First Glance 12L (1Q13)

Banking Recovery Continues
Despite Margin Pressures

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

12th District

Based on Preliminary 1Q2013 Call & Income Report Data

May 22, 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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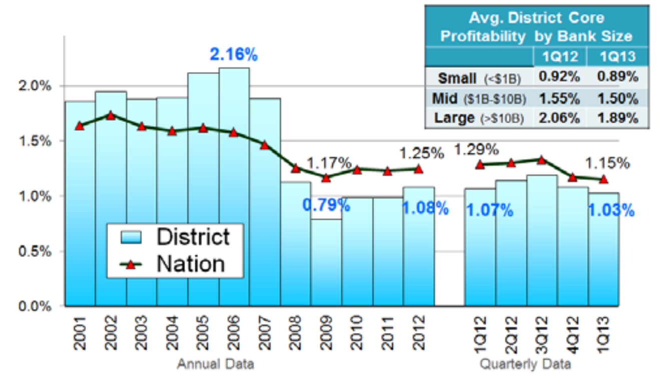
- <u>Core Profitability Edged Down Due to Margin Squeeze:</u> Average District bank bottom-line profitability, while still weak, was near five-year highs in 1Q13 (ROAA of 0.72%) bolstered by improved overhead and sharply lower credit loss provisions (Slides 14, 18-19). Provisions averaged just 0.08% of assets (annualized), the lowest first quarter rate in over 12 years (Slide 17). However, core profitability (pre-tax pre-provision, at right and Slide 11) was off for the second consecutive quarter, equaling 1.03% of average assets. This is the lowest this ratio has been since 4Q11, as net interest margins dropped significantly (Slide 12). While funding costs edged down, loan yields fell more, particularly on consumer and C&I loans, and particularly at larger banks (assets over $10B) that may be competing more aggressively for quality borrowers (Slide 13).

Core Profitability

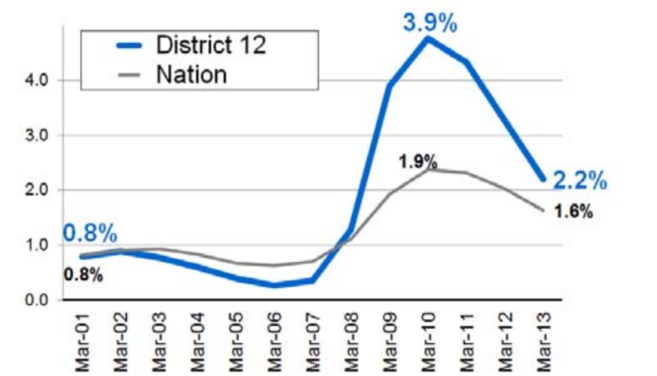
Pre-tax pre-provision income/avg. assets



Based on commercial banks, excluding De Novos; trimmed means; quarterly ratios are annualized; preliminary 1Q13 data

- <u>Credit Quality-Steady Recovery:</u> The 12th District bank average noncurrent loan rate has dropped for 12 consecutive quarters, reaching 2.2% as of 3/31/13 (at right and Slide 21). Small bank noncurrent rates remain highest on average; however, they've improved most over the past year. While the large bank average noncurrent rate ticked up in 1Q13 (Slide 22), other statistics suggest positive trends have not ended for this group as well. The recent declines in noncurrent rates span the major loan types, but with very slow improvement in C&I loans (Slide 23). Net charge-off rates continued to fall with the 1Q13 annualized rate of 0.18%, the lowest first quarter level in six years (Slide 27). Other Real Estate Owned levels remained elevated, but improved over the past three years (Slide 26).

Average Noncurrent Loan Rates



Based on commercial banks, excluding De Novos; trimmed means; Noncurrent = 90 Days past due or on nonaccrual; preliminary 3/31/13 data

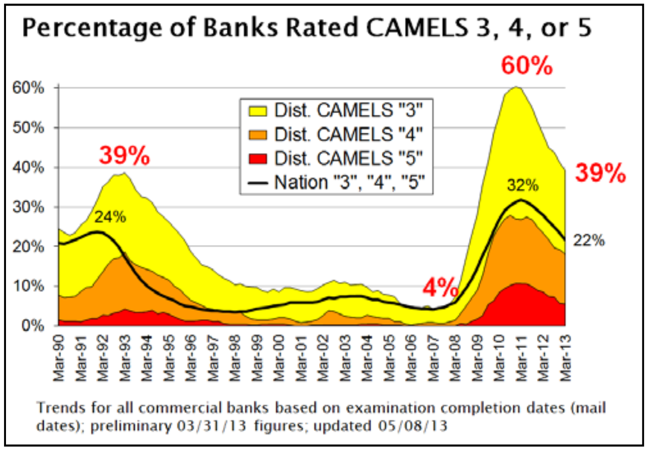
- <u>Upward Trend in Loan Growth</u>: Year-over-year loan growth for District banks climbed to 4.8% on average, led by gains at mid-sized banks (Slide 28). The fastest growing loans, in percentage terms, were C&I (at large banks); multifamily (mid-sized banks), and all residential (small banks-Slide 30). The loans of broadest emphasis in the District, as measured by the percentage of banks with 20% annual loan growth or more, were 1-4 family residential (33% of banks) and C&I (22% of banks) (Slide 31).

- <u>Capital Ratios-Continued Strengthening:</u> Bank capital ratios continued to increase, remaining well above pre-financial crisis levels (Slide 36-37) as earnings and earnings retention improved, while loan growth remained modest.

First Glance 12L – First Quarter 2013

- **CAMELS Ratings–Slow Dig from Deep Recession Hole:** The percentage of District banks with adverse CAMELS* ratings has fallen for nine consecutive quarters. But at 39%, this percentage remains well above the national percentage of 22%, and far from a typical healthy banking environment where we would expect percentages of less than 10% (see at right and Slide 40). Relatively low percentages of District banks have adverse Consumer ratings (8%) or Community Reinvestment Act ratings (1.8%–Slide 42).

- **Overall–Banks are Recovering, but with Earnings Pressures:** Capital and liquidity metrics are very good; loan demand, loan quality, and earnings have improved dramatically over the past three years. Net interest margin challenges likely will remain in the intermediate-term, but the overall outlook for District banks is positive. Barring an unexpected shock, the last vestige of The Great Recession may be gone within two to three years.



* CAMELS = rating system used by bank supervisors: Capital, Asset Quality, Management, Earnings, Liquidity, Sensitivity to Market Risk.

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 49, 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.
  - Earnings Challenges: District banks' earnings will take time to fully recover, particularly given the low interest rate environment and will be challenged to return to the high profitability rates of the mid 2000s (Slide 49).
  - Expansion into New or Unfamiliar Lending Areas: Some banks are seeking to diversify and/or are otherwise expanding rapidly into areas such as C&I, 1-4 family first liens, and multifamily loans; banks need to maintain conservative underwriting practices, and prudent limits and controls (Slide 49).
  - Interest Rate Risk: With short-term interest rates near zero, many banks have extended the duration of their earning assets, potentially making them vulnerable to rising rates (Slide 50).
  - Residential Mortgage & Home Equity Lending: 1st lien mortgage problems of stressed homeowners will continue to trickle down to junior lien loans (Slide 51).
  - CRE Income Property Loans Originated From 2005 to 2008: Bank CRE loan concentrations remain high and commercial property markets have not fully recovered from The Recession; loans originated near market peaks may have little equity and weak cash flows. Low interest rates have supported CRE borrowers thus far (Slide 52).
  - Other Issues: (Slide 53).

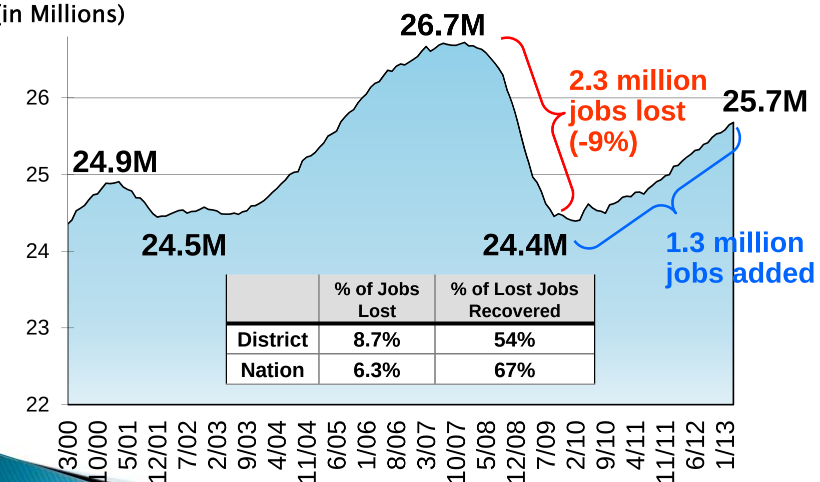
Section 1
Economic Highlights

Section provides a very high level look at economic conditions focusing on degree of recovery from the recession. It covers state by state job growth and home price changes, two key metrics that are correlated with banking conditions.

Additional 12th District economic trends:
http://www.frbsf.org/publications/economics/et/index.pdf

12^{th} District Nonfarm Jobs

Total Nonfarm jobs within the 12^{th} District (in Millions)



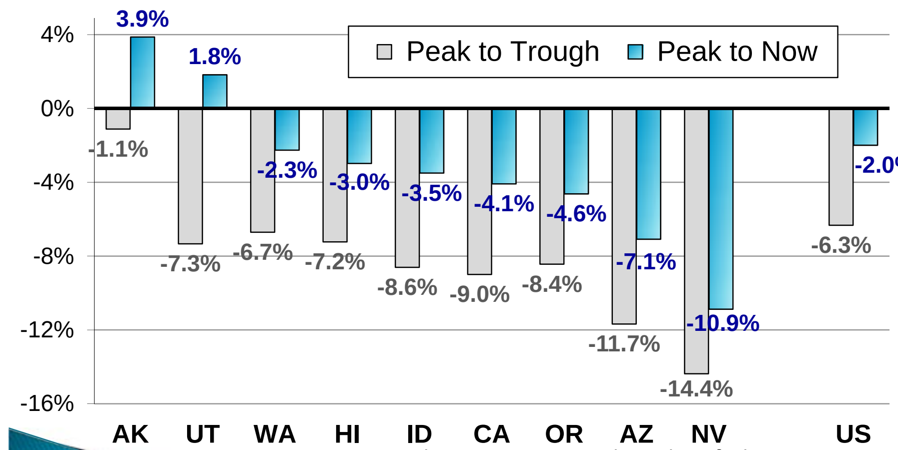
	% of Jobs Lost	% of Lost Jobs Recovered
District	8.7%	54%
Nation	6.3%	67%

Source: Bureau of Labor Statistics, Haver Analytics

Employment Situation in the 12^{th} District

Slow Growth in Nonfarm Jobs – but Most States have Recovered at Least Half of the Jobs Lost; Jobs Now Surpass Pre-Recession Peaks in AK & UT

Nonfarm jobs – % Change from Pre-Recession Peaks through March 2013

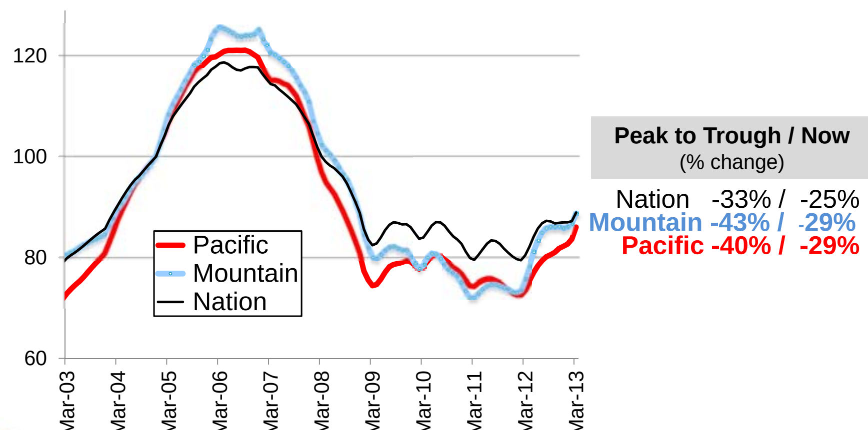


The pre-Recession peak number of jobs is unique for each state based on monthly nonfarm jobs data
Sources: Bureau of Labor Statistics, Haver Analytics; state data through March '13; U.S. through April '13

Housing Recovery: Tailwind for District Banks

Mountain and Pacific Region Home Price Declines Were More Severe than the Nation, but Recovery is Gaining Momentum

Median Home Price Indices

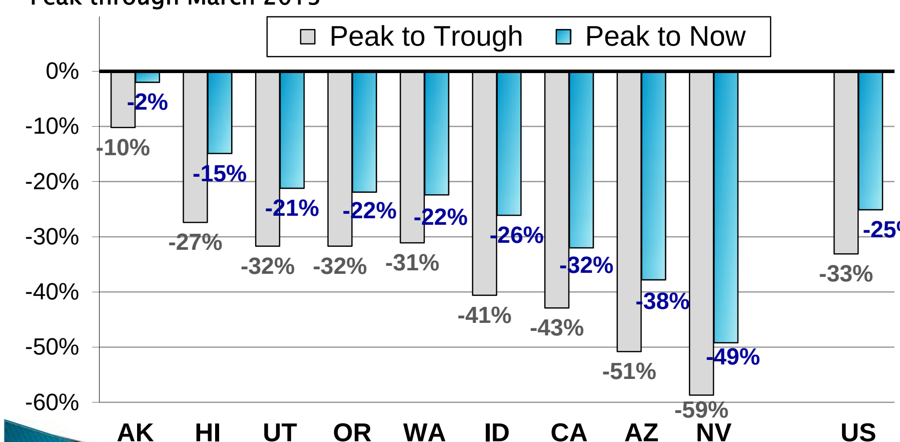


Source: CoreLogic Home Price Indices, indexed to 100 at 12/04; Mountain: AZ, ID, MT, NM, NV, UT, WY; Pacific: AK, CA, HI, OR, WA

Housing Situation in the 12^{th} District

Home Prices are Recovering Broadly, but Generally Remain Well Below 2006/2007 Peaks; Prices are Furthest from Peaks in NV and AZ

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



Recession trough is unique for each state based on monthly HPI; Source: CoreLogic Home Price Indices for all single family homes through March 2013

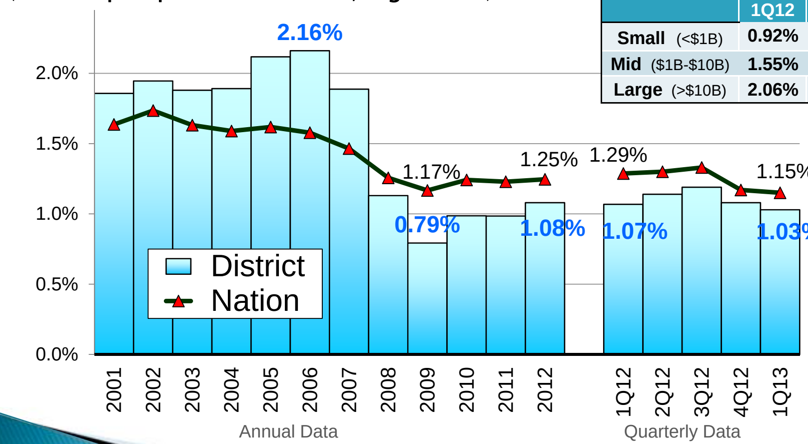
Section 2
Commercial Bank Performance

Slides in this section focus on trends among the 397 commercial banks headquartered within the 12th Federal Reserve District.

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

After Three Years of Improvement, Average Core Profitability Has Edged Lower for Two Quarters

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



Avg. District Core Profitability by Bank Size	1Q12	1Q13
Small (<$1B)	0.92%	0.89%
Mid ($1B-$10B)	1.55%	1.50%
Large (>$10B)	2.06%	1.89%

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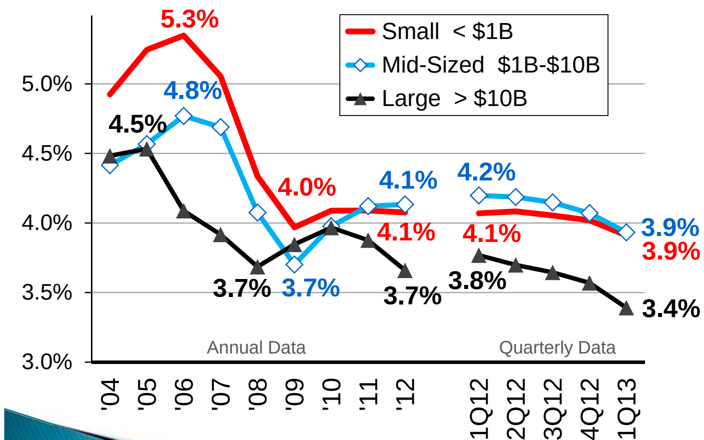
Based on commercial banks, excluding De Novos; trimmed means; quarterly ratios are annualized; preliminary 1Q13 data

Core Earnings Hurt by Net Interest Margin Squeeze
Large Banks Most Impacted

Net interest income (tax equiv) / average earning assets (NIM) – 12th District Commercial Banks



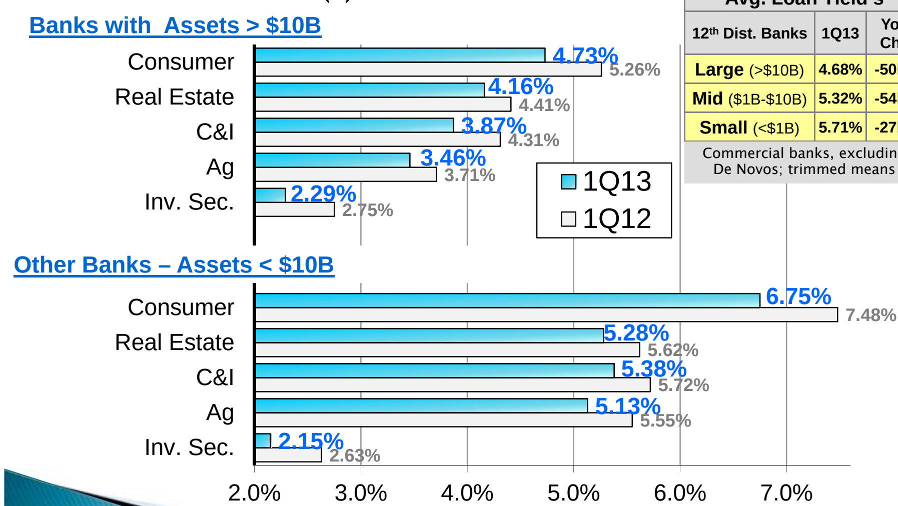
Avg. 12th NIM 1Q13	
Dist. Commc'l Banks	3.9%
Nationwide Commc'l Banks	3.7%
Dist. Industrial Banks	7.2%
Dist. Savings Banks	3.6%

FRB-SF

Based on commercial banks, excluding De Novos; trimmed means; 1Q ratios are annualized; preliminary 1Q13 data

Average Yields Continued to Fall
Large Banks: Lower Loan Yields, Higher Securities Yields than Smaller Banks

Yields – Nationwide Banks (%)



Avg. Loan Yield s		
12th Dist. Banks	1Q13	YoY Chg
Large (>$10B)	4.68%	-50bp
Mid ($1B-$10B)	5.32%	-54bp
Small (<$1B)	5.71%	-27bp

Commercial banks, excluding De Novos; trimmed means

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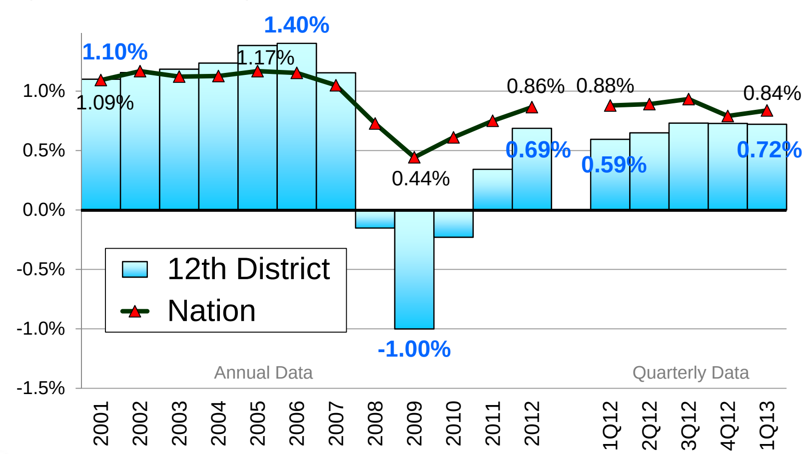
Based on aggregate nationwide commercial and industrial banks; preliminary 1Q13 data

However, 1Q Bottom Line Profitability Was Up Moderately from the Year Ago Period (from Lower Loss Provisions)

Average Return on Average Assets – YTD annual (%)



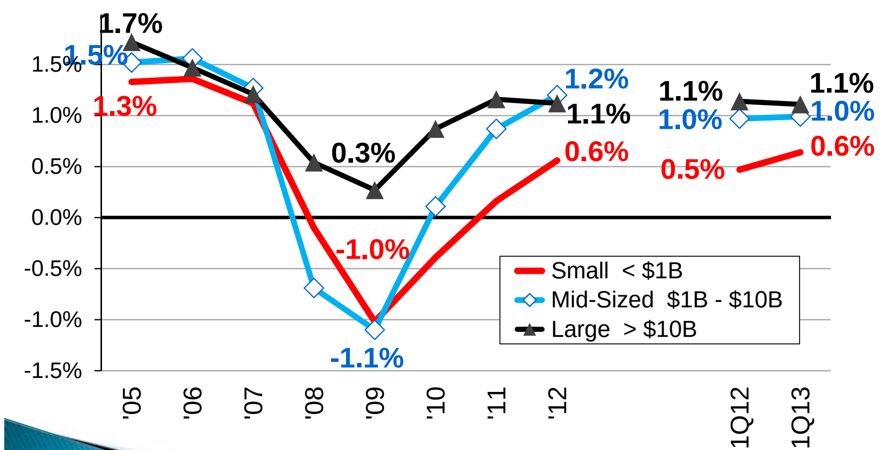
FRB-SF

Based on commercial banks, excluding De Novos; trimmed means; 1Q ratios are annualized; preliminary 1Q13 data

Larger Banks Remained Most Profitable

Small Bank Profits Improved but Continued to Lag Behind Larger Banks

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

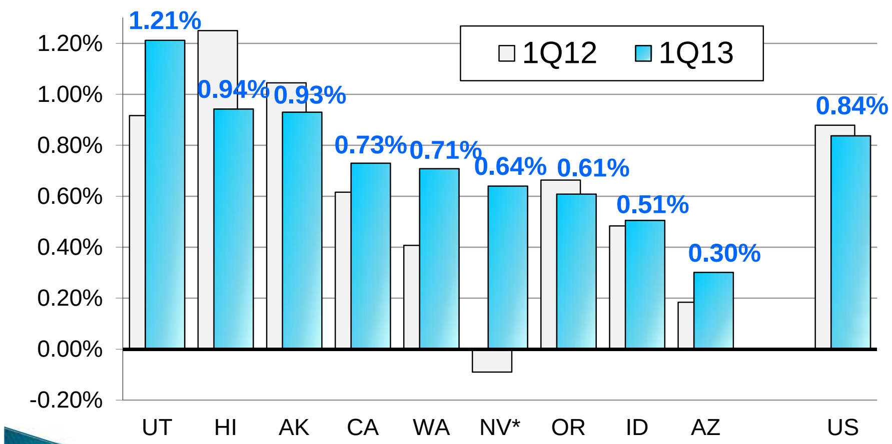


Based on commercial banks, excluding De Novos; trimmed means; 1Q ratios are annualized; preliminary 1Q13 data

Avg. ROAAs – Returns Slip in Some States

Banks in UT and WA were Most Improved vs. Last Year

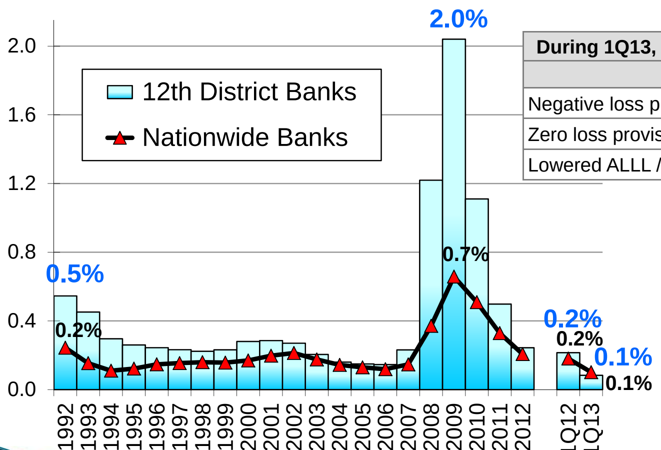
Average Return on Average Assets 1-Quarter Annualized (%)



Based on commercial banks, excluding De Novos; trimmed mean ratios, preliminary 3/31/13 data –
* NV: excludes credit card and zero-loan banks

Boosting Bottom Lines, Loan Loss Provisions Dropped to 20+ Year Lows, on Average

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



During 1Q13, Pct. of Commercial Banks	Dist.	U.S.
Negative loss provisions	10%	4%
Zero loss provisions	39%	34%
Lowered ALLL / Loan Ratios	47%	35%

Avg. 12th District Loss Provisions/Avg. Assets 1Q13	
Industrial Banks	**0.5%**
Savings Banks	**0.1%**

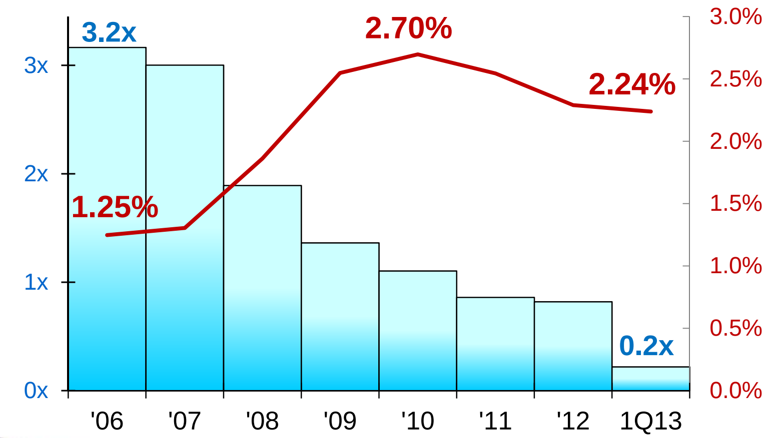
Based on commercial banks, excluding De Novos; trimmed means; 1Q ratios are annualized; preliminary 1Q13 data

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

Low Provision Levels Can't be Sustained for Long Given Rising Loan Growth

Loss Provisions/Net Charge-Offs (x) Bars – Left Axis

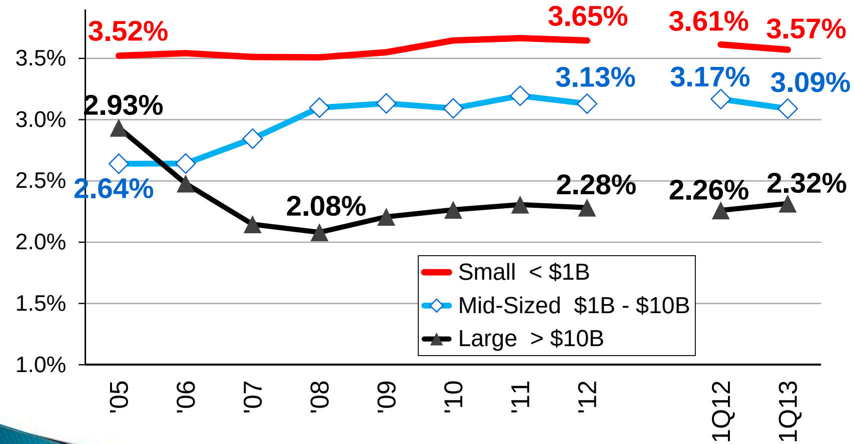
ALLL / Loans (%) Line – Right Axis



ALLL: Allowance for Loans and Lease Losses; Based on commercial banks, excluding De Novos; trimmed means; preliminary 1Q13 data

Overhead Expense Ratios Edged Down in 1Q13 for Small and Mid-Sized Banks

Noninterest Expense / Avg. Assets – District Commercial Bank Averages (%)

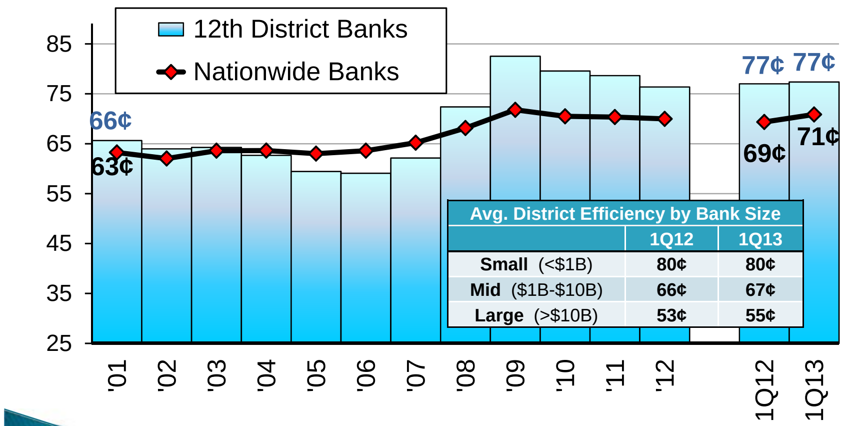


Based on commercial banks, excluding De Novos; trimmed means; 1Q ratios are annualized; preliminary 1Q13 data

Average District Bank Efficiency Measures Remained Worse than the Nation in 1Q13

High ratios mainly due to depressed revenues (net interest, noninterest revenues)

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



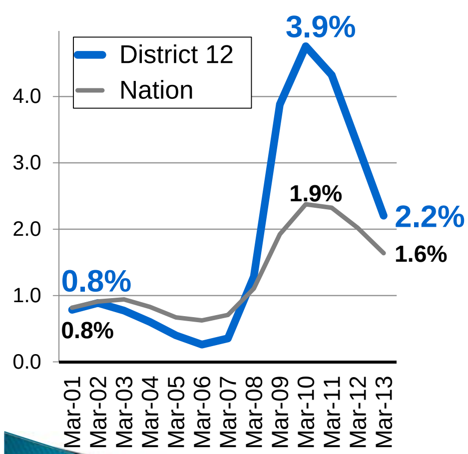
Avg. District Efficiency by Bank Size	1Q12	1Q13
Small (<$1B)	80¢	80¢
Mid ($1B-$10B)	66¢	67¢
Large (>$10B)	53¢	55¢

Based on commercial banks, excluding De Novos; trimmed means; 1Q ratios are annualized; preliminary 1Q13 data

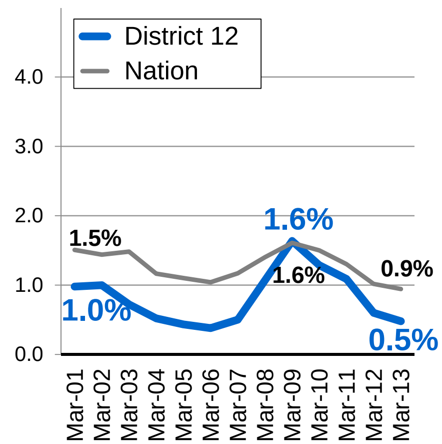
Credit Quality: Average 12th District Bank Noncurrent Loan Rate Declined Further

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

Average Noncurrent Loan Rates



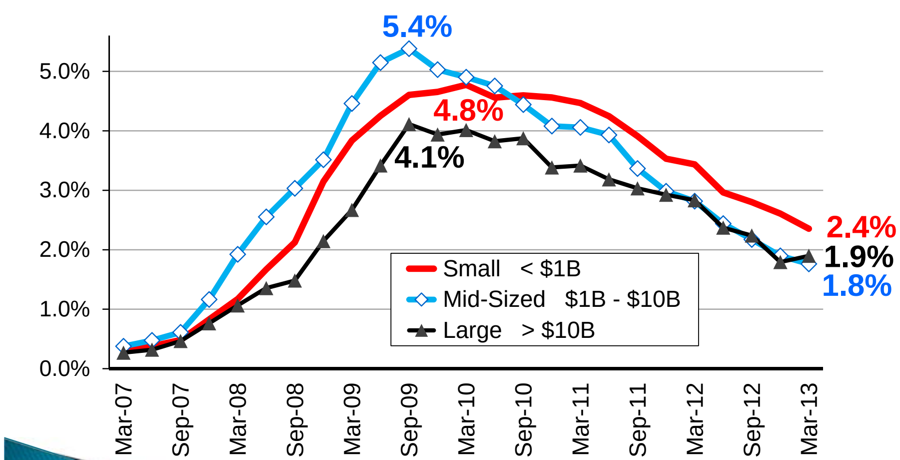
Avg. Past Due 30-89 Day Loan Rates



Based on commercial banks, excluding De Novos; trimmed means; Noncurrent = 90 Days past due or on nonaccrual; preliminary 3/31/13 data

Noncurrent Rates Trending Down in All Size Groups; Small Banks Have Highest Rates

Average 12th District Bank Noncurrent Loan Rates

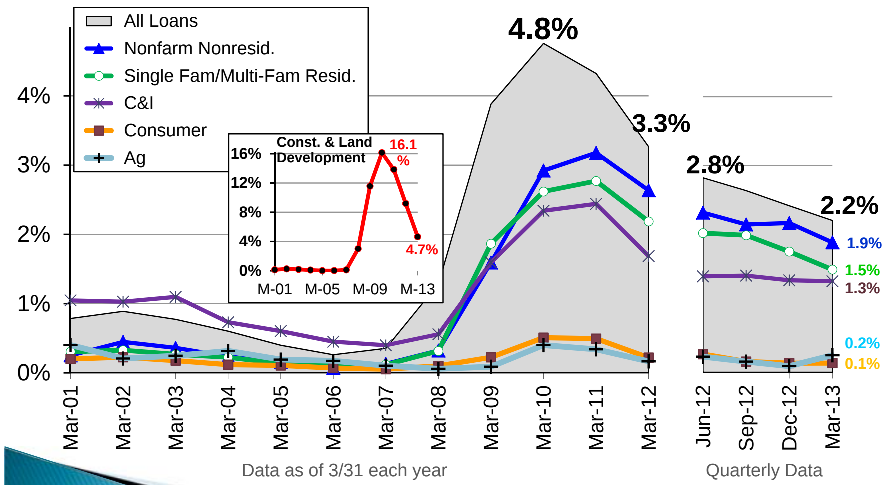


Based on commercial banks, excluding De Novos; trimmed means; Noncurrent = 90 Days past due or on nonaccrual; preliminary 3/31/13 data

Although the Overall Noncurrent Rate Improved Significantly, Recent Progress Has Slowed on C&I and Ag. Loans

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

Average 12th District Bank Noncurrent Loan Rates

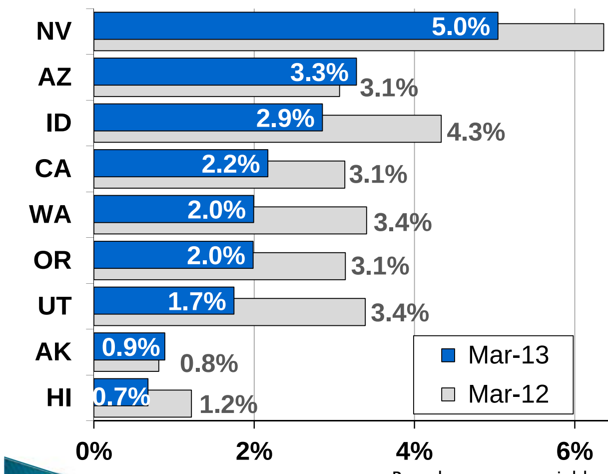


FRB-SF

Based on commercial banks excluding De Novos; trimmed means; Noncurrent = Pct. of loans 90+ days past due or on nonaccrual; preliminary March 2013 data

By State: Noncurrent Loan Rates Dropped Most in Idaho, Utah, Washington & Nevada

Average 12th District Bank Noncurrent Loan Rates



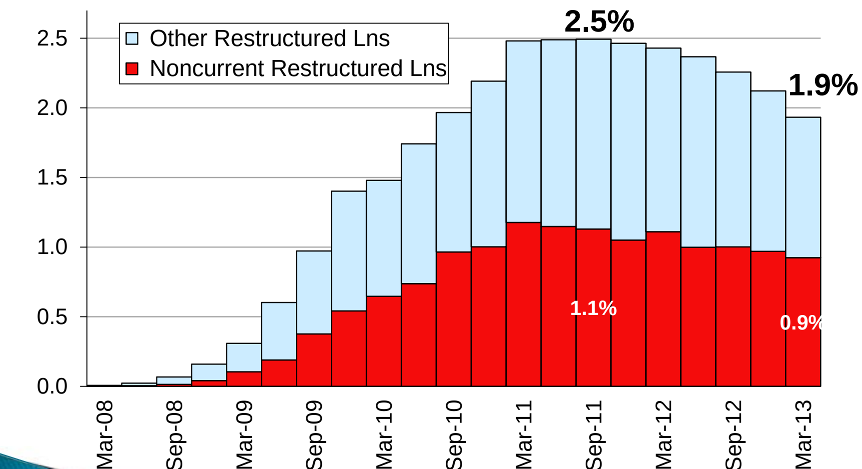
Other High Noncurrent Loan Rates	03/13	03/12
GA	4.1%	5.8%
FL	3.6%	5.3%
SC	3.3%	3.9%
NC	3.2%	4.9%
NJ	2.6%	3.9%
Nation	1.6%	2.0%

FRB-SF

Based on commercial banks, excl. De Novos; trimmed means; Noncurrent = 90+ days past due or on nonaccrual; preliminary 3/31/13 data. Industrial bank avg. 3/13 noncurrent rates were 1.2% in NV and 1.0% in UT

Troubled Debt Restructurings Continued to Decrease

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

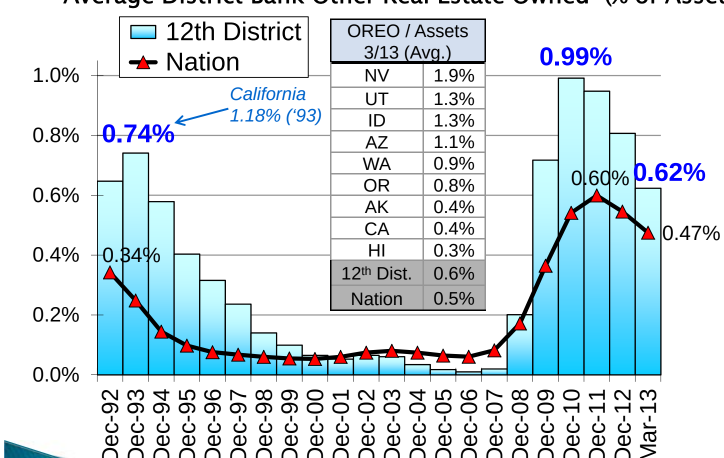


FRB-SF

Based on commercial banks, excluding De Novos; trimmed means; Noncurrent = 90 Days past due or on nonaccrual; preliminary 03/31/13 data

Foreclosed Real Estate Trended Down as a Percentage of Assets

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



OREO / Assets 3/13 (Avg.)	
NV	1.9%
UT	1.3%
ID	1.3%
AZ	1.1%
WA	0.9%
OR	0.8%
AK	0.4%
CA	0.4%
HI	0.3%
12th Dist.	0.6%
Nation	0.5%

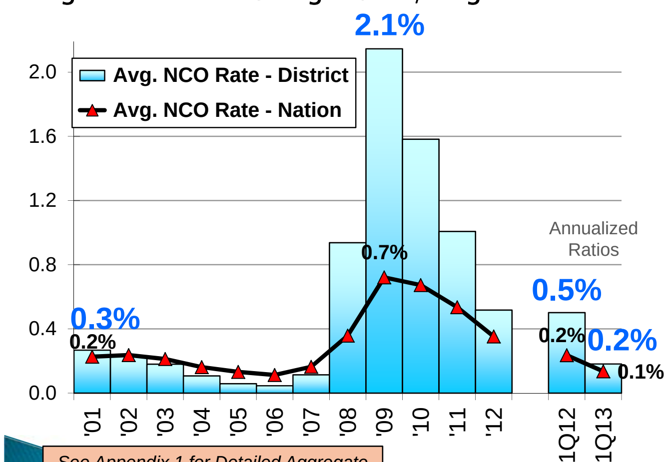
Aggregate OREO by Loan Type 03/31/13 (District banks < $100B; % of Total OREO)	
Construction & Land Devel.	50%
CRE: Nonfarm Nonresidential secured	32%
1-4 Family Residential	13%
Multifamily	4%

FRB-SF

Based on commercial banks excluding De Novos; trimmed means, preliminary 03/31/13 data

District Bank Net Charge-Off Rates Near Pre-Recession Levels

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



Average NCO rates		
U.S. rank	state	1Q13
6	ID	0.37%
8	AZ	0.32%
14	UT	0.26%
16	OR	0.21%
18	WA	0.20%
26	CA	0.14%
31	NV	0.12%
39	HI	0.07%
50	AK	(0.06%)
District		0.18%
Dist. Industrial		1.14%
Dist. Savings		0.27%
Nation		0.14%

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

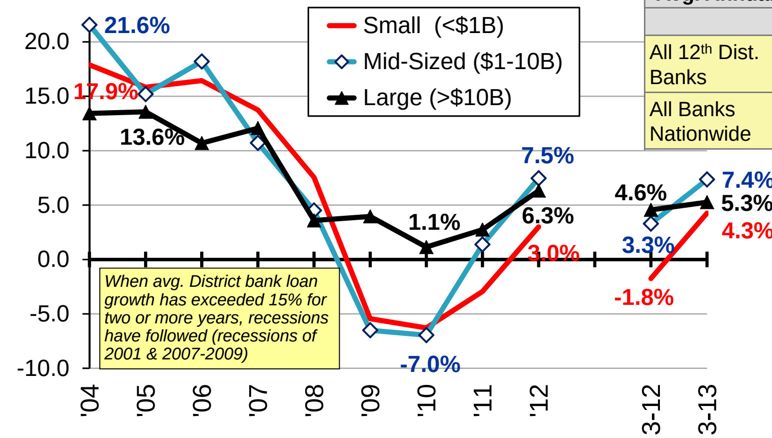
FRB-SF

Based on commercial banks excluding De Novos; trimmed means; 1Q13 data is annualized and preliminary

Loan Growth: Turnaround Continued

Avg. Loan Growth 4.8% YoY with Fastest Growth at Mid-Sized Banks

Avg. District Year-Over-Year Loan Growth Rates (%)



Avg. Annual Loan Growth		
	1Q12	1Q13
All 12th Dist. Banks	-0.6%	4.8%
All Banks Nationwide	-0.3%	2.2%

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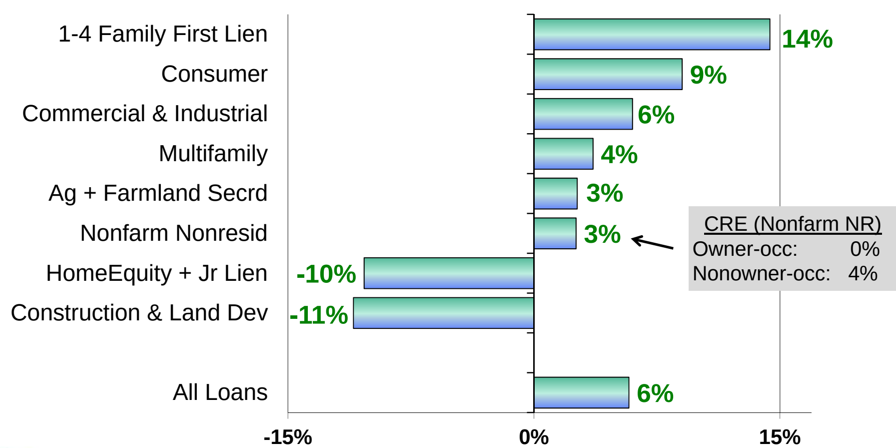
Based on commercial banks, excluding De Novos; large bank statistics prior to 2006 reflects nationwide data as there were too few District banks; trimmed means; preliminary 03/31/13 data

Switching to Loan Growth Aggregates: 1-4 Family and Consumer Continued Strong YoY Growth; C&LD Continued to Decline

12th District Bank Aggregate Loan Growth Rates – 1Q13 Year-over-Year



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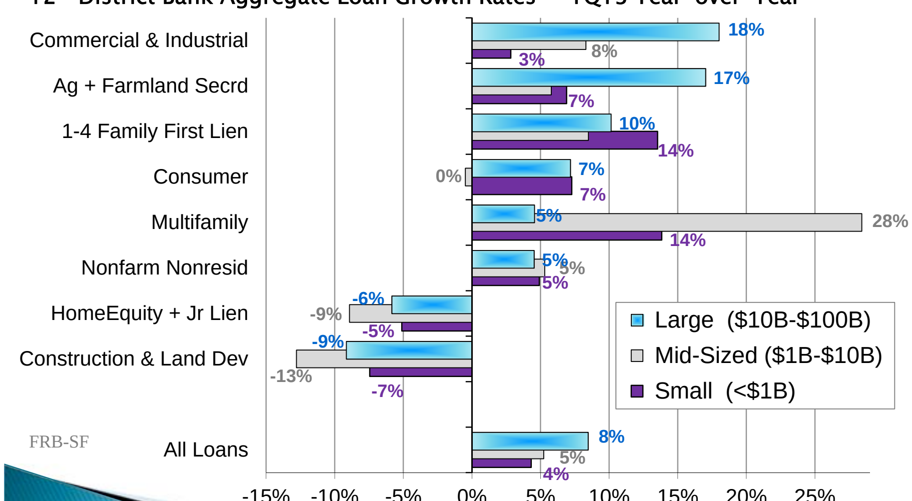
Based on a panel of District commercial banks active at 1Q13; excludes banks with significant mergers, loan sales or loan purchases over the period; prelim 03/31/13 data

Loan Growth Emphasis Varied by Bank Size

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

12th District Bank Aggregate Loan Growth Rates – 1Q13 Year-over-Year



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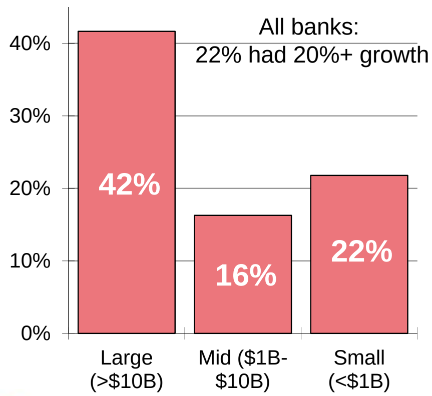
Based on a panel of District commercial banks with assets <$100B; excludes banks with significant mergers, loan sales or loan purchases over the period; prelim 03/31/13 data

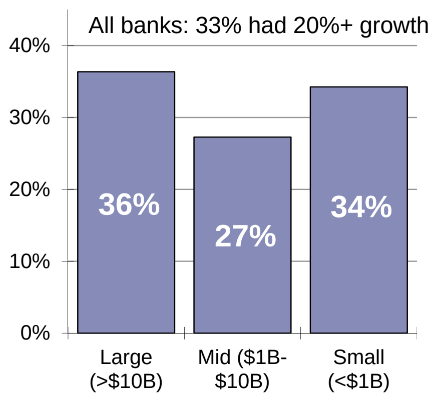
Focus: C&I and 1-4 Family First Lien Loans

Many Banks had High Rates of Growth

Pct. with >20% YoY Growth in
C&I Loans 3/12 -3/13



Pct. with >20% YoY Growth in
1-4 Family First Lien Loans 3/12 -3/13

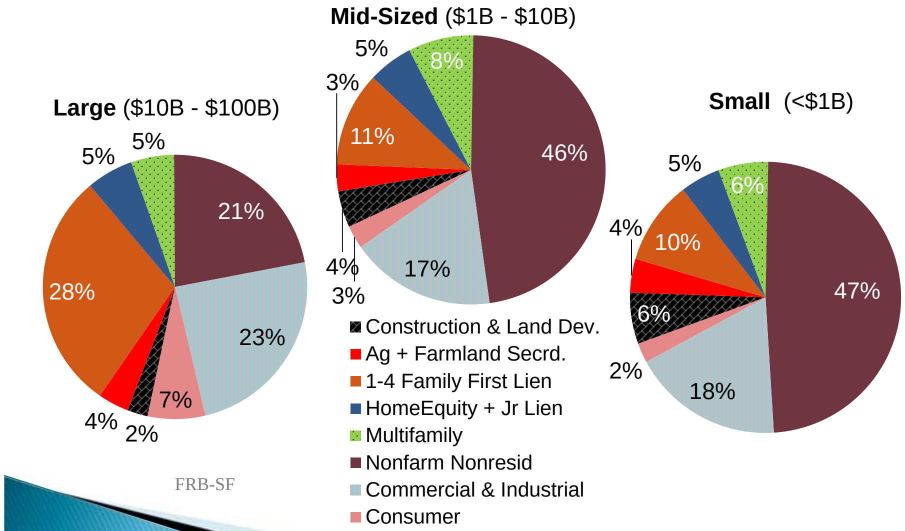


FRB-SF

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 3/13 data

District Bank Aggregate Loan Mix by Size

Large Banks More Concentrated in 1-4 Fam. and Consumer;
Mid-Sized and Small Banks More Concentrated in Nonfarm Nonresid. Secured

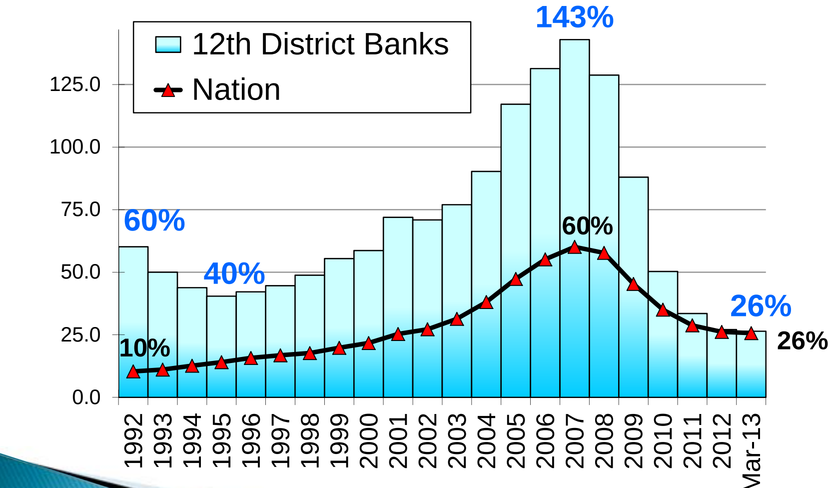


FRB-SF

Based on all commercial banks <$100B; prelim 03/13 data

District Bank Construction & Land Development Loans at 20+ Year Low Relative to Bank Capital

Construction & Land Development Loans / Total Capital (% - Adj. Averages)



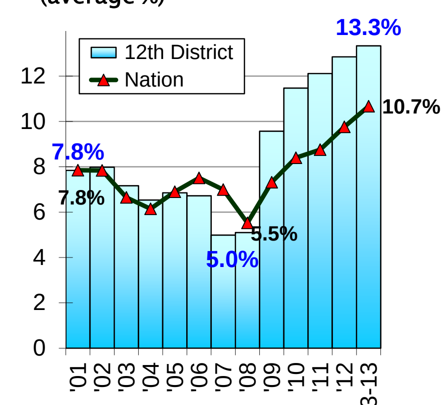
FRB-SF

Based on commercial banks, excluding De Novos; trimmed means; preliminary 03/13 data

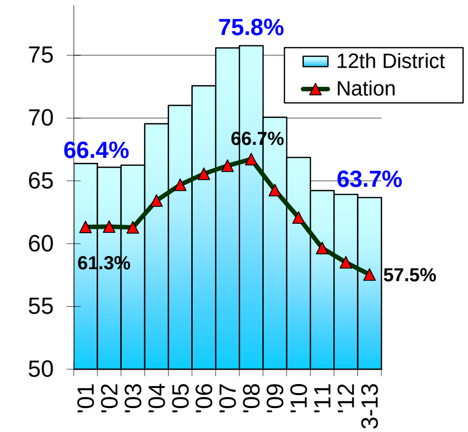
Liquidity: Banks Remain Flush with Short Term Assets

Average District Loans-to-Assets Ratio at the Lowest Level Since 1998

Short-Term Investments/Assets (average %)



Loans/Assets (adj. average %)

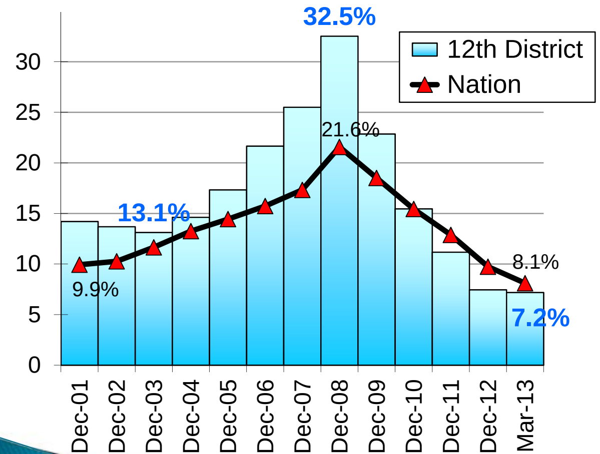


FRB-SF

Based on commercial banks, excluding De Novos; trimmed means; preliminary 03/31/13 data

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

Net Noncore Funding Dependence (Adjusted Average %)



Net Noncore Funding Dependence

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

Definition:

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

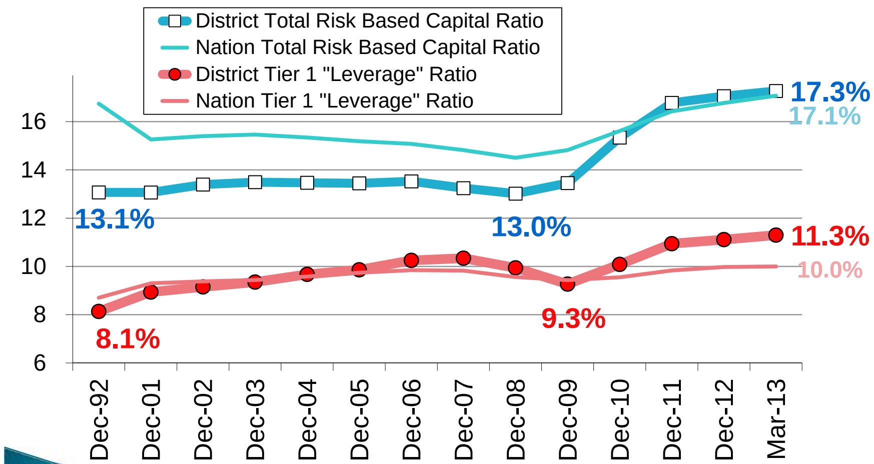
Divided by: Longer-term assets (net loans and securities with remaining maturities over one year and non-investment other real estate owned)

Based on commercial banks, excluding De Novos; trimmed means; preliminary 03/31/13 data

Capital Adequacy: District Bank Ratios Rose Further

Strong Earnings Retention Rates Helped Boost Capital Ratios

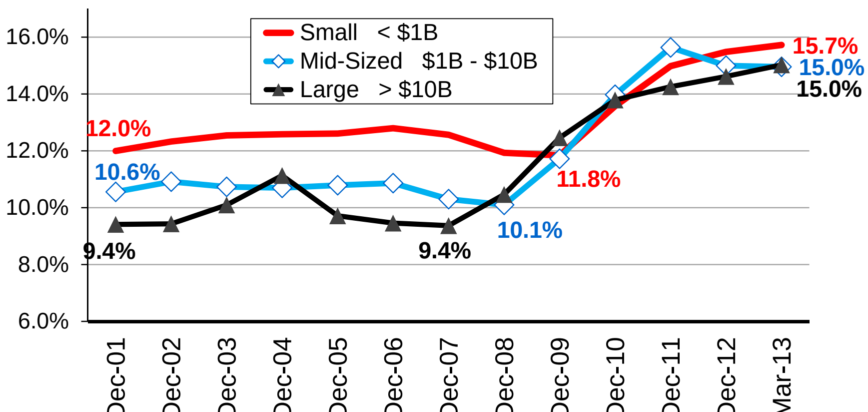
12th District bank average capital ratios (%)



Based on commercial banks, excluding De Novos; trimmed means; preliminary 03/31/13 data

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

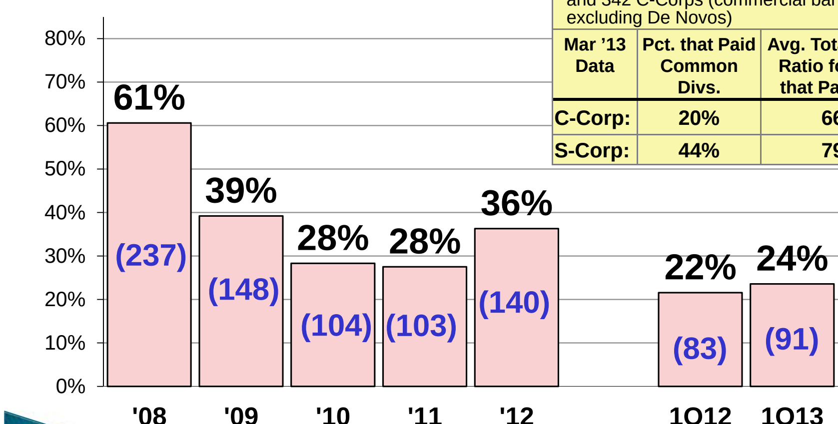
Average District Bank Tier 1 Common Equity / Risk Weighted Assets Ratios



Based on commercial banks, excluding De Novos; trimmed means; preliminary 03/31/13 data

Number of District Banks Paying Common Dividends on the Rise

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



S-Corps vs. C-Corps

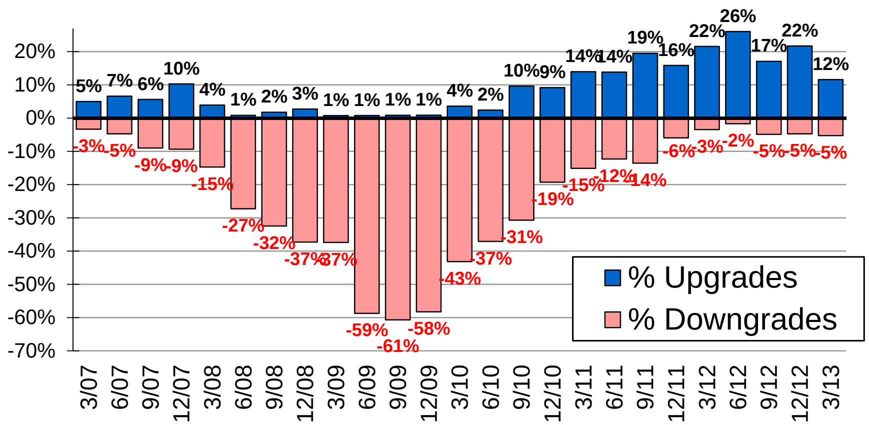
At 03/31/13, there were 43 District S-Corps and 342 C-Corps (commercial banks only excluding De Novos)

Mar '13 Data	Pct. that Paid Common Divs.	Avg. Total Payout Ratio for those that Paid Divs.
C-Corp:	20%	66%
S-Corp:	44%	79%

Based on commercial banks, excluding De Novos; averages are trimmed means; preliminary 1Q13 data

Regulatory Ratings: CAMELS Upgrades Outpaced Downgrades for the Past 8 Quarters

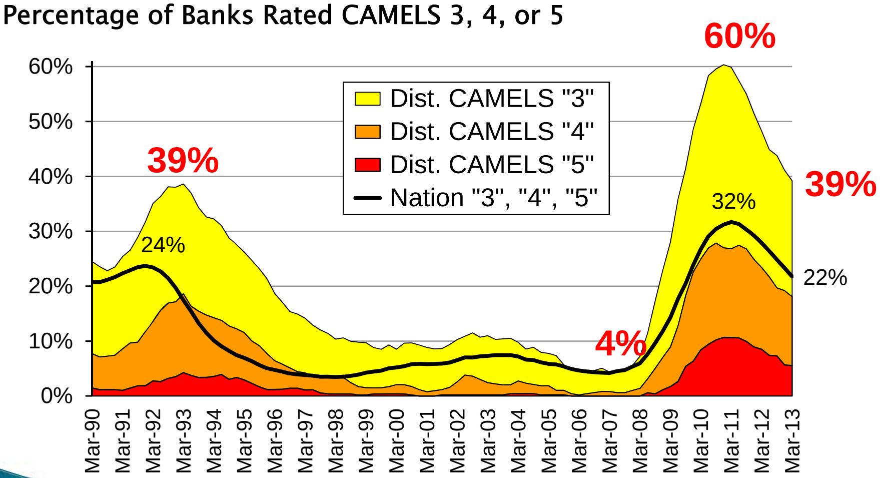
Pct. of 12th District Exams Each Quarter that Resulted in CAMELS Composite Rating Upgrade or Downgrade (downgrades are shown as negative percentages)



Includes any change in composite CAMELS rating for commercial banks; quarterly trends based on examination completion dates (mail dates); preliminary 03/31/13 figures; updated 05/08/13

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

Percentage of Banks Rated CAMELS 3, 4, or 5

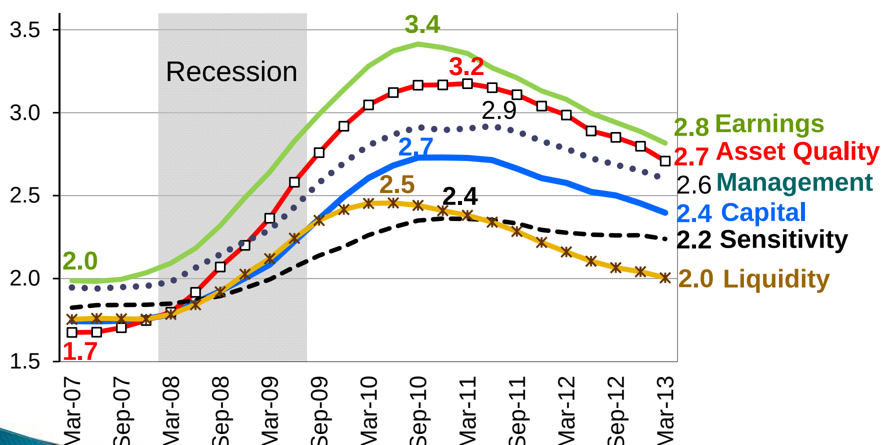


Trends for all commercial banks based on examination completion dates (mail dates); preliminary 03/31/13 figures; updated 05/08/13

CAMELS Rating Components Continue to Improve

Earnings & Asset Quality Lag

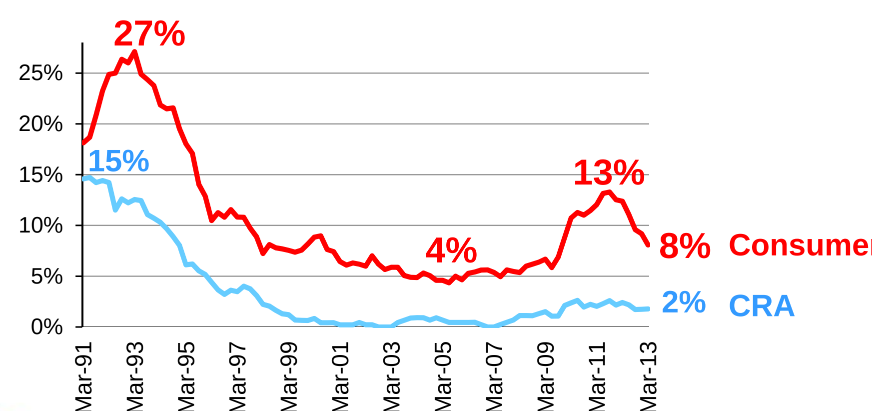
Average CAMELS Component Ratings for 12th District Banks
(1: strong; 2: satisfactory; 3-5: less than satisfactory)



Trends for all 12th District commercial banks based on CAMELS composite ratings and examination completion dates (mail dates); updated 05/08/13; prelim 03/31/13 data

District Bank Consumer and CRA Ratings Also are Improving

Percentage of District Banks with Less-than-Satisfactory Ratings



Trends for all commercial banks based on examination completion dates (mail dates); CRA = Community Reinvestment Act; updated 05/08/13; prelim 03/31/13 data

Section 3 – Savings Institution and Industrial Bank Performance

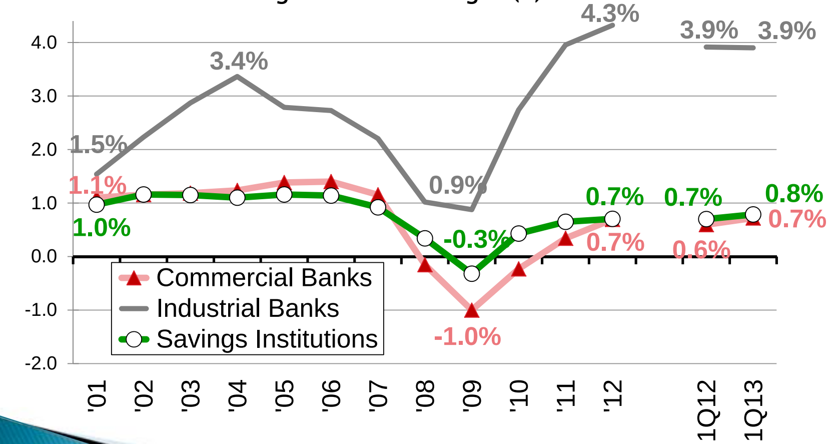
Slides in this section focus on trends among the 47 savings institutions and 31 industrial banks headquartered within the 12th Federal Reserve District.

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 (%)



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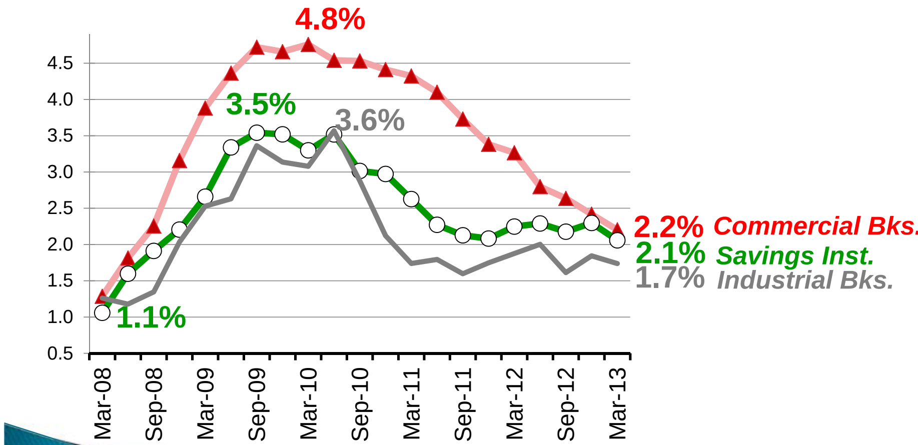
Based on District commercial banks, savings institutions and industrial banks; excluding De Novos; trimmed means; 1Q ratios annualized; prelim 1Q13 data

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 (%)

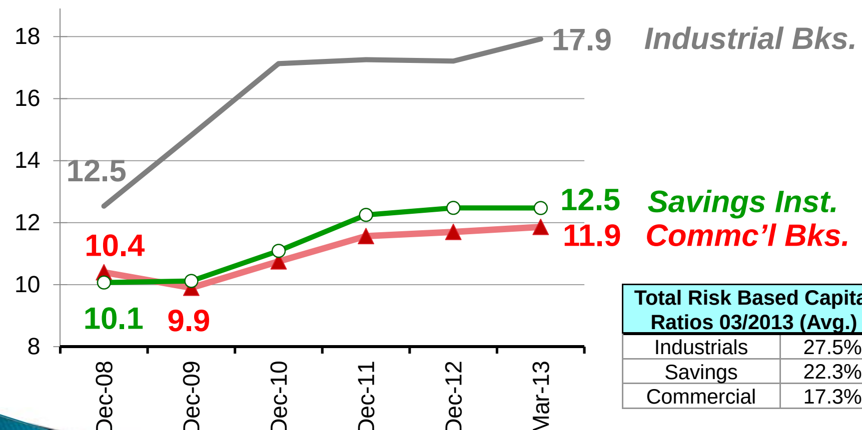


FRB-SF

Based on District commercial banks, savings institutions and industrial banks; excluding De Novos; trimmed means; Noncurrent = 90+ days past due or on nonaccrual; preliminary 1Q13 data

Equity/Assets Ratios Continued to Rise with Highest Ratios at Industrial Banks

Average 12th District Institution Equity/Assets Ratios



Total Risk Based Capital Ratios 03/2013 (Avg.)	
Industrials	27.5%
Savings	22.3%
Commercial	17.3%

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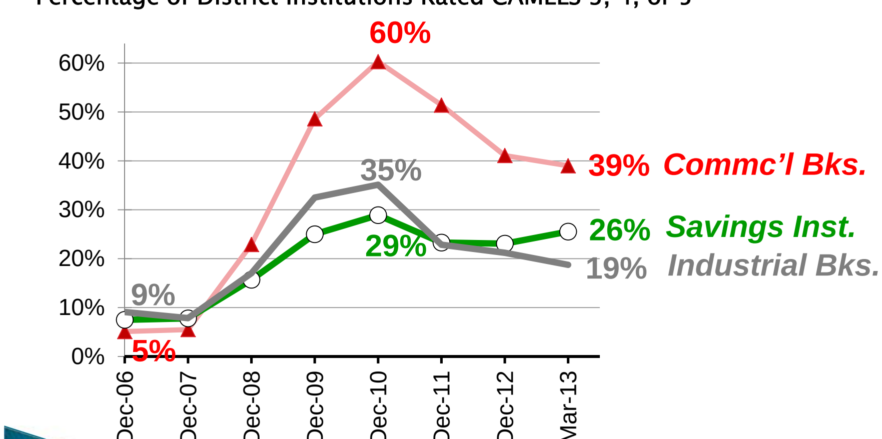
Based on District banks and savings institutions; excluding De Novos; trimmed means; preliminary 03/31/13 data

Percent Rated CAMELS 3, 4, or 5 Rose Moderately Among District Savings Institutions

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



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Trends for all institutions based on examination completion dates (mail dates); preliminary 03/31/13 figures; updated 05/08/13

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.

Appendices

Bank Supervisors' Hot Topics

Earnings Challenges

- Core earnings remain modest (see slide 11)
- Low interest rate environment – narrow margins (see slide 12)
- Historically low yields on investment securities
- Loan growth goals may lead to aggressive loan pricing and relaxed underwriting
- Limited opportunities to grow fee income, especially for smaller banks
- Overhead expense headwinds (e.g. fraud prevention, compliance costs)
- Not likely to see high rates of Construction & Land Development lending anytime soon

Expansion into New or Unfamiliar Lending Areas *

- Banks are seeing rapid loan growth in some lending areas (see slides 29-31)
  - E.g. C&I: large banks; 1-4 family residential: mid-sized/small banks; multifamily: mid-sized banks
- Concerns:
  - Expertise in new lending areas may be lacking
  - Competition / pricing pressures are leading to some easing of underwriting criteria / terms
  - Historical loss rates on C&I are higher than most other loan types
  - Management must maintain robust risk management processes around all products and credit concentrations

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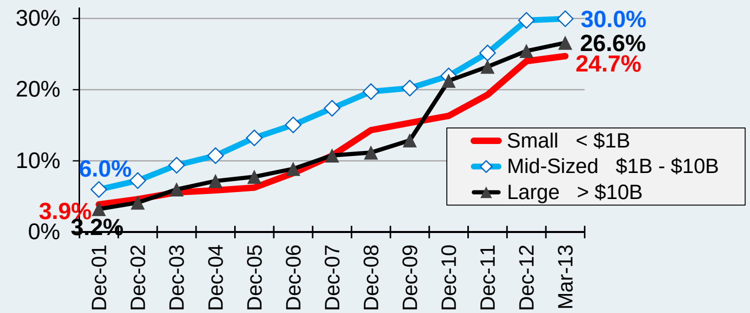
* Also see recent Community Banking Connections article: http://communitybankingconnections.org/articles/2013/Q1/Considerations-When-Introducing-A-New%20Product.cfm

Bank Supervisors' Hot Topics

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

12th District Banks: Loans + Securities Maturing or Repricing in 5+ Years / Assets



Based on aggregate data for all 12th District commercial banks active as of, and grouped into peer groups as of 3/31/13, with their information back in time

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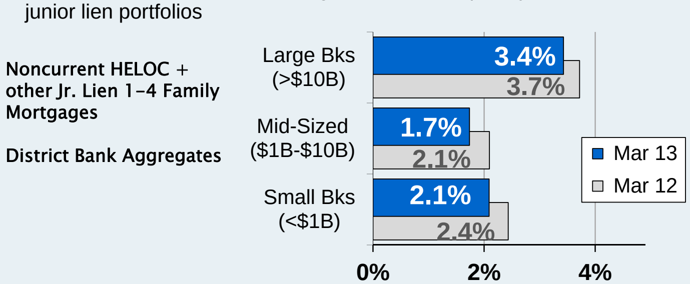
Bank Supervisors' Hot Topics

Residential Mortgage & Home Equity Lending

- Despite recent positive trends in housing markets, 18% of homeowners remain underwater on their mortgages (per Lender Processing Services, 1/2013)
- Often junior lien loans have kept current while first lien loans on same property defaulted
- In 2012, the national HELOC net charge-off rate of 2.1% was higher than any other loan category except credit cards, and about double the all-loan national NCO rate of 1.1%.
- 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



Based on aggregate data for District commercial banks; Noncurrent = 90+ days past due or on nonaccrual; preliminary 03/31/13 data

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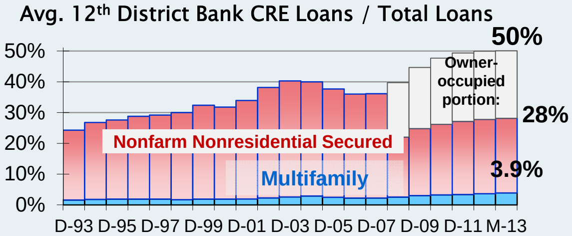
Bank Supervisors' Hot Topics

CRE Income Property Loans Originated from 2005 to 2008

- While most bank CRE are performing and collateralized adequately, concerns remain on loans originated near market peaks
- Bank exposure to CRE loans in general remains very significant (see chart below)
- Core sector property values are down over 30% from their peak (Moody's/RCA CPPI for core sectors in non-major markets), and some borrowers are left with little or no equity
- The average noncurrent rate of 1.9% exceeds any major loan category aside from C&LD loans (see slide 23)
- Concerns: maturing loans and matured loans extended but with weaknesses; extensions must be well-supported
- Low interest rates have helped keep CRE loans performing

Avg. 12th District Bank CRE Loans / Total Loans



Based on all 12th District commercial banks; trimmed means; preliminary 03/31/13 data

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Bank Supervisors' Hot Topics

Other Issues

- Capital planning / stress testing expectations of banks.
- Challenges with adjusting to new rules and regulations (e.g., new Consumer Financial Protection Bureau "Ability to Repay Rule" for mortgage lending).
- CyberSecurity issues – e.g., distributed denial of service attacks.
- Model risk management – with banks relying increasingly on complex models to manage risks and operations, there is significant risk of erroneous or misused model results that would have adverse consequences and/or cause financial loss.
- Sequestration / Debt Ceiling – Impact on U.S. credit ratings & economy if fiscal situation remains continually uncertain.
- Vendor Management – Financial institutions are outsourcing more activities to third-party service providers and vendors. Institutions need to have risk assessment processes for these providers and appropriate monitoring procedures.

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)	
	1Q12	1Q13		1Q12	1Q13
Construction & Land Development	1.37	(0.40)		1.54	0.53
Residential Construction	0.82	(1.07)		1.92	0.31
Other C&LD	1.48	(0.25)		1.43	0.60
CRE - Nonfarm Nonresidential Loans	0.31	0.10		0.61	0.13
Owner-Occupied	0.33	0.14		0.55	0.14
Nonowner-Occupied	0.30	0.07		0.66	0.11
Residential Closed-End Loans	0.98	0.57		0.73	0.22
Home Equity Loans	2.29	1.37		0.64	(0.00)
Multifamily Loans	0.10	0.16		0.25	0.06
Commercial & Industrial Loans	0.53	0.23		0.82	0.50
Agricultural Loans	0.65	(0.32)		(0.03)	0.37
Credit Card Loans	4.51	4.04		1.84	1.39
Installment Loans	0.88	0.83		0.52	0.41
Total Loans	0.90	0.51		0.73	0.24

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

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)	
	03-12	03-13	03-12	03-13	03-12	03-13
Alaska	4 (0)	4 (0)	-	-	2 (0)	2 (0)
Arizona	28 (0)	27 (0)	-	-	1 (0)	1 (0)
California	215 (8)	211 (6)	7 (0)	7 (0)	18 (2)	18 (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)	17 (1)	4 (0)	4 (0)	2 (0)	2 (0)
Oregon	29 (1)	28 (1)	-	-	3 (0)	3 (0)
Utah	32 (2)	32 (0)	19 (0)	19 (0)	4(0)	4 (0)
Washington	58 (2)	55 (1)	-		13 (0)	13 (0)
12th District	406 (16)	397 (9)	31 (0)	31 (0)	47 (2)	47 (1)
Nation	6,036 (114)	5,980 (77)	33 (0)	33 (0)	1,011(8)	998 (6)

Based on preliminary 03/31/13 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 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.