First Glance 12L (1Q14)
12th District Banks – Improvement Continues

A First Look at the Financial Performance of Banks*
Headquartered within “12L”
(the 12th Federal Reserve District)

Based on Preliminary 1Q2014 Call & Income Report Data

May 22, 2014

* The main section of this report addresses the performance and condition of 12th District commercial banks. District industrial banks and savings institutions are covered separately in Section 3.

This report has been prepared to provide a quick snapshot of banking conditions for use primarily by bank supervisors and bankers. Analysis and opinions are those of the authors and do not necessarily reflect the views of the Federal Reserve Bank of San Francisco.

Authors: Gary Palmer - gary.palmer@sf.frb.org
Colin Perez - colin.perez@sf.frb.org

Contributors: Cindi Course, Tom Cunningham, Martin Karpuk, Grant LaCorte, Judy Plock, Marty Tunnell


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Snapshot of 1Q14 Results: Most District banks continued to experience net interest margin compression in 1Q14, and most saw slippage in profitability ratios, both year-over-year and quarter-over-quarter (slide 14 and at right). However, most banks further reduced noncurrent loans, had positive loan growth, and maintained healthy levels of capital.

Loan Growth—Accelerating: Loan growth continued to strengthen in the District, up 10% year-over-year, on average. This was below the District “normal times” average rate of 14% (“normal times” is generally defined here as the 1995–2005 average), although banks between $1B and $10B grew by 15% on average (slides 36–37). Based on aggregates, construction & land development loans grew at the fastest pace (15%) year-over-year (slide 39). However, this growth was from a low base (C&LD accounted for just 2% of loans for banks above $10B (slide 33), and was concentrated at a few of the largest lenders. Nonfarm nonresidential loans accounted for the greatest dollar increase in loans for District banks of all sizes, with C&I and Multifamily lending also continuing to grow strongly (slide 40).

Core Profitability—Remained Weakened: District core profitability (pretax, pre-provision earnings-to-assets) continued to slowly recover from the financial crisis, but the average 1Q14 rate of 1.06% annualized remained well below historical “normal times” averages of around 2% (slide 21 and at right). Record low net interest margins remained the biggest obstacle to recovery for most banks, descending to 3.8% (annualized) on average in 1Q14 (slide 22). Provision expense rates, also at record lows, remained the primary positive driver of profits as banks continued to release reserves. Ongoing reserve releases are not sustainable given loan growth and signs of increased risk layering in underwriting and pricing (slides 18–19).

Interest Rate Risk: Although longer-term interest rates have come down since the end of 2013, interest rate risk concerns remain. Seeking yield, banks continued to increase their proportion of loans & securities maturing or repricing in 5+ years (slide 46), but nonmaturity deposits (slide 47) may flow out when interest rates rise, potentially leading some banks to increase future short-term borrowings.
Credit Quality—Solid Improvement: The average District bank noncurrent loan rate (1.4%) is on pace to descend to “normal levels” (0.8%) within a year (slide 27). Banks continued to shed foreclosed real estate assets, although OREO levels remained significant at small banks (slide 31).

Capital & Liquidity—Turning Points from Strong Levels: Capital and balance sheet liquidity measures remained at elevated levels, but are starting to recede as loan volume grows. In 2010, large bank capital ratios had climbed above those of small banks on average; however, since then, small banks significantly augmented their capital ratios to levels that once again exceed those of larger banks, on average (slide 42).

Overall—Banks Strengthening: Financial measures reflect relatively strong capital and liquidity positions, and substantially improved credit quality. Slide 50 (also at right) shows that the percentage of District banks in less-than-satisfactory condition had dropped sharply to 27%. This is still high and well above the 16% national figure. However, there is a natural lag in these numbers as banks are not examined every quarter. Assuming the economy stays on track, the distribution of District bank CAMELS ratings should return to more normal proportions within a year or two. Of course, banks continue to face profitability headwinds from the low-interest-rate environment. They also face risks that potentially may derail their progress, such as from interest rate risk and cybersecurity risk.

Bank Supervisors’ Hot Topics

Hot Topics: The usual “Bank Supervisors Hot Topics” section is abbreviated in this report. The risks and concerns have not substantially changed. So, instead of providing narrative similar to last quarters’, this report provides only a radar screen illustrating the issues of most concern to District banks (slide 58).

If readers have comments or suggestions on risks that should be a focus of attention among bankers and bank supervisors, or on anything else pertaining to this publication, please let us know at SF.BSR.Publications@sf.frb.org.
Section 1
Economic Highlights

This section provides a high-level look at economic conditions, focusing on the degree of recovery from the recession. It includes job growth rates, unemployment rates, housing market and commercial real estate market metrics, all relevant to an analysis of District banking conditions.

Additional 12th District economic trends:

Economy: Recovering
District jobs are nearly back to previous peaks; fully recovered in AK, UT, and WA

Unemployment Rates Improving, but Remaining Well above “Normal” Levels
Biggest year-over-year improvement in Nevada & Idaho

Annual Job Growth Rates Roughly Back to “Normal”

Annual Growth Rate of Nonfarm Jobs within the 12th District

Annual growth rates are back to a level similar to 1995-2005, but still below the “normal” level of job growth. The District has not yet returned to the pre-recession level of job growth.

Unemployment Rates:

District and Nation unemployment rates are improving, but still well above the “normal” level. The District has seen the biggest year-over-year improvement in Nevada and Idaho.

Median Home Price Indices

Source: CoreLogic Home Price Indices, indexed to 100 at 12/10; Mountain: AZ, ID, MT, NM, NV, UT, WY; Pacific: AK, CA, HI, OR, WA

% Chg.
2-years

1-Year Home Price Change by State (March 2014)

Construction Outlook Favorable in the West

Housing starts slowed in 1Q14, but the general trend is up, particularly in the West – a positive for lending opportunities and construction jobs

Housing Starts: 12-month moving average (indexed to 100 at 12/31/10)

FRB-SF

Housing Starts based on 12-mo. moving avg.

New privately owned housing units started; seasonally adjusted, indexed to 100 at 12/10; West: AK, AZ, CA, CO, HI, ID, MT, NM, NV, OR, UT, WA, WY

Source: Census Bureau, Haver Analytics

CRE Market Conditions Continued to Improve With Vacancy Rates Trending Down

12th District Quarterly Aggregate Vacancy and Availability Rates

CRE Property Values recovering, especially in Major Markets

Commercial Property Price Indices – National

Prior Peak to Current (%) Major Mkts Non-Major

Apt. +20% -2% CBD-Office +15% -5%
Retail +2% -26% Hotel -11% -20%
Industrial -11% -19% Sub-Office -20% -32%

CBD = Central Business District Sub = Suburban

Source: Moody’s Commercial Property Index; Combination of 4 core property sectors; major markets = six gateway metropolitan areas: Boston, Chicago, Los Angeles, New York, San Francisco, and Washington, DC. Indexed to 100 at pre-recession peak.
Section 2
Commercial Bank Performance

Slides in this section focus on trends among the 363 commercial banks headquartered within the 12th Federal Reserve District.

See Section 3 for coverage of savings institutions and industrial banks.

12th District Commercial Bank Snapshot – 1Q14

For the quarter, most banks had declining profits, net interest margins, overhead, and noncurrent loans; nearly 2/3 of banks reported loan growth.

<table>
<thead>
<tr>
<th></th>
<th>ROAA</th>
<th>NIM</th>
<th>OH / Avg. Assts</th>
<th>PLLL</th>
<th>NC Lns</th>
<th>Tot. Lns</th>
<th>T1RB Cap Ratio</th>
<th>FTE Emp.</th>
</tr>
</thead>
<tbody>
<tr>
<td>QoQ Change % of banks</td>
<td>Up</td>
<td>44%</td>
<td>35%</td>
<td>40%</td>
<td>33%</td>
<td>27%</td>
<td>65%</td>
<td>59%</td>
</tr>
<tr>
<td></td>
<td>Down</td>
<td>55%</td>
<td>62%</td>
<td>60%</td>
<td>32%</td>
<td>64%</td>
<td>34%</td>
<td>40%</td>
</tr>
<tr>
<td></td>
<td>No Chg.</td>
<td>1%</td>
<td>3%</td>
<td>0%</td>
<td>35%</td>
<td>9%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>YoY Change % of banks</td>
<td>Up</td>
<td>49%</td>
<td>41%</td>
<td>39%</td>
<td>25%</td>
<td>24%</td>
<td>77%</td>
<td>45%</td>
</tr>
<tr>
<td></td>
<td>Down</td>
<td>50%</td>
<td>56%</td>
<td>61%</td>
<td>44%</td>
<td>71%</td>
<td>22%</td>
<td>54%</td>
</tr>
<tr>
<td></td>
<td>No Chg.</td>
<td>1%</td>
<td>3%</td>
<td>0%</td>
<td>31%</td>
<td>5%</td>
<td>1%</td>
<td>1%</td>
</tr>
<tr>
<td>QoQ Change # of banks</td>
<td>Up</td>
<td>157</td>
<td>127</td>
<td>144</td>
<td>120</td>
<td>98</td>
<td>236</td>
<td>213</td>
</tr>
<tr>
<td></td>
<td>Down</td>
<td>199</td>
<td>225</td>
<td>217</td>
<td>115</td>
<td>232</td>
<td>122</td>
<td>143</td>
</tr>
<tr>
<td></td>
<td>No Chg.</td>
<td>5</td>
<td>9</td>
<td>0</td>
<td>126</td>
<td>31</td>
<td>5</td>
<td>87</td>
</tr>
<tr>
<td>YoY Change # of banks</td>
<td>Up</td>
<td>175</td>
<td>150</td>
<td>142</td>
<td>89</td>
<td>85</td>
<td>277</td>
<td>164</td>
</tr>
<tr>
<td></td>
<td>Down</td>
<td>181</td>
<td>201</td>
<td>219</td>
<td>159</td>
<td>258</td>
<td>81</td>
<td>194</td>
</tr>
<tr>
<td></td>
<td>No Chg.</td>
<td>5</td>
<td>10</td>
<td>0</td>
<td>113</td>
<td>18</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

Income items are based on 1-quarter figures. NIM=Net Interest Margin; OH=Overhead expenses; PLLL=Provision for Loan & Lease Losses; NC=Noncurrent; T1RB=Tier 1 Risk Based Capital; FTE Emp.=Full Time Equivalent Number of Employees. Based on District commercial banks, excluding De Novos; preliminary 3/31/14 data

Earnings: District Profitability Flat in 1Q14; Still Well Below “Normal Times” Average

Average Return on Average Assets (annualized) (%)

Average ROAA Trends by State were Mixed

Average Return on Average Assets (annualized) (%)
Large & Mid-Sized Banks Remained Most Profitable
But little or no ROAA improvement in any of the groups

Average Return on Average Assets – 12th District Commercial Banks (%)

Profitability Has Benefitted from Loan Loss Provisions Declining to 20+ Year Lows
60% of District banks took zero or negative provisions during the first quarter 2014

Loan Loss Provisions/Average Assets (% – Adjusted Averages)

Decline of ALLL/Loan Ratios Continued in 1Q14, with Ratio Closing in on “Normal Times” Average
Is this prudent given the expansion of loan growth and risk layering?*

Aggregate Allowance for Loan & Lease Losses / Loans & Leases – 3/31/14

ALLL Reserving Reflects Credit Risk by Loan Type
Reserving is considerably higher at mid-sized banks for C&I and credit cards

* The Office of the Comptroller of the Currency in its Semi-annual Risk Perspectives, defines risk layering as a combination of loosening underwriting standards, weak or no covenants, tightening spreads, and new product expansion. Based on commercial banks, excluding De Novos; trimmed means; preliminary 3/31/14 data.
Core Profitability Rates Remain Well Below “Normal Levels”
Core profitability declined YoY at mid-sized & large banks on average

Core Profitability (Pre-tax pre-provision income/average assets)

<table>
<thead>
<tr>
<th>Group</th>
<th>Avg. District Core Profitability</th>
<th>1Q13</th>
<th>1Q14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small (&lt;$1B)</td>
<td>0.89%</td>
<td>0.92%</td>
<td></td>
</tr>
<tr>
<td>Mid-Sized ($1B-$10B)</td>
<td>1.50%</td>
<td>1.47%</td>
<td></td>
</tr>
<tr>
<td>Large (&gt;10B)</td>
<td>1.87%</td>
<td>1.52%</td>
<td></td>
</tr>
</tbody>
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Net Interest Margins (NIM) Continued to Weaken
District average net interest margin tied record low in 1Q14

Net Interest Income (tax equiv) / Average Earning Assets

<table>
<thead>
<tr>
<th>Year</th>
<th>District</th>
<th>Nation</th>
</tr>
</thead>
<tbody>
<tr>
<td>2003</td>
<td>1.63%</td>
<td>1.99%</td>
</tr>
<tr>
<td>2004</td>
<td>1.14%</td>
<td>1.13%</td>
</tr>
<tr>
<td>2005</td>
<td>1.15%</td>
<td>1.13%</td>
</tr>
<tr>
<td>2006</td>
<td>1.05%</td>
<td>1.06%</td>
</tr>
<tr>
<td>2007</td>
<td>1.03%</td>
<td>1.04%</td>
</tr>
</tbody>
</table>

Loan Yields Continued to Fall
Investment securities yields ticked up as banks extended durations

Yields - Nationwide Banks (%; annualized)

<table>
<thead>
<tr>
<th>Category</th>
<th>Banks with Assets &gt; $10B</th>
<th>Banks with Assets &lt; $10B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer</td>
<td>4.54%</td>
<td>5.15%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>4.01%</td>
<td>5.38%</td>
</tr>
<tr>
<td>C&amp;I</td>
<td>3.72%</td>
<td>5.06%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>3.09%</td>
<td>5.28%</td>
</tr>
<tr>
<td>Investment Securities</td>
<td>3.46%</td>
<td>4.92%</td>
</tr>
</tbody>
</table>

Loan Yields - Statewide Banks (%)

<table>
<thead>
<tr>
<th>Category</th>
<th>Banks with Assets &gt; $10B</th>
<th>Banks with Assets &lt; $10B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer</td>
<td>5.07%</td>
<td>6.07%</td>
</tr>
<tr>
<td>C&amp;I</td>
<td>3.86%</td>
<td>5.13%</td>
</tr>
<tr>
<td>Real Estate</td>
<td>4.00%</td>
<td>5.13%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>4.92%</td>
<td>5.13%</td>
</tr>
<tr>
<td>Investment Securities</td>
<td>3.32%</td>
<td>2.15%</td>
</tr>
</tbody>
</table>
Average District Bank Efficiency Measure Remained Elevated, but Improved Slightly in 1Q14

Large bank ratios remain lower (i.e., better), but moving in the wrong direction

District Banks’ Efficiency Measures - overhead / (net interest income + noninterest income) (this metric measures the cost to produce $1 of revenue)

Average Noninterest Expense and Noninterest Income Ratio Averages Edged Down in 1Q14

Both Noninterest Expense and Noninterest Income Ratio Averages Edged Down in 1Q14

Credit Quality: Average 12th District Noncurrent Rate Closing in on “Normal” Levels

Average Noncurrent Rates Kept Improving For All But Agricultural Loans

Note: C&LD rates are shown in inset chart
By State: Noncurrent Rates Dropped Broadly, Especially in Nevada, Arizona, and Idaho

Average 12th District Bank Noncurrent Loans + Leases / Total Loans + Leases

<table>
<thead>
<tr>
<th>State</th>
<th>1Q14</th>
<th>1Q13</th>
</tr>
</thead>
<tbody>
<tr>
<td>ID</td>
<td>1.5%</td>
<td>2.9%</td>
</tr>
<tr>
<td>AZ</td>
<td>1.5%</td>
<td>3.3%</td>
</tr>
<tr>
<td>CA</td>
<td>1.4%</td>
<td>2.2%</td>
</tr>
<tr>
<td>NV</td>
<td>1.3%</td>
<td>5.6%</td>
</tr>
<tr>
<td>UT</td>
<td>1.3%</td>
<td>1.7%</td>
</tr>
<tr>
<td>WA</td>
<td>1.3%</td>
<td>2.0%</td>
</tr>
<tr>
<td>OR</td>
<td>1.2%</td>
<td>2.0%</td>
</tr>
<tr>
<td>HI</td>
<td>0.8%</td>
<td>1.0%</td>
</tr>
<tr>
<td>AK</td>
<td>0.8%</td>
<td>0.9%</td>
</tr>
</tbody>
</table>

Noncurrent = 90+ days past due or on nonaccrual. Based on commercial banks, excluding De Novos; trimmed means; preliminary 3/31/14 data. NV: excludes credit card banks.

Other High Noncurrent Rates

<table>
<thead>
<tr>
<th>State</th>
<th>1Q13</th>
<th>1Q14</th>
</tr>
</thead>
<tbody>
<tr>
<td>GA</td>
<td>4.1%</td>
<td>2.8%</td>
</tr>
<tr>
<td>SC</td>
<td>3.3%</td>
<td>2.2%</td>
</tr>
<tr>
<td>FL</td>
<td>3.6%</td>
<td>2.1%</td>
</tr>
<tr>
<td>TN</td>
<td>2.4%</td>
<td>1.9%</td>
</tr>
<tr>
<td>MT</td>
<td>2.5%</td>
<td>1.9%</td>
</tr>
</tbody>
</table>

Nation: 1.8% 1.2%

Troubled Debt Restructurings Continued Steady Decline

12th District Bank Restructured Loans as a Percentage of Total Loans

Noncurrent = 90+ days past due or on nonaccrual. Based on commercial banks, excluding De Novos; trimmed means; preliminary 3/31/14 data.

Foreclosed Real Estate Still Relatively High, but Declining

Other Real Estate Owned / Total Assets – 12th District Commercial Banks

Average District Bank Net Charge–Off Rate Dropped to Nearly Zero in 1Q14

Average Ratio of Net Charge–Offs / Average Loans

Based on commercial banks, excluding De Novos; trimmed means; preliminary 3/31/14 data.

First Glance 12L – May 2014
**District Bank Aggregate Loan Mix by Size**

Large banks are focused more on 1-4 family residential & C&I loans, while small banks are more focused on CRE / nonfarm nonresidential secured loans.

**Loan Mix (%)**

- **Small (<$1B)**
  - Construction & Land Dev.: 19%
  - 1-4 Family First Lien: 5%
  - Home Equity + Jr Lien: 6%
  - Commercial & Industrial: 5%
  - Consumer: 4%
  - Other: 2%

- **Mid-Sized ($1B-$10B)**
  - Construction & Land Dev.: 7%
  - Nonfarm Nonresid: 8%
  - Consumer: 5%
  - Other: 5%

- **Large ($10B-$200B)**
  - Construction & Land Dev.: 21%
  - Commercial & Industrial: 17%
  - Consumer: 2%
  - Other: 3%

*Based on all commercial banks <$200B; prelim 3/31/14 data*

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**District Small Bank Aggregate Loan Mix 2007 vs. 2014**

As small District banks charged-off and reduced C&LD lending since 2007, they expanded nonfarm nonresidential-secured loans as a share of total loans.

**Small Commercial Banks ($<1B)**

- **1Q07**
  - Construction & Land Dev.: 36%
  - Ag + Farmland Secrd.: 8%
  - 1-4 Family First Lien: 3%
  - Home Equity + Jr Lien: 4%
  - Multifamily: 4%
  - Nonfarm Nonresid: 6%
  - Commercial & Industrial: 5%
  - Consumer: 2%
  - Other: 2%

- **1Q14**
  - Construction & Land Dev.: 48%
  - Ag + Farmland Secrd.: 6%
  - 1-4 Family First Lien: 5%
  - Home Equity + Jr Lien: 4%
  - Multifamily: 4%
  - Nonfarm Nonresid: 5%
  - Commercial & Industrial: 6%
  - Consumer: 4%
  - Other: 2%

*Based on all commercial banks <$1B; prelim 3/31/14 data*

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**Commercial Real Estate Loan Concentrations Remained High, Despite C&LD Loan Reductions**

**Avg. 12th District Bank CRE Loans / Total Loans**

**Note:** The regulatory definition of CRE for concentration calculations excludes owner-occupied NFNR loans.

- **Owner-Occupied**
  - 2007: 64%
  - 2014: 58%

- **Nonowner-Occupied Nonfarm Nonresid**
  - 2007: 38%
  - 2014: 21%

- **Multifamily Construct. + land development**
  - 2007: 23%
  - 2014: 5%

*Based on all 12th District commercial banks; trimmed means; preliminary 3/31/14 data*

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**Loan Growth Rates: Approaching “Normal” Levels at District Banks**

**Avg. Net Loan & Lease Annual Growth Rates**

- **-1995 to 2005 District Average**
  - 12%

- **-1995 to 2005 Nation Average**
  - 10%

- **-2006 to 2014 District Average**
  - 7%

- **-2006 to 2014 Nation Average**
  - 5%

*Based on commercial banks, excluding De Novos; trimmed means; preliminary 3/31/14 data*
Loan Growth Accelerated Across Bank Size Groups – Strongest Growth Among Mid-Sized Banks

Average District Year-Over-Year Loan & Lease Growth Rates (%)

- Small (<$1B): 14% (Mar-06) to 14.2% (Mar-07)
- Mid-Sized ($1B-$10B): 11% (Mar-06) to 11.4% (Mar-07)
- Large (>=$10B): 7.2% (Mar-06) to 7.4% (Mar-07)

Increasing Numbers of Banks Had Rapid Growth in Certain Loan Segments – Indicator of Relaxed Underwriting?

Many district banks grew multifamily and/or C&LD loans by 25%+ YoY

% of District Banks* With >25% YoY Growth by Loan Type – 3/31/2014

- Multifamily: 44% (66 banks)
- Constr & Land Dev: 38% (61 banks)
- Comm & Indust: 24% (51 banks)
- 1-4 Fam. 1st Lien: 24% (15 banks)
- Consumer: 23% (10 banks)
- Farm+Ag: 20% (14 banks)
- Nonfarm Nonresid: 14% (51 banks)

Aggregate C&LD Loans Surged while Multifamily Lending Remained Strong in 1Q14

C&LD loan growth was high, but from a low base, and concentrated at a few large lenders

Nonfarm Nonresidential–Secured Loans Provided Most of the Loan Growth by Volume Among each District Bank Peer Group

While NFNR-secured loan growth rates have been just moderate, these loans accounted for the majority of the dollar loan growth

12th District Bank Aggregate Loan Growth Rates – 1Q14 year-over-year

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>YoY Growth Rate</th>
<th>Pct. of Total Loan Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nonfarm Nonresidential</td>
<td>11%</td>
<td>92%</td>
</tr>
<tr>
<td>Multifamily</td>
<td>22%</td>
<td>25%</td>
</tr>
<tr>
<td>Commercial &amp; Industrial</td>
<td>6%</td>
<td>17%</td>
</tr>
<tr>
<td>Ag &amp; Farmland Secure</td>
<td>7%</td>
<td>4%</td>
</tr>
<tr>
<td>1-4 Family First Lien</td>
<td>2%</td>
<td>1%</td>
</tr>
<tr>
<td>HomeEquity + Jr Lien</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>All Loans</td>
<td>8%</td>
<td>8%</td>
</tr>
</tbody>
</table>

Shaded cells highlight loan categories accounting for 20%+ of total loan growth in the past year

Based on a panel of District commercial banks with assets <$200B; excludes banks with significant mergers, loan sales, or loan purchases over the period; preliminary 3/31/14 data
**Capital Adequacy:** Average District Risk-Based Capital Ratios Remained High, with Flat Trend

**Average Total Risk-Based Capital Ratios (%):**

- **Dec-03:** 15.5%
- **Dec-04:** 17.1%
- **Dec-05:** 17.1%
- **Dec-06:** 15.5%
- **Dec-07:** 16.9%
- **Dec-08:** 13.5%
- **Dec-09:** 17.1%
- **Dec-10:** 13.5%
- **Dec-11:** 13.5%
- **Dec-12:** 13.5%
- **Dec-13:** 13.5%
- **Dec-14:** 13.5%

**District Total Risk-Based Capital**

**Nation Total Risk-Based Capital**

**Average Total Risk-Based Capital Ratios (%):**

- **Mar-03:** 12.4%
- **Mar-04:** 12.0%
- **Mar-05:** 11.1%
- **Mar-06:** 10.5%
- **Mar-07:** 9.0%
- **Mar-08:** 8.6%
- **Mar-09:** 7.6%
- **Mar-10:** 6.7%
- **Mar-11:** 5.6%
- **Mar-12:** 6.4%
- **Mar-13:** 5.9%
- **Mar-14:** 6.5%

**Small (< $1B)**

**Mid-Sized ($1B-$10B)**

**Large (> $10B)**

**Liquidity: Short-Term Investments Off Peak but Remained High**

**Short-Term Investments/Assets (adjusted average):**

- **Mar-03:** 9.1%
- **Mar-04:** 8.6%
- **Mar-05:** 5.0%
- **Mar-06:** 9.0%
- **Mar-07:** 13.3%
- **Mar-08:** 12.3%
- **Mar-09:** 9.1%
- **Mar-10:** 9.1%
- **Mar-11:** 9.1%
- **Mar-12:** 9.1%
- **Mar-13:** 9.1%
- **Mar-14:** 9.1%

**The Average District Loan/Assets Ratio is Up Slightly from 2012**

**Loans & Leases/Assets (adjusted average %):**

- **Dec-94:** 61%
- **Dec-95:** 60%
- **Dec-96:** 76%
- **Dec-97:** 64%
- **Dec-98:** 65%
- **Dec-99:** 65%
- **Dec-00:** 65%
- **Dec-01:** 65%
- **Dec-02:** 65%
- **Dec-03:** 65%
- **Dec-04:** 65%
- **Dec-05:** 65%
- **Dec-06:** 65%
- **Dec-07:** 65%
- **Dec-08:** 65%
- **Dec-09:** 65%
- **Dec-10:** 65%
- **Dec-11:** 65%
- **Dec-12:** 65%
- **Dec-13:** 65%
- **Mar-14:** 65%
Avg. Bank Reliance on Noncore Funding Remained Much Lower than Pre-Crisis Levels

<table>
<thead>
<tr>
<th>Average District Noncore Liabilities (-&gt;$100K defn.) / Assets by Bank Size</th>
<th>12/14</th>
<th>3/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small (&lt;$1B)</td>
<td>32%</td>
<td>19%</td>
</tr>
<tr>
<td>Mid-Sized ($1B-$10B)</td>
<td>39%</td>
<td>16%</td>
</tr>
<tr>
<td>Large (&gt;=$10B)</td>
<td>44%</td>
<td>22%</td>
</tr>
</tbody>
</table>

*Noncore includes borrowed funds, foreign and brokered deposits, large CDs. Old definition is based on CDs >$100K; new definition (smaller magenta bars) is based on CDs >$250K; Based on commercial banks, excluding De Novos; trimmed means; preliminary 3/31/14 data

First Glance 12L – May 2014

Interest Rate Risk: District Banks Extended Asset Maturities in Recent Years, Seeking Yield

Earning assets may be slower to reprice upward as rates rise

12th District Banks: Loans & Securities Maturing or Repricing > 5 Years / Assets

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</tr>
</thead>
<tbody>
<tr>
<td>Small &amp; Mid-Sized (&gt;=$10B)</td>
<td>30%</td>
<td>27%</td>
<td></td>
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<td></td>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Large (&gt; $10B)</td>
<td>15%</td>
<td>18%</td>
<td></td>
<td></td>
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<td></td>
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</tbody>
</table>

Based on aggregate data for all 12th District commercial banks active as of 3/31/14 with their data back in time; preliminary 3/31/14 data

First Glance 12L – May 2014

Some Banks are Counting on Surge Deposits* to be Stable, but they May Flow Out as Rates Rise

Nonmaturity Deposits / Total Assets – 12th District Bank Aggregates

<table>
<thead>
<tr>
<th></th>
<th>90-Day T-Bill Yield (12 month avg.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small Bks (&lt; $10B) left axis</td>
<td>9.7%</td>
</tr>
<tr>
<td>Large Bks (&gt; $10B) left axis</td>
<td>9.97%</td>
</tr>
<tr>
<td>90-day T-bill yield (12 mo avg.) right axis</td>
<td>61%</td>
</tr>
<tr>
<td>63%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Based on aggregate data for all 12th District commercial banks active as of 3/31/14 with their data back in time; preliminary 3/31/14 data; *Surge deposits: large inflow of deposits since financial crisis; T-Bill yield: Federal Reserve, Haver Analytics

First Glance 12L – May 2014

Losses in Accumulated Other Comprehensive Income Deepened as Long-Term Rates Rose

Securities depreciation has reduced liquidity in investment portfolios

AOCI / Equity – District Banks in Aggregate

<table>
<thead>
<tr>
<th></th>
<th>10-Year Treasury Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small &amp; Mid-Sized (&lt; $10B)</td>
<td>3.03%</td>
</tr>
<tr>
<td>Large (&gt; $10B, excluding Wells Fargo)</td>
<td>2.72%</td>
</tr>
</tbody>
</table>

Based on a panel of commercial banks active over this period, preliminary 3/31/14 data; 10-yr treasury yield on last day of each quarter. Source: Yahoo Finance – ticker ^TNX

First Glance 12L – May 2014
Regulatory Ratings: CAMELS Upgrades Outpaced Downgrades for the Past 12 Quarters

Pct. of 12th District Exams Each Quarter that Resulted in CAMELS Composite Rating Upgrade or Downgrade (downgrades are shown as negative percentages)

- Regulatory Ratings: CAMELS Upgrades Outpaced Downgrades for the Past 12 Quarters
  
  Includes any change in composite CAMELS rating for commercial banks; quarterly trends based on examination completion dates (mail dates); recent data are preliminary; updated 05/09/14

CAMELS Rating Components Continued to Improve

Asset quality & earnings ratings improved most YoY; sensitivity ratings remained pressured by interest rate risk concerns

Average CAMELS Component Ratings for 12th District Banks

- CAMELS Rating Components Continued to Improve
  
  Asset quality & earnings ratings improved most YoY; sensitivity ratings remained pressured by interest rate risk concerns

Percentage of District Banks with Less-than-Satisfactory Ratings

District Bank Consumer Compliance Ratings Improved; CRA Ratings Held Steady

Percentage of Banks Rated CAMELS 3, 4, or 5 Continued to Fall

- District Bank Consumer Compliance Ratings Improved; CRA Ratings Held Steady
  
  Trends for all commercial banks based on examination completion dates (mail dates); recent data are preliminary; updated 05/09/14
Section 3 – Savings Institution and Industrial Bank Performance

Slides in this section focus on trends among the 44 savings institutions and 29 industrial banks headquartered within the 12th Federal Reserve District.

The savings institutions represent a combined population of District savings & loan associations plus savings banks – regardless of whether they filed the thrift Call Report or the bank Call Report. Starting March 2012, all savings institutions file the bank Call Report.
District Industrial Bank Average Profitability Remained Strongest of the Institutional Groups

Industrials typically conduct nationwide consumer or C&I lending (contributing to strong loan yields) from one office (limiting overhead expenses)

District Return on Average Assets – Averages (%)

Savings

1.2% 0.7% 0.7% 0.7% 0.9% 0.8% 0.8% 0.7% 0.7%

Commercial

1.4% 2.8% 1.1% 1.2% 3.7% 3.3% 3.9% 3.7% 3.9% 3.6%

Industrial

-1.0% 0.9% 0.8% 0.7% 0.7% 0.7% 0.7% 0.7% 0.7%

Average 12th District Noncurrent Loans and Leases / Total Loans and Leases – quarterly (%)

Noncurrent Loan Ratios Declined for Each Institutional Group

Commercial bank noncurrent rates improved most since the recession

Average 12th District Noncurrent Loans and Leases / Total Loans and Leases

Savings

4.8% 1.4% 1.1% 1.1% 3.5% 3.6% 1.5% 1.4% 1.1% 1.1%

Industrial

12.0% 12.5% 17.7% 12.6% 11.7% 11.7% 17.7% 12.5% 12.0% 12.5%

Commercial

8.5% 9.9% 10.0% 11.7% 11.7% 11.7% 11.7% 11.7% 11.7% 11.7%

Average Equity/Assets Ratios Remain Flat For Each District Institutional Group after Rising Post-Crisis

Percent Rated CAMELS 3, 4, or 5 Continued to Drop for Savings Institutions and Commercial Banks

There are too few Industrials to disclose specifics, but pct. rated CAMELS 3, 4, or 5 is under 20%
This radar screen, depicting bank supervisors’ concerns, is from last quarter’s report. The main issues are still the same.

The usual narrative section on Hot Topics is omitted in this quarter’s report, but will return in future reports as Hot Topics change.