

# ANALYZING BANK PERFORMANCE

# Key Topics

- An Overview of the Balance Sheets and Income Statements of Banks
- The Balance Sheet or Report of Condition
  - Asset Items
  - Liability Items
- Components of the Income Statement: Revenues and Expenses
- Stock Values and Profitability Ratios
- Measuring Credit, Liquidity, and Other Risks
- The UBPR and Comparing Performance

# Bank Financial Statements

- Report of Condition – Balance Sheet
- Report of Income – Income Statement

# Key Items on Bank Financial Statements

## The Balance Sheet (Report of Condition)

### Assets—Uses of Funds (includes financial outputs)

Cash and deposits in other institutions (primary reserves) (C)  
 Securities to provide liquidity (secondary reserves) and for investment (the income-generating portion) (S)  
 Loans and leases (L)  
 Miscellaneous assets (buildings, equipment, etc.) (MA)

### Liabilities & Equity—Sources of Funds (includes financial inputs)

Deposits (demand, NOWs, money market, savings, and time) (D)  
 Nondeposit borrowings (NDB)  
 Equity capital from shareholders (stock, surplus, and retained earnings) (EC)

Note: Total sources of funds must equal total uses of funds (Total assets = Total liabilities + Equity capital).

## The Income Statement or Statement of Earnings and Expenses (Report of Income)

### Revenues (financial outputs from making use of funds and other resources to produce and sell services)

Interest income from loans and security investments  
 Noninterest income (fee income from miscellaneous sources)

### Expenses (financial inputs—the cost of acquiring funds and other resources needed for the sale of services)

Interest paid on deposits  
 Interest paid on nondeposit borrowings  
 Salaries and wages (employee compensation)  
 Overhead expense  
 Provision for possible loan losses (allocations to reserves for loan losses)  
 Miscellaneous expenses

### Pretax net operating income (revenues – expenses listed above)

Taxes  
 Gains or losses from trading in securities

### Net income (Pretax net operating income – taxes + securities gains – securities losses)

Note: Total revenues minus Total expenses equal Net earnings (Net income).

# Report of Condition

- The Balance Sheet of a Bank Showing its Assets, Liabilities and Net Worth at a given point in time
- May be viewed as a list of financial inputs (sources of funds) and outputs (uses of funds)

# Report of Condition (Balance Sheet) for BB&T (Year-End 2008 and 2009)

<b>BB&amp;T Corporation</b>		
Financial data is from the FDIC website for the Bank Holding Company. The dollar amounts represent combined amounts for all FDIC-insured bank and thrift subsidiaries and do <i>not</i> reflect nondeposit subsidiaries or parent companies.		
<b>Date</b>		
<b>Report of Condition (Note: Dollar figures in thousands)</b>	<b>12/31/2009</b>	<b>12/31/2008</b>
<b>Total assets</b>	<b>\$165,764,218</b>	<b>\$152,015,025</b>
Cash and due from depository institutions	1,623,978	1,686,586
Securities	33,252,255	32,363,928
Federal funds & reverse repurchase agreements	397,592	350,380
Gross loans and leases	106,207,386	98,668,626
(less) Loan loss allowance	2,600,670	1,574,079
(less) Unearned income	0	54,244
Net loans and leases	103,606,716	97,094,547
Trading account assets	1,098,289	1,187,305
Bank premises and fixed assets	1,582,808	1,580,037
Other real estate owned	1,623,417	558,263
Goodwill and miscellaneous other assets	21,681,734	16,112,189
<b>Total liabilities and capital</b>	<b>\$165,764,218</b>	<b>\$152,015,025</b>
Total liabilities	149,523,597	135,933,616
Total deposits	114,991,286	98,655,439
Federal funds purchased & repurchase agreements	2,767,917	3,012,481
Trading liabilities	734,048	888,386
Other borrowed funds	17,310,621	16,315,465
Subordinated debt	7,969,692	7,612,589
All other liabilities	5,750,483	9,449,306
Total equity capital	\$ 16,190,879	\$ 16,037,182
Perpetual preferred stock	0	3,082,340
Common stock	3,448,749	2,796,242
Surplus	5,620,340	3,509,911
Undivided profits (retained earnings)	7,539,696	7,380,465
Miscellaneous equity capital components	-417,906	-731,776

$$C + S + L + MA = D + NDB + EC$$

C = Cash Assets

S = Security Holdings

L = Loans

MA = Miscellaneous Assets

D = Deposits

NDB = Nondeposit  
Borrowings

EC = Equity Capital

# Cash Assets

- Account is Called Cash and Deposits Due from Bank
- Includes:
  - Vault Cash
  - Deposits with Other Banks (Correspondent Deposits)
  - Cash Items in Process of Collection
  - Reserve Account with the Federal Reserve
- Sometimes Called Primary Reserves



# Securities: The Liquid Portion

- Often Called Secondary Reserves
- Include:
  - Short Term Government Securities
  - Privately Issued Money Market Securities
    - Interest Bearing Time Deposits
    - Commercial Paper

# Investment Securities

- These are the Income Generating Portion of Securities
- Taxable Securities
  - U.S. Government Notes
  - Government Agency Securities
  - Corporate Bonds
- Tax-Exempt Securities
  - Municipal Bonds

# Trading Account Assets

- Securities purchased to Provide Short-Term Profits from Short-Term Price Movements
- When the Bank Acts as a Securities Dealer
- Valued at Market – FASB 115

# Federal Funds Sold and Reverse Repurchase Agreements

- A Type of Loan Account
- Generally Overnight Loans
- Federal Funds Sold – Funds Come from the Deposits at the Federal Reserve
- Reverse Repurchase Agreements – Bank Takes Temporary Title to Securities Owned by Borrower

# Loan Accounts

- The Major Asset
- Gross Loans – Sum of All Loans
- Allowance for Possible Loan Losses
  - Contra Asset Account
  - For Potential Future Loan Losses
- Net Loans
- Unearned Discount Income
- Nonperforming Loans

# Types of Loans

- Commercial and Industrial Loans
- Consumer Loans (Loans to Individuals)
- Real Estate Loans
- Financial Institution Loans
- Foreign Loans
- Agriculture Production Loans
- Security Loans
- Leases

# Allowance for Loan Losses

Beginning ALL

+ Provision for Loan Loss (Income Statement)

= Adjusted Allowance for Loan Losses

- Actual Charge-Offs

+ Recoveries from Previous Charge-Offs

= Ending Allowance for Loan Losses

# Specific and General Reserves

- Specific Reserves
  - Set Aside to Cover a Particular Loan
  - Designate a Portion of ALL or
  - Add More Reserves to ALL
- General Reserves
  - Remaining ALL
- Determined by Management But Influenced by Taxes and Government Regulation
- Loans to Lesser Developed Countries Require Allocated Transfer Reserves



# Miscellaneous Assets

- Bank Premises and Fixed Assets
- Other Real Estate Owned (OREO)
- Goodwill and Other Intangibles

# Deposit Accounts

- Non interest–Bearing Demand Deposits
- Savings Deposits
- Now Accounts
- Money Market Deposit Accounts (MMDA)
- Time Deposits

# Nondeposit Borrowings

- Fed Funds Purchased
- Securities Sold Under Agreement to Repurchase (Repurchase Agreements)
- Acceptances Outstanding
- Eurocurrency Borrowings
- Subordinated Debt
- Limited Life Preferred Stock
- Other Liabilities

# Equity Capital

- Preferred Stock
- Common Stock
  - Common Stock Outstanding
  - Capital Surplus
  - Retained Earnings (Undivided Profits)
  - Treasury Stock
  - Contingency Reserve

# The Composition of Bank Balance Sheets (Percentage Mix of Sources and Uses of Funds for (Year-End 2009))

	Percentage of Total Assets for:			
	All U.S. Insured Banks	U.S. Banks with Less than \$100 Million in Total Assets	U.S. Banks with \$100 Million to \$1 Billion in Total Assets	U.S. Banks with More than \$1 Billion in Total Assets
<b>Assets, Liabilities, and Equity Capital Items</b>				
<b>Total assets</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>
Cash and due from depository institutions	8.25	8.99	6.50	8.42
Interest-bearing balances	6.46	5.09	4.22	6.71
Securities	18.57	21.46	18.74	18.52
Federal funds sold & reverse repurchase agreements	3.39	3.30	1.76	3.56
Net loans & leases	53.04	60.79	66.48	51.52
Loan loss allowance	1.80	1.05	1.30	1.87
Trading account assets	5.96	0.00*	0.05	6.66
Bank premises and fixed assets	0.93	1.82	1.94	0.82
Other real estate owned	0.30	0.68	0.09	0.24
Goodwill and other intangibles	3.44	0.33	0.52	3.78
All other assets	6.11	2.62	3.11	6.48
Life insurance assets	0.94	0.57	0.80	0.96
<b>Total liabilities and capital</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>	<b>100.00</b>
<b>Total liabilities</b>	<b>88.78</b>	<b>88.40</b>	<b>90.36</b>	<b>88.63</b>
Total deposits	70.36	84.17	82.61	68.84
Interest-bearing deposits	57.13	70.30	70.76	55.53
Deposits held in domestic offices	57.44	84.17	82.53	54.50
% insured (estimated)	53.55	89.01	83.12	49.39
Federal funds purchased & repurchase agreements	4.65	0.60	1.81	5.01
Trading liabilities	2.14	0.00*	0.00*	2.39
Other borrowed funds	7.86	3.02	5.06	8.22
Subordinated debt	1.31	0.00*	0.06	1.45
All other liabilities	2.46	0.61	0.72	2.66
Equity capital	11.22	11.60	9.74	11.18
Perpetual preferred stock	0.05	0.0*	0.06	0.05
Common stock	0.39	1.84	1.14	0.29
Surplus	8.39	5.43	4.83	8.80
Undivided profits	2.22	4.28	3.71	2.03

# Off-Balance-Sheet Items

- Unused Commitments
- Standby Credit Agreements
- Derivative Contracts
  - Futures Contracts
  - Options
  - Swaps
- OBS Transactions Exposure a Firm to Counterparty Risks

# Examples of Off-Balance-Sheet Items Reported by FDIC-Insured Banks

Examples of Off-Balance-Sheet Items Reported by U.S. Banks Arranged by Size Group (in thousands of dollars) on December 31, 2009

Examples of Off-Balance-Sheet Items	Total Volume At All FDIC-Insured Banks	FDIC-Insured Banks Under \$100 Million in Total Assets	FDIC-Insured Banks from \$100 Million to \$1 Billion in Total Assets	FDIC-Insured Banks Over \$1 Billion in Total Assets
<b>Total Unused Loan Commitments</b>	\$ 5,403,446,468	\$ 24,461,604	\$ 266,822,358	\$ 5,112,162,506
<b>Derivatives:</b>				
Derivatives	236,362,309,107	430,238	22,852,503	236,339,026,366
Notional Amount of Credit Derivatives	14,472,182,181	0	28,014	14,472,154,167
Bank is Guarantor	7,087,433,101	0	24,499	7,087,408,602
Bank is Beneficiary	7,384,749,080	0	3,515	7,384,745,565
Interest rate contracts (i.e., interest—rate swaps, futures, options)	196,526,148,120	422,721	22,632,044	196,503,093,355
Foreign exchange rate contracts (i.e., currency swaps, commitments to purchase, and currency options)	22,531,665,912	0	35,291	22,531,630,621
Contracts on other commodities and equities (i.e., other swaps, futures, and options on commodities and equities)	2,832,312,894	7,517	157,154	2,832,148,223
<b>Total Off-Balance-Sheet Items Reported Here</b>	<b>241,765,755,575</b>	<b>24,891,842</b>	<b>289,674,861</b>	<b>241,451,188,872</b>
<b>Total Assets Shown on Balance Sheet</b>	<b>11,843,498,226</b>	<b>141,339,005</b>	<b>1,111,521,919</b>	<b>10,590,637,302</b>
Off-balance-sheet items divided by assets (in percent)	2017%	18%	26%	2295%

# Possible Issues

- The Problem with Book-Value Accounting
  - Original (historical, book-value) cost
  - Amortized cost
  - Market-value
  - Held-to-maturity and available-for-sale securities
- Window Dressing
- Auditing Financial Statements
  - Audit Committees
  - Sarbanes-Oxley Accounting Standards Act



# Report of Income

- The Statement of Revenues, Expenses and Profits for a Bank Over a Period of Time
- Shows how much it has cost to acquire funds and to generate revenues from the uses of funds in Report of Conditions
- Shows the revenues (cash flow) generated by selling services to the public
- Shows net earnings after all costs are deducted from the sum of all revenues

# Income Statement

Net Interest Income  
– Provision for Loan Loss  
Net Income After PLL  
+ / – Net Noninterest Income  
Net Income Before Taxes  
Taxes  
Net Income  
– Dividends  
Undivided Profits

# Report of Income (Income Statement) for BB&T (2008 and 2009)

Financial data is from the FDIC website for the bank holding company. (The dollar amounts represent combined amounts for all FDIC-insured bank and thrift subsidiaries, and do not reflect nondeposit subsidiaries or parent companies.) Note: All figures are expressed in thousands of dollars.

<b>Report of Income</b>	<b>2009</b>	<b>2008</b>	
Total interest income	\$7,003,404	\$7,290,250	} Financial inflows
Total interest expense	2,040,010	2,968,594	} Financial outflows
Net interest income	4,963,394	4,321,656	
Provision for loan and lease losses	2,799,398	1,423,033	} Noncash financial outflows
Total noninterest income	3,480,685	3,058,826	
Fiduciary activities	138,897	147,108	} Financial inflows
Service charges on deposit accounts	689,973	672,924	
Trading account gains & fees	89,139	98,529	
Additional noninterest income	2,562,727	2,140,265	
Total noninterest expense	4,689,516	3,901,830	
Salaries and employee benefits	2,516,792	2,205,380	} Financial outflows
Premises and equipment expense	579,188	512,745	
Additional noninterest expense	1,593,536	1,183,705	
Pretax net operating income	1,154,511	2,125,118	
Securities gains (losses)	199,346	106,532	} Financial outflows (if negative)
Applicable income taxes	158,815	549,984	} Financial outflows
Income before extraordinary items	853,783	1,518,623	
Extraordinary gains (losses)—net	0	0	} Financial inflows
Net income	853,783	1,518,623	

# Net Interest Income = Interest Income – Interest Expenses

- Interest and Fees on Loans
- Taxable Securities Revenue
- Tax-Exempt Securities Revenue
- Other Interest Income
- Deposit Interest Costs
- Interest on Short-Term Debt
- Interest on Long-Term Debt

# Net Noninterest Income = Noninterest Income – Noninterest Expenses

- Fees Earned from Fiduciary Activities
- Service Charges on Deposit Accounts
- Trading Account Gains and Fees
- Additional Noninterest Income
- Wages, Salaries, and Employee Benefits
- Premises and Equipment Expense
- Other Operating Expenses

# Fees Earned from Fiduciary Activities

- Fees for Managing Protecting a Customer's Property
- Fees for Record Keeping for Corporate Security Transactions and Dispensing Interest and Dividend Payments
- Fees for Managing Corporate and Individual Pension and Retirement Plans

# Service Charges on Deposit Accounts

- Checking Account Maintenance Fees
- Checking Account Overdraft Fees
- Fees for Writing Excessive Checks
- Savings Account Overdraft Fees
- Fees for Stopping Payment of Checks

# Trading Account Gains and Fees

- Net Gains and Losses from Trading Cash Instruments and Off Balance Sheet Derivative Contracts That Have Been Recognized During the Accounting Period



# Additional Noninterest Income

- Investment Banking, Advisory, Brokerage and Underwriting
- Venture Capital Revenue
- Net Servicing Fees
- Net Securitization Income
- Insurance Commission Fees and Income
- Net Gains (Losses) on Sales of Loans
- Net Gains (Losses) on Sales of Real Estate
- Net Gains (Losses) on the Sales of Other Assets

# The Composition of Bank Income Statements (Percentage of Total Assets Measured as of Year-End 2009)

Income and Expense Items	Percentage of Total Assets for:			
	All U.S. Insured Banks	U.S. Banks with Less than \$100 Million in Total Assets	U.S. Banks with \$100 Million to \$1 Billion in Total Assets	U.S. Banks with \$1 Billion or More in Total Assets
Total interest income	4.07%	4.97%	5.00%	3.96%
Total interest expense	1.03	1.50	1.65	0.76
Net interest income	3.04	3.47	3.35	3.00
Provision for loan and lease losses	1.95	0.72	1.21	2.05
Total noninterest income	2.05	0.73	1.00	2.18
Fiduciary activities	0.21	0.08	0.01	0.22
Service charges on deposit accounts	0.35	0.32	0.33	0.35
Trading account gains & fees	0.20	0.00*	0.00*	0.22
Additional noninterest income	1.30	0.33	0.52	1.39
Total noninterest expense	2.98	3.45	3.25	2.95
Salaries and employee benefits	1.28	1.73	1.52	1.24
Premises and equipment expense	0.35	0.42	0.40	0.35
Additional noninterest expense	1.36	1.30	1.33	1.36
Pretax net operating income	0.15	0.02	0.11	0.18
Securities gains (losses)	-0.01	0.03	0.02	-0.01
Applicable income taxes	0.03	0.05	0.02	0.03
Income before extraordinary items	0.11	0.00*	-0.11	0.13
Extraordinary gains—net	0.03	0.00*	0.00*	-0.09
Net income	0.07	-0.00*	-0.11	0.09

# Key Profitability Ratios in Banking

$$\text{Return on Equity Capital (ROE)} = \frac{\text{Net Income}}{\text{Total Equity Capital}}$$

$$\text{Return on Assets (ROA)} = \frac{\text{Net Income}}{\text{Total Assets}}$$

$$\text{Net Interest Margin} = \frac{(\text{Interest income} - \text{Interest expense})}{\text{Total Assets}} = \frac{\text{Net Interest Income}}{\text{Total Assets}}$$

$$\text{Net Noninterest Margin} = \frac{\text{Noninterest revenue} - \text{PLL} - \text{Noninterest expenses}}{\text{Total Assets}} = \frac{\text{Net Noninterest Income}}{\text{Total Assets}}$$

# Key Profitability Ratios in Banking (cont.)

$$\text{Net Bank Operating Margin} = \frac{\text{Total Operating Revenues} - \text{Total Operating Expenses}}{\text{Total Assets}}$$

$$\text{Earnings Per Share (EPS)} = \frac{\text{Net Income After Taxes}}{\text{Common Equity Shares Outstanding}}$$

$$\text{Earnings Spread} = \frac{\text{Total Interest Income}}{\text{Total Earning Assets}} - \frac{\text{Total Interest Expense}}{\text{Total Interest Bearing Liability}}$$

# Breaking Down ROE

$$\text{ROE} = \text{Net Income} / \text{Total Equity Capital}$$

$$\text{ROA} = \text{Net Income} / \text{Total Assets}$$

$$\text{Equity Multiplier} = \text{Total Assets} / \text{Equity Capital}$$

x

$$\text{Net Profit Margin} = \text{Net Income} / \text{Total Operating Revenue}$$

x

$$\text{Asset Utilization} = \text{Total Operating Revenue} / \text{Total Assets}$$

# ROE Depends On:

- Equity Multiplier= $\text{Total assets} / \text{Total equity capital}$ 
  - Leverage or Financing Policies: the choice of sources of funds (debt or equity)
- Net Profit Margin= $\text{Net income} / \text{Total operating revenue}$ 
  - Effectiveness of Expense Management (cost control)
- Asset Utilization= $\text{Total operating revenue} / \text{Total assets}$ 
  - Portfolio Management Policies (the mix and yield on assets)

## Components of Return on Equity (ROE) for All FDIC-Insured Institutions (1992-2009)

Year	Return on Equity Capital (ROE)	=	Net Profit Margin (NPM) (Net After-Tax Income/Total Revenues)	×	Asset Utilization (AU) (Total Revenues/Total Assets)	×	Equity Multiplier (EM) (Total Assets/ Total Equity Capital)
2009	1.07%	=	1.56%	×	6.12%	×	11.20x
2008	0.31	=	2.38	×	1.38	×	9.36x
2007	7.93	=	10.44	×	7.35	×	10.34x
2006	11.64	=	16.45	×	7.45	×	9.50x
2005	11.92	=	17.91	×	6.85	×	9.72x
2004	13.27	=	19.81	×	6.51	×	9.72x
2003	15.04	=	19.86	×	6.95	×	10.93x
2002	14.11	=	17.10	×	7.60	×	10.87x
2000	13.53	=	12.02	×	9.48	×	11.78x
1998	13.51	=	12.73	×	9.11	×	11.74x
1996	13.31	=	12.21	×	9.01	×	12.17x
1994	13.33	=	12.59	×	8.34	×	12.80x
1992	12.21	=	9.55	×	9.11	×	13.42x

# Breakdown of ROA

Gross interest income ÷ Total assets	← Income from holding assets
– <i>Interest expense</i> ÷ <i>Total assets</i>	← Supply cost of funds for holding assets
= Net interest margin ÷ Total assets	← Return earned because the lending institution's credit quality is better than its customers' credit quality
+ Noninterest income ÷ Total assets	← Income from handling customer transactions
– Noninterest expenses ÷ Total assets	← Cost of operations
– Provision for loan losses ÷ Total assets	← <i>Accrual expense</i>
= Pretax net operating income ÷ Total assets	← Return on assets before taxes
– <i>Income taxes</i> ÷ <i>Total assets</i> <sup>*</sup>	← The financial firm's share of the cost of government services
= Income before extraordinary items ÷ Total assets	← Net income from recurring sources of revenue
+ Extraordinary net gains ÷ Total assets	← Nonrecurring sources of income or loss
= Net income ÷ Total assets (or ROA)	← Earnings left over for the stockholders after all costs are met

<sup>\*</sup>Both income and taxes applicable to income need to be adjusted for any tax-exempt earnings received. One can restate such income on a fully tax-equivalent basis by multiplying the amount of tax-exempt income by the expression  $1 \div (1 - t)$ , where  $t$  is the firm's tax bracket rate.



# Bank Performance Model

**Returns to Shareholders**  
 $ROE = NI / TE$

**INCOME**

**Interest**

**Rate**

**Composition (mix)**

**Volume**

**Non Interest**

**Fees and Serv Charge**

**Trust**

**Other**

**Return to the Bank**  
 $ROA = NI / TA$

**Interest**

**Rate**

**Composition (mix)**

**Volume**

**EXPENSES**

**Overhead**

**Salaries and Benefits**

**Occupancy**

**Other**

**Degree of Leverage**  
 $EM = 1 / (TE / TA)$

**Prov. for LL**

**Taxes**

# Other Goals in Banking

$$\text{Operating Efficiency Ratio} = \frac{\text{Total Operating Expenses}}{\text{Total Operating Revenues}}$$

$$\text{Employee Productivity Ratio} = \frac{\text{Net Operating Income}}{\text{Number of Full Time-Equivalent Employees}}$$

# Bank Risks

- Credit Risk
- Liquidity Risk
- Market Risk
- Interest Rate Risk
- Operational Risk
- Legal and Compliance Risk
- Reputation Risk
- Strategic Risk
- Capital Risk

# Credit Risk

The Probability that Some of the Financial Firm's Assets Will Decline in Value and Perhaps Become Worthless

## Credit Risk Measures

- Nonperforming Loans/Total Loans
- Net Charge-Offs/Total Loans
- Provision for Loan Losses/Total Loans
- Provision for Loan Losses/Equity Capital
- Allowance for Loan Losses/Total Loans
- Allowance for Loan Losses/Equity Capital
- Nonperforming Loans/Equity Capital

# Liquidity Risk

Probability the Financial Firm Will Not Have Sufficient Cash and Borrowing Capacity to Meet Deposit Withdrawals and Other Cash Needs

## Liquidity Risk Measures

- Purchased Funds/Total Assets
- Net Loans/Total Assets
- Cash and Due from Banks/Total Assets
- Cash and Government Securities/Total Assets

# Market Risk: Comprises Price Risk and Interest Rate Risk

Probability of the Market Value of the Financial Firm's Investment Portfolio Declining in Value Due to a Change in Interest Rates

## Market Risk Measures

- Book-Value of Assets / Market Value of Assets
- Book-Value of Equity / Market Value of Equity
- Book-Value of Bonds / Market Value of Bonds
- Market Value of Preferred Stock and Common Stock

# Interest Rate Risk

The Danger that Shifting Interest Rates May Adversely Affect a Bank's Net Income, the Value of its Assets or Equity

## Interest Rate Risk Measures

- Interest Sensitive Assets/Interest Sensitive Liabilities

# Capital Risk

Probability of the Value of the Bank's Assets  
Declining Below the Level of its Total Liabilities.  
The Probability of the Bank's Long Run Survival

## Capital Risk Measures

- Stock Price/Earnings Per Share
- Equity Capital/Total Assets
- Purchased Funds/Total Liabilities
- Equity Capital/Risk Assets



# Off-Balance-Sheet Risk

The Volatility in Income and Market Value of Bank Equity that May Arise from Unanticipated Losses due to OBS Activities (activities that do not have a balance sheet reporting impact until a transaction is affected)

# Operational Risk

Uncertainty Regarding a Financial Firm's Earnings Due to Failures in Computer Systems, Errors, Misconduct by Employees, Floods, Lightning Strikes and Similar Events or Risk of Loss Due to Unexpected Operating Expenses

# Legal and Compliance Risk

Risk of Earnings Resulting from Actions Taken by the Legal System. This can Include Unenforceable Contracts, Lawsuits or Adverse Judgments.  
Compliance Risk Includes Violations of Rules and Regulations

# Reputation Risk

This is Risk Due to Negative Publicity that can Dissuade Customers from Using the Services of the Financial Firm. It is the Risk Associated with Public Opinion.

# Performance Indicators Related to the Size of a Firm, 2007

	Average for All FDIC-Insured Institutions	Depository Institutions Arrayed by Total Assets in the Size Range			
		Under \$100 Million	\$100 Million to \$1 Billion	\$1 Billion to \$10 Billion	Greater than \$10 Billion
Return on assets (ROA)	1.21%	0.86%	1.09%	1.15%	1.24%
Return on equity (ROE)	11.44	6.47	10.43	10.31	11.91
Net operating income to assets	1.18	0.85	1.08	1.14	1.21
Net interest margin	3.32	4.07	3.89	3.67	3.17
Net noninterest margin	-0.85	-2.48	-1.97	-1.39	-1.57
Efficiency ratio	57.56	74.40	65.58	58.35	56.03
Credit loss provision to net charge-offs	113.08	186.87	170.95	149.69	107.27
Net charge-offs to loans	0.45	0.14	0.13	0.25	0.55
Loss allowance to loans	1.08	1.31	1.18	1.17	1.04
Noncurrent assets plus other real estate owned to assets <sup>**</sup>	0.48	0.69	0.52	0.44	0.48
Net loans and leases to deposits	91.17	75.05	84.90	93.62	92.34
Equity capital to assets	10.58	13.24	10.50	9.46	7.66
Yield on earning assets	6.77	6.96	7.10	7.02	6.68
Cost of funding earning assets	3.45	2.89	3.21	3.35	3.51
Noninterest income to earning assets	2.09	1.21	1.16	1.47	2.34

Notes: Data for all U.S. commercial banking and savings institutions whose deposits are FDIC insured.

\*Figures shown are for the first quarters of 2007 and are annualized.

\*\*Figures in this row are for 2006.

## **Appendix: Using Financial Ratios and Other Analytical Tools to Track Financial-Firm Performance – The UBPR and BHCPR**

- **Compared to other financial institutions, more information is available about banks than any other type of financial firm**
- **Through the cooperative effort of four federal banking agencies – the Federal Reserve System, the Federal Deposit Insurance Corporation, the Office of Thrift Supervision, and the Office of the Comptroller of the Currency – the Uniform Bank Performance Report (UBPR) and the Bank Holding Company Performance Report (BHCPR) provide key information for financial analysts**
- **The UBPR, which is sent quarterly to all federally supervised banks, reports each bank's assets, liabilities, capital, revenues, and expenses, and the BHCPR is similar for BHCs**
- **Web link for UBPR and BHCPR: [www.ffiec.gov](http://www.ffiec.gov)**