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## Bank Pembangunan to raise RM5b from sukuk

by SHAZNI ONG

BANK Pembangunan Malaysia Bhd is proposing to raise RM5 billion of Islamic medium-term notes (IMTN) programme to fund its infrastructure project lending activities.

The bank's programme has been assigned a preliminary rating of AAA with a 'Stable' outlook rating by Malaysian Rating Corp Bhd (MARC).

The rating agency added that the rating also affirms its financial institution rating of AAA on Bank Pembangunan.

MARC said the FI rating and outlook are mainly premised on Bank Pembangunan's status as a wholly government-owned development financial institution (DFI) and on government support that has been extended to the DFI through government guarantees.

This also includes compensation for loss of interest income

and credit loss on problematic loans/financing directed to specific industries promoted by the government.

MARC noted that the plans to consolidate the country's main DFIs, as announced by the government under Budget 2020, are very much at the preliminary stage.

"Should the government support the DFI be seen to weaken or if there are significant changes in the Bank Pembangunan's structure, mandate, and operations as a result, MARC will revise its rating assumptions and assess the rating implication on Bank Pembangunan," it said in a statement yesterday.

MARC noted that Bank Pembangunan's loan/financing book continued to be dominated by the infrastructure segment, which accounted for 91.5% of the portfolio as of end-2018.

The higher proportion of infrastructure loans/financing is also

due to a sharp decline year-on-year (YoY) in outstanding loans/financing in its other key portfolios, namely maritime by 19%, oil and gas by 11.5% and technology by 53.6%.

Gross loans/financing outstanding fell to RM20.8 billion as at end-2018 from RM22.3 billion in the previous year as tepid growth was offset by large repayments.

Going forward, the DFI intends new loans/financing disbursed will continue to be for infrastructure related projects which are mainly government initiated and therefore benefit from direct or indirect government support, and added this largely mitigates concentration risk.

MARC stated that Bank Pembangunan's asset quality metrics recorded some improvement with the gross impaired loans, advances and financing ratio declining to 11% as at end-2018.

The improvement was largely

due to higher write-offs, where for 2018, the DFI wrote off RM778.4 million, mainly in the technology and maritime sectors.

Bank Pembangunan's pretax profit fell 19.9% YoY to RM260.7 million largely due to reduced net interest income on the lower financing base, which translated into lower post-tax return on assets and return of equity of 0.65% and 2.19%, MARC statement yesterday added.

Bank Pembangunan's capital position remained healthy, as reflected by its Basel I core and risk-weighted capital ratios of 30.8% and 37% as at end-2018, well above comparable peers in the DFI space.

The rating agency said Bank Pembangunan's strong capital position offers some buffer against asset quality weakness.

"The DFI's funding profile remained largely supported by the government as reflected by government-guaranteed borrowings and deposits from the government and

its related entities accounting for 26.7% and 24.3% of total funding.

"Proceeds from issuances under the proposed IMTN will be utilised primarily to fund future asset growth," it said.

MARC also noted that since the second half of 2018, the DFI has seen a complete revamp of its board and key management personnel.

"The new leadership has resulted in strategic initiatives aimed at enhancing the DFI's credit management processes, risk appetite and controls, and asset-liability management.

"In January 2020, Bank Pembangunan began a three-year strategic plan, which will broaden its scope to cover financing projects outside of its four focused sectors.

"The key criteria to participate in such projects are that they have a significant social and developmental impact and are aligned to green and sustainability principles," it said.

