First Glance 12L (4Q11)

Better Than Expected Performance; Will Positive Momentum Continue?

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

(the 12th Federal Reserve District)

Based on Preliminary 4Q2011 Call & Income Report Data

February 21, 2012

* The main section of this report addresses the performance and condition of 12th District commercial banks. Industrial bank data is no longer included in current and historical data in this section. However, industrial banks, together with savings institutions are covered separately in Section 2. "De Novo" banks are now defined as less than 5 years in existence instead of 3 years (see Appendices 2 and 3 for more information about the data used).

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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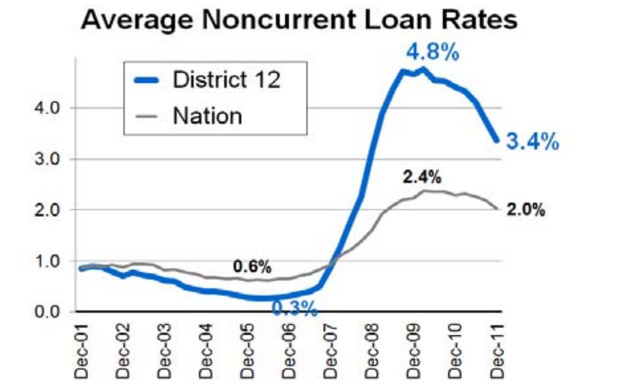
"First Glance 12L" – Fourth Quarter 2011

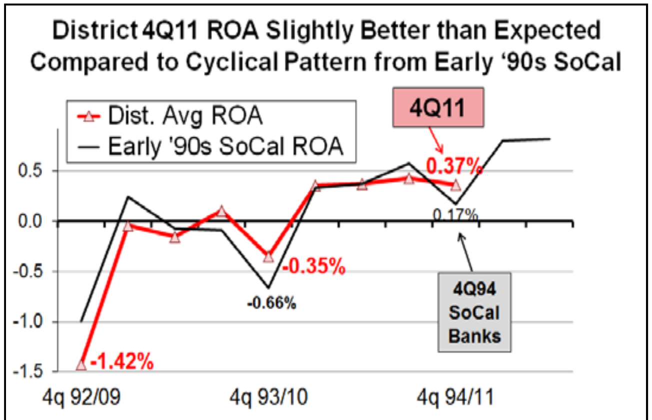
Better Than Expected Performance; Will Positive Momentum Continue?

- **Asset Quality – Positive Trends Accelerating:** The 12th District average noncurrent loan rate (Slide 6) dropped 37 basis points in the quarter to 3.4%, and has fallen 139 basis points from its March 2010 peak. While still elevated relative to the nation, the pace of improvement is encouraging. Significant improvement occurred in construction & land development loan portfolios with the average noncurrent rate down more than 200 basis points in the quarter to 10.2% (Slide 8). These positive trends were a little better than expected as CRE income property loan quality metrics, which we expected to be further pressured, moderated significantly. Another positive sign was the reduction in net charge-off rates to their lowest level in three years, on average (Slide 12). However, the recovery rate of loans previously charged off remained fairly anemic, particularly for real-estate secured credits (Slide 14).



Based on preliminary 12/11 data for commercial banks, excluding De Novos; trimmed means; Noncurrent=90 Days past due or on nonaccrual

- **Profits – Positive Momentum, but Headwinds Continue:** Since the end of 2008, we've been mapping District profitability trends against historical trends from Southern California banks in the early 1990s. During down credit cycles, banks tend to take hefty loss provisions and charge-offs in the 4th quarter to clean up their balance sheets for the new year. This cyclicality was muted in 2011 as District banks' average 4th quarter ROA dropped only 6 basis points to 0.37% (Slide 16). District banks finished 2011 with an average full-year ROA of 0.35%, the first positive figure since 2007 (Slide 15). Although earnings were up considerably from the prior year, the core earnings rate (pre-tax pre-provision) remained essentially flat in 2011 with net interest margins remaining depressed (Slides 21 & 24). A sharp reduction in loan loss provisions was behind the profitability boost. This was the case for banks of all sizes, although bottom line performance was much better for larger than smaller banks during the year (Slide 19). If loan growth remains weak and balance sheets remain packed with low-yielding assets, improving core earnings will remain a challenge in 2012.



Based on preliminary 4Q11 data for commercial banks, excluding De Novos; trimmed means; quarterly ratios are annualized;

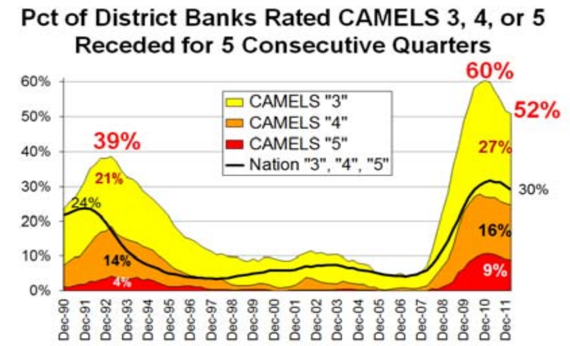
- **Loan Growth – Mixed Picture:** On an average basis across District banks, annual loan growth remained negative at -2% in 2011, the third year of declining loans on average (Slide 27). However, because large banks reported positive loan growth, District bank aggregate loan growth was up modestly for the year (+1.9%) with the strongest growth in C&I and multifamily loans, up 13% and 7% respectively (Slide 29).

"First Glance 12L" – Fourth Quarter 2011

- **Capital – Historic Highs**: Capital ratios at District banks continued to increase on average throughout 2011, and remain comfortably at 50+ year highs. Three years of declining loans and increased liquid assets together with capital retention and augmentation efforts led to these historically high levels. Only 6% of District banks are now considered "less than well capitalized" by PCA standards, down from 16% just two years ago (Slide 34).

- **CAMELS – Improving:** A year ago, there was a record high percentage (60%) of District banks rated less-than-satisfactory by bank regulators. That ratio has now declined to 52% based on most recent information (Slide 37). While the latest percentage remains uncomfortably high, the trends are positive and banks have been addressing weaknesses and moving toward recovery.

- **Overall – Recovering but Headwinds Remain:** 12th District banks are clawing their way out of extremely difficult conditions and, if the economy stays on track, should continue to slowly improve. There are headwinds though, most notably a difficult environment to improve net interest margins, and still weak conditions for commercial real estate credits, with banks highly exposed to this sector (Slide 53).



Trends for all banks based on examination completion dates (mail dates); preliminary Dec. 11 figures; updated 02/08/12

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. This list, starting on Slide 48, is similar to last quarter's. As in past reports, this is not an exhaustive list and it is not prioritized in any way.
  - Banks Reducing Allowance for Loan and Lease Losses: Examiners expect solid support for such decisions (Slides 48-50).
  - Weak Housing Market and Impact: Previous forecasts for a turnaround in housing proved premature; home prices still languish and sales are anemic. C&LD, residential and consumer loans, as well as the economy in general, will remain held back until housing turns the corner (Slide 51).
  - CRE Income Property Loan Quality & Vulnerability: While bank income property loans have not caused serious problems for most banks, the large volume of loans maturing in the next few years, likely many with weakened cash flows and very high loan-to-value ratios, remain a concern. Will banks be able to renew and extend maturing loans until conditions improve? (Slides 52-53).
  - 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 and taking on excessive IRR (Slide 54).
  - Expansion into New or Unfamiliar Lending Areas: The C&LD lending model won't come back soon, and some banks are seeking to reduce overall CRE exposures by expanding into areas such as C&I loans (which grew faster than any other major category year-over-year); this could be a recipe for problems down the line (Slide 55).
  - Other Areas of Note: European Debt Crisis / Capital Planning and Stress Testing – these issues remain hot topics as well (Slides 56-57).

Section 1 – Commercial Bank Performance

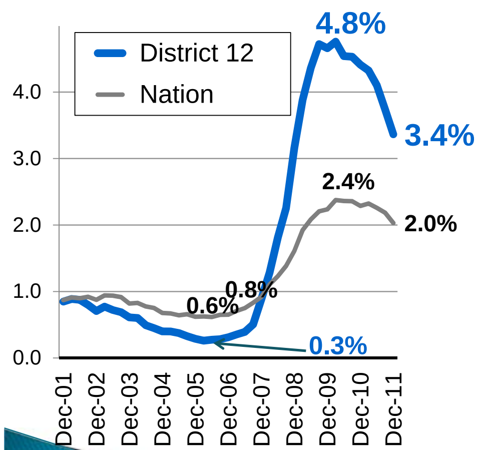
Slides in this section focus on trends among the 424 commercial banks headquartered within the 12th Federal Reserve District.

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

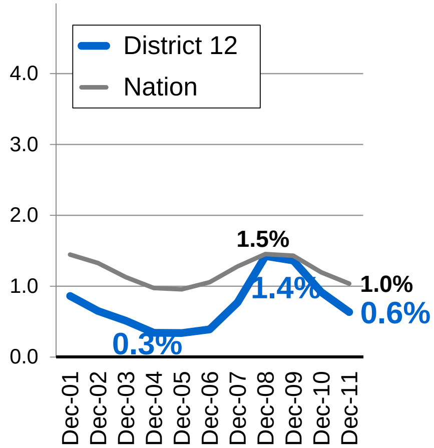
Loan Quality: 12th District Bank Noncurrent Loan Rate Remained High, but Very Positive Trends

PD 30-89 Day Loan Rate Lower than the Nation

Avg. Noncurrent Loan Rates



Avg. Past Due 30-89 Day Loan Rates



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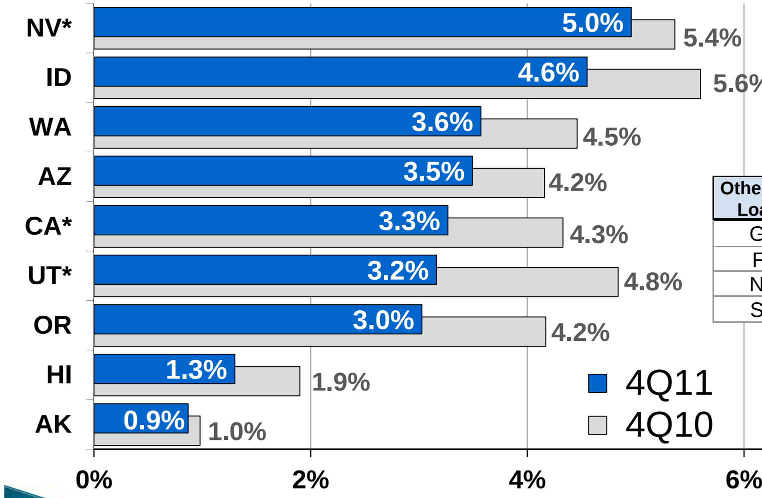
Based on preliminary 12/11 data for commercial banks, excluding De Novos; trimmed means; Noncurrent = 90 Days past due or on nonaccrual

Avg. Noncurrent Loan Rates Dropped the Most in Utah, Oregon and California



Other High Noncurrent Loan Rates – 12/11	
GA	5.8%
FL	5.7%
NC	4.8%
SC	4.1%

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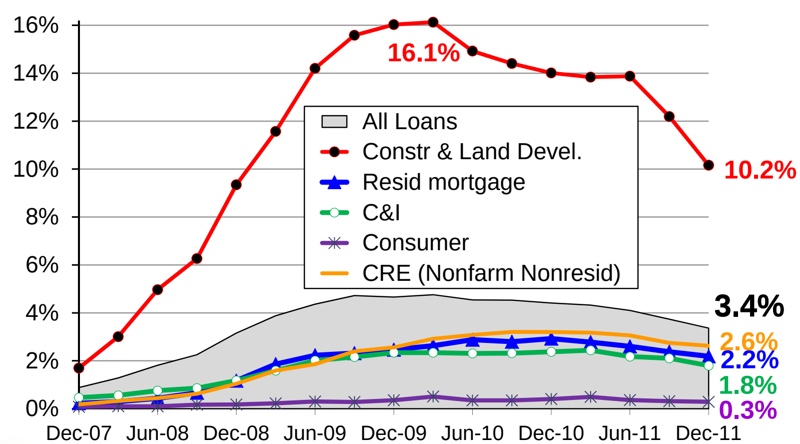
Based on preliminary 12/11 data for commc'l banks, excl. De Novos; trimmed means; Noncurrent = 90+ days past due or on nonaccrual. * Industrial bk avg. 4Q11 noncurrent rates were 1.4% in NV, 2.1% in CA and 1.0% in UT

Noncurrent Rates in Key Loan Categories Continued to Edge Downward

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



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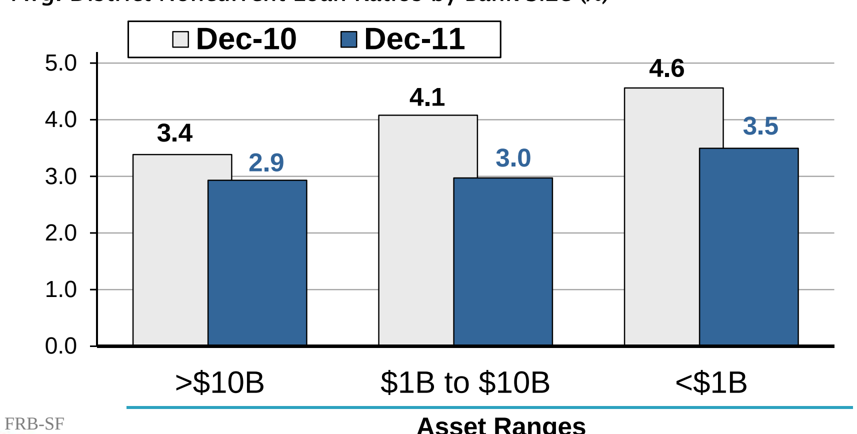
Based on commercial banks excluding De Novos; trimmed means, preliminary 12/11 data

Noncurrent Ratios Remained Higher for Smaller Banks, But All Size Groups Improved

Avg. District Noncurrent Loan Ratios by Bank Size (%)



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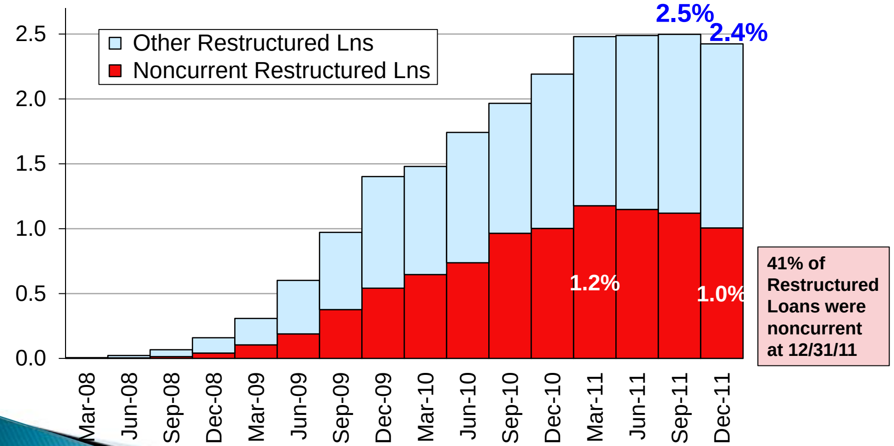
Based on preliminary 12/11 data for commercial banks, excluding De Novos; trimmed means; Noncurrent = 90 Days past due or on nonaccrual

Troubled Debt Restructurings Dropped Slightly in 2011

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



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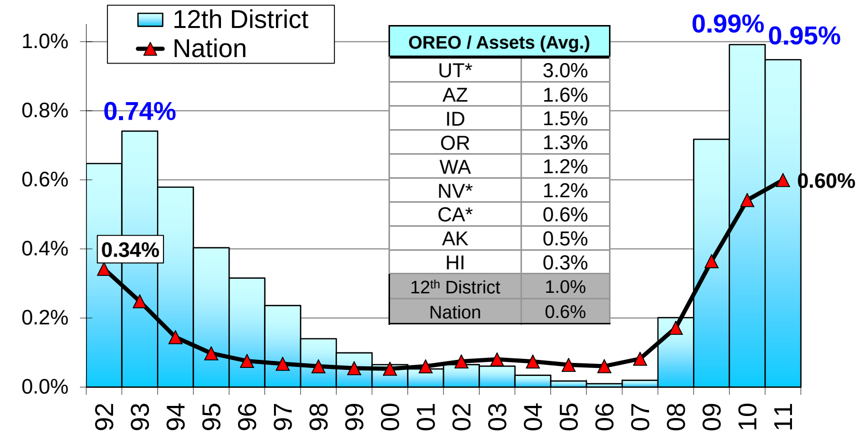
Based on preliminary 12/11 data for commercial banks, excluding De Novos; trimmed means; Noncurrent = 90 Days past due or on nonaccrual

Foreclosed Real Estate Edged Down as a Percent of Assets in 2011

Avg. District Bank Other Real Estate Owned (% of Assets)



OREO / Assets (Avg.)	
UT*	3.0%
AZ	1.6%
ID	1.5%
OR	1.3%
WA	1.2%
NV*	1.2%
CA*	0.6%
AK	0.5%
HI	0.3%
12th District	1.0%
Nation	0.6%

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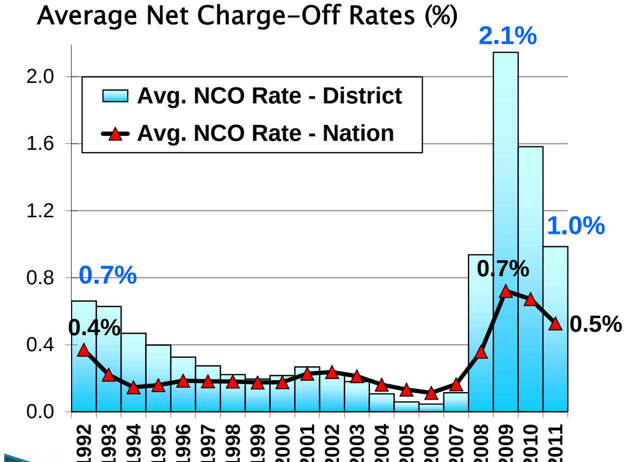
Based on commercial banks excluding De Novos; trimmed means, preliminary 12/11 data; *Industrial banks in UT, NV and CA had OREO/Assets close to 0% on average.

Net Charge-Off Rates Continued to Ease Through 2011, But Remained Higher than Early 1990s Peaks

Average Net Charge-Off Rates (%)



Avg. NCO rates		
U.S. rank	state	2011
1	NV	2.32%
4	ID	1.66%
8	UT	1.32%
10	AZ	1.15%
11	WA	1.04%
13	OR	0.97%
17	CA	0.83%
21	HI	0.75%
48	AK	0.18%
	Dist	0.99%
	Nat	0.53%

Red: > 2%; Yellow: 1% to 2%

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

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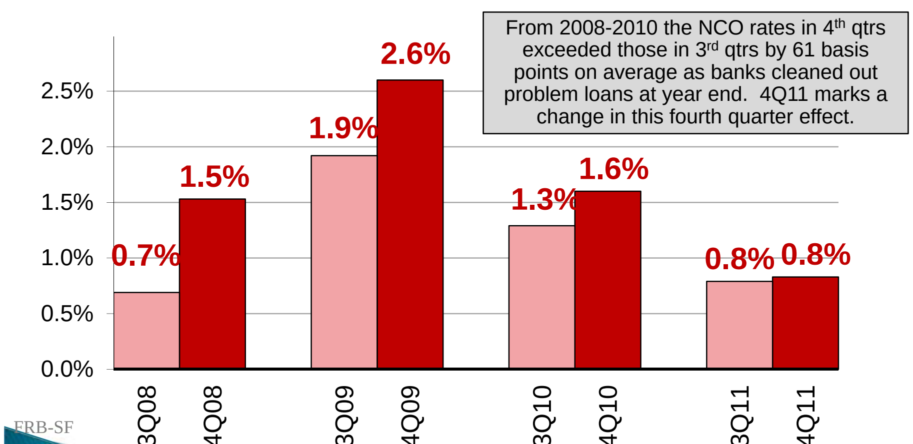
Based on commercial banks excluding De Novos; trimmed means; 12/11 prelim data

4Q11 Net Charge-Off Rate Flat from 3Q11; Sharp Contrast to Recent Years' 4th Quarters

Avg. Quarterly Net Charge-Off Rates in Recent 3rd & 4th Quarters



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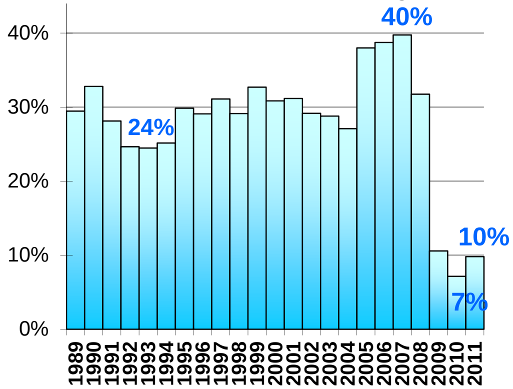
Annualized net charge-off rate for all District commc'l banks, excl. De Novos; prelim 4Q11 data

Recoveries of Prior Year Loan Losses Remained Low, Particularly on Real-Estate Secured Loans

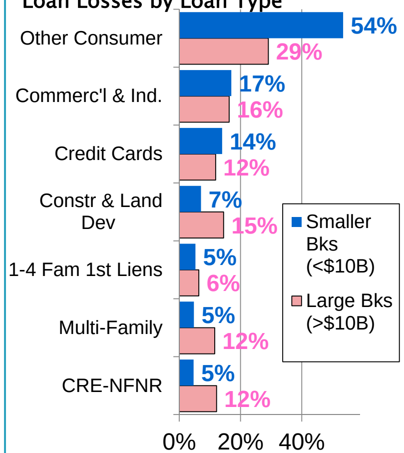
Emergence of A/B split notes with partial write-downs may be reducing recovery rates

Recoveries / Prior Year Gross Charge-Offs



Source: Regulatory Call & Income Reports; all commercial banks excluding De Novos; trimmed means; 2011 data is preliminary

2011 Recoveries / Prior Year Gross Loan Losses by Loan Type



Aggregate recovery rates – District commercial banks; NFNR= Nonfarm nonresidential secured

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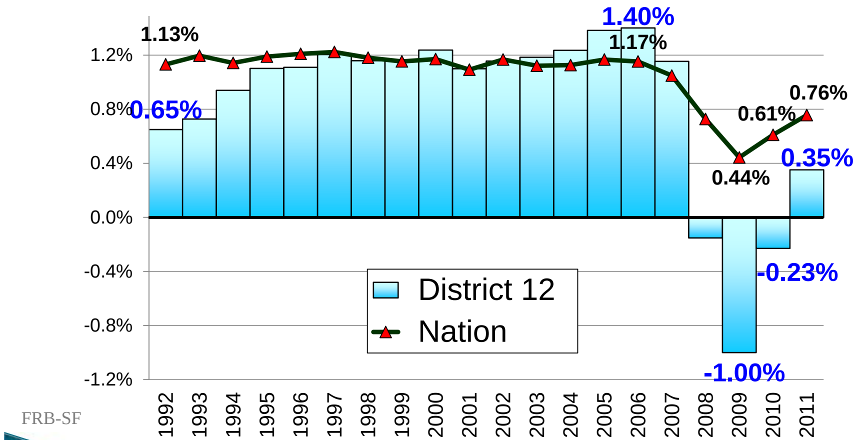
2011 Results: District Bank Profitability in the Black

However ROA Still Depressed by Historical Standards and Well Below the Nation

Average Return on Average Assets – annual (%)



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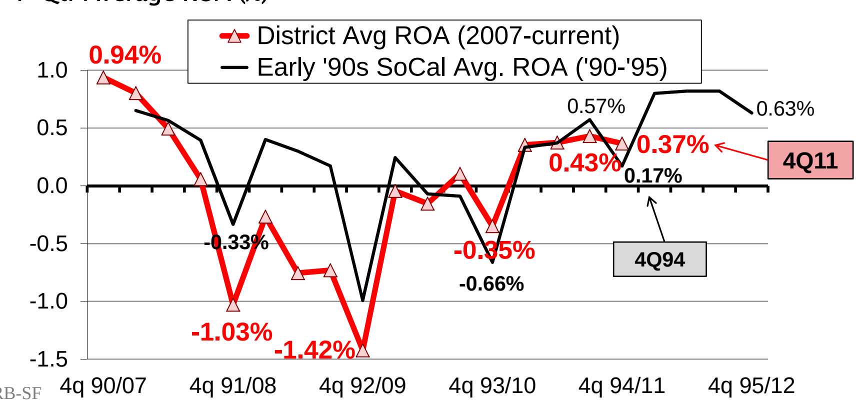
Based on preliminary 2011 data for commercial banks, excluding De Novos; trimmed means

District 4Q11 Avg. ROA Slightly Better than Expected Compared to 4Q94 SoCal Cyclical Trend

Typical Fourth Quarter Surge in Loss Provisions Did Not Occur in 2011

1-Qtr Average ROA (%)



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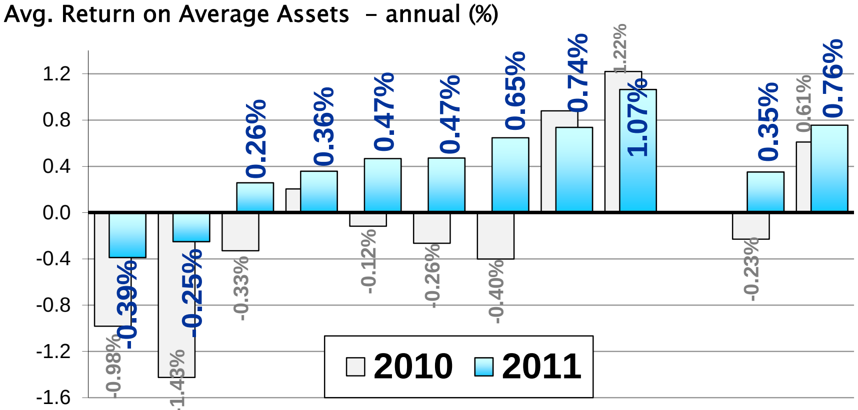
The SoCal bank avg. ROA from 4q1991 is mapped against the District bank avg. ROA of 4Q2008; 1Q1992 is mapped against 1Q2009, etc. During down cycles, ROA tends to be cyclical, with the strongest performance in 1st quarters and weakest in 4th quarters.

Based on preliminary 4Q11 data for commercial banks, excluding De Novos; trimmed means; quarterly ratios are annualized

2011 ROA Improvement Widespread

ID & AZ were the only District States with Annual Losses on Average

Avg. Return on Average Assets – annual (%)



	ID	AZ	WA	OR	CA*	UT*	NV*	HI	AK	12L	US
4Q11 ROA (%)	0.27	(0.47)	0.19	0.39	0.50	0.32	0.76	0.88	1.03	0.37	0.69

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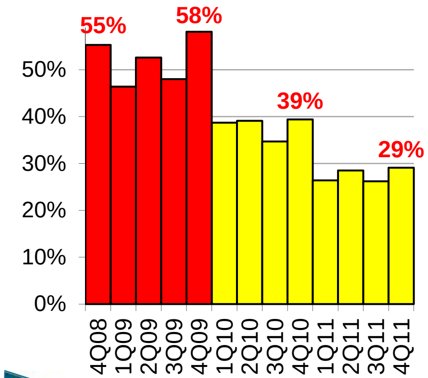
Based on preliminary 4Q11 data for commercial banks, excluding De Novos; trimmed means

* Industrial bank avg. 2011 ROAs were 6.8% in NV, 4.4% in UT and 2.0% in CA.

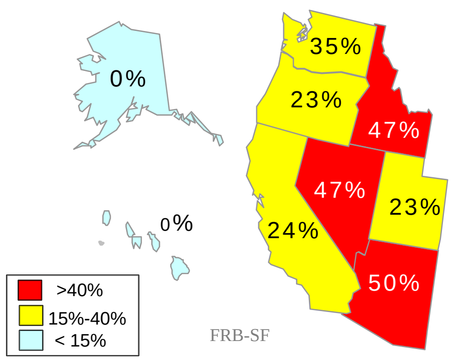
Percentage of District Banks Losing Money Rose Slightly in 4Q11 to 29%

But Much Better than Two Previous Years; AZ, NV, ID Banks Still Struggling

Percentage of Commc'l Banks Reporting Net Losses by Quarter



Percentage of Commc'l Banks Reporting Net Losses in 2011 (full year)

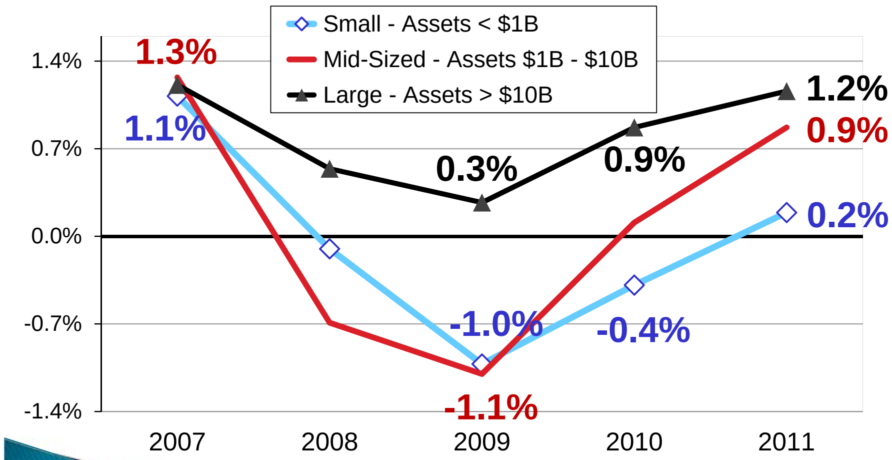


Preliminary 4Q11 data for all commercial banks, excl. De Novos

Industrial banks: 6% lost money in 2011

Small District Banks (<$1B) Continued to Struggle with Minimal Profits

Avg. Return on Average Assets – annual (%)

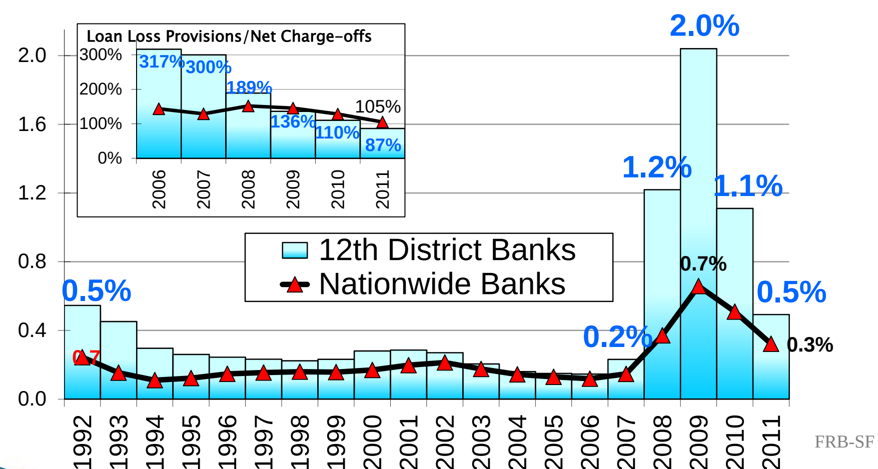


Based on preliminary 4Q11 data for commercial banks, excluding De Novos; trimmed means

Reduced Provisions Drove Most of the Improvement in 2011

Banks Feel Confident on the Credit Quality Outlook

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

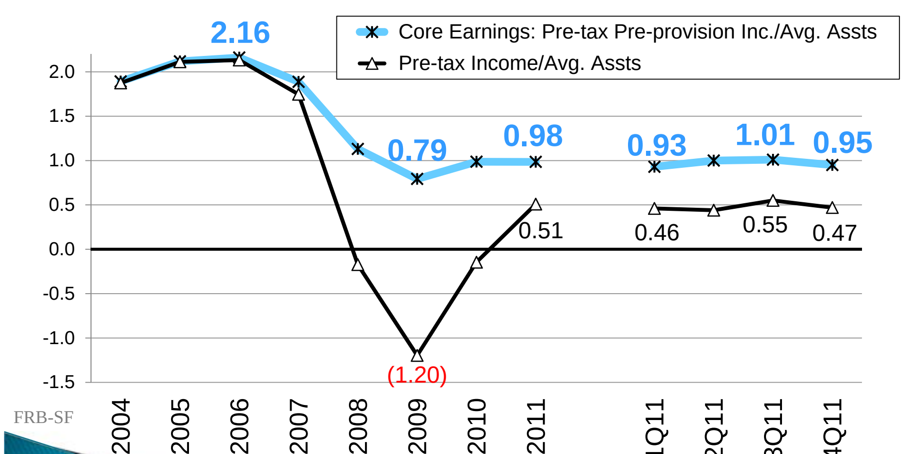


Based on preliminary 2011 data for commercial banks, excluding De Novos; trimmed means

Core Earnings Remained Low and Weakened Slightly in 4Q11

Aside from Reduced Loss Provisions, Earnings Have Seen Little Improvement

12th District Bank Profitability Ratios and Provision Expense – annualized (%)

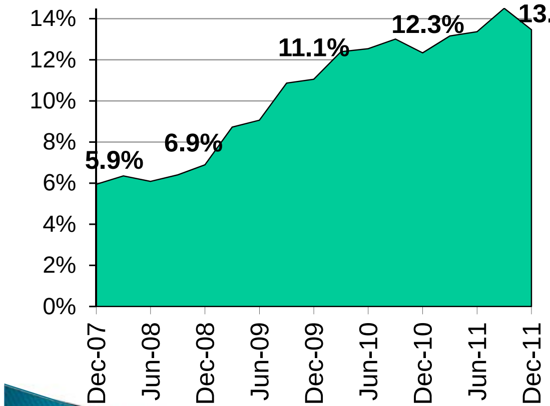


Based on preliminary 4Q11 data for commercial banks, excluding De Novos; trimmed means

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

Lending opportunities remain limited

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



12th District Bank Avg. Cash & Equivalents / Assets		
Bank Group	12/07	12/11
Banks < $1B	7.0%	15.2%
Bks $1B-$10B	2.9%	7.5%
Banks > $10B	3.9%	6.1%

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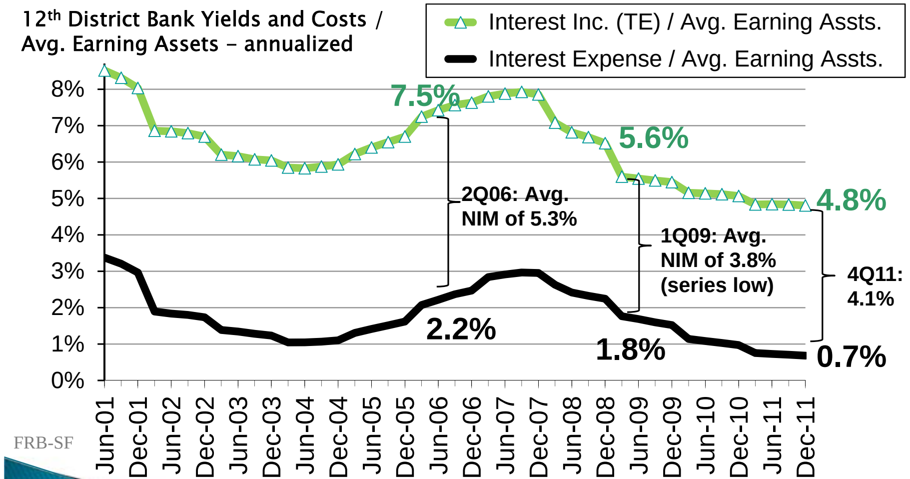
Based on commercial banks excluding De Novos; trimmed means, preliminary 12/11 data

Earning Asset Yields and Interest Costs at Extremely Low Levels

Net Interest Margins Remain Near their 2009 Low



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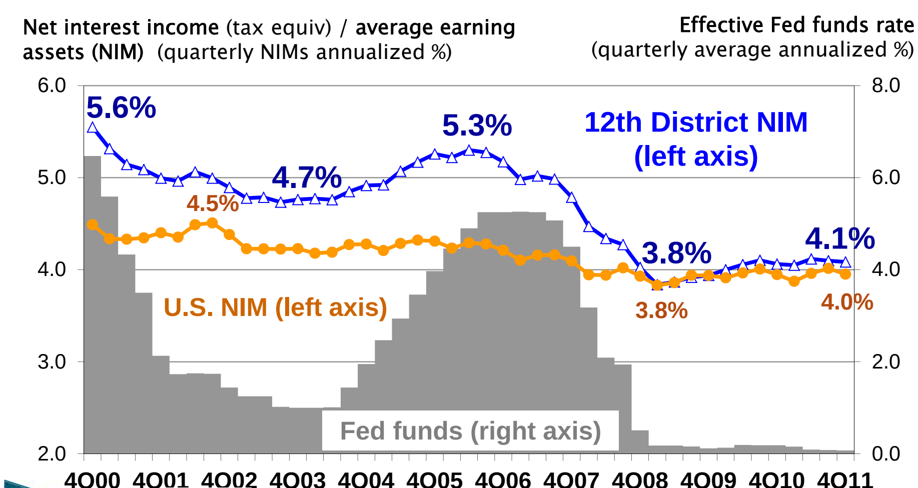
Based on commercial banks excluding De Novos; trimmed means, preliminary 12/11 data

District Bank Net Interest Margins Remained Depressed, but Slightly Higher than the Nation (on avg.)



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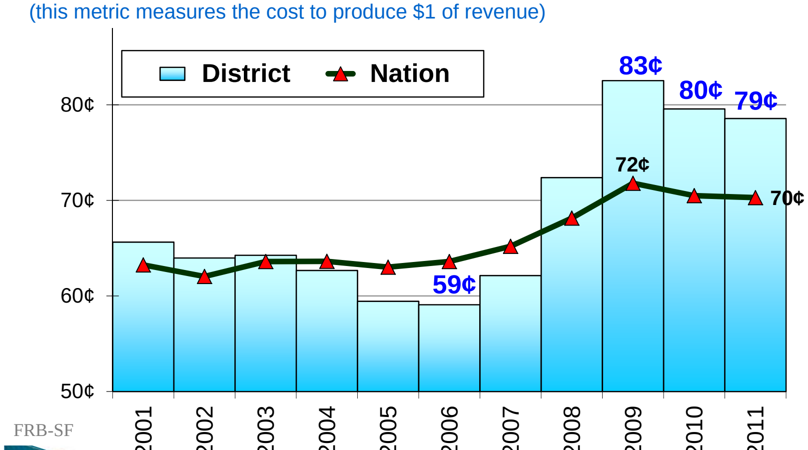
Based on commercial banks excluding De Novos; trimmed means; quarterly ratios are annualized; prelim 4Q11 data. Effective Fed funds rates from FRB-St Louis.

Avg. Bank Efficiency Measure Improved, but Remained Inflated from Loan Workout and OREO Costs

Efficiency Measure – overhead / (net interest income + noninterest income)

(this metric measures the cost to produce $1 of revenue)



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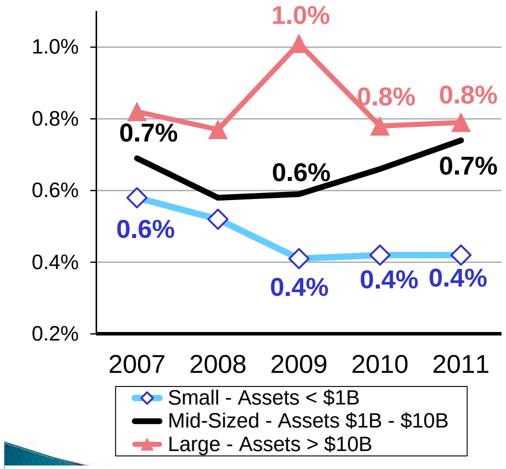
Based on commercial banks excluding De Novos; trimmed means; preliminary 12/11 data

Small Banks are Challenged to Grow Noninterest Income

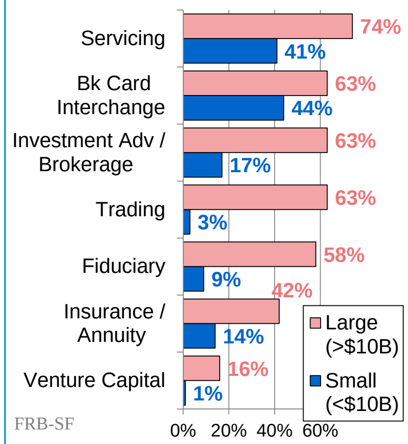
Large Banks Conduct a Greater Array of Fee Businesses

Median Noninterest Income/Avg. Assets 2011



District commercial banks excluding De Novos; medians; 2011 data is preliminary

Pct. of District banks reporting selected types of fee income – 2011



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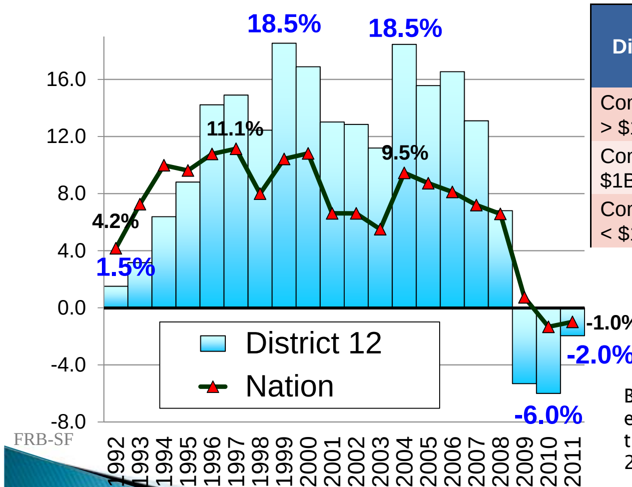
Based on all District commercial banks

Loan Growth Negative in 2011 but Trend is Positive

Large and Mid-Sized Commercial Banks Grew Loans YoY on Avg.

Avg. Annual Loan Growth Rates (%)



District Bank Group	Avg 1-Yr Ln Growth 12/11
Commrcl Banks > $10B	2.7%
Commrcl Banks $1B-$10B	1.3%
Commrcl Banks < $1B	-2.9%

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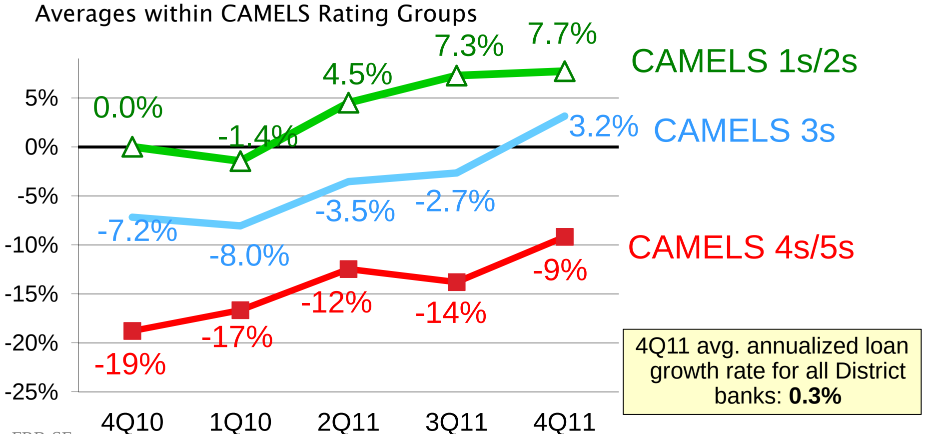
Based on commercial banks excluding De Novos; trimmed means; prelim 2011 data

Industrial bank avg. loan growth in 2011: 9.4%

Banks with CAMELS Rating of 3 or Better Grew Loans in the 4th Quarter on Average

Annualized Quarterly Loan Growth **Rates**

Averages within CAMELS Rating Groups



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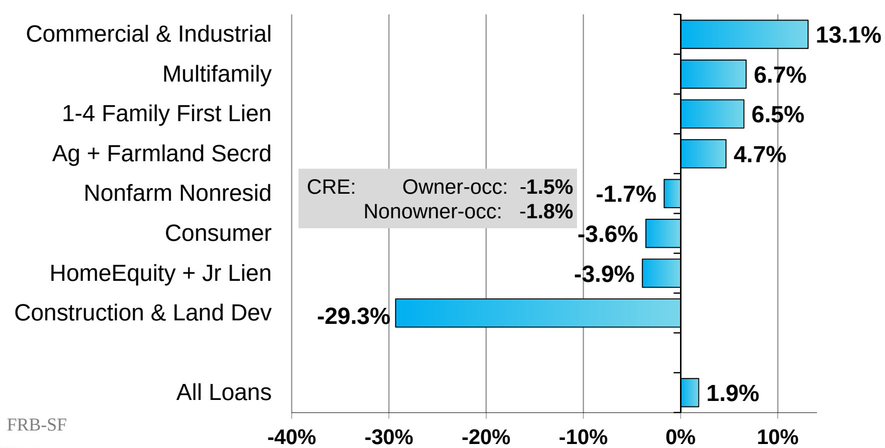
Based on a panel of District commercial banks; excludes banks with significant mergers, loan sales or loan purchases over the period; Averages are trimmed means.

CAMELS: rating system used by banking supervisors

Switching to District Aggregates:

Total YoY Loan Growth Positive; C&I: Most Growth

12th District Bank Aggregate Loan Growth Rates – 12 months ending 12/31/11



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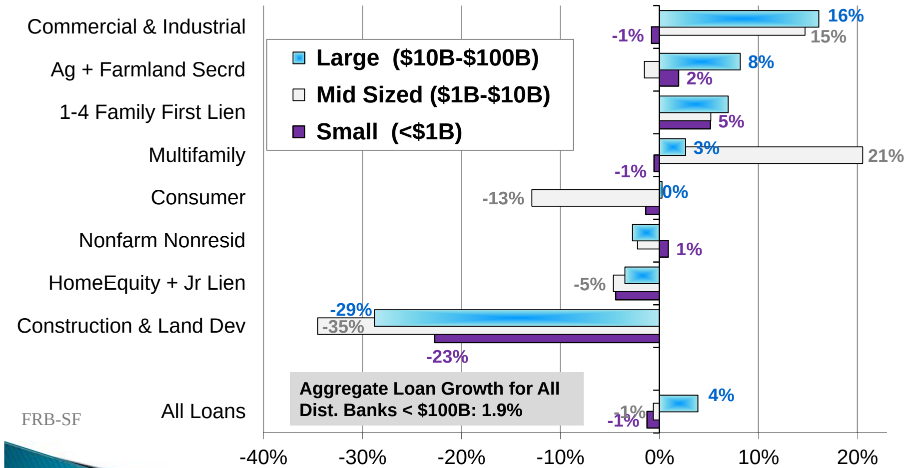
Based on a panel of District commercial banks with assets < $100B; excludes banks with significant mergers, loan sales or loan purchases over the period

Large & Mid-Sized Banks Expanded C&I, Multifamily & other Portfolios; Small Banks Reduced Most Categories

12th District Bank Aggregate Loan Growth Rates – 12 months ending 12/31/11



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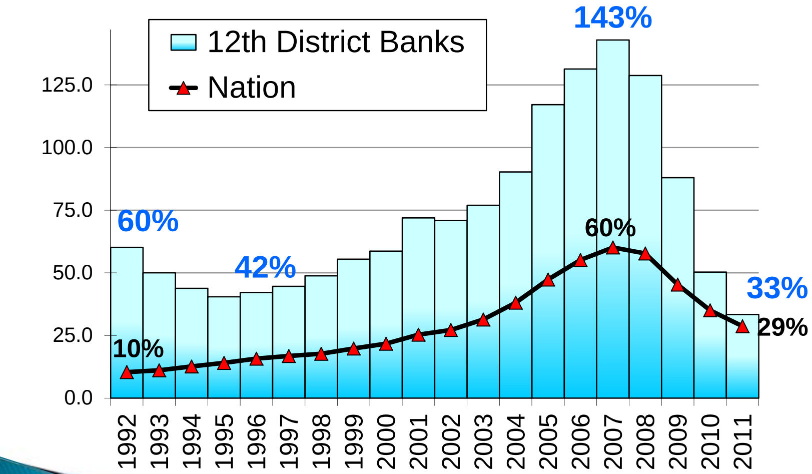
Based on a panel of District commercial banks with assets < $100B; excludes banks with significant mergers, loan sales or loan purchases over the period

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

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



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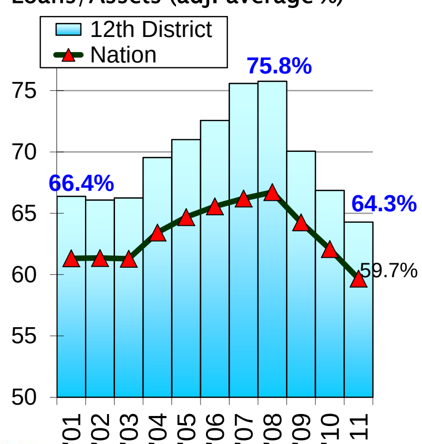
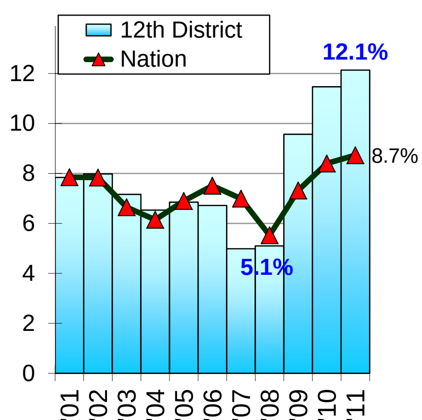
Preliminary 12/11 data for commercial banks, excluding De Novos; trimmed means

Balance Sheet Liquidity Ratios Continued to Improve

Loans/Assets (adj. average %)



Short-Term Investments/Assets (adj. avg. %)



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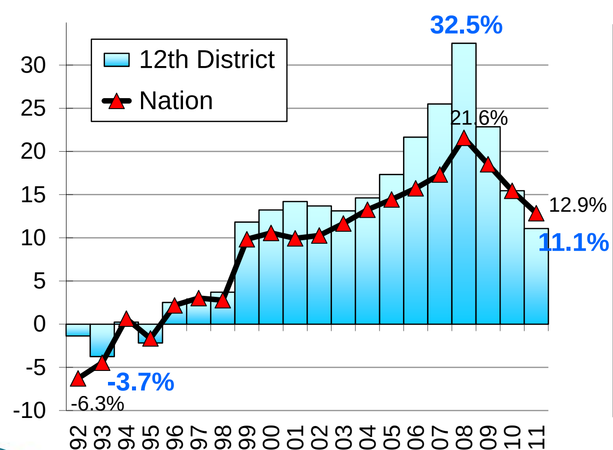
Preliminary 12/11 data for commercial banks, excluding De Novos; trimmed means

Average District Bank Reliance on Noncore Funding Sources Now Lower than Nat'l 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)

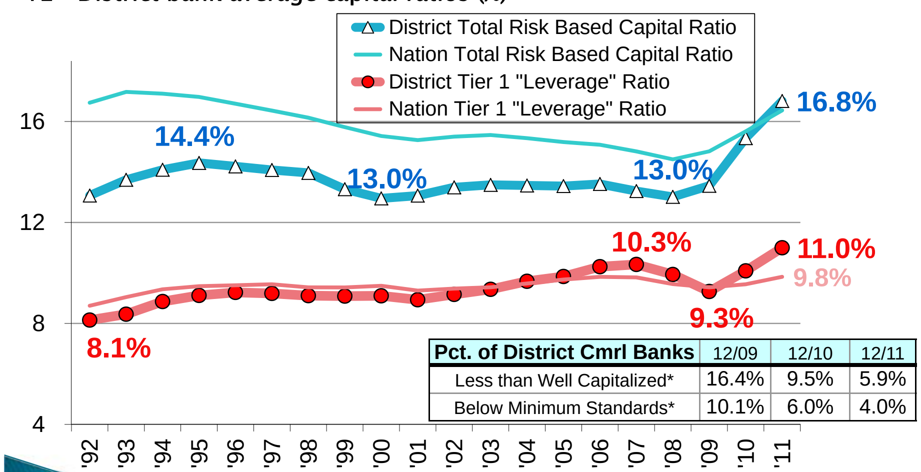
FRB-SF

Preliminary 12/11 data for commercial banks, excluding De Novos; trimmed means

District Bank Capital Ratios Continued to Climb

Loan Reductions & New Capital Provided a Capital Ratio Boost

12th District bank average capital ratios (%)



Pct. of District Cmrl Banks	12/09	12/10	12/11
Less than Well Capitalized*	16.4%	9.5%	5.9%
Below Minimum Standards*	10.1%	6.0%	4.0%

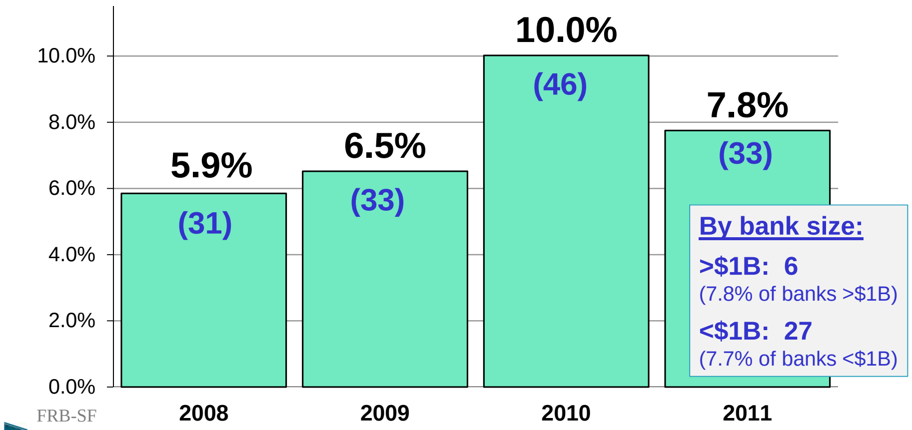
FRB-SF

Preliminary 12/11 data for commercial banks, excluding De Novos; trimmed means

* Capital categories based on Prompt Corrective Action framework, using Call report data.

Common Equity Raising / Injections from Parent Companies Slowed But Still Healthy

Pct (and number) of District Commercial Banks Obtaining Significant Volumes of Capital in Preceding 12 Months (>3% of Bank's Avg. Assets)



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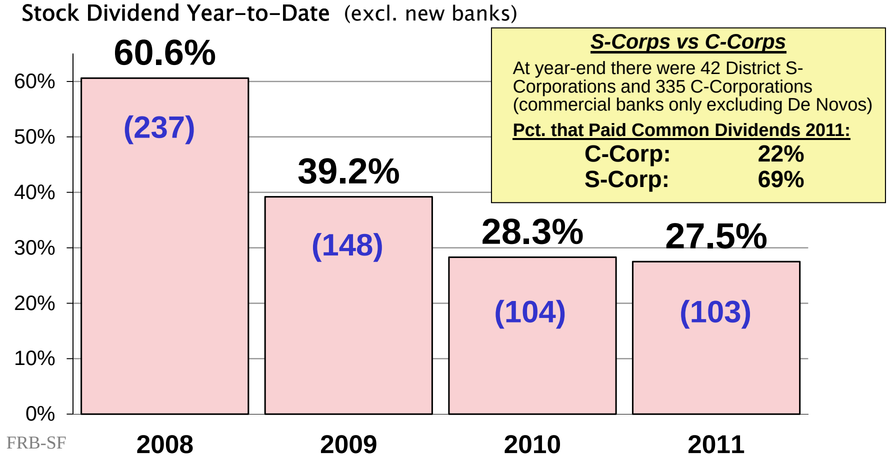
Source: Regulatory Call & Income Reports; capital raises at District commercial banks that occurred in 12-months ending 12/31 of each year, excludes preferred stock increases; preliminary 2011 data

Number of District Banks Paying Common Dividends Stable from 2010

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



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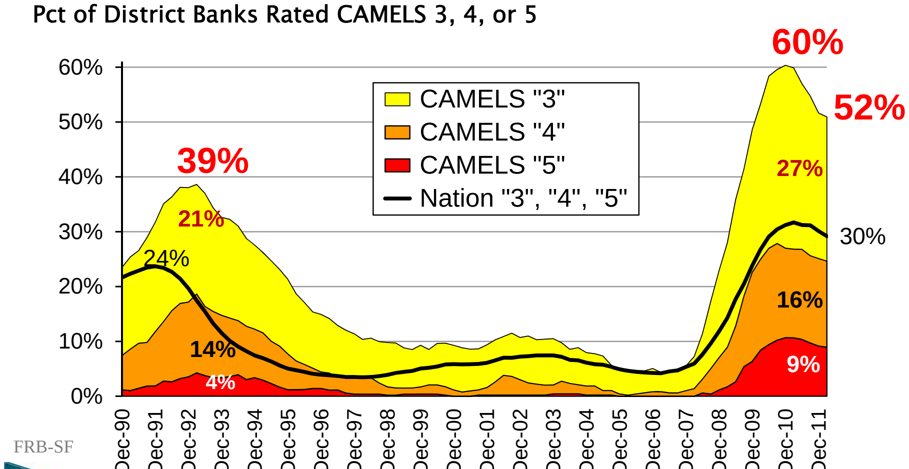
Preliminary 12/11 data for commercial banks, excluding De Novos

Percentage of 12th District Banks Rated CAMELS 3, 4 or 5 Has Subsided for Five Quarters

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

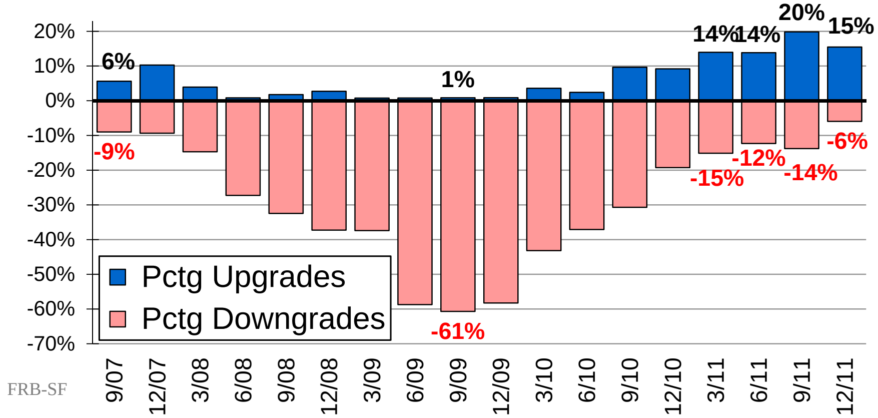


FRB-SF

Trends for all commercial banks based on examination completion dates (mail dates); preliminary 12/11 figures; updated 02/08/12

CAMELS Upgrades Continued to Outpace Downgrades

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

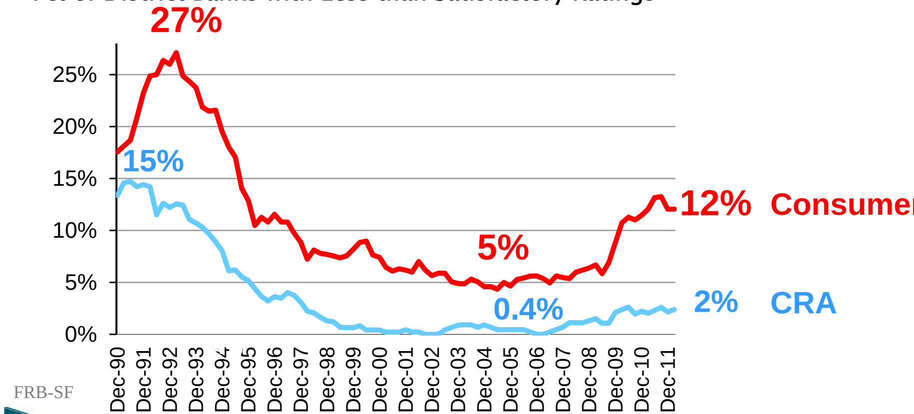


Includes any change in composite CAMELS rating for commercial banks; quarterly trends based on examination completion dates (mail dates); preliminary 12/11 figures; updated 02/08/12

Pctg 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

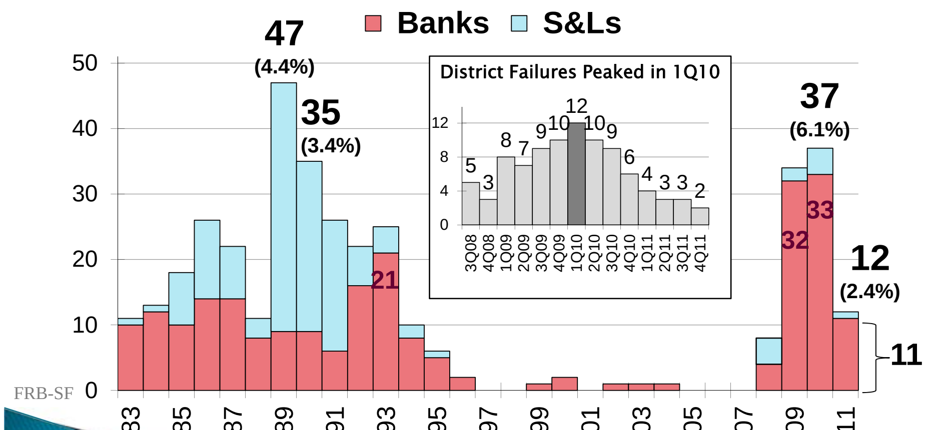
Pct of District Banks with Less than Satisfactory Ratings



Trends for all commercial banks based on examination completion dates (mail dates); CRA = Community Reinvestment Act; updated 2/8/2012

12th District Failures Down Sharply in 2011 (from 6% Rate in 2010)

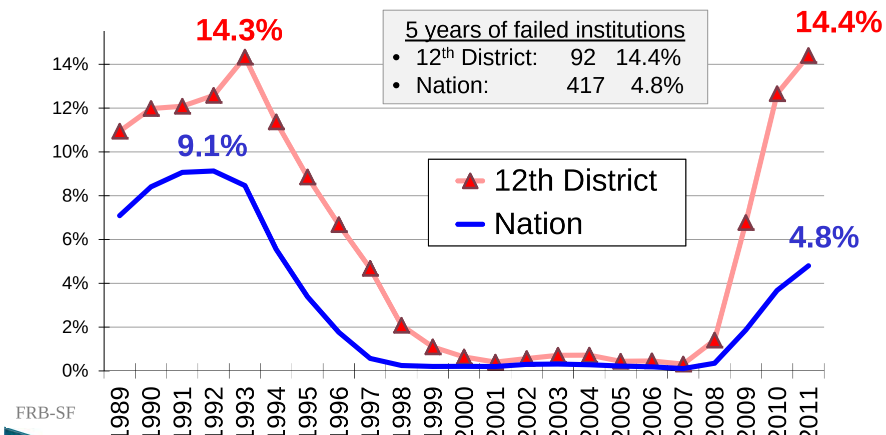
Number of 12th District Failures
Based on all FDIC insured depository institutions



Sources FDIC; FRBSF; updated 12/31/2011

5-Year Cumulative District Failure Rate Matches Early 1990s Peak

Failure Rate: Pct of institutions that failed over a 5-year period

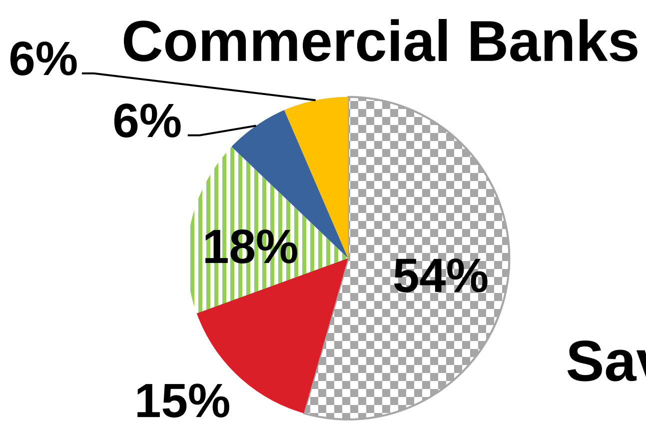


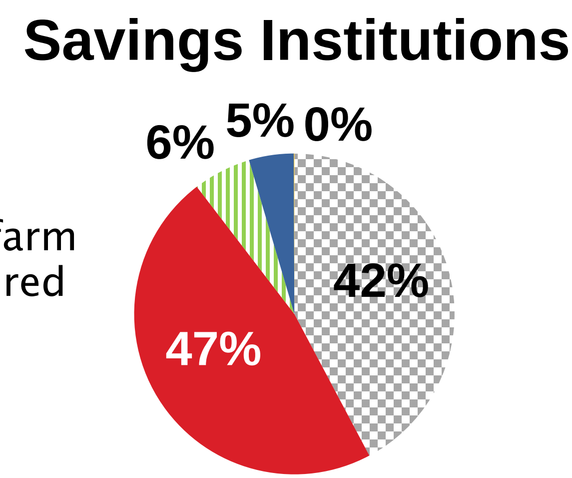
Sum of 5 years of failures as a percentage of beginning of period totals; Source: FDIC; Data includes banks and thrifts; updated 12/31/2011

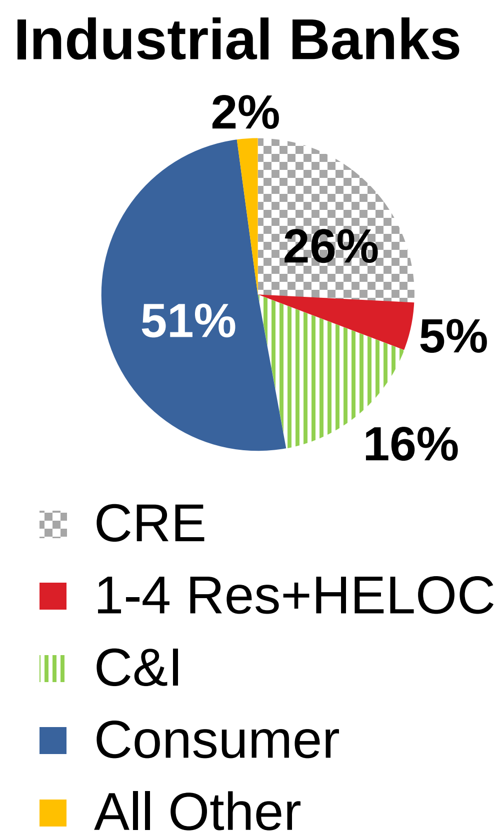
Section 2 – Savings Institution and Industrial Bank Performance

Slides in this section focus on trends among the 44 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.





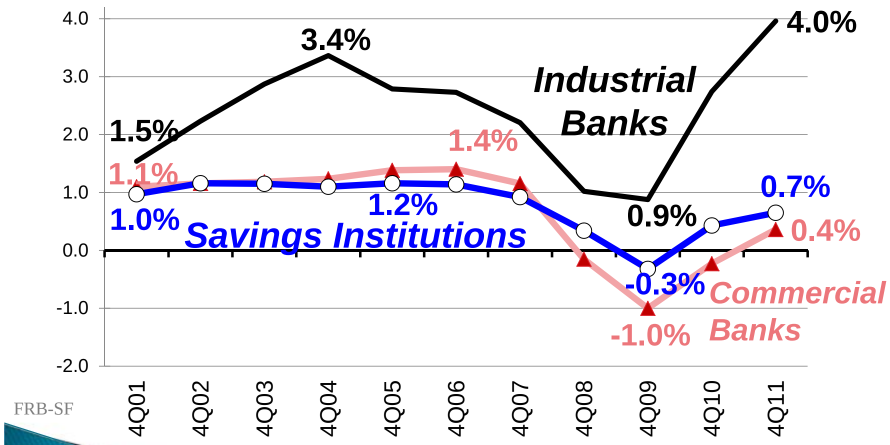


Aggregate loan mix for District institutions < $10B; CRE = nonfarm nonresidential, multifamily secured loans, and construction & land development loans; preliminary 12/11 numbers

Industrial Bank Profitability Has Excelled

These Institutions Typically Conduct Nationwide Consumer or C&I Lending from one Office, Enabling High Loan Yields and Low Overhead Ratios

District Return on Average Assets –Annual Averages (%)



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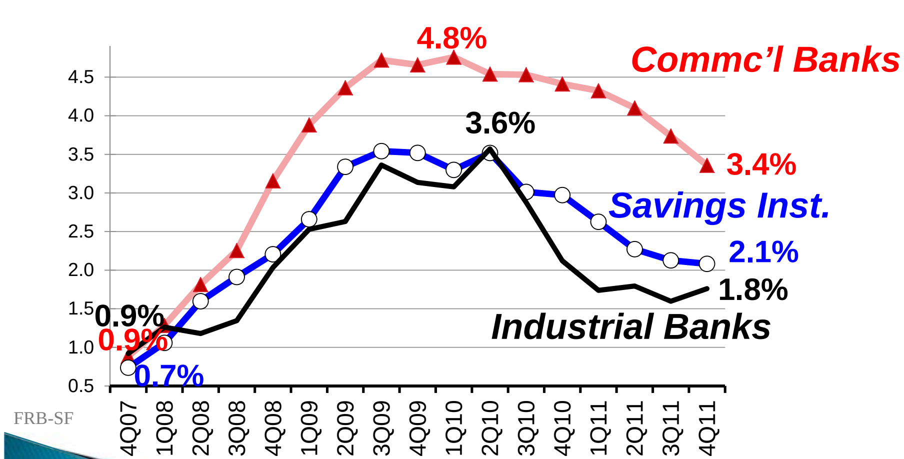
Based on District commercial banks, savings institution and industrial banks; excluding De Novos; trimmed means

Loan Quality: District Industrial & Savings Institution Noncurrent Ratios Well Below Commc'l Bks' on Avg.

Average 12th District Noncurrent loans – quarterly (%)



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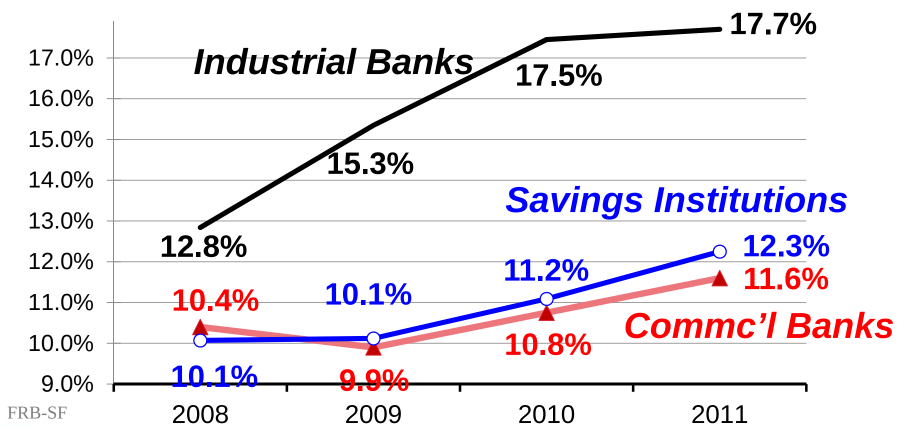
Based on District commercial banks, savings institutions and industrial banks; excluding De Novos; trimmed means

Equity/Assets Ratio Trends Positive for All Institution Types – Highest for Industrial Banks

Average 12th District Institution Equity/Assets Ratios

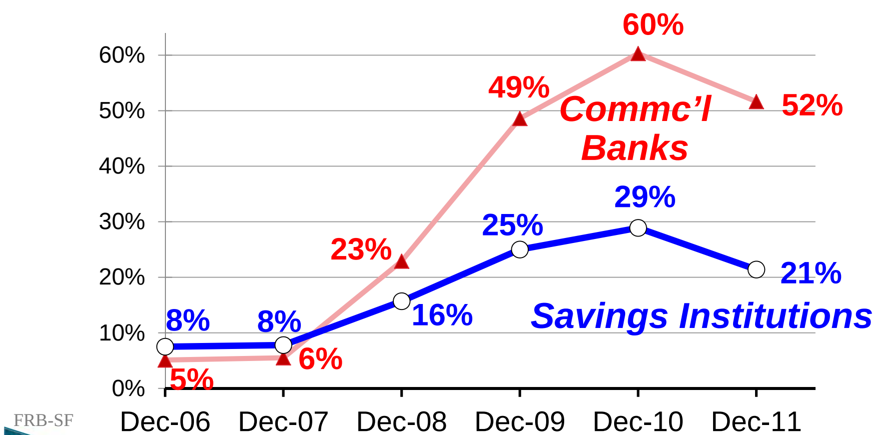


FRB-SF

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

Pctg Rated CAMELS 3, 4 or 5 Significantly Lower for Savings Banks than Commercial Banks

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



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Note: there are too few industrial banks to show rating trends, but the latest percentages of 3, 4, and 5s are lower than those of banks or savings institutions

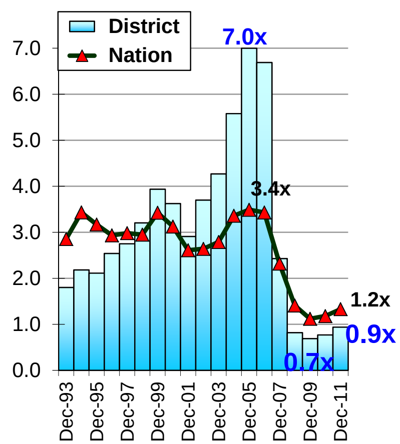
Section 3 – Supervisory Hot Topics

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
ALLL Coverage of Noncurrent Loans Relatively Low

- ✓ The District avg. ALLL / Loan ratio remained high at 2.5%, but coverage of noncurrent loans remained relatively low by historical standards (< 1x)
- ✓ However, loans newly placed on nonaccrual typically are written down to fair value based on future cash flows or collateral values; these loans generally require limited additional reserves

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



ALLL/Noncurrent Loans: State Avg. 12/11	
ID	0.7x
AZ	0.8x
WA	0.8x
OR	0.9x
CA	1.0x
UT	1.0x
NV	1.1x
HI	1.9x
AK	2.3x

Lowest state is NC: 0.6x; highest is NE: 4.0x

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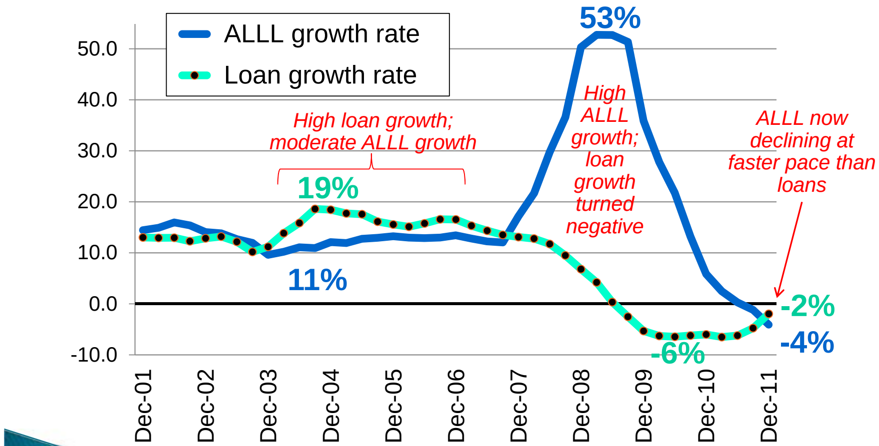
Based on all commercial banks excluding De Novos; trimmed means, preliminary 12/11 data

Bank Supervisors' Hot Topic
ALLL: Annual Growth Turned Negative in 2011 on Avg.

Avg. Annual Growth in Loans vs ALLL



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Based on preliminary 12/11 data for commercial banks, excluding De Novos; trimmed means

Bank Supervisors' Hot Topic
ALLL: 53% of Banks Drew Down their ALLL in 2011

- ✓ Rising portion of banks drew down ALLL (53% in 2011)
- ✓ **27% of 12th District bks took zero or negative loss provisions in 4Q11** (10% zero or neg. provisions for all of '11)
- ✓ A positive sign of improving credit quality

However:

- ✓ *ALLL should be lowered only when it is appropriate*
- ✓ *Examiners expect well-documented justification for such decisions*
- ✓ *Changes in ALLL generally should be directionally consistent with delinquencies and charge-offs (recent trends as well as probable trends going forward)*

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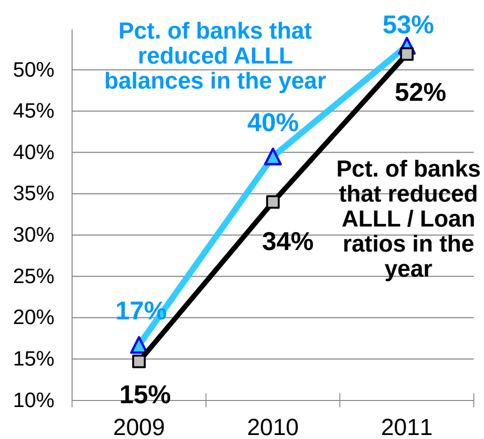
Percent of District Commercial Banks

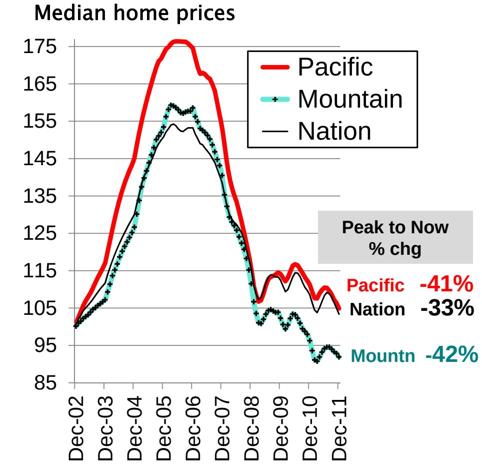


ALLL = Allowance for Loan and Lease Losses. Based on all District commercial banks excluding De Novos. Prelim 2011 data

Bank Supervisors' Hot Topic
Weak Housing Market and Impact

- ✓ Home price declines continued as the share of distressed sales increased
- ✓ Consensus outlook*: no home price increase until 2013
- ✓ Main concerns for western banks
  - District states have some of the highest percentages of negative equity mortgages
  - Additional litigation risk beyond recent mortgage settlements and fines
  - Residential junior lien positions remain at risk
  - Consumer confidence may remain weak until home prices rise

Median home prices



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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.
* Zillow Home Price Expectations Survey – Dec. '11

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

- ✓ Net charge-off rates climbed to around 20 year high in 2010 (before receding in 2011)
- ✓ Underwater / under-margined loans are maturing; property cash flows weak from high vacancies, low rents
- ✓ Matured loans often granted extensions even when borrower contributes no new cash
- ✓ Troubled Debt Restructurings often have been understated
- ✓ Risk of another surge in net charge-off rates; compounded if interest rates rise

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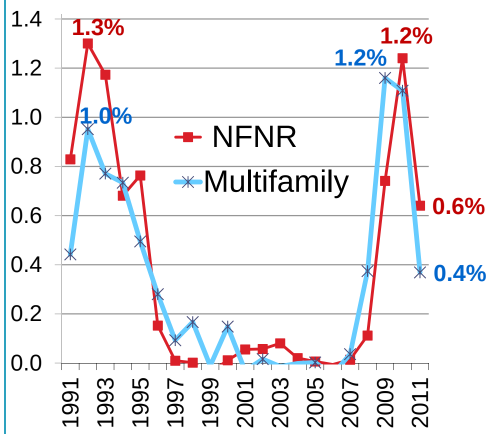
CRE Loan Net Charge-Off Rates
(12th District bank aggregates)



Aggregate NCO rates for all District banks; NFNR = Nonfarm Nonresidential secured loans

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

- ✓ Bank vulnerability to CRE income property loans is very high – CRE accounts for nearly 50% of total loans on average
- ✓ If CRE net charge-off rates rise sharply, it could result in a "double dip" credit loss cycle for banks

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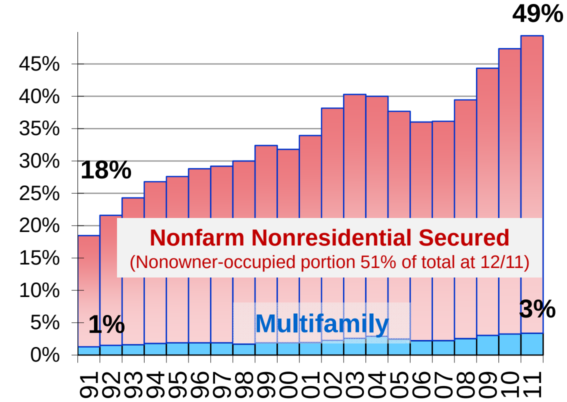
Avg. 12th District Bank CRE Income Property Loans (% of Total Loans)



Based on all 12th District commercial banks; trimmed means, preliminary 12/11 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 credit quality impact on many borrowers

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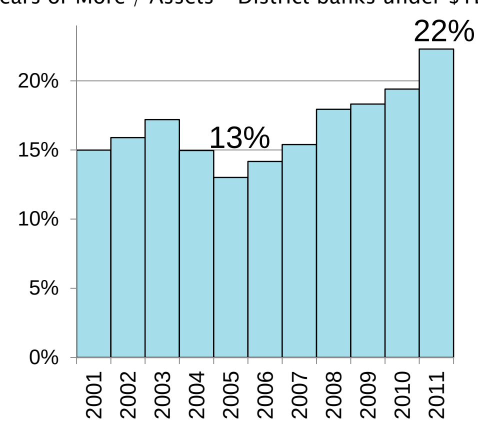
Loans and Securities Maturing or Repricing in five Years or More / Assets – District banks under $1B



Based on aggregate data for 12th District banks with assets < $1 billion; includes commercial and industrial banks; 12/11 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
- ✓ One in five District banks increased their C&I loans by at least 20% year-over-year; many banks reported rapid multifamily loan growth
- ✓ Banks should review lending policies, ALLL methodologies, staff expertise, and monitor underwriting exceptions to ensure quality loan growth and appropriate risk mitigation, especially in new areas

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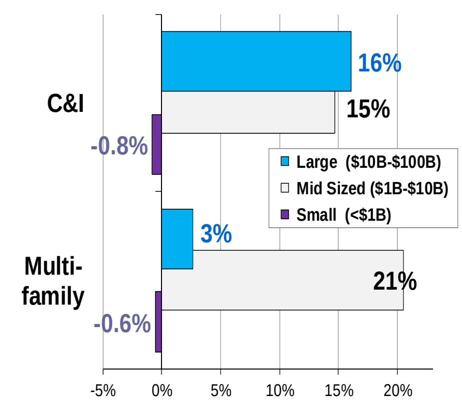
12th District Bank Aggregate Loan Growth Rates – 12 months ending 12/11



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

Bank Supervisors' Hot Topic
Other Areas of Concern

- ✓ **European Debt Crisis**: Direct exposures, among 12th District banks, to countries under most strain is limited; however, the European situation poses a significant risk of contagion to financial markets in general and the global economy.

- ✓ **Capital Planning and Stress Testing**: Given the financial crisis and still weak economy, greater attention is being given by bank supervisors to scenario analysis/stress testing of exposures, particularly in connection with capital planning. Current regulatory guidance in the areas of liquidity risk, interest rate risk, and commercial real estate concentrations all include stress testing expectations, as does the Dodd-Frank Act for banks > $10B. *Note: There are no bank-wide stress testing requirements for banks with assets < $10 billion. The only expectations for smaller banks are those contained in existing guidance, such as for interest rate risk or for CRE concentrations.*

Bank Supervisors' Hot Topic, cont.
Capital Planning / Stress Testing Expectations

- Heightened stress testing expectations related to capital planning (a more forward-looking approach to capital); e.g.:

CCAR
Comprehensive Capital Analysis and Review
- Largest 19 banks

CapPR
Capital Plan Review
- Non-CCAR banks with more than $50B in assets

DFAST
Dodd-Frank Act Stress Testing (rule not finalized)
- All banks and thrifts with more than $10B in assets

Basel II ICAAP
Internal Capital Adequacy Assessment Process
- Basel II requires stress testing in various areas
- CCAR stress review may satisfy Basel requirement

Community Bank Stress Testing
- Excluded from above stress test expectations
- CRE concentrated banks are expected to stress CRE portfolios

Source: FRB-Chicago, with some modifications

Appendix

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

NCO rates declined sharply from last year, but remained at high levels

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

	All Banks			Small Bks (<$1 Billion)	
	2010	2011		2010	2011
Construction & Land Development	5.84	2.49		4.89	3.28
Residential Construction	5.56	3.07		3.82	3.07
Other C&LD	5.90	2.36		5.23	3.35
CRE - Nonfarm Nonresidential Loans	1.24	0.64		0.87	0.73
Owner-Occupied	1.18	0.75		0.80	0.59
Nonowner-Occupied	1.29	0.56		0.93	0.86
Residential Closed-End Loans	1.63	1.14		1.56	1.33
Home Equity Loans	3.81	2.34		1.08	1.23
Multifamily Loans	1.11	0.37		0.71	0.69
Commercial & Industrial Loans	1.77	0.66		2.80	1.61
Agricultural Loans	1.77	0.37		0.54	0.30
Credit Card Loans	9.97	5.30		4.54	2.90
Installment Loans	1.99	1.05		1.97	1.76
Total Loans	2.18	1.13		1.74	1.18

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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 (7)	-	1 (0)
California	227 (28)	9 (1)	15 (3)
Guam	2 (0)		1 (0)
Hawaii	6 (0)	1	1 (0)
Idaho	17 (2)	-	1 (0)
Nevada	19 (6)	4 (0)	2 (0)
Oregon	31 (2)	-	3 (1)
Utah	32 (2)	19 (0)	4 (0)
Washington	58 (2)	-	14 (0)
District 12	424 (49)	32 (1)	44 (4)
Nation	6,234 (260)	35 (1)	1,075 (22)

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Based on preliminary 4Q11 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 file the thrift Call report.

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