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

The thesis is focused on the modeling of credit risk parameter LGD using so called "reduced-form models". The thesis is competently written; standard theory is appropriately described and explained with many references to the current literature. The theoretical background is strong and selected models are empirically applied for five European banks. This brings the main value added of the thesis – illustration of an empirical extraction of PD & LGD parameters from the different risky instruments of selected banks bonds. This analysis therefore enhances reduced-form models framework for estimating implied LGD parameter.

All relevant comments given by the supervisor were incorporated into the text during the process of writing. However, there is apparent a little rush while completing the thesis in selected parts of the manuscript, which should be improved, if the thesis will be submitted for rigorous thesis. Also, some argumentation and wording need to be revised slightly and sample of used bonds enlarged, which was not done because of time constraints.

Still, the thesis demonstrated author's good ability to understand advanced theoretical concepts of pricing of risky instruments and to empirically apply these theoretical models. It should be also highlighted author's effort to explain and describe all possible cons of used models when the empirical results are not in line with the models' assumptions.

Possible defense questions could be concerned with reasons, why theoretical models do not fit very well market data of low risky bonds.

Based on the technique quality of the submitted diploma thesis, I recommend accepting the thesis with **excellent.**

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

CATEGORY		POINTS
Literature	*(max. 20 points)*	18
Methods	*(max. 30 points)*	27
Contribution	*(max. 30 points)*	24
Manuscript Form	*(max. 20 points)*	16
TOTAL POINTS	*(max. 100 points)*	**85**
GRADE	**(1 – 2 – 3 – 4)**	**1**

NAME OF THE REFEREE: Jakub Seidler

DATE OF EVALUATION: August 16, 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