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

OVERVIEW

The deepening financial crisis and worsening global economic outlook, particularly during the second half of 2011, had affected sentiments in the financial markets. International financial market conditions turned more volatile as markets were affected by continued policy uncertainty and sovereign downgrades of several core Euro countries. Nevertheless the domestic financial markets continued to remain orderly and exhibited strong capacity to intermediate the volatile flows despite heightened investor risk aversion.

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

BETTER FINANCIAL PERFORMANCE

BPMB performed well in 2011, with Profit Before Tax of RM618.2 million recording a significant increase of 23% from RM503.5 million in the previous year.

Net interest income improved by RM23.1 million from RM641.1 million in 2010 to RM664.2 million in 2011, attributable to higher income from loans and advances on the back of 5.7% gross loan growth, largely contributed by loan disbursement to infrastructure projects totaling RM2.9 billion. Out of this, RM2.2 billion was for Government-backed projects, while RM306.2 million was progress payment under Private Finance Initiative (PFI) projects favouring the education sub-sector involving construction of UiTM campuses.

BPMB's balance sheet strengthened further in 2011 with total assets increasing to RM29.6 billion, from RM29.3 billion in the previous year, largely contributed by the moderate loan growth. Gross impaired loans registered RM2.8 billion as at 31 December 2011, compared to RM2.6 billion the previous year, with gross impaired loans ratio slightly higher at 11.3% compared to 11.1% in 2010.

The capital position of BPMB at the end of 2011 continued to be one of the strongest in the industry with shareholders' funds of RM7.1 billion improving by RM182.7 million, resulting in the risk-weighted capital ratio (RWCR) to stand at 35.2% at the end of 2011 as against the banking system average of 14.9%.

CONTINUED EMPHASIS ON MANDATED ROLE

BPMB continued to play a vital role in spearheading the growth of the country's strategic economic sectors with a total loan approval of RM1.7 billion favouring 29 projects in 2012, channeled to its mandated sectors, namely infrastructure, maritime and technology. This represented a decline of 48% from the previous year's approval of RM3.3 billion involving 37 projects, underpinned by lower loan applications received, resulting from the economic slowdown, particularly in the maritime sector.

On the positive side, the year had also witnessed some of the BPMB's traditional customers migrating to commercial banks which were able to offer lower financing rates on account of cheaper cost of funds due to the ability of the banks to tap deposits from current and savings account (CASA). This demonstrated the positive benefits derived by the clients from earlier financial assistance by BPMB during the developmental stage. Indeed, some customers had graduated to a position which enabled them to tap the bonds/sukuk market for their fund raising.

Infrastructure

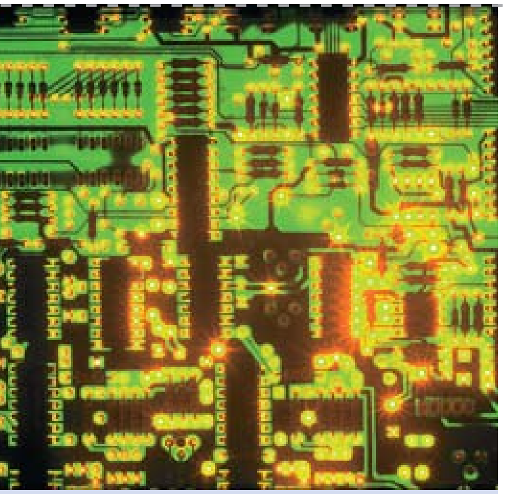
Total loans approved in 2011 for the infrastructure sector amounted to RM902.0 million, involving 16 loans. Within the infrastructure sub-sectors, tourism was the main recipient. The sub-sector received RM598.5 million or 66% of total loans approved to the infrastructure sector. A total of RM282.7 million or 31% was approved for transport sub-sector, which includes integrated terminal and rail projects. The balance of RM20.8 million or 3% was approved favouring the port and water sub-sectors.

Maritime

The year 2011 continued to be a challenging year for the maritime industry. The global economic slump had caused demand for vessels to decline, which consequently lowered freight rates, while the hike in oil prices increased operational costs and reduced operating margins. The plunge in freight rates adversely impacted the income of shipping companies, hence affecting their loan repayment capability. This is especially true for containers and dry bulkers where freight rates had plunged by more than 60% since 2008.

Over the last three years, BPMB's financing exposure to containers and dry bulkers was minimized and the portfolio is now skewed towards offshore support vessels (OSV), smaller size product/chemical tankers, tug boats and barges, which are normally supported by charter contracts. OSV was least affected by the economic slowdown as sub-sea installation and progression projects continued to generate attractive revenue and profit. The offshore oil and gas industry remained resilient during the economic crisis, which had resulted in increasing demand for the OSVs.

During the year under review, a total of RM420.5 million loans to maritime sector were approved. Of this amount, RM260.5 million or 62% was to finance the purchase of three OSVs and the remaining balance of RM160.0 million or 38% was to finance an oil and gas project.



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 2011, which accounted for RM328.5 million as compared to RM284.8 million recorded in 2010.

Within the technology sub-sectors, advanced manufacturing was the main recipient. The sub-sector received RM159.7 million or 49% of total loans approved to the technology sector. A total of RM140.8 million or 43% was approved for energy/biomass sub-sector and the balance of RM28.0 million or 8% was approved for waste to wealth sub-sector.

ENHANCED OPERATIONAL EFFICIENCY

Continuous Process Improvement

BPMB's resilience amidst the challenging economic conditions enabled it to sustain performance, fuelled by better capital and balance sheet management as well as progressive enhancement to strengthen technical capabilities and operational excellence.

BPMB had reviewed and streamlined various Management Committees so as to facilitate a more effective decision making process without compromising the prudence and governance aspects. BPMB had also reviewed existing and introduced new policies and guidelines involving credit operations to improve its operational efficiency and governance.

Strengthening risk management continued to be BPMB's focus to ensure risk awareness are embedded in all operational aspects of BPMB and therefore risks are promptly identified, assessed and effectively controlled. In relation thereto, Enterprise Risk Management was further strengthened in 2011 and will continue to be reviewed and enhanced.

To further improve efficiency and productivity, BPMB had implemented a new Enterprise Loan Management System (ELMS) to effectively manage its loan portfolio from origination to full repayment as well as to ensure conformance to new regulatory requirements, financial reporting standards and statutory compliance. The project was awarded to a local vendor after undergoing extensive tender process and proof of concept and was successfully delivered within less than a year.

Another key project embarked by BPMB was Group-wide implementation of existing financial management system, which had been rolled out to both subsidiaries, GMVB and PLC. This was aimed at providing a fully automated and integrated financial management system for effective preparation and reporting of consolidated financial statements.

BPMB had also initiated and successfully rolled out BPMB Enterprise and Knowledge Management Portal, known as i-Access. The portal acts as communication channel and knowledge repository for BPMB Group to reach out to its workforce as part of the big agenda to establish the desired environment towards becoming a knowledge-based organization.

Human Capital Development

Human capital development is viewed as critical in ensuring the achievement of BPMB's short and long term goals, especially in the fast moving, knowledge-based financial services industry where human capital can provide the competitive edge.

With the onset of globalization and financial liberalization, the traditional lines of business are likely to expand into new areas and business models. As a consequence, competency requirements have also evolved with the growing diversity and complexity of businesses. Thus, BPMB will continue to undertake talent management programmes, with the objective to enhance and retain existing talents as well as develop and attract new talents and create expertise in the niche areas of infrastructure, maritime and technology.

With the required expertise and knowledge, staff will be able to assist potential borrowers in enhancing the viability of projects proposed and advise them on the optimal and effective financing structure to fund their business. This will enable BPMB to be more proactive in managing risks associated with the financing and play an enhanced developmental role overall.

MOVING FORWARD

The full effect of global financial crisis is expected to be felt in 2012 and prolong until 2013. All indicators show that the Euro economy is not going to recover in the next two years as it will take a turnaround in its financial market for the economy to show signs of recovery. Thus, the Malaysian economy is expected to expand moderately, with real GDP to grow by 4% to 5%, 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 2012. These Government initiatives certainly offer wider opportunities for BPMB to tap into and contribute further towards fulfilling its mandated role.

The priority for 2012 will be to focus on strengthening BPMB's capabilities and competitiveness that would contribute to an increase in quality loan portfolio and hence, the sustainability of the Group. At the same time, concerted efforts will be channeled towards competency development within BPMB, to enable a more expedient service delivery, effective advisory services as well as better risk management.

Dato' Zafer Hashim

President / Group Managing Director