First Glance 12L (4Q12)

Western Banks: Solid Improvement, But Further To Go

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

Based on Preliminary 4Q2012 Call & Income Report Data

February 21, 2013

* 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 2.

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http://www.frbsf.org/publications/banking/index.html

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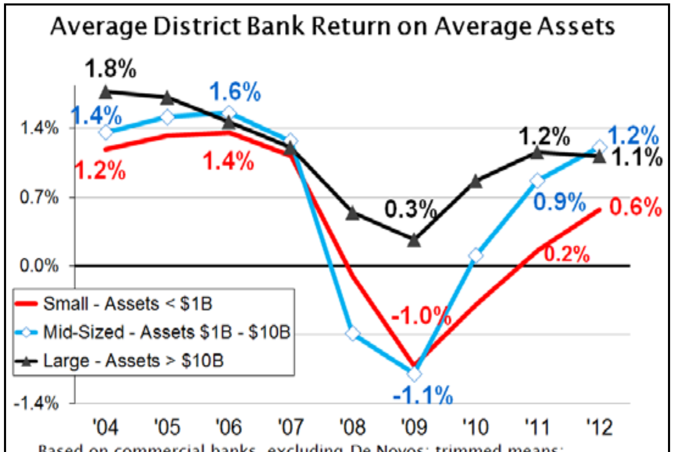
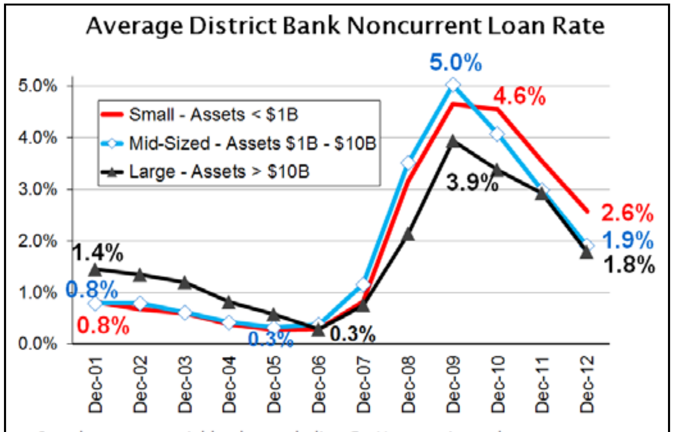
Western Banks: Solid Improvement, But Further To Go

- <u>Profits–Substantial Recovery Largely via Reserve Releases:</u> The average District bank ROAA climbed to 0.69% in 2012, and above 1% for both Mid-Sized and Large bank groups (at right and Slides 7, 10). Reduced credit loss provisions, which equaled just 81% of 2012 net charge-offs, provided the major earnings boost (Slides 11-12). Core earnings rates (pre-tax pre-provision) edged up to 1.09% on average, the third year of improvement, as net interest margins stayed barely over 4% and efficiency ratios improved slightly (Slides 13, 14-16). Compared to the bottom of the recession (2009) when over 61% of District banks reported operating losses, 85% of banks reported net profits in 2012 (Slide 9). Looking forward, a challenging interest rate environment, modest loan demand, intense competition for borrowers, and overhead pressures are headwinds likely to constrain profitability gains.



Based on commercial banks, excluding De Novos; trimmed means; preliminary 2012 data

- <u>Loan Quality–Three Years of Recovery:</u> The 12th District bank average noncurrent loan rate dropped to 2.4%, well down from the 4.7% peak (Slide 17). Large and Mid-Sized bank noncurrent rates fell below 2% by year-end 2012, getting close to normal historical levels, while the Small bank rate remained highest of the three and two years away from sub-1% levels at the current improvement rate (at right, and Slide 20). During 2012, the decline in noncurrent rates occurred across major loan types, but the pace of improvement was very slow for commercial & industrial loans (Slide 18). The average District net charge-off rate of 0.5% was about half the rate from a year ago and the lowest level in five years (Slide 23).



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

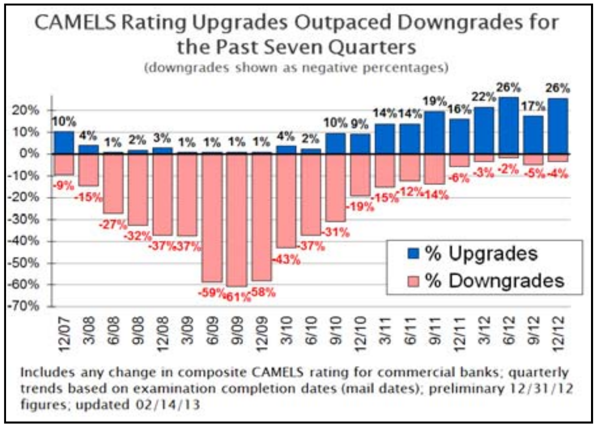
- <u>Upward Trend in Loan Growth:</u> Year-over-year loan growth for District banks climbed to 3.9% on average, led by gains at Large and Mid-sized banks (Slide 25). The fastest growing loans for the District in aggregate were C&I and 1-4 family residential loans, up 11% and 10% respectively for the year (Slide 26). Single-family residential was the strongest growth area for Small banks (+19%) and Mid-sized banks (+13%) (Slide 27).

- <u>Capital Ratios–Continued Strengthening:</u> Bank capital ratios continued to increase, remaining well above pre-financial crisis levels (Slide 31-32) as earnings and earnings retention improved while loan growth remained modest. Thirty-seven additional banks paid common dividends in 2012 compared to 2011, a sign that conditions improved for many banks (Slide 33).

First Glance 12L – Fourth Quarter 2012

- **CAMELS Ratings–Improving Slowly:** CAMELS rating upgrades of District banks have outpaced downgrades for seven consecutive quarters (at right and Slide 34). As a result, the percentage of District banks rated CAMELS “3” or worse (less-than-satisfactory condition) edged down to 41%. This is a positive sign, but the national percentage is far lower at 24%; and in a typical healthy banking environment, the percentage should be less than 10% (Slide 35).

- **Overall–Positive Trends:** Despite 41% of District banks still being rated “less than satisfactory”, all key performance indicators improved significantly in the past year. 12th District banks clearly are recovering at a steady pace. Challenges include an economy that remains slowly recovering and vulnerable to shocks (e.g., from U.S. fiscal situation) and a difficult environment to improve net interest margins.



Bank Supervisors’ Hot Topics

- **Hot Topics:** 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 43, are similar to last quarter’s. As in the past, this is not an exhaustive list of Hot Topics, and is not prioritized in any way.
  - Banks Reducing Allowance for Loan and Lease Losses: Examiners expect solid support for such decisions (Slide 44).
  - Earnings Challenges: Many factors suggest that District banks’ earnings will take time to fully recover and will be challenged to return to the extraordinarily high profitability rates experienced from 2005-2006 (Slide 45).
  - Housing Related Credits, Particularly HELOCs and Other Junior Liens: 1st lien mortgage problems of stressed homeowners will continue to trickle down to junior lien loans (Slide 46).
  - CRE Income Property Loans Originated From 2005 to 2008: Bank exposure to commercial real estate remains high and commercial property values remain depressed; some loans originated near the market peak may have little equity and weak cash flows. Low interest rates have supported CRE borrowers thus far. (Slide 47).
  - “Surge Deposits” Issues: The huge influx of deposits at many banks dramatically improved balance sheet liquidity, but these deposits should be considered temporary; also, many banks have invested funds in longer-term securities which may make them vulnerable to rising interest rates. (Slide 48).
  - Expansion into New or Unfamiliar Lending Areas: Some banks are seeking to diversify by expanding rapidly into areas such as C&I, 1-4 family first liens, and multifamily loans; such growth, if not paired with commensurate controls and limits, could cause problems down the line (Slide 49).
  - Other Assorted Issues: (Slide 50).

Section 1
Commercial Bank Performance

Slides in this section focus on trends among the 410 commercial banks headquartered within the 12th Federal Reserve District.

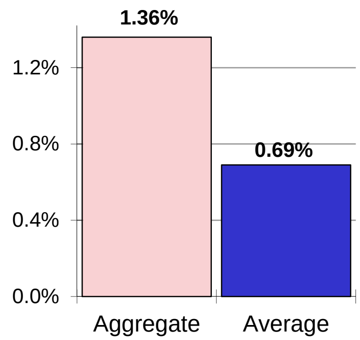
See Section 2 for coverage of savings institutions and industrial banks.

Aggregates (weighted averages) vs. Averages (unweighted averages)

- *Many of the following charts use ratio averages (or "trimmed means") when comparing District vs. Nationwide bank trends. By using averages of all the individual bank ratios, the charts are indicative of trends across a broad spectrum of banks.*
- *Aggregate ratios are used occasionally as well. Aggregates primarily reflect trends at the largest banks. With interstate branching, aggregate data for District bank also reflects more of a national story.*
- Ratio levels and trends can differ significantly between statistical methods.

Return on Avg. Assets for 12th District Banks – 2012

Two Ways to Look at it

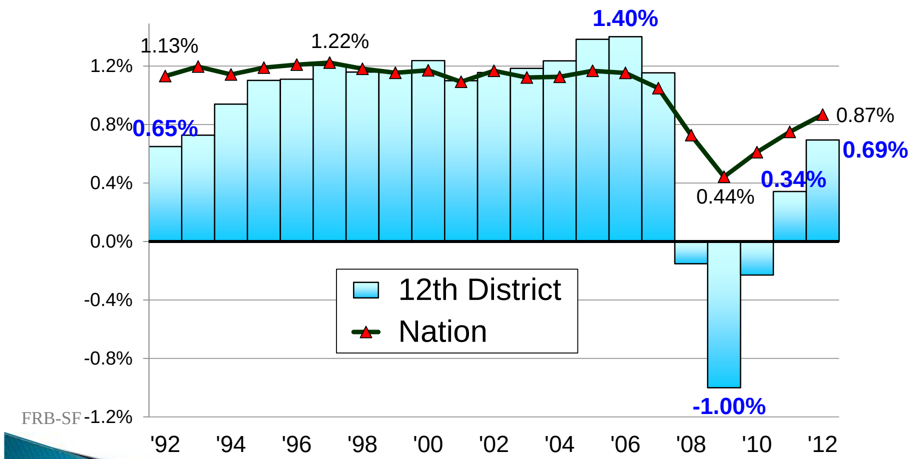


FRB-SF

Based on all commercial banks headquartered within 12th Federal Reserve District; Wells Fargo Bank, NA accounts for 60% of District total assets, heavily influencing the aggregate statistics; prelim. 2012 data

Earnings: District Bank ROAA Continued to Recover & Narrow Gap with Nation – *Still Well Below Historical Averages*

Average Return on Average Assets – YTD annual (%)



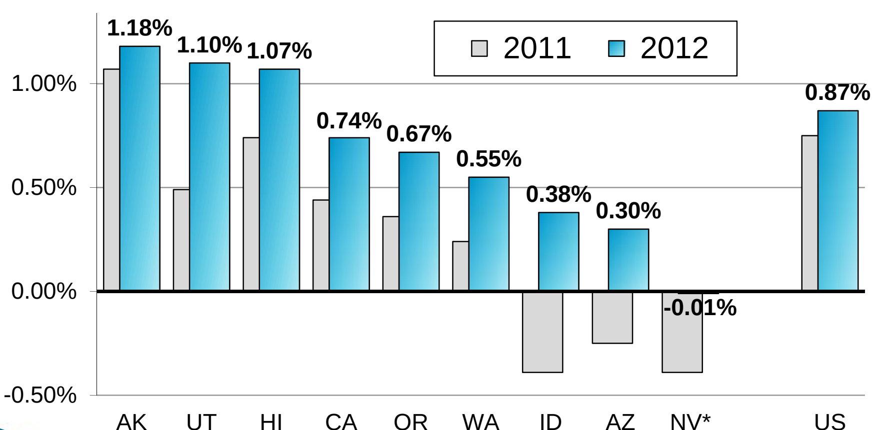
FRB-SF

Based on commercial banks, excluding De Novos; trimmed means; preliminary 2012 data

Avg. ROAAs – Most District States in the Black

Banks in ID, UT & AZ were Most Improved vs. Last Year

Average Return on Average Assets – Full Year (%)



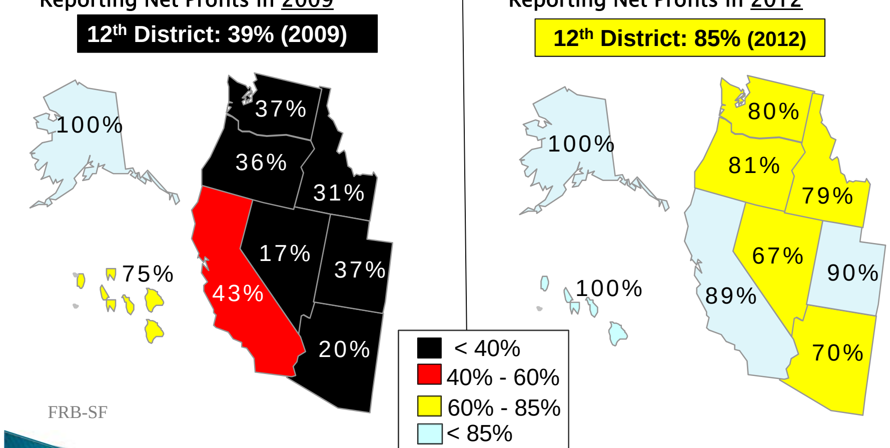
FRB-SF

Based on commercial banks, excluding De Novos; trimmed mean ratios, preliminary 2012 data –
* NV: excluding credit card and zero-loan banks

Whereas in 2009, Just 39% of District Banks Were Profitable, 85% Reported Profits in 2012

Percentage of Commercial Banks Reporting Net Profits in 2009

Percentage of Commercial Banks Reporting Net Profits in 2012



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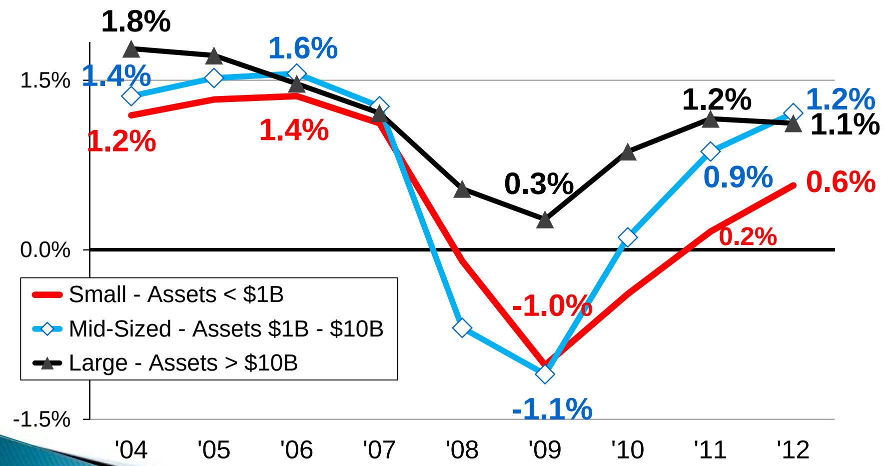
Preliminary 2012 data for all commercial banks, excluding De Novos

Small Bank Profitability Continued to Lag

Large Bank Profitability Weakened Slightly in 2012 from Margin Pressures

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

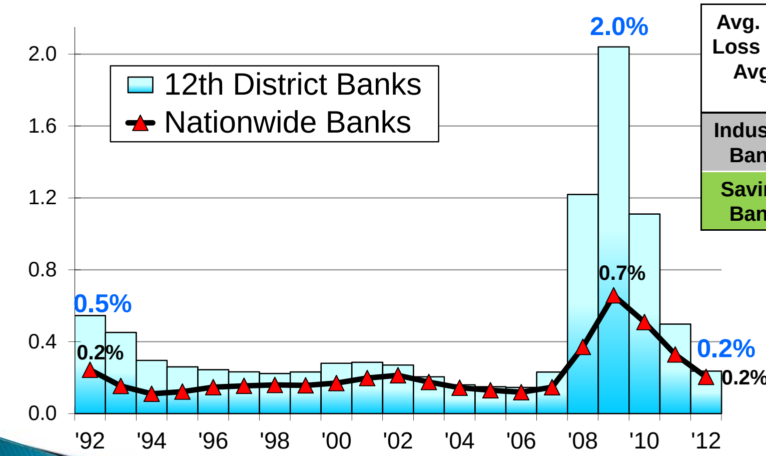


Based on commercial banks, excluding De Novos; trimmed means; preliminary 2012 data

Loss Provisions Continued to Fall, Driving ROA Improvement

38 District banks took negative provisions in 2012, 63 took zero provisions – a combined 24% of banks (excluding De Novos and banks with no loans)

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

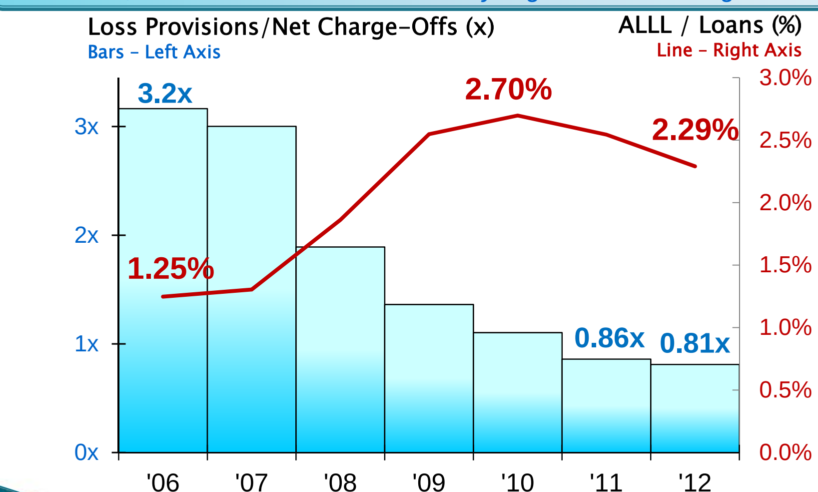


Avg. 12th District Loss Provisions / Avg. Assets - 2012	
Industrial Banks	0.8%
Savings Banks	0.4%

Based on commercial banks, excluding De Novos; trimmed means; preliminary 2012 data

Loss Provisions Stopped Covering Net Charge-Offs, on Average, in 2011

However, ALLL Levels Remain Relatively High as a Percentage of Loans

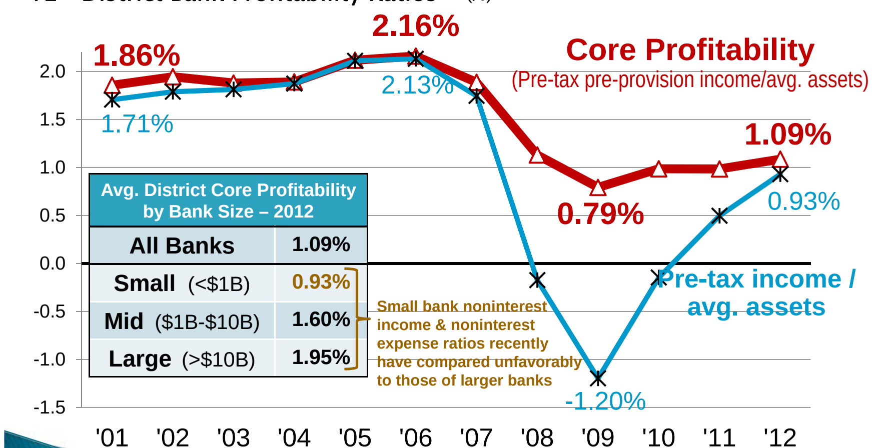


ALLL: Allowance for Loans and Lease Losses; Based on commercial banks, excluding De Novos; trimmed means; preliminary 2012 data

Core Profitability (pre-provision) and Pre-Tax Earnings Rates Edged Higher

But Still Well Below Historic Averages

12th District Bank Profitability Ratios – (%)



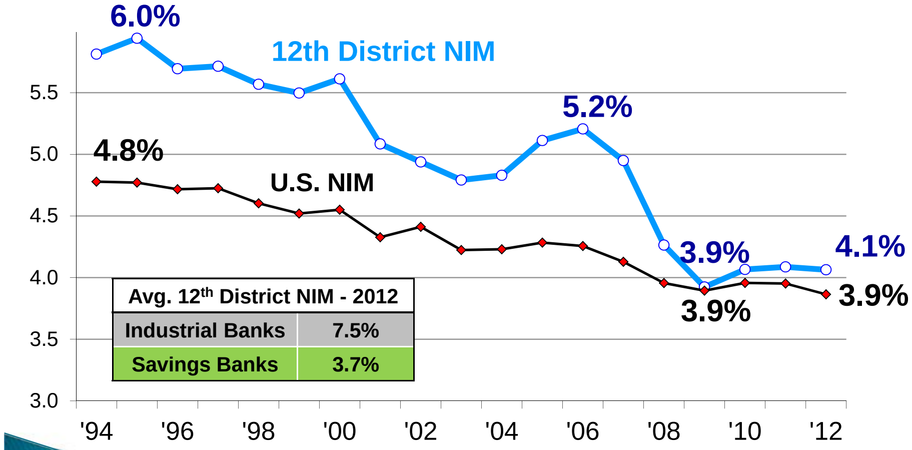
Avg. District Core Profitability by Bank Size – 2012	
All Banks	1.09%
Small (<$1B)	0.93%
Mid ($1B-$10B)	1.60%
Large (>$10B)	1.95%

Based on commercial banks, excluding De Novos; trimmed means; preliminary 2012 data

District Bank Net Interest Margins Remained Depressed

District Average NIM Essentially Flat for 2012

Net interest income (tax equiv) / **average earning assets (NIM)**



Avg. 12th District NIM - 2012	
Industrial Banks	7.5%
Savings Banks	3.7%

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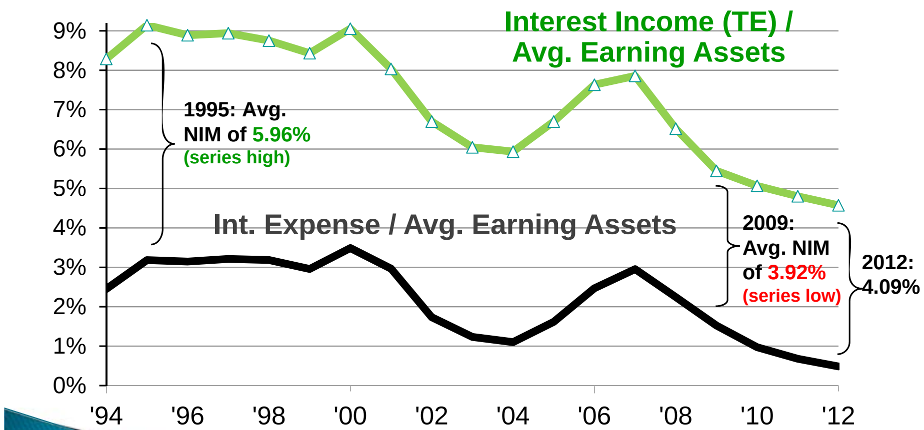
Based on commercial banks excluding De Novos; trimmed means; prelim 2012 data

Earning Asset Yields & Funding Costs Fell Further

12th District Bank Yields and Costs / Avg. Earning Assets – quarterly; annualized



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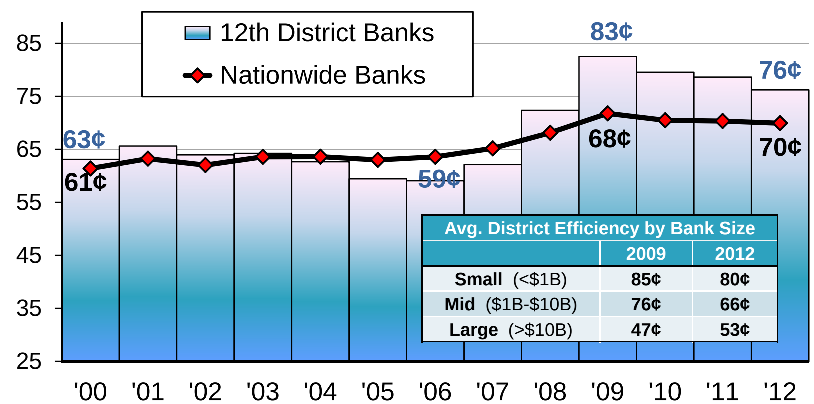
Based on commercial banks excluding De Novos; trimmed means; preliminary 2012 data

Average Bank Efficiency Measures Improved Moderately in 2012; But Still Worse than the Nation

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



Avg. District Efficiency by Bank Size	2009	2012
Small (<$1B)	85¢	80¢
Mid ($1B-$10B)	76¢	66¢
Large (>$10B)	47¢	53¢

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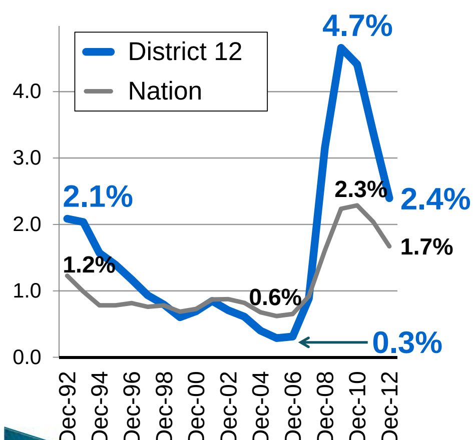
Based on commercial banks excluding De Novos; trimmed means; preliminary 2012 data

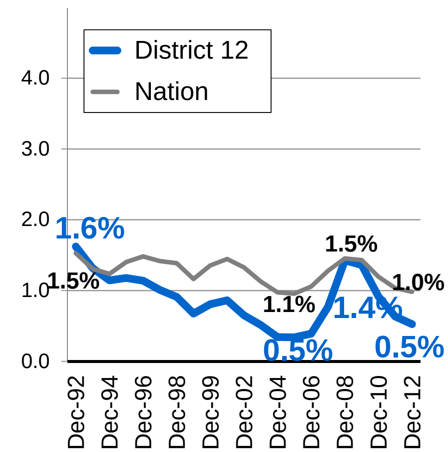
Loan Quality: Average 12th District Bank Noncurrent Loan Rate Declined Further

30-89 Day Past Due Loan Rate at Pre-Crisis Lows

Average Noncurrent Loan Rates



Avg. Past Due 30-89 Day Loan Rates



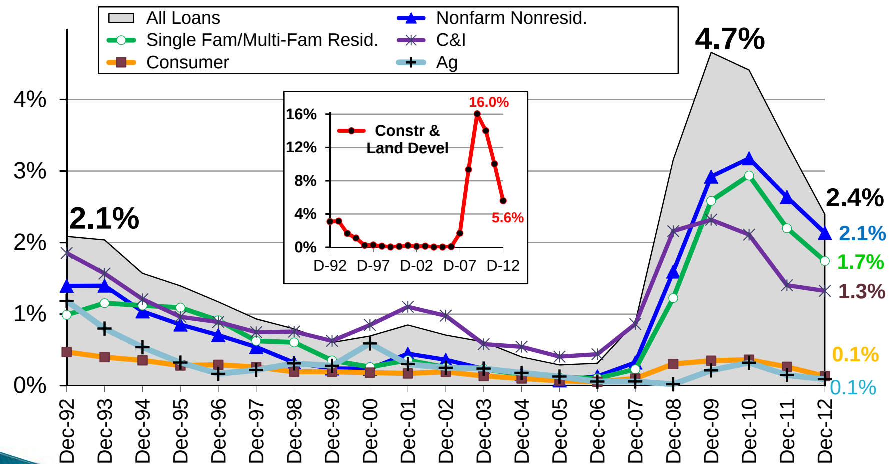
FRB-SF

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

Significant Reduction in Avg. Noncurrent Rates Across Loans Types, Except for C&I, Down Just Slightly in 2012

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

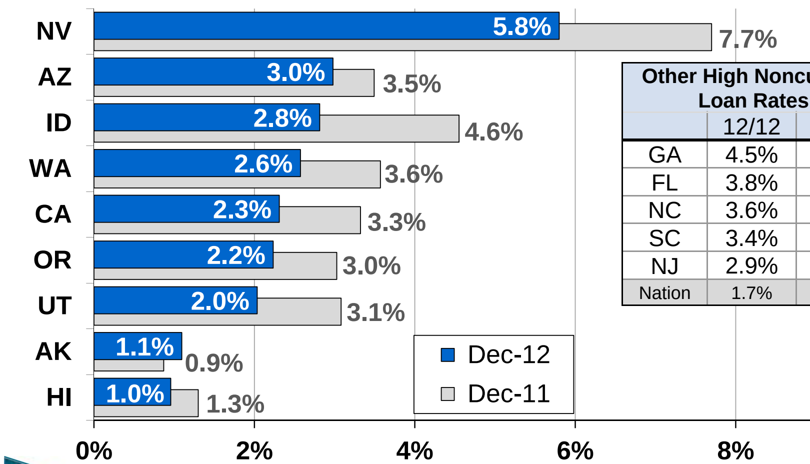
Average 12th District Bank Noncurrent Loan Rates



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

By State: Noncurrent Loan Rates Dropped Broadly, Especially in Nevada and Idaho

Average 12th District Bank Noncurrent Loan Rates

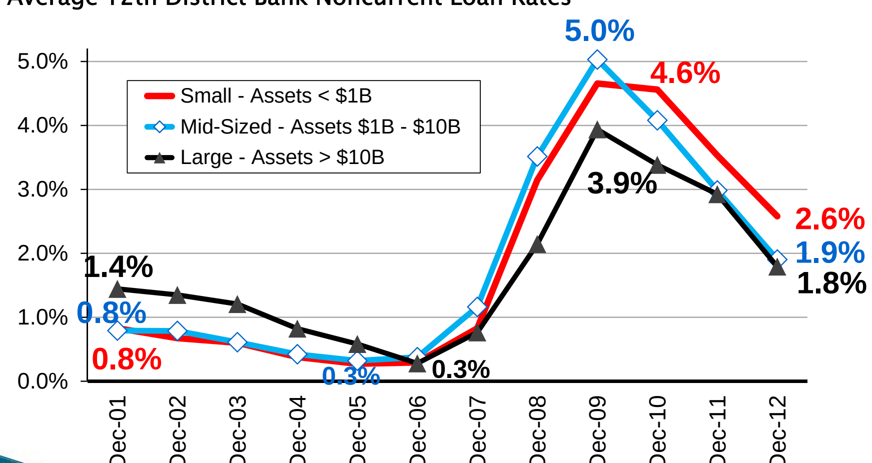


Other High Noncurrent Loan Rates	12/12	12/11
GA	4.5%	5.8%
FL	3.8%	5.7%
NC	3.6%	4.8%
SC	3.4%	4.1%
NJ	2.9%	3.8%
Nation	1.7%	2.0%

Based on commercial banks, excl. De Novos; trimmed means; Noncurrent = 90+ days past due or on nonaccrual; preliminary 12/31/12 data. Industrial bank avg. 12/12 noncurrent rates were 1.4% in NV and 1.1% in UT

Noncurrent Rates Declined for Four Years in All Size Groups; Small Banks Have Highest Noncurrent Rates

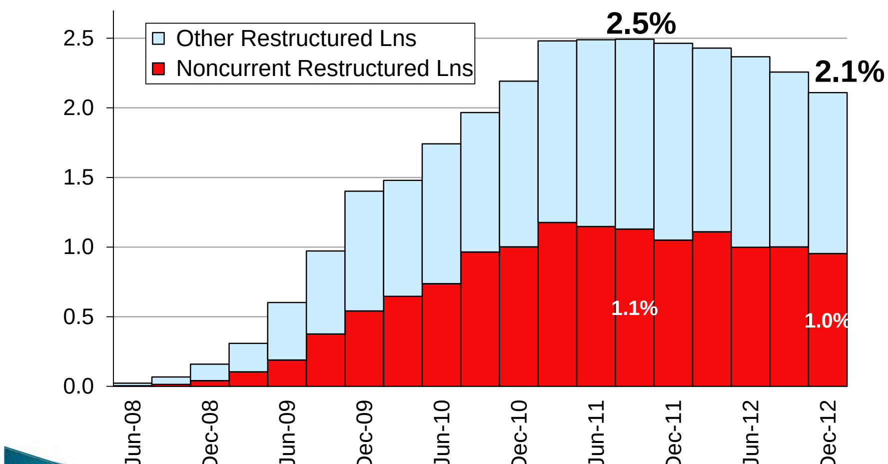
Average 12th District Bank Noncurrent Loan Rates



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

Troubled Debt Restructurings Continued to Edge Downward

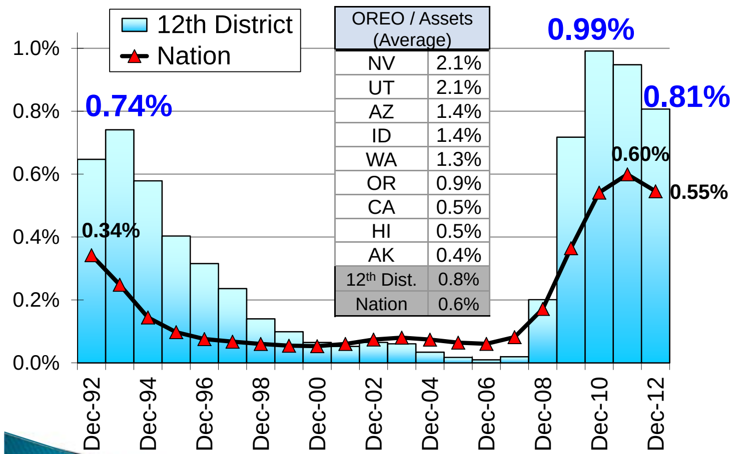
12th District Bank Restructured Loans as a Percentage (%) of Total Loans



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

Foreclosed Real Estate Trended Down as a Percentage of Assets

Average District Bank Other Real Estate Owned (% of Assets)



OREO / Assets (Average)	
NV	2.1%
UT	2.1%
AZ	1.4%
ID	1.4%
WA	1.3%
OR	0.9%
CA	0.5%
HI	0.5%
AK	0.4%
12th Dist.	0.8%
Nation	0.6%

Aggregate OREO by Loan Type 12/31/12 (District banks < $100B; % of Total OREO)	
Construction & Land Devel.	47%
CRE: Nonfarm Nonresidential secured	32%
1-4 Family Residential	15%
Multifamily	4%

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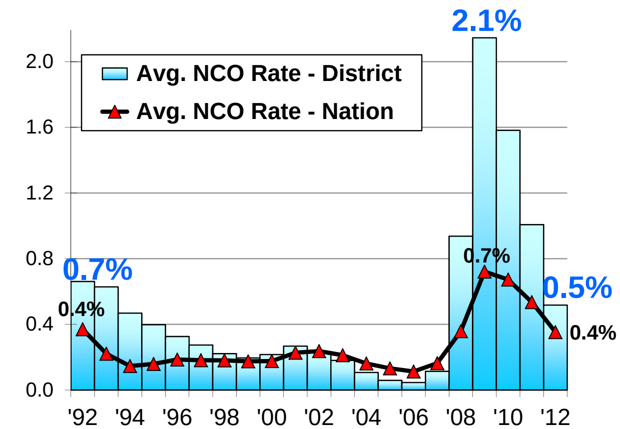
Based on commercial banks excluding De Novos; trimmed means, preliminary 12/31/12 data

District Bank Net Charge-Off Rates at Less than Half the Year-Ago Levels

Avg. Ratio of Net Charge-Offs / Avg. Loans



Average NCO rates		
U.S. rank	state	2012
1	NV	1.31%
7	UT	0.74%
8	ID	0.72%
10	WA	0.62%
13	AZ	0.56%
20	CA	0.44%
22	OR	0.42%
38	HI	0.22%
48	AK	0.13%
District		0.52%
Dist. Industrial		1.25%
Dist. Savings		0.71%
Nation		0.35%

Red: >= 1%; Yellow: 0.5% to 1%

See Appendix 1 for Detailed Aggregate District Net Charge-Off Rates

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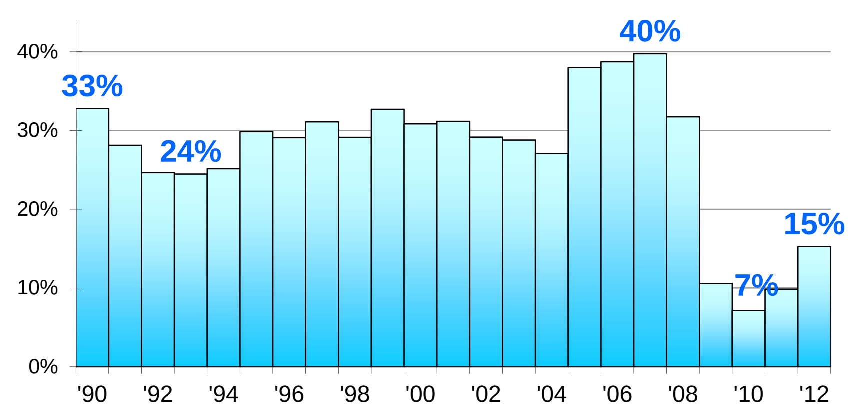
Based on commercial banks excluding De Novos; trimmed means; 2012 prelim data

Recoveries of Prior Year Loan Losses Rose Year-Over-Year

Workout efforts increasingly are finding success

Recoveries / Prior Year Gross Charge-Offs



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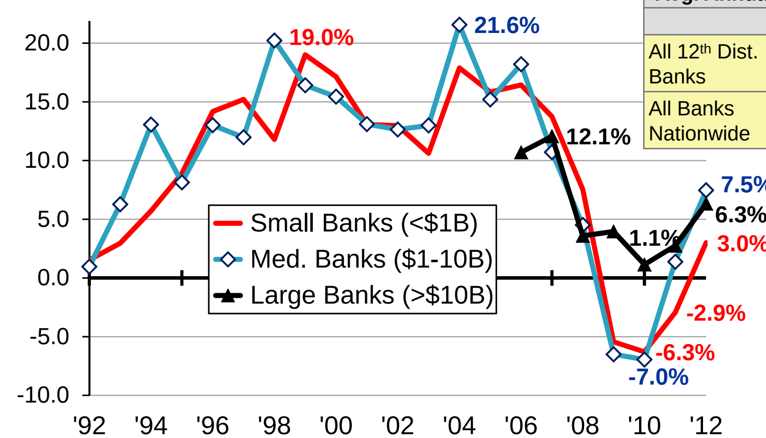
Based on commercial banks excluding De Novos; trimmed means; 2012 data is preliminary

Loan Growth: Turnaround Continued

Avg. Loan Growth 3.9% YoY with Fastest Growth at Large and Mid-Sized Banks

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



Avg. Annual Loan Growth		
	2011	2012
All 12th Dist. Banks	-2.0%	3.9%
All Banks Nationwide	-1.0%	2.1%

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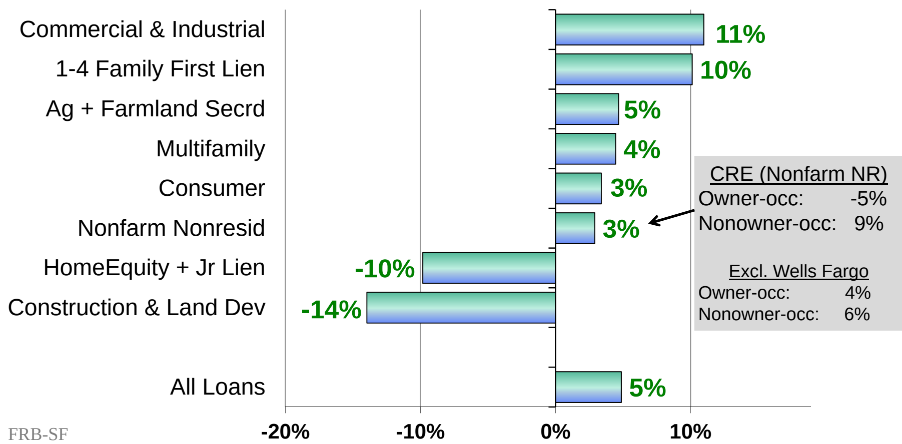
Based on commercial banks, excluding De Novos; large bank statistics prior to 2006 not meaningful as there were too few banks; trimmed means; preliminary 12/31/12 data

Switching to Loan Growth Aggregates: C&I Continued Strong YoY Growth, Followed by Residential 1st Lien, and Ag

12th District Bank Aggregate Loan Growth Rates – 2012



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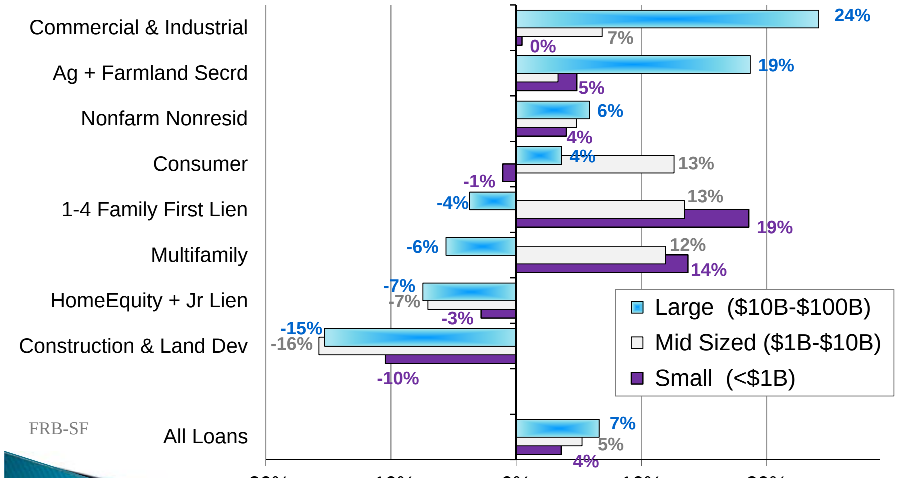
Based on a panel of District commercial banks active at YE 2012; excludes banks with significant mergers, loan sales or loan purchases over the period; prelim 12/31/12 data

Loan Growth Emphasis Varied by Bank Size

Main Emphasis of Large Banks: C&I and Ag; Mid-Sized Banks: Multifamily, Consumer and 1-4 Family; Small Banks: 1-4 Family Residential

12th District Bank Aggregate Loan Growth Rates – 2012



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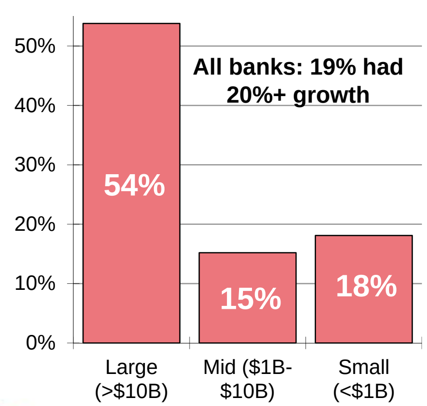
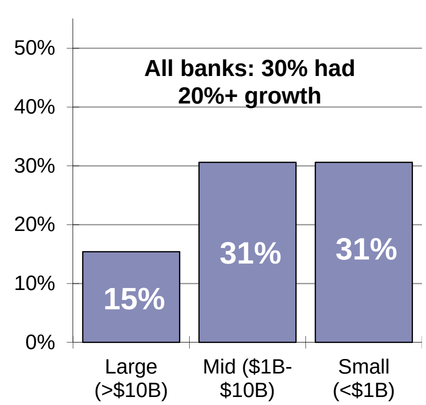
Based on a panel of District commercial banks with assets <$100B; excludes banks with significant mergers, loan sales or loan purchases over the period; prelim 12/31/12 data

Focus: C&I and 1-4 Family First Lien Loans – Many Banks had High Rates of Growth

Pct. with >20% Annual Growth in Commercial & Industrial Loans



Pct. with >20% Annual Growth in 1-4 Family First Lien Loans



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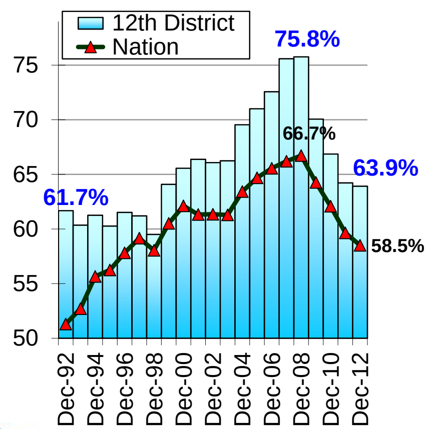
Based on a panel of District commercial banks with at least 4% of loans in the particular loan type, excludes banks with significant mergers, loan sales or loan purchases over the period; preliminary 12/12 data

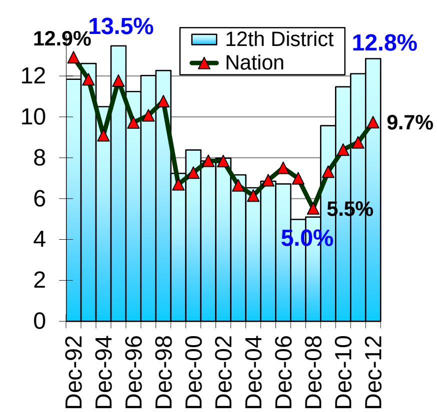
Liquidity: Banks Remain Flush with Short Term Assets

Investors Parked Money in Banks Following The Crisis and Due to Low Yields Elsewhere

Loans/Assets (adj. average %)



Short-Term Investments/Assets (average %)



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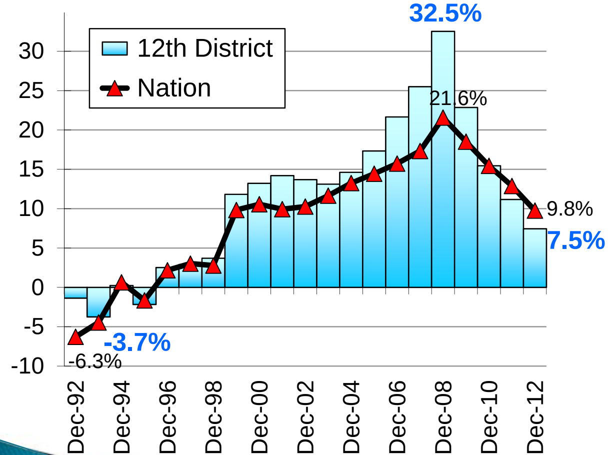
Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/12 data

Average District Bank Reliance on Noncore Funding Sources Down to 14-Year Low

Net Noncore Funding Dependence (Adjusted Average %)



<u>*Net Noncore Funding Dependence*</u>

The degree to which banks fund longer-term assets with noncore funding

<u>Definition:</u>

Noncore funding (e.g., brokered deposits, CDs>$100K, borrowed money) <u>minus</u> short-term investments (e.g., fed funds sold, securities with one year or less remaining maturity, interest bearing bank balances)

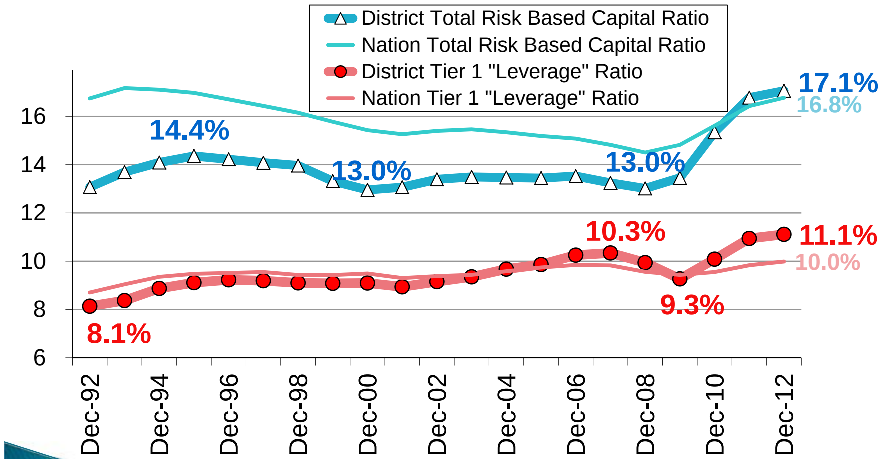
Divided by: Longer-term assets (net loans and securities with remaining maturities over one year and non-investment other real estate owned)

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

<u>Capital Adequacy</u>: District Bank Ratios Rose Further

Slow Loan Growth & Modest Earnings Provided Bank Ratio Boosts

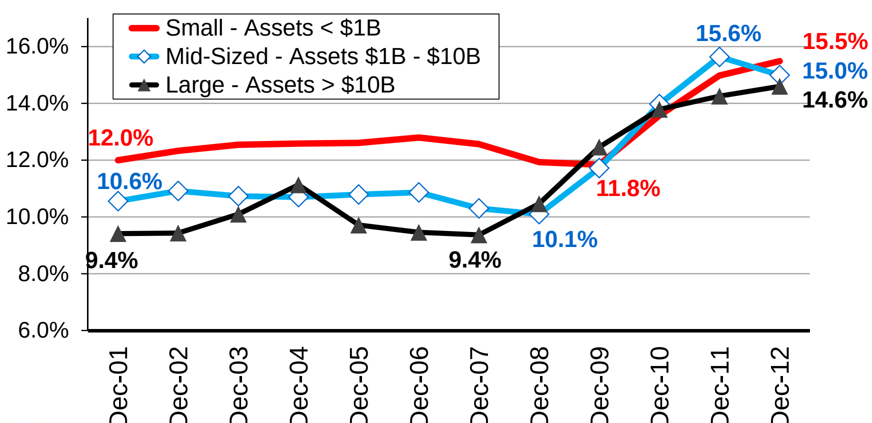
12th District bank average capital ratios (%)



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

Tier 1 Common Equity Ratios also are Up Sharply from Pre-Crisis Levels for Banks of All Sizes

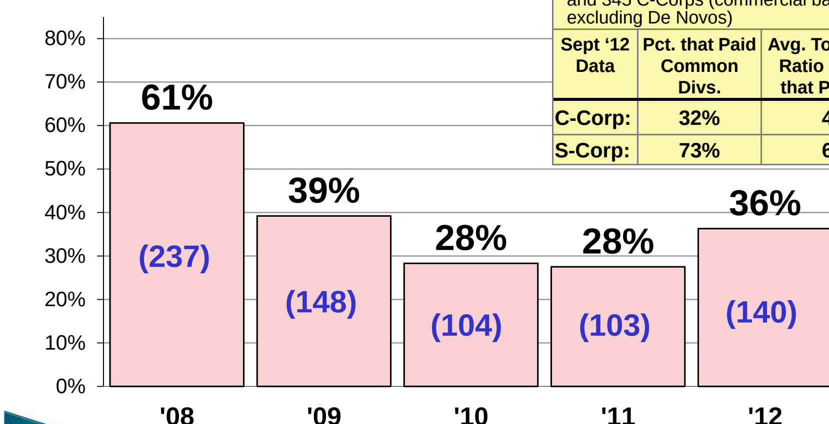
Average District Bank Tier 1 Common Equity / Risk Weighted Assets Ratios



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

Number of District Banks Paying Common Dividends Jumped Up

Pct (and #) of District Banks that Paid a Common Stock Dividend (excl. new banks)



<u>*S-Corps vs. C-Corps*</u>

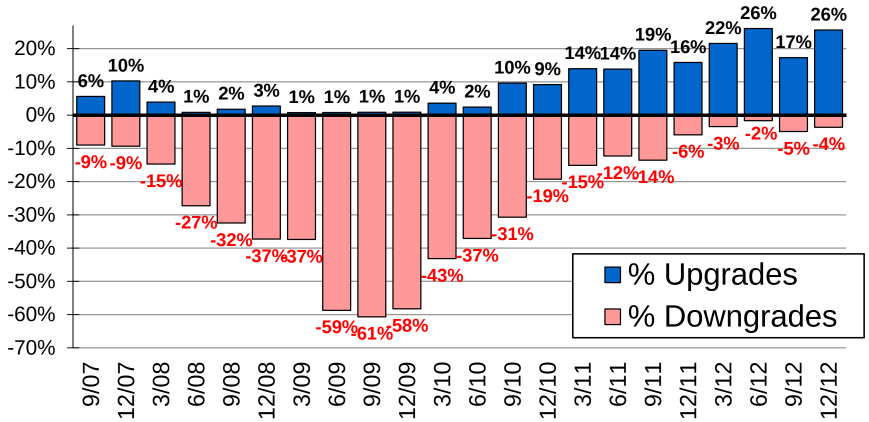
At 12/31/12, there were 41 District S-Corps and 345 C-Corps (commercial banks only excluding De Novos)

Sept '12 Data	Pct. that Paid Common Divs.	Avg. Total Payout Ratio for those that Paid Divs.
C-Corp:	32%	44%
S-Corp:	73%	60%

Based on commercial banks, excluding De Novos; averages are trimmed means; preliminary 2012 data

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

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

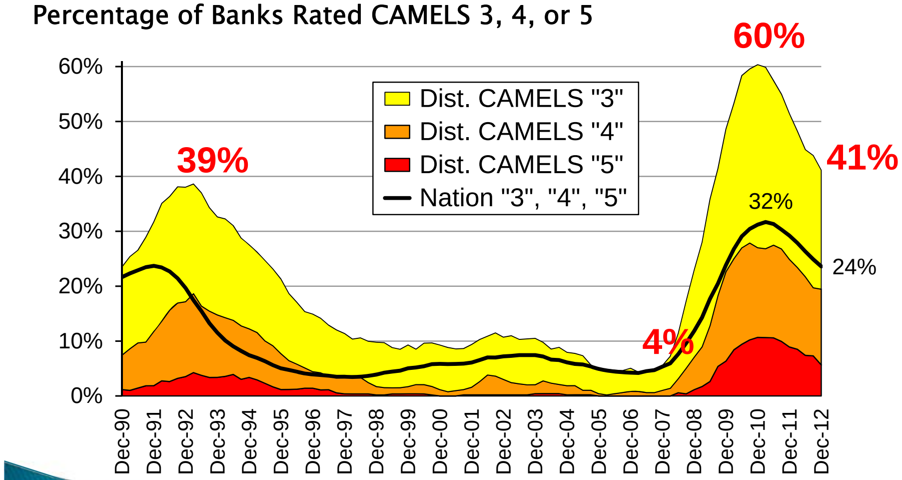


FRB-SF

Includes any change in composite CAMELS rating for commercial banks; quarterly trends based on examination completion dates (mail dates); preliminary 12/31/12 figures; updated 02/14/13

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

Percentage of Banks Rated CAMELS 3, 4, or 5

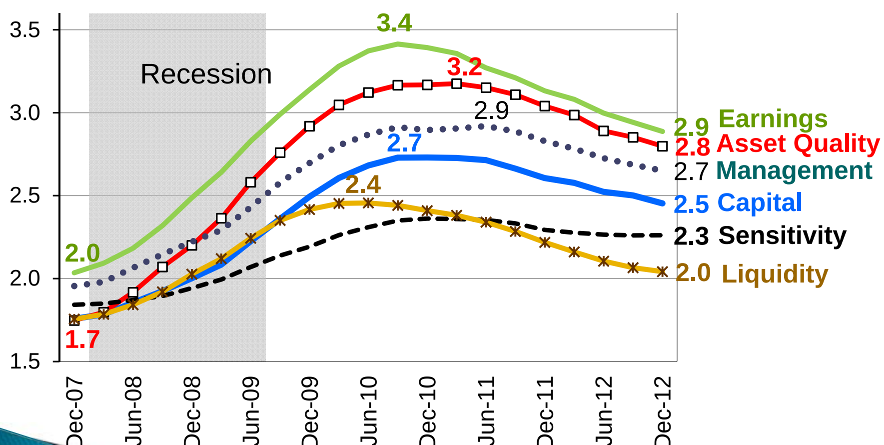


FRB-SF

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

CAMELS Rating Components Continue to Improve – *Earnings and Asset Quality Still Lag*

Average CAMELS Component Ratings for 12th District Banks
(1: strong; 2: satisfactory; 3-5: less than satisfactory)

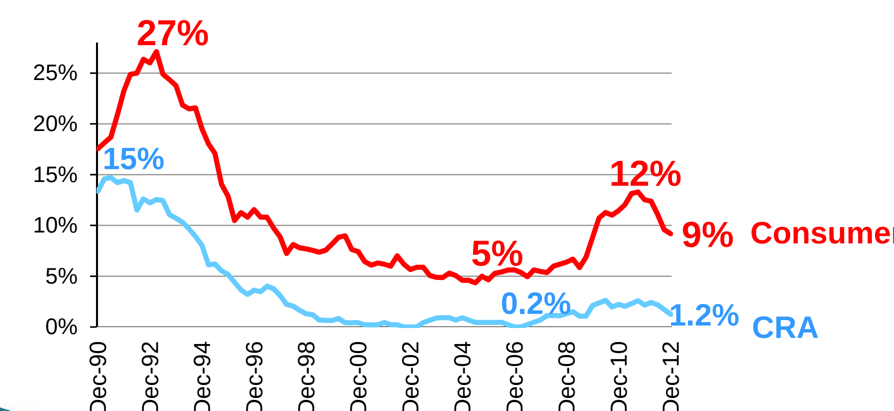


FRB-SF

Trends for all 12th District commercial banks based on CAMELS composite ratings and examination completion dates (mail dates); updated 02/14/13; prelim 12/31/12 data

District Bank Consumer and CRA Ratings Also are Improving

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; updated 02/14/13; prelim 12/31/12 data

Section 2 – Savings Institution and Industrial Bank Performance

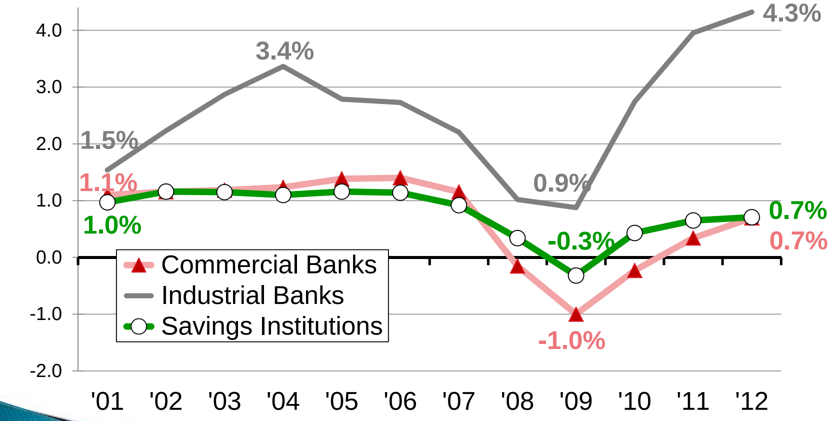
Slides in this section focus on trends among the 47 savings institutions and 32 industrial banks headquartered within the 12th Federal Reserve District.

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 Profitability Remains Far Higher than that of Commercial Banks and Savings Institutions

Industrials Typically Conduct Nationwide Consumer or C&I Lending (contributing to strong loan yields) and from One Office (limiting overhead expenses)

District Return on Average Assets –Averages (%)

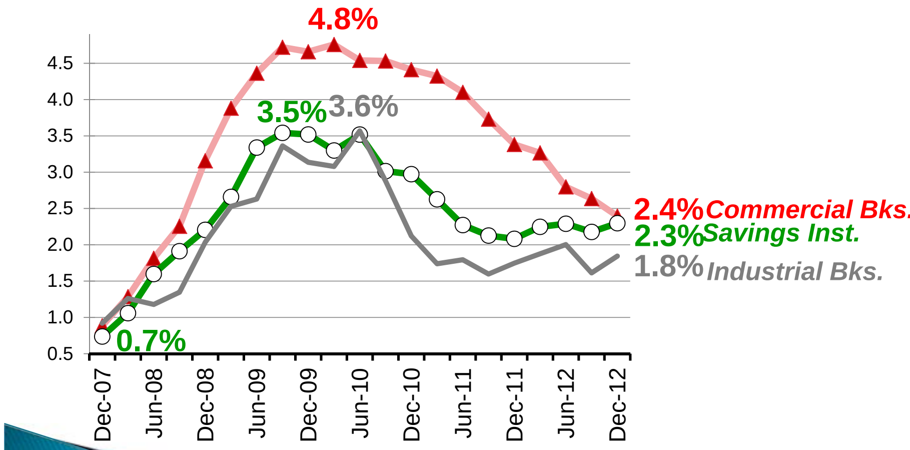


FRB-SF

Based on District commercial banks, savings institution and industrial banks; excluding De Novos; trimmed means; prelim 2012 data

Loan Quality: District Industrial Bank Noncurrent Ratios Remain Lower than Commercial and Savings Institution Ratios on Avg.

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

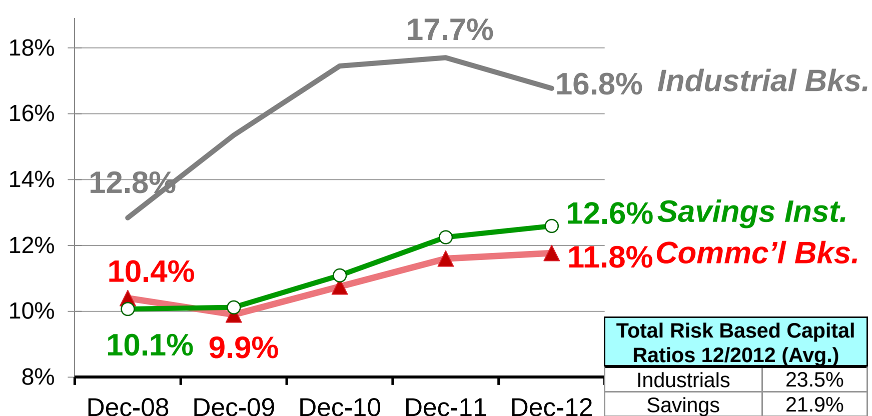


FRB-SF

Based on District commercial banks, savings institutions and industrial banks; excluding De Novos; trimmed means; preliminary Dec-12 data

Equity/Assets Ratios Still Rising for Commercial and Savings Banks; Industrial Bank Ratios Remained Highest

Average 12th District Institution Equity/Assets Ratios



Total Risk Based Capital Ratios 12/2012 (Avg.)	
Industrials	23.5%
Savings	21.9%
Commercial	17.1%

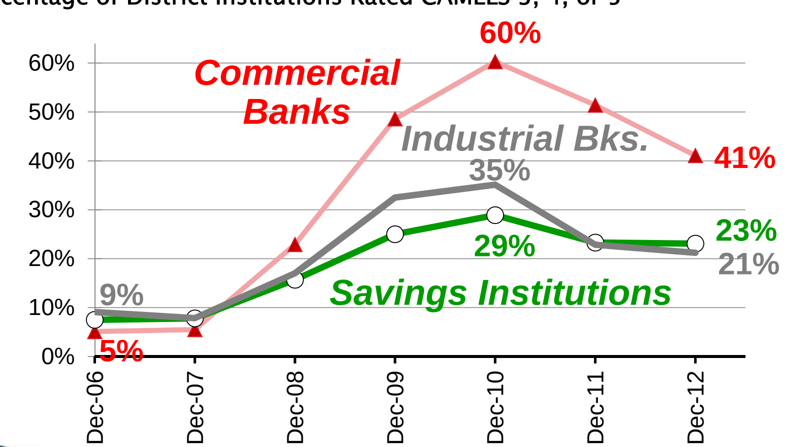
FRB-SF

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

Percent Savings Institutions Rated CAMELS 3, 4, or 5 Unchanged from 2011

Still Significantly Lower than Commercial Banks

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



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Based on District banks and savings institutions; preliminary 12/31/12 data;

Section 3
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

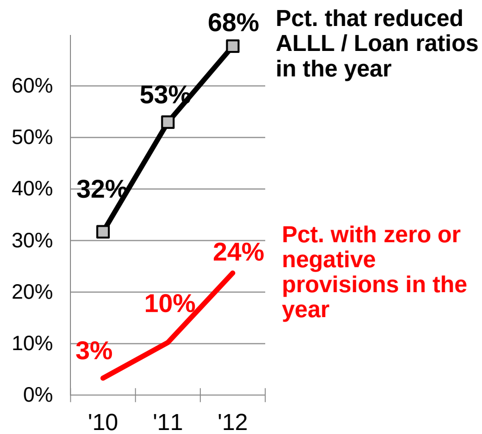
Bank Supervisors’ Hot Topic: ALLL Reductions
Most Banks Reduced ALLL / Loan Ratios in 2012

- ✓ Rising portion of banks reduced their ALLL (negative provisions for 38 banks, zero provisions for 53 banks)
- ✓ Over two-thirds reduced ALLL/Loan coverage ratios
- ✓ A sign of improving credit quality

However:

- ✓ *Examiners expect well-documented justification for such decisions*
- ✓ *Reductions in ALLL and coverage should be aligned with improving credit quality; also considered: risk appetite and new loan growth*
- ✓ *Provisions not covering net charge-offs can't be sustained long-term*
- ✓ *FASB is proposing an Expected Credit Loss model for ALLL accounting*

Percentage of District Commercial Banks



ALLL = Allowance for Loan and Lease Losses
Based on all District commercial banks excluding De Novos. Prelim 2012 data

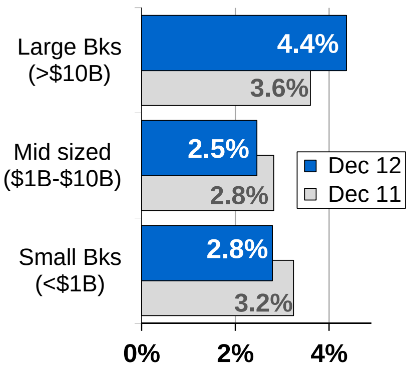
Bank Supervisors’ Hot Topic
Earnings Challenges

EARNINGS ISSUE	DURATION?
Low interest rate environment – narrow margins	Short term
Intense competition for quality borrowers	Short term
Limited opportunities to grow fee income, especially for smaller banks	Long term?
Overhead expense headwinds (e.g. fraud prevention, compliance costs)	Long term?
Not likely to see high rates of Construction & Land Development lending anytime soon	Long term?

Bank Supervisors’ Hot Topic
Housing Related Credits, Particularly HELOCs and Other Junior Liens

- ✓ Many borrowers with defaulted first lien mortgages have junior lien mortgages
- ✓ Banks should ensure that their nonaccrual and charge-off policies on junior liens comply with recent regulatory guidance
- ✓ Sufficient information should be gathered to adequately assess the loss incurred within junior lien portfolios (e.g., obtain credit reports or data from third-party servicers to help match junior liens with the associated senior liens; consider possible payment shock due to rising rates or HELOC conversion to amortizing loans)
- ✓ HELOC/Jr. Lien loans account for more than 4% of loans at half of all District banks

Total Past Due or Nonaccrual HELOC + other Jr. Lien 1-4 Family Mortgages - District Bank Aggregates by Bank Size



Based on aggregate data for District commercial banks; excluding de novos; preliminary 12/31/12 data

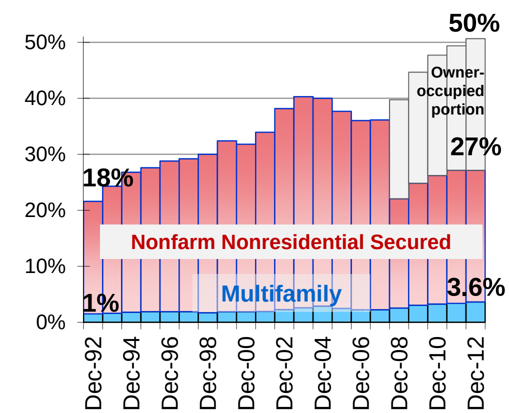
Bank Supervisors’ Hot Topic
CRE Income Property Loans Originated from 2005 to 2008

While examiners find that most CRE loans at banks are performing and collateralized adequately, questions remain on loans originated near market peaks….

- ✓ Bank exposure to CRE loans in general remains significant
- ✓ Core sector property values are down over 30% from their peak*, and some borrowers are left with little or no equity
- ✓ The average noncurrent rate of 2.1% exceeds any major loan category aside from C&LD loans
- ✓ Concerns: maturing loans; matured loans extended but with weaknesses
- ✓ Current low interest rates have helped keep CRE loans performing, so far
- ✓ Extensions must be well supported

* From Moody’s/RCA Commercial Price Property Index for core sectors (office, retail, industrial) in non-major markets

Average 12th District Bank CRE Income Property Loans (% of Total Loans)

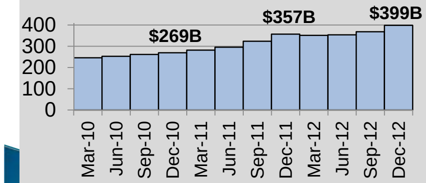


Based on all 12th District commercial banks; trimmed means, preliminary 12/31/12 data

Bank Supervisors' Hot Topic
Issues with "Surge Deposits"

- ❑ Liquidity: influx of deposits since financial crisis temporarily boosted balance sheet liquidity
  - As the economy improves and rates rise, deposits likely will be withdrawn; loan growth meanwhile, should further rise
  - Banks need to plan for potentially rapid changes in liquidity positions
- Fortunately, expiration of Transaction Account Guarantee Program has not led to material outflows

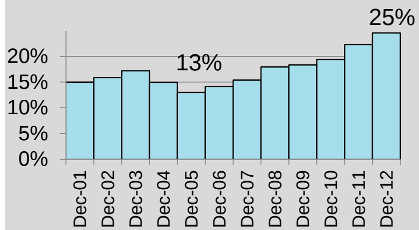
12th District Total Noninterest Bearing Deposits ($ Billion)



Aggregate data for a panel of 12th District commercial banks active at YE 2012

- ❑ Interest Rate Risk: given the low rate environment and challenges growing the loan portfolio, banks boosted investment in higher-yielding, longer-dated securities
  - Some banks may be vulnerable to rising interest rates

Loans and Securities Maturing or Repricing in 5+ Years / Assets – District Bks Under $1B

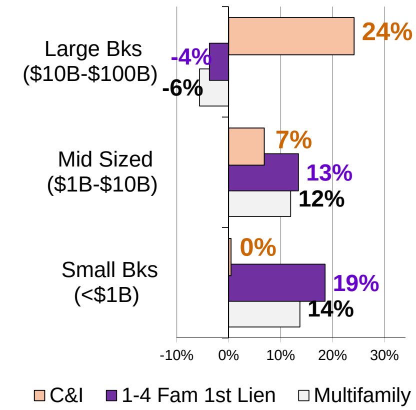


Based on aggregate data for 12th District banks with assets < $1 billion; includes commercial and industrial banks

Bank Supervisors' Hot Topic
Expansion into New or Unfamiliar Lending Areas

- ✓ Banks are seeing rapid loan growth in some lending areas (see Slides 25-28)
  - Large Banks: C&I
  - Mid-Sized Banks: Multifamily & 1-4 Family Residential
  - Small Banks: 1-4 Family Residential
- ✓ Portfolio rebalancing may reduce earnings volatility and improve diversification, but:
  - Expertise in new lending areas may be lacking
  - High competition / pricing pressures in some areas are leading some to easing of underwriting criteria / terms
  - Historical loss rates on C&I are higher than most other loan types
  - Management must maintain robust risk mgmt. processes around all products

12th District Bank Aggregate Loan Growth Rates – 2012



Based on a panel of District commercial banks <$100B active at YE 2012; excludes banks with significant mergers, loan sales or loan purchases over the period

Bank Supervisors' Hot Topic
Assorted Other Issues

- ✓ Capital planning / stress testing expectations of banks
- ✓ Sequestration / Debt Ceiling – Impact on U.S. credit ratings & economy if fiscal situation remains continually uncertain
- ✓ CyberSecurity issues – e.g., denial of service attacks
- ✓ Challenges with adjusting to new rules and regulations (e.g., new Consumer Financial Protection Bureau "Ability to Repay Rule" for mortgage lending)

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Appendix 1
12th District Bank Aggregate Net Charge-Off Rates

NCO rates declined year-over-year but remained at high levels

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

	All Banks		Small Bks (<$1 Billion)	
	2011	**2012**	**2011**	**2012**
Construction & Land Development	2.49	0.85	3.47	1.43
Residential Construction	3.11	0.19	3.41	1.08
Other C&LD	2.36	1.01	3.48	1.53
CRE - Nonfarm Nonresidential Loans	0.63	0.29	0.73	0.48
Owner-Occupied	0.74	0.33	0.59	0.40
Nonowner-Occupied	0.55	0.25	0.86	0.56
Residential Closed-End Loans	1.14	0.91	1.38	0.76
Home Equity Loans	2.34	2.39	1.23	0.74
Multifamily Loans	0.37	0.03	0.69	0.17
Commercial & Industrial Loans	0.66	0.40	1.62	0.74
Agricultural Loans	0.37	0.79	0.30	(0.02)
Credit Card Loans	5.30	3.86	2.90	2.15
Installment Loans	1.05	0.90	1.80	0.85
Total Loans	1.13	0.81	1.20	0.62

NCO rates for all District commercial banks; Red: >= 2%; Yellow: 0.75% to 2%

This data soon will be available at http://www.frbsf.org/banking/data/index.html - see Charge-Off Rates: 12th District (FRB SF)

Appendix 2 – Banks Covered in this Report

Geography	Commercial Banks (De Novos)		Industrial Banks (De Novos)		Savings Institutions (De Novos)	
	12-11	12-12	12-11	12-12	12-11	12-12
Alaska	4 (0)	4 (0)	-	-	2 (0)	2 (0)
Arizona	30 (7)	28 (0)	-	-	1 (0)	1 (0)
California	227 (28)	215 (8)	9 (1)	7 (1)	18 (2)	18 (2)
Guam	2 (0)	2 (0)	-	-	1 (0)	1 (0)
Hawaii	6 (0)	6 (0)	1 (0)	1 (0)	2 (0)	2 (0)
Idaho	17 (2)	15 (1)	-	-	1 (0)	1 (0)
Nevada	19 (6)	17 (2)	4 (0)	4 (0)	2 (0)	2 (0)
Oregon	31 (2)	29 (1)	-	-	3 (0)	3 (0)
Utah	33 (2)	32 (2)	19 (0)	19 (0)	4(0)	4 (0)
Washington	58 (2)	58 (2)	-		14 (0)	13 (0)
12th District	427 (49)	410 (16)	33 (1)	31 (1)	48 (2)	47 (2)
Nation	6,238 (260)	6,035 (114)	35 (1)	33 (1)	1075 (22)	1,010 (8)

Based on preliminary 12/31/12 data

Appendix 3 – 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 2. There, the saving institution data include institutions that file the bank Call Report plus those that, up until recently, filed the thrift Call Report.