A Descriptive Study on Bank Performance in Malaysia: Domestic vs. Foreign Islamic Banks

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Abstract
Malaysia's determination to become a hub for Islamic banking in Southeast Asia has led the Central Bank of Malaysia to grant licenses to foreign Islamic banks to operate in the country. Due to the intense competition among Islamic banks, the introduction of more innovative products is projected to tap investment opportunities not only for Malaysia but also for the rapidly growing Southeast Asian region. This paper assesses the performance of Malaysian Islamic banking industry since the introduction of the first Islamic bank two decades ago by using financial ratios. The ratios are divided into four categories; profitability, liquidity, risk and solvency, and commitment to economy and Muslim community. All 16 Islamic banks as listed by Bank Negara Malaysia were selected in the sample and to get the maximum number of observations, the period of 2005 to 2012 is selected. The chosen financial ratios indicated that domestic Islamic banks performed better during the 2005 to 2012 period in terms of profitability, but the foreign Islamic banks excelled in terms of liquidity, risk, and solvency ratios.
Keywords: Islamic Bank, Banking, Finance, Performance, Malaysia

Introduction
In recent years, Malaysia has invested effort into developing its Islamic finance sector with its banks, financial institutions, Islamic capital markets, Islamic financial and liquidity market, Islamic finance related standards settings, and Islamic finance related educational and training institutions, resulting in its share of total financing in the country to increase to 25%. With such developments, the political economy of Malaysia remains a dual banking and financial system having Islamic and conventional sectors operating concurrently. Within the regulatory arrangements, the Islamic banks primarily offer Islamic banking products only,

while conventional banks are permitted to offer Islamic banking products alongside conventional products through their Islamic windows (Sufian, 2006).

Since the introduction of the first bank in 1983, Islamic banking in Malaysia has been well accepted where as evidenced by the sector's growth performance. The performance as well as its role as an alternative banking for the customers, have indeed been the hallmark for Islamic banking in other Muslim countries.

Previous studies mostly focus on the comparison between the conventional and Islamic banks, but seldom discusses on the comparative performances between domestic banks and its foreign counterparts within the same country. Therefore, an improved understanding is required in filling the gap and to identify the impact of foreign institutions to the domestic markets. This paper focuses on the impact made by foreign Islamic banks in Malaysia, namely Kuwait Finance House, Al Rajhi Bank, and Asian Finance Bank towards the Malaysian Islamic banking industry. In 2005, BNM has awarded licenses to these international Islamic banks to operate in Malaysia to encourage the competitiveness of the Islamic banking players. In addition, this study takes into consideration the existing foreign banks in the country who operate via Islamic banking subsidiaries. This paper measures performance of the Islamic banks in Malaysia by using financial ratios.

More licenses were awarded by BNM in 2008 to Alkhair International Islamic Bank (formerly known as Unicorn International Islamic Bank), PT. Bank Muamalat Indonesia, Deutsche Bank AG International Islamic Bank alongside with Bank of Tokyo-Mitsubishi UFJ Malaysia and CITI Malaysia (via windows), which allow the banks to offer Islamic commercial and investment banking services denominated in foreign currencies (Malaysia International Islamic Financial Centre (MIFC) Official Website) . In 2010, BNM further awarded five new licenses to foreign banks that is BNP Paribas SA, PT Bank Mandiri, National Bank of Abu Dhabi, Mizuho Bank, and the Sumitomo-Mitsui Banking Corporation (Samat, 2010). However, the latest international Islamic banks in the country mentioned above will not be included in the research because this research focuses on Islamic banks with transactions denominated in the local currency, *i.e.* Malaysian Ringgit only.

This latest development may enhance Malaysia's position as a centre of Islamic banking in Southeast Asia. With the increasing number of players in the market, especially with the presence of foreign Islamic banks, it is forecasted that the Malaysian Islamic banking industry may grow to catch up with conventional banking.

The Islamic banking system continued to show steady growth performance in 2009, with higher profitability and positive trends in all indicators. The profit before tax for the Islamic banking system amounted to RM2.6 billion posting a growth of 46%. At the end of 2009, Islamic banking activity experienced rapid growth with 19.6% of the total banking assets compared to 17.4% in 2008 (Bank Negara Malaysia, 2010). Figure 1 indicates the size and growth of assets, deposits, and financing of Islamic banking in Malaysia between 2006 and 2014. With regards to total assets, deposits mobilised and financing the Islamic banking system, it has registered stable growth since 2006. The Islamic banking system accounted for RM303.3 billion, 19.6% of the total assets of the entire banking system at the end of 2009 and increased to RM625.2 billion (25.6% of total banking assets) in 2014 (Bank Negara Malaysia, 2015).

Figure 1: Growth of Islamic Banking System
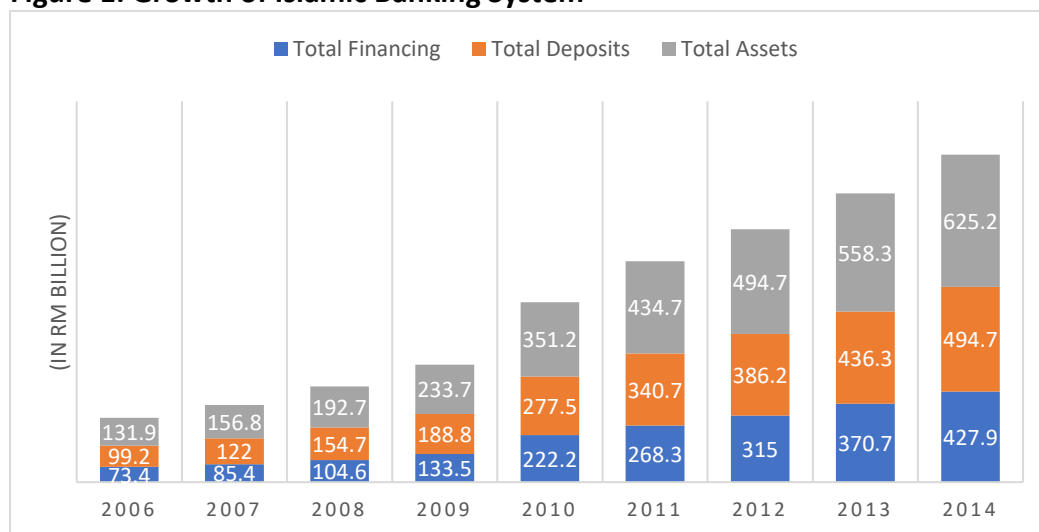
Source: Financial Stability and Payment Systems Report 2014, Bank Negara Malaysia (2015)

As shown in Figure 1, there is active growth of both the deposits and financing activities in the Islamic banking system from the year 2006 to 2014. In respect to the financing activities, it accounted for RM73.4 billion in 2006 as compared to RM427.9 billion in 2014 with an average annual growth of 25.5%. Meanwhile, the banking deposits was RM99.2 billion in 2006 (RM154.7 billion in 2008) recording a robust average annual growth of 22.7% until 2009. As of 2014, the Islamic banking total financing, deposits and assets stands at RM427.9 billion, RM494.7 billion, and RM625.2 billion respectively. With the increased number of players in the Islamic banking sector, it will undoubtedly encourage further growth in the future.

Literature Review

The most common methods of measuring profitability are by using various financial ratios. Haslem (1969) assessed the profitability of commercial banks in United States for 1963 and 1964 using a cross-sectional aggregation of 64 banks' operating ratios. The Wherry-Doolittle approach was used to identify the influential variables between the operating ratios and later used to develop linear regression. From the Wherry-Doolittle analysis, the author found that a maximum of 12 operating variables can be included in any estimating equations. The result shows that in 1963, the coefficients of multiple determination (RP[2]P) range from 0.51, which uses top three operating variables to 0.77 using 12 operating variables. Meanwhile, in 1964, the study indicated a slight increase in R^2 with the value ranging from 0.62, which derived from three operating variables to 0.77, which employs 12 operating variables. The figures show the reliability of the selection of operating variables included in the equations to evaluate profitability.

Sabi (1996) also used ratios to analyse the performance of foreign and domestic banks in Hungary for the 1992 to 1993 period. The author tested nine variables, categorised into profitability measures, liquidity and credit risk, and commitment to the domestic economy. The findings from the paper in terms of profitability (ROA, ROE, OPR and NIM ratios) showed that the foreign banks are more profitable compared to the domestic banks. The results also revealed that the foreign banks are less exposed to liquid and credit risks and take a cautious approach to long-term loans to customers.

As one of the first papers on performance measurement for Islamic banks, Samad and Hassan (1999) adapted the method used by Sabi in their paper comparing the performance of Bank Islam Malaysia Berhad (BIMB) with eight conventional banks from 1984 to 1997. They implemented 13 ratios that are similar to Sabi's approach but more suitable for Islamic banks with no interest-related ratios included. The result suggested that BIMB was more liquid and less risky compared to the conventional banks. Another interesting result of the research indicates that the reason for little activity in profit sharing and joint venture profit sharing in Malaysia during that period resulted from the lack of product knowledge by bankers, particularly in choosing, evaluating, and managing such projects.

As for Demirguc-Kunt and Huizinga (2001), they assessed the impact of financial structure on bank profitability for most developed and developing countries during the 1990 to 1997 period by calculating ratios. They characterised bank performance into two bank profitability and bank interest margin. The outcome of the research shows that banks from underdeveloped financial systems have higher profit margins compared to the more developed systems. They suggest that banks in developed financial systems are exposed to tougher competition with higher efficiency and are hence lower in terms of profits.

In another study, Bashir (2001) discovered the determinants of performance of Islamic banks in Middle Eastern countries from 1993 to 1998 by using various financial ratios and macroeconomic indicators. The result shows that foreign banks are more profitable than the local banks with elements such as stable macroeconomic environment, financial market structure, taxation, and a larger loan to asset ratio resulting in higher profitability.

In their study, Micco et al. (2004) recorded 50,000 observations for 119 countries over the 1995 to 2002 period. The authors applied the correlation and regression based on various financial ratios to establish a connection between bank ownership and performance. Among the ratios the authors employed to measure profitability were Return on Assets (ROA) and Return on Equity (ROE). The results conclude that there is no correlation between bank ownership and performance in industrial countries but shows a strong relationship between the developing countries. Furthermore, the state-owned banks in developing countries have tendencies to have lower profit and higher overhead costs and non-performing loans compared to the private and foreign-owned banks.

Flamini et al. (2009) analysed the profitability of 389 banks in 41 Sub-Saharan Africa (SSA) countries from the 1998 to 2006 by using the ROA linear model. They found that a higher ROA for banks resulted from better credit risk, bigger size banks, product diversification, and private ownership. Macroeconomic variables were found to also influence the banks' earnings with policies that encourage minimal inflation, while steady growth will enhance credit progression. The outcome of the paper suggests that to bolster financial stability, banks in the region need higher capital requirements.

As for Ongore and Kusa (2013), they studied the effect of bank ownership structure on bank performance in Kenya. The authors utilised financial ratios such as ROE, ROA, and NIM as their dependent variables. For independent variables, they used capital adequacy, asset quality, management efficiency, and liquidity as bank-specific factors. For external factors, they employed GDP and inflation rate, while ownership status was the moderating variable. The findings showed that the internal factors significantly related to the performance of commercial banks in Kenya from 2001 to 2010 except for liquidity. Meanwhile, the external factors and ownership status seemed to be insignificant towards the profitability of the sampled banks.

Islam et al. (2014) examined the profitability of 15 second generation Islamic and conventional banks in Bangladesh between 2009 and 2011. Like previous studies, the authors employed ROA and ROE in measuring profitability. The results showed that the conventional banks performed better than the Islamic banks in the country to conclude that the adoption of business policies and modes of operation of the banks are among the external factors that may affect profitability.

Zeb (2015) compared the performance of Islamic banks in Pakistan against the conventional banks between 2007 and 2010. The author used ROA, ROE, LR, LDR, D/E, Asset Utilisation (AU), and Income to Expense ratio (IER) in evaluating the performance of the selected banks. Additionally, the author employed primary data collection via distribution of questionnaires. It was found that the conventional banks suffered a slump in profitability during the Global Financial Crisis period due to costly mobilisation of deposits while the Islamic banks were not affected as much as conventional banks because of its investment towards real assets instead of financial assets, which limited their exposure.

Empirical Process
For this paper, financial data of the Islamic banks spanning from 2005 until 2012 are collected from the respective banks annual report, BNM report, and data from Bankscope of which the bank's performance is evaluated based on the selected ratios. The comparison between all Malaysian Islamic banks is conducted using Sabi's bank performance indicators (Sabi, 1996). According to Samad and Hassan (1999) who have used Sabi's method, the performance of banks is best to be measured by comparing every bank with each other. Financial ratios to be used in the study to assess the performance of the sampled banks can be grouped into profitability ratios, liquidity ratios, risk and solvency ratios, and commitment to the economy and Muslim community. The details of each ratios are as follows:

(i)   Profitability ratios
The profitability of the banks is estimated based on the following computation:
Return on Asset (ROA) *= Profit after tax / total asset*
ROA indicates how the bank converts its asset into earnings where a higher ratio is an indicator of better performance.
Return on Equity (ROE) *= Profit after tax / equity capital*
ROE is the net earnings per dollar equity capital, where a higher ratio is an indicator of higher managerial performance.
Profit Expense Ratio (PER) *= Profit after tax / total expense.*
A higher PER ratio signifies that a bank is cost efficient and makes a higher profit with the given expense.

Liquidity Ratios
The liquidity of the banks is computed based on the following:
- ***Cash Deposit Ratio (CDR)*** *= Cash / deposit*
Cash is the most liquid asset for banks. Hence, a comparison between banks having higher and lower CDR indicates the liquidity of the banks among each other. A higher CDR will enable banks to build trust among its depositors.
- ***Loan Deposit Ratio (LDR)*** *= Loan / deposit*
A bank will be in financial stress if excessive loans are made which consequently leads to a high LDR. Therefore, a lower LDR is preferable compared to a higher LDR.
- ***Current Ratio (CR)*** *= Current assets / current liability*
CR signifies how the bank's ability to pay back its short-term liabilities with its short-term assets. A higher ratio indicates that the bank has a more liquid asset to pay back its obligations.
- ***Current Asset Ratio (CAR)*** *= Current assets / total assets*
A higher CAR shows that the bank has more liquid assets. A lower rate is a sign of illiquidity as more of the assets are long-term in nature.

(ii)   Risk and Solvency Ratios
Risk and solvency of the sampled Islamic banks is computed by the following ratios or variables:
- ***Debt Equity Ratio (D/E)*** *= Debt / equity capital*
D/E suggests the proportion of equity and debt of the bank that is used to finance its assets. A lower D/E is a good indication of bank performance.
- ***Debt-to-total-assets Ratio (DTAR)*** *= Debt / total asset*
The ratio denotes the bank's financial strength in paying its debtors. A high DTAR is a sign showing that the bank is involved in risky business.
- ***Equity multiplier (EM)*** *= Total assets / share capital*
EM implies the amount of assets per dollar of equity capital. A high EM value provides a greater risk to the bank as it shows that the bank has an additional fund in converting the assets using the share capital.
- ***Loan to deposit ratio (LDR)*** *= Total loans (financings) / total deposits*
LDR measures the bank's liquidity and credit risk. A high value indicates a potential source of illiquidity and insolvency.

(iii)   Commitment to Community and Islamic Community
The following variables or ratios are used to compute the selected banks' performance in relation to their commitment for community and Islamic community.
- ***Long-term Loan ratio (LTA)*** *= Long-term financings / total financings*
The LTA explains the bank's commitment to supporting its long-term development project.
- ***Government Bond Investment (GBD)*** *= Deposit invested in government bond / total deposits.*
The computation of the ratio provides details of the bank's liquidity and risk.
- ***Mudarabah-Musharakah ratio (MM/L)*** *= (Mudarabah + Musharakah) / Total loans*
The ratio signifies the commitment of the bank towards the community development where a higher percentage is preferable.

Empirical Results

This section compares the performance by banking sector, grouped between domestic and Islamic banks in the country from 2008 to 2012. The results are presented by year including the average. The results are compared between the domestic Islamic banks, foreign Islamic banks, and overall scores of the industry.

For comparison, all the selected 16 Islamic banks as per previous sections have been chosen to form a comprehensive picture of the industry. It comprises 10 domestic Islamic banks and six foreign Islamic banks. With the aim of getting the highest number of observations, the researcher selected data from 2008 onwards since all the banks were established that year or earlier.

Table 1

Domestic vs. Foreign Islamic Banks Profitability Ratios

	2008	2009	2010	2011	2012	Mean	Standard Deviation
Profitability							
1. Return on Assets (ROA)							
Domestic	0.91%	0.79%	1.20%	0.81%	0.87%	**0.92%**	**0.003**
Foreign	-0.18%	0.30%	0.10%	-0.48%	0.52%	**0.05%**	**0.007**
Overall	**0.51%**	**0.60%**	**0.79%**	**0.33%**	**0.74%**	**0.59%**	**0.005**
2. Return on Equity (ROE)							
Domestic	11.84%	11.21%	16.25%	12.43%	13.36%	**13.02%**	**0.044**
Foreign	-2.32%	3.42%	2.57%	-1.12%	6.10%	**1.73%**	**0.065**
Overall	**6.53%**	**8.29%**	**11.12%**	**7.35%**	**10.64%**	**8.79%**	**0.052**
3. Profit Expense Ratio (PER)							
Domestic	0.78	0.75	1.12	0.93	0.86	**0.89**	**0.311**
Foreign	-0.02	0.14	0.03	-0.24	0.28	**0.04**	**0.388**
Overall	**0.48**	**0.52**	**0.71**	**0.49**	**0.64**	**0.57**	**0.340**

Based on Table 1, domestic Islamic banks displayed better performance as compared to the foreign counterparts with an average of 0.92% in ROA while 0.05% for foreign Islamic banks. Foreign Islamic banks suffered negative ROA in 2008 and 2011, unlike the domestic Islamic banks that maintained positive ROA throughout 2008 to 2012. The domestic Islamic banks showed an inconsistent pattern with 0.91% and 0.79% in 2008 and 2009 respectively before increasing to 1.20% in 2010. On the other hand, the foreign Islamic banks showed a progressing sign with -0.18% in 2008, 0.30% in 2009 and finally settled at 0.52% in 2012.

As for ROE, foreign Islamic banks have a similar negative average with -2.32% whereas the domestic Islamic banks have an average of 11.84% during 2008. Domestic Islamic banks hit the worst ROE in 2009 with 11.21% and performed the best in 2010 with 16.25%. Foreign Islamic banks suffered the poorest in 2008 but have a maximum in 2012 at 6.10% and have the highest profitability throughout the five-year period.

Based on PER, domestic Islamic banks are running at better efficiency levels and can generate higher profits than the foreign Islamic banks. Domestic Islamic banks managed to get the

highest PER in 2010 with 1.12 while the foreign Islamic banks achieved their best PER in 2012 with 0.28.

Overall, domestic Islamic banks show a better performance in profitability in ROA, ROE, and PER. Both types of banks need to do better in ROA with foreign Islamic banks showing a better improvement pattern.

Table 2
Domestic vs. Foreign Islamic Banks Liquidity Ratios

	2008	2009	2010	2011	2012	Mean	Standard Deviation
Liquidity							
4. Cash Deposit Ratio (CDR)							
Domestic	37.32%	34.06%	26.48%	30.56%	20.59%	**29.80%**	**0.096**
Foreign	59.06%	77.51%	50.46%	53.33%	31.12%	**54.30%**	**0.208**
Overall	**45.47%**	50.35%	35.47%	39.10%	**24.54%**	**29.80%**	0.096
5. Loan Deposit Ratio (LDR)							
Domestic	79.98%	76.06%	76.26%	72.44%	77.52%	**76.45%**	**0.110**
Foreign	72.86%	105.14%	104.73%	100.61%	96.87%	**96.04%**	**0.277**
Overall	**77.31%**	86.97%	86.94%	83.01%	**84.78%**	**83.80%**	0.173
6. Current Ratio (CR)							
Domestic	0.93	0.86	0.79	0.87	0.85	**0.86**	**0.108**
Foreign	0.93	1.08	1.09	0.96	0.94	**1.00**	**0.115**
Overall	**0.93**	**0.95**	**0.91**	**0.90**	**0.88**	**0.91**	**0.110**
7. Current Asset Ratio (CAR)							
Domestic	0.83	0.81	0.79	0.78	0.76	**0.79**	**0.059**
Foreign	0.85	0.91	0.91	0.82	0.79	**0.86**	**0.088**
Overall	**0.84**	**0.85**	**0.84**	**0.80**	**0.77**	**0.82**	**0.070**

In contrast to profitability, foreign Islamic banks are in better position in terms of liquidity than the domestic Islamic banks. Based on Table 2, foreign Islamic banks are almost twice better in CDR than the domestic Islamic banks with an average of 54.30% and 29.80% respectively. The local banks show a diminishing trend over the five-year period. The highest CDR was in 2008 at 37.32%, and the lowest was in 2012 at 20.59%. Like domestic Islamic banks, the foreign Islamic banks also in declining pattern in their CDR but still maintaining a high percentage of cash against its amount deposits with 59.06% in 2008. They keep their

cash level above the deposits at the highest level in 2009 with 77.51%, and their lowest CDR was in 2012 with 31.12%.

As can be seen in Table 2, the only ratio in which the domestic Islamic banks perform better than the foreign Islamic banks is in LDR where the domestic Islamic banks scored 76.45% and foreign Islamic banks at 96.04%. Both are moving in a different direction with the local banks in a declining trend while the foreign Islamic banks are in an increasing pattern. Domestic Islamic banks' LDR at the highest point in 2008 with 79.98% whereas the international banks at their lowest with 72.86% during the same year. In contrast, 2009 shows that foreign Islamic banks at the worst point at 105.14% while domestic Islamic bank at their best with 72.44% in 2011.

Based on CR, both types of banks appear to have inadequate capability to cover any short-term needs with limited short-term assets available at their disposal. Nevertheless, the foreign Islamic banks show their superiority with the average of 1.00 while the local banks at modest 0.86. Both types of banks started equally at 0.93 in 2008. Domestic Islamic banks are in a declining trend with 0.86 in 2009, 0.79 in 2010, 0.87 in 2011 and 0.85 in 2012. Conversely, foreign Islamic banks managed to achieve as high as 1.09 in 2010 before settling at 0.94 in 2012.

Another ratio that shows little difference between the two in terms of liquidity is CAR. Although there was a minimal difference between the two, foreign Islamic banks came on top with the average of 0.86 while the domestic Islamic banks with 0.79. The foreign Islamic banks are in a positive trend with the latest result shows that their CAR reported at 0.79 as compared to 0.76 for the domestic Islamic banks.

In general, foreign Islamic banks have the upper hand in liquidity as compared to the local banks. The foreign Islamic banks performed best on all the liquidity ratios except LDR.

Table 3

Domestic vs. Foreign Islamic Banks Risk and Solvency Ratios

	2008	2009	2010	2011	2012	Mean	Standard Deviation
Risk and solvency							
8. Debt Equity Ratio (D/E)							
Domestic	50.72%	42.93%	29.44%	37.97%	31.86%	**38.58%**	0.198
Foreign	44.35%	28.39%	18.32%	22.71%	29.31%	**28.62%**	0.170
Overall	**48.33%**	**37.47%**	**25.27%**	**32.25%**	**30.90%**	**34.85%**	0.187

	2008	2009	2010	2011	2012	Mean	Standard Deviation
9. Debt to Asset Ratio (DTAR)							
Domestic	3.96%	2.99%	2.18%	2.39%	2.02%	**2.71%**	0.013
Foreign	2.77%	2.29%	2.15%	2.02%	2.57%	**2.36%**	0.012
Overall	**3.51%**	**2.73%**	**2.17%**	**2.25%**	**2.23%**	**2.58%**	0.012

	2008	2009	2010	2011	2012	Mean	Standard Deviation
10. Equity Multiplier (EM)							
Domestic	14.96	15.89	13.54	16.01	15.84	**15.25**	3.053
Foreign	12.81	10.58	8.62	10.41	10.25	**10.53**	2.654
Overall	**14.96**	**15.89**	**13.54**	**16.01**	**15.84**	**13.48**	2.904

In terms of risk and solvency ratios, foreign Islamic banks are in a better position than their local counterparts in all ratios especially in D/E and EM. Foreign Islamic banks have shown improvement for all three risk and solvency ratios while the domestic Islamic banks have similar patterns for D/E and DR but not for EM.

Domestic Islamic banks have the average of 38.58% in D/E with the highest recorded in 2008 with 50.72% and the lowest in 2010 with 29.44%. Similarly, the foreign Islamic banks hit the worst D/E in 2008 with 44.35% and the best in 2010 at 18.32%.

DTAR in the Table 3 shows that foreign Islamic banks are slightly on top of the domestic Islamic banks with an average of 2.36% and 2.71% respectively.

Domestic Islamic banks are using debt to acquire their assets at the rate of an average of 15.25, more than 50% than the foreign Islamic banks at 10.53. Domestic Islamic banks have a lot to do to go on par with the foreign counterparts.

Table 4
Domestic vs. Foreign Islamic Banks Commitment to Economy and Muslim Community Ratios

	2008	2009	2010	2011	2012	Mean	Standard Deviation
Commitment to economy and Muslim community							
11. Long-term Loan Ratio (LTA)							
Domestic	39.18%	47.10%	54.86%	53.83%	50.97%	**49.19%**	0.125
Foreign	28.75%	25.47%	29.79%	35.40%	42.20%	**32.32%**	0.115
Overall	**35.27%**	**38.99%**	**45.46%**	**46.92%**	**47.68%**	**42.86%**	0.121

	2008	2009	2010	2011	2012	Mean	Standard Deviation
12. Government Bond Investment (GBD)							
Domestic	20.80%	22.28%	17.26%	12.18%	14.32%	**17.37%**	0.078
Foreign	9.59%	8.33%	13.26%	8.20%	16.30%	**11.14%**	0.075
Overall	**16.60%**	**17.05%**	**15.76%**	**10.69%**	**15.06%**	**15.03%**	0.077

	2008	2009	2010	2011	2012	Mean	Standard Deviation
13. *Mudarabah - Musharakah* Ratio (MM/L)							
Domestic	0.10%	1.01%	1.77%	1.89%	2.31%	**1.41%**	**0.009**
Foreign	1.47%	1.82%	3.55%	5.19%	7.86%	**3.98%**	**0.027**
Overall	**0.61%**	**1.31%**	**2.44%**	**3.13%**	**4.39%**	**2.38%**	**0.016**

As can be seen in Table 4, domestic Islamic banks are more committed to helping the economy especially the Muslim community in the country with supporting more long-term projects and investing in Malaysian government bonds. However, they may need to increase their effort by involving more in *mudarabah* and *musharakah,* which are the essence of Islamic finance.

In LTA, foreign Islamic banks show an upward trend with the average of 32.32%. However, this is 16.87% below the numbers that the domestic Islamic banks involve in, that is 49.19%.

As for GBD, domestic Islamic banks have a decreasing pattern with the number of investments in government bonds with the highest in 2008 with 20.80% and the lowest was in 2011 with 12.18%. The foreign counterparts started lower than the domestic Islamic banks in 2008 with 9.59% but slowly increasing each year with the latest figure overtook the domestic Islamic banks with 16.30%

As for the final ratio, both domestic and foreign Islamic banks need to put extra effort in increasing the number of *mudarabah* and *musharakah* contracts in their accounts. The domestic Islamic banks averaged 1.41% of its total loans were *mudarabah* and *musharakah* while the foreign Islamic banks have the average of 3.98%. Most common issues raised by the Islamic banks with regards to the equity financing especially *mudarabah* is that the contract is considered as high risk (equity risk). This is because capital provider (Islamic banks) may not have the legal capacity to involve in the day-to-day operation of the project and the bank may have to play active role to reduce informational asymmetries including financial disclosures, closer involvement with the project, transparency in reporting, and supervision during all phases of the project.

Conclusion
The overall results indicate that the domestic Islamic banks are in a better position in terms of profitability, but the foreign counterparts surpassed the domestic Islamic banks in liquidity and risk and solvency ratios. As the analysis showed, there is little difference between the two in commitment to the economy and Muslim community ratios with the domestic Islamic banks slightly ahead of the foreign Islamic banks. However, the domestic Islamic banks can improve in their financial position further to match the foreign Islamic banks in terms of providing *mudarabah* and *musharakah* financing.

When looking at the performance of individual banks, the top banks that stand out in profitability ratios are Public Islamic and AmIslamic. As a subsidiary of Public Bank, Public Islamic has the access to its parent company's huge client base of businesses and high-net worth individuals to tap into. This clientele is usually those who are considered premium and sought after by any bank (large capital with low credit risk). Meanwhile, AmIslamic is the leader in retail financing especially in hire purchase (car financing). On the other hand, the worst performers include Al Rajhi, Asian Finance Bank, and BIMB. This is expected since Al Rajhi and Asian Finance suffered losses especially during their early years of operation.

For liquidity ratios, AmIslamic, Al Rajhi, and HSBC Amanah are among the top three in the category whereas BIMB and BMMB sit at the bottom of the table. Asian Finance Bank, Al Rajhi, and HSBC Amanah are the least reliant on debt based on respective debt ratios calculated throughout 2008 to 2012. Conversely, Hong Leong Islamic Bank, Standard Chartered Saadiq, and OCBC Al-Amin depend heavily on debt in their operations. The foreign Islamic banks especially from the Middle East like Al Rajhi and Asian Finance Bank are usually equipped with abundance of cash reserves and are less likely to borrow money to develop.

For the commitment to the economy and Muslim community ratios, Public Islamic and Maybank Islamic are the most supportive in long-term financing projects, BIMB and BMMB invested more in government-linked investments as compared to the rest, and HSBC Amanah and KFH provided more *mudarabah* and *musharakah* related financing.

In reflecting on the findings, the result of the profitability ratios in the study are not consistent with the findings established by some of the previous studies including Bashir (2001) and Sabi (1996), which found that the foreign banks were more profitable than the domestic banks in the Middle East and Hungary respectively. Conversely, the result of the profitability ratios for Malaysian Islamic banks are in line with by Chen and Liao (2011) study which covered banks in countries like Croatia, Luxembourg, Hong Kong, and Thailand.

Islamic banks in Malaysia enjoyed the growth in demand for financing especially in property and business sectors during the period, but the domestic Islamic banks benefited the most due to its easier credit policy as compared to the foreign Islamic banks. Therefore, domestic

Islamic banks like Maybank Islamic, CIMB Islamic, and Public Islamic keep on producing record annual profits each year. The more vigilant foreign Islamic banks with regards to lending strategy and coupled with their newer brands in the market made them less attractive to potential customers. This impacted their profitability but made them superior in risk and solvency as shown in the results of the said ratios above. From the analyses, we have learnt that the foreign Islamic banks need to take slightly higher risk to compete with the domestic Islamic banks especially the dominant ones like Maybank Islamic, CIMB Islamic, and Public Islamic with regards to profitability. The management team of the foreign Islamic banks may want to relax its credit policy without jeopardising its risk and solvency approach. For example, if the current policy of foreign Islamic banks is focusing on top-rated customers only, perhaps moving forward the banks can accept a segment of better than average risk-classified type of customers. Even though it may require more supervision as compared to top-rated customers, this approach can increase its customer base, hence, can improve their revenues. The valuable contributions to theory and practice from this study is to assist the key players toward forming a better understanding of the demand conditions. It also hopes to provide valuable knowledge to the related parties to face the competition among Islamic banking institutions. Competition issues and its relationship with financial performance provides pointers to the Islamic banks in the country to be aware of the scenarios surrounding the Malaysian Islamic banking industry.

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