First Glance 12L (2Q12)

Banks Recovering – But Still Have a Long Way To Go

A First Look at the Financial Performance of Banks* Headquartered within "12L"

(the 12th Federal Reserve District)

Based on Preliminary 2Q2012 Call & Income Report Data

August 20, 2012

* 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.

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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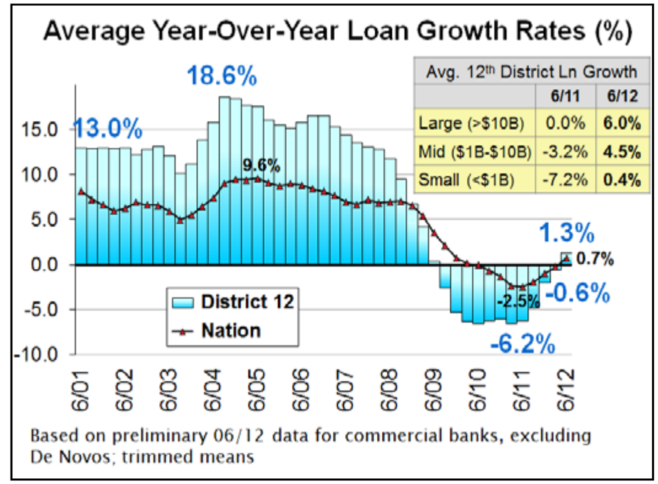
Contents

First Glance 12L – Second Quarter 2012

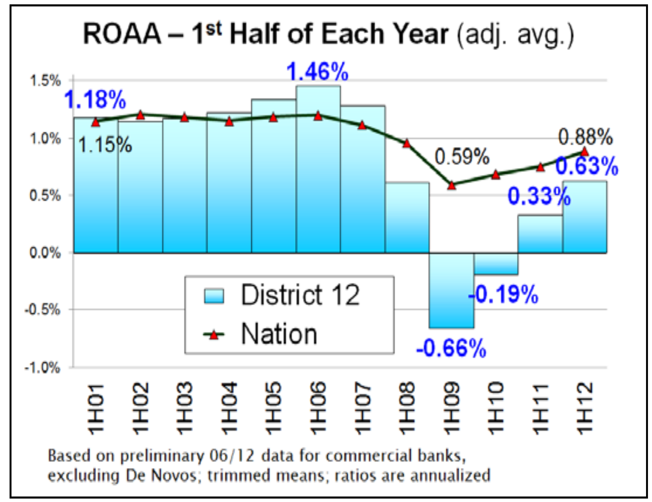
Banks Recovering – But Still Have a Long Way To Go

- <u>Loan Growth – YES!</u> For the first time in three years, the average 12th District bank reported year-over-year loan growth, led by gains at large and mid-sized banks (at right and Slide 6). The strongest growing loan categories for the District in aggregate (banks<$100B) were C&I and ag/farmland loans, up 17.4% and 9.5% respectively (Slide 8). Banks in healthy financial condition per regulators (CAMELS ratings of 1 or 2) reported their sixth consecutive quarter of positive loan growth, expanding to a 6.8% YoY growth rate as of 6/2012 (Slide 7).



Based on preliminary 06/12 data for commercial banks, excluding De Novos; trimmed means

- <u>Asset Quality – Getting Better:</u> The 12th District average noncurrent loan rate dropped to 2.8%, this ratio's lowest in almost four years and well down from a 4.8% peak in early 2010 (Slide 11). The rate still has a long way to go to reach normal historical levels of under 1%. The early stage delinquency rate (30-89 days past due) also continued to decline to a relatively low 0.5%. Credit quality improvement is noted across major loan types (Slide 12) and within each of the nine District states (Slide 13). While the average District 1H12 net charge-off rate of 0.55% (annualized) was nearly double the National rate, this rate was down sharply from 1H11, and on pace for the lowest credit loss rate in five years (Slide 16).



Based on preliminary 06/12 data for commercial banks, excluding De Novos; trimmed means; ratios are annualized

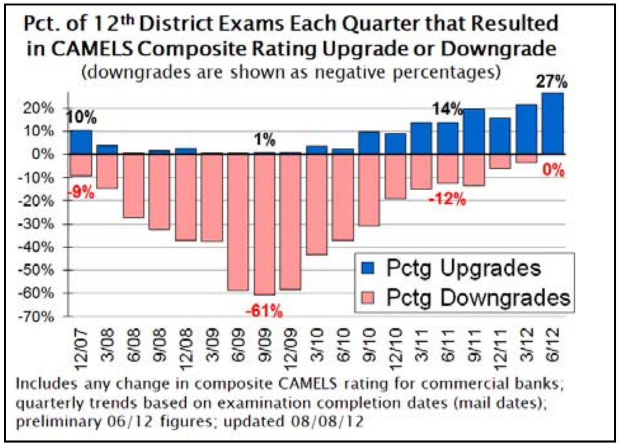
- <u>Profits – Improved, but Mainly from Loss Reserve Releases:</u> The average District bank ROAA climbed to 0.63% in 1H12, nearly double the year-ago ratio (at right and Slide 18). Reduced credit loss provisions, which covered only 0.6x of 1H12 net charge-offs, provided the major earnings boost (slide 24). Core earnings (pre-tax pre-provision) managed to tick up 6bp to 1.10% on average, as banks held their net interest margins above 4% on average and improved efficiency ratios slightly (Slides 25, 27-29). The challenging interest rate environment will continue to present headwinds in growing earnings in the near term.

- <u>Capital Ratios – Historic Highs:</u> Bank capital ratios continued to increase, remaining comfortably at 50+ year highs (Slide 33) as earnings and earnings retention have improved while loan growth has been slow. The average Tier 1 Common Equity ratio (a key metric in the Basel III proposal), also has risen sharply in recent years for District banks of all sizes (Slide 34).

First Glance 12L – Second Quarter 2012

- **CAMELS Ratings – More Frequent Upgrades:** Based on preliminary regulatory examination data, 27% of 2Q12 examinations ended with CAMELS rating upgrades, and none resulted in a downgrade (at right and slide 38). This contributed to reducing the percentage of District banks rated CAMELS "3" or worse (less-than-satisfactory) to 46%, from the record-high 60% at year-end 2010 (Slide 37). This latest percentage, however, reflects a still very weak banking sector, one that likely will take several years to return to normal (in normal times, less than 10% of banks have adverse CAMELS ratings).

- **Overall – Steady Progress but with Risks:** 12th District banks continued to recover, although they have a long way to go. Challenges include an economy that remains weak and vulnerable, more credit quality issues to address, 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 48, 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 (Slides 48-49).
  - Weak Housing Market and Impact: Housing and related sectors remain depressed. C&LD, residential and consumer loans, as well as the economy in general, will remain held back until housing turns the corner (Slide 50).
  - HELOCs and Other Junior Lien Mortgages: 1st lien mortgage problems of stressed homeowners will continue to trickle down to junior lien loans (Slide 51).
  - CRE Income Property Loan Quality & Vulnerability: Many CRE loans are maturing, and many may have weakened property cash flows and high loan-to-value ratios. Will banks need to restructure and write-down growing numbers of loans? (Slide 52).
  - Interest Rate Risk – Lengthening Asset Maturities Seeking Yield: With an extended low-rate environment and low loan demand, it is difficult for banks to find assets with desirable yields; some may be reaching for yield (Slide 53).
  - Expansion into New or Unfamiliar Lending Areas: Some banks are seeking to diversify by expanding into areas such as C&I and multifamily loans; the rapid growth could be a recipe for problems down the line (Slide 54).
  - Capital Planning / Stress Testing Expectations: Large banks (>$10B) are expected to use more rigorous stress testing to understand risks and their potential impacts; new interagency guidance on stress testing has recently been released (Slides 55).

Section 1 – Commercial Bank Performance

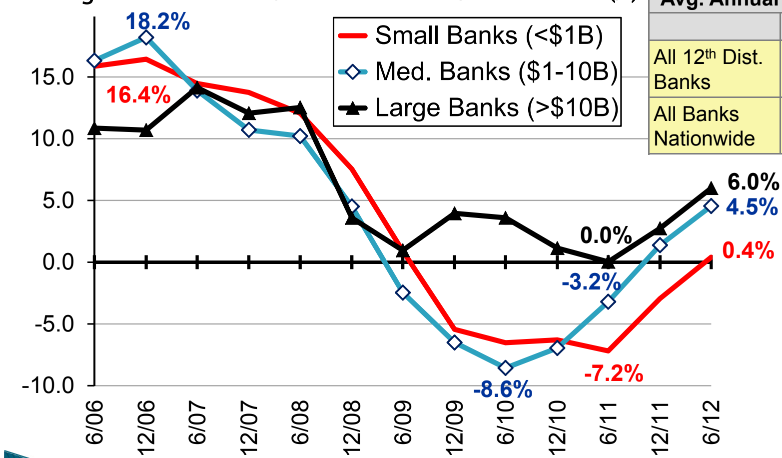
Slides in this section focus on trends among the 417 commercial banks headquartered within the 12th Federal Reserve District.

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

Loan Growth: Positive for Banks of All Sizes!

Avg. Loan Growth 1.3% YoY with Fastest Growth at Large and Mid-Sized Banks

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



Avg. Annual Loan Growth	6/11	6/12
All 12th Dist. Banks	-6.2%	**1.3%**
All Banks Nationwide	-2.5%	**0.8%**

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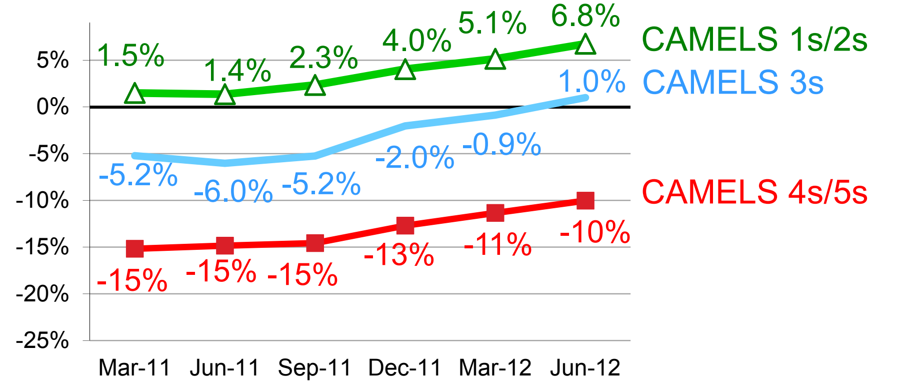
Based on commercial banks, excluding De Novos; trimmed means; preliminary 06/12 data

Banks with CAMELS Ratings of 1, 2 or 3 Grew Loans YoY

CAMELS 4/5 Rated Banks Continue to Decrease Loans Sharply

Loan Growth Rates Year-Over-Year
Averages within CAMELS Rating Groups



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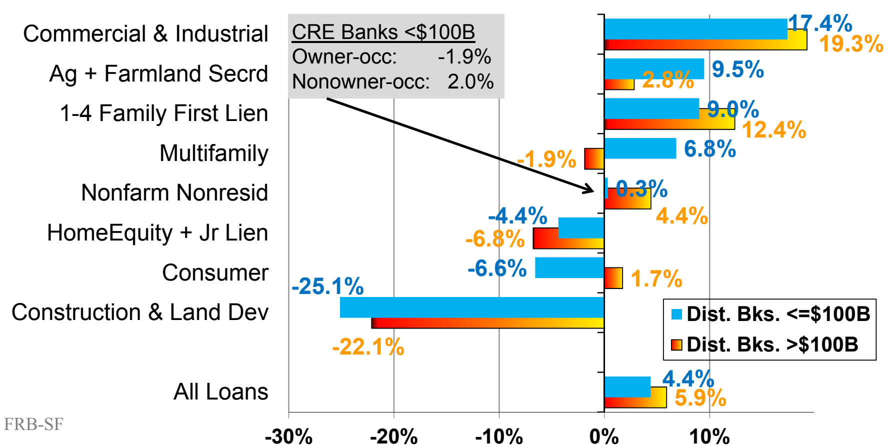
Based on a panel of District commercial banks; excludes banks with significant mergers, loan sales or loan purchases over the period; Averages are trimmed means.

CAMELS: rating system used by banking supervisors

Switching to District Bank Loan Growth in Aggregate: C&I Continues Strong YoY Growth, Followed by Ag and Residential in Banks <$100B

12th District Bank Aggregate Loan Growth Rates – 12 months ending 06/30/12



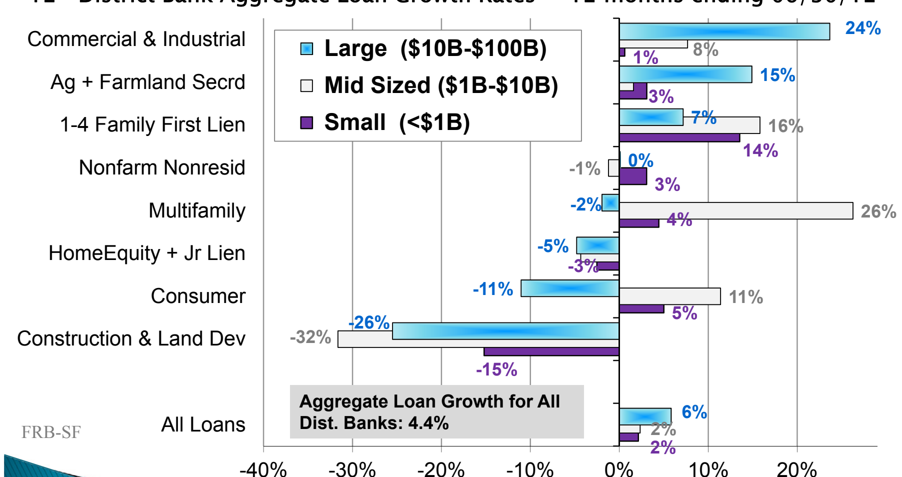
FRB-SF

Based on a panel of District commercial banks; excludes banks with significant mergers, loan sales or loan purchases over the period; prelim 6/12 data

Loan Growth Areas Varied by Bank Size

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

12th District Bank Aggregate Loan Growth Rates – 12 months ending 06/30/12



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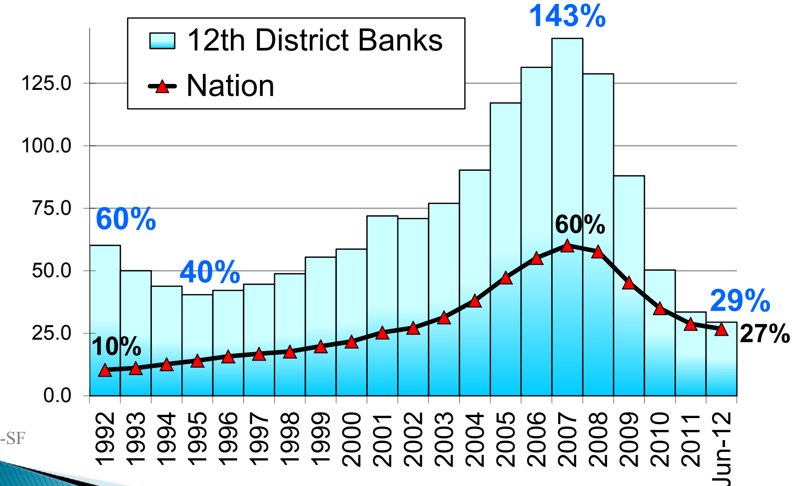
Based on a panel of District commercial banks with assets <$100B; excludes banks with significant mergers, loan sales or loan purchases over the period; prelim 6/12 data

Construction & Development Loans at 20+ Year Low Relative to Bank Capital (12th District Banks on Average)

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



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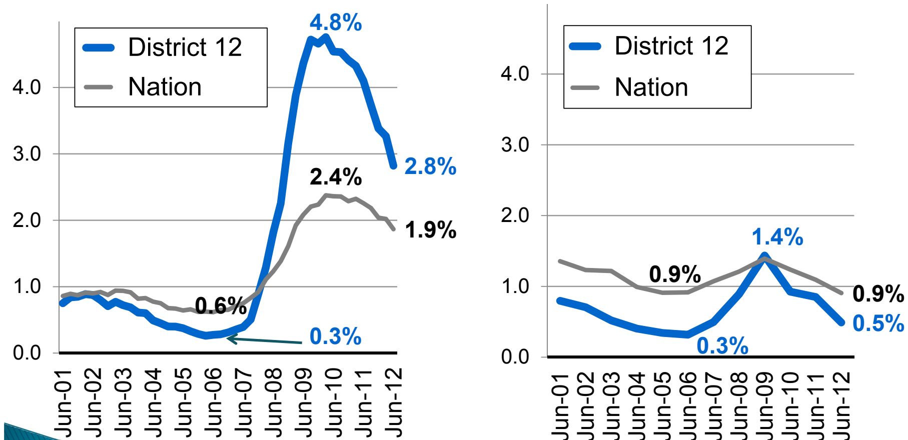
Based on commercial banks, excluding De Novos; trimmed means; preliminary 06/12

Loan Quality: 12th District Bank Noncurrent Loan Rate Descending Faster than the Nation, but It's Still High

30-89 Day Past Due Loan Rate Approaching Lows

Average Noncurrent Loan Rates **Avg. Past Due 30-89 Day Loan Rates**



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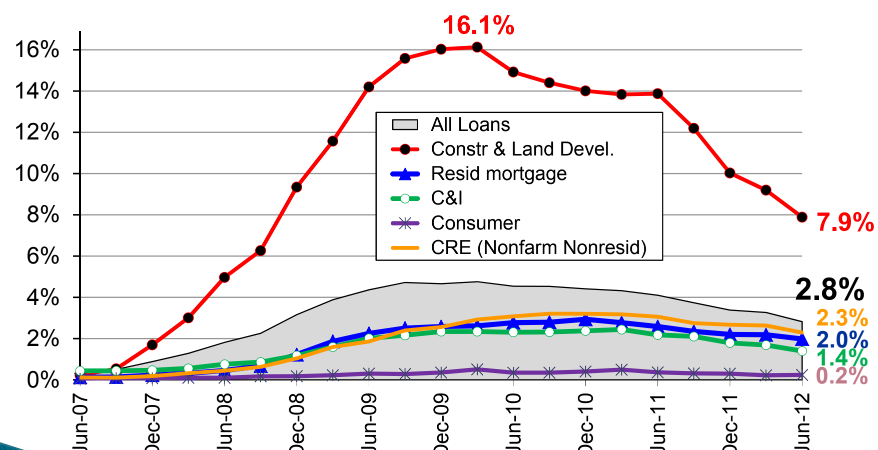
Based on commercial banks, excluding De Novos; trimmed means; Noncurrent = 90 Days past due or on nonaccrual; preliminary 06/12 data

By Loan Type: Noncurrent Rates Trending Down Across Types, Especially in C&LD

12th District Bank Noncurrent Loan Rates (Pct. of loans 90+ days past due or on nonaccrual)



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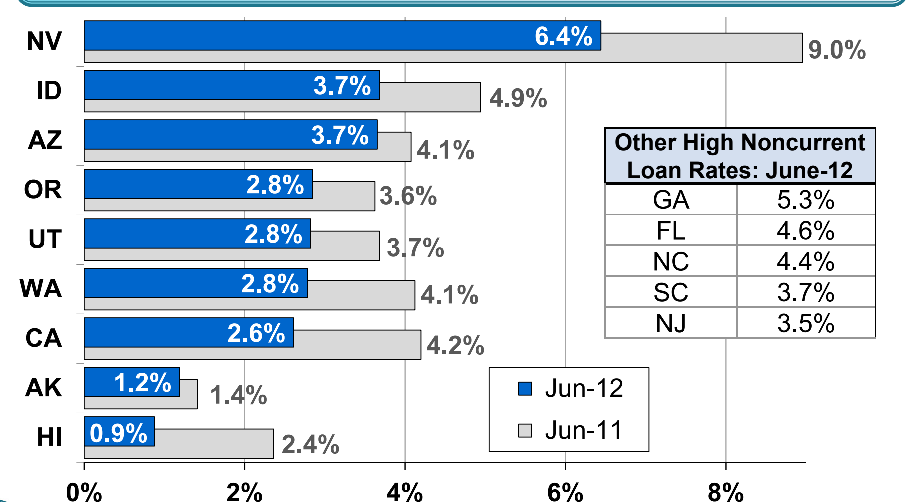
Based on commercial banks excluding De Novos; trimmed means, preliminary 06/12 data

By State: Noncurrent Loan Rates Dropped Broadly, especially in CA, HI, ID, NV and WA



Other High Noncurrent Loan Rates: June-12	
GA	5.3%
FL	4.6%
NC	4.4%
SC	3.7%
NJ	3.5%

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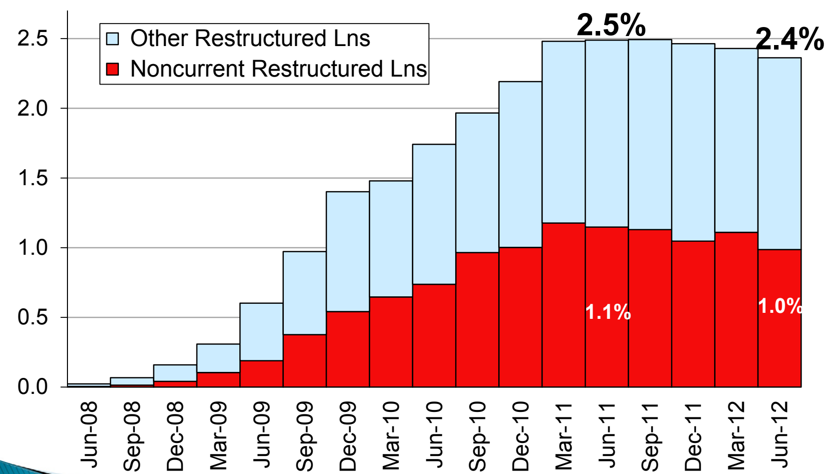
Based on commc'l banks, excl. De Novos; trimmed means; Noncurrent = 90+ days past due or on nonaccrual; preliminary 06/12 data. Industrial bank avg. 6/12 noncurrent rates were 1.9% in CA, 1.4% in NV and 1.3% in UT

Troubled Debt Restructurings Dropped Slightly

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



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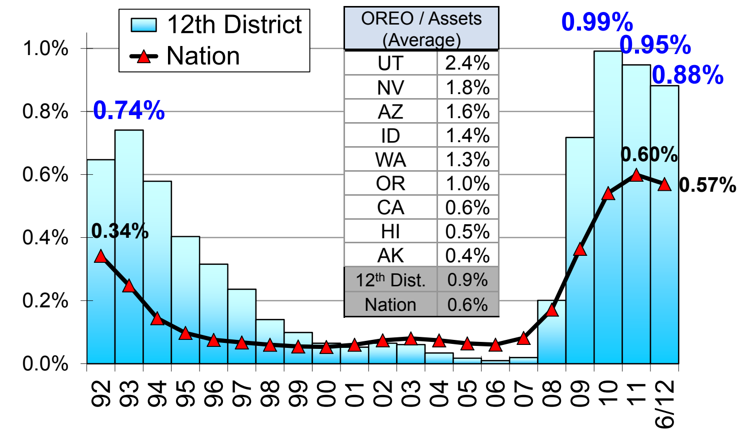
Based on commercial banks, excluding De Novos; trimmed means; Noncurrent = 90 Days past due or on nonaccrual; preliminary 06/12 data

Foreclosed Real Estate Continued to Edge Down as a Percentage of Assets

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



OREO / Assets (Average)	
UT	2.4%
NV	1.8%
AZ	1.6%
ID	1.4%
WA	1.3%
OR	1.0%
CA	0.6%
HI	0.5%
AK	0.4%
12th Dist.	0.9%
Nation	0.6%

Aggregate OREO by Loan Type 6/12 (banks < $100B; % of Total OREO)	
Construction & Land Devel.	46%
CRE: Nonfarm Nonresidential secured	34%
1-4 Family Residential	15%
Multifamily	4%

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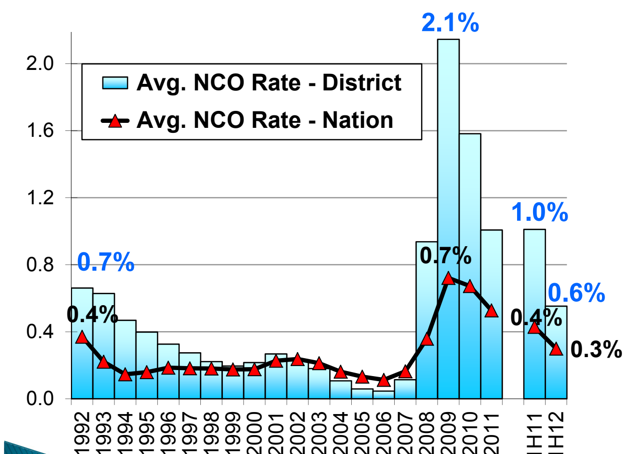
Based on commercial banks excluding De Novos; trimmed means, preliminary 06/12 data

Net Charge-Off Rates are Down Sharply

Average Net Charge-Off Rates (%)



Average NCO rates		
U.S. rank	state	2Q12
1	NV	1.34%
7	WA	0.71%
8	ID	0.69%
10	AZ	0.63%
11	UT	0.61%
18	CA	0.47%
19	OR	0.41%
30	HI	0.28%
48	AK	0.07%
	Dist	0.55%
	Nat	0.30%

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

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

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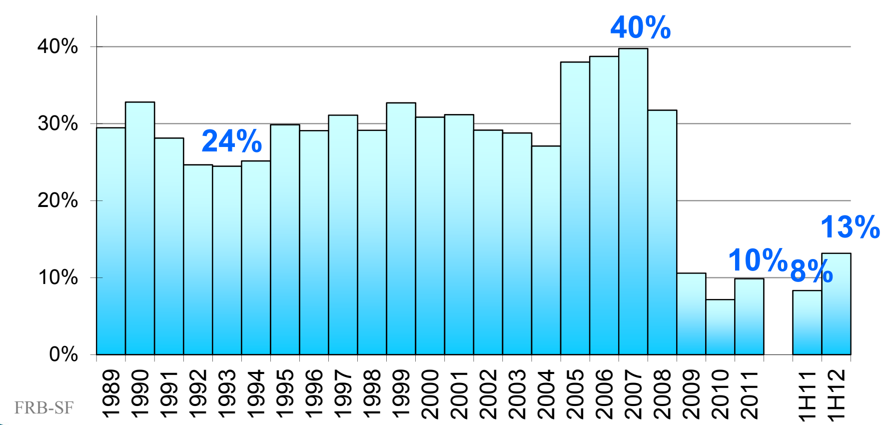
Based on commercial banks excluding De Novos; trimmed means; 06/12 prelim data; 1H NCO Rates are annualized

Recoveries of Prior Year Loan Losses Rose Year-Over-Year but Remained Low

Emergence of A/B split notes with partial write-downs may be reducing recovery rates

Recoveries YTD Annualized / Prior Year Gross Charge-Offs



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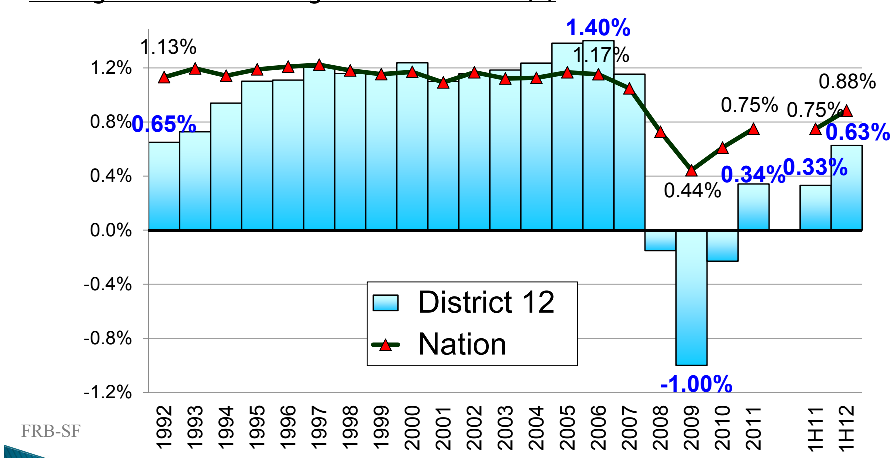
Based on commercial banks excluding De Novos; trimmed means; 1H12 data is preliminary

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

Average Return on Average Assets – annual (%)



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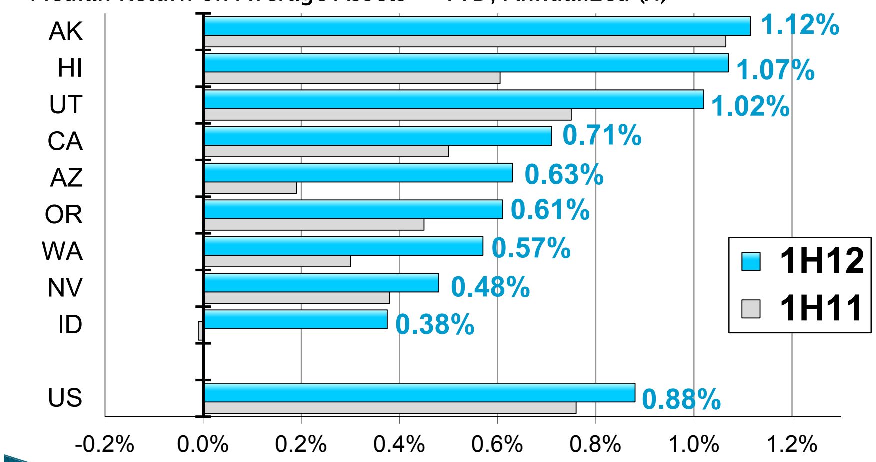
Based on commercial banks, excluding De Novos; trimmed means; 1H ratios are annualized; preliminary 06/12 data

First Quarter Median ROAAs – Every State in the Black

Banks in AZ, HI and ID were Most Improved vs. Last Year

Median Return on Average Assets – YTD; Annualized (%)



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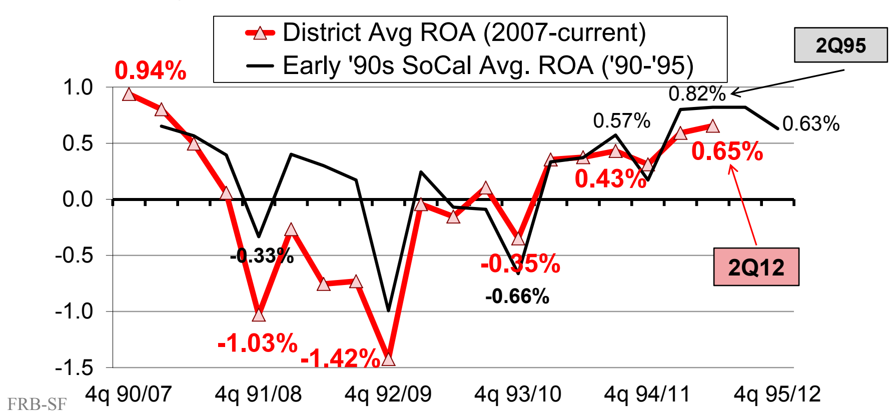
Based on commercial banks, excluding De Novos; medians; 1H ratios annualized; preliminary 1H12 data. Note: Industrial bank med. 1H12 ROAs were 5.9% in NV, 4.1% in UT and 1.8% in CA.

District Average ROAA Continued to Follow the 1990s SoCal Cyclical Trend

1-Qtr Average ROA (Annualized %)



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The SoCal bank avg. ROA from 4q1991 is mapped against the District bank avg. ROA of 4Q2008; 1Q1992 is mapped against 1Q2009, etc. During down cycles, ROA tends to be cyclical, with the strongest performance in 1st quarters and weakest in 4th quarters.

Based on commercial banks, excluding De Novos; trimmed means; quarterly ratios are annualized; preliminary 2Q12 data

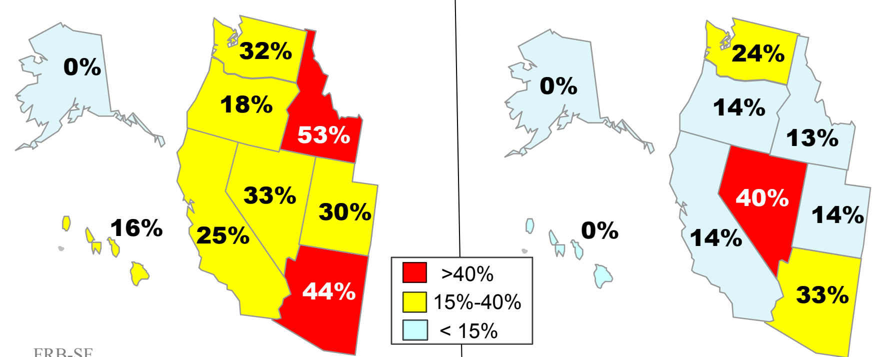
Percentage of District Banks Losing Money Fell from Last Year – 82% Profitable in 1H12

Percentage of Commercial Banks Reporting Net Losses in 1H11

1H11: 12th District: 28%

Percentage of Commercial Banks Reporting Net Losses in 1H12

1H12: 12th District: 18%



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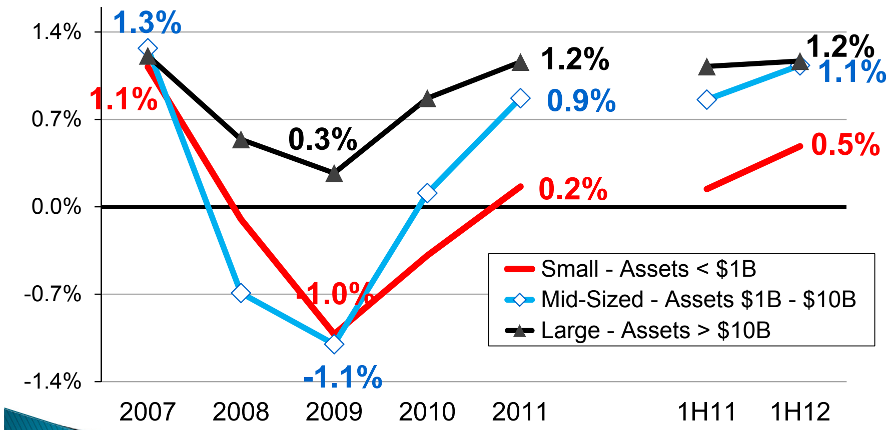
Preliminary 6/30/12 data for all commercial banks, excluding De Novos

Note: NV's apparent worsening was mainly due to a few de novo banks excluded in 1H11 being included in the 1H12 numbers

Small Banks Narrowed Earnings Gap 1H12;
Large Banks Failed to Make Further Profitability Advances

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



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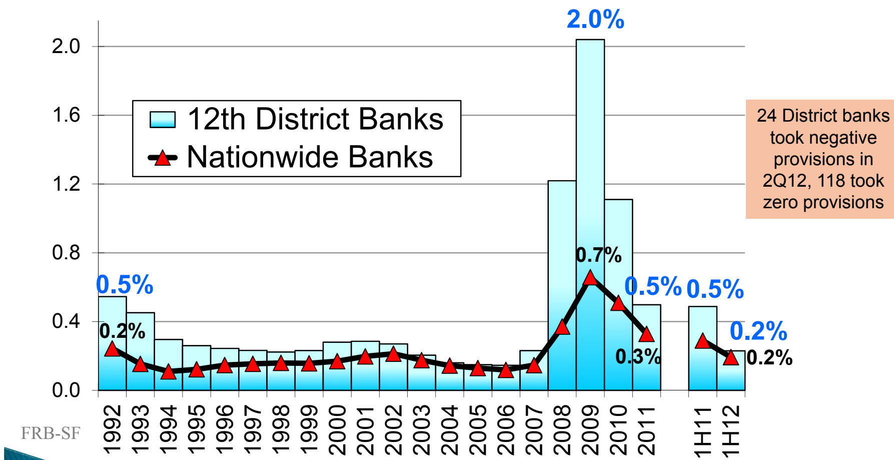
Based on commercial banks, excluding De Novos; trimmed means; 1H ratios are annualized; preliminary 1H12 data

Loss Provisions Continued to Fall, Driving ROA Improvement
Banks Confident in Credit Quality Trends as Net Charge-Offs Outpace Provisions

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



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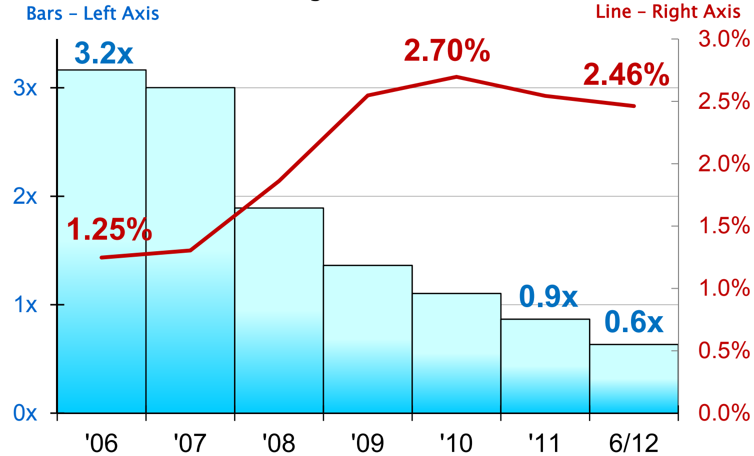
Based on commercial banks, excluding De Novos; trimmed means; 1H ratios are annualized; preliminary 1H12 data

Loss Provisions Stopped Covering Net Charge-offs, on Average, in 2011
However, ALLL Levels Remain Relatively High as a Percentage of Loans

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

ALLL / Loans (%) — Line – Right Axis



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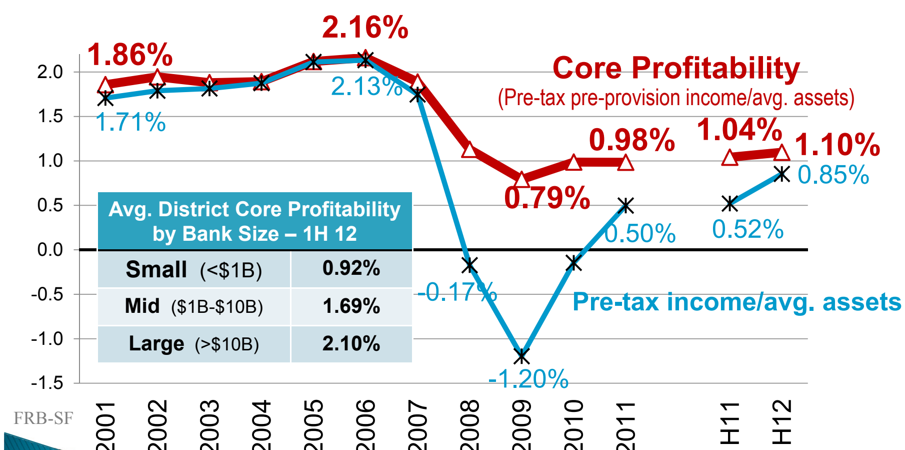
ALLL: Allowance for Loans and Lease Losses; Based on commercial banks, excluding De Novos; trimmed means; preliminary 1H12 data

Core Profitability (pre-provision) Edged Higher
But Still Well Below Historic Averages

12th District Bank Profitability Ratios – (%)



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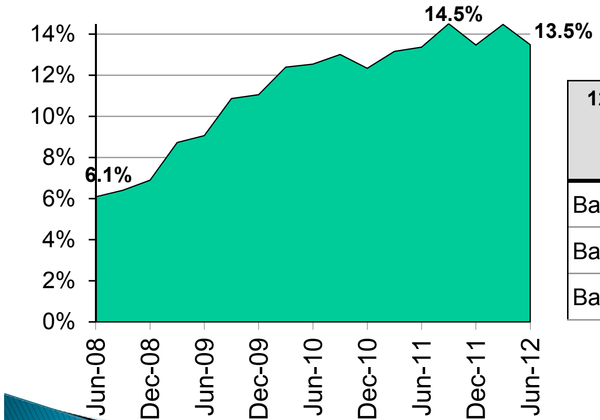
Based on commercial banks, excluding De Novos; trimmed means; 1H ratios are annualized; preliminary 1H12 data

Cash & Equivalents Remained at High Levels, Constraining Net Interest Margin Growth Potential

Demand for Loans Improving, but Still Relatively Weak

C&E defined as: Cash and Due from Balances + Fed Fund Sold + Securities Sold Under Repurchase Agreements / Total Assets; District Bank Average



12th District Bank Avg. Cash & Equivalents / Assets		
Bank Group	03/08	06/12
Banks < $1B	7.4%	15.4%
Banks $1B-$10B	3.0%	6.2%
Banks > $10B	3.9%	7.1%

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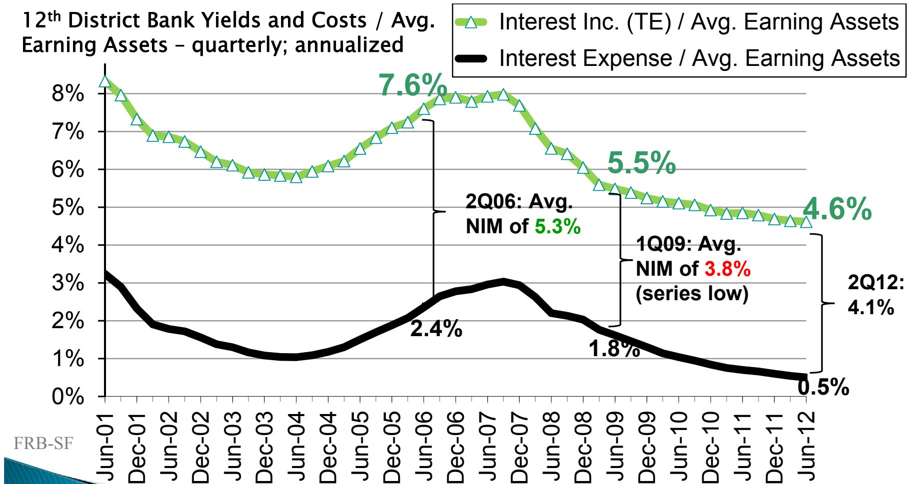
Based on commercial banks excluding De Novos; trimmed means, preliminary 06/12 data

Earning Asset Yields and Interest Costs at Extremely Low Levels

Net Interest Margins Remain Near their 2009 Low and Flat YTD in 2012



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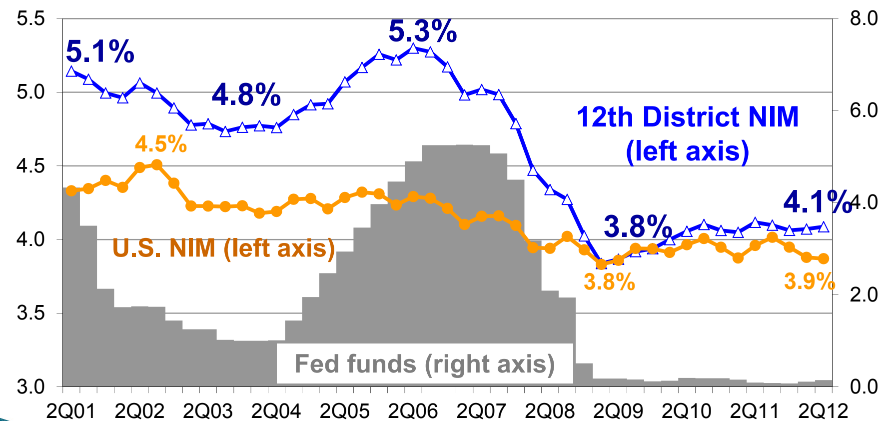
Based on commercial banks excluding De Novos; trimmed means; ratios are quarterly and annualized; preliminary 2Q12 data

District Bank Net Interest Margins Remained Depressed

National Average NIM Nears Recent Year Low

Net interest income (tax equiv) / **average earning assets (NIM)** (quarterly NIMs annualized %)

Effective Fed funds rate (quarterly average annualized %)



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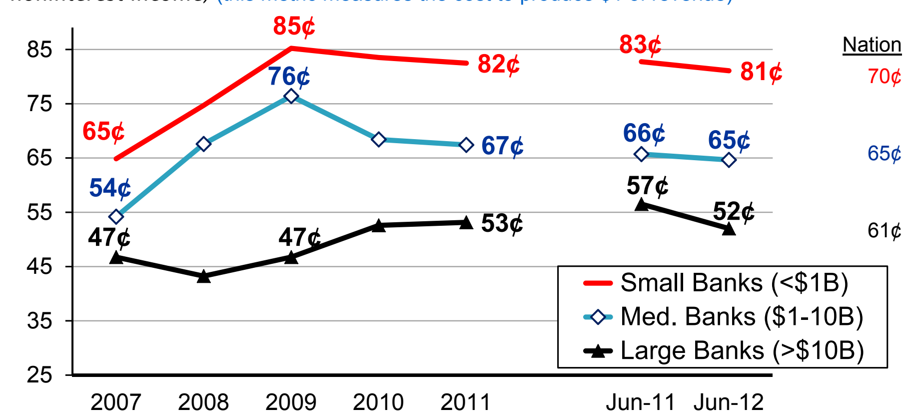
Based on commercial banks excluding De Novos; trimmed means; quarterly ratios are annualized; prelim 2Q12 data. Effective Fed funds rates from FRB-St Louis.

Average Bank Efficiency Measures Improved, but Remained Inflated, Especially at Smaller Banks

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



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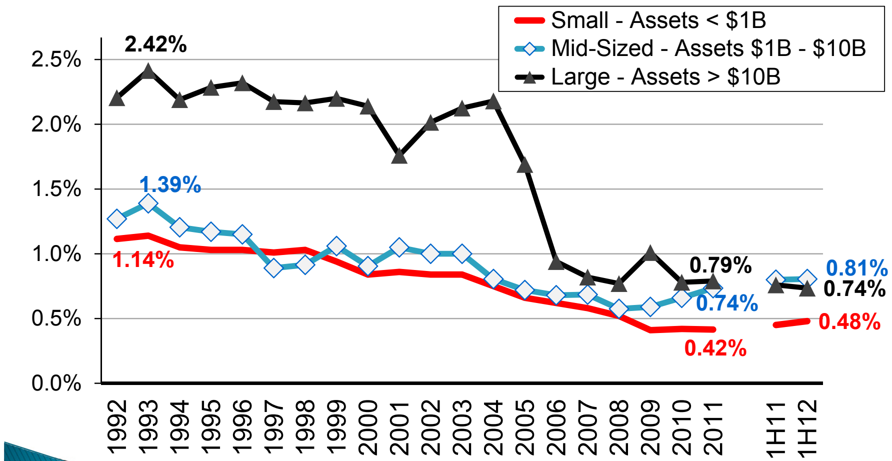
Based on commercial banks excluding De Novos; trimmed means; preliminary 06/12 data

Noninterest Income has been Difficult to Grow

Small Banks Have Fewer Fee-Generating Options than Larger Banks

Median Noninterest Income/Avg. Assets



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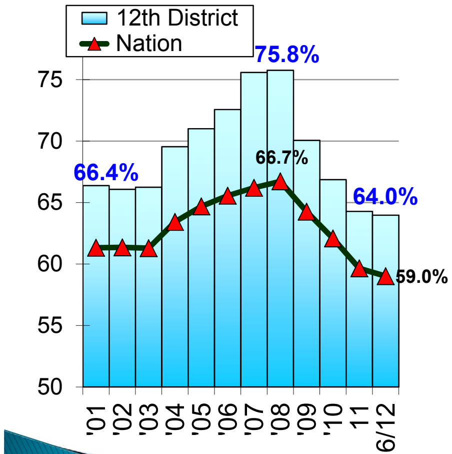
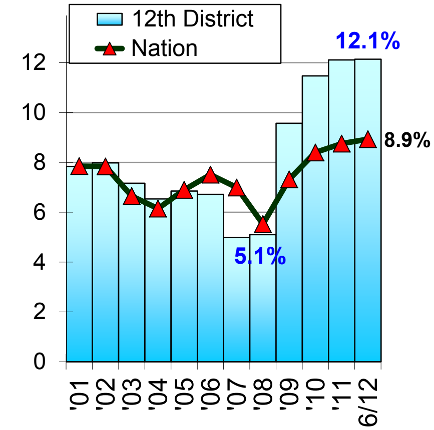
Based on commercial banks, excluding De Novos; trimmed means; 1H ratios are annualized; preliminary 1H12 data

Liquidity: Balance Sheet Liquidity Ratios Flat YTD

Loans/Assets (adj. average %)



Short-Term Investments/Assets (average %)

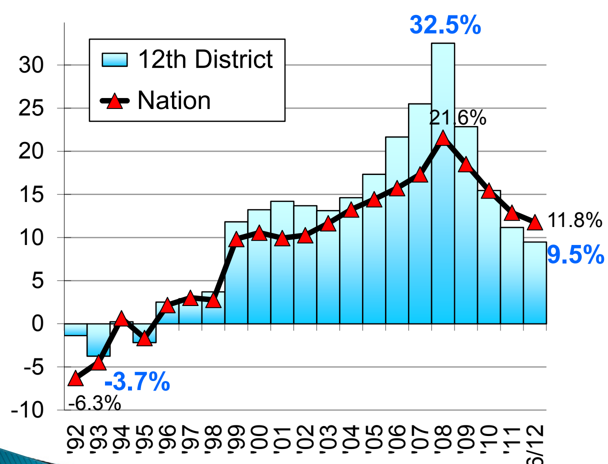


FRB-SF

Based on commercial banks, excluding De Novos; trimmed means; preliminary 06/12 data

Average District Bank Reliance on Noncore Funding Sources Fell to Lower than National Average

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, large CDs, 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)

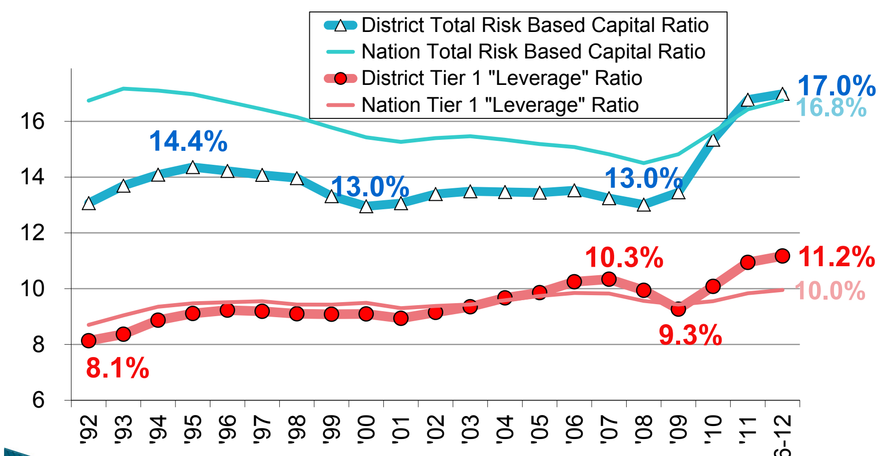
FRB-SF

Based on commercial banks, excluding De Novos; trimmed means; preliminary 06/12 data

District Bank Capital Ratios Rose Further

Slow Loan Growth & Modest Earnings Provided Capital Ratio Boosts

12th District bank average capital ratios (%)

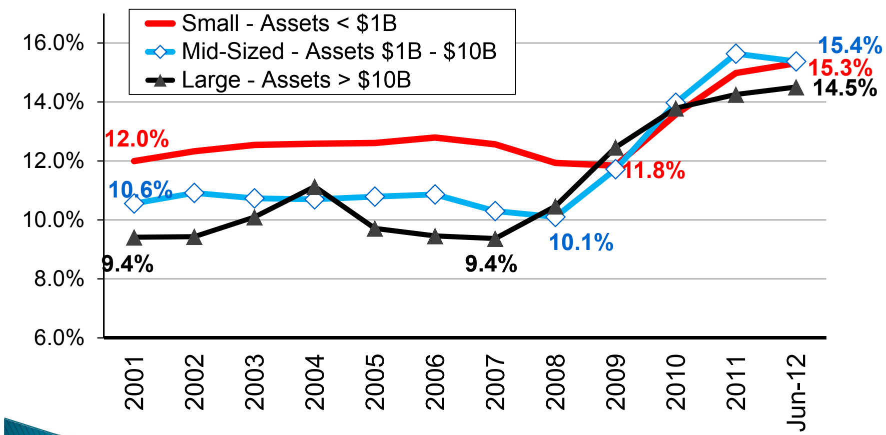


FRB-SF

Based on commercial banks, excluding De Novos; trimmed means; preliminary 06/12 data

Tier 1 Common Equity Ratios Also Up Sharply in Recent Years, for Banks of All Sizes

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

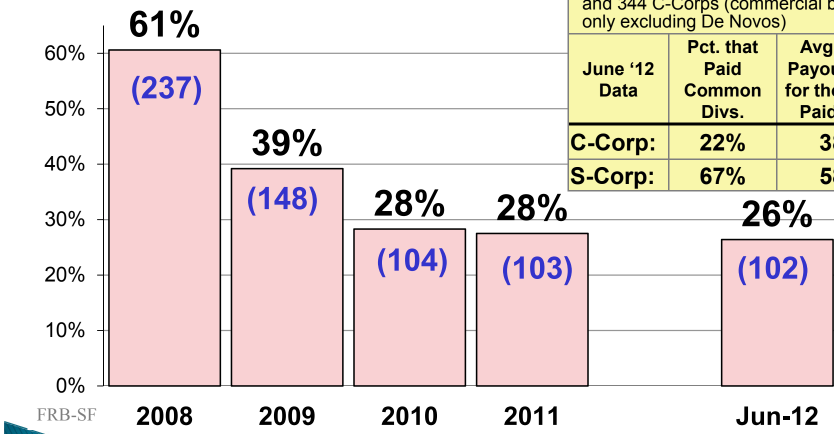


FRB-SF

Based on commercial banks, excluding De Novos; trimmed means; preliminary 6/12 data

Percentage of District Banks Paying Common Dividends Remained Low

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



S-Corps vs. C-Corps

At 6/12, there were 42 District S-Corps and 344 C-Corps (commercial banks only excluding De Novos)

June '12 Data	Pct. that Paid Common Divs.	Avg. Total Payout Ratio for those that Paid Divs.
C-Corp:	22%	38%
S-Corp:	67%	58%

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Based on commercial banks, excluding De Novos; averages are trimmed means; preliminary 6/12 data

Capital Ratios Establish Minimum Thresholds, but Examiners Consider Other Factors

Percentage of District Commercial Banks "Well Capitalized" under PCA framework*			
6/09	6/10	6/11	6/12
91%	**89%**	**93%**	**95%**

Well Capitalized: Main ratio criteria is the Total Risk Based Capital Ratio >= 10%

- The "Well Capitalized" PCA designation* does not imply "strong" capital
- Capital must be sufficient to absorb unanticipated losses and declines in asset values; examiners consider factors** such as:
  - the level and severity of problem assets
  - interest rate exposure; liquidity, funding and market risks
  - the quality and level of earnings
  - concentrations of credit
  - risks from nontraditional activities
  - effectiveness of loan and investment policies, and management's ability to monitor and control financial and operating risks
- The evaluation of capital's adequacy has increasingly been a forward-looking exercise, often making use of stress/scenario models at large banks
  - Joint Agency Press Release 5/14/12 - Community banks are not required or expected to conduct the types of stress testing required of larger organizations. See slide 55.

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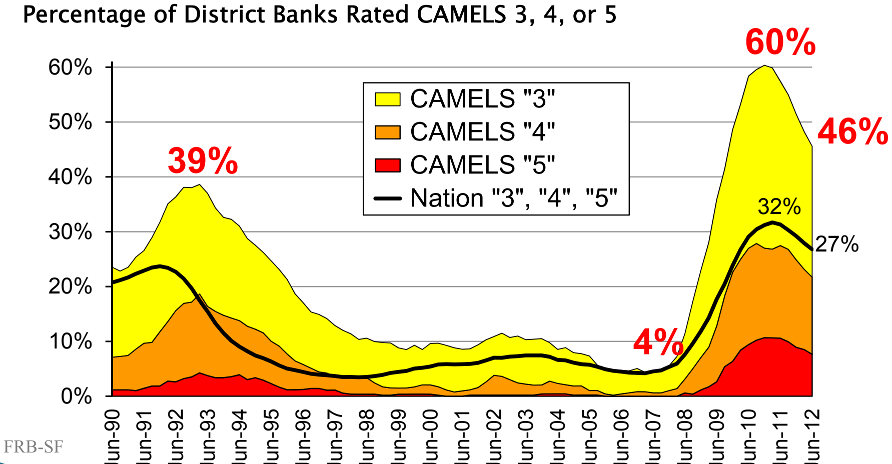
* Capital categories based on Prompt Corrective Action framework, using Call report data. ** From Commercial Bank Examination Manual, Section 3020.1, Federal Reserve System

Regulatory Ratings: Pct. of 12th District Banks Rated CAMELS 3, 4 or 5 Has Dropped for Seven Quarters

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



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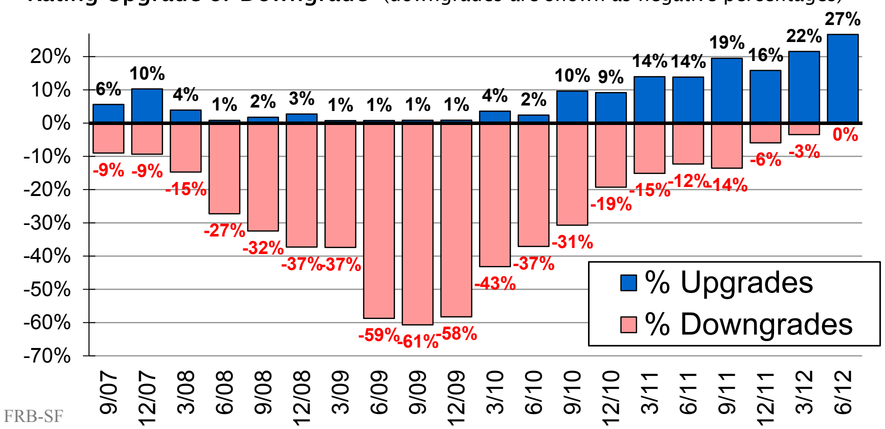
Trends for all commercial banks based on examination completion dates (mail dates); preliminary 06/12 figures; updated 08/08/12

CAMELS Upgrades Continued

Preliminary Data Shows No Downgrades in 2Q12

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



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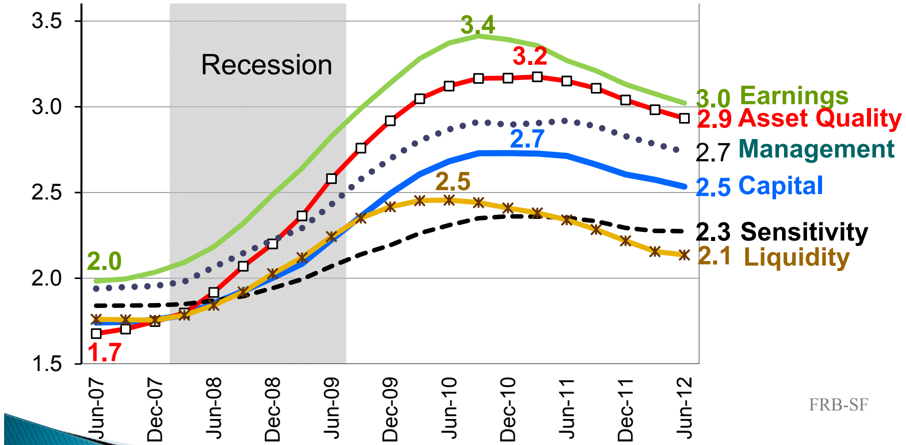
Includes any change in composite CAMELS rating for commercial banks; quarterly trends based on examination completion dates (mail dates); preliminary 06/12 figures; updated 08/08/12

CAMELS Rating Components all Improving: *e.g.,*

Avg. Asset Quality rating climbed from 1.7 to 3.2 before improving to 2.9

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



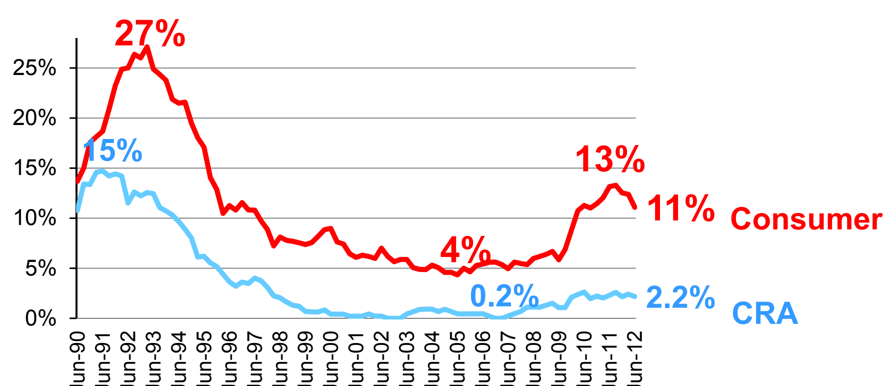
FRB-SF

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

Percentage of Banks with Less-than-Satisfactory Consumer or CRA Ratings Remained Relatively High

Priority to Address Financial Health May Have Lessened Focus on Important Consumer Compliance or CRA issues

Percentage of District Banks with Less than Satisfactory Ratings



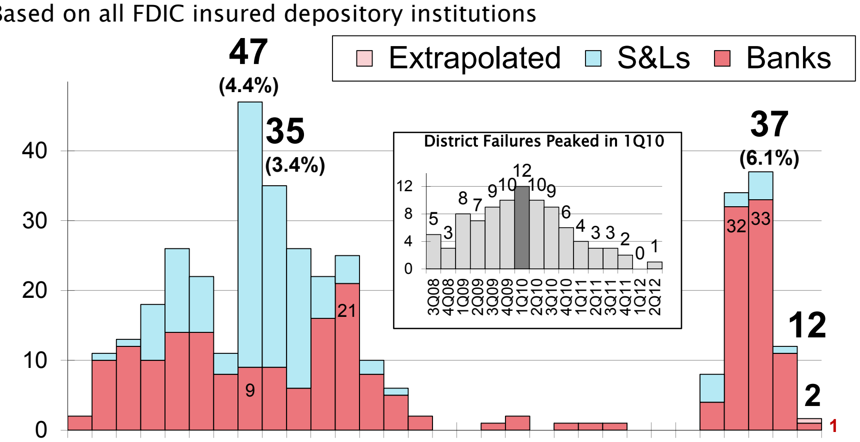
FRB-SF

Trends for all commercial banks based on examination completion dates (mail dates); CRA = Community Reinvestment Act; updated 08/08/12

Only 1 Failure So Far in 2012 – On Pace for Lowest Total Since Zero in 2007

Number of 12th District Failures

Based on all FDIC insured depository institutions



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Sources FDIC; FRBSF; updated 08/10/2012

Section 2 – Savings Institution and Industrial Bank Performance

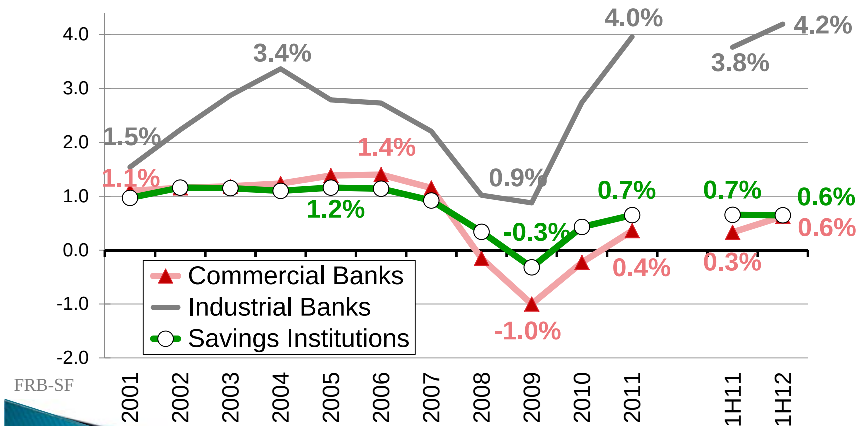
Slides in this section focus on trends among the 49 savings institutions and 32 industrial banks headquartered within the 12th Federal Reserve District.

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 3/31/2012, all savings institutions file the bank Call report.

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

Industrial Banks Typically Conduct Nationwide Consumer or C&I Lending from one Office, Enabling Strong Loan Yields and Efficiency Ratios

District Return on Average Assets –Averages (%)



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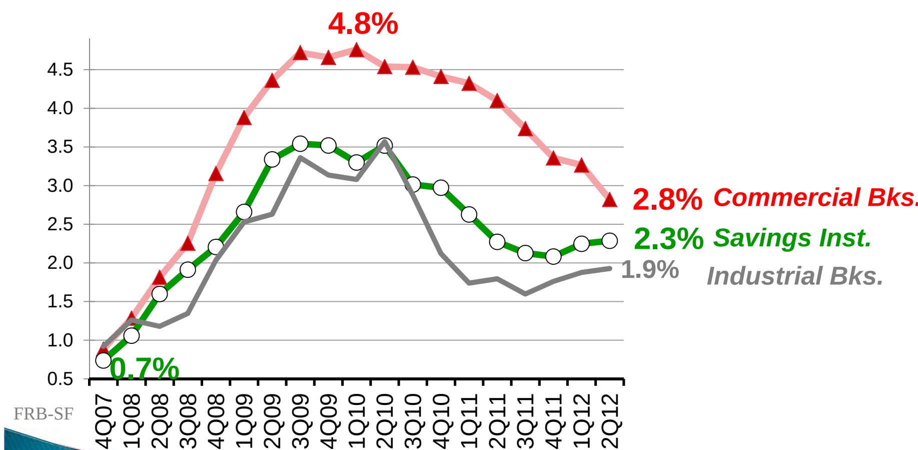
Based on District commercial banks, savings institution and industrial banks; excluding De Novos; trimmed means; 1H ratios are annualized

Loan Quality: District Industrial & Savings Institution Noncurrent Ratios on the Rise but Below Commercial Banks on Average

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

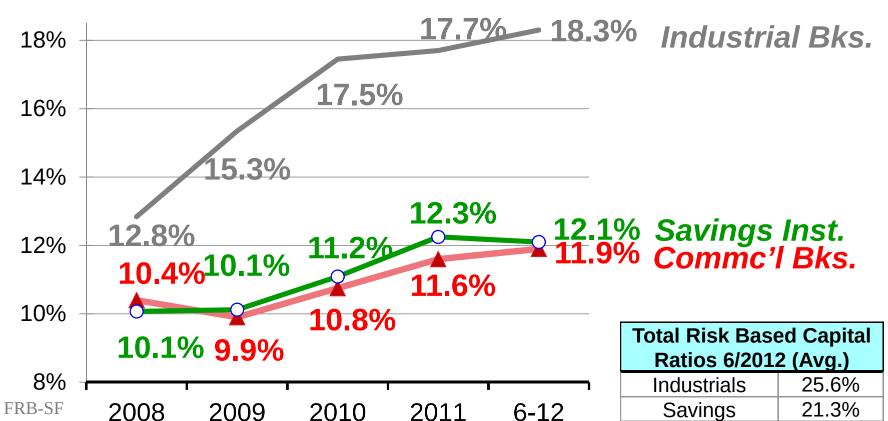


FRB-SF

Based on District commercial banks, savings institutions and industrial banks; excluding De Novos; trimmed means

Equity/Assets Ratio Trending Up for All Institution Types – Highest for Industrial Banks

Average 12th District Institution Equity/Assets Ratios



Total Risk Based Capital Ratios 6/2012 (Avg.)	
Industrials	25.6%
Savings	21.3%
Commercial	17.0%

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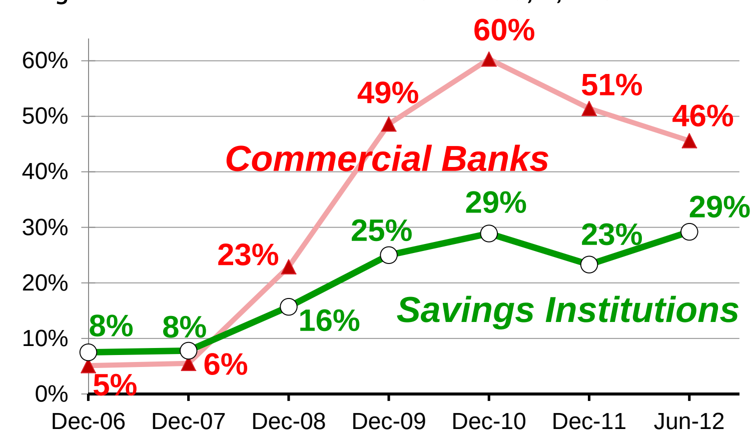
Based on District banks and savings institutions; excluding De Novos; trimmed means

Percent Savings Institutions Rated CAMELS 3, 4 or 5 Up Moderately in 1H12

Still Significantly Lower than Commercial Banks

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



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Note: less than 15% of industrial banks currently are rated 3, 4, or 5

Section 3 – Supervisory 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

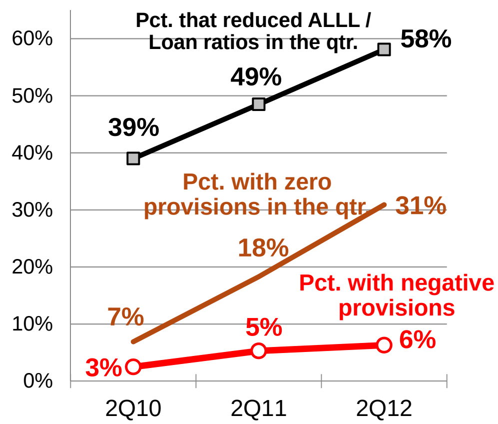
Bank Supervisors' Hot Topic: Banks Reducing ALLL
37% of Banks Reported Zero or Negative Loss Provisions

- ✓ Rising portion of banks did not add to their ALLL (negative provisions for 24 banks, zero provisions for 118 banks)
- ✓ Well over half reduced their ALLL/Loan coverage ratios
- ✓ A positive sign of improving credit quality
- ✓ Provisions not covering current net charge offs (.6x) can't be sustained over the long run.

However:

- ✓ *Examiners expect well-documented justification for such decisions*
- ✓ *ALLL levels should be directionally consistent with asset quality trends; also considered: risk appetite and loan growth*

Percentage of District Commercial Banks



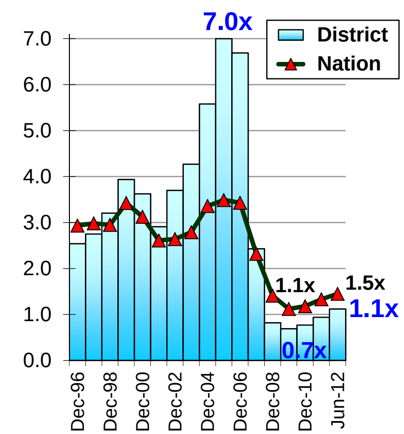
ALLL = Allowance for Loan and Lease Losses
Based on all District commercial banks excluding De Novos. Prelim 2Q12 data

Bank Supervisors' Hot Topic: ALLL
Coverage of Noncurrent Loans Relatively Low (but Improving)

- ✓ The District avg. ALLL / Loan ratio remained high at 2.5%, but coverage of noncurrent loans remained relatively low by historical standards (1.12x)

(If nonaccrual loans are supported by collateral values that are based on current, reliable appraisals, a relatively lower ALLL coverage of nonaccrual loans may be appropriate.)

Allowance for Loan and Lease Loss (ALLL) coverage of noncurrent loans (x)



ALLL/Noncurrent Loans: State Avg. June 2012	
ID	0.7x
OR	0.9x
AZ	1.0x
WA	1.0x
NV	1.1x
UT	1.2x
CA	1.3x
AK	1.4x
HI	2.8x

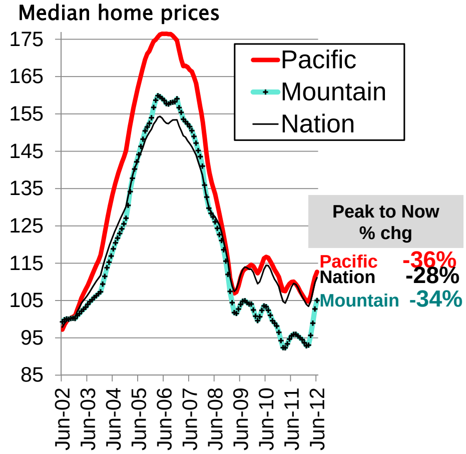
Lowest state is NC: 0.6x; highest is ND: 4.7x

Based on all commercial banks excluding De Novos; trimmed means, preliminary 06/12 data

Bank Supervisors' Hot Topic
Weak Housing Market and Impact

- ✓ Home prices have been moving higher propelled by years of pent up demand and currently low supply in many areas
- ✓ Price gains in hard hit western markets (Phoenix, Oakland, Boise) lead the nation
- ✓ However, the housing sector is still weak and it will likely be years before prices return to previous peak levels
- ✓ Main concerns for western banks
  - District states have some of the highest percentages of negative equity mortgages
  - Recent weakening in parts of the broader economy may spill over into housing
  - Consumer confidence may remain weak until home prices show sustained support and increases.

Median home prices

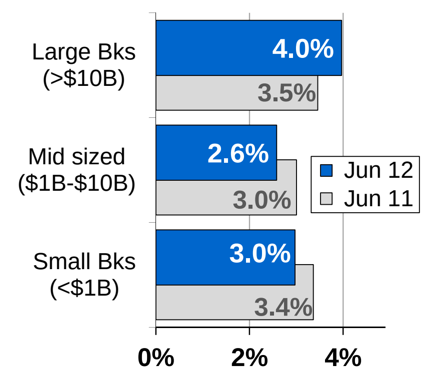


Source: CoreLogic Home Price Index, indexed to 100 at 9/02; Mountain: AZ, ID, MT, NM, NV, UT, WY; Pacific: AK, CA, HI, OR, WA.

Bank Supervisors' Hot Topic
HELOCs and Other Junior Lien Mortgages

- ✓ 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 probable 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; preliminary 06/12 data

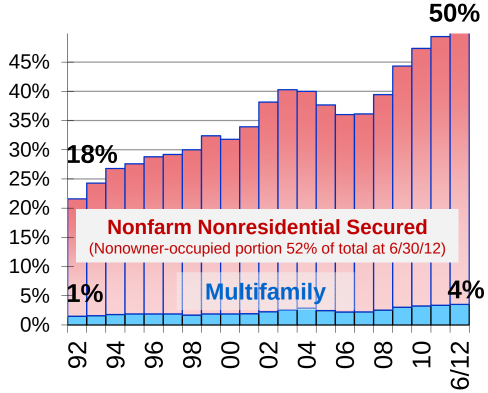
Bank Supervisors' Hot Topic
CRE Income Property Loan Quality & Vulnerability

While examiners are finding most CRE loans at banks to be performing and to be collateralized adequately….

- ✓ Bank vulnerability to CRE income property loans is high – CRE accounts for half of total loans on average
- ✓ National core sector property values are down 36%*, and many borrowers are left with little or no equity
- ✓ A large volume of loans are maturing soon, and cash flows on many properties have weakened from high vacancies and reduced rents
- ✓ More loan extensions and TDRs are likely; there is a risk of another surge in net charge-off rates, compounded if interest rates rise

* Based on Moody's Commercial Price Property Index for core sectors (office, retail, industrial) in non-major markets, as of 5/12

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

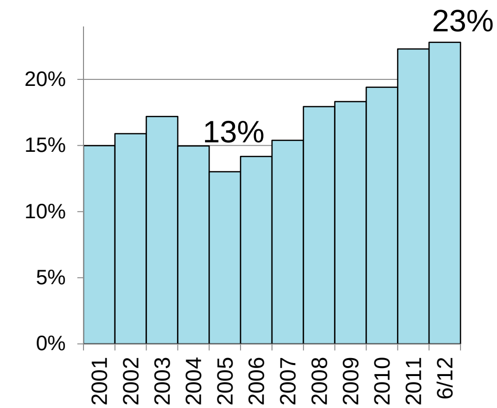


Based on all 12th District commercial banks; trimmed means, preliminary 06/12 data; NFNR = Nonfarm Nonresidential secured loans

Bank Supervisors' Hot Topic
Lengthening Asset Maturities Seeking Yield – Potential Interest Rate Risk

- ✓ District banks extended the maturities on assets as short-term interest rates declined
- ✓ With an extended low-rate environment and low loan demand, it is difficult to find assets with good yields
- ✓ Many banks have large cash balances
- ✓ Temptation to reach out on the yield curve to get yield pickup, potentially creating vulnerability to rising interest rates
- ✓ Rising rates also would have a negative cash flow impact on many borrowers

Loans and Securities Maturing or Repricing in Five Years or More / Assets – District banks under $1B

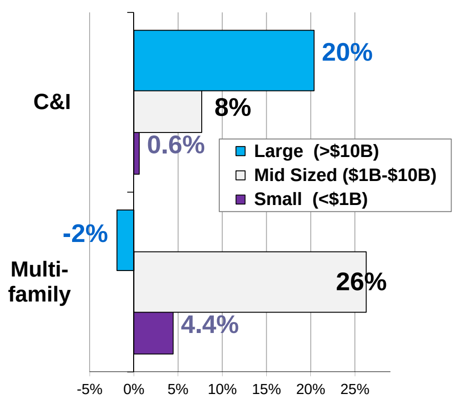


Based on aggregate data for 12th District banks with assets < $1 billion; includes commercial and industrial banks; 6/12 data is preliminary

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

- ✓ More banks are targeting growth to C&I and other areas like multifamily
- ✓ Reports of stiff competition in these areas to extend credit to well-qualified businesses, causing downward pressure on loan rates and fees; potential for relaxation of credit standards
- ✓ Over one-third of District banks increased C&I loans by at least 10% in the past year, and over one-tenth of banks grew C&I by more than 40%
- ✓ Banks should review credit risk management controls, such as, underwriting policies, ALLL, staff expertise, underwriting exceptions, loan covenant compliance, concentration limits and collateral audits.
- ✓ Banks making significant portfolio composition shifts should understand how their risk profile has changed and make sure it is understood by management and the board of directors

12th District Bank Aggregate Loan Growth Rates – 12 months ending 6/12



Based on a panel of District commercial banks; excludes banks with significant mergers, loan sales or loan purchases over the period

Bank Supervisors' Hot Topic
Capital Planning / Stress Testing Expectations

- ✓ Greater attention is being given by bank supervisors and financial markets to scenario analysis/stress testing at large banks, particularly in connection with capital planning.
- ✓ Recently announced Notices of Proposed Rulemakings (NPR's) on new regulatory rules for risk based capital, tier 1 capital, leverage ratios, and risk weighted assets will ultimately require bank management to align these new rules within their existing Capital Plans and Business Strategies.

Recently Issued Guidance & Proposals

- ✓ SR 12-7 - "Supervisory Guidance on Stress Testing for Banking Organizations with More Than $10 Billion in Total Consolidated Assets", 5/14/12 http://www.frbsf.org/banking/letters/2012/0516-Agencies-Finalize-Large-Bank-Stress-Testing-Guidance.cfm
- ✓ Joint Press Release - "Agencies Clarify Supervisory Expectations for Stress Testing by Community Banks", 5/14/12 http://www.frbsf.org/banking/letters/2012/0516-Agencies-Clarify-Supervisory-Expectations-for-Stress-Testing-by-Community-Banks.cfm
- ✓ Notices of Proposed Rule (NPR) Makings - Revise and replace current Regulatory Capital Rules to align with Basel III, and Dodd-Frank Act requirements, 6/12/12 http://www.frbsf.org/banking/letters/2012/0614-Three-Proposed-Rules-Intended-to-Help-Ensure-Banks-Maintain-Strong-Capital-Positions.cfm
  - ✓ NPR comment deadline was recently extended to October 22, 2012.

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 (% annualized)

	All Banks			Small Bks (<$1 Billion)	
	1H 2011	1H 2012		1H 2011	1H 2012
Construction & Land Development	2.28	1.26		2.90	1.74
Residential Construction	2.47	0.61		2.91	1.62
Other C&LD	2.23	1.42		2.90	1.78
CRE - Nonfarm Nonresidential Loans	0.71	0.35		0.73	0.51
Owner-Occupied	0.76	0.42		0.50	0.42
Nonowner-Occupied	0.67	0.30		0.94	0.60
Residential Closed-End Loans	1.28	1.01		1.27	0.97
Home Equity Loans	2.65	2.12		1.30	0.60
Multifamily Loans	0.44	0.12		0.81	0.32
Commercial & Industrial Loans	0.76	0.49		1.83	0.75
Agricultural Loans	0.61	0.79		0.31	(0.07)
Credit Card Loans	6.21	4.38		3.16	1.92
Installment Loans	1.07	0.81		1.95	0.69
Total Loans	1.26	0.87		1.23	0.70

All District 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)
Alaska	4 (0)	-	2 (0)
Arizona	30 (3)	-	1 (0)
California	223 (20)	8 (1)	18 (2)
Guam	2 (0)	-	-
Hawaii	6 (0)	1 (0)	2 (0)
Idaho	15 (1)	-	1 (0)
Nevada	18 (3)	4 (0)	2 (0)
Oregon	31 (2)	-	3 (1)
Utah	31(2)	19 (0)	4 (0)
Washington	57 (2)	-	14 (0)
District 12	417 (33)	32 (1)	47 (3)
Nation	6,159(187)	34 (1)	1,046 (16)

Based on preliminary 06/12 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.