

Abstract

In this thesis, the credit analysis, especially credit scoring and credit rating in Macao Banking Sector is presented. Banks need to calibrate the default risk exposure of their credit risk exposures by measuring the probability of borrowers' default. An efficient credit assessment policy, process and practice improve the measurement and management of credit risk by differentiating among the pass loans. For business and institutional loans the accuracy of default metrics is improved using the credit rating.

The rational behind banks internal rating is that credit with investment grade, say AAA, poses minimal risk of loss due to default while loans with lower rating score stand higher probability of default and consequently higher risk of loss for the bank.

The aims of this study are first to investigate the extent of usage of credit rating in Macao, including what banks have credit rating system in place and what types of loans do they use it for; second to understand the application of credit scoring and the most important factors included in the scoring models; and third to examine the general credit assessment practice and the crucial factors considered in the assessment of different types of loans. . The study will also try to ascertain what the differences are, if any, in the credit assessment practice between the locally incorporated banks and branches of overseas banks.

Key Words: Credit analysis, credit scoring, credit rating,