

SUMMARY

SELY IMANDA. Country Exposure Limit modeling at Bank XYZ. Supervised by NOER AZAM ACHSANI and ANDI BUCHARI.

As one of the financial institution that has the largest international banking transaction in Indonesia, XYZ Bank faces country exposure risk. Bank mitigates the risk by limiting the number of international transactions by setting up Country Exposure Limit (CEL). CEL is the limit of assets that can be invested or lent to both private sector or government in a country in which the risk of payment of the institution is carried by the Bank.

The determination of CEL at Bank XYZ uses 4 (four) macroeconomic variables, Gross Domestic Product (GDP), import, Country Risk Rating, and bank asset. The researcher found that there was no research related Country Exposure Limits in financial institutions. This study aims to be a reference for financial institutions in determining CEL.

The study used the Ordinary Least Square with a purposive sampling method by using CEL Bank XYZ data samples of 47 countries. Researchers tried to compare two models to get the best model for determining Country Exposure Limit by comparing R^2 and Root Mean Square Error (RMSE) values. The results of several analyzed criteria show that the best model is the GCF model where the value of R^2 is 76.55% with the RMSE value of 0.79 compared to the smaller R^2 value of GDP of 74.98% with a greater RMSE value of 82.49%.

GDP percapita, Gross Capital Formation statistically significant in relation to Country Exposure Limit while other variables such as Total Reserved Amount on Import, Current Account Balance as a percentage of GDP, Political Stability, and Unemployment found to be insignificant to Country Exposure Limit. The results of the study show that Gross Capital Formation statistically significant in relation to Country Exposure Limit. These results indicate that the GCF model is the best model compared to the GDP model in terms of CEL at XYZ Bank.

Key Words: country exposure limit, international banking, country risk