

**ANNUAL
REPORT**



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2014 Annual Report



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CORPORATE PROFILE

Bank Pembangunan Malaysia Berhad (BPMB) is wholly owned by the Malaysian Government through the Minister of Finance Inc. BPMB is mandated as a development financial institution providing medium to long term financing to the following sectors:

INFRASTRUCTURE

ROAD/HIGHWAYS

- Toll Road
- Federal Road
- Trunk Road
- City Road
- Bridges

COMMUNITY, SOCIAL & PUBLIC SERVICES

- Education
- Health (excluding Health Tourism)
- Flood Mitigation

UTILITIES

- Water
- Power
- Sewerage

TOURISM

- Theme Tourism
- Convention and Business Center
- Hotel/Resort/Service Apartment/Villa
- Marina

TRANSPORTATION

- Inland
- Air

AREA DEVELOPMENT

- Public/Commercial/Residential
- Industrial

PORT

- Inland
- Port Facilities and Machinery & Equipment
- Airport
- Warehouse/Logistics Hub

MARITIME

VESSELS

- Liquid Cargo Vessels
- Dry Cargo Vessels
- Specialised Vessels

SHIPYARD

- Shipbuilding
- Shiprepair
- Engineering Works
- Yard Facilities and Infrastructure

MARINE-RELATED

- Fabrication
- Vessel Services
- Machinery and Equipment





TECHNOLOGY

ADVANCED MANUFACTURING

- Pharmaceutical
- Electrical & Electronic
- Engineering & Support Service
- Instrumentation & Equipment
- Chemical
- Textiles
- Printing
- Plastic
- Food Processing
- Iron & Steel
- Pulp & Paper
- Aerospace
- Advanced Materials
- Products Related to Oil & Gas Activities

ENVIRONMENTAL CONSERVATION

- Energy Efficiency
- Biofuel
- Clean Development Mechanism (CDM)
- Renewable Energy
- Waste to Wealth
- Pollution Control

INFORMATION AND COMMUNICATION TECHNOLOGY (ICT)

- Telecommunication
- Communication
- System Integration

BIOTECHNOLOGY

- Biotechnology



OIL & GAS

OFFSHORE

- Oil and Gas Field Operators
- Offshore Structure Owners/Operators
- Platform Contractors
- Machinery and Equipment

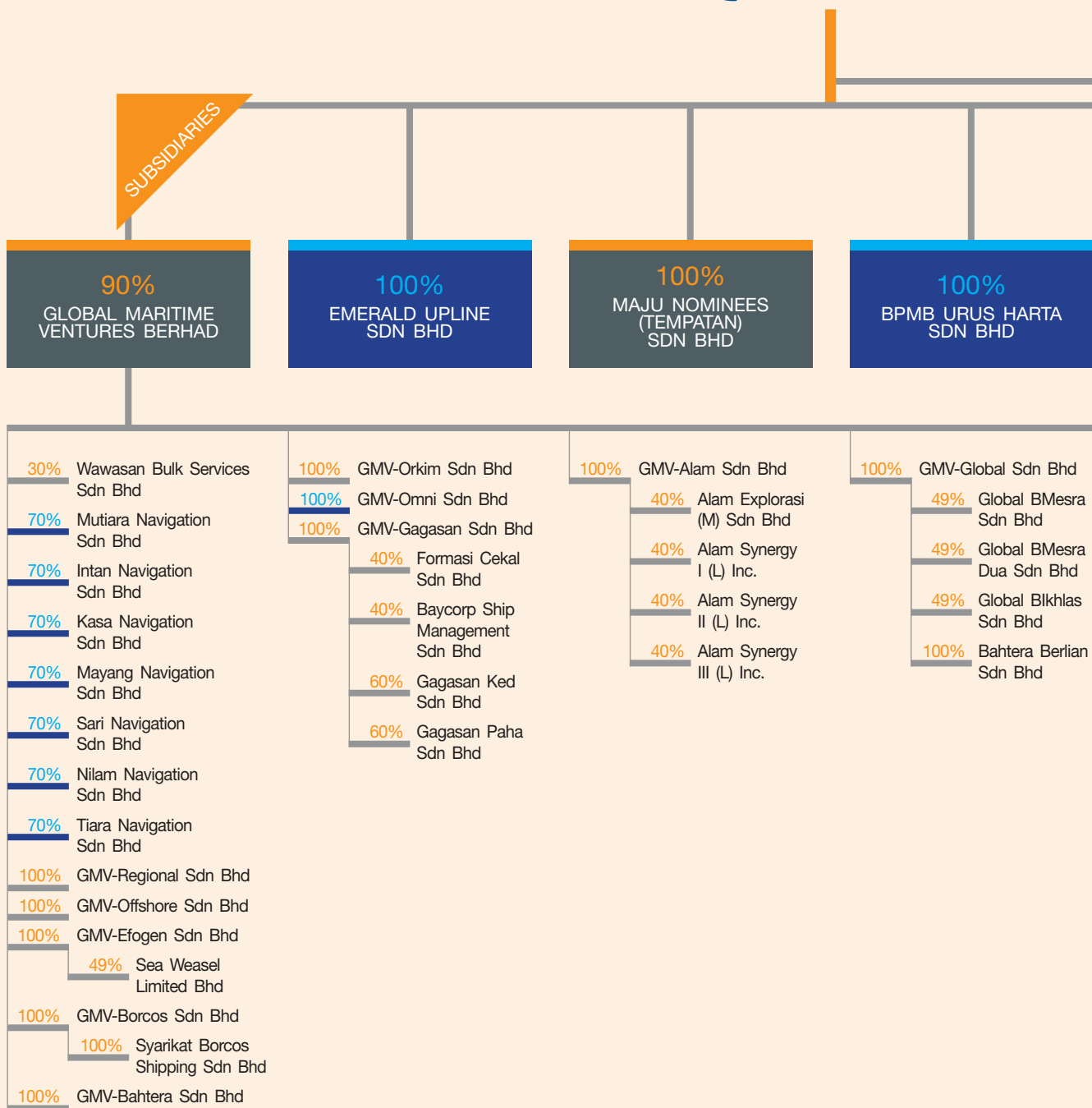
ONSHORE

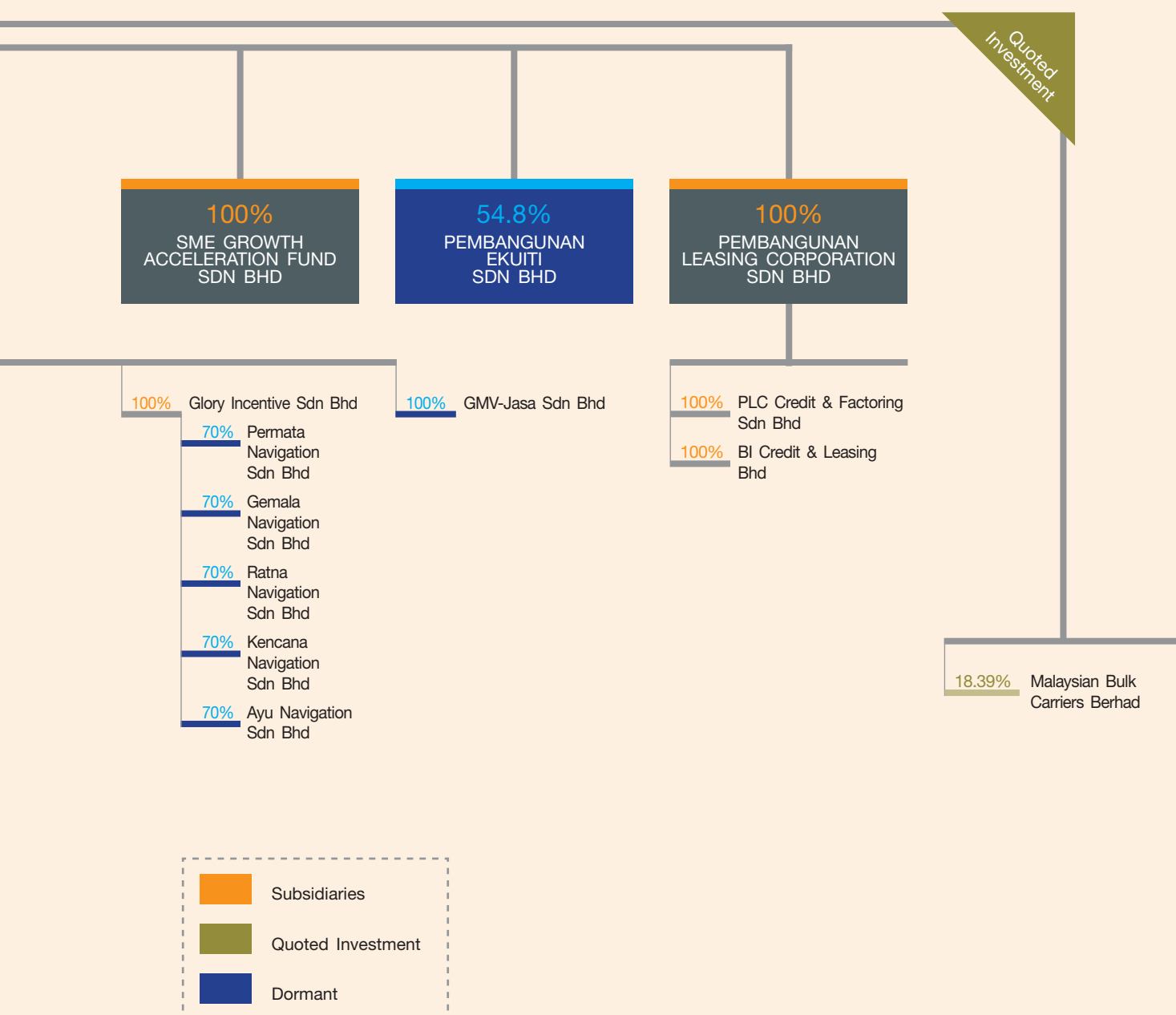
- Fabricators
- Tank Farm Owners/Operators
- Terminal Owners/Operators
- Machinery and Equipment

OFFSHORE SUPPORT VESSELS AND LOGISTIC

- Anchor Handling Tug/Anchor Handling Tug Supply
- Crew Boat
- Supply/Utility Vessels
- Pipe Lay Barge/Vessels
- Accommodation Work Barge/Work Boat
- Heavy Lift Vessels
- Well Intervention Vessels
- Diving Support Vessels
- Seismic Vessels
- Floating Storage/Production Vessels
- Other vessels involved in oil and gas activities
- Air transportation services
- Machinery and Equipment

CORPORATE STRUCTURE





CHAIRMAN'S STATEMENT



IN THE NAME OF
ALLAH, THE MOST
BENEFICIENT,
THE MOST MERCIFUL

INTRODUCTION

On behalf of the Board of Directors of Bank Pembangunan Malaysia Berhad, it is my great pleasure to present the 41st Annual Report and Audited Financial Statement of Bank Pembangunan and Group for the financial year ended December 31, 2014.

ECONOMIC REVIEW FOR 2014

The global economy continued to recover in 2014 supported by improved growth in the US, UK and in selected euro area economies as well as moderate growth in the emerging economies. Nevertheless, downside risks to growth include geopolitical tensions in Eastern Europe and the Middle East as well as sooner-than-expected interest rate normalization in the US.

The Malaysian economy recorded a stronger growth of 6.0% in 2014 (2013: 4.7%), driven primarily by the continued strength of domestic demand and supported by an improvement in external trade performance. Net exports turned around to contribute positively to growth after seven years of negative contribution, as Malaysia benefitted from the recovery in the advanced economies and the sustained demand from the regional economies. While the growth in private domestic demand remained strong, public sector expenditure registered slower growth, consistent with the Government's fiscal consolidation efforts.

All economic sectors recorded higher growth in 2014. The services sector remained the largest contributor to growth, underpinned largely by sub-sectors catering to domestic demand. The stronger performance of the export-oriented industries and the expansion in domestic-oriented industries contributed to the strong growth in the manufacturing sector during the year. The construction sector continued to expand at a double-digit rate, owing mainly to stronger growth in both the residential and non-residential sub-sectors, with further support from the infrastructure projects under the civil-engineering sub-sector.

Domestic financial stability continued to be preserved throughout the year. Global events as well as financial and economic developments had a significant impact on regional financial markets. In the case of Malaysia, portfolio flows were also influenced by concerns over the potential impact of sharply lower oil prices on the domestic economy in the last quarter of the year. The country's strong financial markets and strong domestic institutional investors in Malaysia have supported orderly conditions in the markets despite higher net outflows of portfolio funds during the year. Financial institutions also had maintained strong capitalisation and financial performance, with stable funding profiles and prudent risk taking. This in turn has ensured that domestic funding conditions, both in the banking system and capital markets, remained favourable and supportive of financing activities of businesses and households.

FINANCIAL PERFORMANCE IN 2014

In 2014, the business environment became more challenging for the financial services industry. Against this backdrop, BPMB Group was able to achieve Profit Before Tax of RM306.4 million in 2014 as compared to RM491.9 million in 2013. The decrease of 37.7% is mainly due to higher impairment of loans, advances and financing as well as assets, particularly vessels. Profit After Tax of BPMB Group also decreased to RM124.7 million as compared to RM304.1 million in the previous year.

BPMB Group's Total Assets increased slightly to RM30.0 billion as at end of 2014 from RM29.2 billion in the previous year mainly due to the increase in cash and short term deposits coupled with the increase in deposits and placements with financial institutions during the year under review. Total Liabilities of BPMB Group also rose to RM22.4 billion from RM21.6 billion in the previous year largely attributed to the issuance of RM3.0 billion Murabahah Medium-Term Notes on 12 September 2014.

Bank Pembangunan Malaysia Berhad (BPMB)

For the financial year ended 2014, BPMB recorded Profit Before Tax of RM247.0 million, a shortfall of RM322.3 million or 56.6% from RM569.3 million recorded in 2013. The decrease was mainly due to higher impairment of loans, advances and financing by RM162.5 million and higher impairment on other assets by RM164.1 million mainly contributed by impairment of investment in Global Maritime Ventures Berhad (GMVB).

BPMB's Total Assets increased from RM28.1 billion to RM29.2 billion, an increase of 3.9% from the previous year largely due to higher cash and short term deposits coupled with higher deposits and placements with financial institutions. Total Liabilities increased by RM1.1 billion to RM21.8 billion mainly contributed by new issuance of RM3.0 billion Murabahah Medium-Term Notes.

During the year, BPMB had the Issue Rating for its RM7.0 billion Conventional Medium-Term Notes (MTN) and/or Islamic Murabahah MTN Programmes reaffirmed at AAA by RAM. In addition, RAM and MARC have also assigned a Financial Institution Rating of AAA on Bank Pembangunan, premised on our established track record in infrastructure financing, strong capitalisation and strong regulatory and government support.

Global Maritime Venture Berhad (GMVB)

For the financial year ended 31 December 2014, GMVB Group recorded lower Revenue of RM273.1 million as compared to RM313.3 million in the previous year, a decline of 12.8%. The lower revenue was mainly due to lower charter hire income by its subsidiary. GMVB Group registered higher Loss Before Tax of RM281.7 million, as compared to RM141.1 million incurred in the year before due to lower charter hire income, coupled with impairment loss on vessels amounting to RM165.0 million.



Total Assets of RM1.1 billion recorded as at 31 December 2014 was lower by RM0.6 billion compared to the previous year mainly due to net impact on the disposal of investment in subsidiary and joint venture company amounting to RM483.1 million. Total Liabilities was lower by RM357.7 million mainly due to lower long term borrowings arising from the impact of deconsolidation of borrowings arising from GMVB's disposed subsidiary.

Pembangunan Leasing Corporation Sdn Bhd (PLC)

For the financial year ended 31 December 2014, PLC Group recorded lower Operating Profit by RM1.1 million compared to RM16.5 million 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. Total Assets of PLC Group decreased to RM365.6 million mainly due to decrease in cash and short term deposits.

OUTLOOK AND PROSPECT FOR 2015

The Malaysian economy is expected to sustain its positive growth trajectory in 2015, supported by improved global economic conditions and resilient domestic demand. Nonetheless, as a highly open economy amid an increasingly liberalized global environment, Malaysia remains vulnerable to external shocks. Despite a challenging external environment, the Malaysian economy is expected to register steady growth of 4.5% - 5.5% in 2015, supported mainly by sustained expansion in domestic demand amid strong domestic fundamentals and a resilient export sector. Domestic demand will continue to anchor growth in 2015, driven by private sector spending. The implementation of the GST in April and lower earnings in the commodity-related sectors are expected to affect spending. However, this will be partially offset by higher household disposable incomes from lower fuel prices, the favourable labour market conditions and the Government measures to assist low-and middle-income households.

In 2015, all economic sectors are expected to expand, albeit at a more moderate pace. The services sector would remain as the key driver to overall growth, benefiting from the resilience of domestic demand. In the finance and insurance sub-sector, growth is projected to be sustained, supported by stable demand for financing, particularly from businesses, and higher fee income from capital market activity.

The construction sector is expected to continue to record high growth, albeit at a more moderate pace in 2015. After several years of robust growth, activity in the residential sub-sector is expected to increase at a more moderate pace due to lower housing approvals and property launches. Nonetheless, growth in the non-residential sub-sector is projected to be sustained, amid higher construction activity for industrial and commercial buildings. New and existing multi-year civil engineering projects, particularly in the transport and utility segments, will continue to provide additional support to the sector.

ACKNOWLEDGEMENT

On behalf of the Board of Directors, I would like to extend our deepest appreciation to the Government particularly the Ministry of Finance for their continuous support and assistance rendered throughout 2014. I would also like to extend our gratitude to Bank Negara Malaysia for their guidance and advice. To our clients, thank you for the continuous support and trust given throughout the year.

I would like to acknowledge and record our gratitude to Datuk Idris bin Abdullah @ Das Murthy, Datuk Dr Syed Jaafar bin Syed Aznan, Tuan Haji Ariffin Hew @ Hew Siak Tow and Tuan Haji Abdul Aziz bin Ishak, who resigned from the Board in 2014, for their dedicated service. Their commitment to the growth and successes of the Group are indeed commendable.

May I also place on record our appreciation to the former President/Group Managing Director, Dato' Mohd Zafer bin Mohd Hashim, who resigned from BPMB on 25 July 2014. Over the course of five years when he was with the Group, Dato' Zafer has earned enormous respect from everyone who came into contact with him. I wish him well in his future endeavors.

I would like to take this opportunity to welcome our new directors, Datuk Engku Nor Faizah binti Engku Atek who joined the Board on 1 December 2014 as well as Dato' Ir. Haji Mohamad bin Husin, Dato' Kapt. Haji Ahmad bin Othman and Datuk Wan Azhar bin Wan Ahmad who joined the Board on 2 May 2015. We are confident, given their vast experience and expertise, they would be able to contribute positively to BPMB.

I also would like to congratulate and welcome Encik Mohammed Rafidz bin Ahmed Rasid, whose extensive experience in the banking industry and outstanding track record will stand him in good stead as the newly appointed President/Group Managing Director with effect from 15 June 2015. I am confident that Encik Rafidz will be charting the Group's progress to the next level of achievement.

Last but not least, my heartfelt gratitude goes to the Management and staff of BPMB Group for their unwavering dedication and commitment throughout the financial year that has enabled the Bank to achieve another remarkable performance amidst the many challenges.

TAN SRI DATO' SRI DR. WAN ABDUL AZIZ WAN ABDULLAH
Chairman

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.

PERFORMANCE ASSES

DEVELOPMENT OUTCOME

OBJECTIVE	STRATEGIC ACTIONS	PERFORMANCE TARGET	ACTUAL PERFORMANCE
Contribution to the development of strategic sectors	To provide financing to mandated sectors	Value of loans approved in 2014: - Infrastructure: RM2,955 million - Oil & Gas: RM1,220 million - Maritime: RM570 million - Technology: RM255 million - TOTAL: RM5,000 million	Value of loans approved in 2014: - RM4,731.0 million - RM362.6 million - - RM281.3 million - RM5,374.9 million
Catalyst to the nation's socio-infrastructure development	To provide financing to developmental projects	Accumulated loans approved to developmental projects: - Area Development - Community, Social & Public Services - Port - Road / Highways - Tourism - Transportation - Utilities - TOTAL	Cumulative no. of loans approved as at 31 Dec 2014: 25 41 10 22 55 10 5 168 loans amounting to RM22.4 billion in value

Development Outcome is defined as high level impact analysis on DFI's achievement.

SMENT

MANDATED SECTOR OUTPUT

OBJECTIVE	STRATEGIC ACTIONS	PERFORMANCE TARGET	ACTUAL PERFORMANCE
Implementation of Government specific initiatives	To effectively manage the Promoted Funds	Full utilization of Promoted Funds: - Maritime Fund (RM4 bil) - Gross approval - Net approval - Tourism Infrastructure Fund (RM2.4 bil) - Gross approval - Net approval	Cumulative value of loans approved as at 31 Dec 2014: RM4,018.8 million RM2,485.9 million RM2,976.0 million RM1,961.2 million

Mandated Sector Output is defined as institutional achievements in supporting the needs of targeted sectors.

ORGANIZATIONAL SOUNDNESS

OBJECTIVE	STRATEGIC ACTIONS	PERFORMANCE TARGET	ACTUAL PERFORMANCE
Achieve financial sustainability	To maintain profitability level To maintain Risk Weighted Capital Ratio (RWCR) above Internal Capital Target (ICT)	Profit Before Tax of RM688.1 million in 2014 ICT of 18.9% RWCR	Profit Before Tax of RM247.0 million in 2014 RWCR of 33.2% as at 31 Dec 2014
Strengthen asset quality	To consistently reduce Gross Impaired Loan Ratio	Gross Impaired Loan Ratio of 9.0% by 31 Dec 2016	Gross Impaired Loan Ratio of 10.9% as at 31 Dec 2014
Strengthen loan portfolio quality	To improve credit portfolio risk rating	Credit portfolio risk rating of Moderate Safety or better of at least 70% by 31 Dec 2016	Credit portfolio risk rating of Moderate Safety or better of 61.7% as at 31 Dec 2014

Organizational Soundness is defined as institutional requisites to facilitate DFI in achieving mandated activities.

5 - YEAR GROUP FINANCIAL SUMMARY

	2014	2013	2012	2011	2010
PROFITABILITY (RM Million)					
Net Income *	1,172	1,196	926	1,152	1,244
Net Income from Islamic banking business	262	265	192	162	144
Operating profit	295	532	263	612	539
Profit before taxation & zakat	306	492	286	645	549
Profit for the financial year	125	304	188	474	424
KEY BALANCE SHEET DATA (RM Million)					
Total deposits and placements	2,568	1,288	1,532	3,877	4,007
Financial investment - available-for-sale	1,321	1,504	1,242	1,049	1,868
Financial investment - held-to-maturity	260	259	226	149	268
Loans, advances and financing	24,757	24,195	23,234	22,574	21,435
Total assets	29,945	29,227	27,476	30,107	30,031
Deposits from customers	5,967	7,426	5,568	6,960	7,486
Redeemable notes	5,964	3,025	4,134	4,234	4,536
Term loans	9,604	10,362	9,643	10,810	9,902
Infrastructure support fund	367	365	400	413	380
Deferred income	244	248	251	233	292
Total liabilities	22,376	21,645	20,194	22,876	22,785
Paid-up capital	3,079	3,079	3,079	3,079	3,079
Total equity	7,570	7,583	7,282	7,230	7,246
Commitments and contingencies	7,035	7,096	6,047	3,735	5,542
SHARE INFORMATION					
Earnings per share - basic (sen)	4.75	12.31	7.47	15.92	13.67
Gross dividend	1.20	3.25	3.25	3.25	3.25
FINANCIAL RATIOS (%)					
Profitability Ratios (%)					
Return on equity	4.05	6.49	3.94	8.91	7.41
Return on assets	1.02	1.68	0.99	2.15	1.92
Cost to Income Ratio	38.13	29.84	20.94	17.59	19.29
Asset Quality Ratio (%)					
Gross impaired loan	10.95	10.19	11.01	12.18	11.97
Net impaired loan	4.21	4.21	4.78	5.49	4.74

Note: * Net income includes net income from Islamic business

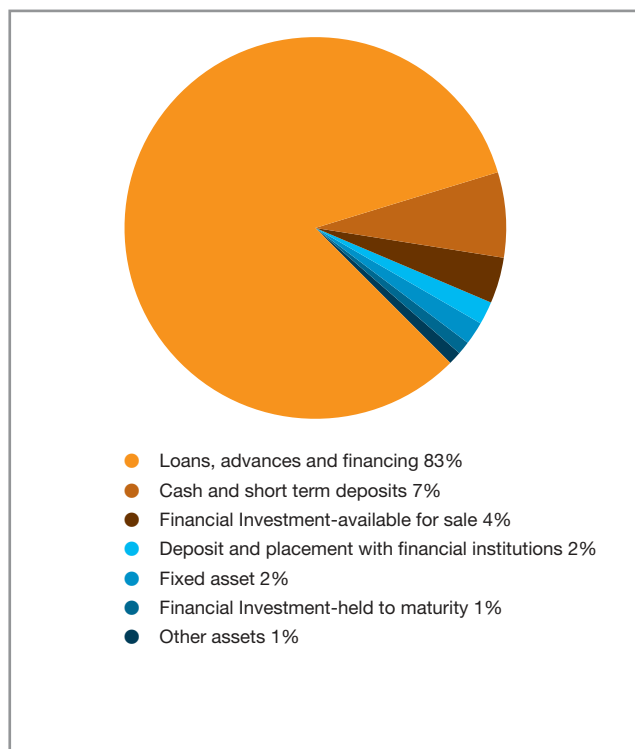
FINANCIAL HIGHLIGHT

	GROUP		BANK	
	2014	2013	2014	2013
PROFITABILITY (RM Million)				
Net Income *	1,172	1,196	888	878
Net Income from Islamic banking business	262	265	258	263
Operating profit	295	532	247	569
Profit before taxation & zakat	306	492	247	569
Profit for the financial year	125	304	93	396
KEY BALANCE SHEET DATA (RM Million)				
Total deposits and placements	2,568	1,288	2,123	1,089
Financial investment - available for sale	1,321	1,504	1,317	1,497
Financial investment - held to maturity	260	259	260	259
Investment in subsidiaries	-	-	654	956
Loans, advances and financing	24,757	24,195	24,543	24,026
Total assets	29,945	29,227	29,170	28,138
Deposits from customers	5,967	7,426	5,967	7,426
Redeemable Notes	5,964	3,025	5,964	3,025
Term Loans	9,604	10,362	9,232	9,583
Infrastructure support fund	367	365	367	365
Deferred income	244	248	244	248
Total liabilities	22,376	21,645	21,835	20,715
Paid-up capital	3,079	3,079	3,079	3,079
Total equity	7,570	7,583	7,335	7,423
Commitments and contingencies	7,035	7,096	6,692	6,442
SHARE INFORMATION				
Earnings per share - basic (sen)	4.75	12.31	3.04	12.87
Gross dividend	1.20	3.25	1.20	3.25
FINANCIAL RATIOS (%)				
Profitability Ratios (%)				
Return on equity	4.05	6.49	3.37	7.67
Return on assets	1.02	1.68	0.85	2.02
Cost to income ratio	38.13	29.84	9.23	8.71
Capital Adequacy (%)				
Risk weighted capital ratio (RWCR)			33.21	32.85
Core capital ratio			30.61	30.93
Asset Quality Ratio (%)				
Gross impaired loan	10.93	10.19	10.89	9.67
Net impaired loan	4.21	4.21	4.52	4.00

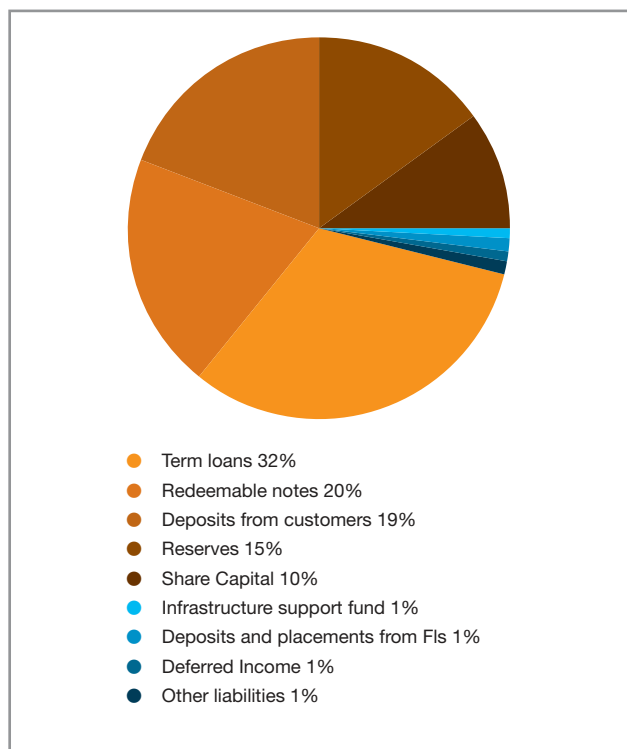
Note: * Net income includes net income from Islamic business

GROUP BALANCE SHEETS

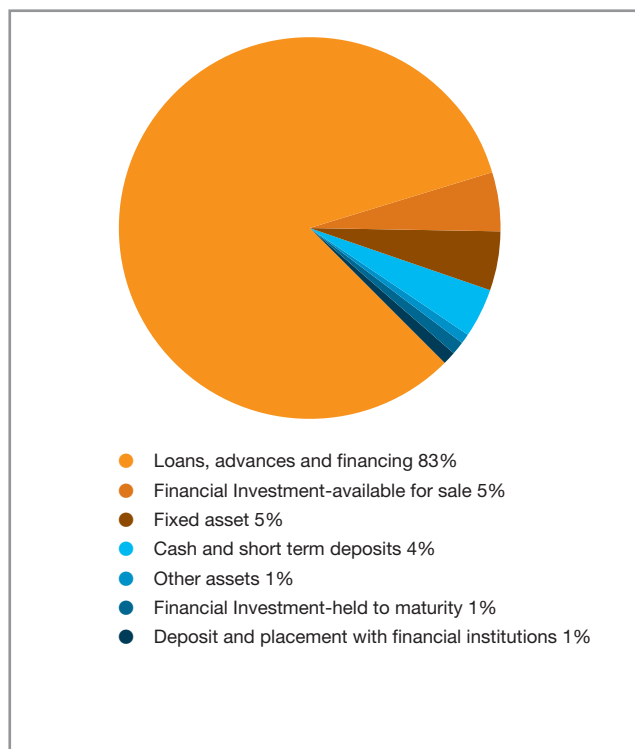
ASSETS 2014



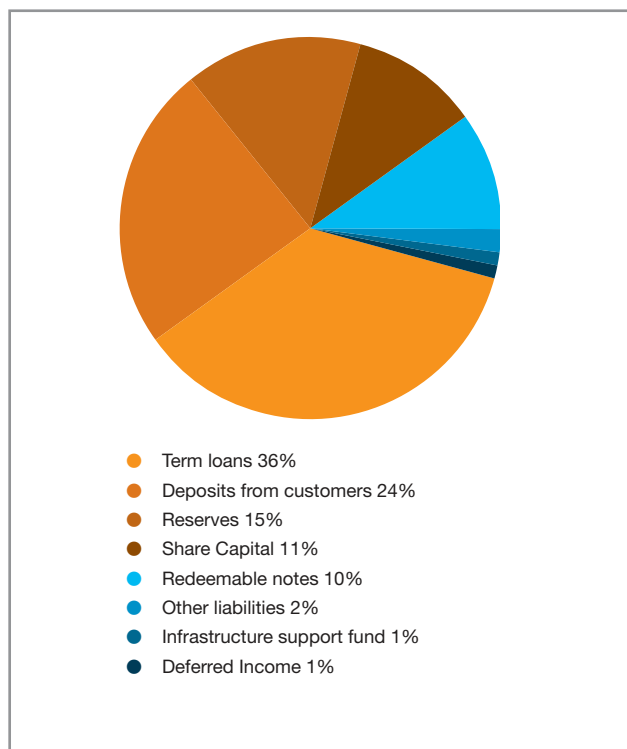
EQUITY & LIABILITIES 2014



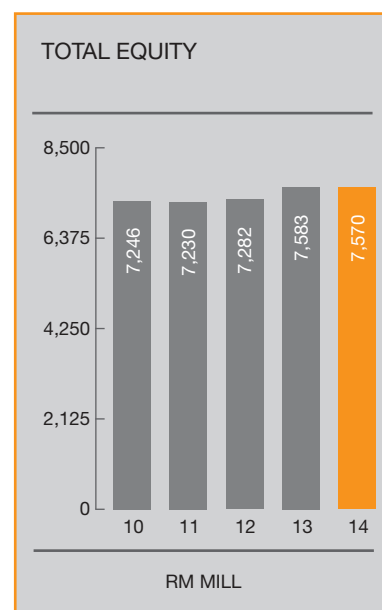
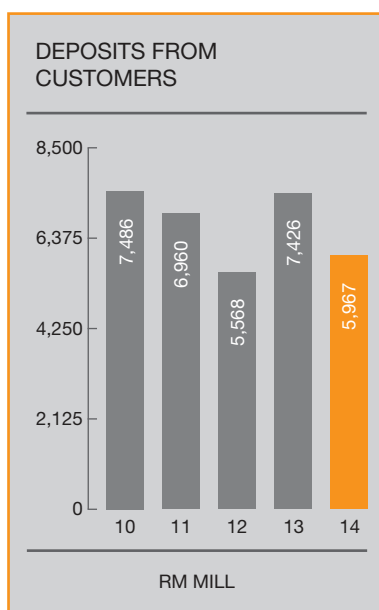
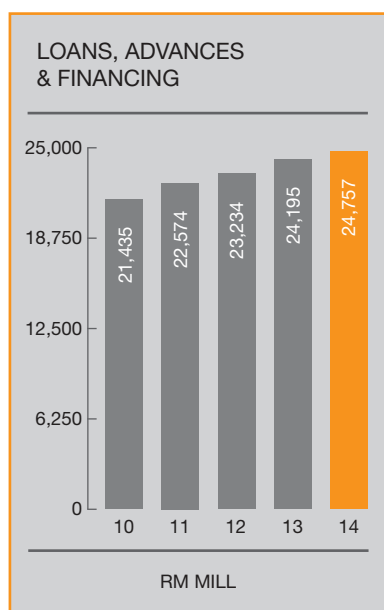
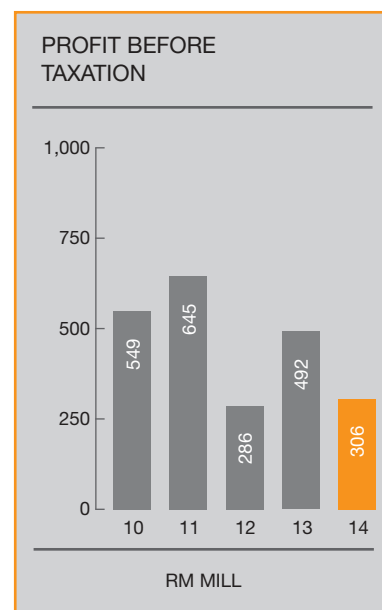
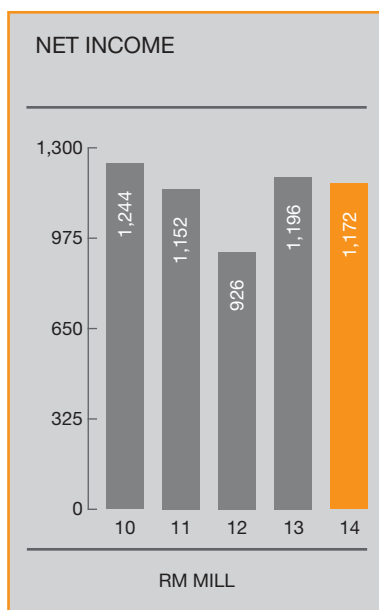
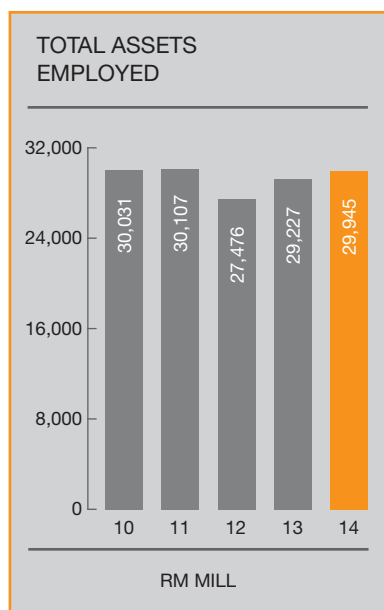
ASSETS 2013



EQUITY & LIABILITIES 2013



5 - YEAR GROUP GROWTH



CORPORATE INFORMATION

BOARD OF DIRECTORS

Tan Sri Dato' Sri Dr. Wan Abdul Aziz
Wan Abdullah
Chairman

Mohammed Rafidz Ahmed Rasiddi
President/Group Managing Director

Tuan Haji Zainul Rahim Mohd Zain

Tuan Haji Rosli Abdullah

Datuk Nozirah Bahari

Dato' Abd Rahman Md Khalid

Datuk Engku Nor Faizah Engku Atek

Dato' Ir. Haji Mohamad Husin

Dato' Capt. Haji Ahmad Othman

Datuk Wan Azhar Wan Ahmad

COMPANY SECRETARIES

Razali Hassan
(LS 05531)

Hazlinda Ahmad Rosdi
(MAICSA 7053034)

SHARIAH COMMITTEE

Tan Sri Dato' Seri (Dr) Haji Harussani Haji Zakaria
Chairman

Assistant Prof. Dr. Miszairi Sitoris

Associate Prof. Dr. Noraini Mohd Ariffin

Prof. Dr. Haji Abdul Samat Musa

Dr. Rushdi Ramli

AUDITORS

Ernst & Young **(AF:0039)**

REGISTERED OFFICE

Aras 16, Menara Bank Pembangunan
Bandar Wawasan
No. 1016, Jalan Sultan Ismail
50250 Kuala Lumpur
Malaysia

WEBSITE

www.bpmb.com.my

(as at 30 June 2015)

BOARD OF DIRECTORS' PROFILE



TAN SRI DATO' SRI DR. WAN ABDUL AZIZ WAN ABDULLAH

Non-Executive Chairman/
Non-Independent Non-Executive Director

- Chairman of Credit Committee of the Board
- Member of Nominating Committee
- Member of Remuneration Committee

Tan Sri Dato' Sri Dr. Wan Abdul Aziz Wan Abdullah, aged 63, was appointed as the Non-Executive Chairman of BPMB on December 1, 2012. He graduated with a Bachelor of Economics (Honours) from the University of Malaya, Masters in Philosophy (Development Studies) from the Institute of Development Studies, University of Sussex, Brighton, UK and obtained a Ph.D. (Economics) from the School of Business and Economic Studies, University of Leeds, UK. He also attended the Advance Management Program at Harvard Business School, Harvard University, Boston USA.

Tan Sri Dato' Sri Dr. Wan Abdul Aziz has spent more than 37 years in the public service with vast experience in the banking and economic sectors. He served in various capacities in the Economic Planning Unit in the Prime Minister's Department and the Ministry of Finance. He was appointed as an Alternate Executive Director of World Bank Group in Washington DC, USA (on secondment by the Government of Malaysia) representing South East Asia Group from 1998 to 2001. He was also appointed as the Executive Director of the Islamic Development Bank in Jeddah from 2008 to 2013. In 2007, he was appointed as Secretary General of Treasury in the Ministry of Finance. He retired from the public service on May 23, 2008 and subsequently continued to serve as Secretary General of Treasury until August 23, 2012.

Currently, he is the Chairman of Malaysia Airport Holdings Berhad and Group, Pembinaan BLT Sdn Bhd and GOM Resources Sdn Bhd. He is also a Board Member of Permodalan Nasional Berhad, Sime Darby Berhad, Sime Darby Motors Sdn Bhd and RAM Holdings Berhad.



MOHAMMED RAFIDZ AHMED RASIDDI

President/Group Managing Director

Encik Mohammed Rafidz, aged 48, was appointed as President/Group Managing Director of BPMB on June 15, 2015. Mohammed Rafidz holds a BSc Economics from the City University, London, United Kingdom and an MBA from Manchester Business School, Manchester, United Kingdom. He has over 25 years of experience in financial services and capital markets industry. His formative years as a banker started when he joined Bumiputera Merchant Bankers and later Amanah Merchant Bank during the 1990s.

Following this he held senior and leadership positions in established and leading Malaysian financial institutions including Director of Corporate Finance in CIMB, Head of Strategic Assets in CIMB, Country Head of CIMB-GK Securities in Thailand and Head of Investment Banking in RHB Investment Bank. In 2011 Encik Mohammed Rafidz was appointed as the CEO of Alliance Investment Bank. Immediately prior to joining Bank Pembangunan, he was the Deputy CEO and Head of Corporate Investment Banking at MIDF Amanah Investment Bank.



ZAINUL RAHIM MOHD ZAIN

Independent Non-Executive Director

- Chairman of Risk Management Committee
- Chairman of Nominating Committee
- Member of Credit Committee of the Board
- Member of Remuneration Committee
- Member of Audit and Examination Committee

Tuan Haji Zainul Rahim Mohd Zain, aged 62, was appointed to the Board of BPMB on March 8, 2010. He holds a Bachelor of Engineering (majoring in Mechanical Engineering) from University of Western Australia (1975).

He began his career at Shell Malaysia Exploration and Production ("SM-EP") in 1978. During his 30 years career with SM-EP, he held several senior management positions, including General Manager of Business Services, General Manager of Technical Services and General Manager of Sarawak Business, before being appointed as Deputy Chairman and Executive Director of Shell Malaysia in 2001. He retired in June 2008 as Chairman of Shell Companies in Egypt and Managing Director of Shell Egypt N.V.

He currently sits as the Chairman of Hibiscus Petroleum Berhad, Cenergi SEA Sdn Bhd and Malaysian Dutch Business Council. He is also a Director of UKM Holdings Sdn Bhd and Camco Clean Energy Plc.



ROSLI ABDULLAH

Independent Non-Executive Director

- Chairman of Audit & Examination Committee
- Member of Credit Committee of the Board
- Member of Risk Management Committee
- Member of Nominating Committee
- Member of Remuneration Committee

Tuan Haji Rosli Abdullah, aged 61, was appointed to the Board of BPMB on January 3, 2011. He graduated from Universiti Kebangsaan Malaysia with Master in Business Administration; Post-Graduate Diploma in Accounting and Bachelor in Economics (Honours) from Universiti of Malaya. He is a Chartered Accountant and Member of Malaysian Institute of Accountants (MIA).

He was formerly the Registrar and Chief Executive Officer of MIA. He had served in various capacities in the public and private sectors.

His current directorships in companies within BPMB Group include being the Chairman of SME Growth Acceleration Fund Sdn Bhd, Syarikat Borcos Shipping Sdn Bhd, Pembangunan Leasing Corporation Sdn Bhd, PLC Credit & Factoring Sdn Bhd, BI Credit & Leasing Berhad and Director of Global Maritime Ventures Berhad and GMV-Borcos Sdn Bhd. He also sits on the boards of i-VCAP Management Sdn Bhd, Keretapi Tanah Melayu Berhad and Group, CapitaMall Malaysia Reit Management Sdn Bhd, Dagang NeXchange Berhad and Malaysia Airports Holdings Berhad and Group.



DATUK NOZIRAH BAHARI

Non-Independent Non-Executive Director

- Member of Audit & Examination Committee
- Member of Credit Committee of the Board
- Member of Risk Management Committee
- Member of Nominating Committee
- Member of Remuneration Committee

Datuk Nozilah Bahari, aged 59, was appointed to the Board of BPMB on March 28, 2013. She holds a Bachelor of Social Science (Hons) (Urban Studies) from University of Science, Malaysia and a Diploma in Public Administrations from National Institute of Public Administration (INTAN). She has also attended several Senior Management Courses such as Global Leadership Development Programme organized by International Centre for Leadership in Finance and Advance Management Program at Harvard Business School.

Datuk Nozilah has over 30 years of experience in the public sector. She began her career in 1981 as Assistant Secretary, Finance Division in the Ministry of Finance (MOF) and thereafter served several other ministries in various positions. During her tenure with MOF, she undertook numerous positions before she was promoted to her current position as Deputy Secretary General (Management) in May 2011.

She also sits on the boards of Felda Holdings Berhad, Felda Global Ventures Holdings Bhd, Tenaga Nasional Berhad and Proton Holdings Berhad.



DATO' ABD RAHMAN MD KHALID

Independent Non-Executive Director

- Chairman of Remuneration Committee
- Member of Audit & Examination Committee
- Member of Credit Committee of the Board
- Member of Risk Management Committee
- Member of Nominating Committee

Dato' Abd Rahman Md Khalid, aged 59, was appointed to the Board of BPMB on October 28, 2013. He holds a Diploma in Business Studies from Mara Institute of Technology, Shah Alam.

He started his career in banking by joining Maybank Berhad after he completed his study in 1978. After 16 years in various divisions and positions, he was appointed as Director, Credit/Marketing – PT Maybank Nusa International (PT MNI) in 1994 and later appointed as President Director (CEO) in 1998. In 2000, he was reassigned to head office as the Regional Manager for Selangor and was later appointed as Senior Manager/Vice President, Corporate Banking. In 2005, he was appointed as Senior Vice President, Head Credit Evaluation Manager. His last position held was the Group Chief Credit Officer, Maybank Group.

Dato' Abd Rahman had wide training and exposure in Business Development as well as Risk and Credit Management, whilst with the largest Malaysian Banking Group for 35 years before retiring on February 7, 2013.

After his retirement, he was appointed as the Group Managing Director of Amanah Raya Berhad from April 16, 2014.

His current directorships in companies within BPMB Group include being the Director of Pembangunan Leasing Corporation Sdn Bhd, PLC Credit & Factoring Sdn Bhd and BI Credit & Leasing Berhad. He also sits on the boards of B U Development Sdn Bhd, EastWest Consortium PDQ Sdn Bhd and Re Ventures (Labuan) Ltd.



DATUK ENSKU NOR FAIZAH ENGKU ATEK

Independent Non-Executive Director

Datuk Engku Nor Faizah Engku Atek, aged 55, was appointed to the Board of BPMB on December 1, 2014. She holds an LLB (Hons) from the University of Malaya and has attended a number of courses and seminars related to her work in the public sector, including the Government Legal Adviser's Course at the Institute of Advance Legal Studies in the UK sponsored by the British Council, Seminar on Industrial Property in Strasbourg and Munich sponsored by the European Union and Legislative Drafting Institute at the University of Loyola and Tulane, in the USA.

Datuk Engku Nor Faizah has over 30 years of experience in the public sector. She joined the Attorney General's Chambers ('AGC') in 1983 and has held various positions in AGC, including Senior Assistant Parliamentary Draftsman, Senior Federal Counsel and Deputy Public Prosecutor. She was State Legal Adviser of Negri Sembilan from 2003 to 2004 and State Legal Adviser of Perak from 2004 to 2007. She was appointed Deputy Parliamentary Draftsman in July 2007 before assuming the role of Parliamentary Draftsman in 2009 and Deputy Solicitor General 3 in April 2012. Currently she holds the position as Deputy Solicitor General 2.

In her work at AGC she has been involved in the drafting and/or approving of numerous legislation including the Central Bank of Malaysia Act 2009, the Limited Liability Partnerships Act 2012, the Netting of Financial Agreements Act 2015, the Special Measures Against Terrorism in Foreign Countries Act 2015, the Malaysian Airline System Berhad (Administration) Act 2015 and the Aviation Commission Bill 2015.



DATO' IR HAJI MOHAMAD HUSIN

Independent Non-Executive Director

Dato' Ir. Haji Mohamad Husin, aged 61, was appointed to the Board of BPMB on May 2, 2015. He graduated with a Bachelor of Civil Engineering from University of Southampton, England (1977) and Masters in Civil Engineering from University of Pittsburgh, USA.

He started his career in 1977 as a Water Engineer in the Public Works Department Malaysia ('PWD'). He had served PWD for over 30 years in various capacities since 1977, including District Engineer, Senior Engineer, Assistant Director, State and Branch Director. He was the Director of Roads before he was promoted to the post of Deputy Director General, which he held in 2007 until his retirement in 2013.

Prior to his retirement, he was the Deputy President of the Road Engineering Association of Malaysia ("REAM"), President of Intelligent Transport System Association of Malaysia ("ITS Malaysia") and a Board member of the Malaysian Institute of Road Safety Research ("MIROS"). He was also a past council member of Institution of Engineers Malaysia and served in the committees of Board of Engineers.

He currently sits on the boards of Sarawak Hydro Sdn Bhd, Johawaki Holdings Sdn Bhd and Bridgex Sdn Bhd.



DATO' CAPT. HAJI AHMAD OTHMAN
Independent Non-Executive Director

Dato' Capt. Haji Ahmad Othman, aged 60, was appointed to the Board of BPMB on May 2, 2015. He holds a Certificate of Competency, Deck Officer Class 1 (Master Mariner), UK (1982) and Ordinary National Certificate in Nautical Science from Riversdale College, Liverpool, UK (1975).

He began his career as a Mariner at Blue Funnel Line in Liverpool (later known as Ocean Fleets Ltd) and later served with Straits Steamship of Singapore. He joined Marine Department Peninsular Malaysia (now known as 'Marine Department Malaysia') in 1983 and served the Marine Department for 30 years in various capacities. During his career with the Marine Department, he was also the Chairman of Light Dues Board Peninsular Malaysia and Central Mercantile Marine Fund from 2006 until 2014. He retired in October 2014 as the Director General of Marine Department Malaysia.



DATUK WAN AZHAR WAN AHMAD
Independent Non-Executive Director

Datuk Wan Azhar Wan Ahmad, aged 56, was appointed to the Board of BPMB on May 2, 2015. He holds a Master in Business Administration (International Business) from the National University of San Diego CA, USA (1985) and obtained his Bachelor in Business Administration (Finance) from the University of Pacific, Stockton CA, USA (1983).

Datuk Wan Azhar started his career with Hong Leong Bank Berhad in 1985. He joined Credit Guarantee Corporation Malaysia Berhad (CGC) as a Manager following his appointment by Bank Negara Malaysia (BNM) in 1993. In 1995, he was promoted to Assistant General Manager and subsequently to GM/Chief Executive Officer (CEO) in 1997. He was later appointed to the Board of Directors of CGC as Managing Director in 2000. He retired as CGC President & CEO in 2014.

He was directly involved in the transformation of CGC from a traditional credit guarantee provider into a market-driven and financially sustainable SME – support institution, and was also instrumental in the setting up of Credit Bureau Malaysia (CBM) where he was appointed as Non-Executive Chairman for 6 years.

He is currently on the Board of Bina Darulaman Berhad, Alliance Bank Malaysia Berhad, NAMA Foundation and also the Chairman of BNM's Small Debt Resolution Committee (SDRC).

SHARIAH COMMITTEE PROFILE



TAN SRI DATO' SERI (DR.) HAJI HARUSSANI HAJI ZAKARIA

Chairman

Tan Sri Dato' Seri Haji Harussani Haji Zakaria is the Mufti for the State of Perak since 1985. He has been appointed as a member of the Shariah Committee of BPMB since 2000. He is also a member of the Majlis Penasihat Syariah Etika Takaful and Amanah Raya Malaysia since 2009.

He holds a Diploma of Education from Malaya Islamic College Klang. He has written several books and publication on Islamic ethics and principles.



ASSISTANT PROF. DR. MISZAIRI SITIRIS

Member

Dr. Miszairi Sitiris, an Assistant Professor in the Department of Fiqh and Usul Al-Fiqh at the Kulliyah of Islamic Revealed Knowledge and Human Sciences, International Islamic University Malaysia (IIUM), was appointed to the Shariah Committee on 1st July 2008. He holds a PhD, a Master and a Bachelor's degree with honor in Fiqh and Usul Al-Fiqh from International Islamic University Malaysia. He also has a second Bachelor's Degree with honor in Psychology from IIUM and Postgraduate Diploma in Law and Administration of Islamic Judiciary from the Harun M. Hashim Law Centre, IIUM. He has written several research papers on Islamic Family Law.



ASSOCIATE PROFESSOR DR. NORAINI MOHD ARIFFIN

Member

Dr. Noraini Mohd Ariffin is currently an Associate Professor and the Head of Department of Accounting, Kulliyah (Faculty) of Economics and Management Sciences, International Islamic University Malaysia (IIUM). She is also a member of the Shariah Committee of Bank Pembangunan Malaysia Berhad since June 2012. She holds a PhD in Accounting for Islamic banks from University of Surrey, England. She also holds a Masters in Accounting (with distinction) from the University of Dundee, Scotland and BSc (Econs) Accounting from the University College of Wales, Aberystwyth, Wales. She teaches several subjects such as Company Accounting, Accounting for Islamic Banks, Accounting, Auditing and Governance of Islamic Financial Institutions and Risk Management for Islamic Financial Institutions for undergraduate and postgraduate levels.



from left to right:

TAN SRI DATO' SERI (DR.)
HAJI HARUSANI HAJI ZAKARIA

ASSISTANT PROF. DR.
MISZAIRI SITIRIS

ASSOCIATE PROF. DR.
NORAINI MOHD ARIFFIN

PROF. DR. HAJI ABDUL
SAMAT MUSA

DR. RUSHDI RAMLI

Dr. Noraini Mohd Ariffin is also an Associate Member of the Malaysian Institute of Accountants. She has published numerous articles related to Islamic accounting and finance, mainly on risk management for Islamic banks and corporate governance of Islamic banks. She has also been invited as a speaker at national and international conferences.

PROFESSOR DR. HAJI ABDUL SAMAT MUSA

Member

Professor Dr. Haji Abdul Samat Musa is a former Dean of Faculty of Shariah and Law and Founding Director of World Fatwa Management and Research Institute at Universiti Sains Islam Malaysia (USIM). He was educated at Petaling Jaya and Kelang Muslim Colleges before he continued his studies at Universiti Kebangsaan Malaysia (UKM) where he obtained a Bachelor of Islamic Studies (Hon)(Shariah) in 1976. He holds a Master of Law (LL.M) from University of Malaya (1980) and a Ph.D in law from University of Manchester, England (1989).

He started his academic career in 1976 and was attached to the Department of Shariah at UKM. In 2002, he was appointed as Professor in the Faculty of Shariah and Law at USIM. He wrote and presented papers at seminars, and published works, particularly on Islamic and comparative constitutional and administrative law, human rights and the administration of Islamic law in Malaysia. Professor Abdul Samat is also a former member of Shariah Advisory Council of Securities Commission Malaysia and National Fatwa Council. He is currently Professor at the Faculty of Shariah and Law, USIM and a Panel Member of Shariah Index Malaysia, appointed by the Prime Minister.

DR. RUSHDI RAMLI

Member

Dr. Rushdi Ramli, aged 49, currently serves as a lecturer at the Department of Fiqh and Usul, Academy of Islamic Studies, University of Malaya. He graduated with a degree in Syariah (Bachelor of Shariah, First Class Hons) from University of Malaya. He obtained his Master (1993) and Doctoral Degrees (1999) at the University of Birmingham, United Kingdom. Previously he was a consultant in religious matters in the Non-Government Organization "Dewan Pemuda Masjid Malaysia" from 2007 to 2009. He was also a member of Shariah Advisory Committee at EXIM Bank a few years ago and at MBSB (till the end of April 2015). Presently, he is a representative for "Persatuan Kebajikan dan Pengubatan Islam Darussyifa" at the Traditional and Complementary Medicine Division, Ministry of Health, Malaysia. He was also one of the panelists in preparing the draft for the Code of Ethics for Islamic Medicine at the Ministry of Health. His areas of specialization are Principles of Islamic Jurisprudence, Islamic Fiqh, Principle of Quranic Exegesis, Issues in contemporary fiqh and principles of Islamic Medication.

GROUP MANAGEMENT



04.

02.

01.

03.

05.

01. **MOHAMMED RAFIDZ AHMED RASIDDI**
President/Group Managing Director

02. **AFIDAH MOHD GHAZALI**
Chief Operating Officer

03. **AHMAD MOCHTAR HASHIM**
Chief Credit Officer

04. **SITI ROHANI ATAN**
Chief Risk Officer

05. **DATO' AHMAD SHARIFUDDIN ABDUL KADIR**
Chief Executive Officer,
Global Maritime Ventures Berhad

06. **ZAKARIA SAAD**
Senior Vice President I/Head,
Business Banking I

COMMITTEE



07.

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09.

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07. **KAMARUL BAHREIN KAMARULZAMAN**
Senior Vice President I/Head,
Business Banking II

08. **FAUZIAH HANIM BAHARIN**
Senior Vice President I/Head,
Group Human Resource Development

09. **RAZALI HASSAN**
Senior Vice President II/Head,
Group Legal & Corporate Secretarial

10. **MUSTAFA KAMAL ABD MUTALIB**
Chief Executive Officer, Pembangunan Leasing
Corporation Sdn Bhd

STATEMENT OF CORPORATE GOVERNANCE

The Board of Directors of Bank Pembangunan Malaysia Berhad is committed to uphold good corporate governance by continuously advocating transparency, accountability, responsibility and integrity, in line with the principles and best practices of Corporate Governance, the Bank Negara Malaysia (BNM)'s Guidelines on Corporate Governance for Development Financial Institutions and primary legislative and regulatory provisions.

Board Composition and Balance

The Directors' professional backgrounds, skills, extensive experience and knowledge in various fields, that they accumulated while serving the private and government sectors, brings to the Board the essential range of capability and experience required to effectively perform its functions. A brief profile of each Director is presented on pages 19 to 23 of the Annual Report.

The present Board comprises ten (10) members with one (1) Non-Executive Chairman/Non-Independent Non-Executive Director, one (1) Executive Director, who is the Bank's President/Group Managing Director, one (1) Non-Independent Non-Executive Director and seven (7) Independent Non-Executive Directors.

The appointment/re-appointment of Directors is governed by BNM Guidelines on Corporate Governance for Development Financial Institutions (DFIs) and the Bank's Articles of Association. The Nominating Committee (NC) reviews and assesses the Directors for the purpose of appointments/re-appointments before recommendation is made to the Board for approval. NC will also refer to the results of the individual assessments conducted via Directors Self and Peer Assessment for re-appointment of Directors. The application for the appointment/re-appointment of Directors will be submitted to BNM for verification.

The Board had also implemented annual assessment in relation to the effectiveness of the Board and Board Committees, as a whole. The feedback and suggestions from the Board will be gathered for deliberation/information of the NC and thereafter presented to the Board for consideration and approval.

Duties and Responsibilities

The Board is responsible to ensure the effectiveness of the Bank's operations. This includes the responsibility of determining the Bank's overall strategic directions, approval of performance targets, monitoring of management achievements, providing overall policy guidance and ensuring that the policies and procedures for internal control system and succession planning are in place.

There is a schedule of matters reserved specifically for the Board's decision, including approval of business plan and annual budget, recommendation of dividend, acquisition and disposal of undertaking and properties of substantial values, major investment and financial decisions, changes to the management and control structure within the Group, including policies and delegated authority limits.

Where a potential conflict of interest arises, the Director concerned needs to declare his/her interest and abstain from the deliberation and decision-making process.

Board Meeting And Supply Of Information

The Board meets at least once a month to discuss and monitor amongst others, the overall conduct and performance of the Bank, including matters relating to financials, policies, strategies, performance and resources. Approvals on urgent or important business issues requiring the sanction of the Board are sought by convening Special Board meetings or by way of Circular Resolutions enclosing all relevant information to enable the Board to make informed decisions. All Circular Resolutions approved by the Board will then be tabled at the next Board meeting for notation.

The Board and Board Committees meetings are scheduled in advance prior to the commencement of a new year and the same is circulated to all Directors to enable them to plan ahead. The agenda for each Board meeting and papers relating to the matters to be deliberated at the meetings are forwarded to all Directors prior to the date of the Board/Board Committees meetings.

The Board also peruses the decisions deliberated by the Board Committees through minutes of those Committees. The Chairman of every Board Committees is responsible to inform the Directors during the Board meetings of any salient matters noted by the Committees, which requires the Board's notice or direction. All proceedings of the Board meetings are minuted and signed by the Chairman in accordance with the provisions of the Companies Act, 1965.

All Directors have direct access to the services of the Company Secretary and the Senior Management. Independent professional advice is also made available to the Directors in discharging their duties, in the event such services are required.

During the financial year ended 31 December 2014, the Board met 17 times. The attendance record of the Directors at the Board Meetings for 2014 is as follows:

NAME OF DIRECTOR	NO. OF MEETINGS AND ATTENDANCE
Tan Sri Dato' Sri Dr Wan Abdul Aziz Wan Abdullah Non-Independent Non-Executive Director/Chairman	17/17
Dato' Mohd Zafer Mohd Hashim President/Group Managing Director (resigned on 25 July 2014)	7/8*
Tuan Haji Zainul Rahim Mohd Zain Independent Non-Executive Director	17/17
Datuk Dr Syed Jaafar Syed Aznan Independent Non-Executive Director (resigned on 1 June 2014)	4/6*
Datuk Idris Abdullah Independent Non-Executive Director (resigned on 17 March 2014)	1/3*
Tuan Haji Rosli Abdullah Independent Non-Executive Director	17/17
Tuan Haji Abdul Aziz Ishak Independent Non-Executive Director (resigned on 29 September 2014)	11/12*
Tuan Haji Ariffin Hew Independent Non-Executive Director (resigned on 27 September 2014)	12/12*
Datuk Nozirah Bahari Non-Independent Non-Executive Director	15/17
Dato' Abd Rahman Md Khalid Independent Non-Executive Director	17/17
Datuk Engku Nor Faizah Engku Atek Non-Independent Non-Executive Director (appointed on 1 December 2014)	1/1*

* Reflects the number of meetings attended during the time the Director held office.

Training And Development Of Directors

The newly appointed Directors are required to attend an induction programme organized by the Management. The Directors will be briefed on the Bank's history, operations and financial performance as to enable them to have first-hand understanding of the Bank's operations. At the induction programme, Heads of Functions/Chief Executive Officer of the main subsidiaries will brief the newly appointed Directors on their areas of responsibilities in order to offer the Directors with background knowledge of the Bank as well as a platform to establish personalized interaction with the key senior management.

The Board keeps abreast with the development in the banking industry by attending conferences and seminars held in Malaysia and abroad for their continuing education and skills improvement.

The Bank also encourages its Directors to attend talks, training programmes and seminars to update themselves on new development in the business environment.

D. COMMITTEES

There are five (5) Board Committees established to assist the Board in discharging its duties and responsibilities, namely the Credit Committee of the Board, Audit and Examination Committee, Nominating Committee, Remuneration Committee and Risk Management Committee.

CREDIT COMMITTEE OF THE BOARD

1. Objective

The primary objective of the Credit Committee of the Board (CCB) is to perform supervisory and oversight role of loans approval and to ensure adequate risk management processes are in place.

2. Functions and Responsibilities

- Veto power to challenge, reject loan and modify the terms of all loans related financing facilities.
- To approve "policy loans" and loans which are required by statute to be approved by the Board, provided that the initial filter of approval is conducted by the full-time executive committee.
- Recommend, verify and endorse all cases of write-offs to the Board of Directors for final approval.
- Have full authority to seek/obtain any information it requires from any employee of the Bank and to commission any investigations, reports or surveys, which it deems necessary.

- Appoint or obtain any outside legal or other professional consultation which it deems necessary, at the Bank's expense.
- To approve and endorse any recommendation from the approving authority in cases of ambiguity and/or enhancement in credit risk.

3. Committee Meeting and Attendance

Based on the Term of Reference of the CCB, the meeting is to be held twice a month or when necessary as proposed by the P/GMD. The CCB met 20 times during the financial year 2014. The Committee members and their records of attendance are as follows:

MEMBERS	NO. OF MEETINGS AND ATTENDANCE
Tan Sri Dato' Sri Dr Wan Abdul Aziz Wan Abdullah, Chairman	20/20
Tuan Haji Zainul Rahim Mohd Zain	20/20
Tuan Haji Rosli Abdullah	20/20
Tuan Haji Abdul Aziz Ishak (resigned on 29 September 2014)	11/13*
Datuk Nozilah Bahari	16/20
Tuan Haji Ariffin Hew (resigned on 27 September 2014)	13/13*
Dato' Abd Rahman bin Md Khalid (appointed on 14 October 2014)	5/6*

* Reflects the number of meetings attended during the time the Member held office.

AUDIT AND EXAMINATION COMMITTEE

1. Objective

The objective of the Audit and Examination Committee (AEC) is to review the financial conditions of the Bank and its subsidiaries, internal controls, performance and findings of the Internal Auditors, and to recommend appropriate remedial action regularly.

2. Functions and Responsibilities

The functions and responsibilities of the AEC are as follows:

- Recommend to the Board each year on the appointment/reappointment of External Auditors, the fee and other matters pertaining to the resignation or termination or change of External Auditors.

- Review with the External Auditors:-
 - (a) their audit plan;
 - (b) their evaluation of the system of internal control;
 - (c) their audit report;
 - (d) their management letter and management's response; and
 - (e) the assistance given by the management and staff to the External Auditors.
- With regards to the internal audit function:
 - (a) Review the adequacy of scope, functions and resources of the internal audit function and that it has the necessary authority to carry out its work.
 - (b) Review and approve internal audit plan, programme and processes.
 - (c) Review audit reports and consider adequacy of Management's actions taken on audit findings or recommendations.
 - (d) Recommend to the Nominating Committee of the Board on the appointment and termination of the Head of Internal Audit.
 - (e) Recommend to the Remuneration Committee of the Board on the remuneration of the Head of Internal Audit.
 - (f) Review any appraisal or assessment of members of the internal audit function as well as decide on their remuneration package.
 - (g) Review the effectiveness of the internal audit function, including compliance with The Institute of Internal Auditors' International Professional Practices Framework for Internal Auditing consisting of the Definition of Internal Auditing, Code of Ethics and the Standards.
 - (h) Review the assessment or findings arising from the Shariah audit and report the non-compliance events to the Board.
- Receive and consider reports relating to the perpetration and prevention of fraud.
- Review the Bank's compliance with the related Government's regulations including Anti-Money Laundering and Counter Financing of Terrorism (AML/CFT) measures.

- Review the quarterly results and the year-end financial statements prior to their submission to the Board for approval. The review of the year-end financial statements by the external auditor, shall focus particularly on:
 - Any major changes in the accounting policy or its implementation.
 - Adequacy of allowance against contingencies, bad and doubtful debts.
 - Significant and unusual events.
 - Compliance with accounting standards and other legal requirements.
- Ensure that the accounts are prepared in a timely and accurate manner and ensure prompt publication of annual accounts.
- Discuss any problem and reservations that may arise from the interim and final audits, as well as any matter, which the External Auditors may wish to discuss, in the absence of management, where necessary.
- Review any related party transactions and conflict of interest situation that may arise in the Bank or within the Banking group including any transaction, procedure or conduct that raises questions of management integrity.
- Preparation of an AEC report at the end of each financial year, which shall be published in the Bank's Annual Report.
- Review and endorse the status and progress of Management's responses and corrective measures on issues raised in the BNM Examination Report, before it is tabled to the Board for approval.
- For the preparation of the Bank's annual report, prepares an AEC report, which shall contain the following information:
 - The composition of the AEC, including name, designation and directorship of the members and whether the Director is independent or otherwise;
 - The terms of reference of AEC;
 - The number of AEC meetings held in the financial year and details of attendance of each member;
 - A summary of the activities of the AEC in the discharge of its functions and duties for the financial year; and
 - A summary of the activities of the Internal Audit Department.

- Inform the Board on the issues and concerns discussed during its meetings, including those raised by the external auditors and where appropriate, make the necessary recommendations to the Board.

3. Committee Meeting and Attendance

Based on the Term of Reference of the AEC, the meeting is to be held at least four (4) times a year and such additional meeting as the Chairman shall decide. The AEC met 12 times during the financial year 2014. The Committee members and their records of attendance are as follows:

MEMBERS	NO. OF MEETINGS AND ATTENDANCE
Tuan Haji Rosli Abdullah, Chairman	12/12
Datuk Dr Syed Jaafar Syed Aznan (resigned on 1 June 2014)	5/8*
Tuan Haji Abdul Aziz Ishak (resigned on 29 September 2014)	8/9*
Tuan Haji Ariffin Hew (term ended on 27 September 2014)	7/9*
YBhg. Dato' Abd Rahman bin Md Khalid	12/12
Tuan Haji Zainul Rahim bin Mohd Zain (appointed on 26 September 2014)	3/3*
YBhg. Datuk Nozirah binti Bahari (appointed on 26 September 2014)	3/3*

* Reflects the number of meetings attended during the time the Member held office.

NOMINATING COMMITTEE

1. Objective

The objective of the Nominating Committee (NC) is to establish a documented, formal and transparent procedure for the appointment/reappointment of Directors, President/Group Managing Director and key Senior Executives (Senior Vice President/ Head of Function and above) and to assess the effectiveness of individual Directors, the Board as a whole and the various Committees of the Board, President/Group Managing Director and key Senior Executives (Senior Vice President/Head of Function and above).

2. Functions and Responsibilities

The functions and responsibilities of the NC are as follows:

- Establishing minimum requirements for the Board and the President/Group Managing Director to perform their responsibilities effectively. NC also responsible for overseeing the overall composition of the Board in terms of the appropriate size and skills, the balance between Executive Directors, Non-Executive and Independent Directors, and mix of skills and other core competencies required through annual reviews.
- Recommending and assessing the nominees for directorship, the Directors to fill board committees, as well as nominees for the President/Group Managing Director position. This includes assessing the Directors and President/Group Managing Director proposed for reappointment, before an application is submitted to Bank Negara Malaysia for verification.
- Establishing a mechanism for formal assessment and assessing the effectiveness of the Board as a whole, the contribution by each Director to the effectiveness of the Board, the contribution of the Board's various Committees and the performance of the President/Group Managing Director.
- Recommending to the Board on removal of the President/Group Managing Director, if he is ineffective, errant or negligent in discharging his responsibilities.
- Ensuring that all Directors undergo appropriate induction programmes and received continuous training.
- Overseeing appointment and management succession planning of key senior executives (Senior Vice President/Head of Function and above), and performance evaluation of the Chief Operating Officer and President/Group Managing Director and recommending to the Board for the removal of key Senior Executives (Senior Vice President/Head of Function and above), if they are ineffective, errant and negligent in discharging their responsibilities.

The President/Group Managing Director is delegated to assess and evaluate candidates for new appointments, negotiate and determine the salary, benefits and terms and conditions of service for the positions of Senior Vice President who is also a Head of Function and above and thereafter tabled to the NC for approval and lastly to the Board for notation.

- Propose the appointment of new Board members to the Board of Directors of subsidiary companies.

3. Committee Meeting and Attendance

Based on the Term of Reference of the NC, the meeting is to be held at least once a year. The NC met 11 times during the financial year 2014. The Committee members and their records of attendance are as follows:

MEMBERS	NO. OF MEETINGS AND ATTENDANCE
Datuk Dr Syed Jaafar Syed Aznan, Chairman (resigned on 1 June 2014)	3/4*
Tuan Haji Zainul Rahim Mohd Zain, Chairman	11/11
Tuan Haji Rosli Abdullah	11/11
Datuk Nozirah Bahari	9/11
Datuk Idris Abdullah (resigned on 17 Mac 2014)	2/3*
Dato' Abd. Rahman Md Khalid (appointed on 26 Mac 2014)	5/8*
Tan Sri Dato' Sri Dr Wan Abdul Aziz Wan Abdullah (appointed on 26 September 2014)	4/4*

* Reflects the number of meetings attended during the time the Member held office.

REMUNERATION COMMITTEE

1. Objective

The objective of the Remuneration Committee (RC) is to provide a formal and transparent procedure for developing a remuneration policy for the Directors, President/Group Managing Director and key Senior Executives (Senior Vice President/Head of Function and above) and ensuring that compensation is competitive and consistent with the Bank's culture, objectives and strategy.

2. Functions and Responsibilities

The functions and responsibilities of the RC are as follows:

- Recommending a framework of remuneration for Directors, President/Group Managing Director and key Senior Executives (Senior Vice President/Head of Function and above). The remuneration policy should:-
 - (a) be documented and approved by the full Board and any changes thereto should be subject to the endorsement of the full Board;
 - (b) reflect the experience and level of responsibility borne by individual Directors, the President/Group Managing Director and key Senior Executives (Senior Vice President/Head of Function and above);
 - (c) be sufficient to attract and retain Directors, President/Group Managing Director and key Senior Executives (Senior Vice President/Head of Function and above) of caliber needed to manage the Bank successfully; and
 - (d) be balanced against the need to ensure that the funds of the Bank are not used to subsidize excessive remuneration packages.
- Recommending specific remuneration packages for Directors, President/Group Managing Director and key Senior Executives (Senior Vice President/Head of Function and above). The remuneration packages should:-
 - (a) be based on an objective consideration and approved by the full Board;
 - (b) take due consideration of the assessments of the Nominating Committee of the effectiveness and contribution of the Director, President/Group Managing Director or key Senior Executives (Senior Vice President/Head of Function and above) concerned;
 - (c) not be decided by the exercise of sole discretion of any one individual or restricted group of individuals; and
 - (d) be competitive and is consistent with the Bank's culture, objective and strategy.
- Endorsing any changes deemed necessary to the schemes, terms of services and new terms for executives and staff of the Bank before submission to the Board for final approval.

3. Committee Meeting and Attendance

Based on the Term of Reference of RC, the meeting is to be held at least once a year. The RC met 4 times during the financial year 2014. The Committee members and their records of attendance are as follows:

MEMBERS	NO. OF MEETINGS AND ATTENDANCE
Datuk Idris Abdullah, Chairman (resigned on 17 Mac 2014)	2/2*
Datuk Dr Syed Jaafar Syed Aznan (resigned on 1 June 2014)	2/3*
Tuan Haji Zainul Rahim Mohd Zain	4/4
Tuan Haji Rosli Abdullah	4/4
Datuk Nozirah Bahari	3/4
Dato' Abd. Rahman Md Khalid, Chairman (appointed on 26 Mac 2014)	2/2*
Tan Sri Dato' Sri Dr Wan Abdul Aziz Wan Abdullah (appointed on 26 September 2014)	1/1*

* Reflects the number of meetings attended during the time the Member held office.

RISK MANAGEMENT COMMITTEE

1. Objective

The objective of the Risk Management Committee (RMC) is to oversee the Senior Management's activities in managing the key areas of the Group and to ensure that the risk management process is in place and functioning effectively.

2. Functions and Responsibilities

The functions and responsibilities of the RMC are as follows:

- Provide oversight and strategic direction for the Management of all risks in the Bank.
- Review and endorse policies, including Group-wide policies for the management of the various risks for approval by the Board.
- Provide oversight on the management of risks exposures at Group-wide level, including the implementation of Group-wide risk management policies throughout the Group.

- Review and approve objectives, functions and strategies for Credit Risk, Operational Risk and Market Risk Functions.
- Ensure that the structures and procedures for risk management are in place and they are reflective of the Bank risk tolerance.
- Review and endorse credit/lending policies encompassing all products and business for approval by the Board.
- Review risk limits and concentration.
- Oversee the implementation of risk related strategic initiatives contained in its corporate plan.
- Review and address the overall risk profile of the Bank and monitor the risk portfolio composition of significant activities of the Group.
- Review and endorse contingency plans for critical and worst case scenarios and address related issues.
- Review reports of credit review process, asset quality and ensure prompt corrective action.
- Promoting an integrated approach to evaluate and monitor interrelated risks.

3. Committee Meeting and Attendance

Based on the Term of Reference of the RMC, the meeting is held once in every two months. The RMC met 6 times during the financial year 2014. The Committee members and their records of attendance are as follows:

MEMBERS	NO. OF MEETINGS AND ATTENDANCE
Tuan Haji Zainul Rahim Mohd Zain, Chairman	6/6
Tuan Haji Rosli Abdullah	6/6
Tuan Haji Ariffin Hew (resigned on 27 September 2014)	4/4*
Datuk Nozilah Bahari	5/6
Dato' Abd Rahman Md Khalid	6/6

* Reflects the number of meetings attended during the time the Member held office.

STATEMENT OF INTERNAL CONTROL

RESPONSIBILITY

The Board acknowledges its overall responsibility in establishing a sound internal control system as well as reviewing its adequacy and effectiveness.

The Board is of the view that the internal control system together with risk management system are designed to manage the Group's risks within the acceptable risk appetite.

Whilst total elimination of risks is not possible, the risk management and internal control system that is in place is designed to manage risks in meeting the Group's business objectives. The system can only provide reasonable and not absolute assurance against material misstatement, loss or fraud.

The Board has established appropriate control structure and process for identifying, evaluating, monitoring, managing and responding to significant risks faced by the Group in its achievement of the business goals and objectives. The control structure and process which have been instituted throughout the Group are reviewed and updated from time to time in response to the changes in the business environment, and this on-going process has been in place for the whole financial year under review.

KEY INTERNAL CONTROL PROCESS AND STRUCTURES

Key processes that the Board has established in reviewing the adequacy and effectiveness of the internal control system include the following:

Establish Management's role with regards to internal controls

The role of Management includes:

- Identifying and evaluating the risks faced, and the achievement of business objectives and strategies;
- Formulating relevant policies and procedures to manage these risks;
- Monitoring the effective implementation of internal control system;
- Reporting in a timely manner to the Board any changes to the risks and the corrective actions taken.

Internal Audit Function - Group Audit & Examination (GAE)

The GAE undertakes regular reviews of the Group's systems of internal control. Operations and business processes (auditable entities) that are included in the annual audit plan are identified using risk-based approach taking into consideration input from Management, and the Audit & Examination Committee. The reviews are performed to examine and evaluate the adequacy and efficiency of internal controls relating to governance, risk management and compliance to the laws and regulation.

Significant risks and non-compliance impacting the Group are highlighted and recommendations are provided in the audit report and the Management follows through and reviews the status of actions on recommendations made by the GAE.

Management Audit & Examination Committee (MAEC)

The MAEC is a management committee chaired by the President/Group Managing Director, comprising senior level representatives from different Lines of Business. The MAEC meets quarterly or as and when required to deliberate on the findings of all signed audit and investigation reports and decide on the appropriate action required to resolve issues/concerns covering all aspects of the Bank's business and operations.

Minutes of the MAEC meeting are then tabled to the AEC together with the audit reports.

Audit & Examination Committee (AEC)

The AEC meet at least four (4) times yearly to review issues identified in audit reports prepared by the GAE as well as by external auditors. The AEC has active oversight on GAE's independence, scope of work and resources. It also reviews and approves the annual audit plan and frequency of the internal audit activities.

OTHER INTERNAL CONTROL PROCESSES AND STRUCTURES

The other key elements of the procedures established by the Board that provides effective internal control include:

Business Plan and Performance Review

An annual business plan and budget are submitted to the Board for approval. Performance achievements are reviewed against the targeted results on a monthly basis allowing timely responses and corrective actions to be taken to mitigate risks. The Board reviews regular reports from the management on the key operating statistics. The Board also approves any changes or amendments to the Group's policies.

Board Committees

Board Committees (other than the AEC) are also established to assist the Board in performing its oversight function namely Credit Committee of the Board, Nominating Committee, Remuneration Committee and Risk Management Committee. These Committees have the authority (terms of reference) to examine all matters within their scope and report to the Board with their recommendations.

Management Committees

Various Management Committees (Executive Level) are also established by Management to assist and support the various Board Committees to oversee the core areas of business operations. These committees include the Group Management Committee (GMC), Group Credit Committee (GCC), Executive Risk Management Committee (ERMC), Tender Committee and Information Technology Committee (ITC).

Policies, procedures and authority limits

Policies, procedures and processes governing the Group's businesses and operations are documented and are made available to employees across the Group. These policies, procedures and processes are reviewed and updated by the business and functional units through a structured process of review to cater to changes in laws and regulations as well as changes to the business and operational environment.

Delegation of authority including authorisation limits at various levels of Management in the Group are documented and designed to ensure accountability and responsibility.

Code of Ethics and Conduct

The Code of Ethics and Conduct ("the Code") sets out the standards of good and ethical banking practices, as well as aims to maintain confidence in the security and integrity of the Group's business practices. It is a requirement that all employees of the Group understand and observe the Code.

RISK MANAGEMENT

Against the backdrop of a dynamic and challenging global economy and continuous regulatory reforms, there was an increased need for Group Risk Management (GRM) to integrate seamlessly with the business and work more effectively to create greater synergies and value for the Group in 2014.

On the local front, the fall in commodity prices, coupled with the weakening of ringgit against currencies of Malaysia's major trading partners poses a new challenge for the banking Group.

Amidst such development, BPMB stays focused in fulfilling its mandated role whilst remaining steadfast in improving its asset quality.

RISK MANAGEMENT FRAMEWORK

Risk is an inherent component in all aspects of the Group's businesses. The management of risk has evolved into an important business driver for strategic decisions in support of the Group's business objectives, balancing the appropriate level of risk taken proportionate to the desired level of reward, while maintaining the sound financial position and capital of the Group.

The Group's approach to the management of risk involves the establishment of risk principles and strategies as the core foundation in driving strong risk management culture and practices across the Group. The Group manages its risk actively guided by its risk management governance and framework.

i. Risk Management Governance

The following illustrates the Risk Management Governance structure adopted by the Bank, which is guided by BNM's Risk Governance Policy, Guidelines on Corporate Governance for Development Financial Institutions and the Shariah Governance Framework for Islamic Financial Institutions.

BOARD OF DIRECTORS
The Board of Directors has the ultimate responsibility for the sound and prudent management of the Group. This includes responsibility for risk oversight and to ensure appropriate risk management frameworks and policies are established and implemented accordingly for the various categories of risk exposures within the Group.

BOARD LEVEL COMMITTEES		
Risk Management Committee (RMC)	Credit Committee of the Board (CCB)	Remuneration Committee (RC)
The RMC is a Board level Committee responsible to perform oversight on the Group's risks. It is primarily responsible to oversee Senior Management's activities in managing the key risk areas of the Group and to ensure the appropriate risk management infrastructure, resources and processes are in place and functioning effectively.	The CCB is tasked by the Board to review financing approvals and credit risk portfolio.	The RC is appointed to oversee the establishment and implementation of remuneration policies and structures; including to ensure such policies and structures do not induce excessive risk-taking and able to reinforce prudent risk-taking.

SHARIAH COMMITTEE
The Shariah Committee reports directly to the Board and undertakes a fundamental role in ensuring the Group's compliance with Shariah requirements. The Shariah Committee is responsible to deliberate and provide decisions, views and advice on Shariah matters/issues, as well as Shariah compliance oversight on the Group's Islamic business operations/activities.

MANAGEMENT LEVEL COMMITTEES	
Executive Risk Management Committee (ERMC)	Group Credit Committee (GCC)
The ERMC is a Management level Committee responsible for the management of all material risks within the Group.	The GCC forms part of the risk governance for managing credit/ investment risks within the Group. The Committee is empowered to approve credit/investment related proposals, which falls within their authority.

ii. Risk Appetite Statement and Strategy

The risk appetite framework defines the Bank's boundaries and drivers of doing business. The risk appetite is a critical component of the Bank's robust risk management framework and is driven by both top-down Board leadership and bottom-up involvement of Management at all levels. The risk appetite enables the Board and Senior Management to communicate, understand and assess the types and levels of risk that the Bank is willing to accept in pursuit of its business objectives.

The Bank's development of its risk appetite has been integrated into the annual strategy and business planning process and is adaptable to changing business and market conditions. The Bank's risk appetite balances the needs of all stakeholders by acting both as a risk gatekeeper and as a driver of future and current business activities.

The articulation of the risk appetite is done through a set of risk appetite statements which includes a comprehensive view of all material risks to the Group and is as follows:

Risk Appetite Categories	Risk Appetite
Solvency & Capitalisation	- Maintain RAM rating equivalent to Malaysia's sovereign rating; - Maintain the Core Capital Ratio (CCR) and Risk Weighted Capital Ratio (RWCR) above the respective regulatory requirement.
Sustainable Earnings	Achieve sustainable profitability whilst fulfilling its mandated role.
Liquidity	- Maintain the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) above Basel III liquidity ratio requirement under normal economic conditions (business-as-usual); - Reduce reliance on short term funding; - Full regulatory compliance to the New Liquidity Framework (NLF) at all times.
Asset Quality	Maintain a single digit impaired rate
Operational Risk	Low tolerance on operational risk.
Compliance	- Zero tolerance on Shariah non-compliance event; - Compliance to regulatory requirement and internal policies.

iii. Risk Management Ownership

Group Risk is moving towards adopting an integrated risk management approach towards the effective management of Group-wide risks.

In accordance with the Group's structure, GRM has continuously enhanced its integrated risk management approach towards the effective management of enterprise-wide risks. The Group's risk governance model provides a transparent and effective governance structure which promotes active involvement from the Board and Senior Management in the risk management process to ensure a uniform view of risk across the Group.

The governance model aims to place accountability and ownership whilst facilitating an appropriate level of independence and segregation of duties. The structure is premised on the three lines of defence and defines the lines of authority, roles and responsibilities to efficiently manage risk across the Group. Hence, the structure the Group adopts where risks are collectively managed by all functions based on their respective role can be reflected below:

Approach	Responsibility	Functions
1 st Line of Defence	Risk Taking Functions	Business and Support Functions, who are the risk takers, are primarily responsible for managing risk exposures in their daily activities.
2 nd Line of Defence	Risk Control	The risk control responsibility lies with Group Risk Management (GRM) and Group Compliance (GC). GRM, being an independent function to support the Risk Management Committees is responsible for establishing, implementing and maintaining Risk Management frameworks, policies, guidelines, tools and methodologies, as well as providing independent risk management oversight. GC is responsible for ensuring the Group's compliance to applicable laws, regulations, Shariah rulings, internal policies, guidelines and procedures, including establishing and maintaining policies and procedures to detect and minimize risk of non-compliance.
3 rd Line of Defence	Risk Assurance	Group Audit & Examination is responsible to conduct independent review and provide assurance on the adequacy and effectiveness of risk management processes and level of compliance.

iv. Risk Management Process

With the risk management process in place, the principal risks and how the Group manages these risks are given below (further details on the key risks can be found in the Bank's Key Risk Indicators).

Categories of Risk	Broad Definition	Risk Management Practices
Credit	Losses in principal or income arising from the failure of an obligor or counterparty to perform their contractual obligations in accordance with agreed terms.	- The Group has a strong credit culture which incorporates clear credit policies, robust credit evaluation and approval as well as sound credit portfolio management. - Credit risk in the portfolio is continuously evaluated and reviewed by the business sectors together with the risk units. Senior Management and the Board have good oversight of the credit risks and play an active role in the overall credit risk management.

Categories of Risk	Broad Definition	Risk Management Practices
Concentration	Concentration are exposures that have the potential to produce losses that are substantial enough to threaten the financial condition of the Group and its core operations.	- The Group adopts a proactive, robust and controlled policy-driven approach in portfolio diversification. - The Group's guiding principle in its lending activity is to diversify its loan portfolio mix and avoid any undue concentration of credit risks in its portfolio. Independent assessment on the Group's portfolio profile is undertaken to mitigate concentration risk.
Operational	Losses due to failed internal processes, people or systems or from external events.	- The Group has an Operational Risk Management Framework that is aimed at managing operational risk throughout the Group. It is periodically reviewed and aligned against the Group's business strategy and directions ensuring the business objectives and operational risk management objectives are aligned and consistent. - Various tools and techniques are also used to minimise operational risk to an acceptable level. - In addition, the Group also has in place a robust Crisis Management and Business Continuity Management program to ensure continuity of essential business services during unforeseen events.
Market	Losses or adverse impacts on earnings or capital from changes in the level of volatility of market rates or prices such as interest rates, foreign exchange rates, commodity prices and equity prices.	- The Group measures, manages and controls its market risk exposure using industry best practices. - The Group plans to further enhance the market risk triggers and controls to ensure prudence in managing the market risks are well contained. - Although it is non-compulsory for the Group to adopt Basel II initiatives, it is currently observing practices derived from Basel II.

Categories of Risk	Broad Definition	Risk Management Practices
Liquidity & Funding	Risk that the Group will not be able to meet both expected and unexpected current and future cash flow and collateral needs effectively without affecting either daily operations or the financial condition of the Group.	- The Group uses a range of tools to monitor and control liquidity risk exposure such as liquidity gaps, early warning signals, liquidity indicators and stress testing. - The liquidity positions of the Group are monitored regularly against the established policies, procedures and limits. - The Group plans to further enhance the market risk triggers and controls to ensure prudence in managing the market risks are well contained. - Although it is non-compulsory for the Group to adopt Basel II initiatives, it is currently observing practices derived from Basel II.
Interest Rate	Risk arising from the change in market interest rates that adversely impact the Group's financial condition in terms of earnings or economic value.	- The Group measures, manages and controls its interest rate risk by adopting and employing both qualitative and quantitative approaches. - Such controls include Earning at Risk (EAR), Economic Value of Capital (EVE), Total Rate Sensitive Asset/Liabilities Ratio, Stress Testing etc. - Each has a limit of which is monitored and reported regularly against the established frameworks, policies and procedures.
Reputational	Risk that the Group's reputation is damaged by one or more reputation event, as reflected from negative publicity about the Group's business practices, conduct or financial condition.	The Group's reputation is preserved through managing all the risks that affect the Group's reputation through good corporate governance, effective risk management processes and a structured management of reputational events when they occur.
Information Technology (IT)	Risk which impacts information and services related to the Group's use of technology. This includes risks that customers or the Group may suffer from service disruptions, losses arising from system defects, illegal use of computer systems and breach of data via computer systems perpetrated either by internal or external parties, including any damage to the reputation of the Group.	The Group ensures and creates awareness among its internal and external customers of this risk.
Regulatory	Change in regulations which could threaten the Group's competitive position and capacity to conduct business effectively.	The Group keeps a close watch on all key regulatory developments in order to anticipate changes and potential impact on performance with the focus of continuously improving the risk governance structure and framework.

Categories of Risk	Broad Definition	Risk Management Practices
Business & Strategic Risk	Risk of current or prospective impact on the Group's earnings, capital, reputation or standing arising from changes in the environment the Group operates in and from adverse strategic decisions, improper implementation of decisions or lack of responsiveness to industry, economic or technological changes.	- The Group has a well-established risk governance structure and recently established a dedicated team that reviews the overall strategic risk facing the Group. - The Group adopts appropriate strategies to balance risk and return taking into account changing conditions through the economic cycle and monitoring of economic trends in the market closely. - The respective Risk Management Sub-Functions continuously review the suitability of its risk policies and controls.

v. Risk & Compliance Culture

A vital component in strengthening the Group's risk governance structure is its risk and compliance culture. Culture forms the fundamental building block of risk management and serves as the foundation upon which a strong enterprise wide risk management structure is built.

The risk and compliance culture of the Group is driven from the top and complimented with the tone from the middle, that are ingrained in all levels of business and activities. As an essential building block for effective risk governance, it is continuously promoted to ensure that the right risk and compliance culture is embraced and exhibited in the behaviour of each individual within the organisation.

As part of the risk and compliance culture, the Group has also tried to instil a compliance culture where the Board, Senior Management and every employee of the Group is committed to adhere to the requirement of relevant laws, rules, regulations and regulatory guidelines. The Group's commitment is clearly demonstrated through the establishment of strong compliance policies and guidelines to ensure that the Group's non-compliance risks are effectively managed. Such measures help lower the cost of doing business arising from regulatory penalties, as well as protects the Group's integrity and reputation.

STRATEGIC PRIORITIES FOR 2014

GRM's strategic priorities for 2014 continued to build around managing its key focus areas of asset and liabilities management. The notable risk management achievements for 2014 were:

- Enhancement of risk & compliance culture;
- Enhancement in the assessment of sectorial risk profile and portfolio management;
- Enhancement in liquidity risk management;
- Institutionalization of operational risk management;
- Improvement in credit underwriting quality;
- Optimization of capital management;
- Enhancement in Stress Testing capabilities;
- Formalization of the Risk Appetite.

GRM has considered both external and internal drivers during the setting of the Strategic Priority for 2014. They were:

i. Key External Drivers

- Challenging economic and cost environment;
- Increased data and IT infrastructure requirement;
- Regulatory pressures on business model and cost structure.

ii. Key Internal Drivers

- Compliance to regulatory requirement;
- Enhance shareholders' value;
- Optimization of resources;
- Risk ownership at various functions;
- Inculcate risk awareness culture at all levels.

KEY ACHIEVEMENTS IN 2014

Although Basel II-compliant is not yet a requirement, the Group has taken the initiative to adopt a more forward looking approach to capital management and develop a more rigorous risk management techniques.

Hence, to facilitate the Bank's aspiration in adopting the full Basel II, the following initiatives were undertaken:

- i. Formalization of the Bank's Internal Capital Adequacy Assessment Process (ICAAP) Framework;
- ii. Formalization of the Bank's Risk Appetite Statement;
- iii. Enhancement of liquidity risk management controls namely Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR);
- iv. Enhancement of the Stress Test Methodology;
- v. Establishment of the Independent Model Validation Unit;
- vi. Enhancement for the computation of the Collective Allowable Assessment (CAA) Methodology to include Model Risk Adjustment (MRA);
- vii. Establishment of operational risk indicators for monitoring of Subsidiary's key risks.
- viii. Enhancement of operational risk assessment templates and data collection.
- ix. Facilitate Group-wide risk management awareness programs.

The Group's state of implementation of these initiatives were reported to the ERM, RMC and Board on a regular basis, thus ensuring that the Management and Board of the Group are aware and continue to maintain oversight of the risks undertaken by the Group.

EMERGING RISKS

Identifying and monitoring top and emerging risks are integral to the Group's approach to risk management. The identification and prioritisation of key risks facing the Group will be important in order to enable the Group to proactively plan for a holistic management of these risks, amongst others, across the Group. Some of the key concerns for the Group going into 2015 are:

a. Challenging Business Environment

The prospects for economic growth in 2015 remain cautious with continued economic difficulties in Europe, slower growth in emerging markets and a slowing China. The spill-over effect may trickle domestically, hence impacting the Bank's existing customers and target market. The impact of lower energy and commodity prices are also expected to lead to further uncertainty in economic growth. Domestic weaknesses, such as infrastructure shortages/deferment, budget deficits and inflationary pressures coupled with external uncertainties are expected to impact economic growth.

b. Regulatory Changes and Requirements

One of the key risks going into 2015 is the evolving landscape of regulatory requirements and the burden of new regulations. Governments and regulators in numerous jurisdictions are expected to continue to develop regulations which may impose new requirements, including but not limited to the areas of capital and liquidity, corporate structures, conduct of business, corporate governance and operational risk.

c. Movement in Interest Rates

Rising interest rate will have an unfavourable impact on the margins of the Bank's fixed rate loan portfolio due to its inability to reprice. This portfolio is consistent with its mandated role, business model and product offering to finance infrastructure projects that is susceptible to interest rate risk. However, the interest rate risk is managed within the risk appetite of the Bank and controls established.

Notwithstanding this, BNM is expected to maintain the overnight policy rate (OPR) at 3.25% in the first half of 2015, reflecting the supportive monetary policy stance and taking into account emerging weaknesses in the external environment, falling commodity prices and continued moderation in aggregate domestic demand.

d. Money Laundering & Terrorist Financing Risk

The Bank has in place a Compliance structure that include the function of Anti-Money Laundering and Counter Financing of Terrorist (AML/CFT). Various initiatives have been proposed to nullify this ever growing threat as it is a statutory responsibility of the Bank.

In maximizing the results, one of the initiative was the recalibration of the Group Compliance structure to co-ordinate and manage the implementation of AML/CFT at the Group level. This will be strengthened with supporting network and system infrastructure in the form of subscription to AML/CFT systems such as World Check and Banker's Equity, for known persons/related persons and updates.

However, as of todate, the Bank has yet to be subjected to any of these intrusions.

SHARIAH COMPLIANCE

SHARIAH GOVERNANCE

The Islamic banking activity of BPMB is operating on a window basis and governed by Shariah Governance Framework (SGF) issued by Bank Negara in 2011.

SGF provides a guideline comprising Shariah governance structure, system processes and controls which is managed and monitored by a dedicated Shariah Advisory function and Compliance function of the Bank. The Shariah Advisory works closely with other functions within the Bank to undertake the following processes/programs:-

1. Awareness, training and communication;
2. Assessment of Shariah compliance;
3. Mitigation and control of Shariah risk; and
4. Monitoring and Reporting.

During the year, key measures undertaken include:-

1. Improvement to the guidelines and procedures as recommended as stipulated in the Shariah Audit Report 2013.
2. Training in Islamic Product has been conducted for internal audit officers, Business Banking officers, Shariah Advisory officers and Compliance officers throughout 2014.
3. Establishment of “Tabung Tazkiyah Al-A’mal” for non-Shariah compliance income where these funds will be channeled to identified NGOs for charity purposes.

SHARIAH COMMITTEE

The operation of Islamic banking window is governed by Section 129 (4) of the Development Financial Institutions Act 2002 which stipulates that “the prescribed institution may, in carrying on Islamic banking business or Islamic financial business, seek the advice of the Syariah Advisory Council on the operations of such business in order to ensure that it does not involve any element which is not approved by the religion of Islam”. Principle 1 of the Bank Negara’s Shariah Governance Framework for Islamic Financial Institutions, stipulates that every bank carrying out Islamic banking business is required to establish a Shariah Committee.

Functions and Responsibilities

The functions and responsibilities of the Shariah Committee are as follows:-

1. To be responsible and accountable for all Shariah decisions, opinions and views provided.
2. To advise the management and the board on Shariah matters in order to ensure that the Islamic banking operations comply with Shariah principles at all times.

3. To validate and endorse that:-

- a) The Islamic products of the bank comply with Shariah principles in all aspects including:-
 - The terms and conditions contained in the forms, contracts and agreements used in executing the transactions.
 - The guidelines and procedures of the products, schemes and funds offered by the bank.
 - The product manual, marketing advertisement, sales illustrations and brochures used to describe the product.
- b) To endorse Shariah policies and procedures prepared by the Bank and to ensure that the contents do not contain any elements which are not in line with Shariah.

4. To confirm on Shariah compliance based on assessment of Shariah audit and review, and provide assurance on information to be disclosed in the annual report, with respect to the following:-

- All transactions for the reporting year are Shariah-compliant;
- The allocation of profit and charging of losses relating to investment accounts are Shariah-compliant;
- Non-Shariah compliant income is to be channeled to charity;
- Zakat calculation is Shariah-compliant

5. To uphold and observe corporate governance and compliance with the relevant legislation, rulings, regulations and guidelines issued by Bank Negara Malaysia.

6. To advise the bank to consult the Shariah Advisory Council of Bank Negara Malaysia (SAC) on any Shariah matters which have not been resolved or endorsed by the Shariah Committee.

7. To provide written Shariah opinion(s) in the following circumstances:-

- Where the Bank refers to the SAC for advice; or
- Where the Bank submits applications to Bank Negara Malaysia for approval of Islamic Products

8. The number of Shariah Committee meetings held in the year, as well as the attendance of every Shariah Committee shall be disclosed in the bank’s annual report.

9. And assist related parties such as legal counsel, auditor or consultant subject to the recommendation of management.

10. The Shariah Committee shall put on record in its report or statements directed to the board, its concerns over any Shariah non-compliance issues.

COMMITTEE MEETING AND ATTENDANCE

Based on the Terms of Reference of the Shariah Committee, the meeting is to be held a minimum 6 times a year. During the financial year 2014, the Shariah Committee held 8 meetings. The members of the Shariah Committee and their record of attendance are as follows:-

NAME OF SHARIAH COMMITTEE MEMBER	NO OF MEETING AND ATTENDANCE
YBhg.Tan Sri Dato' Seri (Dr) Haji Harussani Bin Haji Zakaria	8/8
YBrs. Prof Dr Abdul Jalil Bin Borham (Deceased on 13 November 2014)	7/7
YBrs. Dr. Ridzwan Bin Ahmad	8/8
YBrs. Asst. Prof. Dr. Miszairi Bin Sitiris	8/8
YBrs. Assoc. Prof. Dr Noraini Binti Mohd Ariffin	8/8

In view of the demise of one of the Shariah Committee, BNM has granted a temporary exemption until end of 31 March 2015 or upon the appointment of new Shariah Committee, whichever is earlier. Nevertheless, BPMB is required to comply with the minimum quorum of two-third with Shariah background when convening the Shariah Committee meetings as specified in the Guidelines on Shariah Governance Framework for Islamic Financial Institutions.

MOVING FORWARD

In ensuring full compliance with Shariah Governance Framework for Islamic Banking Institutions issued by Bank Negara Malaysia, the following key measures have been initiated and targeted to be completed in phases before the end of 2015:-

1. Management response to be undertaken and completed in appropriate period as stipulated in the Shariah Compliance (Governance) Internal Audit Report 2014.
2. Continuous knowledge enhancement through Islamic Financing training to all officers of the Bank.
3. Greater emphasis on promoting Islamic products by adopting "Islamic first" approach when marketing BPMB products whereas for existing customers will be approached and consulted to convert their conventional loans to Islamic financing.

Moving forward, innovation will be the key to grow the Islamic banking portfolio, with the development of structured products that conform to Islamic principles, with continuous focus on asset based financing under the concept of Ijarah and Tawarruq and enlightens the scope of guarantee to guarantee Sukuk and Islamic Private Debt Securities to be contributed through non-funded activities.