Report on Bachelor/Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	Bc. Šárka Argayová
Advisor:	Mgr. Magda Pečená Ph.D
Title of the thesis:	Loan Book Credit Risk Stress Testing – Survey on Practice in the Czech Republic

OVERALL ASSESSMENT *(provided in English, Czech, or Slovak):*

The topic chosen by the author is an up to date subject and is gaining importance in the academic world as well as in risk management in financial institutions. The importance of stress testing was also highlighted in the New Basel Capital Accord and the recent financial crisis demonstrated the need for thorough stress tests in financial institutions.

The structure of the thesis is clear and leads to unambiguous answers to questions set up in the hypothesis. The second chapter of the thesis defines stress testing of credit risk. Chapter three introduces the VaR methodology and discusses possible ways of setting scenarios for the stress tests. Chapter four describes the standard models for economic capital calculations. I would like to point out excellent overview of academic literature of stress testing results that is provided in chapter five. Chapter six represents the core of the thesis, since the answers to the research questions are provided here. Moreover, the author offers a thorough discussion of the questionnaire results.

Chapter seven provides stress testing results conducted by the author based on data obtained from a bank operating in the Czech Republic. In my opinion, this chapter is a very welcomed bonus to the thesis. I consider it as something extra since the answers to the research questions are already given. The author demonstrates that it is necessary to take credit quality segmentation of a loan portfolio into account when conducting stress testing exercise. The author also demonstrated extraordinary skills in econometrics.

However, two parts of chapter seven would deserve better explanation. Firstly, regression models on p. 70 and p. 74 operate with time lags and no explanation why these time lags were chosen is given. For example, why are there 4 times lags in loans to GDP ratio and not 3 or 5? Secondly, the regression results for segmented data on p. 72 indicate that coefficients change sign with increasing / decreasing credit quality. For example, ind_prices coefficients have negative signs in ratings 1 to 7 and positive for ratings 9 to 13. The same happens with real_3M and EUR/CZK parameters. In my opinion, the changes of signs deserve an economic interpretation.

From the formal point of view, the presented thesis satisfies all criteria. I suppose that capital T's in all words that include the word "table" (like stable, unstable and suitable) are due to a technical error.

Overall, I assess the thesis as outstanding and suggest the **Excellent** evaluation. Moreover, I suggest nomination for the Dean award.

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SUMMARY OF POINTS AWARDED *(for details, see below):*

CATEGORY		**POINTS**
Literature	*(max. 20 points)*	20
Methods	*(max. 30 points)*	30
Contribution	*(max. 30 points)*	30
Manuscript Form	*(max. 20 points)*	19
TOTAL POINTS	*(max. 100 points)*	**99**
GRADE	**(1 – 2 – 3 – 4)**	**1**

NAME OF THE REFEREE: PhDr. Martin Kubíček

DATE OF EVALUATION: 16.6.2010

Referee Signature