EXAMINING THE RELATIONSHIP BETWEEN FOREIGN
ISLAMIC BANK ENTRY, ASSET QUALITY AND LIQUIDITY
WITH PERFORMANCE OF DOMESTIC ISLAMIC BANKS IN
MALAYSIA

EZEMA CHIKAO DIL I JUDITH

MASTER OF SCIENCE (BANKING)
UNIVERSITI UTARA MALAYSIA

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BY

EZEMA CHIKAODILI JUDITH

815744

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in Partial Fulfilment of the Requirement for the Master of Sciences (Banking)
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EZEMA CHIKAODILI JUDITH

815744

Othman Yeop Abdullah
Graduate School of Business
Universiti Utara Malaysia
06010 Sintok
Kedah Darul Aman
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ABSTRAK


Kata kunci: Kemasukan bank Islam asing, Kualiti asset, Kecairan, ROA, ROE.
This study examines the relationship between foreign bank entry, asset quality and liquidity with performance of domestic Islamic banks in Malaysia. The empirical analysis of the study is restricted to Islamic banks in Malaysia within the period of 2008-2013. The main objective was to determine the effects of foreign Islamic bank entry on domestic Islamic banks in Malaysia. The study used financial ratios of banks by extracting components of CAMELS Model, namely; Asset quality, and Liquidity. The result shows that foreign Islamic bank entry has negative effects on the domestic Islamic banks performance using ROE as a measure but has no effect when ROA was used as a measure of performance. This means that foreign Islamic banks reduce domestic Islamic banks performance. In addition, asset quality and liquidity quality had no significant effect on domestic Islamic banks performance.

Keyword: Foreign bank entry, asset quality, liquidity, ROA, ROE.
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# TABLE OF CONTENTS

TITLE PAGE.................................................................i

DECLARATION...............................................................ii

PERMISSION TO USE..........................................................iii

ABSTRAK..........................................................................iv

ABSTRACT........................................................................v

ACKNOWLEDGEMENT..........................................................vi

LIST OF TABLES.................................................................x

LIST OF FIGURES...............................................................xi

ABBREVIATIONS.................................................................xii

## CHAPTER ONE: BACKGROUND OF STUDY

1.0 Introduction......................................................................1

1.1 Malaysian Financial System................................................1

1.2 Foreign Islamic Banks Entry and Liberalization on Foreign banks Entry........4

1.3 Problem Statement..........................................................7

1.4 Research Questions........................................................9

1.5 Research Objectives.........................................................9

1.6 Significance of the Study..................................................10

1.7 Organisation of the Study..................................................11

1.8 Summary of Chapter.......................................................11
CHAPTER TWO: LITERATURE REVIEW

2.0 Introduction.................................................................13

2.1 Foreign Islamic Bank Entry...........................................13

2.2 Asset Quality and Bank Performance..............................18

2.3 Liquidity and Bank Performance.....................................19

2.4 Summary of Chapter....................................................22

CHAPTER THREE: RESEARCH METHODOLOGY

3.0 Introduction..................................................................23

3.1 Research Framework...................................................23

3.2 Definition and Measurement of Variables..........................24

3.2.1 Dependent Variables...................................................24

3.2.2 Independent Variables...............................................25

3.2.2.1 Foreign Bank Entry...............................................25

3.2.2.2 Asset Quality.......................................................25

3.2.2.3 Liquidity............................................................26

3.3 Population and Data collection.......................................27

3.4 Hypotheses Development..............................................28

3.4.1 Foreign Islamic Bank entry and Domestic Islamic banks Performance......29

3.4.2 Asset Quality and Domestic Islamic Banks Performance...................29

3.4.3 Liquidity and Domestic Islamic Banks Performance....................30

3.5 Regression Models..........................................................31

3.6 Diagnostic Tests ..........................................................31
CHAPTER FOUR: RESULTS AND DISCUSSIONS

4.0 Introduction

4.1 Descriptive Statistics

4.2 Normality test

4.3 Panel Data Analysis

4.4 Discussion of results

4.4.1 Foreign Islamic Bank Entry and Domestic Islamic Bank Performance

4.4.2 Asset quality and Domestic Islamic Bank Performance

4.4.3 Liquidity and Domestic Islamic Bank Performance

4.5 Summary of Hypothesis Testing of Foreign Bank Entry, Asset Quality and Liquidity with performance of domestic Islamic banks in Malaysia

4.6 Summary of Chapter

CHAPTER FIVE: CONCLUSION AND RECOMMENDATION

5.0 Introduction

5.1 Overview of the Research Process

5.3 Contribution

5.3.1 Body of Knowledge
5.3.2 Policy Maker.................................................................42
5.3.3 Practitioners...............................................................43
5.4 Limitations.................................................................43
5.5 Suggestion for Future Research.......................................43
REFERENCES.................................................................44
APPENDIX.................................................................49
LIST OF TABLES

Table 3.1: Summary of Variables and Measurements 28
Table 4.1: Descriptive Statistical Analysis 34
Table 4.2: Normality Test Result 34
Table 4.3: The Relationship between Foreign Islamic Bank Entry, Asset quality, and Liquidity on Domestic Islamic Banks Performance (ROA) 36
Table 4.4: The Relationship between Foreign Islamic Bank Entry, Asset Quality, and Liquidity on Domestic Islamic Banks Performance (ROE) 37
Table 4.5: Summary of Hypotheses Testing of Foreign Bank Entry, Asset Quality and Liquidity on the performance of Domestic Islamic Banks 39
LIST OF FIGURES

Figure 3.1: Theoretical framework

27
LIST OF ABBREVIATIONS

PERF- Performance

BNM- Bank Negara Malaysia

FIE- Foreign Islamic entry

AQ- Asset quality

LIQ- Liquidity

ROA- Return on Assets

ROE- Return on Equity
CHAPTER ONE

BACKGROUND OF THE STUDY

1.0 Introduction

This chapter begins with explanations on the Malaysian financial system, foreign Islamic bank entry and liberalization on foreign banks entry. This is followed by the explanation on the problem statement, the research questions and research objectives, the significance of the study and finally the organization of the study.

1.1 Malaysian Financial System

The foundation of any financial system is made up of banks because they assume a crucial role in contributing and developing the economy. A study conducted by Hassan, Sanchez, and Yu (2011) established that the effectiveness of financial intermediation can affect the growth of the economy and also bank inadequacies can bring about crises which have negative effects on the economy. In other words, banks are essential in financing economic activities and contribute to the soundness of the financial system. Every country is concerned in creating a strong and solid banking system, which allows the organizational framework to ensure a proper expansion and development of financial relations in the economy. A stable banking system helps to provide efficiency in unforeseen circumstances and also brings about incentives and reliable financial information for all participants. However, the bad performance of the banking industry in any nation would have a disastrous effect on the economy.
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References


