First Glance 12L (3Q12)

The Banking Recovery Moved Forward

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

(the 12th Federal Reserve District)

Based on Preliminary 3Q2012 Call & Income Report Data

November 21, 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.

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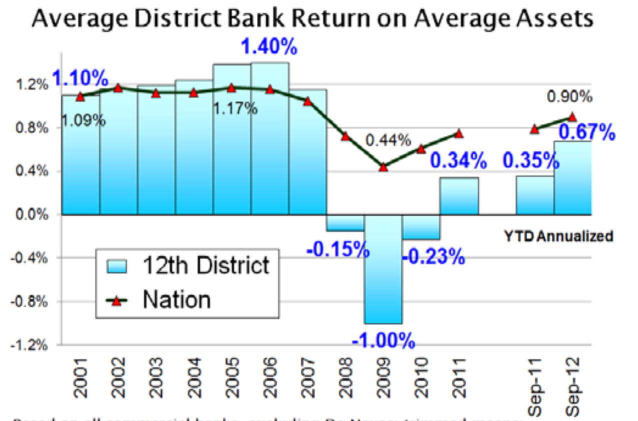
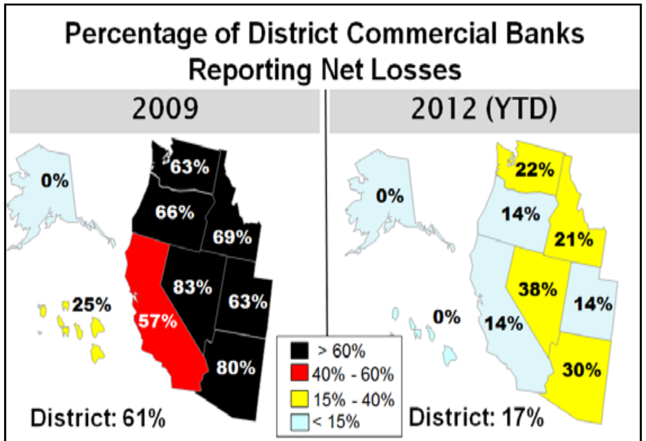


Based on all commercial banks, excluding De Novos; trimmed means; September ratios are YTD annualized; preliminary 9/30/12 data

- **<u>Profits – Improved, but Further to Go:</u>** The average District bank ROAA climbed to an annualized 0.67% in the first nine months of 2012, nearly double the year-ago ratio (at right and Slide 7). Reduced credit loss provisions, which covered only 0.8x of net charge-offs, provided the major earnings boost (Slides 11-12). Core earnings (pre-tax pre-provision) ticked up 9bp over the past year to 1.11% on average, as net interest margins were held above 4% and efficiency ratios improved slightly (Slides 13, 15-17). Compared to the bottom of the recession (2009) when over 60% of District banks reported operating losses in six of nine District states, only 17% of banks reported operating losses thus far in 2012 (at right and Slide 9). Looking forward, a challenging interest rate environment, modest loan demand, intense competition for borrowers, and overhead pressures will present headwinds against further profitability gains.



Preliminary 9/30/12 data for all commercial banks, excluding De Novos

- **<u>Loan Quality – Getting Better:</u>** The 12th District average noncurrent loan rate dropped further to 2.6%, well down from the 4.8% peak in early 2010 (Slide 20). The credit quality improvement has been broad-based across District states; however, only two states, Alaska and Hawaii, have average noncurrent rates below the national average of 1.8%. The highest rates of noncurrent loans remain in Nevada, Arizona, and Idaho, although significant improvement is evident in those states as well (Slide 22). The average District net charge-off rate of 0.5% (annualized) was half the rate from a year ago and on pace for its lowest level in five years (Slide 25).

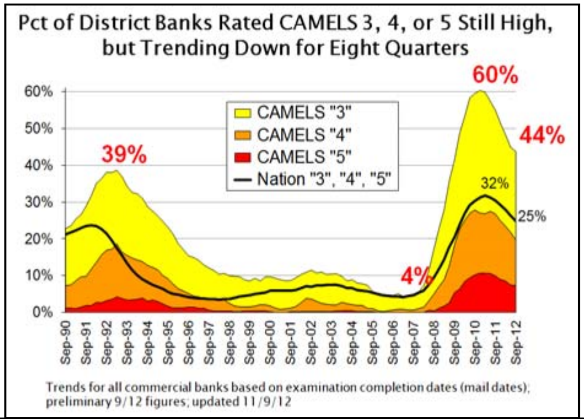
- **<u>Modest Loan Growth:</u>** Year-over-year loan growth for District banks on average climbed to 2.8%, led by gains at large and mid-sized banks (Slide 27). CAMELS “1” and “2” rated banks reported an annual loan growth of 8% on average (Slide 28). The strongest growing loan areas for the District in aggregate were C&I and 1-4 family residential loans, up 16% and 11% YoY respectively (Slide 29). A quarter of all District banks grew C&I loans by over 20% during the past year (Slide 31).

- **<u>Capital Ratios – Still at Historic Highs:</u>** Bank capital ratios continued to increase, remaining comfortably at 50+ year highs (Slide 37) 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 38).

First Glance 12L – Third Quarter 2012

- **CAMELS Ratings – Improving Slowly:** Based on regulatory examination data, CAMELS rating upgrades of District banks have outpaced downgrades for six consecutive quarters (Slide 42). As a result, the percentage of District banks rated CAMELS "3" or worse (less-than-satisfactory) dropped to 44%, from the record-high 60% at year-end 2010 (at right and Slide 41). The District banking industry, though, is still a long way from being fully healthy (when less than 10% of banks have adverse CAMELS ratings).

- **Overall – Recovery is Advancing, but Risks Remain:** 12th District banks continued to recover. 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

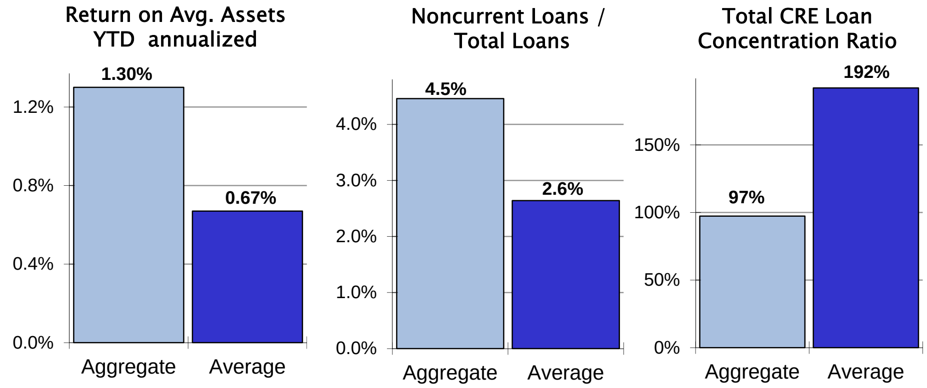
- **Hot Topics:** The following are some supervisory hot topics – issues on bank supervisors' radar screens that tend to be a focus of attention during on-site examinations and off-site monitoring. These issues, starting on Slide 51, are similar to last quarter's. As in the past, this is not an exhaustive 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 52-53).
  - Earnings Challenges: Many factors suggest that District banks' earnings will take time to fully recover and will be challenged to return to the extraordinarily high profitability rates experienced from 2005-2006 (Slide 54).
  - Housing Market and Impact: Housing seems to be turning the corner, but many homeowners remain underwater and/or are struggling with possible foreclosure. These problems will slow the return to more robust economic and banking conditions (Slide 55).
  - HELOCs and Other Junior Lien Mortgages: 1st lien mortgage problems of stressed homeowners will continue to trickle down to junior lien loans (Slide 56).
  - CRE Income Property Loan Quality & Vulnerability: Bank exposure to CRE remains very high and commercial property values remain depressed; many borrowers are left with little or no equity and loans are maturing with cash flow weaknesses. Low interest rates have supported CRE borrowers so far. (Slide 57).
  - "Surge Deposits" Issues: The huge influx of deposits at many banks dramatically improved balance sheet liquidity, but these deposits should be considered temporary; also, many banks have invested funds in longer term securities which may make them vulnerable to rising interest rates. (Slide 58).
  - Expansion into New or Unfamiliar Lending Areas: Some banks are seeking to diversify by expanding rapidly into areas such as C&I, 1-4 family first liens, and multifamily loans; such growth, if not paired with commensurate controls and limits, could cause problems down the line (Slide 59).
  - Other Assorted Issues: (Slide 60).

Section 1
Commercial Bank Performance

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

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

Aggregates (weighted avg.) vs Averages (unweighted avg.) 12th District Banks as of 9/30/12



As aggregates primarily reflect trends at the largest banks, most slides that follow use ratio averages (actually the "trimmed means" – see Appendix 3).

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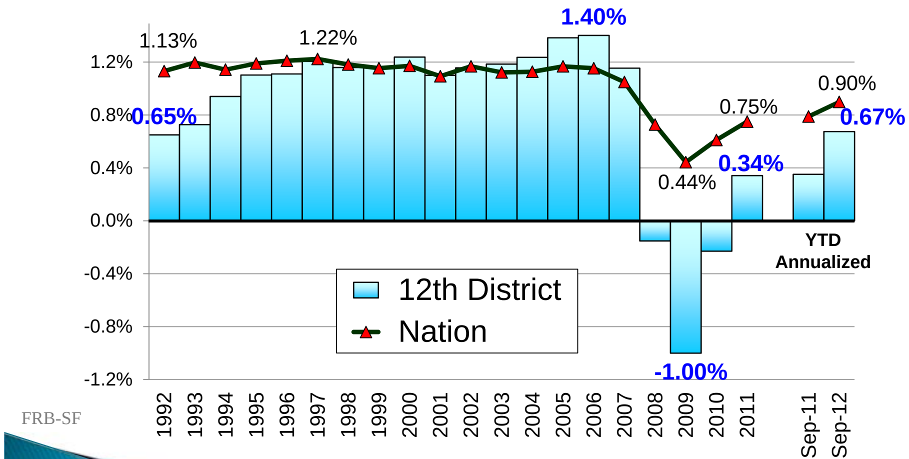
12th District commercial banks; aggregates include Wells Fargo Bank (60% of District Loans); CRE concentration ratio excludes owner occupied loans and has total capital in the denominator; preliminary 9/30/12 data

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

Average Return on Average Assets – YTD annual (%)



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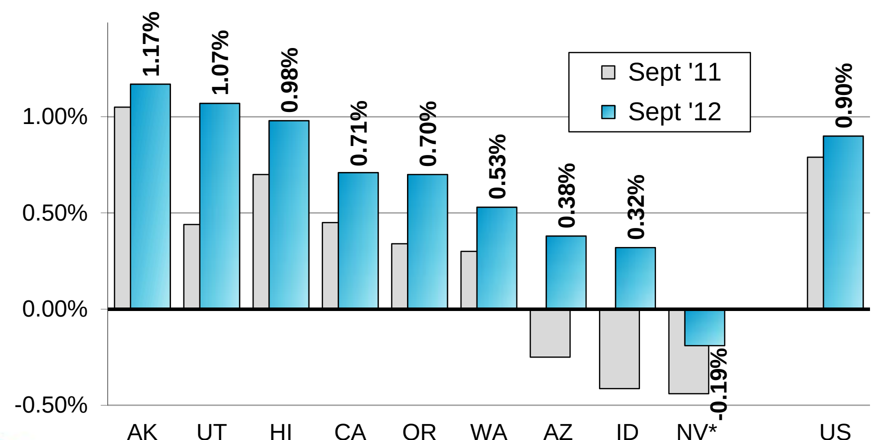
Based on commercial banks, excluding De Novos; trimmed means; Sept. ratios are YTD annualized; preliminary 9/30/12 data

Avg. ROAAs – Most States in the Black

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

Average Return on Average Assets – Year-to-Date, annualized (%)



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Based on commercial banks, excluding De Novos; 3Q trimmed mean ratios annualized; preliminary 9/30/12 data
* NV: excludes credit card and zero-loan banks

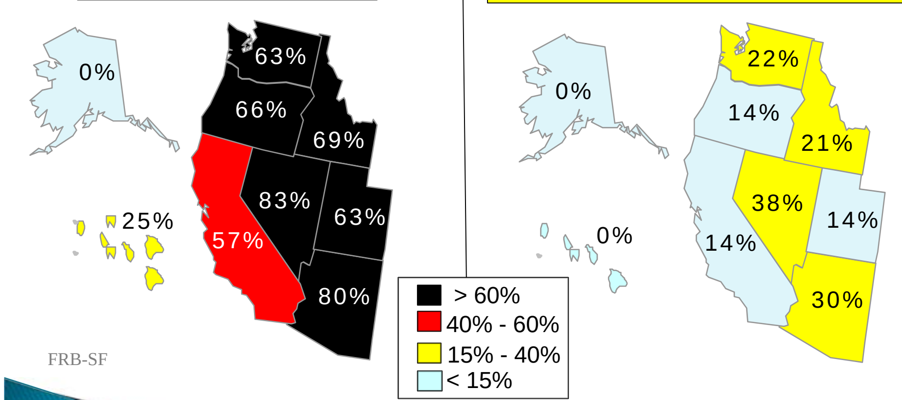
Whereas in 2009, 61% of District Banks Lost Money, Just 17% Reported Losses in 2012 YTD

Percentage of Commercial Banks Reporting Net Losses in 2009

12th District: 61% (2009)

Percentage of Commercial Banks Reporting Net Losses through Sept '12

12th District: 17% (9 mo. ending 9/30/12)



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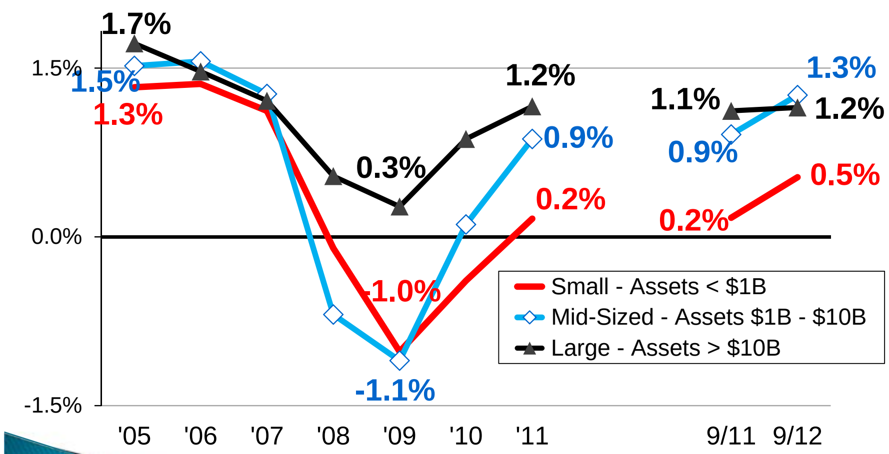
Preliminary 9/30/12 data for all commercial banks, excluding De Novos

Mid-Sized Bank Group Most Profitable in 2012

Small Bank Profits Improved, but Lagged Behind Larger Banks

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

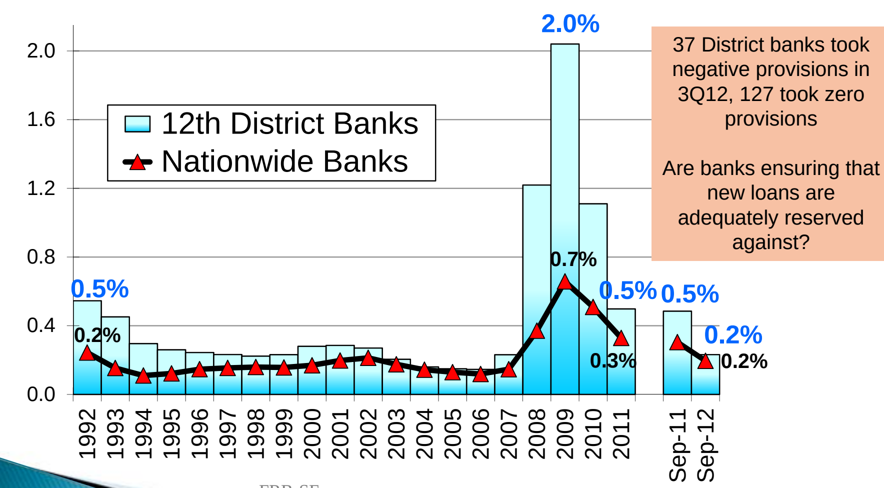


Based on commercial banks, excluding De Novos; trimmed means; Sept. ratios are year-to-date annualized; preliminary 9/30/12 data

Loss Provisions Continued to Fall, Driving ROA Improvement

Banks Confident in Credit Quality Trends

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



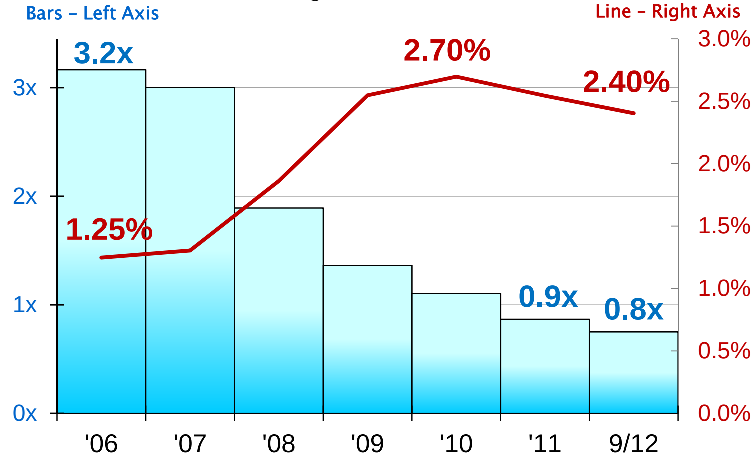
Based on commercial banks, excluding De Novos; trimmed means; September ratios are annualized; preliminary 9/30/12 data

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

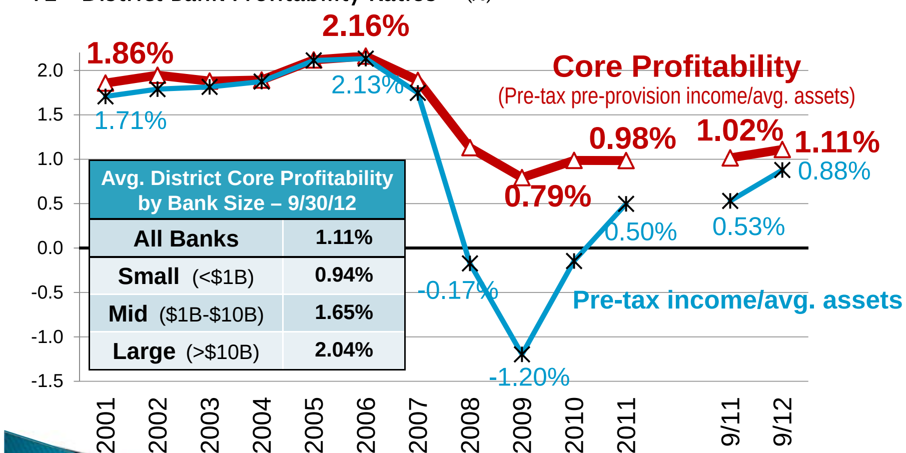


ALLL: Allowance for Loans and Lease Losses; Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/12 data

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

But Still Well Below Historic Averages

12th District Bank Profitability Ratios – (%)



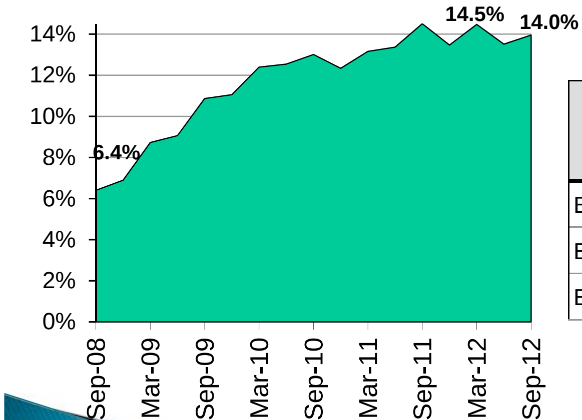
Avg. District Core Profitability by Size – 9/30/12	
All Banks	1.11%
Small (<$1B)	0.94%
Mid ($1B-$10B)	1.65%
Large (>$10B)	2.04%

Based on commercial banks, excluding De Novos; trimmed means; 9/30/12 ratios are annualized; preliminary 9/30/12 data

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

Demand for Loans Remains Modest

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	9/08	9/12
Banks < $1B	7.6%	15.8%
Banks $1B-$10B	3.1%	6.7%
Banks > $10B	3.4%	7.7%

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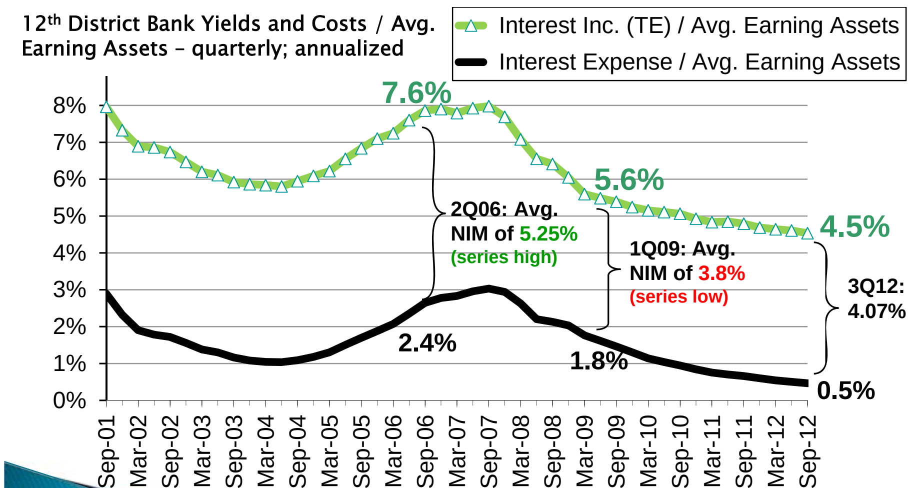
Based on commercial banks excluding De Novos; trimmed means, preliminary 9/30/12 data

Earning Asset Yields & Funding Costs Fell Further

Net Interest Margins Remain Near 2009 Low

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



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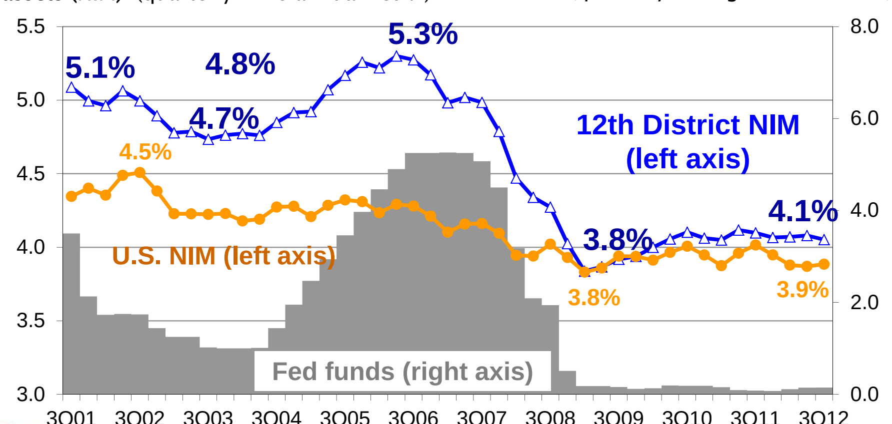
Based on commercial banks excluding De Novos; trimmed means; ratios are quarterly and annualized; preliminary 9/30/12 data

District Bank Net Interest Margins Remained Depressed

District Average NIM Essentially Flat for Four Quarters

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

Effective Fed funds rate (quarterly average annualized %)



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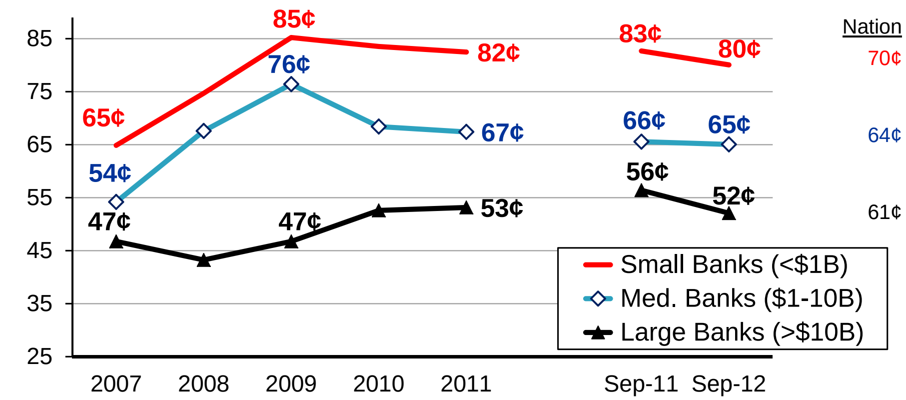
Based on commercial banks excluding De Novos; trimmed means; quarterly ratios are annualized; prelim 3Q12 data. Effective Fed funds rates from FRB-St Louis.

Average Bank Efficiency Measures Improved Moderately in 2012, Especially at Large and Small 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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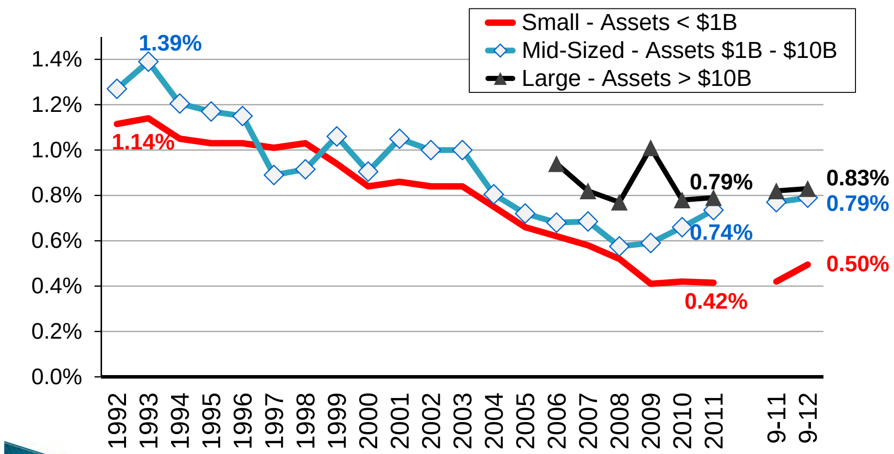
Based on commercial banks excluding De Novos; trimmed means; preliminary 9/30/12 data (year-to-date)

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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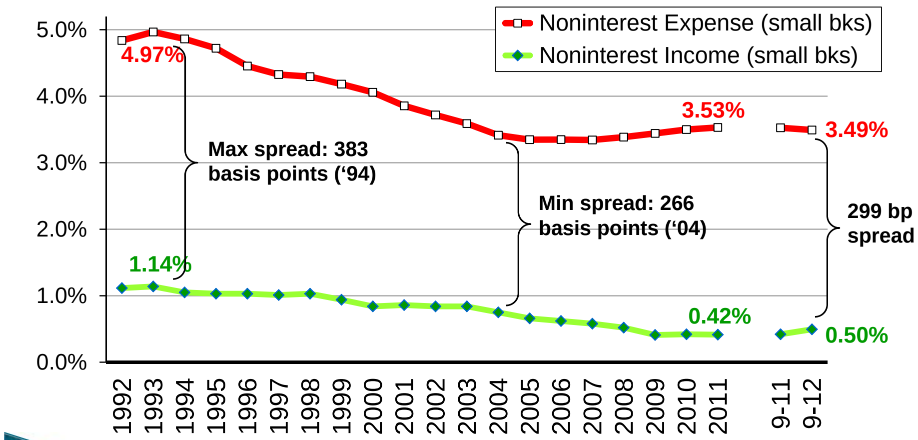
Based on commercial banks, excluding De Novos; median ratios; large bank statistics prior to 2006 not meaningful as there were too few banks; preliminary 9/30/12 year-to-date data

Noninterest Expense vs Noninterest Income District Banks < $1B

Average Noninterest Expense and Noninterest Income, as a Pct. of Avg. Assets



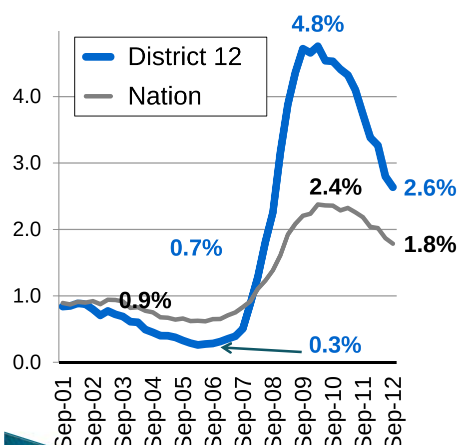
FRB-SF

Based on commercial banks, excluding De Novos; median ratios; preliminary 9/30/12 year-to-date data

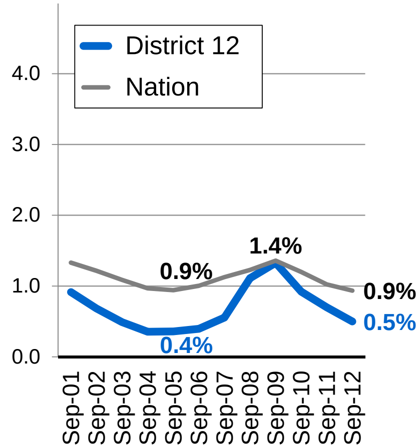
Loan Quality: Average 12th District Bank Noncurrent Loan Rate Continued to Descend

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

Average Noncurrent Loan Rates



Avg. Past Due 30-89 Day Loan Rates



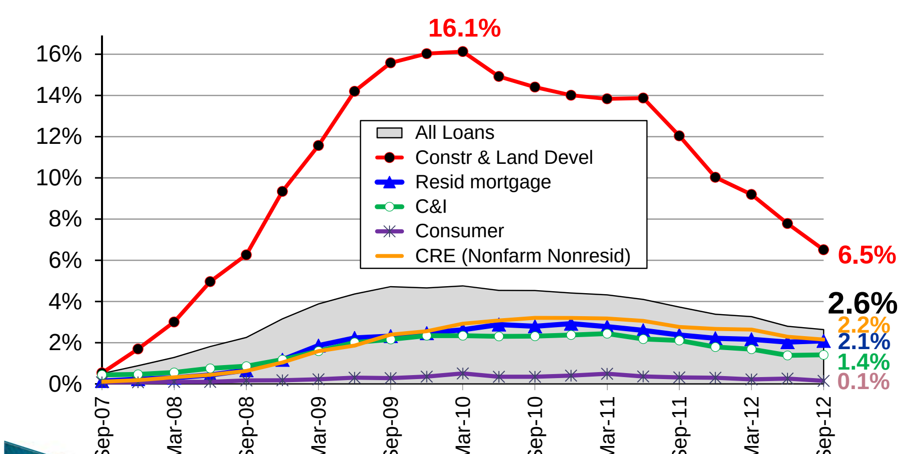
FRB-SF

Based on commercial banks, excluding De Novos; trimmed means; Noncurrent = 90 Days past due or on nonaccrual; preliminary 9/30/12 data

By Loan Type: Noncurrent Rate Trended Down

However, C&I and 1-4 Family Mortgage Noncurrent Rate was Flat in 3Q12

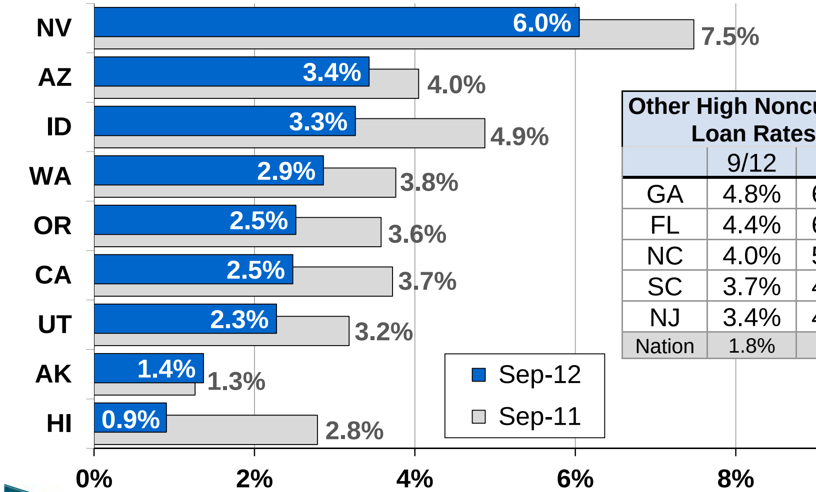
12th District Bank Noncurrent Loan Rates (Pct. of loans 90+ days past due or on nonaccrual)



FRB-SF

Based on commercial banks excluding De Novos; trimmed means, preliminary 9/30/12 data

By State: Noncurrent Loan Rates Dropped Broadly, Especially in CA, HI, and ID

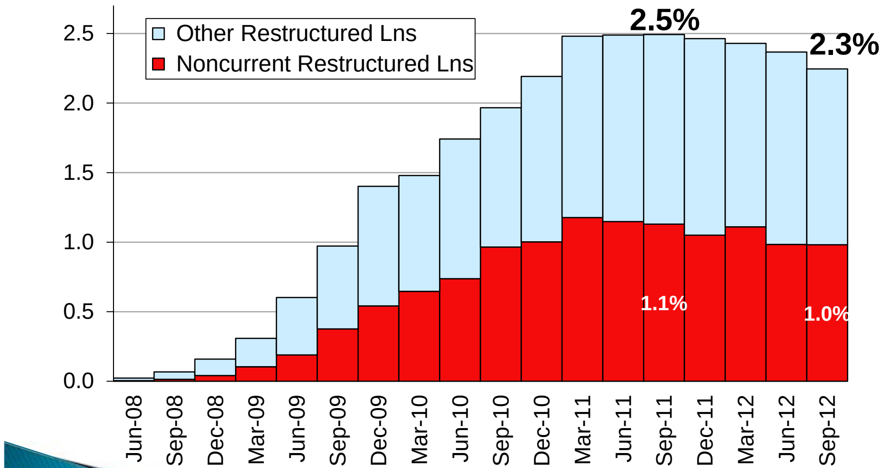


Other High Noncurrent Loan Rates	9/12	9/11
GA	4.8%	6.0%
FL	4.4%	6.1%
NC	4.0%	5.0%
SC	3.7%	4.6%
NJ	3.4%	4.4%
Nation	1.8%	2.2%

Based on commercial banks, excl. De Novos; trimmed means; Noncurrent = 90+ days past due or on nonaccrual; preliminary 9/30/12 data. Industrial bank avg. 9/12 noncurrent rates were 1.4% in NV and 0.9% in UT

Troubled Debt Restructurings Edged Down Further

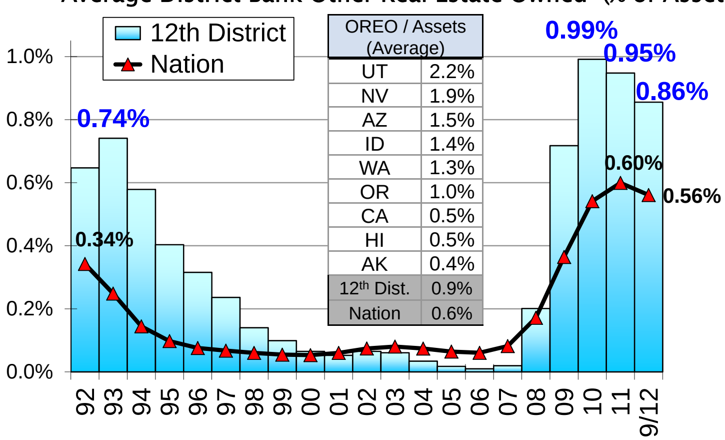
12th District Bank Restructured Loans as a Percentage (%) of Total Loans



Based on commercial banks, excluding De Novos; trimmed means; Noncurrent = 90 Days past due or on nonaccrual; preliminary 9/30/12 data

Foreclosed Real Estate Trended Down as a Percentage of Assets

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



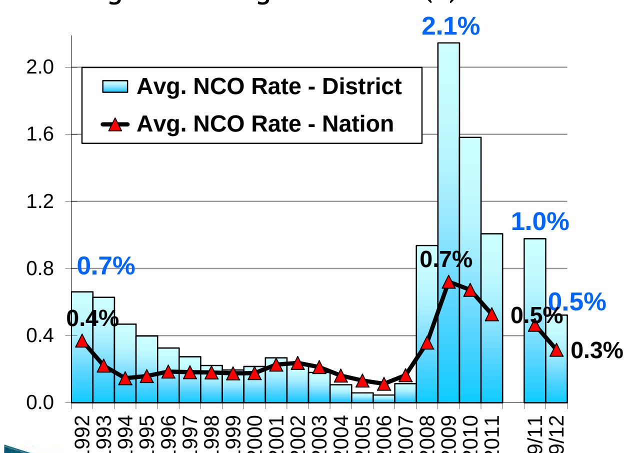
OREO / Assets (Average)	
UT	2.2%
NV	1.9%
AZ	1.5%
ID	1.4%
WA	1.3%
OR	1.0%
CA	0.5%
HI	0.5%
AK	0.4%
12th Dist.	0.9%
Nation	0.6%

Aggregate OREO by Loan Type 9/30/12 (District banks < $100B; % of Total OREO)	
Construction & Land Devel.	49%
CRE: Nonfarm Nonresidential secured	33%
1-4 Family Residential	13%
Multifamily	4%

Based on commercial banks excluding De Novos; trimmed means, preliminary 9/30/12 data

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

Average Net Charge-Off Rates (%)



Average NCO rates		
U.S. rank	state	9/30/12
1	NV	1.35%
7	ID	0.81%
8	UT	0.70%
9	AZ	0.68%
11	WA	0.61%
18	CA	0.43%
22	OR	0.35%
37	HI	0.21%
44	AK	0.13%
	Dist	0.52%
	Nat	0.32%

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

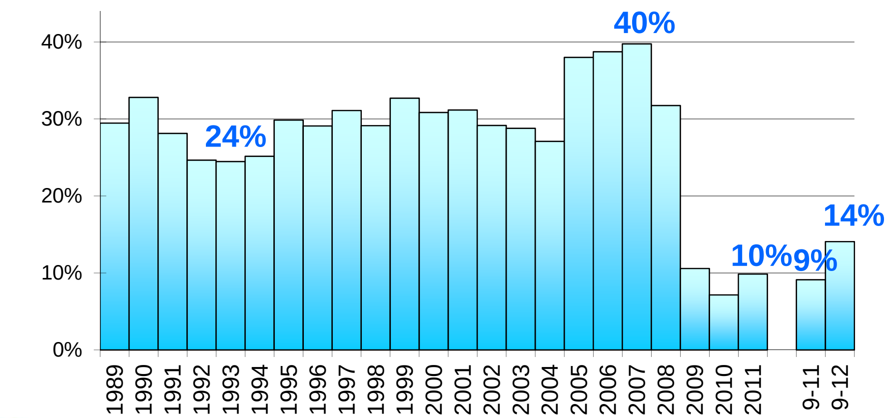
See Appendix 1 for Detailed Aggregate District Net Charge-Off Rates

Based on commercial banks excluding De Novos; trimmed means; 9/30/12 prelim data; 9/30/12 NCO Rates are annualized

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

Workout efforts increasingly are finding success

Recoveries YTD Annualized / Prior Year Gross Charge-Offs



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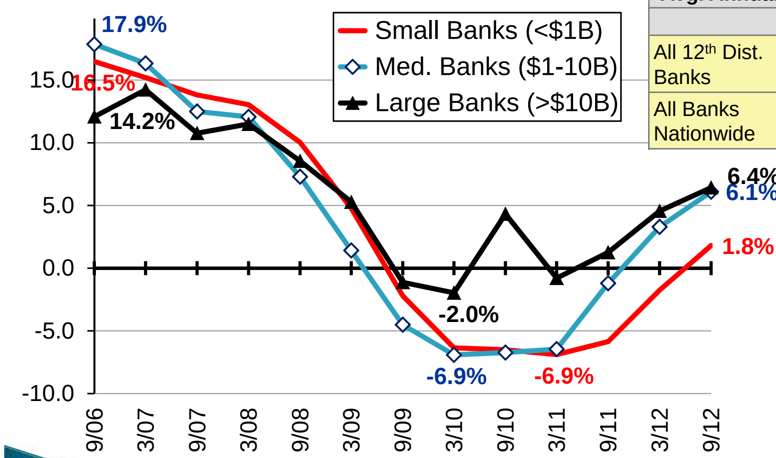
Based on commercial banks excluding De Novos; trimmed means; 9/30/12 data is preliminary

Loan Growth: Turnaround Continued

Avg. Loan Growth 2.8% YoY with Fastest Growth at Large and Mid-Sized Banks

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



Avg. Annual Loan Growth	9/11	9/12
All 12th Dist. Banks	-4.8%	**2.8%**
All Banks Nationwide	-2.0%	**1.2%**

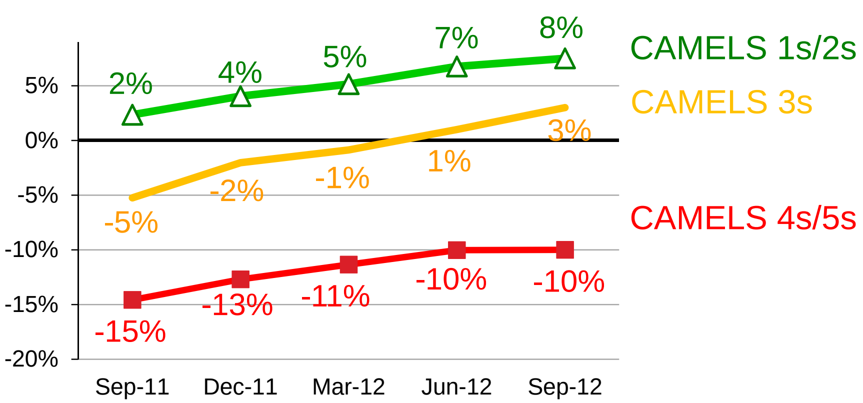
FRB-SF

Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/12 data

CAMELS Rated 1, 2, and 3 Banks Continued Loan Growth

CAMELS 4/5 Rated Further Reduced their Loan Portfolios

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



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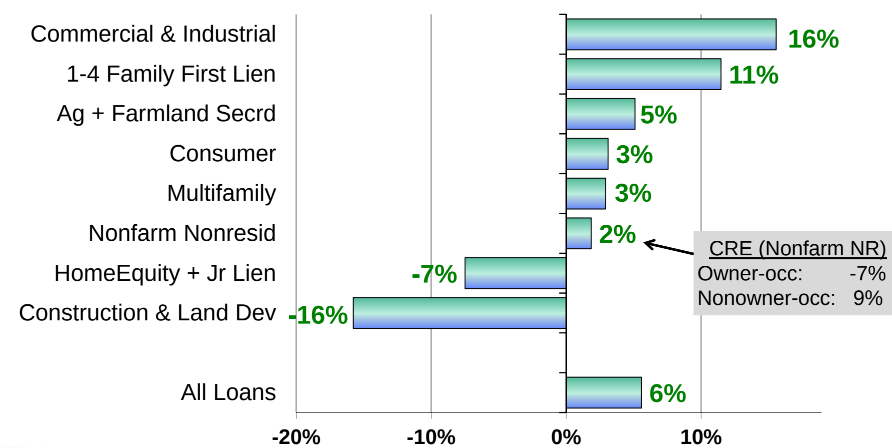
Based on a panel of District commercial banks; excludes banks with significant mergers, loan sales or loan purchases over the period; Averages are trimmed means.

CAMELS: rating system used by banking supervisors

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

12th District Bank Aggregate Loan Growth Rates - 12 months ending 9/30/12



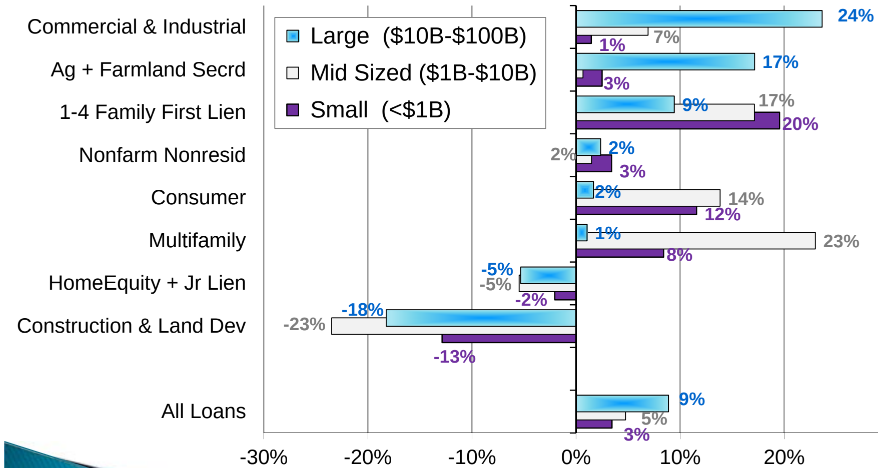
FRB-SF

Based on a panel of District commercial banks; excludes banks with significant mergers, loan sales or loan purchases over the period; prelim 9/30/12 data

Loan Growth Emphasis Varied by Bank Size

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

12th District Bank Aggregate Loan Growth Rates – 12 months ending 9/30/12



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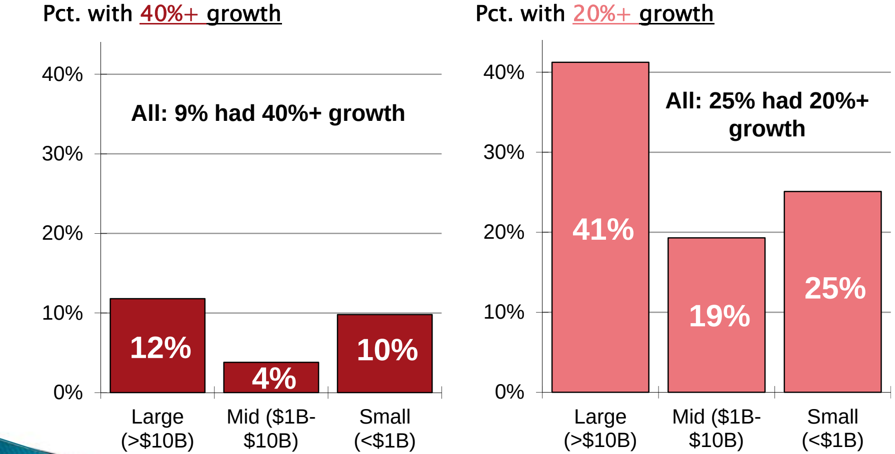
Based on a panel of District commercial banks with assets <$100B; excludes banks with significant mergers, loan sales or loan purchases over the period; prelim 9/30/12 data

Focus: C&I – Many Banks had High Rates of Growth

One Quarter of District Banks (and over 40% of Large Banks) Grew their C&I Loan Portfolios by 20% or More

District Commercial Banks by Commercial & Industrial Loan Growth 9/11 – 9/12



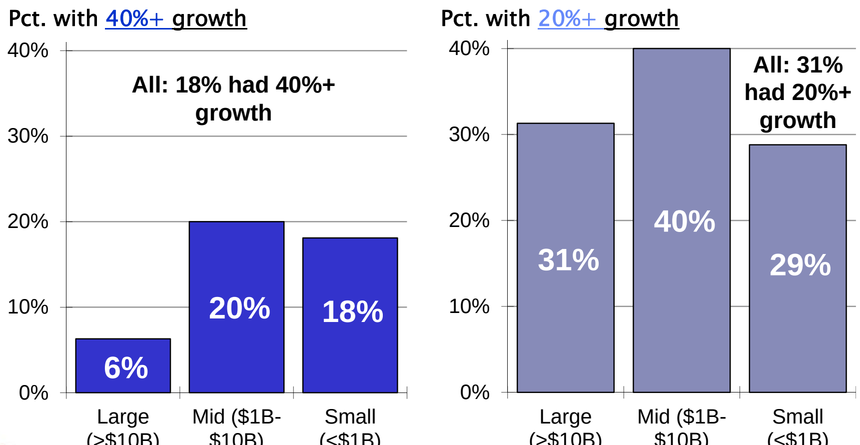
FRB-SF

Based on a panel of District commercial banks with at least 4% of loans in C&I as of 9/11, excludes banks with significant mergers, loan sales or loan purchases over the period; preliminary 9/30/12 data

Focus: 1-4 Family First Lien Loans – Even More Banks Had High Growth Rates

Especially Among Small and Mid-Sized Bank Groups

District Commercial Banks by Residential Loan Growth 9/11 – 9/12

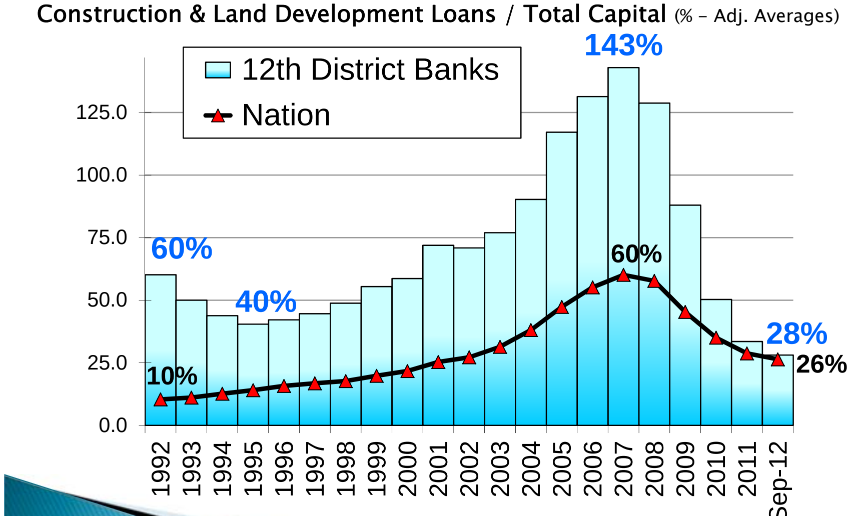


FRB-SF

Based on a panel of District commercial banks with at least 4% of loans in 1-4 First Lien Loans as of 9/11, excludes banks with significant mergers, loan sales or loan purchases over the period; preliminary 9/12 data

Focus: Construction & Development Loans -- Concentration Ratio at Long-Term Low

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



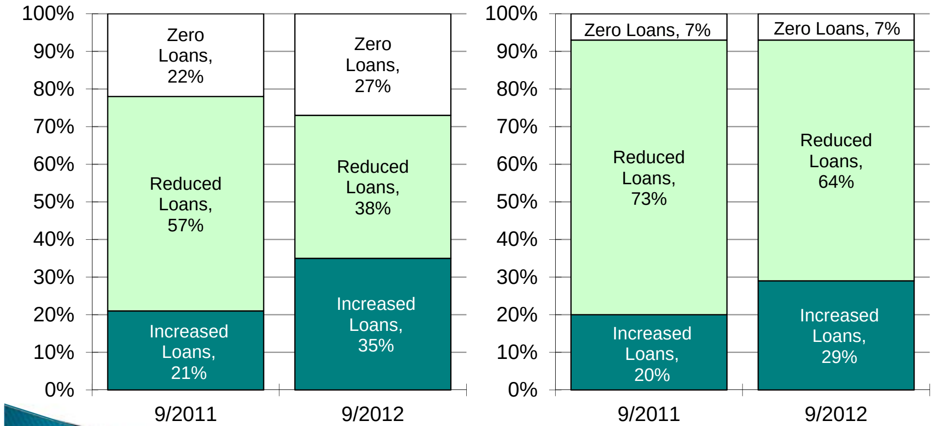
FRB-SF

Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/12

Pct. of Banks Increasing C&LD Loans from Year-Ago Period Rose from Last Year

Pct of District Banks that Increased or Reduced their: Residential Construction Loans

Pct of District Banks that Increased or Reduced their: Other Construction & Development Lns

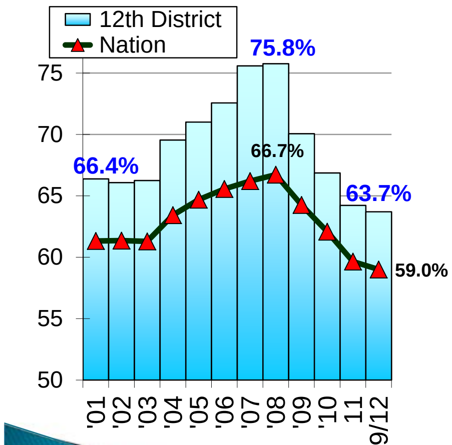


Based on all District commercial banks; percent of banks that increased or reduced loans from the year-ago period; preliminary 9/30/12 data

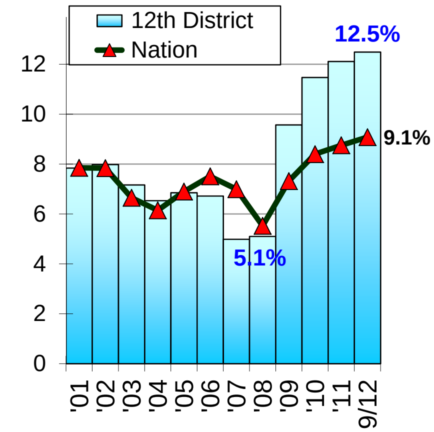
Liquidity: Banks Flush with Short Term Assets

Loan Demand Remains Weak / Investors Wary of Equities are Parking Money in Banks

Loans/Assets (adj. average %)



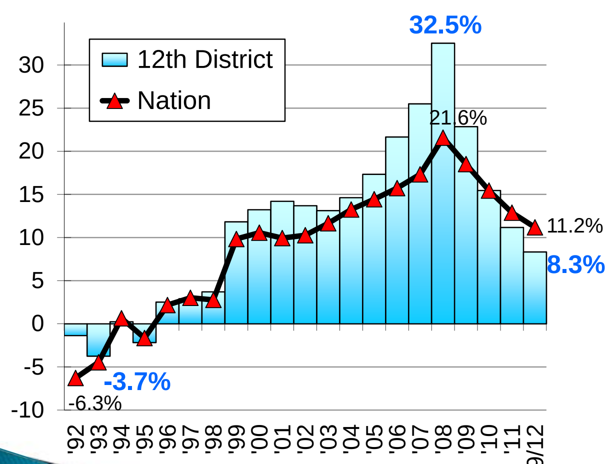
Short-Term Investments/Assets (average %)



Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/12 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, 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)

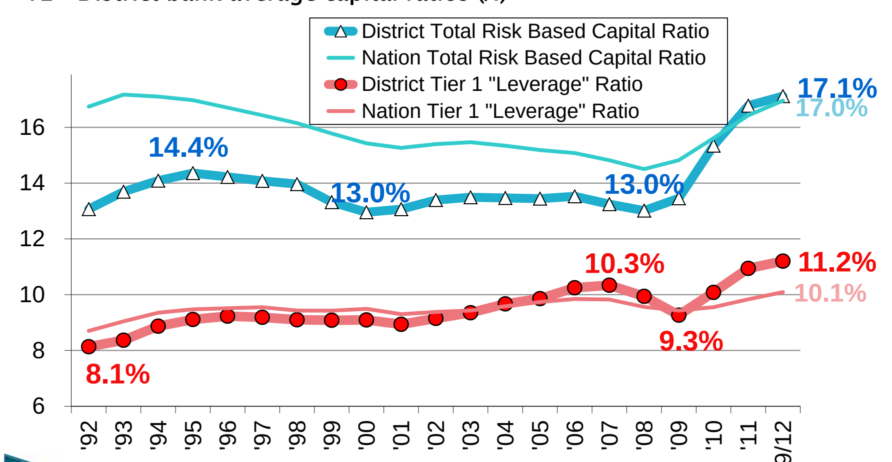
Divided by: Longer-term assets (net loans and securities with remaining maturities over one year and non-investment other real estate owned)

Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/12 data

Capital Adequacy: District Bank Ratios Rose Further

Slow Loan Growth & Modest Earnings Provided Capital Ratio Boosts

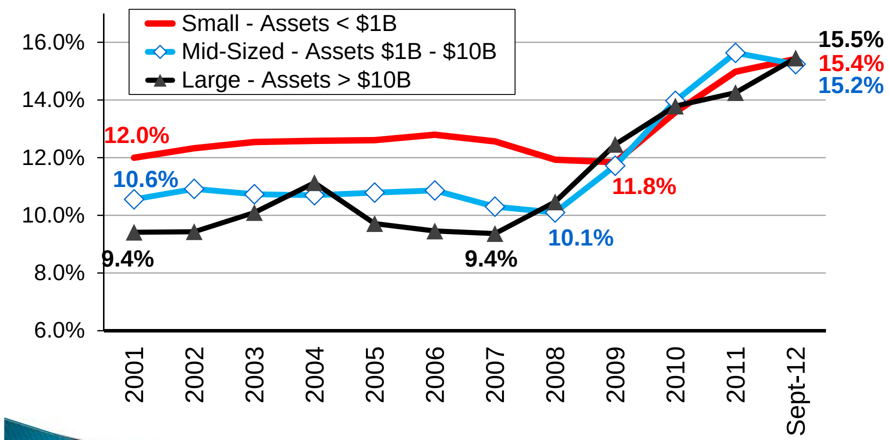
12th District bank average capital ratios (%)



Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/12 data

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

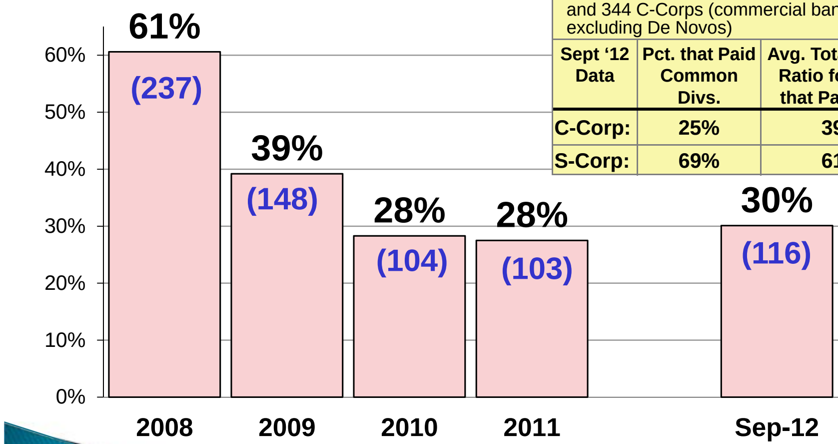
Average District Bank Tier 1 Common Equity / Risk Weighted Assets Ratios



Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/12 data

Percentage of District Banks Paying Common Dividends Edged Up

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



S-Corps vs. C-Corps

At 9/30/12, there were 42 District S-Corps and 344 C-Corps (commercial banks only excluding De Novos)

Sept '12 Data	Pct. that Paid Common Divs.	Avg. Total Payout Ratio for those that Paid Divs.
C-Corp:	25%	39%
S-Corp:	69%	61%

Based on commercial banks, excluding De Novos; averages are trimmed means; preliminary 9/30/12 year-to-date data

95% Exceed "Well Capitalized" thresholds, but…

Percentage of District Commercial Banks "Well Capitalized" under PCA framework*			
9/09	9/10	9/11	9/12
88%	**92%**	**94%**	**95%**

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

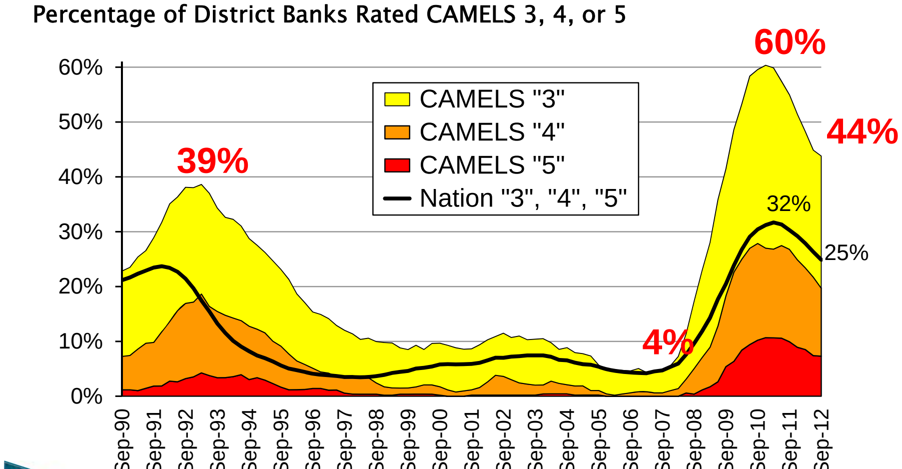
- *9% of District Banks hold a CAMELS Capital ratings of "1" (strong)*
- Capital must be sufficient to absorb unanticipated losses & declines in asset values
- Examiners consider**:
  - the level and severity of problem assets
  - interest rate exposure; liquidity, funding, and market risks
  - the quality 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 risk

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 Eight Quarters

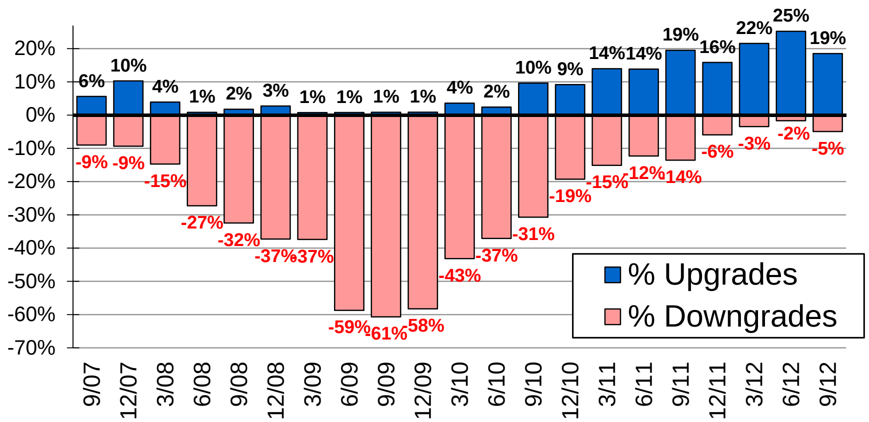
Percentage of District Banks Rated CAMELS 3, 4, or 5



Trends for all commercial banks based on examination completion dates (mail dates); preliminary 9/30/12 figures; updated 11/9/12

CAMELS Upgrades Continued to Outpace Downgrades

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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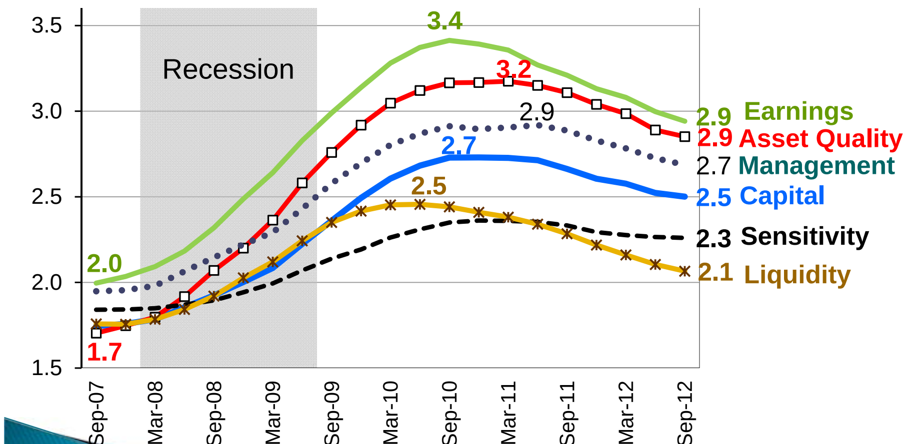
Includes any change in composite CAMELS rating for commercial banks; quarterly trends based on examination completion dates (mail dates); preliminary 9/30/12 figures; updated 11/9/12

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)



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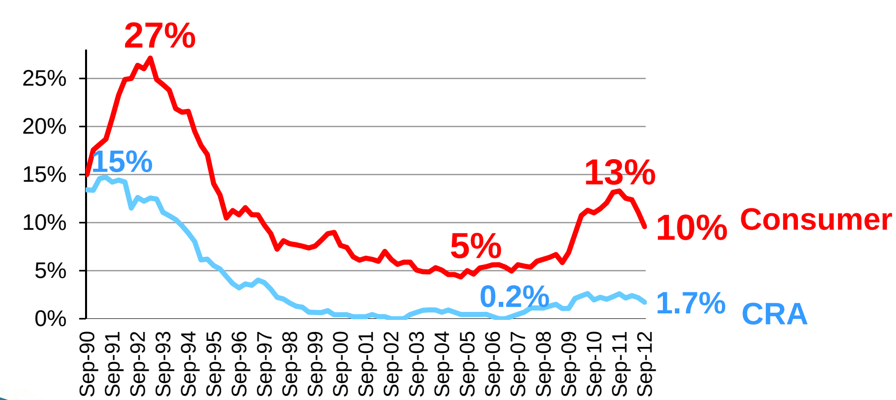
Trends for all 12th District commercial banks based on CAMELS composite ratings and examination completion dates (mail dates); updated 11/9/12

Percentage of Banks with Less-than-Satisfactory Consumer or CRA Ratings is Decreasing

Percentage of District Banks with Less-than-Satisfactory Ratings



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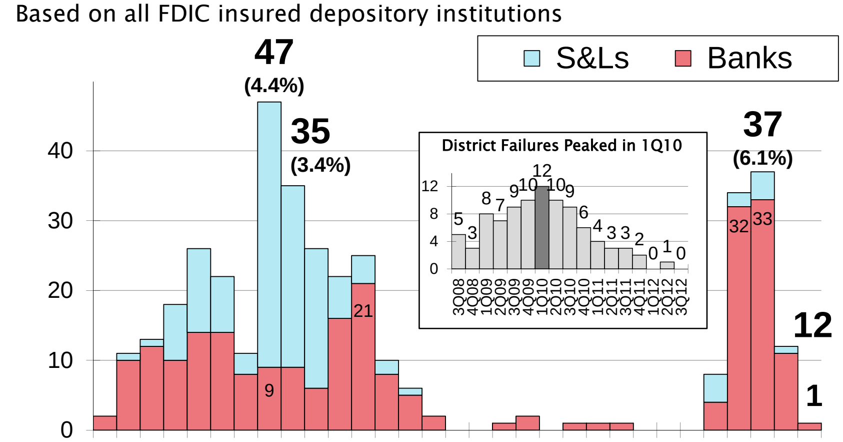
Trends for all commercial banks based on examination completion dates (mail dates); CRA = Community Reinvestment Act; updated 11/9/12

Only 1 Failure 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 11/13/2012

Section 2 – Savings Institution and Industrial Bank Performance

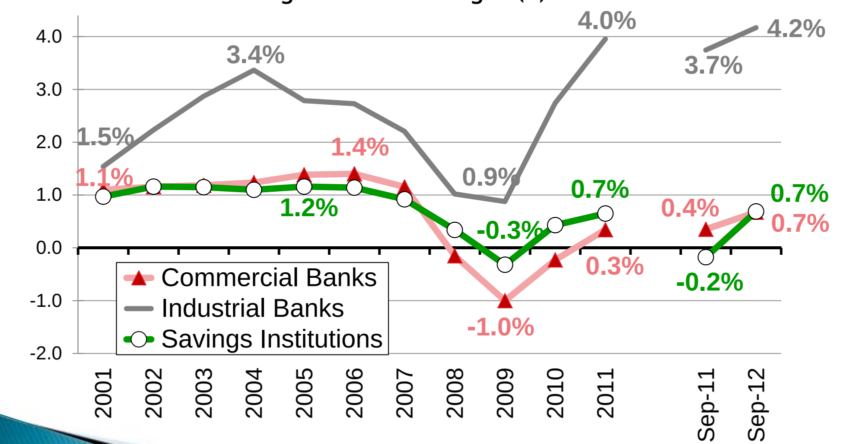
Slides in this section focus on trends among the 47 savings institutions and 32 industrial banks headquartered within the 12th Federal Reserve District.

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

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

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

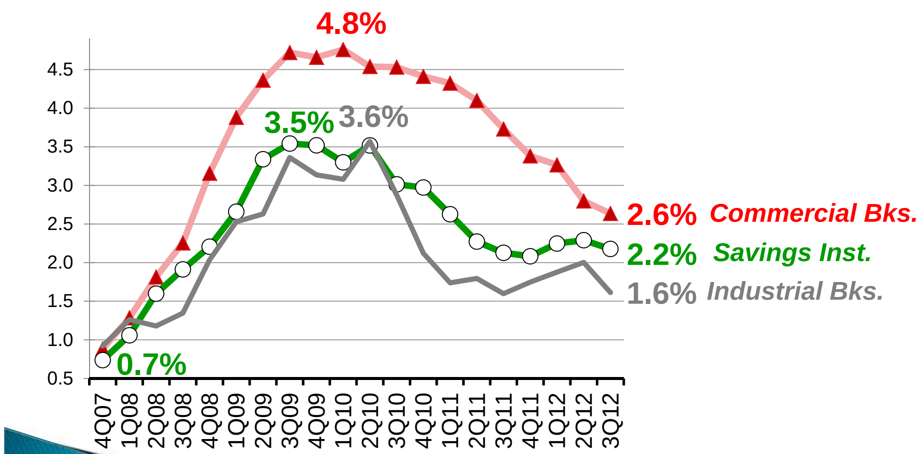
District Return on Average Assets –Averages (%)



Based on District commercial banks, savings institution and industrial banks; excluding De Novos; trimmed means; Sept. ratios are YTD annualized

Loan Quality: District Industrial & Savings Institution Noncurrent Ratios Remain Lower than those of Commercial Banks on Avg.

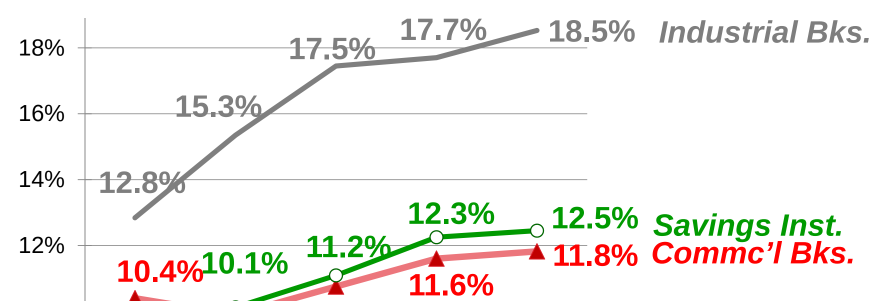
Average 12th District Noncurrent loans / Total Loans – quarterly (%)



Based on District commercial banks, savings institutions and industrial banks; excluding De Novos; trimmed means; preliminary 3Q12 data

Equity/Assets Ratios Still Rising for All Institution Types Industrial Bank Ratios Remained Highest

Average 12th District Institution Equity/Assets Ratios



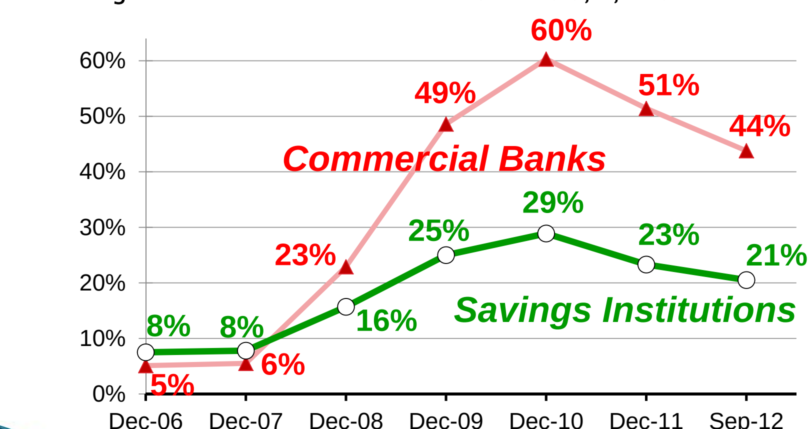
Total Risk Based Capital Ratios 9/2012 (Avg.)	
Industrials	27.3%
Savings	21.7%
Commercial	17.1%

Based on District banks and savings institutions; excluding De Novos; trimmed means; preliminary 9/30/12 data

Percent Savings Institutions Rated CAMELS 3, 4, or 5 Down Moderately in 2012 YTD

Still Significantly Lower than Commercial Banks

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



Note: less than 20% of industrial banks currently are rated 3, 4, or 5

Section 3
Bank Supervisors' Hot Topics

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

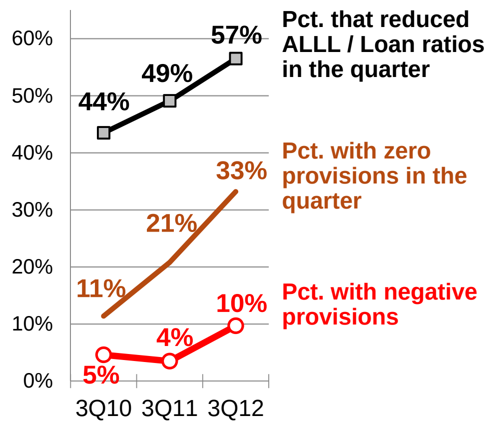
Bank Supervisors' Hot Topic: ALLL Reductions
43% of Banks Reported Zero or Negative Loss Provisions

- ✓ Rising portion of banks did not add to their ALLL (negative provisions for 37 banks, zero provisions for 127 banks)
- ✓ Well over half reduced their ALLL/Loan coverage ratios
- ✓ A sign of improving credit quality

However:

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

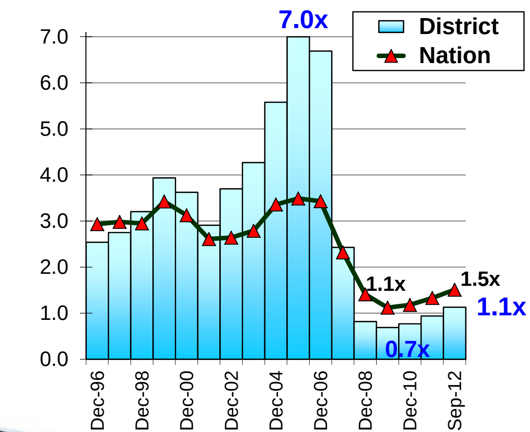
Percentage of District Commercial Banks



ALLL = Allowance for Loan and Lease Losses
Based on all District commercial banks excluding De Novos. Prelim 3Q12 data

Bank Supervisors' Hot Topic: ALLL
Coverage of Noncurrent Loans Relatively Low
(but improving…and coverage of total loans is a relatively high 2.4%)

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



ALLL/Noncurrent Loans: State Avg. Sept. 2012	
NV	0.8x
ID	0.9x
OR	1.0x
AZ	1.0x
WA	1.0x
UT	1.2x
CA	1.2x
AK	2.0x
HI	2.4x

Lowest state is CT: 0.6x; highest is ND: 5.6x

Based on all commercial banks excluding De Novos; trimmed means, preliminary 9/30/12 data

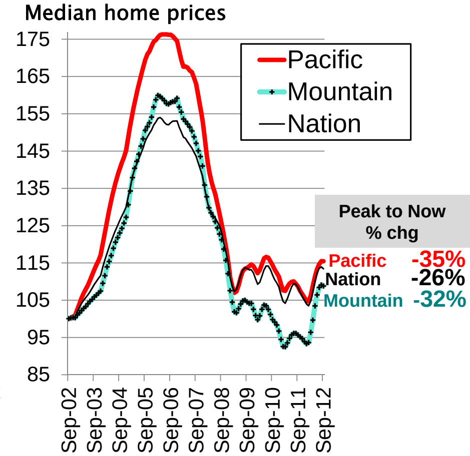
Bank Supervisors' Hot Topic
Earnings Challenges

EARNINGS ISSUE	DURATION?
Low interest rate environment – narrow margins	Short term
Modest loan demand / intense competition for quality borrowers	Short term
Limited opportunities to grow fee income, esp. for smaller banks	Long term?
Higher overhead (fraud prevention, IT systems, compliance costs)	Long term?
Not likely to see high rates of C&LD lending anytime soon • There was a high correlation between C&LD loan / total loan ratios and earnings in pre-crisis periods • Every 10 percentage point increase in C&LD Loans / Total Loans was associated with a 25 basis point rise in pre-tax core earnings among District banks in 2005 • C&LD concentrations are not likely to return to pre-crisis levels, so profitability may never get back to 2005-2006 highs	Long term?

Bank Supervisors' Hot Topic
Weak Housing Market and Impact

- ✓ Housing is slowly turning into a positive story for the economy and banking
- ✓ Home prices are moving higher year over year. Nation 4.6%, Pacific 6.2%, Mountain 13.7%
- ✓ Housing starts and sales are increasing
- ✓ Main concerns for western banks
  - Large portions of homeowners in the District remain underwater on their mortgages
  - Foreclosure rates remain elevated
  - Consumer confidence may remain weak until home prices show sustained support and increases

Median home prices

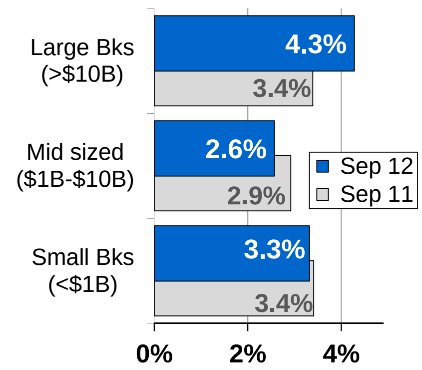


Source: CoreLogic Home Price Index, indexed to 100 at 9/30/02; Mountain: AZ, ID, MT, NM, NV, UT, WY; Pacific: AK, CA, HI, OR, WA.

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 9/30/12 data

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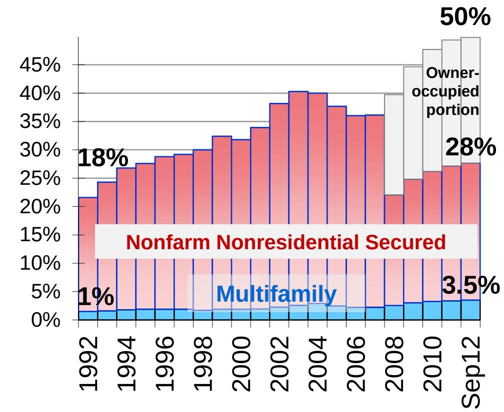
Bank Supervisors' Hot Topic
CRE Income Property Loan Quality & Vulnerability

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

- ✓ Bank vulnerability to CRE income property loans remains significant – CRE accounts for half of total loans on average (28% excluding owner-occupied loans)
- ✓ Core sector property values are down over 30% from their peak*, and some borrowers are left with little or no equity
- ✓ Concerns: maturing loans with inadequate cash flows and insufficient collateral values
- ✓ Current low interest rates have helped keep CRE loans performing, so far.
- ✓ Extensions must be well supported

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

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



Based on all 12th District commercial banks; trimmed means, preliminary 9/30/12 data

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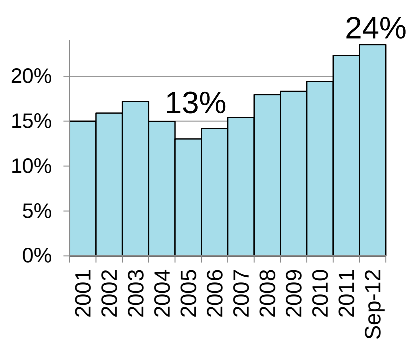
Bank Supervisors' Hot Topic
Issues with "Surge Deposits"

- ✓ Liquidity: huge influx of deposits since financial crisis boosted balance sheet liquidity
  - At some point, people that parked cash in banks awaiting a good time to invest may pull out funds.
  - At the same time, loan demand should continue to rise.
  - Banks should plan for the possibility that liquidity positions could change rapidly.
- ✓ Interest Rate Risk: given the low rate environment and challenges growing the loan portfolio, many banks invested surge deposits into higher-yielding, longer-dated securities
  - Some banks may be vulnerable to rising interest rates

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; 9/30/12 data is preliminary

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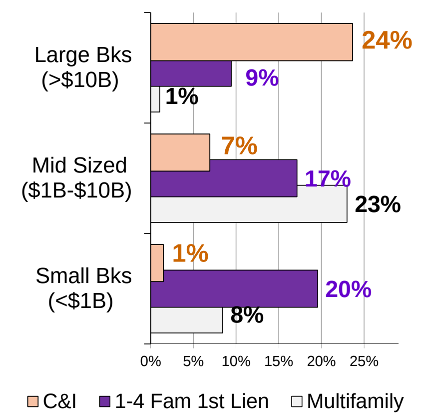
Bank Supervisors' Hot Topic
Expansion into New or Unfamiliar Lending Areas

- ✓ Banks are seeing rapid loan growth in some lending areas (see Slides 29-32)
  - Large Banks: C&I
  - Mid-Sized Bank: Multifamily & 1-4 Family Residential
  - Small Banks: 1-4 Family Residential
- ✓ Portfolio rebalancing may reduce earnings volatility and improve diversification, but:
  - Expertise in new lending areas may be lacking
  - High competition / pricing pressures in some areas (small business lending)
  - Historical loss rates on C&I are higher than most other loan types
  - Management must maintain robust risk management processes around all products

12th District Bank Aggregate Loan Growth Rates – 12 months ending 9/30/12



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

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Bank Supervisors' Hot Topic
Assorted Other Issues

- ✓ Capital planning / stress testing expectations of banks
- ✓ Fiscal Cliff – Impact on U.S. credit ratings & economy if we go over the cliff
- ✓ Information security issues – e.g., denial of service attacks
- ✓ Potential impact of planned expiration of the Transaction Account Guarantee (TAG) program at YE2012 – depositors may chose to move funds elsewhere
- ✓ Regulatory compliance challenges and costs from Dodd Frank Act
- ✓ Proposals in Basel III, e.g., running unrealized gains/losses on AFS securities through capital (*still under discussion*)
  - Concern that banks might move large blocks of securities into Held to Maturity portfolio; this would reduce liquidity; potential for "tainting" the portfolio if a HTM security must be sold
  - Rule would create volatility in capital ratios from interest rates fluctuations

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)	
	3Q 2011	3Q 2012		3Q 2011	3Q 2012
Construction & Land Development	2.59	1.02		3.17	1.74
Residential Construction	2.97	0.44		2.69	1.41
Other C&LD	2.51	1.16		3.30	1.84
CRE - Nonfarm Nonresidential Loans	0.67	0.33		0.70	0.49
Owner-Occupied	0.75	0.37		0.57	0.39
Nonowner-Occupied	0.61	0.30		0.82	0.59
Residential Closed-End Loans	1.21	0.97		1.31	0.90
Home Equity Loans	2.56	2.42		1.07	0.65
Multifamily Loans	0.40	0.03		0.80	0.19
Commercial & Industrial Loans	0.69	0.44		1.71	0.65
Agricultural Loans	0.43	0.80		0.25	(0.05)
Credit Card Loans	5.75	4.08		2.99	2.07
Installment Loans	1.04	0.82		1.80	0.86
Total Loans	1.19	0.86		1.18	0.65

Year-to-date annualized NCO rates for 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)	
	3Q11	3Q12	3Q11	3Q12	3Q11	3Q12
Alaska	4 (0)	4 (0)	-	-	1 (0)	2 (0)
Arizona	32 (8)	29 (2)	-	-	1 (0)	1 (0)
California	231 (34)	217 (15)	9 (1)	8 (1)	19 (2)	18 (2)
Guam	2 (0)	2 (0)	-	-	-	-
Hawaii	6 (0)	6 (0)	1 (0)	1 (0)	2 (0)	2 (0)
Idaho	17 (2)	15 (1)	-	-	1 (0)	1 (0)
Nevada	19 (7)	18 (2)	4 (0)	4 (0)	2 (0)	2 (0)
Oregon	31 (3)	30 (1)	-	-	3 (0)	3 (0)
Utah	33 (2)	32 (2)	20 (0)	19 (0)	5 (0)	4 (0)
Washington	59 (5)	57 (2)	-		14 (0)	14 (0)
12th District	434 (61)	410 (25)	34 (1)	32 (1)	48 (2)	47 (2)
Nation	6,297 (299)	6,095 (153)	36 (1)	34 (1)	n/a	1,024 (11)

Based on preliminary 9/30/12 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.