

ABSTRACT

Credit growth in Indonesia shows a positive movement. In line with the increase in credit in banking, the Central Bank urged banks to maintain their reserve for losses or called Loan Loss Provisions so that bank activities can continue to run smoothly. Banks have responded well by keeping their Loan Loss Provisions above the minimum requirement required by the Central Bank and applying prudential principles. The purpose of this study is to examine the effect of Non-Performing Loans (NPL), Loans and Advances (LA), Interest Income (II), Net Profit (NP), Bank Size (Size) on Loan Loss Provisions (LLP) and to examine the role of Financial Conservatism. in moderating the effect of Non Performing Loans and Loans and Advances on Loan Loss Provisions.

This study used a sampling technique, namely purposive sampling method based on certain characteristics in order to obtain 13 samples of conventional commercial banks listed on the Indonesia Stock Exchange for the period 2009-2018. The analytical method used is the Panel Data Regression Analysis method which combines time series data with cross section data. Panel data regression estimation is determined through three model approaches, namely Common Effect Model, Fixed Effect Model and Random Effect Model. The classic assumption test used is normality test, multicollinearity test, heteroscedasticity test and autocorrelation test.

The results showed that Non Performing Loans had a significant positive effect on Loan Loss Provisions, Net Profit had a significant positive effect on Loan Loss Provisions, Loans and Advances and Interest Income had a negative but not significant effect on Loan Loss Provisions, Bank Size had a positive but insignificant effect. The test results for the moderating variable of Financial Conservatism are proven to further strengthen the positive effect of NPL on LLP, but it is not proven to further strengthen the effect of Loans and Advances on LLP. When the NPL increases, the bank will apply its prudential principle by increasing the LLP or its loss reserve to anticipate credit risk that may cause losses to the bank.

Keywords: Loan Loss Provisions, Financial Conservatism, Determinant of Loan Loss Provisions, Credit Risk