Continuing Case Assignment for Chapter 6

EVALUATION OF YOUR BANK'S FINANCIAL STATEMENTS

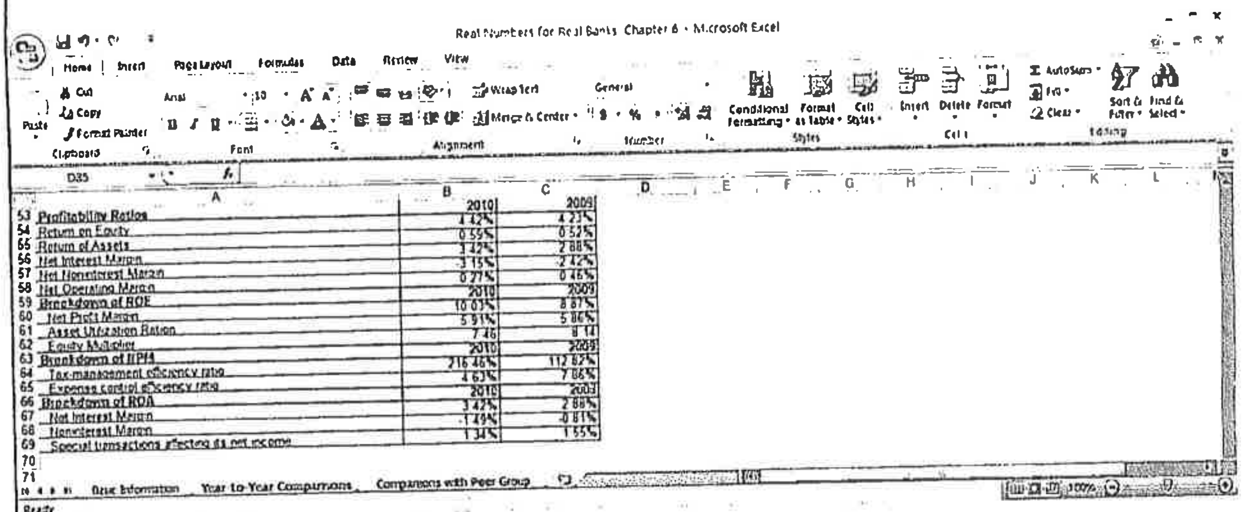
Part A: Comparison across Years Using Volume Data

In Chapter 5, we focused on collecting financial statement information from the FDIC's Statistics for Depository Institutions. Now, you will be using that data to evaluate your BHC.

Calculating dollar changes and percentage changes across years using dollar data and interpreting this information. Open your Excel Workbook and go to the spreadsheet containing dollar amounts for year-to-year comparisons. Delete any numbers in columns D and E. Calculate the dollar changes in column D and the percentage changes in column E for each item. You now have data similar in format to Tables 6–5, 6–6, and 6–8 in the appendix. (Whereas the appendix utilizes the BHCPR data you will be working with the FDIC's SDI data, which utilize slightly different terminology.) Review your data for significant changes in dollar and percentage terms. Create bulleted lists of the most significant changes of (1) uses of funds from the Report of Condition, (2) sources of funds from the Report of Condition, and (3) components of the Report of Income. Include the two most significant changes in dollar amounts and the two most significant percentage changes. See the following example for the evaluation of BB&T's uses of funds.

The most significant dollar changes in uses of funds from 2009 to 2010 for BB&T:

- Net loans and leases increased by almost $818 million.
- The securities portfolio decreased by more than $10 billion.



	A	B	C
		2010	2009
53	Profitability Ratios	4.42%	4.23%
54	Return on Equity	0.59%	0.52%
55	Return of Assets	3.42%	2.88%
56	Net Interest Margin	3.15%	2.42%
57	Net Noninterest Margin	0.27%	0.46%
58	Net Operating Margin	2010	2009
59	Breakdown of ROE	10.03%	8.87%
60	Net Profit Margin	5.91%	5.86%
61	Asset Utilization Ration	7.46	8.14
62	Equity Multiplier	2010	2009
63	Breakdown of NPM	216.46%	112.62%
64	Tax-management efficiency ratio	4.63%	7.86%
65	Expense control efficiency ratio	2010	2003
66	Breakdown of ROA	3.42%	2.88%
67	Net Interest Margin	-1.49%	-0.81%
68	Noninterest Margin	1.34%	1.55%
69	Special transactions affecting net income		
70			
71			

The most significant percentage changes in uses of funds from 2009 to 2010 for BB&T:

- Federal Funds Sold and Reverse Repurchase Agreements grew 140.22 percent.
- The Securities portfolio contracted 30.47 percent.

Part B: Comparison with Peer Institutions Using Composition Data (Percentages of Report of Condition and Income Statement Items to Total Assets)

Open your Excel Workbook and go to the spreadsheet containing items expressed as percentages of assets developed for comparisons with the peer group in Chapter 5's Real Numbers for Real Banks assignment. Your information is very similar to the data provided for BB&T from the BHCPR in Tables 6–7 and 6–9 found in the appendix. In column F subtract the peer group ratios from your BHC ratios for the most recent year. Use this to identify the most significant differences. Create three bulleted lists of the most significant differences between your BHC and its peer group for (1) uses of funds from the Report of Condition, (2) sources of funds from the Report of Condition, and (3) components of the Report of Income. Include the two most significant differences in each list. See the following example for the evaluation of BB&T's uses of funds relative to its peer group for 2010.

(Continued)

Continuing Case Assignment for Chapter 6 (*continued*)

The most significant differences in asset composition for 2010 for BB&T versus its peer group of banks with more than $10 billion in assets:

- BB&T has a higher proportion of net loans and leases—66.64 percent of total assets versus 50.48 percent for the peer group.
- BB&T has a lower proportion of trading account assets to total assets—BB&T has 0.54 percent of its funding invested in trading accounts whereas the peer group has 7.35 percent invested in trading accounts.

Part C: A Trend Analysis of Profitability: A Breakdown of Returns

A. Open the dollar-denominated spreadsheet. Immediately below the income and expense data, add the rows illustrated in the spreadsheet.

B. Calculate the ratios for the most recent year in Column B and then for the prior year in Column C using the formula functions in Excel and the data in rows 1 through 52 to create the entries. For example, the formula for ROE entered in cell B54 would be: "=B52/B27."

C. In rows 54 through 58, calculate the key profitability ratios from Equations (6–4) through (6–9) in the chapter. Write one paragraph comparing profitability across years.

D. Rows 59 through 62 provide the framework for a breakdown of equity returns using Equations (6–14)–(6–17) in this chapter. Write one paragraph discussing the change in ROE using this breakdown. Incorporate the basic equation and interpret the information for your BHC.

E. Rows 63 through 65 call for a breakdown of the net profit margin, as illustrated by Equation (6–18). Write one paragraph discussing the components of net profit margin for your BHC and the implications of the changes occurring across the years.

F. Rows 66 through 69 provide the framework for a breakdown of ROA (Equation (6–20) in this chapter). Write one paragraph discussing the change in ROA and its components for your bank.

Selected References

For an explanation of how to measure and evaluate risk in banking and financial services see, for example:

1. Gilbert, R. Alton, Andrew P. Meyer, and Mark D. Vaughan. "How Healthy is the Banking System? Funneling Financial Data into Failure Probability," *Regional Economist*, Federal Reserve Bank of St. Louis, April 2001, pp. 12–13.
2. Kristad, Jeffrey and Pat Donnelly. "An Examiner's View of Operational Risk," *Bank News*, July 31, 2001, pp. 25–27.

For information on how to read bank financial statements and make comparisons among different financial institutions see especially:

3. Federal Financial Institutions Examination Council. *A User's Guide for the Uniform Bank Performance Report*, Washington, D.C. 2002.
4. Gilbert, R. Alton; and Gregory Sierra. "The Financial Condition of U.S. Banks: How Different Are Community Banks," *Review*, Federal Reserve Bank of St. Louis, January/February 2003, pp. 43–56.
5. Gunther, Jeffrey W.; and Robert R. Moore. "Financial Statements and Reality: Do Troubled Banks Tell All?" *Economic and Financial Review*, Federal Reserve Bank of Dallas, Third Quarter 2000, pp. 30–35.