

# Basics of Banking

## FIN 204 Lecture 5.1.

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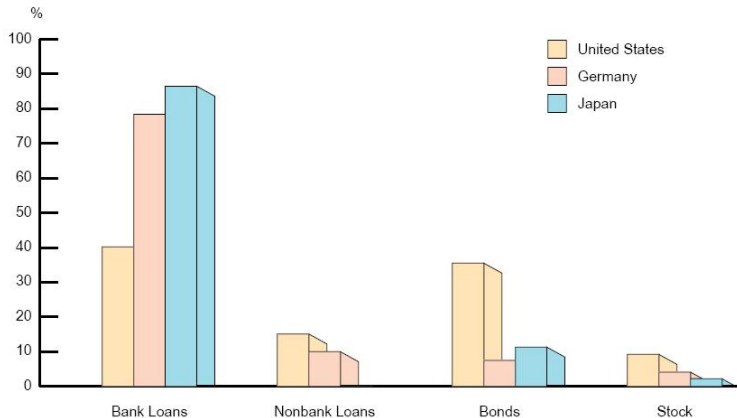
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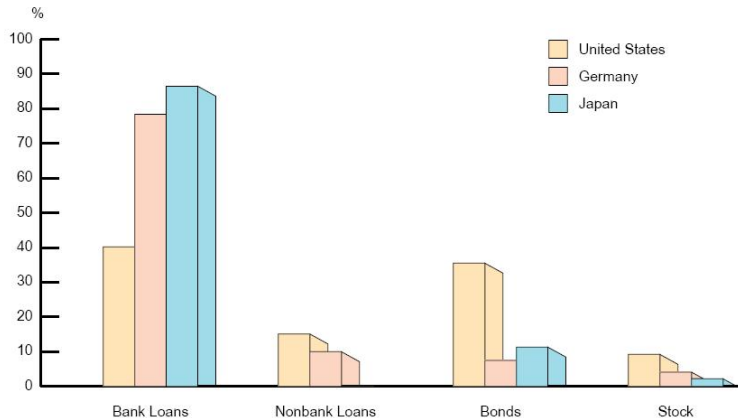
- 1 What Do We Know About Banking? (a short revision)
- 2 The Bank Balance Sheet
- 3 Basics of Bank Management

# Banking as the Major Financial Intermediary

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Banks are the major source of financing everywhere in the world.

# The Bank Balance Sheet

Why do we need the bank balance sheet?

# The Bank Ballance Sheet

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To understand the following:

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To understand the following:

- 1 Where do the money in the bank come from (Liabilities)
- 2 What does the bank do with them (Assets)
- 3 How does the bank make profit

# The Bank Balance Sheet

What is a bank balance sheet

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**The Bank Balance Sheet** is a list of the bank's assets and liabilities, for which it is always true that:

$$\textit{Total assets} = \textit{Total liabilities} + \textit{Capital}$$

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Liabilities are the *sources* of funds for the bank

Assets are how the bank *uses* the acquired funds

# The US Banking System Balance Sheet

**Table 1 Balance Sheet of All Commercial Banks (items as a percentage of the total, January 2003)**

Assets (Uses of Funds)*		Liabilities (Sources of Funds)	
Reserves and cash items	5	Checkable deposits	9
Securities		Nontransaction deposits	
U.S. government and agency	15	Small-denomination time deposits	
State and local government and		(< \$100,000) + savings deposits	42
other securities	10	Large-denomination time deposits	14
Loans		Borrowings	28
Commercial and industrial	14	Bank capital	7
Real estate	29		
Consumer	9		
Interbank	4		
Other	8		
Other assets (for example,			
physical capital)	6		
Total	100	Total	100

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# Basics of Bank Management

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FIRST NATIONAL BANK			
Assets		Liabilities	
Required reserves	+\$10	Checkable deposits	+\$100
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How does a bank make a profit?