

# The Evolution of Risk Ratings: Lessons Learned and Where We Go From Here

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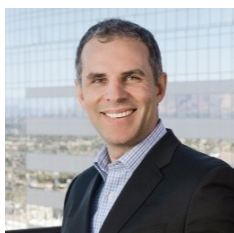
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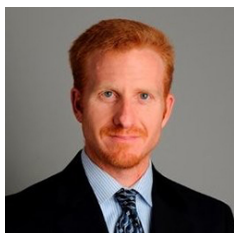
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# Credit Risk Ratings Today

## A Decade in Review

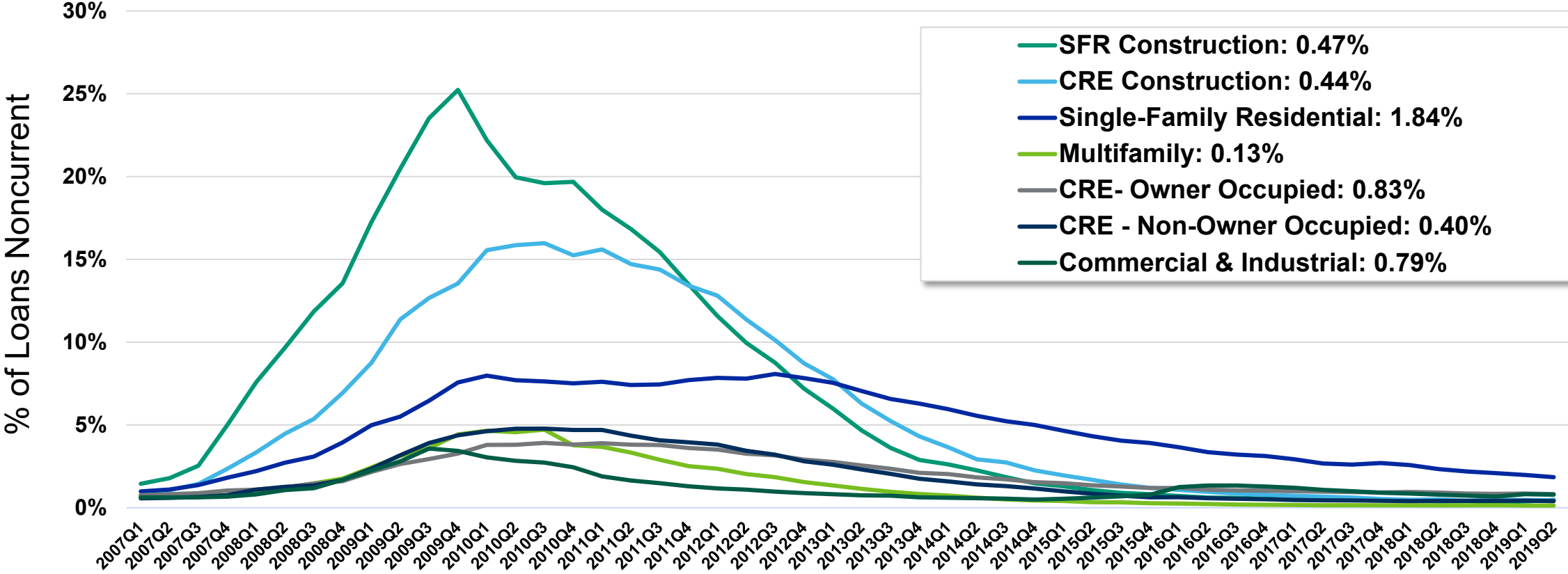


Risk management in financial institutions has changed substantially over the past decade, due in large part to regulations that emerged from the global financial crisis.

The practice of measuring credit risk is at the forefront of these changes.

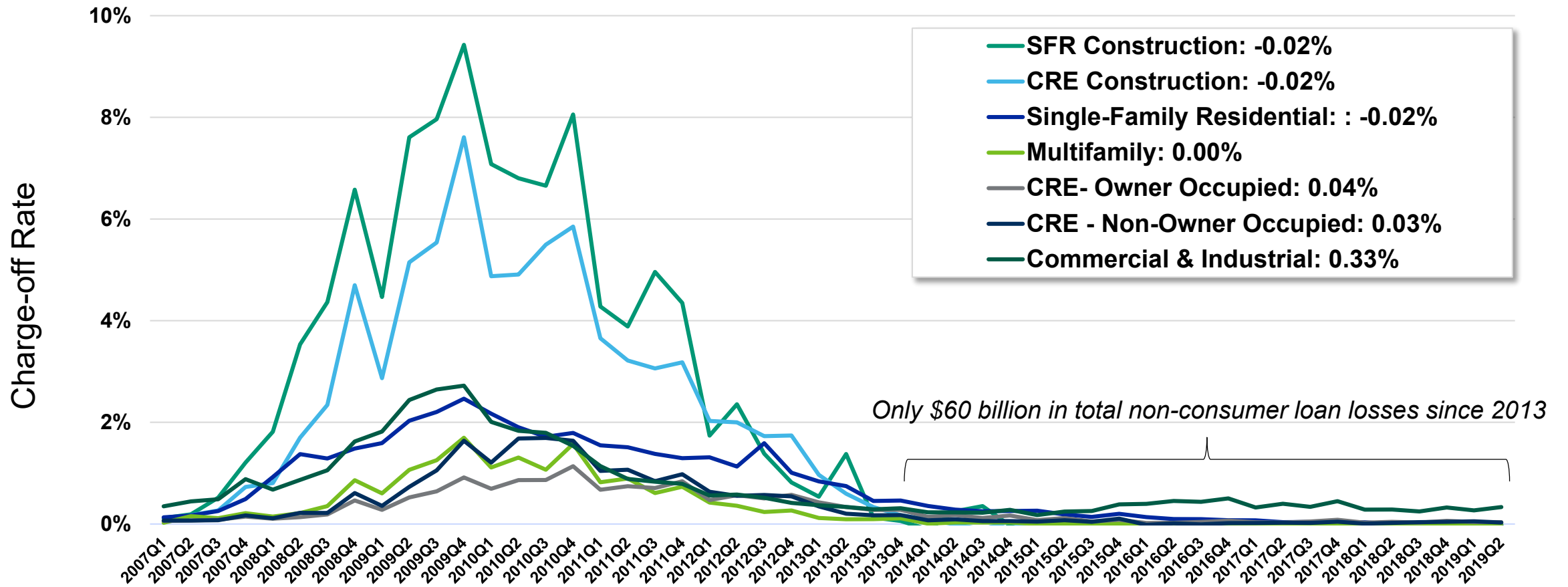
- » A decade ago, there were only a handful of FIs outside the top 30 or so who were using a quantitatively-driven approach for commercial risk ratings (e.g., statistically-driven measures of credit risk)
- » Today, the practice exists at most of the top 100 institutions, and even within firms whose commercial loan portfolios are less than \$5 billion

# The Amount of Problem Loans Remains at Historically Low Levels



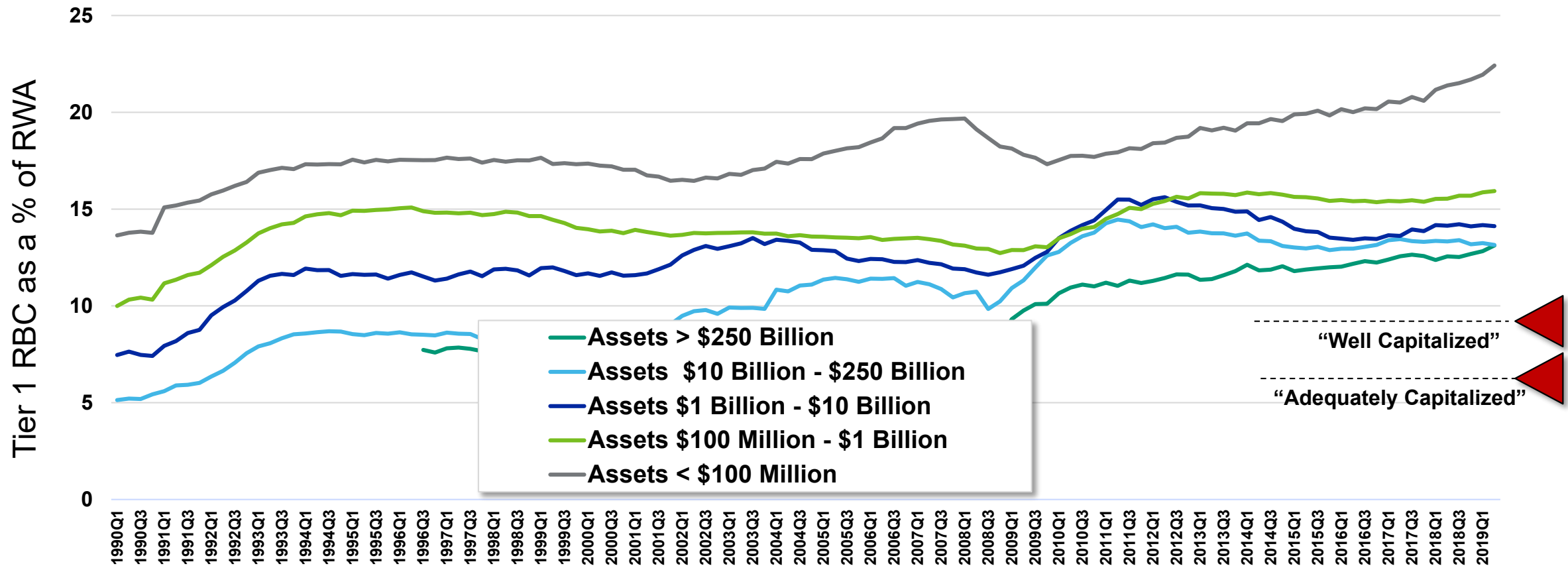
Source: FDIC

# Loan Loss Rates Remain Near Zero



Source: FDIC | 2014-2019: Avg Non-Consumer Loans (incl SFR) ~\$9T. Non-Consumer Loans (incl SFR) accounted for 25% of NCO and 85% of loans

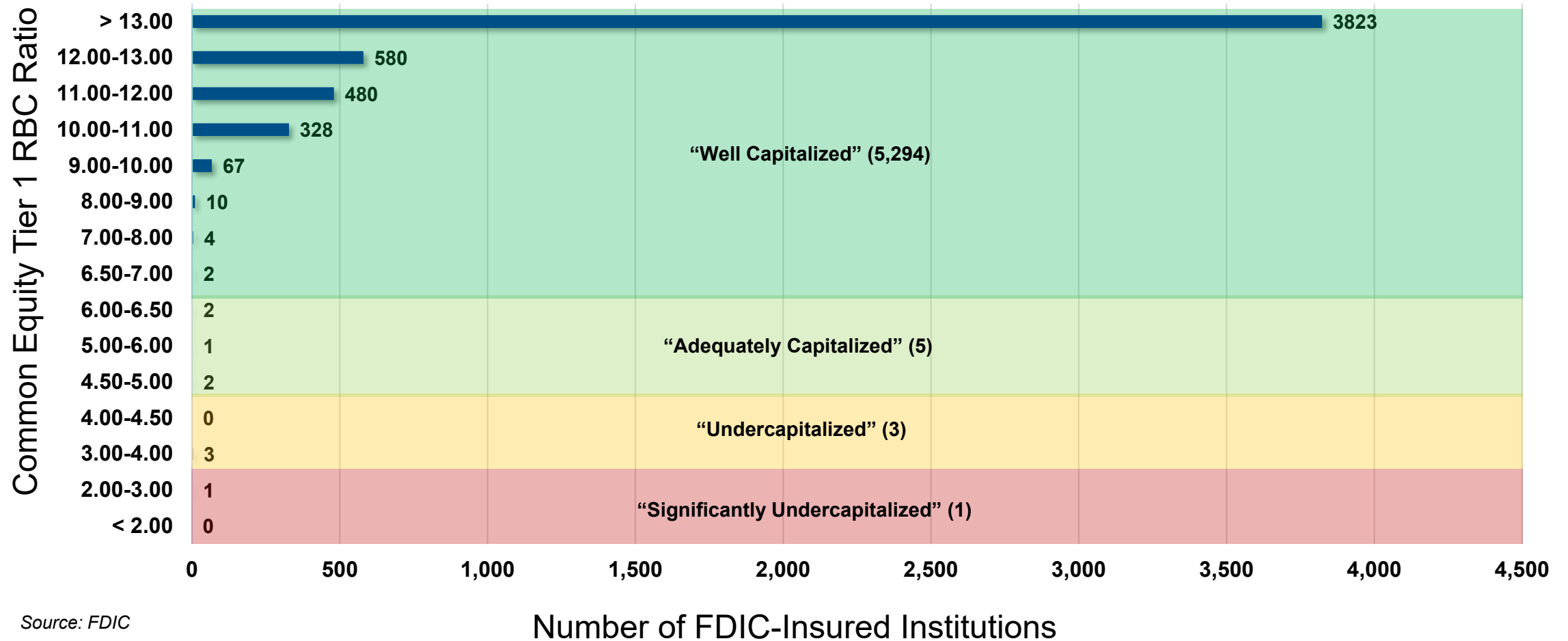
# Loss-Absorbing Capital Increased Significantly This Decade



Source: FDIC

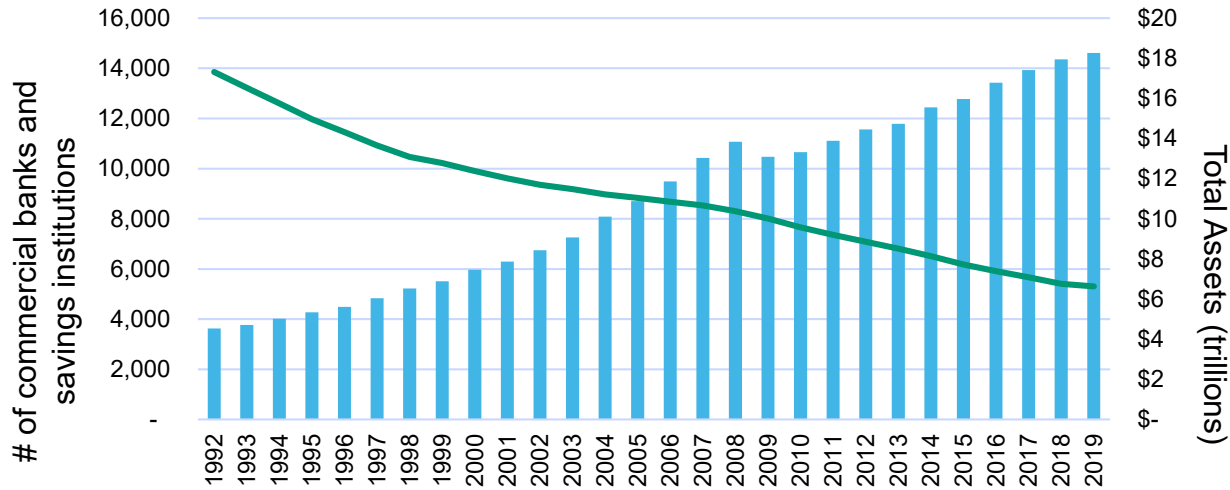


# Nearly 4,000 Institutions Have Twice the “Well Capitalized” Minimum for CET1 RBC



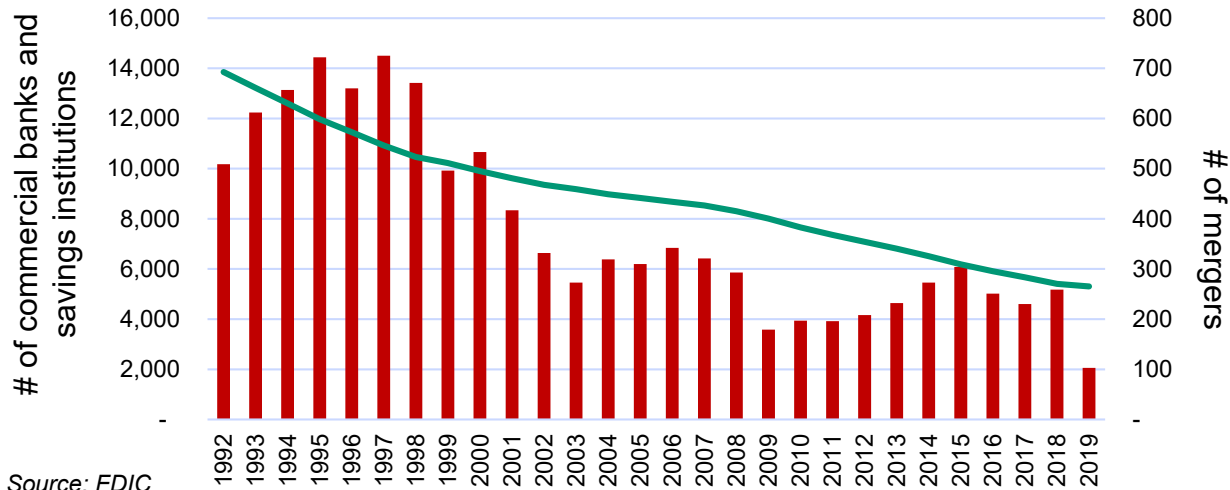
Source: FDIC

# Banking Industry Growth and Consolidation

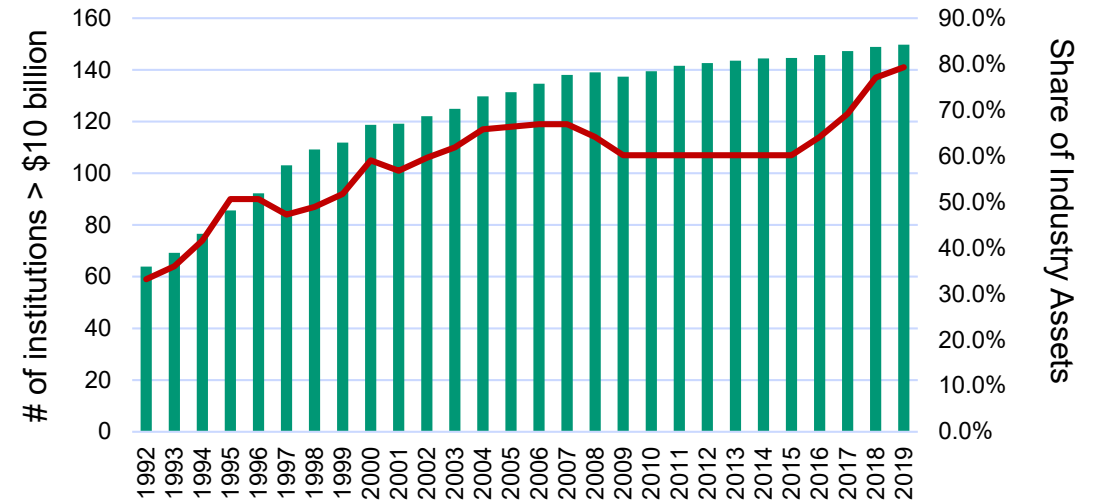


## Over the last decade...

- » The number of institutions declined by 33.8%
- » Industry assets grew \$5.2 trillion, or 39.6%
- » The number of FTEs is unchanged (0.30% increase)
- » More than 2,250 bank mergers and acquisitions
- » 84% of industry assets now held by banks > \$10B (141)



Source: FDIC





# Commercial Risk Ratings

*Which have been the leading drivers for change? (your top 3)*

1. Direct feedback from supervisors
2. Industry growth and consolidation
3. Additional capital to spend on risk management
4. Preparing for the next recession  
(whenever that will be)
5. Seeking a competitive advantage
6. Ability to demonstrate a stronger risk culture to external stakeholders

# Our Panelists' Institutions



- » Bank OZK | Little Rock, AR
- » \$23B Assets | \$17B Loans | \$18B Deposits
- » 264 offices in Southeastern U.S. | Listed OZK (NASDAQ)



- » BMO Financial Group | Montreal, QC
- » [CAD] \$839B Assets | \$418B Loans | \$553B Deposits
- » 588 U.S. offices | Listed BMO (NYSE & TSX)



- » Western Alliance Bancorporation | Phoenix, AZ
- » \$26B Assets | \$20B Loans | \$22B Deposits
- » 39 offices in AZ, CA, NV | Listed WAL (NYSE)

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