

Report on Master Thesis

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

Student:	Bc. Filip Fraňo
Advisor:	doc. PhDr. Petr Teplý, Ph.D.
Title of the thesis:	Bank Efficiency, Risk, and Capital in the Visegrad Group Countries

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

The aim of the thesis is to analysis the cost efficiency of banks in the Czech Republic, Hungary, Poland, and Slovakia during period 2008–2013. Further, the mutual relationships between the changes in the banks' cost efficiency, risk-taking, and capital position are studied. The results suggest that the Czech and the Polish banks have the highest average cost efficiency and that the negative relationship between the changes in risk-taking and cost efficiency and between the changes in capital position and risk-taking of the banks exist.

The thesis has three main parts (besides the introduction and the conclusion). The first part discusses the relation between capital, risk and efficiency and includes the literature review, the second part introduces the approaches to the measurement of the efficiency and describes the chosen measurement technique of stochastic frontier analysis and the third part is devoted to the presentation of the empirical results regarding efficiency scores and the mutual relationship between risk, capital and efficiency.

The overall impression form the thesis is positive. The author clearly states the goal of the thesis, explains in detail the empirical approach applied, especially with respect to the stochastic frontier analysis, and presents clearly the empirical outputs in charts and tables. Nevertheless, there are some comments which came on my mind when reading the thesis:

- 1) According to my opinion there might be some improvements in the structure of the chapter 2.
 - The subchapter 2.1.1 Capital Structure and 2.1.2 Bank Risk seemed to me rather confusing. They are rather broad in their topic and I did not fully understand the purpose of them. I would expect to have only one chapter which concentrates on the relation between capital and risk.
 - Although there is a special subchapter for the review of empirical literature (subchapter 2.3), the empirical literature review is in fact present also in other subchapters of chapter 2 e.g. 2.1.2 and 2.4. I would suggest having the review of the empirical literature more concentrated on one place.
 - Further, content of the chapter 2.4 could have potentially already been included in the introduction (perhaps in some shorter form) to motivate the reader why it is reasonable to analyze the countries of Visegrad Group.
- 2) With respect to the overall structure of the thesis, there might have been separate chapter on the hypotheses.
- 3) The discussion about the dependent variables on pp. 56 might have been more structured and even more specific as their choice is crucial for the empirical analysis. As the author admits that the selection of measure of risk is widely discussed issue, I would expect some more discussion on it, e.g. not only which authors used which measure but also why. Further, I would add that besides the market and accounting measures of risk mentioned by the author there are also regulatory measures like concept of non-performing loans or risk-weighted assets. Further, the author should state what measure is preferable according to him for the purpose of this thesis and why and conclude that he uses loan loss reserves and why (e.g. because it is the best measure or because the data for the most preferred measure are not available).

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- 4) With respect to the explanatory variable “regulatory pressure” I have some concern whether it is good idea to assign zero value to regulatory pressure in case the author is lacking the information on the capital adequacy ratio (meaning that a bank is not under regulatory pressure even in the reality it might be). At least I would suggest undertaking the estimation excluding the observations where the author lacks the information as a robustness check or complete the dataset directly from the bank annual reports which often include the information regarding the capital adequacy ratio.

In the case of successful defense, I would suggest evaluating the thesis by the grade 1 („excellent“).

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

CATEGORY	POINTS
<i>Literature</i> (max. 20 points)	15
<i>Methods</i> (max. 30 points)	28
<i>Contribution</i> (max. 30 points)	28
<i>Manuscript Form</i> (max. 20 points)	15
TOTAL POINTS (max. 100 points)	86
GRADE (1 – 2 – 3 – 4)	1

NAME OF THE REFEREE: *PhDr. Jitka Lešánovská*

DATE OF EVALUATION: 15. 9. 2015

Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

LITERATURE REVIEW: *The thesis demonstrates author's full understanding and command of recent literature. The author quotes relevant literature in a proper way.*

Strong Average Weak
20 10 0

METHODS: *The tools used are relevant to the research question being investigated, and adequate to the author's level of studies. The thesis topic is comprehensively analyzed.*

Strong Average Weak
30 15 0

CONTRIBUTION: *The author presents original ideas on the topic demonstrating critical thinking and ability to draw conclusions based on the knowledge of relevant theory and empirics. There is a distinct value added of the thesis.*

Strong Average Weak
30 15 0

MANUSCRIPT FORM: *The thesis is well structured. The student uses appropriate language and style, including academic format for graphs and tables. The text effectively refers to graphs and tables and disposes with a complete bibliography.*

Strong Average Weak
20 10 0

Overall grading:

TOTAL POINTS	GRADE		
81 – 100	1	= excellent	= výborně
61 – 80	2	= good	= velmi dobře
41 – 60	3	= satisfactory	= dobře
0 – 40	4	= fail	= nedoporučuji k obhajobě