



Banks - What to Consider

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Rocky Mountain Chapter

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Banks - how they make money

- A service industry whose business is money
 - They borrow money
 - They loan money
- Banks move money
 - No products sold
 - No cost of goods sold

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Cash flow - the movement of forms of money

Assets

Loans>>interest

Cash>>interest

Investments>>interest

Liabilities

Deposits>>pay interest

Borrowings>>pay interest

Equity>>appreciation, dividends

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Section 1 - Sales

On Value Line chart:

- Total Assets
- Net Interest Income
- Loan Loss Provision
- Noninterest Income
- % Return on Total Assets

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As seen on Value Line page

EARNINGS PER SH				
DIV'DS DECL'D PER SH				
BOOK VALUE PER SH				
COMMON SHS OUTST'G (MILL)	TOTAL ASSETS (\$MILL)	10600	14275	
AVG ANN'L P/E RATIO	LOANS (\$MILL)	8288.0	11018	
RELATIVE P/E RATIO	NET INTEREST INC (\$MILL)	384.9	492.6	
TOTAL ASSETS (\$MILL)	LOAN LOSS PROV'N (\$MILL)	4.7	3.2	
LOANS (\$MILL)	NONINTEREST INC (\$MILL)	25.4	29.8	
NET INTEREST INC (\$MILL)				
LOAN LOSS PROV'N (\$MILL)				
NONINTEREST INC (\$MILL)				
NONINTEREST EXP (\$MILL)				
NET PROFIT (\$MILL)				
INCOME TAX RATE	RETURN ON TOTAL ASSETS	1.41%	1.36%	1.51%
RETURN ON TOTAL ASSETS				1.60%
LONG-TERM DEBT (\$MILL)				
SHR. EQUITY (\$MILL)				
SHR. EQ. TO TOTAL ASSETS				
LOANS TO TOT ASSETS				
RETURN ON SHR. EQUITY				
RETAINED TO COM EQ				
ALL DIV'DS TO NET PROF				

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Sales (Interest and Fees) Growth

Mostly affected by:

Interest rates

Monetary policy

Cost of capital in general

Loan and deposit demand

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Red flags to look for:

- Rapid growth of loans
- Inability to collect loans
- Lack of emphasis on customer service
- Concentrations
- Lack of diversification
 - In lending
 - In deposits

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Management:

ROE affected by:

- Abundant regulations
- Limitations on composition of balance sheet
- Limitations on amount of capital maintained

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Management indicator:

ROAA = Return on Average Assets:

- Management’s ability to price loans well
- Management’s control over expenses

Evaluate Management												
	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	5 Yr Avg	Trend
% Pre-Tax Profit on Sales	41.2%	48.2%	50.0%	52.0%	55.6%	54.8%	57.0%	51.4%	60.9%	57.3%	56.3%	EVEN
% Return on Equity	16.8%	17.4%	13.8%	14.1%	15.2%	17.5%	17.0%	16.1%	20.5%	21.0%	18.4%	UP
% Debt To Capital	30.9%	30.1%	18.5%	19.1%	25.6%	18.6%	13.5%	15.7%	27.3%	55.7%	26.2%	UP
% Return on Avg Assets	1.34%	1.47%	1.56%	1.65%	1.73%	2.01%	2.00%	1.60%	1.94%	1.69%	1.85%	DOWN

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Current Events

Last month (March 2023):

Silicon Valley Bank

Signature Bank

Silverlake

RMC Model Club portfolio:

Western Alliance Bank (WAL)

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We hope this has been of some help
the next time you are interested in
evaluating a bank.

Thanks,
Ross & Jane

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Questions?

Email questions to:
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