

ACKNOWLEDGEMENT

I would like to thank my supervisor, Prof Madya Dr. Tan Eu Chye for his patience, guidance and encouragement throughout the process of completing this research paper. Although he has a busy schedule, he makes time for appointments to see him and goes through thoroughly whatever material I have submitted. For this, I am very grateful.

I would also like to thank my mum, brother and fiancée for their support and for putting up with a lot of inconveniences throughout this whole period.

Also, not forgetting my colleagues and course mates who have given me countless advice, help and encouragement. It has been great working with you all!

Finally, I thank God for making all things possible.

Perpustakaan Universiti Malaya



A510947872

TABLE OF CONTENTS

ACKNOWLEDGEMENT	i
TABLE OF CONTENTS	ii
ABSTRACT	v
<i>CHAPTER 1 INTRODUCTION</i>	
1.1 Overview	1
1.2 Problem Statement	2
1.3 Theory of Banking	4
1.3.1 Conventional Banking: Principles and Operations	4
1.3.2 Islamic Banking: Principles and Operations	5
1.4 Historical Perspective of the Development of Islamic Banks	9
1.5 Banking and Economic Conditions in Malaysia from 1989-1999	11
<i>CHAPTER 2 LITERATURE REVIEW</i>	
2.1 Performance Evaluation of Islamic Banks in Other Countries	15
2.1.1 Middle East	15
2.1.2 Egypt	15
2.1.3 Jordan	17
2.1.4 Kuwait	18
2.1.5 Sudan	20
2.2 Performance Evaluation of the Islamic Bank in Malaysia : Bank Islam Malaysia Berhad	21

CHAPTER 3 *METHODOLOGY*

3.1	Data and Sample Selection	29
3.2	Method of Analysis	30
3.2.1	Growth of Assets and Deposits	30
3.2.2	Profitability	31
3.2.3	Solvency	31
3.2.4	Liquidity	33
3.2.5	Credit Risk	35
3.2.6	Earnings Risk	37
3.2.7	Sectoral Contribution to the Economy	39

CHAPTER 4 *ANALYSIS OF RESULTS*

4.1	Comparative analysis of BIMB's performance with seven conventional banks for the period 1989-1999	40
4.1.1	Assets and Deposits	41
4.1.2	Profitability	44
4.1.3	Solvency	46
4.1.4	Liquidity	48
4.1.5	Credit Risk	50
4.1.6	Earnings Risk	50
4.1.7	Sectoral Contribution to the Economy	51
4.2	Comparative analysis of BIMB's performance with fifteen conventional banks during the period of the financial crisis 1997-1999	54

4.2.1	Assets and Deposits	55
4.2.2	Profitability	58
4.2.3	Solvency	60
4.2.4	Liquidity	62
4.2.5	Credit Risk	64
4.2.6	Earnings Risk	67
4.2.7	Sectoral Contribution to the Economy	68

CHAPTER 5 **CONCLUSION**

5.1	Summary and Conclusion	73
5.2	Recommendations	75

BIBLIOGRAPHY	77
---------------------	-----------

APPENDICES

Appendix 1 Data for eight banks for the period 1989-99

Appendix 2 Data for eight banks for the period 1997-99

ABSTRACT

This is an empirical study which compares the performance of Bank Islam Malaysia Berhad (BIMB) with seven commercial banks for the period 1989-1999 in terms of growth, profitability, liquidity, solvency, credit risk, earnings risk and sectoral contribution to the economy. BIMB's performance during the period of the financial crisis 1997-1999 is also compared with fifteen commercial banks. Ratio analysis is used in these comparisons. This report is divided into five chapters. Chapter 1 discusses the fundamental principles and mode of operations of both conventional and Islamic banks. Chapter 2 reviews the literature pertaining to the performance of Islamic banks in other countries as well as Malaysia. Chapter 3 discusses the methodology of ratio analysis. Chapter 4 deals with the results of the analysis. Finally, Chapter 5 presents a summary and conclusion reached in this analysis with recommendations.