



**THE IMPACT OF EXTERNAL AND INTERNAL
DETERMINANTS ON THE NON-PERFORMING
LOAN: STUDY OF COMMERCIAL BANKS IN
MALAYSIA**

**AHMAD SHAHMI BIN ABDUL RANI
2013251888**

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**FACULTY OF BUSINESS MANAGEMENT
UNIVERSITI TEKNOLOGI MARA
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ABSTRACT

Loans have an essential contribution towards expansion of economy. Nevertheless, there is a non-payment issue that gives a gigantic loss impact on banks. Since long the argument has been said that external determinants affect the non-performing loans and the existing study on external determinants suggests that both internal and external determinants do strongly influence them. So, this paper aims to examine the relationship between both internal and external determinants on the non-performing loan in the study of commercial banks in Malaysia. The selected dependent variable is non-performing loans (NPLs) whereas independent variables consist of bank internal and external factors. The sample of this study is taken from selected eight commercial banks in Malaysia as listed in Bank Negara Malaysia and the data is collected for the period of nine years from year 2007 to 2015. Thus, the total number observations are 72. This study use panel data approach to analyse the relationship between external and internal determinants on non-performing loan in selected commercial bank in Malaysia. Panel Data Analysis is used in this study to identify the significant relationship between independent and dependent variable.

CHAPTER 1: INTRODUCTION

1.1 Background of the Study

Financial institutions have an important function in the development of an economy in a country. Therefore, the stability of financial institutions is a key for the expansion of an economy in a country. As we know, commercial banks are one of the banking sectors in Malaysia which play a main role in the economy by mobilizing deposits to deficit units from surplus units by give loan and advances to numerous sectors such as personal, agricultural, governments, and industry. Hence, banks help business organizations, individual in line with government operates on development and investment activities by give them advances and loans which they are contributing toward the economic growth and assisting their growth as noted by (Advisor & Siyum, 2014)

Turning to studies observing at other regions, (Farhan, Sattar, Hussain, & Fareeha, 2012) examined that banking failures will adversely affect the economy in several ways. Firstly, it will cause banking crisis by harming the banking sector. Secondly, it also cut down the credit flow in the country which eventually affects the efficiency and productivity of the business units. In the same circle, (Peyavali & Sheefeni, 2015), (Kuutol, Agyeman, & Owusu-adjei, 2014) and (Implications, n.d.) had shown that utmost of the time banking failures or banking crisis are caused by non-performing loans. Non-performing loans (NPLs) fundamentally refer to loans which a long time period do not generate and make income. This indicates that the interest and or principal on these loans have been not paid for minimum 90 days. The close relationship between banking crises and enormous accumulation of NPLs declared is as a serious issue of dissertation in finance literature. Undeniably, (Xhuvani, 2013) have found that one of the key reasons that cause instability in financial institutions and eventually harm the entire economy is non-performing loans.