Report on Bachelor / Master Thesis

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

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

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

The author in her the thesis „Reduced-form Approach to LGD Modeling“ presents currently a very important and discussed topic very relevent for practical use. The Loss given default modeling must an integral part of each IRB advanced bank.
The whole thesis is written in lucid English and shows deep understanding of discusses topics. Furthermore, we have to appreciate the use of matrix orienteed programming language Matematica, which is not standard for master theses. After reviewing the methodology, the thesis presents a method to extract LGD's simultanesously with PD's from market prices of traded bonds with different seniority. These calculation is applied to market data and the results are compared to avalaible counterparts.

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, yet the data used limit the contribution of the thesis; results are sometimes counter intuitive; for example high LGD's. Needless to say, the presented method is reasonable, based on correct assumptions and the author assesses the results may be affected by assumption vilations. The author suggests the extension of the assumptions, e.g. to account for the liquidity risk priced in the bond prices, as pace of further research. Nonethesee, I would suggest discussing the results at the defence and the extend to which those may be affected by the set of assumptions. Moreover, I would welcome more emphasis on the contribution of the author. This is also the area, where the thesis should be improved and extended as part of the reseach necessary for the professional doctorate (PhDr.).

To conclude, the thesis combines advanced theory with practical calculations and presents a method to extract LGD's simultanesously with PD's from market prices of traded bonds. The thesis is well written and does show dedication of the author to the topic. The dedication is reflected in the brilliant methodological part and clarity of the whole text exceeding the theses standards. 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)*	27
Contribution	*(max. 30 points)*	17
Manuscript Form	*(max. 20 points)*	20
TOTAL POINTS	*(max. 100 points)*	**83**
GRADE	**(1 – 2 – 3 – 4)**	**1**

NAME OF THE REFEREE:* *Boril Šopov

DATE OF EVALUATION:* *5th September 2011

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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