

CVB Central Valley Bank

"Large enough to serve, Small enough to care."SM



**2012 YAKIMA AND CENTRAL
WASHINGTON ECONOMIC SYMPOSIUM
JULY 26, 2012**

BY: D. MICHAEL BROADHEAD



Corporate Structure



Total assets: \$1.270 billion
Branches: 27



Total assets: \$167 million
Branches: 6



Banking Industry



Banking Industry: Nationally	2010	2012
Number of Banks	7932	7307
Bank Failures	280 (2010-2011)	31 (2012)
Problem Banks	1848	772

Banking Industry: Washington State	2010	2012
Number of Banks	90	78
Bank Failures	17 (2010-2011)	0 (2012)
Problem Banks	16	9

Status of Banks in Washington State



- S&L Crisis in the early 90's-Texas Ratio is born
- Ratio in excess of 100% significantly increases the likelihood that a bank will be closed by the regulators
- 17 Bank failures in the last three years.
- Non performing assets (1st quarter average 4.99%)

Summary of Analysis	2010	2012
Washington Banks with a Texas Ratio greater than 100%	19	9
Washington Banks with a Texas Ratio greater than 50%	39	25
Washington Banks with tangible common equity/tangible assets less than 5%	9	3

Banking Environment



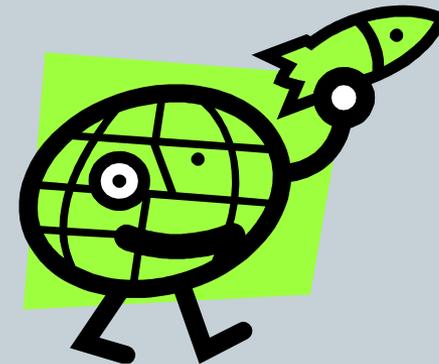
- Improved credit quality- residential and commercial real estate delinquency in excess of 10% (2010) declined to 6.9% (2012).
- Real estate values declining 30-40% past 5 years have now stabilized.
- Non performing assets decreasing from 8-10% (2010) to 3-6% (2012)
- Loan losses decline from previous year levels.
- Net charge-offs totaled \$21.8 billion Q1 2012
- The lowest quarterly total in four years and 34.8% less than the Q1 2011.

Banking Environment



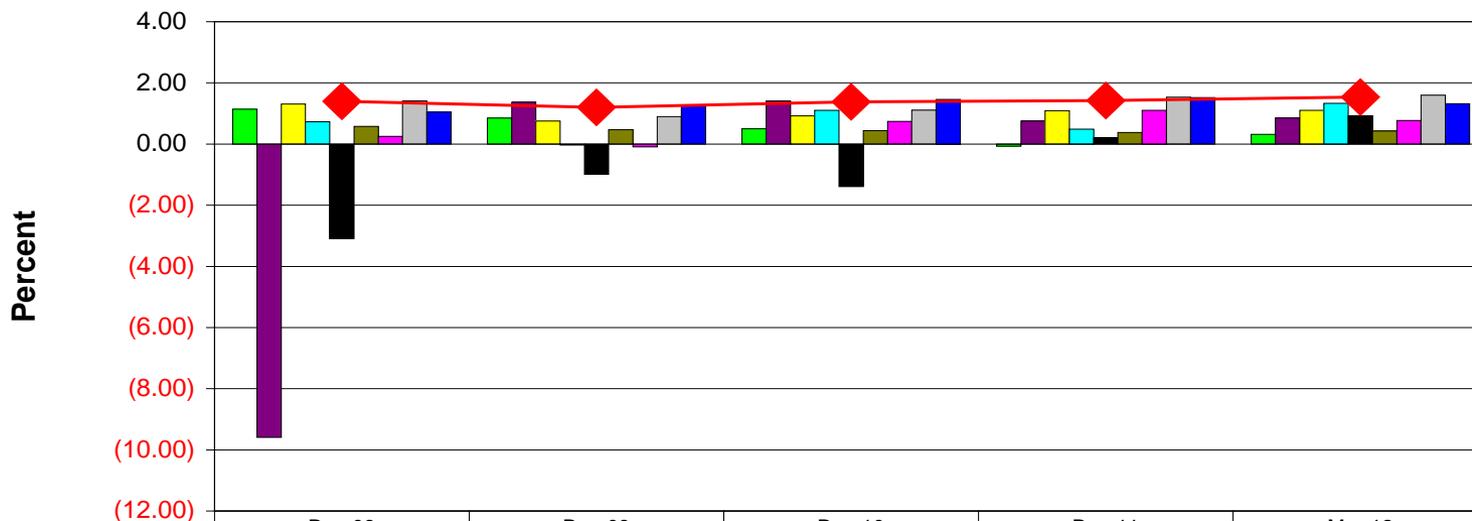
- FDIC insured institution \$35 billion in net income for Q1 2012. ROA 1.02% ROE 9.12%
- Capital levels average 9.2% at quarter end
 - Total risk based capital ratio 15.52% -Highest level in several years.
- Loan balances decline in 1st quarter 2012

- Liquidity has improved as deposits are increasing.
- Limited wholesale funding
- Banks have money to loan



Earnings & Capital Overview

Return on Assets

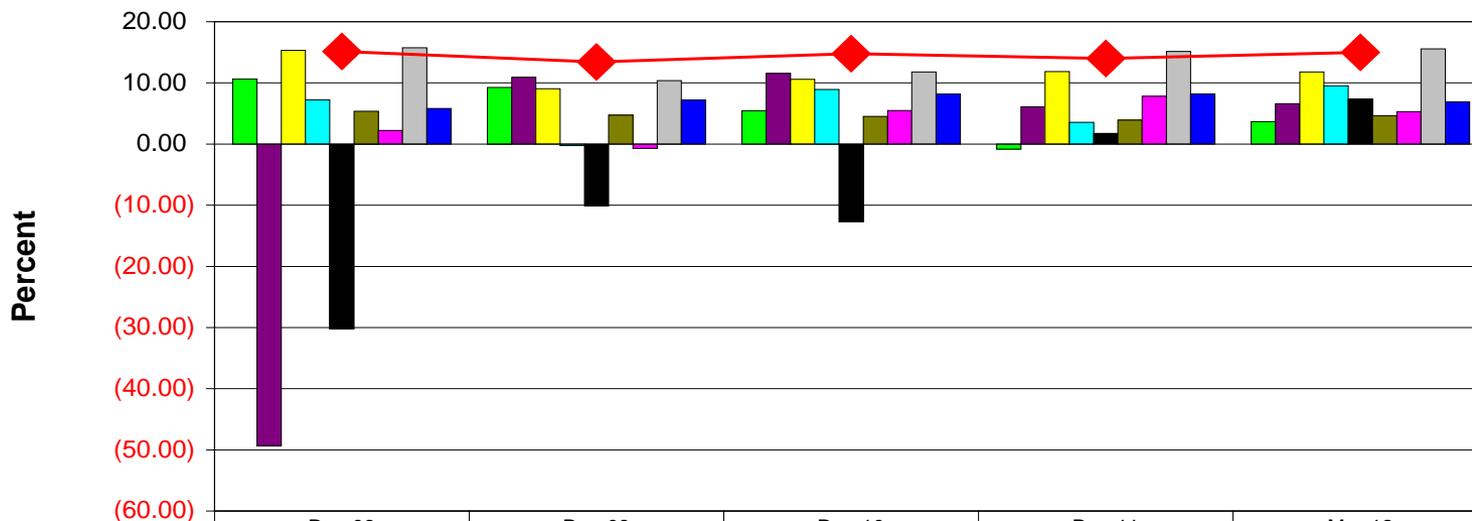


	Dec-08	Dec-09	Dec-10	Dec-11	Mar-12
Yakima National Bank	1.14	0.85	0.50	(0.07)	0.32
Islanders Bank	(9.59)	1.37	1.41	0.75	0.85
Cashmere Valley Bank	1.31	0.75	0.92	1.09	1.10
Heritage Bank	0.73	(0.03)	1.10	0.49	1.33
Banner Bank	(3.09)	(0.99)	(1.39)	0.21	0.93
Wheatland Bank	0.58	0.47	0.44	0.38	0.43
Columbia State Bank	0.25	(0.09)	0.74	1.10	0.77
U.S. Bank National Association	1.41	0.90	1.11	1.53	1.60
Yakima FS & LA	1.04	1.26	1.46	1.52	1.32
Central Valley Bank	1.40	1.20	1.38	1.42	1.54

Return on Assets measures management's overall effectiveness at managing and investing the bank's assets.

Earnings & Capital Overview

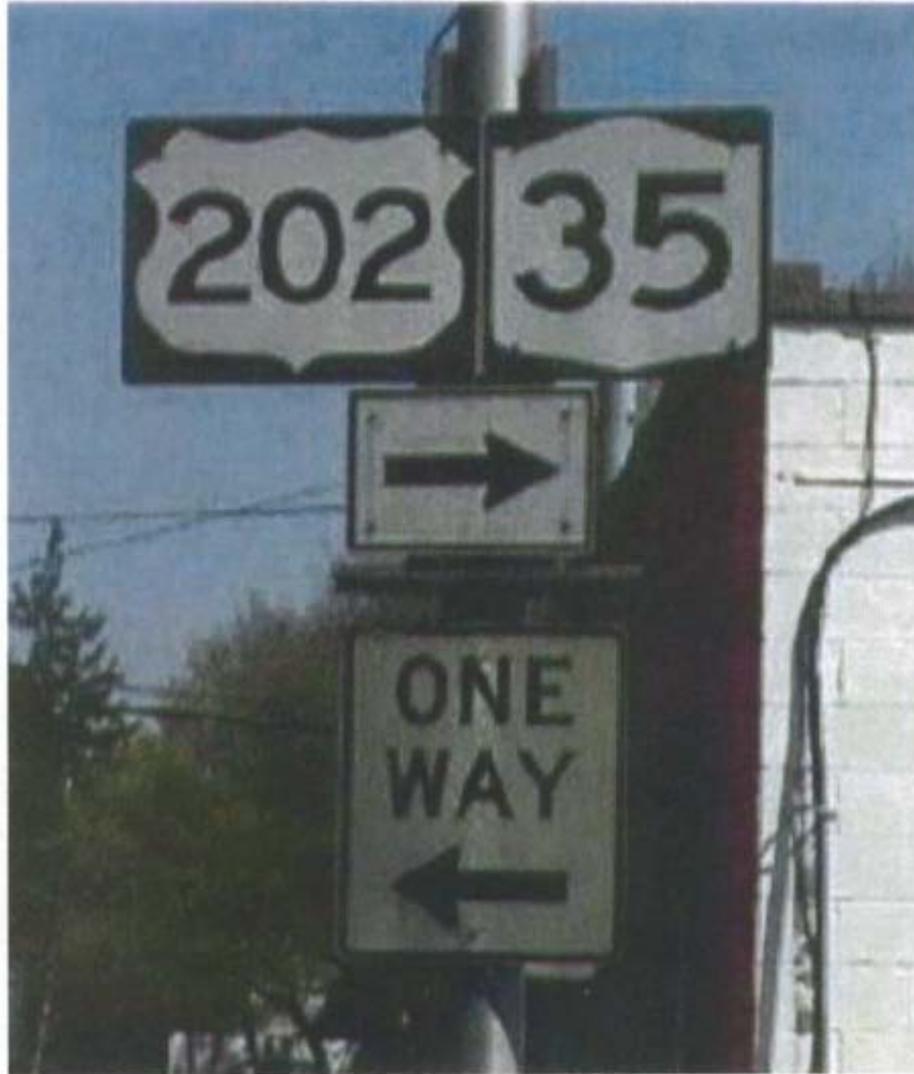
Return on Equity



	Dec-08	Dec-09	Dec-10	Dec-11	Mar-12
Yakima National Bank	10.63	9.27	5.44	(0.81)	3.66
Islanders Bank	(49.33)	10.93	11.56	6.08	6.61
Cashmere Valley Bank	15.32	9.05	10.58	11.84	11.79
Heritage Bank	7.24	(0.24)	8.92	3.55	9.54
Banner Bank	(30.25)	(10.08)	(12.72)	1.75	7.32
Wheatland Bank	5.35	4.73	4.51	3.92	4.63
Columbia State Bank	2.24	(0.70)	5.48	7.80	5.31
U.S. Bank National Association	15.74	10.37	11.80	15.14	15.55
Yakima FS & LA	5.83	7.17	8.18	8.19	6.90
Central Valley Bank	15.15	13.41	14.78	13.98	15.00

Return on Equity measures the net after-tax return provided to the bank's shareholders.

WHERE ARE WE GOING?



Current Headwinds for 2012-2013



- Efficiency Ratio above 65%
- Net interest margin squeeze –
Low rate environment
- Dodd Frank – Regulations
Compliance costs have doubled
- Credit quality must improve.
Concentration
- Credit standards have
tightened
- Regulator pressure to loan
money
- Household deleveraging
- 57 Trillion in debt
- Extends recovery 2-5 Years
- Low interest rates
- Borrow more
- Business sentiment is slowing
loan growth
- Lack profitability
- Need jobs

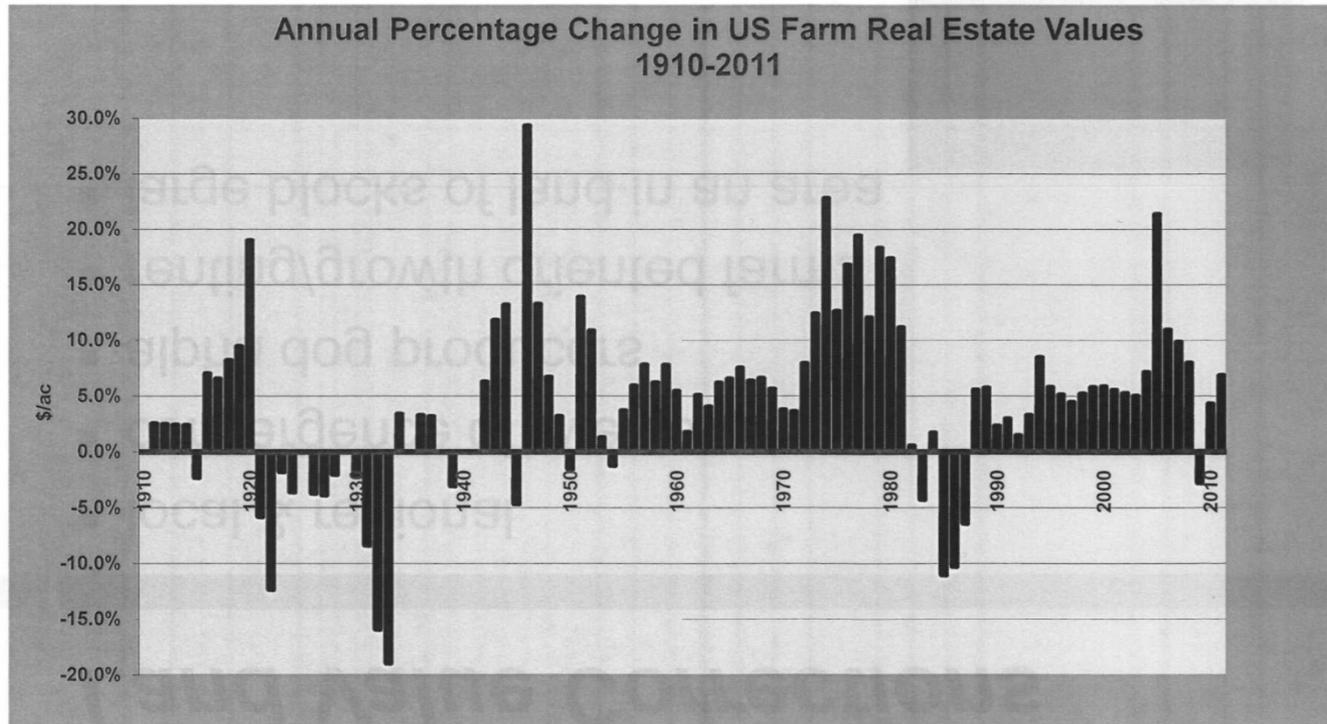
Commercial & Agricultural Headwinds



- Volatility and global markets
- Increasing land values
- 30% increase in agricultural land – past 2 years
- Profitability has been good the past 3 years
- Leverage is increasing

- Inelastic demand
- Low interest rates
- Cash flow can change
- Rate affects value
- Land values follow commodity prices
- Regulations and compliance are increasing the cost of doing business

U.S. Farm Real Estate Values



Source: Dr. Steve Isaacs, University of Kentucky

Viabile Current Strategies?



Results of Government Involvement?

I'M FROM THE
GOVERNMENT,
I'M HERE
TO HELP

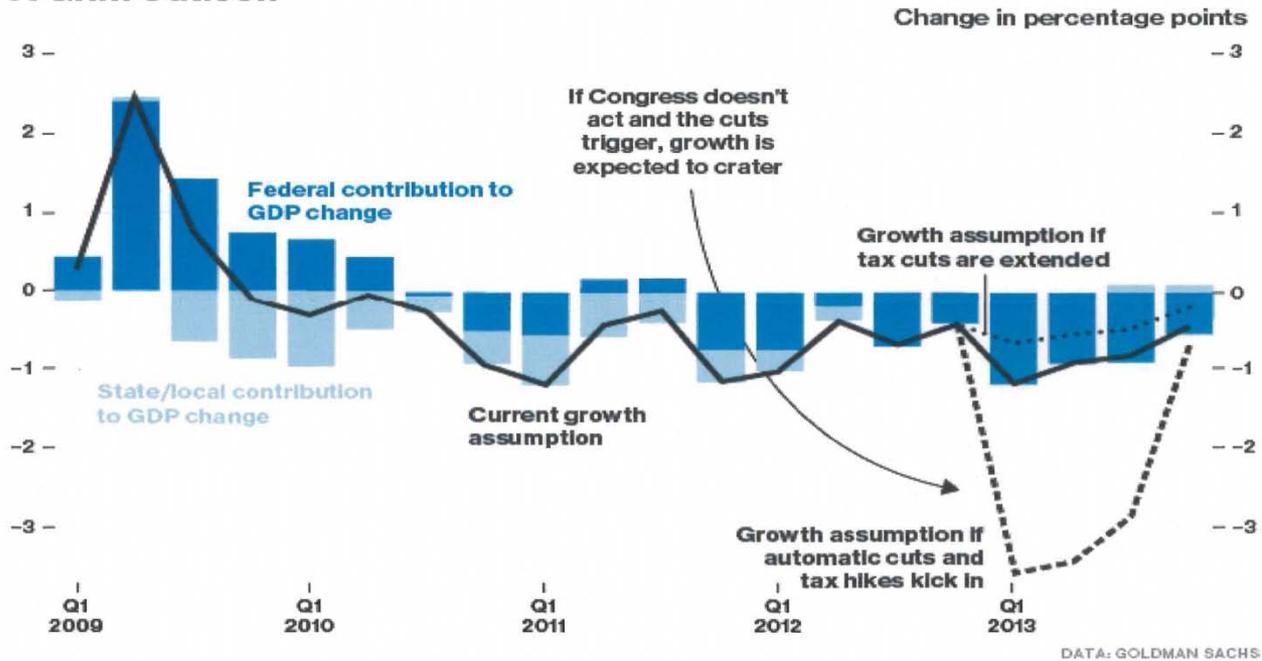


Looming Fiscal Cliff in US



Goldman Sachs on Fiscal Cliff Impact

A Grim Outlook



Economic Uncertainty is Restraining Growth



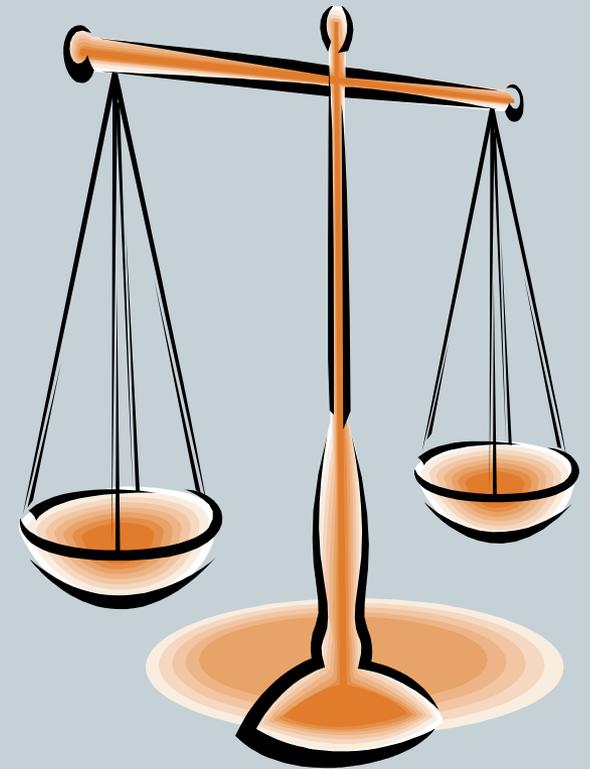
1. **European Union issues**
 - ❑ 26% of global GDP
2. **Can Congress get along?**
 - ❑ Extend Bush tax cuts
 - ❑ Maintain confidence in economy
 - ❑ Regulator relief
 - ❑ Good of country not party
3. **Interest Rates can change if the country is downgraded.**

Need jobs created by the private sector.

Current Local/National Economic Outlook



- We have not yet achieved measureable and sustainable growth in the Pacific Northwest
- Our local economy will continue to struggle until unemployment and real estate values improve
- However, we are seeing signs of improvement.



Will banks continue to loan?

Yes & No



Conditions

- Adequate capital for growth
- Well capitalized – 10% or better total Risk Based Capital
- Adequate liquidity based on core deposit funding. Liability-based liquidity (brokered deposits) is a real concern of the regulators.
- Concentration of credit
 - ❑ Construction Lending
 - ❑ Commercial Real Estate
 - ❑ Agricultural
- Lending based on cash flow – not collateral
- Credit standards are higher



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IN CONCLUSION

GREAT PLACE TO DO BUSINESS

IT TAKES ALL OF US TO MAKE THE ECONOMY WORK. WE NEED TO WORK HARD IN THE NEXT TWO YEARS TO RECRUIT BUSINESS AND SHOWCASE OUR VALLEY.

THE BEST METHOD TO WORK THROUGH THIS RECESSION IS TO BE PROACTIVE

THE GREAT RECESSION HAS CHANGED THE BENCHMARKS FOR SUCCESS