

#### **Bank Financial Management I**

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#### **Goals – Class Overview**

#### **Understand Bank Financial Statements**

- Balance Sheet and how it relates to profitability, liquidity, capital management
- Income Statement and how to drive profitability and capital growth in your bank

#### **Goals – Class Overview**

- Understand basic financial ratios
- Be ready for Financial Management II
- Be more confident with accounting and financial management & to have fun

#### **Class Schedule**



#### **Class Overview**

#### Day 1

Pre-Session Review, Balance Sheet, Income Statement, Preview of Loans and Investments Day 3 Balance Sheet, Loans, ALLL, Ratios, Glimpse of UBPR

Day 2 Investments, Liquidity, and Funds Strategy Day 4

Capital, How Banks Make Money, Financial Ratios, Bank Scenario

Day 5 <u>UBPR</u> and Class Review

#### The Financial Management Journey



## Statement of Condition

Specific Date

#### Snapshot in Time

Assets = OWN

Liabilities = OWE

Equity = OWNERS



# **Examples of Assets**

### Examples of Liabilities



Assets		December 31	
(In thousands of dollars)	20XY	20XX	Change
Cash and due from banks	\$ 1,649,334	\$ 1,332,586	\$ 316,748
Overseas deposits	458,313	460,396	(2,083)
Investment securities:			
U.S. Treasury securities	881,081	982,654	(101,573)
Securities of other U.S. government agencies			
and corporations	199,318	243,420	(44,102)
Obligations of states and political subdivisions	738,813	396,948	341,865
Other securities	88,278	<u>92,032</u>	(3,754)
Total investment securities	1,907,490	1,715,054	192,436
Trading account securities	14,846	66,140	(51,294)
Fed funds sold	168,600	108,450	60,150
Loans (net of reserve for loan losses and			
unearned discount)	9,715,728	8,074,132	1,641,596
Direct lease financing	147,860	134,472	13,388
Premises and equipment, net	133,506	132,320	1,186
Customers' acceptance liability	372,835	248,271	124,564
Accrued interest receivable	133,840	123,719	10,121
Other real estate owned	34,332	13,668	20,664
Other assets	103,939	131,711	(27,772)
Total assets	\$ 14,840,623	\$ 12,540,919	\$ 2,299,704

Liabilities and Stockholders' Equity		December 31	
(In thousands of dollars)	20XY	20XX	Change
Demand deposits	\$ 3,543,141	\$ 2,937,065	\$ 606,076
Savings deposits	3,585,808	3,485,886	99,922
Savings certificates	1,635,215	1,391,107	244,108
Certificates of deposit	1,827,420	1,601,707	225,713
Other time deposits	424,592	313,811	110,781
Deposits in overseas offices	1,468,003	722,950	745,053
Total deposits	12,484,179	10,452,526	2,031,653
Fed funds borrowed	897,189	924,501	(27,312)
Long-term debt	44,556	43,766	790
Acceptances outstanding	373,022	249,088	123,934
Accrued taxes and other expenses	142,756	122,064	20,692
Other liabilities	171,904	122,890	49,014
Total liabilities (excluding subordinated notes)	14,113,606	11,914,835	2,198,771
Subordinated notes:			
8.25% capital note to Wells Fargo &			
Company, due 20XZ	25,000	25,000	
4.5% capital notes due 20XZ	50,000	50,000	
Total subordinated notes	75,000	75,000	
Stockholders' equity:			
Capital stock	94,461	94,461	
Surplus	300,036	251,512	48,524
Surplus representing convertible capital			
note obligation assumed by parent			
corporation	10,065	14,589	(4,524)
Undivided profits	247,455	190,522	56,933
Total stockholders' equity	652,017	551,084	100,933
Total liabilities and stockholders' equity	\$ 14,840,623	\$ 12,540,919	\$ 2,299,704

# Assets = Liabilities + Equity

**Accounting Equation** 

### **Pre-Class Assignment Review**

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

- Undivided profits Other assets Cash and due from banks U.S. Treasury securities Other real estate Bank premises and equipment Demand deposits Long-term debt Savings deposits Time deposits Capital stock Securities of U.S. government agencies
- Loans (net of reserve for loan losses)

### **Pre-Class Assignment Review**

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

- O Undivided profits
- A Other assets
- A Cash and due from banks
- A U.S. Treasury securities
- A Other real estate
- A Bank premises and equipment
- L Demand deposits
- L Long-term debt
- L Savings deposits
- L Time deposits
- O Capital stock
- A Securities of U.S. government agencies
- A Loans (net of reserve for loan losses)



INCOME

MATCHED FUNDING

# Income & Expenses

**Income Statement or** 

**Profit and Loss** 

Performance over a PERIOD of time

Positive net income = profit

Negative net income = loss



# Fiscal Year

The 12-month period selected by a business as an accounting period, at the end of which the books are closed and profit or loss is determined.

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25

10

30

31

Primary Sources of Income

Loan Income

**Investment Income** 

Fee Income



Interest Income	December	31
(Thousands of dollars)	20XY	20XX
Interest and fees on loans	\$ 823,415	\$ 693,463
Interest on fed funds sold	6,429	3,496
Interest and dividends on investment securities:		
U.S. Treasury securities	69,938	59,883
Securities of other U.S. government agencies	16,520	25,228
Obligations of states and political subdivisions	22,504	15,846
Other securities	7,067	7,268
Interest on overseas deposits	24,394	37,658
Interest on trading accounts securities	4,419	3,478
Direct lease financing income	33,371	32,560
Total interest income	1,008,057	878,880
Interest Expense	December	21
(Thousands of dollars)	20VV	20VV
Interest on deposits	463 733	414 832
Interest on fed funds borrowed and repurchase	35,193	33,019
agreements		
Interest on other borrowed funds	17,751	12,882
Interest on long-term debt	21,232	19,079
Total interest expense	537,909	479,812
Net interest income	470,148	399,068
Provision for loan losses	41,028	46,379
Net interest income after provision for loan losses	429,120	352,689

Other Operating Income	December 31	
(Thousands of dollars)	20XY	20XX
Trust income	21,635	19,649
Service charges on deposit accounts	25,511	24,254
Trading account profits and commissions	(268)	1,690
Other income	43,797	23.324
Total other operating income	90,675	68,917

Other Operating Expense	December 31		
(Thousands of dollars)	20XY	20XX	
Salaries	168,085	145,746	
Employee benefits	41,028	32,126	
Net occupancy expense	34,919	31,636	
Equipment expense	20,648	19,234	
Other expense	94,331	68,317	
Total other operating expense	359,011	297,059	
Income before income taxes and securities transactions	160,784	124,547	
Less applicable income taxes	73,484	61,076	
Income before securities transactions	87,300	63,471	
Securities gains (losses), net of income tax effect of \$(1.233) in 20XY and \$48 in 20XX	(1,020)	40	
Net income	\$ 86,280	\$ 63,511	
Income per share (based on average number of common shares outstanding):	<u> </u>	+	
Income before securities transactions	\$4.03	\$3.16	
Securities transactions, net of income tax effect	(.05)		
Net income per share	\$3.98	\$3.16	

### **Pre-Class Assignment Review**

On the line beside each item, indicate whether that item is an Income (I) or Expense (E).

 Interest and fees on loans
 Salaries
 Pension, profit-sharing, and other employee benefits
 Interest on savings and time deposits
 Income on federal funds sold
 Interest on other borrowed funds
 Interest and dividends on U.S. Treasury securities
 Trust department income
 Net occupancy expense of bank premises
 Equipment expense
 Interest and dividends on securities of other U.S. agencies and corporations

### **Pre-Class Assignment Review**

On the line beside each item, indicate whether that item is an Income (I) or Expense (E).

- I Interest and fees on loans
- E Salaries
- E Pension, profit-sharing, and other employee benefits
- E Interest on savings and time deposits
- I Income on federal funds sold
- E Interest on other borrowed funds
- I Interest and dividends on U.S. Treasury securities
- I Trust department income
- E Net occupancy expense of bank premises
- E Equipment expense
- I Interest and dividends on securities of other U.S. agencies and corporations

#### Loans vs Investments



Loans take priority over investments



Negotiation: Loans direct vs Investments indirect



Loans - credit risk vs Investments - market risk

### Key Loan Information



Interest and fees on loans is the primary source of bank revenue



#### Cost of Funds



Loan Term



Interest Rates

### Importance of Financial Management

• Would you play sports without a scoreboard?

 Accounting is the "language of banking"

### Investment Income

#### U.S. Treasury Securities

U.S. Agency Securities

State and Municipal Bonds

**Other Investments** 

- Commercial Paper
- Corporate Debt

### Sources of Fee Income

#### **Deposit Account Fees**

- Monthly account fees
- Overdraft and NSF fees
- Early withdrawal fees
- Stop payment fees

#### Fiduciary Trust Services

Trust department revenues

#### **All Other Service Fees**

- ATM fees
- Safe deposit boxes
- Money orders
- Cashier's and traveler's checks
- Renting bank property

### Sources of Fee Income

#### Insurance and Securities

- Insurance brokerage
- Providing insurance
- Securities brokerage and selling
- Handling securities of others
- Securitization



### Self-Check Day 1

Multiple Choice Balance Sheet Income Statement

# INVESTMENTS



### Bank Balance Sheet - Assets

- Bank Assets
  - Cash
  - Funds Sold
  - Investments

EARNING ASSETS > 90%+ TARGET

- Loans
- OREO
- Fixed Assets (Property and Equipment)
- Other Assets

### Bank Investments

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What are the purposes of bank investment portfolios?

- Liquidity
- Generate Income
- Satisfy Pledging requirements
- Support Interest rate risk management

Functions of a Bank's Investment Portfolio

- Augment the Bank's Income
- Offset Credit Risk of Loans
- Provide Geographic Diversification
- Provide Backup Source of Liquidity
- Reduce Tax Exposure
- Serve as Collateral for Pledging
- Provide Flexibility

### Types of Bank Investments

U.S. Treasury Securities	_OW	
Government Agency Securities		
Government Sponsored Agencies		
Municipal Bonds	RISK	
Corporate Bonds		
Other: Private label CMO/MBS		
Bank Issued Preferred Debt	ligh	

### Types of Bank Investments

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#### **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)

### Types of Bank Investments

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#### **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)
#### Types of Bank Investments

- 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
- Privately Issued MBS/CMO
- Bank Issued Subordinated Debt







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### Portfolio Detail

Live Example

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

# Investment Portfolio Risks



### Interest Rate Risk

- Rising Interest Rates Lowers the Value of Previously Issued Bonds
- Bonds With the Longest Maturities Typically Suffer the Greatest Losses
- Many Interest Rate Risk Mitigation Tools Exist Today: Options, Hedges and Swaps

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#### Default Risk

#### Investment Grade

#### Speculative Grade

Moody's Aaa Aa A

Baa

Moody's S&P AAA Ba AA B Caa A BBB Ca

C

S&P

BB

B

CCC

CC

 $\mathbf{C}$ 

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### Business Risk

- Risk that the Economy of the Market Area they Serve May Turn Down
- Investment Portfolio Can Offset This Risk
- Investments Can be Purchased From Outside Market Area Served

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### Call Risk

Corporations and Some Governments Reserve the Right to Retire the Securities in Advance of Their Maturity

Generally Called When Interest Rates a Have Fallen

Investor Must Find New Security – Often with a Lower Return

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Specific to Asset-Backed Securities

Most Consumer Mortgages and Loans Can Be Paid Off Early



Caused by Loan Refinancing Which Accelerate When Interest Rates Fall



Caused by Asset Turnover When Borrowers Move or are Not Able to Meet Loan Payments and Asset is Sold

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Liquidity Risk

 Breadth and Depth of Secondary Market

- Number of Traders on n Given Day
- Volume of Trades on Any Given Day

• Treasury Securities are Generally the Most Liquid

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#### Inflation Risk

Purchasing Power from an Investment or Loan May be Eroded by Rising Prices

Inflation Risk Hedge – Treasury Inflation Protected Securities

Both Coupon Payments and Principal Adjusted Annually for Inflation Based on Consumer Price Index

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#### Written Investment Policy: Regulator Guidelines



- The Quality or Degree of Default Risk Exposure the Institution is Willing to Accept
- The Desired Maturity Range and Degree of Marketability Sought for All Securities
- The Goals Sought for its Investment Portfolio
- The Degree of Portfolio Diversification the Institution Wishes to Achieve with its Investment Portfolio

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#### Factors Affecting Which Investment to Purchase

- Expected Rate of Return
- Tax Exposure
- Interest Rate Risk
- Credit Risk
- Business Risk

- Liquidity RiskCall Risk
- Prepayment Risk
- Inflation Risk
- Policy Limits

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#### Effective Fed Funds Rate History 1955 - 2022



#### Effective Fed Funds Rate History 1990 - 2022



#### Federal Reserve District Map



#### Maturity Management Tools



#### The Yield Curve

Picture of How Market Interest Rates Differ Across Differing Maturities

Constructed Most Easily with Treasury Securities

Provides Information About Under and Over Priced Securities

Provides Information About the Risk Return Trade-Off



#### Duration

Present Value Weighted Average Maturity of the Cash Flows

Can Be Used to Insulate the Securities From Interest Rate Changes

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#### Normal Yield Curve



#### Yield Curve – June 2018

#### **Treasury Yield Curve**



### Yield Curve – July 2020



#### Yield Curve – June 2021



### Current Yield Curve – April 2022



### Bank Investments

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What are the purposes of bank investment portfolios?

Liquidity

### Liquidity

The Availability of Cash in the Amount and at the Time Needed at a Reasonable Cost

# Suppliers of Liquid Funds

- Incoming Customer
   Deposits
- Customer Loan Repayments
- Sales of Bank Assets
- Borrowings

# Demands for Liquidity

- Customer Deposit Withdrawals
- Credit Requests from Quality Loan Customers
- Repayment of Borrowings
- Operating Expenses and Taxes
- Payment of Stockholder Dividends

# Essence of Liquidity Management

- Rarely are the Demands for Liquidity Equal to the Supply of Liquidity at Any Particular Moment. The Financial Firm Must Continually Deal with Either a Liquidity Deficit or Surplus
- There is a Trade-Off Between Liquidity and Profitability. The More Resources Tied Up in Readiness to Meet Demands for Liquidity, the Lower is the Financial Firm's Expected Profitability.

Why Banks and Their Competitors Face Significant Liquidity Problems

- Imbalances Between Maturity Dates of Their Assets and Liabilities
- High Proportion of Liabilities Subject to Immediate
  Repayment
- Sensitivity to Changes in Interest Rates



Asset Liquidity Management or Asset Conversion Strategy

## Strategies for Liquidity Managers

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Borrowed Liquidity or Liability Management Strategy



Balanced Liquidity Strategy

#### Asset Liquidity Management

This Strategy Calls for Storing Liquidity in the Form of Liquid Assets and Selling Them When Liquidity is Needed

#### Liquid Asset

- Must Have a Ready Market So it Can Be Converted to Cash Quickly
- Must Have a Reasonably Stable Price
- Must Be Reversible So an Investor Can Recover Original Investment with Little Risk

#### Costs of Asset Liquidity Management

- Loss of Future Earnings on Assets That Must Be Sold
- Transaction Costs on Assets That Must Be Sold
- Potential Capital Losses If Interest Rates are Rising
- May Weaken Appearance of Balance Sheet
- Liquid Assets Generally Have Low Returns
### Borrowed Liquidity Management

This Strategy Calls for the Bank to Purchase or Borrow To Cover All of Its Liquidity Needs

# Sources of Borrowed Funds

- Federal Funds Purchased
- Deposit Campaigns
- Securing Advance from the Federal Home Loan Bank

### Balanced Liquidity Management Strategy

The Combined Use of Liquid Asset Holdings (Asset Management) and Borrowed Liquidity (Liability Management) to Meet Liquidity Needs



### **Guidelines for Liquidity Managers**

- They Should Keep Track of All Fund-Using and Fund-Raising Departments
- They Should Know in Advance Withdrawals by the Biggest Credit or Deposit Customers
- Their Priorities and Objectives for Liquidity Management Should be Clear
- Liquidity Needs Must be Evaluated on a Continuing Basis

### Methods for Estimating Liquidity Needs

Sources and Uses of Funds Approach

> Liquidity Early Warning Indicators Approach

> > Signals from the Marketplace

## Sources and Uses of Funds

| 1 | Loans and Deposits Must Be Forecast for a Given Liquidity Planning Period                                                                      |
|---|------------------------------------------------------------------------------------------------------------------------------------------------|
| 2 | The Estimated Change in Loans and Deposits Must Be Calculated for the Same<br>Planning Period                                                  |
| 3 | The Liquidity Manager Must Estimate the Bank's Net Liquid Funds By Comparing the Estimated Change in Loans to the Estimated Change in Deposits |

# **Early Warning Indicators**

| E Loan-to-Deposit Ratio              |
|--------------------------------------|
| Net Charge-Off                       |
| Deposit Withdrawals                  |
| \$ Deterioration of earnings         |
| Policy liquidity ratios              |
| Loss or reduction of credit facility |



## Market Signals of Liquidity Management

- Public Confidence
- Stock Price Behavior
- Risk Premiums on CDs
- Loss Sales of Assets
- Meeting Commitments to Creditors
- Borrowings from the Central Bank

### VBA Bank

|   | 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     |
| < | <b>Investment Securities</b> | 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 |

# Loan Demand Surges. Your bank funded \$100,000,000 in loan requests.



### VBA Bank

| 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 |

# Liquidity In Action

| 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     |
| Investment 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 |

### Liabilities Fund Bank 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

## Liquidity In Action #2

| 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     |
| Investment 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 |

### 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?



#### DAY 3

### Financial Management I

### Importance of Financial Management

- Allows you to measure success and compare performance to other banks and overall marketplace
- Used in budgeting and planning

### Users of Financial Information

Accurate records important to:

- Investors/Shareholders
- Regulators
- Directors
- Employees
- Customers



### **Bank Financial Statements**



# Your Personal Balance Sheet

- Checking Account
- Savings Account
- 401(k)
- Investments
- House
- Car
- Personal Items

- Student Loans
- Car Loan
- Mortgage Loan
- Difference = Net Worth or your personal Capital

### VBA Bank

| 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     |
| Investment Securities   | 150,000,000     | CDs & IRA             | 300,000,000     |
| Loans, Gross            | 735,000,000     | Funds Purchased       | 0               |
| Allowance for Loan Loss | (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 |

### Balance Sheet

### "A snapshot in time"

# Assets Liabilities Equity



# Accounting Equation

#### Assets = Liabilities + Capital

### Assets

Assets are things of value owned by or owed to the company.

# Assets are generally carried at their original cost

• Exceptions: Some Investments must be updated to reflect their fair market value

#### Name some bank assets

### Bank Balance Sheet - Assets

- Bank Assets
  - Cash
  - Funds Sold
  - Investments

EARNING ASSETS > 90%+ TARGET

- Loans
- OREO
- Fixed Assets (Property and Equipment)
- Other Assets

# Liabilities

Liabilities are debts or obligations owed by the bank to creditors

Name some bank liabilities

# Liabilities

Bank Liabilities Examples

- Demand Deposits
- Savings and MMDA
- Certificates of Deposit
- Fed Funds Purchased
- Borrowings (Ex: FHLB Borrowing)
- Subordinated Debt
- Other Liabilities

### VBA Bank

| 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     |
| Investment Securities   | 150,000,000     | CDs & IRA             | 300,000,000     |
| Loans, Gross            | 735,000,000     | Funds Purchased       | 0               |
| Allowance for Loan Loss | (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 |

# Capital

### Assets – Liabilities = Capital

### **Basic Bank Capital**

- Common Stock
- Additional Paid-in Capital
- Retained Earnings
- Unrealized Gains or Losses
- Preferred Stock

### VBA Bank

| 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     |
| Investment Securities   | 150,000,000     | CDs & IRA             | 300,000,000     |
| Loans, Gross            | 735,000,000     | Funds Purchased       | 0               |
| Allowance for Loan Loss | (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 |

Our Focus Areas – **Balance** Sheet



# Loans Types

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

### VBA Bank

| Assets             | \$ Amount       |        | Liabilities/Capital                                                                                                                         | \$ Amount                       |                |  |
|--------------------|-----------------|--------|---------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------|----------------|--|
| Cash and Due From  | \$ 10,000,000   |        | DDA                                                                                                                                         | \$ 200,000,000                  |                |  |
| Fed Funds Sold     | 50,000,000      | Г      | Commercial and Industri<br>Commercial RE – OO<br>Commercial RE - NOO<br>Construction & Developr<br>1-4 Family Residential<br>Consumer Loans | rial \$150,000,000              |                |  |
| Invest. Securities | 150,000,000     |        |                                                                                                                                             | \$100,000,0                     | 00             |  |
| Loans, Gross       | 735,000,000     | $\neg$ |                                                                                                                                             | \$175,000,00                    | 00             |  |
| Reserve Losses     | (10,000,000)    |        |                                                                                                                                             | pment \$75,000,0<br>\$200,000 0 | 1,000<br>1 000 |  |
| Fixed Assets       | 40,000,000      |        |                                                                                                                                             | <u>\$35,000,0</u>               | 00             |  |
| OREO               | 5,000,000       |        | Gross Loans                                                                                                                                 | \$735,000,0                     | 00             |  |
| Other Assets       | 20,000,000      |        |                                                                                                                                             |                                 |                |  |
|                    |                 |        | Equity Capital                                                                                                                              | 100,000,000                     |                |  |
|                    |                 |        |                                                                                                                                             |                                 |                |  |
| Total Assets       | \$1,000,000,000 |        | Liabilities & Capital                                                                                                                       | \$1,000,000,000                 |                |  |

# Loan Risks

Key issues related to loan portfolios? Asset Quality Credit Quality

- Risk Ratings
  Systems
- Allowance for Loan and Lease Losses
  - -CECL

## Loan Risks

#### Key issues related to loan portfolios? Interest rate risk

- Fixed rates, duration analysis
- Floating rates, indexes, floors, hedging

# Loan Risks

Key issues related to loan portfolios? Concentration of credit

- Mix of Loan
  Types
- CRE Regulatory 100/300 Ratios

Legal lending limit
## 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





## VBA Bank

| 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     |
| Investment Securities   | 150,000,000     | CDs & IRA             | 300,000,000     |
| Loans, Gross            | 735,000,000     | Funds Purchased       | 0               |
| Allowance for Loan Loss | (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 |

# <u>\$725,000,000</u> = 83.3% \$870,000,000

Loan-to-Deposit Ratio Solution

## VBA Bank

| 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     |
| Investment Securities   | 150,000,000     | CDs & IRA             | 300,000,000     |
| Loans, Gross            | 735,000,000     | Funds Purchased       | 0               |
| Allowance for Loan Loss | (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 |

#### Ratio: <u>Allowance Loan Losses</u> 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.

## VBA Bank

| 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     |
| Investment Securities   | 150,000,000     | CDs & IRA             | 300,000,000     |
| Loans, Gross            | 735,000,000     | Funds Purchased       | 0               |
| Allowance for Loan Loss | (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 |

## VBA Bank Ratio: Total ALLL / Total Net Loans \$\_\_\_\_\_/\$\_\_\_\_=

# <u>\$10,000,000</u> = 1.36% \$735,000,000

Allowance-to-Total Loans

#### Ratio: <u>Allowance Loan Losses</u> Total Loans

Should also look at Allowance to Non-accrual Loan CECL (Current Expected Credit Loss) is here for larger banks, smaller banks adopt in 2023

## Non-Performing Assets

A point in Time for Problem Assets

 Loans 90+ Days Past Due
 Loans on Non-Accrual
 Other Real Estate owned
 Total Non-Performing Assets
 =

7,000,000 2,000,000 <u>1,000,000</u>

Ratio:

Total ALLL / Nonaccrual Loans

\$\_\_\_\_\_ / \$\_\_\_\_\_ =

## 

\$10,000,000/\$2,000,000 = **5.00x** 

## How Does VBA Bank Compare to Me?

#### VBA Bank

- Loan-to-Deposit 83.3%
- ALLL-to-Total Loans 1.36%
- ALLL-to-nonaccruals 5.00x

#### **Instructor's Bank**

- Loan-to-Deposit 65.64%
- ALLL-to-Total Loans 1.34%
- ALLL-to-nonaccruals 3.72x

## Instructor's Bank to Peer First Glimpse at UBPR

| Liquidity/Funding Ratios         |
|----------------------------------|
| Net Non Core Fund Dep \$250M     |
| Core Deposits                    |
| Short Term Non Core Funding      |
| S.T Inv to S.T. Ncore Fund       |
| S.T. Asset to S.T. Liabilities   |
| Net S.T. Liabilities to Assets   |
| Net Loans & Leases to Deposits   |
| Net LN&LS to Core Deposits       |
| Brkr Dep Mat < 1 Yr to Brkr Deps |

| -23.09 | -7.72  | 17 |
|--------|--------|----|
| 83.64  | 83.30  | 45 |
| 4.14   | 4.38   | 55 |
| 574.15 | 516.89 | 70 |
| 182.29 | 247.50 | 45 |
| -15.06 | -11.36 | 36 |
| 65.64  | 66.43  | 49 |
| 71.14  | 70.77  | 53 |
| 0.00   | 32.31  | 19 |

## Instructor's Bank to Peer

Loan & Lease Analysis: Net Loss to Average Total LN&LS Earnings Coverage of Net Losses (X) LN&LS Allowance to LN&LS Not HFS LN&LS Allowance to Net Losses (X) LN&LS Allowance to Total LN&LS Total LN&LS-90+ Days Past Due -Nonaccrual -Total

| 0.21 | 0.01   | 94 |
|------|--------|----|
| 9.46 | 195.07 | 14 |
| 1.34 | 1.42   | 49 |
| 6.22 | 122.85 | 13 |
| 1.34 | 1.41   | 49 |
| 0.04 | 0.03   | 78 |
| 0.36 | 0.37   | 60 |
| 0.40 | 0.43   | 58 |
|      |        |    |

## Instructor's Bank to Peer

| LN&LS Allowance to LN&LS Not HFS        | 1.34 | 1.42   | 49 |
|-----------------------------------------|------|--------|----|
| LN&LS Allowance to Total LN&LS          | 1.34 | 1.41   | 49 |
| LN&LS Allowance to Net Losses (X)       | 6.22 | 122.85 | 13 |
| LN&LS Allowance to Nonaccrual LN&LS (X) | 3.72 | 11.16  | 44 |

## Allowance for Loan & Lease Losses

- ALLL also called Reserve for Loan Losses
- Deducted from loans to compute "net loans"
- Calculation:

**Beginning Balance ALLL** 

- + Provision for loan losses (Bad Debt Expense)
- Loan charge-offs
- + Recoveries of previously charged off loans
- = Ending Balance ALLL



## In-Class Exercise

A bank has an allowance for loan losses of \$1,250,000 at the beginning of the year, charges current income for a \$250,000 provision for loan losses (bad debit expense), charges off worthless loans of \$150,000, and recovers \$50,000 on loans previously charged off. What will be the balance in the bank's allowance for loan losses at yearend?

## Directional Consistency of ALLL

Would you expect a higher or lower reserve requirement under the following scenarios?

Past due loans are up

Likelihood of recession is increasing

Very low amount of charged off loans

Impaired loans appraisal values decline



#### 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?



## Simple Capital Adequacy Measurement

- Total Equity as a percentage of total assets
- For VBA Bank:
  - \$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

## Capital – VBA Bank

| 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     |
| Investment 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 |

## Community Bank Leverage Ratio

- Numerator
  - Total Equity Capital
- Denominator
  - Average Assets
- VBA Bank = 10.0%
- Regulatory Requirement is 9.0%



#### Risk-Based Capital Measurements

- Numerator
  - Breaks capital into two levels
    - Tier 1 and Tier 2
- Denominator
  - Risk-weight multipliers based on asset risk
  - Adds in specific offbalance sheet risk
  - Average Assets





# Capital Ratio Measures

**Tier 1 Capital** 

- Total equity (common stock/APIC/Retained earnings)
- Qualifying Preferred Stock
- 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

#### **Risk Based Capital Ratios**

- Tier 1 Leverage Ratio
  - Tier 1 Capital / total average assets
- Tangible Common Equity (TCE) Capital Ratio
  - TCE Capital / total average assets
- 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

| Leverage Ratio              | 9.1293 |
|-----------------------------|--------|
| Standardized Capital Ratios |        |
| Com Equity Tier 1 Cap Ratio | N/A    |
| Tier 1 Capital Ratio        | N/A    |
| Total Capital Ratio         | N/A    |

#### UBPR of CBLR Bank



#### UBPR of All Applicable Capital Ratios

## VBA Bank

| 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 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

# How do Banks Make Money?

124,500 How does the Balance Sheet drive the income 95,000 statement while leveraging capital? 154,200 56,845

110,000

150,000

35,000

83,000

45,000

125,058

125,487

124,000

105,450

86,502

99,216

101,090

101,684

101,962

102,747

006

110,000

89,000

50,000

68,700

123,000

## **Typical Bank Income Statement**

- + Interest Income
- Interest Expense
- = Net Interest Income
- Provision for loan losses
- + Non-interest Income
- Non-interest expense
- = Pre-tax Income
- Federal Tax Expense
- = Net Income

Major Components

#### VBA

### **Bank Income Statement**

Numbers divided by average assets

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

## VBA Bank Income Statement

Net Interest Income declines 25 bp

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

Maximizing earning assets AND Minimizing the cost to fund

- + Short-term funds sold
- + Investment securities
- + Loan Interest income
- + Loan Fee Income (spread over time)
- Deposit interest expense
- Other Borrowings/Funds purchased
- = NET INTEREST INCOME

| Interest Income                                     | December   | 31         |
|-----------------------------------------------------|------------|------------|
| (Thousands of dollars)                              | 20XY       | 20XX       |
| Interest and fees on loans                          | \$ 823,415 | \$ 693,463 |
| Interest on fed funds sold                          | 6,429      | 3,496      |
| Interest and dividends on investment securities:    |            |            |
| U.S. Treasury securities                            | 69,938     | 59,883     |
| Securities of other U.S. government agencies        | 16,520     | 25,228     |
| and corporations                                    |            |            |
| Obligations of states and political subdivisions    | 22,504     | 15,846     |
| Other securities                                    | 7,067      | 7,268      |
| Interest on overseas deposits                       | 24,394     | 37,658     |
| Interest on trading accounts securities             | 4,419      | 3,478      |
| Direct lease financing income                       | 33,371     | 32,560     |
| Total interest income                               | 1,008,057  | 878,880    |
| Interest Expense                                    | December   | 31         |
| (Thousands of dollars)                              | 20XY       |            |
| Interest on deposits                                | 463,733    | 414,832    |
| Interest on fed funds borrowed and repurchase       | 35,193     | 33,019     |
| agreements                                          |            |            |
| Interest on other borrowed funds                    | 17,751     | 12,882     |
| Interest on long-term debt                          | 21,232     | 19,079     |
| Total interest expense                              | 537,909    | 479,812    |
| Net interest income                                 | 470,148    | 399,068    |
| Provision for loan losses                           | 41,028     | 46,379     |
| Net interest income after provision for loan losses | 429,120    | 352,689    |

# 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 items

| Other Operating Income                  | December 31   |        |
|-----------------------------------------|---------------|--------|
| (Thousands of dollars)                  | 20XY          | 20XX   |
| Trust income                            | 21,635        | 19,649 |
| Service charges on deposit accounts     | 25,511        | 24,254 |
| Trading account profits and commissions | (268)         | 1,690  |
| Other income                            | 43,797        | 23.324 |
| Total other operating income            | <u>90,675</u> | 68,917 |

| Other Operating Expense                                                     | December  | r <u>31</u> |
|-----------------------------------------------------------------------------|-----------|-------------|
| (Thousands of dollars)                                                      | 20XY      | 20XX        |
| Salaries                                                                    | 168,085   | 145,746     |
| Employee benefits                                                           | 41,028    | 32,126      |
| Net occupancy expense                                                       | 34,919    | 31,636      |
| Equipment expense                                                           | 20,648    | 19,234      |
| Other expense                                                               | 94,331    | 68,317      |
| Total other operating expense                                               | 359,011   | 297,059     |
| Income before income taxes and securities transactions                      | 160,784   | 124,547     |
| Less applicable income taxes                                                | 73,484    | 61,076      |
| Income before securities transactions                                       | 87,300    | 63,471      |
| Securities gains (losses), net of income tax effect of                      | (1,020)   | 40          |
| \$(1,233) in 20XY and \$48 in 20XX                                          |           |             |
| Net income                                                                  | \$ 86,280 | \$ 63,511   |
| Income per share (based on average number of<br>common shares outstanding): |           |             |
| Income before securities transactions                                       | \$4.03    | \$3.16      |
| Securities transactions, net of income tax effect                           | (.05)     |             |
| Net income per share                                                        | \$3.98    | \$3.16      |
|                                                                             |           |             |

### Non-Interest Expenses

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

| Other Operating Income                  | December 31 |        |
|-----------------------------------------|-------------|--------|
| (Thousands of dollars)                  | 20XY        | 20XX   |
| Trust income                            | 21,635      | 19,649 |
| Service charges on deposit accounts     | 25,511      | 24,254 |
| Trading account profits and commissions | (268)       | 1,690  |
| Other income                            | 43,797      | 23.324 |
| Total other operating income            | 90,675      | 68,917 |

| Other Operating Expense                                | Decembe   | <u>r 31</u> |
|--------------------------------------------------------|-----------|-------------|
| (Thousands of dollars)                                 | 20XY      | 20XX        |
| Salaries                                               | 168,085   | 145,746     |
| Employee benefits                                      | 41,028    | 32,126      |
| Net occupancy expense                                  | 34,919    | 31,636      |
| Equipment expense                                      | 20,648    | 19,234      |
| Other expense                                          | 94,331    | 68,317      |
| Total other operating expense                          | 359,011   | 297,059     |
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| Net income                                             | \$ 86,280 | \$ 63,511   |
| Income per share (based on average number of           |           |             |
| common shares outstanding):                            |           |             |
| Income before securities transactions                  | \$4.03    | \$3.16      |
| Securities transactions, net of income tax effect      | (.05)     |             |
| Net income per share                                   | \$3.98    | \$3.16      |
|                                                        |           |             |

#### **Bank Performance Ratios**

- Ratios help us analyze health, strength, trends
- Ratios help with timeline comparisons
- Ratios "right size" banks for peer comparison

#### **Bank Performance Ratios**

- Return on Average Assets
  ROA
- Return on Average Equity
  ROE
- Earnings Per Share EPS
- Net interest margin
  NIM
- Efficiency Ratio/Net Overhead

#### **Accounting Primer**

ROA

(434,764,282+387,736,216)/2 =

 $\frac{4,299,514}{411,250,249} = 0.01045 \text{ or } \mathbf{1.05\%}$ 

| ROE |                               |
|-----|-------------------------------|
|     | (46,264,988+35,016,220) / 2 = |

 $\frac{4,299,514}{40,640,604}$  = .1058 or **10.58%** 

EPS

 $\frac{4,299,514}{1,445,176} =$ **\$2.98** 

#### 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

#### **ROAA Calculation:**

#### Annualized net income / Average Total Assets of \$1,000,000,000

#### Bank Income Statement

Numbers divided by average assets

| + Interest Income           | 4.50% | 45,000,000   |
|-----------------------------|-------|--------------|
| - Interest Expense          | 0.75% | 7,500,000    |
| + Net Interest Income       | 3.75% | 37,500,000   |
| - Provision for loan losses | 0.15% | 1,500,000    |
| + Non-interest Income       | 0.75% | 7,500,000    |
| - Non-interest expense      | 3.00% | 30,000,000   |
| + Pre-tax Income            | 1.35% | 13,500,000   |
| - Federal Tax expense-20%   | 0.27% | 2,700,000    |
| + Net Income                | 1.08% | \$10,800,000 |

### **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

# VBA Bank

| 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 |

### **Return on Average Equity**

- Calculation:
  - Annualized net income / Average Total Equity
  - <u>\$10,800,000</u> / <u>\$100,000,000</u> =**10.80%**

#### **Earnings Per Share**

VBA Bank has 10,000,000 shares stock

Net income / # shares stock = EPS \_\_\_\_\_ / \_\_\_\_ = \_\_\_\_\_

#### Earnings Per Share

VBA Bank has 10,000,000 shares stock

Net income / # shares stock = EPS <u>\$10,800,000</u>/<u>10,000,000</u> = **\$1.08** 

### 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 minus Interest expense / Avg. Earning Assets

= Net Interest Income

# VBA Bank

| 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   |                      |                 |

# **VBA Bank Income Assumptions**

| Assets                                                | \$ Amount  | % AEA | Liabilities/Capital  | \$ Amount | %AEA |  |
|-------------------------------------------------------|------------|-------|----------------------|-----------|------|--|
| Cash                                                  |            |       | DDA                  | 0         |      |  |
| Fed Funds Sold                                        | 50,000     |       | Savings/MMDA         | 1,175,000 |      |  |
| Securities                                            | 3,000,000  |       | CDs/IRA Certificates | 3,000,000 |      |  |
| Loans, Gross                                          | 36,750,000 |       | Funds Purchased      |           |      |  |
| Reserve Losses                                        |            |       | Other Borrowings     | 500,000   |      |  |
| Fixed Assets                                          |            |       | Other Liabilities    |           |      |  |
| OREO                                                  |            |       | Total Liabilities    |           |      |  |
| Other Assets                                          |            |       | Equity Capital       |           |      |  |
|                                                       |            |       |                      |           |      |  |
| INTEREST INCOME                                       | 39,800,000 | 4.78  | INTEREST EXPENSE     | 4,675,000 | 0.99 |  |
| AVG EARNING ASSETS = \$935MM NET INTEREST INCOME = \$ |            |       |                      |           |      |  |
| NET INTEREST MARGIN%% =%                              |            |       |                      |           |      |  |

# VBA Bank

| Assets                                                                                                                                 | \$ Amount  | % AA | Liabilities/Capital  | \$ Amount | %AA  |  |
|----------------------------------------------------------------------------------------------------------------------------------------|------------|------|----------------------|-----------|------|--|
| Cash                                                                                                                                   |            |      | DDA                  | 0         |      |  |
| Fed Funds Sold                                                                                                                         | 50,000     |      | Savings/MMDA         | 1,175,000 |      |  |
| Securities                                                                                                                             | 3,000,000  |      | CDs/IRA Certificates | 3,000,000 |      |  |
| Loans, Gross                                                                                                                           | 36,750,000 |      | Funds Purchased      |           |      |  |
| Reserve Losses                                                                                                                         |            |      | Other Borrowings     | 500,000   |      |  |
| Fixed Assets                                                                                                                           |            |      | Other Liabilities    |           |      |  |
| OREO                                                                                                                                   |            |      | Total Liabilities    |           |      |  |
| Other Assets                                                                                                                           |            |      | Equity Capital       |           |      |  |
|                                                                                                                                        |            |      |                      |           |      |  |
| INTEREST INCOME                                                                                                                        | 39,800,000 | 4.26 | INTEREST EXPENSE     | 4,675,000 | 0.50 |  |
| AVG EARNING ASSETS = \$935MM NET INTEREST INCOME = <mark>\$35,125,000</mark><br>NET INTEREST MARGIN <mark>4.26% - 0.50% = 3.76%</mark> |            |      |                      |           |      |  |

# Efficiency Ratio

- The ratio of noninterest expense to total revenue
- Measures how much it costs to earn a dollar of revenue....thus the <u>efficiency</u> of the company
- Lower number is better

#### Efficiency Ratio in UBPR

FDIC Certificate # 6137 OCC Charter # 0 Public Report FRB District/ID\_RSSD 5 / 759625 County: BOTETOURT

02/24/2022

PCT

26

50

90

58

50

52

31

5

|                                   | <u>U3/</u> | <u>3 1/2022</u> |  |
|-----------------------------------|------------|-----------------|--|
| Percent of Average Assets         | BANK       | PG 5            |  |
| Personnel Expense                 | 1.12       | 1.37            |  |
| Occupancy Expense                 | 0.25       | 0.26            |  |
| Other Oper Exp (Incl Intangibles) | 1.03       | 0.69            |  |
| Total Overhead Expense            | 2.41       | 2.32            |  |
| Overhead Less Nonint Inc          | 1.72       | 1.71            |  |
| Other Income & Expense Ratios:    |            |                 |  |
| Efficiency Ratio                  | 65.64      | 64.78           |  |
| Avg Personnel Exp Per Empl(\$000) | 62.37      | 91.05           |  |
| Assets Per Employee (\$Million)   | 5.70       | 6.92            |  |
|                                   |            |                 |  |

### Efficiency Ratio Calculation

#### **Noninterest Expense** Total Operating Revenue

Total Operating Revenue equals: <u>Net</u> interest income + non-interest income

Securities gains or losses excluded from non-interest income in calculation

#### **Efficiency Ratio Numerator**

#### **Bank Income Statement**

Numbers divided by average assets

| + Interest Income           | 4.50% | 45,000,000   |
|-----------------------------|-------|--------------|
| - Interest Expense          | 0.75% | 7,500,000    |
| + Net Interest Income       | 3.75% | 37,500,000   |
| - Provision for loan losses | 0.15% | 1,500,000    |
| + Non-interest Income       | 0.75% | 7,500,000    |
| - Non-interest expense      | 3.00% | 30,000,000   |
| + Pre-tax Income            | 1.35% | 13,500,000   |
| - Federal Tax expense-20%   | 0.27% | 2,700,000    |
| + Net Income                | 1.08% | \$10,800,000 |

### Efficiency Ratio Denominator Part 1

| Assets                                                                                                       | \$ Amount  | % AEA | Liabilities/Capital  | \$ Amount | %AEA |
|--------------------------------------------------------------------------------------------------------------|------------|-------|----------------------|-----------|------|
| Cash                                                                                                         |            |       | DDA                  | 0         |      |
| Fed Funds Sold                                                                                               | 50,000     |       | Savings/MMDA         | 1,175,000 |      |
| Securities                                                                                                   | 3,000,000  |       | CDs/IRA Certificates | 3,000,000 |      |
| Loans, Gross                                                                                                 | 36,750,000 |       | Funds Purchased      |           |      |
| Reserve Losses                                                                                               |            |       | Other Borrowings     | 500,000   |      |
| Fixed Assets                                                                                                 |            |       | Other Liabilities    |           |      |
| OREO                                                                                                         |            |       | Total Liabilities    |           |      |
| Other Assets                                                                                                 |            |       | Equity Capital       |           |      |
|                                                                                                              |            |       |                      |           |      |
| INTEREST INCOME                                                                                              | 39,800,000 | 4.26  | INTEREST EXPENSE     | 4,675,000 | 0.50 |
| AVG EARNING ASSETS = \$935MM NET INTEREST INCOME = \$35,125,000<br>NET INTEREST MARGIN 4.26% - 0.50% = 3.76% |            |       |                      |           |      |

#### **Efficiency Ratio Denominator Part 2**

#### Bank Income Statement

Numbers divided by average assets

| 4.50% | 45,000,000                                                                    |
|-------|-------------------------------------------------------------------------------|
| 0.75% | 7,500,000                                                                     |
| 3.75% | 37,500,000                                                                    |
| 0.15% | 1,500,000                                                                     |
| 0.75% | 7,500,000                                                                     |
| 3.00% | 30,000,000                                                                    |
| 1.35% | 13,500,000                                                                    |
| 0.27% | 2,700,000                                                                     |
| 1.08% | \$10,800,000                                                                  |
| -     | 4.50%<br>0.75%<br>3.75%<br>0.15%<br>0.75%<br>3.00%<br>1.35%<br>0.27%<br>1.08% |

### Efficiency Ratio Calculation SOLUTION

#### **Noninterest Expense**

#### **Total Operating Revenue**

<u>\$30,000,000</u> (\$35,125,000 + \$7,500,000)

> <u>\$30,000,000</u> \$42,625,000

> > 70.38%

# Balance Sheet – Risk Return of Two **Inversely** Related Variables

### Maximize Return and Minimize risk

- Credit Risk (Asset Quality)
- Liquidity Risk
- Interest Rate Risk
- Capital Adequacy

### Maximize Long-Term Return

# VBA Bank

| 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 Scenario

Short-Term Loan Demand Weakens due to competitive pressures

VBA Bank buys \$50 million of 15-year FNMA MBS@3.0%

VBA Bank books \$50 million of 10-year loans@5.5%

# VBA Bank

| 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 |                |

# VBA Bank

| 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 |



#### Risk-Return Balance Sheet Scenario Considerations

Did we introduce any Risk?

- Asset Quality/Credit Risk
- Liquidity
- Interest rate sensitivity
- Capital Adequacy

How much did we grow the balance sheet?

Did we make any money? Grow EPS?

#### Credit Risk? YES

#### Put \$50,000,000 in loans on our balance sheet

Asset Quality Fed Fund Sold <u>HAD</u> a balance of \$50,000

Fed Funds Purchased <u>HAS</u> a balance of \$50,000

Did we improve liquidity?

Liquidity Impact

#### Matched 10-year loans with 15-year of investments

Interest Rate Risk
# The Balance Sheet grew \$50,000,000

Balance Sheet Growth

### Math on Scenario

|   | VBA Bank Previous Year earned \$10,800,000 / \$1.08 EPS |                              |  |  |  |
|---|---------------------------------------------------------|------------------------------|--|--|--|
| _ | New Loans \$50MM x 5.50% =                              | 2,750,000                    |  |  |  |
| — | New Bonds \$50MM x 3.00% =                              | 1,500,000                    |  |  |  |
| _ | Lost FFS income \$50MM x 1.50%                          | (750,000)                    |  |  |  |
| _ | New FFP \$50MM x 1.75% =                                | (875,000)                    |  |  |  |
| _ | New Pretax Income =                                     | 2,625,000                    |  |  |  |
| _ | Taxes @ 20% =                                           | (525,000)                    |  |  |  |
| _ | ncremental after-tax income 2,100,000                   |                              |  |  |  |
| _ | Net Income = (2,100,000 + 1                             | 0,800,000) 12,900,000        |  |  |  |
| _ | Total Assets =                                          | 1,050,000,000                |  |  |  |
|   | EPS on 10 million shares                                | <b>\$</b> 1.29 19.4 <b>%</b> |  |  |  |

### Earnings Per Share increased from \$1.08 to \$1.29

**EPS** 

Previously 10.0%

After Strategy <u>100,000,000</u> 1,050,000,000

= 9.52%

Capital ratio did <u>not</u> improve



# DAY 5



# Uniform Bank Performance Report



All banks report financial results quarterly via the CALL report



UPBR provides an analysis of your bank compared to peer banks –based on size/structure



Excellent tool for analysis



www.ffiec.gov

### **Uniform Bank Performance Report**

View -- Uniform Bank Performance Report

| Table of Contents ▼ View Multiple Bank Report |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |  |  |  |  |  |
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|                                               | Table of Contents   Cover Page   Summary Ratios   Income Statement \$   Non Int Inc, Exp, Yields   Balance Sheet \$   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-b   Capital Analysis-d   Income Statement 1-Qtr-Ann   Securitization & Asset Sale-a   Securitization & Asset Sale-b | FDIC Certificate # 35005<br>CC Charter # 0<br>Public Report<br>Intomation<br>Intomation<br>Intomation<br>Intomation<br>Intomation<br>Intomation<br>Intomation<br>Intomation<br>This unform bank performance report covers the operations of a bank and that of a comparable group of per-banks. It is provided as a bank management tool by the Federal Financial Institutions is carrying out their supervisory responsibilities. All information contained therein was obtained from sources deemed reliable however no guarantee is given a<br>to the accuracy of the data. The Information contained in this report are not to be construed as a raing or other evaluation of a financial institution. The quartering report covers the operations for the is provided in the Users Guide for the Uniform Bank Performance Report found online at www.fflec.gov. This report has been produced for the<br>use of the federal regulators of financial institutions in carrying out their supervisory responsibilities. All information contained institution of a federal and institution. The quartering report of contain<br>and income is the principal source of information contained in this report are to be construed as a raing or other was obtained from sources deemed reliable however no guarantee is given a<br>to the accuracy of the data. The Information contained in this report are not to be construed as a raing or other was obtained from sources of the accounting standards that underlie data shown herein.<br>Instruction Address:<br>TOWINEBANK<br>S716 HIGH STREET WEST<br>PORTSMOUTH VA<br>23703<br>The Current Federal Regulator is:<br>Federal Deposit Insurance Corporation<br>The bank was established on: 4/8/1909<br>The current peer group for this bank is: 2<br>Insured commercial banks having assets between \$10 billion and \$100 billion<br>Footnotes:<br>Financial data in the Unform Bank Performance Report may have been adjusted as a result of Information shown in footnotes below. Please refer to the Unform Bank Performance Report Users Guide online of<br>details. | rt<br>Table of Contents<br>Section<br>Summary RatiosPage 1<br>Income Statement 5Page 2<br>Nonintersti Income, Expenses and YieldsPage 3<br>Balance Sheet 5Page 4<br>Of Balance Sheet SPage 4<br>Of Balance Sheet Percentage CompositionPage 6<br>Analysis of Loan Allowance and Loan MixPage 7<br>Analysis of Loan Allowance and Loan MixPage 7<br>Analysis of Loan Allowance and Loan MixPage 7<br>Analysis of Cane Allowance and Loan MixPage 7<br>Analysis of Cane Allowance and Loan MixPage 7<br>Analysis of Dana Allowance and Loan MixPage 7<br>Analysis of Past Due, Nonaccruli & RestructuredPage 8<br>Analysis of Past Due, Nonaccruli & RestructuredPage 8<br>Analysis of Past Due, Nonaccruli & RestructuredPage 8<br>Analysis of Past Due, Nonaccruli & RestructuredPage 8<br>Interest Rate Risk Analysis as a Percent of AssetsPage 9<br>Liquidity & FundingPage 10<br>Capital AnalysisPage 11<br>Capital AnalysisPage 118<br>Capital AnalysisPage 118<br>Fiduciary & Related ServicesPage 13<br>Fiduciary & Related ServicesPage 13<br>Fiduciary & Related ServicesPage 14<br>State Average |  |  |  |  |  |
|                                               | Securitization & Asset Sale-c<br>Fiduciary Services-a<br>Fiduciary Services-b                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | Bank Holding Company Information:<br>FRB District / ID_RSSD 5 /                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |  |  |  |  |  |

# **Uniform Bank Performance Report**

| □ Table of Contents        | Concentrations of Credit      |
|----------------------------|-------------------------------|
| Cover Page                 | 🗆 PD, Nonacc & Rest Loans-a   |
| My UBPR                    | 🗆 PD, Nonacc & Rest Loans-b   |
| Summary Ratios             | Interest Rate Risk            |
| Income Statement \$        | Liquidity & Funding           |
| □ Non Int Inc, Exp, Yields | Liquidity & Inv Portfolio     |
| □ Balance Sheet \$         | Capital Analysis-a            |
| Off Balance Sheet Items    | Capital Analysis-b            |
| Derivative Instruments     | Capital Analysis-c            |
| Derivative Analysis        | Capital Analysis-d            |
| □ Balance Sheet %          | Income Statement 1-Qtr-Ann    |
| Allowance & Loan Mix-a     | Securitization & Asset Sale-a |
| Allowance & Loan Mix-b     | Securitization & Asset Sale-b |
|                            | Securitization & Asset Sale-c |

## UBPR Detective

#### Three Banks

#### Different Sizes

Similar Market Conditions

#### **Different Outcomes**

## **UBPR** Detective Example

|                     | \$520 million | \$1.8 trillion | \$30 billion |
|---------------------|---------------|----------------|--------------|
|                     | MY BANK       | Bank A         | Bank B       |
| ROA                 | 0.83%         | 0.76%          | (1.42)%      |
| Growth Rate         |               |                |              |
| Total Assets        | 12.09%        | 14.45%         | 11.49%       |
| Growth Rate         |               |                |              |
| Net Loans & Leases  | 10.75%        | 11.24%         | 6.07%        |
| Liquidity           |               |                |              |
| Loan-to-Deposit     | 96.61%        | 61.64%         | 84.33%       |
| ROE                 | 8.19%         | 6.67%          | (12.42)%     |
| Dividends to Income | 29.00%        | 294.17%        | N/A          |
| Tier 1 Leverage     |               |                |              |
| Capital             | 10.35%        | 8.52%          | 8.55%        |

### **Review of Class Goals**

- Understand a bank balance sheet and how it relates to profitability, liquidity, capital
- Understand a bank income statement and how it drives profitability and capital
- Understand basic financial ratios
- Be ready for Financial Management II next year with Brad Schwartz
- Try to make a hard subject fun!



# Financial Management I

### **FUN TIMES**