

Driving Financial Performance Project

Driving Financial Performance Intersession Problem

Objective

Utilizing the UBPR, internal reporting, and engagement from senior management, this project will build on the analytical foundation created during the session and enhance your understanding of your bank's condition, performance, and risk profile. If you are a regulator or consultant, please select a bank to "adopt" for this exercise.

Part I

Following the instructions from your pre-course assignment, go to www.ffiec.gov and download your bank's UBPR.

Part II – Short Answers

Provide short answers to the following. Each response should be a paragraph of 8 to 10 sentences. You must include any relevant data points to support your analysis.

- A. Describe the composition of your bank's earning assets.
- B. Analyze the quality of your bank's assets including the trend over the last few years.
- C. Provide an analysis of the level and trend of your bank's profitability.

Part III – Net Interest Margin

Provide a detailed analysis of the bank's net interest margin. The analysis should include the impact from the mix and yield on earning assets and the mix and cost of liabilities. The analysis should incorporate the level and trend as well as the positive and negative impact from a variety of internal and external factors. To prevent a simple recitation of numbers from the UBPR, keep asking yourself "why?" to provide sufficient qualitative information to complete the analysis.

Part IV – Effectuating Change

During class, the lessons were put into practice by forecasting potential changes to the balance sheet and income statement to achieve a specific objective.

This is to allow you to experience how a strategy, implemented through a series of transactions, impacts other areas of the bank's condition and performance. To be a good leader, you need to be able to effectuate change and manage unintended outcomes.

For this part of the project, you will utilize the "Effectuate Change" model provided in the LE. Instructions on how to use the model are included in the first tab of the spreadsheet.

- A. After setting up the model with your bank's data per the model's instructions, you will identify something you would like to change in your bank's condition or performance over the next three years.

- B. This could be fixing a problem, improving an area, or aggressively pursuing an opportunity.
- C. This is a good opportunity to talk to other leaders in your bank to get their ideas.
- D. Keep in mind, this is an educational model with the goal of understanding how to effectuate and analyze change. The assumptions can be hypothetical.
- E. Using the Input tab, you will designate the changes needed in the balance sheet and income statement to effectuate the desired change.
 - Keep in mind, you will need to balance the balance sheet. If you increase loans, they need to be funded. If you run-off brokered deposits, you will either need to replace the funding or liquidate assets.
 - Note: you are encouraged to try different scenarios to achieve the desired result. However, you do not need to be successful to complete this assignment. It is the financial analysis and understanding “why” that is the most important.
 - In the analysis tab, certain ratios may hit a predetermined trigger and turn red. You can decide if it needs to be fixed, but if you do not, you will need to address it in the analysis below.
- F. Prepare a written analysis of the objective, outcome, and obstacles.
 - Describe the change you desired to effectuate and why.
 - Describe the changes you made to the balance sheet and income statement to effectuate the change and explain why.
 - Using the projections in the balance sheet, income statement, and ratios tabs conduct an analysis of the outcome.
 - Identify any unintended positives or negatives that emerged from the strategy. Example: Increased loans to improve earnings but the capital ratio dropped significantly.
 - Discuss changes beyond financial that would need to occur to realize the desired change. Consider: policies, corporate governance, personnel, etc.

Required Documentation

The following documents must be submitted:

1. Executive summary that includes brief personal and bank profiles.
2. Your written analysis from Parts II, III and IV.
3. Your bank’s UBPR or similar report. You may limit this to the following relevant pages utilized in your analysis. At a minimum, pages: 1, 3, 4, 6, 10.
4. The Effectuate Change model Excel file.

Written Analysis Guidance

Your analysis should be concise, focusing only on the key points.

Remember, a comprehensive analysis must include **level** and **trend**.

Charts and graphs can be an effective communication tool, but must be referenced and explained in the written analysis.

Ensure that your analysis has a logical flow and leaves no questions unanswered.

Percentages are always more meaningful and more relevant than dollars. (Example: “The bank made \$1,000,000.” vs. “The bank made 0.50% return on assets”)

Analysis is more than simply restating facts. (Example: The net interest margin increased 50 b.p. *Why?* ...due to a drop in the cost of funds. *Why?* Etc.).

Including “soft” information can greatly enhance your analysis. This information must be relevant. This may include history, management philosophy, strategy, significant changes, and local economic circumstances. Tell your bank’s story!

Get others involved. Interview your senior management and include this valuable perspective in your analysis. This is especially important for Part III.

Paragraph and sentence structure, punctuation, and spelling always matter. Most importantly, make sure you create an analysis that makes the reader WANT to read it.

Single-spaced and small fonts have an impact on the grader’s frame-of-mind while grading. **Double-spaced, 12-point type.**