

Finance (Basic)

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Bank

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

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

How the bank works

... 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

Bank Assets = Bank Liabilities + Bank Capital

Sources of Funds (Liabilities)

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

Uses of Funds (Assets)

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

Off-balance-sheet

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

... not at company's balance sheet.

Banks increase the amount of money in the economy

□ 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?

Fractional Reserves Banking



Multiplying money

Bank run, Bank panic

❑ **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

❑ **Central Banks** – Monetary Authority

❑ **Commercial Banks**

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

Central Bank

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

- ❑ 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

How CBs make money?

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

Functions of Commercial Banks

□ Primary Function

□ Secondary Functions

The Primary Functions of CB

❑ Accept deposits and

❑ offer loans.

(The main activities)

The Secondary Functions of CB

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

Types of CBs

- ❑ 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

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

Other Categories of Banks

- Public Sector Banks
- Private Sectors Banks
- Foreign Banks

Bank Channels

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

Clearing and Clearing Bank

- ❑ 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

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

BASEL II

- ❑ BASEL II is... (Regulation for banks – international standard)

- ❑ The aim is..(Protection against banks collapse)

Three Pillars of BASEL II

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

Thank you for your attention
