

Report on Master Thesis

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

Student:	Bc. Matěj Maivald
Advisor:	Doc. PhDr. Petr Teplý, PhD.
Title of the thesis:	Bank credit risk management in the low-interest rate environment

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

Please provide your assessment of each of the following four categories, summary and suggested questions for the discussion. The minimum length of the report is 300 words.

Contribution – The master thesis shall deal with Bank credit risk management in the low-interest rate environment, but actually the thesis looks at how (or rather if) low interest rates influence the non-performing loans ratio, risk weighted assets and capital structure. The author presents and tests the three hypothesis. The thesis deals with no credit risk management issues, so the title is rather misleading.

Unfortunately, the author only very briefly describes and analyses the economic background and the variables presented. On page 17 he gives a very simplifying overview of the RWA concept, he omits the fact, that many banks do not apply the internal approach to weights determination, but so called „standard approach“, where the risk weights are fixed for certain categories of borrowers. The behaviour of average risk weight in IRB approach differs from the standard approach significantly (and the portfolio of banks seems to be a mix of STA and IRB banks, biased to STA banks (Austria – over 400 banks in the sample, IRB is used by a very minority of them; also, on page 24 the author claims, the largest business model in dataset are cooperatives, is the author aware of the model the cooperatives use?)). The IRB weights should be subject to regular regulators benchmarking and assessment (to achieve comparability across banks), but as the author says the IRB weights' behaviour through the cycle is subject to criticism. That is why Basel IV is coming with floors settings. The development of average risk weights is also influenced by the structural shift in the portfolio structure (shifts in corporate, sovereign, retail exposure structure) since the crises, it is not mentioned at all.

Although the thesis is full of econometric testing, the lack of economic discussion and superficial search for real economic interpretation is from my point of view the biggest drawback of the thesis. The author tests high number of variables, but neglects a deeper discussion. That is why I can not assign full points. Examples:

1. discussing high leverage (Equity to asset variable) in banking is inappropriate, capital base is a topic for itself in banking, very diverse and complicated, saying, that „highly leverage banks need a higher income to cover costs of debt“ makes little sense, bank is not a corporate. What if the bank has only low risk assets and that is why its capital base is low? ... (leverage ratio is now introduced with Basel IV, but it is not connected to cost of debt of a bank)
2. to use capital structure and Tier 1 capital ratio interchangeably (Hypothesis No. 3) is questionable. The hypothesis completely neglects the fact, that Tier 1 capital ratio reflects capital requirement set (individually) by regulator the bank must adhere to, the question is only what is the targeted surplus above this required minimum and the dividend policy.

Methods – I did not identify any shortcomings in methods used: hypotheses are clearly stated, dataset described. The range of (econometric) models used was standard and the application of the models was appropriate (with the comment mentioned in „Contribution“).

Literature – I did not identify any shortcomings in student's work with literature, the literature used was up-to-date and well sourced.

Manuscript form and other typos – I did not find any significant shortcomings in the manuscript form, the level of (English) language is high. The exceptions are e.g.:
Page 21 – 1 million USD – small bank?

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Page 33 – „smaller banks have higher lower...”

The structure of the text follows logic, is clearly structured, the orientation is easy. The student adheres to academic format for graphs, tables and references.

Summary and suggested questions for the discussion during the defense

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

CATEGORY	POINTS
Contribution (max. 30 points)	17
Methods (max. 30 points)	20
Literature (max. 20 points)	20
Manuscript Form (max. 20 points)	15
TOTAL POINTS (max. 100 points)	72
GRADE (A – B – C – D – E – F)	C

NAME OF THE REFEREE: Mgr. Magda Pečená, PhD.

DATE OF EVALUATION: 1.6.2019


Referee Signature