Banking Performance 4Q20

Executive Summary: Four Key Themes

1) Growth in digital banking. Technology at the mega-banks has transformed their customer experience and shifted consumer and business transaction volume to digital and mobile channels. This transformation was accelerated by the pandemic and forces other banks to invest in digital banking. Community banks need to develop a digital strategy ASAP.

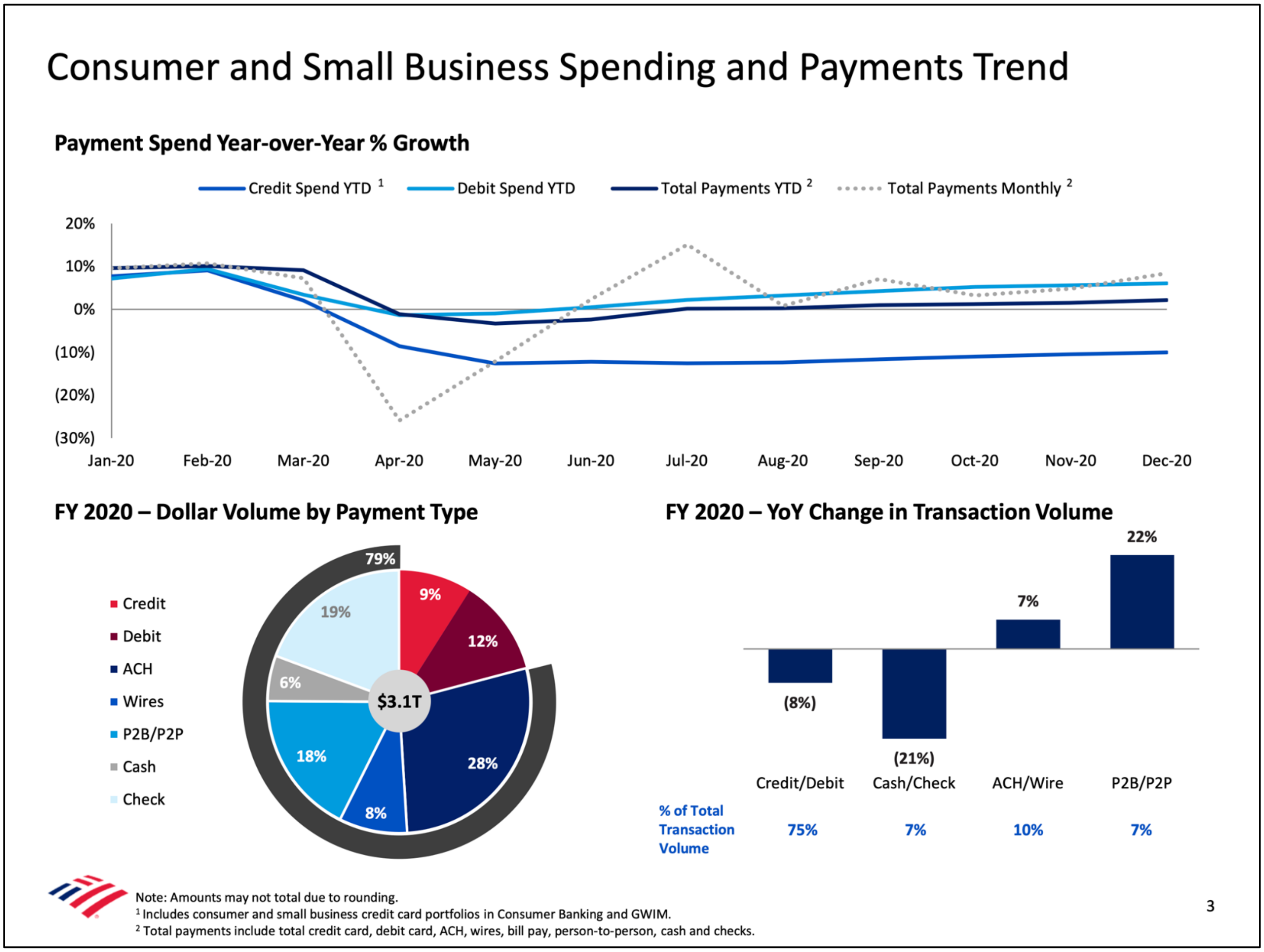
2) Dramatic reduction in many banks' consumer fee income. The pandemic changed consumer spending and payment patterns. As consumers moved to contactless payments, check, cash, and ATM volume fell; person-to-person or person-to-business (P2P or P2B) rose. ACH transactions also rose. These payment channels generate lower deposit service fees. Lower consumer spending and shifts toward low interchange categories reduced card fees. At the mega-banks, these fee categories are buried among others (fee income is often as much as net interest margin), but at community banks, deposit service fees and card fees are critical. Loss of this income is pressuring regional and community banks to pursue additional sources of fee income such as mortgage origination.

3) Determining the right loss allowance. Loss provisioning is always difficult, but the pandemic made it impossible. Most banks boosted provisions for 1Q and 2Q, and then reversed some of this provision by 4Q – before we have enough data about how loan portfolios will actually perform. The result is even larger than normal variation in loss allowance across banks. At this juncture, it is important for community banks to stress test their portfolios and develop contingency plans for loans that may wind up in workout. Some are likely to outsource this activity.

4) Deferral and loan modification activity. Banks seek public relations benefits by highlighting their actions (like deferrals) that help customers through the pandemic. At the same time, they demonstrate that deferral activity is infrequent and unlikely to have a material impact on credit quality. That's right, having your cake and eating it too. Other borrower-friendly activities like modifications have largely gone unreported – though modifications are having an even bigger impact on performance. When these modifications must be reported as troubled debt restructurings (and hence largely cease), what will happen to delinquency performance?

The Rise of Digital

BofA's digital payments (18%) are fast approaching check (19%) and card payments (21%), as shown in the pie chart below**.** The pandemic accelerated changes to consumer payment preferences. Remote payment transaction volume, whether online or mobile and whether P2B or P2P, jumped 22% year-over-year, whereas cash and check payments fell 21%. Other banks do not disclose data on payments by type but appear to match or exceed BofA. Chase's technology spend is about $5B -- half of non-interest expense-investments (page 14), and digital engagement is at 69% for consumer banking and 86% for business banking (page 18).

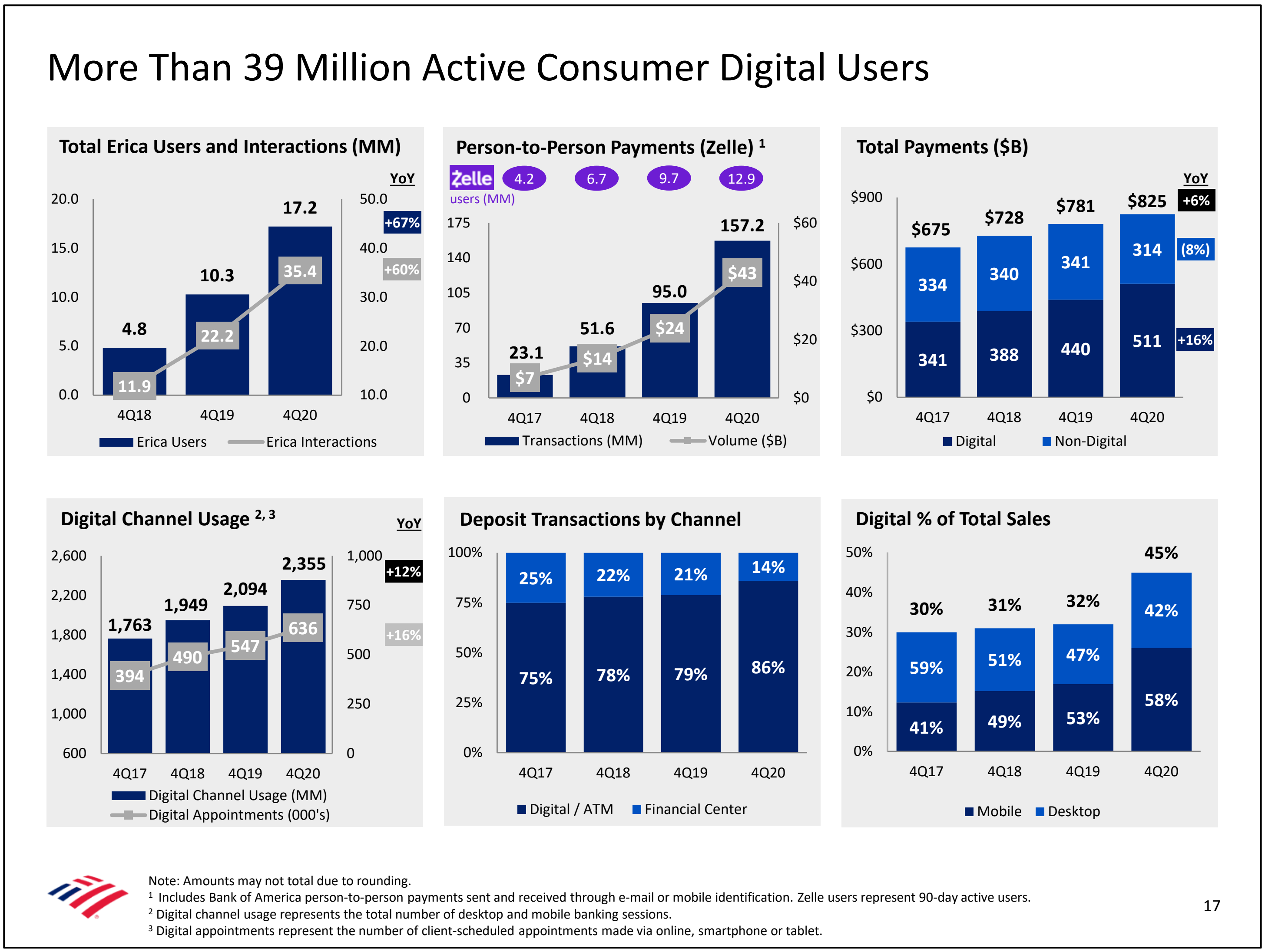


Digital and mobile customer growth continues, albeit at slower rates than transactions. As shown in the table on the next page, the number of digital and mobile customers show modest increases in 2020, but this doesn't tell the whole story. Digital and mobile transaction activity (the pie above) is up far more.

Number of Mobile and Digital Customers							
(in millions)		4Q19	1Q20	2Q20	3Q20	4Q20	Growth
Bank of America	Digital	38.3	39.1	39.3	39.3	39.3	2.7%
Citigroup	Digital	32.8	33.5	33.5	34	34.7	5.8%
JPMorgan Chase	Digital	52.5	53.8	54.5	54.8	55.3	5.3%
Wells Fargo	Digital	30.3	31.1	31.1	32.0	32.0	5.6%
Bank of America	Mobile	29.2	29.8	30.3	30.6	30.8	5.5%
Citigroup	Mobile	23.1	23.8	23.9	24.7	25.3	9.5%
JPMorgan Chase	Mobile	37.3	38.3	39.0	40.2	40.9	9.7%
Wells Fargo	Mobile	24.4	24.9	26.2	25.9	26.0	8.3%

Bank of America supplement page 15; Citigroup page 23; JPMorgan Chase supplement page 14; Wells Fargo page 9.

The following graphics show how Bank of America describes its digital banking activity.



Global Banking Digital Update [1]

CashPro® Users
across commercial, corporate and business banking clients
~500K

CashPro® App Sign-ins
+40%
Rolling 12 mos.

CashPro® App Payment Approvals Value
$174B
up 8% rolling 12 mos.

CashPro® App Checks Deposited
+114%
Rolling 12 mos.

Incoming receivables digitally matched with **Intelligent Receivables**
19MM [2]
In last 12 months

Digital Wallet for Commercial Cards
+18% [2]
YoY

Supporting, Advising and Investing in Our Clients' Business Continuity, and Anytime, Anywhere with Digital Solutions that are:

FAST

CashPro® App
Expanding access and capabilities

Digital Wallet
For Commercial Card

Real Time Payments
For U.S. payments

CashPro® API
Supporting real-time access

Digitizing KYC refreshes
Faster and easier through CashPro Assistant

Improving Connectivity and Access

SMART

Notifications
For added visibility

Intelligent Receivables
Bringing AI to Receivables with award-winning solution

Email Assist
Intelligently casing service requests

CashPro® Assistant
Driving a fast, smart, secure experience

eSignature
Also on CashPro Mobile

Leveraging Data and Intelligence

SECURE

Mobile Token
Expanding access

Document Exchange
Online and Mobile

Paperless Statements
For commercial card

Biometrics
For CashPro Mobile

Confidently Doing Business Anytime, Anywhere

[1] Metrics as of December 31, 2020 unless otherwise indicated.
[2] As of November 2020.

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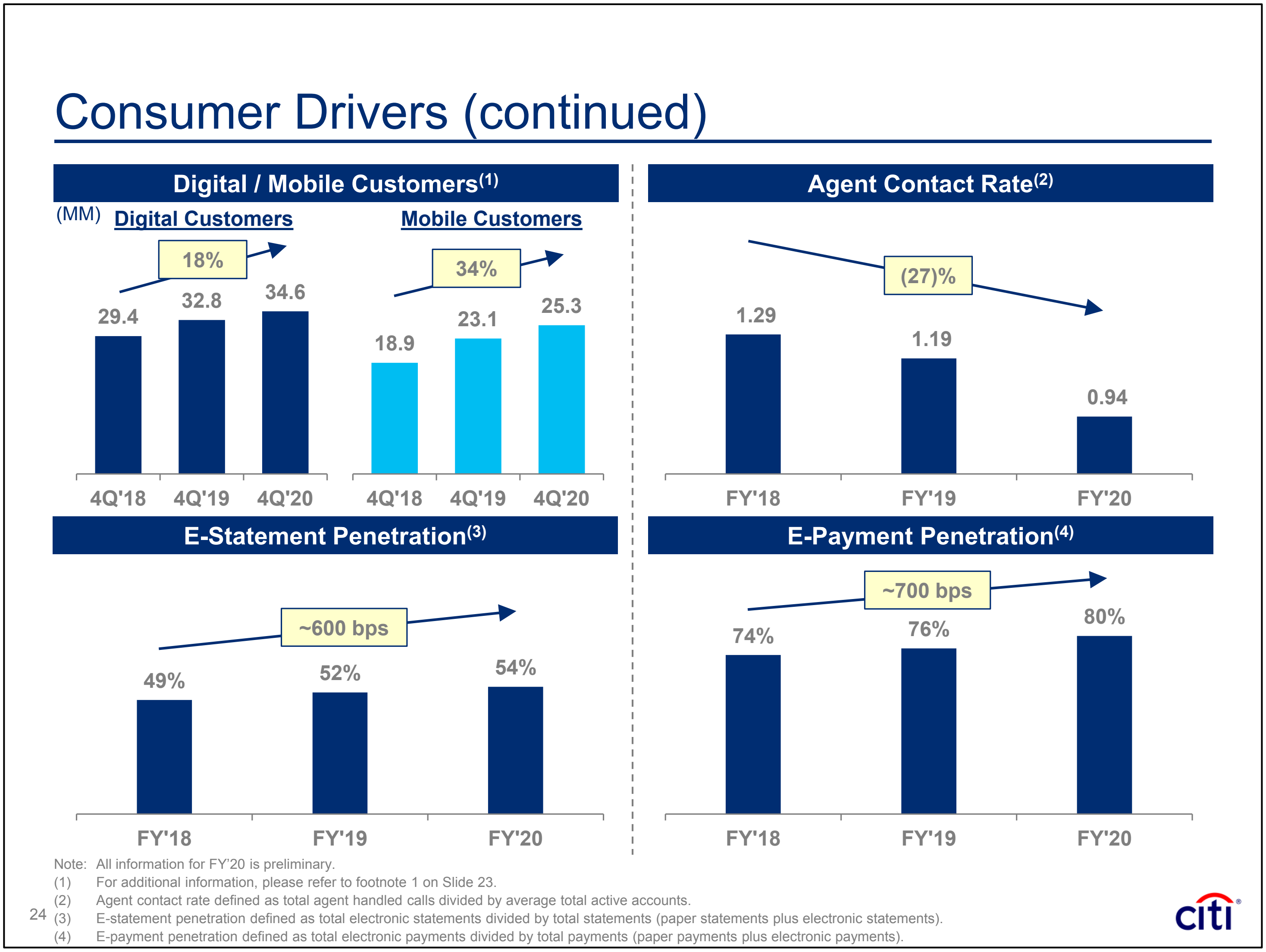
Even Citigroup, which normally focuses on performance by geography and other macro drivers, presents data about the shift in consumer preference towards digital banking as shown in the graphic below.



Reduced Fee Income

Key sources of fee income are falling as consumer spending falls and shifts to other channels. The mega-banks have the luxury of diverse sources of fee income (e.g. investment banking, trading, and asset management) that community and regional banks do not, so fees often match net interest margin. Key sources of fee income for these banks are deposit service fees and card services. These categories fell during 2020 – about 20% for deposit fees and 3-5% for card fees – as shown in the table below.

Components of Non-Interest Income									
($MM)	Segment	Type	4Q19	1Q20	2Q20	3Q20	4Q20	Change	Change
Bank of America	Consumer	Card	1,330	1,110	1,053	1,220	1,290	(40)	-3%
JPMorgan Chase	Cons&Comm	Card	905	652	667	826	923	18	2%
Wells Fargo	Consumer	Card	938	819	749	860	890	(48)	-5%
US Bank	Payment Serv	Total	950	794	658	867	805	(145)	-15%
Bank of America	Consumer	Service	1,056	995	706	837	879	(177)	-17%
JPMorgan Chase	Cons&Comm	Lending&Dep	1,032	972	617	771	806	(226)	-22%
Wells Fargo	Consumer	Dep-related	919	879	575	708	742	(177)	-19%
US Bank	Cons&Bus	Dep Service	223	202	133	163	159	(64)	-29%

Bank of America supplement page 14; JPMorgan Chase supplement page 11; Wells Fargo page 19.

These fee categories are critical for most community banks, even though they gain scant attention at more diversified banks. At US Bank, however, Payment Services is reported as a separate segment and its non-interest income fell from $950 million 4Q19 to $658 million 2Q20 (-31%) before recovering to $805 million 4Q20 (-15%). That's enough to get everyone's attention. The following slide shows non-interest income for US Bank's Payment Services segment.

usbancorp

PAYMENT SERVICES — Preliminary data

(Dollars in Millions) (Unaudited)	Three Months Ended December 31, 2020	September 30, 2020	June 30, 2020	March 31, 2020	December 31, 2019
OTHER INFORMATION					
Total noninterest income					
Retail payment solutions	$363	$390	$285	$307	$380
Corporate payment systems	128	127	103	147	160
Global merchant acquiring	314	350	270	340	410
Total	$805	$867	$658	$794	$950
Payment Volumes					
Retail payment solutions (Issuing)					
Credit Card	$26,792	$24,920	$20,225	$23,330	$26,779
Debit and prepaid card	23,432	26,239	22,335	18,311	19,096
Total Retail payment solutions	$50,224	$51,159	$42,560	$41,641	$45,875
Corporate payment systems (Issuing)	$15,008	$15,352	$12,486	$16,233	$17,378
Merchant volume (acquiring)	$91,381	$94,799	$72,218	$104,728	$119,087
# of merchant transactions	1,306,059,329	1,425,338,430	1,052,498,027	1,494,977,744	1,692,097,784

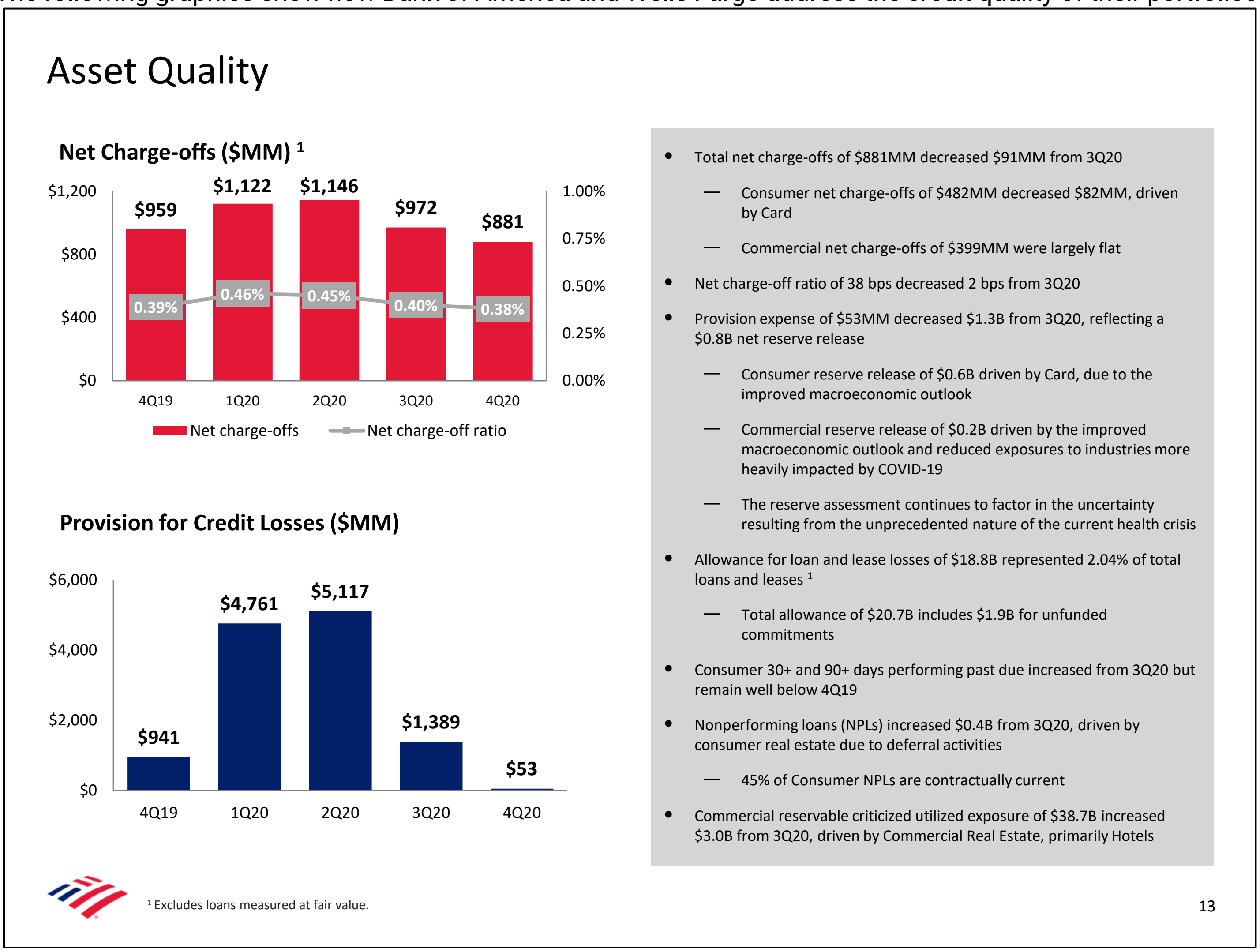
Pandemic-Related Loss Provision

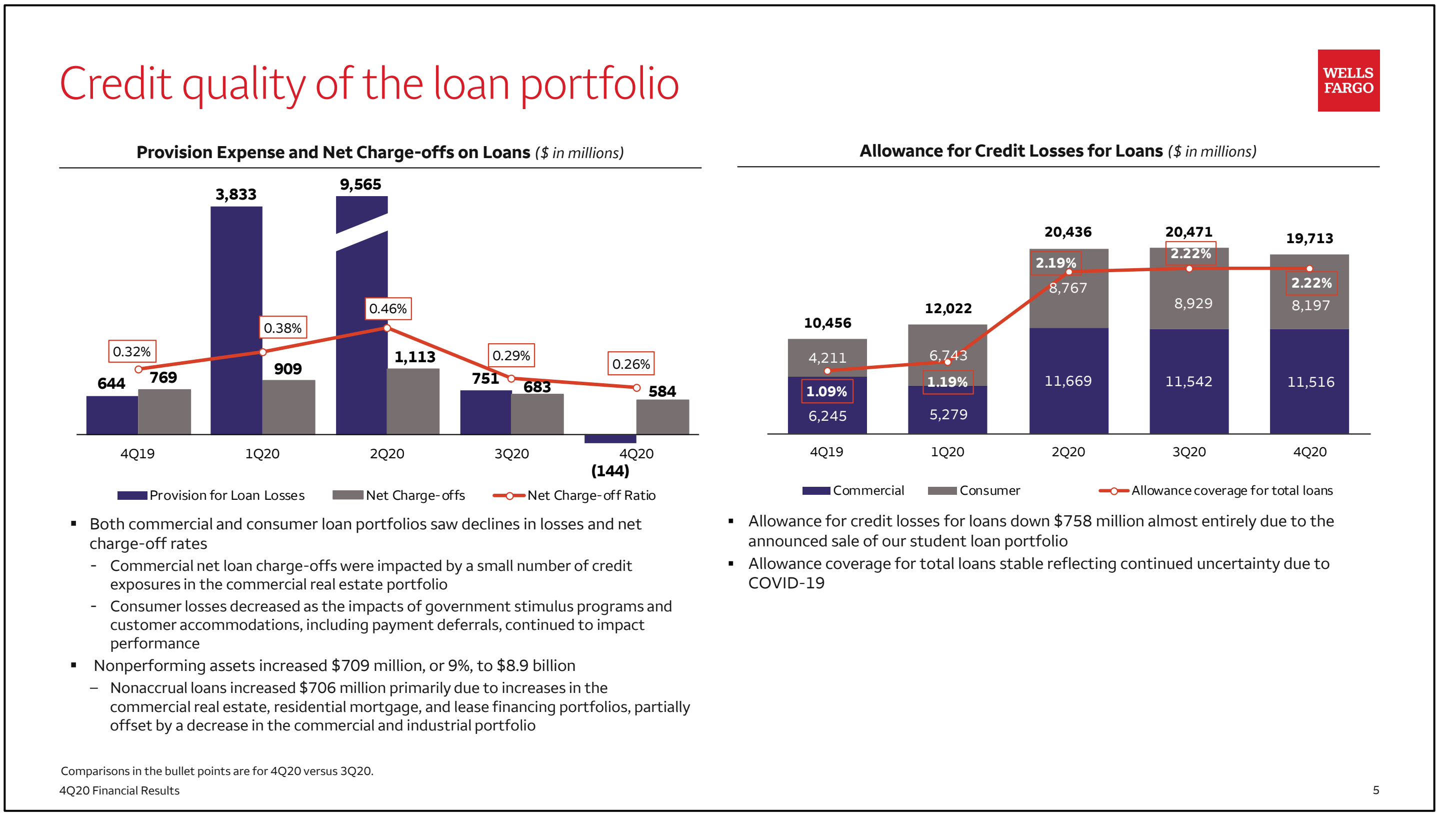
Most banks took large provisions in 1Q and 2Q but none in 4Q. When pandemic lockdowns started last March, most banks took a large provision (roughly 5x normal) for potential loan losses. As the year progressed into the second quarter, albeit with little information about the true credit performance of the portfolio, banks took an even larger provision. Provisions fell back to normal in 3Q and then none or negative for 4Q as shown in the table below.

Loss Provision					
($MM)	4Q19	1Q20	2Q20	3Q20	4Q20
Bank of America	941	4,761	5,117	1,389	53
JPMorgan Chase	1 427	8,285	10,473	611	(1,889)
Wells Fargo	644	3,833	9,565	751	(144)

Bank of America page 13; JPMorgan Chase supplement page 4; Wells Fargo page 5.

The following graphics show how Bank of America and Wells Fargo address the credit quality of their portfolios.





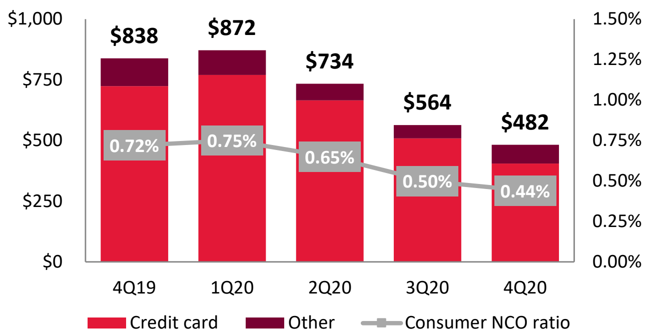
Changes to banks' loss reserves, while material, may not cover real exposure. Loss provision depends on total reserve needs at the end of the period and net charge-off activity during the period. Considering all of the government-sponsored forbearance activity, it isn't surprising that charge-offs did not increase in 2020. In fact, consumer charge-offs actually dropped quarter-by-quarter as 2020 progressed (see red bars in BofA example in the slide on the next page). BofA says, "Credit card delinquencies declined in March through July, driven by loan deferrals and government stimulus." That is, the bank didn't take charge-offs; the borrower didn't catch up on payments; delinquencies declined because of deferrals.

What will happen to credit performance in 2021? The most important credit questions right now are: What will happen to performance as the "pandemic economy" continues? Even worse, how will borrowers catch-up when deferrals end? Bank of America's allowance on consumer loans rose from 0.98% as of 12/19 to 2.35% as of 12/20. So BofA increased its cushion by 1.37%. Is that enough? Too much? It's impossible to know.

On the commercial side, the ALLL rose from 0.96% to 1.77% during 2020. Is that extra 0.81% going to be enough?

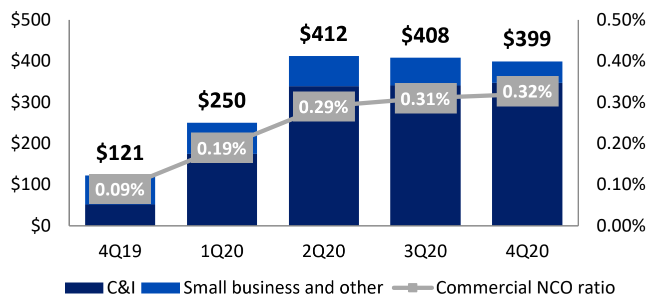
Asset Quality – Consumer and Commercial Portfolios

Consumer Net Charge-offs ($MM)



Consumer Metrics ($MM)	4Q20	3Q20	4Q19
Provision	($139)	$295	$798
Nonperforming loans and leases	2,725	2,357	2,053
% of loans and leases [1]	0.64 %	0.54 %	0.44 %
Consumer 30+ days performing past due	$4,498	$4,386	$5,776
Fully-insured [2]	1,090	1,213	1,811
Non fully-insured	3,408	3,173	3,965
Consumer 90+ days performing past due	1,698	1,410	2,163
Allowance for loans and leases	10,071	10,691	4,542
% of loans and leases [1]	2.35 %	2.43 %	0.98 %
# times annualized NCOs	5.25 x	4.76 x	1.37 x

Commercial Net Charge-offs ($MM)



Commercial Metrics ($MM)	4Q20	3Q20	4Q19
Provision	$192	$1,094	$143
Reservable criticized utilized exposure	38,666	35,710	11,452
Nonperforming loans and leases	2,227	2,193	1,499
% of loans and leases [1]	0.45 %	0.43 %	0.29 %
Allowance for loans and leases	$8,731	$8,905	$4,874
% of loans and leases [1]	1.77 %	1.75 %	0.96 %

[1] Excludes loans measured at fair value.
[2] Fully-insured loans are FHA-insured loans and other loans individually insured under long-term standby agreements.

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Enhanced granularity provides more comfort but can't answer the enough/too much question. Wells does a good job of showing how its loss reserves are allocated across the portfolio (see the table below and the graphic on the next page). But it's impossible to know whether its 11.13% for credit cards will be enough – now it's less than Chase (which jumped 3x); or its 2.27% for C&I or 2.60% for CRE – Chase's total wholesale loan allowance barely rose, so Wells looks great by comparison. Only time will tell which reserve is the right amount.

Allowance for Loan Losses							
(percent of loans)		4Q19	1Q20	2Q20	3Q20	4Q20	Change
Bank of America	Consumer	0.98	NA	NA	2.43	2.35	1.37
JPMorgan Chase	Credit Card	3.36	9.71	12.57	12.75	12.41	9.05
Wells Fargo	Credit Card	7.10	9.02	10.49	11.33	11.13	4.03
Bank of America	Commercial	0.96	NA	NA	1.75	1.77	0.81
JPMorgan Chase	Wholesale	1.02	0.87	1.73	1.70	1.34	0.32
Wells Fargo	C&I	0.70	1.04	2.32	2.44	2.27	1.57
Wells Fargo	CRE	0.58	0.69	1.93	2.06	2.60	2.02

Bank of America page 14; JPMorgan Chase supplement page 27; Wells Fargo page 19.

Wells Fargo & Company and Subsidiaries
ALLOCATION OF ALLOWANCE FOR CREDIT LOSSES FOR LOANS

	Dec 31, 2020		Sep 30, 2020		Jun 30, 2020		Mar 31, 2020		Jan 1, 2020 (1)	
($ in millions)	**ACL**	**ACL as % of loan class**	ACL	ACL as % of loan class	ACL	ACL as % of loan class	ACL	ACL as % of loan class	ACL	ACL as % of loan class
By product:										
Commercial:										
Commercial and industrial	**$ 7,230**	**2.27 %**	$ 7,845	2.44 %	$ 8,109	2.32 %	$ 4,231	1.04 %	$ 2,491	0.70 %
Real estate mortgage	**3,167**	**2.60**	2,517	2.06	2,395	1.93	848	0.69	702	0.58
Real estate construction	**410**	**1.88**	521	2.31	484	2.23	36	0.17	42	0.21
Lease financing	**709**	**4.41**	659	3.89	681	3.91	164	0.86	149	0.75
Total commercial	**11,516**	**2.41**	11,542	2.39	11,669	2.27	5,279	0.93	3,384	0.66
Consumer:										
Residential mortgage - first lien	**1,600**	**0.58**	1,519	0.51	1,541	0.55	836	0.29	845	0.29
Residential mortgage - junior lien	**653**	**2.80**	710	2.82	725	2.70	125	0.44	78	0.26
Credit card	**4,082**	**11.13**	4,082	11.33	3,777	10.49	3,481	9.02	2,913	7.10
Auto	**1,230**	**2.55**	1,225	2.53	1,174	2.41	1,016	2.09	719	1.50
Other consumer	**632**	**2.59**	1,393	4.20	1,550	4.79	1,285	3.83	1,188	3.46
Total consumer	**8,197**	**2.00**	8,929	2.04	8,767	2.08	6,743	1.53	5,743	1.29
Total allowance for credit losses for loans	**$ 19,713**	**2.22 %**	$ 20,471	2.22 %	$ 20,436	2.19 %	$ 12,022	1.19 %	$ 9,127	0.95 %
By segment:										
Consumer Banking and Lending	**$ 9,593**	**2.64 %**	9,593	2.51 %	9,329	2.53 %	6,806	1.79 %	5,863	1.52 %
Commercial Banking	**4,586**	**2.43**	4,586	2.35	4,458	2.12	2,297	0.95	1,482	0.66
Corporate and Investing Banking	**5,155**	**2.11**	5,155	2.14	5,405	2.11	2,064	0.72	997	0.39
Wealth and Investment Management	**375**	**0.46**	375	0.47	383	0.49	128	0.16	122	0.16
Corporate	**4**	**0.04**	762	3.47	861	3.92	727	3.29	663	3.03
Total allowance for credit losses for loans	**$ 19,713**	**2.22 %**	20,471	2.22 %	20,436	2.19 %	12,022	1.19 %	9,127	0.95 %

(1) Reflects our allowance for credit losses as a result of our adoption of CECL on January 1, 2020.

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The following graphics (supplement pages 21 and 22) provide industry-specific information about troubled loans in Wells' C&I and CRE portfolios but do not explain changes in the ALLL – nonaccrual loans now are almost identical to 12/19 levels when the ALLL was 31% and 22% of its current level. Clearly, banks are not moving loans to nonaccrual – perhaps because deferrals and loan modifications are enough to keep these loans current for the time being.

Wells Fargo & Company and Subsidiaries

COMMERCIAL AND INDUSTRIAL LOANS AND LEASE FINANCING BY INDUSTRY

	Dec 31, 2020				Sep 30, 2020				Dec 31, 2019			
($ in millions)	**Nonaccrual loans**	**Loans outstanding**	**% of total loans**	**Total commitments (1)**	Nonaccrual loans	Loans outstanding	% of total loans	Total commitments (1)	Nonaccrual loans	Loans outstanding	% of total loans	Total commitments (1)
Financials except banks	**$ 160**	**117,726**	**13%**	**$ 206,999**	$ 204	108,597	12%	$ 193,838	$ 112	117,312	12%	$ 200,848
Technology, telecom and media	**144**	**23,061**	**3**	**56,500**	100	24,517	3	56,417	28	22,447	2	53,343
Real estate and construction	**133**	**23,113**	**3**	**51,526**	287	24,959	3	52,995	47	22,011	2	48,217
Retail	**94**	**17,393**	**2**	**41,669**	149	19,243	2	42,250	105	19,923	2	41,938
Equipment, machinery and parts manufacturing	**81**	**18,158**	**2**	**41,332**	95	19,586	2	40,649	36	23,457	2	42,040
Materials and commodities	**39**	**12,071**	**1**	**33,879**	48	13,188	1	35,885	33	16,375	2	39,369
Health care and pharmaceuticals	**145**	**15,322**	**2**	**32,154**	163	16,074	2	32,304	28	14,920	2	30,168
Oil, gas and pipelines	**953**	**10,471**	**1**	**30,055**	1,188	11,138	1	31,344	615	13,562	1	35,445
Food and beverage manufacturing	**17**	**12,401**	**1**	**28,908**	30	12,051	1	28,597	9	14,991	2	29,172
Automobile related	**79**	**11,817**	**1**	**25,034**	24	12,031	1	25,240	24	15,996	2	26,310
Commercial services	**107**	**10,284**	**1**	**24,442**	145	10,618	*	24,467	50	10,455	*	22,713
Utilities	**2**	**5,031**	*****	**18,564**	9	5,922	*	19,315	224	5,995	*	19,390
Entertainment and recreation	**263**	**9,884**	**1**	**17,551**	85	9,643	1	16,849	44	13,462	1	19,854
Transportation services	**573**	**9,236**	**1**	**15,531**	390	10,216	1	16,642	224	10,957	*	17,660
Diversified or miscellaneous	**7**	**5,437**	*****	**14,717**	16	4,965	—	14,043	4	4,600	*	11,290
Insurance and fiduciaries	**2**	**3,297**	*****	**14,334**	2	3,463	*	14,814	1	5,525	*	15,596
Banks	**—**	**12,789**	**1**	**13,842**	—	12,975	1	13,982	—	20,070	*	20,728
Agribusiness	**81**	**6,314**	*****	**11,642**	40	6,829	*	12,419	35	7,539	*	12,901
Government and education	**9**	**5,464**	*****	**11,065**	10	5,413	*	11,691	6	5,363	*	12,267
Other (2)	**$ 68**	**5,623**	*****	**$ 23,315**	$ 36	6,432	2%	$ 13,946	$ 15	8,996	1%	$ 21,698
Total	**$ 2,957**	**334,892**	**33%**	**$ 713,059**	$ 3,021	337,860	37%	$ 697,687	$ 1,640	373,956	39%	$ 720,947

* Less than 1%.

(1) Total commitments consists of loans outstanding plus unfunded credit commitments, excluding issued letters of credit.

(2) No other single industry had total loans outstanding in excess of $3.8 billion, $5.0 billion, and $4.7 billion at December 31, 2020, September 30, 2020, and December 31, 2019, respectively.

Wells Fargo & Company and Subsidiaries

COMMERCIAL REAL ESTATE LOANS BY PROPERTY TYPE

	Dec 31, 2020				Sep 30, 2020				Dec 31, 2019			
($ in millions)	**Nonaccrual loans**	**Loans outstanding**	**% of total loans**	**Total commitments (1)**	Nonaccrual loans	Loans outstanding	% of total loans	Total commitments (1)	Nonaccrual loans	Loans outstanding	% of total loans	Total commitments (1)
Office buildings	**$ 274**	**37,251**	**4%**	**$ 43,059**	$ 280	37,347	4%	$ 42,855	$ 111	37,107	4%	$ 42,907
Apartments	**30**	**27,909**	**3**	**35,092**	30	27,435	3	35,038	9	24,658	2	32,576
Industrial/warehouse	**87**	**17,108**	**2**	**19,069**	77	17,730	2	19,887	83	17,305	2	19,588
Retail (excluding shopping center)	**286**	**13,808**	**2**	**14,444**	172	14,053	2	14,603	133	14,720	2	15,395
Hotel/motel	**273**	**12,134**	**1**	**12,770**	159	12,288	1	13,038	16	11,778	1	13,187
Shopping center	**588**	**11,441**	**1**	**12,065**	408	11,732	1	12,422	2	12,129	1	13,275
Institutional	**93**	**6,692**	*****	**7,923**	95	6,215	*	7,667	49	5,541	*	7,193
Mixed use properties	**98**	**6,192**	*****	**7,424**	91	6,217	*	7,434	93	6,864	1	8,289
Collateral pool	**—**	**2,970**	*****	**3,546**	—	2,850	*	3,420	—	2,526	*	3,009
1-4 family structure	**—**	**1,346**	*****	**3,400**	—	1,523	*	3,517	4	1,533	*	3,278
Other	**93**	**6,674**	*****	**8,376**	65	7,039	*	8,995	114	7,602	1	9,002
Total	**$ 1,822**	**143,525**	**16%**	**$ 167,168**	$ 1,377	144,429	16%	$ 168,876	$ 614	141,763	15%	$ 167,699

* Less than 1%.

(1) Total commitments consists of loans outstanding plus unfunded credit commitments, excluding issued letters of credit.

Deferral Activity

Analysis of deferral activity is the best way to predict potential losses. Unfortunately, most banks provide limited disclosure about deferrals. Both Wells and Chase provide deferral information only on their consumer portfolio as shown in the graphics below. For both, residential loans still in deferral amount to only 4% of their portfolios. Credit card deferrals are de minimis – 1% for Wells and 0.2% for Chase – down from June highs of 7% and 3%, respectively. More to point, Chase discloses the performance of loans that have exited deferral (likely with payments added to principal balance – not paid in full and not forgiven); 97% of mortgages are now current as are 90% of credit card accounts (85% by balance). It appears that deferrals are no longer masking credit risk. Unfortunately, modifications are not reported now – that's where heightened credit risk is hidden.

Consumer loan deferrals due to COVID-19

$14.3 billion unpaid principal balance (UPB) of modified consumer loans were still in deferral as of 12/31/20, down from $22.7 billion as of 9/30/20[1]

	As of December 31, 2020		As of September 30, 2020		As of June 30, 2020	
($ in millions)	Unpaid principal balance of modified loans still in deferral period	% of loan class	Unpaid principal balance of modified loans still in deferral period	% of loan class	Unpaid principal balance of modified loans still in deferral period	% of loan class
Residential mortgage-first lien	$ 10,544	4 %	$ 16,994	6 %	$ 25,194	9 %
Residential mortgage-junior lien	1,355	6	1,848	7	2,812	10
Credit card	373	1	783	2	2,616	7
Auto	1,911	4	2,796	6	4,880	10
Other consumer[1]	126	1	317	1	638	3
Total Consumer[2]	**$ 14,309**	**3 %**	**$ 22,738**	**5 %**	**$ 36,140**	**10 %**

1. Excludes student loans in deferral due to the announced sale of our student loan portfolio and the transfer of these loans to loans held for sale. Prior period amounts of other consumer loans have been revised to exclude student loan balances in deferral of $740 million and $1.0 billion at September 30, 2020 and June 30, 2020, respectively.
2. Excludes $15.9 billion, $19.1 billion and $7.1 billion at December 31, 2020, September 30, 2020 and June 30, 2020, respectively, of residential mortgage-first lien loans insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA) that were primarily repurchased from GNMA loan securitization pools. FHA/VA loans are entitled to payment deferrals of scheduled principal and interest up to a total of 12 months.

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Update on payment deferrals

Consumer loans with payment deferral ($mm)

	Loan balance with payment deferral		12/31/2020		
	6/30/2020	9/30/2020	Loan balance with payment deferral	% of loan class balance[1]	% of accounts who exited payment deferral and are current[2]
Residential real estate (including third-party loans serviced)[3]	$54,532	$28,516	$23,522	3.8%	97%
Residential real estate (retained)[3]	*20,548*	*11,458*	*10,106*	*4.5*	*95*
Auto and other[4]	3,357	457	377	0.5	94
Credit card	4,384	368	264	0.2	90[5]
Total consumer	**$62,273**	**$29,341**	**$24,163**	**2.9%**	**91%**

Note: Totals may not sum due to rounding
[1] Represents the unpaid principal balance of loans with payment deferral, divided by the total unpaid principal balance of the respective loan classes loans
[2] Includes accounts less than 30 days past due
[3] Includes residential real estate loans held in CCB, AWM and Corporate
[4] Excludes risk-rated business banking and auto dealer loans held in CCB and auto operating lease assets that were still with payment deferral as of the reporting date
[5] 85% of the balance that exited deferral are current as of the reporting date

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Deferrals have also been used to manage commercial loans. While none of the mega-banks provide information about commercial loan deferrals, some smaller banks provide insight into market norms. For example, Bank of Oklahoma provides data on consumer and commercial deferrals. It has a lower amount of deferrals than Chase and Wells (1.8%, likely mostly mortgage, versus 4% on mortgage and 3% overall), but only 0.4% of commercial loans are in deferral. As tough economic conditions continue, it will be interesting to watch for deferrals or refinancings of C&I and CRE loans that would normally be classified as troubled debt restructurings. Exiting a deferral with a modification simply pushes the credit risk into the future.

COVID-19

Loan Deferrals	In Deferral			Exited Deferral		
	# of loans	Amount ($mil)	% of segment	# of loans	Amount ($mil)	% of segment
Business Market*	30	$86.8	0.4%	448	$1,575.5	8.1%
Individual Market**	296	$30.7	1.8%	473	$35.9	2.2%
Total	**326**	**$117.5**	**0.6%**	**921**	**$1,611.4**	**7.6%**

* Includes C&I, Energy, Healthcare, CRE and Private Wealth
** Includes Consumer and Mortgage

COVID-19 Impacted Areas ($mil)	Total Outstanding	Percent of Portfolio
Entertainment and Recreation	$555.9	2.42%
• Gaming Industries	379.1	1.65%
• All other Entertainment and Recreation	176.8	0.77%
Retail	573.7	2.49%
• Convenience Stores & Gas Stations	102.3	0.44%
• Restaurants	266.0	1.17%
• Specialty Stores	31.3	0.14%
• All Other Retail	174.1	0.76%
Hotels	65.8	0.29%
Churches and Religious Organizations	132.9	0.58%
Colleges and Universities	186.6	0.81%
Airlines	27.1	0.12%
Total COVID-19 Impact Areas	**$1,542.0**	**6.70%**

- Deferred loans continue to decline with only 12 loans ($24.3 million) in extended deferral
- Businesses the markets originally considered more exposed to ongoing economic headwinds due to the pandemic are less than 7% of the total BOKF portfolio
- Close monitoring in place for these areas

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Instead of deferrals, some banks have modified loans under the CARES Act. Like BOK, BankUnited provides more granular data on deferrals, but it also provides data on *CARES Act modifications* by industry segment within the CRE and C&I space. For example, the graphic on the next page shows that a majority (55%) of its hotel loans were modified pursuant to the CARES Act; at $344 million this constitutes about 5% of BankUnited's CRE portfolio. BankUnited's actions are commonplace in the current bank environment – the difference is that they have reported it.

Loan Portfolio – Deferrals and Modifications
At December 31, 2020

($ in millions)

- Loans subject to COVID related deferral or modification under the CARES Act totaled $794 million or 3% of the total loan portfolio at December 31, 2020. By comparison, at the end of Q2, we reported that we had granted 90-day payment deferrals on $3.6 billion of loans or 15% of the total loan portfolio.
- Commercial CARES Act modifications are most often 9 to 12-month interest only periods.
- Commercial deferrals remained consistent quarter over quarter at 4% of the commercial portfolio
- Residential deferrals and modifications declined to 2% of the residential portfolio at December 31, 2020 from 8% at September 30

	Currently Under Short-Term Deferral	CARES Act Modifications	Total	% of Portfolio
Residential - excluding government insured	$ 144	$ 12	$ 156	2%
CRE - Property Type:				
Retail	$ 29	$ 19	$ 48	4%
Hotel	1	343	344	55%
Office	-	48	48	2%
Multifamily	-	16	16	1%
Other	2	-	2	1%
Total CRE	$ 32	$ 426	$ 458	7%
C&I - Industry:				
Accomm. and Food Services	$ -	$ 15	$ 15	5%
Retail Trade	1	17	18	6%
Manufacturing	2	11	13	4%
Transportation and Warehousing (cruise lines)	-	48	48	10%
Finance and Insurance	-	18	18	2%
Other	7	15	22	1%
Total C&I	$ 10	$ 124	$ 134	2%
BFG - Franchise	$ 21	$ 25	$ 46	8%
Total Commercial	$ 63	$ 575	$ 638	4%
Total Loans	**$ 207**	**$ 587**	**$ 794**	**3%**
% of Total Loans	**<1%**	**2%**	**3%**	

Residential – Excluding Government Insured

Through December 31, 2020, a total of $525 million of residential loans, excluding government insured loans, had been granted an initial short-term payment deferral. The status of those loans at December 31, 2020 is presented in the table below:

Loans Still Under Short-Term Deferral		Loans That Have Rolled Off of Short-Term Deferral			
		Paying as Agreed		Not Resumed Regular Payments	
Balance	% of Loans Initially Granted Short-Term Deferral (1)	Balance	% of Loans Rolled Off Short-Term Deferral	Balance	% of Loans Rolled Off Short-Term Deferral
$144	27%	$362	95%	$19	5%

(1) Includes $23 million of loans continuing to make payments.

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Summary

The biggest take-away's from this quarter's earnings releases are that digital banking is here to stay. Community banks must develop and execute a digital strategy or risk losing customer relevance. Changes in fee income by type demonstrate that changing payment patterns are already having a material impact on the bottom line.

The second key issue is credit performance during the pandemic. Banks took unusually large provisions in 1Q and 2Q 2020 only to reverse some of that in the fourth quarter. Analysis of deferral activity would suggest that there have not been material changes to the credit quality of portfolios. That said, CARES Act modifications and other borrower-friendly initiatives may be masking performance, making it impossible to determine true expected losses. As a result, it is not yet possible to assess credit damage in bank portfolios.

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