



## **AGROBANK**

An exclusive report to be distributed with ***THE INDEPENDENT***

Transcript of the interview with:

**Datuk Ahmad bin Said**

Chief Executive Officer (CEO)

**WORLD REPORT (WR):** The Prime Minister has said that he wishes to transform Malaysia from a middle-income economy to a high-income economy. The agriculture sector is paramount in the process. Arguably, you cannot achieve a high-income economy without a prosperous agricultural sector. How do the recently announced budget and the Prime Minister's wishes affect Agrobank?

**Datuk Ahmad bin Said:** The Prime Minister announced that one of the main objectives of the budget is to change Malaysia from a low-income economy to a high-income economy. What that entails for the bank is that there will be more opportunities for financing. In order for a single individual to go from a low-income earner to a high-income earner, you need to create or produce a product that will give you higher returns. What gives you higher returns? In this case, we need to do more research. At the same time, you have to commercialise the results of this research. When you see that you need funds, we are here, ready to finance them in order to increase their income. Certainly there are more opportunities for us.

**(WR): You mentioned that you are attempting to achieve a high yielding product that is more valuable to the value chain. Does Agrobank finance any of this research and development (R&D)?**

**Datuk Ahmad bin Said:** We do not finance R&D directly, per say. What we actually finance is the result of that R&D. For instance, we financed a particular company. We have what we call here, palm kernel cakes (PKC), from palm oil. This PKC is normally used for animal feed. But research has been done on PKC where polysaccharide, a sweetener, and polypeptide, an active ingredient for cosmetics and some medicines, can be extracted. They have just realised these effects. Now they need financing for the extraction processes. We are financing those activities so they can commercialise and sell the product.

**(WR): Today especially, the whole of the finance sector is scrutinised more vigorously. Due to the particularity of the times we are in, how have you had to adapt your operations? How has Agrobank had to change to comply with the stricter monitoring processes and regulations? Additionally, how have your sources of financing changed? Are you looking at foreign markets to raise capital? What has happened now that this financial crisis coming to an end?**

**Datuk Ahmad bin Said:** For the moment, we are sourcing our finances internally, either with deposits from Malaysians, as individuals or corporations and also from the government. There are activities in the economic sector that the government wants to promote such as the food industries. Now the government offered us a loan at an interest rate and we agreed to take it. We targeted businessmen. These are some of our sources of funding, the public depositors and the government. With regards to how we have adapted to the regulation that is now in place, the regulation from our Central Bank has been there for many years. The regulation normally comes through the guidelines they issue for commercial or development banks to follow. We used to have meetings and discussions with them to understand that it is a requirement. For prudent lending, we require some type of regulation to remain within certain boundaries, so that the lending is safe.

**(WR): Have you found that the regulations have become more stringent?**

**Datuk Ahmad bin Said:** Not exactly. Certain areas have only become more tightly controlled. The guidelines are based on something practical. For example, when you want to lend, you must visit the project and know the industry risks. To me, stringent implies something that bars you from doing what you want to do. Here you are allowed to move but you are given a guide that tells you the rules and risks that you need to consider. Those are the types of guidelines that are provided by our regulators.

**(WR): Speaking of lending, borrowing and financial exchanges, we understand that Malaysia is becoming, or aspires to be, a global centre for Islamic finance. Many banks, some more than others, are adopting Islamic financing principles. Initially, you were going to fully convert into an Islamic bank in 2009. However, you deferred the implementation due to your business plans and strategic objectives. Can you tell us what your objectives are?**

**Datuk Ahmad bin Said:** We hope to become a 100 per cent Islamic finance institution by 2015. However, as of now we still maintain our conventional banking arm as we see that we are a small, new bank that is still growing. There are those who still want conventional banking and we cannot eliminate this element during our growth phase. In the future, we will be able to offer a range of Islamic products targeting the whole of society, whether the client be Muslim or non-Muslim. When you look at the companies or persons using the Islamic product, they are almost all non-Muslims. In Malaysia, the Islamic banking product is used across the board. What kind of financial costs or criteria that will be charged to clients, and whether the product is suitable for their requirements, are the critical factors in a client's decision-making process.

**(WR): There are many non-Muslims beginning to convert to Islamic banking, especially in London and Paris. Do you believe that there are limits to the expansion of Islamic banking?**

**Datuk Ahmad bin Said:** As of now, I do not believe there is any bank in the world that can claim they are offering the full range of Islamic products that any Muslim or Jew can take advantage of. Many more Shariah-compliant products can be created to suit the individuals and their projects.

**(WR): Do you believe that Islamic finance is something that can eventually dominate the global banking arena.**

**Datuk Ahmad bin Said:** I would say yes. Still, it would have to be based on the kind of product that you create to suit the customer. I believe that ultimately, when more Islamic financing products are created, they will be suitable for all customers, irrespective of whether they be Muslims or non-Muslims.

**(WR): Bank Pertanian Malaysia evolved and changed the logo, name and rebranded entirely – today you are Agrobank. What motivated this change?**

**Datuk Ahmad bin Said:** We have been in existence since 1969. At that time we were focusing on agriculture. In order to be a bank that aims to finance agriculture and modernise the sector, we require modern instruments. In other words, we could not create products modern enough to serve the needs of the customers. The first idea was to rebrand, by amending certain provisions of the Act that would allow us to do so. However, through various stakeholders, we met and decided to corporatise the bank. By March-April of 2008, we de-corporatised and rebranded ourselves from Bank Pertanian to Agrobank. Under Agrobank we are just like any other bank where we can also do non-agriculture projects. We corporatised to remain sustainable.

**(WR): What are your highest revenue generating operations?**

**Datuk Ahmad bin Said:** With regards to revenue, it is the primary export commodities. Oil palm is our main income generator.

**(WR): You have now rebranded, expanded your operations and, while still a bank that focuses on agriculture, you have become much more of a general bank. Where would you like to see Agrobank in the long-term?**

**Datuk Ahmad bin Said:** Our aspiration is to be the leading bank financing agriculture. We want to model the example of Rabobank. Agriculture is only 15 per cent of their entire portfolio. Still, they control 95 per cent of the agriculture in Holland. That is the model we are looking at. We have become a huge bank. We control 95 per cent as far as agriculture is concerned but it is only a small portion of our portfolio.

**(WR): Please share your final message with our European audience about the agricultural sector and your role here in Malaysia.**

**Datuk Ahmad bin Said:** When we examine agriculture, we must look at the whole chain, from the primary stages to the manufacturing of products. In times of crisis, agriculture is almost recession-proof. Other sectors are all affected. Financing agriculture is not as risky as it used to be. In these modern days, many methods have been created to mitigate agriculture risks. Financing agriculture is similar to financing other industries. Even when one talks about assessing a project, it retains the same characteristics as a standard project. My message is 'do not be scared of financing agriculture'. From the very beginning we have been the forerunner that introduced the farmer to banking. In many countries, the farmers were once considered an unbankable group. As far as I am concerned, Agrobank is not what it was before. We are no longer Bank Pertanian that people will associate with financing purely agriculture. Now we are a bank like any other, with a focus on agriculture. We will continue financing this sector because this is where our strength lies. I want it to be known that Agrobank will focus on agriculture, come rain or shine.