

CHAIRMAN'S STATEMENT

IN THE NAME OF ALLAH, THE MOST BENEFICENT, THE MOST MERCIFUL.

INTRODUCTION

On behalf of the Board of Directors of Bank Pembangunan Malaysia Berhad, it is my great pleasure to present the 40th Annual Report and Audited Financial Statement of Bank Pembangunan and Group for the financial year ended December 31, 2013.

MALAYSIAN ECONOMIC REVIEW FOR 2013

Malaysia continued to focus on supporting growth and accelerating the national transformation process while ensuring sustainability of public finances. Despite the challenging external environment, the economy grew 4.7% in 2013 driven by the robust domestic demand and supported by strong fundamentals of the economy as well as an accommodative monetary policy.

All sectors registered positive growth during 2013. Growth continued to be driven by the services sector in line with the strong activity in domestic-oriented services. Construction sector sustained a strong growth driven mainly by ongoing civil engineering and residential activities. Of the construction total value, civil engineering has the highest share followed by non-residential and residential sub-sectors.

The civil engineering sub-sector was bolstered by the ongoing implementation of infrastructure project and corridor development. These include Besraya Eastern Extension,

Seremban-Gemas-Johor electrified double tracking project, extension of Kelana Jaya and Ampang light rail transit (LRT) lines as well as Express Rail Link (ERL) from KLIA to KLIA2. The sub-sector also driven by the Economic Transformation Programme (ETP) projects namely, Tanjung Bin and Manjung coal-power plants, as well as Kimanis and Lahat Datu power plant.

Public investment expanded further supported by higher capital spending by the Non-Financial Public Enterprises (NFPEs) and sustained development expenditure. The bulk of the Federal Government expenditure was channelled towards the economic and social sectors, particularly to improve urban public transport and to provide public amenities. PETRONAS continued to invest in the oil and gas exploration activities. Among the major projects are Refinery and Petrochemical Integrated Development (RAPID) in Pengerang and Sabah Ammonia Urea (SAMUR) in Sipitang.

The services sector remained the largest growth contributor, as sub-sectors catering to the domestic market, namely retail and telecommunications, benefited from strong consumer spending. The finance and insurance sub-sector recorded higher growth, reflecting continued financing, particularly to businesses, coupled with higher fee-based income and stronger growth of earnings from insurance premiums. Trade-related services, particularly the wholesale and transportation sub-sectors, moderated in tandem with slower external trade activities.

Domestic financial stability remained intact throughout 2013, providing a supportive environment for continued growth of the Malaysian economy. Financial institutions remained resilient throughout the year, sustaining their financial performance while continuing to strengthen operational and risk management. The level and quality of banks' capital remained solid, enabling the smooth implementation of the Basel III Capital Adequacy Framework which was phased in from January 2013. The banking system (including Islamic banks) as a whole maintained a strong Total Capital Ratio (TCR) of 14.4% as at end-2013.

FINANCIAL PERFORMANCE IN 2013

BPMB Group posted a better financial performance in 2013 as compared to 2012. Profit before tax increased to RM494.7 million from RM286.1 million in the year before mainly due to non-interest income derived from charter hire and freight income of GMVB's newly acquired subsidiaries namely Syarikat Borcos Shipping Sdn Bhd (Borcos) and Orkim Sdn Bhd (Orkim). Following to this, profit after tax of BPMB Group also soared to RM306.3 million as compared to RM187.8 million in the previous year.





For the financial year ended 2013, BPMB recorded profit before tax of RM569.3 million, a growth of 32% as compared to the previous year. The increase was mainly due to higher net income from Islamic banking business, higher non-interest income and lower impairment on loans and financing.

BPMB Group's total assets increased to RM29.2 billion as at end of 2013 from RM27.5 billion in the previous year mainly due to the increase in GMVB's vessels coupled with the increase in the net loan and advances during the year under review.

Total liabilities of BPMB Group also rose to RM21.7 billion from RM20.2 billion in the previous year largely attributed to the higher deposit placement in BPMB following the launch of Tawarruq, a new Islamic deposit product. The acquisition of Borcos and Orkim also contributed to the increase in the long term borrowings.

BANK PEMBANGUNAN MALAYSIA BERHAD (BPMB)

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BPMB's total assets increased from RM27.0 billion to RM28.1 billion, an increase of 4.1% from the previous year largely due to higher loans, advances and financing. Shareholder's Funds of BPMB also improved by RM344.8 million to stand at RM7.4 billion attributable to higher retained earnings. In accordance with requirements set under BPMB's capital management and dividend policy, a declaration of 3.25% dividend equivalent to RM100.0 million, will be proposed at the Annual General Meeting.

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 2013, GMVB Group recorded revenue of RM313.3 million as compared to RM66.9 million in the previous year, an increase of 4.7 times. The higher operating revenue was due to increase in the charter hire and freight income following the acquisition of controlling stake in Borcos and Orkim. Consequently, GMVB Group registered lower loss before tax of RM141.1 million, as compared to RM177.5 million losses incurred in the year before.

Total assets for the year ended 2013 also jumped by 49.4% to stand at RM1,714.5 million due to higher value of vessels and equipment following the acquisition of Borcos and Orkim. The acquisition also resulted in higher amount of short and long term borrowings thus increased the overall total liabilities of GMVB Group to RM891.3 million from RM212.5 million the year before.

PEMBANGUNAN LEASING CORPORATION SDN BHD (PLC)

During the period under review, net income and profit before tax of PLC Group decreased to RM28.5 million and RM35.5 million respectively as compared to the previous year. The contraction in the financial performance was mainly due to lower non-interest income and higher overhead expenses. Nevertheless, total assets of PLC Group increased to RM405.8 million mainly due to increase in cash and short term deposits.

OUTLOOK AND PROSPECT FOR 2014

The Malaysian economy is expected to expand further by around 5.0% in 2014, supported by favourable domestic demand and improving external environment. Growth will be private-led, supported by strong private capital spending while private consumption continues to remain resilient. Although some degree of uncertainties exists in the global environment due to the volatility of capital flows associated with the possibility of reduced global liquidity, Malaysia's external sector is expected to improve. This is in tandem with the continued recovery of growth across advanced economies as well as stronger regional trade activities.

Growth in the construction sector is projected to increase at a moderate pace of 9.6% in 2014 due to slower construction activity in the civil engineering sub-sector following the completion of several major infrastructure projects. However, the acceleration in the implementation of transport and oil and gas related civil engineering projects will continue to support growth.

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Tourism sub-sector is expected to grow further in 2014. RM414.0 million is allocated to improve tourism-related facilities and amenities, undertake intensive promotional activities as well as strengthen niche tourism products such as agro-tourism, art tourism and spa tourism. Existing programme such as health tourism, ecotourism, edu-tourism will be further strengthened. The Government will also redevelop the Langkawi Island under the Five-Year Tourism Development Master Plan.

The mining sector is expected to grow 3.1% in 2014 reflecting higher production of crude oil and natural gas. Production of crude oil is anticipated to increase, spurred by recovery in production of matured oil fields and additional output from new oil fields. Meanwhile natural gas output is projected to expand further on account of increased demand particularly from petrochemical and utility industries.

In view of the expansion in most of the sectors particularly in the mandated areas of BPMB, more business opportunities and activities are anticipated lining underway.

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 2013. 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 take this opportunity to welcome our new directors, Datuk Nozirah Binti Bahari and Dato' Abd Rahman Bin Md Khalid who joined the Board on 28 March 2013 and 28 October 2013 respectively. We are confident, given their vast experience and expertise, they would be able to contribute positively to Bank Pembangunan Malaysia Berhad.

I would also like to acknowledge and record our appreciation to Dato' Siti Zauyah Binti Md Desa and Tan Sri Faizah Mohd Tahir, who resigned from the Board in 2013, for their dedicated service. Their commitment to the growth and successes of the Group are indeed commendable.

Last but not least, my heartfelt gratitude to the Management and staff of Bank Pembangunan 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