

THE ROLE OF MAQASID SHARIAH IN THE CREDIT EVALUATION BY
ISLAMIC BANK FOR SMALL AND MEDIUM-SIZED ENTERPRISES IN
MALAYSIA

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UNIVERSITI TEKNOLOGI MALAYSIA

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DEDICATION

To my beloved parents, family members, relatives, and loved ones.
And to future researchers in the discipline of Islamic Banking.

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All praise to Allah for bestowing upon me the strength, perseverance, and wisdom to have this work accomplished.

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ABSTRACT

Small and Medium-Sized Enterprises (SMEs) businesses face challenges securing financing for both capital and operating expenditures. As a result, SMEs tend to utilize personal loans and credit card facilities to fund their businesses. The difficulty in securing financing for SMEs was due to various reasons, one of which was the lack of understanding of key determinants in credit evaluation for financing approval. Another issue is that Islamic Bank has been criticized for replicating conventional banking practices in credit evaluation. Islamic banking's risk appetite is similar to conventional banking, while principally Shariah banking should promote a risk-sharing spirit. There is a dearth of research that examined the behavior of Islamic banks towards SMEs in Malaysia, especially in credit evaluation on financing. Additionally, not much research in Islamic banking discussed the credit evaluation process, but much attention was given to the issues of Shariah-compliant products. Thus, this research explores how Islamic banking evaluates SMEs' credit standing based on character, ability, means, purpose, amount, repayment, and insurance (CAMPARI) credit evaluation model, and whether Maqasid Shariah is being considered throughout the credit evaluation process. With a single case-study approach, this qualitative research conducted eleven semi-structured interviews with the subject-matter experts from the chosen Islamic developmental bank. The data of the interviews from various respondents were coded and interpreted through thematic analysis using computer-aided qualitative analysis software called NVIVO. The research reveals that the credit evaluation approach in ABC Bank is much different from other commercial banks due to its mandated role to assist the SME sector. For the Maqasid Shariah's consideration, the officers believe that purpose of financing and the nature of business are the only core Shariah concerns when evaluating the financing applications. As a result of the research findings, a framework called Maqasid Financing Program has been developed, together with a credit evaluation template, which will help the Islamic banks to evaluate credit applications based on Maqasid Shariah. The research has significant theoretical and practical contributions through the embedment of Maqasid Shariah into the CAMPARI evaluation model and the pragmatic proposed framework that can be applied to credit practice.

ABSTRAK

Perusahaan Kecil dan Sederhana (PKS) menghadapi cabaran dalam mendapatkan pembiayaan untuk perbelanjaan modal dan perbelanjaan mengurus. Akibatnya, PKS cenderung menggunakan pinjaman peribadi dan kemudahan kad kredit untuk membiayai perniagaan mereka. Kesukaran mendapatkan pembiayaan untuk PKS adalah disebabkan pelbagai faktor, salah satunya adalah kekurangan pemahaman tentang penentu utama dalam penilaian kredit untuk kelulusan pembiayaan. Terdapat isu lain juga dimana perbankan Islam dikritik meniru amalan perbankan konvensional dari segi penilaian kredit, dan selera risiko perbankan Islam adalah serupa dengan perbankan konvensional, manakala pada dasarnya perbankan Syariah menggalakkan semangat perkongsian risiko. Hanya segelintir penyelidikan yang mengkaji sikap bank-bank Islam terhadap PKS di Malaysia, terutamanya dalam penilaian kredit untuk pembiayaan. Tambahan pula, tidak banyak kajian dalam bidang perbankan Islam menyentuh mengenai proses penilaian kredit, tetapi lebih fokus kepada isu-isu produk patuh Syariah. Oleh itu, kajian ini meneroka bagaimana perbankan Islam menilai tahap kredit PKS berdasarkan model penilaian kredit berdasarkan watak, kebolehan, cara, tujuan, jumlah, bayaran balik, dan insurans (CAMPARI), dan sama ada Maqasid Syariah dipertimbangkan sepanjang proses penilaian kredit. Dengan pendekatan kajian kes, penyelidikan kualitatif ini telah menjalankan sebelas temu bual separa berstruktur dengan pakar subjek daripada bank pembangunan Islam yang dipilih. Data temubual daripada responden tersebut telah dikodkan dan ditafsir melalui analisis tematik menggunakan perisian analisis kualitatif bantuan komputer yang dipanggil NVIVO. Kajian ini mendedahkan bahawa pendekatan penilaian kredit di ABC Bank jauh berbeza berbanding bank-bank perdagangan lain kerana mandat yang diberi adalah untuk membantu sektor PKS. Untuk pertimbangan Maqasid Syariah, pegawai-pegawai bank tersebut percaya bahawa tujuan pembiayaan dan jenis perniagaan adalah satu-satunya pertimbangan Syariah yang diambil kira ketika menilai permohonan pembiayaan. Hasil daripada dapatan kajian, satu rangka kerja yang dipanggil Program Pembiayaan Maqasid telah dibangunkan, berserta templat penilaian kredit, yang mana akan membantu bank-bank Islam menilai permohonan kredit berdasarkan Maqasid Syariah. Kajian ini mempunyai sumbangan teori dan praktikal yang signifikan melalui penerapan Maqasid Syariah ke dalam model penilaian kredit CAMPARI dan rangka kerja yang pragmatik yang dapat digunakan dalam amalan kredit.

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LIST OF ABBREVIATIONS

| | | |
|-----------|---|------------------------------------------------------------------------------------------------|
| 5C's | - | Character, Capacity, Capital, Conditions, and Collateral |
| 5P's | - | People, Payment, Purpose, Protection, and Prospects |
| ABM | - | Association of Banks in Malaysia |
| BNM | - | Bank Negara Malaysia |
| CAMPARI | - | Character, Ability, Margin, Purpose, Amount, Repayment, and Insurance |
| CGC | - | Credit Guarantee Corporation |
| FEM | - | Financing Evaluation Memorandum |
| MFP | - | Maqasid Financing Program |
| NKEA | - | National Key Economic Area |
| NPF | - | Non-Performing Financing |
| PARSER | - | Person, Amount, Repayment, Security, Expediency, and Remuneration |
| PARTLAMPS | - | Purpose, Amount, Repayment, Time, Laws, Account, Management, Profitability, and Security |
| SAPACTRPS | - | Standing Ability, Purpose, Amount, Contribution, Term, Repayment, Profitability, and Safety |
| SCEL | - | Single Counterparty Exposure Limit |
| SJPP | - | Syarikat Jaminan Pembiayaan Perniagaan |
| SME | - | Small Medium Enterprise |

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CHAPTER 1

INTRODUCTION

1.1 Background of Study

Financial institutions' core products are financing facilities either for business or retail segments, which each segment requires specific credit processes to be taken by bank officers. The credit processes are imposed for banks to ascertain lending decisions on financing applications. Each bank has its unique credit process and procedures which typically depend on the quantum of the applied amount type of banking facilities. For retail segments such as credit card, mortgage and hire purchase, lending decision processes typically are more relaxed and do not require loan committee approval, unlike the business segments where financing decisions require loan committee approval. Credit processes require banks to use certain credit evaluation tools as a mechanism to understand and assess the credit standing of the applicants. One of the prominent credit evaluation tools is CAMPARI Model where 7 elements are being evaluated to understand the credit strength. CAMPARI (Character, Ability, Margin of Financing, Purpose, Amount, Repayment, and Insurance) is an old model used in the banking industry to define good/bad credit for business loans. Although in reality, banks call their credit assessment methodology in various names, it is actually anchored in these similar fundamental elements which focus on customers' credit-standing and availability of recourse.

Credit assessment also depends on the banks' risk appetite. Risk appetite is the willingness level of lenders/investors to bear risk on a particular counterparty, in other words, risk appetite is a preference degree to which lenders' aversion level to uncertainty level (Risk Management Association, 2013). Hancorn (2018) elaborated further that risk appetite may be considered as a written statement that stipulates the type of risk an organization is willing to tolerate. The risk appetite may be a result of

internal factors (such as risk culture) or external factors (economic conditions). Risk Appetite is well defined as how far a bank is willing to expose to potential risk. Every bank has its risk preference towards potential credit exposure, which this preference is not merely depending on the customer, but also many other contributing factors such as experience, availability of information, industry outlook, and industry concentration management. By using the CAMPARI model and analyzing bank's risk appetite, the study revealed the key determinants of the lending decisions in an Islamic Bank, which will help the businesses to have a better approach in assessing financing from the banks.

In the lenses of Islamic banking, Islamic banking is well known as ethical banking or high moral banking (Mohamad, Basah, and Aziz, 2018), which supposedly to be more proactive in empowering business through financing. Zaini, Zandi, Ruhoma and Amin (2018) supported that Islamic banking is a platform that provides justice and fairness in wealth distribution. Islamic banks are initially established to uphold and embed Islamic rulings (Shariah) in their business framework and principles, through which the concepts and application of Maqasid Shariah in promoting the social justice to mankind and other creations are justified. Wahab and Naim (2021) assert that the term of Shariah is wide-ranging, its covers set of ethics and values of all walks of life including the economy. Therefore, Islamic banking is expected to analyze businesses' financing applications in different standards as compared to conventional banking. Islamic banking shall analyze the financing application by embracing Shariah considerations. Mohamad et al. (2018) further argue that Islamic banking's behaviors toward these seven aspects may be different as compared to conventional banking, given its spirit of risk-sharing and its approach based on Maqasid Shariah, as compared to conventional banking. On top of that, this study revealed how Islamic banking differently assesses its customers based on company size, in other words, the study will understand how much difference Islamic banking assesses financing applications as compared to large corporations' applications.

Islamic Banking industry has the potential in becoming the nation's competitive edge for Malaysia given its healthy banking ecosystem and a huge pool

of local talent. Overall, despite turbulences in the global economy, the average growth rate of Islamic banking is quite moderate from 2013 to 2017 where both asset growth and financing growth were approximately at 8.8%, while the average deposit growth was 9.4% (Islamic Financial Services Board, 2018).

Malaysia is one of the pioneers in Islamic banking with the establishment of Tabung Haji back in 1963, after the establishment of Mit Ghamr Saving Bank in the same year of 1963. Subsequently, the world witnessed a number of emerging Islamic banks, especially in the Middle East namely Dubai Islamic Bank in 1975, Faisal Islamic Bank of Sudan in 1977, Faisal Islamic Bank of Egypt in 1977, and Bahrain Islamic Bank in 1979 (Shibu and Chachi, 2021). The uprising number of Islamic banks is disruptive to conventional banking, which resulted in many conventional banking groups establishing Islamic bank subsidiaries or at least Islamic banking window. Both Islamic banking window and full-fledged Islamic banking have their own credit culture which assesses businesses' loan applications in their respective methodology.

Islamic banking is being guided by Islamic rulings i.e. Shariah. The objective of Shariah is divided into three levels of necessity which are Necessities (*Daruriyyah*), Needs (*Hajiyat*), and Luxuries (*Tahsiniyat*). However, the most crucial Maqasid Shariah is Necessities where it is crucial for human beings, such as food, shelter, and clothes. Under the Necessities category, there are five objectives of shariah which are Protection of Religion, Protection of Life, Protection of Lineage, Protection of Intellect, and Protection of Property. Being Islamic banks, these five preservations should be upheld in evaluating businesses' financing applications.

In the banking industry, SME clientele is the most important segment due to its core function in the national economy. ASEAN region is well known as the home of SMEs in which SMEs represent 95-99% of the total business (ASEAN SME Service Center, n.d.). While in Malaysia alone SMEs represent 97% of total businesses in the country, therefore there is no doubt that SMEs play vital roles in Malaysia's economic development. The definitions of SMEs are varied among the countries around the world. Figure 1.1 below illustrates the latest definition of SMEs

in Malaysia as being defined by the National SME Development Council in 2013 (SME Corp. Malaysia, 2020):

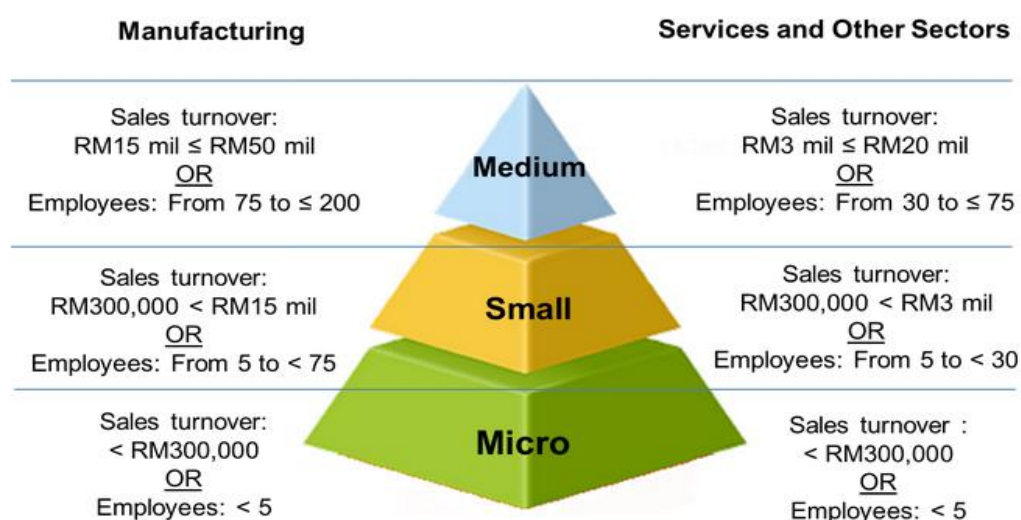


Figure 1.1: SME Classification by National SME Development Council

Note: Companies are exempted from the above definition if the company is public-listed companies on the mainboard and subsidiaries of public-listed companies on the mainboard, multinational corporations, Government-linked companies (GLCs), Syarikat Menteri Kewangan Diperbadankan (MKDs), or State-owned enterprises.

One of the main issues that most concern the SMEs is accessibility to financing. Unlike large corporations, SMEs' reliance on external financing is more crucial due to the tight weak financial standing resulting from small-scale business operations. Jamil, Zakaria, and Othman (2019) believed that SMEs are using owners' personal loans and credit cards to fund the businesses, which is a mismatch funding. Mismatched fundings could affect SMEs' business performance as a study conducted by Mustafa, Sam, and Ismail (2019) revealed that there is a positive relationship between facility structure and SMEs' performance. There are many reasons why SMEs are facing difficulties in securing funding, one of which is lack of collateral as suggested by Wasiuzzaman, Nurdin, Abdullah, and Vinayan (2020), Haron, Said, Jayaraman, and Ismail (2013), and Zairani and Zaimah (2013).

The most recent and renowned study on credit evaluation in Maqasid Shariah perspective was conducted by Mohamad et al. (2018) where the research was conducted to understand the credit evaluation process based on Islamic value of *Adl*, *Ukhwah*, *Istiqomah*, *Akhlak*, *Syura*, and *Tawakkal*, as well as elements of Maqasid Shariah which are *Daruriyyah*, *Hajiyyah*, and *d*. The study had two main objectives which are (i) exploring Islamic elements that can be used in evaluating commercial financing application in Islamic banking and (ii) proposing the best parameter for the credit evaluation process in commercial financing. However, the said study focused only on broad elements of Maqasid Shariah. The study is only interested in ascertaining which elements in Maqasid Shariah are important in making financing decisions. The study did not consider the components of each element in the credit evaluation process. Furthermore, the participants of the study were Shariah Advisers, who probably have limited exposure to credit discipline. Lastly, the study focused on general credit evaluation, which applies to all applicants regardless of their company size and capacity. Therefore, the result may be inconclusive as one size cannot fit all.

This study brings contributions to the present study as Mohamad et al. (2018) concentrated on broad Commercial financing. The participants were Shariah advisers, while this study focused on SME financings and the participants were credit personnel who engaged directly with credit processing and approval. Furthermore, this study emphasized a Development Financial Institution as a case study compared to the previous study, which focused on Shariah Advisers' perspectives from various financial institutions.

Therefore, research needs to be done to understand the key determinants for an Islamic bank to make lending decisions on SMEs in Malaysia. However, there is a lack of study on the behavior of Islamic banks towards SMEs in Malaysia. Many studies have been conducted on the key determinants of conventional banking lending decisions, but not in Islamic banking. Research studies on Islamic banking have been concentrated on Islamic products and shariah-related issues, not on Islamic banking's business and risk appetite on SMEs. The objective of this study is to understand Malaysian Islamic banking's credit assessment and its risk appetite in terms of the lending decisions to SMEs. This study is very important for both SMEs

and Islamic banks, especially in determining the fallbacks and the opportunities that both can leverage. Conclusive and inclusive strategies can be established if the destination is the same.

1.2 Problem Statement

The 1998 Asian financial crisis has caused many of Asian banks and its system to suffer from great lost, consequently, one of the most crucial repercussions of this was banks became vigilant about lending to SMEs, despite them being major contributors in economic activities (Yoshino and Taghizadeh-Hesary, 2018). Obtaining banking facilities remain one of the key challenges faced by SMEs due to both financial and non-financial considerations. SMEs are regularly being generalized as poor credit-standing customers in the eyes of bankers. Typically, SMEs' difficulty in securing banking facilities due to weak capital, incomplete financial records, and poor financial performance (Salikin, Wahab and Muhammad, 2013). These factors have been key considerations for banks' lending decisions and have been the key factors for the rejection of loans.

The government of Malaysia has called for various initiatives to resolve these underlying issues. One of them is the establishment of government agencies that were formed to assist SME sector financially and commercially namely Malaysia Debt Ventures Berhad, GreenTech Malaysia, Malaysia External Trade Development Corporation, SME Corporate Malaysia, Malaysian Industrial Development Finance and Halal Industry Development Corporation (Yuan, Azam and Tham, 2019). Despite the government initiatives towards resolving this issue, the challenges facing the SMEs remains which is limited access to the banking facilities. Although all banks' have SME departments to cater to the requirement of SMEs' financing needs, why there is still a shortage of capital supply to SMEs. Is that because the risk appetite in the SME department is similar to large corporate, or the credit-standing of SMEs are poor and not bankable? Therefore, a study needs to be conducted to understand the expected criteria from the banks when evaluating financing proposals from SMEs.

Ashhari and Faizal (2018) argued that the SMEs have limited access to capital market as the financial institutions give extra cautious to private and small businesses, which in turn require these businesses to have higher cash holdings. Limited access to financing for SMEs is a structural problem for Asian countries whereby SME financings represent only 11.6% of GDP and only 18.7% of total bank financings (Yoshino and Taghizadeh-Hesary, 2018). Rahim, Kadir, Isman, Rosly and Bakri (2019) has conducted similar study on online business SMEs in Malaysia which the findings revealed that the main challenges for SMEs business is lack of access to financial assistance and shortage of business capital. The limited access to funding for SMEs is not a unique case for Malaysia only, this scenario happens because 70% of all micro and SME business in emerging markets are facing limited access to credit (Razak, Abdullah and Ersoy, 2018). Lacking of access to financing the SMEs is crucial to be addressed and resolved in ensuring continuous performance and survival of the sector (Sa'id, Talib and Hassan, 2019).

Most SMEs believe that they are not bankable due to weak financial performance, lack of collateral, and incompetent management. However, they do not sure what they can do to increase the possibility of obtaining banking facilities such as securities arrangement, strengthening covenants, and additional experienced board members. Siswanto, Arifin, and Cavin (2019) suggested that the key determinants for financing approval for SMEs are the strength of shareholder's capital and established relationship with the bank. However, their findings may be true in Indonesia, but not in countries that uphold meritocracy. In the case of Vietnam, the key determinants for SMEs' loan approval are a prudent business plan, reasonable company size, and networking (Pham, 2017). The key determinants of the loan approval depend on the credit evaluation process; in other words, the credit evaluation process practiced by a bank illustrates the key consideration in financing decisions. Therefore, in the case of Malaysia, a more thorough study needs to take place to understand the key determinants and credit evaluation process for financing decisions, especially for SMEs. In current practice, banks' lending activities and risk appetite are guided by internal credit policies which Board Committee has approved. However, the credit evaluation depends on the creditworthiness of the clients as per the credit evaluation process. Haniff, Akma and Lee (2017) perceived the average rejection rate for SME

financing applications which is at 20% is heavily influenced by the years of establishment; almost 21% of credit applications from companies with lesser than 3-year old were rejected as the financial institutions mark the start-up businesses as unstable in terms of their operation and financial management.

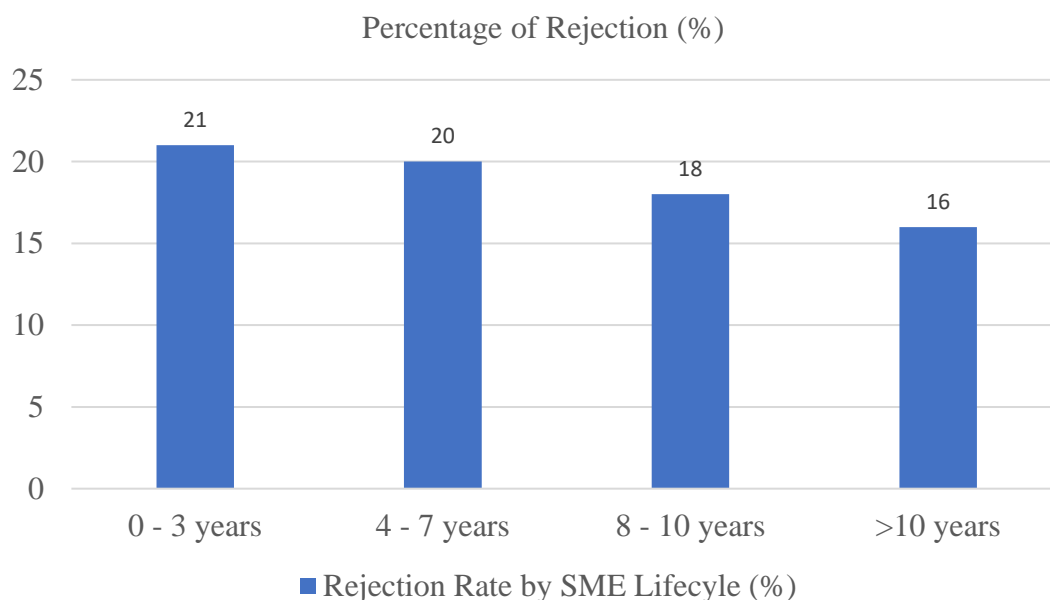


Figure 1.1: Rejection Rate by SME Lifecycle

Rejection of credit application is heavily relied on credit evaluation practice. One of the famous and oldest credit evaluations, called CAMPARI is being used directly and indirectly by many financial institutions to evaluate the credit-standing of customers. Brown and Moles (2014) supported this argument, who believed that CAMPARI is a popular evaluation method used by the banking industry. Although some banks call their credit evaluation in different names, the key principles are not that much different from CAMPARI, which stands for Character, Ability, Margin, Purpose, Amount, Repayment, and Insurance. Kithinji (2010) claimed that the CAMPARI evaluation model could reduce non-performing loan as the CAMPARI credit evaluation model focuses on the counterparty and its management, which help banks to understand the customers and better manage their exposure. However, the credit evaluation process is well researched in the conventional banking discipline, unfortunately, Islamic banking's credit evaluation process has not been a popular research area. There is no doubt that the availability of funding directly correlates to SMEs' success as supported by various research for conventional banking; however,

most Islamic financing research focuses on theoretical concepts, in which where the underlying research gap exists. CAMPARI has been chosen as the underlying study due to its increasing popularity among commercial banks (Kithinji, 2010). Furthermore, Brown and Moles (2014) suggested that CAMPARI is among the popular template being used in the banking industry in analyzing clients' creditworthiness.

Thus, the findings of this study are vital not only for the SMEs and ABC Bank, but also towards achieving a comprehensive understanding of Islamic banking. For SMEs, the business owners would know how to approach the Islamic bankers and gain better understanding on the expected criteria imposed in evaluating the financing proposals of SMEs and this increase the probability of loan approvals. As for the ABC Bank and other Islamic banks, the outcomes of study allow them to re-visit their modus operandi if Shariah values have been affirmed as the Islamic banking name suggests.

There are substantial studies on conventional banking's credit-related matters in Malaysia (Ambad, Andrew and Amit, 2020; Jamil et al., 2019; Wasiuzzaman and Nurdin, 2019; and Mustafa et al., 2020), but there is a lack of study on Islamic banks' financing decision towards SMEs. Most of the research on Islamic banking focuses on shariah issues and principles in Islamic banking products. Lack of study on the Islamic banking's behavior SMEs in Malaysia, especially in credit evaluation on financing. The dearth of research on Islamic banking's credit matters because of the perception that credit concerns should be similar regardless of conventional or Islamic banking. To some degree, this perception may seem correct because of credit-standing of customers should be perceived the same whether conventional or Islamic point of view. However, credit evaluation may differ between conventional and Islamic banking due to shariah principles that should be considered in imposing terms and making financing decisions. Currently, many studies concentrate on conventional banking's lending decisions rather than Islamic banking's financing decisions and credit evaluation. This research question is very important as it discovers Islamic banks' expectations when evaluating SMEs' credit-standing and the core criteria they have been considering for SMEs, known for high-risk clientele.

In terms of credit evaluation, most of the previous studies conducted in Malaysia focus on key factors considered by banks in approving credit applications. The character of the applicants has been considered as critical consideration by Wasiuzzaman et al. (2020), Zairani and Zainah (2013), Shu-Teng, Hanim, and Annuar (2015), and Mohamad et al. (2018). Besides character, the availability of collateral also plays a significant factor in financing decisions as suggested by Haron et al. (2013), Zairani and Zaimah (2013), and Wasiuzzaman et al. (2020). Also, there is no doubt that the financial position of the applicants is also one of the key considerations in evaluating credit application by SMEs as agreed by Wasiuzzaman and Nurdin (2019), Zairani and Zaimah (2013), and Salikin et al. (2013). Additionally, Mohamad et al. (2018) and Haron et al. (2013) suggested that a strong banking relationship carries weightage to a certain extent for approval of credit facilities. Many similar research has been conducted in Malaysia, highlighting other key considerations such as business nature, repayment structure, and availability of information.

Being Islamic financial institutions, the banks should observe the Islamic rulings (shariah) and its objectives (Maqasid Shariah) in every aspect of banking, including in the credit evaluation process and offering more Islamic terms for SMEs. Failing to be more ethical in banking is why customers could not see much difference between conventional and Islamic banking. Dhiraj, Nazarov, Ahmat and Arif (2019) believed that the practitioners have replicated the Islamic structured products based on the conventional ones due to two main factors taken into account: costing and time-consumption. Rightfully, Maqasid Shariah should be upheld in the credit evaluation process and financing decisions for SMEs and Islamic banking should not be solely and merely profit-driven financial institutions similar to conventional banking (Dusuki and Abozaid, 2007). Islamic banking should not be considered merely financial ratios and business performance, but also must uphold Maqasid Shariah in their credit evaluation. A study needs to be conducted to reveal whether Islamic banks in Malaysia are practicing ethical and moral banking, especially in financing decisions for SMEs, which will evaluate if five objectives of Shariah, which are the protection of religion, protection of life, protection of lineage,

protection of intellect and protection of property, are being taken into consideration in financing decision.

Lastly, the bank's risk appetite in the Islamic banks determines the financing decision. Risk appetite is much dependent on the availability of knowledge and experience level of analysts. Islamic banks are expected to be more ethical and have greater moral values in investment decisions. The Islamic banks are expected to be more risk-taking given their core principles to not only do profit-sharing but also risk-sharing, which is the core feature that distinguishes them from Conventional banking (Mairafi, Hassan and Arshad, 2018). Risk appetite is appropriately defined as banks' risk preference which is banks' willingness level to expose to certain credit risk. Most of the previous studies on the CAMPARI model did not take management's risk appetite on SMEs' credit. In other words, previous studies on CAMPARI did not explore preferred SME clients within Banks' risk appetite but instead concentrated on general clientele and operationalization of CAMPARI. Banks' risk appetite plays a significant role in financing decisions as it indicates how big a bank is willing to expose to a particular company, industry, or even management. With the Maqasid Shariah concept in place, banks' risk appetite should not be similar to other conventional banking, therefore research needs to be conducted to understand how Islamic banking's risk appetite influences credit evaluation by taking into consideration Maqasid Shariah. Shariah-compliant financing opposes extreme risk-taking, leading to transaction instability as Maqasid Shariah promotes ethical and moral considerations (Kamali, 2011).

In tackling the issues faced by Malaysian SMEs, previously the Malaysian government had, in 2005, introduced a Development Financial Institution named ABC Bank Berhad ("ABC Bank") which provides financial services to SMEs sectors. Similar to other commercial banking, ABC Bank is regulated by Bank Negara Malaysia. The bank offers similar Islamic financing products that cover from working capital to asset acquisition and bank guarantee. As per its mandate, ABC Bank is expected to deliver key value to SME players in the area of financing. Therefore, this study is important to understand how much ABC Bank subscribes to Islamic values in assisting SME sectors financially in terms of credit evaluation.

In summary, it is notable that as per previous studies mentioned above, there is a dearth of research on the behavior of Malaysian Islamic banks towards SMEs in terms of credit evaluation. Secondly, there is a lack of studies on Maqasid Shariah related to SME credit evaluation. Lastly, previous studies did not emphasize on bank's risk appetite as a consideration in analyzing credit evaluation, while this study scrutinizes ABC Bank's risk appetite by examining ABC Bank's credit policies.

1.3 Case Study: ABC Bank Berhad

ABC Bank Berhad was incorporated in 2005 as a Development Financial Institution (DFI). DFI is a banking concept typically formed by the government to provide capital for specific economic purposes. The bank was formed with a mandate to drive economic development for SMEs, not only for financing purposes but also for providing relevant expertise to SME businesses. ABC Bank, with paid-up capital of RM1.85 billion, is wholly owned by the Ministry of Finance and monitored by Kementerian Pembangunan Usahawan dan Koperasi (MEDAC). Being a financial institution, ABC Bank is also regulated by Bank Negara Malaysia, whereby ABC Bank is required to report its performance and operation to Bank Negara Malaysia. The bank has become an Islamic DFI in 2015 as a result of its 5-Year Transformation Plan. ABC Bank is being professionally managed by an experienced management team which consists of six board members (including the Chairman), eleven top management members, and six Shariah Committee members (including the Chairman).

Currently, ABC Bank has 26 branches nationwide which consist of Regional Centers (7 branches), Enterprise Centers (18 branches), and one Business Center. Through its subsidiaries, ABC Bank also engages in other business natures besides credit financing. ABC Bank has five subsidiaries namely SMEB Asset Management Sdn Bhd ("SAM"), Center for Entrepreneur Development & Research Sdn Bhd ("CEDAR"), BI Nominees (Tempatan) Sdn Bhd ("BINSB"), Guardmont Industries Sdn Bhd ("GISB") and Metro Prominent Sdn Bhd ("MPSB"). Although these subsidiaries do not involve in credit financing, their natures of business are still

within the mandate given to them, which is to help develop SME companies. For SAM, the entity is an asset management company responsible for recovery and providing consultancy for its SME clients who are in financial distress. While CEDAR focuses on providing training and consultation, conducting research and publication works related to SME development. BINSB is a nominee service company. The other two entities, i.e. GISB and MPSB, are dormant companies with no business activities at the moment. However, ABC Bank is the main contributor to the group's revenue as the other subsidiaries' businesses are generally providing business support to the actual financing activities.

In terms of financial performance, ABC Bank registered revenue of RM491.86 million in 2020 which was declined by 10.3% as compared to RM548.55 mil registered in the preceding year. In 2019, the revenue declined by 6.4% from RM585.92 mil (2018) to RM548.55 mil due to lower interest income resulting from lower-income from Murabahah financing. The bank recorded a profit of RM119.96 mil in 2020, a tremendous decrease as compared to a profit of RM198.93 million in the previous year. ABC Bank's total assets and total liabilities have been stable for the last three years with the 3-year average of RM10.11 billion and RM8.65 bil respectively. The bank's equity has improved in 2020 by 6.4% from RM1.50 billion (the year 2019) to RM1.60 billion due to lower accumulated loss, as a result of healthier profitability. Overall, ABC Bank's financial standing is considerably prudent although the business is mainly being funded and supported by the government via direct grants, deposits from governments and its statutory bodies, as well as the issuance of Islamic Medium-Term, Notes that is guaranteed by the government. Similarly, to other commercial banks, ABC Bank's financial performance is heavily relying on the quality of the financing which translates into prudent repayment performance by the customers.

In terms of contributions, ABC Bank's contribution to the SMEs and economy is undeniable as the bank continuously plays a significant role in Malaysian economic development where the bank is the platform for the government's policies execution of the National Key Economic Area (2010-2020). Since its incorporation in 2005, the bank has assisted more than 10,000 SMEs with a total approved

financing of more than RM32 billion. ABC Bank has also embarked on a creative initiative called ODELA which is an e-commerce platform for Business-to-Business to accommodate SMEs' needs. Additionally, ABC Bank through its subsidiary outfit CEDAR offers two certification programs which provide unique and effective tailored coaching programs for SMEs. In 2020, CEDAR has conducted 1,251 training sessions which involved 13,674 participants. The contributions indicate that ABC Bank is in line with the mandate entrusted to them which is to facilitate the SME sector's growth and sustainability.

Table 1.1 below shows the gross financing portfolio by ABC Bank by the respective industries. As depicted in the table, it can be deduced that ABC Bank's total gross loans and advances increased by 12.65% from RM6.86 billion in 2019 to RM7.72 billion in 2020. It is no doubt that wholesale, trading, restaurant, and hotels are the biggest contributor to the total gross financing given that these natures of sectors are widely participated by people and have low entrant barriers.

Table 1.1 : Gross Financing by Industry as at FYE2020

| Industry | Amount ('000) |
|----------------------------------------------------------|----------------------|
| Wholesale, Retail Trade, Restaurant & Hotels | 2,179,975 |
| Manufacturing | 1,310,172 |
| Construction | 1,261,903 |
| Financial, Insurance, Real Estate, and Business Services | 1,153,977 |
| Transportation, Storage & Communication | 938,770 |
| Education, Health & Others | 638,293 |
| Mining & Quarrying | 127,238 |
| Electricity, Gas & Water Supply | 92,441 |
| Primary Agriculture | 8,320 |
| Others | 13,111 |
| Total | 7,724,200 |

ABC Bank offers various financing programs to cater to specific SMEs' financing needs. Currently, nine core financing programs are being offered by ABC Bank, namely Contract Financing, MySMEBina, MySMEBekal, Special Fund for

Tourism 3, MySMELady, Small Business Financing, Subordinated Financing Programme, Business Accelerator Program, Skim Pembiayaan Ekonomi Desa. Table 1.2 below illustrates further the details of the respective programs:

Table 1.2 ABC Bank’s Financing Programs

| Program | Purpose of Program |
|----------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| Contract Financing | Providing general working capital and bank guarantee for main contractors or sub-contractors who have secured contracts from approved awarding parties. |
| MySMEBina | Working capital and bank guarantee for construction and infrastructure projects awarded by the governments and GLCs. |
| MySMEBekal | Short-term financing solution for supply or maintain works awarded by the government and GLCs. |
| Special Fund for Tourism 3 | Capex and Opex financing program for businesses related to the tourism industry. |
| MySMELady | A financing program designed for women entrepreneurs for working capital and asset acquisition. |
| Small Business Financing | A program designed to financially help micro-businesses to transform into small business categories. |
| Subordinated Financing Programme | ABC Bank together with TERAJU provides financing for Bumiputera companies that are facing a shortfall in a project of asset acquisition. |
| Business Accelerator Program | Provide financial assistance to SMEs to strengthen their business through capacity and capability building which helps SMEs to access financing. |
| Skim Pembiayaan Ekonomi Desa | A collaboration with the Ministry of Rural Development to help Bumiputera SMEs in rural areas to develop expand and sustain their businesses. |

Based on the table above, it is understandable that the programs offered by ABC Bank are to fulfill the mandate given to them to facilitate SME sector growth. The purposes of the financings generally are to either help SMEs stabilize their businesses or to transform from idea to commercialize the business. However, there is still a need to understand how ABC Bank conducts the credit evaluation towards SMEs and whether Maqasid Shariah elements are being observed during the credit evaluation process. ABC Bank's credit evaluation towards SMEs is expected to be different as compared to other DFIs and other commercial banks because of (i) the mandate itself is to help SMEs and (ii) its position as the biggest Islamic DFI in Malaysia.

1.4 Research Questions and Research Objectives

This study explored the current research gap within the Islamic banking and credit discipline. The research questions are meant to bridge existing research gaps in credit evaluation within Islamic banking, especially by considering Islamic principles (Maqasid Shariah) and banks' risk appetite. There are three research questions in this study that focus merely on SME financing decisions within Islamic banking in Malaysia.

- i. How is CAMPARI Model being used in evaluating SMEs' financing application in ABC Bank?
 - a) How CAMPARI being used for SME's financing evaluation.
 - b) What are the key considerations for ABC Bank in evaluating SME through Chracter, Ability to Pay, Purpose, Amount, Repaymant and Insurance?

- ii. How does Maqasid Shariah play a role in financing decisions for SMEs?
 - a) How Maqasid Shariah influence the credit analysis in evaluating CAMPARI elements?

- b) What are the additional Shariah or Islamic considerations in ABC Bank in evaluating SMEs' financing application?
- iii. What is the risk appetite of ABC Bank towards SME financings?
 - a) How different risk appetite of Islamic Bank towards SMEs and non-SME clients?
 - b) What are the key differences in Credit Policy between ABC Bank and other conventional banks?

These research questions are related and chained together as this study is meant to explore Islamic banking's behavior toward financing decisions on SMEs. Table 1.3 below illustrates the chain of research questions and their respective research gaps:

Table 1.3 Research Gap and Research Questions

| Research Gap | Research Questions |
|------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------|
| Lack of study on the behavior of Islamic banks towards SMEs in Malaysia, especially in credit evaluation on financing. | How is CAMPARI Model being used in evaluating SMEs' financing application in ABC Bank? |
| Maqasid Shariah area is typically being studied in products, not in financing decisions for SMEs. | How does Maqasid Shariah play a role in financing decisions for SMEs? |
| Most previous studies on the CAMPARI model did not consider the bank's risk appetite. | What is the risk appetite of ABC Bank towards SME financings? |

The research questions are meant to explore Islamic banking's financing decision on SMEs based on three focused areas, which are credit evaluation, Maqasid Shariah and Risk Appetite. Therefore, the objectives of this study are :

- i. To explore how ABC Bank evaluates SME's financing applications based on Character, Ability, Margin of Financing, Purpose, Amount, Repayment, and Insurance (CAMPARI) model.

- a) To explore how CAMPARI being used for SME's financing evaluation.
- b) To identify the key characteristic in evaluating SME through Chracter, Ability to Pay, Purpose, Amount, Repaymant and Insurance.
- ii. To explore the role of Maqasid Shariah in financing decisions for SMEs in ABC Bank.
 - c) To understand how Maqasid Shariah influence the credit analysis in evaluating CAMPARI elements.
 - d) To ascertain the additional Shariah or Islamic considerations in ABC Bank in evaluating SMEs' financing application.
- iii. To explore how banks' risk appetite is being considered in the financing decision for SMEs in ABC Bank.
 - e) To explore the key differences of risk appetite for Islamic Bank towards SMEs and non-SME clients.
 - f) To explore the key differences in Credit Policy between ABC Bank and other conventional banks.

Based on the above research objectives, it is clear that this study will relook at financing decisions in a new spectrum that encompasses Islamic value in terms of credit evaluation and risk consideration.

1.5 Research Scope

The study covers credit evaluation practices for SMEs' loan applications within ABC Bank. There are various divisions in banking such as the treasury department, trade finance department, and commercial business division which offer various banking products (i.e. hire purchase, term financing, and cash flow solutions). As this study focuses on SMEs' financing-related matters, the research concentrated on business banking facilities that are meant for business purposes. Business banking products generally be used for two purposes which are Capital Expenditure ("Capex") and Operating Expenditure ("Opex").

Although there are many credit valuation models used by the banking industry, this study focused on adopting the CAMPARI Model. Most of the evaluations signify on similar elements (Zairani and Zaimah, 2013). 5Cs and CAMPARI are the most famous evaluation models being used and other evaluation models embed similar elements to these two models (Hassan, 2020). In fact, full-fledged Islamic banks are more keen to use the CAMPARI evaluation model as compared to 5Cs because of the existence of elements of purpose/intention in the CAMPARI which is truly crucial for lenders to ascertain the intention of the applicants (Mohamad et al., 2018). CAMPARI Model deemed appropriate for this study as it consists of seven core considerations which are Character, Ability, Margin, Purpose, Amount, Repayment, and Insurance.. Credit appraisers need to analyze these seven core considerations as they are quite concentrated on SMEs and their proposed financing, rather than analyzing macro-economy and industry level.

Various Islamic financing concepts are being used in the market either debt-based financing or equity-based financing, such as Ijarah, Mudharabah, Murabahah and Musharakah (Zain, Zandi, Ruhoma, Amin, 2018). By virtue that this case study focuses on ABC Bank, the underlying financing concepts are those being offered by ABC Bank to its SME clients, which are Murabahah, Ijarah Thummal Bai' and Kafalah. Both Murabahah and Ijarah Thummal Bai' are being used for working capital and asset acquisition requirements, while Kafalah is for a banking guarantee facility (ABC Bank's website, n.d.).

The data was collected through the interviews with a selected number of participants. The semi-structured interviews were conducted on pre-identified participants. The participants of this study are experienced personnel from ABC Bank. The participants are relevant personnel to credit-related matters such as credit processing, risk management, or approving authorities. Participant selection criteria were observed to ensure the quality of data. The key criteria are the number of years' experience and the relevancy of participants' job scope.

1.6 Research Significance

This study is to understand ABC Bank's financing decision for SMEs' Financing application by anchoring on CAMPARI Model. SMEs are the key driver to the Malaysian economy, which comprises the Malaysian majority workforce. Accessibility to credit facilities helps SMEs expand their businesses and improve operational efficiency. This study will help SMEs to stand a better chance to secure financing facilities from ABC Bank and also other Malaysian Islamic banks. In other words, this study will help SMEs understand the key considerations for Islamic banking's financing decision and will help them strategize and propose a reasonable and feasible financing structure by considering CAMPARI Model. The research has significant practical impacts on three parties which are society, SMEs and Islamic banks. Although the study focuses on SMEs and ABC Bank, the study has significant implications for Islamic banking as a whole, which in turn the people at large will benefit due to its effect on the key economic elements i.e. employment and credit liquidity.

SMEs' accessibility to funding has been a core discussion in academia and industry given its unique business landscape. Financing facility, either for capital expenditure or operating expenditure, will help SMEs in managing their credit crunch, as well as expanding their operations. Financing facility will also help SMEs increase their profitability by virtue that the cash conversion cycle shall improve as the financing will help bridge the credit terms. Each consideration in the CAMPARI Model needs to be analyzed and understood how it contributes to financing decisions. ABC Bank's business appetite toward SMEs was examined based on Character, Ability, Margin, Purpose, Amount, Repayment, and Insurance. This study proposes that it will help SMEs to understand what the key considerations for ABC Bank's financing decision are and will help them to strategize and propose a reasonable and feasible financing structure by considering CAMPARI Model.

This study also shall contribute to society as SMEs' ability to secure financing helps businesses grow, which directly causes job creation for society. Business expansion directly correlates with job creation as a bigger number of

employees are needed to run a bigger operation or even for a wider market. As the employment rate increases, society's standard of living is expected to improve as well given that amount of disposable income increases, and people have greater purchasing power. Additionally, if credit evaluation was conducted according to ethical and high moral practice, the financing given to SMEs shall generate a stable and firm income to the banks which subsequently shall be remitted to the depositors (society) as annual Hibah (profit sharing).

In terms of contribution to existing theory, this study contributes a new perspective in credit evaluation, especially CAMPARI, through embedment of Maqasid Shariah theory. The outcome of this study will subsequently influence Islamic banks' credit evaluation for SMEs' financing applications. Maqasid Shariah's theory in CAMPARI shall bring the credit evaluation process to a new different spectrum as compared to conventional banking, that is more ethical and high moral banking practice. The Islamic banking's considerations for SME financing were scrutinized based on Maqasid Shariah which are religion, life, lineage, intellect, and property. In other words, this study explored whether Islamic banks in Malaysia are really upholding ethical banking, or just similar to other conventional banking which is merely a profit-driven business.

The embedment of Maqasid Shariah in credit evaluation can be documented in Credit Policies and Guidelines, a crucial guiding document for employees. A thorough and detailed Credit Policies and Guidelines shall help ABC Bank and other Islamic banks to reduce their Non-Performing Financing (NPF) as the credits are well evaluated according to a prudent CAMPARI Model and Maqasid Shariah value. In tandem with improving NPF, ABC Bank and Islamic banks' financial performances are expected to improve, given that the impairment provision and doubtful debt will be reduced accordingly.

1.7 Definition of Terms

Credit Evaluation: Credit evaluation is a process done by a company to understand the creditworthiness of its counterparty. The purpose of the evaluation is to understand the payability of counterparty should a loan/contract/facility be granted to them, and such evaluation is to support decision making. In other words, credit evaluation is a tool for decision-making in regard to external exposure.

CAMPARI Model: A model that was developed by an experienced banker named Nicholas Rouse in 1989 which was written in his book called *Bankers' Lending Techniques*. CAMPARI is a credit evaluation model which explained how banks evaluate the strength of the applicant and their financing proposal based on seven elements namely Character, Ability, Margin, Purpose, Amount, Repayment and Insurance (Abadi and Karsh, 2013).

Maqasid Shariah: The word Maqasid refers to the motive, the goal, the principle, the intention, the goal, or the end. While Shariah is Islamic rulings based on Al-Quran and Hadith. Purpose (Maqasid) of Islamic law themselves are categorized in different ways, according to three dimensions which are Necessities (*Daruriyyah*), Needs (*Hajiyyah*), and Luxuries (*Tahsiniyyah*). The necessities (*Daruriyyah*) are meant to preserve five elements in life which are faith, soul, intellect offspring, and wealth (Siddiqi, Jan and Ullah, 2019).

Risk Compensation Theory: In 1975, Sam Peltzman developed Risk Compensation Theory in his book called *The Effects of Automobile Safety Regulation*. In this theory, Peltzman suggested that people's responses are depending on the level of knowledge on particular risks. In his book, he related the risk toward the automotive world where people will drive based on the availability of safety and their sense of potential risk (Jones and Cohn, 2017).

Risk Appetite: Hancorn (2018) defined risk appetite as the level and type of risk that a firm is willing to undertake to achieve its organizational goals. In other words, risk appetite is a person's or an entity's preference towards the level of

exposure that is willing to be forfeited. Risk Management Association (2016) highlighted that risk appetite is a risk tolerance reflected in the firm's business strategies.

1.8 Organization of the Dissertation

The study is divided into five chapters. The first chapter encompasses the background of the Islamic banking and credit evaluation practices in Malaysia. The first chapter also discusses the key research questions to fulfill the current research gaps in the area of credit evaluation.

It is followed by Chapter 2 where the literature of previous studies is being discussed and interpreted. Some prominent theories on credit evaluation, Maqasid Shariah and were reviewed for better interpretation and discussion in this study.

In Chapter 3, the methodology of the research is being discussed at length on the process, from sampling selection, data collection procedures, data analysis procedures. This chapter also explains the steps taken by the researcher in upholding research validity and reliability throughout data collection and analysis.

Subsequently, Chapter 4 reveals the data analysis and result of data collection through semi-structured interviews. In other words, Chapter 4 presents the key themes of the research based on data analysis.

Lastly, Chapter 5 discusses in detail the findings in Chapter 4. This chapter presents the findings and will propose practical solutions and propose future research area that needs to be taken. In the end, a conclusion of the study is presented.

1.9 Summary

SMEs are the backbone of the Malaysian economy, given their contribution to national employment and GDP growth. Due to its systemic function to the nation, SMEs need to be assisted in accessing banking facilities by analyzing how banks assess the credit-standing of SMEs for granting banking facilities. There are existing studies on credit evaluation on conventional banking, but a lack of similar studies in Islamic banking perspectives. It is crucial to understand ABC Bank's and other Islamic banks' expectations when evaluating the credit-standing of SMEs and the core criteria they have been considering for SMEs to assist SMEs in strategizing their financing application. CAMPARI Model is one of the prominent tools being used by lenders to understand clients' credit-standing, therefore the study focused on CAMPARI Model as a subject matter of the study. The risk appetite of a bank also plays a significant influence towards credit evaluation practice. In the following chapter, literature reviews of relevant theories and previous studies are being discussed for better understanding and better development of the conceptual framework.

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Appendix A Financing Evaluation Memorandum (FEM)

FINANCING EVALUATION MEMORANDUM

MAQASID FINANCING PROGRAM

LEGAL CUSTOMER'S NAME : XYZ SDN BHD ("XSB")
 GROUP NAME : XYZ GROUP

NEW :
 ANNUAL REVIEW : UNCHANGED ADDITIONAL AMENDMENT
 ADHOC REVIEW : UNCHANGED ADDITIONAL AMENDMENT

Business Unit : _____
 Officer/Manager's Name : _____
 Current Date : _____
 Next Review Date : _____

PART 1

1.1 REQUEST SUMMARY

To seek the Committee's approval for a cash line and Term Financing facility of up to RM5.0 million for XYZ Sdn Bhd (Example)

1.2 PRELIMINARY CHECKLIST

| | Yes | No * | NA |
|-----------------------------------------------------------------------------------|-----|------|----|
| Customer classified as SME as per NSDC definition | ✓ | | |
| Registered under Companies Commission of Malaysia Act 2001 | ✓ | | |
| Shariah Compliant Business (as per Maqasid Shariah Checklist Item 2.1) | ✓ | | |
| The business is ultimately fully owned Malaysian | ✓ | | |
| The business has been in operation more than 12 months | ✓ | | |
| This application has not been submitted and declined in past 12 months. | ✓ | | |
| Company, its directors and its shareholders are not connected parties to the Bank | ✓ | | |

*Please provide justifications in Part 2 (2.3)

| | |
|-----------------------|--|
| Executive's Initial | |
| Team Leader's Initial | |

Appendix A Financing Evaluation Memorandum (FEM) (cont.)

FINANCING EVALUATION MEMORANDUM

MAQASID FINANCING PROGRAM

LEGAL CUSTOMER'S NAME : XYZ SDN BHD ("XSB")
 GROUP NAME : XYZ GROUP

1.3 BRIEF CUSTOMER PROFILE

| | | |
|--------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|
| Customer Group | XYZ Sdn Bhd | |
| Group | XYZ Group | |
| Banking Relationship Length with Customer | New Customer | |
| Legal Entity | Private or Public Company | |
| Country of Operation | Malaysia | |
| Date of Incorporation | 1 st January 2000 (20 years in business) | |
| Principal Activity(ies) | The group engages in operation and maintenance of plants and facilities, engineering, procurement, construction and commissioning related services (example) | |
| Shareholder and % of Ownership | Shareholders | Percentage (%) |
| | xxxxxxx | xx.xx% |
| | xxxxxxx | xx.xx% |
| | xxxxxxx | xx.xx% |
| | xxxxxxx | xx.xx% |
| | xxxxxxx | xx.xx% |
| Paid up Capital | RM500,000 (example) | |
| Tangible Net-worth | RM1.0 million (example) | |
| Management Detail | Directors | NRIC / Passport No. |
| | xxxxxxx | xx.xx% |
| | xxxxxxx | xx.xx% |
| | xxxxxxx | xx.xx% |
| | xxxxxxx | xx.xx% |
| | xxxxxxx | xx.xx% |

| | |
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| RM's Initial | |
| SRM's Initial | |

Appendix A Financing Evaluation Memorandum (FEM) (cont.)

FINANCING EVALUATION MEMORANDUM

MAQASID FINANCING PROGRAM

LEGAL CUSTOMER'S NAME : XYZ SDN BHD ("XSB")
 GROUP NAME : XYZ GROUP

1.4 CREDIT PROFILE OF CUSTOMER

| Internal Credit Grade & Security Coverage (%) | | | |
|----------------------------------------------------|----------|---------|----------|
| Customer | | Group | |
| Current | Proposed | Current | Proposed |
| 3 – 0% | 3 – 0% | 3 – 0% | 3 – 0% |
| SME Competitiveness Rating for Enhancement (SCORE) | | | |
| Customer | | 3 | |
| Group (ultimate holding co) | | 3 | |
| Corporate Guarantor (if any) | | If Any | |

1.5 EXPOSURE & REVENUE

| Customer/ Group Exposure (RM '000) | | |
|------------------------------------|--------------------------------------|--------------------------------------|
| | Existing Limit | Proposed Limit |
| Customer | - | xxx.xxx |
| Group | - | xxx.xxx |
| | Revenue Contributed (Past 12 Months) | Revenue Contributed (Past 12 Months) |
| Customer | - | xxx.xx |
| Group | - | xxx.xx |

1.6 FINANCING DETAILS

| Product Type | Existing Limit | Proposed Limit | Current Outstanding | Pricing |
|-----------------------------------|--------------------------------------|------------------|---------------------|------------|
| Cash Line | - | xxxxx | - | BFR + 0.5% |
| Term Financing | - | xxxxx | - | BFR + 0.5% |
| TOTAL | - | xxxxx | - | - |
| Purpose/Terms/Tenure of Financing | | | | |
| Cash Line | Purpose : For working capital | | | |

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| | |
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| RM's Initial | |
| SRM's Initial | |

Appendix A Financing Evaluation Memorandum (FEM) (cont.)

FINANCING EVALUATION MEMORANDUM

MAQASID FINANCING PROGRAM

LEGAL CUSTOMER'S NAME : XYZ SDN BHD ("XSB")
 GROUP NAME : XYZ GROUP

| | |
|----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| | <p>Tenor : The period of financing for each Tranche shall be 1,3, 6, & 9 months.</p> <p>Availability : Within six (6) months of date of facility placed at Customer's disposal, otherwise the facility shall be treated as lapsed and cancelled.</p> <p>Disbursement : Submission of Drawdown Notice to be executed by the Customer's authorized signatories and given to the Bank at least seven (7) working days before the disbursement date.</p> <p>Repayment : On maturity, subject to rollover at Bank's discretion.</p> <p>Interest : To be serviced on monthly basis.</p> <p>Late Fee : 1.00% above the prescribed rate chargeable on amount in arrears.</p> <p>Default Rate : BFR + 3.50% p.a.</p> |
| Term Financing | <p>Purpose : To finance 80% of manufacturing equipment cost amounting of RMxx million.</p> <p>Tenor : 5 years (Maturity: 31/08/2026)</p> <p>Availability : The TL facility shall be made available for drawdown within three (6) months from the date of Facility Agreement. The drawdown shall be one lump sum. Any undrawn amount shall be cancelled.</p> <p>Disbursement : 1. Execution of documentation and completion of Condition Precedents. 2. Submission of Drawdown Notice to be executed by the Customer's authorized signatories at least seven (7) business days in advance.</p> |

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| RM's Initial | |
| SRM's Initial | |

Appendix A Financing Evaluation Memorandum (FEM) (cont.)

FINANCING EVALUATION MEMORANDUM

MAQASID FINANCING PROGRAM

LEGAL CUSTOMER'S NAME : XYZ SDN BHD ("XSB")
 GROUP NAME : XYZ GROUP

| | | |
|--|---------------------|----------------------------------------------------------------------------------------------------------------------------------------------|
| | Repayment | : Repayment to be serviced monthly for amount of RMxxxx monthly, commencing at the same month end of initial drawdown date. |
| | Prepayment: | One (1) month notice must be given to the Bank. Prepayment of the loan other than installment must be made in multiples of RMxxxx |
| | Profit | : To be serviced on monthly basis |
| | Late Fee | : 1.00% above the prescribed rate chargeable on amount in arrears. |
| | Default Rate | : BFR + 3.50% p.a. |

1.7 TERMS AND CONDITIONS

New / Additional / Revised Conditions *(for example purpose)*
(Please state whether Conditions Precedent / Post-Disbursement Conditions & /or Continuing Conditions)

1.7.1 GENERAL CONDITIONS

Terms and Conditions as per Facility Agreement dated _____

Please state whether all existing conditions have been complied with (for Existing Customer)

*Explain if 'NO'**

| | Yes | No* | NA |
|---------------------------------------|--------------------------|--------------------------|-------------------------------------|
| EXISTING CONDITIONS PRECEDENT | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| EXISTING CONDITIONS POST DISBURSEMENT | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| EXISTING CONTINUING CONDITIONS | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |

1.7.2 CONDITIONS PRECEDENT

Shall include but not limited to the following:

- (a) Completion and execution of legal documentation in the form and content satisfactory to the Bank and all relevant legal documentation required to be perfected at this stage shall have been duly endorsed

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| RM's Initial | |
| SRM's Initial | |

Appendix A Financing Evaluation Memorandum (FEM) (cont.)

FINANCING EVALUATION MEMORANDUM

MAQASID FINANCING PROGRAM

LEGAL CUSTOMER'S NAME : XYZ SDN BHD ("XSB")
GROUP NAME : XYZ GROUP

and stamped.

- (b) The Bank shall have received written legal opinions from the solicitor on the legality and enforceability of the Facility Agreement and the legal documents as well as written confirmation from the solicitor that the conditions precedent have been fully complied.
- (c) Certified true copy(ies) of the board of directors' resolution of the Customer authorizing the acceptance of the facility and the execution of the relevant legal documents, if any.
- (d) Receipt of certified true copies of the Customer's Forms 24, 44 & 49, Memorandum and Articles of Association and a list of the Customer's authorized signatories together with their specimen signatures.
- (e) A report of the relevant company search and winding up search of the Borrower.
- (f) Evidence that all fees, costs and expenses under or pursuant to the facility have been paid in full.
- (g) Creation and charge over a designated account for Sinking Fund purpose.

1.7.3 CONTINUING CONDITIONS

- (a) The facility may be subject to annual review or at the Bank's option any other more frequent review(s) as the Bank at its opinion may decide. Any review if so, conducted shall be in the manner as the Bank shall determine.
- (b) No additional bank borrowings without prior written permission from the Bank, in which consent shall not be unreasonably withheld.
- (c) Submission of Audited Account and Management Accounts upon request.
- (d) No disposal of material assets without prior written permission from the Bank.
- (e) No change in shareholding without prior written permission from the Bank.
- (f) Compliance to the following negative covenants:
 - Advances to directors are not allowed.
 - Advances to shareholders are not allowed
 - No intercompany lending, either to subsidiaries or associates.
 - Not to enter into joint ventures, profit sharing or royalty agreement without Bank's prior approval.
 - Not to enter into any merger, consolidation or reorganization without Bank's prior approval.
 - Not to enter into any management contract or similar arrangement where the business is managed by 3rd parties.

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| RM's Initial | |
| SRM's Initial | |

Appendix A Financing Evaluation Memorandum (FEM) (cont.)

FINANCING EVALUATION MEMORANDUM

MAQASID FINANCING PROGRAM

LEGAL CUSTOMER'S NAME : XYZ SDN BHD ("XSB")
 GROUP NAME : XYZ GROUP

| |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| (g) Compliance to the following financial covenants: <ul style="list-style-type: none"> - Total Debt to Equity not to exceed 5 times. - Minimum Debt Service Cover Ratio of 1.5 times. - Debt to EBITDA not to exceed 3 times. |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

1.8 SECURITY & DCOUMENTATIONS

| Proposed Securities <i>(for example purpose)</i> | Value ascribed (RM'000) | | | | | | | | | | | | | | | | | | | | | | | | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------|-------------------------|----------|--|---------------------|----------|--|--|-------------------------|----------|------------|----------|--|--|-------------------------|----------|--------|----------------------------------|--|--|-------------------------------------|----------|--|--|--|
| (a) Principal instrument – Facilities Agreement. | - | | | | | | | | | | | | | | | | | | | | | | | | |
| (b) 1 st fixed Pari-passu charge on all tangible/intangible, movable and immovable assets of the Customer (other than current assets). | - | | | | | | | | | | | | | | | | | | | | | | | | |
| (c) Sinking fund of up to 5% to be obtained every month in the form of Fixed Deposit (FD) until the amount reaches up to 30% of the facility amount. | 1,500,000 | | | | | | | | | | | | | | | | | | | | | | | | |
| (d) Joint and Several Guarantee to be executed by the ultimate individual shareholders. | - | | | | | | | | | | | | | | | | | | | | | | | | |
| (e) 1 st party/3 rd party legal charge over the property below: | xxxx.xx (70% of value) | | | | | | | | | | | | | | | | | | | | | | | | |
| <table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 30%; padding: 2px;">Master Title Details</td> <td colspan="3" style="padding: 2px;">xxxxxxxx</td> </tr> <tr> <td style="padding: 2px;">Address Of Property</td> <td colspan="3" style="padding: 2px;">xxxxxxxx</td> </tr> <tr> <td style="padding: 2px;">Description of Property</td> <td style="padding: 2px;">xxxxxxxx</td> <td style="padding: 2px;">CCC Issued</td> <td style="padding: 2px;">xxxxxxxx</td> </tr> <tr> <td style="padding: 2px;"></td> <td style="padding: 2px;"></td> <td style="padding: 2px;">Entry of Private Caveat</td> <td style="padding: 2px;">xxxxxxxx</td> </tr> <tr> <td style="padding: 2px;">Tenure</td> <td colspan="3" style="padding: 2px;">Freehold or Leasehold (xx years)</td> </tr> <tr> <td style="padding: 2px;">Property Use (Shariah Compliant)</td> <td colspan="3" style="padding: 2px;">xxxxxxxx</td> </tr> </table> | Master Title Details | xxxxxxxx | | | Address Of Property | xxxxxxxx | | | Description of Property | xxxxxxxx | CCC Issued | xxxxxxxx | | | Entry of Private Caveat | xxxxxxxx | Tenure | Freehold or Leasehold (xx years) | | | Property Use (Shariah Compliant) | xxxxxxxx | | | |
| Master Title Details | xxxxxxxx | | | | | | | | | | | | | | | | | | | | | | | | |
| Address Of Property | xxxxxxxx | | | | | | | | | | | | | | | | | | | | | | | | |
| Description of Property | xxxxxxxx | CCC Issued | xxxxxxxx | | | | | | | | | | | | | | | | | | | | | | |
| | | Entry of Private Caveat | xxxxxxxx | | | | | | | | | | | | | | | | | | | | | | |
| Tenure | Freehold or Leasehold (xx years) | | | | | | | | | | | | | | | | | | | | | | | | |
| Property Use (Shariah Compliant) | xxxxxxxx | | | | | | | | | | | | | | | | | | | | | | | | |

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Appendix A Financing Evaluation Memorandum (FEM) (cont.)

FINANCING EVALUATION MEMORANDUM

MAQASID FINANCING PROGRAM

LEGAL CUSTOMER'S NAME = XYZ SDN BHD ("XSB")
 GROUP NAME = XYZ GROUP

| | | | | | |
|--------------------------------------------------------------------------------------------------------------|----------|------------------|----------|--|---------|
| activities) | | | | | |
| Land Restriction | xxxxxxxx | Built-up Area | xxxxxxxx | | |
| | | Land Area | xxxxxxxx | | |
| Registered Owner | xxxxxxxx | | | | |
| Occupant | xxxxxxxx | | | | |
| Restriction in Interest/ Encumbrances | xxxxxxxx | | | | |
| Formal Valuation (as is basis) By: | xxxxxxxx | | | | |
| Official Market Value | 800,000 | Force Sale Value | 500,000 | | |
| Marketability Factor | xxxxxxxx | | | | |
| Insured By: | xxxxxxxx | Expiry | xxxxxxxx | | |
| Value of Ins. Cover (‘000) | xxxxxxxx | | | | |
| (f) Credit Guaranteed by Islamic Guarantee Schemes from CGC and SJPP (example at 50% of financing amount) | | | | | xxxx.xx |
| Total security value | | | | | xxxx.xx |
| Total ascribed security value/total exposure (%) | | | | | xx.x% |

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Appendix A Financing Evaluation Memorandum (FEM) (cont.)

FINANCING EVALUATION MEMORANDUM

MAQASID FINANCING PROGRAM

LEGAL CUSTOMER'S NAME : XYZ SDN BHD ("XSB")
 GROUP NAME : XYZ GROUP

1.9 FINANCIAL HIGHLIGHTS

| Financial Highlights | | | |
|----------------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Auditor: | | | |
| Audited: | Unaudited/ Audited | Unaudited/ Audited | Unaudited/ Audited |
| <i>Financial Year Ended</i> | 31/12/2018 | 31/12/2019 | 31/12/2020 |
| Sales | | | |
| Profit Before Tax | | | |
| <u>Networth</u> | | | |
| Gearing (borrowings: <u>Networth</u>) | | | |
| Net Cash from Operations | | | |
| Debt Service Cover | | | |
| Contingent Liabilities | | | |
| Capital Commitments-Contracted | | | |
| Financial Projection | | | |
| Year / Month | 2021 | 2022 | 2023 |
| Sales | | | |
| Profit Before Tax | | | |
| <u>Networth</u> | | | |
| Gearing (borrowings: <u>Networth</u>) | | | |
| Net Cash from Operations | | | |
| Debt Service Cover | | | |
| Contingent Liabilities | | | |
| Capital Commitments-Contracted | | | |

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Appendix A Financing Evaluation Memorandum (FEM) (cont.)

FINANCING EVALUATION MEMORANDUM

MAQASID FINANCING PROGRAM

LEGAL CUSTOMER'S NAME
GROUP NAME

= XYZ SDN BHD ("XSB")
= XYZ GROUP

1.10 EXPOSURE WITH OTHER FINANCIAL INSTITUTIONS

| Financial Projection | | | | |
|-------------------------------|------------------|-------|-----|------------------|
| Name of Financial Institution | Total Facilities | | | Security / Value |
| | Type | Limit | O/S | |
| Malayan Banking Berhad | | | | |
| CIMB Bank Berhad | | | | |
| Bank Islam | | | | |

PART 2

2.1 MAQASID SHARIAH CHECKLIST *(please provide necessary justifications)*

| | Agree | Disagree* | Justifications |
|-------------------------------------------------------------------------------------------------------------------------------------|-------|-----------|----------------|
| <u>General Purpose</u> | | | |
| 2.1.1 The business activities do not involve in any non-Shariah activities | | | |
| 2.1.2 The business brings positive impact to the society well-being either economically or socially | | | |
| 2.1.3 The disbursement proceeds will enhance the business performance i.e., either reduce cost or increase revenue at least by 10%. | | | |
| <u>Individual Character</u> | | | |
| 2.1.4 The bank's representative has interviewed key suppliers in ascertaining customer's good track record | | | |

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Appendix A Financing Evaluation Memorandum (FEM) (cont.)

FINANCING EVALUATION MEMORANDUM

MAQASID FINANCING PROGRAM

LEGAL CUSTOMER'S NAME :- XYZ SDN BHD ("XSB")
 GROUP NAME :- XYZ GROUP

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| <p>in conducting business with no delay or default in payment for the last 12 months.</p> <p>2.1.5 The bank's representative satisfied with customer's entrepreneurial skills and relevant competency to carry out the business with at least one success business either as a key staff or business owner.</p> <p>2.1.6 Customer has reasonable entrepreneurial experience (at least 2 years).</p> <p>2.1.7 We confirm clean findings on: i) Customer (CTOS & CCRIS) ii) The shareholders / Directors (CTOS & CCRIS)</p> | | | |
| <p><u>Margin and Amount of Financing</u></p> <p>2.1.8 The margin of financing and amount of financing is sufficient for the current requirement.</p> <p>2.1.9 The customer has sufficient capital for the agreed capital commitment, and no requirement for the customer to seek additional funding from third party.</p> | | | |
| <p><u>Repayment and Ability to Repay</u></p> <p>2.1.10 The source of repayment does not come or comingle with non-Shariah activities.</p> <p>2.1.11 The cashflow projection indicates that the monthly instalment is only represent 20% of excess net cashflow.</p> <p>2.1.12 Customer, the individual shareholders, directors are not legally bankrupt entities (<i>Muflis</i>).</p> | | | |
| <p><u>Insurance/Collateral</u></p> <p>2.1.13 The pledged collaterals are Shariah Compliant Assets.</p> <p>2.1.14 Security deposit or any financial assets are Islamic products.</p> | | | |

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Appendix A Financing Evaluation Memorandum (FEM) (cont.)

FINANCING EVALUATION MEMORANDUM

MAQASID FINANCING PROGRAM

LEGAL CUSTOMER'S NAME : XYZ SDN BHD ("XSB")
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| 2.1.15 The collaterals are deemed liquid or, at least, no disposal restriction. | | | |
| <u>Environmental, Social & Governance (ESG)</u> | | | |
| 2.1.16 The business activities do not bring any harm to the environment. | | | |
| 2.1.17 The working practices are considered fair to the employees and people at large. | | | |
| 2.1.18 Internal policies promote accountability and transparency. | | | |

2.2 ADDITIONAL NEGATIVE CHECKLIST

| | Agree | Disagree ⁺ | N/A ⁺ |
|---------------------------------------------------------------------------------------------------------------------------------|-------|-----------------------|------------------|
| <u>Business and Industry Risk</u> | | | |
| 2.2.1 Company's core business has not changed. | | | |
| 2.2.2 No major changes in the suppliers/buyers for last 12 months. | | | |
| 2.2.3 No new or increased concentration of customers/suppliers. | | | |
| 2.2.4 No regulatory issue adversely impacts customer. | | | |
| 2.2.5 Industry that customer operates in has positive/stable outlook in next 12 months. | | | |
| 2.2.6 Customer's competitive position within industry is stable / favorable. | | | |
| <u>Management Risk</u> | | | |
| 2.2.7 No change in key management and shareholders in last 12 months. | | | |
| 2.2.8 No adverse reports on the group or any of its key management / shareholders. | | | |
| 2.2.9 The bank's representative has met with key management and shareholders is comfortable with the integrity and capabilities | | | |

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Appendix A Financing Evaluation Memorandum (FEM) (cont.)

FINANCING EVALUATION MEMORANDUM

MAQASID FINANCING PROGRAM

LEGAL CUSTOMER'S NAME : XYZ SDN BHD ("XSB")
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| | | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|--|
| to carry out the business, including CCRIS & CTOS searches. 2.2.10 Management aware of the potential risks facing the business and have a strategy in place to address these. 2.2.11 No litigation involving the customer, its key management, shareholders. | | | |
| <p><u>Financial Risk</u></p> 2.2.12 Gross margins over last 12 months have been maintained/improved. 2.2.13 Net Cash Flow (operations) is positive and adequate to service profit and Current Portion of Long-Term Debt. 2.2.14 No material (>30%) deterioration in the operating cycle ratio i.e Stock Turnover, debtor days, creditor days. 2.2.15 No extraordinary losses for the last 12 months. | | | |
| <p><u>Financing Structure Risk</u></p> 2.2.16 Facilities are structured in line with the needs of customer and Net Working Capital cycle. 2.2.17 No actual or potential out-streaming of funds to related companies. | | | |
| <p><u>Account Performance Risk</u></p> 2.2.18 Interest and Principal debt repayment obligations all serviced promptly with other financial institutions, if any. 2.2.19 Conduct of account with other financial institutions is current, if any. 2.2.20 Credit turnover is healthy (applicable for review). 2.2.21 Sinking Fund collection current (applicable for review). 2.2.22 Limit reduction (if applicable) is on schedule (applicable for review). 2.2.23 Maintained / conducted a minimum contact of four (4) times a year & two (2) site visits per year (applicable for review). | | | |

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Appendix A Financing Evaluation Memorandum (FEM) (cont.)

FINANCING EVALUATION MEMORANDUM

MAQASID FINANCING PROGRAM

LEGAL CUSTOMER'S NAME : XYZ SDN BHD ("XSB")
 GROUP NAME : XYZ GROUP

*Please provide justifications in Part 2 (2.3)

2.3 JUSTIFICATIONS AND MITIGATIONS

| Justifications and Analysis |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p>2.3.1 Purpose</p> <ul style="list-style-type: none"> a. The proposed amount of financing and the margin of financing (<i>element of Adil being elaborated in detail</i>) b. The purpose of financing and nature of financing <u>i.e. Opex</u> or Capex or Refinancing <p>2.3.2 Maqasid Shariah Analysis</p> <ul style="list-style-type: none"> a. To identify if the business model engages in in any non-Shariah, or whether the activities could deteriorate the faith of fellow Muslims (please also identify if the business helps to elevate the Islamic faith). b. The business activity does not bring harm to any human-being whether directly or indirectly and short-term or long-term (please also identify if the business helps to improve the human-being either humanly or environmentally). c. The business does not violate any intellect rights of others. The business must also not give harm mentally to others. d. To identify if the business could bring any inheritance issue, especially in the area of collateral. The collateral demanded by the bank should not carry inheritance risk in the future. e. The business and financing structure do not trespass or acquire other people's properties unlawfully and unethically. <p>2.3.3 Company and Business Analysis</p> <ul style="list-style-type: none"> a. Track record of the business and the competency b. Analysis on the impact to the NKEA and to the society (as part of upholding Maqasid Shariah value) c. Analysis on the owner (pass track record and entrepreneurial skills <u>i.e. element of Amanah and Istiqamah</u> being considered) |

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Appendix A Financing Evaluation Memorandum (FEM) (cont.)

FINANCING EVALUATION MEMORANDUM

MAQASID FINANCING PROGRAM

LEGAL CUSTOMER'S NAME : XYZ SDN BHD ("XSB")
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- d. Analysis on the management team and operation team on their capabilities to carry out the business or project.

2.3.4 Financial Analysis

- a. Financial Ratio Analysis – Including gearing level
- b. Analysis on the financing amount and computation of the actual working capital requirement
- c. Analysis on cashflow projections and repayment structure (elements of Ukhuwah and Adil being considered in ensuring that the financings should be a solution to the customers, rather than a burden)
- d. Assessment on owner's financial strength to support any deficit, if necessary.

2.3.5 Security/Collateral Analysis

- a. Analysis on the proposed securities whether the bank is comfortable with the secured amount.
- b. Explanation on whether the proposed securities are too stringent and difficult for customer to comply (element of Ukhuwah is being taken into consideration).

2.3.6 Market and Industry Analysis (Competitiveness)

- a. Analysis on top competitors within the same market.
- b. How competitive the customer as compared to the other players (competitive edge of the customer's products).
- c. Identify of any changed or potential change of regulations that may bring negative or positive affect the business.

Mitigations

- a. Mitigants / Reasons to "No" answer to 1.2 and 2.2:

| Checklist & Ref No | Reason for "No" Answer | Mitigants |
|--------------------|------------------------|-----------|
| | | |
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Appendix A Financing Evaluation Memorandum (FEM) (cont.)

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MAQASID FINANCING PROGRAM

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|-------------------------------------------------------------------------|------------------|--------------------|
| | | |
| b. Identify Three Key Risks for this transaction and their mitigations: | | |
| No. | Key Risks | Mitigations |
| 1. | | |
| 2. | | |
| 3. | | |

| | |
|-----------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| Recommended by: XXXXXX Relationship Manager Date: | Supported by: XXXXXX Sr. Relationship Manager Date: |
| XXXXXX Head, Business Banking Date: | |

Decision:

.....

.....

Amount Approved:

(Signature)

.....

Investment Committee Secretary

| | |
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Appendix B Transcript of Interview with Respondent A (Sample)

- Interviewer:** Saya punya topik ni lebih kepada Islamic study.
- Respondent A:** Aaa...
- Interviewer:** So, on 'Maqasid Syariah' in credit evaluation. Ini basically continuation from I punya Masters dulu. So,–
- Respondent A:** You Masters bukan dengan aku sekali dulu ke?
- Interviewer:** Sekalilah. Dulu saya ambil Islamic Banking.
- Respondent A:** [ketawa]
- Interviewer:** Kan [ketawa]. Saya continue ambil PhD saya pun topik lebih kurang; Credit evaluation in Islamic Banking lah. So, the question dia memang agak centric kepada credit and 'Maqasid Syariah' lah.
- Respondent A:** Emm...
- Interviewer:** So, should we start bang?
- Respondent A:** Tapi, kau tak fokus mana-mana satu principal lah?
- Interviewer:** Tak. Kita fokus credit evaluation, on... Principal tu lima-lima sekali.
- Respondent A:** Lima-lima sekalilah.
- Interviewer:** Lima 'Maqasid Syariah' tu. Lima-lima sekali.
- Respondent A:** Ooo...ok, ok.
- Interviewer:** Ok, bang. Kalau kita boleh start, maybe you can introduce yourself, your career background and your academic background jugak.
- Respondent A:** Ok, nak bagi namalah ni?
- Interviewer:** Aaa...
- Respondent A:** Ok. Bahasa Melayu ke Bahasa Inggeris ke campur?
- Interviewer:** Up to you. Whichever easy for you.
- Respondent A:** Ok. At the moment, I'm working with ABC Bank as the one of the Regional Director lah. Experience wise, this year will be my 27 years in banking. Started in banking somewhere in 1994, all the way with Affin Bank then move to ABC Bank somewhere in 2014. Kalau tak silap. All in the while in credit.
- Interviewer:** I see...
- Respondent A:** From day one kat bank sampailah sekarang memang duduk kat credit but different – different level lah. My academic background

aaa...degree in Finance and I did Masters MBA dekat UIA, focus in Islamic Finance.

Interviewer: Ok, alright. Emm...Bachelor dekat mana?

Respondent A: Bachelor dekat Carleton University, U.S.

Interviewer: I see...I see... Ok. I think to proceed dengan our first question. In ABC Bank ni, in general rule of thumb, what kind of SME client that you guys prefer? General. Because you know SME is inherit with bad credit. Many bank not willing to take them but ABC Bank has been mandated by the government to do, to help finance SME business.

Respondent A: Aaa...Type of SME eh. Aaa...ok. Memang nama pun ABC Bank, so we focus on SME. What does make definition of SME tu, I think you aaa...kau dah tahu kan – SME yang get definition by external definition of SME lah. So, but in term of group SME aaa... ABC Bank being a DFI own 100% by the government. So, kita punya roles tu basically mandated ah. So, basically, we are targeting those SME that are unserved and underserved by the banking industry as a whole. Bila kita cakap aaa...unserved and underserved ni, aaa...not necessarily those yang bad credit. Ada jugak customer-customer yang ok je. Aaa... Tapi they are not served by the majority of the bank. Satu, because what they are doing. Dua, maybe they are small, micro. And three aaa...maybe in the area of feature ada bank yang in term of policy, they don't want to go in.

Interviewer: I see...

Respondent A: Benda-benda tu lah. But, as far as ABC Bank concern, we try to apa government punya mandate in helping out the SME. So far kita tak memilih bululah. Whatever they do as long as Syariah compliance.

Interviewer: I see... Orait. Second question, apa ni... You know SME ni kan basically is lead by really much dependent on the owner itself, himself.

Respondent A: Haa...haa...

- Interviewer:** So, what kind of owner? Do you have any preference on owner? You need any certain degree or master, certain level of experience of management of the SME?
- Respondent A:** Education tu tak penting. My number one lah, my personal when we assess when I give directive to my team. The number one thing is still character.
- Interviewer:** Ok.
- Respondent A:** Character ni we can gauge lah whether sometime from the interview, from their track record semua, then character... Character is willingness to pay. Aaa...of course benda ni boleh diajarlah eh. Then, the second most important thing in ABC Bank when we look at SME owners is their entrepreneurship skills.
- Interviewer:** Ok.
- Respondent A:** Because nama pun DFI, development. We want to develop this people. Some of the owners ni dia do business, tapi dia do not– tak ada, dia punya skill tu tak sharp lagi. So, they just statement. Sepuluh tahun dalam business pun sama aje. While there are another entrepreneur who are only six months in the business but striving. So, kita tengok entrepreneurship lah.
- Interviewer:** I see... Entrepreneurship punya skill lah kan, basically.
- Respondent A:** Emm...
- Interviewer:** In term of... just now you mentioned about ability to pay and willingness to pay, is very important kan?
- Respondent A:** Emm...
- Interviewer:** And another core area that we would like to understand is customer ability to serve with the interest and principal.
- Respondent A:** Ok.
- Interviewer:** So, you guys really based on the cashflow alone or honest ability to support the cashflow? In case any deficit.
- Respondent A:** Ok. Aaa... In most of the cases, we look at the entity itself. The entity which is the business lah sama ada partnership ke, Sendirian Berhad ke... We look at the entity, the business. Of course, important that we have a strong owner. We look at the ability of the

business to generate cashflow. Generate meaning future cashflow—because of course kita akan check past history. Dia punya sales apa semua. But then, the most important thing, is the ability of the customer to sustain and generate cashflow to service lah whatever amount yang dia nak pinjam tu. And the other one is, it is good to have a strong backup from the owner lah. This will aaa...satu, kita akan tengok how much they have pump selalu in form of paid-up capital. They are businesses that are running turnover of RM10 million and RM20 million tapi paid-up capital RM100 ribu. Can't be done! But then kat situ kita tak nampak development of the owner lah.

Interviewer: [mencelah] Betul...Betul...

Respondent A: Emm...

Interviewer: Kalau macam in term of margin of financing kan, especially for project financing or asset acquisition. What is your preferable margin of financing? Is it 80 per cent or 90 per cent or...

Respondent A: Dia, basically depends on what type. But, for normal asset financing, property, factory business, business unit apa semua kan that one ranges from 80 even to 90 per cent. But macam land apa semua, land yang rare macam what we call? Malay reserved land apa semua tu kan, it be lower lah. Maybe 70 per cent macam tu. But in comparison to commercial bank, I think kalau land tu, I think ABC Bank offer the higher, the highest margin of financing lah. I believed kalau commercial bank, kalau land sahaja recognition particularly agriculture is less than 3 per cent kot.

Interviewer: Aaa...betul. Ya, ya.

Usually, based on your experience in ABC Bank kan, I think many customers come and push you asked for OPEX or CAPEX, or even refinancing or equity financing.

Respondent A: Emm...

Interviewer: On top of this, which one is have a higher tendency of approval; is it OPEX, CAPEX or equity financing, refinancing...

Respondent A: Aaa... Usually is... Bukan OPEX lah. Not OPEX per say. It is working capital.

Interviewer: Working capital.

Respondent A: So, working capital is a business based lah. Amount that required to finance the business lah.

Interviewer: I see...

Respondent A: That one is always number one. OPEX dalam tu working capital inclusive of diaorang punya OPEX lah kan. Part of the sewa ke apa semua kita akan pamer kat situ skit la. But, usually in rule of thumb, usually OPEX ni is owner punya kewajipan. Nak bayar gaji apa semua kan.

Interviewer: Ya.

Respondent A: Because with or without business, they need to pay salary.

Interviewer: Betul.

Respondent A: Aaa... But then kita, kadang-kadang kita bagi jugaklah part or portion. Kadang-kadang diaorang punya sewa tu besar apa semua kan. So, kita finance jugaklah. Aaa...on the CAPEX, yes, we do finance CAPEX. But it has to be productive punya CAPEX. Satu, beli mesin, beli property on the mode of expansion. Tapi beli property untuk investment, kita tak buatlah.

Interviewer: Ok.

Respondent A: Kita discourage because we know SME– SME ni still small. Why you are still small you sibuk nak beli buat untuk... what we called it? Investment kan. It doesn't work that way lah.

Interviewer: Ok.

Respondent A: So, as long as CAPEX tu for the purpose of expansion than tak ada isu.

Interviewer: I see... So, refinancing you don't do at all. Refinancing, equity financing...

Respondent A: Refinancing aaa... we do but really rare.

Interviewer: I see...

Respondent A: Because, our mandate tu kalau boleh kita nak... Bila... selalu kalau refinancing kita akan pakejkan on expansion punya financing. Let's

say ya, sekarang the property financing sahaja katalah they have property financing with A Bank. So, sekarang, they come to us, they want for expansion nak beli machinery and machinery letak kat that property. So, we would redeem, and we expand lah. So, kalau setakat redeem bulat-bulat just because kita nak bagi better rate aaa... aku... no-no lah.

Interviewer: Ok. If let's say, a proposal has been rejected. And what is the chances that the financing tu akan approve after being appealed. Aaa... If this appeal approved kan, is it because, usually because of lower margin of financing, tight lowdown schedule, lowdown condition or enhancement in securities. What usually...

Respondent A: This rejection aaa... number one reaction usually is character. And number dua is a capacity to ni lah... Sometimes, customer replated way beyond. And usually, we try to match diaorang punya capability but then customer ni dia thought they can pay lah kan. Pada diaorang, diaorang boleh minta RM5 million. They can ask for RM5 million. They think they can pay. But through our assessment, ok RM5 million tak boleh. We can only give you RM2 million. Then dia cakap, no! They want to receive RM5 million. So, we have to reject lah. But then, if the rejection and they come back 1 to 3 months later with different... what we called... Because when you want to appeal, you have to be on different ground kan?

Interviewer: Ya.

Respondent A: Kalau dulu, before this, the application nampak very raw, dia punya ability to refill cashflow tak berapa cantik. So, when they come around the second time and it has already been addressed, isu-isu. Then should be ok lah.

Interviewer: Ok. The question number 6. How do you decide on how much exposure ABC Bank willing to expose to particular SMEs. Is it against equity or any specific gearing level. How do you balance between the risk and reward ratio? Which is between business proposal and risk management. We know that SME is well-known

for high risk and high resistance. How do you reward that? You charge a high rate?

Respondent A: Gearing is still the basis of our ni lah... Aaa...our credit sahaja is still based on risk management all those things. And gearing is still the basis. No doubt. And I say kita ni DFI, there are beyond credit yang kita still consider. That's why we do a lot of credit yang not comfortable, tak dilihat, tak ditengok oleh.... Not beggable by other bank, but beggable in our bank. Because satu, is nak kata strict, we are still strict but we are... we have certain... Macam katakanlah, let's say the asset being based on gearing eh, because gearing customer ni memang tak lepas.

Interviewer: Ok.

Respondent A: Kan. Katakanlah we have parameter in order for us for customer for us to finance, the parameter is 5 times. So, masa masuk je dah jadi 10 times – the gearing kan. So, tak boleh. But then, if we look at the customer ni from different perspective, bigger... Meaning, dia boleh grow apa semua, in term of dia punya ecosystem punya spillover. Then we may agree to finance. Then dia punya gearing tu kita take care laterlah. Meaning customer kena top-up dia punya... what you called... paid-up later. Six-one-time, one-year-time. All those things lah. We– other than benda tu jadi upfront, we make it ok, kita buat concurrent lah. So, you build your base... Dia tak... While we have given this lah. So, bukan jadi CP, it become later condition lah. So, at least the customer can work towards that gearing ratio rather than we think now, they work towards it. So, macam kalau equity, kita pun tak tengok sangat. Equity, aaa...kita ada je buat financing for customer yang only 50-100 ringgit punya... But then, it will be a gradual requirement lah. That they need to top-up the equity. Tu je...

Interviewer: Saya... saya... So, repayment bang.

Respondent A: Aaa...

- Interviewer:** SME dia ada number of years tak, requirement. For example, dulu we have in Affin Bank, few months ago. more than 10 years. Dia mesti dapat Bank Negara kan. But now DFI–
- Respondent A:** [mencelah] Not now. Macam internally we... Because we DFI, before this we allowed kalau asset financing they allowed up to 30 years. Tapi lately we revise lower...
- Interviewer:** [mencelah] 30 years.
- Respondent A:** Haa...30 years, before this. Tapi recently we revise lower to 25 to 20 lah sebab on the average, kalau asset financing ni should be within 10 to 15 years je.
- Interviewer:** Hmm...
- Respondent A:** But then, macam customer – customer... Ikut logik, memang tak logiklah because the life expected aaa...apa ni... The life of SME selalunya tak lama sangat. But then, kita bagi sampai 30 tahun tu, ridiculous lah. But then, we are more logic at to help the customer now kadang-kadang when based on 10 years, installment dia mungkin dapat RM20 ribu. If we search it further... We look at helping them now, and bila dia grow, they do be able to settle it before that 20 years 30 years yang kita bagilah.
- Interviewer:** Iya, iya...
- Respondent A:** But on average, I think I giving 15 to 20 years for asset financing. Kalau working capital, we will giving for between 5 to 10 years.
- Interviewer:** Ok, ok... But then, that's quite standardlah. 5 to 10 years kan. But more than 10 years I think most of normal commercial bank dia don't do that anymore kan.
- Respondent A:** Ahh...yes. Tapi kita DFI, kita save–
- Interviewer:** Haa... Yelah, yelah. Betul. But do you have– Do you still offer bullet repayment?
- Respondent A:** Bullet repayment, we still offer tapi jarang-jarang. Because bullet repayment really is that against certain – certain repayment, project apa...
- Interviewer:** Yeah... yeah... Especially DFI can...

Respondent A: Haa...kan... Kalau katakanlah, diaorang buat something. Katalah, they have to construct something, and we will agree... we will only be paid in full after construction complete. Haa...mungkinlah.

Interviewer: Ok. In terms security or what are the standard securities ABC Bank would asked from SMEs to secure against the financing? And if you have to choose, will you prefer to finance based on security lending or cashflow lending? I think ABC Bank is–

Respondent A: Security wise we try to ease the burden on customer lah. Yelah, nama pun SME. But usually we asked for cash collateral, marginal 10 to 15 per cent to 30 per cent, dependent. And that one pun kita minta proportionate. As and when they grow down baru diaorang put in... not upfront lah.

Interviewer: Ok.

Respondent A: 10 to 15 per cent cash collateral. Then on top of that, sekarang ni kan ada SJPP. Majority of customer yang kita bagi financing will be against SJPP guarantee lah.

Interviewer: Ok, I see...

Respondent A: No doubt they are some SME yang quite establish. They have property to offer, so kita ambil je.

Interviewer: Yelah, betul.

Respondent A: Aaa...tadi apa tadi yang second question tadi eh?

Interviewer: Ooo... Do you guys do finance based on security lending or financing based on cashflow lending? Would you able–

Respondent A: So, basically is based on cashflow.

Interviewer: Cashflow...

Respondent A: Most of them cashflow. Jarang-jarang based on aaa... Kalau yang...

Interviewer: [mencelah] Let's say its 100 per cent. 100 per cent secured. And the cashflow is not that good. Would you prefer? Would you do that?

Respondent A: Aaa... no lah. We still go on the cashflow.

Interviewer: Cashflow?

Respondent A: Aaa... I would rather ada cashflow kalau clean pun tak apa. Rather than, dia ada asset tapi cashflow tak ada. Because end... Kan. We end up being the liquidator of the asset buat apa? Baik suruh dia jual je aset tu.

Interviewer: Betul. Alright. Ok bang. The next four question is more on Syariah punya... 'Maqasid Syariah' punya concentration. So, the first question is, 'What are additional Syariah or Islamic concentration in ABC Bank, in term of credit evaluation or SME financing?'. You guys like having a... you guys are considered as Islamic bank because 95 per cent of the asset are Islamic. So, do you guys have a Islamic concentration? You know those 5 'Maqasid Syariah' or is it just similar to other conventional banking?

Respondent A: Satu, kita... all our financing has to be Syariah compliance. Activity has to be Syariah compliance. Where in doubt, we will refer to our... the case to... Kena dapatkan consent from our Syariah Division. Like recently lah, recently one of my staff ada dapat aaa... ni, face spa. One our client are lady, dia ada buat face spa. We were revealed ada 5 cawangan. Most of their client perempuan, tapi ada few here and there lelaki pun ada masuk sikitlah. Dia memang cakap macam tu. So, if we follow SC punya guideline where lesser percentage of dia punya is benda tu yang dikatakan non-halal. Bukan haram. Benda tu like... Berkemungkinan. Kita tak tahu pun mungkin dia ada lelaki punya therapist kan.

Interviewer: Aaa...

Respondent A: Tapi, bila kita hantar dekat Syariah, Syariah say 'no'. So, kita terpaksa say 'no'. Walaupun kalau ikutkan SC punya requirement, kalau you punya revenue tu less than certain percentage, than you still Syariah compliance. Tapi, no. So, kita still uphold benda tu lah.

Interviewer: Ya.

Respondent A: Dia, Syariah compliance tu very important,

Interviewer: Ok.

Respondent A: Lagi satu. Bila ‘Maqasid Syariah’ ni bila kita nak... I would say when we want to cover a few cases lah yang... Because, kita ABC Bank pun buat benda-benda yang big one. Bila big one ni, kredit tak ada isu, apa semua tu. Then, kita tengok in term of Syariah, ‘Maqasid Syariah’. Kitaorang tengok how, satu, how they support ugamalah.

Interviewer: Emm...

Respondent A: When we finance this... How it support Islam? We did one hari tu, kita finance RM100 plus million to one customer. So, the question that we have to put up to our Board is this lah. Satu, the spillover to the summit market lah.

Interviewer: I see...

Respondent A: How benda ni membantu rakan-rakan Muslim yang lain dalam perniagaan. Tu nombor satu. So, kena tengok dia punya saloon beyond financing. And bila beyond financing, we usually look at Maqasidlah.

Interviewer: Iya.

Respondent A: Tapi, yang selalu kita yang selalu kita– Yang directly kita uphold is on satu, is protect the religion. And satu is dengan property lah kot. Kebanyakanlah on that angle. Kalau nak kata nak uphold you punya life tu... Direct, indirectly lah. Tapi we don’t see directly at such. Tapi kalau you tengok semua as a whole, kebanyakannya will be on protecting the... apa ni... religion, the asset and lagi satu kalau kita finance benda-benda yang in term of... Benda-benda yang ada spesifik, yang ada control in term of right apa semua. Then, it will help the customer in term of protecting the right lah. Because some of the customer tu, diaorang dapat right, dapat exclusive right apa semua kan to build or develop certain – certain thing. So, we can look at it when we finance from that point of view lah.

Interviewer: Ok. Saya rasa abang dah jawab question nombor 10 saya jugak which is my number 10 punya questions, how far ABC Bank

willing to expose to higher risk for SMEs in order to uphold Maqasid Syariah. You answered that as well.

Respondent A: Yes...aaa...

Interviewer: And but nombor 11, you partly answer that. But if you can add some more. My 11 question is, how 'Maqasid Syariah' influence credit analyst in evaluating character, ability, margin of financing, purpose and MAL repayment and insurance. In other words, do you think Islamic value being considered in analysing this credit element. Just now you mentioned that they are some elements that you used to analyse this. Maybe you can evaluate further.

Respondent A: Dia, of course internally kalau at... apa ni... RM punya level, their team lead punya level apa semua, they will... Dia punya kitab, we just our CUP. C.U.P meaning Credit Undertaking Policy. But the, we at our level, kita yang buat polisi. Now when we do certain – certain policy actually we sees the behind punya ni lah... Aaa... 'Maqasid Syariah' apa semua, We needed... Kita tak cakap, this is 'Maqasid' ni 'Syariah' you just do and this is firm. Because this is very general Credit Undertaking Policy. Basically, our policy tu, we try to uphold as many 'Maqasid' yang kita bolehlah. Macam yang aku cakap tadilah, we don't really spell out for you to ni... You have to look at from this point of view. How do we protect the intellect from 'Maqasid' point of view when we want to finance this. Takde cakaplah. Tapi direct, indirectly kita convert benda tu in term of credit policy.

Interviewer: Sorry bang, I replace that question abang. The one dengan abang 'committee' kan.

Respondent A: Haa...

Interviewer: Saya tukar kepada, what are the key differences in credit policy between ABC Bank and other conventional bank?

Respondent A: Ooo...ok.

Interviewer: You already answered that just now. And credit policy...top-down approach kan.

Respondent A: Sebab, macam at my level I have look at that lah. Walau... Bila kita access, then kita kena explain. Why? Kadang-kadang diaorang nampak benda tu ok, bila sampai kat kita dia cakap 'no'. Rather than kita kena explain lah. Why? And Islamic punya view ni, it doesn't matter whether SME is orang Islam, orang Cina, orang India. It doesn't matter. It has to be looked from that point, from that perspective lah.

Interviewer: Ok, alright. Second last question. Do you think, despite of you have internal security standard, tight terms and condition. Do you think ABC Bank has more relax approach to SME client as compared to other conventional bank? Or do you think other bank also diaorang punya SME punya department has similar function with you?

Respondent A: From previous experience, kita pun from different, same organisation. We look at thing, based profit driven. Commercial bank profit driven apa semua. We are DFI and of course when we DFI banyak benda-benda yang kita punya beyond credit consideration. We did 'Maqasid Syariah', we did national interest apa semualah. Because we are looking at businesses friendly. Kadang-kadang when we do credit– why we want to approve this? How this credit or this customer will help to spur the industry? Macam tu lah, benda-benda yang related to government punya policy. That's why we hold banyak fund yang being promoted by the government lah. So, that is the different lah. We are focusing on... Because kita pun memang government agency. So, a lot of things that we do beyond credit is a how we want to support government policy lah.

Interviewer: Last question. How often does ABC Bank revise the credit policy which is your called it 'Underwriting Credit Policy' right? To suit the current economic landscape requirement.

Respondent A: Haa... Tak.

Interviewer: And do you compare your policy...

Respondent A: Yang tu 3 tahun sekali

Interviewer: 3 tahun sekali?

Respondent A: Basically, the review is ongoing. Tapi, kalau... Because certain – certain area of the policy, dia macam ada update kan. The review is ongoing. But then, the whole modification of ni jarang-jarang la kita buat. The last time... But the review is ongoing, there are always apa ni... additional attachment, addendum to our policy just to make it current. Because some of our policy and guideline tu is based on what happened in industry, what happened in the policy by the government. When policy changes, you need to change as well.

Interviewer: I see...

Respondent A: But, basically yang the core tu... aaa... nak kata tukar, I think kita... the last revision is 2 years ago. Then, previous before that was 3 years before that. Nak kata we revise 3 years one-time tu, takdelah I rasa. Cuma, before it was called C.U.P, it was called credit policy je.

Interviewer: Ok.

Respondent A: Cuma, the document tu bertukar. Mungkin, when there are lot of addendums apa semua. Then it's time for the bank to revise the whole thing and jadikan satu one new document kan.

Interviewer: Yup, yup. Betul.

Respondent A: And revise... So far in term of direction, in term of policy takde majoriti polisi yang dekat atas yang kita perlu tukar. Accept sub-sub polisi yang need to keep abreast with the current situation in the market and the government punya polisilah.

Interviewer: I see... Ok, bang. Thank you bang. That exactly 30 minutes our interview. Thank you so much.

Respondent A: [ketawa]. Haa...ok

*** End of Interview ***

Appendix C Transcript of Interview with Respondent B (Sample)

Interviewer: Assalamualaikum Encik, thank you for your time. This should be a very quick interview. As I mentioned to you the other day, my interview is all about we want to understand how Maqasid Syariah influenced ABC Bank when making credit evaluation especially for SME clients la. So the key element that we will talk today is about Maqasid Syariah and CAMPARI credit evaluation model which is you tau C tu for character, A for ability to pay, M margin of financing, P purpose, A amount repayment structure and security. Perhaps sebelum saya start, tuan boleh explain kenalkan diri tuan, position, pengalaman kerja dan education background.

Respondent B: Im a regional director for northern region untuk northern side for ABC Bank. So my experience dalam banking ni tak lama la, since 2008. So after I graduated from Multimedia University dekat Cyberjaya, this my first job la. Orang kata setia la bersama ABC Bank ni. Sebab in terms of progress tu ada yang pertamanya, yang keduanya dulu ada la cari kerja lain tapi dah bank hat tu offer cari kerja lain.

Interviewer: Company apa? Bukan bank la?

Respondent B: Masa tu memang dah dengan bank pun. Saya start dengan bank since graduate, hujung 2007 as a management trainee. So maintain sampai skrg. In terms dengan ABC Bank ni, saya start di HQ and then balik ke perlis. Okay, so lepas 2018, saya pi balik ke kl sat. Lepastu pi batu pahat. Tapi tak lama. 3 bulan, 3 bulan lepas tu balik mai northern region since 2019, 2020, 2021.

Interviewer: Office dekat kangar la?

Respondent B: Dulu ke?

Interviewer: Sekarang

Respondent B: Sekarang dekat penang.

Interviewer: oohh okay baik. Dekat MMU dulu study apa tuan?

Respondent B: Saya dulu amik PPA, majoring in management la with multimedia.

Interviewer: Okay tuan, semua we have 15 questions. First question saya nak tanya tuan, dalam general idea atau rule of thumb, apa jenis SME yang biasa tuan punya pengalaman dengan ABC Bank, apa jenis SME yang you guys would like to finance in general.

Respondent B: Kalau kita tengok ABC Bank ni, actually ABC Bank qualified as a developmental punya financial institution la. Yang mana kalau kita tengok in terms of financial institution dekat Malaysia ni, kita ada developmental and then kita ada as a commercial la. Commercial ni macam as a normal bank. Kalau kita tengok in terms of developmental punya role ni, kita mostly differentnya dengan other commercial, yang first sekali in terms of commercial, kita pun tengok benda yang sama, in terms of ability to pay apa semua tu and then dengan structure and then dengan security la. Itu kalau kata commercial bank. And then untuk yang mana high risk business ataupun new in business, normally diorg takkan amik. Macam kita kat ABC Bank, kita punya rule of thumb, satu, in terms of that project yang kita akan finance tu, kalau kata dia ada potential in terms of ability to pay apa semua memang kita akan finance la. And then kalau kita tengok ABC Bank, in terms of security tu bukannya first way out la.

Interviewer: Okay faham. Kalau in terms of character, kalau kita tengok SME ni performance dia betul-betul bergantung pada owner punya character. Tuan tengok dia punya character apa lebih penting? Adakah dia punya pengalaman ke qualification ke ataupun apa apa la dia punya pattern pembayaran history ke? Which one is more important based on pengalaman tuan.

Respondent B: Kalau for SME ni, most important thing kita tengok adalah satu in terms of knowing the business, maksudnya in terms of management tu sendiri untuk dia handle that business, sejauh mana dia tau benda tu. Keduanya in terms of owner punya character la, in terms of repayment apa semua, but mostly bank

akan tengok dia repayment history maksudnya okay and kita akan tengok how knowledge that entrepreneur that owner pasal SMEs dengan bisnes yang dia akan buat tu. Sebab kalau kita tengok how good dia punya character in terms dia punya repayment history pun, kalau in terms of knowledge for that bisnes dia takde akan menyebabkan failure la.

Interviewer: So, know-how la? Know-how buat benda tu?

Respondent B: Betul betul

Interviewer: Okay, macam tuan tengok kan, bila ability diaorang bayar service interest ataupun principal, adakah tuan hanya bergantung pada cashflow business ke ataupun cashflow owner dia, sebab sesetengah bisnes tu, bisnes takde duit tapi kita tau owner dia somebody ada duit kan. Macam mana dia punya important? Macam kita taulah SME ni dengan owner ni duit tu comingles sometimes.

Respondent B: Kalau kita tengok in terms of assessment yang kita buat untuk financing yang kita bagi. First one is the cashflow from business itself la. Maksudnya kita akan tengok on the cashflow of the business. Lets say la kat situ ada hiccups sikit for first year, second year apa semua tu. From that angle tu baru kita tengok dari capacity of the owner la. Maksudnya lets say la kata dia just made one company yang mungkin dia diversify dari existing business apa semua, dia ada new ones yang nampak in terms of potential for that business yang dia diversify tu okay, tapi in terms of cashflow first year, second year tu kita belum nampak, orang kata yang tu tak boleh nak sustain la. So untuk yang tu kita akan refer balik in terms of dia punya owner punya cashflow. Kalau kata root tu boleh cover, kita ada jugak yang kita bagi, takde masalah.

Interviewer: Macam margin of financing kan tuan, pengalaman tuan dengan ABC Bank ni berapa percent margin tuan bagi? Is it 70% ke 80% ke?

Respondent B: Kalau kita tengok in terms of margin of financing ni kita depend based on apa product yang kita offer tu customer. Let's say la normally for construction, kita bagi normally dalam 80% ada jugak sampai 85% ataupun 90% la, maximum is 90%. And then in terms of working capital kita bgi sampai 100% of the invoice punya amount, dia depends. Tapi normally, apa yang SME ada, adalah 80-90%. Ada jugak kalau untuk high risk atau very new to us, kita akan reducekan in terms of margin of financing lah.

Interviewer: I see, usually tail-end ke atau proportionate?

Respondent B: Dia depends on assessment yang kita buat, lets say la kita nampak, contohnya, hotel. Maksudnya hotel yang mana sekarang ni kita nampak because of industry tak berapa cantik and then kita akan tengok the owner has the capacity so normally kita akan go tail-end la

Interviewer: Based on pengalaman tuan dengan ABC Bank, usually apa financing purpose yang ada high tendency untuk approve. Is it OPAX ke CAPEX ke refinancing ke ataupun equity financing

Respondent B: Dia sebenarnya in terms of yang mana yang kita high tendency for approval, actually kita based on case-to-case basis lah sebab ada certain tu dia based on kalau kata in terms of OPAX, kita akan tengok in terms of dia punya keperluan, in terms of operation la. Kalau in terms of CAPEX ni kita akan tengok based on industry norm apa semua tu la. Kalau refinancing, normally sama je cuma in terms of refinancing of property ni dengan kita tak banyak la because of in terms of rate, commercial bank can offer better rate lah.

Interviewer: Ya betul betul. Refinancing pun usually kita buat refinancing pun sebab better rate kan? Kalau takde better rate takde incentive for them to refinance. Contoh kalau committee reject, and then kita akan appeal kan, appeal of course la kita akan lihat balik apa committee punya concern. Tapi usually bila kita appeal tu, based on tuan punya pengalaman, apa yang menyebabkan appeal tu approve? Is it because of kita reduce the margin of financing, kita

tight the drawdown condition atau enhance the securities? Is there any reason ke?

Respondent B: In terms of appeal of proposal being rejected ni, normally first one kita kena tackle what is the main issue of that application being rejected. And normally kalau kita tengok dia ada angle yg macam macam lah. Kadang-kadang bila kita repropose balik tu, ada yang kita lowerkan margin, ada jugak yang kita enhance in terms of security apa semua tu and then in terms of condition pun ada jugak yang dimana kita mitigate la apa semua. Tapi normally kalau ikutkan dia punya rank tu akan selalunya lower the margin apa semua tu la. Kebanyakan yang mai ABC Bank ni in terms of security ni, orang kata tak percaya dengan property la.

Interviewer: Betul betul betul. How do you decide how much as exposure yang you all nak expose dengan certain SME. Is it against equity ataupun against specific gearing level.

Respondent B: Dia specific gearing level yang kita tengok. And then kita jugak di bank kita ada kita punya limitation, kita ada single customer limit plus dengan group customer limit.

Interviewer: Okay, sehingga 50 million kan?

Respondent B: Yes, for single customer limit, 50 million

Interviewer: Group?

Respondent B: Kalau sekarang ni group dia akan based on risk punya assessment, dia berubah-ubah tapi kita take as a one hundred lah

Interviewer: Okay, sekarang dia panggil SCEL kan? Single Counterparty Exposure Limit. Okay okay, for repayment structure, as for SME kan, based on pengalaman, usually how long you give, three years? Which one yang you all prefer? Ataupun 10 years? Is it too long?

Respondent B: Okay dia depends on facility yang kita offer to the customer, lets say for contruction or hotel, it can be up to 20 years, kalau kata for machinery apa semua tu up to 7 years, and then kalau working capital tu normally 5 years and kita ada jugak revolving la. Dia depends on facility yang kita ni.

- Interviewer:** Grace period ada bagi tak?
- Respondent B:** Actually, grace pun kita ada bagi, moratorium pun kita ada bagi. Actually, grace dengan moratorium ni kita akan tengok in terms of what facility we offer la. Contoh la kata construction yang mana it takes contoh la 2 years punya construction, kadang-kadang ada yang kita bagi grace, ada yang kita bagi moratorium. Depend on project punya norms, contoh la kata kalau dia buat hostel untuk government kan. Maksudnya dia akan sewa balik dekat government, I amik contoh university la dia buat hostel, so in terms of dia nak serve grace semua tu tak cukup, and then kita akan bagi as moratorium la, lets say for 2 years based on construction punya period, and then nanti kita akan recoup balik, reinstate apa semua lah.
- Interviewer:** Kita akan reinstate balik lah kan? Bullet repayment buat lagi tak sekarang?
- Respondent B:** Dia depends on case-to-case basis. Kalau kata memang dia punya norm of collection dia hujung tu ada bullet, maksudnya memang repayment dia tu hujung tu ada bullet, kita memang akan follow. Contoh la kata government akan bayar based on staggered, hujung tu government akan bayar lump sum, kita akan go as a bullet payment la. In terms of restructure je lani yang kita tak go to the bullet payment.
- Interviewer:** Okay, restructuring takde bullet payment la kan?
- Respondent B:** Dah tak macam dulu la. Dulu bank selalu buat hujung tu bullet apa semua. La ni dah tak dah la.
- Interviewer:** Ya, hujung tu bullet bukan depa bayar, depa refinance dengan bank lain pulak. In terms of securities kan, selalunya apa jenis security yang ABC Bank will ask from SME?
- Respondent B:** So, for now actually for security, actually mana-mana bank pun sama je sama ada property atau pun cash or FD and then guarantee by SJPP atau CGC la.
- Interviewer:** SGPP ya?
- Respondent B:** SJPP, skim jaminan pembiayaan

Interviewer: Usually up to how many percent kalau total financing tu? Berapa percent yang you all nak secured? Kalau SJPP dengan CGC 100% la?

Respondent B: Eh tak, SJPP sekarang dia bagi 70%, CGC 50-70% and then in terms of cash collateral tu normally kita amik 1-to--2, maksudnya 50% la atau pun very minimal tu 30 kita amik upfront atau kita collect Sinking Fund. tu apa semua tu la.

Interviewer: Sinking Fund akan up until full ke atau 50%?

Respondent B: Selalunya kita lebih kurang 50% je, kita tak go macam commercial la. Commercial dia akan collect sampai full kan?

Interviewer: Ya collect sampai full and to use for repayment kan?

Respondent B: Ya

Interviewer: Okay, based on tuan punya preferable la nak tanya, tuan lebih prefer finance business based on cashflow projection ataupun security landing?

Respondent B: Kalau own opinion ni, more to cashflow sebab itu yang sustain business

Interviewer: Walaupun company ni loan 100% secured tapi takde cashflow, lebih baik amik yang 30% secured tapi ada cashflow?

Respondent B: Betul and in terms of security ni tengok jugak katakan, contoh, walaupun 100% secured tapi tanah dia duduk dekat orang panggil apa gua kelam tu bila kita nak let go nanti pun akan jadi issue jugak la kan

Interviewer: Ha betul.

Respondent B: Kecuali kalau dia bagi 1 to 1 la, maksudnya tak logic la pulak kan? Dia tiba2 dia mai pinjam dia bagi boleh bagi 1 to 1 punya cash collateral kan?

Interviewer: Baik depa guna duit sendiri

Respondent B: Betul

Interviewer: Soalan 9, 10, 11 ni Syariah punya soalan tuan. Bila ABC Bank evaluate SME application kan, tuan ada nampak tak Syariah atau Islamic consideration, bila you guys evaluate SME financing?

Respondent B: For ABC Bank ni kita ada jugak.

Interviewer: Ada eh? In terms of Syariah compliance purpose lah kan?

Respondent B: Betul

Interviewer: Daripada segi repayment, daripada segi security wise, semua tu ada tak Syariah compliance?

Respondent B: Ada ada

Interviewer: Okay okay, so maknanya setiap element CAMPARI tu dia ada add Syariah consideration jugak la?

Respondent B: Betul betul

Interviewer: Okay, you know ABC Bank kan walaupun takde license dari Bank Negara mengatakan dia Islamic bank tapi dia dah 100% Islamic punya asset, tuan rasa untuk ABC Bank, untuk dia uphold Maqasid Syariah, do you think adakah ABC Bank sanggup untuk luluskan loan sebab product ni ada Maqasid Syariah punya purpose walaupun credit tak meet. Contohnya, satu company ni dia membantu orang kubur tapi dari segi credit dia tidak approve, dia tak strong. Adakah at the end of the day credit matters ataupun Islamic lebih important daripada credit?

Respondent B: Okay, in terms of SME, I rasa kalau you boleh cek balik, if im not mistaken, in terms of license untuk Islamic banking, license untuk sme tu kita dah dapat sebab kalau you pergi ke kita punya cawangan, sekarang ni kita dah ada lambang “i” tu

Interviewer: I see

Respondent B: Ha yang Islamic bank tu kan? Kita dah start pakai dah benda tu. Maksudnya license tu kita dah ada tu. Okay, in terms of contoh yang you kata tadi bisnes dia jual untuk kebumi, orang meninggal apa semua tu, tapi nampak credit dia tu tak strong, based on my experience lah, dulu memang kita bagi. Ada yang kita bagi. Maksudnya kita akan go satu satu and committee akan tengok la, tapi dia depends on amount la sebab contoh la dia ada bukak kedai ni apa semua, kita akan bantu tu dulu

Interviewer: Walaupun credit dia tak strong, kita akan bantu then kuatkan condition?

Respondent B: Yes. Kita akan kuatkan condition and kita akan tengok balik kelemahan dia tu dekat mana and kita akan bantu in terms of what we call intervention punya role la yang kita akan main kat situ.

Interviewer: Okay faham. Question no 11 tuan, how Maqasid Syariah influence credit analyst? Macam tuan credit analyst, how Maqasid Syariah influence bila tuan analyse character, ability, margin of financing, this CAMPARI kan. In other words, do you think Islamic value being considered in analyzing credit?

Respondent B: Okay, kalau you tengok balik in terms of CAMPARI punya element ni, actually memang benda2 ni semua, character, ability, managing of financing, purpose, amount, repayment and insurance apa semua ni kan, actually dalam in terms of Maqasid Syariah ni, adalah benda-benda tu jugak yang kita tengok dalam credit tau. So, kalau you tengok sekarang ni in terms of related dia tu, memang orang kata apa - ye la Islamic ni memang dah lama la benda-benda ni happen kan. Kalau kita tengok Islamic banking apa semua tu actually dulu dah happen tapi orang tak pernah amik port pun, orang masih pakai yang conventional. Sekarang ni baru kita back to Islamic punya ni en. And then kalau kita tengok penerimaan in terms of Islamic banking ni, orang yang bukan islam pun, macam kat penang ada Chinese pun, diorang lebih prefer Islamic banking.

Interviewer: Okay faham2.

Respondent B: Memang Islamic value ni bagi saya very beautiful la kalau Islamic banking ni compare dengan conventional la. Kan satu Ketika dulu orang tak boleh tengok eh apa pulak ada sales sampai 11-12% kan? Tapi if bila anything happen, macam contoh tahun 97, 98 yang mana kita punya interest la kan, conventional terms, yang sampai 20% untuk kereta apa semua tu kan, start daripada tu la ada kesedaran how beautifulnya Islamic banking ni.

Interviewer: Betul betul. Okay, nombor 12 tuan. What are the key differences dalam credit policy between ABC Bank with other conventional bank? Tuan rasa tuan ada nampak tak material difference between

ABC Bank dengan conventional bank. Of course, ABC Bank mandated by government to help ABC Bank. Do you think any material differences?

Respondent B: Okay, kalau kita tengok in terms of kita punya mandated role dengan conventional bank ni adalah kita ada jugak element yang mana kita tengok in terms of what we call environment tau maksudnya apa, contoh kita bagi kat company A apa dia punya kesan dia contoh untuk community apa semua. And then lets say kita tengok bisnes tu baru tapi kita tengok dia punya kesan dia untuk community, untuk penduduk setempat dia tinggi, kita boleh consider. Compare dengan conventional bank ni, apa jadi pun bagi dia, dia bagi seringgit, dia nak balik seringgit tu dalam masa yang ni –

Interviewer: Betul

Respondent B: So, maksudnya dia akan tengok in terms of cashflow tak boleh cashflow dia akan tengok in terms of security. Tapi macam kita, kita pun faham, first sekali kita akan tengok cashflow, katakan kalau cashflow tu boleh support, so in terms of security tu kita bukanlah lenient, maksudnya kita lebih orang kata tak la membebaskan SMEs lah.

Interviewer: Betul, betul. Kalau in terms of hm do you think what are the key differences in risk appetite between ABC Bank and other bank? Do you think that ABC Bank ni quite relax compare to commercial bank, you know, commercial bank, conventional bank diorang pun ada diorang punya own SME department kan, and SME division. Do you think you guys are less stringent berbanding dengan SME department of other commercial bank?

Respondent B: Okay, in terms of appetite di ABC Bank dengan commercial bank adalah commercial bank dia akan go based on industry tau. Maksudnya contoh la kata how good that company, tapi contoh la kata that industry diorang memang dah tak nak, diorang akan reject tau. Macam kita dekat ABC Bank, kita still ada negatively selectively and then kita punya ni, tapi in terms of lets say la

benda tu dalam selective, bila kita tengok, kita akan go by individual tau. Maksudnya kita akan tengok on capacity that company, maksudnya kita go detail on that company. Bukannya semata mata industry, contoh la, macam sekarang ni katakan you go for commercial bank, in terms of hotel. Diorang dah tak nak langsung dah. Maksud dia, bagi diorang oh COVID, dah tak boleh dah hotel. Tapi macam kita dekat ABC Bank kita still bagi tapi kita accept based on company tu sendiri maksudnya kita go deep la on that company.

Interviewer: Okay tuan, ini soalan terakhir, how often does ABC Bank revise the credit policy to suit the current economy landscape. Do you think ABC Bank compare with other bank ataupun purely based on ABC Bank punya experience with SMEs client?

Respondent B: Okay, in terms of yang you tanya how often ni, kalau kita tengok, dia depends tau. Dia depends on first sekali, in terms of economy landscape la. Kalau kata sekarang ni banyak yang berubah, contoh bulan Februari, landscape dia macam ni, mai April jadi, so memang kita akan revise from time to time la. So kita akan tengok tu and kita akan tengok based on other bank punya, tapi kita akan tengok kita punya ni based on economy punya landscape lah. Sebagai contoh kita tengok sekarang ni, in terms of COVID ni, kalau kita tengok after yang 6 months moratorium yang government bagi tu, yang last year tu, kebanyakannya bank dah tak bagi dah moratorium, normally diorang akan grab tarik contoh kereta individu diorang boleh tarik sampai 15 years, based on tu. And then, in terms of SMEs pun diorang dah tak bagi in terms of moratorium kena mintak macam kita kat SME, even after 6 months punya moratorium yang government bagi sampai September last year, kita extend dah. And then, based on yang sekarang ni pun kita still process untuk bantu lagi usahawan SME ni untuk kita extend lagi moratorium. Let's say I bagi contoh, macam last year after September, kita extend for tourism sebab kita tengok yang paling affected industry after COVID ni tourism

lah. Sebab daripada luar, foreigner tak boleh masuk, kita pun tak boleh rentas negeri, tak boleh rentas daerah. So apa yang SME kita take action adalah untuk tourism, we extend lagi dia punya moratorium tu sampai September this year la. Maksudnya yang under tourism ni dapat moratorium since Mac last year akan dapat sampai September this year.

Interviewer: Lama tu.

Respondent B: Ya, Orang kata 18 bulan la. Setahun setengah tak payah bayar. Based on current situation pun kita try tengok balik, kemungkinan kita akan extend lagi moratorium for tourism.

Interviewer: I see. Transportation pun sama ke?

Respondent B: Sama. Transportation kita more to passenger la. Sebab yang macam lori apa semua ni diorang boleh bergerak. Passenger pun sama, kita bagi sampai September this year.

Interviewer: Betul-betul

Respondent B: Betul, sebab kita ni even kalau kita tengok pun government punya announcement yang baru ni untuk passenger tu, yang PM announce yang for 1 year tu kan, actually depa pi cek apa yang kita buat last year la. Sebab macam last year, kita bagi minimum even selepas September semua commercial bank bagi maksimum 3 months en, sampai bulan 12, kita bagi memang sampai bulan 3 last year. Yang retail, yang F&B, boleh katakana semua la kita bagi sampai bulan 3 and ada yang sampai bulan 9.

Interviewer: I see, okay faham faham. Saya rasa itu saje soalan dari saya.
Terima Kasih

Respondent B: Terima kasih

*** End of Interview ***

LIST OF PUBLICATION

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