

PRESIDENT & CHIEF EXECUTIVE OFFICER'S STATEMENT

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

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

السَّلَامُ عَلَيْكُمْ وَرَحْمَةُ اللَّهِ وَبَرَكَاتُهُ

PEACE BE UPON YOU AND MERCY OF ALLAH AND HIS BLESSINGS

Dear valued stakeholders,

Riding on the nation's recovering economic trends, and coupled with our continuous effort in delivering the best values for our shareholders, the Bank has continued its upward trajectory and achieved a record profit before tax and zakat in FY2022. The Bank's reputation as an industry player and service provider was strengthened through a series of continual improvements and innovations. One of the major achievements was the launch of EasiGold, the first Shariah-compliant digital mobile-based gold investment platform aimed to diversify our portfolio of financial solutions while keeping up with the trend of digitalization. To further cater to the needs of our customers, we also launched our credit cards, namely Bank Muamalat Visa Platinum-i and Bank Muamalat Visa Infinite-i. In addition, we also launched the iFAST Barakah ESG Focus Portfolio, which has garnered a total sale of RM8.4 million for the year. iFAST Barakah is a Shariah portfolio of investments managed by licensed professional portfolio managers and has an exposure of not less than 40% in Shariah-compliant environmental, social, and governance ("ESG") funds.

In recognition of our continuous efforts in delivering values, the Bank was awarded the prestigious BrandLaureate Best Brands Awards 2021-2022 for the Most Valuable Brand in Banking and Finance. Following this, we also attained the Top 3 among the financial institutions nationwide in a Special Award for Promoting the Housing Credit Guarantee Scheme 2020-2021 by Syarikat Jaminan Kredit Perumahan ("SJKP") Berhad. Furthermore, we were awarded the ASNB Starz Awards 2022 and ASNB Sales Triumph 2021 as appreciation for the Bank's contribution in growing the unit trust industry.



10.9%
RETURN ON
EQUITY (ROE)



1.04%
RETURN ON
ASSET (ROA)



KHAIRUL KAMARUDIN
President & Chief Executive Officer

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DELIVERING VALUE TO OUR STAKEHOLDERS

Aligned with our mission to deliver the best value, we strive to continually grow and adapt to the needs of our stakeholders, including our customers, employees, regulators, and the community.

Aiming to cater to all Customer segments, various initiatives have been put in place throughout the year catalyzed by the need for increased convenience during the COVID-19 pandemic, the Bank responded by introducing more online services and digital-based platforms to cater to the shifting customer preferences toward mobile accessibility. To boost customer experience, we consistently sought improvement in our digital platform, and this has gathered very encouraging responses from our customers. Continuous enhancement of our retail Internet banking saw a 22.4% increase in subscribers. Our mobile subscribers have also increased by 27.7% compared to FY2021. In addition, the Muamalat Application Platform, which was introduced in October 2020 to allow customers to apply for financing and track their financial journey online, received an overwhelming 14,857 applications in FY2022, amounting to a total transaction value of RM1.4 billion compared to RM1.3 billion in FY2021. We also upgraded the feature of DuitNow request for retail Internet banking and mobile apps, enabling payees to send digital payment requests to collect funds from payers.

For our Employees, the Bank launched a new Human Capital Strategic Plan, which emphasizes driving performance through integrated performance management and rewards; attracting, developing, and retaining the best talents; and establishing a human resource operating model that transforms human resource management to become more structured. To support this, the Bank has invested in the enhancement of the human capital management system, which is a user-friendly, integrated platform that enables employees to access their learning management system, training progression, and various other functions remotely via the Internet and mobile devices. In addition, the Bank has continuously invested in talent management and leadership development via succession planning and training programs for the upskilling and reskilling of employees. The launch of the Muamalat Professional Banker Program is one of the initiatives of the Bank to provide a structured path for Branch Managers and Assistant Branch Managers to attain certification and career development.



Continuous enhancement of our retail Internet banking saw a 22.4% increase in subscribers



As a responsible financial institution, we work conscientiously to ensure ongoing compliance with requirements set by Regulators. In order to work toward effective compliance delivery, risk management, and governance, the Bank continuously reviews and improves our compliance and risk management practices, including monitoring tools, systems, and processes. Additionally, as part of our commitment to Bank Negara Malaysia's value-based intermediation principles, sustainability elements have been integrated into the Bank's credit scorecard and business strategy. At the same time, ESG considerations have also been integrated into our financing evaluation processes through ESG assessment, delivering on our commitment to the Climate Change and Principle-based Taxonomy as underlined by BNM.

Giving back to the Community is our core value as an Islamic financial institution. Through collaboration with State Islamic Religious Councils, Wakaf Muamalat collected more than RM33.0 million in 2022, of which RM18.8 million was disbursed to fund a variety of waqf projects for healthcare, education, and investment. Under the iTEKAD program, the Bank disbursed RM6.5 million and extended financial support to a total of 771 entrepreneurs. Divided into two models which are the iTEKAD Mawaddah and iTEKAD Mahabbah, the program aims to aid the asnaf and B40 microentrepreneurs who were affected by the pandemic in continuing their businesses. In a strategic partnership with the Pahang State Government, the Bank launched i-PUSH under iTEKAD Mahabbah to uplift 751 microentrepreneurs of which the program offered profit-free financing and a one-year moratorium. While under the iTEKAD Mawaddah program, the Bank provided a total of RM149,709 of working capital and RM126,680 in training fees. Additionally, in response to the plight of flood victims, the Bank also formed a flood relief mission consisting of its staff, delivering donations of cooking gas cylinders to over 300 affected families in Pahang. In further efforts to empower the poor in the country, approximately RM200,000 has been channeled to programs under the Society Well-being initiative, aiming to provide educational aids and skills training to beneficiaries under e-Kasih households, as well as offer job matching opportunities with corporate and NGOs through public and private collaboration.

At Bank Muamalat, we are committed to making banking services more accessible and inclusive. In order to widen our reachability, the Bank launched the outreach initiative of Bank Bergerak. This initiative aims to "bring the bank to the rural communities" by meeting residents in Kedah at designated locations and days to provide basic banking services. Our Bank Bergerak services offered comprise account opening, Ar-Rahnu financing, fund transfers, financing payments, and cash deposits and withdrawals. At the same time, e-Duit Desa was launched in collaboration with Bank Negara Malaysia to raise public awareness and promote the use of e-banking and cashless services, such as payments via DuitNow QR or MyDebit cards, among rural communities.



ANALYSIS OF FINANCIAL PERFORMANCE

The Bank achieved a record profit before tax and zakat of RM306.7 million, representing a 19.5% growth compared to RM256.6 million in the previous year. The higher profitability was mainly due to an increase in total gross financing assets and improved asset quality, resulting in a 19.4% increase in distributable income. In turn, our return on equity improved from 9.5% in FY2021 to 10.9%, while the return on assets improved from 0.96% in FY2021 to 1.04%. In tandem with the Bank's business growth, our total overheads and expenditures have also increased by 12.8% to RM452.8 million, which also translated to a higher cost-to-income ratio of 52.5% as compared to 51.6% in FY2021.

The Bank's total assets expanded by 14.4% year-on-year to RM31.5 billion. The growth in assets was primarily contributed by a 16.2% year-on-year increase in total financing to customers from RM20.8 billion in FY2021 to RM24.2 billion in FY2022, coupled with an increase in financial securities by 4.0% from RM5.3 billion in FY2021 to RM5.5 billion in FY2022. Our gross impaired financing (GIF) ratio remained stable with a marginal increase of 0.02% to 0.85% in FY2022 [FY2021: 0.83%], indicating that our quality of assets remained solid.



The RM3.4 billion expansion in gross financing was mainly attributed to retail financing, largely fuelled by the household sector which grew from RM14.0 billion to RM17.1 billion, a 22.1% year-on-year growth. The household sector remained the leading contributor in gross financing, accounting for 70.3% of the total financing by the Bank, with the rest being business-based financing. Expansion in our household sector was mainly driven by growth in financing for residential property and personal financing.

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Despite various challenges such as stiff competition and a rapidly changing industry landscape, we made significant strides in strengthening our financial performance and providing exceptional services to our customers.



Meanwhile, total deposits in the Bank increased by 13.9% year-on-year, translating into an approximate RM3.2 billion growth in FY2022; this growth was mainly contributed by the increase in the current account and short-term deposits. Low-cost deposits in current accounts and savings accounts (“CASA”) grew 9.9% year-on-year and made up 34.0% of total deposits, translating into an RM804 million growth.

On capital position, the Bank’s Common Equity Tier-1 Ratio and Total Capital Ratio remained strong at 12.6% and 17.6%, respectively, well above regulatory requirements.

OVERCOMING THE YEAR'S CHALLENGES

Despite various challenges such as stiff competition and a rapidly changing industry landscape, we made significant strides in strengthening our financial performance and providing exceptional services to our customers.

To navigate the tight profit margin brought by the low-interest/profit rate environment, the Bank focused on the growth of low-cost deposits, such as CASA and short-term deposits. Additionally, to ensure that our portfolio remains robust, we also directed toward government and Bank Negara Malaysia-guaranteed funds and programs.

To stay relevant in today’s fast-paced market, the Bank has enhanced customer experience by embracing digitalization. By automating processes and streamlining workflows, we strive to optimize efficiency by achieving straight-through processing.

The digitization of branch documentation, which has enabled paperless account opening through our digital platform, also received encouraging feedback from our customers.

With the growing threat of financial crimes, especially with the expansion of the digital landscape, we have made significant investments in upgrading our IT infrastructure to strengthen our cybersecurity by elevating our Risk Management in Technology compliance. We are also committed to reaching an ideal maturity level in our cyber resilience through robust data privacy and cyber security practices.

In the face of vast changes in the financial landscape, we have also been increasing our commitment to addressing ESG agendas. As such, we have put emphasis on processes to enhance the risk appetite statement on climate-related risk, perform gap analysis with the policy document to identify gaps, and develop an implementation plan with targets and milestones to address the gaps. Committed to our sustainability plan for combating climate change, the Bank will continue to promote the transition to a low-carbon economy and embed environmental considerations into its business strategies.

TRANSFORMING INTO A HIGH-PERFORMING ORGANIZATION WITH RISE26+

The global business environment has been undergoing rapid changes, and the prolonged impact of the pandemic has further intensified the need for us to stay competitive and relevant. To adapt to the vastly dynamic environment, the Bank stays abreast by introducing a new 5-Year Strategic Business Plan dubbed RISE26+.

Founded on the grounds of RISE24, the development of RISE26+ has taken into account factors such as the latest government policies and BNM requirements on digitalization and sustainability; market intelligence on competitor analysis; burgeoning business opportunities from market development and identified gaps of concerns and risks; and the Bank's existing performance, offerings, and capacity for further expansion. RISE26+ will serve as our blueprint for 2022 to 2026, and 2022 was the first year the business plan has been implemented.

In pursuing our vision to become the preferred Islamic financial provider, RISE26+ outlines five Aspirations to guide the Bank's direction in upcoming years. Through the plan, the Bank commits to delivering Sustainable Shareholders' Returns, directed by a clear set of targets and goals in the next five years, which includes return on equity. The Bank also aims to become the Islamic Bank for All by increasing efforts in diversifying the customer base through new market growth, penetrating niche segments, and widening geographical reach. In addition, the Bank works toward Next-Generation and Agile Banking by accelerating digitalization across all businesses and operations while increasing revenue on digital channels.

As employees are fundamental to our ambition of transforming into a High-Performing Organization, we promote workforce empowerment by adopting a culture that values agility and flexibility, and by equipping our employees with digital skills. As the Bank aspires to further Promote Value-Based Intermediation and Sustainability, we place greater emphasis on efforts of institutionalizing and contributing to social finance and community empowerment.



RM31.5bil

(FY2021: RM27.6 bil)

TOTAL ASSETS



17.6%

(FY2021: 17.4%)

TOTAL CAPITAL RATIO



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To leverage RISE26+ for achieving the Bank's long-term goal, a clear target under each Aspiration is determined to ensure a more structured approach toward becoming a high-performing organization. In support of the five Aspirations, eight Strategic Thrusts are constructed to lead the structural frameworks, decision-making, and day-to-day operations of the organization, namely Accelerate Business Growth, Enable Islamic Banking for All, Drive Sustainability, Customer Centricity, Innovation, Operational Efficiency, Strengthening our Foundation, and High-Performing Organization.

Accelerating business growth is one of our key priorities in RISE26+. The Bank aims to build new revenue streams and further grow existing ones through an expansion in its retail and business banking. In catering to the needs of the targeted demographical profiles, the Bank continues to diversify its portfolio of financial solutions in business-based banking and penetrate untapped segments through a product bundling strategy. At the same time, low-cost fund deposits in the form of CASA remain important to our growth as we increase deposits by optimizing the cost of funds.

In line with our aspiration to enable Islamic banking for all, the Bank works toward providing financial solutions for all, especially within retail, commercial, and small and medium-sized enterprise banking products and services to widen our customer base.

Further, the Bank continues to drive sustainability by providing financial solutions to the unserved and underserved market through the iTEKAD Mawaddah program.

At the Bank, we believe delighting our customers is at the core of our success. By adopting a customer-centric approach, we strive to elevate our customers' experience by leveraging technology and digitalization through our Muamalat Application Platform (MAP), Online Deposits Account application, and EasiGold platform. In addition, to build trust within society, the Bank has expanded its sales management team and financing program units to develop strong relationship management activities.

To enhance customer experience with our products and services, the Bank also aims to improve operational efficiency by leveraging technology. As such, we have invested in upgrading our IT infrastructure to meet our growth ambitions and adopted the market's latest best practices. Enhancement of the Bank's customer touchpoints and streamlining processes through digitalization, simplified and centralized documentation, and process automation will not only boost productivity and customer satisfaction by reducing turnaround time and human errors but also manage our costs in line with growth in the long run. As part of our operational efficiency effort, the Bank also aims to prioritize cost management exercises by optimizing resource allocation and streamlining operational processes, as well as regularly reviewing and refining cost management strategies.

In today's fast-changing business environment, driving innovation is an essential part of transforming our Bank into a high-performing organization. To encourage innovation, the Bank has continually explored developing technological advances, such as the introduction of Machine Learning to provide effective solutions to combat fraud and improve customer experience to meet Bank Negara Malaysia's regulatory requirements. Besides, the development of the electronic Know Your Customer solution for account opening and financing applications has allowed the Bank to expand its online reach and capabilities. In addition, we have enhanced our data analytics by strengthening the foundation of our data platform and improving data quality. The Bank continues to play its role in creating a digital economy through strategic collaborations.

As we expand our business and grow our reach, the Bank remains diligent in strengthening our foundation as a financial institution. To ensure the enforcement of regulatory requirements and manage legal and reputational risks, effective compliance and robust risk management practices are put in place to identify, assess, and manage risks. The efforts we have taken to streamline and enhance our risk management policies and



RM24.2bil

(FY2021: RM20.8bil)

GROSS FINANCING



With RISE26+ guiding our journey onward, we remain committed to achieving sustainable growth while delivering the best value to all stakeholders.



procedures include establishing strategic risk management, embedding enterprise risk management processes in the relevant framework, and realigning our risk appetite statement and financing strategies. Besides, strengthening cybersecurity is also part of this thrust, where the Bank will continue to conduct regular cybersecurity assessments and put in place an effective incident response plan to detect, contain, and recover from cyber incidents.

As the Bank sails forward with the aspirations of RISE26+, it is essential that we align the overall workforce strategy with the culture of a high-performing organization. In this cultural transformation, the Bank strives to create a workforce culture that values agility and flexibility, cultivating a mindset among its employees that is open to change, experimentation, and continuous improvement through embracing change and taking calculated risks. In addition, six success beliefs, which are delighting the customers, building trust, driving innovation, moving fast with the trend, owning responsibilities, and working as one team, are embedded into the culture to reflect and remind us of the aspirations and values that drive our work.

To support this cultural transformation, the newly implemented Human Capital Strategic Plan prepares a framework that aims to drive employee performance while managing talents in a more structured manner. Under the plan, workforce optimization is performed as we focus on reassigning manpower to revenue-generating functions. The Bank also consistently empowers its employees through ample training and support, equipping them with the current knowledge and skills needed to make swift and on-point decisions. Furthermore, the Bank continuously invests in talent development by retaining high-performing employees through integrated performance management and robust rewards mechanism of monetary and non-monetary incentives, as well as in talent attraction by establishing a strong employer value proposition. In such an age where collaboration is often the key to success, cross-functional teams are becoming an integral part of our culture, aligning with our aspiration of transforming into a high-performing organization.

CLOSING REMARKS

Despite the slower economic growth and anticipated challenging business environment for the coming year, I am optimistic and confident that our consistent efforts in building future-ready capabilities will have prepared the organization well to adapt and evolve to the vastly changing financial landscape.

Throughout this period, we have made significant strides in enhancing our technology capabilities, expanding our product offerings, and strengthening our risk management framework. These efforts have enabled us to serve our customers better and establish our position as an important player in the industry.

Moving forward, we will continue to engage with our customers to provide financial solutions for all as we move steadfastly toward transforming into a high-performing organization. With RISE26+ guiding our journey onward, we remain committed to achieving sustainable growth while delivering the best value to all stakeholders.

I would like to acknowledge the Chairman and the Board for their effective stewardship and guidance, the government and regulators for providing us with clear directions and support, and the management team and employees for their dedication and hard work.

Lastly, may Bank Muamalat continue to achieve new heights in its pursuit of becoming the preferred Islamic financial provider for all.

Thank you.

Khairul Kamarudin
President & Chief Executive Officer