Office of the
Comptroller of the Currency

RMA New England Chapter

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Condition of the Banking Industry

Financial Information as of December 31, 2021

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Banking in a Post-COVID Economy

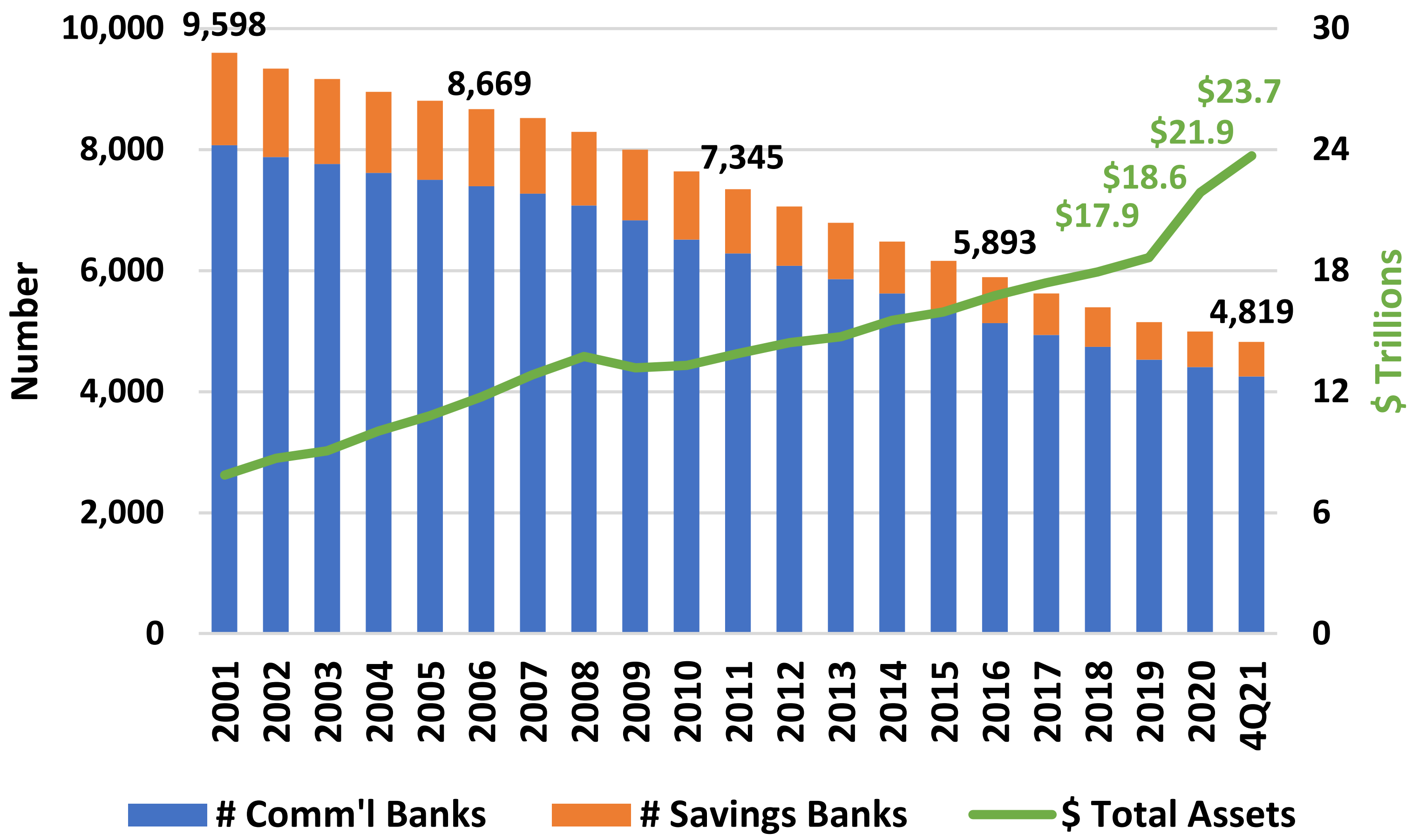
This presentation will focus on:

- **Portfolio Demographics**
- **Financial Performance**
- **Supervisory Information**
- **Summary of Condition**
- **Fintech and Innovation**
- **Outlook and Challenges**

Preface: This presentation analyzes federally insured banks active as of December 31, 2021. For many of the performance metrics, this population is "held constant." Most charts use the median and others use weighted averages.

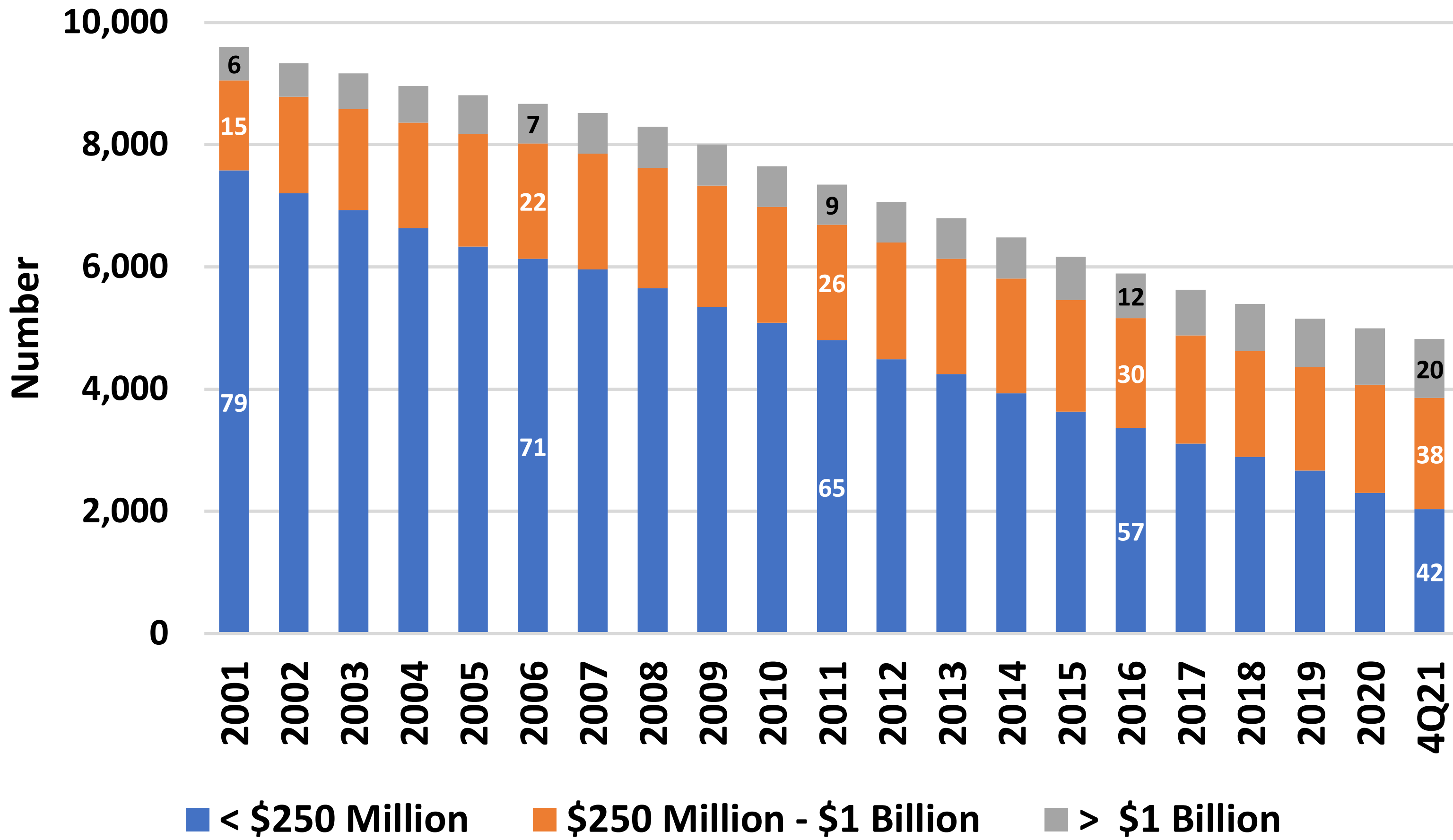
Trends in Bank Charters

The banking industry continues to consolidate. The total number of charters declined by 50 percent since 2001 and 3.5 percent in 2021. Total assets continue to increase steadily and topped $23.7 trillion in 2021.



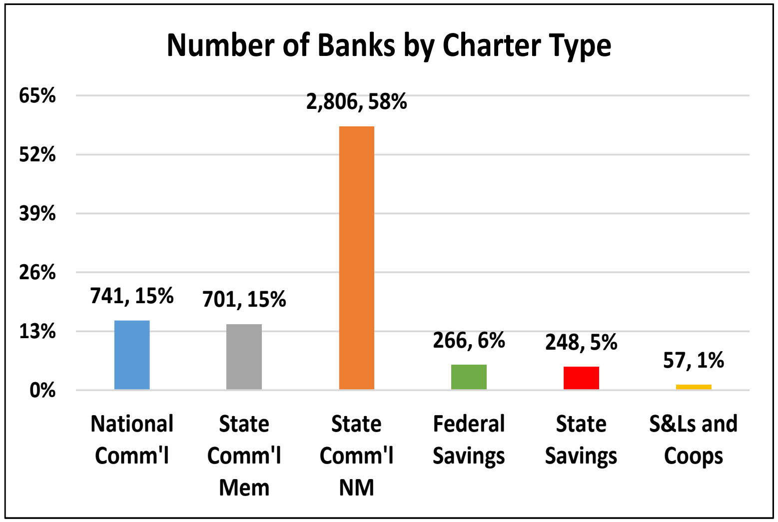
Trends in Bank Size

The growth in assets combined with fewer de novo charters has resulted in a shift in mix toward larger institutions. In 2021, 42 percent of banks were less than $250 million in size versus 79 percent in 2001.

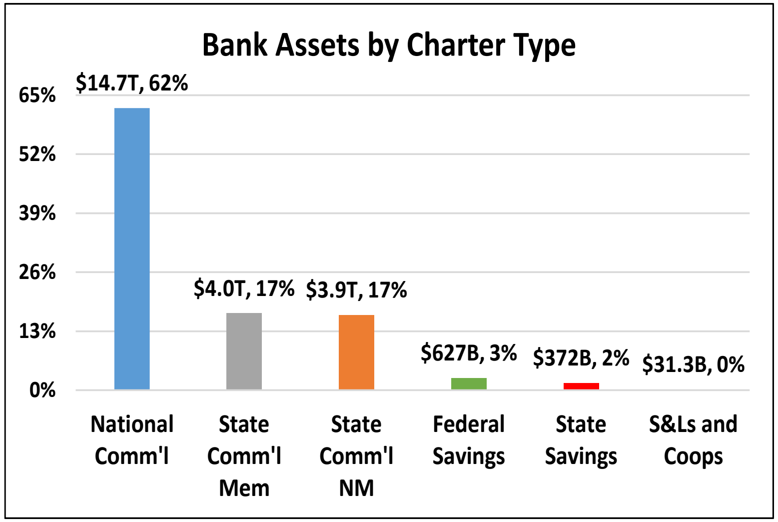


Banks by Charter Type

- There were 4,819 active insured banks as of December 31, 2021. Most charters or 58 percent are state commercial nonmembers of the Federal Reserve System.

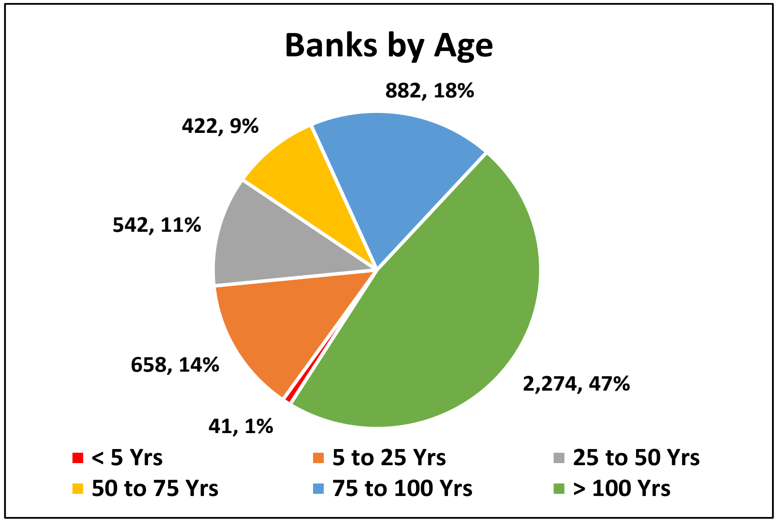


- Bank assets totaled $23.7 trillion as of December 31, 2021. Most assets or 62 percent are held by national commercial banks.

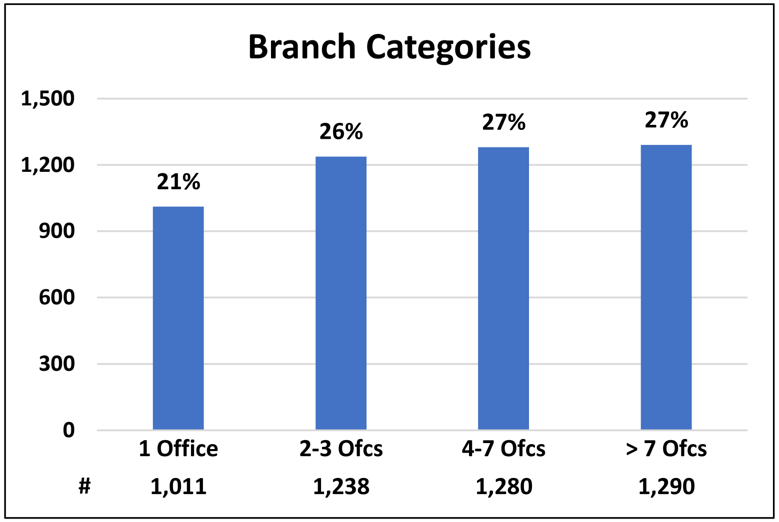


Banks by Age and Branch Network

- Most insured banks or 47 percent have operated for over 100 years. Only 1 percent have been operating for less than 5 years.

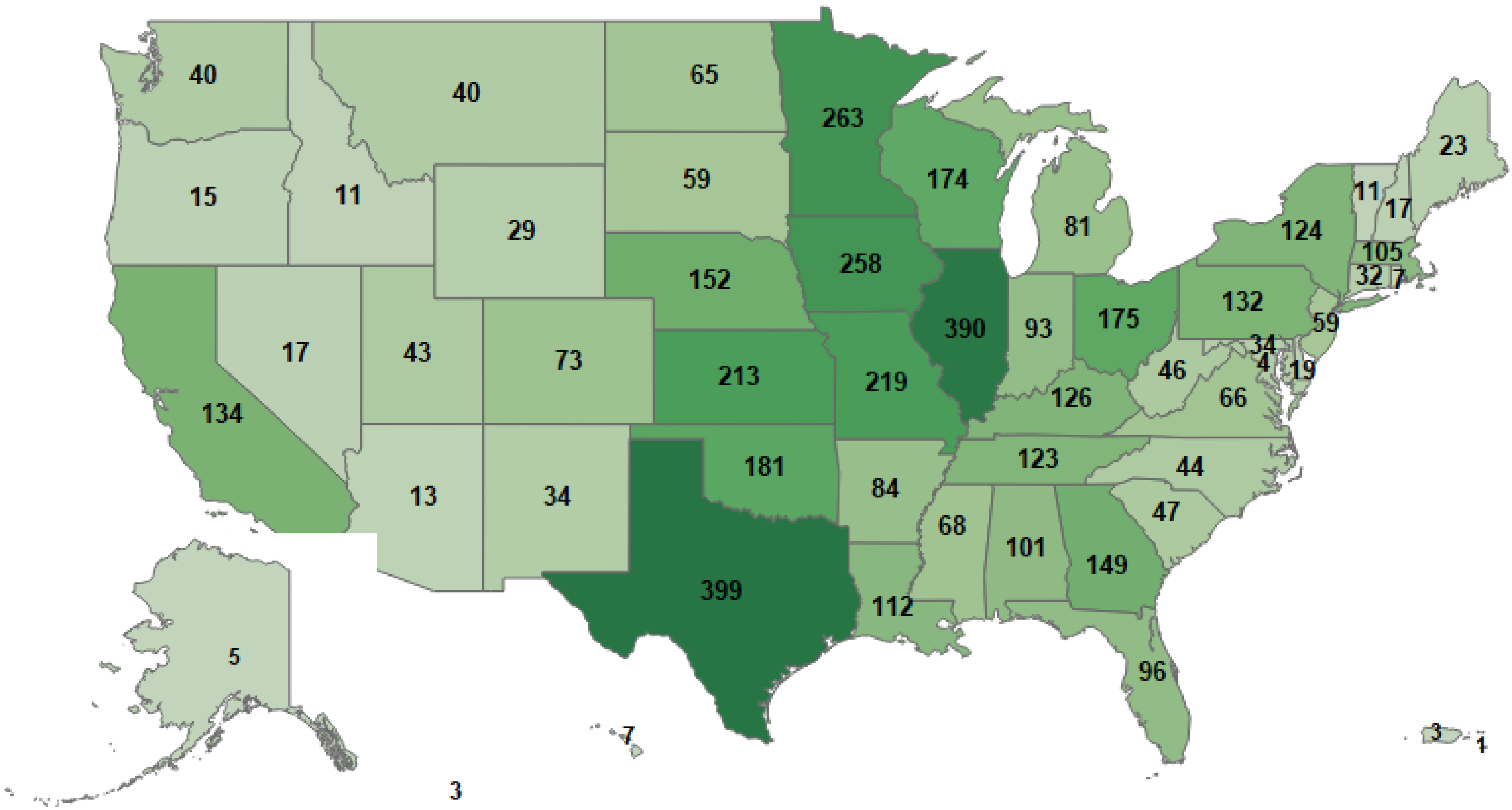


- About 21 percent of insured banks operate from one location, and 47 percent have three locations or less.



Banks by State and Territory

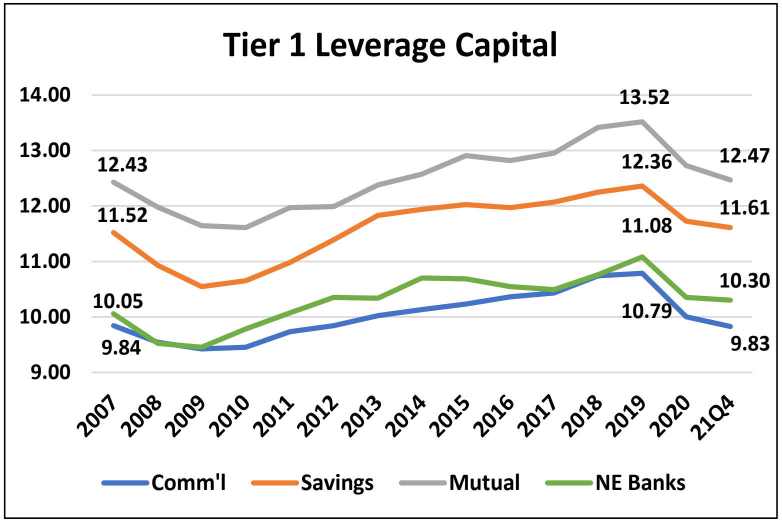
Insured banks are concentrated in the Midwest and Texas. There are six states - Texas, Illinois, Minnesota, Iowa, Missouri, and Kansas - with 200 or more charters. These states are home to 36 percent of all insured banks.



Capital Levels Remain Solid

- The industry is better capitalized today versus pre-crisis. Leverage capital fell 96 basis points for commercial banks and 75 basis points for savings banks since 2019 due in part to pandemic-related asset growth.

- In general, smaller banks hold higher levels of capital.

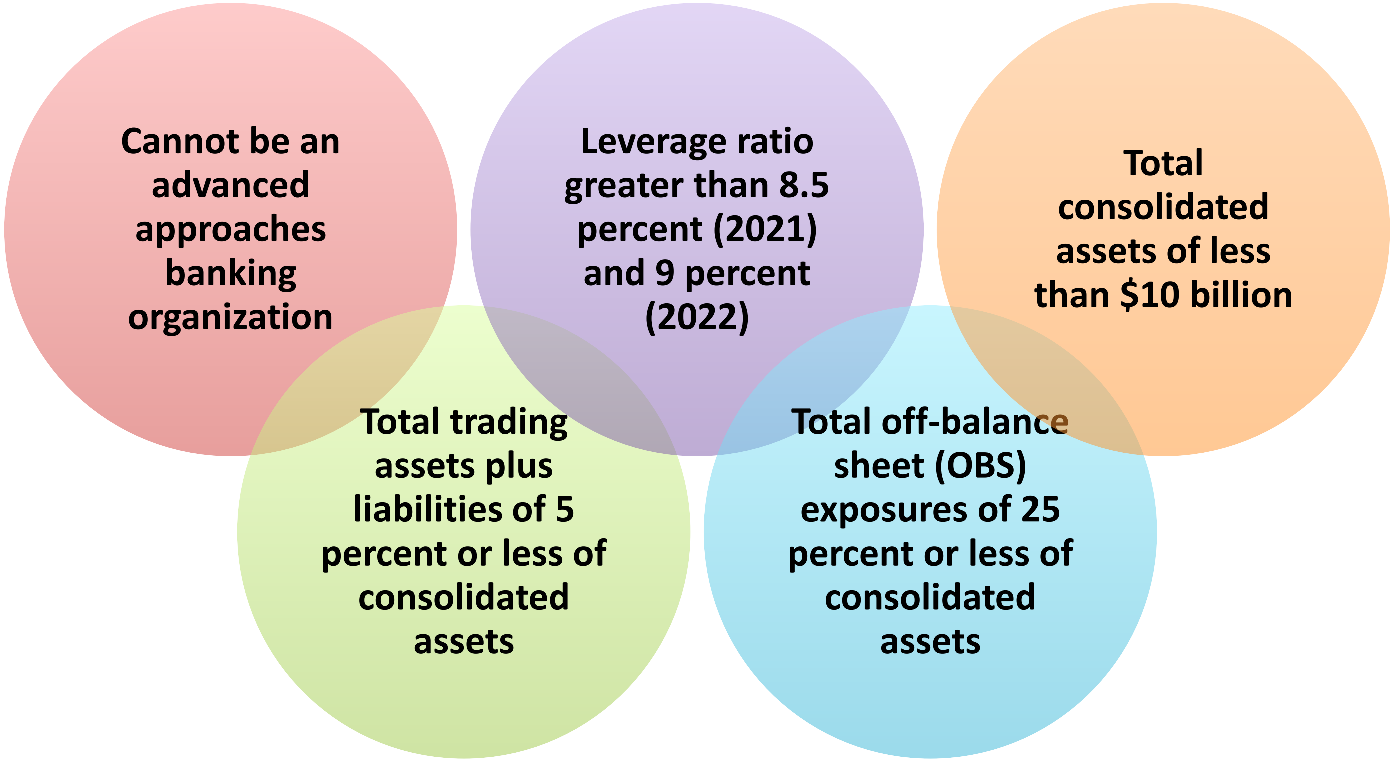


Leverage Ratio - December 31, 2021

Asset Category	Savings	Comm'l
Under $50MM	17.08	11.01
$50MM - $100MM	13.67	10.93
$100MM - $250MM	12.19	10.15
$250MM - $500MM	11.72	9.76
$500MM - $1B	11.20	9.46
Greater than $1B	10.34	9.32
Median	**11.61**	**9.83**

CBLR Framework-Completely Phased-In

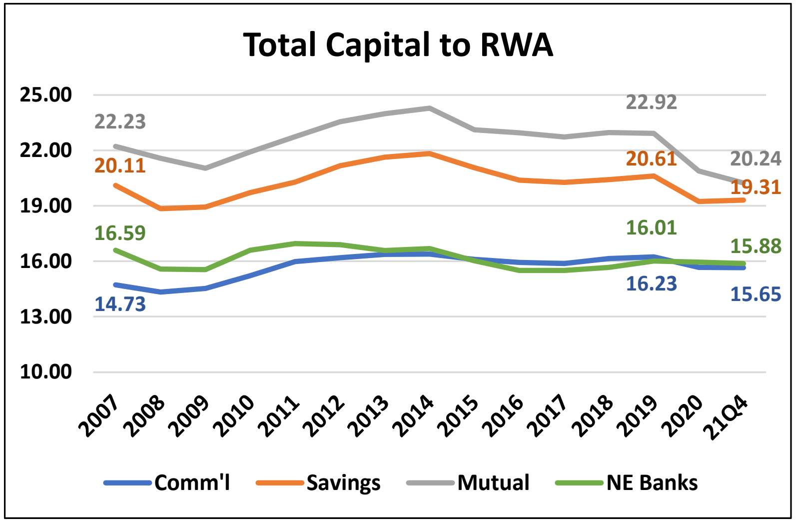
The Community Bank Leverage Ratio (CBLR) is an optional simple leverage capital measure that became effective January 1, 2020. The CARES Act provided temporary relief and a gradual phase-in through 2021 due to the pandemic.

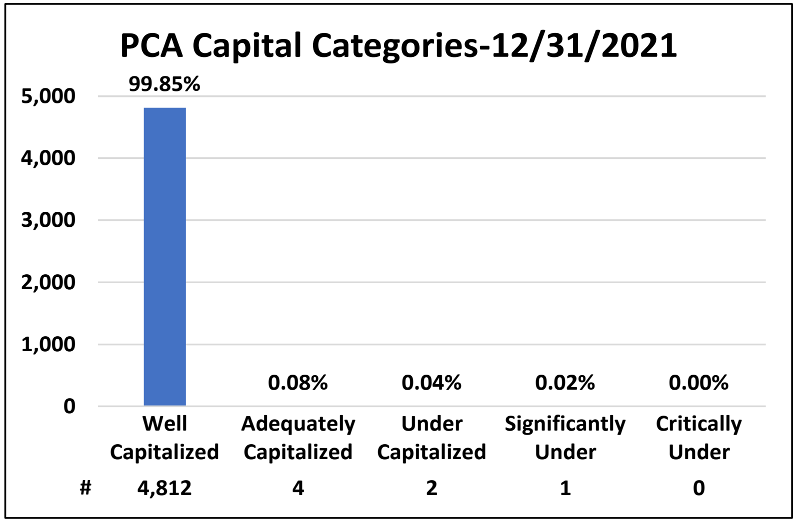


The Industry is "Well-Capitalized"

- Total capital ratios are stable but down from 2019 levels due to pandemic-related asset growth and the CBLR framework. Thirty-eight percent of banks opted into the CBLR framework.

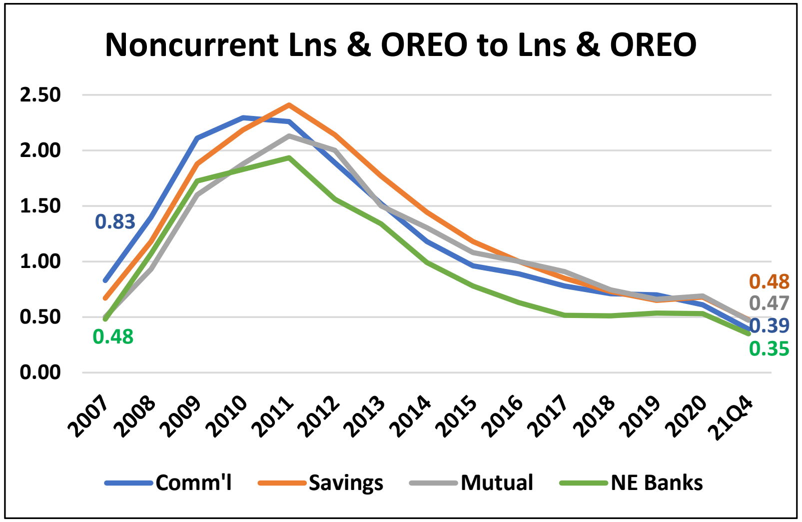
- Based on capital ratios, 99.9 percent of banks are "well-capitalized" per Prompt Corrective Action as of December 31, 2021.



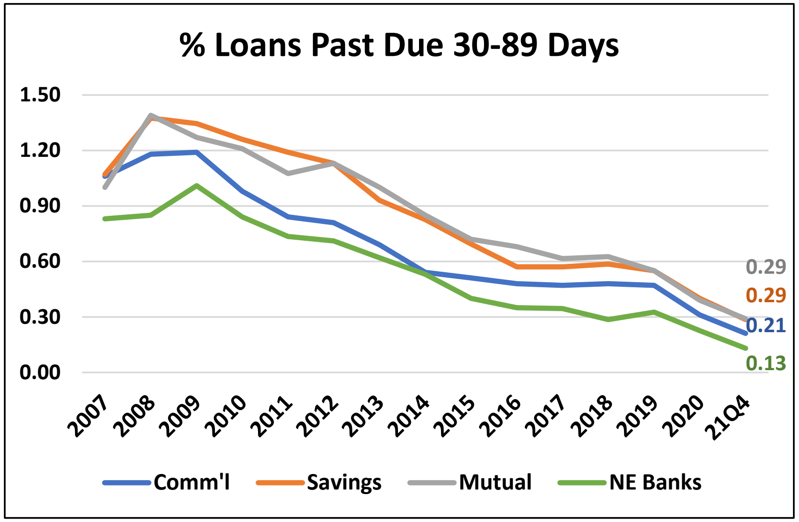


Delinquent Loans Decline

- Noncurrent loans continued to decline through the pandemic and reached new cyclical lows.

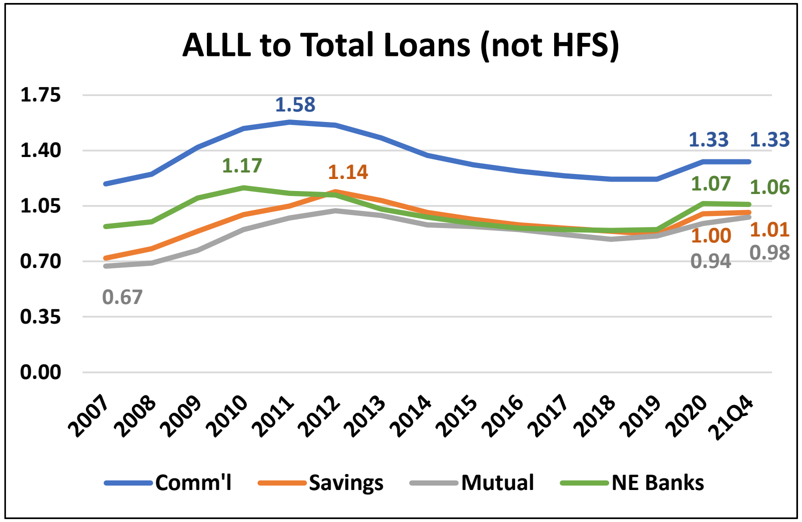


- Loans past due 30 to 89 days are also low and declining. NE banks have the lowest past dues at 0.13 percent.

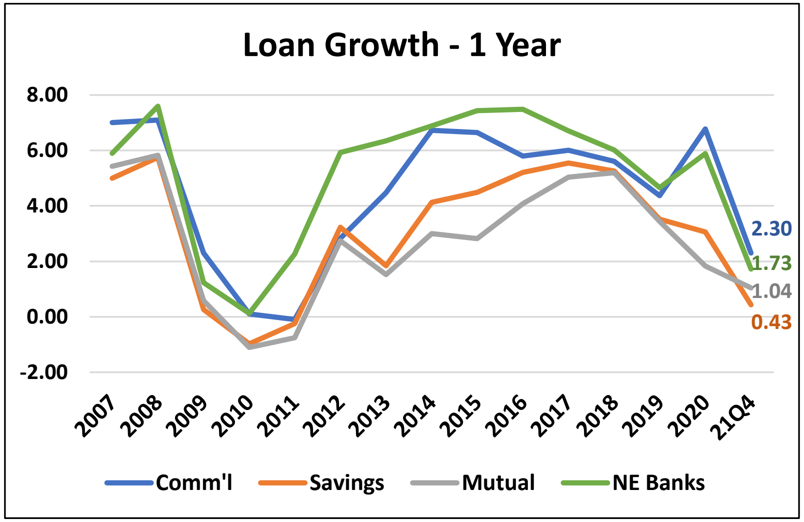


Loan Growth Weak and ALLL Stable

- While 13 percent of banks recorded negative provisions and another 16 percent released reserves by losses exceeding provision expense, the ALLL to total loan ratio remained higher than the pre-pandemic levels.

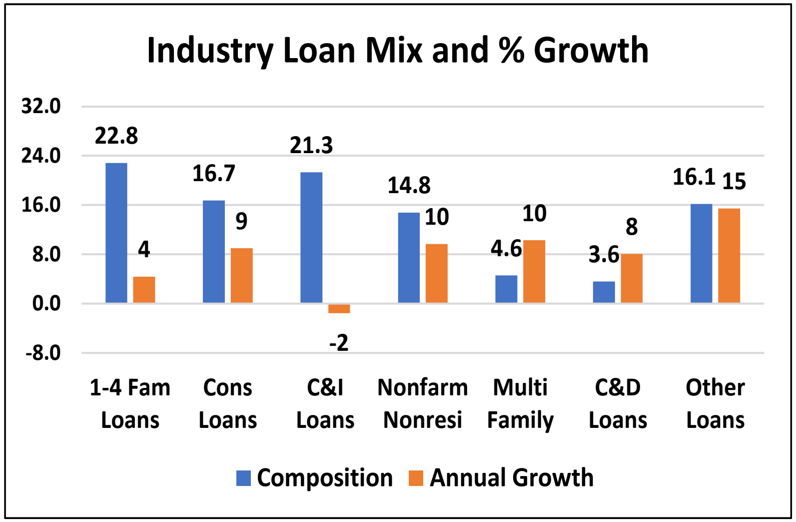


- Loan growth is more difficult to interpret due to the Paycheck Protection Program. After adjusting for the PPP, median loan growth picked up in fourth quarter and was 6.36 percent for commercial banks and 2.69 percent for savings banks.

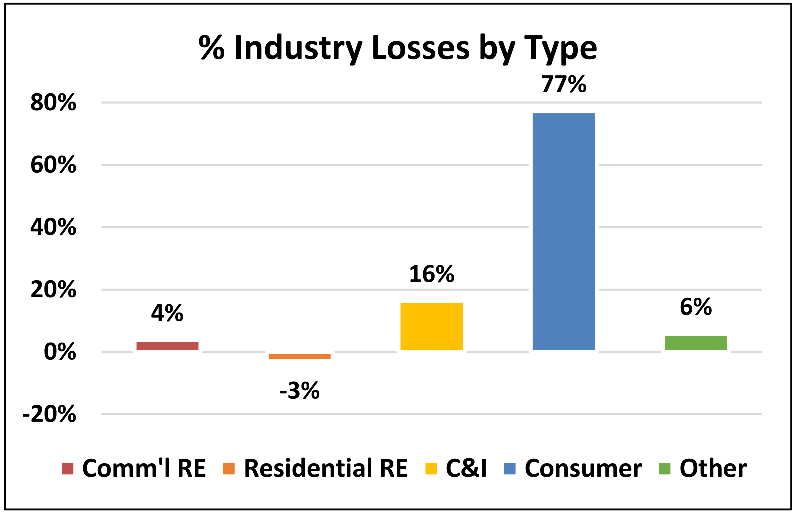


Loan Losses Low

- Loan balances rose by $623 billion or 5.9 percent in 2021. Growth was centered in other loans ($243 billion or 39 percent), which was driven by loans to nondepository financial institutions.

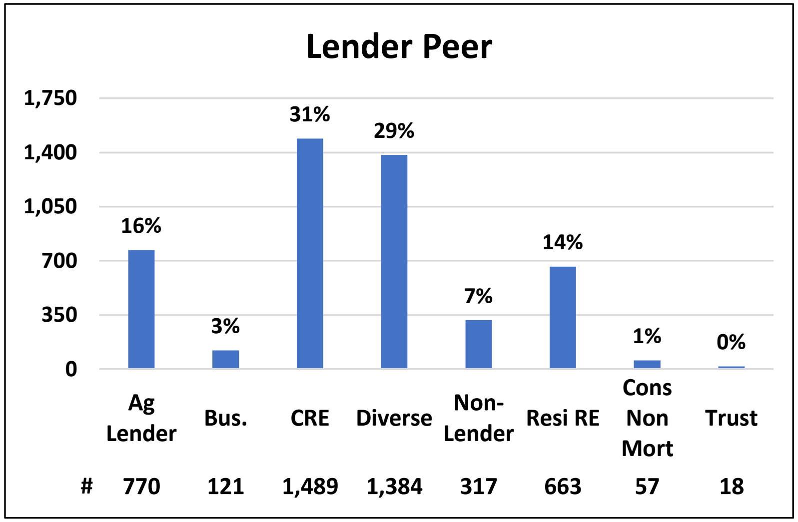


- Loan losses remain low and declined to 0.25 percent of total loans in 2021. Consumer loans account for 16.7 percent of loans and 77 percent of losses. On the other hand, 1-4 family real estate loans account for 22.8 percent of loans and reported a net recovery.

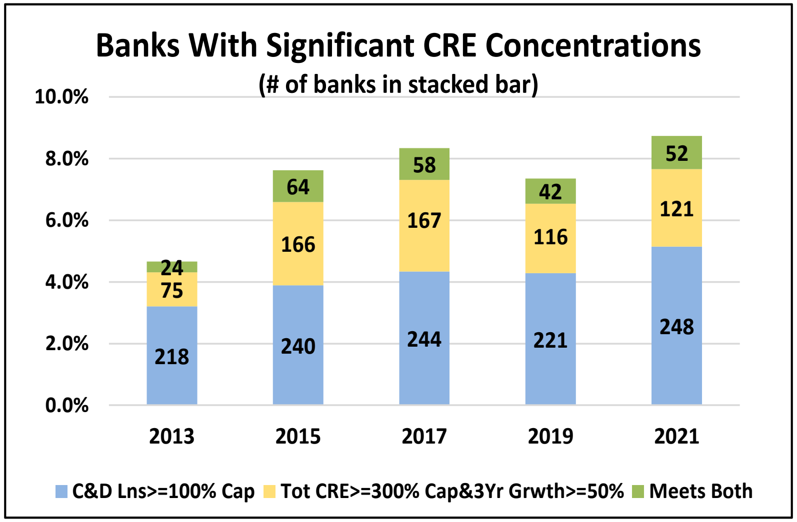


CRE Concentrations Increased

- Thirty-one percent of banks are CRE lenders (up from 28 percent) and 29 percent are Diversified lenders (down from 31 percent).

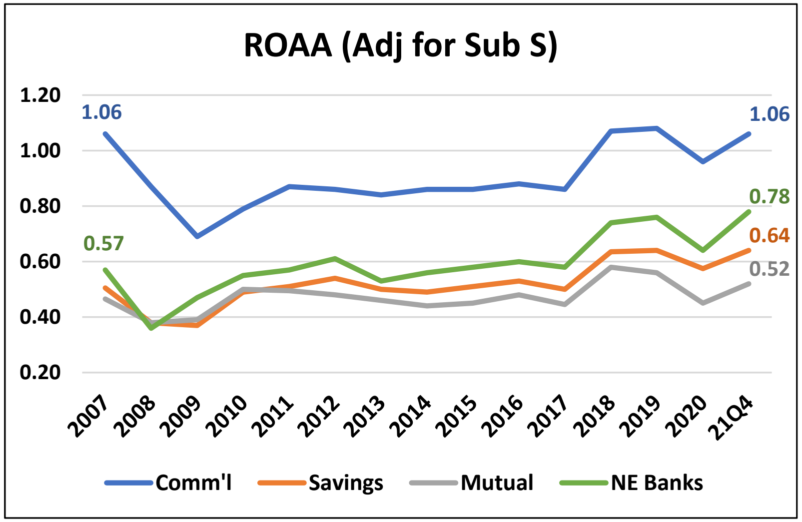


- About 8.7 percent of banks exceed the supervisory thresholds in the Interagency CRE Guidance (Dec 2006). Banks have a **significant** CRE concentration if C&D loans exceed 100 percent of capital or Total CRE exceeds 300 percent of capital **and** CRE loans grew more than 50 percent in the prior 3 years.

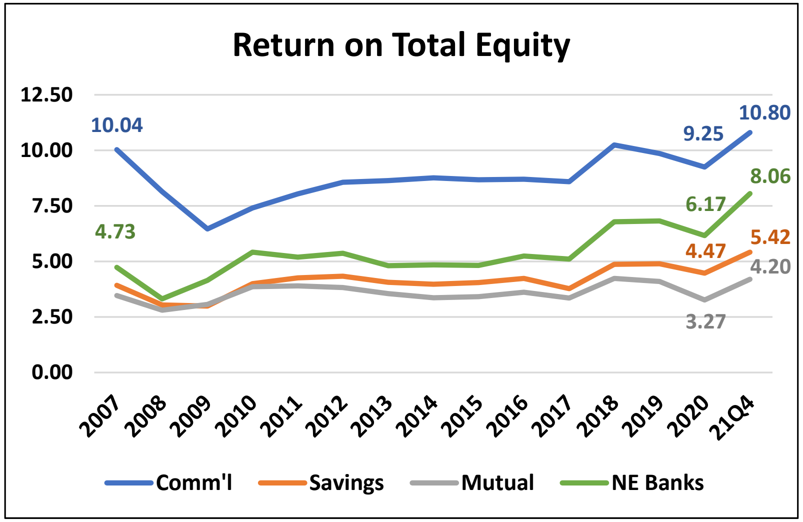


ROAA and ROE Up in 2021

- ROAA is up for all groups and rose the most or 14 basis points since last year for NE Banks. ROAA is at decade-high levels for savings banks and NE banks.



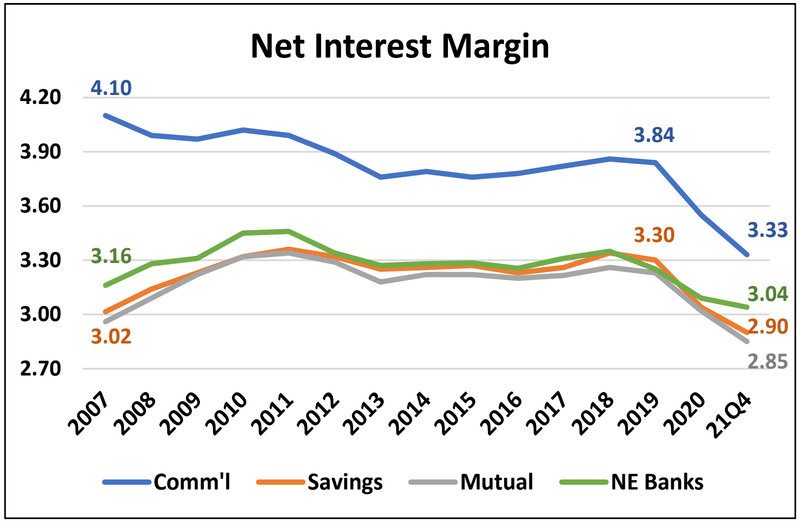
- Return on equity is also up and at its highest level in more than a decade for all groups except mutual banks.



Net Interest Margin Fell Sharply

- Net interest margins plummeted to a new record low this year. Since 2019 margins are down 40 basis points for savings banks and 51 basis points for commercial banks.

- Margin compression is felt more by the smallest banks and usually leads to more industry consolidation and cost cutting by banks of all sizes.



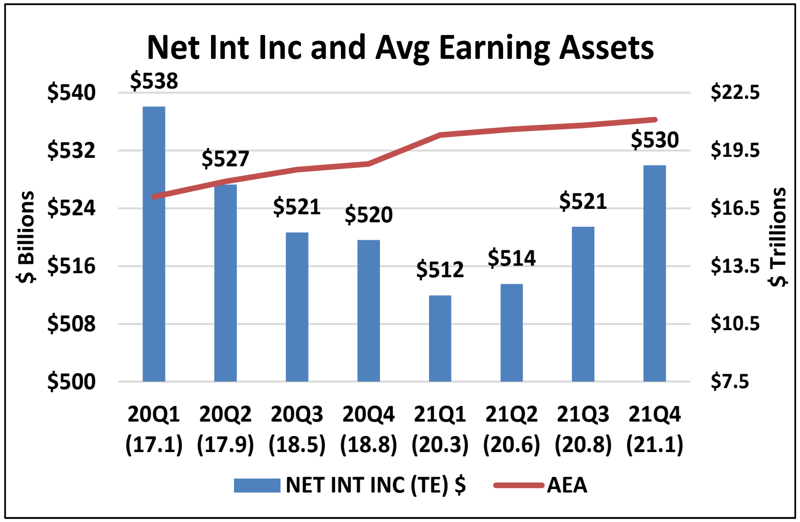
Net Interest Margin - December 31, 2021

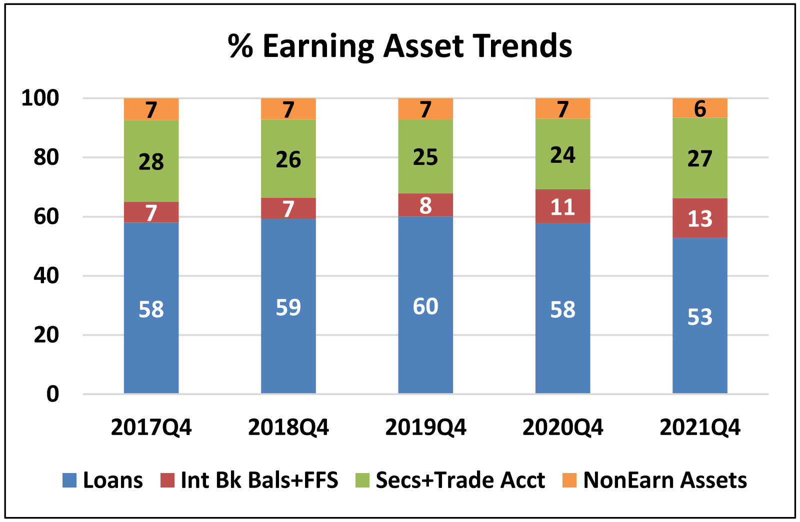
Asset Category	Savings	Comm'l
Under $50MM	2.65	3.15
$50MM - $100MM	3.05	3.33
$100MM - $250MM	2.87	3.39
$250MM - $500MM	2.94	3.41
$500MM - $1B	2.90	3.37
Greater than $1B	2.93	3.21
Median	**2.90**	**3.33**

Net Interest Margin Analysis

- The weighted average net interest margin narrowed 26 basis points from one year ago to 2.51 percent due to average earning asset growth of $2.3 trillion or 12 percent outpacing net interest income growth of $10 billion or about 2 percent.

- The shift in the earning asset mix from loans to interest-bearing bank balances and securities has also adversely impacted the net interest margin.



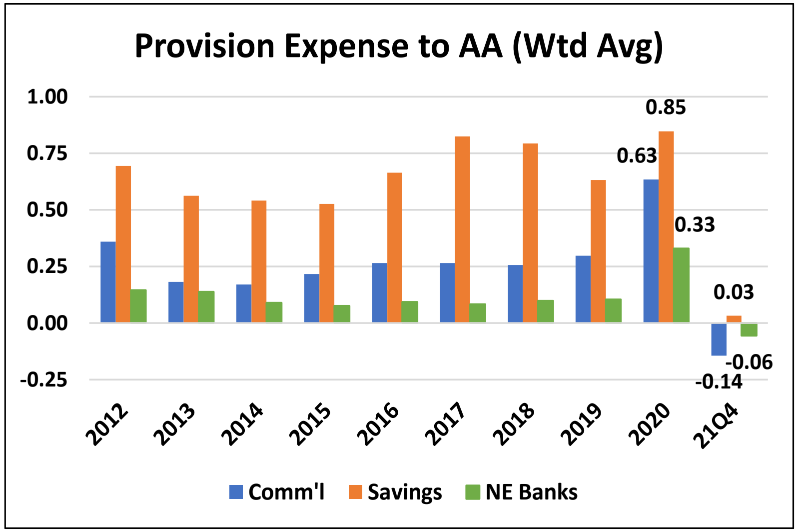


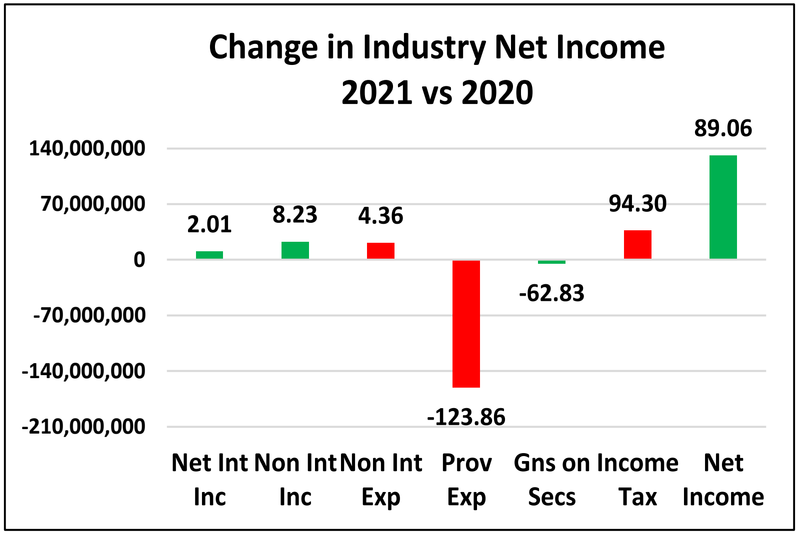
Net Income Almost Doubled in 2021

- Despite the sharp drop in the net interest margin, net income jumped 89.1 percent due to a negative provision of $31.0 billion and good growth in noninterest income.

Banking Industry Income Statement ($000's)

	2021	2020	Δ 1 Yr $	Δ 1 Yr %
Tot Int Inc	566,033,472	594,909,584	-28,876,112	-4.85
Tot Int Exp	36,080,077	75,423,275	-39,343,198	-52.16
Net Int Inc	529,953,395	519,486,309	10,467,086	2.01
Non Int Inc	299,801,196	277,016,393	22,784,803	8.23
Non Int Exp	509,424,512	488,142,929	21,281,583	4.36
Prov Exp	-30,987,684	129,858,919	-160,846,603	-123.86
Gns on Secs	3,004,676	8,083,536	-5,078,860	-62.83
Income Tax	75,441,568	38,827,270	36,614,298	94.30
Net Income	278,725,208	147,428,355	131,296,853	89.06

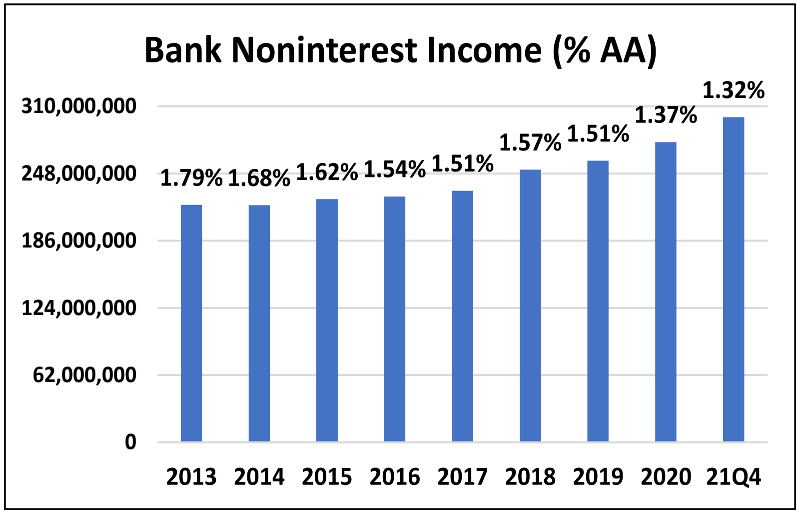


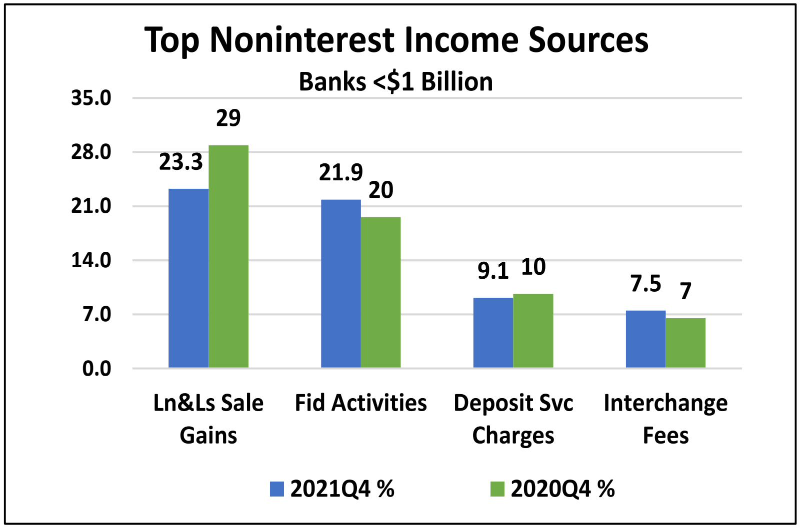


Noninterest Income Increased

- Fee income of $299.8 billion is up 8.2 percent compared to last year. Lower volume and lack of fee income diversity has hurt the smaller banks. About 20 percent of charters reported 0.25 percent or less in fee income this year.

- For banks less than $1 billion, loan and lease sale gains was the top category for noninterest income but contracted 17.6 percent compared to the previous year.

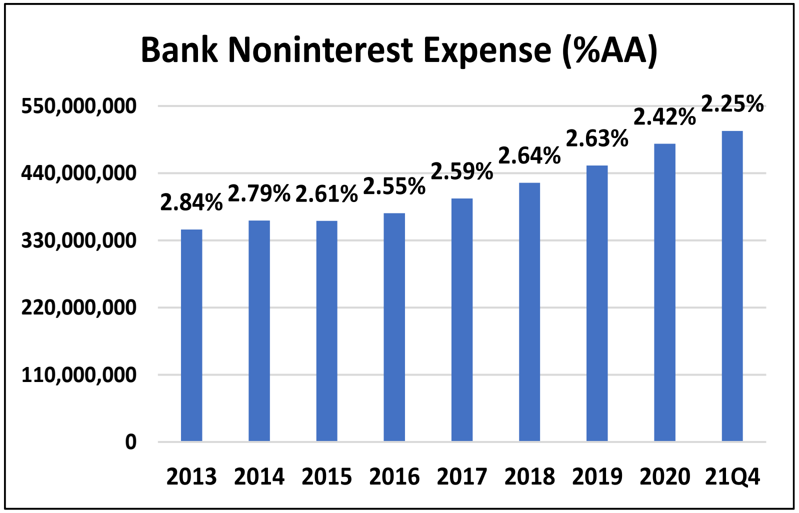


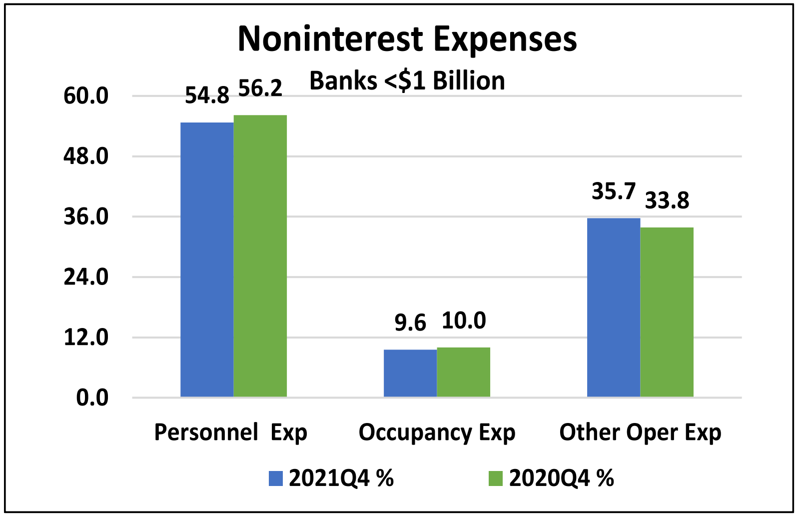


Noninterest Expense Slowed

- Noninterest expense of $509.4 billion is up 4.4 percent compared to 2020 driven by personnel expense. About 78.8 percent or 3,798 charters reported higher noninterest expense in 2021 versus the prior year.

- For banks less than $1 billion, personnel expense at 54.8 percent is the top noninterest expense category. It increased 6.0 percent since last year. Higher marketing, data processing, and consulting fees pushed other operating expenses higher in 2021.

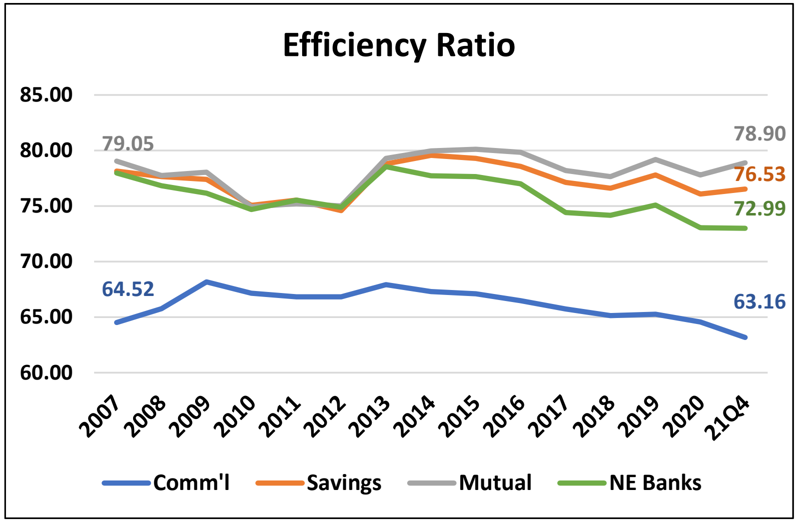




Efficiency Ratio Lower

- The efficiency ratio has reduced in 2021 for commercial and NE banks. While 57 percent of banks reported a lower efficiency ratio this quarter, 3.0 percent or 143 banks reported efficiency ratios over 100 percent.

- If you stratify the efficiency ratio by asset size, you will generally find the larger the bank, the lower the efficiency ratio.



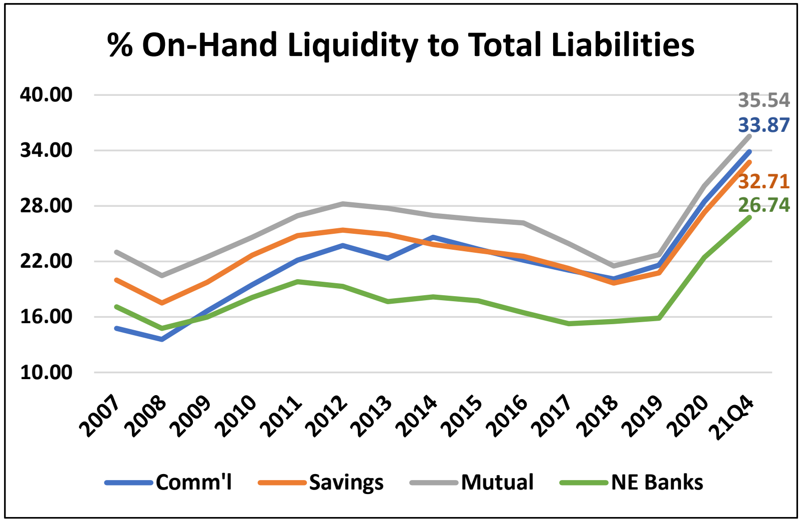
Efficiency Ratio - December 31, 2021

Asset Category	Savings	Comm'l
Under $50MM	90.96	79.70
$50MM - $100MM	84.34	70.45
$100MM - $250MM	80.51	64.26
$250MM - $500MM	77.88	62.28
$500MM - $1B	74.02	61.36
Greater than $1B	66.84	58.93
Median	**76.53**	**63.16**

On-Hand Liquidity Up Sharply

- Liquidity levels rose sharply since 2019 due to pandemic-related deposits. Banks benefitted from an inflow of stimulus checks, PPP funds, and a higher consumer saving rate.

- If you stratify the on-hand liquidity ratio by asset size, you will generally find the larger the bank, the lower the on-hand liquidity ratio.

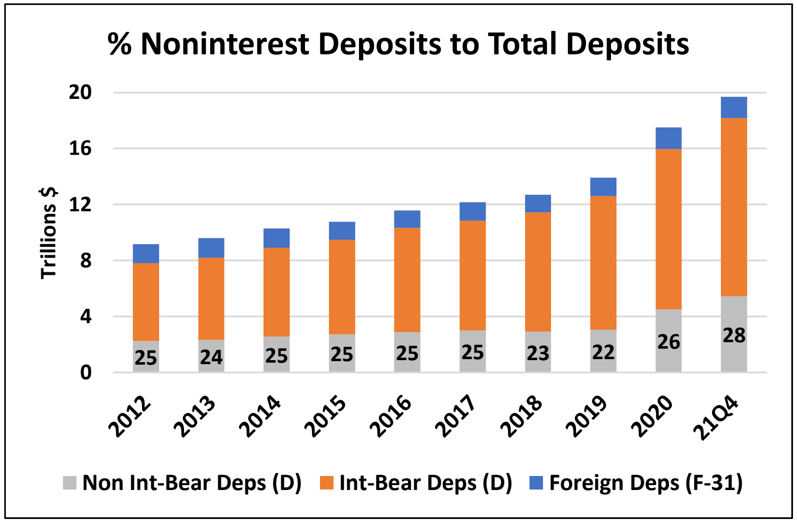


On-Hand Liquidity - December 31, 2021

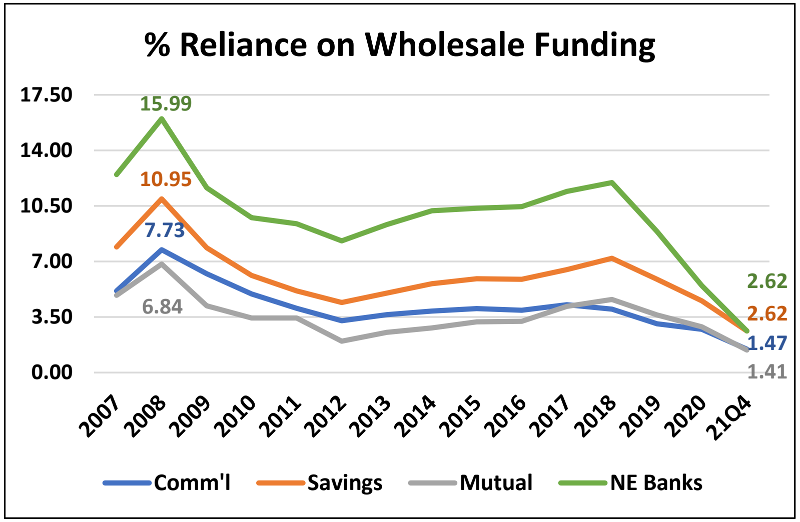
Asset Category	Savings	Comm'l
Under $50MM	37.53	50.68
$50MM - $100MM	41.76	42.12
$100MM - $250MM	36.92	36.91
$250MM - $500MM	31.60	32.17
$500MM - $1B	30.53	31.24
Greater than $1B	27.73	28.26
Median	**32.71**	**33.87**

Reliance on Wholesale Funding Lower

- Deposits grew 12.4 percent to $19.7 trillion since last year and noninterest-bearing deposits represent 28 percent of total deposits.

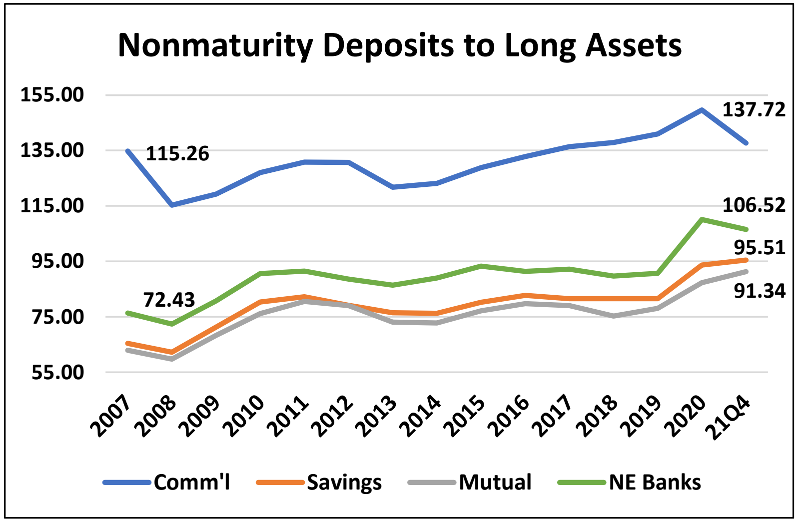


- Because of the sharp rise in deposits, banks are relying less on wholesale funding sources this year.

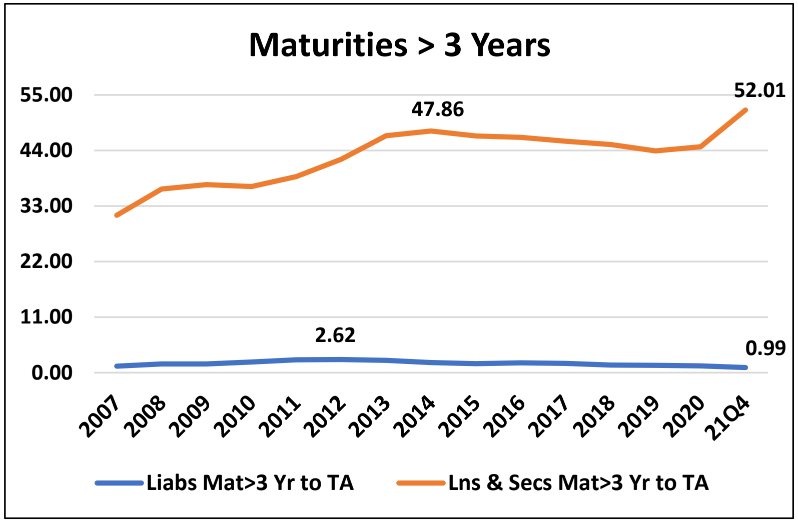


Nonmaturity Deposits at High Levels

- While ratios decreased this year for commercial banks and NE banks, levels for this group remain near the cyclical highs and well off their lows from 2008.

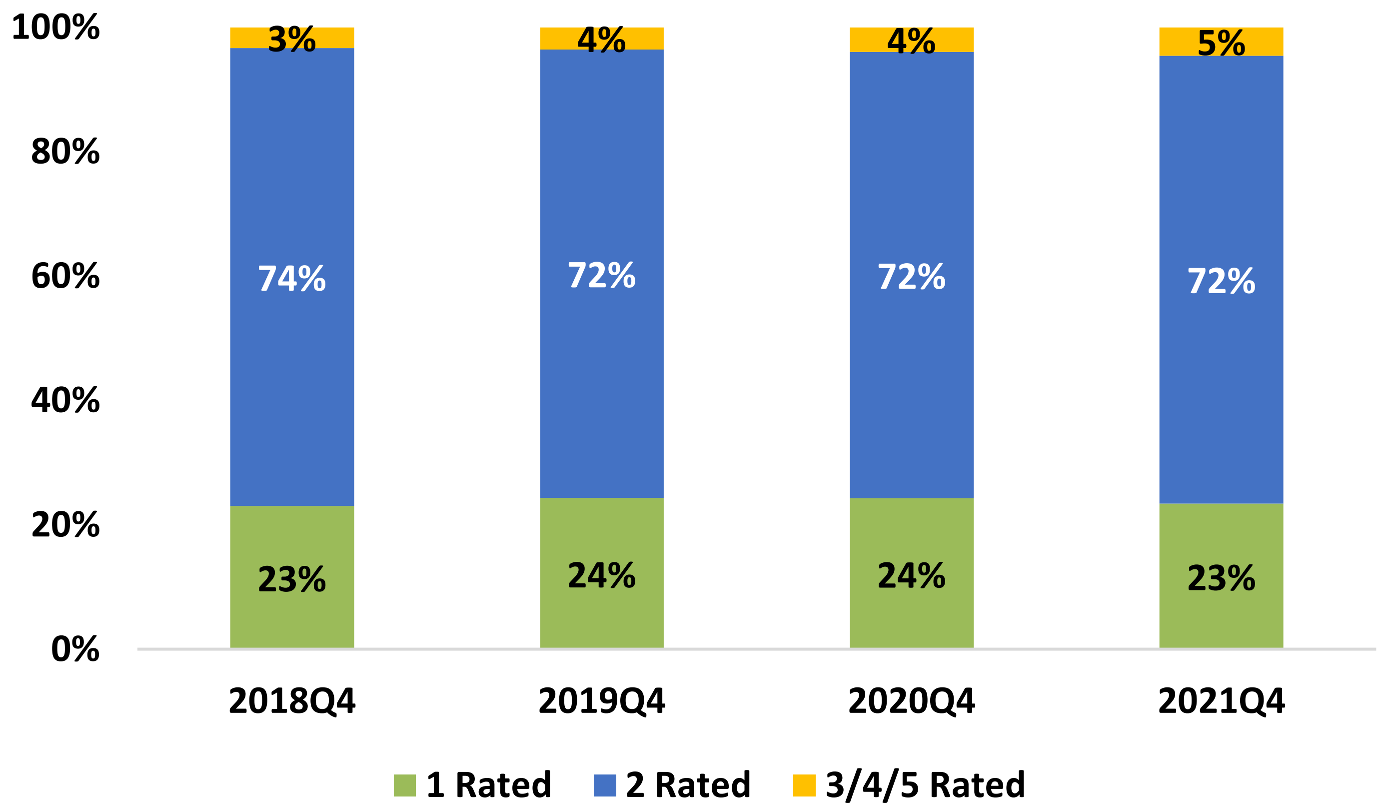


- After declining for five consecutive years, loans and securities greater than three years increased in the last two years. The high level of longer-term assets compared with the low level of longer-term liabilities represents a funding gap.



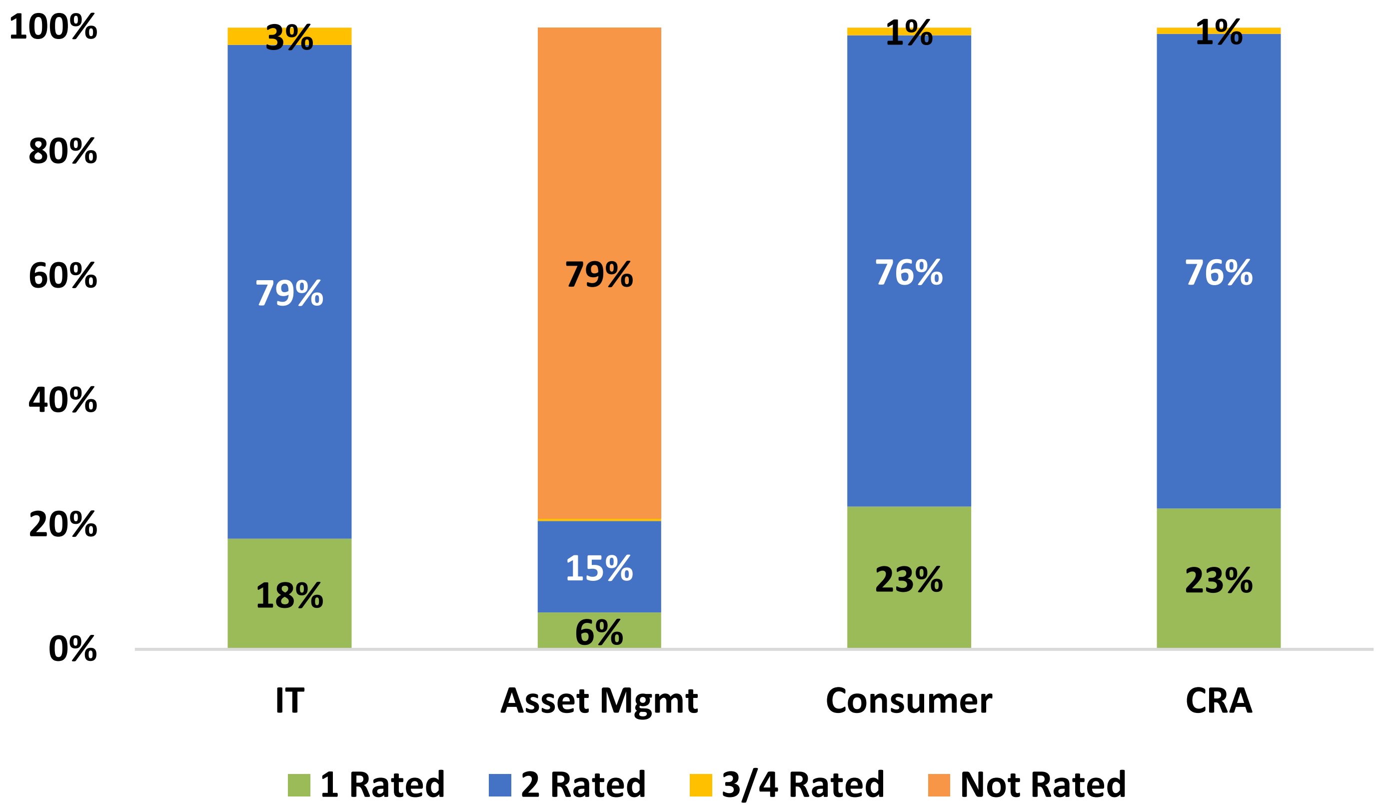
OCC Composite Ratings

Composite ratings are satisfactory and stable. Ninety-five percent of MCBS banks are rated composite 1 or 2.



OCC Specialty Ratings

Specialty ratings are satisfactory. No specialty area is rated 5. About 21 percent of MCBS banks have trust powers. For purposes of this chart, a CRA rating of outstanding is 1, satisfactory is 2, and needs to improve is 3.



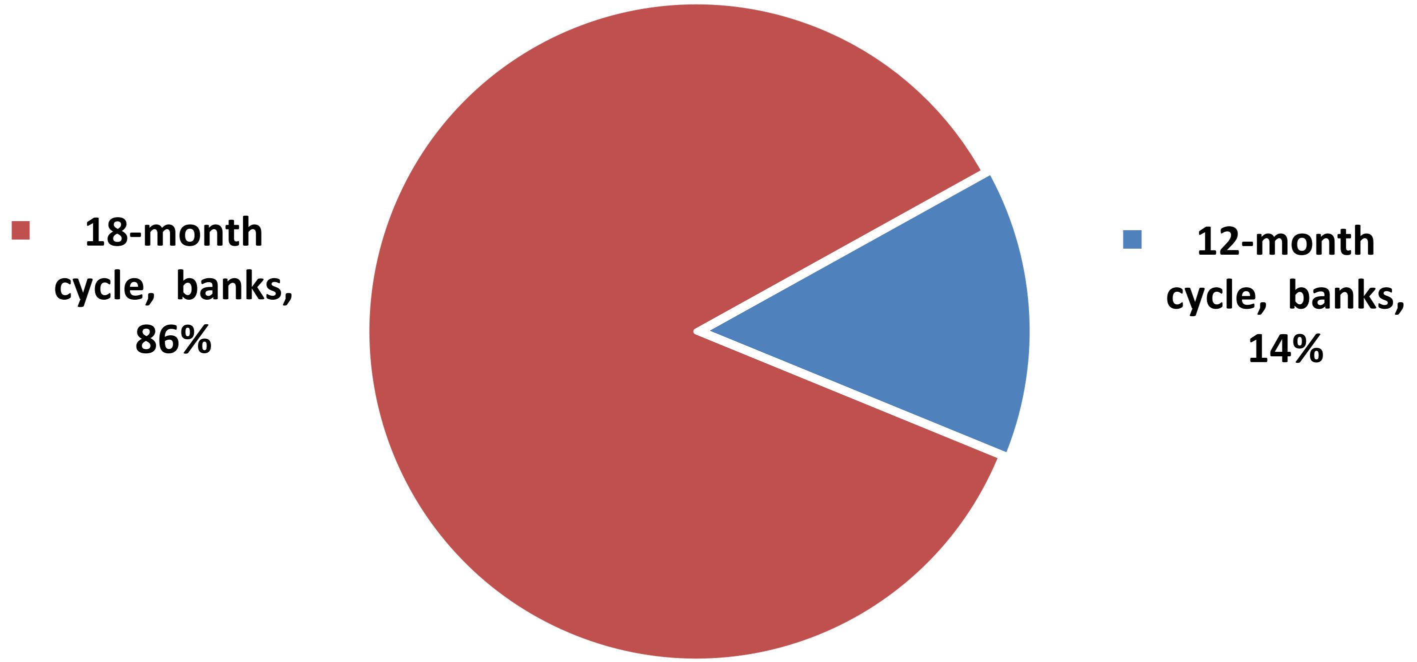
OCC Level of Risk Ratings

Most MCBS banks are designated with high risk for credit, operational, and strategic. Three of the eight risks are predominately rated as low.

	COMP	CRED	IRR	LIQ	OPER	PRICE	REP	STRAT
Low	43%	33%	47%	63%	29%	92%	68%	40%
Moderate	53%	60%	50%	35%	65%	7%	28%	54%
High	3%	6%	2%	2%	6%	1%	4%	6%

OCC Supervisory Cycles

Qualifying banks with less than $3 billion in total assets are eligible for an 18-month examination cycle. Eighty-six percent of MCBS banks are on the 18-month cycle.



Summary of Condition-December 31, 2021

- The banking industry is comprised of a diverse group of 4,819 insured charters. The number of banks decreased 3.5 percent in 2021 due to merger activity.

- **Capital is strong.** Banks are better capitalized today compared to pre-crisis. Capital ratios are solid but have declined since 2019 due to pandemic-related asset growth and the CBLR framework.

- **Earnings have improved.** Despite margin compression, the industry ROAA is at its highest level in more than a decade due to a negative provision expense, growth in fee income, and higher net interest income.

- **Asset Quality remains resilient.** Noncurrent and 30-89 day past due loans are low and declining, reflecting further improvement in asset quality. The ALLL to Total Loan ratio remains stable. Loan growth is weak but improved in the fourth quarter of 2021.

- **Liquidity is abundant.** The on-hand liquidity ratio is up sharply this year. The pandemic has resulted in a deposit surge due to consumer stimulus checks, the PPP, and a higher consumer savings rate.

- **Sensitivity to market risk is adequately controlled.** Nonmaturity deposits to long-term asset ratios are near cyclical highs, making banks less vulnerable to increases in interest rates.

Overall Innovation Trend

- Technology and consumer preferences are driving change at an **unprecedented pace**
- Bank responses to innovation and emerging technology trends continue in state, national, and international spaces
- Continued push for digitalization and use of new analytical tools
- Global money going digital with increased adoption of digital payments by consumers and business (software-oriented solutions)
- Build, buy, or partner?

Bank/Fintech Relationships

Banks are increasingly relying on partner firms' technology solutions to deliver financial services

- Referrals
- Vendors
- White Labeling
- Bank Sponsorships
- Consortia and Utilities

Opportunities and Risks

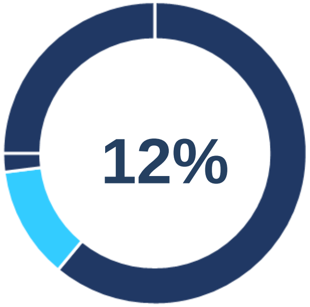
- **Opportunities**
  - Better and more tailored banking services
  - Improved and more efficient bank processes
  - Lower transaction costs and faster banking services
  - Financial inclusion

- **Risks**
  - Compliance
  - Reputation
  - Strategic

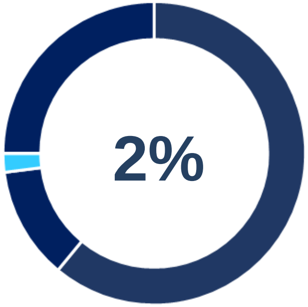
Questionnaire Results

61%

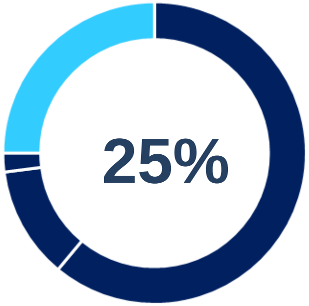
Not Interested



Actively Engaged



Actively Pursuing



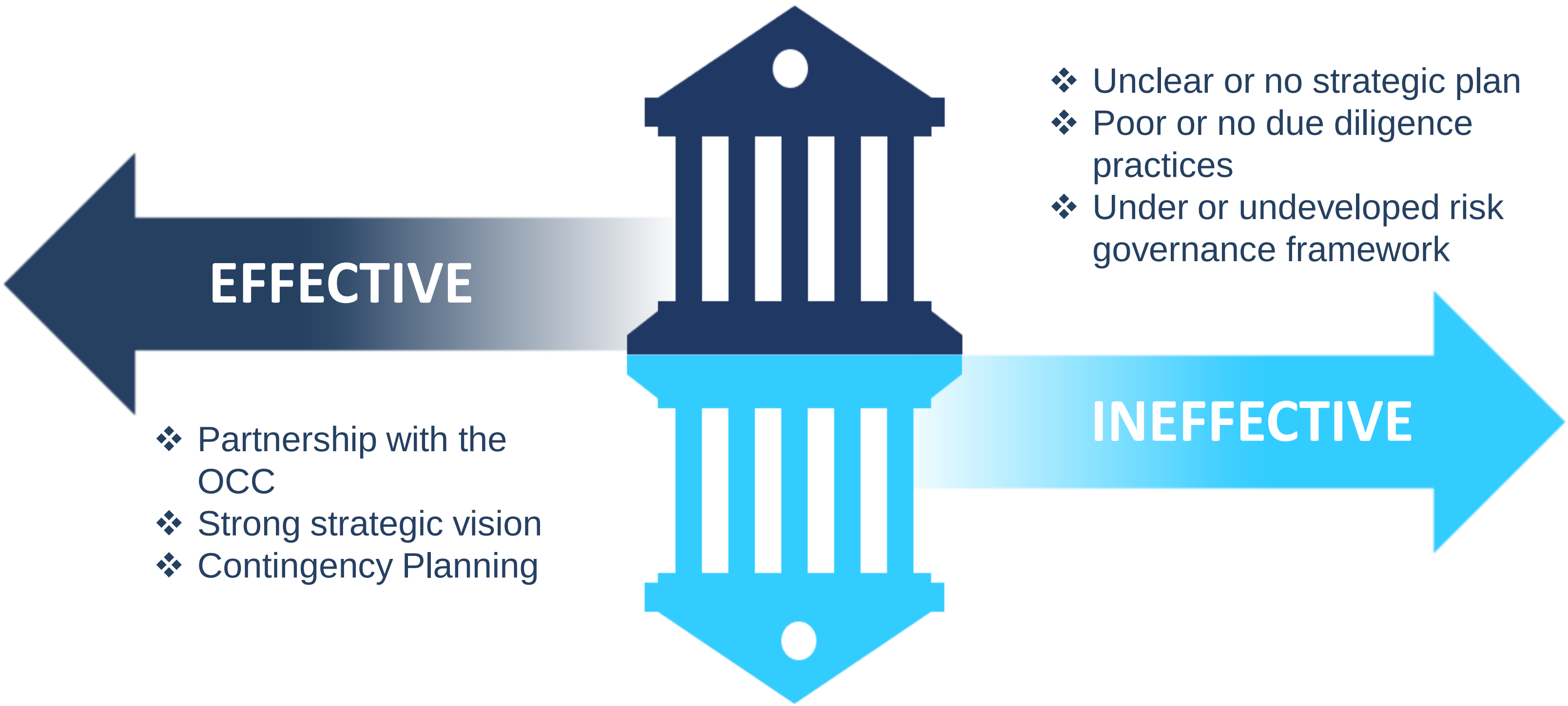
Cautiously Evaluating

12 Banks

Have more than 5 active relationships

Building Partnerships

Balancing Innovation and Risk



- Unclear or no strategic plan
- Poor or no due diligence practices
- Under or undeveloped risk governance framework

- Partnership with the OCC
- Strong strategic vision
- Contingency Planning

What We Know

Most Common Partners
Top five partners are Zelle, Q2, Ncinco, Fiserv, and Kasasa.

Relationship Types
Primarily white label and bank sponsorship.

Most Common Products
Include payments and billing, digital banking, and lending products.

Cryptocurrency
11 banks reported fintech partnerships involving crypto, including crypto custody.

Single Concentrations
No single relationship reported represents a significant concentration across banks.

Outlook and Challenges for 2022

- Employment
- Inflation
- Consumer Behavior
- Geopolitical Tensions
- Pandemic
- 10-Year Treasury Yield
- Stock Market

Questions?

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