ABSTRACT

In the research paper, quarterly data on Non-performing Loan (NPL) for commercial banks in Malaysia over the time period of quarter 1, 1998 to quarter 4, 2009 together with 5 macroeconomic indicators i.e. Gross Domestic Product (GDP), Consumer Price Index (CPI), FTSE Bursa Malaysia KLCI (KLCI), Unemployment rate and House Property Index are collected to form a credit risk model. The estimated model is employed to analyse banking credit risks conditional on current macroeconomic conditions. Stepwise multiple regression method has been used which to select the useful subsets of variables and to evaluate the order of importance of variables.

Furthermore, the paper presents some examples of applying the model to macro stress testing, i.e. analysing the effects of the most adverse macroeconomic events on the banks' credit risks stemming from the corporate and consumer sectors. The vulnerability of the Commercial Banks' credit book had been tested with different level of stress scenarios i.e. severe stress scenario, moderate stress scenario and mild stress scenario, which these scenarios were identified by GDP. In short, this research shows a macro-prudential concept of credit risk linked to financial stability indicators and presents the simulation results.

(ACKNOWLEDGEMENT)

I thank a number of people for their encouragement, insights, and comments. First and foremost, I would like to give my greatest appreciation to my family members, particularly my parents who had rendered me all the precious supports, spiritually and mentally, since the beginning of my study until the completion of entire MBA program.

I would like to express my gratitude to Dr Kayemuddin for his expertise and generous guidance throughout this project. Thank you for his constructive ideas and prompt response and the essential inputs and encouragement to complete this project on time.

I would also like to extend my appreciation to friends who extended a helping hand and giving me spiritual support all the time. Their kind hearted effort is greatly appreciated.

Last but not least, my special thanks also go to all my bosses and fellow colleagues who had been patient and rendered their support to me during the MBA program. Without the assistance and support of the above mentioned, this study would not have been completed.