

*****Confidential: For Discussion Purposes Only*****

Training Handbook:

May 2023

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Section 1: Overview

Summary of the Process:

1. Identify the Bank
2. Create [Comparable Groups](#) and [Peer Groups](#)
3. Review Balance Sheet Key Highlights – Level and Trend
4. Understand Risk and [Concentration](#) Thresholds
5. Review Income Statement Key Highlights – Level and Trend
6. Analyze Capital – Level and Trend
7. Analyze Asset Quality – Level and Trend
8. Analyze Earnings – Level and Trend
9. Analyze Liquidity – Level and Trend
10. Analyze Sensitivity – Level and Trend
11. Analyze Management
12. Conduct [CAMELS](#) Self Assessment

Remember to look for outliers and then dig into details

Keys to Success:

1. Follow the process as Don Musso has laid it out
2. I expect it for every client this quarter – you best have notated hard copy on your desk so I can see it when I ask for it. DEMAND the MDs answer your questions it is their job!
3. Build it logically. You can't do the details if you don't understand the fundamentals
4. It is like Legos, build it modularly. You can't skip steps.

Step 1: Identify Bank and Review Corporate Overview

FinPro Scorecard

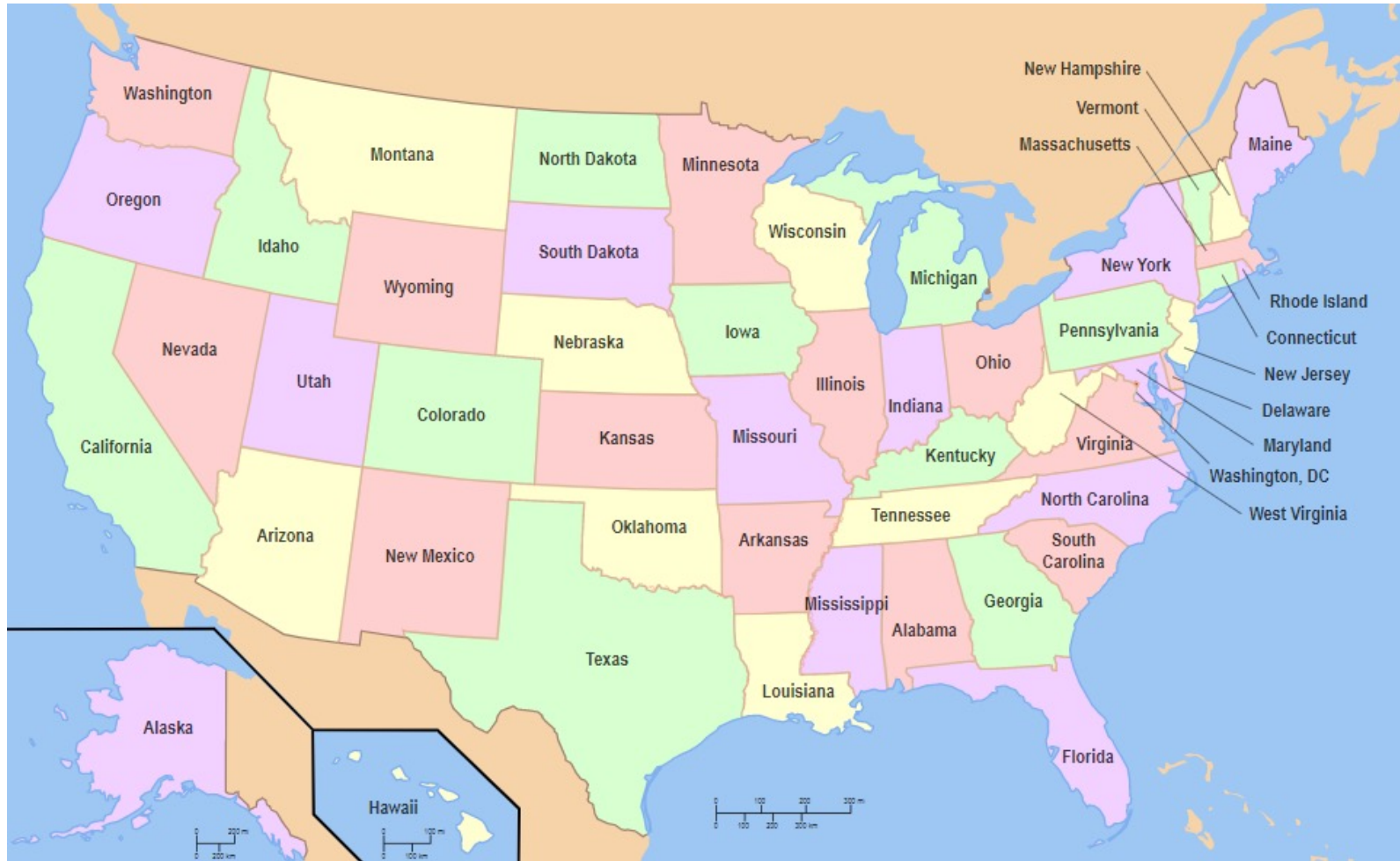
FILE SETUP:

1	Select Institution:	Honor Bank - Honor - MI		
	Bank ID Number:	815147		
	Date Established	1917-06-15	Ownership Structure	Stock
	Number of Offices	9	S Corp	No
	City	HONOR	Category	Non-member Bank
	State	MI	Charter Type Classification	State commercial bank, not FRS member
	Parent Name	HONOR BCORP INC	Primary Regulator	FDIC
	Minority Owned	Not applicable	Supervisory Region	Chicago Region
	Comparable Category - Region	Midwest	FRS Member Status	Non-Member
	Comparable Category - Asset Size	\$250M-\$500M	FRS District	Chicago
	Comparable Category - High Performer	HP \$250M-\$500M	FHLB Member Status	Not applicable, or non-member
			FHLB Region	Federal Home Loan Bank of Indianapolis
2	Enter Comparable Group 1:	Midwest		
3	Enter Comparable Group 2:	HP \$250M-\$500M		
4	Enter Data Pull Date:	2023Q1		<i>If you change this value click on Get Data button to refresh</i>
5	Refresh Data:	Get Data		

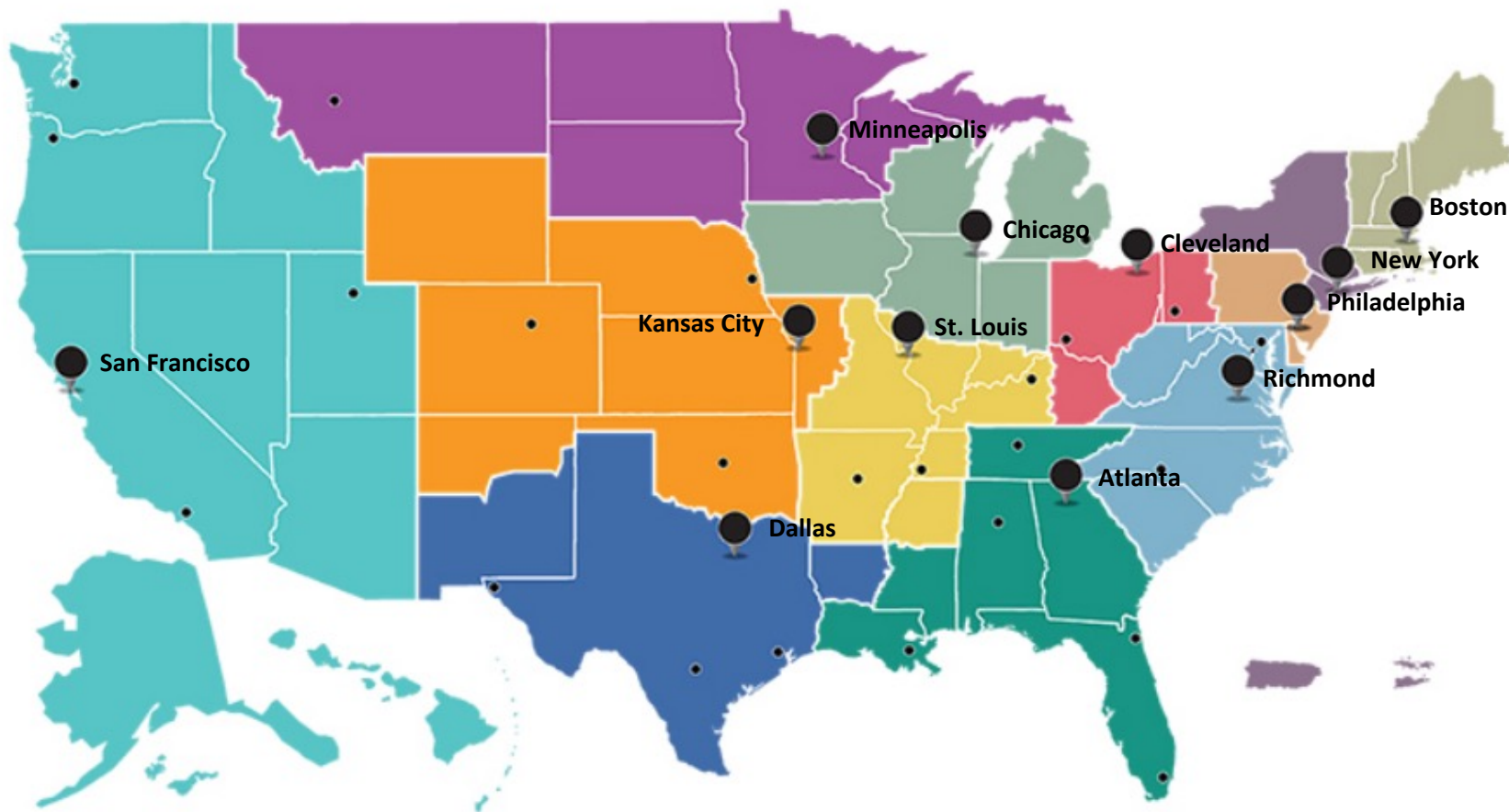
Identify Bank and Review Corporate Overview

1. Name – Verify its right bank
2. Region
3. Structure
 - ✓ Holding Company
4. Public/Private (Does it have a ticker?)
5. Asset Size
6. Primary Regulators
 - ✓ Holding Company
 - ✓ Bank Level

States determine Regions



Federal Reserve Regions

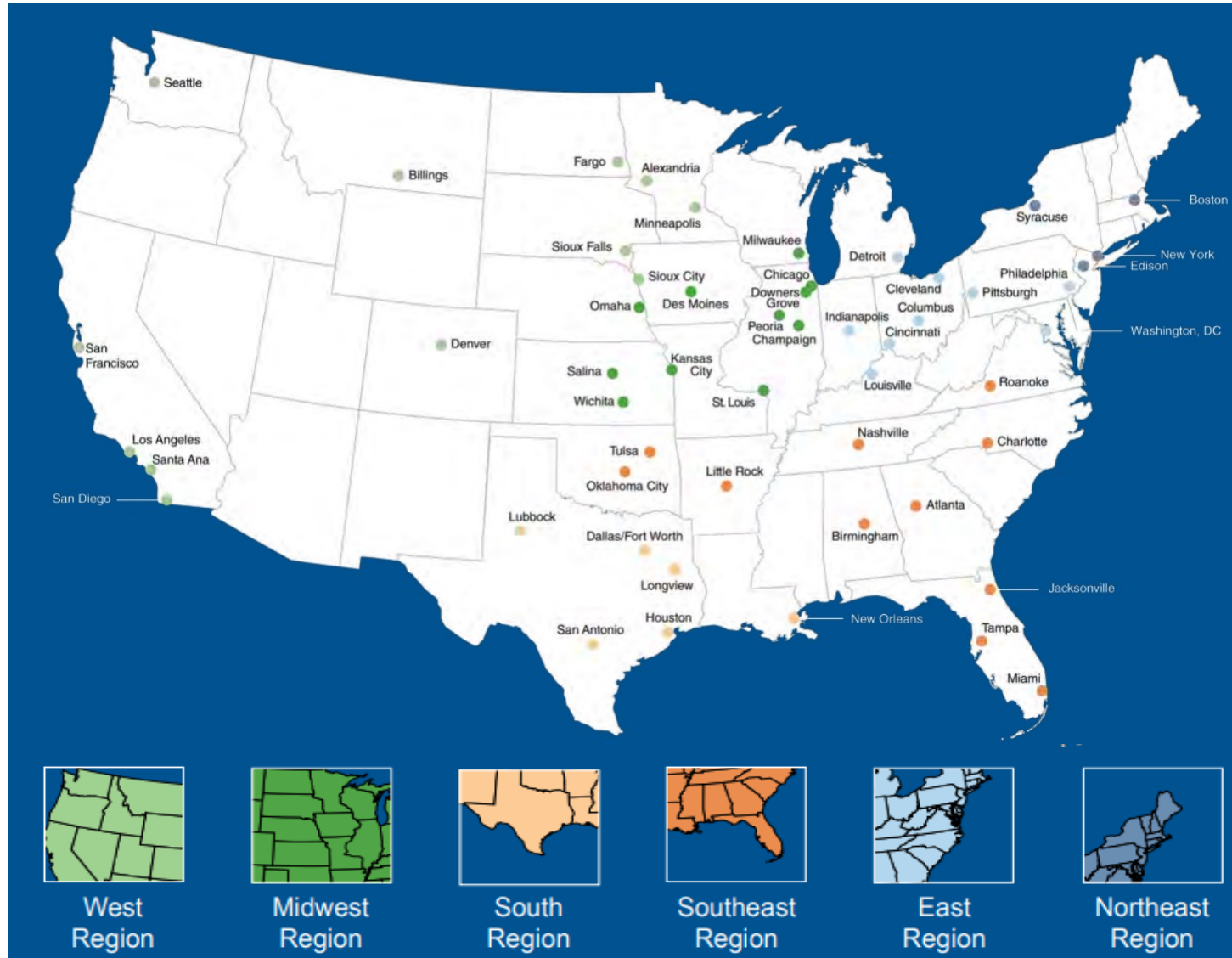


Map of the Federal Reserve System showing District boundaries, Federal Reserve Banks, and Branches. © Federal Reserve Bank of St. Louis

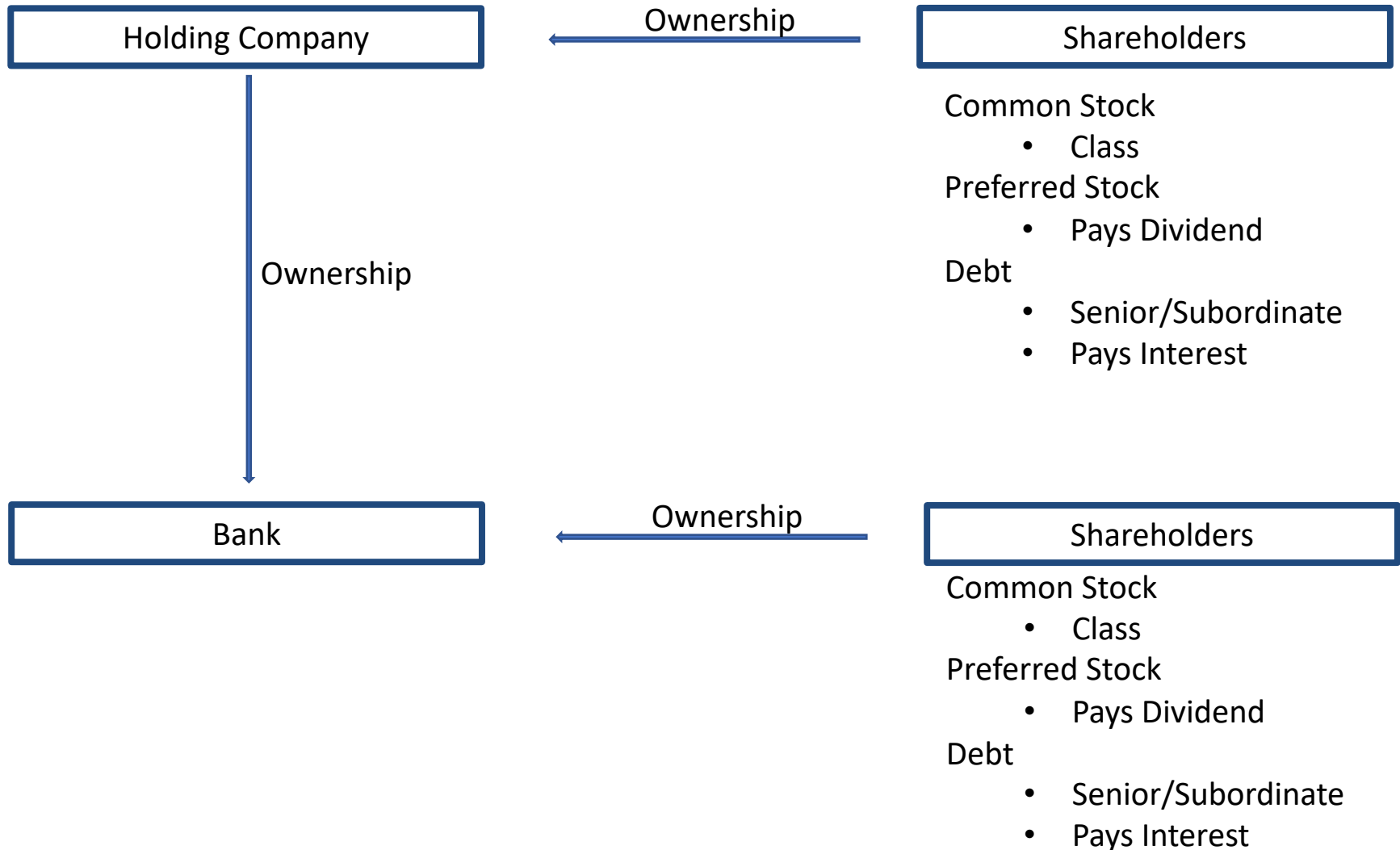
FDIC Regions



OCC Regions



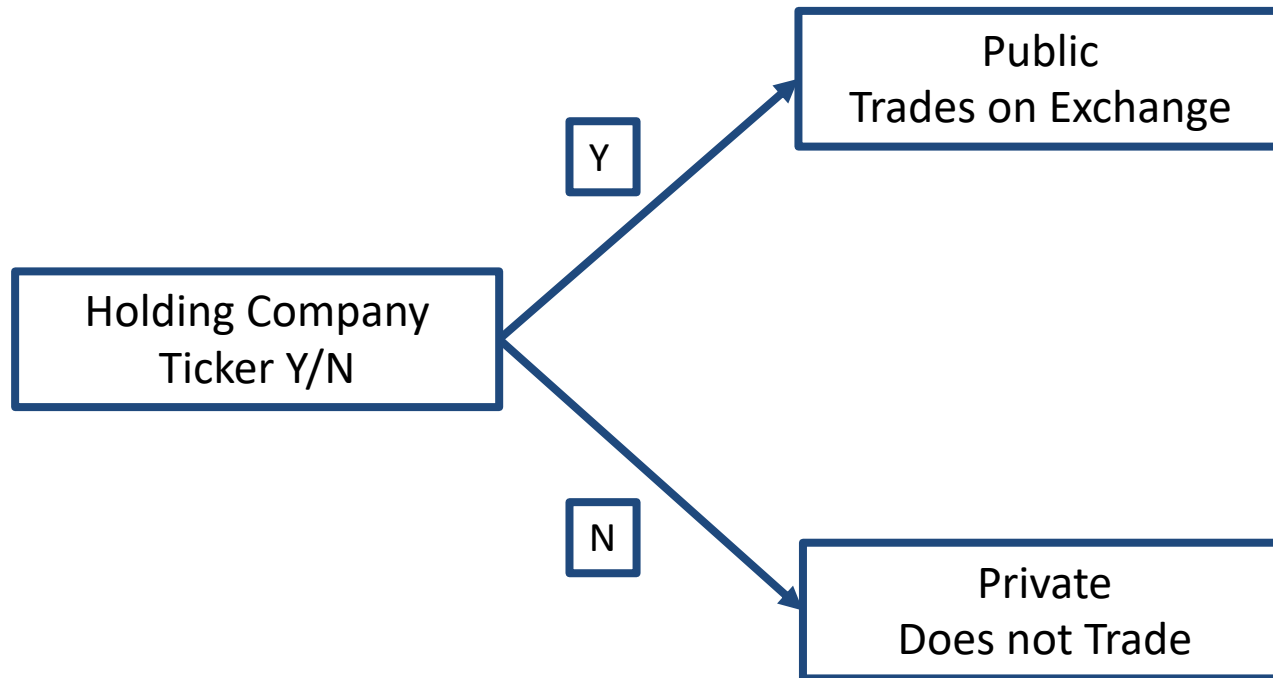
Understand the Organization Structure:



A bank or bank holding company can be publicly owned, privately owned, mutual, or mutual holding company ownership structure . . .

- A publicly owned bank or bank holding company is public if it applies to be traded on a national exchange (NYSE, NASDAQ) or if the organization has a greater than 2,000 shareholders (or greater than 500 non-accredited shareholders)
 - Public organizations must file quarterly and annual public filings, 10Q & 10K as well as other public filing documents in addition to quarterly required Call Reports
- A privately owned company is not traded on a national exchange and/or it has less than the shareholder count stated above
 - These organizations have fewer reporting requirements and are required to provide less data and information than a publicly owned company
- A mutual bank is one that does not have any shareholders but the depositors of the bank have the first right to purchase stock in the mutually owned bank if it were to do a stock offering. The depositors hold interests in the Bank that entitle the depositors to net proceeds in the event of the liquidation, dissolution, or winding up of the Bank.
- A mutual holding company structure is a hybrid between a mutual bank and a stock bank in that it is less than 50% owned by stockholders. The MHC owns 100% of the subsidiary bank stock.

Public vs Private:



Asset size determine many regulatory issues . . .

Asset Size



Know who regulates the Holding Company and the Bank . . .

	State Member	State Non Member	National Bank
Bank Holding Company	Federal Reserve	Federal Reserve	Federal Reserve
Bank	State & Federal Reserve	State & FDIC	OCC

1. The Federal Reserve serves as the primary regulator for all Bank Holding Company's
2. The Office of the Comptroller of the Currency ("OCC") regulates all banks with a national charter. You will know this if Bank name has word National in it, or NA after it.
3. All non-National Bank's have the State as one of their primary regulators.
4. The Federal Reserve, along with the State, serve as the regulatory authority for State "Member" bank charters.
5. The FDIC, along with the State, provides regulatory oversight to State "Non-Member" bank charters.
6. The FDIC provides deposit insurance by assessing a FDIC insurance fee on all banks.

1. $\text{Assets} = \text{Liabilities} + \text{Equity}$
2. $\text{Debits} = \text{Credits}$
 - ✓ Debits increase Assets, decrease Liabilities
 - ✓ Credits decrease Assets, increase Liabilities

Step 2: Create Comparable and Peer Groups

- Comparable – Group of Banks based on single or multiple criteria
 - ✓ No individual bank data is shown, looking for group data
 - ✓ Results are shown as high, low, median and average quarterly
- Peers – Group of hand selected individual banks that look most like bank
 - ✓ Lists individual banks (between 10 and 20), looking for individual bank data
 - ✓ Results are shown as high, low, median and average
 - ✓ Can be individualized by Client Banks

Comparable and Peer Groups FinPro utilizes

- Comparable Groups we utilize:
 - ✓ Similar **Region** Comparables
 - ✓ Similar **Size** Comparables
 - ✓ **High Performing** Comparable Groups
- Regions
 - ✓ New England
 - ✓ Mid Atlantic
 - ✓ Midwest
 - ✓ Southeast
 - ✓ Southwest
 - ✓ West
- High Performing Criteria (**these are set quarterly by FinPro**):
 - Done by Asset Size Only for now
 - Criteria 1: ROAA LTM > 0.75
 - Criteria 1: ROAE LTM > 8.00
 - Criteria 1: NPLs / Loans < 1.00
 - Criteria 1: Efficiency Ratio < 70