

SCIENTIFIC ADVISOR'S REFERENCE

Program:	MCF
Student:	Rostislav Kotov
Title of thesis:	Bank covenants: construction and analysis given banks are risk-neutral

The theoretical model of this Master Thesis is based on a model provided in the article by Arshavskiy, Belyaev – “Bank covenants: the choice of optimal strictness”. The model was improved as the following changes were introduced into theoretical set-up:

- The assumption regarding bank's risk-aversion was removed, and the student showed that the basic results still hold with a more natural assumption of risk-neutrality.
- The student showed that one parameter that was kept constant in the original model can be changed and some interesting results can be derived in the form of comparative statics. The new result of the paper is that the higher part of company's income can be verified by the bank the stricter equilibrium debt covenants will be established

The student independently solved the full model numerically combining two programming languages: R and Mathematica. All numerical results are new to this thesis. The student demonstrated high proficiency in both languages.

The drawback of the paper is insufficient discussion of the main result derived in the paper (pages 37 – 40)

The Master thesis of Rostislav Kotov meets the requirements for master thesis of MCF program thus the author of the thesis can be awarded the required degree.

Date

July 03, 2013

Scientific Advisor: (*academic title, name*)

V. Arshavskiy

