Workshop Handout — Bank Financial Statements

AFIN8003 Banking and Financial Intermediation | Week 2

Dr. Mingze Gao

2026-03-10

Student Name:~______________________________ **Student ID:**~________________

This handout follows **Bravo Bank** through its very first weeks of operation. Read each scenario carefully, then fill in the missing values. Every exercise builds on the one before it, so work through them in order.

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1 Banking Book: Balance Sheet Basics

1.1 Opening day

Bravo Bank is incorporated on **1 March 2026**. The founding shareholders contribute **$25,000** as the bank's starting capital. At this point, the only thing the bank owns is the cash just received, and it owes nothing to anyone.

> **Hint — the accounting equation:**
>
> $$\text{Total assets} = \text{Total liabilities} + \text{Shareholders' equity}$$
>
> Always check that both sides balance before moving on.

Exercise 1. Fill in Bravo Bank's opening balance sheet.

	Amount ($)
Assets	
Cash and Cash Equivalents	________
Total assets	________
Liabilities	
Total liabilities	$0
Shareholders' Equity	
Shareholders' Equity	________
Total shareholders' equity	________

1.2 Customer deposits

Later that day, two customers open savings accounts:

- **Customer D** deposits **$70,000**
- **Customer E** deposits **$30,000**

When a customer deposits money, the bank takes custody of their cash. But the bank **owes** that money back on demand — so deposits are recorded as a **liability**, not income.

> **Hint — what changes?** The bank now holds more cash (↑ asset). It also owes the deposited money back to customers (↑ liability). Shareholders' equity does **not** change, because no profit has been earned.

Exercise 2. Fill in the balance sheet after receiving both deposits.

	Amount ($)
Assets	
Cash and Cash Equivalents	______
Total assets	______
Liabilities	
Customer Deposits	______
Total liabilities	______
Shareholders' Equity	
Shareholders' Equity	25,000
Total shareholders' equity	25,000

> **Hint — calculating the numbers:**
> - Customer Deposits = $70,000 + $30,000 = ______
> - Cash = original $25,000 + deposits received = ______

1.3 Making a loan

Bravo Bank makes its first loan: it lends **$90,000** to a borrower. The bank transfers $90,000 in cash to the borrower and in return receives a loan contract — the borrower's legal promise to repay.

> **Hint — what changes?** One asset (cash) decreases; another asset (the loan) increases by the same amount. Total assets stay the same. No profit is earned yet, so equity is unchanged.

Exercise 3. Fill in the balance sheet after disbursing the loan.

	Amount ($)
Assets	
Cash and Cash Equivalents	______
Loans and Advances	______
Total assets	125,000
Liabilities	
Customer Deposits	100,000
Total liabilities	100,000
Shareholders' Equity	
Shareholders' Equity	25,000
Total shareholders' equity	25,000

	Amount ($)

> **Hint:**
> - Cash falls by the loan amount: \$125,000 − \$90,000 = ____________
> - Loans and Advances = ____________ (the amount lent out)

Exercise 3(b). In one sentence, explain why making a loan does **not** immediately change shareholders' equity or the income statement.

1.4 Interest income and expense

One month has passed. On **1 April 2026**, Bravo Bank closes its books for March. During the month:

- The bank **paid \$150 interest** on customer deposits — this is an **expense**.
- The bank **received \$750 interest** from its loan — this is **income**.

Net profit is the difference: income minus expenses. Profit flows into **Retained Earnings** on the balance sheet.

> **Hint — the income statement:**
>
> $$\text{Net profit} = \text{Total income} - \text{Total expenses} = \$750 - \$150 = \underline{\hspace{3cm}}$$

Exercise 4. Complete the income statement for the month ended 1 April 2026.

	Amount ($)
Income	
Interest Income	750
Total income	750
Expenses	
Interest Expense	____________
Total expenses	____________
Net profit	____________

Exercise 5. Net profit of **\$600** is added to **Retained Earnings**. Cash also changes: the bank received \$750 interest in cash and paid \$150 in cash. Fill in the missing amounts.

> **Hint:**
> - New cash = previous cash ± cash flows = \$35,000 + \$750 received − \$150 paid = ____________
> - Retained Earnings = Net profit accumulated = ____________
> - Total shareholders' equity = Shareholders' Equity + Retained Earnings = ____________

	Amount ($)
Assets	
Cash and Cash Equivalents	____________
Loans and Advances	90,000

	Amount ($)
Total assets	
Liabilities	
Customer Deposits	100,000
Total liabilities	100,000
Shareholders' Equity	
Shareholders' Equity	25,000
Retained Earnings	
Total shareholders' equity	

2 Trading Book: FVTPL Securities

On **2 April 2026**, Bravo Bank buys a security for its **trading book** at a cost of **$12,000**. Trading book securities are classified as **FVTPL** (Fair Value Through Profit or Loss).

> **The key rule for FVTPL:** the security is **marked to market every day** — any rise or fall in its value is recognised **immediately in the Income Statement**, increasing or decreasing the bank's net profit (and retained earnings) right away, even before the security is sold.

After the purchase, the security's fair value changes over three days:

Date	What happens
3 April	Market value **falls 10%** from the previous day's value
4 April	Market value **rises 15%** from the previous day's value
5 April	Market value **rises 5%** from the previous day's value, then the bank **sells**

Exercise 6. Track the security's market value and the daily trading gain or loss. Fill in every blank cell.

> **Hint — how to fill in each row:**
> - *Market value* = previous day's market value × (1 + % change)
> - *Daily gain/(loss)* = today's market value − yesterday's market value
> - A **positive** number is a gain (the bank made money today).
> - A **negative** number is a loss (written in brackets, e.g. **(1,200)**).
> - The *total gain/(loss)* at the bottom is the sum of all three daily figures — or simply: final sale price − original purchase price.

Date	Market Value ($)	Daily Gain / (Loss) ($)
2 Apr — purchase	12,000	—
3 Apr — down 10%	________	________
4 Apr — up 15%	________	________
5 Apr — up 5%, then sold	________	________
Total gain / (loss)		________

Exercise 7. When the bank sells the FVTPL security on 5 April for **$13,041**, fill in the two amounts below.

> **Hint:**
> - The bank receives **cash equal to the sale price**.
> - Over the three trading days the bank booked gains and losses in its Income Statement. The **net effect on Retained Earnings** equals the total gain/(loss) from Exercise 6.

	Amount ($)
Cash received from the sale	________
Net change in Retained Earnings over 3–5 April	________

Exercise 8. Which of the following statements about FVTPL securities are correct? Circle **all** that apply.

(A) Unrealized gains and losses flow through the **Income Statement**, affecting net profit every day.

(B) Unrealized gains and losses are held in **AOCI** until the security is sold.

(C) When the security is sold, gains/losses are reclassified from AOCI into the Income Statement.

(D) A fall in an FVTPL security's value reduces **Retained Earnings** via a net loss in that period.

3 Banking Book: FVOCI Securities

On **6 April 2026**, Bravo Bank buys a **Treasury bond** for **$20,000** and places it in its banking book, classifying it as **FVOCI** (Fair Value Through Other Comprehensive Income).

> **The key rule for FVOCI:** the bond is also marked to market — but its fair value changes go to **Accumulated Other Comprehensive Income (AOCI)**, which is a *separate section of shareholders' equity.* They do **not** touch the Income Statement while the bond is held. The gain or loss only moves into the Income Statement when the bond is sold.

Here is Bravo Bank's balance sheet immediately after buying the bond. Note that AOCI starts at zero because there has been no fair value change yet.

	Amount ($)
Assets	
Cash and Cash Equivalents	16,641
Loans and Advances	90,000
Investment Securities at FVOCI	20,000
Total assets	126,641
Liabilities	
Customer Deposits	100,000
Total liabilities	100,000
Shareholders' Equity	
Shareholders' Equity	25,000
Accumulated OCI (AOCI)	0
Retained Earnings	1,641
Total shareholders' equity	26,641

Why did cash fall to $16,641? Before buying the bond, cash was $36,641 (from the FVTPL trading gains in Part 2). Buying the $20,000 bond uses cash: $36,641 − $20,000 = $16,641.

The bond's fair value then changes on two consecutive days, before being sold:

Date	What happens
7 April	Fair value **rises 5%** from the previous day
8 April	Fair value **falls 8%** from the previous day
9 April	Bank **sells** the bond at the 8 April closing price (no further change)

Exercise 9. Track the bond's fair value and the resulting AOCI movements.

Hint — how AOCI works:
- When the bond's fair value **rises**, AOCI increases by the same amount (a gain for equity, but *not* for P&L).
- When the bond's fair value **falls**, AOCI decreases (a loss for equity, but *not* for P&L).
- **Retained Earnings is not affected** while the bond is held — only AOCI changes.
- The *Cumulative AOCI* column shows the running total: start at 0 and add each day's change.

Date	Fair Value ($)	AOCI Change ($)	Cumulative AOCI ($)
6 Apr — purchase	20,000	—	0
7 Apr — up 5%	__________	__________	__________
8 Apr — down 8%	__________	__________	__________

> **Hint — calculating each row:**
> - Day 1 (7 Apr): Fair value = $20,000 × 1.05 = ___________ → AOCI change = new FV − old FV = ___________
> - Day 2 (8 Apr): Fair value = Day 1 FV × 0.92 = ___________ → AOCI change = new FV − Day 1 FV = ___________

Exercise 10. On **9 April**, Bravo Bank sells the Treasury bond at the 8 April closing price of **$19,320**.

When the bond is sold, the cumulative AOCI balance of **(680)** is **reclassified** out of AOCI and into the Income Statement as *Investment Income (FVOCI)*. After this, AOCI returns to zero.

> **Hint — reclassification:**
> - "Reclassification" means the loss moves from AOCI (equity) into the Income Statement (P&L).
> - A negative AOCI means the bank had unrealized *losses* while holding the bond.
> - When reclassified, those losses become a **realized investment loss** in the Income Statement.
> - The AOCI is cleared to zero because the bond no longer exists on the balance sheet.

Fill in the blanks:

(a) The bank receives $_____________ in cash from the sale.

(b) AOCI moves from ($680) to $___________ after the reclassification.

(c) The Income Statement records an investment _____________ *(gain / loss)* of $___________.

Exercise 11. Compare how an **FVTPL** security and an **FVOCI** security are treated when their fair value changes. Fill in each cell with either *Income Statement (P&L)* or *AOCI (equity)*.

> **Hint:** Think about where each type's gains/losses go **while held** vs. **when sold**. For FVTPL, gains/losses hit P&L immediately. For FVOCI, gains/losses bypass P&L and sit in AOCI — until the bond is sold, at which point they "flow through" into P&L.

	Where does the gain/loss appear *while held*?	Where does it appear *on sale*?
FVTPL security	________________________	________________________
FVOCI security	________________________	________________________

Exercise 12. AOCI is a component of **CET1 capital**. In one sentence, explain why a fall in an FVOCI bond's fair value can affect a bank's CET1 capital ratio even before the bond is sold.

> **Hint:** CET1 capital includes shareholders' equity, and AOCI is part of that equity. A fall in AOCI directly reduces CET1 — which is the denominator's driver for capital ratios.

4 Multiple Choice

Circle the single best answer for each question.

Q1. Bravo Bank receives a $70,000 deposit from Customer D. What is the **immediate** effect on its balance sheet?

(A) Total assets increase by $70,000; shareholders' equity increases by $70,000.

(B) Total assets increase by $70,000; total liabilities increase by $70,000.

(C) Cash increases by $70,000; retained earnings increase by $70,000.

(D) No effect — the deposit is only recorded when the customer withdraws the money.

Q2. Bravo Bank makes a $90,000 loan. Which of the following best describes the accounting entry?

(A) Cash increases by $90,000; loans increase by $90,000.

(B) Loans increase by $90,000; deposits increase by $90,000.

(C) Cash decreases by $90,000; loans increase by $90,000.

(D) Shareholders' equity decreases by $90,000; loans increase by $90,000.

Q3. Bravo Bank holds an FVTPL security that falls in value by $1,200 overnight. Which statement is correct?

(A) AOCI decreases by $1,200; net income is unaffected.

(B) The $1,200 loss is deferred until the security is sold.

(C) Net income decreases by $1,200 immediately; retained earnings fall by the same amount.

(D) Cash decreases by $1,200 because the bank has lost money.

Q4. Bravo Bank holds an FVOCI Treasury bond whose fair value rises by $1,000. Which statement is correct?

(A) Net income increases by $1,000 immediately.

(B) AOCI increases by $1,000 within equity; net income is unaffected until the bond is sold.

(C) Cash increases by $1,000 because the bond is now worth more.

(D) The $1,000 gain is ignored entirely — no entry is made until the bond matures.

Q5. When Bravo Bank sells its FVOCI Treasury bond, which carries a cumulative AOCI **loss** of $680, what happens?

(A) The $680 loss stays in AOCI permanently — selling has no income statement effect.

(B) The $680 AOCI loss is reversed (cancelled); net income increases by $680.

(C) The $680 AOCI loss is reclassified into the Income Statement as a realized investment loss; AOCI returns to zero.

(D) The $680 is transferred directly to Retained Earnings without going through net income.

End of handout — good luck!