

SCIENTIFIC ADVISOR'S REFERENCE

Program:	Master in Corporate Finance
Student:	Vladimirov Dmitrii
Title of thesis:	Relationship between loan loss provisions and bank financial measures before loan loss provisions: practices of Russian banks

Justification of the topic choice. Accuracy in defining the aim and objectives of the thesis. Justification of the topic choice; accuracy in defining the aim and tasks of the thesis; originality of the topic and the extent to which it was covered; alignment of the thesis' topic, aim and objectives.

According to statistical data of recent years, volume of non-performing loans comprises around 10 percent of total credit portfolio of Russian banks. Reserves, created by banks, should reflect losses that are expected to be incurred due to inability of borrowers to meet their obligations on granted credits. These reserves are formed by provisions that are registered as expenses before taxes and are not included in total capital of credit entity. According to the theory, amount of created reserves depends on financial position of the borrower and the level of debt service. This should be so in theory, but do banks, and Russian banks in particular, create loan loss reserves according only to estimated credit risk? Or they have another additional motivation for creation of particular loan loss reserve amount? An attempt to answer this question is research study, conducted by Vladimirov D. The author of the paper formulates the research goal as the following: «To assess whether Russian banks adjust loan loss provisions via discretionary component, to identify underlying motives for these adjustments and propose managerial applications on the basis of obtained results». To achieve the stated goal, the author consistently solved the following objectives: he scrutinized the grounds of loan loss provisioning regulation in Russia and provided the evidence of presence of managerial discretion over estimation of provisions; analyzed the motivation for adjusting loan loss provisions for Russian banks and provided an overview of research papers devoted to such adjustment practices worldwide; conducted an empirical study to examine whether Russian banks use discretion in provisions' estimation and what is the key underlying motivation; analyzed the obtained results and deduced inferences.

Structure and logic of the text flow. Logic of research; full scope of the thesis; alignment of thesis' structural parts, i.e. theoretical and empirical parts.

The structure of the thesis is logical and all of the stated objectives are completed. The introduction of D. Vladimirov's thesis describes the essence of the problem, justifies the importance of the chosen topic and formulates the goal of the research and the set of objectives to be solved. The first chapter is theoretical; in this chapter he provides an explicit overview of loan loss provisioning according to Russian standards and shows that these standards are, in general, similar to those of Basel Accord. In addition, in this chapter he provides an evidence that bank managers in Russia have definite ability to use their discretion in estimation of provision. In the second chapter he analyzes the motives for adjustments of provisions for Russian banks, outline two key motives – income smoothing and capital management, and states that these motives are close to these of banks worldwide. He provides an overview of scientific literature dedicated to studying these adjustment practices worldwide. In the third chapter Vladimirov D. creates behavioral models for the two potential motives – income smoothing and capital management and conducts an empirically study using a two-stage regression modeling. Empirical part of the thesis is devoted to statistic and econometric analysis. On the first stage he estimates the non-discretionary component of loan loss provisions, that is, the component that reflects only credit risk considerations. Then, on the second stage he uses residuals from the first stage, that is, discretionary component of loan loss provisions and empirically tests hypotheses. As a result of the study the author provides conclusions and implications.

Quality of analytical approach and quality of offered solution to the research objectives. Adequacy of objectives coverage; ability to formulate and convey the research problem; ability to offer options for its solution; application of the latest

trends in relevant research are for the set objectives.
All of the objectives are solved. The chosen methodology corresponds with the approaches considered in the contemporary academic literature. The literature review is logically related to the topic of the thesis. The conducted research and its results demonstrate a good level of analytical skills of the author. In general, the quality of analytical approach can be evaluated as good.
Quality of data gathering and description. Quality of selecting research tools and methods; data validity adequacy; adequacy of used data for chosen research tools and methods; completeness and relevance of the list of references.
The data used in the study is relevant. The presented methodology and methods of quantitative analysis (statistical and regression analysis) are adequate for the conducted research. The list of references is relevant and contains recent papers as well as classical ones devoted to the issue under investigation.
Scientific aspect of the thesis. Independent scientific thinking in solving the set problem/objectives; the extent to which the student contributed to selecting and justifying the research model (conceptual and/or quantitative), developing methodology/approach to set objectives.
The thesis is conducted independently. The author applied existing methodology used in previous studies to provide analysis of relevance conducted an empirical study to examine whether Russian banks use discretion in provisions' estimation. Empirical findings are analysed and compared with the results of existing papers. Taking into account that there is relatively little amount of studies for Russia devoted to investigated problem, the paper has originality and practical value.
Practical/applied nature of research. Extent to which the theoretical background is related to the international or Russian managerial practice; development of applied recommendations; justification and interpretation of the empirical/applied results.
Empirical work was conducted for the sample that comprises top 193 Russian commercial banks. Annual data for the full period of 2008 – 2013 is collected from the Central Bank of Russian Federation database and comprises 1,158 bank-year observations. The results of the study enable to formulate a number of practical managerial implications. The advantage of the study is both the theoretical analysis and empirical research of the issue whether Russian banks use discretion in provisions' estimation. Thus, the applied value of the research can be regarded as high.
Quality of thesis layout. Layout fulfils the requirements of the Regulations for master thesis preparation and defence, correct layout of tables, figures, and references.
The layout of the thesis meets the requirements for master thesis preparation.

Note:

The Master thesis of Vladimirov D. meets the requirements for master thesis of MCF program, thus the author of the thesis can be awarded the required degree.

Date
11.06.2015
Scientific Advisor:
Asc. Prof.
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