Abstract

Master thesis touches upon the interesting spheres of risk classification, measurement and management of financial institutions. Modern banks have numerous credit risk measurement models at their disposal. However, agreement about performance of those models is not that unanimous and to some point the models are blamed for breaking out of 2007 financial crisis. In the theoretical part of the thesis we provide survey of risk measurement practices in banks. We investigate the main types of risk of banks in their day-to-day activities. Special focus is paid on the credit risk and on the models and techniques of its measurement; Practical part of thesis then contains construction and accuracy estimation of particular credit-risk-model (Altman Z-score). In it we construct and compute Altman Z-score for sample of firms from two chosen sectors in United Kingdom. Main goals of the work are a) testing accuracy of the model by comparing its outputs to real development, and b) econometric testing of the specification of the model itself.