

Abstract

This study evaluates the management of non-performing loans (NPLs) of the banking institutions in Malaysia surrounding the East Asian crisis in 1997. The study aims to determine if the NPLs have declined along with an improvement in the asset quality since the 1997-1998 crisis. In addition, it also aims to verify the effectiveness of Danaharta, Malaysia's national asset management company, in addressing the NPL problem in the banking institutions of Malaysia. The trend of the NPL ratios to total loans and percentage of loan loss provisions, the ageing of NPLs, and the percentage of NPLs restructured and disposed were some of the indicators used on the secondary data collected from Bank Negara Malaysia and Danaharta sources. Results show that the level of NPLs has declined and the asset quality in the banking institutions improved since the crisis. It also indicates lesser tendency of loan evergreening practices and lesser fragility in the banks, as compared to before the crisis. Danaharta has been effective in bringing down the level of NPLs in the banking institutions especially in commercial banks and under the six months NPL classification, but relatively slow in disposing the NPLs acquired. The higher recovery rate for managed NPLs compared to acquired NPLs indicates a lack of incentive for Danaharta to dispose the NPLs acquired.