

BANK PERTANIAN MALAYSIA BERHAD

Main Points

What we examined?

- The mandate of the Bank Pertanian Malaysia Berhad (Agrobank) under the Bank Pertanian Malaysia Berhad Act 2008 [Act 684] is to contribute to the development of the agricultural sector by strengthening socio-economic responsibility. In line with the mandate given, Agrobank's main activity is to provide at least 70% funding to agricultural-based activities. In addition, Agrobank received deposits and savings from customers.
- Assessment on the performance and management of Agrobank's main activities which is mandated financing facilities related to agriculture from 2018 to September 2021.
- Two aspects assessed for performance activities are output and outcome achievement. Output performances were assessed based on Key Performance Indicator (KPI), mandated financing performance and financial performance. The outcome was assessed based on the achievement of the mandated role and also utilisation of financing funds from deposits and government (financing and grants).
- Two aspects assessed for management of financing activities are verification of the financing purposes and the management of impaired financing.
- Assessment on nine aspects of corporate governance best practices, namely the Chairman; the Board of Directors; the President/Chief Executive Officer (PCEO); the Company Secretary; the Strategic Plan and KPI; the Standard Operating Procedures; the Audit Committee; the Internal Audit; and the Nomination and Remuneration Committee for the period of 2018 to 2021.
- Analysis of financial positions was conducted on audited financial statements for the years 2018, 2019 and 2020.

Why is it important?

- Agrobank plays an important role in the development of the agricultural sector by offering financing facilities and stimulating the country's economic growth in line with the mandate stipulated by the Government.
- As of September 2021, Agrobank has registered 247,989 customer accounts with a total of RM58.4 billion approved financing and RM13.354 billion financing balance using deposits and Government funds as the source of financing.

What we found?

- Overall, Agrobank has achieved its establishment objectives through financing activities for the development of the mandated agricultural sector. The KPI achievement has exceeded the minimum level of 80% set by the Minister of Finance (Incorporated) with achievements between 93% to 98.6%. However, several aspects that need to be given attention are as follows:
 - mandated financing contribution including Agrocash personal financing exceeds 89% over 70% targeted did not describe the purposes of agriculture financing. This is due to the application of Agrocash personal financing as the highest Agrobank financing which borrowers are not obliged to use for agriculture purposes;
 - financing for the purchase of land that was not used for agriculture activities did not contribute to the development of the country's agricultural sector;
 - the gross impaired financing ratio has increased each year. As of 2020, a total of RM889.05 million (10,917 accounts) financing was impaired;
 - low impaired financing rate of Agrocash product has an impact on Agrobank's overall impaired financing performance. The impaired financing rate of Agrobank products other than Agrocash was 6.4% to 11%; and
 - a total of RM267.48 million (8,257 accounts) was written-off from 2018 to 2020.
- Agrobank's recorded a stable financial position for the period assessed and able to pay dividends to the Government each year. The source of deposit funds used for financing purposes has generated of 55.9% profit from Agrobank's total revenue in 2020 while the source of funds from Government grants and financing have been utilised as prescribed.
- Agrobank's corporate governance practices were at a satisfactory level. However, on aspect of appointment of Chairman and PCEO; attendance of the representatives of the Ministry in the Board of Directors meeting did not meet a minimum level of 75%; and compliance to the Procurement Operations Manual needs to be improved.

What do we recommend?

- The stakeholders involved should consider the following recommendations:
 - ensure clear purposes of mandated financing in the measurement of financing performances related to agriculture so that performances reported are more accurate and following the objectives of the Agrobank's establishment;

- reviewing and re-evaluating the objectives and purposes of personal financing to ensure the personal financing contributes to the development of the agricultural sector as a whole;
- re-coordinate the policies of MAFI and Agrobank on financing for the purchase of land to ensure it contribute to the sustainability of the country's agricultural sector as a whole; and
- enhancing the good corporate governance practices, mainly on the aspects of appointment of the Chairman and PCEO; ensuring attendance of the Ministry representatives in Board meetings exceeds 75%; and compliance with the Procurement Operations Manual.