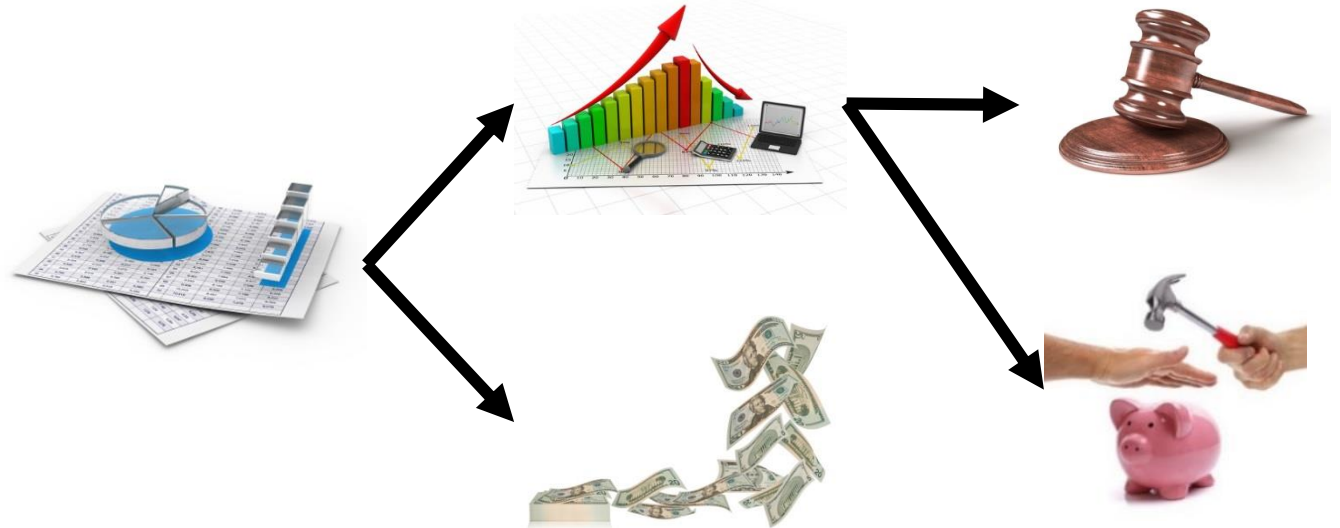


From the Balance Sheet to the Income Statement and Cash Flow Statement

Putting It All Together: How to Link a Bank's Financial Statements



This Lesson: It's a "Summary" of the First Five

This lesson puts together everything we've learned up to this point – so it is good if you've been skipping lessons.

We show you how to link a commercial bank's financial statements, starting with key Balance Sheet assumptions.

How Do Banks Create Value? ...or Do They?

Loans & Interest-Earning Assets

x

Weighted Average Interest Rate

=

Interest Income

-

Deposits & Interest-Bearing Liabilities

x

Weighted Average Interest Rate

=

Interest Expense

=

Net Interest Income

-

Prov. for Credit Losses

+

Non-Interest Income

-

Non-Interest Expenses

-

Taxes

=

Net Income

÷

Equity

=

Return on Equity

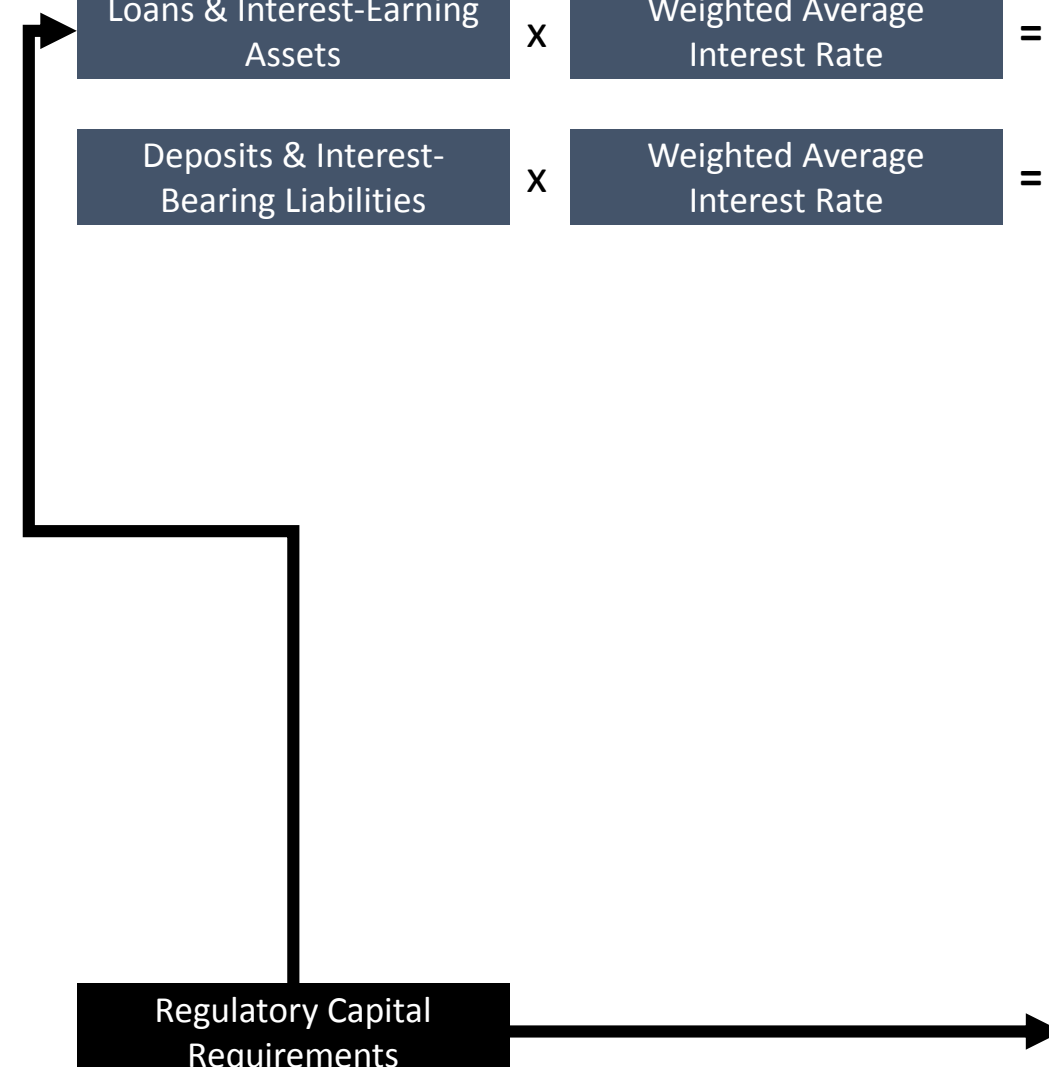
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Cost of Equity

=

Value Created?

Regulatory Capital Requirements



Linking a Bank's Financial Statements

- **Step 1:** Project Loans, Deposits, and Key IEA/IBL
- **Step 2:** Project Charge-Offs, Recoveries, and Provisions
- **Step 3:** Assign Interest Rates & Calculate Interest Income / (Expense)
- **Step 4:** Link and Flesh Out the Income Statement
- **Step 5:** Link and Flesh Out the Cash Flow Statement
- **Step 6:** Calculate Regulatory Capital and Key Metrics/Ratios

