

THE PERFORMANCE OF MALAYSIAN ISLAMIC BANK DURING 1984-1997: AN EXPLORATORY STUDY

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The study evaluates intertemporal and interbank performance of Islamic bank (Bank Islam Malaysia Berhad (BIMB) in profitability, liquidity, risk and solvency; and community involvement for the period 1984-1997. Financial ratios are applied in measuring these performances. T-test and F-test are used in determining their significance. The study found that BIMB is relatively more liquid and less risky compared to a group of 8 conventional banks. Our analysis of the primary data identified reasons why the supply of loans under profit sharing and joint venture profit sharing is not popular in Malaysia. 40% to 70% bankers surveyed indicated that lack of knowledgeable bankers in selecting, evaluating and managing profitable project is a significant cause.

I. Introduction

Evaluation of bank performance is important for all parties: depositors, bank managers and regulators. In a competitive financial market bank performance provides signal to depositor-investors whether to invest or withdraw funds from the bank. Similarly, it flashes direction to bank managers whether to improve its deposit service or loan service or both to improve its finance. Regulator is also interested to know for its regulation purposes.

Bank Islam Malaysia Bhd (BIMB) is a single full-fledged Islamic bank in Malaysia. The important underlying force that led to the establishment of this Islamic bank in Malaysia was the elimination of *riba* that is used for interest. Tabung Haji took the initiative to do business without using interest considered as being predetermined rate of return to a deposit. Tabung Haji is an organization for the Muslim for taking care of pilgrims to Mecca. It is basically act as a privately to facilitate the Muslims to perform their Hajj with the feeling of minimum financial burden. Its objective is to implement Muslim code of life (shariah) in Hajj and all business transactions. All transactions in the conventional banks are based on interest or "*riba*" which is prohibited by Islam. Tabung Haji wanted to get rid of "*riba*" (interest). Islamic bank is sought as a solution to it. With the increase in Muslim populations and awareness of Islamic values, there was a greater demand for Islamic bank and interest-free finance by Muslim consumers, traders, investors, and businessmen.

Bank Islam Malaysia was established in July 1983 to meet these demands and challenges. Since then BIMB introduced and marketed various interest free products such as Wadiah ad Dhamana account, Mudarabah, Musharakah and others. Bank's business has expanded over the years. Its assets and deposits have increased from RM 325 mil to RM 4,440 mil in 1997. The financing of loans and services increased to RM 991 mil in 1997. The number of branches increased to 75 in 1998.

However, 15 years have passed since BIMB was established. There has been no study as to how the bank performed in liquidity, profitability, risk and solvency, as well as its commitment to economy and Muslim community during 1984-1997. The previous studies on profitability and other measures, Samad (1998), Ariff (1989), Durrar (1996), Mohiuddin (1991) Sum (1995) and Hassan (1999) are far from satisfactory. These studies used neither statistical technique nor made inter-temporal and inter-bank comparisons with three sets of conventional banks. However, such issues of profitability, liquidity, risk and solvency; and community involvement of the bank during 1984-1997 are very important to depositors and investors. So, the present study intends to evaluate the performance of Islamic banks using the above mentioned criteria. This study is different from the earlier studies with respect to contents, coverage of years and methodology. In evaluating BIMB's performances, this study also wants to test two hypotheses. The first hypothesis states that the liquidity ratios of Islamic banks are expected to be higher in earlier years of operation than later years due to a learning curve. The second hypothesis states that as

Islamic banking makes its inroad in the society, the volume of two truly Islamic financial modes of lending (Mudharabah and Musharakah) are expected to grow larger in later years of its operation.

Hassan (1999) examines the Islamic banking principles in theory and its application with a case study of Bangladesh. The abundance of short-term funds compared to long-term funds available for lending is a rational response on behalf of banks to solve informational asymmetries prevalent in credit market. In traditional finance literature, it is shown that debt contract (murabaha) is superior to equity contract. However, equity contract can be superior to debt contract in an economy where informational asymmetries resulting from adverse selection and moral hazard are smaller. In Islam, business is an Ibadah (worship) and is recommended whereas *riba* (interest) is prohibited. From business point of view Islamic bank is not only a firm but also a moral trustee of the depositors where deposits are trust given to banking firm. It is naturally expected that as a custodian of trust for the depositors' deposits, Islamic bank is likely to be more liquid and become more solvent compared to its counterpart conventional banks. Islamic bank management, according to Islamic ethics, is accountable to the depositors in this world and the world hereafter for their failure to keep the trust entrusted upon them. It is, therefore, expected that the liquidity and solvency ratio of the Islamic bank will be higher than conventional banks.

However, it is also expected that the liquidity ratio of the Islamic bank may decline during the later periods compared to its early eras. As the bank grows, it acquires more skill and the art of banking business, it will keep less liquidity and thus the liquidity ratio may decline. This paper wants to test the hypothesis that the liquidity ratio and solvency for Islamic banks in the early periods are higher than those of later periods are.

Instead of interest based contract, Islamic bank is founded on different philosophy; and it delivers a set of distinguished products in the financial market. Unlike conventional banks where interest is an integral part of bank business, Islamic bank was established to avoid interest in all bank transactions. It does not deal with interest. Interest is avoided because "*riba*" is prohibited in Islam. As a business firm BIMB delivers special financial products that are different from the conventional banks. It delivers interest-free products. For example, trust profit sharing (called Mudarabah) and joint venture profit sharing (called Musharakah) are two distinguished and unique products of an Islamic bank. The important feature of this loan (Mudarabah and Musharakah) is that they are interest-free. There are no elements of interest involved in this transaction. For the Muslims there is a great demand for them. BIMB was established to meet these demands. With the increase in Muslim population, business firms and entrepreneurs in Malaysia, the supply of Mudarabah and Musharakah loan was a long waited product. In these transaction Muslims can serve religious obligation and at the same time can earn profits. With the economic development of Malaysia and the increase in Muslim population, Islamic values, Muslim business and firms, it is expected that demand for these products (Mudarabah and Musharakah) are likely to increase gradually over the years. It is also expected that the information gap between bank and the bank borrowers to be minimum because both party jointly working to maximize profit and minimize losses. Projects undertaken under the Mudarabah and Musharaka are constantly supervised and monitored by the Islamic bank. So the chances of failures are minimized. Based on the expectation of minimum failure it is expected that the supply of these loans will increase over the years. This paper will test the hypothesis that the supply for this loan (Mudarabah and Musherakah) of the Islamic bank increases over years.

The paper is organized as follows. Following introduction and rationale of this study in section I, Section II describes methodology, data and the tools for measuring bank performance. Section III provides empirical evidence and analysis. Summary and Conclusion are provided in Section IV.

II. Methodology and data:

Financial management theories provide various indexes for measuring a bank's performance. One of them is accounting ratios. The uses of the financial ratios are quite common in the literature. Bank regulators, for example, use financial ratios to help evaluate a bank's performance. Booker (1983Z), Korobow (1983), Patnam (1983), Sabi (1996), Samad (1999), Akkas (1994), Meister and Elyasiani (1988) and Spindler (1991) gave employed financial ratios for evaluating a bank's performance. In order to see how Islamic Bank (BIMB) performed over 14 years, this study approaches an analysis of inter-temporal performance of Islamic bank. In other words, the paper makes

comparison of performance of BIMB between two periods 1984-1989 and 1990-1997. Year by year comparison of performance and explanation is difficult specially for a study of extended years. Secondly, it is easy to see and explain the differences between two periods. In the context of present study, bank performance of the yearly periods 1984-1989 is compared to that of later period 1990-1997. This is not a new method (Elyasiani, 1994). In addition to inter temporal comparison, the study makes comparison of Islamic bank (BIMB) and conventional banks performances. First, BIMB is compared with a conventional bank (Bank Pertanian) which is a smaller (in terms of asset) bank than BIMB. Second comparison is made with another conventional bank (Perwira Affin) which is larger than BIMB. Third, comparison of BIMB and the 8 conventional bank is made here. This type of inter-bank analysis is common in bank performance study (Sabi (1996)). In the competitive financial market, performance of a bank can be better understood by an analysis of inter-bank comparison. The study uses fourteen financial ratios for bank's performance. These ratios are grouped under four broad categories. The analysis of bank performance concentrates on the following on four financial ratios: a. profitability; b. liquidity; c. risk and solvency; d. commitment to domestic and Muslim community.

a. Profitability Ratios:

The profitability can be judged by the following criteria.

- 1 Return on asset (ROA) = Profit after tax/ total asset
- 2 Return of equity (ROE) = Profit after tax/ equity capital
- 3 Profit expense ratio (PER) = profit/total expense. A high PER indicates that a bank is cost efficient and makes higher profit with a given expense.

ROA and ROE are the indicators of measuring managerial efficiency [Ross (1994), Sabi (1996), Hassan (1999) and Samad (1998)]. ROA is net earning per unit of a given asset. It shows how a bank can convert its asset into net earnings. The higher ratio indicates higher ability and therefore is an indicator of better performance. Similarly, ROE is net earnings per dollar equity capital. The higher ratio is an indicator of higher managerial performance. However, profitability is only part of bank performance story.

b. Liquidity Ratios

Bank and other depository institutions share liquidity risk because transaction deposits and saving accounts can be withdrawn at any time. Thus when withdrawal exceeds new deposit significantly over a short period, banks get into liquidity trouble. There are several measures for liquidity.

- 1 Cash deposit ratio (CDR) = cash/deposit. Cash in a bank vault is the most liquid asset of a bank. Therefore, a higher CDR indicates that a bank is relatively more liquid than a bank which has lower CDR. Depositors' trust to bank is enhanced when a bank maintains a higher cash deposit ratio.
- 2 Loan deposit ratio (LDR) = Loan/deposit. A higher loan deposit ratio indicates that a bank takes more financial stress by making excessive loan. Therefore, lower loan deposit ratio is always favorable to higher loan deposit ratio.
- 3 Current ratio = Current asset (CA) / current liability (CL) (1) It indicates how the bank management has been able to meet current liability i.e. demand deposit with the current asset. A high ratio is an index that shows bank has more liquid asset to pay back the trust (deposit) of the depositors. When withdrawals significantly exceed the new deposits banks usually recourse to replace this shortage of funds by selling securities. Government securities are easily sold and are considered liquid. As such the current ratio as measured above is expected to be more preferable to lower current ratio.
- 4 Current asset ratio (CAR) = current asset/total asset. A high CAR indicates that a bank has more liquid asset. A lower ratio is a sign for illiquidity as more of the assets are long term in nature.

b. Risk and Solvency Ratios

A bank is solvent when the total value of its asset is greater than its liability. A bank becomes risky if it is insolvent. The following are the commonly used measures for a risk and insolvency.

1 Debt equity ratio(2) (DER) = Debt/equity capital. Bank capital can absorb financial shock. In case asset values decrease or loans are not repaid bank capital provides protection against those loan losses. A lower DER ratio is a good sign for a bank.

2 Debt to total asset ratio(3) (DTAR) = Debt/total asset indicates the financial strength of a bank to pay its debtor. A high DTAR indicates that a bank involves in more risky business.

3 Equity multiplier (4) (EM) = total assets/share capital. It is the amount of assets per dollar of equity capital. A higher EM indicates that the bank has borrowed more funds to convert into asset with the share capital. The higher value of EM indicates greater risk for a bank.

4 Loan to deposit ratio (LDR) = loans/deposit measures liquidity as well as credit risk for a bank. A high value indicates a potential source of illiquidity and insolvency.

b. Commitment to Economy and Muslim Community

1 Long term loan ratio (LTA) = long term loan/total loans. A high LTA indicates a bank commitment for supporting long term development project.

2 Government Bond Investment (GBD)=Deposit invested in government bond/Total Deposit. A higher GBD indicates high liquidity and less risk.

3 Mudaraba-Musharaka Ratio (MM/L)=Mudaraba-Musharaka/Total Loans. A higher percentage of MM/L indicates a greater commitment to community developments.

The performance of Islamic bank BIMB is measured in three stages. First, the performance of initial 5 years is compared with the performance of the subsequent 6 years by using the performance measures as delineated above. Second, Islamic bank is compared with two selected banks. Of the two banks, one (Bank Pertanian) is a smaller and the other (Perwira Affin) is larger than BIMB. Third, BIMB is compared with banking industry represented by a group of 8 banks.(5)

In all three stages of comparison, ANOVA is used to test the null hypothesis of the equality of means in order for our comparison more reliable and meaningful. Since MSB/MSW is the estimated F-value, so if the estimated F-value is higher than the critical value, there is sufficient evidence to reject H_0 that the means of performance of the two banks are equal. In other words, ANOVA supports the conclusion that the population means of the variable for the two banks are not identical. On the other hand, if the F-statistics is less than its critical, ANOVA supports that the performances are not statistically different from each other.

III. Analysis of Empirical Results

Table 1 shows means and standard deviation of various performance measures of the Islamic bank (BIMB) between 1984-1989 and 1990-1997. All profitability measures PER, ROA and ROE (6) in Table 1 indicate that BIMB makes significant progress in profitability during 1984-1997. This improved performance is statistically significant as the means of ROA and ROE ratios are different between the two periods. The higher returns might have been due to higher risky investments by the bank. This is supported by the increased debt equity and equity multiplier ratio. These two measures of risk and insolvency, that is DER and EM are statistically significant at 5% level.

This improved profitability (PER) performance when compared with a conventional bank/banks show that (Table 2, Table 3, and Table 4) BIMB is lagging behind the conventional bank. An average profit of BIMB is 21% whereas the average profit of the conventional bank for the same periods was 36%. This difference in profitability performance is statistically significant at 5% level. These results are consistent with those of Samad (1999) and Hassan (1999). There are various reasons for lower profitability performance of BIMB. First, BIMB does not have wide scope for investment in any stock or security because of religious constraints. It can only invest in Shariah approved projects. It can not invest beyond the Shariah Board approved investments even if it can earn higher rate of returns. Shariah Board supervises bank investment. Secondly, investment in government bond is a major source of earnings. The rate of return of government bond is lower than other types investments. (7) Thirdly, in order to provide the guarantee of depositors' deposits and trust (amanah), BIMB maintains more liquidity than the conventional banks. This is evident from inter-bank comparison of liquidity ratio. Inter-bank comparison in Table 1 shows that liquidity position of BIMB has not changed over 13 years. All four measures of liquidity do not show statistically any significant difference. The means of the two periods for CDR, LDR, CR are not statistically different. This indicates that bank's maintenance of liquidity position remains unchanged between 1984-1989 and 1990-1997. This unchanged liquidity position rejects our hypothesis that BIMB will hold less liquidity in the subsequent years of operation when bank becomes matured. However, inter-bank comparison of liquidity measures of performance among the group of eight bank and two individual banks provides no evidence in either way. In terms of most liquid asset i.e. cash, cash-deposit ratio, BIMB shows better performance than Perwira Affin and it is significant at 5% level. Despite better performance, BIMB is behind the group of eight banks.

Bank performance of risk and solvency between 1984-1989 and 1990-1997 (Table 1) reveals that BIMB's involvement in risky business measured in DER, DTAR, EM increased over years. The means of debt-equity ratio (DER) and equity multiplier (EM) increased from 9.14 to 19.59 and from 10.38 to 19.49 respectively, and are statistically significant at 0.5% level. Other measures, like DTAR and LDR show deterioration of risk but are not statistically significant. However, when BIMB is compared with conventional banks in table 2, table 3 and table 4 it is found that BIMB is relatively less risky and more solvent than two other individual conventional banks (Pertanian and Perwira Affin) and the group of eight banks. The average debt-equity and the equity multiplier for Islamic bank are 14.78 and 14.95 as compared to 43.33 and 47.34 for the Partanian Bank and 41.78 and 43.60 for the Perwira Affin bank respectively. The difference in means in DER and EM for two individual banks (Pertanian and Perwira Affin) versus BIMB is statistically significant. The comparison of means for risk measure in DTAR for BIMB and the group of eight conventional banks in Table 4 indicates that the average debt-asset ratio for Islamic bank is 0.80 as compared to 0.92 of the conventional banks and this difference in means is statistically different. ANOVA suggests that the null hypothesis (H_0) of the equality of two means for BIMB and the group of eight banks be rejected at 1% level of significance. This implies that these two performance measures are not equal.

First, the reason for low risk of the Islamic bank (BIMB) is that its investments in government securities are much larger than the conventional banks. This difference in investments is statistically significant. Secondly, it has more equity capital compared to assets shown by its equity multiplier (EM). Larger equity capital indicates a higher shock absorbing capacity for the Islamic bank. It can withstand more assets or loan losses compared to bank (banks) which has (have) less capital. . However, lack of data on loan losses and non-performing loans in Islamic and conventional banks prevents us from making a conclusive judgment.

Banks' involvement in delivering special products (Mudarabah and Musharakah) shows that between 1984-1989 and 1990-1997, the average supply of loans under this category has increased from .0002 to .002 and the difference in means of the two periods is not statistically significant. Therefore, we cannot conclude decisively that the supply of Mudarabah and Musharakah loans has increased over this time period (Table 1).

Our primary data provides several reasons why Mudarabah and Musharakah are not popular in Malaysia. The analysis of the primary data in Table 5a indicates that 40% of the respondents consider that (B)(8) as a major cause. 32% of the respondents support that (A) is a cause, i.e. Mudarabah and Musharakah are not popular because the alternative modes of financing are more profitable and less risky than Mudharabah and Musharakah. 20% of the respondents indicates that they do not feel comfortable with the idea of sharing joint management (C). Only 8% support that hypothesis that the monitoring cost of the Mudaraba and Musharaka is very high for the bank.

The distribution of responses is based on ranking made in the alternative answer. Table 5b shows that only 70% respondents put "B" in the first rank, 62.5% people have ranked "A" in the first rank, 18.7% people rank it 2nd and 3rd. "D" has been ranked 2nd and 3rd by 50% of the respondents.

It appears from the replies of the respondents that the problem of moral hazard and adverse selection still exists in Islamic banking system. The Islamic bank cannot altogether eliminate the problem of asymmetric information and that is why the supply of loan under this category has not increased, contrary to our expectation.

With regard to BIMB's community commitment measured by the investment in government securities and loans as a percentage of total assets, LTA, it is found that there has been no difference in performance over the two periods. The low t-ratio for the period suggests that the means for the two measures are not statically significant (Table 1)

Interestingly, the Malaysian experience in Islamic Banking is very similar to those found in Bangladesh. The data on Islamic Bank Bangladesh Limited (IBBL) shows that majority of financing operation is in short-term trade financing and long-term financing is rarely given to entrepreneurs. Musharaka financing has hovered around in the vicinity of 2% during the bank's 16 years existence. Financing to the agriculture has been minimal. (Hassan, 1999)

IV. Summary and Conclusion

The examination of various performance measure and the inter-temporal comparison of BIMB's performance reveal that Islamic bank made (statistically) significant progress on return on assets (ROA) and return on equity (ROE) during 1984-1997. The average ROA, PER and ROE during this period were 0.43, 21.5 and 8.07 respectively. The comparison of BIMB with a group of conventional bank on ROA and ROE does not show (statistically) any difference in performance. The liquidity performance between 1984-89 and 1990-97 in various measures such, as cash-deposit ratio (DER), loan-deposit ratio (LDR), and current ratio (CR) show neither deterioration nor improvement. However, inter bank comparison of liquidity performance suggests that Islamic bank appears to be statistically more liquid compared to a group of 8 conventional banks at least in cash-deposit measure. The average cash-deposit ratio of BIMB is 0.021 compared to 0.012 of the conventional bank.

Risk and insolvency measures between 1984-89 and 1990-97 found that BIMB risk increased and it is statistically significant in debt-equity (DER) and equity multiplier (EM). DER and EM increased from 9.16 to 19.59 and 10.38 to 19.49 respectively. However, the comparison of Islamic bank and a group of conventional bank indicate that Islamic bank is still less risky and more solvent measured in DER, DTAR, EM and LDR. The difference in risk measured in debt-equity is statistically significant. Although the means of other measures such as DTAR, EM and LDR of the Islamic Bank are lower compared to a group of conventional banks, they are not statistically significant.

Islamic bank's performance in community financing and participating in government project measured in GBD, LTA and MM/L does not show any statically difference between 1984-1989 and 1990-1997. The comparison of Islamic bank and the group of eight conventional banks reveal that there is no difference in economic participation (measured by LTA) between them. ANOVA also supports this finding, as the F-value is statistically insignificant.

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Table 1
Performance Trend of BIMB: 1984-89 and 1990-97

| Performance Measure | 1984-89 Mean | SD | 1990-97 Mean | SD | Statistical test t-value |
|-------------------------|--------------|------|--------------|------|--------------------------|
| I. Profitability | | | | | |
| 1. ROA | 0.16 | 0.37 | 0.69 | 0.16 | 3.27** |
| 2. ROE | 2.51 | 2.89 | 13.63 | 6.39 | 4.74** |
| 3. PER | 9.6 | 0.39 | 33.19 | 0.08 | -6.40*** |
| | | | | | |

| Performance Measure | 1984-89 | | 1990-97 | | Statistical test |
|--|---------|--------|---------|---------|------------------|
| | Mean | SD | Mean | SD | t-value |
| II. Liquidity | | | | | |
| | | 0.009 | | | |
| 3. CDR | 0.021 | 0.1 | 0.021 | 0.0005 | 0.053 |
| 4. LDR | 0.63 | 0.009 | 0.66 | 0.26 | 0.23 |
| 5. CR | 0.34 | | 0.37 | 0.16 | -0.15 |
| II. Liquidity | | | | | |
| | | | | | |
| 3. CDR | 0.021 | 0.009 | 0.021 | 0.0005 | 0.053 |
| 4. LDR | 0.63 | 0.1 | 0.66 | 0.26 | 0.23 |
| 5. CR | 0.34 | 0.009 | 0.37 | 0.16 | -0.15 |
| 6. CAR | 0.29 | 0.009 | 0.33 | 0.15 | 0.03 |
| III. Risk and solvency | | | | | |
| | | | | | |
| 7. DER | 9.16 | 0.005 | < 19.59 | 0.009 | 3.43** |
| 8. DTAR | 0.75 | 0.0007 | < 0.85 | 0.0003 | -0.3 |
| 9. EM | 10.38 | 4.94 | < 19.49 | 7.5 | 3.19** |
| 10. LDR | 0.63 | 0.1 | < 0.66 | 0.26 | -23 |
| IV. Commitment to govt. and community | | | | | |
| | | | | | |
| 11. GBD | 0.31 | 0.1 | 0.31 | 0.17 | -0.45 |
| 12. LTA | 0.52 | 0.006 | 0.57 | 0.2 | 0.49 |
| 13. MM/L | 0.0002 | 0.0001 | 0.002 | 0.00007 | -1.89* |

Notes: Data is collected from Annual Accounting information from concerned banks.

* Difference in means: Significant at 10% level

** Difference in means: Significant at 5% level

*** Deference in means: significant at 1% level.

> = better

< = not better

Table 2
Comparison of BIMB (Islamic Bank) and
Bank Pertanian (Conventional bank) Financial Ratios

| Performance Measure | Bank Islam | Bank Pertanian | F-value |
|--|------------|----------------|----------|
| I. Profitability(9) | | | |
| 1. ROA | 0.43 | 1.23 | 1.6 |
| 2. ROE | 8.07 | 43.47 | 3.02 |
| 3. PER | 21 | 10 | 4.97* |
| II. Liquidity | | | |
| 3. CDR | 0.02 | 0.015 | 1.49 |
| 4. LDR | 0.65 | 0.61 | 0.89 |
| 5. CR | 0.35 | 0.55 | 4.16 |
| 6. CAR | 0.31 | 0.47 | 4.78* |
| III. Risk and solvency | | | |
| 7. DER | 14.78 | 43.33 | 11.96** |
| 8. DTAR | 0.80 | 0.88 | 27.96*** |
| 9. EM | 14.95 | 47.34 | 15.19*** |
| 10. LDR | 0.65 | 1.14 | 0.89 |
| IV. Commitment to govt. and community | | | |
| 11. GBD | 0.31 | 0.025 | 63.21*** |
| 12. LTA | 0.55 | 1.16 | 2.05 |

* Difference in means: Significant at 10% level

** Difference in means: Significant at 5% level

*** Difference in means: Significant at 1% level

Table 3
Comparison of BIMB (Islamic Bank)
and Perwira Affin (conventional bank) Financial Ratios

| Performance | Bank Islam | Perwira Affin | F-value |
|--|------------|---------------|----------|
| Measure | | | |
| I. Profitability | | | |
| 1. ROA | 0.43 | -0.26 | 15.76*** |
| 2. ROE | 8.07 | 0.41 | 14.54*** |
| 3. PER | 21 | 28 | 0.001 |
| II. Liquidity | | | |
| 3. CDR | 0.021 | 0.016 | 6.33*** |
| 4. LDR | 0.65 | 0.66 | 2.33** |
| 5. CR | 0.35 | 0.24 | 8.00*** |
| 6. CAR | 0.31 | 0.25 | 2.30** |
| III. Risk and solvency | | | |
| 7. DER | 14.78 | 41.78 | 3.42*** |
| 8. DTAR | 0.80 | 1.05 | 58.59*** |
| 9. EM | 14.95 | 43.6 | 2.89** |
| 10. LDR | 0.65 | 1.46 | 2.33** |
| IV. Commitment to govt. and community | | | |
| 12. LTA | 0.55 | 1.12 | 1.12 |

* Difference in means: Significant at 10% level

** Difference in means: Significant at 5% level

*** Difference in means: Significant at 1% level

Table 4
Comparison of BIMB (Islamic Bank)
and 8 Conventional Banks' Financial Ratios

| Performance Measure | Bank Islam | Conventional Banks | Statistical test |
|--|------------|--------------------|------------------|
| | | | F-value |
| I. Profitability(9) | | | |
| 1. ROA | 0.43 > | 0.3 | 0.85 |
| 2. ROE | 7 > | 7.3 | 0.01 |
| 3. PER | 21.5 < | 36 | 4.32* |
| II. Liquidity | | | |
| 3. CDR | 0.021 | 0.121 | 24.14 *** |
| 4. LDR | 0.65 < | 0.68 | 0.01 |
| 5. CR | 0.35 < | 2.63 | 1.95 |
| 6. CAR | 0.31 < | 0.34 | 0.01 |
| III. Risk and solvency | | | |
| 7. DER | 14.78 > | 19.09 | 3.33 |
| 8. DTAR | 0.80 > | 0.92 | 44.45 *** |
| 9. EM | 14.95 > | 20 | 2.80 |
| 10. LDR | 0.65 > | 0.68 | 0.01 |
| IV. Commitment to govt. and community | | | |
| 11. GBD | 0.31 | 0.025 | 63.21*** |
| 12. LTA | 0.55 > | 0.51 | 0.25 |

* Difference in means: Significant at 10% level

** Difference in means: Significant at 5% level

*** Difference in means: Significant at 1% level

Table 5a
Survey Response of Why Mudarabah
and Musharakha are not popular in Malaysia.

| Classification | # of respondent | frequency | cumulativefrequency |
|----------------|-----------------|-----------|---------------------|
| A* | 16 | .32 | .32 |
| B* | 40 | .40 | .72 |
| C* | 10 | .20 | .92 |
| D* | 4 | .8 | 1.00 |
| | | | |

* Difference in means: Significant at 5% level.

*** Difference in means: Significant at 1% level

> = better but not statistically significant

< = not better and also not statistically significant.

Table 5b
Ranking of classification by the surveyed respondents

| | 1st rank | 2nd rank | 3rd rank | 4th rank | |
|----|------------|----------|----------|----------|--|
| A* | 62.5% (31) | 18% (9) | | | |
| B* | 70% (35) | 18% (9) | 10% (5) | | |
| C* | | | 36% (18) | | |
| D* | | 50% (25) | 50% (25) | | |
| | | | | | |
| | | | | | |

* 1. The classification of A, B, C and D refers to A, B, D and E of the questionnaire.

2. It appears from the table 5a that 32% respondents believe "A" as a cause, whereas 40% respondents believe "B" is a major cause why Mudarabah and Musharakha are not popular. "A" and "B" together constitute 72% of the 4 reasons. When the respondents are asked to rank, their answer in Table 5b indicates that 70% of the respondents rank "B" in the first rank.

APPENDIX: QUESTIONAIRRE

A. Bank Personnel

Name :

Post :

Address :

QUESTION

Why are Mudarabah and Musharakah investment not popular compared to other form of investment (i.e. Bai Bithamil Ajil, leasing and Murabaha)?

Circle/Ö

a Alternative investment such as Bithain Ajil, lease and Murabaha are more profitable and less risky than Musharaka and Murabaha.

b There are not enough bankers who have enough knowledge in

i Selecting profitable profit-sharing project

ii Managing profit-sharing project

iii Evaluating the profitability of the project

iv All of the above

a Investors (bank) do not feel comfortable with the idea of sharing and managing investment with bank/other person.

b Monitoring and supervising cost of the Mudarabah and Musharakah is very high for the bank.

B. Borrower

Name :

Post :

Address:

QUESTION

Why are Mudarabah and Musharakah investment not popular compared to other form of investment (i.e. Bai Bithamil Ajil, leasing and Murabaha)?

Circle/Ö

a Alternative investment such as Bithain Ajil, lease and Murabaha are more profitable and less risky than Musharaka and Murabaha.

- b There are not enough individual investor who have enough knowledge in
 - i Selecting profitable profit-sharing project
 - ii Managing profit-sharing project
 - iii Evaluating the profitability of the project
 - iv All of the above
- a Investors do not feel comfortable with the idea of sharing and managing investment with bank/ other person
- b Monitoring and supervising cost of the Mudarabah and Musharakah is very high for the bank.

C. Name of Selected Conventional Banks

- 1 Perwira Affin
- 2 Bank Pertanian
- 3 Bank of Commerce
- 4 Public Bank
- 5 Pacific Bank
- 6 Oriental Bank
- 7 Bank Buruh
- 8 Bank Utama

Notes:

(1). Current assets (CA) consist of cash, bills receivables and investment in securities and Current liabilities consist of deposits, bills payable and other liabilities. It is mainly the deposit because bills payable and other liabilities are insignificant amount.

(2) Koh

(3) Ibid.

(4) Ross, Mushkin

(5) See the appendix.

(6) Equity = share capital at book value

(7) It can be questioned whether investment in government securities, which provide a fixed or quasi-fixed depending on whether, it is inflation-adjusted or not is permissible under Islamic Sharia.

(8) See questionnaire, item B.

(9) All measures of profitability are in percentage.