1 # Bank Performance and Ratio Analysis

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2 ## Ratio Analysis

- **G&K: Chp. 3 (Skip RAROC & EVA)**
- **Overheads**
- **http://www2.fdic.gov/ubpr/**
  - **"View Reports"**
  - **"Uniform Bank Performance Reports"**
  - **Enter Bank Name**
- **www.ffiec.gov**
  - **Handbooks & Catalogs**
  - **UBPR Handbook**
- **UBPR basis of CAMEL Ratings**

3 ## Corporate vs. Fin'l Institution

1
- Corporate
  - Liquidity
  - Asset Utilization
  - Leverage
  - Profitability
- Concentration on use of assets to provide return and continuation

2
- Banks
  - Profitability
  - Capital/Risks
  - Liquidity
- Concentration on risks to provide return, stability and continuation

4 ## Areas of Concentration

- Credit Risk Loans and Secs quality & type
- Liquidity Risk S/T to L/T composition of Assets and Liabs
- Market Risk Int Rate sensitivity of Assets & Liabs (GAP)
- Operating Risk Employee usage and efficiency (A/#Emps, EmpExp/#Emps)
- Legal Risk Lawsuits, Contract Exposure, negative publicity
- Capital/Solvency Risk Eq Capital used and avail vs. Risk categories of usage

5 ## Main Model

- ROE (return on equity)

DuPont: NI/S * S/A * A/Eq

PM * ATO * Lev

ROA * Lev

Banks: NI / (Inc Before Tax, Sec G/L) *
(Inc Before Tax, Sec G/L) / Tot Optg Rev *
Tot Optg Rev / A *

A / Eq
Tax Eff * Exp Eff * Asset Eff * Fund'g Eff

6 ❑ Main Model: Standards

- ◆Corporate: ROE = ROA * Lev
  10-20% = 5-10% * 2
- ◆Banks:
  10-20% = .7 – 1.4% * 14

Tax Eff * Exp Eff * Asset Eff * Fund'g Eff
10-20% =
80% * 20% * 9% * 14 BIG ($750B)
70% * 18% * 7% * 14 Small ($500m)

7 ❑ Return on Assets

◆ROA = NI / A
NI = NII + NNonII - Other Things (OT)
◆ROA =
NII / A + NNonII / A – OT / A
Spread + Burden - OT
4% + -2.25% - 0.75% (Roughly)
Spread = Better credit than customers
Burden = Return from providing Svcs.

8 ❑ Leverage/Credit Risk

- ◆Asset Quality
- ◆Loan Quality/Quantity
- ◆Credit Risk
- ◆Market (Interest-Rate) Risk
  (Later in Gap Analysis)

9 ❑ Leverage/Credit Risk

- ◆Asset Quality
  - – Provision for Loan Losses / Loans (<.2%)
  - – Non-Accruals / Loans (< 1%)
  - – Charge-Offs / Loans (Hopefully < ProvLL)
- ◆Loan Ratios
  - – Loans / Assets (60-80%)
  - – Loans / Deposits (70% Small, 100+% Big)

10 ❑ Credit Risk

- ◆Capital Note Rate vs. Gov't Sec Yld
  - – Should be of same maturity

– Time Series trend, widening ➔ More risk

11 ❑ Liquidity

- ◆Temporary Investments:

  FF sold+Secs<1yr+DueFrom / A
- ◆Volatile Liability Dependency:
  - 1) JumboCDs -TempInvmts / Loans
  - 2) Jumbos+FFPurch / Assets
  - 3) Jumbos+FFPurch / Total Liabs (% of funding)

12 ❑ CAMELS Ratings

- ◆**C** - Capital Adequacy
- ◆**A** - Asset Quality
- ◆**M** - Mgmt Quality, Mgmt & BofD ability and systems (policies & procedures)
- ◆**E** - Earnings, not just quantity, but quality, sustainability
- ◆**L** - Liquidity
- ◆**S** - Sensitivity to market fluctuations, Int rates, FX, Commod prices (thru loans)