



**THE EFFECTIVENESS OF CREDIT ASSESSMENT
POLICY OF BANK ISLAM MALAYSIA BERHAD
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ABSTRACT

Bank Islam Malaysia Berhad (BIMB) Samarahan Branch, experienced extreme increased in non-performance-financing (NPF) accounts after 3 year of it pronounce operation. The alarming increased had inspired researcher to conduct this research in determining the main caused. Since credit assessment played vital role in credit decision, this study therefore focus on the effectiveness of bank credit assessment practiced on the investigation of borrower's character, capacity and condition factor. Survey had been conducted on bank's existing customer as respondent. The main aim is to evaluate the effectiveness of credit assessment practiced. To identify what is the dominant factors that contribute to the non-performance-financing. The study is also to measure the profile of customer (respondent) in term of their demographic characteristic.

Based on the finding outcomes, the character element is the dominant factor that has significant impact to performance of the NPF level. Therefore, it is concluded that the credit assessment method of Bank Islam Malaysia Berhad Samarahan Branch had failed to investigate and interpret the real character of potential borrower. Finally few recommendation was made to accommodate the deficiency based on theory developed by financial expertise on the credit management.

CHAPTER 1

1.1 INTRODUCTION

1.1.1. ISLAMIC BANKING LANDSCAPE IN MALAYSIA

Islamic banking has emerged as a new market in the international financial scene since 1970's. The emergence of Islamic banking was driven by increasing demand of Interest-Free Banking by Muslims in accordance with the Syariah principal. Dubai Islamic Bank, and the establishment of the Islamic Development Bank in 1975 paved the way for the establishment of about 117 Islamic financial institution through out the world.

Bank Islam Malaysia Berhad (BIMB) officially commence its operation on 1st July 1983 with the paid-up capital of RM 80 million. The Islamic Banking Berhad (BIMB) was governed under the Islamic Banking Act 1983 (IBA) while the overall Islamic system was vested under the Banking and Financial Institution Act 1989 (BAFIA).

During the restructuring arrangement in 1997, Bank Islam Malaysia Berhad had increased its paid-up capital to RM 500 million and shareholders' funds to RM 970 million.¹ As at end of June 2001, the total asset of Bank Islam Malaysia Berhad stood at RM 10.34 billion while the deposit and financing outstanding amounted to RM 8.78 billion and RM 6.3 billion

¹ The Central Bank and the Financial System in Malaysia, Islamic Banking pg 243

CHAPTER 2

2. LITERATURE REVIEW

The absence of sound and effective risk management in some institutions led to poor administration of loans, which in turn could threaten solvency position of the institutions.⁵

Poor or weak credit analysis leads to bad decisions and, in time, to problem portfolios. Credit analysis is the action of analytically reviewing and reporting on the risk inherent in the credit product and the repayment thereof. **(Sam. N. Basu and Harold L. Rolfes, Jr, Strategic Credit Management)**

Every lender realize that to pay-off a loan on a satisfactory basis depend largely upon the borrower, on his/her willingness and ability to perform in accordance with the term of loan. What specific factors affect the borrower's performance? These factors can be identified and divided into two categories namely "human" or character factors and management or capability factors. The documentation deficiencies and other errors on the part of lenders appear to be the principal causes of loan problem. Some of the deficiencies and error done by the lender such as, failure to obtain sufficient information prior to making the initial loan decision. **(Robert H.Behrens)**

⁵ BNM, Decade of Change 1989-1999 : Financial Services.