

# 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



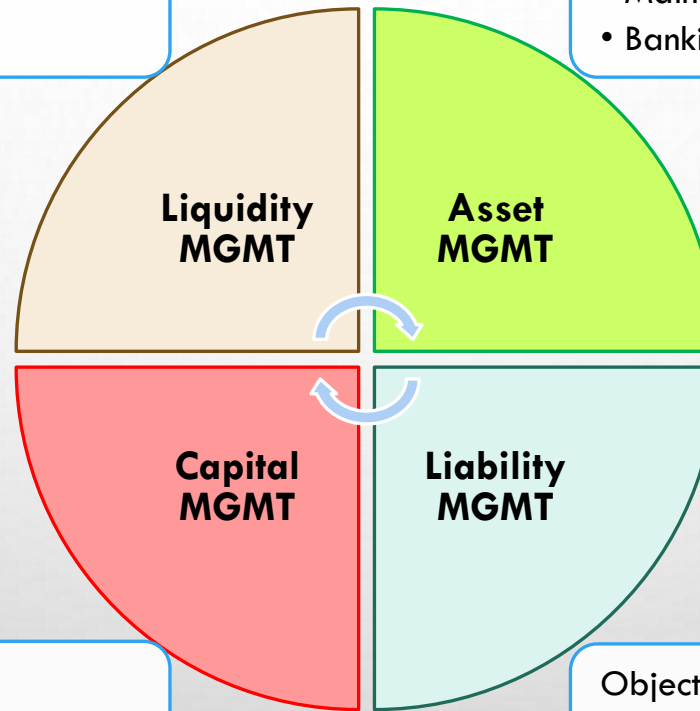
# BANK MANAGEMENT

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



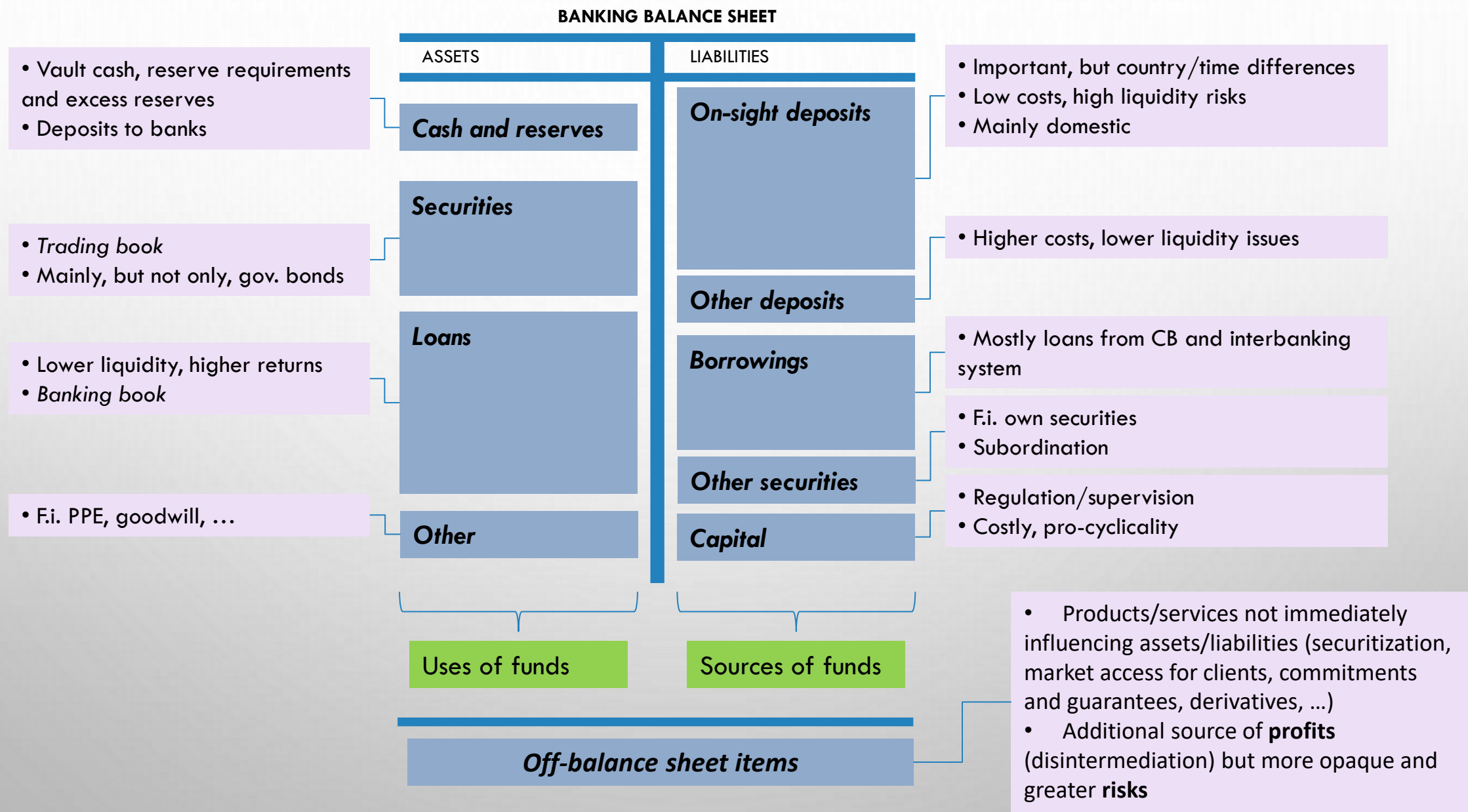
## Objectives:

- 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

Interest income

Interest expense

**NET INTEREST MARGIN**

Net income from fees and commissions

Net trading and evaluation result on securities

**INTERMEDIATION MARGIN**

Net provisioning on loans

Administration and servicing costs

**NET OPERATING INCOME**

Other items, including taxes

**NET PROFIT OR LOSS**

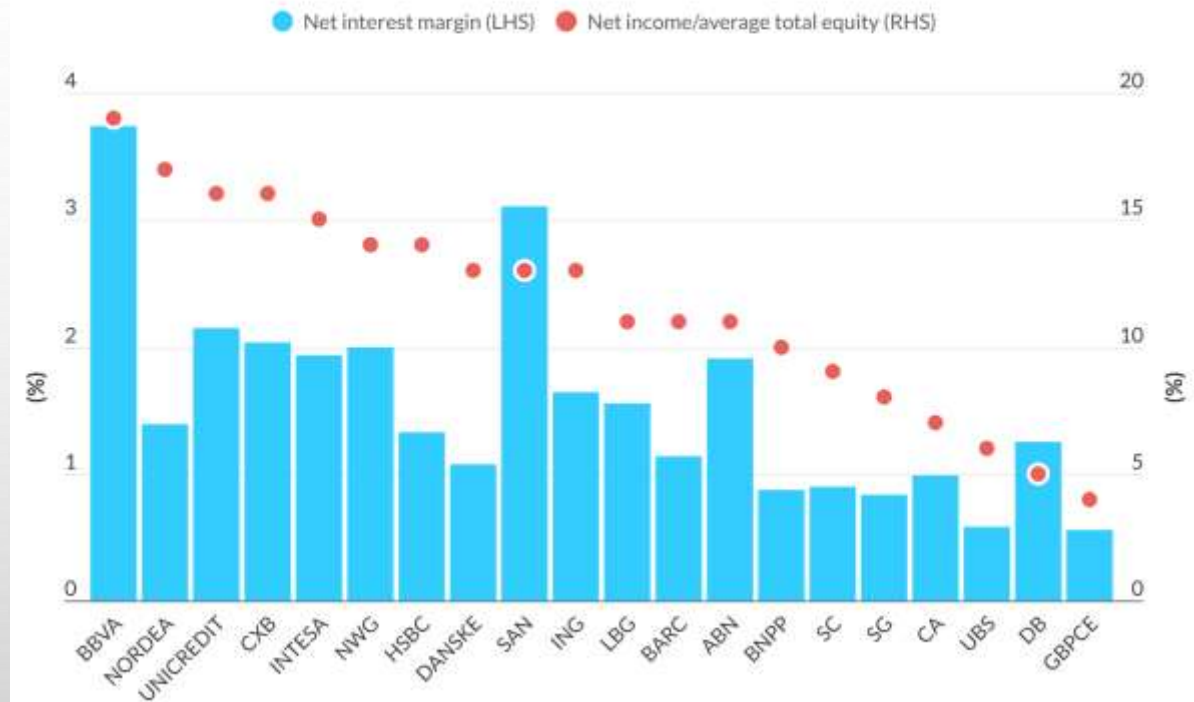
• Non-interest income

• Cost/income

• Return on assets (ROA)  
• Return on equity (ROE, ROTE)

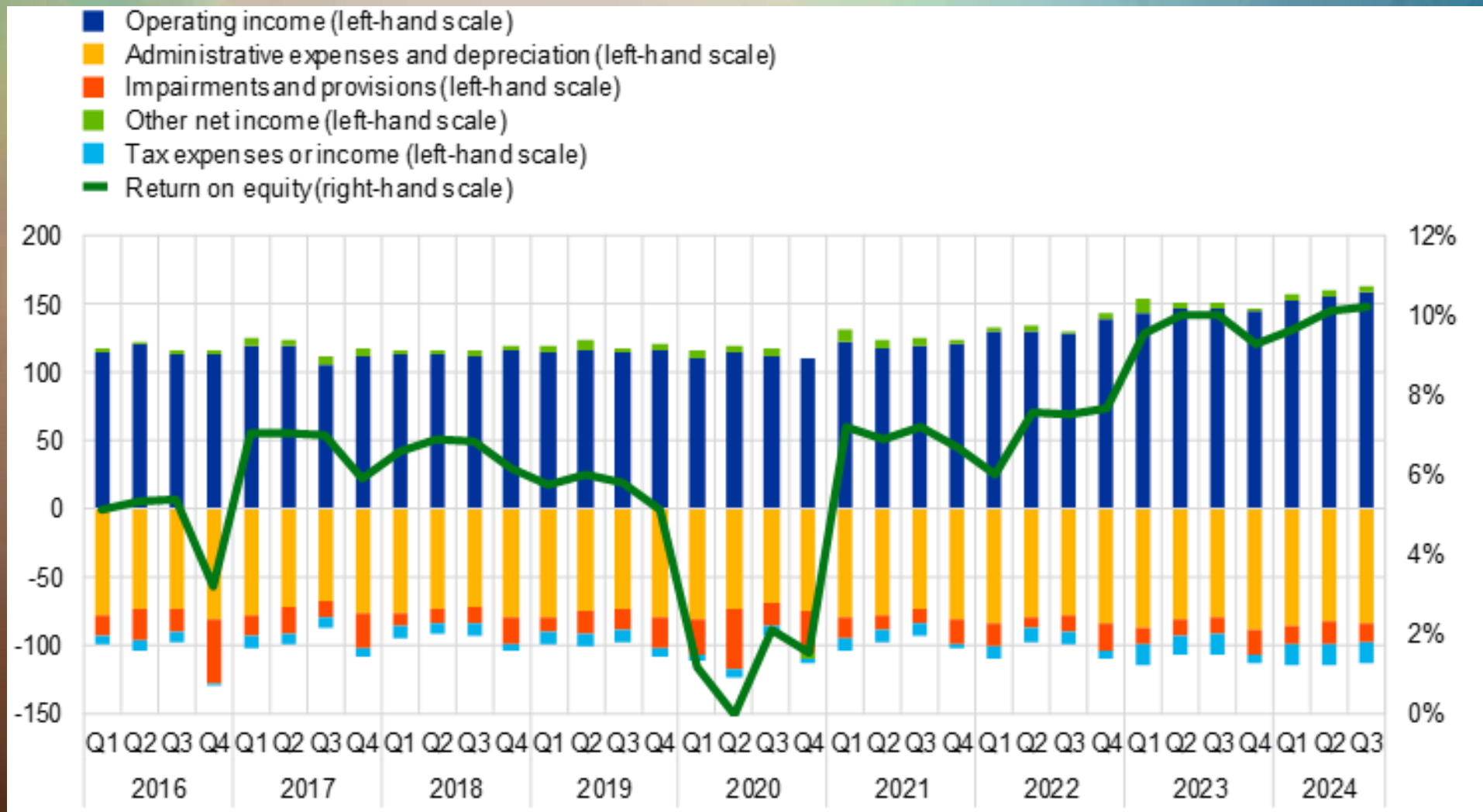
## Net Interest Margin and Return on Equity

2024



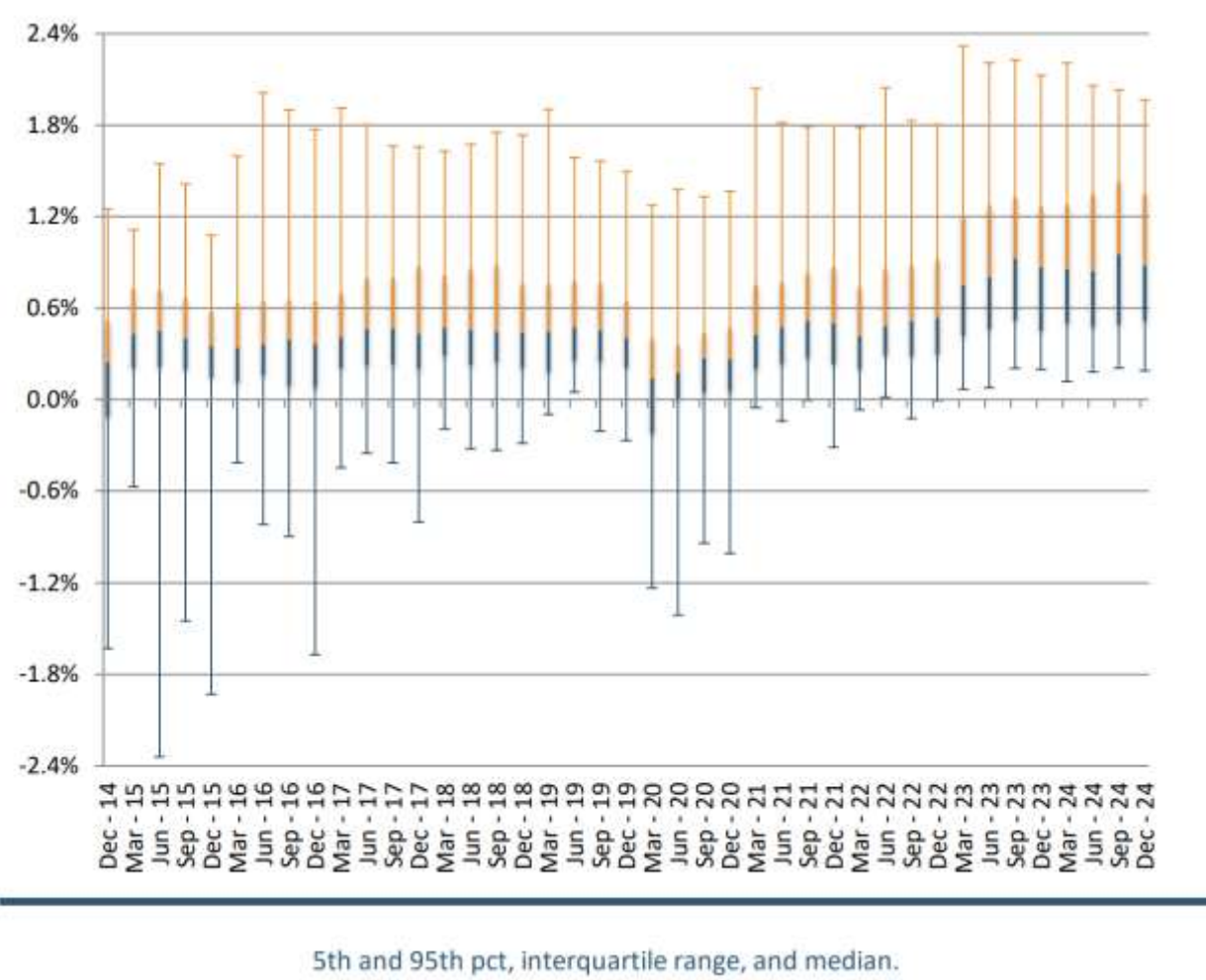
Source: Fitch Ratings, banks

## ROE and composition of P/L (ECB)

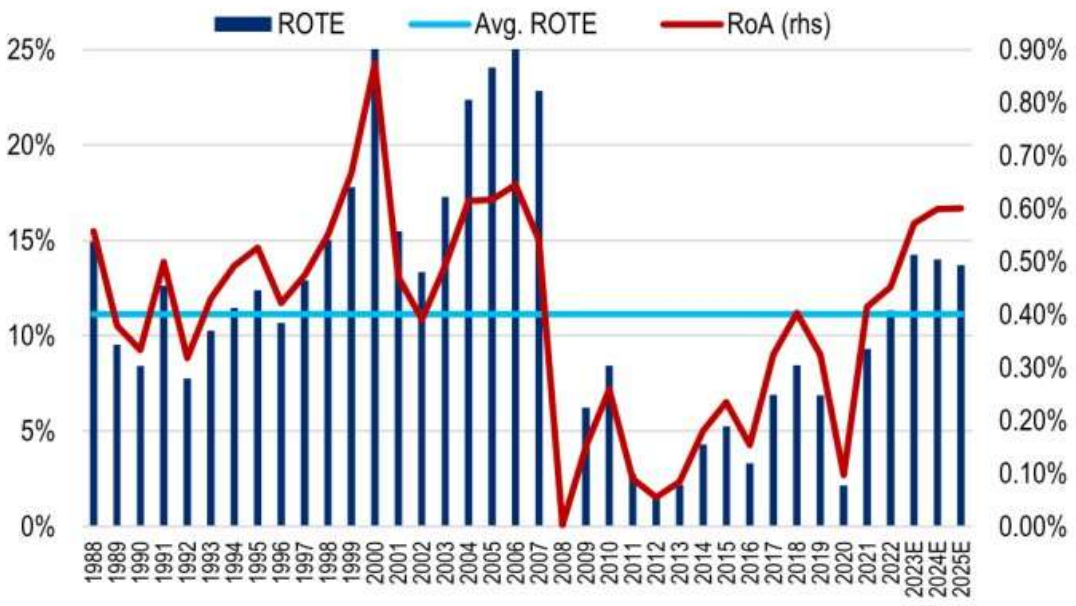


EXAMPLES

ROA (EBA), ROTE (Citi)



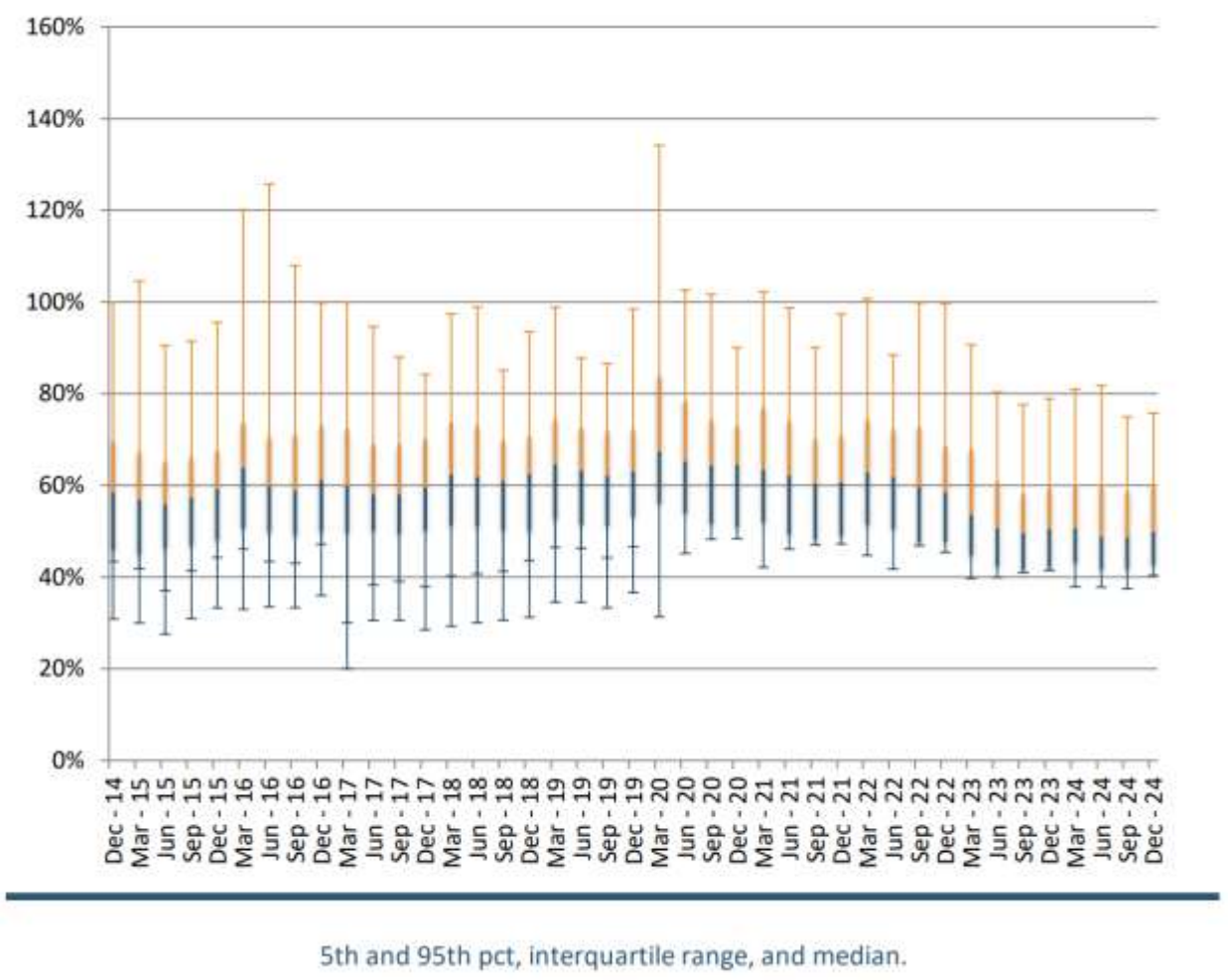
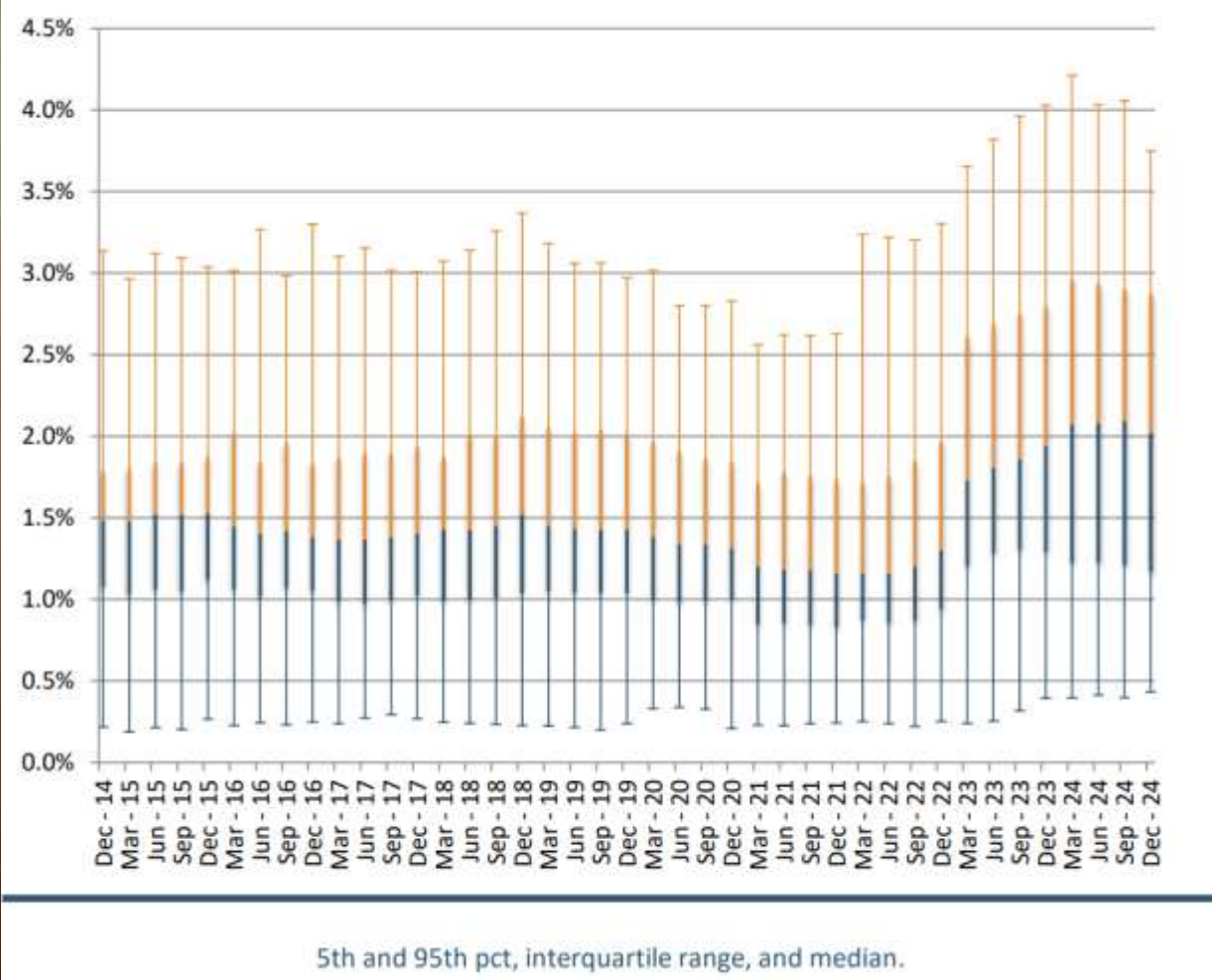
European Bank RoTEs



Source: Citi Research, Worldscope and dataCentral. Based on data for Citi Research Coverage.

EXAMPLES

NIM, CIR (EBA)



EXAMPLES



# BANKS AND NPLS

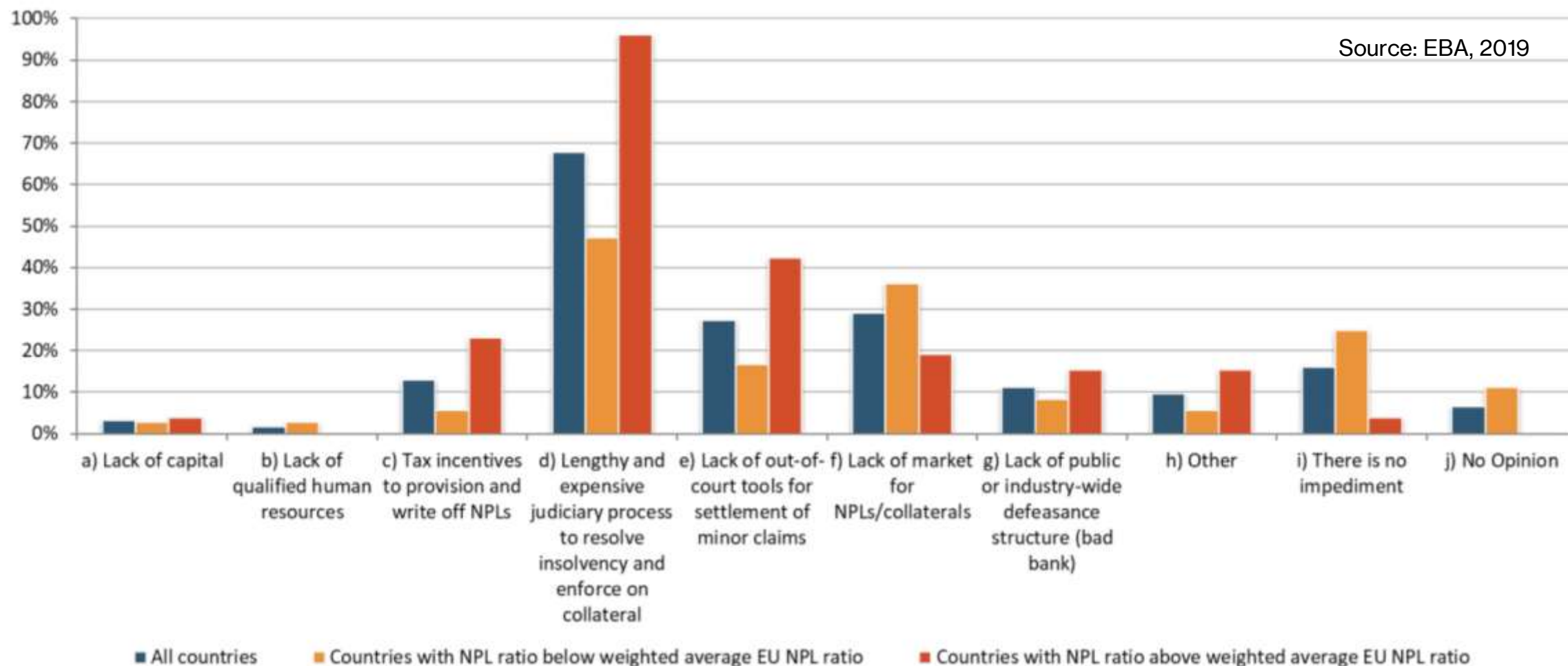
Non-performing loans: **past due** over 90 days and **unlikely to pay** (+ forborene)

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...

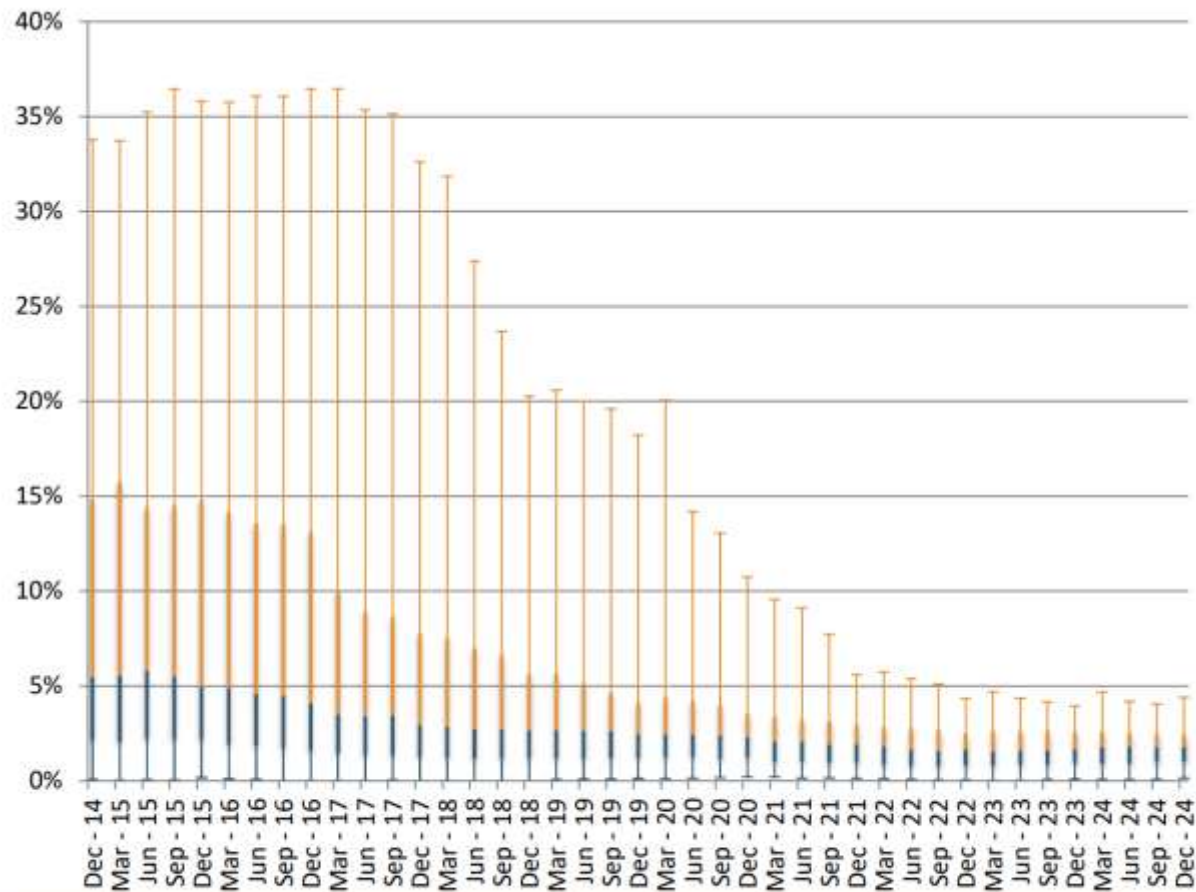


Source: EBA, 2019

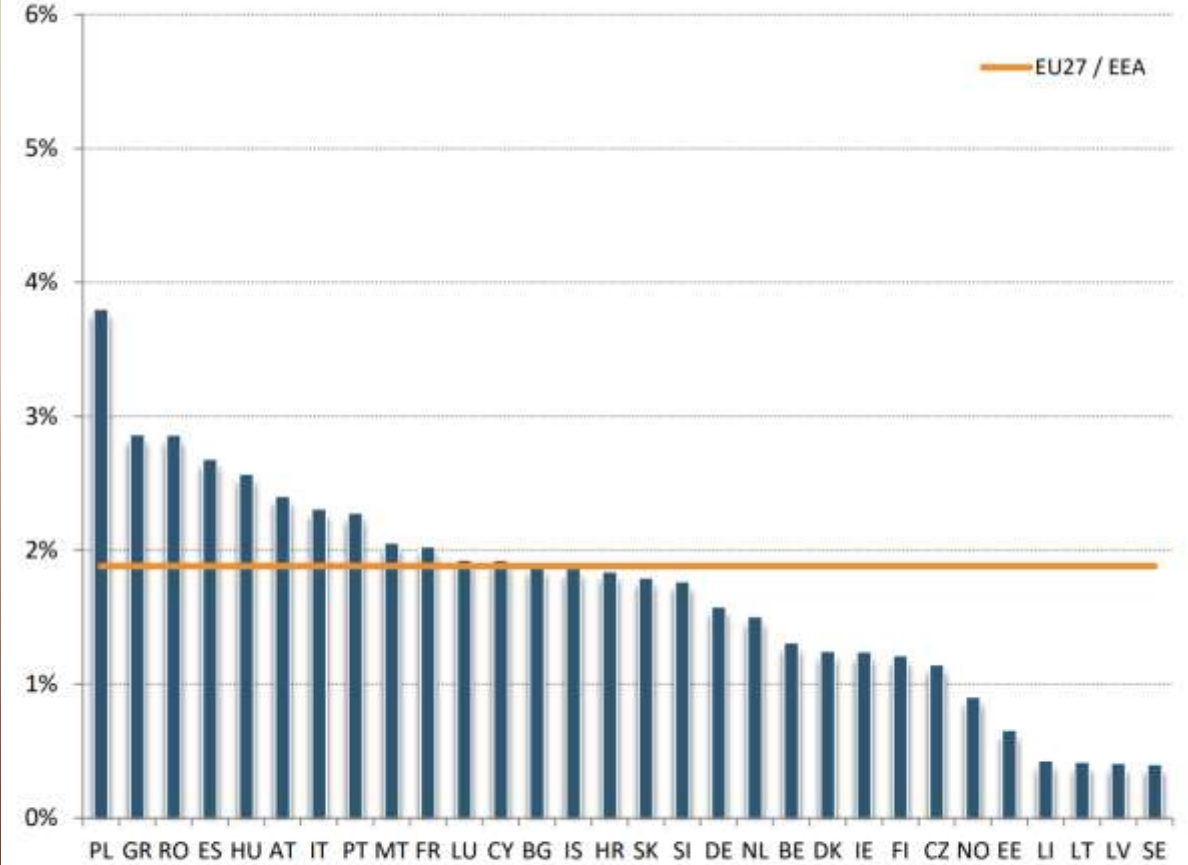


EXAMPLES

## NPLs: ratio (EBA)



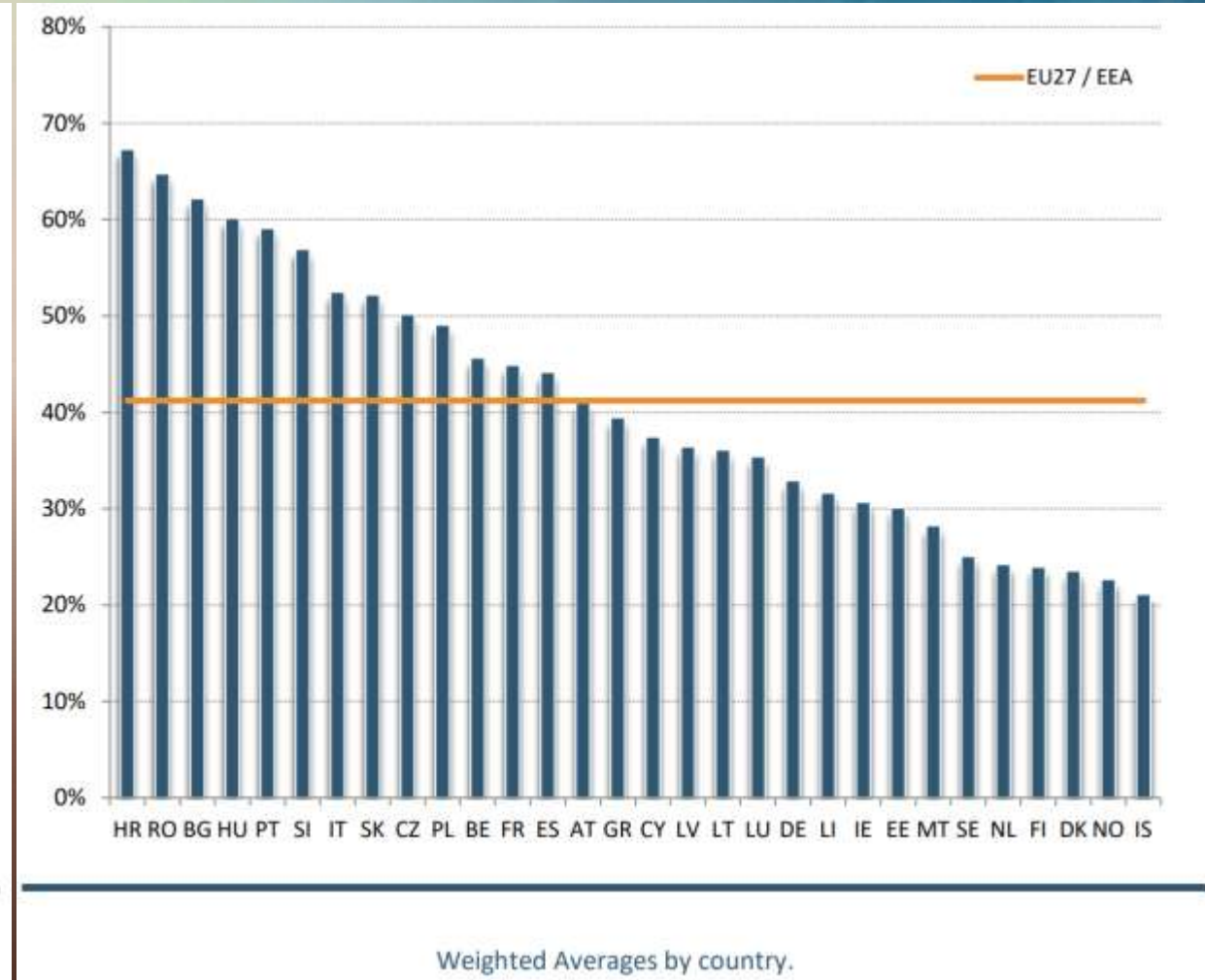
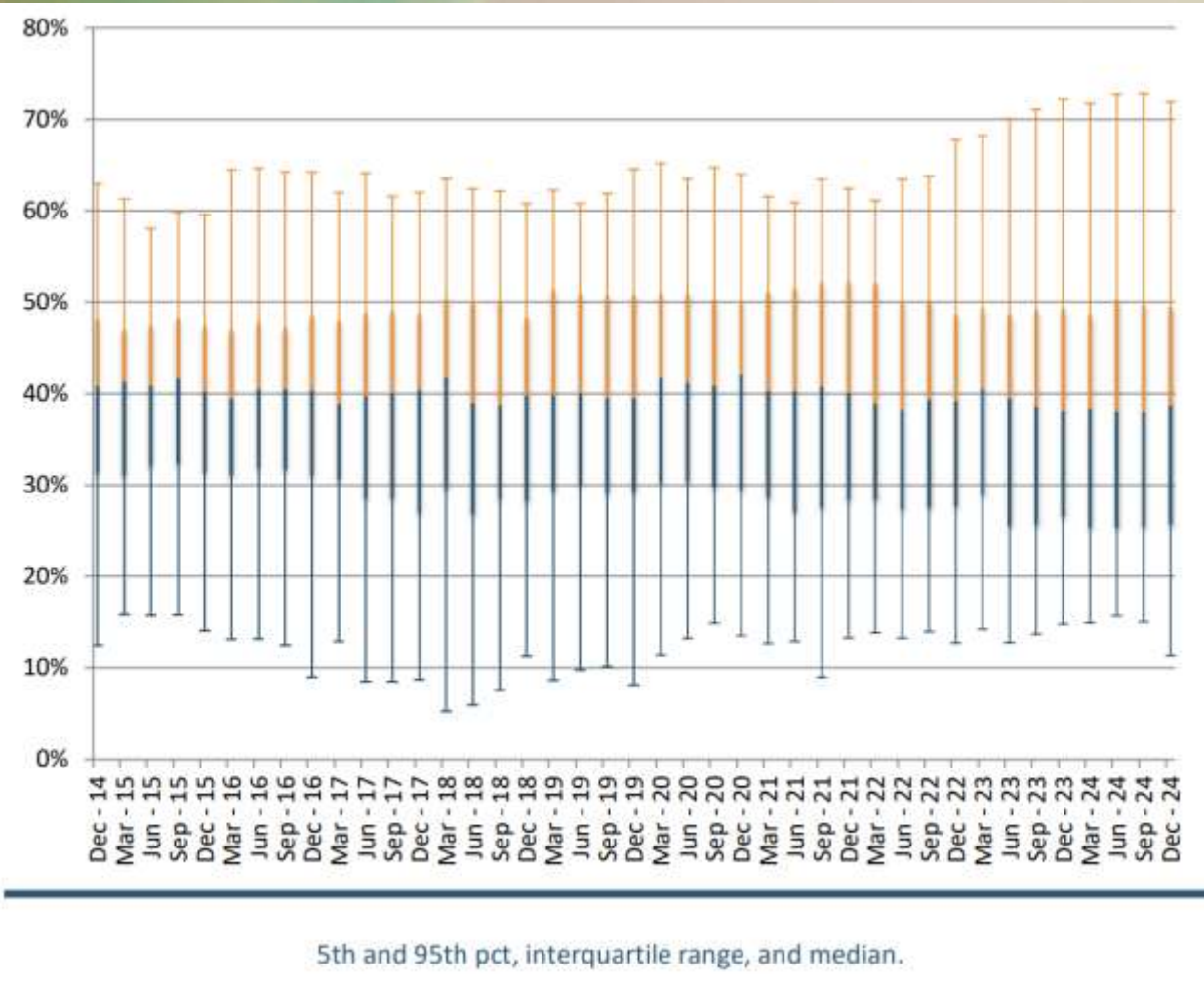
5th and 95th pct, interquartile range, and median.



Weighted Averages by country.

# EXAMPLES

## NPLs: coverage ratio (EBA)



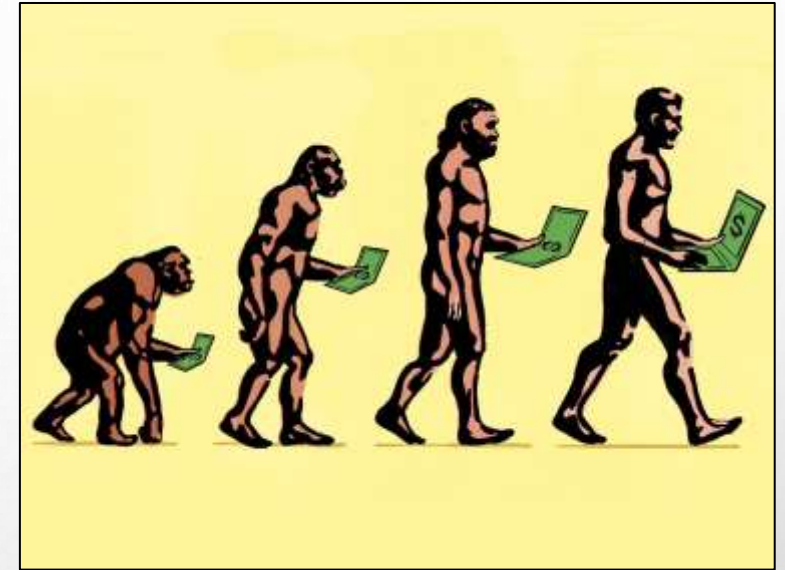
EXAMPLES



# EVOLUTION AND ISSUES

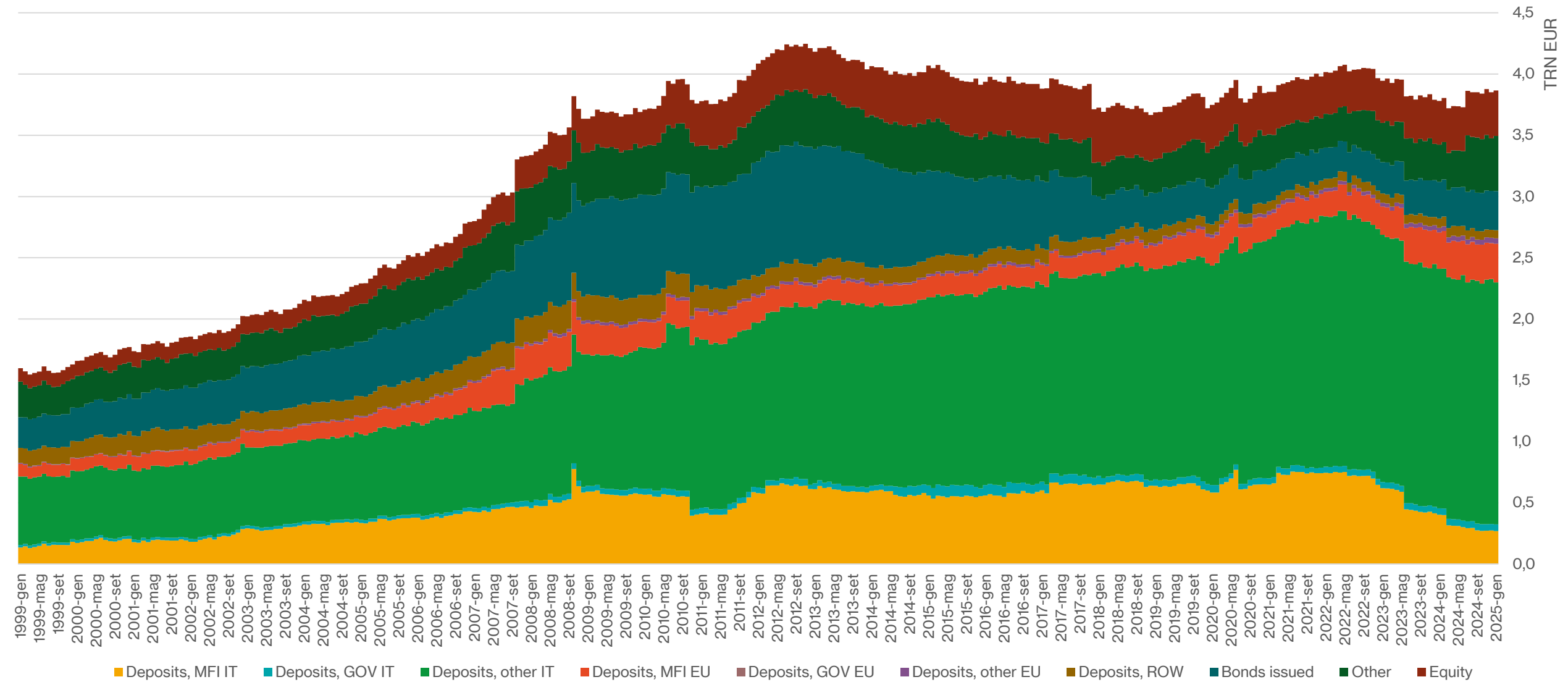
Major issues:

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

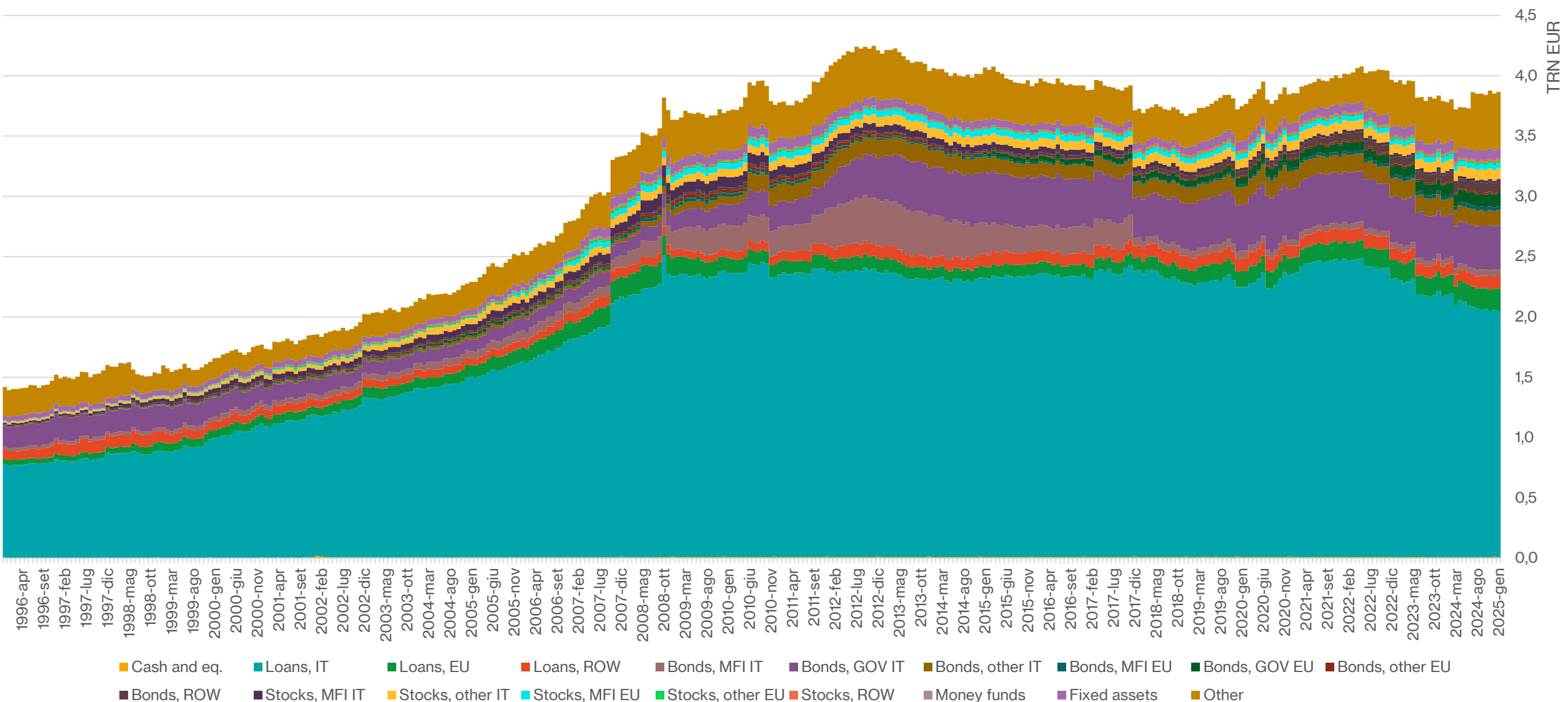


However:

- 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)



EXAMPLES



EXAMPLES

## STOXX - BANKS



EXAMPLES