First Glance 12L (1Q14)

12th District Banks – Improvement Continues

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

12th District

Based on Preliminary 1Q2014 Call & Income Report Data

May 22, 2014

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

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

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First Glance 12L (1Q14)

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First Glance 12L – First Quarter 2014

12th District Banks - Improvement Continues

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

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

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

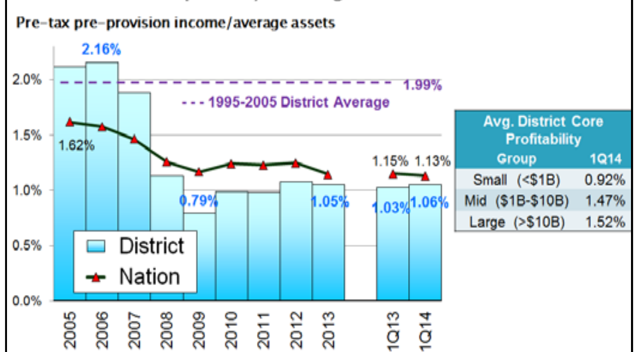
- **<u>Interest Rate Risk:</u>** Although longer-term interest rates have come down since the end of 2013, interest rate risk concerns remain. Seeking yield, banks continued to increase their proportion of loans & securities maturing or repricing in 5+ years (slide 46), but nonmaturity deposits (slide 47) may flow out when interest rates rise, potentially leading some banks to increase future short-term borrowings.

12th District Commercial Bank Snapshot - 1Q14

Percentage of District Banks by Linked Quarter, and Year-over-Year Changes		Generally Adverse Trends in 1Q14			Generally Favorable Trends in 1Q14		
		ROAA	Net Interest Margin	Over-head / Assets	Non-current Loans	Total Loans	Tier 1 RB Capital Ratio
QoQ Change % of banks	Up	44%	35%	40%	27%	65%	59%
	Down	55%	62%	60%	64%	34%	40%
	No Chg.	1%	3%	0%	9%	1%	1%
YoY Change % of banks	Up	49%	41%	39%	24%	77%	45%
	Down	50%	56%	61%	71%	22%	54%
	No Chg.	1%	3%	0%	5%	1%	1%

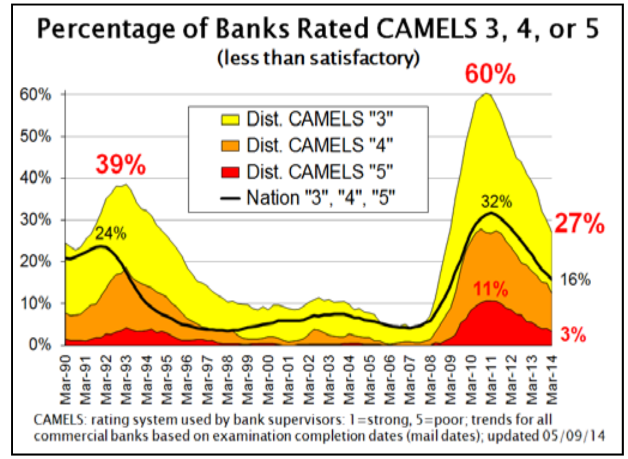
Based on commercial banks; preliminary 1Q14 data

Core Profitability – Well Below "Normal" Levels, Especially Among Small Banks



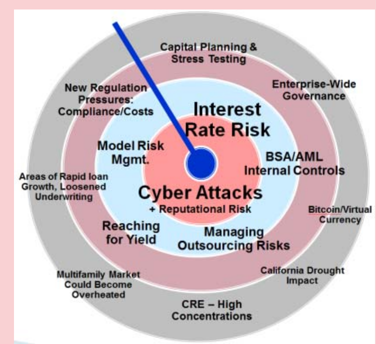
Based on commercial banks, excluding De Novos; trimmed means; preliminary 3/31/14 data

- **<u>Credit Quality—Solid Improvement</u>:** The average District bank noncurrent loan rate (1.4%) is on pace to descend to “normal levels” (0.8%) within a year (slide 27). Banks continued to shed foreclosed real estate assets, although OREO levels remained significant at small banks (slide 31).
- **<u>Capital & Liquidity—Turning Points from Strong Levels:</u>** Capital and balance sheet liquidity measures remained at elevated levels, but are starting to recede as loan volume grows. In 2010, large bank capital ratios had climbed above those of small banks on average; however, since then, small banks significantly augmented their capital ratios to levels that once again exceed those of larger banks, on average (slide 42).
- **<u>Overall—Banks Strengthening</u>:** Financial measures reflect relatively strong capital and liquidity positions, and substantially improved credit quality. Slide 50 (also at right) shows that the percentage of District banks in less-than-satisfactory condition had dropped sharply to 27%. This is still high and well above the 16% national figure. However, there is a natural lag in these numbers as banks are not examined every quarter. Assuming the economy stays on track, the distribution of District bank CAMELS ratings should return to more normal proportions within a year or two. Of course, banks continue to face profitability headwinds from the low-interest-rate environment. They also face risks that potentially may derail their progress, such as from interest rate risk and cybersecurity risk.



Bank Supervisors’ Hot Topics

- **<u>Hot Topics:</u>** The usual “Bank Supervisors Hot Topics” section is abbreviated in this report. The risks and concerns have not substantially changed. So, instead of providing narrative similar to last quarters’, this report provides only a radar screen illustrating the issues of most concern to District banks (slide 58).
- If readers have comments or suggestions on risks that should be a focus of attention among bankers and bank supervisors, or on anything else pertaining to this publication, please let us know at SF.BSR.Publications@sf.frb.org.



Section 1
Economic Highlights

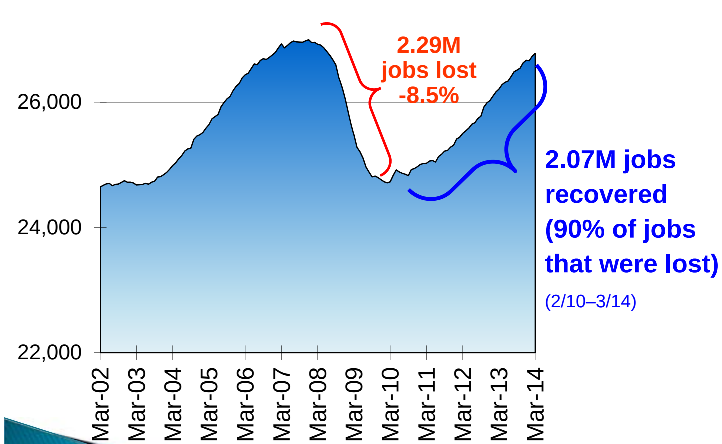
This section provides a high-level look at economic conditions, focusing on the degree of recovery from the recession. It includes job growth rates, unemployment rates, housing market and commercial real estate market metrics, all relevant to an analysis of District banking conditions.

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

Economy: Recovering

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

Total Nonfarm Jobs in 12th District (000)



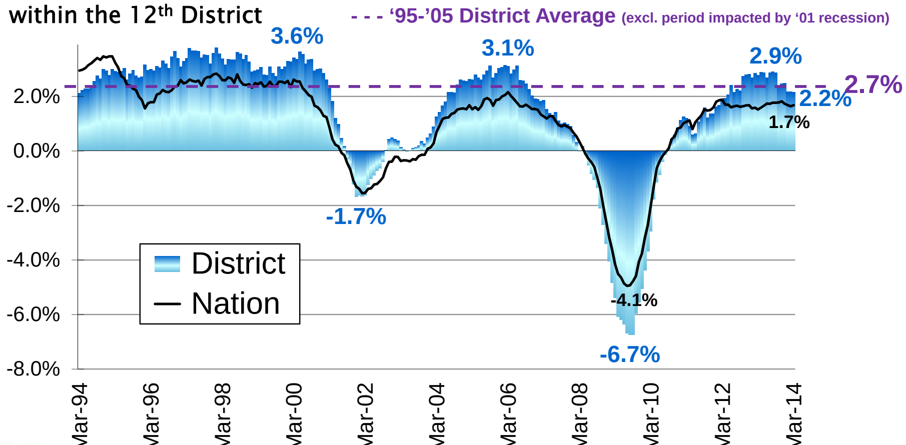
Pct. of Nonfarm Jobs Recovered from Recession	
AK*	322%
UT	156%
WA	112%
CA	94%
HI	84%
OR	80%
ID	71%
AZ	56%
NV	53%
District	90%
Nation	99%

* AK lost less than 2% of jobs during recession that were quickly recovered.

Sources: Bureau of Labor Statistics, Haver Analytics, Seasonally Adjusted.

Annual Job Growth Rates Roughly Back to "Normal"

Annual Growth Rate of Nonfarm Jobs within the 12th District

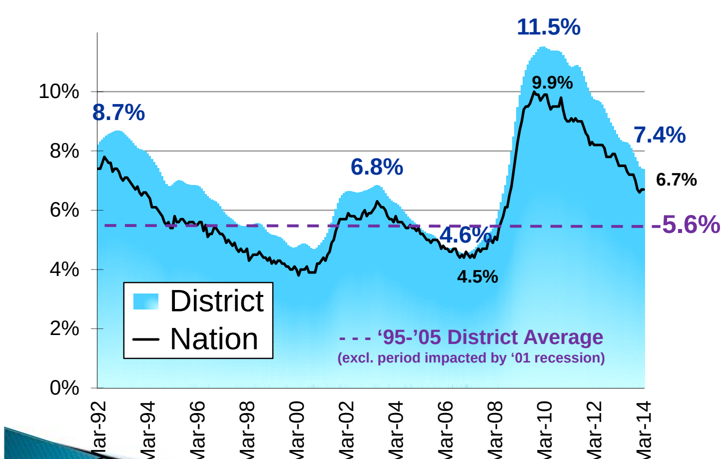


Source: Bureau of Labor Statistics, Haver Analytics.
Note: the BLS's newly revised benchmark estimates of employment reveal much stronger job growth in the West than had been previously estimated.

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

Biggest year-over-year improvement in Nevada & Idaho

12th District Unemployment Rates (seasonally adjusted)



Unemployment Rates		
State	Mar 2013	Mar 2014
NV	10.2%	8.5%
CA	9.2%	8.1%
AZ	8.0%	7.3%
OR	8.0%	6.9%
AK	6.4%	6.6%
WA	7.1%	6.3%
ID	6.5%	5.2%
HI	4.8%	4.5%
UT	4.5%	4.1%
Dist.	8.5%	7.4%
Nation	7.5%	6.7%

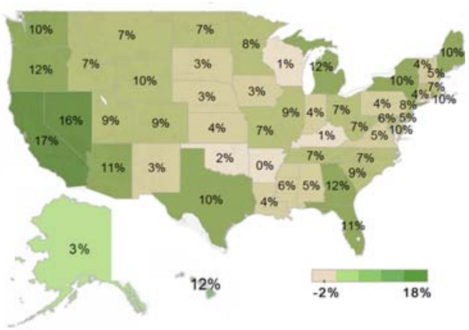
Red:>8%; Gold: 6%-8%

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

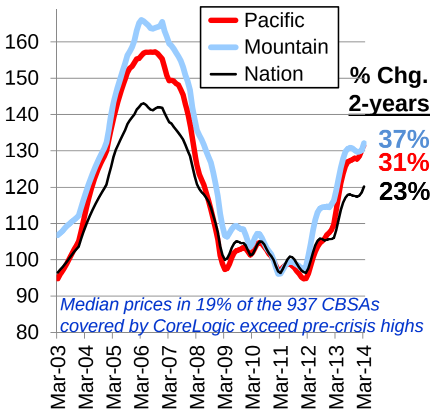
Housing Remains a Tailwind for District Banks

Median home prices continued higher in 1Q14, although prices remained 15% to 20% below pre-crisis peaks

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



Median Home Price Indices

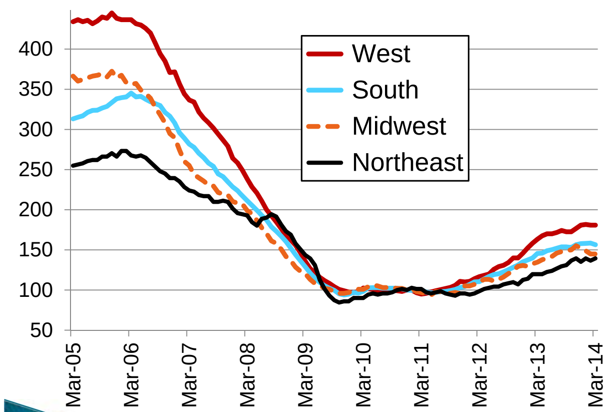


Source: CoreLogic Home Price Indices, indexed to 100 at 12/10; Mountain: AZ, ID, MT, NM, NV, UT, WY; Pacific: AK, CA, HI, OR, WA

Construction Outlook Favorable in the West

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

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



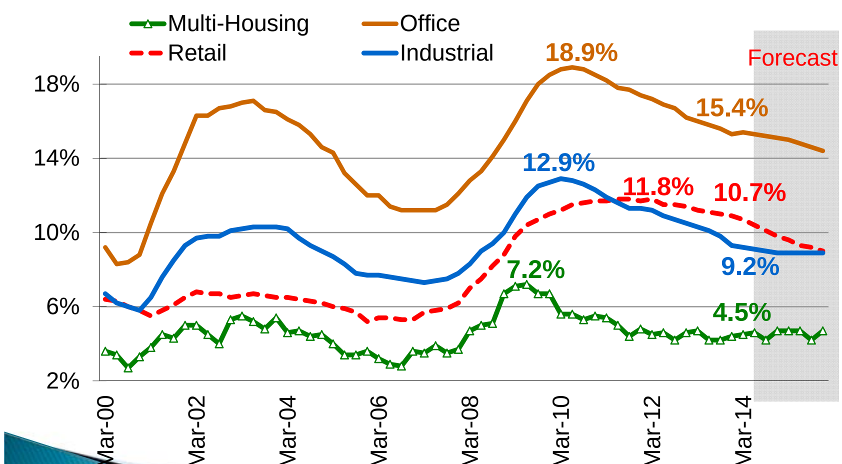
Housing Starts based on 12-mo. moving avg.

Region	2-yr growth rate	Chg. from peak
West	+55%	-59%
South	+42%	-55%
Midwest	+32%	-61%
Northeast	+41%	-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

CRE Market Conditions Continued to Improve With Vacancy Rates Trending Down

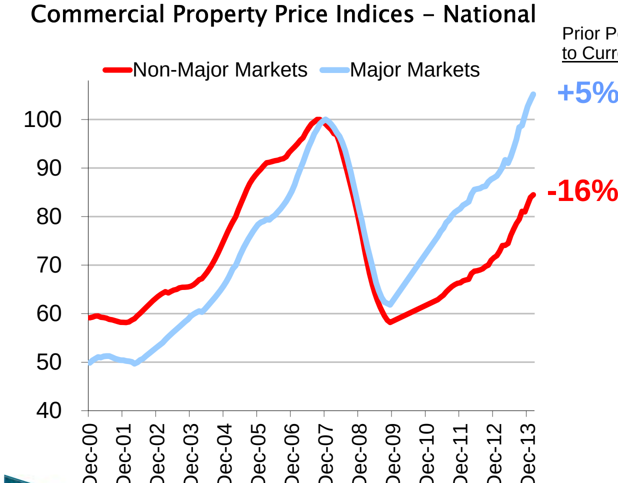
12th District Quarterly Aggregate Vacancy and Availability Rates



Source: CBRE-Econometric Advisors; Retail and Industrial: availability rates; Office and Multi-Housing: vacancy rates.

CRE Property Values Recovering, Especially in Major Markets

Commercial Property Price Indices – National



Prior Peak to Current (%)	Major Mkts	Non-Major
Apt.	+20%	-2%
CBD-Office	+15%	-5%
Retail	+2%	-26%
Hotel	-11%	-20%
Industrial	-11%	-19%
Sub-Office	-20%	-32%

CBD = Central Business District
Sub = Suburban

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

Section 2
Commercial Bank Performance

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

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

12th District Commercial Bank Snapshot – 1Q14

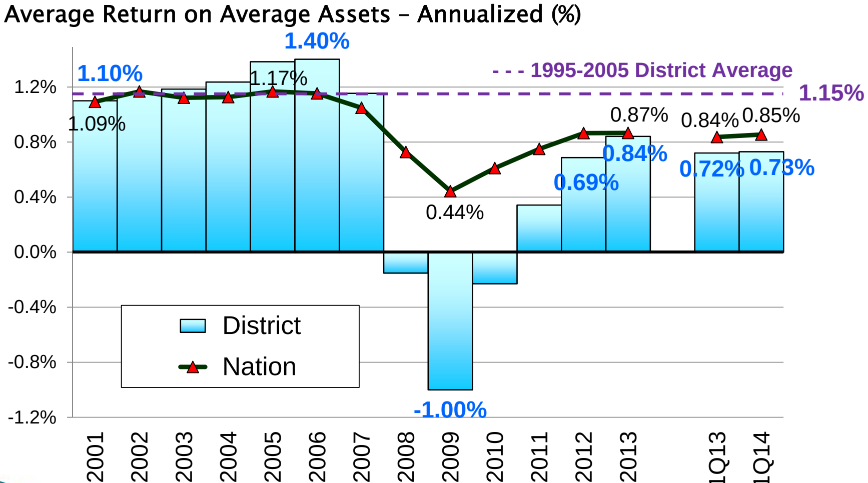
For the quarter, most banks had declining profits, net interest margins, overhead, and noncurrent loans; nearly 2/3 of banks reported loan growth

		ROAA	NIM	OH / Avg. Assts	PLLL	NC Lns	Tot. Lns	T1RB Cap Ratio	FTE Emp.
QoQ Change – % of banks	Up	44%	35%	40%	33%	27%	65%	59%	39%
	Down	55%	62%	60%	32%	64%	34%	40%	37%
	No Chg.	1%	3%	0%	35%	9%	1%	1%	24%
YoY Change - % of banks	Up	49%	41%	39%	25%	24%	77%	45%	58%
	Down	50%	56%	61%	44%	71%	22%	54%	31%
	No Chg.	1%	3%	0%	31%	5%	1%	1%	11%
QoQ Change # of banks	Up	157	127	144	120	98	236	213	139
	Down	199	225	217	115	232	122	143	135
	No Chg.	5	9	0	126	31	3	5	87
YoY Change # of banks	Up	175	150	142	89	85	277	164	208
	Down	181	201	219	159	258	81	194	114
	No Chg.	5	10	0	113	18	3	3	39

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

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

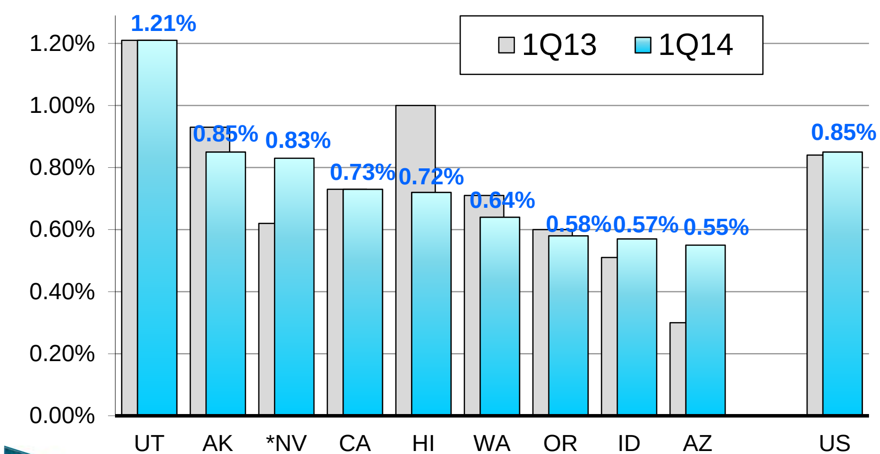
Average Return on Average Assets – Annualized (%)



"Normal times" is defined here as the 1995-2005 average; based on commercial banks, excluding De Novos; trimmed means; 1Q data is annualized; preliminary 3/31/14 data

Average ROAA Trends by State were Mixed

Average Return on Average Assets (annualized) (%)

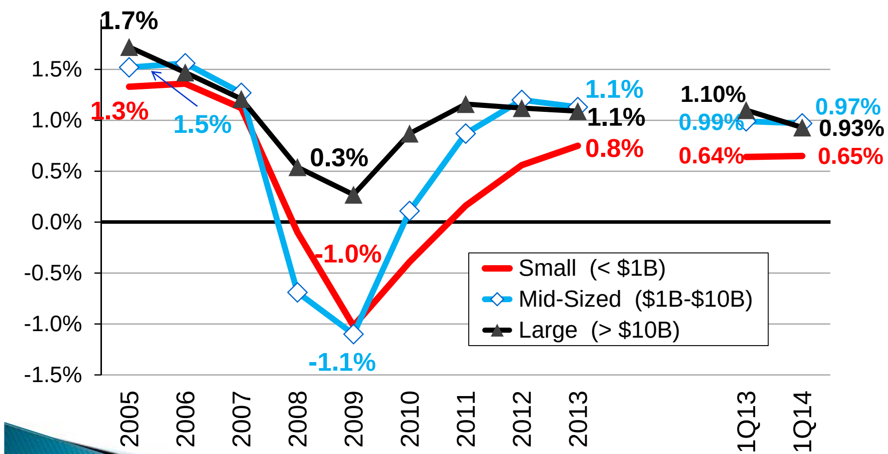


Based on commercial banks, excluding De Novos; trimmed means, preliminary 3/31/14 data
*NV: excludes credit card and zero-loan banks

Large & Mid-Sized Banks Remained Most Profitable

But little or no ROAA improvement in any of the groups

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



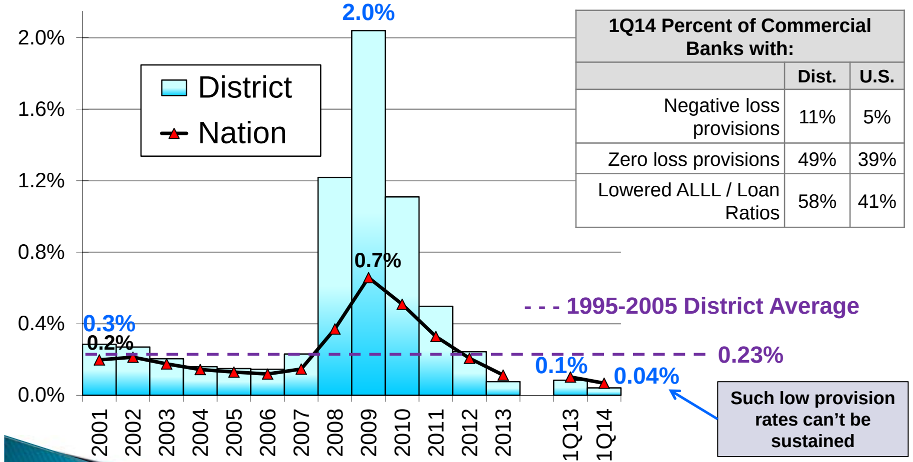
FRB-SF

Based on commercial banks, excluding De Novos; trimmed means; 1Q data is annualized; preliminary 3/31/14 data

Profitability Has Benefitted from Loan Loss Provisions Declining to 20+ Year Lows

60% of District banks took zero or negative provisions during the first quarter 2014

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



1Q14 Percent of Commercial Banks with:	Dist.	U.S.
Negative loss provisions	11%	5%
Zero loss provisions	49%	39%
Lowered ALLL / Loan Ratios	58%	41%

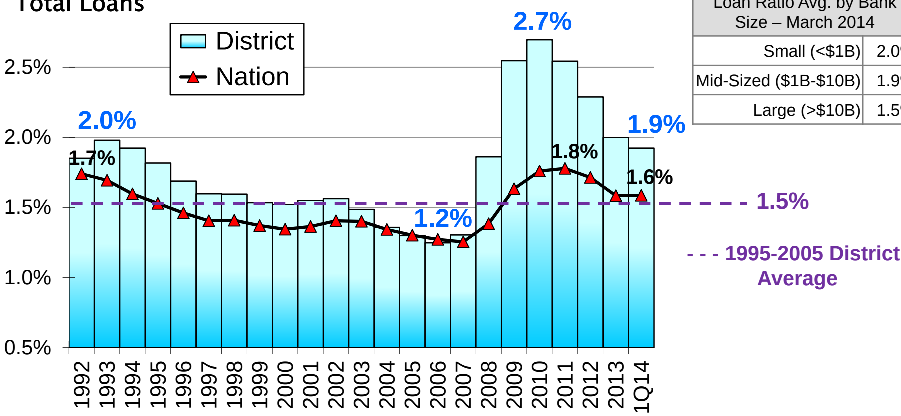
FRB-SF

Based on commercial banks, excluding De Novos; trimmed means; 1Q data is annualized; preliminary 3/31/14 data

Decline of ALLL/Loan Ratios Continued in 1Q14, with Ratio Closing in on "Normal Times" Average

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

Average Allowance for Loan and Lease Losses / Total Loans



12th District Bank ALLL / Loan Ratio Avg. by Bank Size – March 2014	
Small (<$1B)	2.0%
Mid-Sized ($1B-$10B)	1.9%
Large (>$10B)	1.5%

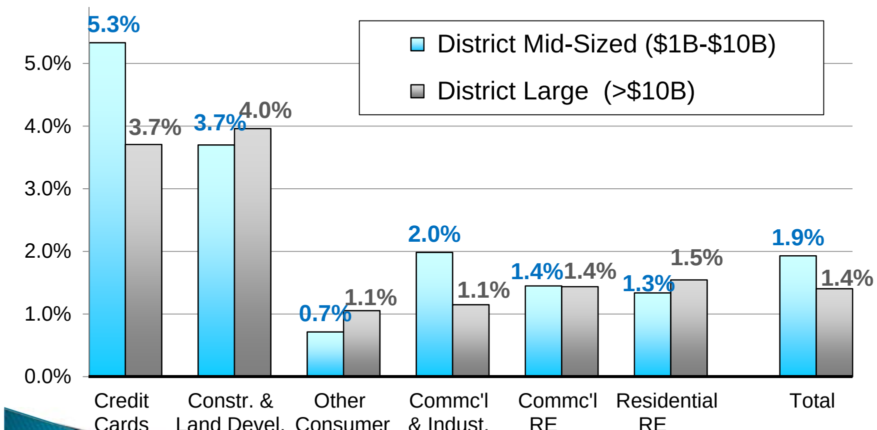
FRB-SF

* The Office of the Comptroller of the Currency in its Semi-annual Risk Perspectives, defines risk layering as a combination of loosening underwriting standards, weak or no covenants, tightening spreads, and new product expansion. Based on commercial banks, excluding De Novos; trimmed means; preliminary 3/31/14 data

ALLL Reserving Reflects Credit Risk by Loan Type

Reserving is considerably higher at mid-sized banks for C&I and credit cards

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



FRB-SF

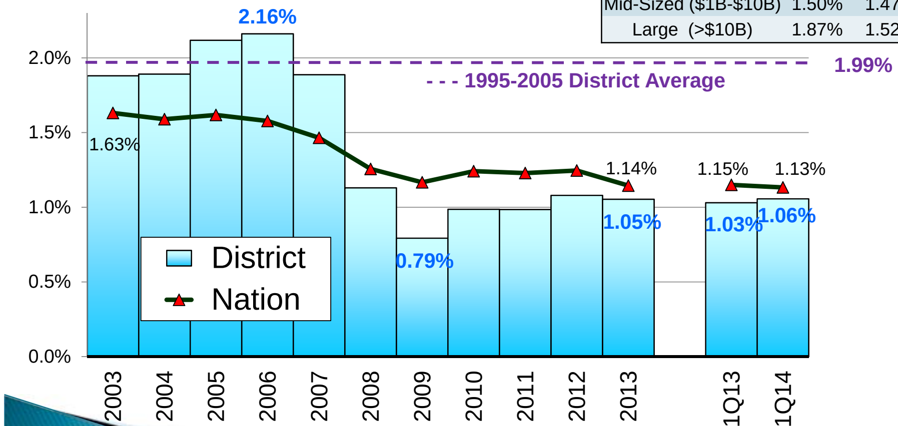
Based on aggregate data for commercial banks, preliminary 3/31/14 data. Note: banks with assets <$1B do not report this information.

Core Profitability Rates Remain Well Below "Normal Levels"

Core profitability declined YoY at mid-sized & large banks on average

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

Avg. District Core Profitability		
Group	1Q13	1Q14
Small (<$1B)	0.89%	0.92%
Mid-Sized ($1B-$10B)	1.50%	1.47%
Large (>$10B)	1.87%	1.52%



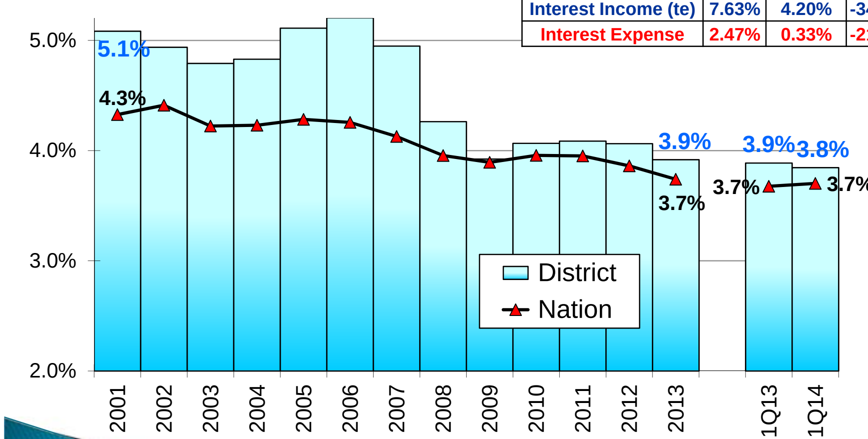
Based on commercial banks, excluding De Novos; trimmed means; 1Q data is annualized; preliminary 3/31/14 data

Net Interest Margins (NIM) Continued to Weaken

District average net interest margin tied record low in 1q14

Net Interest Income (tax equiv) / Average Earning Assets

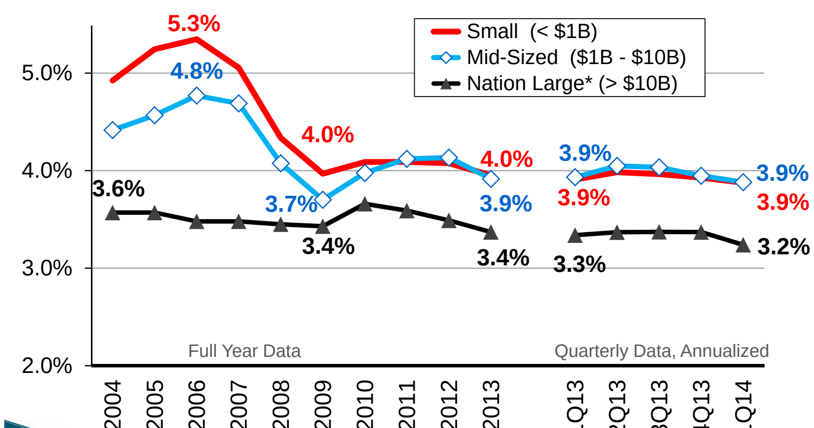
NIM Components			
As a Pct. of Avg. Earning Assets	2006	1Q2014	Chg
Interest Income (te)	7.63%	4.20%	-343 bp
Interest Expense	2.47%	0.33%	-214 bp



TE – interest income presented on a tax equivalent basis. Based on commercial banks, excluding De Novos; trimmed means; 1Q data is annualized; preliminary 3/31/14 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

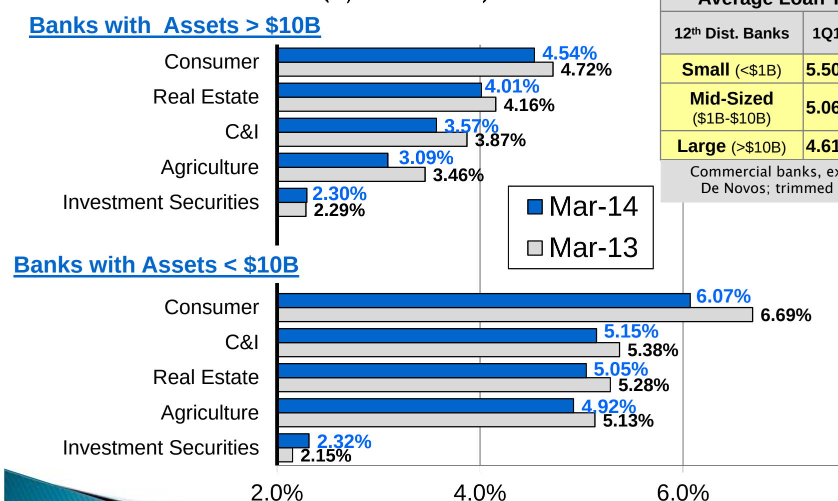


Based on commercial banks, excluding De Novos; trimmed means; preliminary 3/31/14 data;
* Large group is national data (too few large District banks in early years)

Loan Yields Continued to Fall

Investment securities yields ticked up as banks extended durations

Yields – Nationwide Banks (%; annualized)



Average Loan Yields		
12th Dist. Banks	1Q14	YoY Chg
Small (<$1B)	5.50%	-21bp
Mid-Sized ($1B-$10B)	5.06%	-26bp
Large (>$10B)	4.61%	-14bp

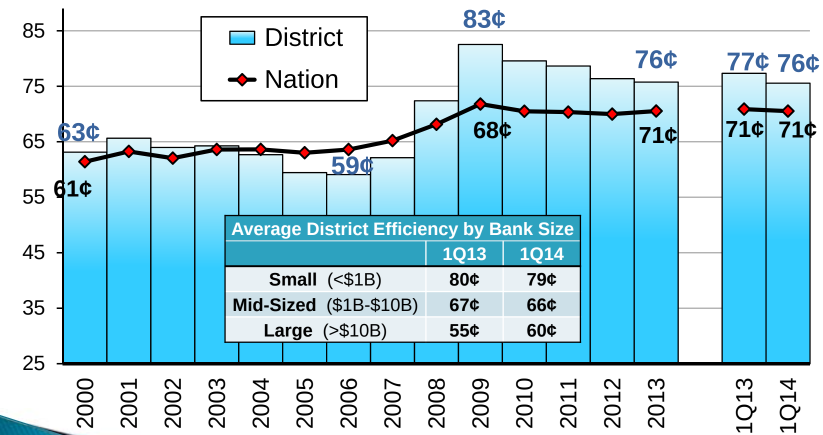
Commercial banks, excluding De Novos; trimmed means

Based on aggregate nationwide commercial and industrial banks; 1Q data is YTD annualized; preliminary 3/31/14 data

Average District Bank Efficiency Measure Remained Elevated, but Improved Slightly in 1Q14

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

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



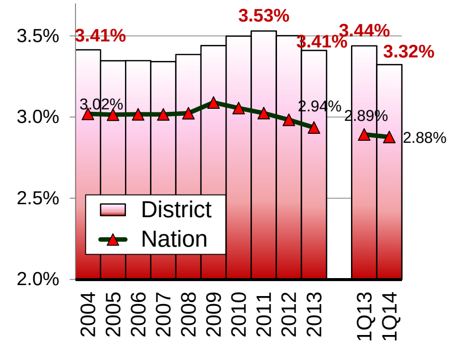
Average District Efficiency by Bank Size	1Q13	1Q14
Small (<$1B)	**80¢**	**79¢**
Mid-Sized ($1B-$10B)	**67¢**	**66¢**
Large (>$10B)	**55¢**	**60¢**

FRB-SF

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

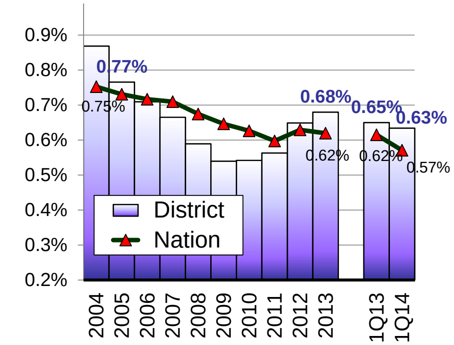
Both Noninterest Expense and Noninterest Income Ratio Averages Edged Down in 1Q14

Noninterest Expense (% of average assets)



Average Noninterest Expense Ratios		
District Group	1Q13	1Q14
Small (<$1B)	3.57%	3.47%
Mid-Sized ($1B-$10B)	3.09%	2.92%
Large (>$10B)	2.33%	2.31%

Noninterest Income (% of average assets)



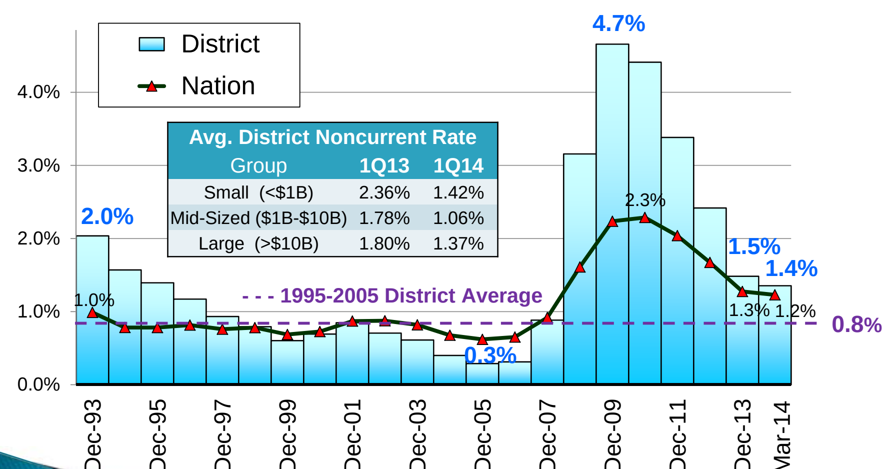
Average Noninterest Income Ratios		
District Group	1Q13	1Q14
Small (<$1B)	0.62%	0.62%
Mid-Sized ($1B-$10B)	0.77%	0.68%
Large (>$10B)	0.85%	0.72%

FRB-SF

Based on commercial banks, excluding De Novos; trimmed means; 1Q ratios are annualized; preliminary 3/31/14 data

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

Average Noncurrent Loans + Leases / Total Loans + Leases



Avg. District Noncurrent Rate		
Group	1Q13	1Q14
Small (<$1B)	2.36%	1.42%
Mid-Sized ($1B-$10B)	1.78%	1.06%
Large (>$10B)	1.80%	1.37%

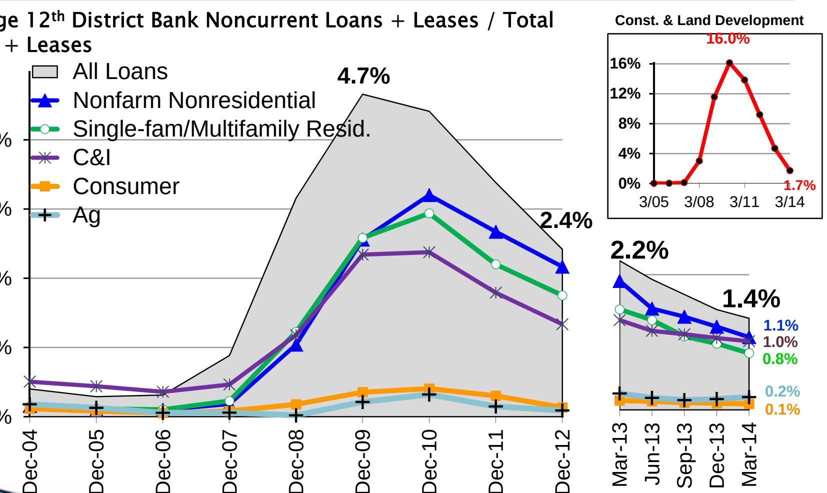
FRB-SF

Noncurrent = 90 Days past due or on nonaccrual; based on commercial banks, excluding De Novos; trimmed means; preliminary 3/31/14 data

Average Noncurrent Rates Kept Improving For All But Agricultural Loans

Note: C&LD rates are shown in inset chart

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

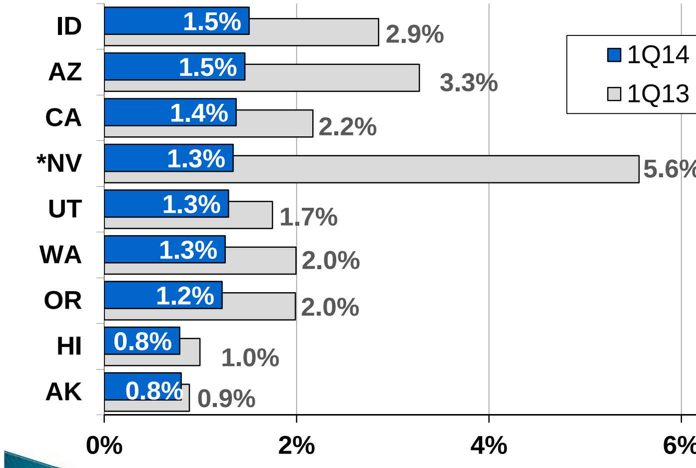


FRB-SF

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

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

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

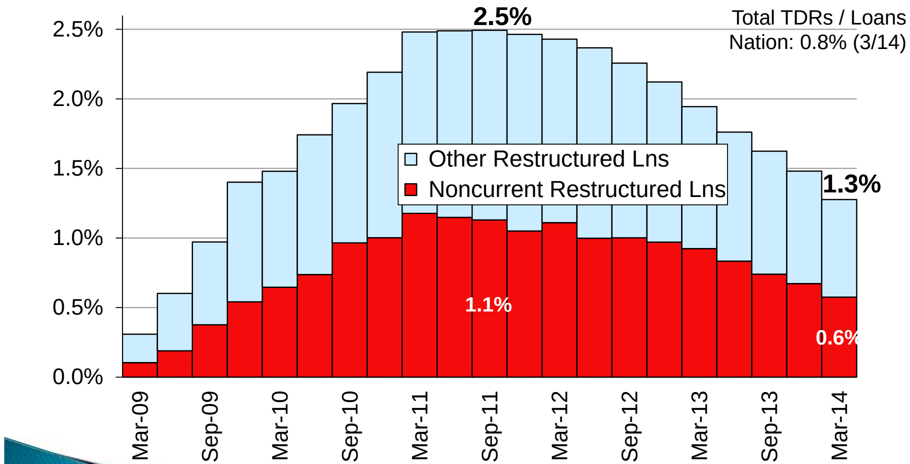


Other High Noncurrent Rates	1Q13	1Q14
GA	4.1%	2.8%
SC	3.3%	2.2%
FL	3.6%	2.1%
TN	2.4%	1.9%
MT	2.5%	1.9%
Nation	1.6%	1.2%

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

Troubled Debt Restructurings Continued Steady Decline

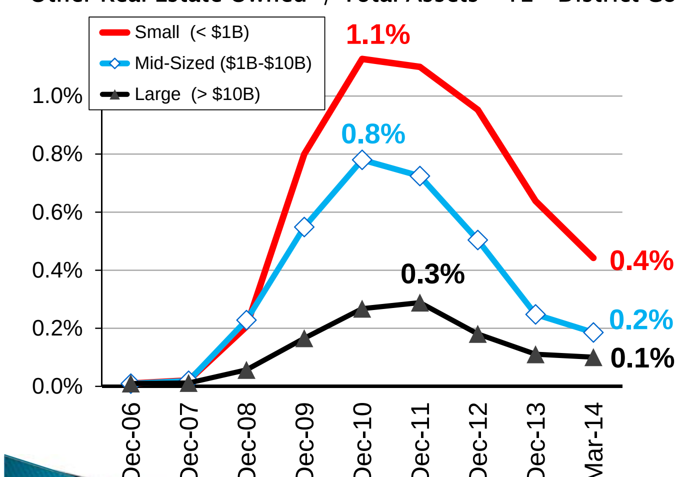
12th District Bank Restructured Loans as a Percentage of Total Loans



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

Foreclosed Real Estate Still Relatively High, but Declining

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



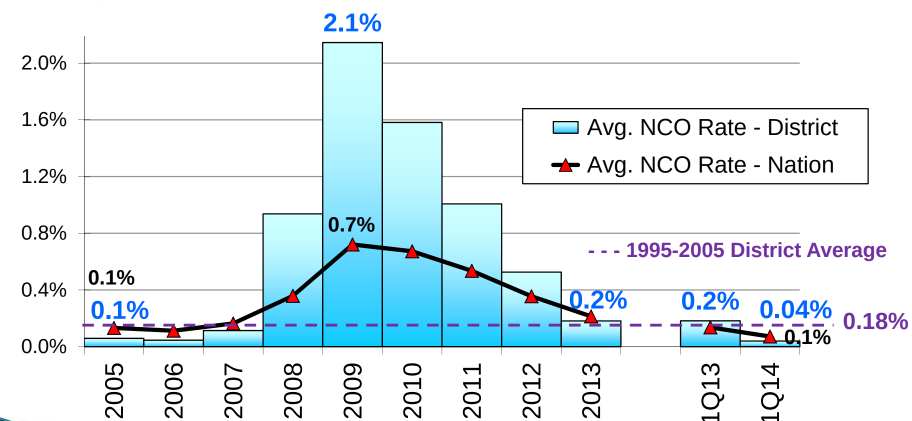
Aggregate OREO by Loan Type 3/14 – District banks < $200B; % of Tot. OREO	
Constr. & Land Development	41%
CRE – Nonfarm nonresidential	29%
1-4 Fam. Resid.	26%
Other	4%

OREO/Assets - All Commc'l Bks – 3/14	
12th Dist.	0.36%
Nation	0.35%

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

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

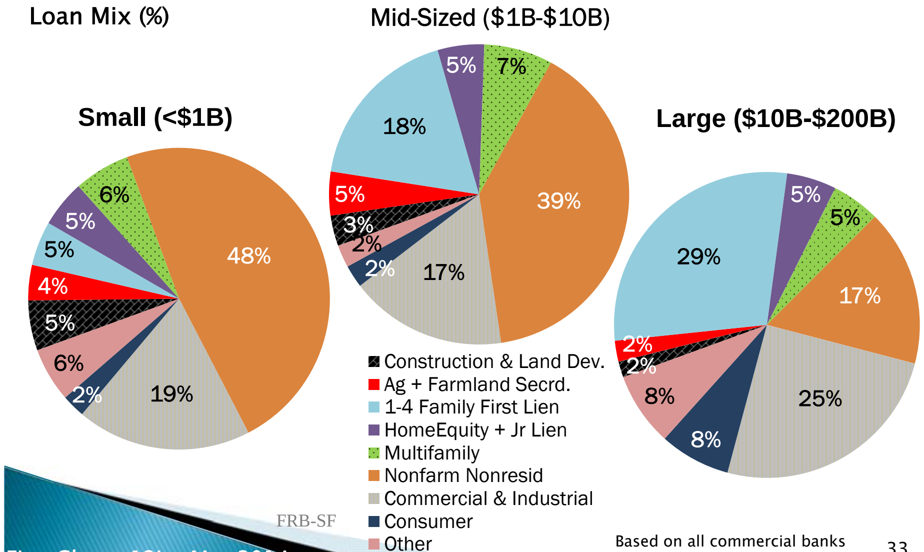
Average Ratio of Net Charge-Offs / Average Loans



Based on commercial banks, excluding De Novos; trimmed means; first quarter ratios are annualized; preliminary 3/31/14 data

District Bank Aggregate Loan Mix by Size

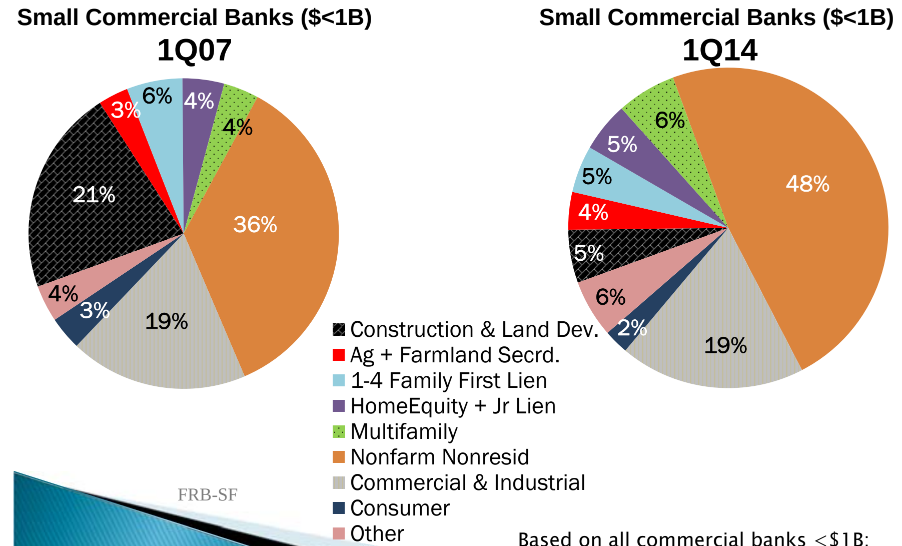
Large banks are focused more on 1-4 family residential & C&I loans, while small banks are more focused on CRE / nonfarm nonresidential secured loans



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

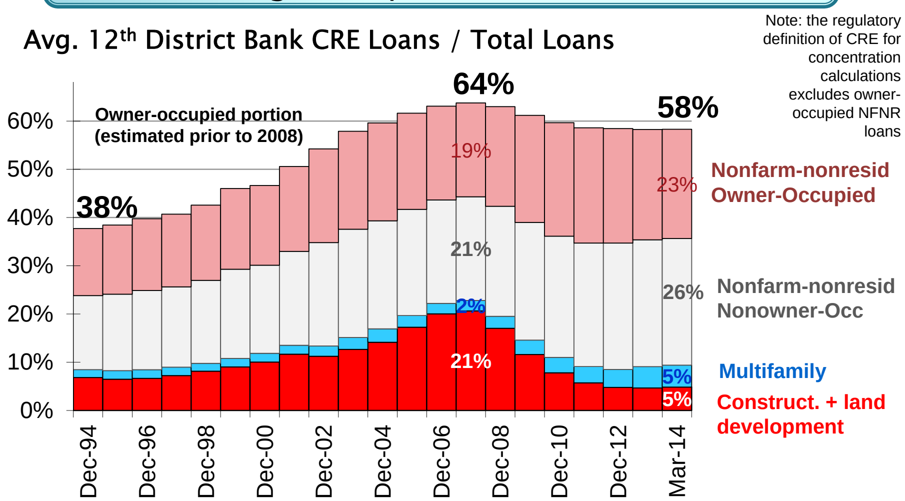
District Small Bank Aggregate Loan Mix 2007 vs. 2014

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



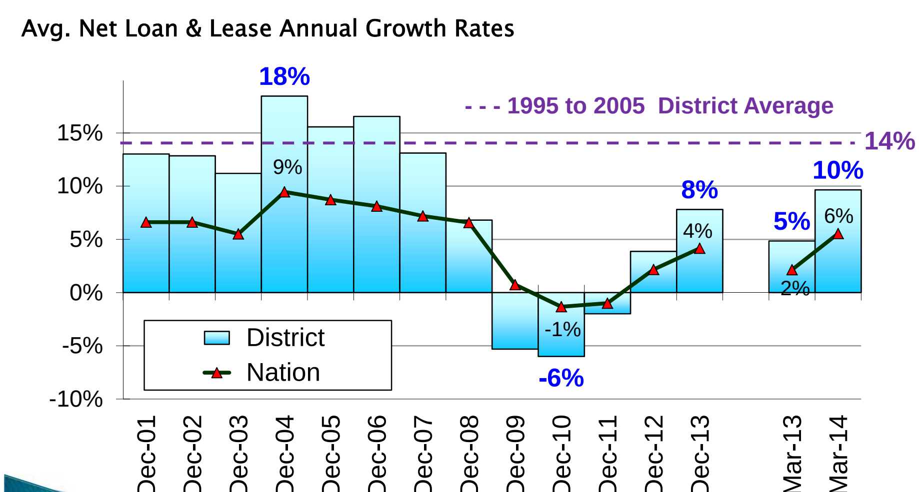
Based on all commercial banks <$1B; prelim 3/31/14 data

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



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 3/31/14 data

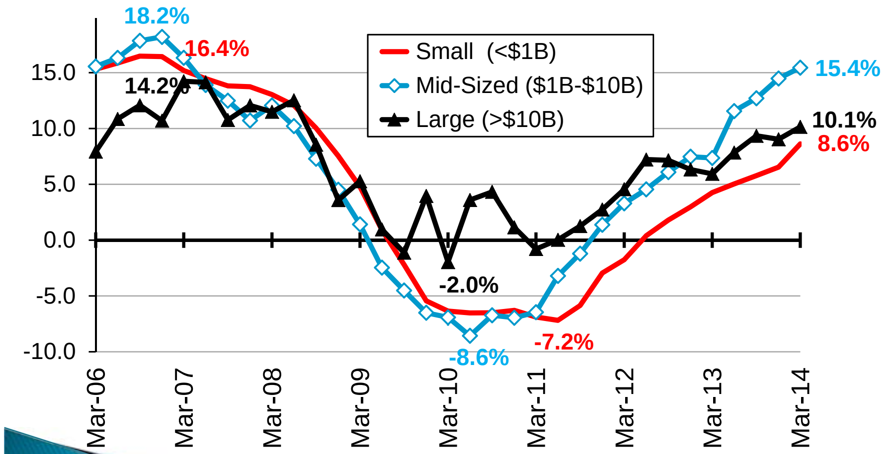
Loan Growth Rates: Approaching "Normal" Levels at District Banks



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

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

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



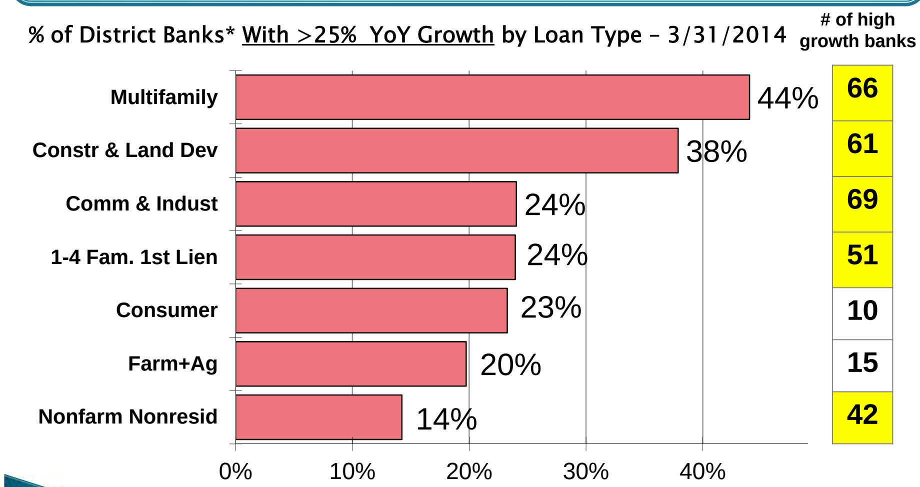
FRB-SF

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

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

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

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



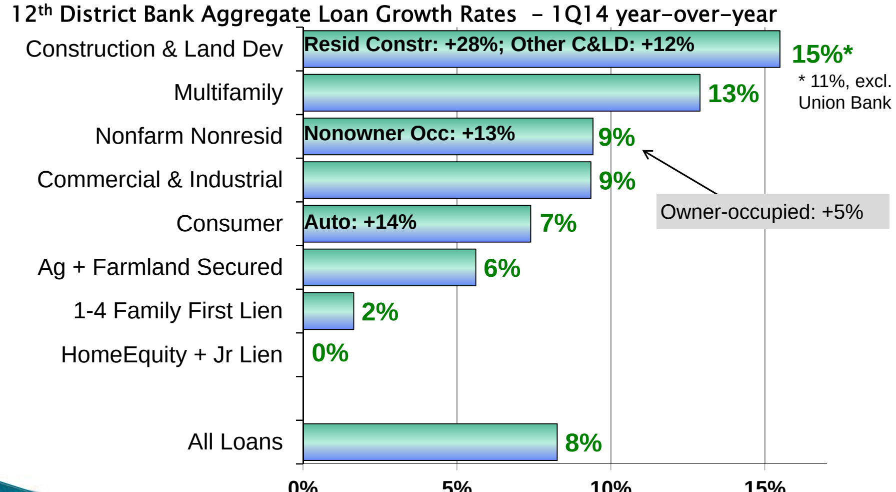
FRB-SF

* Based on a panel of 324 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 3/31/14 data

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

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

12th District Bank Aggregate Loan Growth Rates – 1Q14 year-over-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 3/31/14 data

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

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

12th District Bank Aggregate Loan Growth

Loan Growth 1Q 2014 year-over-year	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%	**57%**	7%	**32%**	10%	**25%**
Multifamily	22%	13%	31%	**22%**	4%	3%
Commercial & Industrial	6%	13%	17%	**29%**	8%	**24%**
Ag & Farmland Secured	7%	4%	1%	0%	6%	3%
Construction & Land Dev.	11%	8%	11%	5%	18%	6%
Consumer	(1%)	n/a	11%	4%	8%	6%
1-4 Family First Liens	5%	6%	6%	7%	1%	4%

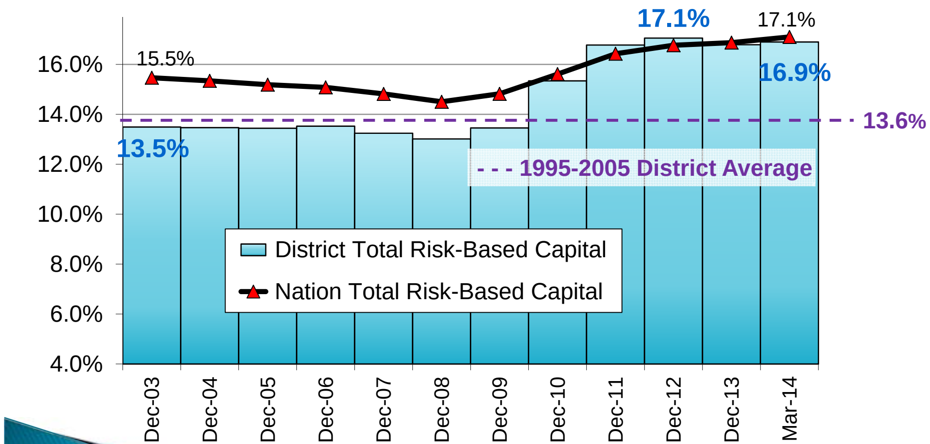
Shaded cells highlight loan categories accounting for 20%+ of total loan growth in the past year

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 3/31/14 data

Capital Adequacy: Average District Risk-Based Capital Ratios Remained High, with Flat Trend

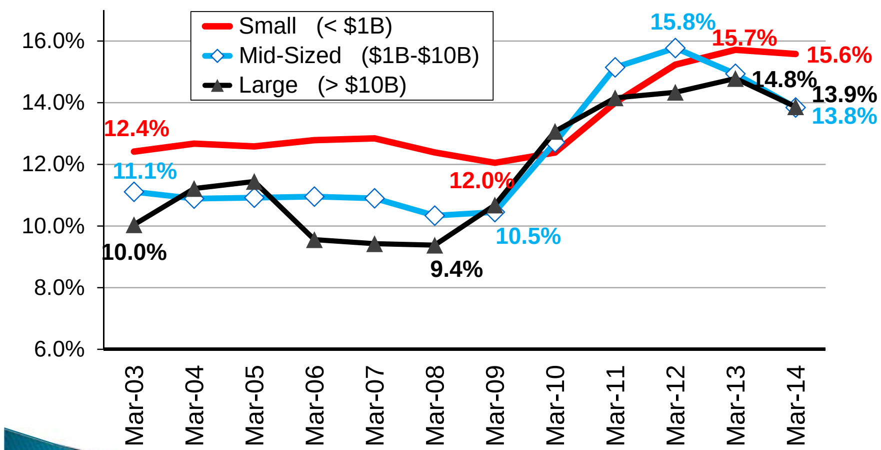
Average Total Risk-Based Capital Ratios (%)



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

Tier 1 Common Equity Ratios – Relatively High, but on a Declining Trajectory with Loan Growth Accelerating

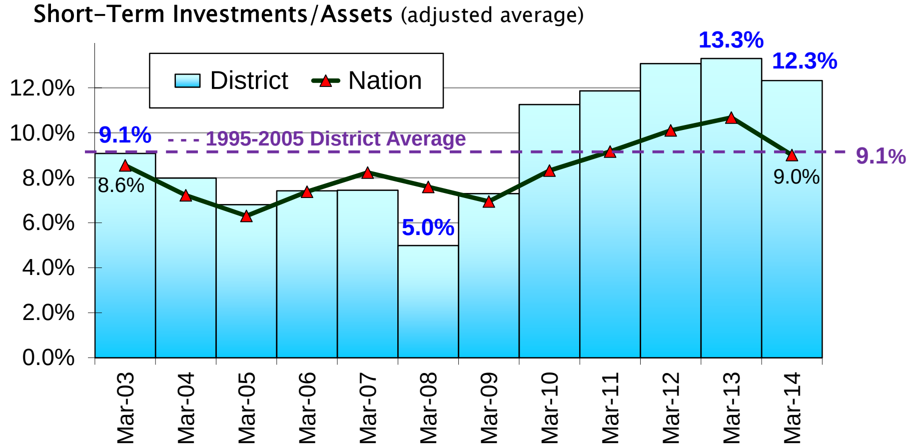
Average District Bank Tier 1 Common Equity / Risk-Weighted Assets Ratios



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

Liquidity: Short-Term Investments Off Peak but Remained High

Short-Term Investments/Assets (adjusted average)

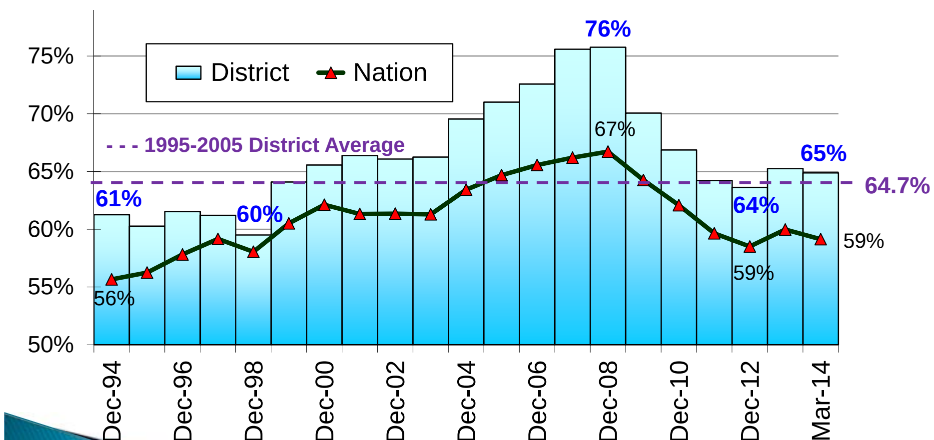


Short-Term Investments: interest-bearing bank balances, Federal funds sold & securities purchased under agreements to resell, <1-year debt securities. Based on commercial banks, excluding De Novos; trimmed means; preliminary 3/31/14 data

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

Will the average ever return to 2008 levels? It didn't turn out well last time…

Loans & Leases/Assets (adjusted average %)

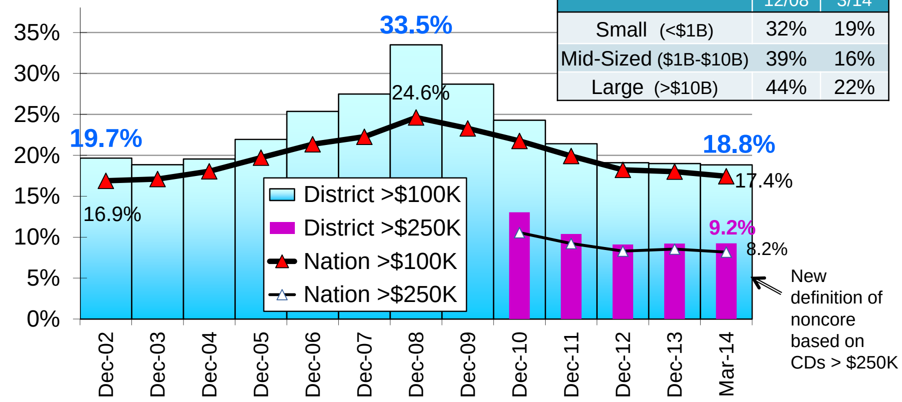


Based on commercial banks, excluding De Novos; trimmed means; preliminary 3/31/14 data

Avg. Bank Reliance on Noncore Funding Remained Much Lower than Pre-Crisis Levels

Avg. Noncore Liabilities / Assets

Average District Noncore Liabilities (>$100K defn.) / Assets by Bank Size	12/08	3/14
Small (<$1B)	32%	19%
Mid-Sized ($1B-$10B)	39%	16%
Large (>$10B)	44%	22%

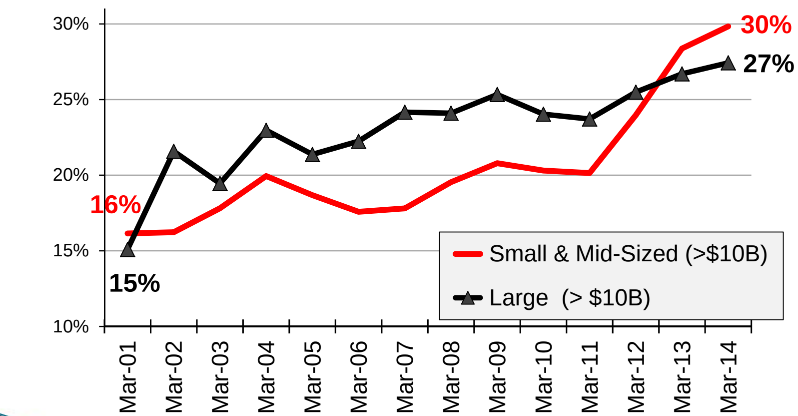


* Noncore includes borrowed funds, foreign and brokered deposits, large CDs. Old definition is based on CDs >$100K, new definition (smaller magenta bars) is based on CDs>$250K; Based on commercial banks, excluding De Novos; trimmed means; preliminary 3/31/14 data

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

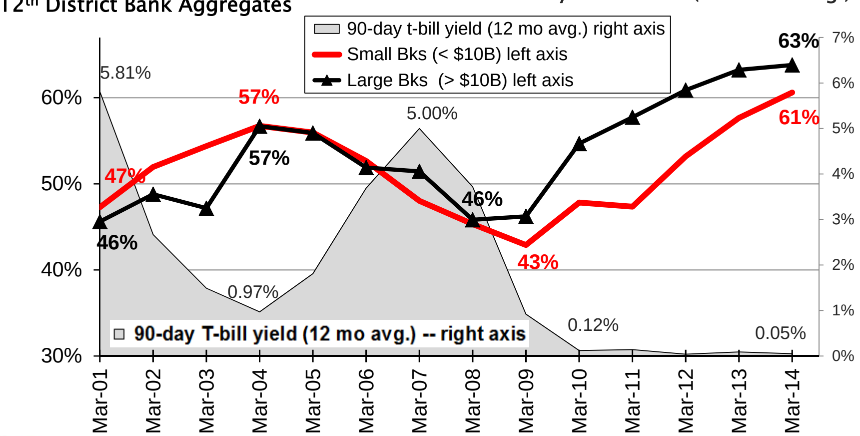


Based on aggregate data for all 12th District commercial banks active as of 3/31/14 with their data back in time; preliminary 3/31/14 data

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

Nonmaturity Deposits / Total Assets – 12th District Bank Aggregates

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

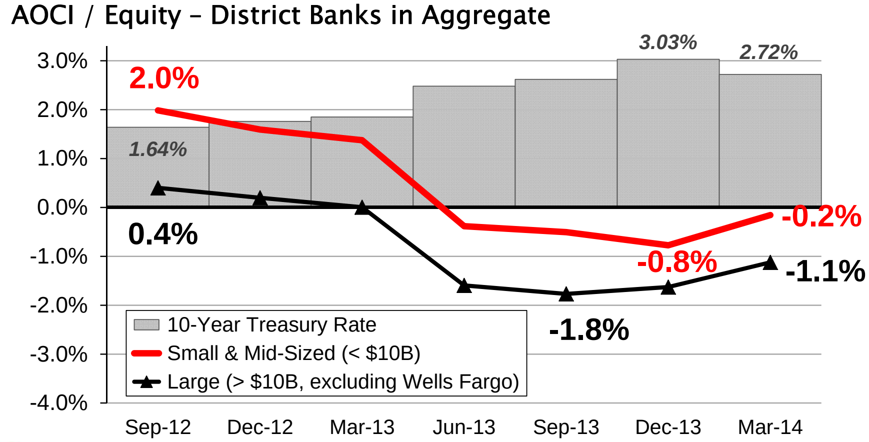


Based on aggregate data for all 12th District commercial banks active as of 3/31/14 with their data back in time; preliminary 3/31/14 data; *Surge deposits: large inflow of deposits since financial crisis; T-Bill yield: Federal Reserve, Haver Analytics;

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

Securities depreciation has reduced liquidity in investment portfolios

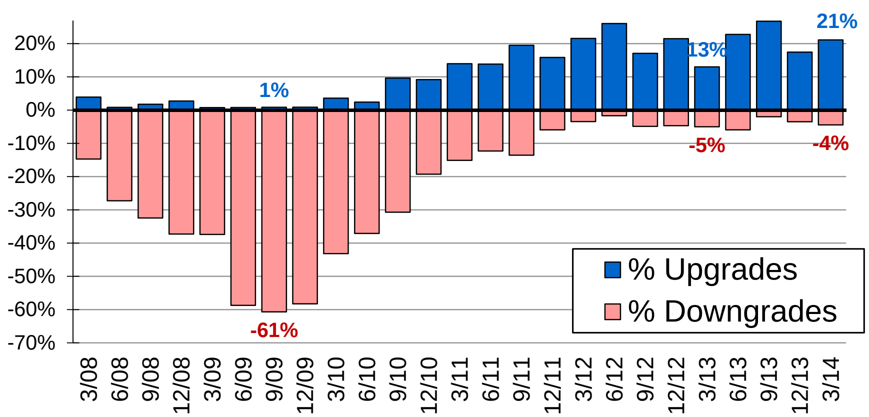
AOCI / Equity – District Banks in Aggregate



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

Regulatory Ratings: CAMELS Upgrades Outpaced Downgrades for the Past 12 Quarters

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

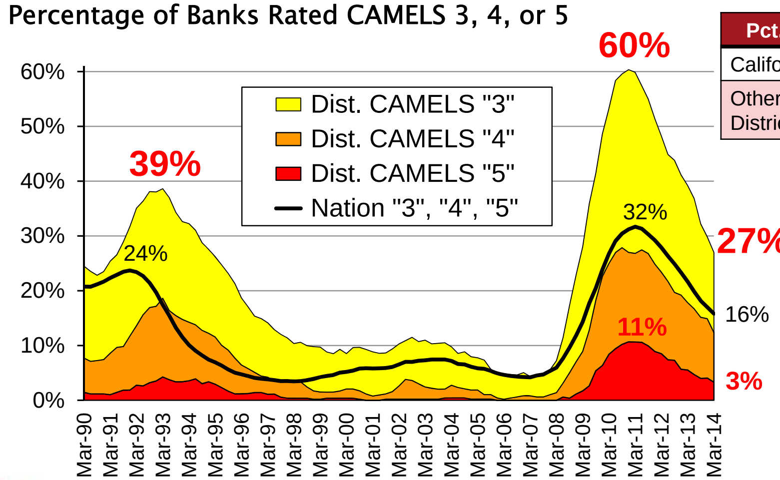


FRB-SF

Includes any change in composite CAMELS rating for commercial banks; quarterly trends based on examination completion dates (mail dates); recent data are preliminary; updated 05/09/14

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

Percentage of Banks Rated CAMELS 3, 4, or 5



Pct. 3, 4, or 5	
California	22%
Other 12th District	33%

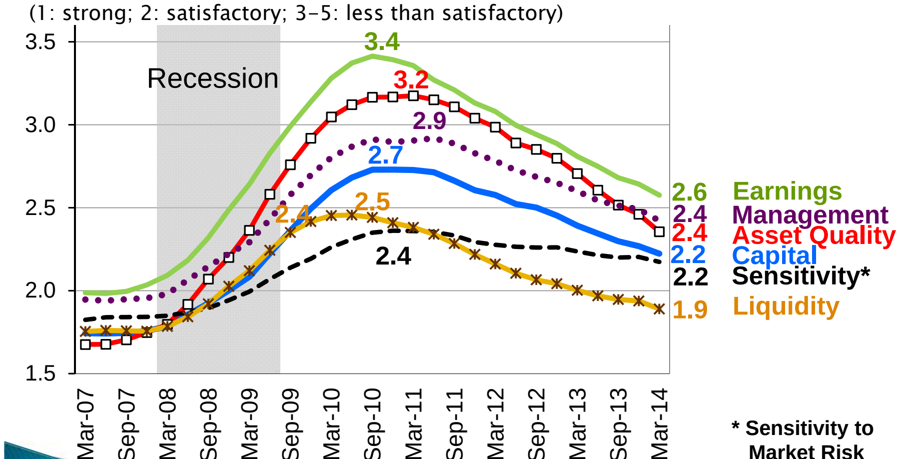
FRB-SF

Trends for all commercial banks based on examination completion dates (mail dates); updated 05/09/14

CAMELS Rating Components Continued to Improve

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

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



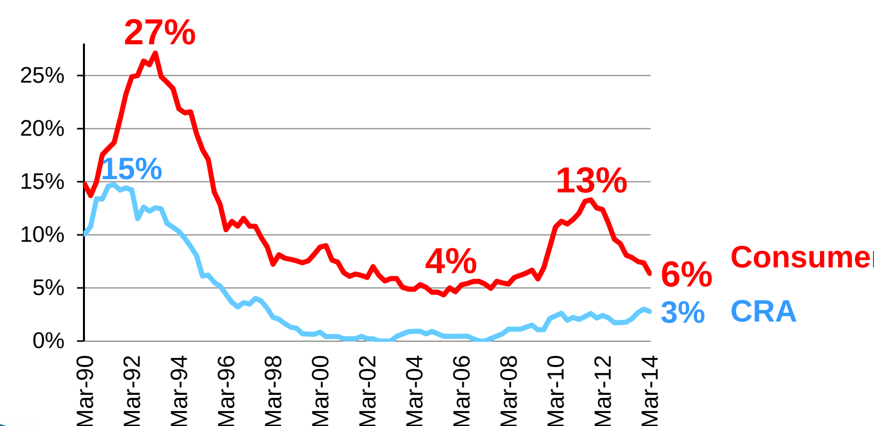
*** Sensitivity to Market Risk**

FRB-SF

Trends for all commercial banks based on examination completion dates (mail dates); recent data are preliminary; updated 05/09/14

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 05/09/14

Section 3 – Savings Institution and Industrial Bank Performance

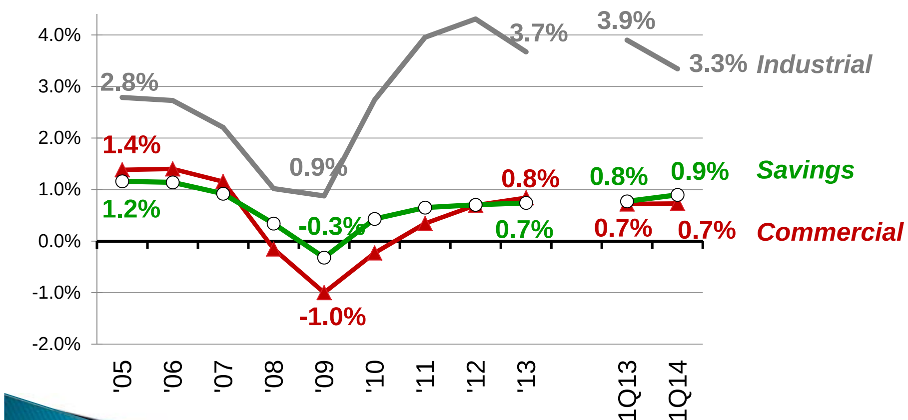
Slides in this section focus on trends among the 44 savings institutions and 29 industrial banks headquartered within the 12th Federal Reserve District.

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

District Industrial Bank Average Profitability Remained Strongest of the Institutional Groups

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

District Return on Average Assets – Averages (%)

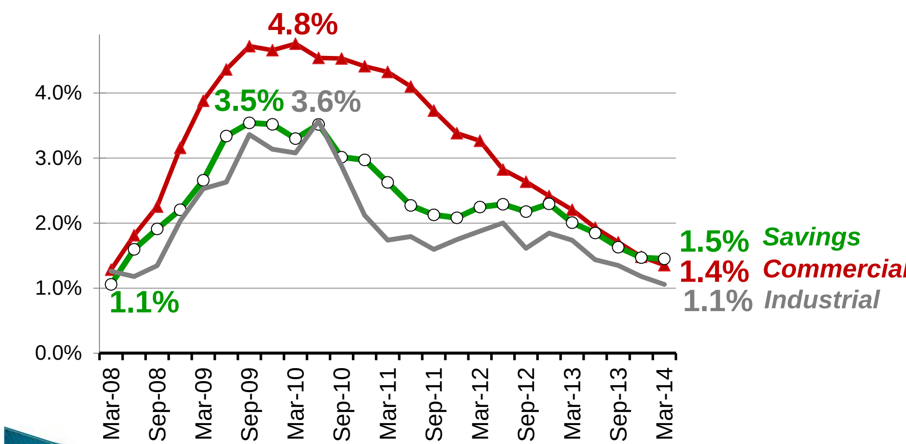


Based on District commercial banks, savings institutions, and industrial banks, excluding De Novos; trimmed means; preliminary 3/31/14 data

Noncurrent Loan Ratios Declined for Each Institutional Group

Commercial bank noncurrent rates improved most since the recession

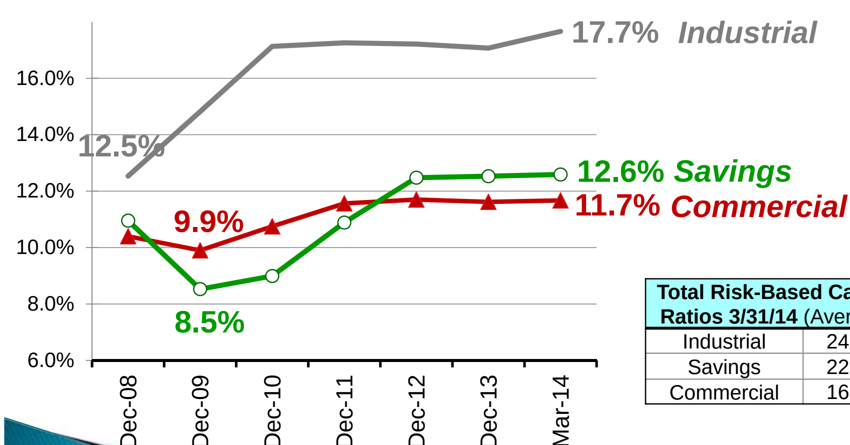
Average 12th District Noncurrent Loans and Leases / Total Loans and Leases – quarterly (%)



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

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

Average 12th District Institution Equity/Assets Ratios



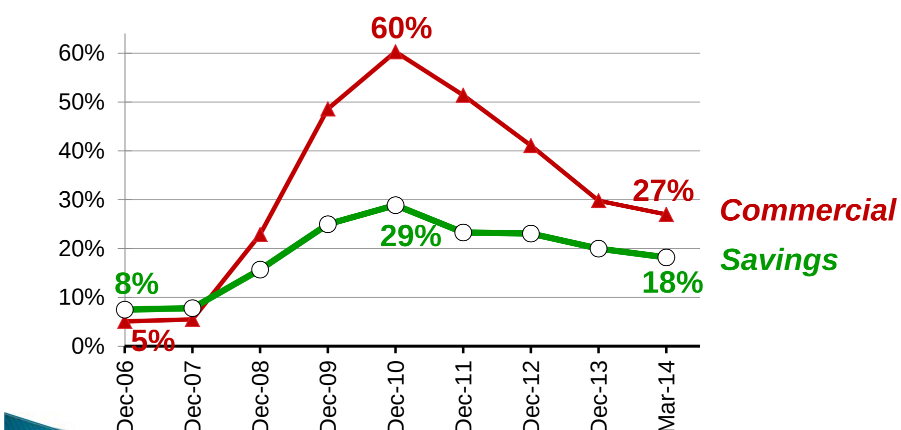
Total Risk-Based Capital Ratios 3/31/14 (Average)	
Industrial	24.3%
Savings	22.5%
Commercial	16.9%

Based on District commercial banks, savings institutions, and industrial banks, excluding De Novos; trimmed means; preliminary 3/31/14 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



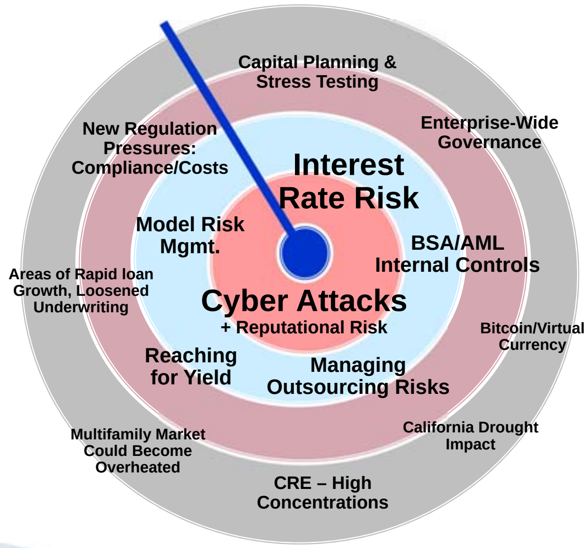
Trends for all institutions based on examination completion dates (mail dates); recent data are preliminary; updated 05/09/14

Section 4 – Bank Supervisors' Hot Topics

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

This radar screen, depicting bank supervisors' concerns, is from last quarter's report. The main issues are still the same.

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



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

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

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

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

	All Banks		Small Bks (<$1 Billion)	
	1Q13	1Q14	1Q13	1Q14
Construction & Land Development	(0.36)	(0.44)	0.54	(0.12)
Residential Construction	(0.43)	(0.77)	0.31	(0.10)
Other C&LD	(0.34)	(0.36)	0.62	(0.12)
CRE - Nonfarm Nonresidential Loans	0.12	(0.01)	0.13	0.08
Owner-Occupied	0.14	0.01	0.14	(0.01)
Nonowner-Occupied	0.11	(0.02)	0.11	0.15
Residential Closed-End Loans	0.57	0.17	0.25	0.10
Home Equity Loans	1.37	0.66	(0.00)	0.01
Multifamily Loans	0.03	(0.06)	0.01	(0.05)
Commercial & Industrial Loans	0.23	0.11	0.50	0.26
Agricultural Loans	(0.32)	(0.02)	0.37	(0.12)
Farmland Secured	0.16	(0.01)	(0.04)	(0.01)
Credit Card Loans	4.04	3.67	1.39	0.71
Installment Loans	0.83	0.82	0.42	0.43
Total Loans	0.51	0.27	0.24	0.12

NCO rates for all District commercial banks, annualized;
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

Appendix 2 – Banks Covered in this Report

Geography	Commercial Banks (De Novos)		Industrial Banks (De Novos)		Savings Institutions (De Novos)	
	03-13	03-14	03-13	03-14	03-13	03-14
Alaska	4 (0)	4 (0)	-	-	2 (0)	2 (0)
Arizona	27 (0)	22 (0)	-	-	1 (0)	1 (0)
California	211 (6)	197 (1)	7 (0)	6 (0)	18 (1)	16 (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 (0)	14 (0)	-	-	1 (0)	1 (0)
Nevada	17 (1)	12 (0)	4 (0)	4 (0)	2 (0)	2 (0)
Oregon	28 (1)	25 (0)	-	-	3 (0)	3 (0)
Utah	32 (0)	31 (0)	19 (0)	18 (0)	4 (0)	4 (0)
Washington	55 (1)	50 (1)	-	-	13 (0)	12 (0)
12th District	397 (9)	363 (2)	31 (0)	29 (0)	47 (1)	44 (1)
Nation	5,980 (77)	5,737 (25)	33 (0)	31 (0)	998 (6)	953 (2)

Based on preliminary 3/31/14 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 March 2012, filed the thrift Call Report.