



2013 Bank Study Project Class of 2014

BANK PERFORMANCE ANALYSIS

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NOTES:

1. Please use 8 1/2" x 11" paper (or paper folded to that size).
2. Please attach the standard YELLOW cover sheet provided to your solution.
3. Please staple your project or use a binder clip. **DO NOT** use paper clips or any kind of folder or binder.

Complete and mail by February 18, 2014

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2013 Bank Performance Analysis

I. Expectations and Purpose

1. In this project, you will analyze the changes in the performance of your bank across two periods and in relation to an appropriate peer group (or target competitor). This project provides you with an opportunity to (i) improve your ability to read and understand bank financial statements, (ii) familiarize yourself with the calculation of financial ratios, and (iii) gain experience in thinking about what ratios mean and how they relate to each other. Although you may (and should) exhibit your own creativity and insights, you must stick to the following guidelines when preparing your project.
2. If you work for an institution that has a Uniform Bank Performance Report (UBPR), obtain the 12/31/2012 standard report showing data for years 2008-2012. If you work for a thrift, similar information is available in the Uniform Thrift Performance Report. Otherwise, you will need three consecutive years (e.g., 2010, 2011, and 2012) of recent financial statements for your bank. Since you use averages in the denominator of some of the ratios, the data will allow you to calculate ratios for two years. For this project, do not calculate ratios for a period of more than two years.
3. For the two most recent years of data, calculate/collect for your bank and an appropriate peer comparison (use PG listed in UBPR if possible) all of the performance ratios listed in the project template attached as a part of this document. UBPR access instructions are included in my slides, and we discussed these in class. If you do not use UBPR data, choose a competitor for peer comparisons.
4. Your analysis should follow the format of the project template. The general process is to first identify the change in the higher level ratios and then determine which of the lower level ratios caused the change. For example, begin by establishing whether ROE went up or down and how the bank's ROE changed relative to that of its peer group. Next, identify which basic return driver from the next level was responsible for the change. Did ROE change because of a change in ROA, a change in the EM, or changes in both? How do the changes compare to those of the bank's peer group? Now break ROA into its components and continue the analysis. The attached project template lists all ratios you are expected to calculate and interpret. Keep the discussion focused on the ratios at hand. At each level, determine the changes that drive the difference in the higher level ratios. Do not assume that the driver of a change is obvious. You must indicate the important links.
5. The last page of the report requests that you summarize your findings by identifying the **three** (3) most important reasons the bank's ROE differs over time and/or differs from its peer group's ROE. Explain why they are the most important drivers. Give "real-world" reasons why in your market and for your bank differences exist (difference/change in focus, change in the economy, new branches, so forth). Indicate specific actions you believe the bank should undertake. In the case of negative effects/differences, what could

the bank do to correct the issues? In the case of positive effects/differences, how could the bank ensure continued success in these areas?

6. All data and explanations should be typed in 12-point font. **Answers should be contained in the space provided on each page.** Since you are following the provided template, you do not have to double space your explanations (as is usually the case at the GSB). However, failure to carefully follow the order and requirements of the template will result in grade deductions.
7. When you write your report, make it as concise and clear as possible. More transparent explanations lead to higher grades. Explanations that are technically “correct,” but are verbose and difficult to follow, will generally receive lower grades. Be sure to spell check your paper. Grammar counts. A comment on writing. The ability to communicate clearly, concisely and effectively is important. It can set you apart in both positive and negative ways. Writing skills are developed by practice and attention to detail. Here are some suggestions that may help you improve how others perceive your writing and your written communication skills.
 - a. Avoid very long sentences that run-on. Usually two shorter sentences are more memorable and easier to understand than long run-on sentence.
 - b. Have someone you trust read over your report—wife, husband, friend, etc. It is difficult to find your own errors and, of course, your writing sounds fine and clear to you because you wrote it. It may not be clear to another reader.
 - c. Use semi-colons with caution; generally avoid them. (Ha)
 - d. Use active language. (“I conclude....” Is much better than “It can be concluded....”
 - e. Don’t include tables or graphs without explaining them and what the reader is supposed to take away from them.
 - f. NEVER use “it’s” unless you can reasonably substitute (it is) or (it has) . “It’s a long way to Tipperary” is OK. But “keep sources of ignition at least 15 feet from the tank, it’s accessories” and it’s enclosure” is WRONG.
 - g. NEVER use apostrophes unless something is possessive. Thus, “the NPV’s were all positive” is WRONG, but the “NPV’s sensitivity was very high” is CORRECT.
 - h. Note: Do not take grammar lessons from musicians or newscasters. They have no clue about grammar. Even though “Me and Julio down by the school yard” sounds better in the song’s context, it should, of course, be “Julio and I down by the school yard”. And even though you often hear “He went with Kate and I to the bar”, it should be “He went with Kate and ME to the bar”.
8. Words of Advice: The grader must read approximately 100 projects. Poorly organized reports are likely to receive lower grades. Your objective should be to communicate the information in the most clear and concise manner possible. Do not assume relationships are obvious, but do not write 50 words when 10 will do. Just as you make your business reports easy for a busy executive to read and understand, you should do the same for the

grader. Read your report for clarity, logic, and organization. Carefully follow the Report Template. Your answers/explanations should not exceed the “blank space” provided for each area.

9. The grade assigned to a project depends on the technical content, interpretation of data, logic, clarity, correctness and presentation. Conclusions and interpretations must be supported by the data. Grading is competitive. GSB rules suggest that approximately 10% of papers receive As and 33% receive Bs. The remaining satisfactory papers receive Cs. Unsatisfactory papers must be reworked.
10. We want to return your projects in a reasonable time and assign grades as fairly as possible. Please resist the urge to try to impress with volume – more is not better. The following will result in automatic letter grade deductions.
 - a. Extra pages (except in the Appendix).
 - b. More than two years of ratios.
 - c. Exceeding provided space restrictions in the Report Template.
 - d. Failure to include all required ratios.
 - e. Failure to include the required information in the Appendix.
 - f. Failure to note unusual issues (farm bank, thrift, so forth).

Frequently Asked Questions

Do I have to use the UBPR to get the accounting statements for my bank?

The answer is yes if the UBPR is available for your institution. Using the Uniform Bank Performance Report (<http://www.ffiec.gov/UBPR.htm>) allows us to efficiently grade your projects so that we can return them in a reasonable time, and helps us to insure uniform grading. The UBPR will also speed your completion of the project. If the UBPR is not available for your institution, you should state why under “Explanation of Unusual Issues.”

I work for a farm credit bank and only make loans. Can I still analyze my bank?

Yes, we think that you benefit more when you analyze your own institution. State that you work for a farm credit bank under “Explanation of Unusual Issues.” Of course, your analysis will largely be constrained to the revenue generation side of the ROE breakdown.

I work for a holding company. Should I analyze the holding company or can I choose a particular bank within the holding company?

You may analyze either the holding company or a bank, whichever will benefit you the most. Briefly state and justify your choice in the section entitled “Explanation of Unusual Issues.”

I am a regulator. What should I do?

You may analyze any bank of your choice. State that you are a regulator and justify your choice in the “Explanation of Unusual Issues.”

My bank is a De Novo bank and does not have three years of data.

Use the data you have available. If the data stream is very short, use quarterly data, but be aware that you may need to annualize the data from the income statement or interpret the results as quarterly data (e.g., a 4% ROE on a quarterly basis is 16% on an annual basis). Be sure to briefly address your situation in “Explanation of Unusual Issues.”

What are the biggest mistakes students make?

1. Fail to follow instructions.
2. Do not provide all required ratios or do not offer an acceptable explanation for not doing so (e.g., my institution is a farm bank).
3. Make unsubstantiated statements that are not consistent with the ratios.
4. Calculate the ratios incorrectly. Double-check your calculations. Better yet, use the provided Excel template and UBPR data.
5. Do not follow the report template, exceed space limitations, discuss irrelevant issues, or otherwise make it difficult for the grader to easily evaluate the project.
6. Do not include required items in the appendix.
7. Attempt to impress the grader with unnecessary information – more is not better.

**BANK PERFORMANCE ANALYSIS
Template**

Graduate School of Banking at LSU

2013

Bank Study Project

<Your Name Here>

<The Institution Studied Here (Usually, your bank)>

Explanation of Unusual Issues

<In no more than two or three sentences, describe any unusual issues that cause you to: (i) not use the UBPR (e.g., your institution is a thrift); (ii) deviate from the most recent year-to-year analysis; (iii) analyze an institution other than the one for which you work (e.g., you are a regulator); or, (iv) present unusual operating results (e.g., your institution is a Farm Bank). Some common explanations include: (i) you work for a De Novo bank that lacks sufficient yearly data, so you use quarterly data; (ii) you work for a thrift or farm bank; (iii) your bank recently merged with another bank; (iv) you are a regulator and chose to analyze a bank you regulate. If you do not have any unusual issues, state "None." Most people will have no unusual issues.>

Bank Overview and Competitive Environment

<In the space below, briefly describe your bank, its clientele, and its competition.>

Bank (put bank name here)		Put Peer Group here	
2012	2011	2012	2011
Return on Equity			
Equity Multiplier			
Return Assets			
Describe the change in the bank's ROE over time.			

Discuss the bank's standing relative to the PG.

Bank		Peer Group	
2012	2011	2012	2011
Return on Assets			
Asset Utilization			
Profit Margin			
Describe the change in the bank's ROA over time.			

Discuss the bank's standing relative to the PG.

	Bank		Peer Group	
	2012	2011	2012	2011
Asset Utilization				
II/TA				
Yield on EA				
EA/TA				
Non II/TA				
GL/TA				

Describe the change in the bank's asset utilization over time.

Discuss the bank's standing relative to the PG.

	Bank		Peer Group	
	2012	2011	2012	2011
Net Interest Margin				
Int Inc to EA				
Int Exp to EA				
Burden to TA				
Non Int Exp to TA				
Non Int Inc to TA				

Describe the importance of the change in net interest margin and burden to total assets for the bank.

Discuss the bank's standing relative to the PG.

Composition Effects: Examine the bank's common size balance sheet (Balance Sheet % - Page 6 from UBPR) and loan mixture (Allowance & Loan Mix – b – Page 7A from UBPR). Briefly discuss the changes and indicate how they may have impacted ratios discussed on previous pages of this report.

Overall Evaluation and Explanation of Major Changes: In the space provided below, summarize your findings by identifying the three most important reasons the bank's ROE differs over time and/or differs from that of its peer group. Explain why you view these as the most important drivers and give "real-world" reasons for why you believe the differences exist (difference/change in focus, change in the economy, new branches, so forth). Indicate two specific actions you believe the bank should undertake. In the case of negative effects/differences, what could the bank do to correct the issues? For positive effects/differences, how could the bank ensure continued success in these areas?

Appendix

Include copies of your data in the appendix. If you are using UBPR data, the following pages should be included. If you are not using UBPR data, include the information you relied upon to calculate ratios for the project.

1. Summary Ratios (UBPR Page 1)
2. Income Statement (UBPR Page 2)
3. Non-interest Income and Expenses (UBPR Page 3)
4. Balance Sheet – Percentage Composition (UBPR Page 6)
5. Analysis of Loan and Lease Allowance (UBPR Page 7A)
6. Capital Analysis (UBPR Page 11)
7. Any other pertinent data used in project.