

# Report on Bachelor Thesis

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

<b>Student:</b>	<b>Tomo Ivovič</b>
<b>Advisor:</b>	Mgr. Magda Pečená, Ph.D.
<b>Title of the thesis:</b>	<b>The impact of liquidity risk on bank profitability: some evidence from European banking sector</b>

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

## Short summary and Contribution

The bachelor thesis of Tomo Ivovič investigates potential relationships between liquidity risk and bank profitability. Liquidity risk is represented by Liquidity coverage ratio (LCR, ratio introduced after GFC within Basel III framework) and more traditional Funding Gap Risk, profitability is represented by traditional measures such as ROA and ROE. Tomo collects samples of European banks supervised by the ECB (which means that significant and systemically important banks were included only) and enhances the analysis by dividing the region into two: Southern Europe and Northwestern Europe. The regression included additional macroeconomic and bank-specific variables. The time frame included 2018-2022, the period after LCR was fully implemented.

The common assumption of relationship of these two measures is obvious - higher liquidity (lower liquidity risk) means lower profitability as the liquid assets yield lower returns. However, the second decade of the 21<sup>st</sup> century showed that healthier banks were both profitable and liquid. (Actually, Czech banks reported „low risk“ as well (e.g. in terms of NPL), so the combination of high liquidity, high profitability and low risk has been achieved). The reason for this could be the overall good performance of the banks operating under stable economic conditions. The thesis provides discussion on this interesting issue.

The results of this analysis did not show any significant relationship between profitability and liquidity and it may prove that the direction is ambiguous. The bank's specific variables as C/I ratio and the size seemed to be the relevant determinants of the profitability, which only proves the result of many other studies.

I consider the thesis as a solid piece of work meeting all the requirements but with a limited contribution. Tomo has improved his academic skills enormously since he started to draft the thesis. I very much appreciate his effort.

## Methods

The methods used were adequate to the analysis performed. Tomo made use of standard econometric analysis and conducted appropriate tests.

## Literature

I did not identify any shortcomings in Tomo's work with literature, the literature used was relevant and up to date. Liquidity and profitability are topics widely covered in research.

## Manuscript form

I did not find any shortcomings in the manuscript form, the thesis is logically structured, easy to follow, clear in hypotheses tested, results and their interpretation. The level of (English) language and formulation skills are high. Tomo has referred to his use of AI tools.

## Overall evaluation and suggested questions for the discussion during the defense

In my view, the thesis fulfills the requirements for a bachelor thesis at IES, Faculty of Social Sciences, Charles University, I recommend it for the defense and suggest a grade **B**.

The results of the Urkund/Turnitin analysis do not indicate significant text similarity with other available sources.

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

<b>CATEGORY</b>	<b>POINTS</b>
<i>Contribution</i> (max. 30 points)	16
<i>Methods</i> (max. 30 points)	25
<i>Literature</i> (max. 20 points)	20
<i>Manuscript Form</i> (max. 20 points)	20
<b>TOTAL POINTS</b> (max. 100 points)	<b>81</b>
<b>GRADE</b> (A – B – C – D – E – F)	<b>B</b>

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

**DATE OF EVALUATION:** 26. 8. 2023

*Digitally signed (26. 8. 2023)*

*Magda Pečená*

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**Referee Signature**

