

# Finance (Basic)

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**Ludek Benada**  
**Department of Finance**  
**Office 533**  
**75970@mail.muni.cz**

# Bank

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Bank is... (Accepts deposits and provides loans... + other financial services.)

A few history... (Origin Italy, Florence)

# How the bank works

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... just because of trust! Banks can legally extend considerably more credit than they have cash!

Multiplication of deposits:

$$ME = D * 1/r$$

ME .... Effect of multiplication

D .... Deposits

R .... Minimal reserves (holding by the Central bank)

# Balance sheet

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Bank Assets = Bank Liabilities + Bank Capital

# Sources of Funds (Liabilities)

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- Equity
- Deposits
- Borrowing (Other CB's, Central Bank, Usage of Bonds..)

# Uses of Funds (Assets)

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- Cash
- Securities (Stocks, Bonds)
- Loans
- Reserves at Central Bank
- Accounts at other Commercial Banks

# Off-balance-sheet

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- ❑ Asset,
- ❑ Debt,
- ❑ or Financing Activity.

... not at company's balance sheet.

# Banks increase the amount of money in the economy

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□ Two ways:

□ **Central Bank** issues new money into the economy (purchasing financial assets or lending money).

□ **Commercial Banks** multiply the introduced money from the Central Bank.



# How creates the Commercial Bank money?

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Fractional Reserves Banking



Multiplying money

# Bank run, Bank panic

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❑ **Bank Run** – many clients require their money at the same moment – bank does not have enough liquidity.

❑ **Bank Panic** – Financial crisis (many banks suffer runs)

# Types of Banks

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**Central Banks** – Monetary Authority

**Commercial Banks**

**Saving Banks/Thrift** – offers the possibility for saving (cooperative banks, credit unions)

# Central Bank

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A Central Bank ... has monopoly for issue the currency, regulates the money supply, control interest rate. (FED, European Central Bank, Czech National Bank).

# Functions of CBs

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- ❑ Keep a stable price level
- ❑ Issue note
- ❑ Bank for state (for government)
- ❑ Banker's clearing house
- ❑ Lender to the last resort (in the case of liquidity lack)
- ❑ Monetary policy
- ❑ Collecting statistic data/analysis

# Commercial Banks

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How CBs make money?

... Profit = Revenue – Costs (Spread in interest)

# Functions of Commercial Banks

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**□ Primary Function**

**□ Secondary Functions**

# The Primary Functions of CB

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❑ Accept deposits and

❑ offer loans.

(The main activities)



# The Secondary Functions of CB

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- ❑ Transfer money,
- ❑ Standing guarantee on behalf of its customers,
- ❑ Facilities of foreign exchange,
- ❑ Consulting, collecting & supplying business information, etc..)

# Types of CBs

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- ❑ Retail Bank (individual, small businesses)
- ❑ Business Bank (mid-market businesses)
- ❑ Corporate Bank (large businesses)
- ❑ Private Bank (high net worth individuals/families)
- ❑ Investment Bank (related with activities on the financial markets, activities like M&A)

# Universal versus Separated Banking

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- Universal Banking
- Separated Banking (Glass Steagall Act – 1933)

# Other Categories of Banks

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- Public Sector Banks
- Private Sectors Banks
- Foreign Banks

# Bank Channels

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- ATM
- Office (direct contact with clients)
- Call center
- Mobil banking
- Online banking
- Relationship Managers (private banking)
- Telephone banking

# Clearing and Clearing Bank

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- ❑ Clearing is.. Activities connected with the transaction until it is settled. (Reporting, monitoring, netting of trades, tax handling, failur handling). (Europe – TARGET2 – major interbank payment)
- ❑ Clearing Bank is.. (almost the Monetary authority, through this institution go transaction abroad).

# Bank Risks

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- Credit
- Liquidity
- Market
- Systematic
- Other
  - Operational
  - Fraud
  - reputation

# BASEL II

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- ❑ BASEL II is... (Regulation for banks – international standard)
  
- ❑ The aim is..(Protection against banks collapse)



# Three Pillars of BASEL II

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- ❑ Minimum capital requirements,
- ❑ Supervisory,
- ❑ Market discipline.

Thank you for your attention

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