Development Financial Institutions

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OVERVIEW

The year 2005 marked a significant milestone in efforts to further strengthen the development financial institutions (DFIs) which are regulated under the Development Financial Institutions Act (DFIA) 2002. The rationalisation exercise involving four DFIs, was completed during the year, and resulted in the establishment of the Bank Perusahaan Kecil & Sederhana Malaysia Berhad (SME Bank) and the merger of the Export-Import Bank of Malaysia Berhad and Malaysia Export Credit Insurance Berhad (MECIB). Meanwhile, Bank Pembangunan dan Infrastruktur Malaysia Berhad was restructured and renamed Bank Pembangunan Malaysia Berhad to reflect its new focus. The rationalisation exercise was an important initiative to realign the activities of the DFIs towards enhancing their strategic and business focus. In addition, progress was also achieved in efforts to strengthen the capacity and capability of the DFIs, as well as to enhance the prudential framework aimed at strengthening the operations of the DFIs. All these initiatives have contributed to the improved performance of the DFIs in carrying out their mandated roles.

During the year, the DFIs continued to record strong financing activities to the identified priority and strategic sectors. Loans outstanding of these DFIs as a group increased by 25.8%, supported by higher deposits (7.3%). Improvements were also recorded in the non-performing loan ratio and profitability indicators. Moving forward, the performance of the DFIs is expected to improve further, as they expand the range of products and enhance the quality and delivery of products and services, coupled with improvements in human resource, processes and systems in the DFIs.

Policy efforts in 2005 for the DFI sector focused on strengthening the DFIs' capacity and capability, as well as enhancing the prudential framework to further strengthen the operations of the DFIs.

POLICIES AND DEVELOPMENTS

Policy efforts in 2005 for the DFI sector focused on two broad areas, namely, strengthening the DFIs' capacity and capability, as well as enhancing the prudential framework to further strengthen the operations of the DFIs. These were complemented by continuous surveillance and supervision of the DFIs to ensure that they remain focused on their mandated roles and that their activities are carried out in a prudent, effective and efficient manner.

Strengthening Capacity and Capability of DFIs

- ***Realignment of roles and functions***
  The rationalisation of Bank Pembangunan dan Infrastruktur Malaysia Berhad, Bank Industri & Teknologi Malaysia Berhad (Bank Industri), Export-Import Bank of Malaysia Berhad and MECIB was completed in the fourth quarter of 2005. The rationalisation, which involved changes to the institutional structure and functions of these DFIs, was aimed at enhancing their strategic focus in the respective mandated roles so that these DFIs could efficiently and effectively meet the financial and non-financial needs of the targeted sectors.

  The restructuring of Bank Pembangunan dan Infrastruktur Malaysia Berhad and Bank Industri resulted in the establishment of SME Bank, which assumed the entity of Bank Industri, while Bank Pembangunan dan Infrastruktur Malaysia Berhad was renamed Bank Pembangunan Malaysia Berhad (Bank Pembangunan) to reflect its new focus. The exercise involved the transfer of small and medium enterprise (SME) loans of Bank Pembangunan dan Infrastruktur Malaysia Berhad to the SME Bank, while the maritime and technology-related loans of the former Bank Industri were transferred to Bank Pembangunan. Under this new institutional arrangement, the SME Bank becomes a wholly-owned subsidiary of Bank Pembangunan, with a paid-up capital of RM1 billion. Both Bank Pembangunan and the SME Bank commenced operation on 3 October 2005.

  In addition to promoting the development of the infrastructure projects, Bank Pembangunan is also entrusted to promote the development of the maritime sector, as well as the capital-intensive and high technology industries. In financing these sectors, Bank Pembangunan not only provides direct financing, but also arranges for syndicated loans and offer credit enhancement facilities such as bank guarantees and standby revolving credit to facilitate greater access to financing for the targeted sectors.

The SME Bank is a development bank dedicated towards nurturing and promoting the development of SMEs. The SME Bank complements the banking sector in providing financing to the SMEs, especially to those that lack track record and collateral, as well as start-ups. In addition to the normal financial products such as working capital financing and term loans, the SME Bank would be developing new innovative products to meet the requirements of start-ups and SMEs in new growth areas, including those in professional services, export-oriented activities and franchise businesses. Another important focus of the SME Bank is to provide a broad range of advisory services and business development support to SMEs, including financial management, business diagnosis and marketing support. To support the expansion of business activities of the Bank Pembangunan Group, including the SME Bank, a total of RM7 billion would be raised from the capital market.

The other part of the rationalisation exercise involved the merger of the Export-Import Bank of Malaysia Berhad (EXIM Bank) and MECIB. The merged entity, EXIM Bank, is placed directly under the ownership of the Ministry of Finance. The merger led to a creation of a larger entity with bigger financial resources to focus on promoting exports of Malaysian goods and services, as well as in providing overseas projects financing to Malaysian companies venturing abroad. In addition, it promotes greater synergy and economies of scale, while reducing potential duplication of resources, skills and expertise. The placement of the EXIM Bank directly under the Ministry of Finance would enable the bank to capitalise on its near sovereign status in gaining better credit rating recognition, and higher acceptance from the foreign counter parties on guarantees and insurance coverage issued by the bank. This would provide EXIM Bank with more alternative and competitive sources of funding to support its business operations, thus allowing it to better serve its customers and exporters with competitively priced products and services.

In addition to providing an array of financing products, guarantee facilities and insurance products to promote Malaysia's external trade, EXIM Bank will further strengthen its financial support for Malaysian companies to undertake overseas projects. To facilitate this, as announced in the Budget 2006, Bank Negara Malaysia is establishing a RM1 billion fund at EXIM Bank to assist Malaysian companies which have secured or are bidding for contracts to have greater access to financing to undertake their projects abroad. In addition, as part of the Government's efforts to enhance SMEs' access to financing, the EXIM Bank launched two new products, namely, the Multi-Currency Trade Finance and Indirect Exporter Financing Scheme, in January 2006. With these products, SMEs can obtain greater access to financing at attractive costs with no collateral requirement to finance their export activities to the non-traditional markets, especially to the member countries of the Organisation of Islamic Conference.

- ***Strengthening of Bank Pertanian Malaysia***
  Efforts have been initiated to strengthen the role of Bank Pertanian Malaysia (Bank Pertanian) in enhancing access to financing for the agriculture sector and agro-based industries. Towards this end, the financial capacity and institutional structure of Bank Pertanian will be strengthened, while its scope of activities will be widened to include a broader range of financial and non-financial products and services. This initiative is envisaged to increase the effectiveness of Bank Pertanian in meeting the needs of the entire value chain of agriculture activities, while continuing to facilitate the achievement of the socio-economic development objectives of the Government.

- ***Enhancing Advisory Capabilities of DFIs for SMEs***
  The project to enhance the capabilities of DFIs in providing consultancy and advisory services to the SMEs, which involved the Japan International Cooperation Agency, Bank Negara Malaysia and selected DFIs, was completed in November 2005. Following this, a customised action plan was formulated for the SME Bank, Bank Pertanian and EXIM Bank, which identifies the types of advisory services to be provided by each of these DFIs, as well as outline the strategies to improve their operational infrastructure and develop human resource capability to better provide advisory services. Among the consultancy and advisory services identified include customer counselling, basic problem identification and management diagnosis for SMEs, as well as the provision of business matching services for the SMEs. The action plans also include strategies for the DFIs to establish collaborative and strategic alliance with the relevant Government SME agencies to leverage on the expertise and facilities of these agencies, particularly in the provision of technical support. The collaboration and network established between the DFIs and the Government SME agencies would facilitate the SMEs to have better access to advisory services in a more structured and well-coordinated manner.

Enhancing Prudential Framework for DFIs

- ***Guidelines on the Governance of Shariah Committee***
  Bank Negara Malaysia issued the Guidelines on the Governance of Shariah Committee to the DFIs under the purview of DFIA on 31 May 2005, to rationalise and streamline the functions, as well as duties of the Shariah Committees of the DFIs. The guidelines set out the rules, regulations and procedures of establishing a Shariah Committee, define the role and responsibilities of the Committee, as well as ensure that the Committee is competent and effective in performing its duties and responsibilities. Among the duties of the Committee are to advise the Board of Directors of the DFIs on Shariah matters involved in their business operations, as well as other related responsibilities similar to the Shariah Committees in other Islamic financial institutions. The guidelines also define the relationship and working arrangement between the Shariah Committee of the DFIs and the Shariah Advisory Council of Bank Negara Malaysia. The Shariah Committees of DFIs must comprise a minimum of three members, and prior approval of Bank Negara Malaysia needs to be obtained for the appointment and reappointment of a Shariah Committee member.

- ***Circular on Takaful Protection for Islamic Financing***
  This circular, which was issued on 27 May 2005, requires DFIs to provide Takaful protection for their Islamic financing products. This is in line with the Bank's efforts to strengthen the Islamic banking operations and to streamline practices adopted by other financial institutions in the industry. The DFIs which provide Islamic financing are required to offer Takaful plans to their customers in offering protection for Islamic financing that needs coverage. Conventional insurance coverage would only be allowed as an alternative in the event that a Takaful plan is not available in the market, or is rejected by customers. In such incidents, the conventional insurance coverage should be offered separately and not as part of the Islamic financing package.

- ***Issuance of Guidelines and Circulars to Bank Pertanian Malaysia***
  Following the placement of Bank Pertanian under the purview of Bank Negara Malaysia, a number of existing prudential measures issued to the regulated DFIs were also extended for implementation by Bank Pertanian. This is to strengthen its financial and operational soundness, as well as to ensure that it performs the mandate to promote the development of the agriculture sector in an effective and efficient manner.

Monitoring and Supervision of DFIs

In ensuring that the operations of DFIs are carried out in a prudent, effective and efficient manner to meet their mandated roles, supervisory activities by the Bank in 2005 were focused on enhancing the standard of corporate governance, risk management and operational efficiency of the DFIs.

- ***Strengthening Corporate Governance***
  In strengthening corporate governance, the quality and proactiveness of the board's oversight as well as effectiveness of leadership of the DFIs, in terms of providing strategic direction and contribution towards the overall management of the DFIs were assessed. In this context, the roles and functions performed by the board of directors towards enhancing the DFIs' capacity, capabilities and competitiveness were rigorously evaluated.

  In the course of on-site examinations, interviews with members of the board were conducted to better assess the level of participation and contribution of the directors in managing the institutions. The interviews also provided an avenue for supervisors to discuss supervisory concerns and measures, whilst keeping abreast with issues confronting the DFIs. These interactions have translated into more active participation among the board and senior management of the DFIs in driving the performance of the institutions, including managing the stakeholders' expectations, as well as improving their oversight function. The board and senior management were also encouraged to identify and develop clear key performance indicators to gauge the efficiency and effectiveness of the DFIs in performing their mandated roles. These indicators are to enable the DFIs to evaluate their performance and hence, continually strive to better meet the increasing demand and challenges of the targeted sectors.

- ***Enhancing Risk Management and Operational Efficiency***
  Supervisory activities were also directed at ensuring that the risk management practices of DFIs commensurate with the magnitude and complexity of the risks assumed. In this regard, emphasis was placed on assessing the effectiveness of asset management and internal control, as well as the adequacy of infrastructure and management information systems to support their business

operations. During the year, the quality of customer services was also assessed to ensure that the DFIs are able to effectively meet the needs of their identified strategic sectors. It was noted that the DFIs have made improvements in areas such as enhancement of policies and operational procedures; putting in place adequate human resource capabilities; establishing clear lines of responsibilities and management structures, as well as strengthening of the internal audit function. In addition, loan delivery systems and delivery channels had also improved.

PERFORMANCE OF DEVELOPMENT FINANCIAL INSTITUTIONS

The performance of the DFIs remained favourable, with higher growth in deposits and strong increase in the financing activities to support the strategic sectors of the economy. Among the strategic sectors which received financing from the DFIs were the infrastructure, manufacturing, agriculture, maritime and export sectors, as well as capital-intensive and high technology industries, and Bumiputera entrepreneurs.

Financing activities of the DFIs continued to support the strategic sectors of the economy.

Financing Activities

Total loans outstanding of the 13 DFIs expanded by 25.8% to RM47.5 billion as at end-2005 (end-2004: RM37.7 billion) to account for 47.4% of total assets of the DFIs as at end-2005. The strong increase was driven largely by the growth in financing for consumption credit extended by Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat) and loans extended by Bank Pembangunan for infrastructure projects. Lending for consumption credit rose strongly by 42.2% to account for 29.6% of the total loans outstanding of the DFIs. Loans extended to the construction, utilities, and transport and communication sectors as a group increased by 31.1%, representing 27.8% of total loans. Favourable growth was also recorded in financing to the manufacturing and agriculture sectors, with total loans extended to these two sectors as a group accounting for 16.5% of DFIs' total loans outstanding. Meanwhile, the extension of guarantee and credit insurance facilities rose by 12.4% to RM4.8 billion as at end-2005 (end-2004: RM4.3 billion), due largely to higher guarantees provided by the Credit Guarantee Corporation Malaysia Berhad (CGC).

Table 7.1
Development Financial Institutions[1]: Sources and Uses of Funds

	Annual Change		As at end-2005
	2004	2005	
	RM million		
Sources:			
Shareholders' funds	1,119.7	2,072.6	12,616.4
Paid-up capital	*670.0*	*701.1*	*8,563.4*
Reserves	*451.7*	*396.8*	*2,448.1*
Retained earnings	-2.0	974.7	1,604.9
Deposits accepted	7,474.7	3,658.6	53,536.6
Borrowings	2,154.1	2,250.7	20,981.6
Government	*1,319.9*	*1,821.3*	*14,871.4*
Multilateral / International agencies	*885.7*	*602.5*	*4,646.7*
Others	*-51.5*	*-173.1*	*1,463.5*
Others	1,611.0	712.6	13,009.8
Total	**12,359.5**	**8,694.5**	**100,144.4**
Uses:			
Deposits placed	2,663.3	-4,796.9	14,111.1
Investments	4,327.5	4,174.3	29,731.3
of which:			
Government securities	*-321.5*	*2,148.5*	*4,777.8*
Shares	*1,477.9*	*1,535.2*	*9,791.2*
Quoted	*1,168.2*	*1,564.6*	*7,933.7*
Unquoted	*309.7*	*-29.4*	*1,857.5*
Loans and advances	5,392.3	9,731.3	47,478.4
Fixed assets	350.2	169.2	4,226.9
Others	-373.8	-583.4	4,596.7
Total	**12,359.5**	**8,694.5**	**100,144.4**
Contingencies:			
Guarantee	287.4	455.1	4,404.1
Export credit insurance	185.3	71.8	380.4
Total	**472.7**	**526.9**	**4,784.5**

[1] Refers to Bank Pembangunan Malaysia Berhad, Bank Perusahaan Kecil & Sederhana Malaysia Berhad (SME Bank), Bank Kerjasama Rakyat Malaysia Berhad, Bank Simpanan Nasional, Export-Import Bank of Malaysia Berhad, Bank Pertanian Malaysia, Malaysian Industrial Development Finance Berhad, Credit Guarantee Corporation Malaysia Berhad, Lembaga Tabung Haji, Sabah Development Bank Berhad, Sabah Credit Corporation, Borneo Development Corporation (Sabah) Sendirian Berhad and Borneo Development Corporation (Sarawak) Sendirian Berhad.
Prior to 1 October 2005, data include Bank Industri & Teknologi Malaysia Berhad and Malaysia Export Credit Insurance Berhad and exclude SME Bank.

The six DFIs under the purview of Bank Negara Malaysia recorded strong growth in loans outstanding of RM9.9 billion or 29.6% to RM43.4 billion as at end-2005 (end-2004: RM33.5 billion). The increase in financing emanated primarily from retail financing provided by Bank Rakyat which grew by 36% and financing of the infrastructure projects by Bank Pembangunan (+34.1%). Similarly, lending activities of Bank Simpanan Nasional (BSN) and EXIM Bank also recorded strong growth of 30.9% and 25.6% respectively. However,

Table 7.2
Development Financial Institutions[1]: Direction of Lending

	Annual Change		As at end-2005
	2004	2005	
	RM million		
Agriculture, forestry and fishery	387.4	96.2	3,357.6
Mining and quarrying	-8.4	-10.2	56.6
Manufacturing	174.2	332.4	4,458.6
Electricity, gas and water supply	611.8	1,024.1	2,253.0
Import and export, wholesale and retail trade, restaurants and hotels	448.4	-55.5	643.3
Broad property sector	1,708.1	1,578.2	11,662.9
Construction	*177.2*	*933.9*	*5,120.5*
Purchase of residential property	*1,150.2*	*1,397.0*	*5,475.1*
Purchase of non-residential property	*22.8*	*-34.3*	*429.6*
Real estate	*357.9*	*-718.4*	*637.7*
Transport, storage and communication	*231.5*	*1,179.3*	*5,844.5*
Finance, insurance and business services	-710.5	-173.5	810.7
Consumption credit	1,830.0	4,172.5	14,069.0
Others	719.8	1,587.8	4,322.2
Total	**5,392.3**	**9,731.3**	**47,478.4**

[1] Refers to Bank Pembangunan Malaysia Berhad, Bank Perusahaan Kecil & Sederhana Malaysia Berhad (SME Bank), Bank Kerjasama Rakyat Malaysia Berhad, Bank Simpanan Nasional, Export-Import Bank of Malaysia Berhad, Bank Pertanian Malaysia, Malaysian Industrial Development Finance Berhad, Credit Guarantee Corporation Malaysia Berhad, Lembaga Tabung Haji, Sabah Development Bank Berhad, Sabah Credit Corporation, Borneo Development Corporation (Sabah) Sendirian Berhad and Borneo Development Corporation (Sarawak) Sendirian Berhad.
Prior to 1 October 2005, data include Bank Industri & Teknologi Malaysia Berhad and exclude SME Bank.

Bank Pertanian registered a moderate loan growth of 2.8%, while the SME Bank, which began operation in October 2005, approved RM333.8 million to 202 SMEs between October and December 2005. The underwriting activities of EXIM Bank, including credit insurance and guarantee facilities from the former MECIB, increased by 18.1% (2004: 25.2%). Higher financing activities by the DFIs were reflected in high approvals and disbursements. Total loans approved by the six DFIs amounted to RM16.1 billion (2004: RM19 billion) while total loans disbursed were significantly higher at RM17.8 billion, compared with RM10.9 billion in 2004.

Total gross NPLs of the 13 DFIs as a group declined by RM49.3 million to RM5.2 billion as at end-2005. As a result of the larger loan base, the gross NPL ratio improved to 11.4% as at end-2005 (end-2004: 14.7%). For the six DFIs under the purview of Bank Negara Malaysia, the gross and net NPL ratios improved to 10.3% and 4.4% respectively (end-2004: 13.2% and 5.5% respectively).

Table 7.3
Development Financial Institutions[1]: Non-performing Loans and Loan Loss Provisions

	As at end-	
	2004	2005
	RM million	
General provisions	735.7	948.6
Interest-in-suspense	1,362.1	1,367.8
Specific provisions	2,095.0	2,085.8
Non-performing loans	5,229.6	5,180.3
	Percent (%)	
Gross NPL ratio[2]	14.7	11.4
Net NPL ratio[3]	5.5	4.1
Total provisions/NPL	80.2	85.0

[1] Refers to Bank Pembangunan Malaysia Berhad, Bank Perusahaan Kecil & Sederhana Malaysia Berhad (SME Bank), Bank Kerjasama Rakyat Malaysia Berhad, Bank Simpanan Nasional, Export-Import Bank of Malaysia Berhad, Bank Pertanian Malaysia, Malaysian Industrial Development Finance Berhad, Sabah Development Bank Berhad and Sabah Credit Corporation.
Prior to 1 October 2005, data include Bank Industri & Teknologi Malaysia Berhad and exclude SME Bank.
[2] Gross NPL ratio = (NPL / Gross loans*) X 100%.
[3] Net NPL ratio = (NPL less IIS less SP) / (Gross loans* less IIS less SP) X 100%.
* Excluding loans provided by Credit Guarantee Corporation Malaysia Berhad, Lembaga Tabung Haji, Borneo Development Corporation (Sabah) Sendirian Berhad, Borneo Development Corporation (Sarawak) Sendirian Berhad and loans under ECR scheme.

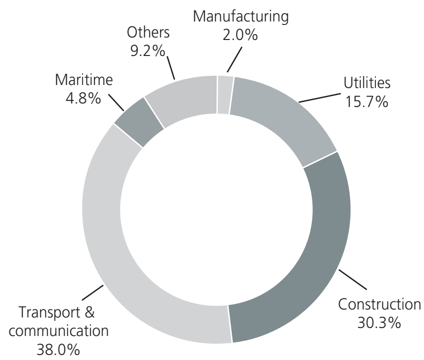
Sources of Funding

Total deposits mobilised by the deposit-taking DFIs increased by 7.3% to RM53.5 billion as at end-2005 (end-2004: RM49.9 billion), to account for 53.5% of the total resources of the DFIs. During the year, savings by individuals increased by 4.1% to RM25.5 billion (end-2004: RM24.5 billion), accounting for 47.6% of total deposits mobilised. Deposits from individuals were mainly mobilised by Lembaga Tabung Haji and BSN. Meanwhile, deposits mobilised from private business enterprises and the Government (including its related agencies), grew strongly by 16.9%, increasing their share to 46.7% of total deposits of the DFIs. In addition to deposits, other sources of funds were shareholders' funds which increased by RM2.1 billion as well as higher borrowings, mainly from the Government (RM1.8 billion).

Bank Pembangunan Malaysia Berhad

In 2005, financing activities of Bank Pembangunan continued to remain strong, especially lending for the infrastructure projects. Formerly known as Bank Pembangunan dan Infrastruktur Malaysia Berhad, the bank evolved following a rationalisation exercise involving a number of DFIs in September 2005. The rationalisation resulted in a structural change in the bank's loan portfolio. In addition to providing financing for infrastructure projects, the bank was entrusted with

Graph 7.1
Bank Pembangunan Malaysia Berhad: Direction of Lending as at 31 December 2005



additional roles of providing medium- to long-term financing to the maritime sector, as well as capital-intensive and high technology-based industries in the manufacturing and other selected sectors. The loan portfolios in maritime and high technology industries of the former Bank Industri were absorbed by Bank Pembangunan. Effective 1 October 2005, the bank's SME loan portfolio was transferred to its newly formed subsidiary, SME Bank.

The bank's total loans outstanding increased strongly by 22.7% to RM14.2 billion as at end-2005 (end-2004: RM11.6 billion), led by the strong growth of 34.1% (2004: 15.3%) or RM3.4 billion in lending to the infrastructure sector. Both Government-identified and private sector projects increased markedly by 29.2% and 47.1% respectively, with the former accounting for 70% of the total loans outstanding for the infrastructure sector. The bulk of the increase in infrastructure loans was channelled to the utilities sector (RM1 billion), transport and communication sector (RM908 million) and construction sector (RM802 million). Loans for infrastructure projects amounting to RM4.7 billion were disbursed (2004: RM1.9 billion). However, total loans approved to the sector declined to RM1.9 billion, compared with RM7.4 billion in 2004.

The bank's lending to its new targeted sectors, namely the high technology and maritime sectors totaled RM868.3 million as at end-2005. Financing to the maritime sector, which comprised shipbuilding, shipyard and marine-related industries, constituted 78.6% of the total loans outstanding to the two sectors. During the period between October to December 2005, the bank approved a total of RM31.9 million loans to the two sectors while total loans disbursed amounted to RM107.4 million.

Bank Pembangunan's gross NPLs declined to RM433.4 million as at end-2005, due mainly to the transfer of the SME loan portfolio to the SME Bank. As a result, the gross NPL ratio improved from 7.9% to 3%, while the net NPL ratio improved to 0.8% (2004: 2.7%).

Following the rationalisation exercise, Bank Pembangunan's total investments increased to RM2.6 billion, accounting for 13.7% of total assets. During the year, the investment portfolio grew markedly by 95.9% (RM1.3 billion) attributed primarily to the acquisition of shares in a subsidiary of the former Bank Industri and investment holdings in the SME Bank. Meanwhile, total deposits placed with financial institutions declined by RM2.1 billion due mainly to the utilisation of funds for loan disbursements as well as a transfer of funds to the SME Bank.

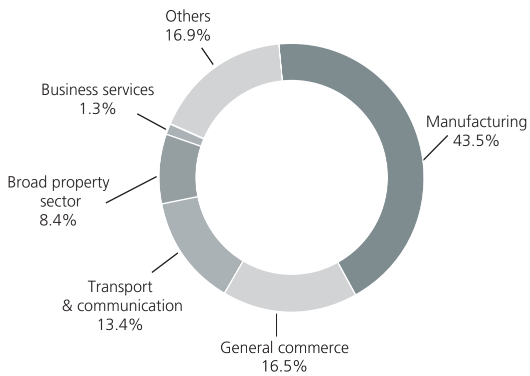
The major source of funding for Bank Pembangunan was borrowings from the Government and multilateral international agencies, which amounted to RM8.8 billion as at end-2005, forming the largest component (57.2%) of its total liabilities. During the year, total borrowings rose by 11% (RM875.9 million) reflecting additional funds received from Government agencies. However, this was partially offset by the transfer of borrowings to the SME Bank. In 2005, total shareholders' funds grew markedly by RM869.2 million to RM3.8 billion as at end-2005 (end-2004: RM2.9 billion), contributed mainly by the share swap with SME Bank (RM328.7 million) as well as capital injection by the Government (RM200 million).

Bank Perusahaan Kecil & Sederhana Malaysia Berhad

SME Bank started operations on 3 October 2005, following the rationalisation of Bank Pembangunan dan Infrastruktur Malaysia Berhad and Bank Industri. The bank is a subsidiary of Bank Pembangunan and has 15 branches to serve the entrepreneurial community in the country.

Reflecting the Government's commitment to support SMEs, the SME Bank commenced operations with a paid-up capital of RM1 billion. The loan portfolio of SME Bank comprised of all SME loans transferred from Bank Pembangunan and the former Bank Industri. As at end-2005, total assets of the SME Bank amounted to RM4.9 billion, of which 43.5% were loans and 22% were deposit placements.

Graph 7.2
Bank Perusahaan Kecil & Sederhana Malaysia Berhad: Direction of Lending as at 31 December 2005



During the initial three months of its operations, the bank approved a total of 202 loan accounts amounting to RM333.8 million, of which RM311.2 million (or 93.2% of total loans approved) was extended to Bumiputera SMEs (193 loan accounts). Loan approvals were mainly granted to SMEs in the manufacturing, construction and business services sectors. Meanwhile, RM319.7 million of loans were disbursed to 563 loan accounts over the same period, mainly to SMEs in the manufacturing, general commerce, and transport and communication sectors. In December 2005, the bank launched a new product called SME professional, whereby financing is given to professionals involved in the services industry such as health care, accounting, consultancy and architecture.

The bank's total loans outstanding declined by RM43.8 million to RM2.1 billion as at end-2005, due to loans write-off amounting to RM147.7 million. Excluding the write-off, loans outstanding increased by RM191.5 million, channeled mainly to the manufacturing, general commerce, and transport and communications as well as construction sectors. As at end-2005, loans to the manufacturing sector accounted for 43.5% of total loans outstanding. Meanwhile, loans outstanding to Bumiputera SMEs declined by RM6 million to RM1.7 billion as at end-December 2005, representing 79.4% of total loans.

As at end-2005, SME Bank managed 23 Government funds with loans outstanding amounting to RM1.1 billion or 50.3% of total loans outstanding. During the three month period, loan approvals and disbursements under the funds amounted to RM827.4 million and RM1.4 billion respectively, mainly through the New Entrepreneurs Fund 2 and Fund for Small and Medium Industries 2.

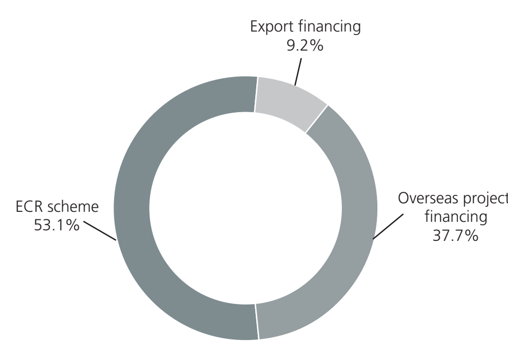
Export-Import Bank of Malaysia Berhad

In tandem with the continued expansion of Malaysia's external trade sector, financing activities of the EXIM Bank were higher in 2005. The bank's total loans outstanding expanded strongly by 25.6% to RM2.8 billion as at end-2005 (2004: 15.3%), reflecting mainly increased in loans under the Government-funded Export Credit Refinancing (ECR) scheme.

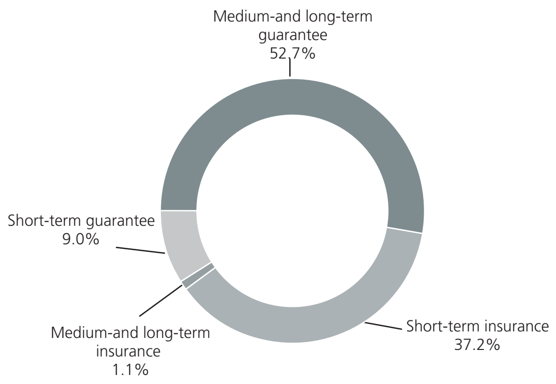
Loans outstanding under the ECR scheme, which was extended mainly to the palm oil, rubber and chemical industries, expanded markedly by 27.7% (2004: 4.7%) to RM1.5 billion as at end-2005. The strong demand for financing under the scheme was due largely to the continuous nationwide promotion by ECR participating banks and EXIM Bank, as well as anticipation of higher interest rates in the market. Concomitantly, loans disbursed under the scheme increased by 7.7% (2004: 2.3%).

Loans outstanding under the export financing and overseas project financing also expanded strongly during the year, by 38.1% and 20.3% respectively. Consistent with the bank's role to facilitate the diversification of Malaysia's export markets, about 58.7% of total overseas project financing and 38% of export financing were channelled to non-traditional markets. Nearly one-half of the total overseas project financing were channelled to projects in South-East Asia, followed by Africa (22.4%) and East Asia (12.7%).

Graph 7.3
Export-Import Bank of Malaysia Berhad: Credit Facilities as at 31 December 2005



Graph 7.4
Export-Import Bank of Malaysia Berhad: Contingent Liabilities as at 31 December 2005



The gross NPL amount, excluding loans provided under the ECR scheme, increased to RM361.6 million in 2005 (2004: RM306.8 million). However, due to larger loan base, the gross NPL ratio improved to 27.2% compared with 28.5% as at end-2004. Overseas project financing accounted for 97.1% of the NPLs.

Following a rationalisation exercise, effective 1 October 2005, EXIM Bank merged with MECIB with the merged entity retaining EXIM Bank's name and all operations of MECIB was absorbed by EXIM Bank. Total exposure of the bank arising from its guarantee and export credit insurance business recorded an increase of 18.1% during the year (2004: 25.2%) to RM993.9 million as at end-2005. Export credit insurance facilities expanded by 23.3% or RM71.8 million during the year to RM380.5 million, while guarantee business increased by 15% or RM80.2 million to RM613.5 million. Medium- and long-term coverage continued to account for the major portion of the total exposure with 53.8% (RM534.5 million) and the balance 46.2% (RM459.4 million) constituted of short-term coverage.

Reflecting the bank's efforts to promote the diversification of Malaysia's export markets, 45.5% of the total exposure were to countries categorised as non-traditional markets. In terms of distribution by region, East Asia was the largest region accounting for 25.7% of total exposure, followed by South-East Asia (22.8%), North America (12.7%), Western Europe (10.8%) and Middle-East (10.5%).

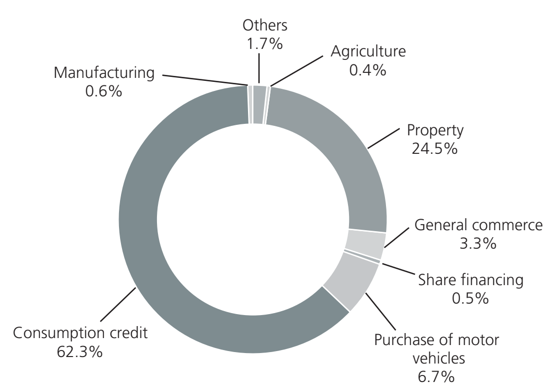
Following the merger, EXIM Bank's shareholders' funds increased to RM481.4 million due largely to the increase in paid-up capital of the merged entity to RM380.5 million. During the year, the bank's outstanding borrowing from the Government which was utilised solely for the ECR scheme, remained unchanged while borrowings from international agencies increased by RM191 million to RM691 million as at end-2005. Deposit placements which accounted for 25.1% of the bank's total assets, however, declined by 19.9% or RM254.7 million during the year to RM1 billion as at end-2005 (end-2004: RM1.3 billion).

Bank Kerjasama Rakyat Malaysia Berhad

The total assets of Bank Rakyat increased by 13.2% to RM25.3 billion as at end-2005 (end-2004: RM22.3 billion), contributed mainly by strong growth in financing. The share of total financing outstanding to total assets increased to 66.6% as at end-2005, from 55.4% as at end-2004. The growth in financing was partially offset by the reduction in both deposit placements and investment in securities. Deposits placed with the financial institutions declined by RM1.2 billion to RM2.8 billion, while holdings in investment securities declined by RM348 million to RM5 billion as at end-2005. As a result, the proportion of these asset components to total assets declined to 31% as at end-2005 from 42% the year before.

Total financing outstanding increased strongly by 36% to RM16.8 billion as at end-2005 (end-2004: RM12.4 billion) with the increase attributed mainly to the strong increase in consumption credit, especially for personal loans, which grew by 36.3% to RM10.5 billion. In addition, financing for the purchase of houses and vehicles was also strong, increasing by 40.7% and 70.7% to RM3.7 billion and RM1.1 billion respectively. Of the total financing outstanding, 62.3% was extended for

Graph 7.5
Bank Kerjasama Rakyat Malaysia Berhad: Direction of Financing as at 31 December 2005



consumption credit, followed by the property sector (24.6%), and purchase of vehicles (6.7%). While Bank Rakyat's lending to its members increased by RM2 billion to RM11.7 billion at the end of the year, its proportion to total financing outstanding declined from 78.2% to 69.3%, following higher lending to non-members which increased markedly by RM2.5 billion (2004: RM0.4 billion) to RM5.2 billion. The bank's strong financing activities in 2005 were reflected in higher financing approvals and disbursements, which amounted to RM8.2 billion and RM9.2 billion respectively. Mainly as the result of its enlarged loan base, the gross non-performing financing (NPF) ratio improved to 6.8% from 8.8%, while the net NPF ratio improved to 2.9% from 4.2%.

Deposits mobilised by Bank Rakyat increased by 14.2% or RM2.4 billion to RM19.5 billion as at-end 2005, due mainly to the relatively attractive returns offered by the bank. The increase in deposits reflected higher placements by business enterprises, which increased by RM1.2 billion to RM12.7 billion, to account for 65% of total deposits as at end-2005. Deposits mobilised from individuals increased by RM0.3 billion to RM2.5 billion.

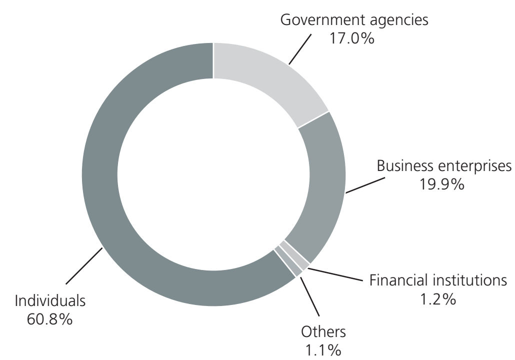
The bank's shareholders' funds increased to RM3.7 billion as at end-2005 (end-2004: RM3.5 billion) mainly from higher profits. The bank recorded profits before tax and zakat of RM535.5 million compared with RM460 million in 2004. During the year, the bank's paid-up capital increased by RM3.7 million to RM1,951.9 million, reflecting subscriptions by new members. The paid-up capital of the bank has reached close to RM2 billion since September 2004 following an upward trend in applications for membership and additional shares. As at end-2005, Bank Rakyat's individual membership stood at 693,963 (end-2004: 714,743) while the membership of cooperatives was 1,207 (end-2004: 1,172).

Bank Simpanan Nasional

BSN, or National Savings Bank, continued to record strong growth in deposits mobilised and retail loans during the year. BSN operations, as at end-2005, were supported by 390 branches and 616 ATMs located in both the urban and rural areas. To further improve its services, BSN joined Malaysian Electronic Payment System (MEPS) in December 2005, which enable its customers to access ATMs that support MEPS service.

Total deposits mobilised by BSN increased by 19.1% to RM13.1 billion at end-2005 (end-2004: RM11 billion), due mainly to placements by the Government. Deposits of private business enterprises increased by RM1 billion during the year, but there were net withdrawals by

Graph 7.6
Bank Simpanan Nasional:
Total Deposits Accepted as at 31 December 2005



Government-controlled companies amounting to RM0.4 billion. As a result, total deposits of business enterprises increased by RM0.6 billion or 28.3% to RM2.6 billion as at end-2005, to account for 20% of total deposits (end-2004: 18.5%). Deposits of individuals increased marginally by 1.2% to RM8 billion as at end-2005 to account for 60.8% of total deposits (end-2004: 71.6%). Fixed deposits accounted for 52.1% of total deposits accepted, while savings deposits comprised 40.1%, and the remaining was general investment deposits.

In terms of uses of funds, 56.6% were invested in securities, which increased by 37.8% to RM8.6 billion as at end-2005. In particular, the holdings of Government papers increased by RM1.6 billion. Loans and financing accounted for 27.5% of total assets.

Financing activities of BSN remained strong in 2005, and initiatives to introduce Islamic products were successful as Islamic financing rose significantly by RM628.1 million to RM782.8 million as at end-2005. Higher loans were approved and disbursed, amounting to RM2.2 billion and RM1.6 billion respectively (2004: RM1.4 billion and RM1.3 billion respectively). Total financing outstanding increased strongly by RM1 billion or 30.9% to RM4.2 billion as at end-2005, due mainly to the significant growth in personal loans (RM0.9 billion) as a result of attractive low interest rate package. In addition, there was also a marked increase in financing for the purchase of residential houses of RM315.7 million to RM1.5 billion as at end-2005. The micro credit scheme, which was launched in June 2003, was suspended in December 2004. A total of RM723.1 million was disbursed to 88,774 applicants. Following the suspension of the scheme, efforts were focused on improving repayment and recovery, and as a result the outstanding micro credit loan outstanding declined to RM517.1 million as at end-2005 (end-2004: RM610.7 million).

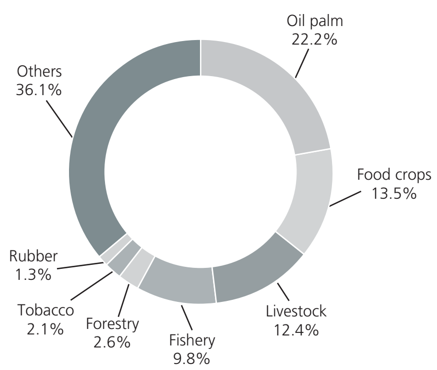
Gross NPLs increased by RM176.1 million to RM626 million as at end-2005, attributed mainly to the increase in the NPL of housing loans, micro credit and credit card loans. As a result, the gross NPL ratio deteriorated from 14.1% at end-2004 to 15% at end-2005. However, on a net basis, the NPL ratio improved to 6.7% from 7.7%, due mainly to higher provisioning for micro credit.

Bank Pertanian Malaysia

Bank Pertanian Malaysia or Agriculture Bank of Malaysia continued to support the agriculture activities by providing financing to the entire value chain of the agriculture sector. In addition to the oil palm industry, Bank Pertanian continued to extend financing to new areas, such as support services and agro-based processing industries. The increase in loans extended to these industries was, however, largely offset by the decline in loans to paddy, forestry and livestock sectors. As a result, total loans outstanding increased at a moderate rate of 2.8% (2004: 14.8%) to RM3.2 billion as at end-2005. During the year, RM716.8 million were disbursed, mainly for agricultural support services (RM296.7 million) and oil palm (RM186.4 million).

Small farmers continued to be the largest group of borrowers, accounting for 98.7% of total number of borrowers, with total loans outstanding of RM1.7 billion. During the year, Bank Pertanian approved loans totalling RM865.5 million to 37,182 loan accounts, mainly to small farmers (99.6% of total number of borrowers).

Graph 7.7
Bank Pertanian Malaysia:
Direction of Lending as at 31 December 2005



Bank Pertanian discontinued the micro credit scheme in December 2004 as the allocation had been fully utilised. Since the launch of the micro credit scheme in June 2003, Bank Pertanian received a total of 32,173 applications and approved 17,603 applications with a value of RM202.1 million. A total of RM200 million had been disbursed under the scheme, with borrowers mainly involved in trading and marketing of agricultural products. As at end-2005, total loans outstanding of micro credit scheme stood at RM75.7 million (end-2004: RM117 million).

Gross NPLs declined by RM86.9 million to RM1.2 billion as at end-December 2005, which resulted in a lower gross NPL ratio of 36.5% (end-2004: 40.3%). Similarly, net NPL ratio improved to 18.7% (end-2004: 22.8%).

In terms of total assets, loans remained the largest component, accounting for 51.5% of total assets, followed by investments which formed 27.2% (RM1.7 billion) of total assets. The investments were mainly in promissory notes/commercial papers (51.6%), private debt securities (37.5%) and unit trusts (28.7%).

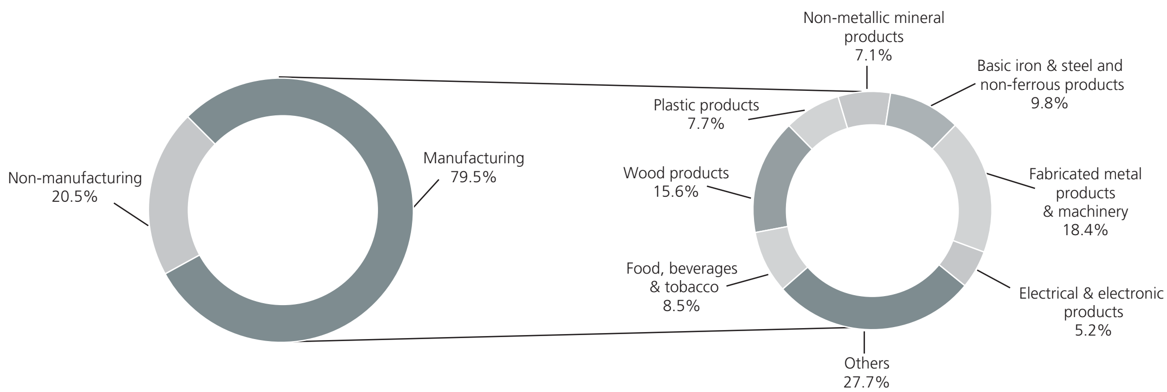
Total deposits outstanding declined by RM521.1 million or 12.7% (2004: 8.8%) to RM3.6 billion as at end-2005, mainly due to net withdrawal by business enterprises. Nevertheless, deposits, which were mobilised through its network of 172 branch offices and 5,634 mobile units nationwide, remained the largest sources of funds for Bank Pertanian, accounting for 58.5% of total resources. To further enhance services offered to its customers, Bank Pertanian became a member of MEPS in July 2005, thus enabling its depositors to access ATMs that support MEPS services.

Borrowings from the Government amounted to RM1.7 billion as at end-December 2005 (27.6% of total resources) mainly to support the various Government financing schemes. Bank Pertanian managed 10 funds with loans outstanding amounting to RM176 million or 5.6% of the total loans outstanding as at end-December 2005.

Malaysian Industrial Development Finance Berhad

The Malaysian Industrial Development Finance Berhad (MIDF) sustained its lending activities in 2005, with total loans approved and disbursed increasing by 14.3% to RM532 million (2004: RM466.1 million) and 1.4% to RM306.3 million (2004: RM302 million) respectively. In order to enhance its services, MIDF planned to introduce two new supplementary products, namely, the Revolving Credit and Contract Financing for working capital purposes in 2006, to better meet its customers' financing requirements.

Graph 7.8
Malaysian Industrial Development Finance Berhad: Direction of Lending as at 31 December 2005



Total loans outstanding declined slightly by 1.3% to RM1.1 billion as at end-2005, as the increase in loans disbursed was offset by repayments. Loans to the manufacturing sector remained the largest share (79.5%) of MIDF's total loan portfolio. Among the manufacturing activities benefiting from loans by MIDF were the fabricated metal products and machinery industry (18.4% of total manufacturing financing), followed by the wood product industry (15.6%), basic iron and steel and non-ferrous product industry (9.8%), and transport equipment industry (8.5%). In terms of borrower, the SMEs remained the main beneficiaries, with its share of total loans outstanding increasing further to 66.4%, compared with 57.8% in 2004.

Meanwhile, as an institution that manages the Government special funds, total outstanding funds managed by MIDF increased by 12.1% to RM442 million as at end-2005 (end-2004: RM394.1 million). SMEs were the major recipients of financing from these funds, which include the Soft Loan for SME Fund, Fund for SMI 2 and the Japan Bank for International Cooperation Fund for SMIs.

Based on a 3-month classification, NPLs improved significantly in 2005. Gross NPLs, which comprised mainly NPLs to the manufacturing sector, declined to RM245.9 million (2004: RM362 million) with gross NPL ratio improving to 21.8% (2004: 31.7%). On a net basis, the NPL ratio declined to 9.3% (2004: 12.4%).

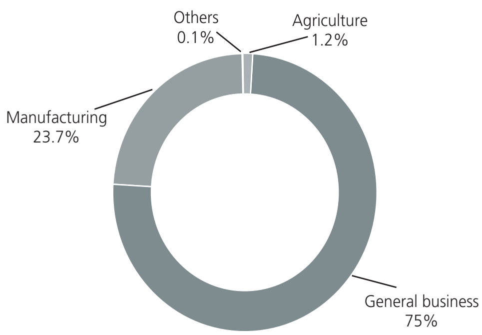
Shareholders' funds and borrowings remained the major sources of funds to support activities of MIDF. During the year, despite a slight decline in the shareholders' funds to RM1.4 billion due to dividend payout, it remained the largest funding source to account for 48.7% of MIDF's total resources. Borrowings contributed to another RM1.2 billion or 40.3% of MIDF's total resources. These included borrowings from the Government of RM561.6 million for lending to support socio-economic development and RM415 million funds raised from the capital market for use in corporate lending activities.

Credit Guarantee Corporation Malaysia Berhad

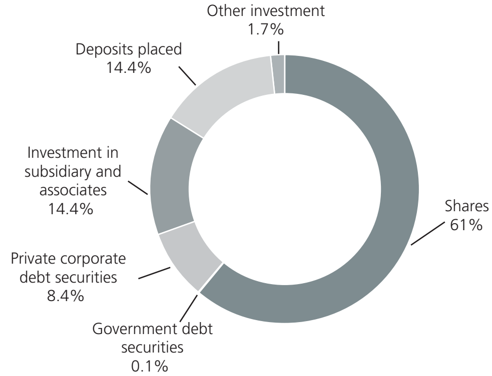
The Credit Guarantee Corporation Malaysia Berhad (CGC) continued to assist and facilitate SMEs in gaining better access to financing through the provision of guarantees and advisory support services. As part of these efforts, CGC launched the Islamic Direct Access Guarantee Scheme (DAGS-*i*) in December 2005, aimed at meeting the needs of SMEs which utilised Islamic financing to fund their activities. During 2005, total guarantees outstanding expanded by 11.8% to RM3.7 billion as at end-2005 (end-2004: RM3.3 billion), mainly attributed to the growth in the major guarantee schemes, namely, the Direct Access Guarantee Scheme (DAGS), the New Principal Guarantee Scheme and the Flexi Guarantee Scheme. During the year, total guarantees provided under these schemes increased by 23.8%, constituting a combined share of 86.1% of total guarantees outstanding.

Reflecting continuous efforts in supporting the smaller SMEs, loans of less than RM250,000 was the largest component of loans to have benefited from the guarantee schemes of the CGC, accounting for 81% of the total number of loans guaranteed as at end-2005 (end-2004: 77.7%). In terms of value guaranteed, loans of between RM500,000 to RM1 million accounted for 29.3% of the total guarantees outstanding, followed by those of above RM1 million (25.7%), and between RM250,000 to

Graph 7.9
Credit Guarantee Corporation Malaysia Berhad: Guarantee by Sector as at 31 December 2005



Graph 7.10
Lembaga Tabung Haji: Investments as at 31 December 2005



RM500,000 (24.4%). During the year, loans extended to SMEs involved in the general business sector received three quarters of CGC's total guarantee coverage, while 23.7% of the guarantee coverage was for loans extended to the manufacturing sector. In 2005, total claims paid by CGC to the banking institutions increased by 19.1% to RM147.3 million (2004: RM123.7 million).

CGC continued to rely on its shareholders' funds (RM2.2 billion) and borrowings from the Government and its shareholder (RM1.9 billion), which together accounted for 88.3% of the total sources of funds to support its guarantee issuance and lending activities. In line with the Government's focus to promote the development of SMEs, Bank Negara Malaysia, as the largest shareholder of CGC, initiated efforts to enhance the capacity and capability of CGC to enable the institution to better serve the needs of SMEs. Towards this end, the scope of activities of CGC has been widened to not only providing credit guaratee facilities, but also to offer a broader range of products and services, including equity financing and other ancillary supports such as business development and financial advisory services, as well as credit information services. To meet its new expanded role, the Board of CGC has been broadened to include members with experience in business and finance, while efforts are being taken to strengthen the resources of CGC.

Lembaga Tabung Haji

The performance of Lembaga Tabung Haji (LTH) or Pilgrims Fund Board remained favourable in 2005, as deposit mobilisation and investment activities continued to expand further. Total deposits mobilised by LTH rose by 10.2% or RM1.2 billion to RM13.3 billion as at end-2005 (end-2004: RM12.1 billion), reflecting to some extent the increase of 174,002 or 3.6% in the number of depositors to five million. LTH has announced a 2005 bonus payout of 4.5% to the depositors (2004: 4.3%).

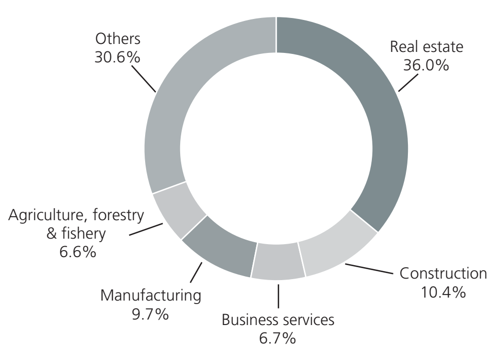
Total investments increased by 9.8% or RM994 million to RM11.1 billion as at end-2005 (end-2004: RM10.2 billion), to remain as the largest asset component of 76.2% of total assets. The increase was due mainly to the sustained growth of 25.2% in share investments, which amounted to RM6.8 billion as at end-2005. As a proportion to total investments, share investments continued to account for the largest share of 61% (2004: 53.5%). The other main investment components were investment in subsidiaries in the form of financing and placement of deposits with financial institutions, each accounted for 14.4% of total investments during the year.

Sabah Development Bank Berhad

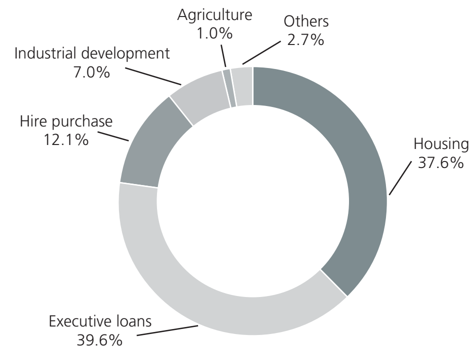
Lending activities of Sabah Development Bank Berhad (SDB) increased further, with loans outstanding growing by 13% to RM1.6 billion as at end-2005 (end-2004: RM1.5 billion) to account for 73.9% of total assets. The increase was mainly attributed to strong growth in loans extended to the construction and manufacturing sectors. In terms of composition, 36% of total loans outstanding was extended for real estate financing, while 10.4% and 9.7% were to the construction and manufacturing sectors, respectively. During the year, total loans approved and disbursed rose further to RM606.9 million and RM496.5 million respectively (2004: RM381.5 million and RM314.3 million respectively).

While gross NPLs increased to RM525.5 million (2004: RM517.5 million), the gross NPL ratio declined to 32.1%

Graph 7.11
Sabah Development Bank Berhad:
Direction of Lending as at 31 December 2005



Graph 7.12
Sabah Credit Corporation:
Direction of Lending as at 31 December 2005



(2004: 35.7%), as a result of a larger loan base. A major share of the NPLs (72.3%) were loans extended to the manufacturing and real estate sectors. On a net basis, the net NPL ratio was at 3.2% (2004:1.5%).

Borrowings from financial institutions as well as deposits from the Government and Government-controlled business enterprises continued to be the main sources of funds for SDB. Together these contributed to RM1.2 billion or 53.4% of the total resources (2004: RM 1.1 billion or 56.2%).

Sabah Credit Corporation

Lending activities of Sabah Credit Corporation (SCC) expanded by 5% in 2005 (2004: 9.1%), with loans outstanding increasing to RM725.1 million as at end-2005 (end-2004: RM690.3 million) to account for 93.2% of total assets. During the year, total loans approved and disbursed increased further, amounting to RM235.8 million and RM235.4 million respectively (2004: RM209.7 million and RM209.2 million respectively).

Outstanding loans for consumption credit grew by 15.3% in 2005 (2004: 28.3%), to account for 51.7% of SCC's total loan portfolio. Of this, the bulk was extended as executive loans/personal loans (76.6%), while the remaining was for hire purchase financing. Meanwhile, the outstanding housing loans, which accounted for 37.6% of the total loan portfolio remained unchanged.

Gross NPLs increased to RM116.8 million with a higher ratio of 16.1% in 2005 (2004: RM92.6 million and 13.4%), attributed mainly to the non-performing housing loans. On a net basis, the NPL ratio was at 12.1% (2004: 5.2%). During the year, SCC continued to source its funding through borrowings from the State Government (RM343.8 million) and banking institutions (RM265 million) to support its activities. These fundings accounted for a combined share of 78.2% of its total sources of funds.

Borneo Development Corporation (Sabah) Sendirian Berhad

In 2005, property development activities of Borneo Development Corporation (Sabah) Sendirian Berhad (BDC Sabah) remained slow, as reflected in the decline of property development expenditure and progress billings which amounted to RM15.9 million as at end-2005 (end-2004: RM32.4 million).

Meanwhile, end-financing for the purchase of houses developed by BDC Sabah declined further, as repayment of housing loans continued to offset new lending activity. During the year, the bulk of NPLs consisting of loans to business enterprises for the purchase of non-residential properties was written off. As a result, gross NPLs declined significantly to RM0.5 million and accounted for 8.3% of total loans as at end-2005 (end-2004: RM2.8 million or 31.6%). With loan repayments by individual borrowers and writing-off of non-performing commercial property loans, total loans outstanding declined to RM5.7 million as at end-2005 (end-2004: RM9 million).

As a result, the total assets of BDC Sabah declined by 16.9% to RM96.1 million as at end-2005 (end-2004: RM115.7 million). In terms of sources of funds, BDC Sabah continued to rely on borrowings from financial institutions which amounted to RM37.8 million (2004: RM59 million) or 39.3% of total resources to support its activities.

Borneo Development Corporation (Sarawak) Sendirian Berhad

Property development and construction activities undertaken by Borneo Development Corporation (Sarawak) Sendirian Berhad (BDC Sarawak) expanded further in 2005. Stocks and work-in-progress recorded strong increase of 22.7% (2004: 20.1%) to RM80.9 million as at end-2005, to account for the largest share (69.8%) of BDC Sarawak's total assets.

End-financing activities of BDC Sarawak, however, have been on a declining trend for the past decade, as property buyers increasingly turned to the more competitive financing packages offered by the banking institutions. In 2005, lending by BDC Sarawak declined further with loans outstanding amounting to RM0.7 million as at end-2005 (end-2004: RM0.9 million), which comprised mainly loans extended to its staff (96.7%) for the purchase of residential properties. Meanwhile, total investments in subsidiary and associate companies totalling RM5.9 million, or 5.1% of total assets, recorded a decline of 12.5% in 2005.

Deposits accepted from house buyers (RM61.4 million) have become the main source of funds for BDC Sarawak during the year, accounting for 52.9% of total resources (2004: 36.9%). The institution also continued to rely on shareholders' funds (RM37.2 million) and borrowings from financial institutions (RM6.9 million), which together represented 38.1% of total resources (2004: 51.8%), to support its operations.