THE DETERMINANTS OF CREDIT RISK
IN AN EMERGING MARKET

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ABSTRACT

The aim of this study is to examine the determinants of credit risk management in an emerging market by using Malaysian listed companies. The sample of the study is selected using paired sample method. In order to adjust for earning management portions, the discretionary accrual model is used to calculate the abnormal accruals of firms. Furthermore, logistic regression is applied to determine the accuracy of unadjusted and adjusted model in predicting financial distress.

Based on the empirical result, the liquidity ratio is proof to be significant at 5 percent significance level in determining financial distress before and after earnings management is adjusted. Meanwhile, the productivity ratio is only showing its significance before the earnings management is adjusted and the profitability ratio is significant after the earnings management is adjusted. On the other hand, this study indicates that both unadjusted and adjusted models are having the same level of Type I error (23.3%). Out of the total 30 distressed observations, 23 are classified as distressed observations resulting in 76.6 percent of success classification and 7 are classified as non-distressed observations resulting in a 23.3 percent failure. However, for the Type II error, the non-adjusted model is performing better with a 16.7 percent failure compared to a 26.7 percent failure of adjusted model. As a result, by considering the cost for both Type I and Type II errors, the unadjusted model is better and more appropriate in predicting financial distress firms in Malaysian market compared to the adjusted model. This indicates that the unadjusted model helps in improving credit management among market participants in Malaysia.

Keywords: credit risk management, bankruptcy, financial distress determinants, earnings management
ABSTRAK


Berdasarkan keputusan, nisbah liquidity didapati berkesan dalam meramal kemungkinan kemuflihan firma sama ada sebelum atau selepas penyelarasan pengurusan pendapatan. Pada masa yang sama, nisbah productivity didapati hanya berkesan dalam meramal kemungkinan kemuflihan firma sebelum penyelarasan pengurusan pendapatan dan nisbah profitability pula berkesan dalam meramal kemuflihan firma selepas penyelarasan pengurusan pendapatan. Di samping itu, keputusan menunjukkan model sebelum penyelarasan pengurusan pendapatan mempunyai Ralat I sebanyak 23.3 peratus pada masa sebelum dan selepas pengurusan pendapatan diselaraskan. Daripada jumlah keseluruhan 30 pemerhatian yang menghadapi masalah kewangan, 23 dikelaskan sebagai firma yang mempunyai masalah kewangan manakala 7 dikelaskan sebagai firma yang tidak menghadapi masalah kewangan. Dari segi Ralat II, model yang sebelum penyelarasan pengurusan pendapatan didapati lebih baik dalam meramal firma yang tidak mempunyai masalah kewangan berbanding dengan model yang telah diselaraskan pengurusan pendapatan. Kesimpulannya, dengan mempertimbangkan kos bagi kedua-dua Ralat I dan Ralat II, model tanpa penyelarasan pengurusan pendapatan adalah lebih baik dan sesuai dalam meramalkan kecenderungan masalah kewangan firma di Malaysia. Ini menunjukkan bahawa model tanpa penyelarasan pengurusan pendapatan dapat membantu dalam meningkatkan pengurusan kredit di kalangan pelabur yang melabur di Malaysia.

Kata kunci: Pengurusan risiko kredit, kemuflihan, pengurusan pendapatan
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TABLE OF CONTENTS

<table>
<thead>
<tr>
<th>CONTENTS</th>
<th>PAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Permission to use</td>
<td>i i</td>
</tr>
<tr>
<td>Abstract</td>
<td>iii</td>
</tr>
<tr>
<td>Abstrak</td>
<td>iv</td>
</tr>
<tr>
<td>Acknowledgement</td>
<td>v</td>
</tr>
<tr>
<td>Table of contents</td>
<td>vi</td>
</tr>
<tr>
<td>List of tables</td>
<td>x</td>
</tr>
<tr>
<td>List of figures</td>
<td>xi</td>
</tr>
<tr>
<td>List of abbreviations</td>
<td>xii</td>
</tr>
</tbody>
</table>

CHAPTER ONE: INTRODUCTION

1.0 Introduction 1
1.1 Background of the study 1
1.2 Problem statement 5
1.3 Research objectives 8
1.4 Research questions 8
1.5 Hypotheses 8
1.6 Significance of study 9
   1.6.1 Practical contributions 9
   1.6.2 Theoretical contributions 10
1.7 Scope of study 10
1.8 Organization of study 10
CHAPTER TWO: LITERATURE REVIEW

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.0</td>
<td>Introduction</td>
<td>11</td>
</tr>
<tr>
<td>2.1</td>
<td>Decision making theory</td>
<td>11</td>
</tr>
<tr>
<td>2.2</td>
<td>Credit risk: Background and significance</td>
<td>13</td>
</tr>
<tr>
<td>2.2.1</td>
<td>Basel Agreement</td>
<td>15</td>
</tr>
<tr>
<td>2.2.2</td>
<td>Credit rating</td>
<td>19</td>
</tr>
<tr>
<td>2.2.3</td>
<td>Regulators</td>
<td>21</td>
</tr>
<tr>
<td>2.3</td>
<td>The implications of financial distress</td>
<td>23</td>
</tr>
<tr>
<td>2.4</td>
<td>Development and history of credit risk model</td>
<td>25</td>
</tr>
<tr>
<td>2.4.1</td>
<td>Financial ratio in predicting financial distress or bankruptcy</td>
<td>26</td>
</tr>
<tr>
<td>2.4.1.1</td>
<td>Profitability ratio</td>
<td>31</td>
</tr>
<tr>
<td>2.4.1.2</td>
<td>Leverage ratio</td>
<td>32</td>
</tr>
<tr>
<td>2.4.1.3</td>
<td>Productivity ratio</td>
<td>32</td>
</tr>
<tr>
<td>2.4.1.4</td>
<td>Liquidity ratio</td>
<td>33</td>
</tr>
<tr>
<td>2.5</td>
<td>Effect of earnings management</td>
<td>33</td>
</tr>
<tr>
<td>2.6</td>
<td>Summary</td>
<td>36</td>
</tr>
</tbody>
</table>

CHAPTER THREE: CREDIT RISK MANAGEMENT AND ACCOUNTING ENVIRONMENT IN MALAYSIA

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.0</td>
<td>Introduction</td>
<td>38</td>
</tr>
<tr>
<td>3.1</td>
<td>Emerging country and its credit management: Malaysia</td>
<td>38</td>
</tr>
<tr>
<td>3.2</td>
<td>The revolution of accounting standards in Malaysia</td>
<td>44</td>
</tr>
<tr>
<td>3.3</td>
<td>Summary</td>
<td>47</td>
</tr>
</tbody>
</table>
CHAPTER FOUR: METHODOLOGY

4.0 Introduction 48
4.1 Research framework 48
4.2 Research design 50
   4.2.1 Unadjusted model 51
   4.2.2 Adjusted model 52
      4.2.2.1 Calculation for adjustment: Earnings management 53
   4.2.3 Comparison of financial distress prediction 54
4.3 Measurement of instrument 56
   4.3.1 Working capital to total assets 56
   4.3.2 Retained earnings to total assets 56
   4.3.3 Earnings before interest and taxes to total assets 57
   4.3.4 Equity to total liabilities 57
4.4 Data collection 58
4.5 Techniques of data analysis 63
   4.5.1 Linear regression 63
   4.5.2 Logistic regression 63
4.6 Summary 65

CHAPTER FIVE: FINDINGS AND DISCUSSION

5.0 Introduction 66
5.1 Logistic regression 66
   5.1.1 Logistic regression for non-adjusted model 66
   5.1.2 Logistic regression for adjusted Z-score model 69
   5.1.3 Comparison in term of prediction power between non-adjusted and adjusted model 71
5.2 Summary 75
# CHAPTER SIX: CONCLUSIONS AND RECOMMENDATIONS

<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>6.0</td>
<td>Introduction</td>
<td>76</td>
</tr>
<tr>
<td>6.1</td>
<td>Management of credit risk by using financial ratio</td>
<td>76</td>
</tr>
<tr>
<td>6.2</td>
<td>Contributions of predictors in determine financial distress</td>
<td>78</td>
</tr>
<tr>
<td>6.3</td>
<td>Accuracy rate for unadjusted and adjusted model</td>
<td>79</td>
</tr>
<tr>
<td>6.4</td>
<td>Limitations and recommendations for future study</td>
<td>80</td>
</tr>
<tr>
<td>6.5</td>
<td>Summary</td>
<td>81</td>
</tr>
</tbody>
</table>

## REFERENCES

82

## APPENDIX

94
# LIST OF TABLES

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 2.1</td>
<td>Summary of significance of financial ratio in determine bankruptcy</td>
<td>30</td>
</tr>
<tr>
<td>Table 4.1</td>
<td>PN 17 firms as updated at 9th September 2013</td>
<td>58</td>
</tr>
<tr>
<td>Table 4.2</td>
<td>PN 17 firms after filtering process</td>
<td>60</td>
</tr>
<tr>
<td>Table 4.3</td>
<td>Final sample</td>
<td>62</td>
</tr>
<tr>
<td>Table 5.1</td>
<td>Results of logistic regression before earnings management is adjusted</td>
<td>67</td>
</tr>
<tr>
<td>Table 5.2</td>
<td>Frequency of financial distress by prediction (unadjusted model)</td>
<td>68</td>
</tr>
<tr>
<td>Table 5.3</td>
<td>Results of logistic regression after earnings management is adjusted</td>
<td>69</td>
</tr>
<tr>
<td>Table 5.4</td>
<td>Frequency of financial distress by prediction (adjusted model)</td>
<td>71</td>
</tr>
<tr>
<td>Table 5.5</td>
<td>Comparison of coefficient significance between non-adjusted and adjusted model</td>
<td>72</td>
</tr>
<tr>
<td>Table 5.6</td>
<td>Comparison of frequency of financial distress by prediction</td>
<td>74</td>
</tr>
</tbody>
</table>
LIST OF FIGURES

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Figure 1.1</td>
<td>Malaysia bankruptcies (monthly data)</td>
<td>5</td>
</tr>
<tr>
<td>Figure 1.2</td>
<td>Malaysia bankruptcies (January 1998-August 2013)</td>
<td>6</td>
</tr>
<tr>
<td>Figure 2.1</td>
<td>Basel II capital accord</td>
<td>17</td>
</tr>
<tr>
<td>Figure 2.2</td>
<td>Enhancement from Basel II to Basel III</td>
<td>18</td>
</tr>
<tr>
<td>Figure 2.3</td>
<td>Summary of annual rating actions</td>
<td>20</td>
</tr>
<tr>
<td>Figure 3.1</td>
<td>Current growth vs pre-crisis averages</td>
<td>39</td>
</tr>
<tr>
<td>Figure 4.1</td>
<td>Research framework</td>
<td>49</td>
</tr>
</tbody>
</table>
# LIST OF ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>BNM</td>
<td>Bank Negara Malaysia (Central Bank of Malaysia)</td>
</tr>
<tr>
<td>Bursa Malaysia</td>
<td>Bursa Malaysia Berhad</td>
</tr>
<tr>
<td>DataStreams</td>
<td>Thomson Reuters Datastreams</td>
</tr>
<tr>
<td>EM</td>
<td>Emerging market</td>
</tr>
<tr>
<td>FRS</td>
<td>Financial Reporting Standards</td>
</tr>
<tr>
<td>GAAP</td>
<td>General Accepted Accounting Principles</td>
</tr>
<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
</tr>
<tr>
<td>MARC</td>
<td>Malaysian Rating Corporation Berhad</td>
</tr>
<tr>
<td>MDA</td>
<td>Multivariate discriminant analysis</td>
</tr>
<tr>
<td>MIDA</td>
<td>Malaysian Investment Development Authority</td>
</tr>
<tr>
<td>PN 17</td>
<td>Practice Notes 17/2005</td>
</tr>
<tr>
<td>SC</td>
<td>Securities Commission</td>
</tr>
</tbody>
</table>
CHAPTER ONE
INTRODUCTION

1.0 Introduction
The contents of this chapter including discussion on the background of the study, highlighting on the problem statement of the study, description about the research objectives and research questions, hypotheses of the study, explanation about the significance of the study, the scope of study and finally, summary of the organization of the study.

1.1 Background of study
Credit risk is the risk if an economic loss from the failure of counterparty to meet its contractual obligations (Jorion, 2003). From bank perspective, credit risk can be defined as the possibility of losses due to diminution in borrower’s credit quality or the potential where a bank’s borrower or counterparty fails in to meet its obligations (Sinha, 2010). The borrower or lender can be an individual, a corporation or even a government. The default of the repayment may not only bring a huge financial loss, including principle and interest, to the lender but also cost the lender to collect back its principle. Meanwhile, the borrower may suffer in losing its reputation, creditworthiness and moreover its property that pledged as collateral on its borrowing. Based on those circumstance mentioned above, credit risk has became one of financial risk that concerned by not only credit providers but also cautious by investors, corporations and regulators. Therefore, the assessment of credit risk plays a
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REFERENCES


