

INSPIRING PROGRESS

ENSURING

SUSTAINABILITY

FOR ALL

About Our Report

CORPORATE BOOK

CONTENTS

- Provides a comprehensive overview of the Group's performance for 2023 and the outlook for 2024

Aligned with our theme “Inspiring Progress, Ensuring Sustainability for All,” Bank Islam Malaysia Berhad’s Integrated Annual Report (IAR) 2023 offers a balanced view of both financial and non-financial performance, measured against key sustainability metrics. It demonstrates our commitment to deliver sustainable value for all stakeholders, built on a foundation of long-term value creation, responsible Islamic banking practices and positive contributions to a more sustainable future.

● SCOPE AND BOUNDARY OF REPORTING

This IAR is produced and published annually, covering our financial and non-financial performance for the reporting period from 1 January to 31 December 2023, unless otherwise stated.

The report provides a complete and balanced review of the primary activities of the Group, namely our overall performance and the delivery of initiatives towards achieving our goals, providing material information relating to our strategy and business model, operating environment, material risks, stakeholder interests, performance, governance and prospects.

The boundary of the report extends beyond financial reporting. It includes non-financial performance, opportunities, risks and outcomes attributable to/or associated with our key stakeholders, which directly or indirectly influence our ability to create sustainable value.

● REPORTING FRAMEWORKS

Bank Islam’s integrated reporting process, as well as the contents of this report, are guided by the principles and requirements of the following:

- Malaysian Code on Corporate Governance (MCCG) 2021
- Companies Act 2016
- Malaysian Financial Reporting Standards (MFRS)
- Bank Negara Malaysia Corporate Governance Policy
- Bursa Malaysia’s Main Listing Requirement on Sustainability Reporting
- Bursa Malaysia’s Sustainability Reporting Guide
- Global Reporting Initiative (GRI) Sustainability Reporting Standards
- Task Force on Climate-Related Financial Disclosures (TCFD)
- The United Nations Sustainable Development Goals (UNSDGs)

This report was developed with reference to the following standards, guidelines, and best practices.

- Value Reporting Foundation (VRF)
- Malaysian Code on Corporate Governance (MCCG) 2021 by Securities Commission Malaysia
- Companies Act 2016
- Bank Negara Malaysia Corporate Governance Policy



This report is available online via the Bank Islam website.

MATERIALITY AND MATERIAL MATTERS

This report aims to disclose information about matters that substantively affect our ability to create value over the short, medium and long-term and to deliver on our core purpose. A thorough assessment of material issues to Bank Islam was conducted in 2022, followed by refinements in 2023, to ensure the list remains current and reflects the evolving landscape.

Identification of material issues was based on evaluating how we create value, the impact of the external operating context on the value creation, our stakeholders' material interest, and the principal risks facing the Group.

The content of this report focuses on the issues, opportunities and challenges that are material to both our stakeholders and our business, which consequently impacts our performance.

By applying the principle of materiality to our reporting disclosures, we present vital topics that influence the Group's strategy for creating long-term value for our key stakeholders.

For more details, refer to Material Matters on pages 48-55.

COMBINED ASSURANCE

The 2023 IAR was compiled following strict internal controls and governance protocols. The non-financial data within the report underwent a thorough review and validation by the Group Internal Audit team. PwC Malaysia has also provided external assurance on the financial statements and the pertinent financial information included in the report.

FORWARD-LOOKING STATEMENTS

This IAR contains certain forward-looking statements regarding Bank Islam's future performances and prospects. These statements and forecasts are based on current judgments, subject to uncertainties as circumstances evolve. Various factors may cause actual results to differ materially from those expressed or implied by these forward-looking statements, including emerging risks and other factors that might adversely impact our business and financial performance. Therefore, these forward-looking statements should not be construed as guarantees to Bank Islam's future performance.

APPROVAL BY THE BOARD

Bank Islam's Board acknowledges its responsibility in ensuring the integrity of this IAR, in the Board's assessment, addresses material issues to the Group's ability to create value and fairly represents Bank Islam's performance for the year 2023.

This Integrated Annual Report for the Financial Year Ended 31 December 2023 was approved by the Board on 15 April 2024 and signed on its behalf by:



Tan Sri Dr Ismail Haji Bakar
Chairman

CAPITALS

FC Financial	HU Human
MF Manufactured	IN Intellectual
SR Social and Relationship	NT Natural

STRATEGIC FOCUS AREAS

SP Sustainable Prosperity	CE Community Empowerment
CC Customer-centricity	VBC Values-based Culture
RE Real Economy	D Digitalisation

KEY RISKS

CR Credit Risk	ITR Information Technology (IT) Risk
MR Market Risk	SNC Shariah Non-Compliance (SNC) Risk
LR Liquidity Risk	RCR Regulatory/Compliance Risk
OR Operational Risk	CR Climate-Related Risk

STAKEHOLDERS

IV Investors	CU Customers
EM Employees	LC Local Communities
GR Government and Regulators	

MATERIAL MATTERS

SRF Sustainable and Responsible Finance	CESF Community Empowerment and Social Finance
CX Customer Experience	SSC Sustainable Supply Chain
TD Talent and Development	CRO Climate Risks and Opportunities
GCC Good Governance and Conduct	EHS Employee Well-being, Health and Safety
DPS Data Privacy and Security	DI Diversity and Inclusion
EEI Emissions and Environmental Impact	

UNSDGS



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Inspiring Progress

Ensuring **Sustainability**
For All

Bank Islam Malaysia Berhad (Bank Islam or the Group) has been leading the way in advancing prosperity for all our customers for the past 40 years. As we continue to move forward, our core objective remains the same – to create sustainable value for all our stakeholders.

To achieve this, we have redefined our growth strategy and embraced innovative methods to future-proof our business. Our LEAP25 business strategy roadmap underpins our transformation journey, as we focus on driving sustainability, pursuing new opportunities, accelerating digital initiatives, and enhancing efficiency.

At the heart of our transformation programme is a customer-centric approach, coupled with our broad range of offerings and comprehensive digitalisation efforts. We believe this approach will help us to create new growth opportunities, while also enabling us to contribute to sustainability, green financing, Shariah-ESG and ESG-compliant investing.

As we commemorate 40 years of advancing prosperity for all, we take pride in our accomplishments and look forward to the opportunities ahead. Our unwavering commitment to providing innovative solutions and unparalleled customer experiences while staying true to our core values of integrity, excellence, and social responsibility.



Overview of Bank Islam



WHO WE ARE

Bank Islam, established on 1 July 1983 (20 Ramadan 1403H) holds the distinction of being Malaysia's inaugural Islamic bank and the first publicly listed Islamic bank in the Main Market of Bursa Malaysia on 8 October 2021. A full-fledged, pure-play Islamic bank with 135 branches and over 900 self-service terminals nationwide, Bank Islam provides banking and financial solutions that strictly adhere to the Shariah rules and principles. Our commitment remains steadfast towards fostering sustainable prosperity and upholding ESG values. Bank Islam is an official UN Global Compact Malaysia and Brunei participant, reflecting our commitment to global sustainability goals. Our core subsidiaries, BIMB Investment Management Berhad and BIMB Securities Sdn Bhd, are pioneers in Islamic financial services, namely investment and stockbroking.

We strive to create opportunities and improve lives by offering end-to-end financial solutions for our diverse customers, stakeholders, and communities. As the leading Islamic bank in Malaysia, we nurture responsible growth and progress, using our expertise and experience to help our customers achieve success and build a sustainable future for all.

HIGHLIGHTS

✓ RETURN ON EQUITY (AFTER PAZT)
7.8%

✓ DIVIDEND PAID
16.81
sen

✓ NET PROFIT (PROFIT AFTER ZAKAT & TAX (PAZT))
RM553.1
million

✓ TOTAL CUSTOMERS
4.4
million

✓ PROFIT BEFORE ZAKAT & TAX
RM746.8
million

✓ TOTAL EMPLOYEES
4,908

VISION

The bank that advances prosperity for all



MISSION

To provide solutions that deliver value

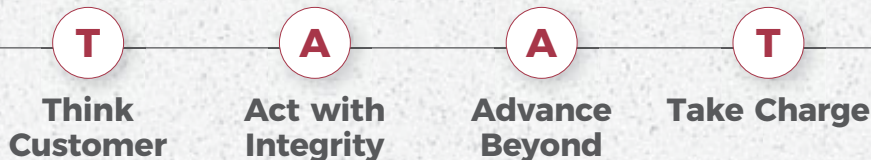


OUR BRAND PROMISE

Assuring Trust. Delivering Value.





TAAT VALUES



2023 Key Highlights

<p>PROFIT BEFORE ZAKAT AND TAX RM746.8 million (2022: RM746.9 million)</p>	<p>FINANCIAL HIGHLIGHTS</p>	<p>TOTAL ASSETS RM91.0 billion (2022: RM89.9 billion)</p>	<p>GROSS IMPAIRED FINANCING RATIO 0.9% (2022: 1.3%)</p>
<p>NET RETURN ON EQUITY 7.8% (2022: 7.5%)</p>		<p>CASATIA RATIO 39.9% (2022: 36.8%)</p>	<p>ASSET GROWTH 1.2% (2022: 12.1%)</p>

<p> Won Gold for Banking, Investment & Insurance Category at the 2023 Putra Aria Brand Awards</p>	<p>BUSINESS HIGHLIGHTS</p>	<p> 218.3 million Volume of active inquiries and transactions via online platforms</p>
<p> Launched Ihsan Sustainable Investment Account (ISIA), the first Value-based Impact Investment, offering a unique avenue for purposeful investment in SDG-aligned financing assets with a social impact contribution through the <i>zakat</i> or Sadaqa House feature.</p>		<p> Launched Selangor Halal SME Solution webpage with Halal International Selangor to provide SMEs with access to comprehensive solutions</p>

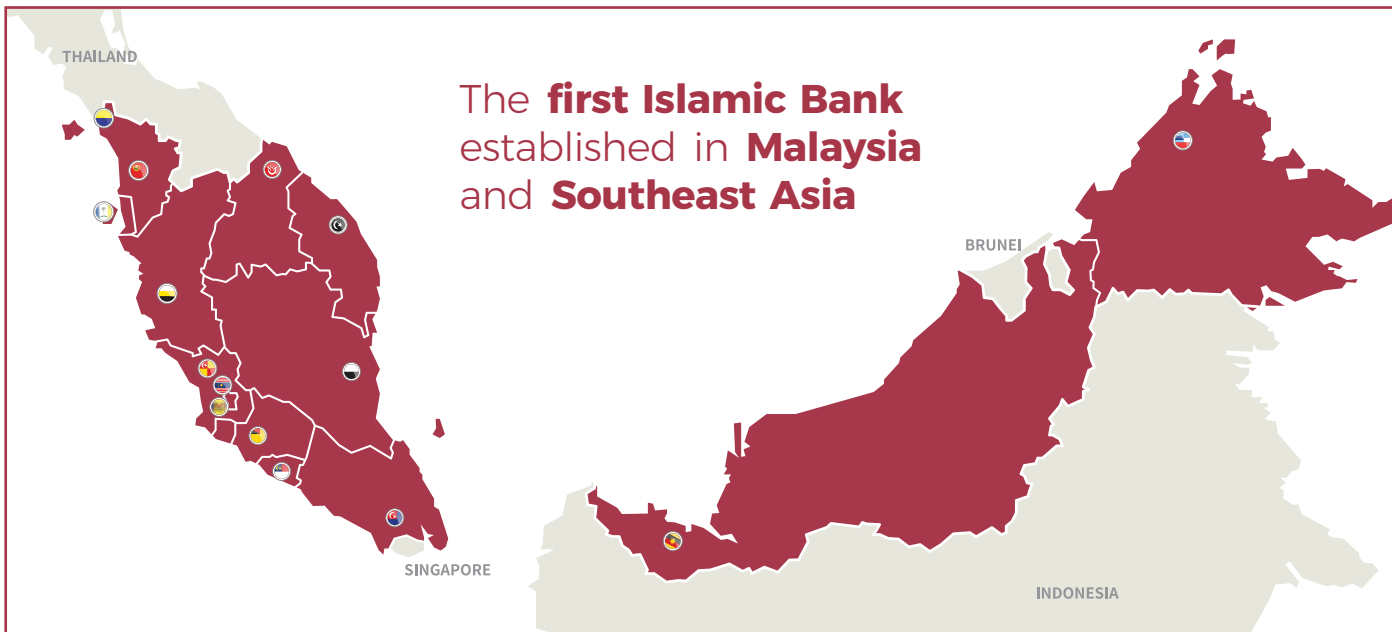
<p>Environmental</p> <p> 7 environment-friendly branches nationwide</p>	<p>SUSTAINABILITY HIGHLIGHTS</p>	<p>Social</p> <p>EMPLOYEE ENGAGEMENT INDEX 78%</p> <p>Disbursed RM8.3 million through Blended Financing Programme for microentrepreneurs</p> <p>Provided BangKIT Business Grant to 125 asnaf entrepreneurs</p> <p><i>Zakat</i> paid RM13.8 million</p>
<p>Economic</p> <p>SHARIAH-ESG ASSET PORTFOLIO RM4.5 billion (2022: RM2.9 billion)</p> <p>Invested RM12.8 million in community enrichment</p> <p> Official participant of the UN Global Compact Malaysia and Brunei</p>		



Our Presence



Scan the QR code for the details of our BRANCH NETWORK or log on to <https://www.bankislam.com>



The **first Islamic Bank** established in **Malaysia** and **Southeast Asia**

Branches

→ Central Region **45** Branches

- KUALA LUMPUR
- SELANGOR
- PUTRAJAYA



Contact Centres

- Menara Bank Islam, Kuala Lumpur
- Wangsa Maju, Kuala Lumpur



Green Branch

- Kajang, Selangor

→ Southern Region **24** Branches

- JOHOR
- MELAKA
- NEGERI SEMBILAN



Green Branch

- Senawang, Negeri Sembilan

→ Northern Region **26** Branches

- KEDAH
- PERLIS
- PULAU PINANG
- PERAK



Green Contact Centre

- Sungai Petani, Kedah



Green Branches

- Alor Setar, Kedah
- Sungai Petani, Kedah
- Butterworth, Pulau Pinang

→ Eastern Region **27** Branches

- KELANTAN
- TEREINGANU
- PAHANG

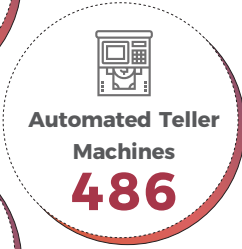


Green Branches

- Kubang Kerian, Kelantan
- Temerloh, Pahang

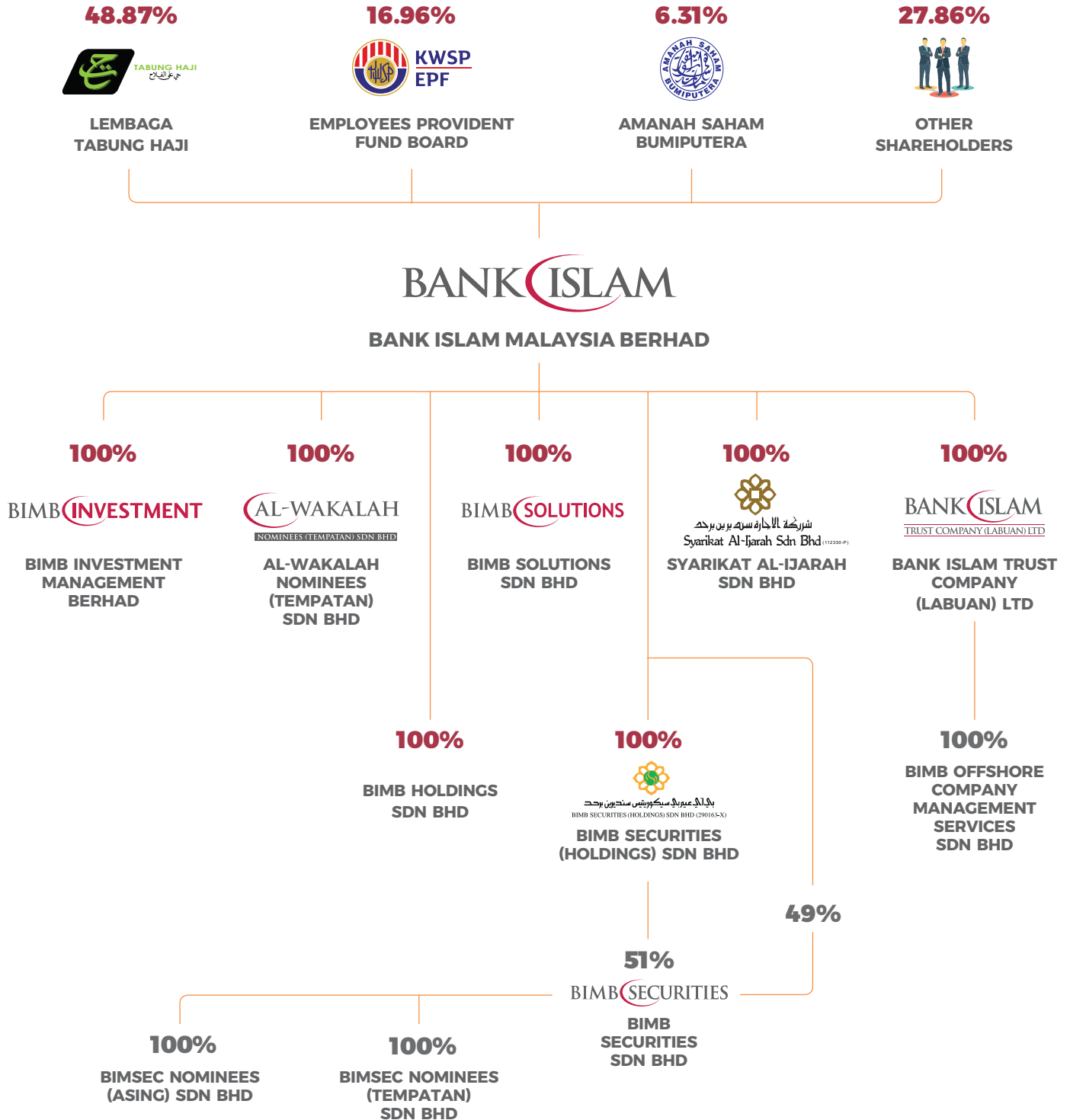
→ East Malaysia **13** Branches

- SABAH
- SARAWAK



How We Are Structured: Group Corporate Structure

as of 29 March 2024





Awards & Recognition

THE EDGE ESG AWARDS 2023:

1. Gold Award, Best E (Environment) Fund category: Makmur myWakaf Fund (MWF)
2. Gold Award, Best S (Social) & C (Governance) Fund category: Makmur myWakaf Fund (MWF)
3. Gold Award, Best G (Governance) Fund category: Makmur myWakaf Fund (MWF)
4. Silver Award, Best Allocation Fund category
5. Silver Award, Best Overall Winner category: BIMB-Arabesque Shariah-ESG AI Technology Fund (BGSEAIT)
6. Silver Award, Equity Fund category: BIMB-Arabesque Shariah-ESG AI Technology Fund (BGSEAIT)

WORLD TOURISM AWARD 2023

1. The Best Islamic Banking

RAM LEAGUE AWARDS 2022

1. 3rd, Lead Manager by Programme Value category
2. 3rd, Lead Manager (Sukuk) by Programme Value category

THE ASSET ISLAMIC FINANCE AWARDS 2023

1. Best Sustainable and Responsible Investment (SRI) Sukuk

THE ASSET TRIPLE A AWARDS 2023

1. Highly commended, Best Individual in Trading (Malaysian Ringgit bond): Joseph Ng

MUSE CREATIVE AWARDS 2023

1. Platinum Winner: Video - Banking category, Title: "Doorway to Success with Bank Islam SME Banking"

CGC 28TH FI/FDI & SME AWARDS 2022

1. Top FI Partner in the SME category

LIFE AT WORK AWARDS

1. Promising Young HR (Malaysian organisation category) - Winner: Norlieyana Roos Affandey
2. CHRO Champion (Malaysian organisation category) - 1st Runner Up: Iskandar Shah Zulkarnain

BURSA EXCELLENCE AWARDS 2022

1. 2022 Best Institutional Bursa Malaysia-i Participating Organisation - 1st Runner Up: BIMB Securities Sdn Bhd

GRADUAN BRAND AWARDS 2023

1. Top 10 (4th place), Overall Ranking among Malaysia's Most Preferred Employers in 2023
2. 1st runner up, Banking & Financial Services Sector category

GRADUATES' CHOICE AWARDS 2023

1. No. 1 Employer of Choice, Islamic Banking category
2. 4th, Top Employer of Choice, Banking category
3. 5th, Top Employer of Choice, Investment Banking category
4. Top 1% Employer of Choice in the Overall Ranking in Malaysia

MALAYSIA'S 100 LEADING GRADUATE EMPLOYERS 2023

1. Top 10 (6th place), Overall Ranking
2. 1st runner up, Banking & Financial Services Sector category



Our Competitive Advantage



**Banking on Shared Success:
Advancing Prosperity for
the Good of All**



Sizeable green financing portfolio,
**achieved Shariah-ESG assets target
of more than RM4 billion**



Dedicated Centre of
Social Finance
- Group Social Finance Division



**Robust Shariah
Governance Framework**



Values-based culture,
with emphasis on
Shariah goals and VBI principles



Strong balance sheet and
performance track record, with
**AA3/Stable/P1 rating
by RAM Ratings**



The Region's
**First Full-Fledged Islamic
Banking Institution**



Recognised by the **General Council for
Islamic Banks and Financial Institutions
(CIBAFI)** for sustainable development
initiatives inclusive of ESG practices



Ihsan Sustainability Investment Account
Empowering clients to build a nature-
positive economy, fostering environmental
resilience and inclusive growth.



Malaysia's largest network
of dedicated Islamic banking channels

Our Products & Services

OUR PRODUCTS

- ✓ Personal Financing
- ✓ House Financing
- ✓ ASB Financing
- ✓ Vehicle Financing
- ✓ SME Financing
- ✓ Credit Card
- ✓ Ar-Rahnu
- ✓ Takaful Protection
- ✓ Will Writing
- ✓ Deposit
 - Term Deposit Tawarruq (TDT)
 - Al-Awfar
- ✓ Investment Products
- ✓ Commercial and Corporate Financing Solutions
 - Term Financing
 - Trade Financing
 - Working Capital
 - Structured Financing or Programme-based Financing
- ✓ Investment Banking and Advisory
- ✓ Treasury and Markets
 - Money Market
 - Foreign Exchange (FX)
 - Fixed Income Markets
 - Structured Products

DIGITAL ECOSYSTEM

- ✓ Connected Systems (Strategy & Technology)
 - IT Blueprint
 - CODE S+
 - Data Analytics
 - Fintech Partnerships
 - Cloud-Native Digital Banking
 - Robotic Process Automation (RPA)
 - Electronic Know Your Customer (eKYC)
- ✓ Connected Processes (People & Channel)
 - Digital Academy
 - Bank Islam Shared Values
 - Digital bank through Be U
 - Mobile apps
 - Internet Banking

OUR DIGITAL FACILITIES

- ✓ Internet Banking
- ✓ GO by Bank Islam
- ✓ GO Biz by Bank Islam
- ✓ Be U by Bank Islam
- ✓ Sadaqa House
- ✓ SMEXpert
- ✓ eBanker Pro
- ✓ eMasjid
- ✓ Halal Integrated Platform
- ✓ BEST app
- ✓ BISonline
- ✓ Merchant Portal
- ✓ EZXcess
- ✓ Virtual Account Opening (VAO)
- ✓ InfaqPay
- ✓ eJamin (Collaboration with Dapat Vista (M) Sdn Bhd)
- ✓ Wealth Tech (Collaboration with Arabesque Asset Management Ltd)
- ✓ eWallet services (Collaboration with SnapNPay, kiplePay, GHL, MP@y and ME12PAY)



Significant Events 2023



➔ **13 February 2023**
Launch of e-Duit Programme in Jeniang, Kedah
 Bank Islam, in collaboration with Bank Negara Malaysia (BNM), led the launch of the e-Duit Programme in Jeniang, Kedah. The launch is aimed at promoting cashless transactions among microentrepreneurs operating at the morning market in the rural town with more than 100 entrepreneurs signing up for the programme.

18 January 2023
Bank Islam Clinches Putra Brand Awards 2022
 Bank Islam won Bronze in the Banking, Investment, and Insurance categories at the Putra Brand Awards. The win signifies the Group's effort in brand building and recognises Bank Islam as one of the preferred brands in the financial services industry.



➔ **22 February 2023**
Al-Awfar Crowns its 39th millionaire
 Al-Awfar celebrated its 14th Anniversary and 39th RM1 million grand prize winner. Five other special draw prize winners received a BMW 302i car, while another four winners drove home a Honda CR-V each. The event also announced Junior Grand Prize winners, who were each awarded a MacBook Pro and cash prizes of RM100,000 and RM50,000 respectively.



⬆️ **17 March 2023**
MoU Signing Ceremony with Mesinkira
 Bank Islam has partnered with Mesinkira Sdn Bhd (Mesinkira) to introduce an integrated mobile business management solution. The collaboration aims to help underbanked microentrepreneurs digitise their operations by providing tools for inventory management, sales tracking, and financial reporting. This will empower small businesses to enhance their efficiency and access to new markets.

January

February

March

July

June



⬆️ **6 July 2023**
Bank Islam 40th Anniversary Special Forum Perdana Ehwat Islam at Masjid Putrajaya
 A special episode of the Forum Perdana Ehwat Islam Programme (TV1) was broadcast live from Masjid Putrajaya, marking Bank Islam's 40th Anniversary celebration. During the broadcast, Bank Islam announced a significant contribution of RM825,000 to the Rumah Baiti Jannati programme in collaboration with Dewan Bandaraya Kuala Lumpur. Additionally, the Ringgit to Ringgit initiative, amounting to RM400,000, was also launched, further highlighting the Group's commitment to shared prosperity.



⬆️ **25 June 2023**
Handover of EPIC Homes by Sadaqa House
 Sadaqa House and EPIC Society achieved a remarkable feat and made a positive impact by building a home in just three days. Volunteers from Sadaqa House, EPIC Society, and Malaysia Professional Accountancy Centre (MyPAC) students funded by Bank Islam came together for this project. The completed house was delivered to Rozi Tahir from the Semai Muslim community.

18 March 2023

YSM Agropreneurs Incubator Project at International Islamic University Malaysia

32 graduates of the YSM (Youth Single Mother) Agropreneurs Incubator Project have completed their intensive agricultural and entrepreneurship classes. The participants were trained in organic farming techniques and educated on marketing their products.



31 March 2023

The Signing of a Memorandum of Understanding between Bank Islam Malaysia Berhad and Yayasan Didik Negara (YDN)

Bank Islam signed a Memorandum of Understanding (MoU) with Yayasan Didik Negara (YDN) to support the Ministry of Education's (MOE) role in education. The signing was witnessed by the Education Minister, YB Fadhlina Sidek, Bank Islam GCEO, Dato' Mohd Muazzam Mohamed, and YDN CEO, Hardian Hadir.



18 April 2023

AIBIM Ramadan Relief Programme 2023 - "Kempen Seorang Sekampit Beras"

Bank Islam joins hands with Association of Islamic Banking and Financial Institutions Malaysia (AIBIM) for the annual Ramadan Relief Programme, which aims to offer essential support to disadvantaged communities, including food, clothing and other necessities during Ramadan.

6 April 2023

Ramadan Ihtimam Programme

Bank Islam organised the Ramadan Ihtimam Programme in Pengkalan Chepa, Kelantan, celebrating the holy month of Ramadan with the local community. Activities such as distributing 'Bubur Lambuk' and zakat presentation to *asnaf* were organised, fostering shared prosperity in the community where we serve.



April

8 June 2023

Bank Islam Mastercard Credit Card-i Campaign "TRIP TO UEFA 2023" Prize-giving Ceremony

Bank Islam launched an exclusive "Trip to UEFA 2023" campaign for Bank Islam Mastercard Credit Card-i cardmembers, offering a once-in-a-lifetime experience to watch the UEFA Champions League final match in Türkiye. The Grand Prize includes two tickets to the UEFA Champions League Final, two roundtrip flight tickets to Türkiye, four days and three nights of luxury accommodation, as well as cash allowance.



7 June 2023

Continued Collaboration with the Football Association Malaysia (FAM)

Bank Islam extended our collaboration with FAM to support the Harimau Malaya national football squad. This fourth renewal partnership, not only provides crucial support to the team but also offers fans a distinctive card design.

May



26 May 2023

Bank Islam 40th Annual General Meeting (AGM)

Bank Islam's 40th AGM was held virtually, with a live broadcast from Menara Bank Islam. Attended by the full quorum of Board members, the resolutions tabled were unanimously approved by the shareholders.

Significant Events 2023



7 July 2023 CGC 28th FI/DFI & SME Award 2023 - Award Top FI Partner in SME Category

Bank Islam clinches Top FI Partner Award at the 28th FI/DFI & SME Awards 2022 ceremony organised by Credit Guarantee Corporation Malaysia Berhad (CGC), held at the Grand Hyatt Kuala Lumpur.

8 July 2023 Launch of the New Al-Awfar

Bank Islam launched the enhanced version of our signature investment account, Al-Awfar, with exciting rewards for existing and new customers at IOI City Mall, Putrajaya. The New Al-Awfar – Wow! Banyaknya! Campaign offers amazing prizes worth more than RM18 million, along with 10 new categories for customers to win. Winners of the Al-Awfar yearly bonus draw now have the opportunity to win one kilogram of gold bar and two Harley Davidson motorbikes.



5 August 2023 Engagement with iTEKAD Microentrepreneurs in Kuching, Sarawak

Bank Islam is broadening access to our iTEKAD microfinancing programme for local farmers and entrepreneurs in Sarawak by

partnering with Farm Direct Shop (FDS), a local social enterprise. Bank Islam hosted a briefing session in Kuching for local microentrepreneurs to inform them about the resources available to support their business growth. This initiative aims to empower and assist microentrepreneurs in expanding their businesses and reaching their full potential.

17 August 2023 Bank Islam's 40th Anniversary Celebration

As part of our 40th Anniversary celebration, Bank Islam unveiled our "40th Anniversary Cube" – a symbolic representation of its journey from inception to the present day, at Menara Bank Islam. Developed in collaboration with IBFIM (Islamic Banking and Finance Institute of Malaysia), the cube features several augmented reality sections within the timeline, allowing the public to scan with provided devices. This interactive and innovative approach offers visitors a unique and immersive experience, reflecting Bank Islam's commitment to progress and innovation over the past four decades.



August

October

22 to 24 September 2023 Bank Islam Sports Carnival 2023

The Bank Islam held its Sports Carnival at Universiti Teknikal Malaysia Melaka (UTeM). The annual event provides Bank Islam's employees or BITIZENS the chance to gather and take part in various sporting activities, fostering teamwork and sportsmanship. This year, 1,343 athletes from seven contingents participated in 43 sporting events, strengthening camaraderie among BITIZENS.



5 October 2023 Certification of ISO 37001: 2016 Anti-Bribery Management System (ABMS)

Bank Islam has obtained the ISO 37001 Anti-Bribery Management System (ABMS) certification from ABAC Center of Excellence Sdn Bhd (ABAC), making it the first full-fledged Islamic financial institution in Malaysia to be awarded this prestigious accreditation. ISO 37001 is an international standard that specifies requirements and provides guidance for establishing, implementing, maintaining, reviewing, and improving an anti-bribery management system.

29 August 2023

1H2023 Financial Results Announcement

The Group's Financial Results were announced on 29 August. Bank Islam reported a net profit of RM254.2 million for the six months ended 30 June 2023 (1H2023), an increase of 14.0% over the corresponding period in 2022.



22 August 2023

iTEKAD Strategic Collaboration Event

Bank Islam, the leading advocate of iTEKAD, was at BNM's inaugural 'Majlis Jalinan Kerjasama iTEKAD', officiated by the Prime Minister, Dato' Seri Anwar Ibrahim.



7 September 2023

Launch of Be U by Bank Islam VISA Debit Card-i

Bank Islam strengthens its digital banking presence with the launch of Be U by Bank Islam Visa Debit Card-i. This innovative card offers swift, secure, and contactless transactions worldwide at over 100 million Visa merchant locations. With five unique designs, it meets evolving consumer needs and demonstrates Bank Islam's commitment to modern and Shariah-compliant solutions.



11 September 2023

Launch of Bank Islam's Surau Abu Hurairah at Zoo Negara Malaysia

Bank Islam's Surau Abu Hurairah was officially launched at Zoo Negara Malaysia with the collaboration of the Ministry of Defense (MINDEF), the Malaysian Armed Forces (ATM), and the Malaysian Zoological Society. The project's goal was to provide a fully equipped, comfortable, and easily accessible place of worship for the visitors and staff of Zoo Negara. The surau was named after a companion of Prophet Muhammad SAW, Abu Hurairah, known for his kindness towards animals.

September



**18-20 September 2023
Kuala Lumpur International Finance Forum 2023**

Bank Islam was at the 18th Kuala Lumpur Finance Forum 2023, with the theme of "Harnessing Islamic Finance and Social Finance for a Sustainable Future." Bank Islam CCEO, Dato' Mohd Muazzam, delivered a keynote on "Unlocking the Potential of Embedded Finance in Empowering Islamic Finance".



**16 September 2023
Bank Islam Media Community Drive 2023**

The Bank Islam Media Community Drive, an event held to strengthen the strategic relationship between Bank Islam and the media fraternity, was held from Selangor to Penang. The objective was to thank the media for their support towards Bank Islam over the years. This treasure hunt format community drive saw the participation of 160 media personnel from 22 media agencies. The fun event was laced with CSR activities benefitting Pertubuhan Kebajikan Anak-anak Yatim/ Miskin Dar Hikmah in Gopeng, Perak.

**15 September 2023
Sadaqa House Giving Day**

Sadaqa House organised Giving Day, committed the disbursement of RM694,255 to three changemakers. This generous donation was distributed to benefit 55 congenital heart patients and 60 orphans or *asnaf*. At the event, MyVista, one of Sadaqa House's changemakers, fitted a prosthetic arm for one of the recipients, showcasing the impactful work of the initiative.



Significant Events 2023



11 October 2023

Bank Islam Investor Day

Bank Islam hosted our inaugural Investors Day to engage with key analysts and provide updates on the Bank's current financial standing and strategic plans moving forward. The event, attended by numerous investment analysts and fund managers from Kuala Lumpur, featured presentations aimed at providing insights into the Group's direction. Dato' Mohd Muazzam presented on the Bank's direction in a session titled "Driven by Purpose," followed by a presentation from the GCFO, Azizan Abdul Aziz, on Bank Islam's financial performance and sustainability.

17 October 2023

Issuance of the 5th Tranche of RM400 million Subordinated Sukuk Murabahah

Bank Islam has successfully issued our fifth tranche of RM400.0 million Subordinated Sukuk Murabahah under its RM10.0 billion Sukuk Murabahah Programme. This Sukuk Murabahah qualifies as Tier 2 regulatory capital for Bank Islam, in accordance with BNM's Capital Adequacy Framework for Islamic Banks (Capital Components). This issuance enhances Bank Islam's capital adequacy, aligning it with the Basel III requirements.



23 October 2023

11th Joint Committee on Climate Change (JC3) Conference

Bank Islam took part in the JC3 Conference organised by BNM to advocate for action on climate change. Bank Islam GCEO was invited to be a speaker at the event, highlighting the Group's commitment to sustainability.

December

12 December 2023 Memorandum of Agreement (MoA) Signing with AWARIS

Bank Islam signed a MoA with Amanah Warisan Berhad (AWARIS) to enhance service accessibility and raise public knowledge on estate planning and administration. Bank Islam will serve as a distribution channel for AWARIS' inheritance management solutions, benefiting both Muslim and non-Muslim customers.



30 November - 12 December 2023 COP28 in Dubai

Bank Islam's GCEO was invited as a speaker at the Malaysian Pavilion during the UN Climate Change Conference (COP28) in Dubai. This international conference, also known as COP - Member States Conference for the United Nations Framework Convention on Climate Change (UNFCCC), brought together 86,000 attendees from around the world. The conference aims to address the pressing issue of reducing the destruction of nature caused by human activity. The discussions at COP28 highlighted the global community's efforts in tackling the climate crisis and emphasised the changes needed for future prosperity.



18 November 2023 Mangrove Tree Planting at Cherating, Pahang

Demonstrating commitment to protect biodiversity, Bank Islam organised a mangrove tree planting activity in Cherating, Pahang. A total of 170 volunteers from the International Islamic University Malaysia (IIUM), University Islam Pahang Sultan Ahmad Shah (UniPSAS), Drug Intervention Community (DIC) Pahang, Malaysian Nature Society (MNS) and local community members participated in this meaningful event.

25 October 2023

Launch of Ihsan Sustainability Investment Account (ISIA)

Bank Islam introduced the Ihsan Sustainability Investment Account (ISIA), offering an indicative 4.5% p.a. return over 24 months. Designed for high-net-worth individual and non-individual investors, ISIA focuses on ESG and SDG themes such as renewable energy and clean transportation.



25-26 October 2023

3rd Annual Islamic Fintech Leaders Summit

Bank Islam actively participated in the Islamic Fintech Leaders Summit, a prestigious forum bringing together leaders in Islamic finance to discuss the latest developments in Fintech. The event provided a platform for insightful discussions on how Fintech is shaping the future of Islamic finance. Bank Islam's Board member, Mohd Yuzaidi Mohd Yusoff, moderated a discussion session and facilitated valuable exchanges among industry players and experts.

26 October 2023

Raising Awareness on Financial Scams

As part of Bank Islam's efforts to raise awareness on banking and investment scams, Dato' Mohd Muazzam was featured as a panellist at Forum Perdana Ehwat Islam held live from JAKIM in Putrajaya.

11 November 2023

'BITIZEN Conquers Everest Base Camp (EBC)' Expedition

13 climbers from Kelab Bank Islam Athletics (BIA) embarked on the BITIZEN Conquers Everest Base Camp (EBC) expedition and successfully achieved their mission of reaching the EBC. Trekking to an impressive altitude of 5,364 meters, reaching the base camp signifies their determination, grit, athleticism, and spirit of adventure. This accomplishment reflects the team's resilience and passion for exploration.



November



8 November 2023

Bank Islam Integrity Run 2.0

Bank Islam organised the Integrity Run 2.0 for our staff, aiming to promote and raise awareness about the importance of upholding integrity while carrying out their duties. This event encouraged our employees to embody the values of honesty, transparency, and ethical behaviour in their work.



**TAN SRI
DR ISMAIL
HAJI BAKAR**
Chairman

Chairman's Letter

**"In the name of Allah, the Most Compassionate,
the Most Merciful**

All praise is due to Allah, the Lord of the Worlds, and peace and blessings be upon the Prophet Muhammad, whom Allah send as mercy to the universe, which Allah make him a guiding and a rightly guided man, and an illuminating lamp.

And peace and blessing on his family and companions, and those who followed them benevolently until the Day of Judgment and then after.

May Allah's peace, mercy and blessings be upon you."

Dear Stakeholders,

In 2023, Bank Islam proudly celebrated its 40th anniversary of dedicated service. Since our inception, we have remained steadfast in our mission to build a financial ecosystem that is accessible and beneficial for all. Our commitment has seen us navigate through decades of transformative changes across Malaysia, and we find ourselves at a critical juncture where technological innovation intersects with pressing global challenges.

As a forward-thinking organisation, we recognise that adapting to change is imperative to meet the evolving needs and expectations of our customers and stakeholders. Digital innovation is at the forefront of our evolution, and we are committed to leveraging it to provide solutions that respond to the immediate demands of our times. Our foundational principles remain unwavering, and we continue to contribute to the prosperity and well-being of the communities we serve.

We reaffirm our pledge to uphold these values. We are confident that our growth will align with the broader progress and sustainability of the societies we serve, and we look forward to continuing our journey of innovation and service excellence for many years to come.

REFLECTING ON 2023

During the financial year, the global economy exhibited resilience, growing by 3.0% despite facing significant headwinds. This growth was primarily fuelled by the robust performance of the US economy and a notable recovery in the services sector, particularly tourism, which benefited from accumulated pandemic savings and increased spending. Despite a global trend toward tight monetary policies to address inflation, resilient labour markets supported sustained consumer spending.

Malaysia's economic landscape reflected these global trends but was also marked by its unique challenges and opportunities. Tied closely to global trade, Malaysia sought to leverage the recovery in international trade and tourism. However, the Ringgit experienced notable depreciation against the US dollar, reflecting broader economic pressures.

On the fiscal front, Malaysia responded proactively, issuing RM185.9 billion in Government Securities and Investment Issues, signalling strong financial management amid fluctuating markets. The demand for these instruments highlighted investor confidence and the resilience of Malaysia's financial markets in a turbulent global context.

Digital transformation within the banking sector has also intensified, underscored by rising customer expectations, ESG challenges, and enhanced risk management amid the rapid spread of automation. Digital adaptation has become the norm in this context, setting a benchmark for future advancements. In response, we accelerated our digitalisation initiatives, enhancing customer empowerment with digital tools like GO by Bank Islam

“ Digital transformation within the banking sector has also intensified, underscored by rising customer expectations, ESG challenges, and enhanced risk management amid the rapid spread of automation. ”

and Be U by Bank Islam, fostering innovation through employee hackathons, and improving operational efficiency with IT system categorisation. We organised DIGIT23 to stay up-to-date with the latest developments and celebrate our achievements in digitalisation within the Group and future-proof ourselves in the evolving financial landscape. These actions align with our LEAP25 strategy, signalling our commitment to digital progress and industry leadership.

Furthermore, our formidable capital adequacy and liquidity are vital pillars enabling us to navigate this evolving landscape adeptly. Through strategic foresight, we are resolutely focused on reinforcing our sustainability frameworks, refining our digital banking platforms, and strengthening our resilience to meet and exceed customer and stakeholder expectations consistently.

STRONG GOVERNANCE & LEADERSHIP

A key achievement in this area of ethical governance was Bank Islam securing the ISO 37001 Anti-Bribery Management System (ABMS) certification from ABAC Center of Excellence Sdn Bhd (ABAC). As the first full-fledged Islamic financial institution in Malaysia to receive this accreditation, it acknowledges our strong anti-corruption practices and firm commitment to zero-tolerance for bribery and corruption. This distinction reinforces Bank Islam's reputation as an ethical and responsible entity, further solidifying our position within the industry.

Strong corporate governance has been critical to Bank Islam's long-term success and growth. In 2023, our Board of Directors and leadership team focused on reinforcing our governance framework against rising ESG concerns, particularly our response to climate change. This focus reflects the critical need to align our business practices with emerging global sustainability standards and the growing imperatives of climate-related financial risks.

In response to the rapidly evolving ESG landscape, Board education emerged as a critical area of focus, underscoring the necessity for our directors to be well-versed in the latest sustainability trends and governance best practices. This year, we implemented comprehensive training programmes to deepen our board members' understanding of ESG factors, equipping them to make informed strategic decisions that reflect current realities and future imperatives. One of the programmes organised by the Group is the 2023 Directors' Conference where all directors within the Bank Islam took part in this event. With governance and sustainability as the theme, the 2023 Directors' Conference "Harmonising Talent and Governance: Leveraging ESG for Sustainable Retention" served as the platform for providing meaningful engagement and collaboration among directors, providing them with a dedicated space to exchange ideas, insights, and best practices, thereby cultivating a culture of collective learning and continuous improvement in governance practices. Amongst the topics covered were: (i) the alignment of Islamic Finance with ESG; (ii) an overview of the ESG regulatory landscape and the impact on the Group; (iii) integrating leadership with Islamic

Chairman's Letter

values and sustainability; and (iv) succession and retention of talents. In addition to the in-house training, our Board also consistently enhances their understanding by attending training organised by external parties on ESG covering the areas of sustainability, climate-related issues, and other relevant areas.

Recognising the instrumental role of diversity in fostering innovative leadership and effective decision-making, we have actively pursued a more inclusive Board composition. We believe that a truly diverse and inclusive Board will leverage differences in thought, perspective, knowledge, skill, industry experience, age and gender, all of which will ensure that Bank Islam retains its competitive advantage. Our Board is committed to maintaining diversity and inclusion in its composition and decision-making process. Achieving a 30% female representation on our Board this year marks a significant milestone, reflecting our commitment to enhancing the diversity of perspectives, expertise, and experiences at the highest levels of our organisation. As of 31 March 2024, our female representation at the Board level was at 33%, exceeding our 30% target.

In terms of age diversity, our Board maintains two distinct age categories, 50 to 60 years and 61 to 70 years, with a balanced mix between the two. We also maintain a good mix of skills and expertise in the current Board composition. The Board's diverse skill set and areas of expertise allow us to collectively bring a wide range of experience to bear in areas such as finance and accounting, risk management, actuarial science, banking, treasury, technology, and legal matters.



Exceeded initial target of

RM4 billion
in green financing to bolster the green economy by 2025

Indeed, these diversities allow for different perspectives and knowledge to be considered in decision-making.

EMBEDDING SUSTAINABILITY INTO OUR CORE

At Bank Islam, our commitment to sustainability is rooted in our Islamic banking principles, emphasising societal well-being. This foundational ethos has naturally guided our transition toward enhanced sustainability practices, aligning seamlessly with emerging standards and regulations and reinforcing our ambition to be sustainable banking leaders.

Our strategic approach to sustainability is encapsulated in our ambitious LEAP25 agenda, targeting RM4 billion in green financing to bolster the green economy by 2025. I am pleased to report that we have surpassed our Shariah-ESG asset target of RM4 billion ahead of schedule, demonstrating our proactive and effective implementation of sustainability initiatives.

Furthermore, in October 2023, we introduced the Ihsan Sustainability Investment Account (ISIA), a pioneering financial product to foster positive social and environmental outcomes alongside attractive financial returns. This account garnered RM1.1 billion in investments, offering clients a stable, short-term investment vehicle that mitigates the volatility typically associated with equities and fixed-income markets.

Our partnership with a third party for ESG rating enhancement further underscores our dedication to rigorous sustainability standards. This collaboration will refine our financing framework, enabling a deeper understanding of potential clients' environmental and social practices before extending financial support and ensuring alignment with our sustainability criteria.

We also continued to strengthen our social financing efforts. Through the iTEKAD microfinancing initiative, we have empowered 285 beneficiaries in 2023, driving social upliftment and financial inclusion. We aim to transition *zakat* recipients to *zakat* contributors, reflecting our broader goal of creating sustainable economic pathways for the underbanked and *asnaf* communities.

VALUE CREATION FOR STAKEHOLDERS

Our approach to a stakeholder economy focuses on delivering tangible value across our network, recognising each stakeholder group's distinct needs and contributions. Our ethical practices aim to address the expectations of our shareholders, employees, and communities, while placing strong emphasis on the Bank's financial performance.

For shareholders, delivering robust returns is paramount. We maintain our commitment to deliver sustainable and strong returns to our shareholders. In this regard, we are pleased to report that Bank Islam has declared two (2) interim dividends for the financial year ended 31 December 2023. The first and second interim dividend was declared on 30 November 2023 and 28 February 2024, respectively.

We view employees as the backbone of the Group and we take responsibility in creating a fair and engaging work environment. We introduced BITI-Friend in 2022, a pioneering platform designed to enhance employee well-being. This initiative facilitates access to peer support and promotes a culture where mental health is prioritised and seeking assistance is normalised, as evidenced by our positive Employee Engagement Index of 78%.

For the communities we serve, the expectation is for Bank Islam to contribute meaningfully beyond financial transactions. Our community engagement is exemplified by the Sadaqa House Orphan Fund, aiming to support orphan education. In 2023, we focused on enriching the lives of these children, not just financially but also through personal interaction with our employees actively participating in mentorship and engagement activities. The fund's impact is quantifiable, with RM1.6 million (RM1,599,939) raised last year, directly benefiting 71 individuals and demonstrating our integrated approach to community support and development.

LOOKING AHEAD

As we enter 2024, the global economic landscape presents a mixed picture of cautious optimism and lingering uncertainties. The International Monetary Fund (IMF) projects modest global growth. IMF is forecasting a deceleration from 3.0% in 2023 to around 2.7% to 2.9% in 2024, with many economies grappling to balance growth momentum against inflationary pressures and tight monetary policies. This global backdrop, particularly the stabilisation in services and potential recovery in technology sectors will influence financial markets worldwide, impacting banking sector dynamics from lending rates to investment flows.

In Malaysia, the economic outlook is more buoyant, with GDP growth anticipated to reach up to 4.7%, supported by a vibrant tourism sector and improving trade conditions. The Malaysian financial sector is expected to mirror this positive trajectory, capitalising on increased consumer spending and investment inflows. However, the banking sector must navigate the risks associated with global economic fluctuations and domestic policy adjustments, suggesting a year of strategic vigilance and adaptability.

Our approach will integrate diligent market analysis with innovative customer-focused products and expand our digital banking services. This strategy is aimed at responding effectively to the evolving needs of our customers and exploiting the positive growth trajectory projected for Malaysia. By doing so, we aim to not only navigate the challenges

ahead but also emerge stronger, securing sustainable progress for our stakeholders and reinforcing our commitment to excellence in an uncertain economic climate.

APPRECIATION & ACKNOWLEDGEMENTS

On behalf of the Board, I sincerely appreciate those who have contributed to our progress this year. We thank Encik Azizan Ahmad for his dedicated service and wisdom, which have supported our Board's efforts. We also acknowledge Dr Yasmin Hanani Mohd Safian for her valuable input to our Shariah Supervisory Council. As they depart, we welcome Tuan Syed Hamadah Syed Othman and Associate Professor Dr Nurul Aini Muhamed, anticipating their contributions to our governance and oversight.

Finally, we extend our profound thanks to all our stakeholders for your unwavering support. Your trust and collaboration inspire our journey forward, and together, we look to a future filled with promise and potential.



TAN SRI DR ISMAIL HAJI BAKAR
Chairman



**DATO' MOHD
MUZZAM
MOHAMED**
Group
Chief Executive
Officer

From the Desk of the GCEO

"In the name of Allah, the Most Compassionate,
the Most Merciful

All praise is due to Allah, the Lord of the Worlds, and peace and blessings be upon the Prophet Muhammad, whom Allah send as mercy to the universe, which Allah make him a guiding and a rightly guided man, and an illuminating lamp.

And peace and blessing on his family and companions, and those who followed them benevolently until the Day of Judgment and then after.

May Allah's peace, mercy and blessings be upon you."

Dear Stakeholders,

As we commemorate the 40th anniversary of Bank Islam, it is a moment of introspection and gratitude – a time to contemplate the very essence of our existence amidst a landscape teeming with banking institutions. The question arises: Why does Bank Islam exist? Our answer transcends the conventional success metrics; we aim to integrate profitable growth with meaningful value and purpose. We are committed to ensuring inclusivity, ensuring that our benefits reach everyone as an Islamic bank should and that no one is left behind.

This past year has showcased our commitment and resilience. Faced with a confluence of challenges – market volatility, escalating regulatory demands, and the imperative to integrate Environmental, Social, and Governance (ESG) considerations into our core strategies – we have not only sustained but thrived. I am pleased to report that Bank Islam has demonstrated commendable performance, achieving both profitability and growth.

OPERATING ENVIRONMENT

In 2023, Bank Islam navigated a challenging and unpredictable financial landscape, particularly regarding Malaysia's Overnight Policy Rate (OPR) expectations. At the end of 2022, forecasts indicated a potential rise in the OPR for early 2023, prompting the banking sector, including us, to adjust deposit rates in anticipation.

Contrary to these forecasts, the OPR remained unchanged in the early months of 2023, leading to an increased cost of deposits and, consequently, a reduction in our Net Income Margin (NIM) from 2.28% in 2022 to 2.06% in Q1 2023. This unexpected development required a strategic and prompt response to align our funding costs with the prevailing rates, thereby protecting our profitability.

Through targeted adjustments to our funding profile, we managed to mitigate the impact of the static OPR. These efforts resulted in a sequential improvement in our NIM to 2.11% in Q2, 2.17% in Q3 and further sustain the momentum to achieve a NIM of 2.13% in Q4, resulting in overall NIM of 2.12% for 2023. The strategy addressed the immediate challenge and reinforced our financial stability, showcasing our ability to respond effectively to market dynamics.

Given the importance of maintaining a healthy margin, we adopted a cautious approach to financing growth in 2023. This strategy was essential for ensuring long-term profitability, even though it led to a moderated pace of financing expansion. The focus was on recalibrating our funding strategies to enhance margins while continuing to support sustainable growth.

Credit quality also remained a key focus, especially in the uneven economic recovery post-COVID. We observed an improvement in our credit metrics, including a better pass-due-not-impaired (PDNI) ratio, indicating a positive shift in our asset quality and the effectiveness of our credit management.

PERFORMANCE HIGHLIGHTS

2023 was a year of robust financial stewardship and strategic agility for Bank Islam, as evidenced by our key performance metrics. Our net income rose 7.2% to RM2.5 billion compared to RM2.3 billion last year. This increase and improvements in operating income and fees demonstrate a strong revenue generation capability.

We registered a Group net profit of RM553.1 million for the financial year ended 31 December 2023 (FY2023), an improvement of 12.5% over the

previous year. Accordingly, EPS and net Return on Equity (ROE) for the Group have improved to 24.57 sen and 7.8%, respectively, for FY2023. Our Return on Assets (ROA) maintained a stable trend at 0.6%, aligning with forecasts and marking a slight increase from the prior year. These figures underscore our ability to generate value for our shareholders and maintain asset efficiency.

The Net Income Margin (NIM) was slightly higher at 2.1% compared to the forecast for 2023, yet there was a decrease from the previous year's 2.3%. We managed the slight dip in NIM efficiently, reflecting our proactive measures to align finance costs with the static OPR environment.

We also saw a higher Non-Fund-Based Income (NFB) Ratio of 9.0%, which was higher than the forecast, and the previous year, driven by capital gains from the disposal of investment securities, gains from unit trusts, and foreign exchange gains. This diversification of income streams played a critical role in bolstering our profitability.

Cost management was a key priority. The combination of lower NIM and higher operating cost has led to a slight deterioration in our Cost-Income Ratio (CIR), as seen in our CIR at both the

Bank level (58.2%) and Group level (60.9%). We are committed to further driving efficiency and prudent expense management despite higher staff costs and administrative expenses.

Overall, Bank Islam marked its performance in 2023 with strategic decisions that balanced growth with profitability. We exercised discretion in financing activities, particularly Non-Retail, to preserve profitability margins. Our deliberate focus on managing margins and a commitment to asset quality positioned us well to face the anticipated challenges of 2024 with confidence. Our team's ability to respond effectively to market conditions has been a testament to our resilience and positions us for continued success.

STRATEGIC PROGRESS

Throughout the past year, we have steadfastly advanced along our LEAP25 Roadmap. A notable highlight has been the development of our sustainable and green portfolio. Initially, we aimed to cultivate a portfolio worth RM4 billion by 2025. Our proactive and strategic efforts are yielding results ahead of target and schedule, underscoring our effective strategy and implementation.

Nevertheless, we faced external headwinds that have affected our profitability goals, particularly the repercussions of the Ukraine-Russia conflict. Despite these challenges, our strategic initiatives have continued progressing, demonstrating solid execution. We are adapting our strategies to meet the demands of the changing economic landscape.

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We adopted a cautious approach to financing growth in 2023. This strategy was essential for ensuring long-term profitability, even though it led to a moderated pace of financing expansion.

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From the Desk of the GCEO

As detailed below, our advancement in the LEAP25 initiative is underscored by progress across our six strategic pillars.

1. Sustainable Prosperity

The introduction of new investment account funds diversified our financial portfolio. The successful launch of the Ihsan Sustainability Investment Account (ISIA), with a substantial investment amount of over RM1 billion, underscores our aggressive pursuit of asset growth and our commitment to sustainability.

Our total assets increased primarily due to growth in financing and investment securities, offset by a decrease in cash and short-term funds. Gross financing, particularly in the Retail sector, experienced growth, reaffirming our strategic market positioning and the strength of our assets quality. Our total deposits and investment accounts also grew, contributing to a solid financial base. Furthermore, our ROE and NFBI ratio exceeded forecasts, thanks to gains from various financial activities.

In addition to resilient financial outcomes, we made significant progress in sustainability integration. We continued strengthening our position in green financing, particularly

We had mobilised over RM1 billion of investment fund through ISIA.

in renewable energy, energy efficiency, waste management, and water sector financing, aligning with the government's energy transition roadmap. Our capability to draw on deposits and investment accounts has enabled us to offer innovative financing solutions, as evidenced by the successful launch of the ISIA focusing on impact investing aligned with the UN Sustainable Development Goals.

By the end of 2023, we had mobilised over RM1 billion of investment fund through ISIA. We aim to be at the forefront of providing clients with Islamic-led alternative funding structures, such as this, that will support clients' growth and contribute to the nation's economic agenda.

2. Value-based Culture

In 2023, we focused on strengthening the organisation's culture and driving sustainable behavioural change across all staff levels, affirming our commitment for a workplace culture that reflects our shared values.

We launched a comprehensive Behavioural Study in January 2023 to better understand and shape organisational culture through effective interventions to integrally change behaviour. The initiative aimed to dissect the corporate psyche and pinpoint factors influencing staff behaviour by applying behavioural science principles. This effort supports us in building effective risk management to prevent future undesired behaviour, and in doing so, staying ahead of regulatory requirements.

Our risk and compliance culture are bolstered by ongoing training and awareness programmes encompassing root cause analysis, operational risk management, and Shariah risk awareness. The update of Group policies and the introduction of frameworks like the Partnership Model and Learning Deliverables & Effectiveness frameworks have been instrumental in enhancing compliance and ethical leadership across the Bank.

On preparing our people to be future-ready, we conducted the Future Skills Study in January to identify and cultivate the skills needed to further drive the Bank's strategy. The

high completion rate of Individual Development Plans (IDPs) by 93% of our employee is a testament to our commitment to self-improvement and skill development.

We also conducted two BITI-Pulse surveys to gain insights on employee perceptions and engagement level, allowing us to take actionable steps for improvement. These surveys explored themes on enabling environment and infrastructure, Diversity, Equity and Inclusion (DEI), work-life balance, mental resilience, flexible working arrangement and integrity. The overall positive responses for both pulse surveys were encouraging at 78% with a bank-wide response rate of 72%.

The year's Employee Engagement Index (EEI) stood at 78%, signifying strong alignment of employees' personal values with Bank Islam's initiatives for shaping the future of work in the organisation.

The high completion rate of Individual Development Plans (IDPs) by 93% of our staff is a testament to our commitment to self-improvement and skill development.

3. Community Empowerment

We continued to make strong headways in social finance, marking significant strides in societal development and welfare. Our commitment as a responsible corporate entity was evident through various initiatives aimed at uplifting communities and supporting microentrepreneurs, especially those unable to access commercial credit.

Central to our efforts were the iTEKAD BangKIT Microfinance programme, which employed the *Qardhul Hassan* (benevolent financing) concept to offer financial assistance without profit. Recognising that financial support alone is insufficient, we partnered with changemakers to provide vital training and business coaching, helping entrepreneurs enhance their business acumen and cash flow management. In 2023, we expanded these blended finance programmes across branches to broaden our reach and impact, resulting in RM8.3 million in disbursements, significantly surpassing our revised target by RM8.0 million.

In tandem, the BangKIT Business Grant (BBG) and the Sakeenah Home Ownership Programme (SakeenaHOPE) underscore our holistic approach to community support. The funding escalator as a whole including BBG initiative exceeded its disbursement target by 33.2%, allocating over RM1.3 million, while SakeenaHOPE successfully delivered housing solutions in collaboration with the Consumer Banking Division.

In 2023, we expanded these blended finance programmes across branches to broaden our reach and impact, resulting in RM8.3 million in disbursements, significantly surpassing our revised target by RM8 million.

Furthermore, through the Generic Debit Card programme, we allocated RM500,000 to Sadaqa House from annual fees, supplemented by additional contributions totalling RM274,016 in the first half of the year. The TruPoints Rewards campaign further augmented this support, raising RM30,000 for Sadaqa House by mid-2023, with subsequent contributions reaching RM5,690 by the end of August 2023.

A key development we noticed in 2023 is that other banks have started introducing their versions of iTEKAD. It underscores the essential role of collaborative efforts in expanding social finance. While Bank Islam has been a pioneer in this area, the collective involvement of larger banks, leveraging their resources and reach, could exponentially increase the positive impact on communities. Our goal is to inspire further adoption across the banking industry, amplifying the benefits of such programmes and fostering a more inclusive financial ecosystem.

4. Customer-centricity

Our commitment in 2023 was anchored in enhancing customer-centricity across all our services and operations. We focused on refining our offerings to meet the fundamental needs of our customers, mainly through digital innovations targeting holistic solutions in wealth management and customer experience.

Our drive towards digitalisation was marked by initiatives like the enhancement of our Queue Management System (QMS) and the success of our Digital Trooper-Phase II campaign, underscoring our push for digital banking excellence. The emphasis on critical e-channel transactions like Cash Withdrawal, 3rd Party Transfer, and DuitNow transfer ensured that our Self-Service Terminals (SST) remained reliable and accessible for customers.

Through customer-focused improvements, we achieved notable service excellence and customer satisfaction improvements. Our branches reported significant

enhancements in Average Waiting Time (AWT) and Average Serving Time (AST), demonstrating our efficiency in customer handling. Additionally, our complaint management process saw a 40% reduction in total service/staff complaints, surpassing our targets and reflecting positively on our internal benchmarks and those set by the Central Bank and our charters.

Customer feedback has been overwhelmingly positive, as evidenced by our Net Promoter Score (NPS) increased from 45 to 67 and our Customer Satisfaction (CSAT) score from 83% to 90%. These improvements indicate a substantial rise in customer perception and experience with our services.

Our Net Promoter Score (NPS) increased from 45 to 67 and our Customer Satisfaction (CSAT) score from 83% to 90%.



From the Desk of the GCEO

5. Real Economy

We are driven by a commitment to promoting prosperity for all, underpinned by a focus on growing wealth in the economy on equitable terms. Within this context, our efforts in retail assets and SME banking were significant. We expanded our Ar-Rahnu services with 20 new counters, achieving a notable disbursement of RM24 million and bringing the total outstanding sales of the segment to RM168.7 million by the end of December. The launch of our Gold Account in November added a new dimension to our service offerings, generating RM125,000 in fee income and marking a successful integration into our suite of financial products.

The SME i-Gain Campaign was another highlight, exceeding its RM100 million target by reaching RM125.4 million in performance, demonstrating our effective engagement with SMEs. We also introduced new SME packages that provided comprehensive support through various products and services, facilitating 10 successful applications by year-end.

Our SME financing initiatives broadened to include diverse programmes like GO Halal Financing, SME Contract

The SME i-Gain Campaign was another highlight, exceeding its RM100 million target by reaching RM125.4 million.

Financing, Biz Smart Property Financing, All Economic Sector Facility (AES) and SME Biz Grow Financing, which contributed to a significant RM100 million asset increase in 2023.

To enhance our halal economy portfolio, we engaged in strategic collaborations with Halal Development Corporation (HDC), Malaysia External Trade Development Corporation (MATRADE), Malaysian Investment Development Authority (MIDA) and SME Corporation Malaysia (SME Corp Malaysia), targeting an asset growth of RM150 million. These partnerships were enriched through various activities such as webinars, client engagement events, and participation in the MIHAS Exhibition, showcasing our commitment to the sector. The extension of our MoU with MATRADE until December 2024 further underscores our dedication to strengthening Malaysian SMEs growth to global expansion.

6. Digitalisation

To further drive our progress, we continue to embrace technology, automation, and digitalisation to refine our processes and achieve our strategic objectives. Our early start in developing a digital banking proposition has positioned us advantageously, especially in tapping into new market segments such as first jobbers and gig workers. We launched our cloud-native digital banking solution, Be U by Bank Islam, in 2022, with its debit card introduced to the public last year.

Furthermore, our targeted use of analytical tools yielded significant business insights. The Next Best Product (NBP) initiative efficiently distributed over 206,200 leads, achieving a follow-up rate of 73% and a conversion rate of 5.24%. These efforts notably increased assets by approximately RM513.2 million and deposits by RM1.9 million. Furthermore, our Product Holding Dashboards tracked a product holding rate of 3.1% by year's end, demonstrating successful cross-selling and up-selling via strategic data analysis.

The Group's active digitalisation programmes also saw substantial progress. Initiatives to introduce alternative payment form factors, such as tokenisation and mobile payment options in Google Pay and Apple Pay were planned,

with full implementation set for 2024. In addition, we targeted enhanced digital efficiency in merchant services, mainly through the digital onboarding process, aiming for significant cost savings and operational streamlining.

Strengthening our core infrastructure was another key focus. The execution of IT Blueprint & API Tech Stack Phase 2 marks considerable advancements in IT operational effectiveness and digital transformation. It covers governance and process optimisation alongside key project deployments, including FAST Retail and Finance ERP. The drive towards data extraction and transformation facilitated automated reporting, underscoring our commitment to informed decision-making and operational agility.

Our approach to cloud computing through Cloud Blueprint Development is poised to provide the scalability and agility for future digital initiatives. Security and governance remained paramount, with mandatory annual penetration tests and quarterly vulnerability assessments conducted to safeguard our digital assets. Additionally, we enhance the accuracy of our data for regulatory reporting and internal analytics via concerted efforts in data quality reviews aimed to minimise errors.

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We will emphasise adapting our products and services to meet the demands of a changing market, enhancing our digital capabilities, and investing in the skills and technologies necessary for the future.

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OUTLOOK

As we look toward the coming year, Bank Islam remains optimistic about future opportunities. Our proactive stance and strategic planning positions us well to navigate the evolving economic landscape, ensuring we continue to grow responsibly and sustainably.

The Malaysian economy is expected to show resilience in 2024, building on a recovery momentum that a quicker-than-anticipated resurgence in the tourism sector. With the Overnight Policy Rate (OPR) projected to stay at 3.0% into 2024 and a stable inflation outlook, the financial environment appears conducive to steady growth.

Additionally, government initiatives like the New Industrial Master Plan (NIMP) 2030 and the National Energy Transition Roadmap (NETR) are set to invigorate the economy further. These initiatives aim to transform key industrial sectors and align Malaysia's energy consumption with global sustainability standards, fostering growth and attracting investment in green energy, which aligns with the nation's commitment under the Paris Agreement.

In response to this landscape, Bank Islam's approach will be multifaceted. We intend to align our strategies with the nation's economic and environmental goals, mainly focusing on sectors identified for growth and sustainability. We will emphasise adapting our products and services to meet the demands of a changing market, enhancing our digital capabilities, and investing in the skills and technologies necessary for the future. This approach aims to capture strategic opportunities presented by Malaysia's economic policies and green initiatives. It ensures that our growth is

aligned with our core values of responsible and ethical banking. Our focus for 2024 emphasises on growth, asset quality, liquidity and funding management, and profitability to lead Malaysia's Islamic banking sector.

ACKNOWLEDGMENT

I wish to take this opportunity to thank all our stakeholders who have been instrumental in our success and progress all these years. First, I must commend our dedicated employees, the backbone of Bank Islam, who demonstrate unwavering dedication and commitment.

Our heartfelt appreciation also goes to our astute Board of Directors whose insightful guidance and unwavering dedication has been instrumental in steering us toward our strategic objectives. We are equally grateful to our shareholders, whose steadfast confidence and support have been pivotal to our journey and success.

Furthermore, our collaborative relationship with regulators, particularly Bank Negara Malaysia (BNM), has been invaluable. We are thankful for their supportive and constructive role in fostering a positive and progressive financial ecosystem.

Most importantly, we sincerely thank all other stakeholders who have significantly shaped our journey. As we embark on the next phase of our journey, our commitment to delivering value and upholding your trust in Bank Islam remains resolute.

We look forward to continuing this journey together with you, fostering prosperity for all.



DATO' MOHD MUAZZAM MOHAMED

Group Chief Executive Officer



Financial Review by the GCFO

The financial year 2023 was a period marked by significant challenges, notably characterised by a competitive price war for deposits and the anticipatory impacts of a potential Overnight Policy Rate (OPR) hike. These factors influenced customer behaviour and intensified the competitive landscape for deposits throughout the year, particularly from the first to the third quarter. As a consequence, we observed an increase in our cost of funding and experienced pressure on our Net Income Margin (NIM).

Despite these external pressures, Bank Islam demonstrated resilience. By year-end, we achieved a NIM of 2.1%, reflecting a decrease of 16 basis points from 2.3% in 2022. While the banking sector at large grappled with similar issues, our Bank's relative containment of NIM decline is indicative of our diligent financial management and strategic positioning.

Additionally, we addressed the ongoing post-pandemic challenges affecting diverse customer segments by maintaining flexible rescheduling and restructuring options, underscoring the emphasis we place on our customers' financial well-being. Our approach is grounded in the belief that the Bank's sustainability is interlinked with that of our customers, reinforcing our focus on their financial health alongside our operational goals.

STRONG & RESILIENT GROWTH

Against the challenging backdrop, we reported a net profit of RM553.1 million, an improvement of 12.5% from the previous year. This growth is reflected in our enhanced earnings per share (EPS) and net Return on Equity (ROE), which stood at 24.57 sen and 7.8%, respectively.

The Group's net income rose 7.2% to RM2.5 billion, up from RM2.3 billion the previous year. This increase was significantly propelled by a 75.9% surge in non-fund-based income,

Over our 40-year history, we have proven our resilience by overcoming various economic and financial crises to become a bank that is practically synonymous with Malaysia.



AZIZAN ABD AZIZ

Group Chief Financial Officer

amounting to an additional RM175.5 million. Key contributors to this rise included elevated gains from foreign exchange transactions and an uptick in investment income.

However, this positive trajectory was somewhat moderated by a slight 0.4% decline in net fund-based income, which decreased by RM8.3 million. The principal factor here was a reduction in our NIM, which declined by 16 basis points to 2.1% for FY2023, primarily due to the escalated cost of funds, despite an increase in financing. Furthermore, a rise in overhead costs and an expanded net allowance for impairment on financing and advances somewhat tempered our net income gains.

Notably, our total capital ratio remained robust, standing at 19.9%. This solid capital foundation enables us to issue financial instruments in the market at attractive rates and low costs to the Bank, thereby ensuring a sturdy capital position and supporting our ability to distribute favourable dividends.

Through strategic focus and operational resilience, Bank Islam has successfully navigated the complexities of the economic landscape, maintaining a trajectory of sustainable growth.

STRATEGIC MANAGEMENT

Bank Islam's strategy in 2023 centred on proactive balance sheet management, which is crucial for managing our NIM and liquidity requirements effectively. The year's strategic financial manoeuvres were underpinned by several key initiatives aimed at optimising our financial stability and growth:

- **Segment Composition and Funding Profile Rebalancing:** Our primary focus was on recalibrating our segment composition and funding profile mix. We aimed to enhance our current, savings and transactional investment accounts (CASATIA) ratio and operational accounts, particularly in the Retail sector, while consciously reducing our reliance on non-retail short-term deposits.
- **Deposit Drive Campaigns and Acquisition Strategies:** We actively pursued deposit drive campaigns and acquisition strategies, emphasising the Retail and SME segments. Additionally, leveraging our digital channels became an important component of our approach to support and align with our financing growth objectives.
- **Financing Portfolio Rebalancing:** An integral part of our strategy involved reviewing and rebalancing our financing portfolio. This effort was geared towards improving and optimising the asset yield across our various business pillars, ensuring a more profitable and sustainable asset allocation.

HEALTHY FINANCIAL POSITION

In 2023, Bank Islam's strategic financial management significantly strengthened our balance sheet. We achieved an increase in total assets and made a strategic shift in deposit composition, culminating in a more robust financial framework. Our asset quality saw a marked improvement, with the gross impaired financing ratio declining to 0.9% by the end of December, well below the industry average of 1.7%.

Our total assets grew by 1.2% to reach RM91.0 billion, fuelled by notable advancements in financing and investment securities, despite a downtrend in cash and short-term funds. Specifically, financing activities witnessed a 3.0% year-on-year increase to RM66.8 billion, largely driven by our Retail segment, particularly in House and Personal Financing.

We also experienced a constructive shift in our deposit composition over the year, with customer deposits and investment accounts growing by 1.2% to RM76.1 billion. This expansion was significantly bolstered by a 9.8% increase in CASATIA, which reached RM30.4 billion and represented a healthy 39.9% of our total customer deposits and investment accounts.

Moreover, Bank Islam maintained a robust Total Capital Ratio of 19.9%, emblematic of our strong capital base and adept liquidity management. Through these concerted efforts, we have solidified our financial position, ensuring sustained growth and stability in a challenging economic landscape.

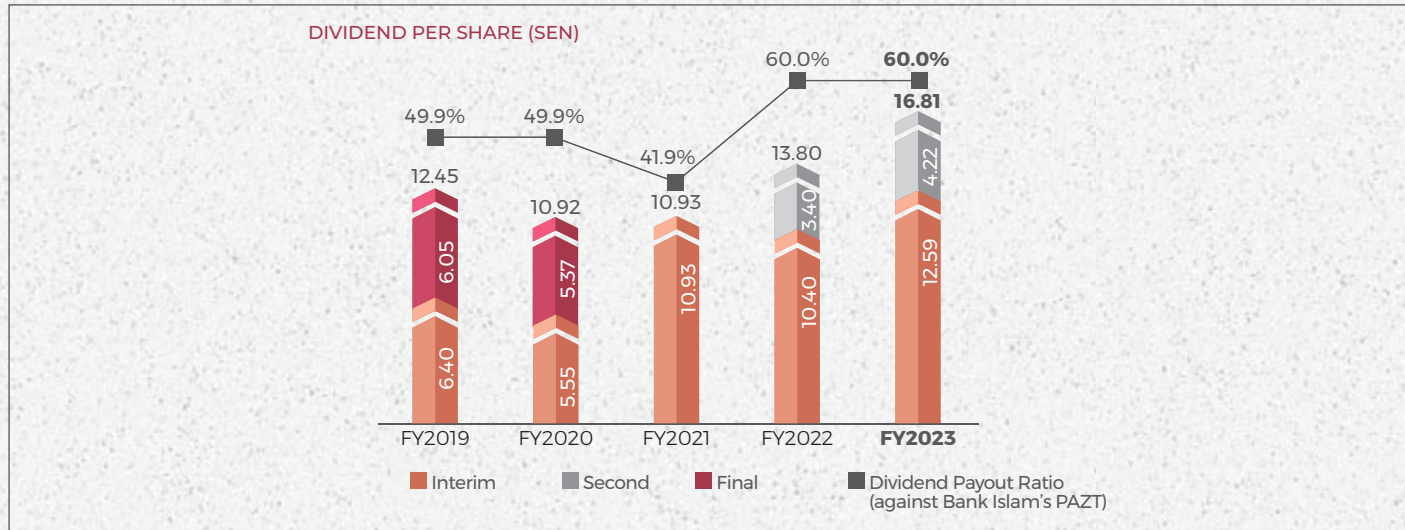
DELIVERING SHAREHOLDER VALUE

In 2023, we maintained our practice of delivering value to shareholders through steady and substantial dividend payouts, reflecting our solid financial health and recognising the importance of sharing success with our investors. Under our dividend policy initiated in 2022, the Bank allocated 60% of its Profit After Zakat and Tax (PAZT) to dividends, upholding our belief in fair compensation and appreciation for our shareholders' continued support.

For the fiscal year 2023, we announced a second interim cash dividend of 4.22 sen per share in the final quarter, leading to an annual total of 16.81 sen per share. This distribution is a testament to our strong profitability and our intention to maintain a transparent and rewarding relationship with our shareholders, thereby enhancing investor trust.

Additionally, the upward trend in our share prices throughout the year reflects growing investor confidence. With a Total Capital Ratio that consistently exceeds the 18% to 19% range, reaching 19.9%, our financial stability is evident and compares favourably with our industry peers. Looking ahead to 2024, we aim to uphold these rewarding financial results for our shareholders, supported by our robust capital base and dedication to financial prudence.

Financial Review by the GCFO



CAPITAL ALLOCATIONS INTO NON-FINANCIAL PERFORMANCE

We recognise the essential connection between our financial strength and our broader corporate responsibilities. Therefore, we strategically directed our resources into key growth areas and initiatives that reflect our responsibility towards our stakeholders and the environment:

- Enhancing Digital and Customer-centricity:** Digital innovation lies at the core of our strategy to refine customer experiences, emphasising speed and adaptability in our service offerings. By embracing advanced technologies and hiring experts with deep digital acumen, we accelerate our digital journey. This approach aids in gathering and analysing customer insights, which supports our efforts to enhance NIM through improved customer engagement.
- Embracing Sustainability:** Our identity as an Islamic financial institution is intertwined with our commitment to Value-based Intermediation (VBI) and adherence to Environmental, Social and Governance (ESG) standards. We ensure our operations are beneficial and ethical, aligning with Shariah principles. Our stance on avoiding coal financing reflects our environmental dedication. Additionally, we engage in activities aimed at promoting sustainability, such as making our branch operations more efficient, advancing paperless banking, and assessing flexible work options to achieve environmental and economic benefits.
- Fostering Social Contributions:** The Sadaqa House initiative illustrates our approach to community engagement, offering a platform for meaningful wealth distribution. This programme allows us to extend support to those in need in a manner that is mindful of our financial framework and shareholder interests. Our actions in this area are designed to be impactful, measurable, and in harmony with our ethical banking standards.

OUTLOOK

As we look ahead to 2024, we remain positive about our growth prospects and financial solidity, even amidst anticipated challenges. Our focus will be on identifying and capitalising on strategic market opportunities, while adhering to prudent asset quality management to ensure sustained financial health.

Key to our forward-looking strategy is a commitment to capital preservation and thoughtful reinvestment approaches, which are integral to fostering growth and enhancing shareholder value. In parallel, we plan to diversify our client solutions beyond conventional financing, aiming to empower our clients' financial progress and value creation. This diversification will include innovative options like listing assistance and private equity fundraising initiatives.

Furthermore, we aim to augment our non-fund-based income and achieve financing growth that surpasses industry averages, all while upholding exemplary asset quality. We intend to expand our wealth management services and maintain a strong presence in the retail market. Growth in CASATIA, through strategic partnerships and support for cashless transactions, particularly in the retail and SME sectors, will remain a focal point.

We also expect better earnings growth with a bigger volume of financing. NIM is projected to stabilise due to continued efforts and expectations that the OPR will stay unchanged in 2024. The main focus will continue to be managing NIM via rebalancing our funding composition. Bank Islam's financing growth this year will be driven by both the retail and non-retail portfolios.

In summary, 2024 is viewed with optimism as we aim to leverage our core strengths, adapt to market dynamics, and continue our trajectory of sustainable growth and financial stability.

Performance Outlook Over the Short and Medium-Term

Metric	Short-Term	Medium-Term
Return on Equity (based on PAZT)	8.0%	9.0% to 10.0%
Cost-to-Income Ratio	58.0% to 59.0%	57.0%
Financing growth (year-on-year)	7.0% to 8.0%	
Gross Impaired Financing Ratio	< 1.1%	
Common Equity Tier I (CET I) Capital Ratio	13.9%	14.2%
Total Capital Ratio	20.4%	21.2%