



**NON-PERFORMING FINANCINGS OF BANK ISLAM
MALAYSIA BERHAD KOTA SAMARAHAN BRANCH:
TEST ON ECONOMIC CONDITION, BANK ISLAM
MALAYSIA BERHAD'S CREDIT MANAGEMENT
POLICY AND TOTAL FINANCINGS
DISBURSEMENT**

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ABSTRACT

Various researches done previously had outlined several factors that had affected the Non-Performing Loans of others banks and the legal actions taken to the Non-Performing Financings of Bank Islam Malaysia Berhad. Bank Negara Malaysia's governor, **Datuk Dr. Zeti Akhtar Aziz** at the Opening of the Malaysian Banking Summit, Kuala Lumpur in May 2001, had stressed the raising level of Non-Performing Loans.

This research was focusing in analyzing whether the factors such as economic conditions, Bank Islam Malaysia Berhad's Credit Management Policy and total amount financings disbursement have significant impact on the Non-Performing Financings level. Analysis had been carried out using Statistical Programme Software System and it showed that economic conditions had significant impact on the Non-Performing Financings of Bank Islam Malaysia Berhad, Kota Samarahan branch. Mean while, Bank Islam Malaysia Berhad's Credit Management policy and total amount financings disbursement had positive relationship with Non-Performing Financings. Based on the findings, economic conditions had more dominant impact on the Non-Performing Financings.

Recommendations had been made to improve the credit management in order to reduce the risk of financing to become NPFs.

CHAPTER 1

1. INTRODUCTION

1.1. INTRODUCTION

During the past decade, banking institutions experienced two episodes of economic turbulence that were, the economic turmoil of 1985-86 and the Asia financial crisis of 1997-98. In the years between the two tough episodes (1989-96), Malaysian government had implemented various measures to strengthen the commercial banks through a series of prudential reforms and strategic development to gear the banking system to meet the future challenges of greater competition.

In the beginning of the decade (1988-89), commercial banks were recovering from an economic downturn, which left them with the overhang of net Non-Performing Loans (NPLs) of 17.8% of total loans at end 1988. The net NPLs were largely caused by an over-concentration of lending to the broad property sector in the early 1980s, which accounted 40% of total loan portfolio in 1988.¹

¹The Central Bank And The Financial System In Malaysia, A Decade of Change: 1989-1999.

CHAPTER 2

2. LITERATURE REVIEW

To earn high profits, banks need to make successful loans that are paid back in full. According to **Wong Chee Seng and Dr. Raja Lope bin Raja Shahrome**, loans are the primary earnings assets of banks. Although, loans growth is positively correlated with banks' profitability but strong loans growth initiated by an over extended banking system could lead to banking sector fragility and introduce an element of systematic risk to the whole economy, especially in the face of a serious economic condition. Policy response has to be ahead of the curve to avoid excesses building up unnoticed, as important as the need to maintain effective regulatory and supervisory controls in an area of financial liberalization.

The high-risk nature of banking can arise from the high credit and asset-liability mismatches that character this industry. Poor credit decisions can aggravate the problem. Regulators and even bankers often forget that to earn a ringgit from a lending, a bank has to put at risk RM100.00. The high gearing may in fact create the incentives for risky or imprudent lending. And the massive asset-liability mismatches can convert a liquidity crisis into a solvency crisis.⁵

⁵Dr. R. Thillainathan, "Reforming The Financial Sector And Promoting Capital Market Development," Bankers Journal No. 108, Dec 1998:p8.