

Report on Bachelor / Master Thesis

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

Student:	Mikoláš Volek
Advisor:	doc. PhDr. Petr Teplý PhD.
Title of the thesis:	Counterparty credit risk modelling

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

The thesis is focused on counterparty credit risk allowing for correlation between probability of default and size of the exposure. Neglecting this important aspect might significantly underestimate the overall credit risk and lead to higher losses than expected.

After a short motivation, the thesis provides the overview of credit risk and counterparty risk methodology. The second chapter focuses on a credit value adjustment, default modelling and finally wrong way risk which occurs when the probability of default of counterparty is positively correlated with exposure. The third literature review chapter is focused on the last mentioned element. Then, the modelling framework of a credit value adjustment is introduced. The following short fifth empirical chapter uses the introduced framework to calculate a credit value adjustment under different wrong-way risk specifications. The final chapter concludes.

The author deals with a highly technical topic, using a very advanced methodological approach focusing on highly relevant issues. However, the thesis would benefit with more elaborated motivation in the introduction to explain which steps will be taken and how they are interrelated. Furthermore, there is a very extensive description of the methodology used, but the appropriate references are missing in many cases and it is very often not clear what is taken from the existing literature and what is the author's original contribution. Moreover, some basic theoretical aspects might be replaced by appropriate citation to literature. The overall style resembles the thesis from the mathematics rather than the typical economic thesis. The study could be organised better. Author uses the system of definitions, lemmas propositions and proofs. However, it is not clear whether the provided proofs are his own contributions as the sources are not consistently properly cited. Finally, the empirical part could be extended to utilize fully the methodology provided. More elaborated discussion of the results achieved might be beneficial for the thesis.

Despite my comments above, I appreciate a highly technical framework utilised as well as adequate language used. In the case of successful defence I propose to assess the thesis by the grade B – good.

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

CATEGORY	POINTS
Literature (max. 20 points)	12
Methods (max. 30 points)	25
Contribution (max. 30 points)	20
Manuscript Form (max. 20 points)	13
TOTAL POINTS (max. 100 points)	70
GRADE (1 – 2 – 3 – 4)	2

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

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Referee Signature