



Bank Financial Statement Analysis



FINANCIALEDGE¹

Course Overview

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Key differences
in **analyzing Bank
Financial Statements**



**Commercial and
investment bank
differences**



**Income
statement analysis**



**Balance sheet
analysis**



**Credit quality
analysis**

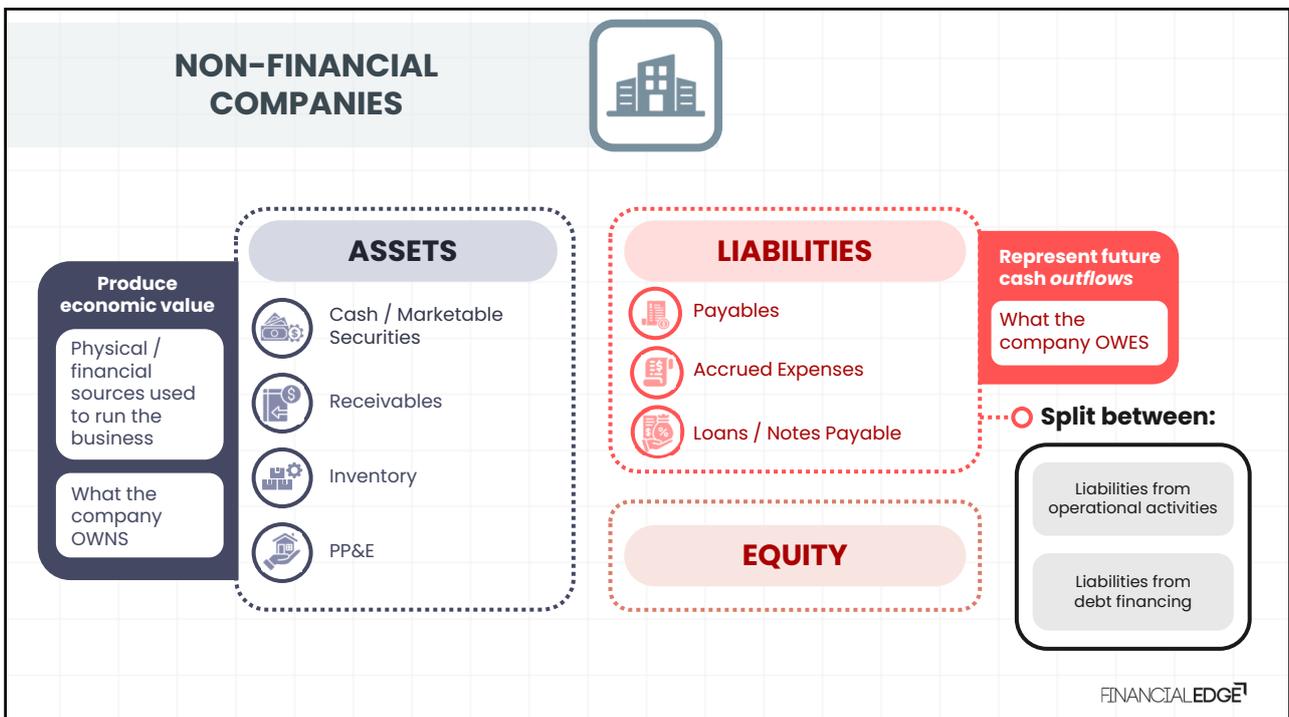
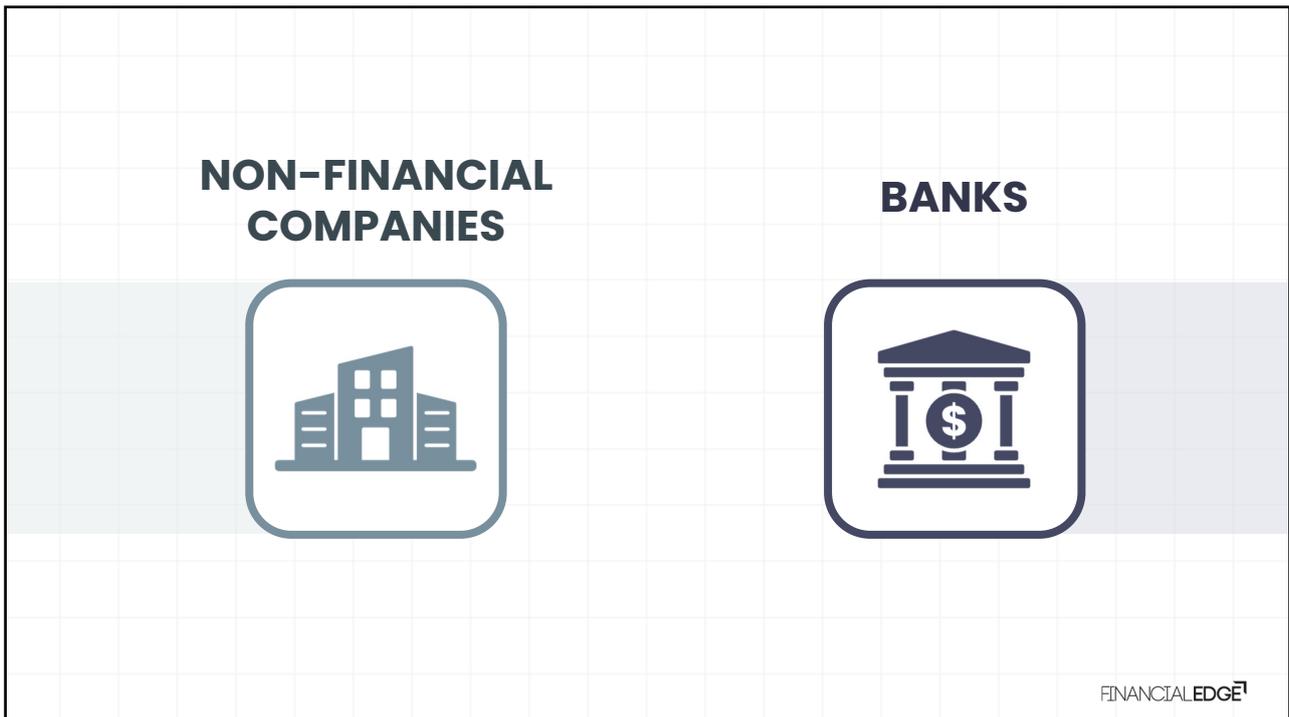


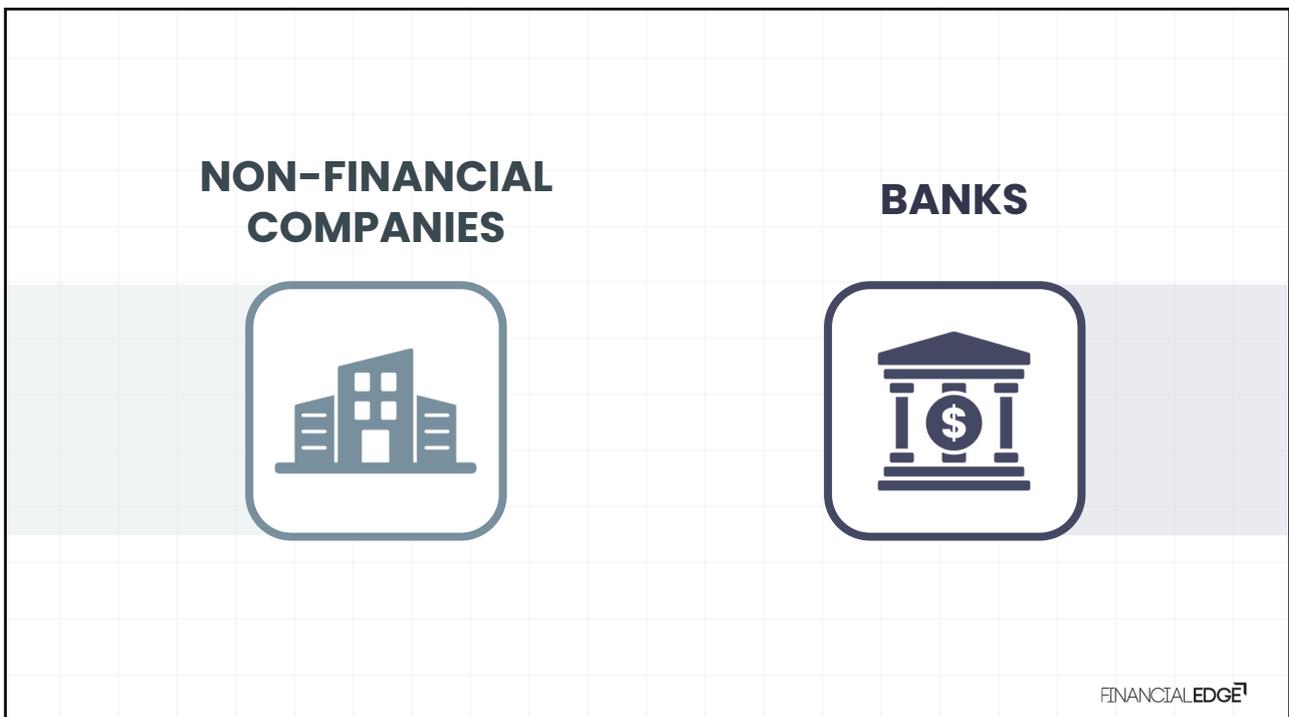
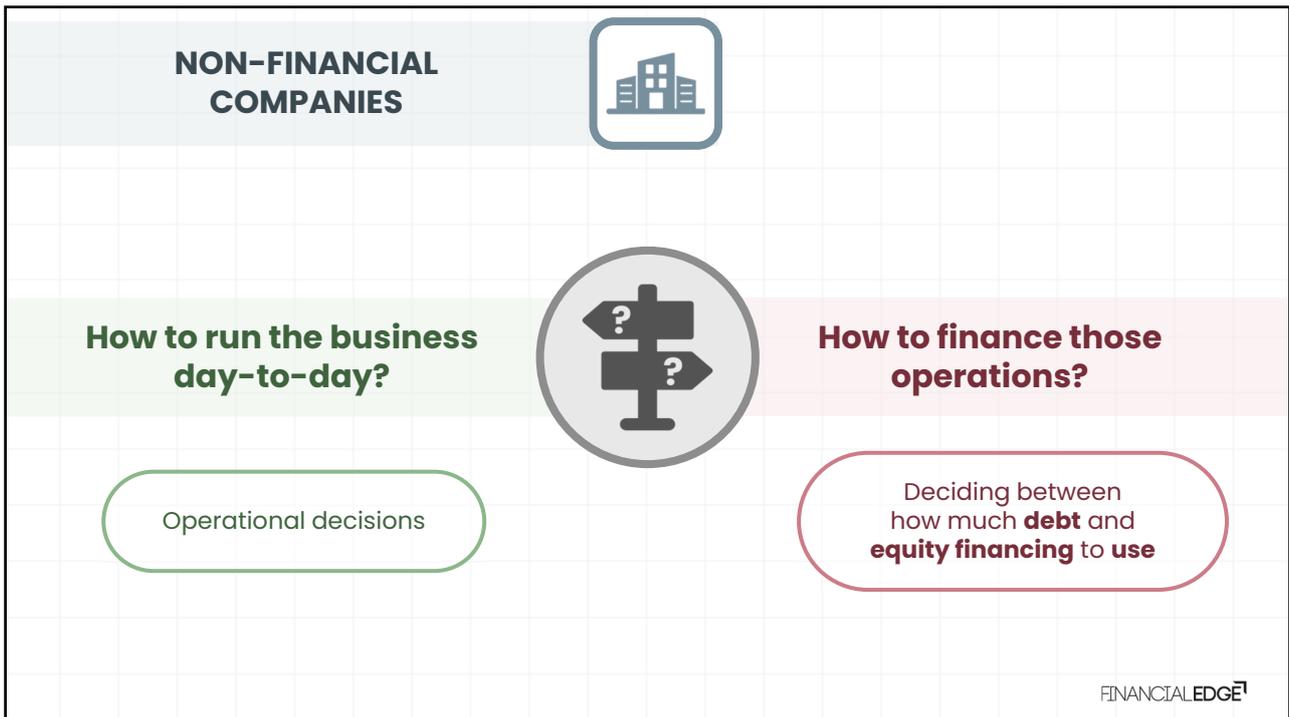
**Regulatory ratio
analysis**

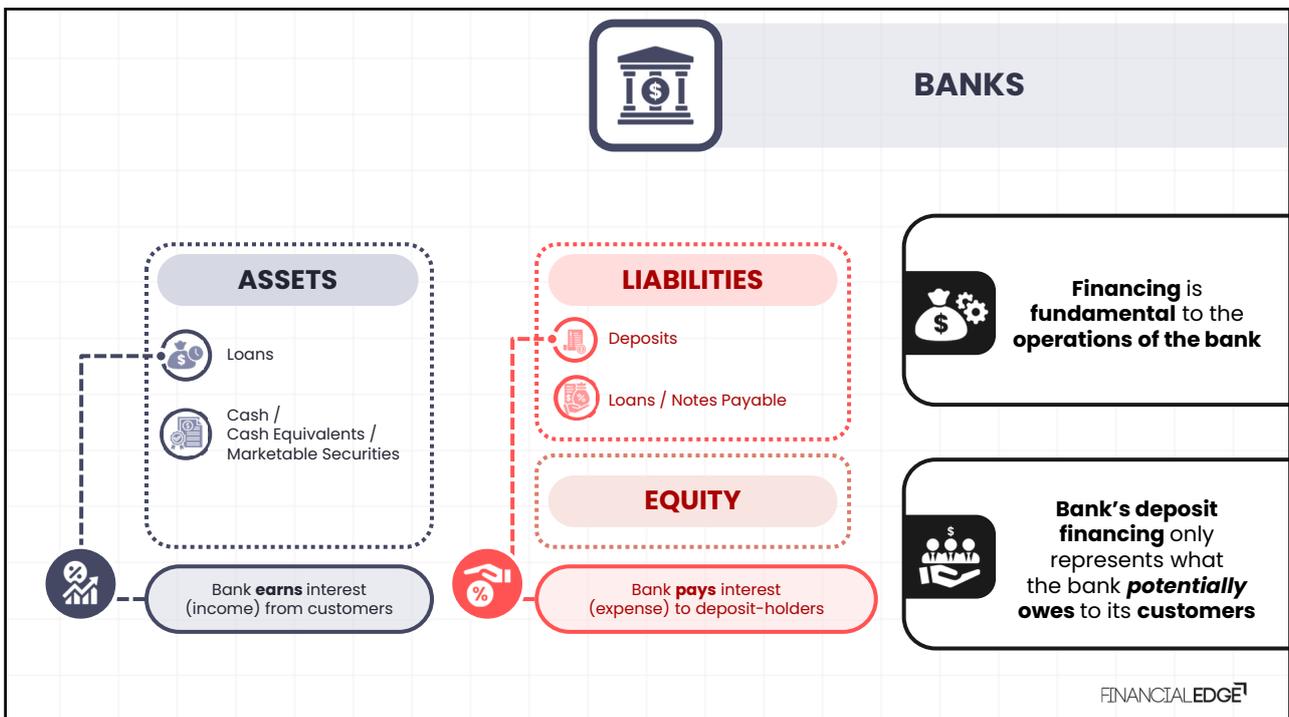
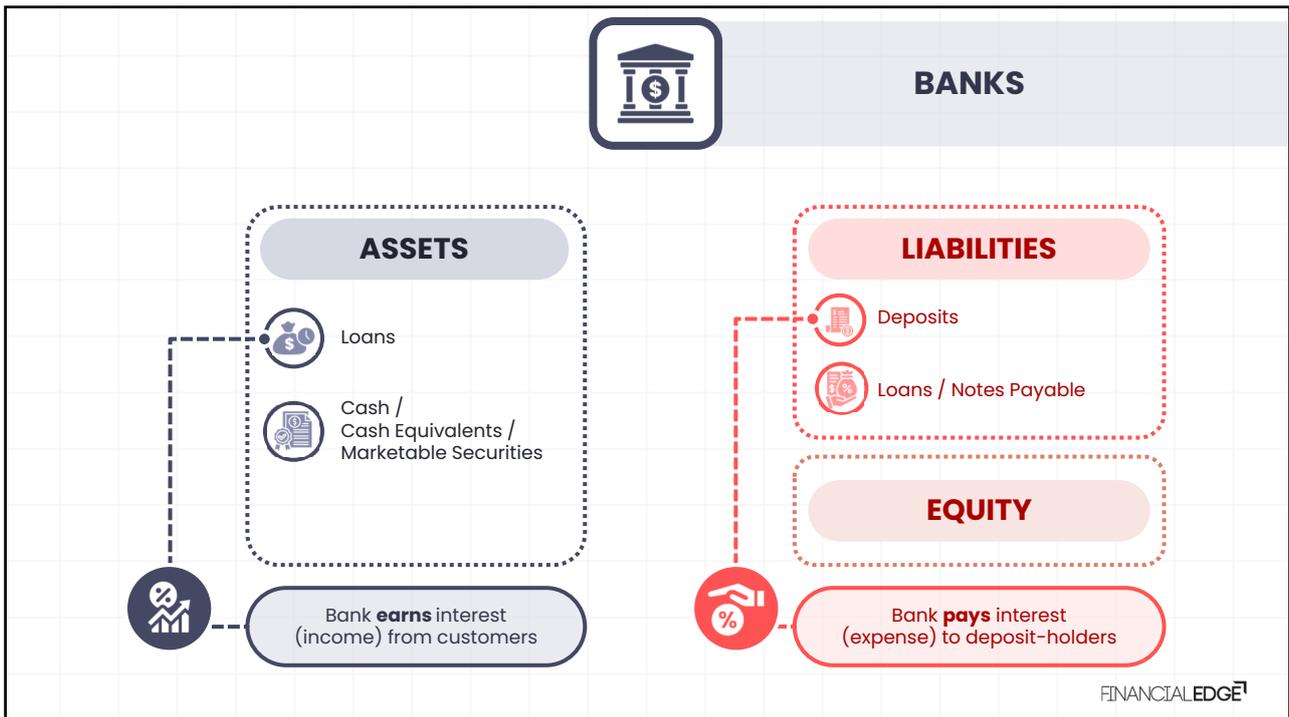
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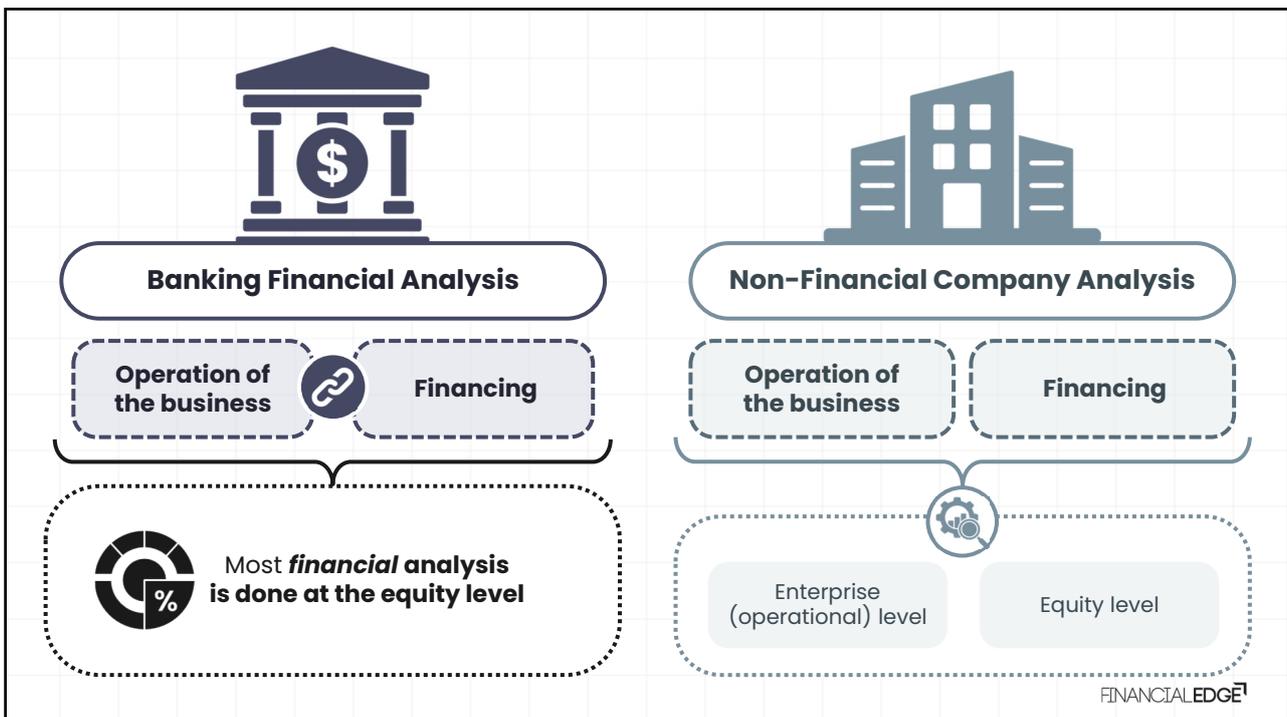
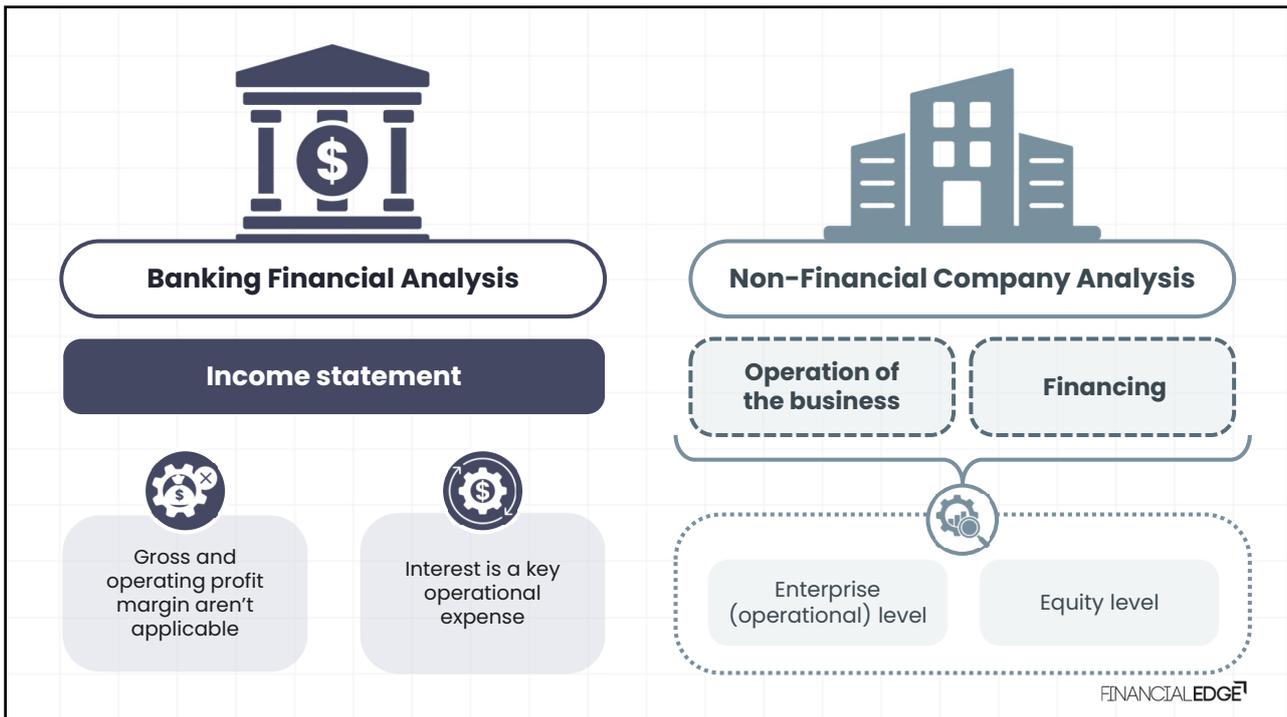
Non-Financial Company vs Bank Balance Sheets

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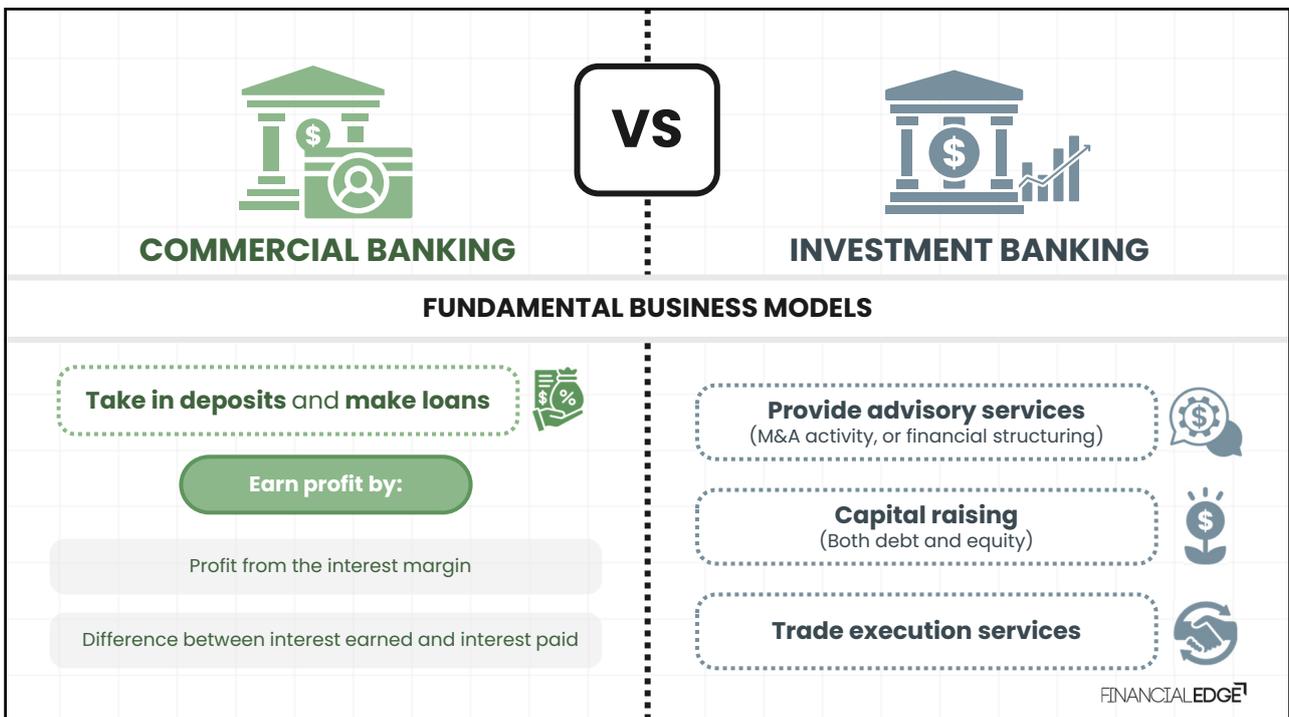
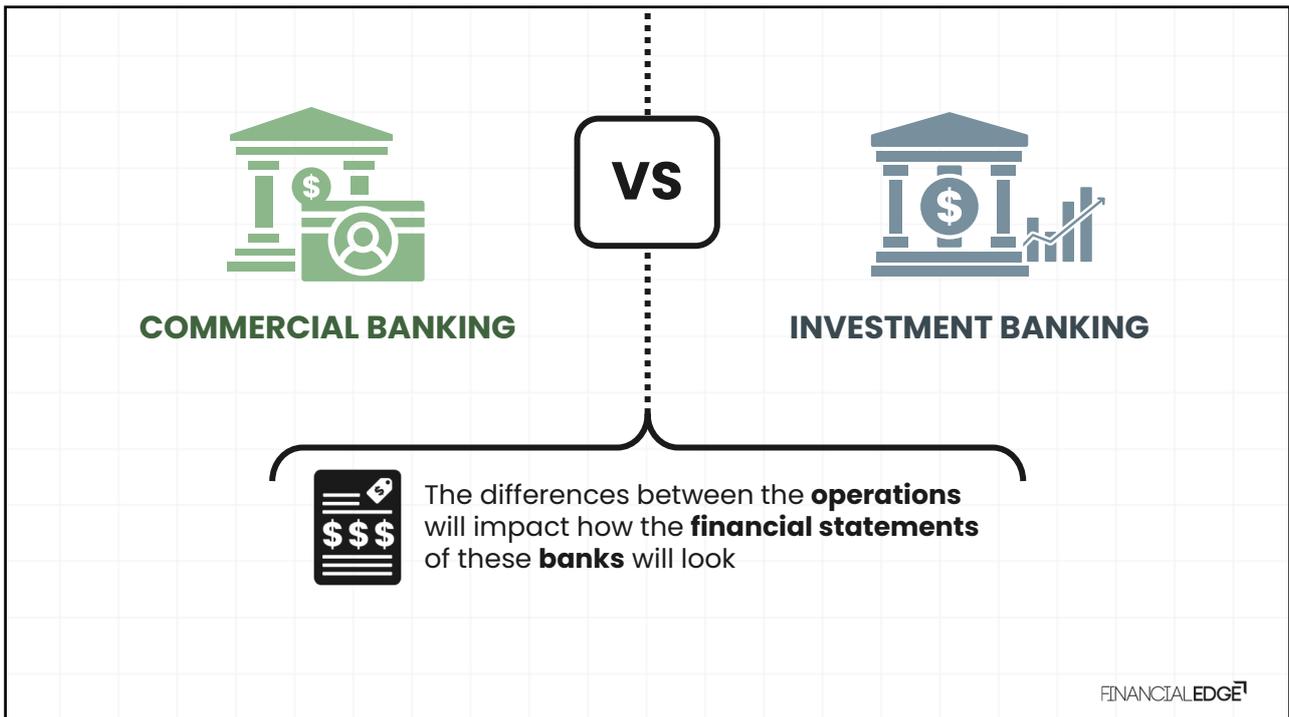


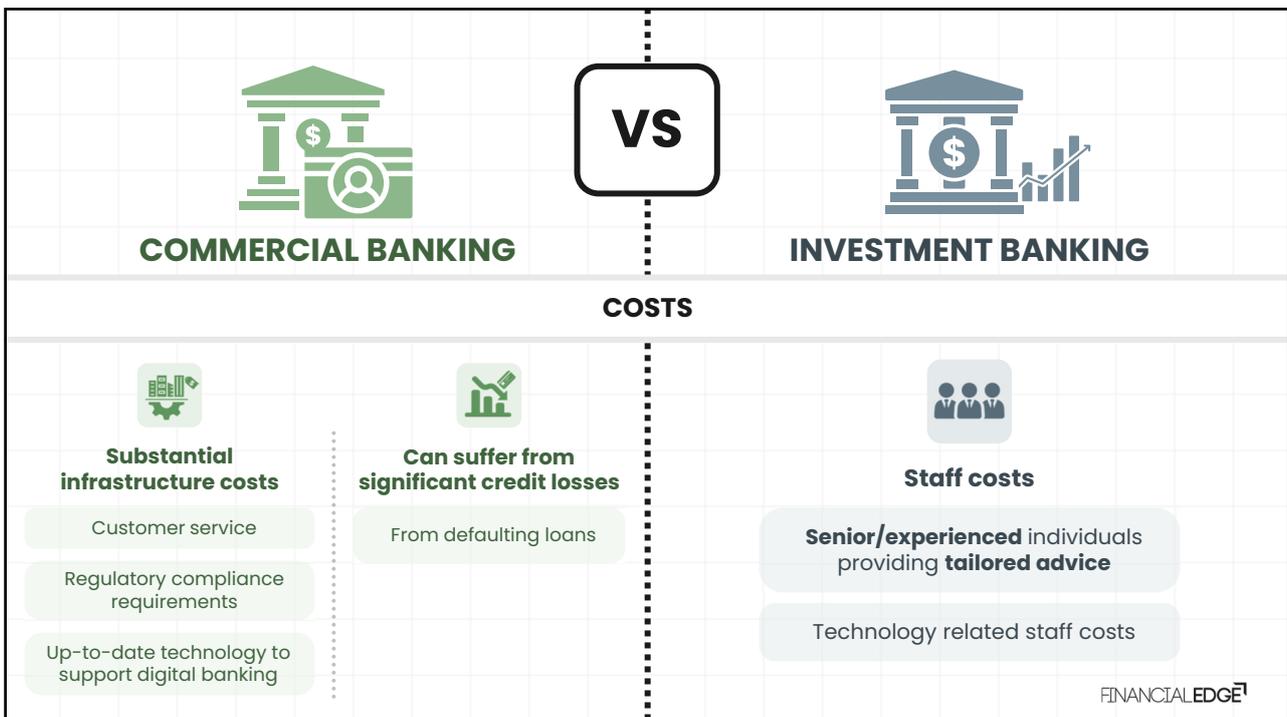
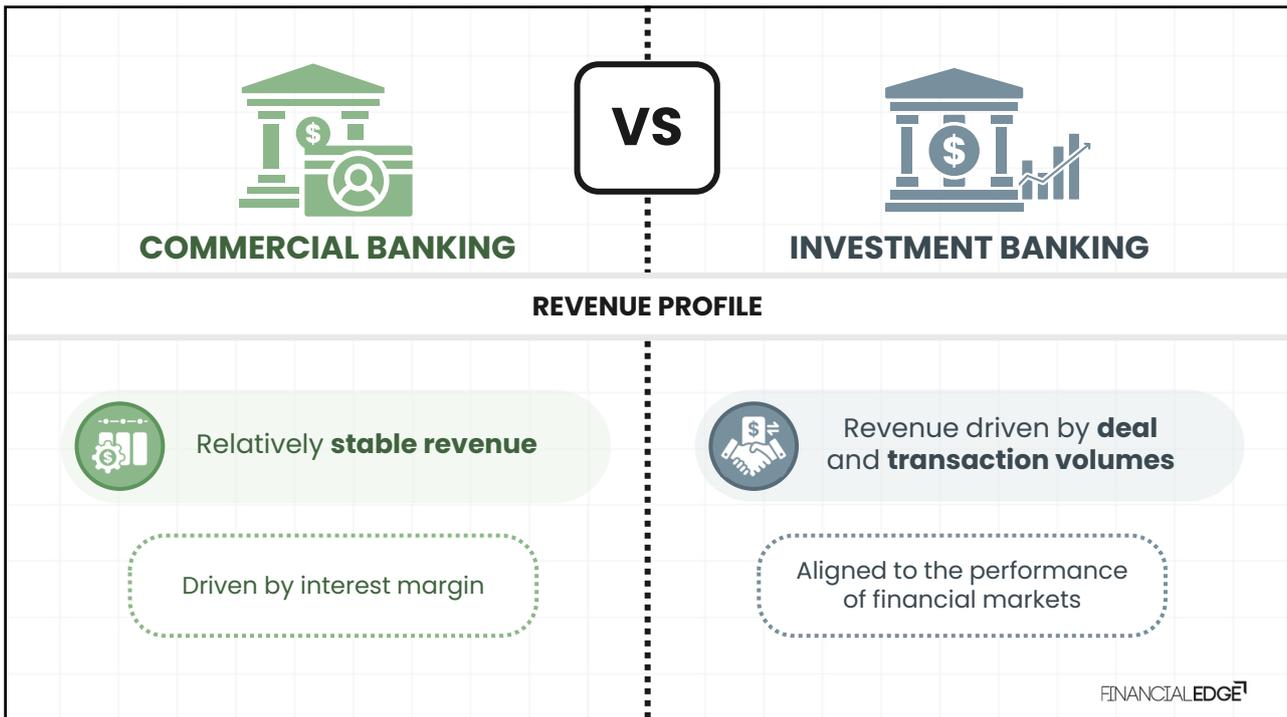
Bank Financial Analysis

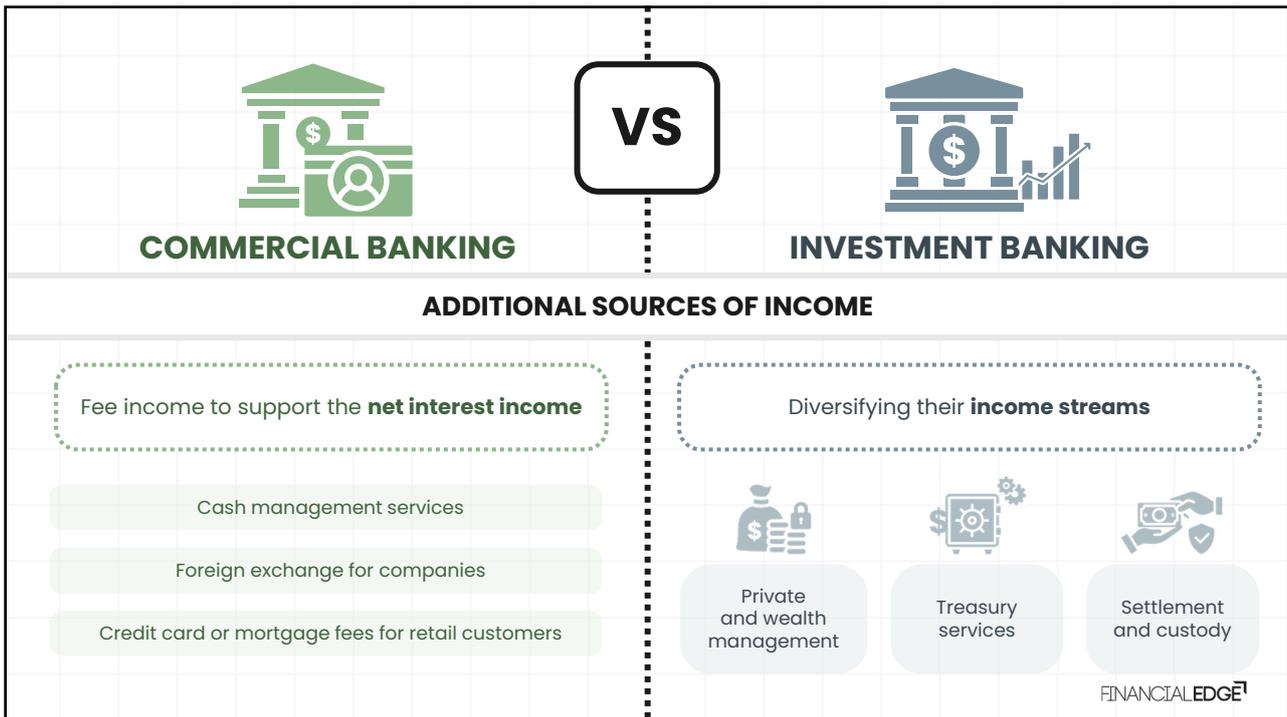
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Not all banks are the same in terms of **services that they offer**

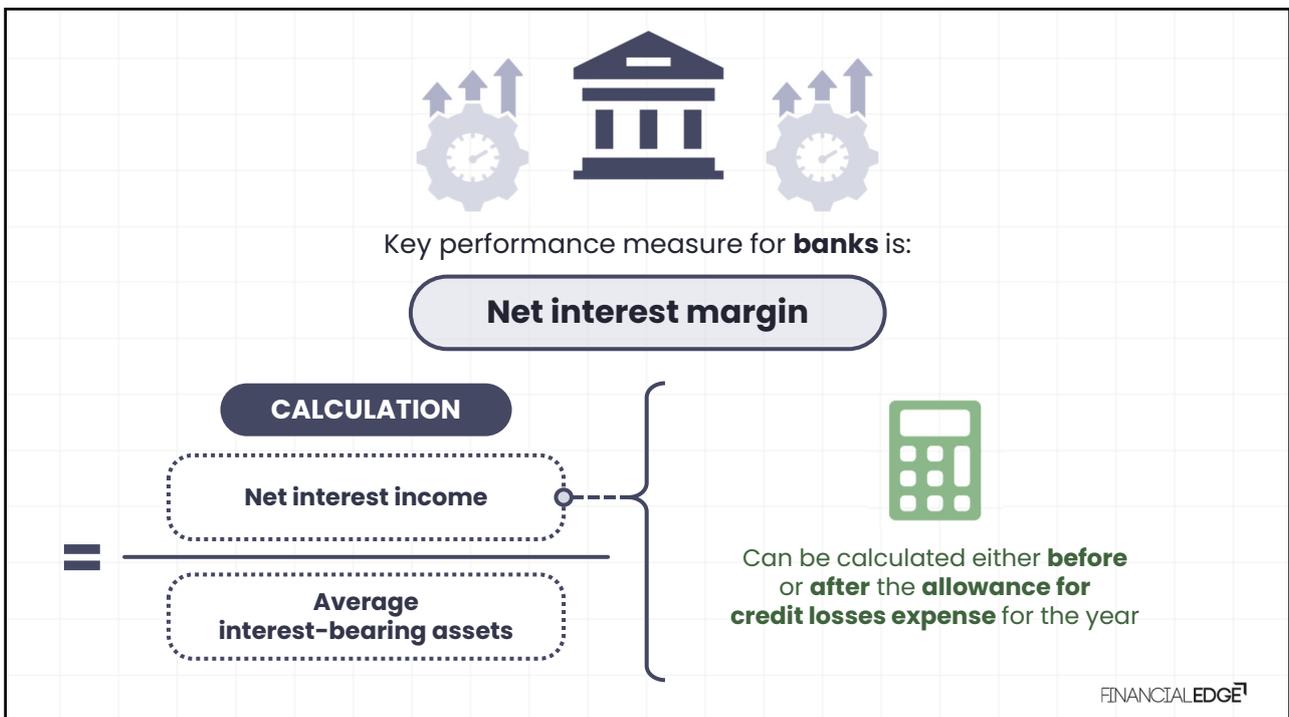
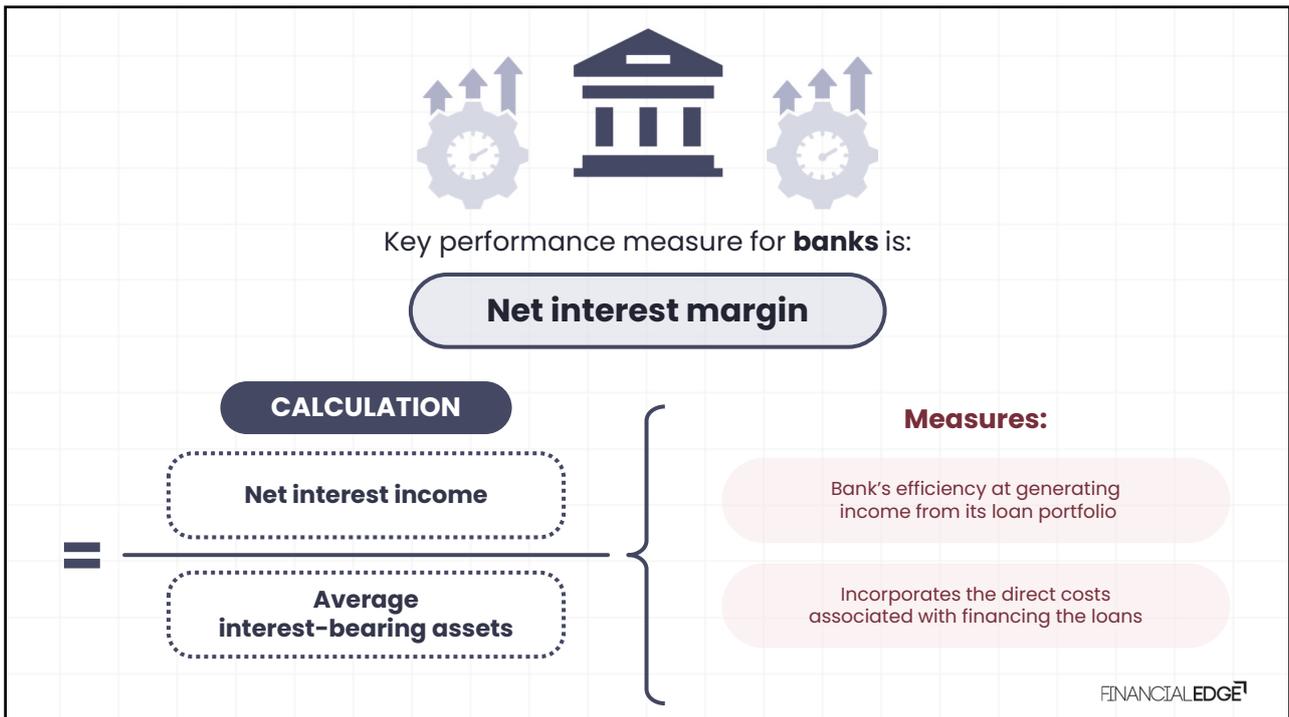
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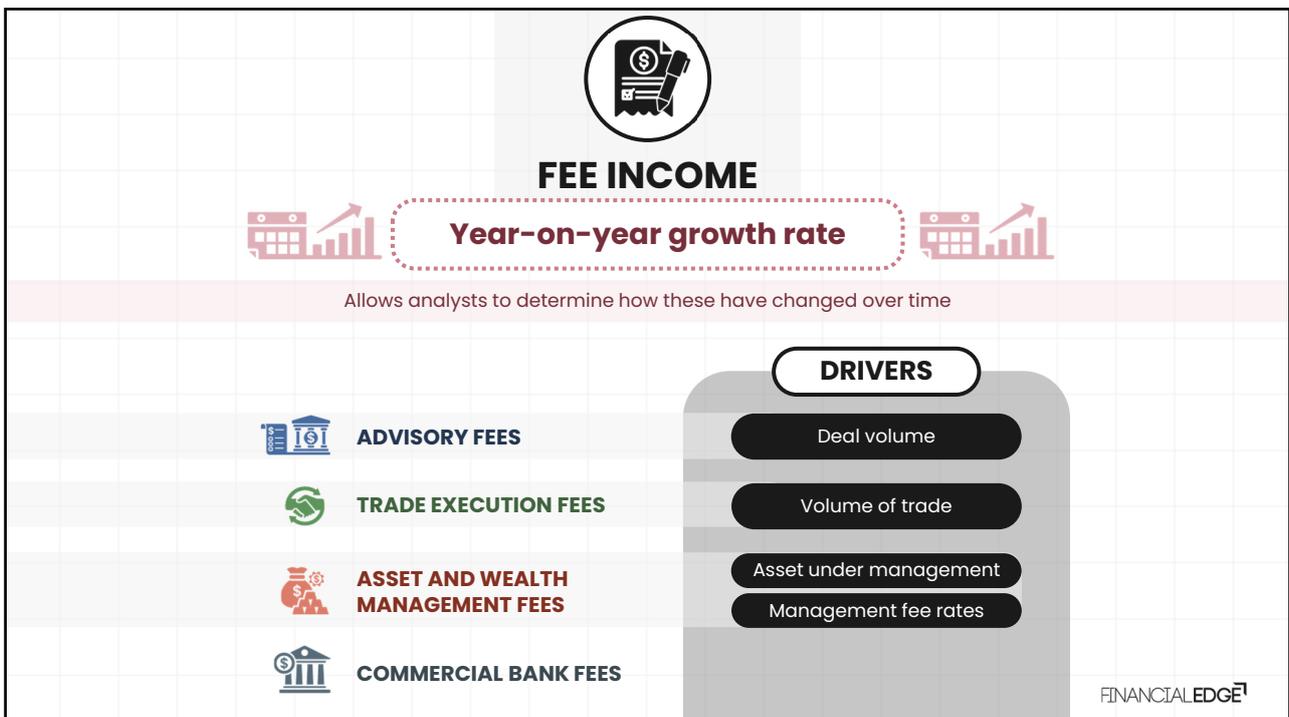
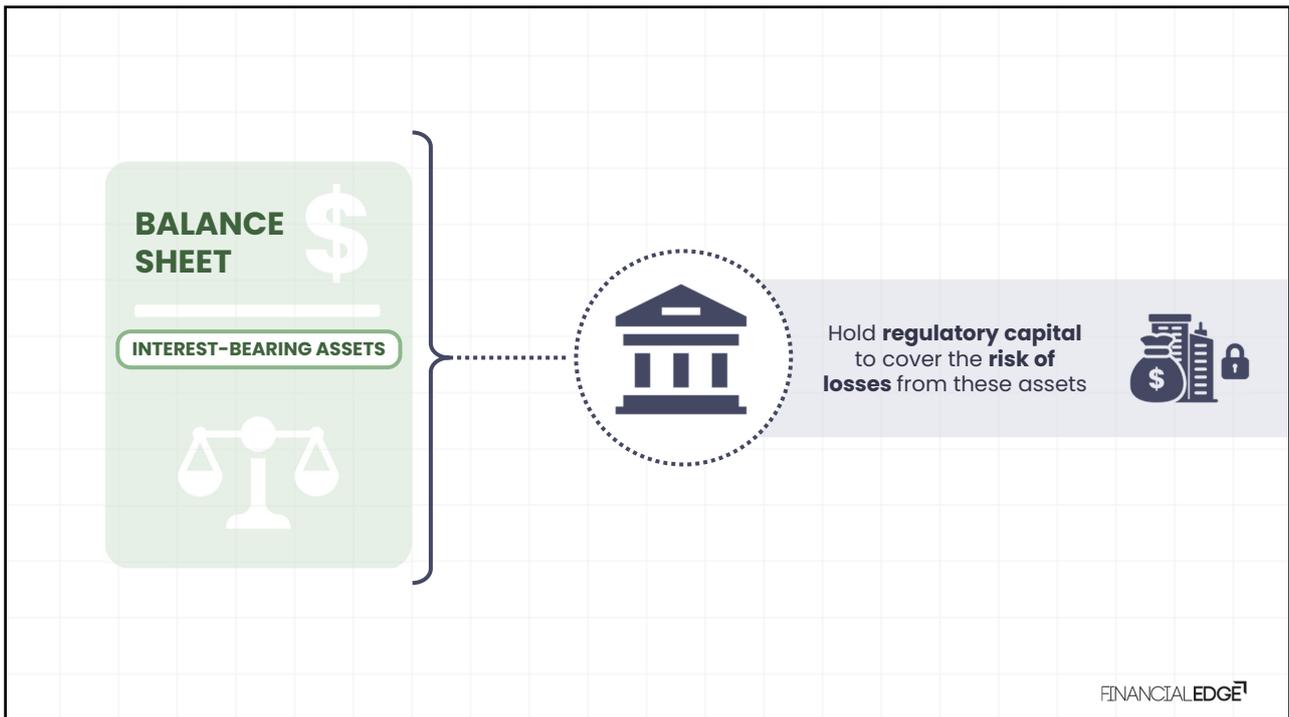






Income Statement: Key Performance Measures





Example disclosures on non-interest income

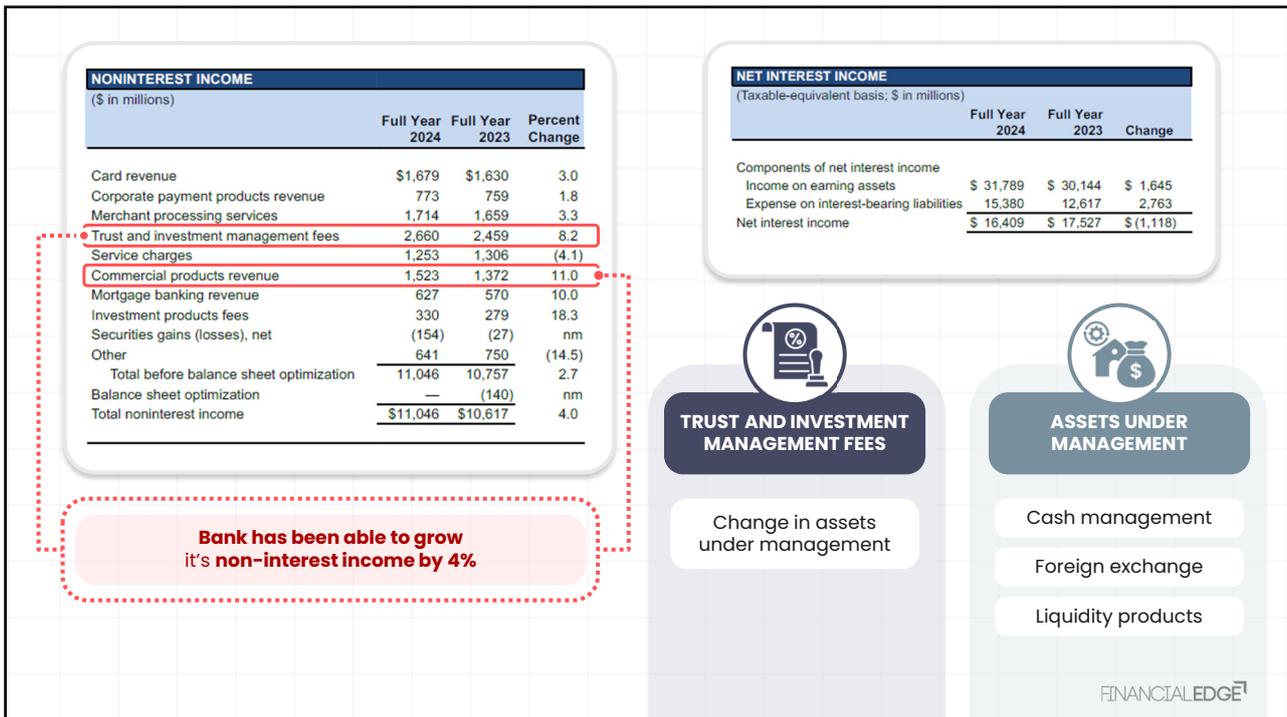
NONINTEREST INCOME			
(\$ in millions)			
	Full Year 2024	Full Year 2023	Percent Change
Card revenue	\$1,679	\$1,630	3.0
Corporate payment products revenue	773	759	1.8
Merchant processing services	1,714	1,659	3.3
Trust and investment management fees	2,660	2,459	8.2
Service charges	1,253	1,306	(4.1)
Commercial products revenue	1,523	1,372	11.0
Mortgage banking revenue	627	570	10.0
Investment products fees	330	279	18.3
Securities gains (losses), net	(154)	(27)	nm
Other	641	750	(14.5)
Total before balance sheet optimization	11,046	10,757	2.7
Balance sheet optimization		(140)	nm
Total noninterest income	\$11,046	\$10,617	4.0

NET INTEREST INCOME			
(Taxable-equivalent basis; \$ in millions)			
	Full Year 2024	Full Year 2023	Change
Components of net interest income			
Income on earning assets	\$ 31,789	\$ 30,144	\$ 1,645
Expense on interest-bearing liabilities	15,380	12,617	2,763
Net interest income	<u>\$ 16,409</u>	<u>\$ 17,527</u>	<u>\$(1,118)</u>

Significant contribution to overall operating profit / income before tax

Contributing 11bn out of the 17.4bn profit before tax

Over 60% of the profit before tax



Income Statement: Key Performance Measures



COST-INCOME RATIO **EARNINGS PER SHARE GROWTH** **DIVIDEND PER SHARE GROWTH**

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COST-INCOME RATIO **EARNINGS PER SHARE GROWTH** **DIVIDEND PER SHARE GROWTH**

COST-INCOME RATIO
Efficiency ratio or expense ratio

CALCULATION

Total recurring operating expenses

Total recurring operating income

Net interest margin

+

Non-interest income

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COST-INCOME RATIO

EARNINGS PER SHARE GROWTH

DIVIDEND PER SHARE GROWTH

Variable costs (excluding interest expense) are typically **low**

Net interest margin

Managing operating expenses is a key driver of **overall profit**

Cost income ratio is most often **analyzed** on a **recurring** (or **adjusted**) basis

Key non-recurring expenses:

- Regulatory and legal settlements
- Unexpected loan losses

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COST-INCOME RATIO

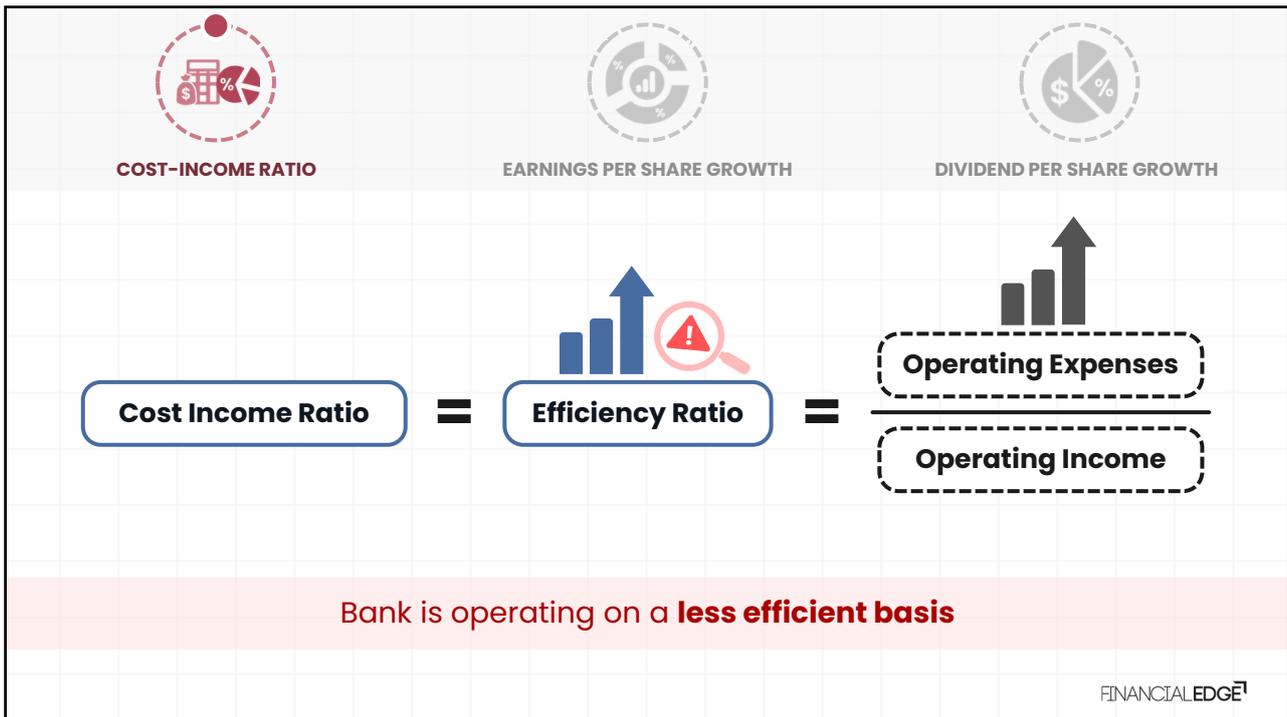
EARNINGS PER SHARE GROWTH

DIVIDEND PER SHARE GROWTH

Management's ability to control **key recurring expenses**

- Staff costs
- IT costs

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COST-INCOME RATIO



EARNINGS PER SHARE GROWTH



DIVIDEND PER SHARE GROWTH

DIVIDEND PER SHARE GROWTH

Banks are typically **mature businesses**

Limited **high return investment opportunities** that would need funding



Pay out a **significant proportion** of their profits as **dividends**

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COST-INCOME RATIO



EARNINGS PER SHARE GROWTH



DIVIDEND PER SHARE GROWTH





Pension funds





DIVIDEND PER SHARE GROWTH

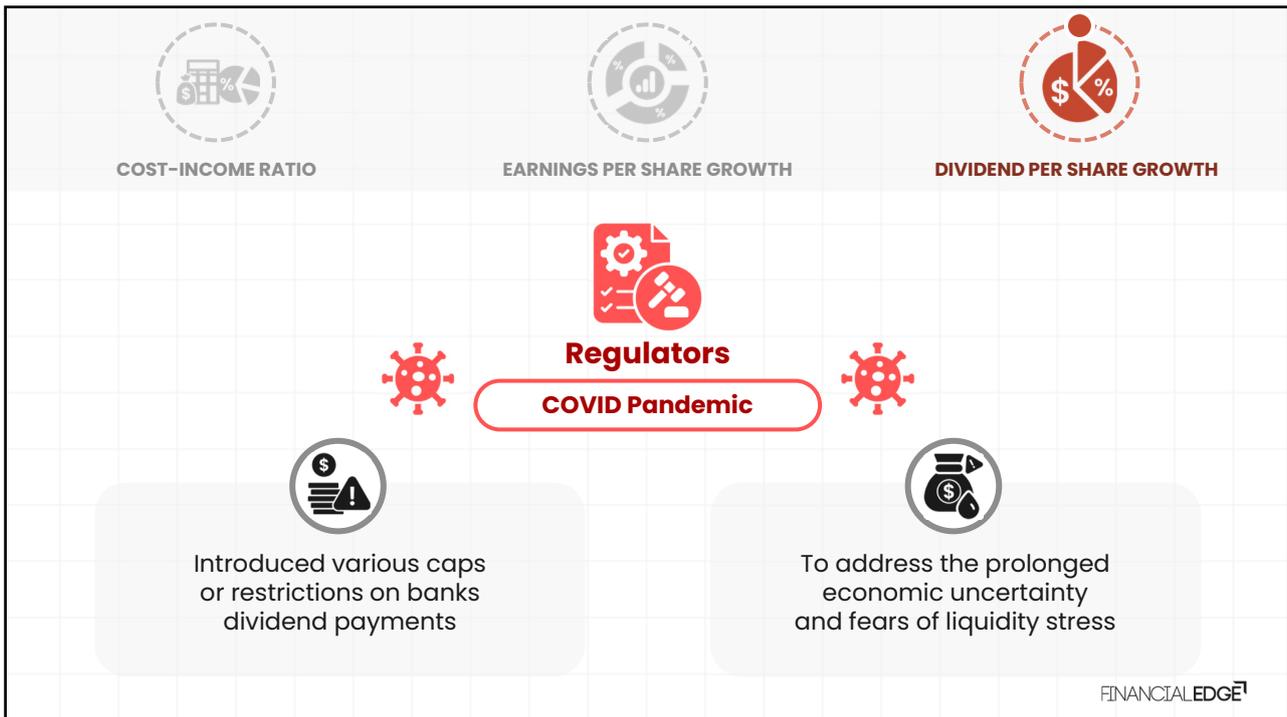
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KEY METRIC

Whether a bank is performing well

The bank's share price will react to changes in its dividend growth

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Income Statement: Cleaning Net Income

How do we **calculate recurring** (or cleaned or adjusted) **net income**?



Non-recurring expenses
(or deduct non-recurring income, if any)



Adjusted EBIT or EBITDA



Non-core items

Non-controlled items

Company's **core operating profit** generated from its **core products**



Cleaned net income

Non-controlled

Non-core

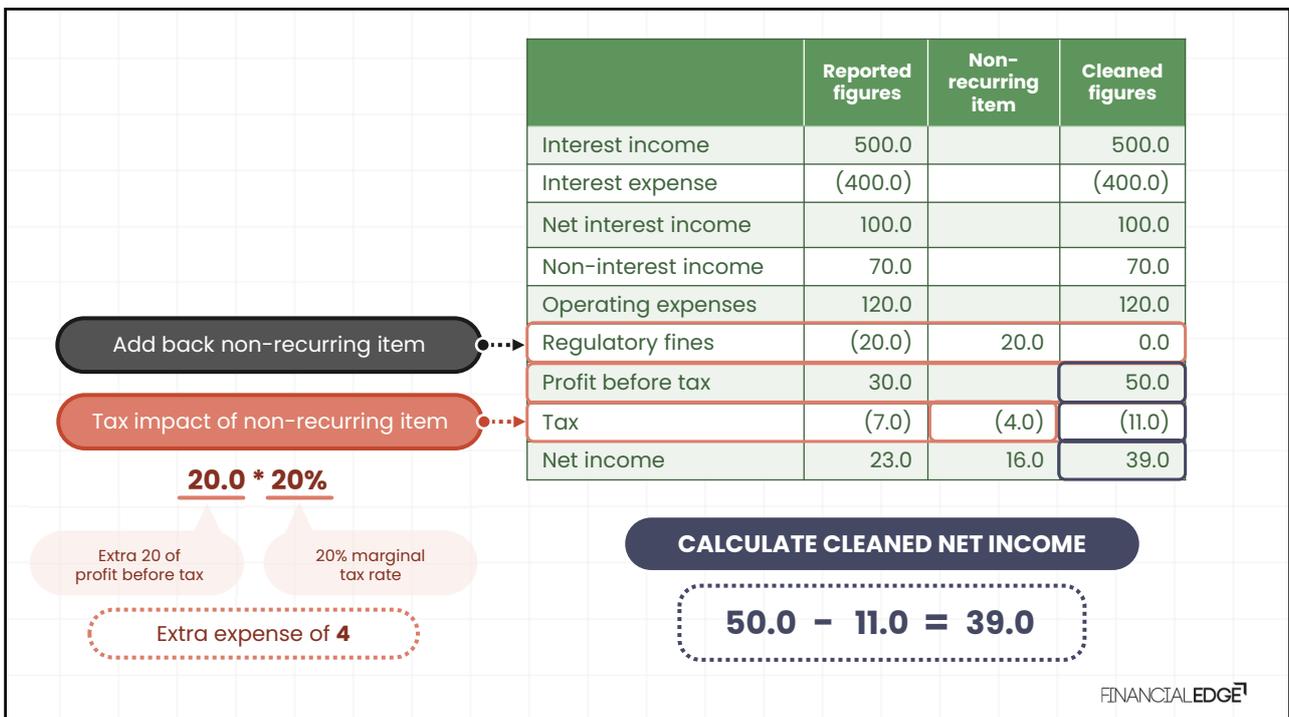
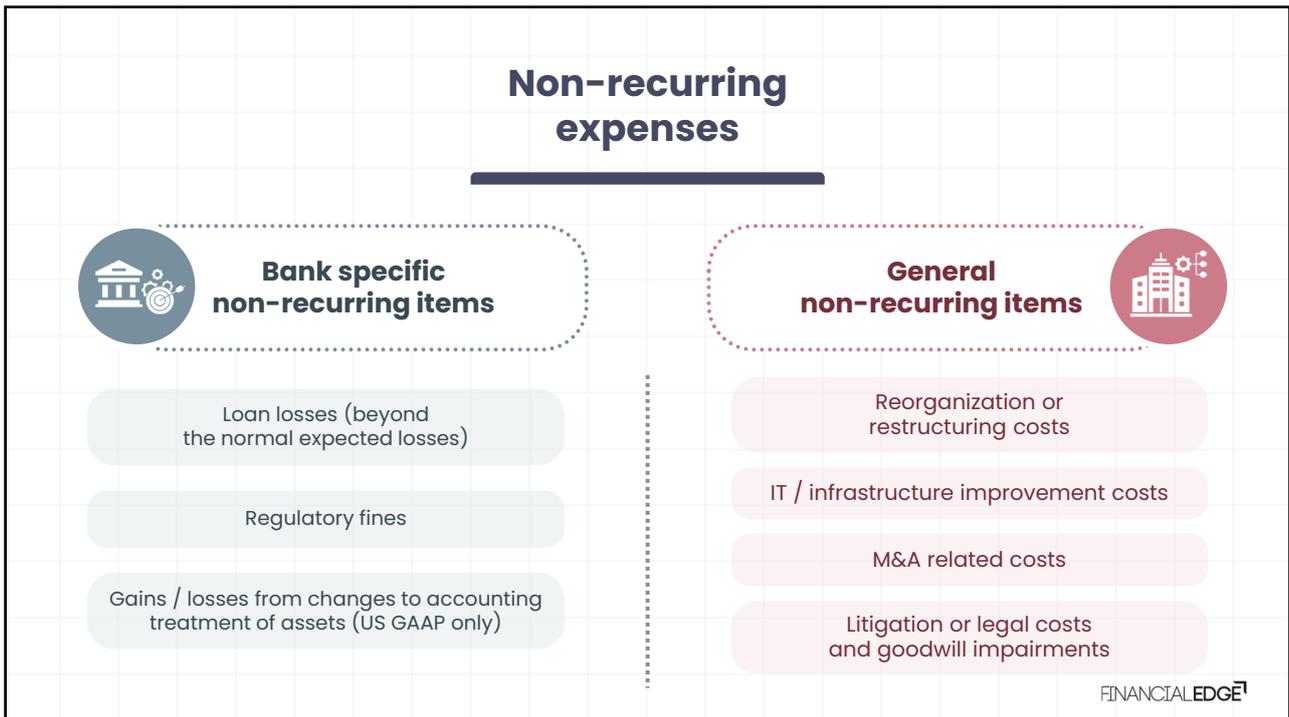
Non-recurring expenses



Net income

All continuing income, regardless of core or control, is assessed in **net income**

Only non-recurring items **are cleaned**



	Reported figures	Non-recurring item	Cleaned figures
Interest income	500.0		500.0
Interest expense	(400.0)		(400.0)
Net interest income	100.0		100.0
Non-interest income	70.0		70.0
Operating expenses	120.0		120.0
Regulatory fines	(20.0)	20.0	0.0
Profit before tax	30.0		50.0
Tax	(7.0)	(4.0)	(11.0)
Net income	23.0	16.0	39.0

Post-tax non-recurring item:

$$20.0 * (1-20\%) = 16$$

Balance Sheet – Key Performance Measures

Key bank **balance sheet** performance **metrics**,
which take the **balance sheet into account**



RETURN ON ASSETS



RETURN ON EQUITY



RETURN ON TANGIBLE EQUITY

None of these measures are the best individually for analyzing the performance of the bank

All tell a slightly different story of how well the bank is doing at generating returns



RETURN ON ASSETS



Used to measure the **performance**
of the **operations of the business**

Doesn't reflect the performance of the **operations of a bank**, as both are **calculated** before **interest is deducted**

EBIT

EBITDA



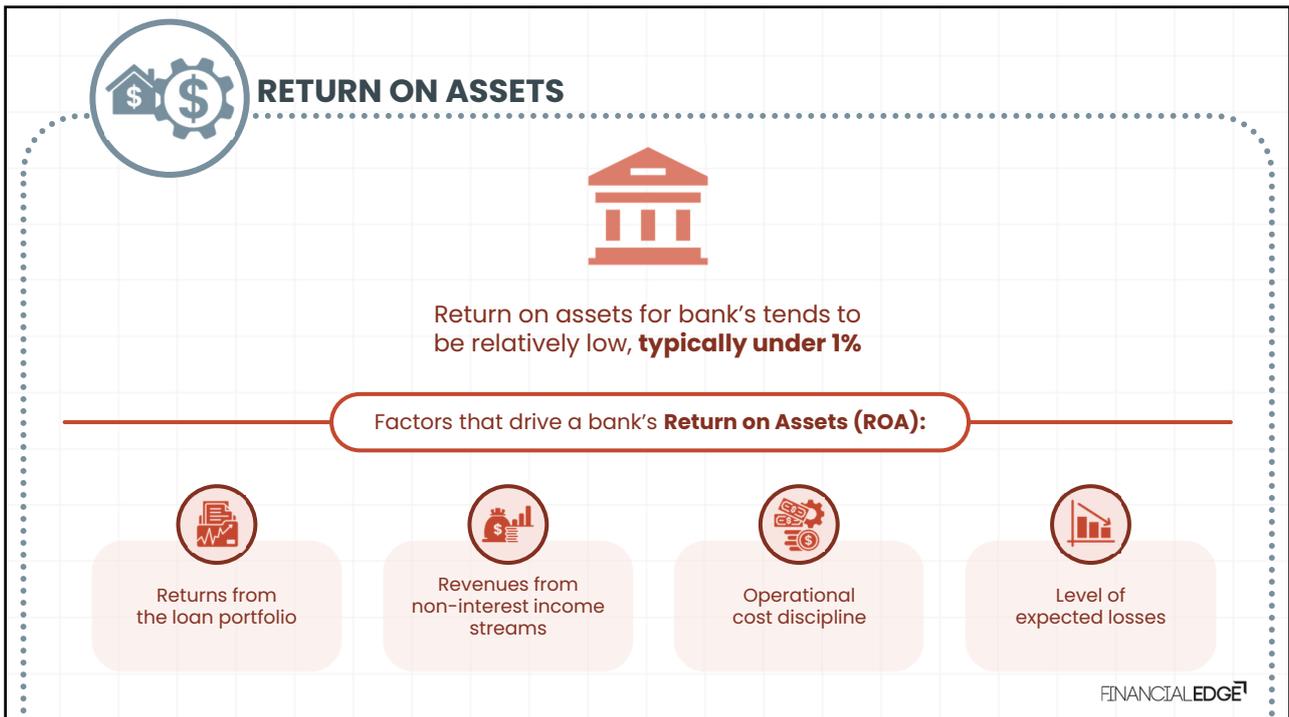
Total assets

CALCULATION

Uses net income
not EBIT / EBITDA

Recurring net income

Average total assets



RETURN ON ASSETS

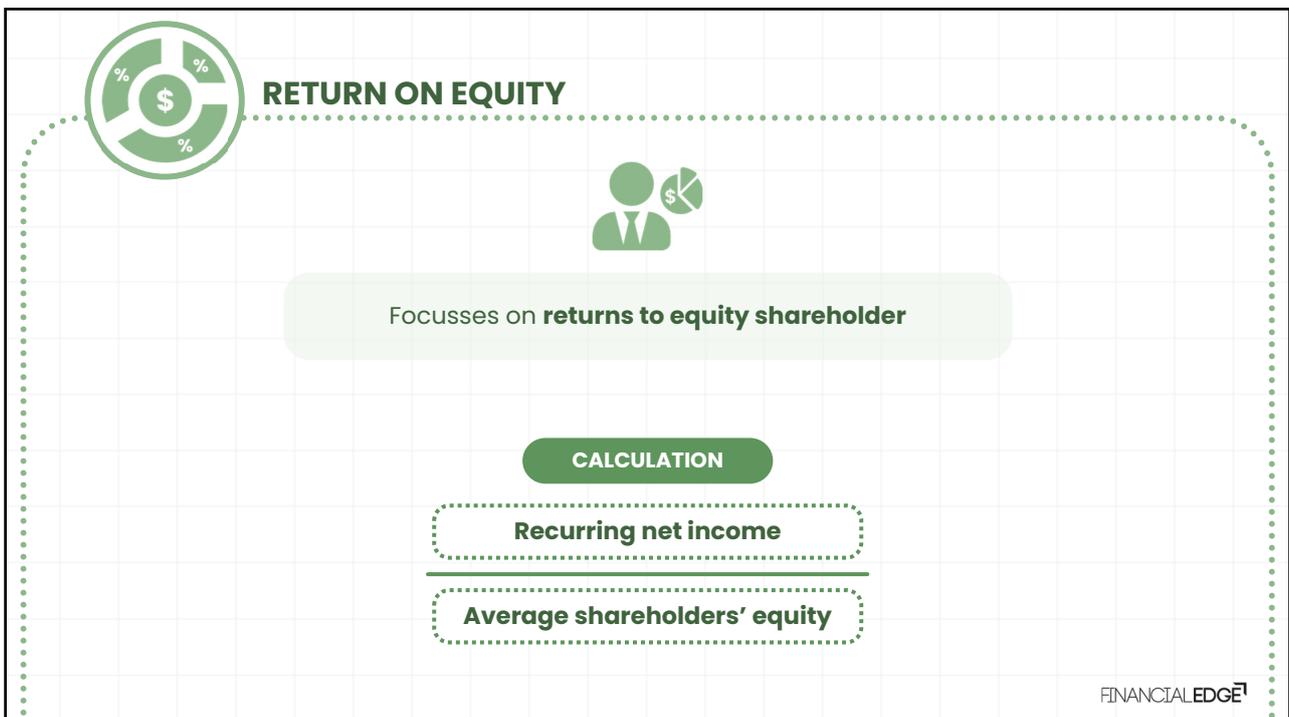


Return on assets for bank's tends to be relatively low, **typically under 1%**

Factors that drive a bank's **Return on Assets (ROA)**:

-  Returns from the loan portfolio
-  Revenues from non-interest income streams
-  Operational cost discipline
-  Level of expected losses

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RETURN ON EQUITY

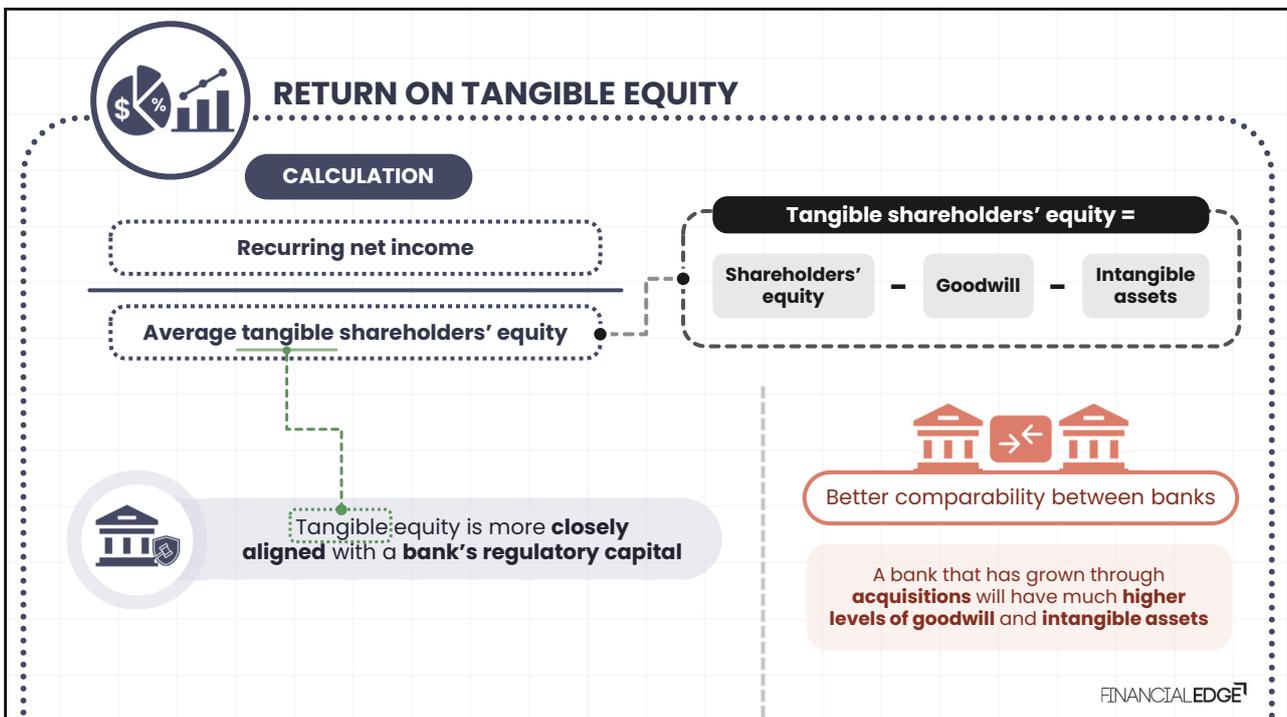
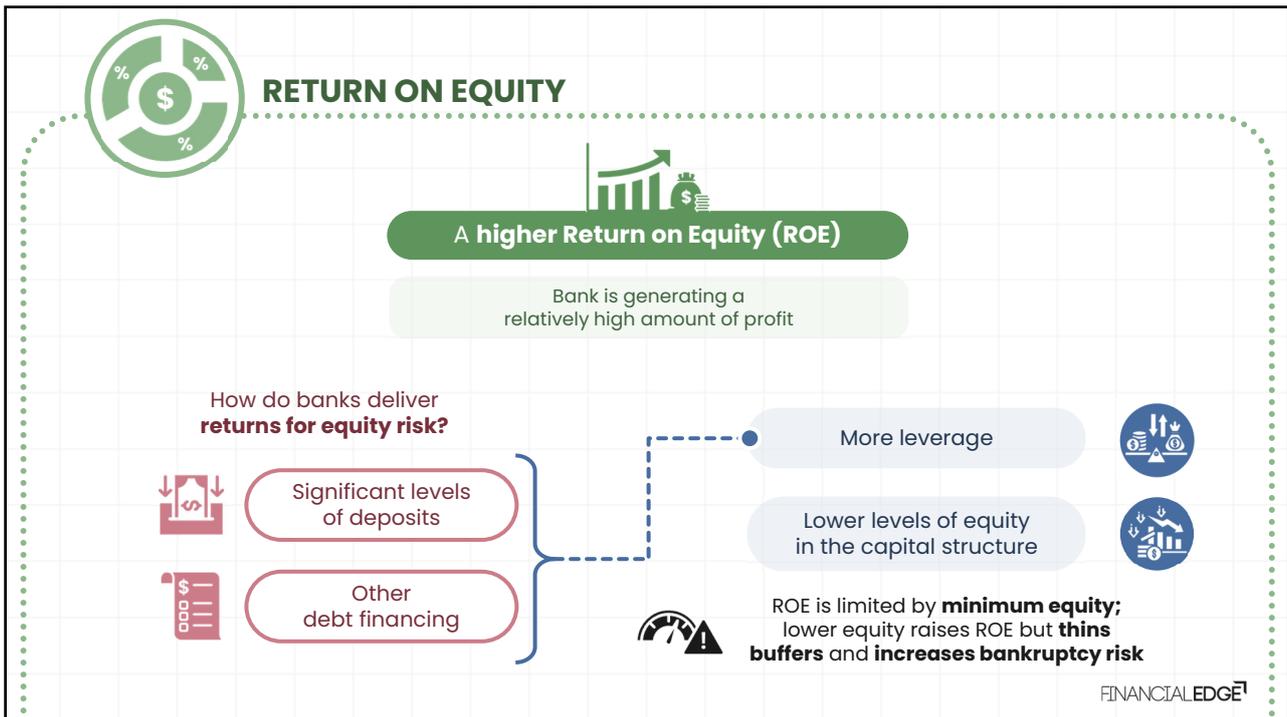


Focusses on **returns to equity shareholder**

CALCULATION

$$\frac{\text{Recurring net income}}{\text{Average shareholders' equity}}$$

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RETURN ON TANGIBLE EQUITY

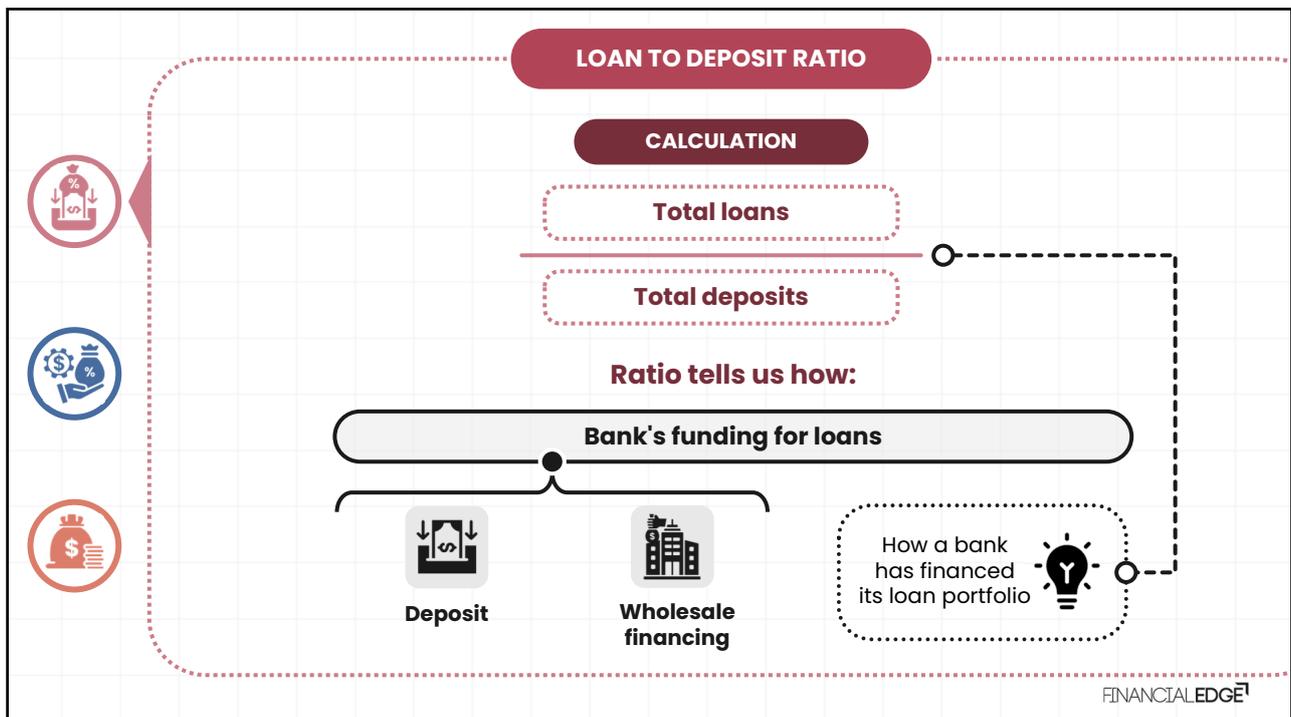
Bank valuation multiples

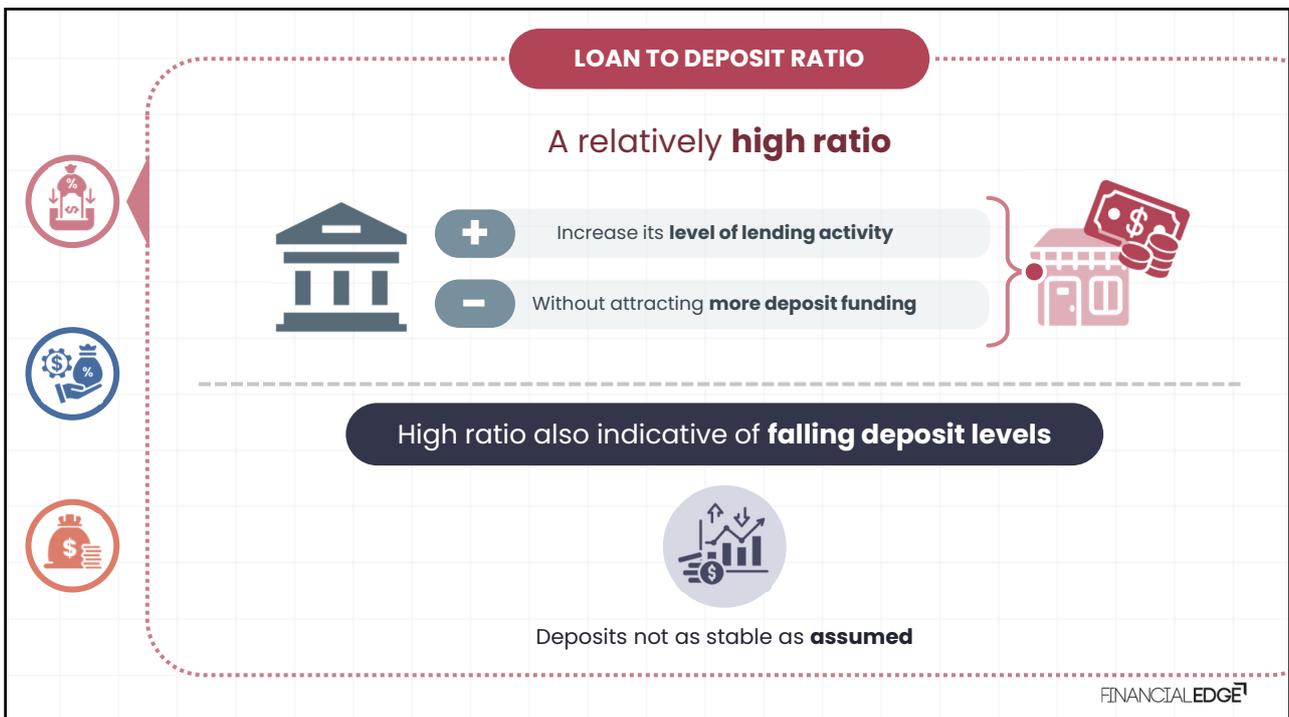
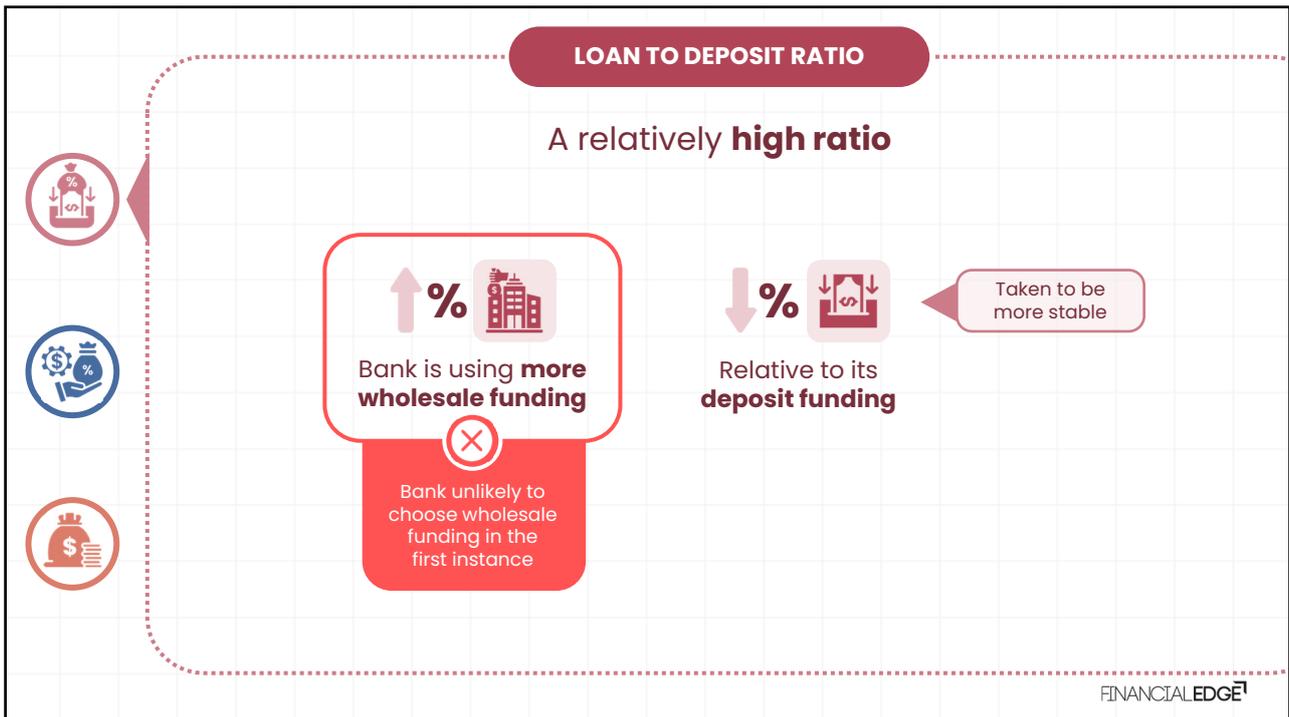


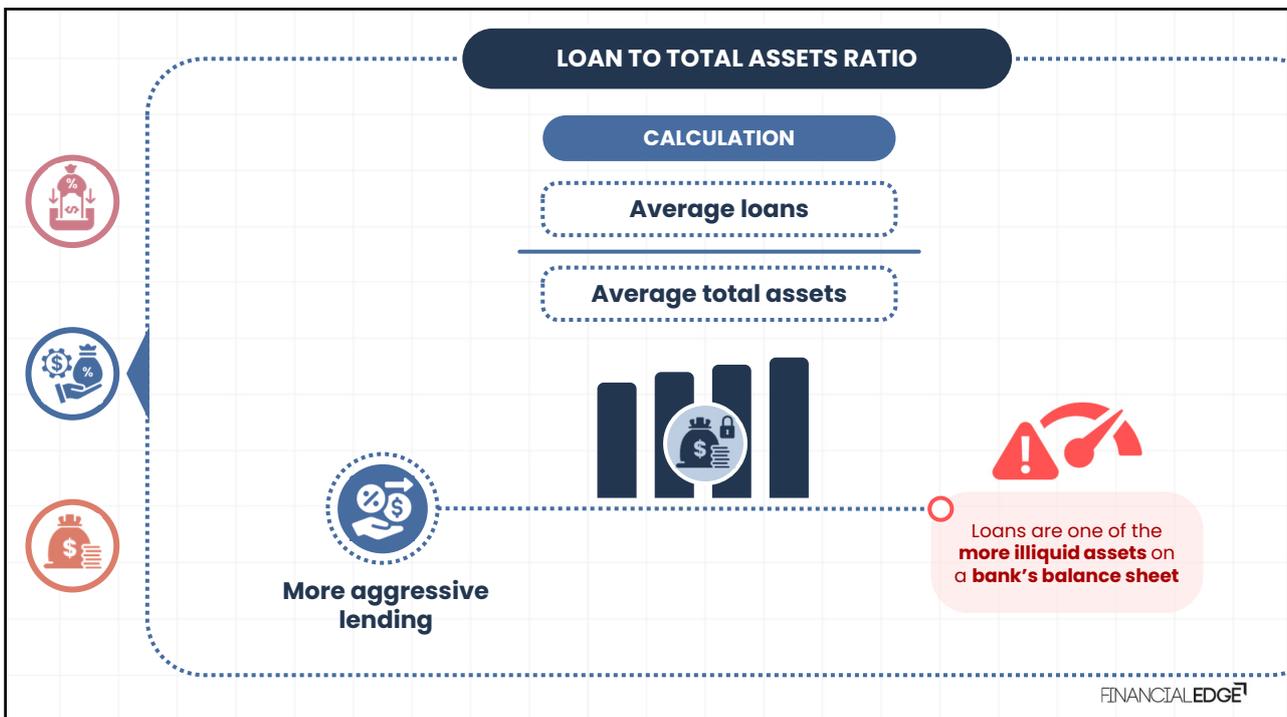
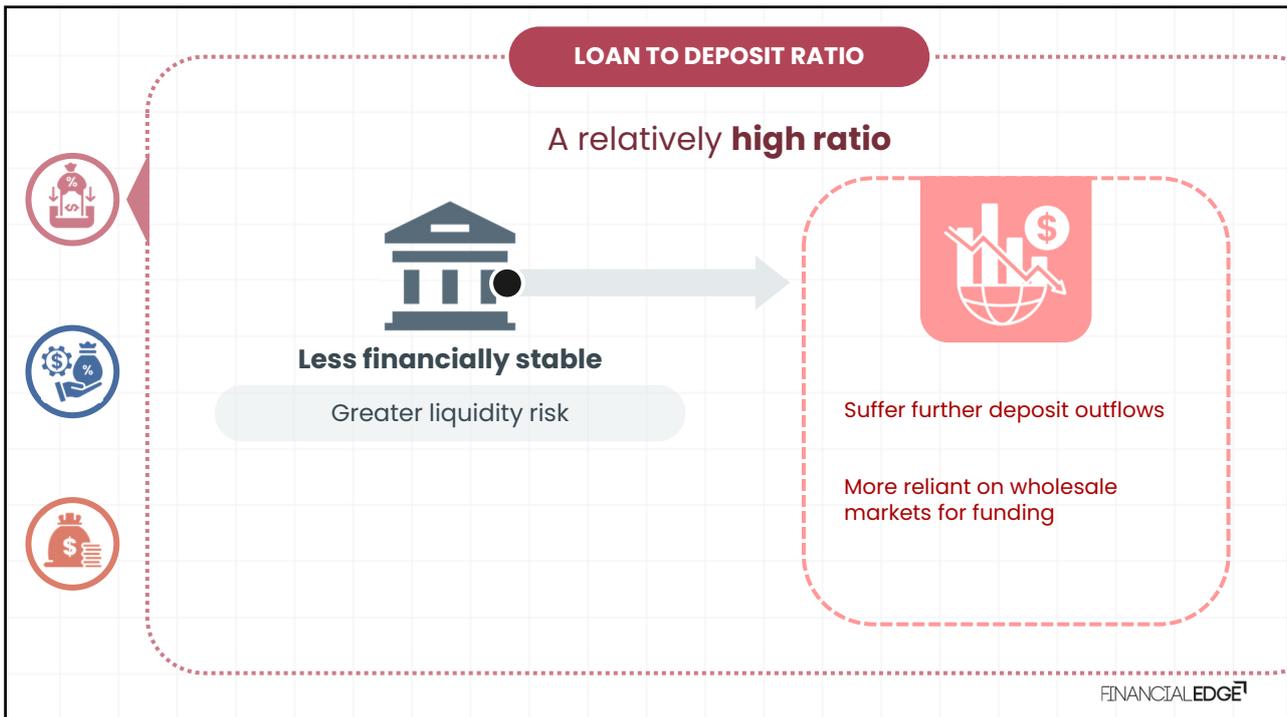
Price to **tangible book value**

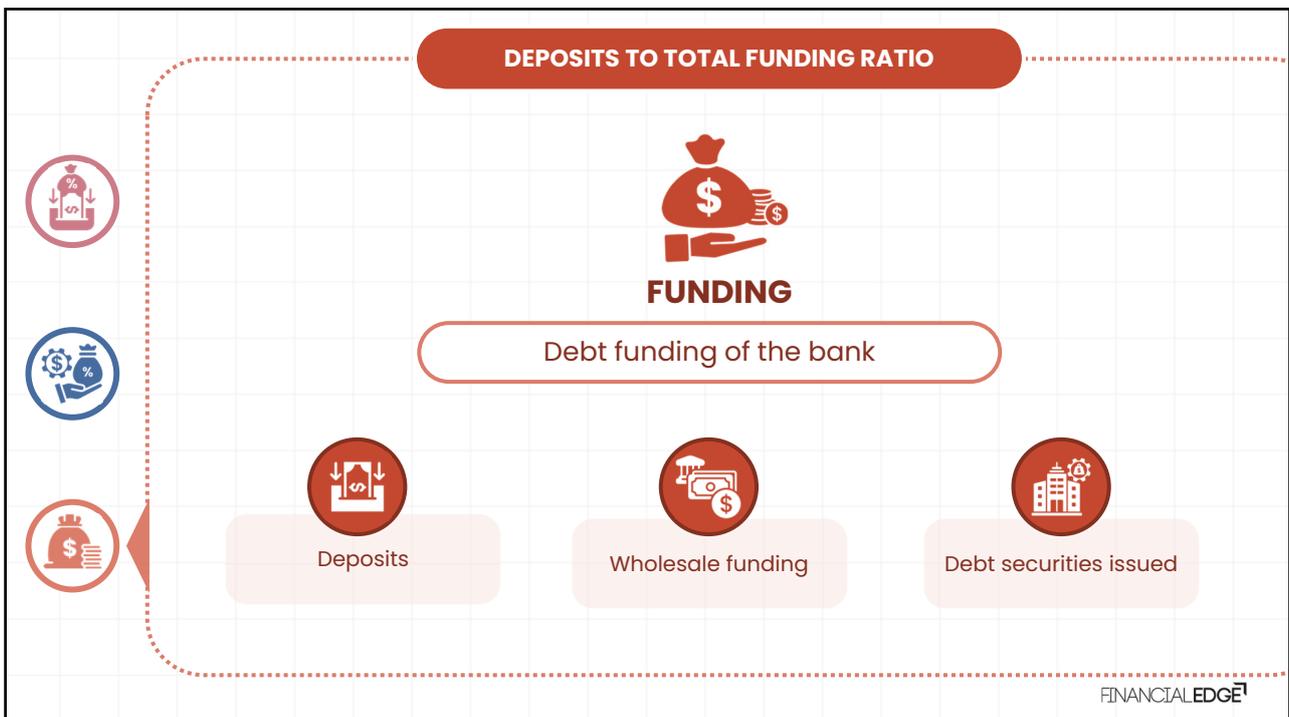
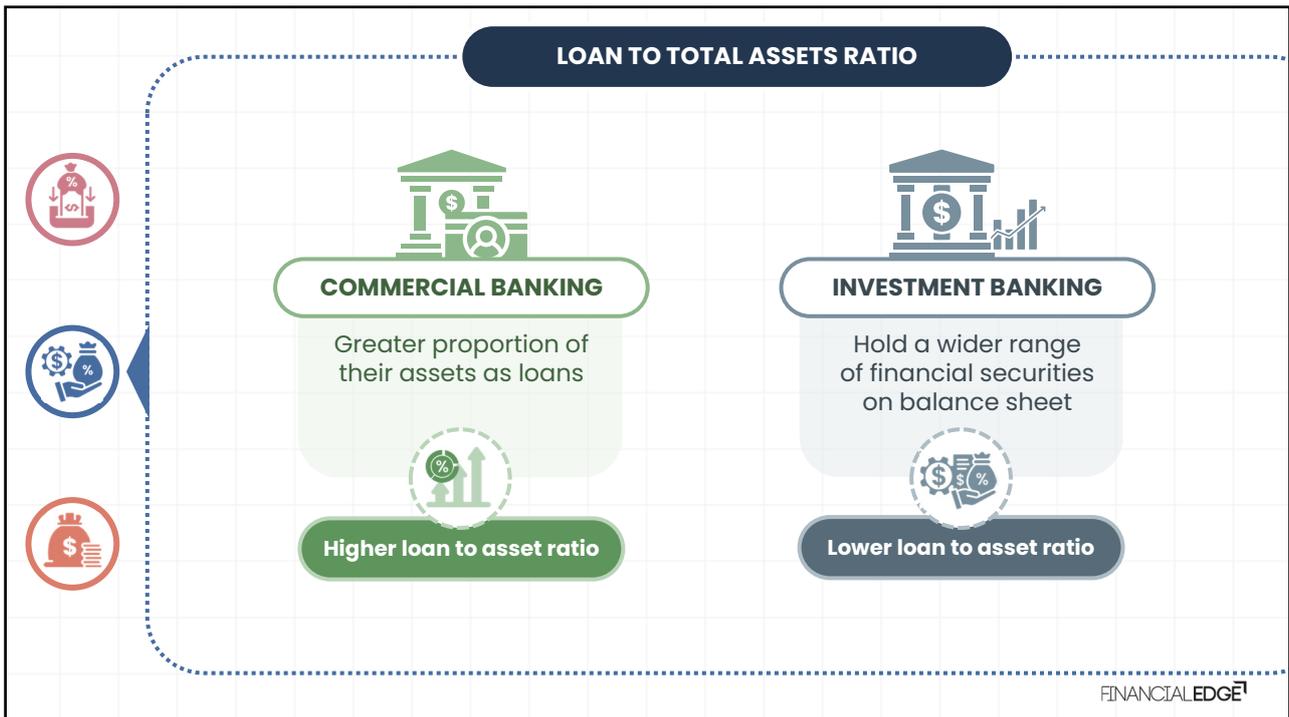
Balance Sheet – Key Composition Measures

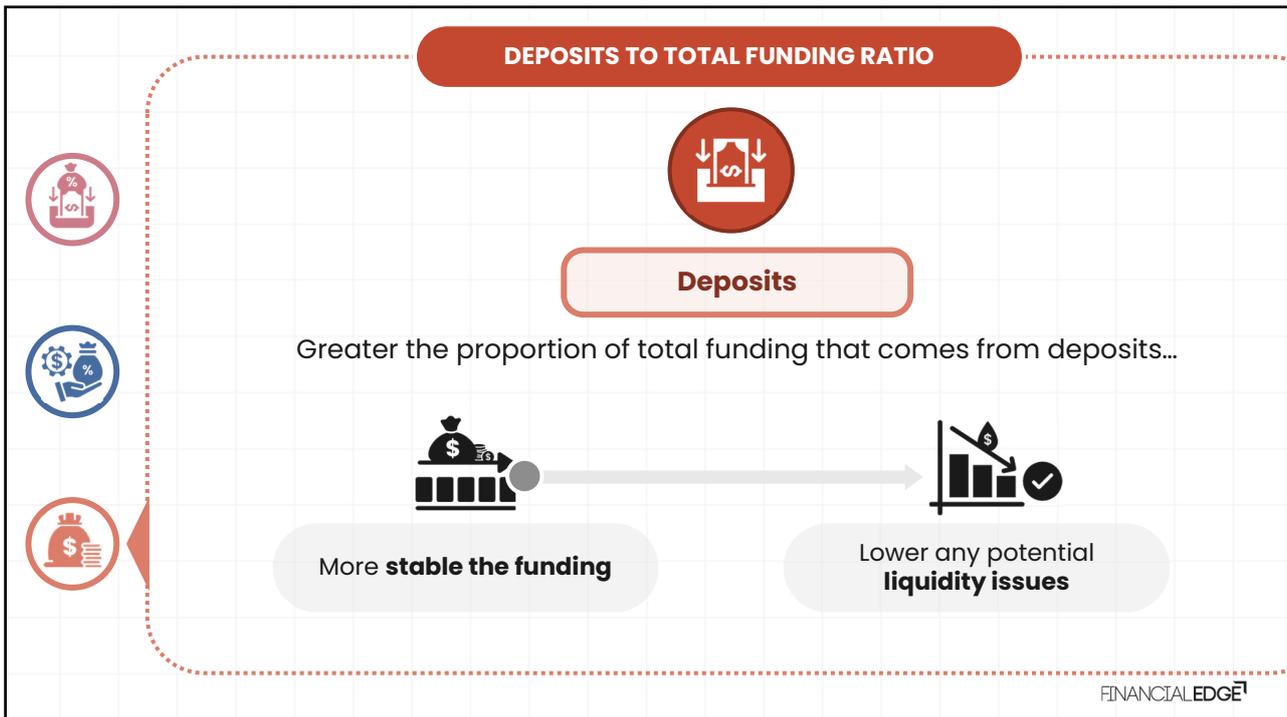
Bank's returns may have come from:







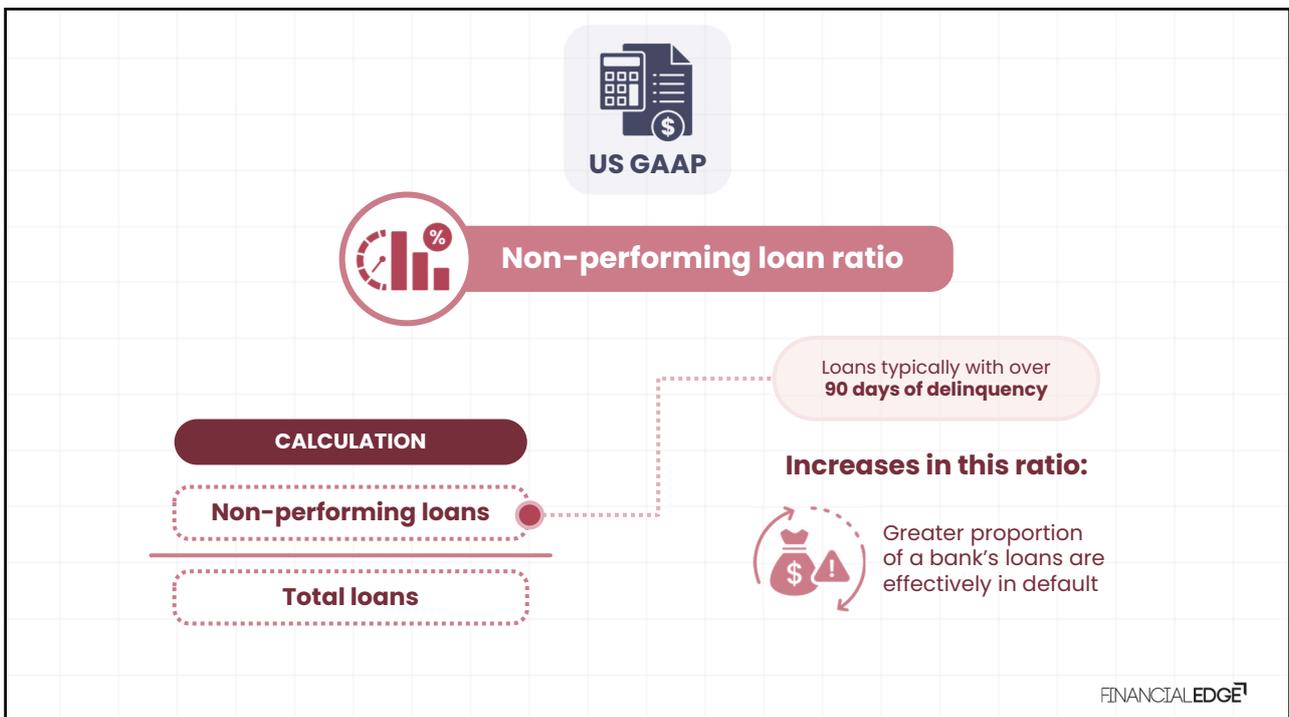
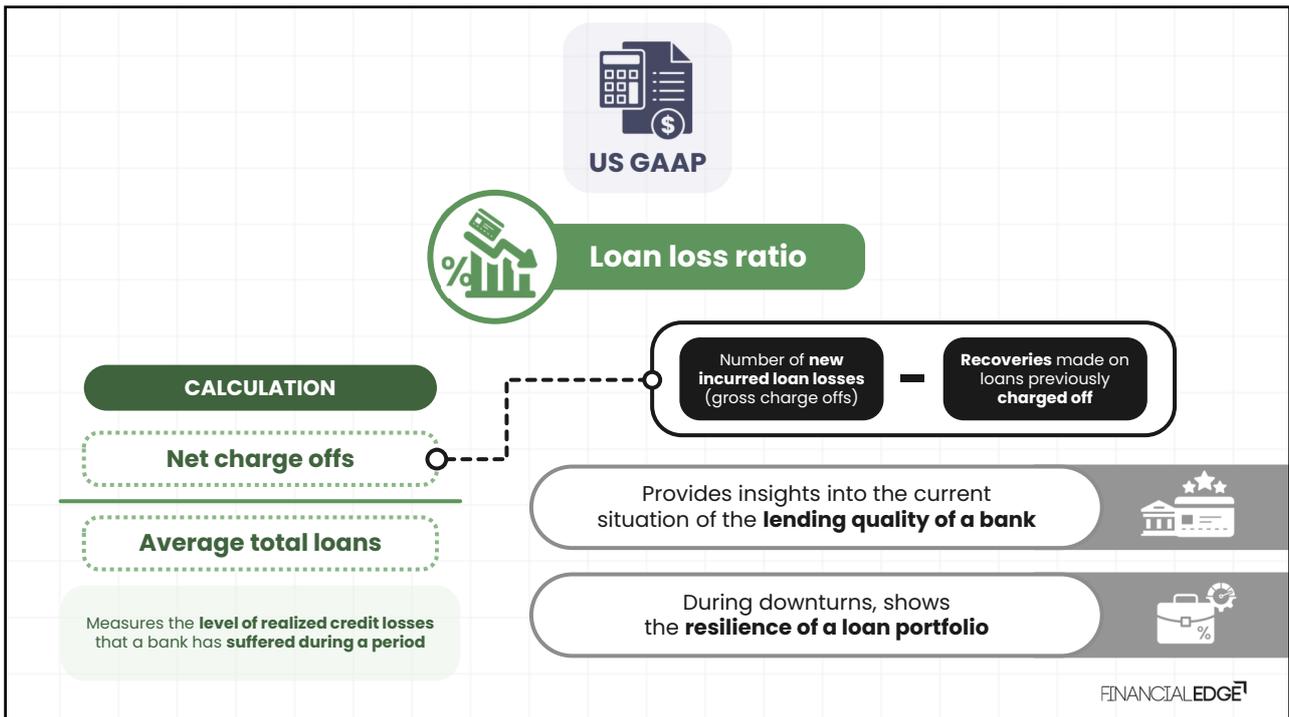


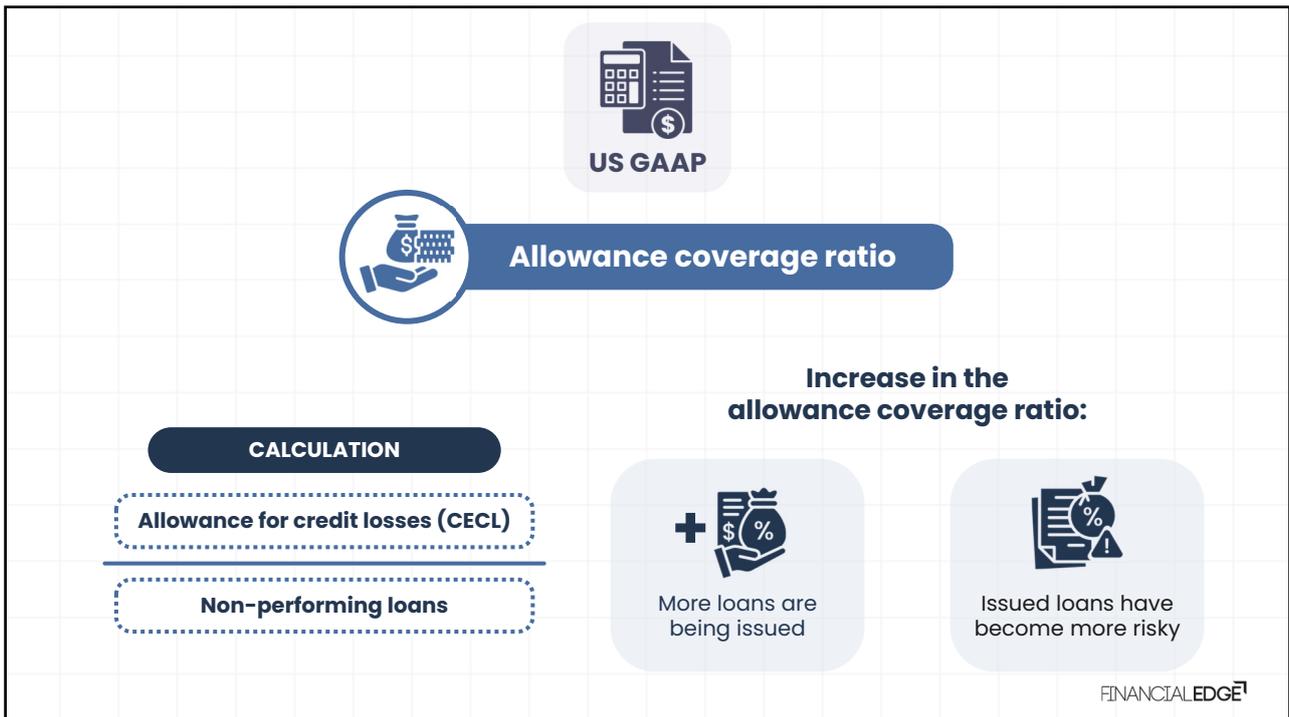


Credit Quality Analysis (US GAAP)

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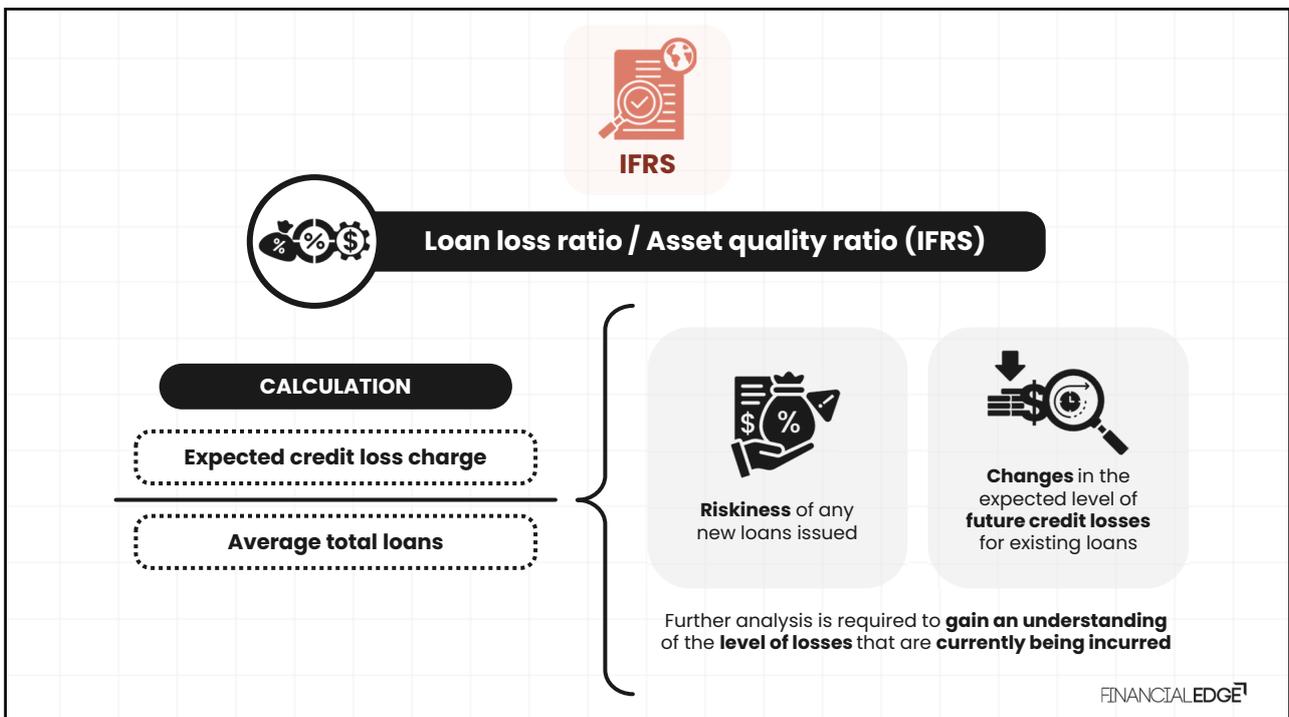
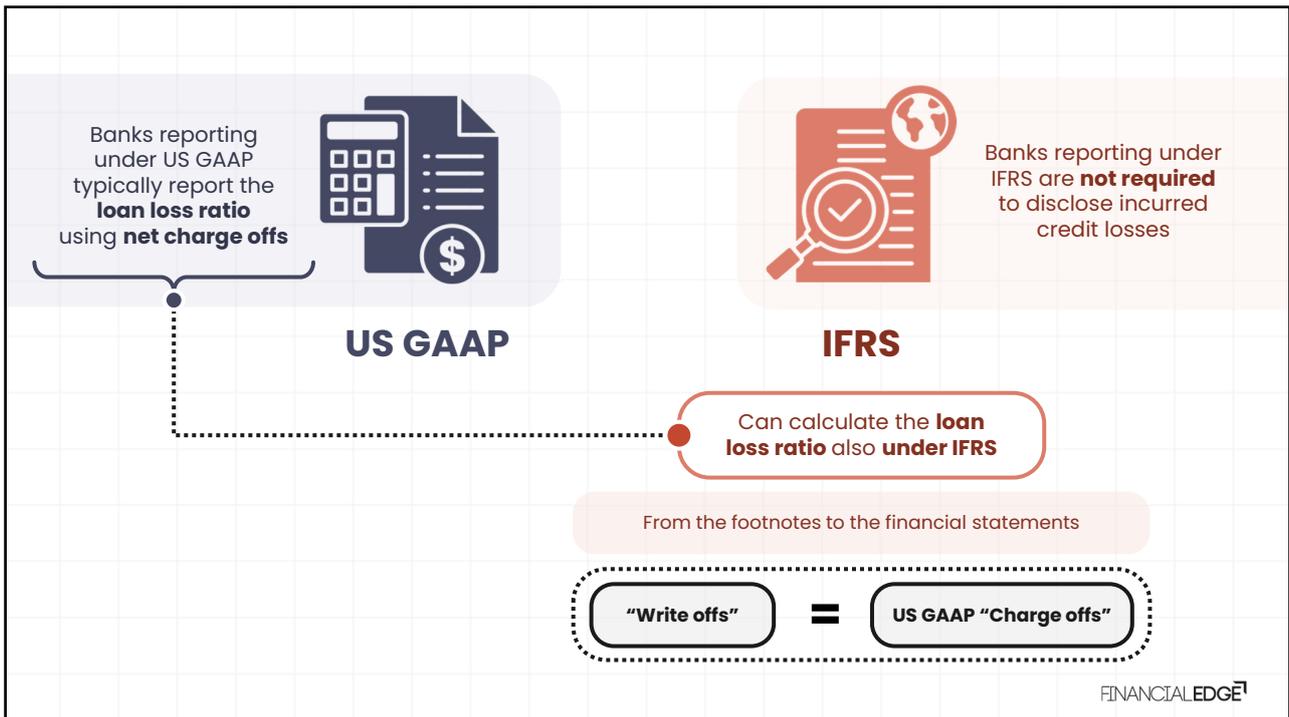


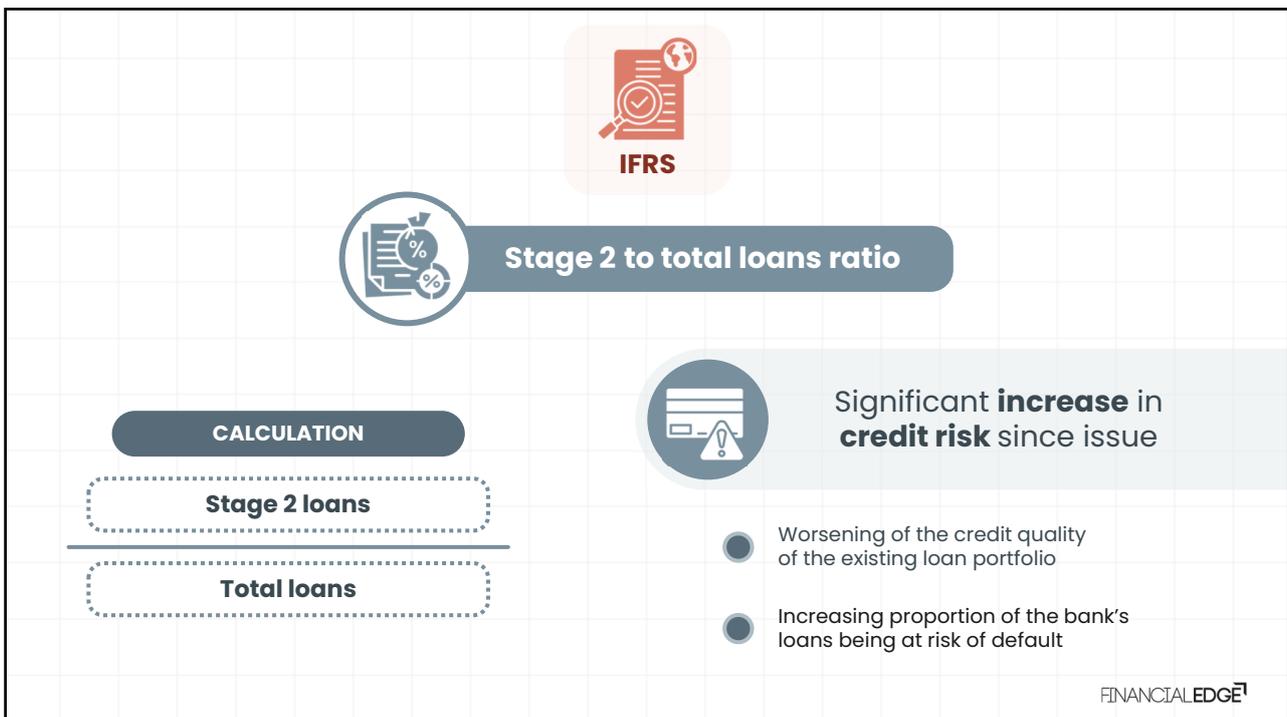
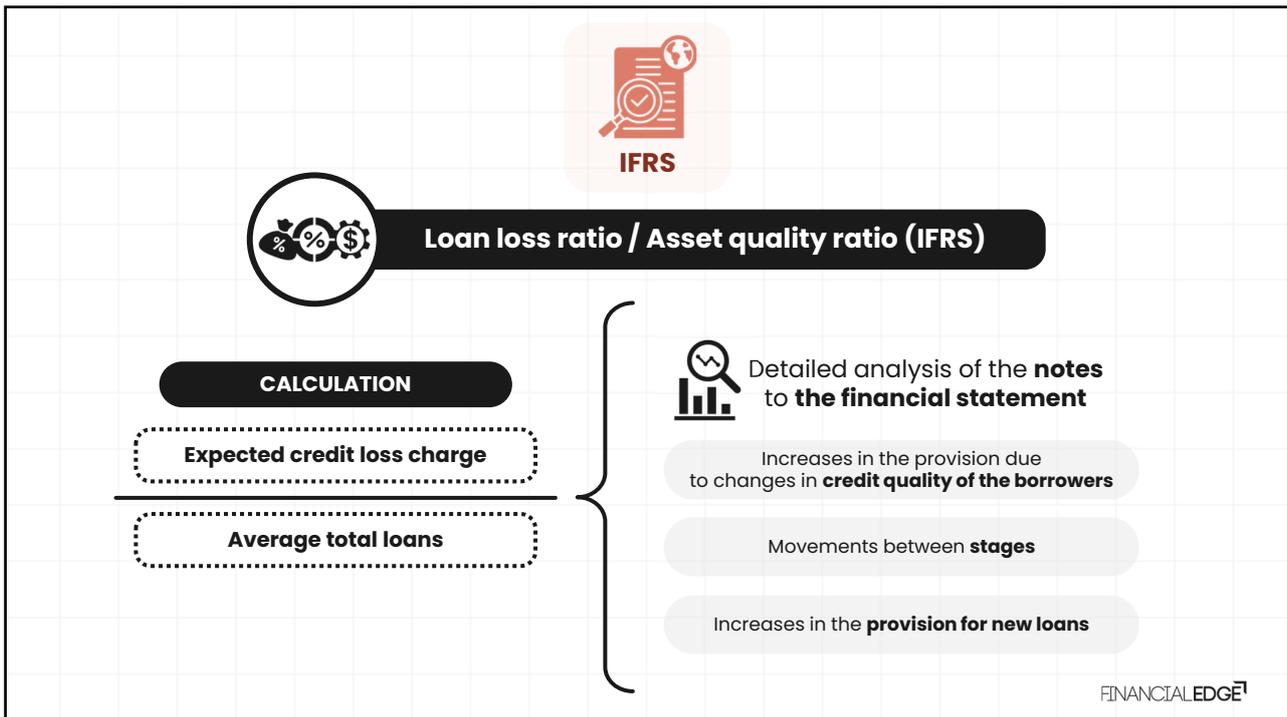




Credit Quality Analysis (IFRS)

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IFRS



Non-performing / Stage 3 loans ratio

CALCULATION

$$\frac{\text{Non-performing / Stage 3 loans}}{\text{Total loans}}$$

Increase in ratio:



Greater proportion of a **bank's loans** are effectively in **default**

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IFRS



ECL coverage ratio

CALCULATION

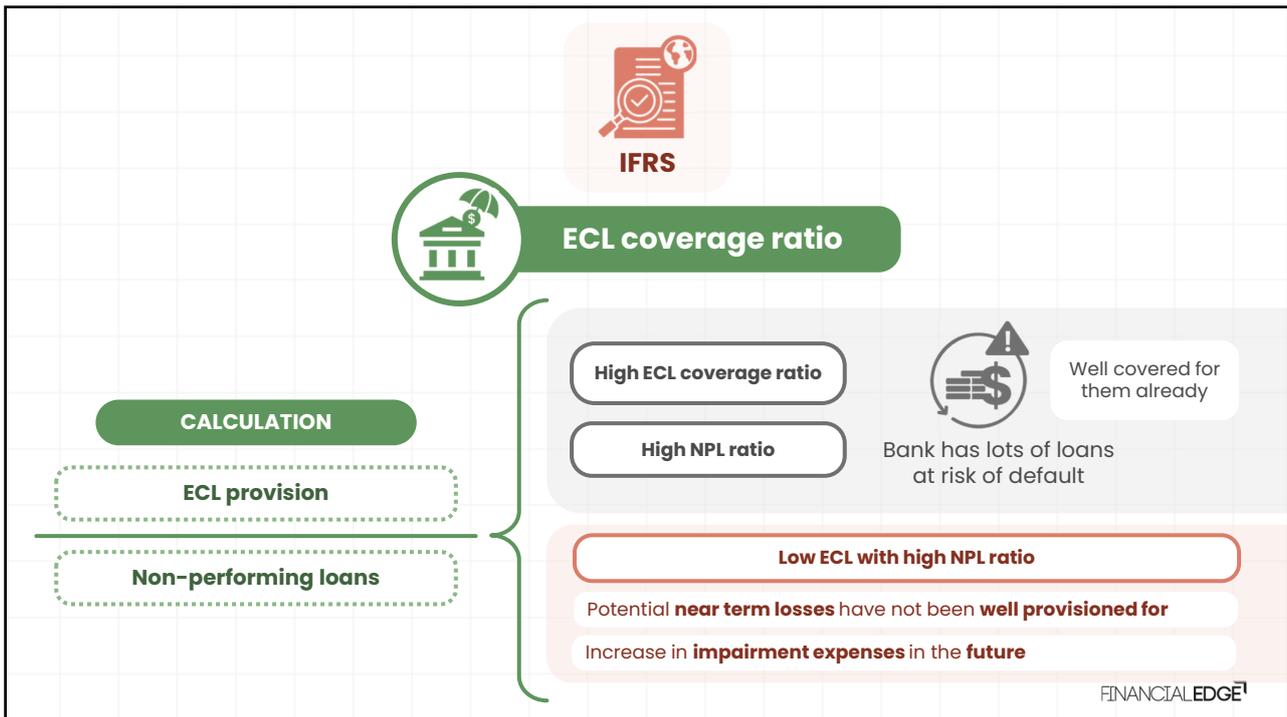
$$\frac{\text{ECL provision}}{\text{Non-performing loans}}$$

How well current **non-performing loans** are covered by the provision for **future expected losses**

Increase in the ECL coverage ratio could indicate either that:

-  More loans are being issued
-  Issued loans have become more risky
-  There has been a reduction in the level of currently non-performing loans

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Changes in Expected Credit Loss Provision Footnote Analysis

Footnote for loans and advances in the Lloyds Bank financial statements

Note 23: Loans and advances to customers
Year ended 31 December 2023

	Gross carrying amount					Allowance for expected credit losses				
	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m	Stage 1 £m	Stage 2 £m	Stage 3 £m	POCI £m	Total £m
At 1 January 2023	380,991	61,164	7,640	9,622	459,417	700	1,808	1,757	253	4,518
Exchange and other adjustments ¹	1,830	(24)	(6)	18	1,818	(7)	(1)	105	67	164
Transfers to Stage 1	18,991	(18,953)	(38)			401	(393)	(8)		
Transfers to Stage 2	(18,010)	18,592	(582)			(53)	121	(68)		
Transfers to Stage 3	(1,216)	(2,507)	3,723			(19)	(223)	236		
Impact of transfers between stages	(235)	(2,868)	3,103			(260)	402	312		454
Other changes in credit quality ²						75	(93)	472		454
Additions and repayments	6,393	(4,213)	(2,353)	(1,043)	(1,216)	81	(85)	(862)	(81)	(947)
Charge (credit) to the income statement						261	(281)	414	(73)	321
Disposals and derecognition ³	(3,685)	(892)	(122)	(743)	(5,442)	(54)	(59)	(24)	(34)	(177)
Advances written off			(1,231)		(1,231)			(1,231)		(1,231)
Recoveries of advances written off in previous years			116		116			116		116
At 31 December 2023	385,294	53,167	7,147	7,854	453,462	900	1,467	1,137	213	3,717
Allowance for impairment losses	(900)	(1,467)	(1,137)	(213)	(3,717)					
Net carrying amount	384,394	51,700	6,010	7,641	449,745					
Drawn ECL coverage ⁴ (%)	0.2	2.8	15.9	2.7	0.8					

Net effect of all of the **movements** between different stages:

Additional £454m has been added to the allowance for **credit losses**

Additional £814m has been added from increases in expected credit losses

Effect of new loans **being issued** and **old loans being paid off**

Equivalent to the **US GAAP "charge offs"**, of **£1.231bn** on a gross basis and **£1.115bn** on a net basis

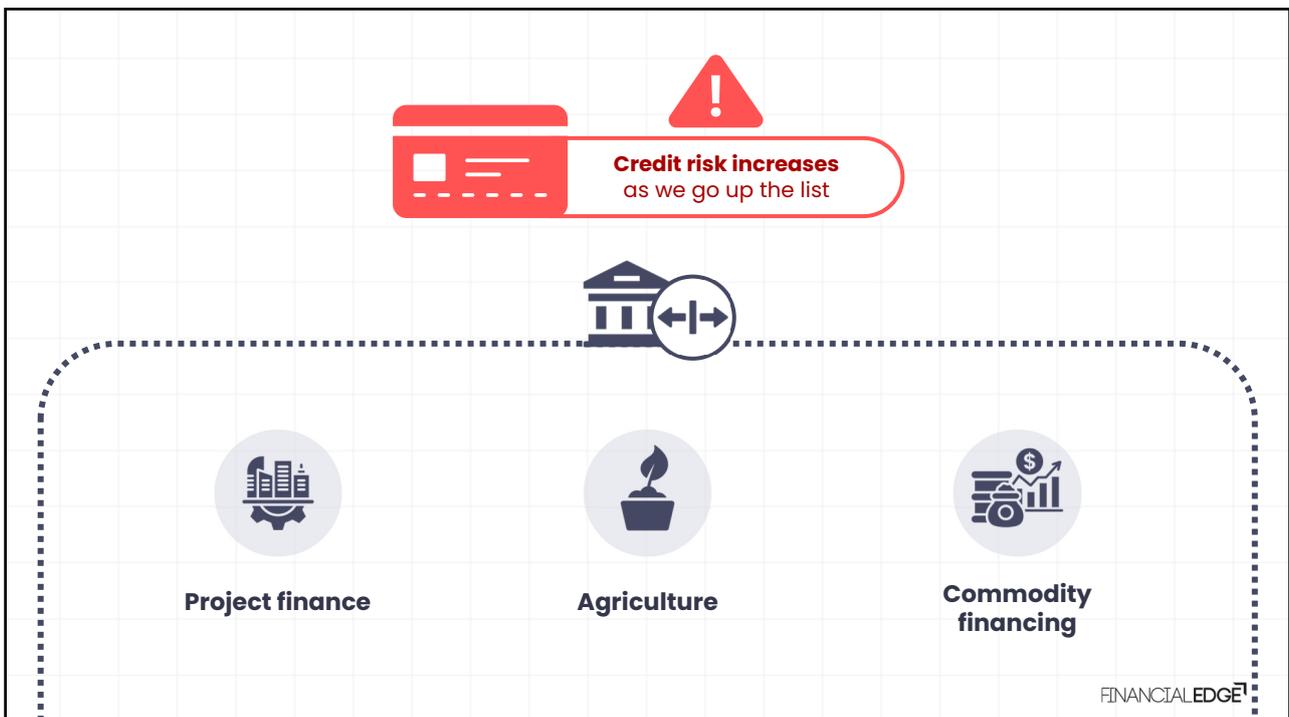
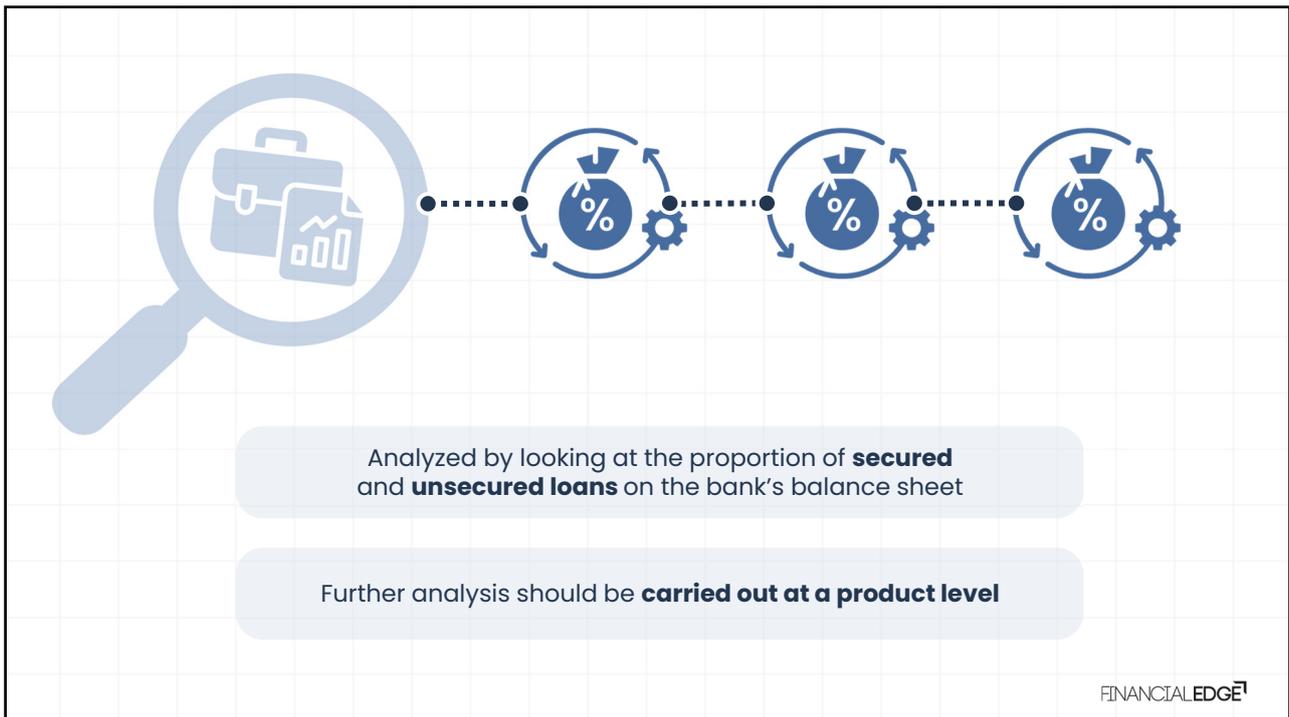
Allowance for **expected credit losses** has fallen by **£800m**

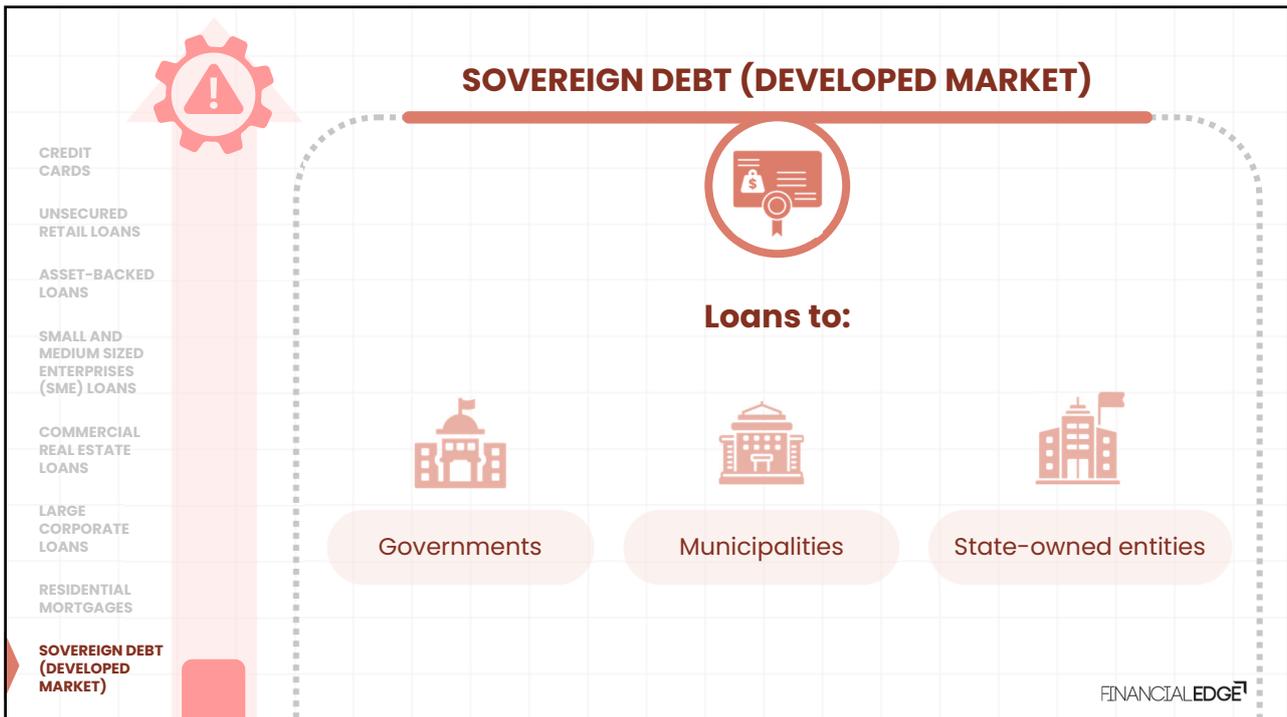
Due to loans being repaid that Lloyds had considered not be **(£0.9bn)**

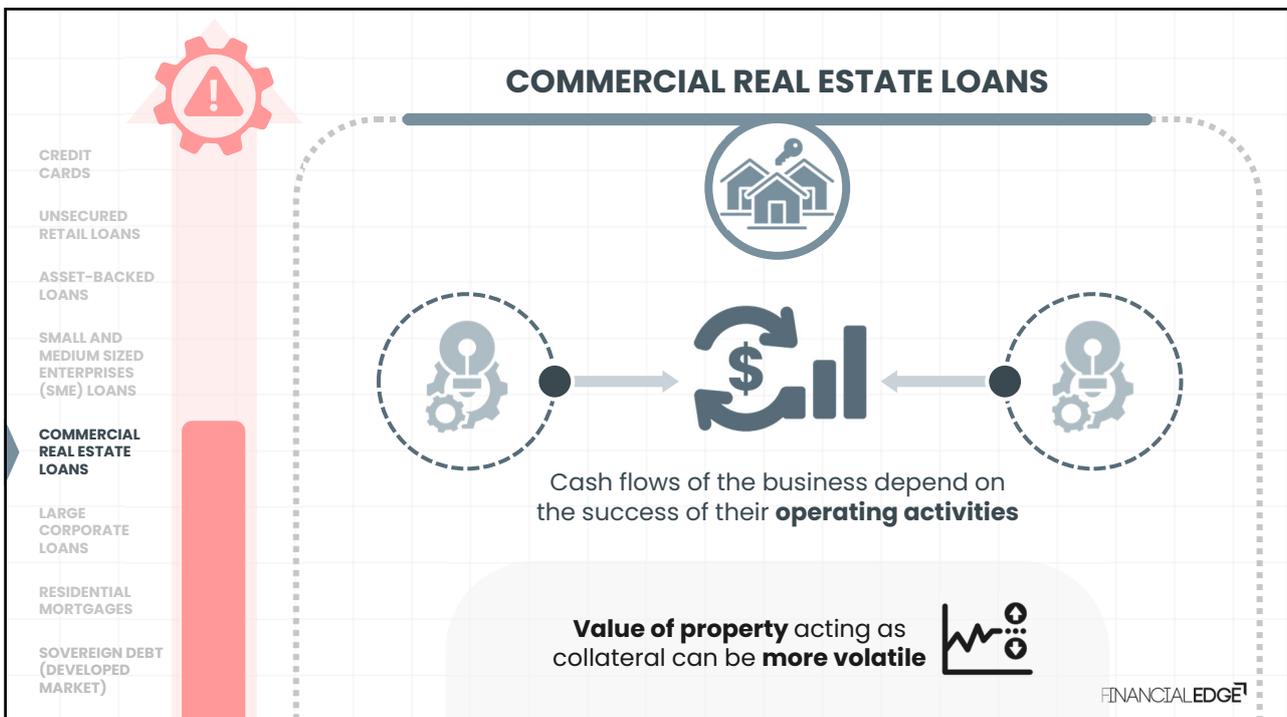
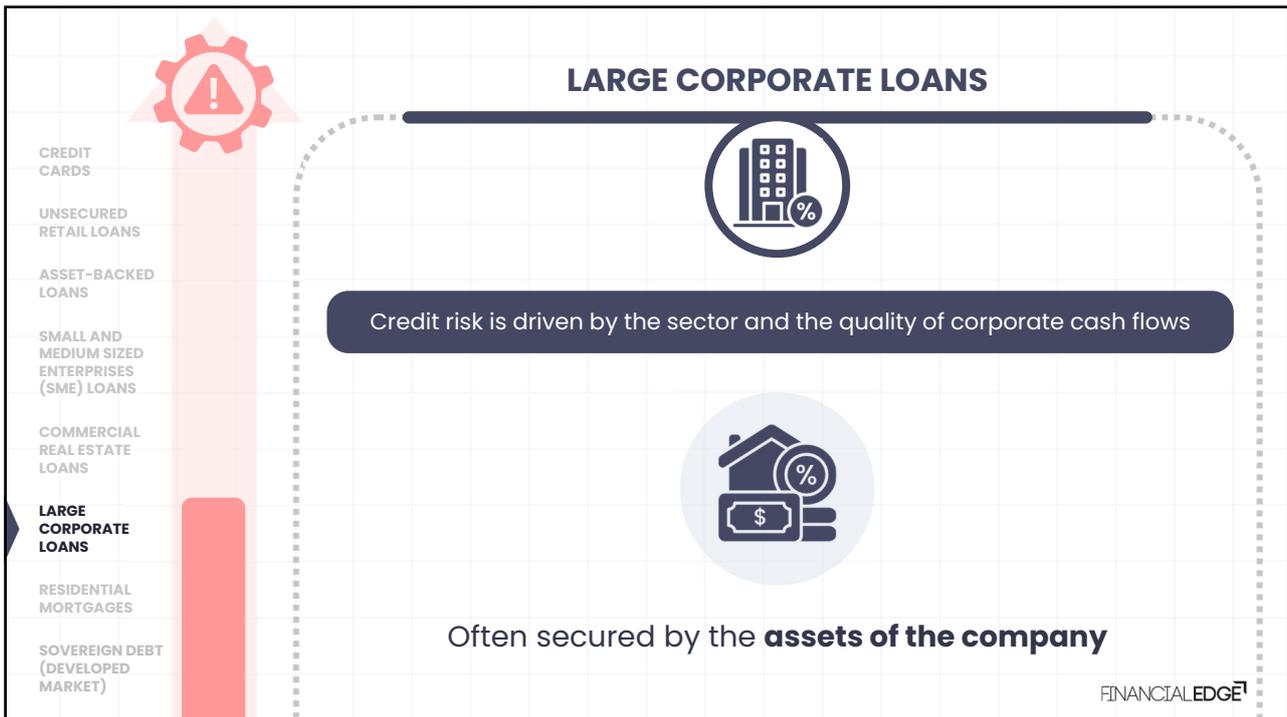
Already provided loans being written off **(£1.2bn)**

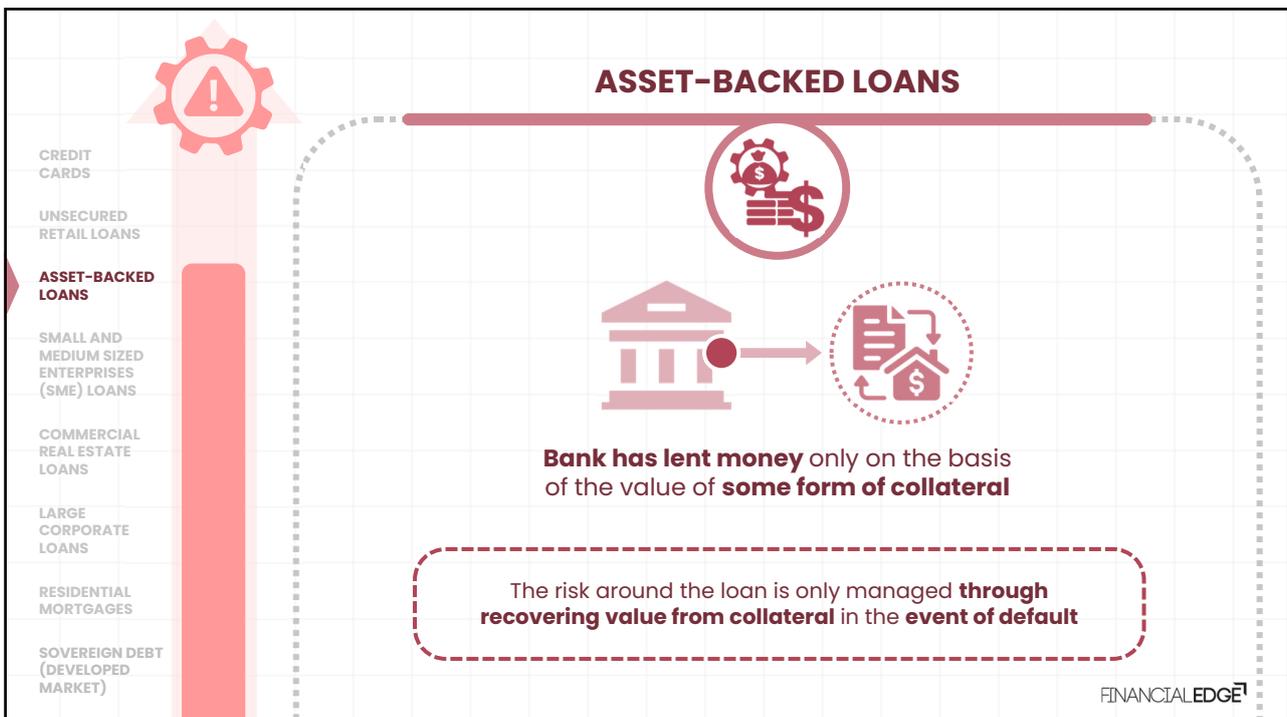
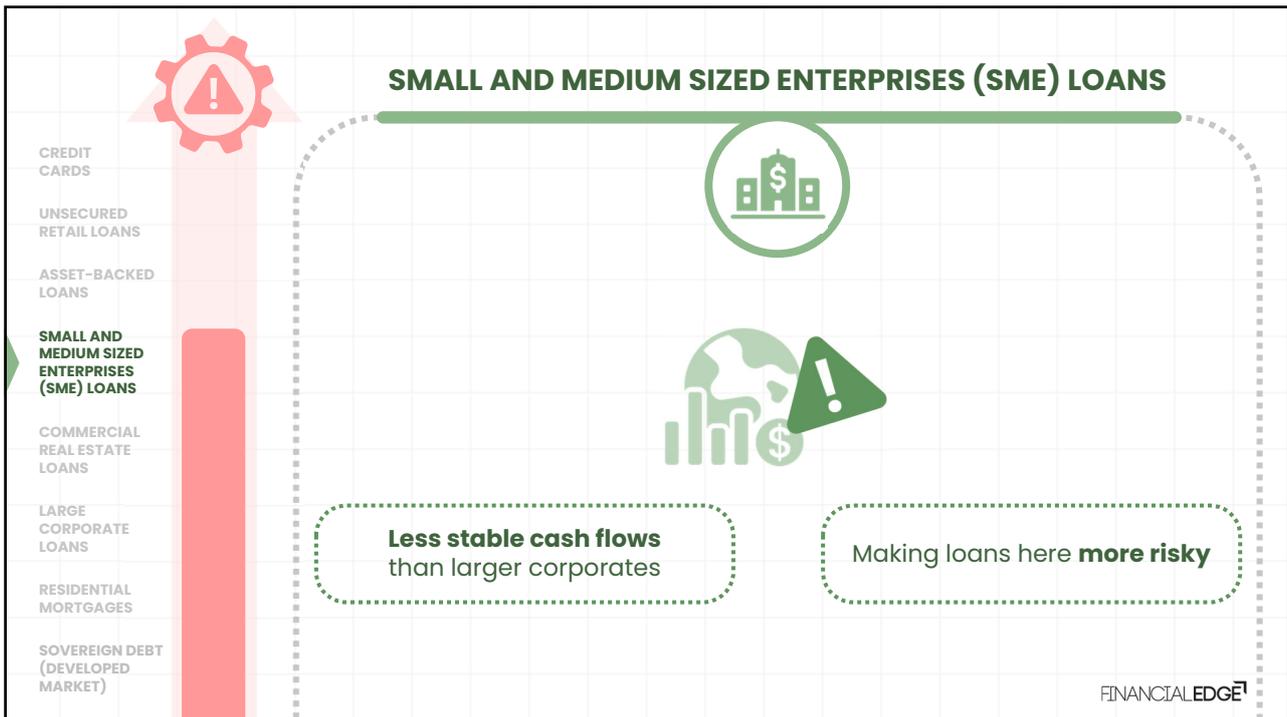
Offset by an increase in expected losses on the remaining loan portfolio of **around £1.3bn**

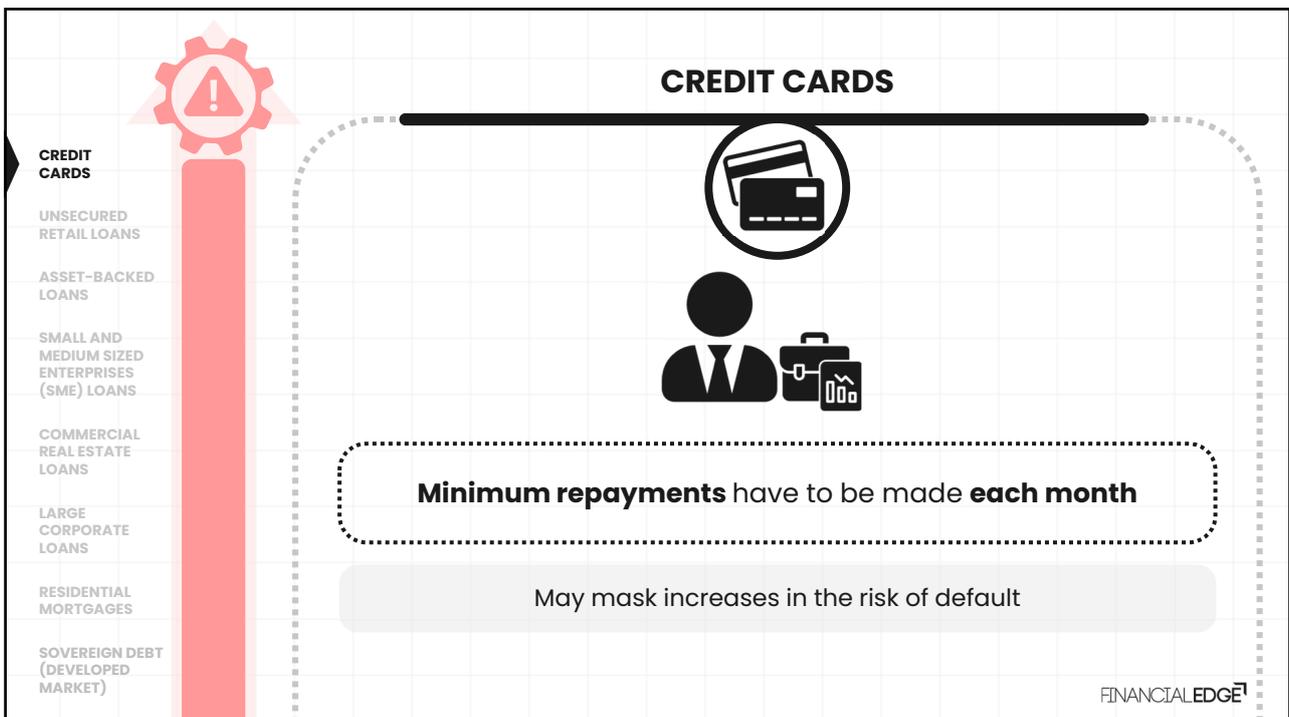
Credit Quality Analysis – Loan Categorization





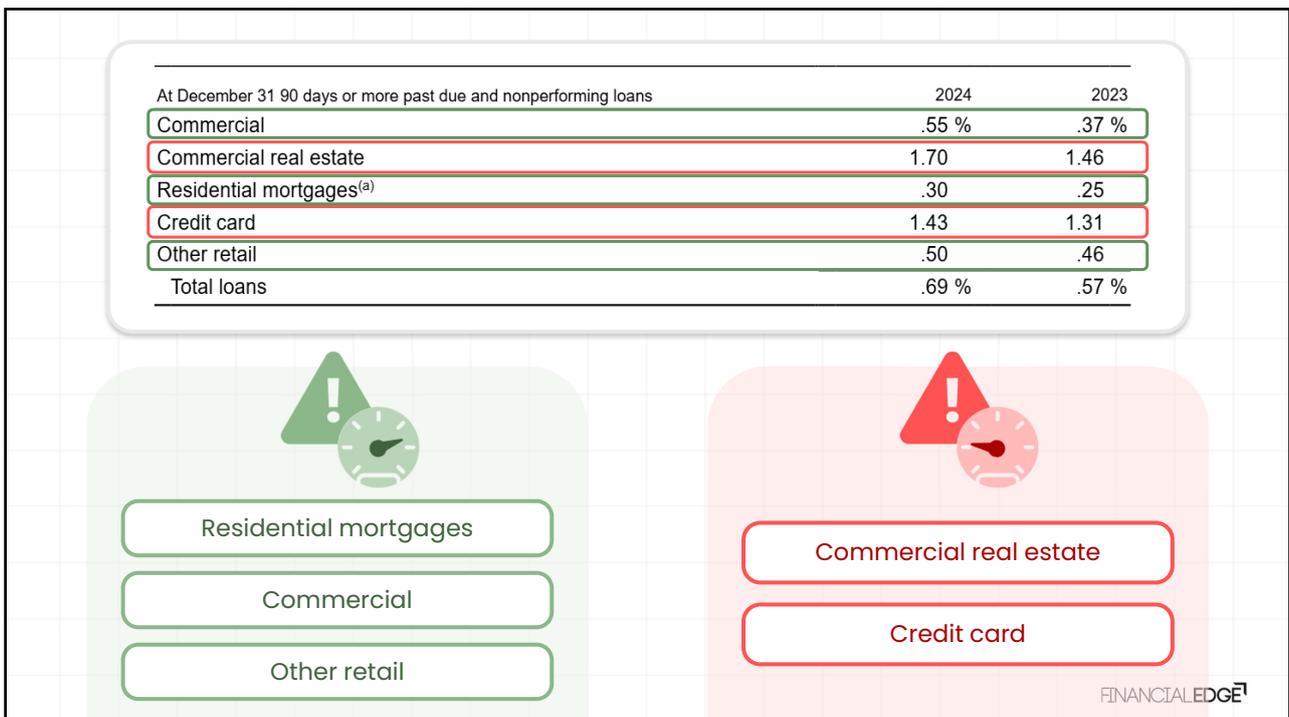
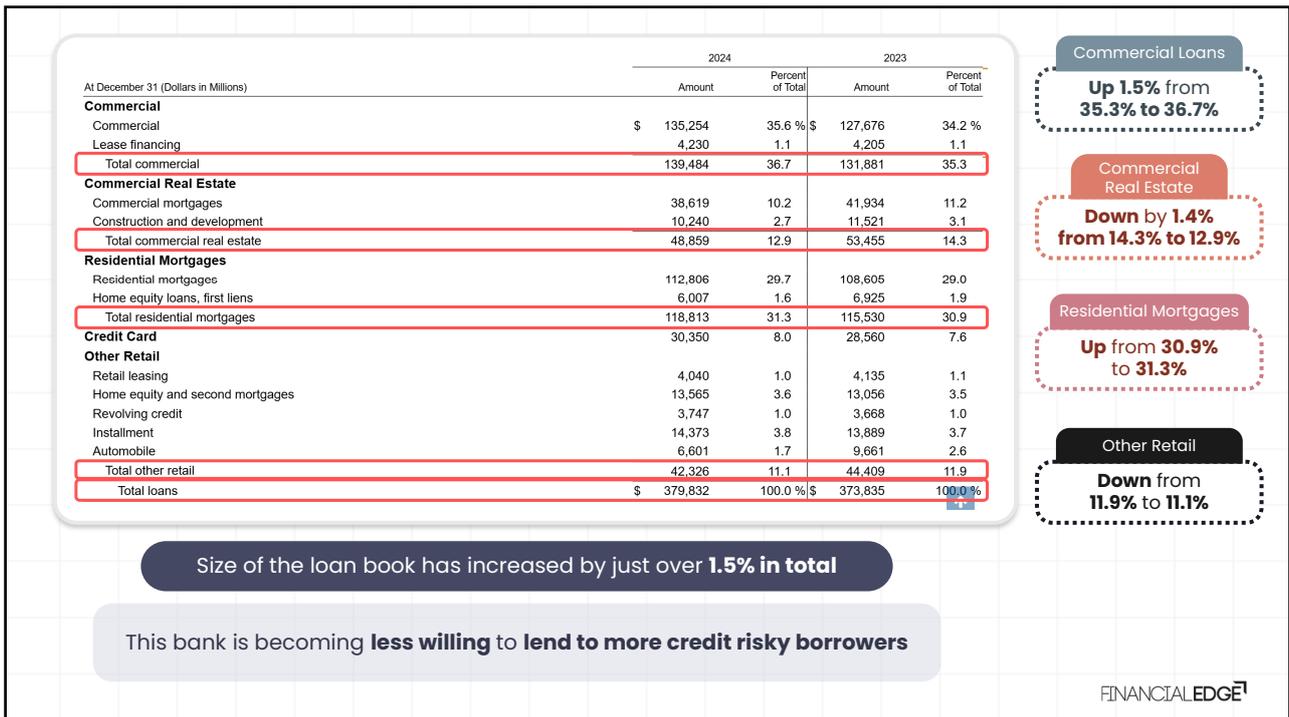








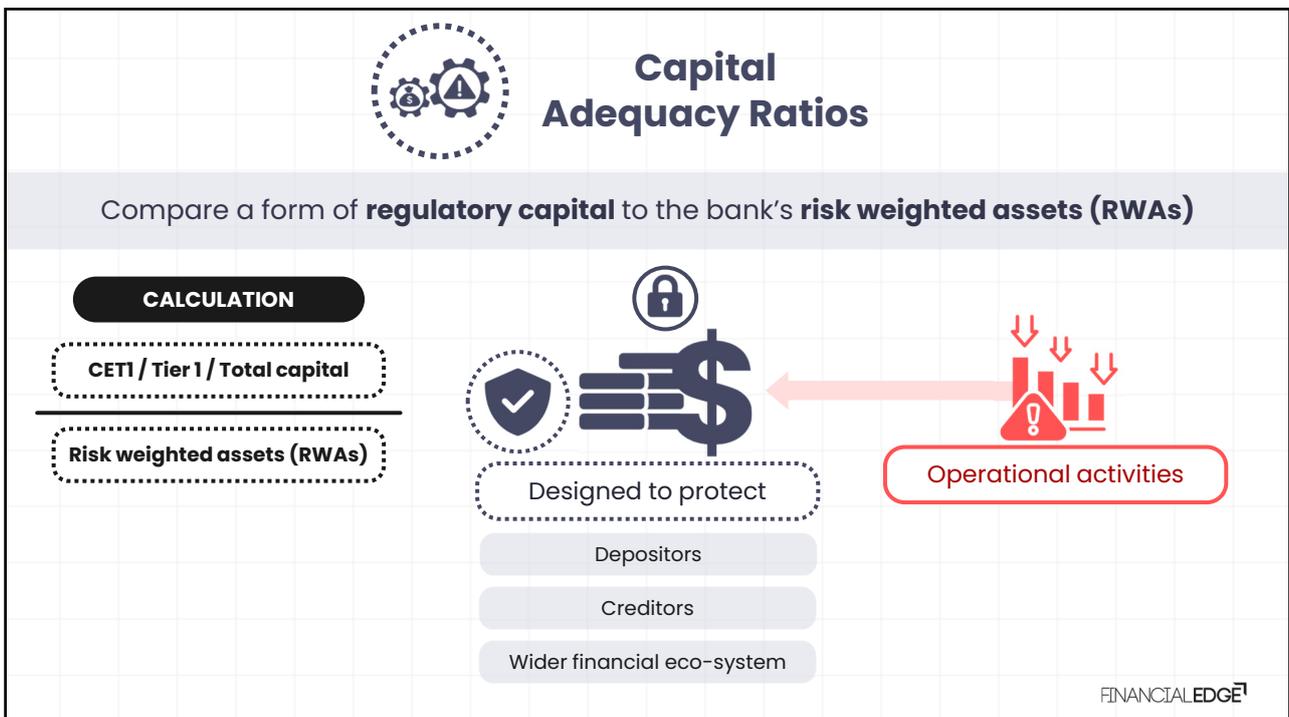
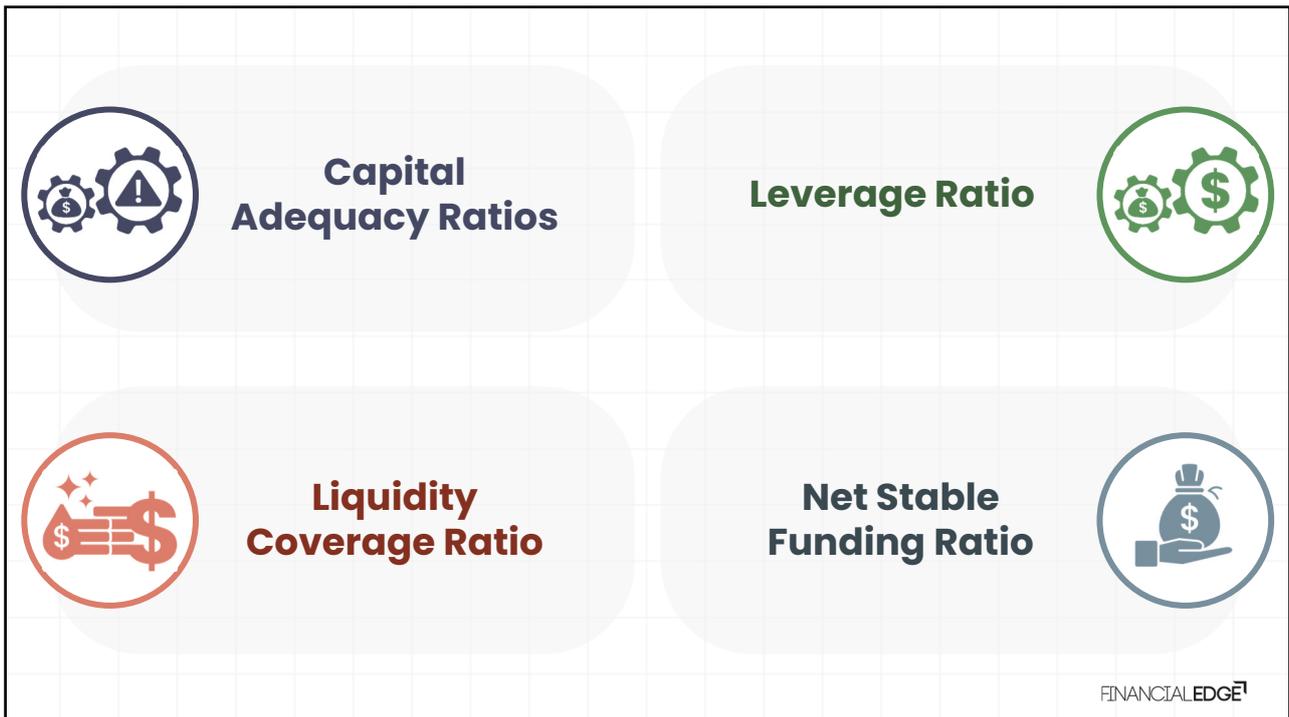
Loans: Categorization

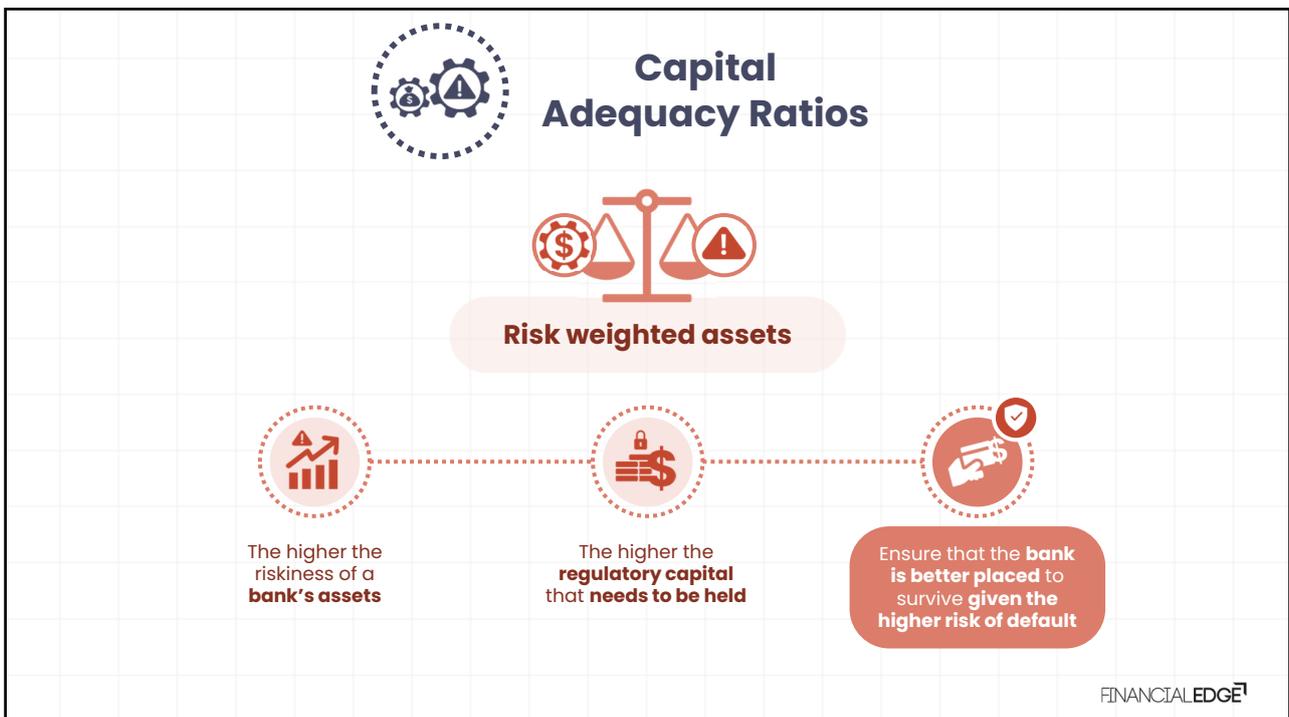
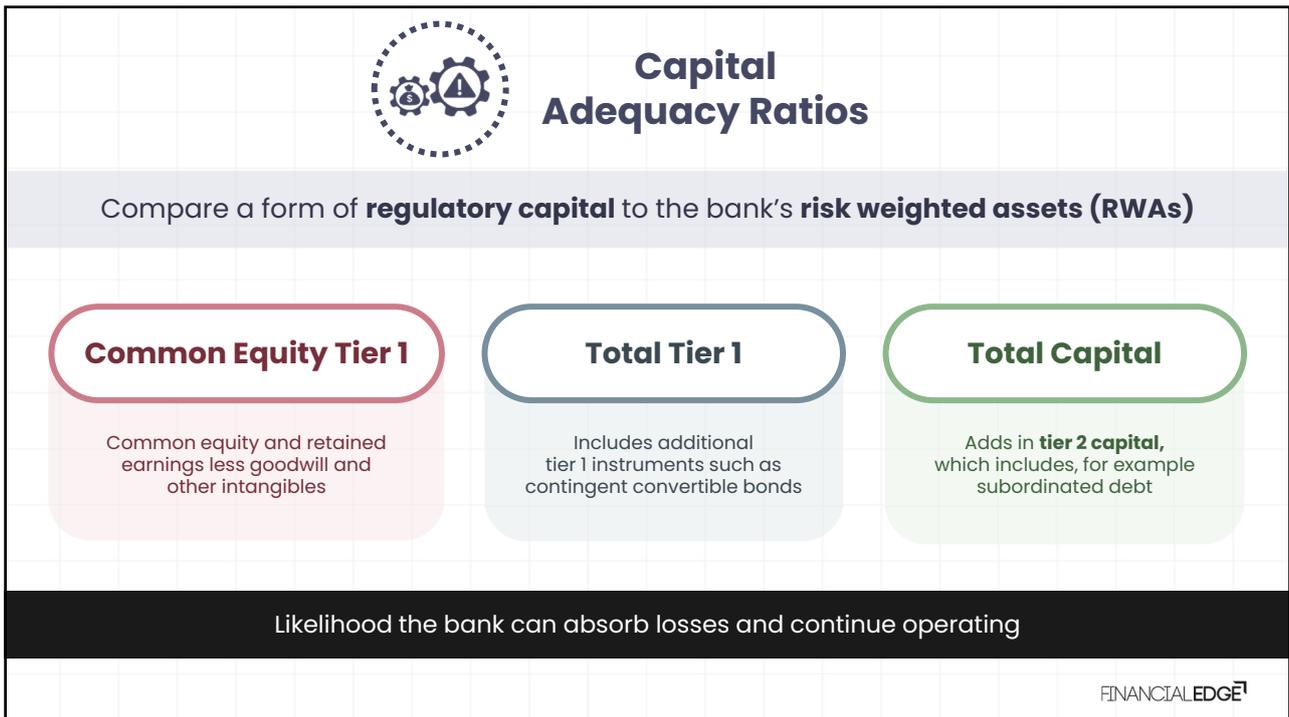


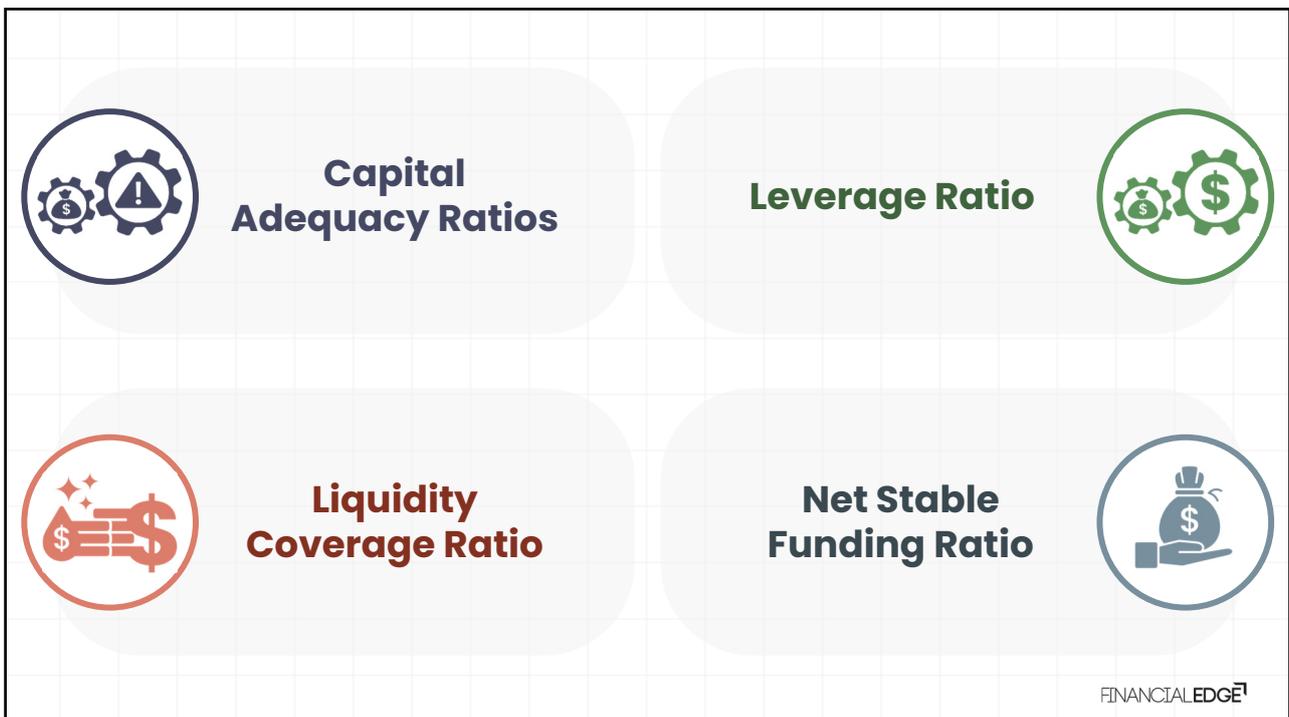
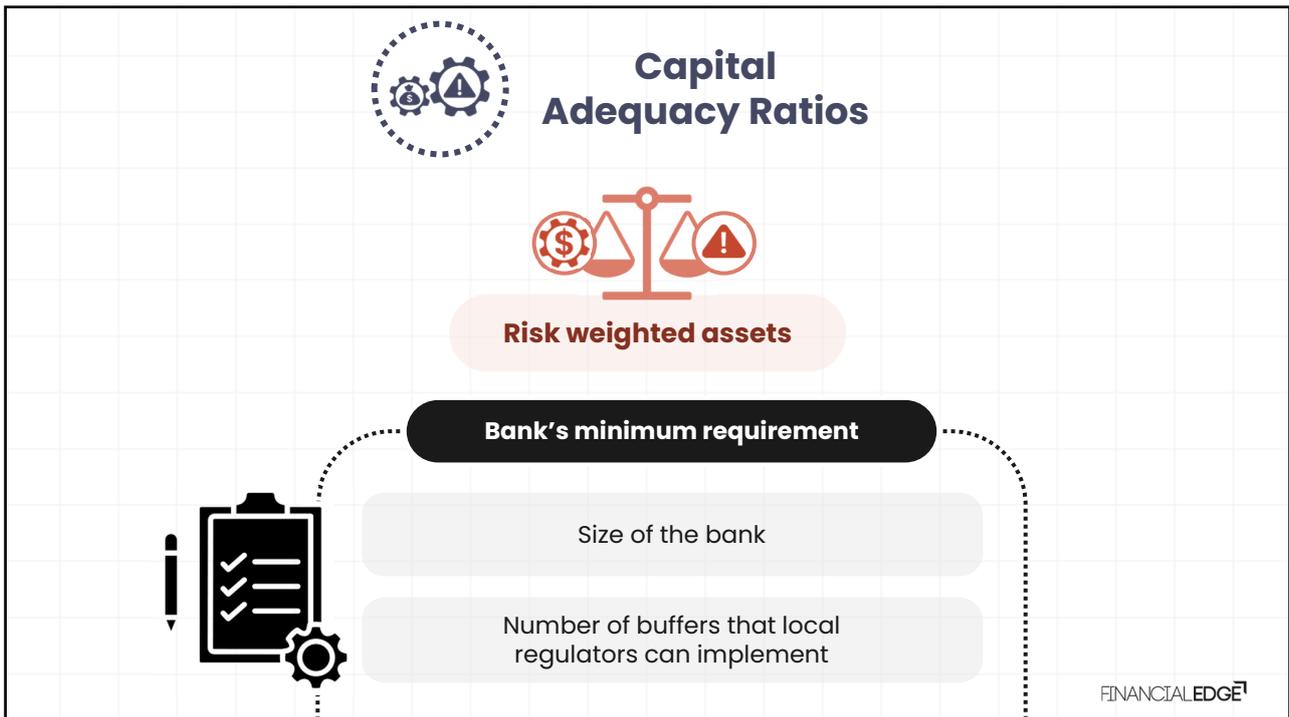
Key Regulatory ratios



Analysis of how **key regulatory ratios** compare to the **minimum regulatory requirements**







Leverage Ratio

Supplementary Leverage Ratio (SLR)

CALCULATION

Total equity

Total assets

Minimum for this **ratio is 3%**



BASEL RULES

Minimum for this **ratio is 4%**



U.S. BANKS

No adjustment for riskiness →  More simple to apply

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Capital Adequacy Ratios



Leverage Ratio



Liquidity Coverage Ratio



Net Stable Funding Ratio

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Liquidity Coverage Ratio

Net Stable Funding Ratio





2008 global financial crisis

Introduced to address banks' **liquidity problems** and **capital shortfalls**

FINANCIALEDGE¹



Liquidity Coverage Ratio

CALCULATION

High quality liquid assets (HQLA)

30 days stressed cash outflows

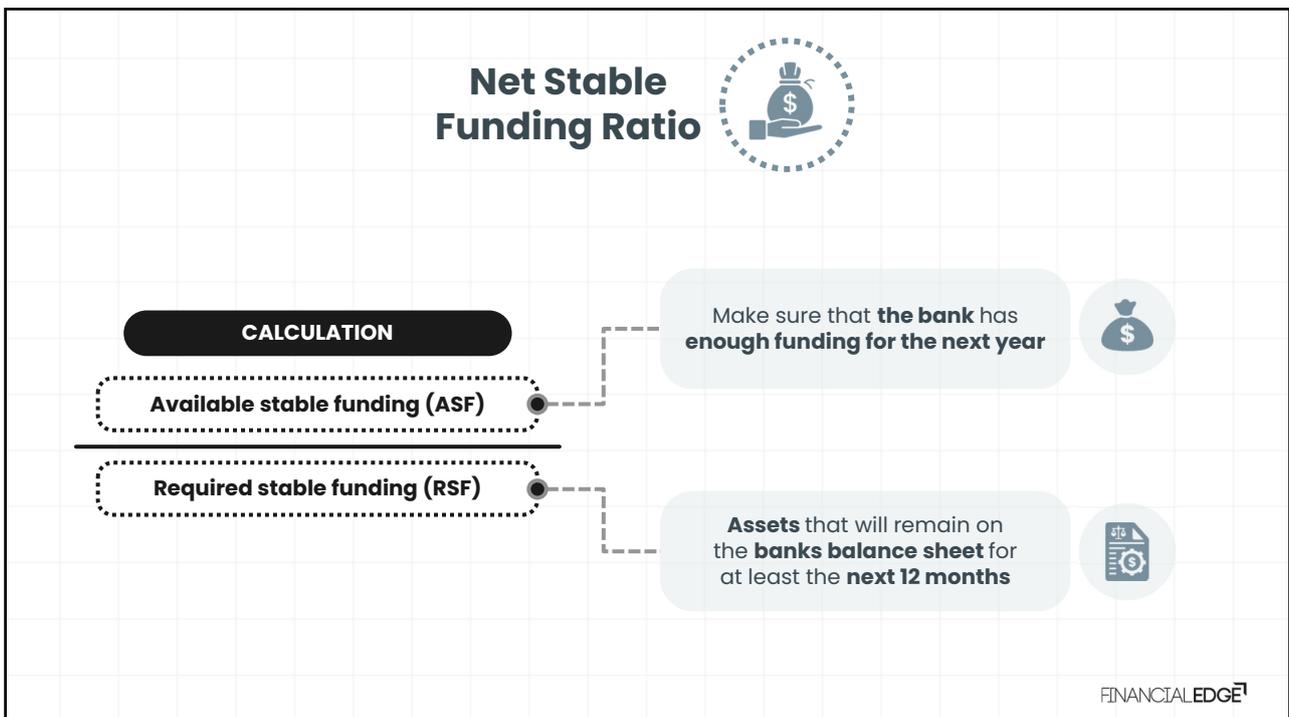
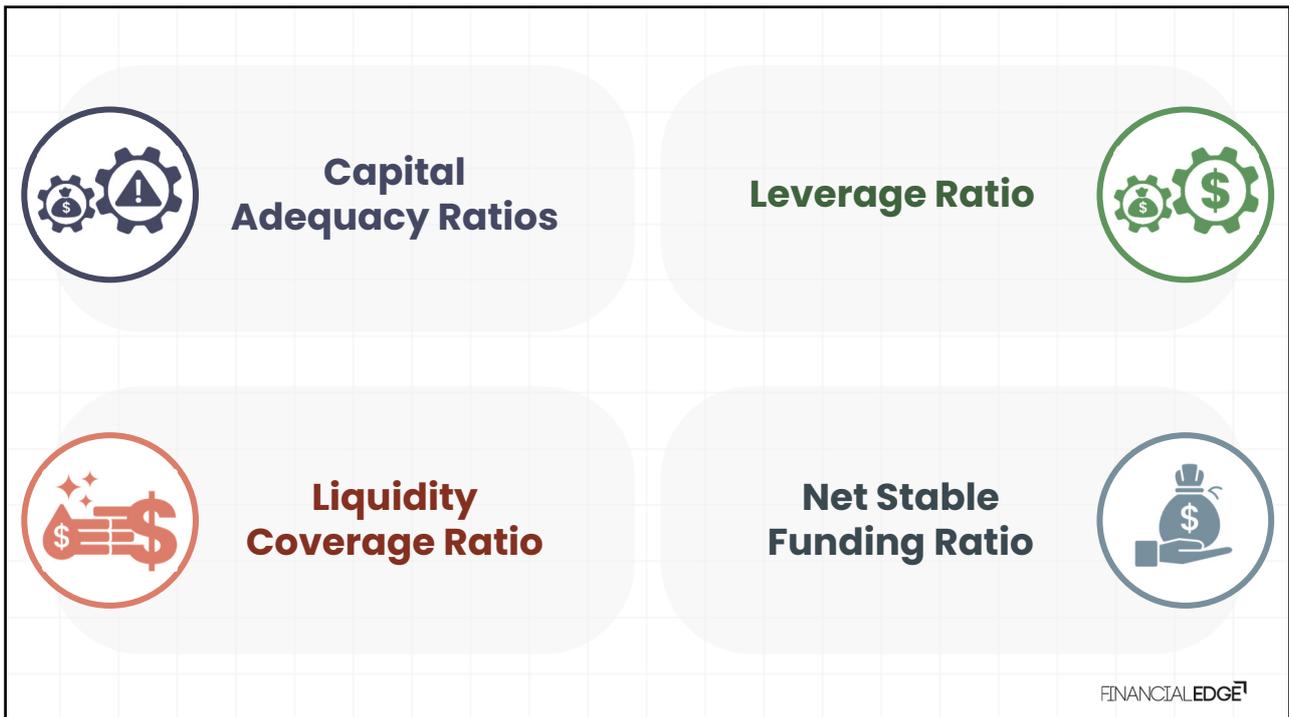


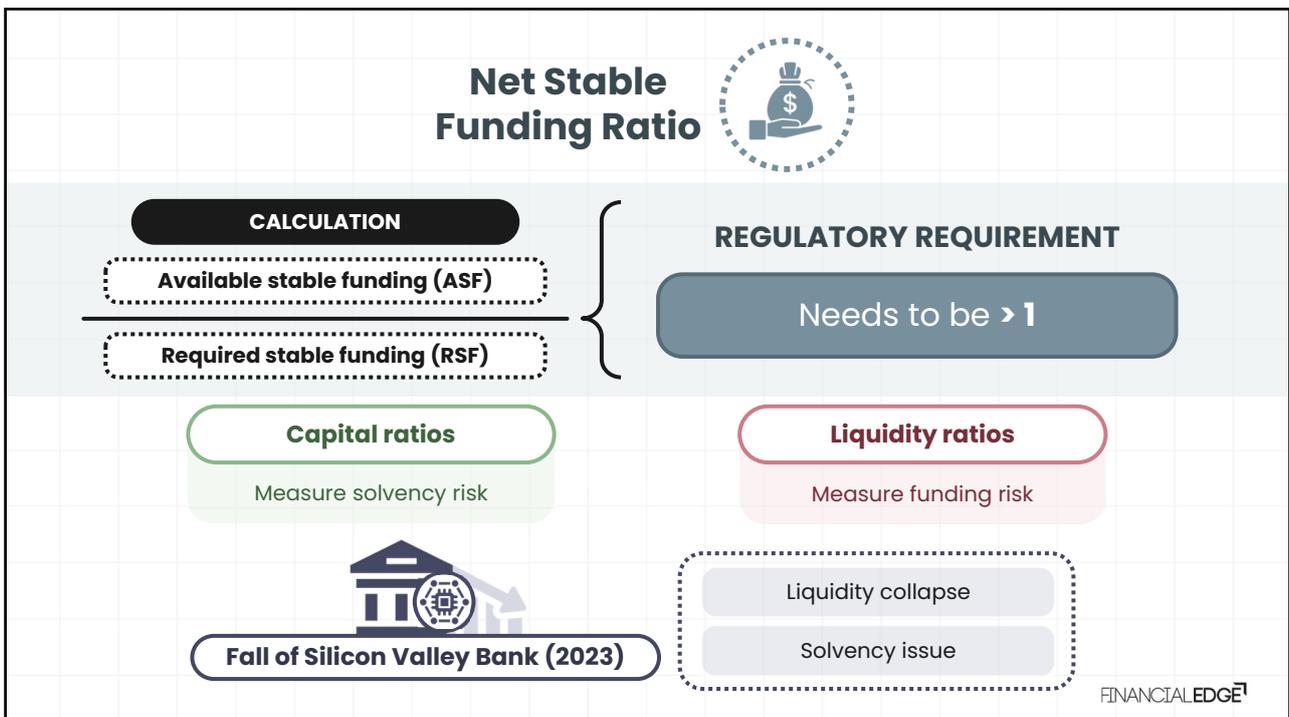
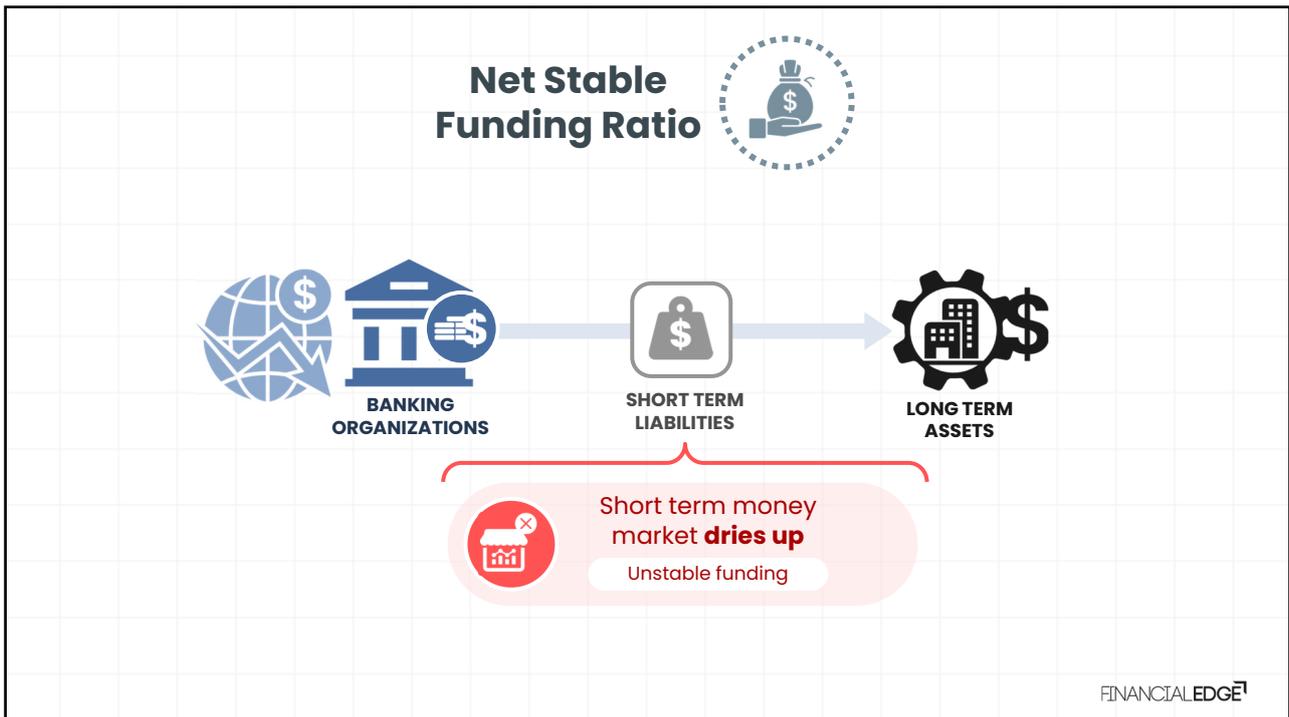
Wholesale funding markets closed for the next 30 days



Bank would have to fund any outflows from its existing liquid asset base for the **next 30 days**

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