

Basics of Banking

FIN 204 Lecture 5.1.

Petar Stankov

`petar.stankov@gmail.com`

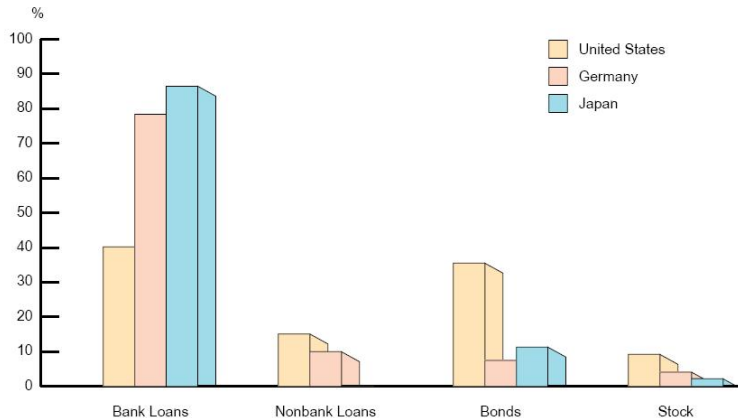
9 Mar. 2009

Outline

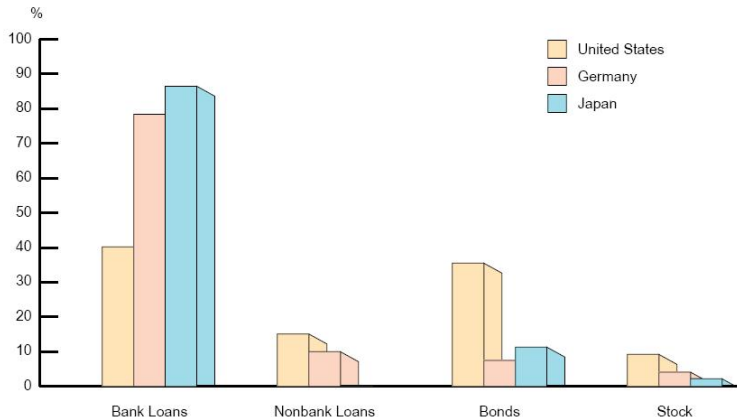
- 1 What Do We Know About Banking? (a short revision)
- 2 The Bank Balance Sheet
- 3 Basics of Bank Management

Banking as the Major Financial Intermediary

Banking as the Major Financial Intermediary



Banking as the Major Financial Intermediary



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

Why do we need the bank ballance sheet?
To understand the following:

The Bank Ballance Sheet

Why do we need the bank ballance sheet?

To understand the following:

- 1 Where do the money in the bank come from (Liabilities)

The Bank Ballance Sheet

Why do we need the bank ballance sheet?

To understand the following:

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

The Bank Ballance Sheet

Why do we need the bank ballance sheet?

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

The Bank Balance Sheet

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

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

The Bank Balance Sheet

What is a bank balance sheet

The Bank Balance Sheet

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

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

Liabilities are the *sources* of funds for the bank

The Bank Balance Sheet

What is a bank balance sheet

The Bank Balance Sheet

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

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

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

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

What are the major elements?

Basics of Bank Management

The T-Account

Basics of Bank Management

The T-Account

T-Accounts are a way to study the changes in the balance sheet:

Basics of Bank Management

The T-Account

T-Accounts are a way to study the changes in the balance sheet:

FIRST NATIONAL BANK			
Assets		Liabilities	
Required reserves	+\$10	Checkable deposits	+\$100
Excess reserves	+\$90		

Basics of Bank Management

The T-Account

T-Accounts are a way to study the changes in the balance sheet:

FIRST NATIONAL BANK			
Assets		Liabilities	
Required reserves	+\$10	Checkable deposits	+\$100
Excess reserves	+\$90		

Assets		Liabilities	
Required reserves	+\$10	Checkable deposits	+\$100
Loans	+\$90		

Basics of Bank Management

The T-Account

T-Accounts are a way to study the changes in the balance sheet:

FIRST NATIONAL BANK			
Assets		Liabilities	
Required reserves	+\$10	Checkable deposits	+\$100
Excess reserves	+\$90		

Assets		Liabilities	
Required reserves	+\$10	Checkable deposits	+\$100
Loans	+\$90		

How does a bank make a profit?