

PRESIDENT/ GROUP MANAGING DIRECTOR'S STATEMENT



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

OVERVIEW

The global economy remained challenging in 2013 with moderate growth and increased volatility in the financial market driven by the uncertainties over policy adjustments in advanced economies. As the domestic economy was affected by the prolonged weaknesses in the external environment, the pace of financing that was extended through the financial institutions and capital market was also moderated. Domestic financial system however, remained resilient, continued to function efficiently to support the economic activities.

In an environment of continued weaknesses in the world economy, growth in the domestic economy was driven by private consumption and robust investment activity. Regardless of the obstacles faced by the economic uncertainties, Bank Pembangunan Malaysia Berhad (BPMB) continued to assist the Government and spur the growth in the development of the nation.

FINANCIAL PERFORMANCE

For the financial year ended 2013, net income and profit before tax of BPMB escalated by 5.3% and 32.0% to record RM877.7 million and RM569.3 million respectively as compared to the previous year. The significant increase in the profit before tax was mainly due to lower impairment of loans and advances of RM107.5 million against provisioning of RM277.8 million the year before.

BPMB's total assets increased to RM28.1 billion as at 31 December 2013, from RM27.0 billion in the previous year.

It was mainly attributable to higher loans, advances and financing of RM24.0 billion as compared to RM23.0 billion in the year before.

The gross impaired loans registered RM2.5 billion as at 31 December 2013, compared to RM2.6 billion as at 31 December 2012. As a result, the gross impaired loans ratio improved to 9.7% from 10.3% in 2012.

CONTINUED FOCUS ON MANDATED ROLE

In supporting the national development agenda and contributing towards economic growth, BPMB had approved a total of 66 projects amounting to RM6.3 billion during 2013, an increase of 31.3% from the previous year's approval of RM4.8 billion which were granted to 44 projects. Of significance, RM5.0 billion or 79.4% was channelled to

For the financial year ended 2013, net income and profit before tax of BPMB escalated by 5.3% and 32.0% to record RM877.7 million and RM569.3 million respectively as compared to the previous year.

infrastructure sector, RM0.7 billion or 11.1% to oil & gas sector, RM0.4 billion or 6.3% to technology sector while the remaining RM0.2 billion or 3.2% was extended to maritime sector.

Infrastructure

Infrastructure is the core part of the Government's development policies and it has continuously received the largest portion of the national development plans since 1966. Infrastructure also continued to be the Bank's forte, accounting for 83.1% of the Bank's current loan portfolio. For the period under review, 39 infrastructure projects worth RM4,976.5 million were approved.



In tandem with the government's initiative to further improve basic infrastructure to the nation, 41.8% of the infrastructure loans approved were channelled to transportation sub-sector (RM2,080.0 million for 3 projects), 15.9% to port sub-sector (RM792.3 million for 4 projects), 13.8% to tourism sub-sector (RM685.3 million for 9 projects) and 11.2% to education sub-sector (RM555.1 million for 11 projects). 17.3% or RM863.8 million of the remaining balance were allocated to various sub-sectors under infrastructure projects such as area development, road, health and sewerage.

A total of RM3,747.7 million or 75.3% of the approved loans under the infrastructure sector are government-backed projects with 11 projects under the "Private Finance Initiatives" (PFI) programme. PFI is a mechanism introduced by the Government to promote private sector involvement in the provision of public services and BPMB has been actively participated in this programme. As of end 2013, a total of 28 PFI's project amounting to RM4.2 billion is financed by BPMB.

Maritime/Oil and Gas

The maritime industry has gone through challenging times in recent years but things are stabilizing as the overall industry is showing growth, albeit slow, supported by intra-Asian trade and high demand for small and medium-sized ships. The industry is also supported by the prospect in the oil and gas sector. Driven by contracts awarded under PETRONAS five-year RM300.0 billion capital expenditure, players are taking the opportunity to tap the growing market.

During the year under review, loan approval to the maritime and oil and gas sector of BPMB improved from RM896.1 million the previous year to RM966.2 million, an increase of 7.8%. Of the approval, RM749.6 million was under the oil and gas sub-sector. About RM563.5 million or 75.2% of the loan approved under the oil and gas sub-sector were to finance the purchase of the offshore support vessels. Whereas RM97.8

million loans approved under the maritime sub-sector were to purchase two units of Pressurized Liquefied Petroleum Gas ("LPG") Carrier.

Technology

For the past several years, the government had consistently pursued technology development in order to build a progressive nation. During the period under review, BPMB's technology sector formed about RM365.2 million of the total loans approved. Of the approval, RM174.1 or 47.7% were approved for the advance manufacturing sub-sector, RM115.0 million or 31.5% for the information and communications technology (ICT) and RM76.1 or 20.8% were approved for the environment conservation.

OPERATIONAL EFFICIENCY Managing Risks

Risk Management function in banking industry has come a long way and has evolved significantly

in current times. Over the years, many practices have been exposed in financial institutions that point to the importance of risk management and controls.

In view of the high risk in its lending activities, it is inevitable for BPMB to have effective yet reliable risk management. With the increasing importance of liquidity management in the financial industry, BPMB continues to resolve its funding issues as to ensure the continuity of BPMB in upholding its responsibilities as the premier financier to the national development.

Throughout the years, the notion of risk has moved beyond the traditional measures like credit, market and operational to corporate governance risk, fraud risk, accounting malpractices, reputation risk, environmental risk, social risk and systemic risk. As such, risk awareness should not solely be the responsibility of the Group Risk Management only but to become a culture that needs to be embedded by all functions in BPMB.

A total of RM3,747.7 million or 75.3% of the approved loans under the infrastructure sector are government-backed projects with 11 projects under the "Private Finance Initiatives" (PFI) programme.



Domestic demand is expected to remain strong and continue to be the driver of growth. Private investment is expected to record a double digit growth supported by the accelerated implementation of the ongoing Economic Transformation Programme (ETP) projects.

Human Capital Development

Human capital is amongst the many important factors significant to economic growth of a country as a whole and organization in particular. Investment in human capital development is a key pre-requisite to achieving the status of progressive institution. Thus, although human capital is not tangible, it will always be the most valuable asset of an organisation.

In view of carrying the unique mandated roles of the government, BPMB has acknowledged that effective personnel not only have the requisite technical and core knowledge, but also proven experience in applying the skills in the respective field. Due to this condition, BPMB continues to focus on its previous initiative that is succession planning. Apart from succession planning, the Bank will continue to inject external talents with valuable experience and insight that will close the gaps in required competencies.

MOVING FORWARD

Global growth is expected to strengthen moderately in 2014 as some developed economies emerged from recession amid the overall positive effects from the stimulus measures undertaken. Nonetheless, emerging economies remain vulnerable to the stimulus measures, especially by the US. The Malaysian economy is expected to expand further by about 5.0% in 2014, supported by resilient domestic demand and improving external environment.

Domestic demand is expected to remain strong and continue to be the driver of growth. Private investment is expected to record a double digit growth supported by the accelerated implementation of the ongoing Economic Transformation Programme (ETP) projects. Given the improved external outlook and measures outlined by the Government in its 2014 Budget, we are confident that BPMB will continue to expand its businesses in the mandated sectors of infrastructure, maritime, oil and gas and technology.

DATO' MOHD ZAFER MOHD HASHIM
PRESIDENT/GROUP MANAGING DIRECTOR