

B11. BANKS



- 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



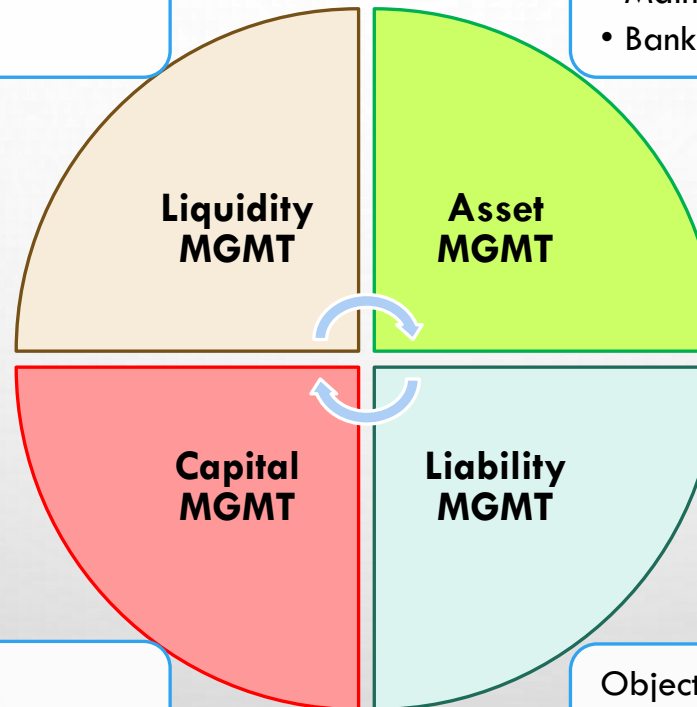
BANK MANAGEMENT

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



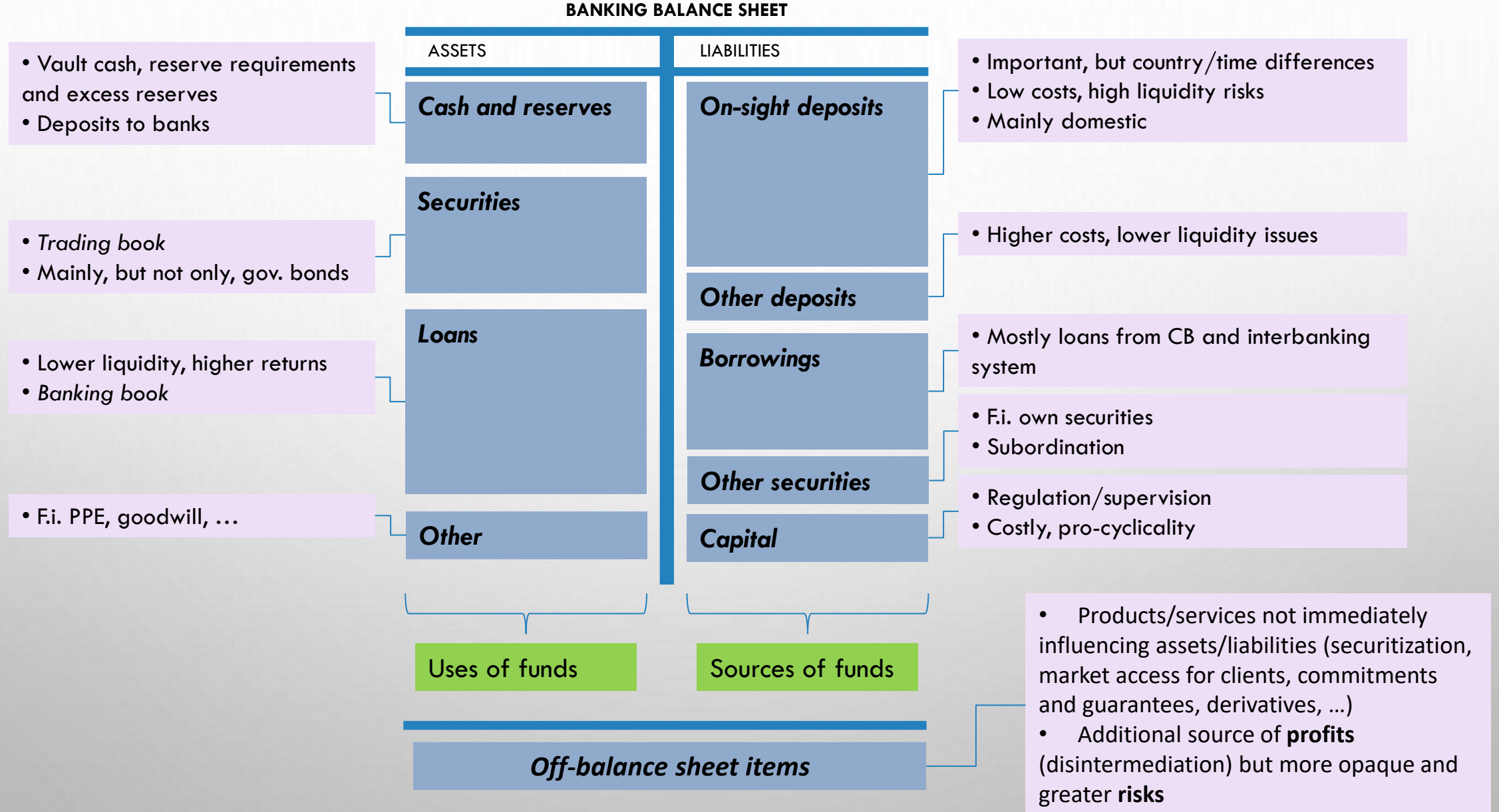
Objectives:

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

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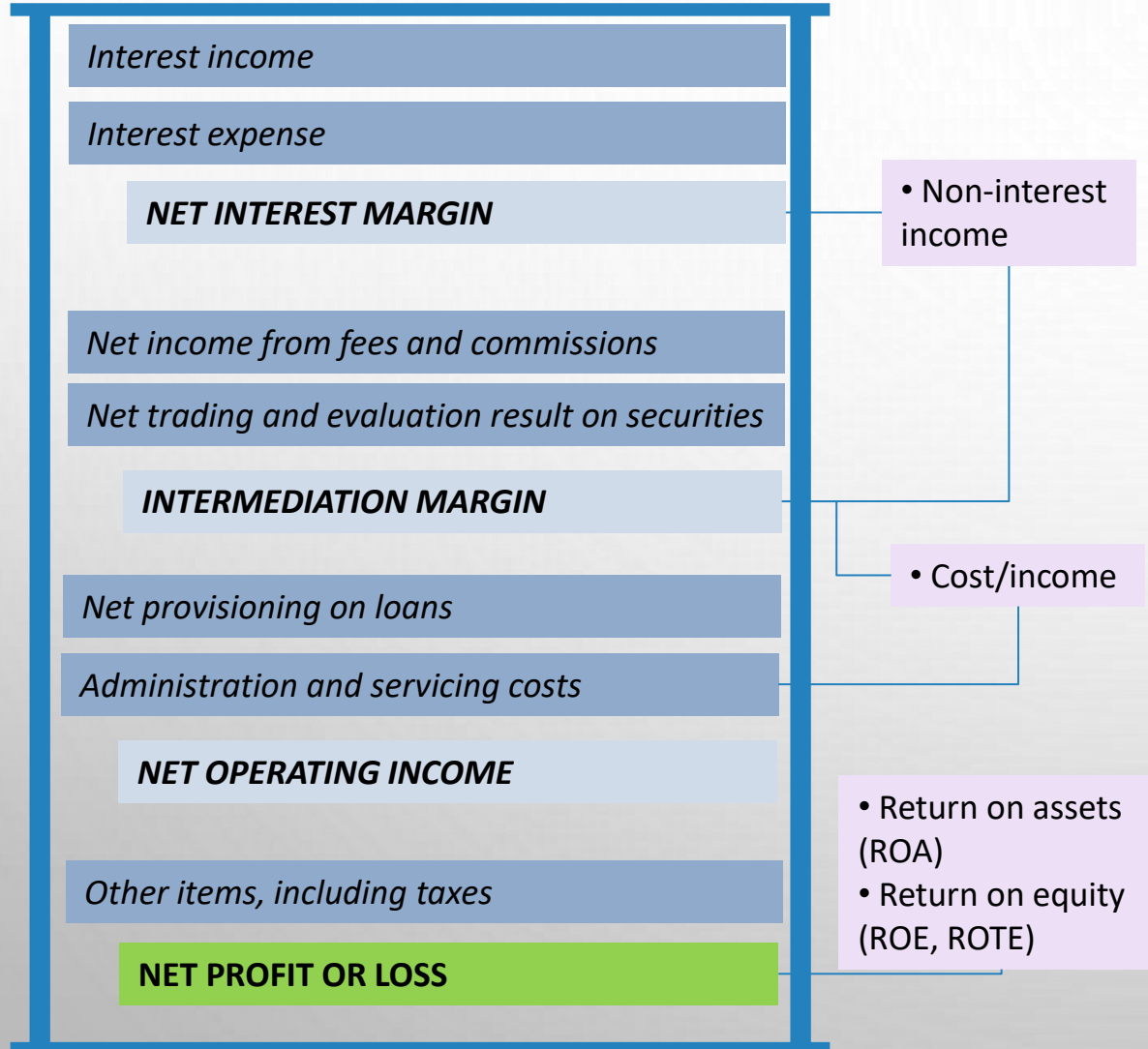
- Funding activities while complying with competition, demand preferences and evolution of markets
- Considering costs, flexibility, quickness and risks

FINANCIAL STRUCTURE OF BANKS



FINANCIAL STRUCTURE OF BANKS

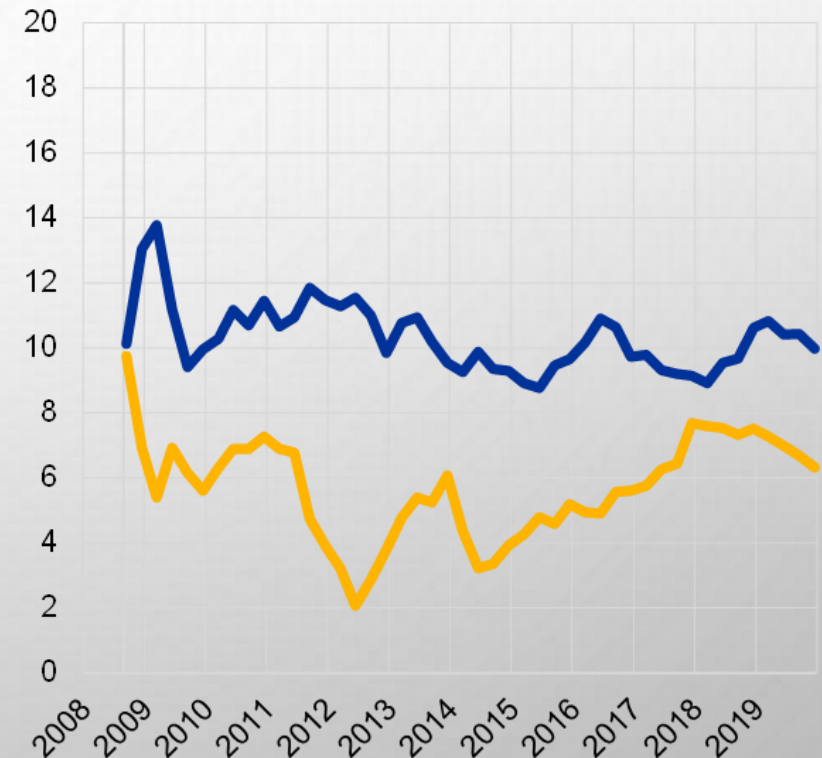
BANKING INCOME STATEMENT



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

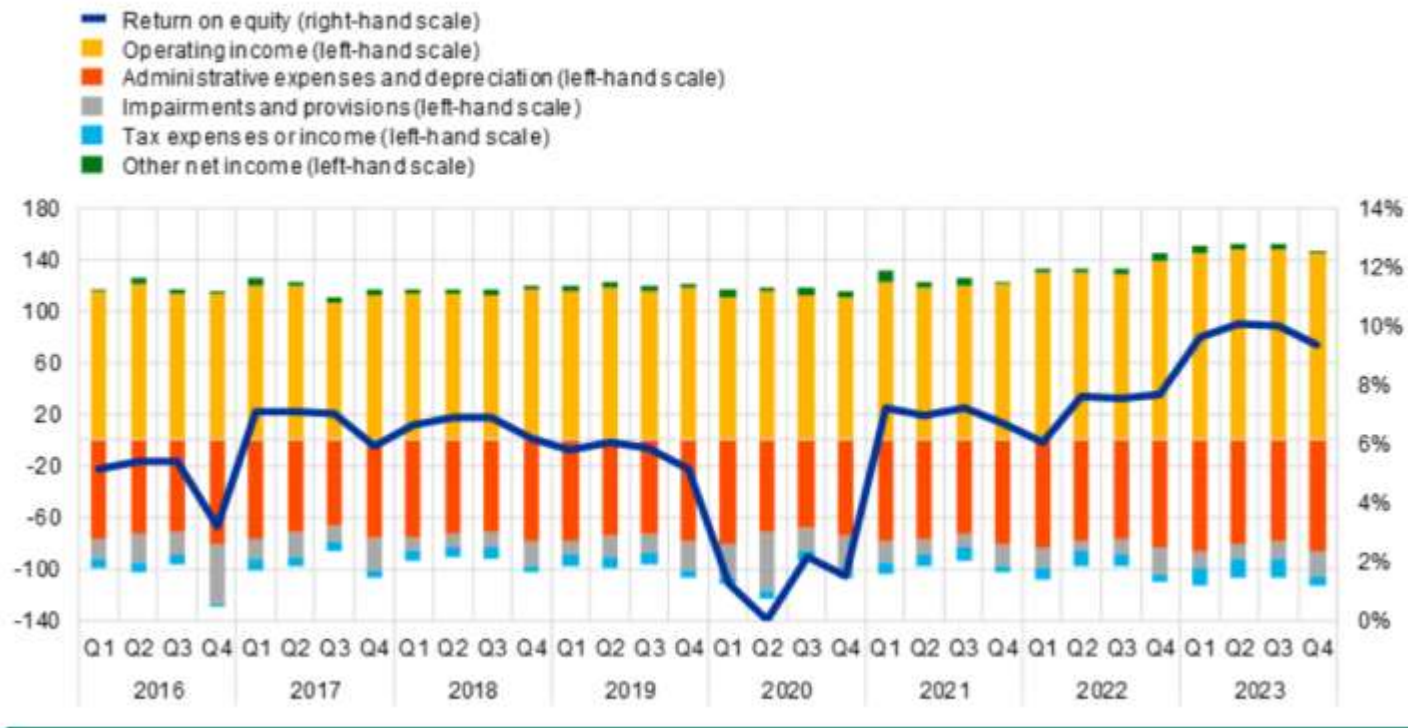
(percentage)

- CoE (estimated)
- RoE (4-quarter average)



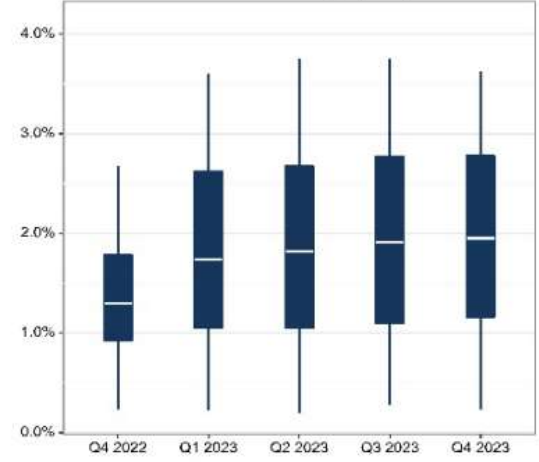
Return on equity and composition of net profit and loss

(EUR billions; percentages)

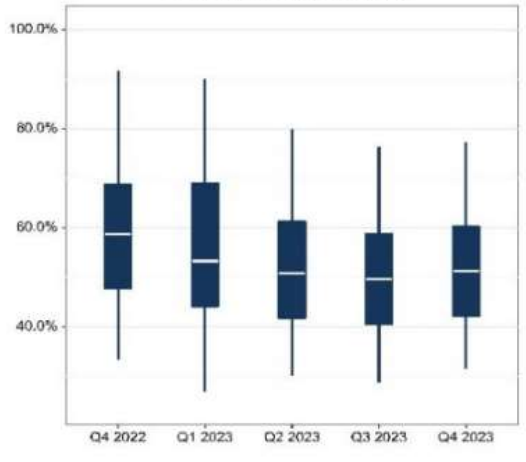


Source: ECB.

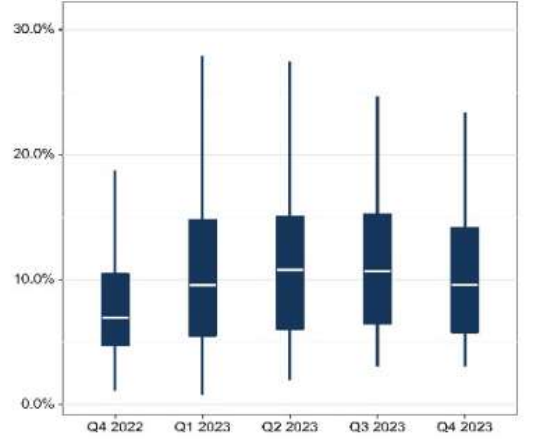
Net interest margin (NIM)



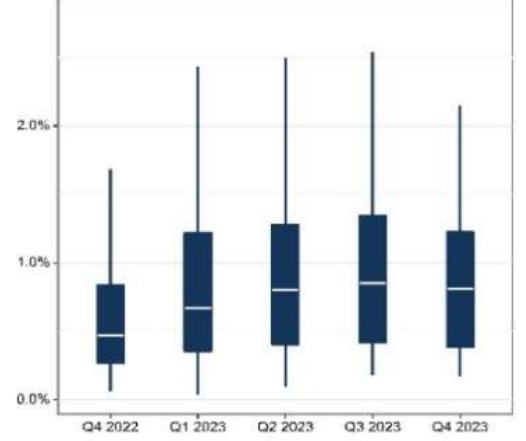
Cost-to-income ratio (CIR)



Return on equity (RoE)



Return on assets (RoA)



EXAMPLES

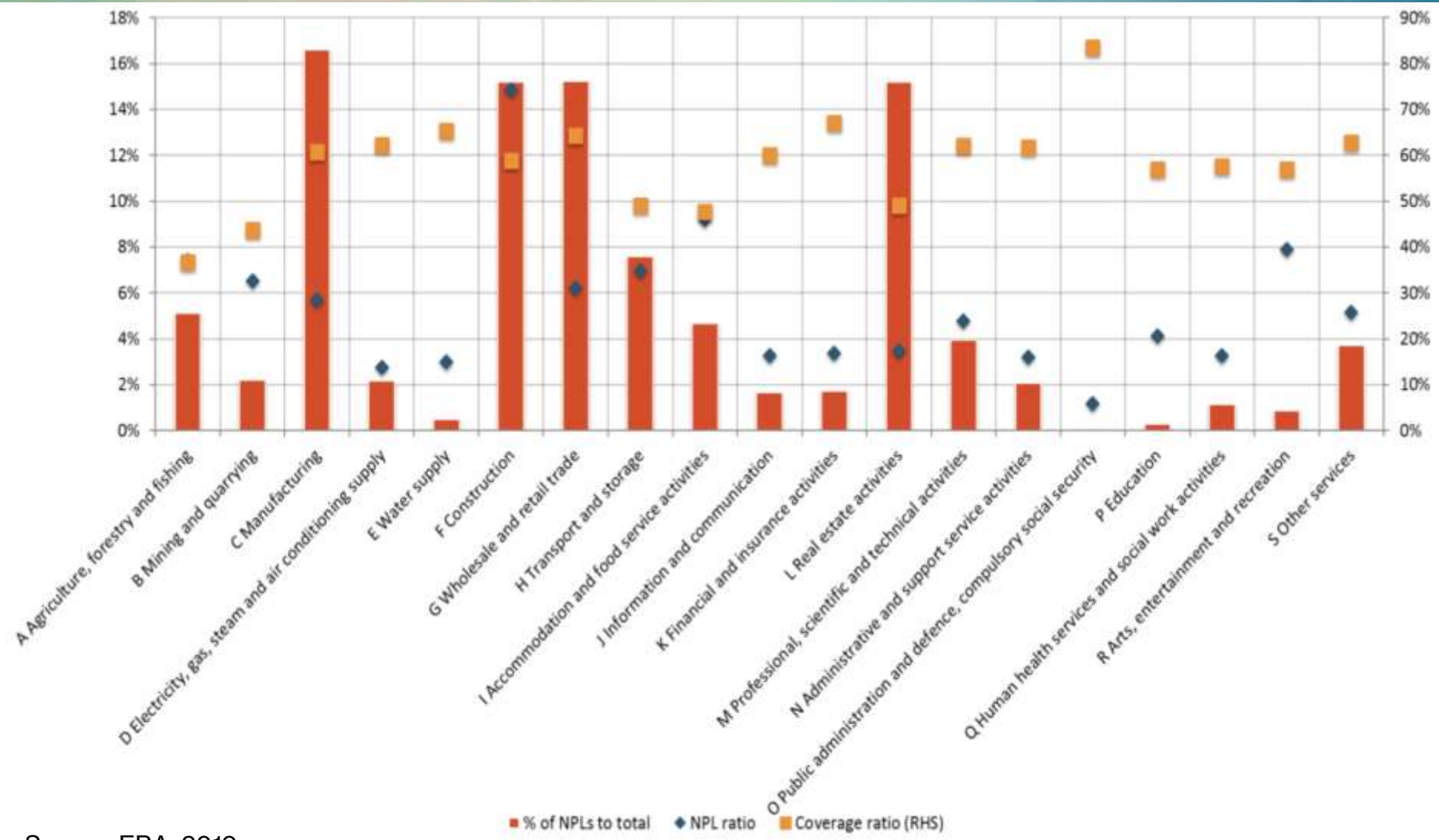
BANKS AND NPLS

Non-performing loans: **past due** over 90 days and **unlikely to pay** (+ forborene)

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...

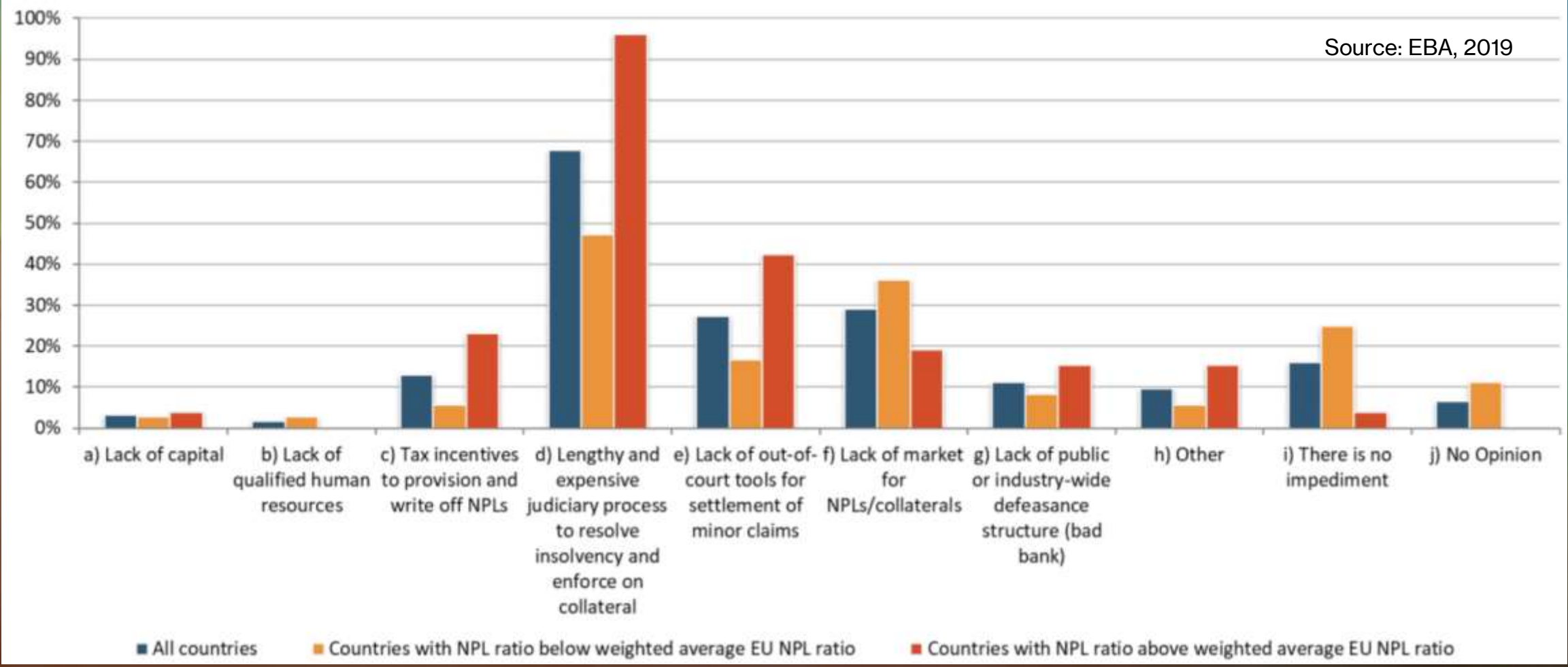




Source: EBA, 2019

EXAMPLES

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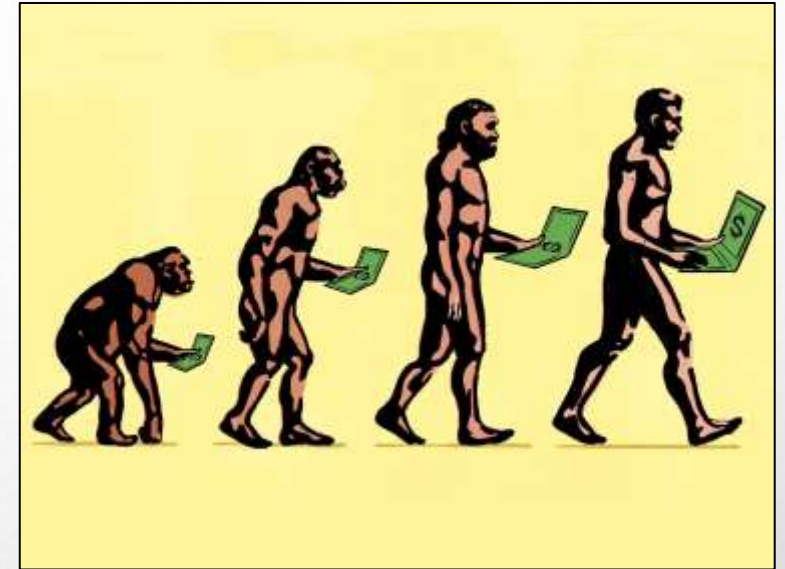


EXAMPLES

EVOLUTION AND ISSUES

Major issues:

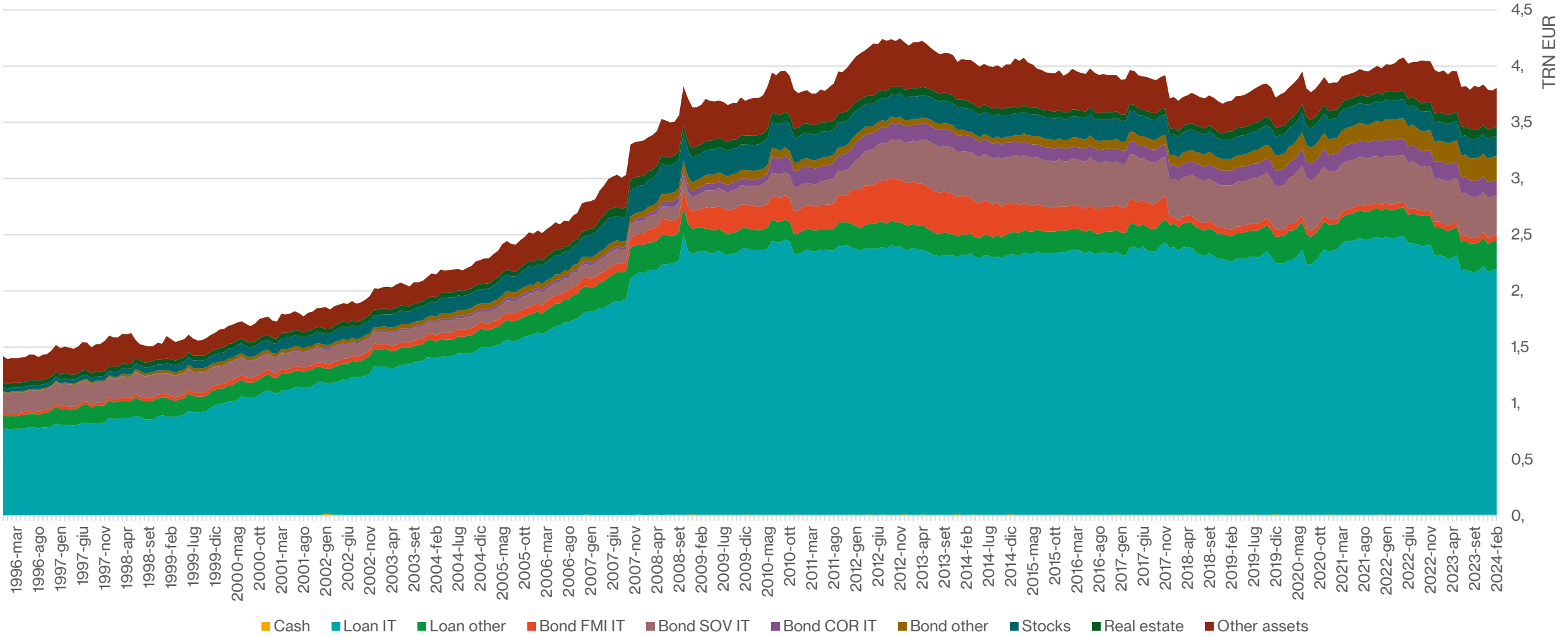
- heavy **regulation**, increasing **sophistication**
- separation between **lending** and **trading**
- separation between **borrowers** and **owners**
- **disintermediation**
- **cost efficiency, human resources, networks**



However:

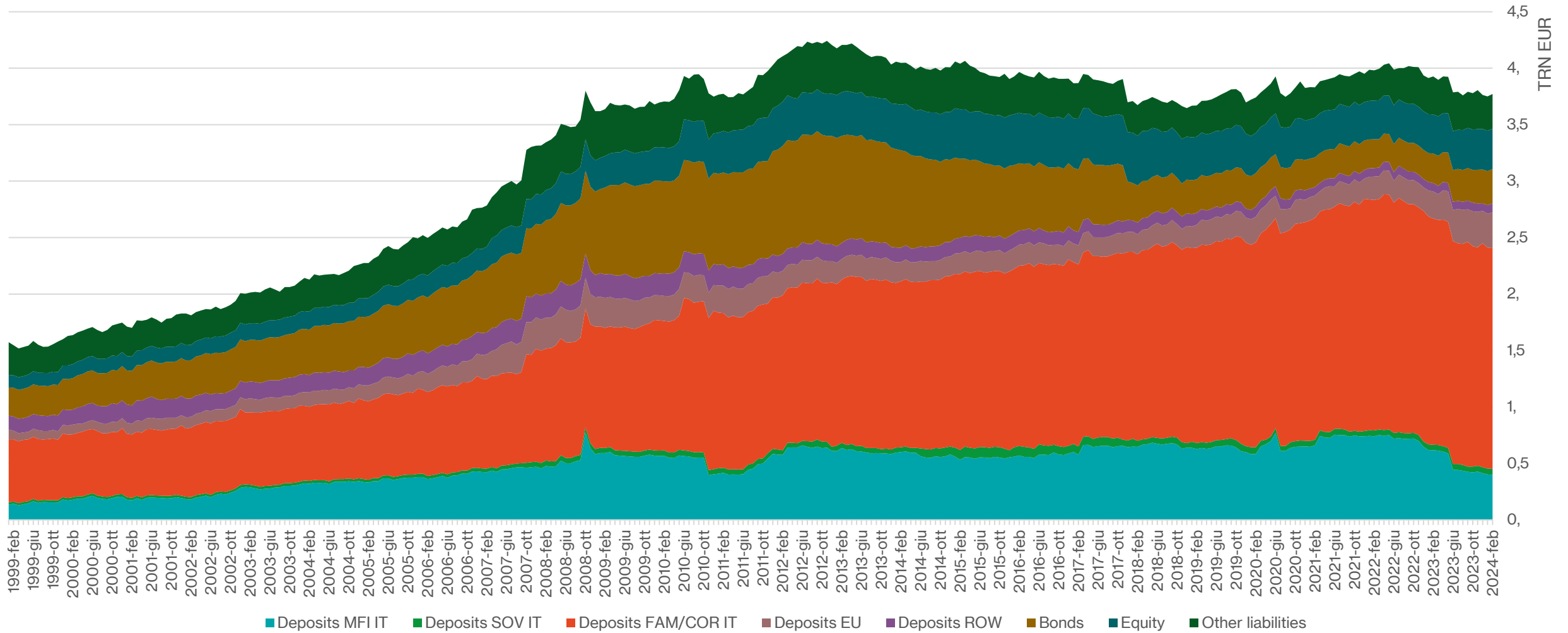
- regulation stimulates innovation and **arbitrage** (f.i. shadow banking)
- separation can be **circumvented** (f.i. borders, securitisation, ...)
- **innovation is faster** than rule-based regulation (f.i. FinTech)
- regulation has **costs** lowering efficiency and competition (f.i. interest rate restrictions)

Italian banks' assets (source: Bank of Italy)

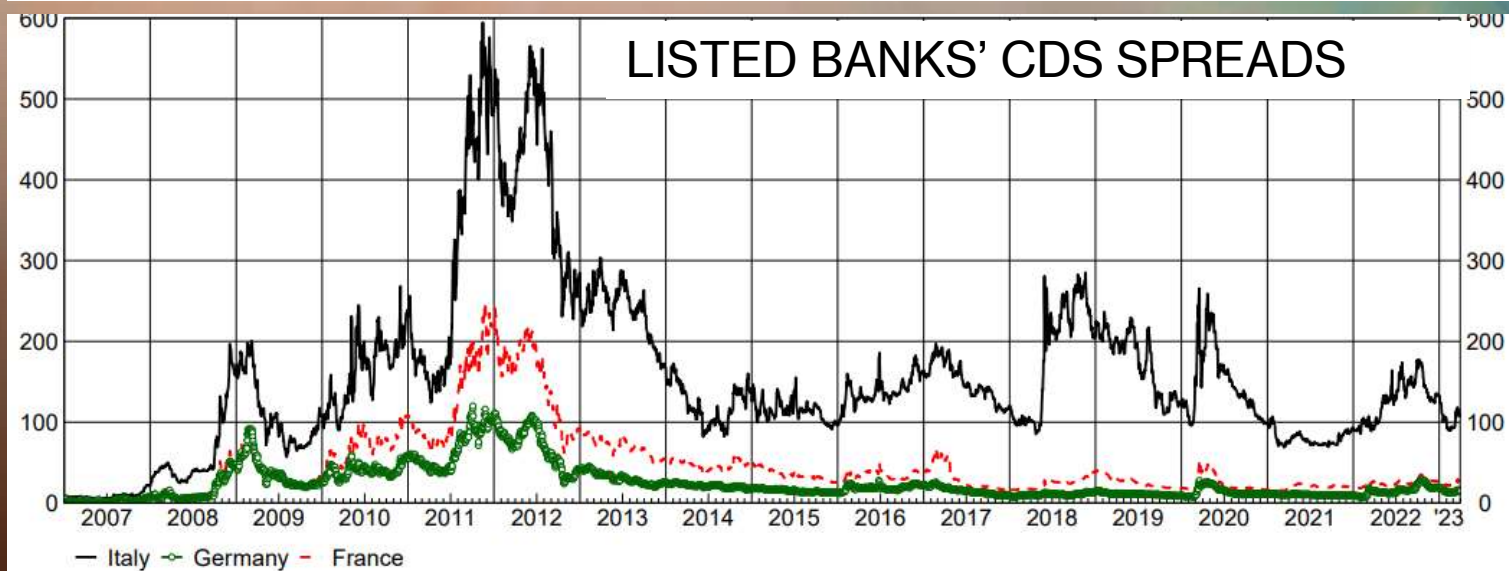
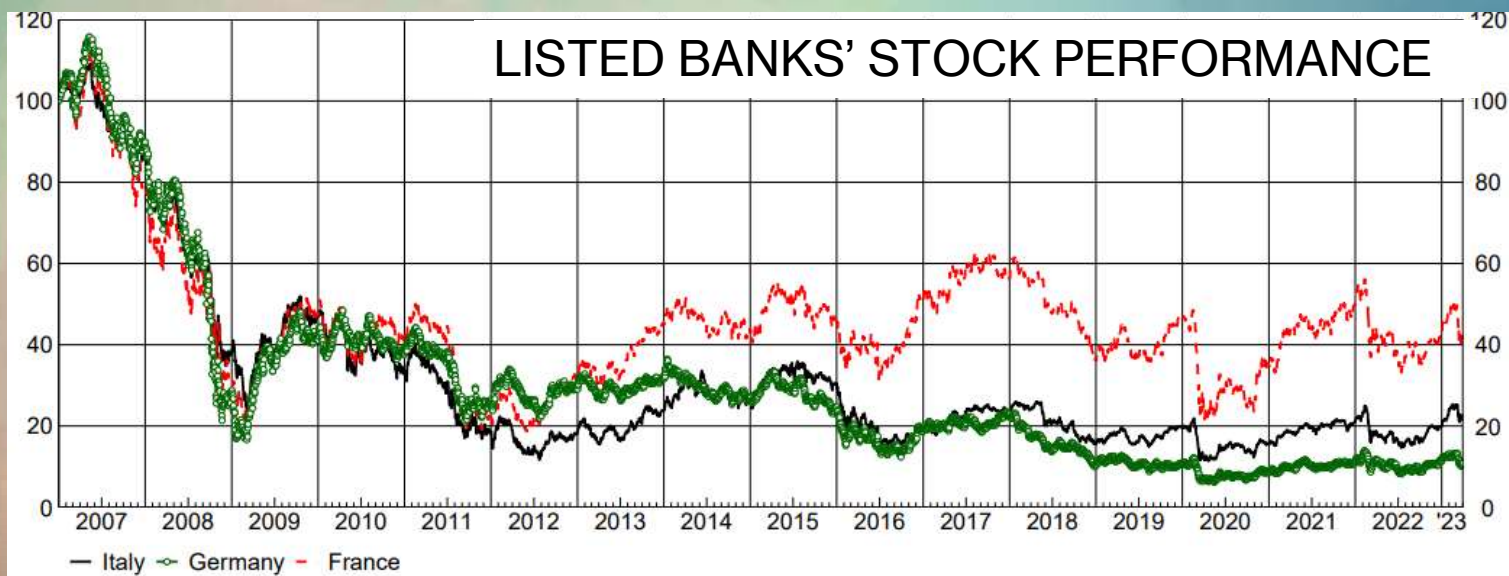


EXAMPLES

Italian banks' liabilities (source: Bank of Italy)



EXAMPLES



EXAMPLES