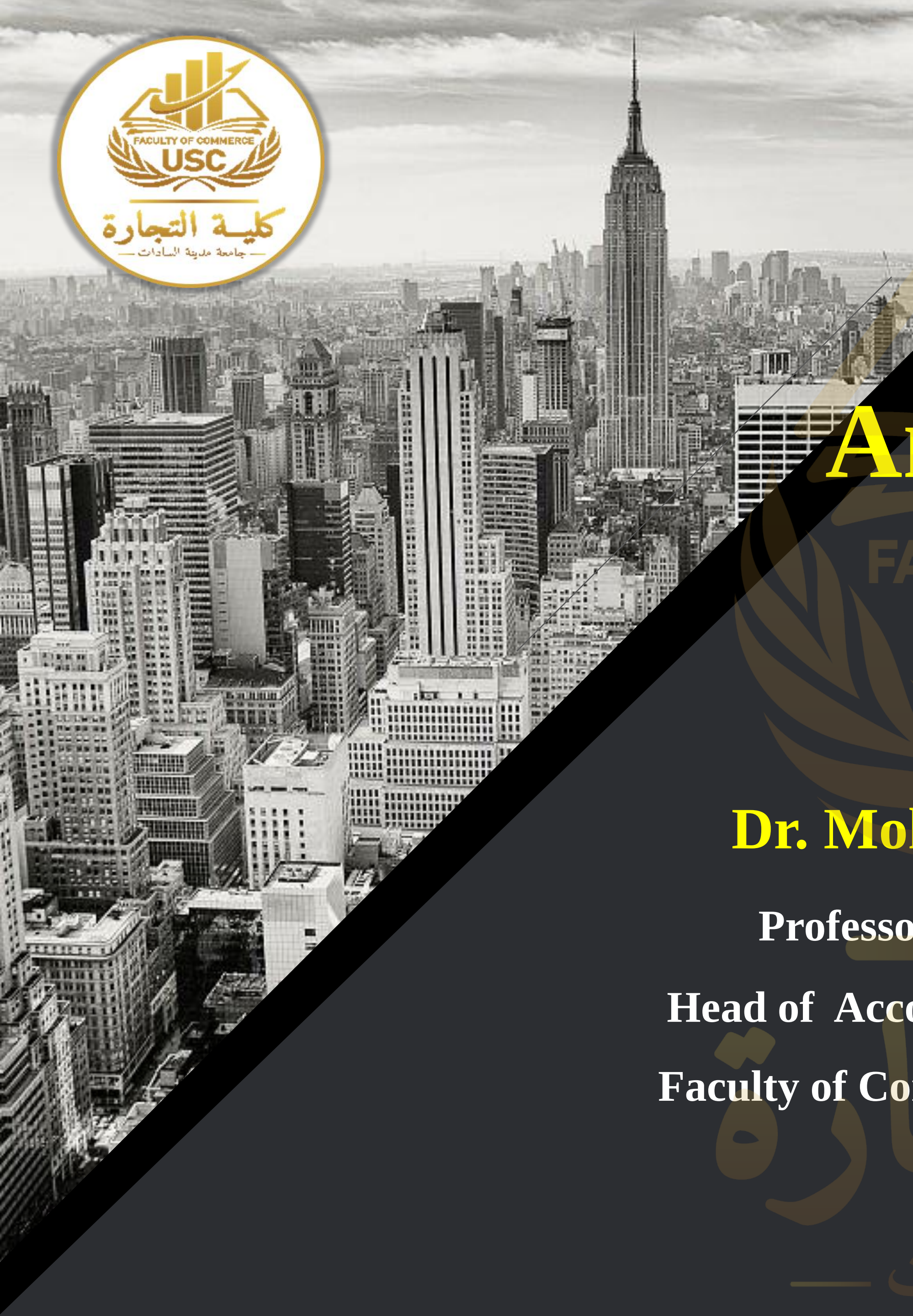

Analysis of Banking Financial Reports and Risks

BY

Dr. Mohamed Mousa Shehata

Professor of Accounting and Auditing

Head of Accounting and Auditing Department

Faculty of Commerce - University of Sadat City

Ethics Of Lecture

Syllabus of Analysis of Banking Financial Reports and Risks

Ch no.	Description	Lecture	Notes
1	The Nature and Forms of Financial Institutions	1	
2	Financial Analysis as an Approach to Decision-Making in Financial Institutions	2	
		3	
3	Analysis of Cash Flows for Investment Projects "Statement of Cash Flows Using the Six Blocks Approach"	4	
		5	Q No. 1
4	Analysis and Management of Banking Risks in Commercial Banks	6	
		7	
5	Models for evaluating the creditworthiness of banking institutions	8	**Mid term**
		9	
6	Liquidity as a basis for financial failure risk in financial institutions	10	
		11	Q No. 2
7	Stress testing methodology as a tool for banking risk management	12	
		13	
--	Revision	14	

Chapter 1

The Nature and Forms of Financial Institutions

First: The Nature of Financial Institutions.

1-The concept of financial institutions: Financial institutions are intermediary institutions that provide many financial services and products to their clients, which represent economic units that contain a group of assets and liabilities like other institutions.

Financial institution can also be defined as a business establishment whose assets lie in financial liabilities, and money is dealt with in a give-and-take manner….

First: The Nature of Financial Institutions.

2- The Importance of Financial Institutions: Financial institutions obtain money from savers in the form of deposits and give it to owners of investment projects in the form of financing and consumer loans. Thus, financial institutions represent one of the components of the financial and economic system.

- **Credit Services: Refers to the process of granting money to individuals and institutions, for many consumer or investment purposes.**

First: The Nature of Financial Institutions.

- **Payment Services:** Financial institutions work to provide several systems for paying bills that must be paid.
- **Providing Money:** Through the credit process, providing the required liquidity from the financial system's money.
- **Saving:** Financial institutions encourage decisions to save money, and work to invest these savings in many different investments.

First: The Nature of Financial Institutions.

3- Types of Financial Institutions: Financial institutions provide various services, which can be classified into two main types:

- **Banking Financial Institutions:** These institutions play the role of intermediaries, as their mission is to obtain funds through deposits, and to provide these funds in various forms.

First: The Nature of Financial Institutions.

- **Non-banking financial institutions:** These institutions work to provide financial services to individuals and companies through the exchange of securities and everything related to shares, supplying investments in all sectors with funds, and providing other financial assistance and consulting.

Second: The Nature of Commercial Banks as a Form of Financial Institution.

1- The concept of commercial banks: Commercial banks are among the most important and oldest intermediary financial institutions whose main function is to accept deposits (current, term, savings) whether for individuals, business establishments or the government.

- **Commercial banks** accept all types of deposits, providing savers with many opportunities to invest their savings in short-term investment opportunities.

Second: The Nature of Commercial Banks as a Form of Financial Institution.

- **Commercial banks** provide banking services to all clients from various sectors, individuals, businesses, and government agencies.
- **Commercial banks** grant different types of loans for many terms, short, medium or long term, which provides various opportunities for borrowers.
- **Commercial banks** can finance all types of industrial, agricultural, service, and commercial projects.

Second: The Nature of Commercial Banks as a Form of Financial Institution.

2- Objectives of commercial banks:

- **Profitability:** The basic criterion for the success of managing a commercial bank is achieving the largest possible profit. commercial banks to achieve profits, their revenues must exceed their costs.
- **Liquidity:** Refers to the bank's ability to meet its Lability on their due dates, which is represented in the ability to meet depositors' withdrawal requests and respond to credit requests…

Second: The Nature of Commercial Banks as a Form of Financial Institution.

- **Safety:** Commercial banks aim to provide the greatest possible level of safety for depositors by avoiding engaging in operational or investment activities or lending to high-risk projects.
- **Strategy for reconciling profitability, liquidity and security:** The bank management faces the problem of reconciling the three main factors: profitability, liquidity and security, as security and liquidity are constraints on the goal of maximizing profitability.

Second: The Nature of Commercial Banks as a Form of Financial Institution.

3- Basic activities of commercial banks:

- **Accepting deposits:** Accepting deposits represents the first main activity of commercial banks through which the commercial bank can perform the second function, which is lending.
- **Granting credit (loans):** Although deposits represent the sources of most of the bank's financial needs, granting credit (lending) represents most of the bank's operational activities.

Third: The Role of Central Bank in achieving Financial Stability and managing banking risks.

The Egyptian financial system consists of financial institutions, markets and their infrastructure and is based on the banking sector. Therefore, The Central Bank of Egypt plays a major role in maintaining financial stability as the entity responsible for the safety, regulation and supervision of the banking sector, in cooperation with the Financial Regulatory Authority, which supervises the non-banking financial sector.

Third: The Role of Central Bank in achieving Financial Stability and managing banking risks.

Third: The Role of Central Bank in achieving Financial Stability and managing banking risks.

- **Studying the risks** arising from and potential for banking services, businesses and activities and developing solutions and proposals for this, in coordination with other regulatory, supervisory and oversight bodies, and working to enhance cooperation and exchange of information among them in a way that helps enhance the regulatory and supervisory environment in a harmonious and integrated manner.

Third: The Role of Central Bank in achieving Financial Stability and managing banking risks.

- **Proposing policies** related to regulation, oversight and supervision of banks, including licensing, risk assessment, oversight of anti-money laundering and terrorist financing, oversight of anti-fraud and other policies related to banking services, businesses and activities.
- **Ensuring compliance** with the Central Bank and Banking System Law No. 194 of 2020 and the instructions and regulatory controls regulating banking

Third: The Role of Central Bank in achieving Financial Stability and managing banking risks.

- **Identifying and monitoring systemic risks**, by applying various analytical tools and activating precautionary policy tools to prevent the formation of risks or mitigate their impact on the stability of the financial system.

Fourth: The nature of insurance companies as a form of financial institutions.

1- The concept of insurance: A system that aims to reduce the risk facing an individual or an establishment, in which the insured obtains a pledge in his favor or in favor of a third party from the other party, which is the insurer, who pays a certain amount upon the occurrence of the risk in exchange for paying the insurance premium, provided that the insurer collects similar risks and predicts the value of the financial obligations resulting from their occurrence.

Fourth: The nature of insurance companies as a form of financial institutions.

- Accumulation of losses.
- Transfer of risk.
- Compensation for accidental loss.

Fourth: The nature of insurance companies as a form of financial institutions.

2-The importance of insurance: Insurance provides many functions in the field of economic and social development, and the importance of insurance is shown in the following:

- ❑ Increasing production efficiency
- ❑ Ensuring the continuity of economic projects
- ❑ Preventing violent fluctuations in the output of economic projects
- ❑ Life insurance is a means of saving

Fourth: The nature of insurance companies as a form of financial institutions.

- ❑ Financing economic development plans
- ❑ Supports credit (borrowing)

3- Types of insurance:

A- Private insurance: This type of insurance includes all areas of insurance that are not practiced by the government but are practiced by entities or companies. This type of insurance includes the following types:

Fourth: The nature of insurance companies as a form of financial institutions.

- **Personal insurance**
- ✓ Life insurance: **There are three types of it:**
  - o Life insurance.
  - o Death insurance.
  - o Life and death insurance together.
- ✓ Injury insurance: **It is divided into two types:**
  - o Personal accident insurance.
  - o Disease insurance.

Fourth: The nature of insurance companies as a form of financial institutions.

- **Property insurance:** These are types of insurance that cover risks in which the subject of insurance is human property, including: marine insurance, fire insurance…
- **Civil liability insurance:** Civil liability insurance is the type of insurance that covers civil liability risks…
  - ✓ Civil liability insurance for car, ship and aircraft owners.
  - ✓ Civil liability insurance for owners of public establishments such as cinemas, restaurants and hotels.

Fourth: The nature of insurance companies as a form of financial institutions.

B- Governmental insurance: It is any insurance that the state enters into with the intention of supporting it or imposing it compulsorily to protect a certain category, as is the case with compulsory insurance against car accidents, social insurance where the state participates in bearing part of the costs in addition to the share of the employer and the worker; Governmental social insurance includes disability, death, old age insurance and social health insurance.

Fifth: The nature and advantages of investment funds as a form of financial institutions.

1- The concept of investment funds: It is a financial institution that collects the savings of small investors and then manages the investment operations of these funds in a professional manner.

Fifth: The nature and advantages of investment funds as a form of financial institutions.

2- Objectives of investment funds: Investment funds aim to achieve both of the following:

- Achieving a capital increase in the wealth of subscribers.
- Stabilizing the income of the fund's shareholders through the income that investment funds distribute periodically to the fund's shareholders.

Fifth: The nature and advantages of investment funds as a form of financial institutions.

3- Advantages of investment funds:

- Providing professional management in investment operations. Which has the necessary time, knowledge and experience
- Enabling the small investor by collecting the savings of these investors to enter the field of investment

Fifth: The nature and advantages of investment funds as a form of financial institutions.

4- Types of investment funds:

A- Investment funds are classified based on the extent of change in capital:

- **Open End Funds:** Open-ended funds are considered to have variable or open capital, where the number of units of the fund’s capital changes permanently by the fund selling new units to any investor who wishes to do so or buying its issued units if its owner wishes to recover their value.

Fifth: The nature and advantages of investment funds as a form of financial institutions.

4- Types of investment funds:

- **Closed End Funds:** These funds are characterized by issuing a number of units, and this number is characterized by stability and does not change, and the return on these units is used to form the financial or real estate portfolio managed by these funds, and the units or documents of closed investment funds can be traded by buying and selling on the stock exchange through stockbrokers.

Fifth: The nature and advantages of investment funds as a form of financial institutions.

- **Open End Funds:** Open-ended funds are considered to have variable or open capital, where the number of units of the fund's capital changes permanently by the fund selling new units to any investor who wishes to do so or buying its issued units if its owner wishes to recover their value.

Fifth: The nature and advantages of investment funds as a form of financial institutions.

B-Investment funds according to the financial instruments used to achieve the fund's objectives:

- **Equity Funds:** Funds specialized in investing in common stocks only.
- **Fixed Income Funds:** These funds specialize in investing in bonds and fixed-income securities such as preferred stocks, and the main purpose of the fund is to achieve a fixed periodic income for the investor.

Fifth: The nature and advantages of investment funds as a form of financial institutions.

- **Growth Funds:** These funds are characterized by their financial portfolios consisting of shares of small companies with a high growth rate, and these funds usually attract the risk investor who wants to achieve high capital growth.

Sixth: The nature and importance of financial technology (FinTech).

1- The concept of financial technology FinTech:

- It is any technological innovation that is employed in financial services with the aim of influencing financial markets and institutions and providing financial services. Financial technology is considered a natural result of the intersection of financial operations with the uses of modern technology.

Sixth: The nature and importance of financial technology (FinTech).

1- The concept of financial technology FinTech:

- Innovative ideas that aim to improve financial services management processes by proposing technical solutions according to different business situations, and innovative ideas may also lead to new business models.
- Any financial innovation that can result in new business models, applications, operations or products.

Sixth: The nature and importance of financial technology (FinTech).

2- Factors contributing to the shift towards financial technology:

- The communications and information revolution that led to the emergence of fundamental changes in the nature of the financial sector.
- The rapid pace of use of smartphones and the Internet in addition to the huge availability of data and information.

Sixth: The nature and importance of financial technology (FinTech).

- ❑ E-commerce has become characterized by many features that distinguish it from traditional commerce.
- ❑ The increasing entry of many non-banking financial institutions such as insurance companies and finance companies and their competition with banks, until many of these institutions began to provide a group of financial services closely related to the work of banks.

Sixth: The nature and importance of financial technology (FinTech).

❑ The basic pillars of financial technology:

- ✓ Availability of demand for advanced financial services (individuals and companies).
- ✓ Ease of access to financing for financial technology companies, especially emerging ones.
- ✓ Availability of technical cadres with the possibility of attracting and recruiting the best of these cadres.

Sixth: The nature and importance of financial technology (FinTech).

- **The basic pillars of financial technology:**
- ✓ **Appropriate regulatory environment of regulations and laws.**
- ✓ **Appropriate infrastructure with the availability of business incubators.**

Sixth: The nature and importance of financial technology (FinTech).

- **General risks of financial technology for banks:**
- ✓ **Information security risks:** **Relying on modern technologies may lead to increased interconnection of commercial banks' businesses with a number of entities that are not subject to electronic security protection for their data, such as those available in banks, and thus the possibility of sensitive data of bank customers being exposed to potential violations increases.**

Sixth: The nature and importance of financial technology (FinTech).

❑ General risks of financial technology for banks:

✓ **Outsourcing risks:** Banks' IT systems may not be sufficiently adaptable to advanced financial technology, so banks resort to using a larger number of external companies. This increased use may lead to increased risks surrounding data security and privacy.

The Next Lecture

Chapter 2

Financial Analysis as an Approach to Decision-Making in Financial Institutions