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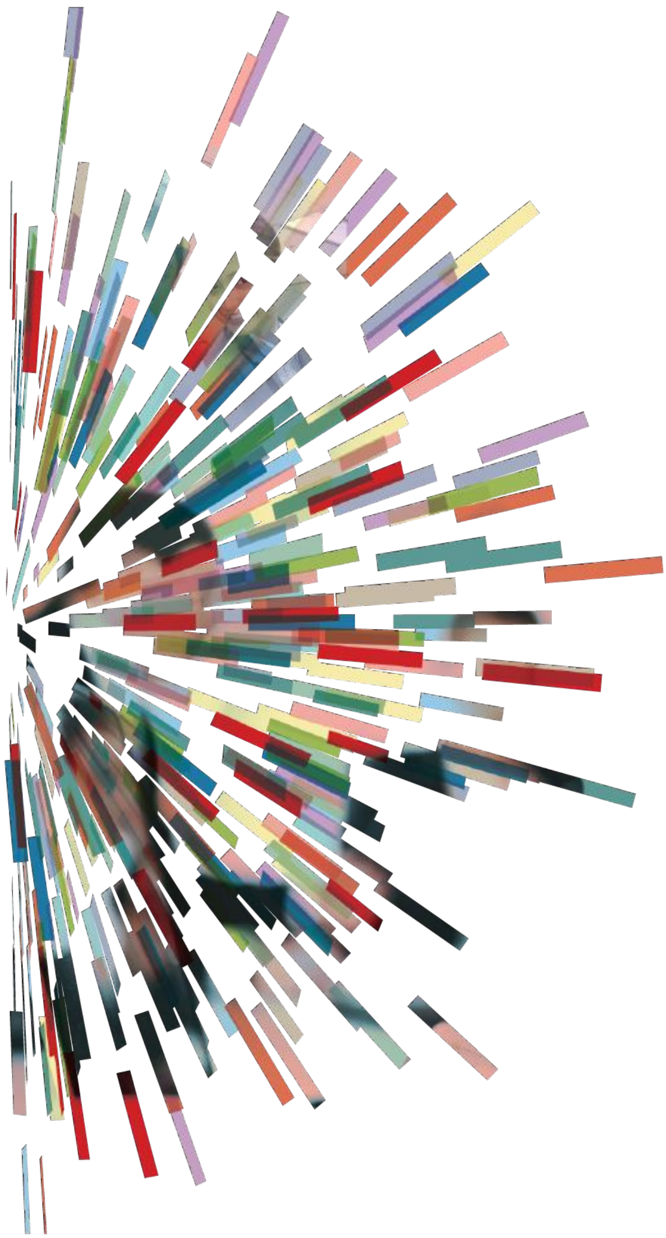
Dare to Lead: Transformation of Bank Islam Malaysia Berhad



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Dare to Lead: Transformation of Bank Islam Malaysia Berhad

SYNOPSIS

The establishment of Bank Islam Malaysia Berhad (Bank Islam) in 1983 was seen as a major leap forward in the development of Islamic banking in Malaysia. Since then Bank Islam has paved the way for the continuous development of Islamic banking and finance beyond the Malaysian shores. After more than two decades in operations, the bank suddenly found itself in the red when it reported a loss of RM456 million for the first time since its inception. In June 2006, a new Managing Director was appointed and a new management team was put in place. They were given the formidable task of stopping the bleeding and turning around the bank's fortune. Under the guiding hand of the new Managing Director, he and his management team not only took the bull by the horns but moved mountains and carved numerous milestones in the process. This case follows the transformation journey of Bank Islam in its pursuit of becoming "A Global Leader in Islamic Banking".

INTRODUCTION

Bank Islam, the first full-fledged Islamic bank in Malaysia, was set up primarily to assist the financial needs of the country's Muslims. After more than two decades serving the banking needs of Malaysians, Bank Islam found itself in the spotlight for the wrong reasons. Due to bad credit management, the bank had suffered a loss of RM1.8 billion, its entire shareholders' funds were wiped out and its cost income ratio was high at 65%. The bank had to write off some RM2.3 billion after being mired by financial losses in 2005 and 2006. This was indeed a massive amount for a bank by any yardstick. Weak credit control rather than misappropriation was blamed for these huge losses. Struggling under a mountain of non-performing financing, a management shake-up was inevitable to stop the bleeding and turn around the bank's fortune. In a year after recording huge losses, Bank Islam made an impressive recovery to chart strong growth and return to profit. After four decades of evolution and expansion, Bank Islam continues to make history and to lift Islamic banking to new heights.

EARLY DAYS AND BACKGROUND

Bank Islam first opened its door in July 1983 with the enactment of the Islamic Banking Act 1983. This marked a major milestone in the development of the Islamic financial system in Malaysia. Entrusted with the responsibility of advancing Islamic banking, Bank Islam was set to capitalise on the Malaysian government's incentives to strengthen the country's position as an international Islamic financial centre. The impetus for the establishment of Bank Islam was also driven by the strong desire of Muslims in Malaysia for an alternative form of banking and finance that is based on the principles of Shariah law.

Bank Islam's initial authorised capital was RM500 million with paid-up capital of RM79.9 million. The latter was increased to RM133.4 million in 1991 to accommodate the growth of its assets and better position the bank in meeting future expansion and growth. Bank Islam was listed on the Main Board of the Kuala Lumpur Stock Exchange (now renamed Bursa Malaysia) in 1992. In 1997, Bank Islam underwent a restructuring exercise which entailed the incorporation of a new holding company – BIMB Holdings Berhad. With this incorporation, BIMB Holdings took over listing status. Ensuing the restructuring exercise, the bank's authorised capital was increased to RM2 billion and its paid-up capital to RM500 million. In the same year, Bank Islam took the initial step towards expanding overseas with the incorporation of an offshore subsidiary in the Federal Territory of Labuan, Malaysia.

As a maiden Islamic bank in the country, Bank Islam was awarded a monopolistic position until 1993 when three commercial banks – Maybank, Bank Bumiputra and United Malayan Banking Corporation - were allowed to operate Islamic windows under the Islamic Banking Scheme. The success of these Islamic windows led to the decision by the Ministry of Finance to extend the scheme to all financial institutions. In 1999, the second full-fledged Islamic bank, Bank Muamalat Malaysia Berhad, commenced operations following the merger between Bank Bumiputra and Bank of Commerce in the aftermath of the Asian financial crisis. With the introduction of Islamic windows and the liberalisation of the banking industry where foreign banks were allowed to open Islamic banking units, Islamic banking was no longer the sole domain of Bank Islam. The bank was facing increasing competitive pressures on a number of fronts.

During the bank's first decade of operations, it had reported positive annual growth. The bank's continued double digit growth was driven largely by financing expansion. Between 2001 and 2004, Bank Islam's financing of customers grew steadily from RM5.03 billion to RM7.64 billion, showing an impressive 86% increase (Table 1). Its deposits also recorded consistent growth in tandem with the robust growth recorded by the Islamic banking industry. Bank Islam was well placed to become a major player in the global Islamic finance industry.

SIX FEET UNDER

The bank's fortune was reversed when it declared losses of RM480 million in 2005. This was the first time the bank had gone into the red in its 22-year history. The reported losses were due mainly to provisioning of RM774 million as a result of bad credit management. In 2006, the bank had again reported record losses to the tune of RM1.277 billion with heavy provisions for bad financings of RM1.5 billion (Table 2). At the height of the bank crisis, Bank Islam's non-performing financings (NPFs) climbed to as high as 20% on a gross basis (based on 6-months classification) while its cost to income ratio was at a high 65.4%. As a result, the bank's financial deficit reached RM1.4 billion for its financial year ended 30th June 2006, which technically meant it had gone under.

The massive losses suffered reflected the legacy of bad financings from two major sources: its corporate financing from the Labuan subsidiary and huge delinquent portfolio mainly in consumer financing. Of the bank's total net NPFs of RM780 million as at end-June 2006, 65.8% was from its Labuan outfit. The bank had only come to realise it was in financial trouble when it converted its Labuan subsidiary to a branch in December 2004. A post-mortem later revealed that financings were given out generously over the years without sufficient understanding of both country and project risks involved. Many of the losses had accumulated through bad financing given out by the Labuan outfit to overseas firms, such as South Africa, Bosnia and Sri Lanka, without a strong understanding of the business and political environment in these countries.

Heavy bleeding also came from its consumer financing segment, particularly from its vehicle hire-purchase program. It was discovered later that for every three cars financed by the bank, one would go missing. Poor asset quality was the direct result of poor credit evaluation, insufficient depth and breadth in processing financings and the absence of a robust risk management framework. The huge losses suffered by the nation's pioneer Islamic bank became a grave public concern and had the potential of eroding public confidence on the country's Islamic banking sector. The Prime Minister at that time called for immediate action and was quoted in the papers as saying "Do it (turn around Bank Islam) quick and fast". A major restructuring of the bank and management shakeup to drive the bank out of deep water was inevitable. Zukri Samat, who had previously held the helm of Danaharta, a national asset management company set up after the 1997 Asian financial crisis to restructure debt-ridden companies, was the obvious choice. His previous position as the Executive Director in charge of investments at Khazanah Nasional (the investment arm of the Malaysian government) added to his list of credentials.

THE JOURNEY BEGINS

Zukri's mandate was clear and unambiguous – turnaround and reverse the flagging fortunes of the bank. Much was at stake. Bank Islam had become the symbol of Islamic banking in Malaysia. The eyes of the world were now on Malaysia as the country had made its mark on the international scene and gained respect as the leader in Islamic banking. Reminiscing on how his journey with Bank Islam began, Zukri said: "When I was asked to lead Bank Islam, I was naturally reluctant at first. But I felt duty bound to rebuild the bank as national interest was at stake. After two weeks into the job, I realised that the situation was worse than I had originally feared. The bank was on a financial cliff-edge which could potentially cause a domino effect if not resolved quickly. At this point I thought to myself - what have I got myself into? But there was no turning back. I couldn't allow Bank Islam to fail."

His immediate task after taking office was to come up with turnaround strategies to stem the bleeding and put the bank back on the right growth path. But Zukri was mindful that he needed a strong team around him to meet formidable challenges that lie ahead. "I called all my senior management together. Told them we needed to turnaround the bank together and that it wasn't going to be easy. We needed to act quickly and focus our attention on running the bank as a commercial business," Zukri revealed. Right from the beginning, Zukri could sense that many would not be willing to roll up their sleeves and do the hard work. So a voluntary severance scheme package was offered to those who felt they were not up to the challenge. "Many opted to accept the offer. But we also lost a few good people who thought their future was better served elsewhere," he said. "I knew I needed new blood to revive the bank and I knew where to look."

A new management team (some from Danaharta) was brought in to remodel the ailing bank and restore its financial health. Leading the team, Zukri immediately set off to work on the task to refloat the sinking ship. Hizamuddin Jamalluddin, Head of Strategic Planning, remembered vividly being approached by Zukri. "My working experience with him at Danaharta was one of the most rewarding experiences and involved a steep learning curve. So when he approached me to work by his side again, I couldn't refuse even though it meant a parallel move from my current role at Bank Simpanan Nasional at that time," recalled Hizamuddin. Like many of his colleagues who accepted Zukri's offer to rebuild the bank, Hizamuddin was attracted to the potential and growth opportunity of Islamic finance. This new experience, he thought, was a once-in-a-lifetime opportunity.

The process of transformation began with the identification of various factors that were responsible for the huge losses that nearly drove Bank Islam into bankruptcy. An extensive study on the bank's strengths and weaknesses was immediately commissioned. Findings of the study prompted the introduction of a three-year Turnaround Plan (June 2006 to June 2009). The backbone of the plan rested on two strategic objectives: return to profitability and position the bank for sustainable growth. As part of its turnaround agenda, a wide-scale reorganisation exercise and an extensive revamp of the bank's processes were put in place with a focus on five major components: recapitalisation and balance sheet restructuring, IT infrastructure revamp, organisational transformation programme, cost rationalisation exercise and human capital development.

The first priority was financial repair through recapitalisation and balance sheet clean up. In October 2006, Bank Islam received a fresh capital injection of RM1 billion from two major shareholders – Dubai Financial Group LLC (a wholly owned subsidiary of Dubai Investment Group) taking a 40% stake in Bank Islam while Lembaga Tabung Haji acquired a 9% stake. In 2009, another capital injection of RM540 million was made. Unlike the earlier capital injection which served the purpose of stemming the bleeding, the second was meant to strengthen the bank's capital and support its growth expansion plan.

To address the bank's non-performing finance problem, a special asset-management unit was set up and headed by a team of people formerly with Danaharta. Their focus then was on the big ticket items and quick wins. With aggressive recovery efforts and the liquidation of non-yielding assets, the bank's balance sheet was further strengthened. "Initially we explored the possibility of carving out certain NPFs. But after the NPFs were brought under control and we had achieved good recovery rate, we decided that the plan was no longer necessary," Zukri explained.

The existing IT system and procedures were archaic and not robust enough to support the bank's expansion plans. Aging hardware and deteriorating IT architecture – core banking systems and bank delivery systems – had led to frequent downtime and costly maintenance. There was also the absence of risk management system, financing collection system and financing origination system to support the organic growth, and to take granular analysis on the risk profile of the bank. Under the turnaround plan, the IT infrastructure was revamped to accelerate the rebuilding of critical customer touch points, with enhancement of the core banking system at its heart. This included enhancement of service delivery touch points, upgrading and fine-tuning technology and infrastructure to boost security for information flow and improving customer service and network architecture. A set of initiatives focussing on the transformation of key business processes across the bank were put in place as post mortem results revealed that the business model was not right.

"We needed to get back to basics," Zukri said. The rule of thumb was to do only business that Bank Islam was familiar with – retail banking. And that was exactly what the bank did. Zukri applied the 3Cs concept i.e. credit, character and collection. Top of the agenda was to centralise and streamline the loan approval process for credit applications. The number of approval centres was reduced to five from the existing twenty. "The figure for potential NPFs was alarming. The main concern was the consumer financing segment. We had to take the decision to suspend our hire purchase due to increasing infected portfolios. It was nine months later that we restarted the business after finding out what had happened," Zukri said. Regional centres were also reorganised from twelve into five operational regions to strengthen controls and processes. New divisions – corporate investment banking and financing recovery – were set up. At the same time, the treasury and cash management division were beefed up. This entire move was an effort to grow the bank's fee-based income from 5% to 20% of total income in the next four years.

NEW IDENTITY, NEW CULTURE

A comprehensive rebranding exercise was rolled out in 2006 to shed off the bank's current image and to convey the message that Bank Islam is innovative and customer-focused. "We were the pioneering Islamic bank and played a key role in the development of Islamic banking in the country. But over the years we had lost our glitter. People on the street saw us as very quiet, not aggressive," Zukri explained. "But the biggest challenge we faced was the misconception that Bank Islam was only meant for Muslims."

An important aspect of the brand building exercise was revamping the logo. The need to redesign the logo was sparked by findings from the brand perception survey. One key finding revealed that non-Muslim respondents felt the logo was not appealing as it gave an impression that Bank Islam is exclusively for Muslims. With the insights from the survey, a new brand identity was launched in August 2007 to reflect a more universal modern image of the bank and signify a change in the way it conducts business and delivers products and services (Figure 1). In order to reach greater numbers of non-Muslims, the bank took out adverts in the mainstream Chinese media. "The message we wanted to put across is clear – Islamic banking is for everyone regardless of religion or ethnicity. And this is the essence of Bank Islam," said Zukri.

Figure 1

Progresif, Profesional & Mesra

Bank Islam's Old Logo

Bank Islam's New Logo – After the Rebranding in 2007

Bank Islam's corporate image was also suffering. Upon joining the bank, Zukri himself went in disguise to one of the branches in Shah Alam to better assess the bank's true state of affairs. "I put on a pair of jeans and T-shirt so that I couldn't be recognised. I sat quietly observing how the branch was run," Zukri said, "but I wasn't impressed with what I saw." Bank branches were found to be old, dilapidated and in much need of a facelift.

Under the rebranding exercise, all bank branches were refurbished to look more upscale with the aim of enhancing customer brand experience, becoming more customer-centric and attracting a new generation of customers. With this new fresh modern look, branches are now expected to act as spear point to drive retail revenue and not as merely service outlets as was the case in the previous business model. Branch managers were given targets as well as their own P&L to manage and be accountable for. This created a greater sense of ownership.

"The refurbishment of our branches was part of the bank's effort to provide customers with a refreshing banking experience centred on our key value propositions of convenience and delivering value. This is evident when you walk in any of our new remodelled branches," said Zukri. Branch rationalisation was another feature of the drive for efficiency. Based on business potentials, premises which were deemed as not strategic were relocated to thriving commercial centres.

Wanting to be a global leader in Islamic finance, specialists and new talent had to be brought into the bank to increase skills within the organisation, especially in areas that the bank was currently lacking – risk management, product development and credit recovery. Several ex-colleagues from Danaharta were brought in to spearhead the credit recovery unit. Adopting a "Bad Bank" strategy, they were tasked to deal with the increasing amount of legacy financing that had turned non-performing. Part of business lines diversification was the establishment of a corporate investment banking division and a corporate finance department to tap into the opportunities created by the introduction of the Capital Market & Services Act in 2007. The Sales and Marketing department was re-established in line with the customer–centric strategy and played a key role in product innovation. A risk-based target market and performance incentives were also introduced. In the previous business, marketing was done regionally without any connection with what was happening in HQ.

"In order to change the mindset and mentality of people who viewed Bank Islam as only for Muslims, we brought in non-Muslims into the management team to not only fill void key positions but to also promote cross cultural learning within the bank," Zukri said.

"Convincing people to join was difficult at first. No one in their right mind would want to board a sinking ship," Jamilah Abdul Sallam, Head of Human Resources, recalled. "But our value proposition was simple – join the bank for an opportunity to learn about Islamic banking from Malaysia's pioneering bank." Jamilah who herself was working with an investment bank prior to Bank Islam, was excited about the organisational transformation to help rebuild the bank.

Risk management which had taken a back seat was a major contributor to the huge losses incurred. The bank's risk management took on a new significance when an expert in risk management was brought in. Commenting on his decision to join Bank Islam, Jeroen Thijs, Chief Risk Officer, said: "Even though I had not worked in an Islamic bank before, I realised that there was a real job to be done at Bank Islam. I joined in January 2009 and was given carte blanche by the Board and Zukri to build the risk management infrastructure more or less from the ground up to meet international standards." Being Dutch and the only non-Malaysian on the management team was initially a challenge due to cultural differences. "But everyone was very open and supportive."

During the first year on the job, Jeroen had to make many changes to ensure that the bank was growing in a risk responsible manner, which was not always popular. "The bank had significant risk issues. The first thing I did was to put in place a risk management system which allowed us to report the bank's position in near real-time," he explained. Jeroen soon discovered that the risk rating scorecards that were being used to approve new financing applications were not predictive. It was clear that this had to change. "As a result of these changes, we now have one of the lowest NPF ratios in the market. We also make extensive use of the Central Bank's Central Credit Reference Information System or CCRIS to evaluate the credit worthiness of customers," he commented.

A focus on building talent and capability to deliver the bank's mandate was given top priority. Huge gaps in terms of technical skills due to the absence of structured training programmes were holding back the bank's growth. Working on up-skilling employees to build internal expertise bank-wide, more than 2,000 employees were sent to attend various training programmes from strategic thinking and leadership for senior management, to personal grooming courses for frontline staff. To create a high performance culture throughout the organisation, a performance-based reward system for all employees was introduced which allowed the bank to tie compensation and other rewards directly to performance.

Aesthetic change of branches alone is not enough to boost business growth. "We had to weave customer-centric behaviour into the bank's DNA. Customers will only believe in us when our promise becomes tangible for them through real life experience," Zukri explained. To ensure a paradigm shift from mere service provision and delivery to consumer satisfaction, an incentive system was adopted to initiate real change. A sales incentive scheme which was non-existent was implemented with the purpose of giving additional encouragement to the sales team. For the first time, top performers were given travel incentives to destinations such as Europe and China. A review of the compensation package of staff was carried out, driven by the need to attract and retain top talent as well as the need to benchmark the bank's total remuneration package against that of the banking industry.

TURNING RESISTANCE INTO COMMITMENT

Although each of the strategies had their own sets of challenges, the biggest hurdle was changing the mindset and work culture of the staff. "The toughest part was changing the bank's culture and the people's mindset, to get everyone working on the same side and managing public perception and expectation," said Zukri. When he first took over the helm, Zukri identified that the basic flaw with Bank Islam's culture was its employees' mindset. The bank was run "very much like a public sector organisation" with little regard for commercial principals. "A private bank with a public sector culture," he recalled. The bank was very regimented in its management style and business processes. There was also no sense of urgency when dealing with customers' queries or complaints. A situation that was very frustrating to Zukri.

From the very beginning, Zukri knew he had to break the traditional mindset and existing mental framework of the bank's employees. "To stay ahead and truly be a global leader, we must tear down the walls of impossibility," he said. But resistance came from many quarters. Many members of the staff felt strongly against pursuing customers who are unable to repay their financings. They believed that it is not the philosophy for an Islamic bank to do so and hence, there was no push to collect bad debts. Remuneration and bonuses were paid regardless of individual performance. Instead, the bank would pay fixed bonuses to all staff ranging between two and three months' salary, comparable to what public servants were receiving.

"Biggest challenge for the management was to convey its idea of transformation to each and every employee of the organization. To implement cultural change, the idea of change has to percolate to the lowest level, motivating staff to accept change willingly," said Zukri. A meticulously-crafted communication strategy was implemented. First up to the challenge was Jamilah who was responsible for introducing the pay-for-performance system as well as the KPI framework bank-wide. Jamilah commented: "We knew it was going to be stormy at first. When we introduced the pay for performance plans, there was a lot of resistance especially from senior managers who were used to being paid based on loyalty. The bank had a culture that rewarded loyalty regardless of performance." The concept of accountability based on performance required a cultural shift in the bank. Hence, change agents were carefully selected and trained to communicate key information on the bank's turnaround initiatives.

A series of road shows and town hall meetings were rolled out covering branches nationwide to share the business plan and solicit inputs. Staff engagement was a central theme in the bank's communication strategy as it was necessary that everyone was on the same page and understood their role in how the overall turnaround strategy would be delivered. "All of the management team including the Managing Director, Zukri, got involved. We would visit branches to provide first-hand information about our corporate plans. We talked to everyone from tellers to the tea lady. It was also the first time in the bank's history that the management team from headquarters engaged themselves with the branches on the bank's strategy and was transparent about the corporate plan," explained Hizamuddin.

Zukri recognised early on in the process that employees had to buy into the new culture. To ensure that a two-way communication was made available, bank staff were encouraged to share their views and concerns with Zukri via SMS or emails. "I received a lot of feedback even from my senior management. While some offered great ideas; others were concerned with what the change may bring. When the KPI framework and performance-based reward system was first implemented, we received many unhappy emails that eventually jammed up the system," he recalled.

Continuous engagements with stakeholders were conducted with the aim of building confidence and ensuring they remained optimistic. It was important that stakeholders were well informed about the bank's plan for moving forward. The management had meetings with regulators, their large clients and even politicians (including back benchers) to explain their business plans and strategies. Zukri said, "We had to keep the confidence level of our stakeholders intact by assuring them that the situation was under control and that we had a workable plan to turn around the bank and drive it back to profitability." Initially, they were apprehensive about our plan, he added. "Convincing them was not easy. Even when they were, our major shareholders kept a close watch on our progress."

FRUITS OF LABOUR

In a swift reversal of fortune, Bank Islam returned to the black to record a profit before zakat and tax (PBZT) of RM165.8 million in December 2006, just within six months of implementing the Turnaround Plan. By the end of its financial year 2007, the bank posted PBZT of RM255.5 million, a high in its 24 years of operation. The year also saw another watershed moment for Bank Islam as revenue breached the RM1 billion mark to record RM1.034 billion for the first time in the bank's history. This signalled the revival of the bank. Bank Islam's risk-weighted capital ratio also improved from a negative 2.84% in 2006 to 12.69% a year later whilst its net NPF ratio declined from its peak of 12.2% in 2006 to 8.8% by end of 2007. The sharp rebound in performance was due largely to write-backs and strengthened earnings from the consumer and business banking divisions.

In 2008, profit rose to RM308.3 million but fell to RM233.1 million in 2009 as a result of the global recession (Table 2). Amid the global financial crisis of 2008, the bank's encouraging financial performance was due in large measure to net financing growth and deposit growth. The NPF ratio was also trending downwards as the direct result of better quality assets. The gross NPF ratio for 2013 was 1.2%, which was below the industry average. Both total assets and total deposits have trended up since 2007 (Table 3). Meanwhile its return on equity at 21.2% was higher than the banking industry's average of 17.3% (Table 4). Its customer base also grew by 117% since the implementation of the Turnaround Plan.

MOVING MOUNTAINS

After three years of putting the house in order and getting back on the profitability trail, the next step was to move the bank into a high growth, sustainability mode and strengthen its domestic anchorage. Zukri and his team set on a course to position Bank Islam as a global leader in Islamic banking through the pursuit of a "Sustainable Growth Plan" with a focus on achieving a more robust financing growth and gaining a bigger share of customers' wallets. The three-year plan (from July 2009 to December 2012) focused on six new strategic pillars to drive growth - business innovation; robust risk management; strengthening enabling infrastructure; building capability and capacity; franchise development and inorganic growth and corporate expansion. The goal was to foster above-par organic growth and strengthen Bank Islam's domestic anchorage, in line with its mission to be the global leader in Islamic banking.

In pursuit of greater innovation, Bank Islam rolled out the Transact at Palm or TAP Mobile Banking-i service in 2010, making it the first bank in Malaysia to offer mobile banking services without internet requirement. This mobile app (an enhanced version of SMS banking) allows customers to perform various banking transactions including bill payments, prepaid airtime reload, interbank GIRO, interbank (fund transfers), balance inquiries and SMS alerts. All these transactions can be done even without using a smartphone. This 'banking on the move' service reflects the bank's strategy to penetrate the growing segment of young customers. Since its launch, the service has attracted more than 600,000 subscribers who are mostly from the young generation of banking consumers.

Bank Islam achieved another pioneering milestone in January 2012 when it launched floating rate for personal financing – becoming the first bank in Malaysia to offer such a service. The service proved to be very popular as a total of RM3 billion in personal financing with floating rate was disbursed in the first 12 months. This was followed by the launch of the first multi-purpose university debit card in October of the same year which makes it the first of its kind developed for public universities in Malaysia (Figure 2). The University Debit Card-i or UniDebit is essentially a visa debit card that also serves as an access card, library card and university ID card. The initiative is to encourage university graduates to adopt cashless transactions. By end of 2012, the bank's portfolio had more than 70 products and services.

Targeting organic growth in retail banking, Bank Islam continued to expand its physical presence with the expansion of its branch network nationwide, installation of self-service terminals and establishments of bureau de change outlets, consumer business centres as well as offsite electronic banking centres. The bank ventured into microfinance activities with the setting up of ArRahnu (Islamic pawn broking) business in 2010 which offers financing opportunities to small businesses in underserved communities. Bank Islam entered into a partnership with Tabung Haji (the Malaysian Hajj Pilgrims Fund Board) for uniteller services

Figure 2 Launching ceremony of UniDebit at Universiti Malaysia Kelantan

that enabled the bank's Muslim customers to register for hajj whilst Tabung Haji depositors could deposit and withdraw cash through any of the bank's delivery channels.

"While we are strengthening our position in the domestic market, we are at the same time looking for opportunities to grow beyond our shores," Zukri explained. Overseas expansion plans also include acquisition of stakes in Islamic banks in Indonesia and Bangladesh. On the international front, the bank also completed a share subscription in 2011 that gave it a strategic 20% stake in Sri Lanka's first Islamic commercial bank, Amana Bank. Its expansion plan into Indonesia was halted when Bank Indonesia (the central bank) released the Financial Institution Ownership Policy in July 2012, which essentially restricts the ownership of banks by individual shareholders either on individual basis or joint basis. "Indonesia is an obvious potential market. But the challenge remains in getting the right partner. We must be comfortable with whom we are doing business with. Equally important is creating value for our shareholders," Zukri argued. The bank has also identified Bangladesh as another untapped market with a huge Muslim population. However, the lack of an Islamic banking framework and legislation in the country makes it rather challenging for Islamic banks to compete on a level playing field with other conventional banks.

Putting the customer at the heart of the business, Bank Islam recognised that competitive advantage can only be achieved through innovation and the provision of high-quality customer care programmes. Bank Islam sought to deepen customer loyalty through programmes that enhance the customer banking experience. Several customer care programmes were implemented including the Customer Early Care Unit which was set up with the sole purpose of helping customers who are facing financial difficulties to restructure and reschedule their financing obligations. To support and guide its employees in the delivery of superior customer service, Bank Islam concentrates on five corporate values expressed by the following keywords – leader, dynamic, professional, caring and trustworthy. These values guide the bank's strategy and govern its operations.

Robust risk management remains an integral part of growth. An Enterprise Risk Management system was implemented to allow the bank to pro-actively measure and manage credit risks. A Risk Appetite Framework was established and forms an integral part of the bank's strategy and business plans. A strong risk culture was maintained by establishing risk as an enabler for quality growth. "To ensure that a risk culture is increasingly inculcated into the bank's DNA, it has to be driven by the top management through committed leadership. This is done by setting the right tone and ensuring that the appropriate behaviour is rewarded," explained Zukri. Specific initiatives were undertaken to reinforce the risk awareness culture. These included educational programmes, starting with an induction course for new staff to regular training conducted by risk management, legal, compliance and internal audit staff; and implementation of risk-based key performance indicators as well as remuneration systems.

With the signing of the Corporate Integrity Pledge in 2012, Bank Islam became the first Islamic bank to commit towards the promotion of integrity, transparency and good governance in all aspects of its operations. Bank Islam introduced a toll-free integrity hotline that allows both external and internal parties to report information regarding possible corruption offences at the bank.

The completion of Menara Bank Islam as its new corporate headquarters in 2011 formed a new skyline in Kuala Lumpur. Located in the prime area of the city and two blocks away from Kuala Lumpur's famous Twin Towers, the 34 storey building symbolises Bank Islam's strategic positioning as the country's flag-bearer of Islamic banking (Figure 3).

Figure 3 Menara Bank Islam – New Iconic Building at the Heart of KL City Centre

Menara Bank Islam is not only grand in its vision and design, but serves as a community meeting place. Muslim professionals and scholars, both local and international have been invited to speak or give lectures during Dzuhur prayers. The bank's basement car park is converted into a prayer hall every Friday for Muslim's Friday congregational prayer. "This prayer hall is open to the public and fully air-conditioned. We have video screens in each corner so everyone can see the Imam and hear the sermon," Zukri said. But what makes it unique according to Zukri is that it is managed by the bank's own staff. "Our biggest challenge has always been capacity. Even though it can accommodate 3,000 people at any one time, the prayer hall is always full."

Under the Sustainable Growth Plan, Bank Islam's brand strengthened its positioning and reclaimed its place as the leading bank in Islamic banking. Bank Islam's extraordinary journey earned it several accolades. By 2012, Bank Islam had an enviable list of awards under its belt including Islamic Bank of the Year 2013 (Malaysia) by the Banker, the Fifth Strongest Bank in Malaysia by the Asian Banker (September 2013), Best Islamic Bank in Malaysia by Islamic Finance News (March 2013) and Special Recognition Award for Payments Innovation by Wells Fargo (July 2013). In recognition of Zukri's outstanding personality and industrious efforts in leading Bank Islam out of a financial disaster to become a respected financial institution, he was awarded as Trailblazer of the Year 2013 by Banking and Payments Asia and named as the Islamic Banker of the Year 2013 at the Global Islamic Finance Award (Figure 4).

Figure 4 **Prime Minister of Malaysia congratulates Zukri Samat for winning Islamic Banker of the Year award.**

JOURNEY TO EXCELLENCE

For Bank Islam to move into the next phase of sustainable growth, a transformation plan was needed. In 2013, Bank Islam implemented its new corporate plan called "Hijrah to Excellence" (H2E). Hijrah is an Arabic term which means 'to make a journey'. This three year plan hinges on six pillars - robust organic growth, service excellence, Syariah-led innovation, resource optimisation, employer of choice and regionalisation. In setting out on its new journey, Bank Islam targets to chart an annual financing growth of between 20% and 25% and fee-based income to account for 15% of its earnings by 2015.

"With the new corporate plan, Bank Islam has set itself targets in various areas which include asset growth, financing growth and pre-tax profit growth as well as improved asset utilisation with a targeted financing/deposit ratio of 75% by 2015," said Zukri. In its journey towards excellence, Bank Islam focuses on promoting retail deposits. The corporate and commercial banking segments are expected to make up a larger 30% of the bank's financing portfolio from the current 24% in 2012.

As Bank Islam continues to strive for excellence, customer service remains the bank's top strategic priority. Increased customer sophistication has added to the complexity of customer service and raised expectations of personalised services. The changing market dynamics are also putting pressure on Islamic banks to improve their strategic positioning and operate in a more efficient manner. The bank's journey towards excellence has made it a source of reference to many institutions, both domestically and internationally. Under the stewardship of Zukri Samat, Bank Islam plans to continue advancing its Shariah capabilities and become a centre of reference for Islamic banking. Eventually, Zukri said, we hope to be the referred "Shariah Centre of Excellence" for applied Islamic finance.

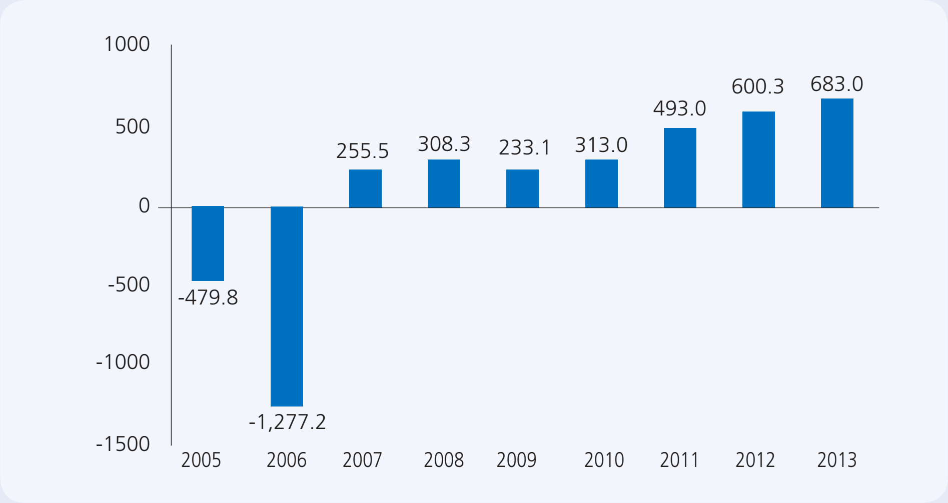
Bank Islam has indeed come a long way since the perilous situation it faced in 2005, withstanding many challenges posed by the continuously changing banking scenario. Long gone are the days of double-digit NPF ratios, loose financing approvals and rigid communications. "I still visit branches but can't do it in jeans and T-shirt anymore. Usually I would have a casual lunch or dinner with the staff to hear first-hand about the challenges they face. It is an effective way of getting them to speak their mind. As you know we Malaysians love our food!" Zukri said in a rather jocular manner.

Table 1 Financial Highlights (1994 – 2004)

Financial Year Ended 30 June	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Profit before zakat & tax (RM million)	32.00	42.50	37.69	47.35	11.53	47.95	42.76	56.38	66.19	130.30	98.30
SELECTED BALANCE SHEET ITEMS											
ASSETS (RM million)											
Total Assets	2,948.79	3,248.32	3,609.46	4,440.17	4,904.40	6,760.40	8,492.30	10,335.30	12,426.70	13,717.20	12,958.51
Financing of Customers	976.99	1,439.66	2,000.84	2,472.15	2,946.40	3,403.50	3,886.90	5,033.10	5,984.70	6,890.80	7,640.50
Investment Securities	1,508.20	1,148.00	434.10	171.76	767.60	531.80	494.50	598.70	1,365.60	1,448.40	1,429.20
Dealing Securities	37.90	162.32	382.34	766.55	144.30	693.90	1,423.60	1,413.60	1,847.40	2,369.30	1,722.00
LIABILITIES (RM million)											
Total Customers' Deposits	2,548.00	2,866.00	3,196.30	3,716.50	3,718.80	5,617.40	7,295.40	8,785.00	11,056.40	12,365.00	11,269.00
Shareholders Fund	212.28	233.21	257.11	282.3	927.9	962.7	978.5	997.3	1,042.40	1,113.10	1,163.20
GROWTH RATE											
Profit Before Zakat & Tax %	19.18	32.81	-11.32	25.63	-76.00	315.87	-10.82	31.85	17.40	96.86	-24.56
Total Assets %	55.97	10.16	11.12	23.01	9.00	37.84	25.62	21.70	20.24	10.38	-5.53
Total Financing %	-1.95	47.36	38.98	23.56	19.18	15.51	14.20	29.49	18.91	15.14	10.88
Total Deposits %	58.10	12.48	11.52	16.28	0.06	51.05	29.87	20.42	25.86	11.84	-8.86
RATIO ANALYSIS											
Return on Assets %	1.09	1.31	1.04	1.07	0.002	0.67	0.50	0.55	0.55	0.95	0.75
Return on Shareholders Fund %	15.07	18.22	14.66	16.77	0.11	4.74	4.37	5.65	6.44	11.70	8.45
Capital Adequacy Ratio %	18.60	12.50	9.60	29.40	29.40	24.70	20.00	16.10	12.90	12.30	11.62
Non-Performing Financing %	10.31	3.10	2.73	4.10	8.64	7.58	13.10	11.23	10.78	9.90	10.10
Financing to Deposit Ratio %	38.34	50.23	62.60	66.52	79.23	60.59	53.28	57.29	54.13	55.73	67.80
Earnings Per Share	22.4 sen	26.0 sen	23.5 sen	30.2 sen	0.2 sen	9.1 sen	4.2 sen	5.0 sen	6.8 sen	15.6 sen	15.0 sen

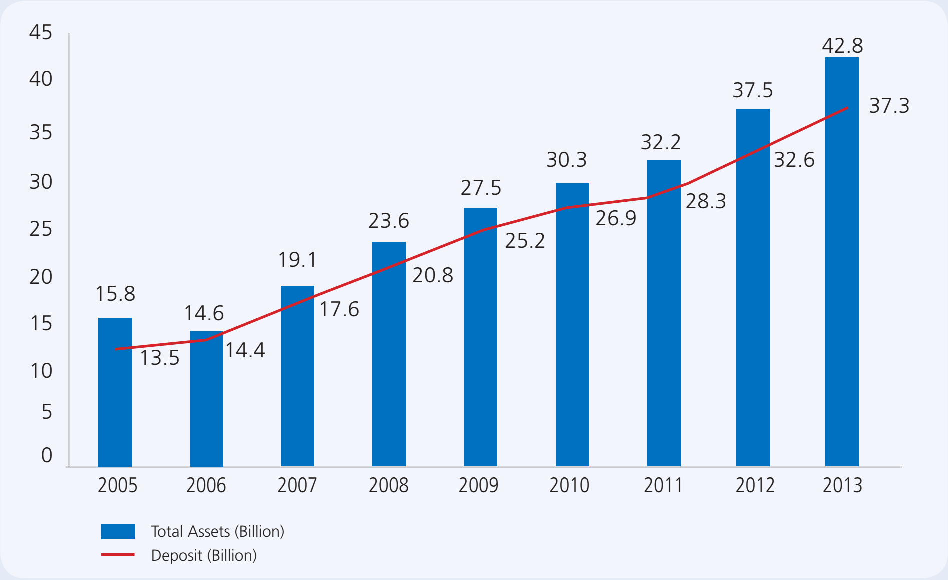
Source : Bank Islam Annual Report, various years.

Table 2 Profit Before Zakat & Tax in RM million (2005 – 2013)



Source : Bank Islam Annual Report, various years.

Table 3 Total Assets and Total Deposit in RM Billion (2005 – 2013)

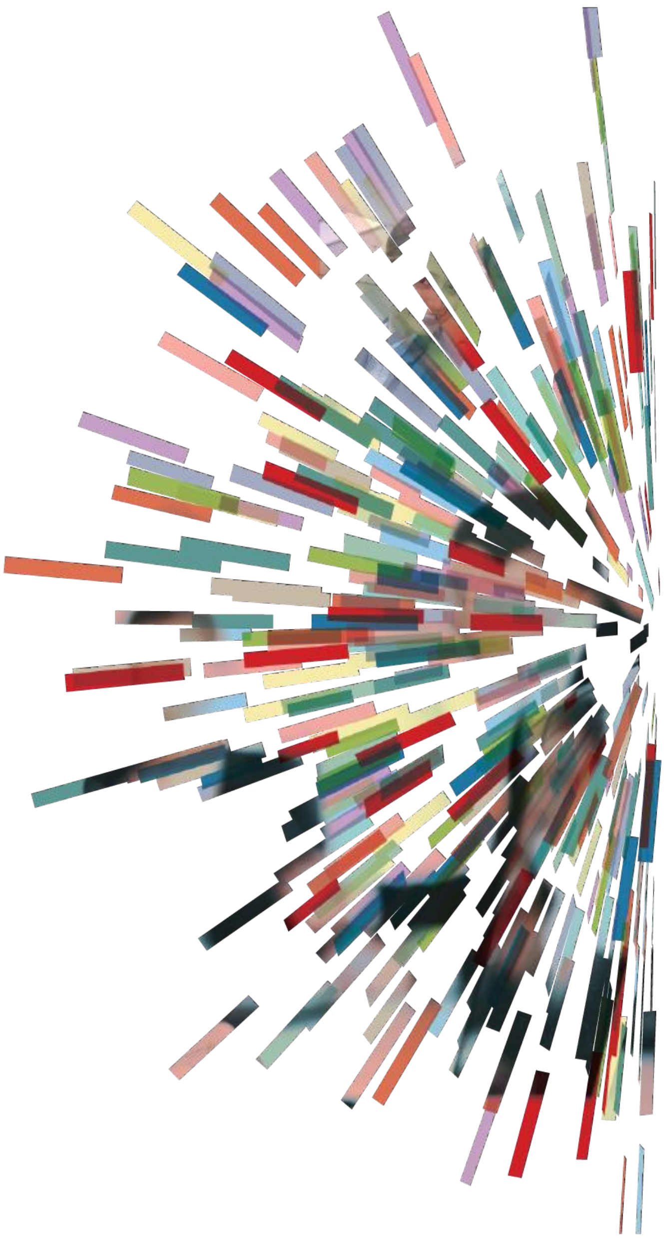


Source : Bank Islam Annual Report, various years.

Table 4 Key Financial Indicators (2005 – 2013)

	2005	2006	2007	2008	2009	2010	2011	2012	2013	Islamic banking system
Profitability										
Return on Equity, %	n/a	n/a	23.3	26.5	16.5	14.5	18.5	20.4	21.2	17.3
Return on Assets, %	n/a	n/a	1.4	1.5	0.9	1.2	1.6	1.7	1.7	1.3
Cost Income Ratio, %	63.3	65.4	68.2	60.8	56.7	55.4	53.8	51.4	54.1	46.1
Non-Fund Based Income Ratio, %	12.3	9.4	9.0	7.8	10.3	10.8	13.8	13.5	12.6	11.0
Gross NPF Ratio, %	n/a	22.1	24.7	21.2	16.4	4.5	2.6	1.6	1.2	1.4
Financing Loss Coverage Ratio, %	55.3	74.8	67.7	75.8	80.8	77.2	106.2	142.6	175.8	121.0
Financing to Deposit , %	74.5	71.3	57.6	52.0	43.5	45.7	51.5	61.2	65.0	81.4

Source : Bank Islam Annual Report, various years.



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