

Report on Bachelor / Master Thesis

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

Student:	Tomo Ivovič
Advisor:	Mgr. Magda Pečená, Ph.D.
Title of the thesis:	The Impact of Liquidity Risk on Bank Profitability: Some Evidence from European Banking Sector

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

Short summary

The thesis aims to explain the profitability of 34 European banks using data from 2018 and 2022. It divides the banks' data into north-western and south-eastern regions and uses panel regression in the analysis. The study uses proxies for liquidity risk and explains their impact on banks' profitability. The results for both the liquidity coverage ratio and the funding gap ratio are insignificant, and other factors provide some explanations for the data in question.

Contribution

The contribution of the work is appropriate for a bachelor's level, and most of it lies in the work itself and in the analysis of the most recent data. The current data and the reference to new regulations bring new information and an up-to-date contribution.

Methods

To study several banks in different years, the author uses panel regression analysis. He discusses and correctly chooses the use of pooled, within and random effects. The analysis is supported by appropriate tests and helps to validate the results. All can be seen in the code file attached to the thesis.

Comment/question: The R-squared of the two regressions presented in Table 6 for the SE countries is above 95%, what is the reason for this? Although it may not affect the results, it would be interesting to see if there is a trend in the panel data.

In addition, a reader might appreciate the presentation of the correlation matrix of the variables (including correlations with ROA) and also the results of the tests.

Literature

The author provides an adequate list of resources used. The introduction to the topic and the findings available in the literature seem well discussed and used to formulate the hypotheses in the thesis.

A critical comment on the literature and the text itself is that there are sentences in the text that appear to be arguments or explanations but are not backed up by any source or value that would support them, for example on page 28: *"Additionally, institutions in less stable economies may adopt a more risk-averse approach and hold more liquid assets, even well above the required threshold."* Is this a widely known and accepted fact?

Manuscript form

The thesis is well written and structured. As the author points out at the beginning, the use of tools to improve grammar and style could be beneficial and well used in this case. Tables and Figures are clearly presented and adequate to the text.

Unfortunately, although it is not uncommon for a bachelor's thesis, when reading the text there are some repetitions, e.g. liquidity and profitability, explanation of variables and ratios, their relationships are repeated several times in the text, etc.

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Overall evaluation and suggested questions for the discussion during the defense

The work is a properly conducted analysis with an attempt to explain whether liquidity risk proxies affect banks' profitability.

In my opinion, the thesis fulfils the requirements for a bachelor thesis at the IES, Faculty of Social Sciences, Charles University, I recommend it for defence and propose a grade of B.

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

Questions:

- 1) See Methods section above.
- 2) As the author says, the limitation may be the sample size, why the sample starts in 2018?
- 3) How do you explain that the LCR for banks from both regions is well above 100%? (Fig. 2)
- 4) Which bank has an ROA of -4.03, and why? (Table 4: Minimum ROA)

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

CATEGORY	POINTS
<i>Contribution</i> (max. 30 points)	25
<i>Methods</i> (max. 30 points)	25
<i>Literature</i> (max. 20 points)	17
<i>Manuscript Form</i> (max. 20 points)	15
TOTAL POINTS (max. 100 points)	82
GRADE (A – B – C – D – E – F)	B

NAME OF THE REFEREE: *Luboš Hanus*

DATE OF EVALUATION: *August 29, 2023*

*Digitally signed (August 29, 2023)
Luboš Hanus*

Referee Signature

EXPLANATION OF CATEGORIES AND SCALE:

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.*

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.*

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

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.*

Overall grading:

TOTAL	GRADE
91 – 100	A
81 - 90	B
71 - 80	C
61 – 70	D
51 – 60	E
0 – 50	F