Development Financial Institutions

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INTRODUCTION

Guided by the main strategic directions and road map for development financial institutions (DFIs) in the Financial Sector Masterplan (FSMP), continued efforts were made to further develop the DFIs under the Bank's purview in 2003. Policy strategies undertaken during the year remained focused on areas related to enhancing the regulatory framework and capacity building of the DFIs. Several initiatives formulated in 2002 to further strengthen the financial soundness and operational structure of the DFIs were implemented during the year.

Adopting the phased and prioritised approach, a number of prudential measures were put in place to enhance the financial and operational soundness of the DFIs, to ensure efficient and effective implementation of their mandated roles in the economy. These include Guidelines on Liquidity Requirements, Corporate Governance Standards on Directorship, Credit Card Operations, and Classification of Impaired Loans and Provisioning for Bad and Doubtful Debts. In addition, as part of the initiatives to further enhance the monitoring of activities and financial performance of the DFIs, a computerised reporting system would be implemented in early 2004.

Several prudential measures and initiatives were undertaken in 2003 to enhance the financial and operational soundness of DFIs and to ensure effective implementation of their mandated roles.

To further equip the DFIs for their role as specialised institutions, initiatives on enhancing advisory capability of DFIs to small and medium enterprises (SMEs) were commenced in 2003. At the same time, policy on minimum capital requirement was initiated to ensure DFIs have the financial capacity to sustain their operations. Recognising the wide outreach of selected DFIs, a programme to enhance access to financing for micro enterprises was also launched and implemented by these DFIs. The objective of this programme is to unlock the potential of the large number of small businesses in promoting domestic sources of economic growth.

POLICIES AND MEASURES

Building capacity and capability of DFIs

- **Enhancing advisory capacity of DFIs to SMEs**
  As specialised institutions mandated to promote certain identified economic sectors, DFIs need to complement financing facilities with non-financing facilities, in particular advisory and consultancy services to their targeted customers. To build capacity of the DFIs in providing advisory services, the Bank initiated a joint project with the assistance of the Japan International Cooperation Agency and selected DFIs to enhance the capacity of the institution to provide advisory services to SMEs. The project aims to provide action and implementation plans to improve the advisory services provided by DFIs to the SMEs.

Monitoring of DFIs' Activities and Performance

- **Development Financial Institutions Statistical System**
  To enhance the ability to measure the performance of DFIs, accurate information in a timely manner is important. Towards this end, the Bank had, in mid-2003, embarked on a project to develop a computerised reporting system to capture and generate statistical data on DFIs. The system known as the Development Financial Institutions Statistical System or DFISS, will collect relevant information from DFIs via online. To address the uniqueness of each DFI, the DFISS will capture both generic and specific information relating to their businesses.

- **Supervisory Activities**
  The Bank adopts a two-pronged risk-based supervisory approach encompassing regular on-site examinations and off-site surveillance. With the risk-based approach, supervisory attention and resources were directed to areas that pose higher degree of risks. Supervisory efforts were

primarily concentrated on ensuring that the DFIs were operationally and financially sound.

The on-site examinations by the Bank on the DFIs in 2003, inclusive of their subsidiaries, have enabled the Bank to assess the operating conditions and financial positions of the DFIs. As a result of these examinations, measures have been taken to promote the efficiency and effectiveness of individual DFIs. Capital adequacy was also assessed to ensure sustainability of the DFIs in performing their mandated roles.

The on-site examinations had in addition, focused on building institutional capacity and placing sound infrastructures in the DFIs. In this regard, emphasis was placed on instilling best practices in corporate governance structures and risk management systems. The importance of corporate governance cannot be over-emphasised for the overall health of the DFIs, as it would ensure accountability and provide incentives for the Board and management to put in place effective risk management systems. As part of establishing the effectiveness of the Board, an essential ingredient in corporate governance, interviews were conducted with the directors of DFIs to promote understanding of the roles and responsibilities as well as the commitment of the directors to the development of the institutions. As most DFIs were involved in lending activities, DFIs were also required to give attention to discipline in risk management, especially in credit risk management. The DFIs were strongly encouraged to have in place a comprehensive risk management system with appropriate management oversight to identify, measure, control and monitor risks with emphasis on the uniqueness of the targeted sectors. Data integrity and information technology capacity were also assessed to ensure safe and sound information technology operations in supporting the DFI's business activities.

To complement the on-site examinations, on-going off-site surveillance was undertaken to regularly monitor the financial health of the DFIs for early detection of any problems arising in these institutions. This included rigorous analysis of financial data, ratios and trends concerning the important areas of capital adequacy, asset quality, management, earnings performance and liquidity position. For a more effective and consultative supervisory process, arising from the examination of the DFIs, the Bank also conducted and engaged in dialogues and meetings with the Board of Directors and management of the DFIs to discuss issues following the supervisory findings.

Achievement of the DFIs' mandated roles was also assessed particularly as these DFIs were established as specialised development financial institutions to achieve national socio-economic and developmental goals. The DFIs needed to be more dynamic and proactive in enhancing the range of facilities offered through product and service innovation as well as broaden their activities by providing value-added advisory/ consultancy services and technical assistance to their customers. The DFIs were also encouraged to proactively develop key productivity indicators and other financial analysis for self-assessment on their achievement of mandated roles.

A rating framework was used in the supervisory process to assess the DFIs, both in terms of performance of their mandated objectives as well as the overall financial condition. A structured rating framework for the DFIs was developed taking cognisance of the mandated core business activities and the underlying impact on the management and financial elements of the institutions.

Strong corporate governance and risk management practices would enable DFIs to be more dynamic in the performance of the identified mandated roles. In supervising the DFIs, attention is given to the need to balance the high risk inherent in the portfolios with effective risk management, the fulfilling of the mandated roles and at the same time remaining financially viable.

Strengthening Financial Conditions and Operational Structure

During the year, the Bank also issued the following prudential policies and measures to enhance the soundness of the financial conditions of the DFIs:

- **Guideline on Liquidity Requirements**
  In 2003, minimum liquidity requirements were imposed on two DFIs, namely Bank Simpanan Nasional (BSN) and Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat), given both

institutions mobilise substantial funds through their deposit-taking activities from the public. These DFIs were required to maintain a minimum level of liquid assets as part of the measures to mitigate liquidity risks. The Bank has formulated two types of liquidity frameworks to be used in determining the minimum level of liquid assets to be maintained by Bank Rakyat and BSN.

Under the Liquid Assets Ratio Framework, BSN is required to maintain at all times a minimum liquidity ratio of at least 10% of designated assets in proportion to its total eligible liabilities.

For Bank Rakyat, the New Liquidity Framework (NLF) which is similar to that imposed on banking institutions, is used to determine the level of liquid assets to be maintained. Under this framework, the liquidity needs of Bank Rakyat are assessed based on its ability to match its short-term liquidity requirement arising from maturing obligations against maturing assets. The NLF is designed to assess liquidity at three levels. The first level assesses the sufficiency of liquidity in the normal course of business over the next one week to 12 months. The second level assesses whether a financial institution has sufficient liquidity surplus and reserves to meet sudden liquidity withdrawal shocks. The third level assesses a financial institution's general funding structure, in particular, assesses the degree of dependency on particular markets. To ensure that there is sufficient liquidity to meet its liability obligations in the near term, Bank Rakyat is required to maintain adequate liquidity surplus not only to meet expected obligations but also to sustain unexpected heavy withdrawals for at least one month.

The minimum liquidity requirement for the other DFIs will be imposed in stages.

- **Guideline on Corporate Governance Standards on Directorship**
  As part of the on-going efforts to promote strong corporate governance structures and practices in DFIs, the Guideline on Corporate Governance Standards on Directorship for DFIs was issued on 23 September 2003. This guideline aims to assist the DFIs and their stakeholders in instituting effective governance structure and oversight of board of directors. The guideline outlines the duties and responsibilities of the board of directors, minimum requirements and rules governing the appointment of directors and chief executive officer (CEO) and the establishment of board committees.

Duties and responsibilities of the Board
The guideline specifies the main duties and responsibilities of the Board. The Board is responsible for supervising the affairs of the DFIs and to be fully informed of the institution's condition and management policies in ensuring that the institution is soundly managed. In this regard, the Board is responsible for the selection and appointment of qualified and competent senior executives to administer the affairs of the institution. Specific for DFIs, the Board is responsible in steering the institution in achieving its mandated roles to provide financial services and facilities for which the institution was established for. Other main duties and responsibilities of the board of directors include ensuring that DFI's strategic focus are clearly defined, establishing and ensuring the effective functioning of Board committees, and setting up effective internal control system and internal audit functions to improve accountability.

Minimum qualification standard and training requirements for directors
This minimum qualification standard and training requirements for directors aim to ensure that board of directors of DFIs possess the necessary qualifications, skills and experience to effectively discharge their governance responsibilities. Directors of DFIs are expected to have an understanding of the nature of business and the current issues and the regulatory changes in their identified targeted sectors.

Appointment of CEO and directors
This guideline emphasises the need to appoint appropriate candidates as CEO or directors to ensure the sound operation of a DFI. Candidates must be suitably qualified with appropriate experience, calibre and impeccable integrity, in addition to being familiar with the operations, state of the internal controls, requirements of regulations and current policies affecting the DFI to ensure smooth running of the day-to-day operations of the institution. The guideline also clarifies the 'fit and proper' criteria as set out in the Development Financial Institutions Act 2002 (DFIA).

On the policy with regard to appointing practising lawyers and accountants as directors of a DFI, the guideline indicates that such appointments can be made provided that they are not employed by or are not partners in a legal firm or accounting firm, which are on the panel of lawyers or engaged to conduct audit of or consultancy work for that particular DFI.

Directorship in other corporations
The CEO is not permitted to hold any executive position in another corporation to ensure focus on the management of the institution. Directorships in subsidiaries and associate companies of the DFI should not exceed five at any one time. The Board should set policies on the maximum number of directorships that can be held by other staff of the DFI. To ensure that the non-executive director participates and is actively involved in the management and affairs of the DFI, attendance must be at least 75% of the Board meetings.

Size and composition of the Board
The guideline prescribes that DFIs are required to have at least seven directors on its board to ensure adequate number of directors to represent the interest of various stakeholders. In addition, there must be sufficient number of independent directors to provide a balanced view and opinion in the Board. The guideline also restricts the maximum number of executive directors on the Board to two.

Board committees
To assist the Board in discharging its responsibilities effectively, the Board is required to set up four board committees with specific functions and responsibilities. The setting up of these committees at the board level facilitates active involvement of the Board in various policy formulation and to provide oversight and direction on critical aspects of the organisation. The four committees are: Audit and Examination Committee, Nomination Committee, Remuneration Committee, and Risk Management Committee. The guideline provides the terms of reference, composition, minimum qualification where necessary and conducts of the respective committees.

- **Guideline on Credit Card Operations for Bank Simpanan Nasional**
  As part of the process to further increase the awareness with regard to the products and banking services and to implement the measures on consumer protection, a Guideline on Credit Card Operations which was issued to the banking institutions was also extended to BSN being one of the credit card issuers. The guideline was effective from 28 July 2003.

  Under the guideline, BSN is required to comply with the requirements on the minimum age and income requirements, placement of fixed deposit, prudent lending, minimum monthly payment, fees and charges, and classification of impaired loans/financing and provisioning for bad and doubtful debts with immediate effect. The compliance with the requirements pertaining to terms and conditions, statement on minimum monthly payment, minimum disclosure on fees and charges, supplementary cardholder's liability, liability for lost or stolen credit card, and consumer awareness and education program were effective from 28 January 2004.

- **Guideline on Classification of Impaired Loans and Provisioning for Bad and Doubtful Debts**
  This guideline was issued pursuant to Section 41 of DFIA to all DFIs under the Bank's purview excluding the Malaysia Export Credit Insurance Berhad (MECIB) on 13 March 2003. The guideline sets out the minimum standards on classification of impaired loans and advances and provisioning requirements for such assets of DFIs. The guideline aims to ensure that impaired assets and potential losses are identified and recognised in a timely manner, and loan assets and income are fairly and prudently stated.

  The guideline stipulates minimum categories of classification for impaired loans, amount of specific provision to be set aside for different categories of impaired assets, treatment of interest income of impaired assets, and general provision to be set aside for the loan portfolio. The impaired assets are categorised according to the degree of recoverability of the loans. Loans with no probability of recovery are accorded with 'bad' classification, 'doubtful' when the chances of recovery are improbable and with high risk of ultimate default, and 'substandard' when there is more than the normal risk of loss.

  The guideline requires DFIs to suspend all interest accrued when the loan/financing is classified. On minimum provisioning requirements, the guideline requires the DFIs to maintain loan loss provision at a level that is adequate to absorb potential loan/financing losses. The provisions required are in the form of specific provision and general provision. While specific provision refers to provision for loan losses of specific loan accounts, general provision refers to provision for loan losses of the overall loan portfolio. For the specific provision, the DFIs are required to gradually build up the provision for potential loan losses according to the degree or category of classified assets. DFIs are required to provide 10% of the uncovered exposure for loans classified substandard, 50% for doubtful classification, and eventually full provision for loans classified bad. The DFIs are also required to set aside provisions for off-balance sheet items where the DFIs face credit risk from failure of counter-parties to fulfill their contractual obligations.

The guideline requires the DFIs to review the adequacy of both specific and general provision regularly at least every 6 months. This is to ensure that the provisions set aside are consistent with current information on the collectibility of the loans. In addition, the DFIs' assessment of the adequacy of the provisions need to be performed in a systematic and consistent manner, in conformity with the objective criteria and be supported by adequate documentation.

The guideline also emphasises active involvement of the Board of Directors and management in ensuring that approval and formulation of policy on classification of impaired loans and provisioning policy of the DFIs is consistent with the minimum standards that have been set.

- **Circular on Use of Generic Names and "i" Indicator for Islamic Banking Products**
  To increase awareness in Islamic products and services offered by banking institutions and to streamline and standardise the generic names for Islamic banking products, the Bank issued a guide on the use of standardised generic names to financial institutions offering Islamic banking products. The Bank requires all banking institutions including DFIs that provide Islamic banking products and services to use standardised generic names as set out in the list and to use "i" indicator for marketing and advertising of Islamic banking products in all media, brochure and product pamphlet, and other printed forms or promotion events.

- **Circular on Permission for New Products and Services**
  On 26 April 2003, a Circular on Permission for New Products and Services was issued with the objectives to ensure that DFIs remained focus on their mandated activities and at the same time avoid undertaking unnecessary risks in performing their mandated role. In addition, it aimed to ensure that the products meet the customers' requirements.

PERFORMANCE OF DEVELOPMENT FINANCIAL INSTITUTIONS

The financing activities of the DFIs improved in 2003, in tandem with the overall growth of the economy.

Table 6.1
Development Financial Institutions[1] : Sources and Uses of Funds

	Annual Change		As at end 2003
	2002	2003	
	RM million		
Sources:			
Shareholders' funds	999	1,592	9,498
Paid-up capital	*596*	*1,180*	*7,193*
Reserves	*321*	*-122*	*1,395*
Retained earnings	*82*	*534*	*910*
Deposits accepted	492	2,585	42,383
Borrowings	1,111	2,100	16,076
Government	*2,250*	*2,481*	*11,356*
Multilateral / International agencies	*113*	*-399*	*3,036*
Others	*-1,252*	*18*	*1,684*
Others	1,779	369	11,135
Total	**4,381**	**6,646**	**79,092**
Uses:			
Deposits placed	3,456	1,393	17,113
Investments	-2,700	1,874	21,142
of which:			
Government securities	*-219*	*66*	*3,562*
Shares	*1,328*	*-629*	*5,799*
Quoted	*847*	*-3*	*5,323*
Unquoted	*481*	*-626*	*476*
Loans and advances	4,956	3,106	32,548
Fixed assets	595	99	3,706
Others	-1,926	174	4,583
Total	**4,381**	**6,646**	**79,092**
Contingencies:			
Guarantee	-182	493	3,653
Export credit insurance	3	-26	125
Total	**-179**	**467**	**3,778**

[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, Malaysian Industrial Development Finance Berhad, Sabah Development Bank Berhad, Borneo Development Corporation (Sabah) Sendirian Berhad, Borneo Development Corporation (Sarawak) Sendirian Berhad, Bank Pertanian Malaysia, Credit Guarantee Corporation Malaysia Berhad, Sabah Credit Corporation and Lembaga Tabung Haji.

The DFIs provided financing to strategic sectors and sub-sectors of the economy. These included agriculture, capital-intensive and high technology industries, shipping, infrastructure, manufacturing, export, Bumiputera entrepreneurs, co-operatives as well as home ownership and property development at the state level, namely in Sabah and Sarawak. In 2003, two DFIs, namely BSN and Bank Pertanian Malaysia (BPM), were appointed by the Government to implement the micro credit scheme, which was part of the Government's Economic Package announced in May 2003.

Financing Activity

Total loans outstanding of the DFIs increased at an annual rate of 10.5% or RM3.1 billion (2002: 20.2% or RM5 billion) to RM32.5 billion as at end-2003, led by lending to the infrastructure sector by Bank Pembangunan dan Infrastruktur Malaysia Berhad (Bank Pembangunan) and retail financing by Bank Rakyat.

In terms of overall sectoral distribution, consumption credit rose strongly by 20.1% representing 24.8% of total loans outstanding of the DFIs. Loans outstanding to the construction, and transport, storage and communication sectors as a group increased by 3.8%, representing 26% of total loans. Growth was also recorded in the agriculture and manufacturing sectors, at 10.2% and 8.9% respectively, contributing 21.3% to total loans outstanding of the DFIs. In regard to credit insurance and credit guarantee, total outstanding insurance and guarantee coverage provided by the relevant DFIs increased by 14.1% to RM3.8 billion as at the end of the year, contributed by significantly higher guarantee coverage provided by the Credit Guarantee Corporation Malaysia Berhad (CGC).

Lending by six DFIs that are under the purview of DFIA increased during the year. Bank Pembangunan's financing of the infrastructure sector and Bumiputera SMEs increased by 11% and 4.6% respectively. In addition, the bank provided advisory services and training to the SMEs. Retail financing provided by Bank Rakyat to its members rose strongly by 20.8% while BSN registered a strong increase of 15.8% in its lending activities due to loans extended under the micro credit scheme. Meanwhile, the Export-Import Bank of Malaysia Berhad (EXIM Bank) recorded growth of 2.1% in its lending activities. Declines in lending/underwriting activities were, however, recorded by Bank Industri & Teknologi Malaysia Berhad (Bank Industri) and MECIB by 7.6% and 9.9% respectively, due primarily to capital constraints. For the deposit-taking DFIs, savings mobilised by BSN increased by 0.1% whilst that by

Table 6.2
Development Financial Institutions[1] : Direction of Lending

	Annual Change		As at end
	2002	2003	2003
	RM million		
Agriculture, forestry and fishery	214	302	3,266
Mining and quarrying	44	6	96
Manufacturing	209	298	3,654
Electricity, gas and water supply	119	170	624
Import and export, wholesale and retail trade, restaurants and hotels	-378	166	406
Broad property sector	2,140	567	8,408
Construction	*1,444*	*228*	*4,019*
Purchase of residential property	*191*	*162*	*2,948*
Purchase of non-residential property	*124*	*50*	*443*
Real estate	*381*	*127*	*998*
Transport, storage and communication	1,502	80	4,443
Finance, insurance and business services	480	96	1,876
Consumption credit	1,312	1,351	8,067
Others	-686	70	1,708
Total	**4,956**	**3,106**	**32,548**

[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, Malaysian Industrial Development Finance Berhad, Sabah Development Bank Berhad, Borneo Development Corporation (Sabah) Sendirian Berhad, Borneo Development Corporation (Sarawak) Sendirian Berhad, Bank Pertanian Malaysia, Credit Guarantee Corporation Malaysia Berhad, Sabah Credit Corporation and Lembaga Tabung Haji.

Table 6.3
Development Financial Institutions[1] : Non-performing Loans and Loan Loss Provisions

	As at end	
	2002	2003
	RM million	
General provisions	614	667
Interest-in-suspense	1,152	1,224
Specific provisions	2,163	2,135
Non-performing loans	5,028	4,934
	Percent (%)	
Gross NPL ratio[2]	17.7	15.7
Net NPL ratio[3]	6.8	5.6
Total provisions/NPL	78.1	81.6

[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, Malaysian Industrial Development Finance Berhad, Sabah Development Bank Berhad, Borneo Development Corporation (Sabah) Sendirian Berhad, Borneo Development Corporation (Sarawak) Sendirian Berhad, Bank Pertanian Malaysia, Credit Guarantee Corporation Malaysia Berhad and Sabah Credit Corporation.

[2] Gross NPL ratio = (NPL / Gross loans*) x 100%.
* Excluding loans under ECR scheme.

[3] Net NPL ratio = (NPL less IIS less SP) / (Gross loans* less IIS less SP) x 100%.
* Excluding loans under ECR scheme.

Bank Rakyat increased strongly by 16.8% partly due to attractive returns offered by the bank.

Gross NPLs of the DFIs declined by RM94.1 million to RM4.9 billion as at the end of the year, resulting in an improvement in the gross NPL ratio to 15.7% compared with 17.7% a year ago. Nevertheless, the gross NPL levels of most DFIs remained high, ranging from 9% to 46.1% of total loans outstanding. All DFIs under the purview of DFIA classified a loan or financing account in default for six months or more as non-performing.

As a group, the DFIs have made provisions amounting to RM4 billion to cover potential loan losses. The net NPL amount and ratio of the DFIs stood at RM1.6 billion or 5.6% respectively as at end-2003 (2002: RM1.7 billion or 6.8%).

Sources of Funding

Total deposits mobilised by the deposit-taking DFIs increased by 6.5% to RM42.4 billion as at end-2003. Deposits from individuals recorded a growth of 5.4% (RM1.1 billion), accounting for the largest share of total deposits mobilised (51.2%). Lembaga Tabung Haji and BSN remained dominant in mobilising savings from individuals, with the former recording an increase of 9.9%, while the latter registering a decline of 5.8% in 2003. Deposit placements by business enterprises, and the Government and Government agencies accounted for 33.9% and 12.1% respectively of total deposits.

Borrowings from the Government, which amounted to RM11.4 billion as at end-2003 (2002: RM8.9 billion), represented 14.4% of total resources. Borrowings from the Government were used primarily to enhance access to financing. The operations of the DFIs were also funded by shareholders' funds totalling RM9.5 billion or 12% of total resources.

In 2003, four DFIs recorded pre-tax/zakat losses totalling RM34.8 million, mainly due to poor asset quality. The remaining 10 DFIs recorded pre-tax/zakat profits totalling RM715.7 million.

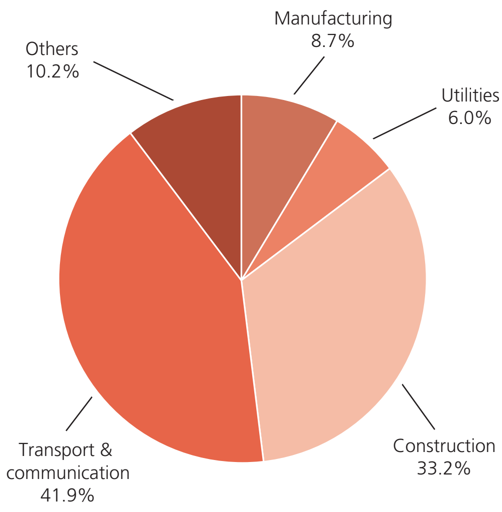
Bank Pembangunan dan Infrastruktur Malaysia Berhad

Bank Pembangunan dan Infrastruktur Malaysia Berhad's (Bank Pembangunan) primary roles are promoting the participation of the Bumiputera community in business and industry, and providing financing for infrastructure projects, in particular Government-identified projects. Bank Pembangunan registered an increase in its lending activities in 2003.

Bank Pembangunan also provides advisory services, entrepreneurial training and project consultancy services to enhance the business capabilities of Bumiputera SMEs. As part of the efforts to promote the development of a viable and resilient Bumiputera Commercial and Industrial Community, Bank Pembangunan introduced two new packages known as "Premis SMI" or "SMI Premises" and "Groombig" in 2003. Under the "SMI Premises" package, apart from low rental rates for its factory complexes, Bank Pembangunan also provides loans, advisory services (which include financial, corporate and technical advice), training and matching grants (whereby Bank Pembangunan provides grants amounting to 70% of total project cost). As at end-2003, Bank Pembangunan rented 229 of the 368 factory units to SMEs. In the case of the "Groombig" package, which is aimed at enhancing the performance of the larger sized SMEs, the entrepreneurs were provided with loans, advisory services and training. In 2003, a total of 29 companies were identified to participate in this programme.

Total loans outstanding to Bumiputera SMEs increased by 4.6% (2002: -5.6%) to RM1.3 billion as at end-year. Overall, including lending to non-Bumiputera SMEs, total loans outstanding to SMEs stood at RM1.6 billion, an increase of 5.9% over the level at end-2002.

Graph 6.1
Bank Pembangunan dan Infrastruktur Malaysia Berhad:
Direction of Lending as at 31 December 2003



Loans to finance infrastructure projects recorded a slower growth of 11% in 2003 compared with 56.5% in 2002. The outstanding loans for infrastructure projects totalled RM8.6 billion as at end-2003, accounting for 84.5% of total loans outstanding. These were mainly to finance Government-identified infrastructure projects. The loan increase was attributed largely to loans extended to the transport and communication (RM80.8 million), construction (RM331.2 million) and utilities (RM163.3 million) sectors. Overall, the loan portfolio of Bank Pembangunan increased by 10.2% to RM10.2 billion as at end-2003, representing 68.5% of Bank Pembangunan's total assets.

As at end-2003, Bank Pembangunan managed 26 Government funds. Loan approvals and loan disbursements under these funds increased by 203.8% (+RM334.6 million) and 63.4% (+RM82 million) respectively. The Tourism Infrastructure Fund and Special Tourism Fund 2 were the main beneficiaries with approvals of RM132.5 million and RM187.2 million respectively.

Gross NPLs increased to RM912.6 million representing 9% of total loans as at end-2003 (2002: RM769.8 million or 8.3%), attributed largely to higher NPLs for infrastructure loans. The gross NPL ratio of infrastructure loans rose to 4.2% (2002: 2.6%), while the level of NPLs for SME loans declined to 35% (2002: 38.2%). The net NPL ratio of Bank Pembangunan showed a marginal decline from 3.2% to 3.1%.

During the year, the investment portfolio decreased by 36.6% (RM574.4 million) following the disposal of private debt securities (PDS) and Government debt securities. Investments in PDS of RM757.5 million formed the largest component of Bank Pembangunan's investment which stood at RM995.4 million as at end-2003. Deposits placed with financial institutions increased to RM2.6 billion (2002: RM1.5 billion) to account for 17.5% of total assets.

The main sources of funding were borrowings from the Government (RM4.2 billion), deposits from Government agencies and public enterprises (RM3.8 billion), borrowings from multilateral and international agencies (RM1.4 billion), debt securities issued (RM1 billion) and Government grants and subsidies (RM644.7 million), accounting for 74.3% of Bank Pembangunan's total resources. During the year, Bank Pembangunan's shareholders' funds increased by RM234 million to RM2.5 billion. Bank Pembangunan's paid-up capital rose to RM1.6 billion following additional capital injection of RM400 million by the Government.

Bank Industri & Teknologi Malaysia Berhad

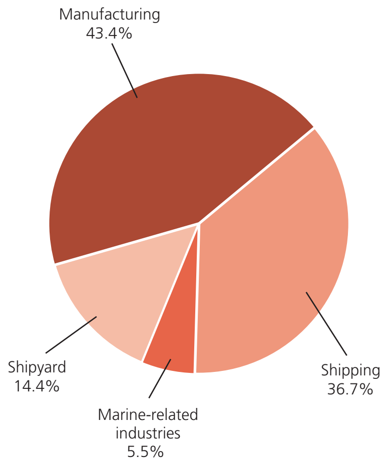
The lending activities of Bank Industri & Teknologi Malaysia Berhad (Bank Industri) declined in 2003, by 7.6% (2002:-9.3%) to RM837.3 million as at end-year. The maritime sector (comprising shipping, shipyard and marine-related industries) was the main recipient of the loans, representing 56.6% of total loans outstanding, while the manufacturing sector accounted for the remaining loans. As at end-2003, total loans outstanding accounted for 19.8% of Bank Industri's total assets of RM4.2 billion.

Loan approvals declined by 4.7% (2002: +17.7%), given that in 2003, the utilisation of the New Ship Financing Facility was restricted to financing of merchant vessels only. The approvals for the manufacturing sector meanwhile continued to record positive growth. During the year, lending activities of Bank Industri were also constrained by the level of its shareholders' funds.

Bank Industri managed 13 Government funds during 2003, representing 34.9% of the total loans of Bank Industri. Loan approvals and loan disbursements under the funds continued to fall markedly, by 31.3% and 28% respectively, as most of the funds have been fully utilised.

Gross NPLs decreased by RM1.4 million to RM323.6 million as at end-2003. However, due to a significant

Graph 6.2
Bank Industri & Teknologi Malaysia Berhad: Direction of Lending as at 31 December 2003



contraction in the loan base, the gross NPL ratio increased to 38.6% (2002: 35.8%). Loans to the maritime sector accounted for 56.6% of total NPLs while the manufacturing sector accounted for the balance. The net NPL ratio fell marginally to 18.4% from 18.9% a year ago.

Investment in subsidiaries (RM1 billion) and loans and advances to subsidiaries (RM840.7 million) formed the largest component (44.2%) of the bank's assets as at end-2003. The investment and advances were mainly in four subsidiaries, namely MECIB, EXIM Bank, Global Maritime Ventures Berhad and BI Credit and Leasing Berhad.

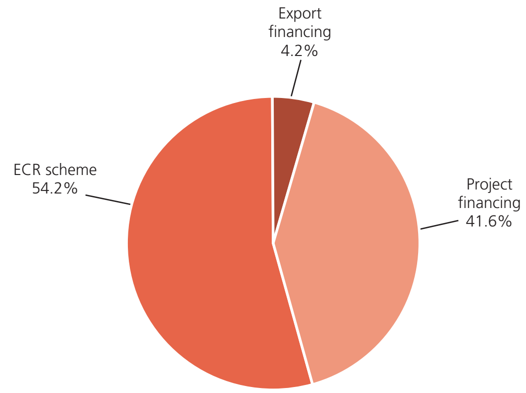
Borrowings formed the largest source of funding for Bank Industri, amounting to RM2.3 billion (54% of total resources) as at end-2003, of which 52.7% from the Government and 47.3% from multilateral and international agencies. Another major source of funding was deposits placed by Government and Government agencies, totalling RM678.3 million. The shareholders' funds of Bank Industri rose to RM280.2 million as at end-2003 (2002: RM164.3 million) mainly from the capital injection of RM80 million by the Government in June 2003 as part of the Government's Economic Package.

Export-Import Bank of Malaysia Berhad

Financing activities of Export-Import Bank of Malaysia Berhad (EXIM Bank) to promote the export of Malaysia's goods and services recorded an increase of 2.1% to RM2.1 billion in 2003. New loans approved, however, recorded a marked increase of 24.5% or RM92.8 million, reflecting the significant growth of Malaysian exports during the year. The two major activities were financing provided under the Export Credit Refinancing (ECR) scheme (54.2% of total loans) and financing of overseas projects (41.6%), while export financing constituted 4.2%. The bank also provided export guarantee of RM172.3 million, a decline of 2.1% from the previous year.

During the year, financing of overseas projects fell further to RM866.2 million, constrained by the small size of the bank's shareholders' funds. Nearly half of the total was channelled to projects undertaken in countries in the African continent and another 36.9% in South-East Asia. Meanwhile, the sole guarantee issued was for a project undertaken in South-East Asia. Consistent with its mandated role to promote the diversification of Malaysia's export markets, loans to non-traditional markets accounted for 60.4% of the total principal loans outstanding

Graph 6.3
Export-Import Bank of Malaysia Berhad: Credit Facilities as at 31 December 2003



as at end-2003. For project financing, 63.7% was channelled to non-traditional markets, while 32.4% of the export financing was channelled to the same markets.

EXIM Bank is the designated agency to manage the ECR scheme which is funded by the Government as part of the efforts to promote exports. Competitive rates are offered to banks participating in the scheme for on-lending to exporters. EXIM Bank disbursed a total of RM6.6 billion to exporters under the ECR scheme, an increase of 7.5% from the level in 2002,in line with the growth in Malaysia's exports and the increase in the customer base by 7% to 1,760 exporters. The major users of the facility were exporters in the palm oil products, rubber products, chemical products and textiles industries.

Loans outstanding formed the largest asset of EXIM Bank amounting to a share of 60.3% whilst deposit placements accounted for 37.5% of EXIM Bank's total assets.

Gross NPLs improved during the year, to RM439.9 million (2002: RM450.9 million), representing 46.1% of total loans outstanding, excluding loans provided under the ECR scheme (2002: 46.7%). Project financing accounted for the largest component of NPLs at 92.6%. The net NPL ratio declined to 2.3% after significant provisioning of RM436.3 million.

The bank sourced its funds through borrowings from the Government, international agencies and its parent company, apart from its shareholders' funds of RM238.2 million. As at end-2003, borrowings from the Government amounted to RM2 billion, international agencies RM298.2 million and, its parent company RM369.7 million. These borrowings accounted for 78% of the bank's total resources. Borrowings from the Government were utilised solely for the ECR scheme.

Following the signing of Multilateral Letter of Credit Confirmation Facility Agreements with seven Asian export-import financing institutions in 2002 in order to promote trade within the region, EXIM Bank signed Bilateral Letter of Credit Confirmation Facility Agreements with Korea EXIM Bank and India EXIM Bank, to further enhance Malaysia's bilateral trade with the respective countries.

Malaysia Export Credit Insurance Berhad

The activities of the Malaysia Export Credit Insurance Berhad (MECIB), which provides insurance cover and guarantee facilities to facilitate exports and overseas investment, continued to decline in 2003. Total insurance coverage and guarantees issued amounted to RM496.6 million as at end-2003, a decline of 9.9% (2002: -13.3%), although coverage under short-term credit insurance facilities increased by 12.9% in tandem with Malaysia's export growth. Of the total coverage, 74.7% was guarantees issued and the remaining were export credit insurance covers. The guarantee coverage were largely medium- and long-term exposures while the export credit insurance cover was mainly short-term in nature. MECIB faced capital constraints to engage in large medium- and long-term business.

Non-traditional markets accounted for 40.8% of the total guarantee and insurance coverage, reflecting MECIB's role in supporting Malaysia's export market diversification efforts. Exposure to countries in East Asia accounted for 46.9% of the total exposure, followed by Africa 12.7% and South Asia 12%. MECIB funded its activities solely from its shareholders' funds, which improved slightly to RM76.6 million as at end-2003 (2002: RM45.6 million). The loss percentage, indicating the ratio of claims paid to premiums received, improved to 29.3% as at the end of 2003, compared with the level of 55.3% recorded at the end of 2002.

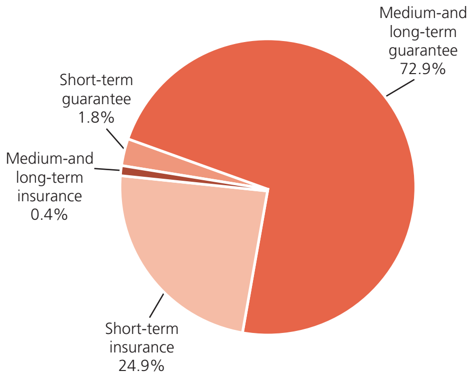
The main assets of MECIB were investments in securities and deposits placed with financial institutions, accounting for 45.1% and 40.3% of total assets respectively.

Bank Kerjasama Rakyat Malaysia Berhad

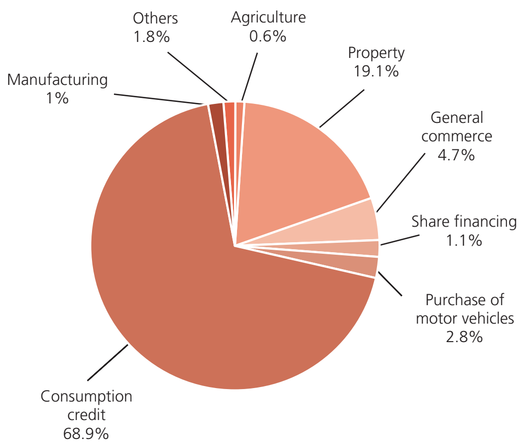
Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat) or People's Cooperative Bank of Malaysia registered strong growth both in financing and deposit mobilisation activities. Bank Rakyat's assets increased significantly by 17.7% to RM17.1 billion as at the end of the year. Financing formed the major portion (58.2%) of total assets, followed by deposit placements (24.5%) and investment in securities (14.2%).

Financing activities grew strongly by 16.9% to RM10 billion, with borrowings by members, which accounted for 77.7% of total financing outstanding, increasing by 20.8%. Demand for consumption credit continued to register a significant growth of 18.6% to RM6.9 billion as at end-year. Financing extended to the property sector grew by 15.8% to RM1.9 billion, reflecting primarily

Graph 6.4
Malaysia Export Credit Insurance Berhad: Contingent Liabilities as at 31 December 2003



Graph 6.5
Bank Kerjasama Rakyat Malaysia Berhad: Direction of Financing as at 31 December 2003



strong demand for residential properties. Financing of motor vehicles also registered strong growth of 136% although its share remained small at only 2.8%. In terms of sectoral distribution, consumption credit accounted for 68.9% of the financing outstanding whilst 19% and 4.7% were extended to the property sector and general commerce respectively. New financing approved and disbursed remained relatively unchanged at RM3.6 billion and RM3.7 billion respectively (2002: RM3.6 billion and RM3.5 billion respectively).

The gross non-performing financing (NPF) ratio fell marginally to 10.7% from 11.4% while the outstanding gross NPF increased slightly to RM1.1 billion from RM974.2 million. The property sector and consumption credit contributed 39.8% and 35.4% respectively, to total gross NPF. In terms of net NPF, the ratio was 5.2%.

Bank Rakyat's financing operations were largely funded by deposits, totalling RM13.1 billion and representing 76.6% of the bank's total resources. Deposits placed by business enterprises accounted for a major share (66.7%), of which two-thirds was from private enterprises while the remaining from public enterprises. Deposits mobilised from individuals saw a significant growth of 39.3% (RM454.9 million), raising its share of total deposits to 12.3% (2002:10.3%), attracted by the high rate of return offered by Bank Rakyat. Similarly, deposits of cooperatives rose strongly by 54.1% in 2003 although its share was only 2.6% at RM339 million. Overall, deposits mobilised by Bank Rakyat continued to register a strong growth of 16.8% (RM1.9 billion) due primarily to the favourable returns offered by the bank.

Bank Rakyat's shareholders' funds rose from RM1.8 billion to RM2.5 billion as at end-2003. This was attributed to higher members' shares and subscription funds, which increased to RM1.3 billion (2002: RM0.9 billion). Bank Rakyat's improved profitability in 2003 further enlarged the bank's shareholders' funds. During the year, the individual membership of Bank Rakyat increased by 86,770 to 629,907 while cooperative membership increased by 84 to 1,067. The high dividend rate of 15% declared by Bank Rakyat in 2002 and the privilege loan rate offered to members attracted additional membership.

Bank Simpanan Nasional

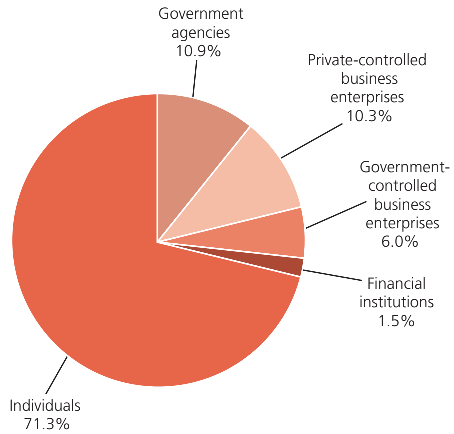
Savings mobilised from small savers by Bank Simpanan Nasional (BSN) or National Savings Bank declined while deposits from business enterprises rose sharply by 54.9%. Retail loans to small borrowers increased in 2003, consistent with the role of the savings bank to meet the financing needs of small borrowers. In June 2003, BSN was appointed by the Government to implement the micro credit scheme. As at the end of 2003, BSN operated through 398 branches covering both the urban and rural areas, and supported by 591 ATMs.

Total deposits outstanding increased marginally by 0.1% or RM4.9 million during the year to RM9.4 billion. Savings from individuals continued to account for the largest component (71.3%) of the deposit base although such savings declined by 5.8% or RM411.4 million to RM6.7 billion, compared with growth of 4.1% or RM284.1 million in 2002. The increase of deposits from business enterprises was in part due to the requirement for micro credit borrowers to open an account with BSN. In terms of type, more than one-half of the deposits was in the form of savings deposits, 36.3% fixed deposits and the remaining in the form of general investment deposits.

The deposits were mainly invested in securities, which amounted to RM5.5 billion (49.8% of total assets) as at end-2003, of which RM2.8 billion were investments in Government securities. The balance was utilised to finance lending operations.

Total loans outstanding registered strong increase of 15.8% (2002: -7.4%) to RM2.4 billion, reflecting the loans provided under the micro credit scheme which

Graph 6.6
Bank Simpanan Nasional:
Total Deposits Accepted as at 31 December 2003



was launched in June 2003 as part of the Government's Economic Package. As at end-2003, a total of RM415.6 million had been extended under the micro credit scheme, accounting for 17% of total loans outstanding. BSN received 102,432 loan applications under the scheme, of which 60,364 applications amounting to RM541.8 million and RM430.8 million were approved and disbursed respectively. The micro credit borrowers were involved mainly in food stall business, retail trading and business services. Meanwhile, more than 90% of the loans outstanding, excluding micro credit, was extended to individuals mainly in the form of consumer loans and for purchase of residential property.

Gross NPLs decreased marginally by RM21.9 million to RM297.4 million as at the end of 2003, attributed to a decline in NPLs of credit card loans. NPLs of Giro Housing Loans increased marginally by 1% to RM158.6 million while NPLs of motor vehicle loans fell slightly by 1.2% to RM112.5 million. The gross NPL ratio improved to 12.2% as at end-2003 (2002: 15.1%) largely due to an expansion in the loan base. Net NPLs decreased to 6.6% amounting to RM154.6 million.

In 2003, BSN's reserves strengthened following the capital injection of RM100 million by the Government under the Economic Package.

Bank Pertanian Malaysia

Financing activities of Bank Pertanian Malaysia (BPM) or Agriculture Bank of Malaysia increased significantly in 2003. Under the Eighth Malaysia Plan (8MP), BPM had been mandated to manage various agricultural financing schemes with the objective to enhance the performance of the agriculture sector in the economy. In 2003, BPM received an allocation of RM44.5 million for three financing schemes namely, Food Production Credit, Bumiputera Commercial and Industrial Community Scheme and Agricultural Mechanisation and Automation Scheme. In addition, as part of the Government's Economic Package, BPM was appointed to implement the micro credit scheme.

Total loans outstanding increased strongly by 16.2% to RM2.7 billion as at end-2003 following the launching of the micro credit scheme. Since its launch in June 2003, BPM received a total of 30,004 applications under the scheme and approved 17,237 applications with a value of RM199.3 million as at end-2003. A total of RM194 million had been disbursed to borrowers, mainly involved in agrobased projects, agriculture marketing, crop cultivation and livestock rearing.

Of the loans outstanding, a major part (60.5% or RM1.7 billion) was extended to the oil palm, food crop and livestock industries. Meanwhile, small farmers accounted for 43.8% (RM1.2 billion) of loans outstanding. As at end-2003, loans outstanding represented 45.6% of BPM's total assets of RM6 billion.

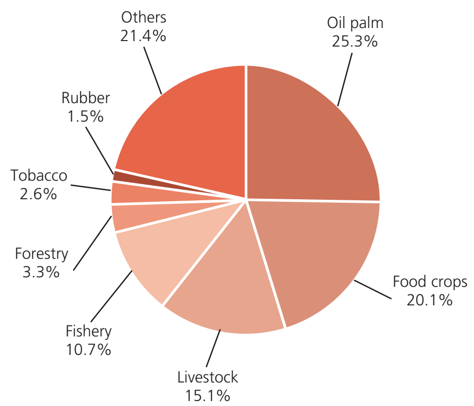
BPM approved 27,735 loan accounts, and disbursed a total of RM709.2 million during the year. Small farmers continued to be the main target group with 98.4% of the total loan applications approved. Although the number of applications approved increased during the year, in terms of value, the amount approved showed a decline of 7.9% to RM709.2 million, as most of the loans were small in size.

Gross NPLs amount and ratio on a 12-month classification basis improved further to RM889.2 million and 32.4% respectively (2002: RM894.3 million and 37.8% respectively). Net NPLs stood at RM326.4 million or 15% of total net loans.

Investments formed the second largest component of the total assets of BPM at 31.9% or RM2 billion mainly in PDS (37.2% of total investment), unit trusts (29.6%) and promissory notes/commercial papers (25.3%).

The major source of funds for BPM was deposits of RM3.8 billion mobilised through its network of 119 branch offices and 4,907 mobile units nationwide.

Graph 6.7
Bank Pertanian Malaysia:
Direction of Lending as at 31 December 2003



This represented 62.5% of BPM's total resources. Borrowings from the Government totalled RM1.1 billion, accounting for 18.7% of total resources. These were mainly to fund the various financing schemes introduced by the Government. As at end-2003, BPM managed 11 funds with loans outstanding amounting to RM206.4 million or 10.8% of the total loans of BPM.

In 2003, BPM's shareholders' funds strengthened following the capital injection of RM200 million by the Government under the Economic Package and the profit recorded in the financial year 2003.

Malaysian Industrial Development Finance Berhad

Financing activities of Malaysian Industrial Development Finance Berhad (MIDF) recorded a marginal increase in 2003. During the year, MIDF was appointed as the implementing agency for the new Soft Loan Scheme for Factory Relocation administered by the Small and Medium Industries Development Corporation (SMIDEC). Consistent with the growing demand for Islamic financing products, MIDF introduced Islamic financing in October 2003, offering a wide range of Shariah compliant schemes.

Loans outstanding grew by 6.4% to RM1.1 billion as at end-2003. Loan disbursements increased significantly to RM312.3 million (2002: RM240.6 million). The loans outstanding were mainly for the manufacturing sector (82.4%), with the major beneficiaries being the fabricated metal products and machinery industry (17.2%), basic iron and steel and non-ferrous products industry (16%), and wood products industry (15.4%).

Meanwhile, loans outstanding to SMEs accounted for 50.1% of total loans.

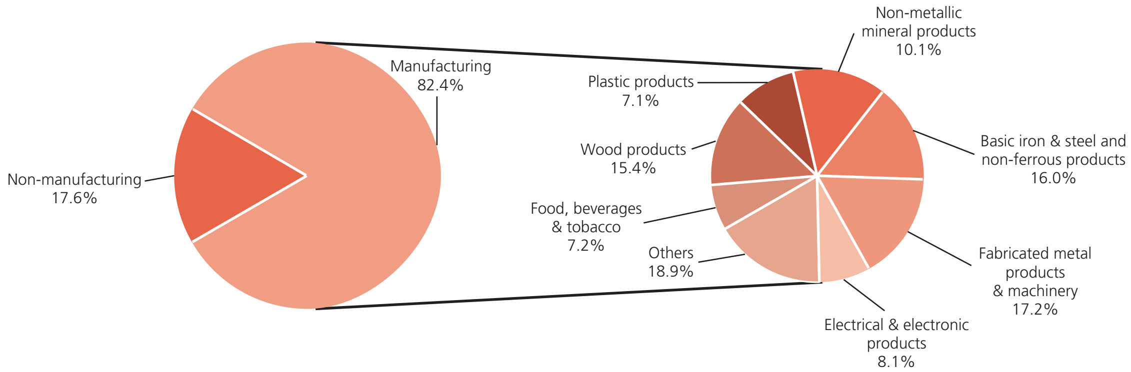
During the year, loan approvals increased to RM493.7 million (2002: RM409.6 million), of which 85.3% was for manufacturing establishments and 19.1% was for Bumiputera projects.

Asset quality of MIDF improved significantly. Based on 3-month classification, the gross NPL amount and ratio improved to RM337.9 million (2002: RM524.9 million) and 29.8% (2002: 49.2%) respectively, due to resolution of some NPL cases totalling RM195.4 million.

MIDF managed a total of ten Government and Government agencies funds with total loans outstanding of RM328.6 million, an increase of 34.3%. Loans approved under the special loan schemes decreased to RM151.4 million (2002: RM190.2 million) while loans disbursed increased to RM134.8 million (2002: RM116.6 million).

The main sources of funds were shareholders' funds and borrowings. As at end-2003, total shareholders' funds increased by 26.8% to RM1.3 billion (2002: RM1 billion) following the issue of new shares, accounting for 46.1% of total resources. Meanwhile, borrowings accounted for another 40.2% of total resources. This included RM641.6 million sourced directly or indirectly from the Government to be on-lent for socio-economic purposes. MIDF also raised funds from the capital market amounting to RM528.8 million as at end-2003 for its other corporate lending activities.

Graph 6.8
Malaysian Industrial Development Finance Berhad: Direction of Lending as at 31 December 2003



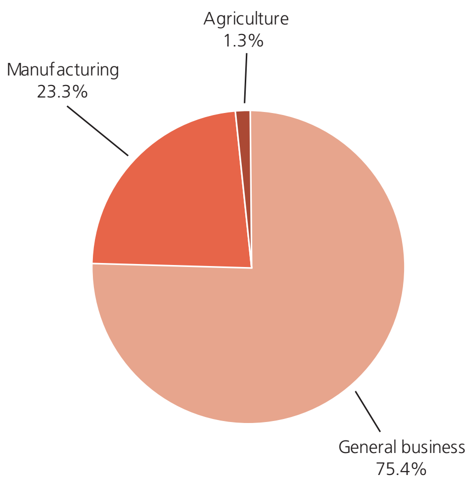
Credit Guarantee Corporation Malaysia Berhad

The principal objective of the Credit Guarantee Corporation Malaysia Berhad (CGC) is to assist SMEs enhance their access to credit facilities. There was a significant increase in guarantees issued in 2003, contributing to facilitating financing to SMEs by banking institutions.

In 2003, CGC launched the revised and liberalised New Principal Guarantee Scheme and Islamic Banking Guarantee Scheme to facilitate SMEs obtain higher financing. CGC also introduced the Special Relief Guarantee Scheme to provide coverage for working capital provided by banking institutions for businesses affected by the Severe Acute Respiratory Syndrome, especially those involved in the tourism industry. In addition, CGC has engaged consultants under its Business Advisory Service Entity plan to assist SMEs, particularly in preparing business plans and financial documents. Meanwhile, an online posting of Direct Access Guarantee Scheme (DAGS) loans for bidding by the banking institutions was launched to facilitate financing to SMEs.

Total guarantees outstanding recorded a strong growth of 18.3% (2002: –3.9%) to RM3 billion as at end-2003. This was mainly attributed to the strong performance of DAGS and the Flexi Guarantee Scheme (Flexi Guarantee). Since the introduction of DAGS in 2000, guarantees outstanding of this scheme continued to rise markedly, by 120.4% in 2003 to RM718.3 million, as the revised programme

Graph 6.9
Credit Guarantee Corporation Malaysia Berhad: Guarantee by Sector as at 31 December 2003



enabled more SMEs to gain access to the scheme. Guarantees outstanding for the Flexi Guarantee also expanded significantly, by 108.5% or RM262.6 million to RM547.6 million as at end-2003. This was a turnaround from a decline of 25.4% or RM89.2 million experienced in 2002. The high growth of Flexi Guarantee reflected mainly the higher demand for loans extended under the Fund for Small and Medium Industries 2 (FSMI 2) and New Entrepreneurs Fund 2 (NEF 2).

Borrowers with loan size of below RM250,000 continued to be the main beneficiary, accounting for 41.2% of total guarantees outstanding. They were followed by borrowers with loans of between RM250,000 and RM500,000 (25.5%) and those with loan size of between RM500,000 to RM1 million (24.7%). Guarantees for loans of above RM1 million formed 8.6% of guarantees outstanding.

The general business sector remained the largest group that benefited from guarantee coverage, accounting for three quarters of total loans guaranteed, followed by the manufacturing (23.3%) and agriculture (1.3%) sectors.

Total provisions for claims increased by 38.1% or RM119.5 million to RM433.5 million as at end-2003, resulting from higher loans guaranteed turning non-performing which increased by 28.4%. Meanwhile, claims payable by CGC decreased by 16% to RM96.3 million (2002: RM114.6 million).

In addition to providing guarantee coverage, the CGC also implemented a number of loan schemes created by the Government for the SMEs. These loans were extended by CGC to banking institutions for on-lending to the SMEs. As at end-2003, loans outstanding under the schemes declined to RM915.8 million (2002: RM988.7 million). Of this, four major special loan schemes namely, FSMI 2, Fund for Small Entrepreneurs, NEF 2, and Islamic NEF 2 as a group amounted to RM908.7 million or 99.2% of loans outstanding. Of the total loans outstanding under these schemes, 73.2% or RM670.1 million were channelled to SMEs in the business services sector, while 22.4% or RM205 million was for SMEs in the manufacturing sector.

Gross NPL amount and ratio for the loans extended by the banking institutions under the schemes declined to RM86.8 million (2002: RM139.6 million) and 9.5% (2002: 14.1%) respectively. The major component of the gross NPLs was contributed by loans to the business services sector, accounting for 66.3%.

The shareholders' funds remain unchanged at RM2.1 billion as at end-2003, with paid-up capital of RM1.6 billion.

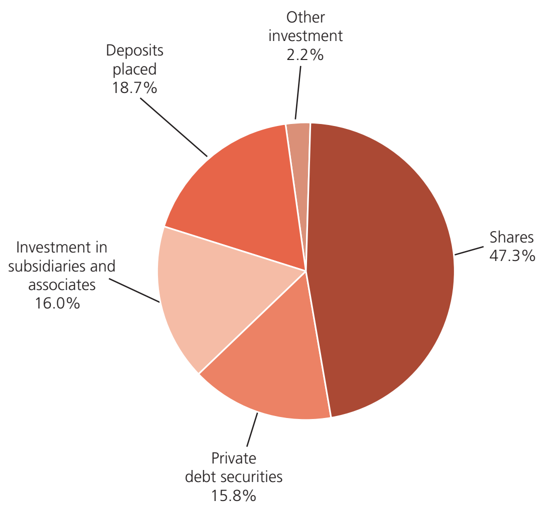
Lembaga Tabung Haji

The deposit mobilisation activities of Lembaga Tabung Haji (LTH) or Pilgrims Fund Board increased significantly in 2003, in tandem with the improved performance of the economy. To further improve services to its depositors, LTH has recently teamed up with four major banks to provide Internet banking facilities to its customers, enabling depositors with these banks to transfer funds into their savings accounts with LTH. LTH signed a Memorandum of Understanding with an estate agent company to provide accommodation for the pilgrims during Haj pilgrimage through a long-term tenure arrangement. This was part of continuous efforts by LTH to enhance the quality of its services.

Total deposits mobilised by LTH increased by 9.9% to RM11.3 billion while the number of its depositors increased by 4.1% to 4.7 million. For the year 2003, LTH had announced a bonus payout of 4% to its depositors (2002: 3.5%).

Meanwhile, total investments made up RM8.1 billion or 66.2% of total assets. Investment in shares, amounting to RM3.8 billion, formed the largest component in investment portfolio, followed by deposit placements with financial institutions of RM1.5 billion, investments in subsidiaries and associate companies and investment in PDS of RM1.3 billion each. LTH also provided financing to its subsidiaries involved in agriculture and construction activities, and other companies totalling RM1.7 billion, an increase of 24.2%.

Graph 6.10
Lembaga Tabung Haji:
Investments as at 31 December 2003



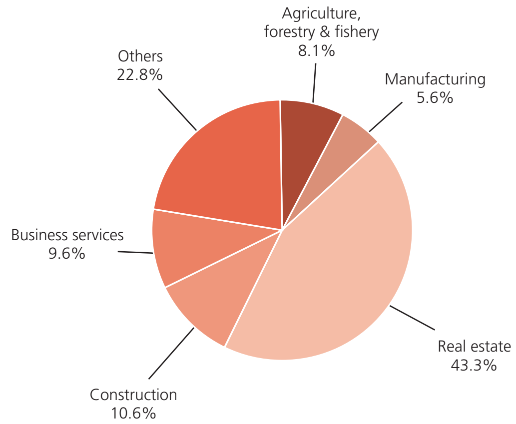
Sabah Development Bank Berhad

After a year of strong expansion, the lending operations of the Sabah Development Bank Berhad (SDB) slowed down by 5.6% to RM1.2 billion as at end-2003 (2002: RM1.3 billion). The decline in loans outstanding was mainly attributed to the decline in loans extended to Government-controlled business enterprises. Significant declines were registered in loans extended to the business services, manufacturing and agriculture sectors.

While the number of loan approvals remained relatively unchanged, the total value of loans approved was substantially lower at RM250.6 million (2002: RM794.3 million), as credit facilities were extended mainly for small development projects. Total loans disbursed also declined to RM184.3 million (2002: RM271.3 million). Meanwhile, loan repayments increased to RM316.3 million (2002: RM223.7 million), contributing to the decline in loans outstanding.

A total of 43.3% of the loans outstanding was extended to the real estate sector, while 10.6% was channelled to the construction sector and 9.6% to the business services sector. Loans remained the

Graph 6.11
Sabah Development Bank Berhad:
Direction of Lending as at 31 December 2003



largest asset component of SDB, accounting for 75.3% of total assets of RM1.6 billion.

Gross NPL amount and ratio improved to RM492 million and 39.7%, respectively (2002: RM542.2 million or 41.3%). A major share (69%) of the NPLs comprised loans extended to the real estate and business services sectors. The net NPL ratio was lower at 4.6% (2002: 5.8%).

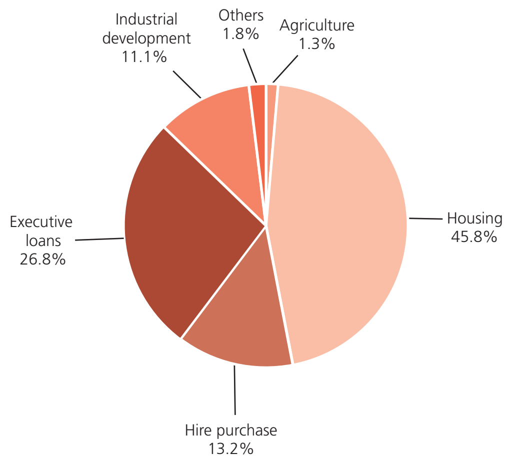
The main source of funds were deposits from the Government and Government-controlled business enterprises (RM354 million) and borrowings from financial institutions (RM536.6 million). These amounted to RM890.6 million or 54.1% of total resources. The bank's shareholders' funds increased to RM251.5 million (2002: RM233.2 million).

Sabah Credit Corporation

The lending activities of the Sabah Credit Corporation (SCC) picked up strongly in 2003. Loans outstanding increased by 18.9% (2002: -1.8%) to RM632.8 million. Total loans approved and disbursed increased significantly to RM236.5 million (2002: RM80.1 million) and RM223.8 million (2002: RM84.8 million) respectively.

The strong expansion of 70.9% or RM253.6 million in the lending operations was mainly on account of a strong demand for consumption credit, of which about two-thirds were executive loans and the remaining was channelled for hire purchase facilities. Housing loans, which declined marginally by 1.2% to RM289.6 million, remained the largest loan component. Loans outstanding accounted for 94.5% of total assets (RM658.8 million) as at end-2003.

Graph 6.12
Sabah Credit Corporation:
Direction of Lending as at 31 December 2003



Gross NPL ratio, based on a 4-month classification, improved to 13.6% (2002: 16.1%). A substantial share of the NPLs (61.1%) was attributed to loans extended to low cost housing. On a net basis, the NPL ratio was slightly higher at 4.6% (2002: 4.1%).

Borrowings from the State Government (RM328.8 million) and banking institutions (RM156.2 million), accounted for a combined share of 73.3% of total resources.

Borneo Development Corporation (Sabah) Sendirian Berhad

Property development activities in Sabah undertaken by the Borneo Development Corporation (Sabah) Sendirian Berhad (BDC Sabah) slowed down in 2003. This was reflected in the decline of 2.1% in property development expenditure and progress billings to RM98.2 million.

As experienced in the previous two years, no new loan applications were received by BDC Sabah due to competitive lending rates offered by banking institutions. Loans outstanding declined to RM9.5 million, following repayments of RM1.9 million in 2003 (2002: RM1.7 million). Of the amount outstanding, 75.2% was accounted for by loans to individuals, while business enterprises accounted for the balance.

Gross NPLs, which stood at RM2.4 million or 25.4% of loans outstanding, increased from the previous year (2002: RM2.1 million or 20.1%). Loans for the purchase of non-residential property constituted 94.7% of total NPLs.

BDC Sabah sourced its funding mainly through borrowings from financial institutions, which amounted to RM75.7 million or 77.1% of total resources. The shareholders' funds declined to RM5.2 million.

Borneo Development Corporation (Sarawak) Sendirian Berhad

Property development and construction activities undertaken by the Borneo Development Corporation (Sarawak) Sendirian Berhad (BDC Sarawak) for the State Government, recorded a significant increase in 2003. The amount of stocks and work-in-progress increased sharply by 49.9% (2002: -18.1%) to RM50.3 million as at end-2003, representing the largest (58.2%) asset component of BDC Sarawak.

The end-financing activities declined further as borrowers continued to redeem their loans due to competitive lending rates offered by banking institutions. As a result, loans outstanding declined to RM1 million as at end-2003 (2002: RM1.4 million). Meanwhile, the investment portfolio, which accounted for 12.4% of total assets of RM86.4 million, increased by 6.4% (2002: -38.8%) to RM10.7 million.

Shareholders’ funds (RM38.7 million) and borrowings from financial institutions (RM20.3 million) remained the major source of funds to BDC Sarawak, with a combined share of 68.3% of total resources.