CREDIT RISK MANAGEMENT AND ITS EFFECT ON THE

PROFITABILITY OF SERVICE SECTOR LISTED ON BURSA MALAYSIA

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DECLARATION OF ORIGINAL WORK

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Hereby, declare that:

- This work has not previously been accepted in substance for any degree, locally or overseas and not being concurrently submitted for this degree or any other degrees.
- This project paper is the result of the independent investigation of the analyst, except where otherwise stated.
- All verbatim has been distinguished by quotation marks and sources of information have been specifically acknowledged.

Signature: _____   Date: _____

LETTER OF TRANSMITTAL

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24 June 2013

The Head of Programme,
Bachelor of Business Administration (Hons) Finance
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Dear Sir,

SUBMISSION OF PROJECT PAPER

Attached is the Business Economics Project Paper titled "Credit risk management and its effect on the profitability of service sector listed on Bursa Malaysia ." in order to fulfill the requirement as required by the Faculty of Business Management (Hons) Finance to awarded by University Technology MARA.

I hope this project paper will meet the subject requirement and anticipation of the faculty.

Thank you.

Yours sincerely,

_____

(NOR IDAYU BINTI ZAINAL ABIDDIN)
2011453984

ACKNOWLEDGMENT

بِسْمِ اللهِ الرَّحْمٰنِ الرَّحِيمِ

"In the name of ALLAH, who is the Most Gracious, Most Merciful"

Glory to Allah S.W.T, Most Gracious, the Most Merciful, and peace upon his messenger Holy Prophet Muhmmad S.A.W. All the worship belongs to only Allah. I seek refuge to Allah from the wickedness within and from the evil deeds. I also praised to Allah S.W.T for giving me courage, time, strength, and knowledge to complete this project paper properly.

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ABSTRACT

This study attempts to reveal the relationship between credit risk management and its effect on the profitability of some selected firms in service sector listed on Bursa Malaysia. A panel data from sixty selected firms from service sector covering the three year period from 2010, 2011 and 2012 was analyzed within the fixed effects framework. This data was gathered from annual report of each company, and used the financial statements of each firms from the period of 2010 to 2012 (three years) for data analysis. The panel regression model was employed for the estimation. In the model, definition of Return on Equity (ROE) was used as profitability indicator while Non-Performing Loans Ratio (NLPR), pre provision profit ratio (PPPR) and Net Charge Off Ratio (NCOR) as credit risk management indicators. From the results, it shows that credit risk (non performing loan rate, net charge off rate, and the pre provision profit as a percentage of net total loans and advances) has a positive and significant relationship with firm profitability for each year. This indicates that firm in services sector enjoy high profitability in spite of high credit risk, contrary to the normal view held in previous studies that credit risk indicators are negatively related to profitability.