Abstract

This thesis consists of five essays dealing with the fee and commission income in European banks from the macro, sector and bank level perspectives. This topic is of high relevance since fee income represents the largest part of the non-interest income of EU banks. The first part of the thesis deals with banks in general terms, while the second part is focused solely on cooperative banks, which represent approximately 20% of the EU banking sector. We compare the magnitude of the bank fee income across EU countries and study its determinants and impacts on banks' performance.

The first essay compares the magnitude of the fee income across EU countries with a special emphasis on the Czech Republic from a macroeconomic perspective. First, we conclude that Czech banks are not abnormally dependent on fee income and their outstanding performance can be attributed to sound risk management, high liquidity and sufficient capital buffers rather than to excessive fees. Second, our evidence suggests that the share of fee income had an increasing trend in EU countries in recent years, which might be connected to the effort to maintain sufficient profitability in the low interest rates environment. We also discuss how new entrants, the so called low-cost banks, changed the banking sector in the Czech Republic.

In the second essay, we study the determinants of the magnitude of the fee income share with a special emphasis on market concentration. Our results suggest that banks facing higher competition tend to expand into non-traditional fee-bearing services, which in turn increases their fee income shares. Moreover, higher fee income shares are connected to higher equity to assets ratios, since more capital is needed to prevent or manage the potential risks of the non-traditional activities.

The third essay analyses the impacts of the fee income share on banks' performance in terms of profitability, risks and risk-adjusted profitability in the EU. We do not find any diversification benefits from increasing the fee income share. However, higher reliance on equity financing and better quality loans enhance banks' performance.

The fourth essay examines the determinants of the fee income share of cooperative banks in the EU. Using analogous methodology to the second essay, we conclude that in cooperative banks, the fee income share decreases as competition increases. This is probably connected to the fact that these banks stick with traditional activities and the retail banking fees are driven down by the competition.

The last essay deals with a current topic of a low interest rate environment and its impact on the net interest margins of commercial and cooperative banks in the EU. We show that cooperative banks were much harder hit by the decreased market interest rates compared to

commercial banks, which might be due to their ownership structure and more restrictive business regulations.