

RM16 million and considered as a bad year compared to the profit of RM26 million in 1993. Clearly, the bank's profit showed a wave motion and the wave length was within one year. There was no evidence to show that the profit had a steady growth trend which could be related to the result of long term financing (equity financing). The dramatic changes in profits may indicate that its resources were allocated in short term financing, mostly debt financing. This conclusion was also well supported in the analysing of financing modes where the short term debt financing such as Al Bai Bithaman Ajil and Al-Murabahah occupied 90% of the total financing.

7. Overall Performance Evaluation

Overall, the performance of Bank Islam has showed some improvements. Table 8 shows a number of parameters that will provide the basis for measuring Bank Islam's overall performance.

Table 8 Overall 5 Years' Performance Evaluation

Performance Ratios	1992	1993	1994	1995	1996	Average
(1). Return to Assets	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
(2). Annual Turnover of Assets	3.0%	4.0%	3.0%	3.0%	3.0%	3.0%
(3). Profit Margin	29%	38%	34%	38%	31%	34%
(4). Return to Shareholders Fund	8.6%	13.70%	15.0%	18%	15%	14%
(5). Return to Deposits	1.20%	1.70%	1.30%	1.50%	2.0%	1.54%
(6). Return to Financing	1.60%	2.70%	3.10%	3.00%	1.90%	2.46%

Sources: *BIMB Annual Reports 1992-1996*

In order to make our research meaningful and comparative, we should select a typical commercial bank and evaluate its performances with the same measurement scales in comparison with Bank Islam Malaysia, I have selected Bank Bumiputra Malaysia Berhad (BBMB) for such purposes. The reason I chose BBMB was that BBMB has much more similarities than differences in comparison with BIMB.

**Table 9 Overall 5 Years' Performance Evaluation
(BBMB, a typical commercial bank)**

Performance Ratios	1992	1993	1994	1995	1996	Average
(1).Return to Assets	0.10%	0.20%	0.90%	0.80%	1.0%	0.60%
(2).Annual Turnover of Assets	2.40%	7.40%	6.0%	5.50%	6.30%	5.50%
(3).Profit Margin	6.20%	2.70%	15.4%	15%	16%	11.1%
(4).Return to Shareholders' Funds	2.5%	4.0%	19.0%	12%	15%	10.5%
(5).Return to Deposits	0.20%	0.30%	1.80%	1.30%	1.60%	1.04%
(6).Return to Financing	0.90%	1.30%	6.90%	4.30%	6.10%	3.90%
(7).Investment to deposits ratio	25%	24.6%	26%	31%	26%	26.5%
(8).Loan to deposits ratio	120%	108%	83%	90%	96%	99.4%

Sources: BBMB Annual Report 1992-1996

7.1 Return to Assets

The bank could only make RM1.00 of profits on average by utilising RM100 of assets within a period of one year. This ratio could be considered as very low as compared to the banking industry average which has average ratio of 1.7:100 (Bank Negara Annual Report 1994-96). However, it is higher than BBMB which has a ratio of 0.60% on pre-tax profit to average asset. This low

return on assets might be associated with the organisation's long-term strategies, such as increasing tangible assets or associated with inefficiency in management.

7.2 Annual Turnover of Assets

On average, if Bank Islam wants to generate RM3.00 revenue per year, it will have to utilise RM100 of assets. This ratio is lower than BBMB which has a turnover ratio of 5.5%. Both pre-tax profit to asset and turnover ratio are tests of management efficiency and competence. As above table shows that BIMB has low turnover ratio, hence it has some problems of inefficiency and incompetence in its management.

7.3 Profit Margin

On average, by generating RM100 of revenue, Bank Islam enjoys RM34 of profits (before Zakat and Taxation) per year. This ratio is three times higher than BBMB which has a ratio of 11.1:100. In this respect, Bank Islam performed well, as a result, its shares became hot on Kuala Lumpur Stock Exchange in the beginning of 1990's. It is very normal for a new bank like BIMB to perform better than BBMB which has a longer operation life and experience in this field. Otherwise, Bank Islam would not attract investors.

7.4 Return to Shareholders' Funds

On average, every RM100 the shareholders injected into the bank, they would generate RM14 of profits (before Zakat and Taxation) per year. This return is also considered as very low in comparison with the Islamic banking industry average which has a ratio of 22.6:10, and almost doubled to Bank Islam's ratio (Bank Negara Annual Report 1994-96). However, in comparison with BBMB which has a ratio of 10.5:100, Bank Islam performed better than BBMB in this respect.

7.5 Return to Deposits

On average, every RM100 of funds deposited by a customer would generate RM1.5 of profits (before Zakat and Taxation) every year. This return to deposits is slightly better than BBMB which has a ratio of only 1.04:100. Hence, Bank Islam is more attractive than BBMB.

7.6 Return to Financing

On average, if Bank Islam took out RM100 of funds from the customers' deposits to finance project/business, it would only generate RM2.5 of profits (before Zakat and Taxation) per year. This could be considered as very low as compared to BBMB which has a ratio of 3.90:100. BBMB can generate RM3.90 of profits per

hundred ringgit of financing. Hence, Bank Islam performed poorly in this respect.

7.7 Overall evaluation and conclusion

Over the period of 5 years, BIMB has improved although profit to asset utilisation, shareholders funds, customers' deposits and financing to project/business are not significant enough in comparison with a typical commercial bank and banking industry average as we have examined above.

The trend in the growth of its profits further led to support the conclusion that its management was incompetent. As a result, its assets were utilised inefficiently. In the past 10 years, BIMB allocated most its resources in shorter term financing which was in the form of debt financing, hence, its performance ratios changed "dramatically" within a period of one year. We suggest the bank should go for long term equity financing, rather than allocate its resources on debt financing.

On the average, Bank Islam performed better than BBMB, worse than its industry. Hence, we can conclude that BIMB is good but a lot more can be done.