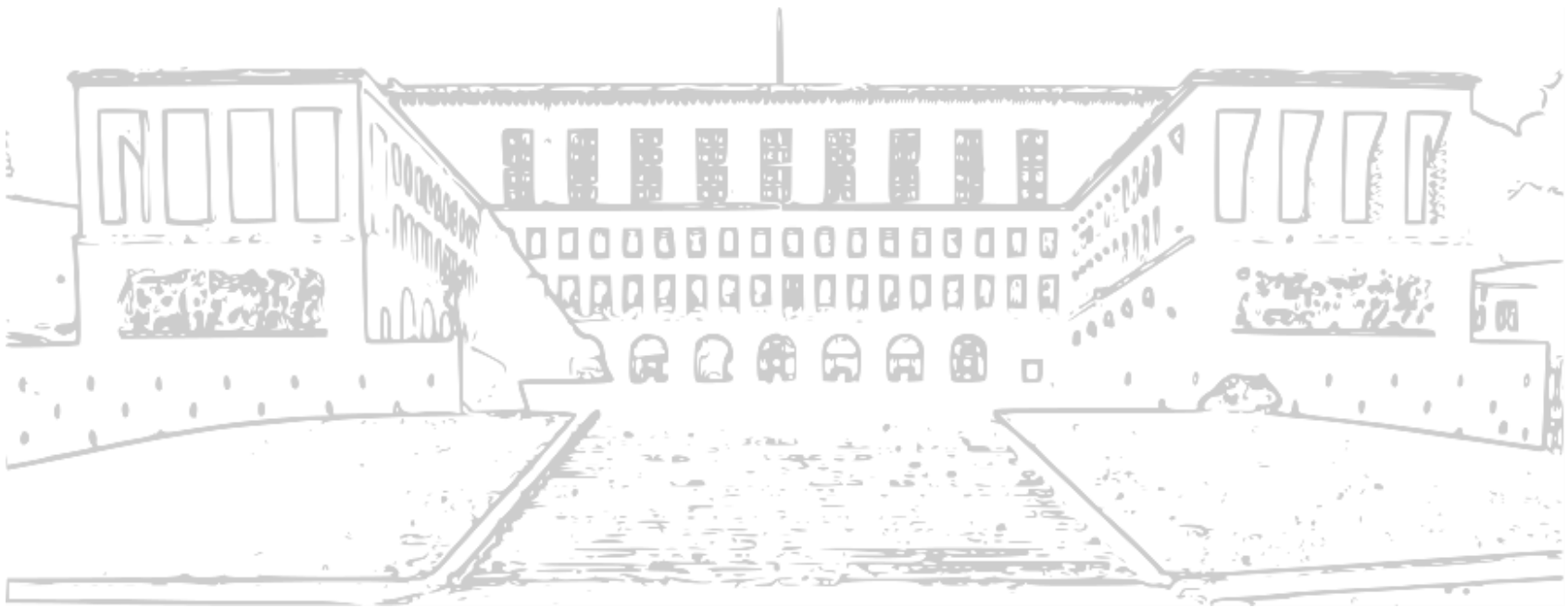


FINANCIAL MARKETS AND INSTITUTIONS

BANKS

A.Y. 2018/2019

Prof. Alberto Dreassi – adreassi@units.it



DEAMS
University of Trieste

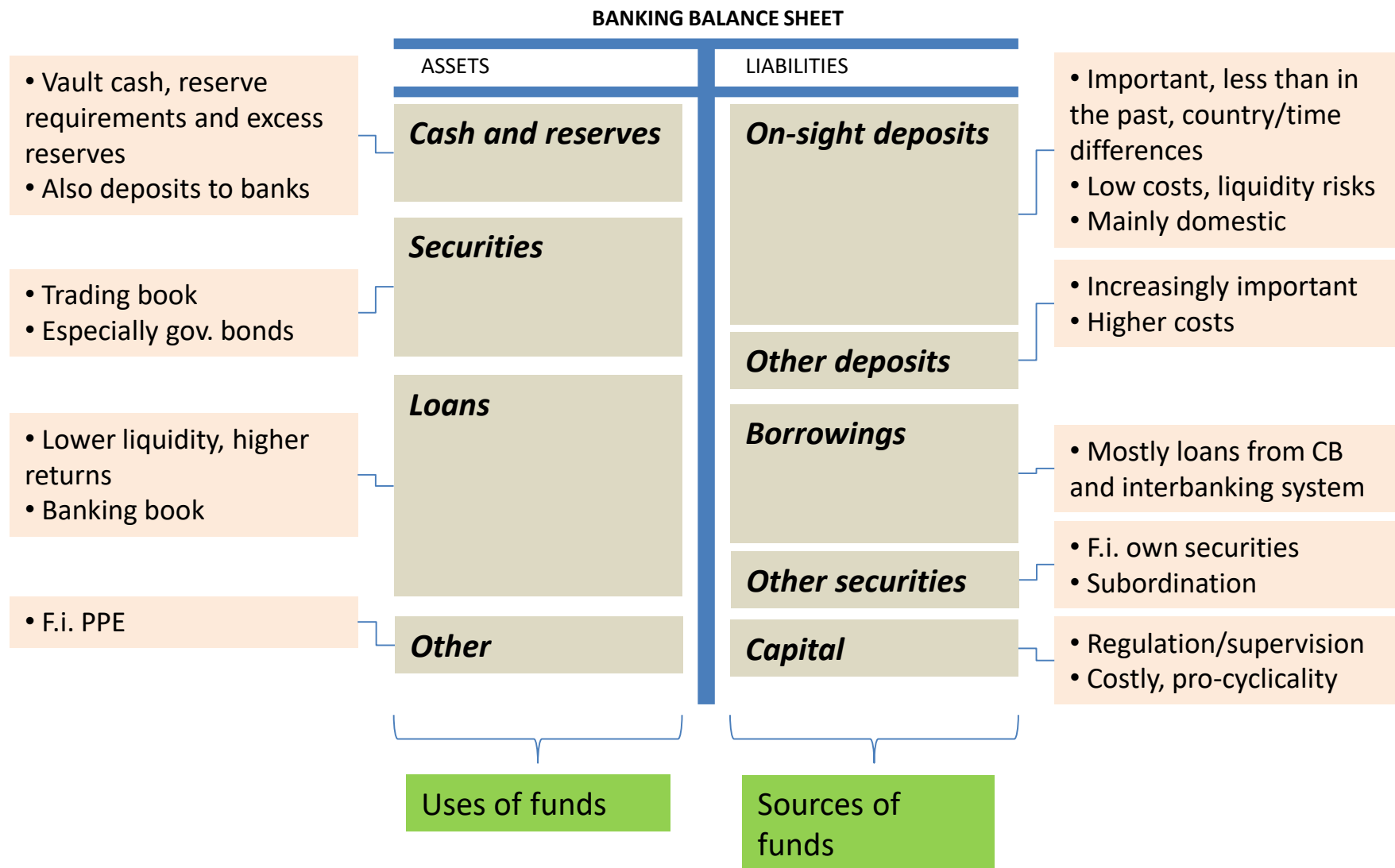
AGENDA



- 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



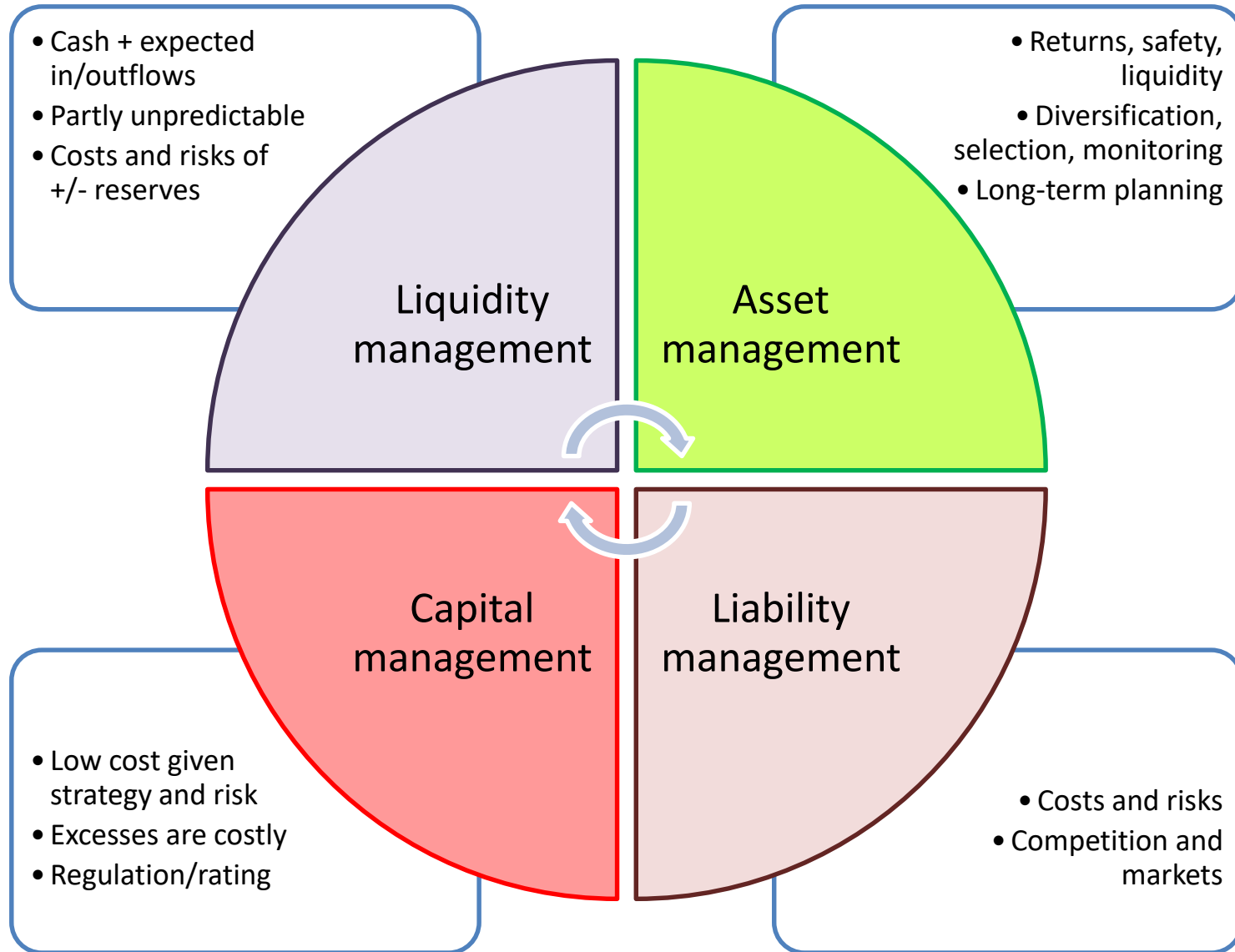
FINANCIAL STRUCTURE OF BANKS

Banking operations move around **asset transformation**:

- **Selling liabilities** with features desirable to **lenders**
- **Buying assets** with features desirable to **borrowers**
- Profitable if liabilities are cheaper than assets, **considering also risks and costs**
- Risks if short-term liabilities question bank's solvency compared with less liquid, longer-termed assets (bank runs)
- Transforming mainly **liquidity/duration** and **credit** risks, but extending to **geography** and **size**



BANK MANAGEMENT



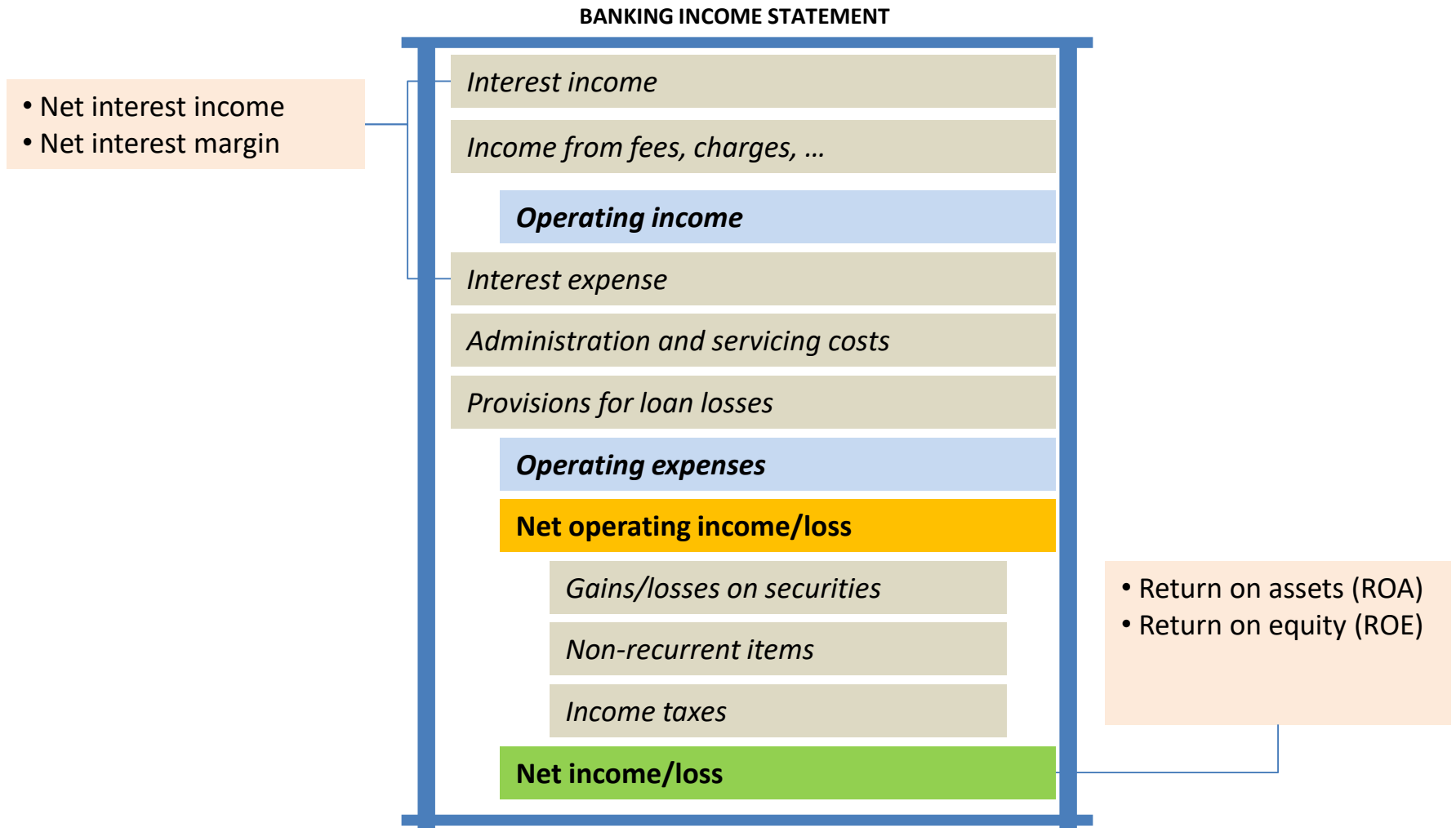
BANK MANAGEMENT

- 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, ...)



BANK PERFORMANCE

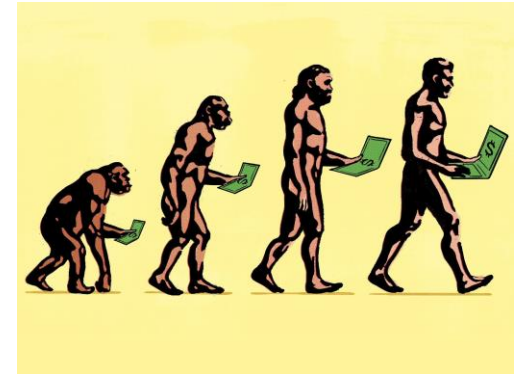
- As a whole, can be derived from income statements



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)

EXAMPLES

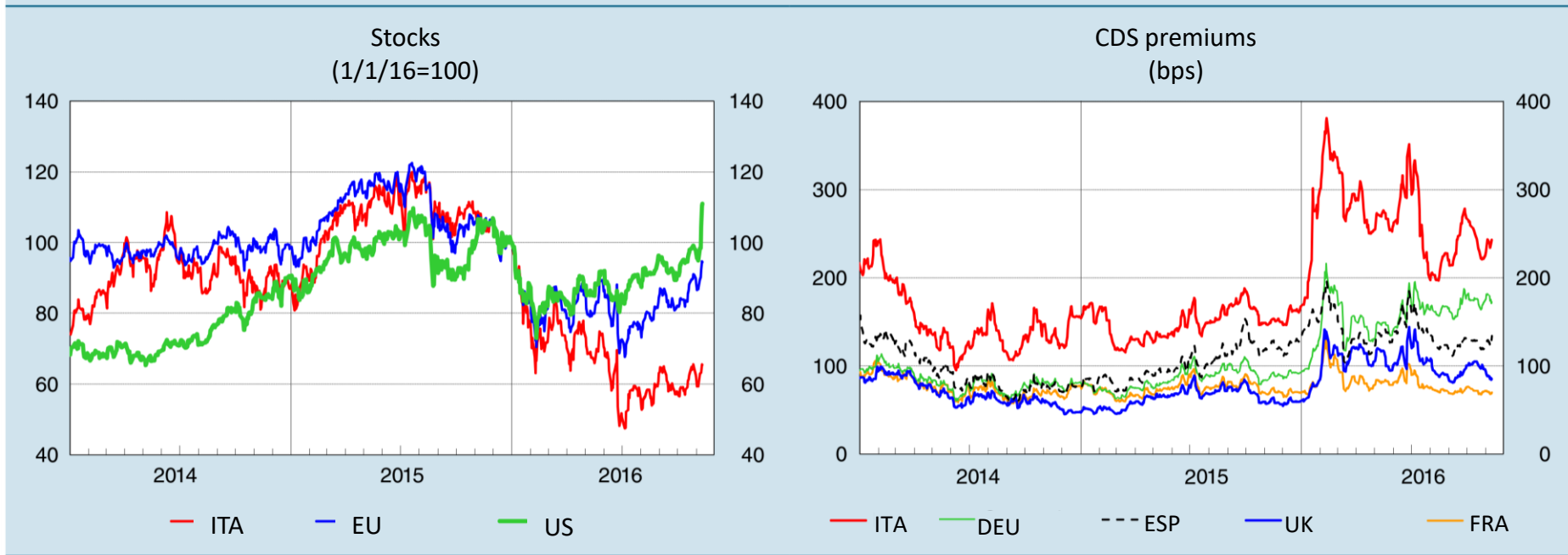
1. The following is the balance sheet of Italian banks as of 03.2018. Comments?

	MLN€	% of TA
Cash	10.379	0,3%
Loans to		
- IT	2.376.326	63,8%
- EU	108.165	2,9%
- ROW	105.954	2,8%
Bonds of		
- IT	530.653	14,2%
- EU	66.298	1,8%
-RoW	30.836	0,8%
Stocks of		
- IT	110.744	3,0%
- EU	52.622	1,4%
-RoW	16.922	0,5%
PPE	56.520	1,5%
Other assets	260.587	7,0%
TOTAL	3.726.006	100,0%

	MLN€	% of TA
Deposits from		
- IT	2.390.208	65,9%
- EU	96.779	2,7%
- RoW	102.641	2,8%
Debt	327.078	9,0%
Other liabilities	265.349	7,3%
Equity	443.951	12,2%
TOTAL	3.626.006	100,0%

EXAMPLES

2. Banking stocks and CDS



EXAMPLES

3. Listed EU banks fundamentals

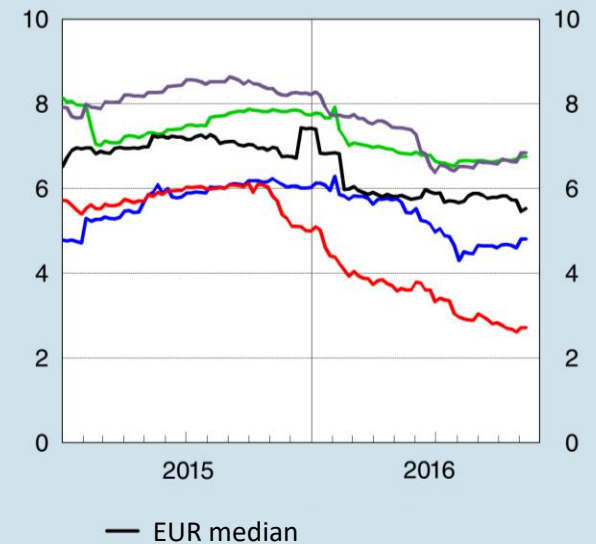
P/BV



P/E

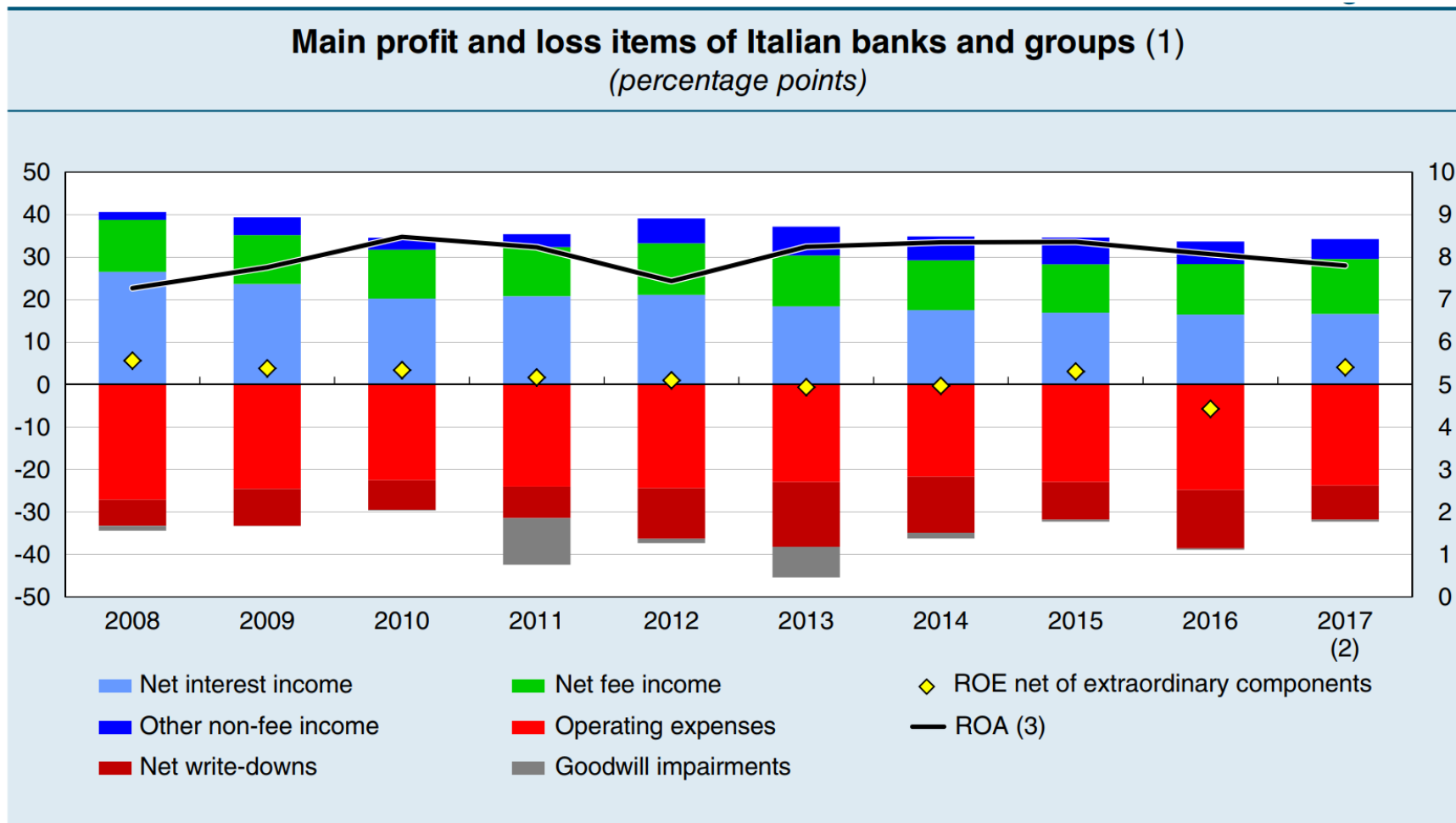


E/BV



EXAMPLES

4. Economic flows across time. Comments?



EXAMPLES

5. Interest rates

Bank interest rates on loans and deposits in euros to households and non-financial corporations (1)
(percentages)

PERIODI	Loans (2)					Deposits (4)		
	Households		Non-financial corporations			Households and non-financial corporations		
	APRC-consumer credit	APRC-home purchase loans	Current accounts and revolving credit	Up to €1 mln (3)	Over €1mln (3)	Total	of which: current accounts	of which: with agreed maturity
2014 – Dec.	8.11	3.08	4.65	3.31	2.16	0.73	0.29	1.82
2015 – Dec.	7.93	2.81	4.03	2.72	1.46	0.52	0.16	1.42
2016 – Dec.	7.63	2.32	3.51	2.27	1.12	0.41	0.09	1.23
2017 – Jan.	8.26	2.38	3.62	2.28	1.06	0.41	0.08	1.20
Feb.	8.18	2.47	3.54	2.21	1.03	0.41	0.08	1.18
Mar.	8.13	2.54	3.29	2.16	1.23	0.41	0.08	1.16
Apr.	7.92	2.49	3.26	2.18	1.04	0.40	0.08	1.14
May	8.10	2.50	3.22	2.13	1.14	0.40	0.07	1.14
June	8.49	2.47	3.12	2.08	1.15	0.40	0.07	1.12
July	8.49	2.45	3.16	2.14	1.08	0.39	0.07	1.12
Aug.	8.65	2.51	3.16	2.15	1.12	0.39	0.07	1.12
Sept.	8.51	2.41	3.04	2.06	0.97	0.39	0.07	1.11
Oct.	8.46	2.37	3.11	2.02	1.06	0.38	0.06	1.10
Nov.	8.28	2.32	3.04	2.00	1.03	0.39	0.06	1.08
Dec.	8.05	2.27	3.00	2.00	1.16	0.38	0.06	1.06
2018 – Jan.	8.45	2.27	3.01	1.90	1.08	0.38	0.06	1.03
Feb.	8.44	2.25	3.02	1.99	1.08	0.39	0.06	1.01
Mar.	8.38	2.24	2.95	1.99	1.04	0.40	0.06	0.99

EXAMPLES

6. Commercial bank branches per 100,000 adults

