THE DETERMINANTS OF CREDIT RISK IN CONVENTIONAL BANK IN MALAYSIA

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“In the name of ALLAH, the most gracious and merciful”

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ABSTRACT

The objective of this study is to investigate the relationship between bank specific variables (BSV) and credit risk in conventional bank in Malaysia. This research used credit risk as dependent variable. Whereas, the independent variables are loan expansion (LOAN EXP), loan quality (LOAN QUA), capital buffer (CAP BUF), capital ratio (CAP RAT) and bank size (B. SIZE). The sampling frame used in this study is 2005 to 2014 annually and the data collected from Bank Scope Data Based. The study employed a panel data analysis by using several test and analysis. The result of the study indicates that loan quality has a positive relationship and bank size have a negative relationship towards credit risk.

CHAPTER 1: INTRODUCTION

1.1 BACKGROUND OF THE STUDY

History of banking industry in Malaysia

Banking industry has continued its steady growth and expansion until eventually there was a need for a governing body to oversee the activities and operations of the numerous banks in the country. This led to the establishment of Bank Negara Malaysia (Central Bank), a statutory body which is wholly-owned by the Federal Government. Ordinance Bank Negara Tanah Melayu 1958 (OBNM) were approved in 23 October 1958 and followed by the establishment of Bank Negara Malaysia in 24 January 1959. The constitution, functions and powers of Bank Negara are set out in the Central Bank of Malaysia Act 1958. The objectives of Bank Negara are to:

- Promote monetary stability and a sound financial structure
- Act as a banker and financial adviser to the Government
- Issue currency and keep reserves safeguarding the value of the currency
- Influence the credit situation to the advantage of the country

The evolution of the banking industry in Malaysia has proven by the fastest growth in conventional banking products and services, such as deposits and loans/hire purchase, taking on more sophisticated and advanced features such as phone banking, phone-a-loan, auto pay, auto debit, ATMs and online shopping and banking. These features are facilitated by advanced technological developments that allow bank customers easier and simpler methods and processes of going about their daily banking.