

Report on Bachelor / Master Thesis

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

Student:	Yuye Zheng
Advisor:	Prof. Ing. Karel Janda, Dr., Ph.D., M.A.
Title of the thesis:	Development strategy of commercial banks

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

Please provide a short summary of the thesis, your assessment of each of the four key categories, and an overall evaluation and suggested questions for the discussion. The minimum length of the report is 300 words.

Short summary

The thesis of Yuye Zheng is focused on analysis of bank profitability, resp. analysis of determinants of net interest margin (NIM), where the determinants are a) bank-specific, b) sector-specific or c) of macroeconomic nature (standard macroeconomic variables). The student uses panel data of ca 250 EU banks and tests three hypothesis. The student applies standard econometric analysis. As there are many variables and potential interconnections and interrelations the student opens a lot of issues and shortly discusses them. For the ones, who are interested in banking and drivers of bank's profitability, it may represent a useful starting point for discussion.

The thesis is logically structured, but manifests many shortcomings. Although the results of Urkund do not show excessive similarity with other sources (the similarity of 33 % refers mostly to previous drafts of the thesis), certain parts are of excellent English, others are rather difficult to understand (examples in part Manuscript form).

Generally, the formulations and terms are unprecise and sometimes hinder understanding the message of the text clearly.

Although the hypothesis can be seen as straightforward and quite standardized (H1 specialization, H2 size and H3 region as drivers of profitability (NIM), we now look at one after another in more detail:

Hypothesis #1: The commercial banks specialized in offering financial services show the highest NIM.

Financial services are defined as „Financial services usually including checking and savings accounts, certificates of deposit and individual retirement accounts, insurances, consumer and commercial loans, financing for companies, offering investment management and securities to make long term or short term financial gain, ATM services, telephone banking, online banking with bill payment functions, Visa check cards, Visa credit cards, etc.“.

Based on this description I don't understand what other types of activities the banks might have, this list of activities covers whole range of banking activity. Further it is stated:

*In this thesis commercial banks are selected by their specialized filed, in other word, their main products and services, here we roughly identify them into 9 different type of banks. The classification is based on the descriptions of each banks products and services in Orbis Bank Focus database. The first one is the bank focus on individual customers and small corporations, **the second is the bank mainly providing financial products and services**, the third one is the bank getting main profit form deposits, the fourth is the bank preferring foreign markets and foreign commercial business, the fifth is the most basic commercial bank, it does nor prefer any type of services, the sixth is the bank that has customers mainly from big corporations and international companies, the seventh is the bank which basically focuses on banking services, the eighth is the bank involved in treasury services, the ninth is the bank mostly lending loans.*

The segmentation has substantial overlaps (maybe given by the shortened description in the thesis), but in my view it hinders the interpretation of results.

Hypothesis # 2: The NIM of small commercial banks has dropped significantly with negative interest rate.

I can intuitively understand this hypothesis, but a small bank is defined in this thesis as bank with **assets** lower than USD 10 mil. (pp. 22, 26, 36, indirectly 18) and in one place as a bank with assets

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up to USD 100 mil (page 18). The minimum nominal amount of **capital** to start a bank in the Czech Republic is USD 25 mil, in Europe it may differ jurisdiction by jurisdiction starting from EUR 15 mil to 25 mil. So, what are the banks the author writes about - banks with **assets** of up to USD 10 mil (or USD 100 mil)? Is it reasonable to analyse such tiny banks? Also, banks of this size can't be standard commercial banks, such tiny banks (if at all) are usually very specialized (tax purposes in Malta?). Is the segment defined properly? You would not even find such a bank in the Czech Republic (not even with USD 100 mil of assets).

Further, the comparison is done against 35 medium and 7 large banks. Is it enough if there are thousands of banks in EU? Why is the sample so limited and biased toward smallest banks ?

Also, UniCredit Bank (as a large bank) would be extremely surprised to read: „*We can get inspiration from the business development models of underdeveloped banking institutions in Europe, such as UniCredito Italiano in Italy*“ (p.12)

Hypothesis # 3 Western European countries' NIM is affected more than the rest of EU countries by negative interest rate.

Again, I can intuitively understand, what is meant by this hypothesis, but the author defines Western European countries as: “Belgium, France, Ireland, Luxembourg, Netherlands.”

Why specifically this group of countries is taken? Where is Germany, Denmark, Spain, Austria, Sweden, maybe even UK before Brexit ?.... Which group of countries is tested against which?

These are not the only drawbacks; many formulations and terms are very unprecise and hinder understanding the message of the text.

An example:

- Page 7 – „*Since 2015, banks must have at least 60% of high-quality liquid assets...*“. Here the author refers to LCR ratio, which says that net cash outflows under stress conditions over a 30 day horizon must be covered from 60 % by high quality liquid assets“... The message received from the thesis' formulation is completely different.

Contribution

Due to principal shortcomings in basic definitions the contribution is limited.

Methods

Are adequate. Similar papers on this topic use similar methods.

Literature

Is adequate and recent.

Manuscript form

The level of English is very variable.

Radom example of formulations that are difficult to understand:

This variable represent the banks' financial situation, when the lender is not possibly to cover all the value of the loan it becomes impaired loan (p.37).

But banks considering the loans impaired bases on the current situation and events, it means there is only some possibilities that banks will not get all the interest and principal, so there is not a significant impact on NIM (p. 37)

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In the study of Fišerová et al. (2015), the distinguish about different banking type was not proved has significant impact on banks performance (p.16)

On the other hand e.g. p. 11 seems to be copied from some other source (here specifically the Urkund shows similarity with previous submission of the draft). Every single sentence of these paragraphs is formulated professionally, and actually every sentence would need its own analysis to yield the stated conclusion. And the English is perfect.

Generally manuscript form is average, has potential for graphic improvement.

Overall evaluation and suggested questions for the discussion during the defense

I encourage the student to explain the principal shortcomings identified in hypotheses definitions.

I am sure the author demonstrated good technical knowledge of econometric analysis, but the content itself is not credibly presented. For these reasons in my view the thesis fulfills the requirements for a master thesis at IES, Faculty of Social Sciences, Charles University, only as a border case, I recommend it for the defense and suggest a grade E.

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

CATEGORY	POINTS
<i>Contribution (max. 30 points)</i>	10
<i>Methods (max. 30 points)</i>	20
<i>Literature (max. 20 points)</i>	15
<i>Manuscript Form (max. 20 points)</i>	10
TOTAL POINTS (max. 100 points)	55
GRADE (A – B – C – D – E – F)	E

NAME OF THE REFEREE: *Mgr. Magda Pečená, Ph.D.*

DATE OF EVALUATION: **18.1.2022**

*Digitally signed 18.1.2022
Magda Pečená*

Referee Signature

