

CHIEF EXECUTIVE OFFICER'S STATEMENT

Malaysia is currently stepping up its vaccination programme to achieve herd immunity. Indeed, it is a shining beacon of hope for a better year ahead, amidst the prospects of year 2020 that was blighted by weakened global and domestic economic landscapes, due to the widespread COVID-19 pandemic. Global supply chains were impacted, leaving trade, consumer and business sentiments muted. In Malaysia, nationwide lockdown measures caused widespread disruption to business activities, which hampered financing growth in the first half of the year. Although there was some recovery in the second half of the year, the low profit environment, led by three (3) consecutive cuts of overnight policy rate ("OPR") affected the yield curve and further compressed net margin profits.

KHAIRUL KAMARUDIN
CHIEF EXECUTIVE OFFICER



A CHALLENGING YEAR

It was a year that called for responsive action. Bank Muamalat Malaysia Berhad (Bank Muamalat or the Bank) stayed on track of its RISE24 strategic plan, and priorities shifted towards fortifying resilience in our operations. We also focused on bolstering support for our stakeholders.

This was a tough balancing act as the rising unemployment rate and inert economic growth challenged the Bank's management of asset quality and prompted higher allowance for impaired financings. At the same time, the shifts in credit and cashflow landscapes brought about by the blanket loan/financing moratorium implemented by Bank Negara Malaysia ("BNM") and payment assistance programmes gave rise to modification losses.

In boosting the Bank's capabilities and focus to meet the growing challenges of credit risk and technology needs within this new business environment, three (3) key management roles were created and filled during the year, namely Chief Credit Officer ("CCrO"), Chief Information Security Officer ("CISO") and Chief Strategy Officer ("CSO"). The appointments are also aimed at enhancing our focus on safeguarding our business resilience and ensuring business sustainability.

Maintaining Business Continuity and Sustainability

The Bank's Business Continuity Plan ("BCP") was activated to ensure our operations remained uninterrupted amidst the movement restrictions imposed. Measures such as free COVID-19 screening for all employees, work from home deployment for non-critical job functions, and the new normal of business protocols were quickly adopted at all the Bank's premises. We were mindful that the first course of action was to bolster our customers' financial resilience as this would have a cascading effect on our own business sustainability.

All financing payments were automatically deferred for a period of six (6) months for individual customers and small and medium enterprises ("SMEs") effective 1 April 2020 up until 30 September 2020. In addition, an extension of financing moratorium for customers who were affected, was introduced after September 2020 given the prolonged movement restrictions imposed.

These efforts were crucial in providing stability and support for our customers and easing their financial burdens during the period of uncertainty.

In defending the quality of our assets, the Bank focused on those in the vulnerable customer segments. A CCRo was appointed in July 2020, to oversee the credit portfolios of the Bank.

In addition, a higher compliance on risk underscored the Bank's business as part of our steadfast commitment to meet all compliance requirements and maintain the Bank's strong capital position. The Bank's risk appetite statement ("RAS") was reviewed together with our strategic, capital and business planning towards optimum alignment. We continued to strengthen the risk management process through enhanced operational risk controls and improved elevated risk analysis, supported by broader data analytics.

The use of our digital channels were enhanced as our physical branches operated with limited counter services and shorter operating hours. Retail internet banking and mobile apps have been upgraded and digital platforms expanded to ensure ease of banking transactions for customers. With the appointment of the CISO, cyber resilience was upgraded to strengthen data privacy and cyber security.



CHIEF EXECUTIVE OFFICER'S STATEMENT

Ensuring the welfare of employees and the community

The health and safety of our employees have been core concerns during this pandemic. We established new processes to minimise contact during this period with most meetings and discussions conducted virtually. We also embarked on the e-learning and e-training routes to ensure that that employees can continue developing and nurturing their potential from anywhere and at anytime.

The year also called for greater corporate social responsibility efforts to ensure the safety and wellbeing of our communities. As part of our effort to fight the pandemic, more than RM430,000 was donated to various associations, communities, hospitals and frontliners. Over RM30 million in waqf fund was collected in FY2020 of which RM16.5 million was disbursed under waqf projects for the healthcare, education and investment sectors.

During the month of Ramadhan, we contributed more than RM246,000 to orphanages and old folk homes to bring cheer and hope to those who need it the most.



The strategic achievements of the Bank are highlighted in more detail on page 25

FY2020 FINANCIAL PERFORMANCE



Note: In mid-2019, Bank Muamalat's financial year-end was shifted to 31 December from the original 31 March, in order to be aligned with the practice of our holding company, DRB-HICOM.

The Bank's total deposits grew by 13.5% to around RM2.6 billion as of end December 2020, partly contributed by the steady growth in current and savings accounts ("CASA"). This led to CASA ratio improving to 36.1% as compared to 31.1% a year earlier.

A commendable performance was achieved amidst the challenging operating environment in FY2020 brought on by the prolonged pandemic, and its resulting toll on livelihoods and economic activities. Among the key factors that impacted the Bank's financial performance were the lower margins and repricing gaps pursuant to the multiple cuts in overnight policy rate ("OPR") in FY2020 amounting to a total reduction of 125 basis points, higher provisioning for impaired and vulnerable assets, and modification loss adjustment arising from payment moratoriums granted on customers' financing facilities.

However, with prudent cost management in place, the Bank's cost-to-income ratio showed improvement at 54.4% from 59.8% in the last financial year. As a result, return on equity ("ROE") was 6.84% as compared to 7.76% in FY2019 and return on asset ("ROA") was 0.72% compared to 0.82% in preceding year.

Silver linings were that Bank Muamalat managed to successfully improve asset quality as Gross Impaired Financing ("GIF") was positioned at 1.07% as at December 2020 as compared to 1.31% registered in FY2019. The Bank's capital position was also maintained as Common Equity Tier-1 ratio and Total Capital Ratio remained stable and well above regulatory requirements at 15.49% and 17.96% respectively.



1.07%

Gross Impaired Financing (GIF) for FY2020 improved from 1.31% in FY2019

More than RM430,000 was donated to various associations, communities, hospitals and frontliners. Over RM30 million in waqf fund was collected in FY2020 of which RM16.5 million was disbursed under waqf projects for the healthcare, education and investment sectors.

DELIVERING ON OUR STRATEGY

The Bank has stayed on track of its RISE24 strategy that revolves around seven (7) strategic focus areas, with a total of 24 initiatives in place. Following the adverse impacts of the pandemic however, we recalibrated the RISE24 strategy in FY2020 to overcome the current and future challenges through initiatives that can deliver sustainable returns. The initiatives identified, and progress made on these initiatives are reported below:

Resetting Target Market

We aimed to identify new business areas, increase non-fund income, and expand our coverage as a whole to target wider and better-rated customer segments.



What we did

- Focused on better-rated customers. This included those categorised in the high income brackets and high income professionals.
- Followed our revised preferred and non-preferred sectors, with tourism and aviation now falling in the latter category.
- Focused on selective customers with good track record.
- Catalysed collaborations with government agencies, cooperatives and associations.



Achievements

- Since September 2020, through various campaigns launched to focus on better-rated customers, 36% out of total new personal financing of around 16,000 accounts comes from this targeted segment.
- Corporate financing packages were offered to selected companies in preferred sectors, such as oil and gas, healthcare and public utilities. These accounted for around 5,700 accounts for the year.
- Disbursed RM158.9 million of financing through collaboration with Syarikat Jaminan Kredit Perumahan (“SJKP”) and Skim Rumah Pertamaku (“SRP”) affordable home programmes to provide homes to low income earners, self-employed individuals and operators of small business entities.
- Through vigorous promotions and several campaigns, the Bank’s gold investment generated a total of RM8.1 million for FY2020 against RM1.7 million contribution in FY2019.
- Supported the government’s COVID-19 Special Relief Facility, a programme that provided collateral-free financing of up to RM1 million towards easing the burden of small and medium entrepreneurs (“SMEs”).
- Launched the SIRIM-Fraunhofer programme to enhance productivity and competitiveness of SMEs, especially in the manufacturing sector.



CHIEF EXECUTIVE OFFICER'S STATEMENT

Disciplined Balance Sheet Management

We aimed to optimise balance sheet expansion while maximising returns, and implemented an intensive recovery plan to improve asset quality.



What we did

- Continued to focus on current and savings account ("CASA") growth as source of low cost deposits.
- Collaborated with government agencies, associations and cooperatives.
- Continuous monitoring of market sentiments to assess availability of liquidity throughout the crisis to ensure ample demand and supply.
- Launched aggressive recovery plans especially for accounts in arrears.
- Performed Rescheduling and Restructuring of accounts that were affected by COVID-19 and MCO.



Achievements

- CASA recorded 31.5% y-o-y growth to register RM7.76 billion as at end of December 2020.
- Gross impaired financing ("GIF") improved from 1.31% in FY2019 to 1.07% in FY2020.



Digital Transformation

We aimed to create a digital economy through various collaborations and automate internal processes for smoother operations and services.



What we did

- Actively pursued collaborations on digital platforms.
- Enhanced structure and process flow for SME approvals.
- Provided ease of usage and simplify financing application process through digital innovation.
- Improved services and innovated products via digital platform.



Achievements

- Established an SME helpdesk at all branches with regional and branch managers appointed as contact points for SMEs. This has sped up SME financing approval to within three (3) days.
- Launched the Muamalat Application Platform ("MAP") in October 2020. This is a financing application platform that allows customers to apply for financing online as well as monitor and manage their finances anytime and from anywhere. Through MAP, more than 500 financing applications have been approved.
- Introduced the Ar-Rahnu online auction in July 2020 - a first of its kind in the Ar-Rahnu industry. The online auction uses an open tender system to public bidders where unredeemed gold items will be sold to the public and the surplus returned to customers if the sale price exceeds the remaining debt. A win-win solution that significantly reduced RM3.8 million of the Bank's Ar-Rahnu impairment in FY2020.
- Introduced e-Jamin, an online bail payment service to facilitate and expedite bail transactions for all courts. The e-Jamin channel contributed 50% of total *Wang Jaminan Mahkamah* collected for the year.
- Collaborated with US-based Shariah compliant digital investment platform, Wahed Inc. to gain a competitive edge in achieving the perfect balance in customer relationship management and wealth planning.
- The Bank's Trade Finance System was enhanced with integration to the core banking system.

Data Monetisation

Working towards optimising data analytics to generate income and ensure cost efficiency.



What we did

- Continuous implementation of the 3-year Data Management Roadmap plan towards developing an effective data management platform.
- Updated and enhanced policies on data governance and data quality.



Achievements

- The Bank has developed and established a robust Data Governance Structure.

Infrastructure

This is to enhance infrastructure for efficient service delivery and deliverables.



What we did

- Set up trade windows at regions.
- Upgraded Ar-Rahnu counters into Ar-Rahnu centres.



Achievements

- The Bank's trade-finance windows have been expanded and are now available across the Northern to Southern regions.
- Ar-Rahnu counters at 67 branches have been upgraded into Ar-Rahnu Centres.
- Established SME hubs at selected regions to intensify focus and efforts on attracting more SME portfolios.

Continuous Process Improvement and Shariah Innovation

Towards continuously improving our processes and products for a more competitive advantage and to elevate social finance.



What we did

- Developed/Implemented online account opening for existing customers through retail internet banking.
- Strengthened the functions of operational risk management.
- Continuously reviewed policies and processes to ensure smoother services.
- Expanded waqf and Zakat development in expanding social finance possibilities.



Achievements

- Appointment of a CCrO in July 2020 to oversee and review credit-related tasks including its policies and processes which will address any issue with overall credit portfolios, towards mitigating risks to credit and credit quality.
- Appointment of a CISO to oversee technology and cyber security aspects of the Bank, formulate the Technology Risk Management Framework ("TRMF") and Cyber Resilience Framework ("CRF"), and drive the implementation of bank-wide cyber security strategy.
- The Bank's Risk Appetite Statement has been enhanced to include considerations on economic sector concentration and liquidity coverage ratio.
- In September 2020, a crowdfunding platform, the Jariah Fund, was established to generate sustainable impact for underserved communities. As at December 2020, the platform collected RM40,415 in contributions from the public in support of the five (5) non-governmental organisations ("NGOs") selected by the Bank.

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Talent Management

We continue to develop leaders and talent to support the growth of the Bank.



What we did

- Strengthened employee's performance and change in behaviour towards driving a high performance culture in the Bank.
- Appointed Regional or Branch Managers as SME contact points.
- Ensured ample training programmes to upskill and reskill our employees.



Achievements

- Provided online training programmes for employees that are accessible even outside of the office network.
- 16 online learning programmes were implemented in FY2020.

Towards a Sustainable Future

The year ahead holds promise for a more sustainable future, though perils are still at play. However, the Bank is confident that the efforts made to steer towards Value Based Intermediation and shape sustainability into every aspect of our operations, our culture and our mindset will stand us in good stead.

Moving ahead, the Bank will remain guided by the pillars of RISE24 strategy in becoming more competitive whilst espousing sustainable values; towards building a Strong Risk Culture, an ICT Driven Business, Shariah Innovations and staying steadfastly Earnings Oriented. Our seven (7) strategic areas are aligned to the current situation and provides a robust milestone to work towards. The Bank's priorities are to maintain resilient growth in the midst of the challenging economic landscape while still addressing the strategic focus areas as outlined in the business plan.

Internally, technology is our way forward in improving productivity through process automation, simplified end-to end processes and centralised documentations.

Given the continued economic uncertainties as Malaysia grapples with another wave of rising infections, the Bank sees a better growth for the retail investment business in FY2021 mainly in gold-related and Ar-Rahnu businesses. The low profit rate environment is seen as beneficial for retail consumers, and we foresee more growth in personal financing, auto financing and mortgage financing business. The plan is to accelerate business growth by focusing on better-rated customers based on the income pyramid strategy, introducing new innovative products, and staying agile in defending asset quality. This will be balanced with continued growth on low cost fund deposits in the form of current and savings accounts ("CASA") in view of the low profit rate environment and to fortify capital and liquidity conservation.

Technology and digital transformation continue to be key and will be driven by providing an effective digital solution that combats fraud, enhances customer experience and meets BNM's regulations. On this front, continued collaborations will be actively sought and leveraged towards realising a seamless digital channel and more digital solutions. Internally, technology is our way forward in improving productivity through process automation, simplified end-to-end processes and centralised documentations.

The Bank's risk and compliance culture will be further strengthened by implementing an effective compliance management programme for robust enforcement of regulatory requirements as well as managing legal and reputational risk through enhanced risk management processes.



The pillars of RISE24 strategy guide us forward in becoming more competitive whilst espousing sustainable values; towards building a Strong Risk Culture, an ICT Driven Business, Shariah Innovations and staying steadfastly Earnings Oriented.

All these improvements will run concurrently with our continued focus on developing leadership qualities and nurturing the talent within our workforce. In shaping our employees' performance, mindset and change in behaviour the Bank's "Brilliance Through Islah" programme will be used to provide an understanding and application of Shariah values into mobilising a high performance culture. Training classes, motivational sessions and intervention programmes will continue to be utilised for the development of employees' IQ and EQ.

APPRECIATION

As I look back on the year, the lasting image is that of the COVID-19 pandemic which has tragically infected millions of people across the globe. My heart goes out to those who have lost their loved ones. Meanwhile, let us salute the doctors, nurses and other civil servants who are at the front lines of the war against COVID-19.

The key to braving new challenges is to come together and forge supportive relationships. I take this opportunity to thank our ecosystem of stakeholders - the government,

regulators, customers and communities who have led the way forward, abided by the needs of society at this trying time and adopted to the new norms.

Our people have been the Bank's core drivers in navigating through this challenging year. My appreciation goes out to our dynamic management team and capable employees for striving towards our goals with utmost dedication and strong team spirit. They have been asked to deliver beyond their normal scopes this year and none has faltered.

I would also like to record my appreciation to our sterling Board of Directors for their strong leadership in anchoring us in good governance, as they propel us towards our aspirations of becoming a a better Bank in every way we can.

Thank you.

KHAIRUL KAMARUDIN
Chief Executive Officer