

2016 Forecast of Banking Conditions and 2015 Results For Minnesota and the Twin Cities

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2015 MN and TC Bank Performance Relative to Forecast

- Actuals were generally within forecasted range but at “worse” end
 - Profitability was at lower (worse) end of range for MN banks; TC bank profitability was in the middle of the range
 - Loan growth was slightly worse than range
 - Problem loans were at the higher (worse) end of the range

Summary of MN and TC Bank Performance in 2015

- Little to no change in performance measures for MN and TC Banks in 2015; good for loan quality but not great for profits
 - Profit levels were little changed from 2014; at historical norms
 - Rate of loan growth was little changed from 2014; at historical norms
 - Level of problem loans was little changed from 2014 for MN banks but a bit worse for TC banks; far below long-run norm

Forecast for 2016 MN and TC Bank Performance

- Another flat year, leaning to slightly worse outcomes
- Profits should stay flat
- Loan growth should stay about the same
- Problem loans should be flat to worsening

Key Factors in 2016 Forecast

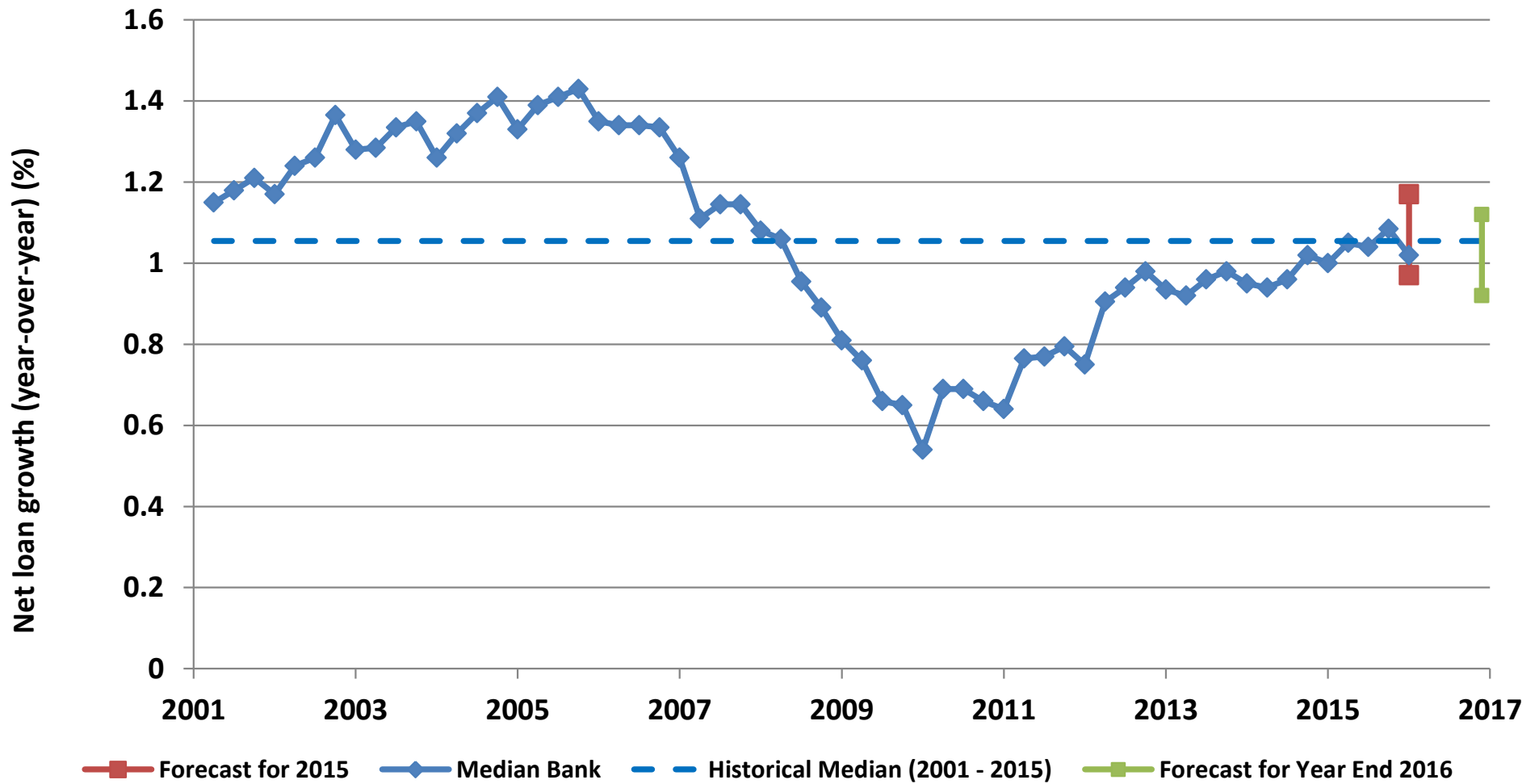
- Pressure on borrowers to which MN/TC banks have significant exposure (e.g., agriculture)
- Continued pressure on lending margins
- Positive economic forecast for 2016, but some headwinds identified

More on 2016 Forecast

- Caveats
 - Significant inherent uncertainty
 - Post-crisis banking remains in flux
 - Limited record forecasting bank conditions
- Approach
 - Judgmental forecast
 - Informed by many sources (e.g., model, accounting, outreach)
 - Median bank for three variables, one year out

MN Bank Profitability

Actuals and Forecasts



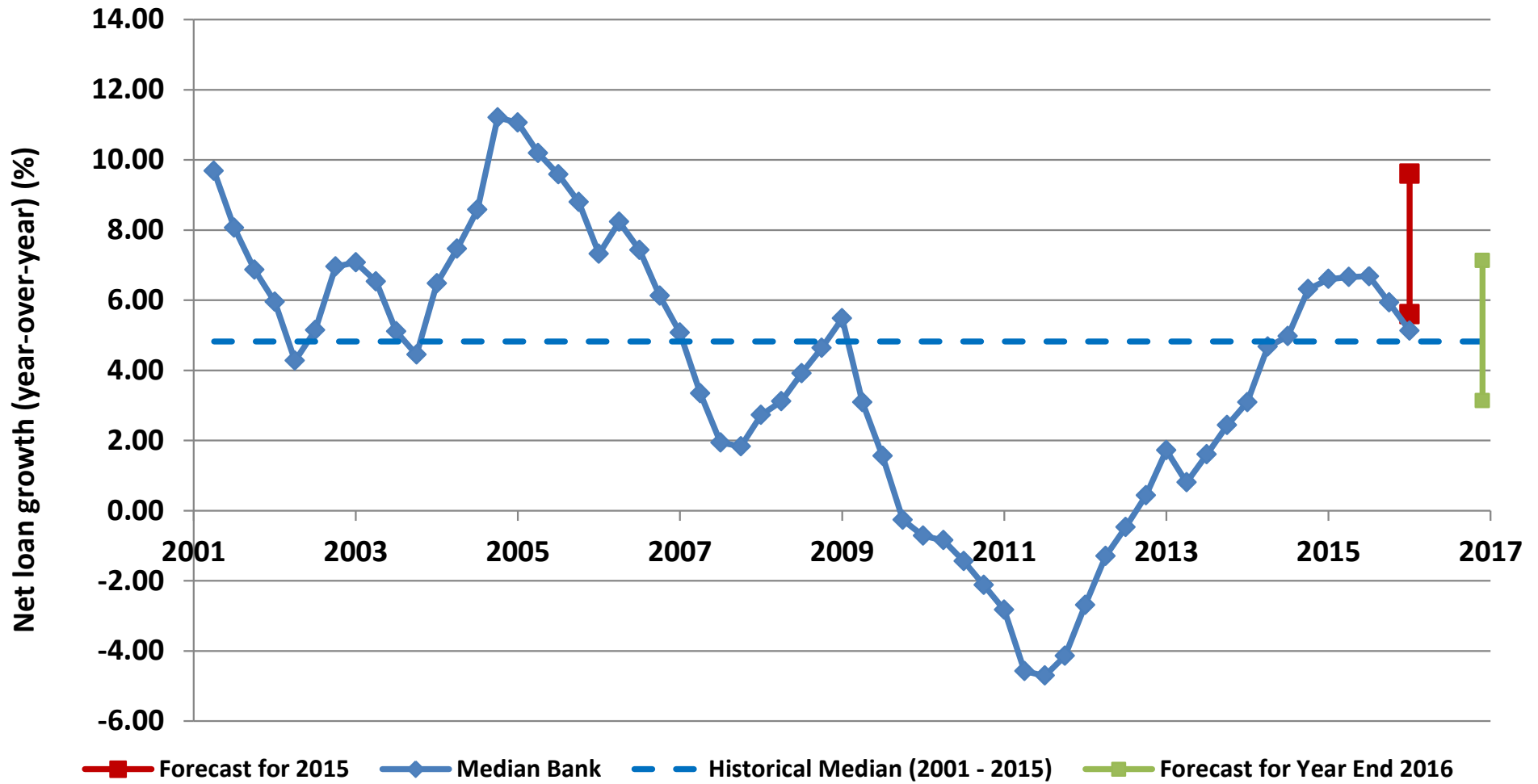
2015 profits came in at low end of forecast range

Little change in 2015 profits

Forecast little change in profits for 2016

MN Bank Loan Growth

Actuals and Forecasts



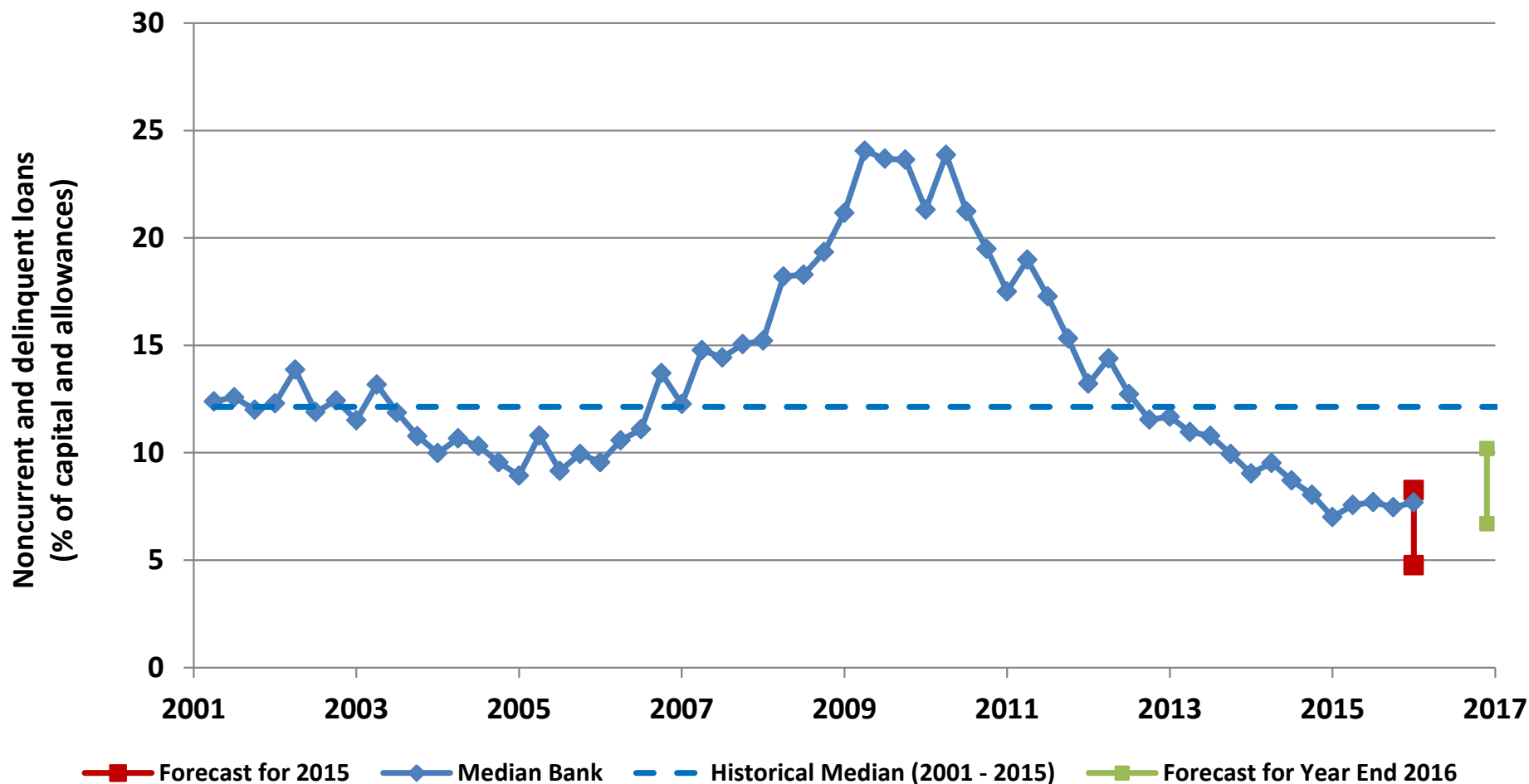
2015 loan growth came in lower than forecast range

Little change in 2015 loan growth

Little change in loan growth forecasted for 2016

MN Bank Problem Loans

Actuals and Forecasts



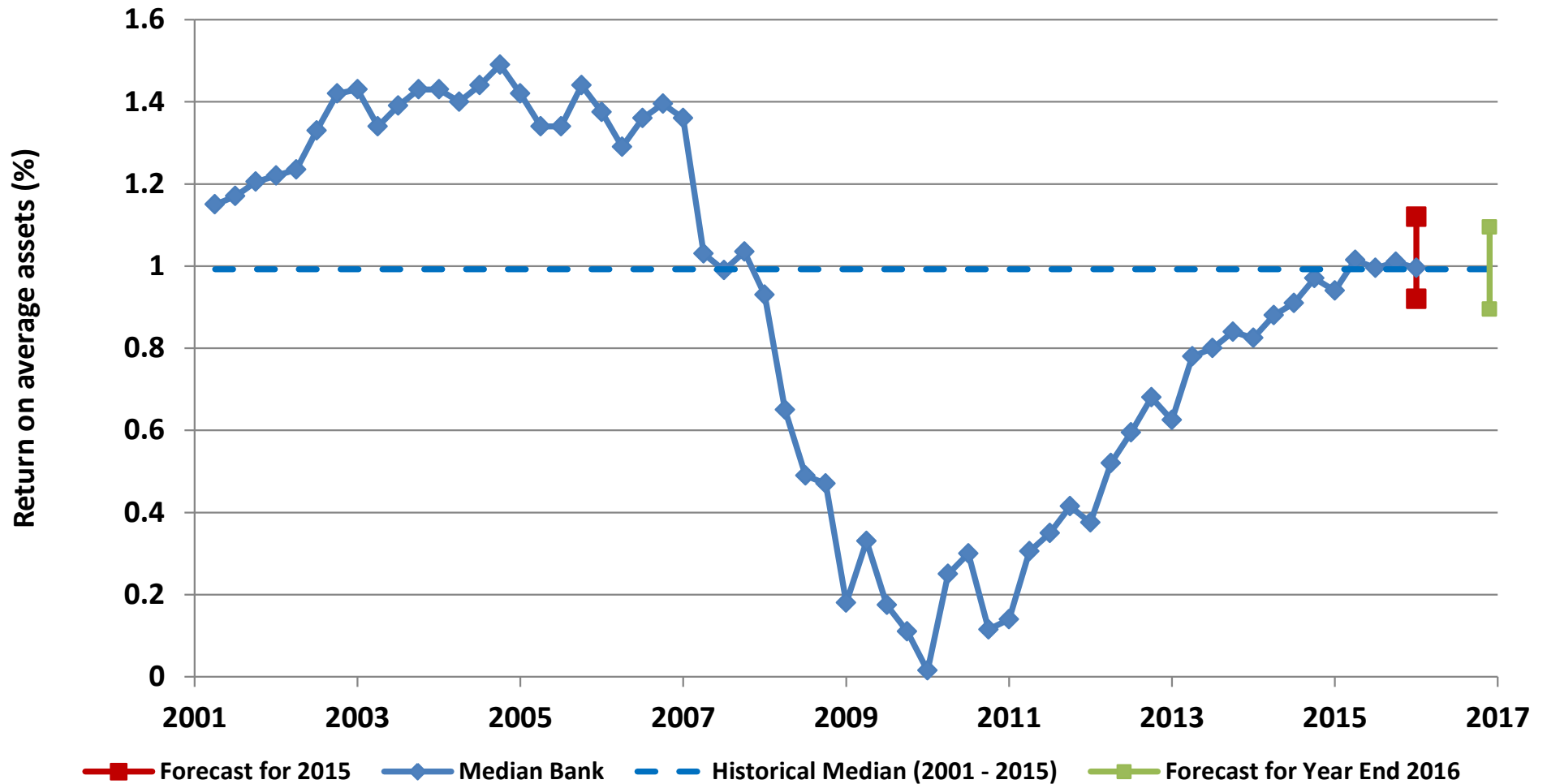
2015 problem loans came in at high end of forecast range

Little change in 2015 problem loans

Little change in problem loans forecasted for 2016

Twin Cities Bank Profitability

Actuals and Forecasts



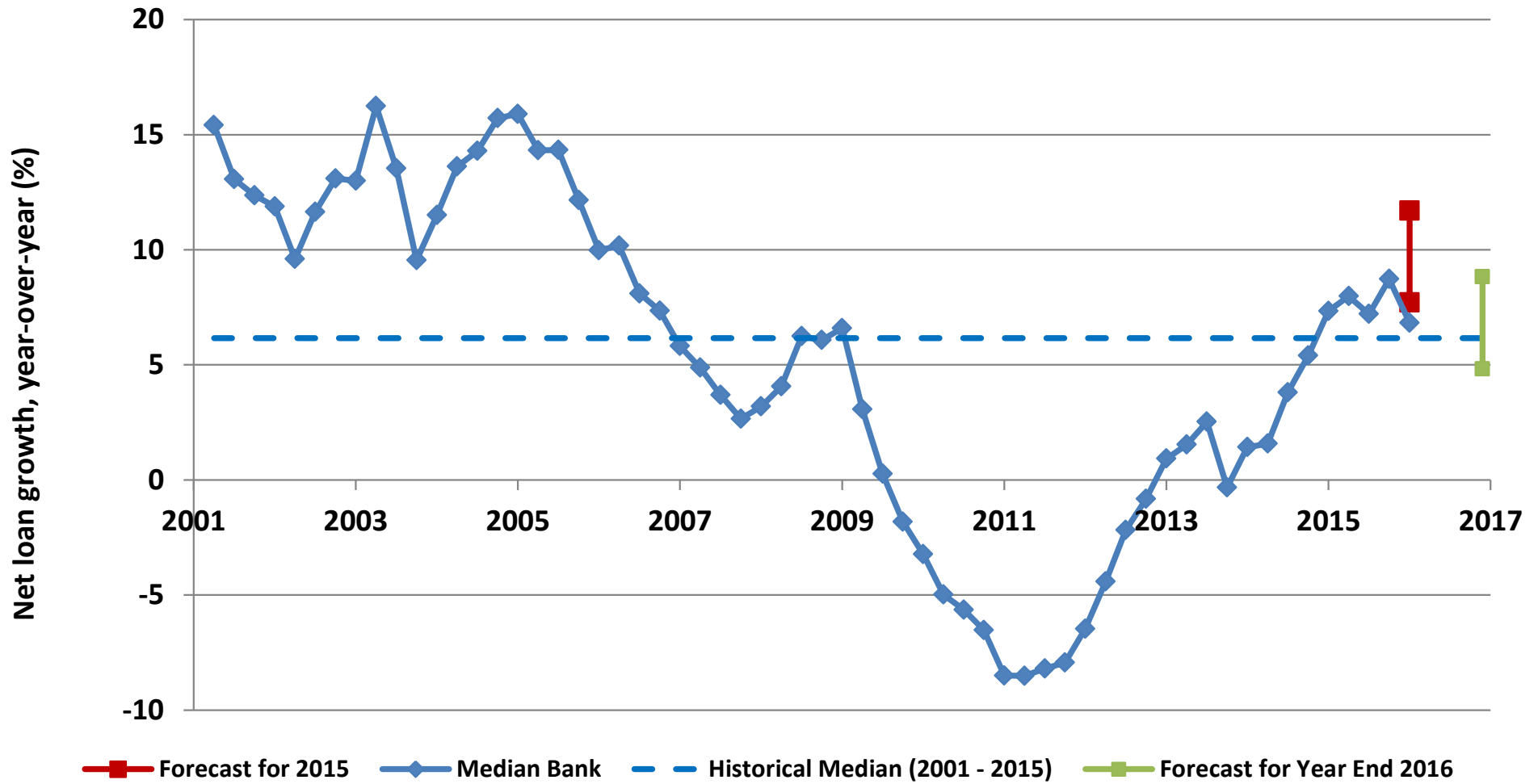
2015 profits came in at the middle of forecast range

Small gain in 2015 profits

Forecast little change in profits for 2016

Twin Cities Bank Loan Growth

Actuals and Forecasts



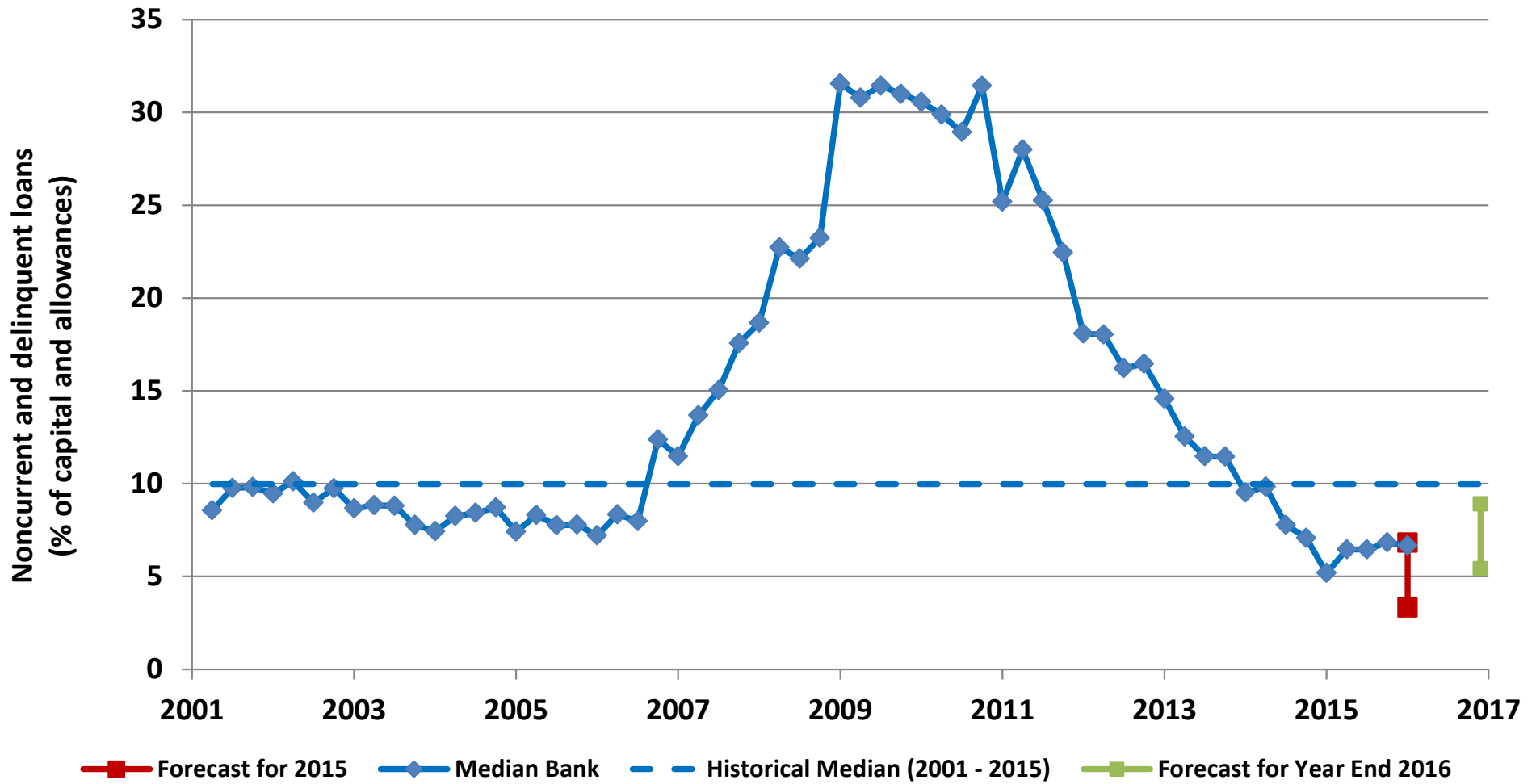
2015 loan growth came in lower than forecast range

2015 loan growth was flat

Little change in loan growth forecasted for 2016

Twin Cities Bank Problem Loans

Actuals and Forecasts



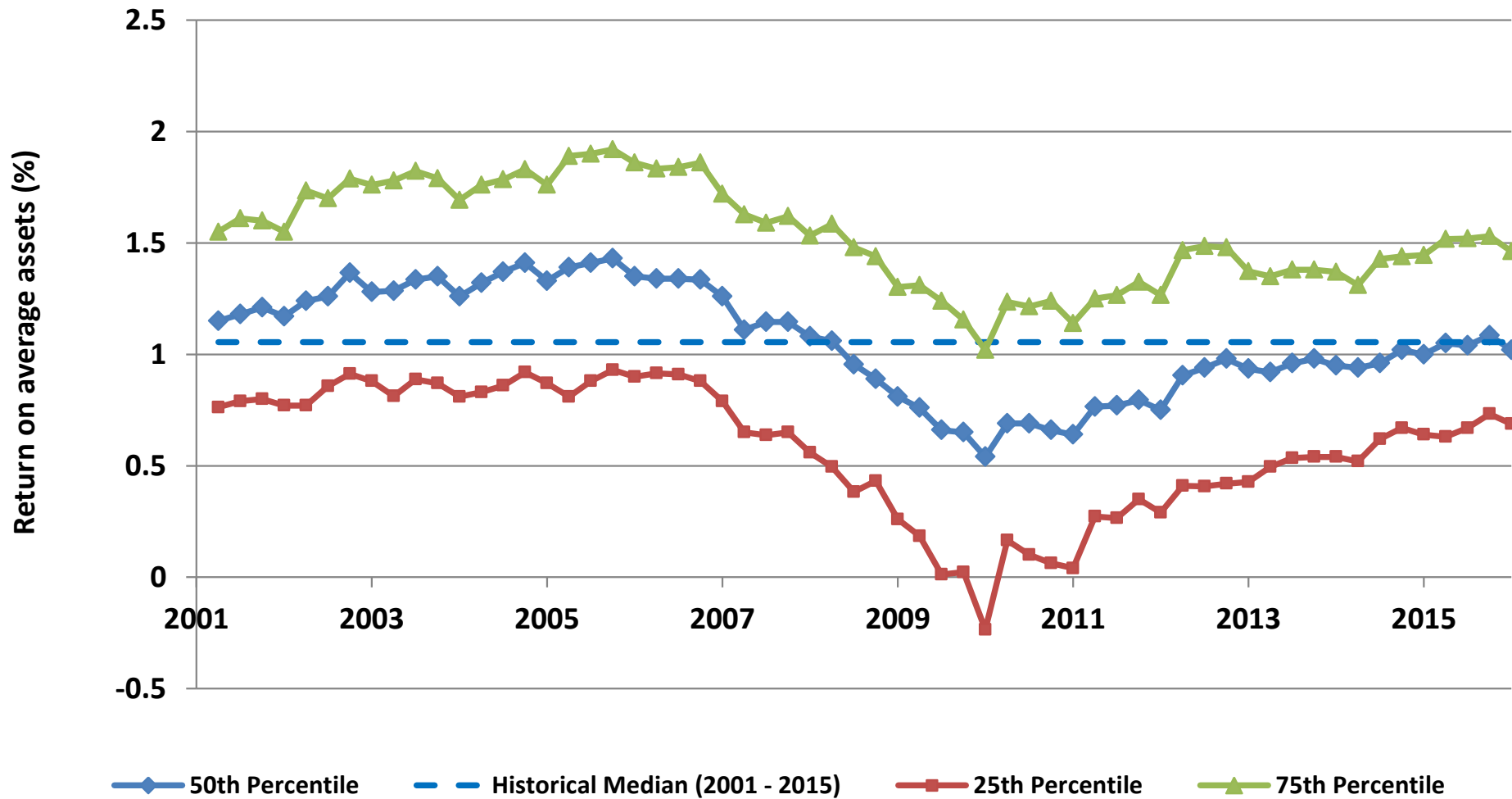
2015 problem loans came in at high end of forecast range

Small increase in 2015 problem loans

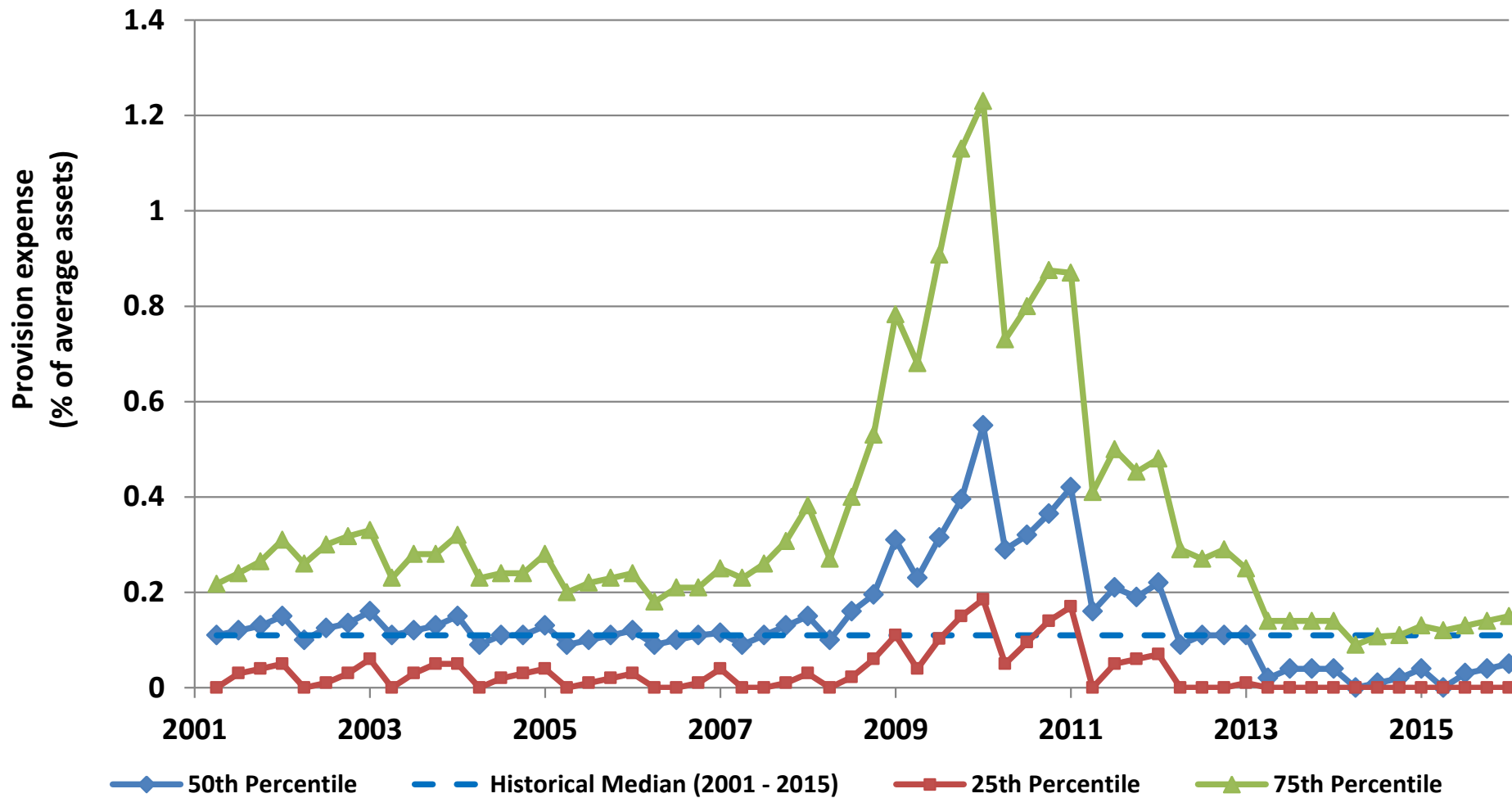
Little change in problem loans forecasted for 2016

Appendix:
Details on 2015 Minnesota and Twin Cities Bank Performance

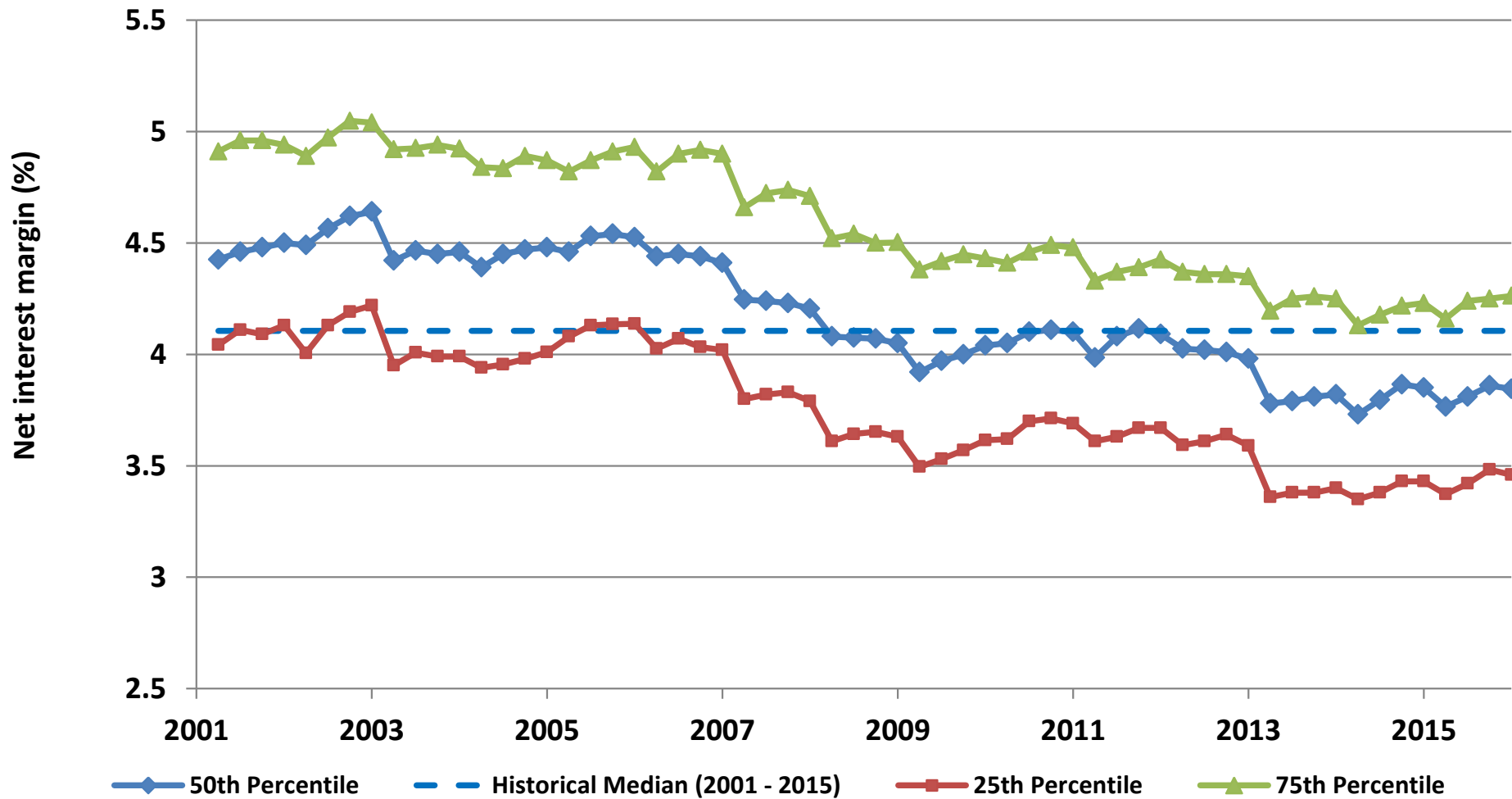
Profitability Was Flat in 2015 at Minnesota Banks



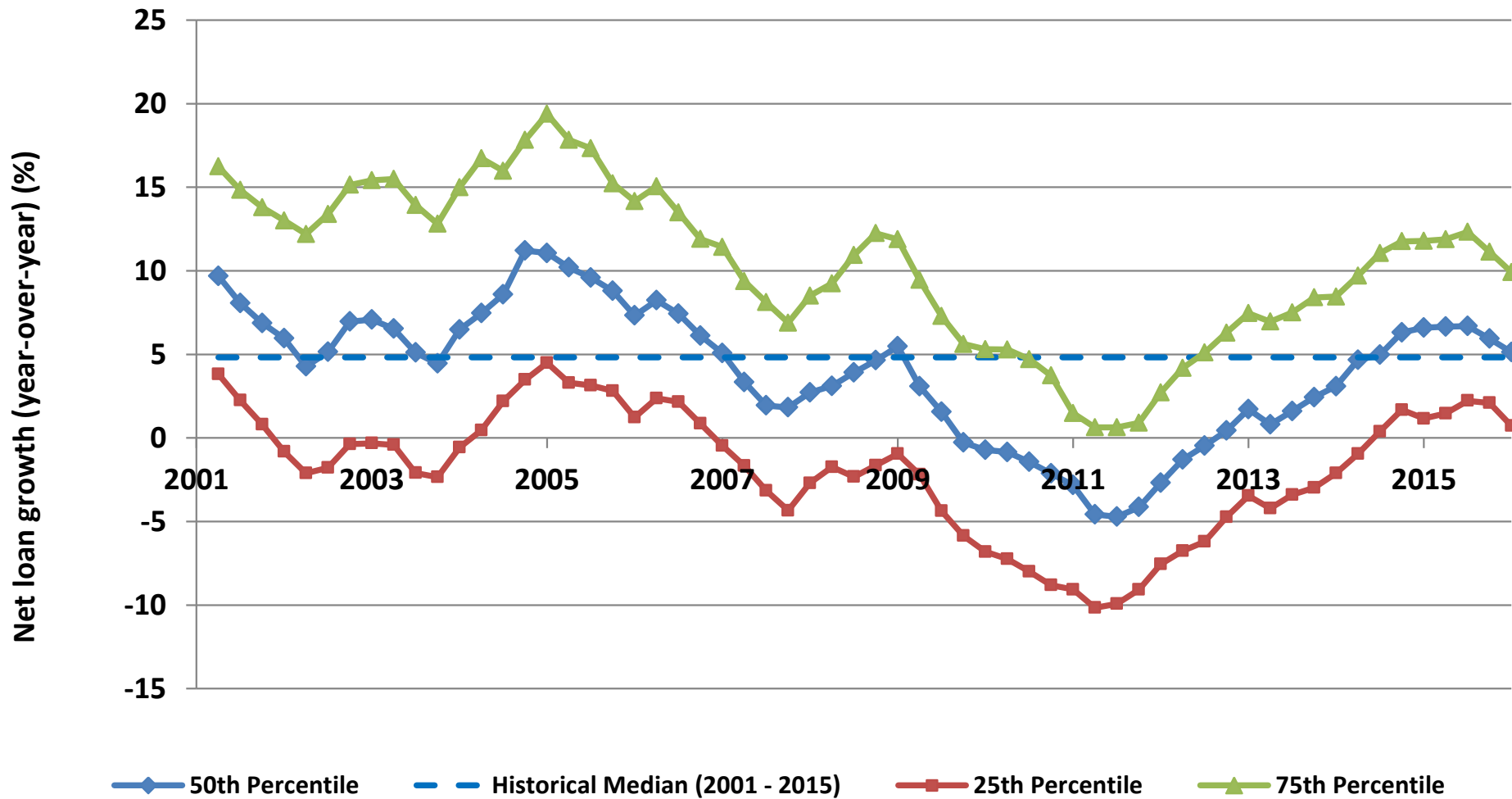
Small Annual Increase in Provisions in 2015 at Minnesota Banks



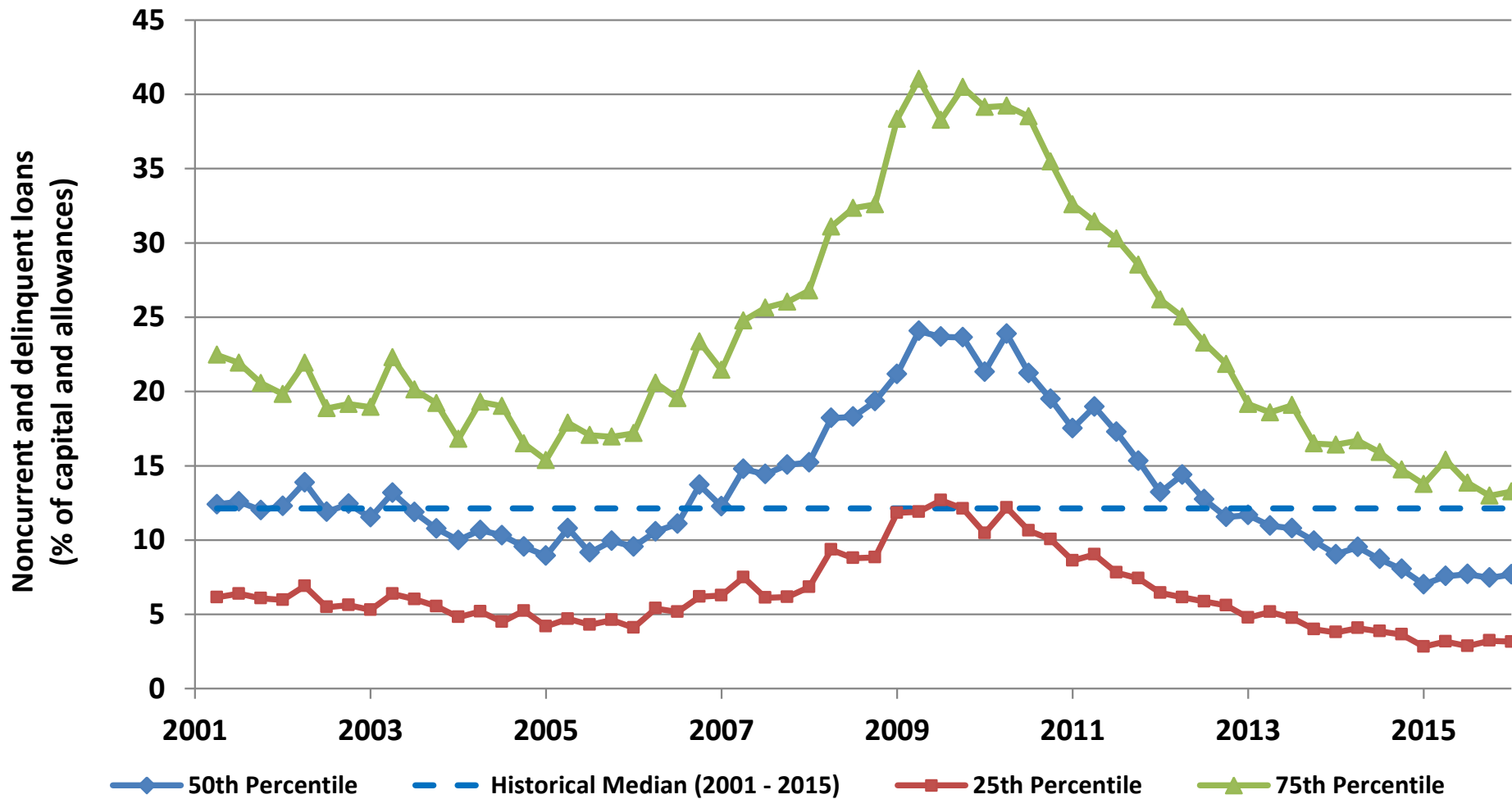
Net Interest Margin Was Flat in 2015 at Minnesota Banks



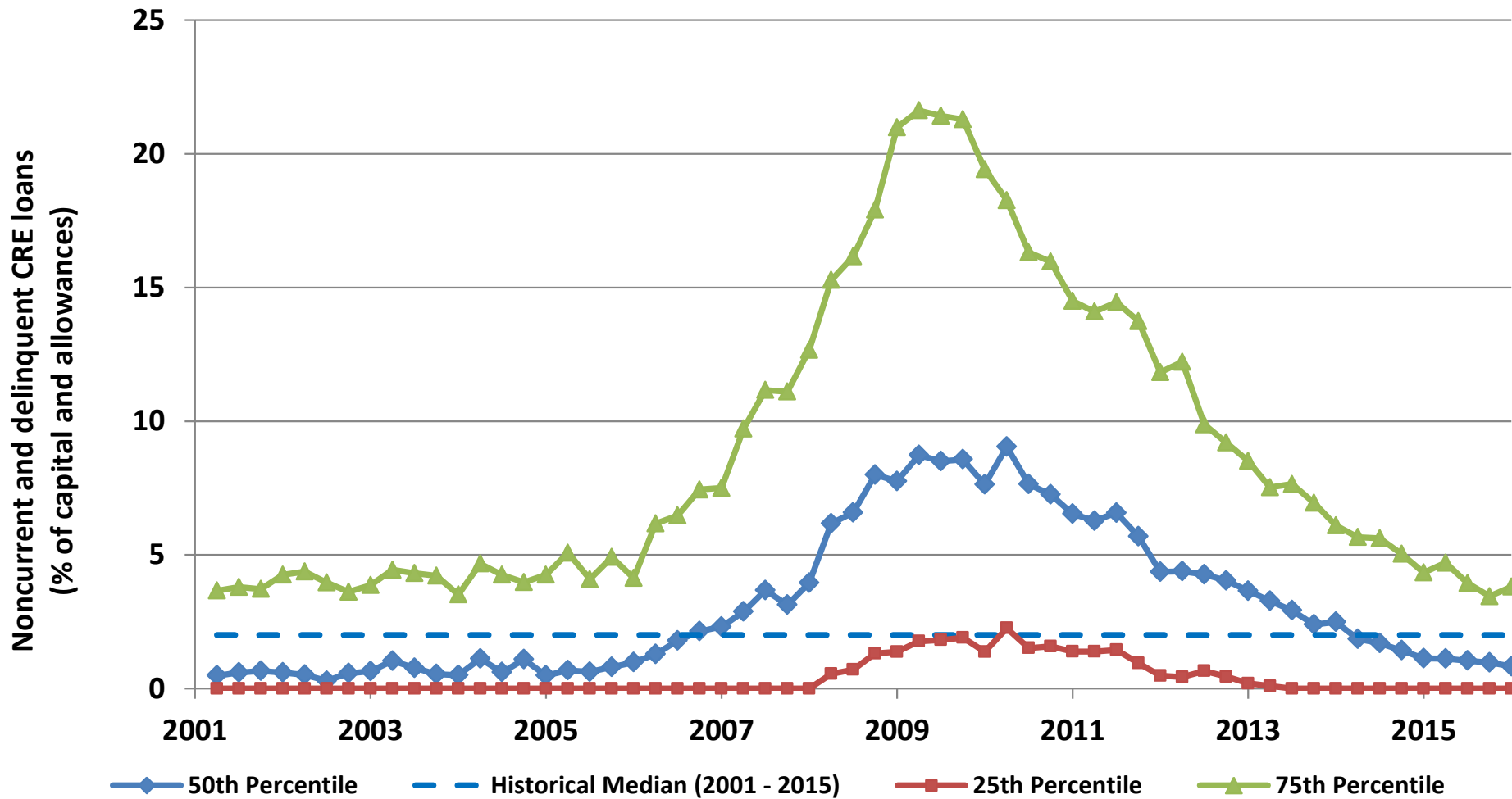
Loan Growth Was Flat in 2015 at Minnesota Banks



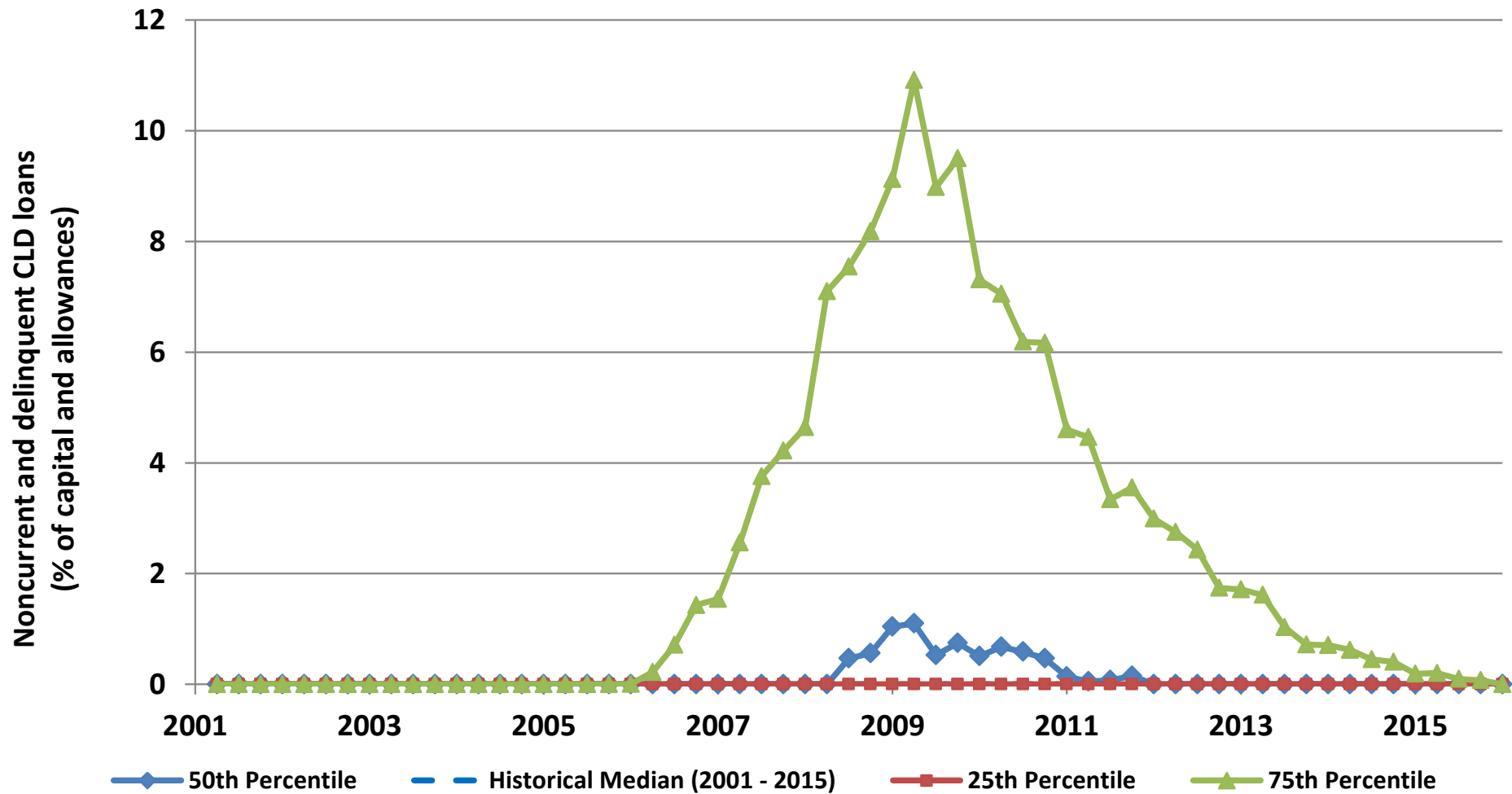
Overall Problem Loans Were Flat in 2015 at Minnesota Banks



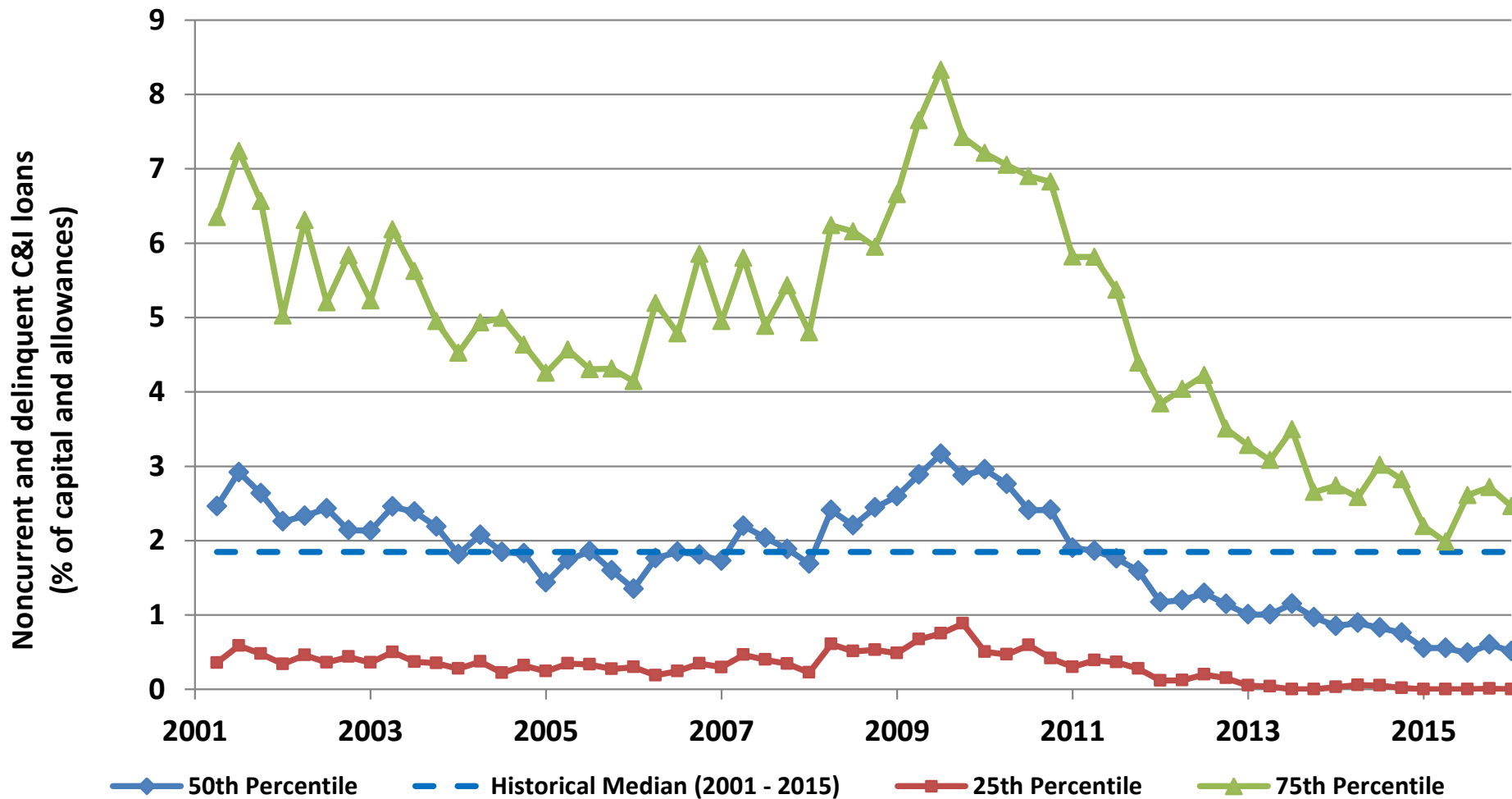
Commercial Real Estate (CRE) Problem Loans Were Flat in 2015 at Minnesota Banks



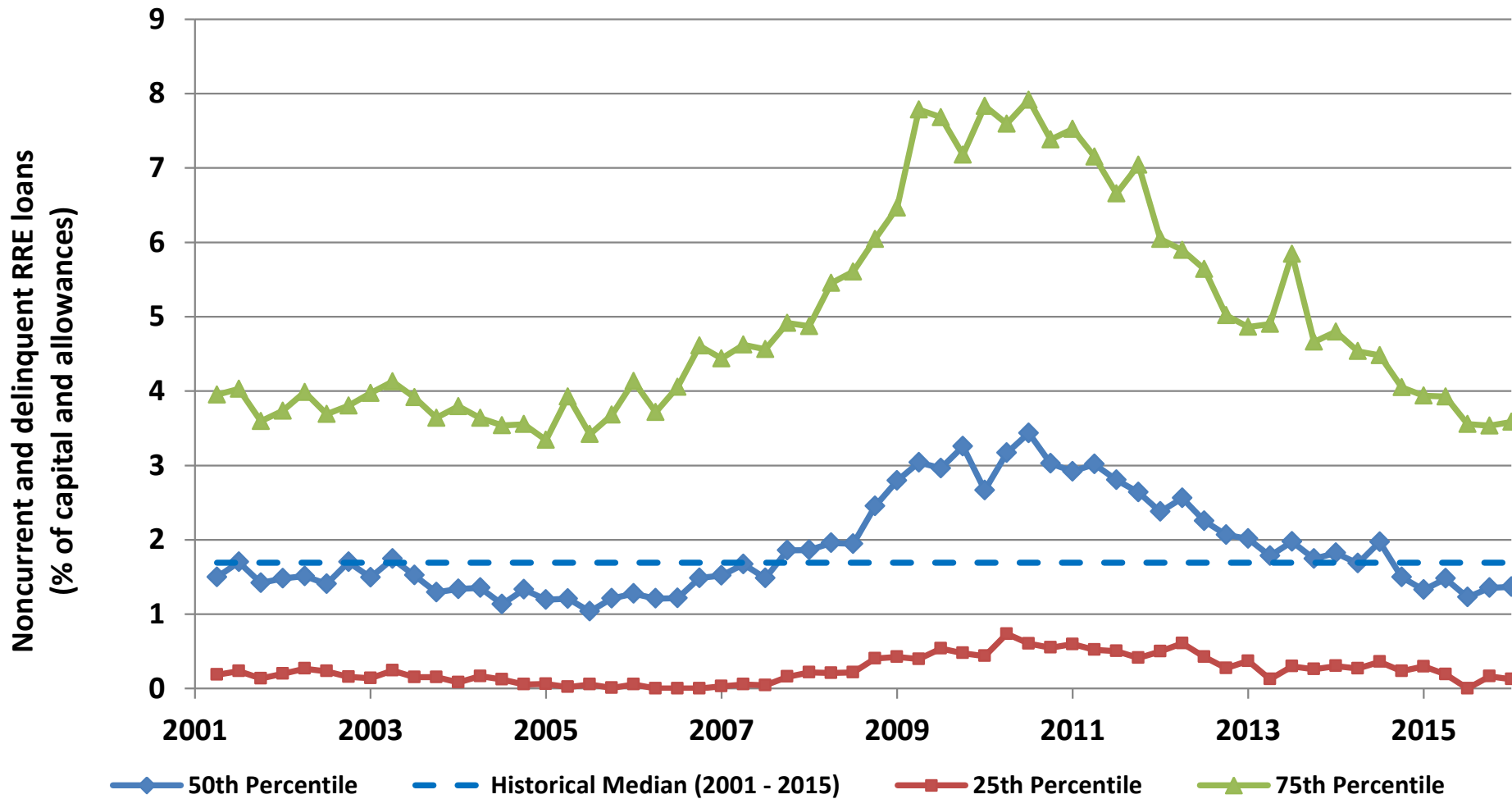
Construction & Land Development (CLD) Problem Loans Were Flat in 2015 at Minnesota Banks



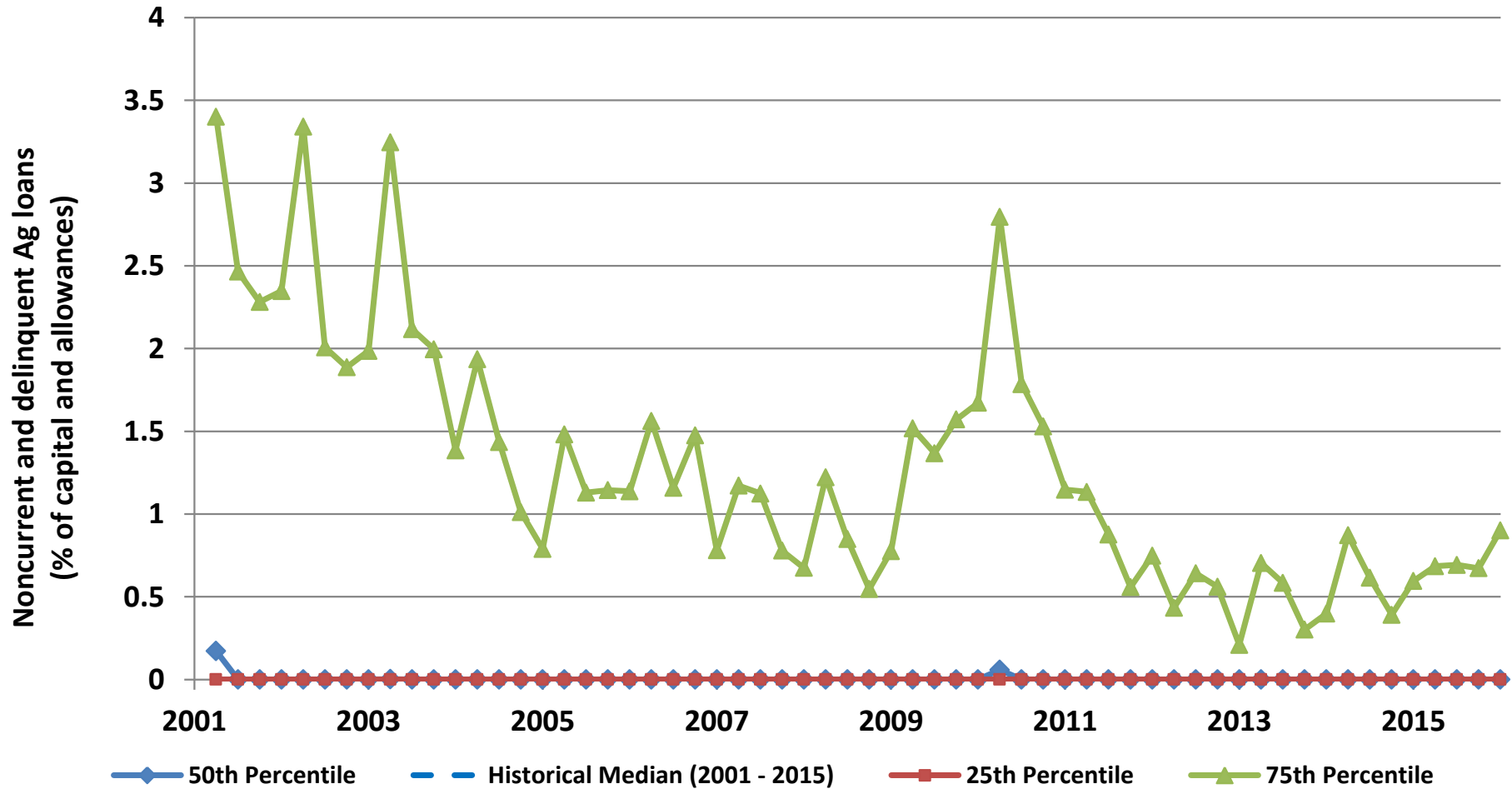
Commercial & Industrial (C&I) Problem Loans Were Flat in 2015 at Minnesota Banks



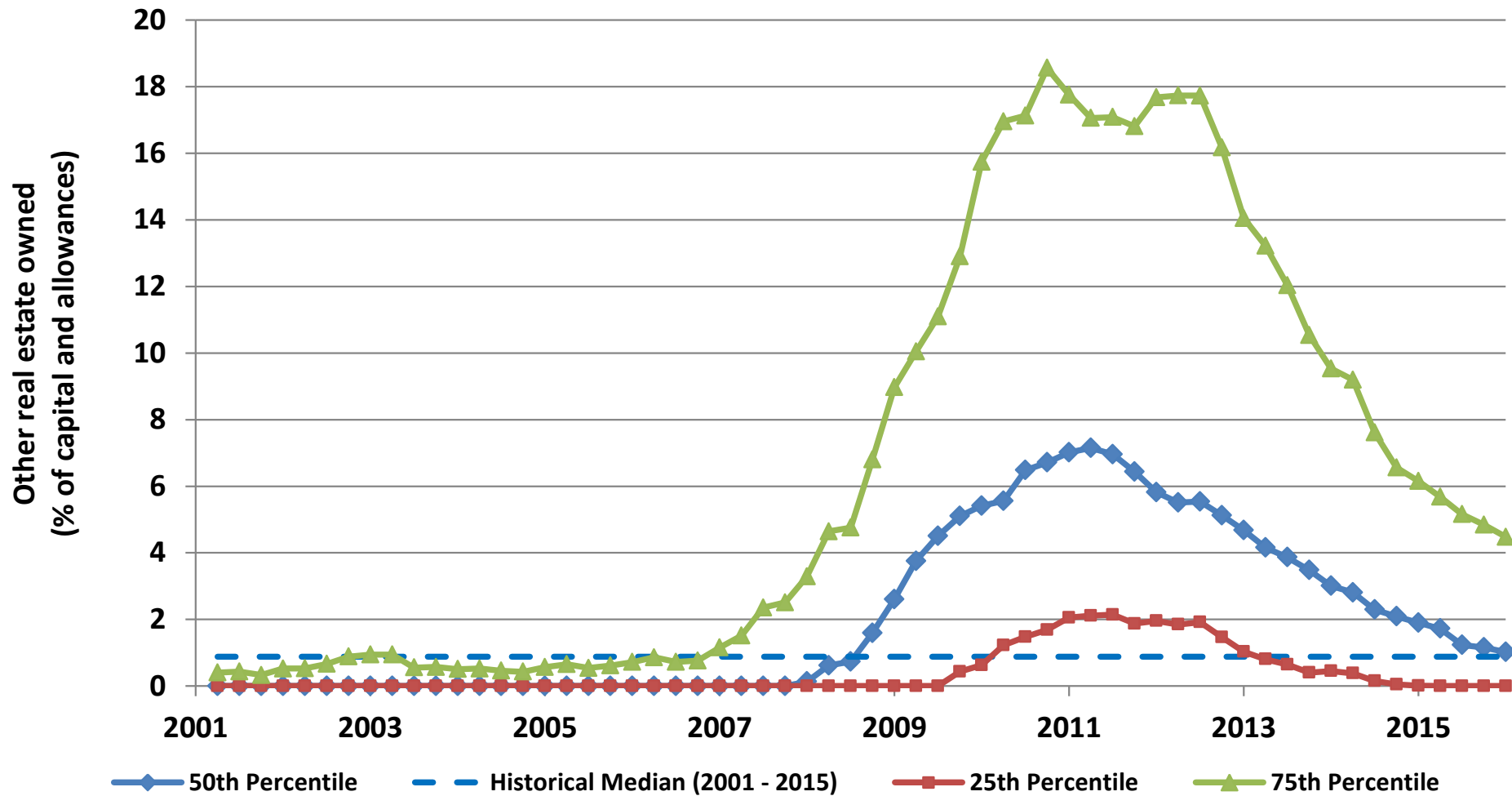
Residential Real Estate (RRE) Problem Loans Were Flat in 2015 at Minnesota Banks



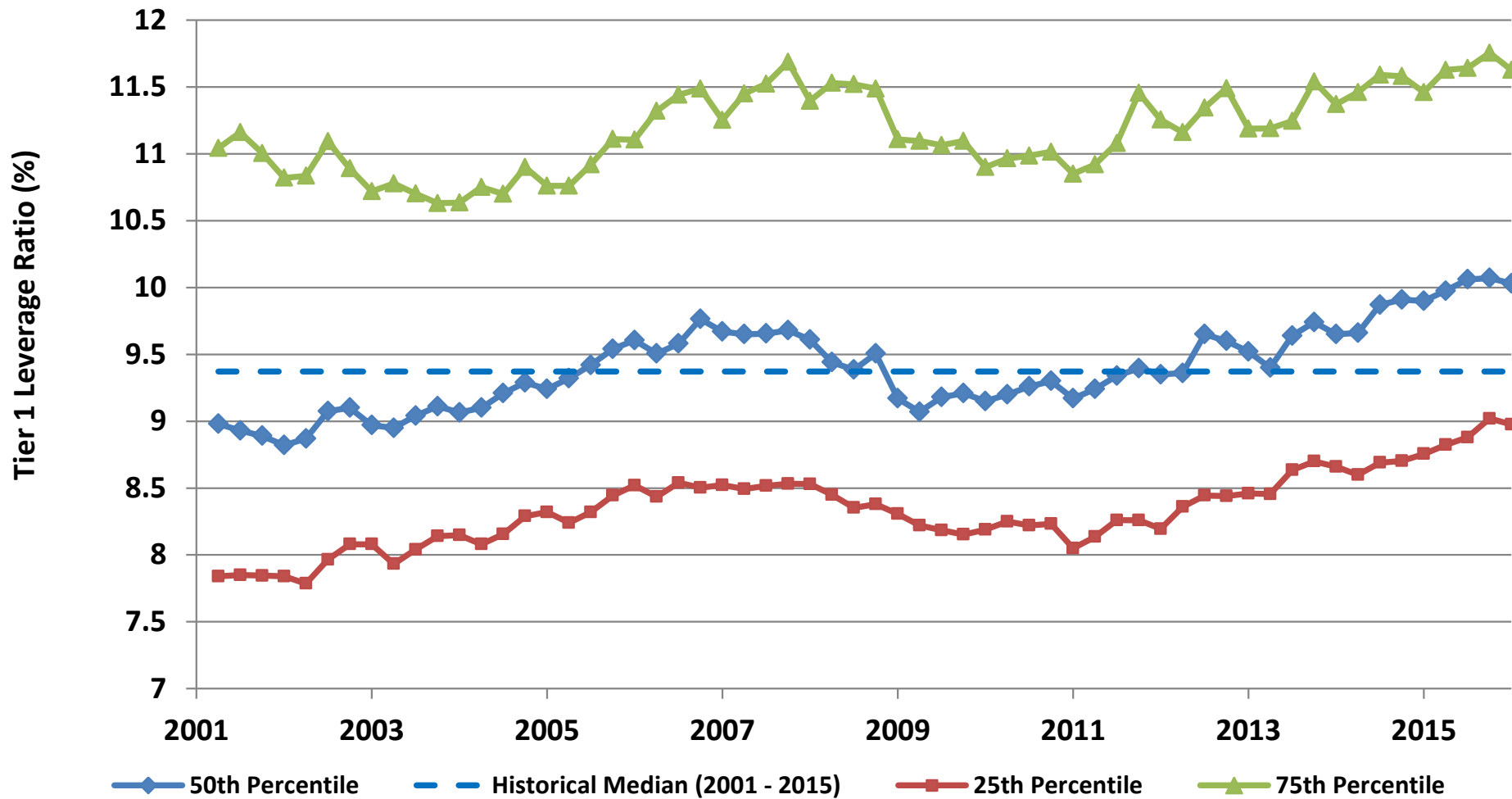
Agricultural (Ag) Problem Loans Were Flat in 2015 at Minnesota Banks



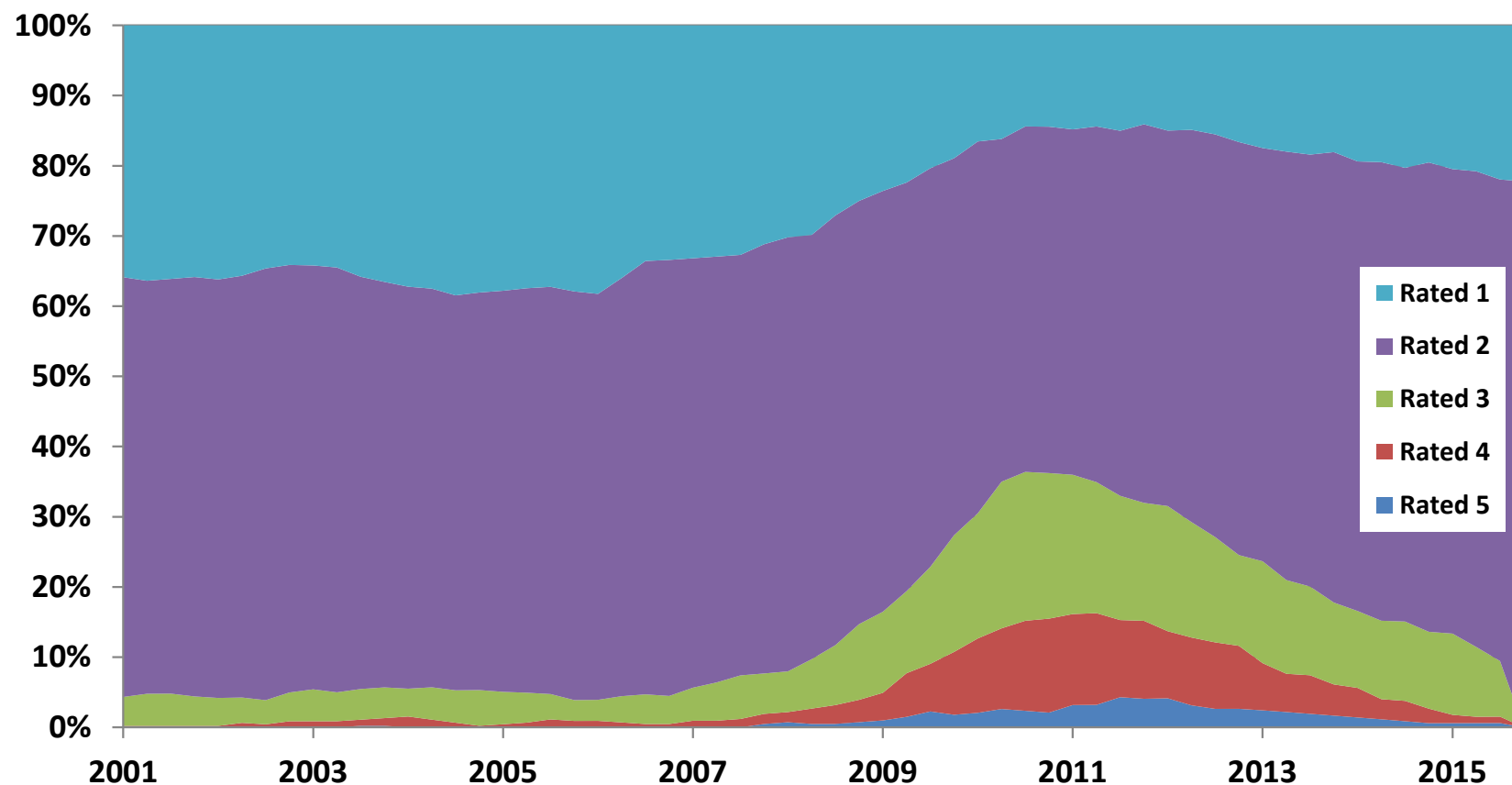
Medium Annual Decrease in Other Real Estate Owned (OREO) Problem Loans in 2015 at Minnesota Banks



Small Annual Increase in Capital in 2015 at Minnesota Banks



Bank Ratings Improved During 2015 at Minnesota Banks

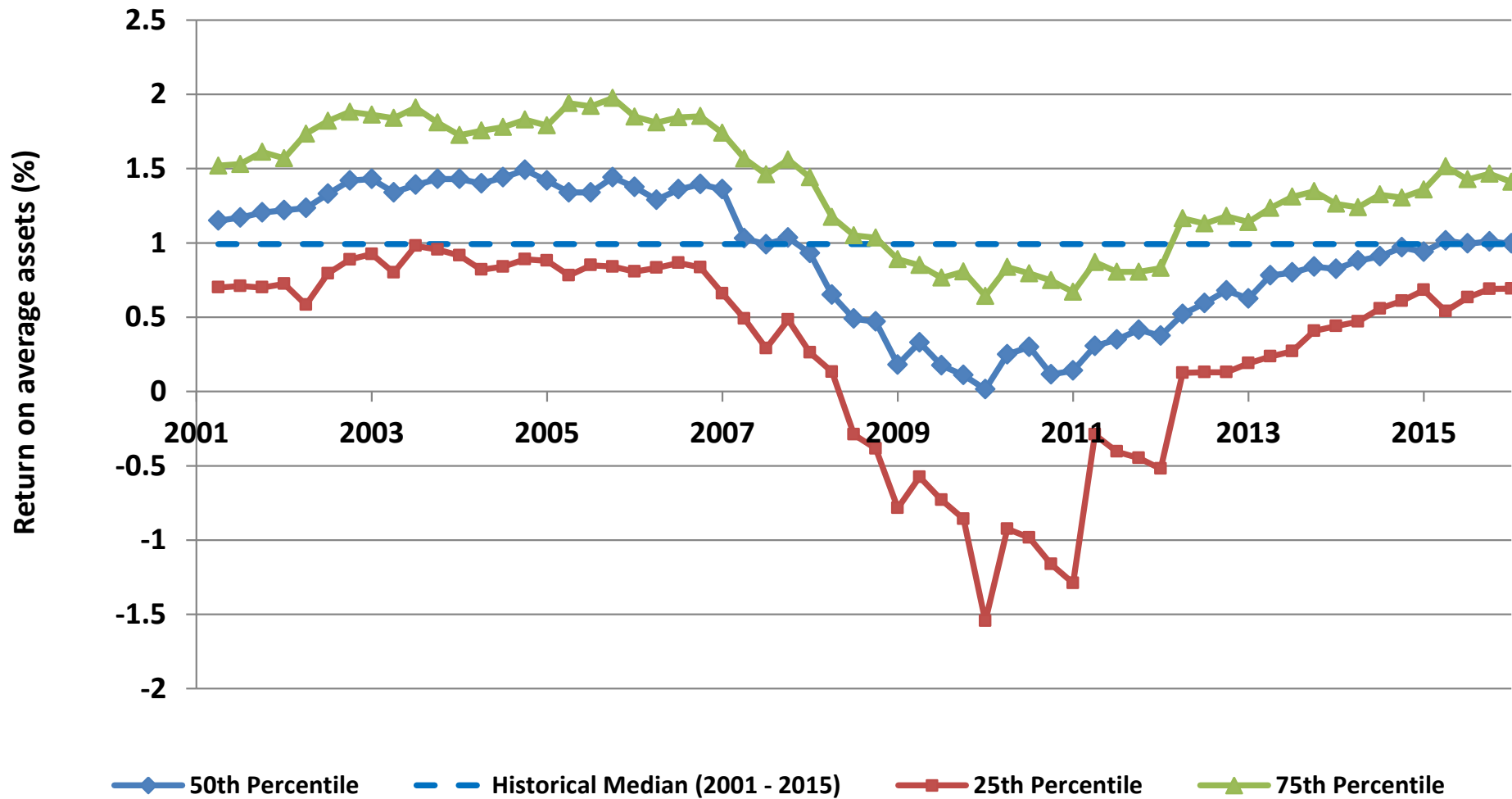


Federal Reserve Risk Management Ratings – Summary of Definitions

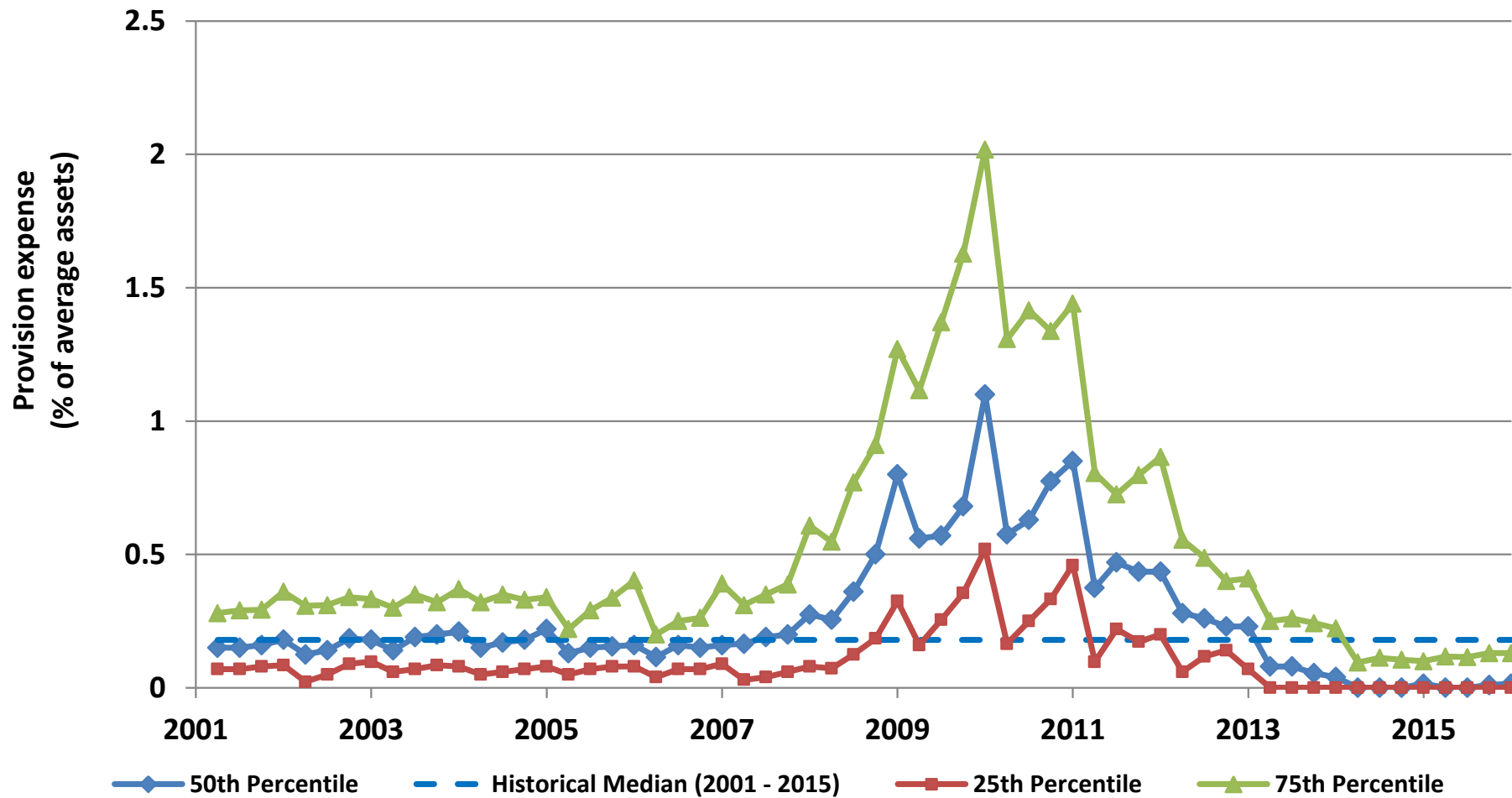
- 1 – Strong or sound in every respect
- 2 – Satisfactory or fundamentally sound
- 3 – Fair/less than satisfactory; requires more than normal supervision
- 4 – Unsatisfactory; unsafe and/or unsound practices and conditions; failure a possibility
- 5 – Critically deficient; extremely unsafe and unsound; failure is highly probable

Commercial Bank Examination Manual. [“Overall Conclusions Regarding Condition of the Bank: Uniform Financial Institutions Rating System and the Federal Reserve’s Risk Management Rating.”](#) Section A.5020.1. October 2015.

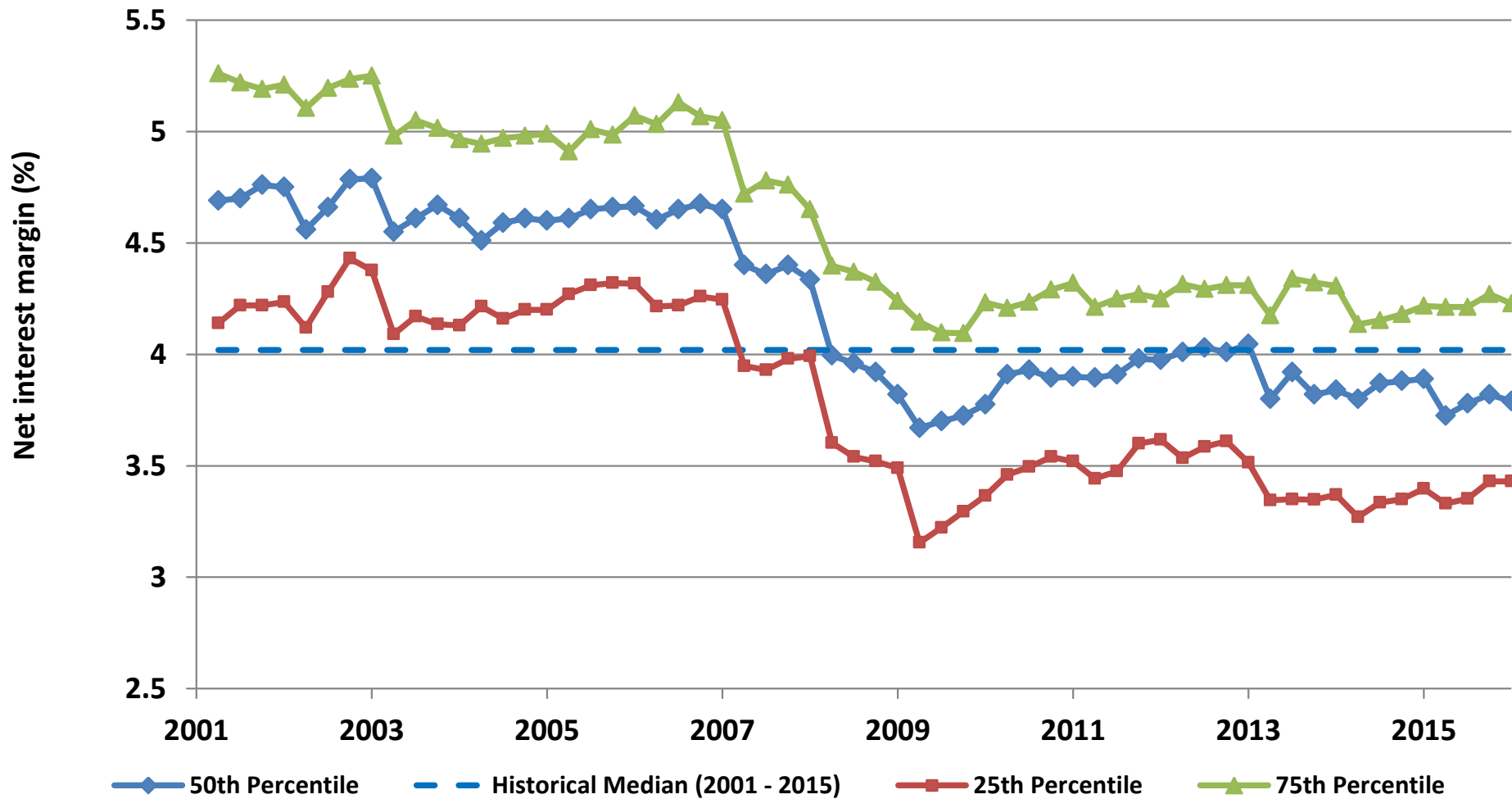
Small Annual Gain in Profitability in 2015 at Twin Cities Banks



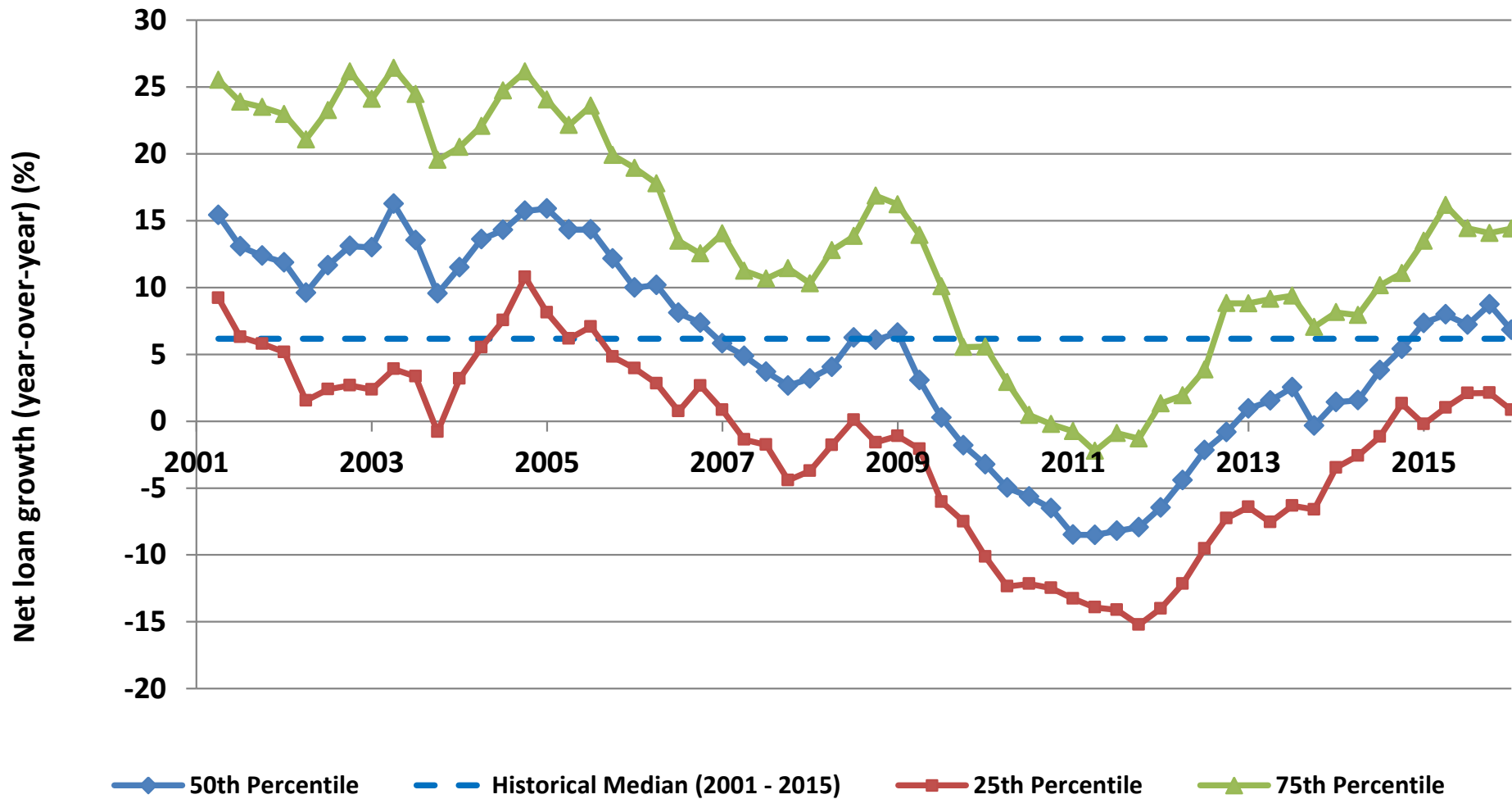
Provisions Were Flat in 2015 at Twin Cities Banks



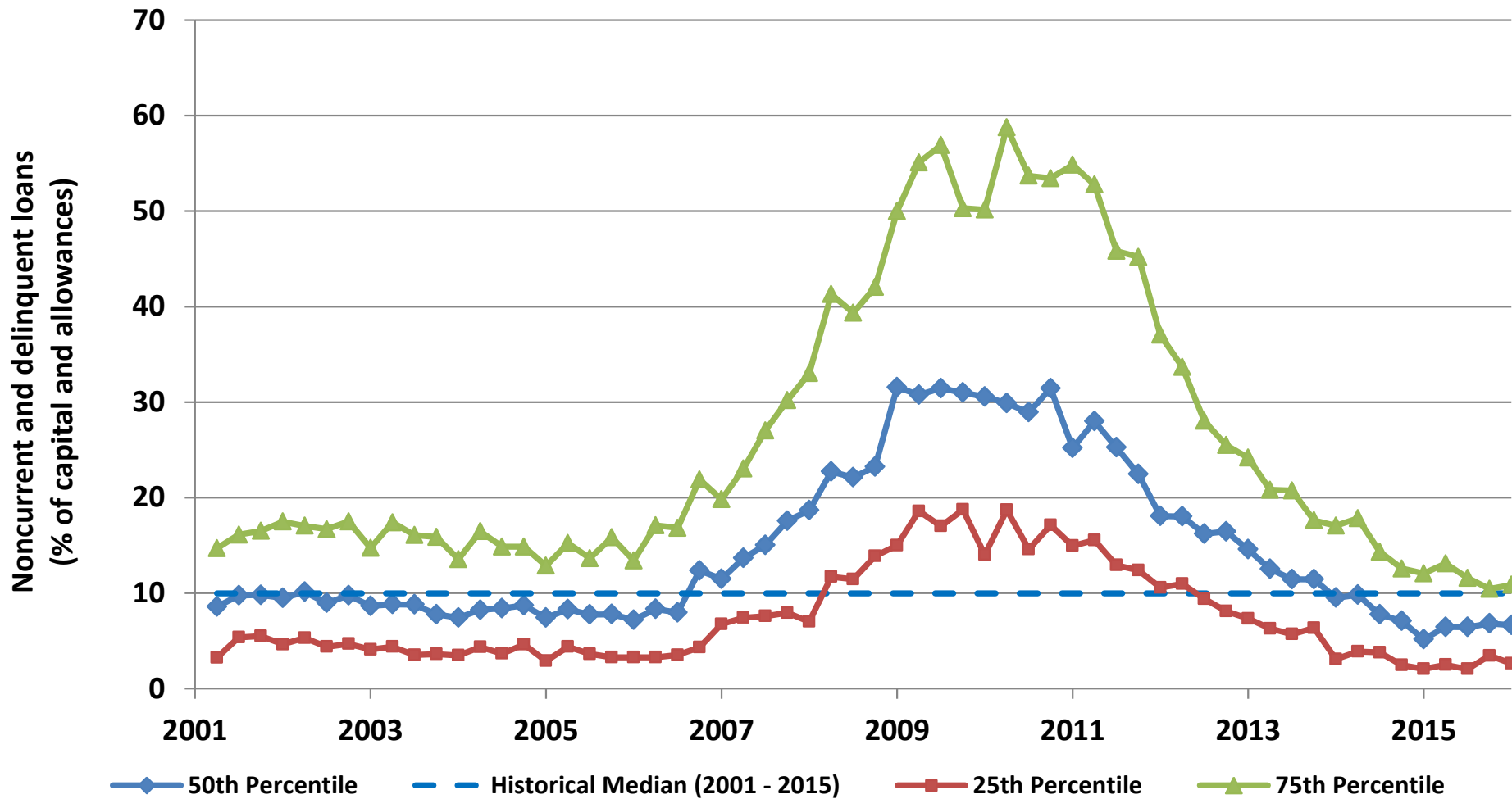
Medium Annual Decrease in Net Interest Margin in 2015 at Twin Cities Banks



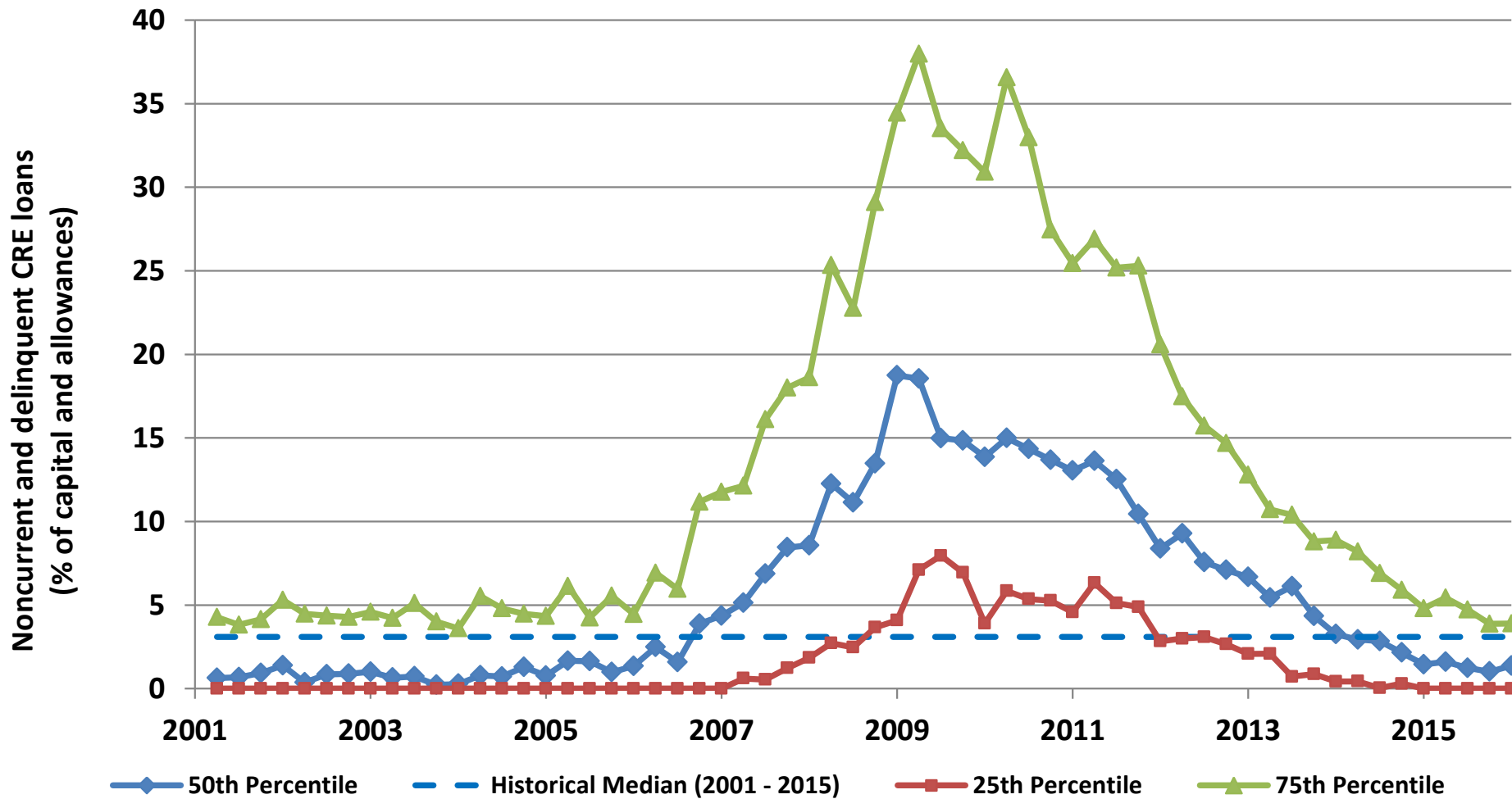
Loan Growth Was Flat in 2015 at Twin Cities Banks



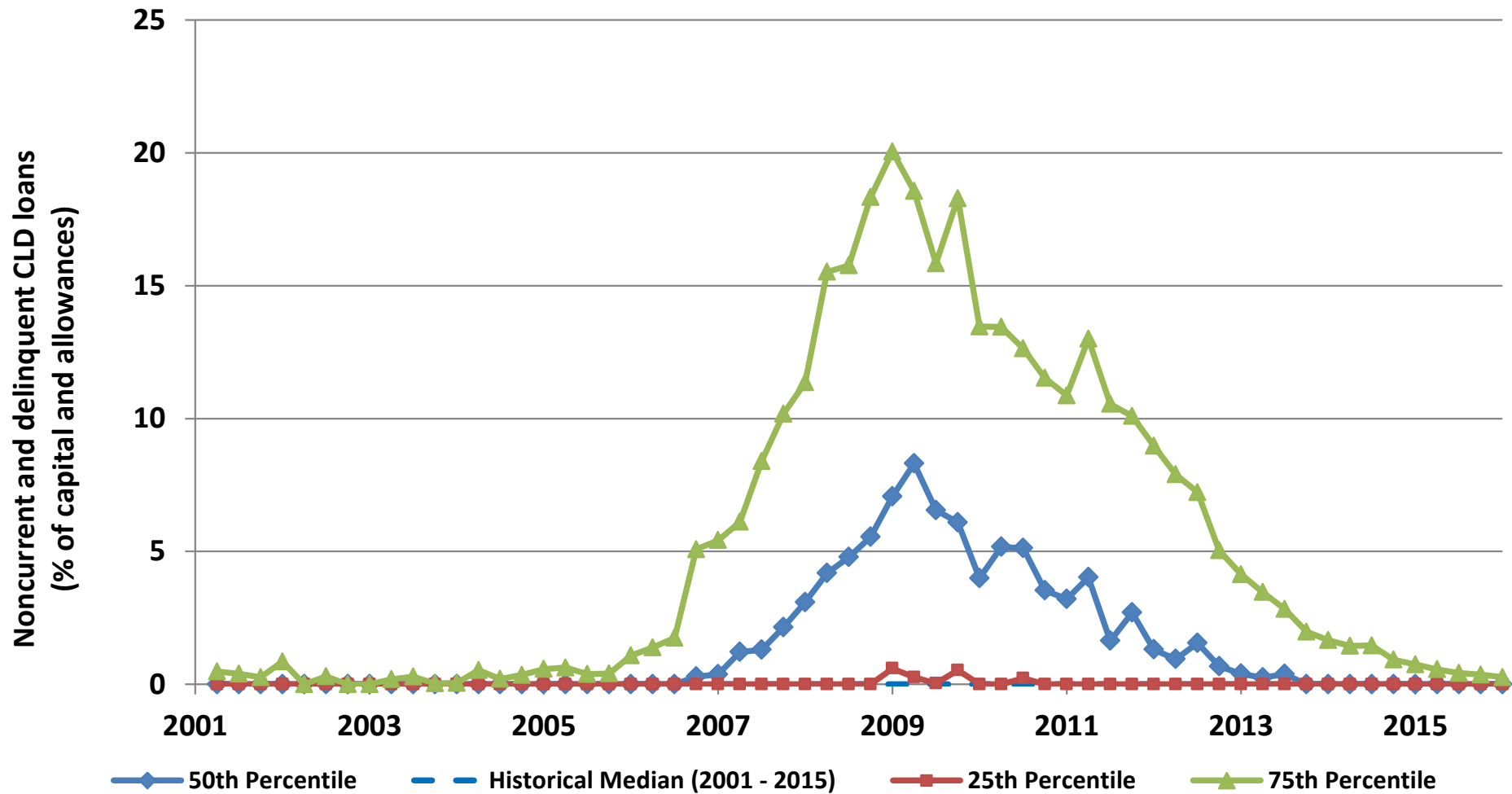
Small Annual Increase in Overall Problem Loans in 2015 at Twin Cities Banks



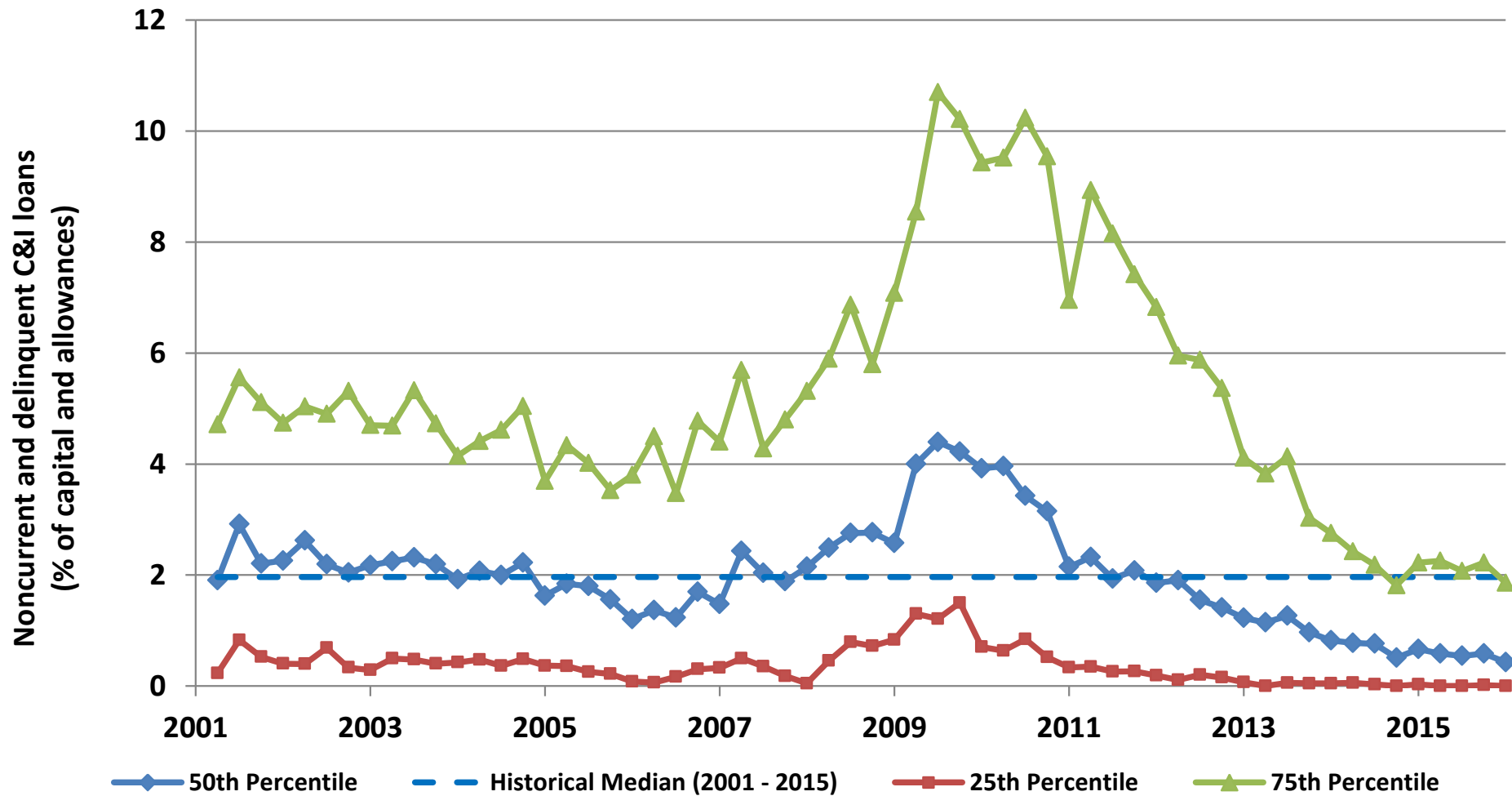
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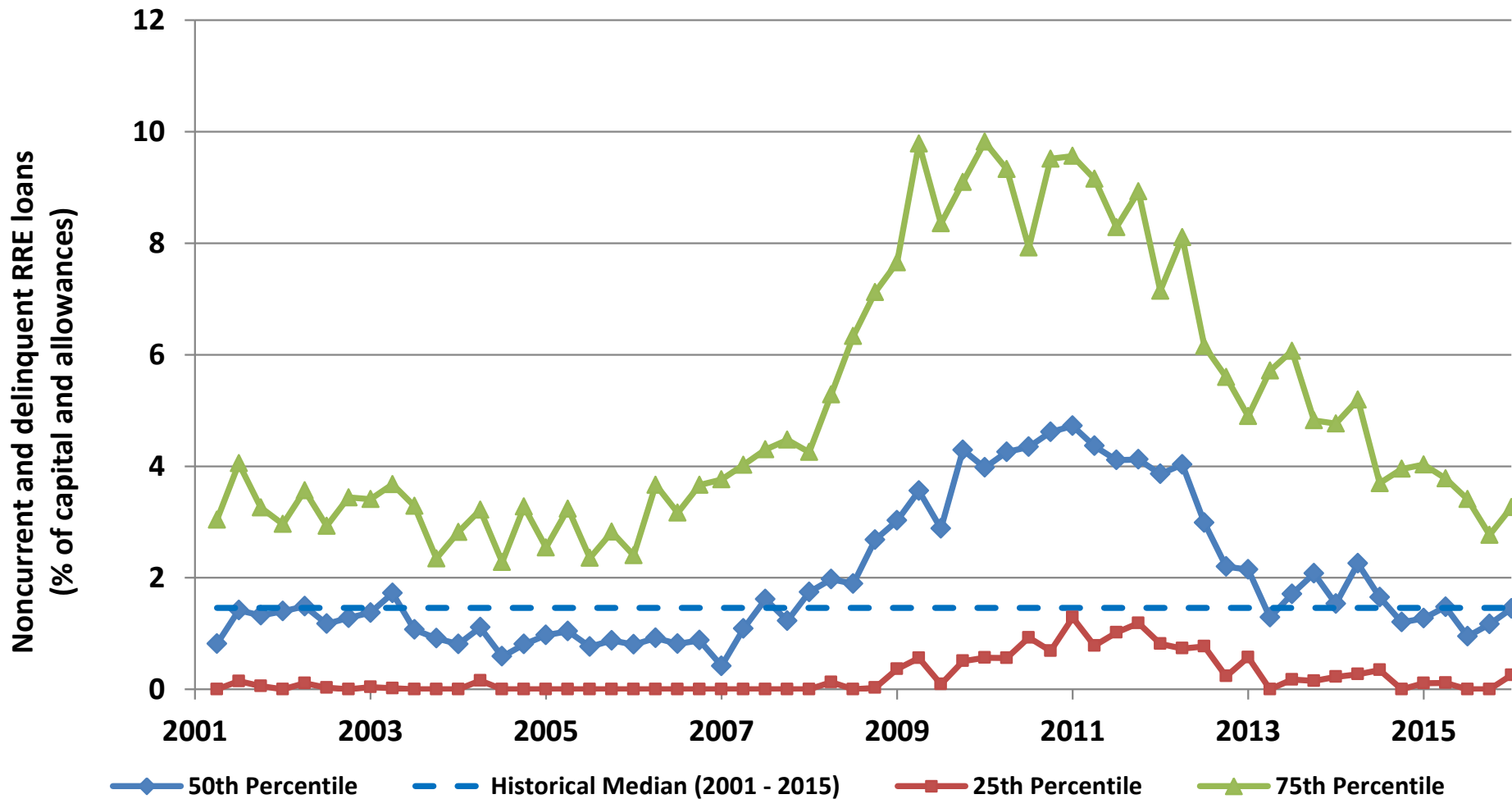
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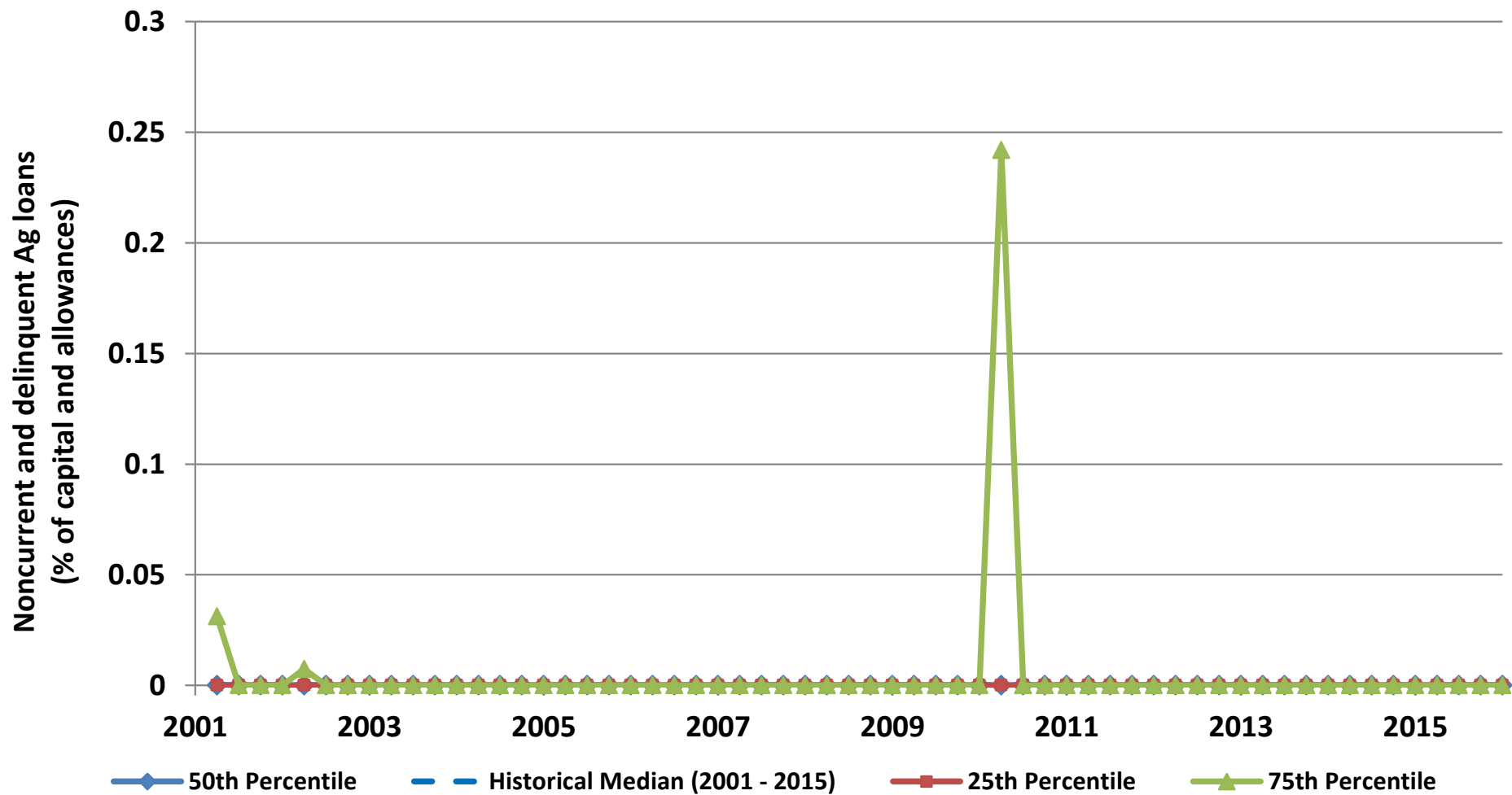
Small Annual Decrease in Commercial & Industrial (C&I) Problem Loans in 2015 at Twin Cities Banks



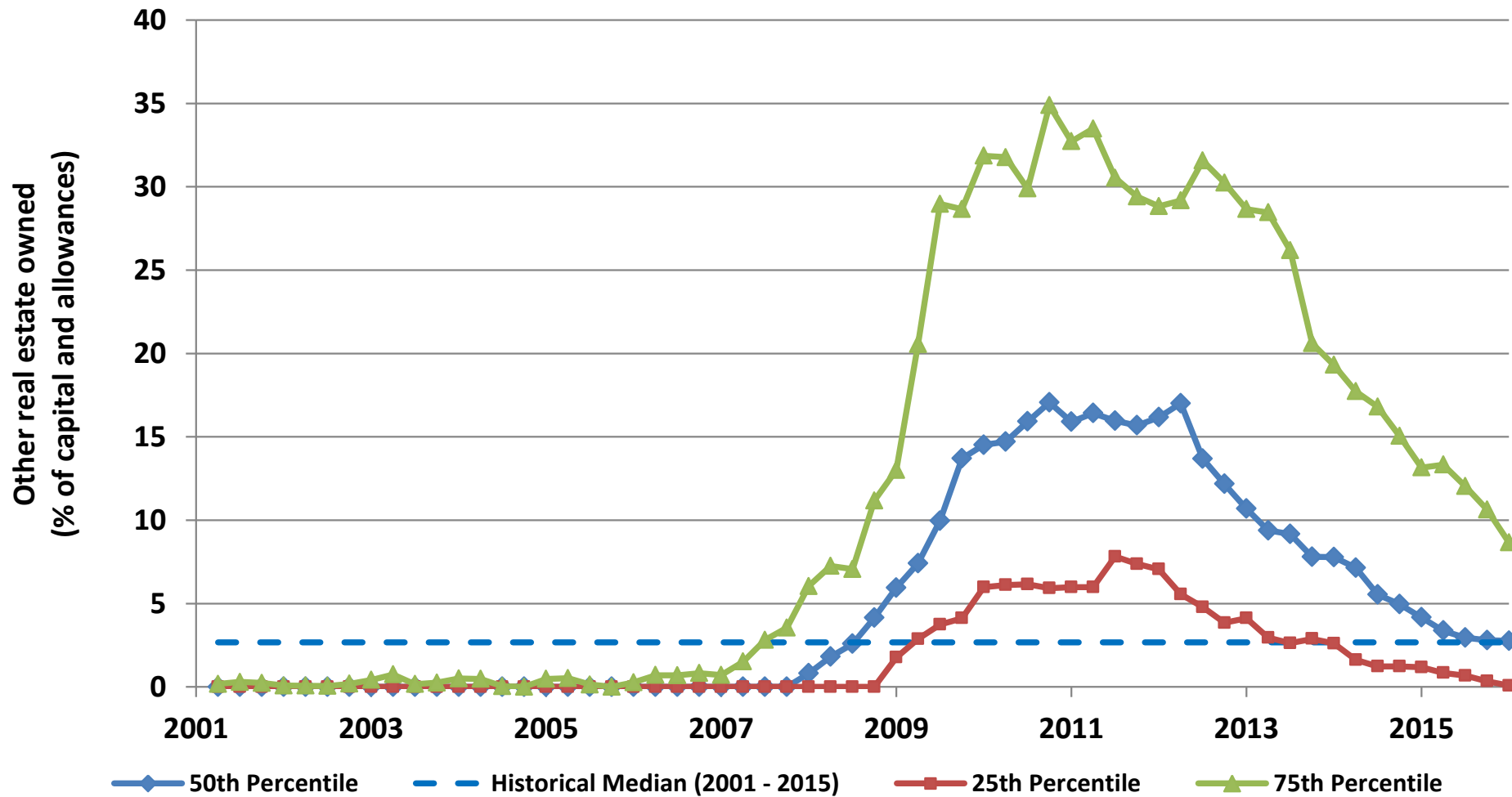
Small Annual Increase in Residential Real Estate (RRE) Problem Loans in 2015 at Twin Cities Banks



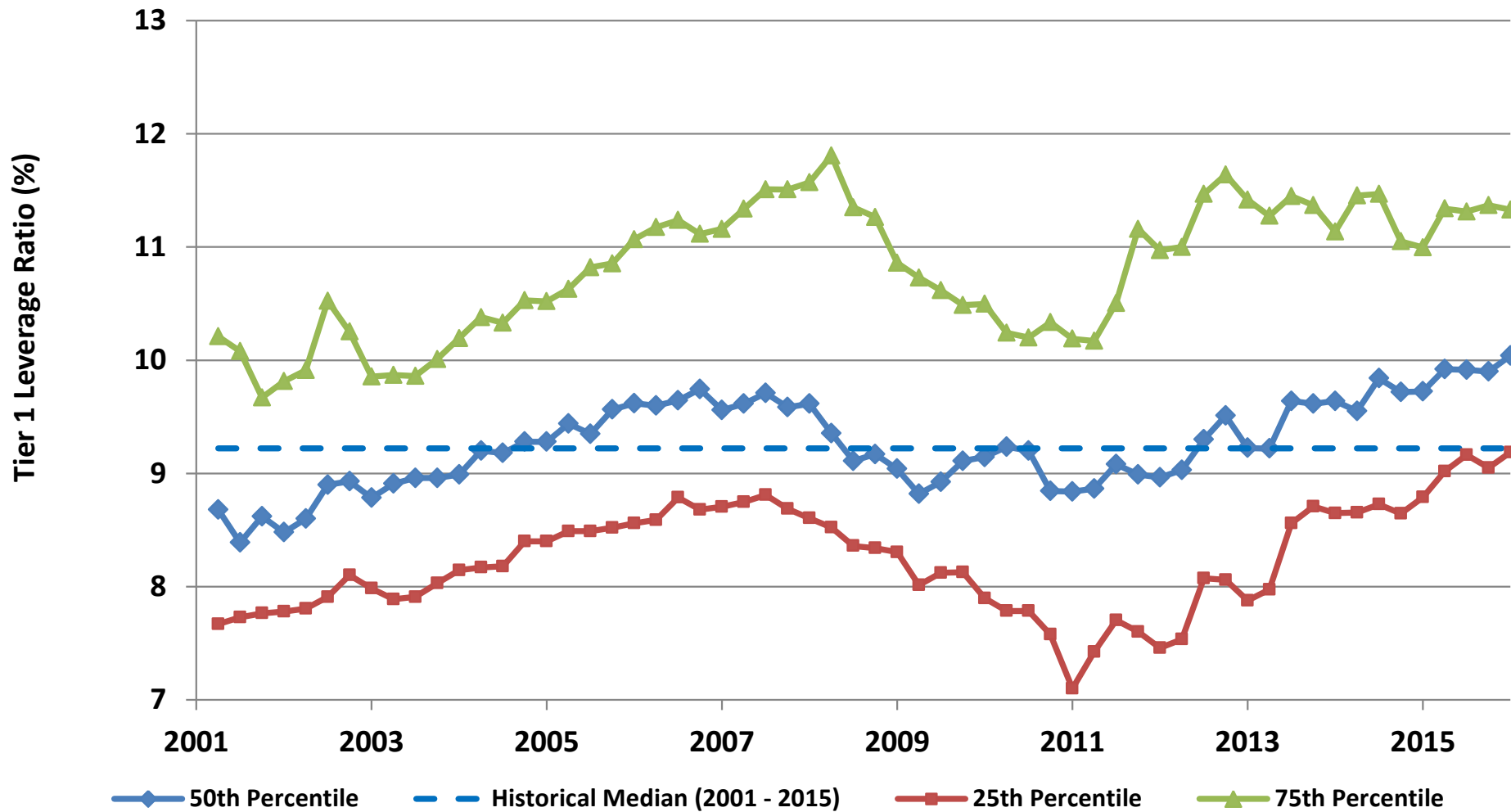
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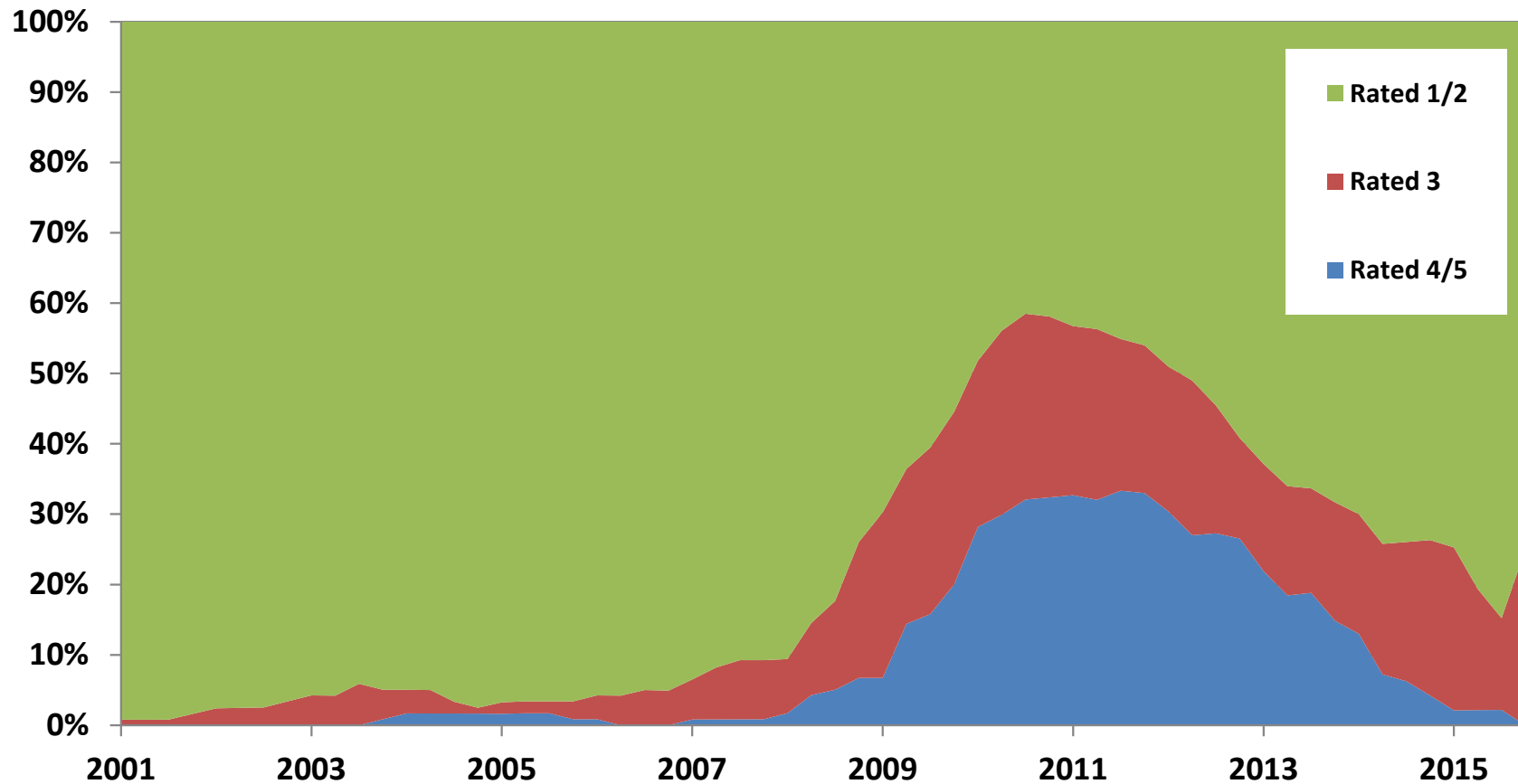
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Medium Annual Increase in Capital in 2015 at Twin Cities Banks



Ratings Improved During 2015 at Banks in the Twin Cities



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