

## Introduction to Bank Financial Statements

A two-day workshop covering the basics of financial statement analysis for banks using the CAMELS framework. Designed for analysts with limited accounting background and/or new to the analysis of financial institutions.

### TARGET AUDIENCE

This programme is designed for analysts who have limited or no experience in the analysis of financial statements for financial institutions. The workshop leads into the following intermediate level seminars: Intensive Bank Analysis, Emerging Market Bank Analysis and Non-Bank Financial Institutions.

### COURSE OBJECTIVES

This case study based workshop provides participants with an understanding of the key performance indicators and main balance sheet and income statement accounts for financial institutions.

Participants will be equipped to:

- Distinguish the risks in the different business lines and products offered by financial institutions and recognise how they are reflected in the financial statements
- Understand the components of a financial institution's balance sheet and income statement
- Recognise the impact of differing accounting standards and policies (e.g. provisioning, asset valuation, securitization etcetera) on the financial statements
- Use the CAMELS framework (capital, asset quality, management, earnings, liquidity and sensitivity to market risk) to make a preliminary assessment of the performance and financial health of a bank.

### CONTENT

#### ANALYTIC OVERVIEW

##### Structured approach to analysis

- Defining CAMELS within the context of overall bank analysis

##### Types of financial institution

- Key activities and products of financial institutions: credit products, trading and investing, services and funding
- Business models and key drivers of performance
- Relating the business to the balance sheet and income statement: differences between balance sheets of different types of bank and non-bank financial institution
- Major balance sheet and income statement components.

#### BUSINESS RISK

##### Asset quality

- Statement logic and accounting: types of credit risk, on and off balance sheet, accounting for problem impaired loans
- Loan quality: portfolio analysis, impaired / problem loans (past due, non accrual and restructured loans)
- Reserve adequacy: provisioning levels, allowance, charge offs and recoveries
- Trading and investments: securities and derivatives portfolios
- Local and international benchmarks for key performance indicators

#### BUSINESS RISK

##### Management

- Key indicators of risk appetite: growth, underwriting standards, risk profile
- Franchise: distinguishing features permitting an institution to generate high risk adjusted returns

##### Sensitivity to market risk

- Statement logic and accounting: valuation techniques for investments and derivatives – fair value through income statement, available for sale, held to maturity; SFAS 157 disclosures
- Risk in the securities and derivatives portfolios
- Value at risk and other measures of market risk: advantages and disadvantages

##### Earnings

- Statement logic and accounting: types of income and expense, impact of earnings accrual and asset impairment policies, core and non core earnings
- Key drivers of earnings: net interest margin, fees and commissions, trading
- Ratios to measure quality and diversity of income, cost control, provision burden
- Local and international benchmarks for key performance indicators.

#### FINANCIAL RISK

##### Liquidity and funding

- Statement logic and accounting: funding sources, on and off balance sheet treatment for securitization
- Funding stability and liquidity: deposits, commercial paper, repos, inter-bank lines, senior and subordinated bonds, common and preferred stock
- Key drivers of liquidity: volatility of liabilities, quality and liquidity of assets, contingency funding needs
- Local and international benchmarks for key performance indicators

##### Capital adequacy

- Statement logic and accounting: types of capital, reported book equity, adjusted common equity, hybrid capital
- Key drivers of capital: earnings, asset valuation, capital raising
- Risk weighted assets: Basel I vs. Basel II approach
- Key ratios: tier one and total capital ratios, leverage, core capital and other measures
- Local and international benchmarks for key performance indicators.

#### Learning Paths

