



# 2021

## VALUE-BASED INTERMEDIATION FULL REPORT

## Acknowledgement

Association of Islamic Banking and Financial Institutions Malaysia has commissioned the International Shari'ah Research Academy for Islamic Finance (ISRA) Research Management Centre, INCEIF University to produce this Value-based Intermediation Full Report 2021. The authors are Assoc. Prof. Dr. Said Bouheraoua (Advisor), Dr. Noor Suhaida Kasri (Project Coordinator), Mezbah Uddin Ahmed, and Dr. Marjan Muhammad (ISRA). Section 3 of the report is contributed by Mohamed Rozani Mohamed Osman, Ahmad Hafiz bin Abdul Aziz, and Shahira Zaireen binti Johan Arief Jothi from the World Bank Group Inclusive Growth and Sustainable Finance Hub in Malaysia, under the guidance of Abayomi A. Alawode.

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The Lens Of Cashless Payments**



On the contribution for Section 8:

**Special Segment: Value-based Intermediation  
For Takaful – An Introduction**

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# AT A GLANCE

This preliminary section introduces the Association of Islamic Banking and Financial Institutions Malaysia (AIBIM), the key driver behind the publication of this report.

The report summary, followed by the snapshot of the Value-based Intermediation (VBI) market, will provide readers a quick overview of the report and the significant contribution of the VBI sector to the country's socio-economic recovery amidst this most challenging period in the national history.

# 1.0



# About AIBIM

AIBIM is a dynamic, visible, responsive and effective organisation representing the Islamic finance industry.

AIBIM is driven by the VBI thrusts that its members subscribe to in serving customers and the community and in protecting the environment. It promotes a sound Islamic banking system and practice in Malaysia. It also represents the interests of its members locally and abroad, and provide advice and assistance to the members pertinent to the development of Islamic banking and finance at the local, regional and global levels.

It also coordinates human capital development initiatives for the members and promote public awareness on Islamic finance.

Established in 1995, AIBIM was known as the Association of Interest-Free Banking Institutions Malaysia prior to assuming its present name, Association of Islamic Banking and Financial Institutions Malaysia on 16 May 2018. Almost all banking intermediaries offering Islamic banking in this country are members of AIBIM. Today, it hosted 27 member banks as follows:

Domestic Banks					
					
					
Development Financial Institutions					
	Locally Incorporated Foreign Banks				
					



# Foreword from the Chairman

**First and foremost, I would like to record my sincerest appreciation to the members of AIBIM for their commitment to working together on the second Islamic Banking Industry Value-based Intermediation Full Report 2021.**

This report will provide readers with an overview of the significant contributions of the Islamic banking and finance industry, through the Value-based Intermediation (VBI) principle, in assisting the country's socio-economic recovery amidst this most challenging period in the 21<sup>st</sup> century. The prolonged COVID-19 pandemic has increased the demand for and relevance of VBI initiatives, sealing the importance of Islamic financial instruments in accelerating VBI implementation.

When Bank Negara Malaysia launched the VBI concept in 2017, it aimed to re-orient Islamic finance business models towards realising the objectives of Shari'ah in order to generate a more positive and sustainable impact on the economy, community and environment through the practices, processes, offerings and conduct of the industry players.

The aim is consistent with shareholders' expectations of sustainable returns and safeguarding long-term interests while adhering to the tenets of the Qur'an and Sunnah.

The intended outcomes of VBI—which culminate in the triple bottom line of people, planet and profit/prosperity—are compatible with the sustainability agendas propagated by the United Nations through the Sustainable Development Goals and the Principles for Responsible Banking promulgated in the United Nations Environment Programme Finance Initiative.

The Islamic financial institutions have contributed significantly in pursuing sustainability efforts domestically. The industry has intermediated **RM146.6 billion** in VBI-aligned initiatives, and over **RM65.2 million** has been distributed under the Islamic social finance tools during the reporting period (October 2020 until September 2021).

The critical role of Islamic financial institutions is more apparent with the ongoing pandemic wherein economic challenges have adversely impacted the livelihood of many. Undoubtedly, it has also reminded us that the resilience of the financial sector greatly affects the economy and remains a key enabler in helping businesses persevere.

*Alhamdulillah*, Islamic finance continues to be of service to the stakeholders and to support the nation's economy despite facing the headwinds of COVID-19.

After a two-year battle, Malaysia is now ready to transition to the endemic phase. The exit strategy to move from the pandemic stage is an opportune time to bolster businesses and the economy and further close the existing economic gap by focusing on the unserved and underserved segments.

With the reopening of the economy and country's borders, Islamic financial institution will play a more prominent role as it gears up in addressing the needs of businesses and individual customers. Attention will also be given to the most vulnerable segment, particularly the B40s and the micro, small and medium enterprises.

By embracing VBI, Islamic financial institutions are in a better position to facilitate holistic economic recovery and growth by offering a

wide range of value-based financial products and services as envisioned in the Financial Sector Blueprint 2022-2026 by Bank Negara Malaysia. The effort includes strengthening the role and acceptance of social finance and further expanding the potential of Islamic financial instruments to narrow the gaps.

In realising the fundamentals of Islamic finance, the industry will also focus on value creation and value-based enterprises that safeguard the environment.

However, these pursuits will be impossible without the collective efforts of various stakeholders, including the Government and its agencies, the regulators, and those outside the financial sector, such as the religious bodies, waqf institutions, the private sector, and non-governmental organisations.

We will continue to innovate and agilely adjust to changes in addressing the market's real needs while improving our processes and effectiveness.

Islamic financial institutions remain steadfast in driving change to build a prosperous, inclusive and sustainable Malaysia, *inshāAllah*.

May this report be an excellent reference to all readers as we embark on a brighter and better future for the Islamic financial industry and the nation.

#IslamicBanksCare  
#STAYSAFE  
#KITAJAGAKITA

Sincerely,  
**Mohd Muazzam Mohamed**  
Chairman  
VBI Community of Practitioners

# About This Report

**The Value-based Intermediation 2021 Full Report** is a follow-up on an earlier report, *Intermediating Beyond Profits: Inaugural Islamic Banking Industry Value-based Intermediation Preview Report 2017-2020*. The precursor report reflected the organic journey of Malaysian Islamic banking institutions in implementing VBI initiatives and the growth of the industry since the early inception of VBI in 2017 till September 2020.

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**The prolonged COVID-19 pandemic has increased the demand for and relevance of VBI initiatives. It impelled the Islamic banking sector to further push the boundary beyond banking, to activate stakeholder collaboration, to innovate and digitalize offerings in reaching out to the most vulnerable sectors: the unserved and underserved individuals and businesses.**

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These 'new-norm' Islamic banking practices are in harmony with the national development agenda, the Twelfth Malaysia Plan (2021-2025), which aims to build a prosperous, inclusive and sustainable Malaysia.

The production of the current report, the VBI 2021 Full Report, is thus timely. It highlights the journey and the progress of the VBI initiatives from **October 2020 till September 2021** (the reporting period). It features the growth of the VBI industry as well as its role in alleviating the financial hardship faced by the unserved and underserved community during the reporting period.

This year's report adds several new features that were not present in the previous report. It takes

a look at how the Malaysian Islamic banking industry is faring in comparison to the United Nations' sustainability agenda. It highlights the role of technology in furthering the VBI and features case studies of VBI initiatives by 15 members of the Community of Practitioners (CoP). The discussion on VBI via Islamic social finance (ISF) tools – i.e., compulsory almsgiving (zakat), voluntary charity (ṣadaqah) and endowment (waqf), and the emphasis on the debtor category of zakat recipients (*ghārimīn*) – during the pandemic era highlights and updates the readers on the Sharī'ah remedies for addressing the adverse impact of the pandemic. Finally, the introduction of Value-based Intermediation for Takaful informed readers on its complementary role to VBI and upcoming journey in the Takaful industry.

The recently launched Bank Negara Malaysia Financial Sector Blueprint 2022-2026 (Blueprint)

is not deliberated in this report as it is outside the reporting period. However, it is worth noting the key contribution envisioned for VBI, it being one of the five financial sector key strategic thrusts for 2022-2026. With the aim of having a wider adoption across the financial sector, VBI will be further advanced towards promoting greater social, economic and environmental resilience through its value, impactful and innovative business solutions

and practices. ISF, being part of the VBI, will be further elevated and mainstreamed into the Islamic finance ecosystem in view of its crucial role in fostering social resilience. Digitization, another key strategic thrust, will be further developed to support a vibrant digital financial landscape.

The information, data and findings presented in this report are based on internet research and surveys conducted by AIBIM and the World Bank Group on all AIBIM member banks as well as the public. While reasonable care has been taken to ensure that a comprehensive report is presented on the growth of the VBI industry, the incomplete responses received from AIBIM member banks may inadvertently affect the comprehensiveness of the data reporting.

# Value-based Intermediation Snapshots

The data on the VBI-related initiatives indicated below is sourced from the survey conducted by AIBIM of its member banks. Based on the information received, a total of **RM146.6 billion** have been intermediated by the banks in VBI-related activities and over **RM65.2 million** have been distributed under ISF during the period covered in this report (2020-2021). The amounts were **RM155.6 billion** and **RM204 million** respectively for the period covered in the Preview Report (2017-2020). It should be noted that the deposit, financing and investment figures represent the reporting period end balance. The snapshots of their activities are as follows:

**12.2%**

of deposit and investment account balance is VBI-related  
Worth about **RM48.7 billion**



**18.0%**

of financing balance is VBI-related  
Worth about **RM82.6 billion**



Over **27,000**

financing accounts for affordable housing  
Worth over **RM5.0 billion**



About **42,000**

financing accounts for green financing  
Worth over **RM7.1 billion**



Over **123,000**

financing accounts for financing to SMEs and micro-SMEs  
Worth over **RM51.0 billion**



Over **4,400**

financing accounts for financing for education  
Worth over **RM5.0 billion**



Over **1,500**

public infrastructure financing accounts  
Worth over **RM3.9 billion**



**21.6%**

of investments are VBI-related  
Worth over **RM15.2 billion**



Nearly **200**

projects of value-added services were professionally managed  
Worth nearly **RM103 million**



Over **193,000**

recipients of Islamic social finance funds  
Worth over **RM65 million**



**62.3%**

of Islamic social finance recipients received zakat  
Worth over **RM36 million**



**71.5%** of zakat

recipients fall under the category of *fi sabilillah* (for education)  
Worth nearly **RM17 million**



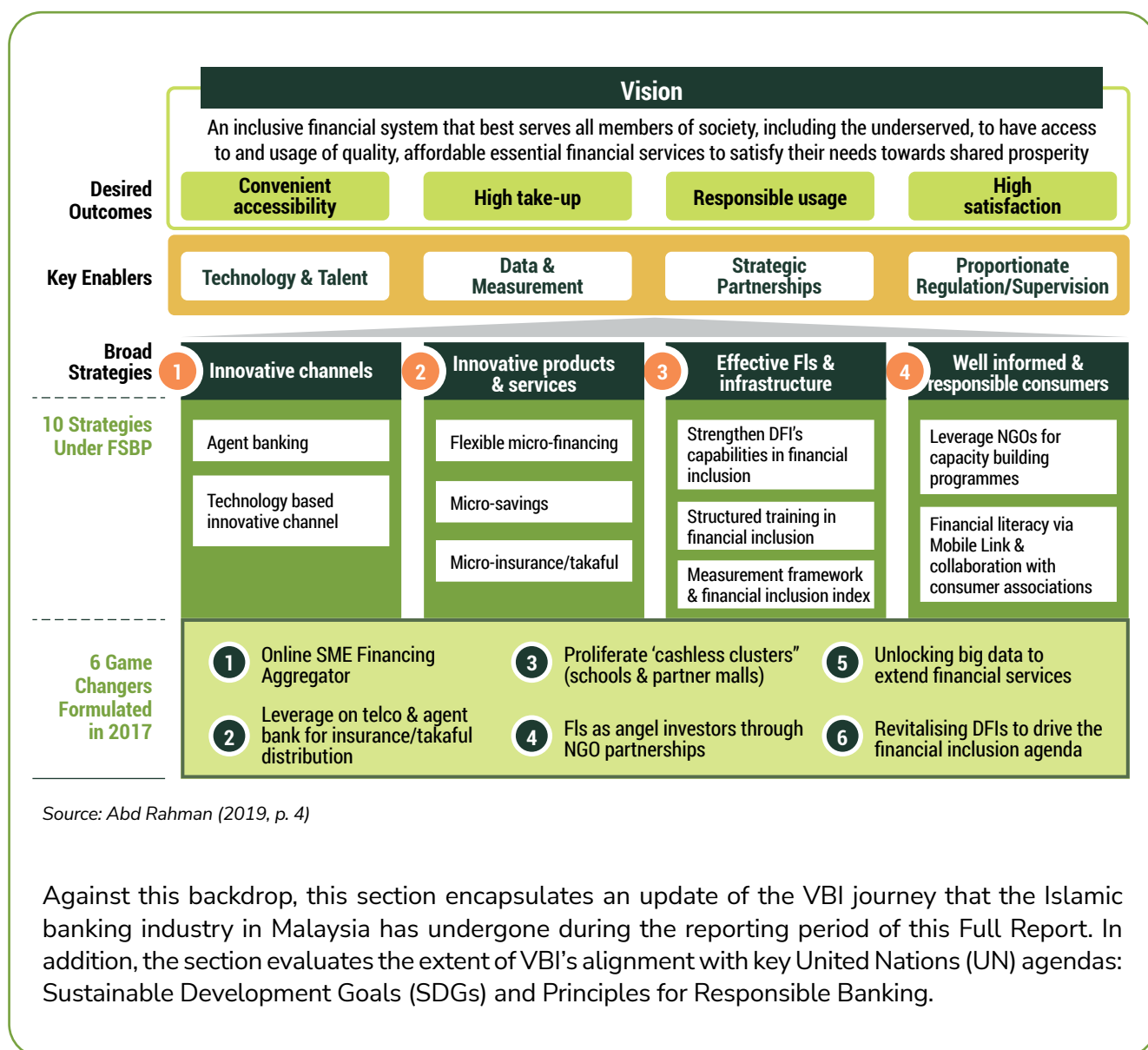
# **VALUE-BASED INTERMEDIATION DEVELOPMENT: KEY HIGHLIGHTS**

# **2.0**

Although the VBI concept was officially introduced in July 2017 by Bank Negara Malaysia (BNM), the notion of financial sustainability and inclusivity was first broached in the Financial Sector Blueprint 2011 – 2020 (FSBP), the second 10-year masterplan released by BNM in 2011. The FSBP was formulated in line with the two national policies launched by the Government of Malaysia in 2010: the New Economic Model and the Economic Transformation Programme, which aimed to achieve a high-income, inclusive and sustainable nation.

The FSBP established a comprehensive Financial Inclusion Framework for greater shared prosperity and sustainable economic growth. The Framework was further strengthened via the issuance of the Financial Inclusion Strategic Plan (Revisited) 2017-2020, which identified six game changers to further facilitate progressive and sustainable financial inclusion. (Refer to **Figure 2.1**).

**Figure 2.1: Financial Inclusion Framework under the FSBP (2011-2020) and Revisited Strategic Plan (2017-2020)**





## 2.1. Value-based Intermediation Journey: The Journey

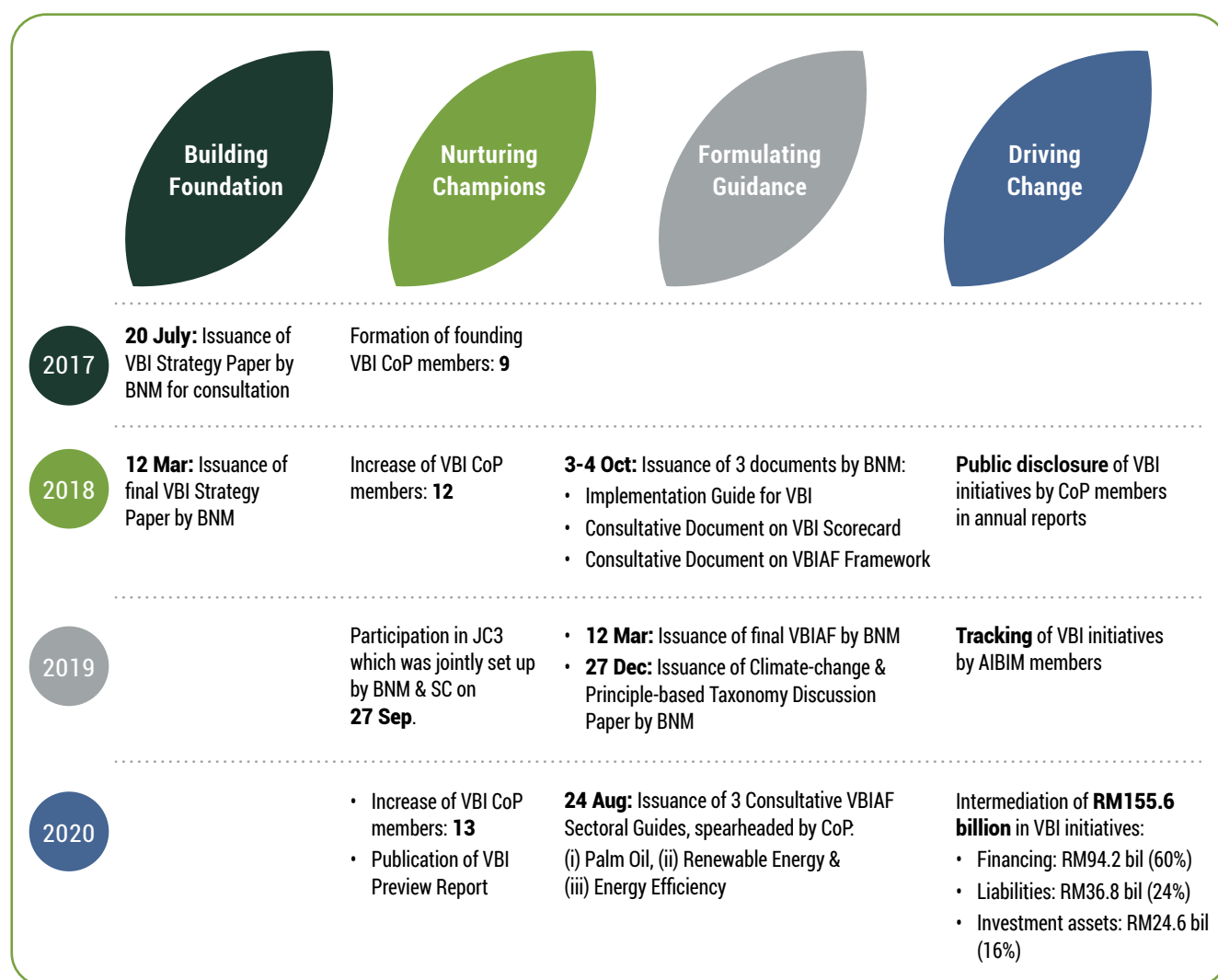
The Preview Report highlighted that within less than a four-year journey of growth (January 2017 – September 2020) VBI has progressed from a mere strategy paper to actionable directives. These include issuance of implementation and sectoral guides, disclosures of VBI initiatives by CoP members, and tracking of VBI-related activities and initiatives by AIBIM members. Other initiatives include participation in the Joint Committee on Climate Change (JC3) established by BNM and Securities Commission Malaysia (SC), release of the Climate Change and Principle-based Taxonomy Document by BNM, nurturing the VBI community, and promoting VBI intermediation activities.

Therefore, the first four critical years signify:

- **building a well-grounded foundation** that moves the novel concept forward
- **nurturing champions** who can alter the Islamic banking landscape
- **formulating guidance** spearheaded by both the regulator and CoP members
- **initiating change** via public disclosures and intermediation activities that give impact to the triple bottom line (TBL): people, planet and profit/prosperity

**Figure 2.2** recaps the achievements of this four-year journey.

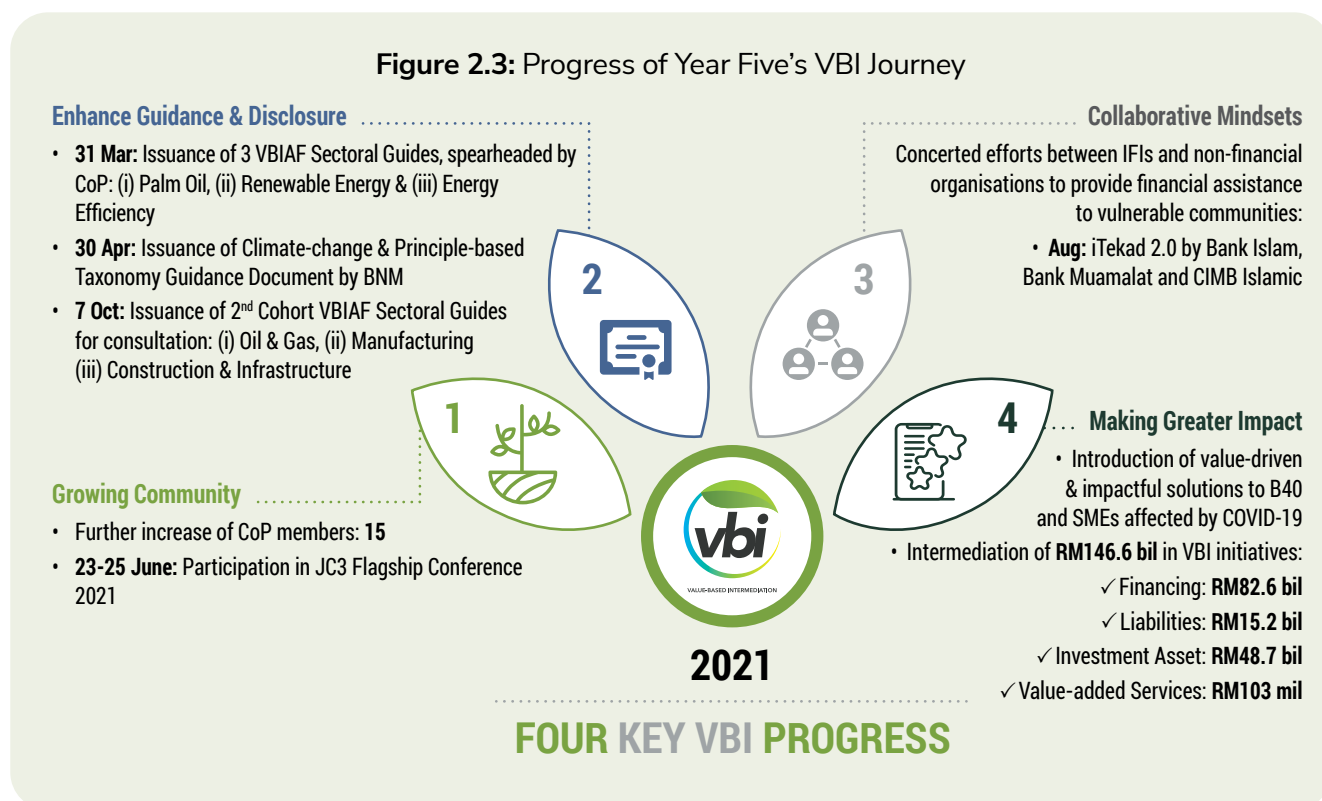
**Figure 2.2: Key Achievements of the Four-year VBI Journey (2017-2020)**



Source: Adapted from AIBIM (2020)



Continuing the VBI journey to Year Five, i.e., in 2021, the VBI community made further progress and steady growth, premised on four key themes as captured in **Figure 2.3** and followed by their descriptions in the ensuing paragraphs.



Source: ISRA & AIBIM

## 1. Growing VBI Community

As of October 2021, there were 15 CoP members, representing 57% of total AIBIM members. This accounts for almost a double increase from 2017, when there were only nine CoP members (35%) consisting of five founding members and additional four more members (refer to **Figure 2.4**).

**Figure 2.4: CoP Membership: Progress from 2017 to 2021**



Source: AIBIM

Apart from the growing VBI community among the CoP, AIBIM members participated in various JC3 initiatives such as collaboration with the business community to support their funding needs in line with sustainable practices, engagement with government ministries and agencies to promote greater alignment of financial sector policies and strategies with the national approach of sustainability, and organisation of awareness programmes. For example, on 23-25 June 2021, JC3—led by Sub-committee 4 (Engagement and Capacity Building)—organised its Flagship Conference 2021, which hosted more than 6,300 participants from over 400 companies including AIBIM members. With the theme *Finance for Change*, the Flagship Conference 2021 attracted participation from multiple sectors and stakeholders including regulators, boards of directors, practitioners, clients, investees and other value chain players.

## 2. Enhanced Guidance and Disclosure

2021 witnessed BNM, CoP members and relevant sectoral stakeholders continuing to enhance a suite of guidance related to climate change and the environment for identified key sectors. The guidance includes the issuance of the VBI Financing and Investment Assessment Framework (VBIAF) 1<sup>st</sup> Cohort Sectoral Guides in March 2021 on:

- Palm Oil
- Renewable Energy
- Energy Efficiency

In addition, the VBIAF Sectoral Guide Working Group, which was led by CoP members, released the consultative documents for the VBIAF 2<sup>nd</sup> Cohort Sectoral Guides in October 2021 on:

- Oil & gas
- Manufacturing
- Construction & infrastructure

These Sectoral Guides aim to facilitate the implementation of an ESG impact-based risk assessment framework by financial institutions in their financing and investment decision-making process. **Figure 2.5** summarises key components of the VBIAF Sectoral Guides.

**Figure 2.5: Key Components of VBIAF Sectoral Guides**



Source: Adapted from BNM (2021, p. 44)

These VBIAF Sectoral Guides are in line with the Climate Change and Principle-based Taxonomy (CCPT) issued by BNM on 30<sup>th</sup> April 2021. The CCPT document, which is applicable to both conventional and Islamic financial institutions, aims to provide a common framework that supports risk assessments of climate-related exposures and that encourages financial flows toward the green economy. It guides CoP members in assessing and classifying economic activities that contribute to climate change mitigation and adaptation.

As part of promoting VBI transparency and accountability, 2021 saw CoP members enhancing their public disclosures in various reports including the Integrated Annual Report, Sustainability Report and Task Force on Climate-related Financial Disclosure (TCFD) Report. TCFD is an international disclosure framework developed by the Financial Stability Board (FSB) in 2015 to provide reliable information to stakeholders on financial institutions' exposure to climate-related risks and opportunities. In April 2021, HSBC Amanah became the first CoP member to issue the TCFD Report following its VBI Disclosure 2019.

### 3. Collaborative Mindsets

2021 witnessed greater concerted efforts from various stakeholders including outside the financial sector, such as religious bodies, waqf institutions, business industry associations, government agencies, non-governmental organisations and community centres, stepping forward to aid vulnerable communities who have been adversely affected by the COVID-19 pandemic. This is reflected in various Islamic social finance (ISF) activities undertaken by Islamic banks in collaboration with State Islamic Religious Councils (SIRCs) and strategic implementation partners. Notable examples are two industry-led initiatives spearheaded by AIBIM:

- myWakaf: a strategic collaboration among six Islamic banks, namely Affin Islamic Bank Berhad, Bank Islam Malaysia Berhad, Bank Muamalat Malaysia Berhad, Bank Kerjasama Rakyat Malaysia, Maybank Islamic Berhad and RHB Islamic Bank Berhad
- myZakat: a strategic collaboration among seven Islamic banks, namely Affin Islamic Bank Berhad, AmBank Islamic Berhad, Bank Islam Malaysia Berhad, Bank Muamalat Malaysia Berhad, Bank Kerjasama Rakyat Malaysia, Hong Leong Islamic Berhad and RHB Islamic Bank Berhad

Further details on these social impact-driven initiatives are provided in Section 4 and 6.

### 4. Expanding Greater Initiatives

2021 remained a COVID-19 year for Malaysia.

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**The devastating economic and social impacts of COVID-19 have pushed Islamic banks to intensify their value-driven initiatives and solutions.**

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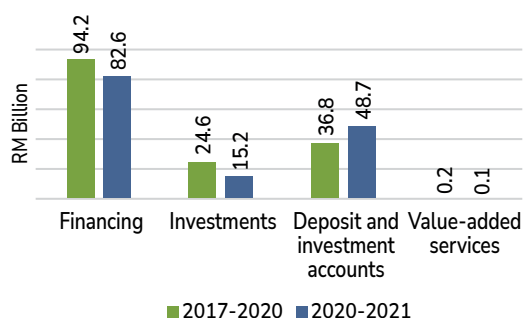
These include expanding targeted repayment assistance to the broader community and to businesses affected by the prolonged Movement Control Order (MCO), factoring customers' financial standing into pricing recalibration for the restructuring and rescheduling of financing facilities, providing social finance/microfinancing programmes and offering relief facilities to SMEs such as Skim CAKNA, Targeted Relief and Recovery Facility, Special Relief Facility, PENJANA SME financing scheme, and many other industry-driven VBI initiatives and solutions. Section 4 provides detailed case studies of CoP members' initiatives for meeting the four VBI underpinning thrusts: Entrepreneur Mindset, Community Empowerment, Good Self-governance, and Best Conduct.

In addition, AIBIM members also improved in terms of financial indicators for VBI-related activities. These are reflected in fund intermediation reported by AIBIM members in the form of financing, assets/investments, liabilities and value-added services, as delineated in the following subsections.

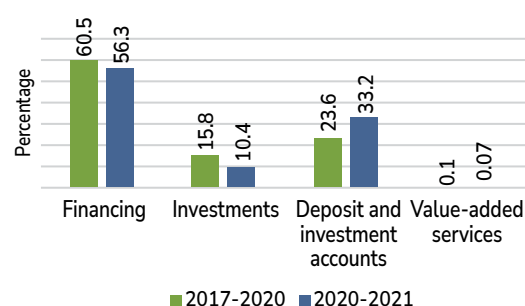
#### (a) Funds Intermediated with VBI

The survey respondents intermediated **RM146.6 billion** in VBI initiatives during 2020-2021 (2017-2020: **RM155.6 billion** (exclusive of **RM0.2 billion** of value-added services amount)). It should be noted that the deposit, financing and investment figures represent the reporting period end balance. **Chart 2.1** and **Chart 2.2** provide a comparison between these two reporting periods.

**Chart 2.1: VBI-Related Initiatives in RM Billion**



**Chart 2.2: VBI-Related Initiative % out of the Period's Aggregate**



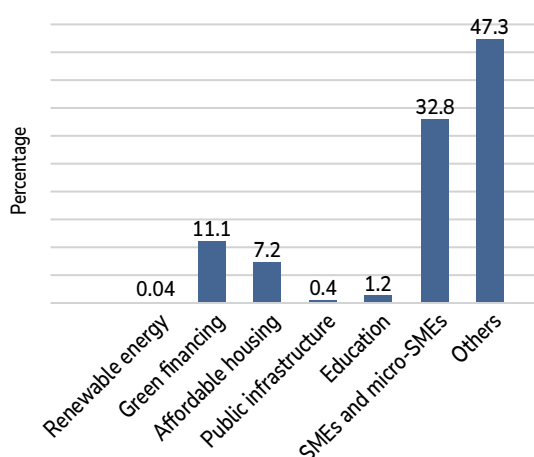
### (b) VBI-Related Financing

During the 2020-2021, the total VBI-related financing reached **RM82.6 billion**, which served over 375,000 accounts (2017-2020: **RM94.2 billion** and 235,000 accounts).

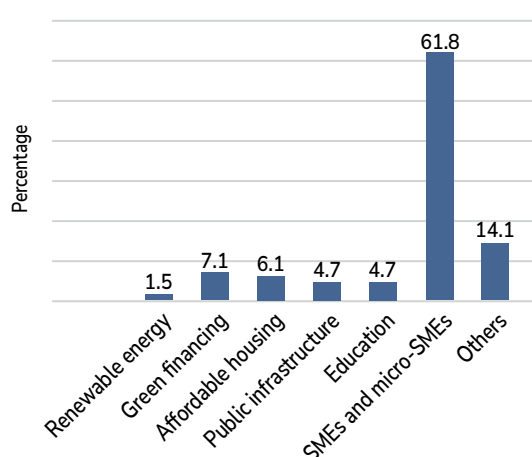
The VBI-related financing accounted for 18.0% of the total financing amount during 2020-2021, while it was near 26% in 2017-2020. In terms of accounts, VBI-related financing represents 22.2% of total financing accounts of 2020-2021, while it was slightly above 10% in 2017-2020.

SMEs and micro-SMEs are the largest recipients of VBI-related financing. Their balance stands at **RM51.0 billion** in 2020-2021, representing a 25.6% increase from the **RM40.6 billion** in 2017-2020. **Chart 2.3** and **Chart 2.4** show the distribution of VBI-related financing for 2020-2021.

**Chart 2.3: Distribution of VBI Financing Accounts (2020-2021)**



**Chart 2.4: Distribution of VBI Financing Amounts (2020-2021)**

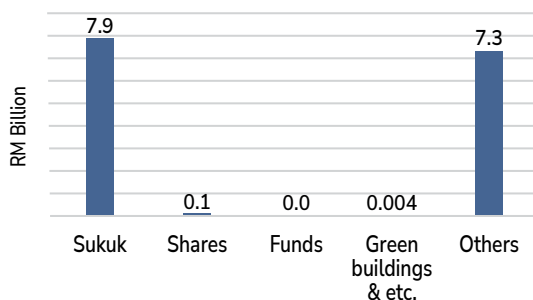


### (c) VBI-Related Investments

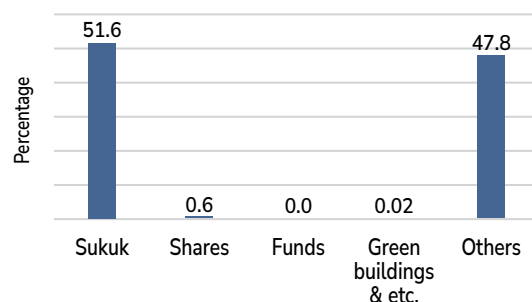
The survey respondents reported **RM15.2 billion** as VBI-related investments, representing 21.6% of their total investments (2017-2020: **RM24.6 billion**).

The VBI-related investments include investments in sukuk, shares and funds with SRI, SDG, ESG, Green and similar agendas. It also includes investments in green buildings, physical assets, etc. **Chart 2.5** and **Chart 2.6** provide the breakdown of the VBI-related investments of 2020-2021.

**Chart 2.5: Distribution of VBI-Related Investments in RM Billion (2020-2021)**



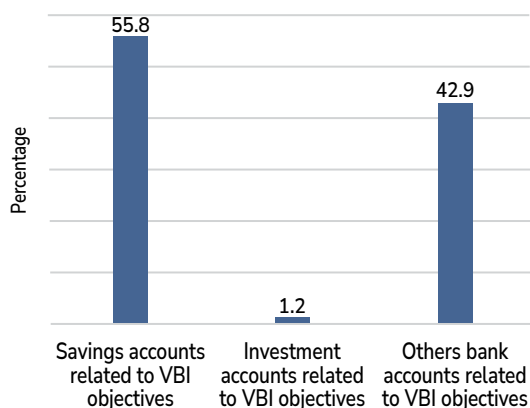
**Chart 2.6: Investment % out of Total VBI-Related Investments (2020-2021)**



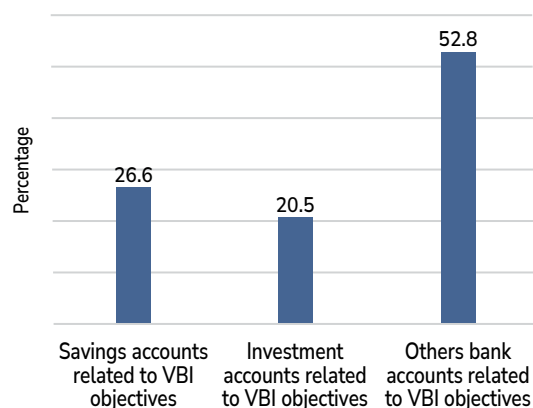
#### (d) VBI-Related Deposit and Investment Accounts

The survey respondents reported **RM48.7 billion** (2017-2020: **RM36.8 billion**) as VBI-related deposit and investment accounts balance, representing 12.2% (2017-2020: 8.1%) of the total deposit and investment accounts balance. **Chart 2.7** and **Chart 2.8** provides the breakdown of VBI-related deposit and investment accounts of the survey respondents.

**Chart 2.7: Distribution of VBI-Related Deposit and Investment Accounts (2020-2021)**



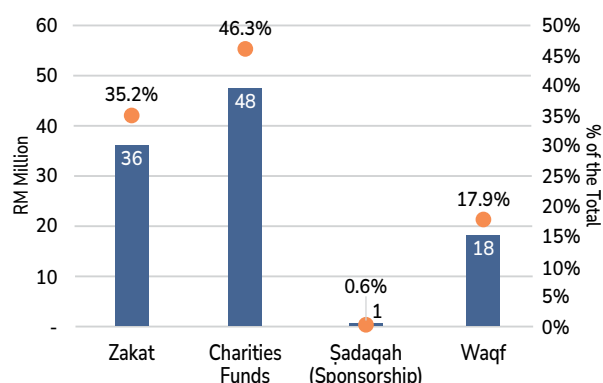
**Chart 2.8: Distribution of Outstanding Amounts of VBI-Related Deposit and Investment Accounts (2020-2021)**



#### (e) Value-added Services

The survey respondents reported **RM103 million** (2017-2020: **RM190 million**) as value-added services provided by them in the form of professionally managed zakat, charities funds (of charitable organisations), waqf and *ṣadaqah* (sponsorship). **Chart 2.9** give the breakdown of these services.

**Chart 2.9: Distribution of Value-added Services (2020-2021)**



## 2.2. Alignment of Value-based Intermediation with the United Nations' Agendas: Sustainable Development Goals and Principles for Responsible Banking

The VBI concept aims to deliver intermediation functions that embody the ultimate objectives of *Shari'ah* (*maqāṣid al-Shari'ah*) through 'practices, conducts and offerings that generate positive and sustainable impact to the economy, community and environment, consistent with shareholders' expectations of sustainable returns and long-term interests' (BNM, 2018, p. 12).

*Maqāṣid al-Shari'ah* refers to promoting the well-being and interests of mankind and preventing harm. Scholars categorise *maqāṣid* into three based on the level of need: (i) necessities (*ḍarūriyyāt*), (ii) complementary (*ḥājjiyyāt*), and (iii) embellishments (*taḥsīniyyāt*). The *maqāṣid* framework emphasises on five necessities or essentials as they are the core

requirements for the survival and spiritual well-being of mankind, namely: protection of religion/faith, life, mind/intellect, progeny/lineage, and wealth. Although Islamic financial businesses and transactions pertain directly to the protection of wealth—which includes generating, accumulating and preserving the wealth, and distributing it in a fair and just manner—the VBI concept transcends that dimension to encompass other essentials, particularly protection of religion, life, intellect and progeny.

In principle, the intended outcomes of VBI—which are reflected in the triple bottom line (TBL) framework: people, planet and profit/prosperity—are compatible with the sustainability agendas propagated by the United Nations in the Sustainable Development Goals (SDGs) and the Principles for Responsible Banking (PRB) promulgated in the United Nations Environment Programme Finance Initiative. The 17 SDGs focus on achieving sustainability through five Ps (people, planet, prosperity, peace and partnership) and support environmental, social and governance (ESG) factors. The six PRB are aligned with the SDGs, the Paris Climate Agreement and relevant frameworks in achieving sustainable finance across all businesses (see **Figure 2.6**).

Nonetheless, VBI is guided by the *Shari'ah* and its *maqāṣid* in determining the values, moral compass and priorities. **Figure 2.7** depicts the tripartite linkages between *maqāṣid* and its five essentials (the underlying ethos of VBI), and TBL and 15 of the SDGs (SDGs 16 and 17 are excluded as they fall under the Peace and Partnership categories, which are not highlighted in TBL). Note that some SDGs, particularly Goal 5 (Gender Equality), cannot be applied similar to the Western understanding as the *Shari'ah* has underlined several parameters differentiating the rights, duties and responsibilities of male and female.





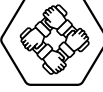



Figure 2.6: Sustainable Development Goals and Principles for Responsible Banking

17 SDGs based on 5Ps

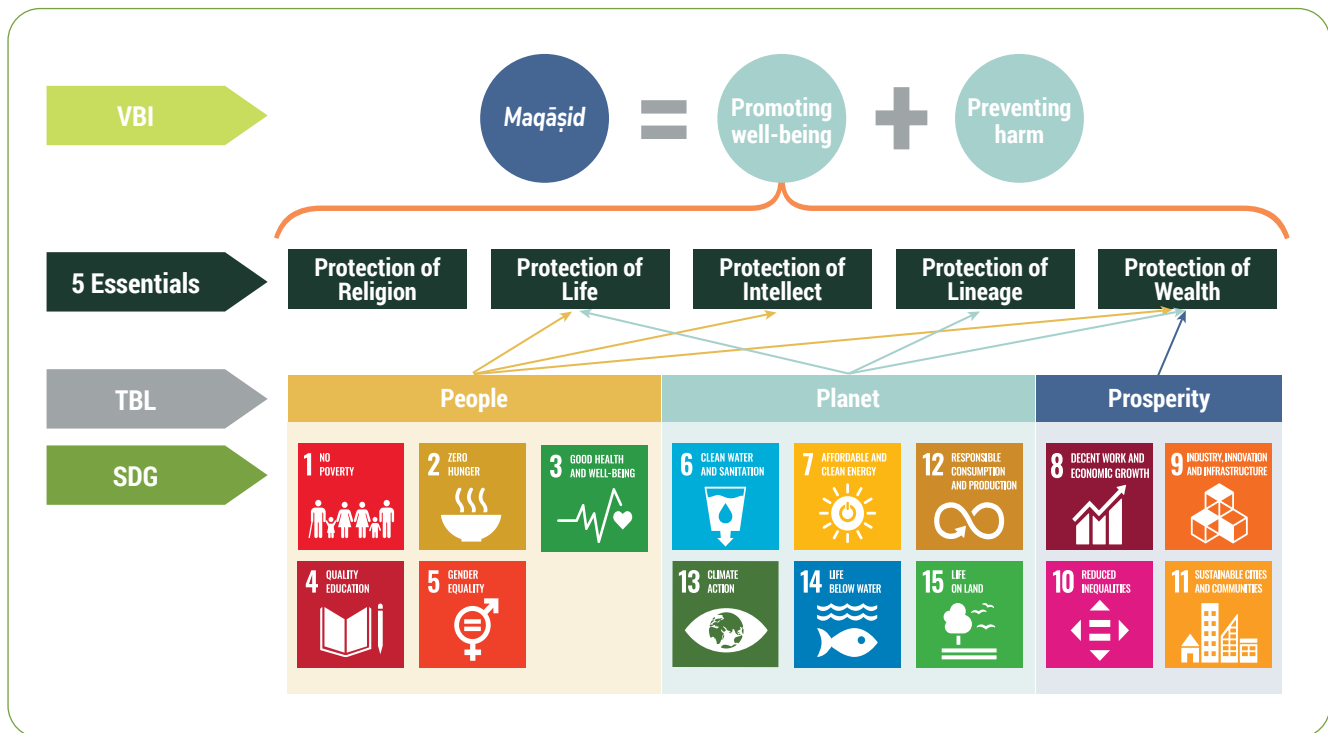


6 PRB

 <p><b>PRINCIPLE 1: ALIGNMENT</b></p> <p>We will align our business strategy to be consistent with and contribute to individuals' needs and society's goals, as expressed in the Sustainable Development Goals, the Paris Climate Agreement and relevant national and regional frameworks</p>	 <p><b>PRINCIPLE 2: IMPACT &amp; TARGET SETTING</b></p> <p>We will continuously increase our positive impacts while reducing the negative impacts on, and managing the risks to, people and environment resulting from our activities, products and services. To this end, we will set and publish targets where we can have the most significant impacts.</p>	 <p><b>PRINCIPLE 3: CLIENTS &amp; CUSTOMERS</b></p> <p>We will work responsibly with our clients and our customers to encourage sustainable practices and enable economic activities that create shared prosperity for current and future generations.</p>
 <p><b>PRINCIPLE 4: STAKEHOLDERS</b></p> <p>We will proactively and responsibly consult, engage and partner with relevant stakeholders to achieve society's goals.</p>	 <p><b>PRINCIPLE 5: GOVERNANCE &amp; CULTURE</b></p> <p>We will implement our commitment to these Principles through effective governance and a culture of responsible banking.</p>	 <p><b>PRINCIPLE 6: TRANSPARENCY &amp; ACCOUNTABILITY</b></p> <p>We will periodically review our individual and collective implementation of these Principles and be transparent about and accountable for our positive and negative impacts and our contribution to society's goals.</p>

Source: Adapted from United Nations (n.d.), UN Environment Programme Finance Initiative (n.d.)

Figure 2.7: Tripartite Relationship among VBI & Maqāṣid, TBL and 15 SDGs



Source: ISRA

The first five SDGs, which are related to people, are consistent with the *maqāṣid* of protecting life, intellect and wealth. Meanwhile, the six SDGs (6, 7, 12, 13, 14 and 15) that are related to planet and environment are pertinent to realizing the *maqāṣid* of protecting life, lineage and wealth. The other four SDGs (8, 9, 10 and 11) are concerned with the protection of wealth. One interesting observation from this tripartite relationship is that all categories of TBL and their corresponding SDGs are related to the protection of wealth and none of them concerns the protection of religion. This shows that Western ideologies and philosophies emphasize materialism; religion or faith is not their focus. The Sharī‘ah, on the other hand, accentuates both the material and spiritual aspects of life.

Therefore, as opposed to TBL and the SDGs, VBI underscores the importance of protecting religion through various initiatives of Islamic banks including financing of Islamic religious schools, implementing green technology to mosques to reduce carbon footprint from the usage of electricity, and most importantly upholding the sanctity of their license as Sharī‘ah-compliant banking service providers.



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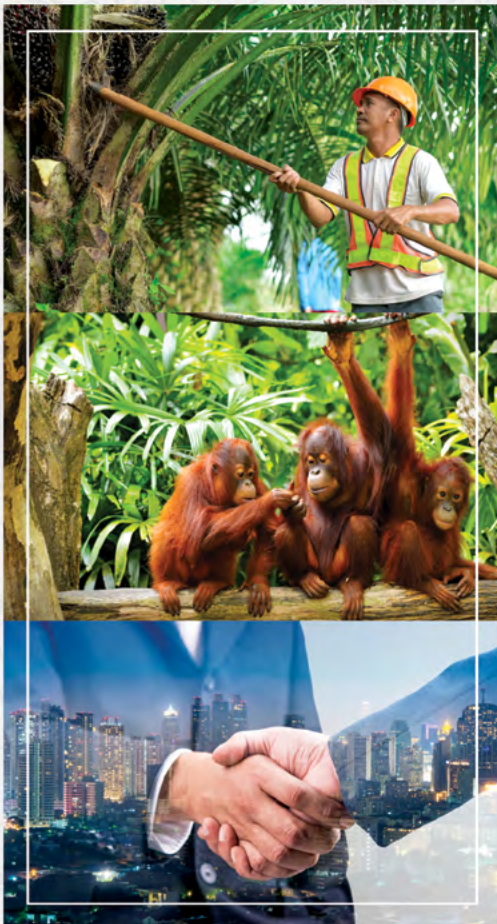
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# Malaysian Palm Oil



The Malaysian palm oil industry is committed to **environmentally friendly** practices which are **socially acceptable** and **economically viable** to ensure the sustainability of the industry towards achieving the United Nations Sustainable Development Goals.



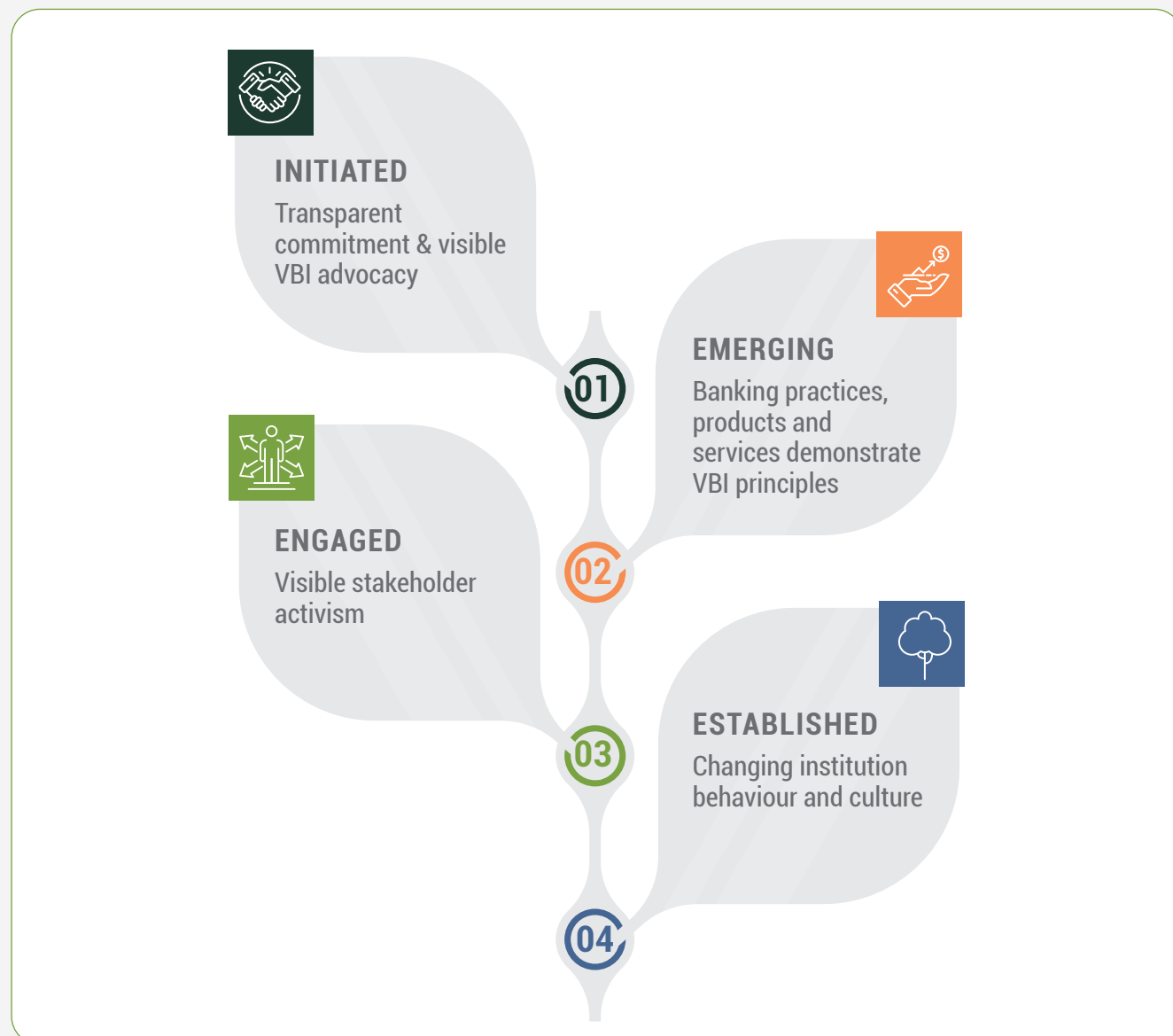
# **MEASURING THE PROGRESS OF THE VALUE-BASED INTERMEDIATION STRATEGY**

# **3.0**



This section assesses the progress made by the CoP members in advancing the VBI strategy and broader sustainability agenda based on **four phases of VBI implementation, i.e., Initiated, Emerging, Engaged and Established** as outlined by BNM in *VBI Implementation Guide 2018* (see **Figure 3.1**).

**Figure 3.1: Phases of VBI Implementation**



Source: AIBIM, adapted from BNM VBI Implementation Guide 2018

The measurement framework used to assess and benchmark the CoP's VBI implementation is primarily focused on **the comprehensiveness and clarity of established internal policies and practices exhibited by the CoP members**. The measurement framework has been developed for the purpose of this report with reference to the following:

- the World Bank's Environmental and Social Framework (World Bank, 2016)
- the International Finance Corporation's (IFC) Corporate Governance and Environmental and Social (E&S) Performance Indicators for Financial Institutions (IFC, 2021), and
- the Sustainable Banking and Finance Network (SBN) Measurement Framework and Methodology (SBN and IFC, 2021).

The measurement framework comprises six dimensions:

- governance
- strategic commitment
- E&S risk management system (ESRM)
- labor and working conditions
- disclosure and transparency, and
- stakeholder engagement

**Data was collected through a self-assessment survey completed by CoP members and a public stakeholder survey designed by the World Bank authors and disseminated by AIBIM.** The self-assessment survey consisted of 56 Yes/No response questions. For each question, respondents were required to annotate their response with a brief description and further information/evidence of the policies and procedures that are in place or reasons otherwise. Respondents were encouraged to provide references of publicly available information regarding such evidence. All CoP members completed this self-assessment survey. The public stakeholder survey consisted of 17 questions using the Likert scale response. Similarly, respondents were encouraged to annotate each of their responses with additional comments and observations to support their response. 18 responses were received for the public stakeholder survey. Both surveys were conducted between August and October 2021.

**The measurement framework relies on self-reported evidence by respondents and does not attempt to objectively evaluate implementation effectiveness.** One of the benefits of a self-assessment survey is that it provides insights into how the respondent evaluates their own understanding of their implementation progress. Results presented in this section basically reflect the actual responses provided. However, where relevant, comments may be made in respect of the comprehensiveness of the elaboration provided and clarity of the evidence supplied. Whilst the self-assessment survey was not intended to objectively evaluate implementation effectiveness, it may be supplemented by the public stakeholder survey that was designed to gauge the perception of effectiveness.

### 3.1 Governance

Average Score: 11.1/13 (85%)

Underlying questions:	
1.	Company has a Corporate Governance Code.
2.	Company has a Code of Ethics or Conduct.
3.	Company has a designated officer/body responsible for overseeing Corporate Governance policies and practices.
4.	At least 33% of independent directors meet an adequate level of independence.
5.	At least 25% of Board members are women.
6.	At least 25% C-Suite positions or members of Senior Management are women.
7.	The Board-level Audit Committee is comprised of financially literate members, all of whom are non-executive directors, and at least one member is independent.
8.	The Board approves both the strategy and key policies including VBI, ESRM and/or environmental, social and governance (ESG) integration strategy, climate-related risk management, and supervises their implementation.
9.	The governance structure clearly defines the roles and responsibilities and related capacities of the senior management and operational staff in identifying, assessing, managing and monitoring implementation of VBI, E&S and climate-related strategies.
10.	The Internal Audit function has its own charter or by-law establishing its role, responsibilities and reporting lines.
11.	The Chief Risk Officer (CRO) has access to the Board and reports to the Board/Risk Committee.
12.	The Chief Compliance Officer (CCO) reports to the Audit Committee.
13.	There are no public controversies, including legal actions associated with fraud, corruption, money laundering involving the company or its representatives.

**1. The survey results indicate that CoP members have adequate governance in place.**

The governance dimension evaluates the comprehensiveness and clarity of leadership and institutional culture, governance structure and control environment.

**2. Only half of CoP members have at least 25% women representation on the Board and/or in C-Suite or senior management positions.** Of the CoP members who currently do not meet this indicator, three institutions commented on having an action plan in place to increase the number of women in those positions. One institution remarked that it has internal practices in place to ensure equal opportunity and has a commitment to female corporate participation.

**3. Areas for improvement: Enhancing inclusive representation of women**

Inclusive representation of women in key positions of governance is essential to ensure that equal opportunities and relevant gender perspectives are considered in business strategies and the overall decision-making process. Research has found that a larger presence of women on the Board is associated with fewer misconduct fines, supporting the view that increased gender diversity helps reduce conduct risk and foster a better corporate culture (Arnaboldi et al., 2021). In addition, the vision for gender equality and empowerment of all women and girls is found in Sustainable Development Goal (SDG) 5. Gender equality is a key element to ending extreme poverty and boosting shared prosperity in a sustainable manner. Hence, identifying gender gaps in existing business strategies can present an impactful opportunity for CoP members to provide value to the community and nation.

## 3.2 Strategic Commitment

Average Score: 4.1/6 (69%)

### Underlying questions:

- |    |  |
|----|--|
| 1. | Strategy/key policies refer to specific VBI key underpinning thrusts and targets.  |
| 2. | Strategy/key policies refer to national determined contribution (NDC), national/regional climate-change targets and national E&S risk management standards.  |
| 3. | Strategy/key policies refer to international E&S targets (SDGs, Paris Climate Agreement, Global Compact) and established international E&S risk management standards (IFC Performance Standards).  |
| 4. | Strategy established includes clear targets for capital allocation to sustainable assets, projects, or sectors.  |
| 5. | Strategy established includes clearly defined roles and responsibilities for internal staff to encourage finance flows to green, social and/or sustainability-focused investments.   |
| 6. | Strategy established includes allocation of adequate resources/budget commensurate with portfolio ESG and climate-related risks, and it defines roles and responsibilities for VBI/ ESG and climate-related integration within the organization. |

**1. The survey results indicate that CoP members have clear and comprehensive strategies with respect to the VBI agenda.**

However, only two-thirds of the institutions have indicated that these strategies and policies are also aligned with national and/or international targets.

**2. Extent of clarity and robustness of strategies and policies in respect of climate-related targets is limited to initiatives driven by financial regulators.** Of those who indicated having strategies and policies in line with national and/or international targets, these are primarily in relation to initiatives under the JC3.



Whilst respondents generally commented that they have relevant ESRM in place, the majority did not provide any clarity on strategies relating to financing of greenhouse gas (GHG) emission targets and the impact on Malaysia's national determined contribution. At the date of this survey, at least three institutions have publicly announced a commitment to achieve the Net-Zero Emissions target in their operations and supply chain. The majority of respondents articulated how their strategies relate to a specific SDG, although these may not necessarily be explicitly linked to the national strategy.

### 3. Areas for improvement: Clarity on climate-related targets

Better clarity on climate-related targets and strategies is imperative to ensure CoP members are well prepared to transform their existing business modalities in response to policy and regulatory changes. One report indicated that Malaysia ranks 21<sup>st</sup> in the Net-Zero Readiness Index 2021, behind Singapore,

the only other ASEAN country in the list of top 25 countries (KPMG, n.d.). A robust climate strategy has now become more urgent considering the Malaysian Government's recent pledge to increase its commitment to emissions reduction from 35% to 45% by 2030 and to become a carbon-neutral nation as early as 2050. In the Budget 2022, BNM will establish a Transition to Low-Carbon Facility, for Micro SMEs to adopt sustainable and low-carbon practices. In the same budget, Bursa Malaysia will establish a platform under the Voluntary Carbon Market to facilitate the trading of carbon credits among the owners of green assets embracing low-carbon practices. CoP members can offer transition finance to facilitate businesses in meeting the government's carbon-neutral target. Future capacity-building initiatives could be developed to increase CoP members' understanding of how to design and implement an effective low-carbon strategy and facilitate the offering of transition finance.



### 3.3 Environmental and Social Risk Management System (ESRM)

Average Score: 9.9/16 (62%)

Underlying questions:	
1.	There is an Emergency/Contingency Response Plan or Procedure.
2.	There is an in-house or external capacity to handle environmental and social (E&S) and climate-related risk. (This could be a specific unit/department, in-house qualified staff to identify and monitor ESG and climate risk in the pipeline and portfolio or a formal process for outsourcing due diligence regarding E&S and climate risk to qualified external consultants).
3.	There are formal arrangements to develop and maintain E&S and climate risk capacity through regular training for (i) front office staff, (ii) second lines of defense (risk officers and/or compliance officers), and (iii) E&S and climate risk experts.
4.	There are formal arrangements to develop and maintain internal staff capacity on green, social, or sustainability products through regular training and learning.
5.	There is an ESRM Policy approved by senior management. Relevant policies and procedures are adequate to identify, classify, measure, monitor and manage ESG risks and performance throughout the financing cycle at the client level and/or the transaction/project level (for example: transaction screening, risk categorization and rating methodologies, due diligence processes, engagement with company/client, supervision/monitoring, loan denial or divestment).
6.	There are specific sectoral ESRM policies in place relevant to the FI's business activities (e.g., coal, palm oil, etc.) that have been approved by senior management and reflect good local/international practices.
7.	Relevant policies include risk management processes to identify, measure, monitor and manage/mitigate financial risks from climate change.
8.	Relevant policies include identification, measurement and reporting of exposure to sectors that are vulnerable to transition risk and physical risk.
9.	Relevant policies and procedures include defining, issuing, managing proceeds, tracking performance, and reporting on green, social or sustainability-focused products (financing and investments).
10.	There are formal arrangements to incorporate financing/investment conditions (rates/terms/collateral) and E&S covenants (e.g., conditions of disbursement related to ESG issues) into legal agreements with clients.
11.	There are formal arrangements to allow Islamic banks to effectively monitor clients' E&S performance (e.g., reporting, on-site monitoring).
12.	Relevant strategy includes incentives for managers to increase sustainable financing or investments in the portfolio.
13.	Relevant strategy includes incentives for managers to reduce the ESG risk level of the portfolio over a specified time frame.
14.	There are formal provisions to measure E&S benefits of the FI's financing and investments (e.g., GHG emission reduction, water saving, etc.).
15.	There are formal provisions to monitor climate risk exposure that refer to specific climate risk exposure methodologies (e.g., climate scenario analysis, climate risk stress testing, calculation of carbon risk exposure, tracking of energy efficiency for real estate portfolios).
16.	There is an established external inquiry/complaint/grievance mechanism for interested and affected stakeholders in relation to ESG practices.

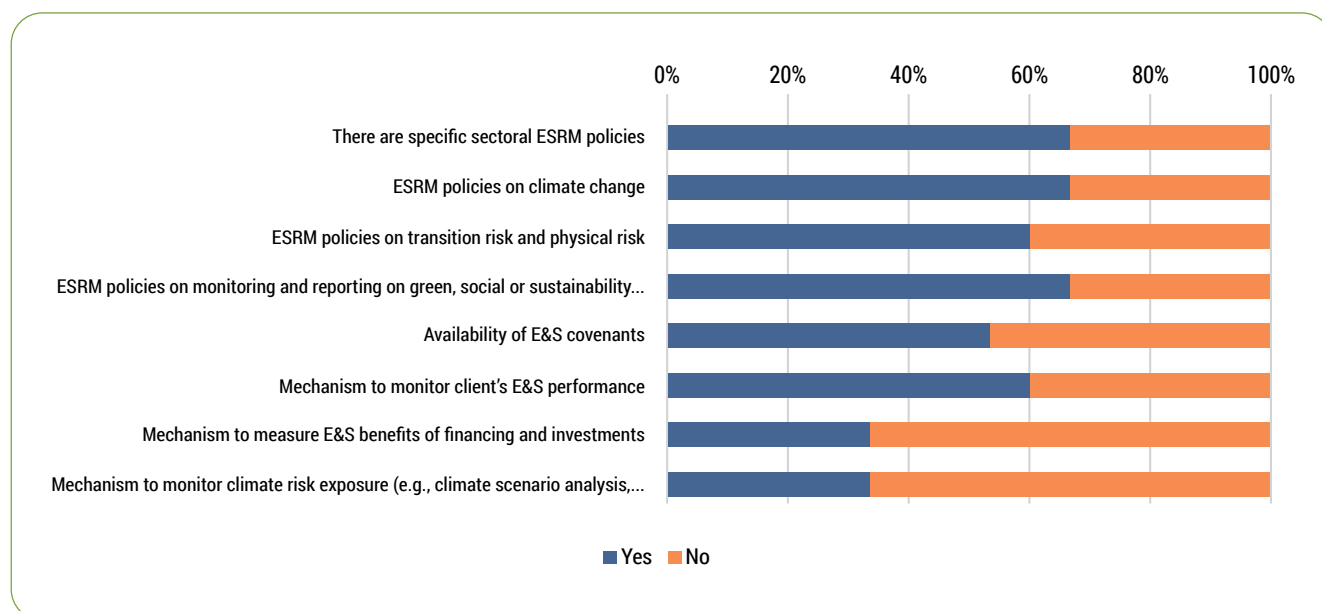


**1. The survey results indicate that the ESRM dimension is moderately comprehensive with gaps in robust mechanisms to effectively identify, measure, monitor and report on climate and E&S matters.** 67% of CoP members have ESRM policies on climate change and by sector, which include mechanisms for monitoring and reporting client performance. Monitoring and reporting of green, social and sustainability-linked products are also available in these institutions. However, there is a lack of mechanisms to measure the E&S impacts of these instruments as only 36% of respondents claim to have them in place. The survey also indicates that only 36% of

respondents have a mechanism to monitor climate risk exposure such as climate scenario analysis and stress testing (see **Chart 3.1**).



**Chart 3.1:** ESRM Policies on Climate and Related Monitoring Mechanisms



**2. Most CoP members use incentive strategies to motivate improved ESRM performance.** 60% of CoP members adopt an incentive strategy that links sustainable finance targets with staff and/or business unit performance indicators. Of these institutions, more than half also employ an incentive strategy to reward staff and/or business units for reducing the institution's exposure to ESG risks.

**3. Areas for improvement: Enhancing capacity building on climate-related matters**

The VBIAF Sectoral Guide Working Group and JC3 have been of critical importance in supporting the capacity development of CoP members. However, further focus and support is needed on the technical aspects of climate-related risk management such as climate scenario analysis and stress testing.

### 3.4 Labor and Working Conditions

Average Score: 4.6/6 (77%)

Underlying questions:	
1.	Statistics are available on workforce composition by gender.
2.	There is a formal policy to avoid discrimination in hiring, wages and promotions.
3.	There are no public controversies, including legal actions involving working conditions (associations, collective agreements, labor laws, discrimination, equal remuneration, lack of equal opportunity, and harassment).
4.	The IFI's practices do not restrict or obstruct workers' rights to join workers' organizations or to avail of mechanisms to express their grievances on working conditions and terms of employment.
5.	There are formal arrangements to avoid sexual harassment at work, including a sexual harassment policy with, at a minimum, a mechanism to file complaints anonymously and confidentially and trained HR staff to review sexual harassment cases.
6.	There is a worker grievance mechanism.

1. The survey results indicate that CoP members have adequate labor and working conditions provisions. Notably, all CoP members but one have workforce composition statistics by gender, do not have policies that restrict or obstruct workers' rights to join workers' organizations, and do have a formal arrangement to avoid sexual harassment at work. All respondents have a worker grievance mechanism in place. 80% of respondents have a formal anti-discrimination policy on hiring, wages and promotions. The survey response noted that five (5) institutions have encountered legal actions involving working conditions.

### 3.5 Disclosure and Transparency

Average Score: 6.6/12 (55%)

Underlying questions:	
1.	All shareholders of the same class have equal: (1) voting, (2) subscription, and (3) transfer rights.
2.	Ultimate beneficial ownership is disclosed publicly.
3.	There is a Related Party Transaction Policy.
4.	The Dividend Policy is publicly disclosed.
5.	Executive compensation is subject to shareholder consultation and approval.
6.	The annual report or the sustainability report includes VBI-related and environmental, social and governance (ESG) information.
7.	VBI and ESG-related information includes clear definitions, measurement indicators and targets in compliance with relevant national and/or international standards.
8.	The annual report includes descriptions of risk and risk appetite.
9.	The reporting framework refers to established international sustainability reporting standards (GRI, SASB, etc.).
10.	The reporting framework includes approaches to (i) climate risk management, (ii) performance targets to reduce exposure to climate change risks at the portfolio level, and (iii) performance targets to reduce portfolio greenhouse gas (GHG) emissions in line with international good practices (e.g., TCFD), or establish a timeline by which the IFI should begin to align its reporting with such practices.
11.	The reporting framework refers to external audit of financial reports and external verification (assurance, independent review) for E&S policies, practices and results.
12.	The reporting framework includes reporting to the regulator(s) or industry association(s) on allocation and/or outcomes of green, social, and/or sustainability financing and/or investments.



1. **The survey results indicate that the disclosure and transparency dimension is moderately comprehensive with gaps in robust reporting framework policies.** More than 70% of CoP members publicly disclose their shareholders' rights and related party transaction policy. 87% of respondents provide VBI-related and ESG information in their annual report or sustainability report, which also includes descriptions of risk and risk appetite. However, only 73% of these institutions refer to established international sustainability reporting standards. 67% of CoP members require shareholder consultation and approval for executive compensation.

2. **The main gaps in the reporting framework arise from lack of climate-related disclosures, benchmarking against national or international targets/indicators, external verification requirements, and regulatory reporting.** For all these elements, half of the respondents commented that they have relevant policies in place. Of those CoP members who provide climate-related disclosures, the granularity of disclosures differs based on the reporting standards adopted. The lack of benchmarking against national or international targets/indicators

is consistent with the gap noted under strategic commitment. External verification is only made available at the Group reporting level of the respondents. In respect of regulatory reporting, the response was mixed with respondents mainly referring to ad hoc reporting to AIBIM for the purpose of preparing this report and expected reporting to BNM following the issuance of the CCPT in April 2021.

3. **Areas of improvement: Enhancing climate-related disclosures and external verification**

In September 2020, the JC3 announced a work plan to develop guidance on disclosures based on the recommendations of the TCFD. In 2021, Bursa Malaysia also announced plans to ensure greater transparency by aligning climate-related disclosures in its sustainability reports with the TCFD recommendations and to advocate net zero emissions and strong climate action through stakeholder engagements and education initiatives. External verification is also critical to enhance reporting credibility and to mitigate claims of greenwashing. CoP members may leverage on the ongoing initiatives by JC3 to enhance their capacity building for developing climate-related disclosures.

## 3.6 Stakeholder Engagement

Average Score: 1.7/3 (58%)

### Underlying questions:

1.	There is a Stakeholder Engagement Policy approved by the Board to facilitate multi-stakeholder collaboration that includes public agencies (e.g., environmental agencies, ministries) and representatives of civil society (e.g., NGOs, associations, media).
2.	There is an external communication mechanism accessible by the public including an inquiry/complaint/grievance mechanism.
3.	There are formal arrangements to obtain information/data to effectively measure financial and non-financial impacts of IFI's activities.

### Stakeholder Perception Survey (Likert scale)

#### Awareness of the VBI initiative

1.	My organization understands the objectives and strategic plan of the VBI initiative.
2.	My organization is aware of the VBI Community of Practitioners.
3.	My organization has participated in events organized under the VBI initiative.
4.	My organization has collaborated with the VBI initiative in some form.
5.	My organization has engaged with the VBI initiative in some form.

#### The adoption of the VBI and sustainability agenda has:

6.	Improved contribution to the nation's economic performance e.g., income and employment.
7.	Improved compliance with laws including environmental and human rights.
8.	Improved customer relationship management including customer experience, incorporating feedback and customer protection.
9.	Enhanced integrity in the financial system such as preventing fraud and corruption and detecting and resolving incidences of non-compliance.
10.	Enhanced the corporate culture and staff behavior.

11.	Improved diversity and inclusivity in the workplace.
12.	Improved labor management relations such as employee engagement and developing and nurturing talent in the industry.
13.	Increased social welfare activities/community outreach that contribute to social empowerment and improving quality of living.
14.	Effectively implemented environmental policies and strategies such as resource efficiency, mitigation and environmental protection initiatives.
15.	Effectively implemented climate change policies and strategies such as GHG emission reduction targets, climate mitigation and adaptation initiatives.
16.	Enhanced the offering of sustainability-linked and green finance products through innovative products and services that are affordable and accessible.
17.	Improved stakeholder engagement through interaction with key stakeholders, incorporating stakeholder feedback and partnerships for improved performance.

1. The survey results indicate that the stakeholder engagement dimension is moderately comprehensive with gaps in established policy and effective mechanisms to measure impact. Only 33% of the CoP members have a formal Stakeholder Engagement Policy while 60% have formal arrangements to obtain information/data to effectively measure the financial and non-financial impacts of their activities. All CoP members except one have an external communication mechanism accessible by the public.

2. The perception survey found that respondents agree that they are highly engaged with the VBI initiative. 18 responses were received. 55% of the respondents are banking employees while 45% are external stakeholders including a member of a government agency, members of financial regulators, a sustainability expert, academics,

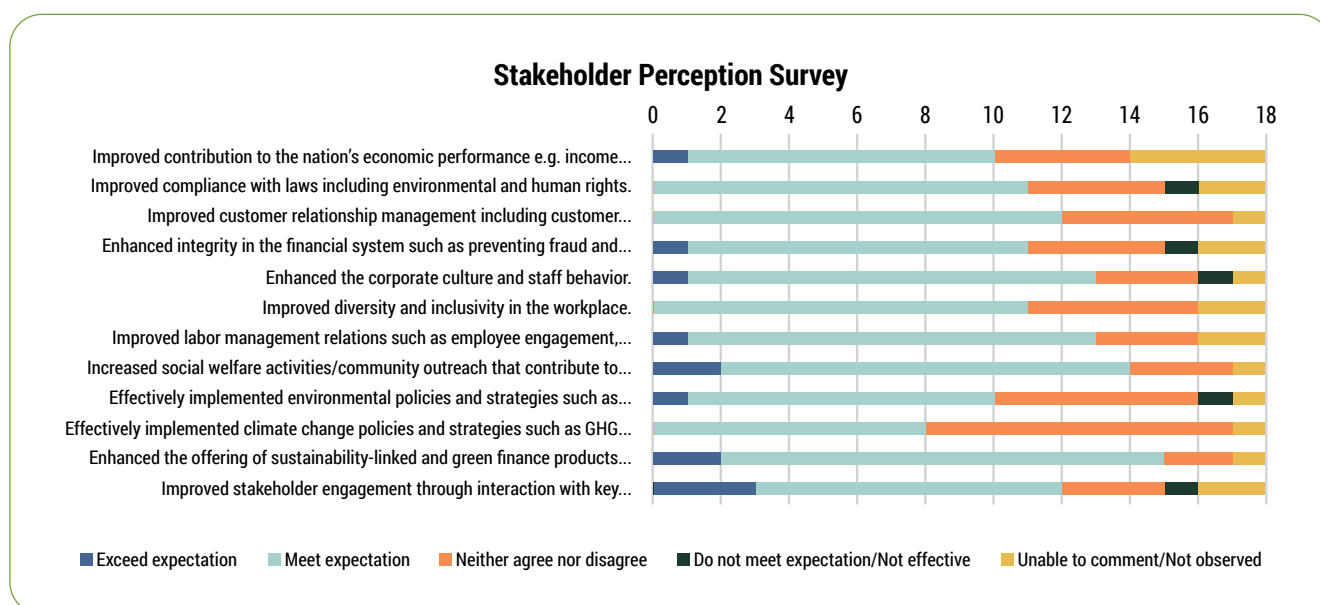


a member of a rating agency, and members of the private sector. 94% of the respondents agree that they understand the objectives and strategic plan of the VBI initiative and are aware of the CoP. Approximately 80% of respondents remarked that they have participated, collaborated and engaged with the VBI initiative in some form.

### 3. Most respondents agree that VBI has met the expectations with regards to making effective contributions to economic and ESG measures except in the aspect of climate change.

83% of respondents agreed that the VBI has met the expectation in enhancing the offering of sustainability-linked and green finance products. However, only 44% of respondents perceived that VBI has met the expectation for effectively implementing climate change policies and strategies whilst 50% of respondents were neutral. Of the survey statements, perception regarding increased contribution to the nation's economic performance received the most "Unable to comment/Not observed" response (30%) (see **Chart 3.2**).

**Chart 3.2: Stakeholder Perception Survey**



### 4. Areas for improvement: Enhancing stakeholder feedback and impact measurement

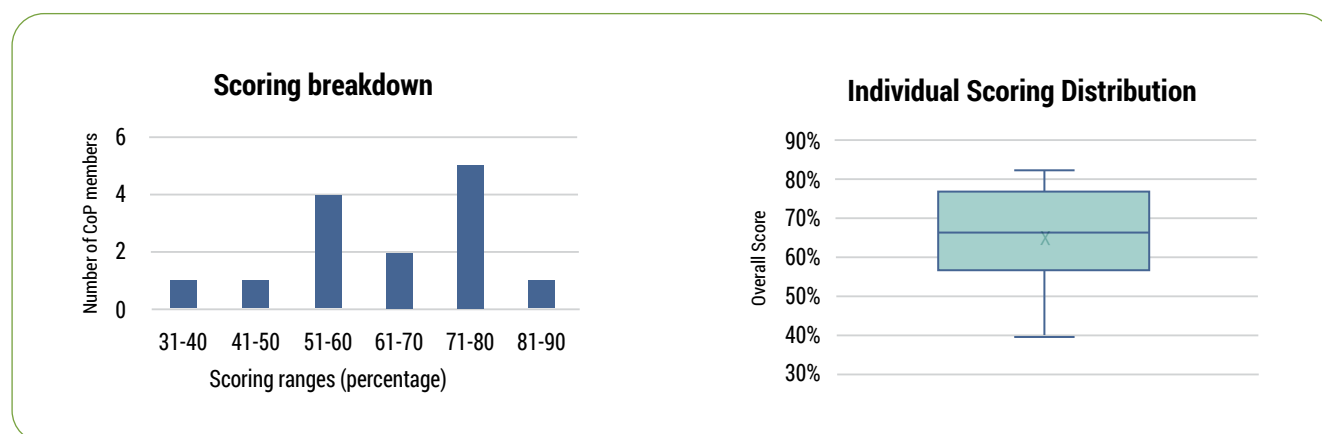
Based on the survey response, one significant area for improvement would be to develop a structured and periodic feedback/response framework. Studies have shown that engagement can help protect long-term investment value (BlackRock and Ceres, 2015). UN PRI carried out 36 interviews with representatives of large listed companies and found ESG engagement dynamics create three distinct types of value for companies and investors: (a) communicative value arising from exchange of information; (b) learning value through diffusion of new ESG knowledge; and (c) political value through diverse internal and external relationships (Gond *et al.*, 2018). A comprehensive stakeholder feedback and impact measurement framework can facilitate a more inclusive assessment of the CoP's impact on the different stakeholder groups and identify gaps for improvements in business processes and even opportunities for business development. An industry-wide stakeholder perception survey could also be conducted by AIBIM separately, and/or it could incorporate a VBI/ ESG-related focus in its existing Customer Satisfaction Survey.

## 3.7 Summary

**Overall, the progress of VBI implementation by CoP members is on average at 65%. The majority of CoP members are within the 51-80% scoring range. The self-assessment survey was not explicitly designed to be translated into the four phases of VBI implementation. However, based on the description provided in the VBI Implementation Guide, the authors are of the view that most of the CoP members can be categorized as “Emerging” institutions.**

The survey responses indicate that there are still significant gaps and limited evidence to demonstrate visible stakeholder activism or changed institution behavior and culture (see **Chart 3.3**).

**Chart 3.3: Self-assessment Survey Scoring by Buckets**



### Key areas for improvement:

In conclusion, the key areas of improvement for the Islamic banks' consideration (Table 3.1) take into account the following guidelines:

- The World Bank's Environmental and Social Framework (World Bank, 2016)
- The International Finance Corporation's (IFC) Corporate Governance and Environmental and Social (E&S) Performance Indicators for Financial Institutions (IFC, 2021)
- The Sustainable Banking and Finance Network (SBN) Measurement Framework and Methodology (SBN and IFC, 2021)
- BNM Climate Change and Principle-based Taxonomy

**Table 3.1: Key Areas of Improvement for Islamic Banks' Consideration**

Dimension	Description	Recommended action plan
<b>Governance</b>	Enhancing inclusive representation of women	Develop gender diversity action plan.
<b>Strategic commitment</b>	Clarity on climate-related targets	Conduct capacity building initiatives to increase CoP members' understanding of how to design and implement an effective low-carbon strategy and facilitate transition finance.
<b>ESRM</b>	Enhancing capacity building on climate-related matters	Conduct structured technical training on climate-related risk management elements.
<b>Disclosure and transparency</b>	Enhancing climate-related disclosures and external verification	Develop TCFD adoption plan including an external evaluation process.
<b>Stakeholder engagement</b>	Enhancing stakeholder feedback	<p>Develop a comprehensive stakeholder feedback and impact measurement framework to facilitate a more inclusive measurement of the CoP's impact on the different stakeholder groups.</p> <p>AIBIM to develop industry-wide stakeholder perception survey or incorporate VBI/ESG-related focus in its existing Customer Satisfaction Survey.</p>



# **VALUE-BASED INTERMEDIATION INITIATIVES: CASE STUDIES OF THE COMMUNITY OF PRACTITIONERS**

# **4.0**



This section narrates the case studies of 15 CoP members that capture their VBI-related initiatives and practices during the reporting period of October 2020 – September 2021. Each case study is guided by and framed using the four VBI underpinning thrusts as set out in the BNM's VBI Strategy Paper. These thrusts – Entrepreneur Mindset, Community Empowerment, Good Self-governance, and Best Conduct – guide the Islamic banking industry in

planning, strategizing and launching VBI initiatives and practices in their institutions. The information supporting the case studies is gathered from the responses to the survey distributed by AIBIM to all the CoP members as well as online research on their websites, news portals and latest Annual Reports.

The scope of the VBI thrusts is briefly described in the following order:



**Entrepreneurial Mindset (EM)** – facilitating entrepreneurial activities through holistic offerings by the Islamic banking institutions, which include financing and proactive support; i.e. advisory, market infrastructure and business network. This includes support of entrepreneurial activities through development of new products, tools and business models to assist and support businesses and entrepreneurs.



**Community Empowerment (CE)** – empowering communities through provision of financial solutions that create positive impact. This can be achieved through development, funding and implementation of effective solutions for issues faced by the communities which aim to create positive impact on those communities and new business opportunities for the Islamic banking institutions.



**Good Self-governance (GS)** – inculcating organisational discipline (self-restraint) and ensuring meaningful participation of all stakeholders in the governance framework. The governance pertains to (a) Inclusive governance where any decision made by an Islamic banking institution will not only impact its shareholders but also the extended stakeholders including the customers and investors; and (b) Self-governance where the culture of self-discipline is embedded within the operations and practices of Islamic banking institutions.



**Best Conduct (BC)** – adoption of practices that improve Islamic banking institutions' offerings, processes and treatments toward their stakeholders (including their customers and employees). It is a behaviour that is driven to achieve continuous improvement in order to enhance the satisfaction of stakeholders.



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3

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## Entrepreneurial Mindset



### Customers

SMEs, Start-ups, *Ashnaf* entrepreneurs

### Banking Solution

- SMEssential
- SMEasy Protect
- Start-Up Banking Initiative
- AFFINWRKFZ
- AFFINGEM

### Digital Solution

- SME Colony mobile app
- AFFINMAX corporate internet Banking

### Impact

- Since its introduction in 2017, the Group has successfully onboarded over 23,000 start-ups and approved more than **RM40 million** in financing, with more than 10,000 start-ups insured via SMEasy Protect, which was recognized as the "Insurance Product Innovation of the Year (2020)".
- AFFINWRKFZ is an award-winning worksite proposition that provides a comprehensive suite of long-term business and talent management solutions for SMEs.
- AFFINGEM has been introduced to help women entrepreneurs to Grow, Empower and Manage their businesses.
- SME Colony is a multi-award-winning mobile app regionally and globally recognised for its uniqueness and innovativeness in supporting and developing the SME ecosystem through a digital tool.
- AFFINMAX is the new corporate internet banking for businesses to perform daily transactions and other cash management needs.

### Banking Solution

- Asnafpreneurs - to provide business aid to help *ashnaf* improve their financial condition.

### Impact

- Selected Asnafpreneurs in 2021 - Muslim Spa, Bakery, Frozen Food and Restaurant.



## Community Empowerment

### Customers

B40, M40

### Banking Solution

Participated in four (4) Repayment Assistance (RA) Programme namely:

- Financial Assistance & Instalment Relief (FAIR)
- New Repayment Assistance (NRA)
- Financial Management & Resilience Programme (URUS)
- Natural Disaster Relief Programme (NDRP)

### Impact

As of 2021, a total of 29,000 cases were approved with outstanding balance of **RM6.4 billion** placed under the above programmes. These cases were from various segments; i.e. community, corporates and SMEs.

### Banking Solution

Barakah Charity Fund: AFFIN Barakah Charity Account offers an opportunity for customers to set a portion of profit from the account to charity.

### Impact

The funds are distributed to individual Muslims and non-Muslims as well as clubs, organizations and societies.

### Banking Solution

Education Financing

### Impact

Designed specially for qualified individuals to obtain financial assistance for their education plan.



## Good Self-governance

### Sustainability Management

- Corporate Governance – adopts sound corporate governance practices such as ethical behaviour, accountability, transparency and sustainability, including in the areas of women's leadership and Board independence and participation.
- Sustainability Governance Structure – to inculcate the culture that strives for sustainability.
- Responsible financing practices and ESG disciplines have also been added and integrated as part of the Bank's credit culture via Annual Credit Plan.
- The Credit Policy on Sustainable Financing Roadmap introduces a mandatory Sustainable Financing Checklist assessment to be conducted by the Business Units across the Group (except Retail Banking) for all credit/financing applications (new/enhancement/renewal).

### Environment Footprint

- Mitigated through economical use of paper, water and electricity as well as proper waste management.
- Installed energy efficiency equipment across the Bank's selected branches.
- Undertake environmentally friendly campaigns and initiatives within the Bank.



## Best Conduct

### Awareness Campaign

ESG principles and risk-focused training and workshops to the Bank's Corporate and Enterprise Banking Divisions and Credit Management Division.

### Charitable Activities

- Channelled more than **RM3.5 million** towards various corporate social responsibility (CSR) initiatives.
- Collaboration with Wakaf Pulau Pinang (WPP) on the collection of waqf funds under cash waqf initiative. The collaboration will focus on residential waqf properties alongside education and health assistance to the public.

### Digital Initiative

AFFINWRKFZ, exclusively available on SME Colony mobile app is a comprehensive suite of long-term business and talent management solutions covering workplace rewards, business planning, takaful/ insurance protection and human resource development to help future-proof SMEs.

The SME Colony app is the first SME community-centric mobile app to assist SMEs by improving business knowledge, enhancing financial well-being, and expanding commercial networking at no cost to users. This is as part of the Bank's ESG efforts in supporting and complementing the SME ecosystem and fostering its growth.

### Employee Welfare

Monitoring the progress of the operation and performance of the management relative to the welfare of its employees as well as carrying out campaigns and awareness of ESG risk and opportunities within the Bank.













# Our new Vision sets a clear direction in enhancing value **Beyond Banking**



## Advancing Agriculture Beyond Banking

Financing		Beyond Banking	
 Program Agropreneur Muda to attract youth into agriculture sector	 Paddy-i scheme financing to address national food security	 Strategic collaboration with various companies and agencies with aim to empower B40	 Advisory service & training programs to upgrade skills of agropreneurs
 Value chain financing covering the upstream, midstream and downstream segments	 Agro Makanan PENJANA scheme to ease burden due to Covid-19 pandemic	 Deployment of AgroAgents to widen customer coverage and accessibility	 Promotes good and sustainable agriculture practices through relevant certifications
Entrepreneurial Mindset		Community Empowerment	
Good Self-Governance		Best Conduct	



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## Entrepreneurial Mindset



### Customers

Micro, SMEs, Start-ups.

### Banking Solution

- Financing across the agriculture value chain and supporting the growth of micro- and SMEs in agriculture.
- Training and advisory programmes conducted through Agrobank Centre of Excellence (ACE), including several entrepreneur development programmes such as Agrolltizam, Agro Mumtaz, Hijrah Asnaf.
- Agro-YES (Young Agropreneur Scheme) programme in collaboration with Department of Agriculture, Ministry of Agriculture and Food Industries (MAFI).

### Impact

- Total financing approved of **RM1.2 billion** to agriculture business (corporate, commercial, and micro customers).
- Total of 58 training and advisory programmes conducted through ACE which benefited 3,738 participants from various agencies.
- Total of 104 successful applicants under Agro-YES programme.

### Digital Solution

- Retail internet banking.
- Business internet banking.
- Mobile banking.

### Impact

- 63,140 new retail internet banking subscribers.
- 8,156 new business internet banking subscribers.
- 41,126 new mobile banking sign-ups.



## Community Empowerment

### Customers

B40.

### Banking Solution

- AgroAgents being located nationwide to further expand its outreach and provide access to meet the basic banking needs of the rural communities.
- Launched first Mobile ATM to help the rural community access basic financing facilities.

### Impact

- Total of 437 active AgroAgents deployed nationwide, of which 182 (or 42%) are located in rural areas.
- AgroAgents' transaction volume has recorded more than **RM10 million** where 50% of the contribution comes from rural and underserved areas.
- Deployed 1 Mobile ATM covering 9 districts of the southern region in Sarawak.




## Good Self-governance

### Sustainability Management

- Institutionalisation of Bank's Developmental Framework covering Governance, Process, Systems, Human Resources, and Image & Branding.
- Encouraged customers to adopt best agriculture practices, industry and environmental standards (e.g., MSPO, MyGAP certifications) and other sustainable/green practices such as energy production from agriculture wastes, closed-house poultry breeding, renewable energy use in facilities, etc.
- The issuance of **RM1 billion** Sukuk Wakalah based on the Islamic principle of Wakalah Bi Al-Istithmar. RAM Sustainability Sdn Bhd assigned a Tier-2 Environmental Benefit and Social Benefit rating under the Bank's Sustainable Sukuk Framework for sukuk issuance.
- Progressive adoption of integrated reporting to improve Bank's disclosure and transparency.

### Impact

- Establishment of Developmental Roadmap comprising 21 initiatives to strengthen the Bank's developmental impact and sustainability efforts.
- Sustainable/green portfolio constitutes close to 6% of Bank's total financing in FY2021.
- **RM500 million** Sukuk Wakalah subscribed as of end 2021.
- Incorporation of stakeholders' engagement and materiality matters in Annual Report 2020.

Sustainability Management	<ul style="list-style-type: none"> <li>Institutionalisation of Bank's Developmental Framework covering Governance, Process, Systems, Human Resources, and Image &amp; Branding.</li> <li>Encouraged customers to adopt best agriculture practices, industry and environmental standards (e.g., MSPO, MyGAP certifications) and other sustainable/green practices such as energy production from agriculture wastes, closed-house poultry breeding, renewable energy use in facilities, etc.</li> <li>The issuance of <b>RM1 billion</b> Sukuk Wakalah based on the Islamic principle of Wakalah Bi Al-Istithmar. RAM Sustainability Sdn Bhd assigned a Tier-2 Environmental Benefit and Social Benefit rating under the Bank's Sustainable Sukuk Framework for sukuk issuance.</li> <li>Progressive adoption of integrated reporting to improve Bank's disclosure and transparency.</li> </ul>
Environment Footprint	Conducted various initiatives to improve the Bank's environmental footprint such as energy-saving initiatives (e.g., conversion of fluorescent lights to LEDs, motion sensor lighting for staircase etc.), paper-light initiatives (e.g., upgrading of 150 units of multi-functional photocopiers, implementation of card reader systems) and fleet management initiatives (e.g., installing GPS device to monitor fuel consumption).
Impact	7.7% reduction in energy savings in HQ.
	
Awareness Campaign	<ul style="list-style-type: none"> <li>Conducted webinar and workshop for Management Committee on incorporating Performance Measurement Framework (PMF) to strengthen developmental outcomes, in collaboration with World Bank.</li> <li>Climate risk awareness to Board of Directors and Management Committee members through partnership with external subject matter experts.</li> <li>Conducted series of training programmes to Bank's customer fronting functions on Bank's developmental role and its impact on economy, social and environment through operationalisation of developmental indicators into Bank's data systems.</li> <li>Development of structured Bank-wide Risk and Compliance Awareness Programmes (RCAP) to increase awareness and understanding on key compliance and risk matters.</li> </ul>
Impact	<ul style="list-style-type: none"> <li>Establishment of Key Developmental Impact Indicators (KDII) which are embedded into the Bank's Corporate KPIs.</li> <li>Establishment of the Bank's climate risk management roadmap.</li> <li>&gt;1,000 of the Bank's frontliners from eight regions nationwide participated in a training programme on systems enhancement to incorporate developmental indicators.</li> <li>Five compliance awareness programmes completed with 90% participating rate and 95% passing rate.</li> </ul>
Charitable Activities	<ul style="list-style-type: none"> <li>Organised a series of CSR and sponsorship programmes covering COVID-19 related assistance, disaster relief and educational purposes.</li> <li>Projek Wakaf Mesin Dialisis Agrobank-PICOMS involves fund raising from the public and direct funding from the Bank for the purpose of acquiring 15 dialysis machines.</li> </ul>
Impact	<b>RM130,000</b> channelled to CSR and sponsorship activities. <b>RM200,000</b> were raised from the public and <b>RM400k</b> from the Bank for the Dialysis project.
Employee Welfare	<ul style="list-style-type: none"> <li>Conducted various training and developmental programmes to staff covering technical, soft skills and leadership programmes.</li> <li>During the pandemic, the Bank offered a moratorium to staff to ease their financial burden, initiated an Employee Assistance Programme (EAP) focusing on staff who experience mental health issues, introduced Medical Self-Recovery Leave (MSRL) and distributed zakat funds to entitled employees.</li> </ul>
Impact	<ul style="list-style-type: none"> <li>Close to <b>RM5 million</b> invested for staff training and development.</li> <li>Employee Engagement Score (EES) in FY2021 was 76%, up 2% from previous year.</li> </ul>
VBI/ESG-Industry Working Group	The Bank is a JC3 member and took part in the formulation of BNM's CCPT policy document. The Bank is also an active member of the CCPT Implementation Group (CCPT IG), together with other financial institutions.
Impact	Inclusion of two case studies on the agriculture sector in CCPT policy document.



## Entrepreneurial Mindset



### Customers

B40 micro-entrepreneurs, Micro SMEs, SMEs, Social Enterprises (SEs), Business clients, Charity Organisations.

### Banking Solution

The Halal in One Programme provides end-to-end halal certification support, advisory, Shari' ah-compliant funding and global market access to businesses seeking to expand their market reach in the Halal segment.

### Impact

Assisted over 150 companies to obtain various forms of business support to accelerate growth in the Halal industry. The amount of financing accorded to the customers for the year 2021 was over **RM130 million**.

### Digital Solution

The Economic Empowerment Programme supports 50 micro-entrepreneurs from the B40 segment with entrepreneurial and digital skills training, and mentoring, to help improve their personal income. The programme commenced in December 2020 and is currently ongoing.

### Impact

- Over 300% increase in participants' average income.
- 92% of the participants improved their income, leading to better living standards and community contributions.
- 90% can now afford better diet and healthcare.
- 66% of participants experienced a positive spillover effect on their family's future as they can afford school supplies and pay for their children's school fees.

### Banking Solution

The BizSmart® Challenge provides business training, mentoring, networking, brand exposure and financing to young entrepreneurs.

### Impact

Since its inception, the BizSmart® Challenge programme has received over 1,700 submissions and empowered hundreds of business owners in their entrepreneurial journey.

### Banking Solution

The BizSmart® Solution is a one-stop online business community portal that enables business owners to reach out to new customers and access relevant solutions and resources to help them manage and grow their business. The BizSmart® Solution portal features over 100 partners who offer these solutions at preferred rates for services such as logistics, accounting, social commerce branding and digital marketing. The Bank also collaborated with Celcom Axiata Berhad to offer financing and connectivity solution packages; Bursa Malaysia to promote sustainable practices to small-cap enterprises; and Sunway Innovation Labs to provide mentorship, funding and financial literacy training to entrepreneurs and students.

### Impact

The portal has generated over 1,400 new business referrals for participating SMEs.

### Banking Solution

The BizSmart® Mobile App enables business owners to quickly and conveniently manage their business accounts, make payments and perform collections via the mobile app without using a physical token.

### Impact

Driven by the strong adoption of the BizSmart® Mobile App, the number of Alliance BizSmart® Online Banking users grew at an annualised rate of 13% in FY2021.

### Digital Solution

The BizSmart® e-Trade is Malaysia's first mobile trade financing submission platform that provides convenience, paperless, and offers fast approval and disbursement of funds into the customer's account.

### Impact

In FY2021, the e-Trade platform contributed to over 30% of the Bank's trade transactions.

### Digital Solution

#Supportlokal Initiative helps local businesses widen their customer reach by taking their business online. The Bank helps to fast-track the listing of their products and services on popular e-commerce sites such as Shopee and Pybli.

The Bank also provides free digital branding and marketing support to showcase their products and services on its corporate website and social media channels. In addition, it offers local business owners e-learning tools such as webinars as well as access to subject matter experts so they can sustain and scale up their online businesses.

### Impact

In FY2021, the Bank drove close to 130,000 online visits to the customers' web-stores.

### Crowdfunding

SocioBiz is an innovative social crowdfunding platform that aims to generate sustainable social and environmental impact by empowering vulnerable communities. This is achieved by enhancing their access to opportunities in entrepreneurship, education and supporting businesses that have a social impact like SEs.

### Impact

Via the listing of crowdfunding campaigns, this initiative assists SEs in applying for the Social Impact Matching (SIM) Grant under PENJANA's initiative administered by MaGIC. SocioBiz was endorsed by MaGIC as one of the crowdfunding platforms for SIM Grants. In 2021, four SEs raised over **RM450,000** to help address environmental and social causes.



### Sustainability Management

## Good Self-governance

- The Bank's Sustainability Agenda focuses on two key priorities: preserving the environment and advocating corporate responsibility. By the end of financial year 2025, the Bank aims to:
  - i. Grow **RM5 billion** in new sustainable banking business.
  - ii. Assist customers in adopting sustainable lifestyles and business practices.
  - iii. Reduce its greenhouse gas emissions footprint.
- In 2021, the Bank established a board level Group Sustainability Committee to provide oversight on sustainability matters and promote sustainability consideration in the Bank's business strategies.
- The Bank has:
  - integrated ESG risk management processes into its financing activities, such as categorizing its portfolio according to BNM's CCPT and implementing ESG Risk Acceptance Criteria (RAC).
  - rolled out sustainability capacity building programmes to enhance internal capabilities.
  - launched a Sustainability microsite to enhance its sustainability disclosures.
  - partnered with Bursa Malaysia for #financing4ESG- an initiative aimed at improving Malaysian public listed companies' ESG adoption practices while improving their ESG ratings.
  - partnered with the Malaysian Green Technology and Climate Change Corporation (MGTC) on Green SME Nurturing and Development Programme.

### Environment Footprint

- The Bank replaced its low-efficiency air conditioners to maintain an optimised temperate setting and progressively fit LED lights at their premises to be more energy efficient.
- Uses environment-friendly gas for refrigerant, which comply with US-based Leadership in Energy and Environmental Design, UL Environment's GREENGUARD Green Certified products, Australian-based GECA standards or equivalent certifications.
- The Bank adopted digitization to promote use of less paper in the offices. It continues to monitor its print volume.



### Awareness Campaign

## Best Conduct

The EcoBiz Challenge encourages youths to develop sustainable business ideas which address socio-economic and environmental concerns. The competition is open to public and private university students in Malaysia. This year the Bank collaborated with the MGTC to identify and nurture high-potential young ecopreneurs to promote the creation of a zero-waste society in Malaysia.

### Impact

Since EcoBiz Challenge's inception in 2016, the Bank has reached out to more than 5,000 students and garnered over 600 submissions from 157 universities across Malaysia. This Challenge supports youths by helping them to develop eco-entrepreneurial mindsets and equipping them with skills and knowledge to launch eco-businesses. For EcoBiz 4, the winning team will receive **RM10,000** cash, while the first and second runners-up will take home **RM5,000** and **RM3,000**, respectively. Seven other teams will receive **RM1,500** each.

### Awareness Campaign

The AEIOU Challenge is a financial literacy programme that aims to educate schoolchildren aged 9 to 12 years on the importance of making smart financial decisions.

### Impact

Since its launch in 2015, AEIOU Challenge has reached more than 130,000 children.

### Employee Welfare

The Bank carries out an annual employee engagement survey, Voice of the Employee ("VOE") to gather constructive feedback from employees at all levels of the organisation and to improve the workplace.

In FY2021, the Bank's employee engagement survey reported:

- The Sustainable Engagement Index, which measures engagement at the workplace, was at 88%.
  - 89% responded positively to the COVID-19 health and safety measures instituted at the workplace.
- The Bank reported a 94% employee retention rate.





# Driving Sustainability

Al Rajhi Bank Malaysia's robust value creation ensures that the Bank grows sustainably over time. Sound social and environmental stewardship allows us to deliver value to key stakeholders and ensure that the communities within which we operate are nurtured and the natural environment is protected for future generations. As a new member of the Value-Based Intermediation Community of Practitioners (VBI CoP), it is our aspiration to drive the sustainability agenda forward.



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## Entrepreneurial Mindset

### Customers

SME Customers.

### Banking Solution

Provided Islamic financing to over 150 SME customers with financing advice and financing product solutions tailored for the customer's requirements.

### Impact

In line with the country's national agenda, the Bank supported the SME segment in the growth of their business as a strong and dynamic SME sector would stimulate the economy and contribute to the country's economic development objectives.



## Community Empowerment

### Customers

M40.

### Banking Solution

Affordable housing financing, green financing Affordable housing financing, green financing.

### Impact

- Financed three projects for developers with the majority of the units in the affordable housing category. The bank linked up with a Large Public Listed Company to provide **RM50 Million** affordable housing financing.
- Green financing facilitated industrial waste recycling initiatives and supported environmentally sound waste management initiatives.



## Good Self-governance

### Sustainability Management

- Developed Sustainability Framework for the Bank.
- Enhanced communication on managerial approaches, targets, performance and progress around material ESG issues.
- At the Group level, a dedicated team has been set up to oversee the Bank's ESG agenda. This team acts as a central resource and works with colleagues across the organisation to help identify and prioritise ESG issues, explores opportunities for improvement, and validates data for reporting.
- Developed targets and benchmarks in several areas for the purpose of driving and evaluating its progress.
- Conducted regular materiality assessments to monitor, track and analyse ESG issues and the interests of stakeholders, both external and internal.
- Being transparent on its performance, particularly lending and investment activities.
- Projected the adoption of CCPT and leveraged on the experience and exposure of its new CEO, who previously chaired the Malaysian JC3 Sub-Committee 4 on Engagement and Capacity Building.

### Environment Footprint

Introduced measures to reduce wastage of water, electricity and paper across the Bank's various premises.

### Impact

By managing its own environmental footprint, the Bank was able to exert influence on its customers towards responsible consumption and production in line with the SDG 12.



## Best Conduct

### Awareness Campaign

- Active participation by the CEO in local and international speaking engagements and forums on the topics of sustainability.
- Continuous awareness campaigns amongst its employees on the importance of conserving environmental resources for future generations.

# BANKING ON SUSTAINABILITY

As a financial institution which embraces sustainability, AmBank Islamic's business objectives are beyond generating profits. We aim to create shared prosperity by underpinning our business strategies with value-based intermediation (VBI) and environment, social and governance (ESG) principles.

We are conscious of the critical role played by financial institutions in this endeavour, in line with the United Nations Sustainable Development Goals (SDGs) and Maqasid Shariah. Underpinned by VBI principles, we undertake responsible banking, are conscious of our self-conduct and create positive impact to our communities.



## RESPONSIBLE BANKING

### Mitigating ESG and Climate Change Risks

- Established an exclusion list which describes business activities excluded from new financing
- Assign Environmental and Social Risk Grade (ES-RG) as part of our credit evaluation process for selected non-individual customers
- Building capabilities to implement BNM Climate Change and Principle-based Taxonomy (CCPT)

### Financial Inclusion

- **SME Biz Start Up-i:** Provide financing to start-up businesses with minimal track record
- **Supporting SMEs Beyond Financing:** The AmBank BizCLUB and BizRACE programme assist SMEs for networking and capacity-building (e.g. to attain the Halal certification)



## CONSCIOUS SELF-CONDUCT

### Responsible Consumption

- Reduce electricity consumption
- Replacement of LED lighting system
- Awareness campaigns (e.g. No Single Use Plastic)

### Responsible Procurement

- Compliance with S17A MACC guidelines



## POSITIVE SOCIETAL IMPACT

### Zakat (Islamic Tithe)

- Provide monetary assistance to the lower-income group

### Financial Literacy

- Help communities improve their financial and debt management knowledge



## Entrepreneurial Mindset



### Customers

SMEs, Start-ups.

### Banking Solution

- Financing opportunities to SMEs and start-ups.
- AmBank BizClub that helps SMEs and entrepreneurs to scale up their businesses.

### Impact

- In FY2021, the Group contributed more than **RM22.6 billion** to SMEs through loans and financing and **RM60 million** to start-ups through SME Biz Start-up-i.
- It bagged the Global Banking and Finance Awards for the Best SME Bank Malaysia 2021 and the Best Islamic SME Bank Malaysia 2021.

### Digital Solution

- AmAccess Biz.
- AmOnline App.

### Impact

- Online transaction volumes experienced significant growth in FY2021:
- AmAccess Biz: 35%.
  - AmOnline App: 2,782%.
  - Garnered two awards on SME digital onboarding, namely Best Digital CX on Account Opening and Customers Onboarding via AmAccess Biz- Digital CX Award 2021; and Cloud-Native Development Category- Red Hat Innovation Award 2021.



## Community Empowerment

### Customers

B40.

### Banking Solution

Financing green sector and affordable housing. Participated in Perumahan Rakyat 1Malaysia – Skim Pembayaran Fleksibel (PR1MA SPEF), Skim Rumah Pertamaku (SRP) and BNM Affordable Homes Schemes 1 & 2.

### Impact

As of 2021, a total of **RM1.94 billion** remains outstanding under the Group's affordable home financing schemes.

### Digital Solution

AmOnline App.

### Impact

The Group bagged The Asset Triple A Digital Awards 2020: Best Retail Mobile Banking Experience and Best Wealth Management Experience.



## Good Self-governance

### Sustainability Management

- Sustainability Framework that integrates ESG, VBI, the Group's sustainability strategy, SDG, *Maqāṣid al-Sharī'ah* and the Group's core values.
- Established the Group Sustainability Council.
- Set up the Group Sustainability Department.
- Developed green financing taxonomy.
- Assigned Environmental and Social Risk Grade (ESRG) as part of credit evaluation process for non-individual customers.
- Introduced the Group Energy Policy which supports the cutting down of its overall carbon emissions by 24.0% by FY2023 (baseline 2019).
- Developing CCPT implementation plan.

### Environment Footprint

The initiatives include investing in energy-efficient infrastructure and replacing plastic products with environmentally friendly alternatives.

### Impact

The Group successfully lowered its carbon emissions by 12.5% YoY.



## Best Conduct

### Awareness Campaign

- Organised workshops and events with industry experts to move the domestic green financing market forward.
- Several appearances on television, radio and webinars by the CEO of AmBank Islamic on the importance of Islamic banking and financial literacy amid the challenges caused by the COVID-19 pandemic.

### Charitable Activities

- Channelled **RM228,760** to community programmes related to COVID-19 assistance, financial literacy, safety, health and welfare.
- Helped the underserved communities and touched the lives of 33,670 people and institutions.

### Employee Welfare

Invested over **RM14.2 million** in employee trainings and development programmes.

### VBI/ESG-Industry Working Group

- A member of Joint Climate Change Committee.
- Participated in developing VBI scorecard, framework, guidelines and strategy.
- AmBank Islamic CEO chaired the VBI Sectoral Guideline Working Group (Cohort 1), which developed sector guide documents for Palm Oil, Renewable Energy, and Energy Efficiency sectors and activity.
- VBI Sectoral Guideline Working Group (Cohort 2) which developed sector guide for Construction and Infrastructure sector.

### Impact

Improved its EES and achieved High Performer Retention Rate of 97.0%. AmBank Islamic ranked first in Customer Satisfaction Score and Net Promoter Score (NPS) amongst the Group customers. The Group received 45% increase in total customer compliments and a 20% reduction in customer complaints.



# VALUE-BASED INTERMEDIATION

Nurturing prosperous businesses

Creating a greener planet

Ensuring a better future for the people

## Banking with us means **Banking on Sustainability**



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**BANK ISLAM**

Assuring Trust. Delivering Value.





## Entrepreneurial Mindset



### Customers

Aşnāf Micro SMEs, Micro SMEs, SMEs, Start-ups.

### Banking Solution

i-TEKAD microfinance, a social finance initiative designed to promote entrepreneurship among B40 and aşnāf groups to start, sustain or expand their microbusinesses during the COVID-19 pandemic. It blends affordable micro-financing facility that ranges from **RM5,000** to **RM50,000** with social finance capital contribution that is sourced from zakat for acquisition of equipment or initial capital. The microfinancing is provided along with prerequisite business training. For the start, the programme is pioneered by the Bank through a collaboration with MAIWP and SME Corp and will be expanded beyond federal territories to other states like Perlis and Selangor with the respective implementation partners.

### Impact

Allocated **RM5.0 million** from BNM's Micro-Enterprise Facility Fund towards microfinancing through iTEKAD, benefitting 81 recipients from a total disbursement of **RM1,483,000** as at 31 September 2021, of which 49 of the recipients also received social finance capital (zakat) amounting to **RM205,000**. Under this programme, all participants received training from SME Corp. business counsellors.

### Banking Solution

BangKIT Microfinance, a one-of-a-kind financing solution that utilises donations, collected through the Bank's Sadaqa House, to create a zero-cost benevolent loan based on *qard hasan* for unbanked entrepreneurs to start or to expand their businesses despite lacking credit records. BangKIT microfinance allows recipients to start familiarising themselves with bank borrowing of **RM3,000** to **RM20,000** at zero cost to build their business and establish creditworthiness to qualify them for future financing needs. Similar to iTEKAD, structured entrepreneurship training is provided to ensure business growth and sustainability.

### Impact

A total of **RM1,089,000** *qard* financing was disbursed through BangKIT microfinance as at 31 September 2021 to assist 102 borrowers. To ensure successful business ventures, the Bank and appointed changemakers provided business training and continuous monitoring to all participants.

### Banking Solution

Targeted Relief & Recovery Facility (TRRF), a financing facility established by BNM that is offered by Bank Islam, as one of the participating banks, to provide relief and support recovery for SMEs in the services sector affected during the reintroduction of COVID-19 containment measures.

### Impact

TRRF benefited over 450 recipients with SME financing disbursements of over **RM128 million** as at the end of December 2021.

### Banking Solution

Go Halal SME Financing (GHF), a programme designed to facilitate registration of eligible SMEs as Halal Development Corporation (HDC) members in order to venture into the Halal industry, as well as embarking on digital transformation and improving capacity building. GHF is part of the initiatives offered under the Bank's Strategic Collaboration with the HDC.

### Impact

Received the Halal Financial Excellence Award at the World Halal Excellence Awards 2021 for, among others, the development of the GHF programme for Malaysian SME development.



## Community Empowerment

### Customers

Aşnāf, B40, M40, Youth.

### Banking Solution

- Solar photovoltaic (PV) home financing, a green financing initiative to drive Solar PV ownership for sustainable practices and lifestyle, offered in collaboration with Tenaga Nasional Berhad and its subsidiary, GSPARX Sdn. Bhd.
- Personal Financing-i (Asnaf), a pilot solution for aşnāf individuals with monthly salary of less than **RM1,200**, who are typically ineligible for any personal or housing financing, that blends bank financing with zakat assistance, offered in collaboration with Lembaga Zakat Negeri Kedah (LZKN).

### Impact

- Green financing recorded a 27% increase in 2020 compared to 2019. As of June 2021, the Bank's green financing grew about 8.7% y-o-y.
- As of September 2021, two pilot recipients had received houses built on their lands that were financed by Personal Financing-i (Asnaf) facility scheme from the Bank (50%) and zakat from LZNK (50%) that carries a monthly instalment of less than **RM300** for the financing period of 10 years.
- It bagged Malaysia's 2020 Strongest Islamic Retail Bank by Cambridge International Financial Advisory and AL-Mansor Excellence in Islamic Financial Services Award at the Islamic Excellence Award 1441H/2020.

### Digital Solution

- Mobile onboarding (MOB) channel and GO mobile application. The apps featured, among others, Tabung Haji fund transfer, DuitNow QR Code, remittance, cardless withdrawal, request to pay service (JomPay) and a personal financial management tool.
- GO Biz, a mobile banking app offered by the Bank to the Bank's businesses that is targeted to SME/Micro SME customers and entrepreneurs/individuals running small businesses or online businesses. It allows merchants/sellers to manage their day-to-day business quickly and securely from their mobile devices. GO Biz is equipped with DuitNow QR service capabilities that enables sellers to receive payment nationwide.
- Centre of Digital Experience (CDX) was developed in 2020 to explore experimental new businesses and technologies. At CDX, business models are re-evaluated for better efficiency, transparency and better customer experiences.

### Impact

- The first bank in Malaysia to deploy an MOB channel for retail customers that provided end-to-end account opening experience, including on-the-spot issuance of debit card via appointment.
- GO Mobile app and Internet banking key milestone achievements saw financial transaction volume soar to more than 80mil as of June 2021 (Dec'20: 113.9 mil). Number of active users never dipped below 1.9mil users (Dec'20: 2.68 mil).



## Good Self-governance

### Sustainability Management

- Adopted key ESG factors in its credit assessment and evaluation process. Climate Change Risk is incorporated into the Bank's Risk Management Framework guided by CCPT and is embedded in the credit assessment. It will include disclosure reporting in accordance with TCFD recommendations.
- Committed to no new financing and to phase out/exit from the coal related financing by 2030.
- MOEA recognised international consultant is engaged to develop an ESG framework.
- Upholds the highest standards of integrity and ethics in the conduct of its business and is guided by its best practices, hence creating a continued sustainable value for its stakeholders.
- The Board ensures that the Bank maintains effective governance on risk, internal controls and compliance with applicable laws and regulations.



## Best Conduct

### Crowdfunding

The Bank channelled funds as humanitarian and flood disaster relief to several affected states; e.g., Johor and Pahang, amounting to **RM400,000** from its Islamic charity crowdfunding platform, Sadaqa House.

## Charitable Activities

The Bank contributed more than **RM2.83 million** towards various CSR Initiatives (under zakat and AMAL CSR Fund) for underprivileged people, helping them to survive the debilitating effects of the pandemic and disaster relief support.

- Nurturing Education Opportunity
  - ✓ Provided electronic devices such as tablets and free internet access (4 months data plan) to 1,000 underprivileged students nationwide to continue their digital learning (PdPr).
  - ✓ Provided laptops complete with 12-month data plan (internet) for 166 underprivileged students in Bintulu and Miri, Sarawak chosen by MOE and MOF for the Cerdik CSR project managed by Yayasan Hasanah.
  - ✓ Continued the Bank's flagship 'Jom Ke Sekolah' programme, an annual initiative where children from the B40 segment are equipped with schooling supplies and essentials.
- Fostering Green Environment
  - ✓ Continued supporting the Hydroponic Vegetable Farming Project under the Bank's AMAL Untuk Alam (AMAL for the Green Environment) with Pusat Koreksional Jasin, Melaka which yielded about 350kg of vegetable harvest and benefitted about 300 prison inmates, 200 staff and families in the area.
  - ✓ Provided start-up farming equipment for hydroponic and fertigation planting for B-40 Family in Terengganu under #JejakAMAL where the project was headed by the Bank's staff volunteers.
- Providing Relief Support to COVID-19 Hospitals – Contributed medical supply items such as oxygen regulator, PPE, isolation gown, hand sanitiser, face mask, head scarf, boot, head cover and RTK Test Kits worth more than **RM250,000**. The aim was to provide comfort for these healthcare frontliners as they continue to work tirelessly in attending to and treating the COVID-19 patients.
- Providing Better Living – Provided better living conditions under “Projek Bantuan Rumah Baiti Jannati” for 11 poor families around the Programme Perumahan Rakyat (PPR) area of Kuala Lumpur in collaboration with Kuala Lumpur City Council (DBKL) in 2021. Since 2008, a total contribution of **RM10 million** has been provided to 321 houses, accommodating poor families across the country including Sabah and Sarawak.
- Contributing to Prihatin COVID-19 Initiative:
  - ✓ Prihatin COVID-19 Initiatives by Kelab Bank Islam (KBI) with YADIM:
  - ✓ 366 beneficiaries (B40, *aşnāf* - Muslim and non-Muslim identified nationwide) received **RM100** (food basket) and **RM150** (cash contribution) each from staff welfare fund under KBI.
  - ✓ AMAL Ihtimam Shawal and AMAL Ihtimam Korban – assisted underprivileged households that were impacted by the pandemic through food supplies distribution and zakat fund contribution.
  - ✓ Bubur lambuk and iftar packed food for frontliners (PDRM, ATM, Bomba, Healthcare workers), media friends, taxi drivers and food riders.
  - ✓ Contributed Daily Iftar RamadanFest@Swadd – 300 daily free Iftar meals to citizens of the city on each working day during the whole month of Ramadan in collaboration with Surau Ahmad Dawjee Dadabhoy.
  - ✓ 2021 World AIDS Day 100k Steps Against AIDS Virtual Walk/Run & Social welfare support through MyLady Scheme MAF to assist home-based enterprises for single mothers and young women living with HIV.
- Prihatin Flood Relief Initiative
  - ✓ Supported more than 450 Food Relief Aid Packs for B40 Families at PPR Seri Mulia and armed forces veterans under #Mindef Prihatin.
  - ✓ Flood Relief Programme with Angkatan Tentera Malaysia Q1 & Q4 2021 in Pahang, Selangor, Johor, Sabah, Melaka, Negeri Sembilan and Perak.
  - ✓ Contributed essential items and food, drink, supplies and cash assistance to flood victims at the Temporary Relief Centres.

## Impact

- Awarded “The Company of the Year for Outstanding Community Support at the Sustainability & CSR Malaysia Awards 2021.
- Impacted nearly 40,000 beneficiaries of the community.

## VBI/ESG-Industry Working Group

- Being one of the CoP members, the Bank participated in developing the VBI framework, guidelines and strategy, aside from embedding VBI in its business model and practices.
- The Bank involved in the development of the VBIAF Sectoral Guide: Renewable Energy in 2020 (1st Cohort) and VBIAF Sectoral Guide: Construction and Infrastructure in 2021 (2nd Cohort).



# QR



# MAP

MUAMALAT APPLICATION PLATFORM

## MOBILE ANYWHERE PERSONALIZE

Personal Financing | Vehicle Financing | Mortgage Financing  
SME Financing | Structured Personal Financing | ASB Financing



## Entrepreneurial Mindset



### Customers

Aṣṇāf Micro-SMEs, Micro SMEs, SMEs, Start-ups.

### Banking Solution

- i-Tekad Mawaddah, an equity based investment that incorporates the Sharī'ah innovation of two-tier *muḍārabah*, the first of its kind in Malaysia.
  - ✓ Provides for working capital for aṣṇāf and B40s to grow their small businesses. Instead of incurring debt through financing, they procure investment into their business.
  - ✓ Available to businesses in targeted industries which include food and beverage (F&B), agriculture and the gig economy.
  - ✓ Entrepreneurs who participated in the programme will be provided financial advisory and halal certification.
  - ✓ Profit and losses of the businesses will be shared with the respective investors upon the agreed terms.
- Commercial Property Financing
- KLINIK PUSRAWI Licensing programme
- Working Capital Guarantee Scheme, which involved guarantees for financing up to **RM1.0 million**, with up to 80% coverage for SMEs and 90% for Micro Enterprises.
- Participated in webinar on financial management organised by several SME-related organisations.
- Formed strategic collaboration with MukminPay and Federal Agricultural Marketing Agency ("FAMA") to offer digital solution for Pasar Tani FAMA traders to move towards contactless and cashless business environment in May 2021. Provides support by offering account opening, QR code payment facility and internet banking services to all FAMA entrepreneurs so that all sales and purchase records can be kept as records transactions. This will enable entrepreneurs to receive business financing/assistance from the government in the future.

### Impact

- Total funds collected from i-Tekad Mawaddah for FY2021 amounted to **RM 4.1 million**. A total of 15 entrepreneurs enrolled in the programme.
- The webinar participation resulted in a total of **RM121 million** in financing being approved for seven co-operatives in FY2020.
- A total of 116 Pasar Tani traders subscribed to the digital solution initiative.



## Community Empowerment

### Customers

B50, B40, M40, Youth.

### Banking Solution

- Retail financing and personal financing for lower-to-middle income earners, self-employed individuals and operators of small business entities with an added focus on debt management, cash flow improvements and prudent investments.
- Muamalat Enrich for individuals to cultivate the habit of saving for their retirement while enjoying the chance of winning rewards offered in "Save & Win More Kaw Kaw" campaign.
- Graduate Scheme to enable fresh graduates to own cars .
- ASB Financing for the underserved low-income community and new recruits in the Armed Forces.
- Financing for preserving the natural environment.
- Financial Management and Resilience Programme (Programme Pengurusan & Ketahanan Kewangan, URUS), an industry-led scheme in collaboration with Agensi Kaunseling dan Pengurusan Kredit (AKPK) to cater for the Malaysians most vulnerable to the effects of the pandemic (B50).



#### Impact

- In FY2020, a total of **RM3,535 million** of retail financing was disbursed to army personnel and pensioners as well as lower income groups.
- In FY2020, over **RM750 million** was disbursed to 10,133 individuals through personal financing products.
- The Graduate Scheme saw a disbursement of **RM12.48 million** for 267 accounts in FY2020.
- In FY 2020, **RM63.02 million** of ASB Financing was disbursed for 1,275 accounts.
- FY 2020 saw **RM228 million** being allocated for financing to preserve the natural environment.
- The Bank enjoyed an increase in customer satisfaction with its services whereby it gained 84% in 2020 as compared to 81% in 2019.

#### Digital Solution

- Muamalat Application Platform (MAP).
- DuitNow QR platform for e-hailing taxi customers where the Bank collaborated with EzCab Sdn Bhd.

#### Impact

- More than 500 financing applications have been approved via MAP.
- Hosted a network of nearly 5,000 QR retailers that have migrated to the Bank's DuitNow QR platform.



#### Sustainability Management

### Good Self-governance

- Reviewed its Responsible Financing Policy Document to be in line with its responsible financing practices.
- Issued circulars whenever new guidelines were released by the regulators.
- Conducted training sessions for the employees to keep them abreast of any policy implementation or changes.
- Introduced Environmental Awareness programme, which includes monthly digital bulletins on environmental issues to employees.
- The setting up of a recycling station to encourage the employees to adopt a more sustainable lifestyle and reduce waste.

#### Environment Footprint

- The establishment of the Cost Saving Initiative ("CSI") Taskforce helped in the Bank's energy and resource management.
- Applied climate-risk consideration for non-retail customers' financing applications, measured based on the severity of the climate-related impact on these customers.

#### Impact

The multiple initiatives in cost reduction and the better management of the Bank's consumption of energy, water, fuel and stationery supplies helped to save **RM4.077 million** for the Bank in FY2020.



### Best Conduct

#### Crowdfunding

Jariah Fund crowdfunding platform whereby the Bank collaborated with five local NGOs. The funds are channelled to selected beneficiaries through the selected community-based projects.

#### Charitable Activities

- Channelled more than **RM2.2 million** towards various CSR initiatives, contributed more than 5,800 volunteer hours and benefited more than 4,500 members of the community.
- Over **RM30 million** in waqf funds were collected in FY2020, of which **RM16.5 million** were disbursed as waqf projects for sectors related to healthcare, education and investment.

#### VBI/ESG-Industry Working Group

- Involved in the VBI Financing and Investment Impact Assessment Framework Sectoral Guide Working Group.
- Project manager for the VBIAF Sectoral Guide on Energy Efficiency.
- Involved in the second cohort for VBIAF Sectoral Guides on Construction.
- A member of the Global Alliance for Banking on Values.

# EMBRACING VBI AT BANK RAKYAT

Integrating Value-based Intermediation (VBI) into the core of our business operations and activities will ensure that Bank Rakyat goes by Shariah compliance. By embracing VBI, the Bank will be able to leave a positive impact on society and the environment. Bank Rakyat has carried out a number of initiatives and program in collaboration with other organisations, as we endeavor to adopt VBI into our business.



## Sustainability Framework

Bank Rakyat became the first Malaysian organisation to be part of the United Nations Country Team 'Together for SDG's Hub' program in 2019.

We are now looking to develop and refine our very own **Sustainability Framework & Policy**. The Framework aims to ensure that all sustainability initiatives in Bank Rakyat are aligned to a common objective. Bank Rakyat aims to integrate sustainability across the Bank's activities and operations. Bank Rakyat also hopes to build a more sustainable and inclusive banking system that drives socioeconomic development and enables individuals, communities, and businesses across the nation to thrive.

## Bank Rakyat Entrepreneur Leadership Series

### RAKYATpreneur 2.0

The success and outstanding accomplishments of the philanthropic initiative, RAKYATpreneur participants spurred Bank Rakyat to roll out RAKYATpreneur 2.0, a more ambitious and far-reaching version of its predecessor. Through RAKYATpreneur 2.0, Bank Rakyat **intends to uplift entrepreneurs and promote inclusive growth**.

- *Asnaf* individuals from **micro, small and medium enterprises** from around the country will receive training and guidance, as well as 6 months of monitoring.
- Through this guidance, Bank Rakyat hopes to cultivate entrepreneurs from the *asnaf* group that can remain competitive and relevant in today's marketplace.
- The RAKYATpreneur 2.0 program **collaborates with community institutions, government organisations, and experienced entrepreneurs**.

### Bank Rakyat UNIPreneur Pilot

A philanthropic initiative to assist young *asnaf* and potential entrepreneurs, this program aims to **offer financial aid to young entrepreneurs**, giving them the initial capital required to fund their business ideas.

- Through this program, Bank Rakyat intends to encourage the **development of participants' entrepreneurial skills, self-confidence and self-reliance**, as these are key transferable skills that can be used in their future careers.
- 10 universities have been selected for this program.

RAKYATpreneur 2.0



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Your Bank of Choice



## Entrepreneurial Mindset



### Customers

Aşnāf Entrepreneurs, Micro SMEs, SMEs, Cooperatives.

### Banking Solution

- Financing the Underserved Businesses.
- BRCAres for Cooperatives, SMEs and Micro entrepreneurs affected by the COVID-19 pandemic. Customers given payment moratorium for the first nine months, minimal documentation prerequisite, cost savings of financing documentation of up to 90%, competitive financing rates, and no collateral requirement. It offers a maximum financing limit of up to **RM50,000** to micro entrepreneurs; and **RM300,000** to eligible SMEs and cooperative entrepreneurs.
- RAKYATpreneur for aşnāf entrepreneurs, which offers handholding, seed funding, capacity building and coordinated assistance to grow their businesses.
- SME and Cooperative (SMEC) Business Centre established to attend to the financial needs of the SMEs, micro and cooperative entrepreneurs.
- Bank Rakyat UNIprenuer for potential young aşnāf entrepreneurs in universities to grow their current businesses via seed funding by the Bank and undergo structured module by respective universities which covers coaching, mentoring and monitoring processes.

### Impact

- Approved **RM1.217 billion** to Underserved Businesses comprised of short-term for new businesses (> 3 years business operation) and long-term financing (< 7 years business operation).
- A total of **RM307.29 million** was approved under BRCAres to 3,417 Micro SMEs, SMEs and cooperative entrepreneurs in FY2020.
- Ten SMEC Business Centres opened nationwide. Three centres approved a total of **RM202.9 million** financing to 553 entrepreneurs in FY2020. They are targeted to disburse **RM7 billion** of financing to SMEs and Cooperatives by 2025.



## Community Empowerment

### Customers

B40, Youth.

### Banking Solution

- Affordable housing, personal and hire-purchase financing for B40s.
- Deposits mobilised from B40 groups, youth.
- Saving account programme of Tabung Qurban-I and Ibadah Umrah.
- Expanding access and service channels via Bank Bergerak, Agent Banking, My Debit – D'Mart Stores, etc.

### Impact

- Up to **RM10.78 billion** with 145,909 accounts have been approved.
- The deposit balances as at FY2020 stood at **RM4.21 billion** (B40), **RM246.47 million** (Youth) and **RM62.39 million** (savings accounts).



## Good Self-governance

### Sustainability Management

- Initiated Sustainability Blueprint to align all its sustainability initiatives.
- Set up a Sustainability Department.
- Integrating VBI in its Sustainability Framework and Policy.



## Best Conduct

### Charitable Activities

- Nuri Nutrisi CSR initiative channels nutritional food donations to primary school students and donates water purifiers in schools.
- Kebun Nuri Nutrisi provided financial assistance to schools and universities to fund the development of community gardens.
- Yayasan Bank Rakyat focuses on educational funding and charity contributions to underprivileged Malaysian citizens.
- Back to School Programme helps disadvantaged children to prepare for the new school year.

### Impact

Bagged Social Empowerment category at the Asia Responsible Enterprise Awards 2020; Company of the Year Award: Overall Excellence in Sustainability and CSR Initiatives at the Sustainability and CSR Malaysia Award 2020; The Most Sustainable Islamic Bank 2020 at the 10th Global Islamic Finance Awards 2020.

### VBI/ESG-Industry Working Group

Appointed as the Project Manager for the VBIAF 2<sup>nd</sup> cohort of Sectoral Guide Working Group (SGWG) on Construction and Infrastructure sector.





# Injecting sustainability, shaping a better tomorrow

Driving sustainability through value-based intermediation has always been at the core of what we do at CIMB Islamic Bank in becoming a purpose-driven organisation.

FORWARD  Sustainability

For more information, log on to [www.cimb.com.my](http://www.cimb.com.my), call +603 6204 7788 or visit any CIMB Islamic Bank branch, co-located at CIMB Bank branches nationwide.  
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## Entrepreneurial Mindset



### Customers

SMEs, Micro SMEs, Micro entrepreneurs.

### Banking Solution

- HalalBizReady is a solution to help SMEs prepare for halal certification and to grow for the halal business with holistic financing solutions via e-commerce platforms for SMEs, MIHAS, MATRADE Exporters Programme and SME and Mid-Corp.
- iTEKAD Rider Entrepreneur Programme. iTEKAD, a BNM-led initiative, is a blended social finance programme by Islamic banks offering seed capital, microfinancing and structured training to micro-entrepreneurs in collaboration with implementation partners. In 2021, the Bank participated through the launch of its Rider Entrepreneur Programme. Under this programme, the Bank provided funding to train 31 individuals on entrepreneurship and technical skills. Upon completion of the programme, participants had the opportunity to obtain a motorcycle grant and employment with the Bank's food delivery partner, Foodpanda, for a year.

### Banking Solution

Taylor's – CIMB Islamic Entrepreneurship Programme. Since 2017, the Bank has partnered with Taylor's Community (the CSR arm of Taylor's Education Group) to provide financial grants and capacity building to micro entrepreneurs.

### Impact

Over 400 micro entrepreneurs around Kuala Lumpur (40 in 2021), with a monthly revenue of below **RM3,000** have so far completed the training and mentorship and received grants from the Bank. This suite of initiatives is designed to help the B40 and *aşnāf* (zakat recipients) community to gain knowledge, improve their skills and establish business linkages to help them seize opportunities in growing their businesses.

### Banking Solution

MicroBizReady (MBR). As an enhancement to the Bank's Entrepreneurship Programme, MBR was introduced in 2020 to provide further upskilling to micro entrepreneurs who are committed to growing their businesses to the next level.

### Impact

Since its inception in October 2020, MBR has so far successfully conducted the programme with three cohorts to date and trained over 160 participants from different segments; from the lowest income group in Malaysia, the B40 entrepreneurs in Klang Valley, women entrepreneurs, *aşnāf* community to the differently abled community.

### Digital Solution

GreenBizReady is an innovative one-stop sustainability solution for SMEs that are looking to start or progress on their sustainability journey. Through GreenBizReady, SMEs will receive sustainability-linked financing solutions and incentives, access to service providers, business matching opportunities with industry leaders and government agencies, and the necessary training, capacity building, certification and advisory services required for them to progress on their sustainability journey.



## Community Empowerment

### Customers

M40, B40.

### Digital Solution

AgTech - An MoU with MDEC to support the B40 farming community by assisting 500 farmers with an initial **RM10 million** microfinancing funding, with the potential of increasing up to **RM25 million** as the programme progresses. This is meant to transform the agriculture sector digitally on a national level and contribute to the nation's food security and sovereignty by encouraging the next generation of farmerpreneurs to leverage on the use of artificial intelligence (AI), Internet of Things (IoT) and Big Data Analytics (BDA). The use of AI, IoT and BDA will improve the quality and productivity of yields, improve the livelihood of the B40 farming community, and reduce the overall environmental impacts of agriculture.

### Impact

Total funds deployed for the CSR initiatives amount to **RM2,800,000**.



## Good Self-governance

### Sustainability Management

Green Technology Financing Training by MGTC to CIMB Malaysia and CIMB Islamic teams.

### Environment Footprint

- EcoSave-i – Savings account where 0.2% of the total EcoSave average portfolio balance is contributed by the bank to support environmental projects.
- Providing support to environmental and sustainable programmes through long-term partnership with WWF Malaysia for various environmental conservation projects across the country.
- Preferential financing rates for certified green residential properties.
- Preferential financing rates for hybrid and electric vehicles.
- 0% Easy Payment Plan (EPP) for purchase and installation of Solar Panels.

### Impact

- Lead Manager and Bookrunner for Government of Malaysia's US\$800 million 10-year Sustainability Sukuk.
- A **RM3 billion** allocation for sustainability-linked financing targeted at corporate borrowers who are keen to enhance their sustainability performance in alignment with any of the 17 SDGs. The financing provides a rebate linked to the sustainability performance of the customers.



## Best Conduct

### Awareness Campaign

- Internal PFAN introduction and engagement with CIMB Malaysia and other regional teams.
- Participation in IGEM conference: Jul – Dec'21.
- Participation in National Energy Awards by KASA/MGTC.
- Internal briefing campaign on GreenBizReady to various commercial business centres throughout Malaysia.

### VBI/ESG-Industry Working Group

- CIMB Islamic was invited to be on the Transition Sukuk Working Committee led by SC Malaysia.
- CIMB Islamic anchored the Transition Sukuk report to SC Malaysia that included several recommendations on how a holistic ecosystem could be developed in Malaysia.
- CIMB Islamic project-led the development of Oil and Gas VBIAF Sectoral Guide.



# HSBC: Mobilising the transition to net zero

**At HSBC Amanah, we are helping our customers in transitioning to net zero.** We believe this is the most significant transformation the global economy has ever faced since the industrial revolution. Helping companies, including those in the heaviest emitting industries, to access sustainable finance and expertise, so that they can cut their carbon emissions to net zero remains our key priority. We recognise our crucial role in leading the sector to become part of the solution to our planet's recovery and building a greener, fairer economy.

## **Purpose driven organisation**

In HSBC Amanah, we believe doing good and doing well are not mutually exclusive. For all to thrive and prosper, creating sustainable futures for our communities, for the environment and for the wider world are at the centre of what we do.

## **Being transparent**

HSBC Amanah strives to make significant changes with an increase in the level of transparency through non-financial disclosure. We have published our Task Force on Climate-related Financial Disclosures (TCFD) report in April 2021 - the first of its kind amongst banks in Malaysia.

## **True to our commitments**

We have been awarded the "Islamic ESG Bank of the Year" for two consecutive years by The Asset Triple A Islamic Finance Awards (2020 & 2021) – this is a strong testimony to our credentials on sustainability, ESG and VBI practices.

## **Sustainability for all**

HSBC Amanah aims to be the industry benchmark in VBI, ESG and Sustainable Finance. We have developed innovative products and solutions to help businesses transition to a more sustainable economy for our corporate clients and developed products that align to the personal values and needs of our retail customers.



Kindly scan the QR code to view our TCFD report



For more information on our products and solutions, do visit [www.hsbcamanah.com.my](http://www.hsbcamanah.com.my)



## Entrepreneurial Mindset



### Customers

SMEs.

### Banking Solution

- Participated in Government and third party agencies' schemes to provide financial assistance to assist SME businesses in either sustaining or expanding their businesses (e.g., SME Financing Scheme, Working Capital Guarantee Scheme, PENJANA, Special Relief Facility).
- Participated in BNM financial relief initiative known as Targeted Relief Assistance (TRA) in order to ease the repayment difficulties of SME businesses due to the MCO.
- Hosted the First Joint Sustainability webinar in partnership with Climate Governance Malaysia on Transitioning into a Sustainable Future to guide Malaysian companies in discovering their potential in implementing sustainability at the core of their business model.

### Digital Solution

- Digital Service Request, which allows customers to create, authorize and submit service requests directly through the Bank's online banking platform.
- Introduction of Live Sign service, which is an electronic signature solution for the Bank's SME customers to ease their process of signing the agreement electronically. This is applicable to account opening as well as financing legal documentation.

### Impact

- **RM43 million** worth of financing was approved by the Bank through the various schemes introduced by BNM for the SME segment.
- A total of 222 SMEs' repayments have been structured under the TRA programme.
- Attracted 663 participants for the four-part sustainable webinar series.
- Approximately 150 documents have been signed by the Bank's customers via Live Sign channel.



## Community Empowerment

### Customers

M40, B40.

### Digital Solution

- The Bank empowers the community by providing financing to customers who are interested in purchasing affordable homes and continuously supporting property developers developing affordable housing development projects.
- The Bank offers education financing to support customers getting quality education for their children from a given list of international schools. The Bank provides financial flexibility without early settlement charges to customers. In the pipeline, the Bank is looking at expanding the list to cover a wider range of educational institutions.



## Good Self-governance

### Sustainability Management

- As one of the founding members of the VBI CoP, the Bank is committed to becoming a pioneering sustainable banking entity by having 51% of financing assets in line with triple-bottom line principles and aligned with the VBI approach and scorecard for Islamic banks. The VBI framework has guided the Bank in devising the strategy for the organisational change.
- With VBI guiding the way the Bank operates and serves its customers, innovation is being promoted further within the bank with many 'first-in-the-market' products and solutions offered to help its wholesale customers to transition to a more sustainable way of doing business and to also align with the personal values of its retail customers.

### Impact

- Launched ESG credit card with linked charity feature (2020), launched the Bank's first Islamic Green Trade Finance proposition for a premier sustainable energy solutions company (2021), and completed a green trade financing facility to a cocoa manufacturer for sustainable cocoa sourcing (2021).
- As recognition for the bank's efforts in Sustainability and ESG agenda, the Bank was awarded the Islamic ESG Bank of the Year for the second consecutive year in 2021 by The Asset Triple A Award.





### Awareness Campaign

## Best Conduct

- As part of the Bank's cultural shift, the Bank ensures that its employees are well equipped with the right skills as agents of change in the bank's sustainability forefront. The Bank therefore partnered with Frankfurt Business School and enrolled nearly 30 colleagues for a six-month Certified Expert in Sustainable Finance (CESF) course.
- The Bank's Task Force on TCFD report in April 2021 – the first of its kind amongst banks in Malaysia – further set the bank as a leading example in the industry on its increased level of transparency on non-financial disclosure.
- As the only financial institution in Malaysia to be part of UNGC, the Bank submitted its first Communication of Progress in August 2021 as a sign of commitment in its efforts to be compliant with the UNGC principles.

### Charitable Activities


HSBC Amanah, together with HSBC Malaysia, has disbursed donations amounting to more than **RM3 million** for its Corporate Sustainability programmes:

- Since its inception in Malaysia in 2014, the HSBC Malaysia Business Case Competition 2021, designed as part of the Bank's Future Skills agenda, provided a platform for young undergraduates to apply their practical business knowledge and skills to real life business scenarios.
- The Bank has been collaborating with AKPK for the last three years in supporting the "Kembara Bijak Wang" financial literacy programme. The programme targeted youth in higher learning institutions to improve their understanding of financial products and concepts, as well as developing the required financial literacy skills. This programme has benefitted more than 7,000 university students across Malaysia.
- The Bank with Yayasan Inovasi Malaysia (YIM) successfully organised MyMobiFix – A Bootcamp for Smartphone Repair & Social Entrepreneurship, aimed for 200 unemployed individuals from B40 and PPR communities to increase their household income and improve their livelihoods.
- Partnering with MySkills Foundation, the Bank funded initiatives to equip at-risk youth in Malaysia with relevant skill sets, including technical and vocational education. Under the Sustainable Transformation with Digital Readiness programme, these youth can gain employment and achieve sustainable livelihoods.
- The Bank, together with its partner Global Environment Centre (GEC), has been actively involved in the restoration and promotion of sustainable management of the peatlands—a key nature-based solutions initiative—in North Selangor Forest and its surrounding areas.
- The Bank made a donation to Financial Industry Collective Outreach (FINCO) for a Kids Read, Mentoring, Financial Literacy and Disaster Relief programme, a collaborative effort by all financial institutions in Malaysia that is supported by the BNM.
- The Bank worked with MyKasih Foundation on 'Love My School' Cashless Bursaries and STEM Learning Support programme for B40 students, providing 850 students in 11 primary schools and 2 secondary schools in Kedah, Penang and Perlis with cashless bursaries and access to STEM learning tools (robotics/IT equipment).
- In light of the ongoing COVID-19 pandemic, the Bank has supported the National Cancer Society Malaysia for its Last Mile Vaccination—Community COVID-19 Vaccination programme and the Development of Human Resources for Rural Area (DHRRA) Malaysia for its COVIDCAREMY Aid for Marginalised Community programme during the year 2021.

### VBI/ESG-Industry Working Group

- The Bank has been an active member of the JC3 since 2019 and is currently chairing the JC3 sub-committee 4 (SC4) on engagement and capacity building. It demonstrated leadership strength in the sub-committee and has been re-elected as the chair for the second term running. The Bank also plays an active role in the secretariat function of JC3 SC4.
- The Bank also contributes to the VBIAF Sectoral Working Group Cohort 2, working with regulators and financial institutions to develop another three VBIAF Sectoral Guides, namely in the Oil and Gas, Manufacturing and Construction, and Infrastructure sectors.





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sustainable tomorrow, today.

**Maybank Islamic. Committed to invest  
in the common good.**

We work towards securing a brighter future by  
keeping sustainable finance at the forefront of  
our goals for the next generation.





## Entrepreneurial Mindset



### Customers

Start-ups, Microenterprises, SMEs.

### Banking Solution

- Microfinance financing facilities to underserved communities that typically are not eligible for conventional financial services. The facilities offered focused on businesses with a turnover of up to **RM300,000** or with fewer than five full-time employees.
- Supportive of the CGC Portfolio Guarantee-i scheme that offers SMEs financing without collateral
- Partnered with Cookhouse Malaysia to offer SMEs in the food and beverage business an opportunity to access the most comprehensive and best-equipped cloud kitchen in Malaysia, and helps these micro food and beverage (F&B) entrepreneurs to obtain Halal certification from JAKIM.
- Halal Route to Market Programme (HalMap) that enables SMEs to expand their halal businesses outside Malaysia, with Singapore being the first destination.

### Digital Solution

- Maybank SME Digital Financing is the first in the market to offer an end-to-end digital experience, with straight-through processing from application to approval and disbursement. It provides access to financing for start-ups and microenterprises with only a one-year track record and no collateral.
- Halal Awareness and Certification Programme (HACP) Webinar teaches SMEs the basics of Halal certification and how their businesses can get it.
- R.I.S.E Economic Empowerment Programme aims at increasing the income and rebuilding the livelihoods of the *aşnāf* groups in Malaysia.
- Collaborated with USIM and UNIMAP in organizing an entrepreneurship programme for *aşnāf* students by guiding and exposing these students to the practical aspects of entrepreneurship. They were also introduced to digital financial applications such as Maybank QRPayBiz, which promotes cashless payments using a single, unified Maybank QR code.

### Impact

- Since the inception of Maybank SME Digital Financing in June 2020, more than **RM1.0 billion** financing has been disbursed, with over 70% under Islamic scheme.
- In 2021, the Bank's microfinancing grew by 10% or **RM30 million**.
- In 2021, the Bank's SME financing grew by 10% or **RM2.5 billion**.
- In 2021, the R.I.S.E programme has impacted up to 400 households in three countries; i.e. Malaysia, Indonesia and the Philippines.
- In 2021, a total of 130 students participated in the student entrepreneurship programme.
- Since its introduction, the SME Digital Financing has benefited more than 8,200 SMEs, of which 85% or 6,950 are start-ups and microenterprises. Almost 80% of the facilities were Islamic.



## Community Empowerment

### Customers

M40, B40.

### Digital Solution

The Bank, in collaboration with INCEIF, has kick-started applied research on embedding ISF tools, i.e., zakat and *sadaqah*, to uplift the socio-economic conditions of the underprivileged. Working with 60 families comprising *aşnāf* and B40 in Semenyih, Selangor, the INCEIF team has started a pilot urban farming project to plant aquaponic vegetables and fish ponds. Once harvested, the team will work with the Bank to guide the families to sell their harvest, including at specialised *pasar tani* (farmers market) or the Bank's Sama-Sama Lokal platform that allows local businesses to set up their stores online with zero commission.

## Banking Solution

- A comprehensive Islamic Wealth Management (IWM) solution that covers wealth creation, accumulation, protection, purification and distribution.
- A new first-to-market Islamic corporate card whereby the Bank contributes 0.1% of customer spending on overseas merchants to selected charitable bodies.
- Malaysia's first ever Social Impact Deposit. Of all 6-month Islamic Fixed Deposit (IFD-i) placements received during the offer period, 0.3% per annum is contributed by the Bank to a special assistance fund designed to provide financial relief to their customers in need.
- Allocated additional sales and underwriting staffs to facilitate the restructuring process for retail customers who faced difficulties during the COVID-19 Pandemic.



## Good Self-governance

### Sustainability Management

- Adopted a comprehensive ESG Risk Management Framework.
- Developed an ESG KPI Metric.
- Adopted a "No Deforestation, No New Peat, and No Exploitation (NDPE)" stance.
- Adopted comprehensive and stringent ESG risk impact assessment for the financing of coal-fired power plants and decided to cease financing any new coal mining activity.
- Implementation of VBI-aligned five-year plan.
- The Bank's CEO, Chairman and Board Members are actively involved in discussion at the EXCO Sustainability Committee and Board Sustainability Committee which influence the direction of the Maybank Group's Sustainability journey.

### Environment Footprint

- Together with Maybank Group, the Bank tracked its direct environmental impacts, including the carbon footprint of its operations.
- The Bank measures the footprint of resources used internally such as electricity and paper consumption.
- The Group encourages a "green" mindset among employees by participation in sustainable office practices such as campaigns, e-bulletins, posters and other regular communications.
- In 2020, the Bank ran a 'Don't Be a Plastic Addict: Bring Your Own Container' campaign and banned the use of straws at its cafeterias.
- The Bank promotes the turning off of computers, water coolers and other electrical appliances when not in use.
- The Bank's waste is disposed responsibly, with effective systems for collection, recycling and disposal through appointed licensed contractors.

### Impact

- In 2020, the Group invested **RM458,000** to retrofit Maybank Academy with energy-efficient evacuated-tube solar collector water heaters. This system replaced 60 conventional, thermosyphon flat panel solar water heaters to enable continuous supply of hot water for 108 bedrooms, resulting in average savings of **RM13,000** per month.
- Maybank Group's 2020 Carbon Footprint (tCO<sub>2</sub>e):
  - Scope 1 emission - 53.20
  - Scope 2 emission - 65,949.98
  - Scope 3 emission - 6,737.99
- The Group received a score of 'D' in 2020 for the Carbon Disclosure Project (CDP) questionnaire on Climate Change, placing the Bank in the CDP's 'Disclosure' level of environmental stewardship. The Bank has been participating in the CDP for 9 years.
- Across the Group's seven strategic buildings in West Malaysia, the Bank reduced electricity consumption by 8.5% to 50,102,311 kWh compared to 2019.
- The Group's annual water consumption is tracked across seven strategic buildings in Malaysia. In 2020, water consumption based on the consumption in these buildings totalled 411,983 m<sup>3</sup>, a reduction of 54,786 m<sup>3</sup>, or 11.7% compared to 466,769 in 2019.



## Best Conduct

### Awareness Campaign

- Publication of sustainability statement since 2019.
- Knowledge sharing sessions and programs among employees on sustainability to propagate awareness and inculcate sustainability in its internal culture.
- Easy access to various sustainability-related learning materials through the Centre of Excellence online page.
- 2020 marked the fourth year of reporting based on the recommendations of the TCFD.

### Charitable Activities

- Regional Ramadan Relief programme, which assisted underprivileged households that were impacted by the pandemic through food supplies distribution during Ramadan in 11 countries. Since 2013, this programme had benefitted more than 100,000 households in Malaysia and other ASEAN countries.
- Maybank Group and its subsidiaries made several contributions to the Ministry of Health and MERCY Malaysia for the purchase of protective equipment for frontliners, hospital equipment and test kits.
- Maybank Islamic Singapore collaborated with the Muslim Converts' Association of Singapore (MCAS) to organize a charity programme to deliver food to 4,000 Singaporean beneficiaries during Ramadan.
- The Cahaya Kasih Employee Volunteerism Programme, which spans all six of Maybank Group's community investment pillars, is a year-long programme that encourages Maybankers to give back to society through volunteerism.
- Maybank Islamic Singapore extended financial assistance to individuals in the *aşnāf* community in collaboration with several Singapore Community Associations. The beneficiaries included Malaysian workers stranded in Singapore due to the COVID-19 movement restrictions.
- Ikhwan Charity Fund equips underprivileged students with laptops in collaboration with Yayasan Mendaki, as society has adopted remote learning as part of the measures to curb the spread of the COVID-19 virus.
- Handed out COVID-19 assistance to the Persatuan Orang-orang Cacat Penglihatan Islam Malaysia (PERTIS).
- Through the Programme Bantuan Segera COVID-19, Maybank distributed **RM1.0 million** to those affected by the COVID-19 pandemic, whereby **RM200** was credited into the MAE-i accounts of 5,000 eligible individuals from the B40 community.
- Together with Yayasan Pelajaran MARA (YPM), the Bank conducted Semarak Ilmu Programme to improve access to quality education by enabling academic excellence from primary education to tertiary education. Since 2013, the programme has benefitted 23,616 beneficiaries with a total allocation of **RM16 million**.
- Disbursed **RM300,000** worth of full scholarships and financial assistance to 19 post grad students.
- Since 2017, the Bank's WASH (Water, Sanitation and Hygiene) programme has promoted integrated water resources management and supported technical excellence, programmatic innovation and long-term sustainability in water management. In 2021, **RM125,000** was contributed to WASH 4.0, benefitting 183 people in Kampung Jenal and Kampung Lalang in Dabong, Kelantan.
- In 2021, the Bank contributed **RM300,000** to the Save a Child's Heart Programme, benefitting 17 children. The programme is a collaboration with the National Heart Institute that provides medical equipment and subsidises expenses for children in need.

### Crowdfunding

- MaybankHeart crowdfunding campaigns that raised funds for various COVID-19 related causes.
- Maybank Indonesia's "Together to Fight COVID-19" crowdsourcing programme assisted those affected by the COVID-19 virus outbreak.

### VBI/ESG-Industry Working Group

- A VBI CoP since the launch of the VBI Strategy Paper.
- A member of the VBIAF Sectoral Guide (Manufacturing) working group.
- Worked on a paper on "The Alignment of Shari'ah and Sustainable Investing" which propounds the symmetry between the underlying values of Shari'ah-compliant investing and ESG criteria.

#### Employee Welfare

- Staff Emergency Support (SES) team as a single point-of-contact, which now continues to also be responsible for monitoring, managing and providing support for all COVID-19 positive cases and conducting contact tracing for all Persons under Investigation and Secondaries.
- Activated My Pledge initiative to promote safe behaviour at the workplace.
- Facilitated Work from Home (WFH) arrangements for employees by accelerating the implementation of flexible work policies and practices, including the existing Flexible Working Arrangement policy, and introduced the Mobile Working Arrangement policy.

#### Impact

- The WFH rate reached over 80% within the first week of the first MCO.
- The SES logged over 21,000 calls for COVID-19-related assistance.
- Average training hours per employee = 29.8 hours.



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Collections Solution  
Provider



Best Services  
[Asian Banks]



Best Sustainable Trade  
Finance Solution  
in Malaysia



Malaysia Digital  
Experience Award of the  
Year – Banking





## Entrepreneurial Mindset



### Customers

SMEs, Micro SMEs.

### Banking Solution

Plan to launch sustainable/green financing in 2022.

### Digital Solution

Target online Islamic business current account opening in 2022.

### Crowdfunding

Nil.

### Impact

About 27% of the total financing is to SMEs and Micro-SMEs.



## Community Empowerment

### Customers

M40, B40.

### Banking Solution

- The Bank, in partnership with solar panel providers, promotes a cleaner and more sustainable environment with solar energy. Customers who are keen to install the solar panel can either take up the Solar Panel Financing or Easy Payment Plan (EPP).
- The Bank provides continuous support to property developers by providing financing to their customers who are interested in purchasing a house in an affordable housing development project or with a Green Building Index (GBI) rating.

### Impact

About 3% of total financing is for affordable housing and education.



## Good Self-governance

### Sustainability Management

The Bank continues to explore various opportunities particularly in green financing projects.

### Impact

The Bank was awarded the "Green and Sustainable Finance Deal of the Year and Service Awards" by the Islamic Finance News Awards 2021 and "Islamic Finance Best ESG Green Financing in Southeast Asia (Malaysia) Award" by Alpha Southeast Asia Best Deal and Solution Awards 2020.



## Best Conduct

### Charitable Activities

- Flood Relief (JV with ABIM).
- Wildlife Sponsorship Programme (Zoo Negara - Tapir).
- Autism Virtual Walk.
- Ramadan Bubur Lambuk distribution with Masjid Jamek, KL.
- Bakul Kasih with Hang Tuah 1 Primary School.
- Sekampit Beras and Inspirasi Ramadan (JV with ABIM and YaPIEM).
- COVID-19 Fund Bangsa Malaysia (JV with IDEAS).

#### Employee Welfare

- COVID -19 Vaccination Support Programme where employees are given a day off on the day of their vaccination. They can also seek reimbursement for taxi/Grab fares to and from vaccination clinic/centre. Should an employee be unwell or have side effects after the vaccine, the employee is allowed to apply medical leave without medical certificate, opt to work from home, subject to work requirement, and get reimbursement for outpatient medical expenses incurred due to the vaccine side effects.
- The Bank partners with Workplace Options to provide a holistic programme covering physical, mental, social and financial well-being to help employees in areas from personal development to work-related stresses in everyday life. This programme is extended to all employees and their immediate family members.
- My Wellness Fiesta where employees under the OCBC Group participated virtually from 11 October to 15 November 2021. Talks, workshops and fitness classes were conducted on wellness, mindfulness and sustainability.

#### Impact

- About 37% of total financing is VBI-driven.
- About 4% of total financing is in green projects.

# PUBLIC ISLAMIC BANK VALUE-BASED INTERMEDIATION (VBI) INITIATIVES

## Solar BAE Term Financing-i



### Solar BAE Term Financing-i Green Financing Initiative by Public Islamic Bank

Get **Special Rates**  
on Solar Panels for your business premises

#### Go Solar, Save Energy

Financing Quantum (RM)	Profit Rate
< 100K	<b>BFR-1.20%</b>
100K and above	<b>BFR-2.00%</b>

- BFR refers to Base Financing Rate
- Tenure: 5 - 15 years
- Campaign Period: 3 June 2021 to 31 December 2022
- Terms and conditions apply

PUBLIC ISLAMIC BANK BERHAD (187391081433) (14328-18)  
[More info](#)

**PUBLIC ISLAMIC BANK**  
WHOLLY-OWNED SUBSIDIARY OF PUBLIC BANK



## Solar Plus BAE Personal Financing-i



### Solar Plus BAE Personal Financing-i

Install Solar Panels at  
Special Rates with  
Public Islamic Bank

**BR\*+2.0% p.a.**  
(with GCFT\*\*)

**BR\*+3.0% p.a.**  
(without GCFT\*\*)

\*BR refers to Base Rate, currently at 2.27% p.a. \*\*GCFT - Group Credit Facility Takeful

- Campaign Period: 12 November 2020 to 31 December 2021
- For existing Public Bank Berhad (PBB) / Public Islamic Bank Berhad (PIBB) Home Financing customers
- Only for landed residential properties
- For purchase and installation of rooftop solar panels from Solar companies listed with PIBB
- Terms and conditions apply

PUBLIC ISLAMIC BANK BERHAD (187391081433) (14328-18)



**PUBLIC ISLAMIC BANK**  
WHOLLY-OWNED SUBSIDIARY OF PUBLIC BANK

## Preferential Rates Financing for Energy Efficient Vehicles

### Be Smart, Go Green

Enjoy **exclusive financing rate**  
for your energy efficient vehicle

From **2.20** % p.a.



Promotion Period: 1 March till 31 December 2021

- For selected new vehicles only
- New vehicles must be energy efficient vehicles listed under Public Islamic Bank Berhad listing only
- Tenure up to 5 years
- Rates may differ based on tenure of financing
- Special financing rates are available during campaign period only
- Eligible product: AITAB Hire Purchase-i
- Contact your nearest Hire Purchase Centres for further information
- Terms and Conditions apply

PUBLIC ISLAMIC BANK BERHAD (187391081433) (14328-18)



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## Entrepreneurial Mindset

### Customers

SMEs, Micro SMEs.

### Banking Solution

Provide special financing schemes initiated by the Government and BNM to promote the development of SMEs and help alleviate the short-term cash flow problems faced by them (e.g. Working Capital Guarantee Scheme, Special Relief Facility, PENJANA SME Financing Scheme).

### Digital Solution

PBe QR Merchant Acceptance Service to facilitate handling of payments using QR codes.

### Impact

About 10% of the total financing is to SMEs and Micro-SMEs.



## Community Empowerment

### Customers

M40, B40.

### Banking Solution

- Skim Rumah Pertamaku.
- PB Journey EzPay Home Financing (aims to assist customers by lowering initial financial commitment).
- Waqf contributions from credit card transactions.

### Impact

About 4% of total financing is for affordable housing and education.



## Good Self-governance

### Sustainability Management

Since officially becoming VBI CoP member in 2019, the Bank has managed to come up with new packages that are in line with VBI and the sustainability agenda.

### Environment Footprint

- The Bank introduced Solar Financing for residential properties on 11 November 2020. The bank collaborated with two solar companies after rounds of discussions and briefings. On 3 June 2021, the bank extended the offering of Solar Financing to Commercial customers.
- The Bank has introduced Preferential Rates for Energy Efficient Vehicles (EEVs) on 1 April 2020. The campaign is aimed at encouraging more customers to purchase EEVs in line with VBI and at the same time support the nation's target to become a regional EV Hub by 2030 in South-east Asia.

### Impact

The total number of approved EEVs under the package during the promotional period was 1,415 accounts with **RM134.6 million** disbursed. The Bank estimates that the initiative resulted in approximately 1,996 tonne/year carbon emission savings\* from the financing of these EEVs for the year 2020.

*\*(As published by car producers, the carbon emission savings is an estimate, or where it is unavailable, it will be calculated based on fuel consumption.)*



## Best Conduct

### Awareness Campaign

Promote PIBB's sustainability-related initiatives via engagement with Public Bank/Public Islamic Bank 264 network of branches.

### VBI/ESG-Industry Working Group

The Bank is actively involved in industry-driven initiatives; e.g., VBI Sectoral Guide Working Group whereby the CEO of the Bank was elected as Chairman for the second cohort.

### Employee Welfare

Competitive Staff Financing package, Health check-up for staffs.

### Impact

- About 20% of total financing is VBI-driven.
- About 5% of total financing is in green projects.



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For avoidance of doubt, RHB Islamic Bank only promotes and manages promotions in relation to RHB Islamic Bank products and its related proposition only.

\*Protected by Perbadanan Insurans Deposit Malaysia (PIDM) up to RM250,000 for each depositor. Investment products are not protected by PIDM



## Entrepreneurial Mindset

RHB Islamic

### Customers

SMEs, Micro SMEs.

### Impact

About 8% of the total financing is to SMEs and Micro-SMEs.



## Community Empowerment

### Customers

M40, B40.

### Banking Solution

- One of the participating financial institutions for SMEs to apply for TRRF allocated by the BNM.
- Providing VBI-related and green and sustainable financing.

### Impact

- Together with Teraju Bumiputera Corporation (TERAJU), **RM126 million** worth of financing has been offered under the financial supply chain programme for Bumiputera SMEs. Through this initiative, the eligible SMEs will be able to obtain financing for working capital without any collateral.
- About 0.6% of total financing is for affordable housing and education.
- About 12% of total financing and 7% of total investments is VBI-driven.
- About 3% of total financing is in green and sustainable projects.



## Good Self-governance

### Sustainability Management

The following items are designed and developed in line with VBI and the sustainability agenda:

- Corporate and business strategies.
- Products and services.
- Projects and initiatives.
- Process and procedures.

### Environment Footprint

- Continued driving sustainable practices by promoting the use of renewable energy.
- Rumah Ibadat Hijau is a national programme initiated by the MGTC that brings green technologies to mosques/places of worship to help reduce the carbon footprint from electricity and water usage. The implementation of these green initiatives is through the installation of, for example, solar PV, rainwater harvesting, self-water treatment and one-stop centres to buy used cooking oil from the local community.
- In pursuit of the environmental sustainability goals as part of the Harmoni Initiative, the Bank signed an MoU with the MGTC on 30 November 2020. The MoU emphasizes green incentives and certification, advisory services and capacity building, and green investment and financing, as well as campaign promotion.
- The Ocean Harmoni initiative, which introduced the Bank's WWF Debit Card-i, supported the UNSDG14 "Life below Water". This is a key milestone achievement from a VBI perspective. It is the first debit card made out of recycled plastics in Malaysia and the Asia Pacific launched by an Islamic bank.



## Best Conduct

### Charitable Activities

- Contribution of solar panels worth **RM100,000** to Masjid Al-Ghufran, Perlis.
- Contribution for installation of solar panels worth **RM75,000** to Masjid Al-Hasanah, Bangi.





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## Entrepreneurial Mindset



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saadia  
islamic

### Customers

SMEs, Micro SMEs, Women.

### Banking Solution

- WOWnita programme aims to help grow and nurture women entrepreneurs towards success by providing financial education and thought leadership, financial solutions and networking opportunities.
- Active financial support and advisory role to help development of dynamic, competitive and resilient SMEs in all sectors towards increasing their contribution to the economy.

### Impact

- About 25% of the total financing is to SMEs and micro-SMEs.
- Such innovative product offerings enabled the Bank to win the Best Islamic Retail Bank – Malaysia, in the Global Retail Banking Innovation Awards 2021.



## Community Empowerment

### Customers

M40, B40.

### Banking Solution

Education-related financing.

### Impact

- About 0.60% of the total financing is targeted to education.
- The Bank won the 2021 UN Women Empowerment Principles (WEPs) Awards under the Community Engagement and Partnerships category by WeEmpowerAsia. The recognition is due to exemplary practice embracing the WEPs in Asia Pacific.

### Awareness Campaign

The Bank's employee-led financial education programmes aim to develop the financial capabilities of youths and small businesses by enhancing their knowledge, skills and attitudes regarding money.

### Impact

For the financial education programmes, the Bank reached out to 1,575 individuals, including entrepreneurs, out of which 50% were women and more than 20% were youth. These programmes include sharing sessions undertaken together with private entities, GLCs and universities/colleges.



## Good Self-governance

### Sustainability Management

- The VBI strategic direction of the Bank has been presented to the Board and EXCO.
- A dedicated VBI Group has been established to ensure progress towards VBI objectives.

### Environment Footprint

- Lead with Shari'ah Compliant Sustainable Finance solutions, leveraging on Standard Chartered's global expertise.
- Collaboration with leading local solar player to support transition of SMEs to renewable energy.

### Impact

- Creating positive impact via sustainable finance solutions with multiple transactions closed:
- Financing Green Commercial Real Estate in the UK for a Malaysian entity customer.
  - Sustainable Wealth Management offering via ESG-linked funds.
  - Sustainable Supply Chain solutions, the first transaction closed with a Malaysian entity. The Bank received recognition at the Highly Commended Treasury4Good Awards for Best Sustainable Supply Chain Finance Solution (Malaysia Airports).
  - Sustainability-linked Import Payables facility for a large multinational for procurement of cocoa beans.
  - Collaborated with Plus Xenergy Services to generate sustainable energy using solar technology and provide better bottom lines with energy savings while doing good for the environment.



## Best Conduct

### Charitable Activities

- Continuous support to individuals and SMEs during COVID-19 via targeted repayment assistance programme and other measures.
- 30 Saadiq volunteers participated in “River Clean-Up Day”.
- Activated a green CSR programme with support from the Corporate Affairs, Brand and Marketing team, Department of Irrigation and Drainage (JPS) and DBKL. Cleaned up the riverside of Sungai Bunus, Kuala Lumpur and planted trees around the area. This will be an ongoing project 2021 and beyond with a target of 150 trees at the site.
- Employees were given three volunteer leave days annually to support a worthwhile cause or organisation of their choice. Employees are encouraged to use their skills and talent to support Futuremakers by Standard Chartered, the Group global community initiative to tackle inequality and promote greater economic inclusion.

### Impact

- 11 garbage bags were filled with rubbish and some debris.
- Six trees were planted for a start in the Bank’s ongoing campaign.

### VBI/ESG-Industry Working Group

- A VBI CoP since the launch of the VBI Strategy Paper.
- Member of the VBIAF Sectoral Guide (Manufacturing) working group.
- Led the VBIAF Sectoral Guide (Renewable Energy) as project manager.
- Led thought-leadership activities including “The Green Revival: A Forum on Sustainable Financing”.
- As part of MIHAS, and to further the Sustainability agenda, the Bank arranged a sustainability conference under the theme “Achieving Resilience through Sustainable Supply Chains”.

### Digital Initiative

- Digital collaborations on biller with Pusat Pungutan Zakat-Majlis Agama Islam Wilayah Persekutuan (PPZ-MAIWP) and Lembaga Tabung Haji (LTH).
- Pursuant to all the digital innovations and solutions provided, the Bank was awarded the Best Islamic Bank for Digital CX 2021 – 3rd Annual Digital CX Summit & Awards 2021 by The Digital Banker.

### Impact

Near to one-third of total financing portfolio is VBI financing.



In sum, almost all CoP members meet the VBI thrusts through their VBI-related initiatives and practices during the reporting period. The voluntary adoption of these VBI thrusts as showcased in this section saw fourteen out of fifteen CoP members meet the scope of the four VBI thrusts. **Chart 4.1** gives a snapshot of the meeting of the VBI thrusts – Entrepreneurial Mindset, Community Empowerment, Good Self-governance, and Best Conduct – by the CoP members during the reporting period.

**Chart 4.1: Meeting VBI Thrusts by the CoP Members during the Reporting Period**



# VALUE-BASED INTERMEDIATION INITIATIVES THROUGH THE LENS OF CASHLESS PAYMENTS

This section describes the role of payments technology in advancing VBI, picking up from the Preview Report, and concludes with potential opportunities to elevate VBI via digital payments.

# 5.0

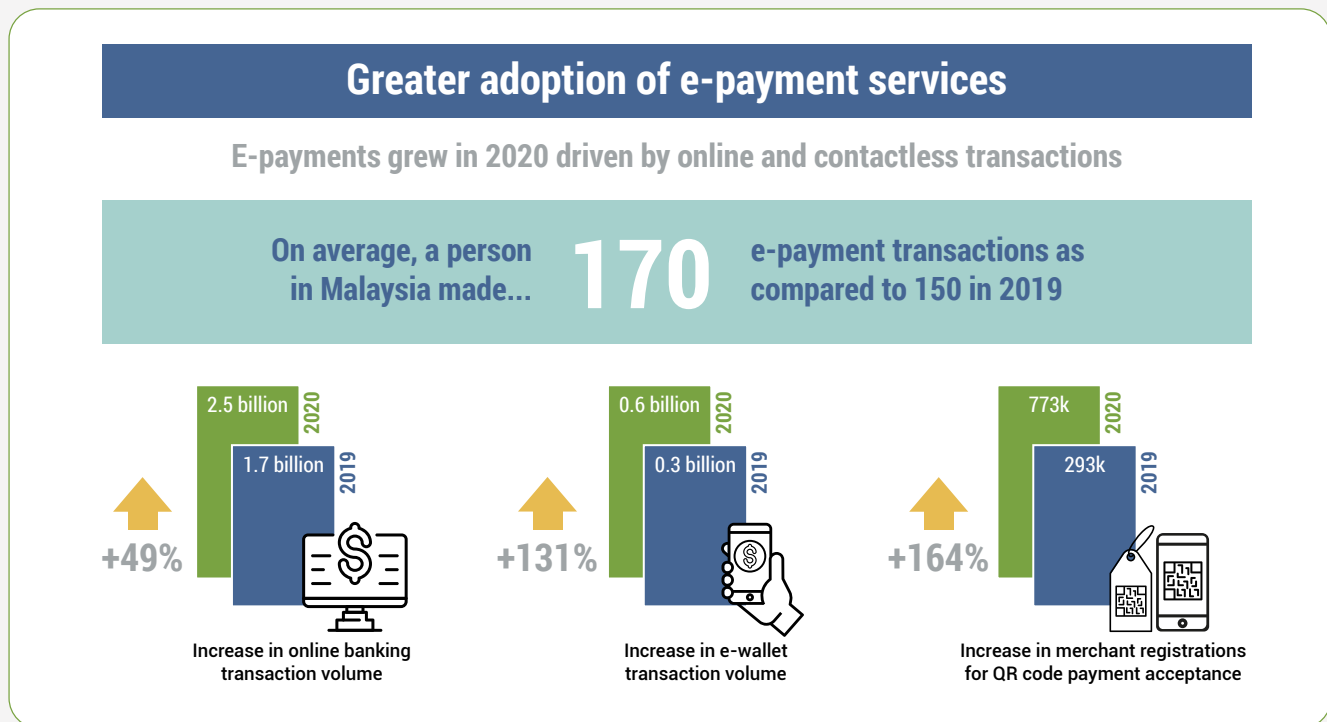
## 5.1 Impact of COVID-19

Today, normalcy is being redefined to include 'home-centricity' within a technology-enabled world. Work-from-Home, 'on demand', and accessible 24/7 have become more common since the pandemic. Market leadership is no longer predicated on scale or scope but include network reach, omni-channel digital presence, leveraging on platform-facilitated supply chains to fulfil customers' needs.

Survival is increasingly predicated by how connected businesses are, a 'technology first' business model, an e-commerce presence, and seamless integration of e-payment capabilities. According to the *Visa Consumer Payment Attitudes Study* conducted (2021), concerns about hygiene and the risk of cash being stolen or lost are driving the pace of cashless adoption.

Quick Response (QR) technology used in the MySejahtera app by the Government for movement tracking has educated and fuelled the acceptance of QR payments. Merchants' adoption of QR payments was 164% more in 2020 (approximately 773,000 compared to 293,000 in 2019). E-wallets transactions grew 131% more in 2020 compared to the previous year, as depicted in **Chart 5.1**.

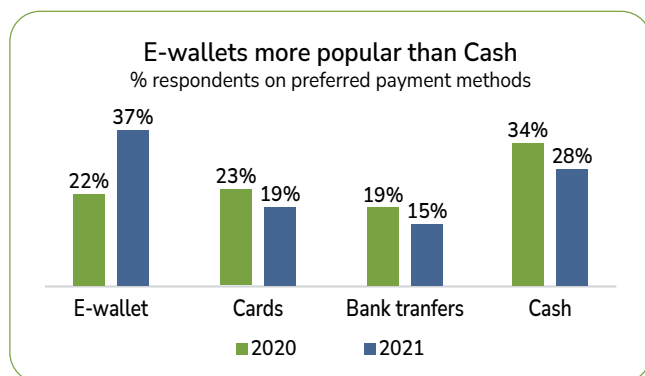
**Chart 5.1: E-payment Transactions in Malaysia (2019 – 2020)**



Source: BNM (2021)

Results from a survey conducted among respondents in Southeast Asia in 2020 and 2021 indicated a behavioural shift. E-wallets became the most preferred means of payment in 2021, with 37% of respondents preferring them, overtaking cash (28%), credit/debit cards (19%) and bank transfers (15%). (Refer to **Chart 5.2**).

**Chart 5.2: E-wallets as the Most Preferred Payment Method in Southeast Asia (2020 – 2021)**



Source: Adapted from Facebook and Bain & Company (2021)

## 5.2 Digital Payments Growth and Impact on VBI

Growth of cashless payment can be attributed to five factors; two can support VBI.

**First, the supply side.** E-payments are now easier and more accessible. DuitNow QR, Malaysia's interoperable national QR standard, has given customers the convenience of QR payments from any banking app or e-wallet of their choice to another. Instant transfers can be made between two account holders directing payments via mobile numbers, national identity card, or business or company registration numbers. Card payments at no surcharge to customers, whatever the amount, can be made by waiving a MyDebit ATM card. Bills payments and investments, including to Tabung Haji, can be made with JomPAY, and e-commerce payments have the convenience of Financial Process Exchange (FPX). All of these are at no or low cost to both payer and merchants.

**Second, the demand side.** SEA is a 'young' region; hence, it is more digitally native and more open to e-payments. The proportion of digital consumers in Malaysia (88% or 22 million) is the highest in SEA, followed by Indonesia (80% or 165 million) and Singapore (79% or 4 million) (Facebook & Bain & Company, 2021, p. 10).

**Third, community and businesses' familiarity.** This extends from micro-sellers at wet markets

or night markets to large chain stores in urban and non-urban locations. Retail, grocery, F&B, mass ground transport, health, education, utilities, courier services, government and wholesale and distribution are all increasingly cashless enabled. Merchants, regardless of size, can offer cashless payment options affordably.

**Fourth, digital payment product sufficiency.** Internet availability in urban areas enables wide usage of various forms of e-payments. In remote areas where there are internet connectivity challenges, other non-internet dependent digital payments exist, such as card payments via point-of-sale (POS) terminals. JENDELA implementation benchmarks international standards, including Alliance for Affordable Internet (A4AI) and the UN's Broadband Commission for Sustainable Development.

**Finally, the increasing recognition of digital payments in achieving carbon neutrality.** 92% of SEA consumers are willing to pay more for ESG, and 80% of those are willing to pay 10% more. Buying and payment behaviours are impacted by 'Net Zero' impacts (i.e., the balance between production of greenhouse gases and their removal from the atmosphere). A 2018 report by the United Nations (UN) Intergovernmental Panel on Climate Change set 2050 as the target date for achieving the net-zero emission goal. In order to get there, a 45% reduction from 2010 levels by the year 2030 has been set as an interim target for limiting the temperature rise to 1.5 degrees Celsius over pre-industrial levels. In Net-Zero Readiness Index 2021, 32 countries were measured, and Malaysia was ranked 21<sup>st</sup>. VBI is an identified Malaysian initiative to address climate issues via financing for positive, sustainable economic impact on communities and the environment (KPMG, 2021).

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**With 75% of industrial output coming from SMEs, de-carbonising this segment is critical, presenting an opportunity for further VBI, including adoption of cashless payments to advance financial access and inclusion.**

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# Empowerment

An illustration showing ten hands of various skin tones and wearing different watches or bracelets, all reaching up to hold the word 'Empowerment' in a large, blue, hand-drawn font.

## A. Community Empowerment: Supporting Entrepreneurs via Adoption of Digital Payments, Financial Inclusion and Access

Cashless payments increased channels for Islamic social finance impacts. *Sadaqah*, zakat and waqf can be done via MyDebit card payments, FPX, JomPAY, DuitNow QR payments and online transfers thereby eliminating donation box pilferage and door-to-door collection fraud. Mosques, suraus, madrasahs and other religious places nationwide have benefited immensely. In 2020-21, MyDebit, FPX, DuitNow and DuitNow QR transfers have helped tremendously in *sadaqah*, zakat and waqf collections across the country.

Several Islamic financial institutions activated micro-sellers with DuitNow QR and MyDebit at local markets like Pasar Besar Siti Khadijah in Kelantan, Pasar Payang and the Food Truck Drawbridge in Terengganu, wet/night markets across five states, and over 300 pasar tani and FAMA stalls nationwide.

Malaysia Digital Economy Blueprint (MyDigital) was launched by the government in April 2021, and VBI values are clearly imbued in it. Payments Network Malaysia Sdn Bhd (PayNet) collaborated with, among others, Islamic financial institutions to activate micro-sellers with DuitNow QR, with approximately 28,000 F&B vendors activated and more to follow. PayNet is also supporting the public sector to adopt cashless payments. Many federal and state governments, ministries and agencies have been onboarded. 'Cashless day' is increasingly common. The Immigration Department is now 100% cashless.



Two Islamic financial institutions are providing agent banking to bring affordable banking services to remote and rural areas, hence assisting financial inclusion for the rural and remote segments.

MyDebit ATM cards are now accepted across 191 Pusat Komuniti Desa (now re-branded to Pusat Ekonomi Digital Keluarga Malaysia or PEDi) for villagers to make cashless bill payment and prepaid mobile reloads without visiting an ATM.

In early 2021, the town of Rembau was 'adopted' under the 'Digital Rembau' initiative where small entrepreneurs are onboarded with DuitNow QR.

More are planned in 2022 to expand access to cashless payment in non-urban areas, which includes adopting one or two kampungs to be fully cashless enabled.

E-payments Literacy among the younger population is critical to a strong digital payment culture. Most private colleges and universities in Malaysia are already cashless enabled. In the public university front, Universiti Teknologi MARA (UiTM) (the nation's largest university by student population and campus locations) is among the early movers. Small businesses, canteens, and other outlets within each campus are progressively being cashless enabled and usage is being incentivised.

## B. The Economy's Transition to Support the Climate and Environment via Cashless Adoption

SDG 2030 and VBI are mutually reinforcing in many ways, especially in e-payments. The European Central Bank stated that currency note production significantly degrades the environment. Emission



from three-billion-euro banknotes produced is equal to each European citizen driving a car for one kilometre or leaving a 60W bulb switched on for 12 hours (European Commission, 2018). DeNederlandscheBank, Netherlands concluded cash payment has 1.5 times higher emission and 1.3 times more Global Warming Potential than debit card payments. Physical non-renewable resources and materials used in currency notes

and coins, the resources used to destroy them, fossil fuel to transport them, and ATMs' power consumption contribute to the carbon footprint (Lindgreen et. al., 2017).

QR payments are said to have neutral impact on climate and environment. Peer-to-peer transfers and NFC payments reduce energy consumption and infrastructure requirements (Rochemont, 2018). However, cashless payments do have some carbon footprint. This includes in POS production, plastics for payment cards, data centre energy consumption and smartphones to make payments. This can be mitigated by, among others, leveraging renewable energy and recycling raw materials for production use. Some Islamic financial institutions have progressed via, for example, eco-friendly recyclable, bio-sourced, chlorine-free, degradable 'ocean plastics' for issuing their payment cards under the 'Ocean Harmony' Initiative.

In remote non-urban areas where cash is still prominent, ATMs will still be needed in the near term. Carbon footprint reduction opportunities exist by adding online payment functions at the ATM so that ATMs can be used for non-cash payment-related financial inclusion functions as well as having these remote ATMs powered by solar-generated electricity. Sharing infrastructure will also mitigate carbon footprint, as banks leverage the same ATMs to optimise cost, energy and resources, thus eliminating redundancies.

## 5.3 Technological Opportunities to Advance VBI

As at 2021, 95 banks in 39 countries (including Malaysia, which is one of the founding signatories) had joined the Net-Zero Banking Alliance convened by the United Nations (UN Environment Programme Finance Initiative, n.d. (a)). Collectively, these banks control 43% of global banking assets of USD66 trillion. KPMG (2021) reported that VBI has been recognised as an initiative for the financial sector to address the issue of climate change. Among the ways to further VBI is for Islamic financial institutions to scale digital capabilities to meet customers' increasing advocacy of net-zero emissions.



Customers are generally willing to change how they spend in support of ESG considerations. Over 85% of banking customers across 24 countries, including Malaysia, want to know:

- **their payment ‘carbon footprint’** (i.e., how their spending habits impact the environment);
- **how to offset their carbon footprint, and**
- **they want to be incentivised to offset them.**

Customers are also keen to:

- **ensure their deposits or investments** have brought positive impacts, particularly to their own communities, small local businesses and the sectors the funds have been channelled to; and
- **control where to channel their funds**, ensuring they do not contribute to negative environmental or climate impacts (Malik, 2021 June 18; EY, 2020; Tapestry Network, 2020, April).

To meet these demands, trackers within banking apps are already available in Southeast Asia as more banking consumers commit to environmentally sustainable lifestyles. Singapore has two banks offering this feature in their banking apps (Ang, 2021). So do the US and Netherlands, offering loyalty points redemption in the form of tree planting and other sustainability or carbon offsetting initiatives. China offers the same through payment fintech. These are just to name a few.

In conclusion, technology is agnostic. Its ‘good or evil’ depends on how we use it. Shari’ah expects mankind to be vicegerents on Earth, responsible to preserve it for the benefit of present and future generations, to do good and prevent evil. Digital payments, in all of the permutations discussed in this section, are potential change drivers. Regardless of faith, digital payments can assist us to leave this world the same (if not better) than when we entered it.

# VALUE-BASED INTERMEDIATION VIS-À- VIS ISLAMIC SOCIAL FINANCE AND *GHĀRIMĪN*: A DISCUSSION

Islamic social finance (ISF) is one of VBI's key ingredients. Under its second thrust, i.e., 'community empowerment',

VBI endeavours to provide positive and impactful financial solutions to the society. This section discusses the integration of VBI with ISF and how this symbiotic relationship can yield significant results as aspired by the relevant stakeholders. This section also discusses the application of VBI to distressed debtors (*ghārimīn*) resulting from the COVID-19 pandemic.

# 6.0



## 6.1 Value-based Intermediation as a Social Impact Tool

ISF, which is also known as the third sector, consists of three main categories (IRTI, 2014):

1. Traditional philanthropic Islamic institutions: zakat, *ṣadaqah* and waqf
2. Mutual cooperatives: benevolent loan (*qarḍ*), guarantee (*kafālah*) and Islamic insurance (*takāful*)
3. Contemporary not-for-profit institutions: Islamic microfinance

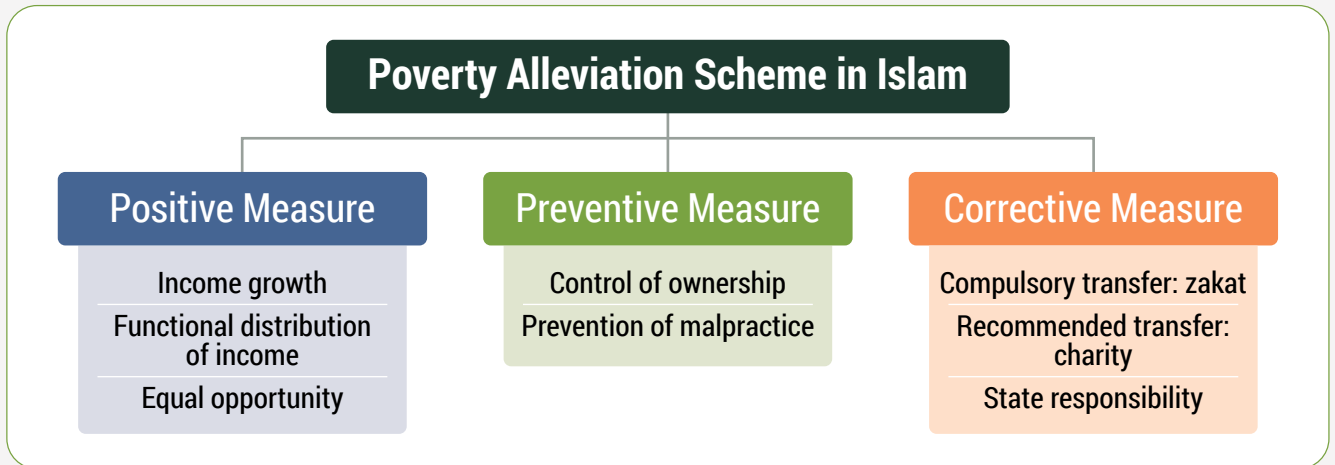
The ISF elements have also been factored into modern financial and investment instruments such as shares, sukuk and Islamic funds to promote greater sustainability. Examples include Islamic Development Bank's Sustainable Sukuk issued in June 2020, the Government of Malaysia's Sukuk PRIHATIN issuance in August 2020, various offerings of Islamic funds with waqf features

after the issuance of the waqf-featured fund framework by the Securities Commission Malaysia in November 2020, and waqf shares of Waqaf Saham Larkin Sentral, a wholly owned subsidiary of Waqaf An-Nur Corporation Berhad (WANCorp) in June 2017.

The primary objective of the ISF sector is to allocate resources for poverty alleviation and reduction of inequality and income gaps among members of the society. Sadeq (1997) and Ascarya (2021) suggest that the Islamic approach to poverty alleviation should have three components, one of which is corrective measures. Zakat, voluntary charity and state responsibility are classified under the latter; state responsibility includes the public treasury (*bayt al-māl*), waqf and other charitable funds. (See **Figure 6.1.**)



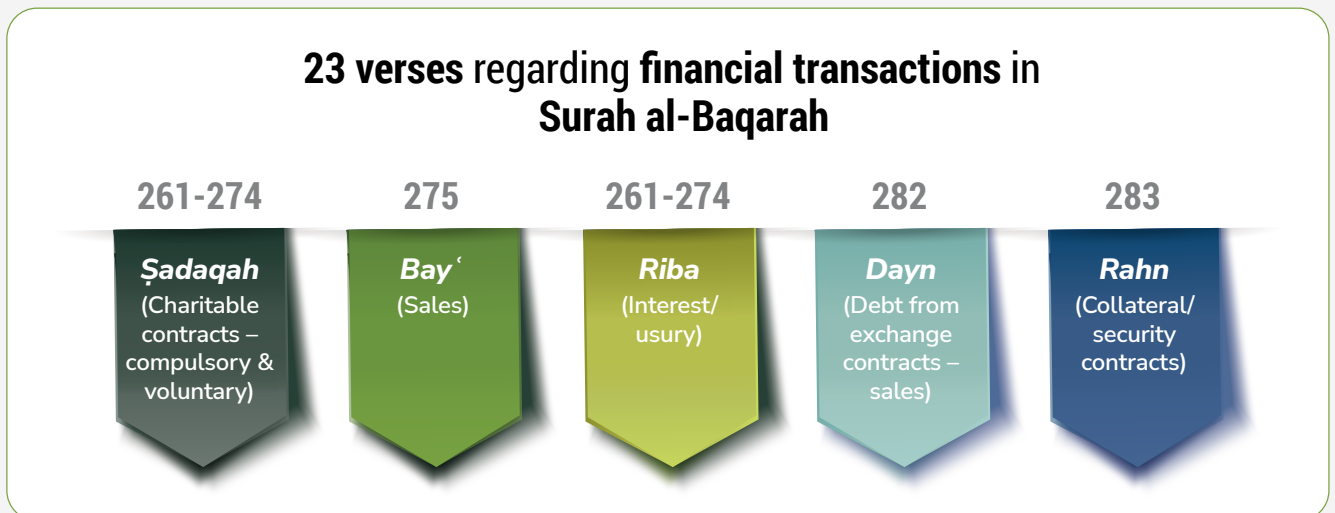
Figure 6.1: Islamic Approach to Poverty Alleviation



Source: Adapted from Sadeq (1997), Ascarya (2021)

Allah mentions in the Qur'ān, Sūrah al-Baqarah (verses 261–283), that there are five instruments which can be employed in financial transactions (refer to **Figure 6.2**). While Allah prohibits *ribā* (interest/usury), He provides four permissible alternatives: (i) *ṣadaqah* (charitable contracts in the form of compulsory zakat, voluntary charity, benevolent loan, gift, waqf, etc.); (ii) *bay'* (sales); (iii) *dayn* (debt created from exchange contracts); and (iv) *rahn* (collateral to secure financial obligations). In this regard, the integration of *ṣadaqah* as an ISF instrument in commercial businesses is necessary to create more positive outcomes as aspired by VBI.

Figure 6.2: Quranic Verses on Five Instruments in Financial Transactions



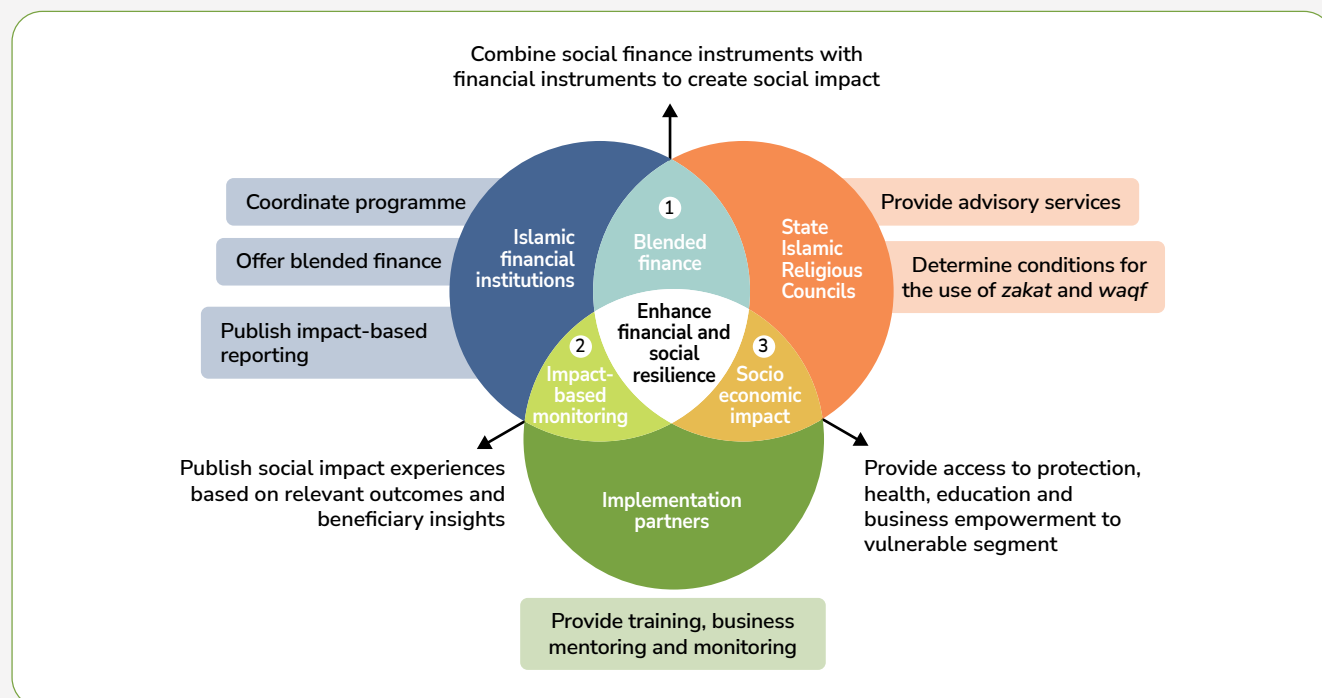
Source: ISRA

Prior to the introduction of VBI, exchange-based Shari'ah contracts were widely used by Islamic banks in their product structuring and offerings (and continue to be so). The release of the VBI Strategy Paper for consultation in 2017 has changed the mindset and approach of most Islamic banks, particularly the CoP members. They have started to incorporate various ISF instruments, including zakat, waqf and *ṣadaqah* into their business strategies and product offerings and services.

The success of implementing ISF blended with commercial financial instruments requires a synergic collaboration between Islamic banks and stakeholders ranging from State Islamic Religious Councils

(SIRCs) (as the authoritative bodies in Islamic matters) to implementing partners drawn from non-government organisations, social enterprises and community centres. **Figure 6.3** captures the symbiotic partnership among these stakeholders and their roles and responsibilities.

**Figure 6.3: Synergy between Islamic Banks and Key Stakeholders for Islamic Social Finance Integration**



Source: BNM (2021, p. 40)

Digitalisation and fintech can further accelerate the integration of ISF instruments into the mainstream finance as Islamic banks can leverage on digital solutions to raise and distribute funds. This is evident in the success of digital crowdfunding—offered by banks such as Maybank’s Maybank Heart, Bank Islam’s Sadaqa House, Bank Muamalat’s Jariah Fund, Alliance Islamic’s SocioBiz and AIBIM’s myWakaf—in facilitating potential donors to contribute to charity projects ranging from community empowerment to healthcare, investment, the environment, disaster relief and education. Carma Sector Report (2021) singled out Bank Rakyat, Bank Islam and Maybank Islamic as the top three Islamic banks in Asia in terms of media coverage and positive sentiments. Strong focus on digitalisation and CSR initiatives, which were accelerated by the COVID-19 pandemic, has boosted the reputation of these Islamic banks.

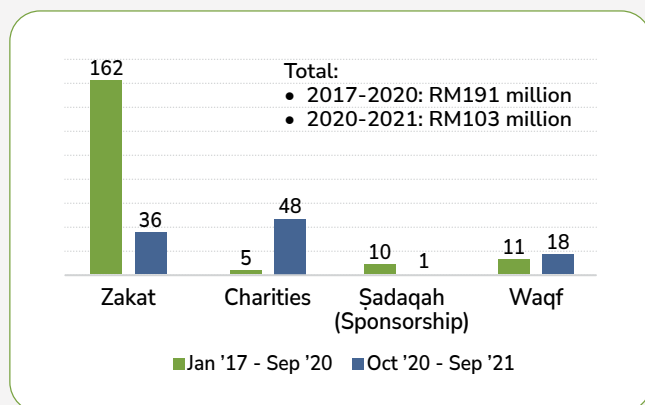
## 6.2 The Role of Zakat, Waqf and *Ṣadaqah* in Accelerating VBI Implementation

One of the biggest challenges in achieving SDGs and other similar sustainable initiatives including VBI is the shortage of financial resources. The UN Global Impact (2022) reported that around USD5-7 trillion are required annually to support sustainable development. This huge funding gap, which was further exacerbated by the negative impact brought by the COVID-19 pandemic, cannot be filled solely by the government and financial institutions. Thus, there is an urgent need to mobilise all possible resources, particularly from zakat, waqf and *ṣadaqah* funds to ensure full achievement of the SDGs and acceleration of VBI implementation.

The consideration of these main ISF instruments was motivated by their huge monetary contribution. For instance, the annual zakat distribution in the world in 2019 was estimated to exceed USD200 billion. Meanwhile, the value of waqf assets was estimated to be around 1 trillion (World Bank, INCEIF & ISRA, 2019). This amount excludes the volume of cash waqf; Indonesia alone is expected to collect USD13 billion yearly; and hundreds of millions more is given away in the form of *ṣadaqah* every year.

Accordingly, Islamic banks in Malaysia have intensified their promotion of these tools in their efforts to propel the growth of the VBI sector. As mentioned in Section 2.1, Islamic banks have intermediated value-added services by professionally managing various funds including zakat, charities, waqf and *ṣadaqah* (sponsorship). **Chart 6.1** provides a comparison between those funds managed by respondents to the AIBIM survey from January 2017 until September 2020 (as reported in the Preview Report) and from October 2020 until September 2021.

**Chart 6.1: Value-added Services Managed from 2017 to 2021 (in RM Million)**

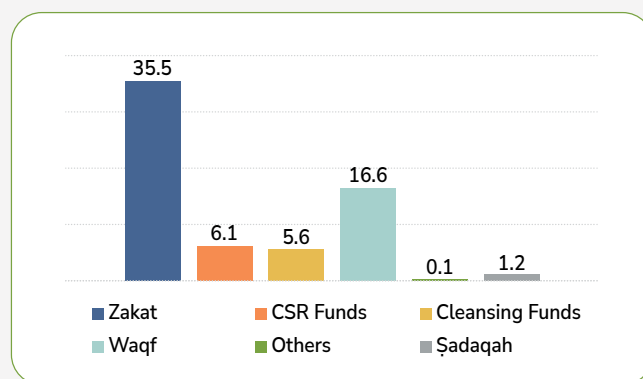


As indicated in **Chart 6.1**, the survey respondents professionally managed about **RM103 million** in value-added services in 2020-2021 (as opposed to **RM191 million** in the period 2017-2020). This shows a significant improvement; within that one-year period, the value-added services reached 54% of the total amount managed in the span of the previous four years. Though zakat is reported as the most employed instrument during the 2017-2020 period (over **RM162 million**), that portfolio dropped significantly to **RM36 million** in 2020-2021.

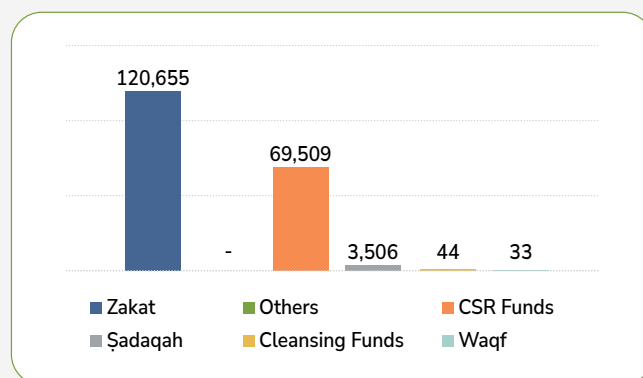
Meanwhile, charities reached nearly **RM48 million** during the same period (2017-2020: **RM5 million**).

AIBIM's survey respondents also disclosed that they distributed **RM65.2 million** of funds to 193,747 eligible recipients in 2020-2021 (2017-2020: **RM204.2 million** to 545,631 recipients) ranging from zakat, CSR funds, *ṣadaqah*, cleansing funds (from Shari'ah non-compliant income), waqf and others (refer to **Chart 6.2** and **Chart 6.3**). Allocation from zakat funds constitutes the highest percentage of 54.5% with a value of **RM35.5 million** (2017-2020: **RM142.9 million**) followed by waqf which represents 25.4% amounting **RM16.6 million** (2017-2020: **RM0.2 million**).

**Chart 6.2: Distribution of ISF Funds in RM Million (2020-2021)**



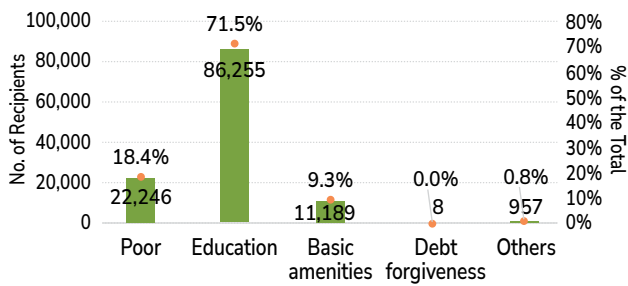
**Chart 6.3: Recipients of ISF Funds (2020-2021)**



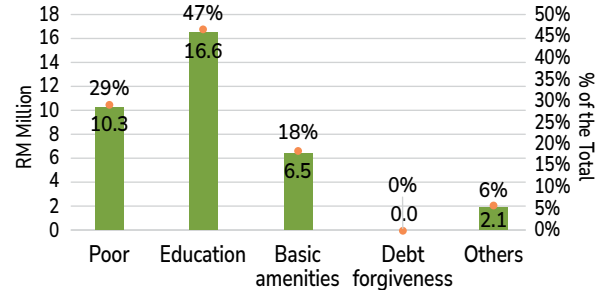
Zakat funds were distributed to several categories of beneficiaries (*aṣṇāf*) including the poor, for the cause of Allah (*fī sabīlillāh*), and debtors (*ghārimīn*). As depicted in **Chart 6.4** and **6.5**, the biggest portion of zakat funds was allocated for education with a total of **RM16.6 million** distributed to 86,255 recipients.



**Chart 6.4 Distribution of Zakat Funds by Number of Recipients (2020-2021)**

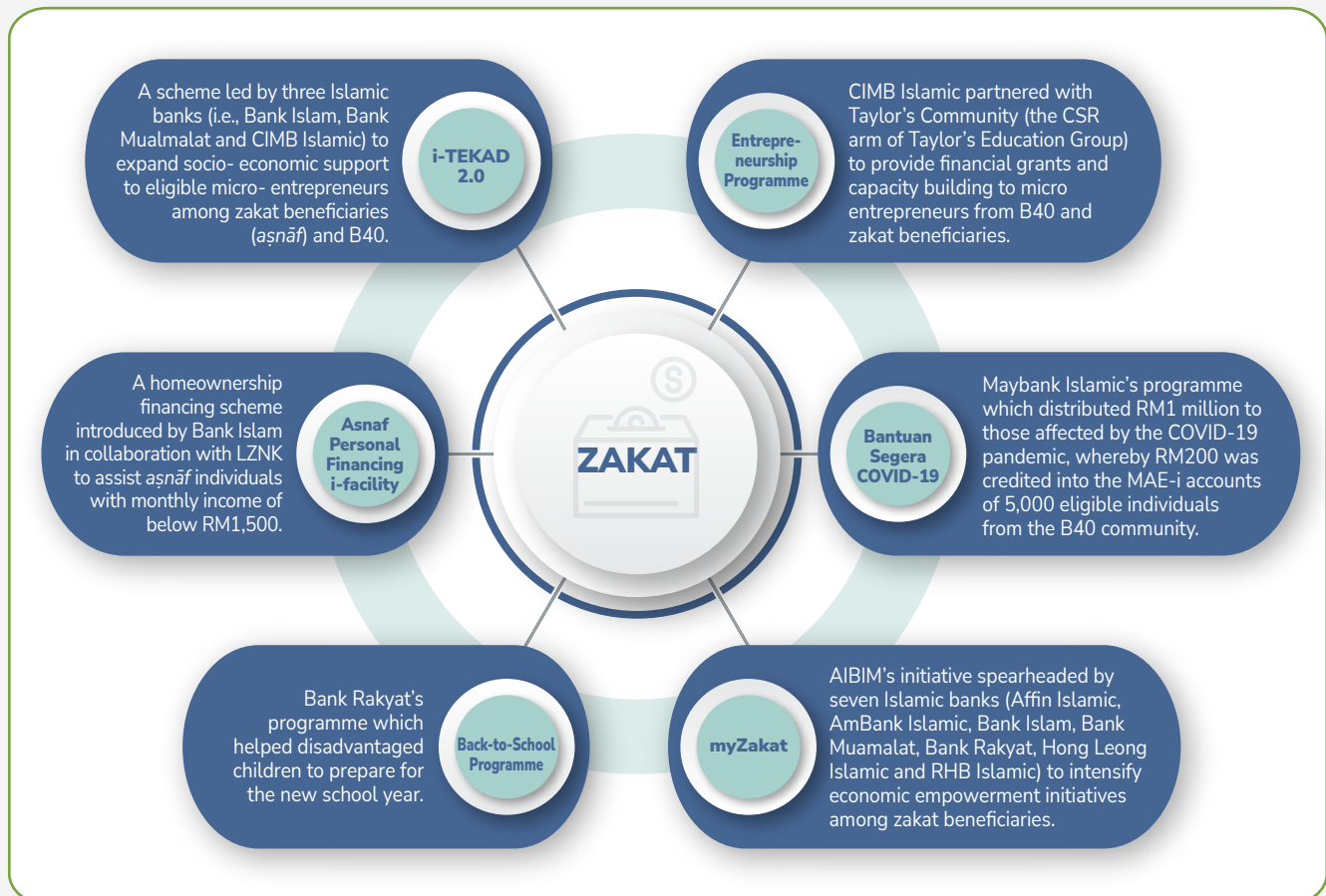


**Chart 6.5 Distribution of Zakat Funds by Amount (2020-2021)**



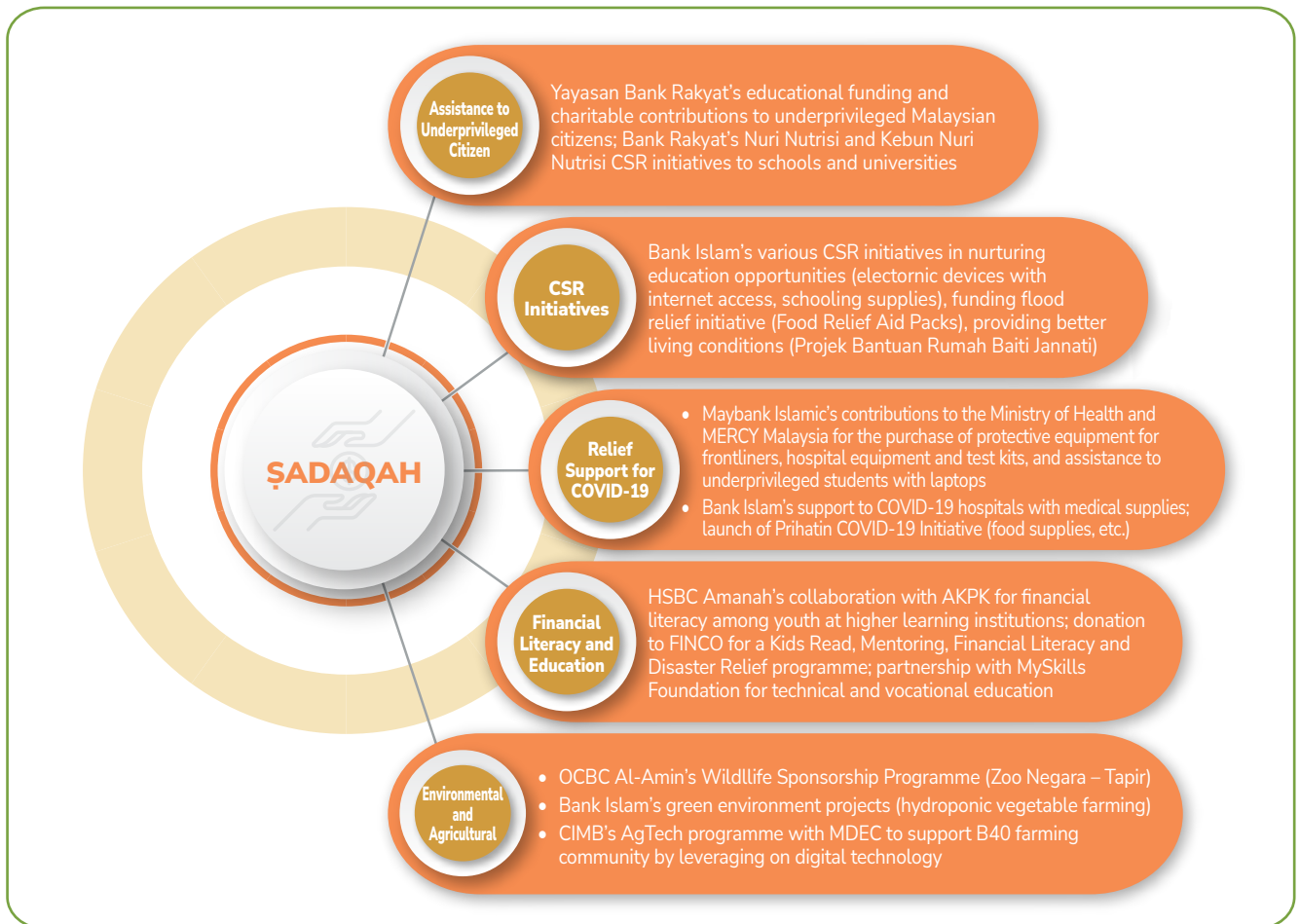
Based on the data provided by the CoP members (as highlighted earlier in Section 4), most of them resorted to ISF instruments to fund various community empowerment programmes in 2020-2021, particularly for the unserved and underserved segments which have been impacted by the COVID-19 pandemic. **Figures 6.4 to 6.6** present key VBI initiatives using zakat, *ṣadaqah* and waqf respectively.

**Figure 6.4: Notable VBI Initiatives via Zakat**



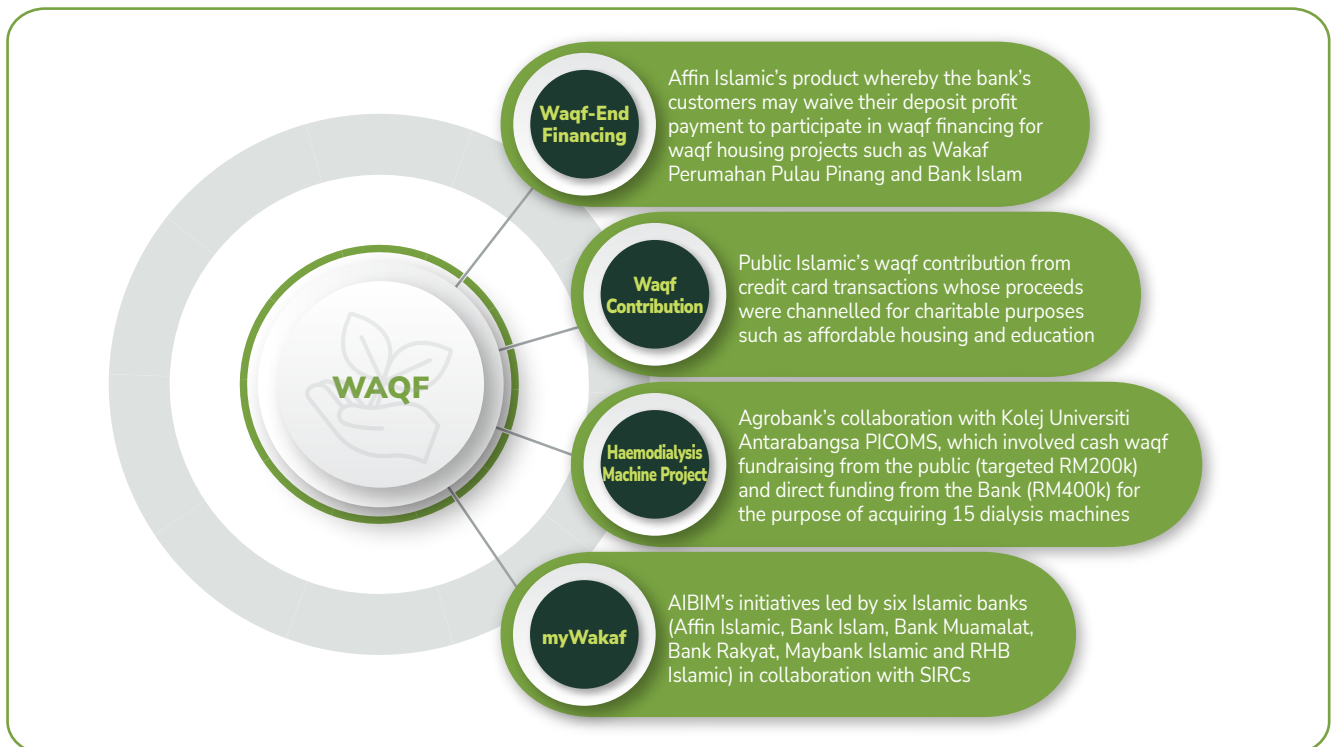
Source: AIBIM

**Figure 6.5: Notable VBI Initiatives via *Ṣadaqah***



Source: AIBIM

**Figure 6.6: Notable VBI Initiatives via Waqf**



Source: AIBIM

It is evident from the above initiatives that the use of zakat, *ṣadaqah* and waqf have assisted the Islamic banking industry in overcoming some of the challenges faced by their customers as well as the underprivileged segments of the community. These ISF tools have played instrumental roles in addressing funding gaps particularly during the pandemic era. In particular, zakat can be used to reduce vulnerability and enhance the resilience of the poor and needy. Hence, there is a huge potential for ISF instruments to be elevated and mainstreamed as part of essential product offerings by Islamic banks in Malaysia.

### 6.3 Ghārimīn in the Era of COVID-19 Pandemic: Between Theory and Practice

The recent pandemic uncovered the strong correlation between the finance industry and social finance. It also emphasized the need to examine the concept of *ghārimīn* (distressed debtors) in the context of the established objective of wealth preservation and VBI. This discussion will enable concerned parties to address the issue of *ghārimīn* and their financial, mental and emotional wellbeing; hence, sustaining and preserving the fabric of the family and of society at large.

#### 6.3.1 The Sharī'ah Concept of Ghārimīn

In Sharī'ah terminology, a *ghārim* is a debtor who is incapable of paying his debt. He is someone overburdened by debt for reasons other than foolishness or corruption.

The Qur'ān has given a special consideration to *ghārimīn*. It recommends extending time of payment or even forgoing their debt if they are in financial distress. Allah says:

﴿وَإِنْ كَانَ دُوْ عُسْرَةٍ فَنَظِرَةٌ إِلَىٰ مَيْسَرَةٍ وَأَنْ تَصَدَّقُوا خَيْرٌ لَّكُمْ إِنْ كُنْتُمْ تَعْلَمُونَ﴾

“And if the debtor is having a hard time, then grant him time till it is easy for him to repay; but if you remit it by way of charity, that is better for you if you did but know” (Surah al-Baqarah: 280).

The Qur'ān considers *ghārimīn* among the eight categories of people eligible to receive zakat. Allah says:

﴿إِنَّمَا الصَّدَقَتُ لِلْفُقَرَاءِ وَالْمَسْكِينِ وَالْعَمِلِينَ عَلَيْهَا وَالْمُؤَلَّفَةِ قُلُوبُهُمْ وَفِي الرِّقَابِ وَالْغُرَمِينَ وَفِي سَبِيلِ اللَّهِ وَأَبْنِ السَّبِيلِ فَرِيضَةً مِّنَ اللَّهِ وَاللَّهُ عَلِيمٌ حَكِيمٌ﴾

‘Zakat expenditures are only for the poor and for the needy and for those employed to collect [zakat] and for bringing hearts together [for Islam] and for freeing captives [or slaves] and for those in debt and for the cause of Allah and for the [stranded] traveller – an obligation [imposed] by Allah. And Allah is Knowing and Wise’ (Surah al-Tawbah: 60).

As for the Sunnah, there are numerous hadiths addressing the issue of *ghārimīn*. Several hadiths, on the one hand, advise people to be careful in entering into indebtedness and warn them of the related risks and possible grave consequences in this world and hereafter. On the other hand, there are hadiths praising lending to those in need and extending the time of payments for those in financial distress. The Prophet (ﷺ) said:

«مَا مِنْ مُّسْلِمٍ يُّقْرِضُ مُسْلِمًا قَرْضًا مَّرَّتَيْنِ إِلَّا كَانَ كَصَدَقَتِهَا مَرَّةً».

‘There is no Muslim who lends to another Muslim twice but it will be like giving charity once’ (Sunan Ibn Mājah).



This is in contrast with what was practiced during the time of Jahiliyyah whereby the creditor would say to the debtor when the debt came due, 'Either pay now, or interest will be added to the debt.'

Sharī'ah recommends giving debtors respite regarding their debts and promises reward from Allah for this righteous deed. Imam Ahmad reported from Sulayman ibn Buraydah that his father said, 'Messenger of Allah! I heard you say, "Whoever gives time to a debtor facing hard times will gain the reward of charity of equal proportion for each day he gives." I also heard you say, "Whoever gives time to a debtor facing hard times will earn the reward of double charity for each day he gives."' The Messenger of Allah told him:

«بِكُلِّ يَوْمٍ صَدَقَةٌ قَبْلَ أَنْ يَحِلَّ الدَّيْنُ، فَإِذَا حَلَّ الدَّيْنُ فَأَنْظَرُهُ فَلَهُ بِكُلِّ يَوْمٍ مِثْلَيْهِ صَدَقَةٌ».

'He will earn charity of equal proportion for each day before the debt comes due, and he will get the reward of charity for each day of respite he gives after the debt comes due.'

In another hadith, Abu Hurayrah (may Allah be pleased with him) reported that the Messenger of Allah (ﷺ) said:

«مَنْ أَنْظَرَ مُعْسِرًا، أَوْ وَضَعَ لَهُ، أَظْلَهُ اللَّهُ يَوْمَ الْقِيَامَةِ تَحْتَ ظِلِّ عَرْشِهِ يَوْمَ لَا ظِلَّ إِلَّا ظِلُّهُ».

'Whoever gives respite to an insolvent person or remits a part of his debt, Allah will shade him on the Day of Judgment in the shade of His Throne on a day when there will be no shade but His' (al-Tirmidhī, Aḥmad, and al-Dārimī) [*ṣaḥīḥ*/authentic].

Since there is a strong relation between the individual and society, the negative and disastrous consequences of not addressing the issues of *ghārimīn* will have an adverse systemic impact financially and mentally on the economy and society.

### 6.3.2 Islamic Finance Practices regarding *Ghārimīn* during the COVID-19 Pandemic

The pandemic has further increased global debt. to reach USD296 trillion at the end of June 2021. The Islamic countries were not immune from this crisis; however, the impact varies from one country to another.

According to BNM's Financial Stability Review for 1H of 2021, Malaysia's household debt-to-GDP ratio increased from 82.7% in 2019 to a peak of 93.2% as at the end of 2020, though it has declined to 89.6% in 2021. This development has deepened the financial debt of individuals and corporates that were already facing financial





constraints. It inadvertently created a new segment of indebted individuals and corporates categorized as *ghārimīn* and requiring special financial assistance.

Governments around the world adopted unprecedented measures to address the impact of the pandemic on individuals and corporates' financial obligations. The measures have differed across countries depending on the nature of the shock and country-specific circumstances. The Malaysian government, regulator and Islamic banking industry players played an important role in minimising the financial impact of the pandemic on the *ghārimīn*.

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**There are two approaches applied to minimize the financial impact of the pandemic on the *ghārimīn*: a macro policy-driven approach and micro direct assistance approach.**

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With regards to the **macro measures**, there were set of fiscal policy and monetary measures that assisted Islamic banking institutions by enabling them to grant to *ghārimīn*—individuals and corporates—some laxation in performing their financial obligation. Among the fiscal policy measures taken by the BNM:

- BNM lowered the Overnight Policy Rate (OPR) in three consecutive Monetary Policy Committee meetings on March 3, May 5 and July 7, 2020. Including the January rate change, the OPR has been cut in 2020 by a cumulative 125 bps to 1.75%, and that rate remained until end-2021.
- On March 27, 2020, BNM increased its Financing Facilities by **RM4 bn** to **RM13.1 bn** (0.9% of GDP).
- On March 25, 2020, BNM announced temporary easing of regulatory and supervisory compliance on banks to help support loan/financing deferment and restructuring.
- BNM also announced relief measures for insurance policy holders and *takāful* participants.

Meanwhile the **micro measures** primarily address the debt issue and grant financial aid or relief to the affected parties. Among the fiscal and monetary measures taken by the government are:

- Allocation of eight economic stimulus packages worth **RM530 billion** (of which 62% or **RM330 billion** were utilised as at end-September 2021) for health spending; temporary tax and social security relief; cash transfers to affected sectors low-income households; rural infrastructure spending, electricity discounts; temporary pay leave; wage subsidies to help employers retain workers; grants for Micro SMEs, scaled-up wage subsidies, and a 25% discount on foreign workers' fees.
- Setting up a **RM50 billion** fund for working capital loan guarantees for all COVID-19 affected businesses.

The BNM also implemented some measures; critical among them were:

- The BNM announced, on November 6, 2020, several additional facilities and enhancements for SME support, including the establishment of (i) **RM2 billion** TRRF; (ii) **RM500 million** High Tech Facility (HTF); and (iii) **RM110 million** enhancements to the existing Micro Enterprise Facility. The BNM announced an additional allocation of **RM2 billion** for the TRRF and established the **RM200 million** Disaster Relief Facility in February 2021.
- The BNM announced, on July 29, 2021, that the Islamic banking industry will provide a targeted finance payment moratorium extension following the six-month blanket moratorium expiring on September 30, 2020, and provision of repayment flexibility to financing recipients affected by COVID-19, subject to fulfilling some conditions such as losing their jobs or having their salaries affected.

In line with the calls from the government and BNM to lessen the financial burden of customers affected by pandemic and hit by natural disasters (i.e., *ghārimīn*), the Islamic banking industry has taken the lead in providing various forms of financial assistance to both retail and corporate customers:

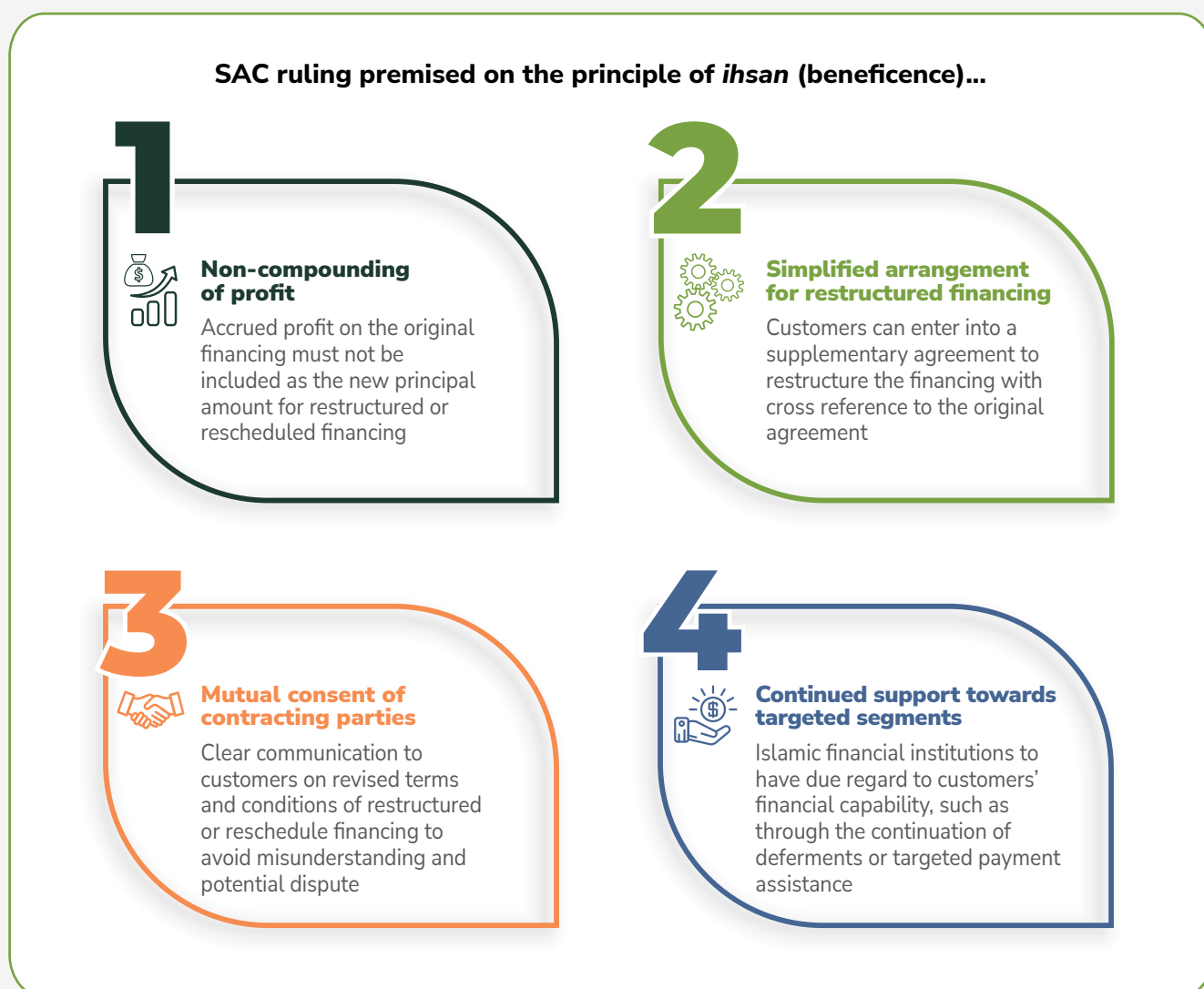
- Reduction of monthly financing instalments
- Restructuring and rescheduling of financing
- Targeted moratorium for different categories of financing facilities

In rendering these financial supports and assistance, the Islamic banking industry is supported by the rulings of the Shariah Advisory Council (SAC) of BNM. These rulings, which were

issued in 2020, guide the industry in implementing the assistance measures in line with Sharī'ah principles. **Figure 6.7** illustrates the SAC rulings related to the practices and conduct of Islamic banks in addressing the financial hardship of their customers during the pandemic.

**As of December 2021, Islamic banks approved financial assistance of more than RM980 billion to customers affected by the COVID-19 pandemic and the massive flood. In addition, a total of RM1.3 billion has also been channelled through CSR initiatives and other types of assistance. The financial assistance rendered by the Islamic banking industry has benefited 2.7 million banking customers and citizens of Malaysia.**

**Figure 6.7: SAC Rulings in Addressing the Impact of the COVID-19 Pandemic**



Source: BNM (2021, p. 37)



As delineated earlier, the Islamic banking industry has also utilised zakat and *ṣadaqah* funds to assist *ghārimīn* and those who are in need of financial support to sustain their businesses. Different financing schemes including iTEKAD, Skim CAKNA, TRRF, Special Relief Facility, and PENJANA SME have been rolled out to render assistance to these affected customers.

From the *maqāṣid al-Sharīʿah* perspective, the ultimate objective of the Islamic banking industry is to ensure the realisation of, among others, socio-economic stability, equitable income distribution, poverty alleviation, comprehensive and balanced development, and financial inclusion. The achievement of such noble objectives requires a balanced and integrative approach that brings the lucrative structures of Islamic banks together with philanthropic institutions.

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**The ultimate objective of the Islamic banking industry is to ensure the realisation of, among others, socio-economic stability, equitable income distribution, poverty alleviation, comprehensive and balanced development, and financial inclusion.**

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The Islamic banking industry via its VBI initiatives and achievements as highlighted in this report has shown that these efforts are worthwhile. They are expected to be further enhanced and scaled-up across the financial industry in the near future, epitomising the internalisation of *maqāṣid al-Sharīʿah* in the practice of Islamic banks in Malaysia.

# WHAT'S NEXT

The COVID-19 outbreak has indeed tested the resilience and the conviction of the CoP members in pursuing the VBI agenda. Despite the strong headwinds, the VBI sector demonstrated resilience and strength as shown by the steady growth of the VBI-related initiatives during the reporting period. This positive trajectory attested to the strong commitment and 'walk the talk' aptitude of the CoP members, and the enhanced disclosure on VBI-related activities further proved that these activities are sustainable in nature.

# 7.0





policies. This can be seen by the active role played by the CoP members in implementing VBI in their strategic priorities and practices as shown in the CoPs case studies in Section 4. Higher focus is given to fortifying good governance and practices of VBI principles across all divisions. This includes mitigating the CoP members' environmental footprint in their daily paper, electricity, and water consumption.

Several internal mechanisms continued to be introduced to

ensure that the CoP members conduct business in a responsible and sustainable manner, including frameworks that allow them to better integrate sustainability throughout their value chain while mitigating their environmental and social risks. The persistent upgrade of the CoP members' digital solutions enabled more efficiency in their internal processes, improved their customers' experience, and safeguarded their data and information.

## 7.1 Meeting the VBI Expectation Amidst the Pandemic

Notwithstanding the challenging credit risks faced, the CoP members continued to alleviate financial hardships and enhance opportunities for the unserved and underserved individuals and businesses by extending their access to financial services. This includes improving customers' understanding of Islamic finance through knowledge sharing and financial literacy programmes that are aimed at driving inclusiveness, and assisting and empowering customers to meet their financial goals. This restores trust and confidence in the community towards the Islamic banking industry in general.

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**This positive trajectory attested to the strong commitment and 'walk the talk' aptitude of the CoP members, and the enhanced disclosure on VBI-related activities further proved that these activities are sustainable in nature.**

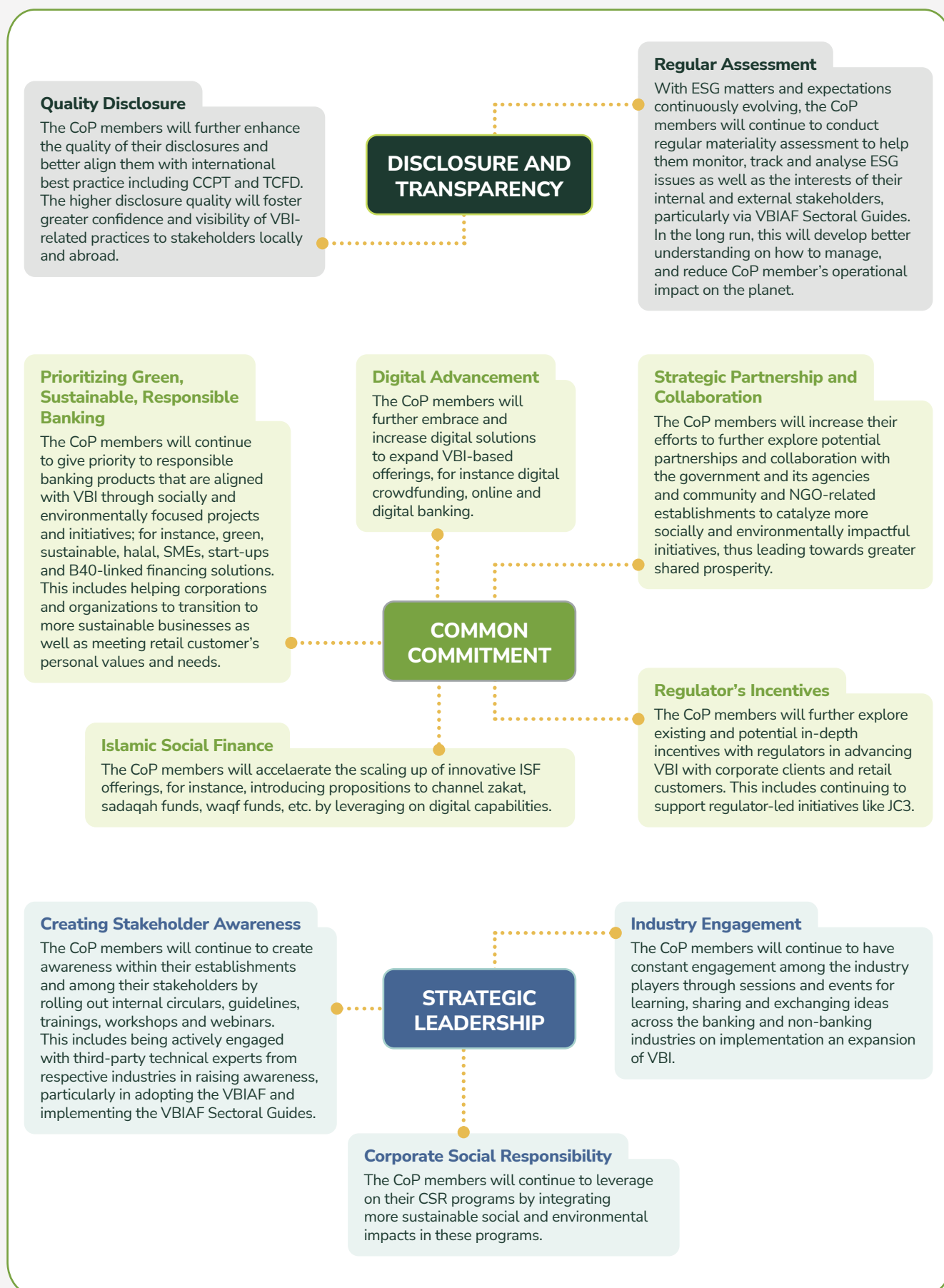
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The pandemic has also reinforced the importance of having VBI embedded in organizations' strategic

## 7.2 Advancing VBI Aspiration into 2022

The pandemic has taught the industry valuable lessons that will drive the CoP members in advancing the VBI agenda forward. Based on the experience and lessons learnt, the CoP members aspire to continue improving their banking practices and offerings by greater adoption and adaption of VBI, which is underpinned by *maqāṣid al-Shari'ah*, and other sustainability agendas such as ESG and PRB in their daily operations, activities and practices, particularly in the key development areas formed under three overarching themes—disclosure and transparency, common commitment and strategic leadership as identified in **Figure 7.1**.

**Figure 7.1: Key Development Areas to Advancing VBI Aspiration into 2022**



The advancement of the VBI agenda through these key development areas will further strengthen and elevate the resilience of Malaysia's VBI leadership both as thought leaders and business drivers domestically and internationally. In addition, these key development areas are aligned with the BNM's five-year Financial Sector Blueprint (2022-2026) strategies, particularly on the sustainable development focus areas that aim at mainstreaming VBI; addressing needs of the unserved and underserved; and supporting greater climate resilience and a more environmentally sustainable growth model.

With the progression and advancement made in the VBI sector in the past years, particularly 2020 and 2021, the CoPs members will be more equipped and confident in upscaling the implementation of the VBI agenda into 2022. Undeniably, this will further enhance the contribution of the Islamic banking sector towards national socio-economic growth and development, in line with the Twelfth Malaysian Plan to drive for a 'Prosperous, Inclusive and Sustainable Malaysia'.

# **SPECIAL SEGMENT: VALUE-BASED INTERMEDIATION FOR TAKAFUL – AN INTRODUCTION**

# **8.0**

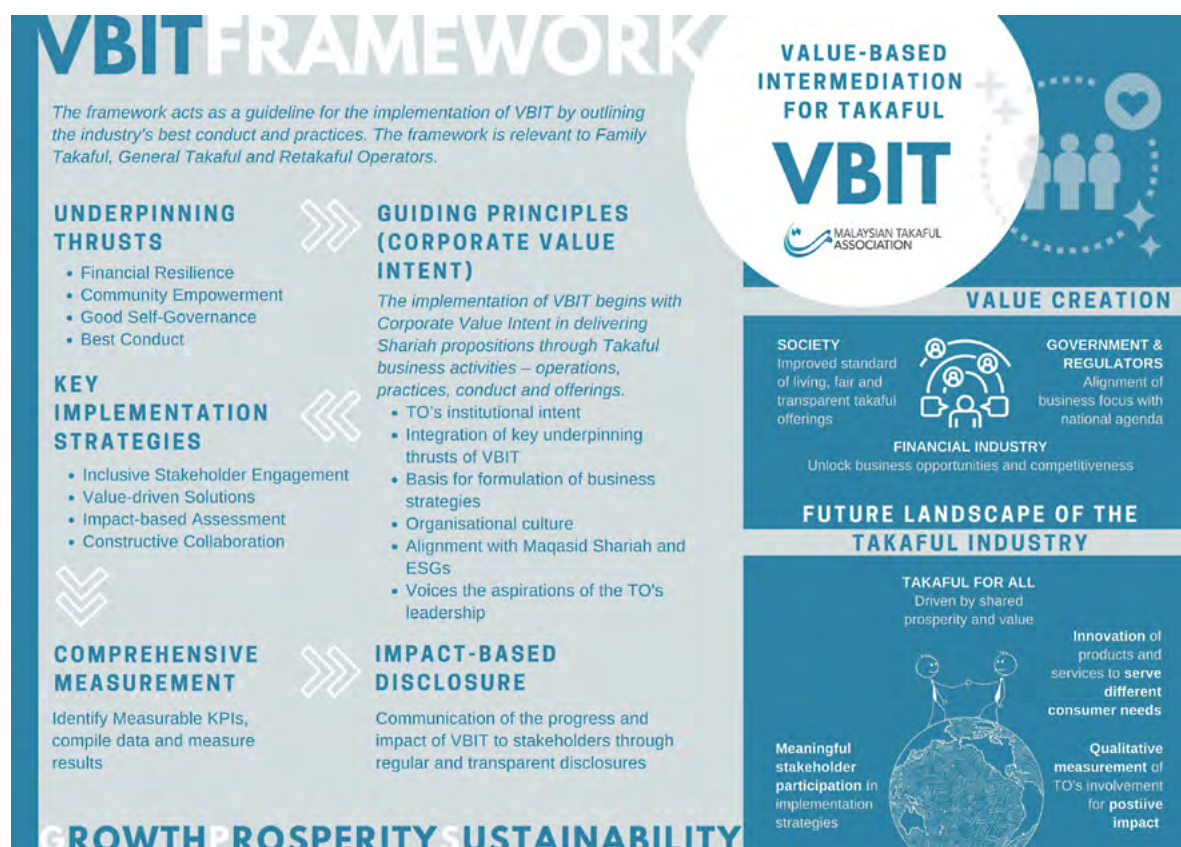


Takaful is a fast-growing industry with great growth and market potential in Malaysia. New business in Family Takaful, for example, has doubled in the last five years, from **RM213.2 billion** in 2015 to 461.7 billion in 2020. General Takaful indicators have also seen growth rates of between 30-55% during the same period. The industry penetration rate of 16.9% (in 2020) indicates ample room for growth and large potential for further development of the industry. Being an industry based on firm principles and *maqāsid al-Sharī'ah*, it is important to recognise the relationship between the objectives of Sharī'ah and the objectives of Takaful in strategising to capture greater market share.

**New businesses in Family Takaful, have doubled in the last five years, from RM213.2 billion in 2015 to 461.7 billion in 2020.**

Since the inception of VBI in the Islamic finance industry, Islamic finance business models have been re-oriented towards realising the objectives of Sharī'ah that generate positive and sustainable impact upon the economy, community and environment through the industry's practices, processes, offerings and conduct. As part of the Islamic finance ecosystem, the Takaful sector via its industry leaders and the Malaysian Takaful Association (MTA) has initiated and launched the Value-based Intermediation for Takaful (VBIT) Framework in June 2021, as a complimentary to the VBI.

The VBIT Framework is the result of consultation among the industry leaders to interpret VBI into a practical framework which encapsulates the objectives, principles, and practices of the Takaful industry, and provides guidance to Takaful Operators (TOs) on how to integrate these value-based principles seamlessly into their respective businesses. The ultimate intended outcome of implementing VBIT is to achieve *maqāsid al-Sharī'ah* (by providing protection to life, lineage, intellect, wealth and dignity through mutual cooperation and ethical dealings within the society), within the ideals of Economy, Community and Environment. VBIT is also in line with the nation's aspiration to achieve inclusive protection for the underserved or unserved segments of the society and to address relevant socio-economic issues, making the VBIT Framework relevant to Family Takaful, General Takaful and Retakaful Operators (RTOs).



The VBIT Framework articulates how VBIT should be implemented by the industry to achieve its transformational purpose and deliver positive impacts and sustainable positive financial returns. A key component of the Framework is its implementation strategies (or focus areas), which are four-fold:

1. Inclusive stakeholder engagement
2. Value-driven solutions
3. Impact-based assessment
4. Constructive collaboration

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A clear understanding of how Takaful Operators can embrace VBIT will drive the industry to the next level.

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## The Role of Technology in Communication

At the core of these four implementation strategies are technology and communication. With technology transforming the way people receive and process information, and significantly impacting the way people interact and conduct their day-to-day tasks and businesses, it is critical for TOs to be ahead of the game in utilising technology within their operational processes as well as their outreach and interactions. Harnessing the power of technology in communicating with customers, potential customers and stakeholders will allow TOs to break the traditional limitations of geographical reach and face-to-face interactions. Adaptations in technology can result in the offering of more customer-centric value-driven solutions, through product innovations that better serve consumer needs and demands. A decision to invest in technology may, for example, result in simpler processes and faster claims and responses, which will serve to provide the customer more meaningful and valuable experiences.

The COVID-19 pandemic in 2020 and most of 2021 propelled the industry towards increased digitisation. Virtual and online interactions became new norms as industry players and agents were forced to explore more creative means to continue delivering their services, maintain productivity and efficiency, and reduce costs to meet Key Performance Indicators (KPIs). At the same time, the pandemic impacted the health needs and financial standing of the country's population, forcing TOs to respond by offering products that are more in tune with the new consumer needs. In responding to these challenges, the industry has consistently displayed the spirit of *maqāṣid al-Sharī'ah*.

## The VBIT Journey

It is pertinent for TOs and RTOs to understand and recognise two things in relation to their VBIT journey.

- First: **VBIT is not a new concept** that requires a revamp of their businesses and operations. In fact, VBIT echoes the same aspirations that already exist in Takaful—to ensure inclusive protection for every segment of the society. No TO or RTO will be starting its VBIT journey from scratch.
- Second: **the journey is a continuous advancement**, where each TO or RTO's journey will be different and should not be rushed. VBIT should be implemented in stages to ensure utmost effectiveness, and operators have the flexibility to execute and prioritise the implementation strategies in the VBIT Framework that are suited to their existing circumstances and that will bring greatest value to their stakeholders. They can progress to further develop them to be more holistic over time.

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VBIT is not a new concept that requires a revamp of their businesses and operations. No TO or RTO will be starting its VBIT journey from scratch.

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With the global focus on sustainability and prosperity, it is no longer sufficient for the industry to deliver quality products that meet customer needs. The larger impact of the industry's performance needs to be measured and disclosed to stakeholders and regulators. Identifying the correct KPIs to measure impact is critical, and assessing performance against the KPIs and then clearly reporting it are equally essential. Innovations and new product offerings are to be developed and engineered to align with the global and national agendas through constructive collaboration with other industry players, associations, regulatory bodies and agencies.

## VBIT Aspirations for the Future of Takaful

VBIT foresees a future Malaysia where Takaful is available for all, where takaful offerings and innovations serve the needs of the different communities, elevate their wellbeing and bring about positive impacts on the prosperity of the nation. The launching of the VBIT Framework coincided with the Twelfth Malaysia Plan (12MP) announced by the Malaysian Government in October 2021.

The 12MP identified three dimensions as its priority areas – economic empowerment, environmental sustainability, and social re-engineering. The Takaful industry can both benefit from and contribute to these three dimensions in areas such as digital economy (innovation, digitalised transactions, takaful-tech, disclosure and reporting), building and improving the wellbeing and financial resilience of underserved communities (financial penetration

rate and literacy) and strengthening social security networks (coverage, protection and fair treatment of customers). The general takaful and retakaful segments also have significant roles in supporting environmental sustainability, technological and infrastructural development, innovation, and the halal trade and commerce activities.

The MTA and BNM will continue to support TOs and RTOs as they adopt and embrace VBIT and progress in their execution of VBIT initiatives. However, it is also pertinent that the operators proactively and continuously envision themselves as drivers of the transformation of the industry towards becoming more sustainable and resilient. All the initiatives that fall under the VBIT Framework will support the industry's aspirations to elevate the Malaysian Islamic finance industry at the national, regional and global levels.

2022 will be a critical year for the industry and for Malaysia. It provides a window to jumpstart the sustained recovery of industries, livelihoods and jobs. Initiatives such as the Perlindungan Tenang Voucher programme help to boost takaful penetration and employment opportunities for new takaful agents and businesses. Also, the continued promotion of financial literacy and social protection coverage provide proofs of the industry's commitment and dedication to achieve the VBIT aspiration of **Takaful for All**.

The full VBIT Framework can be downloaded at the VBIT website by scanning the QR code to the right or by visiting [www.vbitakaful.com](http://www.vbitakaful.com). The video on the Framework can be viewed there.



## 9.0 GLOSSARY

<b><i>Bayt al-māl</i></b>	Public treasury
<b><i>Ḍarūriyāt</i></b>	Necessities
<b><i>Dayn</i></b>	Debt, which could be created by an exchange contract or a loan, among other causes
<b><i>Ghārimīn</i></b>	It is the fifth category of zakat recipients mentioned in the Qur'ān (9:60). This category refers to those who are indebted and require support for debt relief.
<b><i>Ḥājiyyāt</i></b>	Needs at the complementary level
<b><i>Kafālah</i></b>	Guarantee
<b><i>Qarḍ/ Qarḍ Ḥasan</i></b>	Benevolent loan
<b><i>Rahn</i></b>	Collateral to secure a financial obligation
<b><i>Ribā</i></b>	Interest/usury
<b><i>Ṣadaqah</i></b>	Voluntary charity
<b><i>Taḥsīniyyāt</i></b>	Needs at the embellishments level
<b><i>Takāful</i></b>	Islamic insurance
<b><i>Waqf</i></b>	Endowment
<b><i>Zakat</i></b>	Compulsory almsgiving



## 9.1 Acronyms and Abbreviations

12MP	Twelfth Malaysia Plan
A4AI	Alliance for Affordable Internet
ACE	Agrobank Centre of Excellence
Affin Islamic	Affin Islamic Bank Berhad
Agrobank	Bank Pertanian Malaysia Berhad
AI	Artificial intelligence
AIM	Amanah Ikhtiar Malaysia
AKPK	Agensi Kaunseling dan Pengurusan Kredit
Al Rajhi Bank	Al Rajhi Banking & Investment Corporation (Malaysia) Berhad
Alliance Islamic	Alliance Islamic Bank Berhad
AmBank	AmBank Islamic Berhad
B40	Bottom 40%
Bank Islam	Bank Islam Malaysia Berhad
Bank Muamalat	Bank Muamalat Malaysia Berhad
Bank Rakyat	Bank Kerjasama Rakyat Malaysia
BC	Best Conduct
BDA	Big Data Analytics
BNM	Bank Negara Malaysia or Central Bank of Malaysia
CCPT	Climate Change and Principle-based Taxonomy
CE	Community Empowerment
CIMB Islamic	CIMB Islamic Bank Berhad
CCO	Chief Compliance Officer
CCPT IG	CCPT Implementation Group
CDP	Carbon Disclosure Project
CDX	Centre of Digital Experience
CESF	Certified Expert in Sustainable Finance
CoP	Community of Practitioners
CRO	Chief Risk Officer
CSI	Cost Saving Initiative
CSR	Corporate Social Responsibility
CVI	Corporate Value Intent as described in VBI Implementation Guide
DBKL	Kuala Lumpur City Council
DHRRRA	Development of Human Resources for Rural Area
E&S	Environmental and Social
EAP	Employee Assistance Programme
EES	Employee Engagement Score
EEVs	Energy Efficient Vehicles
EM	Entrepreneurial Mindset
EPP	Easy Payment Plan
ESG	Environmental Social and Governance
ESRG	Environmental and Social Risk Grade
ESRM	E&S risk management system
F&B	Food and beverage
FAIR	Financial Assistance & Instalment Relief
FAMA	Federal Agricultural Marketing Agency
FINCO	Financial Industry Collective Outreach
Five Ps	People, Planet, Prosperity, Peace, and Partnership
FPX	Financial Process Exchange
FSB	Financial Stability Board
FSBP	Financial Sector Blueprint 2011 – 2020

GBI	Green Building Index
GEC	Global Environment Centre
GHF	Go Halal SME Financing
GHG	Greenhouse gas
GS	Good Self-governance
HACP	Halal Awareness and Certification Programme
HalMap	Halal Route to Market Programme
HSBC Amanah	HSBC Amanah Malaysia Berhad
HDC	Halal Development Corporation
HTF	High Tech Facility
IFC	International Finance Corporation's
IFI	Islamic financial institution
IFD-i	Islamic Fixed Deposit
IoT	Internet of Things
ISF	Islamic Social Finance
IWM	Islamic Wealth Management
JC3	Joint Committee on Climate Change
JPS	Department of Irrigation and Drainage
KBI	Kelab Bank Islam
KDIIIs	Key Developmental Impact Indicators
KPIs	Key Performance Indicators
LTH	Lembaga Tabung Haji
LZNK	Lembaga Zakat Negeri Kedah
MAFI	Ministry of Agriculture and Food Industries
MAP	Muamalat Application Platform
Maybank Islamic	Maybank Islamic Berhad
MBR	MicroBizReady
MCAS	Muslim Converts' Association of Singapore
MCO	Movement Control Order
MGTC	Malaysian Green Technology and Climate Change Corporation
MOB	Mobile onboarding
MSRL	Medical Self-Recovery Leave
MTA	Malaysian Takaful Association
MyDigital	Malaysia Digital Economy Blueprint
NDC	National determined contribution
NDPE	No Deforestation, No New Peat, and No Exploitation
NDRP	Natural Disaster Relief Programme
NPS	Net Promoter Score
NRA	New Repayment Assistance
OCBC AL-Amin	OCBC al-Amin Bank Berhad
OPR	Overnight Policy Rate
PayNet	Payments Network Malaysia Sdn Bhd
PdPr	Digital learning
PERTIS	Persatuan Orang-orang Cacat Penglihatan Islam Malaysia
PMF	Performance Measurement Framework
POS	Point-of-sale
PPR	Program Perumahan Rakyat
PPZ-MAIWP	Pusat Pungutan Zakat-Majlis Agama Islam Wilayah Persekutuan
PR1MA SPEF	Perumahan Rakyat 1Malaysia – Skim Pembayaran Fleksibel
PRB	Principles for Responsible Banking
Public Islamic	Public Islamic Bank Berhad
PV	Photovoltaic
QR	Quick Response
RA	Repayment Assistance

<b>RAC</b>	Risk Acceptance Criteria
<b>RCAP</b>	Risk & Compliance Awareness Programmes
<b>RHB Islamic</b>	RHB Islamic Bank Berhad
<b>RTOs</b>	Retakaful Operators
<b>SAC</b>	Shariah Advisory Council
<b>SBN</b>	Sustainable Banking and Finance Network
<b>SC4</b>	Sub-committee 4
<b>SDGs</b>	United Nations' Sustainable Development Goals 2030
<b>SEs</b>	Social Enterprises
<b>SES</b>	Staff Emergency Support
<b>SGWG</b>	Sectoral Guide Working Group
<b>SIM</b>	Social Impact Matching
<b>SIRCS</b>	State Islamic Religious Councils
<b>SME</b>	Small and medium-sized enterprises
<b>SMEC</b>	SME and Cooperative
<b>SRP</b>	Skim Rumah Pertamaku
<b>Standard Chartered Saadiq</b>	Standard Chartered Saadiq Berhad
<b>TBL</b>	The triple bottom line: people, planet, and profit/prosperity
<b>TCFD</b>	Task Force on Climate-related Financial Disclosure
<b>TERAJU</b>	Teraju Bumiputera Corporation
<b>TERAS</b>	Teraju Ekonomi Asnaf Sdn. Bhd.
<b>TOs</b>	Takaful Operators
<b>TRA</b>	Targeted Relief Assistance
<b>TRRF</b>	Targeted Relief & Recovery Facility
<b>UiTM</b>	Universiti Teknologi MARA
<b>UN</b>	United Nations
<b>URUS</b>	Financial Management & Resilience Programme
<b>VBI</b>	Value-based Intermediation
<b>VBIAF</b>	VBI Financing and Investment Assessment Framework
<b>VBIT</b>	Value-based Intermediation for Takaful
<b>VOE</b>	Voice of the Employee
<b>WANCorp</b>	Waqaf An-Nur Corporation Berhad
<b>WASH</b>	Water, Sanitation and Hygiene
<b>WEPS</b>	Women Empowerment Principles
<b>WFH</b>	Work From Home
<b>WPP</b>	Wakaf Pulau Pinang
<b>YBM</b>	Yayasan Belia Malaysia
<b>YES</b>	Young Agropreneur Scheme
<b>YIM</b>	Yayasan Inovasi Malaysia
<b>YPM</b>	Yayasan Pelajaran MARA

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