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Research Article

Islamic Finance in Malaysian Islamic Banks: An Analytical Study (2006-2017)

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Abstract: This study examines how Islamic financing modes are used in Malaysian Islamic banks over the period 2006-2017. It adopts a descriptive approach to establish the concepts of Islamic banks and Islamic finance and its four modes (mudaraba, musharaka, murabaha and salam) and an analytical approach to read the financial data (assets, deposits and net financing) of a sample of eight Malaysian Islamic banks and the distribution of financing among the different modes. The results show that most of the banks studied recorded growth in their assets, deposits and financing and that the share of Islamic finance in Malaysia rose over the period, owing to the increasing number of Islamic banks, the growth of their assets and state support for the sector. Murabaha clearly leads the individually named modes because of its low risk, followed by musharaka since 2011, while mudaraba remained at the bottom of the ranking with very small amounts. In other words, the modes based on profit-and-loss sharing have not achieved a presence commensurate with their theoretical standing, owing to the risks of misuse of capital and the limited management experience of some customers. The study recommends diversifying financing portfolios and raising the share of musharaka and mudaraba while tightening follow-up and supervision, strengthening specialised training and drawing on the Malaysian institutional model.

Keywords: Islamic Finance, Islamic Banks, Financing Modes, Murabaha, Musharaka, Mudaraba, Malaysia

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INTRODUCTION

Over recent decades, Islamic banking has moved from a limited experiment to a financial industry present in most banking systems and with it financing modes based on partnership, sale and leasing have emerged as alternatives to interest-based finance. Malaysia is among the countries that have offered this industry the most favourable regulatory environment, combining clear government support, a Sharia board attached to the central bank and a dual banking system in which Islamic banks operate alongside conventional ones.

However, the multiplicity of financing modes does not mean that they are used equally. The modes based on profit-and-loss sharing, on which Islamic banks were founded, often recede in favour of sale-based modes that carry lower risk. It is from here that this study begins, posing the following.

Research Problem

What is the reality of the use of Islamic financing modes in Malaysian Islamic banks during the period 2006-2017?

Sub-Questions: The following sub-questions branch out from the main problem:

- What is meant by Islamic banks and Islamic finance and what rules govern its modes?
- How did Islamic banks in Malaysia develop in terms of number and financial size?
- How is Islamic finance distributed among mudaraba, musharaka, murabaha and other modes?

Objectives of the Study:

- To define the basic concepts relating to Islamic banks and Islamic finance, its modes and their conditions
- To trace the development of Islamic banks in Malaysia and to read their financial data (assets, deposits and net financing) for a sample of eight banks
- To determine the relative share of each financing mode and to explain the differences among them in light of the risks attached to each mode

Significance of the Study

The significance of the study stems from the fact that the Malaysian experience is a reference for countries wishing to develop their Islamic banking, Algeria among them. It is further heightened because the study moves from the theoretical definition of the modes to a reading of their actual figures, which shows what is implemented of them in practice.

MATERIALS AND METHODS

The study adopted the descriptive approach in presenting the concepts, modes and conditions and the analytical approach in reading the tables and figures drawn from the annual reports of the banks studied and from the statistics of the Central Bank of Malaysia, for the period 2006-2017. Values that could not be confirmed against the annual reports were excluded from the calculations; accordingly, the observation period for some banks and for the breakdown of financing by mode, is shorter than the full period, as stated under each table.

Structure of the Study

The study is organised in two sections: the first is devoted to the theoretical framework of Islamic banks and financing modes and the second to the applied framework in Malaysian banks.

Section One: The Theoretical Framework of Islamic Finance

No financing experience can be judged before its concepts are defined. This section presents the definition of Islamic banks and their main characteristics, then the concept of Islamic finance and the Sharia, technical and administrative rules that govern it. It concludes with the four modes of Islamic finance (mudaraba, musharaka, murabaha and salam), covering their definition, types, evidence of permissibility and conditions.

Concept and Characteristics of Islamic Banks

Concept of Islamic Banks: Islamic banks are banking institutions whose transactions and activities rest on the provisions and objectives (maqasid) of Islamic Sharia [1]. They have a faith-based character and are an instrument for safeguarding and developing funds in order to achieve development at both the economic and the social levels [2].

They are also defined as financial banking institutions that seek to collect the surplus funds held by individuals and to direct them toward investments that achieve development for individuals and the community, in accordance with the objectives of Islamic Sharia. They are not committed to paying interest to fund owners; rather, profit and loss are shared [3].

An Islamic bank is further defined as an institution that does not deal in riba (interest), whether by taking or by giving and that adheres, in every aspect of its activity and dealings, to the rules of Islamic Sharia [4].

From the foregoing, it may be said that Islamic banks are financial institutions that seek to invest the surplus funds held by some persons and to direct them toward serving society, in accordance with the rules of Islamic Sharia, which are free of riba and interest, relying on partnership in these investments or on modes that Sharia permits.

Characteristics of Islamic Banks

Islamic banks are distinguished by several characteristics, which may be summarised as follows [5-7]:

Exclusion of Interest (Riba)

Islamic banks do not deal at all with interest-rate systems, because interest is riba, which is prohibited in Islam. This is consistent with the sound environment of the Muslim society. Without this characteristic the bank would be a riba-based bank, since God Almighty prohibited riba in all its forms and declared war on those who consume it, as He said: "O you who have believed, fear God and give up what remains of interest, if you should be believers. And if you do not, then be informed of a war from God and His Messenger. But if you repent, you may have your principal [thus] you do no wrong, nor are you wronged" (Qur'an 2:278-279). This is because of the evils of riba and the injustice and exploitation of individuals that it entails.

Investment in Lawful (Halal) Projects
The Islamic bank relies, in employing its funds, on direct investment or partnership, its activity being subject to the rules of Islamic Sharia. It directs investments toward projects that bring good to the country and its people, taking care that all products and dealings fall within the sphere of the lawful and are untouched by any doubt. It thus depends on real financial investments.

Linking Economic Development with Social Development
The Islamic bank mobilises savings and invests them in the various fields of economic activity for the service of society, so that economic development is linked with social development. For this reason the Islamic bank is concerned with the social return alongside the individual return, which reinforces the connection between faith, values and organisation in Islam. It undertakes the collection of zakat and its delivery to those entitled to it among the eight categories specified by God Almighty in the Holy Qur'an. It also seeks to raise the standard of living of society through its investment policies, thereby opening the doors of livelihood to all.

RESULTS

The Concept of Islamic Finance and Its Rules
Concept of Islamic Finance: Islamic finance is understood as that permissible finance by which tangible assets are provided by their owner (the bank) to a person called the customer, enabling him to use them in accordance with the rules of Islamic Sharia, with the aim of achieving returns that are lawful under Sharia, through contracts that do not conflict with the provisions of Sharia [8]. It is the provision of tangible wealth, for the purpose of seeking profit, from its owner to a person who manages it and disposes of it [9]. Islamic finance is also defined as a financing process carried out according to Sharia-compliant methodologies in order to achieve returns that are sought and accepted under Sharia [10]. It is a relationship between financial institutions, or between institutions and individuals, whereby funds are made available for use in personal needs or for investment, through financial instruments compatible with Islamic Sharia such as the contracts of murabaha, musharaka, ijara, istisna' and salam, or the loan [11].

From the foregoing, it may be said that Islamic finance is a process of investing funds to achieve returns as required and dictated by Islamic Sharia, through various modes based on partnership and other contracts free of prohibited riba, which serve the economy and society.

Rules and Criteria of Islamic Finance
Islamic finance rests on a number of rules and criteria that must be observed in financing, which are as follows [12,13]:

Sharia Rules and Criteria
These comprise two important rules:

- Prohibition of riba. Riba is defined as an increase over the principal that arises without an exchange, that is, the interest that the creditor receives from the debtor in return for a specified period of time. It is prohibited under Sharia [14]
- Financing of lawful projects. It is not permissible to finance projects that are prohibited in Islamic Sharia

Technical Rules and Criteria
These relate to technical and economic considerations and include:

- The customer's financial capacity and the strength of his financial position
- Ascertaining the state of liquidity and cash flows
- Reviewing supporting documents and records

Administrative Rules and Criteria
These Consist of the Following:

- **Criteria Relating to the Applicant for Financing:** This person must be of good character and trustworthiness and possess experience, strength and competence
- Criteria relating to the project feasibility study: These include a study of expenses and revenues and of the period required to recover the funds invested
- **Criteria of Follow-Up and Supervision:** This is the most important feature distinguishing Islamic finance, in that it requires the financier to follow up the project, evaluate it and supervise it, in order to ensure its success and to achieve development in societies
- **Criteria of Financial Guarantees**: In Islamic finance, the guarantee covers only transgression and negligence, which must therefore be verified; it does not cover profit or loss

Islamic Financing Modes and Their Conditions

The following sections address some of the Islamic financing modes.

Mudaraba

Mudaraba is defined as an agreement between two parties in which one party provides funds to the other so that he may work with them, with the share of each party in the profit being specified [15]. If the project makes a profit, the two parties share it as agreed; if the result of the project is a loss, the capital owner bears the entire financial loss, while the mudarib loses his effort, unless the mudarib has been negligent or has transgressed [16]. Mudaraba is permissible under Sharia, as evidenced by the words of God Almighty: "Indeed, your Lord knows that you stand [in prayer] almost two-thirds of the night, or half of it, or a third of it and so do a group of those with you. And God determines the night and the day. He knows that you will not be able to keep count of it, so He has turned to you in forgiveness; so recite what is easy of the Qur'an. He knows that there will be among you those who are ill and others traveling throughout the land seeking the bounty of God and others fighting in the cause of God. So recite what is easy of it, establish prayer, give zakat and lend God a goodly loan. Whatever good you put forward for yourselves, you will find it with God-better and greater in reward. And seek forgiveness of God; indeed, God is Forgiving and Merciful" (Qur'an 73:20). Moreover, the Prophet (peace be upon him) was sent while people were dealing in mudaraba and he confirmed them in it [17]. It is also agreed upon by the consensus of the scholars, since it shows kindness to those capital owners who are unable to manage their funds and gives support to those who need capital in order to work [18].

Mudaraba has two types. The first is unrestricted (mutlaqa) mudaraba, in which the owner hands over funds for mudaraba without restricting the work, the time, the place or the persons with whom the mudarib deals [19]. The second is restricted (muqayyada) mudaraba, which is restricted by place, time and type of trade, the owner having the right to invest his funds wherever he sees that they will bring him profit [20].

Conditions of Mudaraba

Among the most important conditions for financing by way of mudaraba are the following [21]:

- The capital must be in cash, known in amount and description and must be an existing asset rather than a debt owed by the mudarib
- The profit must be stipulated for both the capital owner and the mudarib and the mudarib must be competent to act

Musharaka

Musharaka is defined as the Islamic bank's provision of part of the financing required for a given operation, while the customer covers the remaining part, on condition that they share the expected return in the case of profit and share in the case of loss, according to agreed proportions [22]. Musharaka is permissible under Sharia, as evidenced by the words of God Almighty: "And for you is half of what your wives leave, if they have no child. But if they have a child, for you is one-fourth of what they leave, after any bequest they may have made or any debt. And for them is one-fourth of what you leave, if you have no child. But if you have a child, for them is an eighth of what you leave, after any bequest you may have made or any debt. And if a man or woman leaves neither ascendants nor descendants but has a brother or a sister, then for each one of them is a sixth. But if they are more than two, they share in one-third, after any bequest made or any debt, without harm [to the heirs] a commandment from God. And God is Knowing and Forbearing" (Qur'an 4:12). Muslims have also agreed on the permissibility of partnership in general [23].

Musharaka is divided into three kinds. The first is fixed musharaka, which rests chiefly on the Islamic bank's contribution to financing part of the capital of a given project; the bank is a partner in the ownership, management and running of the project and a partner in profit and loss in proportions agreed in advance [24]. The second is diminishing musharaka (musharaka mutanaqisa), which ends in transfer of ownership; it is defined as the Islamic bank's partnership with a customer in the ownership of, for example, a property, on condition that the customer pays the bank a specified number of periodic instalments, after which the bank relinquishes its share in the ownership to the customer, who finally becomes the owner of the property [25]. The third is temporary musharaka, in which the bank participates in financing a given activity for a specified period, in the form of a financing contract or of financing sukuk issued for this purpose [26].

Conditions of Musharaka

The most important conditions of musharaka are the following [27]:

- The capital must consist of money or monetary equivalents and must be known and existing so that it can be disposed of
- The share of each partner in the profit must be specified and must be a proportionate (undivided) share and the profits are then distributed after deducting expenses and costs

Murabaha

Murabaha is defined as a sale at cost with a known profit, where the cost is the price at which the commodity was purchased and the profit is the increase over that cost [28]. It is permissible under Sharia, as evidenced by the words of God Almighty: "Those who consume interest cannot stand [on the Day of Resurrection] except as one stands who is being beaten by Satan into insanity. That is because they say, 'Trade is [just] like interest.' But God has permitted trade and has forbidden interest. So whoever has received an admonition from his Lord and desists may have what is past and his affair rests with God. But whoever returns [to dealing in interest] those are the companions of the Fire; they will abide eternally therein" (Qur'an 2:275). People have dealt in murabaha throughout the ages, given the need for it and because it is a means of meeting individuals' needs [29].

Murabaha is divided into two kinds. The first is simple murabaha, the ordinary murabaha between a seller and a buyer, in which the seller practises trade and buys the commodity without relying on a prior promise to purchase it and then offers it for sale on a murabaha basis at an agreed profit and price [30]. The second is compound murabaha (murabaha to the purchase orderer), which is accompanied by a promise and involves three parties: the seller, the bank and the buyer. The bank acts as an intermediary and buys the commodity only after the buyer has specified his requirements and has given a prior promise to purchase [31].

Conditions of Murabaha

There are two basic conditions [32]:

- The seller must own the commodity and have taken possession of it
- The profit added to the price at which the commodity cost the seller must be disclosed

Salam

Salam is defined as the sale of a described commodity owed as an obligation, with payment made immediately [33]. That is, it is an agreement to purchase a commodity of a specific type, in a quantity and at a price fixed in advance, with delivery on a specified future date; the buyer pays the purchase price when the contract is concluded or within a period not exceeding three days [34]. Salam is permissible under Sharia, as evidenced by what Ibn 'Abbas narrated from the Prophet (peace be upon him): the Prophet came to Madinah while the people were making advance-payment sales in fruits for two and three years and he said: "Whoever makes an advance-payment sale in something, let him do so for a known measure, a known weight and a known term" [35]. Its permissibility is also shown by the statement of Ibn al-Mundhir that every scholar from whom opinions have been preserved agreed that salam is permissible [36].

Salam is divided into ordinary salam and parallel salam. In ordinary salam the bank provides immediate financing and receives the commodity at a later time [37]. In parallel salam the bank buys a commodity that it will receive in the future and sells a commodity due at the same term and similar to the one it bought under the first contract. When the term falls due, the bank delivers to the buyer the same commodity that it purchased under the first contract, on condition that the obligations lie in two completely separate contracts, so that the seller's failure to deliver under the first contract must not entail the bank's failure to deliver under the second contract [38].

Conditions of Salam

Salam requires the following [39]:

- The two counter-values must be of different kinds, so that neither riba al-nasi'a (riba of deferral) nor riba al-fadl (riba of excess) arises and the time and place of delivery must be known, since value varies with place and time
- The object of sale must be described in a manner that precludes dispute and must be deliverable and salam is not permitted in wine, pork or any other prohibited goods

Section Two: The Applied Framework of Islamic Financing Modes in Malaysian Banks

This section moves from rulings to figures. It traces the emergence of Malaysian Islamic banks and the growth of their number, then reads the financial data of eight of them, shows the position of Islamic finance in the Malaysian economy and concludes with an analysis of the distribution of financing among the different modes and the risks associated with each.

Overview of Islamic Banks in Malaysia

The Islamic banking experience in Malaysia is unique of its kind. It was launched in order to continue and grow, with a clearly defined objective and it has enjoyed priority and government support. What distinguishes the Malaysian experience from that of other countries is the existence of a Sharia board attached to the central bank that determines the Sharia compliance of transactions. Malaysia currently has 16 Islamic banks, comprising local Islamic banks, foreign

banks and banks from the Middle East, in addition to some Islamic windows that offer Islamic products and services. The following figure shows the development and growth of the number of Islamic banks in Malaysia.

The Figure 1 shows the development and growth of the number of Islamic banks in Malaysia: there were 10 in 2006 and 11 in 2007, rising to 17 from 2008 to 2010. This increase is due to the central bank's granting of licences to some foreign banks in 2008 and their start of operations and to the fact that some conventional banks opened Islamic windows and Islamic subsidiaries in the same year, among them Public Islamic Bank. After 2011 the number of Islamic banks became 16, that is, 10 local banks and 6 foreign banks (according to the statistics available on the website of Bank Negara Malaysia). The study focused on a sample of Malaysian Islamic banks consisting of 8 Islamic banks, both local and foreign.

CIMB Islamic Bank Berhad

CIMB Islamic is a franchise for Islamic banking and financial services that offers a wide range of innovative Sharia-compliant products and services. It provides banking finance as well as transactional banking services, asset management, banking takaful and securities services to individual, commercial, corporate and institutional customers, implementing an Islamic strategy and expanding its range of Islamic products.

Table 1 shows the development of the assets of CIMB Islamic, which averaged 341,056,712 (thousand ringgit) over the eleven years observed (2006 and 2008-2017). It also shows the growth of customer deposits, which averaged 240,177,108 and the continuous increase in net financing, which averaged 209,433,195. The increase appears to proceed at a steady and continuous pace. This is attributable to the standing of this bank in Malaysia as the second-largest bank in the country by assets, with more than 8 million customers nationwide; the bank also aims to broaden its range of Islamic products for customers and the public in order to advance Islamic finance.

Maybank Islamic Berhad

Maybank Islamic is the leading company in the local market in Malaysia, having contributed 59% of financing in the country. The following table shows the assets and customer deposits of the bank, as well as its net financing.

Table 2 shows the growth of the assets of Maybank Islamic, which averaged 479,508,647 (thousand ringgit). It also shows the customer deposits placed with this bank, which averaged 325,301,217 and the net financing provided by the bank, which averaged 300,464,524. This bank is a leader in total assets and deposits, which has enabled it to be a leader in providing the necessary financing as well.

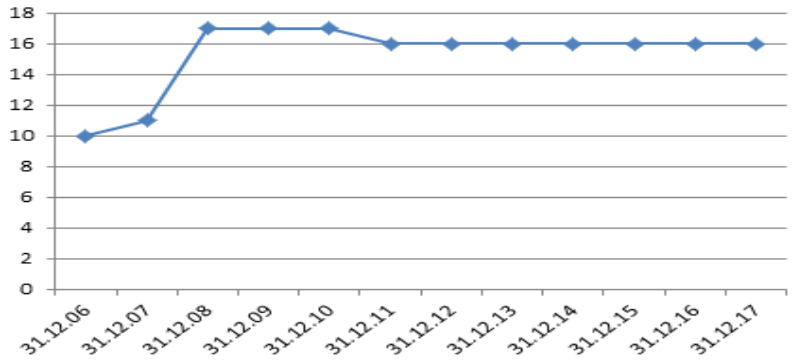

Figure 1: Development of the Number of Islamic Banks in Malaysia
Source: Prepared by the researchers based on Kasim [40]

Table 1: Financial Data of CIMB Islamic Bank (Unit: Thousand Malaysian Ringgit)

Year	Assets	Customer deposits	Net financing
2006	159,607,244	104,568,715	90,334,759
2008	207,090,759	146,890,210	117,382,074
2009	239,983,999	178,882,336	142,218,190
2010	269,365,244	199,845,664	159,181,385
2011	300,202,707	221,933,142	183,838,777
2012	336,461,160	247,295,039	202,137,818
2013	370,912,797	263,004,302	228,431,705
2014	414,156,356	282,068,787	258,014,859
2015	461,577,143	317,423,581	290,295,664
2016	485,766,887	331,518,138	315,372,898
2017	506,499,532	348,518,277	316,557,012

Source: Prepared by the researchers based on CIMB Group Holdings Berhad [41]

Table 2: Financial Data of Maybank Islamic (Unit: Thousand Malaysian Ringgit)

Year	Assets	Customer deposits	Net financing
2006	224,283,859	136,278,170	137,879,026
2007	256,667,276	163,676,762	147,497,270
2008	269,100,700	187,122,077	164,799,666
2009	310,699,766	212,598,589	185,783,166
2010	336,669,766	236,909,788	205,555,067
2011	451,594,837	314,692,245	276,252,853
2012	494,866,293	347,155,510	311,824,735
2013	560,318,784	395,610,810	355,617,527
2014	640,299,956	439,569,384	403,513,121
2015	708,344,503	478,150,533	453,492,587
2016	735,956,253	489,833,295	477,774,903
2017	765,301,766	502,017,445	485,584,362

Source: Prepared by the researchers based on Maybank Islamic Berhad [42]

Table 3: Financial Data of AmBank Islamic Group Holdings (Unit: Thousand Malaysian Ringgit)

Year	Assets	Customer deposits	Net financing
2006	72,260,637	38,918,164	44,860,468
2007	78,622,673	42,381,662	47,610,755
2008	83,191,707	47,767,451	52,453,593
2009	89,892,881	64,131,506	56,947,831
2010	96,480,303	68,874,112	64,425,920

Source: Prepared by the researchers based on AmBank Islamic Group Holdings Berhad [43]

Table 4: Financial Data of Kuwait Finance House Malaysia (Unit: Thousand Malaysian Ringgit)

Year	Assets	Customer deposits	Net financing
2006	3,011,922	1,581,164	803,695
2007	6,309,075	2,198,839	3,162,310
2008	9,636,868	4,293,347	6,157,218
2009	11,570,306	4,255,068	7,072,175
2010	10,916,204	4,546,509	6,072,784
2011	10,138,736	4,717,854	5,219,857
2012	9,096,691	5,370,265	5,288,745
2013	9,450,883	5,342,642	6,009,772
2014	10,471,581	4,060,371	6,703,522
2015	10,668,028	3,640,007	7,002,145
2016	10,795,303	4,329,342	6,494,270
2017	9,142,011	4,699,178	5,596,649

Source: Prepared by the researchers based on Kuwait Finance House (Malaysia) Berhad [44]

AmBank Islamic Group Holdings Berhad

AmBank Islamic Group Holdings Berhad offers a range of Islamic financial services, including retail banking, investment banking, life insurance and takaful and various advisory services. The following table presents the assets, customer deposits and net financing of the group for the period 2006-2010.

Table 3 shows the development of the assets of AmBank Islamic Group Holdings over the period 2006-2010, with an average of 84,089,640 (thousand ringgit). Customer deposits averaged 52,414,579 and the net financing provided by the bank averaged 53,259,713. All three indicators rose steadily over these years: assets from 72,260,637 to 96,480,303, deposits from 38,918,164 to 68,874,112 and net financing from 44,860,468 to 64,425,920. Net financing exceeded deposits in 2006-2008, after which deposits exceeded financing. The group's business is focused on drawing on local growth opportunities and on supporting various institutions and helping individuals, small and medium-sized enterprises and companies in Malaysia and supporting their continued growth; AmBank Islamic Group Holdings is also regarded as the sixth-largest banking group in Malaysia by assets.

Kuwait Finance House (Malaysia) Berhad

Kuwait Finance House is among the world's leading Islamic banks and has received global recognition and many prestigious international awards.

Table 4 shows that the assets of Kuwait Finance House grew markedly from 2006 to 2009, declined between 2010 and 2012, recovered between 2013 and 2016 and fell again in 2017; their average was 9,267,301 (thousand ringgit). Customer deposits rose until 2008, dipped slightly in 2009 and then rose to a peak of 5,370,265 in 2012; they declined between 2013 and 2015, rose again in 2016 and 2017 and averaged 4,086,216. Net financing peaked in 2009 and 2015 (7,072,175 and 7,002,145) and averaged 5,465,262. The deposits and assets of the bank thus fluctuated over the years and the bank at times provides more financing than the funds deposited with it, which may expose it to risk in the future.

Table 5: Financial Data of Hong Leong Islamic Bank (Unit: Thousand Malaysian Ringgit)

Year	Assets	Customer deposits	Net financing
2006	6,433,661	5,701,544	3,944,758
2007	6,224,290	5,250,725	3,672,900
2008	8,120,820	6,208,081	4,242,329
2009	9,141,960	7,979,898	3,824,880
2010	9,962,346	7,731,615	4,138,867
2011	12,178,617	9,225,765	5,377,000
2012	21,902,469	16,300,703	12,038,627
2015	23,280,519	18,546,909	15,982,289
2016	25,619,889	21,889,229	18,492,167
2017	28,455,833	24,592,451	20,613,731

Source: Prepared by the researchers based on Hong Leong Islamic Bank Berhad [45]

Table 6: Financial Data of Bank Muamalat (Unit: Thousand Malaysian Ringgit)

Year	Assets	Customer deposits	Net financing
2006	13,450,636	12,178,691	5,148,171
2007	13,805,357	12,172,868	5,585,247
2008	14,398,645	12,447,970	6,027,516
2009	15,906,137	13,739,895	6,569,444
2010	16,714,212	14,920,856	6,630,159
2011	18,305,742	16,171,772	7,148,160
2012	20,468,469	18,151,087	9,038,438
2013	21,076,401	18,750,255	10,352,626
2014	20,066,801	17,638,660	11,899,691
2015	22,438,036	19,544,549	13,425,853
2016	22,636,889	19,643,428	14,512,877
2017	23,502,047	19,929,759	14,918,272

Source: Prepared by the researchers based on Bank Muamalat Malaysia Berhad [46]

Nevertheless, it works to provide innovative Sharia-based financial solutions for customers and acts as an intermediary and facilitator to promote investment and trade between Malaysia, Asia and the Pacific and the Middle East. It also offers a full range of financial products and services based on Sharia.

Hong Leong Islamic Bank Berhad

This bank is among the foreign banks that have succeeded in Malaysia and in many countries of the world, benefiting from a strong distribution network in offering Islamic banking products and services as a Sharia-compliant alternative to conventional banking services.

Table 5 shows the development of the assets, customer deposits and net financing of Hong Leong Islamic Bank over the ten years observed (2006-2012 and 2015-2017). Average assets were 15,132,040 (thousand ringgit), average customer deposits were 12,342,692 and average net financing was 9,232,755. The general trend over the years studied is upward, particularly in 2012, when assets rose by roughly 80% from 12,178,617 to 21,902,469; that is, the bank is growing. It seeks to provide comprehensive solutions based on Sharia principles and offers a wide range of innovative solutions for customers, including structured finance and wealth management; the considerable turnout of customers in depositing their funds with it is evident. It also aims to strengthen its position as a leading Islamic bank in Malaysia.

Bank Muamalat Malaysia Berhad

Bank Muamalat is the second Islamic bank established in Malaysia. It brought together its assets from the various Islamic windows at the time and its assets then developed over the years; it gained the trust of its customers and its deposits accordingly rose, for the most part continuously, which helped it to provide the necessary financing through the various existing modes. The following table presents the assets and customer deposits of Bank Muamalat, in addition to its net financing, for the period 2006-2017.

The Table 6 shows the growth of the assets of Bank Muamalat Malaysia, which averaged 18,564,114 (thousand ringgit). Customer deposits also grew markedly, with an average of 16,274,149. However, the net financing provided was low compared with the bank's assets and the amounts deposited with it, averaging 9,271,371. This obliges the bank to innovate in Islamic financing methods in order to attract business owners.

RHB Islamic Bank Berhad

RHB Islamic Bank emerged from a conventional bank and is wholly owned by the parent bank; it is the main engine of Sharia-compliant business for the whole RHB banking group. The following table shows the bank's assets, the deposits placed with it by customers and the net financing it provided, for the period 2006-2016.

Table 7: Financial Data of RHB Islamic Bank (Unit: Thousand Malaysian Ringgit)

Year	Assets	Customer deposits	Net financing
2006	8,092,265	6,680,424	4,147,537
2007	8,404,436	6,849,686	4,514,812
2008	9,369,580	7,347,306	5,351,744
2009	11,205,509	8,127,782	5,842,302
2010	13,111,820	9,946,582	8,716,761
2011	22,641,412	17,050,096	12,732,595
2012	25,609,662	17,326,681	16,002,714
2013	29,131,786	21,034,100	18,436,792
2014	36,113,786	24,370,954	25,265,443
2015	44,076,741	27,928,029	30,890,427
2016	48,116,641	29,419,928	33,841,566

Source: Prepared by the researchers based on RHB Islamic Bank Berhad [47]

Table 8: Financial Data of Al Rajhi Bank (Unit: Thousand Malaysian Ringgit)

Year	Assets	Customer deposits	Net financing
2006	291,367	41,862	2,408
2007	2,540,995	2,073,832	1,866,779
2008	4,799,361	4,247,141	2,860,348
2009	5,703,418	4,431,772	3,788,528
2010	5,917,568	3,907,946	4,049,437
2011	6,150,089	3,769,656	3,714,547
2012	6,864,797	4,550,550	4,289,864
2014	7,270,933	5,477,854	4,774,809
2015	7,315,392	6,582,902	4,983,507
2016	8,401,184	7,661,940	6,002,416
2017	8,687,689	6,959,849	5,678,979

Source: Prepared by the researchers based on Al Rajhi Bank Malaysia Berhad [48]

Table 7 shows the growth of the assets of RHB Islamic Bank and their increase throughout the period observed (2006-2016); the bank's average assets were 23,261,240 (thousand ringgit). It also shows the development of the deposits placed with the bank by its customers, which averaged 16,007,415. The growth of assets and deposits led to an increase in the financing provided by the bank, whose net financing averaged 15,067,518. RHB Islamic appears to have grown rapidly, particularly after 2011, with continuous growth; however, its financing in 2014, 2015 and 2016 exceeded the value of the deposits placed with it by customers, which poses a risk to it. It also offers good products and services that are compatible with Islamic Sharia.

Al Rajhi Bank Malaysia Berhad

Al Rajhi Bank in Malaysia is among the first foreign Islamic banks to have been granted a licence, owing to its commitment to applying the provisions of Sharia and observing its objectives in all transactions. The following table shows the assets, deposits and net financing of Al Rajhi Bank since it began operating in Malaysia up to 2017.

Table 8 shows the development of the assets of Al Rajhi Bank since its establishment in Malaysia in 2006; over the eleven years observed (2006-2012 and 2014-2017) its average assets were 5,812,981 (thousand ringgit). However, customer deposits were very small in the early years (41,862 in 2006), because the bank is not local and was not well known to customers at the start of its work; average customer deposits were 4,518,664. The bank was nonetheless able to provide the necessary financing, with average net financing of 3,819,238. This is due to the bank's attention to quality standards in the products and services offered to customers and it takes into account their compatibility with Islamic Sharia.

Islamic Finance in Malaysia

Having highlighted a sample of Malaysian Islamic banks, it is now necessary to identify the standing of Malaysian Islamic finance. Malaysia is among the leading countries in the field of Islamic finance and the Malaysian government seeks to promote and develop it by opening institutes and universities to train cadres in this field. The following figure shows the development of the share of Islamic finance in Malaysia.

The Figure 2 shows an increase in the volume of Islamic finance in Malaysia, from 13.7% in 2006 to just over 31% at the end of 2015, the last year shown in the figure. This is attributable to the increase in the number of Islamic banks in Malaysia and the growth of their assets.

Islamic finance has many modes and methods adopted for providing it, differing according to their purpose and method and also according to the different risks attached to each mode. The following table shows the Islamic finance provided under each mode in Malaysia over the period 2008-2017.

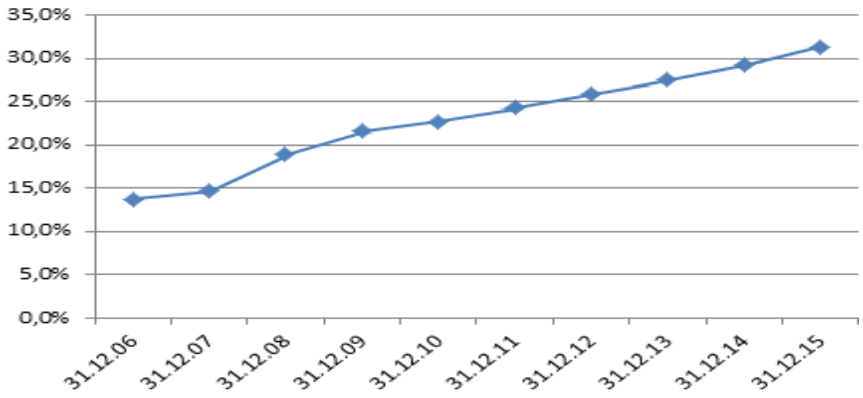

Figure 2: Share of Islamic Finance in Malaysia (%)
Source: Prepared by the researchers based on Al-Abed [49]

Table 9: Islamic Finance Provided by Islamic Banks in Malaysia, by Mode (Unit: Million Malaysian Ringgit)

Year	Mudaraba	Musharaka	Murabaha	Ijara	Istisna'	Other modes
2008	312.9	801.7	15,847.7	2,741.4	1,384.2	16,798.8
2009	373.6	1,876.6	23,018.9	4,017.4	1,486.5	20,353.3
2010	275.8	3,496.0	23,293.6	3,934.1	1,621.0	28,293.0
2011	251.6	6,981.5	30,383.1	3,918.0	1,471.1	39,385.3
2012	142.2	11,462.8	40,018.4	4,634.3	989.3	46,310.8
2013	146.0	15,718.8	56,966.6	6,332.8	696.2	53,797.3
2014	77.3	22,833.8	83,606.5	7,677.8	1,016.7	71,417.9
2015	77.8	28,854.6	117,686.7	8,258.0	1,279.0	84,634.0
2016	71.0	40,423.0	162,368.0	9,845.0	2,060.0	82,563.0
2017	230.0	38,745.0	143,622.0	9,959.0	1,370.0	92,516.0

Source: Prepared by the researchers based on Saed [50]

Table 9 shows Islamic finance by mode in Malaysian Islamic banks. Murabaha is the most widely used of the individually named modes in every year of the period and from 2013 onward it has been the largest category overall, reaching 143,622 million ringgit in 2017 (after a peak of 162,368 million in 2016), ahead of the other modes (92,516 million). Before 2013, with the exception of 2009, the category of other modes (such as qard hasan, muzara'a and musaqa, among others) provided more financing than murabaha; in 2011, for example, it provided 39,385.3 million ringgit against 30,383.1 million for murabaha. Murabaha helps many institutions, such as small and medium-sized enterprises and is less risky than the other modes.

Since 2011 musharaka has come next among the named modes (38,745 million ringgit in 2017). It allows those with ideas to realise their projects according to their share of the capital, but it may expose the bank to the loss of its share in the capital, either because the funds are not used for their designated purpose or because the customer lacks the experience needed to manage the project. Ijara comes after it (9,959 million ringgit in 2017); it gives small and medium-sized enterprises the possibility of obtaining assets by leasing, with an opportunity to own them later, but the leased assets may be damaged or the lessee may fail to pay the periodic instalments, which exposes the Islamic bank to risk. Istisna' follows (1,370 million ringgit in 2017, after a peak of 2,060 million in 2016); it provides Islamic banks with good returns and is used to finance heavy and medium industries, among others, but the inability to deliver the assets, or to collect the value of the manufactured assets, may expose the Islamic bank to risks.

Finance provided through mudaraba by Malaysian Islamic banks is very small compared with the other modes: it never exceeded 373.6 million ringgit (2009) and stood at only 230 million in 2017. Although mudaraba contributes to solving several economic problems, among them monopoly and inflation, the customer may not use the mudaraba capital for its designated purpose, or the loss of the project may lead to the capital owner losing his money, which may expose the Islamic bank to many risks.

CONCLUSION

This study sought to identify the reality of Islamic financing modes in Malaysian banks, having established them theoretically and read them empirically. It emerged that most of the Islamic banks in the sample achieved steady growth in their assets, deposits and financing during the study period and that the share of Islamic finance in Malaysia rose from 13.7% in 2006 to just over 31% in 2015. This is explained by the growing number of Islamic banks, the growth of their assets and state support for this sector.

The analysis of the distribution of financing among the modes showed that murabaha clearly leads the individually named modes throughout 2008-2017 and has been the largest category overall since 2013, owing to its low risk and its suitability for financing small and medium-sized enterprises. It is followed, since 2011, by musharaka, while mudaraba has remained at the bottom of the ranking with very small amounts. That is, the modes based on profit-and-loss sharing, which are closest to the origin on which Islamic banks were founded, have not received a presence commensurate with their theoretical standing and this is due mainly to the risks of misuse of capital and the limited management experience of some customers.

In light of this, the following recommendations may be made:

- Diversify financing portfolios so as to raise the share of musharaka and mudaraba, while tightening the mechanisms of follow-up and supervision of the projects financed
- Strengthen specialised training in Islamic banking, along the lines of what Malaysia has done by establishing specialised institutes and universities
- Develop financing products that attract business owners, particularly in banks whose deposits substantially exceed their financing
- Draw on the Malaysian institutional model, especially the central Sharia board, in building regulatory frameworks in other countries

The field remains open to later studies that compare the Malaysian experience with the experiences of other countries, or that measure the impact of these modes on economic growth and social development.

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