PRESIDENT / GROUP MANAGING DIRECTOR'S STATEMENT

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

OVERVIEW

In 2012, the international economic landscape became more challenging relative to the preceding year. Global growth experienced a synchronized moderation as weakening economic conditions in several key economies affected international trade and subsequently had adverse spillover effects on domestic activity in the emerging economies.

The lower global growth prospects, coupled with the ongoing fiscal uncertainties in the advanced economies, cumulatively contributed to sustained volatility in the financial markets. Notwithstanding, the domestic financial markets continued to remain orderly and exhibited strong capacity to intermediate the volatile flows despite heightened investor risk aversion.

Despite challenges posed by the economic uncertainties, Bank Pembangunan Malaysia Berhad (BPMB) strengthened its position by focusing on managing risks and costs while continuing to enhance operational excellence.

FINANCIAL PERFORMANCE

During the period under review, BPMB recorded Net Income of RM833.5 million and Profit Before Tax of RM431.2 million, a decline of 18.9% and 32.6% respectively, as compared to the previous year. The lower interest income and non-interest income as well as higher impairment on loans and financing contributed to the decline.

As at 31 December 2012, BPMB's total assets decreased to RM27.0 billion, from RM29.4 billion in the previous year, mainly due to cash and short term deposits withdrawal to meet repayment of long term borrowings.

The gross impaired loans registered RM2.6 billion as at 31 December 2012, compared to RM2.8 billion as at 31 December 2011. As a result, the gross and net impaired loans ratios improved to 10.3% and 4.6% respectively, from 11.4% and 5.2% respectively in 2011.

CONTINUED EMPHASIS ON MANDATED ROLE

In supporting the national development agenda and contributing towards economic growth, BPMB continued to play a pivotal role with a total loan approval of RM4.8 billion favouring 44 projects in 2012, channeled to its mandated sectors namely infrastructure, maritime, technology and oil & gas. This represented a significant increase of 182% from the previous year's approval of RM1.7 billion involving 29 projects.

The sharp increase was attributed to contributions by infrastructure and technology sectors, which made up 52% and 30% respectively of the total loan approval.

INFRASTRUCTURE

The infrastructure sector has received the largest share of public sector development expenditure in every Malaysia Plans for the past three decades. BPMB has always been at the forefront in supporting the Government's mission to uplift the nation accessibility to high-class infrastructure facilities.

For the year 2012 alone, the total loans approved for the infrastructure sector amounted to RM2,512.5 million, involving 21 loans. About 87% or RM2,183.0 million of the total loan approved was granted under Islamic General Infrastructure Fund with the remaining under conventional general infrastructure fund.

For the past few years, Government has implemented Private Finance Initiatives ("PFI") concept to promote private sector involvement in the provision of public services. The objective of PFI's project is to fulfil the growing needs for various infrastructure projects and to enhance public facilities. BPMB has been actively involved in providing financing to PFI's projects in 2012. BPMB has approved financing through Infrastructure Fund to 7 PFI's project totalling RM1.3 billion.

MARITIME / OIL AND GAS

The market pictured by maritime industry in 2012 was not a bright one, and this is likely to remain unchanged in 2013 as the industry is still beset by a heavy over-supply and persistently weak global trade. It would be an uphill battle for shipping players across all segments, particularly merchant vessels, to survive on the back of low freight rates and high operating costs. The reduced profitability is likely to hamper debt repayment ability, particularly those players that embarked on large debt-fuelled capital expenditure around 2007-2008 when asset valuations had peaked.

Yet, not all are bleak and weary in the maritime industry. Of late, the oil and gas sector has become a new star and saving grace. The unveiling of the Economic Transformation Programme (ETP) has provided a substantial boost to Malaysia's oil and gas sector, which is one of the 12 National Key Economic Areas (NKEAs). Several initiatives, upstream and downstream have shown significant progress providing local players opportunities to capitalize on.

Despite a challenging year due to volatility of the shipping market, BPMB has fulfilled its role by increasing the number of loans approved in the Maritime / Oil and Gas sector. During the year under review, a total of nine applications worth RM896.1 million were approved, indicating an increase of 113% as compared to the previous year. The largest contributor was the shipbuilding and ship-repair sub-sector with RM700.0 million (78%), while the remaining RM196.1 million (22%) were approved to finance four offshore support vessels, one harbour tug and working capital requirement.

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TECHNOLOGY

The global downturn put tremendous pressure on the manufacturing sector which had resulted in lower exports, in particular electronics and electrical products. Nevertheless, BPMB managed to strengthen its presence in the financing of technology sector by recording higher loan approvals in 2012. During the year under review, 14 loans were approved amounting to RM1.4 billion for technology projects.

In supporting the government implementation and promotion for the use of Green Technology, the technology sector had approved five projects under the GTFS scheme amounting to RM93.5 million. The remaining nine projects approved are other technology related projects which amounting to RM1.3 billion.

ENHANCED OPERATIONAL EFFICIENCY

MANAGING RISKS

As banking is about the business of taking risks, our risk management is not focused on purely meeting regulatory requirements, but also ensuring that our capital is directed toward activities that give us optimum risk-reward ratio based on our mandate and business model. Risks, if left unattended within the rapidly changing financial landscape and increased uncertainty, can be detrimental to BPMB. Mitigating risks necessitates credible partners including other financial institutions, to spread our financial risk. However, not all risks can be mitigated, thus careful portfolio management is essential to withstand potential failure.

Risk management cannot be construed as something to be performed by a few individuals or a function. Group Risk Management function was enhanced during the year with the implementation of several critical initiatives. The staff in the business and operational functions, as the first line of defense and being equally responsible for the risk-taking, had undergone a series of risk management awareness and technical courses via in-house programmes, to equip them with relevant risk management tools.

HUMAN CAPITAL DEVELOPMENT

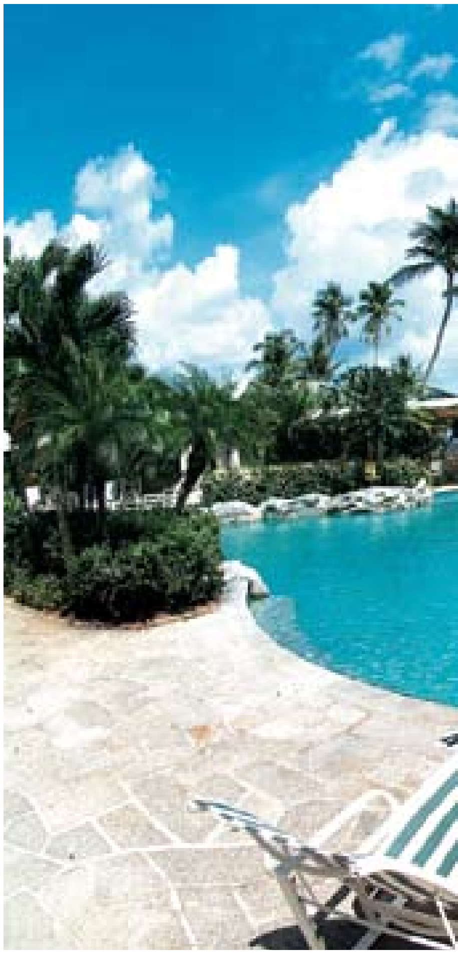
In order to cater for the unique requirement of BPMB as a development financial institution and with the talent war prevalent among not only Malaysian banking industry but across the region, succession planning has always been a strong corporate agenda. The initiative on succession planning will be continued to anticipate the need for skilled, agile and committed workforce.

Our approach towards succession planning is anchored on the approved succession planning framework which comprising four iterative phases of talent identification, talent assessment, talent development and talent monitoring. This will require BPMB to be in sync, not only with the needs of the organization, but with the needs of our skilled talent as to retain them through a variety of initiatives. These include implementing other HR strategies such as planning for career development, providing access to professional training, development programmes and providing an attractive remuneration and rewards scheme.

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

Given the challenging external environment, there remain risks to the economic outlook. The potential re-emergence of instability in the euro area and slower growth in Malaysia's major trading partners would affect the Malaysian economy. While pressures



from global commodity prices have receded, upside risks from non-fundamental factors, such as adverse weather conditions and geopolitical developments, could push commodity prices higher and adversely affect the growth prospects of economies that are major trading partners of Malaysia. Potential upside to the domestic economy could emerge if the recovery in the advanced economies turns out to be better than expected.

The Malaysian economy is expected to expand moderately, with real GDP to grow by 5 to 6% in 2013, supported by stronger domestic demand, driven mainly by private sector. The Government development expenditure during the year will continue to be channeled towards improving the economic and social sectors. The implementation of various projects under the Economic Transformation Programme (ETP) will also be accelerated in 2013. These Government initiatives certainly offer wider opportunities for the Bank to expand not only its business but also to contribute further towards fulfilling its mandated role.

In spite of the challenging economic conditions, we are confident of continued growth in developmental financing of the mandated sectors namely infrastructure, maritime, technology and oil and gas.

DATO' ZAFER HASHIM
President / Group Managing Director