

UNIVERSITI TEKNOLOGI MARA

**THE IMPACT OF BANK
CHARACTERISTICS AND
UNEXPECTED CRISES ON THE
NONPERFORMING LOANS IN
MALAYSIA'S COMMERCIAL
BANKS**

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ABSTRACT

Over the last few decades, Malaysia has experienced a large number of nonperforming loans, which is accompanied by a significant deterioration in the banking system. The problem also arises when Malaysia's economy had been attacked by the sudden crises, where it literally distracts the banking characteristics. Therefore, this study is conducted to investigate the impact of the bank characteristics and unexpected crises on the nonperforming loans in Malaysia's commercial banks. To determine the impact of bank characteristics and unexpected crises, data from sixteen (16) commercial banks spanning from the period of 2007 to 2020 are used. Panel data analysis is utilized to test the two constructed models (with and without interaction between bank characteristics and unexpected crises). Finding for Model 1 indicates the bank characteristics of loan growth, return on asset, and loan to asset are found to give a significant impact on the nonperforming loans except for non-interest income. In the case of unexpected crises, this model also reveals that changes in the bank's nonperforming loans had been contributed by the significant effect of unexpected crises. Meanwhile, Model 2 discloses that loan growth, return on asset, and non-interest income significantly relate to the problem of nonperforming loans exceptionally for loan to asset. As major highlights in this study, the inclusion of interaction of unexpected crises through bank characteristics exposes those changes in the loan growth, return on asset, and non-interest income that resulting from the unexpected crises which could lead to the changes in the number of nonperforming loans in Malaysia's commercial banks. Therefore, the study suggests that a strict and in-depth lending policy based on the current economic environment and conditions must be provided to ensure uniformity in the credit facilities.

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