Report on **Master Thesis**

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

Student:	Bc. Petr Kupka
Advisor:	prof. Ing. Oldřich Dědek CSc.
Title of the thesis:	The Impact of Competition on Bank Performance

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

Contribution
The thesis contributes to the literature on the link between banking sector competition and stability. It uses a number of various indicators for market competition or concentration and links it to measures of bank soundness and risks. I think the main value added is using an updated dataset (EU banks in 2011-2015), but the author is not very clear on this in the introduction and does not compare his study and his results too much to other existing studies. He claims that the value added is in confirming two opposing theories with one dataset, but I am not sure this is the case (see my comments below).

Methods
The selected methods and the array of used variables and models is in line with current practice in this type of research and thus appropriate. It is using the GMM estimation method, an appropriate tool for large N and small T with possible endogeneity bias in dynamic panels. The author demonstrates good skills to work with panel data. The thesis also includes additional post-estimation analysis (decomposition exercise etc.), a good practice in this type of studies.

Literature
The thesis reviews relevant theoretical and empirical literature in both competition-fragility and competition-stability area, including studies that try to merge these two approaches (such as the U-shaped relationship proposed by Martinez-Miera and Repullo 2010).

Manuscript form
Is appropriate, the document - written in TeX – is very well formatted and makes reading it enjoyable.

Comments and suggestions and overall assessment:
I find this master thesis **to be of a good, I would stay above-average quality**, and I **fully recommend it for defense**. It seems to me better (more elaborated and beyond the traditional master thesis level) on the econometrics side and slightly less persuasive on the economics (conceptual) side. Provided the author can confidently defend his conclusions, he deserves a final mark of excellent (Grade 1) given especially his econometric skills he demonstrated.

For discussion at the defense, I raise below a few issues that the author could address, especially if he wants to continue with this type of research in the future. Some of them are beyond requirements for a master thesis, but I think still worth considering and discussing.

1. The hypotheses could be formulated in a more precise way. First, the first two are in direct contradiciton (the first one, emphasizing the risk taking channel, is in line with the competition-fragility literature, while the second one is in line with compatation-stability view). One study should not have two contradicting hypothesis, but only one, which should be verified or rejected empirically in the study. The models fpr those two hypotheses could be presented as two specifications of the (same hypothesized) link. Second, the third hypothesis is not very well explained and there might also be another direction of influence – for example, in less competitive markets, if there is less risk taking, banks with market power could as well hold lower rather than higher equity ratios (even if they were more profitable, why to keep the retained earnings as a buffer against future risk when the risks are small, and not distribute them as dividends?).

2. Continuing on the previous point, I find it somewhat surprising that the data confirmed both first and second hypothesis, i.e. that more competition leads to more risk (as measured by risk weights) and less risk (as measured by NPLs) at the same time. What is behind this

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counterintuitive result? Shouldn't risk taking (risk profile) and ex-post realized risk be correlated? Is the problem in the different time dimensions? (NPLs being and ex post measure and while risk weights a current measure?)

3. The thesis could devote a bit more time to discuss pros and cons of selected variables, especially related to those measuring banks' soundness and risks. For example, it is well known that NPL ratio is not a very good measure of credit risk, as it is lagging, is influenced by the classification methodology (which could be country-specific), is not related to credit losses without looking at provisioning and collateral, is influenced by NPL write-off policies, and cannot capture risk taking in good times. Despite that, it is still used in academic literature as a measure of overall risk. Also, risk density is basically average risk weights, a term much more known and used in policy literature (and perhaps preferable to risk density, which has more of a statistical/distribution-based conotation). It is perhaps closer to risk taking, but not really measuring it (sometimes, banks accumulate risk in areas that look safe as measured by risk weights, for example in mortgages – see Irish or Spanish cases).

4. The section 4 on data should be richer – if the main value added of this work is using an updated dataset from a new database (EU banks 2011-2015), the data needs to be described more. The author should show main trends in charts, country and bank-specific developments and differences, and should hypothesize what is behind. Perhaps there were policy interventions in certain countries as regards some of the variables? (forced NPL write offs and reclasiffications of loans). Understanding the data and what is behind is a key before doing and econometric analysis, and the thesis should be a bit more than an econometric exercise over a new dataset.

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

CATEGORY		POINTS
Contribution	*(max. 30 points)*	20
Methods	*(max. 30 points)*	25
Literature	*(max. 20 points)*	18
Manuscript Form	*(max. 20 points)*	18
TOTAL POINTS	*(max. 100 points)*	**81**
GRADE	**(1 – 2 – 3 – 4)**	**1**

NAME OF THE REFEREE: Doc. PhDr. Adam Gersl, Ph.D.

DATE OF EVALUATION: *12.06.2017*

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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