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The Profitability and Performance Measurement of U.S. Regional Banks Using the Predictive Focus of the “Fundamental Analysis Research”

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ISBN: 978-1-78441-166-4

International Publication date: 23 September 2014

Standard

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Abstract

Purpose

This paper examines the profitability and performance measurement of U.S. regional banks during the period 1994–2011, using the GMM estimator technique. Our study extends prior research by including several factors not previously considered using U.S. data.

Approach

We use bank-specific, industry-specific, and macroeconomic determinants of profitability contemporaneous with our performance indicators. We follow the accounting fundamental analysis path in explaining the bank performance.

Findings

Among the performance measures, the efficiency ratio and provisions for credit losses are negatively and equity scaled by assets is positively related to profitability. However, these relationships either reverse (efficiency ratio and provisions for credit losses) or become insignificant (equity scaled by assets) when the target becomes change in profitability. The level of nonperforming assets is negatively related to profitability across all measures of profitability used. Macroeconomic variables are largely unrelated to profitability during the year they are measured. However, they have a significant relationship with earnings change measures, suggesting they have a lagged effect on profitability. The slope of the yield curve is especially strong in this regard.

Originality

We use our determinants to model changes in bank

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Keywords

Banking profitability

Return on assets (ROA)

Return on equity (ROE)

Efficiency ratio

Macroeconomic factors

Fundamental analysis research

Citation

Grove, G., DeBruine, M., Lee, J.Y. and Tudón Maldonado, J.F. (2014), "The Profitability and Performance Measurement of U.S. Regional Banks Using the Predictive Focus of the "Fundamental Analysis Research"", *Advances in Management Accounting (Advances in Management Accounting, Vol. 24)*, Emerald Group Publishing Limited, Leeds, pp. 189-237. <https://doi.org/10.1108/S1474-787120140000024006>

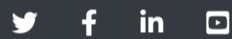
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