Master of Science (Banking)

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Impact of financial crisis on loans growth and performance: A study on Affin Bank Berhad

By

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Abstract

This paper studies the impact of financial crisis on loans growth and performance of Affin Bank Berhad. The study found that the 1997/98 financial crisis had a negative impact on the Bank's loan growth and net income. The current subprime crisis had not affected the Bank's loan growth and net income in 2007 and 2008.

JEL classifications: G01
Key words: Financial crisis, Subprime crisis

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1.0 INTRODUCTION

1.1 Background

The economy moves forward in cycles. It is a truism that what goes up must sooner or later come down. But what comes down will also eventually go up again. In 1997/98, when financial crisis hit the Asian countries, it started with speculative attacks on their respective country's currency. The crisis had severe negative impacts to the Asian economies including Malaysia in many ways. After a decade, the financial crisis returns. Today, the world is headed for another economic slowdown. The burst of the subprime-mortgage crisis in the U.S. last year has erupted into full-fledged credit crunch that is affecting the global markets. Analysts have predicted an impending global financial crisis worse than that of the 1997/98 crisis, reminiscent of the Great Depression of the 1930's.

Past years experience revealed that the impacts of such turmoil on the economic and financial systems were wide-ranged. Many sectors were adversely affected by falling demand, rising costs, financing problems, mounting debts etc. This subprime crisis is no exception. It had in fact already caused few gigantic corporations in the U.S. to run into difficulties and collapsed. Few more were fortunate enough to have been bailed out by government. The wake of the subprime meltdown had seen the sale of brokerage giant, Bear Stearns to JP Morgan in March 2008, the collapse of 150-year old investment bankers, Lehman Brothers, the sale of Merrill Lynch to Bank of America and the government bail out of AIG, the world's largest insurer.

In Malaysia, the central bank, Bank Negara Malaysia (BNM) had realized what the U.S. subprime crisis can lead to and clearly indicated in its July and August monetary policy statements that the Malaysian economy will have tough times ahead. Its main job is to avoid a fundamental economic slowdown that would involve higher unemployment. Tackling the economic downturn is high on the government's agenda. BNM is determined to keep Malaysia's growth rate up.[1]

1.2 Problem statement

In the light of the U.S. subprime crisis, the growing concerns have been on the potential impacts the financial crisis will have on the performance of the Malaysian economy, in particular the banking sector. Reports and studies usually highlight the adverse effects of financial crisis on banks' performance. The general perception of the public is that during financial crisis, banks either cut back their lending or impose on a more stringent credit evaluation and approvals, thus resulting limited avenues for individuals and business enterprises in dire need of financing.[2] However, contrary to general opinion, reports had it that banks do not actually put the brakes on lending. In relation to the problem statement, the objectives of this study therefore, are: i) to present the financials of a specified bank during the 1997/98 financial crisis and the current subprime crisis; ii) to conduct correlation analysis between the selected variables; and iii) to examine the difference in the impact of the crisis between the two periods.

In this study, the bank to be examined is Affin Bank Berhad (Affin).[3] The data consists of financials based on the Bank's Annual Reports between 1996 and 2003. Analysis will also be made on the Affin's data for 2007 and 2008 in relation to the eruption of the current global financial crisis.

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[1] Malaysia is good for now. (2008, November 15). The Star Bizweek, p. BW12.

[2] Ariccia, G, D., Detragiache, E., & Rajan, R. (2006). The real effect of banking crises. *Journal of Financial Intermediation.* Retrieved December 1, 2008, from http://www.elsevier.com/locate/jfi.

[3] 'Affin' is a wholly-owned subsidiary of Affin Holdings Berhad which is listed on Bursa Malaysia. It was incorporated in 1975, under the name Perwira Habib Bank Malaysia Berhad. It started as a joint venture between several Malaysian parties including Lembaga Angkatan Tentera (LTAT), Syarikat Permodalan Kebangsaan Berhad, and Habib Bank Limited of Pakistan. In 1991, the Bank embarked on a capital restructuring resulting in the emergence of Affin Holdings Berhad as its largest shareholder in 1992. It later changed its name to Perwira Affin Bank Berhad and then *AFFINBANK*. In August 2000, the Bank merged with the former BSN Commercial (M) Berhad and pursuant to the amendment to the Banking and Financial Institution Act 1989, it again merged with the former Affin-ACF Finance Berhad in June 2005.

This paper is organized into five sections. The following section dwells on the reviews of relevant literatures, followed by the third section which describes the research methodology. The fourth section reports the interpretation of results and the final section concludes the findings.

2.0 REVIEW OF LITERATURES

2.1 Definition of Financial Crisis

Broadly, crisis may be defined as an unstable situation of extreme danger or difficulty. Specifically, financial crisis refers to a situation in which the supply of money is outpaced by the demand for money which means that liquidity is quickly evaporated because available money is withdrawn from banks, forcing banks either to sell other investments to make up for the shortfall or to collapse.[4]

Financial crisis is also defined by Mishkin (1996)[5] as a disruption to financial markets in which adverse selection and moral hazard problems become much worse, so that financial markets are unable to efficiently channel funds to those who have the most productive investment opportunities. As a result, a financial crisis can drive the economy away from an equilibrium with high output in which financial markets perform well to one in which output declines sharply. Frankel and Rose (1996),[6] accordingly defines crisis, albeit in this case a currency crisis, as a rapid depreciation of a currency by at least 25%.

As can be seen, all those definitions are consistent and generally explained that financial crisis is a phenomenon that brings negative impacts to the economic and financial systems as

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[4] financial crisis. BusinessDictionary.com. Retrieved December 15, 2008 from BusinessDictionary.com website: http://www.businessdictionary.com/definition/financial-crisis.html

[5] Mishkin, F, S. (1991). Anatomy of a Financial Crisis. *Journal of Evolutionary Economics, 2*(2), 115-130.

[6] Frankel J, A. & Rose, A, K. (1996). Currency Crashes in Emerging Markets: An empirical indicators. *Journal of Internationl Economics, 41(3),* 351-366.

a whole. In addition, reviews on the several literatures also revealed and reinforced similar explanations and findings.

2.2 Impact of Financial Crisis

Radelet and Sachs (1998)[7] found that the basic diagnosis for the 1997/98 crisis that started in Thailand was that East Asia had exposed itself to financial chaos because its financial systems were riddled by insider dealing, corruption and weak corporate governance which in turn, had led to inefficient investment spending and weakened the stability of the banking system. The crisis spread rapidly to other East Asian countries and affected the Philippines Peso, the Malaysian Ringgit, the Indonesian Rupiah and the Singapore dollar. By the end of January 1998, all these countries devalued their currencies by more than 30%.

The consequences had devastating effects on the Asian economies including Malaysia. Before the crisis, Malaysia enjoyed high Gross Domestic Products (GDP) growth averaging 8 – 9% per annum as well as low inflation and unemployment rate. The banking sector was healthy with non-performing loans (NPLs) at only 3.6% of total loans as at June 1997. From a bustling and dynamic economy, Malaysia faced a severe economic contraction for the first time in 13 years. GDP growth fell from 10% before the crisis in 1996 to a negative 7.4% in 1998. The stock market performance plummeted with the Kuala Lumpur Stock Index (KLCI) nosedived from 1,238 points at the end of 1996 to a low of 586 points in 1998[8] while the banking sector weakened by failure of the corporate sectors to pay up their borrowings.

The fall in the exchange rate and collapse in the stock market hit businesses hard. The financial system was affected by increasing business failures, while the banking sector was facing high and rising rate of loans turning non-performing. Stressed test conducted by BNM

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[7] Radelet, S. & Sachs, J, D. (1998). The East Asian Financial Crisis: Diagnosis, Remedies, Prospects. *Brookings Papers on Economic Activity, 1,* 1-90. Retrieved November 30, 2008 from http://www.jstor.org/journals/brookings/html.

[8] Kamso, N. (2008, October 6). Does long-term investing work when bourse swings wildly?. New Straits Times Biz News, p. 37.

revealed that four banking institutions would need capital injection of amounting to a total of RM2 billion in order for them to comply the with the minimum risk-weighted capital adequacy ratio of 8%.[9] The Malaysian government adopted a series of policy measures to deal with financial crisis and stabilize the economy. Among the initial measures adopted were on the financial aspect in which classification of non-performing loans in arrears was shortened from six to three months, greater financial disclosure by banking institutions and the introduction of Credit Plan designed to limit overall credit growth. Banking institutions were to give priority to productive and export-activities in giving out loans.

The regional crisis became serious that Malaysia sunk into a recession. The government was in tremendous pressure and had to come up with further measures to revive and restore the dented economy. That includes the launching of the National Economic Recovery Plan and Capital Control measure to regain monetary independence and insulate the Malaysian economy from further deterioration.

The Malaysian economy rebounded in the year 2000 onwards and became more stable only after three years and saw the banking sector went into a complete overhaul with series of mergers and acquisitions took place.

Like any other businesses, the financial crisis 1997/98 also had negative impacts on Affin Bank, the performance of which was the subject of this examination. Its operating profit decreased by 7.2% from RM445 million in 1996 to RM414 million in 1997 and reduced further by 29.7% to RM291 million in 1998. The bank's net loans also decreased by 5% from RM9,979 million (1997) to RM9,500 million (1998). The economic turmoil impacted all industries and businesses. Escalating interest rates and lack of business volume drained the resources of most companies resulting in the increase of net NPLs to 11.1%.[10]

[9] Source: Bank Negara Malaysia Annual Report 1997
[10] Source: Affin Bank Berhad Annual Report 1998.

The current global financial crisis dubbed to be the worst crisis since 1930,[11] started in 2007 with the subprime-mortgage[12] market in the U.S. had affected investors all over the world. The sale of brokerage giant, Bear Stearns Co to JP Morgan in March 2008 with loans coming from the Federal Reserve Board (Feds), the take over control by the Feds of two giant mortgage-finance providers in Fannie Mae and Freddie Mac, the filing for bankruptcy by a 150-year old global investment bankers, Lehman Brothers Holdings and the sale of the century-old Merrill Lynch & Co to Bank of America were all the consequences of the subprime crisis.

The U.S. financial institutions and households took on too much debt during the credit boom. For the period between 2002 and 2006, household borrowing grew at an average annual rate of 11% far outpacing the overall economic growth. Borrowing by financial institutions grew by 10% on an annualized rate. With the collapse of price of houses, many of those borrowers were unable to pay back their loans.

This financial crisis had been further complicated by innovative financial instruments created and distributed by Wall Street. Initial hopes that the damage could be contained to a handful of America's financial institutions faded as new fault lines emerged in areas like credit-default swaps,[13] the credit insurance contracts sold by the world's largest insurer, American International Group Inc. (AIG) and other firms. Many firms bought these instruments from AIG when the credit markets were booming, believing that the insurance giant's strong credit ratings and large balance sheet could provide a shield against loan defaults. However, rising subprime-mortgage delinquencies damaged the value of many

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[11] Hilsenrath, J, Ng, S, & Paletta, D. (2008, September 17). Worst Crisis since '30s, With No End Yet in Sight. *The Wall Street Journal Online.* Retrieved November 30, 2008 from http://finance.yahoo.com/banking-budgeting/article/

[12] A 'subprime-mortgage' typically refers to the borrowers, not the loan itself, and such borrowers may have a history of poor credit performance evidenced by late payments, prior defaults or bankruptcy. Subprime mortgage carry a higher interest rate than a prime mortgage and may be subject to prepayment penalties.

[13] Credit-default swaps are private contracts that let firms trade bets on whether a borrower is going to default. When a default occurs, one party pays off the other. The value of the swaps rise and fall as market reassess the risk that a company would not be able to honour its obligations. Firms use these instruments both as insurance and to wager on the health of other companies.

securities AIG had insured. AIG was forced to book large write-downs on its derivatives positions and that spooked investors, who reacted by dumping its shares making it harder for AIG to raise the capital it increasingly needed. As a result, the U.S. government had to bail out AIG.

According to BNM's governor, the economic downturn that is occurring in the developed economies is having repercussions. The first step that BNM took was to guarantee all deposits in Malaysia. This is to reassure investors that the banking system is strong and can withstand the financial turmoil.

Malaysian Rating Corporation Berhad (MARC) anticipates that the ongoing weakness of the U.S economy to trigger a global recession in 2009 and will have an adverse impact on Malaysia's economic performance next year. The impact will likely to filter through as sharp moderation in the external sector as lower demand hits Malaysia's export sector.[14]

The country's financial institutions' ability to provide ample liquidity is a critical factor to insulate the Malaysian economy from a credit crunch. A loan-deposit ratio in the banking system that continues to remain below 80% in the last 4 years also augurs well for its role to support lending activities. Declining trend of net NPL also provides a strong supports. The NPL ratio stood at 2.4% in October 2008 compared with 13.6% at the height of Asian financial crisis. At the same time, loan loss coverage has risen to nearly 80%, thus providing ample buffer against possible financial losses.

In June 2008, RAM Ratings revised the Malaysian banking sector's outlook downwards from stable to developing on the ground that the inflationary impact of higher fuel prices and electricity tariffs would alter the cost structure of the domestic economy. They cited that the broad-spectrum of cost increases, coupled with the global economic slowdown, are likely to

[14] Slower economic growth and lower bond issuance but recession not on the cards. (2008, November 8). Retrieved December 10, 2008 from http://www.marc.com.my

affect the profitability of corporate companies as well as small and medium enterprises (SMEs) erode disposable incomes and shrink demand for residential properties.

However, from informal survey and discussions with banking groups to gauge the impact of heftier costs to companies and individuals and slower economic growth on bank's loan growth, asset quality and profitability between June and September 2008, RAM Ratings also found out that most banks reported stable loan applications while some had experienced increased in demand for financing. The bank's own approval rates have also not shown any significant changes indicating that the quality of potential borrowers has not declined nor have the banks tightened their underwriting standards considerably. By and large, loan repayments have not deteriorated, although some banks have faced slightly more difficulty in their loan collections over the recent 3-mnths period. Most banks expect a small up tick in their NPL ratio over the next 6 to 12 months, with a corresponding increase in specific loan-loss provision expenses. They envisage defaults to originate mainly from the retail, manufacturing and construction sectors, as well as from unsecured personal loans and credit cards.

Affin Bank's Managing Director/CEO, Datuk Seri Hamidy Abdul Hafiz[15] said that the Affin Bank is proud to be small but strong. This small bank is still around while mighty Lehman had gone. He said the bank has not stopped lending and business is as usual. During the current difficult times, there is more demand for loans as individuals and companies need financial support. Given the higher demands, the bank expects its loans to grow between 8% and 10% next year. The bank also anticipates higher profit in its financial year ending December 31, 2008. The second smallest of the nine Malaysian banks, Affin posted a net profit of RM180.86 million in 2007 compared to RM159.02 million in 2006. The bank's NPL also reduced to 3% from 8% in 2007.[16]

[15] Datuk Seri Hamidy is also the Chairman of the Association of Banks in Malaysia.
[16] Hamid, H. (2008, December 19). Affin sees good loan growth. *New Straits Times*, p. 44.

3.0 RESEARCH METHODOLOGY

The study begins with the identification of variables relevant to the subject. As banks derived its income largely from loans and financing activities, it was considered that the dependent variable would have to be the net income while net loans, the independent variable. Other variables thought to have relationships with the dependent and independent variables were interest income, other income, interest expense and loan loss provision. The data on the variables, sourced from Affin Bank Annual Reports, were for period from 1996 to 2003 and 2007. Data for 2008 consists of quarterly statistics were extracted from the financial statements published in the Bank's website.[17] A correlation analysis between the variables is to be performed to establish the impact of financial crisis on these variables. Graphical analysis is also used to determine the differences in impact of the two crises.

The financial data of the Bank during the 1997/98 crisis are summarized and presented in Table 1 while the quarterly data for 2007 and 2008 in Table 1A. The definition of the selected variables and the relationship between them are explained below:

a) *NET LOANS* is an independent variable that has a direct influence on the interest income. Loans are the source of income for the Bank.

b) *INTEREST INCOME* is an income variable derived from net loans.

c) *OTHER INCOME* is an income from other sources other than loans.

d) *INTEREST EXPENSE* is an independent variable that affects the net income.

e) *LOAN LOSS PROVISION* is a variable that affects the net income.

f) *NET INCOME* is the Bank's gross operating income. It is a dependent variable and the outcome of which is determined by the other five variables.

[17] http://www.affinbank.com.my

TABLE 1

AFFIN BANK BERHAD: SUMMARY OF FINANCIAL DATA 1996-2003
(RM: 'Million)

Year	Net Loans	Interest Income	Other Income	Interest Expense	Loan Loss Provision	Net Income
1996	8,289	799	97	469	19	446
1997	9,979	1,098	162	664	181	414
1998	9,500	1,289	151	910	240	291
1999	9,636	832	157	513	153	323
2000	9,295	753	144	366	363	168
2001	13,639	917	179	518	826	-249
2002	12,365	931	231	484	249	430
2003	10,699	885	214	446	254	399

TABLE 1A

AFFIN BANK BERHAD: SUMMARY OF FINANCIALS Q1/2007 - Q3/2008
(RM: 'Million)

Quarter / Year	Net Loans	Interest Income	Other Income	Interest Expense	Loan Loss Provision	Net Income
Q1/2007	14,768	343	45	197	31	160
Q2/2007	15,062	372	67	224	24	192
Q3/2007	14,936	393	55	225	25	199
Q4/2007	15,100	376	56	204	54	174
Q1/2008	15,268	360	68	198	13	218
Q2/2008	15,703	359	80	192	24	222
Q3/2008	16,580	370	53	201	15	207

4. ANALYSIS OF RESULT

TABLE 2

Affin Bank Berhad: Classification of Data
(% Change during financial crisis 1997/98)

Year	Net Loans	Interest Income	Other Income	Interest Expense	Loan Loss Provision	Net Income
1996	32.3%	59.1%	12.8%	70.5%	46.2%	36.8%
1997	20.4%	37.4%	67.0%	41.6%	852.6%	-7.2%
1998	-4.8%	17.4%	-6.8%	37.0%	32.6%	-29.7%
1999	1.4%	-35.4%	4.0%	-43.6%	-36.3%	11.0%
2000	-3.5%	-9.5%	-8.3%	-28.7%	137.3%	-48.0%
2001	46.7%	21.8%	24.3%	41.5%	127.5%	-248.2%
2002	-9.3%	1.5%	29.1%	-6.6%	-69.9%	272.7%
2003	-13.5%	-4.9%	-7.4%	-7.9%	2.0%	-7.2%

TABLE 2A

Affin Bank Berhad: Classification of Data
(% Change during subprime crisis)

Year / Quarter	Net Loans	Interest Income	Other Income	Interest Expenses	Loan Loss Provision	Net Income
Q1 2007	-6.2%	-2.0%	0.0%	-1.5%	-20.5%	2.6%
Q2 2007	2.0%	8.4%	48.9%	13.7%	-22.6%	20.0%
Q3 2007	-0.8%	5.6%	-17.9%	0.4%	4.2%	3.6%
Q4 2007	1.1%	-4.3%	1.8%	-9.3%	116.0%	-12.6%
Q1 2008	1.1%	-4.3%	21.4%	-2.9%	-75.9%	25.3%
Q2 2008	2.8%	-0.3%	17.6%	-3.0%	84.6%	1.8%
Q3 2008	5.6%	3.1%	-21.3%	4.7%	-37.5%	-6.8%

The percentages of changes in each of the selected variables for the two different period of financial crisis are presented in Table 2 and Table 2A.

It was found that in 1997 when the financial crisis started loans and interest income had positive change at 20.4% and 37.4% respectively (but both had reduced percentages compared to 1996) and net income was negative at 7.2%. Other income had a positive change but loan loss provision and interest expense also both had very high positive change. In 1998, net loan and net income both had negative changes. Other income was also negative and both loan loss provision and interest expense remained positive. Hence, it can be concluded that due to the negative changes in the net loans and net income variables, Affin Bank's loans growth and income performance were affected by the financial crisis then. In fact, the impact continued to haunt the Bank even until 2001 as can be seen in the negative change in the net income during the period.

Analysis on the same variables throughout 2007 until the third quarter of 2008 revealed that the subprime crisis had yet to have impacted Affin Bank. Except for a negative growth recorded in the 1st and 3rd quarter of 2007 respectively, generally net loans had positive growth in all quarters. Negative change in net income in the 4th quarter of 2007 and 3rd quarter of 2008 also did not correspond to the positive growth of loans during the same period. Nevertheless, loans growth had been very marginal and consistent with a report that banks in the country are turning cautious and being selective in evaluating loans due to the global credit crunch, but they have not put the brakes on lending to businesses. Local companies had yet to feel the full impact of the world credit crisis and they are still able to obtain financing from banks. The effects of the credit crunch might be seen from the end of the year.[18]

A correlation analysis was conducted between the variables to examine the impact of both crises. The results were provided in Table 3 and Table 3A. It was found that in both periods the correlation between net loans and net income was highly significant, each at a level of -0.576 and -0.085 respectively and less than the 0.05. The significance was due to the fact that net income was also significantly correlated to interest income, interest expense and loan loss provision, all of which had correlation value less than 0.05 during 1997/98 crisis.

[18] Local banks selective about lending. (2008, October 10). Retrieved November 30, 2008 from http://biz.thestar.com.my/news

TABLE 3

Correlations

		Net Loans	Interest Income	Other Income	Interest Expense	Loan Loss Provision	Net Income
Net Loans	Pearson Correlation	1	0.639	0.461	0.683	0.335	-0.576
	Sig. (2-tailed)		0.088	0.25	0.062	0.418	0.135
	Sum of Squares and Cross-products	3339.069	2880.848	1812.286	4189.323	15260.72	-12489.623
	Covariance	477.01	411.55	258.898	598.475	2180.103	-1784.232
	N	8	8	8	8	8	8
Interest Income	Pearson Correlation	0.639	1	0.459	.964**	0.421	-0.113
	Sig. (2-tailed)	0.088		0.252	0	0.299	0.791
	Sum of Squares and Cross-products	2880.848	6084.395	2437.763	7981.775	25900.32	-3294.695
	Covariance	411.55	869.199	348.252	1140.254	3700.046	-470.671
	N	8	8	8	8	8	8
Other Income	Pearson Correlation	0.461	0.459	1	0.4	.775*	0.113
	Sig. (2-tailed)	0.25	0.252		0.327	0.024	0.791
	Sum of Squares and Cross-products	1812.286	2437.763	4631.519	2888.428	41601.9	2874.473
	Covariance	258.898	348.252	661.646	412.633	5943.129	410.639
	N	8	8	8	8	8	8
Interest Expense	Pearson Correlation	0.683	.964**	0.4	1	0.348	-0.243
	Sig. (2-tailed)	0.062	0	0.327		0.398	0.561
	Sum of Squares and Cross-products	4189.323	7981.775	2888.428	11275.875	29141.72	-9692.355
	Covariance	598.475	1140.254	412.633	1610.839	4163.103	-1384.622
	N	8	8	8	8	8	8
Loan Loss Provision	Pearson Correlation	0.335	0.421	.775*	0.348	1	-0.204
	Sig. (2-tailed)	0.418	0.299	0.024	0.398		0.628
	Sum of Squares and Cross-products	15260.72	25900.32	41601.9	29141.72	622381.2	-60415.41
	Covariance	2180.103	3700.046	5943.129	4163.103	88911.6	-8630.773
	N	8	8	8	8	8	8
Net Income	Pearson Correlation	-0.576	-0.113	0.113	-0.243	-0.204	1
	Sig. (2-tailed)	0.135	0.791	0.791	0.561	0.628	
	Sum of Squares and Cross-products	-12489.623	-3294.695	2874.473	-9692.355	-60415.41	140684.535
	Covariance	-1784.232	-470.671	410.639	-1384.622	-8630.773	20097.791
	N	8	8	8	8	8	8

**. Correlation is significant at the 0.01 level (2-tailed).

*. Correlation is significant at the 0.05 level (2-tailed).

TABLE 3A

Correlations

		net loans	interest income	other income	interest expense	loan loss provision	net income
net loans	Pearson Correlation	1	.247	.051	.246	.074	-.085
	Sig. (2-tailed)		.594	.914	.594	.875	.857
	Sum of Squares and Cross-products	80.220	26.820	27.240	39.200	111.160	-25.190
	Covariance	13.370	4.470	4.540	6.533	18.527	-4.198
	N	7	7	7	7	7	7
interest income	Pearson Correlation	.247	1	.131	.865*	-.239	.190
	Sig. (2-tailed)	.594		.780	.012	.606	.683
	Sum of Squares and Cross-products	26.820	147.109	94.721	186.390	-486.827	76.704
	Covariance	4.470	24.518	15.787	31.065	-81.138	12.784
	N	7	7	7	7	7	7
other income	Pearson Correlation	.051	.131	1	.392	-.064	.687
	Sig. (2-tailed)	.914	.780		.385	.891	.088
	Sum of Squares and Cross-products	27.240	94.721	3571.949	415.910	-643.753	1364.256
	Covariance	4.540	15.787	595.325	69.318	-107.292	227.376
	N	7	7	7	7	7	7
interest expense	Pearson Correlation	.246	.865*	.392	1	-.530	.454
	Sig. (2-tailed)	.594	.012	.385		.221	.306
	Sum of Squares and Cross-products	39.200	186.390	415.910	315.460	-1583.300	267.820
	Covariance	6.533	31.065	69.318	52.577	-263.883	44.637
	N	7	7	7	7	7	7
loan loss provision	Pearson Correlation	.074	-.239	-.064	-.530	1	-.659
	Sig. (2-tailed)	.875	.606	.891	.221		.107
	Sum of Squares and Cross-products	111.160	-486.827	-643.753	-1583.300	28247.254	-3680.269
	Covariance	18.527	-81.138	-107.292	-263.883	4707.876	-613.378
	N	7	7	7	7	7	7
net income	Pearson Correlation	-.085	.190	.687	.454	-.659	1
	Sig. (2-tailed)	.857	.683	.088	.306	.107	
	Sum of Squares and Cross-products	-25.190	76.704	1364.256	267.820	-3680.269	1103.877
	Covariance	-4.198	12.784	227.376	44.637	-613.378	183.980
	N	7	7	7	7	7	7

*. Correlation is significant at the 0.05 level (2-tailed).

CHART 1

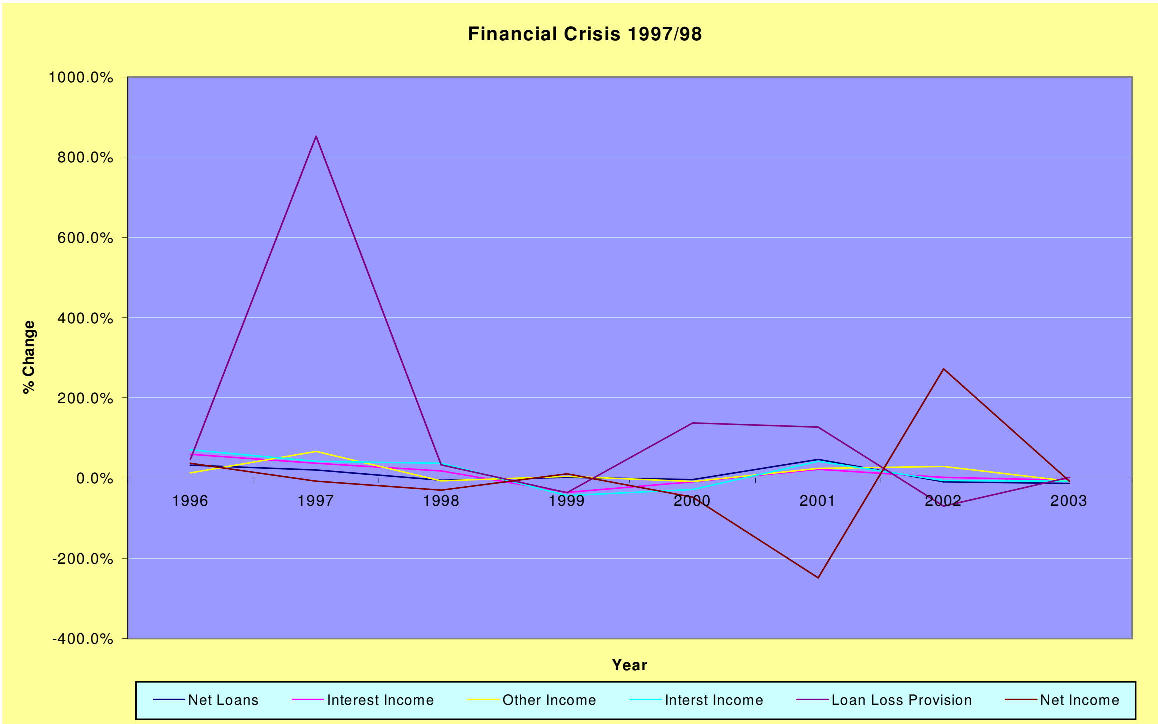
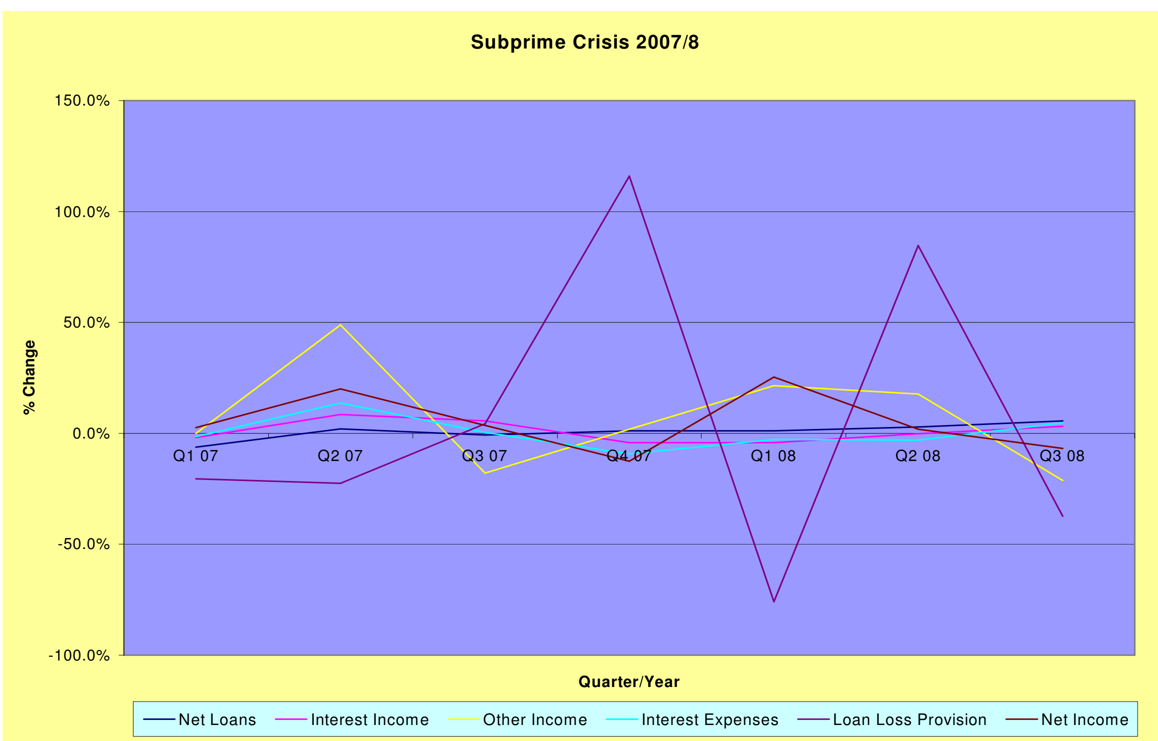


CHART 2



The difference in the impact of the crisis between the two periods is explained in Chart 1 and Chart 2. The crisis had a high impact on loan loss provision in 1997 while net loans and net income lines were moving downwards from positive to negative zones in 1998. Loan loss provision was low in the 1st and 2nd quarter but moved up sharply towards the 4th quarter when other variables were declining. Throughout the quarters of 2008, a net loan was steady but slow while net income had a yo-yo movement.

5. CONCLUSION

Having examined Affin Bank's data for the period from 1996 to 2003, the study found that the financial crisis 1997/98 had a negative impact on the Bank's loans growth and net income. Both variables had negative growth percentage in 1997 and 1998. Correlation analysis on the variables also indicated that net loans and net income were significantly correlated with correlation value of -0.576 much less than 0.05 level.

The study also found that the subprime crisis 2007 though had affected the U.S. economy, had not affected Affin Bank's performance significantly. Generally, the Bank's net loans and net income had positive growth. The result supports the reports that the bank has not stopped lending and business is as usual. The bank also anticipates higher profit in its financial year ending December 31, 2008.

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