



Business Intelligence Using Public Information


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The most important “red flag” for directors to step up their board involvement is an earnings restatement.

Source: PWC Annual Corporate Directors Survey 2010 Results



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Objectives

- Describe types of public information available for bank analysis
- Discuss how media information influences business strategies and practices
- Review information available from data providers for analysis
- Discuss advantages of establishing formal and informal relationships and networks for business intelligence



Factors that Impact the Banking Business

- Economy
- Market
- Regulatory Environment
- Customers
- Credit Rating Agencies
- Accounting Rule makers
- Geography / Footprints and Competitors
- Industry Practices
- Technology and Social Networks



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Public Information Sources

- Regulatory Reports
- SEC Filings (Form 10-Q/K and 8-K)
- Credit Rating Agencies
- Media Information
- Data Providers
- Networks



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Regulatory Reports

- Summary of Deposits (SOD)
 - Deposit data for branches and offices of all FDIC-insured institutions
<http://www2.fdic.gov/sod/>
- Consolidated Reports of Condition and Income “Call” Report (FFIEC 031/041)
 - Balance Sheet, Income Statement, Statement of Equity Capital and Supporting Schedules
 - Source of information for the Uniform Bank Performance report (UBPR)
- Available in the Central Data Depository (CDR)
<https://cdr.ffiec.gov/public/>



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Uniform Bank Performance Report (UBPR)

- Analytical Tool
- Primary source is the Report of Condition and Income “Call” Report (FFIEC 031/041)
- Presents three types of data for use in financial analysis
 - Bank’s data
 - Peer Groups
 - Percentile Rankings
- Data are in Ratios



Uniform Bank Performance Report (UBPR)

- Shows impact of Management's decisions and economic conditions on the bank's performance and balance sheet composition
- Evaluation of a bank's current conditions
- Trends in its financial performance
- Comparisons with the performance of its peer groups



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Bank Analysis Factors

C-A-E-L

CAEL Components Review Order

- Asset Quality
- Earnings
- Capital
- Liquidity

“In the order of cause and effect”



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Asset Quality Analysis

What to look for when analyzing asset quality:

- Asset Mix of Balance Sheet
 - Percentages of total assets in loans, securities and other assets
- Past Due and Nonaccrual Loans and Leases
 - Total past dues by type of loan
 - Nonaccrual loans to loans by type

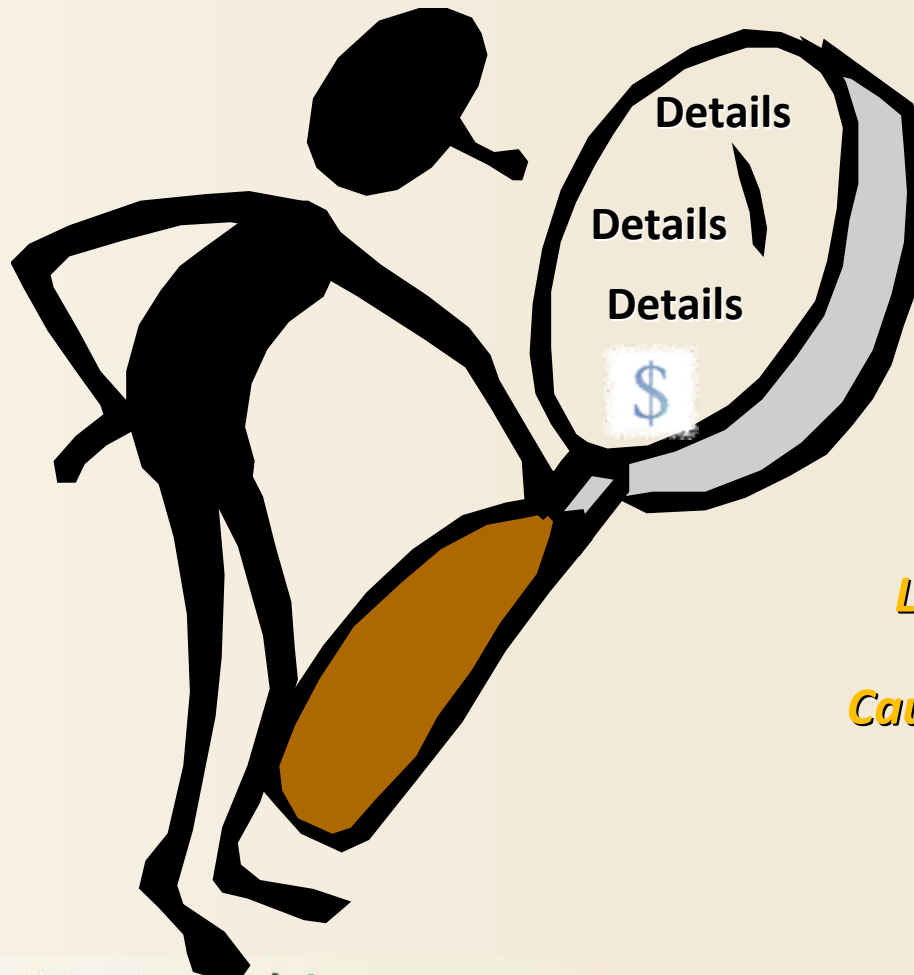


Asset Quality Grid

	Ratio Description	Level %	Peer	Pct.	One Year Trend
Page 1 Provides an overview of bank's entire financial condition	Net loss to average total ln&ls				
	Ln&Ls allowance to total ln&ls not HFS				
Page 6 Provides percentage composition of assets and liabilities	Other real estate owned as % of avg. Assets				
Page 8A Provides past-due and nonaccrual data	% Total P/D Ln&Ls – incl nonaccrual				
	Non Curr Lns + OREO to Lns + OREO				



Inquiring Minds Want to Know....



Remember...

Level, trend, why?

Cause and effect?



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Regulatory Reports

- Bank Holding Company (BHC) Reports
 - Consolidated Financial Statements for Bank Holding Companies (FR Y-9C)
 - Parent Company Only Financial Statements for Large BHCs (FR Y-9LP); for Small BHCs (FR Y-9SP)
 - Source of the Bank Holding Company Performance report (BHCPR)
 - Report of Changes in Organizational Structure (FR Y-10)
 - Other reports prepared by subsidiaries of the BHC
- <http://www.federalreserve.gov/reportforms/>
- Available in the National Information Center (NIC)



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National Information Center (NIC)

- NIC is a repository of financial data and institution characteristics collected by the Federal Reserve System
 - Institution and Foreign Banking Organization Search
 - Organization Hierarchy
 - Branch Locator
 - BHCPR Performance Reports
- <http://www.ffiec.gov/nicpubweb/nicweb/NicHome.aspx>



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Regulatory Reports

Form Number	Description	Filing Requirement
FFIEC 031/041	Consolidated Reports of Condition and Income	FFIEC 031 Filers with more than one foreign office have up to 35 calendar days after the quarter end. FFIEC 041 Filers - 30 calendar days after the quarter end.
FR Y-9C	Consolidated Financial Statements for Bank Holding Companies	40 days after the quarter end for March 31, June 30 th and September 30 th 45 days after the quarter end for December 31
FR Y-9SP	Parent Company Only Financial Statements for Small Bank Holding Companies	45 days after June 30 th and December 31
FR Y-10	Report of Changes in Organizational Structure	Submitted within 30 calendar days of a reportable transaction



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<http://www.federalreserve.gov/reportforms/>

SEC Form 10-Q/10-K

- filed by companies with more than \$10 million in assets whose securities are held by more than 500 shareholders. There are 3 groups of filers:
 - Large Accelerated Filers - \$700 million or more
 - Accelerated Filers - \$75 million
 - Non Accelerated Filers – less than \$75 million
- 10-Q includes *unaudited* financial statements and is filed quarterly
- 10-K includes *audited* financial statements and provides a comprehensive overview of the business and financial condition; filed annually



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FR Y-9C and Form 10-Q Reporting Similarities

- FR Y-9C and Form 10-Q
 - Similar financial data – balance sheet and income statement
 - Prepared using the same sub systems and general ledger
 - Based on U.S. GAAP
 - Same quarterly as-of date
 - Major themes transcends both reports
 - Major asset and liability categories should be the same



Form 10-Q vs. the FR Y-9C

- Fundamental difference in **purpose**:
 - Form 10-Q is for **financial performance**
 - FR Y-9C is used for **safety and soundness**
- Fundamental **reporting difference**:
 - Form 10Q is reported based on lines of business
 - FR Y-9C is reported on a legal entity basis



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Business Lines Legal Entities

- Business lines focus on the type of **activity**.
- Legal entities focus on the type of **entity**, **location** and nature of **business**.

Business Lines (Form 10-Q)	Legal Entities (FR Y-9C)
Commercial Lending	Subsidiary (domestic or foreign)
Consumer Lending	Branch (domestic or foreign)
Mortgage Lending	Affiliate
Wealth Management	Associated Companies
Private Banking	Corporate Joint Ventures



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Business Line vs. Legal Entity Reporting

PSJ Bancshares extends two loans totaling \$50 million dollars to two different customers abroad. A loan for \$35 million dollars is recorded in the bank's branch in the United Kingdom, and a loan for \$15 million dollars is recorded in the BHC's subsidiary in Spain.

Banker's perspective: The company has foreign risk exposure of \$50 million dollars.



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Business Line vs. Legal Entity Reporting

- Regulatory Reporting Perspective: the type of entity that booked the loan determines reporting
 - The \$35 million dollar loan booked in PSJ Bancshares' bank's **branch** in the United Kingdom would be reportable on the Foreign Branch Condition Report (FFIEC 030)
 - The \$15 million dollar loan booked in PSJ Bancshares' **subsidiary** in Spain would be reportable on the Financial Statements of Foreign Subsidiaries of U.S. Banking Organizations (FR 2314)



FR Y-9C and Form 10-Q Reporting Differences

FR Y-9C	Form 10-Q
Based on legal entities	Based on lines of business
Based primarily on U.S. GAAP	Based on U.S. GAAP
Primarily used by Regulators	Multiple Public Users
Financial Statements include minimal financial disclosures	Financial Statements include detailed disclosures
Detailed Classifications	Broad Classifications
Should advise the FRB if filing late	Must file notice of non-timely filing
Revisions	Restatements



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FR Y-9C and Form 10-Q for Comparative Analysis

- FR Y-9C schedules to compare to Form 10-Q
 - HC – Balance Sheet
 - HC-B – Securities
 - HC-M – Memoranda
 - HC-Q-Assets and Liabilities Measured at Fair Value
 - HC-R-Regulatory Capital



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SEC Form 8-K

Current Report

- The 8-K is an **interim** report filed when **events** or **information** take place between the release of the 10Q and 10K.
 - Business and Operations
 - **Financial Information (Earnings Releases and Restatements)**
 - Securities and Trading
 - Matters relating to Accountants and financial statements
 - Corporate Governance
 - Asset Backed Securities
- Report must be filed within **4** business days following the event
- Corporate Earnings Releases and conference calls are generally 2-3 weeks after quarter end



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Business Intelligence using SEC Reports

- SEC reports provide business intelligence into the company's
 - Financial Performance
 - Business strategies
 - Operations
 - Products
 - Significant policies
 - Rule changes
 - Risks
 - Decisions
 - Outlook
 - Footprints



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SEC Forms

Form Number	Description	Filing Requirement
Form 10-Q	Quarterly Report	Large Accelerated Filers 40 days after quarter end. Accelerated Filers and all Others 45 days after quarter end.
Form 10-K	Annual Report	Large Accelerated Filers 60 days after fiscal year end. Accelerated Filers 75 days after fiscal year end All Others 90 days after fiscal year end
Form 8-K	Current Report	4 Business Days after the event



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Available at www.sec.gov

Credit Rating Agencies

- Credit Rating Agencies:
 - Monitor rated securities and issuers
 - Base ratings on quantitative and qualitative factors:
 - Asset Quality
 - Capital Adequacy
 - Business Mix
 - Level of Earnings
 - Liquidity
 - Developing events or trends
 - Agency view



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Credit Rating Agencies

- Credit Rating Agencies:
 - Determine if a ratings change is warranted then debt is placed on
 - Watchlist if reviewed by Moody's
 - CreditWatch if reviewed by S&P
 - Ratings Watch if reviewed by Fitch
- These lists are considered an adjustment in credit quality



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Credit Rating Agencies

- Implications of a ratings action:
downgrade
 - Adverse affect on liquidity and financial condition
 - Increase in financing costs
 - Limited access to short term funding
 - Potential lost of Customers
 - Increase in deposit premium expense



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Analyzing Media Information

- What question(s) would you have about the bank, industry, or business practice?
- What actions would you take?
- What preventive measures could have been in place?
- Are there
 - Signals?
 - Triggers?
 - Predictors?
 - Indicators?
 - Expectations?



Media Information

The company said it determined that certain listings of residential loans and commercial participations were intentionally misstated by a former Bank officer. The Company believes the misstatements were made to disguise the fact that its Bank's primary correspondent bank account had not been properly reconciled. Also, the company said its principal financial and accounting officer of the holding company and bank will resign. The officer was not in any way connected with the accounting entries and reconciliation.

The company will restate its financial statements



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Your Thoughts...


A well-regarded president of a small bank who had substantial control over the bank's operations, colluded with another bank employee to make several fictitious loans over a period of time. The president used the proceeds to make speculative investments in the stock market based on the apparent belief that rapid appreciation in investments would allow him to repay the loans in a short period of time (thereby avoiding detection) and retain sizeable profits. However, after investments were made, the stock market and the specific investments declined in value, preventing the repayment of the loans, and leading to their detection.

Source: The Director's Primer, FRB Atlanta Department of Supervision and Regulation



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Data Providers' Information for Bank Analysis



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Data Providers

- Online provider of financial data and news
- Gather data available from multiple sources
- Package data into a user friendly single source web based application
- Allow customization
- Features useful for bank analysis
- Information available by sectors



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Information Available from Data Providers

- Financial Performance Data
- Market Data
- Recent News
- Document Highlights
- Upcoming Events
- General Corporate Data
- Queries, Tools and Templates
- Recent Research reports and studies



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Benefits of Data Providers

- Real time availability of information
- Many useful features
 - Set up a portfolio of institutions / Corporate Profiles
 - E-mail notification when your selected banks are in the news
 - Briefing Book
 - Tear sheets and Templates
 - Excel Add-in
 - Create queries
- Education – Webinars and podcasts
- Training is usually available on the product



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Formal Networks

- Formal Networks
 - Business line contacts (inside the organization)
 - Regulatory Agencies
 - Local Chapters of Professional Organizations
 - Accounting
 - Banking
 - Industry Groups and Associations
 - National Bankers Association
 - American Bankers Association
 - Independent Bankers Association



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Social Networks

- Social Media (Zoom-In)
 - Community Building
 - Product Research
 - Customer Service
 - Marketing and Promotion
- Social Media (Zoom-out)
 - Collaboration
 - Knowledge and Information Sharing
 - Vendors and Suppliers Information
 - Forum for Questions and Answers
 - Common Practices



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Formal and Social Networks

- Benefits of Formal and Social Networks
 - Current / up-to-date information
 - Consultants
 - News and Publications
 - Knowledge and Information sharing
 - Time and Resources
 - Among your peers
 - Education and Conferences



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Summary of Public Information

- Regulatory Reports
- Annual Reports to Shareholders
- Investor Presentations
- SEC Filings (Form 10-Q/K and 8-K)
- Credit Rating Agencies
- Media Information
- Data Providers
- Networks



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Takeaways

- Use business intelligence to:
 - Know and understand your bank's
 - Results (financial and operational)
 - Risks
 - Relationships
 - Readiness
 - Ask informed questions and make informed business decisions
 - Keep abreast of business and industry practices
 - Stay attuned to changes...

