

CRISIS – WHERE WE’VE BEEN AND WHAT WE’VE LEARNED

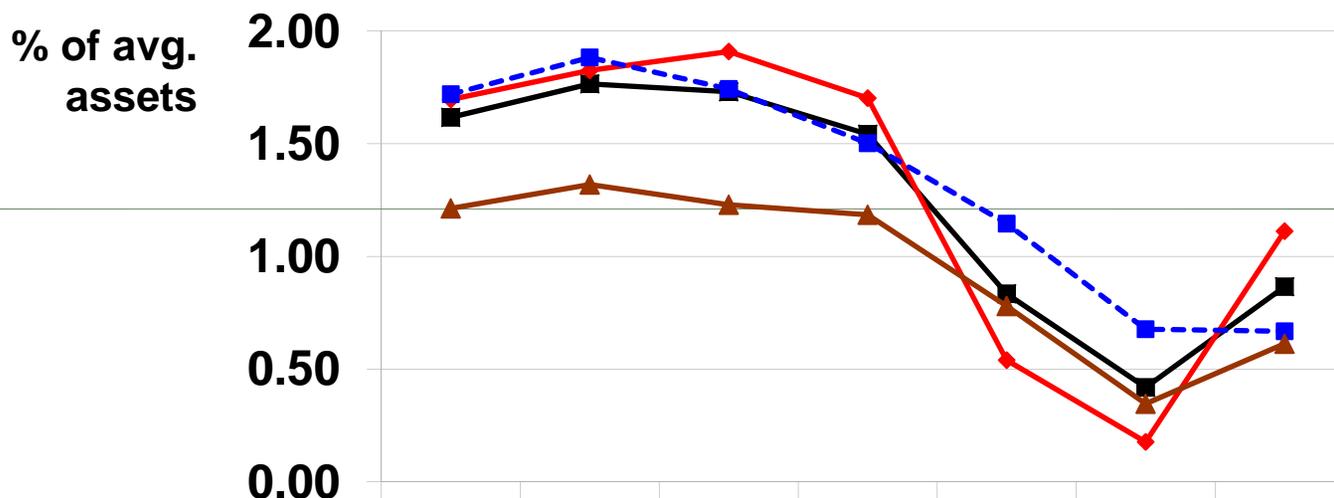
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Regulatory Update
— SEMINAR —
Federal Reserve Bank of Kansas City

Agenda

- 10th District Banking Conditions
- 2010 Examination Findings
- Contrasting Profiles: Failed Banks vs Thriving Banks
- Lessons Learned From the Crisis

10th District Banking Conditions

District Earnings Improved in 2010



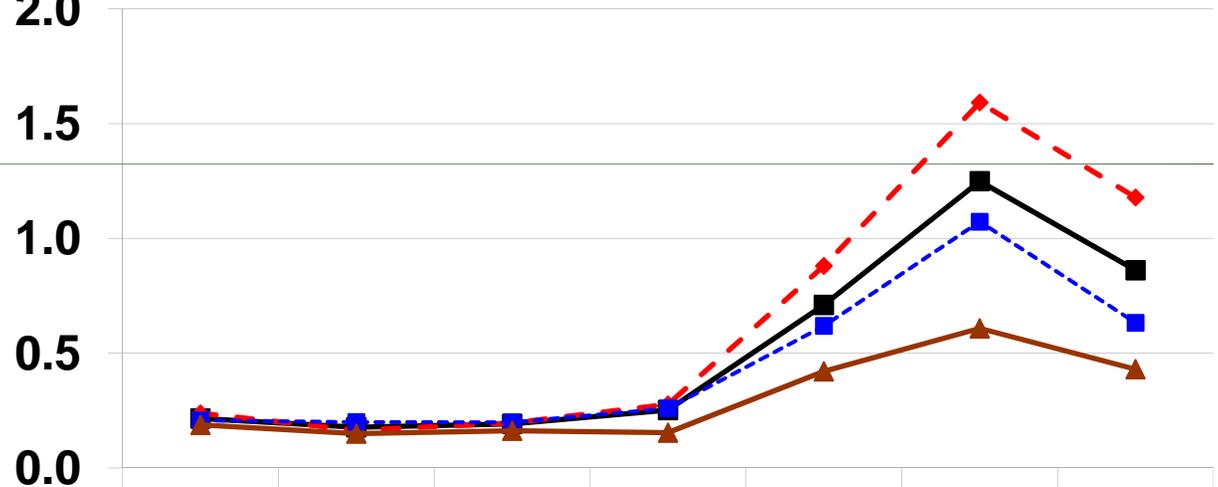
	2004	2005	2006	2007	2008	2009	2010
■ All District Banks	1.62	1.77	1.73	1.54	0.83	0.42	0.87
◆ Over \$1 Billion	1.70	1.83	1.91	1.70	0.54	0.18	1.11
■-\$100 Million - \$1 Billion	1.72	1.88	1.74	1.50	1.15	0.68	0.67
▲ Under \$100 Million	1.21	1.32	1.23	1.18	0.78	0.35	0.61

* Net Operating Income Before Taxes (YTD), as a percentage of average assets (TTM).
Source: Reports of Condition and Income, Year-End 2010.

10th District Banking Conditions

Loan Loss Provisions Have Declined in 2010

% of avg. assets



	2004	2005	2006	2007	2008	2009	2010
■ All District Banks	0.22	0.18	0.19	0.25	0.71	1.25	0.86
◆ Over \$1 Billion	0.24	0.16	0.20	0.28	0.88	1.59	1.18
■ \$100 Million - \$1 Billion	0.21	0.20	0.20	0.26	0.62	1.07	0.63
▲ Under \$100 Million	0.19	0.15	0.16	0.15	0.42	0.61	0.43

* Loan loss provision expense (YTD), as a percentage of average assets (TTM).
Source: Reports of Condition and Income, Year-End 2010.

10th District Banking Conditions

Problem Assets Are Leveling

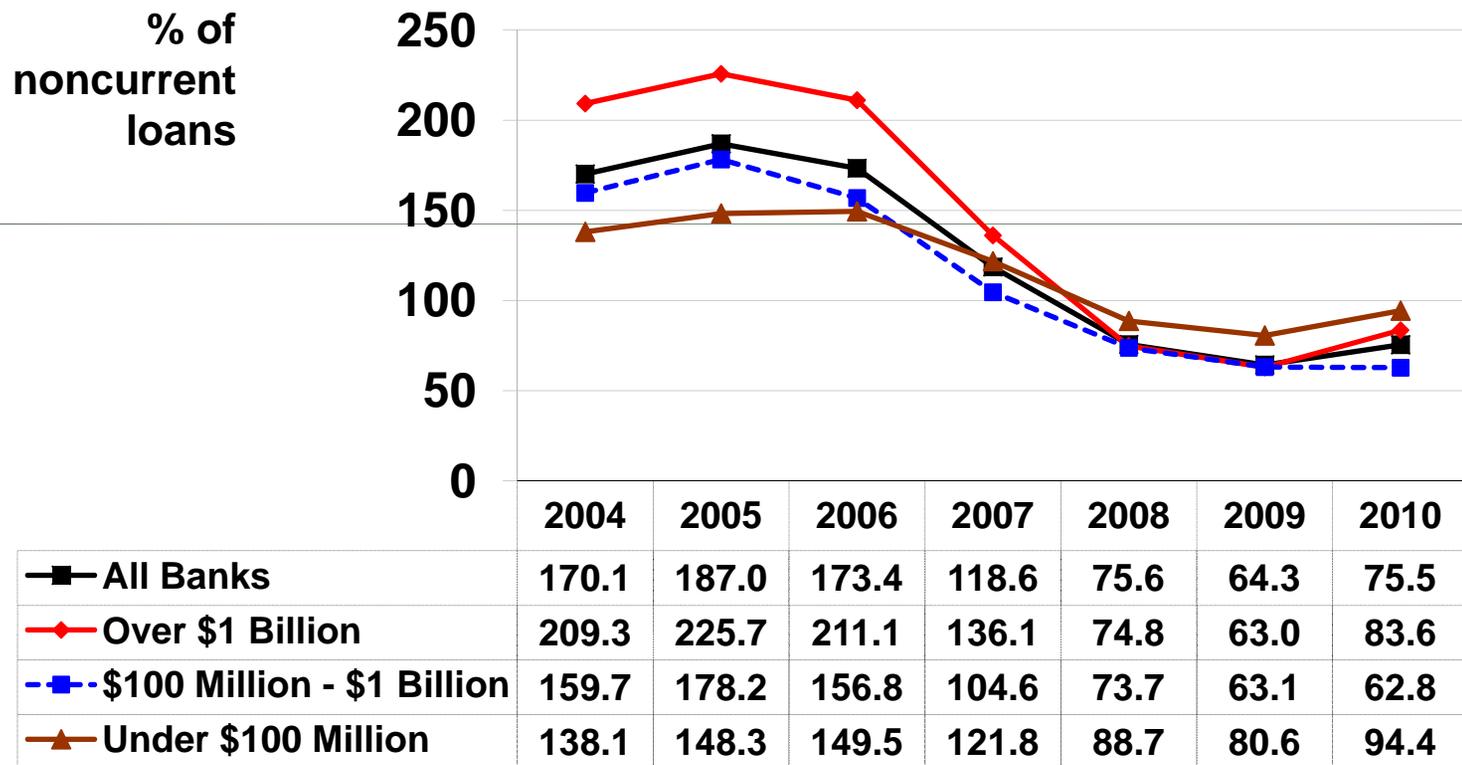
% of loans +
OREO

	2004	2005	2006	2007	2008	2009	2010
■ All District Banks	1.00	0.87	0.91	1.29	2.48	4.40	4.50
◆ - Over \$1 Billion	0.73	0.63	0.69	1.07	2.54	4.97	4.62
■ \$100 Million - \$1 Billion	1.11	0.96	1.03	1.47	2.48	4.20	4.77
▲ Under \$100 Million	1.32	1.23	1.20	1.45	2.23	3.00	2.84

* Loans 90+ days past due+nonaccrual loans+OREO as a percentage of total loans+OREO.
Source: Reports of Condition and Income, Year-End 2010.

10th District Banking Conditions

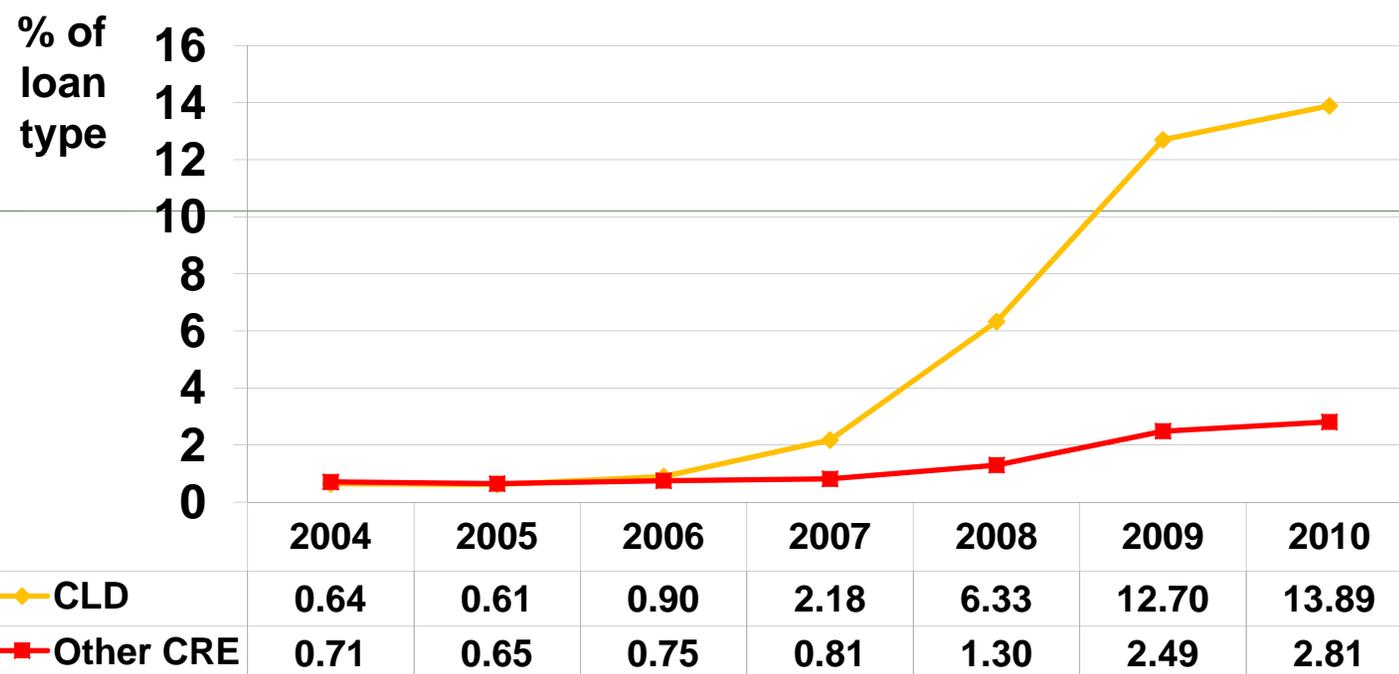
ALL Coverage of Noncurrents Remains Low



* Loan loss reserves to loans 90+ days past due and in nonaccrual status.
 Source: Reports of Condition and Income, Year-End 2010.

10th District Banking Conditions

Noncurrent CLD Loans Continue to Increase



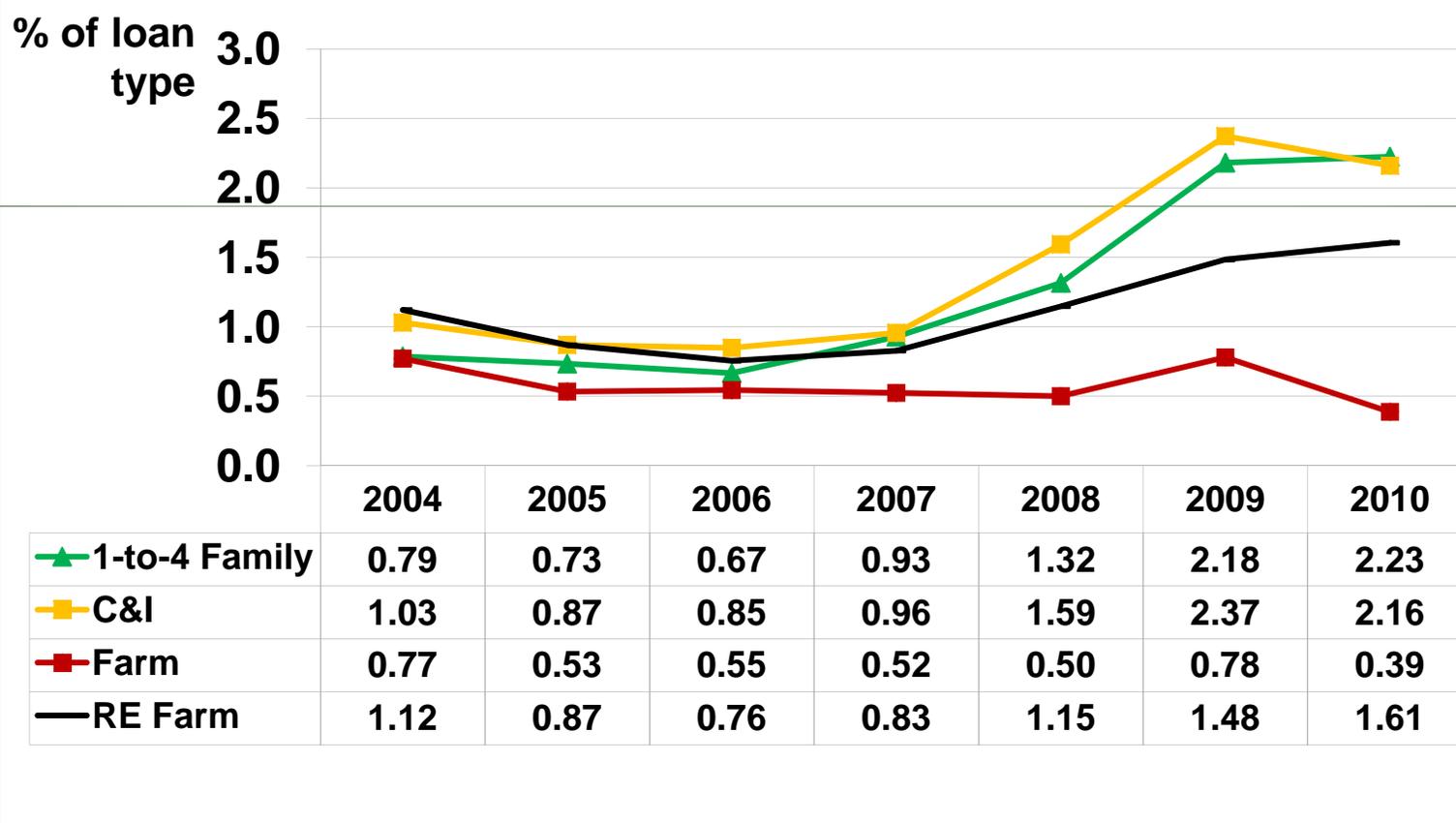
* Noncurrent Loans to Loans - By Loan Category.

* Noncurrent includes loans 90+ days past due and nonaccrual.

Source: Reports of Condition and Income, Year-End 2010.

10th District Banking Conditions

While Other Problem Loans Have Levelled



* Noncurrent Loans to Loans - By Loan Category.

* Noncurrent includes loans 90+ days past due and nonaccrual.

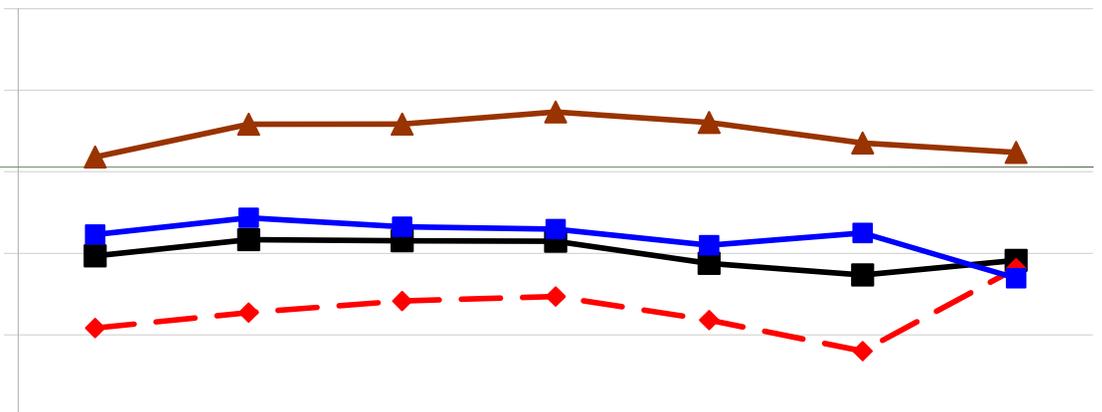
Source: Reports of Condition and Income, Year-End 2010.

10th District Banking Conditions

Capital Levels Remain Flat

% of avg.
assets

12.0
11.0
10.0
9.0
8.0
7.0



■ All District Banks	8.97	9.17	9.15	9.15	8.88	8.73	8.91
◆ - Over \$1 Billion	8.08	8.27	8.41	8.47	8.18	7.80	8.81
■ \$100 Million - \$1 Billion	9.23	9.43	9.32	9.30	9.10	9.25	8.69
▲ Under \$100 Million	10.18	10.58	10.58	10.73	10.60	10.35	10.24

* Tier 1 capital to average assets (TTM) – the “Leverage Ratio”.
Source: Reports of Condition and Income, Year-End 2010.

10th District Banking Conditions

Balance Sheet Shifts from 2008 through 2010

\$ Billions

Assets

Cash

7.8

Securities

15.4

Loans

(12.3)

Liabilities

Deposits

13.5

Borrowings

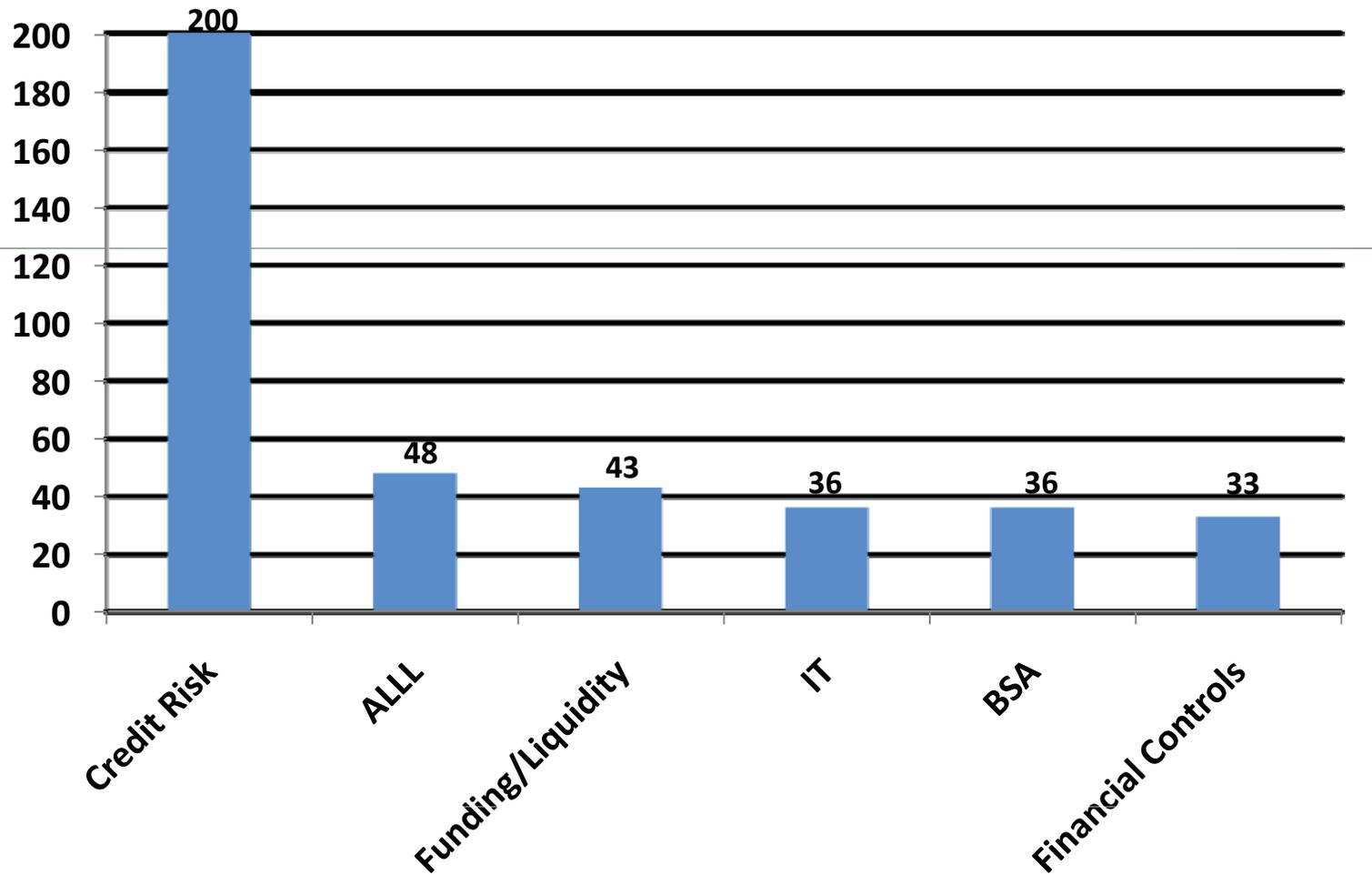
(5.2)

(15.0) (10.0) (5.0) 0.0 5.0 10.0 15.0 20.0

2010 Examination Findings

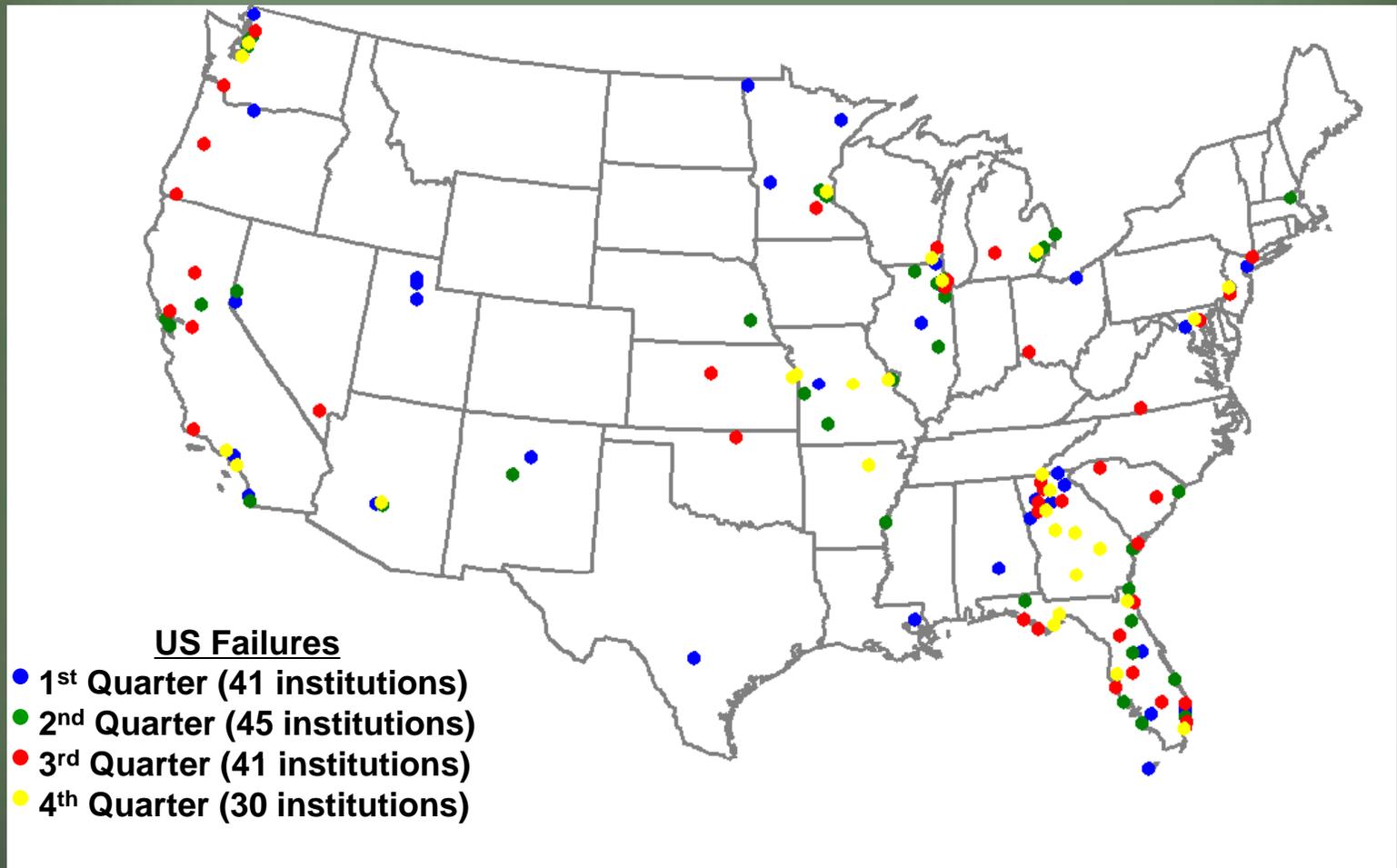
- Matters Requiring Immediate Attention (MRIA)
- Matters Requiring Attention (MRA)
- Approximately 90 Reserve Bank-led Examinations in 2010 with 562 MRIAs and MRAs cited
 - 40% were MRIAs
 - 60% were MRA

2010 Examination Findings



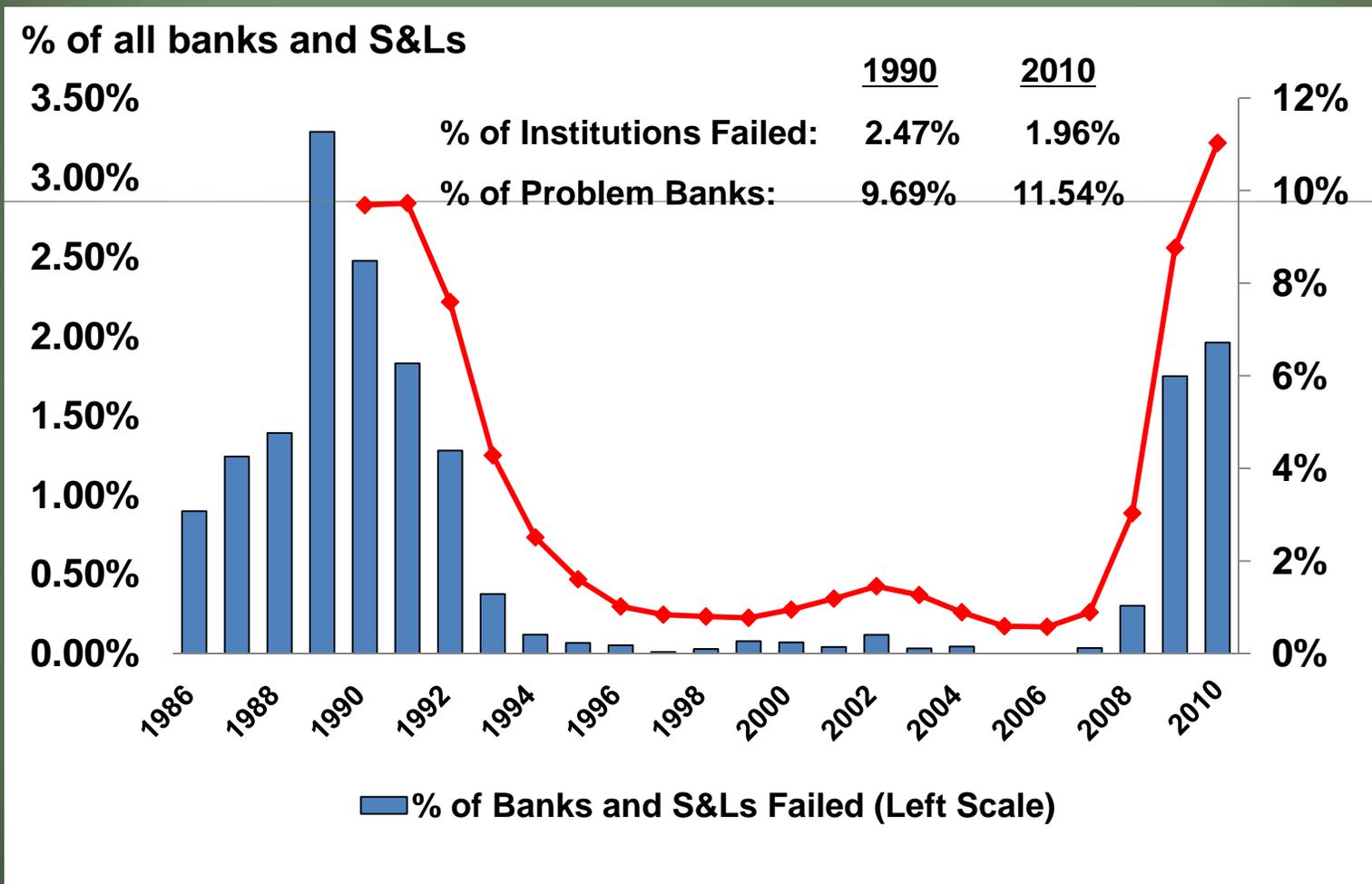
Contrasting Profiles: Failed Banks vs Thriving Banks

2010 Bank Failures



The Percentage of Failures is Comparable to the Late 80s

Bank & S&L Failures through December 31, 2010



Source: FDIC Historical Statistics on Banking, Problem Bank List as of 4th Q'10

Contrasting Profiles: Failed Banks vs Thriving Banks

Ratio	2010 Failed Banks YE 2007	1 and 2 Rated Banks YE 2007	1 and 2 Rated Banks YE 2010
CRE Concentration	496.02%	90.81%	98.01%
CLD Concentration	202.19%	31.02%	13.45%
Agricultural Banks*	0.72%	40.35%	39.38%
Noncurrents/ Loans+ORE	1.54%	0.44%	0.78%
ALLL/Noncurrents	75.0%	155.07%	141.09%

* % of banks in each category where ag loans exceed all other loan types.

Contrasting Profiles: Failed Banks vs Thriving Banks

Ratio	2010 Failed Banks YE 2007	1 and 2 Rated Banks YE 2007	1 and 2 Rated Banks YE 2010
Noncore Funding Dependence	35.07%	12.43%	12.74%
Tier 1 Leverage Ratio	9.23%	9.76%	9.59%
5-Year Asset Growth	22.37%	8.41%	11.16%
BHC Debt+TPS/Equity*	12.97%	11.63%	10.37%
Return on Avg Assets	0.64%	1.21%	1.04%
Net Interest Margin	3.90%	3.97%	3.82%

* Includes consolidated FR Y-9 filers only.



Contrasting Profiles: Failed Banks vs Thriving Banks

- Where Did Failed Banks go Wrong?
 - lack of independence, experience, and/or engagement of directorate
 - high growth, new markets or lines of business, noncore funding
 - unmanageably high concentrations (industry and individual borrowers)



Contrasting Profiles: Failed Banks vs Thriving Banks

- Where Did Failed Banks Go Wrong?
 - lack of realistic strategic, capital, and contingency funding planning
 - weak internal controls and risk management practices



Lessons Learned From the Crisis

- If Management Thinks there *Might* be a Problem, There Probably is a Problem
- Management and the Board Move Past Initial Shock and/or Denial Quickly and Develop an Action Plan
- Capital is King but is Also Hard to Find



Lessons Learned From the Crisis

- Effectively Dealing with Problem Assets
 - establish a Special Assets Group, and keep senior management involved
 - hire experienced workout staff
 - appropriately value collateral
 - develop/update detailed workout plans
 - recognize losses and impairments timely
- Open Dialogue with Regulators

Crisis – Where We've Been and What We've Learned

2011 REGULATORY UPDATE SEMINARS
FEDERAL RESERVE BANK OF KANSAS CITY

Questions?