

CHAIRMAN'S STATEMENT



IN THE NAME OF
ALLAH, THE MOST
BENEFICIENT,
THE MOST MERCIFUL

INTRODUCTION

On behalf of the Board of Directors of Bank Pembangunan Malaysia Berhad, it is my great pleasure to present the 41st Annual Report and Audited Financial Statement of Bank Pembangunan and Group for the financial year ended December 31, 2014.

ECONOMIC REVIEW FOR 2014

The global economy continued to recover in 2014 supported by improved growth in the US, UK and in selected euro area economies as well as moderate growth in the emerging economies. Nevertheless, downside risks to growth include geopolitical tensions in Eastern Europe and the Middle East as well as sooner-than-expected interest rate normalization in the US.

The Malaysian economy recorded a stronger growth of 6.0% in 2014 (2013: 4.7%), driven primarily by the continued strength of domestic demand and supported by an improvement in external trade performance. Net exports turned around to contribute positively to growth after seven years of negative contribution, as Malaysia benefitted from the recovery in the advanced economies and the sustained demand from the regional economies. While the growth in private domestic demand remained strong, public sector expenditure registered slower growth, consistent with the Government's fiscal consolidation efforts.

All economic sectors recorded higher growth in 2014. The services sector remained the largest contributor to growth, underpinned largely by sub-sectors catering to domestic demand. The stronger performance of the export-oriented industries and the expansion in domestic-oriented industries contributed to the strong growth in the manufacturing sector during the year. The construction sector continued to expand at a double-digit rate, owing mainly to stronger growth in both the residential and non-residential sub-sectors, with further support from the infrastructure projects under the civil-engineering sub-sector.

Domestic financial stability continued to be preserved throughout the year. Global events as well as financial and economic developments had a significant impact on regional financial markets. In the case of Malaysia, portfolio flows were also influenced by concerns over the potential impact of sharply lower oil prices on the domestic economy in the last quarter of the year. The country's strong financial markets and strong domestic institutional investors in Malaysia have supported orderly conditions in the markets despite higher net outflows of portfolio funds during the year. Financial institutions also had maintained strong capitalisation and financial performance, with stable funding profiles and prudent risk taking. This in turn has ensured that domestic funding conditions, both in the banking system and capital markets, remained favourable and supportive of financing activities of businesses and households.

FINANCIAL PERFORMANCE IN 2014

In 2014, the business environment became more challenging for the financial services industry. Against this backdrop, BPMB Group was able to achieve Profit Before Tax of RM306.4 million in 2014 as compared to RM491.9 million in 2013. The decrease of 37.7% is mainly due to higher impairment of loans, advances and financing as well as assets, particularly vessels. Profit After Tax of BPMB Group also decreased to RM124.7 million as compared to RM304.1 million in the previous year.

BPMB Group's Total Assets increased slightly to RM30.0 billion as at end of 2014 from RM29.2 billion in the previous year mainly due to the increase in cash and short term deposits coupled with the increase in deposits and placements with financial institutions during the year under review. Total Liabilities of BPMB Group also rose to RM22.4 billion from RM21.6 billion in the previous year largely attributed to the issuance of RM3.0 billion Murabahah Medium-Term Notes on 12 September 2014.

Bank Pembangunan Malaysia Berhad (BPMB)

For the financial year ended 2014, BPMB recorded Profit Before Tax of RM247.0 million, a shortfall of RM322.3 million or 56.6% from RM569.3 million recorded in 2013. The decrease was mainly due to higher impairment of loans, advances and financing by RM162.5 million and higher impairment on other assets by RM164.1 million mainly contributed by impairment of investment in Global Maritime Ventures Berhad (GMVB).

BPMB's Total Assets increased from RM28.1 billion to RM29.2 billion, an increase of 3.9% from the previous year largely due to higher cash and short term deposits coupled with higher deposits and placements with financial institutions. Total Liabilities increased by RM1.1 billion to RM21.8 billion mainly contributed by new issuance of RM3.0 billion Murabahah Medium-Term Notes.

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 2014, GMVB Group recorded lower Revenue of RM273.1 million as compared to RM313.3 million in the previous year, a decline of 12.8%. The lower revenue was mainly due to lower charter hire income by its subsidiary. GMVB Group registered higher Loss Before Tax of RM281.7 million, as compared to RM141.1 million incurred in the year before due to lower charter hire income, coupled with impairment loss on vessels amounting to RM165.0 million.



Total Assets of RM1.1 billion recorded as at 31 December 2014 was lower by RM0.6 billion compared to the previous year mainly due to net impact on the disposal of investment in subsidiary and joint venture company amounting to RM483.1 million. Total Liabilities was lower by RM357.7 million mainly due to lower long term borrowings arising from the impact of deconsolidation of borrowings arising from GMVB's disposed subsidiary.

Pembangunan Leasing Corporation Sdn Bhd (PLC)

For the financial year ended 31 December 2014, PLC Group recorded lower Operating Profit by RM1.1 million compared to RM16.5 million in the previous year. Consequently, Profit Before Tax decreased to RM14.0 million, a shortfall of RM18.7 million from RM32.7 million recorded in 2013. The contraction was mainly due to higher net allowance on impairment of loans, advances and financing arising from changes in methodology. Total Assets of PLC Group decreased to RM365.6 million mainly due to decrease in cash and short term deposits.

OUTLOOK AND PROSPECT FOR 2015

The Malaysian economy is expected to sustain its positive growth trajectory in 2015, supported by improved global economic conditions and resilient domestic demand. Nonetheless, as a highly open economy amid an increasingly liberalized global environment, Malaysia remains vulnerable to external shocks. Despite a challenging external environment, the Malaysian economy is expected to register steady growth of 4.5% - 5.5% in 2015, supported mainly by sustained expansion in domestic demand amid strong domestic fundamentals and a resilient export sector. Domestic demand will continue to anchor growth in 2015, driven by private sector spending. The implementation of the GST in April and lower earnings in the commodity-related sectors are expected to affect spending. However, this will be partially offset by higher household disposable incomes from lower fuel prices, the favourable labour market conditions and the Government measures to assist low-and middle-income households.

In 2015, all economic sectors are expected to expand, albeit at a more moderate pace. The services sector would remain as the key driver to overall growth, benefiting from the resilience of domestic demand. In the finance and insurance sub-sector, growth is projected to be sustained, supported by stable demand for financing, particularly from businesses, and higher fee income from capital market activity.

The construction sector is expected to continue to record high growth, albeit at a more moderate pace in 2015. After several years of robust growth, activity in the residential sub-sector is expected to increase at a more moderate pace due to lower housing approvals and property launches. Nonetheless, growth in the non-residential sub-sector is projected to be sustained, amid higher construction activity for industrial and commercial buildings. New and existing multi-year civil engineering projects, particularly in the transport and utility segments, will continue to provide additional support to the sector.

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 2014. 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 acknowledge and record our gratitude to Datuk Idris bin Abdullah @ Das Murthy, Datuk Dr Syed Jaafar bin Syed Aznan, Tuan Haji Ariffin Hew @ Hew Siak Tow and Tuan Haji Abdul Aziz bin Ishak, who resigned from the Board in 2014, for their dedicated service. Their commitment to the growth and successes of the Group are indeed commendable.

May I also place on record our appreciation to the former President/Group Managing Director, Dato' Mohd Zafer bin Mohd Hashim, who resigned from BPMB on 25 July 2014. Over the course of five years when he was with the Group, Dato' Zafer has earned enormous respect from everyone who came into contact with him. I wish him well in his future endeavors.

I would like to take this opportunity to welcome our new directors, Datuk Engku Nor Faizah binti Engku Atek who joined the Board on 1 December 2014 as well as Dato' Ir. Haji Mohamad bin Husin, Dato' Kapt. Haji Ahmad bin Othman and Datuk Wan Azhar bin Wan Ahmad who joined the Board on 2 May 2015. We are confident, given their vast experience and expertise, they would be able to contribute positively to BPMB.

I also would like to congratulate and welcome Encik Mohammed Rafidz bin Ahmed Rasiddi, whose extensive experience in the banking industry and outstanding track record will stand him in good stead as the newly appointed President/Group Managing Director with effect from 15 June 2015. I am confident that Encik Rafidz will be charting the Group's progress to the next level of achievement.

Last but not least, my heartfelt gratitude goes to the Management and staff of BPMB Group for their unwavering dedication and commitment throughout the financial year that has enabled the Bank to achieve another remarkable performance amidst the many challenges.

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