

Mini-case 9: Bank Performance Analysis

CONCEPTS IN THIS CASE

balance sheet
liquidity management
asset management
liability management
return on assets (ROA)
return on equity (ROE)
operating income
operating expenses
net interest margin (NIM)

Your supervisor has recently promoted you to a financial analyst position in the bank. The chief financial officer (your supervisor's boss) is concerned about the bank's financial position in comparison with past trends and recent positions of similar banks in the region. To analyze the firm, you have been assigned the task of producing a bank performance analysis. You have done this type of report in your money and banking and finance classes, and you know that the first step is to collect financial data on your bank and similar banks in order to make the necessary comparisons and suggestions for performance improvements. You collect the data in Tables 1 and 2 from internal annual reports and government publications.*

Using balance sheet and income statement data, create a bank analysis and performance report for your supervisor that addresses the following issues:

1. Using the balance sheet for each year,
 - a. Create a balance sheet showing all assets as a percentage of total assets and all liabilities as a percentage of total liabilities. Which assets on your bank's balance sheet increased over the last three years? Which assets on your bank's balance sheet declined over the last three years?
 - b. Examine the liquidity management practices of your bank over the last three years. How has the liquidity position of the bank changed over time? How does the liquidity position of your bank compare to the regional banks in year 3? Would your bank have sufficient reserves if deposits increased 40% in year 3? (Assume that the reserve requirement is 8% on all deposits.)
 - c. Calculate the equity multiplier ratio for each year. How has the equity multiplier of your bank changed over time? How does the equity multiplier of your bank compare to the regional banks in year 3?
2. Using the income statement for each year,
 - a. Create an income statement with operating income items expressed as a percentage of total operating income. Which items improved over the last three years? Which trends need to be reversed? How does your bank compare to the regional banks?
 - b. Create an income statement with operating expenses expressed as a percentage of total operating expenses. Which items improved over the last three years? Which trends need to be reversed? How does your bank compare to the regional banks?
3. Analyze the performance of the bank for each year.
 - a. Calculate the return on assets (ROA) for each year. How has the ROA trend changed over the last three years? How does your bank compare to the regional banks?
 - b. Calculate the return on equity (ROE) for each year. How has the ROE trend changed over the last three years? How does your bank compare to the regional banks?
4. Identify the strengths and weaknesses of your bank relative to trends over time and in year 3 for all regional banks. What is the relationship between your bank's trends and the year 3 comparison with the region?

* The Internet site <http://www.osfi-bsif.gc.ca/> provides financial data for banks.

TABLE 1 Balance Sheet Data (\$ millions)

	Your Bank, Year 3	Your Bank, Year 2	Your Bank, Year 1	Your Region, Year 3
Assets (Uses of Funds)				
Reserves	892	648	558	12 184
Cash items in process of collection	369	236	169	6 513
Deposits at other banks	246	124	179	4 242
Securities				
Government of Canada	2 062	2 243	1 694	40 020
Provincial governments and other securities	739	673	538	13 026
Loans				
Commercial and industrial	1 970	1 795	1 436	34 736
Real estate	2 708	2 467	1 974	47 762
Consumer	1 846	1 682	1 346	32 565
Interbank	348	318	254	6 143
Other	267	243	194	4 712
Other assets (e.g., physical capital)	862	785	628	15 197
Total	12 309	11 214	8 970	217 100
Liabilities (Sources of Funds)				
Checkable deposits	2 954	2 691	2 152	52 104
Nontransaction deposits				
Savings deposits	2 585	1 855	1 884	45 591
Small-denomination time deposits	1 723	1 570	1 256	30 394
Large-denomination time deposits	1 354	1 234	987	23 881
Borrowings	2 954	2 691	2 153	41 104
Bank capital	739	1 173	538	24 026
Total	12 309	11 214	8 970	217 100

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TABLE 2 Income Statement Data (\$ millions)

	Your Bank, Year 3	Your Bank, Year 2	Your Bank, Year 1	Your Bank, Year 1 Your Region, Year 3
Operating Income				
Interest on loans	605	601	441	12 671
Interest on securities	133	151	97	2 347
Other interest	52	47	38	913
Interest income	790	799	576	15 931
Service charges on deposit accounts	399	374	291	7 041
Other noninterest income	244	169	119	3 885
Noninterest income	643	543	410	10 926
Total operating income	1 433	1 342	986	26 857
Operating Expenses				
Interest expenses				
Interest on deposits	304	402	286	9 264
Interest on fed funds and repos	104	31	25	504
Other	61	56	45	872
Noninterest expenses				
Salaries and employee benefits	307	272	306	4 998
Premises and equipment	178	162	30	3 139
Other	173	158	96	3 047
Provisions for loan losses	134	122	87	2 355
Total operating expenses	1 261	1 203	875	24 179
Net Operating Income	172	139	111	2 678
Gains (losses) on securities	7	7	16	128
Extraordinary items, net	0	3	2	67
Income taxes	28	26	21	498
Net income	137	103	72	1 985