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APPENDIX

**Summaries of the Empirical Study of Credit Risk Management in
Conventional Banking Approach**

No.	Author and Year Published	Title	Methodology	Findings/ Conclusions
1	Vodová (2003)	Credit Risk As a Cause of Banking Crisis	-Secondary Data.	-More than 30 percent of total credit to the share of nonperforming loans at the peak of the crisis and thus it affected to the adverse selection problem. -It is suggest that to use guarantees and collateral as the way to reduce the problems, but these are providing the banks to the increasing in unsecured loans.
2	Cebenoyan and Strahan (2004)	Risk Management , Capital Structure and Lending at Banks	-Secondary Data. -Quantitative Analysis.	-External loan sales market to manage risk with the aggressive use of it leads to higher lending and lower capital ratios. -Banks should take the opportunities to achieve the positive net-present value investment by sustaining in business loans.
3	Dell'Ariccia and Marquez (2006)	Lending Booms and Lending Standards	-Quantitative Analysis. -Secondary Data.	-A good credit risk management can improve the banks' lending standards; enhance the average credit quality, besides banks play an important role in the determination of good information structure of loan markets.
4	Ono and Uesugi (2006)	The Role of Collateral and Personal Guarantees in Relationship Lending: Evidence from Japan's Small Business Loan Market	-Quantitative Analysis. -Sample data set of Japan's small business loan market	-Collateral is mostly used by banks in lending activities with a long-term relationship between borrowers and banks. -With the different types of borrowers, banks know the riskiness of their investment projects. -Personal guarantees and collateral is still needed under asymmetric information in solving different problems that may arise.

	Nor Hayati Ahmad & Mohamed Ariff (2007)	Multi-country study of bank credit risk determinants	-Secondary data. -Quantitative Analysis.	-The result is significant for regulatory capital in multi products offered. -Emerging economies countries (India, Korea, Malaysia, Mexico and Thailand) shows quality management in loan-dominant is critical. -The result is not correlated in leverage with credit risk. -Emerging economy banks shows higher in credit risk rather than developed economy banks.
5	Richard et al. (2008)	Credit Risk Management System of a Commercial bank in Tanzania	-Primary data (Interviews). -Secondary Data.	-There are differing in Commercial banks operating in a less developed economy from those in a developed economy in the components of CRM system. -To implement a sustainable in the CRM system in commercial banks, the environment within banks is an important consideration.
6	Yong et al. (2009)	Derivative Activities and Asia-Pacific Bank's Interest Rate and Exchange Rate Exposures	-Secondary Data. -The stock price data for each bank from data stream.	-With long horizon returns there is strong significant in interest rate and exchange rate exposures. -With long horizon return there is strong evidence in interest rate risk management. -The bank's activities and performance in general affect the risks in bank. -There is significant value in credit quality, lending structure and expansion in credit, cost of funds, Gap analysis, capital buffer, liquidity ratio and size of the banks.
7	Smith and Fischbacher (2009)	The Changing Nature of Risk and Risk Management :The Challenge of	-Secondary Data.	-With the changing nature of risk and risk management, the experts should broad narrow the engineering framework of the occurrence of risks and therefore can enhance the development of risk management to sustain evolve in the financial industry as well.

		Borders, Uncertainty and Resilience.		
8	Ho and Nurul Izza Yusoff (2009)	A Preliminary Study on Credit Risk Management Strategies of Selected Financial Institution in Malaysia	-Primary Data. -Quantitative Analysis.	-The training and development of staff, the diversification of loan services and risk mitigation are most popular practices as these shows that the significant contribution in the area of finance which related to credit risk management strategies in the study is one of the first that adapts to use primary data.
9	Agarwal and Hauswald (2010)	Distance and Private Information in Lending	-Secondary Data. -Loan applications dataset by small firms to large banks	- It is the important of banks in creating information asymmetries in industry because borrowers is more likely choosing firms who are located close to the bank and this is the opportunity of the banks to price their loans.
10	Papanikolaou (2010)	Market Structure, Screening Activity and Bank Lending Behavior	-Secondary Data.	-The lending cost should be minimized and there is positive effect to screen the credit applicants and mechanism against credit risk is higher.
11	Soares et al. (2011)	Quantitative Versus Qualitative Criteria for Credit Risk Assessment	-Delphi methodology	-There are three (3) areas included in the wide range of criteria of the banks in their analysis which it includes of the market environment, the management's experience and also the financial performance. -The qualitative nature (management criteria) results in high numbers of these three (3) criteria rather than the quantitative nature (financial ratios). -The best banks (in terms of overdue credit) are results in higher relative valuation of qualitative criteria. -The paper reflects on the role of multi-criteria decision analysis (MCDA) models as a way to process credit risk assessment

				integrating qualitative and quantitative aspects.
12	Hillaiet and Jiao (2012)	Credit Risk with Asymmetric Information on the Default Threshold.	-Quantitative Analysis.	-The one who has extra information has good estimations of the probability of default.
13	Mohamad Yazis Ali Basah and Mazlynda Md. Yusuf (2012)	Natural Environmental Risk Management : Credit Evaluation Perspective of Malaysian Banking Industry	-Quantitative Analysis.	There are significant relationships between managers of the banks towards the racial groups, the different types of banking system, religious affiliations and nationality of the banks in making the credit evaluation. -The religious affiliation and cultural value has impact to the banks in making credit evaluation process and with the different perspectives in credit evaluation, it can be used as a measure on the practices in natural environmental risk management.
14	Berrios (2013)	The Relationship between Bank Credit Risk and Profitability and Liquidity	-Secondary Data. -Mergent Online Database. -Quantitative Analysis.	-There is negative relationship between less prudent lending and net interest margin. -It is hope that to study more on the relationship of understanding of these result and financial crisis for further research.
15	Ntow-Gyamfi and Boateng (2013)	Credit risk and Loan Default among Ghanaian Banks: An Exploratory Study	-Qualitative Analysis. -Quantitative Analysis.	-Most of the banks applied the credit risk management procedures in managing the loan portfolio, but banks has took an action to the customers in demanding the suitability of the loan (credit) for the customers in the process of evaluate the credit application. -Banks also used the CAMPARI model in credit evaluation as substitute to the other five's C elements of credit.

				-The study suggests that to establish the bureau of vibrant credit-referencing to enhance the customer relationship for the banking business by providing the customer's credit history.
16	Wiersch and Shane (2013)	Why Small Business Lending Isn't What It Used to Be	-Secondary Data.	-For policymakers to take into account to help the small business to compete in the market and reduce the determinations affecting to the small business credit and it needs to propose the strategies to increase competition between big businesses and small businesses activity and thus move towards more profitable for banks which provide the business loan.
17	Suleiman and Sharif (2013)	Methods of Evaluating Credit Risk used by Commercial Banks in Palestine	-Survey Method. -Quantitative Analysis.	-Mostly banks used five C's of credit, 5P's, FAPE and CAMPARI model in evaluation process of credit in Palestine banking system and they concentrate more on credit record and collateral. -Thus, the study was developed a new model called PACT (Person, Activity, Collateral and Terms) to evaluate the credit plus the use of existing method in credit evaluation for commercial banks.
18	Gavalas and Syriopoulos (2014)	Bank Credit Risk Management and Rating Migration Analysis on the Business Cycle	-Secondary data. -Internal rating data, loan portfolio and internal rating system of major Australian Banks.	- It is critical to align to Basel guidelines for banks in relation to core risk-weighted assets and capital requirements in the underlying loan portfolio.
19	Imbierowicz and Rauch (2014)	The Relationship Between Liquidity	-Secondary Data.	- The findings of the study shows that the relationship between credit risk and liquidity risk has influence the probabilities of

		Risk and Credit Risk in Banks		default (PD) and there are no time-lagged relationships between of these categories of risks.
20	Lindset et al. (2014)	Credit Risk and Asymmetric Information: A Simplified Approach	-Quantitative Analysis	-There are incomplete information about the financial state of the debt issuing company towards the debt holders and equity holders. -It is shows that the major impact on credit spreads is asymmetric information and the authors assumes high credit spreads for short-term debt.

Summaries of the Empirical Study of Credit Risk Management in Islamic Banking Approach

No.	Author and Year Published	Title	Methodology	Findings/ Conclusions
1	Makiyan (2003)	Role of Rate of Return on Loans in the Islamic Banking System of Iran	-Quantitative Analysis.	-It is significantly dependent on the changes in total deposits, the time lags of the variables and rate of inflation. -There are not significantly dependent on the changes in the expected rate of return on debts.
2	Saiful Azhar Rosly and Mohd Afandi Abu Bakar (2003)	Performance of Islamic and Mainstream Banks in Malaysia	-Quantitative Analysis.	-The performance recorded higher return on assets (ROA). -Business financing (loan) that offers Islamic financial products are less concern on the efficiency terms as they lack of ethical content. -The Islamic financing offered are not expected to motivate them to sustain in the business efficiency.
3	Abdus Samad et al. (2005)	Islamic Banking and Finance in Theory and Practice: The Experience of Malaysia and Bahrain	-Secondary Data. -Annual Report. -Quantitative Analysis.	-There is an average level of <i>Mudarabah</i> financing with five percent and for <i>Musharakah</i> financing it is shows only four percent of total finance. -The reason is both of these types of business financing is increased risk associated with them and

				thus these Islamic modes of financing will increase in importance for further Islamic banking development and growth in Islamic financial industry.
4	Greuning and Iqbal (2007)	Banking and the Risk Environment	-Primary Data. -Secondary Data.	-PLS modes of financing are reluctant to indulge in Islamic banking system because of the factor of banks' depositors to faced risks. -It is showed that it is a reflection for Islamic banking system in case of low level of the transparency and thus trust is eliminated between the customers and the banks.
5	Siddiqui (2008)	Financial Contracts, Risk and Performance of Islamic Banking	-Quantitative Analysis.	-There is different risk profile in Islamic banks which this risk profile is contrast with the conventional banking system. -Islamic banking system had shown good performance in risk management with respect to the results of returns on equity (ROE) and returns of assets (ROA).
6	Iqbal (2008)	The Impact of Consolidation on Islamic Financial Services Industry	-Secondary Data.	- <i>Murabahah</i> financing is also higher in credit risk followed by <i>Musharakah</i> financing, <i>Mudarabah</i> financing and <i>Ijarah</i> modes of finance with only ten percent. -The occurrence of credit risk in different Islamic financial contract tends to be more limited engagement in PLS modes of financing that Islamic banking system need to content with.
7	Chong and Liu (2009)	Islamic banking: Interest-free or interest-based?	-Quantitative Analysis.	-The current practice of Islamic banking systems is not too different from conventional banking. -They use causality test and the result shows that there are inter-related between Islamic banking system and conventional banking system in terms of the rate of returns.

8	Khan (2010)	How 'Islamic' is Islamic Banking?	-Secondary Data.	-Islamic banking system provides more ethical transactions rather than conventional banking system as they provides the interest free financing and prohibit gambling and <i>Gharar</i> (uncertainty) activities. -By sustaining the use of the Islamic principles and adapting the appropriate Islamic terminology, Islamic banking system can be further stand in the competitive market to have full-fledge of Islamic identity
9	Fauziah Hanim Tafri et al. (2011)	Empirical Evidence on the Risk Management Tools Practiced in Islamic and Conventional banks.	-Primary Data. - Questionnaire s. -Quantitative Analysis.	-There are significant different in strategies in credit risk mitigation and the other tools identified between Islamic and conventional banking system. -Islamic banks needs adequate tools and systems to manage the critical financing hazards areas.
10	Muhammad Jaffar and Irfan Manarvi (2011)	Performance Comparison of Islamic and Conventional banks in Pakistan	-Quantitative analysis. -Secondary Data.	-The bank that performs better is Islamic banking system in terms of the capital adequacy and liquidity. -The rest is quality and earning ability is found better in conventional banking system.
11	Ebrahimi et al. (2011)	Islamic Perspectives about Evaluation Criteria and Its Educational Implications	-Primary Sources. -Secondary data.	-The ethic in evaluation would be looked from Islam point of view such as self-evaluation, plurality of evaluation tools, speed in evaluation, consideration to individual differences.
12	Nazir et al. (2012)	Risk Management Practices: A Comparison of Conventional and Islamic Banks in Pakistan	-Primary Data. - Questionnaire s. -Quantitative Analysis.	-Risk management practices in dual banking system in Pakistan is significant different. -It is suggest that Islamic banking system should be more proactive in analysis of credit risk and develop innovation in credit risk assessment to makes different from the conventional banking system.

13	Faridah Najuna Misman (2012)	Financing Structures, Bank Specific Variables and Credit Risk: Malaysian Islamic Banks	-Secondary Data. -Quantitative Analysis.	-The findings of the study shows that there is significant relationship between the financial structures and bank-specific variables related to the credit risk.
14	Rashid Ameer et al. (2012)	Information Asymmetry and Regulatory Shortcomings in Profit Sharing Investment Accounts	-Primary Data. -Interviews. -Surveys. -Secondary Data.	-The reason of shortcomings in the disclosure is because of the shortage of support and lack of expertise. -It is suggest that the expertise in the regulation and also the Islamic jurists to use Istiqra'-deductive approach. -This proposes techniques may reduce the information asymmetry and enhance the appropriateness of Islamic banking system.
15	Abedifar et al. (2013)	Risks in Islamic Banking	-Quantitative Analysis.	-It is found that there are less responsive in terms of loan quality of Islamic banks compared to the other one of banking system.
16	Becka et al. (2013)	Islamic vs. Conventional Banking: Business Model, Efficiency and Stability	-Quantitative Analysis.	-Islamic banks correspond to high asset quality, better in capital and intermediation ratio but less cost-effective.
17	Chusaini and Ismail (2013)	Credit Risk Management in Indonesian Islamic Banking	-Primary Data. -Secondary Data.	-The study suggests that for Islamic banking system become more proactive in banking industry. -Besides that, Islamic banking system should be more aggressive in providing the quality of credit risk management and be in line with <i>Shariah</i> principles and guidelines and thus improving the aspects in risk management techniques which

				has not been be assessed adequately.
18	Dankwa I.O et al. (2013)	Principles and Practice of Lending in The Banking Sector: A Case Study of Some Selected Banks In Ghana	-Primary data. -Quantitative Analysis.	-The selected banks used various types of lending models but the commonly used model was the CAMPARI model. -These results gives out loans to customers, helped the banks to increase its profitability and thereby reducing the extent of default.
19	Abdul Wahab et al. (2014)	Risk Taking Behavior and Capital Adequacy in a Mixed Banking System: New Evidence from Malaysia using Dynamic OLS and Two-step Dynamic System GMM Estimators	-Quantitative Analysis.	-The Capital Ratio (CAR) and Risk-Weighted Asset Ratio (RWA) were results in positive relationship. -For banks to have a sustainable banking business, they should achieve high capital growth to pursue relatively riskier financing activities. -Towards risky assets especially for Islamic bank subsidiaries (IBS) and full-fledge Islamic banks (IB) to follows the conventional practice.
20	Thim et al. (2014)	Assessing Financial Performance of Malaystan Islamic and Conventional Commercial Banks Using Financial Ratios	-Quantitative Analysis. -Secondary Data.	Islamic banks have better insights in the improvements in utilization of assets, expenditure control and effective management who's the customer's trust and confidence towards Islamic banks are rising.
21	Rudnyckyj (2014)	Islamic Finance and the Afterlives of Development in Malaysia	-Primary Data. -Secondary Data.	-There are four dimensions of the afterlives of development of Islamic banking system in Malaysia in terms of the Islamic finance project. -The dimensions includes of the

				wide range of networks regarding to the economy of Malaysian country, the assemblage of religious, the full-fledge Islamic economic practices and the responsibility of managerial role in the area of interest.
22	Muhamma d Hanif (2014)	Debate of Shariah Based and Shariah Compliance: An Evaluation of Islamic Finance Practice	-Secondary Data.	-The Profit and Loss Sharing (PLS) modes of financing are highly used in financing contracts and deposits purposed. -However, this practice is not widely concerned (negligible) due to non-conduciveness of the existing natural environment of business practices.
23	Maswadeh S.N (2014)	A Compliane of Islamic Banks with the Principles of Islamic Finance (Shariah): An Empirical Survey of the Jordanian Business Firms	-Quantitative Analysis (questionnaire) -Primary data.	- Jordanian Islamic banks has not been a sufficient part to share the risk and sought to transfer the most part of the risk to the financier party by obtaining adequate guarantees. -The study recommended to more being emphasized banks attentions towards determining the exact mechanism by which profit and loss should be determined.

General Questions:

1. Do you accept that I put your name in the thesis?
2. What is your name?
3. What is your position in the bank?
4. How long have you worked in the industry? What is your working experience?
5. What is your educational qualification?

Phase I: Interviews Banks

1. From your experiences, what are the current practices of credit evaluation process in business financing approval?
2. How you evaluate clients by using five C's and CAMPARI elements?
3. What are the factors in failure of credit evaluation process?
4. In your opinion, what are the Islamic elements that can be used in credit evaluation process?
5. In your opinion, how the Islamic elements that can be used in credit evaluation process?

Phase II- Interviews Shariah Advisers:

1. What is your opinion regarding five C's and CAMPARI elements used in credit evaluation process for different types of banks approach?
2. In your opinion, what are the Islamic elements that can be used in credit evaluation process?
3. In your opinion, how the Islamic elements that can be used in credit evaluation process?
4. What is your perception about *maqasid As-Shariah* in credit evaluation process?
5. What is the need in credit management (during and after the lifetime) in Islamic way of perceptions?
6. What is your opinion about the proposed parameter?
7. Do you agree to validate this parameter for Islamic banks approach in future?