

# Loan Loss Provisions: Evidence from Malaysian Islamic and Conventional Banks

Faridah Najuna Misman<sup>1a</sup> and Wahida Ahmad<sup>2a</sup>

*Islamic banking system evolve around the globe rapidly alongside with the conventional banking. Since its inception about four decades ago, the growth of Islamic banks outperforms its companion. In Malaysia, Islamic banks operate side-by-side with conventional banks. The operation of these two entities, are based on their own principles and frameworks although some regulations might overlaps with each others. The study aims to explore the treatment of loan loss provision as a tool in managing earnings and capital of both banks for the period of 1993 to 2009. The paper reveals whether Islamic and conventional banks behave in the same manner in dealing with loan loss provisions. The hypotheses testing utilised pooled regression with generalized least square estimation for four independent variables; i) return on average assets, ii) earnings before tax and provisions, iii) non-performing loans and, iv) capital ratio. The findings prove Islamic and conventional banks in Malaysia uses loan loss provision in managing their earnings and capital with respect to the variables selection.*

**Fields of Research:** Banks; Loan loss provisions

---

<sup>1</sup> Corresponding author. School of Economics and Finance, Faculty of Law and Management, La Trobe University, Kingsbury Drive, Bundoora, Vic 3083, Australia. Phone: +613 9479 5318. Fax: +613 9479 1654. E-mail: [fnmisman@students.latrobe.edu.au](mailto:fnmisman@students.latrobe.edu.au)

<sup>2</sup> School of Economics and Finance, Faculty of Law and Management, La Trobe University, Kingsbury Drive, Bundoora, Vic 3083, Australia. Phone: +613 9479 5315. Fax: +613 9479 1654. E-mail: [wahmad@students.latrobe.edu.au](mailto:wahmad@students.latrobe.edu.au)

<sup>a</sup> Faculty of Business and Management, Universiti Teknologi MARA, Malaysia