# Development Financial Institutions

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## INTRODUCTION

Development financial institutions (DFIs) are specialised financial institutions established by the Government as part of an overall strategy to develop and promote specific strategic sectors, such as agriculture, small and medium enterprises (SMEs), infrastructure development, shipping and capital-intensive and high-technology industries for the social and economic development of the country.

The DFIs specialise in providing financial assistance in the form of medium and long-term loans, equity capital, guarantees for loans and a range of other financial services needed by strategic sectors. DFIs also provide consulting and advisory services in the identification and development of new projects.

The DFIA provides a comprehensive regulatory and supervisory framework to ensure safe and sound financial management of DFIs.

Given the significant role of DFIs in economic and social development, it is essential for the Government to develop DFIs into effective and efficient implementing agencies. The strategies outlined in the Financial Sector Masterplan (FSMP) for systematic development of DFIs include strengthening the regulatory and supervisory framework, building capacity and capability, and enhancing operational efficiency.

## ADMINISTRATION OF THE DEVELOPMENT FINANCIAL INSTITUTIONS ACT 2002

### Strengthening Regulatory Framework

***Enactment and Application of DFIA***

In order to provide a comprehensive regulatory and supervisory framework to ensure safe and sound financial management of the DFIs, the Development Financial Institutions Act 2002 (DFIA) was enacted and made effective on 15 February 2002.

The DFIA aims to ensure effective and dynamic supervision of DFIs, and provides the appointment of Bank Negara Malaysia as the central regulatory and supervisory body for the DFIs. The Central Bank's focus is to promote the development of effective and efficient DFIs with the objective to minimise the cost to the Government in meeting its policy objectives. This will contribute towards meeting the mandated objectives of the DFIs.

One of the main aspects of DFIA is to ensure that the roles, objectives and activities of the DFIs are consistent with the Government national objectives and that these mandated roles are effectively and efficiently implemented. For this purpose, DFIA requires the DFIs to submit on an annual basis their proposed business and development activities and projected sources of funding to the Central Bank. In addition, DFIA also provides a mechanism to monitor the management of Government-allocated funds to ensure that the funds are utilised as specified.

DFIA lays emphasis on efficient management and effective corporate governance by prescribing the procedure for the appointment of directors, chief executive officers and external auditors as well as ensuring disclosure of information in a timely and transparent manner. This is aimed at harnessing sufficient check and balance and enhancing accountability by the board of directors and management.

DFIA provides a comprehensive supervision mechanism which incorporates prudential rules, on-site and off-site supervision, reporting requirements and disclosure standards. It also provides the regulator with the necessary powers to deal with any mismanagement and malpractices. The legislation provides the mechanism to strengthen the financial position of DFIs through the specification of prudential requirements such as in the management of assets, capital and liquidity management.

As at 31 December 2002, six institutions, namely, Bank Pembangunan dan Infrastruktur Malaysia Berhad, Bank Industri & Teknologi Malaysia Berhad, Malaysia Export Credit Insurance Berhad, Export-Import Bank of Malaysia Berhad, Bank Kerjasama

Rakyat Malaysia Berhad and Bank Simpanan Nasional have been gazetted as "prescribed institutions" under subsection 2(1) of DFIA.

***Monitoring of DFIs' Activities and Performance***

As part of the regulatory and supervisory framework, Bank Negara Malaysia monitors the activities and financial performance of the six prescribed institutions i.e. DFIs under the purview of DFIA, on a regular basis to ensure that these DFIs carry out their functions effectively and efficiently. Several provisions of DFIA empower the Central Bank to obtain necessary data from the prescribed institutions to enable the Central Bank to carry out its monitoring and supervisory functions. Pursuant to section 116 of DFIA, effective April 2002, prescribed institutions are required to submit monthly management reports to the Central Bank. These reports contain quantitative and qualitative indicators on the economic and social contribution of the individual DFIs, including their financial performance. These inputs facilitate in the formulation of appropriate policy measures to enhance their capacity and to address areas of concern. To further facilitate the monitoring of the activities and financial performance, a computerised reporting system is being developed and expected for implementation in 2003.

***Supervisory Activities***

The primary objective of the supervision of DFIs is to ensure that the DFIs perform their mandated roles and functions and that their activities are carried out in a prudent, efficient and effective manner. To achieve this objective, Bank Negara Malaysia undertakes both off-site surveillance and regular on-site examinations of the DFIs. The examinations are also based on the risk-based supervision approach whereby the main focus is placed on areas of risk, which may undermine the soundness of the DFIs. The on-site examinations are tailored to commensurate with the size, activities and specific nature of operations as well as risk profiles of the individual DFIs.

The main focus of supervisors is to contribute towards enhancing the existing institutional capacity and operational structure of the DFIs. This includes ensuring the formulation of comprehensive policies and operational procedures, putting in place risk management systems, organisational controls with checks and balances, adequate human resource and the optimal use of technology. The role of the supervisors is to promote adherence to best practices in these areas. Underscoring this would be the enhancement of the DFIs' corporate governance, supported by the commitment and participation of the relevant stakeholders. One of the key principles of corporate governance is that members of the board of directors acting as representatives of the stakeholders must play an effective role in their oversight of executive management actions. The directors must be qualified and equipped with the necessary information to enable them to carry out their duties and responsibilities and to guide the management of the DFIs. Appropriate and adequate disclosure is also essential for better accountability and transparency.

Another area of importance is the effectiveness of the internal audit function to ensure the reinforcement of proper checks and balances, adequacy of internal controls, and that the policies and procedures are in line with the mandated objectives.

During 2002, Bank Negara Malaysia conducted six examinations on DFIs which are under the purview of DFIA, inclusive of their subsidiaries. In addition, as part of off-site surveillance, financial analysis was carried out through monitoring of financial data and trends including review of accounts. Examination on information systems have been performed to ensure data integrity and soundness.

**Monitoring the Role, Objectives and Effectiveness of DFIs**

***Submission of Statement of Corporate Intent and Annual Funding Requirement***

DFIA provides mechanisms to ensure DFIs focus their activities on the mandated roles. One of the mechanisms is through the monitoring and assessment of planned activities of DFIs. Sections 34 and 35 of DFIA require the prescribed institutions to submit on an annual basis the Statement of Corporate Intent (SCI) and the Annual Funding Requirement (AFR), respectively.

The SCI highlights the planned business activities, implementation strategies, sources of funding, performance targets and social obligations to be carried out by the DFI, including the business activities of its subsidiaries. The SCI, which has to be approved by the Minister-in-charge, is submitted to the Central Bank. This facilitates the monitoring of the activities of the DFI with the aim of ensuring that the activities undertaken are in line with the mandated roles and Government objectives. In addition, it also aims to monitor the contributions and achievements of the DFI towards meeting the annual performance targets set in the previous year.

The AFR details the projected sources of funding and the additional funding required from the Government to meet the activities planned for the following year. The AFR is submitted to the Central Bank for evaluation prior to submission to the Minister of Finance and subsequently for incorporation of the funding request into the annual Federal Government Budget allocation.

In compliance with the requirement of sections 34 and 35, the procedures for submission of the SCI and AFR include the format and contents of the SCI and AFR, date of submission, approval processes as well as the roles and responsibilities of the DFIs, the Ministers-in-charge and other stakeholder Ministries. The procedures require the stakeholder Ministries to endorse the SCI and AFR representing the avenue for the stakeholder Ministries to provide the broad policy direction on the strategic sectors supported by the DFIs, and ensuring that the business activities pursued by the DFIs are in line with the country's economic development plans. In addition, this requirement ensures adequacy of funding to support the activities to be undertaken by the DFIs.

***Specification on Permitted Lending by DFIs***

The importance for DFIs to remain focused on the mandated roles is further emphasised through the provision of subsection 28(1) of DFIA which prohibits DFIs from extending credit facilities including the provision of guarantees and insurance, other than for the purposes stated. This provision aims to ensure that credit facilities are extended by DFIs to business and activities in accordance with their main purposes and objectives as policy-based institutions. Pursuant to this provision of the Act, the specifications on credit facilities that can be granted by the six DFIs have been formulated in line with the existing mandated roles. Broadly, these specifications are tailored to cover extending credit facilities to SMEs, Bumiputera-owned SMEs, infrastructure projects, capital-intensive and high-technology industries, exports, imports, personal and consumer financing, housing and retail financing.

**Enhancing Corporate Governance**

***Verification Procedures for Appointment of Directors/CEOs***

DFIA places emphasis on corporate governance through the requirement of "fit and proper" criteria for the appointment of directors and chief executive officers (CEOs) in DFIs. Whilst the authority for appointing the directors/CEOs remains vested with the relevant Ministries, subsection 6(2) of DFIA requires prescribed institutions to obtain the Central Bank's verification that the director/CEO satisfies the "fit and proper" criteria as set out in the Schedule to DFIA prior to such appointment. DFIA provides that the initial appointment of directors and CEOs be for two years and any reappointment would be for a period of one year. The performance and suitability of directors and CEOs of DFIs are thus subject to periodic assessment and review.

The verification process by the Central Bank is undertaken with the main objective of strengthening management integrity and capability and to ensure competent, responsible and effective management and stewardship by board members and CEOs of DFIs. To facilitate the verification process, a guideline specifying minimum information to be submitted, initial credit check required as well as list of disqualification criteria, has been provided to the DFIs and Ministries involved in the appointment process. The verification process covers character, financial and security vettings on the candidate to ensure the candidate meets the stipulated criteria.

**POLICIES AND MEASURES**

**Introduction**

The major development in 2002 was the enactment of the Development Financial Institutions Act 2002 in mid-February. Under the Act, Bank Negara Malaysia was appointed the central regulatory and supervisory body for the DFIs.

The first phase of the strategies outlined in the FSMP for systematic development of DFIs focuses on strengthening the regulatory framework and building the capacity of DFIs while the second phase involves introduction of measures to promote institutional efficiency and sustainability of DFIs. The thrust of policy measures and initiatives undertaken during 2002 was therefore aimed towards strengthening the regulatory and supervisory framework and capacity building for DFIs. In addition, the policies and measures initiated in 2002 were aimed to achieve the legislative requirements as stipulated in DFIA.

**Building Capacity of DFIs**

***Defining Clearly the Strategic Focus and Role of DFIs***

Of significance is that the strategic focus and mandated roles of the DFIs be clearly outlined and defined. This is to ensure that the DFIs effectively carry out their respective mandated roles in order to achieve three main objectives, that is to achieve the socio-economic objectives of the country, to complement the banking institutions in providing financial services, and to provide a range of specialised financial products and services to the specified sectors.

In 2002, a review has been initiated on the existing mandated roles and activities of DFIs, covering DFIs under DFIA and other selected DFIs. The review aimed to identify gaps and overlaps in the mandated functions to streamline and rationalise as well as to determine the extent of synergies among the DFIs in carrying out their objectives. While DFIs complement banking institutions in providing access to financing to identified priority sectors, several aspects of DFIs' activities need to be rationalised. This review will form the basis to define clearly the mandated and strategic focus of each DFI.

## The Central Bank undertook several initiatives aimed to strengthen the financial soundness and operational structure as well as to build capacity of the DFIs.

**Strengthening Financial Conditions and Operational Structure**

***Prudential Regulations on Capital Adequacy, Management of Impaired Assets and Liquidity Requirements***

To strengthen the financial position of the DFIs, the Central Bank intends to introduce several prudential policies and measures. Under a phased and prioritised approach, three key policy measures to strengthen the capacities and operational structure of the DFIs were initiated in 2002 and are expected to be implemented in the first half of 2003. These measures include:

- *Maintenance of Minimum Capital*
  The regulatory capital framework for DFIs specifies the minimum capital level to be maintained. The main objective of imposing minimum capital requirements is to strengthen the soundness of the DFIs with a view to ensuring that they are adequately capitalised to carry out financing programmes in line with the mandated roles as well as to absorb any unexpected losses arising from risks inherent in financing. In determining the minimum capital to be maintained, the economic and effective size of the DFI and the size of the DFI's operations and risks involved are taken into account.

- *Guideline on Classification of Impaired Loans and Provisioning for Bad and Doubtful Debts*
  A guideline on the classification of impaired loans and provisioning for bad and doubtful debts aims to promote loan/financing accounting policies and practices which are consistent with sound risk management practices and accepted standards. This is to ensure that loan assets and income are fairly and prudently stated. More importantly is for impaired assets and loan losses to be identified and recognised in a timely manner.

- *Liquidity Requirements*
  Managing and maintaining adequate levels of liquidity are vital to the on-going viability of a DFI. As the liquidity requirements of a DFI vary according to the volatility profile of its funding sources, the analysis of liquidity requires the institutions to measure not only the liquidity position on an on-going basis but also to examine how funding requirements are likely to evolve under alternative scenarios.

**Strengthening Operating Environment**

***Invocation of Anti-Money Laundering Act 2001 on Selected DFIs***

The Anti-Money Laundering Act 2001 (AMLA) came into force on 15 January 2002. The Act provides comprehensive new laws for the prevention, detection and prosecution of money laundering, the forfeiture of property derived from, or involvement in money laundering and the requirements for record keeping and reporting of suspicious transactions for reporting institutions.

Those DFIs that are involved in deposit-taking activities are covered by this Act. Similar to banking institutions, the invocation of the AMLA provisions would be implemented in stages. At the initial stage, the institutions are required to report suspicious transactions to the Central Bank in the specified format, effective from 15 January 2003.

***Minimum Requirements on Risk and Fraud Management of Credit Card Operations***

DFIs that issue credit cards are required to observe and adhere to similar standards and guidelines imposed on banking institutions. The Central Bank has issued a guideline on the minimum requirements on risk and fraud management of credit card operations.

The guideline outlines the minimum requirements for preventive, detective, corrective and containment measures that shall be undertaken by card issuers and acquirers to mitigate the risk in credit card operations and combat credit card fraud.

### Enhancing Supervisory Framework

#### *Informal Enforcement Actions Framework*

In an effort to enhance the supervisory framework of the DFIs, an Informal Enforcement Actions Framework (IEAF) has been developed for implementation by the DFIs under the purview of DFIA. The rationale for developing the IEAF is to establish a structured and systematic approach in the enforcement of informal corrective and pre-emptive measures to ensure early action is taken on any emerging problems.

Informal enforcement actions are commitments made by the board of directors and management of a DFI at the request of the Central Bank. Such actions are designed to correct identified deficiencies and non-compliance with laws and regulations. The action to be initiated will depend on the severity of the deficiency and/or non-compliance with laws and regulations. IEAF comprises three main types of actions: Commitment, Board Resolution and Letter of Undertaking.

## PERFORMANCE OF DEVELOPMENT FINANCIAL INSTITUTIONS

DFIs provided financing to the identified strategic sectors and sub-sectors of the economy, as well as met socio-economic objectives such as promoting savings and developing Bumiputera entrepreneurs. Sectors where DFIs were designated to provide financing and financing-related services include agriculture, capital-intensive and high technology industries, shipping, infrastructure, manufacturing, export, SMEs, Bumiputera entrepreneurs, co-operatives as well as home ownership and property development at the state level, namely in Sabah and Sarawak.

### Financing Activity

In tandem with the overall growth of the economy, the financing activities of the DFIs recorded a strong growth of 20% (+RM4.7 billion), raising the total loans outstanding to RM28 billion as at end-2002, from RM23.4 billion as at end-2001. The growth was largely driven by infrastructure financing by Bank Pembangunan dan Infrastruktur Malaysia Berhad (Bank Pembangunan) and retail lending by Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat) to its members.

Bank Pembangunan's financing of the infrastructure sector was primarily for Government infrastructure programmes, while the retail lending by Bank Rakyat comprised mainly of consumption credit, thereby contributing to sustained private consumption spending during the year.

The construction, and transport and communication sectors which benefited from the strong growth in

**Table 5.1**
**Development Financial Institutions[1] : Sources and Uses of Funds**

| | Annual Change | | As at end 2002 |
|---|---|---|---|
| | 2001 | 2002 | |
| | RM million | | |
| **Sources:** | | | |
| Shareholders' funds | 592 | 1,500 | 8,407 |
| *Paid-up capital* | *158* | *596* | *6,012* |
| *Reserves* | *-20* | *88* | *1,285* |
| *Retained earnings* | *454* | *816* | *1,110* |
| Deposits accepted | 4,554 | 121 | 39,426 |
| Borrowings | 1,200 | 1,023 | 13,889 |
| *Government* | *387* | *2,251* | *8,877* |
| *Foreign institutions* | *287* | *329* | *3,651* |
| *Others* | *526* | *-1,557* | *1,361* |
| Others | 358 | 416 | 9,403 |
| **Total** | **6,704** | **3,060** | **71,125** |
| **Uses:** | | | |
| Deposits placed | 772 | 661 | 12,927 |
| Investments | 4,461 | -874 | 21,094 |
| *of which:* | | | |
| *Government securities* | *1,218* | *-485* | *3,230* |
| *Shares* | *340* | *500* | *5,599* |
| *Quoted* | *275* | *631* | *5,109* |
| *Unquoted* | *65* | *-131* | *490* |
| Loans and advances | 2,510 | 4,674 | 28,039 |
| Fixed assets | 921 | 30 | 3,041 |
| Others | -1,960 | -1,431 | 6,024 |
| **Total** | **6,704** | **3,060** | **71,125** |
| **Contingencies:** | | | |
| Guarantee | -870 | 273 | 3,615 |
| Export credit insurance | -56 | 4 | 152 |
| **Total** | **-926** | **277** | **3,767** |

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

infrastructure financing expanded by 52% and 49.8% respectively in 2002. The loans outstanding to these two sectors accounted for 28% of the total loans outstanding of the DFIs. Meanwhile, credit extended for consumption also rose strongly by 22.9%, accounting for a share of 23.7%. Favourable growth was also recorded in financing of the agriculture (increase of 8.3%) and manufacturing (11%) sectors during the year. Loans outstanding to these two sectors as a group accounted for another 18.7% of the total loans outstanding of the DFIs.

## DFIs' financing to the identified strategic sectors and sub-sectors of the economy recorded strong growth.

The DFIs which focus on providing insurance and guarantee services to promote export of goods and services to non-traditional markets and to enhance access to financing by SMEs also recorded favourable growth in 2002. The total outstanding insurance and guarantee coverage provided by the DFIs increased by 7.9% to RM3.8 billion as at the end of the year. The increase in guarantee coverage provided by the Credit Guarantee Corporation Malaysia Berhad (CGC) to enhance the viability of loans granted by banking institutions to SMEs contributed to the overall growth in these financing-related services.

All DFIs under the purview of DFIA classified a loan or financing account as non-performing (NPL) when in default for six months or more. The other DFIs also classified a loan account as NPL on a similar basis except for three DFIs, which adopted a 3-month, 4-month and 12-month non-payment as the basis for classification. Based on these standards, the gross NPLs of the DFIs increased by RM0.7 billion in 2002, to RM5.7 billion as at the end of the year. However, owing to the enlarged loan base, the gross NPL ratio improved slightly to 20.2% compared with 21.2% as at end-2001. Most of the DFIs experienced high gross NPL levels, ranging from 8.2% to 49.2% of total loans.

While the majority of the DFIs have made adequate provision for loan losses and diminution in value of investments, some DFIs have not done so. As at end-2002, the DFIs had set aside RM3.6 billion, in aggregate as provision for potential loan losses. After taking this provision into account, the net NPLs of the DFIs stood at RM2.1 billion or 8.4% (end-2001: RM1.7 billion or 8.6%) of total loans outstanding.

**Table 5.2**
**Development Financial Institutions[1] : Direction of Lending**

| | Annual Change | | As at end |
|---|---|---|---|
| | 2001 | 2002 | 2002 |
| | RM million | | |
| Agriculture, forestry & fishery | 113 | 199 | 2,579 |
| Mining & quarrying | -1 | 39 | 85 |
| Manufacturing | 134 | 264 | 2,660 |
| Electricity, gas & water supply | 70 | 214 | 549 |
| Import & export, wholesale & retail trade, restaurants & hotels | 96 | 253 | 871 |
| Broad property sector | 507 | 1,548 | 5,976 |
| *Construction* | *733* | *1,220* | *3,567* |
| *Purchase of residential property* | *103* | *-99* | *1,489* |
| *Purchase of non-residential property* | *-1* | *47* | *48* |
| *Real estate* | *-328* | *380* | *872* |
| Transport, storage & communication | 832 | 1,425 | 4,286 |
| Finance, insurance & business services | 88 | -263 | 1,038 |
| Consumption credit | 320 | 1,239 | 6,643 |
| Others | 351 | -244 | 3,352 |
| **Total** | **2,510** | **4,674** | **28,039** |

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

**Table 5.3**
**Development Financial Institutions[1] : Non-performing Loans and Loan Loss Provisions**

| | As at end | |
|---|---|---|
| | 2001 | 2002 |
| | RM million | |
| General provisions | 484 | 568 |
| Interest-in-suspense | 896 | 1,050 |
| Specific provisions | 2,305 | 2,503 |
| Non-performing loans | 4,945 | 5,653 |
| | Percent (%) | |
| Gross NPL ratio[2] | 21.2 | 20.2 |
| Net NPL ratio[3] | 8.6 | 8.4 |
| Total provisions/NPL | 74.5 | 72.9 |

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

[2] Gross NPL ratio = (NPL / Gross loans) x 100%

[3] Net NPL ratio = (NPL less IIS less SP) / (Gross loans less IIS less SP) x 100%.

**Deposit Mobilisation**

The DFIs that were set up to promote thrift and savings through the mobilisation of savings from various groups of the society such as small savers, co-operative members and Muslim depositors, continued to play their role in this area in 2002. In aggregate, total deposits outstanding amounted to RM39.4 billion as at end-2002, representing an increase of 0.3% compared to the level a year ago. Deposits from individuals accounted for the largest share of total deposits mobilised (50.5%), followed by deposits from business enterprises (32.9%) and the Government and Government agencies (13.7%). Lembaga Tabung Haji and Bank Simpanan Nasional remained dominant in mobilising funds from individuals.

**Financial Performance**

While the funding needs of lending DFIs were largely met by the deposits, a substantial amount of funding was sourced through borrowings from the Government. As at end-2002, borrowings from the Government amounted to RM8.9 billion (RM6.6 billion as at end-2001), representing 17.8% of total funding. Borrowings from the Government were used primarily to fund loans granted under various financing schemes initiated by the Government to enhance access to financing by certain groups of targeted borrowers. About 15% of the funding needs of lending DFIs was met by the shareholders' funds totalling RM7.4 billion.

A total of four DFIs recorded pre-tax/zakat losses totalling RM962.4 million, while the remaining 10 DFIs recorded pre-tax/zakat profits totalling RM1.4 billion for the year 2002. The losses were the result of a large provision made for loan losses and diminution in value of investment by two DFIs. The financial positions of the DFIs were weakened over time by the consistently high level of NPLs and losses arising from investment in shares following the 1997 financial crisis. As at the end of 2002, five DFIs had shareholders' funds of less than RM50 million.

**DFIs under Purview of DFIA**

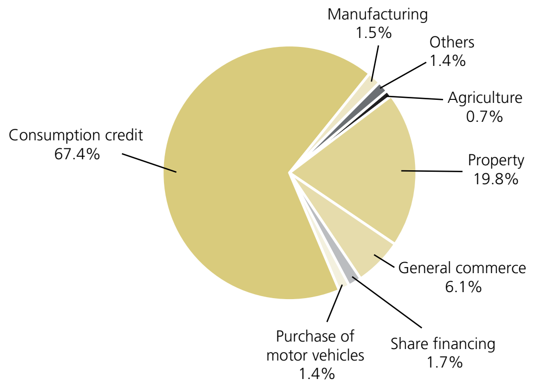
***Bank Kerjasama Rakyat Malaysia Berhad***

Bank Rakyat was established in 1954 under the Co-operative Ordinance 1948, and on 6 January 1973, its name was changed to Bank Kerjasama Rakyat Malaysia Berhad following a broadening of its scope of activity. As a co-operative, the main objectives of Bank Kerjasama Rakyat Malaysia Berhad (Bank Rakyat) or *People's Co-operative Bank of Malaysia* are to improve the standard of living of its members through the provision of financing, and financial and advisory services in the commercial, industrial, agriculture and other sectors to its members and to encourage savings among its members. The principal activities of Bank Rakyat are providing personal, property, education and other financing facilities, including pawn broking to members of the public and co-operatives. The bank has 98 branches and three subsidiary companies to provide services to its customers. Since 1997, all banking facilities offered by Bank Rakyat were based on the Shariah principles.

The total assets of Bank Rakyat increased by 20.7% to RM14.3 billion as at end-December 2002. A significant share of 60% of the assets was contributed by financing extended by the bank while deposit placements and investment in securities accounted for 31.1% and 6.9% respectively.

Total financing outstanding grew by 18.9% during the year (2001: 12.2%) to RM8.6 billion as at the end of 2002. Consistent with the bank's objective, its financing activity focused on members, accounting for 74.7% of the total financing outstanding. The financing growth was driven by strong demand for consumption credit, which increased by 27.4% to RM5.8 billion as at end-2002. Financing of motor vehicle purchases also increased strongly following the launch of the hire purchase scheme for Government servants to purchase national cars introduced during the year. Meanwhile, a higher demand for residential properties following the stamp duty exemption for purchase of residential properties from developers, contributed to higher financing growth of 33.2% in the property sector.

**Graph 5.1**
**Bank Kerjasama Rakyat Malaysia Berhad: Direction of Financing as at 31 December 2002**



In terms of sectoral distribution, the bulk of the financing outstanding was in the form of consumption credit, whilst 19.8% was granted for the purchase of landed properties, followed by general commerce at 6.1%. The concentration on consumption credit was attributed to the bank's emphasis on providing small financing ranging from RM5,000 to RM50,000 with repayment periods between five and seven years. During the year, new financing approved and disbursed rose strongly by 32.4% and 27.2%, respectively.

The level of non-performing financing (NPF) stabilised in 2002, with gross NPF at RM926.3 million or 10.8% of total financing outstanding as at end-2002 (end-2001: 10.1%). Almost one-half of the NPF was attributed to consumption credit and another one-third was from the broad property sector. In terms of net NPF, the ratio was 3.9% as at the end of the year, taking into account the provision made of RM613.1 million for potential financing loss.

Bank Rakyat's financing operations were largely funded by deposits mobilised from its members and non-members, amounting to RM11.2 billion and accounting for 78.7% of the bank's total funds as at the end of 2002. A major share of the deposits was accounted by business enterprises (44.1% of the total deposits) and public enterprises (42.8%). Meanwhile, deposits mobilised from individuals represented 10.3% of the total deposits. In 2002, total deposits mobilised by Bank Rakyat continued to register a strong growth of 16.9% or RM1.6 billion, partly due to higher returns compared with the rates offered by the banking institutions.

The bank's shareholders' funds increased substantially to RM1.7 billion as at end-December 2002 from RM1.2 billion a year ago. The increase was largely attributed to higher members' subscription funds, which had almost doubled to RM925.5 million as at the end of the year. The profit of RM219.7 million recorded in 2001 further enlarged the shareholders' funds of Bank Rakyat. During the year, the membership of Bank Rakyat increased by 74,444 to 525,693 individuals and by 46 to 953 co-operatives as at end-2002, due partly to the availability of cheaper financing to members compared to non-members as well as the high dividend rate declared by the bank in 2001. For the financial year 2001, the bank declared dividends totalling 15%.

***Bank Pembangunan dan Infrastruktur Malaysia Berhad***

Bank Pembangunan dan Infrastruktur Malaysia Berhad (Bank Pembangunan) or *Development and Infrastructure Bank of Malaysia* was established in 1973 with the objective to increase the participation and involvement of the Bumiputera community in business and industry through financing and equity participation. In 1998, Bank Pembangunan was entrusted with another important role of providing financing for infrastructure projects, in particular Government projects. In early 2002, Bank Pembangunan received an "exempt dealer status" from the Ministry of Finance, allowing it to offer corporate advisory, corporate financing and underwriting services to companies which are engaged in development of infrastructure projects.

As at end-2002, Bank Pembangunan managed a total of 25 funds, with total loans outstanding of RM532.1 million. During the year, loan approvals and loan disbursements under these funds increased by 9.2% (+RM12 million) and 53.7% (+RM50.4 million), respectively.

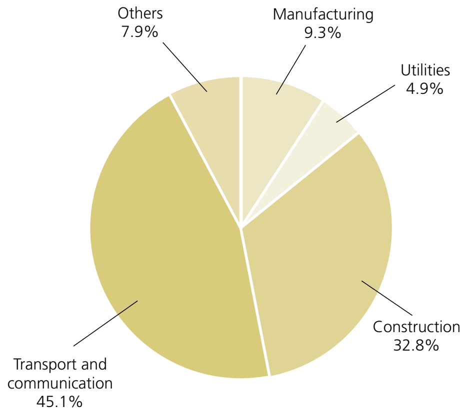
The total loans outstanding grew by 42.6% in 2002 (2001: 29.9%) to RM9.3 billion as at year-end, due largely to the strong growth of 56.5% or RM2.8 billion in loans extended to finance infrastructure projects. A major part of the loan increase was extended to the transport and communication sector (+RM1.4 billion) and the construction sector (+RM1.2 billion). Loans to the utilities sector increased by RM215.7 million. Infrastructure financing accounted for 83.6% (RM7.8 billion) of the total loans outstanding, reflecting mainly financing of Government infrastructure programmes.

Loans to SMEs declined marginally by 1.9%. As at end-2002, loans to SMEs accounted for 16.4% (RM1.5 billion) of the total loans outstanding, of which 81.2% were loans extended to Bumiputera companies.

Gross NPLs increased to RM762.1 million representing 8.2% of total loans outstanding as at end-2002, attributed largely to infrastructure loans of RM190.4 million which turned NPL during the year. Gross NPLs of SME loans stood at 37.5% of total loans to SMEs. After taking into account provisions made for the potential loan loss, the net NPL ratio for Bank Pembangunan's loan portfolio increased from 2.7% to 3% as at end-2002.

Investments totalled RM1.6 billion as at end-2002, representing 12.2% of the total assets. During the year, the investment portfolio was reduced by 14.7% following the disposal of private debt securities (PDS).

**Graph 5.2**
**Bank Pembangunan dan Infrastruktur Malaysia Berhad:**
**Direction of Lending as at 31 December 2002**




Investment in PDS, which stood at RM1.1 billion, formed the largest component of investment. The large investment in PDS was the result of the conversion of NPLs of an infrastructure project into bonds amounting to RM723.3 million in 2001. Meanwhile, deposits placed with financial institutions which totalled RM1.5 billion as at end-2002, also recorded a sharp decline (-25.2%) following the utilisation of matured fixed deposits for loan disbursement.

Bank Pembangunan sourced most of its funding requirements through deposits accepted from public enterprises (RM4.5 billion), borrowings from the Government (RM1.8 billion) and foreign institutions (RM1.8 billion), debt securities issued (RM983.6 million) and Government grants and subsidies (RM586.7 million). These constituted 74.7% of the bank's total liabilities. The remaining funding source was shareholders' funds totalling RM2.2 billion. In 2002, the shareholders' funds rose by RM789.6 million partly due to the conversion of borrowings under the Tourism Infrastructure Fund into equity amounting to RM200 million and capital injection of RM300 million by the Government.

***Bank Industri & Teknologi Malaysia Berhad***

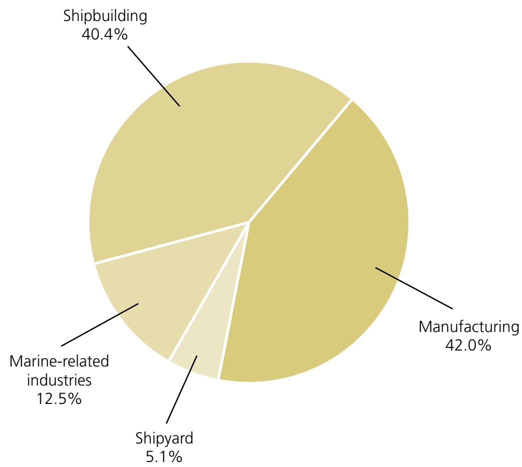
Bank Industri & Teknologi Malaysia Berhad (Bank Industri) or *Industrial and Technology Bank of Malaysia* was established to undertake development banking activities, with the objective to provide financial support and advisory services to the transportation, manufacturing, export and import and selected services sectors. While the initial focus in the early 1980s was on shipping and shipyard industries, the bank has since extended the scope of its activities to include the engineering sector in the mid-1980s and by end-1980s shipbuilding, pharmaceutical, computer software development and marine-related industries.

Bank Industri managed 11 Government funds with loans outstanding totalling RM520.3 million as at end-2002, representing 53.9% of the total loans outstanding. During the year, loan approvals and loan disbursements under the funds decreased by 27.7% and 33.1%, respectively.

To achieve its objective of providing long-term financing to capital-intensive and high technology industries, Bank Industri's lending activities have been focused on companies engaged in the shipping, shipyard, marine-related and manufacturing industries. Loans to the maritime sector comprising of the shipbuilding, shipyard and marine-related industries, constituted 58% of the total loans outstanding. The remaining were loans to the manufacturing sector, of which 10.2% was extended to the high technology industries.

The total loans outstanding contracted by 3.5% during 2002 (2001: -3.1%) to RM964.6 million as at end-December. The downtrend in financing to the shipbuilding, shipyard and marine-related industries continued, declining by 4.5% while lending to the manufacturing sector fell by 2.1%. Significantly low disbursements made during the year contributed to the overall decline in the total loans outstanding. The disbursements made were mainly to SMEs involving relatively small loan amounts, compared to higher amounts disbursed in 2001 which involved large

**Graph 5.3**
**Bank Industri & Teknologi Malaysia Berhad:**
**Direction of Lending as at 31 December 2002**



companies with large loan amounts. The total loans outstanding constituted 22.3% of the bank's total assets.

Loan approvals, however, remained on an uptrend. During the year, the amount of loans approved grew by 17.5%. Of the total loans approved, 66.9% were approved for the maritime sector, including vessel financing, shipyard financing and marine-related industries such as sea transportation and haulage services. The high technology industries accounted for 9.6% of the total loan approvals.

Gross NPLs increased by RM68.4 million to RM379.9 million as at end-2002. Coupled with the contraction in the loan base, the gross NPL ratio increased to 39.4% (end-2001: 31.2%). Loans to the maritime sector remained the major component of NPLs at 58% of the total NPLs, while the manufacturing sector accounted for the remaining 42%. The net NPL level meanwhile stood at 19.7% of net loans (end-2001: 16.5%).

Investment in subsidiaries, which stood at RM1,007.2 million and loans and advances to subsidiaries of RM1,008.8 million as at end-2002, formed the largest component (46.7%) of the bank's total assets. Three subsidiaries, namely, Malaysia Export Credit Insurance Berhad (MECIB), Export-Import Bank of Malaysia Berhad (EXIM) and Global Maritime Ventures (GMV), were specifically set up to undertake the promotion of export financing, export insurance and shipping industry respectively. In addition to equity investment totalling RM904.5 million (MECIB: RM154.5 million; EXIM: RM300 million; GMV: RM450 million), Bank Industri had further channelled advances to these subsidiaries totalling RM476.9 million (MECIB: RM2 million; EXIM: RM462.1 million; GMV: RM12.8 million). The other subsidiary company of the bank is BI Credit & Leasing Berhad (BICL) which provided credit and leasing facilities for both fixed asset acquisition as well as working capital requirement. In addition to equity investment of RM99.3 million in BICL, Bank Industri granted advances amounting to RM518 million to this subsidiary.

Borrowings formed the largest source of financing for Bank Industri, amounting to RM2.5 billion (58.6% of total resources) as at end-2002. The borrowings were mainly from the Government and foreign institutions, each totalling RM1.2 billion. Part of the borrowings was channelled to the bank's subsidiaries amounting to RM575.9 million. The operations of the bank were also funded by deposits accepted of RM666.8 million, representing largely deposits placed by the Government and funds raised from the issue of debt securities of RM250 million.

Shareholders' funds eroded significantly in 2002 to less than RM50 million as at end-2002 due to the large provisions made totalling RM670.2 million during the year.

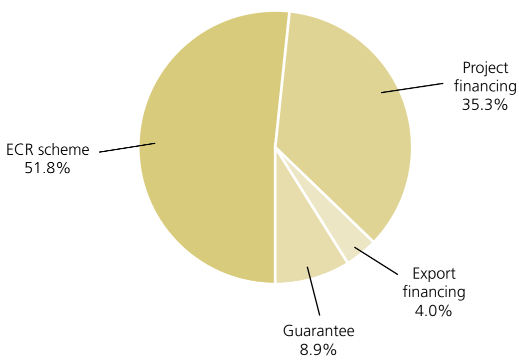
***Export-Import Bank of Malaysia Berhad***

Export-Import Bank of Malaysia Berhad (EXIM Bank), a wholly-owned subsidiary of Bank Industri was established to promote international trade by facilitating the export of goods and services through export credit, financing of capital investment and providing business information and services. The bank provides medium to long-term credit to promote exports with emphasis on exports to non-traditional markets. In addition, the bank provides financing to promote "project exports" such as construction and infrastructure projects and services.

The total loans outstanding amounted to RM817.3 million as at end-2002, unchanged from the level as at the end of 2001. Of the amount outstanding, 89.8% constituted financing of overseas projects while the remaining constituted export financing. Meanwhile, the total loans outstanding under the Export Credit Refinancing (ECR) scheme stood at RM1.1 billion. In addition to the financing facility, the bank provided export guarantees which amounted to RM185.5 million as at end-2002.

EXIM Bank is the designated agency to manage the ECR scheme funded by the Government (RM1,678.2 million) and Bank Negara Malaysia (RM300 million). The primary objective of the scheme is to promote

**Graph 5.4**
**Export-Import Bank of Malaysia Berhad: Credit Facilities as at 31 December 2002**



exports by offering competitive rates to banks participating in the ECR scheme for on-lending to exporters. While the customer base of the ECR scheme increased from 1,563 exporters as at end-2001 to 1,645 exporters as at end-2002, the number of active users declined from 223 to 208 over the same period, contributing to the decline of 4% in the total outstanding ECR financing to RM1.1 billion as at the end of 2002.

During the year, financing of overseas projects fell further by 3.5% (2001: -5.6%) to RM734.3 million, of which 43.5% was channelled to projects undertaken in countries in South East Asia, 36.6% in Africa and 13.4% in Eastern Europe. Meanwhile, the guarantee issued remained unchanged at RM185.5 million in 2002, covering a project undertaken in a South East Asian country.

In tandem with the nation's export growth, new loans approved recorded a strong increase of 36.9% or RM93.6 million during 2002 while loan disbursements rose by 64.1% or RM98 million. The competitive rates offered by the bank as a result of lower funding costs from funds sourced from foreign institutions also contributed to the significant growth in loan approvals.

The total loans outstanding and ECR financing together represented 55.5% of the bank’s total assets of RM3.4 billion as at end-2002. Another 37.8% of its assets was in the form of deposits placed with financial institutions.

Gross NPLs deteriorated to RM319.8 million as at the end of 2002 (end-2001: RM293.3 million) representing 39.1% of the total loans (end-2001: 35%). The loans to finance overseas projects remained the largest component of NPLs amounting to RM295 million or 92.2% of total NPLs. The net NPL ratio of the bank, however, was low at 2% (RM10.2 million) of total loans as at end-2002, after taking into account provisions.

Apart from the shareholders' funds of RM174.5 million, the bank sourced its funds through borrowings from the Government, foreign institutions and its parent company. As at end-2002, borrowings from the Government amounted to RM2 billion, foreign institutions RM250.4 million and its parent company RM461.9 million, accounting for a combined share of 80.3% of total funding. The borrowing from the Government was mainly utilised for the ECR scheme.

As part of the efforts to promote trade within the region, EXIM Bank signed a Multilateral Confirmation of Letters of Credit Facility Agreement with five institutions, namely Japan Bank for International Co-operation, Thai EXIM, Korea EXIM, PT Bank Eksport Indonesia and EXIM India in August 2002.

***Malaysia Export Credit Insurance Berhad***

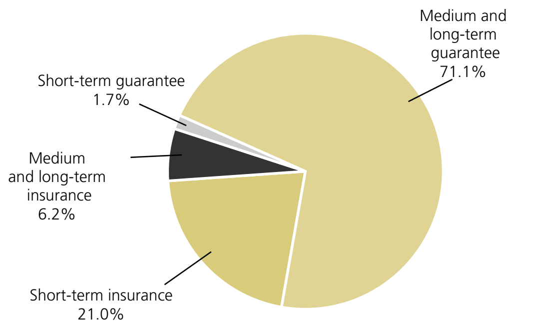
Malaysia Export Credit Insurance Berhad (MECIB) was established with the main objective to support and strengthen export diversification and expansion by providing credit insurance and guarantee facilities. It also provides overseas investment insurance to facilitate overseas investment. As an export credit agency, MECIB provides protection to and indemnifies the policyholders of the non-payment losses arising from either buyer risk or country risk. For buyer risk, MECIB provides cover for the losses arising from insolvency, default and repudiation of contracts by the importers, while for country risk, the cover is for the losses arising from blockages and delays in transfer of foreign exchange, war and civil disturbance, import ban, cancellation of import license and government buyer default.

As at end-2002, insurance coverage and guarantees issued stood at RM560.6 million, of which 72.8% were guarantees issued and the remaining were export credit insurance cover. The insurance and guarantee coverage were largely medium and long-term exposures (77.3% or RM433.5 million). During 2002, total coverage declined by 11.8% (2001: -23%) to RM560.6 million due to lower demand for the guarantee product. Of the products offered, the Comprehensive Shipment Policy and Buyer Credit Guarantee remained the two most popular among exporters, accounting for 85% of total exposure.

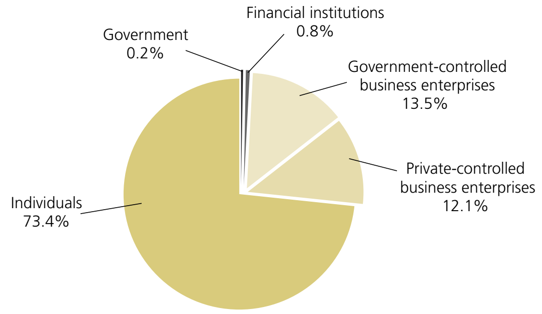
Reflecting MECIB’s focus on export diversification, countries categorised under non-traditional markets accounted for a significant share (80.7%) of the total exports covered. In terms of region, exposure to countries in Central Asia accounted for 43.9% of the total exposure, followed by Africa 11% and South Asia 9.9%. During 2002, while the exposures to Central Asia recorded a decline, the exposures to Africa and South Asia increased.

MECIB sourced its funding mainly from shareholders' funds and borrowings from the parent company. In 2002, the shareholders' funds improved slightly to RM46.2 million as at end-year (end-2001: RM37.7 million). The loss percentage, indicating the ratio of claims paid to premiums received, stood at 71.6% as

**Graph 5.5**
**Malaysia Export Credit Insurance Berhad: Contingent Liabilities as at 31 December 2002**




**Graph 5.6**
**Bank Simpanan Nasional: Total Deposits Accepted as at 31 December 2002**




at the end of 2002, a marked increase from the level of 50.6% a year ago. This was mainly contributed by claims paid under the guarantee facilities.

The main assets of MECIB were deposits placed with financial institutions of RM77.8 million and investment in securities of RM62.1 million, accounting for 47.1% and 37.6% of total assets, respectively. As a whole, the total assets declined by 4.3% to RM165.3 million as at end-2002, compared with an increase of 3.5% in 2001, attributable to higher claims paid in 2002 of RM4.2 million compared with RM2.8 million in 2001.

***Bank Simpanan Nasional***

The principal activity of Bank Simpanan Nasional (BSN) or *National Savings Bank* is to carry out the functions of a national savings bank, namely, to accept deposits and to provide retail loans to small borrowers. Its operations focus on retail banking and personal finance to meet the needs of individual and household customers. As at end-2002, BSN operated through 412 branches covering both the urban and rural areas and supported by 594 ATMs. All deposits placed with BSN are guaranteed by the Government.

Total deposits mobilised declined by 11.6% or RM1.2 billion during the year (2001: +0.5% or +RM54.4 million) to RM9.4 billion as at the end of 2002. The non-renewal of deposits placed by Government agencies (-RM1.2 billion) more than offset the increase of deposits from private business enterprises (+RM596 million) and individuals (+RM76 million). Individuals accounted for the bulk of the total deposits outstanding (73.4% of total deposits), followed by business enterprises (25.7%).

More than one-half of the deposits accepted was invested in securities, amounting to RM5.8 billion as at end-2002. Due to less favourable market conditions, the value of the investments in shares declined significantly.

Meanwhile, the total loans outstanding stood at RM2.1 billion as at end-2002, representing 20.6% of the total assets. The bulk of the loans (92.7%) was extended to individual customers, mainly for the purchase of residential property and motor vehicles. During the year, the total loans outstanding registered a decline of 7.4% (2001: -3.8%) primarily on account of lower disbursements. On the other hand, total loans approved increased strongly by 42.7% over the same period. The strong loan approvals was primarily due to the granting of car loans to teachers under a scheme guaranteed by the Government.

Gross NPLs increased by RM51.7 million during 2002 to RM318.9 million as at end-year, accounted largely by NPLs of Giro Housing Loans (RM157.1 million). Coupled with a smaller loan base, the gross NPL ratio rose to 15.1% as at end-2002 (end-2001: 11.7%). Meanwhile, the gross NPL ratio of credit card loans was high at 51.9% of total credit card lending, compared with the industry average of 4.9%. Net NPLs increased slightly to RM164.4 million as at the end of 2002, representing 8.4% of the total loans.

**Other Development Financial Institutions**

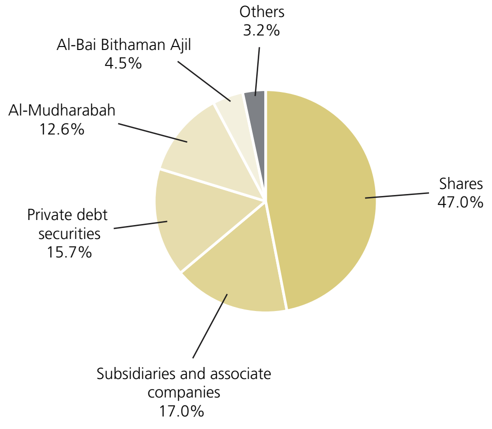
***Lembaga Tabung Haji***

Lembaga Tabung Haji (LTH) or *Pilgrims Fund Board* was established in 1969 to mobilise and manage the savings of Muslims intending to perform the Haj pilgrimage. The main objectives of LTH are to facilitate savings by Muslims under the Shariah principles for the performance of the Haj pilgrimage and to invest these long-term savings in industrial, commercial, agro-base and property development. In addition, LTH administers and provides a wide range of facilities and services pertaining to the welfare, health and protection of Muslims when performing the Haj.

LTH mobilises deposits from Muslims through its 118 branch offices nationwide. During the year, in an effort to promote savings, LTH launched a new service whereby depositors could deposit their savings through Bank Islam (Malaysia) Berhad which acted as agent. As at end-2002, the number of depositors was 4.5 million with total deposits of RM9.9 billion. The deposit, however, declined by 6.1% compared with the level a year ago, due to the lower rate of return on savings declared by LTH in early 2002.

Deposits accepted were mainly invested to generate returns to depositors. The investment portfolio (net of provision for diminution in value of investments) stood at RM7.5 billion or 70.9% of total assets of RM10.6 billion as at end-2002, the largest investment being in shares totalling RM3.5 billion. During the year, the investment in shares increased by 38%, attributed mainly to acceptance of initial public offerings of certain selected counters. Investment in subsidiaries and associate companies meanwhile stood at RM1.3 billion, followed by investment in PDS (RM1.2 billion) and Al-Mudharabah investment, that is Islamic deposit placements with financial institutions (RM951.3 million). Overall, total investment declined by 8.7% in 2002. Meanwhile, its lending activities, which amounted to RM988.5 million as at the end of 2002, were largely to its subsidiary companies, which were mainly involved in plantations and construction. In addition to deposit mobilisation, LTH plays an active role in the administration and management of Haj services, in particular, in ensuring that the cost of performing the Haj remains at reasonable levels. LTH has also taken measures to enhance the dissemination of information to pilgrims prior to performing the Haj.

**Graph 5.7**
**Lembaga Tabung Haji:**
**Investment as at 31 December 2002**




***Bank Pertanian Malaysia***

Bank Pertanian Malaysia (BPM) or *Agriculture Bank of Malaysia* was established in 1969 to promote sound agricultural development in the country, through the provision of loans and advances. The main function of the bank is to co-ordinate and supervise the granting of credit facilities for agricultural purposes and mobilise savings, particularly from the agriculture sector and community.

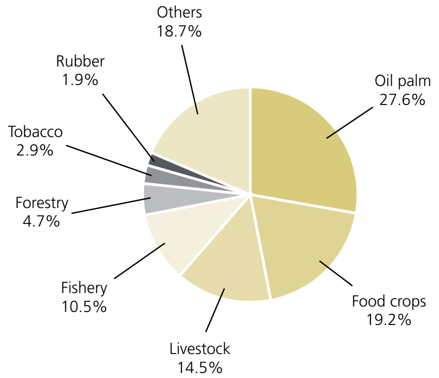
In line with its role, in 2001, the bank was allocated RM300 million to manage and disburse under the Fund for Food (3F) scheme which was set up to increase food supply and reduce the country's dependence on imported food. In addition, BPM has been allocated a total of RM244.2 million under the Eighth Malaysia Plan to manage various agricultural financing schemes with the objective of enhancing the productivity of the sector. In 2002, the bank introduced one new financing scheme for the rubber industry.

Total loans outstanding were higher by 8.8%, totalling RM2.4 billion as at end-2002, attributed mainly to the increase in lending under the 3F scheme. The major beneficiaries were the oil palm, food crop and livestock industries. Small farmers formed the major group of borrowers, accounting for 70.3% (RM1.7 billion) of total loans outstanding, with the remaining amount largely extended to the corporate sector. The total loans outstanding represented 44.1% of the bank's total assets of RM5.4 billion as at end-2002.

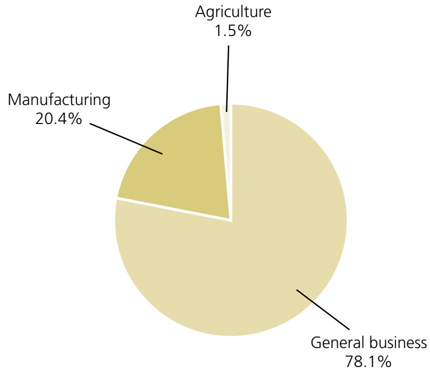
New loans approved declined marginally by 1.1% to RM675.9 million in 2002 while loans disbursed increased by 6.5% to RM529.7 million. New loans approved were directed to small farmers, who as a group accounted for 98.5% of the total number of 9,853 loan accounts approved. In terms of value, a total of RM434.4 million or 64.3% were approved for small farmers, with the remaining for corporations (RM151.5 million or 22.4%) and SMEs (RM89.9 million or 13.3%).

Gross NPLs on a 12-month classification basis, which have been above 40% of total loans outstanding during the period 1999-2001, improved slightly to 35.7% as at the end of 2002. Gross NPLs decreased

**Graph 5.8**
**Bank Pertanian Malaysia:**
**Direction of Lending as at 31 December 2002**




**Graph 5.9**
**Credit Guarantee Corporation Malaysia Berhad:**
**Guarantees by Sector as at 31 December 2002**




to RM843.9 million as at end-2002 (end-2001: RM878.1 million). After taking into account the provisions made for the potential loan loss, net NPLs stood at RM314.9 million or 17.2% of total loans.

BPM invested substantially in PDS, trust funds (TF) and promissory notes/commercial papers (PN/CP). Of the total investment of RM1.7 billion, RM644.6 million were invested in PDS, RM569 million in TF and RM310.1 million in PN/CP. Investment formed the second largest component of total assets at 30.9%.

The main source of funds was deposits accepted through its network of 137 branch offices and 3,662 mobile units nationwide of RM3.5 billion, representing 65% of total resources. Funds for various lending schemes amounting to RM1.5 billion accounted for another 28.8%.

The bank is seeking to strengthen its financial and solvency position. Its paid-up capital of RM42.5 million was insufficient to absorb accumulated losses of RM695.5 million.

***Credit Guarantee Corporation Malaysia Berhad***

Credit Guarantee Corporation Malaysia Berhad (CGC) was established in 1972 to assist SMEs gain access to credit facilities from financial institutions. Besides providing guarantees to financial institutions on loans granted to these SMEs, the CGC also acts as administrator of special funds set up by the Government to assist SMEs.

During 2002, CGC administered several guarantee schemes with the involvement of financial institutions. The total guarantees outstanding recorded a growth of 13.2% or RM352.3 million during the year to RM3 billion, following a decline of 21.6% or RM736 million in 2001. While the positive growth reflected the overall expansion of economic activities, the increase in guarantees was also due to the strong growth in guarantees outstanding under the Direct Access Guarantee Scheme (DAGS). The New Principal Guarantee Scheme (NPGS) constituted 60.7% of total guarantees outstanding as at end-2002. The other scheme with significant shares in total guarantees outstanding were the DAGS (12.3%) and the Flexi Guarantee Scheme (FGS) (12.1%). Meanwhile, new guarantees issued also increased by 26.2% or RM416 million during 2002 (2001: -35.6% or -RM876 million). The NPGS remained the main contributor to the new guarantees issued, with the value of guarantees issued under the scheme accounting for a share of 54.9%.

Borrowers with loan sizes of between RM250,000 and RM500,000 formed the largest group that received guarantee coverage, accounting for 33.3% of total guarantee coverage as at end-2002. Guarantees provided to loans below RM250,000 constituted another 31.5% of the total guarantee cover issued.

A major share (78.1%) of the guarantees issued covered the general business sector. During 2002, guarantee coverage for this sector increased further by 12.3%, in tandem with the growth in domestic consumption. The manufacturing sector accounted for 20.4%, recording a growth of 16.6% during the year, while the remaining represented coverage of the agriculture sector which registered a growth of 15.4% over the same period.

As at end-2002, total provisions for claims on loans guaranteed stood at RM347.4 million, an increase of RM68.6 million (24.6%) from the level as at end-

2001. The increase in provisions for claims was the result of a higher amount of loans guaranteed by CGC turning NPL in 2002. The amount of claims incurred meanwhile increased to RM2.2 billion in 2002 (2001: RM1.8 billion).

As at end-2002, total loans outstanding granted under the special loan schemes managed by CGC namely, Small Entrepreneurs Financing Fund, Fund for Small Entrepreneurs and Fund for Small and Medium Industries 2 amounted to RM1 billion, an increase of 67.7% (+RM404.1 million) compared with the level a year ago. Funding of these loan schemes were met through the allocation of funds from the Government in the form of borrowings. As at end-2002, borrowings from the Government stood at RM1.7 billion.

***Malaysian Industrial Development Finance Berhad***

Malaysian Industrial Development Finance Berhad (MIDF) was established in 1960 to promote the development of the manufacturing sector. The main activity of MIDF is the provision of medium and long-term loans for financing new industrial ventures and expansion, modernisation, diversification or relocation programmes of existing enterprises.

MIDF is also one of the implementing institutions designated by the Government to manage and disburse funds under various special loan schemes targeted mainly for SMEs. As at the end of 2002, MIDF managed a total of nine funds, with total loans outstanding of RM257.8 million. During the year, loan approvals increased by 24.3% while loan disbursements recorded a growth of 55.9%.

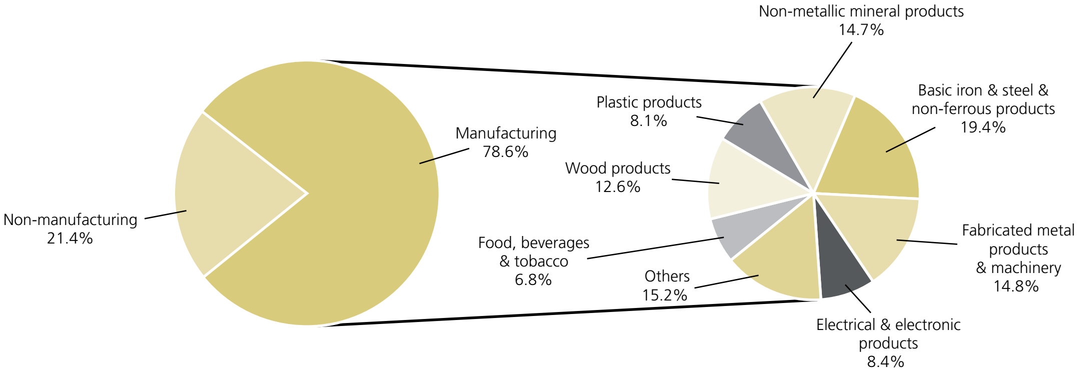
Overall, the total loans outstanding amounted to RM1.1 billion as at end-2002, unchanged from the level in the previous year as loan repayments offset the increase in loan disbursements. Nearly 80% of the total loans outstanding was to the manufacturing sector. Within the manufacturing sector, nearly one-half of the loans was extended to the basic iron and steel and non-ferrous products; fabricated metal products and machinery; and non-metallic mineral products industries. In the services sector, the tourism, transport and communication industries were among those which benefited from MIDF's lending activities. Meanwhile, MIDF continued to play an important role in promoting the development of SMEs, as reflected in the loans outstanding for SMEs accounting for 45.4% of the total loans outstanding.

In tandem with the overall expansion of the economy, MIDF expanded its lending activities in 2002, as reflected in the increase in loan approvals (24.3% or RM409.6 million) and loan disbursements (55.5% or RM240.6 million). Of the total loan amount approved, 67.2% were approved for project expansion with the remaining for diversification or relocation projects (17.1%) and new projects (15.7%).

As at end-2002, the asset quality of MIDF improved marginally compared with a year before. Based on the bank's NPL policy of 3-month default period, the gross NPL ratio improved to 49% (end-2001: 51%) with gross NPLs at RM524.9 million. The net NPL ratio improved to 26% from 31%.

The main sources of funding were borrowings and shareholders' funds. Its borrowings accounted for 40.9% of its funding source of RM2.5 billion as at end-2002. Fixed rate funds were sourced directly or indirectly from the Government to be lent out for socio-economic purposes at fixed rates. Other funds were sourced independently by MIDF to carry out its other

**Graph 5.10**
**Malaysian Industrial Development Finance Berhad: Direction of Lending as at 31 December 2002**



corporate lending operations and include borrowings from the capital market. Borrowings from financial institutions, the Government and foreign institutions amounted to RM1 billion as at end-2002.

***Sabah Development Bank Berhad***

Sabah Development Bank Berhad (SDB) was established in 1977 by the Sabah State Government to undertake development-banking functions and to act as the financial intermediary of the Sabah State Government. The bank provides advisory services to the Sabah State Government and raises funds for State Government projects as well as manages the State's surplus funds.

The primary role of SDB is to act as the mobiliser of financial resources in the State of Sabah and to facilitate economic development and investment in the State.

SDB expanded its lending operations during 2002. Total loans outstanding increased by 14.8% during the year to RM1.3 billion as at the end of the year, driven primarily by the strong increase in loans extended to the construction, real estate, manufacturing and agriculture sectors. The total loans outstanding constituted 80.3% of SDB's total assets of RM1.6 billion as at end-2002. During the year, loan approvals were significantly higher, amounting to RM794.3 million (2001: RM280.3 million) while loan disbursements were also on an uptrend, amounting to RM271.3 million (2001: RM168 million).

Gross NPLs on a 6-month classification basis increased by RM66.7 million to RM542.2 million, constituting 41.3% of total loans, attributed largely to NPLs in the real estate sector. On a net basis, net NPLs stood at 5.8% of total loans, after taking into account provisions.

The main sources of funding were deposits from the Government, statutory bodies and Government agencies, borrowings from financial institutions as well as funds raised in the capital market, which amounted to RM861.3 million or 52.7% of total funds as at end-2002. The bank's operations were also funded by its shareholders' funds which stood at RM233.2 million.

***Sabah Credit Corporation***

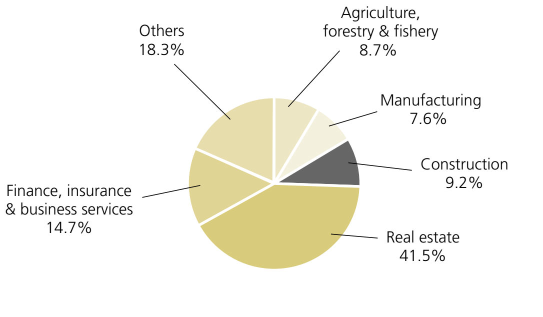
Sabah Credit Corporation (SCC), wholly-owned by the Sabah State Government was incorporated in 1955 as the North Borneo Credit Corporation but was renamed as Sabah Credit Corporation in 1972. The main objective of SCC is to provide financing facilities for investment in agriculture, industry, rural and urban housing, building and public utilities and amenities with the view to promote the economic development of Sabah.

Following a strong growth of 25.3% in 2001, total loans outstanding stabilised during the year, recording a small decline of 1.8% to RM532.3 million as at end-2002. While hire purchase loans continued to register a strong growth (16.5%), mainly for the purchase of consumer goods, loans for other purposes declined during the year.

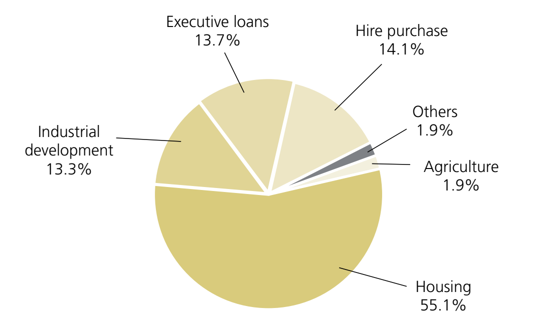
In terms of composition of the loans outstanding, the bulk (55.1%) was housing loans to individuals (of which Government servants accounted for 39.7%) and the remaining loan amount was channelled mainly for hire purchase facilities, executive loans and industrial and agriculture development. The total loans outstanding formed the bulk (97.1%) of SCC's total assets of RM548.2 million as at the end of 2002.

The gross NPL ratio on a 4-month classification remained at 16.1% (RM85.9 million) as at end-2002. A substantial share of the NPLs was attributed to loans

**Graph 5.11**
**Sabah Development Bank Berhad: Direction of Lending as at 31 December 2002**




**Graph 5.12**
**Sabah Credit Corporation: Direction of Lending as at 31 December 2002**



extended for the purchase of houses. After taking into account the provision made for the potential loan loss, the net NPL ratio was 3.5% (end-2001: 1.8%).

The main source of funding was borrowings from the State Government and banking institutions, accounting for a combined share of 78.9% of total resources. As at end-2002, borrowings from the State Government totalled RM328.8 million (88% of the total borrowings), while the remaining was from banking institutions.

***Borneo Development Corporation (Sabah) Sendirian Berhad***

Borneo Development Corporation (Sabah) Sendirian Berhad (BDC Sabah) was established in 1992 as a state enterprise, wholly-owned by the Sabah State Government, with the main objective of providing financial assistance in the form of mortgage loans to the public to enable home ownership. The principal activities of the company are property development and provision of loans to buyers of properties developed by the corporation. A total of four subsidiary companies were actively involved in property development, construction, hotel management and educational training.

As was the case in 2001, no new loans were granted during 2002 as demand was affected by the higher lending rate of 12% per annum compared with the average lending rate of 6.53% per annum offered by banking institutions. The difference in lending rates has also prompted some existing borrowers to shift their loans to banking institutions to take advantage of the lower lending rates offered. Consequently, the total loans outstanding declined by 7.1% to RM7.9 million as at end-2002. Individuals accounted for the bulk of the outstanding loans (share of 92.5%) with the remaining extended to business enterprises. The total loans outstanding constituted 6.7% of the total assets. As at end-2002, gross NPLs stood at RM2.2 million, representing 27.8% of total loans (end-2001: RM2.1 million or 24.1%). A larger share of the total assets was in the form of investment in subsidiaries (54.6%) whilst the remaining assets were largely development properties (29.7%).

The main source of funding was borrowings from financial institutions, which amounted to RM72.6 million or 60.8% of total resources as at the end of 2002. The other major funding sources were shareholders' funds (27.5%) and the sale of housing loans to Cagamas (4.9%). Meanwhile, borrowings from the State Government totalled RM0.8 million.

***Borneo Development Corporation (Sarawak) Sendirian Berhad***

Borneo Development Corporation (Sarawak) Sendirian Berhad (BDC Sarawak) was incorporated as a wholly-owned business enterprise of the Sarawak State Government. The objective of BDC Sarawak is to undertake property development and construction activities and to provide end-financing facilities.

Property development expenditure formed the major share (51.9%) of the corporation's total assets of RM81.4 million as at end-2002. During the year, expenditure on property development recorded an increase of RM7.6 million following an increase in the number of developmental projects undertaken during the year.

The total loans outstanding of RM1.4 million meanwhile, constituted only 1.7% of the total assets. In 2002, the loan portfolio continued to decline due to lack of demand and high redemption of loans. The relatively high lending rate of 8% per annum had prompted borrowers to redeem and shift their loans to the commercial banks. As a result, total loans outstanding fell further by 8.3% during the year. The bulk of the loans (97.7%) was extended to individual borrowers for the purchase of residential property, of which 75.8% was granted to its staff.

Total investment accounted for 20.3% or RM16.5 million of the total assets, of which investment in subsidiary companies (RM13.2 million) formed the largest component of its investment portfolio. Meanwhile the corporation acquired shares in several manufacturing companies during the year as part of its diversification process.

Besides shareholders' funds of RM37 million, BDC Sarawak sourced its funding through borrowings from financial institutions. This constituted RM17.1 million or 21% of the total liabilities.