

**“Performance of Islamic Banking Scheme
at Foreign Banks:
A Malaysian Case Study”**

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Table of Contents

Abstract	i
List of tables/figures	ii
List of abbreviation	iii
Acknowledgements.....	iv
Glossary	v
1. Introduction	
1.1 Overview	1
1.2 About this study	3
1.3 Objective of the study	3
1.4 Literature review	3
1.5 Methodology	5
2. Overview of Islamic Banking in Malaysia	
2.1 Introduction	7
2.2 Expansion of Islamic banking	9
2.3 Introduction of new policies by BNM	10
2.4 Islamic banking during Asian Crisis 1997-98	13
2.5 Conclusion	15
3. Overview of the Foreign Banks and their IBS Operations	
3.1 Introduction.....	16
3.2 Foreign banks in Malaysia.....	17
3.3 Background of each bank.....	18
3.3.1 HSBC.....	18
3.3.2 OCBC.....	20
3.3.3 SCBMB.....	22
3.4 Participation in Islamic banking.....	25
3.4.1 Motive	25
3.4.2 Products	27
3.4.2.1 Deposits	28
3.4.2.2 Financing	28
3.4.3 Customer's base	30
3.4.4 Parent's bank involvement in Islamic banking	32
3.5 Conclusion	33
4. Financial Performance of IBS during 1996-2000	
4.1 Introduction	35
4.2 Trend analysis	36
4.2.1 Deposits growth in Islamic banking.....	36
4.2.2 Deposits growth at foreign banks	40
4.2.3 Financing growth of Islamic banking.....	47
4.2.4 Direction of Financing at foreign banks.....	49
4.3 Ratio analysis	54
4.3.1 Return on assets.....	55
4.4 Conclusion	57
5. Concluding Remarks	58
Bibliography	
Appendix	

Abstract

Using trend and ratio analysis, this study analyses the performance of Islamic banking operations at three foreign banks in Malaysia i.e. HSBC, OCBC and SCBMB. Using the data from 1996-2000, it is possible to track progress and evaluate performances of the Islamic Banking Scheme (IBS) versus its conventional counterpart at these banks. It is also possible to examine the impacts of the Asian Crisis in 1997-98 to the Islamic banking operations, especially at the foreign banks.

This study concludes that, during 1996-2000, Islamic banking operations at foreign banks have been performing considerably well, during and post the crisis. On average, the deposits of the three banks' IBS grew more than 90% annually, although majority of deposits are of short term (one year or lower maturity period). Likewise, financing growth was equally impressive, growing more than 100% on the average. However, the majority of advances and loans made were on the broad property sector, especially products based on Bai' Bithaman Ajil (BBA) and Murabahah. This may put the banks at risk, should this trend continues since their liabilities were mostly of short term, while their assets were mostly long term (more than five years maturity period).

On the other hand, return on Assets (ROA) of the foreign banks' IBS was also considerably higher than that of their conventional counterparts. It shows that the Islamic banking operations have been more profitable than the conventional ones. On average, ROA of the IBS was more than 1.58%, while the conventional banking at large was only 0.80% during 1996-2000.

Finally, it should be noted that the role of Bank Negara Malaysia (BNM) in paving the way for these foreign banks to embrace Islamic banking was commendable. BNM's policies have been instrumental ever since these foreign banks started their Islamic banking operations in the middle of 1990s.

List of Tables & Graphs

		Page
Table 1	List of products offered by foreign banks	28
Table 2	Deposit growth in percentage	37
Table 3	Deposit mobilisation by Islamic banking	39
Table 4	Deposit growth of Islamic banking at foreign banks	41
Table 5	SPI deposits at foreign banks	42
Table 6	Type of deposits	44
Table 7	Maturity structure of investment deposits	45
Table 8	Deposits by type of customers	46
Table 9	Islamic Financing growth	47
Table 10	Financing extended by Islamic banking	48
Table 11	Direction of financing by Islamic banking	49
Table 12	Direction of financing by foreign banks	51
Table 13	Percentage of financing by concepts	53
Table 14	Maturity structure of financing	54
Table 15	Return on Assets	56
Graph 1	Islamic financing by concepts as at December 2001	30

List of Abbreviation

BBA	Bai' Bithaman Ajil
BIMB	Bank Islam Malaysia Berhad
BNM	Bank Negara Malaysia
HSBC	Hongkong-Shanghai Banking Corporation
IBS	Islamic Banking Scheme
IFBS	Interest-Free Banking Scheme
OCBC	Oversea-Chinese Banking Corporation
ROA	Return on Assets
SCBMB	Standard Chartered Bank Malaysia Berhad
SPI	Skim Perbankan Islam
SPTF	Skim Perbankan Tanpa Faedah

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Glossary¹

Bai' Al-Dayn	It is a debt financing concept, for instance in the provision of financial resources required for production, commerce and services by way of sale/purchase of trade documents and papers.
Bai' Bithaman Ajil	The sale of goods on a deferred payments basis. In the case of loans, the borrower asked the bank to buy a product of finance a project for him. The bank will then acquire the said product and it may sell the product at a marked-up price to the customer.
Al-Ijarah (leasing)	An arrangement under which the lessor leases equipment, building or other facilities to a client at an agreed rental
Al-Ijarah thumma Al-Bai'	Or, hiring followed by sale and purchase. It refers to two contracts undertaken separately and consequentially: Al-Ijarah/hiring or renting and Al-Bai'/Sale & purchase.
Al-Mudharabah	It refers to an agreement made between a party, who provides the capital, and another party (entrepreneur), to enable the latter to carry out business projects. The profit from this venture will be shared between the parties on a basis of pre-determined/agreed ratio (profit sharing basis). In the event of losses, the losses are borne by the provider of the funds.
Al-Murabahah	It refers to the sale of goods at a price that includes a profit margin agreed to by both parties. This price, profit margin and any other costs must be stated clearly at the time of sale agreement made. It is also called cost-plus financing.
Al-Qardhul Hasan	It refers to an interest-free loan given mainly for welfare purposes. The borrower is only required to repay the principal amount borrowed, but he may pay an extra amount as a gift (al-hibah) at his absolute discretion.
Al-Wadiah yad Dhamanah	It refers to deposits that have been deposited with another person for safekeeping. The depository must guarantee repayment of the whole amounts of deposits, or any part thereof, when demanded. The depositors, however, are not entitled to any share of the profits but the depository may provide returns as a gift.

¹ Adapted from *Money and Banking in Malaysia*, BNM 1994.