



UNIVERSITI TEKNOLOGI MARA

**BANK POLICY DECISION EFFECT
ON LOAN LOSS PROVISION OF
COMMERCIAL BANK IN MALAYSIA**

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ABSTRACT

The main purpose of this paper is to analyze the bank policy decision effect on loan loss provision of commercial banks in Malaysia. A total of seven commercial banks are chosen to represent the commercial banks in Malaysia during the time line from 2010 to 2017. The variables which have been chosen for this research are efficiency (EF), liquidity (LQ), profitability (PF), asset quality (AQ), and capital adequacy (CA). As we know, Banks are financial institutions that mainly collect deposits and issue the amount of specific loan to individuals, governments and firms to finance the investment, capital expenditure and consumption along the lines to contribute and give more impact on economic growth. Bank lending to borrowers for the function of rise to credit risk if the borrowers are unwilling to repay the interest on the loan facilities causes to underestimated economic growth conditions that will affect the borrowers to repay back the interest on given time.

The problem in existing loan loss provisioning practice is because of the incurred loss model. It requires a loss event to occur before a provision can be made, thus causing a delay in recognizing losses expected to occur. The recent crisis has highlighted that the incurred loss model currently in practice does not accurately reflect credit losses that are expected to occur. This has distorted accurate reporting of financial statements. The collectability of the defaulted loans is not reflected by the reported levels of loan loss provisions (LLPs). Further, this problem will give the impact of the economic downturn on bank's income and capital.

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