



**UNIVERSITI TEKNOLOGI MARA**

**NON-PERFORMING LOAN INSULATION FACTORS**

**MUHAMMAD ZAFRI BIN ZAMBARI**

**2020982791**

Bachelor of Business Administration (Hons)  
Investment Management

**FACULTY OF BUSINESS MANAGEMENT**  
**UNIVERSITI TEKNOLOGI MARA**  
**SEGAMAT**

**FEBRUARY 2022**

## **ABSTRACT**

The purpose of this study was to examine the impact of non-performing loans on commercial banks in Malaysia. Bank size, bank profitability, cost efficiency, unemployment rate, and interest rate on non-performing loans were employed in the study. The databases and annual reports of the sampled firms were used to gather data for this study. There were three conventional banks that were listed on Bursa Malaysia between 2011 and 2020 that were utilised in this study. In this study, panel data was utilised to analyse the acquired data. Auto-descriptive analysis, correlation analysis, and regression analysis were used in this study. As a consequence of this discovery, the theory put out by Berger and DeYoung (1992) that poor management in financial institutions leads to subpar loans and hence an increase in non-performing loans, is now even more firmly backed up.

## **Table of Contents**

|  |    |
|--|----|
| <b>CHAPTER ONE: INTRODUCTION</b> .....           | 6  |
| <b>1.1 Introduction</b> .....                    | 6  |
| <b>1.2 Background of Research</b> .....          | 6  |
| <b>1.3 Problem Statement</b> .....               | 7  |
| <b>1.4 Research Objectives</b> .....             | 9  |
| <b>1.5 Research Questions</b> .....              | 9  |
| <b>1.6 Significance of Study</b> .....           | 9  |
| <b>1.7 Scope of Study</b> .....                  | 10 |
| <b>1.8 Limitation of Study</b> .....             | 11 |
| <b>1.9 Definition of Terms</b> .....             | 12 |
| <b>1.10 Summary</b> .....                        | 12 |
| <b>CHAPTER TWO: LITERATURE REVIEW</b> .....      | 13 |
| <b>2.1 Introduction</b> .....                    | 13 |
| <b>2.2 Non-Performing Loans (NPL)</b> .....      | 13 |
| <b>2.2.1 Bank Profitability</b> .....            | 14 |
| <b>2.2.2 Bank Size</b> .....                     | 15 |
| <b>2.2.3 Cost Efficiency</b> .....               | 15 |
| <b>2.2.4 Unemployment Rate</b> .....             | 16 |
| <b>2.2.5 Interest Rate</b> .....                 | 17 |
| <b>2.3 Research Framework</b> .....              | 18 |
| <b>2.4 Conclusion</b> .....                      | 20 |
| <b>CHAPTER THREE: RESEARCH METHODOLOGY</b> ..... | 21 |
| <b>3.1 Introduction</b> .....                    | 21 |
| <b>3.2 Research Design</b> .....                 | 21 |
| <b>3.2.1 Purpose of the study</b> .....          | 21 |

|   |           |
|---|-----------|
| 3.2.2 Types of investigation .....                    | 22        |
| 3.2.3 Researcher Interference .....                   | 22        |
| 3.2.4 Study Setting.....                              | 22        |
| 3.2.5 Unit of Analysis .....                          | 23        |
| 3.2.6 Time Horizon.....                               | 23        |
| 3.3 Sampling .....                                    | 23        |
| 3.4 Data Collection Method.....                       | 24        |
| 3.5 Variables .....                                   | 25        |
| 3.5.1 Dependent Variables.....                        | 25        |
| 3.6 Hypothesis Statement .....                        | 26        |
| 3.7 Test Consideration for Data Analysis .....        | 27        |
| 3.8 Summary.....                                      | 28        |
| <b>CHAPTER 4: RESEARCH ANALYSIS .....</b>             | <b>29</b> |
| 4.1 Overview .....                                    | 29        |
| 4.2 Descriptive Analysis.....                         | 29        |
| 4.3 Correlation Analysis .....                        | 33        |
| 4.4 Regression Analysis .....                         | 35        |
| 4.5 Summary.....                                      | 36        |
| <b>CHAPTER 5: CONCLUSION AND RECOMMENDATION .....</b> | <b>37</b> |
| 5.1 Introduction.....                                 | 37        |
| 5.2 Finding on major discussion .....                 | 37        |
| 5.2.1 Research Objective 1 .....                      | 37        |
| 5.2.2 Research Objective 2 .....                      | 38        |
| 5.2.3 Research Objective 3 .....                      | 38        |
| 5.2.4 Research Objective 4 .....                      | 38        |
| 5.2.5 Research Objective 5 .....                      | 39        |

# **CHAPTER ONE: INTRODUCTION**

## **1.1 Introduction**

The history of money is similar to that of a bank, though it started before the invention of coins. In ancient times, gold and other valuables were deposited in temples and other places that were ideal for storing goods. Before the establishment of BNM, banks were only required to follow the Companies Ordinance of 1948. After the passage of the BNA, commercial banks were also required to implement the Finance Companies Act of 1969 and the Banking Act of 1973.

Commercial banks' main function is to provide various banking services. Some of these include taking deposits, issuing loans, issuing credit and financial guarantees, and processing trade financing. There are various types of risks that commercial banks face. These include the possibility of various types of uncertainties such as credit risk, operational risk, and reputational risk.

The three biggest commercial banks in Malaysia are Maybank (Malayan Banking Berhad), CIMB, and Public Bank according to corporate finance institute. The study focused on the non-performing loan of these banks. This analysis was carried out using the evaluation system of DataStream and Eviews. It included all the relevant information about the commercial banks in the country.

## **1.2 Background of Research**

Banks also just appreciated every other organisation that made cash from its commercial enterprise. Most people of a bank's profits got here from the fees it costs for its offerings and the hobby it earns on its assets. The interest charged on its obligations become the largest costed. Banks acted as an middleman in channelling budget to debtors (deficit devices) from depositors (surplus devices) through the lending technique (Kwambai & Wandera, 2013). Lending changed into a technique in which a financial institution earns interest by using amassing deposits from depositors and disbursing loans to folks who needed budget. Loans may additionally brought widespread gain to banks by means of generating interest, but there were some things to considered earlier than approving a loan.