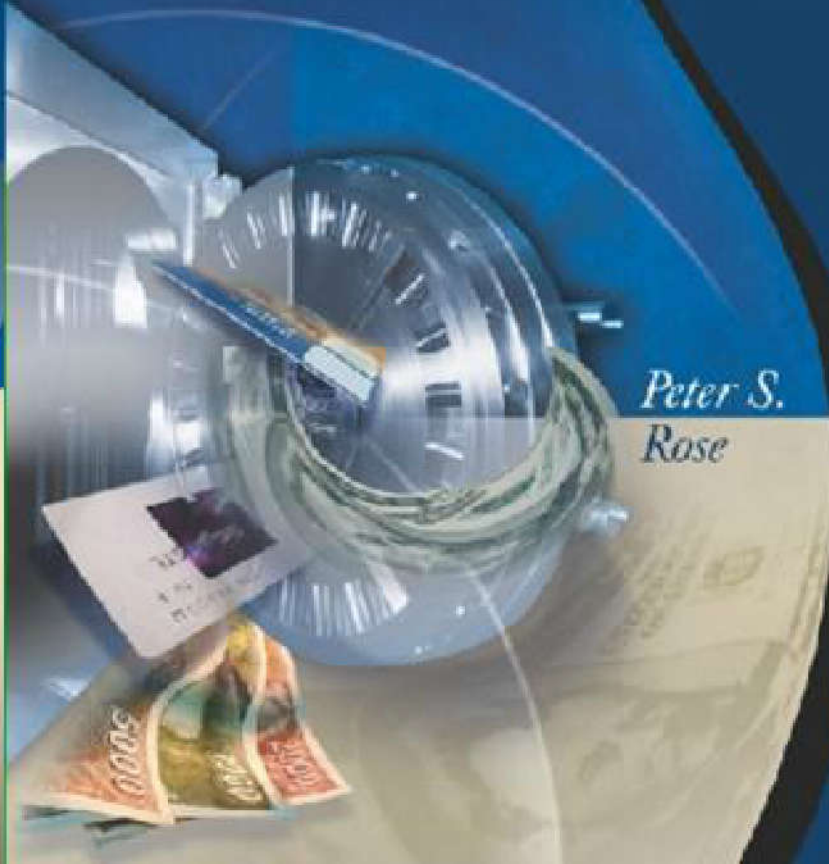


Commercial Bank *Management*

*Peter S.
Rose*



The Financial Statements of a Bank

Chapter 4

The purpose of this chapter is to acquaint the reader with the content, structure and purpose of bank financial statements and to help bank managers understand how information from bank financial statements can be used as tools to reveal how well their banks are performing.

Bank Financial Statements

- Report of Condition – Balance Sheet
- Report of Income – Income Statement
- Sources and Uses of Funds Statement
- Statement of Stockholders' Equity

Report of Condition

The Balance Sheet of a Bank Showing its
Assets, Liabilities and Net Worth

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

C = Cash Assets

S = Security Holdings

L = Loans

MA = Miscellaneous
Assets

D = Deposits

NDB = Nondeposit
Borrowings

CA = Capital Accounts

Cash Assets

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

Security Holdings

- Money Market Securities – Secondary Reserves
- Investment Securities
 - Taxable Securities
 - Nontaxable Securities
- Trading Account Securities
 - Held for Resale Only
 - Valued at Market Value

Loan Accounts

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

Types of Loans

- Commercial and Industrial Loans
- Consumer Loans
- Real Estate Loans
- Financial Institution Loans
- Foreign Loans
- Agriculture Production Loans
- Security Loans
- Leases

Miscellaneous Assets

- Fed Funds Sold
- Securities Purchased Under Agreement to Resell (Repurchase Agreements)
- Customers' Liabilities on Acceptances
- Net Premises and Equipment
- Other Miscellaneous Assets

Deposit Accounts

- Noninterest-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

Capital Accounts

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

Composition of Bank Balance Statements

(Percentage Mix of Bank Sources and Uses of Funds for 1998)

	All Banks %	Bank < \$100 Million %	Banks Between \$100 Mill. - \$1 Bill. %	Banks > \$1 Billion %
Cash and Deposits Due from Banks	6.55	5.55	4.90	6.75
Investment Securities	17.25	26.79	26.31	15.07
Fed Funds Sold and Repos.	5.21	5.56	4.16	5.37
Total Loans and Leases (Net)	59.65	59.37	61.18	59.40
Commercial and Industrial	27.75	16.85	18.36	29.91
Consumer	17.63	14.52	14.12	18.38
Real Estate	41.54	56.03	62.11	37.34
To Depository Institutions	3.01	0.07	0.42	3.60
To Foreign Governments	0.24	0.00	0.03	0.29
Agriculture	1.43	11.50	3.11	0.60
Other Loans	4.54	0.69	1.21	5.23
Leases	3.86	0.34	0.64	4.64
Assets Held in Trading Accounts	5.81	0.01	0.03	7.18
Bank Premises and FA (Net)	1.33	1.86	1.79	1.21
Other Assets	4.20	0.86	1.63	5.02
Total Assets	100.00	100.00	100.00	100.00
Interest Bearing Deposits	54.41	72.88	69.24	50.67
Noninterest Bearing Deposits	13.25	12.69	13.32	13.27
Fed Funds Purchased and Repos.	7.54	0.85	3.23	8.71
Other Liabilities	16.19	2.59	4.50	19.09
Total Equity Capital	8.61	10.99	9.71	8.26
Total Liabilities and Equity	100.00	100.00	100.00	100.00

Copyright © 2002 by The McGraw-Hill Companies, Inc. All rights reserved.

Off-Balance-Sheet Items

- Standby Credit Agreements
- Interest Rate Swaps
- Financial Futures and Options Interest-Rate Contracts
- Loan Commitments
- Foreign Exchange Rate Contracts

Report of Income

The Statement of Revenues, Expenses and
Profits for a Bank

Net Interest Income = Interest Income – Interest Expenses

Interest Income

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

Interest Expenses

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

Net Noninterest Income = Noninterest Income – Noninterest Expenses

Noninterest Income

- Service Charges on Customers Deposits
- Trust Department Income
- Other Operating Income

Noninterest Expenses

- Wages and Salaries
- Other Personnel Expenses
- Net Occupancy Expenses
- Other Operating Expenses

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

Provisions for Possible Loan Loss (PLL)

- Reserve Method
- Experience Method
- Specific Charge-Off Method

Tax Reform Act 1986

- All Large Banks – Greater than \$500 Million in Assets
 - Must Use Specific Charge-Off Method
- Small Banks – Less than \$500 Million in Assets
 - Specific Charge-Off Method
 - Experience Method

Sources and Uses of Funds Statement

Also Known as the Funds-Flows Statement

It asks Two Questions

Where Do Funds Come From?

How Were Those Funds Utilized?

Sources and Uses of Funds

Sources

- Net Income
- Noncash Expenses
- Decrease in Assets
- Increase in Liabilities
- Increase in Capital Accounts

Uses

- Net Loss
- Dividends
- Increase in Assets
- Decrease in Liabilities
- Decrease in Capital Accounts

Statement of Stockholders' Equity

Report Showing the Changes in the Make
Up of the Bank's Capital Account

Statement of Stockholders' Equity

Beginning Capital Account Balance
+/- Net Income for Period
- Preferred Stock Dividends
- Common Stock Dividends
+ New Shares of Stock Issued
- Purchases of Treasury Stock
Ending Capital Account Balance