Report on Bachelor / Master Thesis

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

Student:	Bc. Simona Ivančová
Advisor:	Prof. PhDr. Petr Teplý, Ph.D.
Title of the thesis:	Climate risk in financial market

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

Please provide a short summary of the thesis, your assessment of each of the four key categories, and an overall evaluation and suggested questions for the discussion. The minimum length of the report is 300 words.

Short summary
Climate risk, the risks of its manifestation and consequences (in terms of physical and transition risk) have ranked high among Chief risk officers (CROs) in 2023 and 2024.[1]. It only proves, that climate risk has become increasingly relevant in recent years, banking industry not excluded. However banking industry is primarily not affected directly but rather indirectly through challenges their clients face. This thesis of Simona Ivančová deals with the transition risk of one specific corporate segment of one significant Czech Bank.
She actually picked up a topic not yet fully captured by all the banks in the sector, but she got a unique opportunity to apply and analyze internal data set of one significant Czech commercial banks that - among other things - contains information on carbon footprint of corporate clients belonging to one specific lending segment - SME category.

The main contribution of the thesis is the search for the empirical evidence on the relationship between climate transition risk and credit risk. Transition risk variables consisted of three scopes - Scope 1 - carbon footprint, Scope 2 - financed carbon footprint, and Scope 3 - carbon intensity of the client. The thesis uncovered that Scope 1 emitters are generally less prone to credit default in the Bank. Interestingly enough, many research papers show that e.g. securities of Scope 1 emmiters/issuers perform better than the average issuers. The thesis also found out, on this limited sample, that Scope 2 and Scope 3 indirect emitters tend to default more - the level of Scope 2 and Scope 3 carbon footprint and carbon intensity was recognized as a potential driver of default.

Contribution
Simona Ivančová was able to contribute to current knowledge the impact of the climate change risk (transition risk) may have on banking business and its financial health, and this thanks to the unique real set of data provided by a commercial bank. This analysis may be also of high relevance to other commercial banks, esp. to the smaller and less sophisticated ones, which haven´t included these variables as credit quality drivers yet.

Methods
The methods used were adequate to the analysis performed (logistic regression). The methodology applied was consulted with doc. Baruník. I very much appreciate this pro-active approach.

Literature - I did not identify any shortcomings in Simona´s work with literature, the literature used was relevant and up to date.

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[1] E.g. https://www.ey.com/en_us/banking-capital-markets/ey-iif-global-bank-risk-management-survey

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Manuscript form
I did not find any shortcomings in the manuscript form, the thesis is logically structured, easy to follow, clear in hypotheses tested, results and their interpretation. The level of (English) language and formulation skills are high.

The results of the Urkund analysis do not indicate significant text similarity with other available sources, all other similarities are well sourced.

The further research directions would be how the resuls could be translated into pricing (of loans). Another challenge currently discussed is how and if at all, these new risk should be included in the regulation to support the transition of clients to climate neutrality.

In my overall view, the thesis is very good, fulfills the requirements for master thesis at IES, Faculty of Social Sciences, Charles University, I recommend it for the defense and suggest grade A.

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

CATEGORY	POINTS
Contribution (max. 30 points)	25
Methods (max. 30 points)	30
Literature (max. 20 points)	20
Manuscript Form (max. 20 points)	20
TOTAL POINTS (max. 100 points)	**95**
GRADE (A – B – C – D – E – F)	**A**

NAME OF THE REFEREE: Mgr. Magda Pečená

DATE OF EVALUATION: *Digitally signed (June 5, 2024)*

                                                                    Magda Pečená

                                          _____

                                                             Referee Signature

Please sign the report electronically using one of the following options:

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EXPLANATION OF CATEGORIES AND SCALE:

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.*

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.*

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

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.*

Overall grading:

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F