



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

INTRODUCTION

On behalf of the Board of Directors, it is my great pleasure to present the 38th Annual Report and Audited Financial Statements of Bank Pembangunan Malaysia Berhad (BPMB) and Group for the financial year ended December 31, 2011.

MALAYSIAN ECONOMIC REVIEW FOR 2011

The global economic and financial conditions continued to experience stress in 2011, following heightened concerns over the resolution of the European sovereign debt crisis. Growth in the advanced economies was affected by high unemployment, weak housing markets and fiscal issues, while growth in Asia was affected by weaker external demand. Despite the challenging external environment, the Malaysian economy expanded by 5.1%, with growth being underpinned by domestic demand. The favourable domestic demand conditions were supported by both private and public sector spending.

On the supply side, all economic sectors except mining registered positive growth in 2011. The services sector continued to record a strong growth of 6.8% in 2011. The finance and insurance sub-sector expanded by 5.9%, supported by expansion in bank lending as well as higher growth in insurance premiums. Growth in the real estate and business services sub-sector was lower at 6.3%, as capital market-related activity slowed during the year.

The construction sector expanded by 3.5% during the year, driven by residential and civil engineering sub-sectors. Growth in the residential segment improved amid higher construction activity, especially in the Klang Valley. Higher investment following the continued progress in the construction of major infrastructure projects such as the Seremban - Gemas electrified double-tracking project, the Second Penang Bridge and the Sabah Oil and Gas Terminal, boosted the civil engineering sub-sector. Growth in the non-residential sub-sector continued to be underpinned by the ongoing construction of commercial properties.



**RM619
MILLION**

12.8%

Financial stability remained intact throughout 2011, despite persistent uncertainties and challenging external environment. Well-capitalised financial institutions and orderly functioning of the financial markets, continued to provide support for financial intermediation activities in the domestic economy. The banking system exhibited strong performance during the year. Sustained profitability continued to support the capital strength of banks. Liquidity in the banking system remained ample and sufficient to meet the demand for financing and other liquidity obligations. The core capital ratio (CCR) and risk-weighted capital ratio (RWCR) of the banking system were at 12.9% and 14.9% respectively.

The Financial Sector Blueprint 2011-2020 was launched during the year, charting the future direction and initiatives to develop the financial sector to best serve the economy and facilitate the economic growth and transformation over the next ten years. These include initiatives to promote inclusiveness in accessibility to financial services; encourage further development of financial institutions, products and markets that facilitate and drive the development of new domestic sources of growth; and accelerate Malaysia's regional and international connectivity.

2011 FINANCIAL PERFORMANCE

BPMB Group continued to deliver commendable results in 2011 against the backdrop of recovering economy. Profit Before Tax surged 12.8% to RM618.9 million, from RM549.1 million in 2010, despite a 7% decrease in net income to RM1.2 billion in 2011, as overheads and impairment charges registered significant decreases from the previous year. The lower income achieved was partly attributable to lower non-interest

income arising from lower charter hire and freight income recorded by Global Maritime Ventures (GMVB) and lower gain from disposal of vessels during the year.

Bank Pembangunan Malaysia Berhad (BPMB)

BPMB recorded Profit Before Tax of RM618.2 million in 2011, chalking up a significant growth of 23% from the previous year. The main contributing factors were higher net interest income due to 5.7% increase in gross loans, advances and financing, underpinned by strong growth in lending to infrastructure sector. The higher Profit Before Tax was also contributed by lower provision for impairment of loans and securities by RM107.2 million from RM467.2 million in 2010.

Shareholders' funds increased to RM7.1 billion as at 31 December 2011, from 2010 position of RM6.9 billion, attributable to the higher retained earnings. As a result, risk-weighted capital ratio (RWCR) strengthened to 35.2% in 2011 from 33.1% the previous year. 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, RAM Ratings has reaffirmed BPMB's long- and short-term financial institution ratings at AAA and P1, respectively. The long-term rating of BPMB's Medium-Term Notes (MTN) Conventional and Islamic Murabahah Programmes has also been reaffirmed at AAA. Both long-term ratings have a stable outlook.



On behalf of the Board of Directors, I would like to express our deepest gratitude to the Ministry of Finance, Bank Negara Malaysia, other ministries and regulators, customers, partners and other stakeholders for their continuous support and guidance. I also wish to express our sincere appreciation to Management and staff of Bank Pembangunan Group for their dedication, commitment and strive for excellence.

Global Maritime Venture Berhad (GMVB)

GMVB's Group financial performance during the financial year ended 31 December 2011 continued to be affected by the global shipping slump. Lower charter hire rates and freight income resulted in the Group having recorded total revenue of RM101.9 million, a decrease of 34% compared to 2010. The unfavourable financial performance was attributable to lower operating revenue largely due to the disposal of four (4) dry bulkers in 2010 with consequential impact being lower overall charter earnings in 2011.

The non-recurrence of other income from disposal of vessels in 2011 was made up by higher share of profit from jointly-controlled entities and associates. Nevertheless, higher operating expenses arising from impairment losses on vessels contributed to GMVB Group registering a loss before tax of RM24.4 million in 2011, as compared to a profit of RM27.7 million in the previous year.

Pembangunan Leasing Corporation Sdn. Bhd. (PLC)

For the financial year ended 31 December 2011, PLC Group recorded commendable growth in Profit Before Tax of 15% to RM50.5 million, increasing from RM43.8 million in the previous year. This was achieved on the back of increases in income and provision written back. As a result, shareholders' funds posted a significant growth of 34% to RM201.5 million from RM150.1 million as at end 2010.

OUTLOOK AND PROSPECT FOR 2012

The global economic prospects for 2012 continue to remain downbeat as uncertainty and vulnerabilities of economies towards financial stress continue to persist. The Malaysian economy is projected to grow at a slower pace of between 4% and 5% in 2012, spurred by domestic demand as the private sector takes over as the driver of growth.

The National Budget 2012 has created significant impact on the construction sector as the Government is serious in attracting investments on all Entry Point Projects (EPP) under the Economic Transformation Programme (ETP) to ensure ample funds for growth. The higher allocation of RM29.8 billion for the economic sector to support the needs of infrastructure will raise the level of construction activities and provide more business opportunities. In 2012, the construction and services sector are expected to contribute 7.0% and 6.5% respectively, to the economy.

Both private and public investments are expected to increase, supported by implementation of projects under the 10MP and ETP, as well as higher capital spending by non-financial public enterprises (NFPEs) such as PETRONAS, Tenaga Nasional Berhad, Telekom Malaysia Berhad, Malaysia Airports Holdings Berhad and Syarikat Prasarana Negara Berhad, via upgrading and capacity expansion programmes.

The domestic infrastructure momentum would be largely sustained from increasing private sector participation via public-private partnerships (PPP) moving into 2012. Major projects include on-going construction of three electrified double-tracking projects which was awarded to MMC-Gamuda and Indian Railway Construction. It is expected that a lot of sizeable projects with regards to the Klang Valley My Rapid Transit (MRT) will be awarded in 2012.

Announcement of these infrastructure projects has created excitement for the industry and will spur spin-off jobs, which will benefit the local construction sector. BPMB Group will continue its role of making financing accessible to industry players and potential investors within its mandate to support the nation's development agenda.

Despite the continuing bleak outlook of the shipping industry, BPMB will maintain its support for the Maritime sector. Financing will focus on vessels that are servicing the offshore oil and gas activities as well as shipyards, particularly those involved in ship repairs and offshore oil and gas fabrication.

While development is important for the improvement of a nation's economy and living standards of its people, the Government is taking steps to ensure that we do not deplete our resources. Thus, Malaysia is committed to adopt renewable energy and green technology, to become one of the leading green nations in the future. In line with the government's aspirations, BPMB will continue to promote green technology via financing under the Green Technology Financing Scheme (GTFS).

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to express our deepest gratitude to the Ministry of Finance, Bank Negara Malaysia, other ministries and regulators, customers, partners and other stakeholders for their continuous support and guidance. I also wish to express our sincere appreciation to Management and staff of BMPB Group for their dedication, commitment and strive for excellence.

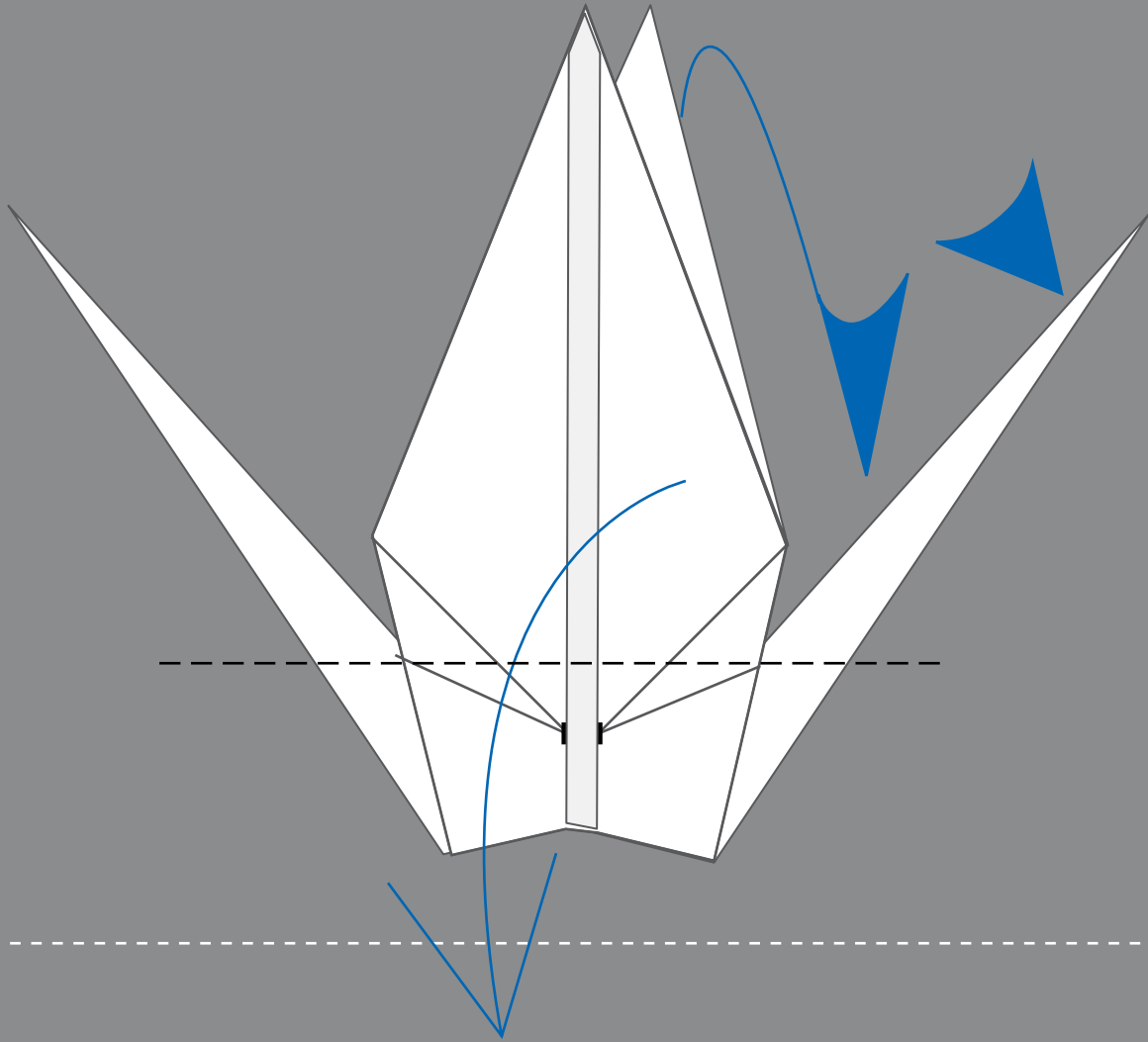
I am privileged to serve as Chairman of the Board of BPMB with effect from 15 September 2011. It is indeed an honour for me to have this opportunity to work together with a team of dedicated Board members whose extensive experience in various fields and industries will greatly contribute to BPMB's effectiveness in executing its mandate. Thank you fellow Board members for your support and contribution. To Encik Abdul Aziz bin Ishak who joined the Board on 29 September 2011, I wish him a warm welcome.

I would like to take this opportunity to record my heartfelt appreciation to Tan Sri Dr. Abdul Samad bin Hj Alias who retired as Chairman of Bank Pembangunan Board of Directors on 1 August 2011. His wisdom and invaluable contribution and advice throughout his 3-year tenure with BPMB will continue to be cherished and deeply missed.

Dato' Mohammed Hussein

Chairman





PROGRESS

Every single model created is a journey that the exponent undergoes, in the steps of mastering new unprecedented techniques that challenges the passion and perseverance of BPMB to be the best in everything we do.