

B11. BANKS

FINANCIAL MARKETS AND INSTITUTIONS

A.A. 2022/23

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TOPICS



- MAIN BANKING MANAGEMENT AREAS
- BANKS' FINANCIAL STRUCTURE
- BANKING PERFORMANCE
- EVOLUTION AND ISSUES IN BANKING

BANK MANAGEMENT

Banking operations move around **asset/maturity transformation**:

- **Selling liabilities** with features desirable to **lenders**
- **Buying assets** with features desirable to **borrowers**
- Profitable if liabilities cheaper than assets, **considering also risks and costs**:
 - **Liquidity risks**: unbalance between short term sources/uses of cash (i.e. loans & securities VS deposits, bank runs and safety nets)
 - **Credit risks**: assets and off-balance sheet exposures (esp. loans)
 - **Market risks**: from trading book and collateral
 - **Operational risks**: human resources, IT, controls, ...
 - **Other**: reputational, legal, strategic



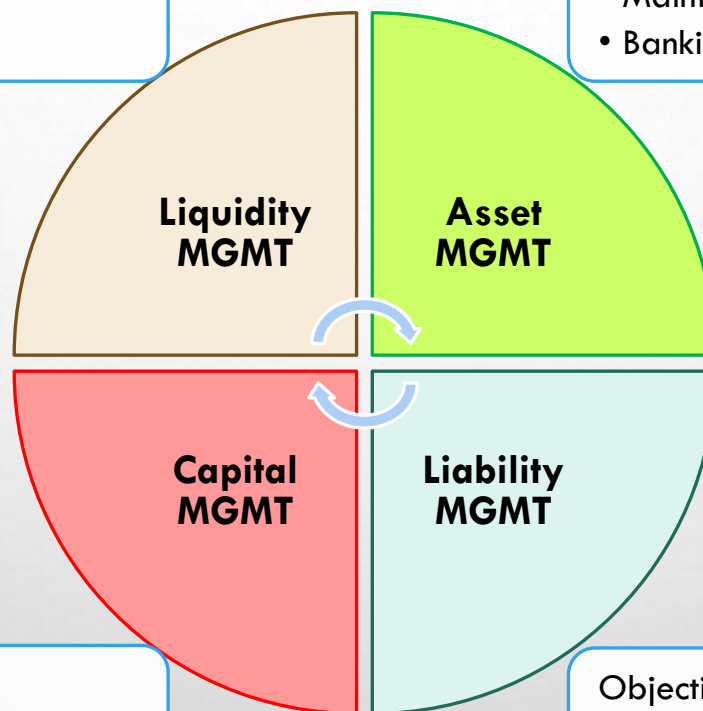
BANK MANAGEMENT

Objectives:

- Desired cash levels while predicting/managing in/outflows
- Building PTF of liquid assets or short-term funding channels to deal with unpredictability
- Control costs and risks of reserves

Objectives:

- Profitability constrained by desired levels of safety and liquidity
- Achieving diversification, selecting borrowers, monitoring
- Maintaining flexibility / planning long-term
- Banking/trading portfolios



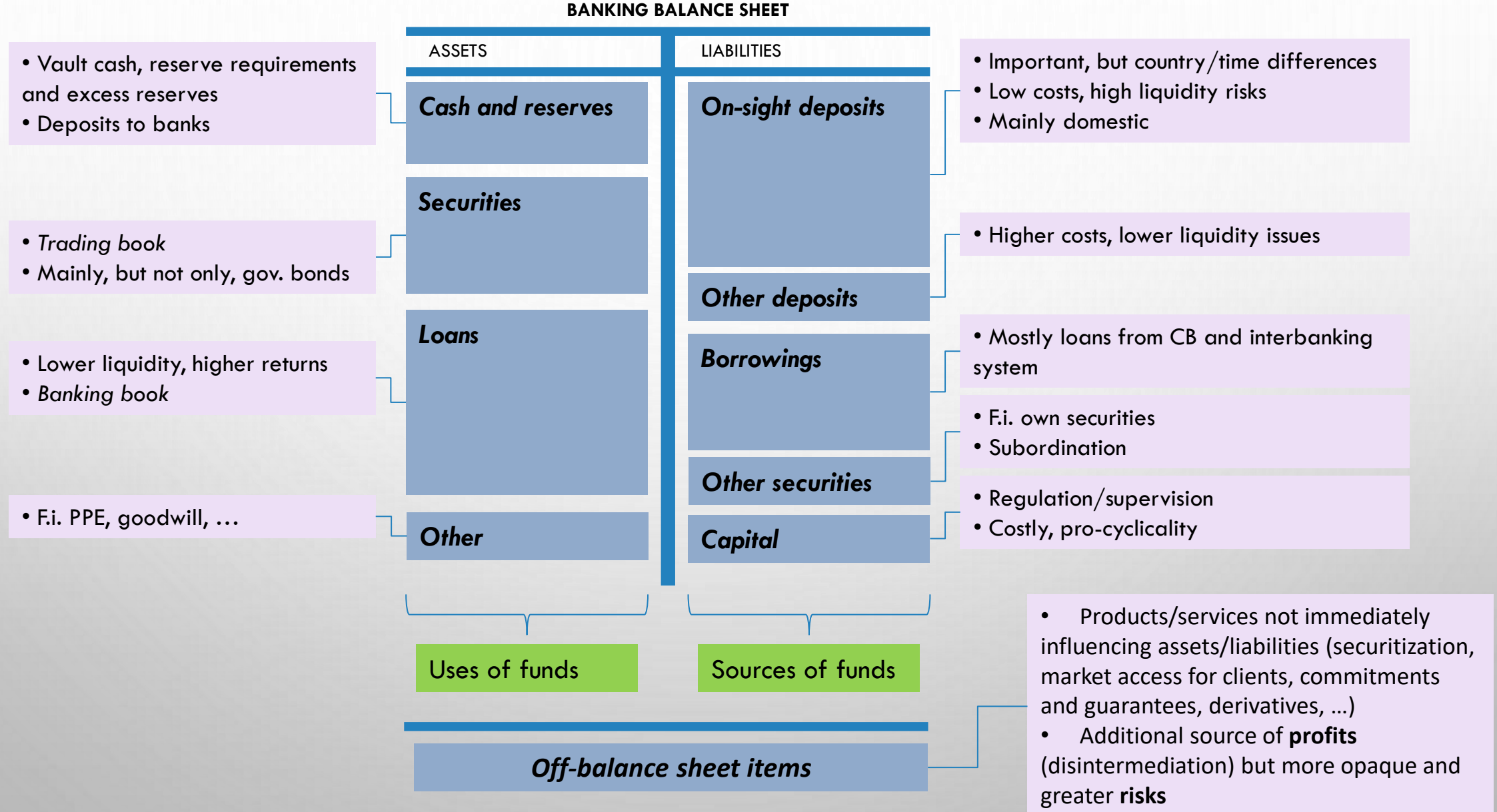
Objectives:

- Comply with shareholders' mandate, rating requirements and regulation
- Keep K_e under control considering strategy, risk, competition and markets

Objectives:

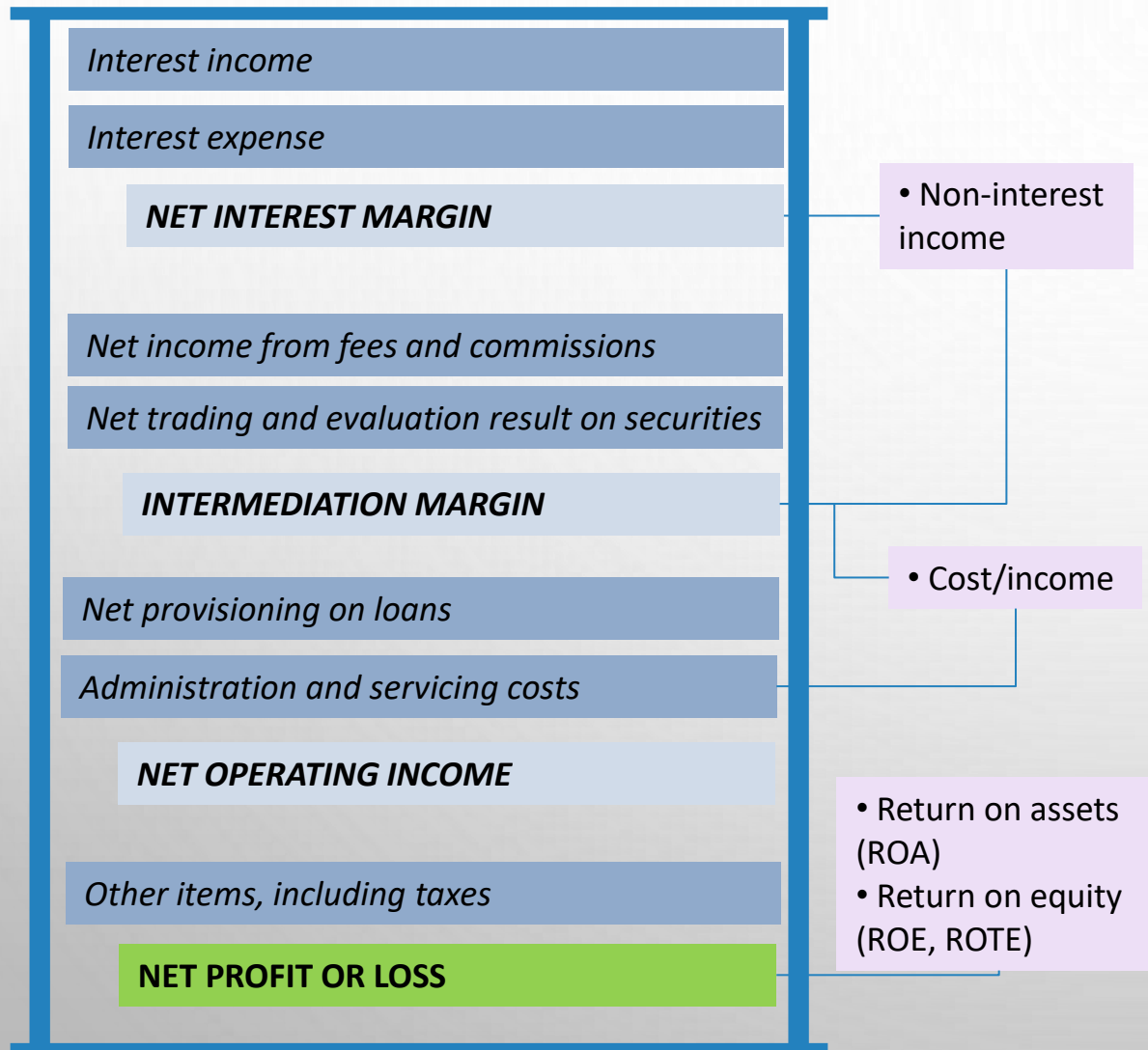
- Funding activities while complying with competition, demand preferences and evolution of markets
- Considering costs, flexibility, quickness and risks

FINANCIAL STRUCTURE OF BANKS



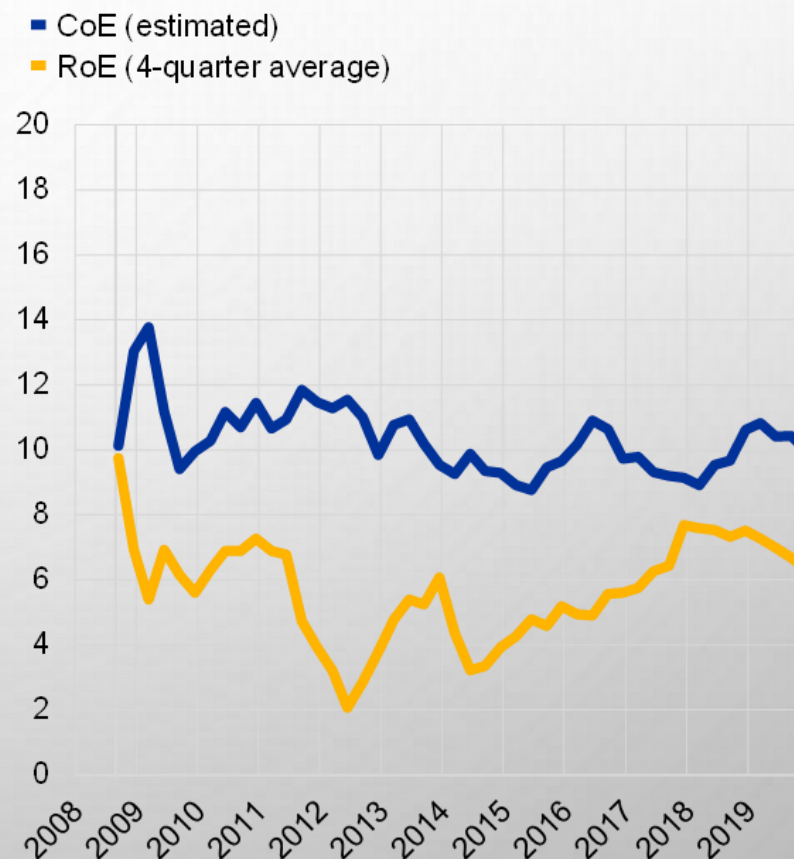
FINANCIAL STRUCTURE OF BANKS

BANKING INCOME STATEMENT



a) Return on equity (RoE) and cost of equity (CoE) in the euro area

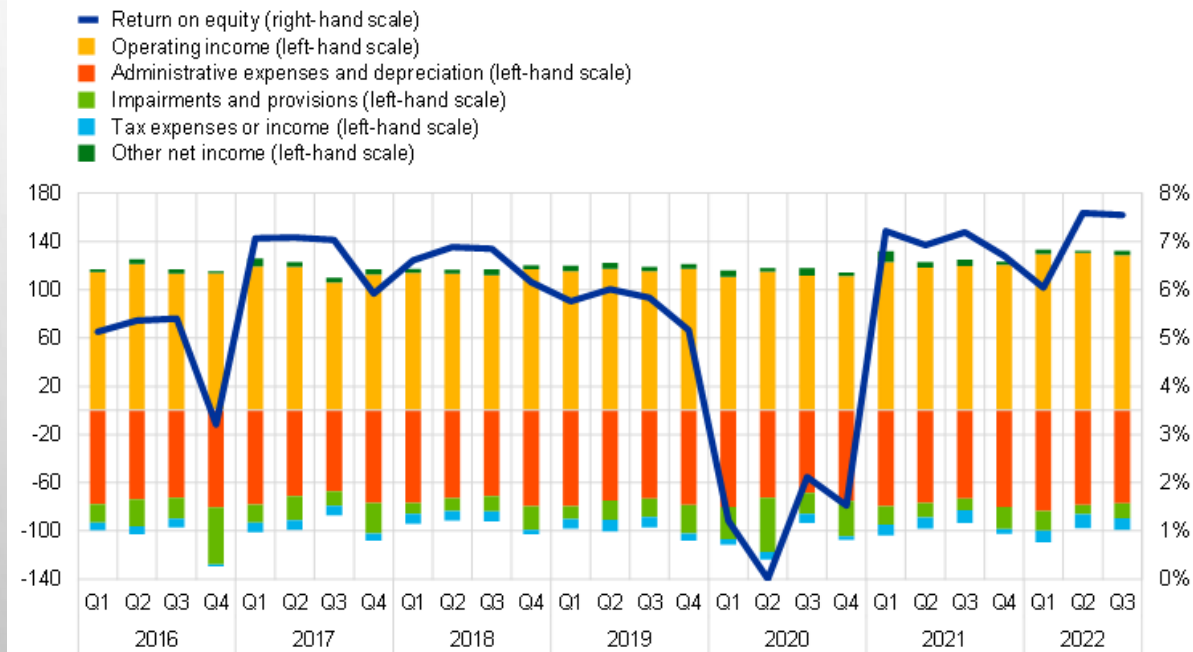
(percentage)



FINANCIAL STRUCTURE OF BANKS

Return on equity and composition of net profit and loss by reference period

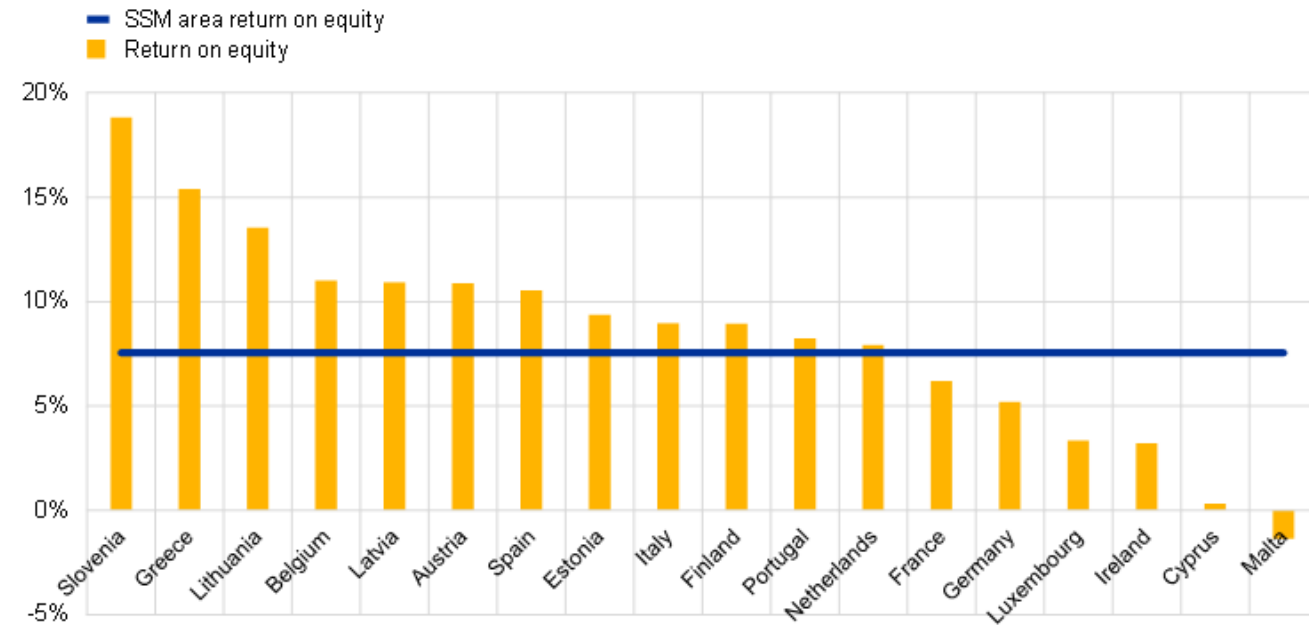
(EUR billions; percentages)



Source: ECB.

Return on equity by home country for the third quarter of 2022

(percentages)

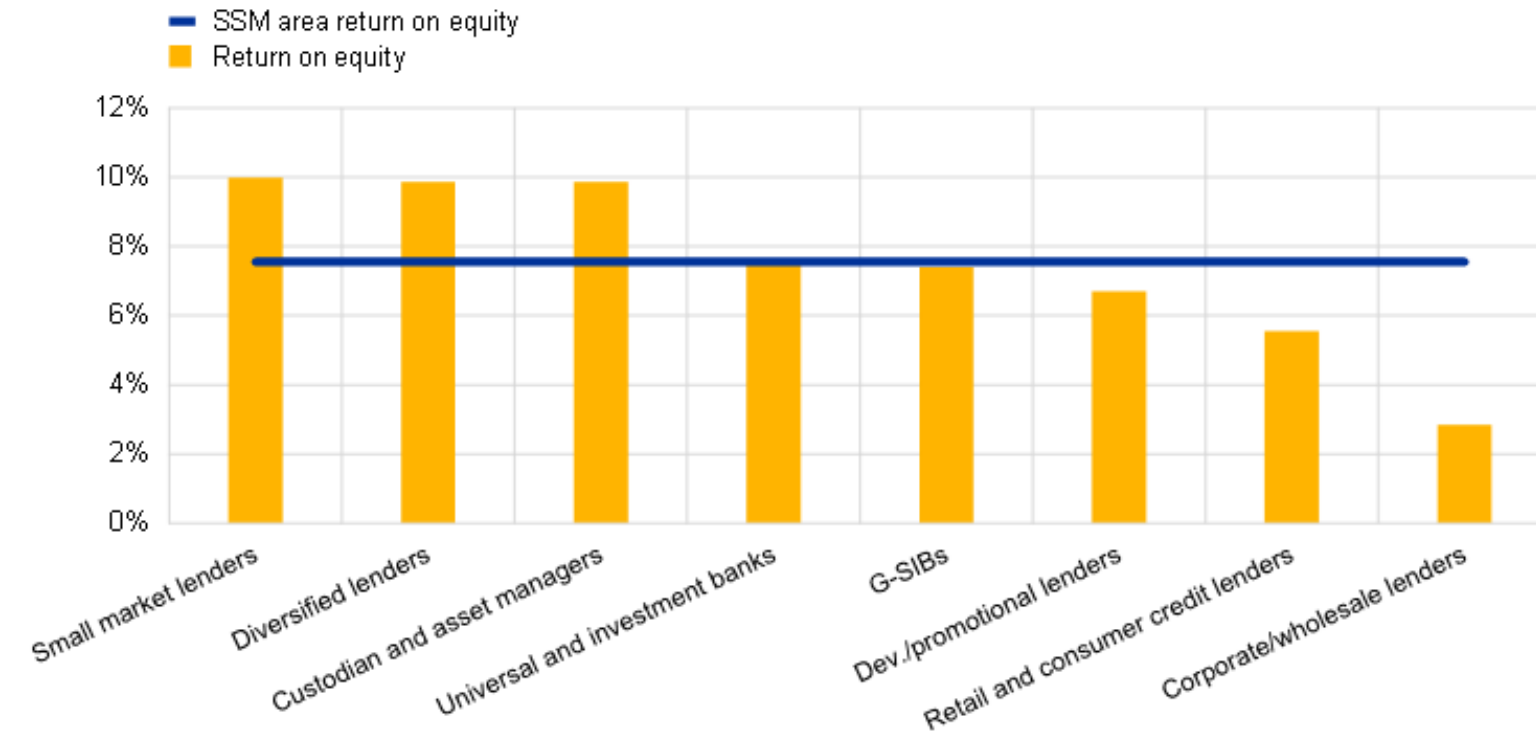


Source: ECB.

FINANCIAL STRUCTURE OF BANKS

Return on equity by business model for the third quarter of 2022

(percentages)



Source: ECB.

FINANCIAL STRUCTURE OF BANKS

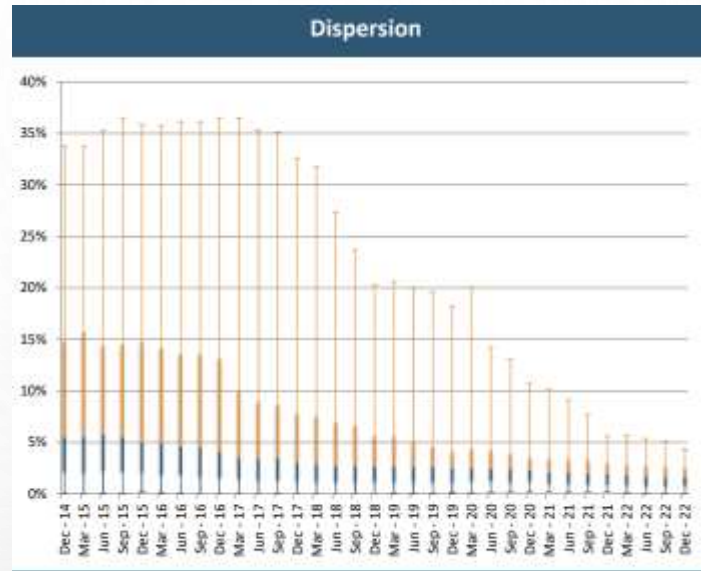


BANKS AND NPLS

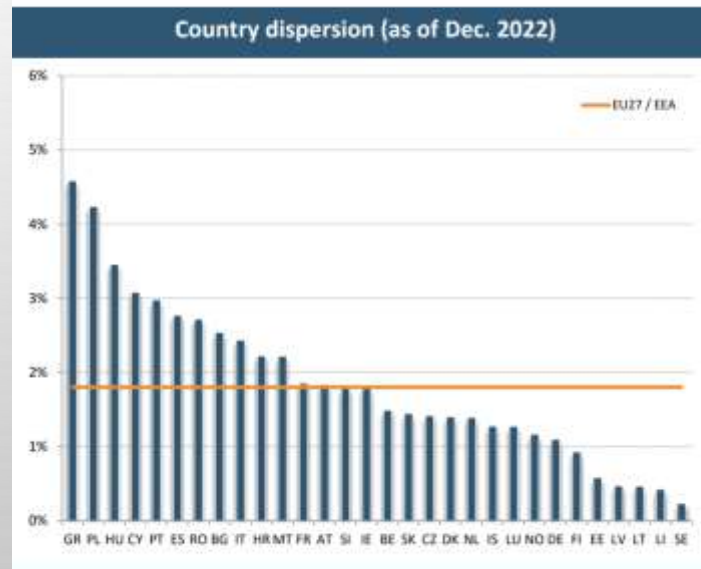
Non-performing loans: past due over 90 days, OR unlikely to pay

Response:

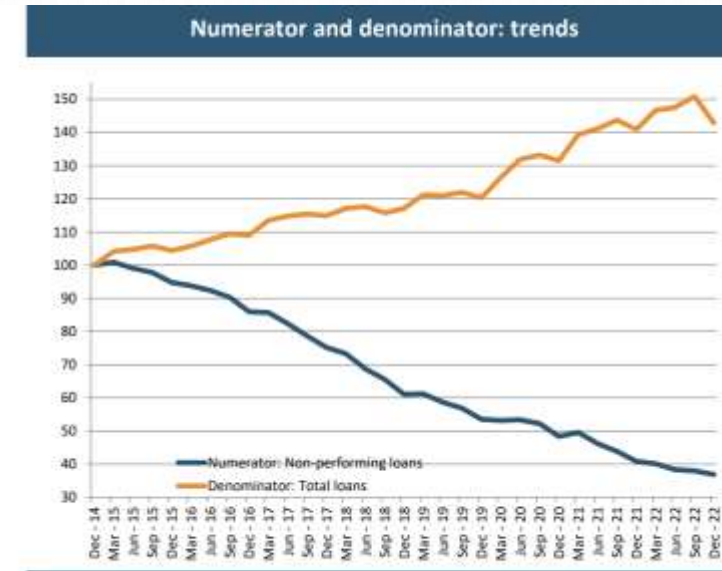
- Scrutiny and monitoring to reduce likelihood or early warning / forbearance
- Collateral and conditions to improve recoverability
- Pricing, provisioning, write-offs
- Legal, sale, securitization
- Nothing...



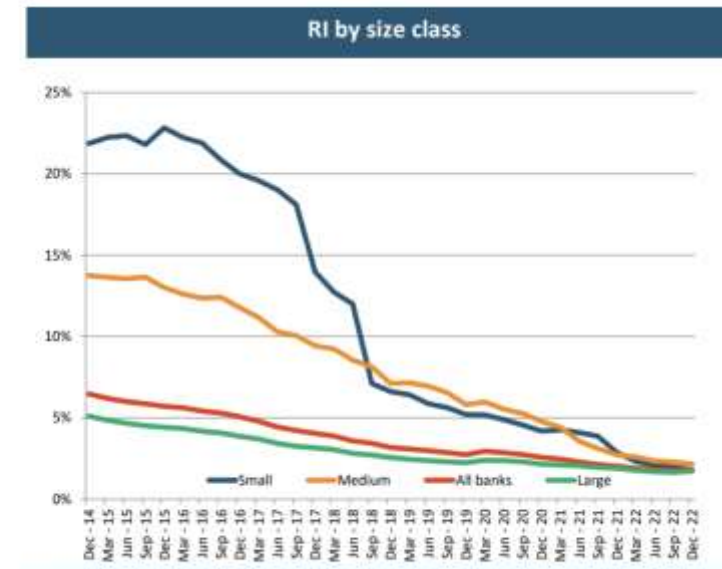
5th and 95th pct, interquartile range, and median.



Weighted Averages by country.

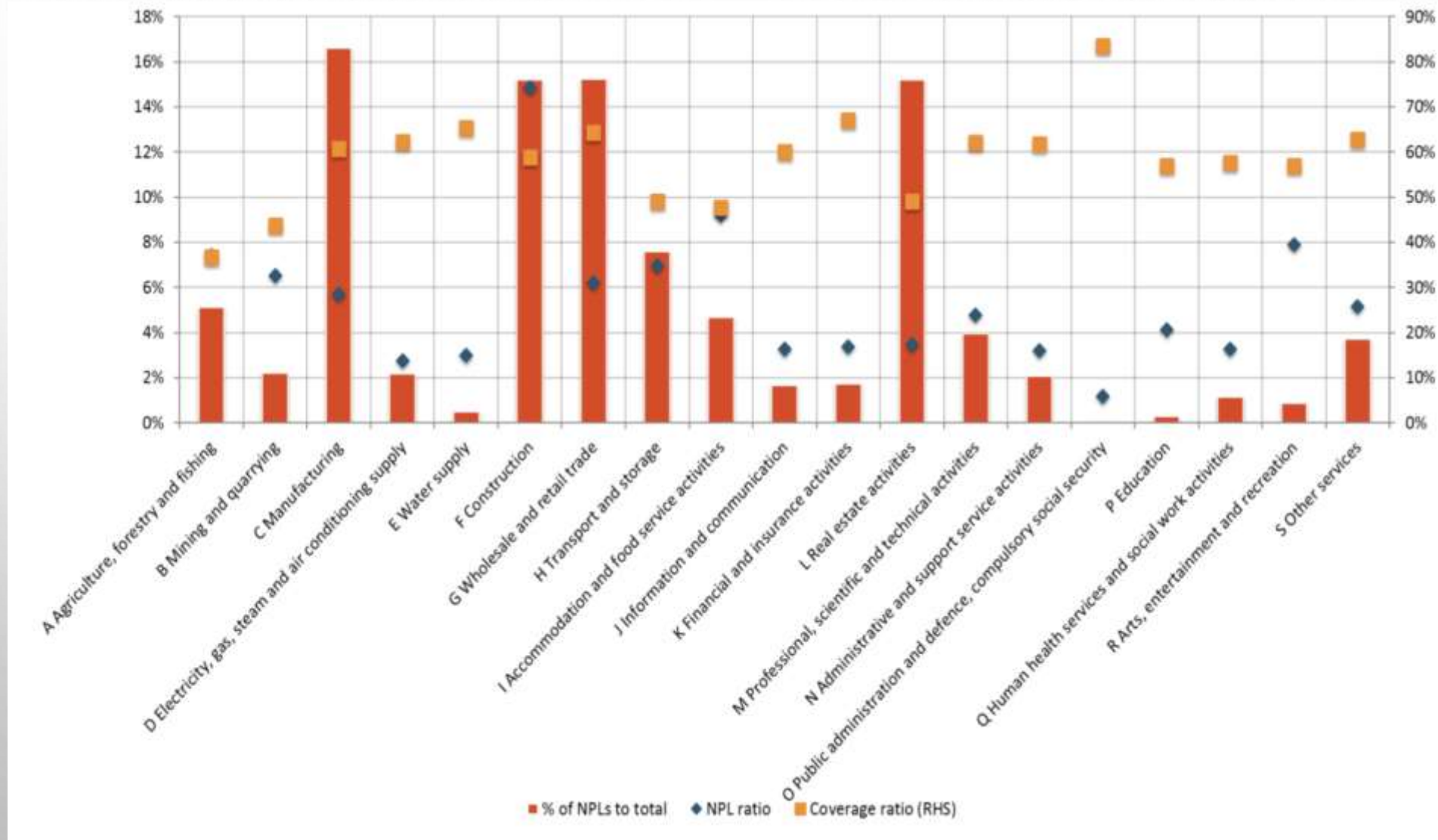


Total numerator and denominator.
Dec 2014 = 100.

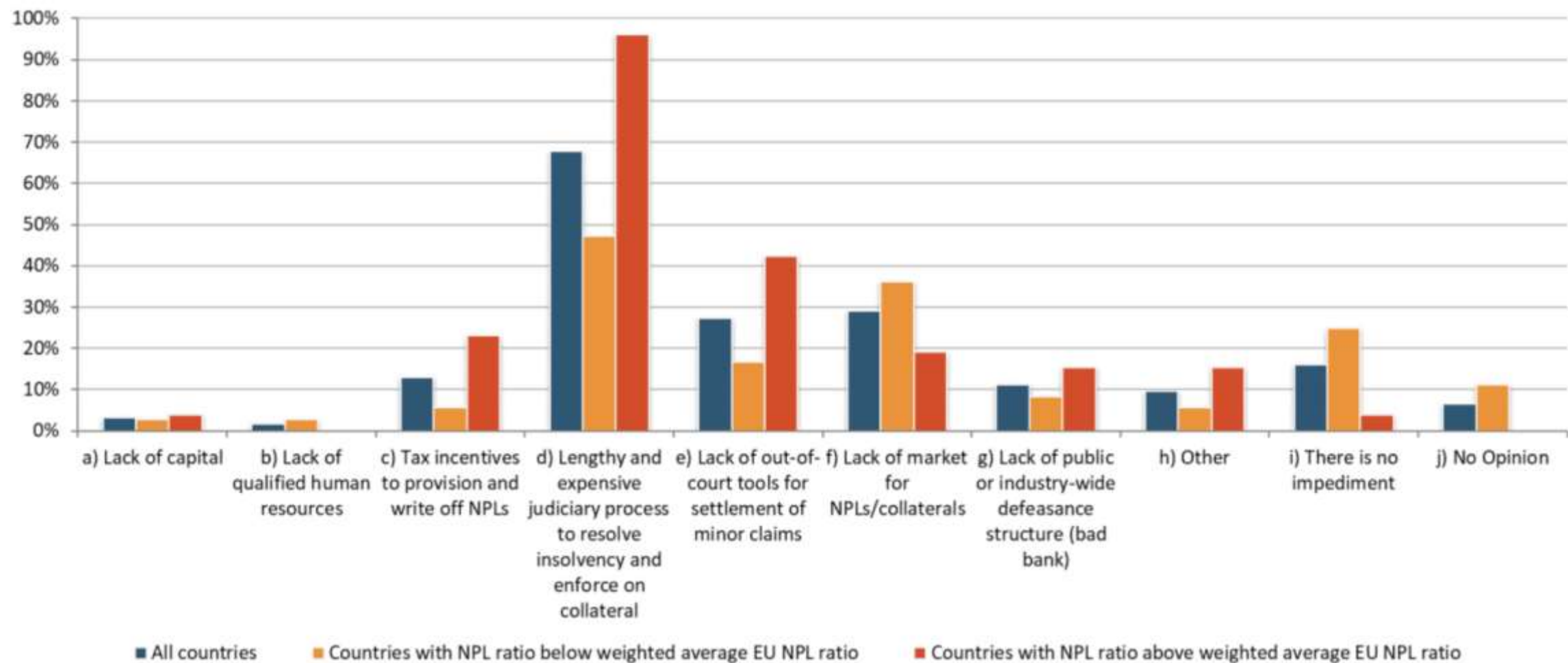


Weighted average. Banks are classified in the size class according to their average total assets between Dec. 2014 and Dec. 2022.

BANKS AND NPLS



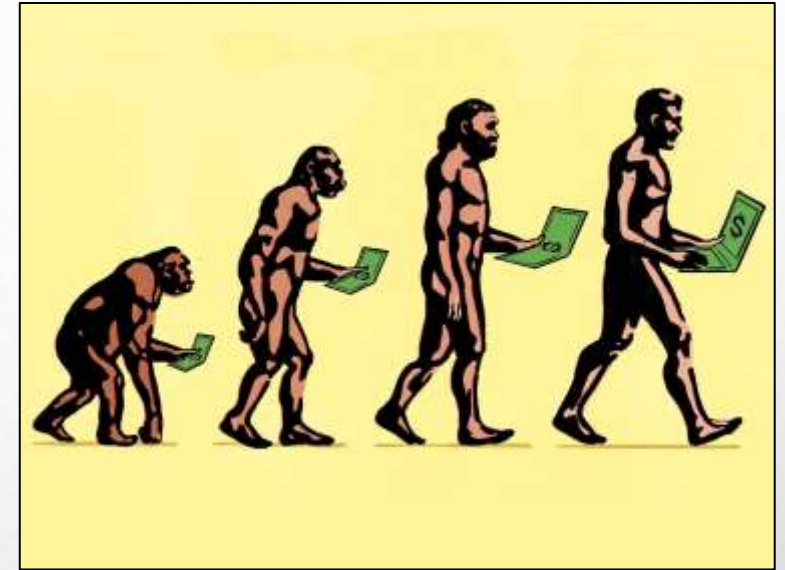
BANKS AND NPLS



EVOLUTION AND ISSUES

Major issues:

- heavy **regulation**, increasing **sophistication**
- separation between **lending** and **trading**
- separation between **borrowers** and **owners**
- **disintermediation**
- **cost efficiency, human resources, networks**



However:

- regulation stimulates innovation and **arbitrage** (f.i. shadow banking)
- separation can be **circumvented** (f.i. borders, securitisation, ...)
- **innovation is faster** than rule-based regulation (f.i. FinTech)
- regulation has **costs** lowering efficiency and competition (f.i. interest rate restrictions)

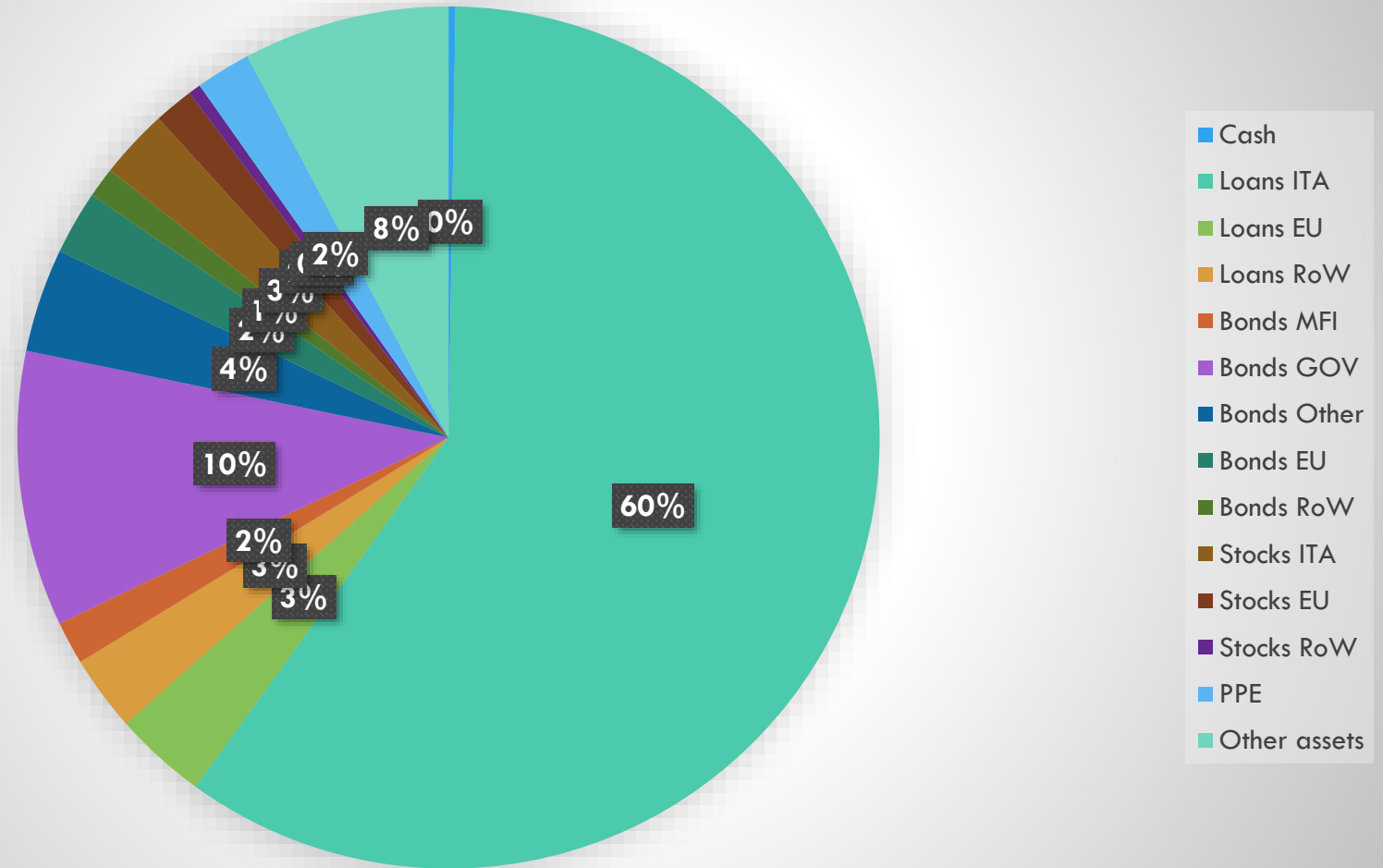
EXAMPLES

1.

ITALIAN BANKS'

ASSETS

Assets, 01.2020 (tot 3,75 TRN EUR)

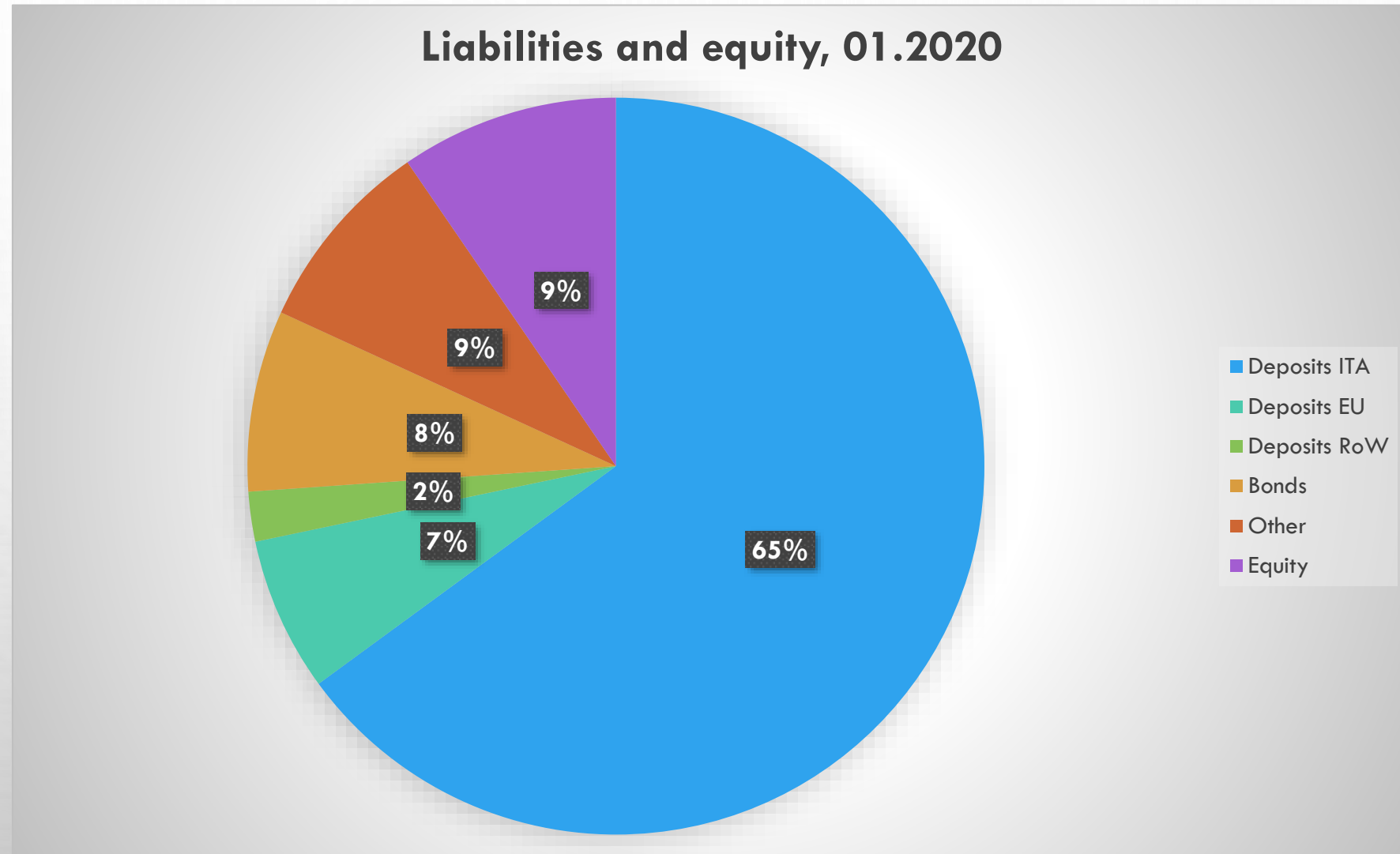


EXAMPLES

2.

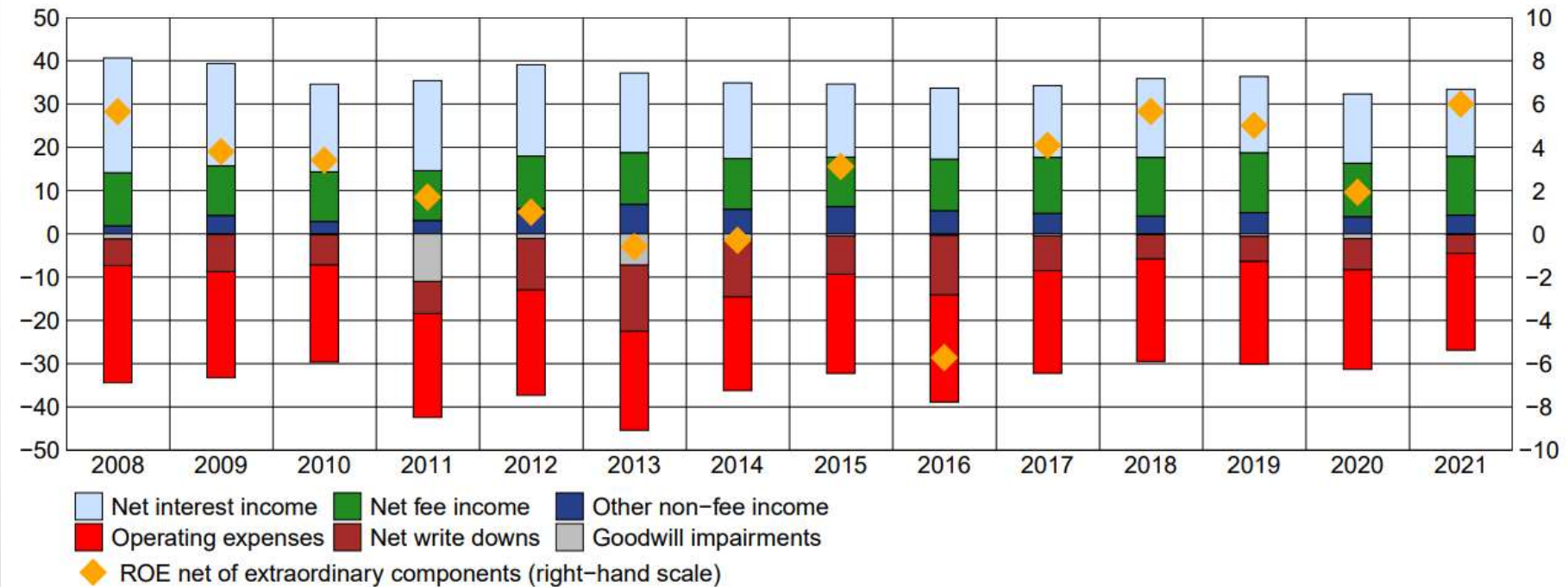
ITALIAN BANKS'

LIABILITIES AND EQUITY



EXAMPLES

3. MAIN PROFIT AND LOSS ITEMS OF ITALIAN BANKS



Sources: Consolidated supervisory reports for banking groups, individual supervisory reports for stand-alone banks.

(1) As a ratio to average equity in the year; percentage points. For the definition of the items, see the Section Methodological Note of the Appendix of the 2021 Annual Report (available only in Italian).

EXAMPLES

4.

STOCK PERFORMANCE AND CDS SPREADS
OF LISTED BANKS

