BPA, **CAPITAL PLANNING AND FUNDING**

**SECTION LEADER:** DAVE KOCH

**BPA and Capital Planning Section**

**DESCRIPTION**
The Bank Performance Analysis (BPA) course explores the basic concepts and definitions of financial performance analysis including balance sheets, income statements and ratios derived from financial statements and used in analyzing financial performance.

Topics covered in this course include the following:

- Bank measurement standards, including the balance sheet, income statement, and key ratios
- Establishing and balancing the relationship between financial goals
- Asset quality, including financial statement ratios, nonperforming assets, and charge-off information
- Risk-based assets and capital ratios
- Peer group assessments, including similar banks in similar markets, high performance groups, and understanding differences
- Relationship between yield on earning assets, cost of funds and spread.
- How banks achieve and maintain positive spread by incurring credit risk, interest rate risk and liquidity risk

**PURPOSE**
Effective strategic financial planning requires a set of realistic and achievable long-range goals. Understanding how risk taking and risk management (asset/liability management) interact to reach the goals helps ensures unexpected risks will not derail progress. Understanding the basic performance analysis ratios and how they are affected, bankers can review past performance in relation to goals and peers, and set or adjust strategy as conditions change.

The Bank Performance Analysis course is a critical part of the three-year bank management/ financial analysis progression that includes asset/liability management and bank funding in the first year, then continues with Asset/Liability Management in the second year, and Bank Management Simulation in the third.

Students will work to understand how to use available data to analyze bank performance, and how the various components of the bank interact. Areas where various risk management issues will be highlighted for their impact on financial performance to reinforce how critical it is to understand how risks impact future goals. These skills will be enhanced in Asset/Liability Management and put to practical use in Bank Management Simulation.

**OBJECTIVES**
After successfully completing this course, students will be able to:

- assess management philosophy and goals by evaluating the financial performance of a bank.
- trace both good and poor bank performance to its root causes and explain these causes.
- anticipate the effect of changing economic conditions, such as interest rate movements, on the bank’s performance.
- make recommendations to senior management on how to remedy problems or enhance success.
Funding Section

DESCRIPTION
The Funding course focuses on funding the balance sheet with a primary focus on retail deposit strategies and pricing. Wholesale funding sources are used as benchmarks in deciding whether deposits are well or poorly priced and a course section focuses on the tradeoffs with various wholesale funding sources. The course introduces how to install an effective deposit pricing process. It introduces tools used in deposit pricing analysis and decision making and discusses a variety of segmentation strategies. A lecture session is also spent reviewing non-core funding options from sources like FHLBs, brokered CDs, etc.

Topics covered in this course include the following:
• Developing an effective tactical and strategic deposit pricing process
• How the deposit pricing process is tied into the ALCO process
• The difference between marginal and average cost and use of benchmark wholesale rates in making effective deposit pricing decisions
• Tradeoffs in the use of various sources of wholesale funding.
• The role of effective tracking systems in upgrading the deposit pricing decision making process
• Use of segmentation strategies to separate rate sensitive from non-rate sensitive customers
• Evaluating the behavior of non-maturity deposits including calculation of pricing betas and decay rates.
• Use of non-core funding in both liquidity management and base funding strategies.

PURPOSE
The course teaches development and implementation of an effective deposit pricing process as well as discusses strategies aimed at managing cost of funds while growing deposits. Alternative sources of wholesale funding are introduced and discussed. Students apply concepts through an extension problem that has students develop a deposit pricing strategy for their institution.

The Funding course is part of a three year bank management/ financial analysis progression that includes Bank Performance Analysis in the first year, continues with Asset/Liability Management in the second year, and Bank Management Simulation in the third. By understanding how to use trends in balance growth, survey data, wholesale benchmark rates and the appropriate analytics, students learn how an effective deposit pricing process can grow deposits while managing cost of funds. These skills will be enhanced in Asset/Liability Management and put to practical use in Bank Management Simulation.

OBJECTIVES
After successfully completing this course, students will be able to:
• Develop a deposit pricing strategy for their institution.
• Choose between alternative deposit strategies using marginal cost and benchmark rates in making decisions.
• Understand the tradeoffs in use of wholesale funding.
• Use a PC-based system to gather, interpret and analyze data that is a crucial input to deposit pricing decisions.