

THE PERFORMANCE OF BANK ISLAM MALAYSIA
BERHAD IN HISTORICAL PERSPECTIVE

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1999



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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.

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

considered as *riba*. This is prohibited in Islam as clearly stated in the holy Quran :

"O you who believe, give up what remains of your demand for usury if you are indeed believers. If you do it not, take notice of a war from God and His Messenger"

Quran : Surah Al-Baqarah: Verses 278 - 279.

However, while denouncing *riba* or usury, al-Quran legitimises trade. This is stated in another verse as :

"... they say 'Trade is like usury', but God hath permitted trade and forbidden usury."

Quran : Surah Al-Baqarah : Verses 274 -275

This state of affairs has drawn attention and concern of Muslim intellectuals to study ways and alternatives to substitute the interest-based banking system. Islamic banking system was then introduced in various parts of Islamic world with the various versions. Although the

operations of the various Islamic banks would differ, the basic concepts and ideas would be common i.e. to provide banking operations that are in accordance with Islamic laws. In short, one important attribute of Islamic bank is that it must be free of interest.

1.2 BIMB : AN ISLAMIC BANK

The establishment of Bank Islam Malaysia Berhad (BIMB) in 1983 was a starting point to a new dimension of financial system in Malaysia. Its long awaited existence was a great booster to the great majority of Muslim community in the country. Its free-interest concept has served as an alternative to the existing interest-based financial institutions. Ever since, the BIMB has been developing and expanding its business throughout the country.

The rapid economic growth in the country in the late 80's and early 90's resulted in a great deal of achievement in the banking sector of Malaysian economy. This is the period when the BIMB has experienced its significant growth and development. At the end of 1997, the economic