PRESIDENT/GROUP MANAGING DIRECTOR'S
STATEMENT

MOHAMMED RAFIDZ AHMED RASIDDI
PRESIDENT / GROUP MANAGING DIRECTOR

OVERVIEW

Given a volatile macro-economic environment, the year 2015 was tough for almost every sector in the country, including banking. It has been a challenging year for the banking sector amidst volatility and uncertainties in the commodity prices, financial markets as well as global economies coupled with a highly competitive operating landscape. Margin compression, slower loan growth, higher financing cost and lackluster capital market activities continued to put a drag on the banking sector's performance in 2015. Despite the prevalent headwinds, BPMB performed relatively well whilst ensuring that we continue to focus on creating long-term value for our stakeholders.

FINANCIAL PERFORMANCE

For the financial year ended 2015, despite a challenging business environment, BPMB was able to record Net Income of RM924.4 million, an increase of RM36.6 million from the previous year. However, the Profit Before Tax recorded RM228.1 million, a decline of 7.7% as compared to 2014. The decrease was contributed by higher impairment of loans, advances and financing by RM151.4 million from RM270.0 million recorded in 2014. However, it was offset by lower impairment on other assets by RM98.3 million mainly due to lower vessels impairment made during the year.

BPMB's total assets decreased to RM26.7 billion as at 31 December 2015, from RM29.2 billion in the previous year. This was largely due to lower loans, advances and financing by RM1.9 billion as a result of net loan repayment of RM2.1 billion and lower cash and short term deposits by RM0.3 billion.

BPMB's capital adequacy remained solid with risk-weighted capital ratio (RWCR) strengthening to 38.6% in 2015 from 33.1% in 2014.

LENDING PERFORMANCE

In supporting the national development agenda and contributing towards economic growth, BPMB had approved a total of 23 projects amounting to RM3.5 billion in 2015. Against a backdrop of slower growth in the banking sector, the approval recorded a decrease of 35.2% from the previous year's approval of RM5.4 billion which were granted to 34 projects. During the period under review, RM2.8 billion or 80.0% was channelled to infrastructure sector, RM0.5 billion or 14.3% to technology sector while the remaining RM0.2 billion or 5.7% to maritime sector. There was no approval for oil & gas sector in 2015.

BPMB has tightened its loan approval process whereby vessel financing is targeted at borrowers who have strong financial profiles. Additionally, BPMB has been focusing on loans related to government-initiated projects and borrowers with good payment track records.

Infrastructure

Funding for infrastructure projects continued to be the Bank's forte, accounting for 86.4% of the Bank's current financing/loan portfolio as at 31 December 2015. For the period under review, financing/loan for 18 infrastructure projects worth RM2,831.1 million were approved.

In tandem with the Government's initiative to further improve basic infrastructure facilities to the nation, 15.4% of the infrastructure financing/loan approved were channelled to road/highway sub-sector (RM436.1 million for 5 projects), 52.6% to area development sub-sector (RM1,489.5 million for 5 projects) and 13.9% to tourism sub-sector (RM394.0 million for 6 projects). About 18.1% or RM511.4 million of the remaining balance was allocated to various projects under utilities and port sub-sectors. A total of RM1,910.6 million or 67.5% of the approved financing/loan amount under the infrastructure sector are for government-backed projects with 2 projects under the "Private Finance Initiatives" (PFI) program. PFI is a mechanism introduced by the Government to promote private sector involvement in the provision of public services and BPMB has actively participated in this program. As at 31 December 2015, a total of 33 PFI projects amounting to RM6.2 billion are financed by BPMB.

Technology

During the period under review, BPMB's financing/loan under technology sector formed about RM528.0 million of the total financing/loan approved. Of the total, RM148.0 million or 28.1% was approved for the advance manufacturing sub-sector, RM250.0 or 47.3% was approved for the ICT sub-sector and the remaining RM130.0 million or 24.6% was approved for the environment conservation sub-sector.

Maritime

The supply of shipping vessels remained higher than demand for most shipping services. Slow global economic growth and continued deliveries of new vessels has led to a capacity glut, which limits companies' ability to raise rates charged for shipping freight, thereby constraining revenue and earnings growth. As a result of the unfavourable environment, there was no vessel being financed by BPMB in 2015. The only project that was financed by BPMB under maritime sector was a shipyard with a financing value of RM200.0 million.

Oil and Gas

The oil and gas sector has been volatile given the slump in oil prices, slow rollout of domestic developments, downscaled projects, declining marine charter rates, increasing competition from overseas fabrication players and deteriorating visibility of regional prospects. Slower project rollouts and delays in new tenders had translated into a cut in earnings for local oil and gas players. Against a landscape of weak market condition, there was no approval under BPMB's maritime sector in 2015.

SUBSIDIARIES' PERFORMANCE

Global Maritime Venture Berhad Group

The year 2015 was indeed another tough year for GMVB Group. The unfavourable operating environment was mirrored in GMVB Group's performance which revealed a widening Loss Before Tax of RM322.1 million in 2015 compared to RM281.7 million in 2014. This was primarily due to reduction in charter hire income by GMVB's subsidiaries, lower other operating income and share of loss in Joint Ventures and associated companies. The drop in charter hire income was driven by maritime industry downtrend, low trending freight rates, over supply of tonnage and continuous slump of oil and gas sector.

Pembangunan Leasing Corporation Group

PLC Group recorded higher Operating Profit of RM17.7 million in 2015 compared to RM15.4 million in the previous year largely attributed by lower overhead expenses, lower interest expense and higher non-interest income. Correspondingly, Profit Before Tax recorded RM46.0 million, an increase of RM32.0 million from RM14.0 million registered in 2014. The achievement was mainly due to higher net write-back of loans, advances and financing.

OUTLOOK

Domestic demand will continue to be the main driver of growth for Malaysia in 2016. Private consumption will be supported by growth in income and employment as well as measures implemented by the Government. While the domestic economy will remain on track to expand in 2016, the uncertainties in the global environment such as repercussions from Brexit could weigh on Malaysia's growth prospects.

The banking sector is expected to record slower loan growth in 2016 as compared to 2015. The sector has seen pressure not only on loan growth but deposits as well, amid the challenging operating environment. Among the signs which showed weakness in the sector was declining household loans growth as well as uninspiring leading loan indicators. Already facing poor earnings prospects in the current economic scenario, banks in Malaysia will likely be squeezed further by Bank Negara's unexpected move to cut the overnight policy rate (OPR). The cut by 25 basis points (bps) to 3.00% on 13 July 2016, the first rate cut since 2009, was seen as a preemptive move to mitigate the increasing downside risks to Malaysia's economic growth.

With strong momentum of project awards that has been sustained in the last few years, the construction sector is expected to remain the fastest-growing economic sector in 2016. In the pipeline, sizeable jobs undergoing the tender process include the LRT 3 and some highways. While oil and gas related infrastructure job announcements are still flowing out of Pengerang, construction firms exposed to the upstream segment may face more challenges amid low oil prices and the scaling back of Petronas' capital expenditure. Spurred on by massive capital expenditure projects, growth in the construction sector has been outpacing GDP expansion in recent years. The government will continue with the public-private partnership (PPP) or private finance initiative projects in the future as these projects are not entirely funded by government but give higher multiplier effects to the economy.

The outlook of shipping sector in 2016 is still bleak with supply of vessels will remain higher than demand. Given the current oversupply of vessels that has built up over the past five years, it is expected charter rates to remain at depressed levels for at least two more years as the market struggles to find a new equilibrium. The financing institutions are currently having difficult time, particularly in terms of realising the extent of their exposures whereby the loans granted to vessels now exceed the value of the assets. More loan restructuring, debt for equity swaps, or forced sales can therefore be expected throughout 2016 and 2017.

The oil and gas sector has been sluggish and prevailing low oil prices will continue to cast a bleak outlook in the medium-term. Petronas is expected to reduce further its capex this year as it battles falling revenues due to the volatile crude oil market. Oil and gas companies that will be most affected by any new cuts in capex would be the fixed asset owners such as offshore support vessel suppliers and service providers.

The outlook of technology sector in 2016 is moderate given the uncertainty of the economic environment. Malaysia's manufacturing output is expected to rebound from its sharp fall in the first quarter of 2016. It fell tremendously due to the slowdown in the electrical and electronics segment, which comprising 35% of Malaysia's exports. The manufacturing sector will remain the key driver of the Malaysian economy with exports of electrical and electronics products expected to increase 5% in 2016.

MOVING FORWARD

The year 2016 will likely be more challenging than 2015 in the face of continued economic headwinds. However, we are confident of improving our performance by intensifying all efforts to institutionalise best practices in corporate governance, capital, liquidity and risk control.

Despite the challenging economic outlook, BPMB is targeted to approve a higher amount of RM4.9 billion new loans in 2016, as compared to RM3.5 billion loans approved in 2015. The bulk of the new loan approval is targeted for infrastructure sector. It is expected that there will be less technology projects coming on stream in 2016, while uncertain outlook in the oil and gas and maritime sectors will continue to have a negative bearing on future loan approvals for these sectors. BPMB will continue to focus on its Islamic financing and aims to transform into a full-fledged Islamic Development Financial Institution by 2018.

As a commitment to enhance corporate governance, accountability and integrity in the organization, BPMB signed the Malaysian Corporate Integrity Pledge (CIP) on 26 May 2016. CIP is a voluntary action to undertake a unilateral declaration against corrupt practices towards a highly principled Malaysian business environment. Throughout 2016, BPMB is committed to embark on the implementation of Corporate Integrity System as we believe that an integrity environment is crucial especially in the context of Development Financial Institution due to its role as one of the agents in the country's development.

In closing, I would like to thank all our stakeholders for their steadfast support to BPMB. My heartfelt appreciation to Ministry of Finance, Bank Negara Malaysia and customers, as well as Board of Directors, Shariah Committee, my colleagues in the Management Team and, most of all, our dedicated employees.

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