

Report on Rigorous Thesis

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

Student:	Mgr. Ivana Hlavatá
Advisor:	PhDr. Jakub Seidler
Title of the thesis:	Reduced-form Approach to LGD Modeling

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

This rigorous thesis based on author's previous work presents currently a very important and discussed topic relevant for practitioners. The Loss given default modeling must be an integral part of each IRB advanced bank modelling agenda.

As well as the master thesis, this thesis is written in lucid English and shows deep understanding of discussed topics. Furthermore, we have to appreciate the use of matrix oriented programming language Matematica. In comparison with the master thesis, the author extended the used methodologies, the empirical part and enlarged the data sample.

The thesis is structured into 6 balanced chapters, which follow the main topics discussed. The logic follows proper research papers: Introduction, Methodology (chapter 2 – 4), Application (chapter 5) and Conclusion. I would like to draw attention especially to the methodological part, which is very well written and could be used as a basis for a text book.

The practical part attains the same quality of manuscript. The results based on the new data sample and new methodologies show much more intuitive outcomes than the previous set, which further improves the quality of the thesis. The changed logic of data (using bond yields instead of bond prices) brought significant improvement in the stability and reasonability of the results.

Similarly to the master thesis, I would welcome more emphasis on the contribution of the author; though the rigorous thesis broadens contribution. It is clearly seen how the author keeps improving her work. I suggest considering submitting a shortened version to IES WP series.

To conclude, the thesis combines advanced theory with practical calculations, presents a method to extract LGD's simultaneously with PD's from market prices of traded bonds. Hence, I have no hesitation suggesting **grade 1 – excellent**.

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

CATEGORY	POINTS
Literature (max. 20 points)	19
Methods (max. 30 points)	28
Contribution (max. 30 points)	20
Manuscript Form (max. 20 points)	20
TOTAL POINTS (max. 100 points)	87
GRADE (1 – 2 – 3 – 4)	

NAME OF THE REFEREE: BORIL ŠOPOV

DATE OF EVALUATION: 14th March 2012

Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

Strong Average Weak
20 10 0

METHODS: *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

Strong Average Weak
30 15 0

CONTRIBUTION: *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

Strong Average Weak
30 15 0

MANUSCRIPT FORM: *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

Strong Average Weak
20 10 0

Overall grading:

TOTAL POINTS	GRADE		
81 – 100	1	= excellent	= výborně
61 – 80	2	= good	= velmi dobře
41 – 60	3	= satisfactory	= dobře
0 – 40	4	= fail	= nedoporučuji k obhajobě