

CHAPTER 4:

FINDINGS

4.1 Introduction

This chapter presents the result of the findings based on research questions of the study. The research questions guided and facilitated the flow of study and provide a clear explanation of the study. The research question were:

1. What was the impact of the financial crisis on the banking industry as a whole and Bank Islam in specific? Were the impacts different compared to conventional banks?
2. Which aspects of assets and liabilities affected Bank Islam the most during the financial crisis on the banking industry? Was the impact on assets and liabilities similar between Bank Islam and the conventional banks?
3. How did Bank Islam react to and face the financial crisis in 1997 and 2008? Were there changes in organizational structure and did the systems meet the challenges? What was the emphasis of the changes in terms of risk management, business expansion, and growth?
4. How did Bank Islam manage the assets and liabilities to prepare for recovery/turnaround after the financial crisis?
5. What was the management strategy that Bank Islam employed during and after the financial crisis to recover itself in growth and performance? Were there changes in business strategy, financial structure, and ownership?

The outline of the finding is also provided in the course of the present study, which was guided by research questions and grouped into four of findings, which are:

1. The first finding answers Research Questions 1 and 2, which aimed to find out the impact of changes in the performance of Bank Islam and comparative performance with conventional banks. The finding also provides a general view of the banking performance during the AFC and GFC.
2. The second finding answers Research Question 3 by looking at Bank Islam's practices, following Yakola's (2014) signs of distress.
3. The third finding presents the turnaround strategies of Bank Islam, following the turnaround strategies model of Schoenberg et al. (2013), which answers Research Questions 4 and 5.

4.2 The Impact of Financial Crisis on Bank Performance: A Comparison between Bank Islam and Conventional Banks.

Over the years, Malaysia's economy has gone through both the AFC and GFC, which also have an impact on economic growth. As such, the change of comparative performance of Bank Islam and the three conventional banks (Public Bank, Maybank, and Affin Bank) was done using a comparison of the charts via several measurements, such as ROA, ROE, ROI, and NPL/NPF. The comparative analysis is shown in Figures 1.2, 1.3, and 1.4. Moreover, the results of formula measurement from the ROA, ROE, ROI, and NPL/NPF can be seen in Appendix 14.

This study begins with the proof of responses showing that Bank Islam experienced a decline in performance during the attack by the AFC and GFC. The presentation of data in numbers does not indicate that this research is quantitative, but instead supports the qualitative research evidence (as explained in subchapter 3.3.1 Data

Collection). According to DeHaas & Lelyveld (2011), profitability is a control variable for business growth, while Muda et al. (2013) believe that profit is very important for bank performance. This is because profit is an indicator of the survival factor for companies. Similarly, Ibrahim (2016) believes that changes in banking performance can usually be measured through profitability, non-performing loans, and bank loans. However, the study presents the first analysis that comes from the comparative measurement between Bank Islam and the three of the conventional banks based on profitability measurements, which were ROA, ROE, and ROI in 1990 to 2013. The finding shows a significant difference in profitability (by ROI) for banking performance during the crisis.

Table 4.1: Comparative Analysis of Banking Performance in 1990 to 2013

| | | Independent Samples Test | | | | | | | | |
|-----|-----------------------------|---|------|--------|------------------------------|-----------------|-----------------|-----------------------|---|---------|
| | | Levene's Test for Equality of Variances | | | t-test for Equality of Means | | | | | |
| | | F | Sig. | t | df | Sig. (2-tailed) | Mean Difference | Std. Error Difference | 95% Confidence Interval of the Difference | |
| | | | | | | | | | Lower | Upper |
| ROA | Equal variances assumed | .208 | .650 | -.949 | 92 | .345 | -.00892 | .00940 | -.02759 | .00975 |
| | Equal variances not assumed | | | -1.019 | 42.419 | .314 | -.00892 | .00875 | -.02658 | .00874 |
| ROE | Equal variances assumed | .689 | .409 | 1.017 | 89 | .312 | .04382 | .04310 | -.04180 | .12945 |
| | Equal variances not assumed | | | 1.065 | 38.313 | .294 | .04382 | .04115 | -.03946 | .12711 |
| ROI | Equal variances assumed | 1.320 | .254 | -3.575 | 89 | .001 | -.02130 | .00596 | -.03314 | -.00946 |
| | Equal variances not assumed | | | -3.145 | 29.589 | .004 | -.02130 | .00677 | -.03514 | -.00746 |

Source: Multiple Regression Analysis

Note:

1. Comparative in ROA = There is no significant difference in banking performance.
2. Comparative in ROE = There is no significant difference in banking performance.
3. Comparative in ROI = There is a significant difference in banking performance (between Bank Islam and Conventional Banks) at 0.05 (5 %) significant level.

While the second analysis of the study came from the comparative measurement by looking at the impact before and after the AFC and GFC crises on banking performance (between Bank Islam and conventional banks) by the profitability performance (ROA, ROE, and ROI). The division of time observations between the pre-AFC from 1994 to 1996, while that of the post-AFC began from 1997 to 1999, respectively. Also, the pre-GFC from 2005 to 2007 and post-GFC began from 2008 to 2010.

Table 4.2: Comparative Performance Pre and Post between AFC and GFC

| Paired Samples Test | | | | | | | | | |
|---------------------|------------------------------|-----------|-----------|-----------------|---|-----------|--------|----|-----------------|
| Paired Differences | | | | | | | | | |
| | | Mean | Std. Dev. | Std. Error Mean | 95% Confidence Interval of the Difference | | t | df | Sig. (2-tailed) |
| | | | | | Lower | Upper | | | |
| Pair 1 | PreAsianROA – PostAsianROA | .00543333 | .01468167 | .00423823 | -.00389496 | .01476162 | 1.282 | 11 | .226 |
| Pair 2 | PreAsianROE – PostAsianROE | .16563333 | .18729169 | .05406646 | .04663387 | .28463280 | 3.064 | 11 | .011 |
| Pair 3 | PreAsianROI – PostAsianROI | .00071 | .00934 | .00270 | -.00522 | .00664 | .263 | 11 | .798 |
| Pair 4 | PreGlobalROA – PostGlobalROA | .00726 | .02484 | .00717 | -.00852 | .02304 | 1.012 | 11 | .333 |
| Pair 5 | PreGlobalROE – PostGlobalROE | -.32146 | 1.10061 | .31772 | -1.02076 | .37784 | -1.012 | 11 | .333 |
| Pair 6 | PreGlobalROI – PostGlobalROI | -.01080 | .03052 | .00881 | -.03019 | .00859 | -1.226 | 11 | .246 |

Source: Annual Report of Bank Islam, Public Bank, Maybank and Affin Bank (1994 to 1996; 1997 to 1999; 2005 to 2007; 2008 to 2010)

The findings reveal the significant impact of the ROE's profitability changes on the banking performance during the AFC and observation on the pre-post of the AFC and GFC. The next analysis focuses on the regression analysis of the profitability

performance of banking, which was based on profit expense ratio, loan deposit ratio, non-performing loan or financing, financial leverage, and risk management.

Table 4.3: Quantitative Analysis of Banking Performance

| No | Variables | Status | Scale | Formula | |
|----|-------------------|----------------------|----------------------------|---|--|
| 1 | ROA | Dependent Variable | Ratio | $ROA = \frac{\text{Net Income}}{\text{Total Asset}}$ | |
| 2 | ROE | | Ratio | $ROE = \frac{\text{Net Income}}{\text{Total Assets} - \text{Total Liabilities}}$ | |
| 3 | ROI | | Ratio | $ROI = \frac{\text{Net Profit after Interest and Tax}}{\text{Total Asset}}$ | |
| 4 | PER | Independent Variable | Ratio | $\frac{\text{Operating Profit} - \text{Allowance for Impairment on Loans, Ac} - \text{Writeback of Impairment}}{\text{Other operating Expense}}$ | |
| 5 | LDR | | Ratio | $\frac{\text{Loans, Advances, and Financing}}{\text{Deposit From Customer}}$ | |
| 6 | NPF / NPL | | Ratio | $\frac{\text{Impaired Financing and Advances (Movement Impaired Fi}}{\text{Gross Financing, Advances an Others}}$ | |
| 7 | FL | | Ratio | $\frac{\text{Total Liabilities}}{\text{Total Assets}}$ | |
| 8 | RM1 | | Likert Yes: 1 No : 0 | This measurement is about the presence of risk management in the organizational structure. If the bank has risk management, the banks get value 1, if bank does not have risk management, the bank will get value 0 | |
| 9 | RM2 | | Likert Yes: 1 No : 0 | This measurement is about the presence of CRO, and it also includes the executive board to manage the risk management in the organizational structure. If the bank has CRO, the banks get value 1, if the bank does not have risk management, the bank will get value 0 | |
| 10 | GDP growth rate | | Ratio | Look into the Financial Statement of BNM for Macroeconomic Indicators and the report is in Appendix 12. | |
| 11 | Inflation Rate | | Ratio | | |
| 12 | Interest Rate | Ratio | | | |
| 13 | Unemployment Rate | Ratio | | | |
| 14 | Exchange Rate | Intervening Variable | Ratio | | |

Source: Developed for this Study

More so, the present study employed macroeconomic indicators as the mediator (the intervening variable, consists of GDP growth rate, inflation, interest, unemployment, and exchange rate) and profitability banking performances as the

dependent variables (ROA, ROE, and ROI). All the data used in the present study can be referred to in Table 4.3 and Appendix 14.

The data in Table 4.4 show evidence from the mediated regression analysis on banking performance. Furthermore, the study provides evidence that the change in the profitability of banking performance was caused by financial leverage, profit expense ratio, risk management, and NPL/NPF as well as macroeconomics indicators.

Table 4.4: Findings on Mediated Regression Analysis for Banking Performance

| No | IV | Intervening | DV |
|----|---|-------------------|-----|
| 1 | Financial Leverage | GDP growth rate | ROA |
| 2 | Nothing | Inflation Rate | |
| 3 | Profit Expense Ratio Financial Leverage | Interest Rate | |
| 4 | Financial Leverage | Unemployment Rate | |
| 5 | Profit Expense Ratio Financial Leverage | Exchange Rate | |
| 1 | Profit Expense Ratio Financial Leverage Risk Management | GDP growth rate | ROE |
| 2 | Financial Leverage Risk Management | Inflation Rate | |
| 3 | Financial Leverage Risk Management | Interest Rate | |
| 4 | Financial Leverage Risk Management | Unemployment Rate | |
| 5 | Financial Leverage Risk Management | Exchange Rate | |
| 1 | Profit Expense Ratio NPF / NPL | GDP growth rate | ROI |
| 2 | Profit Expense Ratio | Inflation Rate | |
| 3 | Profit Expense Ratio | Interest Rate | |
| 4 | Profit Expense Ratio | Unemployment Rate | |
| 5 | Profit Expense Ratio | Exchange Rate | |

Source: Developed for this Study

The empirical evidence provided shows the profitability performance of Bank Islam, Public Bank, Maybank, and Affin Bank from the predictors' variables, which are financial leverage, profit expense ratio, risk management, and NPL/NPF. There are other findings discovered through the addition of macroeconomic indicator as a mediator, which are:

1. The financial leverage and profit expense ratio has a significant relation with intervening variables into ROA.
2. The financial leverage and risk management has a significant relation with intervening variables into ROE.
3. The profit expense ratio has a significant relation with intervening variables into ROI.

There are different purpose associated with the function of profitability, which are:

- a) ROA, to measure profit from an asset valuation (Ibrahim, 2015), banking distress (Sahut & Mili, 2011), and successfulness for banks (Salman & Nawaz, 2018).
- b) ROE, measures the effectiveness of management (Nor Hayati & Mohamad, 2011) and banking distress (Sahut & Mili, 2011).
- c) ROI, as the cost-benefit analysis in the business (Al-Raisi & Al-Khour, 2010), and basic measurement of the effectiveness for the firm (Guta et al., 2011), determines the ability of banks in terms of capital and liquidity (De Haas & Van Lelyveld, 2011), and measures the efficiency of a capital investment company (Kabajeh et al. 2012).

More importantly, the present study provides the findings of the quantitative analysis, that there had been profitability changes in Bank Islam as it had fluctuated during the financial crisis. For this reason, this study analysed the changes in assets and liabilities of Bank Islam.

4.2.1 The Impact of Asset and Liabilities affected by Financial Crisis

Assets and liabilities are important items of banking resources and activities as part of the strategic management for banks (Jucan, 2009). After the occurrences of the

AFC and GFC, there was indeed a change in banking performance through the years of observation (1990 to 2013) as described previously. According to Maryam & Norfhadzilahwati (2017), ALM is managed by ALCO for controlling risk for the long term of the firm's growth plans. Based on Table 4.5, the present study provides the information on ALM and ALCO in Bank Islam.

Table 4.5: Development of ALM and ALCO in Bank Islam

| 2003 | 2008-2009 | 2013 |
|-----------------|--|---|
| Risk Management | <p><u>2008</u> Bank Islam established the three board committees to manage risks to manage internal control mechanisms, such as the BRC, AEC, and MRCC. Under MRCC, there are four sub-committees, which are the ALCO, ORCC, CRCC, and RMC. ALCO provides a report to MRCC, and responsible for reporting to the BRC (Source: Statement of Corporate Governance of Islamic Bank 2008, pages 41 to 42).</p> <p><u>2009</u> ALCO will give the reports to MRCC, and thereafter MRCC will give the reports to the Managing Director and BRC (Source: Annual Report Bank Islam, page 83)</p> | <p>1. ALCO is responsible for the authority delegated by the BRC for managing the market risk at the strategic level. (Source: Annual Report Islamic Bank 2013, page 81)</p> <p>2. ALCO is responsible for reporting to the Managing Director (Annual Report Bank Islam 2013, page 127) and the Board Risk Committee (Bank Islam Corporate Book 2013, page 184)</p> |

Source: Annual Report Bank Islam (2003; 2008 to 2009 and 2013)

ALM and ALCO in Bank Islam follow the time observation, 1983, 1997 to 1998, 2008 to 2009 and 2013. It was discovered that during the 1983 and AFC, Bank Islam did not have an ALM analysis and ALCO (Source: Annual Report Bank Islam 1984; 1997; 1998). However, Bank Islam began to establish risk management with financial risk management policies to regulate business activities from 2003, such as operational risk, credit risk, liquidity risk, and market risk, in which the analysis of ALM also included liquidity risk.

Bank Islam follows the Bank Negara Malaysia New Liquidity Framework and the internal liquidity risk management policy (Annual Report Bank Islam 2003, page 43). The development of ALM and ALCO has been observed in other banks, such as

Maybank, Public Bank, and Affin Bank. It was found that every bank has also implemented the ALCO and ALM analysis after the beginning of the AFC. This is because Bank Islam began to establish risk management from 2003 to 2007. Furthermore, they established MRCC under ALCO as one of the subunits under MRCC (Source: Annual Report Bank Islam starting 1998 to 2013). ALM and ALCO in Maybank, Public Bank, and Affin Bank have also been established since 2008 (Annual Report Maybank, Public Bank, and Affin Bank 2008). Tables 4.6 and 4.7 provide information about the development of risk management in banking, ALCO, and the development of the regulation of liquidity risk in Bank Islam and other conventional banking to manage the assets and liabilities.

Table 4.6: Development Measurement in Risk Analysis in Banking.

| Name of Bank | 1984 | 1997-1998 | 2003 | 2008-2009 | 2013 |
|--------------|--|--|--|-----------|-----------|
| Bank Islam | There is no detail information on this section | Tier 1 Capital and Tier 2 Capital | Tier 1 Capital and Tier 2 Capital | Basel II | Basel III |
| Maybank | There is no observation on this section | Tier 1 Capital and Tier 2 Capital | Tier 1 Capital and Tier 2 Capital | Basel II | Basel III |
| Public Bank | There is no observation on this section | Tier 1 Capital and Tier 2 Capital | Tier 1 Capital and Tier 2 Capital | Basel II | Basel III |
| Affin Bank | There is no observation on this section | There is no detail information on this section | There is no detail information on this section | Basel II | Basel III |

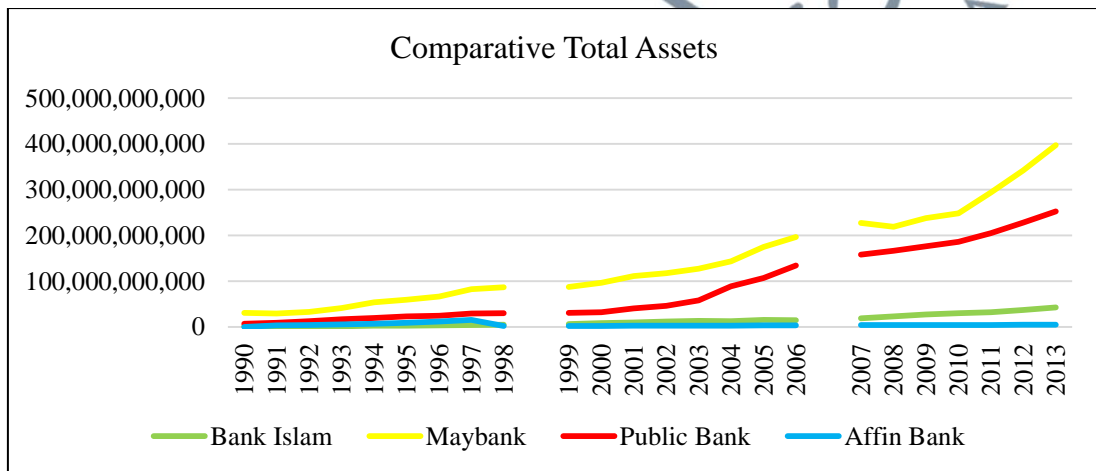
Source: Annual Report Bank (1984, 1997, 1998, 2003, 2008, 2009, 2013)

Table 4.7: ALCO's Performance and Regulation on Liquidity Risk

| Name of Banks | 1984 | 1997-1998 | 2003 | 2008-2009 | 2013 |
|---------------|---|---|--|--|---|
| Bank Islam | There is no detail information on this section. | There is no detail information on this section. | <ol style="list-style-type: none"> 1. Established risk management. 2. Liquidity risk is controlled through the Bank Negara Malaysia New Liquidity Framework and the internal liquidity risk management policy. | <ol style="list-style-type: none"> 1. Established ALCO. 2. The Bank adopt the liquidity framework introduced by BNM which ascertains liquidity based on the contractual and behavioral cash flow of assets, liabilities, and off-balance sheet commitments. | <ol style="list-style-type: none"> 1. Established ALCO. 2. The management of liquidity and funding is primarily carried out following the BNM Liquidity Framework and practices and limits and triggers approved by the BRC and the ALCO. |
| Maybank | There are no observations. | There are no observations. | <ol style="list-style-type: none"> 1. There is no detail information on this section. 2. The primary tool used in monitoring liquidity for Maybank's domestic operations are based on the liquidity framework introduced by the BNM. This framework ascertains liquidity based on the contractual and behavioral cash flow of assets, liabilities and off-balance sheet commitments. | <ol style="list-style-type: none"> 1. Established ALCO. 2. The bank has a Liquidity Risk Framework by following BNM's Liquidity Framework. The Bank also formulated CFP. | <ol style="list-style-type: none"> 1. Established ALCO. 2. The bank has taken BNM Liquidity Framework and leading practices as a foundation to manage and measure its liquidity risk exposure. The Bank also activated the CFP to avert any potential liquidity disasters affecting its liquidity soundness and financial solvency. |
| Public Bank | There are no observations. | There are no observations. | <ol style="list-style-type: none"> 1. Established ALCO. 2. Compliance with BNM's New Liquidity Framework and internal liquidity risk management policy. | <ol style="list-style-type: none"> 1. Establish ALCO 2. Liquidity risk is primarily managed through Bank Negara Malaysia's New Liquidity Framework. Liquidity risk management is supplemented by internal liquidity risk management policy. Besides, the Liquidity Contingency Funding Plan to identify a liquidity crisis through early warning indicators. | <ol style="list-style-type: none"> 1. Establish ALCO. 2. The liquidity risk management is aligned with the New Liquidity Framework issued by BNM. The bank also added the New Liquidity Framework to maintain a liquidity compliance buffer to meet any unexpected cash outflows. |
| Affin Bank | There are no observations. | There are no observations. | <ol style="list-style-type: none"> 1. Established ALCO. 2. The Bank adopts BNM's Liquidity Framework (NLF) | <ol style="list-style-type: none"> 1. Establish ALCO 2. The bank adopts BNM's Liquidity Framework (NLF) | <ol style="list-style-type: none"> 1. Established ALCO 2. The bank adopts BNM's New Liquidity Framework (NLF) and Contingency Funding Plan. |

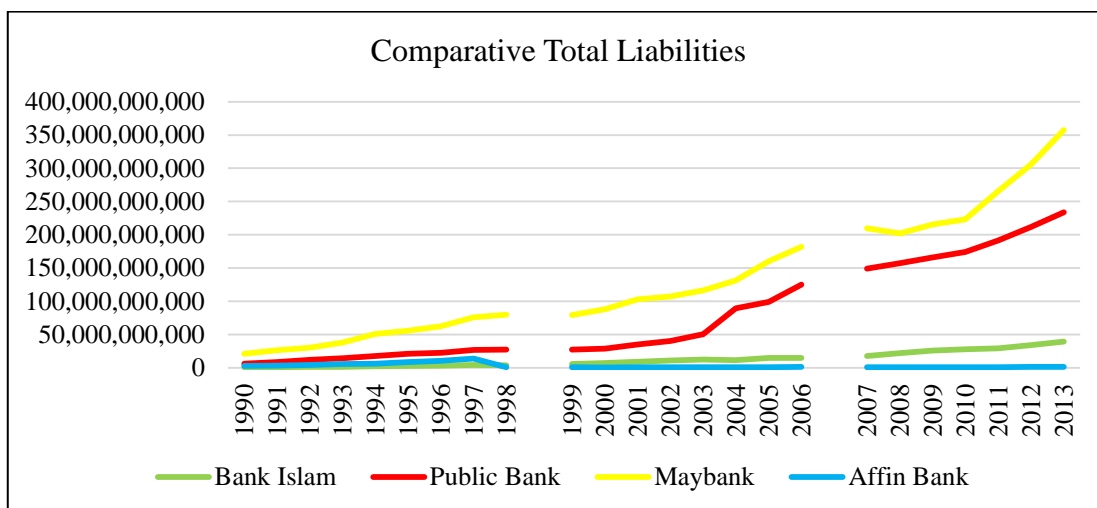
Source: Annual Report Bank (1984, 1997, 1998, 2003, 2008, 2009 and 2013)

As presented, banks follow the direction of BNM regulation on the New Liquidity Framework. It was also discovered that following an initiative a risk management department in Bank Islam was set up in 2003 (source: Bank Islam 2003, page 47) and it continued to develop into the specifications of the ALCO department. This was carried out through the BRC delegates to ALCO who are saddled with the responsibility to manage the market risk at the strategic level (Source: Corporate Book Bank Islam 2013, page 188). For this study, it was found that there are changes in assets and liabilities by comparing both the data of Bank Islam and the other three banks as presented in Figures 4.1 and 4.2, respectively.



Source: Annual Report of Banks 1990 to 2013.

Figure 4.1: Comparative of Assets Performance in Banking Performance



Source: Annual Report of Banks 1990 – 2013

Figure 4.2: Comparative of Liabilities Performance in Banking Performance

Maybank and Public Bank reports on assets and liabilities from 1990 to 2013 show a positive growth (which means it looks like the AFC and GFC had no influence from the prevailing crisis). In contrast, the figures between banks' total assets and liabilities of Bank Islam had decreased and increased intermittently from 2003 to 2006.

According to the finding of Novickytė & Petraitytė (2013), ALM is related to interest risk and liquidity management. They state that ALM valuation can also be seen in balance assets and liability terms with both sides of the balance sheet. Their study employed the use of several balance sheet indicators to assess ALM performance, such as loans, deposits, total liabilities, total assets, cash and money in central banks as well as tangible and intangible assets. On the other hand, an analysis is also provided in this study regarding Bank Islam's performance on changes in ALM values by total assets, total liabilities, total equity, cash balances from cash flow activities (replacing loan values), deposits (an additional amount of value deposits from customers and deposits, as well as placements of banks and other financial institutions), statutory deposits with BNM (replacing the report of cash and money in Central Banks) and property, including

equipment (replacing the report value of tangible and intangible assets. Findings on ALM are provided in Figure 4.3 based on Bank Islam's balance sheet, while Tables 4.8 and 4.9, show a comparison of the ALM in Bank Islam, and other conventional banks, such as Public Bank, Maybank, and Affin Bank. Because of the foregoing, this study provides findings related to ALM, which are:

- i. The changes in asset (which involves the measurement, such as total assets, statutory deposits with BNM and total property, as well as equipment) shows that Bank Islam had reported a decrease in assets compared to three other banks during the AFC and GFC.
- ii. The changes in liabilities (which involve the measurement of total liabilities, deposits, total equity, and cash flow) also show the decreased performance of Bank Islam compared to other banks during the enactment of the AFC and GFC.

Table 4.8: Comparative Analysis of Assets Performance on Banking

| No | Items | Total Asset | Statutory Deposits with BNM | Total Property and Equipment |
|----|-----------------------------|-------------------|-----------------------------|------------------------------|
| 1 | Maks. Report (1990 to 2013) | Maybank (2013) | Maybank (2013) | Affin Bank (2006) |
| 2 | Mins Report (1990 to 2013) | Affin Bank (1990) | Bank Islam (2010) | Bank Islam (1990) |
| 3 | Maks. Report on AFC | Maybank (1999) | Maybank (1997) | Affin Bank (1999) |
| 4 | Min. Report on AFC | Affin Bank (1998) | Bank Islam (1999) | Bank Islam (1996) |
| 5 | Maks Report on GFC | Maybank (2009) | Maybank (2008) | Affin Bank (2007) |
| 6 | Min. Report on GFC | Affin Bank (2006) | Bank Islam (2009) | Bank Islam (2007) |

Source: Banks Annual Report since 1990 to 2013

Table 4.9: Comparative Analysis of Liabilities Performance on Banking

| No | Items | Total Liabilities | Deposits | Total Equity | Cash Flow |
|----|-----------------------------|-------------------|-------------------|-------------------|--------------------|
| 1 | Maks, Report (1990 to 2013) | Maybank (2013) | Maybank (2013) | Maybank (2013) | Public Bank (2007) |
| 2 | Mins Report (1990 to 2013) | Affin Bank (2000) | Bank Islam (1991) | Bank Islam (2006) | Bank Islam (1991) |
| 3 | Maks. Report on AFC | Maybank (1999) | Maybank (1999) | Maybank (1999) | Maybank (1996) |
| 4 | Min. Report on AFC | Affin Bank (1998) | Bank Islam (1996) | Bank Islam (1996) | Affin Bank (1999) |
| 5 | Maks Report on GFC | Maybank (2009) | Maybank (2009) | Maybank (2009) | Public Bank (2007) |
| 6 | Min. Report on GFC | Affin Bank (2008) | Bank Islam (2006) | Bank Islam (2006) | Affin Bank (2008) |

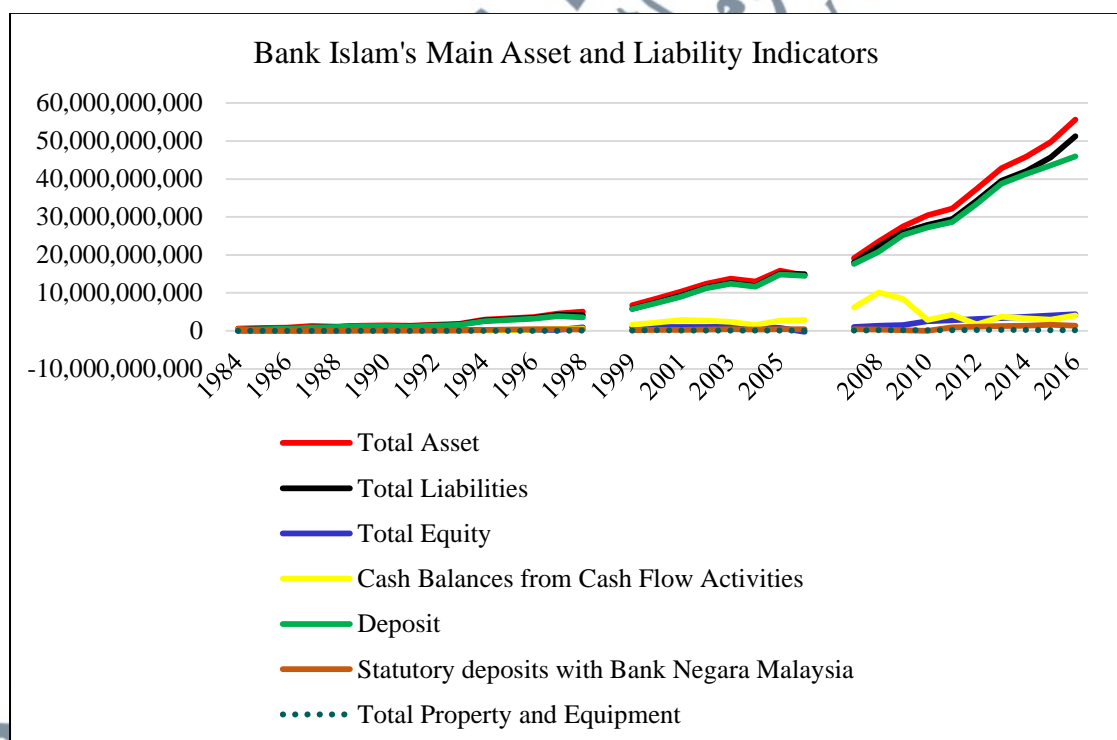
Source: Banks Annual Report since 1990 to 2013

Bank Islam was affected by both the AFC and GFC. It appears in the Figures 1.1 to 1.3. However, Bank Islam only shows a decline from 2003 to 2006 in a comparative report in Figure 4.3, which showing the report on total assets and liabilities. In banking strategic planning, the bank focused on financial uncertainty and vulnerability following the effective awareness of risk management by ALM (Mun & Thaker, 2017). The study, therefore, identified and explored the causal on the declining performance of Bank Islam using Yakola's (2014) model of signs of distress, involving working capital/liquidity, financial, profitability and industry outlook and employees.

According to Dedu & Vasilache (2008), the bank's management is constantly concerned with the proper management of the entire risk profile to which the organisation is exposed. If the risks (liquidity risk, interest rate risk, foreign exchange risk, credit risk, and so on) had been uncorrelated, they could have been handled separately by making appropriate decisions for specific situations while ignoring the consequences of those decisions for the other types of risks. There are, however, strong links, usually the cause-and-effect ones, between all risk categories. The experience and risk appetite of management factors are critical when the banking institution determines the risk approach. Banking assets and liabilities management is aided by sophisticated

financial instruments, such as futures, options, and swaps, which must be thoroughly understood in order to be used effectively. For a set period of time, this type of management, such as ALCO aims to keep a balance between sensitive assets and liabilities. Pieniazek (2012) stated that ALCO has developed into perhaps the most important operating committee in a bank; a group that is responsible for a coordinated oversight of the balance sheet risk management. ALCO's main areas of focus include interest rate risk, liquidity risk, and capital.

Research Questions 1 and 2, which goals were to determine the impact on Bank Islam's performance and obtain the comparative performance with conventional banks, are already answered by the study. The conclusion also provides a broader overview of the performance of the AFC and GFC's banking activities related to profitability, asset liability, risk management, and ALCO.



Source: Bank Islam Main Asset and Liability Indicators during 1984-2013

Figure 4.3: ALM Analysis from Balance Sheet

4.3 Signs of Distress in Bank Islam (Reaction of Bank Islam during the AFC and GFC)

The AFC and GFC already impacted banking performance, especially in the changes value of assets and liabilities. Bank Islam has to detect changes value in assets and liabilities in the banking by following the model of signs of distress by Yakola (2014), during the AFC and GFC.

In this section, the second finding is to answer Research Question 3 by following Yakola's (2014) model to find out, which indicator is related to working capital/liquidity, financial, profitability and industry outlook, and employee indicators to the declining performances of the Bank of Islam during the crisis. Yakola's model provides the changing in organizational structure, challenges, risk management, business expansion and growth faced by Bank Islam. Table 2.23 shows Yakola's indicator of the measurement performance of Bank Islam.

Table 2.23: Signs of Distress by Yakola (2014)

| | | |
|--|--|--|
| Working Capital/Liquidity | S I G N O F D I S T R E S S | Financial |
| 1. Declining or negative free cash flow | | 1. Declining stock price |
| 2. Large contingent liabilities | | 2. Declining bank or bond price |
| 3. Unresolved near-term debt maturities | | 3. Inability to meet debt covenants |
| 4. Revolver draw-down | | 4. Resignation of key finance staff |
| 5. Contracting vendor terms | | 5. Diminishing liquidity |
| 6. Increase in account receivable agent | | 6. Repeated bank amendments |
| 7. Increase in outstanding account payable | | 7. Downgrades in debt ratings |
| | | 8. Accounting restatement |
| | | 9. Inability to file a financial statement |
| Profitability and Industry Outlook | | Employees |
| 1. Shrinking EBITDA margin | | 1. Large or unplanned reduction in workforce |
| 2. Reduced capital-investment programs | | 2. Management turnover |
| 3. Going concern opinion | | 3. Disruption in unionized workforce |
| 4. Deteriorating industry fundamental | | |
| 5. Adverse regulatory environment | | |
| 6. Regulatory inquiries | | |

Source: Yakola (2014)

4.3.1 Changes of Working Capital / Liquidity

1. Declining or negative free cash flow.

Bank Islam has a free cash flow. The measurement to get the number of free cash flow is presented in:

$$\text{Free Cash Flow} = \frac{\text{Net Cash Flow from Operating Activities}}{\text{Cash Flow provided by Investing Activities in Cash Flow Statement}}$$

As seen in the formula, the study provides the findings that relate the AFC and GFC, such as:

- a) There was a negative free cash flow from 1996 to 1999, which was in 1996 and 1998. Meanwhile, during the AFC, Bank Islam only had a positive free cash flow in 1999.
- b) Another finding is that Bank Islam had a negative free cash flow in 2004 and 2006. Meanwhile, in 2005, it was a positive free cash flow.
- c) During the GFC of 2007 to 2009, a positive free cash flow was discovered. This is despite the fact that in 2008, Bank Islam had a smaller number of free cash flow compared to the previous year.
- d) In 2013, Bank Islam also had a declined free cash flow, and in the following year, they suddenly dropped to a negative free cash flow.

Jensen (1986) mentions that the purpose of free cash flow in funding the projects is to increase dividends. According to Yakola (2014), the information on basic financial metrics and cash flow are assessments of operational and market performance for the firm. This is because the firm cannot run a strategic planning to handle the business with these variables. Yakola states that the board of the firm will be worried about the adequacy of free cash flow to drive the capital needs for the business.

Accordingly, the manager has a big important role to oversee the decision on the firm's performance and can control a substantial free cash flow to increase dividends. According to Duong et al. (2014), the purposeful firm pays a high dividend for maintaining the value of the stock price when the stock market is declining. Also, the change in value of free cash flow can affect the firm's liquidity. When the free cash flow is high, the liquidity is also high, and vice versa. Therefore, it can be concluded that Bank Islam experienced the indicator of signs of distress in changes in working capital/liquidity due to the changes in the free cash flow.

2. Large contingent liabilities.

A contingent liability is a potential liability. The number of contingent liabilities depends on a future event occurring or not occurring in the financial statement. However, in the bank, contingent liabilities refer to the provision of whether the liability is increasing with some percentage. Also, the number of contingent liabilities is reported in the income statement. Contingent liabilities are also a guarantee provided by the bank to clients. Bank Islam used the reporting of contingent liabilities from the statement of financial position. However, the findings from the present study show that which relates to the AFC and GFC, which are:

- a) During the AFC, Bank Islam had contingent liabilities in 1998 that had a higher number.
- b) Also, between 2003 to 2006, Bank Islam had the highest contingent liabilities in 2005. After that, in 2006 they possessed a decreased number, while in 2003 and 2004 reports, the same number of contingent liabilities was recorded.

- c) During the GFC, an increasing number of contingent liabilities was found in 2007 and 2008 but decreased in 2009. The large contingent liabilities continued from 2009 until 2013.

Dauderis & Annand (2014) state that a contingent liability is disclosed in the notes to the financial statements that are possible, but not probable for a debt that arises due to the result of a past occurrence. According to Cebotari (2008), contingent liabilities focuses on the awareness of public finance ability to impair fiscal sustainability. Based on this, it could be concluded that Bank Islam experienced the indicator of distress as indicated by the changes in working capital/liquidity due to the changes in contingent liabilities.

3. Unresolved near-term debt maturities.

The measurement to get the number of debt maturities in Bank Islam within market risk and for measuring the liquidity risk from maturity analysis is presented as follows:

$$\begin{aligned} \text{Debt Maturities}_1 &= \frac{\text{Current Liabilities (> 6 moths to 12 months)}}{\text{Total Assets}} \\ \text{Debt Maturities}_2 &= \frac{\text{Long Term Liabilities (over one year)}}{\text{Total Assets}} \end{aligned}$$

The present study provides the findings that relate to the AFC and GFC, which are:

- a) During the AFC, current liabilities performed the highest number of debt maturities in 1997 to 1998, and decreased in 1999. On the other hand, the long-term liabilities performed the declining number of debt maturities, which occurred in 1997 to 1998, and increased in 1999.
- b) Also, from 2003 to 2006, Bank Islam's current liabilities went up from 2003 to 2005, but the report shows a decrease in 2006. In regard to long term liabilities, Bank Islam experienced declined numbers from 2003 to 2005 but the numbers grew in 2006.

c) While during the GFC, both methods also show similar changes regarding debt maturities from both current liabilities and long-term liabilities method. Also, there was a decline in debt maturities from 2007 to 2008, but they went up in 2009.

d) In 2013, both current and long-term liabilities method remained constant

According to Aivazian et al. (2005), fundamental issues for corporate finance are the implementation of investment decisions by focusing on the level of debt and the maturity structure of the debt. This is because the shorter the maturity period of the debt, the greater the opportunity for the firm to do investment. The conclusion from the explanation above is that Bank Islam experienced the indicator of signs of distress as shown by the changes of working capital/liquidity due to the changes in debt maturities.

4. Revolver draw-down.

Revolver draw-down is related to the financing that has been arranged between a bank and a business. Another key thing to remember, the bank will consider several important factors to determine the creditworthiness of the company, when the company applies for a revolver. The indicator of signs of distress on revolver draw-down has been categorized as: (i) Collective assessment allowance, (ii) individual assessment allowance, and (iii) allowance for financing loss or provision for bad and doubtful financing. This means that Bank Islam gives financing for some business based on the type and Sharia contract. Moreover, Bank Islam provides some allowance for impaired financing, advances and others to get net financing, advances, and others, while, Bank Islam still has some financing on the business. The revolver draw-down method was performed in three ways:

- a) From 2010 to 2016, there is a report on the allowance for impaired financing, advances and others that are divided into collective and individual assessment allowance.
- b) From 2003 to 2009, there is a report on the allowance for impaired financing, advances and others that are divided into general and specific allowance.
- c) From 2002 to 1988, there is a report on provision for bad and doubtful financing.

The findings show evidence related to the AFC and GFC, which are:

- a) During the AFC of 1999, there was a rising number on the allowance for impaired financing, advances, and others.
- b) The allowance for impaired financing, advances and others declined less in 2003 and 2004 but grew more in 2005 and 2006.
- c) During the GFC, there was the highest number of allowances for impaired financing, advances and others that occurred in 2008 but gradually dropped in 2009.
- d) In 2013, Bank Islam had a rising number on the allowance for impaired financing, advances, and others.

Therefore, it could be concluded that Bank Islam experienced the indicator of signs of distress in changes of working capital/liquidity due to the revolver draw-down on financing.

5. Contracting vendor terms.

Bank Islam has a term of contracting vendor during growth and development. There is a difference between measuring the manufacturing company and banking on contracting vendor terms. Bank Islam uses the growth in Sharia contracts, which means

an agreement that is committed to the action into the business. They also focus on the list of contracts made for customers. According to Said (2013), the concept of the operational performance of Islamic banks by implementing Sharia requires charging no interest that brings profit. As such, the Islamic banks must adapt to the sharing of profit and loss by implementing *musharaka*, *mudrabah*, and *ijara* (Source: Bellalah & Ellouz, 2004; Said, 2013). Therefore, banks can maintain the stability of the banking system by diversifying their investments to minimize risk and increase profits (Said, 2013). Appendices 15 to 16 show the findings of observation that involve contracting vendor terms in Bank Islam from 1983 to 2013. Also, Appendix 15 shows the contracting vendor terms in Bank Islam with several years from 1983 to 1990, 1991 to 2000, 2001 to 2005, 2006 to 2008, and 2009 onwards. Appendix 16 lists out products of Bank Islam according to deposit, financing, and other services. As such, it could be concluded that Bank Islam experienced the indicator of signs of distress in changes in working capital/liquidity due to changes in contracting vendor terms.

6. Increase in account receivable agent.

Bank Islam has an account receivable, such as accounts receivable on bills payable and other receivables in cash flows from operating activities. Nonetheless, Bank Islam's statement does not report a piece of information on account receivable agent. However, the job of the account receivable agent is to trigger the billing for goods or services provided or in anticipation of the receipt of money. In addition, there is an agent that generates invoices, statements, or both, to bill customers from account receivable. This agent will record the cash receipt of the collected money after the receipt of payment. On the contrary, if there is no payment received, the agent finance

charge may apply (AFIS, na). However, the present study provides the report of account receivable in the statement.

According to Dauderis & Annand (2014) accounts receivable is part of assets in balance sheets that are represented on collected amounts of cash in the customers for the availability of goods sold or services on credit. Even banks also have an account receivable as part of their financial assets (Bank Islamic Financial Statement, 2013, page 24). For Bank Islam, the report was taken from Corporate Investment and Commercial Sectors (Corporate Book of Islamic Banks Annual Report, 2013, page 20).

Based on this, it can be said that the present study cannot support the indicator because of the number of accounts receivable agents, as the sign of distress in changes of financial is due to the increasing number of account receivable agents in Bank Islam.

7. Increase in outstanding accounts payable.

Bank Islam employed the use of information on account payable from the statement of financial position and statement cash flow reporting of the bank. Account payable is distinct from notes payable liabilities, which are debts created by formal legal instrument documents. Meanwhile, the account payable in Bank Islam statement has been categorized as bills and acceptances payable. These represent the Group's and the Bank's bills; as well as acceptances rediscounted and outstanding in the market. The findings that relate to the AFC and GFC can be referred to in the present study, are:

- a) During the AFC, there is a report of a drop bill and acceptance payable (in the statement of financial position) from 1997 to 1999, meanwhile bill and acceptance payable (in statement cash flow) and other payables provide dramatic drop from a positive to negative report, which started from 1997 to 1999.

- b) From 2003 to 2006, the bill and acceptance payable (in the statement of financial position) provided a grew in number, but the bill and acceptance payable (in statement cash flow) and other payable provide fluctuate in the report.
- c) During the GFC, bill, and acceptance payable (in the statement of financial position), bill and acceptance payable (in statement cash flow), and other payables shows a sharp zig-zag in the reports from 2007 to 2008.
- d) In 2013, the bill and acceptance payable (in the statement of financial position), bill and acceptance payable (in statement cash flow), and other payable all fell from the previous year.

As stated by Dauderis & Annand (2014), accounts payables are part of current or short-term liabilities obligations to pay to creditors on goods purchased or services rendered. It is categorized as an expected debt to be paid, which must not be more than or within one year of the balance sheet date. However, if the firm has increased the outstanding account payable, it will affect the performance of the firm's business activities. Therefore, it can be concluded that Bank Islam experienced the indicators of the sign of distress as shown in the changes in working capital/liquidity due to the changes in bills and acceptances payable.

4.3.2 Changes of Financial.

1. Declining stock price.

The data of Bank Islam's stock price were taken from the database of Osiris in the UKM library. Bank Islam registered under the name of BIMB HOLDINGS BERHAD, and entered into Bursa Malaysia with IPO date 17/01/1992 and BVD ID number MY423858-X. OSIRIS data only provide the stock price information of Bank

Islam from 2008 to 2017, which can be seen in Appendices 17 to 20. The overall performance of the stock price evolution of Bank Islam can be seen in Appendix 20. It aims to support the indicator of the signs of distress on the stock price provided that Bank Islam bears the performance of the reporting used to obtain it. It was discovered that the evidence shows that stock prices started the GFC because the availability of stock information began in 2002 to 2017.

According to Zarnowitz (1999), when stock prices go down, it has become one indicator of vulnerability economy to recession. Furthermore, he states that when the stock market rose to the number, it would help the firm to expand. The data from 2008 to 2009 shows that Bank Islam had a decrease in the stock price. Yet, from 2010 to 2013, Bank Islam showed a good performance in stock price. Hence, Bank Islam experienced the indicator of the signs of distress in changes of financial due to the decreasing stock price.

2. Declining bank or bond price.

Bank Islam has a report on bond prices or securities. A security for the company is negotiable and tradable of financial asset instrument that can be identified as: (i) An ownership position for a publicly-traded corporation (via stock), (ii) a creditor relationship with a governmental corporation (via entity's bond), and (iii) a right to ownership as represented by an option. There is no information about the bond price of Bank Islam from Osiris. The present study used another way to find the bond price of Bank Islam via securities value, such as:

- a) Islamic Debt Securities, which is divided into three assessments: Financial asset held for trading, financial assets available-for-sale, and financial asset

held to maturity. The report number of 2005 to 2014 was used to represent Bank Islam for the present study.

- b) Financial risk management on securities portfolio via measuring the maturity analysis by up to 1 month, > 1 month to 3 months, > 3 to 6 Months, > 6 to 12 months; and over 1 year from 2010 to 2014.

Sukuk information is also provided for Bank Islam in the present study, namely:

- a) Name: Bank Islam Malaysia Berhad (“Islamic Bank” or “Issuer”)
- b) Business registration number: 98127-X
- c) Date and place of incorporation: 1 March 1983 / Malaysia
- d) Date of listing: Not applicable

Based on this, the Islamic debt securities in Bank Islam is provided in the present study, which started from 2005 to 2014 and securities portfolio from 2010 to 2016, respectively. The data can be referred to in Appendix 21. There were changes in stock prices during the GFC, where from 2006 to 2009, Bank Islam had a decrease in debt securities from 2006 to 2007. However, it recorded an increase in reporting on debt securities from 2007 to 2009. Therefore, it can be said that Bank Islam experienced the indicator of the Sign of Distress in changes of financial due to the decreasing bond price.

3. Inability to meet debt covenants.

Bank Islam used a measurement to get the numbers for financial covenants:

$$\text{Debt to Equity Ratio} = \frac{\text{Financing, Advances and Others}}{\text{Shareholders' Equity}}$$

The financial covenants in Bank Islam are related to the condition of borrowing based on dedicated covenant reports within a financial model from the company to the bank or other financial institutions. Sometimes the numbers of financial covenants

could be positive or negative. The financial covenants in Bank Islam from 1994 to 2013 related to the AFC and GFC, are:

- a) A fluctuated report occurred during the AFC. Firstly, changes occurred due to decreasing number of financial covenants from 1996 to 1997, then the numbers went up in 1998 and 1999.
- b) There were decreasing numbers of debt covenants in Bank Islam when the Labuan crisis happened in 2003.
- c) While during the GFC, from 2007 to 2009, Bank Islam reported a rise in the number of financial covenants.
- d) In 2013, Bank Islam increased its number of financial covenants.

The replacement of the word debt to financial follows the data written in the Bank Islam statement. This is because, if the debt covenant is used in the statement of manufacturing companies, then the use of the word financial covenant is used in Bank Islam's statement. Paglia & Mullineaux (2006) state that when a firm possesses debt contracts containing standard provisions, it is known as covenants. On the other hand, Demerjian (2016) states that covenant is a debt agreement in terms of financial contracting, such as a loan document or bond issue stating the limits, at which the borrower can further lend. According to Paglia & Mullineaux (2006), the covenant in a debt contract is the most important role to create the balancing on costs and benefits of borrowing to the firm. This debt contracting will affect agency problem factors, information problems, incentives to monitor, and credit risk as explanatory variables. However, debt covenants are negatively related to growth opportunities (Paglia & Mullineaux, 2006). According to Bradley & Robert (2015), many factors influence the debt covenant that could have come from macroeconomic factors. As such, it can be

said that Bank Islam experienced the indicator of the signs of distress in changes in financial due to decreasing financial covenants.

4. Resignation of key finance staff.

The finance department has an important role, especially in a manufacturing company. However, in banking, every department has a different important role that gives the impact on the performance of the bank. Appendix 22 shows evidence of changes in the department of structural organizational of Bank Islam. It shows that they developed and managed the corporate framework every year since 1984 until 2003 and follow the guideline of BNM's Guidelines to establish RMC to manage the bank's credit, market, liquidity, and operational risks (Annual Bank Islam Report 2004, page 8). One of the information released by BNM is that most banks have 36 departments/units organized into eight divisions, in which each Assistant Governor is responsible for one (BNM, 2019). According to Heffernan (2005), banks have their uniqueness in the firm structure compared to other institutions, which are:

1. Banks act as intermediaries between borrowers and lenders by offering a unique form of asset transformation.
2. Liquidity is an important service offered to customers.
3. The bank has an important role in the macroeconomy, especially when it comes to central banks because the process of lending creates money.

As such, it could be concluded that Bank Islam has an organizational structure but did not experience the indicator of the signs of distress in changes of financial, due to the resignation of key finance staff.

5. Diminishing liquidity.

Bank Islam has liquidity and the measurement to get the number of liquidities is as shown in:

$$\text{Liquid Asset Ratio} = \frac{\text{Current Asset}}{\text{Current Liabilities}}$$

It provides the findings that relate to the AFC and GFC, which are:

- a) During the AFC, which started from 1996 to 1997, there was a decreasing number of liquidities. Another finding shows the continuity of diminishing liquidity from 1997 to 1998.
- b) From 2004 to 2006, Bank Islam provided a fluttered liquidity report. From 2004 to 2005, they reported a drop in numbers on liquidity. Meanwhile, from 2005 to 2006, their report went up on liquidity.
- c) During the GFC, Bank Islam also has a fluttered liquidity report. As the present study provides the evidence of the drop number of liquidities reporting from 2007 to 2008. However, the number of liquidity went up from 2008 to 2009.
- d) In 2013, Bank Islam leveled off its liquidity reports from the previous year.

Heffernan (2005) states that banks have an important role to play in the financial market by offering loans and deposits as products and cater to the changing liquidity needs of its borrowers and depositors. According to Dauderis & Annand (2014), liquidity has a relation towards satisfaction on demands for cash in the near-term for a corporation. On the other hand, Mohamed Yusuf & Salina (2012) believe that liquidity shows the speed of the bank to convert assets into cash to meet the cash demands of the depositors and borrowers. If a bank has a problem with liquidity, it would interrupt the economic activities between borrowers and depositors. Therefore, it can be said that

Bank Islam experienced the indicator of the signs of distress in changes of working capital/liquidity due to diminishing liquidity.

6. Repeated bank amendments.

To understand the amendments in Bank Islam, the following explanation is provided:

- a) The meaning of amendment refers to the alteration by adding, changing, or omitting the legal document executed by parties concerned and retaining the legal validity of the original document. However, if there is a construction or supply contract in amendments before the contract is awarded, any change made afterward, it is called modification (source: Business Dictionary).
- b) It is related to letter of credit. (Source: Globalnegotiator.com)
- c) It is related to the changes in the terms of the contract or regulatory filing. It is also related to an existing or proposed law. However, the changes or anything in the contract or regulatory must follow the mutual agreement of both parties (Source: Investopedia.com).

Banks' amendment does not only mention about the regulation, but it also relates to the contract. The development regulation from 1984 to 2013 can be referred to as follows:

- a) The beginning of the development of the regulation on bank reports in Bank Islam was still in progress, which means that only certain terms (as zakat, reserve fund, tax credit, and family takaful fund) had been regulated from 1984 to 1987.
- b) From 1988 to 2003, the continuity progression regulation on the financial statement was reported following the Bank Report Regulation under the

historical cost convention and comply with the provisions of the Companies Act of 1965 and modified to comply with the principles of Sharia and BNM Guidelines.

- c) From 2004 to 2006, Bank Islam developed a regulation report of preparation on financial statements for the adoption of the revised guidelines on Financial Reporting for Licensed Islamic Banks (BNM/GP8-i) issued by BNM since June 2005.
- d) The current information (from 2007 until 2013, which continued up to 2017), Bank Islam had reported the statement of the financial report applicable to the MFRS, IFRS, the requirements of Companies Act, 1965 in Malaysia and Sharia requirements in financial reporting.

The bank amendment in Bank Islam is related to the regulation of contract. Prior to the establishment of Bank Islam, there was no regulatory information that was related to any word of the contract. By contrast, Bank Islam had explained from 1985 to 1987 about the contract, where the position of the bank directors did not have any interaction on any contract benefit that had been undertaken by the bank. From 1988 to 2003, they added another information to the bank's account for all its leasing contracts as operating leases under the information of leases. Furthermore, from 2004 to 2006, they differentiated the type of contract, (*ijarah* leasing contracts) as operating leases and (*ijarah muntahia bittamlik*) as finance leases. In addition, from 2007, they used the regulated statement on the construction contract that is stated under FRS 111. While also, from 2007 they followed the accounting standards of MASB, which also followed FRS as modified by the BNM Guidelines, accounting principles that are generally accepted in Malaysia, the provision of the Companies Act, 1965 and the Sharia

requirements. After 2013, Bank Islam continued to be more detailed about the performance of applicable contracts. Therefore, Bank Islam could be said to have experienced the indicator of the signs of distress in changes of financial, due to the repeated bank amendments.

7. Downgrades in debt ratings.

Bank Islam had downgrades in debt ratings, as provided by the measurement of the following ratio:

$$\text{Debt Ratio} = \frac{\text{Total Liabilities}}{\text{Total Assets}} = \text{Solvency Ratio}; \text{Debt to Equity Ratio} = \frac{\text{Total Liabilities}}{\text{Total Equity}}$$

According to Durand (1941), debt rating is related to the credit rating formula to measure commercial bank and industrial banking performance, by differentiating three categories (good loans, bad loans, and bad loan relative). Another explanation about downgrades in debt rating, aims to measure the declining value and is related to the firms' ability on debt, as in the previously mentioned formula. The downgrades in debt ratings in Bank Islam from 1994 to 2013; in relation to the AFC and GFC, were:

- a) During the AFC, Bank Islam had fluctuated report on debt rating and debt to equity ratio, which started from 1997 to 1998, but dropped afterward in numbers, and from 1998 to 1999, the reported debt rating and debt to equity ratio went up.
- b) From 2005 to 2006, both from debt ratio and debt to equity ratio provide downgrades in debt ratings of Bank Islam.
- c) During the GFC, Bank Islam also shows evidence of downgrades in debt ratings from 2007 to 2008.
- d) In 2013, the number of debts to equity ratio of Bank Islam gently went up.

Heffernan (2005) explains that the use of debt (such as debt to equity) for any external ratings of a firm is if it is worth enough credit to be issued at its securities. Based on this, Bank Islam experienced the indicator of the signs of distress in changes of financial, due to downgrades in debt ratings.

8. Accounting restatement.

Based on the observation of the financial report of Bank Islam since 1984 to 2016, there was only one time Bank Islam mentioned the word restatement in its financial reporting of 2007, and the restatement was later announced in its annual report of 2008. According to Boyer et al. (2017), the discovery of errors in the reporting of the previous year's financial statements is through two possibilities (restatement or a revision). In terms of restatement, Boyer et al (2017) state that the error must be material. This is caused by a weaknesses in internal control and thereafter required disclosure. The following rarities are carried out by the company via several steps: (i) Audit committees get notified, (ii) determine the starter of internal investigation, (iii) contact the counsel, if there is any misconduct, and (iv) consider the ramifications on the system of internal control. As regard to revision, Boyer et al. (2017) state that it is a detection on immaterial errors from financial statements and overall errors are not materially misstated. The next procedure will involve the error to get treated, such as: (a) correction error from the current financial statement, and (b) previous year statements can still be relied upon.

Furthermore, Bank Islam has been analyzed and undergoing a revision in the financial statement. It can be seen that the number in reporting from the previous year (from financial reporting of 2007) is closer to the revision procedure than the restatement. This is because Boyer et al. (2017) reveal that it is the best interest for firms

and auditors to have a revision instead of a restatement on financial statements, as it will give some advantages, such as:

1. There would be no specific announcement about the change that can be done at the same time an earnings announcement is made.
2. Financial statements from previous years can be relied upon.
3. No change is needed in the auditor's opinion.

Therefore, Bank Islam does not support the indicators on accounting restatement since it did not experience the indicator of the sign of distress in changes of financial, due to accounting restatement.

9. Inability to file a financial statement.

According to Dauderis & Annand (2014), financial statements have four type of reports (income statements, statements of changes in equity, balance sheets, and statements of cash flows) that serve as a communication tool of reporting the quantitative information to internal and external users. The financial statement is reported at regular intervals (monthly or quarterly and at the end of each 12 months) to GAAP. Every firm should have a good financial report to attract good investors or customers. After the observation of the financial report of Bank Islam from 1984 to 2016, it was found that they did a good job by having the ability to file the financial statement. Notably, readers (from the researcher, investor or public) can access the financial statement from their website or Bank Negara's library prior to the establishment until 2017. Considering all this, it seems reasonable to assume that the inability to file a financial statement factor did not give a huge impact on the declining performance for Bank Islam during the financial crisis. Therefore, Bank Islam does not

support the indicator of inability to file its financial statement. As described, it did not experience the indicator of the signs of distress in changes of financial.

4.3.3 Changes of Profitability and Industry Outlook.

1. Shrinking EBITDA margin.

The firm (which focuses on the production of goods or things) uses the value of EBITDA by focusing on reporting the firm's profits before deducting interest on debts and tax payable that must be paid to the government. EBITDA is also used to assess the comparison of the profitability of performance between one firm and another in terms of debt assessments and tax liabilities. The EBITDA assessment for the traditional commercial banking business model involves borrowing money from depositors and other lenders and lending money to borrowers, such as homeowners, businesses, and credit-card holders. Meanwhile, the EBITDA assesses Bank Islam's performance by appraising profit before zakat and tax. The present study shows the shrinking profit before zakat and tax in Bank Islam from 1994 to 2013 and relates this data to the AFC and GFC, such as:

- a) During the AFC, Bank Islam had a fluctuated report and started to rise in number in 1997, and suddenly dropped in 1998 and went up in 1999 on profit before zakat and tax.
- b) In 2004, Bank Islam had a shrink in profit before zakat and tax started from the previous financial reporting and continued to decrease to 2005 and 2006.
- c) During the GFC, Bank Islam got a fluctuated report on profit before zakat and tax. It started in 2007, a drop in the report, after which it went up in number of profits for the following year before zakat and tax. However, in 2009, Bank Islam sharply dropped on profit before zakat and tax.

d) In 2013, Bank Islam slightly increased in number of profits before zakat and tax from the previous year.

Based on Luciano (2003), the analysis of EBITDA was used to assess the quality of a company's reported earnings, providing the starting point of free cash flow, and the potential debt in the business. Rohila & Mohammad (2011) state that the payment of tax has an important contribution made to the state and zakat payment for those who do business. Reporting on zakat and tax payments will be made in the statement of financial position of a business and statement of comprehensive income of a company. BNM (2018) describes the obligations of an Islamic financial institution's obligation on zakat. BNM also mentions that Islamic financial institutions still have to disclose a statement in the financial statements if they do not pay zakat. Bank Islam has an obligation to make tax and zakat payments and the assessment of the profits obtained after payment of zakat and tax which can indeed affect the value of the profitability of Bank Islam.

Therefore, Bank Islam experienced the indicators of the distress in changes in profitability and industry outlook due to the shrinking profits before zakat and tax.

2. Reduced capital-investment programmes.

According to Kenton (2019), capital investment is the availability of money from companies to develop business. The capital investment is aimed at acquiring companies for long-term goals, such as real estate, manufacturing plants, and machinery. According to Hayes (2019), the link between bank capitals is in the differences between assets and liabilities that will show the report of the bank's net worth and it shows equity value to investors. Accordingly, Fama (1980, 1985) also states that capital investment can provide opportunities for banks to have a profit by diversifying the risk of deposit (Heffernan, 2005). As such, capital investment programs

are bound to develop projects in the future that can increase profits for the firm's profit value. The study provides findings that relates to the AFC and GFC, which are:

1. Starting from the AFC, Bank Islam launched the website and ran the MIS program started in 1997.
2. In 2003, Bank Islam launched its internet banking, *zakat* (tithe) payment facilities via ATM and credit card and offer SMS banking service (bankislam.sms) using any mobile operators.
3. Even during the GFC, Bank Islam still diversified several capital investment programs.
4. In 2013, Bank Islam started to do the dividend reinvestment plan and other capital investment programs.

According to the finding, the listed capital investment in Bank Islam did not give a huge impact on the declining performance during the crisis. Therefore, Bank Islam does not experience the indicator of the signs of distress in changes of profitability and industry outlook.

3. Going concern opinion.

According to Dauderis & Annand (2014), the going concern is an assumption on the continuity of business in the future. Also, Heffernan (2005) believes that going concern is part of administration that prevents the situation of the firm from failing from business and being liquidated. Ni Nyoman et al. (2017) state that a going concern analysis is related to the report of audit opinion and aims to show the feasibility of the firm as well as the quality of financial statements as indicators of business continuity in the long period and not to be liquidated in the short period. More so, a going concern opinion is focused on the sustainability observation of the business growth without the

liquidation threat so that the firm can survive until the subsequent year. This finding relates to the AFC and GFC in the following ways:

- a) There is no clear information about the change of interest report of an internal audit in the financial report of Bank Islam from 1984 to 1993.
- b) Bank Islam began to focus on the internal auditor report by providing an audit committee from 1994 to 2004.
- c) Bank Islam did the renewal position of internal auditor in organizational structure by developing the position of audit and examination committee chairman from 2005 to 2016.

Bank Islam conducted the Sharia audit following the Sharia regulation. However, they did not attach any details about the Sharia auditing report from 1984 to 2007. They carried out the audit report on Sharia's performance and started from 2008 to 2016. The independent audit reports was conducted since the beginning of the year of establishment. The study provides the independent auditor report as disclosed from the Chartered Firm Accountants from Hanafiah Raslan & Mohamad (from 1984 to 2002) and KPMG Megat & Co Village (AF 0759) from 2003 to 2016. Appendices 43 to 45 show the auditor report from the Internal Auditor report, Sharia Auditor Report, and Independent Auditor Report from 1994 to 2013 (the second portofolio that focuses on finding data.). Hence, the present study relates to the AFC and GFC, in the following ways as shown in Table 4.10.

Table 4.10: Going Concern Opinion in Bank Islam

| AFC (1997 – 1998) | | |
|---|--|--|
| Internal Audit Report | Sharia Audit Report | Independent Auditor Report |
| The audit and examination committee was established by the board of Islamic Bank to focus on internal controls, audit | Similar to the previous explanation, there is no detailed report on Sharia Audit during the AFC. | Based on the opinion of Chartered Firm Accountants of Hanafiah Raslan & Mohamad, the auditors gave a true and fair view of the state of affairs of the |

| programs, and the finding and to recommend the action to be taken by the Management. | | Bank as of 1997, 1998 and 1999 and of the results of the Bank as well as the Group and cash flows of the Group for the year ended. |
|--|--|--|
| Bank Islam (2005 to 2006) | | |
| Internal Audit Report | Sharia Audit Report | Independent Auditor Report |
| Under the work of Chairman Audit and Examination Committee, Zahari @ Mohd Zin Idris, Bank Islam established the Internal Audit Department to conduct independent operational, risk management and management audits. The audit plan also reviewed the adequacy of risk management, operational controls, compliance with laws and regulations quality of assets management efficacy, highlighting weaknesses and making appropriate recommendations for the improvement of the Management. | Similar to the previous explanation, there is no detailed report on Sharia Audit during the AFC. | The report of KPMG Desa Megat & Co. and Abdullah Abu Samah stated true and fair view of the Bank on 30 June 2005 together with the accounting, other records and the registers required by the Companies Act, 1965. According to KPMG Desa Megat & Co and Mohamed Raslan bin Abdul Rahman as partners, they stated a true and fair view of the Bank on 30 June 2006 and matters required by Section 169 of the Companies Act, 1965 in the Bank's financial statements. Bank Islam had a net loss of RM 1,296.79 million for the year ended 30 June 2006, whereas the Bank's total liabilities exceeded its total assets by RM 277.84 million, and the risk-weighted capital ratio was a negative 2.84 %. The additional capital injection of RM 1,014.59 million received by the Bank to recover its recorded assets and liabilities. The Bank was unable to continue the loss. |

| GFC (2008 to 2009) | | |
|---|---|---|
| Internal Audit Report | Sharia Audit Report | Independent Auditor Report |
| With the Chairman of the Audit and Examination Committee, Zahari @ Mohd Zin Idris describes a committee work for adopting a risk-based approach to audit, compliance with laws and regulations, quality of assets, and management efficacy. | The Bank carried out a Sharia compliance review performed by the Internal Audit Division and Sharia Department throughout the organization and the report was deliberated in the Council meeting. The Council confirmed that necessary efforts had been taken to rectify the Sharia breaches, and the Bank also implemented several mechanisms (s) to prevent similar Sharia breaches from recurring. | Based on the opinion of Chartered Firm Accountants, KPMG Desa Megat & Co (AF 0759), with Chartered Accountant, Adrian Lee Lye Wang, stated that the financial statements have been properly drawn up following Financial Reporting Standards, as modified by BNM Guidelines, and the Companies Act, 1965 in Malaysia to give a true and fair view of the financial position of the Group and the Bank 2008 and 2009, as well as their financial performance and cash flows for the year then ended. |

Source: Annual Report of Bank Islam

Therefore, Bank Islam experienced the indicator of the signs of distress in changes of profitability and industry outlook due to going concern opinion.

4. Deteriorating industry fundamental.

Bentes & Navas (2013), state that a fundamental analysis is to analyze the economic and financial reports of a firm. It includes an analysis of the values of quantitative and qualitative analyses. Their study also provides the diversification on financial reports of firms (profit, loss accounts, and balance sheets) and several financial indicators (revenue, earnings, liabilities, expenses, and assets). According to Shaharudin et al (2018), it is the fundamental analysis that provides the financial information to investors about the financial status of the firm. The study shows the deteriorating industry fundamental in Bank Islam from 1984 to 2013 based on the statement of financial position, the statement for profit or loss and other comprehensive income, as well as statement of cash flow. The present study also provides market share, industry growth, and regulation from 1984 to 2013 in Bank Islam. This finding relates to the AFC and GFC as shown in Table 4.11:

Table 4.11: Quantitative Information on Fundamental Analysis

| | AFC | 2003 | 2005-2006 | GFC | 2013 |
|---|-----|------|-----------|-----|------|
| Statement of Financial Position: | | | | | |
| 1. Total Asset | ↑ | ↓ | ↓ | ↑ | ↑ |
| 2. Total Liabilities | ↓ | ↓ | ↓ | ↑ | ↑ |
| 4. Total Equity | ↑ | ↑ | ↓ | ↑ | ↑ |
| 4. Commitment and Contingencies | ↑ | ↑ | ↓ | ↓ | ↑ |
| The Statement For Profit Or Loss and Other Comprehensive Income: | | | | | |
| 1. Total Net Income | ↑ | ↓ | ↓ | ↓ | ↑ |
| 2. Profit for the Year | ↓ | ↓ | ↓ | ↓ | ↑ |
| Statement of Cash Flow | | | | | |
| 1. Net Cash Flow from Operating Activities | ↓ | ↓ | ↓ | ↓ | ↓ |
| 2. Net Cash Flow from Investing Activities | ↑ | ↑ | ↑ | ↓ | ↑ |
| 3. Net Cash Flow from Financing Activities | ↑ | ↓ | ↑ | ↓ | ↓ |

Source: Annual Report of Bank Islam

From Table 4.11, the indicator's performance as compared between the AFC and GFC suffered a decreasing number. It is the same situation when the observation

was done in 2003, 2005 and 2006. The study provides the qualitative analysis on the industry fundamental of Bank Islam as in Table 4.12.

Table 4.12: Information on Industry Growth and Regulation

| | Industry Growth | Regulation |
|------|--|---|
| 1984 | <ol style="list-style-type: none"> Bank facilities and services: <ul style="list-style-type: none"> Deposits: Divided into a current asset, saving account, and investment account, Financing and investment: Divided into financing, trade financing, and investment. Other services. Started with 4 branches, which are Kuala Lumpur, Kuala Trengganu, Kota Baharu, Alor Setar | <ol style="list-style-type: none"> Principal Activities following the IBA, 1983. Accounting records and financial management following the provisions of the Statutory Declarations Act, 1960. |
| | Industry Growth | Regulation |
| AFC | <ol style="list-style-type: none"> Bank Expand commendable growth in its lending portfolio by 23.2 % in 1997 and 27.4 % in 1998 The report of banking facilities and services has been recorded, such as in the following ways: <ul style="list-style-type: none"> Deposits and Assets: Bank's deposits from customer were RM 3716.5 million; the number of depositors was 557529. Financing: The Bank's total amount of financing, less provision for bad and doubtful financing with RM 2472.2 million; the total number of financing accounts was 46390 in 1997. Investment: Bank's investment in securities was RM 938.3 million; Malaysia Government Investment Certificates at RM 150.7 million in 1997. Profit to Depositors: Bank's credited RM 144.3 million into the account of profits attributable to depositors. Market offer is deposit based by offering Negotiable Islamic Deposit Certificate in 1998. Shares of Syarikat Takaful Malaysia Berhad holds at 70.12 % equity of banks performance, carried out Islamic Insurance (takaful) business in family takaful business and general takaful business. The wholly-owned subsidiary, Syarikat Al-Ijarah Sendirian Berhad, an in-house leasing company recorded RM 0.5 million (profit after zakat and taxation) in 1997. The wholly-owned Al-Wakalah Nominees (Tempatan) Sendirian Berhad by RM 54.227 (profit after zakat and taxation in 1997). The wholly-owned, BIMB Unit Trust Management Berhad, which managed Amanah Saham Bank Islam (ASBI)- Tabung | <p>1997</p> <ol style="list-style-type: none"> Following Article 60 B (c)(ii), 61 and 66, there was a re-election on the structural organization of Bank Islam. The financial management of Bank Islam (such as balance sheet, profit and loss accounts, and statement of changes in financial position) by following the virtue of the provisions of the Statutory Declarations Act, 1960. The accounts comply with the principles of Sharia by following the accordance with the provisions of the Companies Act, 1965. The Family Takaful Fund followed the Takaful Act, 1984 (amended) and included the profit attributable to participants. Investment securities followed Section 16 of IBA 1983 and were usually held to maturity. Statutory Deposits with BNM compliance with Section 37 (1) (c) of the Central Bank of Malaysia Ordinance 1958. The reserve fund complied with the IBA, 1983 and was not distributable as cash dividends The Bank had sufficient tax credit under Section 108 of the Income Tax Act, 167. <p>1998 (Addition regulation after 1997)</p> <ol style="list-style-type: none"> Provision for bad and doubtful financing and diminution in accounts under accounting and auditing organization for Islamic Institutions Financial Accounting Standards No 2, 3, 5, and 6. A member's scheme of arrangement under Section 176 of the Companies Act, 1965. |

| | |
|---|---|
| <p>Pertama, a Unit Trust fund established by the Bank with a size of RM 150 million with 1997, RM 1.2 million profit of the financial year.</p> <p>8. The wholly-owned subsidiary, BIMB Securities (Holdings) Sendirian Berhad, which holds 70 % equity in BIMB Securities Sendirian Berhad, the first stockbroking company to operate on the principle of Sharia recorded, such as with several RM 788.765 in 1997.</p> <p>9. New Product and Services by introducing products, such as Personal Financing Package, Wadi Savings Account, Ijraa Savings Account, Ar-Rahnu Scheme and few others to customers.</p> <p>10. Bank increased the branches, such as 51 branches in 1997 and 78 in 1998</p> | <p>3. Zakat complied with the principles of Sharia and as approved by the Sharia Supervisory Council.</p> <p>4. The credit equivalent per BNM guidelines.</p> |
|---|---|

| | Industry Growth | Regulation |
|------|--|--|
| 2003 | <p>1. The Bank had embarked on a major restructuring of its organization in 2003. The first phase of the transformation involving divisions at the head office was completed in July 2003, identifying the following six strategic objectives that will continue to drive the Bank's expansion and growth near future, i.e. to aggressively grow consumer banking business, strengthen commercial banking, develop debt market capabilities, develop risk management capabilities, IT infrastructure and staff competencies.</p> <p>2. In 2003, the Bank's core business focus will remain on the consumer banking business.</p> <p>3. Focus on strengthening its debt market capabilities.</p> <p>4. To improve asset quality, the Bank has established risk management.</p> <p>5. The Bank recorded a 10.9 % growth in total financing to RM 7.6 billion in 1997, capturing 16.43 % market share of the Islamic banking industry and 1.64 % market share of the banking industry. Total deposits decreased by 8.87 % to RM 11.3 billion.</p> | <p>1. Provision for bad and doubtful financing and diminution in value of investment had been treated in the financial statements following BNM and AAOIFI.</p> <p>2. The financial statements and its cash flows following the provisions of the Companies Act, 1965 (in Section 169).</p> <p>3. SSC following provision of Section 3 (5)(b) of the IBA 1983.</p> <p>4. Accounting policies are adopted by the Bank:</p> <ul style="list-style-type: none"> • MASB 23, Impairment of Assets • MASB 24, Financial Instruments: Disclosure and Presentation • MASB25, Income Taxes, and • Early adoption of MASBi-1, Presentation of Financial Statements of Islamic Financial Institutions. <p>5. Basic accounting compliance with the provisions of the Companies Act 1965 and principles of Sharia and BNM Guidelines.</p> <p>6. Income recognition following principles of Sharia and Bank Negara Malaysia's Guidelines.</p> <p>7. Investment securities comply with Section 16 of the Islamic Banking Act, 1983, Investments in Malaysian Government Investment Certificates and Islamic Debt Securities.</p> <p>8. Allowance for financing loss following the revised BNM/GP3 (September 1998) and the relevant accounting standards issued by the Accounting and Auditing Organisation for Islamic Financial Institution.</p> <p>9. Statutory Deposits with BNM following BNM in compliance with Section 37 (1) (c).</p> <p>10. Following BNM's directive on 24 June 2003.</p> |

Source: Annual Report Bank Islam (from 1984 to 1985; 1997 to 1999; 2003)

Table 4.12: Information on Industry Growth and Regulation

| Industry Growth | Regulation |
|---|---|
| <p>2005</p> <ol style="list-style-type: none"> 1. The Bank recorded 22.5 % growth in total assets to RM 15.8 billion in 2005. 2. From Labuan offshore subsidiary [Bank Islam (L) Ltd. (BILL)] into a branch [(BIMB Labuan Offshore Branch (BILOB))] on 10 December 2004 contributed RM 1.8 billion, capturing 16.3% market share of the Islamic banking industry and 1.8 % market share of the total banking industry in 2005. 3. Total deposits also increased by 19.5 % to RM13.5 billion that represent 18.5 % of the Islamic banking industry or 2.1 % of the total banking industry in 2005. 4. In 2005, The Bank recorded a loss before tax and zakat of RM 479.8 million compared to a profit of RM 98.3 million previously. The loss was due to higher provisioning on NPF of RM 648 million following the increase in NPF level mainly attributed to BILOB. The Bank fixed it by introducing and adopting appropriate measures to improve its financial standing, including cost control measures, enhancement of fee-based activities, and controlling of NPF as well improving staff productivity to enhance its revenue/ ost ratio. 5. In 2005, BIMB has outlined a strategic plan which concentrated on four main areas; franchise or business strategies, for the consumer, corporate and commercial banking, people/manpower, risk and controls, and financials. 6. The Bank's products and services were such as: <ul style="list-style-type: none"> • Consumer banking, bank focus on credit card business, home, and vehicle financing to increase market share. • Commercial banking, bank focus on the origination team with emphasis on improving sales, distribution, treasury, and cash management activities. The division also focused on selective top-tier listed companies, government-linked companies, and multinational companies in its bid to contribute toward the overall performance of BIMB. | <ol style="list-style-type: none"> 1. The re-arrangement of structural organization in Bank Islam by the composition of the Board complies with BNM's Guidelines (BNM/GP1-i). 2. The SSC was established under the provision of Section 3(5)(b) of the IBA 1983. 3. A robust risk management framework would further strengthen its risks and credit controls compliance with Basel II Accord and the IFSB Standards. 4. The reporting of financial statements following the provisions of the Companies Act, 1965 determined by BNM under subsection 19 of Section 169 of the said Act and applicable approved accounting standards in Malaysia. 5. The audit on the financial statements following Section 174 of the Companies Act, 1965 and following approved standards on auditing in Malaysia. 6. The Bank is a licensed Islamic Bank under the IBA 1983. 7. The basis of preparation of the financial statements. The accounting policies adopted by the Bank are consistent with those adopted in the previous years except for the adoption of the revised guidelines on financial reporting for Licensed Islamic Banks (BNM/GP8-i) issued by BNM in June 2005, which became effective for the current financial year. The adoption of the revised GP8-i has resulted in the adoption of the following accounting policies: <ul style="list-style-type: none"> • the recognition and measurement of the holdings of the investment and dealing securities portfolio of the Bank as securities held-for-trading, securities held-to-maturity, and securities available-for-sale, which has been adopted prospectively as it is impracticable to apply retrospectively due to factors explained in Note 47, • Where a financing account becomes non-performing, profit accrued and recognized as income before the date of the account is classified as non-performing and is not reversed out of income, but an allowance is made against that income in conformity with BNM guidelines. Thereafter, profit on the non-performing financing shall only be recognized as income on a cash basis instead of being accrued and suspended at the same time as practiced previously. The policy has been adopted retrospectively. |

2005-2006

Table 4.12: Information on Industry Growth and Regulation

| | Industry Growth | Regulation |
|-----------|---|--|
| 2005-2006 | <p>7. The financial report of Bank Islam was such as:</p> <ul style="list-style-type: none"> • FY 2005, RM885.00 million (total income from investment of depositors' and shareholders' funds), RM 479.78 million (loss before tax and zakat), RM 15.85 billion (total asset), RM 14.39 billion (total customers' deposits) • FY 2006 RM 960.63 million (total income from investment of depositors' and shareholders' funds), RM 1.48 million non-performing financing; of RM 1.28 billion (loss before tax and zakat), RM 1.30 billion (net loss), RM 14.61 billion (total asset), RM 13.48 billion (total customers' deposits) <p>8. In 2006, the bank focused on the online with a customer-centric strategy, by re-establishing the Sales and Marketing Division.</p> <p>9. In 2006, the bank had 22 % of the market share. It a marginal drop from the previous year's of 23 %. Bank fixed it by improved cash management solutions. The Bank's presence in the government sector remained strong, with 16 % of the market share.</p> <p>10. The Cash Management division's current account such as RM 2.87 billion in 2005 and RM 3.61 billion in 2006.</p> <p>11. Trade finance and cash management continued to be core offerings and generate more fee-based income in non-traditional segments such as the capital market.</p> <p>12. The bank strengthened the balance sheet by a capital injection of RM 1.01 billion which raised its risk-weighted capital ratio way above the 8 % minimum regulatory requirement in 2006. The Bank had received a capital injection amounting to RM 1,014.59 million from Dubai Financial LLC and Lembaga Tabung Haji after the balance sheet date on 16 October 2006 according to its restricted issue, as detailed in Note 46. With this capital injection, the Bank had improved its financial position to positive shareholders' funds.</p> <p>13. The turnaround plan for recapitalization and balance sheet restructuring were such as: IT Infrastructure Revamp; Transformation Programme, Cost Rationalisation Exercise, and Human Capital Development.</p> <p>14. The increasing number of branches with 90 branches in 2005 and 95 branches in 2006</p> | <ul style="list-style-type: none"> • The financial management of BIMB follows the provisions of the Statutory Declarations Act, 1960. <p>8. The basis of accounting follows the BNM Guidelines and complies with the provisions of the Companies Act, 1965 and Sharia requirements.</p> <p>9. Specific allowance for bad and doubtful financing has been made in full compliance with the revised BNM GP3 (September 1998)</p> <p>10. Where a financing account becomes non-performing, profit accrued and recognized as income before the date the account is classified as non-performing and is not reversed out of income but an allowance is made against that income in conformity with the BNM guidelines.</p> <p>11. Zakat. It is an obligatory amount payable by the Bank to comply with the principles of Sharia. Zakat provision is calculated based on 2.5775 % of the net asset method.</p> <p>12. PER, it is provided based on the framework of the rate of return or BNM/GP2-i issued by BNM.</p> <p>13. Statutory Deposits with BNM. The non-interest bearing statutory deposits are maintained with BNM in compliance with Section 37(1)(c) of the Central Bank of Malaysia Act, 1958 (revised 1994).</p> <p>14. Reserve Fund. Reserve fund is statutory reserves maintained in compliance with Section 15 of the IBA 1983 and is not distributable as cash dividends.</p> <p>15. Section 108 Tax Credit and Tax-Exempt Income Account. Subject to agreement by the Inland Revenue Board, the Bank has sufficient Section 108 tax credit and tax-exempt income to frank up to approximately RM 562,610,000 in 2005 and RM 537,565,000 in 2006 as dividend subject to availability of sufficient profits.</p> <p>16. The credit equivalent amount was arrived at using the credit conversion factors as per BNM guidelines.</p> |

Source: Annual Report Bank Islam 2005 to 2006

Table 4.12: Information on Industry Growth and Regulation

| Industry Growth | Regulation |
|--|--|
| <p>2008-2009</p> <ol style="list-style-type: none"> 1. Focus on banking activities in 2008: <ul style="list-style-type: none"> • Consumer Banking– Customers Come First • Commercial Banking – More Innovative Financing Solutions • Corporate Banking – Value-adding Services • Treasury – Helping Customers Manage Forex Needs • Corporate Investment Banking – Making History • Recovery Division – Pre-empting Delinquent Financing 2. On the fee-based income, Bank Islam created new “hero” products using electronic banking, wealth management, and BDC platforms. 3. In line with the Growth Plan in 2009, the Bank offered innovative products, such as the recently launched Al-Awfar deposit product with the Bank’s objective of garnering more low-cost deposits. 4. Following the successful completion of Bank Islam’s Turnaround Plan as reflected by healthy profits that they achieved over three consecutive financial years, the Bank is now looking to embark on a three-year SGP. Then came the strengthening of their enabling infrastructure, capability and capacity building, franchise development, and last but not least, inorganic growth and corporate expansion. The Bank’s SGP, comprising six pillars, namely, Business Innovation, Robust Risk Management, Strengthening of Enabling Infrastructure, Building Capacity and Capability, Franchise Development, and Inorganic Growth and Corporate Expansion in 2009. 5. Bank’s product and services in 2009: <ul style="list-style-type: none"> • Commercial banking, bank launch new financing programs for Enterprise Banking customers. • Treasury, the bank endeavor fee-based income and strengthen its market share 6. Bank Islam did a reorganization of the DCM Department. | <ol style="list-style-type: none"> 2008 <ol style="list-style-type: none"> 1. Bank Islam follows the Sharia governance framework, organizational structure, and establishment of the Council in line with the requirement of Section (5)(b) of IBA 1983. 2. The reporting of financial statements following with the provisions of the Companies Act, 1965 and Financial Reporting Standards issued by the Malaysian Accounting Standards Board as modified by BNM Guidelines. 3. The financial management of BIMB and by the provisions of the Statutory Declarations Act, 1960. 4. Statutory reserve. The statutory reserve is maintained in compliance with Section 15 of the IBA, 1983 and is not distributable as cash dividends. 5. The risk-weighted computed following Bank Negara Malaysia’s Capital Adequacy Standard for Islamic Banks: Standardised Approach for Credit and Market Risk, and Basic Indicator Approach for Operational Risk (BASEL II), which was effective from 1 January 2008. 2009 <ol style="list-style-type: none"> 1. Allowances for bad and doubtful financing were computed in conformity with BNM GP3 (September 1998). 2. PE conforms with ‘The Framework of the Rate of Return’ or BNM/GP2-<i>i</i> issued by BNM. 3. Statutory deposits were maintained with BNM in compliance with Section 37(1) (c) of the Central Bank of Malaysia Act, 1958 (revised 1994) 4. Statutory reserve was maintained in compliance with Section 15 of the IBA, 1983 and was not distributable as cash dividends 5. Fair value information for non-financial assets and liabilities were excluded as they do not fall within the scope of FRS 132, 6. Effective January 2008, all Islamic banks licensed under IBA1983 are required to compute the RWCR following the CAFIB. BNM’s Concept Paper – Risk-Weighted Capital Adequacy Framework (BASEL II) and Capital Adequacy Framework for Islamic Banks (CAFIB) – Disclosure Requirements (Pillar 3). 7. There is a relevant framework of laws including but not limited to the Islamic Banking Act 1983, Anti Money Laundering & Anti-Terrorist Financing Act 2001 and Companies Act 1965 and any regulations and guidelines under the relevant laws. |

Source: Annual Report Bank Islam 2008 to 2009

Table 4.12: Information on Industry Growth and Regulation

| Industry Growth | Regulation |
|--|---|
| <p>2013</p> <ol style="list-style-type: none"> 1. The Bank, entered a new phase, inaugurated the H2E Plan – the third phase of the Bank’s three-year corporate blueprint 2. Bank Islam expanded its Islamic finance products for the younger market segments by launching the Visa Debit Card-i, a co-branded initiative with the Football Association of Malaysia that is designed with Harimau Malaya and Harimau Muda 3. Bank Islam services and product were such as: <ul style="list-style-type: none"> • Commercial banking focusing on sales and marketing strategy • Treasury provides a comprehensive and innovative treasury 4. The bank was interested in implementing the ZIRP after the impact of the impending withdrawal of monetary stimulus was the destabilization of Asia’s financial markets. 5. BIMB Invest currently manages 6 retail unit trust funds, namely, BIMB i-Growth, BIMB Dana Al-Fakhim, BIMB Dana Al-Munsif, BIMB Dana Al-Falah, BIMB I Dividend Fund and BIMB i-Flexi Fund and 2 wholesale funds, namely BIMB Invest Money Market Fund and BIMB i Cash Management Fund with total funds under management exceeding RM 1 billion. 6. Bank Islam focuses on Market place following in Phase 3 (Structured Products, Derivatives and Risk Management Products). 7. Following Bank Islam’s strategic H2E plan that was implemented during early 2013, the bank led to the bank’s further growth by increasing PBZT, such as RM683 million (PBZT), 14.4 % (total assets grew); 21.7 % (net financing); RM 23.7 billion (financing portfolio), and RM 37.3 billion (customer deposit) 8. The Bank contributed to the implementation of the mPOS electronic payment facility at Pasar Siti Khadijah in Kota Bharu, Kelantan, and collaboration with VISA. | <ol style="list-style-type: none"> 1. In 2013, Islamic finance shifted into a new era with the introduction of the IFSA 2013. 2. The regulation on corporate governance of Bank Islam following guidelines by the Malaysian Code of Corporate Governance and BNM Sharia Governance Framework. 3. Bank Islam adopted and implemented the integrated framework of COSO. 4. Bank Islam implemented some relevant framework of laws including but not limited to the IFA 2013, Anti Money Laundering & Anti Terrorist Financing Act 2001 and Companies Act 1965 and any regulations 5. Bank Islam implemented for Islamic banking and Takaful - the IFSA 2013 such as Deposits Transition Plan 6. Risk management. Bank Islam implemented The Basel III framework and The Risk Appetite framework. The Basel III framework was introduced by the Basel Committee on Banking Supervision in December 2010. 7. The audited financial statements of BIMB used Malaysian Financial Reporting Standards, International Financial Reporting Standards and the requirements of the Companies Act, 1965 in Malaysia. 8. The ultimate holding board is LTH, a hajj pilgrims’ funds board established under the Tabung Haji Act 1995 (Act 535). 9. Accounting policies in Bank Islam Malaysia Berhad MFRS, IFRS, the Companies Act, 1965 and MASB, such as: <ul style="list-style-type: none"> • MFRSs, Interpretations, and amendments effective for annual periods beginning on or after 1 January 2014. • MFRSs, Interpretations, and amendments effective for annual periods beginning on or after 1 July 2014. • MFRSs, Interpretations, and amendments effective for a date yet to be confirmed 10. Statutory deposits with BNM compliance with Section 26(2)(c) of the Central Bank of Malaysia Act, 2009. 11. According to the Finance Act, 2007, the single-tier system was introduced and took effect from the year of assessment 2008. As at 31 December 2013, the Bank had fully utilized the Section 108 credit balance. 12. The fair value of financial assets and liabilities; fair value hierarchy: MFRS 7 specifies a hierarchy of valuation techniques based on whether the inputs to those valuation techniques are observable or unobservable |

Table 4.12: Information on Industry Growth and Regulation

| | Industry Growth | Regulation |
|------|--|--|
| 2013 | <p>9. The implementation of SPLN by the Ministry of Foreign Affairs saw Bank Islam being selected as the Strategic Partner for the project.</p> <p>10. The growth for Islamic Banking as underlined under the ETP in 2013:</p> <ul style="list-style-type: none"> • Bank Islam’s asset growth at 14 % per annum, in line with the government’s aspiration of 15 % growth for Islamic Banking. • Gross financing growth was robust at 22 % driven by the increase in its financing portfolio by 29 % and 26 % in house financing. • The Bank continued to uphold a strong CASA composition of 39 % as at the end of 2013 against the Islamic banking industry average of 25.9 %. <p>11. Bank Islam introduced the MPO contract for its vehicle financing and ‘Parallel Istisna’ for project financing and refined its Commodity Murabahah contract.</p> <p>12. Bank Islam’s refined PMD system is a robust self-sustaining strategy that provides the Bank with a larger resource of leaders.</p> <p>13. The Sharia-led innovation in Bank Islam can be divided into three phases:</p> <ul style="list-style-type: none"> • Phase 1 – “Plain Vanilla” Alternatives Products. • Phase 2 – Hybrid and Value-Added Products. • Phase 3 – Structured Products, Derivatives and Risk Management Products. <p>14. Total branches of Bank Islam in 2013 was 130.</p> | <ul style="list-style-type: none"> • Level 1 – Quoted price (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments. • Level 2 – Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This level includes profit rates swap and structured debt. The sources of input parameters include BNM indicative yields or counterparty credit risk. • Level 3 – Inputs for asset or liability that are not based on observable market data (unobservable inputs). This level includes equity instruments and debt instruments with significant unobservable components. <p>13. The Pillar 3 Disclosure for financial reporting was introduced under the BNM’s CAFIB which is equivalent to Basel II issued by the Basel Committee on Banking Supervision and the Islamic Financial Services Board. CAFIB consists of 3 Pillars:</p> <ol style="list-style-type: none"> a) Pillar 1 sets a minimum regulatory capital to cover credit, market and operational risk. b) Pillar 2 aims to ensure that Islamic banking institutions have adequate capital to support their operations at all times. c) Pillar 3 aims to enhance transparency by setting the minimum requirements for market disclosures of information on the risk management practices and capital adequacy of Islamic banks. |

Source: Annual Report Bank Islam 2013

Based on this, the findings of the study relate to the AFC and GFC in the following ways:

1. Starting from 1984, Bank Islam provides services, such as deposits, financing, investment, and other services to the customer and stated with 4 branches.
2. In 2003, they carried out organization restructuring and established risk management to improve asset quality.
3. As of in 2005 and 2006, they suffered losses due to the high value of the NPF and adopted appropriate measures to improve its financial standing, including cost control measurement, enhancement of fee-based activities, controlling of NPF as well as to improve staff productivity to enhance its revenue/cost ratio. In 2006, the bank received a capital injection of amounting to RM 1.014,59 million from Dubai Financial LLC and the Tabung Haji Institution after the balance sheet date on October 16, 2006, and thus improved its financial position to positive shareholders' funds.
4. During the GFC, the bank focused on expanding business growth by implementing SGP.
5. In 2013, they focused on inaugurating the H2E Plan by capturing market share.

Therefore, Bank Islam experienced the indicator of the signs of distress in changes of profitability and industry outlook due to changes in fundamental industry deterioration.

5. Adverse regulatory environment.

The meaning of the word adverse could be translated in several ways, such as:

(i) It is having a negative or harmful effect on something (Source: Cambridge Dictionary) and, (ii) it is preventing success or development, harmful, and unfavourable (Source: Oxford Dictionaries). According to Nogal-Meger (2018), the environment is a division or has influenced the dependence and relationship between entities related to internal factors (divided into factors of financial conditions, research, and development, employees, or organizational culture) as well as external (factors outside of the firm environment). On the other hand, regulations (both legal and administrative, structure behavior within and outside the government) will be applied in the firm divisions to provide good performance for businesses.

Bank Islam has an experience of declining performance due to business cycles. Therefore, there could be a decline in performance due to internal conditions in the banking, or environment. Because of this, the findings of the present study relate to the AFC and GFC in the following ways:

- a. Recognition of NPF. The growth of NPF became the adverse regulatory environment in Bank Islam and a factor of its implementation of the TP of Bank Islam in FY (financial year) June 2009. Also, Bank Islam adopted the FRS139 accounting standard, which started from January 2011 to revise the time-based NPF classification to three months past due, from the previous 6-month base. The change in the provisions of NPF gave changes to Bank Islam from July 2009 to December 2010 (Source: Bank Islam Malaysia Berhad: Financial Institution Rating 2010).

- b. Restructuring for Recovery: Bank Islam implemented the greening loan from the guidelines of BNM. The prospect of greening loan is the movement towards greener activities and sustainable project finances through savings in loan interest costs. BNM and the Ministry of Finance as well as the Ministry of Energy, Green Technology and Water, establish the GTFS. It provides avenues that help bridge information gaps between financiers and businesses, as well as introduce credit enhancements and financial incentives to address any market shortcomings in meeting a legitimate economic need (Muhammad Ibrahim, 2009)

The conclusion from the explanation above, Bank Islam does not support the indicator of the adverse regulatory environment, and it did not experience the indicator of the signs of distress in changes of profitability and industry outlook due to adverse regulatory environment.

6. Regulatory inquiries.

According to Heremans & Paccos (2011), the regulation in banking and financial markets has become a primary interest to the public authorities due to increased competition between financial institutions. They also state that the objectives of regulation in economic life in general, and traditionally protect the uninformed consumers against a variety of market imperfections, as well as prevent banks from assuming unacceptably high risks into the interests of creditors (deposit holders and savers). The meaning of the word adverse could be translated as:

- a. The inquiry is the act of asking for information and an official attempt to discover the facts about something (Source: Cambridge Dictionary).

- b. The inquiry is seeking or requesting for truth, information, or knowledge, an investigation, an incident, and the act of inquiring or seeking information by questioning or interrogating (Source: English Dictionary).

The regulatory inquiries in Bank Islam from 1984 to 2013 complied with the regulations from the BNM and they relates to the AFC and GFC in the ways as shown in Table 4.13.

Table 4.13: Development Regulation on Bank Islam

| No. | Year | Regulation |
|-----|---|---|
| 1 | 1984 | <ul style="list-style-type: none"> Principal Activities following the IBA, 1983. Accounting records and financial management following the provisions of the Statutory Declarations Act, 1960. |
| 2 | AFC 1997 to 1998 (length period of banking operations is 13 to 14 years) | <ul style="list-style-type: none"> There were some regulations on the structural organization in Bank Islam. Any activity in Bank Islam (included the Accounting and Auditing on the financial statement) follows the regulation on Companies Act, 1965 and Islamic Institutions Financial Accounting Standards. There were other activities on Bank Islam such as The Family Takaful Fund based on Takaful Act, 1984 (amended); investment securities based on Section 16 of IBA 1983, statutory deposits that were maintained with BNM in compliance with Section 37 (1) (c) of the Central Bank of Malaysia Ordinance 1958, tax credit under Section 108 of the Income Tax Act, 167, provision for bad and doubtful financing that had been made in full compliance with the revised BNM GP3. |
| 3 | Labuan Crisis 2005 to 2006 (length period of banking operations is 21 to 22 years) | <ul style="list-style-type: none"> SSC was established under the provision of Section 3(5)(b) of the Islamic Banking Act 1983. There was another activity about Bank Islam such as OPR based on BNM's regulation; structural organization in Bank Islam follows BNM's Guidelines (BNM/GP1-i), robust risk management framework based on Basel II Accord and the IFSB Standards. |
| 4 | GFC 2008 to 2009 (length period of banking operations is 24 to 25 years) | <ul style="list-style-type: none"> Bank Islam deregulated reporting activity of financial statements in 2010. There is a relevant framework of laws including but not limited to the IBA of 1983, Anti Money Laundering & Anti-Terrorist Financing Act 2001 and Companies Act 1965 and any regulations and guidelines under the relevant laws |
| 5 | 2013 (length period of banking operations is 29 years) | <ul style="list-style-type: none"> Bank Islam started to implement a new era with the introduction of the IFSA 2013. There was an integrated framework of COSO. Bank Islam implemented on The Basel III framework and the risk appetite framework. |

Source: Annual Report Bank Islam (1984 to 2013)

Therefore, Bank Islam experienced the indicator of the signs of distress in changes of profitability and industry outlook due to changes in regulatory inquiries.

4.3.4 Changes of Employees

1. Large or unplanned reduction in workforce.

According to Reynaud (2012), the downsizing of firm performance is due to the increasing global economic competition impacted undergoing major restructuring and downsizing corporate strategy. He further states that there is a reduction in workers responding to the decline in performance experienced by the company, but the decisions made vary behind the reasons for the decline in firm performance. Table 4.14 consists of number of employees that had been working in Bank Islam from 1984 to 2016. Every year, Bank Islam has an increasing number of employees, except for some years such as 1998, 2007, and 2008. It did not report any numbers of total employees. Although Bank Islam has an unreported number, but it did not give a negative impact on Bank Islam's performance because the bank could still pay the salary to the employees.

Table 4.14: Number of Staff in Bank Islam

| Year | Total Staff | Year | Total Staff | Year | Total Staff |
|------|-------------|------|-------------|------|-------------|
| 1984 | 272 | 1995 | 1280 | 2006 | 2812 |
| 1985 | 366 | 1996 | 1434 | 2007 | |
| 1986 | 459 | 1997 | 1512 | 2008 | |
| 1987 | 537 | 1998 | | 2009 | 3312 |
| 1988 | 610 | 1999 | 1573 | 2010 | 3762 |
| 1989 | 667 | 2000 | 1611 | 2011 | 3885 |
| 1990 | 741 | 2001 | 1777 | 2012 | 4082 |
| 1991 | 765 | 2002 | 1930 | 2013 | 4200 |
| 1992 | 812 | 2003 | 2022 | 2014 | 4242 |
| 1993 | 895 | 2004 | 2381 | 2015 | 4361 |
| 1994 | 1061 | 2005 | 2906 | 2016 | 4559 |

Source: Annual Report Bank Islam

Therefore, Bank Islam does not support the indicators on the factors of the large or unplanned reduction in workforce and Bank Islam did not experience the indicator of the signs of distress in changes of employees due to factors of the large or unplanned reductions in workforce.

2. Management turnover.

Dauderis & Annand (2014) reveal that the management of a firm is responsible for managing the firm's affairs with established financial standards and applicable laws, as well as maintaining proper standards of conduct for its activities. Similarly, Silaban & Syah (2018) state that the function of turnover is the movement of employees to leave the firm due to resignation, leaving the organization, discharge, or death of a member in an organization. The management turnover is then a change in the organizational structure of the firm and it impacts the specific form of the team, by starting the changes of the top manager of a firm (such as CEO). Accordingly, Maaitah (2018) also states that the management turnover will focus on the selection of appropriate leadership and managerial styles that can improve employee performance.

The study shows the findings consisting of information on organizational restructuring management which started from 1984 to 2013, such as:

- a. During the AFC, Bank Islam had an organizational structure, that was Chairman of the Board of Directors, Chairman of the Executive Committee, Managing Director, Senior General Manager (Retail Banking), General Manager (Accounts), General Manager (Legal and Secretarial), General Manager (Corporate Banking), General Manager (Human Resources), General Manager (Treasury and International Banking), Syariah Supervisory Council and Audit Committee. It also shows that Bank Islam was led by three important positions, which were Chairman of the Board of Directors and Chairman of the Executive Committee by Y. Bhg Tan Tan Dato' Shamsudin Abdul Kadir PSM, DPMJ, DPCM, JMN as well as the Managing Director by Y.Bhg. Dato' Ahmad Tajudin Abdul Rahman DSDK.

- b. Starting from 2004 to 2006, Bank Islam did organizational restructuring management. In 2004, Bank Islam had 8 positions in its organizational structure, while in 2005, it grew up to 18 positions, but in 2006 only 6 positions of the organizational structure were available. Also, the banks changed the Chairman of the Board of Directors and Managing Director for the year. From 2003 to 2004, the Chairman of Directors Board was Dato' Mohd Yusoff Hj Nasir and changed to 2005 by Datuk Mohd. Bakke Salleh. Meanwhile, the Managing Directors were different people, such as Dato' Ahmad Tajudin Abdul Rahman, Nazlan Ozizi Ibrahim, and Dato' Noorazman A Aziz.
- c. During the GFC, Bank Islam also had an organizational management restructuring. In 2008, Bank Islam has 11 positions in the organizational structure. However, in 2009, only 8 positions were available in the structural organization. There was also a different person in charge of the Chairman of the Board of Directors in 2007 and 2008, who Tan Sri Dato' Dr. Abdullah Bin Mohd Tahir and in 2009 it was changed to Datuk Mohd Bakke Salleh. However, the position of Managing Director was occupied by the same person, which was Dato' Zukri bin Samat.
- d. In 2013, Bank Islam provided 6 structural management, which were Chairman Board of Directors, Dato' Zamani Abdul Ghani and Managing Director Dato' Sri Zukri Samat.

As stated by Akumu & Nzulwa (2018), the purpose of organizational restructuring is to regulate strategies concerning the active business environment and allow organizations to generate and maintain competitive advantages. They also state

that the restructuring strategy was implemented by managers who focused on boosting productivity and revenues, advancing workers' wellbeing, enhancing shareholders' wealth, improving competence and advancing performance. The study provides information of staffing in Bank Islam as follows:

1. During the AFC, Bank Islam focused on the development of corporate mission and continuously improved professionalism and productivity based on relevant technical knowledge, professional skills, and appropriate work ethics.
2. From 2003 to 2006, Bank Islam did reorganization and hires expertise in strategic business areas.
3. During the GFC, Bank Islam set the agenda in Human Capital Development with several strategies, namely; Investing in Our People, Employee Engagement Score on a Par with Global High Performance, Rewards and Benefits Philosophy.
4. In 2013, Bank Islam still did the training program for the staff. However, Bank Islam set the strategy for the employees with a mind-set of excellence, passionate leadership, high performance, and knowledge-based workplace, people engagement, as well as share values and work-life balance.

Bank Islam continued to sharpen the ability of staff by adjusting to the corporate vision and mission. According to Zareen (2013), organizational change is part of the management literature, in which communication is very important. Also, employees are key sources in organizational changes where changes focus on changing the work atmosphere so that staff are more responsible for the scope of work and avoid worry.

Therefore, Bank Islam experienced the indicator of the signs of distress in changes of employees due to organizational restructuring management.

3. Disruption in unionised workforce.

There is the same link with point one in this indicator (large or unplanned reduction in workforce). The meaning of disruption in unionized workforce is as follows:

1. Unionization is the number of majority votes of the employees to authorize a union. (Source: Business Dictionary)
2. As stated by Joseph (2019), labor unions began in the 1800s in the United States whose formation was aimed at empowering workers by increasing their compensation and giving them more rights as workers. He further explains that the advantages of labor unions are providing a stable workplace, offering greater productivity, ensuring workplace safety and stipulating procedures for disciplining employees.
3. Pulignano (2002) states that trade union is related to teamwork in the firm. The rationale teamwork is used as a managerial tool in managing communication that occurs in conflict on the shop-floor.

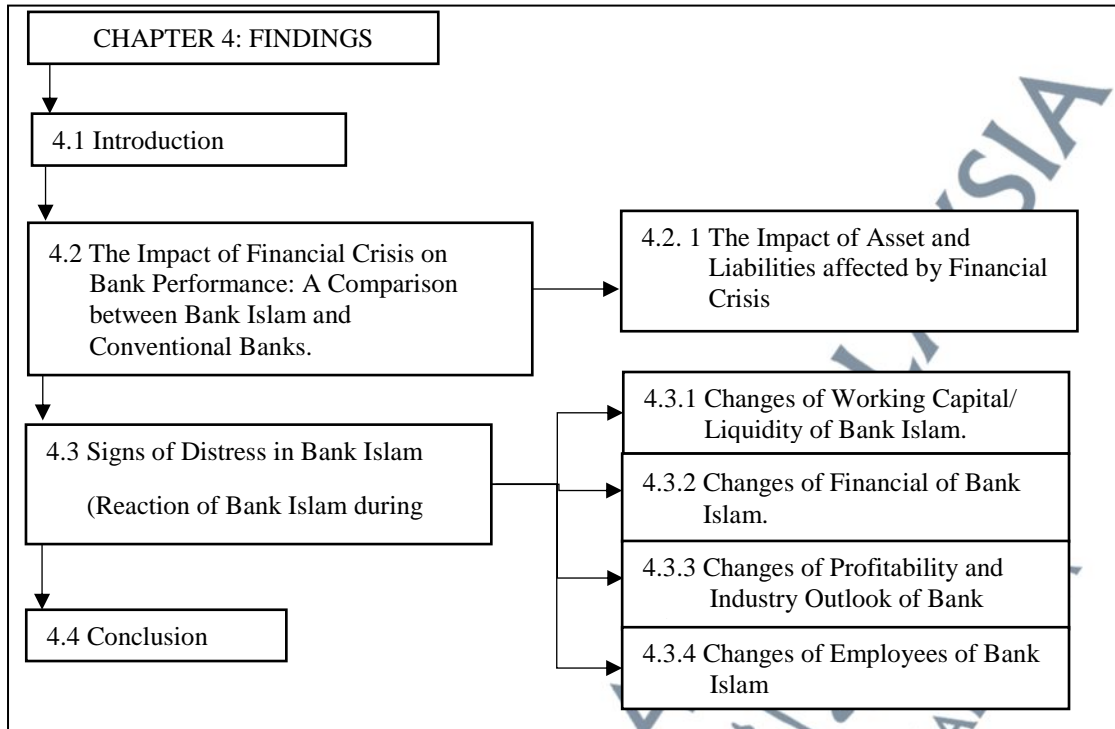
Based on this, the unionized workforce can be said to relate to employment in the firm. However, if it is associated with disruption, it is the process of interrupting the normal course or continuation of some activity. To understand the union workforce in Bank Islam, they only stated about the union from Corporate Book Annual Report in 2013 that, Human Resources division had been proactive in maintaining a healthy relationship with various unions that represent workforce in Bank Islam, such as the Sarawak Bank Employees Union ("SBEU-Sarawak") and Sabah Bank Employee Union

("SBEU-Sabah") (Source: Corporate Book 2013 Bank Islam, page 144). On the other hand, Bank Islam did not share any statement on the annual reports from other 4-year observations, such as 1984, the AFC (1997 to 1998), 2005 and GFC (2008 to 2009). On the other hand, there is no information on Bank Islam other than the corporate book 2013. However, Bank Islam changed management performance from credit management into marketing management. This change was made in 2000 to 2004 after the AFC. The purpose of marketing management was to bring out the staff to find more clients to invest the money in Bank Islam. At the same time, Bank Islam provided many courses to the staff about the knowledge of marketing.

Therefore, Bank Islam does not support the indicator of disruption in the unionised workforce and it did not experience the indicators of the signs of distress in changes of employees due to disruption in unionised workforce.

4.4 Conclusion

The next figure explains an outline for the present chapter, which shows the direction or summary as outlined in Figure 4.4.



Source: Developed for this Study

Figure 4.4: A Diagram Outline of Chapter 4

After doing the analysis, the study provides evidence that Banks Islam had indeed being an impacted after the financial crisis (such as the AFC and GFC). Also, the study provides a quantitative analysis to measure profitability performance during the crisis and compared it to three other conventional banks. The changes in bank profitability were due to macroeconomic indicators, such as financial leverage, profit expense ratio, and risk management. During the financial crisis that occurred, Bank Islam showed a decreased performance.

This is consistent with the first research goals to answer Research Questions 1 and 2, to assess bank performance profitability by comparing the performance between Islamic banks and three conventional banks during the AFC and GFC. This study employed measurable profits, which were ROA, ROE, and ROI. ROA is used to calculate profit from asset valuation, banking distress, and bank success. ROE is used

to measure the efficiency and banking distress. ROI, as a cost-benefit analysis in the enterprise, determines the capital capacity and liquidity of banks and measures the efficiencies of a corporation of investment.

The study then analysed the performance in bank changes based on ALM. Choudhry (2017) states that ALM risk in the balance sheet can be managed using Basel III. This allows for the creation and “optimization” of assets and liabilities independently of each other. The study concludes that ALM is an important tool for firm financial reporting, controlling risk and asset-liability framework decisions, especially related to research. Based on the study’s research questions, the study determined the changes in banking performance since the financial crisis. The purpose of the ALM analysis is to begin to analyze the financial problems that arise from interest rate adjustments on the balance sheet and income statement. It was discovered that during the financial crisis there were changes in assets and liabilities of Bank Islam. Based on the comparison, Maybank has the highest number of an asset than the lowest reported by Bank Islam during the crisis. In terms of liabilities, Maybank still had a higher number, while the lower was from Bank Islam and Affin Bank.

The study examined the indicator of declining performance at Bank Islam, having known that profitability had an effect on bank Islam performance during the financial crisis. After finding, exploring, and interpreting the practises of Bank Islam that appear to be aligned with the assessment method indicating the signs of distress by Yakola (2014), which was done for the detection of more causes that generated the decreased performance in Bank Islam during the financial crisis. Table 4.15 highlights the indicators that were involved in the declining Bank Islam performance, which are:

Table 4. 15: Findings of Signs of Distress in Bank Islam

| | Bank Islam | Note |
|---|------------|---|
| Working Capital/Liquidity | | |
| 1 Declining or negative free cash flow | √ | |
| 2 Large contingent liabilities | √ | |
| 3 Unresolved near-term debt maturities | √ | |
| 4 Revolver draw-down | √ | |
| 5 Contracting vendor terms | √ | |
| 6 Increase in account receivable agent | X | |
| 7 Increase in outstanding accounts payable | √ | |
| Financial | | |
| 1 Declining stock price | √ | |
| 2 Declining bank or bond price | √ | |
| 3 Inability to meet debt covenants | √ | Financial Covenants |
| 4 Resignation of key finance staff | X | |
| 5 Diminishing liquidity | √ | |
| 6 Repeated bank amendments | √ | |
| 7 Downgrades in debt ratings | √ | |
| 8 Accounting restatement | X | |
| 9 Inability to file a financial statement | X | |
| Profitability and Industry Outlook | | |
| 1 Shrinking EBITDA margin | √ | Profit Before Zakat and Tax |
| 2 Reduced capital-investment programs | X | |
| 3 Going concern opinion | √ | |
| 4 Deteriorating industry fundamental | √ | |
| 5 Adverse regulatory environment | X | |
| 6 Regulatory inquiries | √ | |
| Employees | | |
| 1 Large or unplanned reduction in workforce | X | |
| 2 Management turnover | √ | Management Organisational Restructuring |
| 3 Disruption in unionized workforce | X | |

Source: Developed for this Study

The first assessment is on working capital/liquidity. Only the indicators for the increase in accounts receivable agents cannot be shown after testing 7 indicators of working capital/liquidity. The account receivable agent's job, on the other hand, is to initiate billing for goods or services rendered or in anticipation of money being received. Meanwhile, Bank Islam's performance was being evaluated across all management sectors. Accounts receivable agents are more concerned with the performance of firms engaged in manufacturing, and this assessment is not appropriate for evaluating the performance of Bank Islam that is engaged in services. Accounts receivable, according

to Dauderis & Annand (2014), is a component of assets in balance sheets that is represented by cash collected from customers in exchange for the availability of goods sold or services provided on credit. However, on the annual report of Bank Islam, there is no information on account receivable agent. Since transaction deposits and saving accounts can be withdrawn at any time, Samad & Hassan (1996) discovered that banks and other depository institutions share liquidity risk. Banks run into liquidity problems when withdrawals significantly outnumber new deposits in a short period. The cash deposit ratio (CDR), loan deposit ratio (LDR), current ratio, and current asset ratio (CAR) are all measures of liquidity. Jan & Marimuthu (2016) used quantitative measurements to assess liquidity, including advances to deposits ratio, networking capital, cash ratio, and current ratio. In this study, the performance of Bank Islam was measured using a combined quantitative and qualitative assessment of working capital/liquidity. A declining or negative free cash flow, large contingent liabilities, and unresolved near-term debt maturities are all indicators of quantitative measurement. The performance of Bank Islam was measured in terms of revolver drawdown, contracting vendor terms, and the increase in outstanding accounts payable in the qualitative assessment.

The second assessment is financial. Bank Islam's financial performance is assessed quantitatively and qualitatively. The study investigates reports on declining stock price, declining bank or bond price, diminishing liquidity, and inability to meet debt covenants for the information on quantitative analysis. For the qualitative assessment, indicators such as key finance staff resignations, repeated bank amendments, debt rating downgrades, accounting restatement, and inability to file a financial statement were used. In fact, Bank Islam's practises seem to be in line with

Yakola's (2014) assessment method to demonstrate a declining financial performance during the financial crisis. In the qualitative assessment, however, Bank Islam's financial situation during the crisis was only interpreted by repeated bank amendments and downgrade in debt rating. The practise of Bank Islam does not appear to be aligned with the evaluation procedure of Schoenberg et al for the resignation of key financial staff, accounting restatement and inability to file a financial statement. During a crisis, the staff's particular position was not to resign and during the crisis, Bank Islam had no difficulty in publishing the bank and public reports.

The third evaluation of distress signs is profitability and industry outlook. The model continues to evaluate the quantitative and qualitative evaluations. In this analysis, only the shrinking EBITDA margin show the practices of Bank Islam appear to correspond to evaluation profitability and industry outlook for the quantitative assessment. EBITDA is used to evaluate the comparison between debt assessments and tax liabilities of the profitability, and the performance of a firm with another. The EBITDA analysis is used to assess the quality of reported revenue, to provide a free cash flow base, and the possible firm debt (Luciano, 2003). Rohila & Mohammad (2011) state that the payment of taxes has made a major contribution to the payment of government and zakat by business people. The financial position of an organisation and the declaration of a company's comprehensive income shall be used to report zakat and tax payments. The evaluation of EBITDA was, therefore, an exchange for the profit before zakat and tax evaluation, in accordance with Bank Islam's business status. For the remaining indicators of profitability and industry outlook, a qualitative assessment was used. Only reduced capital-investment programs and adverse regulatory environment show that the practices of Bank Islam seems to not be aligned with the

signs of distress. In order to learn the quality of bank assets, Bashir (1999) has laid out a detailed profitability and a risk analysis that are generally needed for a comprehensive evaluation of bank results. That is because the risk and profitability measures are to be investigated in order to indicate how funds are used for depositors and shareholders. The profitability measures, for example, determine the valuation of the bank's own market and its capacity to receive finance on deposit and capital markets.

It is a different analysis of profitability and financial based on Yakola's signs of distress (2014). Bashir (1999) describes that for an Islamic Bank, the effectiveness of the bank can be analysed using its financial and real investments to generate profits. Profitability is centred on the internal firm, but financial emphasises on the evaluation of the financial market's performance.

Employee evaluation appears to be one of Bank Islam's final practices that aligns with Yakola's (2014) assessment on the signs of distress. Only the evaluation of management turnover can show the changes in the performance of Bank Islam during the crisis, according to the interpretation of employees indicators. According to Silaban & Syah (2018), the turnover function is the movement of employees to leave the firm due to resignation, leaving the organisation, discharge, or death of a member in an organisation. The management turnover is then a change in the organisational structure of the firm and has impacted the specific form of the team, by beginning with the changes of a firm's top manager. The purpose of organisational restructuring, as stated by Akumu & Nzulwa (2018) is to regulate strategies relating to the business environment and enable the firm to produce and retain competitive benefits.

In the next chapter, this study presents Bank Islam's recovery plan in the post-crisis period, which is the third finding of the study.