investment accounted for 8.6 per cent. of GDP while private investment accounted for 16.8 per cent. of GDP.

In 2017, the savings-investment balance amounted to RM38.3 billion, or 2.9 per cent. of GNI. GNS increased to RM388.9 billion, or 29.2 per cent. of GNI, whereas total gross capital formation fell to 26.3 per cent. of GNI. In 2017, public investment accounted for 8.1 per cent. of GDP while private investment accounted for 17.3 per cent. of GDP.

In 2018, the savings-investment balance amounted to RM32.3 billion, or 2.3 per cent. of GNI. GNS decreased to RM378.4 billion, or 27.0 per cent. of GNI, whereas total gross capital formation fell to 24.7 per cent. of GNI. In 2018, public investment accounted for 7.4 per cent. of GDP while private investment accounted for 17.3 per cent. of GDP.

In 2019, the savings-investment balance amounted to RM50.9 billion, or 3.5 per cent. of GNI. GNS decreased to RM368.7 billion, or 25.1 per cent. of GNI, whereas total gross capital formation fell to 21.6 per cent. of GNI. In 2019, public investment accounted for 6.3 per cent. of GDP while private investment accounted for 16.8 per cent. of GDP.

In 2020, the savings-investment balance amounted to RM62.1 billion, or 4.5 per cent. of GNI. GNS decreased to RM340.6 billion, or 24.5 per cent. of GNI, whereas total gross capital formation fell to 20.0 per cent. of GNI. In 2020, public investment accounted for 5.2 per cent. of GDP while private investment accounted for 15.7 per cent. of GDP.

GNI in current prices declined by 5.5 per cent. in 2020, following slower economic activities. GNS also fell by 7.6 per cent. to RM340.6 billion. With total investment declining at a faster rate than savings, the savings-investment gap recorded a surplus of RM62.1 billion in 2020. In 2021, GNI is projected to rebound by 9.8 per cent. to RM1.53 trillion, while GNS by 3.7 per cent. to RM353 billion. In addition, the savings-investment gap is anticipated to record a lower surplus of RM44.3 billion in 2021. Nevertheless, the expected lowered surplus will continue to provide sufficient liquidity to finance domestic economic activities and be mobilized for long-term productive investment.

## Prices, Employment and Wages

### Prices

#### *Annual price increases*

The following table sets out the change in price indices in Malaysia for the years indicated.

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
	(Annual change (%))				
Consumer Price Index <sup>(1)</sup> .....	2.1	3.7	1.0	0.7	(1.2)
Producer Price Index <sup>(1)</sup> .....	(1.1)	6.7	(1.1)	(1.4)	(2.7)

*Note:*

(1) Base year 2010 = 100.

*Source: Department of Statistics.*

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.

To protect the welfare of lower-income groups, the Government also maintains a system of administered prices for a number of basic products, estimated to account for approximately 16.9 per cent. 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.

In 2016, inflationary pressures in the economy remained stable with headline inflation averaging 2.1 per cent. (2015: 2.1 per cent.). Despite the weaker ringgit exchange rate during the year, low global energy and commodity prices resulted in lower domestic fuel prices and input costs, which mitigated the impact of adjustments to administered prices and higher food prices caused by the El Niño phenomenon. Core inflation was also relatively stable during the year, averaging 2.1 per cent. in 2016 (2015: 2.3 per cent.) as demand driven inflationary pressures in the economy remained largely contained. This was underpinned by continued modest growth in private consumption and an absence of significant wage pressures.

In 2017, headline inflation increased to 3.7 per cent. (2016: 2.1 per cent.). Inflation remained volatile during the year and was primarily driven by higher domestic fuel prices. Higher global commodity prices and disruptions in domestic food supplies also contributed to higher inflation.

In 2018, headline inflation declined to 1.0 per cent. (2017: 3.7 per cent.). The moderation mainly reflected the impact of the fixing of retail fuel prices and the reduction in the GST rate. These factors more than offset upward cost pressures that remained present for some parts of 2018. Core inflation averaged lower at 1.6 per cent. (2017: 2.4 per cent.) amid smaller cost pass-through to retail prices and the absence of excessive demand pressures.

In 2019, headline inflation was lower at 0.7 per cent. (2018: 1.0 per cent.), while underlying inflation remained relatively stable (2019: 1.5 per cent.). The low inflation was due mainly to policies on retail fuel prices and festive season price controls, as well as the changes in consumption tax policy in 2018, which continued to exert an overall downward pressure on prices during the year.

In 2020, headline inflation was negative at -1.2 per cent. (2019: 0.7 per cent.), mainly reflecting the substantially lower retail fuel prices amid weaker global oil prices, as well as the implementation of a tiered electricity tariff rebate as part of policy support following the COVID-19 pandemic. Underlying inflation, as measured by core inflation, remained positive and subdued throughout the year, averaging at 1.1 per cent. to 1.3 per cent., amid spare capacity in the economy and weaker labor market conditions.

In 2021, headline inflation is expected to average higher, between 2.5 per cent. and 4.0 per cent., due mainly to cost-push factors such as the expected increase in global oil prices, as well as the lapse in the effect of the tiered electricity tariff rebate introduced in April 2020. In terms of trajectory, headline inflation is anticipated to temporarily spike in the second quarter of the year, due mainly to the lower base from the low domestic retail fuel prices during the corresponding period in 2020. Nevertheless, headline inflation is expected to moderate by the second half of 2021 as the base effect dissipates. Underlying inflation is expected to remain subdued amid the continued spare capacity in the economy. Core inflation is projected to average between 0.5 per cent. and 1.5 per cent. in 2021.

In addition, Malaysia 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 crude materials for further processing (such as foodstuffs and feedstuffs and non-food materials), intermediate materials, supplies and components (such as materials and components for manufacturing, construction as well as processed fuel and lubricants, container and supplies) and finished goods (finished consumer goods and capital equipment).

Producer prices decreased at an annual rate of 1.1 per cent. in 2016, compared to an annual decrease of 7.4 per cent. in 2015. The decrease in producer prices was driven mainly by mining and manufacturing, following improvement in both sectors.

Producer prices increased at an annual rate of 6.7 per cent. in 2017, compared to an annual decrease of 1.1 per cent. in 2016. The increase in producer prices was driven mainly by mining and manufacturing, following sustained growth in both sectors.

Producer prices decreased at an annual rate of 1.1 per cent. in 2018, compared to an annual increase of 6.7 per cent. in 2017. The decrease in producer prices was driven mainly by agriculture, forestry and fishing due to negative growth in palm oil and rubber commodity prices and output.

Producer prices decreased at an annual rate of 1.4 per cent. in 2019, compared to an annual decrease of 1.1 per cent. in 2018. The decrease in producer prices was driven mainly by agriculture, forestry and fishing and mining following the negative growth in forestry and logging as well as crude and oil condensates subsectors.

Producer prices decreased at an annual rate of 2.7 per cent. in 2020, compared to an annual decrease of 1.4 per cent. in 2019. The decrease in producer prices was driven mainly by mining and manufacturing, following decline in output for both sectors.

The PPI by sector was weighed down, particularly by a significant contraction in the mining sector (36.3 per cent.) followed by a contraction in other sectors, namely manufacturing (0.4 per cent.), electricity and gas supply (0.4 per cent.) and water supply (0.2 per cent.). In contrast, the index for agriculture, forestry and fishing sector rose by 15.7 per cent. The PPI is expected to improve in 2021 following the projected recovery of the domestic and global economy.

## 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,				
	2016	2017	2018	2019	2020 <sup>P</sup>
<b>Labor Force</b>					
Labor force (in thousands) . . . . .	14,667.8	14,980.1	15,280.3	15,581.6	15,807.2
Employment (in thousands) . . . . .	14,163.7	14,476.8	14,776.0	15,073.4	15,096.1
Unemployment rate (%) . . . . .	3.4	3.4	3.3	3.3	4.5
Labor force participation rate <sup>(1)</sup> (%)					
Total . . . . .	67.7	68.0	68.3	68.7	68.5
Male . . . . .	80.2	80.1	80.4	80.8	80.6
Female . . . . .	54.3	54.7	55.2	55.6	55.4
Number of collective agreements signed in the current year <sup>(2)</sup> . . . . .	308	269	294	298	n/a
Number of workers covered (in thousands) . . . . .	133.7	60.6	46.3	—	—
Labor productivity <sup>(3)</sup> . . . . .	3.1	3.8	2.3	2.1	(5.4)
Agriculture . . . . .	1.8	2.2	(0.2)	0.4	(1.8)
Mining and quarrying . . . . .	5.9	(4.8)	4.0	(1.6)	(7.9)
Manufacturing . . . . .	3.8	3.9	2.4	1.7	(2.6)
Construction . . . . .	8.8	6.8	3.4	3.3	(15.7)
Services . . . . .	2.0	4.3	3.5	2.9	(6.0)
Foreign workers (in thousands) . . . . .	1,866.4	1,797.4	2,015.8	1,999.6	2,309.6
<b>Employment by Industry (in thousands)</b>					
Agriculture, forestry and fishing . . . . .	1,609.9	1,635.0	1,570.3	1,541.1	1,865.9
Mining and quarrying . . . . .	96.3	97.2	90.8	91.0	73.6
Manufacturing . . . . .	2,390.6	2,513.3	2,499.9	2,681.5	2,551.7
Construction . . . . .	1,251.7	1,258.9	1,257.8	1,276.4	1,399.1
Services . . . . .	8,814.3	8,970.9	9,355.2	9,481.5	9,205.5
Electricity, gas, steam and air conditioning supply . . . . .	77.9	62.2	68.8	71.4	n/a
Water supply; sewerage, waste management and remediation activities . . . . .	76.4	81.0	88.6	88.8	n/a
Wholesale and retail trade; repair of motor vehicles and motorcycles . . . . .	2,428.5	2,485.4	2,544.6	2,594.5	n/a
Transportation and storage . . . . .	630.4	658.2	697.9	667.6	n/a
Accommodation and food & beverages service activities . . . . .	1,260.7	1,323.2	1,473.4	1,549.7	n/a
Information and communication . . . . .	208.7	220.3	216.4	213.9	n/a
Finance and insurance/ takaful activities . . . . .	346.9	369.0	338.6	335.1	n/a
Real estate activities . . . . .	82.4	84.5	97.2	92.1	n/a
Professional, scientific and technical activities . . . . .	361.8	348.1	367.7	385.7	n/a
Administrative and support service activities . . . . .	657.0	677.2	747.6	806.2	n/a
Public administration and defense; compulsory social security . . . . .	748.2	742.2	720.2	737.1	n/a
Education . . . . .	928.7	880.3	988.7	962.3	n/a
Human health and social work activities . . . . .	570.3	588.0	551.2	527.7	n/a

	As at December 31,				
	2016	2017	2018	2019	2020 <sup>P</sup>
Arts, entertainment and recreation .....	80.9	84.3	85.6	79.0	n/a
Others service activities .....	230.8	260.1	264.8	266.1	n/a
Activities of households as employers .....	124.7	106.9	103.9	104.3	n/a
<b>Total employment<sup>(4)</sup> .....</b>	<b>14,163.7</b>	<b>14,476.8</b>	<b>14,776.0</b>	<b>15,073.4</b>	<b>15,096.1</b>

Notes:

<sup>P</sup> Preliminary figures based on quarterly averages of data from Labour Force Survey and annual data from Labour Productivity statistics published by the Department of Statistics, Malaysia.

n/a Not Applicable.

(1) The ratio of the labor force to the working age population (15-64 years), expressed as a percentage.

(2) Based on the information in the collective agreement and the feedback from the employer for which cognizance has been given by the Industrial Court for the year.

(3) Annual change (%).

(4) Total includes 'Activities of extraterritorial organizations and bodies'.

Source: Department of Statistics, Ministry of Finance, Ministry of Home Affairs and Ministry of Human Resources Malaysia and BNM.

The following table sets out certain information regarding the employment of foreign workers for low-skilled 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,									
	2016		2017		2018		2019		2020	
	Total	%	Total	%	Total	%	Total	%	Total	%
Domestic servant .....	134,575	7.2	128,308	7.1	127,169	6.3	131,289	6.6	107,836	7.3
Agriculture .....	442,119	23.7	420,705	23.4	442,156	21.9	415,186	20.8	295,463	19.9
Mining .....	0	0.0	0	0.0	0	0.0	86	0.0	71	0.0
Manufacturing .....	648,621	34.8	645,388	35.9	705,016	35.0	697,124	34.9	529,689	35.7
Construction .....	387,934	20.8	355,968	19.8	435,002	21.6	440,964	22.1	324,357	21.9
Services .....	253,120	13.6	247,008	13.7	306,417	15.2	314,910	15.7	225,964	15.2
<b>Total .....</b>	<b>1,866,369</b>	<b>100.0</b>	<b>1,797,377</b>	<b>100.0</b>	<b>2,015,760</b>	<b>100.0</b>	<b>1,999,559</b>	<b>100.0</b>	<b>1,483,380</b>	<b>100.0</b>

Source: Ministry of Home Affairs ("MoHA").

From 2016 to 2020, the annual unemployment rate for Malaysia has remained low at an average of 3.6 per cent. For the last five years, Malaysia has been able to maintain its average unemployment rate at below 4.0 per cent., which indicates that the economy has achieved full employment under ILO standards. However, in 2020, the unemployment rate registered more than 4.5 per cent. as a result of the COVID-19 pandemic, higher than the pre-crisis level of below 4.0 per cent.

In 2016, labor market conditions remained broadly stable as employment and wages continued to expand. Net employment gains during the year amounted to 96,000 jobs, concentrated in the high-skilled segments such as professional and managerial jobs, while aggregate nominal wages in the private and public sectors grew by 4.7 per cent. and 6.5 per cent., respectively in 2016 (2015: 5.0 per cent. and 4.6 per cent., respectively). While total employment continued to expand, the pace was not able to fully absorb new labor market entrants as employers adopted a cautious stance and refrained from expanding their workforce too quickly. Consequently, the unemployment rate rose to 3.4 per cent. in 2016 (2015: 3.1 per cent.).

In 2017, labor market conditions improved, with stronger employment gains keeping pace with labor force expansion. The labor force expanded by 312,030 persons, while net employment gains amounted to 313,100 jobs, mostly driven by high- and mid-skilled workers. The unemployment rate during the year remained stable at 3.4 per cent. (2016: 3.4 per cent.). The labor force participation rate edged higher to 68.0 per cent. (2016: 67.7 per cent.) and employment growth tripled to 2.2 per cent. (2016: 0.7 per cent.), as employers were optimistic about the business outlook and thus continued to expand their workforce accordingly. The number of documented unskilled and semi-skilled foreign workers in Malaysia decreased during the year, with its share of total employment correspondingly declining to 14.7 per cent. from 14.9 per cent. at end-2016. Aggregate nominal wages in the private and public sectors grew by 6.8 per cent. and 6.3 per cent., respectively in 2017 (2016: 4.7 per cent. and 6.5 per cent.).

In 2018, employment growth in the labor market was strong at 2.1 per cent. (2017: 2.2 per cent.), amounting to an additional employment gain of 299,200 persons. Meanwhile, the labor force grew by 2.0 per cent. (2017: 2.1 per cent.), which amounted to 300,200 persons entering the labor force. The labor force participation rate also rose to 68.3 per cent. (2017: 68.0 per cent.). The unemployment rate declined slightly to 3.3 per cent. (2017: 3.4 per cent.). Net employment gains were driven mainly by high- and mid-skilled workers, which grew by 0.9 per cent. and 3.4 per cent. respectively. Reported retrenchments continued to decrease to 23,168 persons (2017: 35,097 persons), below the long-run average of 29,628 persons per annum. Aggregate nominal wages in the private and public sectors grew by 5.7 per cent. and 4.5 per cent., respectively (2017: 6.8 per cent. and 6.3 per cent., respectively).

In 2019, labor market conditions remained supportive of growth, despite recording softer employment growth, mainly driven by high- and mid-skilled workers, which grew by 3.2 per cent. and 1.5 per cent. respectively. Employment grew by 2.0 per cent. (2018: 2.1 per cent.), amounting to an additional employment gain of 297,400 persons, while the unemployment rate remained stable at 3.3 per cent. The labor force participation rate also rose to 68.7 per cent. (2018: 68.3 per cent.). Meanwhile, retrenchments rose to 29,605 persons per annum (2018: 23,168 persons; long-run average: 34,530 persons). Aggregate nominal wages in the private and public sectors grew at a slower rate of 4.4 per cent. and 3.7 per cent., respectively in 2019 (2018: 5.7 per cent. and 4.5 per cent., respectively).

In 2020, labor market conditions were significantly impacted by restrictions imposed throughout the year to curb the spread of the COVID-19 pandemic. Employment growth contracted by 0.2 per cent. (2019: 2.1 per cent.), amounting to a net employment loss of 30,000 persons, while the unemployment rate rose to 4.5 per cent. of the labor force, the highest in the past 30 years (2019: 3.3 per cent.). The COVID-19 pandemic also had a particular impact on time-related underemployment, which increased to 367,000 persons, or 2.3 per cent. of the labor force (2019: 191,000 persons or 1.2 per cent.), mainly due to the imposition of movement and labor restrictions during the MCO in the second quarter. Consequently, the labor force participation rate declined slightly during the year, to 68.5 per cent. of the working age population (2019: 68.7 per cent.). Meanwhile, retrenchments rose to 104,432 persons per annum (2019: 29,605 persons). Aggregate nominal wages in the private sector declined by 2.4 per cent. in 2020 (2019: 4.4 per cent.) while public sector wages increased modestly, by 2.0 per cent. (2019: 3.7 per cent.). Overall, growth of wages per worker was flat in 2020 (-0.01 per cent.; 2019: 3.0 per cent.).

Nevertheless, the labor market condition is anticipated to progressively recover in 2021. With the expectation of a more encouraging economic growth, the unemployment rate is expected to bounce back to the levels during the pre-COVID-19 period.

The Government has implemented a number of programs and initiatives to improve the labor market conditions and further increase employability of individuals and employment opportunities in the market:

- Expanding the access for Malaysians to obtain skills training through the establishment of public skills training institutions, which aim at meeting the needs of the industries. As at 2020, there are approximately 570 public skills training institutions, 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.
- Addressing skills gap through the establishment of Industry Lead Bodies to ensure the development of curriculum content in education and training institutions are in line with industry requirements.
- Expanding the coverage of the Pembangunan Sumber Manusia Berhad Act 2001 to include more subsectors apart from improving the skills of the existing employees through upskilling and reskilling programs.
- Reviewing the labor-related legislations such as the Employment Act, 1955, the Trade Unions Act, 1959 and the Industrial Relations Act, 1967 to increase flexibility in the labor market, including:
  - increased maternity leave from 60 days to 90 days effective 2021;
  - extended eligibility for overtime from those earning less than RM2,000 to those earning less than RM4,000 per month;
  - improved protection and procedures for handling sexual harassment complaints; and
  - new provisions on the prohibition of discrimination on religion, ethnicity, and gender.
- Increasing the minimum wage rate only in major cities to RM1,200 per month effective 2020 in order to improve livelihoods, particularly for lower income groups living in major urban centers.
- Mainstreaming TVET by strengthening public and private sectors’ synergies, continue upgrading equipment and hiring trainers from industry as well as expanding pathways for TVET graduates to further studies.
- 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.
- 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.

The MoHA and Ministry of Human Resources are in charge of the management of foreign workers. In relation to the process of employing foreign workers:

- Employers are to advertise vacancies first through the myfuturejobs portal to provide an opportunity for Malaysian citizens to apply for the vacancies. If these vacancies are not taken by Malaysian citizens, employers are then entitled to open applications to 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, and have no records of any breach of labor and immigration laws.
- Employers also have to obtain compulsory coverage of the employment insurance scheme under Social Security Organization (“**PERKESO**”) 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, mining and quarry and domestic workers. All foreign workers have to undergo a medical examination at the source country and upon arrival, followed by examination subjected to existing national policies.

As part of the recent 2021 Budget announcement, the Government proposed several new agenda to further increase the employability and employment opportunities for the Rakyat, which include the following:

- RM2 billion to continue the hiring incentive program under PERKESO, which is known as PenjanaKerjaya, in order to encourage companies and SMEs to hire, hence, increasing employment opportunities for jobseekers. Additional incentives are provided for hiring the disabled and the long-term unemployed;
- RM1 billion to continue implementing reskilling and upskilling programs in order to increase productivity and facilitate Malaysians to venture into new areas of employment with high demand. It also aims to address job cuts resulting in a critical skill gap that businesses are struggling to bridge; and
- more than RM700 million allocated through MySTEP (short term employment program), where 50,000 job opportunities are created via public sector and government-linked corporations.

The Government also formed the National Employment Council (“**NEC**”), which is chaired by the Prime Minister, to oversee the various initiatives that cut across ministries, agencies and require close collaboration with the private sector in order to create job opportunities, identify skills enhancement requirements and training needs for Malaysians. In addition, to ensure job retention and mitigate retrenchment, the Government has allocated a total of RM1.5 billion and extended the implementation of the PERKESO Wage Subsidy Program with a more targeted approach, focusing on tourism, wholesale and retail traders, as well as other businesses (e.g. gymnasiums and spas) which were unable to operate during the MCO periods. Notably, the limit of employees per application was increased and the extension is expected to help about 70,000 employers and 900,000 employees.

Other incentives provided by the Government would also help Malaysians to take up social protection, such as:

- RM24 million in full contributions under the PERKESO Employment Injury Scheme to benefit 100,000 employees from eligible groups;
- withdrawal from EPF Account 2 (for members) to purchase insurance and takaful products which are approved by EPF relating to life and critical illnesses coverage for themselves and their family; and
- individual income tax relief of up to RM3,000 on the Private Retirement Scheme contributions will be extended until the 2025 year of assessment to further encourage savings for retirement.

LAKSANA serves as the secretariat to NEC and is entrusted to monitor the implementation and continuously assess the effectiveness of all these initiatives, so as to ensure that Malaysians continue to be able to get good jobs and other employment related opportunities and secure a stable and decent life for themselves.

## Wages

The median and mean monthly salaries and wages of employees by sex and strata from 2015 to 2019, respectively, are set out in the tables below.

### *Median monthly salaries and wages<sup>(1)</sup>*

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
			(RM)		
<b>Sex</b>					
Male .....	2,000	2,000	2,170	2,342	2,477
Female .....	1,855	2,000	2,145	2,227	2,370
<b>Total</b> .....	<b>1,942</b>	<b>2,000</b>	<b>2,160</b>	<b>2,308</b>	<b>2,442</b>
<b>Strata</b>					
Urban .....	2,000	2,115	2,260	2,415	2,565
Rural .....	1,300	1,350	1,400	1,481	1,560
<b>Total</b> .....	<b>1,942</b>	<b>2,000</b>	<b>2,160</b>	<b>2,308</b>	<b>2,442</b>

*Note:*

(1) Data for the year ended December 31, 2020 is not available as at the date hereof.

*Source: Department of Statistics.*

### *Mean monthly salaries and wages<sup>(1)</sup>*

	<u>2015</u>	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>
			(RM)		
<b>Sex</b>					
Male .....	2,558	2,741	2,953	3,174	3,304
Female .....	2,380	2,532	2,772	2,959	3,108
<b>Total</b> .....	<b>2,487</b>	<b>2,657</b>	<b>2,879</b>	<b>3,087</b>	<b>3,224</b>
<b>Strata</b>					
Urban .....	2,638	2,812	3,038	3,274	3,405
Rural .....	1,831	1,916	2,040	2,083	2,208
<b>Total</b> .....	<b>2,487</b>	<b>2,657</b>	<b>2,879</b>	<b>3,087</b>	<b>3,224</b>

*Note:*

(1) Data for the year ended December 31, 2020 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. 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 industries.

In 2016, the new Minimum Wages Order came into effect on July 1, 2016, which provided for a minimum wage of RM1,000 per month in Peninsular Malaysia and RM920 per month in Sabah, Sarawak and Labuan. In 2018, the Minimum Wages Order (Amendment) 2018 came into effect on January 1, 2019, providing for a minimum

wage set at RM1,100 per month for the whole of Malaysia. In 2020, the Minimum Wages Order 2020 came into effect on February 1, 2020, increasing the minimum wage to RM1,200 per month for major towns under 56 city and municipality councils.

Wages in the labor market grew by an average rate of 8.7 per cent. per annum between 2015 and 2019. Wage growth was supported by continued steady growth of the Malaysian economy.

## Monetary Developments

The following tables illustrate the growth of monetary aggregates from January 1, 2016 through December 31, 2020 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*

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
	(annual change in %)				
Currency .....	11.4	8.1	2.1	6.4	17.7
M1 <sup>(1)</sup> .....	5.6	11.0	1.2	5.8	15.7
M2 <sup>(2)</sup> .....	3.2	5.1	8.9	3.5	4.5
M3 <sup>(3)</sup> .....	3.2	4.9	9.1	3.5	4.0
Deposits <sup>(4)</sup> .....	1.7	4.1	9.2	2.9	4.5
Loans <sup>(5)</sup> .....	5.3	4.1	7.7	3.9	3.4

#### *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 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 and excluding loans sold to Danaharta).

Source: BNM.

### *Interbank rates*

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
	(% )				
Three-month interbank rates (at end of period) .....	3.41	3.45	3.65	3.30	1.92
Average three-month interbank rates (for the relevant period) .....	3.48	3.38	3.66	3.46	2.39

Source: BNM.

Private sector liquidity, as measured by broad money (“M3”), grew by 3.2 per cent. in 2016. The expansion in M3 was underpinned by credit extension by banks and offset by net foreign outflows. M3 expanded at a faster pace of 4.9 per cent. and 9.1 per cent. in 2017 and 2018, respectively, as it continued to be supported by the extension of credit by banks to the private sector through loans and purchases of corporate bonds. M3 growth declined to 3.5 per cent. in 2019, reflected mainly by the moderation in the growth of credit extended by banks. However, M3 growth increased to 4.0 per cent. in 2020, driven mainly by the higher growth of net claims on the Government by the banking system, in line with the higher holdings of Government Bonds by banks.

In terms of the developments in the SRR, BNM reduced the SRR ratio from 4.00 per cent. to 3.50 per cent. in February 2016 to ensure sufficient liquidity in the domestic financial system and support the orderly functioning of the domestic financial markets. This measure helped ease the pressure on interbank borrowing costs in 2016 arising from competition for stable funding and the uneven distribution of liquidity among banks. BNM further reduced the SRR ratio from 3.50 per cent. to 3.00 per cent. in November 2019 to provide additional liquidity to the banking system on a more permanent basis. This was in view of the need to absorb less excess liquidity from the banking system, as the build-up in excess liquidity over preceding years of strong inflows had partially reversed.

In 2020, the SRR ratio was lowered from 3.00 per cent. to 2.00 per cent. and flexibility was provided for banking institutions to recognize MGS and Malaysian Government Investment Issues (“MGII”) to fully comply with and meet SRR until May 31, 2021. The liquidity released through these combined measures, which amounted to approximately RM46 billion, allowed greater flexibility for banking institutions in their liquidity management, and to some extent, supported the continued smooth functioning of the domestic bond market. The SRR adjustments, coupled with BNM’s other liquidity-injecting operations, enabled banking institutions to continue to effectively perform their role in the credit intermediation process. In January 2021, BNM extended the flexibility for banking institutions to use MGS and MGII to meet the SRR compliance until December 31, 2022 to ensure sufficient liquidity to support financial intermediation activity.

### *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 now repealed by the CBA) 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 SRR.

The following table sets out the changes made by BNM to the OPR and the SRR ratio since 2016.

### *Changes to the policy rate and statutory reserve requirement ratio*

	SRR ratio and date of change <sup>(1)</sup>	OPR and date of change <sup>(1)</sup>
	(per cent.)	
2016 .....	3.50 (February 2016)	3.00 (July 2016)
2017 <sup>(2)(3)</sup> .....	3.50	3.00
2018 <sup>(2)</sup> .....	3.50	3.25 (January 2018)
2019 .....	3.00 (November 2019)	3.00 (May 2019)
2020 .....	2.00 (March 2020)	2.75 (January 2020)
	—	2.50 (March 2020)
	—	2.00 (May 2020)
	—	1.75 (July 2020)
2021 <sup>(2)(3)(4)</sup> .....	2.00	1.75

*Notes:*

(1) Date of change reflects the dates of change during the year.

- (2) There was no change to the SRR ratio in 2017, 2018 and 2021.
- (3) There was no change to the OPR in 2017 and 2021.
- (4) In addition to the reduction in the SRR ratio to 2.00 per cent., flexibility was provided to banking institutions to use MGS and MGII to fully comply with and meet SRR in May 2020. The flexibility was initially available until May 31, 2021. In January 2021, however, this flexibility was extended until December 31, 2022.

*Source: BNM.*

Over the past several years, the Malaysian economy experienced a sustained growth, and inflation remained low and stable. Further, continued stabilization of financial imbalances has been observed. BNM will focus on ensuring that monetary conditions remain supportive of the sustainable growth of the domestic economy with price stability. At the current level of OPR, BNM's monetary policy is expected to accommodate and support economic activity. In addition, BNM will also continue to consider the risk of financial imbalances.

In particular, BNM's monetary policy cushioned the adverse effects of measures implemented to contain the spread of the COVID-19 pandemic on the economy. The policy also provided additional stimulus to sustain the pace of economic recovery. The OPR was reduced by a cumulative 125 basis points to a historical low of 1.75 per cent. in 2020. Similarly, the SRR ratio was reduced by 100 basis points from 3.00 per cent. to 2.00 per cent. Banking institutions were also given the flexibility to use MGS and MGII to fully comply with and meet SRR until May 31, 2021, which was extended in January 2021 until December 2022. The measures were implemented to ensure sufficient liquidity and to support financial intermediation activity.

In 2020, interest rates declined in line with the reductions in the OPR. The pass-through of the OPR reductions to money market rates was strong and immediate across all tenures, which was supported by stable liquidity conditions in the interbank market. In line with lower rates in the wholesale market, banks also adjusted deposit rates downwards. Given the lower cost of funds, banks further responded by lowering retail lending rates to households and businesses. In particular, the benchmark lending rate for retail loans, as measured by the weighted average base rate of commercial banks, was reduced by 125 basis points, from 3.68 per cent. to 2.43 per cent. New borrowers also benefitted from the low interest rate environment, given the broad-based decline in lending rates on new loans to both households and businesses across sectors and purpose. With the re-pricing of new and existing loans, the weighted average lending rate on outstanding loans stood at 3.99 per cent. as at December 31, 2020, compared to 5.16 per cent. as at December 31, 2019. The low interest rate environment, in turn, provided a supportive environment for financing activity in Malaysia.

## **Financial System**

The Malaysian financial system consists of BNM, banking institutions and non-bank financial institutions.

### ***The Central Bank***

BNM is a body corporate which exists under 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:

- (i) to formulate and conduct monetary policy in Malaysia;
- (ii) to issue currency in Malaysia;
- (iii) to regulate and supervise financial institutions which are subject to the laws enforced by BNM;
- (iv) to provide oversight over money and foreign exchange markets;
- (v) to exercise oversight over payment systems;
- (vi) to promote a sound, progressive and inclusive financial system;

- (vii) to hold and manage the foreign reserves of Malaysia;
- (viii) to promote an exchange rate regime consistent with the fundamentals of the economy; and
- (ix) to act as financial advisor, banker and financial agent of the Government.

BNM manages the foreign reserves of Malaysia under the CBA. As at March 15, 2021, BNM's total assets were RM492 billion, of which gross international reserves comprised U.S.\$109.2 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 Yang di-Pertuan Agong, the constitutional monarch of Malaysia, 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 in budget revenues. 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 financial 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 per cent. of the estimated receipts of the Government for the relevant financial 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 for administering regulatory laws, i.e. the Financial Services Act 2013 ("FSA") (which replaced the Banking and Financial Institutions Act 1989, the Insurance Act 1996, Payment Systems Act 2003 and the 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 ("MSBA") (which replaced the Money-Changing Act 1998), the Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 ("AMLA") and the Development Financial Institutions Act 2002 ("DFIA") Key features of the FSA and IFSA are, among 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.

While the FSA and IFSA set out the regulation and supervision of a broad range of financial institutions, the MSBA provides for the licensing, regulation and supervision of the money services business industry, which comprises of the money changing, remittance and wholesale currency businesses and other related matters. With the objectives of developing a dynamic, competitive and professional money services business industry and strengthening safeguards against the threats of money laundering, terrorist financing and other illegal activities, the MSBA sets out prudential requirements as well as requirements to put in place effective governance, operational processes and control for sound conduct and compliance with the specific obligations under the

MSBA. These include appropriate risk management and accounting and security measures that ensures the safety and integrity of its business, as well as adequate procedures to comply with the AMLA. The AMLA provides for the offence of money laundering, the measures to be taken for the prevention of money laundering and terrorism financing offences, investigatory powers and the forfeiture of property involved in or derived from money laundering and terrorism financing offences, as well as terrorist property, proceeds of an unlawful activity and instrumentalities of an offence.

The DFIA focuses on promoting the development of effective and efficient development financial institutions (“DFIs”) to ensure that the roles, objectives and activities of the DFIs are consistent with the Government policies and that the mandated roles are effectively and efficiently implemented. The DFIA also places an emphasis on efficient management and effective corporate governance, providing a comprehensive supervision mechanism as well as a mechanism to strengthen the financial position of DFIs through the specification of prudential requirements.

The amendments to the DFIA came into force on January 31, 2016. The amended DFIA aims to further strengthen the capacity and capability of development financial institutions in providing continued financial services to strategic economic sectors in order to ensure that such sectors are well positioned to withstand challenges in a rapidly changing operating environment. The amended DFIA enhanced provisions covering corporate governance, business activities and regulatory oversight, and introduced new provisions on Shariah requirements, business conduct and consumer protection as well as regulatory enforcement framework. With the coming into force of the amended DFIA, the board and senior management of the DFIs are required to undertake greater responsibility and accountability in overseeing and managing the institutions.

A recent development in the legislative framework of the financial system is the enactment of the Currency Act 2020 (“CA 2020”) and the Central Bank of Malaysia (Amendment) Act 2020, which came into operation on October 1, 2020 and provide for the management of currency of Malaysia, the regulation of currency processing business and currency processing activities, as well as related matters. One of the main objectives of the CA 2020 is to ensure the quality and integrity of notes and coins (collectively “currency”) in circulation. For this purpose, the regulation of currency processing businesses and activities was introduced. Carrying on currency processing business by any person requires registration with BNM. As part of the regulatory measures, registered currency processors and banks carrying on currency processing activities are required to comply with standards to be issued by BNM concerning the quality and integrity of currency. Banks are appointed as agents of BNM to impound currencies tendered by members of the public which are no longer fit for circulation. Banks are also required to impound currency suspected to be counterfeit and to record relevant information on the suspected counterfeit and surrender them to the police for investigation. Under the CA 2020, BNM is empowered to investigate registered currency processors and banks carrying on currency processing activities to ensure the use of appropriate equipment and calibration for currency processing. Registered currency processors or banks that fail to comply with standards issued by BNM are subject to actions under sections 47 and 48 of the CA 2020.

### ***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,				
	2016	2017	2018	2019	2020
	(Number of Institutions)				
Domestic .....	18	18	19	19	19
Foreign .....	25	25	23	23	23
<b>Total</b> .....	<u>43</u>	<u>43</u>	<u>42</u>	<u>42</u>	<u>42</u>

Note:

“Commercial banks” includes Islamic banks and Islamic subsidiaries of commercial banks.

Source: BNM.

	As at December 31,									
	2016		2017		2018		2019		2020	
	Loans	Deposits	Loans	Deposits	Loans	Deposits	Loans	Deposits	Loans	Deposits
	(%)									
Domestic .....	79.1	78.6	79.4	79.5	78.0	79.9	78.8	80.2	79.9	80.6
Foreign .....	20.9	21.4	20.6	20.5	22.0	20.1	21.2	19.8	20.1	19.4
<b>Total</b> .....	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: BNM.

As at December 31, 2020, the 42 commercial banks (including 16 Islamic banking institutions) licensed to operate in Malaysia had a total of 2,186 banking offices and total deposits of RM2,067.5 billion, compared to 2,368 banking offices and total deposits of RM1,685.4 billion as at 2016. As at 2020, commercial banks’ total loans outstanding amounted to RM1,823.6 billion, compared to RM1,514.6 billion as at 2016.

As at December 31, 2020, 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 commercial and Islamic banks and are highly capitalized with a total capital ratio of 40.5 per cent. as at December 31, 2020 and an aggregate Basel III Liquidity Coverage Ratio of 188.9 per cent.

## 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 Shariah Advisory Council of Bank Negara Malaysia (the “SAC”) was established 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 SAC is legally recognized as the ultimate decision-making body for the ascertainment of Shariah in Islamic banking and takaful.

The decision made by the SAC 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 U.S.\$600.0 million Islamic sukuk, or trust certificates, in July 2002 (which matured in 2007) marked a significant development in the global Islamic international financial market. The issuance demonstrated Malaysia's continuous and strong commitment to the development of Islamic banking and finance in the international arena. The issue, based on Islamic principles, created a new asset class for both Muslim and conventional investors, diversified the investor base for Malaysia and set a benchmark for other similar issues. The development of the Islamic financial market is also supported by the SC and by the Labuan Financial Services Authority under the Malaysia International Islamic Financial Centre (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 IFSB was established in Kuala Lumpur on November 3, 2002. The IFSB, comprising members from central banks, monetary authorities as well as other regulatory and supervisory authorities, 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 welcome to use Malaysia as a platform for their Islamic finance activities, particularly for international business, by leveraging on its comprehensive ecosystem and environment conducive to Islamic finance business. The MIFC focuses on five areas, namely: capital markets, banking, takaful, talent development and professional services.

The 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 at March 31, 2021, IILM has issued 134 short-term sukuk, using the wakala structure, for a total of U.S.\$63.9 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 distributes and makes 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 (vi) strengthened provisions for effective and early enforcement and supervisory intervention.

Another significant development in the IFSA is the introduction of a contract-based regulatory framework that ensures Shariah compliance in all aspects of regulation and supervision, from licensing to the winding-up of an

institution. This framework promotes the effective application of Shariah contracts in offerings of Islamic financial products and services through greater clarity on each Shariah contractual requirement. In this regard, Shariah standards are developed to also include operational requirements addressing sound practice principles for Islamic financial institutions that expand their product range.

Malaysia has the largest sukuk market globally with a market share of 45.1 per cent. (U.S.\$258.4 billion) of the global corporate and government sukuk outstanding as at December 31, 2020. Of the sukuk outstanding in Malaysia, 58.3 per cent. 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 U.S.\$124.2 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 RM216.80 billion as at December 31, 2020. Based on global market share, Malaysia's Islamic funds AUM ranked second with 27 per cent. after Saudi Arabia with 34 per cent., as at December 31, 2020. As at December 31, 2020, there were 23 Islamic fund management companies and 34 fund management companies with Islamic windows in Malaysia.

As at December 31, 2020, foreign currency Islamic banking business assets are RM23.5 billion, registering growth of 18.7 per cent. from the RM19.8 billion at December 2019. There is one international Islamic bank and 11 financial institutions under the international currency business units of Islamic banks carrying out foreign currency Islamic banking business as at the date of this Offering Memorandum.

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 human capital development institutions that offer a wide range of academic and professional 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 studies 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. INCEIF also provides research expertise in the areas of Shariah and Islamic finance under its research center, International Shariah Research Academy for Islamic Finance (“ISRA”). ISRA provides platform for intellectual discourses among scholars, academicians, regulators and practitioners on Islamic finance and Shariah matters.
- (b) Islamic Banking and Finance Institute Malaysia (“IBFIM”). IBFIM is an industry-owned Islamic finance institute specializes in industry technical certifications. The learning modules are customizable to fulfil the specific needs of the clients within the Islamic finance industry as well as other sectors engaging in Islamic finance.
- (c) Association of Shariah Advisors in Islamic Finance (“ASAS”). ASAS is established with the premise of having an entity to ensure professionalism among Shariah advisors and experts in Islamic finance. ASAS provides Shariah Certification Programs to upskill Shariah advisors and officers serving the Islamic financial services industry.
- (d) Chartered Institute of Islamic Finance Professionals (“CIIF”). CIIF is a professional body for Islamic finance practitioners to support the capacity building agenda of the industry by setting professional standards to drive the next phase of Islamic finance human capital development. Its flagship qualification, the Chartered Professional in Islamic Finance which was launched on January 6, 2021, aims to develop versatile and universal professionals who are conversant in Islamic finance knowledge and techniques.

- (e) BNM facilitates the sharing of knowledge with central banks of developing economies 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. SIDC also offers an Islamic capital markets graduate training scheme to promote the education of these individuals on the Islamic capital markets.

In Malaysia, the Islamic banking industry grew at a compounded annual growth rate of 10.7 per cent. from December 31, 2015 to December 31, 2020 in terms of assets. As at December 31, 2020, total Islamic banking assets stood at RM1,089.8 billion, deposits at RM790.9 billion while total Islamic financing was RM679.1 billion.<sup>1</sup> In terms of profitability, the Islamic banking sector recorded a pre-tax profit of RM6.1 billion in December 31, 2020, as compared to RM9.7 billion in December 31, 2019. As at December 31, 2020, there are 16 Islamic banks and one international Islamic bank. There are four financial institutions providing Islamic banking services via Islamic banking window, 11 financial institutions via International Currency Business Units (“**ICBU**”) and two financial institutions that operate through both an Islamic banking window and an ICBU set-up. The Islamic Interbank Money Market was introduced in 1994 to enable participants to match their short-term funding requirements based on Islamic principles. As at December 31, 2020, there are 15 takaful operators and three re-takaful operators offering insurance products that conform to Shariah, and the total amount of takaful assets as at December 31, 2020 was RM41.3 billion.

The development of Islamic finance in Malaysia has continued with the introduction of investment accounts, in addition to deposit products, following the enactment of the IFSA. The new offering provides opportunity for Islamic banks to extend their intermediary role to include investment intermediation and serves as a new investment avenue that caters to diverse range of investors’ risk-return profiles. Upon the completion of the migration exercise to Islamic deposits and investment accounts in mid-2015, total investment accounts have increased to RM99.0 billion as at December 31, 2020, representing 11.1 per cent. of total deposits and investment accounts.

In addition, the Investment Account Platform was launched in February 2016 as an online marketplace that matches investors with viable ventures that suit their risk appetites. The platform provides a new financing option for entrepreneurs with good and viable projects as well as for the investing public and institutions to finance these projects.

### ***Financial Sector Masterplan***

BNM announced the inaugural FSMP on March 1, 2001. FSMP provided 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 was on enhancing the capacity of the financial sector to support the transition and growth of the domestic economy. FSMP comprised three phases: the first phase focused on measures to enhance the capacity and capability of domestic financial institutions; the second phase focused on managing deregulation of the domestic market, whereby existing foreign financial institutions could operate in a more liberalized environment; and the final phase focused on introducing new competition in the marketplace, including the issuance of new licenses. The FSMP, which emphasized the need for a more diversified financial sector, also sets out the strategic direction of the insurance sector, the role of Islamic banking and takaful, the role of development financial institutions (“**DFIs**”) and alternative forms of financing such as venture capital, as well as the development of 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 licenses 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

<sup>1</sup> Source: Islamic banking assets, deposits and financing figures include Development Financial Institutions (DFIs).

to foreign players operating in Malaysia in the form of branching and bancassurance arrangements. The liberalization plan was aimed 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 was preserved. In terms of new licenses, five new commercial banking licenses and four new family takaful licenses were awarded in 2010 under the April 2009 liberalization announcement.

### *Financial Sector Blueprint (2011-2020)*

The Financial Sector Blueprint (2011-2020) (“**2011 Blueprint**”) was launched in 2011 and provided a 10-year strategic plan that charted the future direction of the Malaysian financial system as Malaysia transitions towards becoming a high value-added, high-income economy. In line with BNM’s mandate under the CBA to promote a sound, progressive and inclusive financial sector, the 2011 Blueprint provided a vision for the financial sector that best served Malaysia’s objective on moving forward into fulfilling three key roles as an enabler, driver and catalyst of the Malaysian economy. The 2011 Blueprint was tailored to focus on nine key components supported by 69 recommendations and more than 200 initiatives. Focus areas under the 2011 Blueprint included: (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) regulatory and supervisory regime to safeguard 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.

Significant progress has been made in achieving the desired outcomes set out in the 2011 Blueprint. Among others, BNM has also undertaken strategic initiatives to strengthen the resilience of the financial sector through a series of enhancements of legislations and standards, through expanding the range of financial products and services for the unserved and underserved, and by establishing incentive structures for the migration to electronic payments. These initiatives have strengthened the market structure and fostered an enabling environment for financial intermediation.

In addition, the implementation of modernized legislations (i.e. FSA, IFSA, MSBA and DFIA) and amendments to existing legislations (i.e. the Development Financial Institutions Act 2002) have also served to preserve the resilience of the financial sector, while ensuring that regulations remain relevant to the current landscape.

Malaysia has also achieved greater levels of financial inclusion, which has contributed positively towards greater shared prosperity. The establishment of agent banks has increased access to basic financial services, particularly in rural areas. As at September 30, 2020, all 144 districts and 94.6 per cent. of the 886 sub-districts with a population of at least 2,000 had access to essential financial services. This expansion in the number of access points nationwide provides 99 per cent. of Malaysians with convenient access to safe, reliable and affordable financial services. The development of the Pembiayaan Mikro framework has also enabled access to credit for micro-enterprises.

Another area where significant progress was observed over the past decade was in the migration to electronic payments. Since 2011, cheque usage has declined by over 50 per cent., with a corresponding increase in e-payments per capita to 170 as at end-2020 (2011: 49 e-payments per capita). In addition, BNM’s Pricing Reform Framework and e-Payment Incentive Fund Framework have contributed to correcting existing price distortions in the payment card market.

Financial integration in the region has also increased 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 reputation of Malaysia’s financial system was expanded through several notable transactions, including foreign currency sukuk and debt issuances, as well as through initiatives to facilitate the wider use of regional currencies and to secure Malaysia’s status as a “netting-friendly jurisdiction”. These efforts have been complemented by other initiatives to further promote development in the money and foreign exchange markets, including facilitating standardization of the repurchase agreement market.

In the Islamic finance sector, the Investment Account Platform enables retail and corporate clients to invest in a wide range of Shariah-compliant ventures promoted by Islamic banks, thus acting as an alternative avenue for businesses to raise funds.

### ***Digital Innovation***

Over the past few years, digital innovation has brought in sweeping changes to the way financial services are consumed and delivered in Malaysia. In response, BNM has strived to ensure that the regulatory frameworks are able to facilitate innovation, especially where they are able to enhance the quality and affordability of financial services. Several key regulatory frameworks that the Bank has recently introduced include the Financial Technology Regulatory Sandbox (2016), Electronic Know-Your-Customer (2020) and the Licensing Framework for Digital Banks (2020).

### ***Banking System Regulation***

The regulatory and supervisory framework for Malaysian banking institutions is well-developed and aligned with international standards and best banking practices. The regulation of banking institutions in Malaysia includes requirements relating to licensing, capital adequacy, liquidity standards, risk management, governance and control standards, prudential limits and reporting and disclosure requirements. Banking institutions 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 the standards specified by the Basel Committee on Banking Supervision and the Islamic Financial Services Board. BNM has implemented the capital component of Basel III since January 1, 2013, in line with the global implementation timeline. As at January 31, 2021, banking institutions in Malaysia were operating above the CET1 Capital Ratio and Total Capital Ratio (“TCR”) minimums (including capital conservation buffer) with the overall banking industry CET1 Capital Ratio at 14.9 per cent. and TCR at 18.5 per cent., as compared to the minimums of 7 per cent. and 10.5 per cent., respectively. The Liquidity Coverage Ratio (“LCR”) requirement, one of the two new liquidity requirements introduced under Basel III, came into effect on June 1, 2015. The Malaysian banking system LCR was at 147.6 per cent. as at January 31, 2021, above the minimum requirement of 100 per cent. The Net Stable Funding Ratio (“NSFR”), the other liquidity requirement under Basel III, came into effect on July 1, 2020, starting with a minimum requirement of 80 per cent. as part of BNM’s COVID-19 relief measures. Banking institutions will be required to comply with the minimum requirement of 100 per cent. by September 30, 2021. As at December 31, 2020, the Malaysian banking system’s NSFR was at 116 per cent. Other measures are also in place to strengthen the resilience of banking institutions, enhance corporate governance practices and promote market discipline, including:

- (i) standards on risk management, which set out BNM’s supervisory expectations regarding the management of risks undertaken by banks (for example credit risk, operational risk, outsourcing, stress testing and new products);
- (ii) 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 equity investments;
- (iii) minimum standards for corporate governance in the areas of board responsibility and oversight, management accountability, risk management and internal controls, as well as disclosures;
- (iv) ‘fit and proper’ requirements at joining and on an ongoing basis for board members, senior management and officers primarily responsible for control functions as well as employee screening requirements for recruitments by financial institutions;
- (v) guidelines on the appointment of external auditors and minimum audit standards for internal auditors; and
- (vi) financial reporting standards for banking institutions based on the requirements of Malaysian Financial Reporting Standard 9 Financial Instruments: (“MFRS 9”) and MFRS 7 Financial Instruments: Disclosures

(Malaysia's equivalent of the International Financial Reporting Standards ("IFRS") 9 and IFRS 7, respectively), and include disclosure requirements with respect to loans and impairment provisions.

Measures taken by BNM, in coordination with the banking sector, were focused on:

- (i) extending immediate cashflow relief to individuals and businesses to preserve jobs and livelihoods;
- (ii) providing appropriate regulatory and operational flexibilities for banking institutions to respond swiftly to borrowers in need; and
- (iii) preserving the smooth functioning of the financial intermediation process to support economic recovery and post-COVID-19 economic restructuring and reforms.

Additionally, under Basel III, 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:

- (i) the Shariah Governance Framework, which sets out expectations for Islamic banks in respect of governance structure and processes, including roles and responsibilities of personnel in key functions, for example board members, Shariah Committee members and senior management;
- (ii) 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 investment account holders, and disclosure requirements to enable investment account holder to assess the characteristics and performance of their investments;
- (iii) the policy on rate of return 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 investment account holders, consistent with the agreed terms of each investment account;
- (iv) the policy on 14 Shariah contracts i.e. sale-based contracts (Tawarruq Murabahah, Istisna', Ijarah and Bai al-Sarf), fee-based contracts (Wakalah and Kafalah), equity-based contracts (Musharakah and Mudarabah), benevolent (Hibah, Rahn, Wadiyah and Qard and Wa'd) outline the Shariah and operational requirements of the respective Shariah contract to ensure end-to-end compliance with Shariah; and
- (v) guidelines on late payment charges and guidelines on Ibra' (rebate) 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 ongoing 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 to bridge any information gap, and to assess the effectiveness of the risk management control functions, including policies, underwriting standards and practices. BNM embraces a supervisory philosophy that places an emphasis on 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 they monitor, as well as with 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 operations within a banking group (including 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 such group.

### ***Loan Loss Provision Policy***

The loan loss provisioning practices of Malaysian banking institutions are subject to MFRS 9 which are in line with IFRS 9 issued by the International Accounting Standards Board. BNM's additional requirements for loan loss provisioning are set out in the Financial Reporting policy document, which is applicable to both conventional and Islamic banks. These guidelines set out specific requirements for the classification of impaired loans/financing and expectations that must be met by banking institutions in preparing financial statements in accordance with MFRS 9.

In addition to the requirements of MFRS 9, BNM requires banking institutions to classify a loan as credit-impaired when the credit facility is past due for more than 90 days, where a credit-impaired facility is rescheduled and restructured, such facility shall remain classified as credit-impaired. The banking institution can reclassify this facility to non-credit-impaired when repayments based on the revised terms have been observed continuously for a period of at least six months.

Banking institutions are also required to maintain, in aggregate, loss allowance for non-credit-impaired exposures (commonly known as Stage 1 and Stage 2 provisions) and regulatory reserves of no less than 1 per cent. of total credit exposures (i.e. credit exposures that are subject to impairment requirements under MFRS 9, excluding exposures to and exposures with an explicit guarantee from the Government of Malaysia and exposures to BNM, a licensed bank, a licensed investment bank, a licensed Islamic bank and a prescribed development financial institution), net of loss allowance for credit-impaired exposures.

### ***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 to a very small degree through voluntary self-contributions. EPF primarily provides retirement benefits to employees contributing to it. As at 2019, the EPF's assets amounted to RM927.89 billion, which accounted for approximately 85.4 per cent. 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 per cent. of its annual investible funds in Government securities. In addition, a minimum of 70.0 per cent. 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 per cent. and 70.0 per cent. requirements to take into account the limited amount of Government securities in the market. As at December 31, 2019, more than 25 per cent. of the EPF's assets were in the form of MGS. The EPF also invests in quasi-Government and non-Government securities, including domestic bond offerings by NFPCs.

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, 2019, the Cagamas group had aggregate outstanding issuances of RM36.5 billion unsecured senior debts and mortgage backed securities and remains the largest issuer of corporate debt securities in

Malaysia, accounting for around 5 per cent. of all outstanding corporate debt securities and 20 per cent. of all outstanding AAA debt securities in the country. Approximately 43 per cent., or RM15.8 billion, of Cagamas' outstanding debt securities are sukuk. This represents a domestic market share of 3 per cent. of all outstanding corporate sukuk and 11 per cent. of all outstanding AAA sukuk, respectively.

Since 2014, through its wholly-owned subsidiary Cagamas Global P.L.C., the Cagamas group concluded the equivalent of approximately RM10 billion foreign currency benchmark size issuances in offshore Chinese renminbi, Hong Kong dollar, Singapore dollar, as well as U.S. dollar. In 2015, Cagamas, through its wholly-owned subsidiary, Cagamas Global Sukuk Berhad, successfully issued its inaugural Singapore dollar sukuk amounting to SGD162.75 million. In total, including an issuance of Singapore dollar denominated Fixed Rate Note during the year, Cagamas issued RM11.7 billion (or its equivalent) in bonds and sukuk in 2020.

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 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 with the changes in other regulatory law governing financial institutions, DFIA was further enhanced and brought into force on January 28, 2016 to ensure DFIs are financially sound and sustainable and sufficiently well-managed to effectively contribute to Malaysia's development agenda.

As at March 31, 2021, 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 in particular for bumiputera; 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, which provides credit facilities to finance and support the export and import of goods services and overseas projects with emphasis on non-traditional markets, as well as to provide export credit insurance services, export financing insurance, overseas investment insurance and guarantee facilities; Bank Simpanan Nasional, which focuses on retail banking including providing microfinance as well as promoting and mobilizing savings, particularly from small savers; and Bank Pertanian Malaysia Berhad or Agrobank, which mobilizes savings and provides financing and advisory services to support the development of the agricultural sector and uplift the well-being of the agricultural 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,				
	2016	2017	2018	2019	2020 <sup>P</sup>
	(RM billion)				
BNM .....	451.0	449.8	447.6	451.6	488.0
Banking system .....	2,443.6	2,547.9	2,697.3	2,831.5	2,964.9
Non-bank financial intermediaries .....	2,379.6	2,665.8	2,631.3	2,862.9	3,073.1
Provident, pension and insurance funds .....	1,155.3	1,265.8	1,292.8	1,421.9	1,529.6
Provident and pension funds .....	878.3	966.3	983.7	1,086.7	1,167.8
Insurance funds .....	277.0	299.4	309.1	335.2	361.7
DFIs .....	278.6	295.4	303.6	305.6	320.6
Other financial intermediaries .....	945.7	1,104.6	1,034.9	1,135.4	1,222.9
<b>Total assets of the financial system .....</b>	<b>5,274.2</b>	<b>5,663.6</b>	<b>5,776.3</b>	<b>6,146.0</b>	<b>6,526.0</b>

*Note:*

<sup>P</sup> Preliminary.

*Source: BNM.*

From 2016 to 2020, total assets of the financial system grew at a compound annual growth rate of 4.4 per cent. to RM6,526.0 billion. Over the same period, assets of non-bank financial intermediaries grew at an average annual rate of 6.7 per cent., accounting for 47.1 per cent. of financial system assets as at December 31, 2020 compared to 45.1 per cent. as at December 31, 2016. Assets of non-bank financial intermediaries outgrew assets of banking institutions since 2019 to become the largest component of the financial system. Assets of banking institutions expanded by an average annual rate of 5.0 per cent, accounting for 45.4 per cent. of total assets of the system as at December 31, 2020.

From 2016 to 2020, the size of the domestic financial system (as measured by equity market capitalization, total loans in the banking system and total bonds outstanding) grew by RM0.9 trillion to RM5.2 trillion, or 368 per cent. of GDP. In particular, the domestic capital markets grew from RM2.8 trillion in 2016 to RM3.4 trillion, or 242 per cent. of GDP, in 2020, thereby continuing to support fundraising and investment activities in the economy.

### *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 placed on 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.

Malaysian businesses and households, in aggregate, have continued to maintain sound financial capacity. For the third quarter of 2020, the listed corporates' leverage level for businesses of 23.4 times remained close to its five-year average of 23.1 times, while median debt-servicing capacity as measured by the interest coverage ratio was at 4.1 times as compared to 4.8 times as at the fourth quarter of 2019 and 6.3 times as at the fourth quarter of 2016, double the prudent threshold of two times. Amid the COVID-19 pandemic, some listed corporates responded to cashflow stresses by reducing expenses and increasing holdings of liquid buffers. This in turn has led to an increase in the cash-to-short-term debt ratio<sup>2</sup> to 1.1 times as compared to 1.0 time as at the fourth quarter of 2019 and 0.9 time as at the fourth quarter of 2016, above the prudent threshold of one time.

Meanwhile, Malaysian households have demonstrated the flexibility to weather the rising cost of living while businesses have shown the ability to operate in a more challenging environment. The growth in household debt has slowed from the double-digit growth level recorded in 2010 and continues to be supported by the high level of household financial assets. This has been underpinned by continued income growth, further accumulation of financial assets and stable employment conditions during the five-year period up to 2019. While employment and income growth were subsequently affected in 2020 due to the COVID-19 pandemic, the debt servicing capacity of the overall household sector has remained relatively resilient in 2020 with prudent debt service ratios for outstanding and newly approved loans (median: 35 per cent. and 43 per cent., respectively, and financial buffers at 2.2 times of aggregate debt levels in 2020 as compared to 2.2 times in 2019).

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 since 2010 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 per cent. for the third and subsequent house financing facilities, higher capital charge for housing loans with exceptionally high LTV and personal loans with tenors of more than five years, maximum duration of ten years on personal financing and 35 years on housing financing, prohibition of end and bridging financing facilities to property developments with interest-bearing schemes, stricter credit card requirements and strengthened requirements for banks to adopt responsible lending practices through the introduction of affordability assessments. The 70 per cent. LTV ratio was temporarily lifted during the COVID-19 pandemic in an effort to provide some support to the property market, subject to appropriate risk controls and internal risk management practices of financial institutions. As at the end of 2020, the take-up rate of the newly introduced flexibility in relation to LTV ratio has been low.

Financial stability implications from the increased and more volatile portfolio investment flows remained contained. Orderly conditions in the financial markets have been maintained as the two-way volatile portfolio flows have been efficiently intermediated by a diverse range of domestic institutional investors. No material changes in risk-taking behavior of Malaysian financial institutions, businesses and households have thus far been observed and the contagion risk arising from external developments has been well contained. The increase in short-term external exposures of banks occurred mainly due to interbank placements by related entities as part of centralized liquidity management operations.

### ***Capital Position***

Capitalization of the banking sector continued to remain sound with strong financial buffers against potential losses. As at December 31, 2020, the banking system's CET1, Tier 1 capital, and total capital ratio, were 14.8 per cent., 15.3 per cent. and 18.5 per cent., respectively, compared to 14.6 per cent., 15.1 per cent. and 18.6 per cent., respectively, as at December 31, 2019 and 13.9 per cent., 14.6 per cent. and 18.1 per cent., respectively, as at

<sup>2</sup> Ratio of a corporation's cash to short-term debt, calculated based on the median of all Bursa-listed corporates and using companies' published quarterly financial results.

December 31, 2018. This is reinforced by the high quality of capital, as 80.0 per cent. of total capital of the banking system continues to be in the form of high-quality loss-absorbing capital comprising common equity, retained earnings and reserves.

### ***Funding and Liquidity Positions***

Ringgit liquidity in the financial system continues to be sufficient. Malaysian banks started the transition to the Liquidity Coverage Ratio (“LCR”) on June 1, 2015. The LCR position of the Malaysian banking system stood at around 148 per cent. as at December 31, 2020. 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, which were introduced in 1998 (which have since been superseded by new Basel regulations on liquidity); and (ii) funding structures that were predominantly deposit-based (approximately 70 per cent. of banks’ total funding). As at December 31, 2020 retail deposits, corporate deposits and government deposits comprised 27 per cent., 22 per cent., and 5 per cent., respectively, of the banks’ total funding. Given the low exposures of Malaysian banks to foreign currency-denominated assets and liabilities, which accounted for less than 15 per cent. of total balance sheet exposures, foreign currency funding liquidity risk and the potential direct impact of significant exchange rate fluctuations on balance sheet and profitability remained minimal.

### ***Stress Tests***

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. BNM’s latest top-down macroeconomic stress test contains two hypothetical adverse scenarios over a two-year horizon. The first adverse scenario (“AS1”) assumes a V-shaped growth path, with a sharp economic downturn (of similar magnitude to the downturn experienced in the second quarter of 2020) in the first quarter of 2021, before recovering to pre-pandemic levels by the third quarter of 2021, backed by successful vaccination efforts. The second adverse scenario (“AS2”) assumes recovery to be sluggish and L-shaped, with GDP recording negative growth in 2021 and remaining below pre-pandemic levels even by end-2022 due to an ineffective vaccine rollout and prolonged containment measures. The economic contraction under AS2 is worse than the 1997 Asian Financial Crisis, with a sharper dip and a slower return to pre-crisis levels.

Under these scenarios, overall impairments are projected to rise up to 5.4 per cent. by end-2022 driven by both the business and household segments. Business impairments drove the larger share of impairments in 2021 due to defaults of: (i) SMEs operating in sectors severely affected by the pandemic; and (ii) several non-SMEs with weaker financials. Meanwhile, household impairments are expected to surge only in 2022 and are contributed disproportionately by lower-income borrowers, due to erosion of the thin financial buffers observed among this segment. Accordingly, additional credit costs are projected to rise up to RM26 billion (1.5 per cent. of total loans) over 2021 and 2022. Notwithstanding this, banks are expected to remain resilient with capital ratios recorded above regulatory minima. Aggregate total capital ratio and CET1 capital ratio is expected to decline by 1.7 percentage points and 0.9 percentage points, respectively.

## 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,				
	2016	2017	2018	2019	2020
	(% of total loans)				
Households .....	56.8	57.3	57.7	58.2	59.1
Manufacturing (including agro-based) .....	6.8	6.5	6.6	6.9	6.6
Wholesale and retail trade, restaurants and hotels .....	7.4	7.3	7.3	7.4	7.5
Finance, insurance and business .....	7.2	6.8	6.9	6.5	6.3
Real estate .....	7.2	7.3	6.9	6.5	6.3
Construction .....	4.3	4.7	5.2	5.2	5.2
Education, health and others .....	2.8	2.7	2.4	2.3	2.9
Transportation, storage and communication .....	2.5	2.4	2.2	2.2	2.1
Primary agriculture .....	2.4	2.3	2.1	2.0	1.9
Electricity, gas and water supply .....	0.7	0.8	0.8	0.9	0.8
Mining and quarrying .....	0.9	0.7	0.6	0.6	0.6
Others .....	0.8	1.4	1.4	1.2	0.8
	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Source: BNM.

Bank lending to households, which grew strongly prior to 2010, has slowed down in recent years following the introduction of macroprudential measures designed to encourage safe lending practices. Households accounted for 59.1 per cent. of total loans as at December 31, 2020. In aggregate, household financial assets stood at more than two times total household debts with 66.1 per cent. 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 15.8 per cent. of total loans. The change in loan portfolio composition of 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, 2020, external assets and liabilities of the Malaysian banking system increased by 4.6 per cent. and 6.9 per cent., respectively, with external assets accounting for 6 per cent. of total assets of the banking system.

As at the date hereof, domestic banking groups ("DBGs") have a presence in 14 countries. The financial performance of overseas operations of these DBGs has been relatively subdued over the past year due to the COVID-19 pandemic and economic contraction across most countries where such DBGs operate. Higher provisions made have also resulted in significantly lower average return on equity of -2.2 per cent. for the year ended December 31, 2020, as compared to 6 per cent. for the year ended December 31, 2019. Overseas operations contributed to an average of 6 per cent. of the profits of individual DBGs in 2020, as compared to 15.5 per cent. in 2019.

## Asset Quality

### Net impairment ratio by type of bank

	As at December 31,				
	2016	2017	2018	2019	2020
			(%)		
Commercial banks <sup>(1)</sup> .....	1.2	1.1	0.9	1.0	1.0
Investment banks .....	4.4	3.2	3.3	2.5	1.8
Banking system .....	1.2	1.1	0.9	1.0	1.0

Note:

(1) 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.

Over the last five years, the asset quality of the banking system has improved, as demonstrated by a decline in the level of impairments. From 2016 to 2020, the ratio of net impaired loans to net total loans decreased from 1.17 per cent. to 0.98 per cent.

Malaysian banks have also strengthened their capacity and infrastructure to monitor, manage, resolve and recover delinquent and impaired loan accounts. Malaysian banks have dedicated 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				
	2016	2017	2018	2019	2020 <sup>P</sup>
Pre-tax profit (RM billion) .....	32.3	36.2	37.7	41.5	31.2
Return on Equity (%) .....	12.5	13.1	12.7	13.0	9.2
Return on Assets (%) .....	1.3	1.5	1.4	1.5	1.1

Note:

<sup>P</sup> Preliminary.

Source: BNM.

For the year ended December 31, 2016, the pre-tax profit of the banking system increased by 11.3 per cent. to RM32.3 billion, as compared to RM29.0 billion for the year ended December 31, 2015. Profitability was supported by gains from treasury activities and strong financing growth from Islamic banking operations as well as efficiency gains amidst wider adoption of technology to streamline operations and reduce overheads. Return on Assets and Return on Equity of the Malaysian banking system were 1.3 per cent. and 12.5 per cent., respectively, for the year ended December 31, 2016.

For the year ended December 31, 2017, the pre-tax profit of the banking system increased by 12.3 per cent. to RM36.2 billion, as compared to RM32.3 billion for the year ended December 31, 2017. This increase reflected slower growth in interest expense as well as higher fee-based income from financing-related activities and stock-broking activities. Return on Assets and Return on Equity of the Malaysian banking system were 1.5 per cent. and 13.1 per cent., respectively, for the year ended December 31, 2017.

For the year ended December 31, 2018, the pre-tax profit of the banking system grew at a moderate pace of 4.0 per cent. to RM37.7 billion, as compared to RM36.2 billion for the year ended December 31, 2017. Profits were largely supported by income from financing activities and continued efficiency gains. The slower profit growth was mainly due to higher provisions set aside by banks with the implementation of Malaysian Financial Reporting Standards (MFRS 9) and an increase in interest expenses on deposits, in line with the Overnight Policy Rate hike in January 2018. Return on Assets and Return on Equity of the Malaysian banking system were 1.4 per cent. and 12.7 per cent., respectively, for the year ended December 31, 2018.

For the year ended December 31, 2019, the pre-tax profit of the banking system increased by 10.0 per cent. to RM41.5 billion, as compared to RM37.7 billion for the year ended December 31, 2018. This increase was supported by higher trading and investment income by banks in the government bond market. Return on Assets and Return on Equity of the Malaysian banking system were 1.5 per cent. and 13.0 per cent., respectively, for the year ended December 31, 2019.

For the year ended December 31, 2020, the pre-tax profit of the banking system decreased by 24.8 per cent. to RM31.2 billion, as compared to RM41.5 billion for the year ended December 31, 2019. This decrease was driven primarily by higher credit costs as banks pre-emptively built up provisions against potential losses. This decrease was partially offset by increased net trading and investment gains from the sale of debt securities and fair value changes amid declining yields, which grew by 36.5 per cent. over the same period. Return on Assets and Return on Equity were at 1.1 per cent. and 9.2 per cent., respectively, for the year ended December 31, 2020.

### ***Deposit Insurance and Policyholder Protection Schemes***

Malaysia Deposit Insurance Corporation, also known as Perbadanan Insurans Deposit Malaysia (“**PIDM**”), is a statutory body that was established in 2005 under the PIDM Act 2011. PIDM is the deposit insurer and resolution authority for its member institutions (“**MI**s”) and is an integral part of the national financial safety net system. MIs include licensed commercial and Islamic banks, insurance companies and takaful operators. As at March 1, 2021, there are 42 member banks and 50 insurer members under PIDM.

#### ***Deposit insurer***

PIDM administers the Deposit Insurance System and the Takaful and Insurance Benefits Protection System (“**TIPS**”) to protect depositors and owners of takaful certificates and insurance policies in the event of an MI failure.

Under the Deposit Insurance System, PIDM protects eligible Islamic and conventional deposits separately, up to RM250,000 per depositor per member bank. The RM250,000 limit protects 96 per cent. of depositors in full. For TIPS, the maximum coverage limits of up to RM500,000 are for more commonly purchased takaful or insurance benefits such as death, permanent disability, critical illness and property damage claims, while full coverage is provided for healthcare benefits. The RM500,000 limit is estimated to fully cover at least 96 per cent. of owners of takaful certificates and insurance policies.

#### ***Resolution authority***

PIDM is also the resolution authority for MIs, which means that PIDM, in close coordination with other relevant authorities, is equipped to intervene and resolve distressed MIs. In addition, PIDM has a broad range of legislative tools to intervene early and resolve MIs on a going or gone concern basis upon notification by Bank Negara Malaysia (the primary regulator and supervisor of MIs) in the instance that an MI has ceased to be viable or is likely to cease to be viable, in a manner which minimizes cost to the financial system. PIDM also undertakes resolution planning for MIs during the ordinary course of business.

PIDM's operations are funded ex-ante by annual premiums and levies collected from MIs. PIDM administers six separate and distinct funds and has authority to raise external funds through either borrowing from the Government, the capital markets or other sources as it deems necessary.

### ***Labuan International Business and Financial Center (the "Labuan IBFC")***

The Labuan IBFC was established on October 1, 1990. The Labuan IBFC offers global investors and businesses the benefits of being in a well-regulated and supervised jurisdiction, which adheres to international standards. Located in the center of Asia, the Labuan IBFC offers a wide range of business structures and investment solutions catered to cross-border transactions and international business dealings including Fintech related solutions. The Labuan IBFC also provides services and solutions in niches such as fund-raising structures, for example bonds and sukuk, risk management, commodity trading, reinsurance, wealth management, international business companies and Islamic financial services. It provides fiscal neutrality and certainty in a currency neutral operating environment.

The Labuan IBFC is regulated by the Labuan Financial Services Authority (the "**Labuan FSA**"), which administers all laws relating to the international financial businesses in the Labuan IBFC. Since the revision of the Labuan tax framework in 2019, which impacts a variety of tax requirements, such as the removal of the tax ceiling of RM20,000 and retention of the tax rate of 3 per cent. on audited net profits, international institutions and investors have been adapting to the new international fiscal norms, which has in turn reinforced Labuan IBFC's reputation as a well-regulated jurisdiction. Supported by a robust, internationally recognized, yet business-friendly legal framework, the Labuan IBFC operates within clear and comprehensive legal provisions enforced by the Labuan FSA. The pragmatic business structures and investment solutions offered, under a regime with high international standards of legislation, regulation and supervision, makes the Labuan IBFC an ideal base for global business and fund-raising for the global and regional markets.

The Labuan IBFC is currently home to 61 banks. Generally, the Labuan banks are in the business of providing credit facilities, investment banking services, leasing, receiving deposits as well as providing consultancy and advisory services relating to corporate and investment on behalf of their corporate clients. As at December 31, 2020, the Labuan banking assets stood at U.S.\$49.4 billion while total deposits and total loans outstanding stood at U.S.\$8.6 billion and U.S.\$25 billion, respectively. The Labuan IBFC had approximately 221 insurance and insurance-related entities, managing a collective premium of U.S.\$1.6 billion as at December 31, 2020.

The Labuan leasing sector is a niche business for the Labuan IBFC with U.S.\$40.7 billion in total assets leased as at December 31, 2020. The Labuan leasing companies have consolidated and restructured their businesses to meet the substance requirements under the new Labuan tax policies. Despite the impact from the COVID-19 pandemic, it is expected the leasing business will pick up its momentum, especially with the stabilization of global oil price stabilizes and recovery of economic activities. Another key business development area in the Labuan IBFC is in the digital financial services space. The Labuan IBFC has an influx of digital set-ups ranging from simple digital trading platform to more complex digital banking, insurtech and digital assets. As at the date of this Offering Memorandum, the Labuan IBFC has more than 60 digital financial services providers, majority of which are in the business to provide digital financial products and services.

### ***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 countering financing of terrorism ("**AML/CFT**") regime in Malaysia. The AMLA was enacted in 2001 and provides the legal basis for the country's AML/CFT framework and regulatory tools for law 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 targeted financial sanctions ("**TFS**") and the regulation of terrorism financing activities such as the freezing, seizure and forfeiture of terrorist property, and hence the definitions of "terrorist property" and "terrorism financing offence" were incorporated under the said amendments by reference to the relevant definitions under the Malaysian Penal Code. As part of

the Government's continuous effort to strengthen the regulatory framework to combat financial crimes, the AMLA was again amended in 2014 to strengthen regulatory requirements, further clarify obligations of reporting institutions and expand the powers of law enforcement agencies in combating money laundering and terrorism financing.

These amendments include strengthening provisions on cross-border movements of cash and bearer negotiable instruments where enforcement actions could now be taken on any breaches. Part IVA on cross-border movements of cash and bearer negotiable instruments, which, among others, imposed a declaration requirement for travelers entering or leaving Malaysia with cash and/or bearer negotiable instruments exceeding an amount equivalent to U.S.\$10,000, a person who moves into or out of Malaysia through the post or any other means, cash and/or negotiable bearer instruments (for example traveler's cheques, bearer cheques) exceeding an amount equivalent to U.S.\$10,000.

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 million, whichever is higher. The amended AMLA came into force on January 2, 2018.

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 and extended to address emerging threats facing the country and to be in line with the international standards on combating money laundering financing of terrorism and proliferation financing. As at March 31, 2021, there were 423 predicate offences from 51 pieces of legislation and regulations as 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 law enforcement agencies to conduct money laundering and terrorism financing investigations and the eventual prosecution of the offender. The financial intelligence received may come from various sources including suspicious transaction reports ("STRs") and cash threshold reports ("CTRs") received from reporting institutions and other intelligence from law enforcement agencies as well as foreign FIUs. The AMLA requires reporting institutions to promptly submit STRs to BNM on any transaction (including attempted or proposed transactions) where the identity of the person involved, the transaction itself or any circumstances concerning the transaction raises suspicion that it involves proceeds of an unlawful activity or that the person is involved in money laundering or terrorism financing activities. Certain reporting institutions (i.e. all banking institutions, selected development financial institutions, casino and the Malaysian Hajj pilgrim fund board) are required to submit cash threshold reports for transactions equivalent to RM25,000 and above. The AMLA also provides for a waiver of secrecy obligations in relation to any STRs and CTRs made by the reporting institutions. BNM maintains strong international relationships and fosters close cooperation among jurisdictions in the financial intelligence space through MoUs with 44 countries, with an additional four countries in negotiation, and is also a member of the Egmont Group of FIUs, a platform which enables the secure exchange of expertise and financial intelligence among member countries.

To date, the reporting institutions under the AMLA include financial institutions ("FIs") in the conventional, Islamic and the mid-shore sectors (i.e. Labuan), development financial institutions, insurance and takaful operators, money services businesses and non-bank issuers of designated payments instruments, as well as designated non-financial businesses and professions ("DNFBPs") and non-bank financial institutions ("NBFIs"). The DNFBPs sectors include lawyers, notaries public, accountants, company secretaries, casino and other licensed gaming outlets, registered estate agents, trust companies, moneylenders, pawnbrokers and dealers in precious metals or precious stones. As at March 31, 2021, there were approximately more than 30,000 reporting institutions under the AMLA.

BNM issued the Standard Guidelines on AML/CFT to the reporting institutions in November 2006 aimed at ensuring compliance with their reporting obligations under the AMLA. The Standard Guidelines were reviewed

and amended periodically, and was most recently revised in 2019, which included measures for TFS. These Standard Guidelines are now divided into two (i.e. the first for the FIs and secondly for the DNFBPs and NBFIs) is called the Anti-Money Laundering, Countering Financing of Terrorism and Targeted Financial Sanctions Policy Documents for Financial Institutions as well as the DNFBPs and NBFIs (“**AML/CFT and TFS PD**”). Both policy documents outline principle-based requirements and incorporates measures to address changes identified at the international level.

Given the emergence of the digital currency sector globally, digital currency exchangers were prescribed as reporting institutions under the AMLA and BNM issued the sector 6 AML/CFT PD in 2018. Nonetheless, in 2019, digital assets were prescribed as securities pursuant to the Capital Markets and Services Act 2007. Following that, the oversight of digital asset exchanges (“**DAX**”) and the AML/CFT requirements falls within the purview of the Securities Commission Malaysia (“**SC**”).

BNM plays a role as the Chair and the secretariat of the National Coordination Committee to Counter Money Laundering (“**NCC**”) that was established in November 1999, which is an inter-agency platform represented by 16 ministries and Government agencies that is responsible for the coordination, implementation and monitoring of national AML/CFT initiatives while promoting information sharing and joint-agency collaborative measures.

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.

In 2014, Malaysia’s AML/CFT framework was assessed by the Financial Action Task Force (“**FATF**”) for compliance to the international standards on combating money laundering, terrorism financing and proliferation financing and the effectiveness of the implementation of said measures. In September 2015, the FATF published a report on Malaysia’s mutual evaluation, acknowledging a “high degree of technical compliance” and a “substantial to moderate” level of effectiveness in the implementation of Malaysia’s AML/CFT regime. In February 2016, Malaysia was accepted as a full member of the FATF. In its 3rd Enhanced Follow-up Report and Technical Compliance Re-Rating published in 2018, FATF recognized that Malaysia has made progress in addressing the technical compliance deficiencies previously identified. Malaysia has also made progress in the effectiveness of the implementation of its AML/CFT regime but has yet to be re-rated by FATF due to the delay caused by the ongoing COVID-19 pandemic.

### **Malaysian Anti-Corruption Commission Act 2009**

The sole anti-corruption agency to investigate corruption in Malaysia is the Malaysian Anti-Corruption Commission (“**ACC**”), established under the Malaysian Anti-Corruption Commission Act 2009 (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 has established since 2009 a five-panel independent body to monitor the ACC. This independent panel body comprises 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 acting 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. In recent years, the ACC has also been successful in arresting and charging senior and prominent former Government officials and also in the international asset recovery of IMDB.

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 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 ACCA.

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. A further amendment to Section 17A of the ACCA on June 1, 2020 which imposes liability on any person associated with the organization including the company's directors, officers, partners, employees or anyone who performs services on behalf of the organization. The individual could face prosecution and imprisonment of up to 20 years if the company did not have adequate procedures in place to prevent corruption. Companies could be fined not less than ten times the value of the gratification or RM1 million, whichever is higher. The intention of the new provision is to push corporate boards and management to oversee the risk of corruption in their companies and set the right culture from the top. In January 2019, the Government introduced the National Anti-Corruption Plan 2019-2023. The plan has identified six strategies which will be implemented via 29 specific priority initiatives out of a total list of 115 initiatives.

### **Consumer Protection and Education Framework**

BNM has established a comprehensive consumer financial protection framework aimed at promoting a sound, stable and competitive financial sector. It continues to strengthen the institutional framework and infrastructure for consumer protection, 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 skills and knowledge necessary to make informed financial decisions. The FSA and the IFSA provide BNM with a mandate to foster fair, responsible and professional conduct of financial service providers (“FSPs”). Regulatory measures and supervisory activities relating to consumer protection and market conduct ensure meaningful product disclosure, responsible lending practices, provision of proper advice, equitable fees and charges, and effective dispute resolution mechanisms. BNM also undertakes market conduct surveillance to identify emerging conduct issues to pre-emptively identify and address risks to financial consumers. Supervisory and enforcement actions are pursued against FSPs for failures to comply with business conduct requirements in addressing practices that are inconsistent with the fair treatment of financial consumers and responsible business conduct.

Significant efforts have been directed towards empowering consumers and promoting their financial well-being through financial education to complement market conduct and prudential regulation in protecting consumer interests. Financial education initiatives have been aimed at promoting financial skills from an early age, through the incorporation of financial education elements in key subjects of the school curriculum and providing targeted financial literacy programs for adults, based on significant events at various life stages. The longer-term vision is to fully integrate financial education into the school ecosystem in a way that assists students in planning and managing their finances on a day-to-day basis. Financial education programs for adults are intended to equip individuals with knowledge on financial management skills relevant to specific life stages. Particular focus is directed at educating young adults and low-income households, given their propensity to borrow and their relatively limited financial reserves. Targeted financial education programs to address specific risks and concerns associated with these target groups include the POWER! Program, which covers debt management, building wealth and preparing households for unexpected events. BNM leverages technological advancements to design and deliver financial information and advice, with the goal of elevating consumer awareness and financial management skills. Malaysia also fosters an integrated and collaborative approach to financial education initiatives through arrangements that bring together relevant authorities and partners, from both public and private sectors.

In 2019, Malaysia launched the National Strategy for Financial Literacy 2019 — 2023 (“NS”), which sets out priorities and actionable plans to equip Malaysians with the knowledge to make informed financial decisions and

promote responsible financial management. The NS was formulated by the Financial Education Network, an inter-agency grouping co-chaired by BNM and SC and with members comprising the Ministry of Education, Employees Provident Fund, Perbadanan Insurans Deposit Malaysia, Agensi Kaunseling dan Pengurusan Kredit and Permodalan Nasional Berhad.

In Malaysia, dedicated complaints units within FSPs, Laman Informasi Nasihat Khidmat (“BNMLINK”) and the Ombudsman for Financial Services (“OFS”), are the primary avenues for consumers to seek redress or resolve their disputes with FSPs. BNMLINK was established in 2005 to provide a centralized point of contact to facilitate prompt response to the public on matters under BNM’s purview and serves as a platform for consumers to seek assistance to resolve complaints related to FSPs regulated by BNM. BNMLINK is accessible through various channels, including walk-in customer service centers at its headquarters in Kuala Lumpur and five branches nationwide, a call center, online channel (eLINK) and mobile services that reach rural areas. Established in October 2016, the OFS (formerly known as the Financial Mediation Bureau) provides all customers of FSPs under BNM’s purview with a channel for independent and impartial mediation and dispute resolution. The governance and operational arrangements of the OFS has been strengthened in line with international best practices and based on the fundamental principles of independence, fairness and impartiality, accessibility, accountability, transparency and effectiveness.

The development of a strong national credit infrastructure in Malaysia is instrumental in promoting a sound credit culture among consumers and robust credit assessments by financial institutions. The comprehensive national Central Credit Reference Information System captures details of all outstanding credit facilities and the repayment records for any individual or company with a credit facility from an FSP. BNM also set up the Credit Counselling and Debt Management Agency in 2006 to provide an avenue for consumers to obtain advice on prudent borrowing practices and financial management education through credit counselling, debt and money management activities. The agency’s debt management program 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 from commercial transactions and the operations of credit reporting agencies under the Personal Data Protection Act 2010 and the Credit Reporting Agencies Act 2010 by the relevant regulatory authorities. Given the important role of financial services professionals in dealing with consumers, investors, financial markets and the wider Malaysian economy, a strong culture of ethical conduct in the financial services industry is central to its long-term sustainability. Based on a shared vision for high standards of ethics and professionalism within the financial services industry, BNM and the SC have established the Financial Services Professional Board (“FSPB”). As an industry-led standard-setting body, the FSPB focuses on developing practical and relevant standards of professionalism and ethics for the industry and its workforce. In 2018, the FSPB has launched the Professional Code for the Financial Services Industry to instill core minimum standards of professional conduct expected of FSPs and individuals in the sector.

## **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 2015) (“CMSA”) (legislation to regulate and to provide for matters relating to activities, markets and intermediaries in the capital markets), and the establishment of the SC in 1993.

### ***Capital Markets Development (2011-2020)***

Malaysia has developed into a well-diversified capital market that includes an equity market with over 900 listed companies, a bond market that is the third largest in Asia, an innovative Islamic capital market (“ICM”) that is well-regarded globally, a derivatives market that is the leading price discovery center for CPO and a domestic unit trust industry that is one of the largest in region.

Over the last decade, the equity market capitalization grew by 3.6 per cent. in Malaysia and Malaysia saw a four-fold increase in Initial Public Offering (“**IPO**”) listings in the LEAP (Leading Entrepreneur Accelerator Platform) and ACE (Access, Certainty, Efficiency) markets. The IPO framework for listings in the Main Market of Bursa Malaysia Securities Bhd (“**Main Market**”) was enhanced in 2020 to promote shared responsibility among key stakeholders and provide for a mandatory pre-submission consultation process. Comprehensive reviews of guidelines for Real Estate Investment Trusts (“**REITs**”) and Exchange-Traded Funds (“**ETFs**”) were undertaken to facilitate greater product offerings and promote investor participation. Equity market management measures were also strengthened to enhance market resilience. This included the implementation of dynamic price limits within the new trading system in 2013, as well as revisions to price limits and circuit breaker mechanisms in response to market volatility.

The corporate bonds and sukuk market remain a key fundraising pillar for the Malaysian economy as more corporates shifted from bank loans to the bond market to meet their long-term financing needs. The strong growth over the last decade is also underpinned by the introduction of facilitative policies which reduced time-to-market for issuances, strengthened local credit rating capabilities and enhanced fundraising flexibilities. To improve liquidity in the secondary market, the SC introduced regulated short selling for corporate bonds, allowed for physical settlement of the MGS Futures contract to enhance hedging opportunities and facilitated direct participation by retail investors within the bond market.

Malaysia continues to be a prominent global ICM hub, with Shariah-compliant assets of RM2.3 trillion as at end-2020, as well as a global leader in sukuk issuances and sukuk outstanding. Since 2010, Malaysian sukuk outstanding tripled in size amidst facilitative developmental policies, while Islamic AUM grew 2.7 times, underpinned by policies outlined in the SC’s Islamic Fund and Wealth Management Blueprint, which was launched in 2017. Various global ICM milestones include the issuance of the world’s first green sukuk, the first environmental, social and governance (“**ESG**”) sukuk fund, as well as a ground-breaking resolution by the SAC on the permissibility of investment and trade in digital assets on registered Digital Asset Exchanges (“**DAX**”).

Sustainable and Responsible Investments (“**SRI**”) gained further prominence in the Malaysian capital market during the Capital Market Masterplan 2 (“**CMP 2**”). Underpinned by facilitative regulatory policies and incentives, coupled with initiatives to scale industry capacity and awareness, fundraising for green and sustainable objectives including sukuk issuances have grown significantly. As at December 31, 2020, RM5.4 billion of SRI sukuk have been issued under the SRI Sukuk Framework, which was first introduced in 2014 to enhance Malaysia’s importance as a center for Islamic finance and sustainable investment. Major institutional investors and domestic fund managers are also signatories of the Principles for Responsible Investments (“**PRI**”), a UN-supported network of investors, paving the way for growth in SRI funds and investments. To further the drive towards sustainable practices in the Malaysian capital markets, the SC released the SRI Roadmap in 2019. The five-year SRI Roadmap anchors on 20 strategic recommendations to drive the development of a facilitative and vibrant SRI ecosystem and to position Malaysia as a SRI center in the region.

To enhance the relevance of the Malaysian capital market to economy, the Government has focused developmental efforts on alternative financing for SMEs and Mid-Tier Companies (“**MTCs**”). This includes the introduction of Equity Crowdfunding (“**ECF**”) as well as Initial Exchange Offerings (“**IEOs**”) for early stage entrepreneurs, LEAP market for unlisted late-stage growth companies (“**LEAP Market**”) and Peer-to-peer (“**P2P**”) financing for working capital needs. Over the last decade, the capital market has seen a fourfold increase in participation from SMEs and MTCs.

The unit trust industry’s AUM grew by 9.1 per cent. per annum from RM377.5 billion in 2010 to RM905.5 billion in 2020, facilitated by development efforts such as the liberalization of rules governing the fund management industry in 2015. In addition, the introduction of Private Retirement Scheme (“**PRS**”) provided individuals with a private option to complement the public mandatory retirement scheme and longer-term savings flexibility. Since the inception of PRS in 2012, the unit trust industry’s AUM has grown by 12.5 per cent. annually to RM4.8 billion as at the date of this Offering Memorandum.

In meeting the evolving demands of the economy and capital market, the SC continues to drive digitization of the Malaysian capital market through its Digital Markets Strategy which focuses on facilitating innovative market

based solutions and developing a conducive digital finance ecosystem to encourage greater investor participation as well as wider access to market-based financing. New intermediation models are now available in the market, such as digital-only equities broker, Digital Investment Managers (“DIM”), Digital Asset Exchanges as well as e-services platforms for online distribution of capital market products.

### Capital market segments

	<u>June 2016</u>	<u>June 2020</u>	<u>Compound Annual Growth Rate</u>
	<u>(RM billion)</u>		<u>(%)</u>
Equity market capitalization .....	1,695	1,579.59	(1.75)
Debt securities outstanding .....	1,125	1,559.18	8.50
<b>Overall Capital Market</b> .....	<b>2,820</b>	<b>3,138.77</b>	<b>2.71</b>
Islamic capital market .....	1,694	2,050.38	4.89
Fund management (AuM) .....	676.27	807.69	4.54
Unit Trust Industry (net asset value) .....	620	468.51	(6.76)
Private retirement schemes (net asset value) .....	0.03	3.72	233.70

Sources: SC; Bursa Malaysia.

### Growth with governance (2011-2020)

The growth of Malaysia’s capital markets has been underpinned by the building of a regulated and efficient market that reinforces investor confidence. The SC adopts a risk-based and principles-based approach to regulations, surveillance, supervision and oversight of a broad range of licensed capital market intermediaries and individuals. The SC’s regulatory philosophy employs the approach of “proportionality of regulation” where the degree by which the SC regulates markets, products, firms and activities commensurate with the risks they pose, the standards of conduct practiced and the outcome it seeks to achieve. Any regulatory interventions should deliver the desired outcome in the most effective manner, imposing requirements only where necessary, and minimizing the risk of unintended consequences. The Malaysian capital market regulatory framework is benchmarked to the global standards of investor protection, corporate governance, anti-money laundering and enforcement capabilities, and it has achieved international recognition.

Today, Malaysia is ranked fifth in the Asian Corporate Governance Association (“ACGA”) Corporate Governance Watch 2020 assessment with marked improvements in the areas of CG rules, standards and practices of auditors and audit regulators, as well as investor stewardship and CG culture of listed companies. Malaysia also ranked second in the World Bank’s Doing Business: Minority Investors Index in 2020, a continued recognition of the strength of its shareholder rights, governance safeguards and corporate transparency requirements.

In 2017, the SC released the latest Malaysian Code on Corporate Governance 2017 (“MCCG 2017”) focused in instilling a greater culture of transparency and accountability. Among the key features of the new MCCG 2017 is the introduction of the Comprehend, Apply and Report (“CARE”) approach with the intention to encourage public listed companies (“PLCs”) to put greater thought and consideration in adopting and reporting their corporate governance strategies. In fostering high quality independent auditing in the capital markets, the Audit Oversight Board (“AOB”), which was set up in 2010, continued to strengthen its focus on risk-based inspections and take enforcement actions against auditors for non-compliance.

The last decade also witnessed growth in professionalism and effectiveness of corporate directors through efforts of the Institute of Corporate Directors Malaysia (“ICDM”), greater investor stewardship underpinned by the Malaysian Code for Institutional Investors (“MCII”) and the Institutional Investors Council, greater alignment of corporate governance initiatives within capital market by the Corporate Governance Council, as well as greater

use of technology to improve disclosures and active shareholder participation. In supporting the National Anti-Corruption Plan (2019-2023) (“NACP”), the SC embarked on an exercise to further strengthen the standards of corporate governance and prevent corruption, misconduct and fraud.

To anchor trust and confidence in the capital markets, the SC has continued to deploy a wide range of enforcement actions against those it considers having committed offences resulting in harm to investors and to overall market integrity. Over the years, the SC’s administrative, civil and criminal prosecution powers and enforcement reach were expanded to take appropriate action against directors, officers, and intermediaries to minimize losses to investors. This includes various pre-emptive measures such as revoking licenses of intermediaries, obtaining court injunctions in order to freeze assets pre-investigation or trial, and seizing properties believed to be related to unlawful activities.

New provisions have been added to the CMSA to widen the enforcement powers of the SC, including taking action against corporate governance-related transgressions and to act against errant directors and officers of public listed companies as well as their related corporations who cause wrongful loss to their company. The focus of enforcement cases has also expanded from market manipulation and insider trading to the areas concerning securities fraud, misconduct and corporate governance. Continued cooperation with international regulators and agencies also assisted in providing better protection, compensation and restitution for investors.

### **Securities Commission Malaysia**

The establishment of the SC in 1993 reflected the Government’s commitment to have a central authority in the regulation and development of Malaysia’s capital market. The SC’s aim is to promote and maintain fair, efficient, secure and transparent securities and derivatives markets and to facilitate the orderly development of an innovative and competitive capital market.

The Securities Commission Act 1993 (“SCA”) serves as the primary source of legislation for the SC’s powers and is now known as the Securities Commission Malaysia Act 1993 (“SCMA”) upon the coming into force of the Securities Commission (Amendment) Act 2015. 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 2015) (“CMSA”), is the secondary source of legislation on matters relating to activities, markets and intermediaries in the capital market. The SCMA was last amended in 2017 to incorporate provisions that broaden the AOB’s scope of powers and oversight capabilities.

Pursuant to the Financial Sector Assessment Program’s 2012 assessment conducted by World Bank and IMF, the SC’s regulatory framework was assessed to have high levels of compliance with international standards, including the International Organization of Securities Commissions Objectives and Principles of Securities Regulation. Malaysia’s anti-money laundering, countering financing of terrorism and proliferation financing framework was also found to be highly compliant with international standards as per the assessment undertaken by the FATF’s 2015 assessment.

### ***Capital Market Masterplans***

The SC launched Capital Market Masterplan 1 (“CMP 1”) in 2001, which provided a strong foundation and ecosystem for the Malaysian capital markets over a ten-year period. As at end-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 was also viewed as providing the most consistent and comprehensive regulatory framework for Shariah compliance.

The CMP 2 was launched in 2011 with strategies to transform the competitive dynamics of the Malaysian capital markets from 2011 to 2020, building on the inaugural CMP 1. This included growth strategies to develop a more innovative environment and facilitate new growth opportunities as well as governance strategies to ensure robust regulatory oversight to enhance confidence in the integrity of Malaysia’s capital markets. During CMP 2, the

domestic capital market continued to expand in size, growing 5.3 per cent. annually from RM2.0 trillion in 2010 to RM3.4 trillion in 2020. The performance of the capital market segments during CMP 2 is as outlined below:

<u>Capital Market Segments</u>	2010	2020	Compound Annual Growth Rate
	(RM billion)		(%)
Stock market capitalization . . . . .	1,275.3	1,817.3	3.6
Debt securities outstanding . . . . .	763.4	1,609.0	7.7
<b>Total Capital Market . . . . .</b>	<b>2,038.7</b>	<b>3,426.3</b>	<b>5.3</b>
Derivatives (notional value traded) . . . . .	512.1	1,225.6	9.1
Investment management (AUM) . . . . .	377.5	905.5	9.1
Islamic capital market . . . . .	1,094.5	2,256.4	7.5

Source: SC.

With the conclusion of the Capital Market Masterplan 2, the SC will be issuing the Capital Market Masterplan 3 (“**CMP 3**”) in the second half of 2021 to prepare Malaysia’s capital markets for the next five years. Consideration is given to emerging trends of digitization, climate change, the growing private markets segment, and the increasing need for investors to save for the future as the country’s demographic shifts towards an aging population.

The CMP 3 will also look into capital market and business needs in tandem with the 12 MP, as Malaysia transitions towards a high income, high value-added and inclusive nation. Along with these emerging trends, the SC will continue to focus on maintaining a fair and orderly market and enhance its mandate of investor protection.

### ***International Regulatory Efforts***

SC participates actively in global regulatory policymaking via its membership in the International Organization of Securities Commissions (“**IOSCO**”) and as a signatory to the IOSCO Multilateral Memorandum of Understanding. The SC’s active involvement and contribution to IOSCO was reinforced with the election of the SC Chairman in January 2019 as the Vice-Chair of IOSCO’s Growth and Emerging Markets Committee and securing a position on the IOSCO Board, the governing and standard-setting body of IOSCO. IOSCO also established its first regional hub outside its Madrid headquarters in Kuala Lumpur in 2017, which has facilitated closer cross-border regulatory cooperation in the region.

Guided by AEC 2025 to create an integrated and highly cohesive ASEAN economy that would support sustained economic growth and resilience, the SC also participates in the ASEAN Capital Markets Forum (“**ACMF**”) and recently co-chaired the ASEAN Working Committee on Capital Market Development. During its chairmanship of the ACMF from the period August 2006 to August 2008 and September 2014 to October 2018, the SC led several initiatives to increase the connectivity between the region’s capital markets and facilitate aggregation and mobilization of capital for regional growth.

In May 2020, the ACMF published the Roadmap for ASEAN Sustainable Capital Markets. The Roadmap will provide a common vision and comprehensive direction to strengthen ASEAN’s commitment on promoting an ecosystem for sustainable capital market development.

Under the ASEAN Corporate Governance Initiative, corporate governance standards of ASEAN PLCs have been assessed via a scorecard starting from 2011. For the assessment exercise in 2018, Malaysia had 14 PLCs ranked in the ASEAN Top 50, which is the highest number of PLCs among the countries assessed. Additionally, the ASEAN Collective Investment Schemes Framework has seen 14 funds recognized under the Framework.

Within the Asian Bond Markets Initiative, which seeks to promote market integration and the development of local currency bond markets, the SC and the Malaysian Ministry of Finance co-chairs a taskforce together with the Japanese Ministry of Finance, which aims to strengthen regulation related to facilitation and collaboration among market participants on capital flows and foreign exchange transactions.

## **Bursa Malaysia**

### *About Bursa Malaysia*

Bursa Malaysia Berhad (“**Bursa Malaysia**”) is an exchange holding company established in 1976 and listed in 2005. Today, it is one of the largest bourses in ASEAN, hosting more than 900 diversified companies across 50 economic activities listed either on the Main Market for large-cap established companies or on the sponsor-driven ACE Market for emerging companies of all sizes. In 2017, the LEAP Market was introduced to support SMEs in their early stages of growth. The LEAP Market is only accessible to sophisticated investors and is positioned to help these SMEs raise funds, create visibility and enhance their profile to grow further.

Today, 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 offers a diverse spread of products covering equities, derivatives, offshore listings and services and bonds and Islamic offerings. In addition, Bursa Malaysia offers other investment choices, which include collective investment schemes such as exchange-traded funds, real estate investment trusts, exchange-traded bonds and sukuk and business trusts.

### *Securities market*

The Malaysian securities market has continued to record growth despite the increased volatility and challenges in the global equity markets. The interest of foreign investors in the Malaysian market remained fairly stable, with the percentage of foreign ownership consistently above 20 per cent. For the last decade, the total market capitalization of all listed companies on Bursa Malaysia has grown by 42 per cent., while the benchmark index FTSE Bursa Malaysia KLCI (“**FBMKLCI**”) has grown by 7 per cent.

As at December 31, 2020, the total market capitalization of all listed companies on Bursa Malaysia stood at RM1.8 trillion, while the benchmark FBMKLCI Index representing the top 30 listed companies stood at 1,627.21 points. Over the same period, the Average Daily Value of shares traded on the Exchange was recorded at RM4.2 billion, while foreign ownership (based on market capitalization) stood at 21 per cent.

Bursa Malaysia adopts the FBMKLCI as its main index. In 2014, Bursa Malaysia introduced the FTSE4Good Bursa Malaysia Index, which measures the performance of companies demonstrating good ESG practices.

### *Islamic market*

Bursa Malaysia Islamic Markets offerings in the Islamic market comprise of Shariah-compliant securities, as well as two Shariah-compliant platforms, namely the Bursa Suq Al-Sila’ (“**BSAS**”) commodity Murabahah trading platform and the Bursa Malaysia-i securities exchange platform. As at December 31, 2020, 77.3 per cent. of the securities listed on Bursa Malaysia were shariah-compliance with a total market capitalization of RM1.3 trillion. The ADV of Shariah-compliant securities traded on the Exchange totaled RM3.2 billion, accounting for 76.9 per cent. of the overall ADV of RM4.2 billion. The ADV for BSAS has been growing steadily from RM24.3 billion in 2018 to RM32.9 billion as at December 31, 2020.

In tandem with the growth of Islamic assets for the last decade, Bursa Malaysia also recorded a growth of more than 300 per cent. in sukuk listings. As at December 31, 2020, the corporate and government Sukuk listed on Bursa Malaysia were U.S.\$30.9 billion and U.S.\$93.3 billion, respectively.

### ***Derivatives market***

Average Daily Contracts (“ADC”) traded in the derivatives market have achieved a historical high of 73,523 contracts due to the strong performance of crude palm oil futures which accounts for 80 per cent. of the total ADC.

Bursa Malaysia is recognized for its Crude Palm Oil Futures Contract, which serves as the global price benchmark for the palm oil industry since 1980.

### ***Investor education***

Bursa Malaysia places utmost importance on investor education, protection, and market integrity to ensure a well-functioning, vibrant, and sustainable capital market. This is achieved through continuous education efforts while maintaining a comprehensive and robust regulatory framework to govern the market and its participants in a fair and orderly manner.

As part of its investor education initiatives, Bursa Malaysia initiated a retail outreach program to engage, educate and grow domestic retail participation, especially among young investors. One of the key initiatives is the BursaMKTPLC website, which was launched on April 28, 2014, BursaMKTPLC is a one-stop online portal and virtual marketplace designed to provide traders and investors with market insights, pricing information and investor education.

In June 2020, Bursa Malaysia launched the Bursa Academy, an e-learning platform targeting primarily retail investors across the Securities Market, the Islamic Market and the Derivatives Market. The e-learning platform is intended to educate and help retail investors make informed investment decisions.

### ***Environmental, Social and Governance***

Beyond the continuous corporate governance programs undertaken by Bursa Malaysia, the ESG index was successfully launched in December 2014, as part of Bursa Malaysia’s commitment to advancing the sustainable finance and ESG agendas.

The ESG index and the FTSE4Good Index Series measure the performance of companies demonstrating good ESG practices. Bursa Malaysia joined the United Nations Sustainable Stock Exchanges initiative in 2015, further strengthening its commitment to promoting sustainable strategies among issuers and the marketplace.

In addition, Bursa Malaysia launched BursaSUSTAIN in 2018, a one-stop online knowledge repository on corporate governance, sustainability and responsible investment, to impart understanding of these topics to a broader group of stakeholders.

### ***Global Recognition***

Bursa Malaysia has obtained numerous domestic and foreign awards and recognition over the years. In 2020, Bursa was named Top 20 ASEAN Publicly Listed Companies, received the ASEAN Asset Class Award and was awarded Malaysia Top 3 PLC in the 2019 ASEAN Corporate Governance Scorecard Award. In addition, the Islamic Finance News recognized Bursa Malaysia as ‘Best Stock Exchange for Islamic Listings’ for two consecutive years in 2018 and 2019.

Bursa Malaysia was ranked fourth among 148 countries for Strength of Investors Protection by the World Economic Forum, fourth among 184 countries for Investor Protection by The World Bank and second among six ASEAN countries in the Corporate Governance Assessment.

Bursa Malaysia has also received awards from the Global Islamic Finance Awards for “Best Islamic Exchange” in 2016 and 2017; as well as over 20 other awards between 2016 to 2020. In addition, Bursa Malaysia has been included in the Bloomberg Gender-Equality Index for its commitment to transparency in gender reporting and the advancement of women in the workplace.

## **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 reinforces investor confidence. The Malaysian capital market regulatory framework is benchmarked to the global standards of investor protection, corporate governance, anti-money laundering and enforcement capabilities, and it has achieved international recognition.

Malaysia obtained a rating of “fully implemented” for 34 out of 37 principles assessed under the IOSCO Self-Assessment in 2012; in effect a 92 per cent. compliance level, and the highest among countries that underwent the assessment post-global financial crisis. Malaysia has also ranked 12th out of 190 economies for ease of doing business in the World Bank’s “Doing Business 2020” report.

The SC is moving Malaysia’s regulatory framework towards a more principles-based, outcome-orientated approach centered on regulatory neutrality and transparency and complemented by more effective supervision and enforcement. In line with this, the SC developed and released the “SC’s Regulatory Philosophy” in 2015, a public document that aims to promote stakeholders’ understanding of the SC’s approach to regulation and provide guiding principles for the SC in carrying out its regulatory duties. The SC’s regulatory philosophy employs the approach of “proportionality of regulation” where the degree by which the SC regulates markets, products, firms and activities is commensurate with the risks they pose, the standards of conduct practiced and the outcome it seeks to achieve. Any regulatory interventions should deliver the desired outcome in the most effective manner, imposing requirements only where necessary, and minimizing the risk of unintended consequences.

The SC also developed the new Securities Commissions Malaysia (Amendment) Act 2017 and Capital Markets and Services (Amendment) Act 2015, the latter further amended in 2018.

The SC’s efforts to enhance the regulatory framework also include streamlining disclosure requirements for managed investment schemes. The streamlining is intended to promote investors’ understanding of fund information as well as enhance the operational efficiency of industry players and the SC. New prospectus guidelines were issued in July 2015. The key amendments to the guidelines include the new requirement for a “true and fair” audit opinion in relation to financial information disclosed in the prospectus, which replaces the requirement for pro forma financial information. This, in essence, would require the issuer to disclose either combined or consolidated financial statements in the prospectus. This new requirement for a “true and fair” audit opinion would enhance the financial information disclosed in the prospectus and align the Malaysian requirements with international practice. Disclosure of pro forma financial information would be limited to situations where there were recent significant acquisitions or disposals during and/or after the completion of the most recent financial year. In addition to changes consequential to other legislative development over the years, the guidelines were also amended in 2017 to introduce policy for admission of mineral, oil and gas exploration and extraction corporations or assets to the Main Market as well as in 2019 to insert the ASEAN Disclosure Standards for Debt Issuance Programs which allows issuers seeking to make multi-jurisdictional offers of plain debt securities under debt issuance to produce a set of standardized documents.

The SC has continued to strengthen its supervisory, surveillance and enforcement capacity, with intensified oversight particularly over entities deemed systemically important to the capital markets, as well as close scrutiny on key dimensions of intermediary conduct, such as sales practices and anti-money laundering measures.

To anchor trust and confidence in the capital markets, the SC has continued to deploy a wide range of enforcement actions against those it deems to have committed offences resulting in harm to investors and to overall market integrity. The SC’s actions are underpinned by a commitment to delivering credible deterrence against misconduct.

Malaysia has also made considerable strides in raising its corporate governance standards. 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 corporate governance framework in Malaysia, which is primarily set out in the Companies Act 2016, the Corporate Governance Code and the Bursa Malaysia Listing Requirements for listed issuers, is comparable and on par with international standards. In 2017, a new edition of the Corporate Governance Code was published and superseded its earlier version, taking on a new approach to promote greater internalization of corporate governance culture. The 2017 edition featured the new Comprehend, Apply and Report approach and there was a shift from comply or explain to apply or explain an alternative. The new edition has also seen greater focus and clarity on Intended Outcomes for each practice as well as providing further guidance to assist companies in applying the practices. 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 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.

The Bursa Malaysia Listing Requirements play an important role in shaping and inculcating the corporate governance standards adopted by listed issuers in Malaysia. In January 2008, Bursa Malaysia Listing Requirements were amended to enhance the effectiveness and independence of the audit committee and to mandate the internal audit function by listed issuers. 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 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.

Following the issuance of the revised Corporate Governance Code in 2012, Bursa Malaysia amended the Bursa Malaysia Listing Requirements in November 2012 to promote better and stronger corporate governance culture among listed issuers by strengthening board structure and composition, enhancing transparency of the listed issuer's corporate governance practices and providing shareholders with a fair and transparent voting process for related party transactions. Key amendments included mandating the establishment of a nominating committee comprising exclusively non-executive directors, a majority of whom must be independent, and requiring disclosure of its activities. Poll voting was also mandated for related party transactions.

In October 2015, Bursa Malaysia launched its Sustainability Reporting Framework. Under this Framework, the Bursa Malaysia Listing Requirements were amended to require listed issuers to disclose a narrative statement of their material economic, environmental and social risks and opportunities in their annual reports.

In March 2016, Bursa Malaysia began to require disclosure of the management discussion and analysis of the listed issuer group's business, operations and performance in annual reports. In addition, Bursa Malaysia amended the Bursa Malaysia Listing Requirements to extend poll voting to all resolutions set out in the notice of any general meeting or in any notice of resolution which may properly be moved and is intended to be moved at any general meeting. Bursa Malaysia also took various measures to improve shareholder engagement and transparency and strengthen the role of the audit committee in reviewing quarterly results and annual audited financial statements.

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 but not permitted to vote on the contract or proposed contract. Furthermore, requirements on disclosure of interests in contracts were amended and the functions and powers of the board of directors were inserted. Subsequently, the Companies Act 2016 became operative on January 31, 2017 and enacts fundamentally significant changes to company law in Malaysia. It introduced new concepts in relation to incorporation, capital allocation decisions, secured creditor's rights, reporting requirements, corporate governance and rescue mechanisms.

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 AOB in April 2010 to provide independent oversight over the auditors of public listed companies and public interest entities, and to ensure that the 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, which is intended to lead to an informed and vigilant investor base and to ensure investors 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.

Following the issuance of the Malaysian Code for Institutional Investors in 2014, the private sector has also displayed greater commitment to corporate governance principles, and established the Institutional Investors Council in 2015, which comprises, among others, several of Malaysia's largest institutional investors.

Malaysia's efforts to enhance corporate governance and investor protection standards have been widely recognized. For example, 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, and in 2014 Malaysia ranked second on the ASEAN Corporate Governance Scorecard Country Report.

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 by external assessors as being compliant with the best practices of IOSCO and the SC is also a signatory to the IOSCO Multilateral Memorandum of Understanding, which is aimed at facilitating cross-border enforcement. The SC has played a leading role in international and regional regulatory efforts and the SC is currently the vice-chairman of IOSCO's Emerging Market Committee and played a leading role in developing the implementation blueprint for the integration of ASEAN capital markets, as well as within the Asian Bond Markets Initiatives, which is aimed at developing a regional bond market within the ASEAN+3 countries. The SC has also chaired the ASEAN Corporate Governance Initiative since its inception in 2011.

## Government Financial Position

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

### Government financial position

	2016	2017	2018	2019	2020 <sup>P</sup>	2021 <sup>B</sup>
	(RM million)					
Current revenue . . . . .	212,421	220,406	232,882	264,415	225,075	236,900
Less: Current expenditure . . . . .	210,173	217,695	230,960	263,343	224,600	236,540
Current surplus . . . . .	2,248	2,711	1,922	1,072	475	360
Less: Net development expenditure . . . . .	40,649	43,032	55,307	52,570	50,101	68,200
COVID-19 Fund . . . . .	—	—	—	—	38,019	17,000
Overall surplus/(deficit) . . . . .	(38,401)	(40,321)	(53,385)	(51,498)	(87,645)	(84,840)
Sources of finance						
Gross domestic borrowings . . . . .	93,876	129,185	131,564	127,478	181,067	191,500
Less: Domestic repayment . . . . .	56,194	88,453	77,137	82,723	94,146	106,700
Net domestic borrowings . . . . .	37,683	40,732	54,427	44,755	86,921	84,800
Gross external borrowings . . . . .	5,982	63	36	7,304	—	4,330
Less: External repayment . . . . .	5,148	405	356	327	331	3,750
Net external borrowings . . . . .	835	(342)	(320)	6,977	(331)	580
Use of assets <sup>(1)</sup> . . . . .	(116)	(69)	(722)	(234)	1,134	(540)
Overall balance (% of GNI) . . . . .	(3.2)	(3.0)	(3.8)	(3.5)	(6.3)	(5.6)
Overall balance (% of GDP) . . . . .	(3.1)	(2.9)	(3.7)	(3.4)	(6.2)	(5.4)

#### Notes:

<sup>P</sup> Preliminary.

<sup>B</sup> Budget estimate, excluding the PEMERKASA stimulus package.

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

Sources: Ministry of Finance; BNM.

In 2016, the current account of the Government registered a surplus of RM2.2 billion, or 0.2 per cent. of GDP. The fiscal deficit narrowed to 3.1 per cent. of GDP, or RM38.4 billion. The lower fiscal deficit was mainly due to consolidation efforts in 2016.

In 2017, the current account of the Government registered a surplus of RM2.7 billion, or 0.2 per cent. of GDP, compared to RM2.2 billion in 2016. The fiscal deficit narrowed to 2.9 per cent. of GDP, or RM40.3 billion, from 3.1 per cent. in 2016, or RM38.4 billion. The lower fiscal deficit was mainly due to higher revenue collection and prudent spending during the year.

In 2018, the current account of the Government registered a surplus of RM1.9 billion, or 0.1 per cent. of GDP, compared to RM2.7 billion in 2017. The fiscal deficit increased to 3.7 per cent. of GDP, or RM53.4 billion, from 2.9 per cent. in 2017, or RM40.3 billion. The higher fiscal deficit was mainly due to short-term policy adjustments particularly in providing allocation for off-budget spending, tax refunds and additional expenditure measures.

In 2019, the current account of the Government registered a surplus of RM1.1 billion, or 0.1 per cent. of GDP, compared to RM1.9 billion in 2018. The fiscal deficit declined to 3.4 per cent. of GDP, or RM51.5 billion, from 3.7 per cent. in 2018, or RM53.4 billion. The lower fiscal deficit was mainly due to commitment to resume fiscal consolidation trajectory.

In 2020, the current account of the Government registered a surplus of RM0.5 billion or about 0.1 per cent. of GDP, compared to RM1.1 billion in 2019. The fiscal deficit increased to 6.2 per cent. of GDP, or RM87.6 billion, from 3.4 per cent. in 2019, or RM51.5 billion. The higher fiscal deficit was mainly due to lower than expected GDP performance and the stimulus packages introduced to contain the COVID-19 pandemic.

In 2021, excluding the impact of the PEMERKASA stimulus package, the current account of the Government is projected to record a surplus of RM0.4 billion or about 0.1 per cent. of GDP, compared to RM0.5 billion in 2020. The fiscal deficit is projected to decline to 5.4 per cent. of GDP, or RM84.8 billion, from 6.2 per cent. in 2020, or RM87.6 billion. The fiscal deficit is expected to be lower due to higher revenue projection in line with economic recovery and Government's commitment to resume its fiscal consolidation plan.

## Government Revenue

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

### Government revenue

	2016	2017	2018	2019	2020 <sup>P</sup>	2021 <sup>B</sup>
	(RM million)					
Direct taxes . . . . .	109,608	116,024	130,035	134,723	112,511	131,870
Corporate income tax . . . . .	63,625	64,465	66,474	63,751	50,065	64,596
Petroleum income tax . . . . .	8,422	11,761	20,082	20,783	12,772	13,000
Personal income tax . . . . .	27,566	28,945	32,605	38,680	38,953	42,439
Stamp duties . . . . .	5,687	5,665	5,924	6,213	5,506	6,503
Other . . . . .	4,308	5,188	4,950	5,296	5,215	5,332
Indirect taxes . . . . .	59,735	61,634	44,026	45,843	41,887	42,500
Export duties . . . . .	980	1,355	1,725	1,126	746	922
Import duties . . . . .	2,905	2,784	2,897	2,733	2,346	2,050
Excise duties . . . . .	11,705	10,112	10,779	10,511	9,855	8,768
Sales tax . . . . .	103	47	3,971	15,385	14,767	15,200
Service tax . . . . .	103	15	1,473	12,283	12,006	12,700
GST . . . . .	41,206	44,290	20,236	—	—	—
Other . . . . .	2,733	3,031	2,945	3,805	2,167	2,860
Non-tax revenue and receipts <sup>(1)</sup> . . . . .	43,078	42,748	58,821	83,849	70,677	62,530
<b>Total</b> . . . . .	<b>212,421</b>	<b>220,406</b>	<b>232,882</b>	<b>264,415</b>	<b>225,075</b>	<b>236,900</b>

#### Notes:

<sup>P</sup> Preliminary.

<sup>B</sup> Budget estimate, excluding the PEMERKASA stimulus package.

(1) Includes investment income, licenses and permits, services fees, non-revenue receipts, revenue from federal territories and other items.

Source: Ministry of Finance.

In 2016, Government revenue decreased by 3.0 per cent. to RM212.4 billion. This decrease was primarily due to lower collection of petroleum-related revenue following lower crude oil price in 2016 averaging at U.S.\$44 per barrel. However, the reduction was cushioned by higher GST collection at RM41.2 billion. The contribution of tax revenue to Government revenue in 2016 was 79.7 per cent. Direct taxes amounted to RM109.6 billion. The decrease in direct tax revenue was due to a lower collection from petroleum income tax. Revenue from petroleum income tax decreased by 27.1 per cent. in 2016 compared with 2015, mainly due to lower average of crude oil price at U.S.\$44 per barrel in 2016 compared to 2015 at U.S.\$52 per barrel. Indirect taxes were RM59.7 billion in 2016 as a result of substantial GST collection. The contribution of direct taxes and indirect taxes to the Government's revenue in 2016 was 51.6 per cent. and 28.1 per cent., respectively.

In 2017, Government revenue increase by 3.8 per cent. to RM220.4 billion. This increase was primarily due to higher tax revenue in 2017, which amounted to RM177.7 billion. The contribution of tax revenue to Government revenue in 2017 was 80.6 per cent. Direct taxes increased 5.9 per cent, to RM116.0 billion attributed to higher collection of petroleum income tax by 39.6 per cent. in line with higher annual average crude oil price averaging at U.S.\$54 per barrel. Revenue from companies' income tax increased by 1.3 per cent. to RM64.5 billion in 2017 compared with 2016 mainly due to better corporate earnings. Indirect taxes were RM61.6 billion in 2017 as a result of better collection from GST. The contribution of direct taxes and indirect taxes to the Government's revenue in 2017 was 52.6 per cent. and 28.0 per cent., respectively.

In 2018, Government revenue decreased by 2.9 per cent. to RM232.9 billion. This decrease was primarily due to the abolition of GST. The contribution of tax revenue to Government revenue in 2018 was 74.7 per cent. Direct taxes increased 12.1 per cent. to RM130.0 billion was attributable to a higher collection of petroleum income tax in line with higher annual average crude oil prices in 2018 at U.S.\$71 per barrel compared with 2017 at U.S.\$54 per barrel. Meanwhile, revenue from companies and individual income tax increased by 3.1 per cent. and 12.6 per cent., respectively. Indirect taxes amounted at RM44.0 billion in 2018 as a result of the abolition of GST effective 1st June 2018. The contribution of direct taxes and indirect taxes to the Government's revenue in 2018 was 55.8 per cent. and 18.9 per cent., respectively.

In 2019, Government revenue increased by 13.5 per cent. to RM264.4 billion. This increase was primarily due to one-off special dividend from PETRONAS of RM30.0 billion to partially finance the outstanding tax refunds. The contribution of tax revenue to Government revenue in 2019 was 68.3 per cent. Direct taxes amounted to RM134.7 billion. The increase in direct tax revenue was attributable to a higher collection of individual income tax by 18.6 per cent. Revenue from petroleum income tax increased by 3.5 per cent. in 2019 compared with 2018, mainly due to revenue diversification in 2019. Indirect taxes were RM45.8 billion in 2019 as a result of higher SST collection. The contribution of direct taxes and indirect taxes to the Government's revenue in 2019 was 51.0 per cent. and 17.3 per cent., respectively.

In 2020, Government revenue decreased by 14.9 per cent. to RM225.1 billion. This decrease was primarily due to lower tax collection following the COVID-19 pandemic. The contribution of tax revenue to Government revenue in 2020 was 68.6 per cent. Direct taxes amounted to RM112.5 billion. The decrease in direct tax revenue was mainly attributed to lower collection of corporate income tax by 21.5 per cent. Revenue from petroleum income tax declined by 38.5 per cent. in 2020 compared with 2019, mainly due to lower oil price in 2020 compared with 2019. Indirect taxes were RM41.9 billion in 2020 as a result of lower SST collection. The contribution of direct taxes and indirect taxes to the Government's revenue in 2020 was 50 per cent. and 18.6 per cent., respectively.

## Government Expenditure

The following table sets out aggregate Government expenditure for the years indicated.

### *Government expenditure*

	2016	2017	2018	2019	2020 <sup>P</sup>	2021 <sup>B</sup>
	(RM million)					
Current expenditure . . . . .	210,173	217,695	230,960	263,343	224,600	236,540
Development expenditure . . . . .	41,995	44,884	56,095	54,173	51,360	69,000
COVID-19 Fund . . . . .	—	—	—	—	38,019	17,000
Total expenditure . . . . .	252,168	262,579	287,055	317,516	313,979	322,540
% growth . . . . .	(2.2)	4.1	9.3	10.6	(1.1)	2.5

Notes:

<sup>P</sup> Preliminary.

<sup>B</sup> Budget estimate, excluding the PEMERKASA stimulus package.

Source: Ministry of Finance.

## Government Current Expenditure

The following table sets out Government current expenditure for the years indicated.

### Government current expenditure

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020<sup>P</sup></u>	<u>2021<sup>B</sup></u>
	(RM million)					
Emoluments . . . . .	73,108	77,036	79,989	80,534	82,996	84,532
Debt services charges . . . . .	26,480	27,863	30,547	32,933	34,495	39,000
Grants to state governments . . . . .	6,942	7,109	7,605	7,574	7,669	7,745
Pensions and gratuities . . . . .	21,029	22,800	25,177	25,894	27,533	27,583
Supplies and services . . . . .	30,070	34,738	35,283	31,507	29,323	32,770
Asset acquisition . . . . .	676	516	447	770	631	542
Subsidies . . . . .	24,690	22,354	27,516	23,901	19,769	18,853
Grants to statutory bodies . . . . .	14,813	14,044	13,763	13,780	10,291	15,430
Refunds and write-offs . . . . .	799	973	883	893	654	511
Others . . . . .	11,566	10,262	9,750	45,557	11,239	9,574
<b>Total . . . . .</b>	<b><u>210,173</u></b>	<b><u>217,695</u></b>	<b><u>230,960</u></b>	<b><u>263,343</u></b>	<b><u>224,600</u></b>	<b><u>236,540</u></b>

#### Notes:

<sup>P</sup> Preliminary.

<sup>B</sup> Budget estimate, excluding the PEMERKASA stimulus package.

Source: Ministry of Finance.

In 2016, current expenditure declined 3.1 per cent. to RM210.2 billion, primarily due to large reduction in supplies and services spending of 17.3 per cent., and a 9.5 per cent. decrease in subsidies. The decline in spending was mainly due to reduction in non-critical expenses and subsidy rationalization.

In 2017, current expenditure increased moderately by 3.6 per cent. to RM217.7 billion, primarily due to higher spending for emoluments, supplies and services, with a 5.4 per cent. and a 15.5 per cent. increase respectively. The former was due to two salary increments and implementation of minimum wage and improvement to selected service schemes for supporting staff and the latter can be partly contributed to maintenance charges following completion of several development projects.

In 2018, current expenditure increased 6.1 per cent. to RM231 billion, primarily due to higher spending on debt services charges as well as subsidies, where a 9.6 per cent. and 23.1 per cent. increase can be seen respectively. The substantial increase was mainly due to higher subsidies for fuel resulted from the stabilization of retail petrol RON95 and diesel prices.

In 2019, Malaysia saw an increase in current expenditure of 14.0 per cent. to RM263.3 billion, primarily due to the one-off allocation for outstanding tax refunds (including GST refunds) payment of RM37 billion. However, excluding the tax refunds, current expenditure declined 2 per cent. to RM226.3 billion or 15 per cent. of GDP. Subsidies and social assistance declined due to reduction in subsidies for fuel following lower global crude oil price.

In 2020, current expenditure decreased 14.7 per cent. to RM224.6 billion mainly due to the absence of the one-off allocation for outstanding tax refunds (including GST refunds) payment of RM37 billion allocated in 2019. In addition, the decline in current expenditure was also due to lower outlays for subsidies and social assistance at RM19.8 billion resulting from declined fuel subsidies following of lower global crude oil prices at an average of U.S.\$42 per barrel.

## Government Development Expenditure

The following table sets out Government development expenditure for the years indicated.

### *Government development expenditure*

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020<sup>P</sup></u>	<u>2021<sup>B</sup></u>
	(RM million)					
Defense and security . . . . .	4,832	5,334	4,929	5,614	5,785	7,780
Economic services . . . . .	25,113	24,186	36,103	31,300	28,712	38,887
Social services . . . . .	10,429	12,425	12,873	14,484	13,827	18,369
General administration . . . . .	1,621	2,939	2,190	2,775	3,036	3,964
<b>Total . . . . .</b>	<b><u>41,995</u></b>	<b><u>44,884</u></b>	<b><u>56,095</u></b>	<b><u>54,173</u></b>	<b><u>51,360</u></b>	<b><u>69,000</u></b>

#### *Notes:*

<sup>P</sup> Preliminary.

<sup>B</sup> Budget estimate, excluding the PEMERKASA stimulus package.

*Source: Ministry of Finance.*

In 2016, as the Government embarked on its first year of the 11MP, development expenditure increased marginally by 3.0 per cent. to RM42 billion primarily due to a slight increase in economic sector mainly to finance construction, upgrading and maintenance of ongoing transport subsector projects. In terms of sectoral allocation, economic sector remained to be the largest recipient of allocation (59.8 per cent.), followed by social sector (24.8 per cent.), security sector (11.5 per cent.) and general administration (3.9 per cent.).

In 2017, development expenditure increased by 6.9 per cent. to RM44.9 billion mainly due to increased spending in social sector for school building and maintenance, as well as research and development and training programs to produce skilled talents to meet industry requirements. In terms of sectoral allocation, the largest spending is in economic sector (53.9 per cent.), followed by social sector (27.7 per cent.), security sector (11.9 per cent.) and general administration (6.5 per cent.).

In 2018, development expenditure rose substantially by 25 per cent. to RM56.1 billion mainly due to additional DE requirements for public transportation infrastructure projects such as MRT, LRT3, EDTP, as well as compensation for the termination of Johor Bahru EDL concession. Some reclassification also contributed to the increase. In terms of sectoral allocation, economic sector still saw most spending (64.4 per cent.), followed by social sector (22.9 per cent.), security sector (8.8 per cent.) and general administration (3.9 per cent.).

In 2019, development expenditure declined by 3.4 per cent. to RM54.2 billion due to revision and rescheduling of several development projects. In terms of sectoral allocation, economic sector accounted for largest allocation (57.8 per cent.), followed by social sector (26.7 per cent.), security sector (10.4 per cent.) and general administration (5.1 per cent.).

In 2020, development expenditure decreased further by 5.2 per cent. to RM51.4 billion due to the deferment and slower progress of projects and programs during the movement control order. The development expenditure includes payments for Public Private Partnership (“PPP”) obligation, reclassification of several development-related items from operating expenditure and financial commitment related to strategic projects. In terms of sectoral allocation, economic sector still expected to see largest spending (55.9 per cent.), followed by social sector (26.9 per cent.), security sector (11.3 per cent.) and general administration (5.9 per cent.).

## 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.

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
	(RM million)				
Net domestic borrowings .....	37,683	40,732	54,427	44,755	86,921
Government securities .....	17,359	7,250	15,703	12,188	39,585
Investment issues .....	20,500	33,500	36,805	34,500	36,466
Treasury bills .....	(176)	(18)	1,919	(1,933)	10,870
Net external borrowings <sup>(1)</sup> .....	835	(342)	(320)	6,977	(331)
Project loans .....	(332)	(342)	(320)	(193)	(331)
Market loans .....	1,167	—	—	7,170	—
<b>Total</b> .....	<b>38,518</b>	<b>40,390</b>	<b>54,107</b>	<b>51,732</b>	<b>86,590</b>
Interest payments .....	26,480	27,863	30,547	32,933	34,495
Domestic .....	25,732	27,159	29,891	32,239	33,770
External <sup>(1)</sup> .....	748	704	656	694	725

*Note:*

(1) Amounts in original currencies were converted to ringgit using the applicable exchange rate on the relevant transaction date.

*Source: Ministry of Finance.*

Total Federal Government gross borrowings surged by 31.2 per cent. to RM181.1 billion in 2020 (2019: -1.6 per cent.; RM134.8 billion). More than half of the borrowings amounting to RM94.5 billion was utilized for principal repayments, while the remaining was for deficit financing which include expenditure under the COVID-19 Fund.

## 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*

	<u>As at December 31,</u>				
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020</u>
Funded (RM million) .....	620,322	661,072	713,045	759,733	835,784
Floating (RM million) .....	4,500	4,500	6,500	4,500	15,500
Total Internal (RM million) .....	624,822	665,572	719,545	764,233	851,284
External (U.S.\$ million) .....	5,222	5,186	5,137	6,947	7,039
Total direct indebtedness (U.S.\$ million) <sup>(1)</sup> .....	143,173	167,517	177,035	191,522	218,959
Total direct indebtedness (RM million) .....	648,475	686,837	741,049	792,998	879,560

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: (i) 4.5293 for 2016; (ii) 4.1001 for 2017; (iii) 4.1859 for 2018; (iv) 4.1405 for 2019; and (v) 4.0170 for 2020.

Source: Ministry of Finance.

Direct Government or Federal Government debt, after netting out repayments, stood at RM879.6 billion (U.S.\$219.0 billion) as at December 31, 2020, compared with RM793.0 billion (U.S.\$191.5 billion) as at December 31, 2019. Of this, internal debt increased to RM851.3 billion as at December 31, 2020, compared with RM764.2 billion as at December 31, 2019.

### 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 at the dates indicated.

#### Summary of direct Government debt payments

	Actual					Estimated		
	2016	2017	2018	2019	2020	2021	2022	2023
	(RM million)							
Repayable:								
In Malaysian ringgit	56,194	88,453	77,137	82,723	94,146	106,700	94,366	80,920
Repayable: <sup>(1)</sup>								
In U.S. dollars	4,764	57	39	25	28	3,441	1	1
In Euros	5	4	5	0	0	0	0	0
In Japanese yen	314	296	267	256	260	270	270	269
Other	65	48	45	46	43	38	32	26
Total foreign currency	<u>5,148</u>	<u>405</u>	<u>356</u>	<u>327</u>	<u>331</u>	<u>3,749</u>	<u>303</u>	<u>296</u>
Total	<u>61,342</u>	<u>88,858</u>	<u>77,493</u>	<u>83,050</u>	<u>94,477</u>	<u>110,449</u>	<u>94,669</u>	<u>81,216</u>

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 at December 31,				
	2016	2017	2018	2019	2020 <sup>(2)</sup>
Internal (RM million)	182,542.30	218,602.68	242,224.67	251,983.42	269,569.09
External (RM million)	4,691.90	19,588.04	24,243.81	23,395.29	25,105.66
Total (RM million)	187,234.20	238,190.72	266,468.48	275,378.71	294,674.75
Total (U.S.\$ million) <sup>(1)</sup>	41,737.45	58,848.85	64,426.62	67,280.41	73,356.92

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: (i) 4.4860 for 2016; (ii) 4.0475 for 2017; (iii) 4.1360 for 2018; (iv) 4.0930 for 2019; and (v) 4.0170 for 2020.

(2) Preliminary figures.

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*), LRT, 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, loan guarantees to entities which require financial assistance from the Government are classified under committed guarantees, and the financial performance and subsequent development plans of such entities are reviewed regularly and placed under scrutiny in efforts to manage the increases downside risks to the Government.

Furthermore, the Government has also extended guarantees to DanaInfra Nasional Berhad (a wholly-owned company under Minister of Finance Incorporated) to raise funds for Malaysia’s most extensive mass rapid infrastructure project, Prasarana Malaysia Berhad, that focuses on Klang Valley public transportation projects, Bank Pembangunan Malaysia Berhad (a development financial institution providing medium- to long-term financing mainly to infrastructure, maritime and high technology sectors) 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 on 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 (2006-2010) (“9MP”), 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 PPP program to further enhance private sector participation in economic development.

The following types of partnership were adopted under the PPP program:

<u>Privatization</u>	<u>Private Finance Initiative</u>	<u>Others</u>
Sale of Asset/Equity . . . . .	Build — Lease — Transfer	Off Take
Corporatization . . . . .	Build — Lease — Maintain — Transfer	Joint Venture
Land Swap . . . . .	Build — Lease — Maintain — Operate — Transfer	
Build — Operate — Transfer		
Build — Operate — Own		
Management Contract Outsourcing		
Leasing		

Since 1983, less than 500 PPP projects have been implemented. 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 are 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 on the Government in terms of recruitment, promotion and training of personnel and resulted in considerable savings for the Government in capital and operating expenditures.

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 per cent. 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 buyouts 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 9MP 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 were 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 10MP, which drew on the foundations laid by the 1Malaysia concept. While continuing PPP initiatives, the Government allocated a sum of RM20.0 billion for the Facilitation Fund. The objectives of the Facilitation Fund were 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 catalysts 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.

The 11MP, which covers the period from 2016 to 2020, seeks to enhance PPP in providing a conducive policy environment, including by developing a framework of risk mitigation and increasing access to private sources, for private investment and employment. The private sector will be encouraged to develop public housing, education, research and development and other social services. The 11MP contemplates the introduction of a social financing model for PPP programs to promote investments from the private sector, foundations, and individuals in delivering social services. Through this model, the "payment by results" mode will be introduced, where private social impact investors will provide funding for Non-Governmental Organizations ("NGOs") and Community-Based Organizations to implement social services and will be reimbursed by the Government when the agreed outcomes are achieved.

The 12MP for 2021-2025 period is being formulated and will be aligned with the shared prosperity initiative encompassing three dimensions, namely economic empowerment, environmental sustainability and social re-engineering. The economic empowerment dimension will include new sources of growth, including Industrial Revolution 4.0, digital economy, aerospace industry, integrated regional development as well as growth enablers such as sustainable energy sources and infrastructure connectivity. The environmental sustainability dimension, among others include the blue economy, green technology, renewable energy as well as adaptation and mitigation of climate change. The social re-engineering dimension comprises enhancing societal values, improving purchasing power of the people, building resilient Bumiputera community, strengthening social security networks and improving the wellbeing of the people.

## Consolidated Public Sector Finance

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

### Consolidated public sector finance

	2016	2017	2018	2019	2020 <sup>P</sup>
	(RM million)				
Revenue . . . . .	222,401	230,569	240,976	248,052	245,827
Operating expenditure . . . . .	236,434	251,521	265,987	298,095	266,414
Current surplus/(deficit) . . . . .	(14,033)	(20,952)	(25,011)	(50,043)	(20,588)
Non-financial public corporations' surplus . . . . .	90,690	103,342	128,174	127,548	83,079
Public sector current surplus . . . . .	76,657	82,390	103,163	77,505	62,491
Net development expenditure . . . . .	139,055	131,759	144,494	132,434	126,252
General government . . . . .	46,778	49,179	63,672	57,089	57,890
Non-financial public corporations . . . . .	92,277	82,580	80,822	75,345	68,362
COVID-19 Fund . . . . .	—	—	—	—	38,019
Overall budget surplus/(deficit) . . . . .	(62,398)	(49,369)	(41,331)	(54,929)	(101,780)
% of GNI . . . . .	(5.1)	(3.7)	(3.0)	(3.7)	(6.5)
% of GDP . . . . .	(5.0)	(3.6)	(2.9)	(3.6)	(7.2)

Note:

<sup>P</sup> Preliminary.

Source: Ministry of Finance.

The consolidated public sector is made up of the general government and NFPCs, with the general government comprising the Federal Government, state governments, statutory bodies and local governments. NFPCs 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 NFPCs with the Government having more than 50.0 per cent. equity ownership, annual sales turnover of at least RM100.0 million and/or of significant impact to the economy are included. Currently, 28 NFPCs are monitored. Of these, among the major NFPCs are as follows:

Non-Financial Public Corporations	Principal Activity
Petroleum Nasional Berhad (PETRONAS) . . . . .	Oil and Gas
Tenaga Nasional Berhad . . . . .	Power
Telekom Malaysia Berhad . . . . .	Telecommunications
Axiata Group Berhad . . . . .	Telecommunications
UEM Group Berhad . . . . .	Construction

In 2016, the consolidated public sector recorded a surplus of RM76.7 billion in the current account. The consolidated public sector registered an overall deficit of RM62.4 billion.

In 2017, the consolidated public sector recorded a surplus of RM82.4 billion in the current account, compared to RM76.7 billion in 2016, due to higher general government revenue as well as NFPCs current account surplus. The consolidated public sector registered an overall deficit of RM49.4 billion.

In 2018, the consolidated public sector recorded a surplus of RM103.2 billion in the current account, compared to RM82.4 billion in 2017, on account of higher NFPCs' surplus. The consolidated public sector recorded an overall deficit of RM41.3 billion.

In 2019, the consolidated public sector recorded a lower surplus of RM77.5 billion in the current account, compared to RM103.2 billion in 2018, due to higher operating expenditure attributed to allocation for outstanding tax refunds. The consolidated public sector recorded an overall deficit of RM54.9 billion.

In 2020, the consolidated public sector recorded a lower surplus of RM62.5 billion in the current account, compared to RM77.5 billion in 2019, due to significant decline in NFPCs' current surplus particularly from the drop in NFPCs' revenue collection in tandem with the COVID-19 pandemic. The consolidated public sector recorded an overall deficit of RM101.8 billion.

## 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)

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020<sup>P</sup></u>
	(RM million)				
<b>Balance on goods and services</b> . . . . .	<b>83,128</b>	<b>94,255</b>	<b>97,106</b>	<b>112,412</b>	<b>91,147</b>
Goods . . . . .	102,046	117,113	114,621	123,334	139,133
Services . . . . .	(18,917)	(22,859)	(17,515)	(10,922)	(47,985)
Transport . . . . .	(23,459)	(29,622)	(27,688)	(25,903)	(27,538)
Travel . . . . .	31,515	32,470	30,218	30,818	(7,756)
Other services . . . . .	(26,974)	(25,707)	(20,045)	(15,837)	(12,692)
Primary income . . . . .	(34,592)	(38,658)	(45,082)	(40,267)	(26,227)
Compensation of employees . . . . .	(5,606)	(4,848)	(7,657)	(9,122)	(7,976)
Investment income . . . . .	(28,986)	(33,811)	(37,425)	(31,145)	(18,251)
Secondary income . . . . .	(18,629)	(17,300)	(19,729)	(21,294)	(2,800)
<b>Balance on current account</b> . . . . .	<b><u>29,907</u></b>	<b><u>38,296</u></b>	<b><u>32,295</u></b>	<b><u>50,850</u></b>	<b><u>62,120</u></b>
<b>% on Gross National Income</b> . . . . .	<b><u>2.5</u></b>	<b><u>2.9</u></b>	<b><u>2.3</u></b>	<b><u>3.5</u></b>	<b><u>4.5</u></b>
Capital account . . . . .	102	(26)	(89)	331	(415)
Financial account . . . . .	(249)	(4,730)	11,430	(33,796)	(79,121)
Direct investment . . . . .	13,792	16,171	10,103	5,578	(162)
Assets . . . . .	(42,246)	(24,234)	(23,431)	(31,908)	(17,265)
Liabilities . . . . .	56,038	40,405	33,535	37,486	17,103
Portfolio investment . . . . .	(14,203)	(15,358)	(49,396)	(29,026)	(49,124)
Financial derivatives . . . . .	(802)	(197)	981	(478)	1,614
Other investment . . . . .	964	(5,346)	49,742	(9,870)	(31,448)
<b>Balance on capital and financial accounts</b> . . . . .	<b><u>(148)</u></b>	<b><u>(4,756)</u></b>	<b><u>11,341</u></b>	<b><u>(33,465)</u></b>	<b><u>(79,536)</u></b>
<b>Net errors and omissions</b> . . . . .	<b><u>(23,899)</u></b>	<b><u>(17,132)</u></b>	<b><u>(35,878)</u></b>	<b><u>(8,969)</u></b>	<b><u>(1,990)</u></b>
<b>Overall balance</b> . . . . .	<b><u>5,860</u></b>	<b><u>16,409</u></b>	<b><u>7,758</u></b>	<b><u>8,416</u></b>	<b><u>(19,406)</u></b>

Notes:

<sup>P</sup> Preliminary.

Sources: Department of Statistics; BNM.

### *Balance of Payments (net)<sup>(1)</sup>*

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020<sup>P</sup></u>
	(U.S.\$ million <sup>(2)</sup> )				
Goods <sup>(3)</sup> .....	24,599	27,233	28,406	29,773	33,098
Services .....	(4,560)	(5,315)	(4,341)	(2,637)	(11,415)
Balance on goods and services .....	20,039	21,917	24,065	27,136	21,683
Primary income .....	(8,339)	(8,989)	(11,172)	(9,721)	(6,239)
Secondary income .....	(4,491)	(4,023)	(4,889)	(5,141)	(666)
<b>Balance on current account</b> .....	<b><u>7,210</u></b>	<b><u>8,905</u></b>	<b><u>8,003</u></b>	<b><u>12,275</u></b>	<b><u>14,778</u></b>
Capital account .....	24	(6)	(22)	80	(99)
Financial account .....	(60)	(1,100)	2,833	(8,158)	(18,822)
Direct investment .....	3,325	3,760	2,504	1,347	(39)
Portfolio investment .....	(3,424)	(3,571)	(12,241)	(7,007)	(11,686)
Financial derivatives .....	(193)	(46)	243	(115)	384
Other investment .....	232	(1,243)	12,327	(2,383)	(7,481)
Net errors and omissions .....	(5,761)	(3,984)	(8,891)	(2,165)	(473)
<b>Overall balance</b> .....	<b><u>1,413</u></b>	<b><u>3,816</u></b>	<b><u>1,923</u></b>	<b><u>2,032</u></b>	<b><u>(4,616)</u></b>

#### *Notes:*

<sup>P</sup> 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) Ringgit amounts are 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) gross exports data under trade balance are adjusted to exclude cross-border transactions between residents; (b) gross imports data are presented on a c.i.f. basis under trade balance and are adjusted to an f.o.b. basis under goods balance; (c) goods balance data include transactions of commercial ships and aircraft that are delivered outside Malaysia, exports/imports of water to/from Singapore and 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 in 2016*

In 2016, the current account remained in surplus, albeit lower at RM29,907 million, or 2.5 per cent. of GNI, as imports growth outpaced exports in the goods account, which recorded RM104,046 million. The services account recorded a lower deficit of RM18,917 million mainly supported by improvement in travel account following recovery in tourist arrivals. The income account recorded a deficit of at RM53,221 million. In 2016, the financial account registered a smaller net outflow of RM249 million, which improved following higher net inflows in the direct investment account and lower net outflows in both the portfolio and other investment accounts.

The overall balance of payments in 2016 registered a surplus of RM5,860 million. During the year, net errors and omissions, which excludes reserves revaluation changes, amounted to -RM23,899 million or -1.6 per cent. of total trade.

### *Balance of Payments in 2017*

In 2017, the current account surplus was higher at RM38,296 million, or 2.9 per cent. of GNI, as a result of higher trade surplus in the goods account which registered RM117,113 million. The services account recorded a

deficit of RM22,859 million, due to higher deficit in the transport account as well as government goods and services account. The income account recorded a deficit of at RM55,958 million, following higher deficit in primary income, particularly investment income. In 2017, the financial account registered a higher net outflow of RM4,730 million, driven mainly by higher outflows in the portfolio and other investment accounts.

The overall balance of payments in 2017 registered a surplus of RM16,409 million. During the year, net errors and omissions, which excludes reserves revaluation changes, amounted to -RM17,132 million or -1 per cent. of total trade.

### ***Balance of Payments in 2018***

In 2018, the current account surplus was recorded at RM32,295 million, or 2.3 per cent. of GNI, following higher goods surplus and a smaller deficit in the services account. The services account recorded a smaller deficit of RM17,515 million, mainly due to lower net payments for transportation, construction and insurance services. The income account recorded a deficit of RM64,811 million following larger deficit in both primary and secondary income accounts. In 2018, the financial account registered a net inflow of RM11,430 million, as larger outflow of portfolio investments was offset by substantial inflows in the other investment account.

The overall balance of payments in 2018 registered a surplus of RM7,758 million. During the year, net errors and omissions, which excludes reserves revaluation changes, amounted to -RM35,878 million or -1.9 per cent. of total trade.

### ***Balance of Payments in 2019***

In 2019, the current account surplus was higher at RM50,850 million, or 3.5 per cent. of GNI which reflected a sharper decline in investments amid continued global trade tensions. The goods account registered a higher surplus of RM123,334 million as a result of a sharper decline in imports relative to exports. The services account recorded a lower deficit of RM10,922 million, mainly due to an increase in travel receipts and lower net payments for transportation and construction services. The income account recorded a lower deficit of RM61,561 million following smaller deficit in investment income, which more than offset the higher outflow in the secondary income account. The financial account registered a significant net outflow of RM33,796 million, mainly on account of higher investments by residents in portfolio assets abroad and sustained DIA which were partially offset by long-term FDI inflows.

The overall balance of payments in 2019 registered a surplus of RM8,416 million. During the year, net errors and omissions, which excludes reserves revaluation changes, amounted to -RM8,969 million or -0.5 per cent. of total trade.

### ***Balance of Payments in 2020***

In 2020, the current account surplus was higher at RM62,120 million, or 4.5 per cent. of GNI, supported by higher goods surplus and lower deficits in the income account. The services account recorded a larger deficit of RM47,985 million, mainly due to the sharp decline in travel and air transportation services exports following the imposition of international travel restrictions in response to the impact of the COVID-19 pandemic. The income account recorded a smaller deficit of RM29,027 million, supported by lower deficit from both primary and secondary income accounts. The narrow deficit of primary income account was mainly attributed to lower investment income following smaller direct investment income accrued to foreign companies in Malaysia, particularly in the mining and services sectors amidst the challenging global environment. The deficit in the secondary income account narrowed significantly due to transfers received as part of a settlement in the third quarter of 2020 and lower remittances by foreign workers amid subdued economic activity during the year. The financial account registered a larger net outflow of RM79,121 million, mainly due to higher outflows in the portfolio and other investment accounts.

The overall balance of payments in 2020 registered a deficit of RM19,406 million. During the year, errors and omissions, which excludes reserves revaluation changes, amounted to -RM1,990 million or -0.1 per cent. of total trade.

## External Trade

The following table sets out selected information with respect to external trade for the years indicated.

### External trade

	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020<sup>P</sup></u>
	(RM million)				
Gross exports (f.o.b.) . . . . .	786,964	934,927	1,003,587	995,072	980,979
% change . . . . .	1.2	18.8	7.3	(0.8)	(1.4)
Gross imports (c.i.f.) . . . . .	698,819	836,422	879,804	849,411	796,194
% change . . . . .	1.9	19.7	5.2	(3.5)	(6.3)
Trade balance . . . . .	88,145	98,505	123,783	145,661	184,785
	<u>2016</u>	<u>2017</u>	<u>2018</u>	<u>2019</u>	<u>2020<sup>P</sup></u>
	(U.S.\$ million <sup>(1)</sup> )				
Gross exports (f.o.b.) . . . . .	189,659	217,722	248,676	240,199	233,923
% change . . . . .	(4.8)	14.8	14.2	(3.4)	(2.6)
Gross imports (c.i.f.) . . . . .	168,430	194,750	217,975	205,008	189,724
% change . . . . .	(4.3)	15.6	11.9	(5.9)	(7.5)
Trade balance . . . . .	21,229	22,973	30,701	35,192	44,199

*Notes:*

<sup>P</sup> Preliminary.

(1) For the period from 2016 to 2020, U.S. dollar amounts are calculated using the average annual exchange rate for the relevant period.

*Source: Department of Statistics.*

In 2016, the trade account recorded a lower surplus of RM88,145 million. Growth in exports expanded moderately by 1.2 per cent., following higher exports of manufactured and agriculture goods, which more than offset the double-digit decline in mining goods amid weakened global growth and low commodity prices. Imports increased by 1.9 per cent., as a result of higher imports of capital and consumption goods.

In 2017, the trade account recorded a higher surplus of RM98,505 million. Exports grew strongly at 18.8 per cent., in line with higher global demand particularly from major trading partners. Manufactured, agriculture and mining goods recorded double-digit growth. Similarly, imports accelerated by 19.7 per cent., mainly led by higher imports of intermediate capital and re-exports goods.

In 2018, the trade account recorded a surplus of RM123,783 million. Exports expanded by 7.3 per cent., following higher exports of manufactured and mining goods, despite double-digit decline in exports of agriculture goods. Similarly, imports grew 5.2 per cent., supported by goods for re-exports which more than offset the decline in retained imports.

In 2019, the trade account recorded a surplus of RM145,661 million amid higher decline in growth of imports compared to exports. Prolonged trade tensions and geopolitical uncertainties during the year resulted in contraction of exports by 0.8 per cent. Imports also decreased by 3.5 per cent., as a result of lower imports of capital goods as well as re-exports.

In 2020, the trade account recorded a higher surplus of RM184,785 million following lower decline in exports growth which fell 1.4 per cent. Imports contracted higher by 6.3 per cent., amid a challenging global and domestic economic landscape.

## 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

	2016	2017	2018	2019	2020 <sup>P</sup>	2019	2020 <sup>P</sup>	2020 <sup>P</sup>
	(RM million)					Annual change (%)		% share
<b>Manufactures</b> .....	<b>645,768</b>	<b>765,858</b>	<b>837,071</b>	<b>840,586</b>	<b>847,664</b>	<b>0.4</b>	<b>0.8</b>	<b>86.4</b>
of which:								
Semiconductors .....	144,655	178,142	220,355	221,709	239,109	0.6	7.8	24.4
Office and ADP machines .....	53,534	62,702	62,387	49,347	45,399	(20.9)	(8.0)	5.0
Telecommunications equipment .....	40,385	43,947	40,825	42,312	44,230	3.6	4.5	4.5
Electrical machinery and parts .....	49,236	58,279	57,977	59,750	57,374	3.1	(4.0)	5.8
Chemicals and chemical products .....	41,396	47,138	57,715	57,477	50,688	(0.4)	(11.8)	5.2
Petroleum products .....	54,662	71,813	76,161	71,511	61,898	(6.1)	(13.4)	6.3
Manufactures of metal .....	33,352	37,937	44,664	41,490	36,805	(7.1)	(11.3)	3.8
Optical and scientific equipment .....	28,747	32,395	36,563	39,905	41,545	9.1	4.1	4.2
Rubber products .....	20,253	26,308	26,491	25,841	43,640	(2.5)	68.9	4.4
Textiles, clothing and footwear .....	13,884	15,329	14,901	15,531	13,945	4.2	(10.2)	1.4
Wood products .....	15,680	16,369	15,944	15,777	16,077	(1.0)	1.9	1.6
<b>Agriculture</b> .....	<b>70,424</b>	<b>78,072</b>	<b>67,001</b>	<b>65,958</b>	<b>71,677</b>	<b>(1.6)</b>	<b>(8.7)</b>	<b>7.3</b>
of which:								
Palm oil and palm-based products .....	48,370	54,023	44,733	44,208	52,334	(1.2)	18.4	5.3
Rubber .....	3,614	4,726	3,774	3,773	3,286	0.0	(12.9)	0.3
<b>Minerals</b> .....	<b>65,056</b>	<b>81,836</b>	<b>89,907</b>	<b>81,520</b>	<b>57,391</b>	<b>(9.3)</b>	<b>(29.6)</b>	<b>5.9</b>
of which:								
LNG .....	32,709	41,417	42,322	42,484	28,835	0.4	(32.1)	2.9
Crude oil .....	22,319	28,255	36,649	26,346	18,864	(28.1)	(28.4)	1.9
<b>Others</b> .....	<b>5,717</b>	<b>9,161</b>	<b>9,608</b>	<b>7,007</b>	<b>4,247</b>	<b>(27.1)</b>	<b>(39.3)</b>	<b>0.4</b>
<b>Total</b> .....	<b>786,964</b>	<b>934,927</b>	<b>1,003,587</b>	<b>995,072</b>	<b>980,979</b>	<b>(0.8)</b>	<b>(1.4)</b>	<b>100</b>

Note:

<sup>P</sup> Preliminary.

Source: Department of Statistics.

In 2016, manufactured exports increased by 3.3 per cent., supported by both E&E and non-E&E products. Commodity exports contracted by 8.1 per cent., underpinned by lower exports of mining goods due to low prices of crude oil and LNG.

In 2017, manufactured and commodity exports grew strongly by 18.6 per cent. and 18 per cent., respectively, following the upswing in the global technology cycle, investment expansion in advanced economies and the turnaround in commodity prices. In 2018, manufactured exports rose by 9.3 per cent., amid higher exports of both E&E and non-E&E products. Commodity exports fell by 1.9 per cent., as a result of double-digit decline in exports of agriculture goods.

In 2019, manufactured exports increased marginally by 0.4 per cent., while commodity exports slipped by 6 per cent. The downtrend was mainly attributed to unresolved trade tensions which exacerbated the cyclical downturn in global manufacturing and investment activities, geopolitical uncertainties as well as domestic supply disruptions in the commodities sector.

In 2020, manufactured exports expanded marginally by 0.8 per cent., supported by exports of E&E products which more than offset the decrease in exports of non-E&E products. Commodity exports contracted by 12.5 per cent., due to lower global demand which significantly impacted by the COVID-19 pandemic.

## Gross Imports

The following table sets out gross imports by end use for the years indicated.

### Gross Imports

	2016	2017	2018	2019	2020 <sup>P</sup>	2019	2020 <sup>P</sup>	2020 <sup>P</sup>
	(RM million)					Annual change (%)		% share
<b>Capital goods</b> . . . . .	<b>100,245</b>	<b>115,567</b>	<b>112,453</b>	<b>100,179</b>	<b>90,369</b>	<b>(10.9)</b>	<b>(9.8)</b>	<b>11.4</b>
Capital goods (except transport equipment) . . . . .	88,432	102,507	96,475	91,762	90,982	(4.9)	(0.9)	11.4
Transport equipment industrial . . . . .	11,813	13,060	15,978	8,417	(613)	(47.3)	(107.3)	(0.1)
<b>Intermediate goods</b> . . . . .	<b>399,033</b>	<b>478,932</b>	<b>462,212</b>	<b>467,211</b>	<b>422,921</b>	<b>1.1</b>	<b>9.5</b>	<b>53.1</b>
Food & beverages, mainly for industry . . . . .	17,506	19,141	17,777	18,050	20,656	1.5	14.4	2.6
Industrial supplies . . . . .	172,305	199,910	215,123	220,877	199,442	2.7	(9.7)	25.0
Fuel and lubricants . . . . .	31,093	47,921	56,132	57,091	43,597	1.7	(23.6)	5.5
Parts and accessories of capital goods (except transport equipment) . . . . .	151,461	183,230	143,121	138,674	134,810	(3.1)	(2.8)	16.9
Parts and accessories of transport equipment . . . . .	26,666	28,729	30,060	32,519	24,417	8.2	(24.9)	3.1
<b>Consumption goods</b> . . . . .	<b>66,977</b>	<b>71,036</b>	<b>73,031</b>	<b>74,155</b>	<b>73,912</b>	<b>1.5</b>	<b>(0.3)</b>	<b>9.3</b>
Food and beverages, mainly for household consumption . . . . .	26,681	28,873	29,344	30,782	32,589	4.9	5.9	4.1
Transport equipment non-industrial . . . . .	904	942	803	1,017	1,075	26.7	5.7	0.1
Consumer goods, n.e.s. . . . .	39,392	41,221	42,884	42,356	40,248	(1.2)	(5.0)	5.1
<b>Others</b> . . . . .	<b>132,564</b>	<b>170,888</b>	<b>232,108</b>	<b>207,866</b>	<b>208,992</b>	<b>(10.4)</b>	<b>0.5</b>	<b>26.2</b>
of which:								
Dual use goods . . . . .	15,754	25,054	30,019	32,482	17,264	8.2	(46.8)	2.2
Re-exports . . . . .	113,968	142,800	199,275	171,588	187,233	(13.9)	9.1	23.5
<b>Total</b> . . . . .	<b>698,819</b>	<b>836,422</b>	<b>879,804</b>	<b>849,411</b>	<b>796,194</b>	<b>(3.5)</b>	<b>(6.3)</b>	<b>100.0</b>

#### Notes:

<sup>P</sup> Preliminary.

n.e.s. Not elsewhere specified.

Sources: Department of Statistics; BNM.

In 2016, gross imports increased by 1.9 per cent. following higher imports of capital and consumption goods. This improvement was partially offset by the decrease in imports of intermediate goods, which recorded -0.1 per cent. In 2017, gross imports expanded by 19.7 per cent. led by all imports, particularly of capital, intermediate and consumption goods.

In 2018, gross imports grew 5.2 per cent., bolstered by consumption goods as well as re-exports. The capital and intermediate goods edged down by 2.7 per cent. and 3.5 per cent., respectively.

In 2019, gross imports decreased by 3.5 per cent., mainly due to lower imports of capital goods, which fell by 10.9 per cent.

In 2020, gross imports declined by 6.3 per cent., following lower imports of all imports, particularly of capital, intermediate and consumption goods, while re-exports expanded 9.1 per cent.

## Direction of External Trade

The following table sets out information on the direction of external trade for the years indicated.

### Direction of external trade<sup>(1)</sup>

	2016		2017		2018		2019		2020 <sup>P</sup>		2020 <sup>P</sup>	
	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import	Export	Import
	(RM billion)						(% share)					
ASEAN .....	231.2	171.7	271.6	214.7	287.1	224.6	286.5	205.0	272.9	174.5	27.8	21.9
of which												
Singapore .....	114.4	72.4	135.6	92.7	140.2	103.1	137.1	89.5	142.2	73.6	14.5	9.3
Thailand .....	44.1	42.3	50.5	48.1	57.1	48.6	56.3	44.3	45.3	34.1	4.6	4.3
Indonesia .....	27.9	29.5	33.6	37.9	31.79	40.35	31.3	38.9	29.6	36.6	3.0	4.6
Philippines .....	13.6	6.6	16.5	9.0	17.0	9.2	18.6	9.0	17.6	8.8	1.8	1.1
Brunei Darussalam .....	2.1	0.7	2.3	2.6	2.2	1.7	2.3	1.9	2.8	1.9	0.3	0.2
Vietnam .....	23.8	18.8	27.6	22.6	34.2	19.5	35.4	19.6	30.9	18.0	3.1	2.3
<b>Selected East Asian countries .....</b>	<b>180.4</b>	<b>233.5</b>	<b>226.2</b>	<b>272.3</b>	<b>281.0</b>	<b>293.4</b>	<b>278.8</b>	<b>285.6</b>	<b>295.1</b>	<b>288.2</b>	<b>30.1</b>	<b>36.2</b>
China .....	98.6	142.4	126.0	164.4	139.1	175.4	140.9	175.7	158.6	171.2	16.2	21.5
Hong Kong SAR .....	37.6	12.7	47.7	14.0	74.8	15.1	66.6	14.1	68.1	14.2	6.9	1.8
Taiwan .....	21.2	41.8	24.0	54.8	32.8	63.6	37.0	57.0	33.9	57.7	3.5	7.2
Korea .....	22.9	36.7	28.6	39.1	34.2	39.3	34.2	38.8	34.6	45.2	3.5	5.7
<b>G3 countries<sup>(2)</sup> .....</b>	<b>223.7</b>	<b>181.8</b>	<b>259.6</b>	<b>208.5</b>	<b>251.2</b>	<b>213.6</b>	<b>250.3</b>	<b>211.2</b>	<b>254.6</b>	<b>189.2</b>	<b>27.0</b>	<b>24.6</b>
United States .....	80.2	55.7	88.7	65.3	90.8	64.9	96.5	68.7	108.8	69.4	11.1	8.7
Japan .....	63.7	57.0	75.6	63.6	70.4	63.9	66.0	63.6	61.7	61.0	6.3	7.7
<b>European Union total .....</b>	<b>79.8</b>	<b>69.2</b>	<b>95.3</b>	<b>79.6</b>	<b>98.6</b>	<b>84.8</b>	<b>96.9</b>	<b>78.9</b>	<b>94.0</b>	<b>65.5</b>	<b>9.6</b>	<b>8.2</b>
United Kingdom <sup>(3)</sup> .....	8.7	6.6	9.7	6.7	8.6	7.0	9.1	7.4	9.9	6.7	1.0	0.8
Germany .....	22.3	23.8	26.7	26.3	28.2	26.4	26.1	26.8	24.6	23.2	2.5	2.9
Netherlands .....	21.9	7.0	26.9	7.9	25.8	6.8	26.3	5.7	23.4	4.4	2.4	0.5
Other European countries .....	26.9	31.8	32.1	38.8	36.0	44.7	35.5	39.1	36.0	31.2	2.7	3.9
India .....	32.0	16.7	34.5	26.9	36.3	26.5	38.6	24.3	30.4	24.9	3.1	3.1
Australia .....	26.8	15.6	32.4	20.1	33.5	21.6	28.4	23.3	24.3	19.5	2.5	2.4
New Zealand .....	3.0	2.9	4.5	3.4	4.8	3.3	4.7	3.2	3.8	3.1	0.4	0.4
Canada .....	2.9	2.8	3.5	3.0	3.6	3.3	3.5	3.3	4.0	3.0	0.4	0.4
Russia .....	2.2	4.0	2.8	3.6	2.8	4.7	3.6	4.5	3.0	3.2	0.3	0.4
Rest of the World .....	84.6	69.7	99.8	84.0	94.6	88.9	91.4	89.0	92.9	90.6	9.5	11.4
<b>Total .....</b>	<b>787.0</b>	<b>698.8</b>	<b>934.9</b>	<b>836.4</b>	<b>1,003.6</b>	<b>879.8</b>	<b>995.1</b>	<b>849.4</b>	<b>981.0</b>	<b>796.2</b>	<b>100.0</b>	<b>100.0</b>

#### Notes:

<sup>P</sup> Preliminary.

(1) Exports are valued on an f.o.b. basis and imports on a c.i.f. basis.

(2) Refers to the United States, the European Union and Japan.

(3) The United Kingdom withdrew from the European Union (EU) on January 31, 2020. Not included in EU calculation from year 2020.

Source: Department of Statistics and MATRADE.

In 2016, trade with ASEAN and East Asian countries (excluding Japan) represented 55.0 per cent. of total trade. The share of total trade to the advanced economies, including the United States, the European Union and Japan recorded 27.3 per cent.

In 2017, trade with ASEAN and East Asian countries (excluding Japan) increased and represented 55.6 per cent. of total trade. The share of total trade to the advanced economies, including the United States, the European Union and Japan was lower at 26.4 per cent.

In 2018, trade with ASEAN and East Asian countries (excluding Japan) increased and represented 57.7 per cent. of total trade. The share of total trade to the advanced economies, including the United States, the European Union and Japan was lower at 25.1 per cent.

In 2019, trade with ASEAN and East Asian countries (excluding Japan) decreased and represented 57.2 per cent. of total trade. The share of total trade to the advanced economies, including the United States, the European Union and Japan was higher at 25.5 per cent.

In 2020, trade with ASEAN and East Asian countries (excluding Japan) increased and represented 58.0 per cent. of total trade. The share of total trade to the advanced economies, including the United States, the European Union<sup>3</sup> and Japan was lower at 25 per cent.

Malaysia's external trade structure is an important aspect in mitigating the economic impact of domestic and external developments. Between 2016 and 2020, Malaysia's trade with ASEAN and East Asian countries (excluding Japan) strengthened, supported by broad-based increase in trade across major products, including manufactured products (for example electronics and electrical, petroleum products and chemical products) and commodities (for example 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 an upwards trend in terms of their aggregate share of trade with Malaysia and remained significant. Trade with the United States and the European Union remained primarily in 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,				
	2016	2017	2018	2019	2020 <sup>P</sup>
	(RM million) <sup>(1)</sup>				
Special Drawing Rights . . . . .	4,956.3	4,737.0	4,728.4	4,662.3	4,769.3
IMF reserve position . . . . .	3,467.5	3,116.3	3,801.4	4,583.5	5,829.2
Gold and foreign exchange <sup>(2)</sup> . . . . .	<u>415,506.4</u>	<u>406,797.9</u>	<u>411,042.4</u>	<u>414,843.8</u>	<u>421,775.2</u>
Gross international reserves . . . . .	423,930.2	414,651.2	419,572.1	424,089.5	432,373.8
External liabilities . . . . .	<u>55.9</u>	<u>59.8</u>	<u>60.6</u>	<u>57.2</u>	<u>61.1</u>
Net international reserves . . . . .	<u><u>423,874.3</u></u>	<u><u>414,591.4</u></u>	<u><u>419,511.5</u></u>	<u><u>424,032.3</u></u>	<u><u>432,312.6</u></u>

*Notes:*

<sup>P</sup> Preliminary.

(1) In each year, external assets and liabilities were revalued at rates of exchange prevailing on the relevant BNM balance sheet date.

(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.*

<sup>3</sup> Note: The United Kingdom withdrew from the European Union (EU) on January 31, 2020. Trade figures are not included in EU calculation from year 2020.

*Net international reserves of BNM*

	As at December 31,				
	2016	2017	2018	2019	2020 <sup>P</sup>
	(U.S.\$ million) <sup>(1)</sup>				
Special Drawing Rights . . . . .	1,104.8	1,170.3	1,143.2	1,139.1	1,187.3
IMF reserve position . . . . .	773.0	769.9	919.1	1,119.8	1,451.1
Gold and foreign exchange <sup>(2)</sup> . . . . .	92,622.9	100,506.0	99,381.6	101,354.4	104,997.6
Gross international reserves . . . . .	94,500.7	102,446.2	101,443.9	103,613.4	107,636.0
External liabilities . . . . .	12.5	14.8	14.7	14.0	15.2
Net international reserves . . . . .	<u>94,488.3</u>	<u>102,431.5</u>	<u>101,429.3</u>	<u>103,599.4</u>	<u>107,620.8</u>

*Notes:*

- (1) U.S. dollar amounts are calculated using exchange rates as at the end of each respective year.
- (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, 2016, gross international reserves increased to RM423,930.2 million. After taking into account BNM's external liabilities of RM55.9 million, net international reserves were RM423,874.3 million. The higher reserves reflected primarily inflows in direct and other investments. The reserves position as at December 31, 2016 was sufficient to finance 8.7 months of retained imports and was 1.1 times the short-term external debt.

As at December 31, 2017, gross international reserves decreased to RM414,651.2 million. After taking into account BNM's external liabilities of RM59.8 million, net international reserves were RM414,591.4 million. The lower reserves reflected mainly net payment for foreign services and outflows in portfolio investment. The reserves position as at December 31, 2017 was sufficient to finance 7.2 months of retained imports and was 1.2 times the short-term external debt.

As at December 31, 2018, gross international reserves increased to RM419,572.1 million. After taking into account BNM's external liabilities of RM60.6 million, net international reserves were RM419,511.5 million. The higher reserves reflected primarily inflows of other investment. The reserves position as at December 31, 2018 was sufficient to finance 7.4 months of retained imports and was 1.0 times the short-term external debt.

As at December 31, 2019, gross international reserves increased to RM424,089.5 million. After taking into account BNM's external liabilities of RM57.2 million, net international reserves were RM424,032.3 million. The higher reserves reflected mainly inflows from net export proceeds. It has also taken into account large direct investment inflows in 2019. The reserves position as at December 31, 2019 was sufficient to finance 7.5 months of retained imports and was 1.1 times the short-term external debt.

As at December 31, 2020, gross international reserves increased to RM432,373.8 million. After taking into account BNM's external liabilities of RM61.1 million, net international reserves were RM432,312.6 million. The higher reserves reflected primarily inflows from net export proceeds. The reserves position as at December 31, 2020 was sufficient to finance 8.5 months of retained imports and was 1.2 times the short-term external debt.

The international reserves of BNM amounted to RM439,177.6 million as at March 15, 2021. The reserves position was sufficient to finance 8.5 months of retained imports and was 1.2 times the short-term external debt.

## **Exchange Rates**

### ***Exchange Rate Policy***

In conjunction with the implementation of selective foreign exchange administration 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 per U.S.\$. The introduction of selective foreign exchange administration 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 economic fundamentals. There is neither a trading band, nor a central parity for the exchange rate. Since 2016, BNM has been adopting a floating exchange rate arrangement for the ringgit. The IMF has also classified Malaysia's de facto exchange rate arrangement as 'floating'. Under this arrangement, the level of ringgit is determined by market supply and demand in the domestic foreign exchange market. BNM 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 2016, the ringgit depreciated against the Japanese yen by 7.3 per cent., the U.S. dollar by 4.3 per cent., and the Euro by 0.7 per cent., but appreciated against the pound sterling by 15.4 per cent. Against regional currencies, the ringgit depreciated against the Indonesian rupiah by 6.9 per cent., the Thai baht by 4.7 per cent., the Singapore dollar by 2.1 per cent., and the Korean won by 1.9 per cent., but appreciated against the Chinese renminbi by 2.4 per cent., and the Philippine peso by 1.1 per cent.

In 2017, the ringgit depreciated against the Euro by 2.6 per cent., but appreciated against the U.S. dollar by 10.4 per cent., the Japanese yen by 6.7 per cent., and the pound sterling by 0.8 per cent. Against regional currencies, the ringgit depreciated against the Korean won by 2.1 per cent., but appreciated against the Philippine peso by 11.4 per cent., the Indonesian rupiah by 11.3 per cent., the Chinese renminbi by 3.6 per cent., the Singapore dollar by 2.1 per cent., and the Thai baht by 0.7 per cent.

In 2018, the ringgit depreciated against the Japanese yen by 3.9 per cent., and the U.S. dollar by 1.8 per cent., but appreciated against the pound sterling by 4.1 per cent., and the Euro by 2.5 per cent. Against regional currencies, the ringgit depreciated against the Thai baht by 2.1 per cent., but appreciated against the Indonesian rupiah by 4.9 per cent., the Chinese renminbi by 3.5 per cent., the Philippine peso by 3.2 per cent., the Korean won by 2.1 per cent., and the Singapore dollar by 0.2 per cent.

In 2019, the ringgit depreciated against the pound sterling by 2.2 per cent., and the Japanese yen by 0.5 per cent., but appreciated against the Euro by 3.2 per cent., and the U.S. dollar by 1.1 per cent. Against regional currencies, the ringgit depreciated against the Thai baht by 7.2 per cent., the Indonesia rupiah by 3.1 per cent., the Philippine peso by 2.5 per cent., and the Singapore dollar by 0.2 per cent., but appreciated against the Korean won by 5.1 per cent., and the Chinese renminbi by 2.6 per cent.

In 2020, the ringgit depreciated against the Euro by 7.0 per cent., the Japanese yen by 3.2 per cent., and the pound sterling by 1.7 per cent., but appreciated against the U.S. dollar by 2.0 per cent. Against regional currencies, the ringgit depreciated against the Chinese renminbi by 4.5 per cent., the Korean won by 4.3 per cent., and the Philippine peso by 3.4 per cent., but appreciated against the Indonesia rupiah by 3.1 per cent., the Thai baht by 2.1 per cent., and the Singapore dollar by 0.1 per cent.

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 Per		
	U.S.\$ <sup>(1)</sup>	Singapore \$	100 Yen
End of Period			
December 2016 .....	4,4860	3.1016	3.8422
December 2017 .....	4.0620	3.0392	3.6020
December 2018 .....	4.1385	3.0322	3.7475
December 2019 .....	4.0925	3.0387	3.7655
December 2020 .....	4.0130	3.0354	3.8891
January 2021 .....	4.0540	3.0451	3.8800
February 2021 .....	4.0495	3.0496	3.8176
March 2021 .....	4.1590	3.0870	3.7521

*Note:*

- (1) U.S. dollar rates are the average of buying and selling rates at noon in the Kuala Lumpur Interbank Foreign Exchange Market. 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 Policy

Malaysia maintains a liberal foreign exchange policy, in line with its 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. 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 without domestic ringgit borrowing are free to undertake any amount of investment in foreign currency asset either in Malaysia or 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 in foreign currency asset either in Malaysia or abroad.

A liberal hedging policy is also in place to further promote risk management culture and support the development of foreign exchange markets. 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 the 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 international 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 at the dates indicated.

	As at December 31,				
	2016	2017	2018	2019	2020 <sup>P</sup>
	(RM billion)				
Private .....	2,067.7	2,204.4	2,373.9	2,489.8	2,588.7
Loans by banking system .....	1,521.5	1,584.3	1,705.7	1,771.6	1,831.2
Term loans .....	1,158.4	1,203.0	1,296.0	1,358.5	1,444.5
Medium- and long-term .....	1,141.7	1,183.1	1,280.2	1,344.2	1,427.9
Short-term .....	16.7	19.8	15.8	14.4	16.7
Other <sup>(1)</sup> .....	363.1	381.4	409.8	413.0	420.0
Local currency corporate bonds <sup>(2)</sup> .....	541.2	620.1	668.2	718.2	757.5
Public <sup>(3)</sup> .....	627.4	665.6	719.5	764.2	851.3
Government Bonds .....	624.8	665.6	719.5	764.2	851.3
Long-term <sup>(4)</sup> .....	620.3	661.1	713.0	759.7	844.8
Short-term (Treasury bills) .....	4.5	4.5	6.5	4.5	6.5
Others .....	2.6	—	—	—	—
Total domestic debt .....	2,688.2	2,868.9	3,060	3,254.0	3,440.0
% of GDP .....	218.4	212.0	213.0	215.4	243.1
Annual growth (%) .....	4.5	6.7	6.3	6.0	5.4

### Notes:

<sup>P</sup> Preliminary.

(1) Comprises mainly trade bills, trust receipts, overdrafts, revolving credit and foreign currency loans.

(2) Consists of corporate (including NFPCs) bonds.

(3) Consists of Government securities, Treasury bills, housing loans, a syndicated loan and retail bonds.

(4) Consists of Malaysian Government Securities, Malaysian Government Investment Issue and Housing Loan Fund.

Sources: BNM.

Total domestic debt amounted to RM3,440 billion as at December 31, 2020, compared to RM3,254 billion as at December 31, 2019 and RM3,060 billion as at December 31, 2018. The domestic debt consisted of loans by banking system and local currency corporate bonds in the private sector as well as Government Bonds. 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 79 per cent. of outstanding loans of the banking system as at December 31, 2020, compared to 77 per cent. in 2019 and 76 per cent. in 2018, while the other loans comprised mainly trade bills, trust receipts, overdrafts, revolving credit and foreign currency loans. Approximately 99 per cent. of the term loans in 2020 had medium- and long-term maturities of more than one year.

Local currency corporate bonds have increased at an average annual rate of 8.8 per cent. since 2016, from RM541.2 billion as at December 31, 2016 to RM757.5 billion as at December 31, 2020. The public sector's portion of outstanding domestic debt has increased at an average annual growth of 5.8 per cent. during the same period, largely due to borrowings to finance deficits. 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 RM879.6 billion as at December 31, 2020, compared to RM793.0 billion as at December 31, 2019 and RM741 billion as at December 31, 2018. Debt servicing of the Government was 15.4 per cent. of operating expenditure in 2020, 12.5 per cent. in 2019 and 13.2 per cent. in 2018.

### *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 MGS and Bank Negara Monetary Notes, as external debt.

As at December 31, 2020, the share of non-resident holdings in the bond market amounted to 13.9 per cent. of total outstanding bonds in Malaysia. As at December 31, 2020, the majority of non-residents who held Government Bonds were long-term investors. As at the same date, asset management companies, foreign central banks and governments, pension funds and banks accounted for 35.8 per cent., 31.5 per cent., 17.7 per cent. and 11.6 per cent., respectively, of all non-resident holdings in Government securities.

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,				
	2016	2017	2018	2019	2020 <sup>P</sup>
	(RM million)				
<b>Offshore Borrowing<sup>(1)</sup></b> .....	<b>530,938</b>	<b>508,583</b>	<b>565,800</b>	<b>560,708</b>	<b>560,289</b>
<b>Medium- and long-term<sup>(2)</sup></b> .....	<b>322,854</b>	<b>321,094</b>	<b>331,973</b>	<b>344,322</b>	<b>361,387</b>
Government .....	18,464	16,567	16,708	24,021	23,975
Public corporations .....	112,215	115,897	121,531	104,722	120,262
Private sector .....	192,175	188,630	193,735	215,579	217,150
<b>Short-term<sup>(3)(4)</sup></b> .....	<b>208,083</b>	<b>187,489</b>	<b>233,827</b>	<b>216,386</b>	<b>198,903</b>
Banking sector .....	170,977	172,199	204,759	199,505	182,078
Non-bank private sector .....	37,099	15,290	29,068	16,881	16,821
<b>NR holdings of domestic debt securities</b> .....	<b>212,767</b>	<b>207,389</b>	<b>180,224</b>	<b>201,015</b>	<b>220,103</b>
Government securities .....	191,764	186,186	162,139	183,662	206,104
Others .....	21,003	21,203	18,085	17,353	13,999
<b>NR deposits</b> .....	<b>86,537</b>	<b>92,025</b>	<b>98,109</b>	<b>102,928</b>	<b>94,497</b>
<b>Others<sup>(5)</sup></b> .....	<b>84,222</b>	<b>77,221</b>	<b>78,896</b>	<b>80,767</b>	<b>83,566</b>
<b>Total external debt</b> .....	<b>914,464</b>	<b>885,218</b>	<b>923,029</b>	<b>945,419</b>	<b>958,456</b>
% GNI .....	75.3	66.4	65.8	64.3	69.0
% GDP .....	73.2	64.5	63.8	62.6	67.7
% exports of goods and services .....	109.6	92.1	93.0	96.0	110.2
% annual growth .....	9.3	(3.2)	4.3	2.4	1.4
Debt service ratio (as % of exports of goods and services <sup>(6)</sup> ) ...	24.8	15.3	11.8	12.8	13.8

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 foreign currency 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,				
	2016	2017	2018	2019	2020 <sup>P</sup>
	(U.S.\$ million) <sup>(1)</sup>				
<b>Offshore Borrowing<sup>(2)</sup></b> .....	<b>117,221</b>	<b>124,042</b>	<b>135,167</b>	<b>135,421</b>	<b>137,704</b>
<b>Medium- and long-term<sup>(3)</sup></b> .....	<b>71,281</b>	<b>78,314</b>	<b>79,307</b>	<b>83,160</b>	<b>88,819</b>
Government .....	4,077	4,041	3,991	5,801	5,892
Public corporations .....	24,775	28,287	29,033	25,292	29,557
Private sector .....	42,429	46,006	46,282	52,066	53,370
<b>Short-term<sup>(4)(5)</sup></b> .....	<b>45,940</b>	<b>45,728</b>	<b>55,860</b>	<b>55,261</b>	<b>48,884</b>
Banking sector .....	37,749	41,999	48,916	48,184	44,750
Non-bank private sector .....	8,191	3,729	6,944	4,077	4,134
<b>NR holdings of domestic debt securities</b> .....	<b>46,976</b>	<b>50,581</b>	<b>43,054</b>	<b>48,549</b>	<b>54,095</b>
Government securities .....	42,339	45,410	38,734	44,358	50,655
Others .....	4,637	5,171	4,320	4,191	3,440
<b>NR deposits</b> .....	<b>19,048</b>	<b>22,445</b>	<b>23,438</b>	<b>24,859</b>	<b>23,225</b>
<b>Others<sup>(6)</sup></b> .....	<b>18,655</b>	<b>18,834</b>	<b>18,848</b>	<b>19,507</b>	<b>20,539</b>
<b>Total external debt</b> .....	<b>201,900</b>	<b>215,902</b>	<b>220,507</b>	<b>228,335</b>	<b>235,563</b>
% GNI .....	75.376.4	66.466.8	65.8	64.3	69.0
% GDP .....	734.23	645.50	63.8	62.6	67.7
% exports of goods and services .....	109.6	921.1	93.0	96.0	110.2
% annual growth .....	9.3	(3.82)	4.3	2.4	1.4
Debt service ratio (as % of exports of goods and services <sup>(7)</sup> ) ...	24.8	15.322.1	11.8	12.8	13.8
RM/U.S.\$ (end-period) .....	4.5293	4.1001	4.1859	4.1405	4.0688

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 foreign currency 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, 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.

As at December 31, 2016, Malaysia's total external debt amounted to RM914,464 million. The increase in external debt during the year was due mainly to higher intragroup loans. Short-term external debt accounted for 41.3 per cent. of total external debt, while total debt service ratio increased to 24.8 per cent. in 2016.

As at December 31, 2017, Malaysia's total external debt amounted to RM885,218 million. The decrease in external debt during the year was due mainly to valuation effects following the strengthening of the ringgit against most currencies during the year. The decrease in external debt was partly offset by higher interbank borrowings and non-resident deposits. Short-term external debt accounted for 39.7 per cent. of total external debt, while total debt service ratio decreased to 15.3 per cent. in 2017.

As at December 31, 2018, Malaysia's total external debt amounted to RM923,029 million. The increase in external debt during the year was due mainly to higher interbank borrowings and loans. The increase in external debt was partly offset by lower non-resident holdings of domestic debt securities. Short-term external debt accounted for 43.9 per cent. of total external debt, while total debt service ratio decreased to 11.8 per cent. in 2018.

As at December 31, 2019, Malaysia's total external debt amounted to RM945,419 million. The increase in external debt during the year was due mainly to higher non-resident holdings of domestic debt securities. The increase in external debt was partly offset by lower intragroup loans. Short-term external debt accounted for 41.4 per cent. of total external debt, while total debt service ratio increased to 12.8 per cent. in 2019.

As at December 31, 2020, Malaysia's total external debt amounted to RM958,456 million. The increase in external debt during the year was due mainly to higher non-resident holdings of domestic debt securities, and net issuance of bonds and notes by corporates. The increase in external debt was partly offset by lower interbank borrowings. Short-term external debt accounted for 38.3 per cent. of total external debt, while total debt service ratio increased to 13.8 per cent. in 2020.

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.

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 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. From 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, Thailand, Indonesia, the Philippines, Singapore and Vietnam.

While some of the maritime boundaries have been delimited, there still exists a number of maritime boundaries which have yet to be delimited. In this regard, Malaysia is committed to resolve maritime boundaries delimitation through peaceful means, in accordance with the 1982 United Nations Convention on the Law of the Sea and the relevant principles of international law.

### ***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***

Following the country’s experience with the Nipah virus outbreak in 1999, Malaysia began preparing a national plan in dealing with infectious diseases. As a result, Malaysia was better prepared during the Severe Acute Respiratory Syndrome (SARS) outbreak in 2003 and the Avian Influenza (H5N1) outbreak in 2004. Subsequently, the National Influenza Pandemic Preparedness Plan was introduced in 2006, providing action plans and a strategic framework for a multi-sectoral response in the event of an influenza pandemic.

Under the 9MP, the Crisis Preparedness and Response Center was established in 2007 by the Ministry of Health (“**MoH**”) as part of the overall strategies in preparedness of effective management of health disasters, outbreaks, crises and emergencies. The Center is 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.

Recognizing the importance of a swift and coordinated action among governmental and non-governmental agencies as a prerequisite in mitigating any outbreak, the Government implemented the Malaysian Strategy for Emerging Diseases (“**MySED**”) Workplan (2012-2015), which provided a common framework in detecting, preparing and responding to public health emergencies. Evaluation of MySED in 2016 identified the need to further enhance its public health response and preparedness strategies and the Malaysia Strategic Workplan for Emerging Diseases II (2017-2021) or MySED II Workplan (2017-2021) was subsequently introduced.

Established in 1971, the National Security Council of Malaysia is the main government agency in charge with the coordination of disaster management and response. In 2015, the National Disaster Management Agency (“**NADMA**”) was established to become the lead disaster management agency for regional and international disaster management efforts. Under these two agencies, the MoH provides technical expertise and inter-agency coordination in the prevention and control activities with regard to public health incidents.

In response to the COVID-19 pandemic, the Government formed the Pandemic Management Strategic Committee (including ten sub-committees thereunder) (“**PMSC**”) to formulate short-term, mid-term and long-term action plans with a focus on mitigating and balancing the health, safety and economic impact of the COVID-19 pandemic on Malaysia. The PMSC is supported by all sectors of the economy and requires active participation from all level of governance, from the community to federal. The harmonious relationship between the federal agencies with the state and local governments is also evident through decentralization of action and empowerment of the local government in mitigating the spread of the COVID-19 pandemic.

In order to maintain the resilience and sustainability of medical capacity in Malaysia, the following measures have been undertaken:

- increasing bed capacity, among others, by converting MoH hospitals to full COVID-19 or hybrid COVID-19 hospitals;
- increasing the number of Low Risk COVID-19 Treatment and Quarantine Centers and engaging private hospitals to manage patients;

- setting up COVID-19 Assessment Centers in every district to assess COVID-19 patients for suitability of home isolation and home monitoring;
- engaging with general practitioners in assisting MOH with the assessment of patients and giving health education on home isolation and monitoring;
- increasing the laboratory capacity to detect COVID-19 patients early by engaging other agencies, universities and private laboratories to perform reverse transcription polymerase chain reaction and antigen rapid test kit testing; and
- addressing mental health issues among health care workers by setting up the Psychosocial Support Helpline at both the national and state level.

The Special Committee for Ensuring Access to COVID-19 Vaccine Supply (“JKJAV”), co-chaired by the MoH and the Ministry of Science, Technology and Innovation, was established to ensure that Malaysia had immediate, safe and effective access to the COVID-19 vaccine. In particular, JKJAV plays an important role as the main committee in planning, implementing and monitoring the COVID-19 vaccination and immunization program in Malaysia.

The Government has set a target of immunizing 80 per cent. of the population, or 26.5 million people, by December 2021. Malaysia is also reopening its economy in a controlled manner, utilizing technology, digitalization, automation of work processes and standard operating procedures. Furthermore, in anticipation of future pandemics or other similar public health emergencies, the Government will carry out the following initiatives:

- continue to invest in strengthening health security systems, further review system readiness through high-level functional exercises and after-action reviews, and address identified gaps, particularly for a large-scale event, such as an influenza pandemic;
- further enhance coordination, stewardship and accountability of all relevant sectors across Malaysia, which includes strengthening coordination and collaboration between the human and animal sectors across relevant technical areas;
- strengthen effective engagement of the private sector in health security systems, including surveillance, case management, risk communication, and other preparedness and response activities; and
- continue to share the considerable experience in health security within the region and globally, including the expertise in emergency operations, surveillance, laboratory, field epidemiology training, risk communication and capabilities in dealing with chemical and radiation events.

## **Climate Change**

### *National Circumstances*

Over the past four decades, increasing temperature trends of 0.13°C to 0.24°C per decade have been observed. Based on projections, the long-term trends in rainfall are less pronounced. Malaysia notes that with the projected temperature increase, adapting to climate change is a key focus of climate actions.

As forest is an important heritage and eco-system of the country, Malaysia is preserving its forest coverage and approximately 55.3 per cent. of the land remain forested in 2018. Terrestrial biodiversity is concentrated within these forests and the country is considered as one of the world’s mega-diverse countries.

The total population of Malaysia in 2019 and 2020 was 32.52 million and 32.67 million respectively. Population increased by 32.8 per cent. over the period 2005-2015. Approximately 94 per cent. of the population is below 65 years old and the average life expectancy is 74.6 years.

### ***Climate information***

The climate of Malaysia is tropical and humid with relatively uniform diurnal variations of temperatures throughout the year. The daily mean temperature is between 26°C and 28°C. At the lowlands, temperatures are between 22.5°C during the night and 33°C during daytime. Over the past 46 years, positive trends in temperature increase have been observed.

The country has experienced increased minimum, mean and maximum for both air temperatures and rainfall intensity. Over the last decade, more weather extremes have been experienced by the country. Major floods occurred in 2010, 2012 and 2014, with the 2014 northeast monsoon floods being some of the worst in recorded history. This was followed by the impact of the very strong El Niño phenomenon in 2016 which resulted in prolonged dry periods and associated water shortages, heat waves and wildfires. Consequently, economic losses stemming from the El Niño phenomenon have also increased.

### ***Adapting to Climate Change***

Malaysia is taking a stepwise approach in its adaptation to climate change impacts and the potential risks they impose. Strengthening the governance and institutional arrangements between various government agencies has been a priority for the Government. Efforts have been made in the areas of climate modelling, monitoring and forecasting of extreme weather and flood events, disaster risk management, water resources management, agriculture and public health.

In particular, the establishment of the National Disaster Management Agency (NADMA) in 2015 to coordinate responses to disasters and disaster preparedness, has been key in ensuring that policies and strategies are streamlined. For climate change, with the establishment of the Ministry of Environment and Water in 2020, Malaysia will be reviewing the Climate Change Policy 2009 and setting out a legal framework on Climate Change. Adaptation actions will be more focused as national meteorological and hydrological services are under the same Ministry.

Malaysia is ranked as the 40th least vulnerable country and 48th most ready country according to the Notre-Dame Global Adaptation Initiative. Adaptation challenges still exist for Malaysia and mainstreaming adaptation into the development agenda will be given a priority in the Twelfth Malaysia Plan. Strategic planning to ensure adequate preparation that addresses the impacts of climate change and reduces the risk of disrupting economic activities from extreme weather events will be given priority.

Hence, Malaysia has periodically carried out vulnerability and adaptation assessments which are reported in the National Communications to the United Nations Framework Convention on Climate Change. Reducing vulnerability and increasing adaptive capacity in key sectors is vital for a resilient development and to protect Malaysia's development gains. Looking forward, Malaysia is developing its National Adaptation Plan, which will mainstream climate change into the country's development agenda and will integrate with existing frameworks. Malaysia has started this endeavor through a scoping study on the National Adaptation and Mitigation Plan in 2017.

### ***Mainstreaming Climate Change into National Development Agenda***

Malaysia has allocated substantial national resources and expenditure in its effort to enhance a wide range of actions to address climate change. These actions are further supported by the international communities in terms of capacity building, technology transfer, technical and financial support to fulfil the country's obligations under the Convention including documenting and disclosing the level of support received.

The Government acknowledges the challenges posed by climate change to its pursuit of sustainable development. Recognizing the mitigation and adaptation needs and to mainstream these considerations into its development strategies, addressing the impacts of climate change was first incorporated into the Tenth Malaysia Plan (2011-2015). These efforts were further crystallized under the Eleventh Malaysia Plan (2016-2020) to pursue green

growth for sustainability and resilience. To achieve the goal, the Government recognized that strengthening its institutional framework through capacity-building and enhancing knowledge and awareness to create shared responsibility at all levels of society are crucial.

Enhanced efforts have been taken by Malaysia to also mainstream mitigation actions into its development agenda through the development and implementation of policies, plans and programs that have mitigation co-benefits which at the same time meet the development needs of the country.

Malaysia also intends to reduce its greenhouse gas emissions intensity of GDP by 45 per cent. by 2030, relative to the emissions intensity of GDP in 2005. This target would encompass a 35 per cent. reduction on an unconditional basis, and a further 10 per cent. reduction subject to receipt of climate financing, technology transfer and capacity building from developed countries.

Malaysia is committed to the sustainable development agenda and has set initiatives to address climate risks in line with its SDGs. There also has been enhanced action by other stakeholders such as the private sector and NGOs to support the Government's efforts to address climate change.

### *Natural Disasters*

In Malaysia, the East Coast Monsoon occurs between October and March every year. From 2016 to 2020, around 0.03 per cent. to 0.19 per cent. of the total population has been evacuated to temporary relief centers due to flood. The Government has spent around RM140 million over the past five years for the preparation of logistics and welfare at the evacuation shelters, including financial aid for affected households.

Efforts have been carried out by the Government to further improve the understanding of the risk management of natural disasters by updating risk profiles, as well as developing hazard and risk maps aimed at reducing the exposure and vulnerability of people, property, environment and economy towards disasters. The Government has also emphasized the role of science and technology in making risk-informed policy decisions and exploring the mechanisms of risk transfer and financing to promote the concept of sharing responsibility in disaster risk reduction initiatives.

The ASEAN Disaster Information Network recorded a total of 1,899 disaster events in the 10 ASEAN Member States from July 2012 to May 2020. These disasters affected more than 147 million people and displaced more than 18 million of them, resulting in approximately 84,000 casualties (death, injuries and missing) and damages totaling around U.S.\$17 billion. During the same period, at least 103 disaster events occurred in Malaysia, which is more than ten-fold compared to Indonesia. Malaysia is ranked the third lowest country most vulnerable to disasters when compared with other ASEAN Member States. Malaysia is also among the top three countries with a high capacity of managing the natural disaster, along with Brunei Darussalam (2nd) and Singapore (1st).

The Worldwide Governance Indicators database revealed that Singapore, Brunei Darussalam and Malaysia consistently rank in the upper percentile in most dimensions of governance between 1996 and 2018. In terms of data visualizations, Malaysia's National Disaster Information Management System monitors and analyses disaster events and is able to disseminate a real-time early warning via social media, short messaging system ("SMS") and other mediums of communication. The Sendai Framework for Disaster Risk Reduction ("SFDRR") gave recognition to Malaysia as one of the few countries that have successfully developed multi-hazard monitoring and forecasting systems.

Malaysia, together with the Philippines and Thailand, have also implemented a national drought policy to enforce a drought management regulation. In addition, Malaysia established joint effort eliminate mitigation initiatives with four other ASEAN countries focusing on the gradual transition to energy efficiency and low carbon development.

As at March 31, 2021, damage to infrastructure during the Northeast Monsoon between November 11, 2020 and March 15, 2021 was estimated at approximately RM643 million. Pursuant to the Mid-Term Review of the 11MP,

Malaysia reinforced its commitment to reduce disaster risks by ratifying the SFDRR. During the 2021 Budget, it was announced that the Government allocated RM200 million for the maintenance of low cost and medium-low stratified housing as well as assistance to repair dilapidated houses which have been damaged by natural disasters. In addition, the disaster risk management mechanism has been greatly improved through the establishment of National Flood Forecasting and Warning System and Tsunami Early Warning System. The early warning information is directly disseminated to stakeholders and communities via various platforms, including SMS, which are provided by local telecommunication service providers. The Government is committed to embarking on a multi-hazard early warning system, taking into account current and future trend in disasters induced by either natural or human factors.

The NADMA forms the focal point for disaster management for Malaysia as it plays a crucial role in giving awareness to the public through outreach programs such as the Community-Based Disaster Risk Management (“**CBDRM**”) modules, which empowers knowledge and survival skills in facing disaster. In 2020, around 14,000 participants attended various CBDRM programs, both online and face-to-face. Other government agencies, academicians and NGOs have also collaborated with NADMA and supported such programs with the aim of catalyzing a greater trickle-down effect.

## **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 will be in effect from the year of assessment 2021.

### 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) of the Stamp Act 1949, any Malaysian stamp duty payable in respect of any document in relation to the issuance, purchase and subscription of 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 is payable in Hong Kong in respect of payments of principal on the Certificates or in respect of any capital gains arising from the sale of the Certificates.

### *Profits Tax*

Hong Kong profits tax is chargeable on every person carrying on a trade, profession or business in Hong Kong in respect of profits arising in or derived from Hong Kong from such trade, profession or business (excluding profits arising from the sale of capital assets).

Payments on the Certificates may be deemed to be profits arising in or derived from Hong Kong from a trade, profession or business carried on in Hong Kong in the following circumstances:

- (i) payments on the Certificates are derived from Hong Kong and are received by or accrue to a corporation carrying on a trade, profession or business in Hong Kong;
- (ii) payments on the Certificates are derived from Hong Kong and are received by or accrue to a person, other than a corporation, carrying on a trade, profession or business in Hong Kong and are in respect of the funds of that trade, profession or business;
- (iii) payments on the Certificates are received by or accrue to a financial institution (as defined in the Inland Revenue Ordinance (Cap. 112) of Hong Kong) (the “**IRO**”) and arise through or from the carrying on by the financial institution of its business in Hong Kong; or
- (iv) payments on the Certificates are received by or accrue to a corporation, other than a financial institution, and arise through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO).

Sums received by or accrued to a financial institution by way of gains or profits arising through or from the carrying on by the financial institution of its business in Hong Kong from the sale, disposal and redemption of Certificates will be subject to Hong Kong profits tax. Sums received by or accrued to a corporation, other than a financial institution, by way of gains or profits arising through or from the carrying on in Hong Kong by the corporation of its intra-group financing business (within the meaning of section 16(3) of the IRO) from the sale, disposal or other redemption of the Certificates will be subject to Hong Kong profits tax.

Sums derived from the sale, disposal or redemption of Certificates will be subject to Hong Kong profits tax where received by or accrued to a person, other than a financial institution, who carries on a trade, profession or business in Hong Kong and the sum has a Hong Kong source unless otherwise exempted. The source of such sums will generally be determined by having regard to the manner in which the Certificates are acquired and disposed of.

In certain circumstances, Hong Kong profits tax exemptions (such as concessionary tax rates) may be available. Investors are advised to consult their own tax advisors to ascertain the applicability of any exemptions to their individual position.

### ***Stamp Duty***

No Hong Kong stamp duty will be chargeable upon the issue or transfer of a Certificate.

## 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 at the “issue price” (the first price at which a substantial amount of the Certificates are sold for money, excluding sales to underwriters, placement agents, or wholesalers) in the initial offering 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 organizations, 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, U.S. Holders that are required to take certain amounts into income no later than the time such amounts are reflected on an applicable financial statement, 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 organized under the laws of the United States, any state thereof or the District of Columbia, (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. 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 Trustee intends to treat the Certificates as debt instruments for U.S. federal income tax purposes and the Government of Malaysia and each holder of the Certificates, by acceptance of such certificate or a beneficial interest therein, will likewise agree 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.

### **Sale and Retirement of Certificates**

A U.S. Holder generally will recognize gain or loss on the sale or retirement of a Certificate equal to the difference between the amount realized 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 realized 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 recognized 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 realized by a U.S. Holder on the sale or retirement of a Certificate generally will be U.S. source. The deductibility of capital losses is subject to significant limitations.

### **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.

## 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 Plans are subject to ERISA’s general fiduciary requirements (“**ERISA Plans**”) are subject to the requirements 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 each class of equity interest in the entity is less than 25 per cent. 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 Trust 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, solely as to a plan described in clause (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 Agents, the Joint Lead Managers and their respective affiliates from any actual cost, damage or loss incurred by them as a result of it being or being deemed to be a Plan or any violation of any Similar Law.

## PLAN OF DISTRIBUTION

Subject to the terms and conditions stated in a subscription agreement dated April 21, 2021 in relation to Series 1 and a subscription agreement dated April 21, 2021 in relation to Series 2 (each a “**Subscription Agreement**”) among the Trustee, the Government of Malaysia, the Joint Lead Managers, and the co-manager named below (the “**Co-Manager**”, 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 in the below tables:

### Managers

#### Series 1

	U.S.\$
<b>Joint Lead Managers</b>	
CIMB Investment Bank Berhad .....	266,668,000
The Hongkong and Shanghai Banking Corporation Limited .....	266,666,000
J.P. Morgan Securities plc .....	266,666,000
<b>Co-Manager</b>	
Islamic Corporation for the Development of the Private Sector .....	—
<b>Total</b> .....	<b>800,000,000</b>

#### Series 2

	U.S.\$
<b>Joint Lead Managers</b>	
CIMB Investment Bank Berhad .....	166,668,000
The Hongkong and Shanghai Banking Corporation Limited .....	166,666,000
J.P. Morgan Securities plc .....	166,666,000
<b>Co-Manager</b>	
Islamic Corporation for the Development of the Private Sector .....	—
<b>Total</b> .....	<b>500,000,000</b>

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.

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 the Certificates or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of the Certificates. The Certificates may be purchased by or be allocated to any Manager and/or any of their respective affiliates for asset management and/or proprietary purposes but not with a view to distribution.

### **Kingdom of Bahrain**

Each Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any Certificates, except on a private placement basis to persons in Bahrain who are “accredited investors”.

For this purpose, “**an accredited investor**” means:

- (a) an individual holding financial assets (either singly or jointly with a spouse) of U.S.\$1,000,000 or more excluding that person’s principal place of residence;
- (b) a company, partnership, trust or other commercial undertaking which has financial assets available for investment of not less than U.S.\$1,000,000; or
- (c) a government, supranational organization, central bank or other national monetary authority or a state organization whose main activity is to invest in financial instruments (such as a state pension fund).

### **Brunei**

The Offering Memorandum has not been and will not be registered, delivered to, licensed or permitted by the Autoriti Monetari Brunei Darussalam with the Authority designated under the Brunei Darussalam Securities Markets Order (the “**SMO**”) nor has it been registered with the Registrar of Companies, Registrar of International Business Companies. As such the Certificates may not be offered or sold or made the subject of an invitation for subscription or purchase nor may the Offering Memorandum or any other document or material in connection with the offer or sale or invitation for subscription or purchase of Certificates be circulated or distributed, whether directly or indirectly, to any person in Brunei other than: (a) to an accredited investor under Section 20 of the SMO; (b) an expert investor under Section 20 of the SMO; or (c) an institutional investor under Section 20 of the SMO, and in accordance with the conditions specified in Section 117 of the SMO.

The Offering Memorandum is for informational purposes only and does not constitute an invitation or offer to the public. It must not be distributed or redistributed to and may not be relied upon or used by any person in Brunei other than the person to whom it is directly communicated: (i) in accordance with the conditions of section 21(3) of the International Business Companies Order 2000; or (ii) whose business or part of whose business is in the buying and selling of shares within the meaning of section 308(4) of the Companies Act (Cap. 39).

Any offers, acceptances, subscription, sales and allotments of the Certificates shall be made outside Brunei. Nothing in the Offering Memorandum shall constitute legal, tax, accounting or investment advice. The recipient should independently evaluate any specific investment with consultation with professional advisors in law, tax, accounting and investments.

### **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) an “Exempt Offer” in accordance with the Markets Rules (MKT) Module of the Dubai Financial Services Authority rulebook (the “**DFSA Rulebook**”); 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 of the DFSA Rulebook.

### **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 (as defined under Item 5, Paragraph 1, Article 6 of the Foreign Exchange and Foreign Trade Act (Act No. 228 of 1949, as amended)), 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, regulations and ministerial guidelines of Japan.

### **Switzerland**

This Offering Memorandum is not intended to constitute an offer or solicitation to purchase or invest in any Certificates. Each Manager has represented and agreed, that the Certificates may not be publicly offered directly or indirectly, in Switzerland within the meaning of the Swiss Financial Services Act (the “**FinSA**”) and no application has or will be made to admit the Certificates to trading on any trading venue (exchange or multilateral trading facility) in Switzerland. Neither this Offering Memorandum nor any other offering or marketing material relating to the Certificates constitutes a prospectus pursuant to the FinSA, 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, any Certificates except for Certificates which are a “structured product” as defined in the Securities and Futures Ordinance (Cap. 571) (the “SFO”) other than (i) to “professional investors” as defined in the SFO and any rules made under the SFO; or (ii) in other circumstances which do not result in the document being a “prospectus” as defined in the Companies (Winding Up and Miscellaneous Provisions) Ordinance (Cap. 32) of Hong Kong (the “C(WUMP)O”) of Hong Kong or which do not constitute an offer to the public within the meaning of the C(WUMP)O; 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 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.

## **State of Kuwait**

Each Manager has represented and agreed that the Certificates have not been and will not be offered, sold, promoted or advertised by it in the State of Kuwait, other than in compliance with Decree Law No. 31 of 1990 and the implementing regulations thereto, as amended and Law No. 7/2010 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 (Including the Qatar Financial Centre)**

This Offering Memorandum (i) has not been, and will not be, registered with or approved by the Qatar Financial Markets Authority, the Qatar Central Bank, the Qatar Stock Exchange or the Qatar Financial Centre Regulatory Authority and may not be publicly distributed in Qatar (including the Qatar Financial Centre); (ii) is intended for the original recipient only and must not be provided to any other person; and (iii) is not for general circulation in Qatar (including the Qatar Financial Centre) and may not be reproduced or used for any other purpose.

Each Manager has represented and agreed that it has not offered, delivered or sold, and will not offer, deliver or sell at any time, directly or indirectly, any Certificates in the State of Qatar (including the Qatar Financial Centre), except: (a) in compliance with all applicable laws and regulations of State of Qatar (including the Qatar Financial Centre); and (b) through persons or corporate entities authorized and licensed to provide investment advice and/or engage in brokerage activity and/or trade in respect of foreign securities in State of Qatar (including the Qatar Financial Centre).

## **Kingdom of Saudi Arabia**

No action has been or will be taken in the Kingdom of Saudi Arabia that would permit a public offering of the Certificates. Any investor in the Kingdom of Saudi Arabia or who is a Saudi person (a “Saudi Investor”) who acquires any Certificates pursuant to an offering should note that the offer of Certificates is a private placement under the “Rules on the Offer of Securities and Continuing Obligations” as issued by the Board of the Capital Market Authority resolution number 3-123-2017 dated December 27, 2017, as amended by the Board of the Capital Market Authority resolution number 1-104-2019 dated September 30, 2019 (as amended, the “KSA

**Regulations**”), made through an authorized person licensed by the Capital Market Authority to carry out arranging activities by the Capital Market Authority and following a notification to the Capital Market Authority, and in each case, in accordance with 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 9 of the KSA Regulations or by way of a limited offer under Article 10 of, or as otherwise required by, the KSA Regulations.

Each Manager has represented and agreed that any offer of Certificates to a Saudi Investor will be made in compliance with the KSA Regulations.

The offer of Certificates shall not therefore constitute a “public offer”, an “exempt offer” or a “parallel market offer” pursuant to the KSA Regulations, but is subject to the restrictions on secondary market activity under the KSA Regulations. Any Saudi Investor who has acquired Certificates pursuant to a private placement under the KSA Regulations may not offer or sell those Certificates to any person unless the offer or sale is made in compliance with the restrictions on secondary market activity under the KSA Regulations.

## **Singapore**

This Offering Memorandum has not been registered as a prospectus with the Monetary Authority of Singapore. Accordingly, each Manager has represented 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: (i) to an institutional investor (as defined in Section 4A of the Securities and Futures Act (Chapter 289 of Singapore), as modified or amended from time to time (the “SFA”)) pursuant to Section 274 of the SFA; (ii) to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA or any person pursuant to Section 275(1A) of the SFA, and in accordance with the conditions specified in Section 275 of the SFA; or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where the Certificates are subscribed or purchased under Section 275 of the SFA by a relevant person which is:

- (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or
- (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an individual who is an accredited investor,

securities or securities-based derivatives contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries’ rights and interest (howsoever described) in that trust shall not be transferred within six months after that corporation or that trust has acquired the Certificates pursuant to an offer made under Section 275 of the SFA, except:

- (i) to an institutional investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) 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) as specified in Section 276(7) of the SFA; or
- (v) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018 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.

## **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 or to, or for the account or benefit of, U.S. persons except in certain transactions exempt from, or not subject to the registration requirements of the Securities Act and applicable state securities laws.

Each Manager has represented and agreed that it has offered and sold the Certificates, and agrees that it will offer and sell the Certificates, only in accordance with Rule 903 of Regulation S or Rule 144A under the Securities Act. Accordingly, neither it, its affiliates nor any person acting on its or their behalf has engaged or will engage in any directed selling efforts with respect to the Certificates, and it and they have complied and will comply with the offering restrictions requirement of Regulation S. Terms used in this paragraph and not otherwise defined herein have the meanings given to them by Regulation S.

Each Manager has represented, warranted, undertaken and agreed that neither it nor any of its affiliates (as defined in Rule 501(b) of Regulation D), nor any person acting on its or their behalf has engaged or will engage in any form of “general solicitation or general advertising” (within the meaning of Regulation D) in connection with any offer and sale of the Certificates in the United States.

Each Manager may, through its respective U.S. registered broker dealer affiliates, arrange for the offer and resale of the Certificates in the United States only to QIBs that are QPs in accordance with Rule 144A.

Each Manager has represented, warranted, undertaken and agreed that it has offered and sold and will offer and sell the Certificates in the United States only to persons whom it reasonably believes are QIBs and QPs who can represent that: (a) they are QIBs who are QPs within the meaning of Rule 144A; (b) they are not broker dealers who own and invest on a discretionary basis less than U.S.\$25 million in securities of unaffiliated issuers; (c) they are not a participant-directed employee plan, such as a 401(k) plan; (d) they are acting for their own account, or the account of one or more QIBs each of which is a QP; (e) they are not formed for the purpose of investing in the Certificates or the Trustee; (f) each account for which they are purchasing will hold and transfer at least U.S.\$250,000 in principal amount of Certificates at any time; (g) they understand that the Trustee may receive a list of participants holding positions in its securities from one or more book entry depositories; and (h) they will provide notice of the transfer restrictions set forth in the prospectus to any subsequent transferees.

In connection with the offer and resale of the Certificates in the United States each Manager has represented and agreed that it is a QIB who is also a QP.

In addition, until 40 days after the commencement of the offering, an offer or sale of Certificates within the United States by a dealer (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 Rule 144A under the Securities Act.

The Certificates (and any interests therein) may not be sold to or held by or on behalf of any: (i) employee benefit plan (as defined in Section 3(3) of ERISA) that is subject to Title I of ERISA; (ii) plan (as defined in Section 4975(e)(1) of the Code) that is subject to Section 4975 of the Code including individual retirement accounts and Keogh plans; (iii) any entity whose underlying assets could be deemed to include “plan assets” by reason of a plan’s investment in such entity for purposes of ERISA; or (iv) any governmental plan (as defined in Section 3(32) of ERISA), church plan (as defined in Section 3(33) of ERISA), non-U.S. plan (as described in Section 4(b)(4) of ERISA), or entity whose underlying assets are deemed to include the assets of any such plan, that is subject to Similar Law, unless, under this subsection (iv), its acquisition, holding and disposition of the Certificates would not result in a non-exempt violation of any such Similar Law or subject the Trustee or any transactions thereby to any such Similar Law and it and any person causing it to acquire any of the Certificates agrees to indemnify and hold harmless the Trustee, the Delegate, the 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.

## **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 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 cases 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 or to, or for the account of benefit of, U.S. persons, except pursuant to an exemption from, or in a transaction not subject to, 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 who are also QPs in reliance on Rule 144A. The international offering is being made outside the United States to non-U.S. persons in offshore transactions in reliance on Regulation S.

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: (a) is a QIB that is also a QP; (b) is not a broker-dealer that owns and invests on a discretionary basis less than U.S.\$25 million in securities of unaffiliated issuers; (c) is not a participant-directed employee plan, such as a 401(k) plan; (d) is acquiring such Certificates for its own account or for the account of one or more QIBs, each of which is also a QP; (e) was not formed for the purpose of investing in the Certificates or the Trustee; and (f) is aware, and each beneficial owner of such Certificates has been advised, that the seller of such Certificates may be relying on the exemption from the provisions of Section 5 of the Securities Act provided by Rule 144A.
- (2) It will: (a) along with each account for which it is purchasing, hold and transfer interests in the Rule 144A Certificates in a principal amount that is not less than U.S.\$250,000; and (b) provide notice of the transfer restrictions set forth herein to any subsequent transferees. In addition, it understands that the Trustee may receive a list of participants holding positions in the Trustee's securities from one or more book entry depositories.
- (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 to non-U.S. persons in offshore transactions in accordance with Rule 903 or 904 of Regulation S;
  - (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 who is also a QP that is purchasing for its own account or for the account of one or more QIBs who are also QPs 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, and it will, and each subsequent holder of the Rule 144A Certificates will be required to, notify any purchaser of the Rule 144A Certificates from it of the resale restrictions on the Rule 144A Certificates.

- (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 honored 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 WHO IS ALSO A QUALIFIED PURCHASER (A “**QP**”) AS DEFINED IN SECTION 2(A)(51)(A) OF THE INVESTMENT COMPANY ACT PURCHASING FOR ITS OWN ACCOUNT OR THE ACCOUNT OF ONE OR MORE QIBs WHO ARE ALSO QPs 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.\$250,000 OR (2) IN AN OFFSHORE TRANSACTION TO A NON-U.S. PERSON (AS DEFINED IN REGULATION S UNDER THE SECURITIES ACT “**REGULATION S**”) IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S, IN AN AMOUNT FOR EACH ACCOUNT OF NOT LESS THAN U.S.\$250,000 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 HONORED BY THE TRUSTEE. NO REPRESENTATION CAN BE MADE AS TO THE AVAILABILITY OF ANY EXEMPTION UNDER THE SECURITIES ACT FOR RESALES OF THIS CERTIFICATE.

THE BENEFICIAL OWNER HEREOF REPRESENTS THAT: (1) IT IS A QIB THAT IS ALSO A QP; (2) IT IS NOT A BROKER DEALER WHICH OWNS AND INVESTS ON A DISCRETIONARY BASIS LESS THAN U.S.\$25,000,000 IN SECURITIES OF UNAFFILIATED ISSUERS; (3) IT IS NOT A PARTICIPANT-DIRECTED EMPLOYEE PLAN, SUCH AS A 401(K) PLAN; (4) IT IS HOLDING THE CERTIFICATES REPRESENTED HEREBY FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF ONE OR MORE QIBs, EACH OF WHICH IS A QP; (5) IT WAS NOT FORMED FOR THE PURPOSE OF INVESTING IN THE TRUSTEE OR THE CERTIFICATES REPRESENTED HEREBY; (6) IT, AND

EACH ACCOUNT FOR WHICH IT HOLDS CERTIFICATES, WILL HOLD AND TRANSFER AT LEAST U.S.\$250,000; (7) IT UNDERSTANDS THAT THE TRUSTEE MAY RECEIVE A LIST OF PARTICIPANTS HOLDING POSITIONS IN ITS SECURITIES FROM ONE OR MORE BOOK ENTRY DEPOSITARIES; AND (8) IT WILL PROVIDE NOTICE OF THE FOREGOING TRANSFER RESTRICTIONS TO ITS SUBSEQUENT TRANSFEREES.

THE BENEFICIAL OWNER HEREOF HEREBY ACKNOWLEDGES THAT IF AT ANY TIME WHILE IT HOLDS AN INTEREST IN THIS CERTIFICATE IT IS NOT A QIB AND A QP, THE TRUSTEE MAY (A) COMPEL IT TO SELL ITS INTEREST IN THIS CERTIFICATE TO A PERSON WHO IS (I) A QIB AND A QP THAT IS OTHERWISE QUALIFIED TO PURCHASE THE CERTIFICATES REPRESENTED HEREBY IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE SECURITIES ACT OR (II) NOT A U.S. PERSON 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 TRUSTEE OR AN AFFILIATE OF THE TRUSTEE 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 TRUSTEE HAS THE RIGHT TO REFUSE TO HONOR A TRANSFER OF AN INTEREST IN THE CERTIFICATES REPRESENTED HEREBY TO A U.S. PERSON WHO IS NOT A QIB AND A QP. THE TRUSTEE HAS NOT BEEN AND WILL NOT BE REGISTERED AS AN INVESTMENT COMPANY IN THE UNITED STATES UNDER THE INVESTMENT COMPANY ACT.

BY ACCEPTING THIS CERTIFICATE (OR ANY INTEREST IN THE CERTIFICATES REPRESENTED HEREBY) EACH BENEFICIAL OWNER HEREOF, AND EACH FIDUCIARY ACTING ON BEHALF OF THE BENEFICIAL OWNER (BOTH IN ITS INDIVIDUAL AND CORPORATE CAPACITY), WILL BE DEEMED TO REPRESENT, WARRANT AND AGREE THAT, DURING THE PERIOD IT HOLDS ANY INTEREST IN THIS CERTIFICATE: (A) IT IS NOT, AND IT IS NOT ACTING ON BEHALF OF AN “**EMPLOYEE BENEFIT PLAN**” (AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“**ERISA**”)) SUBJECT TO THE PROVISIONS OF PART 4 OF SUBTITLE B OF TITLE I OF ERISA, A “**PLAN**” AS DEFINED IN AND TO WHICH SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (“**CODE**”) APPLIES, OR ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE “**PLAN ASSETS**” BY REASON OF SUCH AN EMPLOYEE BENEFIT PLAN’S OR PLAN’S INVESTMENT IN SUCH ENTITY (EACH, A “**BENEFIT PLAN INVESTOR**”), AND NO PART OF THE ASSETS TO BE USED BY IT TO PURCHASE OR HOLD SUCH CERTIFICATES OR ANY INTEREST HEREIN CONSTITUTES THE ASSETS OF ANY BENEFIT PLAN INVESTOR; AND (B) IF IT IS, OR IS ACTING ON BEHALF OF A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, OR ANY ENTITY WHOSE UNDERLYING ASSETS ARE DEEMED TO INCLUDE THE ASSETS OF ANY SUCH PLAN SUCH ACQUISITION, HOLDING AND DISPOSITION DOES NOT AND WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT VIOLATION OF ANY LAWS THAT ARE SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE AND WILL NOT SUBJECT THE TRUSTEE OR ANY TRANSACTIONS THEREBY TO ANY LAWS, RULES OR REGULATIONS APPLICABLE TO SUCH PLAN AS A RESULT OF THE INVESTMENT IN THE TRUSTEE BY SUCH PLAN. NO PURCHASE BY OR TRANSFER TO A BENEFIT PLAN INVESTOR OF THIS CERTIFICATE, OR ANY INTEREST HEREIN, WILL BE EFFECTIVE, AND NEITHER THE TRUSTEE NOR THE DELEGATE WILL RECOGNIZE ANY SUCH ACQUISITION OR TRANSFER. IN THE EVENT THAT THE TRUSTEE DETERMINES THAT THIS CERTIFICATE IS HELD BY A BENEFIT PLAN INVESTOR, THE TRUSTEE MAY CAUSE A SALE OR TRANSFER IN THE MANNER DESCRIBED IN THE OFFERING MEMORANDUM.

THE TRUSTEE MAY COMPEL EACH BENEFICIAL OWNER OF THE CERTIFICATES REPRESENTED HEREBY TO CERTIFY PERIODICALLY THAT SUCH BENEFICIAL OWNER IS A QIB AND A QP.”

- (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) It understands and acknowledges that the Trustee has not registered and does not intend to register as an “investment company” (as such term is defined in the Investment Company Act and related rules) and that the Trustee have imposed the transfer and offering restrictions with respect to persons in the United States and U.S. persons described herein so that the Trustee will qualify for the exemption provided under Section 3(c)(7) of the Investment Company Act and will have no obligation to register as an investment company in the United States.
- (9) It understands that the Rule 144A Certificates will be represented by interests in one or more Rule 144A Global Certificates. Before any interest in a Rule 144A Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Regulation S Global Certificate, it will be Required to provide a Transfer Agent or the Registrar with a written certification (in the form provided in the Agency Agreement) as to compliance with applicable securities laws.
- (10) It agrees that neither it, nor any of its affiliates, nor any person acting on its or their behalf, will make “directed selling efforts” as defined in Regulation S, or any “general solicitation or general advertising” as defined in Regulation D under the Securities Act, with respect to the Certificates.
- (11) 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 Regulation S Certificates, by accepting delivery of this Offering Memorandum and the Regulation S Certificates, will be deemed to have represented, agreed and acknowledged that:

- (1) it is not a U.S. person and it is, at the time of the offer to it of the Certificates and at the time the buy order originated, located outside the United States (in each case, within the meaning of Regulation S) and it is not an affiliate of the Trustee, the Government of Malaysia or a person acting on behalf of the Trustee, the Government of Malaysia or such an affiliate;
- (2) it is, or at the time the Regulation S Certificates are purchased it will be, the beneficial owner of such Regulation S Certificates;
- (3) the Regulation S 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 and that it will not offer, sell, pledge or otherwise transfer Regulation S Certificates except: (a) after the expiration of the 40-day distribution compliance period following the issue date of the Certificates, to a U.S. person or a person in the United States whom it reasonably believes is both a QIB and a QP (x) in a transaction that meets the requirements of Rule 144A in an amount not less than U.S.\$250,000 or (y) pursuant to any other available exemption from the registration requirements of the Securities Act; or (b) to a non-U.S. person

within the meaning of Regulation S in an offshore transaction in accordance with Rule 903 or Rule 904 of Regulation S, in each case in accordance with any applicable securities laws of any state or other jurisdiction of the United States;

- (4) 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:

“THE CERTIFICATE REPRESENTED HEREBY 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 OR TO A U.S. PERSON EXCEPT PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT.

BY ACCEPTING THIS CERTIFICATE (OR ANY INTEREST IN THE CERTIFICATES REPRESENTED HEREBY) EACH BENEFICIAL OWNER HEREOF, AND EACH FIDUCIARY ACTING ON BEHALF OF THE BENEFICIAL OWNER (BOTH IN ITS INDIVIDUAL AND CORPORATE CAPACITY), WILL BE DEEMED TO REPRESENT, WARRANT AND AGREE THAT, DURING THE PERIOD IT HOLDS ANY INTEREST IN THIS CERTIFICATE: (A) IT IS NOT, AND IT IS NOT ACTING ON BEHALF OF AN “**EMPLOYEE BENEFIT PLAN**” (AS DEFINED IN SECTION 3(3) OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (“**ERISA**”)) SUBJECT TO THE PROVISIONS OF PART 4 OF SUBTITLE B OF TITLE I OF ERISA, A “**PLAN**” AS DEFINED IN AND TO WHICH SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (“**CODE**”) APPLIES, OR ANY ENTITY WHOSE UNDERLYING ASSETS INCLUDE “**PLAN ASSETS**” BY REASON OF SUCH AN EMPLOYEE BENEFIT PLAN’S OR PLAN’S INVESTMENT IN SUCH ENTITY (EACH, A “**BENEFIT PLAN INVESTOR**”), AND NO PART OF THE ASSETS TO BE USED BY IT TO PURCHASE OR HOLD SUCH CERTIFICATES OR ANY INTEREST HEREIN CONSTITUTES THE ASSETS OF ANY BENEFIT PLAN INVESTOR; AND (B) IF IT IS, OR IS ACTING ON BEHALF OF A GOVERNMENTAL, CHURCH OR NON-U.S. PLAN, OR ANY ENTITY WHOSE UNDERLYING ASSETS ARE DEEMED TO INCLUDE THE ASSETS OF ANY SUCH PLAN SUCH ACQUISITION, HOLDING AND DISPOSITION DOES NOT AND WILL NOT CONSTITUTE OR RESULT IN A NON-EXEMPT VIOLATION OF ANY LAWS THAT ARE SUBSTANTIALLY SIMILAR TO SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE AND WILL NOT SUBJECT THE TRUSTEE OR ANY TRANSACTIONS THEREBY TO ANY LAWS, RULES OR REGULATIONS APPLICABLE TO SUCH PLAN AS A RESULT OF THE INVESTMENT IN THE TRUSTEE BY SUCH PLAN. NO PURCHASE BY OR TRANSFER TO A BENEFIT PLAN INVESTOR OF THIS CERTIFICATE, OR ANY INTEREST HEREIN, WILL BE EFFECTIVE, AND NEITHER THE TRUSTEE NOR THE DELEGATE WILL RECOGNIZE ANY SUCH ACQUISITION OR TRANSFER. IN THE EVENT THAT THE TRUSTEE DETERMINES THAT THIS CERTIFICATE IS HELD BY A BENEFIT PLAN INVESTOR, THE TRUSTEE MAY CAUSE A SALE OR TRANSFER IN THE MANNER DESCRIBED IN THE OFFERING MEMORANDUM.

THIS SECURITY HAS NOT BEEN AND WILL NOT BE REGISTERED UNDER THE SECURITIES ACT OR ANY OTHER APPLICABLE U.S. STATE SECURITIES LAWS AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, U.S. PERSONS EXCEPT IN ACCORDANCE WITH THE PAYING AGENCY AGREEMENT AND PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OR PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT.”;

- (5) it understands and acknowledges that the Trustee has not registered and does not intend to register as an “investment company” (as such term is defined in the Investment Company Act and related rules) and that the Trustee have imposed the transfer and offering restrictions with respect to persons in the United States

and U.S. persons described herein so that the Trustee will qualify for the exemption provided under Section 3(c)(7) of the Investment Company Act and will have no obligation to register as an investment company in the United States;

- (6) it understands that the Regulation S Certificates will be evidenced by interests in one or more Regulation S Global Certificates. Before any interest in a Regulation S Global Certificate may be offered, sold, pledged or otherwise transferred to a person who takes delivery in the form of an interest in a Restricted Global Certificate, it will be required to provide a Transfer Agent or the Registrar with a written certification (in the form provided in the Agency Agreement) to the effect that the transferor reasonably believes that the transfer is: (i) to a person that is a QIB and a QP purchasing the beneficial interest for its own account or the account of a QIB who is also a QP; 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 or other jurisdiction of the United States; and
- (7) it acknowledges, represents and agrees that 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, and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of Regulation S Certificates is no longer accurate, it shall promptly notify the Trustee, the Government of Malaysia, the Registrar and the Managers.

#### **ERISA Transfer Restrictions**

Each purchaser or transferee of the Certificates (or any interest in a Certificate) will be deemed to have acknowledged, represented and agreed that (a) it is not and is not acting on behalf of: (i) a Plan, or (ii) a governmental, church or non-U.S. plan or entity whose underlying assets are deemed to include the assets of any such plan, unless, under this subsection (ii), the acquisition, holding and disposition of the Certificate would not result in a violation of any Similar Law or subject the Trustee or any transaction thereby to any such Similar Law and (b) it will not sell or otherwise transfer any Certificates or interest to any person unless the same foregoing representations and warranties apply to that person.

## **LEGAL MATTERS**

Certain legal matters will be passed upon for the Trustee and the Government of Malaysia 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 Allen & Overy, international counsel to the Joint Lead Managers, as to matters of U.S. federal 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 Allen & Overy 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 who is also a QP purchasing the Certificates for its own account or any account of a QIB who is also a QP 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 a transfer 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 periodic payment, in relation to, 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 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 15c6-1 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 is expected to be authorized by a resolution of its board of directors on or about April 9, 2021. The Trustee was established on April 7, 2021 to act as a financing vehicle for the Government of Malaysia.

### Listing

Application will be made to the HKSE for the listing of the Certificates by way of debt issues to Professional Investors only. Applications have been made 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 HKSE will commence on or about April 29, 2021, (ii) the LFX will commence on or about April 30, 2021 and (iii) Bursa Malaysia (Exempt Regime) will commence on or about April 30, 2021.

### 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 US56109BAA52. The ISIN for the Rule 144A Series 2 Certificates is US56109BAB36. The CUSIP for the Rule 144A Series 1 Certificates is 56109B AA5. The CUSIP for the Rule 144A Series 2 Certificates is 56109B AB3. The Common Code for the Rule 144A Series 1 Certificates is 233707171. The Common Code for the Rule 144A Series 2 Certificates is 233707198.

The ISIN for the Regulation S Series 1 Certificates is USY57542AA32. The ISIN for the Regulation S Series 2 Certificates is USY57542AB15. The CUSIP for the Regulation S Series 1 Certificates is Y57542 AA3. The CUSIP for the Regulation S Series 2 Certificates is Y57542 AB1. The Common Code for the Regulation S Series 1 Certificates is 233707180. The Common Code for the Regulation S Series 2 Certificates is 233708011.

The Legal Entity Identifier of the Trustee is 254900MRLMI21YQTK511.

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

The Trustee is required by Malaysian law to prepare audited financial statements. The Trustee is expected to file its audited financial statements relating to the fiscal year ended December 31, 2021 by June 30, 2022.

However, the Trustee may apply to the Malaysian Registrar of Companies to extend the periods referred to in this section, and the Registrar may extend such periods as he considers appropriate, upon being satisfied with the reasons provided. The Trustee will not prepare interim accounts.

## **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**

HSBC Bank USA, National Association  
452 Fifth Avenue, New York, NY 10018, United States of America  
Fax: +1 212 525 1300  
Email: [ctlanydealmanagement@us.hsbc.com](mailto:ctlanydealmanagement@us.hsbc.com)  
Attention: Client Service Delivery

With all correspondence to be copied to:

The Hongkong and Shanghai Banking Corporation Limited  
Level 24, HSBC Main Building  
1 Queen's Road Central  
Hong Kong  
Fax: +852 3478 9198  
Attention: Issuer Services

**The Registrar and the Transfer Agent**

HSBC Bank USA, National Association

452 Fifth Avenue, New York, NY 10018, United States of America Tel: +1 212 525 1300

Fax: ctlanysdealmanagement@us.hsbc.com

Attention: Client Service Delivery

With all correspondence to be copied to:

The Hongkong and Shanghai Banking Corporation Limited

Level 24, HSBC Main Building

1 Queen's Road Central

Hong Kong

Fax: +852 3478 9198

Attention: Issuer Services



# THE GOVERNMENT OF MALAYSIA

## SDG SUKUK FRAMEWORK

April 2021



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## 1. Introduction

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 330,323 square kilometres and Malaysia has a population of approximately 32.7 million, based on the 2020 estimates of the Department of Statistics Malaysia. In 2020, approximately 69.6 per cent of Malaysia's population comprised Malay and Bumiputera, approximately 22.6 per cent were Chinese, approximately 6.8 per cent were Indian, and approximately 1.0 per cent were other ethnic. Malaysia's population growth rate averaged approximately 0.9 per cent per year from 2016 to 2020.

The Malaysian population mostly live in urban centres as the urbanisation rate of the population was estimated to be approximately 76.6 per cent in 2020, corresponding to an estimated average density of more than 98 people per square kilometre of land. Kuala Lumpur, the capital and largest city, had an estimated population of 1.8 million as at 2020. The official language of Malaysia is Bahasa Malaysia, but English is widely spoken.

Malaysia's tropical landscape and seascape with high biodiversity, high carbon stock values, and the abundance of energy and mineral resources are catalysts in propelling the nation to be at the forefront of climate change. As one of the 17 megadiverse countries in the world, it is a paramount responsibility for Malaysia to preserve more than 15,000 species of flora and 150,000 species of fauna found in various ecosystems across the nation. To protect such ecosystems, Malaysia has pledged to maintain at least 50% of its total land mass as forest cover, which to date stands at 58.2%. In addition, 7 areas have been listed as Ramsar Sites while 32 islands have been gazetted as marine parks.

## 2. Malaysia's Commitment to Sustainability<sup>1</sup>

Malaysia is committed to sustainable development as well as combating climate change in the transition towards a more resilient and inclusive economy.

As a champion of sustainability, Malaysia has adopted the 2030 Agenda for Sustainable Development, comprising 17 United Nations (UN) Sustainable Development Goals (SDGs) and 169 targets. Malaysia has also ratified the Paris Agreement in 2016 and submitted its Nationally Determined Contributions (NDCs), which sets out Malaysia's commitment in reducing

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<sup>1</sup> <https://www.epu.gov.my/en/sustainable-development-goals>

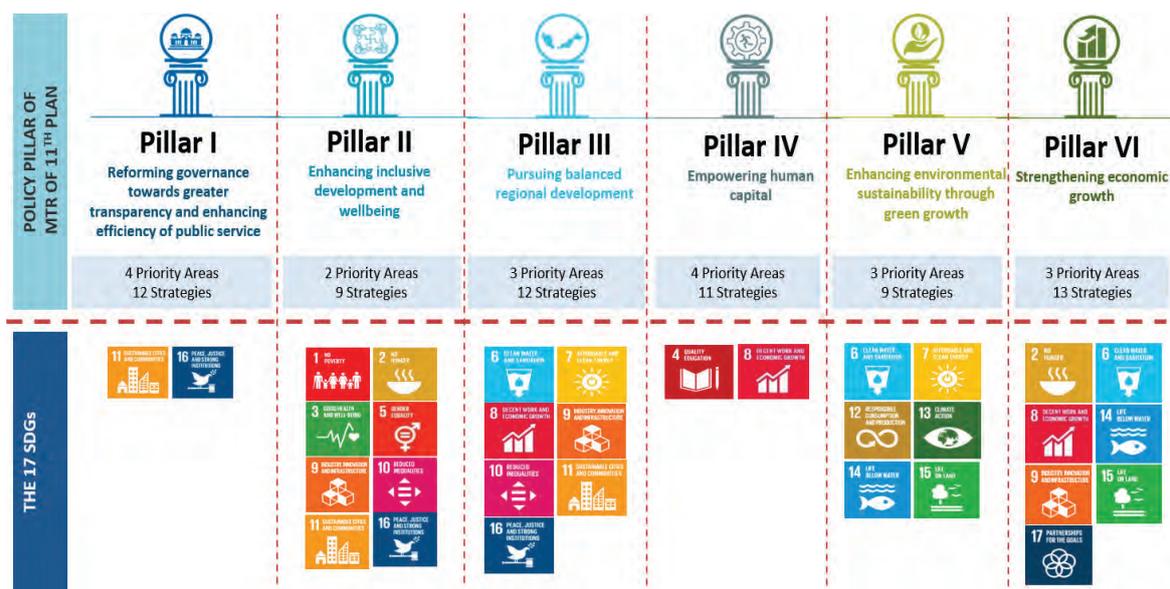


greenhouse gas (GHG) emissions intensity of GDP by 45% by 2030, consisting of 35% on an unconditional basis and up to 45% conditional on the assistance from developed countries.

Malaysia's diversity across various socio-economic dimensions is a compelling factor for the country's commitment towards a holistic and cross-sectional development of all demographics, ensuring inclusive progress is observed across ethnic groups, income classes and religions. "Leaving no one behind" is the cornerstone of our Shared Prosperity Vision 2030 of achieving economic growth through equitability of outcome. Central to this vision is equitable and shared benefits for all, with strategies and interventions aimed at addressing disparities across all aforementioned socio-demographic groups.

Sustainable and inclusive development has been the mainstay of Malaysia's development since the 1970s. Economic growth with equity has always been emphasised by the Government. At the same time, various initiatives have been implemented to eradicate poverty, improve the well-being of the people, provide universal access to education and health and protect the environment. Since Eleventh Malaysia Plan (11MP), 2016-2020, the economic development plan has given greater emphasis to pursue sustainable development agenda based on three main pillars, namely achieving a high-income economy, promoting inclusivity and ensuring sustainability.

The alignment of the SDGs and the Malaysia's sustainability agenda is realised through a mapping exercise which involves the integration of the national development's plan, initiatives and outcomes to the SDGs' goals, targets and indicators. The mapping exercise began with the 11MP, then continued with the Mid-Term Review (MTR) of 11MP (as shown below), 2018-2020, and subsequently with the Twelfth Malaysia Plan (12MP), 2021-2025 and the Thirteenth Malaysia Plan (13MP), 2026-2030. The incorporation of SDGs into Malaysia's national objectives allows for efficient allocation of resources and proper monitoring.

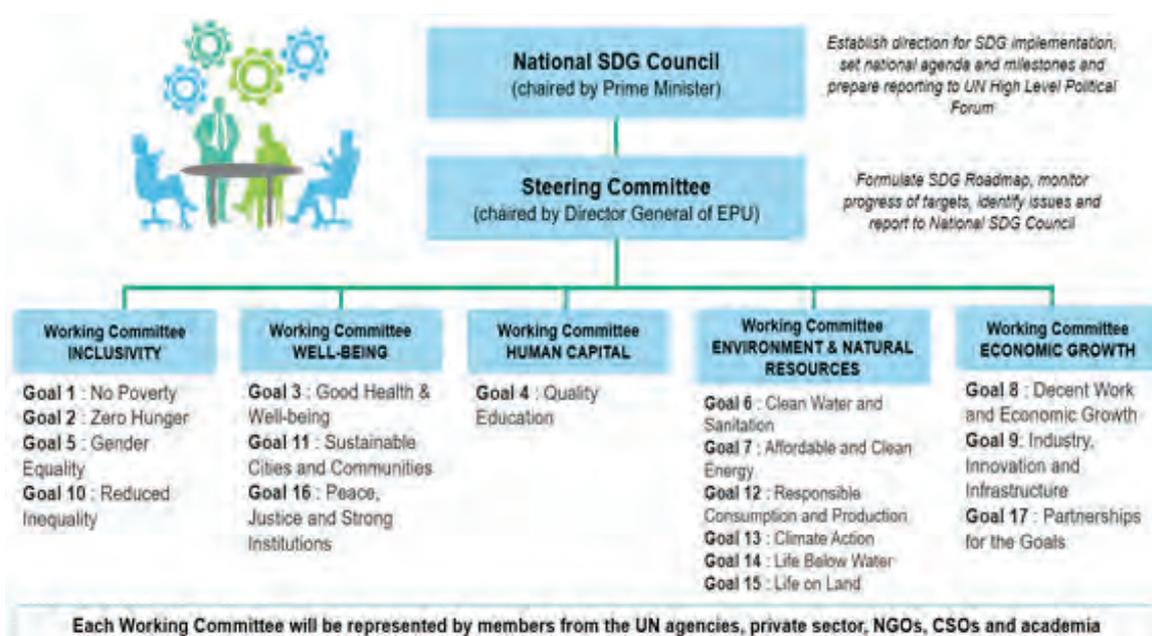


Source: Economic Planning Unit, Prime Minister's Department



Malaysia actively institutionalises SDGs within the nation’s strategic development roadmap, covering economic empowerment, environmental sustainability and social reengineering. In implementing its sustainability agenda, Malaysia is localising SDGs at sub-national levels by replicating the national multi-stakeholder governance structure at state levels; mobilising resources and funding through partnerships with stakeholders including crowd sourcing, social entrepreneurship and Corporate Social Responsibility programmes besides public sector funding; and strengthening data readiness and filling data gaps to develop a comprehensive dataset for SDG implementation.

At the apex of the SDG governance structure, as highlighted in the chart below, is the National SDG Council, chaired by the Prime Minister of Malaysia. The National SDG Council reports to the UN via the High-level Political Forum. Underneath the National SDG Council are the Steering Committee and five SDG Cluster Working Committees (CWCs), which are tasked with identifying indicators for each SDG, as well as with developing and implementing programmes and reporting progress to the Steering Committee. Each CWC is led by a Section Head from the Economic Planning Unit of Malaysia, and includes representatives of Government Ministries/agencies, civil society, the private sector, academics, United Nations agencies and youth representatives.



Source: Economic Planning Unit, Prime Minister’s Department



## Sustainable Finance in Malaysia

As a key emergent country within ASEAN, it is the aspiration of the nation to be a primary leading centre for sustainable finance in the region, given the extensive roadmap and policies laid out above by the Malaysian government. The government recognises the intensive capital needs required to accomplish the goals set out under the Malaysian Plan, hence a number of initiatives have been taken to bridge this financing requirement.

Cognisant of the importance to nurture local expertise in sustainable finance, in 2014 Securities Commission Malaysia published a Sustainable and Responsible Investing (“SRI”) Sukuk Framework after the ICMA Green, Social and Sustainable Bond Principles/ Guidelines. In January 2021, Securities Commission expanded the SRI Sukuk and Bond Grant Scheme to cover all Sukuk and bonds issued under the SRI Framework and ASEAN Green, Social and Sustainability Bond standards. Under an initiative by Bursa Malaysia, 99 of the top 100 companies have published sustainability reports, an encouraging sign of growing understanding amongst local companies on the importance of incorporating ESG into corporate strategy.

To ensure a conducive environment for the growth of green technology projects, the Ministry of Finance launched the Green Technology Financing Scheme (“GTFS”) in 2010. The purpose of GTFS is to offer a 60% government guarantee on the financing amount and a rebate of 2% on the interest/ profit rate charged by financial institutions, in order to accelerate the expansion of green investments. The latest iteration, GTFS 2.0, concluded at the end of 2020 with a total allocation of RM2.0 billion. A similar amount will be earmarked for GTFS 3.0, which is projected to generate RM4.0 billion in green investments and create 2,500 job opportunities.

Bank Negara Malaysia, the central bank of Malaysia, is also piloting a taxonomy for eligible green investments, akin to the EU Taxonomy. This principle-based taxonomy will help facilitate financial institutions in identifying and classifying economic activities that could contribute to climate change objectives, whilst ensuring flexibility for regional specificities including the different needs of developed and emerging markets. The taxonomy is expected to be introduced in late 2021. Separately, the Value-based Intermediation Strategy Paper was published in 2018, with the aim to strengthen the roles and impact of Islamic banking institutions in adopting relevant practices, offerings and conduct that generate positive and sustainable impact to the economy, community and environment.

The initiatives outlined above are a testament of Malaysia’s relentless commitment in building a sound financing system to channel crucial capital towards sustainable development. It is evident that Malaysia is well positioned to be at the forefront in driving structural change of the sustainable financing landscape.



### 3. GoM SDG Sukuk Framework

This SDG Sukuk Framework (the “Framework”) has been developed to demonstrate how the Government of Malaysia (“GoM”) intends to enter into the SDG Sukuk to fund projects that will deliver environmental and social benefits which are in close alignment with SDGs.

SDG Sukuk issued under the Framework will be aligned to:

- Social Bond Principles<sup>2</sup> (“SBP”), Green Bond Principles<sup>3</sup> (“GBP”), and Sustainability Bond Guidelines<sup>4</sup> (“SBG”) of the International Capital Markets Association (“ICMA”) or as they may subsequently be updated; and
- Social Bond Standards<sup>5</sup> (“SBS”), Green Bond Standards<sup>6</sup> (“GBS”) and Sustainability Bond Standards<sup>7</sup> (“SuBS”) of the ASEAN Capital Markets Forum (“ACMF”) or as they may subsequently be updated; or as it may be subsequently updated.

GoM asserts that it will adopt the following core components and may choose to issue SDG Sukuk in thematic format to highlight particular project and policy focus, for example Blue bond, Gender bond, etc.

The four (4) components of the Framework are:

1. Use of Proceeds;
2. Project Evaluation and Selection;
3. Management of Proceeds; and
4. Reporting.

The Framework also covers External Review.

The Framework will be in force as long as there is outstanding SDG Sukuk(s). GoM may update this Framework and commits that any new version will keep or improve the current level of transparency and reporting. GoM commits to communicate changes via the Ministry of Finance Malaysia’s (“MoF”) official website: [www.mof.gov.my](http://www.mof.gov.my).

SDG Sukuk does not place restriction on the tenure and currency, and may be done in any jurisdiction and market. SDG Sukuk can also include other terms and conditions including covenants to reflect the financing strategy and plans of GoM.

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<sup>2</sup> <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2020/Social-Bond-PrinciplesJune-2020-090620.pdf>

<sup>3</sup> <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2018/Green-Bond-Principles---June-2018-140618-WEB.pdf>

<sup>4</sup> <https://www.icmagroup.org/assets/documents/Regulatory/Green-Bonds/June-2018/Sustainability-Bond-Guidelines---June-2018-140618-WEB.pdf>

<sup>5</sup> <https://www.theacmf.org/images/downloads/pdf/ASBS2018.pdf>

<sup>6</sup> <https://www.theacmf.org/images/downloads/pdf/AGBS2018.pdf>

<sup>7</sup> <https://www.theacmf.org/images/downloads/pdf/ASUS2018.pdf>



### 3.1 Use of Proceeds

Under Malaysia’s context, expenditures may take the form of capital investments, subsidies, grants, loans, operating expenditures in relation to provision of public service/public goods as well as financial transfers to local governments / statutory bodies / state-owned entities enabling public services / goods to be provided.

The net proceeds of the SDG Sukuk will be used to finance or refinance, in whole or in part, new or existing development expenditures with Social and/or Green focus (“**Eligible Expenditures**”) governed by External Loans Act 1963 [Act 403] and Development Fund Act 1966 [Act 406].

Based on this Framework, the GoM will issue:

- “**Social Sukuk**”, the proceeds of which will be allocated to Section 3.1.1 (“**Eligible Social Expenditures**”);
- “**Green Sukuk**”, the proceeds of which will be allocated to Section 3.1.2 (“**Eligible Green Expenditures**”); or
- “**Sustainability Sukuk**”, the proceeds of which will be allocated a combination of Section 3.1.1 and Section 3.1.2.

Social Sukuk, Green Sukuk and Sustainability Sukuk are collectively referred as “**SDG Sukuk**”

#### 3.1.1 Eligible Social Expenditure<sup>8</sup>

Eligible Social Project Category	Alignment with SDGs	Eligible Criteria	Example of Projects for GoM
Accessibility to Quality Healthcare		<ul style="list-style-type: none"> <li>• Build and/or upgrade health facilities (hospitals, clinics and other medical facilities)</li> <li>• Enhance support particularly for underserved communities including mobile healthcare and flying doctor services</li> <li>• Establish pandemic-related support programmes and projects to curb the spread of infection, including R&amp;D into vaccines</li> </ul>	<ul style="list-style-type: none"> <li>• Hospitals and clinics (including dental)</li> <li>• Healthcare centres (including fertility and haemodialysis centres)</li> <li>• Medical infrastructure and equipment to ensure essential health care service delivery</li> <li>• Medical research centres</li> </ul>

<sup>8</sup> Eligible Social Projects may be used to support GoM’s COVID-19 response actions

<p><b>Accessibility to Quality Education and Training</b></p>		<ul style="list-style-type: none"> <li>• Build and/or upgrade public schools, universities and other higher-learning institutions as well as Government training institutions</li> <li>• Professional development and training for lecturers and teachers in delivering quality teaching and learning</li> <li>• Upskilling and reskilling training to reduce youths unemployment rate</li> <li>• Financial assistance such as grants and scholarships</li> </ul>	<ul style="list-style-type: none"> <li>• Schools, universities and other higher-learning institutions</li> <li>• Government training centres (INTAN, training centres under Line Ministries)</li> <li>• Professional development and training (e.g. Skim Latihan Akademik IPTA)</li> <li>• Grants and scholarship to eligible candidate in pursuing post-graduate degree (e.g. MyBrain15)</li> </ul>
<p><b>Accessibility to Affordable and Quality Basic Infrastructure</b></p>	  	<ul style="list-style-type: none"> <li>• Build affordable housing especially for vulnerable population<sup>9</sup></li> <li>• Provides access of basic rural water and sanitation as well as electricity</li> <li>• Improve efficiency of the broadband infrastructure especially in rural areas</li> <li>• Build and/or upgrade basic social amenities such as drainage, multipurpose hall, bus stand/stop and etc.</li> </ul>	<ul style="list-style-type: none"> <li>• Affordable and high-quality homes under PR1MA, People's Housing Programme (PPR), Rumah Mesra Rakyat by SPNB, Malaysia Civil Servants Housing Programme (PPAM)<sup>10</sup></li> <li>• Rural Water Supply Programme (BALB)</li> <li>• Water Supply and Environmental Sanitation Unit (BAKAS)</li> <li>• Rural Electricity Supply Programme (BELB)</li> <li>• Social Amenities Programme (PAMS)</li> </ul>

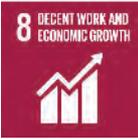
<sup>9</sup> B40 - Monthly household income is less than RM4,850 / There are 3 main subgroups under B40 namely: Hardcore poor – less than food Poverty Line Income (“PLI”), RM1,169 / Absolute poor – less than absolute PLI, RM2,208 / Relative poor – less than RM2,940, half of the national median income

<sup>10</sup> <https://www.pr1ma.my/eligibility-homes.html>

<https://www.kpkt.gov.my/index.php/pages/view/458>

<https://www.rurallink.gov.my/program-perumahan-rakyat-termiskin-pprt/>



<p><b>Employment Generation through Small and Medium Enterprises (SME)</b></p> <p><b>Financing and Microfinance</b></p> <p><b>Socioeconomic Advancement and Empowerment</b></p>		<ul style="list-style-type: none"> <li>• Loans or other financial support for SMEs that face financial stress due to socioeconomic crises stemming from the Emergency Declaration<sup>11</sup> by the national authorities (i.e.: pandemics, flood, haze etc.)</li> <li>• Supports for export competitiveness through providing funding for (i) export-related training programs and (ii) matching grants which would enhance competitiveness of individual SMEs in global markets</li> </ul>	<ul style="list-style-type: none"> <li>• SME loan schemes to support innovation and entrepreneurship across racial diversity, female empowerment, and gig works/self-employed individuals</li> <li>• Soft loans and grants to SMEs and MSMEs to ease access to financing</li> <li>• Micro credit financings</li> </ul>
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The aforementioned project categories/criteria may provide direct or indirect benefit(s) to one or more of the following target population:

- Low-income households
- Rural communities
- Women
- Children
- Youth
- Elderly
- Person with disabilities
- Indigenous people (Orang Asli in Peninsular Malaysia and Bumiputera Sabah & Sarawak)
- Unemployed
- Students under the age of 21
- Poor households living in urban peripheries
- Small and Medium Enterprises (SMEs)

<sup>11</sup> For the purposes of the Sukuk, the declaration of a Emergency Declaration due to wars is excluded as an eligible expenditure



### 3.1.2 Eligible Green Expenditures

Eligible Green Project Category	Alignment with SDGs	Eligible Criteria	Example of Projects for GoM
<b>Clean Transportation</b>		<ul style="list-style-type: none"> <li>• Developing clean public transportation systems (electrified public transportation systems)</li> <li>• Procurement of electric or hydrogen<sup>12</sup>-powered vehicles for public transportation</li> <li>• Research and development, and manufacturing of electric vehicles and associated infrastructure such as charging stations</li> </ul>	<ul style="list-style-type: none"> <li>• Electric rail projects (e.g. Klang Valley Double Tracking (KVDT), Gemas-Johor Bahru Double Track, MRT, LRT, ECRL)</li> <li>• Public buses that operate on hydrogen fuel cells</li> <li>• Electric buses for public transportation</li> </ul>
<b>Sustainable Management of Natural Resources</b>		<ul style="list-style-type: none"> <li>• Habitat and biodiversity conservation through sustainable management of land use &amp; forestry and protection of coastal &amp; marine environments</li> <li>• Sustainable management of agriculture via implementation of sustainable agriculture techniques and sustainable agricultural production</li> </ul>	<ul style="list-style-type: none"> <li>• Forestry research, plantation and restoration programme</li> <li>• Biodiversity conservation, protection and patrol program</li> <li>• Monitoring, control and surveillance for fisheries, mangrove, wetland, forest cover and national park Automated weather stations and systems</li> <li>• Implementation of sustainable agriculture techniques may include               <ul style="list-style-type: none"> <li>○ Remediation and restoration of degraded soil</li> <li>○ Minimum or no use of synthetic fertilizer and pesticide</li> <li>○ Crop rotation</li> <li>○ No-till farming</li> <li>○ Precision farming</li> </ul> </li> </ul>

<sup>12</sup> Projects related to the production of Hydrogen from non-renewable electricity sources are excluded



			<ul style="list-style-type: none"> <li>Sustainable agricultural production may include:             <ul style="list-style-type: none"> <li>Production of organic farming under myOrganic &amp; myGAP</li> </ul> </li> </ul>
<b>Renewable Energy</b>		<ul style="list-style-type: none"> <li>Projects related to the development, manufacturing, installation and operation of renewable energy such as solar (onshore) and mini hydro</li> <li>Solar energy (onshore) projects that integrate energy generation and storage (batteries)</li> </ul>	<ul style="list-style-type: none"> <li>Green Technology Financial Scheme</li> </ul>
<b>Green Buildings</b>	 	<ul style="list-style-type: none"> <li>Construction of new government buildings/ facilities that are expected to receive a recognised green building certification such as the U.S. Leadership in Energy and Environmental Design (LEED) with minimum certification of Gold, or any other equivalent local standards, that is an equivalent standard of the above</li> </ul>	<ul style="list-style-type: none"> <li>Construction of Green government buildings</li> </ul>

Eligible Expenditures may include disbursements to the projects 3 years prior to the issuance or signing date of the respective SDG Sukuk and for the duration of their life.<sup>13</sup>

<sup>13</sup> For avoidance of doubt, such expenditure could be related to projects which were kicked off in or after 2016. If the disbursement to such projects fall within the 3 years look back period, it is deemed as Eligible Expenditure



### 3.1.3 Exclusions

The following industries are excluded from consideration for Eligible Expenditures (“Exclusions”):

- Luxury sectors (precious metals / precious minerals / artworks and antiques wholesale or brokerage);
- Child labor or forced labor;
- Adult entertainment;
- Weapons and military contracting;
- Alcohol;
- Tobacco;
- Fossil-fuel related activities (including extraction, exploration, production, power generation or transport of fossil fuels);
- Nuclear;
- Production or trade in any product or activity deemed illegal under international conventions and agreements, or subject to international bans; and
- Large-scale hydro-power projects with a generating capacity of over 25 megawatt

## 3.2 Project Evaluation and Selection

The Evaluation and Selection Process ensures that the proceeds from any SDG Sukuk are linked to Eligible Expenditures, in accordance with the definitions and alignment with SDGs as set forth in Section 3.1

The Government of Malaysia (GoM), represented by Ministry of Finance (MoF), will take overall responsibility of overseeing the implementation Framework including reviewing and approve projects / budget allocation / subsidies to be included in the Federal Government Budget.



\*14 \*\*15

	Subjects	Agencies*
1	Circulation of Malaysian Plan guidelines circular to line ministries	EPU, Line Ministries
2	Identify viable projects	Line Ministries
3	Application of project via online (SPPII)	Line Ministries
4	Project screening	EPU
5	Analyse and screen Eligible Expenditures based on the below consideration: <ul style="list-style-type: none"> <li>The declaration and labeling (i.e. Green, Social or Sustainability) of the Sukuk</li> <li>The definition and criteria as defined in section 3.1 as well as exclusion criteria</li> <li>The overall environment and socioeconomic consideration of the potential expenditure</li> </ul>	EPU together with MOF (National Budget Office and Fiscal and Economics Division),
6	The SDG Sukuk Technical Committee ("SC")** will meet at least once a year to: <ul style="list-style-type: none"> <li>Review and approve Eligible Expenditures from the pre-screened Eligible Expenditures list prepared by DMO</li> <li>Analyse information, including technical / scientific / social data provided by members of SC in order to ensure clarity and eligibility of Eligible Expenditures</li> <li>Collect impact reporting data</li> <li>Select and determine replacement projects should previous selected projects ceased to be Eligible Expenditure</li> </ul>	SDG Sukuk Technical Committee
7	Submission of finalised Eligible Expenditure to MOF	EPU
8	Budget approval	MOF
9	Distribution of allocations	MOF
10	Implementation of programmes and projects	Line Ministries
11	Monitoring the project's progress	ICU and EPU
12	Outcome and Impact Assessment	ICU
13	Application for changes can be made to EPU at any time via online (SPPII)	Line Ministries, EPU and ICU

<sup>14</sup> Source: EPU, Prime Minister's Department. EPU = Economic Planning Unit, ICU = Implementation Coordination Unit, PSD = Public Service Department

<sup>15</sup> SDG Sukuk Technical Committee ("SC") is made up of senior representatives from: MoF, EPU, Prime Minister Department, Central Bank of Malaysia, Securities Commission and relevant Line Ministries, subject to type of programmes or projects



### 3.3 Management of Proceeds

The proceeds of each SDG Sukuk issued will be managed in accordance with the Development Funds Act 1966 [Act 406] and can be used both for the financing and/or refinancing of Eligible Expenditures. Pending application, SDG Sukuk proceeds will be held in GoM's Consolidated Loan Account in accordance with the External Loans Act 1963 [Act 403] and subsequently transferred to the Development Fund for development programmes and projects, or for refinancing upcoming maturities with an equivalent amount which will be allocated to eligible projects.

MoF will maintain an SDG Sukuk register ("register") to manage the proceeds allocation of each SDG Sukuk, and make sure that the proceeds are used in accordance with this Framework. The register will contain, for each SDG Sukuk issued, information including:

- a) Details of each SDG Sukuk: ISIN, pricing date, maturity date, etc.
- b) List of Eligible Expenditures, with information including:
  - Summary of projects details;
  - Amount of proceeds allocated to each eligible project;
  - Expected environmental and/or social impacts of Eligible Expenditures;
  - Aggregate amount of proceeds of SDG Sukuk allocated to Eligible Expenditures;
  - Remaining balance of unallocated proceeds;
  - Other necessary information.

The respective ministries utilising the proceeds shall track and monitor and report to MoF, the environmental and social benefits of the Eligible Expenditures in their portfolio which are funded by SDG Sukuk proceeds.

In case of asset divestment or where projects cease to be eligible, MoF will mark the proceeds as "unallocated" until the proceeds are used to finance or refinance other Eligible Expenditures. Temporary allocation for unallocated proceeds will be held as cash & cash equivalents and for refinancing of existing bond maturities.

MoF commits to finish allocation within the current financial year of SDG Sukuk issuance.



### 3.4 Reporting

MoF will prepare an SDG Sukuk Report (the “**Report**”) annually for each SDG Sukuk issued, initially on the date falling no more than one year after the SDG Sukuk’s issuance until maturity of the SDG Sukuks. The Report will include the following information:

#### 3.4.1 Allocation Reporting

Any SDG Sukuk Report will contain at least:

- a) Details of each SDG Sukuk: ISIN, pricing date, maturity date, etc.
- b) List of Eligible Expenditures, with information including:
  - Summary of projects details;
  - Amount of proceeds allocated to each eligible project;
  - Expected environmental and/or social impacts of Eligible Expenditures;
  - Aggregate amount of proceeds of SDG Sukuk allocated to Eligible Expenditures;
  - Remaining balance of unallocated proceeds;
  - Other necessary information.

#### 3.4.2 Impact Reporting

Where possible, MoF, will report on the environmental and social impacts associated with the Eligible Expenditures funded with the net proceeds of the SDG Sukuk.

Subject to the nature of Eligible Expenditures and availability of information, MoF aims to include, but not limited to, the following Impact Indicators:

Eligible Project Category	Indicative Impact Indicators
<b>Accessibility to Quality Healthcare</b>	<ul style="list-style-type: none"> <li>• Number of patients reached</li> <li>• Number of hospitals, clinics and health care centres built</li> <li>• Number of women/target population supported</li> <li>• Infant mortality rate</li> <li>• Information availability on the e-health platform</li> <li>• Number of confirmed cases of Covid-19</li> </ul>
<b>Accessibility to Quality Education and Training</b>	<ul style="list-style-type: none"> <li>• Number of students reached</li> <li>• Number of schools built</li> <li>• Number of women/target population supported</li> </ul>
<b>Accessibility to Affordable and Quality Basic Infrastructure</b>	<ul style="list-style-type: none"> <li>• Number of beneficiaries</li> <li>• Share of people with access to water / electricity</li> <li>• Share of people with sanitation facilities</li> </ul>



<b>Employment Generation</b>	<ul style="list-style-type: none"><li>• Number of SMEs supported or funded</li></ul>
<b>Financing and Microfinance</b>	<ul style="list-style-type: none"><li>• Number of employees of SMEs supported or funded</li><li>• Number of jobs generated</li></ul>
<b>Socioeconomic Advancement and Empowerment</b>	<ul style="list-style-type: none"><li>• Number of women/youth//target population supported</li><li>• Number of beneficiaries reached</li><li>• Number of equal paying jobs created for women</li><li>• Number of women work in technology industry</li></ul>
<b>Clean Transportation</b>	<ul style="list-style-type: none"><li>• Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent</li><li>• Air pollutants reduction (PMO / NOx / SOx, in %)</li><li>• Number of passengers, or passenger-km</li></ul>
<b>Sustainable Management of Natural Resources</b>	<ul style="list-style-type: none"><li>• Area conserved or protected in m2</li><li>• Number and nature of projects that support climate change adaptation / resilience</li><li>• Number of wildlife species conserved</li><li>• Average fatality rate of livestock reduced</li></ul>
<b>Renewable Energy</b>	<ul style="list-style-type: none"><li>• Renewable energy produced in MWh</li><li>• Renewable energy capacity in MW</li><li>• Share of renewable energies in final gross energy consumption (%)</li><li>• Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent</li><li>• Annual energy savings in MWh</li></ul>
<b>Green Buildings</b>	<ul style="list-style-type: none"><li>• Green building certification achieved (system &amp; level)</li><li>• Annual GHG emissions reduced/avoided in tonnes of CO2 equivalent</li><li>• Annual energy savings in MWh</li><li>• Water consumption reduction in litres</li><li>• Amount of waste reduced and/or diverted from landfills in tonnes p.a.</li></ul>

The Report will be published on MoF's website: [www.mof.gov.my](http://www.mof.gov.my)



## 4. External Review

### 4.1 Pre-issuance external review

GoM adheres to the highest standard of external reviews as recommended by ICMA, ACMF and market expectation. GoM will engage Sustainalytics, a leading international external reviewer to issue an independent Second Party Opinion (SPO) on the Framework.

The SPO will be made available on MOF website: [www.mof.gov.my](http://www.mof.gov.my)

### 4.2 Post-issuance external review

GoM will engage an independent third party to provide assurance on its SDG Sukuk Report(s).

The External review(s) and report(s) will be published on the MoF website: [www.mof.gov.my](http://www.mof.gov.my)



## Appendix 1: Malaysian Policies and Plans Corresponding to the SDGs

GOAL	POLICIES AND PLANS	
 <p><b>1 NO POVERTY</b></p>	<p>Goal 1: End poverty in all its forms everywhere</p>	<ul style="list-style-type: none"> <li>• 11MP Strategic Thrusts 1 and 3 and Game Changer “Uplifting B40 towards a middle class society”</li> </ul>
 <p><b>2 ZERO HUNGER</b></p>	<p>Goal 2: End hunger, achieve food security and improved nutrition, and promote sustainable agriculture</p>	<ul style="list-style-type: none"> <li>• 11MP Strategic Thrusts 1, 2 and 6</li> <li>• National Plan of Action for Nutrition of Malaysia III 2016–2025 (NPANM III)</li> <li>• National Agrofood Policy (NAP)</li> </ul>
 <p><b>3 GOOD HEALTH AND WELL-BEING</b></p>	<p>Goal 3: Ensure healthy lives and promote well-being for all at all ages</p>	<p>11MP Strategic Thrust 2</p> <ul style="list-style-type: none"> <li>• National Strategic Plan for Non-Communicable Diseases 2010–2014</li> <li>• National Strategic Plan for Tobacco Control 2015–2020</li> <li>• National Strategic Plan for Communicable Diseases</li> <li>• National Strategic Plan Ending AIDS in Malaysia (NSPEA) 2016–2030</li> <li>• The National Plan of Action for Nutrition of Malaysia III 2016–2025 (NPANM III)</li> <li>• National Reproductive Health Education and Social Education (PEKERTI) Policy and Action Plan</li> <li>• Health Human Resource Master Plan</li> </ul>
 <p><b>4 QUALITY EDUCATION</b></p>	<p>Goal 4: Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all</p>	<ul style="list-style-type: none"> <li>• 11MP Strategic Thrust 3</li> <li>• Malaysian Education Blueprint 2013–2025 (MEB)</li> <li>• Malaysia Education Blueprint (Higher Education) 2015–2025</li> <li>• National Higher Education Strategic Plan</li> <li>• Blueprint on Enculturation of Lifelong Learning for Malaysia 2011–2020</li> </ul>
 <p><b>5 GENDER EQUALITY</b></p>	<p>Goal 5: Achieve gender equality and empower all women and girls</p>	<ul style="list-style-type: none"> <li>• 11MP Strategic Thrusts 1 and 3 and Game Changer “Uplifting B40 towards a middle class society”</li> <li>• National Policy on Women 1989</li> <li>• Plan of Action for the Advancement of Women 2010–2015</li> </ul>
 <p><b>6 CLEAN WATER AND SANITATION</b></p>	<p>Goal 6: Ensure availability and sustainable management of water and sanitation for all</p>	<ul style="list-style-type: none"> <li>• 11MP Strategic Thrusts 1, 4 and 5</li> <li>• National Water Resource Policy (NWRP)</li> </ul>
 <p><b>7 AFFORDABLE AND CLEAN ENERGY</b></p>	<p>Goal 7: Ensure access to affordable, reliable, sustainable, and modern energy for all</p>	<ul style="list-style-type: none"> <li>• 11MP Strategic Thrusts 4 and 5</li> <li>• National Renewable Energy Policy and Action Plan 2009</li> <li>• National Green Technology Policy 2009</li> <li>• National Energy Efficiency Action Plan 2015</li> </ul>



GOAL	POLICIES AND PLANS
<b>8</b> DECENT WORK AND ECONOMIC GROWTH 	<p>Goal 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all</p> <ul style="list-style-type: none"><li>• 11MP Strategic Thrusts 3, 4 and 6 and Game Changers “Embarking on Green Growth” and “Unlocking the potential of productivity”</li><li>• Occupational Safety and Health Master Plan 2016–2020</li><li>• SME Master Plan 2012–2020</li><li>• Malaysia Productivity Blueprint</li></ul>
<b>9</b> INDUSTRY, INNOVATION AND INFRASTRUCTURE 	<p>Goal 9: Build resilient infrastructure, promote inclusive and sustainable industrialization, and foster innovation</p> <ul style="list-style-type: none"><li>• 11MP Strategic Thrusts 3, 4, 5 and 6 and Game Changers “Translating innovation to wealth” and “Embarking on Green Growth”</li><li>• National Policy on Science, Technology and Innovation (NPSTI) 2013–2020</li><li>• Strategic Information and Communications Technology (ICT) Roadmap</li><li>• National eCommerce Strategic Roadmap</li></ul>
<b>10</b> REDUCED INEQUALITIES 	<p>Goal 10: Reduce inequality within and among states</p> <ul style="list-style-type: none"><li>• 11MP Strategic Thrust 1</li><li>• National Policy on Children and its Plan of Action</li><li>• National Child Protection Policy and its Plan of Action</li><li>• National Action Plan for Persons with Disabilities 2016–2020</li><li>• Minimum Wage Policy</li></ul>
<b>11</b> SUSTAINABLE CITIES AND COMMUNITIES 	<p>Goal 11: Make cities and human settlements inclusive, safe, resilient and sustainable</p> <ul style="list-style-type: none"><li>• 11MP Strategic Thrusts 1, 2, 4 and 5 and Game Changer “Investing in competitive cities”</li><li>• National Physical Plan 3 (NPP3)</li><li>• National Urbanisation Policy 2 (NUP2)</li><li>• Competitive Cities Master Plans</li><li>• National Environmental Health Action Plan</li><li>• National Housing Policy (DRN) 2013–2017 and DNR 2.0 2018–2022</li><li>• Road Safety Plan of Malaysia 2014–2020</li><li>• National Solid Waste Management Policy</li></ul>
<b>12</b> RESPONSIBLE CONSUMPTION AND PRODUCTION 	<p>Goal 12: Ensure sustainable consumption and production patterns</p> <ul style="list-style-type: none"><li>• 11MP Strategic Thrusts 4 and 6 and Game Changer “Embarking on Green Growth”</li><li>• National Ecotourism Plan 2016–2025</li><li>• National Policy for Biological Diversity 2016–2025</li><li>• National Environmental Health Action Plan (NEHAP)</li><li>• National Solid Waste Management Policy 2006</li><li>• Solid Waste and Public Cleansing Management Corporation Strategic Plan 2014–2020</li><li>• Department of National Solid Waste Management Strategic Plan 2016–2020</li><li>• Construction Industry Transformation Programme (CITP) 2016–2020</li></ul>

GOAL	POLICIES AND PLANS
<p><b>13</b> CLIMATE ACTION</p>  <p>Goal 13: Take urgent action to combat climate change and its impact</p>	<ul style="list-style-type: none"> <li>• 11MP Strategic Thrusts 2, 4 and 5</li> <li>• National Policy on Climate Change 2009</li> <li>• National Urbanisation Policy 2006–2020</li> <li>• National Physical Plan 3</li> <li>• National Green Technology Policy 2009</li> </ul>
<p><b>14</b> LIFE BELOW WATER</p>  <p>Goal 14: Conserve and sustainably use the oceans, seas, and marine resources for sustainable development</p>	<ul style="list-style-type: none"> <li>• 11MP Strategic Thrust 4 and Game Changer “Embarking on Green Growth”</li> <li>• National Plan of Action for the Coral Triangle Initiative (NPOA-CTI) 2009</li> <li>• National Policy for Biological Diversity 2016–2025</li> <li>• National Oil Spill Contingency Plan (NOSCP)</li> <li>• National Coastal Zone Physical Plan</li> <li>• National Ocean Policy 2011–2020</li> <li>• National Plan of Action to Prevent, Deter and Eliminate IUU Fishing</li> <li>• National Plan of Action for Management of Fishing Capacity in Malaysia 2014–2018</li> </ul>
<p><b>15</b> LIFE ON LAND</p>  <p>Goal 15: Protect, restore and promote sustainable use of territorial ecosystems, sustainably manage forests, combat desertification, halt and reverse land degradation and halt biodiversity loss</p>	<ul style="list-style-type: none"> <li>• 11MP Strategic Thrust 4 and Game Changer “Embarking on Green Growth”</li> <li>• National Policy for Biological Diversity 2016–2025</li> <li>• National Tiger Conservation Action Plans 2008–2020</li> <li>• Elephant Conservation Action Plans 2013–2022</li> <li>• National Forestry Policy 1992</li> <li>• National Action Plan on Peatlands 2011</li> </ul>
<p><b>16</b> PEACE, JUSTICE AND STRONG INSTITUTIONS</p>  <p>Goal 16: Promote peaceful and inclusive societies for sustainable development</p>	<ul style="list-style-type: none"> <li>• 11MP Strategic Thrusts 1 and 2 and Chapter 9 on “Transforming public service for productivity”</li> <li>• National Policy on Children and its Plan of Action</li> <li>• National Child Protection Policy and its Plan of Action</li> <li>• ASEAN Regional Plan of Action on the Elimination of Violence Against Women and Children</li> <li>• Plan of Action on Child Online Protection (PTCOP)</li> </ul>
<p><b>17</b> PARTNERSHIPS FOR THE GOALS</p>  <p>Goal 17: Strengthen the means of implementation and revitalize the global partnership for sustainable development</p>	<ul style="list-style-type: none"> <li>• 11MP Strategic Thrust 6</li> <li>• Malaysia’s foreign policies and trade policies</li> <li>• AEC Blueprint 2025</li> <li>• ASEAN Strategic Action Plan for SME Development 2016–2025</li> </ul>



## Appendix 2: Guideline Circular for GOM's Project Management Cycle

1. Guideline for Planning and Preparation of Development Programmes and Projects (<https://www.epu.gov.my/en/resources/guidelines-and-procedures/guideline-planning-and-preparation-development-programmes-and>);
2. Standards and Cost Committee (<https://www.epu.gov.my/en/resources/guidelines-and-procedures/standards-and-cost-committee>)
3. Implementation Guidelines For The Value Management In The Government Programmes/Projects (<https://www.epu.gov.my/en/resources/guidelines-and-procedures/implementation-guidelines-value-management-government>)
4. Guidelines on Public Private Partnership (PPP) (General)
5. Environmental Quality Act 1974 (Section 34A);
6. PB1.3 – Garis Panduan bagi Penyediaan Cadangan Anggaran Perbelanjaan Persekutuan Tahunan (<https://ppp.treasury.gov.my/>)
7. Pelaksanaan Industrialised Building System (IBS) dalam Projek Kerajaan (1PP: PK1);
8. Perolehan Perkhidmatan Perunding (1PP: PK3.1);
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