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BHB has led the way in demonstrating how an Islamic financial institution can play a successful role in a modern economy. Today, we have grown from strength to strength, serving millions of customers across the nation while being at the forefront of contributing to the growth of Malaysia's leading position as a vibrant International Islamic Financial Centre.

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CHAIRMAN'S REFLECTIONS



GROUP PBZT

RM **1.1** BILLION

GROUP PBZT CAGR

5.6 %

TOTAL ASSET SIZE

RM **85.9** BILLION**+11.2** %

*In the name of Allah,
The Most Gracious, The Most Merciful*

السَّلَامُ عَلَيْكُمْ وَرَحْمَةُ اللَّهِ وَبَرَكَاتُهُ

and Salam Sejahtera

Dear Valued Shareholders,

As we are going through difficult times such as the current global pandemic, it is quite comforting to read Allah's promise in the Qur'an: **Indeed, with difficulty, there is ease. (Al-Inshirah 5-6)**. Through the many unprecedented challenges of the year, the nation has cemented its commitment to Malaysia's **Shared Prosperity Vision 2030** ("SPV2030") to enable more effective and meaningful economic participation by all segments of societies. The host of newly launched programmes and policies as part of Budget 2021 have made the way forward clearer than ever. The pandemic has also catalysed our progress into Industry Revolution 4.0, as digitalisation and automation were rapidly harnessed and unleashed within Malaysia's banking and financial services industry.

So amidst a game-changing year of corporate transition, these windows of opportunities continue to drive the Group's pursuit of sustainable growth via financial inclusivity, societal responsibility, environmental focus and community development.

TAN SRI HAJI AMBRIN BUANG

CHAIRMAN

CHAIRMAN'S REFLECTIONS

STEADFAST VALUE DELIVERY THROUGH THE PANDEMIC

Since the onset of the pandemic crisis, our subsidiaries aligned their measures according to BNM's guidelines, which emphasise protecting consumers' financial viability, sustaining real economy, focusing on affordable investing, and supporting **frontline workers** and **underprivileged communities**.

Bank Islam has continuously been purposeful in empowering the communities by providing initiatives such as the automatic deferment plan for repayment, **SME Special Relief Facility ("SSRF")** to help alleviate the short-term cash flow predicament faced by SMEs. The Bank also introduced **ITEKAD microfinancing programme** to support the B40-owned microenterprises affected by the pandemic. **GO by Bank Islam mobile app** was launched to serve customers better. In paving the way to preserve and create wealth, **the world's first Shariah Sustainability Robo-Intelligence Investing app** called "**BEST Invest**" was launched by the Bank's subsidiary BIMB Investment Management Berhad.

Takaful Malaysia's **Click for Cover app** for online takaful application and services has been instrumental for increasing sales of its products at less cost. It has directly led to a 2% increase in PAZT for FY2020, even as revenue decreased. Takaful Malaysia then stepped up its product offerings to cater to emerging needs. **Takaful myClick MozzCare** was introduced to provide affordable online coverage against Dengue, Zika and COVID-19. Fortifying protection for SMEs, the **Takaful mySME** plan was designed to provide SME clients with the option to choose the protection they need by creating a customised and holistic package that best suits their business needs. **Takaful myWealth Plus** was also introduced as a high protection takaful plan with guaranteed cash payment.

The Group has also contributed generously to **COVID-19 prevention measures** during the year in addition to on-going **corporate social responsibility initiatives**. A series of webinars were held, together with participation in roadshows to promote financial wellbeing and **career fairs** to provide job opportunities.



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In safeguarding the health and safety of our employees and customers, all subsidiaries within the Group have established robust protocols and awareness management, implemented flexible work arrangements, quarantine measures, regular sanitisation works and enforced new norms for employees, customers and other visitors.

Moving forward, the Group remains resilient and will stay the strategic course of recalibrating key tactics and initiatives by adopting **Value-Based Intermediation ("VBI")** in its business model, acknowledging that this is now a new norm.

COMMENDABLE FINANCIAL PERFORMANCE

For the year in review, the financial industry as a whole was impacted by lower net financing income arising from multiple downward revisions of the Overnight Policy Rate ("OPR"), the recognition of modification loss due to industry-wide moratorium exercise and pre-emptive impairment provision in consideration of the challenging economic environment. Against this backdrop, the Group achieved commendable Profit Before Zakat and Tax ("PBZT") of **RM1.1 billion**. The five-year PBZT Compound Annual Growth Rate ("CAGR") remained robust at 5.6%.

Resiliently responding to the year's challenges, our subsidiaries leveraged strong fundamentals to chart significant achievements. The **Bank Islam Group's ("Bank Islam" or "the Bank")** assets portfolio quality remained strong, recording a lower gross impaired financing ratio than the banking system, at 0.67%. Net financing remained robust at 10.5% year-on-year ("Y-o-Y") growth, and the Total Capital Ratio was a strong 19.8%. Riding on these results, Bank Islam had been reaffirmed as AA3/Stable/P1 by RAM Ratings in 2020.

Syarikat Takaful Malaysia Keluarga Berhad ("Takaful Malaysia") sustained its market-leading position in the Family Takaful business with a 23% market share. It maintained the second largest market share in the General Takaful business, recording a 2% increase in PBZT of RM426.8 million and a 14% increase in total assets to RM11.8 billion during the year under review.

BIMB Securities Sdn. Bhd. ("BIMB Securities") grew its Retail Dealing income in 2020 with an increase of 264% in Gross Brokerage (including Remisiers) as compared to 2019. The Company also continued to improve its income generation from the Non-Dealing activities, in line with the target to increase the fee-based income, with a 26% increase in the year under review. However, Institutional Dealing business remained to be uncertain with Institutional investors in the likes of Government-Linked Investment Companies ("GLIC")s and Government-Linked Companies ("GLC")s shifting their portfolios into the Global equities and fixed income that resulted in a 27% decline in brokerage revenue in 2020. The Company recorded a smaller Loss Before Zakat and Tax ("LBZT") of RM2.36 million as compared to the LBZT of RM3.94 million recorded in 2019.

Both Bank Islam and Takaful Malaysia continued to be recognised with industry awards and recognitions that reflect the maturity they have attained in their respective businesses. These are clear indications that they are capable and ready to forge their paths of strength and progress as independent entities.

More details on the financial performance of Bank Islam, Takaful Malaysia and BIMB Securities are noted in the Management Discussion and Analysis section from page 81 to 88.

CONTINUED DIVIDENDS FOR OUR SHAREHOLDERS

With BHB's healthy after-tax Return on Equity ("ROE") at 12.8%, earnings per share were solid at **40.21 sen** though lower when compared to FY2019's 44.75 sen. Net asset per share improved to **RM3.63** at the end of 2020 compared with RM3.34 in 2019.

We continue to uphold a dividend pay-out policy of at least 50% of net profit attributable to its ordinary shareholders. Whilst the Board believes in rewarding the Company's shareholders with a steady return on their investment, the Board is also mindful of retaining adequate reserves for the Company's future growth.

On 30 November 2020, the Board declared an interim dividend of RM225.9 million or 12.60 sen per ordinary share in BHB for 2020, of which approximately 9% or RM 20.4 million was distributed as cash dividend. The remaining 91% amounting to RM205.5 million was reinvested to subscribe for 60,986,700 new ordinary shares at RM3.37 each via the Dividend Reinvestment Plan.



BANK ISLAM

[198301002944 (98127-X)]

PBZT

RM728.2 MILLION

NET FINANCING

↑ 10.5%



takafulmalaysia

[198401019089 (131646-K)]

PBZT

RM426.8 MILLION

↑ 2%



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BIMB SECURITIES SDN BHD

[199401004484 (290163-X)]

GROSS BROKERAGE (RETAIL)

↑ 264%

CHAIRMAN'S REFLECTIONS



On 10 December 2020, BHB obtained approval from the Minister of Finance and Bank Negara Malaysia for its proposed internal reorganisation and distribution and capital repayment, paving the way for transferring its listing status to Bank Islam Malaysia Berhad.



A LEGACY OF TRUST AND GOOD GOVERNANCE

Islamic finance has grown in leaps and bounds for the past five to six decades. In the product development space, industry practitioners have worked closely with Shariah scholars to devise workable and innovative solutions that meet commercial demands and Shariah compliance requirements. As the market grows, the number of players has expanded, and product knowledge and development have become more extensive and diversified.

BHB's expansion across the industry as a pioneering force has branded and positioned us as the only full-fledged financial house in Malaysia servicing the population nationwide without preference for any race, status and religion. This openness has made BHB market-friendly to all Malaysians, not only for Muslims; and is the defining legacy of the Group.

To date, BHB has been able to sustain a very creditable performance thanks to the Board of Directors' exemplary leadership and the dedication and commitment of the management team and staff of BHB and its subsidiary companies. Over the years, we have strengthened our corporate governance in line with our shareholders and the authorities' aspirations. The various awards obtained internationally and domestically are a good testament to our efforts.

A NEW DAWN EMERGES

On 10 December 2020, BHB obtained approval from the Minister of Finance and Bank Negara Malaysia for its proposed internal reorganisation and distribution and capital repayment, paving the way for transferring its listing status to Bank Islam Malaysia Berhad.

The proposed placement entails issuing new ordinary shares in BHB to raise gross proceeds of up to RM800.0 million. With internal cash, the proceeds will redeem the outstanding BHB Sukuk held by Lembaga Tabung Haji ("LTH") entirely. Our Board of Directors has resolved to fix the price taking into consideration the availability of internal cash reserves of the Group to settle the Warrants Consideration. The warrants consideration has been set based on the current market price; the 5-day Volume Weighted Average Price ("VWAP") up to and including 25 February 2021. A fully virtual Extraordinary General Meeting ("EGM") and Court Convened Meeting ("CCM") was held on 31 March 2021 during which our shareholders and warrant holders have approved and fully supported the proposed restructuring of BHB Group of Companies and for the transfer of listing status to proceed.

Once the listing transfer is completed, the Bank will emerge as the only full-fledged Islamic financial institution listed in Malaysia and enhance its corporate stature. The listing will allow Bank Islam



to better position itself in the Islamic finance and Islamic capital market and capitalise on both markets' growth in our efforts to expand our customer base. With this newly emerged Bank Islam "group", we can look forward to enhancing group value proposition plans.

In the next two years, I envisage the Bank **fortifying resilience** in sustaining **post-recovery growth**. The immediate action is to **absorb losses while building reserves**. It should continue to observe **strict cost containment discipline** and prioritisation in both **operational and capital expenditure**. The Bank will look into **expanding alternative revenue stream capabilities** through fee-based income by strengthening its local market position and building a winning operating model premised on our **retail-driven portfolio**, through wealth creating solutions.

Through the adoption of VBI into its business model, the Bank aims to propel the real economy through **eco-system play for enterprises**. **Nurturing the Halal sector** is another key agenda of the Bank, especially in supporting programmes that lead to halal job creation. Tapping on the supply-chain eco-system, the Bank looks forward to further **capability enhancements** for **GO Mobile app**, enabling connectivity with **GO Biz** and **BEST Invest apps**. By persevering **digitalisation**, the Bank hopes to catalyse entrance into new markets and **penetrate new segments** via new technology and business models premised on digital bank proposition.

A strong Social Finance initiative is part of the Bank's 2021 Strategic Goals, and on this front, the Bank strives to facilitate effective wealth circulation. Islamic financial instruments could support Malaysia's growth towards a high-income country. Through its social finance arm, Sadaqa House, the Bank hopes to uplift social finance nurturing by growing subscriptions of **ITEKAD**, **BangKIT Microfinance** and other innovative sadaqah, waqf and zakat solutions to generate a more significant impact on the unbankable target group.



Islamic banking also has great potential to utilise Islamic social, financial instruments such as zakat, waqf and sadaqah. These instruments should not be limited to providing basic needs and livelihoods of the needy or for religious purposes such as the construction of mosques and madrasahs only. It can be expanded to help the underprivileged and the community severely affected by the uncertain economic situation, to enable them to be independent and sustainable in the long run.

For financial institutions to ensure sustainable growth, they must evolve service excellence, harness digitalisation, adhere to disciplined financial management, and engage in performance-based criteria. These are the fundamental yardsticks. In today's world, this means harnessing digital technologies and creating a unique distinct customer experience that builds loyalty. The Group will be focusing and spending more on its digitalisation strategy to provide better and faster services to be on par with our competitors.

Governance, assessed through regulations, corporate governance, and Shariah governance, also provides an important indicator of the health of the Islamic finance industry's infrastructure. I fully expect good corporate governance practised with appropriate controls to maintain consumer and investor confidence in the industry to derive their reorganisation's intended benefits.

Profits should be balanced with social responsibility – this should be the hallmark of any Islamic financial institution. Given our DNA, the focus should also be on ensuring service deliverables to our stakeholders and helping them back on their feet through sustainable measures. Our commitment to living up to VBI priorities will see the Bank emphasising helping out customers and business partners to withstand the economic impact. We will continue to stand by the communities in the face of socio-economic challenges and deliver sustainable values to its stakeholders that ensure the preservation of societal wellbeing, health, and wealth.

CHAIRMAN'S REFLECTIONS

THE FUTURE OPERATING ENVIRONMENT

Generally speaking, the 2021 GDP is expected to be better than last year. The government is currently sticking to their 2021 GDP forecast of 6% to 7.5%. However, things are still fluid now.

From a global overview, the external sector has been quite rosy recently. The US government, for one, is likely to keep pump-priming the economy with the US Congress is set to approve the fiscal packages totalling USD1.9 trillion by the end of February. The commodities market also looks promising, with Brent Crude hovering more than USD60 per barrel presently and the Crude Palm Oil ("CPO") spot prices lingering at RM3,850 per metric tonne. Given that commodities-related export accounted for 20% of Malaysia's total exports in 2020, rising commodity prices, namely Brent Crude and CPO, would be good for government coffers and the general economy.

The number of new COVID-19 cases is currently elevated, although there seems to be an improvement. The smooth rollout of the nation's vaccination programme holds the key to a sustainable reopening of the economy

Given the challenging environment, financial institutions will endeavour to sustain return on equity ("ROE"). It is forecasted that apart from capital management activities, banks will buckle down on organic growth and build resilience in their business operations by improving fee income, boosting productivity and efficiency, and strengthening asset quality. I expect Islamic banking to continue playing a significant role in the local economy. Malaysia remains a centre of excellence for the global Islamic banking industry and continues to be developed as a global hub. The strong foundation and regulatory infrastructure that have been instituted and strengthened over the years, as per the Financial Sector Blueprint 2011-2020, ensures the industry's resilient growth and development

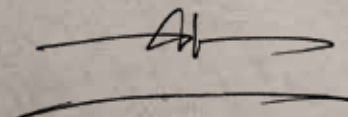
Within these uncertain conditions, Islamic banking provides greater confidence over conventional banking. They are perceived as bound to a higher moral standard, with earnings derived from tangible assets such as real estate and equity. Therefore, the contribution of Islamic financing to Malaysian banking system financing is likely to sustain, supported by the regulatory backdrop that provides a level playing field and banks that continue to promote Islamic products.

APPRECIATION & ACKNOWLEDGEMENTS

As I pen these final words of appreciation in the 2020 Integrated Annual Report, I take pride in having brought BHB to this momentous point. For the last three years (2018 to 2020), the Group's before-tax profits have exceeded RM1 billion despite tight regulatory conditions and the COVID-19 pandemic. It is a major milestone for an Islamic institution.

Before signing off on this final report, the Board and I would like to express our appreciation to the Malaysian government and regulatory authorities, particularly BNM and the Securities Commission. They continue to build on the sound infrastructure and frameworks for Islamic finance. I would also like to thank my colleagues on the Board for their outstanding service during the year and seeing through this transition of listing status. I am grateful to be allowed to serve alongside them and the value they have brought to the Board and the BHB Group.

Lastly, let me express my heartfelt gratitude to the Shariah Supervisory Council, the Management team and all employees for their unparalleled commitment and excellent performance, particularly in this period of change. Today, we are where we are because of their sense of responsibility, dedication and pride in what they do. There is no doubt in my mind that moving forward, our businesses will be in a better position for future, long-term growth.



TAN SRI HAJI AMBRIN BUANG
Chairman



The biggest legacy of BHB has been its ability to create TRUST to customers and vice versa. This symbiotic relationship is the biggest asset of the Group. As we progress further we need to uphold this trust given to us by our stakeholders and continue to escalate good corporate governance, integrity and transparency.

TAN SRI DR. ISMAIL HJ. BAKAR
Chairman, BANK ISLAM

**THE CHAIRMEN OF BHB GROUP
SHARE THEIR THOUGHTS ON
THE GROUP'S LEGACY.**

BHB has evolved a well-known branding, being the only full-fledged financial house in Malaysia servicing the population nation-wide without preference for any race, status and religion. This openness has made BHB market friendly to all Malaysians, not only for Muslims.

ZAHARI @ MOHD ZIN IDRIS
Chairman, BIMB SECURITIES

BHB's ability to lead, shape, and revolutionise the financial landscape in Malaysia, in line with the Government's aspirations, has successfully contributed to our nation's repute as a vibrant International Islamic Financial Centre. Where we are now would not have been possible if we were not part of the BHB Group. The Group's cooperation, synergy, shared values and experiences of transformation and innovation has shaped our DNA as a leading Islamic financial institution.

DATO' MOHAMMED HAJI CHE HUSSEIN
Chairman, TAKAFUL MALAYSIA