

Advisor's Report on Dissertation Thesis

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Title of the Thesis:	Financial Performance of European Cooperative Banks
Type of Defense:	DEFENSE
Date of Pre-Defense	November 9, 2022

Address the following questions in your report, please:

- a) Can you recognize an original contribution of the author?
- b) Is the thesis based on relevant references?
- c) Is the thesis defensible at your home institution or another respected institution where you gave lectures?
- d) Do the results of the thesis allow their publication in a respected economic journal?
- e) Are there any additional major comments on what should be improved?
- f) What is your overall assessment of the thesis? (a) I recommend the thesis for defense without substantial changes, (b) the thesis can be defended after revision indicated in my comments, (c) not-defensible in this form.

(Note: The report should be at least 2 pages long.)

The research on European cooperative banks is relatively scarce and out the primary focus of both academics and practitioners. Regarding this fact, the financial performance and risk management of these institutions models are worthwhile to explore. As a result, Matěj Kuc has chosen an interesting and important topic for his doctoral thesis *Financial Performance of European Cooperative Banks*. As his advisor, I have cooperated on the thesis with Matěj very closely and co-authored three out of four essays. The thesis has been supported by four grants by The Czech Science Foundation (GA14-02108S, GA15-00036S, GA17-02509S and GA20-00178S) and two projects by the Charles University Grant Agency (GAUK No. 488317 and GAUK No. 105815), what further underpins the relevancy of the analyzed topic.

The work consists of four related essays. The first one *A Financial Performance Comparison of Czech Credit Unions and European Cooperative Banks* analyzes the financial performance of credit unions in the Czech Republic and the EU in 2006–2013. The authors identifies worse performance of Czech credit unions compared to their European peers. It is also highlighted that big credit unions in the Czech Republic has undertaken a non-sustainable business model depending on excessive risk taking while enjoying implicit subsidy via deposit insurance. Moreover, the author expected that under the capital management policies valid at the time of paper's writing, big Czech credit unions would likely face serious financial problems in coming years. However, this prophecy materialized as soon as in 2014 where two big institutions

collapsed in the Czech Republic (namely Metropolitní spořitelní družstvo and WPB Capital, spořitelní družstvo).

In his second essay *Are European commercial banks more profitable than cooperative banks? Evidence from a low interest rate environment* Matěj compares the profitability of European cooperative and commercial banks in a low interest rate environment in the 2009-2015 period. The tested hypotheses result in four main conclusions. Firstly, the author finds commercial banks maintain superior profitability over cooperative banks in this investigated period. Secondly, commercial banks unjustifiably decreased their loan loss provisioning in a low interest rate environment in order to maintain their profitability. However, this trend was not identified in cooperative banks. Thirdly, decreased provisioning was observed mainly in smaller institutions. Finally, cooperative banks were significantly more stable than commercial banks in terms of their Z-score in a low interest rate environment.

In the third essay *Cost Efficiency of European Cooperative Banks*, which has been prepared solely by Matěj, the author discusses the size–efficiency relation of European cooperative banks during the 2006-2015 period. An analysis shows that smaller European cooperative banks are significantly more cost efficient than their bigger peers and that the size–efficiency relation is linear. Moreover, inefficiency remained relatively stable during the whole observation period without any substantial changes, not even on country level sub-samples. The results imply that no consolidation of European cooperative banks induced by thrive for efficiency can be expected in the near future (i.e. these institutions are relatively efficient but do not report high profitability because of their high credit risk). Matěj sets policy recommendation to reflect special nature of cooperative banks and allow them to operate at a small scale.

Finally, the four essay *A Rollercoaster Ride of Czech Credit Unions* discusses the current situation of Czech credit unions in context of their past development, changing environment and legislative framework evolution (the paper was presented in an international conference in 2015). Based on the calculations at that time, Czech credit unions behaved such as small and risky commercial banks what contradicted to business models of the credit cooperatives operating in the EU.

A. An original contribution of the author

As mentioned above, the subject of the presented thesis is highly topical. Moreover, two of the essays have been published in journals with an impact factor, one was successfully presented in an international conference. Moreover, one was circulated in the IES Working Papers series. The above-mentioned facts indicates that Matěj's work reports an original contribution to the literature on European credit unions.

B. Relevant references

The presented thesis is based on relevant references. In line with my previous report, references have been updated, what improved the quality of the thesis.

C. Defensibility of the thesis

Four essays forms the thesis and two of the have been published in respected journals and went through a thorough review external process. This procedure is not common standard at respected foreign universities I have visited. Therefore I believe, that the thesis would be defendable at a respected foreign institution. The submitted thesis would be easily defendable at the Prague University of Business and Economics, where I give regular lectures.

D. Publication in a respected economic journal


As mentioned, two papers have been published in journals with an impact factor (International Journal of Finance and Economics, Prague Economic Papers), what fulfills the requirements set by the IES.

E. Major comments and recommendations

My comments have been incorporated to the final version of the thesis, therefore I do not have any additional remarks.

F. Overall assessment of the thesis

In conclusion, the thesis by Matěj shows that he has developed a solid academic approach, namely to identify and investigate hypotheses, and to draw relevant conclusions from that. The chosen topic is highly attractive subjects, which makes his contributions valuable to both academics and practitioners. I consider the thesis as a very good work and therefore I recommend the thesis for defense without substantial changes.

Date:	April 17, 2023
Advisor's Signature	
Advisor's Affiliation	Prof. PhDr. Petr Teplý Ph.D. (IES)