

**FACTORS AFFECTING NON-PERFORMING LOANS IN MALAYSIAN
BANKING SECTOR**

**MOHAMAD AQIB BIN ABD HAMID
2016423752**

**Submitted in Fulfillment of the
Requirement for the
Bachelor of Business Administration with Honours (Finance)**

**FACULTY OF BUSINESS MANAGEMENT
UNIVERSITI TEKNOLOGI MARA
PASIR GUDANG**

JULY 2020

ACKNOWLEDGEMENT

بِسْمِ اللَّهِ الرَّحْمَنِ الرَّحِيمِ

I wish to acknowledge the contribution of many people who have in one way or another made this research a reality.

My greatest appreciation goes to my advisor Madam Suhana Binti Mohamed Lecturer of Finance, for guidance and support throughout the whole research. Her patient and advices ensured this thesis to be on the right track and proceed smoothly. I sincerely appreciate what he had done to guide me.

Most importantly, none of this could have happened without my beloved family, friends and course mates, for their helpful suggestions, advices and moral support throughout the time of completing my industrial training and report paper

Last but not least, I would like to thank to those who have helped me either directly or indirectly, throughout the completion of my industrial training and this report. It would not have been possible without them. All of contribution and mankind was mostly appreciated. Thank you.

ABSTRACT

All over the world financial institutions face massive risk on non-performing loans. As a result of the foregoing, financial institutions are obliged to review their lending policies. However, its nonpayment also leads to incidence of huge loss on banks in particular and country in general. Non-performing credits (NPL) is an overall issue that influences budgetary markets dependability as a rule and banking industry suitability specifically. In recent decades, financial crises in various countries have often been preceded by the rise in non-performing loans (NPLs) in the banks asset portfolios. The increase in NPLs is proven to have adverse impact on the banking sector so that understanding the determinant of NPLs is immensely crucial to ensure the efficiency and soundness of the overall economy. This research will study the factors affecting the non-performing loan in Malaysian banking sectors. Through this research, the researcher can examine the relationships between the dependent variable, non-performing loan and independent variables, bank interest rate, inflation rate, unemployment rate. The research uses secondary data collected from the financial statement and data stream, and applies Correlation Test, Descriptive Analysis, Normality Test and Regression Analysis. Through this research, the researcher can conclude the findings and correlation between factors affecting the non-performing loans in Malaysian banking sectors.

TABLE OF CONTENTS

	Page
TITLE PAGE	I
DECLARATION WORK	II
LETTER OF TRANSMITTAL	III
ACKNOWLEDGEMENT	IV
ABSTRACT	V
TABLE OF CONTENTS	VI-VII
CHAPTER ONE : INTRODUCTION	
1.1 Introduction	1
1.2 Background of the study	1
1.3 Problem statement	2-3
1.4 Research objectives	4
1.5 Research question	5
1.6 Significance of the study	5
1.7 Scope of the study	6
1.8 Limitations of the study	6
1.9 Definition of key terms	7
1.10 Summary	8
CHAPTER TWO : LITERATURE REVIEW	
2.1 Introduction	9
2.2 Literature Review : Non Performing Loan	9
2.3 Literature Review on Variable 1 : Interest Rate	10-11
2.4 Literature Review on Variable 2 : Unemployment Rate	12-13
2.5 Literature Review on Variable 3 : Inflation Rate	14-15
2.6 Theoretical/ Research Framework	16
2.7 Summary	17

CHAPTER THREE : RESEARCH METHODOLOGY

3.1 Introduction	18
3.2 Sampling	19
3.3 Data Collection	20
3.4 Variables	20
3.5 Research Design	21
3.6 Hypothesis Statement	22
3.7 Research Methodology	22-29

CHAPTER FOUR : RESULTS AND DISCUSSION

4.1 Introduction	30
4.2 Descriptive Analysis	30-31
4.3 Unit Root Test	32
4.4 Correlation Analysis	33
4.5 Regression Analysis	34
4.5.1 Multiple Linear Regression Model	34-35
4.5.2 T-Statistic Test	36-37
4.5.3 F-Statistic Test	37
4.5.4 Coefficient of Determination R ²	38
4.5.5 Adjusted R ²	38
4.6 Normality Test	39
4.7 Auto Correlation	40
4.8 Heteroscedasticity Test	41
4.9 Multicollinearity Test	42
4.10 Ramsey	43