



Prifysgol Cymru
Y Drindod Dewi Sant
University of Wales
Trinity Saint David

ANALYSING RISK BANKS FINANCIAL STATEMENTS

Module Leader

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*Trawsnewid Addysg; Trawsnewid Bywydau
Transforming Education; Transforming Lives*



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Overview

- An overview of bank balance sheets and income statements
- The balance sheet or report of condition
 - Asset items
 - Liability items
- The off-balance sheet items
- The income statement items: revenues and expenses
- Statement of stockholders' equity

Bank Financial Statements

- Report of condition – Balance Sheet
- Report of income – Income Statement
- Statement of Stockholders' Equity

Balance Sheet

- 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)

Balance Sheet, Cont.

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

C = Cash Assets

S = Security Holdings

L = Loans

MA = Miscellaneous
Assets

D = Deposits

NDB = Nondeposit
Borrowings

EC = Equity Capital

Cash Assets

- Cash and deposits due from bank
- Includes:
 - Vault cash
 - Deposits with other banks
 - Cash items in process of collection
 - Reserve account
- 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

- Income generating portion of securities
 - Taxable Securities
 - Corporate Bonds
 - Tax-Exempt Securities

Trading Account Assets

- Securities purchased to provide short-term profits from short-term price movements
- When a bank acts as a securities dealer

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

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

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

Miscellaneous Assets

- Bank premises and fixed assets
- Other real estate owned
- Goodwill and other intangibles

Deposit Accounts

- Non interest-bearing demand deposits
- Savings deposits
- Time deposits
- Other deposits

Nondeposit Borrowings

- Securities sold under agreement to repurchase (repurchase agreements)
- Acceptances outstanding
- Other liabilities



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20 MINUTE BREAK

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Equity Capital

- Preferred stock
- Common stock
 - Common stock outstanding
 - Capital surplus
 - Retained earnings
 - Contingency reserve
 - Others

Off-Balance-Sheet Items

- Unused commitments
- Standby credit agreements
- Derivative contracts
 - Futures contracts
 - Options
 - Swaps

Income Statement

- 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, Cont.

$$\text{Net Interest Income} = \text{Interest Income} - \text{Interest Expenses}$$

Interest income includes:

- Interest and Fees on Loans
- Taxable Securities Revenue
- Tax-Exempt Securities Revenue
- Other Interest Income

Interest expenses include:

- Deposit Interest Costs
- Interest on Short-Term Debt
- Interest on Long-Term Debt

Income Statement, Cont.

$$\text{Net Noninterest Income} = \text{Noninterest Income} - \text{Noninterest Expenses}$$

- 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
- Savings account overdraft fees
- Fess 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

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

Statement of Stockholders' Equity

Report showing the changes in the make up of the bank's capital account

Statement of Stockholders' Equity, Cont.

Beginning Capital Account Balance

+/- Net Income for Period

- Preferred Stock Dividends

- Common Stock Dividends

+ New Shares of Stock Issued

Ending Capital Account Balance



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