

# CHAIRMAN'S STATEMENT



## DEAR VALUED SHAREHOLDERS,

2020 will go down in history as a year that disrupted the world, with its profound impact on the global economy and societal norms. Countries around the globe scrambled to curb the COVID-19 pandemic, by closing borders and imposing movement restrictions. New norms emerged and digitalisation was rapidly adopted to sustain economic activities.

At home, Bank Negara Malaysia in its 4<sup>th</sup> Quarterly Report revealed that the economy experienced its biggest contraction since the 1998 Asian Financial Crisis, shrinking by 5.6% in 2020. To cushion Malaysians from the economic fallout triggered by the pandemic, the Ministry of Finance in its Economic Outlook 2021 Report, disclosed that the Government disbursed several stimulus packages valued over RM300 billion, comprising fiscal and non-fiscal measures.

Alhamdulillah, adequate liquidity buffers provided banks with sufficient room to withstand the external shock and pull through the crisis. Looking beyond the initial impact of the COVID-19 crisis, Bank Muamalat will continue to support the country's economic recovery, focus on its stakeholders' needs, build resilience and enhance digitalisation efforts.

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Subdued internal and external environments impacted the Bank's performance. Financing growth for the first half of the year was stunted as business activities were disrupted due to the movement control order ("MCO"). It was further exacerbated by Bank Negara Malaysia's ("BNM") decision to reduce the overnight policy rates ("OPR") and the government's introduction of loan and financing moratorium.

As a result, in the first half of 2020, Bank Muamalat's pre-tax profit fell 76.5% year on year to RM28.6 million, mainly on the back of lower income from financing due to deferred payments during the moratorium period. Additionally, provisions of RM23.7 million were made as a pre-emptive measure in view of the potential weakening of asset quality due to the impact of the COVID-19 pandemic.

Despite a weaker performance in the first half of the year, Bank Muamalat managed to record a Profit Before Tax and Zakat ("PBTZ") of RM174.8 million for the financial year ended



**RM174.8**  
Million

PBTZ recorded for FY2020

31 December 2020. On a period-to-period comparison, it was a decline of 23.7% compared to the previous 12 months PBTZ of RM229 million for the period ended 31 December 2019. Return on equity was 6.84% and return on asset was 0.72%. With prudent cost management in place, our cost-to-income ratio was also lower at 54.4% from 59.8% recorded in FY2019.



*\*Note: In 2019 Bank Muamalat changed its financial year-end to 31 December from its original 31 March, to synchronise with the financial year of its holding company, DRB-HICOM Berhad*



**54.4%**

**FY2020's cost-to-income ratio was lower than the 59.8% recorded in FY2019.**

**Additional provisions of RM23.7 million were made as a pre-emptive measure in view of the potential weakening of asset quality due to the impact of the COVID-19 pandemic.**

However, Bank Muamalat registered a commendable performance despite net margin compression due to the lower profit rate environment, modification losses arising from the moratorium, and business slowdown.

## SHAPING OUR STRATEGIC RESPONSE

The Bank reassessed and reprioritised its RISE24 strategies to focus on efforts that improve readiness in responding to the impact of the pandemic. RISE24 is driven by seven (7) strategic focus areas ("SFAs") which is overarched by value-based principles and prudently centralised on the Bank's risk and compliance culture. Both defensive and offensive strategies were considered to protect assets and optimise operations while encouraging prudent risk-taking to maximise opportunities for growth.

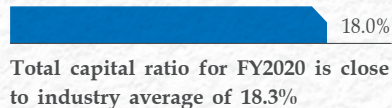
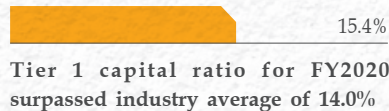
Among our priorities for FY2020 was to safeguard the well-being of our employees and remain focused on building capabilities and developing capacity to remain resilient in the current banking environment. The introduction of various digital apps and platforms during the year provided a safer means of banking and improved speed and convenience for an enhanced customer experience.

Efforts were redoubled to transform the credit risk management processes to manage the balance sheet and defend asset quality. This led to a strengthening of the Bank's asset

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### Total Capital Ratio (%)



quality as gross impaired ratio improved to 1.07% in FY2020 from 1.31% in FY2019, the lowest since the Bank's establishment. Capitalisation levels stayed strong with Tier 1 and total capital ratios at a healthy 15.4% and 18.0% (industry average: 14.0%; 18.3%). Additionally, the Bank is backed by its existing Basel III-compliant Subordinated Sukuk programme to support its capital position when required; a total of RM250 million has been issued as at end-September 2020.

Taking into consideration the Bank's sturdy capitalisation, which provides a strong loss absorption buffer against an anticipated rise in defaults in the wake of the pandemic, notwithstanding the extension of financial relief to affected customers; RAM Ratings has reaffirmed the Bank's financial institution ratings ("FIRs") at A2 Stable P1, and reaffirmed the A3/Stable rating of the Bank's RM1 billion Subordinated Sukuk Murabahah Programme (2016/2036).

### SHAPING SOCIAL FINANCE

Bank Muamalat continued to support customers during this difficult time by offering financing moratorium as well as various payment assistance programmes.

In March 2020, the Bank provided assistance to individuals and businesses, in particular to Small and Medium Enterprises ("SMEs"), through a blanket six-month moratorium on financing facilities. Following that, an enhanced targeted payment assistance programme was

implemented to further assist both individual and business customers.

Bank Muamalat also achieved a key milestone in its social finance efforts with the establishment of the Jariah Fund on 22 September 2020 in alignment with BNM's Value-Based Intermediation ("VBI") drive. The Jariah Fund is a social welfare crowdfunding platform for charitable projects that aim to generate a sustainable impact on the economic growth of the ummah under the pillars of education, health and economic empowerment. In the first phase, beginning September 2020, Bank Muamalat worked with five (5) non-governmental organisations ("NGOs"), namely Yayasan Sejahtera, Yayasan Ikhlas, Yayasan Muslimin, The National Autism Society of Malaysia ("NASOM") and Malaysian Association for the Blind ("MAB") as charitable partners to monitor the selected campaigns posted on the platform. For its first phase, Bank Muamalat has collected RM40,415 in funds which will be channelled to selected beneficiaries through the selected community-based projects.

In serving the underserved, the Bank continues to provide financing for affordable homes to the lower-to-middle income earners, self-employed individuals and operators of small business entities. Through Smart Mortgage Solution programme, RM257 million was disbursed.

Bank Muamalat has also taken an active role in the industry to help champion the move towards sustainable practices, and was appointed to lead the development



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### SHAPING A DIGITAL FUTURE

Driven by the rapid development of digitisation, it is important for the Bank to leverage on the power of digital technology and incorporate it as part of its business DNA for greater economic efficiency.

During the year, Bank Muamalat collaborated with US-based Shariah compliant digital investment platform, Wahed Inc towards the realisation of Wahed Invest; a platform allowing investors to access Shariah compliant portfolios. The collaboration was a significant step on the Bank's journey

into digitalisation, offering innovative solutions for its customers, especially on robo-advisory.

In July 2020, Bank Muamalat pioneered the Ar-Rahnu online auction - a first for the Ar-Rahnu industry in Malaysia to provide easy access to unredeemed gold items, while at the same time helping reduce the impairment in its Ar-Rahnu portfolio. The Ar-Rahnu online auction is based on open tender system for public bidders. Surplus is returned to the customers if the sale price exceeds the remaining debt.

In October 2020, the Bank introduced the Muamalat Application Platform ("MAP") - a financing application platform that allows customers to apply financing online and track their financial journey anytime and anywhere.

These digital initiatives dynamically advance Bank Muamalat's future-readiness and business sustainability through the medium term.

### SHAPING INTEGRITY, ACCOUNTABILITY AND TRANSPARENCY

The Board of Bank Muamalat continues to uphold strong corporate governance policies and practices to promote corporate integrity, accountability and transparency. Our commitment to good governance is reflected in the diversity of age and experience of our Board members. Four (4) out of our seven (7) board members, including the Chairman, are independent in line with the requirement by Bursa Malaysia's guidelines.

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The Bank introduced the Muamalat Application Platform (“MAP”), a financing application platform that allows customers to apply financing online and track their financial journey anytime and anywhere.

Our efforts are guided by Islamic Financial Services Act 2013, Companies Act 2016 and Policy Document on Shariah Governance, and are directed to ensure effective, inclusive and responsive risk and governance mechanism. On Shariah governance requirements, our Shariah Committee ensures that all banking activities are in line with Shariah principles. Following the issuance of the new Policy Document on Shariah Governance that was effective by 1 April 2020, the Shariah Committee updated our Shariah Governance framework to be in line with the new requirements.

In July 2020, at Board level, we have strengthened our Anti-Bribery and Corruption policy to address corporate liability issues as required by Section 17A of the Malaysian Anti-Corruption Commission Act. Additionally, a “No Gift” Policy has been adopted to avoid conflict of interest.

Last but not least, an Integrity and Governance unit has been established within the Bank as a dedicated function to oversee the Bank’s overall anti-corruption efforts and enhance integrity as well as promote good workplace conduct.

### SHAPING STRONGER SAFEGUARDS

The Board has intensified the assessment and monitoring of risks, including thoroughly reviewing the risk assessment processes and risk appetite considerations in addressing the shifting market and regulatory developments.

In strengthening risk management, an Enterprise Risk Management (“ERM”) Framework was implemented as a more structured approach towards managing risks. It consists of a few framework documents that focus on operational, credit, market, model risk, technology and Shariah risk framework. Given the increased harnessing of technology and digital channels, we also established a Technology Risk Management Framework (“TRMF”), a structured approach of defining, evaluating, managing, monitoring and governing technology related risks in the Bank.

### SHAPING FUTURE-READINESS

The International Monetary Fund (“IMF”) via its April 2021’s World Economic Outlook (“WEO”) Update projected the global economy to grow 6.0% in 2021 and 4.4% in 2022, reflecting the expectations of positive impacts of global COVID-19 vaccination programmes and additional policy support especially in large world economies.

On the domestic front, the Ministry of Finance Malaysia expects domestic economy to rebound between 6.5% and 7.5% in 2021, supported by improvements in overall global growth and international trade, hinging on the back of successful containment of the COVID-19 pandemic as well as sustained recovery in external demand.

The Bank will continue to deliver positive impact to the community, striving to improve client satisfaction and advance as an ethical Islamic bank supported by strong shared values, holistic risk management, and good governance.

Throughout 2021, the Bank will extend assistance to communities affected by the pandemic so that the most vulnerable gets a helping hand. Committed to BNM's VBI agenda, the Bank will continue to grow and develop initiatives that ensure adoption of more relevant practices, offerings and conduct that generate positive and sustainable impact.

Business growth will be accelerated via business transformation in the areas of consumer, commercial and corporate segments by focusing on better rated customers closely guided by the Bank's risk appetite statement ("RAS") and reassessed list of preferred and non-preferred sectors.

## ACKNOWLEDGEMENTS & APPRECIATION

During the year, we welcome En. Johari Abdul Muid, who was appointed as an Independent, Non-Executive Director on 10 November 2020.

On behalf of the Board, I commend the Bank's management team and employees for their commitment and dedication throughout the challenging year. Our gratitude also goes to our shareholders, customers, business partners and bankers, as well as organisations with whom we collaborate with. And for their decisive stance in leading the nation through the pandemic, we would like to record our appreciation to the government and all frontliners.

Though industry growth experienced a slowdown in 2020, we emerged from the challenging year with new strengths and the long-term vision for Bank Muamalat still intact. The coming year will be equally challenging as the emergence of new strains continue to give rise to uncertainties. Therefore, it is critical that we apply the insights and collective knowledge gained during this past year in order for us to make a sustained recovery. However, the Board remains optimistic on our prospects moving forward supported by the Bank's sustainable financial and business expansion strategies.

Thank you.

**DATUK SERI TAJUDDIN ATAN**  
Chairman