

DAY 4 - THURSDAY

Return on Average Assets

- Measures the profitability of the Bank
- Sometimes called ROA or ROAA
- ROA shows income relative to size, so can be useful in comparing the performance over time or with other peer banks
- Higher the better
- Calculation:
 - Annualized net income / Average Total Assets

DCB Return on Assets (ROA)

| | |
|------------------------------------|--------------|
| + Interest Income | 4.50% |
| + <u>Interest Expense</u> | <u>0.75%</u> |
| + Net Interest Income | 3.75% |
| - <u>Provision for loan losses</u> | <u>0.15%</u> |
| + Non-interest Income | 0.75% |
| - <u>Non-interest expense</u> | <u>3.00%</u> |
| + Pre-tax Income | 1.35% |
| - <u>Federal Tax Expense</u> | <u>0.27%</u> |
| + Net Income/ROA | 1.08% |

$$\$10,800,000 / \$1,000,000,000 = \underline{\quad}\%$$

Return on Average Equity

- Also measures the profitability of the Bank
- Measures the degree to which the company profitably deploys its capital
- Sometimes called ROE or ROAE
- Higher the better
- Calculation:
 - Annualized net income / Average Total Equity
 - \$ _____ / \$ _____ = _____ %

Earnings per share driver of stock price

DCB earns \$2,700,000 quarter

DCB has 10,000,000 shares stock

Net income / # shares stock = EPS

_____ / _____ = _____

P/E Multiple on stock trading at \$14.00 per share

Stock Price _____ / EPS _____ = P/E

Efficiency Ratio

- The ratio of noninterest expense to total revenue
- Measures how much it costs to earn a dollar of revenue, i.e. the efficiency of the company
- Fee Income business lines can limit usefulness – I prefer net overhead ratio
- Lower number is better
- Calculation:
 - $\text{Noninterest Expense} / (\text{Net interest income} + \text{non-interest income})$
 - Securities gains/losses excluded from non-interest income in calculation

Risk-Return on balance sheet

Two **Inversely** related variables

- Maximize Return and Minimize risk
 - Credit Risk (Asset Quality)
 - Liquidity Risk
 - Interest Rate Risk
 - Capital Adequacy
- Maximize LT return = EARNINGS POWER

Darden Community Bankshares

| Assets | \$ Amount | | Liabilities/Capital | \$ Amount |
|-------------------|-----------------|--|-----------------------|-----------------|
| Cash and Due From | \$ 10,000,000 | | DDA | \$ 200,000,000 |
| Fed Funds Sold | 50,000,000 | | Savings/MMDA | 370,000,000 |
| Securities | 150,000,000 | | CDs/IRA Certificates | 300,000,000 |
| Loans, Gross | 735,000,000 | | Funds Purchased | 0 |
| Reserve Losses | (10,000,000) | | Other Borrowings | 20,000,000 |
| Fixed Assets | 40,000,000 | | Other Liabilities | 10,000,000 |
| OREO | 5,000,000 | | Total Liabilities | 900,000,000 |
| Other Assets | 20,000,000 | | | |
| | | | Equity Capital | 100,000,000 |
| | | | | |
| Total Assets | \$1,000,000,000 | | Liabilities & Capital | \$1,000,000,000 |

Risk-Return on balance sheet

- ST Loan Demand Weak, competitive
- DCB buys \$50 MM 15 yr. FNMA MBS@3.0%
- DCB books \$50 MM 10 year loans@5%
- Did we introduce any Risk?
 - Asset Quality/Credit Risk
 - Liquidity
 - Interest rate sensitivity
 - Capital Adequacy
- Did we make any money? Grow EPS?

Darden Community Bankshares

| Assets | \$ Amount | | Liabilities/Capital | \$ Amount |
|-------------------|---------------|--|----------------------|----------------|
| Cash and Due From | \$ 10,000,000 | | DDA | \$ 200,000,000 |
| Fed Funds Sold | | | Savings/MMDA | 370,000,000 |
| Securities | | | CDs/IRA Certificates | 300,000,000 |
| Loans, Gross | | | Funds Purchased | |
| Reserve Losses | (10,000,000) | | Other Borrowings | 20,000,000 |
| Fixed Assets | 40,000,000 | | Other Liabilities | 10,000,000 |
| OREO | 5,000,000 | | Total Liabilities | 950,000,000 |
| Other Assets | 20,000,000 | | | |
| | | | Equity Capital | 100,000,000 |
| | | | | |
| Total Assets | | | Total Liab & Capital | |

Math on bank growth

- DCB Previous Year earned \$10,800,000
- New Loans \$50MM x 5.00% = _____
- New Bonds \$50MM x 3.50% = _____
- Lost FFS \$50MM x 2.00% = _____
- New FFP \$50MM x 2.25% = _____
- New Pretax Income = _____
- Taxes @ 21% = _____
- Net Income = _____
- Total Assets = _____
- EPS on 10 million shares \$ _____ %
- Stock Price x stable P/E ratio \$ _____

Darden Community Bankshares

| Assets | \$ Amount | Liabilities/Capital | \$ Amount |
|-------------------|-----------------|----------------------|-----------------|
| Cash and Due From | \$ 10,000,000 | DDA | \$ 200,000,000 |
| Fed Funds Sold | 0 | Savings/MMDA | 370,000,000 |
| Securities | 200,000,000 | CDs/IRA Certificates | 300,000,000 |
| Loans, Gross | 785,000,000 | Funds Purchased | 50,000,000 |
| Reserve Losses | (10,000,000) | Other Borrowings | 20,000,000 |
| Fixed Assets | 40,000,000 | Other Liabilities | 10,000,000 |
| OREO | 5,000,000 | Total Liabilities | 950,000,000 |
| Other Assets | 20,000,000 | | |
| | | Equity Capital | 100,000,000 |
| | | | |
| Total Assets | \$1,050,000,000 | Total Liab & Capital | \$1,050,000,000 |

Uniform Bank Performance Report

- All banks report financial results quarterly – the CALL report
- Analysis of your bank compared to peer banks –based on size/structure
- Excellent tool for analysis
- FFIEC.Gov website

BANK A - SUMMARY

| | 12/31/2008 | | | 12/31/2007 | | |
|--|------------|---------|-----|------------|---------|-----|
| | BANK | PG 4 | PCT | BANK | PG 5 | PCT |
| Earnings and Profitability | | | | | | |
| Percent of Average Assets: | | | | | | |
| Interest Income (TE) | 6.63 | 5.74 | 95 | 8.02 | 6.82 | 93 |
| - Interest Expense | 2.96 | 2.31 | 85 | 3.47 | 3.07 | 74 |
| Net Interest Income (TE) | 3.66 | 3.42 | 67 | 4.55 | 3.77 | 86 |
| + Noninterest Income | 0.49 | 0.86 | 27 | 0.65 | 0.82 | 39 |
| - Noninterest Expense | 2.09 | 2.92 | 16 | 2.58 | 2.85 | 37 |
| - Provision: Loan & Lease Losses | 2.51 | 0.94 | 89 | 0.21 | 0.21 | 62 |
| - Provision: Credit Loss Oth Assets | N/A | N/A | N/A | N/A | N/A | N/A |
| Pretax Operating Income (TE) | -0.44 | 0.48 | 23 | 2.40 | 1.56 | 88 |
| + Realized Gains/Losses Sec | 0.00 | -0.04 | 50 | 0.00 | 0.00 | 66 |
| + Unrealized Gains / Losses Equity Sec | N/A | 0.00 | N/A | N/A | 0.00 | N/A |
| Pretax Net Operating Income (TE) | -0.44 | 0.31 | 26 | 2.40 | 1.55 | 88 |
| Net Operating Income | -0.29 | 0.18 | 25 | 1.57 | 1.10 | 81 |
| Adjusted Net Operating Income | 1.98 | 0.51 | 95 | 1.73 | 1.19 | 84 |
| Net Inc Attrib to Min Ints | N/A | 0.00 | N/A | N/A | 0.00 | N/A |
| Net Income Adjusted Sub S | -0.29 | 0.15 | 25 | 1.57 | 1.01 | 89 |
| Net Income | -0.29 | 0.18 | 25 | 1.57 | 1.10 | 81 |
| Margin Analysis: | | | | | | |
| Avg Earning Assets to Avg Assets | 95.49 | 93.47 | 77 | 96.28 | 93.94 | 83 |
| Avg Int-Bearing Funds to Avg Assets | 82.19 | 82.61 | 42 | 77.70 | 80.05 | 33 |
| Int Inc (TE) to Avg Earn Assets | 6.94 | 6.16 | 94 | 8.33 | 7.28 | 90 |
| Int Expense to Avg Earn Assets | 3.10 | 2.47 | 84 | 3.61 | 3.27 | 70 |
| Net Int Inc-TE to Avg Earn Assets | 3.84 | 3.67 | 59 | 4.72 | 4.03 | 83 |
| Loan & Lease Analysis: | | | | | | |
| Net Loss to Average Total LN&LS | 0.25 | 0.81 | 26 | 0.05 | 0.18 | 26 |
| Earnings Coverage of Net Losses (X) | 8.68 | 6.51 | 72 | 55.34 | 31.11 | 80 |
| LN&LS Allowance to LN&LS Not HFS | 3.04 | 1.60 | 95 | 1.20 | 1.21 | 53 |
| LN&LS Allowance to Net Losses (X) | 13.67 | 4.14 | 90 | 25.82 | 15.59 | 81 |
| LN&LS Allowance to Total LN&LS | 3.04 | 1.59 | 95 | 1.20 | 1.21 | 54 |
| Total LN&LS-90+ Days Past Due | 0.31 | 0.13 | 81 | 0.33 | 0.11 | 83 |
| -Nonaccrual | 4.34 | 2.33 | 79 | 0.30 | 0.81 | 32 |
| -Total | 4.65 | 2.52 | 78 | 0.63 | 1.04 | 45 |
| Liquidity | | | | | | |
| Net Non Core Fund Dep New \$250M | 66.30 | 36.39 | 93 | 50.59 | 27.89 | 90 |
| Net Loans & Leases to Assets | 91.40 | 72.57 | 98 | 92.23 | 71.61 | 99 |
| Capitalization | | | | | | |
| Tier One Leverage Capital | 9.9572 | 8.41 | 86 | 13.1088 | 9.06 | 95 |
| Cash Dividends to Net Income | 0.00 | 36.00 | 39 | 0.00 | 47.84 | 20 |
| Retained Earnings to Avg Total Equity | -2.59 | -2.51 | 33 | 11.89 | 4.97 | 90 |
| Rest+Nonac+RE Acq to Eqcap+ALLL | 35.78 | 22.33 | 78 | 2.64 | 8.06 | 29 |
| Growth Rates | | | | | | |
| Total Assets | 28.75 | 9.82 | 89 | 17.91 | 8.22 | 83 |
| Tier One Capital | -2.24 | 7.54 | 23 | 12.90 | 7.95 | 77 |
| Net Loans & Leases | 27.59 | 10.38 | 88 | 17.57 | 10.30 | 78 |
| Short Term Investments | -87.47 | 74.04 | 5 | 102.09 | 10.12 | 84 |
| Short Term Non Core Funding | 108.88 | 27.98 | 90 | 43.77 | 17.27 | 81 |
| Average Total Assets | | | | | | |
| Total Equity Capital | | 956,195 | | | 773,716 | |
| Net Income | | 105,235 | | | 107,978 | |
| | | -2,803 | | | 12,109 | |
| Number of banks in Peer Group | | | 305 | | | 298 |

BANK B - SUMMARY

| | 12/31/2008 | | | 12/31/2006 | | |
|--|------------|---------|-----|------------|---------|-----|
| | BANK | PG 5 | PCT | BANK | PG 5 | PCT |
| Earnings and Profitability | | | | | | |
| Percent of Average Assets: | | | | | | |
| Interest Income (TE) | 5.57 | 5.90 | 23 | 7.33 | 6.63 | 82 |
| - Interest Expense | 2.56 | 2.36 | 63 | 3.05 | 2.70 | 73 |
| Net Interest Income (TE) | 3.01 | 3.55 | 20 | 4.28 | 3.94 | 69 |
| + Noninterest Income | 3.59 | 0.77 | 97 | 1.01 | 0.83 | 68 |
| - Noninterest Expense | 5.29 | 2.91 | 95 | 3.44 | 2.84 | 80 |
| - Provision: Loan & Lease Losses | 0.91 | 0.62 | 75 | 0.16 | 0.15 | 61 |
| - Provision: Credit Loss Oth Assets | N/A | N/A | N/A | N/A | N/A | N/A |
| Pretax Operating Income (TE) | 0.40 | 0.87 | 25 | 1.68 | 1.82 | 43 |
| + Realized Gains/Losses Sec | -0.01 | -0.04 | 23 | -0.01 | 0.00 | 16 |
| + Unrealized Gains / Losses Equity Sec | N/A | 0.00 | N/A | N/A | 0.00 | N/A |
| Pretax Net Operating Income (TE) | 0.39 | 0.74 | 29 | 1.67 | 1.81 | 42 |
| Net Operating Income | 0.30 | 0.53 | 30 | 1.15 | 1.26 | 44 |
| Adjusted Net Operating Income | 1.03 | 0.78 | 60 | 1.31 | 1.33 | 51 |
| Net Inc Attrib to Min Ints | N/A | 0.00 | N/A | N/A | 0.00 | N/A |
| Net Income Adjusted Sub S | 0.30 | 0.47 | 30 | 1.15 | 1.17 | 48 |
| Net Income | 0.30 | 0.53 | 30 | 1.15 | 1.26 | 44 |
| Margin Analysis: | | | | | | |
| Avg Earning Assets to Avg Assets | 89.66 | 93.86 | 8 | 94.61 | 94.04 | 57 |
| Avg Int-Bearing Funds to Avg Assets | 78.27 | 80.74 | 31 | 73.88 | 79.62 | 18 |
| Int Inc (TE) to Avg Earn Assets | 6.21 | 6.30 | 44 | 7.75 | 7.06 | 81 |
| Int Expense to Avg Earn Assets | 2.86 | 2.52 | 70 | 3.22 | 2.87 | 72 |
| Net Int Inc-TE to Avg Earn Assets | 3.36 | 3.79 | 25 | 4.52 | 4.21 | 67 |
| Loan & Lease Analysis: | | | | | | |
| Net Loss to Average Total LN&LS | 0.20 | 0.53 | 33 | 0.00 | 0.11 | 17 |
| Earnings Coverage of Net Losses (X) | 7.66 | 9.99 | 60 | 705.78 | 57.97 | 96 |
| LN&LS Allowance to LN&LS Not HFS | 1.59 | 1.43 | 70 | 1.01 | 1.21 | 24 |
| LN&LS Allowance to Net Losses (X) | 8.52 | 5.96 | 76 | 359.44 | 26.60 | 96 |
| LN&LS Allowance to Total LN&LS | 1.44 | 1.42 | 61 | 1.00 | 1.20 | 24 |
| Total LN&LS-90+ Days Past Due | 0.00 | 0.15 | 26 | 0.00 | 0.08 | 30 |
| -Nonaccrual | 1.34 | 1.84 | 51 | 0.03 | 0.44 | 14 |
| -Total | 1.34 | 2.07 | 46 | 0.03 | 0.58 | 9 |
| Liquidity | | | | | | |
| Net Non Core Fund Dep New \$250M | 38.28 | 31.66 | 67 | 17.97 | 26.92 | 30 |
| Net Loans & Leases to Assets | 92.27 | 71.43 | 99 | 78.15 | 70.71 | 72 |
| Capitalization | | | | | | |
| Tier One Leverage Capital | 9,2200 | 8.75 | 67 | 12,2100 | 9.02 | 92 |
| Cash Dividends to Net Income | 31.46 | 45.37 | 41 | 8.82 | 39.93 | 22 |
| Retained Earnings to Avg Total Equity | 2.17 | 0.24 | 48 | 10.15 | 7.37 | 68 |
| Rest+Nonac+RE Acq to Eqcap+ALLL | 12.73 | 18.71 | 49 | 0.21 | 4.16 | 10 |
| Growth Rates | | | | | | |
| Total Assets | 18.84 | 8.75 | 82 | 23.12 | 10.13 | 87 |
| Tier One Capital | 19.48 | 5.18 | 89 | 47.06 | 11.64 | 95 |
| Net Loans & Leases | 26.96 | 9.14 | 90 | 20.31 | 12.34 | 79 |
| Short Term Investments | -97.44 | 35.08 | 1 | 80.13 | 59.71 | 71 |
| Short Term Non Core Funding | 3.43 | 21.85 | 36 | 132.39 | 36.94 | 93 |
| Average Total Assets | | 553,900 | | | 344,684 | |
| Total Equity Capital | | 55,102 | | | 44,015 | |
| Net Income | | 1,653 | | | 3,978 | |
| Number of banks in Peer Group | | | 305 | | | 285 |