

# “HOW BANKS MAKE MONEY” Bank Financial Management 1

Brad E. Schwartz, CPA  
SEVP & Chief Operating Officer  
TowneBank

1

## Goals – Class Overview

- Understand bank balance sheets and how they relate to profitability, liquidity, capital management
- Understand bank income statements and how to drive profitability and capital growth in your bank
- Understand basic financial ratios/metrics
- Be ready for ALCO Class in year 2
- Make a hard skill class fun?

2

## Class Overview

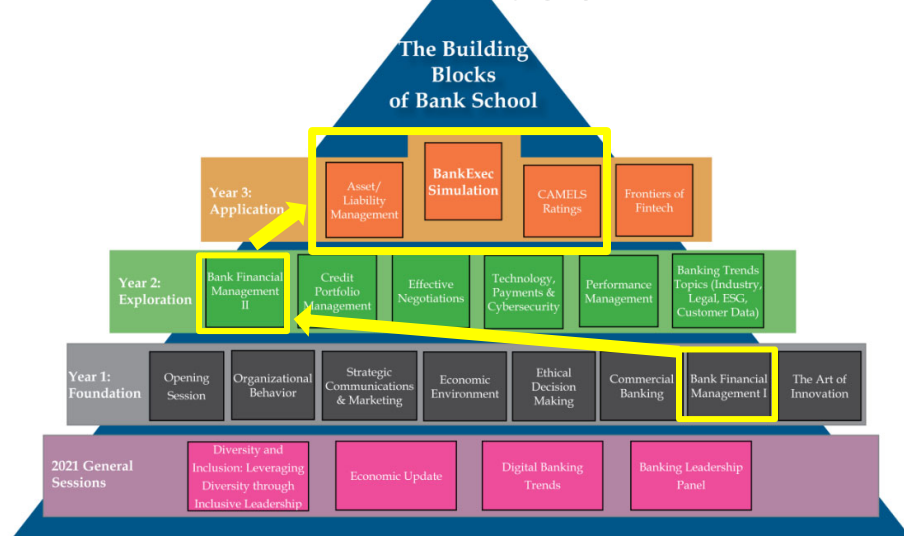
- Day 1 – Balance Sheet
- Day 2 – Rates, Investments, Liquidity
- Day 3 – Capital, Profitability
- Day 4 – Profitability & Risk-Return
- Day 5 – UBPR Case Study

2:35 – 3:25 M-Th, 8:00 – 8:50 F

Office Hours – Tuesday 4:00

3

## THE FINANCE JOURNEY



4

## Pre-Class Assignment Review

Asset (A), Liability (L), Owner's Equity (also known as shareholder equity) (O), Income (I), or Expense (E).

- \_\_\_ Interest and fees on loans
- \_\_\_ Salaries
- \_\_\_ Undivided profits
- \_\_\_ Other assets
- \_\_\_ Cash and due from banks
- \_\_\_ Pension, profit-sharing, and other employees benefits
- \_\_\_ U.S. Treasury securities
- \_\_\_ Other real estate
- \_\_\_ Interest on savings and time deposits.
- \_\_\_ Income on federal funds sold
- \_\_\_ Interest on other borrowed funds

5

## Pre-Class Assignment Review

Asset (A), Liability (L), Owner's Equity (also known as shareholder equity) (O), Income (I), or Expense (E).

- \_\_\_ Bank premises and equipment
- \_\_\_ Demand deposits
- \_\_\_ Interest and dividends on U.S. Treasury securities
- \_\_\_ Trust department income
- \_\_\_ Net occupancy expense of bank premises
- \_\_\_ Long-term debt
- \_\_\_ Savings deposits
- \_\_\_ Time Deposits
- \_\_\_ Capital stock
- \_\_\_ Equipment expense
- \_\_\_ Interest and dividends on securities of other U.S. agencies and corporations
- \_\_\_ Securities of U.S. government agencies
- \_\_\_ Loans (net of reserve for loan losses)

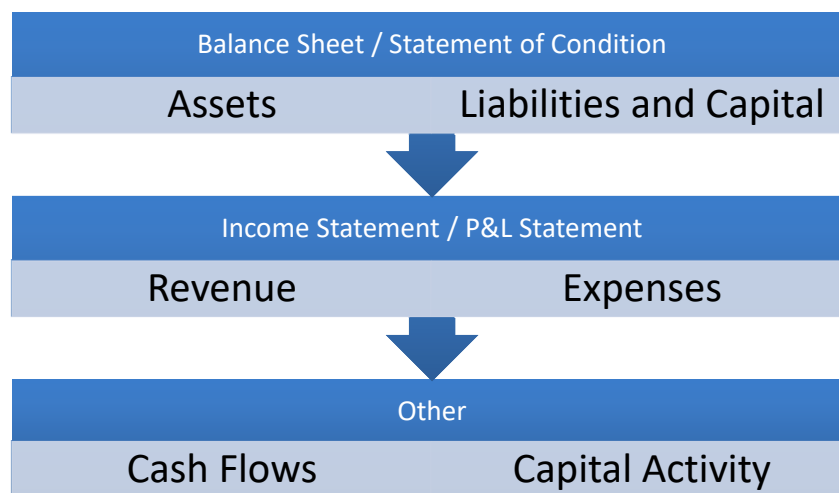
6

## Why Financial Management?

- Would you play sports without a scoreboard?
- Accounting is the “language of banking”
- Management Tool – Forensic Tool
- Accurate records important to investors  
regulators, stockholders, directors, management,  
employees and customers
- Allows you to measure success and compare  
performance to other banks and overall  
marketplace
- Used in budgeting and planning

7

## Bank Financial Statements



8

Your Personal Balance Sheet

9

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

10

## The Balance Sheet “A point in time”

$$\begin{array}{r} \text{Assets} \\ - \text{Liabilities} \\ \hline \text{Equity/Capital} \end{array}$$

Why is it called a balance sheet?

WS # 1

11

## Assets

- Assets are things of value owned by or owed to the company.
- Assets are generally carried at their original cost
  - Exceptions: Investments held for sale
  - Fair Value accounting used in reporting
- Name some bank assets

12

## Bank Balance Sheet - Assets

- Bank Assets
    - Cash
    - Funds Sold
    - Investments
    - Loans
    - OREO
    - Buildings and Equipment
    - Other Assets
- EARNING ASSETS > 90%+ TARGET

13

## Liabilities

- Liabilities are debts or obligations owed by the bank to creditors
- Name some bank liabilities

14

## Bank Balance Sheet - Liabilities

- Liabilities are debts or obligations owed by the bank to depositors/creditors
- Bank Liabilities
  - Demand Deposits
  - Savings and MMDA
  - Certificates of Deposit
  - Fed Funds/FHLB Funds Purchased
  - Wholesale borrowings
  - Subordinated Debt
  - Other Liabilities/Obligations

15

## Bank Capital

- $\text{Assets} - \text{Liabilities} = \text{Capital}$
- Basic Bank Capital
  - Common Stock/Additional Paid in Capital
  - Retained Earnings
  - +/- Unrealized gains or losses
- Other common forms of capital
  - Subordinated Debt
  - Preferred Stock

16



## 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

17

## Our Focus Areas – Balance Sheet

+Loans

- Allowance for Loan Losses

+Investments

+Deposits and other Funding

+Capital

18

## Loans Types

- Commercial and Industrial
- Real Estate Secured Loans
  - 1-4 Family
  - Multi-Family
  - Home Equity lines/loans
  - Construction and Development
  - Commercial Real Estate – OO and NOO
- Consumer loans
- Revolving Credit card loans
- Overdrawn deposits

19

## Loans and Leases

- Key issues related to loan portfolios?
  - Asset (Credit) quality
    - Risk Ratings Systems
    - Allowance for Loan and Lease Losses / CECL
  - Interest rate risk
    - Fixed rates, duration analysis
    - Floating rates, indexes, floors, hedging
  - Concentration of credit
    - Mix of Loan Types
    - CRE Regulatory 100/300 Ratios
  - Legal lending limits/House lending limits

20

## 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	Commercial and Industrial	\$150,000,000
Securities	150,000,000	Commercial RE – OO	\$100,000,000
Loans, Gross	735,000,000	Commercial RE - NOO	\$175,000,000
Reserve Losses	(10,000,000)	Construction & Development	\$75,000,000
Fixed Assets	40,000,000	1-4 Family Residential	\$200,000,000
OREO	5,000,000	Consumer Loans	\$35,000,000
Other Assets	20,000,000	Gross `Loans	\$735,000,000
		Equity Capital	100,000,000
Total Assets	\$1,000,000,000	Liabilities & Capital	\$1,000,000,000

21

## Ratio: Loan to Deposit Ratio

- Is a very simplistic liquidity measurement
- Demonstrates the level of deposits funding the loan portfolio
- A ratio too high (90-100%+) may impact liquidity but will lead to higher profitability
- A ratio too low also requires some attention and may have a negative impact on profitability
- Calculation:
  - Total Loans / Total Deposits
  - \$\_\_\_\_\_/ \$\_\_\_\_\_ =

WS # 2

22

## Allowance Loan losses/Total Loans

- Measures the percentage of the loan portfolio covered by the allowance for loan and lease losses
- Ratio can be useful when looking at trends for a single bank (with other asset quality measurements) but is not terribly useful when comparing to other banks.
- Generally higher level of non-performing loans and classified assets leads to higher reserves.
- Should also look at Allowance to NPA ratio
- Banks that are highly acquisitive will have lower ratio due to purchase loan accounting
- CECL (Current Expected Credit Loss) is here for larger banks, smaller cap banks could elect to delay.

23

## 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

24

## Allowance for Loan & Lease Losses

- ALLL - also called Reserve for Loan Losses
- Deducted from loans to compute “net loans”
- Calculation:
  - Beginning Balance ALLL
  - Plus: Provision for loan losses (expense or income)
  - Less: Loan charge-offs
  - Plus: Recoveries of previously charged off loans
  - = Ending Balance ALLL
- Ratio:
  - Total ALLL / Total Loans
  - \$\_\_\_\_\_ / \$\_\_\_\_\_ =

WS # 3

25

## Non-Performing Assets

- A point in Time for Problem Assets
  - Loans 90+ Days Past Due 7,000,000
  - Loans on Non-Accrual 2,000,000
  - Other Real Estate owned 1,000,000
  - Total Non-Performing Assets \_\_\_\_\_
- Ratio:
  - Total NPA / Total Assets
  - \$\_\_\_\_\_ / \$\_\_\_\_\_ =

WS # 4

26

## Ratio: 100/300 CRE Concentration

- Calculation for 100:
  - ADC Loans / Total Capital
  - \$\_\_\_\_/\$\_\_\_\_ =
- Calculation for 300:
  - ACD, CRE-NOO Loans / Total Capital
  - \$\_\_\_\_/\$\_\_\_\_ =
- What if these ratios are over 100% / 300%?

WS # 5  
WS # 6

27

## DAY 2 - TUESDAY

28

## Bank Investments

- What are the purposes of bank investment portfolios?
  - Liquidity
  - Generate Income
  - Satisfy Pledging requirements
  - Support Interest rate risk management

29

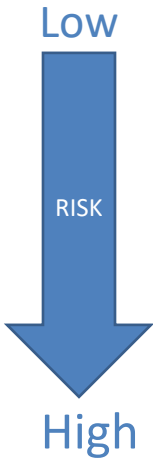
## Darden Community Bankshares

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	Total Liab & Capital	\$1,000,000,000

30

## Types of Bank Investments

- U.S. Treasury Securities
- Government Agency Securities
- Government Sponsored Agencies
- Municipal Bonds
- Corporate Bonds
- Other: Private label CMO/MBS
- Bank Issued Preferred Debt
- Stock – Common and Preferred (rare)



Low  
RISK  
High

31

## Types of Bank Investments

- U.S. Treasury Securities
  - Full faith and credit of U.S. Government
  - AAA Stable rated sovereign debt
- Government Agency Securities
  - Full faith and credit of U.S. Government
  - Examples:
    - Government National Mortgage Association (GNMA)
    - Small Business Administration (SBA)

32



## Types of Bank Investments

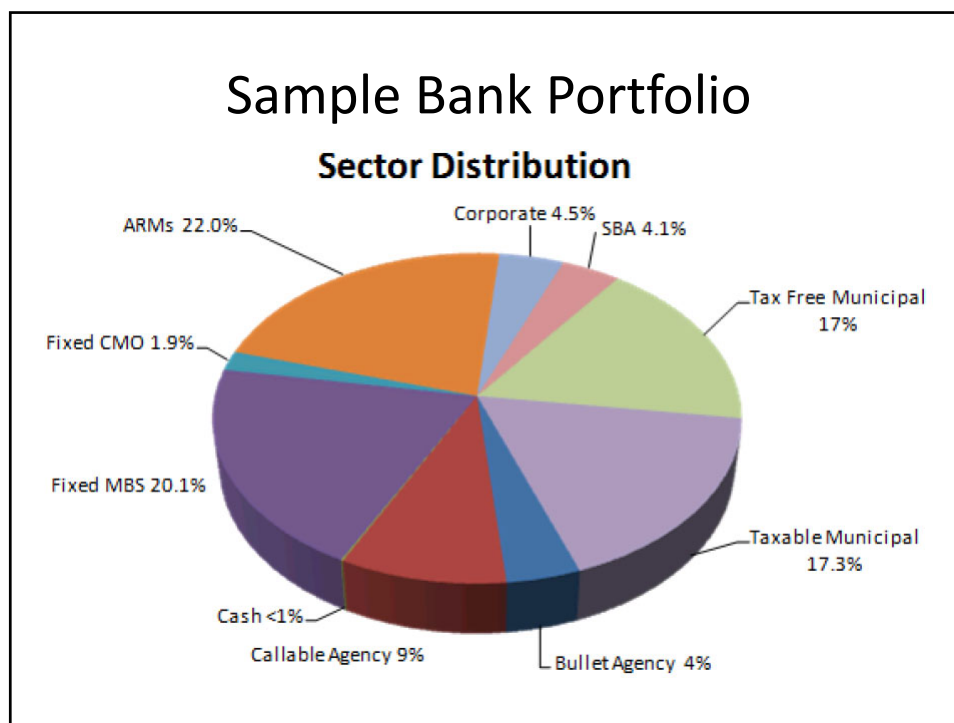
- Government Sponsored Enterprises
  - Not the full faith and credit of the U.S. Government but historically to be of high credit quality
  - Debt instruments
  - Mortgage-Backed Securities
- Examples:
  - Federal National Mortgage Assoc. (Fannie Mae)
  - Federal Home Loan Mortgage Corp. (Freddie Mac)
  - Federal Home Loan Banks (FHLB)
  - Federal Farm Credit Bureau (FFCB)

33

## Types of Bank Investments

- Privately Issued MBS/CMO
- Municipal Bonds
  - Bonds issued by state or local governments
  - General Obligation vs. Revenue Bonds
  - Bank qualified (BQ) vs. Non-Bank qualified
- Corporate Bonds
  - Bonds issued by corporations
- Bank Issued Subordinated Debt
- IDA/IDB Authorities – Loan vs. Investment

34



35

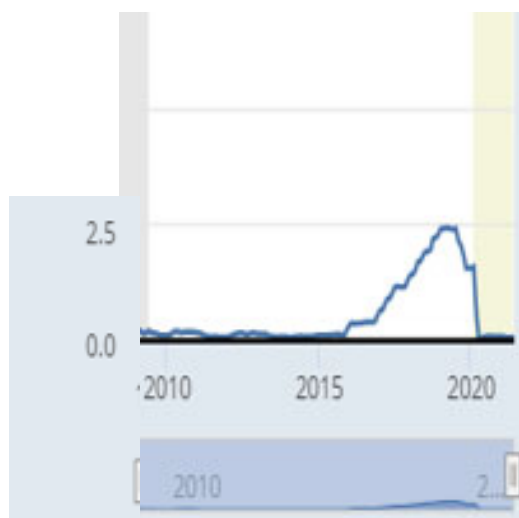
## What Drives the Return on Bonds?

- Interest rate/yield based on purchase
- Predictability / timing of payments
  - Cash Flow
  - Prepayment ability/risk
  - Call option/risk
- Credit risk
  - Default risk/creditworthiness of borrower
  - Collateral
- Liquidity /ability to sell in efficient market

36

## Effective Fed Funds Rate History

As of June 2021



37

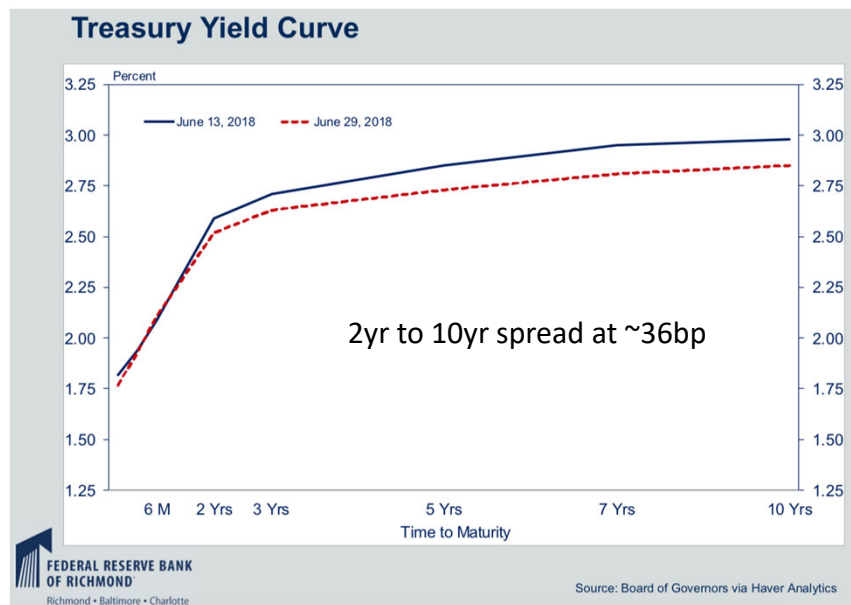
## Effective Fed Funds Rate History

As of June 2021



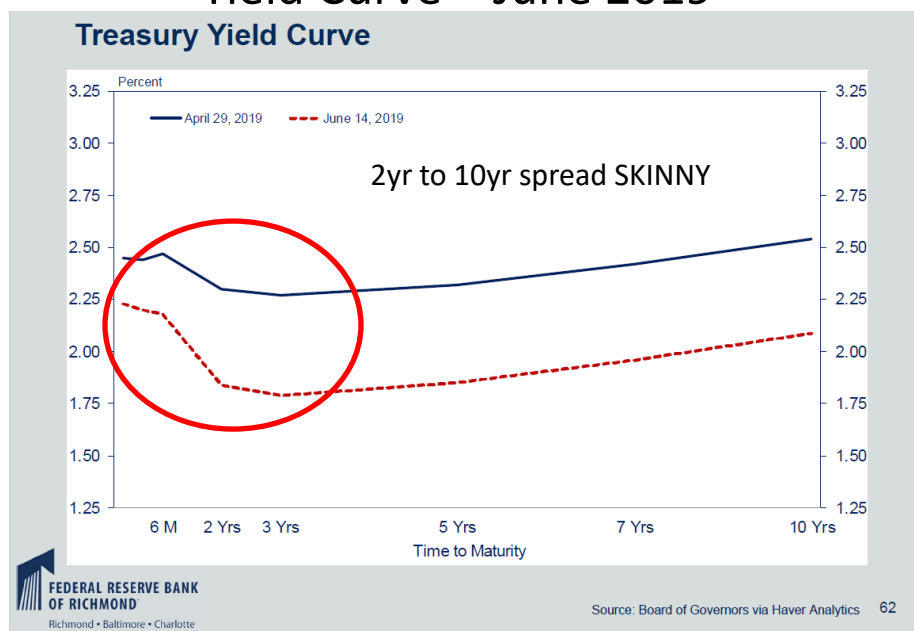
38

## Yield Curve – June 2018

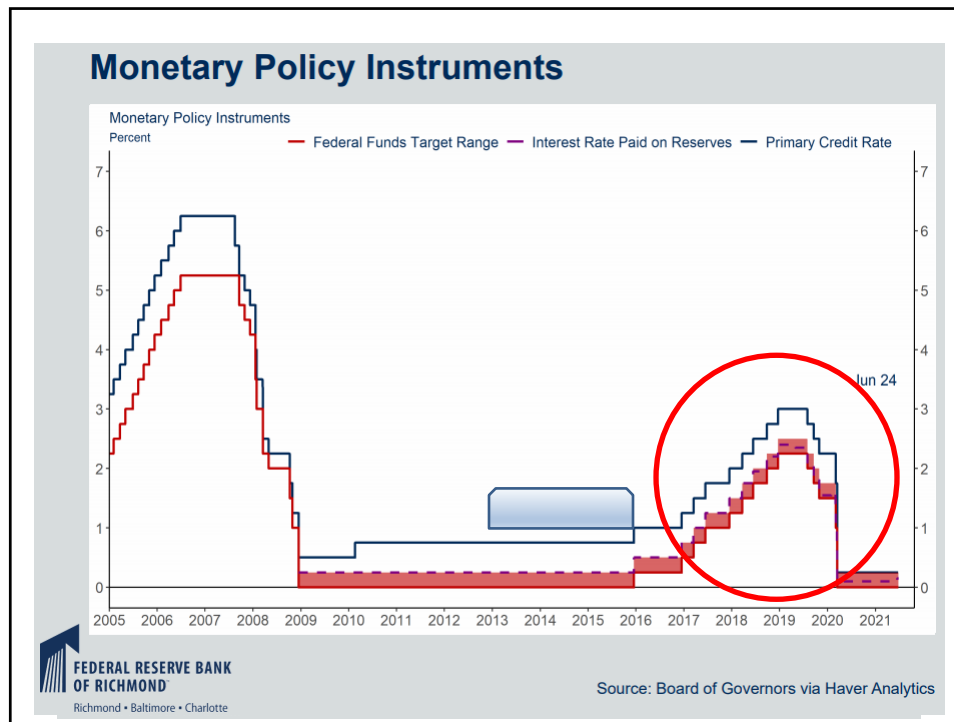


39

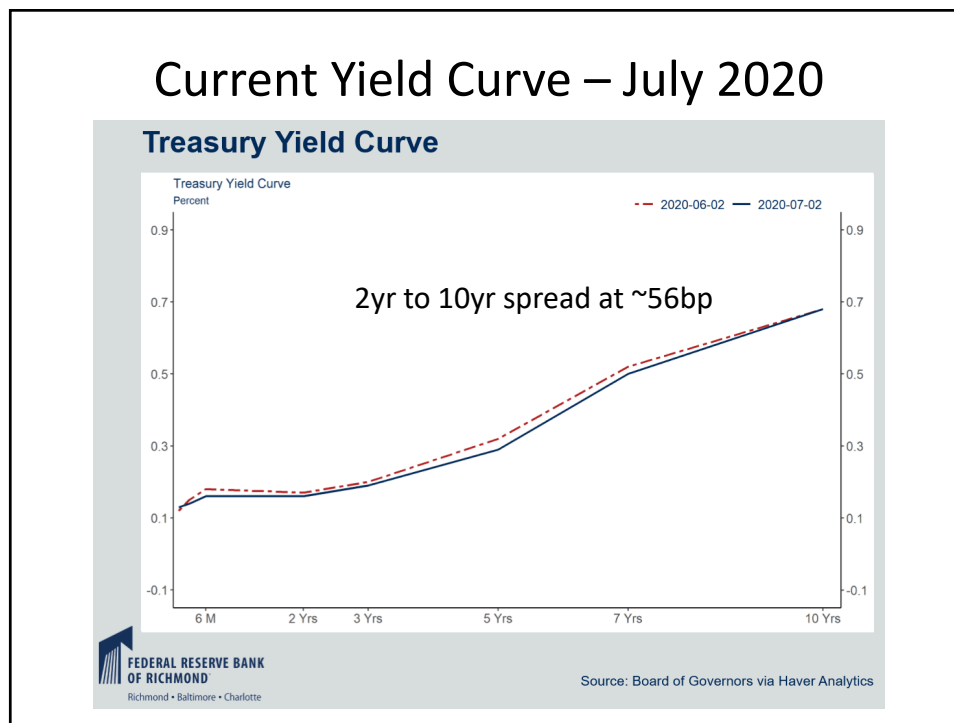
## Yield Curve – June 2019



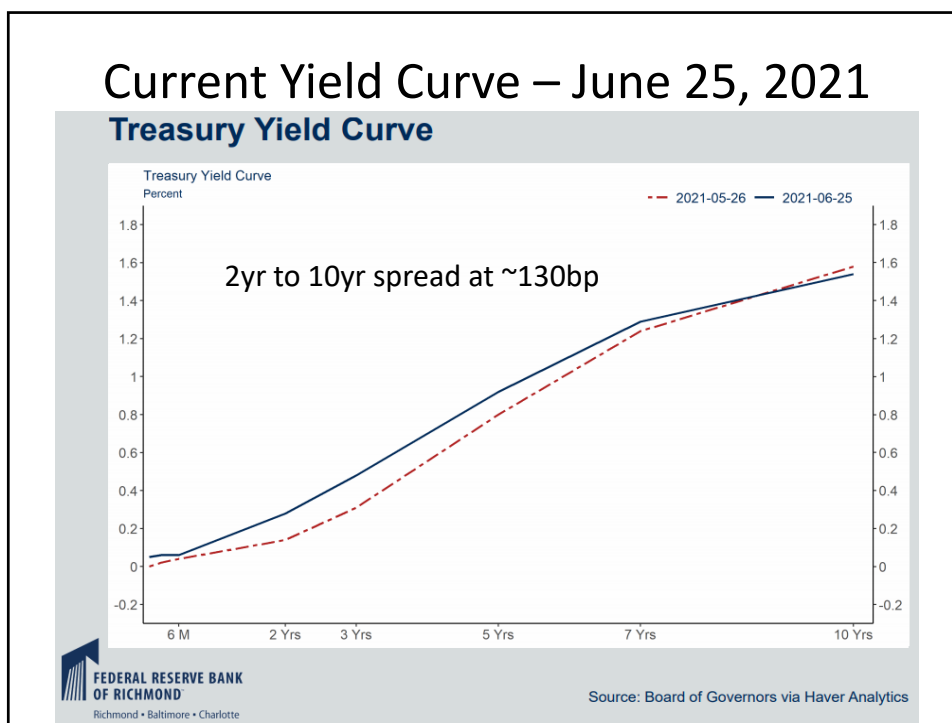
40



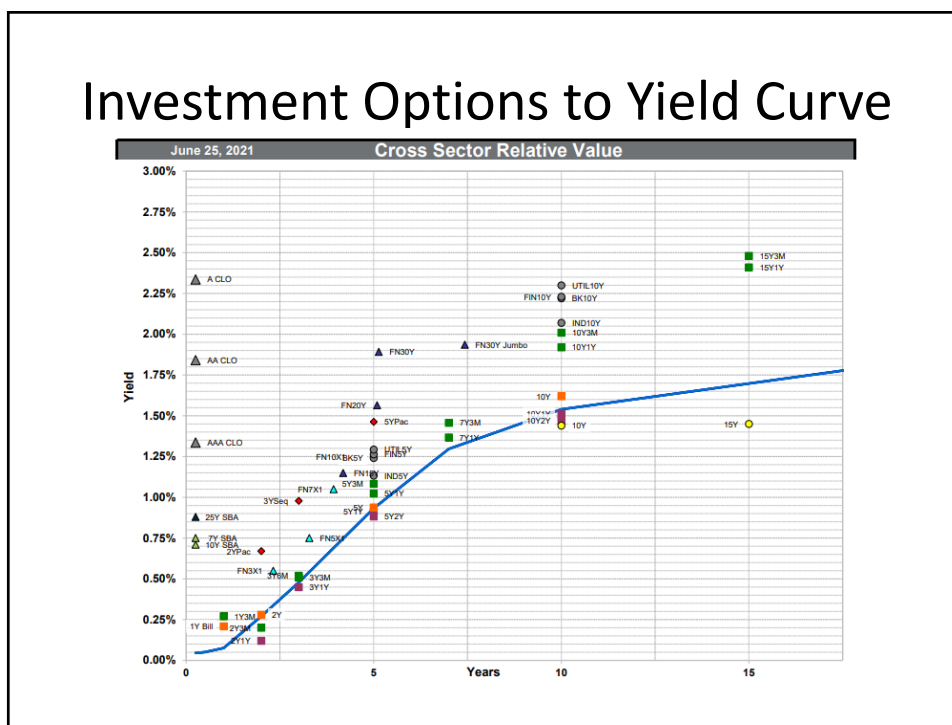
41



42



43



44

## Investment Options - June 25, 2021

AGENCY		Spread	YTM	Maturity
BERMUDA	1Y3M	0	0.27%	1
	2Y3M	-7	0.20%	2
	3Y3M	3	0.51%	3
	3Y6M	4	0.52%	3
	5Y3M	15	1.08%	5
	5Y1Y	9	1.02%	5
	7Y3M	16	1.42%	7
	7Y1Y	7	1.33%	7
	10Y3M	47	2.01%	10
	10Y1Y	38	1.92%	10
EUROPEAN	15Y3M	94	2.48%	15
	15Y1Y	87	2.41%	15
	2Y1Y	-15	0.12%	2
BULLETS	3Y1Y	-3	0.45%	3
	5Y1Y	-2	0.91%	5
	5Y2Y	-5	0.88%	5
	10Y1Y	-3	1.51%	10
	10Y2Y	-7	1.47%	10
CORPORATES <sup>1</sup>	1Y Bill	-6.1	0.21%	1
	2Y	1	0.28%	2
	5Y	0.5	0.94%	5
	10Y	8	1.62%	10
Industrials	IND5Y	20	1.13%	5
	IND10Y	53	2.07%	10
Banks	BK5Y	31	1.24%	5
	BK10Y	68	2.22%	10
Financials	FIN5Y	33	1.26%	5
	FIN10Y	69	2.23%	10
Utilities	UTIL5Y	36	1.29%	5
	UTIL10Y	76	2.30%	10

SBA's	BEEM	BEY	Eff Dur	
▲ 7Y SBA	250	0.75%	0.25	
▲ 10Y SBA	254	0.71%	0.25	
▲ 25Y SBA	237	0.88%	0.25	
MBS Pass-Thrus <sup>1</sup>	Spread	YTM	Avg Life	Coupon
▲ FN15Y	40	1.15%	4.18	2.0
▲ FN20Y	62	1.56%	5.09	2.5
▲ FN30Y	94	1.89%	5.13	3.0
▲ FN30Y Jumbo	61	1.94%	7.43	2.0
CMOs <sup>1</sup>	Spread	YTM	Avg Life	
◆ 2YPac	40	0.67%	2.00	
◆ 5YPac	53	1.46%	5.00	
◆ 3YSeq	50	0.98%	3.00	
MBS ARMs <sup>2</sup>	Z-Spread	YTM	Eff Dur	
▲ FN3X1	10	0.55%	2.32	
▲ FN5X1	0	0.75%	3.28	
▲ FN7X1	5	1.05%	3.93	
▲ FN10X1	10	1.25%	4.54	
CLOs	DM	BEY	Eff Dur	
▲ AAA CLO	102	1.17%	0.25	
▲ AA CLO	157	1.72%	0.25	
▲ A CLO	201	2.16%	0.25	
▲ BBB CLO	314	3.29%	0.25	
MUNIs-BQs <sup>3</sup>	Spread	YTM	Maturity	
● 10Y	-10	1.44%	10	
● 15Y	-9	1.45%	15	

<sup>1</sup>Pass-Thrus & CMOs Maturity = Avg. Life

<sup>2</sup>ARMs Maturity = Eff. Duration

<sup>3</sup>MUNIs = AAA rated

<sup>4</sup>Corporates = A rated

45

## Funding your Assets

- Retail Deposits
  - Demand deposits
  - NOW accounts
  - Money Market Accounts
  - Time Deposits/CDs
  - CDARS
- Wholesale Deposits
  - Brokered Time Deposits/CDs
  - Repurchase Agreements
- Fed Funds Purchased
- Federal Home Loan Bank (FHLB) Advances
- Other forms of debt/hybrid capital securities

46

## 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

47

## A Note on Liquidity

- What are core deposits?
- What is liquidity?
- Types of Liquidity
  - Balance Sheet-based liquidity (*\$ in bank*)
  - Liability-based liquidity (*Ability to borrow \$*)
- Can I have too much or too little liquidity
  - What is impacted if I have too much?
  - Too little?
- Can a lack of liquidity cause a bank to fail?

48



## 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

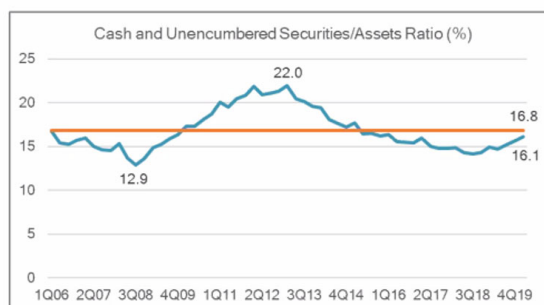
49

## A Note on Liquidity

### Excess Liquidity, How Much is Enough?

#### What's the Right Amount of Cash and Unencumbered Securities?

- Focus on Cash and Unencumbered Securities-to-Assets Ratio
- Low of 12.9% in 3Q08, High of 22.0% in 1Q13
- Average over the time period of 16.8%



50

## DAY 3 - WEDNESDAY

51

## Capital Adequacy

- What is the purpose of capital?
- How much is enough? Who decides?
- Can you have too much?
- Can you have too little?
- How do you measure whether a bank has enough?

52

## Simple Capital Adequacy Measurement

- Total Equity as a percentage of total assets
- For DCB:
  - \$100 million / \$1 billion =
  - Problem with this ratio.....it doesn't consider the risk among different banks operation
- Answer.....a risk-based capital system
  - *GAAP vs Regulatory Capital*

WS # 7

53

## Risk-Based Capital Measurements

- Numerator
  - Breaks capital into 2 levels - Tier 1 and Tier 2
  - Tangible common equity
- Denominator
  - Risk-weight multipliers based on asset risk
  - Adds in specific off-balance sheet risk

54

## Tier 1 and Tier 2 Capital

- Tier 1 Capital
  - Total equity (common stock/APIC/Retained earnings)
  - Qualifying Trust Preferred (under \$15 B, phase out)
  - Plus/Minus: unrealized losses /gains on securities AFS
  - Less: goodwill and intangible assets
  - Less: disallowed deferred tax assets
- Tier 2 Capital
  - Qualifying amount of allowance for loan losses
  - Subordinated Debt
- Total Capital
  - Tier 1 plus Tier 2

WS # 8

55

## 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

56

## Risk Weighted Assets

- Concept: Assign a risk weighting to every asset, risks range from 0% to 150%
- Examples:
  - 0%: Cash, US Treasury & GNMA Securities
  - 20%: Agency Securities, Deposits other banks
  - 50%: 1-4 Family Mortgage loans
  - 100%: All other Loans (C&I, CRE, Consumer)
  - 100% Off balance sheet items/Commitments to lend
  - 150%: Past due and non-accrual loans

57

## Risk Based Capital Ratios

- Tier 1 Risk-Based Capital Ratio
  - Tier 1 Capital / Risk Weighted Assets
- Total Risk-Based Capital Ratio
  - Tier 1 + Tier 2 Capital / Risk Weighted Assets
- Tier 1 Leverage Ratio
  - Tier 1 Capital / total average assets
- Tangible Common Equity (TCE) Capital Ratio
  - TCE Capital / total average assets

58

## How do Banks Make Money?

How does the Balance Sheet drive the income statement while leveraging capital?

59

## Typical Bank Income Statement

+ Interest Income	
- <u>Interest Expense</u>	
+ Net Interest Income	
- <u>Provision for loan losses</u>	ONLY
+ Non-interest Income	6 Major
- <u>Non-interest expense</u>	Components
+ Pre-tax Income	
- <u>Federal Tax Expense</u>	
+ Net Income/Return of Assets	

60

## AVERAGE INCOME STATEMENT VIRGINIA BANKS 2019

BASED ON TOTAL REVENUES – A DIFFERENT LOOK

INTEREST INCOME 86%						NON-INTEREST INCOME 14%
INTEREST EXPENSE 16%	PEOPLE EXPENSE 33%	OTHER OVERHEAD EXPENSE 20%	OCCUPANCY 7%	TAXES 3%	Losses 2%	Net Income 18%

Average Asset Size = \$581.8 Million  
Average Total Revenue = \$29.7 Million

61

## AVERAGE INCOME STATEMENT VIRGINIA BANKS 2020

BASED ON TOTAL REVENUES – A DIFFERENT LOOK

INTEREST INCOME 82%						NON-INTEREST INCOME 18%
INTEREST EXPENSE 9%	PEOPLE EXPENSE 34%	OTHER OVERHEAD EXPENSE 21%	OCCUPANCY 6%	TAXES 5%	Losses 3%	Net Income 18%

Average Asset Size = \$661.3 Million  
Average Total Revenue = \$30.5 Million

62

## 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

63

## Bank Income Statement

*Numbers divided by average assets*

+ Interest Income	3.75%	37,500,000
- <u>Interest Expense</u>	<u>0.50%</u>	<u>5,000,000</u>
+ Net Interest Income	3.25%	32,500,000
- <u>Provision for loan losses</u>	<u>0.15%</u>	<u>1,500,000</u>
+ Non-interest Income	0.75%	7,500,000
- <u>Non-interest expense</u>	<u>2.75%</u>	<u>27,500,000</u>
+ Pre-tax Income	1.10%	11,000,000
- <u>Federal Tax expense</u>	<u>0.22%</u>	<u>2,200,000</u>
+ Net Income/ROA	0.88%	\$8,800,000

64



## Bank Income Statement

*Net Interest Income declines 25 bp*

+ Interest Income	3.50%	35,000,000
- <u>Interest Expense</u>	0.50%	5,000,000
+ Net Interest Income	3.00%	30,000,000
- <u>Provision for loan losses</u>	0.15%	1,500,000
+ Non-interest Income	0.75%	7,500,000
- <u>Non-interest expense</u>	3.00%	30,000,000
+ Pre-tax Income	0.60%	6,000,000
- <u>Federal Tax expense</u>	0.12%	1,200,000
+ Net Income/ROA	0.48%	\$ 4,800,000

65

## Net Interest Income

Maximizing earning assets AND  
Minimizing the cost to fund

+ Short-term funds sold	Components #1 and #2
+ Investment securities	
+ Loan Interest income	
+ Loan Fee Income (spread over time)	
– Deposit interest expense	
– <u>Other Borrowings/Funds purchased</u>	
= NET INTEREST INCOME	

*Annualize if not an annual number*

66

## Non-Interest Income Sources

- + Deposit Fee Income
  - + Treasury/Cash Management Fees
  - + ATM/Card Interchange/Merchant Services
  - + Investment Brokerage/Trust fees
  - + Mortgage Loan Origination and Sales
  - + Insurance Brokerage/Title Insurance
  - + Bank owned life insurance
  - + Other \_\_\_\_\_
- Component  
#4

67

## Non-Interest Expenses

1. Salaries and Commissions
  2. Employee Benefits
  3. Facilities
  4. Furniture and Equipment
  5. Technology
  6. Marketing and Advertising
  7. Other \_\_\_\_\_
- Component  
#5

68

## Bank Performance Ratios

- Ratios help us analyze health, strength, trends
- Ratios help with timeline comparisons
- Ratios “right size” banks for peer comparison
- Ratios help us analyze the performance
  - Net interest margin NIM
  - Return on Average Assets ROA
  - Return on Average Equity ROE
  - Efficiency Ratio/Net Overhead

69

## Net Interest Margin

- The #1 profit driver for majority banks
- Measures the level of interest income after funding costs on your average earning assets
- A higher net number is better
- Calculation (annualize):
  - Interest income / Avg. Earning Assets
  - Interest expense / Avg. Earning Assets
  - = Net Interest Income

WS # 9, 10, 11

70

## 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	Total Liab & Capital	\$1,000,000,000
Earning Assets	\$935,000,000		

71

## Darden Community Bankshares

Assets	\$ Amount	% AA	Liabilities/Capital	\$ Amount	%AA
Cash		0.00	DDA	0	0.00
Fed Funds Sold	50,000	0.10	Savings/MMDA	1,175,000	0.32
Securities	3,000,000	2.00	CDs/IRA Certificates	3,000,000	1.00
Loans, Gross	36,750,000	5.00	Funds Purchased		0.00
Reserve Losses		0.00	Other Borrowings	500,000	2.50
Fixed Assets		0.00	Other Liabilities		
OREO		0.00	Total Liabilities		
Other Assets		0.00	Equity Capital		
INTEREST INCOME	39,800,000	4.25	INTEREST EXPENSE	4,675,000	0.50
AVG EARNING ASSETS = \$935MM NET INTEREST INCOME = \$					
NET INTEREST MARGIN ____% - ____% = ____%					

72

## DAY 4 - THURSDAY

73

### 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:
  - $\text{Annualized net income} / \text{Average Total Assets}$

WS # 12

74

## DCB Return on Assets (ROA)

+ Interest Income	4.25%
- <u>Interest Expense</u>	<u>0.50%</u>
+ Net <b>Interest</b> Income	3.75%
- <b>Provision for loan losses</b>	<b>0.15%</b>
+ 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%

$$\text{\$10,800,000} / \text{\$1,000,000,000} = \underline{\hspace{1cm}}\%$$

75

## 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
  - $\text{\$} \underline{\hspace{2cm}} / \text{\$} \underline{\hspace{2cm}} = \underline{\hspace{1cm}}\%$

WS # 13

76

## 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

WS # 14, 15

77

## 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:
  - Noninterest Expense/ (Net interest income + non-interest income)
  - Securities gains/losses excluded from non-interest income in calculation

WS # 16

78

## 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

79

## 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

80



## Risk-Return on balance sheet

- ST Loan Demand Weak, competitive
- DCB buys \$50 MM 15 yr. FNMA MBS@2%
- DCB books \$50 MM 10-year loans@4%
- Did we introduce any Risk?
  - Asset Quality/Credit Risk
  - Liquidity
  - Interest rate sensitivity
  - Capital Adequacy
- Did we make any money? Grow EPS?
- How much did we grow the balance sheet?

81

## 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	

82

## 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

83

## Math on bank growth

- DCB Previous Year earned \$10,800,000 / \$1.08 EPS
- New Loans \$50MM x 4.00% = \_\_\_\_\_
- New Bonds \$50MM x 2.00% = \_\_\_\_\_
- Lost FFS income \$50MM x .10% = \_\_\_\_\_
- New FFP \$50MM x .35% = \_\_\_\_\_
- New Pretax Income = \_\_\_\_\_
- Taxes @ 20% = \_\_\_\_\_
- Incremental after-tax income = \_\_\_\_\_
- Net Income = \_\_\_\_\_
- Total Assets = \_\_\_\_\_
- EPS on 10 million shares \$\_\_\_\_\_ %
- Stock Price x stable P/E ratio \$\_\_\_\_\_

WS # 17

84

# 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

# Uniform Bank Performance Report

View -- Uniform Bank Performance Report

Table of Contents

View Multiple Bank Report

PrintDownloadClose

To View a page, select the link for the desired page from the Table of Contents.  
To Print one or more pages, select the desired page(s) from the Table of Contents and then select the Print button.  
To Download one or more pages, select the desired page(s) from the Table of Contents and then select the Download button.

☐ Table of Contents

☐ Cover Page

☒ Summary Ratios

☒ Income Statement - S

☒ Non Int Inc. Exp. Yields

☒ Balance Sheet - S

☒ Off Balance Sheet Items

☒ Derivative Instruments

☒ Derivative Analysis

☒ Balance Sheet %

☒ Allowance & Loan Mix-a

☒ Allowance & Loan Mix-b

☒ Concentrations of Credit

☒ PD, Nonacc & Rest Loans-a

☒ PD, Nonacc & Rest Loans-b

☒ Interest Rate Risk

☒ Liquidity & Funding

☒ Liquidity & Inv Portfolio

☒ Capital Analysis-a

☒ Capital Analysis-b

☒ Capital Analysis-c

☒ Capital Analysis-d

☒ Income Statement - Qtr Ann

☒ Securitization & Asset Sale-a

☒ Securitization & Asset Sale-b

☒ Securitization & Asset Sale-c

☒ Fiduciary Services-a

☒ Fiduciary Services-b

FDIC Certificate # 30068  
OCC Charter # 0  
Public Report

FRB District ID: RSSD 5 / 270724  
County: PORTSMOUTH  
Information

Financial Institution Address:  
TOWNBANK  
5718 HIGH STREET WEST  
PORTSMOUTH, VA  
23704  
The Current Federal Register is:  
Federal Deposit Insurance Corporation  
The bank was established on: 4/5/1990  
The current peer group for this bank is: 2  
[Download peer group list banks having assets between \$10 billion and \$100 billion]

Footnotes:  
Financial data in the Uniform Bank Performance Report may have been adjusted as a result of information shown in footnotes below. Please refer to the Uniform Bank Performance Report Users Guide online for details.  
\*One or more mergers, consolidations or purchases have occurred during one or more of the quarters listed. Consequently assets prior to the date of merger may be evaluated from earnings analysis.

Table of Contents

Summary Ratios--Page 1  
Income Statement--Page 2  
Noninterest Income, Expenses and Yields--Page 3  
Balance Sheet--Page 4  
Off Balance Sheet Items--Page 5  
Derivative Instruments--Page 6A  
Derivative Analysis--Page 6B  
Balance Sheet Percentage Composition--Page 6  
Analysis of Loan Allowance and Loan Mix--Page 7  
Analysis of Loan Allowance and Loan Mix--Page 7A  
Analysis of Concentrations of Credit--Page 7B  
Analysis of Past Due, Nonaccrual & Restructured--Page 8  
Analysis of Past Due, Nonaccrual & Restructured--Page 8A  
Interest Rate Risk Analysis as a Percent of Assets--Page 9  
Liquidity & Funding--Page 10  
Liquidity & Investment Portfolio--Page 10A  
Capital Analysis--Page 11  
Capital Analysis--Page 11A  
Capital Analysis--Page 11B  
Capital Analysis--Page 11C  
One Quarter Annualized Income Analysis--Page 12  
Securitization & Asset Sale Activities--Page 13  
Securitization & Asset Sale Activities--Page 13A  
Securitization & Asset Sale Activities--Page 13B  
Securitization & Asset Sale Activities--Page 13C  
Fiduciary & Related Services--Page 14  
Fiduciary & Related Services--Page 14A  
Data Available

86

43

## 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	87	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	27
- Provision: Loan & Lease Losses	2.51	3.94	89	0.21	0.21	62
- Provision: Credit Loss On Assets	N/A	N/A	N/A	N/A	N/A	N/A
Pretax Operating Income (TE)	-0.44	0.48	33	2.40	1.56	68
+ Realized Gains/Losses Sec	0.00	-0.04	50	0.00	0.00	68
+ 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	35	1.73	1.19	84
Net Inc Attrib to Men 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	82.51	42	77.70	80.05	33
Int Inc (TE) to Avg Earn Assets	5.94	6.16	84	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)	8.88	6.51	72	55.34	31.11	80
LN&LS Allowance to LN&LS Not HFS	3.04	1.80	95	1.20	1.21	53
LN&LS Allowance to Net Losses (X)	13.87	4.14	90	25.82	15.59	81
LN&LS Allowance to Total LN&LS	3.04	1.99	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	52
-Total	4.65	2.52	78	0.63	1.04	45
Liquidity						
Net Non Core Fund Dep New S200M	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	30.78	22.33	78	2.64	8.06	29
Growth Rates						
Total Assets	28.75	9.82	89	17.81	8.22	83
Net One Capital	-2.44	7.54	23	12.80	7.95	77
Net Loans & Leases	27.59	10.38	88	17.07	10.30	78
Short Term Investments	47.47	74.04	5	160.09	10.12	84
Short Term Non Core Funding	108.88	27.98	90	43.77	17.27	81
Average Total Assets		356,195			773,716	
Total Equity Capital		105,235			107,976	
Net Income		-2,803			12,109	
Number of banks in Peer Group		305			296	

87

## 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	6.83	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	96
- Noninterest Expense	5.29	2.81	95	3.44	2.84	80
- Provision: Loan & Lease Losses	0.81	0.62	75	0.16	0.15	61
- Provision: Credit Loss On 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 Men 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	79.82	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	705.76	87.97	96
LN&LS Allowance to LN&LS Not HFS	1.09	1.43	70	1.01	1.21	24
LN&LS Allowance to Net Losses (X)	8.52	5.96	76	359.44	26.80	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 S200M	38.28	31.86	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	82
Cash Dividends to Net Income	31.46	45.37	41	8.82	39.93	68
Retained Earnings to Avg Total Equity	2.17	0.24	48	10.15	7.37	22
Rest+Nonac+RE Acq to Eqcap+ALLL	12.73	16.71	49	0.21	4.16	10
Growth Rates						
Total Assets	18.84	8.75	82	23.12	10.13	87
Net One Capital	19.48	5.18	89	47.06	11.64	95
Net Loans & Leases	26.96	9.14	90	20.31	12.64	79
Short Term Investments	-97.44	33.08	1	80.13	59.71	71
Short Term Non Core Funding	3.43	21.85	36	132.39	36.94	93
Average Total Assets		853,850			344,684	
Total Equity Capital		55,102			44,015	
Net Income		1,653			3,978	
Number of banks in Peer Group		305			285	

88

## DAY 5 - FRIDAY

89

### Uniform Bank Performance Report (UBPR)

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

90

## UBPR Detective

Two Banks  
Same Markets  
Different Outcomes

91

## UBPR CASE STUDY

Two Community Banks  
Same Banking Markets  
Two Different Outcomes  
*Assumes CALL Report data was accurate*

92

## 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	87	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	27
- Provision: Loan & Lease Losses	2.51	3.94	89	0.21	0.21	62
- Provision: Credit Loss On Assets	N/A	N/A	N/A	N/A	N/A	N/A
Pretax Operating Income (TE)	-0.44	0.48	33	2.40	1.56	68
+ 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	35	1.73	1.19	84
Net Inc Attrib to Men 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	82.51	42	77.70	80.05	33
Int Inc (TE) to Avg Earn Assets	5.94	6.16	84	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)	8.88	6.51	72	55.34	31.11	80
LN&LS Allowance to LN&LS Not HFS	3.04	1.80	95	1.20	1.21	53
LN&LS Allowance to Net Losses (X)	13.87	4.14	90	25.82	15.59	81
LN&LS Allowance to Total LN&LS	3.04	1.99	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	52
-Total	4.65	2.52	78	0.63	1.04	45
Liquidity						
Net Non Core Fund Dep New S200M	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	9,957.2	8.41	86	13,108.8	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	30.78	22.33	78	2.64	8.06	29
Growth Rates						
Total Assets	28.75	9.82	89	17.81	8.22	83
Net One Capital	-2.44	7.54	23	12.90	7.95	77
Net Loans & Leases	27.59	10.38	88	17.07	10.30	78
Short Term Investments	47.47	74.04	5	160.09	10.12	84
Short Term Non Core Funding	108.88	27.98	90	43.77	17.27	81
Average Total Assets		356,195			773,716	
Total Equity Capital		105,235			107,976	
Net Income		-2,803			12,109	
Number of banks in Peer Group		305			296	

93

## BANK B - SUMMARY

	12/31/2008			12/31/2008		
	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	6.83	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	96
- Noninterest Expense	5.29	2.81	95	3.44	2.84	80
- Provision: Loan & Lease Losses	0.81	0.62	75	0.16	0.15	61
- Provision: Credit Loss On 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 Men 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	79.82	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	87.97	96
LN&LS Allowance to LN&LS Not HFS	1.09	1.43	70	1.01	1.21	24
LN&LS Allowance to Net Losses (X)	8.52	5.96	76	359.44	26.80	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 S200M	38.28	31.86	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	9,220.0	8.75	67	12,210.0	9.02	92
Cash Dividends to Net Income	31.46	45.37	41	8.82	39.93	68
Retained Earnings to Avg Total Equity	2.17	0.24	48	10.15	2.37	22
Rest+Nonac+RE Acq to Eqcap+ALLL	12.73	16.71	49	0.21	4.16	10
Growth Rates						
Total Assets	18.84	8.75	82	23.12	10.13	87
Net One Capital	19.48	5.18	89	47.06	11.64	95
Net Loans & Leases	26.96	9.14	90	20.31	12.64	79
Short Term Investments	-97.44	33.08	1	80.13	59.71	71
Short Term Non Core Funding	3.43	21.85	36	132.39	36.94	93
Average Total Assets		853,850			344,684	
Total Equity Capital		55,102			44,015	
Net Income		1,653			3,978	
Number of banks in Peer Group		305			285	

94

## GOING INTO THE GREAT RECESSION

Funds rate 12/07 = 4.25% Funds rate 12/08 = Zero-0.25%

- What is similar about these two banks:
  - Profitable pre-crisis
  - Stronger Net Interest Margins than peer = higher risk portfolios?
  - Fast Growth = risk
  - Well Capitalized
- What is different about these two banks:
  - Liquidity – Brokered CDs, Loan leverage, core deposits
  - Loan Quality – Lower quality, higher charge-offs
  - Overhead – one higher, yet somewhat offset with higher non-interest income
- Now for the rest of the story.....

95

## COMING OUT OF THE GREAT RECESSION

Funds rate 12/08 – 12/13 = Zero-0.25%

- Financial drivers for these banks:
  - Net Income
  - Asset quality = Expense for Loan Losses
  - Net Interest Margins
  - Growth
  - Income impact to capital
  - Liquidity

96



## Goals – Class Overview

- Understand bank balance sheets and how they relate to profitability, liquidity, capital
- Understand bank income statements and how to drive profitability and capital growth
- Understand basic financial ratios/metrics
- Be ready for ALCO Class in year 2
  - Lightbulb at 20% - 60% - 20%
- Try to make a hard subject fun!

97

HAPPY TRAILS – SEE YOU IN 2022



98