

IMESS DISSERTATION



Note: Please email the completed mark sheet to Year 2 coordinator (cc Chiara Amini chiara.amini@ucl.ac.uk and fiona.rushworth@ucl.ac.uk)

Please note that IMESS students are not required to use a particular set of methods (e.g. qualitative, quantitative, or comparative) in their dissertation.

Student:	Jiamin Cheng
Dissertation title:	The impact of the macroeconomic and the parent bank on the credit risk of subsidiaries of foreign banks: Evidence from CEE countries

	70+	69-65	60-61	59-55	54-50	<50
	A	B	C	D	E	F
Knowledge <i>Knowledge of problems involved, e.g. historical and social context, specialist literature on the topic. Evidence of capacity to gather information through a wide and appropriate range of reading, and to digest and process knowledge.</i>				58		
Analysis & Interpretation <i>Demonstrates a clear grasp of concepts. Application of appropriate methodology and understanding; willingness to apply an independent approach or interpretation recognition of alternative interpretations; Use of precise terminology and avoidance of ambiguity; avoidance of excessive generalisations or gross oversimplifications.</i>				55		
Structure & Argument <i>Demonstrates ability to structure work with clarity, relevance and coherence. Ability to argue a case; clear evidence of analysis and logical thought; recognition of an argument's limitation or alternative views; Ability to use other evidence to support arguments and structure appropriately.</i>			60			
Presentation & Documentation <i>Accurate and consistently presented footnotes and bibliographic references; accuracy of grammar and spelling; correct and clear presentation of charts/graphs/tables or other data. Appropriate and correct referencing throughout. Correct and contextually correct handling of quotations.</i>				55		
Methodology <i>Understanding of techniques applicable to the chosen field of research, showing an ability to engage in sustained independent research.</i>			62			

ECTS Mark:	D/58	Charles Mark:	D/65	Marker:	Petr Hanzlík
<i>Deducted for late submission:</i>			No	Signed:	
<i>Deducted for inadequate referencing:</i>			No	Date:	05 September 2021

MARKING GUIDELINES

A (UCL mark 70+) = A (Charles mark 91-100 - excellent): Note: marks of over 80 are given rarely and only for truly exceptional pieces of work.
Distinctively sophisticated and focused analysis, critical use of sources and insightful interpretation. Comprehensive understanding of techniques applicable to the chosen field of research, showing an ability to engage in sustained independent research.

B (UCL mark 69-65) = B (Charles mark 81-90- very good)
C (UCL mark 64-60) = C (Charles mark 71-80 – good): A high level of analysis, critical use of sources and insightful interpretation. Good understanding of techniques applicable to the chosen field of research, showing an ability to engage in sustained independent research. 65 or over equates to a B grade.

D (UCL mark 59-55) = D (Charles mark 61-70 – satisfactory)
E (UCL mark 54-50) = E (Charles mark 51-60 – sufficient): Demonstration of a critical use of sources and ability to engage in systematic inquiry. An ability to engage in sustained research work, demonstrating methodological awareness. 55 or over equates to a D grade.

F (UCL mark less than 50) = F (Charles mark 0-50 - insufficient): Demonstrates failure to use sources and an inadequate ability to engage in systematic inquiry. Inadequate evidence of ability to engage in sustained research work and poor understanding of appropriate research techniques.

Please provide substantive and detailed feedback!

Comments, explaining strengths and weaknesses (*at least 300 words*):

Overall, this is a nice thesis, and I can see that the author has put a lot of effort to prepare it. He has shown that he has a good understanding of the banking industry and that he also understands to a satisfactory level the situation in the region of Central and Eastern Europe. And I also appreciate that the thesis has one coherent story that it is trying to tell that the risk appetite and performance of parent bank influences the risk taking of the subsidiaries or branches of these banks operating in the CEE region.

However, I have few remarks on some drawbacks I noticed when reading the thesis.

- 1) First remark relates to the language. I understand that English is not the author's native language, but anyway I see some space for improvement in this area. The author sometimes uses sentences that are incomplete, or it is not clear how they are meant. For example, on page 47 I noticed multiple problems of this kind. In sentence "The predictable signs are consistent." I guess that the author meant to use the word "predicted" instead of "predictable" and moreover I suppose from the context that using a word "estimated" would be even better. Few lines below I see a (non-)sentence saying simply "0.095 units." Finally, another line below I see sentence "Expectation management may adopt aggressive investment strategies to expand credit when liquidity is strong, leading to credit risks." This sentence doesn't make sense to me.
- 2) Another example of sentences that I don't fully understand how they are meant is on page 33. This relates to the description of how liquidity of the bank can influence credit risk. Especially the part "If the proportion of accounts receivable or inventory may be too large, resulting in low efficiency in the use of assets. If the proportion of fixed assets is too large..." The terms accounts receivable, inventory or fixed assets are usually used in case of non-financial companies, not banks. Hence it is somewhat unclear what is meant in the context of bank balance sheet, e.g. if loans are fixed assets or accounts receivable, or if under inventory are meant bonds or other liquid assets.
- 3) In the chapter 2 "Overview of foreign banks in CEE" the author provides an insight on the historical development of the banking sector in CEE countries. However, on the example of the Czech Republic I can see that the privatization in 1990s is not described very well distinguishing the first phase of selling minority stakes via coupon privatization in the early 1990s leading to a phase known as "banking socialism" when the state kept majority ownership of the large banks encouraging them to provide bad loans to uncompetitive enterprises. And followed by final privatization of large banks in 1999-2001. It would be also appreciated to provide citations in this chapter where the author obtained information on the historical context.
- 4) In table 11 and on pages 54-55 the author presents results of system GMM estimation. The results are somewhat unclear to me as they are presented. I don't fully understand what are the values for AR(1), AR(2) and Hansen test, if they are test statistics or p-values. If they are p-values than I suppose that using S-GMM is correct approach. However, it should be probably used with two period lag instead of one period lag, since there is present second order autocorrelation.
- 5) On page 47 the author claims that "when the total assets of the bank increase by 0.0325%, the credit risk of the bank will add 1 unit." However, I see in the table 7 that the coefficient at logarithm of total assets is insignificant.

Specific questions you would like addressing at the oral defence (at least 2 questions):

- 1) The author supposes in hypotheses 1 and 3 that liquidity (of the bank itself or the parent bank) should have positive impact on the credit risk. However, I don't fully understand why this should be the case. The estimation results show an opposite effect that banks with better liquidity have also lower level of credit risk. (As I mentioned in the previous section in the point 2) the explanation on page 33 was unclear to me.) Therefore, I would like to ask the author to explain more on the link between liquidity of the bank itself as well as of the parent bank and the credit risk taken by the bank.
- 2) On page 40 the author mentions that the maximum value of non-performing loan ratio used as a proxy for credit risk in the sample is 83.7, i.e. that more than 80% of the loans on the banks balance sheet are defaulted. I cannot imagine how such bank can still operate. I would like to ask the author if this is only one outlier in the sample and if this bank is still operating or has bankrupted.
- 3) On page 47 and 49 the author mentions comparison of estimation methodologies fixed-effects and mixed-effects. Does he mean under mixed-effects the random-effects?
- 4) In table 10 when estimation is performed separately for subsidiaries and branches, the liquidity of the parent bank as well as of the daughter becomes insignificant contrary to the joint estimation. On the other hand, in case of branches the capital position of the parent or in case of subsidiary the capital position of the subsidiary becomes significant. Does the author have an idea why this is the case?
- 5) The profitability is significant explanatory variable in most specifications. However, should the profitability really be used as the dependent variable? Is it there not an opposite impact that banks with higher risk-taking behaviour can attain higher level of profitability as a result of this risk taking?