



**THE DETERMINANTS OF NON-PERFORMING LOANS (NPLs) IN
COMMERCIAL BANK IN MALAYSIA.**

**NUR AISHAH BINTI MOHD SAIDIN
2015829012**

**BACHELOR OF BUSINESS ADMINISTRATION
WITH HONOURS (FINANCE)
FACULTY OF BUSINESS MANAGEMENT
UNIVERSITY TEKNOLOGI MARA
MELAKA**

JANUARY 2018

ACKNOWLEDGEMENT

“IN THE NAME OF ALLAH S.W.T THE MOST GRACIOUS AND THE MOST MERCIFUL”

All praises to almighty ALLAH, giving me strength and patience in completing this final year project paper within the period given to meet the requirement needed by the Faculty of Business management. I wish to take this opportunity to thank everyone who have been involve intentionally or unintentionally helping me in finishing this final year project paper successfully.

First and foremost, the greatest gratitude expressed to my honored advisor Madam Hazalinda Binti Harun, who have been helping me continuously in completing this project paper by answering my queries and doubt patiently. She assisted me in conducting this project paper with concern through all the valuable contribution, advices, and guideline until this project paper is done.

Next, I would like thank to my parents, Bin and Binti and also my beloved family members for their moral and financial support and also want to deliver indebtedness to my friend and previous lecture who have lend a helping hand in completing this project paper until the end.

To the librarian of University Teknologi Mara, Melaka city campus, I would like to express an appreciation to them as helping me throughout collecting the data from Data Streams and others guideline related to this project paper.

Lastly, I hope this project paper meets the requirements and expectation of the Faculty of Business Management and give benefits to others as future references.

Thank You.

TABLE OF CONTENTS

	PAGE
TITLE PAGE	i
DECLARATION OF ORIGINAL WORKS	ii
LETTER OF TRANSMITTAL	iii
ACKNOWLEDGEMENT	iv
TABLE OF CONTENTS	v-vii
LIST OF TABLES	viii
LIST OF FIGURES	ix
LIST OF ABBREVIATIONS	x
ABSTRACT	xi
CHAPTER 1 INTRODUCTION	
1.1 Background of the study	1-4
1.2 Problem statement	5-6
1.3 Research objective	7
1.4 Research question	7
1.5 Scope of study	7
1.6 Limitation of the study	8
1.6.1 Lack of experience	8
1.6.2 Sample size	8
1.6.3 Unavailability of data	8
1.7 Significant of the study	9
1.8 Research structure	10
CHAPTER 2 LITERATURE REVIEW	
2.1 Introduction	11

2.2 Literature review on dependent variable	11-12
2.3 Literature review on independent variable	13-19
2.3.1 Inflation rate	13-14
2.3.2 Interest rate	15-16
2.3.3 Exchange rate	17
2.3.4 Gross domestic product (GDP)	18-19
2.4 Theoretical framework	20
2.4.1 List of variables	20
2.4.2 Schematic diagram	20
2.5 Data and Variables	21
2.6 Conclusion	22
CHAPTER 3 METHODOLOGY AND DATA	
3.1 Introduction	23
3.2 Sources of data	23-24
3.3 Research design	24
3.4 E-Views	24-25
3.5 Method of data analysis	25
3.6 Unit root test	26
3.6.1 Augmented DickeyFuller Test (ADF)	26
3.6.2 Phillips-Perron Test (PP)	26
3.7 Normality test	27
3.8 Descriptive statistic	27
3.9 Empirical model	27
3.9.1 Multiple Linear Regression	28-29
3.10 Diagnostic test	30

ABSTRACT

This study is aiming to find the determinants of non-performing loans towards commercial banks in Malaysia and identify what is the most variable effect the non-performing loans (NPLs). The variables used inflation rate, interest rate, exchange rate and gross domestic product (GDP). In achieving the objective of the study, the E-Views is used in running the data and test the regression analysis. To find the effect of these variables towards non-performing loans, the data collected on quarterly basis from 1st January 2007 until 31st December 2016. In determining the relationship between all variables with non-performing loan, the Ordinary Least Square Method is used in multiple linear regressions. The finding showed the non-performing loans (NPLs) are statistically significant with inflation rate, interest rate and exchange rate. However, it is statistically insignificant with gross domestic product (GDP).