



**DETERMINANT OF LOAN LOSS PROVISION IN MALAYSIA
CONVENTIONAL BANK**

NORADILAH BT SAMSUDIN

2010342889

**BACHELOR OF BUSINESS ADMINISTRATION (HONS)
ISLAMIC BANKING**

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

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ABSTRACT

DETERMINANT OF LOAN LOSS PROVISION IN MALAYSIA CONVENTIONAL BANK

A loan loss provision is charge to bank profit and loss statement that creates a reserve on their balance sheets. The research problem of this study is to explore the main factor driving the changes in amount of loan loss provision in Malaysian Conventional Bank. The hypotheses testing employed regression with Panel Data Ordinary Least Square for four independent variables which is return on average assets (ROA), earning before tax and provisions (EBTP), non performing loans (NPL) and Gross Domestic Product GDP). This research will collect the data from chosen conventional bank in Malaysia that provides the complete data for this study over the period 1st quarter 2004 until 2nd quarter 2012. The result show there is positive relationship between Loan Loss Provision with Non Performing Loan, Return on Asset and Gross Domestic Product. Managers of Conventional banks can now comprehend better the factors that influence the changes in amount of loan loss provision. The findings of this study should be value to Malaysian Conventional Bank in terms of better manage their reserve to avoid from loss for their futures and smooth their earning to attract customer.

Keyword: Loan Loss Provision, Conventional bank in Malaysia

CHAPTER 1

INTRODUCTION

1.0 INTRODUCTION

In a recent year, Economic Transformation Programme (ETP) expected Malaysia banks must be additional boost. It was related with business loans and possible upside in non interest income. Alliance Research (2012) said on June 2012, Economic Transformation Programme would be bridging loans to companies to bridge the time gap between when companies need financing to implement the projects and when funds from new bond issuance are secured. The research also said loan loss provisions for most banks in Malaysia had been trending down because improving asset quality and other factors.

CIMB Research (2011) said profit for local banking group amid spectacular loan growth in 2011, some weakness are surfacing in consumer lending conditions. In the fourth quarter of 2011, a rise of 7.6% was observed in loan loss provisioning (LLP). The fourth quarters 2011 are the beginning of the upward cycle for Loan Loss Provision after eight quarters of declines.

Loan loss provisions are definitely used by commercial bank managers for manage risk in their lending activities. Loan loss provisions are expected when anticipated losses occur as a result of lending and financing activities (Anandarajan, Hasan &