

Banking Watch

United States

May 29, 2012

Economic Analysis

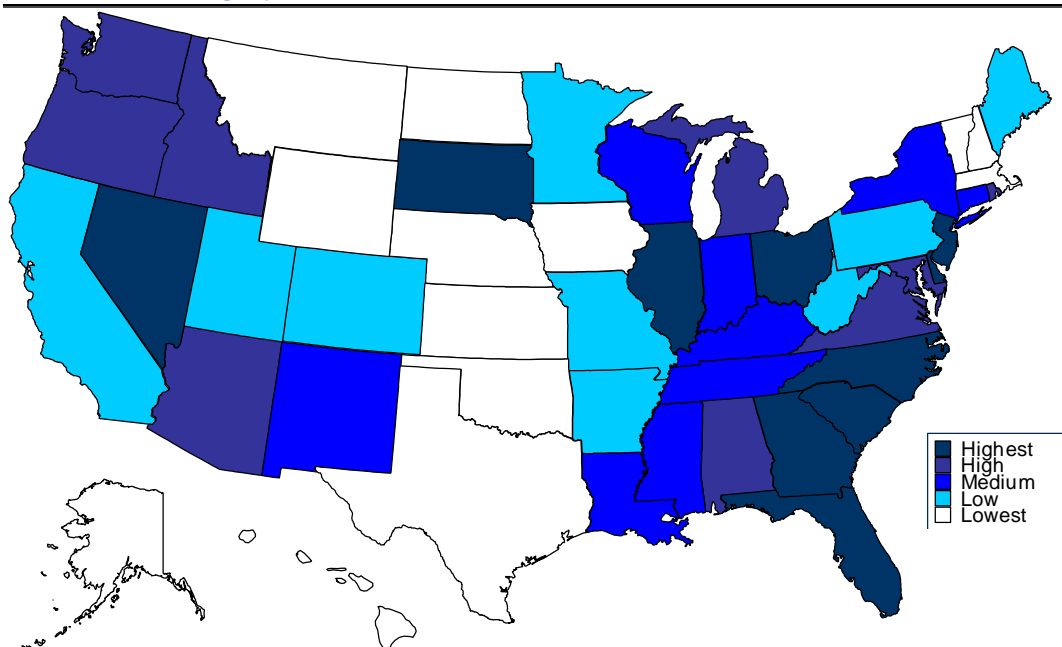
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Banking Rankings 2012Q1 State-by-State Commercial Bank Performance

- For the 12th quarter in a row, Florida ranks number one as the state with the most distressed banking system
- West Coast and New England States are relatively lacking in liquidity buffers, but California has made improvements in distress, capitalization and profitability.

Chart 1

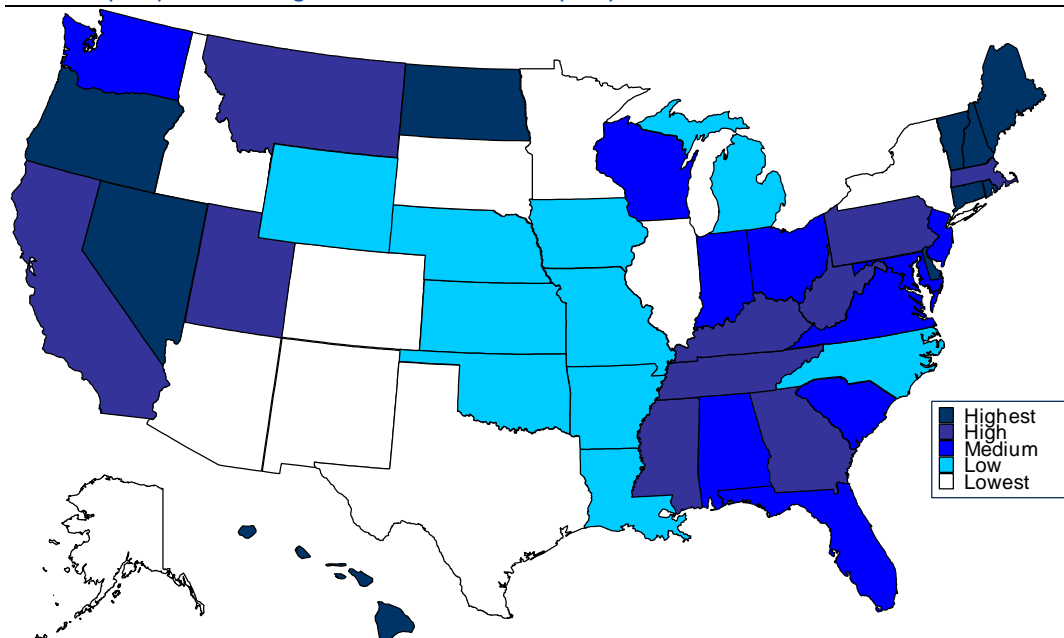
Relative Banking System Distress



Source: BBVA Research

Methodology Note: Data comprising the rankings are taken from the Federal Deposit Insurance Corporation (FDIC)'s data on regulated depositories and selected state macroeconomic indicators. Banks are organized by state charter: all loans and deposits are therefore attributed to the state, even though these loans and deposits may in fact be in other states. As such, the data is often subject to discontinuities as a result of bank failures, mergers or other data that shifts banking assets and liabilities to another state charter. Principal component analysis is applied to the data to determine the optimal weightings of normalized variables that generate each ranking. In the case of our distress ranking above, we ranked state regulated depositories based on their coverage ratio, net charge-off to total loans, state foreclosures and total delinquency. Since these rankings are for the quarter across states, it is more a measure of relative rather than absolute position. In the maps to follow, variables comprising the rankings are defined below.

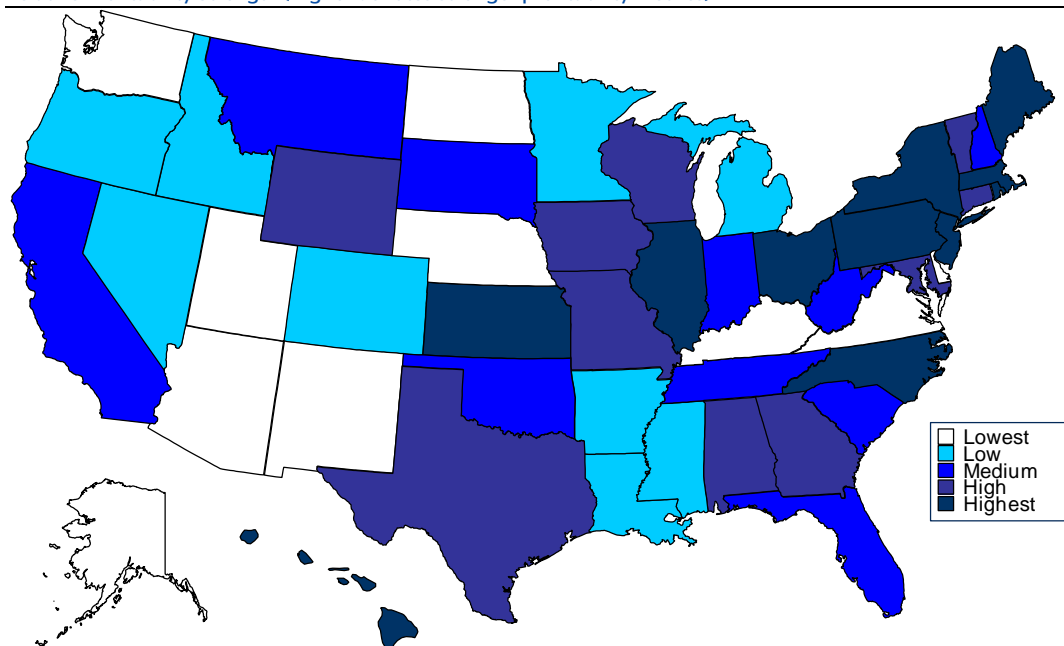
Chart 2

Relative Liquidity Pressures (Higher denotes more severe liquidity conditions)

Liquidity metrics used to develop this ranking are the net noncore funding ratio, the ratio of rate sensitive liabilities to assets, the net short-term liabilities to assets ratio, the reliance on wholesale funding and the on-hand liquidity to total liabilities ratio. A higher ranking in the above map denotes state regulated depositories with increasingly worse liquidity ratios based on these variables than those in other states.

Source: BBVA Research

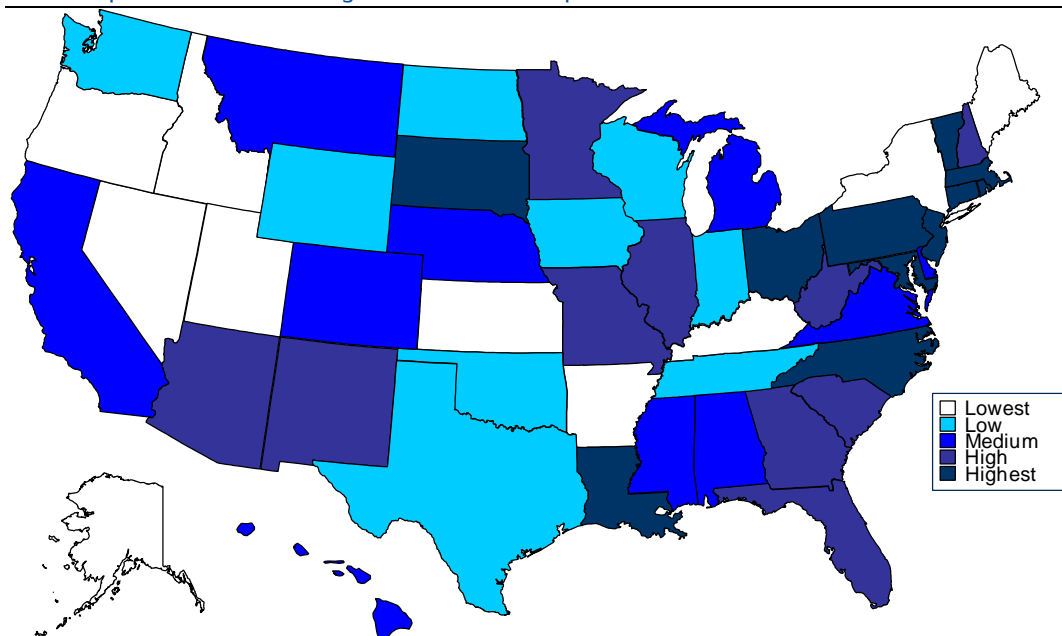
Chart 3

Relative Profitability Strength (Higher denotes stronger profitability metrics)

Profitability metrics used to develop this ranking are the efficiency ratio, net interest margin and return on assets. A higher ranking in the above map denotes state regulated depositories with stronger profitability as proxied by these aforementioned variables than those in other states.

Source: BBVA Research

Chart 4

Relative Capitalization Weakness (Higher denotes weaker capitalization metrics)

Our ranking of capitalization produced above is derived from the total common equity to total assets ratio, the internal growth rate of equity and the Tier 1 common risk-based ratio. A higher ranking in the above map denotes state regulated depositories with stronger capitalization indicators than those in other states.

Source: BBVA Research

Bottom Line

Different states entail different banking condition profiles. As the above analysis suggests, liquidity and funding conditions vary across regions. Capitalization strength, however, is more patch-worked across states. Several quarters ago, capitalization would be more starkly-regionally determined as a result of the housing crisis, but some states have made strides in recovering their capitalization strength, either through bank failures, mergers, capital injections or other methods. One quarter's worth of profitability can also belie longer-term problems, since our profitability map does not match exactly with our distress, liquidity or capitalization maps.

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