



*Sector-Focused Intelligence*

## Fundamentals of Peer Analysis

Presenter: HD Jacobs, Senior Product Expert

Updated: January 2013

- I. Defining a Peer
- II. Peer Benchmarking Metrics
- III. Means of Conducting Peer Analysis
- IV. Future of Peer Analysis
- V. Peer Analysis Best Practices

What is a Peer?

## ❖ What is a peer?

- ❖ Anglo-French, *peir*, Old French, *per*, and Latin, *pār*, meaning equal.
- ❖ Merriam-Webster defines a peer as one that is of equal standing with another; one belonging to the same societal group especially based on age, grade or status
- ❖ In the banking industry, what once was a simple term has gone through an evolution of meaning and adaptation.
- ❖ A peer that once was a bank down the street is now an institution determined by size, location, business mix, and a combination of a multitude of other measurements



## ❖ Defining a peer group?

- ❖ Banks across similar markets of operation
- ❖ Banks of similar size – include some that are the same size as your bank, some slightly smaller as well as the size your institution aspires to be
- ❖ Depending upon the type of analysis, it is also important to look at a variety of performance metrics to see how your bank stacks up relative to the competition
- ❖ Peer groups should be limited to 10-20 peers at most for a meaningful analysis
- ❖ Rather than defining peers based on asset size and geography – a more innovative and realistic approach is to define peers based on operating strategy, lending practices, funding strategy, earnings strength, etc.



- With \$2.9B in total assets, StellarOne Bank is one of Virginia's largest independent, commercial banks. StellarOne is the subsidiary of StellarOne Corporation which is headquartered in Charlottesville, VA. StellarOne Bank is headquartered in Christiansburg and has a strong presence from the New River Valley and Shenandoah Valley to Central and North Central Virginia. They also manage trust and wealth service assets of nearly \$1B.

Institution Name	HQ Location	Total Assets
Bank of Hampton Roads	Virginia Beach, VA	\$1.7B
Monarch Bank	Chesapeake, VA	\$1.1B
Burke & Herbert	Alexandria, VA	\$2.5B
First Bank & Trust Company	Lebanon, VA	\$1.2B
Cardinal Bank	McLean, VA	\$3.0B
TowneBank	Portsmouth, VA	\$4.3B
United Bank	Vienna, VA	\$3.5B
Union First Market	Richmond, VA	\$4.0B
First Community Bank	Bluefield, VA	\$2.7B
Carter Bank & Trust	Martinsville, VA	\$4.3B

Institution Name	HQ Location	Total Assets	Deposit Mix/Loan Mix
StellarOne Bank	Christiansburg, VA	\$2.9B	63% MMDA/30% Time Deps/0.25% Brokered 24% CI-end 1-4/12% Rev 1-4/9% Const & Land/1.3% Consumer/7.89% C&I/39% CRE
Bank of Hampton Roads	Virginia Beach, VA	\$1.7B	26.7% MMDA & Savings/18.2% C&I
Monarch Bank	Chesapeake, VA	\$1.1B	37.8% MMDA & Sav/20% Brokered Deposits/46.5% CI-end 1-4
Burke & Herbert	Alexandria, VA	\$2.5B	69.9% MMDA & Sav/6.4% Rev 1-4/25.3% CI-end 1-4
First Bank & Trust Company	Lebanon, VA	\$1.2B	55.8% MMDA & Savings/1.6% Rev 1-4
Cardinal Bank	McLean, VA	\$3.0B	49% MMDA & Sav/4.8% Rev 1-4 Fam/42.9% CI-end 1-4
TowneBank	Portsmouth, VA	\$4.3B	71.4% MMDA & Sav/18.6% Const & Land Dev
United Bank	Vienna, VA	\$3.5B	45.6% Transaction Accts/21.6% MMDA & Sav
Union First Market	Richmond, VA	\$4.0B	57.4% MMDA & Sav/8.1% Consumer
First Community Bank	Bluefield, VA	\$2.7B	44.1% MMDA & Sav/6.1% Const & Land/4.6% Consumer
Carter Bank & Trust	Martinsville, VA	\$4.3B	19.59% MMDA & Sav/0% Rev 1-4 Fam

- ❖ If we were to re-evaluate our chosen peers for StellarOne Bank to focus on those most like StellarOne from a loan composition and deposit composition standpoint, you will notice our peer group has changed and we have introduced new players into our peer group analysis.

Institution Name	HQ Location	Total Assets
American National Bank & Trust	Danville, VA	\$1.3B
Virginia National Bank	Charlottesville, VA	\$474M
TowneBank	Portsmouth, VA	\$4.3B
Union First Market Bank	Richmond, VA	\$4.0B
Central Virginia Bank	Powhatan, VA	\$385M
Chesapeake Bank	Kilmarnock, VA	\$629M
EVB	Tappahannock, VA	\$1.0B
Valley Bank	Roanoke, VA	\$784M
Burke & Herbert Bank & Trust	Alexandria, VA	\$2.5B
National Bank of Blacksburg	Blacksburg, VA	\$1.0B



## Peer Benchmarking Metrics

## ❖ **Peer Benchmarking Categories**

- ❖ Capital Adequacy
- ❖ Asset Quality
- ❖ Profitability
- ❖ Liquidity
- ❖ Loan Mix and Deposit Mix – Interest Rates
- ❖ Sensitivity to Interest Rate Risk and Market Risk

## ❖ Capital Adequacy

- ❖ The cushion of equity and liquidity reserves needed to survive stress situations your institution may be facing that lead to losses or reductions of assets
- ❖ Aspects to consider:
  - ❖ Composition and quality of capital
  - ❖ Quantity and quality of earnings to increase capital
  - ❖ Access to government programs and access to capital markets
- ❖ Key Capital Ratios and Metrics
  - ❖ Tier 1 Risk Based Capital Ratio (Tier 1 Risk Based Capital / Risk Weighted Assets)
    - ❖ Tier 1 capital is seen as a metric of a bank's ability to sustain losses and track how much risk you are taking on (dollars held to dollars loaned out)
  - ❖ Leverage Ratio (Tier 1 Risk Based Capital / Average Assets)
    - ❖ Measure of balance sheet or economic leverage
  - ❖ Internal Growth Rate of Capital (Previous Period Net Income – Cash Dividends / Previous Period End Total Equity)
    - ❖ Measure capital strength, resilience, and bank's ability to earn it's way out of trouble through its profits from operations

## ❖ Capital Adequacy

### ❖ Tier 1 Common Risk Based Capital Ratio

❖ Ratio introduced during the Supervisory Capital Assessment Programs (SCAP) in the government's stress tests in May 2009

❖ Tier 1 common capital is the highest form of loss absorbing capital.

### ❖ Future of Capital Adequacy Assessments

#### ❖ Common Equity Tier 1 Capital Ratio

❖ Under the new Basel III rules Common Equity Tier 1 Capital, aka CET1, was created

❖ CET1 includes common equity as defined under GAAP and does not include any other type of non-common equity under GAAP. New adjustments introduced.

❖ Revised Risk Weighted Assets is denominator – increase in risk-weighted assets for 1-4 family loans based upon LTV, High Volatility Commercial Real Estate, and Past Due Loan Exposures

FDIC Risk-based capital groups

	Total RBC (%)			Tier 1 RBC (%)			Leverage (%)		Tangible Equity (%)
Well-capitalized	>=	10	and	>=	6	and	>=	5	--
Adequately capitalized	>=	8	and	>=	4	and	>=	4	--
Undercapitalized	>=	6	and	>=	3	and	>=	3	--
Significantly uncapitalized	<	6	or	<	3	or	<	3	and > 2
Critically undercapitalized		--			--			--	<= 2

Calibration of the Capital Framework			
Capital requirements and buffers (all numbers in percent)			
	Common Equity (after deductions)	Tier 1 Capital	Total Capital
Minimum	4.5	6.0	8.0
Conservation buffer	2.5		
Minimum plus conservation buffer	7.0	8.5	10.5
Countercyclical buffer range*	0 – 2.5		

\* Common equity or other fully loss absorbing capital

## ❖ Asset Quality

- ❖ Credit Quality of your bank's earning assets, the bulk of which comprises your loan portfolio, but will also include your investment portfolio (i.e. fixed income securities) and off-balance sheet items
- ❖ Aspects to consider:
  - ❖ Degree to which your loans are performing relative to other banks in your market and the likelihood that your loans will continue to perform.
  - ❖ Loan Loss Reserves that you have set aside relative to other banks in your market with similar asset quality ratios.
  - ❖ In assessing your risk profile relative to your peers, it is important to take into account the management strategy (i.e. aggressive expansion vs. conservative) and the market environment (booming economy vs. recession).
  - ❖ CRE concentrations – overconcentration at Florida banks led to the demise of many banks during the recession. Assess how many banks in your market have Commercial Real Estate Loans / Total Risk Based Capital less than 300% as outlined in the FDIC's Guidance on CRE concentrations.

## ❖ Asset Quality

### ❖ Key Asset Quality Ratios and Metrics

- ❖ Nonperforming Loans/ Loans
- ❖ Nonperforming Assets/ Total Assets
- ❖ Nonperforming Assets + Loans 90 days or more past due / Loan Loss Reserves + Tangible Equity
  - ❖ We also recommend looking at the adjusted ratios which net out delinquent government guaranteed loans and OREO covered by loss-sharing agreements with the FDIC.
- ❖ Loan Loss Reserves / Nonperforming Loans
  - ❖ See how your reserve coverage compares to peers in your market
  - ❖ Concerns if this dips below 100%
- ❖ Net Chargeoffs / Average Loans
- ❖ OREO / Loans and Restructured Loans / Loans
  - ❖ Lagging indicators behind Nonperforming Loans
  - ❖ When these ratios peak – recovery is likely under way

## ❖ Profitability

- ❖ Earnings refer to both profits and profitability, with an emphasis on profitability
- ❖ Important to identify banks with strong earnings capacity and high profitability
  - ❖ Generate Revenue
  - ❖ Earn way out of trouble by building up capital
  - ❖ Understand how others are continuing to invest in and grow their franchise
- ❖ Key Profitability Ratios and Metrics
  - ❖ ROAA
  - ❖ ROAE
  - ❖ ROACE
    - ❖  $\frac{\text{Net Income available to Common (Net Income – Preferred Stock Dividends)}}{\text{Average Common Equity}}$
  - ❖ Important to adjust for S-Corps if your institution is, for U.S. federal tax income purposes, either an S corporation or a “qualifying subchapter S subsidiary” as defined by the IRS

## ❖ Profitability

### ❖ Key Profitability Ratios and Metrics

#### ❖ Net Interest Margin

##### ❖ Yield and Cost

❖ Rates on deposit, mortgage and consumer loan products

❖ Understanding fluctuations in earning assets & interest bearing liabilities to help maximize Net Interest Income

❖ Margins under pressure for several quarters

❖ Who is capitalizing on the low-rate environment to juice mortgage production?

#### ❖ Efficiency Ratio

❖ Non-interest expenses / Net Interest Income (FTE) and Non-Interest Income

❖ What's driving a peer's ratio? Are you utilizing your resources for maximum production?

❖ Aspects to Consider

❖ Volume of problem assets

❖ Compliance costs

❖ Branch Consolidation – trimming expenses

❖ Median Efficiency Ratio for the industry as of 2012Q3 was 70.6%

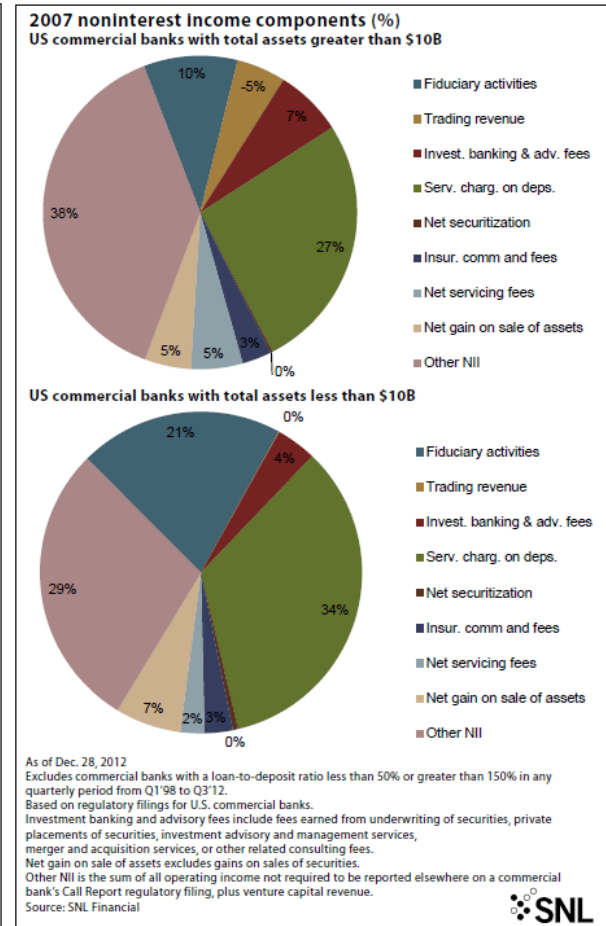
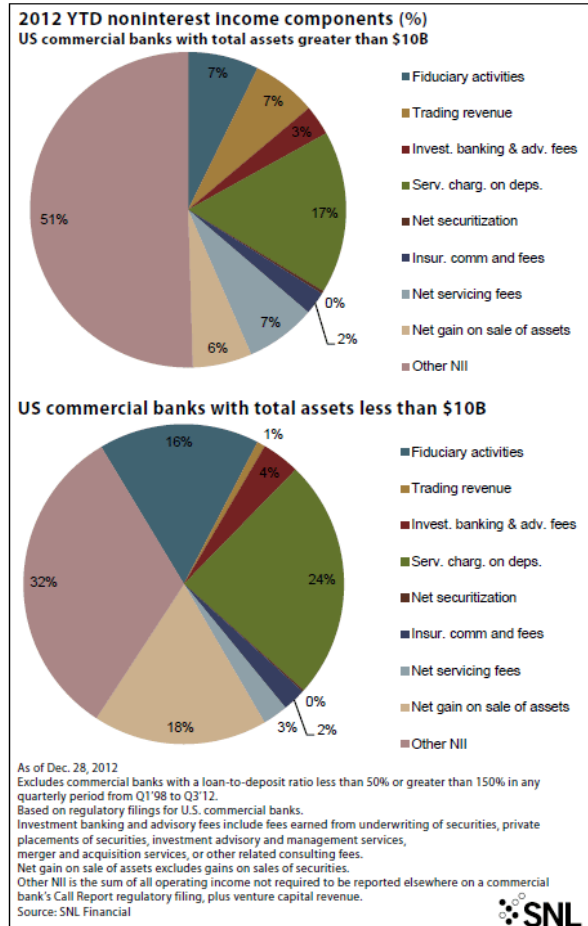
❖ Lowest Efficiency Ratio in 1997 at 61%



## Profitability

### Noninterest Income/ Operating Revenue

- ❖ Diversified revenue streams of banks in comparison to your institution
- ❖ Reliance on service charges on deposits declining
- ❖ Service charges for deposits fell from 27% to 17% among banks greater than \$10B in assets
- ❖ Service charges for deposits fell from 34% to 24% for banks with less than \$10B in assets



## ❖ Liquidity

- ❖ Ability of your bank to access liquid funds (i.e. cash or cash equivalents – US Treasury Bills or money market securities) to meet current needs for such funds.
  - ❖ For example, acute need can arise if depositors panic and seek to withdraw their funds
- ❖ Aspects to consider:
  - ❖ Do the banks in your market increase their dependence on non-core/volatile sources of funding such as large time deposits and brokered deposits to fund significant loan growth?
  - ❖ FHLB Advances funding growth?
  - ❖ Composition of funding sources, on/off-balance sheet, securitizations
  - ❖ Funding Stability – deposits, cash and short term assets, commercial paper

## ❖ Liquidity

### ❖ Key Liquidity Ratios and Metrics

#### ❖ Liquidity Ratio

- ❖ Ability to pay off short-term debt obligations
- ❖ Higher liquidity ratios – higher margin of safety to meet current liabilities

#### ❖ Liquid Assets/ Total Assets

- ❖ Cash and Balances Due from Depository Institutions, Securities, Fed Fund & Repos, Trading Account Assets
- ❖ Net out pledged securities

#### ❖ On Hand Liquidity/ Total Liabilities

- ❖  $\text{Interest-bearing balances} + \text{Total Securities} + \text{Fed Funds Sold \& Reverse Repos} - \text{Fed Funds Purchased \& Repos} - \text{Pledged Securities} / \text{Total Liabilities}$
- ❖ The lower your ratio relative to peers, the greater the likelihood your bank will need to sell less liquid assets or use market funding sources to meet incremental liquidity needs

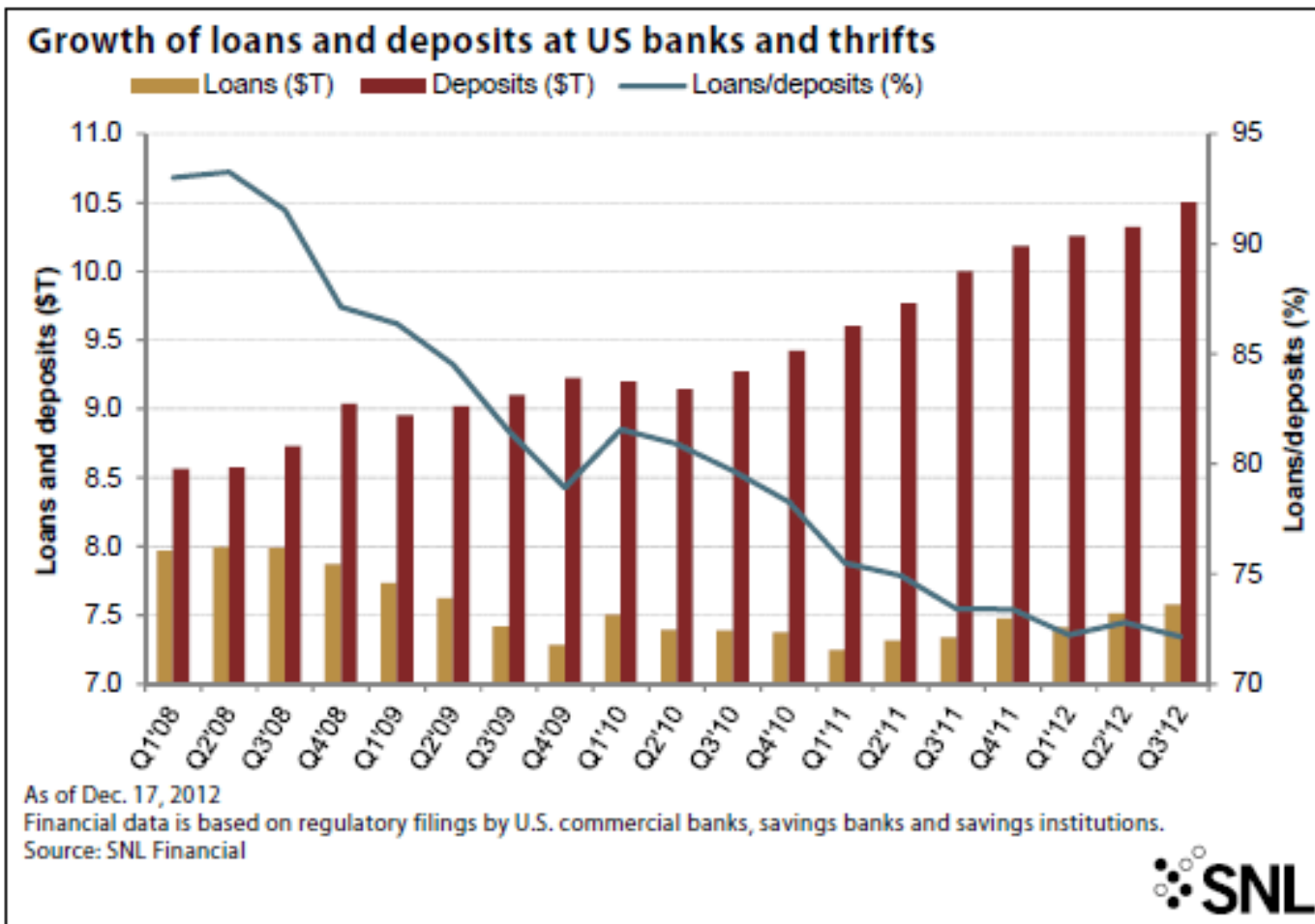
#### ❖ Reliance on Wholesale Funding

- ❖  $\text{Total Borrowings} + \text{Brokered Deposits} / \text{Total Borrowings} + \text{Total Deposits}$
- ❖ Total funds drawn from wholesale sources – absence of local deposit funding
- ❖ Who of your peers with extensive branch networks is avoiding expenses?

## ❖ **Loan/Deposit Mix**

- ❖ Important to define your peers based on lending practices and funding practices similar to your bank
- ❖ Competitive pricing
  - ❖ Once you determine those that offer similar products in your market the next step is understanding how your pricing across those products differs or aligns with your competition
  - ❖ Understanding fluctuations and earnings assets & interest bearing liabilities as well as accurate view of competitive pricing = maximize Net Interest Income and margins
  - ❖ Flexibility of pricing strategy relative to competition
  - ❖ Promotional Rates and Specials
- ❖ Loan / Deposit Ratio
  - ❖ Assessment of a bank's liquidity and lending capacity
  - ❖ Reached lowest level – Aggregate as of 2012Q3 was 72.14%
  - ❖ Shifts in lending practices
  - ❖ Pricing – In line or out of line with market

## ❖ Loan/Deposit Ratio

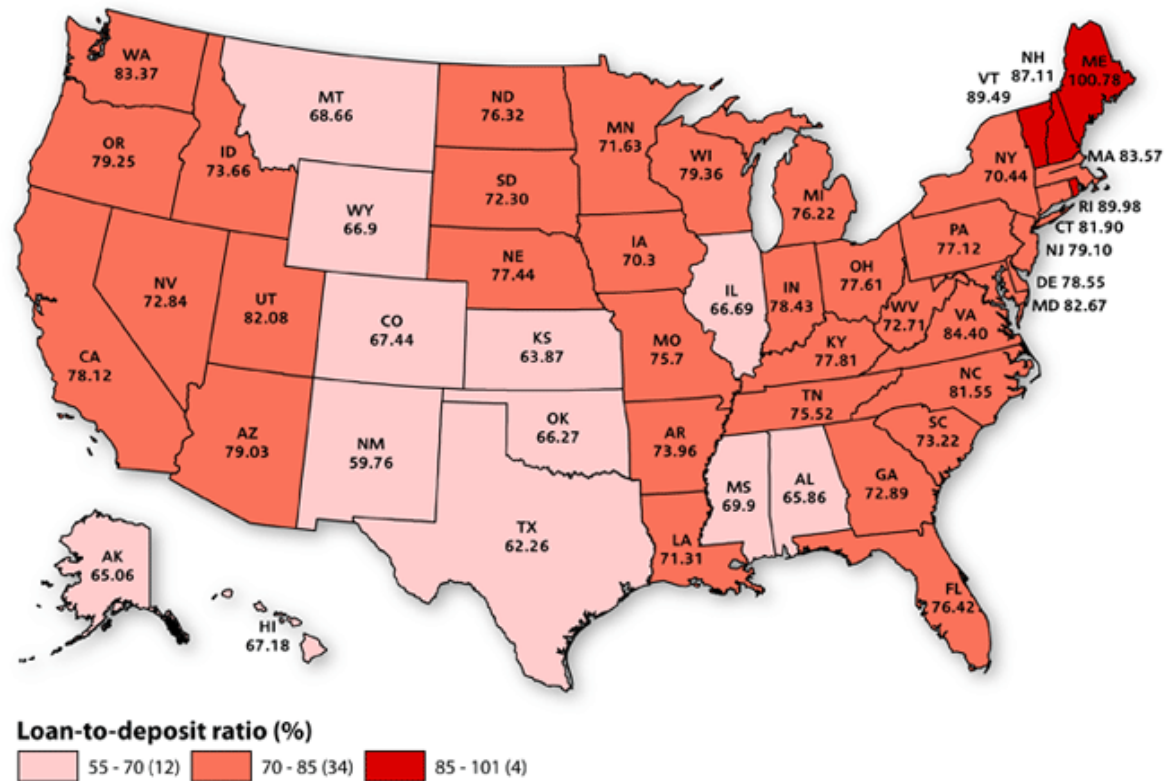


## ❖ Loan/Deposit Ratio

❖ States with highest median 2012Q3 loan/deposit ratio were VT (89.49%, NH (87.11), RI (89.98%), MA (83.57), and ME (100.78%)

❖ States with the lowest median 2012Q3 loan/deposit ratios were NM (59.76%), TX (62.26), KS (63.87%)

Median loan-to-deposit ratio of US states\*



As of Dec. 17, 2012  
 Financial data is based on regulatory filings at Sept. 30, 2012.  
 \* Based on the median loan-to-deposit ratio of all U.S. banks and thrifts headquartered in each state.  
 Source: SNL Financial  
 Map credit: Jesse Bellavance

## ❖ **Sensitivity to Market Risk (Interest Rate Risk)**

- ❖ In assessing your bank's market risk relative to peers, it is important to determine how changes in interest rates, foreign exchange rates, commodity prices, or equity prices could potentially reduce a bank's earnings or capital.
- ❖ Primary source of market risk is Interest Rate Risk
  - ❖ Sensitivity to changing interest rates
  - ❖ Mismatches in the repricing term characteristics across assets and liabilities
  - ❖ Gap analysis
    - ❖ Measure of volume of assets and liabilities subject to repricing within a given period (month, quarterly, etc.)
    - ❖ Assets and Liabilities classified according to their maturity and repricing characteristics (short term to long term)
    - ❖ Gap between rate sensitive assets and rate sensitive liabilities – identifies mismatches
  - ❖ Net Interest Income simulations – determine impact of 1%, 2%, or 3% change in short term interest rates on earnings



## ❖ Sensitivity to Market Risk (Interest Rate Risk)

### ❖ Key Sensitivity to Market Risk Ratios and Indicators

#### ❖ Asset Depreciation of Tier 1 Capital

- ❖ Proportion of capital offset by estimated depreciation in the AFS and HTM investment security portfolios

- ❖ Depreciation in asset classes indicates yields below current market rates

#### ❖ Long Term Assets/ Total Assets

- ❖ Securities and Loans that mature/reprice in over 5 years + Collateralized Mortgage Obligations with remaining maturity over 3 years

- ❖ Repricing Risk

- ❖ Higher ratio = Sizable assets that can't be repriced for a long period of time

- ❖ Interest Rates rise → Assets lose value/depreciate → Paying lower yields relative to prevailing market rates



## ❖ Sensitivity to Market Risk (Interest Rate Risk)

### ❖ Key Sensitivity to Market Risk Ratios and Indicators

#### ❖ Non-maturity Deposits / Long Term Assets

- ❖ Degree that non-maturity funding sources cover LT assets
- ❖ Demand Deposit Accounts, MMDA, Savings, NOW accounts
- ❖ Non-maturity deposits protect against rising interest rates
  - ❖ Yields generally low and don't reprice as quickly as other funding sources
- ❖ Low ratio → reliance on rate sensitive non-core funding
  - ❖ Likely to be sensitive to increases in interest rates

#### ❖ Residential Real Estate / Total Assets

- ❖ Total 1-4 Family Loans + Residential Mortgage-backed securities at Cost Value + Structured Notes at Cost Value
- ❖ Proxy for negative convexity in balance sheet due to embedded short options in mortgages, Residential MBS and structured notes
- ❖ Short Options amplify interest rate risk
  - ❖ Compress margins in both rising and falling rate environments

## Means of Conducting Peer Analysis

## ❖ Means of Conducting Peer Analysis

- ❖ Federal Deposit Insurance Corporation (FDIC Website)
- ❖ FDIC Uniform Bank Performance Report (UBPR)
- ❖ State/National/Asset-Based Aggregate Analysis
- ❖ FDIC Summary of Deposit Data
- ❖ Office of the Comptroller of the Currency Canary Report
- ❖ Investment Banks
- ❖ 3<sup>rd</sup> Party Data and Analytics Provider

## ❖ **FDIC Website and FFIEC CDR**

- ❖ Manual process of downloading individual bank 031 and 041 call reports from the FFIEC Central Data Repository's Public Data Distribution Website
- ❖ Inputting data into Microsoft Excel Workbooks by hand
- ❖ Time Consuming – Should be reallocated to revenue related activities
- ❖ Potential for human error
- ❖ Accuracy – not capturing restatements
  - ❖ Banks can go back in time and restate or amend their call report filings
  - ❖ Essential that you are using the most accurate data relevant to your peer analysis
- ❖ Capturing data at holding company level for consolidated filers is conducted through the National Information Center (NIC) website

## ❖ FDIC Uniform Bank Performance Report

- ❖ FDIC UBPR is an analytical tool created for bank supervisory, examination, and management purposes.
- ❖ Concise format
- ❖ Shows impact of management decisions and economic conditions on a bank's performance and balance sheet composition – safety and soundness
- ❖ Preset group of peer banks – comparable in asset size, geography and/or tax status
- ❖ Regulators also looking at the UBPR
- ❖ Produced quarterly
  - ❖ Published 30-35 days after the date of a call report or on the call report due date
  - ❖ For example, March 31, Call Report is filed by banks on April 30, and UBPR will not be available until early June.

FDIC Certificate # 3066 OCC Charter # 4166 Public Report	FRB District/ID_RSSD 11 / 470050 County: TAYLOR	FIRST FINANCIAL BANK, NATIONAL ASSOCIATION / ABILENE, TX June 30, 2012 Uniform Bank Performance Report	Table of Contents 1/16/2013 2:01:46 PM
<b>Information</b>		<b>Table of Contents</b>	
<b>Introduction</b> This uniform bank performance report covers the operations of a bank and that of a comparable group of peer banks. It is provided as a bank management tool by the Federal Financial Institutions Examination Council. Detailed information concerning the content of this report is provided in the Users Guide for the Uniform Bank Performance Report found online at <a href="http://www.ffiec.gov">www.ffiec.gov</a> . This report has been produced for the use of the federal regulators of financial institutions in carrying out their supervisory responsibilities. All information contained herein was obtained from sources deemed reliable however no guarantee is given as to the accuracy of the data. The information contained in this report are not to be construed as a rating or other evaluation of a financial institution by a federal banking regulator. The quarterly report of condition and income is the principal source of information for this report. Please refer to that document for additional financial information and an explanation of the accounting standards that underlie data shown herein. For questions regarding content of reports contact: 1-888-237-3111 or email: <a href="mailto:cdh.help@ffiec.gov">cdh.help@ffiec.gov</a>		<b>Section</b> Summary Ratios--Page 1 Income Statement--Page 2 Noninterest Income, Expenses and Yields--Page 3 Balance Sheet--Page 4 Off Balance Sheet Items--Page 5 Derivative Instruments--Page 5A Derivative Analysis--Page 5B Balance Sheet Percentage Composition--Page 6 Analysis of Credit Allowance and Loan Mix--Page 7 Analysis of Concentrations of Credit--Page 7B Analysis of Past Due, Nonaccrual & Restructured--Page 8 Analysis of Past Due, Nonaccrual & Restructured--Page 9A Interest Rate Risk Analysis as a Percent of Assets--Page 9 Liquidity & Funding--Page 10 Liquidity & Investment Portfolio--Page 10A Capital Analysis--Page 11 Capital Analysis--Page 11A One Quarter Annualized Income Analysis--Page 12 Securitization & Asset Sale Activities--Page 13 Securitization & Asset Sale Activities--Page 13A Securitization & Asset Sale Activities--Page 13B Fiduciary & Related Services--Page 14 Fiduciary & Related Services--Page 14A <a href="#">State Overview</a>	
Financial Institution Address: FIRST FINANCIAL BANK, NATIONAL ASSOCIATION 400 PINE ST ABILENE, TX 79601-5108  The Current Federal Regulator is: Office of Comptroller of the Currency  The bank was established on: 1/1/1889  The current peer group for this bank is: 2 <a href="#">Insured commercial banks having assets between \$1 billion and \$3 billion</a>		<b>Bank Holding Company Information</b> FRB District / ID_RSSD 11 / 1102912 FIRST FINANCIAL BANKSHARES, INC. ABILENE, TX	
<b>Footnotes:</b> Financial data in the Uniform Bank Performance Report may have been adjusted as a result of information shown in footnotes below. Please refer to the Uniform Bank Performance Report Users Guide online for details.			

## ❖ **FDIC Summary of Deposit Data**

- ❖ FDIC Summary of Deposits (SOD) is the annual survey of branch office deposits for all FDIC-insured institutions including U.S. branches of foreign banks
- ❖ Data as of June 30 of each year and released in October
- ❖ Access data by :
  - ❖ Single institution
  - ❖ Institutions within geographic area
  - ❖ Aggregated within geographic area
- ❖ Market Share analysis to determine biggest players and competitors in a defined market down to Zip Code level
- ❖ Aspects to Consider:
  - ❖ Reliance of a Bank on a particular market relative to their total deposits
  - ❖ Proximity Analysis
  - ❖ Rate Intelligence – understanding pricing in markets down to a branch level

## ❖ Office of the Comptroller of the Currency Canary Report

- ❖ Set of risk measurement tools developed by the OCC to identify institutions at risk for future financial distress
- ❖ Coal mine interpretation
- ❖ 15 financial ratios calculated and compared to OCC benchmarks
  - ❖ If a bank has a ratio that exceeds the benchmark – 1 is assigned
  - ❖ If a bank has a ratio that is below the benchmark – 0 is assigned
  - ❖ Zeros and Ones summed – if  $> 8 \rightarrow$  Institution is considered by OCC to be at a higher risk for future financial distress
- ❖ 3 categories: Credit Risk, Interest Rate Risk, and Liquidity Risk
  - ❖ Credit Risk – 6 calculated ratios provide insight into whether or not a bank is adequately protecting itself in case of adverse developments in credit quality
    - ❖ i.e. composition and growth of the loan portfolio
  - ❖ Interest Rate Risk – 4 calculated ratios provide insight in exposure/impact of changing interest rates
    - ❖ i.e. Long-Term Assets/Assets and Residential RE assets capture level of repricing risk
  - ❖ Liquidity Risk – 5 ratios provide insight into funding structure and ability to meet debt requirements in near term as well as reliance on higher cost borrowings that are credit and price sensitive
    - ❖ i.e. Noncore funding dependence and reliance on wholesale funding

## ❖ Investment Banks

- ❖ Reliance on investment banks for peer reports
- ❖ No cost directly associated with peer reports
- ❖ Lack element of hands-on customization
- ❖ Not dynamic
- ❖ Lots of back and forth to define a peer group
- ❖ Time consuming
- ❖ May not fully understand your growth, funding and lending strategies
  - ❖ This could be exposed through different angles of your peer analysis



## ❖ **3<sup>rd</sup> Party Data and Analytics Provider**

- ❖ Evaluate the offerings of different providers
- ❖ Fixed Peer Groups vs. Element of Customization
- ❖ Level of Access Variations – Pay by user vs. Enterprise-wide access
- ❖ Niche focus vs. Broad Coverage
- ❖ Complete package – Peer Analysis, Market Analysis, M&A, News, etc.
- ❖ Compatibility with in-house data
- ❖ Level of support and training

## Future of Peer Analysis

## ❖ **Future of Peer Analysis**

- ❖ SNL Peer Analytics
- ❖ SNL Performance Analytics
- ❖ SNL UBPR Template with Directional Shading
- ❖ Regulatory Developments
  - ❖ Dodd-Frank
  - ❖ Basel III
  - ❖ Financial Accounting Standards Board

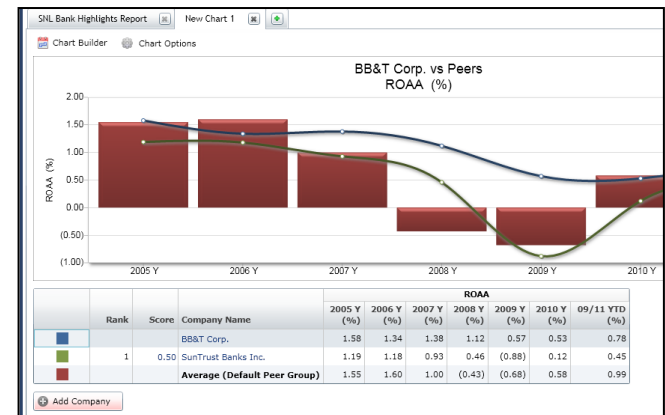
## ❖ SNL Peer Analytics

- ❖ Interactive platform – easy to use, save time, and better leverage internal resources
- ❖ Fine-tune your balance and improve performance with peer benchmarking
- ❖ Comparisons against bank and credit union peers
- ❖ Pre-defined Regional, State, UBPR-like and asset based peer groups and custom peer groups
- ❖ “Comparability Score”
- ❖ Default peer logic that has been fully vetted by industry experts – logic is fully customizable
- ❖ Build custom reports with over 10,000 financial and market data points, including UBPR metrics
- ❖ Easily build customized peer charts and export presentation-ready graphics to PDF or Microsoft Excel.

Base Company: Tompkins Financial Corporation TMP Peer Group: Custom Peer Group Data Set: GAAP Companies

Highlights Report SNL Bank Operating Performance Rpt SNL Bank Cap Adeq & Asset Qlty Rpt SNL Bank Market Performance Rpt

Rank	Score	Company Name	Ticker	State	Total Assets \$B	Market Value (\$M)	Loans/ Deposits Ratio	Tang Common Equity/ Assets	ROAA LTM (%)	ROAE LTM (%)	Net Interest Margin LTM (%)	Efficiency Ratio LTM (%)	NPAs/ Assets LTM (%)	NCOs/ Loans LTM (%)	Avg Price/ Book
1	1.16	Canandaigua National Corp.	CNND	NY	1,711,324	172.3	76.63	6.58	1.12	15.44	4.04	61.70	-	0.25	136.8
2	1.58	Arrow Financial Corp.	AROW	NY	1,901,774	278.3	72.65	-	1.13	14.00	3.39	57.90	0.28	0.05	170.1
3	1.70	Sterling Bancorp	STL	NY	2,392,545	306.8	74.57	8.30	0.36	3.69	3.95	71.42	0.54	2.09	139.7
4	1.88	Alliance Financial Corp.	ALNC	NY	1,475,425	151.5	79.53	7.04	0.87	9.72	3.46	67.03	0.72	0.21	108.1
5	2.26	Financial Institutions Inc.	FISI	NY	2,295,116	241.2	68.67	7.44	0.99	10.13	4.05	60.50	0.37	0.57	117.4
6	2.32	Community Bank System Inc.	CBSI	NY	5,549,372	908.6	74.62	5.98	1.20	10.84	4.08	58.66	0.32	0.21	132.3
7	2.43	Chemung Financial Corp.	CHMG	NY	986,766	104.9	74.86	8.71	0.99	10.11	3.86	67.81	1.10	0.24	82.7
		<b>Minimum</b>			986,766	104.9	68.67	5.98	0.36	3.69	3.39	57.90	0.28	0.05	82.7
		<b>Median</b>			1,901,774	241.2	74.62	7.24	0.99	10.13	3.95	61.70	0.45	0.24	132.3
		<b>Average</b>			2,330,332	309.1	74.50	7.34	0.95	10.56	3.83	63.57	0.56	0.52	126.7
		<b>Maximum</b>			5,549,372	908.6	79.53	8.71	1.20	15.44	4.08	71.42	1.10	2.09	170.1
		Tompkins Financial Corporation TMP		NY	3,278,894	437.7	73.26	7.31	1.07	12.58	3.82	61.42	1.36	0.29	155.9



## ❖ SNL Performance Analytics

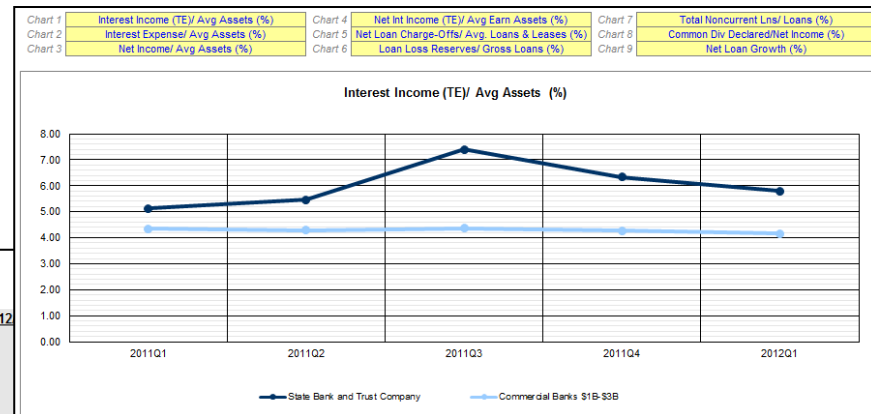
- ❖ Provides in-depth understanding of the factors driving ROAE for US banks and thrifts
- ❖ Via tree-like structure, ROAE is broken down into detailed components such as yield on loans, cost of deposits, service charges on deposits, salary expenses, provision for loan losses and several other revenue and expense drivers
- ❖ Easily see how your bank is performing relative to a custom peer group as well as industry aggregates and indexes
- ❖ Model “what-if” scenarios to see hypothetical ROAE resulting from changes to performance drivers



## ❧ SNL UBPR Template with Directional Shading

- ❧ Allows you to view a 5-period portrait of the financial trends and operating results for a bank, alongside a custom peer group
- ❧ Peers can also be UBPR Peer groups (State/National/Asset-Size)
- ❧ Provides context and clarity to executives and board meetings
- ❧ Easily identify key trends
- ❧ Analyze performance over time
- ❧ Set appropriate goals for future performance

FDIC Certificate # 57870 OCC Charter # NA	FRB District / RSSD ID: Atlanta/ 3384318 County, State: Bibb, GA			
	3/31/2012			
Earnings and Profitability	BANK	PG	Δ (%)	BANK
Percent of Average Assets:				
Interest Income (TE)	5.80	4.16	39	6.33
- Interest Expense	0.43	0.61	-30	0.50
Net Interest Income (TE)	5.37	3.56	51	5.83
+ Noninterest Income	0.37	1.34	-72	10.22
- Noninterest Expense	5.19	3.20	62	3.13
- Provision: Loan & Lease Losses	-0.73	0.38	-292	10.97
Pretax Operating Income (TE)	1.28	1.31	-2	1.95
+ Realized Gains/Losses Sec	0.00	0.07	-100	0.00
Pretax Net Operating Income (TE)	1.28	1.38	-7	1.94
Net Operating Income	0.80	0.97	-18	1.31
Adjusted Net Operating Income	0.54	0.96	-44	9.59
Net Inc Attrib to Min Ints	0.00	0.00	0	0.00
Net Income Adjusted Sub S	0.80	NA	NA	1.31
Net Income	0.80	1.02	-22	1.31
Margin Analysis:				
Avg Earning Assets to Avg Assets	77.20	91.99	-16	75.37
Avg Int-Bearing Funds to Avg Assets	72.09	78.98	-9	73.80
Int Inc (TE) to Avg Earn Assets	7.51	4.53	66	8.40
Int Expense to Avg Earn Assets	0.56	0.66	-15	0.67



- ❧ Directional indicators help you visualize your bank's areas of strength and weakness against peers.
- ❧ Fully customizable percentage threshold to see where you are out- or under- performing peers

## ❖ Regulatory Developments

- ❖ Need access to data on the fly surrounding new regulation
- ❖ Build reports quickly to keep board members well informed
- ❖ Recent Regulatory Developments to Consider:
  - ❖ Basel III
  - ❖ Dodd-Frank Act and Elimination of the Office of Thrift Supervision
  - ❖ FASB Proposal around Loan Loss Reserves
  - ❖ Office of the Comptroller of the Currency Guidance on TDRs

## ❖ Regulatory Developments

### ❖ Basel III Regulation

- ❖ Basel III is a global regulatory standard on bank capital adequacy that strengthens bank capital requirements and introduces new regulatory requirements on liquidity and leverage.
- ❖ New capital measure called “Common Equity Tier 1 Capital” was introduced
- ❖ New Adjusted Risk Weighted Assets – increase in risk-weighted assets for 1-4 Family Loans based on LTV of the loans, Acquisition, Development and Construction loans (HVCRE), and Past Due Loan Exposures.
- ❖ Important to understand your new capital stance relative to the competition if all proposals were to be adopted

### ❖ Dodd-Frank and Elimination of the OTS

- ❖ 2010 adoption of Dodd-Frank Act mandate
- ❖ Savings Institutions began filing Call Reports
- ❖ Heavier Reporting Burdens → 2500 line items vs. 1500 line items
- ❖ Importance of Common Regulatory Financials – metrics similar amongst call report and historical thrift financial report (TFR)
- ❖ Essential for Trend Analysis



## ❖ Regulatory Developments

### ❖ FASB Proposal on Reserves

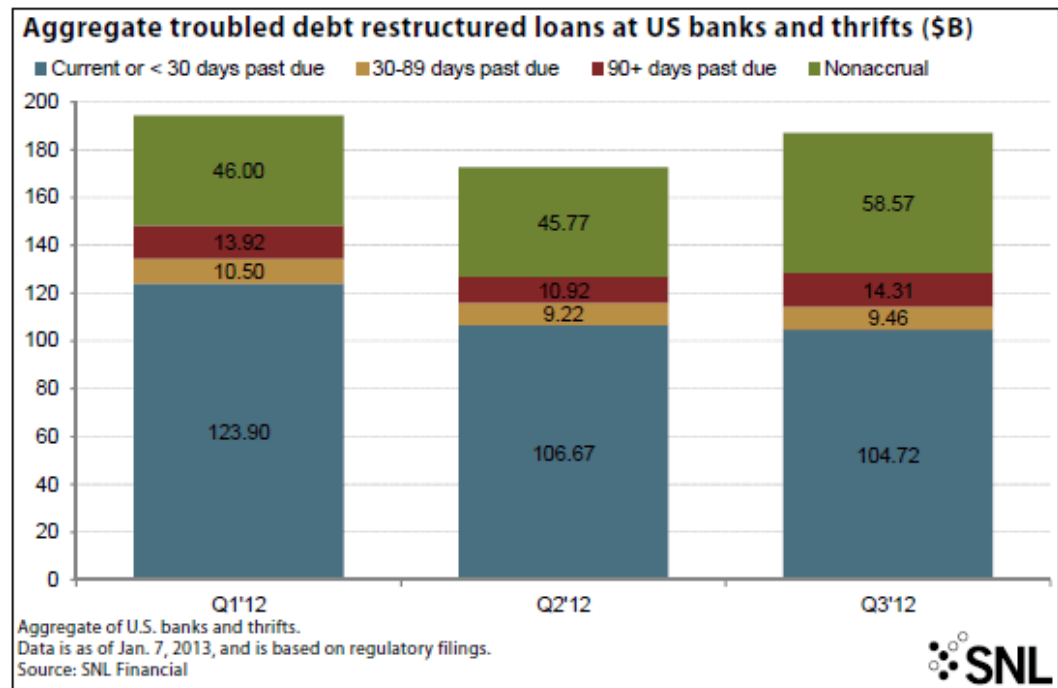
- ❖ Financial Accounting Standards Board proposed improvements to Accounting for Credit Losses on Financial Assets on December 20
- ❖ Aims at more timely recognition of credit losses and more information for investors about the reasons behind your bank's projections
- ❖ "Incurred loss" vs. "expected loss" model
  - ❖ Incurred Loss – requires banks to set aside money for troubled loans when losses appear probable or have begun to pile up
    - ❖ Issue – Difficult reads since reserve levels have swung wildly
  - ❖ Expected Loss – Proactive approach - requires banks to immediately project all losses on loans ( for the life of each loan) and debt securities and then set aside money to offset such losses.
    - ❖ Goal – Smooth out reserve levels, provide consistency, and more up-front information
- ❖ Action plan in place, evaluate accounting tools and due diligence on reserve analysis
- ❖ Potential for banks to have to increase their loan loss reserves by as much as 50%

## ❖ Regulatory Developments

### ❖ OCC Updated Guidance on TDRs

- ❖ In its June 2012 Bank Accounting Advisory Series, the OCC issued updated guidance on Troubled Debt Restructurings
- ❖ Loans discharged in a Chapter 7 bankruptcy must be written down to its underlying collateral's fair value and classified as a nonaccrual TDR
  - ❖ Reasoning: Borrower has been removed from responsibility of making payments
  - ❖ Amount carried on books in excess of fair value of collateral must be charged off as uncollectible.

- ❖ TDRs jumped by \$14.49B in 2012Q3, with nonaccrual TDRs increasing to \$58.57B from \$45.77B in 2012Q2



## Peer Analysis Best Practices

Questions?