Moody's Analytics

Summit 2019

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

Dan Harach, Western Alliance Bank

Max Nelson, Bank OZK

Jimmy Yang, Bank of Montreal

Chris Henkel, Moody's Analytics

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Jacob Grotta
Managing Director - Head of
Risk Measurement
Moody's Analytics

Max Nelson
Credit Analytics Manager
Bank of Ozarks

Dan Harach
SVP, Portfolio Credit Risk
Management Director
Western Alliance Bancorporation

Jim Sarrail
Senior Director - Customer Success
Moody’s Analytics

Christian J. Henkel
Senior Director - Reis
Moody's Analytics

Jimmy Yang
Managing Director, Global Head of
Credit and Operational Risk Analytics
BMO Financial Corp.

Credit Risk Ratings Today

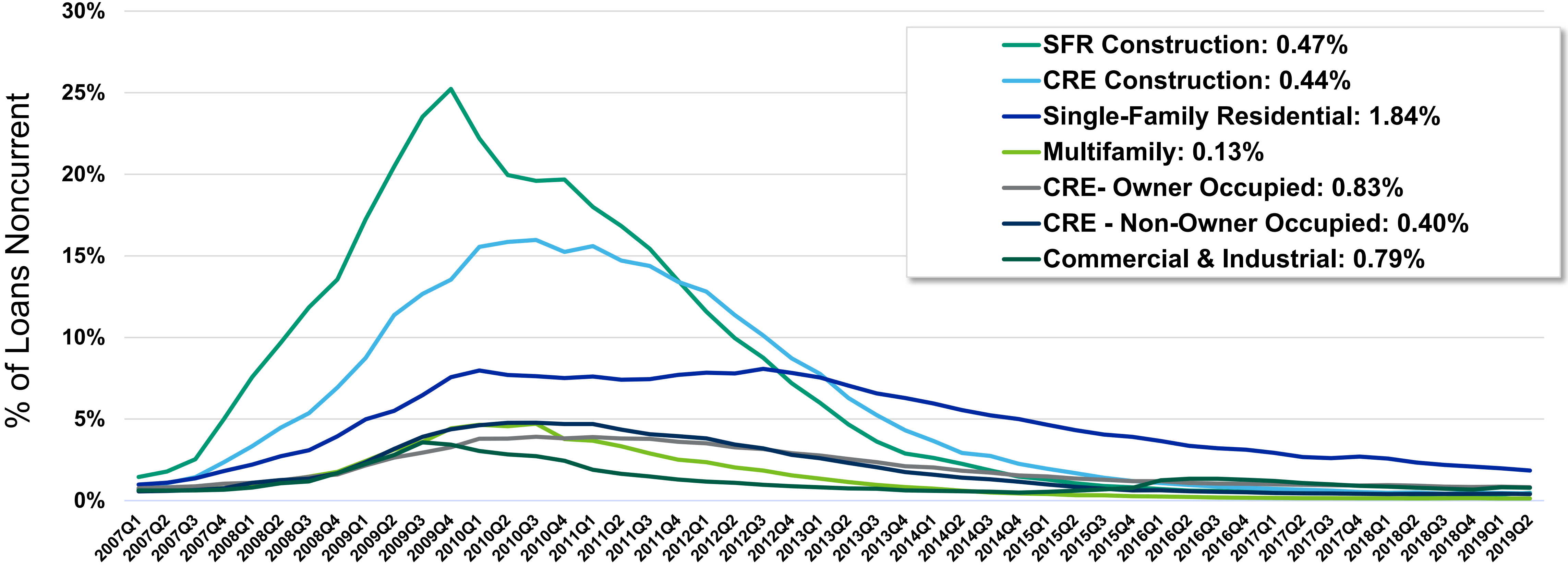
A Decade in Review

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.

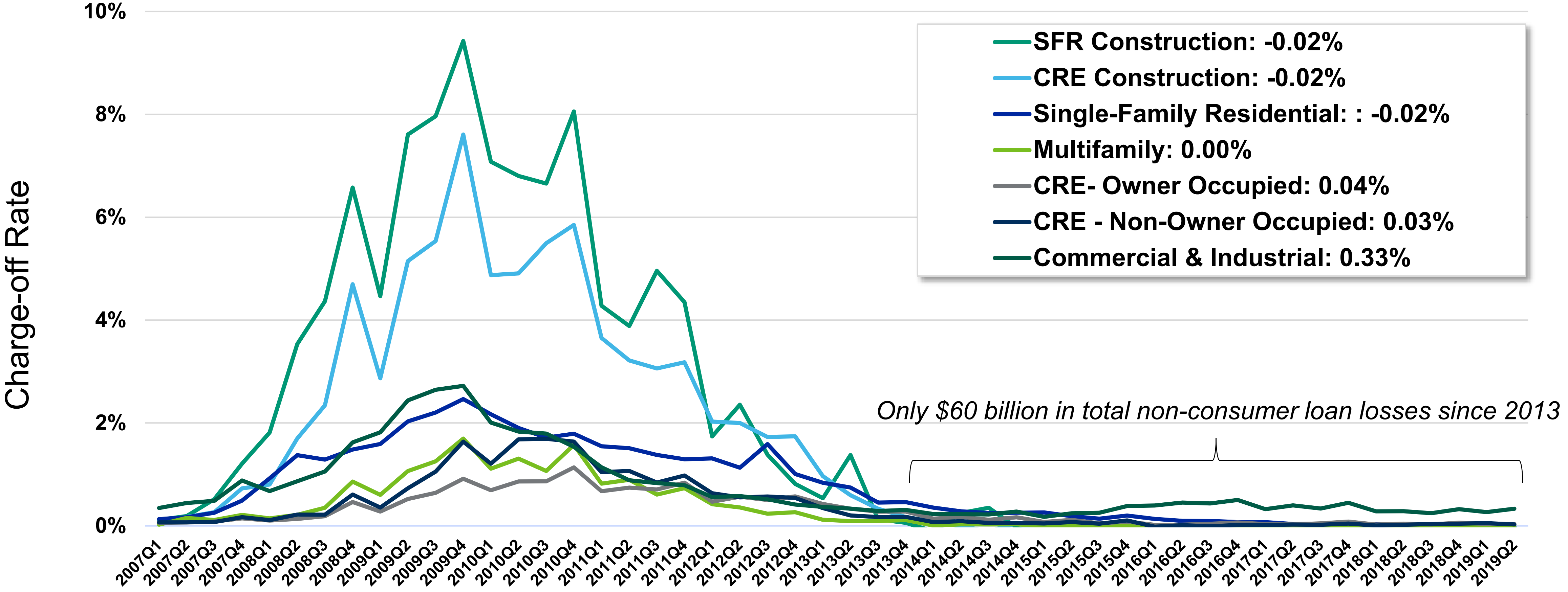
- A decade ago, there were only a handful of FIs outside the top 30 or so who were using a quantitatively-driven approach for commercial risk ratings (e.g., statistically-driven measures of credit risk)
- Today, the practice exists at most of the top 100 institutions, and even within firms whose commercial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

The Amount of Problem Loans Remains at Historically Low Levels



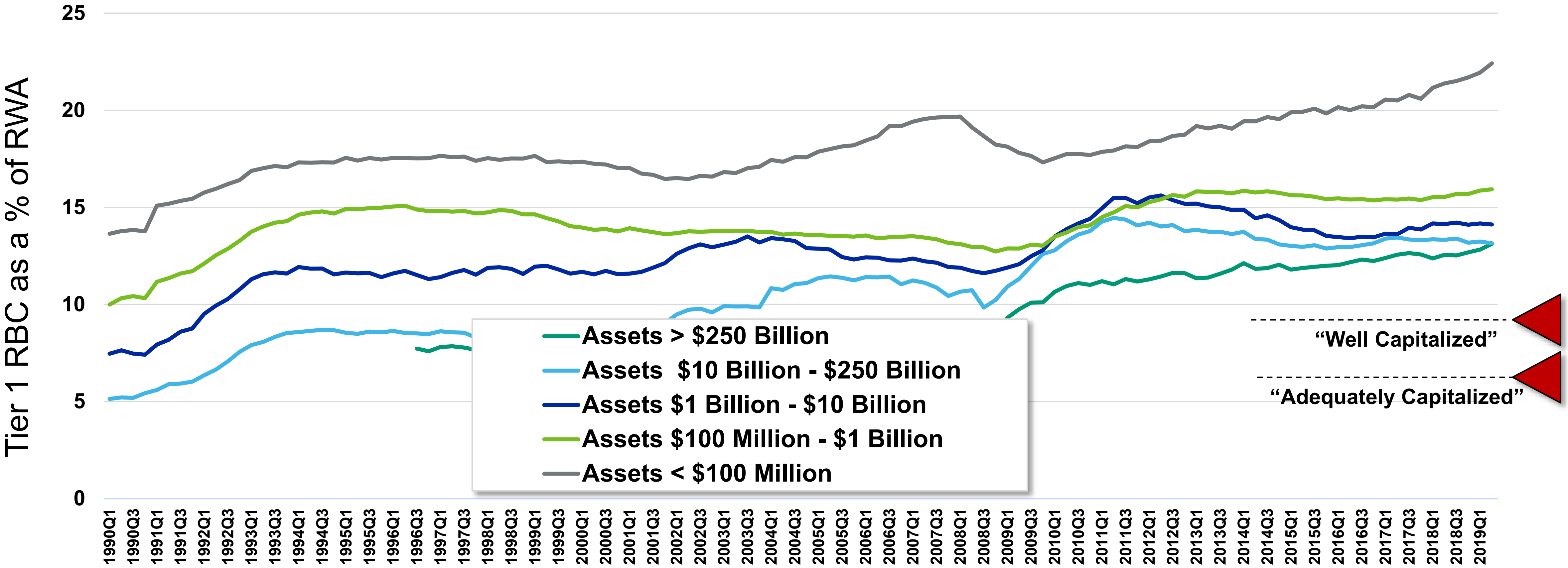
Source: FDIC

Loan Loss Rates Remain Near Zero



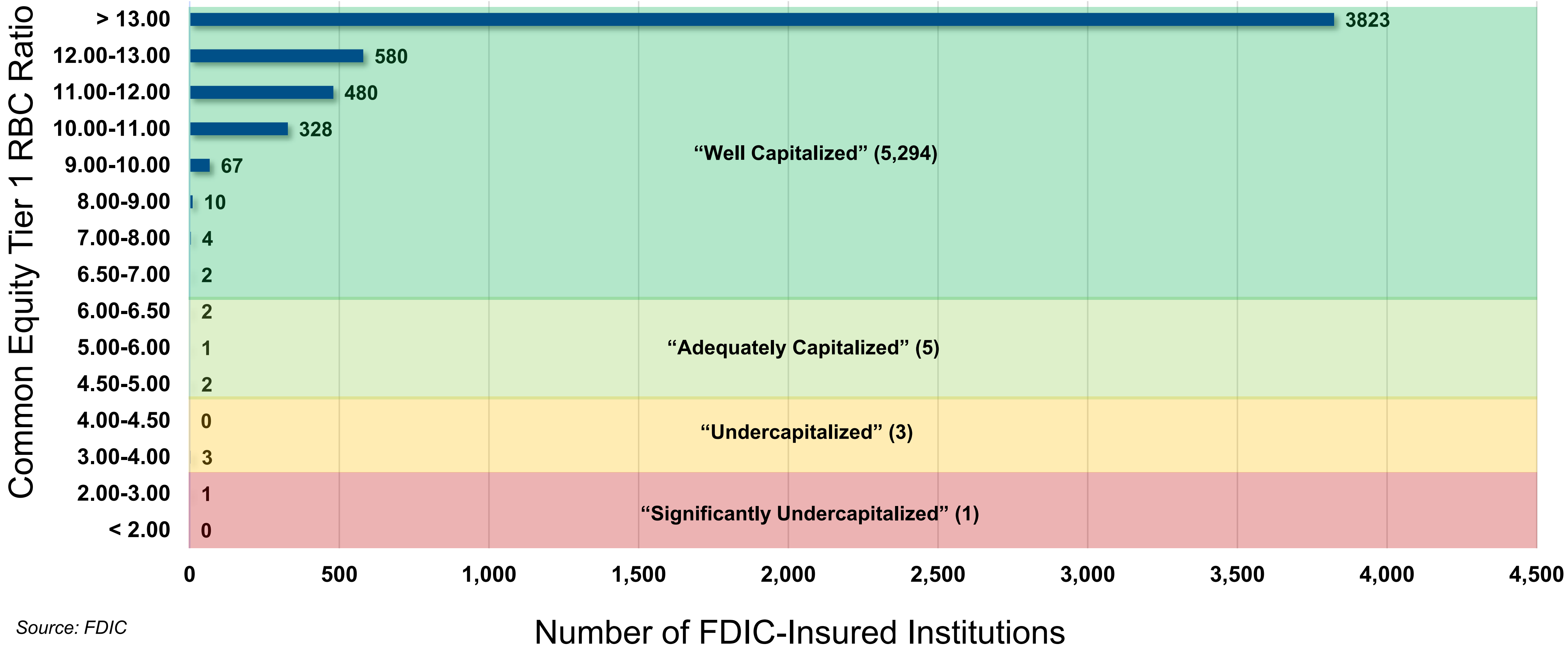
Source: FDIC | 2014-2019: Avg Non-Consumer Loans (incl SFR) ~$9T. Non-Consumer Loans (incl SFR) accounted for 25% of NCO and 85% of loans

Loss-Absorbing Capital Increased Significantly This Decade



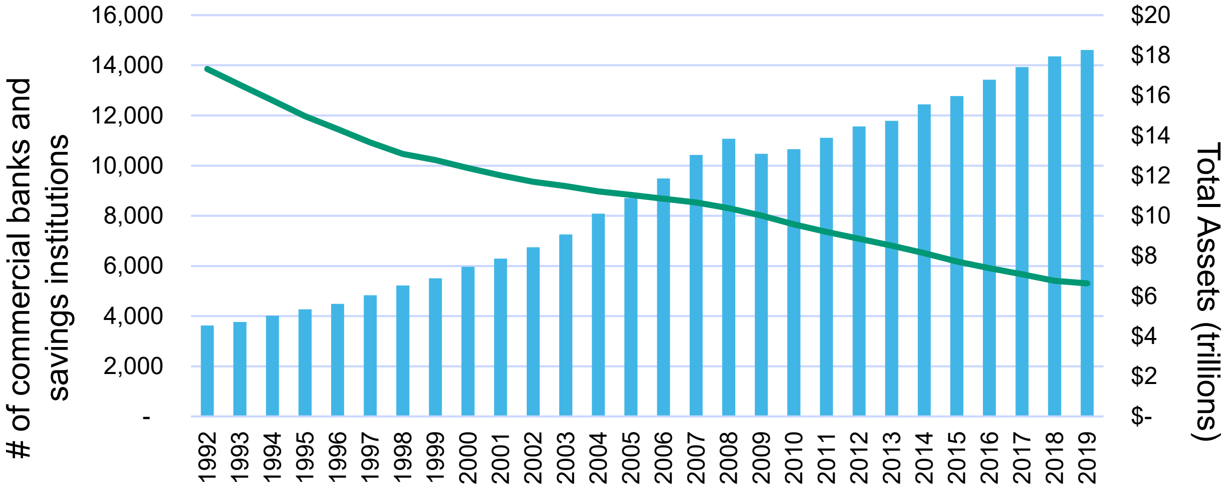
Source: FDIC

Nearly 4,000 Institutions Have Twice the "Well Capitalized" Minimum for CET1 RBC



Source: FDIC

Banking Industry Growth and Consolidation



Over the last decade…

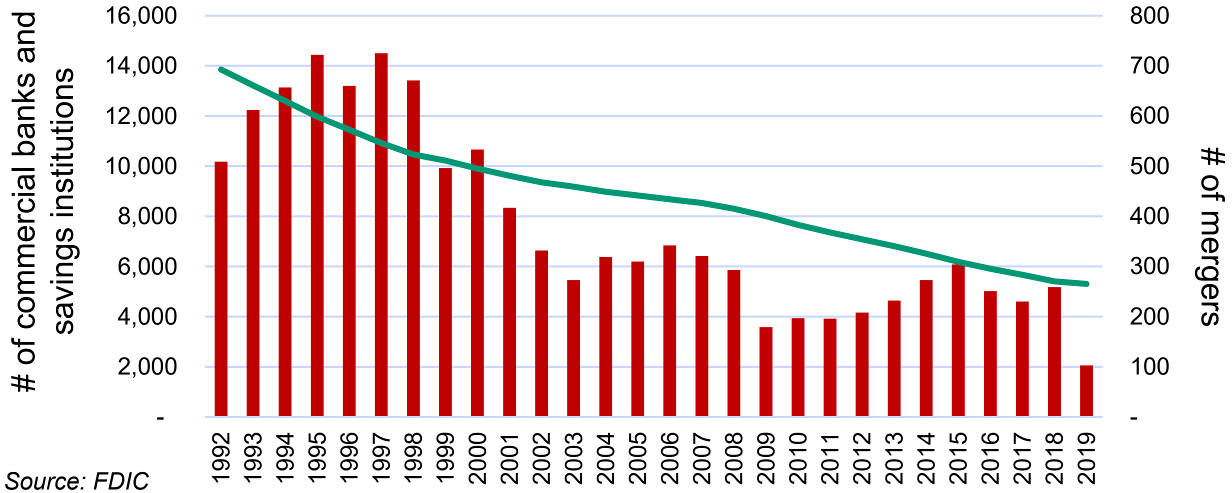
» The number of institutions declined by 33.8%

» Industry assets grew $5.2 trillion, or 39.6%

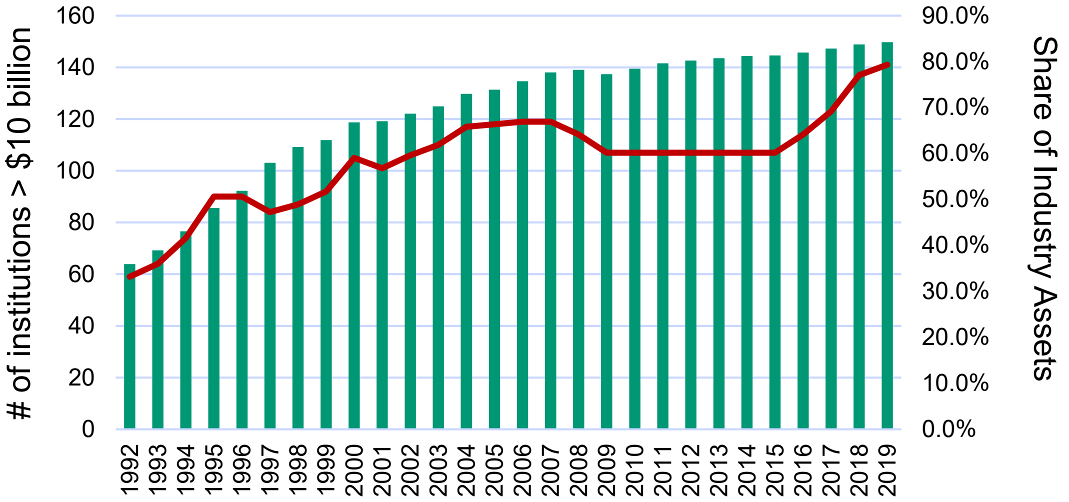
» The number of FTEs is unchanged (0.30% increase)

» 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

SUMMIT 2019

Bank OZK

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

BMO Bank of Montreal

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

Western Alliance Bank™

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