

Abstract

This thesis focuses on the key credit risk parameter – Loss Given Default (LGD). We describe its general properties and determinants with respect to seniority of debt, characteristics of debtors or macroeconomic conditions, and discuss its role in Basel II framework. Further, we illustrate how the LGD can be extracted from market observable information with help of both the structural and reduced-form models. Finally, by using the adjusted Mertonian approach, we estimate the 5-year expected LGDs for companies listed on Prague Stock Exchange and find out, that the average LGD for this analyzed sample is around 20%.

Keywords: loss given default, credit risk, structural models, reduced-form models

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