

**EFFECT OF CREDIT RISK MANAGEMENT ON FINANCIAL
PERFORMANCE OF COMMERCIAL BANKS LISTED IN THE MALAYSIA
STOCK EXCHANGE**

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AUTHOR DECLARATION

I hereby declare that the work in this thesis is my own except for quotations and summaries which have been duly acknowledged.

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In the name of Allah S.W.T, the most merciful and most gracious,

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Wallahua’lam. Wassalam

Haneem Binti Muhamad Anuar, February 2022

ABSTRAK

Bank merupakan entiti dominan di dalam pasaran kewangan. Prestasi bank boleh memberi isyarat kepada pertumbuhan ekonomi negara. Bank juga dikenali sebagai entiti yang kalis muflis kerana kejatuhan sesebuah bank dapat menggugat ekonomi negara. Oleh itu, pelabur yang gemar melabur di saham yang berisiko rendah, kerap memilih untuk melabur di bank. Salah satu kaedah untuk mengukur prestasi bank adalah dengan melihat corak aliran harga saham. Harga saham yang konsisten atau sentiasa menaik boleh menunjukkan bank berprestasi tinggi. Kajian ini menganalisa kesan prestasi harga saham bank kepada amalan pengurusan risiko kredit. Kajian ini berpendapat bahawa amalan risiko kredit yang baik di bank boleh mempengaruhi prestasi saham mereka. Hujah ini disokong oleh teori bahawa pemberian kredit adalah aktiviti utama bank; oleh itu, menguruskan pendedahan risiko kredit boleh menyumbang kepada kemampuan bank dan prestasi harga saham bank yang lebih baik. Kajian ini menggunakan empat pemboleh ubah—Peruntukan Kerugian Pinjaman (LLP), Rizab Kerugian Pinjaman (LLR), Pinjaman Tidak Berbayar (NPL) dan Nisbah Caj Bersih (NCR) untuk menunjukkan amalan risiko kredit untuk sepuluh bank yang tersenarai di Bursa Saham Malaysia. Menggunakan kaedah Analisis Panel Data, keputusan menunjukkan LLR dan NPL mempunyai hubungan positif yang signifikan kepada prestasi bank. Sebaliknya, LLP dan NCR mempunyai hubungan negatif yang signifikan. Walaupun keputusan analisis LLP dan NPL bercanggah dengan teori, kajian individu ke atas setiap pemboleh ubah telah mengenal pasti keperluan untuk mendalamipemboleh ubah ini pada masa akan datang. Analisis terhadap keempat-empat pemboleh ubah ini adalah unik berbanding kajian yang lepas dimana empat pemboleh ubah ini berbeza dari pemboleh ubah di Basel II. Oleh itu, kajian ini menyumbang kepada bidang penyelidikan risiko kredit dengan mengkaji lebih banyak pemboleh ubah lain yang boleh menunjukkan pendedahan risiko kredit bank. Penemuan dari kajian ini bermanfaat kepada pelabur untuk meramalkan pelaburan mereka dan bagi bank untuk kekal berdayasaing terhadap sebarang keadaan kewangan.

Kata kunci: Risiko Kredit; Prestasi Bank; Nisbah Caj Bersih, Rizab Kerugian Pinjaman, Nisbah Pinjaman Tidak Berfungsi dan Nisbah Kerugian Pinjaman

ABSTRACT

Banks are the most prominent players in the financial market. The ups and downs of banks may signal the growth of a country's economy. Unlike firms, banks are also known as 'too big to fail' entities since their bankruptcy may stir the country's economy. Due to that, risk-averse investors may opt to invest in banks for safe income generation. One of the methods to observe the bank's performance is by viewing the bank's stock price trend. A consistent, low fluctuation or increasing pattern of the bank's stock price indicates the bank is performing well. This study investigates the relation of a bank's price performance with the credit risk practice. This study argues that good credit risk practice in banks may influence their stock price performance. The argument is supported by the theoretical profound that credit creation is banks' main activity. Hence, managing credit risk exposure may contribute to better bank sustainability and better price performance. This study uses four variables—Loan Loss Provision (LLP), Loan Loss Reserve (LLR), Non-performing loan (NPL) and Net Charge Off ratio (NCR) to indicate the credit risk practice of ten commercial banks listed in the Malaysian Stock Exchange. Using the Panel Data Analysis method, the results show LLR and NPL have a significant positive relationship to the bank's performance. In contrast, LLP and NCR have a negative significance relationship. While the LLP and NPL results contradict the theory, individual investigation on the variables has identified the need to deepen the study on these variables in the future to determine their relation to the bank's performance. The analysis of these four variables is unique compared to the other studies since it uses different variables to measure the bank's credit risk than in Basel II. Hence, this study contributes to the credit risk research field by investigating more variables to indicate banks' credit risk exposure. The findings are beneficial for investors to predict their investment portfolio and for the banks to remain resilient against any financial circumstances.

Keywords: *Credit Risk; Banks Performance; Net Charge Off Ratio, Loan Loss Reserve, Non-Performing Loan Ratio and Loan Loss Provision Ratio*

الملخص

ونعد البنوك أبرز اللاعبين في السوق المالية. إن صعود و هبوط البنوك قد يشير إلى نمو اقتصاد أي بلد. وعلى عكس الشركات، تعرف البنوك أيضا بأزها كفايانت "أكبر من أن يرح لها بالفلس" ألن إفالسها قد يحرك اقتصاد البلاد. وبنيجة لهذا نؤد يختار المستثمرون الذين ال يخاطرون الاستثمار في البنوك من أجل توليد الدخل ألل. ومن بين ألأسلوب التي يمكن بها مراقبة أداء البنك النظر إلى إتجاه أسعار أسهم البنك. ويشير الثقب المسهم والمنخفض أو النمط المنزايد لسعر أسهم البنك إلى أن أداء البنك كان طيبا. وتبحث هذه الدراسة في العلاقة بين أداء البنك السعري وممارسة المخاطر الائتمانية. وتزعم هذه الدراسة أن الممارسات الجيدة في مجال مخاطر الائتمان في البنوك قد تؤثر على أداء أسعار الأسهم. ويدعم الحجة هذا الحق النظري الذي يؤكد أن إنشاء الائتمان من النشاط الرئيسي للبنوك؛ وبالتالي فإن إدارة التعرض لمخاطر الائتمان قد ساهم في تحسين إندامه البنوك وتحسين الأداء السعري. وتستخدم هذه الدراسة أربعة متغيرات - تونيير خسائر القروض، واحتياطي خسائر القروض، والقروض للإشارة إلى ممارسة المخاطر الائتمانية لعشرة مصارف (NCR) ونسبة الرسوم المرافقة، (NPL) غير المرفقة LLR تجرئة مدرجة في سوق الأوراق المالية المالية. وباستخدام طريقة تحليل بيانات اللوحة، تظهر النتائج أن لهما علاقة ذات أهمية NCR و LLP لهما علاقة إيجابية هامة بأداء البنك. وعلى الرقيض من ذلك، فإن NPL وتتناقض مع النظرية، إل أن التحليل القوي حول المتغيرات قد حدد NPL و LLP سلبية. وفي حين أن نتائج الحاجة إلى تعميق الدراسة حول هذه المتغيرات في المستقبل لتحديد علاقتها بأداء البنك. وتحليل هذه المتغيرات الأربعة فريد بالمقارنة مع الدراسات الأخرى ألنه يستخدم متغيرات مختلفة لقياس المخاطر الائتمانية للبنك مقارنة بالبلز الثاني ومن ثم، ساهم هذه الدراسة في مجال أبحاث مخاطر الائتمان من خلال التحليل في المزيد من المتغيرات للإشارة إلى تعرض البنك لمخاطر الائتمان. والنتائج مفيدة للمستثمرين للتنبؤ بحفظهم الاستثمارية. ولبنوك أن تظل مرنة في مواجهة أي ظروف مالية

الكلمات الرئيسية: مخاطر الائتمان؛ أداء البنوك؛ صافي نسبة خصم الرسوم، احتياطي خسارة القرض، نسبة القروض المنعشرة ونسبة مخصصات خسارة

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LIST OF SYMBOLS

R^2	coefficient of determination
RSS	sum of squares of residuals
TSS	total sum of squares
n	total number of values
k	independent variables
SP_{it}	stock price of the bank i at time t
NCR_{it}	net charge ratio of the bank i at the time t
LLR_{it}	loan loss reserve ratio of the bank i at the time t
NPL_{it}	non-performing loan ratio of the bank i at the time t
LLP_{it}	loan loss provision ratio of the bank i at the time t
TA_{it}	total loan of the bank i at the time t
$CBOE_{it}$	CBOE of the bank i at the time t
μ_{it}	the error terms of bank i at the time t
Y_{it}	dependent i variable t
a_0	common intercept.
a_1	the slope coefficient
X_{it}	the dependent variable i at time t
e_{it}	the error terms i at time t
$\sum_{i=1}^N D_{it} a_{0i}$	intercept bank i at time t

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LIST OF ABBREVIATIONS

IRB	Internal Rating Based
PD	probability of default
NIM	Net Interest Margin
ROE	Return on Equity
ROA	Return on Assets
NPLR	Non-Performing Loans Ratio
NPLE	Non-Performing Loan Equity
CAR	Capital Adequacy Ratio
NPL	Non-Performing Loan
LLP	Loan Loss Provision
TLA	Total Loan Advance Rates
COD	Change of Default

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