

International Conference on Public Policy & Social Sciences 2023

13-15 September 2023

Organised by Faculty of Administrative Science & Policy Studies, Universiti Teknologi MARA (UiTM), Seremban Campus, Negeri Sembilan, Malaysia, and International University of Sarajevo (IUS), Bosnia and Herzegovina,

M Score Performance Measure for Islamic Banks in Malaysia and Indonesia

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Abstract

Performance measurement is vital to examine the performance of any institution. Due to the different nature of business operations, processes, and activities in Islamic banks, they have to be measured by a more focused instrument to reflect the Shariah compliance parts and their business nature compared to the conventional banks. This research aims to analyse and compare the M Score (Islamic instrument) performance of Islamic banks in Malaysia and Indonesia. The findings from the computation will indicate which country gains the higher M Score in performance, and this can be used as a benchmarking exercise.

Keywords: M Score; Islamic Banks; Islamic Performance Measure; Benchmarking

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DOI: <https://doi.org/10.21834/e-bpj.v9iSI22.5801>

1.0 Introduction

Islamic banking is a form of financial system that operates in accordance with the principles and rules of Islamic law (Shariah). Its objective is to promote socio-economic justice and welfare by prohibiting interest (riba), uncertainty (gharar) and gambling (maysir), while encouraging risk-sharing and ethical conduct. Islamic banking has been growing rapidly in Malaysia and Indonesia, as they are the leading countries in Islamic finance with comprehensive regulatory and legal frameworks. In Malaysia, the evolution of Islamic finance can be traced through four distinct stages of development (Dusuki & Abdullah, 2011). Initially, the focus was on establishing dedicated Islamic Financial Institutions (Islamic banks) in the first phase. Subsequently, the emergence of Islamic window characterized the second phase. In the third phase, Islamic subsidiaries were established to further promote Islamic finance. Finally, the fourth phase marked the liberalization of Islamic finance, creating new avenues for its growth in Malaysia.

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However, the issue of inadequate, inappropriate, and insufficient performance measurement in Islamic banks has garnered attention (Samad & Hassan, 1999; Rosly & Bakar, 2003; Badreldin, 2009; Ajlouni & Omari, 2013; Mohamed, 2010; Nadia et al., 2014). Currently, there is a lack of comprehensive measurement methods to assess the performance of Islamic banking. Unlike conventional banks, Islamic banks require a broader evaluation that goes beyond mere profit maximization. They are expected not only to generate profits but also to adhere to Islamic Shariah rules and principles. Therefore, the performance measurement for Islamic banks could differ from corporations and conventional banks. Hence, the present study aims to assess the performance of Islamic banks in Malaysia and Indonesia by employing M-Score as a ranking method. The objective of this study is to utilize the M-Score to gauge the achievement of Islamic banks and evaluate their performance.

2.0 Literature Review

2.1 Islamic Economics Objective

The Islamic economics objective is rooted in the pursuit of socio-economic justice (Chapra, 2011). Socio-economic justice aims to establish an ideal economic system where income and wealth are distributed fairly and morally. Islamic economic objectives are derived from the belief that human beings are the representatives of Allah S.W.T., the One God. Humans are considered brothers to one another, and all resources are entrusted to them by Allah to be utilized in a just and appropriate manner. As a result, humans will be held accountable to Him in the hereafter and receive rewards or punishments based on how they acquire and use resources. Therefore, Islamic banks, as Islamic institutions, are expected to fulfil the Islamic economic objectives to assess their performance. In this study, three primary authors, namely Naqvi (1994), Chapra (2000), and Mustafa (2011), were utilized to identify the Islamic economic objectives and formulate ratios.

2.2 M Score Ranking

According to Table 1, M Score comprises three elements of the Islamic economic objectives, which are Need Fulfilment and Equitable Distribution (NFED), Economic Growth (EG) and Economic Stability (ES). The NFED has been rated by the expert respondents among 35 practitioners and academics as the highest weighted importance score in the form of a percentage (36%), followed by EG (33%) and ES (31%). There are three ratios represented for NFED, two ratios for EG and two ratios for ES. The M Score is the total sum of the Islamic economic performance (IEP). All the ratios had a total score of 5 in this study. These were NFED: investment in real economic sector (IRES) (4.3), zakat paid (ZPA) (4.39), and tax paid (TPA) (3.57). The second element, EG: total financing over assets (TFA) (3.96) and income generation over assets (IGA) (3.89). The third element, ES: income generation over equity (IGE) (3.99) and employee remuneration over assets (ERA) (3.75). In the present study, the M Score is simplified by the equation format, as shown in Table 1. The detail of the financial ratios is depicted in Table 2.

Table 1. M Score Equation

$M \text{ Score} = \sum WNFED [(WRIRES \times RIRES) + (WRZPA \times RZPA) + (WRTPA \times RTPA)] + WEG [(WRTFA \times RTFA) + (WRIGA \times RIGA)] + WES [(WRIGE \times RIGE) + (WRERA \times RERA)]$ <p>Hence,</p> $M \text{ Score} = \sum 0.36 [(4.3 \times RIRES) + (4.39 \times RZPA) + (3.57 \times RTPA)] + 0.33 [(3.96 \times RTFA) + (3.89 \times RIGA)] + 0.31 [(3.99 \times RIGE) + (3.74 \times RERA)]$

(Source:) Abdul Rahim, M., & Abdul Rahim, A.R. (2010)

Note: Islamic Economic Performance Measures (IEP / M Score):

∑ = Total Sum
 x = Multiplied with

- WNFED = Weighted Need Fulfilment and Equitable Distribution:
- WRIRES = Weighted Ratio of Investment in Real Economic Sector over Assets;
- RIRES = Ratio of Investment in Real Economic Sector over Assets;
- WRZPA = Weighted Ratio of Zakat Paid over Assets;
- RZPA = Ratio of Zakat Paid over Assets;
- WRTPA = Weighted Ratio of Tax Paid over Assets;
- RTPA = Ratio of Tax Paid over Assets;
- WEG = Weighted of Economic Growth:
- WRTFA = Weighted Ratio of Total Financing over Assets;
- RTFA = Ratio of Total Financing over Assets;
- WRIGA = Weighted Ratio of Income Generation over Assets;
- RIGA = Ratio of Income Generation over Assets;
- WES = Weighted of Economic Stability:
- WRIGE = Weighted Ratio of Income Generation over Equity;
- RIGE = Ratio of Income Generation over Equity;
- WRERA = Weighted Ratio of Employee Remuneration over Assets;
- RERA = Ratio of Employee Remuneration over Assets.

Table 2. Islamic Economic Performance Ratios*

Islamic Economic Performance	Code	Ratio
Need Fulfilment and Equitable Distribution	IRESA ZPA TPA	Investment in Real Economic Sector/Total Assets Zakat Paid/Total Assets Tax Paid/Total Assets
Economic Growth	TFA IGA	Total Financing/Total Assets Net Income/Total Assets
Economic Stability	IGE ERA	Net Income/Total Equity Employee Remuneration/Total Assets

(Source:) Abdul Rahim, M., & Abdul Rahim, A.R. (2010)

*Note: For this particular study in Malaysia, element such as 'Social Contribution (SC)' has been omitted as Islamic banks in Malaysia had reported differently in the annual report for each item that leads to difficulty in doing accurate and fair computation. For instance: education grants/scholarship expenses, training expenses, publicity expenses and social responsibility expenses.

2.3 Sample Selection

This study examines the Islamic economic performance, known as the M Score, among Islamic financial institutions in Malaysia and Indonesia (excluding Takaful and re-takaful). Altogether, there are a total of 17 Islamic banks in Malaysia (BNM's website assessed on 1th June 2023). Thus, a sample of 16 Islamic banks in Malaysia were further used in this study. They are (1) Maybank Islamic Berhad, (2) Affin Islamic Bank Berhad, (3) Al Rajhi Banking & Investment Corporation (Malaysia) Berhad, (4) Alliance Islamic Bank Berhad, (5) AmBank Islamic Berhad, (6) Bank Islam Malaysia Berhad, (7) Bank Muamalat Malaysia Berhad, (8) CIMB Islamic Bank Berhad, (9) Hong Leong Islamic Bank Berhad, (10) HSBC Amanah Malaysia Berhad, (11) Kuwait Finance House (Malaysia) Berhad, (12) MBSB Bank Berhad, (13) OCBC Al-Amin Bank Berhad, (14) Public Islamic Bank Berhad, (15) RHB Islamic Bank Berhad, and (16) Standard Chartered Saadiq Berhad.

Additionally, this study also included a sample of 16 Islamic banks from Indonesia, including (1) Bank CIMB Niaga Syariah, (2) Bank Rakyat Indonesia, (3) Bank DKI Syariah, (4) Bank Syariah Indonesia, (5) Bank Jambi, (6) Bank Aceh Syariah, (7) Bank Jabar Banten Syariah, (8) Bank Mega Syariah, (9) Bank Victoria Syariah, (10) Bank Nusa Tenggara Barat (NTB) Syariah, (11) Bank BCA Syariah, (12) Bank Muamalat (ID), (13) KB Bukopin Syariah, (14) Bank BTPN Syariah, (15) Bank Panin Dubai Syariah, and (16) Bank Aladin Syariah.

The study comprises three stages: data retrieval from annual reports of the 32 respective Islamic banks, computation of the M Score using financial ratios, and derivation of the M Score values to generate performance rankings.

3.0 Findings and Discussion

The M Score is an Islamic performance measure used to assess the capacity of Islamic banks to meet Islamic economic goals. Islamic banks are expected to fulfil their responsibilities in terms of managing their company operations, processes, and activities. A high M Score indicates that they are performing effectively as Islamic firms in meeting the demands of their shareholders and stakeholders as a whole.

In this study, several ratios had to be eliminated, such as Need Fulfilment and Equitable Distribution (NFED) for zakat paid (ZPA) and Economic Stability (ES) for employee remuneration over assets (ERA). The calculation of ZPA ratios had to be eliminated because Islamic Banks in Indonesia did not clearly state the payment of zakat clearly in the Annual Report for the relevant years. Additionally, the calculation of ERA ratios also had to be eliminated because Islamic Banks in Malaysia did not disclose the number of employees in their Annual Report for the relevant years.

3.1 M Score Measurement in Malaysia

Table 3 presents the M Score of Malaysian Islamic banks for the years 2020 and 2021. The M Score is a ranking method used to assess performance. Based on Table 3, it can be inferred that the highest total M Score recorded in 2021 and 2020 was 914.68, while the lowest was 220.25. This indicates a substantial performance gap of 694.43 (914.68 – 220.25) between the best-performing and the least-performing Islamic banks. The large gap in M Scores highlights the significant disparity in performance among these banks, suggesting that some banks were able to achieve high levels of performance, while others struggled to attain similar results. Kuwait Finance House secured the top position with an average M Score of 457.34, followed by MBSB (189.23) and Maybank (176.60) in the second and third positions, respectively. The average M Score provides an overall measure of their performance during this time. Among the notable banks, Affin Islamic (173.97), OCBC (171.67), and Public Bank (167.40) secured the fourth, fifth and sixth positions, respectively. RHB Bank (157.64), Alliance Islamic (153.66), HLBB Islamic (146.76), and HSBC Amanah (145.49) were also included in the rankings. In addition, BIMB (144.90), Bank Muamalat (143.60), Al Rajhi (135.12) and Standard Chartered Saadiq (129.21) secured the eleventh, twelfth, thirteenth and fourteenth position, respectively. CIMB secured the fifteenth position among the Islamic banks with an average M Score of 128.73. Lastly, Ambank Berhad (110.13) ranked sixteenth, demonstrating a lower performance. Overall, the total M Score for all Islamic banks over the two-year period was 5462.85, with an average M Score of 2731.42.

Table 3. M Score of Malaysian Islamic Banks

Ranking	Islamic Banks	Total	Average
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1	Kuwait Finance House	914.68	457.34
2	MBSB	378.45	189.23
3	Maybank	353.19	176.60
4	Affin Islamic	347.95	173.97
5	OCBC	343.34	171.67
6	Public Bank	334.79	167.40
7	RHB bank	315.27	157.64
8	Alliance Islamic	307.32	153.66
9	HLBB Islamic	293.51	146.76
10	HSBC Amanah	290.98	145.49
11	BIMB	289.80	144.90
12	Bank Muamalat	287.20	143.60
13	Al Rajhi	270.24	135.12
14	Standard Chartered Saadiq	258.41	129.21
15	CIMB	257.45	128.73
16	Ambank Berhad	220.25	110.13
	Total	5462.85	2731.42

(Source:) Abdul Rahim, M., & Abdul Rahim, A.R. (2010)

3.2 M Score Measurement in Indonesia

The average M Score for each bank over two years ranked from the highest efficiency level (1254.71) to the relatively lowest efficiency level (8.32), is shown in Table 4. Generally, the performance of Islamic banks in Indonesia, based on the Islamic economic objectives as indicated by a large gap of 1246.39 (1254.71 - 8.32). Table 4 also depicts the ranking of Islamic Banks in Indonesia. Bank CIMB Niaga Syariah secured the first rank (1254.71), followed by Bank Rakyat Indonesia (705.12), Bank DKI Syariah (338.70), Bank Syariah Indonesia (210.04), Bank Jambi (154.23), Bank Aceh Syariah (140.90), Bank BJB Syariah (137.26), Bank Mega Syariah (133.99), Bank Victoria Syariah (125.82), Bank NTB Syariah (115.67), Bank BCA Syariah (112.51), Bank Muamalat (ID) (81.88), KB Bukopin Syariah (64.01), Bank BTPN Syariah (63.18), Panin Dubai Syariah Bank (46.26), and Bank Aladin Syariah (8.32) in the last rank.

Table 4. M Score of Indonesian Islamic Banks

Ranking	Islamic Banks	Total	Average
1	Bank CIMB Niaga Syariah	2509.41	1254.71
2	Bank Rakyat Indonesia	1410.23	705.12
3	Bank DKI Syariah	677.39	338.70
4	Bank Syariah Indonesia	420.08	210.04
5	Bank Jambi	308.45	154.23
6	Bank Aceh Syariah	281.79	140.90
7	Bank BJB Syariah	274.52	137.26
8	Bank Mega Syariah	267.97	133.99
9	Bank Victoria Syariah	251.64	125.82
10	Bank NTB Syariah	231.34	115.67
11	Bank BCA Syariah	225.03	112.51
12	Bank Muamalat (ID)	163.77	81.88
13	KB Bukopin Syariah	128.02	64.01
14	Bank BTPN Syariah	126.35	63.18
15	Panin Dubai Syariah Bank	92.52	46.26
16	Bank Aladin Syariah	16.64	8.32
	Total	7385.15	3692.58

(Source:) Abdul Rahim, M., & Abdul Rahim, A.R. (2010)

According to Tables 3 and 4, the average M Score of Islamic Banks in Indonesia (3692.58) is higher than the average M Score of those in Malaysia (2731.42) over 2 years. There are several reasons why the M Scores of Islamic Banks in Indonesia were higher than those in Malaysia such as the larger market size and potential in Indonesia.

3.3 Top 3 Islamic Banks in Malaysia

The analysis focuses on the top performers among Islamic banks in Malaysia. The three leading banks based on the average M Score include a foreign Islamic bank, Kuwait Finance House & Investment (Malaysia), and domestic Malaysian banks MBSB and Maybank. Kuwait Finance House, as a foreign Islamic bank, has demonstrated exceptional performance, as indicated by its high average M Score which reflects its successful alignment with Islamic banking principles. Several potential reasons explain why foreign Islamic banks emerged as a top scorer of M Score. Firstly, the close supervision by the headquarters or regulators of their respective countries may have played a role. This likely resulted in stricter standards and guidelines, leading to better monitoring and control, which in turn contributed to improved performance.

Secondly, foreign Islamic banks tend to rely more heavily on a global scale of stakeholders. This necessitates a broader approach to meet the needs and demands of their stakeholders. These banks are adept at adapting their products, channels, and marketing practices to suit the specific requirements of the countries in which they operate (Kim et al., 2005).

Thirdly, foreign Islamic banks typically have well-established corporate values that reflect their seriousness in running their businesses. For instance, Kuwait Finance House (KFH) stands out with its specific information on the bank's website, highlighting its core values denoted by the acronym 'CHIEF'- representing Customer passion, Humanity, Integrity, Excellence, and Fairness. In sum, KFH's emphasis on comprehensive values and a holistic approach to the business system likely contributed to their strong performance.

MBSB secured the second position and places great importance in customer focus, people, teamwork, integrity, prudent risk taking and effectiveness in its values in its business operations. MBSB also acquired Asian Finance Bank Berhad (AFB) and transferred its Shariah-compliant assets and liabilities to AFB through a scheme of arrangement. This enabled MBSB to expand its Islamic banking products and services, diversify its income sources, enhance its Shariah governance and compliance and leverage on AFB's existing network and expertise (MBSB, 2022).

Meanwhile, Maybank, as the third scorer, has consistently exhibited a strong performance in Islamic banking and is one of the leading players in the industry. The bank boasts substantial total assets and has a strong presence in both the conventional and Islamic banking sectors, underscoring its significance in the industry. Maybank Islamic is committed to developing products that address customers' needs, social welfare, justice and inclusion. Maybank Islamic also contributes to economic growth and development through financing various sectors such as infrastructure, education, health care, and renewable energy.

Regardless of their origin, these banks have provided comprehensive explanations for each core value, outlining their efforts to align their business operations with their aspirations in their annual reports and website. They made concerted efforts to strike a balance between adhering to the Shariah rules and regulations, upholding their code of values, fulfilling their social responsibility, and ensuring profitability in managing Islamic banks.

3.4 Top 3 Islamic Banks in Indonesia

Based on Table 4, the analysis focuses on the top performers among Islamic banks in Indonesia. The top three scorers in terms of M Score (Islamic economic performance) were all commercial banks, offering a wide range of banking services to both individuals and businesses including savings accounts, financing options, investment opportunities, and other related services.

There are several possible reasons as to why commercial banks were among the top scorers of M Score in Indonesia. First, Islamic commercial banks operate following Shariah principles, which guide their business activities. This adherence to ethical and religious principles can contribute to positive perception and customer trust, which may impact their performance ratings. Secondly, Islamic commercial banks demonstrate financial strength. Sound financial performance is a key factor in achieving high scores in performance rankings.

Thirdly, Islamic commercial banks with a high-quality loan portfolio and effective credit risk management practices tend to have lower non-performing loan ratios. This contributes to better asset quality and can positively impact their performance rankings. Fourthly, Islamic commercial banks that generate sustainable profits through various revenue streams, including Islamic financing and investment activities, can be recognized for their performance.

The top three scorers were Bank CIMB Niaga Syariah, Bank Rakyat Indonesia, and Bank DKI Syariah. Bank CIMB Niaga Syariah, Bank Rakyat Indonesia (BRI), and Bank DKI Syariah are all Islamic banks or banks that operate based on Shariah principles. All of which have very specific information on their bank's website to indicate their seriousness in managing their businesses based on 'Core Values' compared to other Islamic banks.

Bank CIMB Niaga Syariah is the Islamic banking division of PT Bank CIMB Niaga Tbk, which is one of the largest commercial banks in Indonesia. It provides Sharia-compliant banking services to its customers, including various types of accounts, financing products, and investment solutions. Next, Bank Rakyat Indonesia (BRI) is one of the largest state-owned banks in Indonesia and operates both conventional and Sharia banking services. BRI Syariah is its Islamic banking division that provides Sharia-compliant financial products and services to individuals and businesses. The third rank of Islamic Banks Indonesia which Bank DKI Syariah is the Islamic banking arm of Bank DKI, a regional development bank owned by the government of Jakarta, Indonesia. Bank DKI Syariah offers a range of Sharia-compliant banking products and services to its customers.

In Indonesia, the regulations and laws governing Shariah banking pose limitations on the independent management of zakat and waqf by Islamic banks. Consequently, to reinforce their social functions, Shariah banks in Indonesia establish separate institutions

beyond the banking sector. As an example, Bank Muamalat has established a social institution known as Baitul Maal muamalat to oversee the administration of zakat and waqf, which encompasses the comprehensive roles of collection, management, and distribution of zakat, waqf, infak, and other forms of Islamic social finance. In situations where a Shariah bank does not establish its Islamic philanthropic institution, it engages in a lasting collaboration with reputable national zakat agencies (Amil zakat) and waqf trustees (nazhir/mutawalli), including both government-owned entities such as the Indonesia Waqf Board (BWI), National Zakat Board (BAZNAS), Dompot Dhuafa (DD), as well as private institutions like Muhammadiyah and Nahdlatul Ulama. These strategic endeavors are aimed at the continual advancement of both the commercial and social aspects of Islamic banking in Indonesia. Indeed, within the framework of Islamic economics, there exists no dichotomy between the commercial and social realms, as they are intricately interconnected in the pursuit of maslaha mursalah (general welfare) and falah (success) for the ummah (Muslim community).

4.0 Conclusion

The study on M Score Performance (MSP) of Malaysian and Indonesian Islamic banks has shown significant differences in the performance of these two sets of banks. In this study, Indonesian Islamic banks have consistently outperformed Malaysian Islamic banks in terms of their MSP scores. This difference can be attributed to various factors, including the different regulatory environments in the two countries, levels of competition in the two markets, and strategies adopted by the banks in each country. The study also reveals a positive relationship between MSP scores and bank profitability (Chabachib, Windriya, Robiyanto, & Hersugondo, 2022), indicating that banks with higher MSP scores are more likely to be profitable. This is likely because banks with higher MSP scores are better able to manage their risks and to generate income (Bakar, 2019).

The findings of the study have several implications for Islamic banks. Firstly, it suggests that Malaysian Islamic banks can learn from the practices of Indonesian Islamic banks to improve their performance. Secondly, it suggests that Indonesian Islamic banks can improve their performance by adopting the practices of Malaysian Islamic banks. Thirdly, it suggests that both Malaysian and Indonesian Islamic banks can improve their performance by focusing on managing their risks and generating income.

Acknowledgments

We would like to express our gratitude to Universiti Teknologi MARA, Shah Alam, Selangor and Indonesia Islamic Banking School. This study has been funded under matching grants by Universiti Teknologi MARA for the Strategic Research Partnership International Grant (100 – RMC 5/3/SRP INT (036/2022) with grants also funded by the Indonesia Banking School. This study is a collaboration work by researchers in Universiti Teknologi MARA together with researchers in the Indonesian Banking School, Jakarta, Indonesia.

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