First Glance 12L (4Q13)

District Banks - Approaching Full Recovery

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

Based on Preliminary 4Q2013 Call & Income Report Data

February 26, 2014

12th District

* 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.

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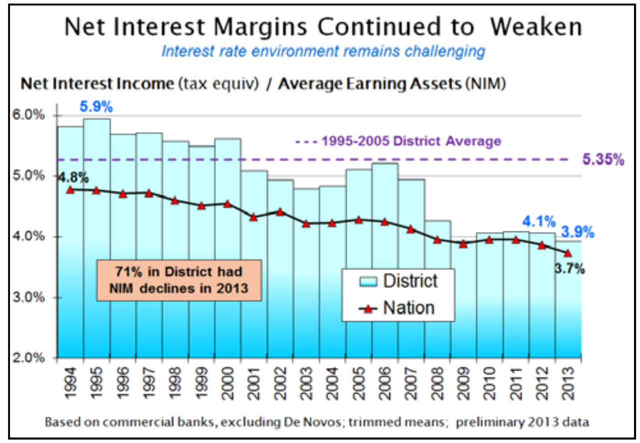
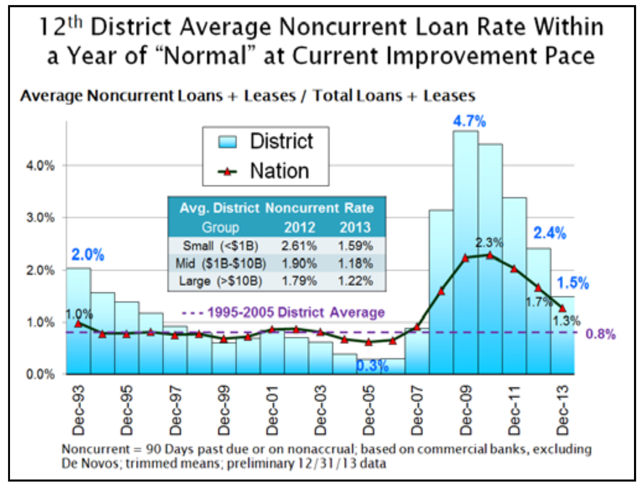
- ❑ <u>Profitability—Hampered by Weakening NIMs:</u> District earnings continued to slowly recover, but with the 2013 average ROAA of 0.83%, they had yet to reach the “normal times” average (generally defined in this report as the 1995-2005 average; see appendix 2) (slide 14). Narrowing net interest margins remained the biggest obstacle for many banks, descending to 3.9% on average for 2013 (slide 20, right). Districtwide, over 70% had declines during 2013. Noninterest expense ratios dropped slightly on average in 2013, while noninterest revenues grew slightly, contributing positively to bottom lines (slide 23). The record low provision expense rates that were the main positive driver of profits as banks continued to release reserves. Ongoing reserve releases are not sustainable given loan growth and increased risk layering in underwriting and pricing. (slides 17-18).



- ❑ <u>Credit Quality—Approaching Normal:</u> At the current pace of improvement, the average noncurrent loan rate in the District (1.5% at year-end 2013), will reach “normal levels” (0.8%) by year-end 2014 (slide 26; right). Small banks had higher noncurrent rates on average as they continued to work through problem loans. Every state in the District had average noncurrent loan rates of 2.0% or lower at year-end (slide 28). Average net charge-off rates declined to pre-crisis norms (slide 30).

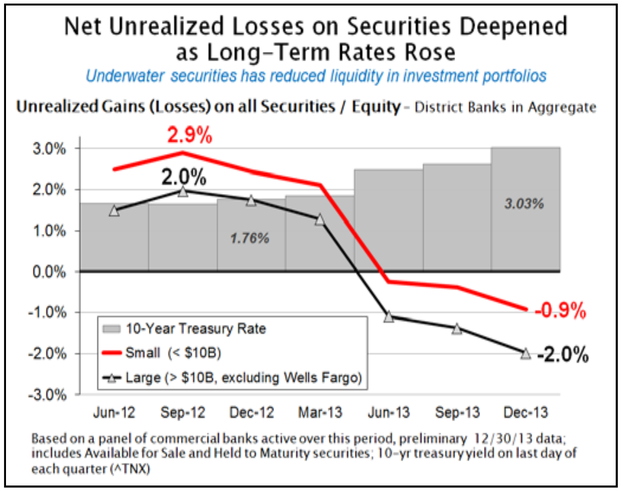


- ❑ <u>Capital & Liquidity—Turning Points from Strong Levels:</u> Before the financial crisis, the average District total risk-based capital ratio remained in a narrow range of 13%-14% for almost 20 years. Post-financial crisis, the average ratio spiked and only in 2013 finally started to recede, edging down 30 basis points to 16.8% by year-end (slide 32). Balance sheet liquidity remained strong, but the liquidity buildup now appears over (slide 35).

- ❑ <u>Loan Growth—Accelerating:</u> Loan growth continued to strengthen in the District, up 8% year-over-year, on average. This was still below the District “normal times” average rate of 14% (slide 40). Based on aggregates, multifamily and commercial & industrial loans had the fastest growth rates (slide 44). However, nonfarm nonresidential loans accounted for the greatest dollar increase in loans for banks with assets under $10 billion (slide 45).

First Glance 12L – Fourth Quarter 2013

- <u>Interest Rate Risk:</u> District banks, especially those under $10 billion, continued to increase their proportion of loans & securities maturing or repricing in 5+ years in order to increase yields (slide 46). Some banks may be counting on "surge deposits" to be stable when short-term rates rise, but history suggests there will be significant outflows (slide 47). Should a sharp increase in interest rates occur, some banks may be adversely affected. Rising long term rates already negatively impacted investment securities valuations, which fell from net unrealized gain to loss positions in the past few quarters (slide 48; right).



- <u>Overall—Banks Recovering and Approaching Normal Conditions:</u> Credit quality has improved considerably, and may be within a year of reaching "normal levels". District loan growth has picked up significantly to twice the national rate, on average, while capital positions and balance sheet liquidity remained strong on average. While overall trends remained positive, District banks face earnings headwinds, interest rate risk, and other challenges going forward (see Bank Supervisors' Hot Topics Section (slide 59).

Bank Supervisors' Hot Topics

- <u>Hot Topics:</u> The following are some supervisory hot topics—issues on bank supervisors' radar screens that tend to be a focus of attention during on-site examinations and off-site monitoring. These issues, starting on slide 59, are not an exhaustive list of Hot Topics and are not prioritized in any way.

  1. Interest Rate Risk
  2. Cybersecurity
  3. Risk in Rapid Loan Growth Areas
  4. California/West Drought [NEW issue]
  5. Capital Planning and Stress Testing Expectations
  6. Managing Outsourcing Risks
  7. Maintaining Compliance with Laws and Regulations
  8. Model Risk Management

Section 1
Economic Highlights

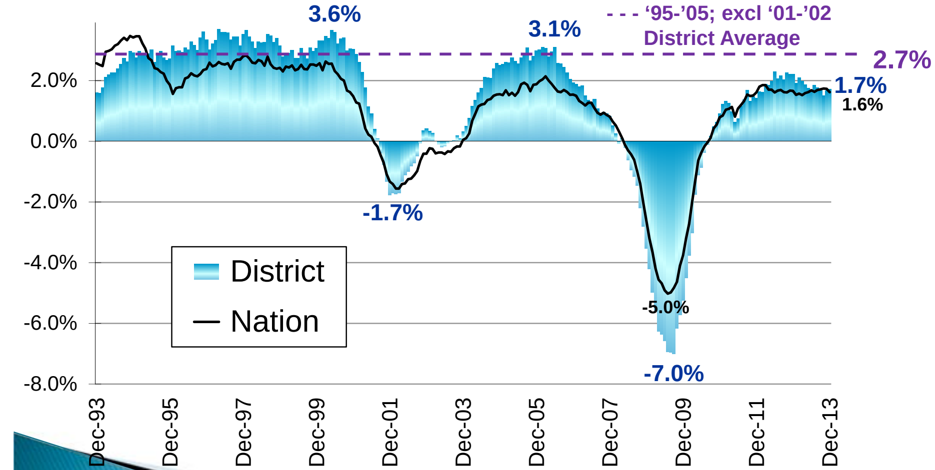
This section provides a high-level look at economic conditions, focusing on the degree of recovery from the recession. It includes job growth rates, unemployment rates, housing market metrics and a financial system stress index, all relevant to an analysis of District banking conditions.

Additional 12th District economic trends:
http://www.frbsf.org/economic-research/files/SFFedEconomicTrends.pdf

Annual Job Growth Rates Not Yet Back to "Normal"

Pace of job creation remains well short of typical "normal times" average of 2.7%

Annual Growth Rate of Nonfarm Jobs within the 12th District



Source: Bureau of Labor Statistics, Haver Analytics

Job Growth Rates Expected to Slowly Move Towards "Normal" Levels

Employment in Each District State Should Fully Recover by 2015 (Except NV)

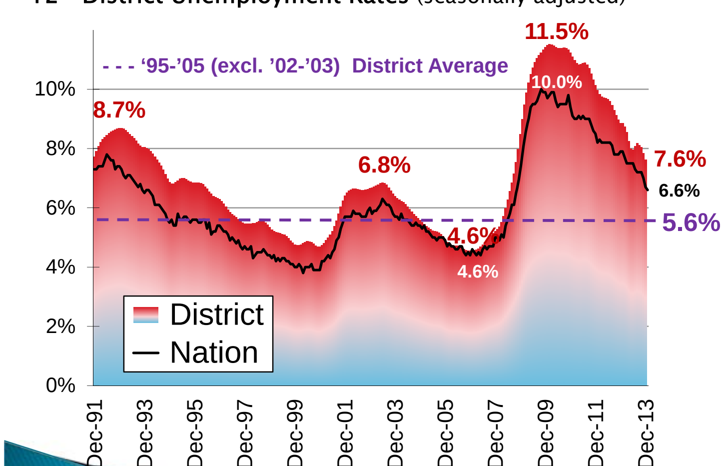
Total Nonfarm Job Growth (%)	2013	2014	2015	Pct. Of Lost Jobs Recovered by 2015
Alaska	-0.4	1.2	2.8	107%
Arizona	2.0	3.1	3.7	101%
California	1.6	1.8	2.3	101%
Hawaii	1.1	1.8	2.2	103%
Idaho	2.6	2.1	2.5	101%
Nevada	1.8	1.7	2.7	95%
Oregon	1.6	1.8	2.3	101%
Utah	2.8	2.0	2.4	106%
Washington	2.2	1.8	2.2	103%
Nation	**1.6**	**1.9**	**2.3**	**103%**
Green shading: at or above 2.6%, a "normal" rate of job growth rate in the District				

Annual nonfarm job growth rates; Moody's Economy.com, December 2013

Unemployment Rates Improving, but Remaining Well above "Normal" Levels

Biggest year-over-year improvement in California, Oregon, & Utah.

12th District Unemployment Rates (seasonally adjusted)



Unemployment Rates		
State	Dec 2012	Dec 2013
NV	9.8%	8.8%
CA	9.8%	8.3%
AZ	7.9%	7.6%
OR	8.3%	7.0%
WA	7.5%	6.6%
AK	6.6%	6.4%
ID	6.3%	5.7%
HI	5.1%	4.5%
UT	5.4%	4.1%
District	8.9%	7.6%
Nation	7.9%	6.6%*

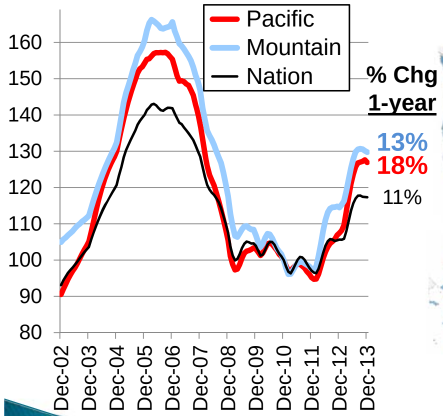
Red:>8%; Gold: 6%-8%
* Latest Nation data is as of Jan 2014

12th District rates are an aggregate, or weighted average, of the nine District states.
Source: Bureau of Labor Statistics, Haver Analytics

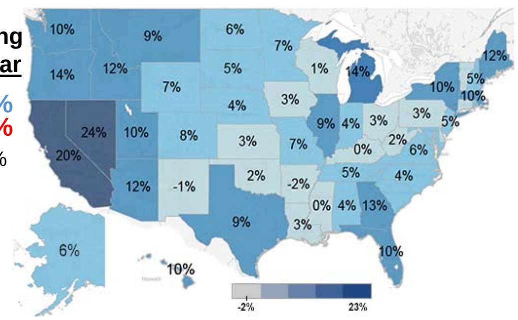
Housing Recovery: Tailwind for District Banks

Home prices flattened or edged down during 4Q13, but general positive trend for housing market is expected to continue.

Median Home Price Indices



1-Year Home Price Change by State
(December 2013)

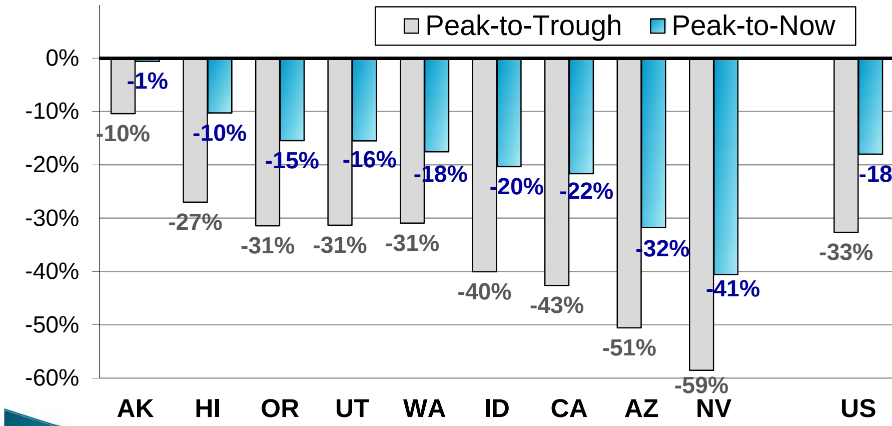


Source: CoreLogic Home Price Indices, indexed to 100 at 12/10; Mountain: AZ, ID, MT, NM, NV, UT, WY; Pacific: AK, CA, HI, OR, WA

Housing Prices Yet to Fully Recover

Median prices are well below pre-crisis peaks in most states.

CoreLogic Home Price Indices – % Change from Each State's Pre-Recession Peak through December 2013

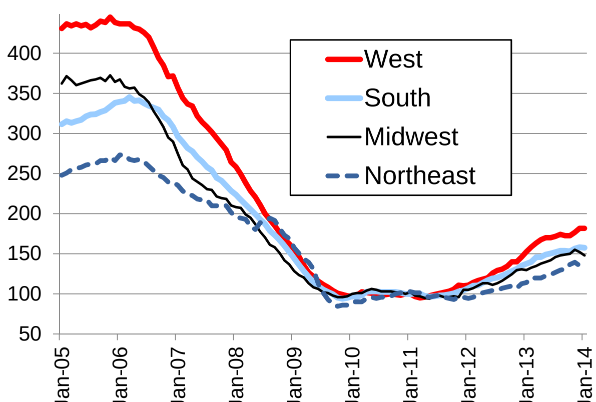


The pre-recession peak and trough dates are unique for each state based on monthly HPI; Source: CoreLogic Home Price Indices for all single-family homes through December 2013

Construction Outlook Favorable in the West

Housing starts have picked up steam in all regions, but particularly in the West – positive for lending opportunities and construction jobs.

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



Housing Starts
based on 12-mo. moving avg.

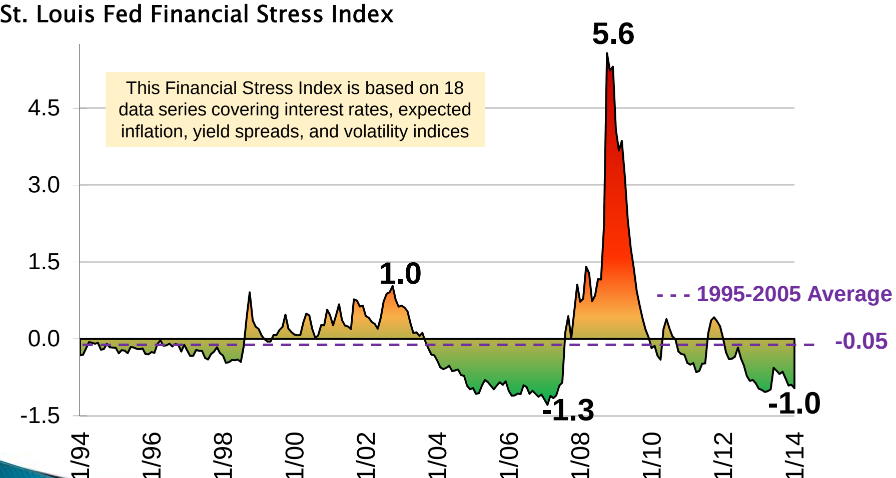
Region	2-yr growth rate	Chg. from peak
West	**+64%**	-59%
South	**+47%**	-54%
Midwest	**+41%**	-60%
Northeast	**+49%**	-49%

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

Relatively Low Financial Market Stress

The St. Louis Fed Financial Stress Index is one of several that indicate relatively low current financial market stress.

St. Louis Fed Financial Stress Index



Source: Federal Reserve Bank of St. Louis

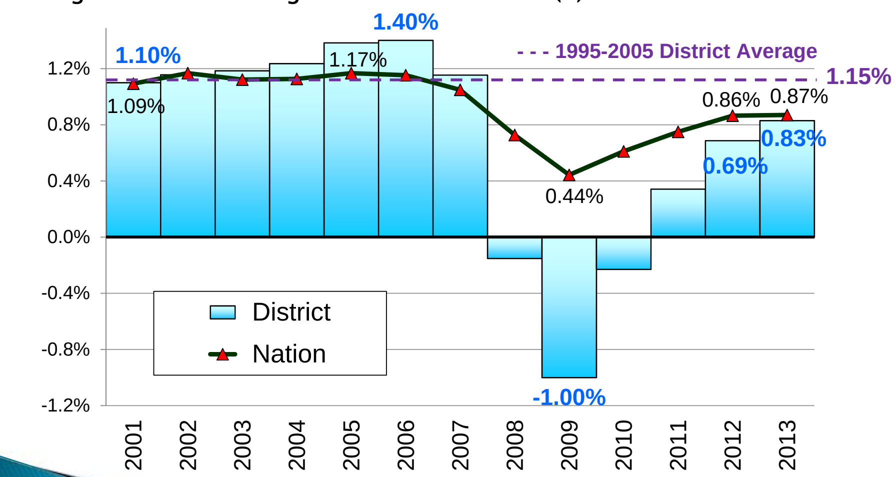
Section 2
Commercial Bank Performance

Slides in this section focus on trends among the 370 commercial banks headquartered within the 12th Federal Reserve District.

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

Earnings: District Profitability Up Modestly in 2013; Still Well Below "Normal Times" Averages

Average Return on Average Assets – Annualized (%)



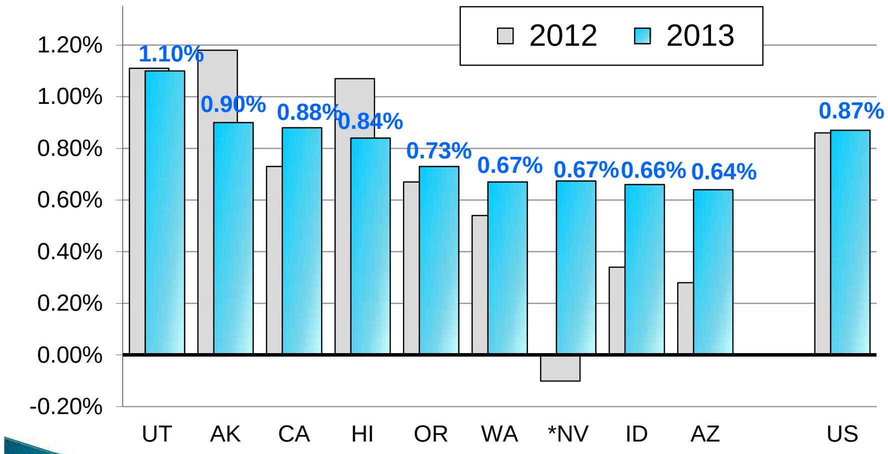
FRB-SF

Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/13 data

Average ROAAs Improved in 6 of 9 States

NV, ID, and AZ banks had the strongest improvement.

Average Return on Average Assets (%)



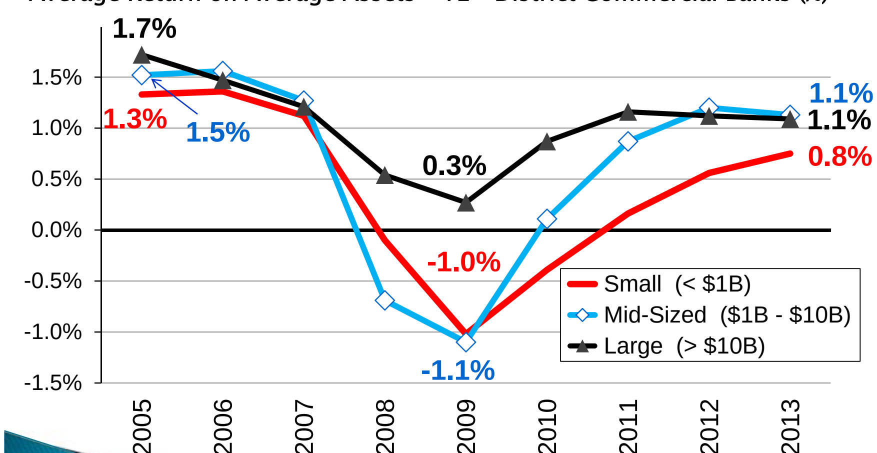
FRB-SF

Based on commercial banks, excluding De Novos; trimmed means, preliminary 12/31/13 data
*NV: excludes credit card and zero-loan banks

Large & Mid-Sized Banks Remained Most Profitable

But the small bank average ROAA climbed 19 basis points in the past year.

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



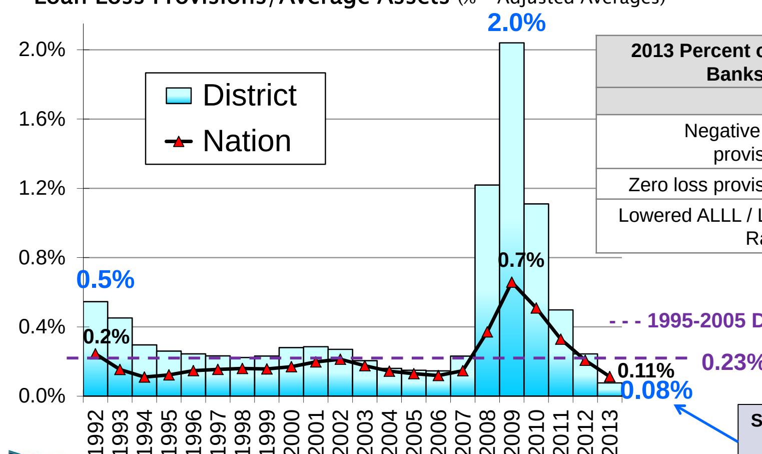
FRB-SF

Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/13 data

Profit Improvement in 2013 Largely a Result of Loan Loss Provisions Declining to 20+ Year Lows

Nearly 40% of District banks took zero or negative provisions during the year.

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



2013 Percent of Commercial Banks with:	Dist.	U.S.
Negative loss provisions	18%	8%
Zero loss provisions	21%	18%
Lowered ALLL / Loan Ratios	74%	65%

Such low provision rates can't be sustained for long

FRB-SF

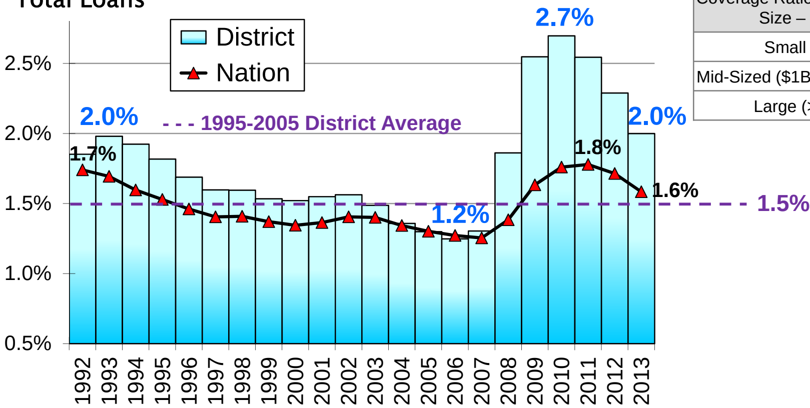
Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/13 data

Decline of ALLL/Loan Ratios Accelerated in 2013, with Coverage Ratio Closing in on "Normal Times" Average

Is this prudent given the expansion of loan growth and risk layering?*

Average Allowance for Loan and Lease Losses / Total Loans

12th District Bank ALLL Coverage Ratio Avg. by Bank Size – 12/13	
Small (<$1B)	2.1%
Mid-Sized ($1B-$10B)	1.9%
Large (>$10B)	1.6%

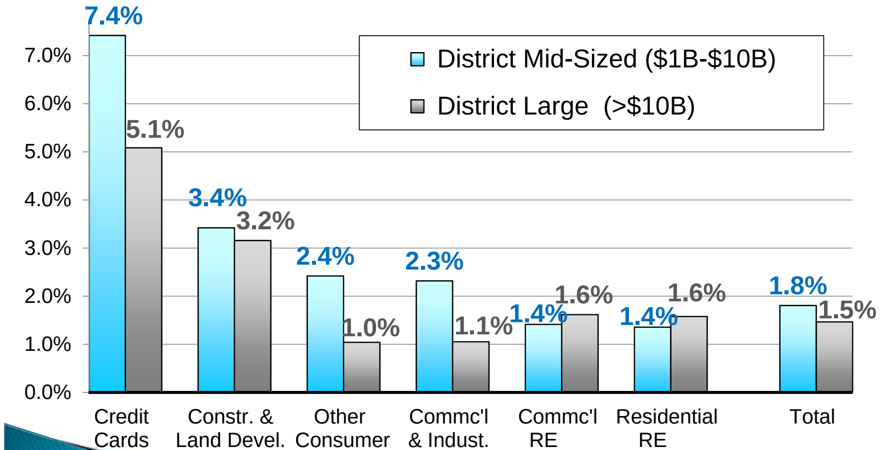


* The Office of the Comptroller of the Currency in their Semi-annual Risk Perspectives, define risk layering as a combination of loosening underwriting standards, weak or no covenants, & tightening spreads, and new product expansion. Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/13 data

ALLL Reserving Reflects Credit Risk by Loan Type

Reserving is considerably higher at mid-sized banks for C&I, other consumer, & credit cards.

Aggregate Allowance for Loan & Lease Losses / Loans & Leases (%) 12/31/13



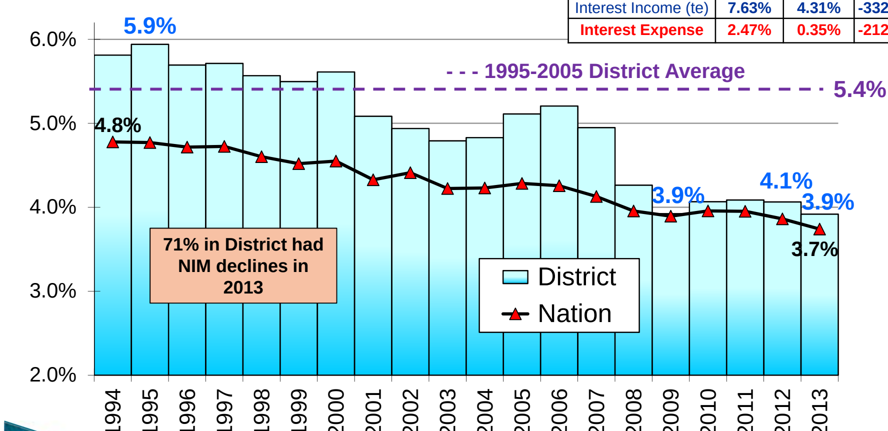
Based on aggregate data for commercial banks, preliminary 12/31/13 data. Note: banks with assets <$1B do not report this information

Net Interest Margins (NIM) Continued to Weaken in 2013

Interest rate environment remains challenging.

Net Interest Income (tax equiv) / **Average Earning Assets**

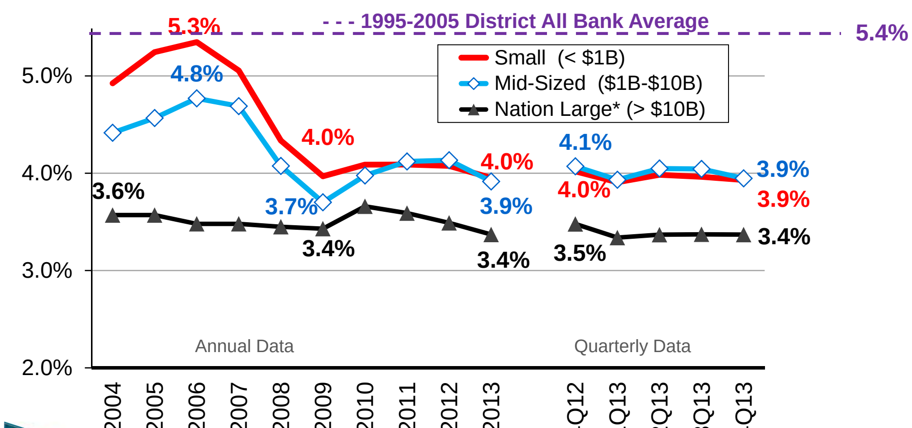
NIM Components			
As a Pct. of Avg. Earning Assets	2006	2013	Chg
Interest Income (te)	7.63%	4.31%	-332 bp
Interest Expense	2.47%	0.35%	-212 bp



Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/13 data

Small Bank Net Interest Margins Have Fallen Most Since the Pre-Crisis Period

Net Interest Income (tax equiv) / **Average Earning Assets – 12th District Commercial Banks**

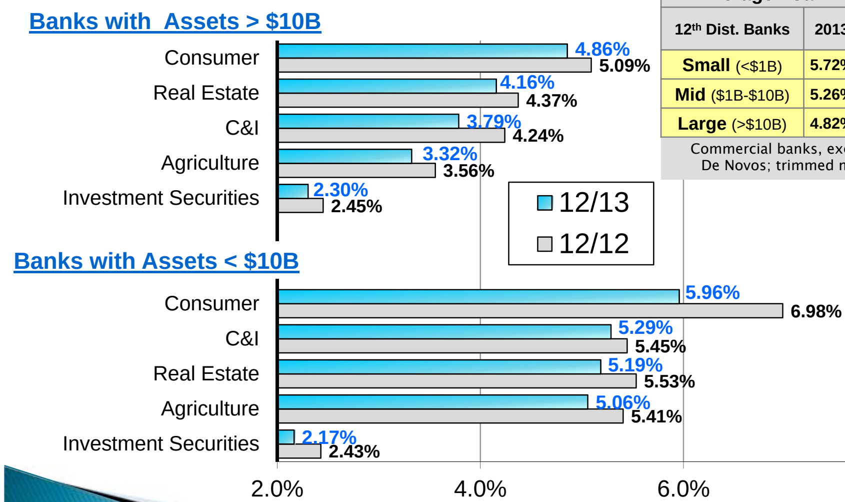


Based on commercial banks, excluding De Novos; trimmed means; quarterly ratios are annualized; preliminary 12/31/13 data; * large group is national data (too few large District banks in early years;

Loan & Investment Securities Yields Continued to Fall

Large banks have lower loan yields and higher securities yields than small banks.

Yields – Nationwide Banks (%)



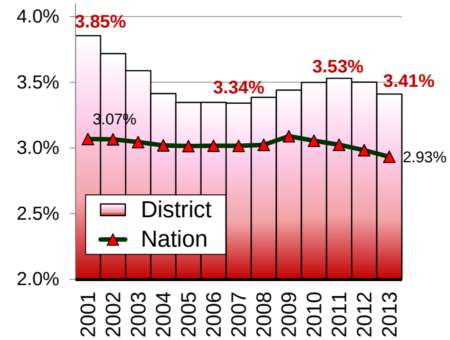
Average Loan Yields		
12th Dist. Banks	2013	YoY Chg
Small (<$1B)	5.72%	-26bp
Mid ($1B-$10B)	5.26%	-47bp
Large (>$10B)	4.82%	-29bp

Commercial banks, excluding De Novos; trimmed means

Based on aggregate nationwide commercial and industrial banks; preliminary 12/31/13 data

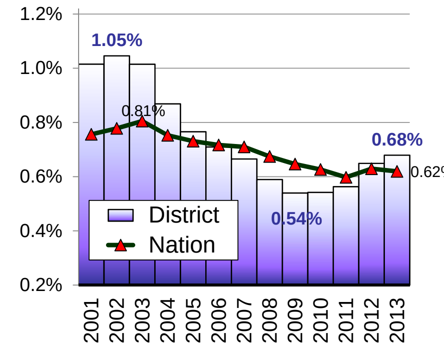
Noninterest Expense Ratios Dropped Slightly (for small & mid-sized banks) While Noninterest Income Ratios Grew Slightly (at small & large banks)

Noninterest Expense (% of average assets)



Average Noninterest Expense Ratios		
District Group	2012	2013
Small (<$1B)	3.65%	3.56%
Mid-Sized ($1B-$10B)	3.13%	3.00%
Large (>$10B)	2.28%	2.38%

Noninterest Income (% of average assets)



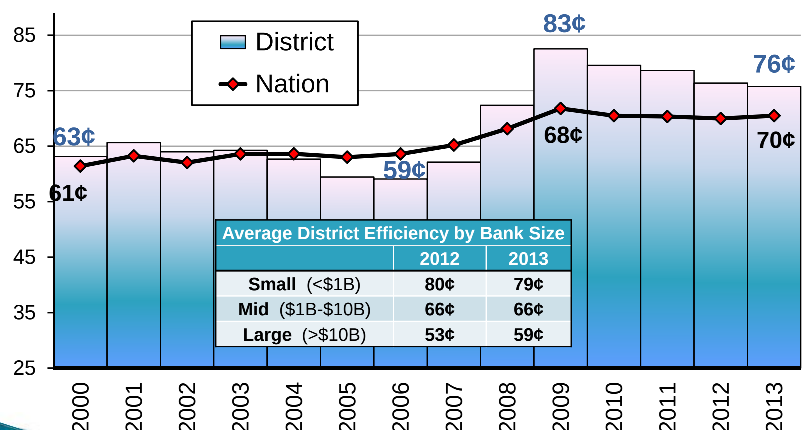
Average Noninterest Income Ratios		
District Group	2012	2013
Small (<$1B)	0.61%	0.65%
Mid-Sized ($1B-$10B)	0.80%	0.76%
Large (>$10B)	0.83%	0.84%

Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/13 data

Average District Bank Efficiency Measure Remained Elevated, but Improved Slightly in 2013

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 District Efficiency by Bank Size		
	2012	2013
Small (<$1B)	80¢	79¢
Mid ($1B-$10B)	66¢	66¢
Large (>$10B)	53¢	59¢

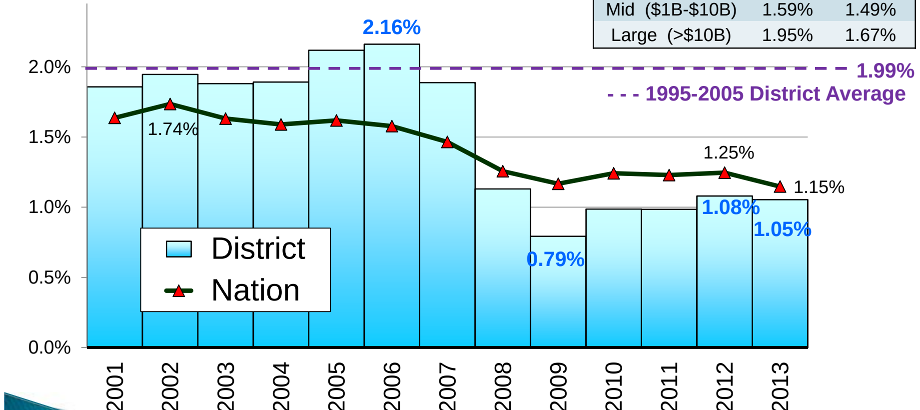
Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/13 data

Core Profitability Rates Still Well Below "Normal Levels", Edged Down in 2013 on Average

Core Profitability

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

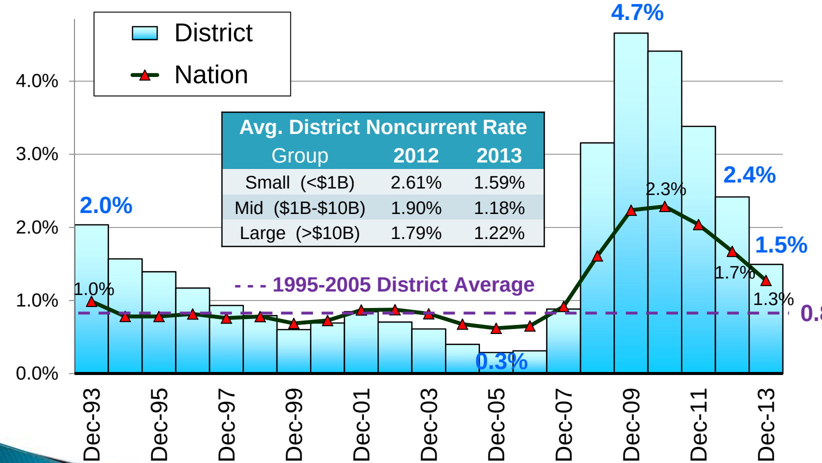
Avg. District Core Profitability		
Group	2012	2013
Small (<$1B)	0.92%	0.92%
Mid ($1B-$10B)	1.59%	1.49%
Large (>$10B)	1.95%	1.67%



Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/13 data

Credit Quality: Average 12th District Noncurrent Rate Within a Year of "Normal" at Current Improvement Pace

Average Noncurrent Loans + Leases / Total Loans + Leases



Avg. District Noncurrent Rate		
Group	2012	2013
Small (<$1B)	2.61%	1.59%
Mid ($1B-$10B)	1.90%	1.18%
Large (>$10B)	1.79%	1.22%

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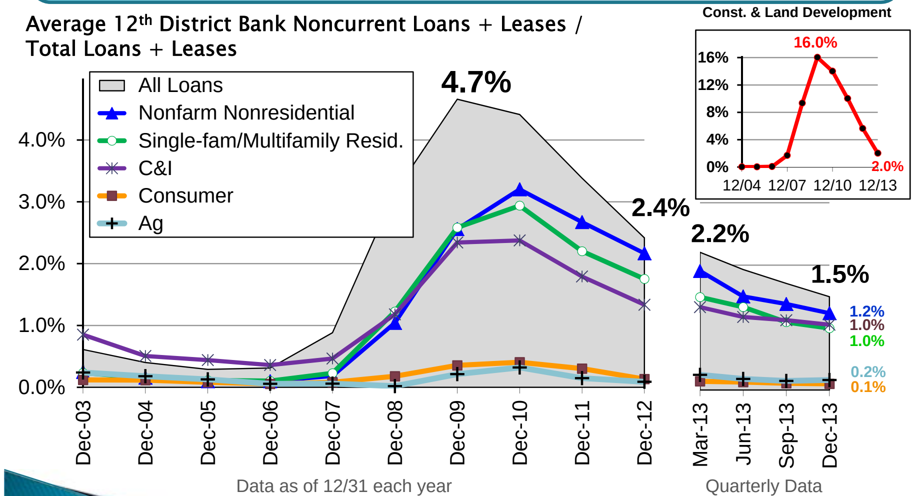
Noncurrent = 90 Days past due or on nonaccrual; based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/13 data

Average Noncurrent Rates Kept Improving Across All Major Loan Types

Note: C&LD rates are shown in inset chart .

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

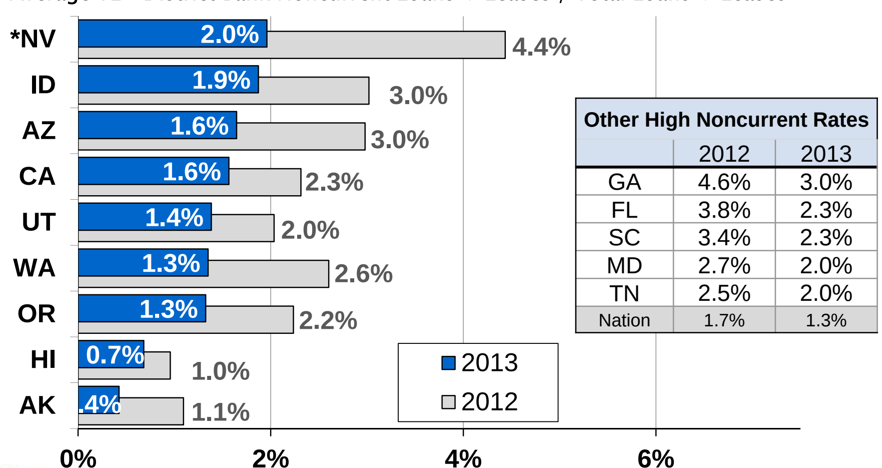


FRB-SF

Based on commercial banks excluding De Novos; trimmed means; Noncurrent = 90+ days past due or on nonaccrual; preliminary 12/31/13 data

By State: Noncurrent Rates Dropped Most in Nevada and Arizona

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



Other High Noncurrent Rates		
	2012	2013
GA	4.6%	3.0%
FL	3.8%	2.3%
SC	3.4%	2.3%
MD	2.7%	2.0%
TN	2.5%	2.0%
Nation	1.7%	1.3%

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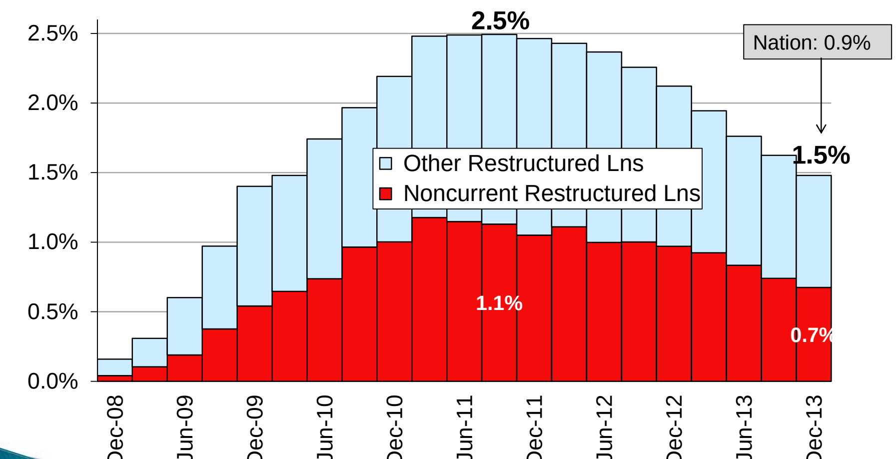
Based on commercial banks, excluding De Novos; trimmed means; Noncurrent = 90+ days past due or on nonaccrual; preliminary 12/31/13 data.
*NV: excludes credit card banks

Troubled Debt Restructurings Continued Steady Decline

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



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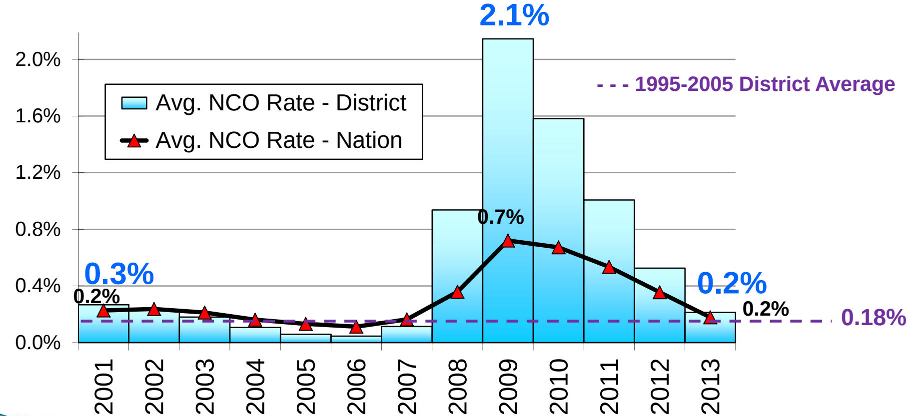
Based on commercial banks, excluding De Novos; trimmed means; Noncurrent = 90+ Days past due or on nonaccrual; preliminary 12/31/13 data

Average District Bank Net Charge-Off Rate Dropped to its Lowest Level Since 2007

Average Ratio of Net Charge-Offs / Average Loans



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Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/13 data

12th District Bank Aggregate Net Charge-Off Rates

NCO rates lower than "normal time" levels in most categories; 2013 net recoveries in some areas.

Aggregate District Commercial Bank Net Charge-Off (Recovery) Rates (%)

	All Banks		Small Bks (<$1 Billion)	
	'95-'05 Avg.	2013	'95-'05 Avg.	2013
Construction & Land Development	0.10	(0.54)	0.11	0.20
Residential Construction	n/a	(0.52)	n/a	(0.17)
Other C&LD	n/a	(0.54)	n/a	0.34
CRE - Nonfarm Nonresidential Loans	0.12	0.06	0.16	0.13
Owner-Occupied	n/a	0.10	n/a	0.15
Nonowner-Occupied	n/a	0.03	n/a	0.11
Residential Closed-End Loans	0.08	0.35	0.17	0.24
Home Equity Loans	0.17	1.12	0.14	0.19
Multifamily Loans	0.10	(0.02)	0.14	0.05
Commercial & Industrial Loans	1.33 *	0.18	1.22*	0.38
Agricultural Loans	0.29	(0.14)	0.33	0.13
Farmland Secured	0.15	(0.22)	0.54	0.03
Credit Card Loans	6.04 *	3.45	10.12 *	1.87
Installment Loans	1.14 *	0.83	1.59 *	0.53
Total Loans	1.03	0.38	0.62	0.21

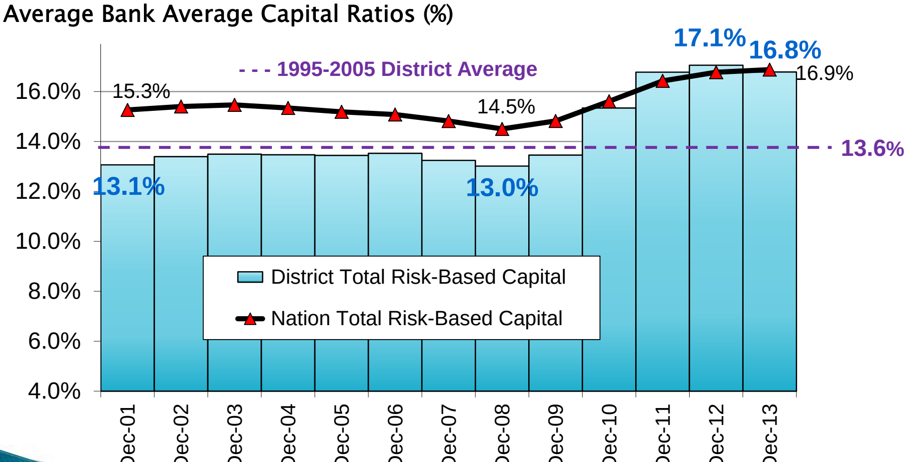
FRB-SF

NCO rates for all District commercial banks, annualized; *2001-2005 avg. Red: >= 2%; Yellow: 0.75% to 2%; Green: net recovery. This data soon will be available at http://www.frbsf.org/banking-supervision/banking-economic-data/aggregate-data/ - see 12th District Net Charge-Off Rates

Capital Adequacy: Average District Risk-Based Capital Ratios Remained High, but Down Slightly in 2013

This was due in part to a change in asset mix towards loans and away from lower-risk assets. The average tier 1 leverage ratio peaked at mid-year 2013 and declined since.

Average Bank Average Capital Ratios (%)



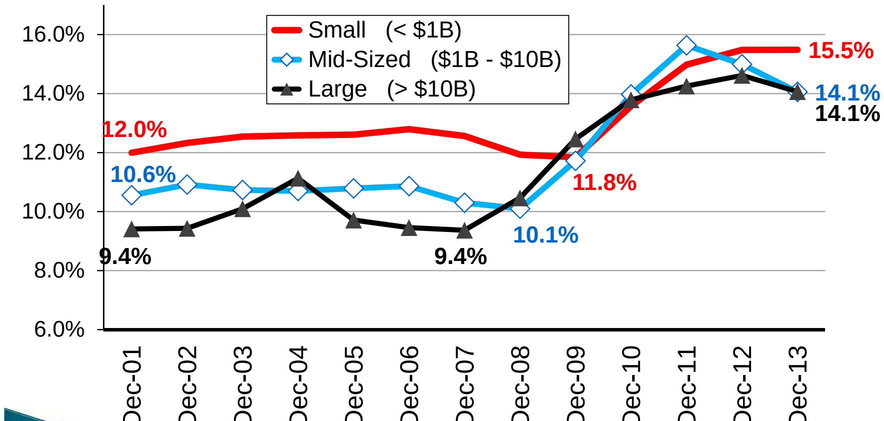
FRB-SF

Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/13 data

Tier 1 Common Equity Ratios – Also Relatively High but on a Declining Trajectory as Loan Growth Accelerates

Quarterly data shows that small bank ratios peaked in early 2013 while mid-sized and large bank ratios peaked prior to 2013.

Average District Bank Tier 1 Common Equity / Risk-Weighted Assets Ratios

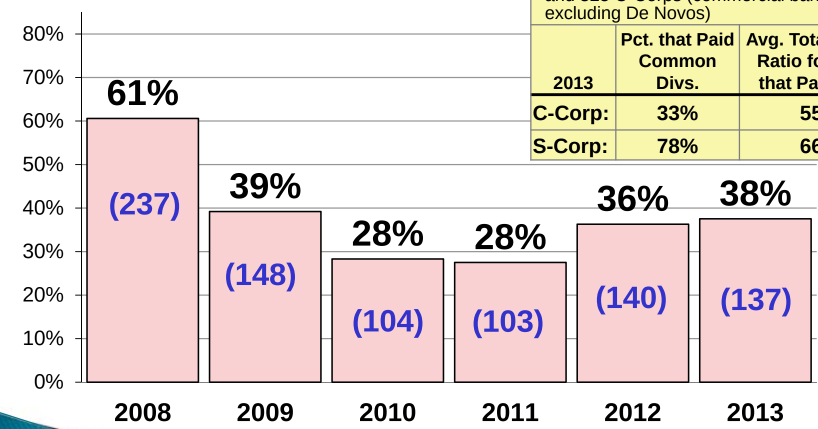


FRB-SF

Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/13 data

Percent of District Banks Paying Common Dividends Continued to Rise

Pct (and #) of District Banks that Paid a Common Stock Dividend



S-Corps vs. C-Corps

At 12/31/13, there were 40 District S-Corps and 325 C-Corps (commercial banks only, excluding De Novos)

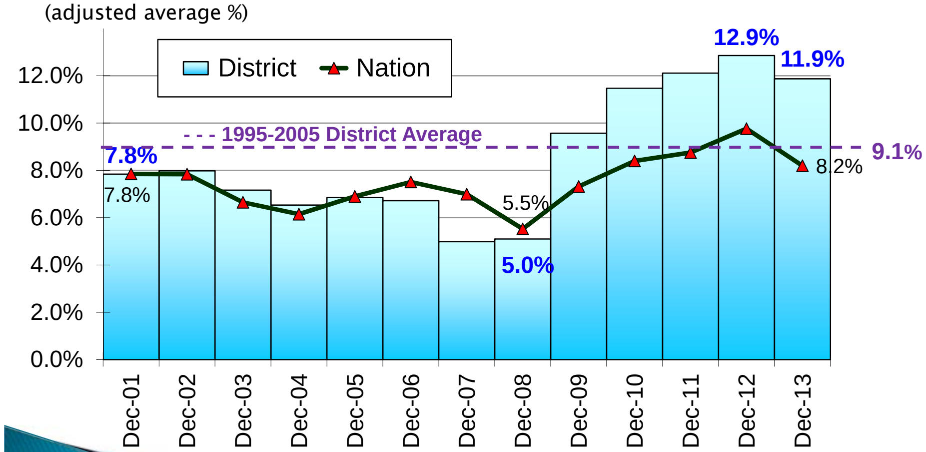
2013	Pct. that Paid Common Divs.	Avg. Total Payout Ratio for those that Paid Divs.
C-Corp:	33%	55%
S-Corp:	78%	66%

FRB-SF

Based on commercial banks, excluding De Novos; averages in table are trimmed means; preliminary 12/31/13 data

Liquidity: Short-Term Investments Off Peak but Remained Strong

Short-Term Investments/Assets
(adjusted average %)

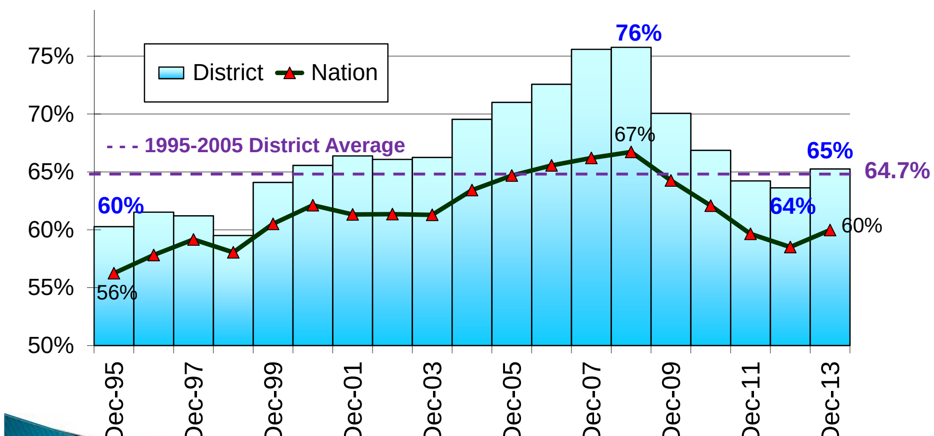


FRB-SF

Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/13 data

Loan/Assets Ratios Climbed Above "Normal Levels" in 2013, but Well Below 2008 Highs

Loans & Leases/Assets (adjusted average %)

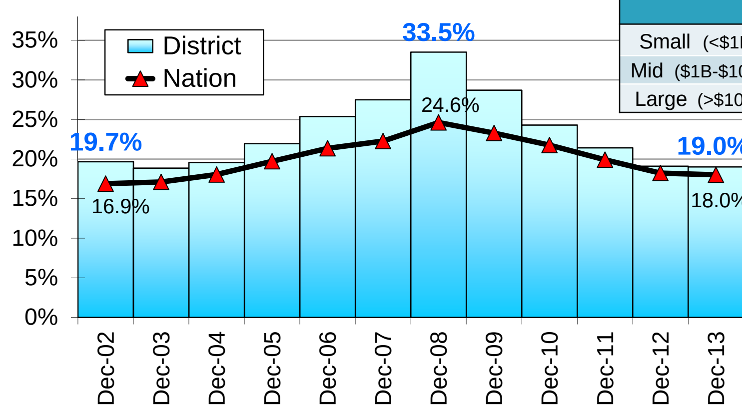


FRB-SF

Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/13 data

Avg. Bank Reliance on Noncore Funding Remained Much Lower than Pre-Crisis Levels; Metric Rose at Large Banks

Avg. Noncore Liabilities (old defn*) / Assets



Average District Noncore Liabilities/Assets by Bank Size	2012	2013
Small (<$1B)	19.8%	19.5%
Mid ($1B-$10B)	16.0%	15.6%
Large (>$10B)	19.4%	21.4%

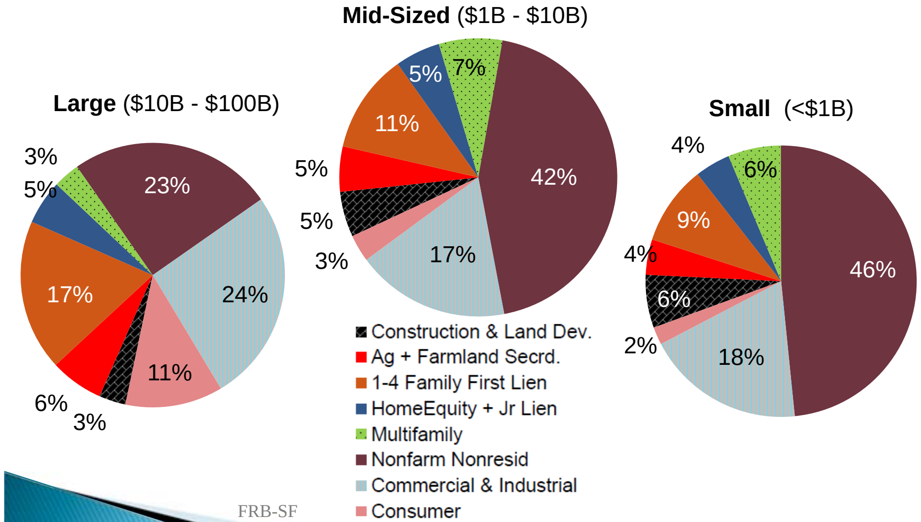
Using the new definition of noncore liabilities with CDs > $250K, District and Nation averages are 9.2% and 8.5% respectively at YE 2013

FRB-SF

* Noncore includes borrowed funds, brokered deposits and CDs>$100K; historical data are not available to define noncore liabilities based on CDs > $250K; Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/13 data

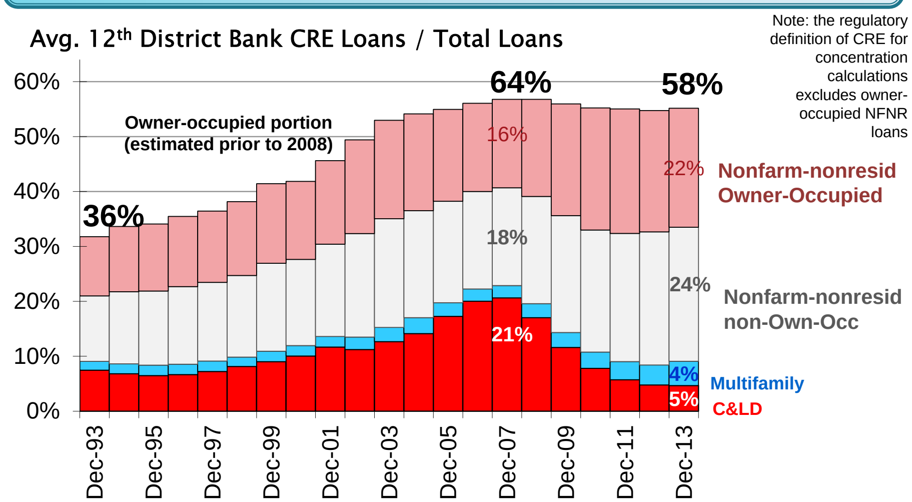
District Bank Aggregate Loan Mix by Size

Nonfarm nonresidential secured and C&I loans dominate portfolios of small and mid-sized banks; large banks have relatively more 1-4 family residential and consumer loans.



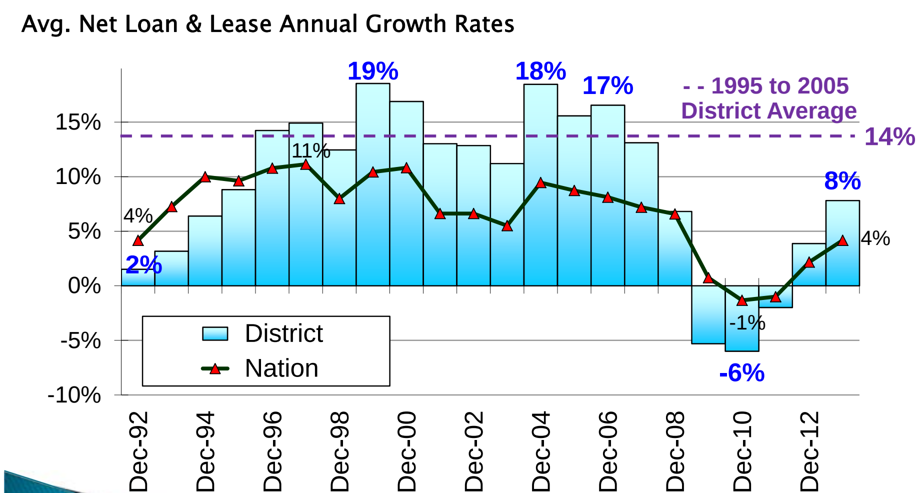
Based on all commercial banks <$200B; prelim 12/31/13 data

Commercial Real Estate Concentrations Remained High



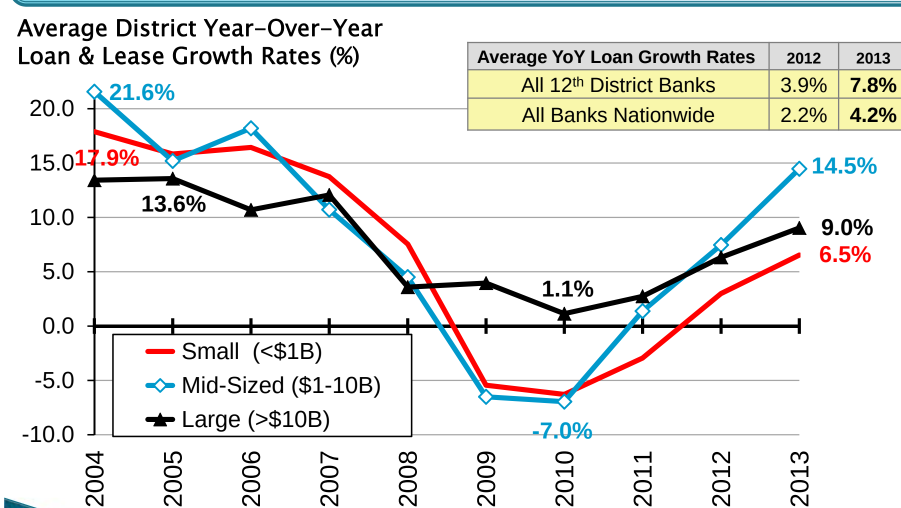
Based on all 12th District commercial banks; trimmed means; minor adjustments were made to ensure that the stacked bar charts provide the correct top line CRE loan ratio trimmed means. The owner-occupied portion of nonfarm nonresidential loans was estimated prior to 2008. Preliminary 12/31/13 data

Loan Growth Rates: Approaching "Normal" Levels at District Banks



Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/13 data

Loan Growth Accelerated Across Bank Size Groups – Strongest Growth Among Mid-Sized Banks



Average YoY Loan Growth Rates	2012	2013
All 12th District Banks	3.9%	**7.8%**
All Banks Nationwide	2.2%	**4.2%**

Based on commercial banks, excluding De Novos; large bank statistics prior to 2006 reflect nationwide data as there were too few District banks; trimmed means; preliminary 12/31/13 data

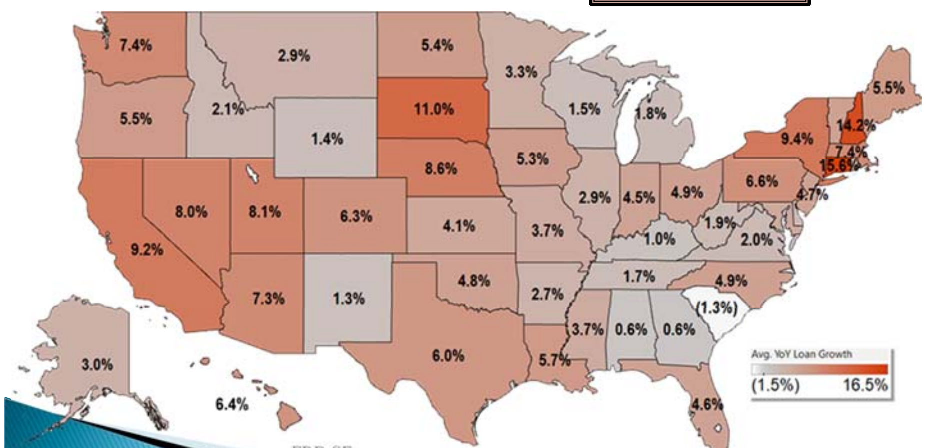
Loan Growth Rates Picked Up Across the West

CA, UT, NV, WA & AZ are in the top 10 nationwide for average loan growth.

12th District Average Year-Over-Year Loan Growth through December 2013

District: 7.8%

Nation: 4.2%



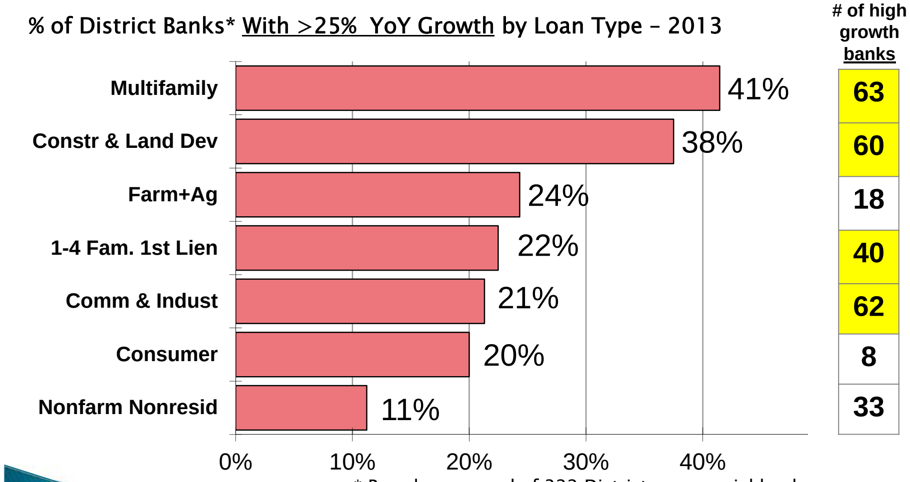
FRB-SF

Based on commercial banks excluding De Novos; trimmed means; preliminary 12/31/13 data

Increasing Numbers of Banks Had Rapid Growth in Certain Loan Segments – Potential for Loose Underwriting

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

% of District Banks* With >25% YoY Growth by Loan Type – 2013



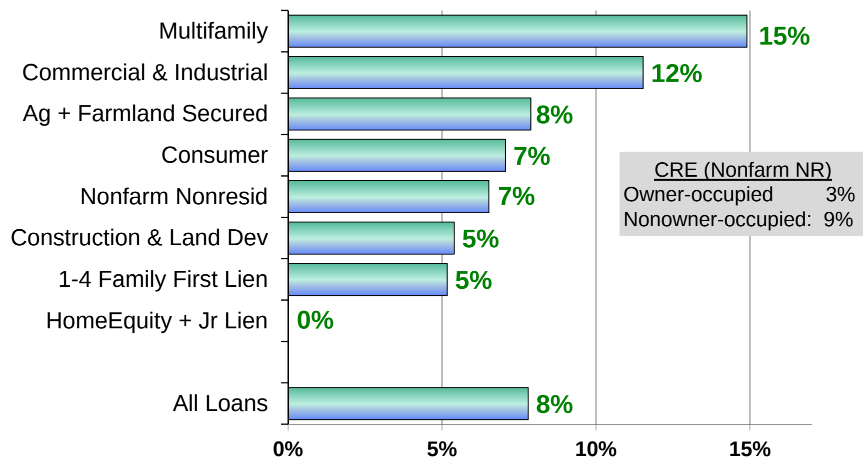
FRB-SF

* Based on a panel of 322 District commercial banks without significant mergers, loan sales, or loan purchases over the period. Includes only banks with at least 4% of loans in the particular loan type; preliminary 12/31/13 data

Switching to Loan Growth Aggregates for Banks <$200B:

Multifamily and C&I Strongest YoY Growth; HELOC Weakest

12th District Bank Aggregate Loan Growth Rates – 2013



FRB-SF

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 12/31/13 data

Nonfarm Nonresidential-Secured Loans Accounted for Much of the Total Loan Growth Among Small/Mid-Sized Banks

While NFNR-secured loan growth rates have been just moderate, these loans account for the majority of the dollar loan growth at these banks.

12th District Bank Aggregate Loan Growth

Loan Growth 2013	Small Banks (<$1B)		Mid-Sized Banks ($1B-$10B)		Large Banks ($10B-$200B)	
	YoY Growth Rate	Pct. of Total Ln Growth	YoY Growth Rate	Pct. of Total Ln Growth	YoY Growth Rate	Pct. of Total Ln Growth
Nonfarm Nonresidential Secured	9%	**61%**	8%	**44%**	4%	12%
Multifamily	19%	15%	32%	**25%**	1%	0%
Commercial & Industrial	5%	15%	13%	**27%**	13%	**37%**
Ag & Farmland Secured	8%	4%	5%	3%	9%	7%
Construction & Land Dev.	4%	4%	7%	4%	5%	2%
Consumer	5%	2%	1%	1%	8%	11%
1-4 Family First Liens	(2%)	n/a	(2%)	n/a	9%	18%

Shaded cells highlight loan categories accounting for 25%+ of total loan growth in the past year

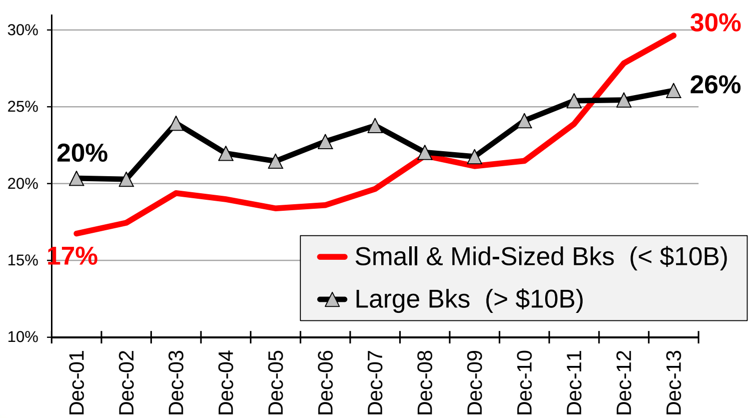
FRB-SF

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 12/31/13 data

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

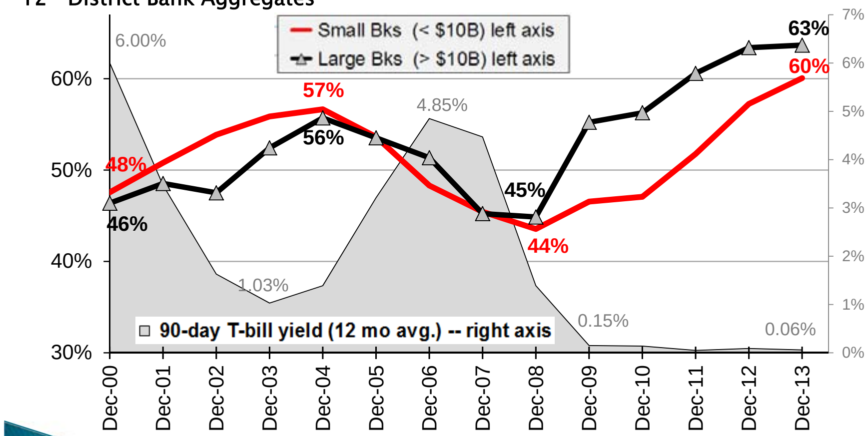


Based on aggregate data for all 12th District commercial banks active as of 12/31/13 with their data back in time; preliminary 12/31/13 data

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

Non-Maturity Deposits / Total Assets – 12th District Bank Aggregates

90-Day T-Bill Yield (12 month avg.)

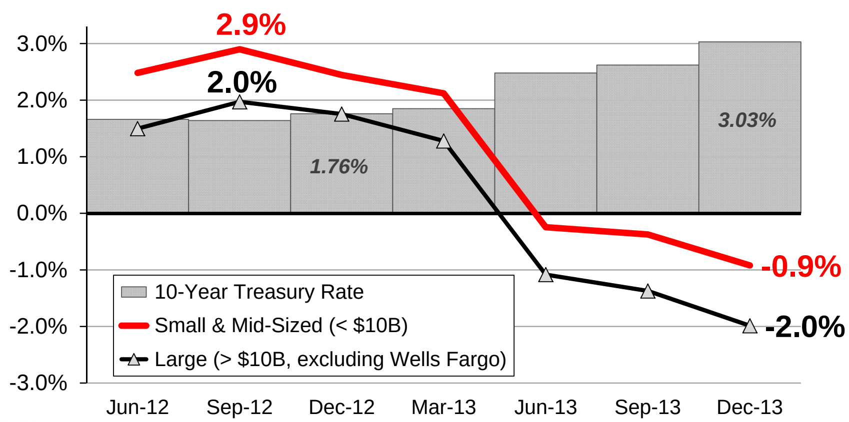


Based on aggregate data for all 12th District commercial banks active as of 12/31/13 with their data back in time; prelim. 12/31/13 data; *Surge: large inflow of deposits since financial crisis; T-Bill yield: Federal Reserve, Haver Analytics;

Net Unrealized Losses on Securities Deepened as Long-Term Rates Rose

Securities depreciation has reduced liquidity in investment portfolios.

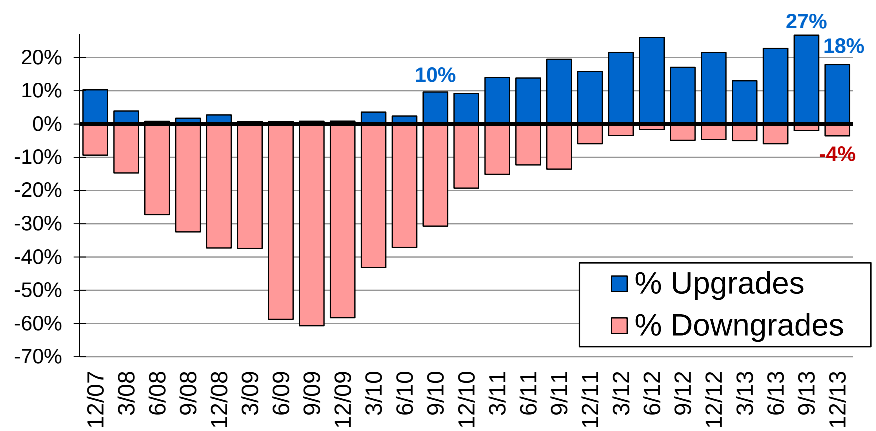
Unrealized Gains (Losses) on all Securities / Equity – District Banks in Aggregate



Based on a panel of commercial banks active over this period, preliminary 12/31/13 data; includes Available for Sale and Held to Maturity securities; 10-yr treasury yield on last day of each quarter. Source: Yahoo Finance – ticker ^TNX

Regulatory Ratings: CAMELS Upgrades Outpaced Downgrades for the Past 11 Quarters

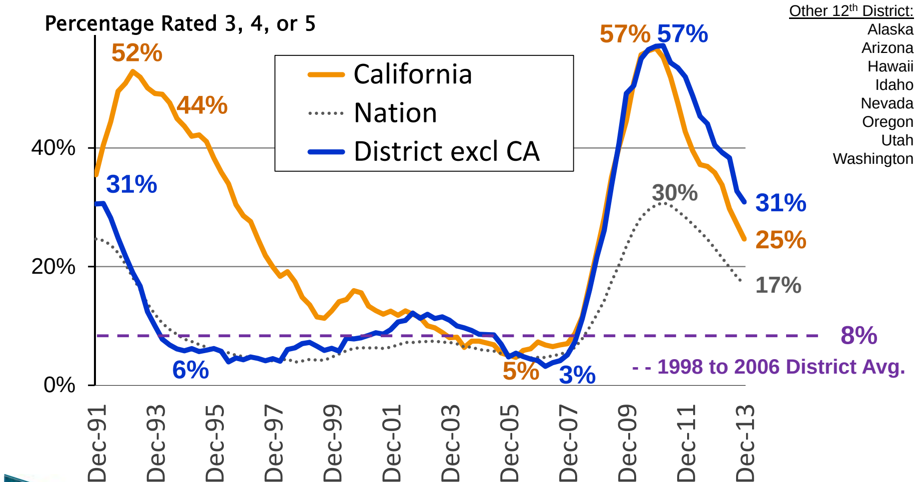
Pct. of 12th District Exams Each Quarter that Resulted in CAMELS Composite Rating Upgrade or Downgrade (downgrades are shown as negative percentages)



Includes any change in composite CAMELS rating for commercial banks; quarterly trends based on examination completion dates (mail dates); recent data are preliminary; updated 02/19/14

Percent Rated 3, 4, or 5 Among all Banks & Thrifts California vs. Other 12th District

Percentage Rated 3, 4, or 5



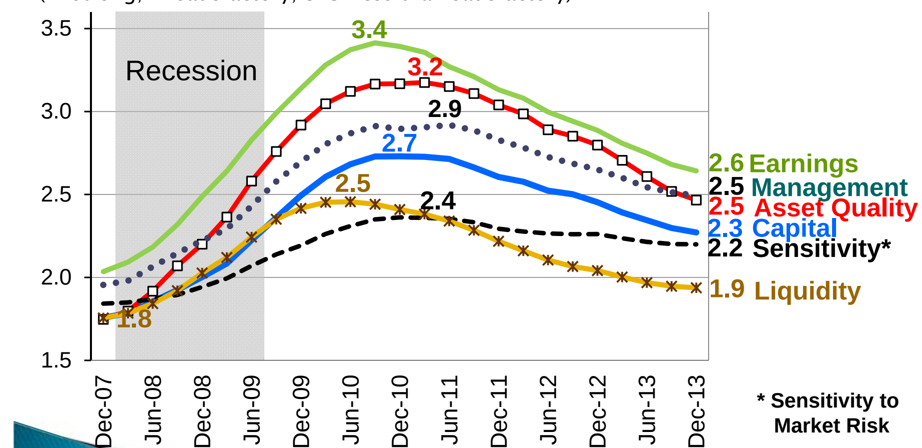
FRB-SF

Trends for all commercial banks based on examination completion dates (mail dates); recent data are preliminary; updated 02/19/14

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
(1: strong; 2: satisfactory; 3-5: less than satisfactory)



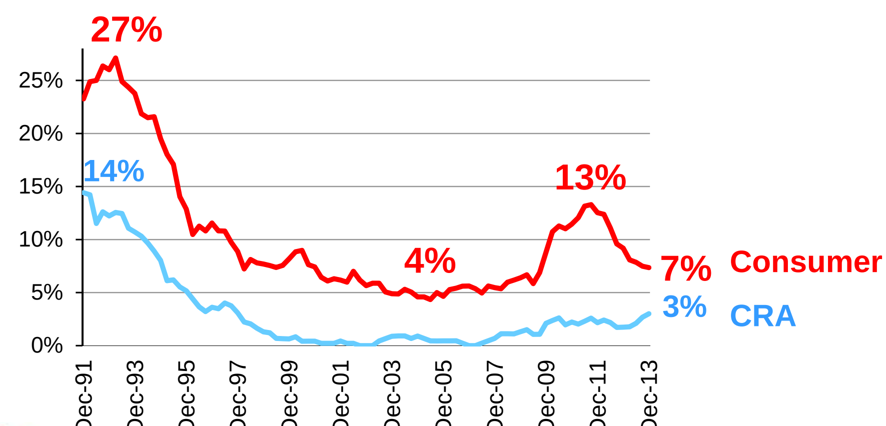
* Sensitivity to Market Risk

FRB-SF

Trends for all commercial banks based on examination completion dates (mail dates); recent data are preliminary; updated 02/19/14

District Bank Consumer Compliance Ratings Improved; CRA Ratings Held Steady

Percentage of District Banks with Less-than-Satisfactory Ratings



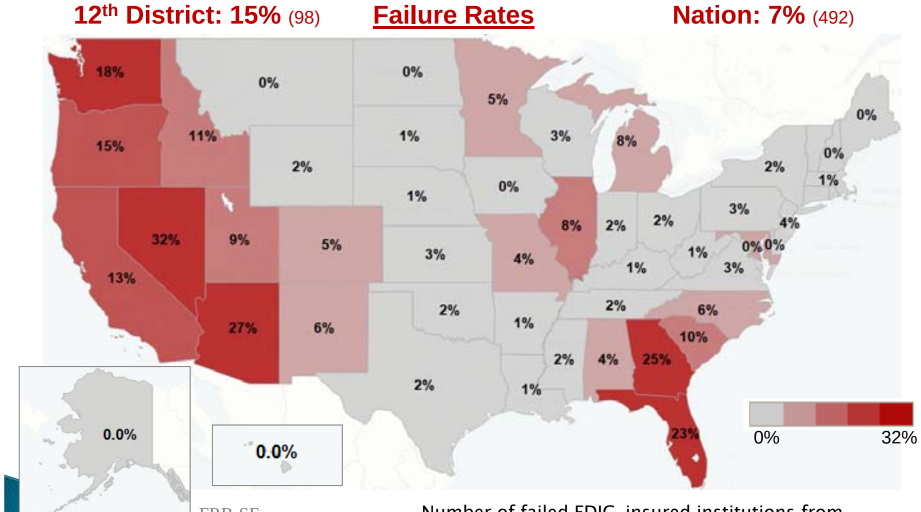
FRB-SF

Trends for all commercial banks based on examination completion dates (mail dates); CRA = Community Reinvestment Act; recent data are preliminary; updated 02/19/14

Failure Rates Since 2007

The West and Southeast were hardest hit.

12th District: 15% (98) **Failure Rates** Nation: 7% (492)



FRB-SF

Number of failed FDIC-insured institutions from 1/07 to 1/14 divided by total institution numbers at year-end 2006

Section 3 – Savings Institution and Industrial Bank Performance

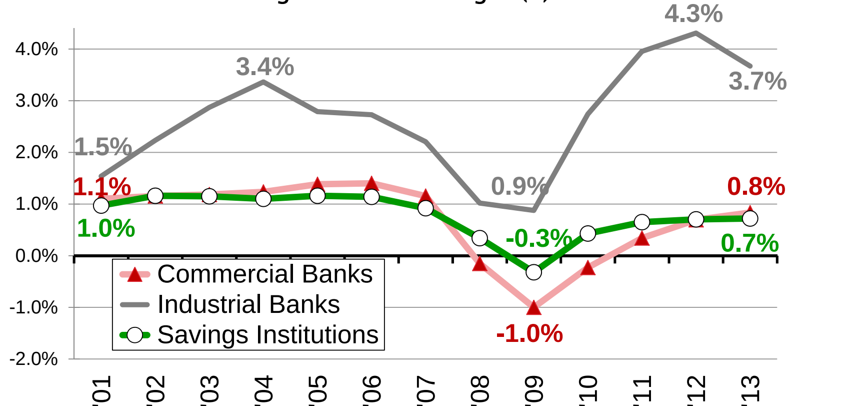
Slides in this section focus on trends among the 45 savings institutions and 29 industrial banks headquartered within the 12th Federal Reserve District.

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).

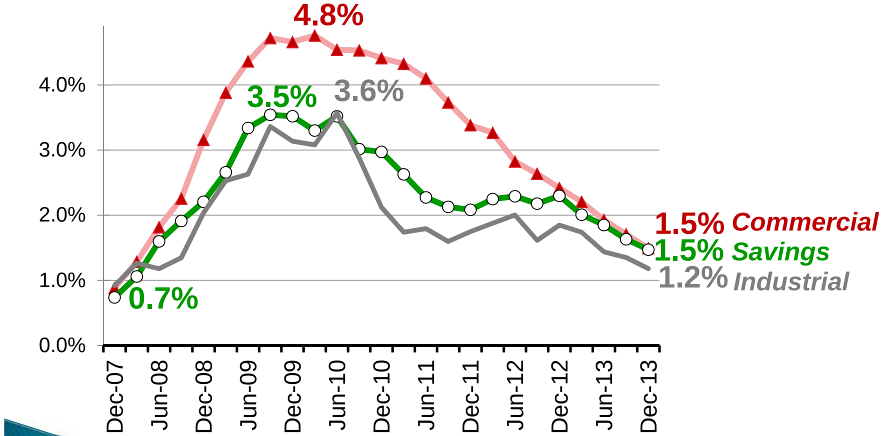
District Return on Average Assets – Averages (%)



Based on District commercial banks, savings institutions, and industrial banks excluding De Novos; trimmed means; preliminary 12/31/13 data

Average Noncurrent Loan Ratios Declined for Each Institutional Group, with Industrial Banks Maintaining Slightly Lower Ratios

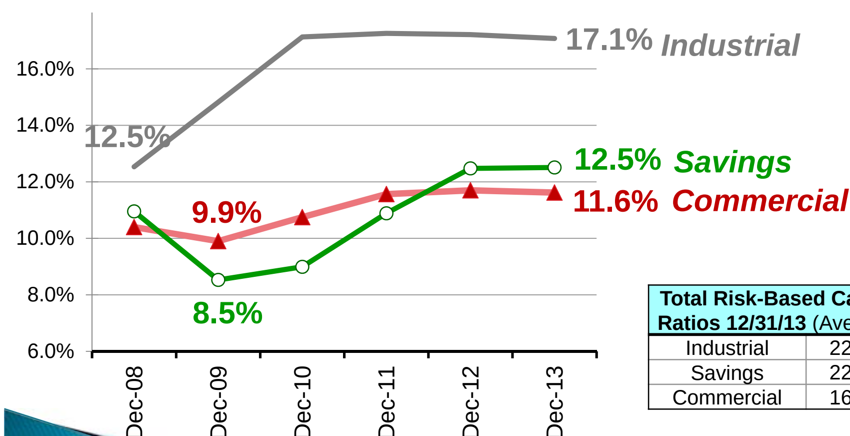
Average 12th District Noncurrent Loans and Leases / Total Loans and Leases – quarterly (%)



Based on District commercial banks, savings institutions, and industrial banks excluding De Novos; trimmed means; Noncurrent = 90+ days past due or on nonaccrual; preliminary 12/31/13 data

Average Equity/Assets Ratios Appear to be Peaking For Each District Institutional Group

Average 12th District Institution Equity/Assets Ratios



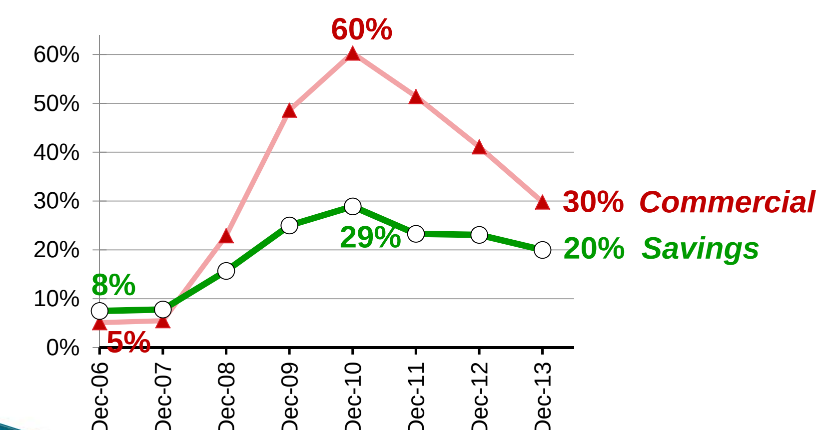
Total Risk-Based Capital Ratios 12/31/13 (Average)	
Industrial	22.2%
Savings	22.1%
Commercial	16.8%

Based on District commercial banks, savings institutions, and industrial banks excluding De Novos; trimmed means; preliminary 12/31/13 data

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%.

Percentage of District Institutions Rated CAMELS 3, 4, or 5



Trends for all institutions based on examination completion dates (mail dates); preliminary 12/31/13 figures; updated 02/18/14

Section 4
Bank Supervisors' Hot Topics

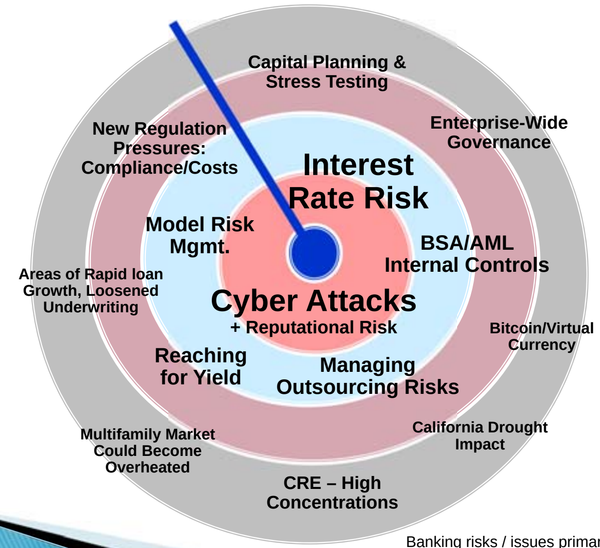
Supervisory hot topics are a sampling of issues on bank supervisors' radar screens that tend to be a focus of attention during on-site examinations or off-site reviews.

The next slide covers 14 issues of concern; a subset of these issues have been selected for brief summaries:

1. *Interest Rate Risk*
2. *Cybersecurity*
3. *Risk in Rapid Loan Growth Areas*
4. *California/West Drought*
5. *Capital Planning and Stress Testing Expectations*
6. *Managing Outsourcing Risk*
7. *Maintaining Compliance with Laws and Regulations*
8. *Model Risk Management*

Bank Supervisors' Hot Topics

Supervisory Radar Screen – concern level is higher for issues toward the center



Banking risks / issues primarily related to banks in the West, based on internal & external risk reports and discussions – source: FRBSF

Bank Supervisors' Hot Topics

1 – Interest Rate Risk

With an extended period of low short-term interest rates, many banks expanded their investments in higher-yielding, longer-dated loans and securities. Over a quarter of District bank assets are loans and securities maturing or repricing more than 5 years out (see section starting slide 48). With the rise in longer-term rates in 2013, District banks now generally have unrealized net losses in securities portfolios. As banks conduct interest rate sensitivity analyses, potential outflows of non-maturity deposit balances need to be considered.

2 – Cybersecurity

Cybersecurity remains a top concern. Banks need to protect the confidentiality, integrity and availability of bank data and services and circumvent criminal efforts to steal funds or data. Concerns include distributed denial of service attacks; evolution of malicious software, including software targeting mobile devices; account takeovers/fraudulent funds transfers; coordinated ATM cash-out attacks; vendor security and resiliency; and, targeted attacks against bank employees to steal or destroy data or disable systems. Additionally, banks, vendors, and customers using Windows XP may be at heightened risk from cyber-attacks after April 2014, when Microsoft ends support for this operating system. Banks need tools to effectively monitor for anomalous activity and documented crisis management plans for such events.

Bank Supervisors' Hot Topics

3 – Risk in Rapid Loan Growth Areas

Loan growth is a welcome sign of the strengthening economic recovery. While overall loan growth is not fully recovered, many banks are experiencing fairly rapid growth in certain lending areas, such as multifamily, C&I, and even construction & land development (see Slide 45). Concerns include 1) loan growth pressures may be pushing institutions to take on greater interest rate and credit risk with relaxed underwriting terms and aggressive pricing and 2) expertise in new lending areas may be lacking. Management must maintain robust risk management processes around all products and credit concentrations; rapid growth must be considered in ALLL methodologies.

4 – California/West Drought

2013 was the driest year in recorded history in California. Reservoirs are at roughly 60% of average, while the mountain snow-pack at year-end 2013 was at 20% of normal. Short water supplies are resulting in higher costs for farmers with the market price for supplemental water reportedly three times the normal level and expected to increase if the drought worsens. Substantial acreage will be fallowed. Lost revenue in 2014 from farming and related businesses such as trucking and processing could reach $5 billion, according to estimates from the California Farm Water Coalition. The drought has the potential to result in accelerated credit losses for banks and to negatively impact local economies.

Bank Supervisors' Hot Topics

5 – Capital Planning and Stress Testing Expectations

New capital rules implementing Basel III are being phased-in starting January 1, 2014, for advanced approaches firms. Former Capital Plan Review (CapPR) firms are transitioning to Comprehensive Capital Analysis & Review (CCAR), with their first supervisory stress test to be conducted in 2014. Other over-$10B institutions are preparing for their first submission under Dodd-Frank Act Stress Testing (DFAST) in March 2014.

Large and regional banks are expected to conduct regular stress tests to support their risk identification and capital and liquidity management. For more information on the Basel regulatory framework and U.S. banks, see: http://www.federalreserve.gov/bankinforeg/basel/USImplementation.htm.

Community banks become subject to Basel III on January 1, 2015. In November 2013, the agencies released a regulatory capital estimation tool for community banks – see http://www.federalreserve.gov/newsevents/press/bcreg/20131119a.htm.

6 – Managing Outsourcing Risk

Vendor Management – Institutions need to have risk assessment processes for outsourced activities and appropriate monitoring procedures consistent with their size, risk, and complexity.

Guidance on managing outsourcing risk was issued in December 2013 - see http://www.federalreserve.gov/bankinforeg/srletters/sr1319.htm

Bank Supervisors' Hot Topics

7 – Maintaining Compliance with Laws and Regulations

Banks are facing a host of new rules and regulations. Many of these stem from the Dodd-Frank Act, such as the CFPB's "Ability-to-Repay Rule" for mortgage lending. However, regulators also remain focused on legacy laws and regulations in areas such as BSA/AML compliance and foreign wire transfer activities. Management must evaluate the applicability of new and existing rules, particularly as the bank's products and services evolve; implement appropriate processes and controls, including internal audit coverage; and develop effective staff training programs.

Materials from the December 2013 Federal Reserve "Outlook Live" webcast on "Small Creditor Qualified Mortgages" can be found at: http://www.philadelphiafed.org/bank-resources/publications/consumer-compliance-outlook/outlook-live/2013/small-creditor-qualified-mortgages.cfm

8 – Model Risk Management

Reliance on complex models to manage risks and operations requires strong governance. Risks include the appropriateness of the model for the purpose intended as well as the accuracy of model inputs and assumptions, model implementation, and interpretation of model outputs. Erroneous or misused model results can have significant potential for adverse consequences and / or financial loss.

Appendix 1 – Banks Covered in this Report

Geography	Commercial Banks (De Novos)		Industrial Banks (De Novos)		Savings Institutions (De Novos)	
	12-12	12-13	12-12	12-13	12-12	12-13
Alaska	4 (0)	4 (0)	-	-	2 (0)	2 (0)
Arizona	28 (0)	23 (0)	-	-	1 (0)	1 (0)
California	215 (8)	200 (2)	7 (1)	6 (0)	18 (2)	17 (1)
Guam	2 (0)	2 (0)	-	-	1 (0)	1 (0)
Hawaii	6 (0)	6 (0)	1 (0)	1 (0)	2 (0)	2 (0)
Idaho	15 (1)	15 (0)	-	-	1 (0)	1 (0)
Nevada	17 (2)	13 (0)	4 (0)	4 (0)	2 (0)	2 (0)
Oregon	39 (1)	25 (0)	-	-	3 (0)	3 (0)
Utah	32 (2)	32 (0)	19 (0)	18 (0)	4 (0)	4 (0)
Washington	58 (2)	50 (1)	-		14 (0)	12 (0)
12th District	406 (16)	370 (3)	31 (0)	29 (0)	48 (2)	45 (1)
Nation	6,036 (114)	5,815 (33)	33 (0)	31 (0)	1,012 (8)	964 (4)

Based on preliminary 12/31/13 data

Appendix 2 – Technical Information

This report focuses on the financial trends and performance of commercial banks headquartered within the 12th Federal Reserve District ("12L"). 12L includes 9 western states: AK, AZ, CA, HI, ID, NV, OR, UT, and WA, as well as Guam.

De Novos: Many of the charts exclude "De Novo" banks, or banks less than five years old.

Trimmed Mean (also referred to as "adjusted average" or "average"): Many of the charts present trends in ratio averages, adjusted for outliers. The method used is to eliminate or "trim" out the highest 10% and the lowest 10% of ratio values, and average the remaining values.

Aggregate: In some cases, the trimmed mean method is not appropriate (e.g., when many banks have zero values for a particular ratio or, for example, for some growth rates where there may be many highly positive and highly negative values). In these cases, District aggregates sometimes are computed (i.e., summing numerator values across all District banks and dividing by the sum of all denominator values), as opposed to averaging individual bank ratios). When an aggregate is used, it is indicated on the chart.

Industrial banks and savings institutions: The main focus of this report is on commercial banks. Industrial banks and savings institutions have different operating characteristics so are highlighted separately in Section 3. There, the saving institution data include institutions that file the bank Call Report plus those that, up until recently, filed the thrift Call Report.

District Historical Average and "Normal Times": This report contains several comparisons to District 1995-2005 averages to measure a return to normalcy. This measure was chosen to represent "normal times" as it was a period of relative stability and prosperity for the banking industry on average.