



# How To Read The Story Your Bank Financials Are Telling

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Michelle R. Austin  
VBA Executive Women in Banking  
Peer Group  
Bank of Botetourt



# Mentorship Program Goals

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- Motivate women to explore their potential and focus on their development within the bank
- Enhance their knowledge of bank management and their role in the success of the organization
- Empower women to set goals and develop a path for achievement
- Connect with peers in the industry

# Webinar Session Segments

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- First segment: Technical & Bank Specific
- Second segment: Macro Economy
- Third segment: Polished in a network setting

## Reading Bank Financials

- Understanding the Statements
- Understanding the Math
- Trends tell a story

## Economic Environment

- Federal Reserve FOMC & Interest Rates
- Economic & Political Environment

## Navigating Questions About Your Bank

- In Professional & Social Setting
- Not Your Night Stand Reading

# First segment:

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- Technical & Bank Specific

## Reading Bank Financials

- Understanding the Statements
- Understanding the Math
- Trends tell a story

# Materials Needed:

Annual Report or Quarterly Financials  
Comparative Years of Data

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**Consolidated Balance Sheets**  
**December 31, current year and prior year**

	<u>Current Year</u>	<u>Prior Year</u>
<b>Assets</b>		
Cash and due from banks	\$ 7,385,958	\$ 6,535,297
Interest-bearing deposits with banks	5,533,852	314,101
Federal funds sold	486,000	-
Total cash and cash equivalents	13,405,810	6,849,398
Time deposits with banks	250,000	450,000
Investment securities available for sale	16,061,304	18,610,702
Restricted equity securities	399,801	617,501
Loans held for sale	316,721	453,287
Loans, net of allowance for loan losses of \$3,393,168 in CY and \$3,142,404 in PY	380,403,793	337,665,197
Property and equipment, net	11,901,381	11,462,988
Accrued income	1,184,005	1,039,097
Foreclosed assets	4,230,724	3,634,555
Other assets	6,610,743	6,953,491
Total assets	<u>\$ 434,764,282</u>	<u>\$ 387,736,216</u>

## Liabilities and Stockholders' Equity

### *Liabilities*

Noninterest-bearing deposits	\$ 42,609,701	\$ 40,000,956
Interest-bearing deposits	<u>342,704,290</u>	<u>300,999,123</u>
Total deposits	385,313,991	341,000,079
Federal funds purchased	-	2,103,000
Other borrowings	-	6,000,000
Accrued interest payable	464,878	251,450
Other liabilities	<u>2,720,425</u>	<u>3,365,467</u>
Total liabilities	<u>388,499,294</u>	<u>352,719,996</u>

Commitments and contingencies

- -

### *Stockholders' equity*

Common stock, \$1.50 par value; 2,500,000 shares authorized;

1,713,664 and 1,431,764 shares issued and outstanding

in CY and PY, respectively

Additional paid-in capital

Retained earnings

Accumulated other comprehensive loss

Total stockholders' equity

Total liabilities and stockholders' equity

2,570,496 2,147,646

11,168,057 3,791,803

33,315,439 29,876,252

(789,004) (799,481)

46,264,988 35,016,220

\$ 434,764,282 \$ 387,736,216

**Consolidated Statements of Income**  
**Years-ended December 31, Current Year and Prior Year**

	<u>Current Year</u>	<u>Prior Year</u>
<b><i>Interest income</i></b>		
Loans and fees on loans	\$ 17,859,600	\$ 15,354,813
Federal funds sold	4,676	2,263
Investment securities:		
Taxable	323,607	316,801
Exempt from federal income tax	33,312	41,154
Dividend income	26,673	17,289
Deposits with banks	192,806	115,653
Total interest income	<u>18,440,674</u>	<u>15,847,973</u>
<b><i>Interest expense</i></b>		
Deposits	3,173,883	2,235,751
Federal funds purchased	2,033	3,133
Other borrowings	12,817	13,421
Total interest expense	<u>3,188,733</u>	<u>2,252,305</u>
Net interest income	15,251,941	13,595,668
<b><i>Provision for loan losses</i></b>		
Net interest income after provision for loan losses	<u>470,000</u>	<u>450,000</u>
	<u>14,781,941</u>	<u>13,145,668</u>



***Noninterest income***

Service charges on deposit accounts	743,183	628,389
ATM and debit card	935,269	865,995
Other service charges and fees	340,933	323,261
Mortgage origination fees	758,371	851,950
Commissions on title services	173,367	122,007
Net gain on sale of property and equipment	-	-
Other income	<u>562,942</u>	<u>463,445</u>
Total noninterest income	<u>3,514,065</u>	<u>3,255,047</u>

***Noninterest expense***

Salaries and employee benefits	6,112,110	6,063,844
Occupancy	766,385	723,941
Equipment	760,069	708,127
Foreclosed assets, net	440,265	832,069
Outside services	1,236,527	1,187,291
FDIC insurance premiums and assessment	313,600	253,178
ATM and debit card	660,060	560,536
Franchise tax	232,712	226,585
Telephone and communication	260,875	233,484
Other Professional fees	239,741	112,442
Marketing	375,686	396,049
Other operating expenses	<u>1,649,794</u>	<u>1,725,218</u>
Total noninterest expense	<u>13,047,824</u>	<u>12,910,322</u>
Income before income taxes	5,248,182	3,490,393

***Income tax expense***

Net income	<u>948,668</u>	<u>1,212,218</u>
	<u>\$ 4,299,514</u>	<u>\$ 2,278,175</u>

***Basic earnings per share***

	<u>\$ 2.98</u>	<u>\$ 1.60</u>
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***Diluted earnings per share***

	<u>\$ 2.98</u>	<u>\$ 1.60</u>
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***Basic weighted average shares outstanding***

	<u>1,445,176</u>	<u>1,428,547</u>
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***Diluted weighted average shares outstanding***

	<u>1,445,176</u>	<u>1,428,547</u>
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It's not just  
numbers...

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It tells your Bank's  
story!



# Financial Statements

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Road Map telling us about the Bank's past, where it is now, and where it is headed in the future.

# Who Uses The Information?

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Shareholders

Regulators

Directors

Employees

Customers



**Annual  
Reports**

A vertical decorative bar on the left side of the slide, featuring a gold color and a pattern of embossed financial symbols including the dollar sign (\$), pound sign (£), yen sign (¥), and Euro sign (€).

# Bank Financial Statements

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- Report of Condition
- Balance Sheet
- “Snapshot In Time”



# Report of Condition Balance Sheet

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The Balance Sheet of a Bank shows its Assets, Liabilities, and Stockholders' Equity.

# Assets = OWN

Example: Cash, Loans

Assets are uses of funds

	<u>Current Year</u>	<u>Prior Year</u>
<b>Assets</b>		
Cash and due from banks	\$ 7,385,958	\$ 6,535,297
Interest-bearing deposits with banks	5,533,852	314,101
Federal funds sold	486,000	-
Total cash and cash equivalents	<u>13,405,810</u>	<u>6,849,398</u>
Time deposits with banks	250,000	450,000
Investment securities available for sale	16,061,304	18,610,702
Restricted equity securities	399,801	617,501
Loans held for sale	316,721	453,287
Loans, net of allowance for loan losses of \$3,393,168 in CY and \$3,142,404 in PY	380,403,793	337,665,197
Property and equipment, net	11,901,381	11,462,988
Accrued income	1,184,005	1,039,097
Foreclosed assets	4,230,724	3,634,555
Other assets	6,610,743	6,953,491
Total assets	<u>\$ 434,764,282</u>	<u>\$ 387,736,216</u>

# Liabilities = OWE

## Example: Deposits

### Liabilities are sources of funds

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#### *Liabilities*

Noninterest-bearing deposits	\$ 42,609,701	\$ 40,000,956
Interest-bearing deposits	<u>342,704,290</u>	<u>300,999,123</u>
Total deposits	385,313,991	341,000,079
Federal funds purchased	-	2,103,000
Other borrowings	-	6,000,000
Accrued interest payable	464,878	251,450
Other liabilities	<u>2,720,425</u>	<u>3,365,467</u>
Total liabilities	<u>388,499,294</u>	<u>352,719,996</u>



# Equity = OWNERS

Example: Common Stock  
Investors

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## *Stockholders' equity*

Common stock, \$1.50 par value; 2,500,000 shares authorized;

1,713,664 and 1,431,764 shares issued and outstanding

in CY and PY, respectively

Additional paid-in capital

Retained earnings

Accumulated other comprehensive loss

Total stockholders' equity

Total liabilities and stockholders' equity

2,570,496

2,147,646

11,168,057

3,791,803

33,315,439

29,876,252

(789,004)

(799,481)

46,264,988

35,016,220

\$ 434,764,282

\$ 387,736,216



**Assets = Liabilities + Equity**

This is called the accounting equation.

Balance Sheet Must Balance!

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<b>Assets</b>	
Cash and due from banks	\$ 7,385,958
Interest-bearing deposits with banks	5,533,852
Federal funds sold	<u>486,000</u>
Total cash and cash equivalents	13,405,810
Time deposits with banks	250,000
Investment securities available for sale	16,061,304
Restricted equity securities	399,801
Loans held for sale	316,721
Loans, net of allowance for loan losses of \$3,393,168 in 2018 and \$3,142,404 in 2017	380,403,793
Property and equipment, net	11,901,381
Accrued income	1,184,005
Foreclosed assets	4,230,724
Other assets	<u>6,610,743</u>
<b>Total assets</b>	✓ <b>\$ 434,764,282</b>

#### **Liabilities and Stockholders' Equity**

<i>Liabilities</i>	
Noninterest-bearing deposits	\$ 42,609,701
Interest-bearing deposits	<u>342,704,290</u>
Total deposits	385,313,991
Federal funds purchased	-
Other borrowings	-
Accrued interest payable	464,878
Other liabilities	<u>2,720,425</u>
Total liabilities	<u>388,499,294</u>
Commitments and contingencies	-
<i>Stockholders' equity</i>	
Common stock, \$1.50 par value; 2,500,000 shares authorized; 1,713,664 and 1,431,764 shares issued and outstanding in 2018 and 2017, respectively	2,570,496
Additional paid-in capital	11,168,057
Retained earnings	33,315,439
Accumulated other comprehensive loss	<u>(789,004)</u>
Total stockholders' equity	46,264,988
<b>Total liabilities and stockholders' equity</b>	✓ <b>\$ 434,764,282</b>

# Income Statement

The income statement lists all categories of income and expenses. This statement details the financial performance and determines the amount of profit (loss).

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# Income Statement Components

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Exercise to mark  
the components

- + Interest Income
- Interest Expense
- = Net Interest Income
- Provision for loan losses
- + Non-interest income
- Non-interest expense
- = Income before income tax
- Income Taxes
- = Net income (loss)

**MUF BANK**  
**Consolidated Statements of Income**  
**Years-ended December 31, Current Year and Prior Year**

	<u>Current Year</u>
<b>1 Interest income</b>	
Loans and fees on loans	\$ 17,859,600
Federal funds sold	4,676
Investment securities:	
Taxable	323,607
Exempt from federal income tax	33,312
Dividend income	26,673
Deposits with banks	192,806
+ Total interest income	<u>18,440,674</u>
<b>2 Interest expense</b>	
Deposits	3,173,883
Federal funds purchased	2,033
Other borrowings	12,817
- Total interest expense	<u>3,188,733</u>
= Net interest income <b>3</b>	15,251,941
<b>4 Provision for loan losses</b>	470,000
= Net interest income after provision for loan losses <i>subtotal</i>	<u>14,781,941</u>
<b>5 Noninterest income</b>	
Service charges on deposit accounts	743,183
ATM and debit card	935,269
Other service charges and fees	340,933
Mortgage origination fees	758,371
Commissions on title services	173,367
Net gain on sale of property and equipment	-
Other income	562,942
+ Total noninterest income	<u>3,514,065</u>
<b>6 Noninterest expense</b>	
Salaries and employee benefits	6,112,110
Occupancy	766,385
Equipment	760,069
Foreclosed assets, net	440,265
Outside services	1,236,527
FDIC insurance premiums and assessment	313,600
ATM and debit card	660,060
Franchise tax	232,712
Telephone and communication	260,875
Other Professional fees	239,741
Marketing	375,686
Other operating expenses	1,649,794
- Total noninterest expense	<u>13,047,824</u>
<i>sub +5 - 6</i> <i>total</i> = Income before income taxes <b>7</b>	5,248,182
<b>8 Income tax expense</b>	948,668
= Net income <b>9</b>	<u>\$ 4,299,514</u>

①

**Interest income**

Loans and fees on loans

Federal funds sold

Investment securities:

    Taxable

    Exempt from federal income tax

    Dividend income

Deposits with banks

④ Total interest income

	<u>Current Year</u>	<u>Prior Year</u>
\$	17,859,600	\$ 15,354,813
	4,676	2,263
	323,607	316,801
	33,312	41,154
	26,673	17,289
	<u>192,806</u>	<u>115,653</u>
	<u>18,440,674</u>	<u>15,847,973</u>

②

*Interest expense*

Deposits

3,173,883

2,235,751

Federal funds purchased

2,033

3,133

Other borrowings

12,817

13,421

- Total interest expense

3,188,733

2,252,305

= Net interest income

15,251,941

13,595,668

③



④

*Provision for loan losses*

= Net interest income after provision for loan losses *subtotal*

<u>470,000</u>	<u>450,000</u>
<u>14,781,941</u>	<u>13,145,668</u>

YEARS-ENDED DECEMBER 31, CURRENT YEAR AND PRIOR YEAR

	<u>Current Year</u>	<u>Prior Year</u>
<b>① Interest income</b>		
Loans and fees on loans	\$ 17,859,600	\$ 15,354,813
Federal funds sold	4,676	2,263
Investment securities:		
Taxable	323,607	316,801
Exempt from federal income tax	33,312	41,154
Dividend income	26,673	17,289
Deposits with banks	<u>192,806</u>	<u>115,653</u>
+ Total interest income	<u>18,440,674</u>	<u>15,847,973</u>
<b>② Interest expense</b>		
Deposits	3,173,883	2,235,751
Federal funds purchased	2,033	3,133
Other borrowings	<u>12,817</u>	<u>13,421</u>
- Total interest expense	<u>3,188,733</u>	<u>2,252,305</u>
= Net interest income <b>③</b>	15,251,941	13,595,668
<b>④ Provision for loan losses</b>	<u>470,000</u>	<u>450,000</u>
= Net interest income after provision for loan losses <i>subtotal</i>	<u>14,781,941</u>	<u>13,145,668</u>

⑤

*Noninterest income*

Service charges on deposit accounts	743,183
ATM and debit card	935,269
Other service charges and fees	340,933
Mortgage origination fees	758,371
Commissions on title services	173,367
Net gain on sale of property and equipment	-
Other income	562,942
+ Total noninterest income	<u>3,514,065</u>

6

**Noninterest expense**

Salaries and employee benefits	6,112,110
Occupancy	766,385
Equipment	760,069
Foreclosed assets, net	440,265
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Telephone and communication	260,875
Other Professional fees	239,741
Marketing	375,686
Other operating expenses	1,649,794
<b>Total noninterest expense</b>	<b>13,047,824</b>

6.1.1

✓ = Net interest income after provision for loan losses *subtotal* 14,781,941

⑤ **Noninterest income**

Service charges on deposit accounts	743,183
ATM and debit card	935,269
Other service charges and fees	340,933
Mortgage origination fees	758,371
Commissions on title services	173,367
Net gain on sale of property and equipment	-
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+ <b>Total noninterest income</b>	<u>3,514,065</u>

⑥ **Noninterest expense**

Salaries and employee benefits	6,112,110
Occupancy	766,385
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Telephone and communication	260,875
Other Professional fees	239,741
Marketing	375,686
Other operating expenses	1,649,794
- <b>Total noninterest expense</b>	<u>13,047,824</u>

*subtotal*  
*+ 5 - 6* = **Income before income taxes** ⑦ 5,248,182

Subtotal  
+ 5 - 6 = Income before income taxes (7)

(8) *Income tax expense* -  
= Net income (9)

	<u>5,248,182</u>	-
	948,668	-
\$	<u>4,299,514</u>	\$

# Trends Tell A Story

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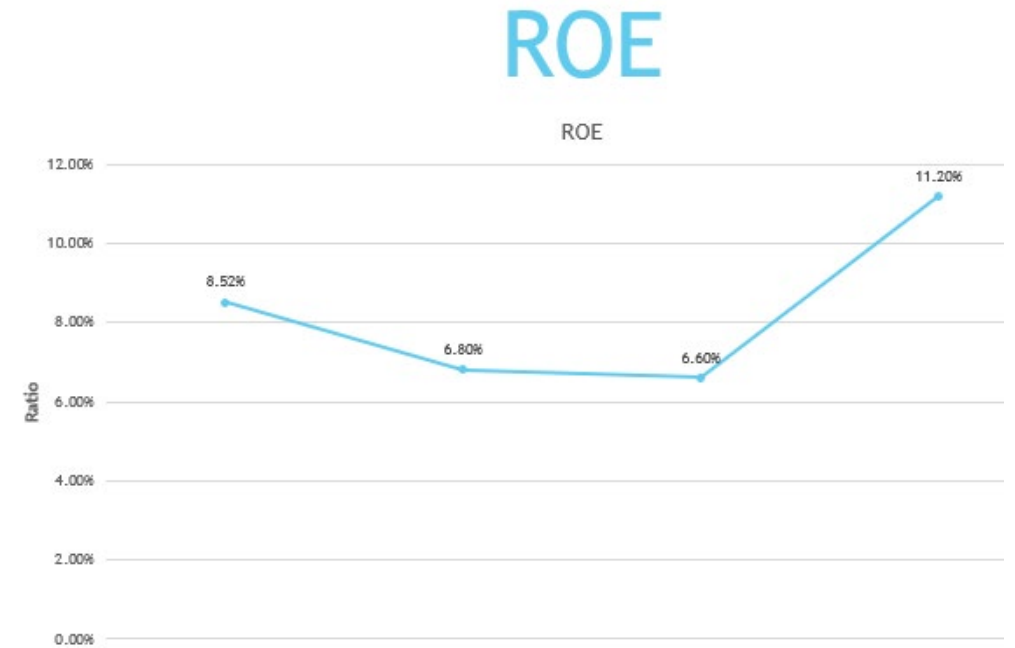
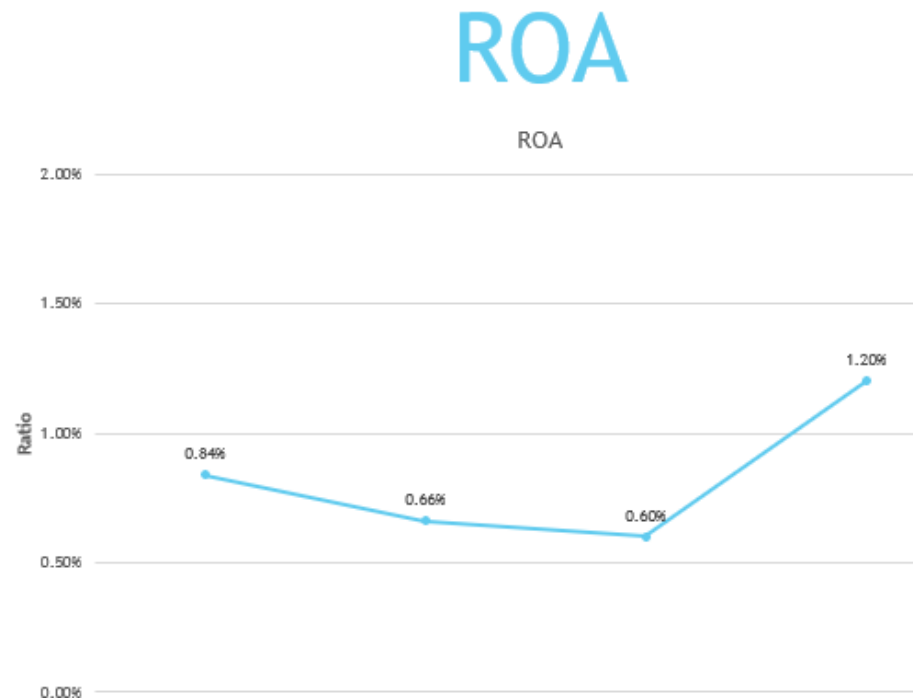
	CY	PY	PPY
<b>Selected Ratios</b>			
Return on average assets	1.2%	0.6%	0.7%
Return on average equity	11.2%	6.6%	6.8%
Dividends declared as a percent of net income	20.0%	35.1%	30.4%

# Trend Analysis with Graphs

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## Profitability Ratios

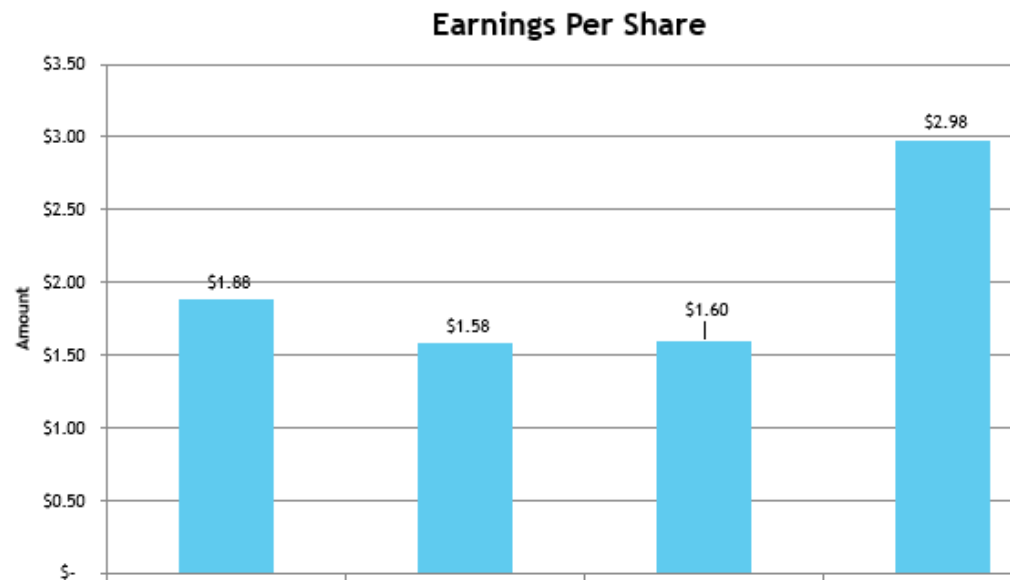
The higher the percent, the better.





# Trend Analysis with Graphs

## Earnings Per Share

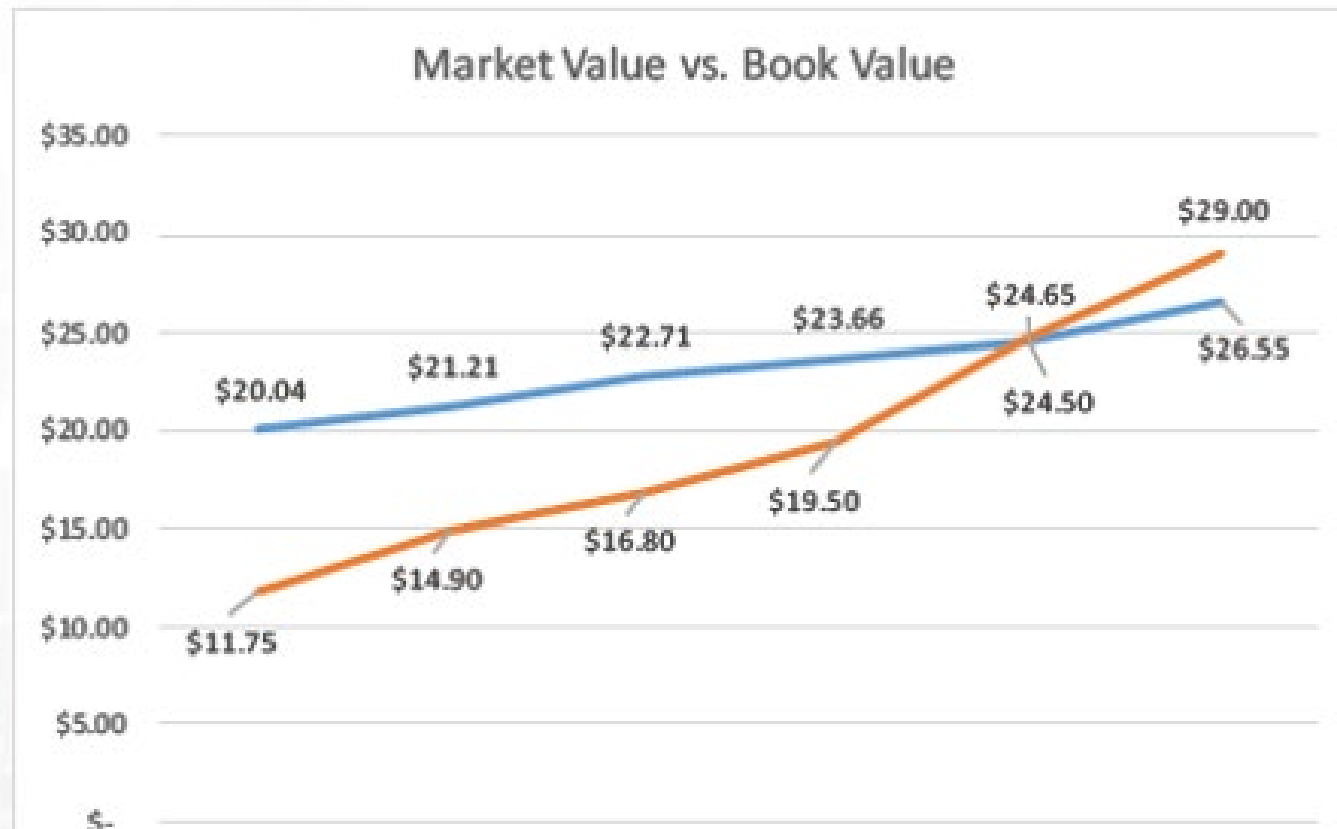


## Growth Rates



# Trends for Stock

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# Audit Opinion

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## Unqualified Opinion (Issuers) Opinion Paragraph:



- The name of the publicly traded company that is being audited
- The date of the report or the period in which the auditors are covering.
- Reference should be made to United States Generally Accepted Accounting Principles (GAAP).
- A statement indicating that all statements within the financial statements are being audited.
- An opinion that the financial statements are prepared fairly, in accordance with the applicable financial reporting framework. Additionally, the opinion paragraph should explicitly state the financial reporting framework that is being applied.

# How Do The Financials Influence Organizational Goals?

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The Bank's financials can typically show if the Bank is in growth mode or steady pace mode.

One can determine if a bank is hiring based on the increase in salaries on the income statement.



# How Do The Financials Influence Organizational Goals?

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A large increase in depreciation expense may reflect addition of bank branches or facilities.

A large increase in common shares of stock issued may indicate a capital raise such as issuance of new shares of stock.



# Letter to the Shareholders: Read about Goals and Accomplishments

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**Bank of Botetourt**

To our Shareholders, Customers and Friends,

The year 2020 has been a challenging time for many, our Bank included. As of late February 2020, no one could have imagined the worldwide impact due to COVID-19 and the resulting economic impacts associated with the pandemic. Our thoughts continue to go out to our customers and communities, as well as our first responders and health care workers, who have been most impacted by this crisis.

We cannot overstate the courage, dedication, and commitment of our team at Bank of Botetourt. During this pandemic we managed to keep all fourteen of our offices open, while keeping our customers and employees safe by implementing social distancing protocols and controlled lobby access. Our branches, along with our two support offices, continued providing timely and seamless customer service. Our robust commitment to technology enabled our Bank to accommodate as many as 30% of our staff with the opportunity to work remotely from home. Our Bank had no COVID-19-related layoffs, and the Human Resources Department continues to work with local health departments in our various markets to enroll eligible employees for the COVID-19 vaccine.

Our Bank went to great lengths to provide needed assistance and continuance of services to our customer base and communities. During branch and work schedule adjustments, we were able to provide loans to customers through the Paycheck Protection Program ("PPP") initiated by the U.S. Department of the Treasury. During 2020, the Bank processed and received approval from the U.S. Small Business Administration on 488 applications for \$30.1 million. As of December 31, 2020, our Bank had 421 PPP loans totaling \$26.2 million remaining in its loan portfolio. Our team of employees worked nights, weekends, and holidays to ensure our customers received this critical funding necessary to support over 4,700 jobs. Our Bank provided PPP loans to many who could not get assistance from their current bank, while servicing every existing customer who had need of assistance. We came together as a team to get this accomplished, even with staff from non-loan departments assisting.



# Segment 1: Action Items

Read the letter to your shareholders from your CEO.

What is your Bank's total assets? (balance sheet)

How much money did your Bank make in the prior year?  
(income statement)

Will your Bank surpass that amount this year?

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What percent are your loans growing?

What percent are your deposits growing?