

# MANAGEMENT DISCUSSION & ANALYSIS

## MARKET REVIEW

FROM STRENGTH TO STRENGTH

**The year 2020 has been termed 'the year like no other' since the last world war. The financial sector operated under an unprecedented backdrop that required liquidity buffers, alignment to government policies and responsiveness in providing economic support for Malaysians. Despite the challenging environment, BIMB Holdings Berhad ("BHB" or "the Group") delivered a commendable performance buoyed by strong growth from the Takaful sector.**

### A Year of Global Recession

The COVID-19 pandemic continued to spread through the year 2020 creating uncertainties and prolonged economic disruptions due to the need for lockdowns to contain the virus spread. During the great lockdown in April 2020, the global economy plunged to unexpected depths for the first half of the year and its long ascent back to pre-pandemic levels of activity remains prone to setbacks.

According to IMF's most recent World Economic Outlook report in January 2021, global gross domestic product ("GDP") is projected at -3.5% in 2020 (2019: 2.8%)<sup>1</sup>. The negative growth is due to unfavourable performance in both the advanced economies and the emerging market and developing economies ("EMDEs"), mainly due to the adverse impact of the COVID-19 pandemic as well as geopolitical tensions caused by trade war, Brexit uncertainties, and rising unemployment.

Global growth is projected at 5.5% in anticipation of the vaccine roll-out by the first half of 2021. This is key in restoring trade as well as consumer and investor confidence. Global trade is projected to turn around by 8.3% in 2021 as economic activities are most likely to gain momentum through the year should the vaccine roll-out implementation meet expectations. However, this is tempered by mindfulness of downside risks with the on-going uncertainties surrounding the pandemic globally and domestically.

### Malaysia's Biggest GDP Contraction since 1998

Malaysia's economy experienced its worst recession since 1998 with GDP plunging by 5.6%<sup>2</sup> for the full year due to repeated waves of COVID-19 infections that hit the nation. This is the biggest contraction since the 1998 Asian Financial Crisis.

The economy was almost entirely shut down between March and June 2020 - causing GDP to contract by 17.1% in the second quarter. This was followed by a short period of recovery before a resurgence in infections between October and December last year, when much of the country came under renewed restrictions, including travel curbs, as the government scrambled to deal with a third wave of COVID-19 infections. The one-month re-opening of the economy at the end of the year caused another surge in cases, leading to a partial lockdown being instituted in mid-January 2021 that was prolonged into March. Since then, Malaysia has also been under a seven-month state of emergency to deal with the pandemic.

The unemployment rate stood at 4.8% at the end of 2020 after surpassing 5% in the middle of the year, the highest rate in three decades. To cushion the effect on the lower income groups and the industries most exposed to the sudden drop in GDP growth, in 2020 the government launched economic stimulus packages worth roughly RM305 billion. The assistance are in the form of cash transfers, wage subsidies, deferment in financing repayments, targeted EPF withdrawal schemes and reduction in member's contribution rate alongside with tax breaks and reliefs, as well as employment measures especially in respect to job matching and reskilling.

Following the peak of uncertainty in March, Malaysia has seen rising foreign holdings in its government bonds, demonstrating investors' confidence in the Malaysian economy and its government. Furthermore, the Bank Negara Malaysia ("BNM") has been proactively managing the economy via monetary policy accommodation with a total of 125 basis points cut in

the Overnight Policy Rate ("OPR"). The Malaysia's central bank has also significantly injected the amount of liquidity through the reduction in Statutory Reserve Requirement ("SRR") during the year. Nevertheless, in December 2020 the rating agency Fitch downgraded Malaysia's sovereign rating by one notch to 'BBB+', citing the substantial impact of the COVID-19 crisis on the country's economy, despite the government's swift and significant relief measures<sup>3</sup>.

<sup>1</sup> IMF's World Economic Report Update January 2021

<sup>2</sup> World Health Organisation ("WHO"), 10 January 2021

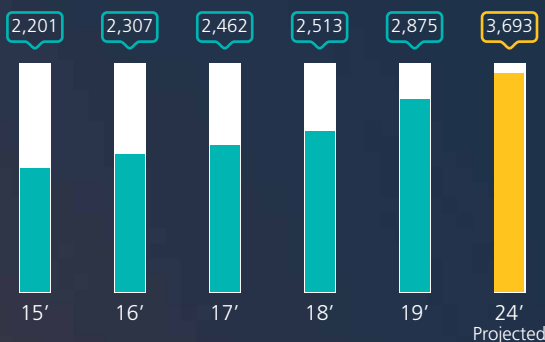
<sup>3</sup> Ministry of Finance Malaysia, Media Statement, Commentary on Q3, 2020 GDP Growth, 13 November 2020

## 2019 - 2020 Highlights

Islamic Finance Assets by Region 2019 (US\$ Billion)



Islamic Finance Assets Growth 2012 - 2019 (US\$ Billion)



Distribution of Global Islamic Finance Assets 2019 (US\$ Billion)

Category	Size (US\$ Billion)	Share of Islamic Finance Assets	Number of Institutions/ Instruments	Number of Countries Involved
Islamic Banking	1,993	69%	526	74
Sukuk	538	19%	3,420	25
Other IFIs	153	5%	645	54
Islamic Funds	140	5%	1,749	629
Takaful	51	2%	336	47

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## Malaysia's Islamic finance industry (As at 30 June 2020)

Share of total banking assets  
(including DFIs)

**33.3%**

Islamic financing share of market

**39.9%**

Takaful industry growth

**0.97%**

## 2020 Total Issuance

Malaysian Government  
Securities ("MGS") rose to

**RM76.7 billion**

Foreign Holdings

**40.6%**

Islamic-based Malaysian  
Government Investment  
Issues ("MGII") expanded to

**RM80.6 billion**

Foreign Holdings

**6.6%**

## Malaysia's Banking Sector was Resilient

The Malaysian banking sector performance was subdued in 2020 but continued to generate respectable profit. Malaysian banks remained resilient with sufficient capital buffers, while the bond markets, which have been doing well, continued to provide some support to their earnings following the actual gains in the marketable securities such as bonds and Sukuk.

Two major impacts to the banking industry were the introduction of a national moratorium on loan repayments by financial institutions and BNM's reduction of Overnight Policy Rates ("OPR") by a cumulative amount of 125 basis from 3.00% to 1.75%, the lowest level since 2004. These were to help Malaysians tide through economic shutdowns, ease the debt service of borrowers and support financing activities to sustain economic stability.

BNM also announced a reduction in the Statutory Reserve Requirement ("SRR") ratio of 100 basis points to 2% in March 2020<sup>4</sup>, as well as additional SRR flexibility given to Principal Dealers by recognising MGS and MGII as part of SRR compliance. This move added liquidity worth about RM30 billion to the banking system and it is part of BNM's on-going efforts to ensure that liquidity is sufficient to support financial intermediation activities.

The banking sector is set to rebound firmly with estimated net profit growth of about 20% in 2021, according to analysts, as the sector would be a direct beneficiary of the country's expected economic recovery backed by the potential availability of the COVID-19 vaccines by September 2021.

However, moving forward downside risks to the earnings projections for the local banking sector would come from modification losses for the financial year ("FY") 2020. The value of the moratorium on loan repayments which was in effect from 1 April to 30 September 2020 stood at RM78.14 billion as at 21 August 2020. Although banks did not need to set aside provisions for loans that come under the relief measures in 2020, impairment charges may be pushed out to 2021 if borrowers' weaknesses stretch beyond short-term cashflow issues.

Revenue growth is expected to remain subdued at 3.1%<sup>5</sup> in 2021, with net interest margin ("NIM") expected to remain flattish after narrowing by around 15 basis points in 2020. On the other hand, banks' investment portfolios could potentially reap healthy trading gains from the likelihood of further downtrend of bond yields forecasted for the second quarter.

## Malaysia on Track of 40% Islamic Financing Target

Malaysia's Islamic finance penetration rate has grown steadily over the years and looks on track to reach BNM's target of 40% share of total financing by the end of 2020<sup>6</sup>, notwithstanding the disruptions from the COVID-19 pandemic.

There are currently 16 Islamic banks in Malaysia, of which five are foreign. Though the Islamic finance industry's share of total banking assets (including that of development financial institutions) fell slightly to 33.3% in the first half of 2020 from 33.5% in the second half of 2019; Islamic financing growth continues to outpace that of conventional loans in Malaysia. Islamic financing, as a percentage of the entire banking system's financing stood at 39.9% as at 30 June, according to preliminary data provided by BNM.

The growing acceptance of Islamic financial products and services among the population will likely be sustainable, due to the strong regulatory framework in place and an expanding Islamic finance ecosystem that includes Sukuk, takaful and Shariah-compliant funds. Another reason for the faster-growth in Islamic finance over the years is that more banks have adopted an Islamic-first strategy to always offer the Islamic product first – for certain products.

#### Malaysia's Insurance Sector was Responsive

Due to the impact of the pandemic and the MCO, insurance premiums were RM310 million lower than in 2019 with motor insurance, representing 47% of the market, recording its worst decline, dropping 7.4% year-on-year ("YoY").

However, despite the effect on top line and investment results, Malaysia's insurers expect to emerge stronger from the COVID-19 crisis. Risk awareness and management improved in light of the pandemic, policy wording and exposures tightened. Insurers were able to stress test their capital models and their business continuity planning as work from home norms were seamlessly implemented while operations and the service to agents and clients had to be maintained. Insurers thus hastened their investments into technology and digitisation – a benefit which strengthens the industry's long-term resilience.

BNM focused its attention on protecting and cushioning the impact of the pandemic on policyholders and assuring a smooth functioning of the industry, despite pressure on revenues and capital. While insurers had to stress test their models and assumptions, BNM adjusted its standard operating procedures to guide the industry on how to organise its operations during the Movement Control Order ("MCO"). As one of its key measures, BNM delayed the implementation of the third phase of the Motor and Fire De-tariffication. With regard to insurers' policyholders, it encouraged insurers to set-up a COVID-19 test fund to support the testing of policyholders.

#### Malaysia's Takaful Sector Maintained a Positive Outlook

Malaysia's Takaful industry grew 0.97% YoY during the first half of 2020, to reach RM286.2 billion in new Takaful protection value and RM3.19 billion in total new business contributions, for all certificates combined. These achievements were credited to proactive agents who embraced digital platforms and technology to creatively promote Takaful products and services in Malaysia as well as various initiatives taken by the country's Takaful sector to maintain a positive penetration momentum.

In-force protection value was RM1.02 trillion during January to June 2020, in comparison to RM0.96 trillion reported over the same period in 2019. The performance of the Family Takaful sector demonstrated its resilience, thereby allowing it to serve as a catalyst for growth. This growth was supported by greater acceptance of Takaful coverage amongst Malaysians, reflecting increased awareness with regards to Takaful as a choice for protection.

Meanwhile, total gross contribution in the General Takaful sector increased 0.6% YoY to reach RM1.64 billion in the first half of 2020.

<sup>4</sup> [www.themalaysianreserve.com/2020/09/08/malaysian-banks-record-subdued-performance-but-remain-resilient/](http://www.themalaysianreserve.com/2020/09/08/malaysian-banks-record-subdued-performance-but-remain-resilient/)

<sup>5</sup> Bank Negara Malaysia in the statement issued following the conclusion of its Monetary Policy Committee's ("MPC") final meeting for 2020

<sup>6</sup> BNM's Financial Stability Review ("FSR") for the first half of 2020

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## Malaysian Stock Market is on a Recovery Path

With the announcement of the MCO measures in early March 2020 the main index of the Malaysian stock exchange (FBM KLCI) fell by more than 20% within a few days and dropped to its lowest level in more than a decade. However, as the pandemic-related government measures were announced globally, stocks market started to show signs of recovery. By mid-July, shares were trading again at the pre-MCO level and by late November 2020 stocks exceeded their peak level as of end of 2019.

Although the index generally recovered, there were sharp differences between those shares that benefited from the crisis and those that suffered substantially. Among those ahead of the curve were healthcare stocks and technology shares as consumers turned online to solve their daily needs and energy shares following the government's announcement to support energy efficient home appliances. Those that were disproportionately affected by the crisis included stock in the tourism and aviation sectors, as well as consumer goods, as consumption is expected to contract along with the decline in GDP.

Gross funds raised in the Malaysian capital market rose 5.6% to RM261.4 billion during 2020 from a year earlier. This was mainly on account of higher issuance from public sector which increased to RM157.3 billion while funds raised by the private sector declined to RM104.1 billion. The latter's expansion was contributed by strong demand for government papers or bonds to support the various stimulus packages.

This was reflected by the high issuance of Malaysian Government Securities ("MGS") which rose to RM76.7 billion while the issuance of Islamic-based Malaysian Government Investment Issues ("MGII") expanded to RM80.6 billion. During the same period, foreign holdings of MGS and MGII were remain at elevated levels of 40.6% and 6.6% respectively at the end of 2020. Such an appetite by the foreign institutions suggest better conviction on Malaysia's government credit risks as well as deep and liquid bond markets.

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Islamic finance assets remain concentrated in the three leading markets of Iran, Saudi Arabia and Malaysia, which between them accounted for 66% of Islamic global assets in 2019. Malaysia still remains the world's biggest Sukuk market.

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US\$ **1,389**  
Trillion Total Islamic  
Finance Assets in  
2019

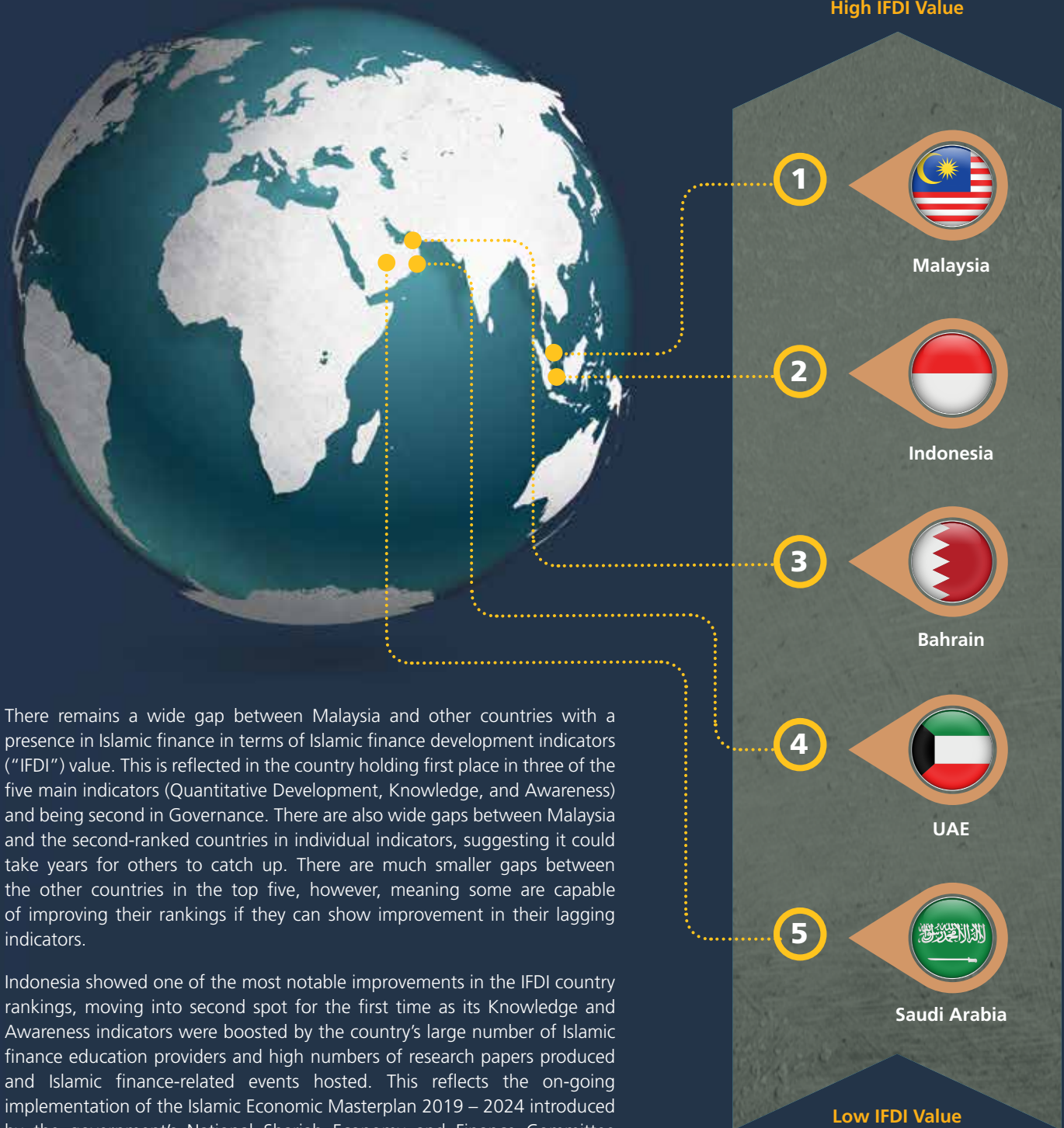
**14%**  
Annual Growth of  
Islamic Finance Assets  
in 2019

**1,526**  
Total Islamic  
Financial  
Institutions

## REVIEW OF THE ISLAMIC FINANCE INDUSTRY

The Islamic finance industry's assets grew by 14% in 2019 to US\$2.88 trillion, returning to its long-term pattern of strong growth after the slowdown in 2018, when the industry expanded by a more moderate 2%. The strong growth in 2019 was aided by large issuances of Sukuk in the traditional Islamic finance markets of Saudi Arabia, Malaysia, Iran, Qatar, Bahrain, and the UAE. There was a surge in Islamic banking assets, up by US\$248 billion on year, particularly in the largest Islamic markets such as Saudi Arabia and Iran. Islamic funds saw the fastest growth overall, with double-digit growth recorded in Malaysia, Indonesia, Iran, Saudi Arabia, Turkey, and Luxembourg. Islamic finance assets remain concentrated in the three leading markets – Iran, Saudi Arabia and Malaysia – which between them accounted for 66% of global assets in 2019. Malaysia still remains the world's biggest Sukuk market.

## MOST DEVELOPED COUNTRIES IN ISLAMIC FINANCE



There remains a wide gap between Malaysia and other countries with a presence in Islamic finance in terms of Islamic finance development indicators (“IFDI”) value. This is reflected in the country holding first place in three of the five main indicators (Quantitative Development, Knowledge, and Awareness) and being second in Governance. There are also wide gaps between Malaysia and the second-ranked countries in individual indicators, suggesting it could take years for others to catch up. There are much smaller gaps between the other countries in the top five, however, meaning some are capable of improving their rankings if they can show improvement in their lagging indicators.

Indonesia showed one of the most notable improvements in the IFDI country rankings, moving into second spot for the first time as its Knowledge and Awareness indicators were boosted by the country’s large number of Islamic finance education providers and high numbers of research papers produced and Islamic finance-related events hosted. This reflects the on-going implementation of the Islamic Economic Masterplan 2019 – 2024 introduced by the government’s National Shariah Economy and Finance Committee (KNEKS). Other notable improvers in the IFDI country rankings were Syria, the United States, South Africa and Thailand.

# MANAGEMENT DISCUSSION & ANALYSIS



## IMPACT OF COVID-19

The COVID-19 pandemic has affected aggregate demand, small and medium enterprises (“SMEs”), and low-income individuals particularly hard, and this will impact the performance of Islamic finance in 2020. Compared to conventional banking, Islamic finance has a larger exposure to SMEs, microfinance and retail lending, especially in Asia. With SMEs facing multiple financial issues, this will increase the quantum of non-performing financings and vulnerability of Islamic banks’ portfolios.

Lower issuance of Islamic corporate bonds, or corporate Sukuk in Southeast Asia was recorded in 2020. In Malaysia, for instance, the large increase in government Sukuk during the period did not quite fully offset the weakness on the private issuance side. After four years of consecutive growth, global issuance of Sukuk is predicted to decline by a modest 5% in 2020 to register an estimated Sukuk issuance size of US\$170 billion this year, down from US\$179 billion in 2019.

On the bright side, banks entered the pandemic crisis with much stronger liquidity than in 2007 – 2008, and because of this, as well as substantial external liquidity support from central banks and robust government incentives, it is unexpected that there will be broad confidence issues in banking systems. Extraordinary measures including a range of regulatory and supervisory responses have been rolled out by Islamic finance jurisdictions to preserve resilience of relevant financial systems and the continued provision of financial services to the real economy. These include payment moratorium and Shariah-compliant government guarantees on bank exposures to certain sectors in receipt of Islamic financing.

To ensure Shariah compliance, the Islamic Financial Services Board (“IFSB”) has had to issue public statements and provide technical guidance related to the extraordinary measures when calculating the capital requirements of institutions offering Islamic financial services. This is in line with treatments prescribed by the International Accounting Standards Board (“IASB”), the Basel Committee on Banking Supervision (“BCBS”) and the Accounting and Auditing Organisation for Islamic Financial Institutions (“AAOIFI”). In any case, Islamic banks should have adequate buffers for loss absorption to meet near-term challenges, but risks to asset quality and profitability are envisaged should the COVID-19 outbreak be prolonged.

## OPPORTUNITIES & TRENDS

The COVID-19 crisis is undoubtedly an opportunity for financial intermediaries to transform themselves and improve their long-term positions. The crisis is shifting the dynamics in the industry and has put in motion new opportunities for Islamic finance markets by accelerating trends such as digitalisation, socially responsible investing and commitment to sustainability.

### Digital Acceleration is Creating a Nimbler Industry

The global lockdown has forced customers to only use digital channels for their day-to-day banking needs, and this has presented digital banks with the opportunity to expand their business while many traditional banks have scrambled to develop their own digital services. Islamic banks can take this opportunity to implement aggressive and permanent measures to transform business models in order to offer clients a full digital experience.

The pandemic has also been a game changer in that several Islamic financial institutions have moved to offer their products via digital platforms so as to better serve their locked-down customers, thereby speeding the advance of technology within Islamic finance. Although Islamic fintech had already been making headlines in recent years, digital-based financial institutions have become much more popular during the pandemic, just as digital solutions have leapt ahead in other economic sectors around the world. For Islamic banks and Sukuk, higher digitalisation and fintech collaboration is strengthening their resilience in a more volatile environment and opening new avenues for growth.

Demonstrating both technology and the rise in social finance, a new insurance technology, or InsurTech, development in Malaysia uses blockchain to channel waqf funds towards making takaful more affordable to lower income consumers. Sovereigns such as Malaysia also issued first digital Sukuk through online channels such as mobile platforms while Indonesia also issued retail Sukuk that can be subscribed through online channels to appeal to the young generation.

Digital-based Islamic financial institutions other than banks and takaful operators are also accelerating the evolution of the industry in Africa and Southeast Asia, including Islamic wealth management services targeting the millennial investor.

The online transformation of the industry is not limited to its institutions, but to its surrounding ecosystem as well. Islamic finance education is being increasingly offered online or through distance learning as the COVID pandemic makes it harder for students to attend classes, while events such as conferences and seminars are also being hosted increasingly online. These developments also make it easier for students or industry stakeholders from other countries to take online courses or attend Islamic finance events, which will help the industry to grow further and wider in the future.



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## Emergence of Challenger Banks

Shariah-compliant challenger, or digital-only, banks have begun to emerge, particularly in the UK, posing a threat to traditional Islamic banks in their non-core markets. These new banks offer a lifestyle-focused banking experience for more than 3 million Muslims residents in the UK. Two Shariah-compliant challenger banks were launched in the UK early in 2020 – Rizq and the mobile-only Niyah. Four more digital banks are currently in the pipeline, based in the UK, Malaysia and Kenya. Halal robo-advisory Wahed Invest and the newly launched gold trading platform Minted have also announced plans to establish Shariah compliant digital banks as soon as the first quarter of 2021. However, these would be deposit taking-only operations supplementing their core investment businesses, with no plans to provide loans in the future.

Similarly, the Saudi Arabian Monetary Authority (“SAMA”) issued licensing guidelines for digital-only banks early in 2020, including conditions that they should be set up as locally incorporated joint-stock companies and maintain a physical presence in the kingdom. It has been reported that two entities have applied for a digital banking license with the regulator. The only bank to date with a digital presence in Saudi Arabia is Meem, the Islamic banking arm of Gulf International Bank, which mainly operates online while leveraging its physical presence.

In Malaysia, BNM issued on 31 December 2020 the much anticipated digital banking framework, joining a growing number of countries in Asia who are each introducing their own version of a digital banking framework.

## Further Innovation in the Islamic Capital Markets

The pandemic has served as an impetus for instruments specifically ring-fenced to mitigate the health and economic impact of the coronavirus and aid recovery. To this end, issuance by the Islamic Development Bank (“IsDB”) of sustainability Sukuk to tackle the effects of the pandemic in its member countries has set a stellar example. The proceeds will be exclusively deployed by IsDB towards social projects under its Sustainable Finance Framework, with a focus on ‘access to essential services’ and ‘SME financing and employment generation’ categories under the umbrellas of ‘UNSDG-3: Good Health and Well-Being’ and ‘UNSDG-8: Decent Work and Economic Growth’ for its 57-member countries.

There is also an opportunity for the reemergence of certain strong Islamic instruments, such as zakat and waqf, which could once again play a role in reducing the impact on the most vulnerable segments of the population or on poor countries. This would not only be in line with the ultimate goals of Shariah but also create a new growth channel for the industry.

“ Demand is growing for ESG-related investment assets such as green bonds and there is a high degree of complementarity between Islamic and ESG investing. This is making Islamic financial products increasingly attractive to investors who are not Muslim. Malaysia is a leading presence in both Islamic funds and ESG investment and has seen several initiatives in this space.

More Shariah-ESG funds are likely to be launched in coming years, in line with growing issuance of green and sustainable Sukuk. In addition, the global economic slowdown caused by COVID-19 will lead to greater numbers of social instruments being launched by Islamic financial institutions to tackle issues such as mass unemployment. The pandemic could be a turning point for the asset management industry as many businesses are betting on sustainability to tackle the challenges it is presenting.

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BIMB Investment Management Bhd (“BIMB Investment”) launched its Global Shariah-ESG Equity fund for retail investors in October 2019.

BIMB Investment also in April 2020 launched its BEST Invest robo-intelligence app to help investors build their portfolios, offering a range of Islamic and sustainable unit trust funds.



### Growing Impact of Sustainability and Environmental, Social and Governance (“ESG”)

The pandemic has put significant emphasis on the role of stress-testing within risk management. Stress testing should form an integral part of the overall. The COVID-19 outbreak has prompted financial institutions across the globe to pay greater attention to ESG risks in order to build greater resilience in their business operations and supply chains, and we believe that Islamic finance markets will see a similar trend as well.

Sustainability has become a more important consideration during the pandemic, and new product launches reflect this, such as ESG-based Islamic investments targeting social issues such as mass unemployment. The goals or objectives (maqasid) of Shariah share some links with ESG considerations and the broader aim of sustainable finance. For example, Islamic finance’s goal to protect life aligns with sustainable finance principles, which emphasise environmental and social protection. Green Sukuk is an example of instruments that could be used to finance environmentally friendly projects.

These products could make a difference when it comes to socially responsible financing that can contribute to shared prosperity and provide growth that is more inclusive.

#### Sources;

- Refinitiv & ICD 2020 Report
- S&P Global Ratings : Global Islamic finance industry will continue to expand slowly in 2019-2020
- Morgan Stanley Institute for Sustainable Investing: Sustainable Signals - The Individual Investor Perspective

These are:

**Qard Hassan** - This instrument could provide cost-free breathing space until the environment stabilises. One example is when some central banks opened free liquidity lines for financial institutions to provide subsidised lending to their corporate and small and midsize enterprise clients.

**Social Sukuk** - These instruments could help support the education and health care systems amid the current slump and attract environmental, social, and governance (“ESG”) investors (those investing for social reasons) and/or Islamic investors (those looking for Shariah-compliant investments).

**Green Sukuk** - This could rise given the growing focus on environment, social and governance issues globally. Green Sukuk issuance last year was small, at only around US\$4.5 billion.

**Waqf** - This could help provide affordable housing solutions or access to health care and education for people that might have lost a portion of their income.

**Zakat** - This could help compensate for lost household income because of COVID-19.

These instruments and the additional layer of governance Islamic banks and instruments are subject to, could help put the industry more prominently on ESG investors’ radar.

# MANAGEMENT DISCUSSION & ANALYSIS



In dark times, light shines brightest. The benefits of BHB's commitment to sustainable growth and holistic value delivery to all stakeholders illuminated the way forward in 2020's environment of unprecedented challenges.



## MOHD MUAZZAM MOHAMED

Chief Executive Officer  
BIMB Holdings Berhad  
Bank Islam Malaysia Berhad

# BUSINESS REVIEW

As the world grappled with the economic outcome of COVID-19, BIMB Holdings Berhad (“BHB” or “the Group”) social and financial mission accelerated due to the urgent need for exploring all possible options to mitigate the pandemic’s impact to society and the nation’s economy as a whole. The true potential of Islamic finance principles in bolstering resilience, supporting livelihoods and strengthening unity were unleashed as the Group focused on driving socially responsible business practices while providing assistance to stakeholders in their time of need and ensuring the health and safety of our people.

Corresponding to the Government’s directives and guidelines set by the Ministry of Health (“MOH”), all subsidiaries within the Group have taken precautionary measures to safeguard the wellbeing of our customers, employees and other stakeholders against the COVID-19 virus. A total expenditure of RM3.95 million was devoted to purchasing necessary equipment and sanitisers for new norm protocols in 2020 and a further expenditure of RM4.26 million has been budgeted for similar expenses in 2021. All three subsidiaries, Bank Islam Malaysia Berhad (“Bank Islam” or “the Bank”), Syarikat Takaful Malaysia Keluarga Berhad (“Takaful Malaysia”), and BIMB Securities Sdn. Bhd. (“BIMB Securities”), 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.

Supporting the nation’s fight against COVID-19, the BHB Group contributed a total of RM2.5 million in FY2020, in support of various humanitarian and medical-related causes in combating the COVID-19 pandemic. BHB contributed RM1 million to the #MusaadahCOVID-19 Fund, a fundraising programme to provide relief to Muslim and non-Muslim frontliners battling the outbreak.

Bank Islam made contributions totalling RM600,000 to provide financial assistance to micro-entrepreneurs whose businesses were severely affected by the pandemic; for the Direct Relief Support Programme which supplied food and necessities to charitable organisations and frontline communities; and funded the purchase of necessities and essential needs for hospitals nationwide.

Takaful Malaysia contributed a sum of RM500,000 towards The Edge COVID-19 Equipment and Health Care Workers Support Funds organised by The Edge Media towards purchase of medical equipment and provision of financial assistance to healthcare workers who were infected whilst caring for COVID-19 patients. Further contributions towards similar aid was provided in the form of a RM250,000 donation to the Media Prima-NSTP Humanitarian Fund, RM100,000 aid towards the Star Foundation-Medical Fund in support of the Star Frontliners Initiative, and RM50,000 towards the COVID-19 Fund organised by the Ministry of Health (“MOH”). The donations collected via the funds are being utilised for the purchase of medical necessities to ease the shortage of medical supplies faced by the designated government hospitals in providing screening and treatment for COVID-19 patients and frontliners who work tirelessly during these trying times for the safety of the communities.

Following the third wave of COVID-19 that hit the country, Bank Islam’s Sadaqa House organised the #KitaBantuKita Campaign from 25 November 2020 to 31 January 2021 to raise funds from the public to help ease the burden of those who are affected. The campaign provided easy channels for public contributions and matched every contribution on a one to one basis up to a maximum of RM500,000.

Takaful Malaysia participated in the COVID-19 Test Fund (“CTF”), an insurance and takaful industry initiative in support of MOH’s efforts to conduct more COVID-19 tests for Malaysians. In collaboration with Taylor’s Community, a consolidated Corporate Social Responsibility (“CSR”) platform for Taylor’s Education Group, a joint community-based project was initiated to help B40 families who faced challenges in making ends meet during the government imposed Movement Control Order (“MCO”).

Other initiatives towards enhancing a sustainable business ecosystem during the year under review were in line with BHB’s five key priorities of **Responsible Finance, Inclusive Growth, Talent Enrichment, Ethical Practice & Reporting** and **Islamic Finance & Knowledge-Sharing**, which firmly anchor our subsidiaries’ strategies.

GROUP PBZT WAS

**8.9%**

LOWER AT **RM1.1 billion**

NET RETURN ON EQUITY (“ROE”) WAS

**12.8%**



BANK ISLAM PBZT

**RM728.2 million**

NET FINANCING GROWTH OF

**10.5%**

TAKAFUL MALAYSIA PBZT

**RM426.8 million**

BIMB SECURITIES LBZT

**RM2.3 million**

# MANAGEMENT DISCUSSION & ANALYSIS



## RESPONSIBLE FINANCE

### Results impacted by pandemic measures

BHB posted a Group Profit Before Zakat and Tax ("PBZT") of **RM1.1 billion** for the financial year ended 31 December 2020 ("FY2020"). The impact of lower net financing income arising from multiple downward revisions of the Overnight Policy Rate ("OPR"), the recognition of modification loss due to moratorium exercise and targeted assistance programme and pre-emptive impairment provision in consideration of the challenging economic environment caused the Group PBZT to be RM107.7 million lower than the same period in 2019. Net profit declined RM67.5 million to RM867.9 million, however the Group's after-tax Return on Equity ("ROE") remained healthy at 12.8%, while earnings per share valued at 40.21sen. Group net assets per share improved to RM3.63 as of 31 December 2020, compared to RM3.34 as of 31 December 2019.

Notwithstanding the reduction in revenue and profits, the Group was steadfast and proactive as a responsible corporate citizen in implementing government mandated supportive measures, providing aid to the communities in need, and innovating new products and services to meet new needs through our main subsidiaries. Throughout the period, we continue to communicate important information and measures related to public safety and operations via targeted communiques to customers and business partners. The information was also made available on the respective subsidiaries' corporate websites, online portals and social media platforms. Our customers and business partners continued to enjoy uninterrupted access to our selected essential services during the phased lockdowns.

### Easing financial burdens of customers

During the year, the Bank and Takaful Malaysia were among the first to announce and implement loan moratoriums, repayment assistance and premium payment deferrals for customers and businesses who were economically affected by COVID-19 or the MCO regulations. These initiatives were part of the Group's efforts to protect our customers' financial security during this exceptional time.

The Bank has assisted more than 350,000 individuals and businesses impacted by the COVID-19 pandemic through financial relief assistance with financing amount outstanding of approximately RM37.9 billion, from 1 April to 31 December 2020. The targeted repayment assistance for those who have lost their employment or have a reduced monthly income, has been extended to 30 June 2021 and communication with parties are on-going to determine the best assistance going forward.

Takaful customers were offered a COVID-19 Relief Programme that provided a deferment period of three months to pay the regular premiums of their life insurance policies or Family Takaful certificates. Family Takaful participants with difficulties meeting their regular contributions were provided alternatives to either discuss their repayment options, choose to reduce their sum covered or remove some add-on riders to reduce their regular contribution amounts. Instalment plans were offered to selected General Takaful corporate clients to alleviate the financial burdens of those who faced short-term financial liquidity issues.

“ **The Group fosters responsible environmental protection to reduce the impact of our business operations on the environment, as well as tactically integrate sustainability into our subsidiaries' business operations in an economically, environmentally, and socially sustainable manner.** ”

## Championing Green Technology and ESG

The sustainable approach of responsible finance also serves as a catalyst for the BHB Group to adopt sustainable business practices and revolutionise into a climate-friendly industry player dedicated to meeting the needs of its stakeholders by taking proactive measures to preserve the environment for future generations. The Group fosters responsible environmental protection to reduce the impact of our business operations on the environment, as well as tactically integrate sustainability into our subsidiaries' business operations in an economically, environmentally, and socially sustainable manner.

Bank Islam continued to build a reputation as a Green Finance specialist with its focus on Green Financing and management of ESG-based Sukuk. The Bank achieved a total green financing portfolio of over RM2.2 billion, with RM1.3 billion for renewable energy and RM0.9 billion for other green financing initiatives. On the Sukuk front, it secured Joint Lead Manager ("JLM") role for Air Selangor's RM1.1 billion Sukuk upsizing exercise, and was appointed Joint Lead Arranger/Manager or Solar Arranger for ESG Sukuk by securing a mandate from a State water operator for a proposed RM10 billion Sukuk programme; a mini hydro operator for a proposed RM850 million Sukuk programme; a solar farm mandate, and for the education sector.

Under its subsidiary BIMB Investment Management Berhad ("BIMB Invest"), the Bank's ESG Sukuk Fund exceeded its benchmark target of 5% to deliver a 6% income distribution yield in December 2020. The Fund combines both Shariah-compliant principles and Environmental, Social, and Governance ("ESG") factors in its selection criteria, and is assessed on their performance on the normative principles of the United Nations Global Compact ("UNGC"), such as Human rights, Labour rights, Environment and Anti-Corruption. ESG as well as UNGC scores were also implemented as criteria for corporate financing and funds during the year towards encouraging businesses to adopt ESG initiatives as well as sustainable and socially responsible policies, and to report on their implementation.

Responsible investing is fully entrenched in Takaful Malaysia's investment policy. An "Impact Investment" approach has been incorporated to provide a positive impact on society as a whole and to increase brand value towards ensuring social and environmental sustainability. Through the implementation of the "Impact Investment" approach, an assessment of the investment opportunities is performed by taking into account the social and environmental effects and utilisation of ESG data in investment decision-making. The FTSE4Good Bursa Malaysia Index ("F4GBM") is adopted in this assessment, together with KLCI and Shariah Emas Index and investment in Green Sukuk/Bond issued under the Socially Responsible Investment ("SRI") framework.

An innovative green focused highlight in 2020 was the launch of a personal financing by Bank Islam, in collaboration with Tenaga Nasional Berhad ("TNB"), for GSPARX solar package on 1 July 2020. This move was aimed at encouraging retail consumers to switch to solar power for their electricity needs, as part of the Bank's green financing journey that focuses on increasing the number of Green Homes and production of renewable, sustainable and cost-efficient energy in the country. Through this collaboration, Bank Islam provides an attractive offer of 100% financing for the purchase of **GSPARX's** solar PV package together with residential packages for free maintenance, product and workmanship warranty, 24 hours online monitoring, as well as after-sales services.

# MANAGEMENT DISCUSSION & ANALYSIS

## Expanding Social Finance through Sadaqa House

Bank Islam continues to intensify its focus on expanding the potential of Islamic social financial instruments such as zakat, waqf and sadaqah to help the underprivileged and the community who are severely affected by the uncertain economic situation, to enable them to be independent and sustainable in the long run.

Through the establishment of Sadaqa House, Bank Islam's impacts and success stories in social finance has been growing. In 2018, RM1.07 million (of which RM500,000 is the seed from Bank Islam) was collected for disbursement to selected projects that highly impacted the beneficiaries positively, and in 2019, a further RM425,000 was collected. Alhamdulillah in 2020, we managed to collect RM5.35 million. Thus the Bank is now able to start funding in-house projects such as **BangKIT Microfinance**, which was established on 25 November 2020 to finance selected micro-entrepreneurs who require working capital and/or funding for capital expenditure.

The launch of this facility was the main highlight of Bank Islam's Social Finance Month throughout November 2020, which was organised to provide public awareness on the importance and function of Islamic Social Finance in ensuring the socio-economic wellbeing of the country, especially within the challenging environment caused by the COVID-19 pandemic. Funded by Sadaqa House, BangKIT Microfinance is the first-of-its-kind in Malaysia, designed to assist selected unbanked and underbanked micro-entrepreneurs to obtain capital start-up business or business expansion and, subsequently build a credit record to qualify them for other Bank Islam financing solutions in the future, thus initiating win-win benefits with the Bank.



## INCLUSIVE GROWTH

Offered under the al-Qard contract (interest-free), BangKIT Microfinance provides financing as low as RM500 to RM3,000 for start-up businesses and RM3,000 up to RM20,000 for business expansion with a repayment period of between six months to three years. Customers benefitted from this facility will be provided with structured entrepreneurship training to ensure their business sustainability. Sadaqa House funds this microfinance facility from donations made by corporate institutions and the public. As a start, RM2 million is allocated for BangKIT Microfinance. From this allocation, Bank Islam targets more than 200 micro-entrepreneurs to benefit from this facility.

To expand the potential of Islamic crowdfunding further, Sadaqa House developed and introduced its new official portal ([www.sadaqahouse.com.my](http://www.sadaqahouse.com.my)) during the year for the convenience of its potential contributors. Sadaqa House has also published its inaugural performance report for general reference on the application of strict governance in managing the contributions received, results and impact of its achievements as well as its long-term direction.

### Growing focus on microfinancing

Bank Islam has launched the **ITEKAD** microfinancing programme, a social finance initiative to support sustainable income generation and financial resilience of asnaf and B40-owned microenterprises in the current challenging landscape. The introduction of the programme is in line with the government's Prihatin Rakyat Economic Stimulus Package announcement on 27 March 2020 to facilitate funding and provide support for micro-entrepreneurs and those impacted by the loss of income due to COVID-19.

Designed to mobilise social finance contributions; the programme offers seed capital with an affordable microfinancing arrangement for eligible applicants to start growing their business and generate sustainable income. In addition to the funding of working capital, iTEKAD will utilise zakat funds for the purchase of tools and equipment required by eligible recipients. The programme was implemented in collaborations with selected implementation partners such as State Islamic Religious Councils, agencies and non-government organisations.

As the pioneering participating Islamic financial institution, Bank Islam is working together with Majlis Agama Islam Wilayah Persekutuan and SME Corporation Malaysia in the first phase of the programme. Through this collaboration, recipients will receive structured entrepreneurship and financial management training to ensure they receive a more holistic understanding, as well as skills and knowledge in managing their business efficiently and sustainably. The iTEKAD microfinancing program is currently under the pre-screening process, but to date, the Bank has received about 100 direct applications, mainly from micro-entrepreneurs in the F&B (food and beverage), manufacturing and services sectors.

Another first of its kind inclusive social finance initiative by the Bank during the year was the **Personal Financing-i (Asnaf)** for salaried asnaf to build or acquire house in partnership with Lembaga Zakat Negeri Kedah ("LZNK") Malaysia. Under this special project, LZNK will support 50% from the total cost to build a house in Kedah while the recipient will bear another remaining 50% through the Personal Financing-i Asnaf facility

with Bank Islam. The scheme caters to families who receive a monthly salary below RM1,200 and are not eligible to get any personal or housing financing through most banks under normal circumstances. Recipients only need to make a repayment of about RM260 per month for a period of 10 years to Bank Islam, to eventually own a comfortable home. About 20 salaried asnaf are targeted to receive new homes through this special scheme in Malaysia by 2021.

#### Spearheading Waqf Initiatives

Waqf, under the purview of the State Islamic Religious Council ("SIRC") is an important tool of financial inclusion and economic growth. To maximise its potential, Bank Negara Malaysia ("BNM"), through the Association of Islamic Banking and Financial Institutions Malaysia ("AIBIM"), has called for Islamic banks' participation in collaborating and standardising the waqf fund initiative action plan. The collaboration between SIRC and Islamic banks are seen as crucial in developing the potential of waqf and further empower the economy of ummah in Malaysia.

**myWakaf** is an inclusive economic instrument that incorporates philanthropic values in order to best serve all members of society, particularly the underserved and disadvantaged. The instrument is meant to assist these particular segments of the society to gain access to quality essential services that will contribute to socio-economic upturn, and fulfil the nation's shared prosperity goals. Currently, Bank Islam has been nominated to chair the initiative in which five other Islamic Banks are involved, namely Affin Islamic Bank Berhad, Bank Muamalat Malaysia Berhad, Bank Rakyat, Maybank Islamic Berhad and RHB Islamic Malaysia Berhad.



SADAQA HOUSE  
**RM5.35**  
million  
FY2020 COLLECTION



# MANAGEMENT DISCUSSION & ANALYSIS

The potential of waqf was further expanded by BIMB Investment through the creation of **Makmur myWakaf Fund**. By investing in the fund, investors are given the opportunity to gain returns on the investments and share a portion of the returns generated for the good of the society. By making allowance for the portion of the returns to be endowed as contribution to the society on an on-going basis, the introduction of Makmur myWakaf fund signals a continuous commitment to strengthening the role of waqf in becoming an instrument of good for the society.

A signatory of the **United Nations-supported Principles for Responsible Investment** ("UNPRI"), BIMB Investment is the only bank-backed Islamic Asset Manager in Southeast Asia. BIMB Investment has been named **ESG Asset Manager of the Year** for two consecutive years in 2019 and 2020 by The Asset Triple A Islamic Finance Awards 2020. A multi-currency, Shariah-compliant global mixed asset fund that supports the Malaysian International Islamic Financial Centre ("MIFC") initiatives, Makmur myWakaf Fund is the first waqf unit trust fund to be listed under the Securities Commission Malaysia's Waqf-Featured Fund Framework, which was introduced on 12 November 2020, and a Qualified SRI Fund under the SC Guidelines on SRI Funds. The fund is targeted to hit RM50 million in asset under management ("AUM") by the end of 2021.

## Expanding Reach through Digital Technology

The constant development towards greater digitalisation of financial services, including banking and takaful industry benefits economies and societies as a whole, ensuring that customers have access to an extensive range of product offerings and services via digital channels. In 2020, COVID-19 accelerated the Group's digital journey as customers are increasingly relying on digital technology and online channels to perform their day-to-day transactions.

In response to the government's plan to allow the creation of virtual banks to address market gaps in the underserved and unserved segments, Bank Islam has allocated its resources for the establishment **Centre of Digital Experience** ("CDX") in 2020, which aims to explore experimental new businesses and technologies in building a challenger bank and mobile banking app that provides next-level banking for the discerning and contemporary consumers. The future envisioned with CDX setup will have zero reliance on physical branches, less employee requirements and better features aimed at driving financial literacy and helping customers achieve their life goals. Through CDX, the Bank is committed to becoming the first 100% digital Islamic bank, able to adapt next generation technologies within its sphere of operations.

The Bank's successful experience with its **Virtual Account Opening** ("VAO") facility since February 2018 hints at the vast potential of a digital bank. An average of nearly 2,000 account openings is achieved



through the VAO platform every month, thus significantly reducing queues and over-the-counter account openings. Encouraged by the support received from the market, the Bank then went on to develop its mobile banking app, **GO by Bank Islam**, which attracted more than 500,000 users with an average growth of usage of 50% from March 2020 when the MCO was enforced. Between March and September 2020, more than RM2.4 billion in transaction amount was recorded through this app.

As part of its digital strategy to facilitate customers with seamless access to a broad range of takaful products and services through digital channels, Takaful Malaysia continues to innovate and deliver comprehensive financial solutions by leveraging the latest technological advancements to cater to the need of a diversified portfolio of customers. Its pioneering **Click for Cover** app has been enhanced with additional features, such as the **Tele Bantuan** services where participants can submit a request for roadside assistance; monitor the real time location of the tow truck; and search for the nearest panel workshop within their vicinity for immediate assistance. In addition, members of Takaful Malaysia's employee benefits scheme can utilise the app to find out more about their certificate details; locate the nearest panel hospitals or clinics and pinpoint geographical locations; and present their e-Medical card via the app when visiting panel hospitals or clinics. This venture towards early adoption of online distribution and new digital technologies paid off in 2020 when the tranche of innovative online plans via its Click for Cover Online Sales Portal ("OSP") and Click for Cover mobile application, gained substantial sales volume during the year under review.

### Relief and Boost for SMEs

In addition to automatic deferment of all financing repayments for six months for Small and Medium Enterprises (“SMEs”), the Bank introduced **SME Special Relief Facility (“SSRF”)** to help alleviate the short-term cash flow predicament faced by SMEs that encompass proposed offerings under PENJANA Tourism Financing (“PTF”) initiative and Targeted Relief and Recovery Facility (“TRRF”) by BNM. Funds under these programmes have been made available from 1 December 2020 until 31 December 2021 or until fully utilised.

The year saw the launch of **SME i-Gain transactional current investment account** offering commendable returns to SMEs to help preserve and sustain economic empowerment and wealth of valued customers. It gives up to 2% return to SME customers, and was made available until June 2020. As of June 2020, the SME i-Gain take up rate was about 10%.

### SME Training Programmes

A host of training seminars and webinars were implemented during the year to help build small businesses and enhance positive impact on the real economy.

During the pandemic, an SME Webinar series featuring the Bank’s chief economist, SME adviser and chief executive officer (“CEO”) was released to provide updates on economic outlook, the path to recovery and important tips on how businesses can survive the period of uncertainty.

The Bank also continued its collaboration with MAIWP and SME Corp to carry out the Entrepreneur Development Training Programme for iTekad Microfinancing participants. Training for this programme is on-going through 2021.



### Responding to Marketplace Needs

Towards rejuvenating the country’s economy and following the rising demand of healthcare related products and services, Bank Islam embarked on MoU signings with six professional healthcare associations for strategic collaboration in providing total banking solutions, complementing the needs of its members. This partnership creates a bigger room for exploration and a better understanding of their financial needs enabling capitalisation of expertise to benefit each other mutually. The associations involved are the Malaysian Medical Association (“MMA”), Ibnu Sina’s Medical Charity Organisation of Malaysia (“PAPISMA”), Malaysian Pharmaceutical Society (“MPS”), Association of Malaysian Optometrists (“AMO”), Malaysian Private Dental Practitioners’ Association (“MPDPA”) and Veterinary Association Malaysia (“VAM”). Through this collaboration, Bank Islam is offering total financing solutions via its Personal Financing-i product valued up to RM300,000 and maximum of 10 years’ tenure at a competitive rate. Other solutions provided include financing and refinancing of fixed assets, mainly on commercial lots, and cash management solutions. Besides that, Bank Islam also offers Small and Medium Enterprises (“SME”) banking products and services for customer with the potential to open their private practice, such as specialist centres, medical clinics, veterinary clinics, optometry centres and pharmacies, to facilitate them when a higher amount of financing is required.

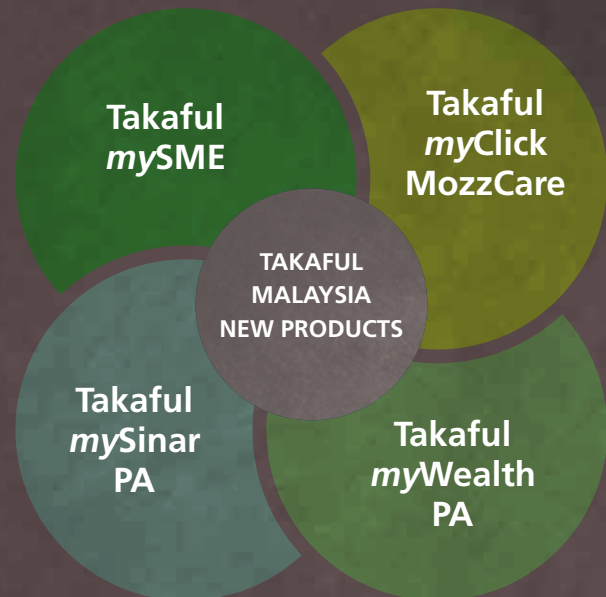
# MANAGEMENT DISCUSSION & ANALYSIS

Responding to new marketplace needs, Takaful Malaysia widened its portfolio of Takaful offerings with four new products during the year - **Takaful mySME**, **Takaful myClick MozzCare**, **Takaful mySinar PA** and **Takaful myWealth Plus**. Takaful mySME is a comprehensive and flexible plan that can be tailored towards a wide range of protection to cover specific business risk. Takaful myClick MozzCare is an affordable online protection plan for Dengue and Zika that was extended to cover COVID-19 at no additional cost. Takaful mySinar PA provides comprehensive personal accident coverage for individuals and their families, especially during Hajj or *Umrah*. Finally, Takaful myWealth Plus is a limited pay endowment Takaful plan that provides guaranteed cash payments and Takaful protection as well as potential growth on investments.

During the year, Takaful Malaysia service centres nationwide actively participated in various on-ground and marketing activities to promote and market our products and services, especially our comprehensive Click for Cover online products to the local communities. Among the on-ground activities were the 'Program Anjuran Jabatan Agama Islam Melaka Bersama Guru-Guru Agama' and 'Program Kem Solat' in Melaka, 'Maqan' Fest 2020 in Johor and other marketing activities held in Negeri Sembilan, Selangor and Kedah.

In supporting BNM's objective to transform Malaysia into a cashless society, Takaful Malaysia has introduced one of the fastest growing payment trends in Malaysia, **e-Wallet**, on top of other payment methods available via the Click for Cover OSP to provide convenience to customers, apart from reducing theft and fraud. Customers now have easy access to multiple e-Money issuers to pay their contributions for selected online protection plans.

BIMB Securities contributed to Bursa Malaysia's call for increased women participation in the Malaysian capital market by participating in the Women's Day Promotional Campaign. During this period, CDS Account opening fees for women were waived to attract more women investors.



## Giving Back to the Community

Giving back to the community is an integral aspect of BHB's heritage and corporate culture. It is a priority for us in supporting charity programmes and initiatives that impact a positive influence on the community. Over thousands of needy families and individuals, communities as well as school children have benefitted from our contributions.

During the year under review, our subsidiaries carried out various community-based activities and programmes via their Corporate Social Responsibility ("CSR") umbrella of **Amal** and **Takaful myJalinan**. These ranged from financial and non-financial contributions to communities in need to established programmes that target sustainable upliftment for the long term.

In 2020, the Group contributed a total of **RM2.7 million** for its CSR efforts, with Bank Islam contributing more than RM2.2 million and Takaful Malaysia contributing more than RM380,000. Overall, the Group's employees clocked more than **6,600** man-hours as volunteers for CSR activities, with Bank Islam's employees clocking in at more than 5,800 man-hours and Takaful Malaysia's employees clocking in at nearly 500 man-hours.

*Details on the Group's CSR activities are outlined on page 110.*



## TALENT ENRICHMENT

### Workplace of Choice

Talent enrichment and management has always been a priority across our three subsidiaries. Maintaining a skilled and efficient workforce to achieve our priority in the four core areas of financial, customer, business process as well as learning and growth provided a long-term benefit to our subsidiaries. Talent development plays an important role in our business strategy in managing the important assets of the company. In the long run, we aim to increase employee performance, attract top talent and sustain a continuous coverage of critical roles by offering a healthy work culture and workplace environment that attracts and retains high calibre employees.

On this front, Bank Islam and Takaful Malaysia have consistently been voted as best company to work for and the year saw both once again receiving awards toward this achievement. Both were ranked **Most Attractive Graduate Employers to Work for** at the Graduates' Choice Award ("GCA") and Takaful Malaysia even made **HR Asia's Best Companies to Work** list.

### Values Driven Culture

Bank Islam has been dynamically working to embed its corporate **TAAT (Think Customer, Act with Integrity, Advance Beyond, Take Charge)** values in all policies, guidelines, framework and procedures throughout the year under review by addressing five key engagement drivers as critical enablers for culture change – enabling infrastructure, rewards & recognition, supervision, empowerment through autonomy, and communication. With this completed, actions plans for improvement opportunities in key HR processes are ready to roll out in 2021. These involve enhancement of people to align to desired behaviours.

Towards improving the Bank-wide employee engagement score to above 70%, impactful engagement programmes such as Divisional Town Hall, Weekly briefings and Monthly Bulletins are carried out, and there is continuous monitoring of employee engagement at Bank-wide and divisional level. An Employee Engagement Survey completed in Nov 2020 showed the achievement of an 81% Engagement Index.



### Training and development

Our subsidiaries continued to focus on training and development in 2020, leveraging on digital channels during the MCO period. This included business roll-out sessions for Takaful Malaysia's corporate agents, business engagement session for sharing product offerings, campaigns and operations related matters, and even an in-house Business English course involving a total of 70 Takaful Malaysia employees to help improve Business English Language skills among the participants with a focus on business contexts and environments.

Virtual meetings and in-house trainings combined with on-line knowledge sharing sessions are paving the way forward in ensuing continuous training and development while safeguarding the safety and health of our employees in light of the COVID-19 pandemic.

In total, the BHB group logged more than **136,000** training hours (BHB: 384, Bank Islam: 124,758, Takaful Malaysia 8,934 and BIMB Sec 2,021.5) for the year. Over **7,000 employees** participated in various training and development programmes for the year, which recorded a total investment of over **RM4.8 million**.

# MANAGEMENT DISCUSSION & ANALYSIS



## ETHICAL PRACTICE & REPORTING

### Adhering to governance

BHB ensures the highest standards of governance are practiced by our operating units. Abiding by the evolving laws and regulations by keeping track of the regulatory changes and developments ensures that we steer clear of any adverse impact in conducting our business in a responsible manner. We stay on top of the guidelines, policies and frameworks implemented by the administrative and regulatory bodies to sustain our competitive advantage in providing better value to the customers and maintaining transparency in our business operations and dealings.

Our business operations adopt high standards of ethics and compliance throughout their operational activities as well as functions and implements internal controls to minimise the risk of breaches and penalties within a reasonable tolerance. It is part of our on-going initiative to nurture an appropriate compliance culture within the Group by conforming to the laws, regulations, guidelines and specifications relevant to our business processes and industry's best practices. Our businesses continue to be guided by industry-relevant Sustainability policies, Anti-Money Laundering and Counter Financing of Terrorism ("AML/CFT") Policy, Personal Data Protection, Fraud and Integrity Policy, Whistle Blowing Policy and Anti-Corruption Policy.

The Group is mindful that to govern both business initiatives and opportunities, policies and procedures need to be constantly reassessed apart from incorporating an internal framework to identify, monitor, remediate and report non-compliance incidents as part of our commitment to embracing regulatory compliance in our business operations.

In 2020, in conjunction with the introduction of Section 17A of the Malaysian Anti-Corruption Commission Act and the National Anti-Corruption Plan ("NACP") that came into effect on 1 June 2020, BHB and our key operating subsidiaries have also established the action

plan and the Anti-Bribery and Corruption Policy. The Group is targeting to be accredited with ISO 37001 Anti-Bribery Management Systems ("ABMS") certification in the fourth quarter of 2021.

A host of virtual e-learning and trainings for Directors and employees were organised during the year to cover trending compliance topics. For example, Takaful Malaysia conducted the following e-Learning modules applicable to all its employees in 2020:

- Anti-Money Laundering and Countering Financing of Terrorism ("AML/CFT")
- Personal Information Record Management Framework ("PIRMF") Awareness
- Anti-Corruption Framework ("ACF") Acknowledgement/Declaration
- Internal Shariah Governance Policy
- Fraud Management Policy
- Climate Change and Principle-based Taxonomy e-Learning
- Operational Risk Management Framework e-Learning

*Details on the Group's Governance initiatives are covered in pages 120 to 147.*

### Earning industry acclaim

The Group and its subsidiaries were acknowledged for its responsible financial performance through various industry recognitions and awards during the year. BHB has been recognised for its improved reporting and transparency via two highly cherished awards during the year under review. These were the **ASEAN Asset Class Award** at the 2019 ASEAN Corporate Governance Scorecard Award by Minority Shareholders Watch Group ("MSWG"), and subsequently, the **Industry Excellence Award** at the MSWG-ASEAN Corporate Governance Awards 2019.

For the second time since 2015, Bank Islam was named as **Malaysia's strongest Islamic retail bank for 2020** by Cambridge International Financial Advisory (Cambridge IFA) at the sixth Islamic Retail Banking Award 2020. The award recognised the Bank's continuous focus in providing comprehensive and innovative Shariah-compliant financial and banking solutions, and demonstrated Bank Islam's readiness to become the first and only listed Islamic bank in Malaysia.

Takaful Malaysia was awarded the **Highest Returns to Shareholders Over Three Years** and the **Highest Return on Equity Over Three Years** awards at the annual awards ceremony of The Edge Billion Ringgit Club 2020 ("BRC") organised by The Edge Media Group.



## ISLAMIC FINANCE & KNOWLEDGE-SHARING

### Organisation and participation in webinars

The BHB Group has actively advanced the industry, propagating and sharing our wealth and experience to create a learned society in Islamic finance and ensure progress of the industry. BHB and our subsidiaries sustain leadership as flagbearers of the industry through provision of leadership to industry-led Islamic financing related schemes; organising engagements with universities and state religious authorities across Malaysia; and creating Shariah e-learning modules on Shariah compliance culture.

During the year under review, industry engagements included a webinar organised by the Finance, Competitiveness & Innovation Practice in the World Bank Malaysia's Knowledge & Research Hub, which discussed how various Islamic finance instruments could be used to support the recovery efforts in different countries; a University of Malaya Seminar on Islamic Banking and Finance; and an IBFIM webinar on Sustainability Focus of Budget 2021.

Another educational webinar organised was entitled "Islamic Financial Instruments for More Effective Social Impact". This webinar featured Mohd Nazri Chik, General Manager, Strategic Relations, Bank Islam together with Prof. Dato' Dr Azmi Omar, President and Chief Executive Officer of the International Center Education in Islamic Financial ("INCEIF") and Prof. Dr Amir Shaharuddin, Chief Executive Officer, Yayasan Wakaf Malaysia.

Takaful Malaysia organised the first of its kind webinar that successfully attracted more than 80 participants from various companies and business backgrounds who took part in the event that was held virtually. Focusing on the 'Ways for HR Practitioners to Assist Employees in Adjusting to the "New Norm" Whilst Continuing to Ensure Employees Engagement and Productivity during MCO', the web seminar was initiated as part of the value-added services offered to existing and potential corporate clients. In addition, it participated in the INTI College Digital Career and Internship Fair 2020 that was conducted virtually to make connections, establish professional relationships and discuss potential job and internship opportunities; and the KWSP Financial Wellbeing Roadshow to provide visitors with information on retirement savings and consultation on how to achieve financial goals by having the right financial knowledge.

BIMB Securities conducted a virtual Shariah training session to Fund Manager on the Introduction and Application of Shariah Contracts for Islamic Fund Management Companies. The training was part of the value-added services offered to the corporate clients which was attended by their employees and the Investment Committee Members. The main objective of the training was to provide the fundamental Shariah knowledge particularly on the Shariah contracts applied in Islamic fund management and its relation with the Shariah requirements by the Securities Commission Malaysia.

With the new norm of doing business, BIMB Securities conducted virtual company visits, corporate presentations and conference calls with its Institutional clients. Workshops for retail clients were also conducted both physically before MCO, and virtually, covering topics on Robotic Trading, Gateway to Shariah Global Trade and "From Bearish to Bullish".



**BHB has been recognised for its improved reporting and transparency via two highly cherished awards during the year under review. These were the ASEAN Asset Class Award at the 2019 ASEAN Corporate Governance Scorecard Award by Minority Shareholders Watch Group ("MSWG"), and subsequently, the Industry Excellence Award at the MSWG-ASEAN Corporate Governance Awards 2019.**



# MANAGEMENT DISCUSSION & ANALYSIS

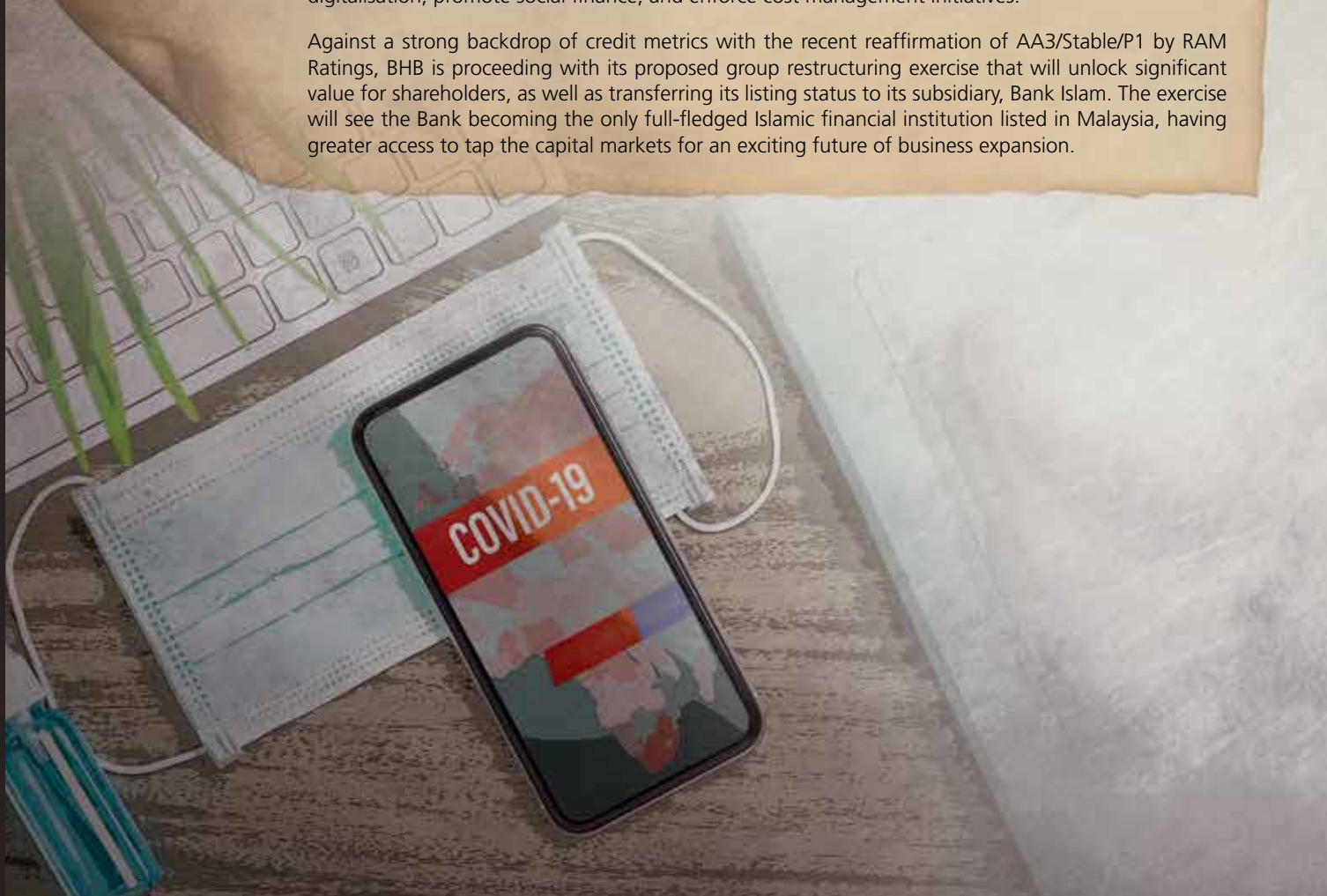
## OUTLOOK

COVID-19 is once again taking its toll on economic activities as the third wave prompts new restrictions, but the vaccine news is a game-changer for the outlook over the next two years. BNM opines that the Gross Domestic Product (“GDP”) will rebound amidst a low unemployment rate but with an improved Consumer Price Index (“CPI”). Such a positive outlook for 2021 will be backed by a favourable global growth projection and a revival in domestic economic activities. In turn, this will bode well for financial market performance.

The pandemic should be seen as a window of opportunity to grow sustainably. In this trying time, our initiatives further reflect our commitment towards financial inclusivity, which ensures development for all as we seek to support economic recovery and safeguard the rakyat’s livelihood. Therefore, as part of its business plan for 2021, the Bank is embarking on a 5-year roadmap to deliver the promise of technology, redefine growth and work in new ways to address upcoming challenges.

By 2025, the Bank Islam aspires to be the leading bank in offering Shariah environmental, social and governance (“Shariah-ESG”) total financial solutions with leadership in digital banking and social finance. The plan mobilises six strategic objectives premised on the Bank’s role as Value-Based Intermediary (“VBI”), namely **Sustainable Prosperity, Value-based Culture, Community Empowerment, Customer Centricity, Real Economy** and **Digitalisation**. The objectives will be supported by key initiatives, directly focused efforts towards the end goal in 2025 such as to expand portfolio relating to the real and green economy; implement integrated wealth management business model; accelerate digitalisation; promote social finance, and enforce cost management initiatives.

Against a strong backdrop of credit metrics with the recent reaffirmation of AA3/Stable/P1 by RAM Ratings, BHB is proceeding with its proposed group restructuring exercise that will unlock significant value for shareholders, as well as transferring its listing status to its subsidiary, Bank Islam. The exercise will see the Bank becoming the only full-fledged Islamic financial institution listed in Malaysia, having greater access to tap the capital markets for an exciting future of business expansion.



# SUBSIDIARIES' OPERATIONS REVIEW



## PERFORMANCE SUMMARY

The Bank Islam group's assets portfolio quality remained strong as reflected in the low gross impaired financing ratio of 0.67% at the end of 2020, lower than the 1.57% registered by the banking system. Total gross impaired financing was RM373.2 million compared to RM433.0 million at the end of 2019.

As of 31 December 2020, the Bank's net financing reached RM54.7 billion, a healthy 10.5% year-on-year ("Y-o-Y") growth of RM5.2 billion. This is above the 2020 KPI target of 5%, and was contributed by higher growth from both consumer and business financing growth at 11.36% and 9.22% respectively. In particular, this relates to financing in supply chain for selected industries/customers within Halal Economy, the Bank continue to replicate successful vendor financing programme business models, such as with vendors of PETRONAS, TNB, Sarawak Energy and most recently, TM Malaysia.

Customer deposits and investment accounts rose 10.1% or RM5.8 billion Y-o-Y to RM63.4 billion. Total current, saving accounts and transactional investment accounts ("CASATIA") composition is at a healthy level of 36.1% of total customer deposits and investment accounts. With a Total Capital Ratio of 19.8% as of 31 December 2020, the Bank is in a strong capital position to facilitate the targeted assistance to affected customers, and support continued business growth.

At this juncture, Bank Islam has been persevering in producing sustainable financial results that are within the industry's average, cognisant of and leveraging on the low-interest-rate environment. The Bank reported a PBZT of RM728.2 million for the FY2020, 13.7% lower compared to 2019. The decline was mainly due to lower net financing income arising from multiple downward revisions of the OPR, the recognition of modification loss due to the moratorium exercise, targeted assistance programme and pre-emptive impairment provision in consideration of the challenging economic environment.



### Awards and Achievements 2020:

- **Digital Wallet Initiative of the Year** (KipleUni Programme) by Asian Banking & Finance 2020
- **Strategic Partnership of the Year** (eJamin) by Asian Banking & Finance 2020
- **Best FPX Bank** by Malaysian e-Payments Excellence Awards 2020
- Telekosang Hydro One RM470 Million Asean Green SRI Sukuk – **Best Renewable Energy Sukuk** – Hydro Malaysia by The Asset Asian Awards 2020 Islamic Finance
- **Malaysian Deal of the Year 2019** for Urusharta Jamaah's RM27.56 Billion Sukuk by Islamic Finance News Awards
- **The Strongest Islamic Retail Bank in Malaysia 2020** at the 6<sup>th</sup> Islamic Retail Banking Awards by Cambridge IFA
- **Graduates' Choice Award 2020** for Banking sector organised by Talentbank Award
- **Al-Mansor Excellence in Islamic Financial Services Award** at the Islamic Excellence Awards 1441H/2020
- **5-Year RM1.2 billion Syndicated Commodity Murabahah Term Facility** by Serba Dinamik

# MANAGEMENT DISCUSSION & ANALYSIS

## 2020 HIGHLIGHTS



Signed **Memorandum of Understanding ("MoU")** with TM Malaysia on Vendor Financing Programme on 7 September 2020

Joint Lead Arranger/Manager or Solar Arranger – ESG Sukuk – secured mandate from a State water operator for proposed **RM10 billion** Sukuk programme; a mini hydro operator for proposed **RM850 billion** Sukuk programme; solar farm mandate and education sector



Successfully secured **Joint Lead Manager ("JLM")** role for Air Selangor **RM1.1 billion** Sukuk issuance; upsizing exercise



Specialist in **Green Financing** with **RM2.1 billion** of total green financing portfolio



Launched **personal financing** for **GSPARX solar package** for retail customers



**GO by Bank Islam** mobile banking app providing more convenience to our customers



Positive debit card growth with **3.3 million** debit cards in circulation and spending growth of **RM353.12 million** in October 2020 from **RM208.72 million** in March 2020



Sadaqa House collection of **RM5.35 million**

Launch of **BangKIT Microfinance** and **iTEKAD Microfinancing Programme** to finance selected unbanked and underbanked micro-entrepreneurs



Credit card linked to **charity, waqf and Sadaqa House** via loyalty point redemption and normal transaction



**Personal Financing-i (Asnaf)** for salaried asnaf to build or acquire house

### Awqaf Ummah Financing Programme

(end financing and bridging financing for waqf property development)



Depositors' zakat service



Spearheading **AIBIM myWakaf** initiative as Chair



More than **RM200 million** for more than 100 customers were approved under **Syarikat Jaminan Pembiayaan Perniagaan ("SJPP")** guarantee scheme

### iTEKAD Microfinancing Programme

received 20 applications approved with total amount of above **RM400,000**



**MoU signing ceremony** with **6 professional bodies** for strategic collaboration with Healthcare industry to offer real-economy programmes

## Moving Forward

The restructuring exercise will pave the way for Bank Islam to emerge as the first pure-play full-fledged Islamic financial institution listed in the nation. Bank Islam will be accorded with full autonomy in undertaking and pursuing its corporate and business strategies and adopting its capital management initiatives as a pure-play full-fledged Islamic financial institution. This means greater autonomy to pursue its individual growth strategies, improve the decision-making process and access to more flexible funding options. With a clear and distinct business focus, this should accelerate performance improvement and in turn enhance customer service.

Customers can expect the following value proposition in the Bank's business model over the next few years:

- **Integrated Wealth Management Business Model** – Bank Islam's offerings will transform from product centric to holistic financial advisory which results in a wealth creating proposition beyond basic financing solution. This includes the Islamic concept of profit-sharing where customers can opt for higher return with acceptable risk.
- **Enterprises** – For the SME market, focus will advance from financing-centric to ecosystem play. This will be achieved through enabling a Halal economy/platform to facilitate collaborative financial ecosystem play among enterprises and bank, such as business to business ("B2B") and business to customers ("B2C").
- **Wholesale Banking proposition** – Emerging total holistic financial solutions by mobilising capital to help customers achieve sustainable growth. This proposition calls for greater alignment and synergy with our investment arm, BIMB Investment.
- **Digital Bank** – Greater digital and technological capabilities will catalyse the Bank's entrance into new markets and segments. All customer segments can expect to be on board through this proposition – be it from the microfinancing or micro investing perspective.
- **Social Finance** – Customers can anticipate to be a part of Bank Islam's journey of inclusivity in empowering the unbanked and underbanked communities to becoming bankable. This will be achieved through various game-changing projects enabling wealth circulation through social finance that impacts the livelihood of beneficiaries. Some of the successful initiatives to date includes serving more than 3,000 beneficiaries through Sadaqa House, the launch of iTekad in 2020 and implementation of the BangKIT Microfinance programme.



# MANAGEMENT DISCUSSION & ANALYSIS



## PERFORMANCE SUMMARY

As a pioneer in the Islamic insurance industry for over 35 years, Takaful Malaysia has successfully transformed into one of Malaysia's leading takaful operators, providing the financial strength and risk management expertise that fulfils the protection needs of consumers. The success story of Takaful Malaysia has created an impact on the overall outlook of the insurance industry, which resulted in the emergence of a significant market for the takaful industry to expand over the conventional insurance industry.

Takaful Malaysia's total assets continued to witness a sterling performance over the last five years, increasing by 14% to RM11.8 billion during the year under review from RM10.3 billion registered in the last financial year. Net assets per share also augmented to RM1.82 in 2020 from RM1.48 in the previous year.

As a whole, the Takaful Malaysia group recorded a 2% increase in PBZT which was RM426.8 million for FY2020 compared to RM417.7 million achieved in 2019. Operating revenue of RM2,957.2 million for FY2020 was lower compared to RM3,124.6 million recorded in 2019. The decrease in revenue was mainly attributable to lower sales generated from the Family Takaful business, which generated gross earned contributions of RM1,756.9 million for FY2020, compared to RM2,042.3 million in the corresponding period last year. Sales for the year was mainly attributable to our partnerships with leading Islamic financial institutions for credit-related services and cross-selling of online and customised takaful solutions to Bank clientele, established network of treasury business in reaching out to civil servants for Mortgage Takaful coverage, and its Employee Benefits ("EB") business portfolio.

However, General Takaful business registered a growth of 7% compared to 2019, recording higher gross earned contributions of RM756.5 million for FY2020, compared to RM706.2 million made in FY2019. The growth was driven by improved customer retention and acquisition in motor portfolio. The strategic move to actively promote and market the online motor takaful plan via the digital and social media platforms has been effective in driving sales to record double-digit growth of 50%.



### Awards and Achievements 2020:

- **The Highest Returns to Shareholders Over Three Years** award in the financial services category for companies with a market capitalisation of below RM10 billion at The Edge Billion Ringgit Club 2020
- **The Highest Return on Equity Over Three Years** award in the financial services category for companies with a market capitalisation of below RM10 billion at The Edge Billion Ringgit Club 2020
- **The Most Attractive Graduate Employers to Work for in 2021** under the insurance category at the annual Graduates' Choice Award
- **The Best Companies to Work for in Asia 2020** for the third time at the annual HR Asia Best Companies to Work for in Asia Awards, Malaysia edition

## 2020 HIGHLIGHTS



Sustained our market-leading position in the **Family Takaful business** with **23%** market share



Maintained as the **second largest** in the **General Takaful business** with **24%** market share



Launched the **Click for Cover** application, a mobile application for online takaful application and services



Introduction of new product offerings: **Takaful myClick MozzCare, Takaful mySinar PA, Takaful myWealth Plus** and **Takaful mySME**

### CLICK FOR COVER APPLICATION

Featured with a secured payment gateway facility which allows online transactions for contribution payments, Click for Cover users can utilise the app to check on the details of their certificates such as the coverage, utilised amount, claims history as well as the service provider details conveniently. The app also offers fast and easy Tele Bantuan services where users can submit a request for roadside assistance via the app in the event of an unexpected breakdown or accident. Users can easily monitor the real time location of the tow truck as well as search for the nearest panel workshop within their vicinity for immediate assistance. In addition, members of Takaful Malaysia's employee benefits scheme can utilise the app to find out more about their certificate details and present their e-Medical card via the app when visiting any of our panel hospitals or clinics. Furthermore, they can locate the nearest panel hospitals or clinics and pinpoint geographical locations via the app.

### TAKAFUL myCLICK MOZZCARE

This is an affordable online protection plan that provides coverage against the ever present Dengue and Zika with lump sum cash payout up to RM4,000 upon diagnosis. This online product has been extended to cover COVID-19 at no additional cost for a lump sum cash payout of up to RM2,000 if the person covered is diagnosed with the virus. Takaful myClick MozzCare is offered to individuals aged 18 and above with an affordable price from as low as 11 cents a day or RM40 a year with three exclusive packages to choose from.

### TAKAFUL myWEALTH PLUS

Distributed via bank partners through the bancatakaful distribution channel, this is a high protection takaful plan with guaranteed cash payment. Designed as a limited pay endowment takaful plan that provides guaranteed cash payments with potential growth on investment. Providing a high protection of up to RM300,000 with no underwriting, the plan pays annual cash payments starting from the end of the second certificate year. In addition, this plan provides a compassionate allowance upon death and life event allowance upon marriage or childbirth. Customers will also receive a guaranteed maturity benefit payout up to 150% of the sum covered upon plan maturity.

### TAKAFUL mySME

Designed to cover a wide range of SMEs across industries, this plan provides SME clients the option to choose the protection they need by creating a customised and holistic package that best suits their business needs. Takaful mySME offers a wide range of protection with a high sum covered of up to RM50 million for fire coverage, including terrorism cover, apart from enhanced protection that includes all risks, money, personal accidents, public liability, goods in transit, and other optional covers.

# MANAGEMENT DISCUSSION & ANALYSIS

## Moving Forward

Takaful Malaysia has been taking necessary and thoughtful steps to strengthen its business resilience and adjust its operating models in managing the business in a very different market and dynamic operating landscape. Catalysed by ethical investment strategy and programmes, substantial growth opportunities, rising levels of awareness and high market competition, as well as stable demand in the Islamic banking and finance sector, the takaful sector is set to sustain market growth, given the forecast of resilient private consumption and low penetration rate.

Moving forward towards 2021, there will be intensified focus on the digital agenda by the introduction of innovative online protection solutions, increased distribution capabilities, strategic collaborations with leading Islamic financial institutions, implementation of investor relations programmes and advanced marketing strategies to strengthen Takaful Malaysia's brand-building efforts.

Takaful Malaysia remains vigilant and cautious in managing operating costs, supervising the balance sheet, business growth, and portfolio risk. The company intends to execute business penetration and retention strategy as a professional and leading Employee Benefits ("EB") takaful solution provider in managing medical costs with across-the-board value-added services, while adopting a long-term approach to further elevate the General Takaful business growth and increase in market penetration for motor and non-motor product portfolios.

The ultimate goal is to outpace the market and firmly be established as the preferred choice for protection amongst the consumers, further expand market reach and be an industry-leading Islamic insurance company not just amongst Takaful operators but even across the conventional insurance providers. Therefore, Takaful Malaysia will continue to pursue the highest levels of excellence and set new standards to inspire innovation in the industry, empower its clientele and improve customer experience.



**There will be intensified focus on the digital agenda by the introduction of innovative online protection solutions, increased distribution capabilities, strategic collaborations with leading Islamic financial institutions, implementation of investor relations programmes and advanced marketing strategies to strengthen Takaful Malaysia's brand-building efforts.**



## PERFORMANCE SUMMARY



BIMB Securities Berhad (“BIMB Securities”) recorded a Loss Before Zakat and Tax (“LBZT”) of RM2.3 million for FY2020 compared to LBZT of RM3.2 million in FY2019.

Nevertheless, the Company had recorded increase in gross brokerage from Retail Dealing by 250% and from Remisers by 321% as compared to 2019. Gross brokerage from Institutional Dealing had dropped by 27% as compared to 2019 with the shift of portfolio of institutional clients to global markets and fixed income.

Income from Non-Dealing such Share Margin Financing and Shariah Advisory services recorded an increase of 31% and 22% respectively in 2020 as compared to 2019. Income from investments and other income recorded a decline of 26% in 2020 due to the lower rates from banks and fund management companies.

BIMB Securities had incurred losses in 2020 albeit lower losses as compared to 2019. These were mainly due to lower income generated from Institutional Dealing as clients shifted its investment portfolios. Nevertheless, BIMB Securities had improved greatly in Retail Dealing and fee-based income, thus it aspires to continue this upward trend in the years to come. The company had also managed to reduce its expenses by 8% in 2020 as compare to 2019, mainly with lower staff expenses by 14% as compared to the previous year.

## 2020 HIGHLIGHTS



### Online Trading Application Form (“OTAF”)

With the expected prolonged MCO due to COVID-19, BIMB Securities had launched the OTAF in June 2020 to facilitate retail clients to fill in account opening forms without requirement of physically meeting the dealers.



### Robotic Trading

Collaboration with Mathcraft Sdn Bhd to provide robotic/ algo trading to Retail Clients.



### eClaims portal for staff

Launched the eClaims portal in the fourth quarter of 2020 whereby employees are able to submit their claims through an online portal and their claims will be routed to the designated persons for verification and approval.



### eHelpdesk portal for staff

Launched the eHelpdesk portal for staff in May 2020. The eHelpdesk portal is a portal to facilitate employees’ system (such as IT apps, PC, laptops, social media updates) and non-system related requests (such as booking of meeting rooms, company car, supply of stationeries).



### Marketing Representatives (“MR”)

Engaged MRs to assist the Company in garnering more business from potential retail clients. MRs are not salary based and are not required to hold dealing license. They will enjoy commission sharing for every client they bring in for BIMB Securities based on the terms and conditions agreed by both parties.

# MANAGEMENT DISCUSSION & ANALYSIS

## Moving Forward

BIMB Securities would be formally recognised as a bank-backed stockbroker compared to the previous set-up whereby BIMB Securities operates as a sister company to Bank Islam. Thus, a more comprehensive Bank Islam Group Wide Marketing initiative could be initiated to offer BIMB Securities' products and services to Bank Islam and Lembaga Tabung Haji ("LTH") depositors to rejuvenate the company's business.

BIMB Securities plans to extend their products and services to a more mixed balance of customers profile comprising of the Institutional and Retail customers to ensure sustainability, primarily domestically as well as to foreign investors. This includes the offering of Al-Murabahah Share Margin Financing ("AMSMF") product to the retail investors to generate more

fee-based income and to support a very much retail-driven profile of Bank Islam group with the increase in funds allocated for AMSMF as well as by introducing new products. BIMB Securities also plans to offer global trading capabilities to the Institutional clients by the second half of 2021 while at the same time, increases its existing global trade offerings to the retail clients.

BIMB Securities looks forward to the implementation of more comprehensive synergistic collaboration initiatives between companies within the BIMB Group, with proper KPIs assigned to each entity to ensure that the mutual benefits and business enhancements for all entities within the Group is achieved.



# ENSURING A SUSTAINABLE FUTURE

**“BHB stands at the precipice of transition today. Established on 20 March 1997 and listed on the Main Market of Bursa Malaysia on 16 September 1997, we have come a long way. Building on our subsidiary Bank Islam’s efforts – the nation’s pioneer Islamic bank – the Group has accumulated 35 years of expertise and experience and expanded an extensive portfolio of diversified businesses across the Islamic financial industry. However, we believe that to stay ahead and grow from strength to strength; we must constantly review our position and adapt to change when we need to. I am pleased to say that change is taking shape.”**

**“I take this opportunity to thank all shareholders and warrant holders for their confidence and trust in BHB and their overwhelming support and approval for the upcoming restructuring and internal reorganisation exercise. It will result in Bank Islam Malaysia Berhad taking over BHB’s main market listing status, while Syarikat Takaful Malaysia Keluarga Berhad (“Takaful Malaysia”) will retain its separate listing status.”**

**Mohd Muazzam Mohamed**  
Chief Executive Officer  
BIMB Holdings Berhad  
Bank Islam Malaysia Berhad

# MANAGEMENT DISCUSSION & ANALYSIS

In the immediate future, the planned restructuring entails a fundraising exercise, a scheme of arrangement for settlement of outstanding warrants of the Company, an internal reorganisation of the Company's subsidiaries, a distribution and capital repayment exercise involving the distribution of the Company's entire shareholdings in Bank Islam and Takaful Malaysia to the shareholders of the Company, and lastly the transfer of listing status of BHB to Bank Islam by end 2021.

The timing for this exercise has been fortunate. At the start of 2020, the greatest challenge in bringing the listing into fruition has been the spread of COVID-19 which brought the global economy to a standstill, resulting in an inevitable disruption in the way businesses operate and our restructuring plan. However, in ensuring a sustainable future within this new business landscape compounded by the consequences of the pandemic and economic challenges, the restructuring grants our Shariah-compliant business entities greater autonomy to react with agility to unique challenges of the day, respond to opportunities and reshape a sustainable future in line with the Islamic principles and VBI agenda.

The gradual path to recovery is on-going and not expected to be smooth-sailing. While we can be cautiously optimistic, depending on the successful implementation of vaccine roll-out throughout the nation, weaker global growth prospects could weigh on earnings. Within this uncertain landscape, resilience and agility will be key attributes of success. And these are precisely the benefits restructuring offers Bank Islam once it takes the helm as the only listed pure-play full-fledged Islamic financial institution, poised and ready to chart another meaningful journey in the Islamic finance sphere.

We expect the next five years to be a transformative journey for the Group. In the future, Bank Islam and Takaful Malaysia will have greater autonomy to pursue their own growth strategies, improve the decision-making process, and access more flexible funding options. Capital will be made readily available to accommodate and support respective entities business growth for the long term, targeted to be sustainable.

For our stakeholders, the restructuring offers continued commitments as well as a host of positive impacts:



**Investors** can unlock value and gain direct exposure to Islamic Banking and Takaful businesses to meet their individual investment preferences. They will also have a better insight of the business to help them analyse its performance. Though currently, Takaful Malaysia contributes approximately 39% to the BHB Group's PBZT, the exercise should not have any significant impact in term of profitability to Bank Islam. On its own, the Bank has been able to generate sustainable profit over the years. It is evidenced by improving profitability for the past five years, albeit profits have slightly tapered in 2020 due to the pandemic situation.



With a clearer and more distinct business focus, **customers** will benefit from performance improvement, clear and distinctive strategic and business direction, and improved decision-making process, which should enhance customer service.



The pure-play entities will have greater autonomy to pursue their own growth strategies and business direction plan without having to affect each other. Each entity will be able access more flexible funding options, which will help to strengthen business relations with **partners** and **suppliers**.



**Employees** of BHB will be absorbed into Bank Islam, and plans for improved talent-sourcing and better people management and development have been established at all entities



**Communities** stand to benefit from each pure-play companies, which will continue to support and fund sustained and well-managed CSR efforts. At Bank Islam, social finance will be the main focus where the financial capital leverage will ensure continuous contributions to the people and segments that matters. Efforts to engage with non-governmental organisations will continue.



Dealings and engagements with the **authorities** and **regulators** will continue to remain strong and improve with a more significant business focus. Each pure-play entities will be able to participate in government initiatives within their respective industries.



With better access to information on financial and operational matters, stakeholders such as **analysts, media, academic** and **industry** groups will be better able to assess each Company's performance for benchmarking, research, and analysis. The pure-play entities will also be able to participate in industry associations independently.

### Continued Synergies

Synergies and collaborations between the business entities, such as the banca assurance arrangement between Bank Islam and Takaful Malaysia, will continue to be fortified and improvised for both parties' benefits.

As a direct subsidiary of Bank Islam, BIMB Securities will be in a better position to achieve its target 50:50 revenue percentage contribution from Institutional and retail client. This can be done by leveraging Bank Islam's clientele to grow BIMB Securities; institutional and retail dealing brokerage business, both domestically and foreign, as well as the provision of fee income from AMSMF to ensure sustainability.

### A Digital Focus

Technological advancement has indeed changed the landscape of communication between financial institutions and users. Fintech is growing, along with InsureTech and other related technological solutions. A growing tech-savvy customer base is readily accepting these technological advancements and even increasingly expecting them to be offered in the marketplace. Embracing the latest technologies is therefore crucial in improving our functions and facilitating customers' loyalty and engagement.

The restructuring encourages Bank Islam's pursuit of technological advancements by allowing the Bank to better position itself in the Islamic finance and Islamic capital market and, capitalise on both markets' growth to expand the current customer base.

The Bank also remains open to any viable option for collaborations or partnerships with the fintech companies in creating opportunities to cross-sell while enjoying reduced

costs, complementary resources and technological transfers. Coopetition initiatives on the SME Vendor Financing Platform have been embarked on by the Bank to realise process improvements. Moving ahead, the Bank plans to leverage Digital Islamic Financial Accelerator ("DIFA") strategy to encourage and incubate the development of Islamic fintech solutions through coopetition with fintech partners. This digitalisation agenda is embedded within the Bank's VBI strategy.

On this front, our takaful business is reputed as a pioneer and early adopter of online distribution and new digital technologies, as epitomised by the online Click for Cover sales portal that supports our distribution channels. Digital and technological capabilities have enabled Takaful Malaysia to maintain uninterrupted business services to all sales intermediaries, bank partners, and customers despite the pandemic. This situation will continue in the future and to date, Takaful Malaysia already has a wide range of affordable online takaful solutions that customers can easily access at their fingertips. The company have also increased social media presence to cross-sell its online products, primarily targeting customers who may not have access to intermediaries for face-to-face selling.

In sustaining its market-leading position and support business growth and customer-centricity, Takaful Malaysia will continue with its innovative strategies via the implementation of its digital strategy, online solutions and digital ecosystem, expansion of its distribution capabilities, strategic partnerships with leading Islamic banks and brand awareness initiatives.

BIMB Securities has accelerated its digitisation initiative that would facilitate lesser face-to-face time with its clients. These include the development of new mobile application for online trading featuring paperless account opening form and digital signature, all of which are targeted for launch by mid-2021.



# MANAGEMENT DISCUSSION & ANALYSIS

## CHALLENGES & OPPORTUNITIES: BANK ISLAM

For Bank Islam, the COVID-19 pandemic presents an opportunity to move forward sustainably on the banking front. Such a far-reaching impact of one single virus raises a simple question: is there a systemic error in the way we operate, and what can be done to correct it? To stand atop its performance in withstanding the pandemic's adverse effect, Bank Islam acknowledges the emerging trends happening on account of COVID-19 and is ready to leverage on the opportunities they bring.



### **E-commerce, contactless methods for payment & delivery**

Consumers are encouraged or even required by businesses to utilise digital platforms and opt for contactless delivery to keep human interactions to a minimum level during this period.



### **Remote working, virtual meetings & online schooling**

To ensure the continuity of operations, employees are now allowed to work remotely and conduct meetings virtually. With school closures, academic institutions are switching to online platforms for learning and development activities.



### **Shift to gig/self-employed economy**

More and more impacted workforce are turning into gig economy platforms around the world to stand up on their feet and earn decent income. 1 in 4 in Malaysia are gig workers in 2019, the number is rising.



### **Employees upskilling & reskilling**

With the majority of organisations encouraging or requiring employees to WFH, many employees take the opportunity to upskill and reskill themselves via available digital tools such as online courses and webinars.



### **Businesses as part of the broader solution**

Being a corporate citizen, many businesses use their capabilities to support individuals or groups who are at the greatest risk through donations, volunteer opportunities as well as redistribution efforts for Personal Protective Equipment ("PPE") for frontliners and healthcare workers.

Post-transition, the Bank's game plan for sustainable growth is embedded in a 5-year strategic direction based on the six strategic pillars anchored on VBI principles of Sustainability – Real Economic, Triple Bottom Line, Client-Centred, Resiliency, Transparency and Value-based Culture.

The listing can potentially enhance the commercial viability of building blocks that have been identified for 2021 and catalyse a future of sustainable business growth. These include:



#### **Integrated Wealth Management Business Model**

Bank Islam aims to switch from a product-centric business focus to a holistic financial advisory vision. A revenue model based on the Islamic concept of profit-sharing can potentially attract new customers and assets, paving the way to fortify recurring non-fund-based income. It should result in higher revenue growth and customer base.



#### **Growing the Green Economy**

The Bank will intensify its focus on doubling the existing green portfolio throughout the 5-year roadmap.



#### **Support the Real Economy**

Bank Islam is focused on creating an enterprise business model with will shift towards an ecosystem beyond financing-centric, such as enabling a Halal economy platform. The Bank also aims to promote capital to help clients achieve sustainable growth, targeting larger business portfolios from corporate customers while boosting non-fund-based income. Greater synergy with Bank Islam's investment arm, BIMB Investment, is planned to attain new revenue streams through the growth of AUM.



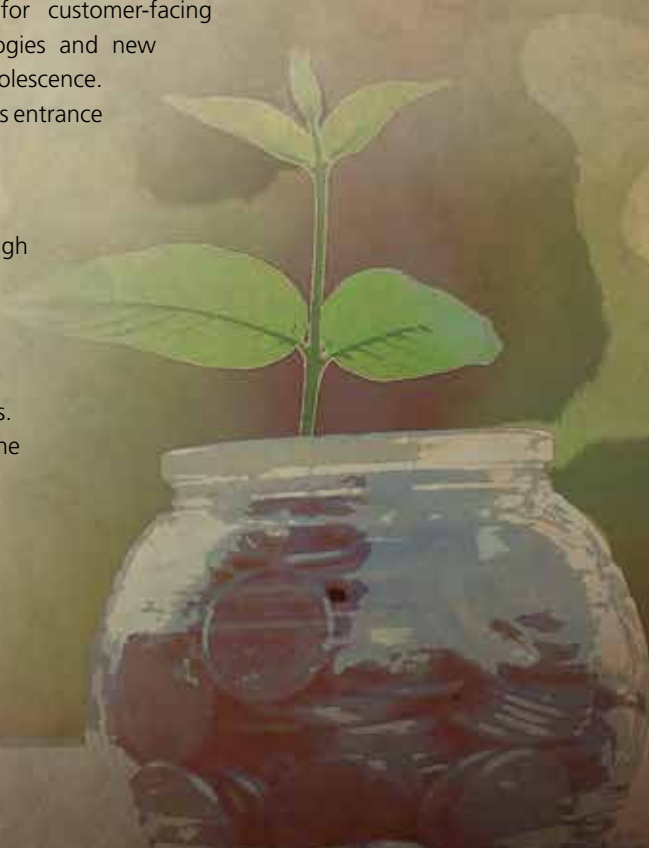
#### **Advance Digitalisation & Deployment of Digital Bank**

2021 will bring in strong execution of enhancements for customer-facing applications and the adoption of next-generation technologies and new business models premised on BaaS and SaaS to mitigate obsolescence. These implementations are geared towards catalysing the Bank's entrance into new markets and penetrating new segments.

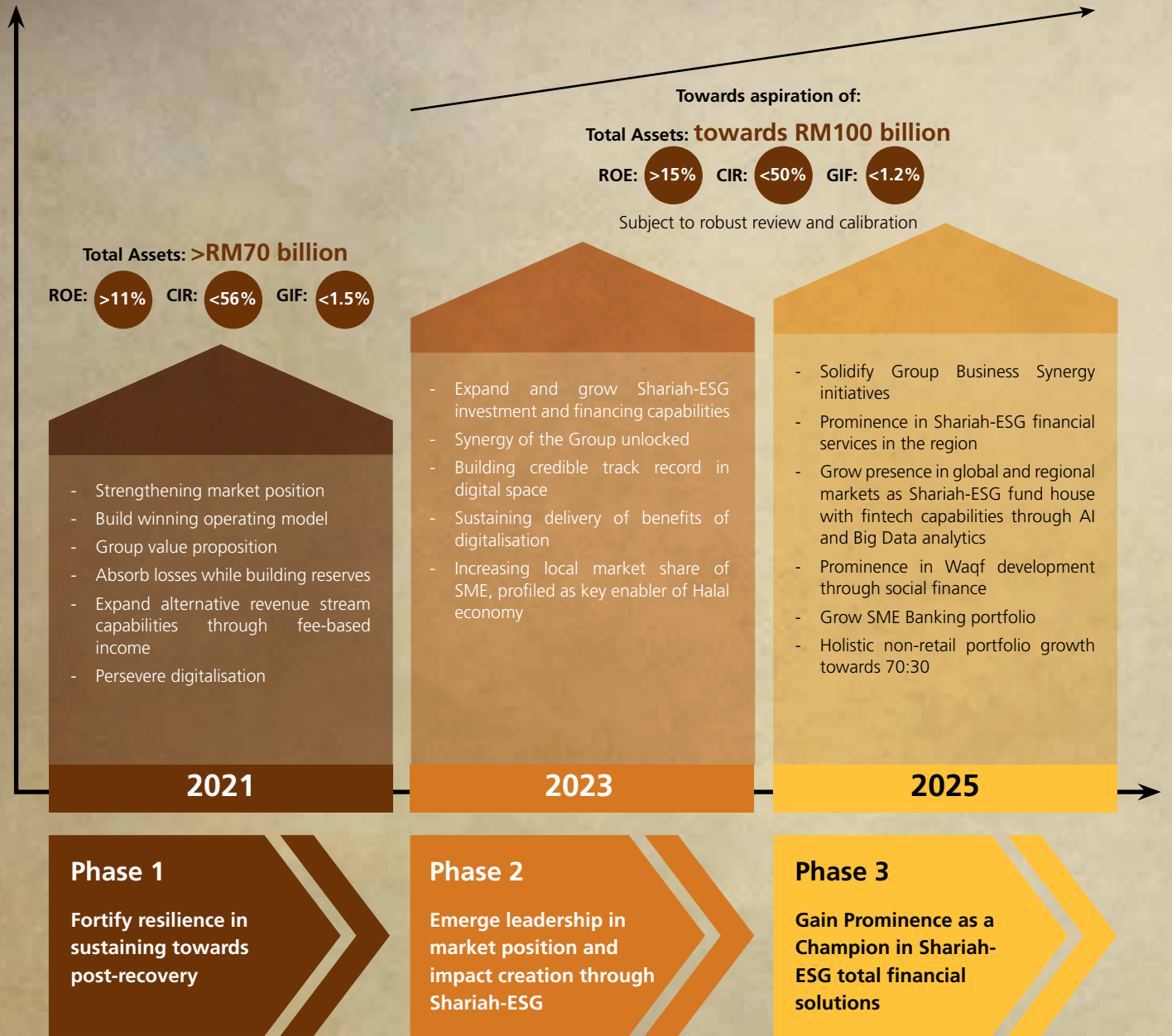


#### **Uplift Social Finance**

Bank Islam aspires to lead the way in wealth circulation through social finance model that will bring about the positive impact on the livelihood of beneficiaries. The Bank will continue to nurture communities in need through direct funding of various game-changing projects and mobilising perpetual funds returns towards empowering micro-entrepreneurs. To date, Bank Islam has more than 3,000 beneficiaries since the inception of Sadaqa House, its social finance arm.



# MANAGEMENT DISCUSSION & ANALYSIS



Our 5-year roadmap has targeted intervals in its journey.

## **CHALLENGES & OPPORTUNITIES: TAKAFUL MALAYSIA**

Increased competition and digital leadership are key challenges for the Takaful market. However, Takaful Malaysia has been agile, highly adaptive and quick to execute effective business strategies in an increasingly competitive marketplace. During the year, Takaful Malaysia stayed at the forefront of the digital transformation in the Islamic insurance industry. They provide an enhanced and new range of products with cutting-edge features in addressing the consumers' suitable unmet protection needs. They remained a top agenda for delivering growth and spearheading the industry. The company's technological capability and innovative Takaful solutions, in addition to efficient service delivery, have enabled strong business partnership with its bank partners and other intermediaries to build more business.

Moving forward, Takaful Malaysia intends to constantly invest in new technology solutions and enhancing its digital capabilities. It aims to improve operational efficiency, customer support and sales opportunities to compete in the insurance and Takaful space, apart from developing a performance-oriented culture and good corporate governance to hone a competitive edge. Towards enhancing its digital agenda to empower clientele and improve customer experience, the key strategic focus includes introducing innovative online protection solutions, increased distribution capabilities, strategic collaborations with leading Islamic financial institutions, and advanced marketing strategies to strengthen brand-building efforts.

The upcoming transfer of listing shall enable Takaful Malaysia to take a long-term view of its business development and exploit the full range of its commercial strengths. It will produce sustainable growth in shareholder value, particularly Takaful Malaysia's flexibility to strengthen its existing strategic partnership and establish potential synergy with other Islamic financial institutions without potential concern from these institutions on rival competitors within the banking sector.

However, this will not reduce potential collaborations with Bank Islam as a strategic bancatakaful partnership with the Bank has already been established over the years. Furthermore, Bank Islam has been a premier bank partner in distributing Takaful Malaysia's extensive range of takaful solutions to its clientele via telemarketing and face-to-face distribution channels. Both companies are now starting to implement new business strategies and partnerships in penetrating retail banking customers for regular contributions within the new and strategic growth areas.

Propelling towards new milestones, Takaful Malaysia aims to strengthen its role and impact as the leading takaful operator by adopting practices, offerings, and conduct that generate positive and sustainable impact to the economy, community, and environment, in line with shareholder's sustainable returns and long-term interests. Its key focus will be on maintaining lower costs, better balance sheet supervision, and robust business growth, profitability, and financial position.

## **CHALLENGES AND OPPORTUNITIES: BIMB SECURITIES**

As for BIMB Securities, post-transition, it plans to extend offerings to a more mixed balance of customer profiling from the Institutional and Retail Dealing, both domestically and foreign. This includes the AMSMF proposition to ensure sustainability and support for the retail-driven profile of Bank Islam group, with the increase in funds allocated for SMF and the introduction of new products. BIMB Securities also plans to offer global trading capabilities to Institutional clients by the second half of 2021 while, at the same time, increasing its international trade offerings to retail clients.