

Safety and Soundness Supervisory Insights

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Regulatory Update
— SEMINAR —

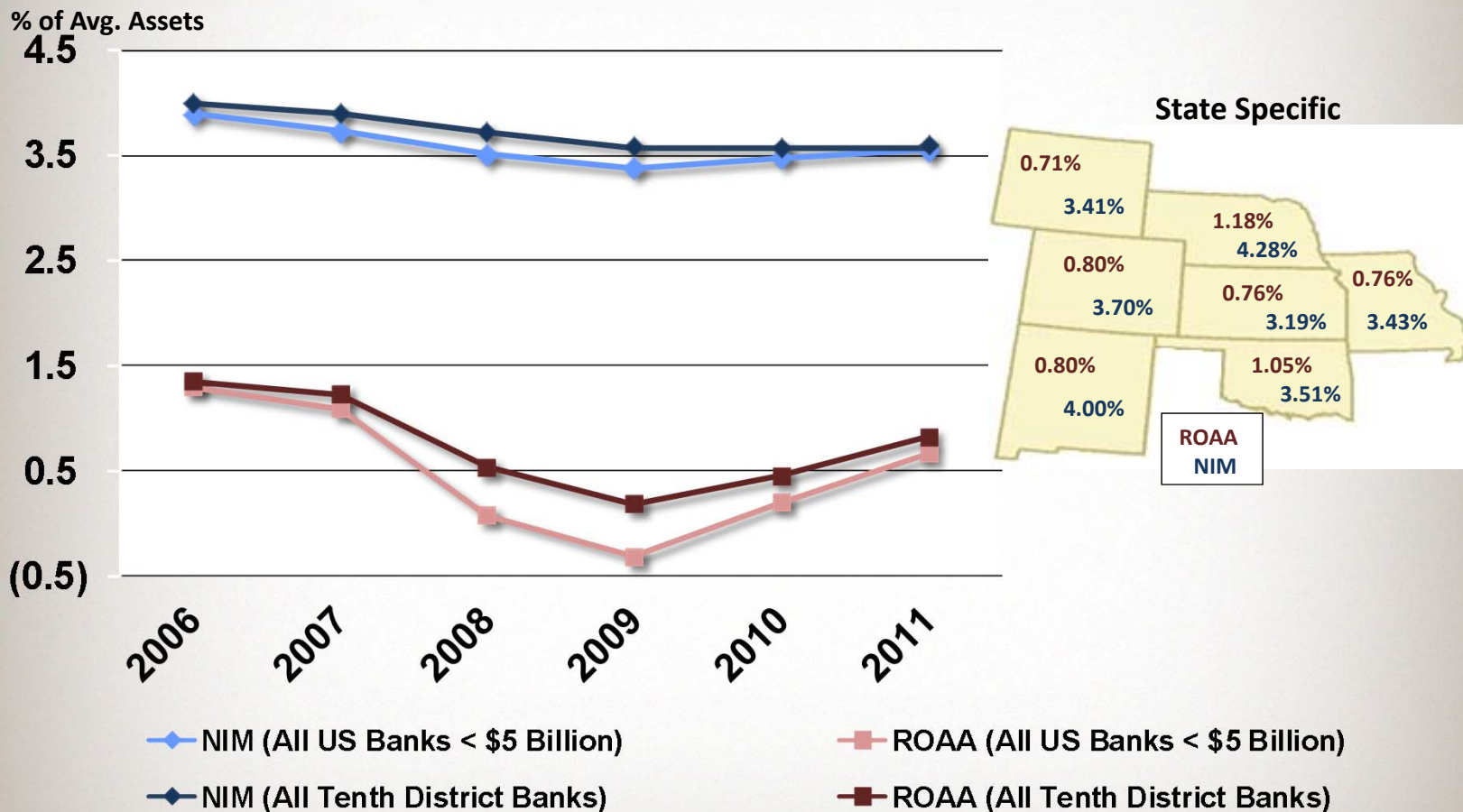
Federal Reserve Bank of Kansas City

Agenda

- 2011 Bank Performance Indicators
- 2011 Supervisory Matters
- Regulatory Relations
- Outreach/Resources
- Community Bank Examination Process

2011 Bank Performance Indicators

Net Interest Margin and Return on Average Assets



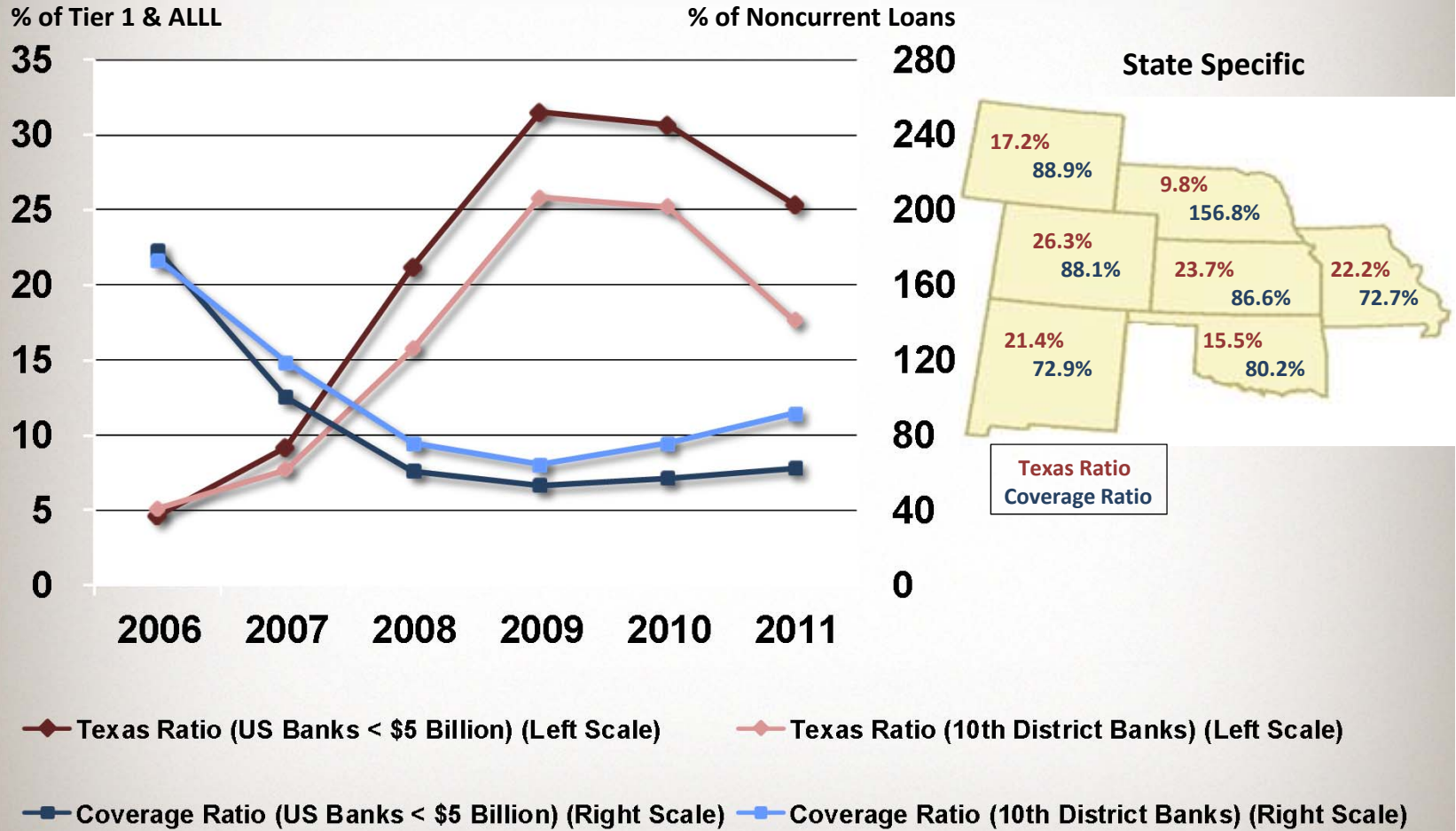
* Net Interest Margin = Interest Income Net of Interest Expense, as a percentage of average assets - Annualized

* ROAA = Net Income, as a percentage of average assets - Annualized

Source: Reports of Condition and Income

2011 Bank Performance Indicators

Texas Ratio and ALLL Coverage Ratio



*Texas Ratio: Nonaccrual loans and OREO as a percentage of Tier 1 capital and the allowance for loan and lease loss
 *Coverage Ratio: Loan loss reserves as a percentage of noncurrent loans
 Source: Reports of Condition and Income

2011 Supervisory Matters

- 68 Matters Requiring Immediate Attention and 141 Matters Requiring Attention Cited
- Decline From 2010 Examinations
- Detailed Findings in Appendix

2011 Supervisory Matters (Cont'd)

- Issue #1 – Credit Risk:
 - Credit Administration
 - Policy Enhancements
 - Financial/Cash Flow Monitoring
 - Concentrations Monitoring and Reporting
 - Loan Review/Risk Rating Accuracy
 - OREO/Nonaccrual/TDR Reporting
 - Investment Portfolio Analysis

2011 Supervisory Matters (Cont'd)

- Issue #2 – Corporate Governance:
 - Strategic Planning
 - Succession Planning
 - Directorate Qualifications/Independence
 - Frequency/Reporting Policy Exceptions
 - Board Minutes Documentation
- Issue #3 – ALLL Methodology and/or Adequacy

Regulatory Relations

- Seeking Feedback from the Industry
- Community Depository Institutions Advisory Council (CDIAC) Feedback

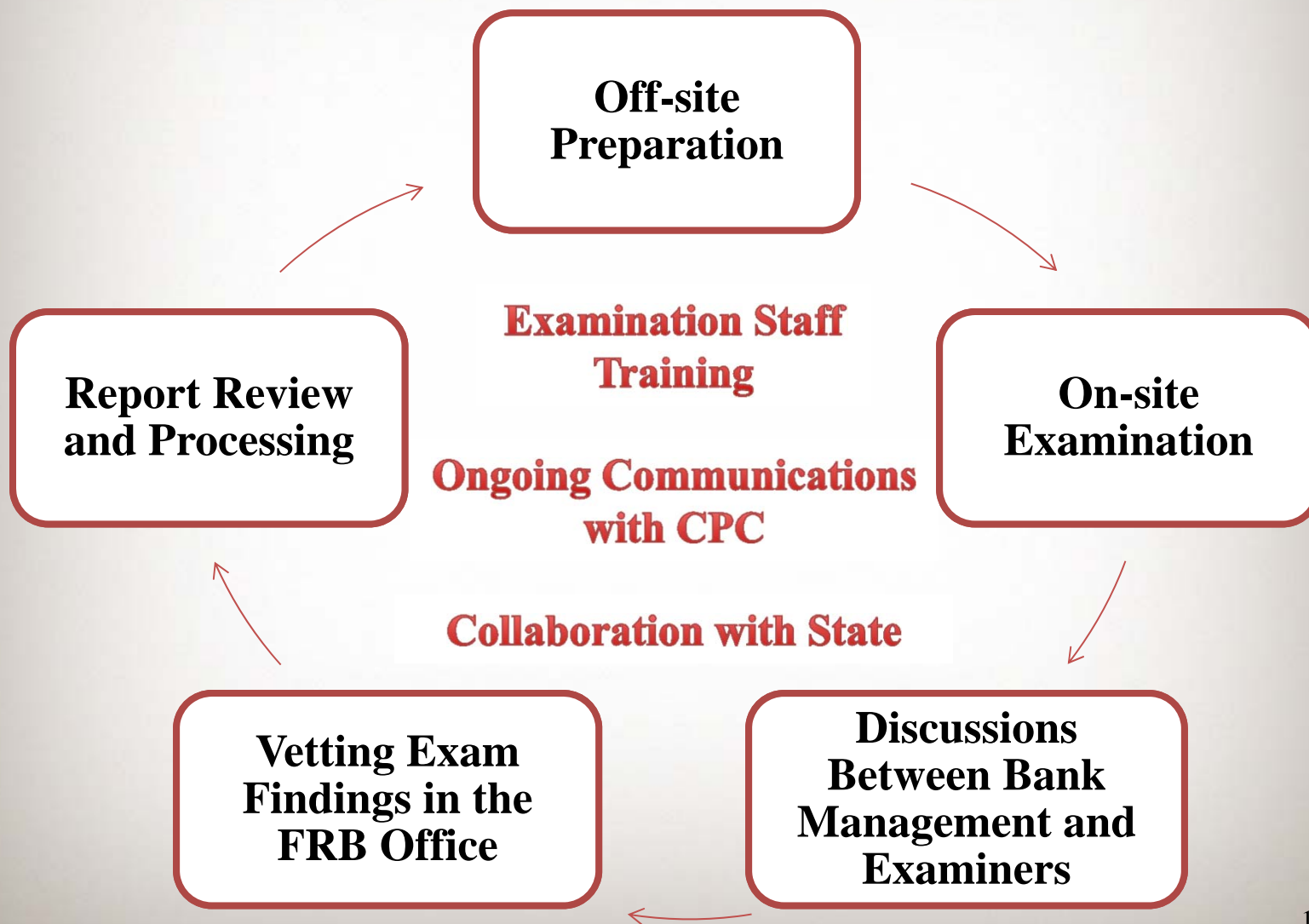
Outreach/Resources

- National Outreach Initiatives:
 - Ask the Fed:
<https://www.stlouisfed.org/bsr/askthefed/>
 - Community Bank Communications

Outreach/Resources (Cont'd)

- 10th District Outreach Initiatives:
 - Fed Connections
 - Community Bank Conference
 - Regulatory Updates Seminars
 - Accounting and Auditing Roundtables
 - Directors Training:
<http://www.bankdirectorsdesktop.org/>
 - Advisory Visits

Community Bank Examination Process



Community Bank Examination Process (Cont'd)

- If Disagreements Arise During Your Exam:

Direct Communications Between
Bank Management and Examiner

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graph TD; A[Direct Communications Between Bank Management and Examiner] --> B[Discuss Concerns with Examiner-in-Charge]; B --> C[Discuss Concerns with Your Reserve Bank AVP];
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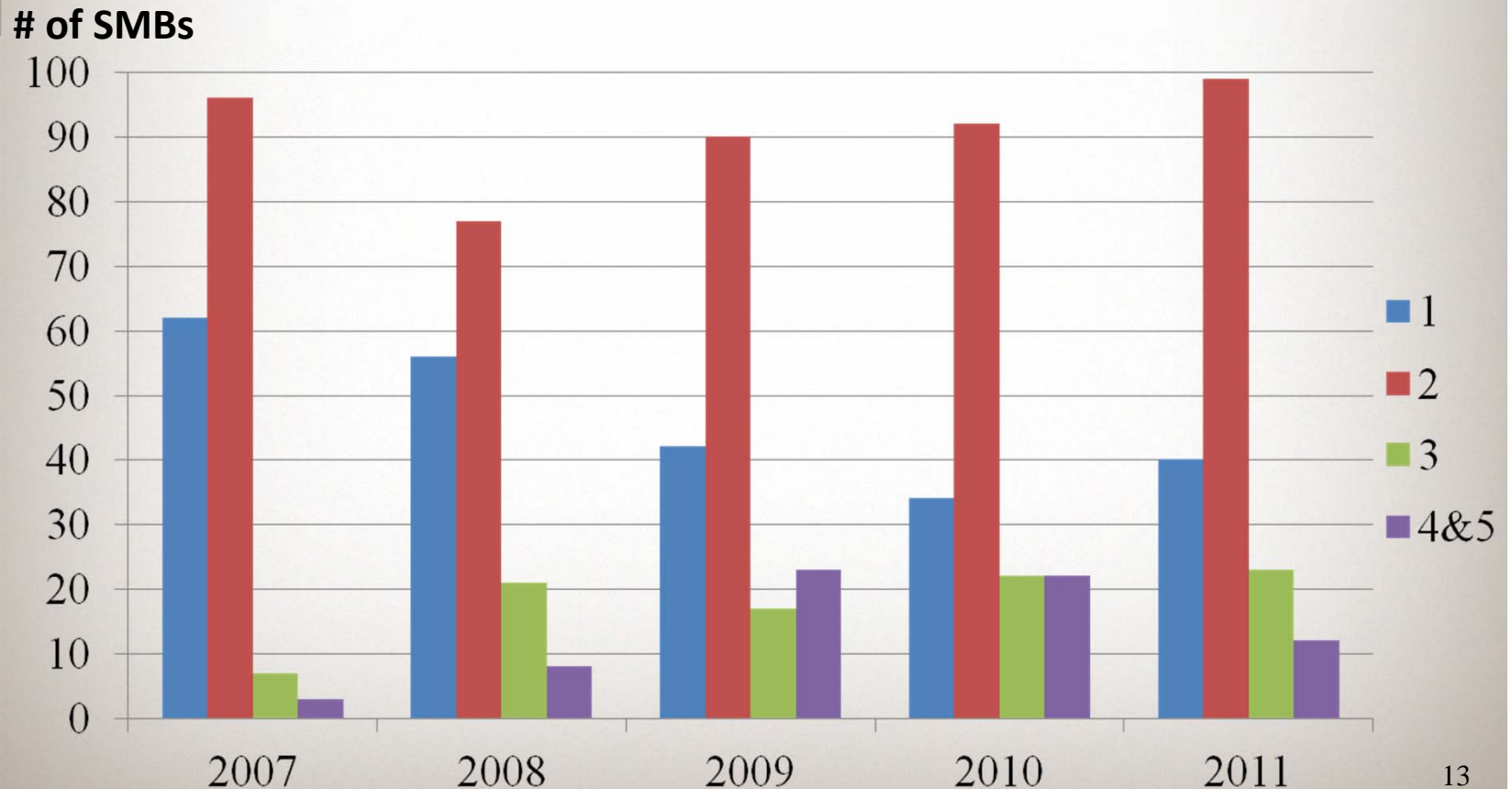
Discuss Concerns with
Examiner-in-Charge

Discuss Concerns with Your
Reserve Bank AVP

- Federal Reserve Appeals Process

Community Bank Examination Process (Cont'd)

- Ratings Definitions: 1 vs. 2
- 10th District SMB Ratings Distributions



Questions