Research on the risks of intesa sanpaolo bank finance essay

Finance

General Description of Intesa Sanpaolo BankIntesa Sanpaolo Group policies relating to risk acceptance are defined by the Parent Company's Management Bodies, Supervisory Board and Management Board, with support from specific Committees (particularly, the Group Risk Governance Committee), and the Chief Risk Officer, who reports directly to the Chief Executive Officer. The Parent Company is in charge of overall direction, management and control of risks, whereas Group companies that generate credit and/or financial risks operate within the assigned autonomy limits and has their own control structures. A service agreement governs the risk control activities performed by the Parent Company's functions on behalf of the main subsidiaries. These functions report directly to the subsidiary's Management Bodies. The risk measurement and management tools together define a risk-monitoring framework at Group level, capable of assessing the risks assumed by the Group from a regulatory and economic point of view. The level of absorption of economic capital, defined as the maximum unexpected loss that could be borne by the Group over a period of one year, is a key measure for determining the Group's financial structure, risk appetite and for guiding operations, ensuring a balance between risks assumed and shareholder returns. (Intesasanpaolo)

Basel 2 Pillar 3

The third pillar of Basel 2 is to complement the minimum capital requirements and the supervisory review process by encouraging market efficiency through a development of set of disclosure requirements that will allow market participants to assess key pieces of information of regulatory capital, risk exposures, risk assessment processes. Basel 2 pillar 3 requires credit institutions to adopt a formal policy to meet the minimum public disclosure in place that allow them to assess its adequacy, also in terms of its verification and frequency. (intesasanpaolo. com)

Definitions of Major Risks

Credit Risk

Credit risk is risk due to uncertainty in counterparty's ability to meet its obligations. Because there are many types of counterparties from individuals to sovereign governments and many different types of obligations from auto loans to derivatives transactions credit risk takes many forms. Institutions manage it in different ways.

Market Risk

Market risk is the risk which is common to of assets or liabilities. The value of investments may decline over a given time period simply because of economic changes political situations or other events that impact large portions of the market. Asset allocation and diversification can protect against market risk because different portions of the market tend to underperform at different times. (investowords. com)

Operational Risk

The risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. They are basically the losses suffered from any kind of operation that a bank suffers during the given time period.

RoA

ROA gives an idea as to how efficient management is at using its assets to generate earnings.

RoE

Return on equity measures a corporation's profitability by revealing how much profit a company generates with the money shareholders have invested.

Coverage Ratio

An accounting ratio that helps to measure a company's ability to meet its obligations satisfactorily. A coverage ratio encompasses many different types of financial ratios. Typically, these kinds of ratios involve a comparison of assets and liabilities. The better the assets cover the liabilities, the better off the company is. (investopedia. com)

Intesa Sanpaolo Risk Rates

Q1 2009Q2 2009Q3 2009Q4 2009cT1 Ratio6. 4%6. 9%7. 2%7. 1%Equity/Assets8. 3%8. 5%8. 8%9. 0%Loans/Deposits195%187%188%189%Coverage Ratio52%49%48%47%RoA0. 60%0. 72%0. 88%0. 59%RoE7. 5%8. 6%9. 9%6. 4%Pretax marginn. an. an. a17. 62%Asset turnovern. an. an. a0. 04Receivables turnovern. an. an. a0. 07Net profit margin13. 44%The general outlook for Intesa Sanpaolo currently can be described as follows: The bank currently the largest bank in Italy. Assets quality improving, with decelerating NPL additions. Corporate and investment banking accounted for 21% of 9M 10 revenues.

Analysis

According to quarterly findings of 2009 year Intesa Sanpaolo has increased its reserve ratios. This is a good for the credibility of the bank and gives positive sign for the market and its customers. Loans/Deposits are in a decreasing trend. Most probably as an effect of the financial crisis in 2008 and the consequences of it continuing in 2009 the amount of loans given are decreased. The crisis may have stopped business investments. In the mean time deposits are increased mainly due to increase of reserve ratios and customers decided to keep their money in the banks instead of investing them on more risky market instruments. General business conditions has effected Intesa Sanpaolo's earnings because of uncertainty in financial markets, changes in interest rates, change in laws and regulations after the latest crisis and also fluctuating exchange rates are some of the factors needs to be mentioned to see the changes. Regulations from European central bank as well as demand from domestic customers in Italy are the main factors affecting the earnings of Intesa Group. The major instrument Intesa Sanpaolo group used to decrease credit and market risk during the times of crisis is hedging. The results of Intesa Sanpaolo's group also depends on how cleverly the effectively the assessment of credit risk and costs are determined in time by the bank. Rapid increases in interest rates may have a negative effect on costs especially in mortgages and other types of loans. The business environment of Intesa Sanpaolo can change the general credit quality and recoverability of loans in the bank. Unfortunately these results can only depend on counterparties and general market situations at that moment. As mentioned on above for during the definition of coverage risk the assets should cover the liabilities as much as possible. This type of coverage enables the bank to become more stable and reliable. Return on assets is one of the most important issues in investment. Banks are for generating profits especially for its shareholders. Looking at the numbers calculated for each quarter in 2009 we can see the changes in each quarter by +, - 0. 10 percent. We can observe positive and increasing earnings until the last quarter. Earnings in the last quarter slow down relatively to the past three quarters. Return on equity basically indicates us how much profit a company generates with the money shareholders have invested. Similar to return on asset figures the first three quarters are very strong with growing tendency of profits. Similarly the last quarter profits generated for the shareholders are lower than the first quarter figures.

Summary and Recommendations

Intesa Sanpaolo is the biggest bank in Italy. Its 2009 data shows the reserve ratio of the bank is increasing. This will protect them from an unexpected market shocks and will be able to avoid liquidity. Another sign of increasing amount of deposits. Looking at the Loans/Deposits ratios this also shows us the fact of increasing deposits. I would say this shall be kept this way especially this times because of structural issues banking sector in Europe and uncertainty of common currency in EU. Increasing the amount of deposits has a positive effect on assets-liabilities coverage ratio. This allows the bank to be able to cover the unpaid or lost credits given to customers for personal loans or investment purposes…I cannot find specific reasons why the last quarters of both RoA and RoE are decreasing in 2009. Maybe this is due to year end closings and the adjustments related to it. Maybe the reason is the growing concern about the future of Euro and the deepness of the economic issues in Greece, Spain, Ireland and Portugal. But overall the bank seemed to do a good progress especially in reserve ration and shareholders earnings. Decreasing the amount of liabilities is the most important issue at the moment. Operational risks are also decreased. Strategies used by the Intesa Sanpaolo to hedge or otherwise manage its exposure to credit or market risk are not effective, the Intesa Sanpaolo may not be able to mitigate effectively its risk exposure in particular market environments or against particular types of risks like marketing and credit risk. The Intesa Sanpaolo's trading revenues and interest rate risk are dependent upon its ability to identify and mark the changes especially the changes in in the value of financial instruments that are caused by the changes in market prices as well as interest rates.