

CHAIRMAN'S STATEMENT

In the name of Allah, the most Beneficent, the most Merciful.

On behalf of the Board of Directors of Bank Pembangunan Malaysia Berhad, it is my great pleasure to present the 42nd Annual Report and Audited Financial Statement of Bank Pembangunan and Group for the financial year ended December 31, 2015.

ECONOMIC REVIEW FOR 2015

The long economic boom for emerging markets, which started in the early 2000s with the recovery from the Asian Financial Crisis and was then fueled by fiscal and monetary policies to counter the Global Financial Crisis, has come to an end. Economic growth has slowed and currencies remained weak on the back of rising US rates and weak commodity prices. The pace of recovery depended on exports and effective structural adjustments in each country.

Given the high degree of openness of the Malaysian economy and the increased integration with the international financial system, our domestic economy is significantly affected by both the global and regional developments. Despite the challenges, the Malaysian economy was able to weather the developments in 2015 and sustained a respectable growth. The economy grew by 5.0% in 2015 (2014: 6.0%), supported by the continued expansion of domestic demand, which was primarily driven by the private sector. Modest improvements in external demand in the second half of the year also provided additional impetus to economic growth.

All major economic sectors registered a more moderate pace of growth in 2015, attributable mainly to the slower domestic demand. However, growth in external demand, particularly from the advanced economies, had benefited the export-oriented manufacturing industries and trade-related services sub-sectors. The financial sector remained on course towards achieving the outcomes outlined in the Financial Sector Blueprint 2011-2020 to support Malaysia's transition to a high income, high value-added economy. Amid a more challenging economic environment, total outstanding financing to the economy has continued to expand at a healthy pace, with efforts to increase access to financial services for the underserved continuing to pay off.

TAN SRI DATO' SRI DR. WAN ABDUL AZIZ BIN WAN ABDULLAH
CHAIRMAN

FINANCIAL PERFORMANCE IN 2015

In 2015, it has been a tough operating environment for BPMB Group given the economic uncertainties. Across the banking industry, margins remained under pressure with higher capital requirements reducing returns. Amidst these challenges, BPMB Group was able to achieve Profit Before Tax of RM124.8 million in 2015 as compared to RM306.4 million in 2014. The decrease of 59.3% is mainly due to substantial drop in charter hire income of GMVB, a subsidiary of BPMB, and higher impairment of loans, advances and financing as well as assets, particularly vessels. Subsequently, this high impairment of loans, advances and financing has resulted the Group Loss of RM12.7 million as compared to Profit After Tax of RM124.7 million in the previous year.

BPMB Group's Total Assets decreased to RM27.3 billion as at end of 2015 from RM29.9 billion in the previous year arising largely from drop in net loan assets of BPMB mainly due to chunky repayment of loan by a single borrower and prepayments by few borrowers during the year under review. Total Liabilities of BPMB Group also dropped to RM19.7 billion from RM22.4 billion in the previous year attributed to repayment of borrowings.

Bank Pembangunan Malaysia Berhad (BPMB)

For the financial year ended 2015, BPMB recorded Profit Before Tax of RM228.1 million, a shortfall of RM18.9 million or 7.7% from RM247.0 million recorded in 2014. The decrease was mainly due to higher impairment of loans, advances and financing by RM151.4 million and lower net income from Islamic Banking by RM121.1 million due to higher finance cost from issuance of MTN.

BPMB's Total Assets decreased from RM29.2 billion to RM26.7 billion, a drop of 8.6% from the previous year largely due to lower loans, advances and financing. Total Liabilities decreased by RM2.4 billion to RM19.4 billion mainly contributed by lower borrowings.

During the year, BPMB had the Issue Rating for its RM7.0 billion Conventional Medium-Term Notes (MTN) and/or Islamic Murabahah MTN Programmes reaffirmed at AAA by RAM. In addition, RAM and MARC have also assigned a Financial Institution Rating of AAA on Bank Pembangunan, premised on our established track record in infrastructure financing, strong capitalisation and strong regulatory and government support.



Global Maritime Venture Berhad (GMVB)

For the financial year ended 31 December 2015, GMVB Group recorded lower Revenue of RM90.6 million as compared to RM273.1 million in the previous year, a decline of 66.8%. Consequently, GMVB Group registered higher Loss Before Tax of RM322.1 million, as compared to RM281.7 million incurred in the year before. The unfavourable result was mainly due to reduction in charter hire income by its subsidiary, coupled with lower other operating income and share of loss in Joint Ventures and Associated companies.

Total Assets of RM713.9 million recorded as at 31 December 2015 was lower by RM380.4 million compared to the previous year mainly due to lower cash and bank balances attributable to additional advances to a subsidiary and Joint Ventures. Total Liabilities was lower by RM174.3 million mainly due to early redemption of a subsidiary's sukuk facilities and repayment of its term loan.

Pembangunan Leasing Corporation Sdn Bhd (PLC)

For the financial year ended 31 December 2015, PLC Group recorded higher Operating Profit of RM17.7 million compared to RM15.4 million in the previous year. Consequently, Profit Before Tax increased to RM46.0 million from RM14.0 million recorded in 2014. The achievement was mainly attributable to higher net write-back of loans, advances and financing. Total Assets of PLC Group decreased to RM344.5 million mainly due to lower loans, advances and financing.

OUTLOOK AND PROSPECT FOR 2016

The international economic and financial landscape is likely to remain challenging in 2016 and will be a key factor that will influence the prospects of the Malaysian economy. Depending on their nature, global developments can pose both upside and downside risks to the Malaysian economic growth. The Malaysian economy is expected to grow by 4.0 - 4.5% in 2016. Domestic demand will continue to be the principal driver of growth, sustained primarily by private sector spending. Despite subdued commodity prices, Malaysia's export performance is projected to remain positive, in line with the modest improvement in external demand. The well-diversified nature of Malaysia's exports will continue to support the overall growth in exports.

All economic sectors are projected to expand, albeit at a more moderate pace in 2016. The services and manufacturing sectors will remain the key drivers of overall growth. Despite the lower oil and gas prices, growth in the mining sector will be supported by new gas production capacity. Growth momentum in the construction sector is projected to moderate slightly in 2016 amid a modest expansion in both residential and non-residential sub-sectors.

From all indications, the year 2016 looks to continue to be challenging to the financial and banking sector. Nevertheless, coupled with high quality capital and liquidity buffers accumulated over the years, financial institutions will remain resilient against the heightened volatility and more challenging business conditions during the year. BPMB Group is expected to improve its financial positions, supported by sound governance and risk management practices.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to extend our deepest appreciation to the Government particularly the Ministry of Finance for their continuous support and assistance rendered throughout 2015. I would also like to extend our gratitude to Bank Negara Malaysia for their guidance and advice. To our clients, thank you for the continuous support and trust given throughout the year.

I would like to put on record our sincere appreciation to all my colleagues in the Board of Directors as well as Shariah Committee for their dedication and invaluable contribution. I look forward to working closely with them to further bring BPMB and its subsidiaries to higher level of success. I would like to acknowledge our appreciation to Datuk Nozirah Bahari, who resigned from the Board on 28 December 2015, for her dedicated service. I also would like to put on record our gratitude to Tuan Haji Zainul Rahim Mohd Zain, Tuan Haji Rosli Abdullah and Dato' Abd Rahman Md Khalid, who ended their term from the Board on 8 March 2016. Their commitment to the growth and successes of the Group are indeed commendable.

Last but not least, I would like to express my heartfelt gratitude to the Management and staff of BPMB Group who have demonstrated a high level of integrity and commitment in their daily actions and performance amidst the many challenges. Keep up the fantastic work, and together we will fulfill our ambitions as well as those of our stakeholders.

TAN SRI DATO' SRI DR. WAN ABDUL AZIZ BIN WAN ABDULLAH

Chairman