OPERATIONAL REVIEW

All economic sectors are expected to expand, albeit at a more moderate pace. The services and manufacturing sectors would remain as key drivers of overall growth, benefiting from the resilience of domestic demand.

OVERVIEW

As economic performance in several major economies remained below expectations, concerns over the global growth outlook increased towards the end of 2014, particularly following the downgrade of the global economic outlook by the International Monetary Fund (IMF). The weakness in global demand, together with the sizeable excess supply in the global crude oil market, led to a significant decline in the prices of crude oil and other commodities. Uncertainties over the magnitude and persistence of the decline in commodity prices consequently increased concerns over the growth prospects of a number of commodity-producing emerging economies. This in turn resulted in broad-based financial market volatility across the emerging economies, which further exacerbated concerns over global growth.

Nevertheless, in Malaysia, while overall growth was affected by the adverse developments in the external environment, economic expansion continued to be supported by domestic demand and exports. Despite all the challenges, Bank Pembangunan Malaysia Berhad (BPMB) continued to assist the Government in various developmental projects.

FINANCIAL PERFORMANCE

For the financial year ended 2014, despite a challenging business environment, BPMB was able to record Net Income of RM887.8 million, an increase of RM10.1 million from the previous year. However, the Profit Before Tax recorded RM247.0 million, a decline of 56.6% as compared to 2013. The decrease was contributed by higher impairment of loans, advances and financing by RM162.5 million from RM107.5 million recorded in 2013 and higher impairment on other assets by RM164.1 million mainly due to impairment of investment in Global Maritime Ventures Berhad (GMVB) amounting to RM293.8 million.

BPMB's total assets increased to RM29.2 billion as at 31 December 2014, from RM28.1 billion in the previous year. It was mainly attributable to higher deposits and placements with financial institutions by RM525.1 million and higher cash and short term deposits by RM504.8 million as compared to the year before.

BPMB's capital adequacy remained solid with risk-weighted capital ratio (RWCR) strengthening to 33.2% in 2014 from 32.8% in 2013.

CONTINUED EMPHASIS ON MANDATED ROLE

In supporting the national development agenda and contributing towards economic growth, BPMB had approved a total of 34 projects amounting to RM5.4 billion in 2014, a decrease of 14.3% from the previous year's approval of RM6.3 billion which were granted to 66 projects. RM4.7 billion or 87.0% was channelled to infrastructure sector, RM0.4 billion or 7.4% to oil & gas sector while the remaining RM0.3 billion or 5.6% to technology sector. There was no approval for maritime sector in 2014.

Infrastructure

The infrastructure sector has received the largest share of public sector development expenditure in every National Budget and Malaysia Plan. BPMB has always been at the forefront in supporting the Government's mission to uplift the nation's accessibility to infrastructure facilities.

Infrastructure continued to be the Bank's forte, accounting for 82.7% of the Bank's current loan portfolio as at 31 December 2014. For the period under review, 25 infrastructure projects worth RM4,729.8 million were approved.

In tandem with the government's initiative to further improve basic infrastructure to the nation, 39.5% of the infrastructure loans approved were channelled to roads/highways sub-sector (RM1,868.2 million for 4 projects), 29.9% to area development sub-sector (RM1,414.1 million for 6 projects), 21.5% to community, social and public services sub-sector (RM1,015.3 million for 5 projects) and 7.8% to tourism sub-sector (RM368.0 million for 7 projects). About 1.3% or RM64.1 million of the remaining balance was allocated to various projects under utilities and transportation sub-sectors.

A total of RM3,418.5 million or 72.3% of the approved loans under the infrastructure sector are government-backed projects with 3 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 actively participated in this programme. As at 31 December 2014, a total of 31 PFI projects amounting to RM5.1 billion are financed by BPMB.

Oil and Gas

The oil and gas sector has been volatile given the slow rollout of domestic developments, downscaled projects, declining marine charter rates, increasing competition from overseas fabrication players due to the relaxation of local content requirements 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.

During the year under review, BPMB's loan approval to the oil and gas sector decreased significantly from RM749.6 million in 2013 to RM362.6 million in 2014, a decline of 51.6%. About RM337.6 million or 93.1% of the loan approved under the oil and gas sub-sector was to finance the purchase of offshore support vessels, whereas the remaining RM25.0 million or 6.9% was for financing of offshore works.

Technology

During the period under review, BPMB's technology sector formed about RM281.3 million of the total loans approved. Of the approval, RM271.3 million or 96.4% was approved for the advance manufacturing sub-sector and the remaining RM10.0 million or 3.6% 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. Against the backdrop of weak market condition, there was no approval under BPMB's maritime sector in 2014.

SUBSIDIARIES' PERFORMANCE

Global Maritime Venture Berhad Group

The tough operating environment was mirrored in GMVB Group's performance which revealed a widening Net Loss of RM303.9 million in 2014 compared to RM158.9 million in 2013. This was primarily due to impairment on investments and assets. Several of the underperforming companies such as Syarikat Borcos Shipping Sdn Bhd (Borcos) and joint venture ship owning companies (JV SOCs) under the joint ventures with Global Carriers Bhd and Gagasan Carriers Sdn Bhd had been experiencing tight cash flow conditions, leading to conservation of cash for operations through more efficient financial management initiatives.

Pembangunan Leasing Corporation Group

PLC Group recorded lower Operating Profit of RM15.4 million in 2014 compared to RM16.5 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.

MOVING FORWARD

The international economic and financial landscape has become more challenging since late 2014. Beyond the sharp decline in commodity prices, the growth momentum in several major economies is also weaker than earlier expectations. Against this backdrop, the international financial markets are likely to remain volatile in 2015. As a highly open economy, Malaysia's economic outlook will be affected by these developments. All economic sectors are expected to expand, albeit at a more moderate pace. The services and manufacturing sectors would remain as key drivers of overall growth, benefiting from the resilience of domestic demand. The construction sector is expected to record growth in 2015 but at a slower rate compared to 2014.

Despite the challenging economic outlook, BPMB will continue to contribute further towards fulfilling its mandated role in 2015. The bulk of the new loan approval is targeted for infrastructure sector. It is expected that there will be less Private Finance Initiatives (PFI) projects coming on stream in 2015, while uncertain outlook in the oil & gas and maritime sectors will continue to have a negative bearing on future loan approvals for these sectors.