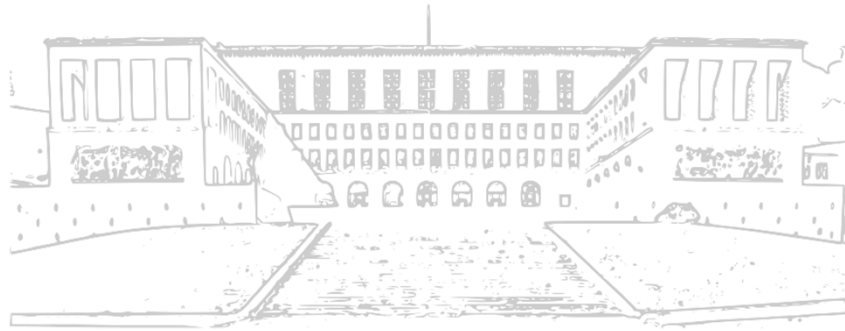


FINANCIAL MARKETS AND INSTITUTIONS

BANKS

A.Y. 2017/2018

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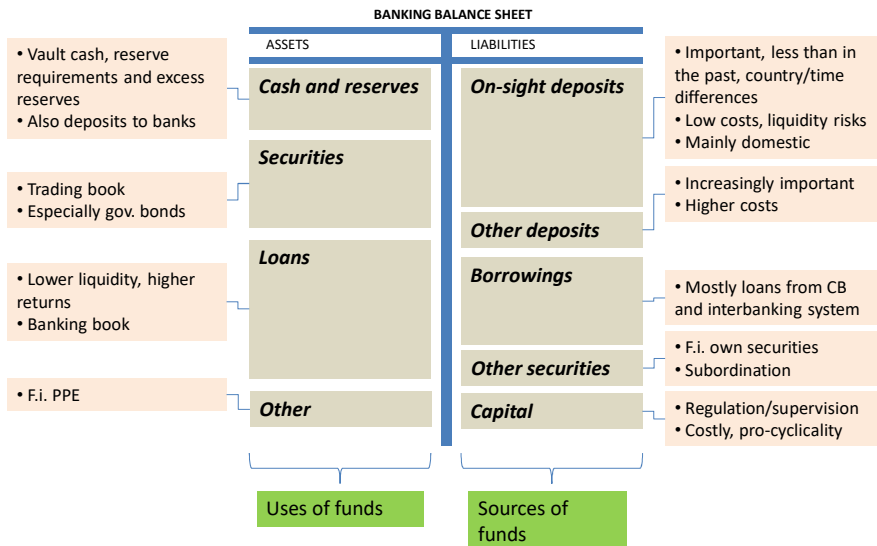


AGENDA

- Financial structure of banks
- Main banking management areas
- Banking performance
- Evolution and issues of banking

FINANCIAL STRUCTURE OF BANKS

- Typically, a bank has the following financial structure



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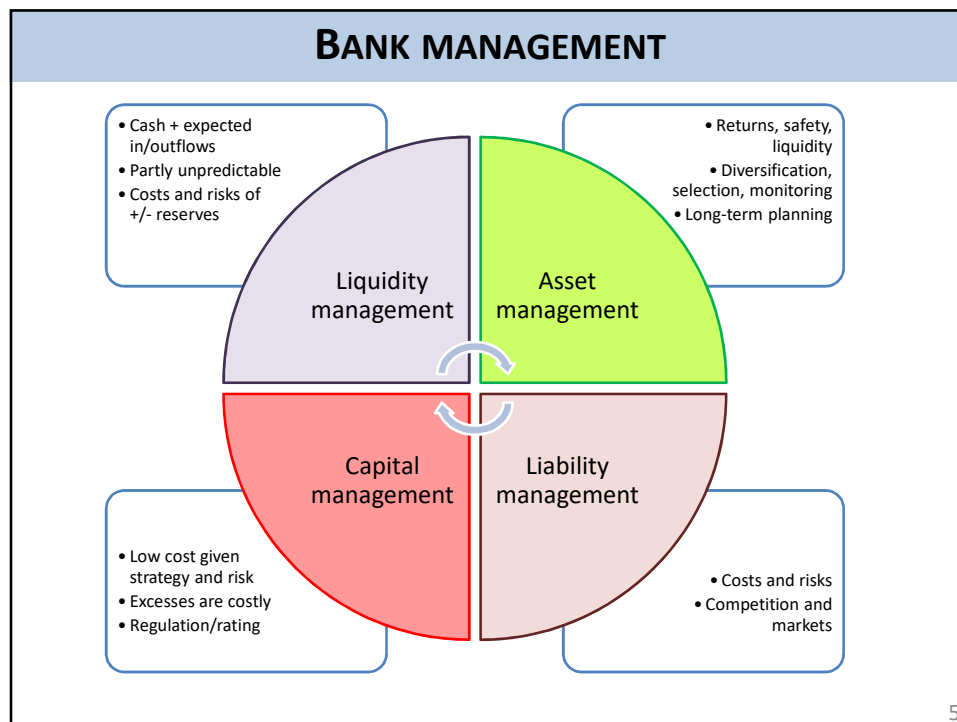
FINANCIAL STRUCTURE OF BANKS

Banking operations move around **asset transformation**:

- Selling liabilities** with features desirable by **lenders**
- Buying assets** with features desirable by **borrowers**
- Profitable if liabilities are cheap compared to returns on assets (rationale of intermediation), **considering also risks**
- Risks if short-term liabilities question bank's soundness compared with less liquid, longer-termed assets (bank runs)
- Transforming mainly **liquidity/duration** and **credit** risks, but extending to **geography** and **size**



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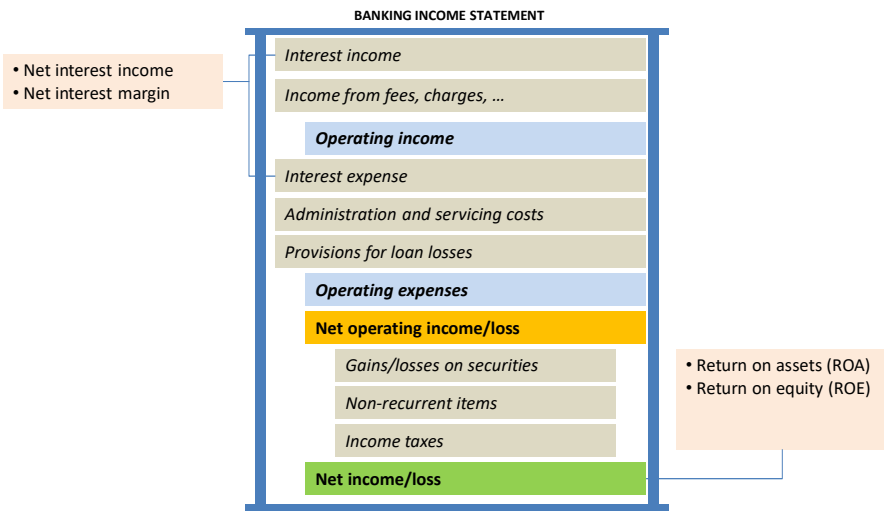
BANK MANAGEMENT

- Banks also provide products and services that do not influence balance sheets directly: **off-balance sheet** activities
- Main examples:
 - Servicing loan sales and securities' issues
 - Accessing markets on behalf of customers (Forex, stocks, ...)
 - Issuing guarantees on debt of customers or loan commitments
 - Trading in derivatives, commodities and currencies
- Off-balance sheet activities provide significant **profitability** but at the cost of material increases in **risk**-taking (leverage, pro-cyclicality, fair valuation, regulatory arbitrage, ...)

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BANK PERFORMANCE

- As a whole, can be derived from income statements



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EVOLUTION AND ISSUES

Historical and current major issues:

- heavy **regulation**, increasing **sophistication**
- separation between **lending** and **trading** in securities
- separation between **borrowers** and **ownership** of banks

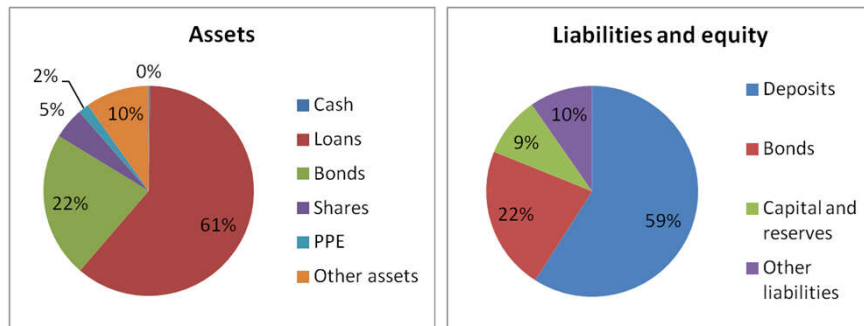
However:

- heavy regulation stimulates innovation to **arbitrage** across financial sectors (f.i. shadow banking)
- separation can be **circumvented** or avoided (f.i. country borders, securitisation, ...)
- innovation is faster** than rule-based regulation (f.i. web)
- regulation has **costs** lowering efficiency and competition (f.i. interest rate restrictions)

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EXAMPLES

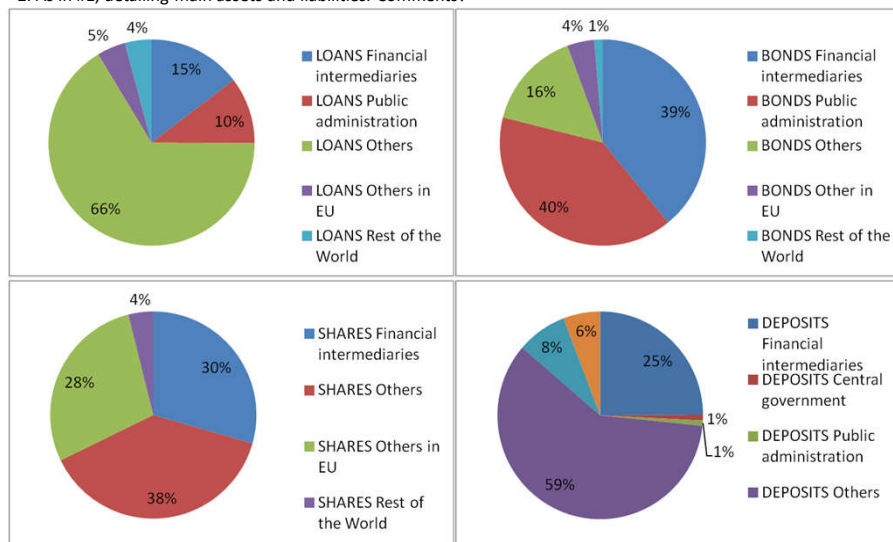
1. The following is the balance sheet of Italian banks as of 31 March 2013, totaling 4,213 billion €. Comments?



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EXAMPLES

2. As in #1, detailing main assets and liabilities. Comments?



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EXAMPLES

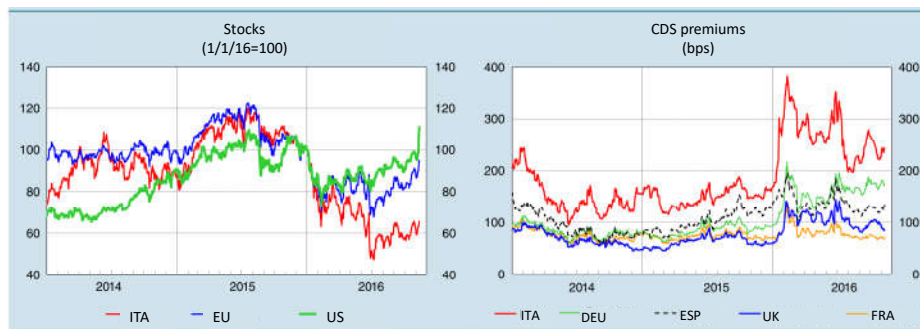
3. As before, detailing loans totaling 2,650 bln €. Comments?

Banks	ITA	347,293	13.09%
	EURO	80,867	3.05%
	ROW	90,129	3.40%
Monetary institutions	ITA	30,382	1.15%
	EURO	80,762	3.04%
Financial intermediaries	ITA	237,384	8.95%
	EURO	23,734	0.89%
Insurers and pension funds	ITA	4,819	0.18%
	EURO	161	0.01%
Government	ITA	184,846	6.97%
	EURO	605	0.02%
Public administrations	ITA	82,833	3.12%
Non financial companies	ITA	855,244	32.24%
	EURO	9,455	0.36%
Consumer families	ITA	499,635	18.83%
Production families	ITA	96,667	3.64%
No profit organisations	ITA	10,220	0.39%
Other	EURO	436	0.02%
	ROW	17,681	0.67%

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EXAMPLES

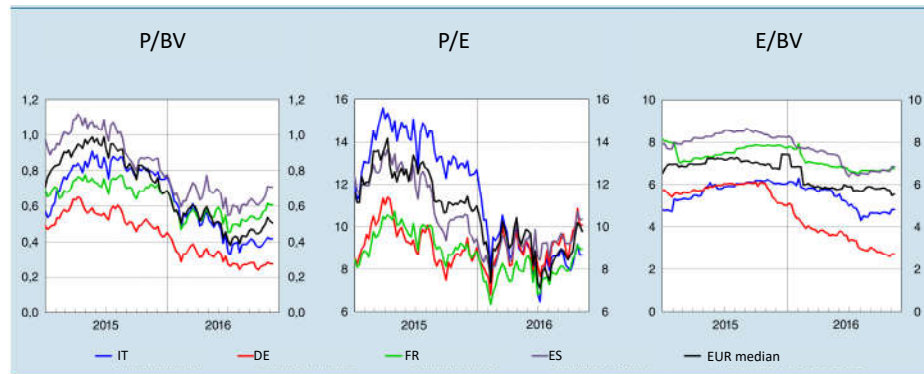
4. Banking stocks and CDS



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EXAMPLES

5. Listed EU banks fundamentals



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EXAMPLES

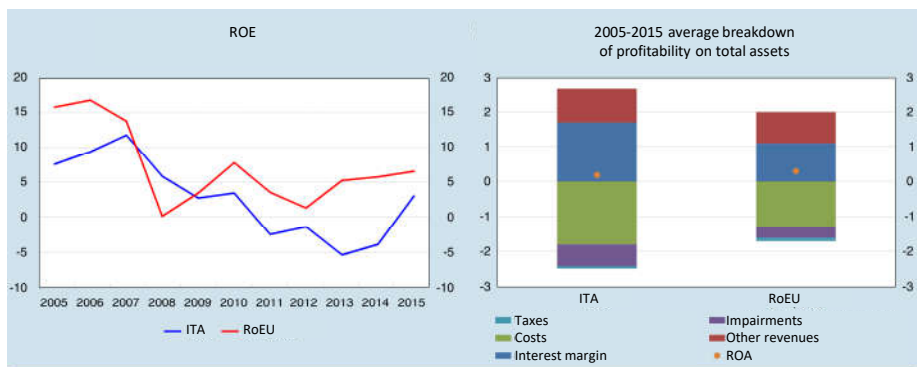
6. The following is the Italian banking income statement as of Dec. 2012 and 2016 (mln €). Comments?

	2012	2016	CAGR
Interest margin	37,092	39,808	1,78%
Other revenues	37,472	41,805	2,77%
Intermediation margin	74,564	81,613	2,28%
Salaries	-24,459	-31,801	6,78%
Other operational costs	-22,450	-28,250	5,91%
Operating result	27,655	21,562	-6,03%
Impairment on loans	-24,195	-33,228	8,25%
Other impairments	-6,057	-5,359	-3,01%
Other income and expense	-2,233	1,989	
EBT	-4,830	-15,036	32,83%
Income taxes	2,349	-1,340	
Net income	-2,480	-16,376	60,30%

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EXAMPLES

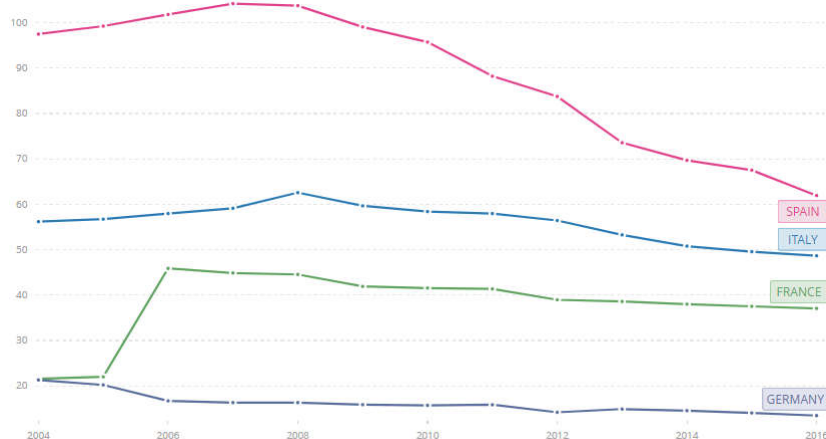
7. Only an Italian problem?



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EXAMPLES

8. Commercial bank branches per 100,000 adults



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