

## THE PERFORMANCE OF BANKING DURING 2000-2009: BANK ISLAM MALAYSIA BERHAD AND CONVENTIONAL BANKING IN MALAYSIA

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### ABSTRACT

*The objective of this paper is to examine the financial performance of BIMB in the period between 2000 and 2009 and make comparative assessments of Malaysia's interest free Islamic bank (BIMB) and the interest-based conventional commercial banks. The financial performance of banks is measured based on criteria such as profitability, liquidity, risk and solvency, and community involvement of the bank. The choice of this particular focus is justified by the fact that banks in Malaysia have experienced a significant increase in the number of Islamic banking activities, evident by the high growth rate of Islamic assets. This study evaluates intertemporal and interbank performance of the pioneer of Islamic banking in Malaysia, i.e. Bank Islam Malaysia Berhad (BIMB or 'the bank'), in profitability, liquidity, risk and solvency as well as community involvement for the period 2000-2009. Financial ratios are applied in measuring these performances. T-tests are used in determining their significance. The study found that while there are no significant difference in profitability during these two periods, BIMB is relatively more liquid and less risky as compared to conventional banks. On top of that, basic modes of Islamic banking, i.e. mudharabah and musyarakah, are not of significant financing portfolio for BIMB.*

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### 1.0 INTRODUCTION

In Malaysia, Islamic banking has made steady progress since the establishment of the first Islamic bank. In terms of performance relative to the banking system, Islamic banking has been on a progressive upward trend, recording an average annual growth of 48.5% in terms of assets over the period 2006-2009. During the year, the Islamic banking sector continued to register a strong asset growth of 12.8% as at November 2010 to RM256.6 billion whilst deposits and financing increased to RM211.4 billion and RM160.1 billion. The delivery channels have also improved significantly as there are more than 2,200 branches of Islamic banks and Islamic banking Subsidiaries (IBS) banks offering Islamic banking products and services. Islamic banking has also spurred efforts by other non-bank financial intermediaries such as the development financial institutions, savings institutions and housing credit institutions to introduce Islamic schemes and instruments to meet their customer demands.

Bank Islam Malaysia Berhad (BIMB) is the first 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. However, as time has passed, many new banks had emerged offering various kinds of financing products, leaving consumers with variety of choices at almost zero switching cost. As at now, there are a total of 40<sup>1</sup> licensed banking institutions in Malaysia.

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<sup>1</sup> Include both local and foreign ownerships banks

In view of the increasing intensity of competition, coupled with challenging macroeconomic conditions, it is pertinent to look into the performance of BIMB to see where the bank stands and how it had performed against its competitors. However, there are limited studies as to how BIMB performed in liquidity, profitability, risk and solvency as well as its commitment to economy and Muslim community, particularly for the period after year 2000. The previous studies on profitability and other measures as conducted by Samad (1998), Ariff (1989), Dirrar (1996), Mohiuddin (1991), Sum (1995) and Hassan (1999) are far from satisfactory. No statistical techniques were used in the studies nor were any inter-temporal and inter-bank comparisons made with three sets of conventional banks.

The objective of this paper is to examine the financial performance of BIMB in the period between 2000 and 2009 and make comparative assessments of Malaysia's interest free Islamic bank (BIMB) and the interest-based conventional commercial banks. The financial performance of banks is measured based on criteria such as profitability, liquidity, risk and solvency, and community involvement of the bank. The choice of this particular focus is justified by the fact that banks in Malaysia has experienced a significant increase in the number of Islamic banking activities, evident by the high growth rate of Islamic assets. This study is different from the earlier studies with respect to contents, coverage of years and methodology.

In evaluating BIMB's performance, two hypotheses will be tested. 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 the learning curve and second hypothesis states that as Islamic banking makes its inroad in the society, the volume of two truly Islamic financial modes of lending, i.e. *mudharabah* and *musyarakah* are expected to grow larger in later years of its operation

The paper is organised into five sections. Following introduction and rationale of this study in this section, Section II provides literature review while Section III detailed out the methodology, data and the tools for measuring banks' performance. Section IV discussed empirical evidence and analysis and Section V delivers the conclusion.

## 2.0 LITERATURE REVIEW

The remarkable development of the Islamic banking sector throughout the world calls for an analysis of the degree of performance of Islamic banks. While performance evolution is the key to sustained growth and development of any organisation, it ensures that performance improvement initiative ties in with the organization's vision, mission, and value. According to Samad A. and Hassan (1998), evolution of a bank's performance is important for all of its stakeholders, i.e. depositors, bank managers and regulators. For example, in a competitive financial market, bank performance provides signals to depositors-investors on whether to invest or withdraw funds from the bank. Similarly, it flashes directions to bank managers on whether to improve its deposit service or loan service or both to improve its finance. Regulators around the world will also use analysis of bank performance for its regulation purposes and to monitor developments or any pertinent issues to preserve banking system stability and the financial system as a whole.

The extent of literature on Islamic banking maybe divided into theoretical and empirical dimension. The earliest works dealing with the potential of Islamic banking include Mannan (1968), Siddiqui (1983), Ahmad (1984), Iqbal and Mirakhor (1987), Khan (1987), Ahmad (1987), Zineldin (1990) and Saeed (1996). These authors discussed a wide range of institutional issues including concepts and principles that are subject to interpretation. Haron and Shanmugam (1997) comprehensively documented the workings of the *Shari'ah* or Islamic laws in the Islamic banking system in various Muslim countries, such as Egypt, Iran, Malaysia, Pakistan, Sudan and Turkey. They also elaborated the various concepts of Islamic financial products such as *mudharabah*, *musyarakah* and *qard al-hassan* along with the issue of monetary policy. They advocated *mudharabah*-type instruments to replace the current interest-based discount rate as an important tool of monetary policy. Financial instruments used by Islamic banks were examined by Aggarwal *et al.* (2000), and they found that Islamic banks rarely offer long-term financing to entrepreneurs seeking capital. The majority of the Islamic banks' financial transactions are towards retail or trade financing, and their model suggests that it was a rational response for the banks.

Zineldin (1990) examined Islamic banks from the angle of theory and practice, and found that Islamic banking is a viable alternative to existing conventional banking. Although few empirical studies are available, Ali (1996) compared the relative efficiency of Islamic banking with conventional banking in Bangladesh. He found that the Islamic banks are relatively more efficient than conventional banks. Kazarian (1993) compared Islamic banking with conventional banking in Egypt, with emphasis on the innovativeness of the Islamic bank's financial products.

Performance evaluation is an important pre-requisite for sustained growth and development of any situation, and in this case, Islamic banking development. It is customary in banks to evaluate the pre-determined goals and objectives, with the changing goals and objectives, the criteria of evaluation of banks have undergone changes overtime (Hassan, 2007). In general, method analysis of prior studies on examining of financial performance of Islamic banks with ratios analysis can be categorized into two (Widagdo, A.K. *et al.*, 2008), i.e. studies examining the performance of Islamic banks during certain period and studies examine the performance of Islamic Banks and compare that with conventional banks' performance. While the former examined performance Islamic banks during several years and make inter-temporal comparison, the latter studied the performance of Islamic Banks and made comparison with conventional banks' performance.

In terms of studies that examine the financial performance of Islamic banks during certain period, Sarker (1999) analysed efficiency of Islamic banks under conventional banking framework in Bangladesh. Findings showed that Islamic banks could not operate with its full efficiency level if it operated under a conventional banking framework. He argued further that Islamic products had different risk characteristics, thus requiring different sets of prudential regulations that are unique to each product. By using a tool called CAMEL-modified, Wibowo and Saptutyingsih (2004) examined the financial performance of two main Islamic banks in Indonesia, i.e. BMI and BSM, between 2000 and 2003. The result revealed that performance of BMI was superior to performance of BSM.

In Malaysia, empirical studies on Malaysian Islamic banking are limited to Bank Islam Malaysia Berhad (BIMB). Arif (1989), Wong (1995), Samad (1999), and Samad and Hassan (2000) conducted studies on Bank Islam Malaysia. Arief (1989) examined the financial performance of BIMB and found that, during the first six years of its establishment, BIMB indicated impressive progress. He also suggested that BIMB should institute research and development to serve the *Ummah*. Similarly, Utami, *et al.* (2006) tried to define the profile of Baitul Maal Wat Tamwil (BMT) in Banyumas Regency based on its financial performance. The result showed that, in most BMTs being surveyed, the level of financial ratio, which included liquidity, solvability, business risk, and productivity of the employee's ratio, increased from the year 2000 until 2002. Efforts have further been made by Zaman and Movassaghi (2001) to gauge and analyse the growth of the Islamic banks on a global basis through assessments of financial performance. Islamic banks located in regions including South Asia, Africa, Southeast Asia, Middle Asia, Europe and America was covered. In this study, they ranked the performance of Islamic banks around these regions based on figures extracted from financial statement that ended in year 1996. Findings later showed that Islamic banks located in Middle East and South Asia dominated the rank.

In the context of comparative financial performance of Islamic Banks and conventional banks, some studies have been done in Malaysia. Samad (1999) evaluated BIMB's productivity and managerial efficiency in the sources and uses of the bank's funds and compared to that of mainstream (conventional) banks. He found that managerial efficiency of conventional banks is higher than BIMB. Productive efficiency of the average fund utilisation rate and profit earned by BIMB were also found to be lower than those conventional banks. All profitability indexes indicated lower profits earned by BIMB than the conventional ones. In further study, Samad and Hassan (2000) examined the financial performance of BIMB over the period 1984-1997 and once again compared the findings with the performance of conventional banks in the same period. In this study, inter-temporal and inter-bank approach was adopted. The finding revealed that financial performance of BIMB was different from conventional banks with respect to liquidity and risk management. BIMB was more liquid and therefore exposed to less liquidity risk.

Rosly and Bakar (2003) made further exploration by examining the financial performance of Islamic banking scheme and made comparative analysis with the mainstream banks' performance. The result showed that mainstream banks were more efficient than Islamic banking scheme. Hassan (1999) examined performance of Islamic Bank Bangladesh Limited and compared that with other private banks in Bangladesh between 1993 and 1994. While the duration of study was short, the result revealed that in terms of deposits growth and investments growth, performance of Islamic Bank Bangladesh Limited was better than performance of private banks. Apart from that, he found that the key Islamic financial products, *mudharabah* and *musyarakah* were not developed. However, due to the lack of statistical technique, this study is unsatisfactory (Samad and Hassan, 2000).

In addition to the studies that had been done, Mahmood (2005), by using banks in Pakistan as case study, compared the financial performance of Islamic banking against conventional banking. He found that, almost in all ratios, Islamic banks were superior to conventional banks during the four year period, from 2000 to 2004. Similar studies in other Middle East countries were also conducted, as evident in the research of Kader, *et al.* (2007), where comparative financial performance of Islamic banks and conventional banks in UAE was also

examined. The findings indicated that there were no major difference between Islamic banks and conventional banks with respect to profitability and liquidity. In Bahrain situation, Samad (2004) examined comparative financial performance of Islamic banks and the conventional banks during 1991-2001. The result also indicated that there was no significant difference between Islamic banks and conventional banks with respect to profitability and liquidity.

### 3.0 METHODOLOGY

The data used in this study are compiled from income statements and balance sheets of selected banks from their annual reports each year. For BIMB, data collections start from 2000 until 2009 (10 years) while data from selected conventional banks are collected between 2005 and 2009 (5 years). The name of the banks included in the sample is given in table 1 below.

**Table 1: Selected Banks for Analysis**

Banks	Period
1. Bank Islam Malaysia Berhad	2000 - 2009
2. Affin Bank	
3. Alliance Bank	2005 - 2009
4. AmBank	
5. CIMB	
6. Hong Leong	
7. Maybank	
8. Public Bank	
9. RHB Bank	

Performance analysis of banks can be done in many different ways, depending on the type of analysis and the specific needs of the user. One of them is through the ratio analysis method. Ratio analysis consists of the quantitative and qualitative aspects of measuring the relative financial position of banks among them and among industries. 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 (1983), Korobow (1983), Putnam (1983), Sabi (1996), Samad (1999), Akkas (1994), Meister and Elyasiani (1988) and Spindler (1991) employed financial ratios for evaluating a bank's performance.

In order to see the performance of Islamic bank, in particular BIMB, for over 10 years, this paper approaches an analysis of intertemporal performance of Islamic bank. In other words, this paper makes comparison of the performance of BIMB between two periods, i.e. 2000-2005 and 2006-2009. In addition to intertemporal comparison, the study makes comparison of the performance of Islamic bank (BIMB) with a conventional bank (Alliance Bank), which is comparable in terms of asset size and made another comparison with a conventional bank (CIMB Bank) that is larger than BIMB in terms of assets size. Next, comparison between BIMB's performance and eight selected conventional banks will be made in this study. According to Sabi (1996), this type of inter-bank analysis is common in bank performance study. In the competitive financial market, performance of a bank can be better understood by an analysis of inter-bank comparison. The study uses thirteen financial ratios to assess bank's performance. The analysis of bank performance focuses on the following group of ratios, i.e. profitability; liquidity; risk and solvency; and 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

ROA and ROE are the indicators of measuring managerial efficiency. ROA is net earnings 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 rupee equity capital. The higher ratio is an indicator of higher managerial performance. However, profitability is only part of bank performance story. A high PER indicates that a bank is cost efficient and makes higher profit with a given expense.

#### b) Liquidity Ratios:

There are several measures for liquidity and the ones that were used in this study include:

- 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) 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 assets. A lower ratio is a sign for illiquidity as more of the assets are long term in nature.

A bank's liquidity risk refers to a comparison of its liquidity needs for deposit outflows and loan increases with the actual or potential sources of liquidity from either selling an asset it holds or acquiring an additional liability. Banks 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.

**c) 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 (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 (DTA) = 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 (EM) = Total assets/share capital. It is the amount of assets per rupee 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.

**d) 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 (GBI) = Deposit invested in government bond/total deposits. A higher GBI 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 BIMB is measured in three stages. First, the performance of the initial 6years is compared with the performance of the subsequent 4 years by using the performance measures as delineated above. Second, Islamic bank (BIMB) is compared with two selected banks. Of the two banks, one (Alliance Bank) is comparable and the other is (CIMB Bank) is larger in terms of assets size. Lastly, BIMB is compared with conventional banking industry, represented by a group of eight banks.

In order to examine whether there is difference in performance between BIMB and conventional banks in Malaysia, equality of mean test is performed. The equality of mean test for comparing statistics from two or more samples of numeric data drawn from two or more population is most widely used in the literature of performance and the standard text in statistics. The assumption is that the performance ratios are normally distributed. The null hypothesis of the equality of mean of the conventional banks and BIMB is tested against not-equality of mean.

For this study, independent t-test is used to test the null hypothesis of the equality of means in all three stages of comparison. The independent t-test compares the mean scores of two groups on a given variable. As highlighted previously, this test is run under the assumptions of normally distributed performance ratios. Apart from that, the two groups have approximately equal variance on the dependent variable and are independent of one

another. In order for the comparison to be more reliable and meaningful, Levene's test for equality of variances is done since sample size of this study is small and sensitive to the differences in variances. This tells us if we have met our second assumption (the two groups have approximately equal variance on the dependent variable). If the Levene's Test is significant (the value under "Sig." is less than .05), the two variances are significantly different. If it is not significant (Sig. is greater than .05), the two variances are not significantly different; that is, the two variances are approximately equal. If the Levene's test is not significant, we have met our second assumption.

#### 4.0 FINDINGS

Table 2 showed means and standard deviations of various performance measures of Bank Islam Malaysia Berhad (BIMB) between 2000-2004 and 2005-2009. For profitability, it can be seen that the profitability position of BIMB has not changed over ten years. All three measures of profitability, i.e. return on asset (ROA), return on equity (ROE) and profit expense ratio (PER), are not statistically significant. In other words, the means between the two periods are not statistically different, thus indicating that the bank's profitability remains unchanged between 2000-2004 and 2005-2009. The unchanged profitability position of the bank may be due to the losses made by BIMB in 2005 and 2006. The Bank recorded a loss before tax and zakat of RM479.8 million in 2005 compared to a profit of RM98.3 million previously. The loss was due to higher provisioning on non-performing financings (NPF) of RM648 million following the increase in NPF level mainly attributed to BIMB Labuan Offshore Branch (BILOB). The conversion of Bank Islam (L) Ltd. (BILL) into an offshore branch of the Bank led to the adoption of stricter NPF regulation as well as a more stringent risk management framework, resulting in more prudent financial reporting of BILOB activities. In 2006, although the bank reported a higher total income of RM960.63 million compared to 2005, there is a one-off provision of RM1.48 billion for NPF that resulted in a loss before tax and zakat of RM1.28 billion, while net loss amounted to RM1.30 billion. The higher provisions were largely due to the adoption of a prudent policy to provide for NPF and to clean up the balance sheet. The provisions took into consideration, the following:

- Adherence to Bank Negara Malaysia's GP8-I provisioning requirement.
- A further deterioration of legacy financing.
- Provisions for consumer financing resulting from softer economic conditions in this particular sector.
- Non-financing adjustments.

These findings however are not consistent with Abdus Samad *et al.* (2000) where all profitability measures indicated significant progress by BIMB during 1984-1997. Similar results were attained when being compared to Alliance Bank (comparable assets size) and CIMB (larger assets size) in Table 3 and 4 where the profitability measures between the selected two periods are not statistically significant. Nevertheless, when compared to a group of selected eight conventional banks (Table 5), BIMB lags behind in terms of its ROE (2000-2004: mean of -0.37; 2005-2009: mean of 0.28). 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 *Shari'ah* approved projects. It cannot invest beyond the *Shari'ah* Board approved investments even if it can earn higher rate of returns. In Malaysia, *Shari'ah* Board supervises banks' investments. Secondly, investments in government bond are major source of earnings for BIMB. The rate of return of government bond is lower than other types of investments. Thirdly, in order to provide the guarantee of depositors' deposits and trust (*amanah*), BIMB maintains more liquidity than the conventional banks.

In terms of liquidity, intertemporal comparison in Table 5 showed that out of four liquidity measures, two are statistically significant. The means of cash deposit ratio (CDR) and current ratio (CR) are both statistically different at 1% and 5% level while the means of loan deposit ratio (LDR) and current asset ratio (CAR) are not statistically different. For CDR, the higher mean on 0.302 for period 2005-2009 showed better liquidity position as opposed to 0.076 for period 2000-2004. However, this rejects our hypothesis that BIMB will hold less liquidity in the subsequent years of operations when the bank becomes matured. In contrast, the CR of the bank decreased slightly from a mean of 1.09 in 2000-2004 to 1.04 in the subsequent five years.

When compared against conventional banks, BIMB maintained a more liquid position. As highlighted earlier, this may be due to the mandate of the bank in providing guarantee for depositors' deposits and trust (*amanah*). This finding can be seen from Table 5, 6 and 7. In Table 5, the liquidity measures of BIMB as opposed to Alliance Bank are significant at 5% (CDR) and 1% level (LDR, CR and CAR). The means of CDR (0.302) and CAR (0.992) showed better liquidity positions while lower LDR (0.504) indicates lesser reliance on borrowed funds, which are generally more costly than most types of deposits. CR is however slightly lower than Alliance Bank (BIMB: 1.04; Alliance Bank: 1.09). Similarly, in Table 6, all four liquidity measures for the banks (BIMB and CIMB) are statistically significant. CR is statistically significant at 10% level, CDR at 5% level while LDR and CAR are statistically significant at 1% level. In comparing the means of these measures, it can be seen that

the mean for BIMB's CDR (0.302) and CAR (0.992) is higher than Alliance Bank. LDR and CR are lower (0.504 and 1.04). Moving on to Table 7, comparable results were attained. BIMB maintained a more liquid position than eight selected conventional banks. CDR and CAR are higher and lower LDR signifying favourable position. CR on the other hand is slightly lower.

The higher liquidity ratio of BIMB compared to that of conventional banks stems from several factors. First, as discussed before, unlike conventional banks, the scope of BIMB's investment is limited by the Shari'ah, i.e. the Islamic Law. Islamic banks are not permitted to invest in un-Islamic investment opportunities such as gambling, pornography, alcohol and related projects, even though these investments may be highly profitable. The restricted set of investment opportunities helps Islamic banks, in particular BIMB, to hold higher liquid assets. Second, most loans and investments of Islamic banks are of short-term nature. *Murabahah* constitutes a shorter term and a lower risk investment for a bank. There is practically no risk involved in *murabahah* financing where it is fully collateralised by the asset. On the other hand, *mudharabah* and *musyarakah* financing are of longer term investment that constitutes only a small percentage of the bank's total financing. Thirdly, as a fairly new player in the market as compared to the conventional ones, the bank cannot afford to incur losses and undermine the general reputation of Islamic banking system.

The bank's performance of risk and solvency between 2000-2004 and 2005-2009 revealed that BIMB's involvement in risky business measured in debt equity ratio (DER), debt to total asset ratio (DTA), equity multiplier (EM) and loan deposit ratio (LDR) decreased over years. Both DER and LDR are not statistically significant while DTA and EM are statistically significant at 1% and 10% level with their means of DTA and EM decreased from 0.907 to 0.902 and from 23.172 to 16.733 respectively. Other measures, i.e. DER and LDR, showed deterioration of risk but are not statistically significant. Table 3, 4 and 5 found that BIMB is relatively less risky and solvent than two other individual conventional banks (Alliance Bank and CIMB) and the group of eight selected conventional banks. In table 3, all four risk and solvency measures, i.e. DER, DTA, EM and LDR are statistically significant at 1% level. The mean of DER, DTA, EM and LDR for BIMB is lower than Alliance Bank at 16.107 (37.067), 0.962 (0.981), 16.733 (40.708) and 0.504 (0.74). Similar findings are found in Table 4, where the difference in means in DTA and EM for BIMB and CIMB is statistically significant. DTA is significant at 5% level while LDR at 1% level. DER and EM are not statistically significant. The means for both DTA (0.962) and LDR (0.504) showed less risky and solvent business of BIMB as compared to CIMB. Lastly in Table 5, BIMB once again possess a less risky and solvent business when compared to a group of eight selected conventional banks. All risk and solvency measures are statistically significant. DER, EM and LDR are significant at 1% level while DTA is statistically significant at 10% level. Here, the results again portrayed a less risky and solvent business of BIMB. The means for DER, DTA, EM and LDR of BIMB are lower of that selected conventional banks at 16.107 (40.346), 0.962 (0.964), 16.733 (43.538) and 0.504 (0.729). The t-test suggests that the null hypothesis ( $H_0$ ) of the equality of two means for BIMB and the group of eight banks be rejected. This implies that these two performance measures are not equal.

The reason for the low risk of BIMB can be seen from few angles. Firstly, BIMB's investments in government securities are much larger than the conventional banks. Secondly, it has more equity capital compared to assets shown by its EM. Larger equity capital indicates a higher shock absorbing capacity for the Islamic bank. It can withstand more assets or loan losses as opposed to bank(s) which has (have) less capital. Nevertheless, lack of data on loan losses and non-performing loans in Islamic and conventional banks prevents us from making conclusive judgments.

BIMB's involvement in delivering special products, i.e. *mudharabah* and *musyarakah*, showed that between 2000-2004 and 2005-2009, the average supply of loans under this category has decreased from a mean of 0.028 to 0.006, significant at 5% level. This may be due to several reasons. Firstly, alternatives modes of financing are seen as more profitable and less risky than *mudharabah* and *musyarakah*. Secondly, the monitoring cost of the *mudharabah* and *musyarakah* is very high for the bank and lastly, many may not be openly enough to the idea of sharing joint management.

With regards to BIMB's community commitment measured by the investment in government securities (GBI) and loans ad percentage of total assets, i.e. LTL, it is found that there have been an increase in performance over the two periods for LTL at 1% confidence level. GBI is not statistically significant. Referring to table 5, 6 and 7, overall results showed that long term loan ratio (LTL) is statistically significant at 1% level. The mean of LTL for BIMB is higher than Alliance Bank, suggesting greater commitment towards government and community. However, when compared to CIMB and group of selected eight conventional banks, the means of BIMB are lower at 0.011 (CIMB: 0.0575) and 0.011 (group of conventional banks: 0.0436).

**TABLE 2: Intertemporal- Performance Trend of BIMB between 2000-2004 and 2005-2009**

Performance Measure	2000-2004		2005-2009		Statistical test	Inferences
	Mean	SD	Mean	SD	t-value	
<b><u>Profitability</u></b>						
1) ROA	0.0038	0.00205	-0.0174	0.04435	0.346	Accept Ho
2) ROE	0.0936	0.05558	-0.3738	0.75272	0.238	Accept Ho
3) PER	0.2542	0.10254	-0.619	1.87065	0.356	Accept Ho
<b><u>Liquidity</u></b>						
4) CDR	0.076	0.07635	0.302	0.12617	0.009***	Reject Ho
5) LDR	0.568	0.05357	0.504	0.10334	0.254	Accept Ho
6) CR	1.09	0.01317	1.0406	0.03296	0.014**	Reject Ho
7) CAR	0.988	0.00447	0.992	0.00447	0.195	Accept Ho
<b><u>Risk and solvency</u></b>						
8) DER	21.0542	4.14118	16.1072	5.62238	0.152	Accept Ho
9) DTA	0.9067	0.0136	0.9018	0.03222	0.008***	Reject Ho
10) EM	23.172	4.27374	16.733	5.83137	0.082*	Reject Ho
11) LDR	0.568	0.05357	0.504	0.10334	0.254	Accept Ho
<b><u>Commitment to govt and community</u></b>						
12) LTL	0.000	0.000	0.0111	0.0006	0.000***	Reject Ho
13) MM	0.028	0.01643	0.006	0.00548	0.037**	Reject Ho
14) GBI	0.0272	0.01307	0.0508	0.03528	0.198	Accept Ho

\*Difference in means: Significant at 10% level

\*\*Difference in means: Significant at 5% level

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

**TABLE 3: Interbank - Comparison between BIMB and Alliance Bank's (comparable assets size) Performances**

Performance Measure	BIMB		Alliance		Statistical test	Inferences
	Mean	SD	Mean	SD	t-value	
<b><u>Profitability</u></b>						
1) ROA	-0.0174	0.4435	0.0058	0.00853	0.311	Accept Ho
2) ROE	-0.3738	0.75272	0.248	0.34111	0.147	Accept Ho
3) PER	-0.619	1.87065	0.3896	0.54714	0.303	Accept Ho
<b><u>Liquidity</u></b>						
4) CDR	0.302	0.12617	0.174	0.04099	0.063**	Reject Ho
5) LDR	0.504	0.10334	0.74	0.07778	0.004***	Reject Ho
6) CR	1.0406	0.03296	1.085	0.00682	0.018***	Reject Ho
7) CAR	0.992	0.00447	0.964	0.00548	0.000***	Reject Ho
<b><u>Risk and solvency</u></b>						
8) DER	16.1072	5.62238	37.0682	4.23642	0.000***	Reject Ho
9) DTA	0.9618	0.03222	0.981	0.00552	0.008***	Reject Ho
10) EM	16.733	5.83137	40.7078	4.79675	0.000***	Reject Ho
11) LDR	0.504	0.10334	0.74	0.07778	0.004***	Reject Ho
<b><u>Commitment to govt and community</u></b>						
12) LTL	0.111	0.0006	0.0412	0.00444	0.000***	Reject Ho
13) GBI	0.0508	0.3528	0.03	0.01581	0.263	Accept Ho

\*Difference in means: Significant at 10% level

\*\*Difference in means: Significant at 5% level

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



**TABLE 4: Interbank-Comparison between BIMB and CIMB's (larger assets size) Performances**

Performance Measure	BIMB		CIMB		Statistical test t-value	Inferences
	Mean	SD	Mean	SD		
<b><u>Profitability</u></b>						
1) ROA	-0.0174	0.04435	0.0086	0.00152	0.26	Accept Ho
2) ROE	-0.3738	0.75272	0.2758	0.19383	0.127	Accept Ho
3) PER	-0.619	1.87065	0.4922	0.0994	0.255	Accept Ho
<b><u>Liquidity</u></b>						
4) CDR	0.302	0.12617	0.15	0.03162	0.053**	Reject Ho
5) LDR	0.504	0.10334	0.724	0.08204	0.006***	Reject Ho
6) CR	1.0406	0.03296	1.0778	0.00719	0.064*	Reject Ho
7) CAR	0.992	0.00447	0.954	0.01517	0.001***	Reject Ho
<b><u>Risk and solvency</u></b>						
8) DER	16.1072	5.62238	27.228	13.7835	0.152	Accept Ho
9) DTA	0.9618	0.03222	0.9686	0.00647	0.019**	Reject Ho
10) EM	16.733	5.83137	29.6854	15.1245	0.132	Accept Ho
11) LDR	0.504	0.10334	0.724	0.08204	0.006***	Reject Ho
<b><u>Commitment to govt and community</u></b>						
12) LTL	0.011	0.0006	0.0575	0.016	0.003***	Reject Ho
13) GBI	0.0508	0.03528	0.014	0.00894	0.054**	Reject Ho

\*Difference in means: Significant at 10% level

\*\*Difference in means: Significant at 5% level

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

**TABLE 5: Interbank - Comparison between BIMB and Selected Eight Conventional Banks' Performances**

Performance Measure	BIMB		8 CONV BANKS		Statistical test t-value	Inferences
	Mean	SD	Mean	SD		
<b><u>Profitability</u></b>						
1) ROA	-0.0174	0.04435	0.0087	0.00574	0.259	Accept Ho
2) ROE	-0.3738	0.75272	0.3545	0.32924	0.096*	Reject Ho
3) PER	-0.619	1.87065	0.7174	0.56955	0.186	Accept Ho
<b><u>Liquidity</u></b>						
4) CDR	0.302	0.12617	0.189	0.05237	0.116	Accept Ho
5) LDR	0.504	0.10334	0.7285	0.10416	0.000***	Reject Ho
6) CR	1.0406	0.03296	1.0839	0.01462	0.042**	Reject Ho
7) CAR	0.992	0.00447	0.9722	0.01368	0.000***	Reject Ho
<b><u>Risk and solvency</u></b>						
8) DER	16.1072	5.62238	40.3455	20.9241	0.014***	Reject Ho
9) DTA	0.9618	0.03222	0.9636	0.01231	0.056*	Reject Ho
10) EM	16.733	5.83137	43.5376	22.1898	0.011***	Reject Ho
11) LDR	0.504	0.10334	0.7285	0.10416	0.000***	Reject Ho
<b><u>Commitment to govt and community</u></b>						
12) LTL	0.011	0.0006	0.0436	0.01752	0.000***	Reject Ho
13) GBI	0.0508	0.03528	0.0388	0.03306	0.449	Accept Ho

\*Difference in means: Significant at 10% level

\*\*Difference in means: Significant at 5% level

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

## 5.0 CONCLUSION

The preceding empirical analysis allows us to shed some light on the performance of BIMB for the last and subsequent five years, as well as the bank's position as opposed to conventional banks in Malaysia. The examination of various performance measures and the intertemporal comparison of BIMB's performance

revealed that the bank does not show (statistically) any difference in performance. This finding may be due to the chosen period this study was undertaken, where the subsequent 5 years of the study (2005-2009), in particular 2005 and 2006, BIMB made significant losses due to higher provisioning on non-performing financings (NPFs). Similar results were attained for interbank analysis, where BIMB does not show (statistically) any difference in performance for profitability when being compared to conventional banks. Only one profitability measure demonstrated (statistically) difference in performance and it is the ROE of BIMB as opposed to selected eight conventional banks. The ROE profitability measure revealed that BIMB is lagging behind the eight selected conventional banks.

In terms of liquidity, this study suggests that BIMB appears to be statistically more liquid both in intertemporal and interbank analysis. In other words, BIMB is more liquid in period between 2005-2009 and hold better liquidity position when compared to conventional banks. Risk and insolvency measures between 2000-2004 and 2005-2009 found that BIMB risk decreased and it is statistically significant in debt to total assets ratio (DTA) and equity multiplier (EM). Other measures also showed deterioration of risks but are not statistically significant. Comparable results were attained when being compared to conventional banks, where BIMB is relatively less risky and more solvent. This implies that BIMB are much more liquid and thus exposed to less liquidity risk than conventional banks.

BIMB's performance in community financing and participation in government project was measured by calculating government bond investment (GBI), long term loan ratio (LTL) and *mudarabah-musyarakah* ratio (MM). Results from intertemporal comparison revealed that LTL and MM are statistically significant. From the mean, we can conclude that participation in community financing for BIMB is decreasing from time to time and this may be due to availability of other alternative mode of financing that can earn higher profit than *mudarabah* and *musyarakah*.

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