Department of Banking Insurance

Faculty of Finance and Accounting, University of Economics

Referee report on the Doctoral Thesis

Student Name:	**PhDr. Milan Matejašák, MSc.**
Thesis Supervisor Name:	**doc. Ing. Petr Dvořák, Ph.D.**
Thesis Title:	**Basel III Impact on Czech Banks and Effectivity of Capital Ratios to Predict Bank Distress**

The 2008+ global crisis has changed the view on bank risk bank management and regulatory framework. Milan has chosen an interesting topic for his dissertation thesis that deals with issues that are highly relevant for both academics and decision makers in the Czech Republic and abroad. The thesis has a logical structure and is divided into five key parts. After introduction, the second part focuses on the impact of Basel III on banks in the Czech Republic, the others deal with bank capital management and bank´s financial performance in the context of bank distress. All three parts (papers) form a coherent text on a joint topic. While the first paper has been already published in the European Financial and Accounting Journal, a refereed journal, the second one has been published in Ekonomický časopis - Journal of Economics, a journal with impact factor. The last one has been recently submitted to Prague Economic Papers, a journal with impact factor. The final part concludes the thesis.

In the second chapter "Basel III: Will borrowing money from Czech banks become more expensive" the author analyzes the impact of regulatory pressure on lending spreads of six banks in the Czech Republic. Specifically, he discusses the policy risk of social security in these countries by computing the changes in social security wealth induced by the pension reforms undertaken since 1990s. His results show that the impact of tightened capital regulation on lending spreads in the Czech banking sector is not significant. The study is worked out nicely (broad comparison with existing literature, well-describe methodology) and the estimated models has a high discriminatory power. I will appreciate to answer the following questions during Milan´s defense:

1) How would affect the planned introduction of capital buffer "Minimum Requirement for own funds and Eligible Liabilities (MREL)" the results?
2) Why does the data sample consist of six banks only? How does it affect robustness of the presented outcome?

The third chapter "Basel III: How have Czech banks reached higher capital ratios" tries to identify strategies that 17 banks adopted in the Czech Republic in the 2009-2013 period. Initially, the author presents an overview of strategies to achieve higher capital ratio, followed by a description of the applied methodology based on Cohen and Scatigna (2014). In the empirical part investigates changes in bank risk, capital and total assets in the observed period serving as a good background for key results related to the sources of changes in bank capital ratios. The author concludes that increasing capital was the major strategy to increase the reported risk-weighted capital ratios. The author´s results implying that retained earnings played a key role in increasing capital buffers are not so surprising. In fact, Milan´s analysis confirms that the Czech banks are profitable and able to increase capital from their own sources (unlike many banks in the European Union, however). I would like to ask the following question:

3) Table 8 indicates that large banks reported lower RWA/total assets ration than both medium and small banks in the Czech Republic. What´s the author explanation? How is it relevant to the use of internal bank models by different types of banks?

In the four chapter "Can simple measures of capital adequacy outperform risk-weighted measures as predictors of bank distress?" the author uses the CAMEL model to evaluate the performance of risk-weighted capital ratios and simple leverage ratios to predict bank distress. The author applies logit methodology on the CAMEL ratios of 118 TOP European banks in the 2008-2012 in his research. The reported quantitative results sound reasonable and validated through standard statistical techniques such as Nagelkerke R^2coefficients etc. Surprisingly, the author concludes that risk-weighted measures do outperform simple leverage ratios as single indicators of bank distress (despite he is aware of this result´s limitations). I would like Milan to address the following question:

4) Table 15 and Table 16 indicates that *Liquidity* seems to be more significant for leverage ratios rather than risk-weighted capital ratios for the sample. What is explanation of that?

Overall, the thesis by Milan Matejašák shows that he has developed a solid academic approach, namely to review the existing literature and to identify and investigate open questions and to draw relevant conclusions from that. The topics chosen are highly attractive subjects which makes his contributions valuable, in particular to the financial industry and regulatory bodies.

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I consider this doctoral thesis as a good piece of academic work and support it to be accepted in the current form. Moreover, I recommend Milan expand his research on the second and third topics in the future.

Práci doporučuji k obhajobě před příslušnou zkušební komisí pro obhajobu disertačních prací.

doc. PhDr. Petr Teplý, Ph.D.
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