ABSTRACT

The author of this master's thesis elaborates a new cash-based credit risk model. The author applies it to the case of a production company and compares the effectiveness of probability of default determination by cash-based credit risk model to the accrual-based credit risk model.

The author uses mixed methods of research, combining quantitative calculations with the analysis based on qualitative information. The author elaborates cash-based credit risk model based on Timothy Jury's template improved by the author. The accrual-based model chosen for the comparison and analysis is Altman's Z-Score model.

The results of the research show that cash-based model is more effective in credit risk and probability of default determination. Cash-based model indicates high risk of default for the production company in three years out of five, while Altman's Z-Score indicates company in a grey zone with moderate risk.

The author suggests to the financial institutions, financial managers and investors using cash-based credit risk model or the combination of it with accrual-based model.

Keywords: credit risk, probability of default, cash flow statement analysis, financial analysis, credit risk modeling, cash-based credit risk model, accrual-based credit risk model.