Development Financial Institutions

Development Financial Institutions

OVERVIEW

The main policy thrust for the regulation and supervision of development financial institutions (DFIs) in 2004 continued to be directed at enhancing further the capacity and capabilities of the DFIs. As in previous years, while emphasis continued to be accorded on strengthening the foundation on which DFIs could operate efficiently and effectively, the policy efforts took a wider perspective geared towards realigning the activities and institutional structure of the DFIs. These are aimed at ensuring that the DFIs remain focused in providing financial and non-financial support to the identified strategic sectors of the economy. Coupled with these efforts, the supervision and monitoring of DFIs continued to be conducted through off-site surveillance and regular on-site examinations.

While emphasis continued to be accorded on strengthening the foundation on which DFIs could operate efficiently and effectively, the policy efforts in 2004 took a wider perspective geared towards realigning the activities and institutional structure of the DFIs.

In line with the overall growth of the economy, the financing activities of the DFIs increased in 2004 as the DFIs continued to provide financial support to the identified priority and strategic sectors of the economy. Savings mobilised by the deposit-taking DFIs also registered strong growth during the year. The DFIs' efficiency in delivering quality products and services to the targeted sectors is expected to improve as these institutions continuously review their internal operations and benchmark against their counterparts in the markets. This has to be complemented with improvements in staff and management capabilities in supporting the DFIs towards meeting the performance standards expected of these institutions.

POLICIES AND DEVELOPMENTS

The major developments and progress made in actualising the strategy to enhance the capacity and capability as well as to facilitate the development of DFIs were as follows:

- **Realignment of Roles and Functions of DFIs**
  Given that part of the strategy to enhance the effectiveness and efficiency of DFIs is to clearly define the strategic focus and roles of each of the respective DFIs, Bank Negara Malaysia conducted a review on the mandated roles and activities of the DFIs under the Development Financial Institutions Act 2002 (DFIA). The review, aimed at assessing the extent of the strategic focus of the DFIs in performing their roles, identified issues relating to the institutional structure and focus of business activities affecting the performance and effectiveness of the DFIs in developing and promoting the identified strategic sectors. Following the review, the Bank proposed to the Government to rationalise the institutional structure and functions of Bank Pembangunan dan Infrastruktur Malaysia Berhad (Bank Pembangunan), Bank Industri & Teknologi Malaysia Berhad (Bank Industri), Malaysia Export Credit Insurance Berhad (MECIB) and Export-Import Bank of Malaysia Berhad (EXIM Bank). The rationalisation aims to enhance the focus of the business and activities of the DFIs in the respective mandated sectors. The broad policy proposals were announced by the Minister of Finance in the 2005 Budget.

- **Enhancing Advisory Capabilities of DFIs for Small and Medium Enterprises**
  As part of the efforts to support the activities of small and medium enterprises (SMEs), Bank Negara Malaysia embarked on a project in October 2004 to enhance the capabilities of the DFIs in providing advisory services to the SMEs in Malaysia. The advisory services are envisaged to complement the financial services already provided by the DFIs, thus enhancing the effectiveness of these institutions in developing and nurturing SMEs. Five DFIs, namely, Bank Pembangunan, Bank Industri, EXIM Bank, MECIB and Bank Pertanian Malaysia (BPM) participated in the project, given their existing involvement in providing financing to SMEs.

  Taking into consideration the specific mandated functions and the unique features of each of the participating DFIs, a customised action plan containing strategies to enhance their advisory capabilities will be formulated according to the function of the respective DFIs. The plan would include, among others, identification of the relevant advisory services to meet the demand of SMEs from the different economic sectors, human resource development and training needs, as well as the establishment of an institutional structure for the DFIs.

- **Development of Computerised Statistical Reporting System**
  On 1 December 2004, Bank Negara Malaysia implemented an online reporting system to capture and generate statistical data on DFIs. The reporting system is known as the Development Financial Institutions Statistical System or DFISS. To address the unique business of each DFI, DFISS captures both generic and specific information relating to their businesses. The system enables the Bank to obtain important information in a timely manner, thus facilitating the monitoring of the performance of DFIs and the formulation of effective policies.

- **Monitoring and Supervision of DFIs**
  The Bank's thrust for supervisory activities in 2004 continued to be on strengthening each DFI's institutional capacity and operating infrastructure. Premised on the risk-based supervisory framework, both the off-site and on-site activities were directed at ensuring that the DFIs performed their mandated role effectively and were financially sound. Supervisory attention and resources were directed at identifying areas of high risk and of supervisory concern for improvement and in making recommendations to address the weaknesses in a timely and effective manner. Having completed the first two years of supervision of the DFIs, the Bank continued to ensure that corrective or remedial actions had been taken by the institutions to address weaknesses that have been identified. Consequently, the DFIs have progressed significantly in adopting best practices in the management and achievement of organisational objectives, which include their socio-economic roles. Overall, there were progressive improvements in the operations of the DFIs, especially in the areas of corporate governance, risk management and internal audit.

  During 2004, the on-site examinations continued to emphasise on adequacy, effectiveness and efficiency of the DFIs' operational infrastructure, internal processes as well as staff and managerial capacity in supporting the achievement of mandated roles. The DFIs have focused on putting in place the appropriate infrastructure and human resource capabilities to enable identification of their niche markets and fulfilling the needs of the customers arising from their mandated roles. These included assessing the needs of these markets and ensuring internal operational efficiency and delivery systems that facilitate meeting the financing and business advisory needs of these markets. Some DFIs have also developed their respective key performance indicators to measure and monitor operational efficiency, as well as their achievement in fulfilling their mandated roles. Periodic assessments against the key performance indicators will be undertaken to enforce discipline in addressing the gaps in desired outcomes.

  There were also improvements in the level of corporate governance in the DFIs. Given the significance of the role of the DFIs' Board in overseeing the overall effectiveness and efficiency of the institutions, regular dialogues between the supervisors and members of the Board and senior management were held, enabling the Bank to better assess the quality of the operating infrastructure in terms of Board and management oversight. These sessions have facilitated a better understanding by the members of the Board as to the role that they need to perform, both individually and collectively, in guiding the strategic direction of the institutions. These sessions with the members of the Board also provided the opportunity for the supervisors to share their supervisory concerns on the institutions, thereby facilitating timely and effective corrective measures on the issues of concern impacting the operating and financial conditions of the institutions.

  There were also notable improvements in the risk management initiatives of the DFIs as these institutions have progressively implemented best practices in risk management. The Board and senior management of the DFIs recognised the need to ensure that the risk management infrastructure such as staff, systems and internal processes, including the relevant policies, are in place and effective. Risk management mechanisms are being continuously assessed by the Bank to ensure their effectiveness in supporting the Board and management in performing their oversight function on the DFIs' operations. The mandated roles of the DFIs in the targeted sectors had resulted in these institutions assuming relatively higher risk portfolios, necessitating the need to have in place adequate and robust risk management systems, consistent with the magnitude and complexity of the risks assumed. The DFIs were also required to strengthen their internal audit function to encompass management audits which would assist the Board and senior management in managing risks and overall efficiency of the organisations, its internal processes and initiatives. The competencies of the audit staff need to be continuously enhanced with relevant training and operational exposure. Overall, audit operations have improved with the adoption of risk-based methodology in addressing the relative riskiness of the DFIs' operations, whose resources were directed at areas that posed higher degree of risks.

The off-site surveillance activities had provided continuous monitoring of the DFIs and enabled early detection of potential problems and implementation of pre-emptive measures. These activities, which included detailed monitoring of financial data and trends on risk areas, had also assisted in monitoring the effective implementation of corrective measures undertaken by the DFIs. The complementary roles played by the off-site surveillance and on-site examination had allowed the Bank to implement risk-based supervision approach that is consistent with the changes in the risk profile and the issues of concern for the institutions.

- **Modifications to the Development Financial Institutions Act 2002**
  The DFIA has enabling provisions which allow modifications to be made to the Act to meet the unique characteristics and specialised roles of each DFI. This flexibility is necessary to cater for the differing circumstances and requirements of new DFIs that may be placed under the purview of DFIA in the future. Such modifications will be put in place by way of an order issued by the Minister of Finance and published in the Gazette. Towards this end, the following modifications have been made to the DFIA so as not to constrain the operations and activities of the DFIs in meeting the financing needs of their respective mandated sectors.

  Modification relating to prohibition of lending to related companies
  Essentially, the DFIA prohibits DFIs from lending to their shareholders, directors or officers and related parties to prevent conflict of interests situation from arising. A provision in DFIA related to this prohibition has been modified to allow two DFIs, namely Bank Pembangunan and Bank Industri to lend to venture capital companies or subsidiary companies, where the formation of such venture capital companies or the activities of such subsidiary companies are in line with the DFIs' mandated roles. The underlying rationale behind this modification is to remove the restrictions which prohibit DFIs from providing wide ranging financing support to the targeted sectors. The modification was given retrospective effect from 15 February 2002.

  Modification to the requirement for the annual accounts to be published after the annual general meeting
  The DFIA requires DFIs to publish their annual accounts within fourteen days following their annual general meetings. As a number of DFIs are statutory bodies and do not hold annual general meetings as in the case of companies, the relevant provision in DFIA was modified and gazetted on 1 May 2004 so as to remove the reference to annual general meetings. The modification provides clarity to those DFIs which are statutory bodies with regard to the requirement for them to publish their annual accounts.

- **Placement of Bank Pertanian Malaysia under DFIA**
  BPM was gazetted as a prescribed institution under the DFIA with effect from 11 June 2004, thus placing BPM under the purview of Bank Negara Malaysia. Similar to other prescribed institutions, BPM was placed under DFIA with the view of strengthening its operational and financial soundness and to ensure that BPM's activities and operations are in line with its mandated objectives. In particular, as a specialised institution for agriculture financing, the continuous improvement and strengthening of BPM's operational and financial conditions through the regulatory and supervisory requirements, are important in ensuring that BPM continues to perform its mandated roles effectively and efficiently. This is important in supporting the Government's strategies for developing the agriculture sector as outlined in the Third National Agricultural Policy.

PERFORMANCE OF DEVELOPMENT FINANCIAL INSTITUTIONS

The financing activities of the DFIs increased in 2004, in tandem with the overall growth of the economy. During the year, the DFIs provided financial support to the identified priority and strategic sectors of the economy namely, agriculture, capital-intensive and high technology industries, shipping, infrastructure, manufacturing, export, Bumiputera entrepreneurs, cooperatives as well as home ownership and property development at the state level, namely in Sabah and Sarawak. Meanwhile, savings mobilised by the deposit-taking DFIs registered strong growth during the year.

Financing Activity

Total loans outstanding of the 14 DFIs identified in the Financial Sector Masterplan as a group recorded a strong growth of 16.5% or RM5.4 billion (2003: 9.9% or RM2.9 billion) to RM37.7 billion as at end-2004. The increase was largely attributable to consumption credit extended by Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat) and infrastructure financing provided by Bank Pembangunan.

In tandem with the overall growth of the economy, financing activities of the DFIs to support the growth of the identified priority and strategic sectors of the economy, increased in 2004.

Consumption credit rose by 18.6%, accounting for 24.5% of total loans outstanding of the DFIs. Similarly, financing to the construction, utilities as well as the transport, storage and communication sectors as a group, which represents 28.3% of total loans

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

	Annual Change		As at end-2004
	2003	2004	
	RM million		
Sources:			
Shareholders' funds	1,519	1,386	10,810
Paid-up capital	*1,180*	*670*	*7,862*
Reserves	*83*	*364*	*1,964*
Retained earnings	*256*	*352*	*984*
Deposits accepted	2,605	7,475	49,878
Borrowings	2,600	993	17,569
Government	*2,855*	*1,260*	*12,990*
Multilateral / International agencies	*-275*	*-1,426*	*1,732*
Others	*20*	*1,159*	*2,847*
Others	-80	1,366	12,053
Total	**6,644**	**11,220**	**90,310**
Uses:			
Deposits placed	3,799	2,662	18,906
Investments	1,961	2,809	24,038
of which:			
Government securities	*999*	*-322*	*2,629*
Shares	*351*	*56*	*6,834*
Quoted	*-124*	*312*	*5,513*
Unquoted	*475*	*-256*	*1,321*
Loans and advances	2,913	5,354	37,709
Fixed assets	100	156	3,864
Others	-2,129	239	5,793
Total	**6,644**	**11,220**	**90,310**
Contingencies:			
Guarantee	502	287	3,949
Export credit insurance	-29	186	309
Total	**473**	**473**	**4,258**

[1] Refers to Bank Pembangunan dan Infrastruktur Malaysia Berhad, Bank Industri & Teknologi Malaysia Berhad, Bank Kerjasama Rakyat Malaysia Berhad, Bank Simpanan Nasional, Export-Import Bank of Malaysia Berhad, Malaysia Export Credit Insurance Berhad, Bank Pertanian Malaysia, Malaysian Industrial Development Finance Berhad, Sabah Development Bank Berhad, Borneo Development Corporation (Sabah) Sendirian Berhad, Borneo Development Corporation (Sarawak) Sendirian Berhad, Credit Guarantee Corporation Malaysia Berhad, Sabah Credit Corporation and Lembaga Tabung Haji.

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

	Annual Change		As at end-2004
	2003	2004	
	RM million		
Agriculture, forestry and fishery	-90	387	3,261
Mining and quarrying	-15	-8	67
Manufacturing	595	234	4,186
Electricity, gas and water supply	163	612	1,229
Import and export, wholesale and retail trade, restaurants and hotels	10	180	430
Broad property sector	537	1,645	10,022
Construction	*219*	*126*	*4,136*
Purchase of residential property	*143*	*1,138*	*4,066*
Purchase of non-residential property	*48*	*23*	*464*
Real estate	*127*	*358*	*1,356*
Transport, storage and communication	351	602	5,315
Finance, insurance and business services	-86	-388	1,307
Consumption credit	1,071	1,452	9,239
Others	377	638	2,653
Total	**2,913**	**5,354**	**37,709**

[1] Refers to Bank Pembangunan dan Infrastruktur Malaysia Berhad, Bank Industri & Teknologi Malaysia Berhad, 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, Borneo Development Corporation (Sabah) Sendirian Berhad, Borneo Development Corporation (Sarawak) Sendirian Berhad, Credit Guarantee Corporation Malaysia Berhad, Sabah Credit Corporation and Lembaga Tabung Haji.

outstanding, recorded an increase of 14.4%, benefiting primarily from infrastructure financing by Bank Pembangunan. The agriculture and manufacturing sectors also recorded positive growth of 13.5% and 5.9% respectively, together contributing 19.8% to total loans outstanding of the DFIs. Meanwhile, total outstanding insurance cover and guarantees provided by the relevant DFIs increased by 12.5% to RM4.3 billion as at end-2004, attributed mainly to higher guarantee coverage provided by the Credit Guarantee Corporation Malaysia Berhad (CGC).

Financing activities of the seven DFIs that are under the purview of DFIA recorded a growth of 19.1% in total loans outstanding. Retail financing provided by Bank Rakyat to its members rose strongly by 25.3%, while financing to the infrastructure sector and Bumiputera SMEs undertaken by Bank Pembangunan increased by 15.3% and 10.5% respectively. Similarly, Bank Simpanan Nasional (BSN) recorded a strong growth of 30.4% in loans outstanding, on account of personal loans extended whilst BPM registered a growth of 14.8%. Positive growth of 15.7% in lending activities was also recorded by EXIM Bank. Meanwhile, both Bank Industri and MECIB registered a positive growth of 12% and 36.6% respectively, in their lending/underwriting activities in 2004, as against a reduction in the previous year. Savings mobilised by BSN from individuals increased by 8.5% whilst deposits mobilised by Bank Rakyat grew strongly by 30.6%, partly due to attractive returns offered by the bank.

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

	As at end-	
	2003	2004
	RM million	
General provisions	673	747
Interest-in-suspense	1,226	1,363
Specific provisions	1,990	2,074
Non-performing loans	4,732	5,232
	Percent (%)	
Gross NPL ratio[2]	15.6	14.6
Net NPL ratio[3]	5.6	5.5
Total provisions/NPL	82.2	79.9

[1] Refers to Bank Pembangunan dan Infrastruktur Malaysia Berhad, Bank Industri & Teknologi Malaysia Berhad, 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, Borneo Development Corporation (Sabah) Sendirian Berhad, Borneo Development Corporation (Sarawak) Sendirian Berhad and Sabah Credit Corporation.

[2] Gross NPL ratio = (NPL / Gross loans*) x 100%.
* Excluding loans provided by Credit Guarantee Corporation Malaysia Berhad and loans under ECR scheme.

[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 and loans under ECR scheme.

In terms of asset quality, the NPL level of the DFIs as a group increased by RM499.7 million to RM5.2 billion as at end-2004. However, due to a significant expansion in the loan base, the gross NPL ratio improved to 14.6% compared with 15.6% a year ago. Nevertheless, the gross NPL levels of the DFIs remained high, ranging from 7.9% to 40.3% of total loans outstanding. Most of the DFIs classified a loan or financing account in default for six months or more as non-performing. After taking into account the provisions made for potential loan losses, the net NPL amount and ratio of the DFIs stood at RM1.8 billion or 5.5% as at end-2004 (end-2003: RM1.5 billion or 5.6%).

Sources of Funding

Total deposits mobilised by the deposit-taking DFIs increased by 17.6% to RM49.9 billion as at end-2004. Savings mobilised from individuals recorded a growth of 10.2% to RM24.5 billion, accounting for 49.1% of total deposits mobilised. Lembaga Tabung Haji (LTH) and BSN remained dominant in mobilising savings from individuals. Meanwhile, deposit placements by business enterprises and the Government and Government agencies accounted for 28.4% and 13% respectively of total deposits outstanding. Apart from the shareholders' funds totalling RM10.8 billion or 12% of total resources, the DFIs also funded their operations through Government borrowings, which amounted to RM13 billion as at end-2004. This represented 14.4% of total resources and was primarily utilised to enhance access to financing.

Bank Pembangunan dan Infrastruktur Malaysia Berhad

Lending by Bank Pembangunan to its targeted sectors, namely Bumiputera SMEs and the infrastructure sector, recorded a growth of 13.9% in 2004. Total loans outstanding increased to RM11.6 billion as at end-2004 (end-2003: RM10.2 billion), led by financing of infrastructure projects which rose by 15.3% to RM9.9 billion. Both Government-identified and private sector projects registered marked growth of 13.7% and 19.7% respectively, with the former accounting for 72.7% of total loans outstanding for the infrastructure sector. The main beneficiaries of the increase in infrastructure loans were utilities (RM611.8 million), transport and communication (RM238.7 million) and construction (RM125.2 million) sectors.

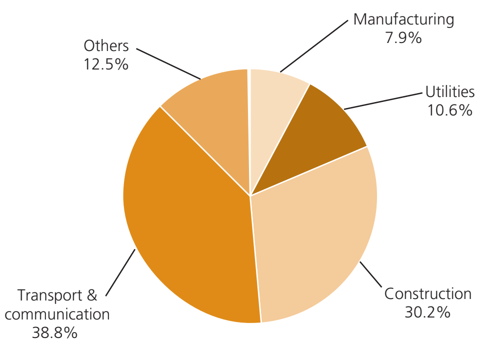
Total loans outstanding to SMEs meanwhile increased by 6.1% to RM1.7 billion. Financing to Bumiputera SMEs, which accounted for 83.1% of total loans outstanding to SMEs, expanded by 10.5% (2003: 4.6%) to RM1.4 billion. Apart from financing, the bank also provides advisory services (inclusive of financial, corporate and technical advice), entrepreneurial training, project consultancy and other services as part of its continuous efforts to promote the development of a viable and resilient Bumiputera Commercial and Industrial Community. In 2004, the bank launched seven new programmes, namely, the Entrepreneur Attachment Programme *(Program Usahawan Sangkut*), Mentor Mentee Programme (*Program Mentor Mentee*), Vendor Programme (*Program Vendor*), Corporate Technocrat Programme (*Program Teknokrat Korporat*), Women Entrepreneur Programme (*Program Usahawan Wanita*), Batik Entrepreneur Programme (*Program Usahawan Batik*) and Craft Entrepreneur Programme (*Program Usahawan Kraf*).

Loan approvals increased significantly by 54.3% to RM9 billion in 2004 (2003: RM5.8 billion), mainly due to the increase in approval of loans for infrastructure financing. Meanwhile, total loans disbursed rose to RM2.6 billion (2003: RM2.2 billion), also attributed to the increase in disbursement of infrastructure loans.

Bank Pembangunan managed 23 Government funds in 2004. Loan approvals and loan disbursements under these funds rose by 60.7% to RM801.3 million and 34.1% to RM442.6 million respectively. The Tourism Infrastructure Fund and New Entrepreneurs Fund 2 were the main beneficiaries with approvals of RM205 million and RM193.3 million respectively.

Gross NPLs rose by RM5.1 million to RM917.7 million as at end-2004. Due to the enlarged loan base, the gross NPL ratio fell to 7.9% as at end-2004 (end-2003: 9%). Meanwhile, the net NPL ratio stood at 2.8% (2003: 3.4%).

Graph 7.1
Bank Pembangunan dan Infrastruktur Malaysia Berhad:
Direction of Lending as at 31 December 2004



The bank recorded a significant growth of 35.4% in its investment portfolio to RM1.3 billion (7.9% of total assets) as at end-2004. The increase was attributed primarily to the increase in the holdings of private debt securities, which amounted to RM1.1 billion. Placement of deposits with financial institutions totalled RM3.3 billion and accounted for 19.5% of total assets.

Bank Pembangunan sourced most of its funding requirements through borrowings from the Government (RM5.5 billion), deposits accepted from Government agencies and public enterprises (RM4.1 billion), borrowings from multilateral and international agencies (RM1.2 billion), debt securities issued (RM1 billion) and Government grants and subsidies (RM700.5 million). These constituted 73.3% (2003: 73.5%) of the bank's total resources. In 2004, the bank's shareholders' funds rose by RM362.9 million to RM2.9 billion as at end-2004, reflecting an increase in retained earnings and operating profit.

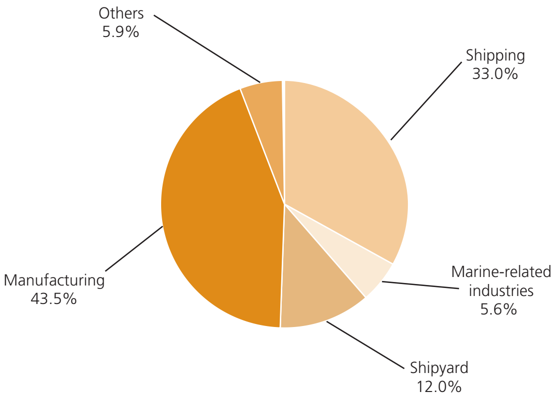
Bank Industri & Teknologi Malaysia Berhad

Bank Industri's lending activities registered a positive growth in 2004 as against a decline in the previous year. Total loans outstanding increased by 12% to RM937.5 million as at end-2004. Lending to the manufacturing sector grew by 12.3% or RM44.6 million, while financing extended to the maritime sector increased marginally by 0.3% or RM1.3 million. The bulk of the loans were extended to two main sectors namely the maritime sector comprising shipbuilding, shipyard and marine-related industries (50.6%) and the manufacturing sector (43.5%), while the balance was to environmental-related sector (5.9%). Total loans outstanding accounted only for 23.1% of the total assets of RM4.1 billion as at end-2004.

Total loans approved in 2004 almost tripled (RM745.5 million) the amount approved in 2003 (RM253.4 million), attributed to a marked increase in approvals for lending to the maritime sector (395.5% or RM301.8 million) mainly involving the purchase and construction of merchant vessels. Loans disbursed also increased significantly to RM358.1 million (2003: RM143.2 million).

Bank Industri managed a total of 13 Government funds during 2004, which accounted for 32% of the total loans outstanding of the bank. Loan approvals and disbursements under the funds increased sharply by 256.1% (RM86.3 million) and 68.6% (RM30.1

Graph 7.2
Bank Industri & Teknologi Malaysia Berhad: Direction of Lending as at 31 December 2004



million) respectively. The increase in loan approvals was contributed primarily by the New Ship Financing Facility (RM30.8 million) and the High Technology Fund (RM24.6 million).

Gross NPLs declined by RM70.2 million to RM253.4 million, representing 27% of total loans outstanding as at end-2004 (end-2003: RM323.6 million or 38.7%), partly due to the conversion of a non-performing shipping loan into equity. Consequently, the net NPL ratio declined significantly to 8.1% (2003: 18.4%).

The bulk of the bank's assets (46.2% as at end-2004) comprised investments in subsidiaries (RM1 billion) and loans and advances extended to subsidiaries (RM846.5 million). The investment and advances were mainly in four subsidiaries, namely, MECIB, EXIM Bank, Global Maritime Ventures Berhad and BI Credit and Leasing Berhad.

The activities of the bank were primarily funded by borrowings, amounting to RM2 billion or almost 50% of total resources as at end-2004, mainly from the Government (RM1.1 billion) and multilateral and international agencies (RM924 million). Deposits placed by the Government and Government agencies of RM741.7 million were another major source of funding for Bank Industri. While borrowings registered a decline of 10.2% during the year, deposits placed by Government and Government agencies increased by 24%. The shareholders' funds of the bank increased by 38.5% (RM101.5 million) to RM365 million as at end-2004 (end-2003: RM263.5 million), mainly attributed to operating profit of RM81.5 million and equity injection of RM20 million by the Government.

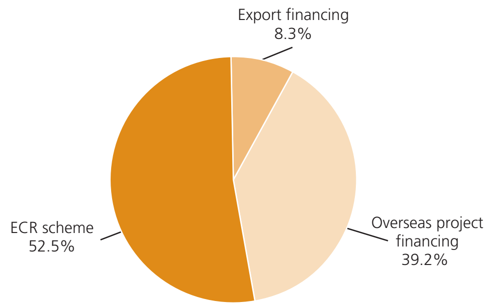
Export-Import Bank of Malaysia Berhad

Financing activities of EXIM Bank grew by 15.7% to RM2.3 billion in 2004. The major activity of EXIM Bank was financing provided under the Export Credit Refinancing (ECR) scheme. The Government-funded ECR scheme managed by EXIM Bank offers competitive rates to banks participating in the scheme for on-lending to exporters. Total loans outstanding under the ECR scheme, which constituted 52.5% of total loans outstanding and which was extended mainly to the palm oil products, rubber products and chemical products industries, increased by 5.4% to RM1.2 billion as at end-2004. Disbursements under the scheme recorded an increase of 2.4% in 2004 to RM6.8 billion (2003: RM6.6 billion), in tandem with the growth of Malaysia's exports.

Export financing (8.3% of total loans outstanding as at end-2004) and the financing of overseas projects (39.2% of total loans outstanding as at end-2004) were the other major activities of EXIM Bank which recorded positive growth of 123.7% and 19.2% respectively during the year. Nearly one-half of total overseas project financing was channelled to projects in South-East Asia and another 30.7% in the African continent. Approximately 64.9% of total overseas project financing and 27% of export financing were channelled to non-traditional markets.

The bank's gross NPLs, excluding loans provided under the ECR scheme, declined to RM306.6 million as at end-2004, representing 28.4% of total loans outstanding (end-2003: 39.2%). Overseas project financing accounted for the largest component (93.3%) of the NPLs. The net NPL ratio was 1.3%.

Graph 7.3
Export-Import Bank of Malaysia Berhad: Credit Facilities as at 31 December 2004



While the loan portfolio represents the main asset of EXIM Bank with a share of 62.9%, deposit placements account for another 35.5% of the bank's assets.

During the year, shareholders' funds increased by 29.8% (RM74.9 million) to RM326.6 million as at end-2004. Borrowings from the Government declined marginally by 0.6% to RM2 billion, whilst borrowings from international agencies increased by 67.7% to RM500.1 million and borrowings from its parent company, Bank Industri, declined by 19.1% to RM302.4 million. Borrowings from the Government were utilised solely for the ECR scheme.

Malaysia Export Credit Insurance Berhad

MECIB, which provides insurance cover and guarantee facilities to facilitate Malaysia's exports and overseas investment, recorded significant growth in its activities in 2004, in tandem with Malaysia's export growth. Total exposures increased by 36.6% to RM675.2 million as at end-2004, largely due to a 150.2% increase in short-term export credit insurance facilities. However, guarantees issued declined marginally by 1.2%. Approximately 45.7% of MECIB's total exposures were export credit insurance covers and the remaining were guarantees. The small size of its shareholders' funds constrained MECIB's ability in providing coverage for large medium-term and long-term businesses.

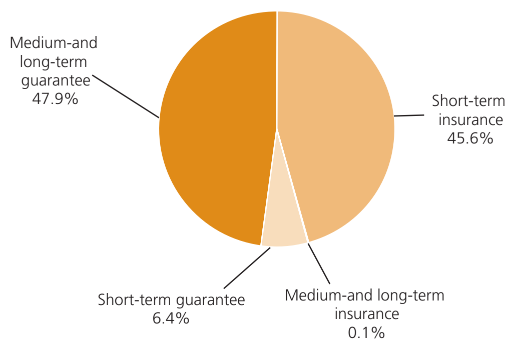
Reflecting MECIB's efforts to promote the diversification of Malaysia's export markets, 67.2% of the total guarantee and insurance coverage were provided to facilitate export to countries categorised under non-traditional markets. In terms of distribution by regions, 42.3% of MECIB's total exposures have been channelled to countries in East Asia, followed by Africa (11%), Western Europe (10.2%) and the Middle East (9.8%).

Deposits placed with financial institutions, which formed its largest asset class (47.1%), increased by 27.4% to RM98.1 million in 2004, while investments in securities, declined by 19% to RM69.9 million. In order to meet its obligations, MECIB continued to rely on its shareholders' funds, which had declined slightly to RM75.2 million as at end-2004. The loss percentage, indicating the ratio of claims paid to premiums received, deteriorated to 38.8% as at end-2004 (end-2003: 29.3%).

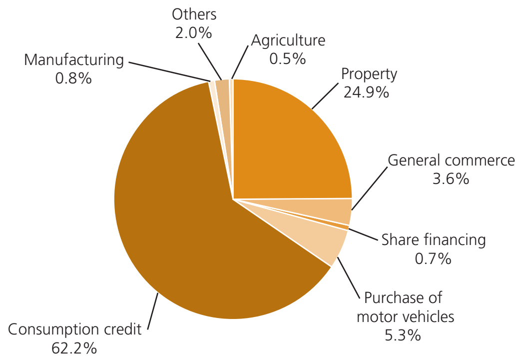
Bank Kerjasama Rakyat Malaysia Berhad

Financing and deposit mobilisation activities of Bank Rakyat, or People's Cooperative Bank of Malaysia, recorded strong growth in 2004. The total assets of Bank Rakyat increased markedly by 29.9% to RM22.3 billion in 2004, in which financing activities, represented 55.3% of total assets. Total financing outstanding grew by 24.1% to RM12.4 billion as at end-2004, mainly attributed to the property sector (61.7% to RM3.1 billion), in line with favourable growth of the housing sector. Similarly, consumption credit registered an increase of 12.2% to RM7.7 billion as consumer spending revived strongly during the year. In terms of sectoral distribution, 62.2% of the financing outstanding was for consumption credit, 24.9% was extended to the property sector, followed by the transport and communication (5.3%) and general commerce (3.6%) sectors. Lending to members accounted for 78.2% of total financing outstanding. During the year, new financing approved and disbursed amounted to

Graph 7.4
Malaysia Export Credit Insurance Berhad: Contingent Liabilities as at 31 December 2004



Graph 7.5
Bank Kerjasama Rakyat Malaysia Berhad: Direction of Financing as at 31 December 2004



RM4,815.2 million and RM4,842.8 million respectively (2003: RM3,727.8 million and RM3,666.4 million respectively).

Gross non-performing financing (NPF) increased marginally to RM1,088.1 million as at end-2004 (end-2003: RM1,066.1 million). However, the gross NPF ratio improved to 8.8% from 10.7%, due to the enlarged loan base. The net NPF ratio has also improved to 4.4% from 5.2%.

Financing activities of the bank were largely funded by deposits which amounted to RM17.1 billion as at end-2004, representing 76.7% of the bank's total funds. Deposits mobilised by the bank registered a strong growth of 30.6% (RM4 billion) in 2004 mainly due to the relatively attractive returns offered by the bank. Deposit placements by business enterprises rose markedly by 31.9% to RM11.5 billion, of which private enterprises accounted for 63.4% while the balance was from public enterprises. Deposits mobilised from individuals also grew strongly in 2004, recording an increase of 34.1% to RM2.2 billion as at end-2004.

The bank's shareholders' funds rose to RM3.5 billion as at end-2004 (end-2003: RM2.5 billion) attributed to the substantial growth in members' shares and subscription funds, which increased by 47.1% (RM623.6 million) to RM1.9 billion as at end-2004. During the year, the individual membership of Bank Rakyat increased by 84,836 to 714,743 whilst cooperative membership increased by 105 to 1,172. The increase in membership was attributed mainly to the ability of the bank to pay relatively attractive rates of dividend and the privilege loan rate offered to members. The bank's improved performance (profit before tax and *zakat* increased from RM401 million in 2003 to RM460 million in 2004) also contributed to the increase in shareholders' funds.

Bank Simpanan Nasional

Deposits mobilised by BSN, or National Savings Bank, as well as retail loans to small borrowers and micro credit extended by BSN recorded strong growth during the year. As at end-2004, BSN operated through 393 branches and 599 ATMs covering both the urban and rural areas.

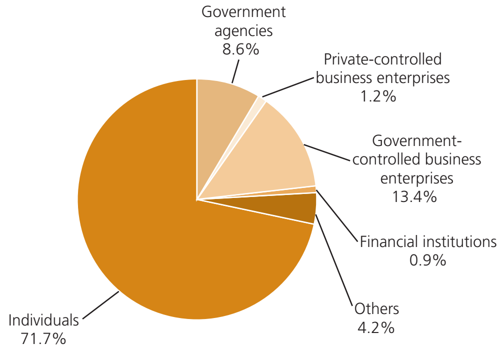
Deposits outstanding increased by 16.4% or RM1.6 billion during the year to RM11 billion. Savings of individuals, which formed the largest component (71.7%) of the deposit base, recorded a growth of 8.5% (RM619.7 million) to RM7.9 billion, partly reflecting the requirement of BSN for micro credit borrowers to maintain an account with the bank.

Deposits from business enterprises meanwhile, rose by 65.6% (RM635.8 million) contributed by an increase in fixed deposits from Government-controlled business enterprises. Saving deposits represented 47.6% of the total deposits, while fixed deposits comprised 42.4% and the remaining was general investment deposits. The number of account holders increased from 10.3 million as at end-2003 to 11.4 million as at end-2004. About one-half of deposits accepted were invested in securities, amounting to RM5.6 billion as at end-2004, of which RM3.3 billion were investments in Government securities. The balance was largely utilised to finance lending operations.

Loans outstanding registered a strong growth of 30.4% during the year from RM2.4 billion to RM3.2 billion as at end-2004, due mainly to the significant growth of personal loans from RM126.5 million to RM738.8 million, benefiting from BSN's vigorous promotion of its repackaged personal loan scheme that attracted more borrowers. Apart from personal loans, the bulk of loans outstanding as at end-2004 was mainly in the form of housing loans (RM1,135.9 million), micro credit (RM610.7 million) and purchase of motor vehicles (RM446.8 million). In 2004, the micro credit scheme recorded an increase of RM195.1 million or 46.9%. Since the launch of the micro credit scheme in June 2003, a total of RM723 million has been disbursed to 82,657 applicants mainly to food stall businesses, retail trading activities and business services.

Gross NPLs increased by RM151.2 million to RM449.9 million as at end-2004, attributed to an increase in NPLs of micro credit and housing loans. The gross NPL ratio deteriorated to 14.1% (end-2003: 12.2%) whilst the net NPL ratio increased to 7.7%, as at end-2004 (end-2003: 6.7%).

Graph 7.6
Bank Simpanan Nasional:
Total Deposits Accepted as at 31 December 2004

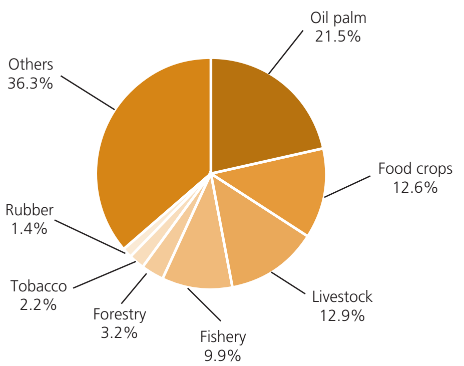


Bank Pertanian Malaysia

BPM, or Agriculture Bank of Malaysia, registered a favourable growth in its financing activities in 2004. Consistent with its role to provide financing to promote sound agricultural development in the country, BPM provided financing for various agricultural activities namely, production, processing and marketing of agriculture products. In 2004, total loans outstanding grew by 14.8% to RM3.1 billion (2003: RM2.7 billion), attributed largely to the strong growth (318.8%) for loans to agro-based processing and support services industries. While BPM continued to provide financing support to the more established agriculture sector, such as oil palm, there was increased focus in 2004 on new areas of financing in the agro-based processing and support industries. During the year, loans outstanding to the oil palm industry declined to RM661.2 million to account for 21.5% of total loans outstanding (2003: RM696.2 million or 26% of total loans outstanding).

Small farmers remained the main beneficiaries of BPM loans, accounting for 98.4% of total number of borrowers. In 2004, BPM approved loans totalling RM1.1 billion involving 46,843 borrowers. Excluding loans for micro credit scheme, loan approvals in 2004 increased by 62.5% to RM1,091.5 million (2003: RM671.6 million), whilst loans disbursed increased by 65.7% to RM918.5 million (2003: RM554.4 million). During the year, BPM managed 12 funds established by the Government to promote the agriculture sector. Since the launch of the micro credit scheme in June 2003, BPM has approved 17,729 applications with a value of RM202 million as at end-2004. A total of RM199.3 million was disbursed to borrowers, mainly involved in agro-based projects, marketing, cash crop cultivation and livestock rearing.

Graph 7.7
Bank Pertanian Malaysia:
Direction of Lending as at 31 December 2004



In 2004, the loans outstanding for the micro credit scheme declined by 31% or RM52.5 million as the RM200 million allocated for the micro credit scheme had been fully utilised.

Gross NPLs increased to RM1.2 billion as at end-2004 representing 40.3% of total loans (end-2003: RM887.6 million or 33.1%). The increased ratio was largely attributed to the change in NPL classification policy, from 12 months to 6 months of default. Net NPL ratio increased to 22.8% as at end-2004 (end-2003: 15.3%).

Loans remained the largest asset component, representing 47.3% of the total assets of RM6.5 billion, followed by investments which formed 26.3% (RM1.7 billion) of total assets. The investments were mainly in private debt securities (38.3%), unit trusts (32.5%) and commercial papers/promissory notes (18.3%).

The main sources of funding for BPM were deposits mobilised through its network of 181 branches and 5,135 mobile units nationwide. In 2004, deposits mobilised increased by 8.7% to RM4.1 billion (2003: RM3.8 billion) accounting for 63.3% of total resources. Borrowings from the Government which were mainly for the various Government financing schemes increased by 4.5% to RM1.6 billion as at end-2004 (end-2003: RM1.5 billion).

Malaysian Industrial Development Finance Berhad

Financing activities of Malaysian Industrial Development Finance Berhad (MIDF) aimed at promoting the development of the manufacturing sector, recorded a marginal increase in 2004. As one of the implementing institutions to manage and disburse funds for the Government, MIDF was designated as the disbursing channel for the new Soft Loan Scheme for Information and Communication Technology in 2004. The main emphasis of this scheme is to improve the competitiveness and efficiency of SMEs through the usage of information and communication technology. MIDF also introduced the Fund for Cross Border Investment in Manufacturing in June 2004. The objective of the fund is to assist Malaysian companies to establish or expand their operations offshore to take advantage of lower labour costs, especially in countries within the ASEAN region.

Total loans outstanding increased marginally by 0.9% or RM9.8 million to RM1.1 billion as at year-end due to competitive financing package offered by banking institutions. Loans outstanding of the manufacturing sector shrunk from RM932.7 million to RM918.7 million as at end-2004, accounting for 80.6% of total

Graph 7.8
Malaysian Industrial Development Finance Berhad: Direction of Lending as at 31 December 2004

loans (end-2003: 82.5%). The major beneficiaries in the manufacturing sector were the fabricated metal products and machinery industry (18.7%), wood products industry (16.6%) and basic iron and steel and non-ferrous products industry (11%). Meanwhile, loans outstanding to manufacturing SMEs accounted for 48.8% of total loans.

During the year, total loans approved decreased by 5.6% to RM466.1 million (2003: RM493.7 million). The major decrease in the manufacturing sector was recorded in the transport equipment industry (82.9% or RM41.4 million), basic iron and steel and non-ferrous products industry (49.9% or RM18.9 million) and food, beverages and tobacco industry (26% or RM17.7 million). Consequently, loans disbursed for manufacturing also decreased by 10.3% to RM241.9 million (2003: RM269.7 million).

Based on a 3-month classification policy, gross NPLs increased to RM362 million, accounting for 31.7% of total loans as at end-2004 (end-2003: RM337.9 million or 29.9%). The net NPL ratio increased to 10.4% from 3.3% in 2003.

Shareholders' funds and borrowings remained the main sources of funds for MIDF. Shareholders' funds increased to RM1.4 billion as at end-2004 (end-2003: RM1.3 billion) mainly attributed to the dividend income received from subsidiaries and profit from the sale of its subsidiaries arising from its Group restructuring exercise. Meanwhile, borrowings which totalled RM1.1 billion, registered a decline from RM1.2 billion as at end-2003. The borrowings included RM689.9 million sourced directly or indirectly from the Government to be on-lent for socio-economic purposes. MIDF also relied on funds from the capital market to fund its lending activities. As at end-2004, funds raised from the capital market amounted to RM400.3 million (end-2003: RM528.8 million).

Credit Guarantee Corporation Malaysia Berhad

CGC continued to contribute favourably towards ensuring continuous access to financing by the SMEs, through the provision of a wide range of guarantee schemes and ancillary services to facilitate financing by the banking institutions to the SMEs. To supplement the financial assistance offered through the guarantees provided, CGC launched its Client Service Centre (CSC) in August 2004, particularly to cater for enquiries pertaining to matters such as information on the guarantee schemes offered and application procedures by potential borrowers, as well as enquiries from the banking institutions about the status of applications and claims.

Total guarantees outstanding increased by 9.9% (2003: 18.3%) to RM3.3 billion as at end-2004 with the continued strong growth registered by the major guarantee schemes, namely, the Direct Access Guarantee Scheme (DAGS) as well as the revised New Principal Guarantee Scheme (NPGS) and Islamic Banking Guarantee Scheme (IBGS), which together recorded a growth of 144.1% (2003: 158.3%). The strong growth was partly attributed to the revised NPGS and IBGS that have enabled SMEs from all economic sectors to obtain higher financing to a maximum of RM10 million from the financial institutions (previously: a maximum of RM5 ~ 7.5 million for SMEs from all other sectors, except the manufacturing sector). Increasing preferences of SMEs for Islamic financing also contributed to the favourable performance of the IBGS.

Reflecting the continuous support provided to the smaller SMEs, loans below RM250,000 continued to form the largest component of loans to have benefited from CGC's guarantee schemes, accounting for 81.7% (2003: 88.2%) of the total number of loans guaranteed. In terms of value guaranteed, loans of between RM500,000 to RM1 million accounted for 32% of total guarantees outstanding, followed by those between RM250,000 to RM500,000 (27%) and loans of below RM250,000 (24.3%). Guarantees provided for loans of above RM1 million remained the lowest at 16.7% of total guarantees outstanding. In terms of guarantee coverage by sector, SMEs involved in the general business sector remained the main beneficiaries of CGC's guarantee schemes. The guarantee coverage extended to this sector accounted for three quarters of total guarantees outstanding, followed by those extended to the manufacturing (24%) and agriculture (1.3%) sectors.

Total provision for claims increased by 8.3% to RM469.6 million as at end-2004 (end-2003: RM433.6 million), reflecting the increase in loans guaranteed that had turned non-performing. Total claims paid to the banking institutions also increased by 33.6% to RM123.7 million in 2004 (2003: RM92.5 million).

Loans outstanding under the various special loan schemes administered by CGC declined by 35.2% to RM593.2 million as at end-2004 (end-2003: RM915.8 million). This was due mainly to the decline in loans outstanding sourced from Bank Negara Malaysia funds following the change in the funding arrangements since November 2002. Bank Negara Malaysia has now channelled the funding for these special loan schemes directly to the banking institutions for lending to SMEs.

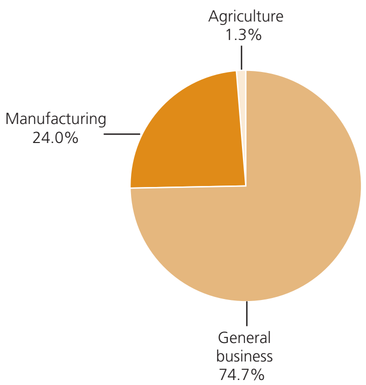
CGC continued to rely on its shareholders' funds (RM2.1 billion) and borrowings from the Government (RM1.8 billion), which together accounted for 85.9% of the total source of funds, to back the guarantees issued and fund its lending operations. The funds were largely placed with banking institutions (RM3.8 billion).

Lembaga Tabung Haji

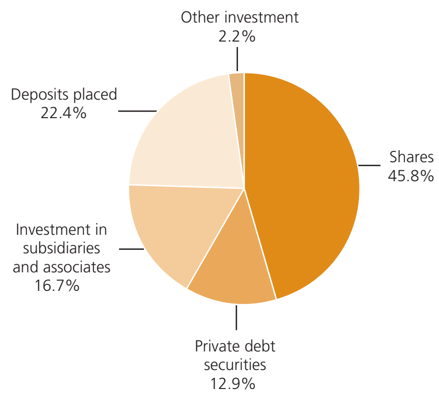
LTH, or Pilgrims Fund Board, recorded a growth in its deposit mobilisation activities in 2004. Total deposits outstanding increased by 7.1% or RM798.8 million to RM12.1 billion while the number of depositors increased from 4.7 million to 4.9 million. As part of the continuous efforts to improve its service to depositors in 2004, LTH has increased its collecting agents to nine from the previous six and opened another branch office to increase the number to 119. In addition, in October 2004, LTH was awarded MS ISO 9001: 2000 Quality Management Systems for its counter services.

Total investments of LTH increased by 8.6% to RM8.7 billion and represented 65.8% of total assets as at end-2004. Deposits placed with financial institutions increased by 34.3% to RM1.9 billion whilst investments in subsidiaries and associates increased by 12.1% to RM1.4 billion. Investment in shares continued to form the largest component, accounting for 45.8% or RM4 billion of total investments

Graph 7.9
Credit Guarantee Corporation Malaysia Berhad: Guarantee by Sector as at 31 December 2004



Graph 7.10
Lembaga Tabung Haji: Investments as at 31 December 2004



(2003: 47.6% or RM3.8 billion), followed by deposits placed with financial institutions which represented 22.4% of total investments. LTH also provided financing to its subsidiaries and other business enterprises, all totalling to RM1.9 billion as at end-2004 (end-2003: RM1.7 billion).

Sabah Development Bank Berhad

Lending activities by Sabah Development Bank Berhad (SDB) turned around in 2004 with total loans outstanding increasing by 17.1% to RM1.5 billion as at end-2004 (end-2003: RM1.2 billion), mainly on account of the strong increase in loans extended to the manufacturing, wholesale and retail trade, real estate, and construction sectors. Loans continued to account for the largest share (75.2%) of the total assets of SDB. As at end-2004, 45.1% of the loans outstanding was for real estate financing, while 10.8% was channelled to the construction sector and 8.7% to the business services sector. During the year, the amount of loans approved and disbursed increased significantly to RM381.5 million and RM314.3 million respectively (2003: RM250.6 million and RM184.3 million respectively).

While gross NPLs increased to RM517.5 million (2003: RM492 million), the gross NPL ratio improved slightly to 35.7% (2003: 39.7%) owing to the larger loan base. A major share (68.7%) of the NPLs were loans to the real estate and business services sectors. Net NPL ratio was lower at 1.4% (2003: 4.6%).

SDB continued to rely on borrowings from financial institutions and deposits from the Government and Government-controlled business enterprises, which collectively contributed to RM1.1 billion or 57.5% of total resources (2003: RM890.6 million or 54%). The bank's shareholders' funds which had increased to RM257.3 million in 2004 (2003: RM228.9 million) also supported SDB's operations.

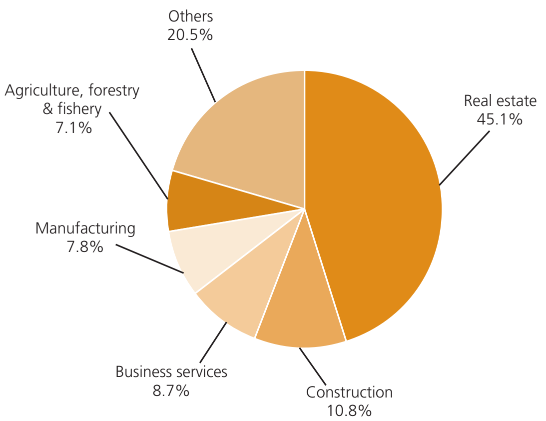
Sabah Credit Corporation

Lending activities of Sabah Credit Corporation (SCC) expanded at a more moderate pace in 2004, with total loans outstanding increasing by 9.1% to RM690.3 million as at end-2004 (end-2003: 18.9% to RM632.8 million). Loans remained the largest asset component, accounting for 93% of total assets of RM742.1 million as at end-2004. The expansion was attributed mainly to consumption credit loans which grew by 28.3%. Riding on the sustained consumer demand, consumption credit loans overtook the declining housing loans financing activity, to account for the largest loan component in 2004. The bulk of the consumption credit loans was for executive loans (72.1%) and the balance for hire purchase financing. Total loans approved and disbursed reduced slightly to RM209.7 million and RM209.2 million respectively (2003: RM236.5 million and RM223.8 million respectively).

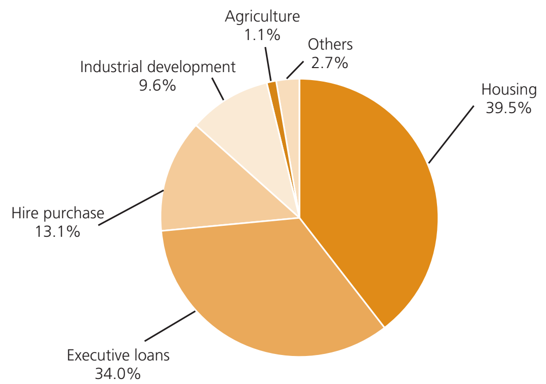
Gross NPLs increased to RM92.6 million (2003: RM86.2 million), attributed mainly to the higher non-performing consumption credit loans. The gross NPL ratio however reduced slightly to 13.4% (2003: 13.6%), relatively due to increase in the loan base. On a net basis, the NPL ratio was at 5.4% (2003: 5%).

Borrowings from the State Government (RM328.8 million) and banking institutions (RM219 million) remained the major sources of funding for SCC, accounting for a combined share of 73.8% of total resources.

Graph 7.11
Sabah Development Bank Berhad:
Direction of Lending as at 31 December 2004



Graph 7.12
Sabah Credit Corporation:
Direction of Lending as at 31 December 2004



Borneo Development Corporation (Sabah) Sendirian Berhad

Property development activities undertaken by Borneo Development Corporation (Sabah) Sendirian Berhad (BDC Sabah) slowed down in 2004. The property development expenditure and progress billings of BDC Sabah, which formed 66.8% of its total assets, declined by 3.1% to RM93.1 million as at end-2004 (end-2003: RM96.1 million).

Due to competitive lending rates offered by banking institutions, total loans outstanding declined further to RM8.9 million as at end-2004 and there was no new lending during the year. Loans to individuals accounted for 69.9% of the amount outstanding, while business enterprises accounted for the balance.

Gross NPLs increased to RM2.7 million, accounting for 30.7% of total loans as at end-2004 (end-2003: RM2.4 million or 25.4%). This was attributed mainly by high NPLs for the purchase of non-residential property, which constituted 94.5% of total gross NPLs.

Borrowings from financial institutions remained the major source of funding for BDC Sabah, which amounted to RM86.7 million or 62.3% of total resources.

Borneo Development Corporation (Sarawak) Sendirian Berhad

Property development and construction activities remained the principal activities of Borneo Development Corporation (Sarawak) Sendirian Berhad (BDC Sarawak) in 2004. The amount of stocks and work-in-progress recorded a further increase of 28% (2003: 63.6%) to RM70.3 million as at end-2004 to account for the largest share (68.1%) of BDC Sarawak's total assets.

Amidst increased competition from the banking institutions, end-financing activities for the purchase of houses remained stagnant for the second consecutive year. As a result, total loans outstanding which comprised largely loans to its staff (97.9%) for the purchase of residential property, declined further to RM0.9 million as at end-2004 (end-2003: RM1 million). Meanwhile, total investments in subsidiary and associate companies totalling RM9.6 million or 9.3% of total assets, recorded a slight decrease (-2.7%) in 2004.

BDC Sarawak sourced its funding mainly from its shareholders' funds (RM37.2 million) and borrowings from financial institutions (RM11 million), which accounted for a combined share of 46.7% of total resources (2003: 62.3%). Deposits by house buyers, totalling RM45.2 million, have also increasingly become an important source of funds for BDC Sarawak, representing 43.8% of total resources (2003: 25.6% or RM24.5 million).