



الجامعة  
UNIVERSITI  
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MARA

**“PREDICT BANKRUPTCY LEVEL AMONG MALAYSIAN  
ISLAMIC BANKING: USING Z-SCORE MODEL”**

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**IN THE NAME OF ALLAH THE MOST GRACIOUS AND THE MOST MERCIFUL**

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## **ABSTRACT**

Malaysian Islamic Banking can be classified as one of the emerging market as same as in the UAE which is characterized by a high-risk profile compared with Conventional Banks. The purpose of this study was to predict bankruptcy level among the Malaysian Islamic Banks using the Z-score model as to measure their current status. At the same time, this study conducted as to examine any significant different between Z-score of pre-crisis and after crisis among the Malaysian Islamic Banks from 2007 until 2011. The methods have been used are Z-Score model which developed by Edward Altman in 1968 and T-test. All 10 Islamic Banks in Malaysia which the local Islamic banks have been as the sample. This research referred to annual reports for all 10 Islamic Bank in Malaysia for 5 years (2007-2011). The expected findings would be Islamic banks in Malaysia are by and large financially sound and healthy. This research will help Malaysian Islamic banks to identify and predict what their bankruptcy level is. The output of this study could be considered as a warning bell for the Islamic banks in Malaysia as to estimate the financial distress that they might face in the future.

# **CHAPTER 1**

## **INTRODUCTION**

### **1.0 Introduction**

The concept of Islamic Banking was developed during the 1970 and was universally introduced from year 2000 (Obaid, 2011). According to the International Monetary Fund (IMF) publication, the number of Islamic Financial Services Institutes has reached more than 300 spread across more than 51 countries worldwide. In addition, more than 250 Islamic mutual funds operate globally.

As reported in the statistic of the Central Bank of Malaysia (2011), Malaysia's Islamic finance industry has been in existence for over 30 years. Rosnia, Norhazlina, Elmirina and Hishamuddin (2011) have said that the enactment of the Islamic Banking Act 1983 enabled Malaysia to have the first Islamic Bank. Then, with the liberalization of the Islamic financial system, more Islamic financial institutions have been established in Malaysia.

Nowadays, Malaysia has a significant number of full-fledged Islamic banks including several foreign owned entities, and conventional institutions who have established Islamic subsidiaries and also entities who are conducting foreign currency business. There are 16 Islamic Banks and 27 Conventional Banks as listed by the Central Bank of Malaysia (BNM, 2012).