

Arkansas Bankers Association Mega Conference

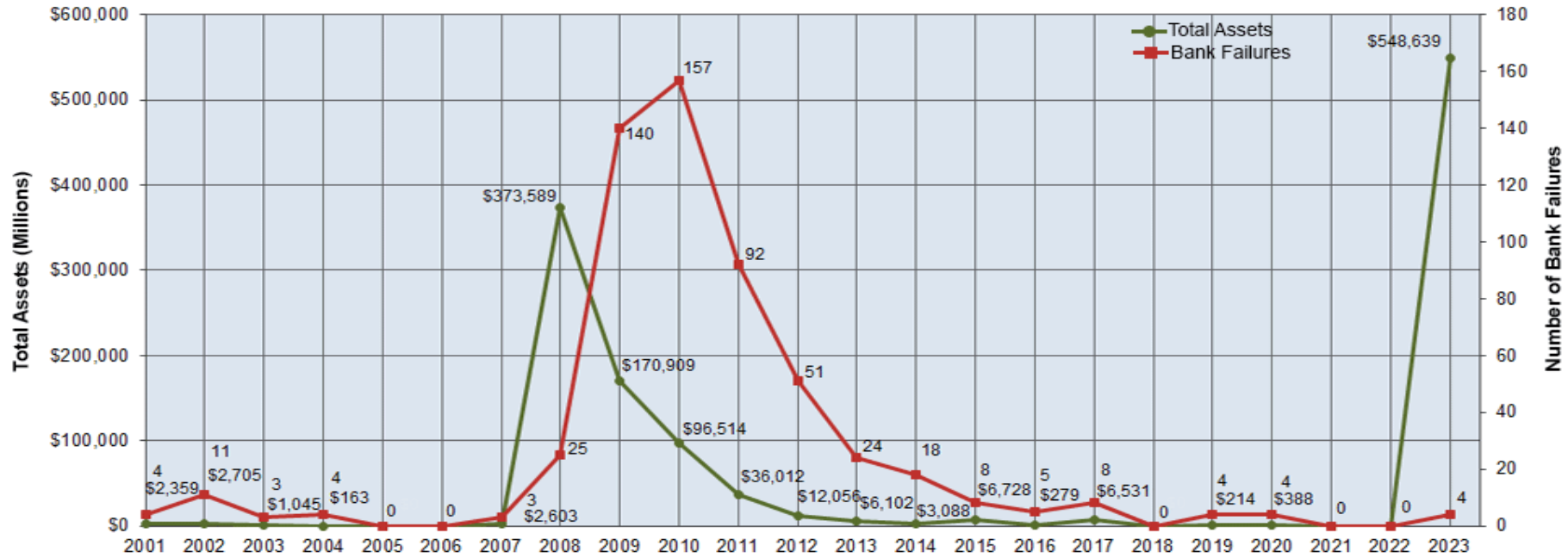
September 26 – 27, 2023

Little Rock, Arkansas



What Lessons Can We Learn from Three of the Five Largest US Bank Failures?

Putting Things in Perspective – 565 Bank Failures from 2001 to YTD 2023



Summary by Year
(Approximate asset dollar volume based on figures from the press releases)

Years	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Bank Failures	4	11	3	4	0	0	3	25	140	157	92	51	24	18	8	5	8	0	4	4	0	0	4
Total Assets (Millions)	2,358.6	2,705.4	1,045.2	163.1	0	0	2,602.5	373,588.8	170,909.4	96,514.0	36,012.2	12,055.8	6,101.7	3,088.4	6,727.5	278.8	6,530.7	0	214.1	458.0	0	0	548,639.0

Source FDIC (<https://www.fdic.gov/bank/historical/bank/index.html>)

Five Largest Bank Failures in U.S. History

Rank	Bank Name	Bank Location	Date Closed	Total Assets
1	Washington Mutual Bank	Henderson, NV	9/25/2008	\$307 Billion
2	First Republic Bank	San Francisco, CA	5/1/2023 (Monday)	\$229 Billion
3	Silicon Valley Bank	Santa Clara, CA	3/10/2023 (Friday - Morning)	\$209 Billion
4	Signature Bank	New York, NY	3/12/2023 (Sunday)	\$110 Billion
5	IndyMac Bank, F.S.B.	Pasadena, CA	7/11/2008	\$31 Billion

Source FDIC

Five Largest Failures – What do the numbers tell you?

	Washington Mutual Bank (6/30/2008)	First Republic Bank (3/31/2023)	Silicon Valley Bank (12/31/2022)	Signature Bank (12/31/2022)	IndyMac Bank, F.S.B. (6/30/2008)
Net Interest Margin (%)	3.50%	1.70%	2.23%	2.24%	1.80%
Non-Interest Income (%)	1.58%	0.55%	0.60%	0.13%	-1.10%
Non-Interest Expense (%)	2.88%	1.51%	1.29%	0.74%	4.93%
Provision Expense	5.95%	0.03%	0.20%	0.07%	2.83%
Return On Assets	-4.51%	0.61%	0.96%	1.15%	-4.83%
Total Assets (\$)	\$307.0 Billion	\$232.9 Billion	\$209.0 Billion	\$110.4 Billion	\$30.7 Billion
Total Capital (\$)	\$24.4 Billion	\$18.0 Billion	\$15.5 Billion	\$8.0 Billion	\$1.1 Billion
Un-realized Security Loss (%) of Tier 1 Capital	Not Available	-22.59%	-89.20%	-7.58%	Not Available
Leverage Capital (%)	7.07%	8.25%	7.96%	8.79%	3.17%

Source - Call Report and UBPR

The Rest of the Story...

Bank Name	Deposits Not Insured by the FDIC
Signature Bank	90%
Silicon Valley Bank	88%
Citigroup	85%
First Republic	68%
JPMorgan	59%
BNY Mellon	56%
Citizens Financial	49%
KeyCorp	47%
PNC	46%
Truist	46%
M&T Bank	45%
Fifth Third	42%

- Interest Rate Trends lead to increased unrealized losses in securities portfolios.
- In the three most recent large bank failures, capital appeared threatened and customers quickly reacted.
- In particular, banks with large uninsured deposit levels began experiencing significant deposit withdrawals.

What Lessons have We Learned?

- Information Travels Fast – the time between event and public awareness has narrowed considerably.
- Information travels many ways. It's no longer newspapers and nightly news. Now there is "24/7" online news sites, social networks, media sharing networks, discussion networks.
- It is difficult to predict how the public or your customers will react to the "news."

Formal Communication Strategy and Proper Contingency Liquidity Plan

Communication Strategy

- Reflect your bank's business strategy and customer demographics.
- Include appropriate level of information awareness/monitoring.
- Formal response strategy - implementation and monitoring. All public and customer bank contact points should be involved (e.g., principal shareholders, directors, executives, managers, officers, customer service reps, etc.)

Contingency Liquidity Plan

- Commensurate with your risk profile and customer demographics.
- Periodically tested and updated.

Liquidity Trends

What are the Bank Regulators Seeing?

Second Quarter 2023 FDIC Quarterly Banking Profile

Net Interest Margin declined for the second straight quarter given funding costs rising faster than asset yields.

Total deposits declined quarter over quarter, but insured deposits increased. The decline in total deposits in second quarter 2023 was nearly offset by increased wholesale funding.

Spring 2023 OCC Report Identifies Key Risks Facing Federal Banking System

Liquidity levels have been strengthened in response to the failures of several banks and investment portfolio depreciation.

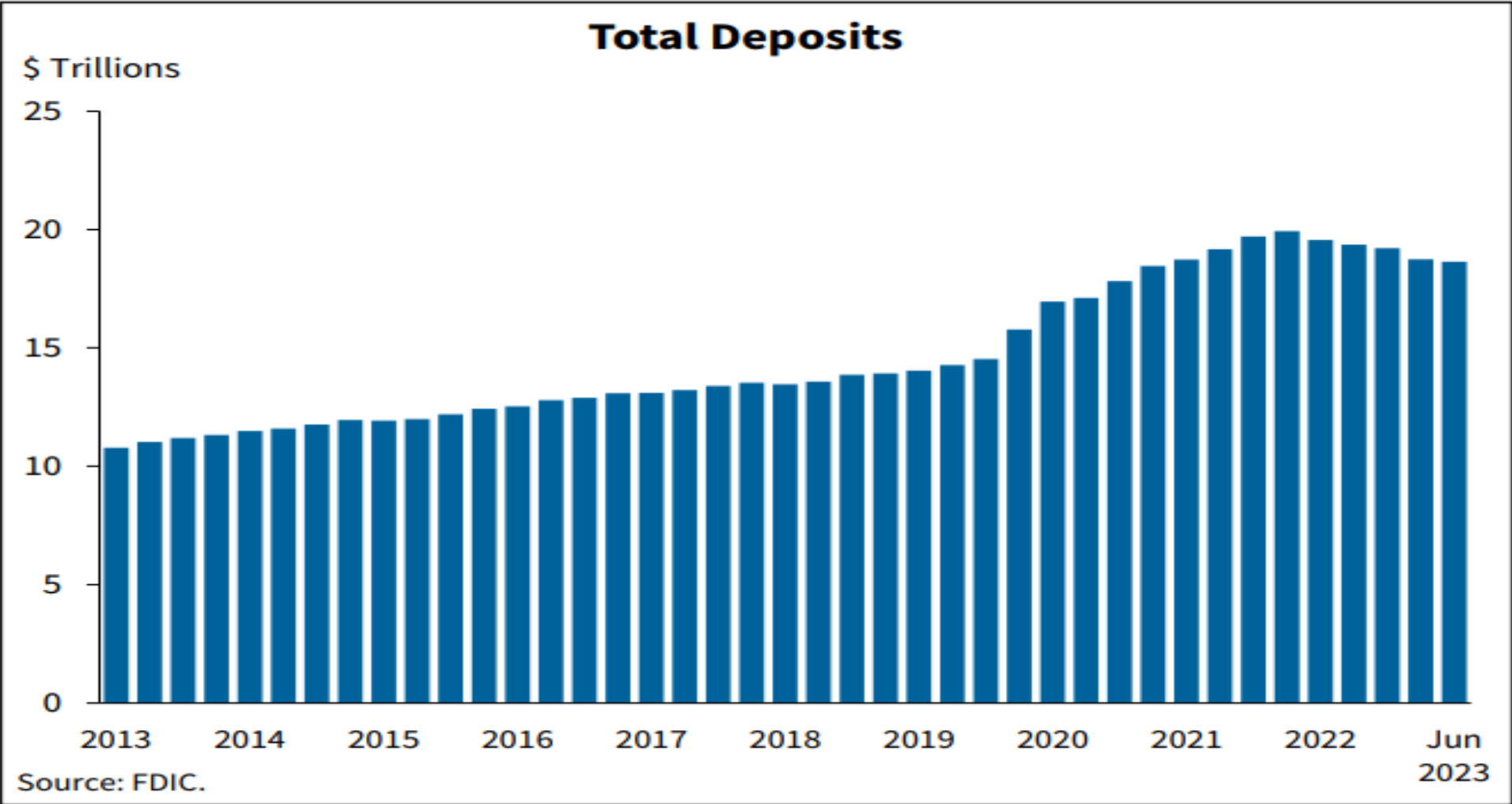
Noted – Federal Reserve’s Bank Term Funding Program (treasury collateral at par)

Federal Reserve May 2023 Supervision and Regulation Report (Data as of Year-end 2022)

Deposits have declined since reaching a high of \$18 trillion in April 2022. Between April 2022 and April 2023, deposits fell by \$960 billion.

Liquid assets declined in the second half of 2022. Cash balances have declined, as banks have used existing cash holdings to manage a decline in deposits and to fund increased lending.

Industry Trend - Deposits



What is Happening in Arkansas?

	All Insured Institutions Arkansas 6/30/2023	All Insured Institutions Arkansas 12/31/2022	All Insured Institutions Arkansas 12/31/2021
	All Institutions	All Institutions	All Institutions
Number of Institutions	82	83	84
AGGREGATE DATA (\$ in Millions)			
Total Assets	\$163,332	\$158,267	\$145,429
Total Deposits	\$131,015	\$130,367	\$119,173
PERFORMANCE RATIOS (YTD, %)			
Yield on Earning Assets	5.37	4.19	3.72
Cost of Funding Earning Assets	1.63	0.48	0.31
Net Interest Margin	3.74	3.71	3.41
Return on Assets	1.23	1.3	1.55
Core Deposits to Total Liabilities	79.02	84.22	88.61
Leverage (Core Capital) Ratio	11.2	11.34	11.23

Q&A