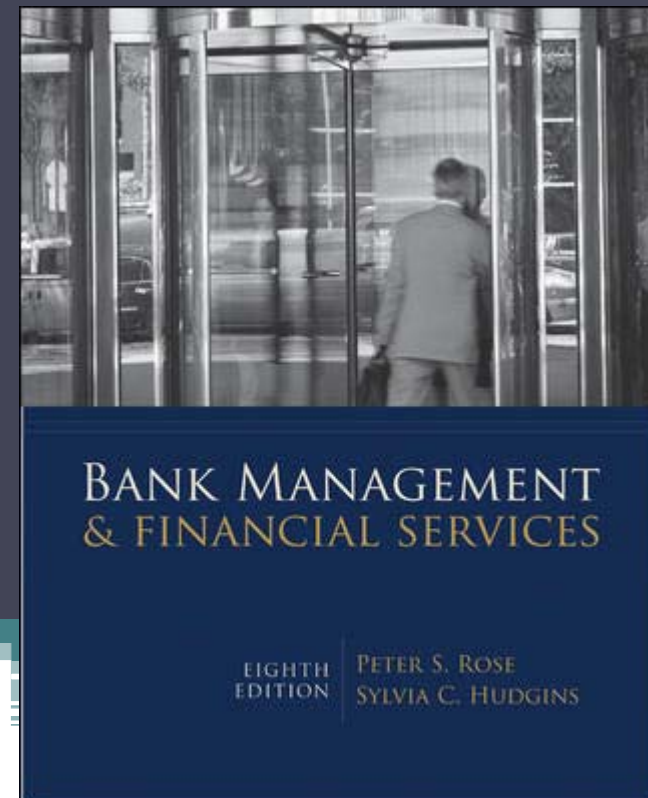


Chapter Five

The Financial Statements of Banks and Their Principal Competitors



Key Topics

- An Overview of the Balance Sheets and Income Statements of Banks and Other Financial Firms
- The Balance Sheet or Report of Condition
- Asset Items
- Liability Items
- Recent Expansion of Off-Balance Sheet Items
- The Problem of Book-Value Accounting and "Window Dressing"
- Components of the Income Statement: Revenues and Expenses

Bank Financial Statements

- Report of Condition – Balance Sheet
- Report of Income – Income Statement

Report of Condition

- The Balance Sheet of a Bank Showing its Assets, Liabilities and Net Worth at a given point in time
- May be viewed as a list of financial inputs (sources of funds) and outputs (uses of funds)

BB&T Corporation

Financial data is from the FDIC Web site for the Bank Holding Company. The dollar amounts represent combined amounts for all FDIC-insured bank and thrift subsidiaries and do *not* reflect nondeposit subsidiaries or parent companies.

Date

Report of Condition (Note: Dollar figures in thousands)	12/31/2007	12/31/2006
Total assets	\$127,842,377	\$117,257,650
Cash and due from depository institutions	2,429,275	2,478,824
Securities	21,833,882	20,252,725
Federal funds sold & reverse repurchase agreements	120,365	112,425
Gross loans & leases	89,478,112	81,056,420
(less) Loan loss allowance	894,453	802,084
(less) Unearned income	0	0
Net loans and leases	88,583,659	80,254,336
Trading account assets	427,144	1,503,205
Bank premises and fixed assets	1,498,467	1,380,738
Other real estate owned	164,655	70,964
Goodwill and other intangibles	5,975,457	5,537,945
All other assets	6,809,473	5,666,488
Total liabilities and capital	\$127,842,377	\$117,257,650
Total liabilities	114,132,191	104,602,389
Total deposits	86,958,681	83,585,769
Federal funds purchased & repurchase agreements	2,627,903	3,431,362
Trading liabilities	149,897	58,251
Other borrowed funds	19,326,680	12,607,454
Subordinated debt	1,330,248	991,739
All other liabilities	3,738,782	3,927,814
Total equity capital	\$ 13,710,186	\$ 12,655,261
Perpetual preferred stock	2,000	2,000
Common stock	26,437	26,437
Surplus	10,363,375	9,861,327
Undivided profits	3,318,374	2,765,497

损益表

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

C = Cash Assets

S = Security Holdings

L = Loans

MA = Miscellaneous Assets

D = Deposits

NDB = Nondeposit
Borrowings

EC = Equity Capital

Cash Assets

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

Securities: The Liquid Portion

- Often Called Secondary Reserves
- Include:
 - Short Term Government Securities
 - Privately Issued Money Market Securities
 - Interest Bearing Time Deposits
 - Commercial Paper

Investment Securities

- These are the Income Generating Portion of Securities
- Taxable Securities
 - U.S. Government Notes
 - Government Agency Securities
 - Corporate Bonds
- Tax-Exempt Securities
 - Municipal Bonds

Trading Account Assets

- Securities purchased to Provide Short-Term Profits from Short-Term Price Movements
- When the Bank Acts as a Securities Dealer
- Valued at Market – FASB 115

Federal Funds Sold and Reverse Repurchase Agreements

- A Type of Loan Account
- Generally Overnight Loans
- Federal Funds Sold – Funds Come from the Deposits at the Federal Reserve
- Reverse Repurchase Agreements – Bank Takes Temporary Title to Securities Owned by Borrower

Loan Accounts

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

Types of Loans

- Commercial and Industrial Loans
- Consumer Loans (Loans to Individuals)
- Real Estate Loans
- Financial Institution Loans
- Foreign Loans
- Agriculture Production Loans
- Security Loans
- Leases

Allowance for Loan Losses

Beginning ALL

+ Provision for Loan Loss (Income Statement)

= Adjusted Allowance for Loan Losses

– Actual Charge–Offs

+ Recoveries from Previous Charge–Offs

= Ending Allowance for Loan Losses

Specific and General Reserves

- Specific Reserves
 - Set Aside to Cover a Particular Loan
 - Designate a Portion of ALL or
 - Add More Reserves to ALL
- General Reserves
 - Remaining ALL
- Determined by Management But Influenced by Taxes and Government Regulation
- Loans to Lesser Developed Countries Require Allocated Transfer Reserves

Miscellaneous Assets

- Bank Premises and Fixed Assets
- Other Real Estate Owned (OREO)
- Goodwill and Other Intangibles

Deposit Accounts

- Non interest-Bearing Demand Deposits
- Savings Deposits
- Now Accounts
- Money Market Deposit Accounts (MMDA)
- Time Deposits

活期存款 存折(软件)
储蓄 定期 存单

Nondeposit Borrowings

了解金融结构

- Fed Funds Purchased
- Securities Sold Under Agreement to Repurchase (Repurchase Agreements)
- Acceptances Outstanding
- Eurocurrency Borrowings
- Subordinated Debt
- Limited Life Preferred Stock
- Other Liabilities

Equity Capital 资本 210%

- Preferred Stock 优先股
- Common Stock 普通股
 - Common Stock Outstanding
 - Capital Surplus
 - Retained Earnings (Undivided Profits)
 - Treasury Stock
 - Contingency Reserve

Off-Balance-Sheet Items 表外业务

- Unused Commitments
- Standby Credit Agreements 备用信用证 担保
- Derivative Contracts 衍生品 (场外交易)
 - Futures Contracts 期货
 - Options
 - Swaps
- OBS Transactions Exposure a Firm to Counterparty Risks

总贷款 信用中介
 (ALU) 净贷款
 月还款

Possible Issues

- The Problem with Book–Value Accounting
 - Original (historical, book–value) cost
 - Amortized cost
 - Market–value
 - Held–to–maturity and available–for–sale securities
- Window Dressing
- Auditing Financial Statements
 - Audit Committees
 - Sarbanes–Oxley Accounting Standards Act

损益表

Comparative Balance Sheet Ratios for Different Size Banks (FDIC, 2006)

收入
- 支出

税前净收入
- 税

税后净收入

Assets, Liabilities, and Equity Capital Items	Percentage of Total Assets for:			
	All U.S. Insured Banks	U.S. Banks with Less than \$100 Million in Total Assets	U.S. Banks with \$100 Million to \$1 Billion in Total Assets	U.S. Banks with More than \$1 Billion in Total Assets
Total assets	100.00%	100.00%	100.00%	100.00%
Cash and due from depository institutions	4.28	4.98	3.61	4.35
Interest-bearing balances	1.52	1.53	0.69	1.62
Securities	16.51	22.64	19.19	16.08
Federal funds sold & reverse repurchase agreements	5.25	6.19	3.27	5.46
Net loans & leases	58.59	61.30	68.41	57.38
Loan loss allowance	0.68	0.86	0.86	0.66
Trading account assets	6.14	0.00	0.02	6.98
Bank premises and fixed assets	0.96	1.97	1.93	0.83
Other real estate owned	0.05	0.14	0.11	0.05
Goodwill and other intangibles	3.55	0.39	0.79	3.94
All other assets	4.66	2.38	2.66	4.94
Life insurance assets	0.93	0.59	0.77	0.95
Total liabilities and capital	100.00	100.00	100.00	100.00
Total liabilities	89.79	87.27	89.79	89.84
Total deposits	66.71	82.75	81.52	64.67
Interest-bearing deposits	54.65	68.50	68.77	52.73
Deposits held in domestic offices	54.88	82.74	81.39	51.24
% insured (estimated)	NM	NM	NM	NM
Federal funds purchased & repurchase agreements	7.13	0.87	2.41	7.80
Trading liabilities	2.64	0.00	0.00	3.00
Other borrowed funds	8.62	2.88	4.84	9.17
Subordinated debt	1.48	0.00	0.07	1.68
All other liabilities	3.21	0.76	0.96	3.52
Equity capital	10.21	12.73	10.21	10.16
Perpetual preferred stock	0.05	0.01	0.02	0.06
Common stock	0.34	2.19	0.94	0.23
Surplus	6.20	5.47	4.36	6.43
Undivided profits	3.62	5.05	4.90	3.45

Which accounts are most important on the asset side of a Call Report? Liability side?

Quick Quiz

- Which are the principal accounts that appear on a bank's balance sheet (Report of Condition)?
- What are primary reserves and secondary reserves, and what are they supposed to do?
- What are off-balance-sheet items, and why are they important to some financial firms?

Report of Income

- The Statement of Revenues, Expenses and Profits for a Bank Over a Period of Time
- Shows how much it has cost to acquire funds and to generate revenues from the uses of funds in Report of Conditions
- Shows the revenues (cash flow) generated by selling services to the public
- Shows net earnings after all costs are deducted from the sum of all revenues

Report of Income for BB&T Corporation

Financial data is from the FDIC Web site for the bank holding company. (The dollar amounts represent combined amounts for all FDIC-insured bank and thrift subsidiaries, and do *not* reflect nondeposit subsidiaries or parent companies.) Note: all figures are expressed in thousands of dollars.

Report of Income	2007	2006	
Total interest income	\$7,440,748	\$6,518,742 }	Financial inflows
Total interest expense	3,698,401	2,922,338 }	Financial outflows
Net interest income	3,742,347	3,596,404	
Provision for loan and lease losses	284,172	137,864 }	Noncash financial outflows
Total noninterest income	2,454,190	2,270,172	
Fiduciary activities	116,984	112,721 }	Financial inflows
Service charges on deposit accounts	613,111	549,430 }	
Trading account gains & fees	26,049	15,679 }	
Additional noninterest income	1,698,046	1,592,342 }	
Total noninterest expense	1,254,901	3,077,217	
Salaries and employee benefits	1,791,979	1,788,183 }	Financial outflows
Premises and equipment expense	449,757	421,407 }	
Additional noninterest expense	1,013,165	867,627 }	
Pretax net operating income	2,657,464	2,651,495	
Securities gains (losses)	-7,618	-73,271 }	Financial outflows (if negative)
Applicable income taxes	862,637	863,047 }	Financial outflows
Income before extraordinary items	1,787,209	1,715,177	
Extraordinary gains (losses)—net	0	0 }	Financial inflows
Net income	1,787,209	1,715,177	

Net Interest Income = Interest Income – Interest Expenses

- ✓ Interest and Fees on Loans
- Taxable Securities Revenue
- ✓ Tax-Exempt Securities Revenue
- Other Interest Income
- Deposit Interest Costs
- Interest on Short-Term Debt
- Interest on Long-Term Debt

投资债券的利息
美联储降息，债券↑
利率波动，债券损益不同

Net Noninterest Income = Noninterest Income – Noninterest Expenses

净非利息收入

- Fees Earned from Fiduciary Activities
- Service Charges on Deposit Accounts
- Trading Account Gains and Fees
- Additional Noninterest Income
- Wages, Salaries, and Employee Benefits
- Premises and Equipment Expense
- Other Operating Expenses

✗ Fees Earned from Fiduciary Activities

- Fees for Managing Protecting a Customer's Property
- Fees for Record Keeping for Corporate Security Transactions and Dispensing Interest and Dividend Payments
- Fees for Managing Corporate and Individual Pension and Retirement Plans

Service Charges on Deposit Accounts

- Checking Account Maintenance Fees
- Checking Account Overdraft Fees
- Fees for Writing Excessive Checks
- Savings Account Overdraft Fees
- Fees for Stopping Payment of Checks

Trading Account Gains and Fees

- Net Gains and Losses from Trading Cash Instruments and Off Balance Sheet Derivative Contracts That Have Been Recognized During the Accounting Period

Additional Noninterest Income

- Investment Banking, Advisory, Brokerage and Underwriting
- Venture Capital Revenue
- Net Servicing Fees
- Net Securitization Income
- Insurance Commission Fees and Income
- Net Gains (Losses) on Sales of Loans
- Net Gains (Losses) on Sales of Real Estate
- Net Gains (Losses) on the Sales of Other Assets

Income Statement

~~*~~ Net Interest Income
 – Provision for Loan Loss *P2L*
 Net Income After PLL
 + / – Net Noninterest Income
 Net Income Before Taxes
Taxes
 Net Income
 – Dividends
 Undivided Profits

损益表

Comparative Income Statement Ratios for Different Size Banks (FDIC, 2006)

Income and Expense Items	Percentage of Total Assets for:			
	All U.S. Insured Banks	U.S. Banks with Less than \$100 Million in Total Assets	U.S. Banks with \$100 Million to \$1 Billion in Total Assets	U.S. Banks with \$1 Billion or More in Total Assets
Total interest income	5.68%	6.17%	6.50%	5.58%
Total interest expense	2.73	2.28	2.61	2.75
Net interest income	2.95	3.88	3.89	2.83
Provision for loan and lease losses	0.26	0.19	0.21	0.27
Total noninterest income	2.25	1.00	1.27	2.39
Fiduciary activities	0.26	0.19	0.19	0.27
Service charges on deposit accounts	0.37	0.38	0.39	0.37
Trading account gains & fees	0.20	0.00	0.00	0.23
Additional noninterest income	1.42	0.43	0.69	1.53
Total noninterest expense	3.01	3.51	3.28	2.97
Salaries and employee benefits	1.38	1.90	1.69	1.34
Premises and equipment expense	0.37	0.45	0.42	0.37
Additional noninterest expense	1.25	1.15	1.18	1.27
Pretax net operating income	1.93	1.18	1.67	1.98
Securities gains (losses)	-0.01	-0.01	-0.01	-0.02
Applicable income taxes	0.62	0.23	0.42	0.65
Income before extraordinary items	1.30	0.94	1.24	1.32
Extraordinary gains—net	0.03	0.00	-0.00	0.03
Net income	1.33	0.95	1.24	1.35

What are the most important revenue and expense items on the income statement of a bank?

Key Features of the Financial Statements of Financial Institutions

- Heavy dependence on borrowed funds supplied by others (including deposits and nondeposit borrowings); thus, many financial firms make heavy use of financial leverage (debt) in an effort to boost their stockholders' earnings.
- Most revenues stem from interest and dividends on loans and securities. The largest expense item is often the interest cost of borrowed funds, followed by personnel costs.
- The greatest proportion of assets is devoted to financial assets (principally loans and securities). A relatively small proportion of assets is devoted to plant and equipment (fixed assets); thus, financial institutions tend to make limited use of operating leverage. However, some larger financial firms gain additional operating leverage by acquiring nonfinancial businesses and by constructing office buildings and leasing office space.

Consequences for the Managers of Financial Institutions

- The earnings and the very existence of financial institutions are exposed to significant risk if those borrowings cannot be repaid when due. Thus, financial firms must hold a significant proportion of high-quality and readily marketable assets to meet their debt obligations.
- Management must choose loans and investments carefully to avoid a high proportion of earning assets that fail to pay out as planned, damaging expected revenue flows. Because revenues and expenses are sensitive to changing interest rates, management must be competent at protecting against losses due to interest-rate movements by using interest-rate hedging techniques.
- With only limited resources devoted to fixed assets and, therefore, usually few fixed costs stemming from plant and equipment, financial firms' earnings are less sensitive to fluctuations in sales volume (operating revenues) than those of many other businesses, but this also limits potential earnings. (Banking, for example, tends to be a moderately profitable industry.)

Quick Quiz

- What accounts make up the Report of Income?
- What is the relationship between the provision for loan losses on a bank's Report of Income and the allowance for loan losses on its Report of Condition?
- Suppose a bank has an allowance for loan losses of \$1.25 million at the beginning of the year, charges current income for a \$250,000 provision for loan losses, charges off worthless loans of \$150,000, and recovers \$50,000 on loans previously charged off. What will be the balance in the allowance for loan losses at year-end?

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中国商业银行资产负债表主要项目

- 主要资产项目：

现金及存放中央银行款项（包括：现金；存放中央银行款项）

- 同业资产：

存放和拆放同业及其他金融机构款项（包括：存放同业和其他金融机构款项；拆出资金）

买入返售金融资产

- 投资（包括：以公允价值计量且变动计入当期损益的金融资产；可供出售金融资产；持有至到期金融资产；应收款项类投资）

风险策略

- 贷款及垫款净额

贷款及垫款总额

- 贷款减值准备

中国商业银行资产负债表主要项目

主要负债项目和权益资本合计：

- 同业负债
同业和其他金融机构存放和拆入款项（包括：同业和其他金融机构存放款项；拆入资金），卖出回购款项
- 向央行借款
- 客户存款
- 已发行债务证券（包括次级债，二级资本债，可转化公司债。绿色债，混合资本债，存款证和同业存单）
- 股东权益合计

工商银行2016年主要资产负债项目

资产总额	24,137,265
贷款及垫款净额	12,767,334
贷款及垫款总额	13,056,846
贷款减值准备	(289,512)
投资	5,481,174
同业	1,553,100
现金及存放央行款项	3,350,788
其他	984,869
负债总额	22,156,102
存款	17,825,302
同业	2,606,105
已发行债务证券	576,364
向央行借款	545
其他	1,147,786
所有者权益总额	1,981,163
少数股东权益	11,412
归属于母公司所有者权益总额	1,969,751

工商银行主要资产项目

项目	2017年12月31日	
	金额	占比(%)
客户贷款及垫款总额	14,233,448	—
减：贷款减值准备	340,482	—
客户贷款及垫款净额	13,892,966	53.2
投资	5,756,704	22.1
现金及存放中央银行款项	3,613,872	13.9
存放和拆放同业及其他金融机构款项	847,611	3.2
买入返售款项	986,631	3.8
其他	989,259	3.8
资产合计	26,087,043	100.0

工商银行主要负债项目

项目	2017年12月31日	
	金额	占比(%)
客户存款	19,226,349	80.3
同业及其他金融机构存放和拆入款项	1,706,549	7.1
卖出回购款项	1,046,338	4.4
已发行债务证券	526,940	2.2
其他	1,439,811	6.0
负债合计	23,945,987	100.0

中国商业银行利润表主要项目：

- 营业收入：
 - 1.净利息收入（利息收入—利息支出）
 - 2.净手续费及佣金收入（手续费及佣金收入—手续费及佣金支出）
 - 3.其他净收入（包括：公允价值变动净收入；投资净收入；汇兑净收入）

中国商业银行利润表主要项目：

- 营业支出：
 - 1.营业税及附加
 - 2.业务及管理费
 - 3.资产减值准备
 - 4.其他业务成本

中国商业银行利润表主要项目：

- 营业利润（营业收入—营业支出）
- 利润总额（营业利润+营业外收入—营业外支出）
- 净利润（利润总额—所得税费用）

2016年（百万元）	工行
经营表现（1-12月）	
营业收入	675,891
净利息收入	471,846
手续费及佣金净收入	144,973
其他非利息收入	59,072
营业支出	(315,576)
营业税金及附加	(17,319)
业务及管理费	(175,156)
资产减值损失	(87,894)
其他业务成本	(35,207)
营业利润	360,315
税前利润/利润总额	363,279
所得税费用	(84,173)
净利润	279,106
少数股东损益	857
归属于母公司所有者的净利润	278,249

项目	2017年	2016年
利息净收入	522,078	471,846
非利息收入	204,424	204,045
营业收入	726,502	675,891
减：营业支出	364,660	315,576
其中：税金及附加	7,465	17,319
业务及管理费	177,723	175,156
资产减值损失	127,769	87,894
其他业务成本	51,703	35,207
营业利润	361,842	360,315
加：营业外收支净额	2,799	2,964
税前利润	364,641	363,279
减：所得税费用	77,190	84,173
净利润	287,451	279,106
归属于：母公司股东	286,049	278,249
少数股东	1,402	857