Report on Diploma Thesis

Topic: Credit Risk Assessment of Selected Banks

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Diploma thesis of the student Mingxing Zheng is concentrates on estimating the probability of default. A well-functioning banking system and stable banks are an important prerequisite for economic development in each country. In recent years, several major banks went bankrupt and many others fell into financial difficulties. Estimating the probability of bank’s default is a very timely and useful topic and also corresponds with the topics of diploma thesis at the Department of Finance.

The aim of this thesis is estimating the credit risk level, namely is estimating the probability of default.

Diploma thesis is divided into five main chapters, where first chapter is introduction, second chapter is theoretical and methodological, third and fourth is application. and the last chapter is conclusion.

Second chapter is concentrated on credit risk management. First, the author describes very simple financial analysis. Then attention is paid to description of credit scoring models. In this part are describes very briefly linear discrimination analysis model, linear regression model and logistical regression model. At the end of this chapter is also describes GaG scoring model. The chapter third is devoted to horizontal and vertical analyses of selected Chinese banks.

The most important part of the diploma thesis is the chapter fourth. In this chapter is estimating the probability of default. Sample for model estimation include 36 Chinese banks (non-default group has 22 banks and default group has 14 banks). Estimation of probability default is made by 3 scoring models (linear discrimination analysis model, linear regression model and logistical regression model). Selected models correctly predict between 80% - 92% (the highest percentage rate has linear discrimination analysis model with 3 variables and the lowest percentage rate has logistical regression model with 4 very similar variables. At the end of this chapter is made test for predicted models.

It is necessary to state, that this thesis is not clear for reader, there is no characteristic of credit risk, in introduction and in conclusion theses isn’t formulated the goal of this theses clearly,
methodology of logistical regression model isn’t described fully, there isn’t not introduced sample data and process of test for predicted models (chapter 4.5).

Although this thesis has weaknesses, is important to appreciate that the author has chosen the difficult topic. Because the aim of this thesis has been fulfilled and author also respects the formal guidelines, the diploma thesis can be recommended to defense.

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