

**THE PERFORMANCE OF BANK ISLAM MALAYSIA BERHAD
IN HISTORICAL PERSPECTIVE**

A Master Project submitted to the Graduate School in partial fulfillment
of the requirement for the degree
Master of Science (Management)
UNIVERSITI UTARA MALAYSIA

By
Mohamed Yusoff bin Mohamed

© Mohamed Yusoff, 1999. All rights reserved



**Sekolah Siswazah
(Graduate School)
Universiti Utara Malaysia**

**PERAKUAN KERJA KERTAS PROJEK
(Certification of Project Paper)**

Saya, yang bertandatangan, memperakukan bahawa
(I, the undersigned, certify that)

MOHAMED YUSOFF BIN MOHAMED

calon untuk Ijazah
(candidate for the degree of) Master of Science (Management)

telah mengemukakan kertas projek yang bertajuk
(has presented his/her project paper of the following title)

**THE PERFORMANCE OF BANK ISLAM MALAYSIA BERHAD IN HISTORICAL
PERSPECTIVE.**

seperti yang tercatat di muka surat tajuk dan kulit kertas projek
(as it appears on the title page and front cover of project paper)

bahawa kertas projek tersebut boleh diterima dari segi bentuk serta kandungan,
dan meliputi bidang ilmu dengan memuaskan.
*(that the project paper acceptable in form and content, and that a satisfactory
knowledge of the field is covered by the project paper).*

Nama Penyelia
(Name of Supervisor): Assoc. Prof. Dr. Dawood M.Mithani

Tandatangan
(Signature) : 

Tarikh
(Date) : 9 . 11 . 1999

PERMISSION TO USE

In presenting this thesis in partial fulfillment for a post graduate degree from Universiti Utara Malaysia, I agree that the University Library may make it freely available for inspection. I further agree that permission for copying of this thesis in any manner, in whole or in part, for scholarly purposes may be granted by my supervisor or in absence, by the Dean of the Graduate School. It is understood that copying or publication or use of this thesis or parts thereof for financial gain shall not be allowed without my written permission. It is also understood that due recognition shall be given to me and to Universiti Utara Malaysia for any scholarly use which may be made of any material from my thesis.

Request for permission or to make other use of materials in this thesis, in whole or in part, should be addressed to:

**Dean of Graduate School
Universiti Utara Malaysia
06100 Sintok
Kedah Darul Aman**

ABSTRAK

Penubuhan Bank Islam Malaysia Berhad pada tahun 1983 telah memberi satu semangat baru kepada sistem kewangan di negara ini. Golongan Islam secara majoritinya mengharapkan sesuatu daripada pelaksanaan bank ini. Mereka berharap bank Islam perlu memainkan peranan bukan sahaja untuk mendapatkan keuntungan, tetapi juga peranannya untuk berbakti kepada ummah khususnya dan kepada negara amnya.

Kajian ini adalah satu kajian analitikal tentang prestasi bank Islam ini sejak dari mula ianya ditubuhkan. Fokus utama kajian ini ialah kepada pengurusan aset dan liabiliti yang telah dilaksanakan selama masa kajian tersebut. Bank ini didapati telah menunjukkan prestasi yang baik sebagai sebuah institusi Islam yang hidup bersaing di dalam sistem kewangan moden. Bank Islam ini telah berkembang maju walaupun terpaksa menghadapi berbagai bentuk keadaan ekonomi, terutamanya kegawatan ekonomi akhir-akhir ini.

Namun begitu, untuk terus maju dan bersaing dengan bank-bank konvensional, bank Islam perlu terus memberi prestasi baik yang

menyakinkan dengan **norma-norma** akauntabiliti Islam yang kukuh. Bank Islam perlu dapat meyakinkan orang ramai bahawa sistem perbankan Islam adalah yang terbaik dan paling praktikal sebagai satu sistem alternatif kepada sistem kewangan yang sedia **ada**.

ABSTRACT

Establishment of Bank Islam Malaysia Berhad in the country in 1983 was a great booster to the Islamic financial system. To the Muslims in majority, a lot of things were expected from the operation of the bank. They hope to see that the Islamic bank should play its roles, not only to run a banking business for profits, but also to serve the Muslims in particular, the nation at large, in Islamic ways.

This study provides an analytical review on the performance of the bank right from its inception until June **1998**. The main focus of the study is placed on the management of assets and liabilities of the bank over the years. It is observed that the bank has performed creditably well as an Islamic institution within the competitive framework of the Malaysian modern financial system, which is based on conventional norms. Despite the variability of economic situations, especially the economic turmoil of the late, the Bank Islam has been able to sustain and grow.

Nevertheless, to survive, and to compete with the existing and more established conventional banks, Bank Islam has to show good and convincing performance with its Islamic accountability norms. The bank

should win people's trust and prove that Islamic banking system is indeed the best and most practical as an alternative financial system.

ACKNOWLEDGEMENT

Praise to Allah, for the blessing through this life, especially for giving me the courage and strength to complete this thesis. To complete this thesis, I have achieved the feeling of happiness and great satisfaction. I could not have completed it without the support, commitment, and sacrifices of my supervisor, my beloved family, my colleagues, and friends. To them, I would like to express my gratitude and my appreciation goes especially to :

1. Dr Dawood M. Mithani of the Graduate School, UUM, for his professional guidance through his supervision of my thesis.
2. Management of Bank Islam Malaysia Berhad and Bank Negara, Kuala Lumpur for supplying the Annual Reports and cordial cooperation.
3. The Graduate School, Universiti Utara Malaysia.
4. Ministry of Education,
5. Institute Aminuddin Baki
6. My beloved wife, Halimah, who has been very supportive and encouraging.

7. My beloved children, Hilmi, Norhafizah, Nordiana, Hisyam, Fathi, Fakhri and Amirul. They are my inspiration and I hope they will be challenged and encouraged by this.
8. All members of Cohort 8 and friends who have contributed directly or indirectly to this research.

Mohamed Yusoff bin Mohamed

TABLE OF CONTENT

	PAGE
PERMISSION TO USE	i
ABSTRAK	ii
ABSTRACT	iv
ACKNOWLEDGEMENT	vi
LIST OF TABLES	xii
LIST OF CHARTS	xiii
CHAPTER 1: BACKGROUND AND CONTEXT OF PROBLEM	
1.1 Introduction	1
1.2 BIMB: An Islamic Bank	3
1.3 Context of Problem	4
1.4 Focus of the Study	5

CHAPTER 2: OVERVIEW OF LITERATURE

2.1	Introduction	7
2.2	The Rationale for Islamic Banking	8
2.3	Islamic Banking in Theory	10
2.4	Islamic Banking in Practice	14
2.5	Bank Islam Malaysia Berhad	18
2.6	Concluding Remarks	21

CHAPTER 3: METHODOLOGY AND SIGNIFICANCE OF THE STUDY

3.1	Prelude	22
3.2	Objectives of the Study	22
3.3	Significance of the Study	24
3.4	Time-frame of the Study	24
3.5	Methodology and Data Collection	25
3.6	Limitation of the Study	26
3.7	Concluding Remarks	26

CHAPTER 4: ORGANISATIONAL FRAMEWORK OF THE BIMB

4.1	<i>Genesis</i>	27
4.2	The Establishment of BIMB	29
4.3	The Organisational Structure	30
4.4	Religious Supervisory Council	32
4.5	Significant Accounting Policies	33

CHAPTER 5: BANKING OPERATIONS OF THE BIMB

5.1	Introduction	35
5.2	Banking Operations : Customers' Deposit	35
5.3	Banking Operations : Financing	40
5.4	Banking Operations : Trade Finance	46
5.5	Concluding Remarks	51

CHAPTER 6: ECONOMIC ANALYSIS OF BANKING BEHAVIOUR OF THE BIMB

6.1	Introduction	53
6.2	Banking Performance:1983 to 1988	54
6.3	Banking Performance: 1989 to 1993	66
6.4	Banking Performance: 1994 to 1997	77
6.5	Banking Performance: July 1997 to June 1998	87

CHAPTER 7 :SUMMARY AND CONCLUSIONS

7.1	Summary	93
7.2	Conclusions	96

BIBLIOGRAPHY

APPENDIX A: CHARTS

APPENDIX B: SYNDICATION OF BIMB

**APPENDIX C: BALANCE SHEET AND PROFIT AND LOSS
ACCOUNT OF BIMB**

LIST OF TABLES	PAGE
TABLE 1 Major Trend of Liabilities of BIMB	54
TABLE 2 BIMB Customers Deposits	59
TABLE 3 Composition of BIMB Deposits	60
TABLE 4 Major Trend of Assets of BIMB (1984-1988)	61
TABLE 5 BIMB Annual Profit and Loss Account (1984-1988)	64
TABLE 6 Trend of Liabilities of BIMB (1989 - 1993)	66
TABLE 7 BIMB Customer Deposits (1989 - 1993)	68
TABLE 8 Trend of Assets of BIMB (1989 - 1993)	70
TABLE 9 Annual Profit and Loss Accounts (1989 -1993)	74
TABLE 10 Trend of Liabilities of BIMB (1994 - 1997)	78
TABLE 11 BIMB Customer Deposits (1994 - 1997)	80
TABLE 12 Trend of Assets of BIMB (1994 - 1997)	82
TABLE 13 Annual Profit and Loss Accounts (1994 - 1997)	85
TABLE 14 Financial Highlights of BIMB (1997 and 1998)	89

LIST OF CHARTS

CHART 1	Major Trend of Liabilities of BIMB (1984 - 1988)	57
CHART 2	BIMB Customers Deposits (1983 - 1988)	59
CHART 3	Composition of BIMB Deposits (1983 - 1988)	61
CHART 4	Trend of Assets of BIMB (1984 - 1988)	62
CHART 5	Trend of Profits and Loss Accounts (1984 -1988)	64
CHART 6	Major Trend of Liabilities of BIMB (1989 - 1993)	67
CHART 7	Trend of Customers Deposits (1989 - 1993)	69
CHART 8	Trend of Assets of BIMB (1989 - 1993)	71
CHART 9	Trend of Profit and Accounts (1989 -1993)	75
CHART 10	Major Trend of Liabilities of BIMB (1994 - 1997)	78
CHART 11	Composition of Customers Deposits (1994 - 1997)	80
CHART 12	Trend of Assets of BIMB (1994 - 1997)	83
CHART 13	Profit and Loss Accounts of BIMB (1994 -1997)	86
CHART 14	Financial Highlights of BIMB (1997 and 1998)	89
CHART 15	Distribution of Financing According Economic Sectors	91

CHAPTER 1

BACKGROUND AND CONTEXT OF PROBLEM

1.1 INTRODUCTION

When modern banking system was first introduced in Muslim countries in the late 19th century by the imperial powers, its function was mainly to cater to import-export requirements of the foreign business. Not many of local Muslim communities were involved in banking activities. The banks were generally confined to the capital cities and the local population largely remained untouched by the banking system.

However, with the passage of time, and the expansion of economic and financial activities, it was impossible to avoid one's business relations with the banks. This led to the establishment of many local banks to cater to the needs of ever expanding and complex business activities. Governments, businesses and individuals began to transact business with the banks, with or without liking it. Muslim community has realised that the banking system that has been introduced was interest-based which is

The contents of
the thesis is for
internal user
only

BIBLIOGRAPHY

Abdul Halim Ismail, (1990), Bank Islam Malaysia Berhad: Principles and Operations, the paper presented at the Seminar on Financial Institutions in Accordance with Shariah, Jakarta.

Ahmad, Ziauddin, (1987), Islamic Banking at the Crossroad, the paper presented at the International Seminar on Islamic Economics held in Kuala Lumpur.

Ahmed, Ziauddin,(1994), Islamic Banking: State of Art, Jeddah, Islamic Development Bank.

Ali, Abdullah Y., (1989), The Holy Quran: Text, Translation and Commentary, Maryland: Amana Corporation.

Ali, Muazzam, (1988), 'A Framework of Islamic Banking' in John R. Presley, Directory of Islamic Financial Institution, London: Croom Helm.

Annual Report of Bank Islam Malaysia Berhad (1984), Kuala Lumpur.

Annual Report of Bank Islam Malaysia Berhad (1985), Kuala Lumpur

Annual Report of Bank Islam Malaysia Berhad (1986), Kuala Lumpur

Annual Report of Bank Islam Malaysia Berhad (1987), Kuala Lumpur

Annual Report of Bank Islam Malaysia Berhad (1988), Kuala Lumpur

Annual Report of Bank Islam Malaysia Berhad (1989), Kuala Lumpur

Annual Report of Bank Islam Malaysia Berhad (1990), Kuala Lumpur.

Annual Report of Bank Islam Malaysia Berhad (1991), Kuala Lumpur.

Annual Report of Bank Islam Malaysia Berhad (1992), Kuala Lumpur.

Annual Report of Bank Islam Malaysia Berhad (1993), Kuala Lumpur.

Annual Report of Bank Islam Malaysia Berhad (1994), Kuala Lumpur.

Annual Report of Bank Islam Malaysia Berhad (1995), Kuala Lumpur.

Annual Report of Bank Islam Malaysia Berhad (1996), Kuala Lumpur.

Annual Report of Bank Islam Malaysia Berhad (1997), Kuala Lumpur.

Annual Report of Bank Islam Malaysia Berhad (1998), Kuala Lumpur.

Ariff, Mohamed,(1988), Islamic Banking, **Asian-Pacific Economic Literature**, Vol.2,No.2, pp.48-64.

Ariff, Mohamed,(1989), **Islamic Banking in Malaysia: Framework, Performance, and Lessons.**, **Journal of Islamic Economics**, International Islamic University Malaysia, Vol.2, No.2,

Government of Malaysia, (1983), **Islamic Banking Act 1983**, Kuala Lumpur.

Homoud, Sami Hassan, (1985), **Islamic Banking**, London: Arabian Information Ltd.

Khan, Mohsin S., and Abbas Mirakhor (ed.), (1987), **Theoretical Studies in Islamic Banking and Finance**, Huston: Institute for Research and Islamic Studies.

Mannan, Muhammad A.(1986) , **Islamic Economics: Theory and Practice**, Cambridge: Hodder and Stoughton.

M. Umar Chapra, (1988) **Towards An Islamic Financial System**, **Journal of Islamic Economics**, International Islamic University Malaysia, Vol. 1, No. 2.

Pang, Johnson; Savarimuthu, G. Nathaniel, (1985), **Banking in Malaysia**, Longman Malaysia Sdn. Bhd.

Siddiqi, Muhammad Iqbal, (1986), **Model of an Islamic Bank**, Lahore: Kazi Publication.

Siddique, Muhammad,(1985), **Islamic Banking System: Principles and Practices**, Islamabad: Research Associates.

Sudin Harun, (1996), **Prinsip dan Operasi Perbankan Islam,** Berita Publishing Sdn.Bhd., Kuala Lumpur.

Uzair, Muhammad, (1980), **Some Conceptual and Practical Aspects of Interest-Free Banking: Studies in Islamic Economics,** Leicester: The Islamic Foundation.