Report on Bachelor / Master Thesis

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

Student:	**Martin Dítě**
Advisor:	**doc. PhDr. Ing. et. Ing. Petr Jakubík PhD., Ph.D.**
Title of the thesis:	**Impact of Stress Testing on Bank Risk**

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

The diploma thesis focuses on an interesting and heavily discussed topic of the impact of the EU wide stress tests conducted in 2010 and 2011. It is important for regulators to understand how banks response to the results in order to communicate effectively the outcomes of such exercises. Hence, I consider the topic of the thesis as highly relevant to contribute to the contemporaneous discussions.

The study consists of six main parts. The first part provides the relevant theoretical background. The second focuses on a literature review and formulate the hypotheses. The following third part describes the employed data and applied methodologies. The fifth part discusses the conducted empirical analysis and the final part concludes. My main comments are related to the empirical part which is not described in a very clear way.

1) The methodology is not described very clearly and it is hard to figure out what exactly was done.
2) My main concern is about the model 1. Based on the formula provided, the variable related to the stress test results do not have any time dimension and are applied to all observations (209-2013, semi-annually data). It does not make much sense to me as the results of the stress tests should be linked only to the specific period perhaps interact with some dummy variable being 1 for the relevant period.
3) The author does not discuss the time dimension of the considered country-level information. For example GDP is typically available with one quarter lag and banks can respond to the output from the last period (last observable). This is not very clear.
4) Then the model 1 is used further to investigate the second and third hypotheses. However, in case of the problems with the model 1, the following results might be suffering from the inaccurate results of the model 1.
5) Overall, some summary table with the exact definitions of all variables employed and their time dimensions considered as well as their transformations is missing.

In my view, using dummy variable and interact them with the stress test results' variables would be an optimal solution. It is possible that author took the mentioned issues somehow into account, but did not describe it properly. Hence, those issues should be explained by the author during his defence.

Due to my comments related to the empirical part and depending on author explanation in the defence, I propose to assess the thesis by grade "B".

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

CATEGORY		POINTS
Literature	*(max. 20 points)*	18
Methods	*(max. 30 points)*	15
Contribution	*(max. 30 points)*	22
Manuscript Form	*(max. 20 points)*	16
TOTAL POINTS	*(max. 100 points)*	**71**
GRADE	**(1 – 2 – 3 – 4)**	**2**

NAME OF THE REFEREE: doc. PhDr. Ing et. Ing. Petr Jakubík, Ph.D., Ph.D.

DATE OF EVALUATION: 14.6.2015

Referee Signature