Bank Kerjasama Rakyat Malaysia Berhad: A Case of a Cooperative Islamic Bank in Malaysia

Radziah Abdul Latiff

This case examines the practices of an Islamic bank established as a cooperative. It illustrates how as the bank, Bank Rakyat, recovered from a financial disaster and evolved into a modern retail bank, it departed from some aspects of the traditional cooperative business model, by opening its business to non-members, and incorporated practices of a modern retail bank based on the Islamic principles. Its strategies for rebranding, from conventional to Islamic bank, and for repositioning in the personal financing sector, have transformed the bank from a bank riddled with mismanagement and corruption into one of the most successful banks. As a cooperative, its membership is highly sought after and it has provided consistently high return to its members in the last decade. Whilst not adhering strictly to a theoretically desired Islamic bank in terms of risk sharing with its customers in project financing and in turn with its depositors, it manages its risk by securing a niche in the personal financing sector for government servants, virtually keeping risk off its balance sheet. The shariah basis for providing such financing though, is questionable in certain other shariah jurisdiction. It also poses a number of questions on sustainability in view of the high proportion of its source of fund from deposits, of increasing competition, and of whether in embracing certain market principles, it inevitably departs from its social objective roots. Credit approval is based not on membership or need, rather strictly based on credit worthiness. This case also examines the universal accounting problems related to cooperative membership, Islamic financial products and institution. It illustrates the controversy surrounding the reporting of cooperative membership fund which is not transferable and in order to liquidate members are to surrender their membership to the cooperative. So the cooperative membership is a hybrid of equity and liability. In the case of Bank Rakyat it is more of the latter based on the membership rules. Based on the international accounting standard it should be reported as such. On the other hand, the shariah based deposits are strictly not liability as they are based on profit and loss sharing. Arguably it is an equity instrument.

Keywords: Cooperative, Islamic banking, equity, liability and business strategy

I. Introduction

This case examines the practices of an Islamic bank established as a cooperative. It illustrates how as the bank recovered from a financial disaster and evolved into a modern retail bank, it departed from the traditional cooperative business model and incorporated practices of a modern retail based on the Islamic principles. It has become one of the most successful cooperative. As a bank its membership is highly sought after and it has provided consistently high return to its members, rivaled that of a conventional bank.

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The article proceeds as follows. Part II provides a background to what is regarded as a traditional cooperative and a theoretical Islamic bank. Part III presents the case of Bank Rakyat, part IV analyses its performance and operations. Finally part V concludes

II. Background

A traditional model of a cooperative entity

A cooperative entity is a form of organization that is characterised by a common or shared purpose of its members, which could be profit oriented and takes different form of activities such as business in retail, service and banking. The activities accrue benefits exclusively to members, which are equally shared. The activities are also traditionally consumed exclusively by members.

The following excerpts invariably describe what is a cooperative form of organization. Although cooperatives in different countries operate in different manner, traditionally, cooperatives have some common traits described below.

“Cooperatives are businesses owned and run by and for their members, whether they are customers, employees or residents. As well as giving members an equal say and share of the profits, cooperatives act together to build a better world through co-operation. There are over 5,450 independent cooperatives in the UK. From football to fashion, health care to housing, community owned shops to credit unions, and wind farms to web design; cooperatives work in all parts of the economy. Cooperatives are not just supermarkets and funeral services – although these are amongst the most successful cooperatives found on the high street. You probably use cooperatives in your daily life that you aren’t even aware of. Across the UK, cooperatives are owned by nearly 13 million people – and these numbers keep on growing.”1 (Co-operatives UK)

“A co-operative is an autonomous association of persons united voluntarily to meet their common economic, social, and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise.

Co-operatives are enterprises that put people at the centre of their business and not capital.

Co-operatives are business enterprises and thus can be defined in terms of three basic interests: ownership, control, and beneficiary. Only in the co-operative enterprise are all three interests vested directly in the hands of the user. Co-operatives put people at the heart of all their business. They follow a broaderset of values than those associated purely with making a profit. Because co-operatives are owned and democratically-controlled by their members (individuals or groups and even capital enterprises) the decisions taken by co-operatives balance the need for profitability with the needs of their members and the wider interests of the community.”2

Theoretical Islamic bank : asset and liability management

Whilst a ‘bank’ is a relatively new concept in Islamic tradition and that the Shariah3 governs contracts (such as murabahah, musharakah and mudharabah)4 and not the

1 http://www.uk.coop/2012/co-operatives (Date accessed : 8 February 2012)
2 http://www.ica.coop/coop/index.html (Date accessed : 8 February 2012)
operation of a bank, many Muslims scholars in banking advocate an ideal Islamic bank. Almost always the ideal aspect of a theoretical Islamic bank refers to its asset and liability management, specifically to how an Islamic bank should source its fund and mobilises it. The issue is not so much on whether Islamic banks are in compliance with the Islamic precepts, by contract or transaction, but rather whether Islamic banks are into profit and loss sharing arrangement with its depositors and customers. The other expectation of an ideal Islamic bank is that an Islamic bank is not only profit maximising but also has other social objectives.

The following figure depicts a simplified theoretically ideal Islamic bank:\(^5\):

![Diagram]

In summary an Islamic bank is a finance house that sources its fund from depositors and shareholders and mobilises the fund into projects in partnership with customers/investors. Profits and losses from the projects are shared with customers/investors and in turn, are shared with the capital providers. Theoretically, an Islamic bank shares all risk on the asset side, the project financing, with depositors and shareholders. An Islamic bank’s risk is operational such as risk of negligence or misconduct.\(^6\) Thus depositors are not lenders and neither are the customers borrowers. In its activities, an Islamic bank is expected to consider the interest of society as a whole, the betterment of the society.

### III. The case: Bank Kerjasama Rakyat Malaysia Berhad

#### Development of Bank Rakyat\(^7\)

(Appendix 1)

**Pre independence**

Bank Kerjasama Rakyat Malaysia or Bank Agong as it was initially known has roots in the development of cooperatives to meet financial needs of members who were largely the rural poor in Malaysia. Lord Cavendish, at the beginning of twentieth century, concerned with rural poverty and debt examined the possibility of setting up cooperatives as had been successfully set up in India and Burma. Foreign banks at the time such Chartered Bank, Hong Kong Bank, OCBC and KwongYik catered for plantation and mining multinationals. There were no avenues for farmers and plantation small holders, (even civil servants and estate workers) who suffered hardship borrowing from money lenders (chetiah) and middle men to relieve their financial troubles. In 1920s a Cavendish report proposed the cooperative solution and in 1922 a Cooperative Act was enacted. Cooperatives grew in popularity and with the approval of Islamic scholars from Egypt and Saudi Arabia as a halal form of activity, by 1939 515 cooperatives had been formed. To meet their financial needs

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\(^3\) Shariah is translated as Islamic law.

\(^4\) Murabahah is a sales based contract. Mudharabah is a contract where profit is shared between agent and the capital provider whilst losses are borne by the latter. Musharakah is a contract where profit and loss are shared between agent and the capital provider.


\(^7\) Source from *Membina Kegemilangan*. Bank Kerjasama Rakyat Malaysia.2010. Kuala Lumpur, Malaysia
many cooperative set up their own banks. In 1950, Province Wellesly Cooperative Banking Union Limited was incorporated as the first cooperative bank. This followed by a mushrooming of cooperative banks. In 1954, Bank Agong a union of cooperative banks was incorporated.

**Post colonisation**

In the era after independence\(^8\), nationalistic sentiment was rife with calls for building a better and, in that, a prosperous independent nation. The major objective of Bank Agong continued to be eradication of rural poverty whilst planning for expansion and serving its members which consisted of cooperatives entities. Its 5 year plan post independent included a target for fund collection of RM12 million through collection of not more than RM2.50 per member. It moved its headquarters from Bukit Mertajam to Penang to be near the economic hub of the nation at that time, and subsequently to Kuala Lumpur. By late sixties more branches were opened in Sg Petani, Bagan Serai, Kangar, and Alor Star. A key development in 1967 took the form of an amendment of the by laws to enable the bank to issue debentures, to lend and to obtain deposits from companies as well as individuals. This milestone chartered the path for the bank to open its activities, be it sourcing of funds or financing to non-members.

In the early seventies the bank continued support to rural farming by allocating RM12 million to facilitate padi planting through financing of equipment and provision of funds to facilitate padi planting biannually. This is in tandem with government efforts to modernise farming and increase productivity of agricultural activities at the time. The state and federal government provided support by pledge of government deposits. In 1972 Dato’ Harun Idris, the then Chief Minister of state of Selangor was appointed Chairman of the bank. The name of the bank was aptly changed to Bank Kerjasama Rakyat Malaysia, Bank Rakyat for short.

The seventies saw the birth of the New Economic Policy (NEP). The government increased focus on developing entrepreneurs and generally on manufacturing as a means to improve the Bumiputras’s share of the economic pie and thus narrow the inter ethnic economic imbalance. Cooperative movement was urged to be participate in this ‘economic revolution’. Bank invested in United Manufacturers Sdn Bhd, Hotel Holiday Inn, Asean Chemical Fertilisers Sdn Bhd and Pulp and Paper Industries Sdn Bhd and in full fledged subsidiaries; Angkasa Raya Development Sdn Bhd, Aman Properties Sdn Bhd and Shahaz Travel and Tour Sdn Bhd. In 1974, Rakyat First Merchant Bankers Berhad (joint venture with First National City Bank of New York) was formed.

**The scandal**

(Appendix 2)

In March 1975 at the what appeared to be the ‘peak’ of the bank’s performance, an announcement of a surplus of RM235 million was made and later in the same year at the annual general meeting an announcement of a dividend payment of 10% and 12% for each of the preceding 2 years respectively was made. What is unknown to many least of all the bank’s members was a brewing scandalous losses of over RM65 million as a result of corrupt practices of key officers of the bank. These included advances made to individuals to purchase properties which the bank subsequently purchased at a hefty profit, giving the individuals profit without them having to put out any capital outlay. There were instances where the bank and its subsidiaries would buy companies at losses, giving profits to individuals. Loans were made to not credit worthy customers who were related to certain officers resulting in default and losses to the bank. These acts were exposed in a Government White Paper and a Price Waterhouse Report.

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\(^8\) Malaysia gained independence on the 31st August 1957
“The Price Waterhouse Report hems with so many examples of mismanagement, malpractices and downright dishonesty on so colossal a scale that it defies the imagination. Transactions of Bank Rakyat were carried out to benefit individuals rather than the Bank and its members........The betrayal of the Bank Rakyat, and in particular, the betrayal of the 27,314 members and the 1,000 cooperative members, must be mercilessly exposed and condemned, for it constitutes one of the greatest betrayals of the New Economic Policy, particularly bearing in mind that the members were mostly from the low-income group comprising farmers, fisherman, petty traders and lower rung government servants.”

The Chairman, Managing Director and Bank Secretary were subsequently charged and convicted of breach of trust. To restore confidence and avoid a bank run the government provided a loan of RM155 million to the insolvent bank and guaranteed deposits and members’ contribution. The bank’s employees conducted road shows at night and weekends, to assure members and depositors. A new Act - Bank Kerjasama Rakyat Malaysia (Special Provision) Act 1977 was approved to tighten control on the bank especially on appointment of the board of directors, credit issuance and dividends payment (see Regulatory framework section below). New Board was swiftly appointed consisting of civil servants and professionals.

**Rationalisation of the eighties**

In 1981 the bank reduced its shareholding in Rakyat First Merchant bankers. A new joint venture with largest cooperative bank in Germany – Duetsche Genossenchafts Bank (DG) was formed providing the bank with access to international business. In 1982 a new logo and corporate song were introduced. A five point slogan (5 Etos) which reinforced commitment towards customers, employees, society, government and good management was propagated to employees.

5 Etos:

- Pelanggan keutamaan kami
- KeselesaanKakitanganterjamin
- Majubersamamasyarakat
- Berkhidmatbersamakerajaan
- Pengurusanapendonorongkejayaan

There was a five point values in practices to strive for reflecting trustworthiness, free of corruption, efficiency, discipline and team or kinship spirit.

**5 formula, A B C D E (AMANAH, BERSIH, CEKAP, DIPLIN, ESPRIT DE CORP)**

The eighties saw the first profit reported after the scandal. 1983 reported a modest profit of RM5.85 million. The reported profit of RM18.52 million more than double in 1984. The bank received continued support from the government with deposits from statutory bodies. The year 1986 saw the bank introducing its first Islamic financial product – children deposits account while still operating as a conventional bank.

In 1990 a dividend payment of 22% was announced after 16 years.

**‘Conversion’ to Islam**

The bank introduced Islamic financial products in stages whilst still maintaining a conventional banking operation. It initially experimented with deposits and financing products. In 1993 it introduced a novel Islamic pawn broking – Ar Rahnu. In 1997 the bank became a second full fledged Islamic bank in Malaysia. It however managed to completely expunged the unIslamic elements of its operation in 2001.

The bank was not severely affected by the Asian 1997 financial crisis and the subsequent consolidation of the banking sector which resulted in a number of mergers. It continued its expansion in consumer financing with new products such as car financing.

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takaful, financing for the corporate sector and contractors (with projects from government and listed companies)

*The twenties- yet new logo and song*

The bank continued diversifying its income base. However consumer financing is the mainstay of its source of income which comprise of 80% of its total financing. It invested in information and communication technology. It started providing automated teller machines thus providing access to its widening customer base which key to a commercial retail bank.

**Regulatory framework**

*Operational*

The following describe the various act and law which together govern various operational aspect of bank Rakyat.

- **Bank Kerjasama Rakyat Malaysia Berhad (Special Provisions) Act 1978**

  This act specially provides for the management and administration of Bank Rakyat. Although Bank Rakyat is subjected to the provisions of the following two laws, in the case where any of those provisions is in conflict with this 1978 Act, the provisions of the latter prevails.

  Specifically this 1978 Act deals with the appointment, conduct and responsibilities of the members of the board and principal office bearers of the bank. One salient feature of the provisions, is that the chairman and other members of the board are appointed by the Minister in charge of the Ministry of Domestic Trade, Co-operatives and Consumerism.

  The 1978 Act also provides for the authorized business of the bank as given below:

  “14. (1) In addition to the powers, functions, duties, and responsibilities conferred or imposed on the Bank by the *Ordinance, the rules made thereunder, and the by-laws of the Bank, the Bank may—
  (a) make loans to, and stand guarantee for any loan of money to, any person, whether or not a member of the Bank;
  (b) grant and issue letters of credit to any person, whether or not a member of the Bank;
  (c) acquire, hold, issue on commission, underwrite, and deal with stock, bonds, funds, obligations, securities, and investments of all kinds;
  (d) transact all manner of agency business;
  (e) acquire and undertake the whole or any part of the business of any person or company carrying on any business of the same nature as the Bank may lawfully carry on, or possessed of property suitable for the purposes of the Bank;
  (f) maintain accounts with other banks in Malaysia;
  (g) carry on any other business expressly authorized by the Minister with the concurrence of the Minister of Finance.
  (2) In exercising its powers and carrying out its functions, the Bank shall give paramount consideration to its primary objective of raising the economic status of its members.”

  As a whole the Bank rakyat operation is heavily supervised by the Minister of Domestic Trade, Co-operatives and Consumerism.

*Directions by Minister*

16. The Minister may, from time to time, issue directions to the Board or to the managing body of any of the subsidiaries of the Bank with respect to the running of the affairs of the Bank or the subsidiary, including such directions as he considers necessary or expedient for the protection of the interests of the members or depositors of the Bank or subsidiary, and directions for the furnishing to him of such information concerning the affairs of the Bank or
subsidiary as he may specify; and the Board or managing body, as the case may be, shall comply with such directions."

- **Cooperative Act 1993**
  
  This Act repealed the previous series of cooperative ordinance. It generally provides for the general conduct of Bank Rakyat as a cooperative for example, administrative procedures regarding registration, meetings, membership, keeping of accounts, requirement for audit and dissolution. A salient feature regarding membership is provided as follows.

  "Share, subscription or interest not liable to attachment or sale

  23. Subject to section 22, the share or subscription or interest of a member in the capital of a registered society shall not be liable to attachment or sale under any decree or order of a court in respect of any debt or liability incurred by such member, and neither his assignee in insolvency nor a receiver duly appointed shall be entitled to, or have any claim on, such share or subscription or interest."

- **Bank Kerjasama Rakyat Malaysia By Laws**
  
  Provides rules for conduct between members and bank. A few of its salient features are that
  
  1. Membership by application and approval of board
  2. Liability limited to contribution
  3. Termination of membership
  4. Transfer of membership, upon approval of board, only to other members

**Related to Accounting/Reporting**

  “Accounting represents, not create, rights and obligation”

The 1978 Act makes provision with regards to statutory reserve requirement, accounts and audit of Bank Rakyat. Relevant excerpts from the Act are as follows:

  " Maintenance of the Statutory Reserve Fund

  21. (1) The Bank shall maintain a Statutory Reserve Fund.
  
  (2) At the end of each financial year, the net profit of the Bank for that year shall be determined after allowing for the expenses of operation and after provision has been made for bad and doubtful debts, depreciation of assets, and contributions to staff and pension funds.
  
  (3) The net profit for the financial year, as determined in accordance with subsection (2), shall be dealt with in the following manner:
  
  (a) where at the end of the financial year the Statutory Reserve Fund is less than fifty per centum of the paid-up capital of the Bank, at least fifty per centum of the net profit shall be credited to the Statutory Reserve Fund;
  
  (b) where at the end of the financial year the Statutory Reserve Fund is fifty per centum or more, but less than one hundred per centum, of the paid-up capital of the Bank, at least twenty-five per centum of the net profit shall be credited to the Statutory Reserve Fund.

  Declaration of dividends

  22. (1) Subject to paragraph 15 (1)/(a) and subsection (2) of this section, the Board may from time to time, if in its opinion there are sufficient moneys available, for that purpose declare and pay out dividends on its shares from the net profit, including any profit made in past years."
The Board shall not, unless approved by the Minister with the concurrence of the Minister of Finance, declare and pay out dividends on its shares in excess of ten per centum of the value of the shares.

Audit

23. (1) The accounts of the Bank shall be audited by the Auditor General or any other auditor appointed by the Board with the approval of the Minister given with the concurrence of the Minister of Finance.

(2) The duties of the Auditor General or other auditor shall be to carry out an audit of the accounts of the Bank and to make report on its annual balance-sheet and trading and profit and loss account, including its consolidated balance-sheet and consolidated profit and loss account."

However the 1978 Act is silent with regards to the accounting principles and standards to be followed in the preparation of the financial statements of Bank Rakyat. A controversy is related to the reporting of members fund which under the present international reporting framework would be construed as an equity and a liability. (See appendix 3)

Financial Performance

(See Appendix 4 for summary of financial indicators)

IV. Analysis

1. Issues in cooperative form of business

How has its social objectives appear in terms of its relative dominance with commercial objectives?

Bank Rakyat clearly originated as a cooperative with social objectives of eradicating rural poverty by providing financial assistance to rural farmers and others who would otherwise not have any avenues. After independence with calls from the government for nation building, it started to open its business to non-members with strong support from the government in terms of changing the relevant regulatory provision and placing government fund as deposits. Its ‘commercialisation’ increased as the need to cover huge losses of the mid seventies. Not withstanding the tightening rules and its ‘conversion’ to Islamic banking, it successfully found a niche in personal financing and increased its effort to reach to that customer based by investing in ICT to increase accessibility. Ironically, its success in turning to commercial objectives is in part attributed to the social bond (that is the support from members who did not withdraw their money) created from its social objectives.

2. Issues in Islamic banking based on cooperative form of organisation

How much has it adhered to a theoretically ideal Islamic bank in its asset and liability management?

Like many Islamic banks, bank Rakyat’s assets largely comprise of fixed income financing contracts, whilst its source of funds is based on profit/loss sharing contracts, which contract by contract are Shariah compliant. With its customers mainly working in the public sector with a stable source income, and together with an efficient credit control where payments are made direct from salary deductions, with the assistance from workers cooperative, it virtually keep the related risk low.

3. Rebranding process

How has it managed its ‘conversion’ and become a credible ‘muaallaf’?
4. Its business strategy

How has it become synonymous with personal financing?

5. Reporting issues in a cooperative organisation vis a vis Islamic banking.

Refer to the principle of ‘substance over form’ (Conceptual Framework) and consider Para 23 Cooperative Act 1993, BKR By Laws and the 1975 financial scandal (as illustration of the social bond between BKR and members) to examine the following issues:

Deposits of BKR which are based on mudharabah contract thus could they be in law equity? But they are presented as liability as *substance* would dictate.

Is shareholders’ fund liability, as the law dictate? But it is presented as equity as as *substance* would dictate.

**V. Conclusion**

This case examines the practices of an Islamic bank established as a cooperative. It illustrates how as the bank, Bank Rakyat, recovered from a financial disaster and evolved into a modern retail bank, it departed from some aspects of the traditional cooperative business model, by opening its business to non-members, and incorporated practices of a modern retail bank based on the Islamic principles. Its strategies for rebranding, from conventional to Islamic bank, and for repositioning in the personal financing sector, have transformed the bank from a bank riddled with mismanagement and corruption into one of the most successful bank. As a cooperative, its membership is highly sought after and it has provided consistently high return to its members in the last decade. Whilst not adhering strictly to a theoretically desired Islamic bank in terms of sharing risk with its customers in project financing and in turn with its depositors, it manages its risk by securing a niche in personal financing sector for government servants, virtually keeping risk of its balance sheet. Although the shariah basis for providing such financing is questionable in certain other shariah jurisdiction. It also poses a number of questions on sustainability in view of the high proportion of its source of fund from deposits and of increasing competition, and of whether in embracing certain market principles, it inevitably departs from it social objective roots. Credit approval is based not on membership or need, rather strictly based on credit worthiness. This case also examines the universal accounting problems related to cooperative membership, Islamic financial products and institution. It illustrates the controversy surrounding the reporting of cooperative membership fund which is not transferable and in order to liquidate members are to surrender their membership to the cooperative. So the cooperative membership is a hybrid of equity and liability. In the case of bank Rakyat it is more of the latter based on the membership rules. Based on the international accounting standard it should be reported as such. On the other hand, the shariah based deposits are strictly not liability as they are based on profit and loss sharing. Arguably it is an equity instrument.
Bank Rakyat's 1st corporate logo

Tan Sri Sheikh Ahmad Mohd. Hashim, Bank Rakyat's 1'st Chairman

- Bank Rakyat was established in September 1954 under the Cooperative Ordinance 1948, following an expansion of the cooperative movement in Peninsular Malaysia.
- To facilitate the expansion of the cooperative movement, the cooperatives set up their respective union banks provide financial needs to their members.
- On 28 September 1954, 11 of these union banks decided to merge and form Bank Agong (Apex Bank)
- In 1967, Bank Kerjasama Malaysia Berhad replaced Bank Agong with its membership opened not only to the cooperatives, but also to individuals. Subsequent changes in the by-laws also resulted in the creation of its subsidiary companies and opening of branches to serve customers as well as members.
- On 6 January 1973, the name was changed to Bank Kerjasama Rakyat Malaysia Berhad or better known as Bank Rakyat.
- Bank Rakyat is governed by its by laws and Bank Kerjasama Rakyat (M) Berhad Act 1978 (Special Provision 202), which allows Bank Rakyat to provide financing to non-members.
- In 1989, Bank Rakyat was placed under the Ministry of Land and Cooperative Development and the Ministry of Finance.
The official opening of our Melaka Branch

- In 1993, the Cooperative Act was reviewed which allows the Bank to operate in Sabah and Sarawak.
- On 8 May 1993, Bank Rakyat took a giant step towards becoming a syariah cooperative bank by introducing Islamic banking products at four of its branches.
- Bank Rakyat became a full-fledged Islamic cooperative bank in 2002. Hence, with this major decision, Bank Rakyat marked another milestone in history where it became the third bank to offer total Islamic banking products in Malaysia.
- On 15 February 2002, Bank Rakyat together with six other financial and development institutions were placed directly under the supervision of Bank Negara Malaysia (Central Bank of Malaysia) under the Development of Financial Institution Act (DFIA).
- On 27 March 2004, Bank Rakyat was placed under the supervision of the Ministry of Entrepreneur and Cooperative Development.
- On 15 April 2009, after the cabinet restructuring, Bank Rakyat was absorbed under the Ministry of Finance and was later placed under the Ministry of Domestic Trade, Co-operatives and Consumerism.
- To date, Bank Rakyat has a total of 134 branches offering Islamic banking facilities to its customers.

“4) Bank Rakyat: Lost RM65 Mil, Malpractices by MD and Officers

By 1975, Bank Rakyat, the cooperative bank which was established in 1954, was insolvent. It had accumulated losses of RM65 million. Suspicions regarding the financial standing of the Bank were raised when at its 19th Annual General Meeting, it tabled its 1973 and 1974 accounts, both of which did not have the prior approval of the Registrar General of Cooperatives. The 1973 and 1974 accounts showed that the Bank’s performance was profitable when in fact the Bank suffered substantial losses for those years.

The Registrar General of Cooperatives then conducted an enquiry into the Bank and at the same time the police also investigated its affairs. Anticipating a run on the bank, the Government came up with a guarantee that deposits in the bank were safe.

The White Paper on Bank Rakyat revealed that loans were approved even though they were beyond the level of the authority of the Managing Director or the committee of bank officials. There were no minutes to indicate the loan committee had ever met and its decisions were evident only by signature on the loan approval forms. There were instances where the applications, approvals and disbursements were made on the same day. In other instances loan disbursements were made prior to approval.

Sometimes loans were made in excess of the value of the security, and a number of loans which were approved were neither processed nor secured by any collateral. In one case, the borrowers who could not repay the loans ended up with a profit of RM180,769 because Bank Rakyat bought the two lands charged to the Bank from the borrowers.

Recovery of the loans was hampered by the fact that most of the borrowers were not creditworthy in the first place. In some instances, recovery was hindered by missing loan files. As at 31 December 1975, several members of the Board and their immediate families had loans outstanding with Bank Rakyat amounting to RM1.13 million. Out of this amount RM1.02 million were in arrears. 3 of the borrowers never made any repayment at all on their loans.

The White Paper largely attributed the malpractices to the Managing Director and certain officers of the Bank. However if the Chairman, the Board of Directors, the Registrar General of Cooperatives Societies and the external auditor had properly discharged their functions and responsibilities, they could have prevented the management from perpetuating the malpractices and thereby reduced the losses of the bank.”

ICA Press Release

Accounting Standards Threaten Co-operative Identity

Geneva, Switzerland, 20 November, for immediate release -
The ICA today announced it will continue to challenge the proposed International Accounting Standards Board (IASB) attempts to apply new accounting standards to co-operatives.

IASB has proposed a new accounting treatment for the way equity is reported in balance sheets - IAS 32 (Financial Instruments Disclosure and Presentation).

Iain Macdonald, ICA’s Director-General said today, “This is not an issue that is only of interest to accountants. If the proposed changes go ahead they will have a real and potentially very serious affect on the viability of many co-operatives throughout the world.”

Under the new standards much of what has always been categorised as equity in the balance sheets of cooperatives may have to be reclassified as debt. This may well threaten the viability of many existing and successful co-operatives.

“The IASB has a clear and worthwhile policy outcome in mind in developing the new standard,” Mr. Macdonald said. “They have however, failed to take account of the special character of co-operatives. Co-operatives are different. And we need that difference acknowledged in the way we operate and report our activities,” he added.

The ICA is as concerned as anyone, perhaps more than most to ensure a high level of integrity in financial reporting. Many co-operatives have been among the leaders in providing more detailed reporting of their activities. It is not a matter of wanting special treatment but fair treatment.

The ICA understands the importance of this issue to co-operatives and is joining with a number of its member organisations in making representation to national, European and international organisations. The campaign to oppose these changes is building and meeting with early success.

The ICA’s member in the United States, the National Co-operative Business Association (NCBA) has announced that as a result of its representations the standards-setting board in that country has deferred indefinitely the application of a similar standard to US co-operatives.

The ICA President and Director-General are meeting with the representatives of the European Union to further discuss this matter. This is a fundamentally important issue and we intend to redouble our efforts in this regard Mr Macdonald concluded.
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The International Co-operative Alliance is an independent, non-government association which unities, represents and serves co-operatives worldwide. The ICA was founded in London in 1895. Its members are national and international co-operative organisations in all sectors of activity including, agricultural, banking, fisheries, housing, tourism, and consumer co-operatives. ICA has more than 200 member organisations from over 100 countries, representing more than 760 million individuals worldwide.
# Appendix 4

## Key financial indicators

### Key financial indicators \(^{10}\) (2001-2010)

<table>
<thead>
<tr>
<th>(RM Million)</th>
<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Profit before tax and zakat</td>
<td>285.39</td>
<td>333.26</td>
<td>401.05</td>
<td>460.04</td>
<td>535.54</td>
<td>626.63</td>
<td>828.83</td>
<td>1,234.33</td>
<td>1,550.00</td>
<td>1,717.13</td>
</tr>
<tr>
<td>Shareholders’ funds</td>
<td>1,272.72</td>
<td>1,890.47</td>
<td>2,571.16</td>
<td>3,467.42</td>
<td>3,655.86</td>
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<td>3,964.09</td>
<td>4,421.39</td>
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<td>1,324.51</td>
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<td>1,951.87</td>
<td>1,969.83</td>
<td>1,993.16</td>
<td>1,994.96</td>
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<tr>
<td>Assets</td>
<td>11,167.77</td>
<td>13,465.67</td>
<td>16,142.06</td>
<td>21,227.40</td>
<td>23,979.60</td>
<td>27,491.93</td>
<td>34,900.15</td>
<td>41,728.35</td>
<td>50,637.60</td>
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<td>6,559.91</td>
<td>7,613.39</td>
<td>9,024.95</td>
<td>11,425.11</td>
<td>15,695.61</td>
<td>19,022.26</td>
<td>22,135.31</td>
<td>30,135.93</td>
<td>37,690.65</td>
<td>44,983.02</td>
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<tr>
<td>Deposits &amp; Cagamas</td>
<td>9,609.78</td>
<td>11,227.58</td>
<td>13,126.39</td>
<td>17,131.41</td>
<td>19,557.58</td>
<td>22,710.81</td>
<td>29,585.62</td>
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### (Percentage)

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<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
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<tbody>
<tr>
<td>Liquidity ratio</td>
<td>39.66</td>
<td>42.44</td>
<td>44.40</td>
<td>47.47</td>
<td>31.80</td>
<td>29.40</td>
<td>30.86</td>
<td>24.42</td>
<td>25.31</td>
<td>27.33</td>
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<tr>
<td>Paid dividend</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15.5</td>
<td>15</td>
<td>15</td>
<td>20</td>
<td>20</td>
<td>15</td>
<td>15</td>
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<tr>
<td>Returns on average shareholders’ funds</td>
<td>25.87</td>
<td>21.07</td>
<td>17.98</td>
<td>15.24</td>
<td>15.04</td>
<td>17.19</td>
<td>21.82</td>
<td>29.44</td>
<td>31.88</td>
<td>30.51</td>
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<thead>
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<th>2001</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
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<tbody>
<tr>
<td>Number of shareholders</td>
<td>452,156</td>
<td>526,646</td>
<td>630,974</td>
<td>715,915</td>
<td>695,170</td>
<td>750,503</td>
<td>793,482</td>
<td>789,673</td>
<td>794,199</td>
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\(^{10}\) Extracted from annual reports of Bank Rakyat
### Key financial indicators (1991-2000)

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<tbody>
<tr>
<td><strong>Profit before tax and zakat</strong></td>
<td>15.147</td>
<td>29.805</td>
<td>74.480</td>
<td>126.260</td>
<td>104.145</td>
<td>105.53</td>
<td>82.94</td>
<td>15.45</td>
<td>130.45</td>
<td>242.22</td>
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<td><strong>Shareholders’ funds</strong></td>
<td>36.680</td>
<td>48.931</td>
<td>63.465</td>
<td>86.554</td>
<td>107.654</td>
<td>448.85</td>
<td>660.94</td>
<td>687.56</td>
<td>811.95</td>
<td>933.20</td>
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<td><strong>Assets</strong></td>
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<td>2,369</td>
<td>2,863</td>
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<td>3,897</td>
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<td>5,564.89</td>
<td>6,058.07</td>
<td>7,156.02</td>
<td>8,653.45</td>
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<td><strong>Financing</strong></td>
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<td>1,650</td>
<td>1,900</td>
<td>2,400</td>
<td>2,600</td>
<td>3,453.65</td>
<td>4,103.24</td>
<td>4,138.44</td>
<td>4,806.41</td>
<td>5,900.99</td>
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<td><strong>Deposits &amp; Cagamas</strong></td>
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<td>4,360.41</td>
<td>4,498.92</td>
<td>5,058.11</td>
<td>6,104.58</td>
<td>7,356.02</td>
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<tbody>
<tr>
<td><strong>Liquidity ratio</strong></td>
<td>(not available)</td>
<td>24.92</td>
<td>23.05</td>
<td>30.85</td>
<td>31.99</td>
<td>31.01</td>
<td></td>
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</tr>
<tr>
<td><strong>Paid dividend</strong></td>
<td>(not available)</td>
<td>30</td>
<td>30</td>
<td>20</td>
<td>15</td>
<td>15</td>
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<tr>
<td><strong>Risk weighted capital ratio</strong></td>
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<td>17.22</td>
<td>17.42</td>
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<td>15.94</td>
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</tr>
<tr>
<td><strong>Returns on average shareholders’ funds</strong></td>
<td>(not available)</td>
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</thead>
<tbody>
<tr>
<td><strong>Number of shareholders</strong></td>
<td>(not available)</td>
<td>83,127</td>
<td>132,343</td>
<td>179,338</td>
<td>276,691</td>
<td>359,033</td>
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</table>

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11 Extracted from annual reports of Bank Rakyat