



Appendix 2 to Chapter 9

Measuring Bank Performance

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Bank's Income Statement

- Operating Income
 - Income that comes from a bank's ongoing operation
 - Interest income
 - Noninterest income
- Operating Expenses
 - Expenses incurred in conducting the bank's ongoing operations
 - Interest payment
 - Costs of running a banking business
 - Provisions for loan losses



Bank's Income Statement (cont'd)

- Income
 - Net operating income
 - Profits after taxes

TABLE 1 Income Statement for All Federally Insured Commercial Banks, 2005

	Amount (\$ billions)	Share of Operating Income or Expenses (%)
Operating Income		
Interest income	434.6	68.3
Interest on loans	326.2	51.3
Interest on securities	67.2	10.6
Other interest	41.2	6.5
Noninterest income	201.4	31.7
Service charges on deposit accounts	33.8	5.3
Other noninterest income	167.6	26.4
<i>Total operating income</i>	<u>636</u>	<u>100.0</u>
Operating Expenses		
Interest expenses	165.1	35.3
Interest on deposits	106.1	22.7
Interest on fed funds and repos	20.4	4.4
Other	38.6	8.2
Noninterest expenses	276.2	59.0
Salaries and employee benefits	122.9	26.3
Premises and equipment	34.9	7.5
Other	118.4	25.3
Provisions for loan losses	<u>26.6</u>	<u>5.7</u>
<i>Total operating expense</i>	<u>467.9</u>	<u>100.0</u>
Net Operating Income	168.1	
Gains (losses) on securities	−0.16	
Extraordinary items, net	0.24	
Income taxes	−54	
Net Income	114.2	

Source: www.fdic.gov/banks/statistical/statistics/0106/cbr



Return on Assets (ROA)

- Adjusts for the bank's size in order to make comparisons between banks
- Indicates how well a bank's assets are being used to generate profits

$$\text{ROA} = \frac{\text{net income}}{\text{assets}} = \frac{114.2}{9.040} = 0.0126 = 1.26\%$$



Return on Equity (ROE)

- How much the bank is earning on their equity investment
- Net income per dollar of equity capital

$$\text{ROE} = \frac{\text{net income}}{\text{capital}} = \frac{114.2}{912.7} = 0.1251 = 12.51\%$$



Net Interest Margin (NIM)

- Measures the spread between the interest earned on the bank's assets and the interest costs on its liabilities
- Indicates how well the manager is performing asset and liability management

$$\text{NIM} = \frac{\text{interest income} + \text{interest expenses}}{\text{assets}}$$



TABLE 2 **Measures of Bank Performance, 1980–2005**

Year	Return on Assets (ROA) (%)	Return on Equity (ROE) (%)	Net Interest Margin (NIM) (%)
1980	0.77	13.38	3.33
1981	0.79	13.68	3.31
1982	0.73	12.55	3.39
1983	0.68	11.60	3.34
1984	0.66	11.04	3.47
1985	0.72	11.67	3.62
1986	0.64	10.30	3.48
1987	0.09	1.54	3.40
1988	0.82	13.74	3.57
1989	0.50	7.92	3.58
1990	0.49	7.81	3.50
1991	0.53	8.25	3.60
1992	0.94	13.86	3.89
1993	1.23	16.30	3.97
1994	1.20	15.00	3.95
1995	1.17	14.66	4.29
1996	1.19	14.45	4.27
1997	1.23	14.69	4.21
1998	1.18	13.30	3.47
1999	1.31	15.31	4.07
2000	1.19	14.02	3.95
2001	1.13	12.45	3.28
2002	1.27	13.91	3.34
2003	1.35	14.81	3.16
2004	1.24	12.25	2.97
2005	1.26	12.51	2.98

Source: www2.fdic.gov/qbp