

**SPEECH BY  
YAB DATO' SERI ABDULLAH BIN HAJI AHMAD BADAWI  
AT THE 25TH MERCHANT BANKS ANNUAL DINNER  
AT MARIOTT HOTEL, PUTRAJAYA  
5 DECEMBER 2004**

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ASSALAMUALAIKUM WARAHMATULLAHI WABARAKATUH AND GOOD EVENING

Y. BHG. TAN SRI DATO' AZMAN HASHIM  
CHAIRMAN, ASSOCIATION OF MERCHANT BANKS IN MALAYSIA

Y. BHG. TAN SRI MOHAMED BASIR AHMAD  
CHAIRMAN, ASEAMBANKERS MALAYSIA BERHAD

DISTINGUISHED GUESTS

LADIES AND GENTLEMEN

1. LET ME BEGIN BY FIRST EXTENDING A WORD OF APPRECIATION TO THE ASSOCIATION OF MERCHANT BANKS IN MALAYSIA FOR INVITING ME TO SAY A FEW WORDS AT THIS DINNER TONIGHT. SINCE THIS EVENT MARKS THE CONCLUSION OF THE 2004 INTER-MERCHANT BANKS GAMES, LET ME ALSO EXTEND MY CONGRATULATIONS TO ALL THE MERCHANT BANKS FOR HAVING PARTICIPATED SUCCESSFULLY IN THIS YEAR'S GAMES. I BELIEVE THE GAMES HAVE FURTHER STRENGTHENED THE SPIRIT OF SPORTSMANSHIP AND GOODWILL AMONG MEMBERS IN THE MERCHANT BANKING FRATERNITY.

LADIES AND GENTLEMEN

2. ALHAMDULILLAH, OUR ECONOMY CONTINUES TO CHART STRONG GROWTH THIS YEAR. FOR THE FIRST HALF OF 2004, REAL GROSS DOMESTIC PRODUCT (G.D.P.) GREW BY 7.8%, WHICH IS THE HIGHEST LEVEL SINCE THE FIRST HALF OF 2000. DURING THIS PERIOD, THE UNDERLYING FUNDAMENTALS OF THE MALAYSIAN ECONOMY HAVE REMAINED FIRM. THE STRONGER GROWTH HAS BEEN ACCOMPANIED BY MILD INFLATION AND A STRENGTHENING BALANCE OF PAYMENTS POSITION.

3. IT IS EQUALLY ENCOURAGING TO NOTE THAT ECONOMIC GROWTH IS EXPECTED TO REMAIN ROBUST FOR THE SECOND HALF OF 2004. THIS IS DESPITE CHALLENGING GLOBAL ECONOMIC CONDITIONS ARISING FROM HIGH OIL PRICES AS WELL AS ESCALATING INTEREST RATES IN KEY MARKETS SUCH AS THE U.S. AND CHINA. NOT WITHSTANDING SEVERE EXTERNAL SHOCKS, THE MALAYSIAN ECONOMY IS PROJECTED TO GROW IN EXCESS OF 6.0% DURING THE SECOND HALF WITH THE PRIVATE SECTOR ONCE AGAIN TAKING THE LEAD. IN SHORT, I FIRMLY BELIEVE THAT OUR ECONOMY IS ON TRACK TO ACHIEVE ITS GROWTH

TARGET OF 7% FOR THIS YEAR, WHICH IS A MARKED IMPROVEMENT OVER THE 5.3% GROWTH ACHIEVED LAST YEAR.

LADIES AND GENTLEMEN

4. THE GOVERNMENT HAS COMMITTED ITSELF IN FURTHER STRENGTHENING AND DEVELOPING THE DOMESTIC CAPITAL MARKET. WE HAVE LEARNED FROM THE BITTER EXPERIENCE DURING THE REGIONAL FINANCIAL CRISIS. IN SOME CASES, THERE WERE CURRENCY MISMATCHES – AS SOME HAD BORROWED IN US DOLLARS WHEN THEIR REVENUES WERE RECEIVED IN RINGGIT. WHEN THE RINGGIT SUBSEQUENTLY DEPRECIATED AGAINST THE DOLLAR DUE TO THE ACTIVITIES OF SPECULATORS, THESE BORROWERS WERE LEFT WITH LARGE FOREIGN EXCHANGE LOSSES.

5. SOME SUFFERED FINANCING MATURITY MISMATCHES – TAKING OUT SHORT TERM LOANS FOR PROJECTS THAT ONLY GENERATED REVENUE IN THE LONGER RUN. THESE WERE HARD LESSONS, BUT WE HAVE SURVIVED THEM AND LEARNED FROM THEM. FOR EXAMPLE, WE ARE COMMITTED TO HAVING A WELL-DEVELOPED BOND MARKET, GIVEN IT IS AN IMPORTANT STEP IN MINIMIZING VULNERABILITIES TO FUTURE FINANCIAL CRISES. IT ALSO PROVIDES A SUSTAINABLE FORM OF LONG TERM FINANCING. THUS, WE HAVE WITNESSED THE SIGNIFICANT DEVELOPMENT OF RINGGIT DENOMINATED BONDS ACROSS A RANGE OF TENURES, CREDIT RATINGS, ISSUERS AND PRODUCTS.

6. VARIOUS INITIATIVES HAVE ALSO BEEN TAKEN TO FURTHER BROADEN AND DEEPEN THE LOCAL BOND MARKET WITH THE INTRODUCTION OF NEW PRODUCTS SUCH AS ISLAMIC BONDS AND ASSET BACKED SECURITIES. FOR INSTANCE, ISLAMIC PRIVATE DEBT SECURITIES HAVE GAINED POPULARITY AS A VIABLE FINANCING OPTION FOR LONG-TERM BORROWERS, ESPECIALLY IN INFRASTRUCTURE FINANCING. THIS IS BECAUSE THESE DEBT SECURITIES APPEAL TO A WIDER INVESTOR BASE, INCLUDING MANY NON-ISLAMIC INVESTORS, WHICH IN TURN RESULTS IN MORE COMPETITIVE PRICING FOR ISSUERS. INDEED, I AM HAPPY TO NOTE THAT ISLAMIC PAPERS CURRENTLY ACCOUNT FOR MORE THAN 50 PERCENT OF TOTAL BONDS ISSUANCE.

7. IN ADDITION, ASSET SECURITISATION HAS ALSO PROGRESSIVELY GAINED CREDENCE AND CONTRIBUTES TO THE BROADENING OF THE DOMESTIC DEBT MARKET. THUS FAR, THERE ARE FOURTEEN ABS DEALS OUTSTANDING IN THE MARKET VALUED AT SOME RM8.3 BILLION.

8. NOTWITHSTANDING OUR PLANS, MANY CHALLENGES STILL NEED TO BE ADDRESSED BEFORE THE COUNTRY'S CAPITAL MARKET MAY BE CONSIDERED TO BE FULLY DEVELOPED. TO NAME ONE EXAMPLE, THE RELATIVELY SMALL DOMESTIC BOND MARKET HAS AN ADVERSE IMPACT ON LIQUIDITY, WHICH MAY HAMPER THE ACTIVE PARTICIPATION OF ISSUERS AND INVESTORS. THERE IS A NEED TO ADD GREATER DEPTH TO THE MARKET BY ENCOURAGING A WIDE VARIETY OF CORPORATIONS TO PARTICIPATE AS ISSUERS. THERE IS A NEED TO FACILITATE

THE CREATION OF INVESTMENT PRODUCTS THAT MEET THE NEEDS OF ALL INVESTORS, INCLUDING INSTITUTIONAL, INDIVIDUAL AND FOREIGN. I BELIEVE THERE STILL EXISTS TREMENDOUS POTENTIAL FOR GROWTH WITHIN OTHER SEGMENTS OF THE MALAYSIAN FINANCIAL MARKET SUCH AS SMALL MEDIUM ENTERPRISE FINANCING, AUTO LOANS, CREDIT CARD SERVICES AND HOUSING LOAN PORTFOLIOS. NEVERTHELESS, IT IS OUR LONG TERM GOAL AND COMMITMENT TO DEVELOP A DEEP AND DIVERSE BOND MARKET.

LADIES AND GENTLEMEN

9. WHILE EXPANDING PROFITABILITY AND RETURNS IS AN INTEGRAL PART OF THE BANKING INDUSTRY, WE MUST NOT IGNORE THE NEED TO IMPLEMENT ADEQUATE PROVISIONS FOR INFORMATION DISCLOSURE, TRANSPARENCY AND ACCOUNTABILITY AS WELL AS PROPER ACCOUNTING STANDARDS, WHICH ARE REQUIRED BY INTERNATIONAL BEST PRACTICES. GOING FORWARD, I WOULD LIKE TO URGE BANKERS TO SUPPORT THE DEVELOPMENT OF RISK MANAGEMENT SYSTEMS FOR THOSE TYPES OF RISK THAT ARE MOST RELEVANT FOR THEIR PARTICULAR INSTITUTIONS. IT IS IMPORTANT TO NOTE THAT CONSISTENTLY APPLIED ACCOUNTING, AUDITING AND DISCLOSURE METHODS HAVE BEEN THE HEART OF EFFICIENT MARKET SYSTEMS WORLDWIDE.

10. THOUGH THE QUALITY OF MOST BANKS' ACCOUNTING AND CONTROL SYSTEMS IS STRONG, BANKERS WOULD DO WELL TO HEED LESSONS FROM SEVERAL WELL-KNOWN EXAMPLES THAT HAVE OCCURRED IN OTHER MARKETS AROUND THE WORLD. BREAKDOWNS IN THE ACCOUNTING AND AUDIT PROCESSES CAN CAUSE SEVERE DAMAGE TO THE CONFIDENCE OF INVESTORS. NEGATIVE PERCEPTIONS ARE FORMED IN AN INSTANT, BUT ARE ONLY DISPELLED AFTER AN ETERNITY. I THEREFORE BELIEVE THAT AS A PREVENTIVE MEASURE, IT IS NECESSARY TO CONTINUE STRENGTHENING CORPORATE GOVERNANCE TO AVERT SUCH INCIDENTS FROM HAPPENING ON OUR SHORES.

LADIES AND GENTLEMEN

11. BEFORE I END, LET ME MAKE A BRIEF OBSERVATION ON THE INDUSTRY. TO DATE, WE HAVE SUCCESSFULLY ESTABLISHED TEN CORE DOMESTIC BANKING GROUPS, AND I AM PLEASED TO NOTE THAT ALL THE TEN MERCHANT BANKS ARE EITHER FULLY OR MAJORITY OWNED BY MALAYSIANS. IT IS MY HOPE THAT THE DOMESTIC MERCHANT BANKING INDUSTRY WILL CONTINUE TO GROW FROM STRENGTH TO STRENGTH, WHICH WILL ENABLE IT TO COMPLEMENT THE COMMERCIAL BANKING SYSTEM IN FINANCING PRIVATE SECTOR UNDERTAKINGS.

12. IN THE NEAR FUTURE, THE ABILITY OF MERCHANT BANKS TO PROVIDE MORE EFFICIENT AND INTEGRATED SERVICES AS INVESTMENT BANKS IS A STEP IN THE RIGHT DIRECTION TO FURTHER BROADEN AND DEEPEN THE DOMESTIC CAPITAL MARKET. THIS IS INDEED A STEP IN THE RIGHT DIRECTION FOR THE MALAYSIAN MARKET IN THE FACE OF COMPETITION FROM LIBERALISATION AND

GLOBALISATION. AND MAKE NO MISTAKE – WE WILL HAVE TO CONFRONT COMPETITION, WHETHER WE LIKE IT OR NOT.

13. I AM CONFIDENT THAT MALAYSIA CAN PRODUCE OUTSTANDING DOMESTIC INVESTMENT BANKS THAT ARE ABLE TO MEET THESE CHALLENGES. ULTIMATELY, MALAYSIAN MERCHANT BANKS MUST AIM TO ESTABLISH AND POSITION THEMSELVES AS REGIONAL MARKET PLAYERS, AND BEYOND THAT, AS GLOBAL MARKET PLAYERS. I BELIEVE THAT THIS IS A GOAL THAT IS BOTH ACHIEVABLE AND DESIRABLE. ACHIEVABLE, BECAUSE WE HAVE A DEEP POOL OF TALENTED AND TECHNICALLY PROFICIENT PROFESSIONALS IN THE FINANCIAL SERVICES SECTOR. IT IS DESIRABLE BECAUSE I FORESEE CLOSER ECONOMIC INTEGRATION AMONG THE MEMBERS OF THE ASEAN REGION AND THE ECONOMIES OF EAST ASIA. ACCORDINGLY, OUR FINANCIAL INSTITUTIONS MUST NOT DELAY IN ITS EFFORTS TO BUILD CAPACITY. THERE IS A SMALL WINDOW OF OPPORTUNITY AND WE MUST BE READY TO SEIZE IT. BEING ON THE RIGHT TRACK IS NOT ENOUGH – IF WE DO NOT MOVE FAST ENOUGH, WE WILL STILL GET RUN OVER BY THE LOCOMOTIVE.

14. THE ACCOMPLISHMENTS THAT WE HOPE TO ACHIEVE WILL ONLY MATERIALIZE IF BOTH THE PRIVATE AND PUBLIC SECTORS WORK CLOSELY AND IN HARMONY FOR THE BETTERMENT OF OUR ECONOMY AND COUNTRY. A STRONG ECONOMY AND STABLE COUNTRY WOULD CERTAINLY BENEFIT THE BANKING SECTOR NOT ONLY IN TERMS OF IMPROVED PROFITABILITY BUT INCREASED RESILIENCE TO WITHSTAND FUTURE RISKS AND SHOCKS. AS A FINAL NOTE, LET ME WISH YOU ALL THE HIGHEST LEVEL OF SUCCESS IN YOUR FUTURE BUSINESS ENDEAVOURS.

THANK YOU.