ABSTRACT

Credit risk has been one of the major risks confronted by China's commercial banks since the late 1990s. Tremendous non-performing assets and fierce competition among banks after China's WTO entry have made the credit risk measurement a critical issue for banks in China.

This thesis is an attempt to construct a credit risk measurement model for one of the four big commercial banks in China[1]. Employing a unique sample of 64 defaulted companies in 2003 and a matched sample of non-defaulted companies, the thesis investigates the significant factors that contribute to the credit risk of a large bank, and then formulate a logistic regression model to measure the credit risk. The results show that financial ratios measuring profitability, liquidity and developing capability have the most statistical power in differentiating defaulted from non-defaulted companies. Moreover, the model demonstrates excellent classification accuracies. The results of this thesis are of particular relevance in the current financial market scenario of increased deregulation and greater individual financial institution decision-making.

[1] They are Industrial and Commercial Bank of China, Agricultural Bank of China, Bank of China, and China Construction Bank.