Loan Growth Accelerated but Earnings Remained Muted

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This report is based upon preliminary data from 3Q2014 and prior Condition & Income Reports as well as other examination and economic sources. Data and has been prepared primarily for bank supervisors and bankers. The opinions expressed in this publication are those of the authors. Opinions are intended only for informational purposes, and are not formal opinions of, nor binding on, the Federal Reserve Bank of San Francisco or the Board of Governors of the Federal Reserve System.

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<table>
<thead>
<tr>
<th>Section</th>
<th>Title</th>
<th>Pages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highlights:</td>
<td>12&lt;sup&gt;th&lt;/sup&gt; District Overview</td>
<td>3 - 4</td>
</tr>
<tr>
<td>Section 1:</td>
<td>Economic Conditions</td>
<td>5 - 13</td>
</tr>
<tr>
<td>Section 2:</td>
<td>Commercial Bank Performance</td>
<td>14</td>
</tr>
<tr>
<td></td>
<td>Earnings</td>
<td>15 - 25</td>
</tr>
<tr>
<td></td>
<td>Hot Topic – Margins Remained Under Pressure</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Provisions and Loan Loss Reserves</td>
<td>26-28</td>
</tr>
<tr>
<td></td>
<td>Loan Growth and Mix</td>
<td>29-38</td>
</tr>
<tr>
<td></td>
<td>Hot Topic – Loan Growth Accelerated Further</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Credit Quality</td>
<td>39-44</td>
</tr>
<tr>
<td></td>
<td>Liquidity and Interest Rate Risk</td>
<td>45-51</td>
</tr>
<tr>
<td></td>
<td>Hot Topic – Asset Maturities and Non-Maturity Deposits Increased</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Capital and Dividends</td>
<td>52-54</td>
</tr>
<tr>
<td>Section 3:</td>
<td>Regulatory Ratings and Trends</td>
<td>55 – 59</td>
</tr>
<tr>
<td>Section 4:</td>
<td>Savings Institution and Industrial Bank Performance</td>
<td>60 – 64</td>
</tr>
<tr>
<td>Appendix 1 &amp; 2:</td>
<td>Banks Covered in This Report / Technical Information</td>
<td>65</td>
</tr>
<tr>
<td>Appendix 3:</td>
<td>Regulatory Hot Topics</td>
<td>66</td>
</tr>
</tbody>
</table>
Measures and statistics in the following summary refer to averages in the 12th District unless otherwise noted.

The District’s economy continued to expand at a healthy rate. Increases in jobs and home prices outpaced the nation, on average. Home construction also expanded. The pace of job, home price, and construction gains was more muted than one year ago, however. Leading Index readings from the Federal Reserve Bank of Philadelphia suggest growth will continue in most of the District’s states.

Several metrics among 12th District-based banks improved further during 3Q14. Loan growth continued to expand and asset quality measures approached pre-crisis levels; however, continued low interest rates proved to be an ongoing headwind for earnings.

Year-to-date pretax profits generally improved on a linked-quarter basis across size groupings, although performance by bank size was uneven year-over-year. For smaller banks (<$10 billion), overhead and provision expense reductions more than offset declines in net interest margins relative to last year. But at mid-sized ($10-$50 billion) and large (>=$50 billion) banks, margin compression was more severe and the effect on earnings was compounded by significant declines in noninterest income ratios. These factors overwhelmed improvements in other earnings components. Profitability trends also varied by state, with a significant range of performance within each state.

Loan demand remained strong. Net loan growth accelerated to 11.4% during the twelve months
12th District Overview, Continued

Ending September 30th, far above an average national growth rate of 6.6%. Increases among commercial and industrial and certain real estate loan categories led the trend. Among mid-sized and larger banks, specialty loan segments also provided an important source of growth. As with profits, net loan growth varied by state, outpacing the nation in all but Alaska, where economic indicators lagged as well.

Asset quality continued to improve, especially among smaller banks. The districtwide average nonperforming asset ratio, which includes both noncurrent loans and foreclosed real estate, was comparable to the national average for the first time since year-end 2007. Consistent with last quarter, the average net charge-off rate among District banks hovered around pre-crisis levels.

Maturities on loans and securities continued to lengthen and non-maturity deposits remained high by historical standards. In a rising rate environment, assets with longer durations may decline in value by a greater degree than short-term assets. On the liability side, non-maturity deposits (i.e., checking, savings, and money-market accounts) may need to be repriced quickly to remain competitive with alternative products.

Capital and balance sheet liquidity measures weakened slightly but remained strong overall. Changes in risk-based capital measures tended to lag increases in leverage ratios as banks shifted investments from lower risk-weighted cash and securities to higher risk-weighted loan categories. Meanwhile, noncore funds reliance remained relatively low. However, a rising interest rate environment may alter the mix of deposits and funding prospectively.

Examination ratings trends reflected improved financial performance across District banks. The share of banks with less-than-satisfactory examination ratings declined to 24%, still above a national ratio of 14%, but well below a peak of 60% in late 2010. Among ratings components, earnings and management tended to be the weakest. Consumer compliance ratings continued to recover from the crisis; however, banks faced the ongoing challenge of changes in compliance regulations. Meanwhile, the percentage of less-than-satisfactory community reinvestment act (CRA) ratings leveled-off.
Section 1 - Economic Conditions

Job Growth
State Leading Index
Housing Market Metrics
Commercial Real Estate Market Metrics
### District Job Growth Rate Remained Strong But Decelerated in the Past Year

**Annual Growth Rate of Nonfarm Jobs**

- **District:** 2.9%, 2.2%, 1.9%
- **Nation:** 2.2%, 1.9%, 1.7%


### State-Level Job Growth in the District Exceeded 2%, Except in Alaska, Idaho, and Hawaii

**Year-Over-Year Change in Nonfarm Jobs by State - 3Q14**

- **District:** 2.3%, 2.0%, 4.7%
- **Nation:** 1.9%, 1.8%, 1.6%

Based upon year-over-year change in 3-month average ending September; Source: Bureau of Labor Statistics, Haver Analytics

### Leading Index Measures Suggest Near-Term Growth Will Continue in Most States in the District

**Leading Index Measure by State - September 2014**

- **Nation:** 1.7%

Leading index predicts if a local economy might expand (+) or contract (-) in the near term

The Leading Index predicts the 6-month growth rate of state's coincident economic index. Inputs include state-level nonfarm payroll jobs, average hours worked in manufacturing, unemployment rate, wages and salaries, 1-4 family permits, and initial unemployment claims, as well as national manufacturing delivery times and the 3-mo. vs. 10-yr. Treasury yield spread. Source: Federal Reserve Bank of Philadelphia, Haver Analytics

### Home Prices Increased Further but at a Slower Pace

**Year-Over-Year Change in Median Home Price (%)**

- **Nation:** 1.7%

Median prices in 26% of 937 markets nationwide exceeded pre-crisis peaks.

Source: CoreLogic Home Price Indices
Home Price Increases in California, Nevada, Oregon, and Hawaii Were Particularly Strong (Albeit Slowing)

Year-Over-Year Change in Median Home Price By State – September 2014

Median home prices continue to rise, but District prices remained 14% below pre-crisis peaks.

Growth in Housing Starts Leveled Out Somewhat After Decelerating from the 2012-2013 Period

Year-Over-Year Change in Housing Starts

The Pace of Commercial Real Estate Price Increases Slowed Across Property Types

Year-Over-Year Change in Commercial Real Estate Price Index

CRE Markets: Vacancy and Availability Rates Trended Down; Some Sectors May Improve Further

Quarterly Aggregate Vacancy or Availability Rates – 12th District

Retail and Industrial trends are availability rates; Office and Multi-Housing trends are vacancy rates; based on an aggregate of rates for 15-16 large metropolitan areas; Source: CBRE-Econometric Advisors

10Source: CoreLogic Home Price Indices

11Based on average new privately owned housing units started in trailing 12 months (seasonally adjusted);
West: AK, AZ, CA, CO, HI, ID, MT, NV, OR, UT, WA, WY; Source: Census Bureau, Haver Analytics

12CRE Markets: Vacancy and Availability Rates Trended Down; Some Sectors May Improve Further

Retail and Industrial trends are availability rates; Office and Multi-Housing trends are vacancy rates; based on an aggregate of rates for 15-16 large metropolitan areas; Source: CBRE-Econometric Advisors

13*West: AZ, CA, CO, ID, MT, NV, NM, OR, UT, WA, WY; Source: NCREIF Transactions-Based Index of Institutional Commercial Property Investment Performance
Focusing on trends among the 357 commercial banks headquartered within the 12th Federal Reserve District.

Note: bank size groups are defined as small (<$10B), mid-sized ($10B-$50B) and large (>50B) banks. The large bank group covers nationwide banks (a larger statistical population), while the other two groups cover 12th District banks.

See also “Banks at a Glance,” Bank Profiles by State: http://www.frbsf.org/banking-supervision/publications/banks-at-a-glance/
Profitability: Pretax Profits Increased Further, but Improvements to Bottom-Line Earnings Were More Muted

**Profitability Rates**

- District Pretax Pre-Provision ROAA (TE)
- District Pretax ROAA (TE)
- District After-Tax ROAA

- Sep-11: 1.02%
- Sep-12: 1.10%
- Sep-13: 1.14%
- Sep-14: 1.16%

Profitability: Pretax Profits Increased Further, but Improvements to Bottom-Line Earnings Were More Muted

**Profitability Rates**

- District Pretax Pre-Provision ROAA (TE)
- District Pretax ROAA (TE)
- District After-Tax ROAA

- Sep-11: 1.02%
- Sep-12: 1.10%
- Sep-13: 1.14%
- Sep-14: 1.16%

**In Spite of Improvement, Average Pretax Profitability Continued to Trail the Nation**

**Pretax Return on Average Assets (TE)**

- Sep-13: 2.13%
- Sep-14: 1.58%

**Most of the Improvement in Earnings Occurred Among Smaller Banks**

**Pretax Return on Average Assets (TE) by Bank Size**

- District Small (< $10B)
- District Mid-Sized ($10B-$50B)
- Nation Large (> $50B)

**The Distribution of Pretax ROAAs Varied Widely Within Some District States, Especially Arizona**

**Pretax Return on Average Assets (TE) by State**

- UT: 1.68%
- AK: 1.41%
- CA: 1.19%
- NV*: 1.13%
- WA: 0.99%
- OR: 0.96%
- ID: 0.96%
- HI: 0.84%
- AZ: 0.76%
- 12th Dist.: 1.16%
- Nation: 1.23%

*NV: excludes credit card and zero-loan banks
Core Profitability Rates Inched Up But Remained Well Below Pre-Recession Levels

Core profitability declined year-over-year at mid-sized & large banks on average, mainly due to reduced margins and noninterest income ratios.

Core Profitability
Pre-tax Pre-Provision Income / Average Assets

Average Core Profitability
Bank Size Sep-13 Sep-14
District Small (<$10B) 1.06% 1.10%
District Mid-Sized ($10B-$50B) 1.77% 1.57%
Nation Large (>$50B) 1.63% 1.49%

Bank Supervisors’ Hot Topic: Weak Net Interest Margins (NIMs) Continued to Weigh on Earnings

Net Interest Income (TE) / Average Earning Assets

Net Interest Income (TE) / Average Earning Assets by Bank Size

Mid-Sized Bank Net Interest Margins Narrowed the Most Since the Pre-Crisis Period

While Most Yields and Costs Declined, Yields on Securities Bucked the Trend

Net Interest Income (TE) / Average Earning Assets

Asset Yields and Funding Costs – 12th District

Investment securities yields ticked up, possibly as banks reached for yield by extending durations and altering mix.
Noninterest Income Trends Did Not Help Small Bank Earnings And Detracted from Profits at Mid-Sized and Large Firms

Noninterest Income / Average Assets

Average Noninterest Income Ratios

<table>
<thead>
<tr>
<th>Bank Size</th>
<th>Sep-13</th>
<th>Sep-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>District Small (&lt;$10B)</td>
<td>0.66%</td>
<td>0.66%</td>
</tr>
<tr>
<td>District Mid-Sized ($10B-$50B)</td>
<td>0.70%</td>
<td>0.55%</td>
</tr>
<tr>
<td>Nation Large (&gt;=$50B)</td>
<td>1.81%</td>
<td>1.68%</td>
</tr>
</tbody>
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FRB-SF
Based on commercial banks, excluding De Novos; trimmed means; year-to-date annualized; preliminary 9/30/14 data

Noninterest Expense Declines Provided Some Relief, Especially Among the Largest and Smallest Banks

Noninterest Expense / Average Assets

Average Noninterest Expense Ratios

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<thead>
<tr>
<th>Bank Size</th>
<th>Sep-13</th>
<th>Sep-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>District Small (&lt;$10B)</td>
<td>3.4%</td>
<td>2.9%</td>
</tr>
<tr>
<td>District Mid-Sized ($10B-$50B)</td>
<td>2.9%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Nation Large (&gt;=$50B)</td>
<td>3.4%</td>
<td>2.9%</td>
</tr>
</tbody>
</table>

FRB-SF
Based on commercial banks, excluding De Novos; trimmed means; year-to-date annualized; preliminary 9/30/14 data

Efficiency Measures Among the District’s Small Banks Remained Elevated but Improved Slightly

Efficiency Measures

Overhead / (Net Interest Income + Noninterest Income)

Efficiency ratios slipped modestly at mid-sized and large banks but improved among smaller firms.

Average Efficiency by Bank Size

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<tr>
<th>Bank Size</th>
<th>Sep-13</th>
<th>Sep-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>District Small (&lt;$10B)</td>
<td>63¢</td>
<td>61¢</td>
</tr>
<tr>
<td>District Mid-Sized ($10B-$50B)</td>
<td>66¢</td>
<td>59¢</td>
</tr>
<tr>
<td>Nation Large (&gt;=$50B)</td>
<td>75¢</td>
<td>73¢</td>
</tr>
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FRB-SF
Based on commercial banks, excluding De Novos; trimmed means; year-to-date annualized; preliminary 9/30/14 data

A Large Proportion of the District’s Banks Continued to Report Zero or Negative Provisions for Loan Losses

Loan Loss Provisions/Average Assets

Efficiency measures may have muted overhead improvements among the District’s mid-sized banks.

Percent of Commercial Banks with Year-to-Date:

<table>
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<tr>
<th></th>
<th>Dist.</th>
<th>U.S.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Negative loss provisions</td>
<td>17%</td>
<td>8%</td>
</tr>
<tr>
<td>Zero loss provisions</td>
<td>31%</td>
<td>26%</td>
</tr>
<tr>
<td>Lowered ALLL / Loan Ratios</td>
<td>72%</td>
<td>63%</td>
</tr>
</tbody>
</table>

FRB-SF
Based on commercial banks, excluding De Novos; trimmed means; data is annualized; preliminary 9/30/14 data
Loan Loss Allowances Trailed Overall Loan Growth But Improved Relative to Shrinking Noncurrent Loan Levels

Allowance for Loan & Lease Losses (ALLL) – 12th District

- Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/14 data

ALLL Coverage of Noncurrent Avg. by Bank Size – September 2014

- District Small (<$10B) 2.8X
- District Mid-Sized ($10B-$50B) 1.9X
- Nation Large (>=$50B) 1.3X

Growth: Loan Growth Outpaced Deposits, Investments, Capital, and Loan Loss Reserves

Year-Over-Year Growth Rates – 12th District

- Based on commercial banks, excluding De Novos; trimmed means (not merger adjusted); preliminary 9/30/14 data; Investments: securities, interest-bearing due from, Federal funds sold/rev. repos, and trading accounts

District Loan Growth Accelerated Faster Than Nation; Generally More Volatile

Year-Over-Year Growth in Net Loans & Leases

- Based on commercial banks, excluding De Novos; trimmed means (not merger adjusted); preliminary 9/30/14 data
State-Level Loan Growth Generally Accelerated, With Significant Variance Within Each State

Year-Over-Year Net Loan Growth by State

- Trimmed Mean (Sep-13)
- Trimmed Mean (Sep-14)
- 90th Percentile (Sep-14)
- 10th Percentile (Sep-14)

Based on commercial banks, excluding De Novos; trimmed means (not merger adjusted); preliminary 9/30/14 data; *NV: excludes credit card and zero-loan banks

Aggregate Loan Growth: Nonfarm Nonresidential, C&I, Multifamily Drove the Majority of Growth

Percentage Point Contribution to Total Aggregate YoY Loan Growth

- Nonfarm Nonresid
- 1-4 Family First Lien
- Home Equity + Jr Lien
- Commercial & Industrial
- Construction & Land Dev
- Consumer
- Multifamily
- Other
- Ag + Farmland Secured

Based on a panel of District commercial banks with assets <$200B; excludes banks with significant mergers, loan sales, or loan purchases over the period; preliminary 9/30/14 data

Aggregate Loan Growth: C&I and C&I Lending Remained Strong

Aggregate Year-Over-Year Loan & Lease Growth by Category

- Construction & Land Dev
- Multifamily
- Commercial & Industrial
- Consumer
- Nonfarm Nonresid
- 1-4 Family First Lien
- Home Equity + Jr Lien
- Ag + Farmland Secured
- All Loans

Based on a panel of District commercial banks with assets <$200B; excludes banks with significant mergers, loan sales, or loan purchases over the period; preliminary 9/30/14 data

Some Banks Had Rapid Growth in Certain Segments; Looser Underwriting May Have Driven Trend . . .

Percent of Banks Making Loans in Category* With >25% YoY Growth

Many multifamily and/or C&I lenders expanded these segments by 25%+ year-over-year.

Based on a panel of 330 District commercial banks without significant mergers, loan sales, or loan purchases over the period. Includes only banks with at least 4% of loans in the particular loan type; preliminary 9/30/14 data
Based on a sample of senior loan officers at 73 to 76 large and small domestic banks (number of respondents varies over time); Source: Federal Reserve Senior Loan Officer Opinion Survey

**Net Percentage Reporting Tightening (Loosening) Standards During Qtr.**

- **Lenders More Bullish on C&LD Than Multifamily**
- **New Mortgage Rules Caused Tightening in Early 2014 (Especially Non Tradit.)**

### Year-Over-Year Unfunded Loan Growth – 12th District

- **Construction & CRE Lines**
- **Other Commercial Lines**

### Average Annual Unfunded Loan Growth September 2014

<table>
<thead>
<tr>
<th>Bank Size</th>
<th>CRE</th>
<th>Other Com*</th>
</tr>
</thead>
<tbody>
<tr>
<td>District Small</td>
<td>45.3%</td>
<td>13.2%</td>
</tr>
<tr>
<td>District Mid-Sized</td>
<td>49.9%</td>
<td>18.1%</td>
</tr>
<tr>
<td>Nation Large</td>
<td>26.0%</td>
<td>8.1%</td>
</tr>
</tbody>
</table>

**(HOT TOPIC)**

- A slowdown in unfunded CRE growth has historically preceded slower growth in funded construction loan balances.

### District Bank Aggregate Loan Mix (%) by Size

- Large banks nationwide focused more on 1-4 family, Consumer, and C&I; small District banks focused on CRE/NFNR; C&I loans remained significant across small and mid-sized groups.

### Commercial Real Estate Concentrations Began to Tick Back Up Among District Banks on Average

- **CRE Loans / Total Risk-Based Capital**

Based on all commercial banks; prelim 9/30/14 data
Credit Quality: Noncurrent Rates Declined Further, But Remained Above Pre-Crisis Lows

The small bank average noncurrent rate dropped sharply, the most of the three size groups.

### Average Noncurrent Rate

<table>
<thead>
<tr>
<th>Bank Size</th>
<th>District</th>
<th>Sep-13</th>
<th>Sep-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>District Small (&lt;$10B)</td>
<td>1.72%</td>
<td>1.03%</td>
<td></td>
</tr>
<tr>
<td>District Mid-Sized ($10B-$50B)</td>
<td>1.22%</td>
<td>1.02%</td>
<td></td>
</tr>
<tr>
<td>Nation Large (&gt;=$50B)</td>
<td>1.61%</td>
<td>1.24%</td>
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</table>

Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/14 data; Noncurrent = 90+ days past due or on nonaccrual.

### Noncurrent Loans and Leases / Total Loans and Leases

- **District Small (<$10B)**
  - Sep-01: 0.8%
  - Sep-02: 0.6%
  - Sep-03: 0.6%
  - Sep-04: 0.5%
  - Sep-05: 0.5%
  - Sep-06: 0.3%
  - Sep-07: 0.3%
  - Sep-08: 0.2%
  - Sep-09: 0.2%
  - Sep-10: 0.2%
  - Sep-11: 0.2%
  - Sep-12: 0.2%
  - Sep-13: 0.2%
  - Sep-14: 0.2%

- **District Mid-Sized ($10B-$50B)**
  - Sep-01: 0.7%
  - Sep-02: 0.7%
  - Sep-03: 0.7%
  - Sep-04: 0.7%
  - Sep-05: 0.7%
  - Sep-06: 0.7%
  - Sep-07: 0.7%
  - Sep-08: 0.7%
  - Sep-09: 0.7%
  - Sep-10: 0.7%
  - Sep-11: 0.7%
  - Sep-12: 0.7%
  - Sep-13: 0.7%
  - Sep-14: 0.7%

- **Nation Large (>=$50B)**
  - Sep-01: 1.0%
  - Sep-02: 1.0%
  - Sep-03: 1.0%
  - Sep-04: 1.0%
  - Sep-05: 1.0%
  - Sep-06: 1.0%
  - Sep-07: 1.0%
  - Sep-08: 1.0%
  - Sep-09: 1.0%
  - Sep-10: 1.0%
  - Sep-11: 1.0%
  - Sep-12: 1.0%
  - Sep-13: 1.0%
  - Sep-14: 1.0%

Severe Delinquencies Continued to Improve Across All Major Loan Categories

Noncurrent Loans and Leases / Total Loans and Leases by Loan Type – 12th District

- **All Loans**
  - Sep-04: 4.7%
  - Sep-05: 2.4%
  - Sep-06: 2.4%
  - Sep-07: 2.4%
  - Sep-08: 2.4%
  - Sep-09: 2.4%
  - Sep-10: 2.4%
  - Sep-11: 2.4%
  - Sep-12: 2.4%

- **Nonfarm Nonresidential**
  - Sep-04: 4.7%
  - Sep-05: 2.4%
  - Sep-06: 2.4%
  - Sep-07: 2.4%
  - Sep-08: 2.4%
  - Sep-09: 2.4%
  - Sep-10: 2.4%
  - Sep-11: 2.4%
  - Sep-12: 2.4%

- **1-4 & Multifamily Resid.**
  - Sep-04: 4.7%
  - Sep-05: 2.4%
  - Sep-06: 2.4%
  - Sep-07: 2.4%
  - Sep-08: 2.4%
  - Sep-09: 2.4%
  - Sep-10: 2.4%
  - Sep-11: 2.4%
  - Sep-12: 2.4%

- **C&I**
  - Sep-04: 4.7%
  - Sep-05: 2.4%
  - Sep-06: 2.4%
  - Sep-07: 2.4%
  - Sep-08: 2.4%
  - Sep-09: 2.4%
  - Sep-10: 2.4%
  - Sep-11: 2.4%
  - Sep-12: 2.4%

- **Consumer**
  - Sep-04: 4.7%
  - Sep-05: 2.4%
  - Sep-06: 2.4%
  - Sep-07: 2.4%
  - Sep-08: 2.4%
  - Sep-09: 2.4%
  - Sep-10: 2.4%
  - Sep-11: 2.4%
  - Sep-12: 2.4%

### Troubled Debt Restructurings Continued Steady Decline

- **Total TDRs / Loans**
  - Sep-08: 0.4%
  - Sep-09: 0.4%
  - Sep-10: 0.4%
  - Sep-11: 0.4%
  - Sep-12: 0.4%
  - Sep-13: 0.4%
  - Sep-14: 0.4%

- **Noncurrent Restructured Loans**
  - Sep-08: 0.7%
  - Sep-09: 0.7%
  - Sep-10: 0.7%
  - Sep-11: 0.7%
  - Sep-12: 0.7%
  - Sep-13: 0.7%
  - Sep-14: 0.7%

- **Other Restructured Loans**
  - Sep-08: 0.4%
  - Sep-09: 0.4%
  - Sep-10: 0.4%
  - Sep-11: 0.4%
  - Sep-12: 0.4%
  - Sep-13: 0.4%
  - Sep-14: 0.4%

Foreclosure Volumes Remained Elevated but Are Now Well Below Crisis-Era Peaks and Track the Nation

- **Foreclosed Other Real Estate Owned / Total Assets by Type**
  - Sep-08: 0.54%
  - Sep-09: 0.12%
  - Sep-10: 0.07%
  - Sep-11: 0.02%
  - Sep-12: 0.33%
  - Sep-13: 1.00%
  - Sep-14: 0.33%
Liquidity: Banks Shifted Assets Towards Loans and Away From Lower-Yielding Investments

Although Lower, Short-Term Investments Remained Above Pre-Crisis Levels
**Non-Maturity Deposits, and Increasingly Brokered Funds, Fueled Overall Deposit (and Asset) Growth**

In part, deposit growth rates among mid-sized banks reflected merger activity.

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<tr>
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<th>Sep-13</th>
<th>Sep-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>District Small (&lt;$10B)</td>
<td>6.2%</td>
<td>8.2%</td>
</tr>
<tr>
<td>District Mid-Sized ($10B-$50B)</td>
<td>8.9%</td>
<td>20.6%</td>
</tr>
<tr>
<td>Nation Large (&gt;=$50B)</td>
<td>4.8%</td>
<td>6.4%</td>
</tr>
</tbody>
</table>

Based on commercial banks, excluding De Novos; trimmed means (not merger adjusted); preliminary 9/30/14 data; non-maturity: demand, money market, and savings accounts.

**Year-Over-Year Deposit Growth – 12th District**

**Average Noncore Funding Levels Remained Well Below Pre-Crisis Levels; District Matched Nation**

<table>
<thead>
<tr>
<th>Bank Size</th>
<th>Sep-08</th>
<th>Sep-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>District Small (&lt;$10B)</td>
<td>32%</td>
<td>18%</td>
</tr>
<tr>
<td>District Mid-Sized ($10B-$50B)</td>
<td>45%</td>
<td>21%</td>
</tr>
<tr>
<td>Nation Large (&gt;=$50B)</td>
<td>40%</td>
<td>23%</td>
</tr>
</tbody>
</table>

Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/14 data; *Noncore includes borrowed funds, foreign and brokered deposits, large CDs (previously defined as > $100K—green bars, now defined as > $250K—blue bars).

**Interest Rate Risk: Investments in Longer-Term Assets at Small Banks Crept Higher**

Earning assets will be slower to re-price upward as rates rise.

Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/14 data.

**Loans and Securities Maturing or Re-Pricing > 3 Years / Assets**

Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/14 data.

**Non-Maturity Deposits May Become a Less Reliable Funding Source as Rates Increase**

Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/14 data; non-maturity includes demand, money market and savings; Constant Maturity (CM) Treasury Rate from Federal Reserve, Haver Analytics.

**Non-Maturity Deposits / Total Assets**

Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/14 data.
Securities Values Recovered with Recent Rate Dip but Rising Rates Could Again Reduce Market Values

Net Unrealized Gains (Losses) on AFS Securities / Tier 1 Cap. – 12th District

<table>
<thead>
<tr>
<th>Qtly. Avg. 10-Year U.S. CM Treasury Rate</th>
<th>Net Unrealized Gains (Losses)</th>
<th>10-Yr. U.S. CM Treasury Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sep-03</td>
<td>0.13%</td>
<td>0.13%</td>
</tr>
<tr>
<td>Sep-04</td>
<td>0.05%</td>
<td>0.05%</td>
</tr>
<tr>
<td>Sep-05</td>
<td>-0.08%</td>
<td>0.02%</td>
</tr>
<tr>
<td>Sep-06</td>
<td>5.1%</td>
<td>5.1%</td>
</tr>
<tr>
<td>Sep-07</td>
<td>1.6%</td>
<td>1.6%</td>
</tr>
<tr>
<td>Sep-08</td>
<td>2.5%</td>
<td>2.5%</td>
</tr>
<tr>
<td>Sep-09</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Sep-10</td>
<td>3%</td>
<td>3%</td>
</tr>
<tr>
<td>Sep-11</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>Sep-12</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Sep-13</td>
<td>6%</td>
<td>6%</td>
</tr>
<tr>
<td>Sep-14</td>
<td>7%</td>
<td>7%</td>
</tr>
</tbody>
</table>

Net Unrealized Gains (Losses) on AFS Securities / Tier 1 Cap. – 12th District

Capital: Growth and Shifts in Asset Mix Led District Risk-Based Capital Ratios Modestly Lower

Total Risk-Based Capital / Risk-Weighted Assets

<table>
<thead>
<tr>
<th>Sep-03</th>
<th>Sep-04</th>
<th>Sep-05</th>
<th>Sep-06</th>
<th>Sep-07</th>
<th>Sep-08</th>
<th>Sep-09</th>
<th>Sep-10</th>
<th>Sep-11</th>
<th>Sep-12</th>
<th>Sep-13</th>
<th>Sep-14</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>15.6%</td>
<td>15.5%</td>
<td>15.4%</td>
<td>15.3%</td>
<td>15.2%</td>
<td>15.1%</td>
<td>15.0%</td>
<td>14.9%</td>
<td>14.8%</td>
<td>14.7%</td>
<td>14.6%</td>
</tr>
</tbody>
</table>

Total Risk-Based Capital / Risk-Weighted Assets

Tier 1 Common Equity Ratios Declined Slightly at Small Banks (More Sharply at Mid-Sized) due to Accelerated Loan Growth

Tier 1 Common Equity / Risk-Weighted Assets

<table>
<thead>
<tr>
<th>Sep-04</th>
<th>Sep-05</th>
<th>Sep-06</th>
<th>Sep-07</th>
<th>Sep-08</th>
<th>Sep-09</th>
<th>Sep-10</th>
<th>Sep-11</th>
<th>Sep-12</th>
<th>Sep-13</th>
<th>Sep-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>12.2%</td>
<td>11.7%</td>
<td>11.2%</td>
<td>10.7%</td>
<td>10.2%</td>
<td>9.7%</td>
<td>9.2%</td>
<td>8.7%</td>
<td>8.2%</td>
<td>7.7%</td>
<td>7.2%</td>
</tr>
</tbody>
</table>

Tier 1 Common Equity Ratios Declined Slightly at Small Banks (More Sharply at Mid-Sized) due to Accelerated Loan Growth

Cash Dividends / Net Income

<table>
<thead>
<tr>
<th>Sep-05</th>
<th>Sep-06</th>
<th>Sep-07</th>
<th>Sep-08</th>
<th>Sep-09</th>
<th>Sep-10</th>
<th>Sep-11</th>
<th>Sep-12</th>
<th>Sep-13</th>
<th>Sep-14</th>
</tr>
</thead>
<tbody>
<tr>
<td>88%</td>
<td>59%</td>
<td>28%</td>
<td>37%</td>
<td>62%</td>
<td>66%</td>
<td>45%</td>
<td>36%</td>
<td>10%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Cash Dividends / Net Income

FRB-SF

Based on commercial banks, excluding De Novos; trimmed means; preliminary 9/30/14 data; Constant Maturity (CM) Treasury Rate from Federal Reserve, Haver Analytics
Section 3 – Regulatory Ratings and Trends

Focusing on examination (CAMELS) rating trends assigned by regulatory agencies among the 357 commercial banks headquartered within the 12th Federal Reserve District.
Regulatory Ratings: CAMELS Composite Upgrades Outpaced Downgrades for the Past 14 Quarters

Percent of 12th District Quarterly Exams that Resulted in CAMELS Composite Rating Upgrade or Downgrade (downgrades shown as negative percentages)

- % Upgrades
- % Downgrades

Includes any change in composite CAMELS rating for commercial banks; quarterly trends based on examination completion dates (mail dates); recent data are preliminary; updated 11/19/14

CAMELS Rating Components Continued to Improve; Although, Sensitivity Ratings Did Not Improve as Much

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

Earnings and Management ratings remained the weakest; sensitivity ratings remained pressured by interest rate risk concerns.

District Bank Consumer Compliance Ratings Improved; CRA Ratings Leveled Out

Percent of 12th District Banks with Less than Satisfactory Ratings

Trends for all commercial banks based on examination completion dates (mail dates); recent data are preliminary; updated 11/19/14
Focusing on trends among the 40 savings institutions and 27 industrial banks headquartered within the 12th Federal Reserve District.

The savings institutions represent a combined population of District savings & loan associations plus savings banks – regardless of whether they filed the thrift Call Report or the bank Call Report. Starting March 2012, all savings institutions file the bank Call Report.
**District Industrial Bank Average Pretax Profitability Remained Strongest of the Institutional Groups**

**Return on Average Assets**

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

**Noncurrent Loan Ratios Declined For Each Institutional Group**

Commercial bank noncurrent rates improved most since the recession.

**Average Equity/Assets Ratios Remained Flat for Each Institution Type after Rising Post-Crisis**

Equity / Assets

**Share of Savings Institutions Rated CAMELS Composite 3, 4, or 5 Also Drifted Downward**

Share of District Institutions Rated CAMELS Composite 3, 4, or 5

Trends for all institutions based on examination completion dates (mail dates); recent data are preliminary; updated 11/19/14; note: there are too few Industrials to disclose specifics, but the percentage rated CAMELS 3, 4, or 5 is under 15%.
Appendices

1. Banks Covered in this Report
2. Technical Information
3. Regulatory Hot Topics

Appendix 1: Institutions Covered in this Report

<table>
<thead>
<tr>
<th>Geography</th>
<th>Commercial Banks (De Novos)</th>
<th>Industrial Banks (De Novos)</th>
<th>Savings Institutions (De Novos)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Sep-13</td>
<td>Sep-14</td>
<td>Sep-13</td>
</tr>
<tr>
<td>Alaska</td>
<td>4 (0)</td>
<td>4 (0)</td>
<td>-</td>
</tr>
<tr>
<td>Arizona</td>
<td>23 (0)</td>
<td>21 (0)</td>
<td>-</td>
</tr>
<tr>
<td>California</td>
<td>204 (5)</td>
<td>196 (1)</td>
<td>6 (0)</td>
</tr>
<tr>
<td>Guam</td>
<td>2 (0)</td>
<td>2 (0)</td>
<td>-</td>
</tr>
<tr>
<td>Hawaii</td>
<td>6 (0)</td>
<td>6 (0)</td>
<td>1 (0)</td>
</tr>
<tr>
<td>Idaho</td>
<td>15 (0)</td>
<td>12 (0)</td>
<td>-</td>
</tr>
<tr>
<td>Nevada</td>
<td>14 (0)</td>
<td>12 (0)</td>
<td>4 (0)</td>
</tr>
<tr>
<td>Oregon</td>
<td>25 (0)</td>
<td>25 (0)</td>
<td>-</td>
</tr>
<tr>
<td>Utah</td>
<td>32 (0)</td>
<td>31 (0)</td>
<td>19 (0)</td>
</tr>
<tr>
<td>Washington</td>
<td>52 (1)</td>
<td>48 (0)</td>
<td>-</td>
</tr>
<tr>
<td>12th District</td>
<td>377 (6)</td>
<td>357 (1)</td>
<td>30 (0)</td>
</tr>
<tr>
<td>Nation</td>
<td>5,874 (40)</td>
<td>5,695 (14)</td>
<td>32 (0)</td>
</tr>
</tbody>
</table>

Based on preliminary 9/30/14 data.

Appendix 2: 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.

Groups by Asset Size: “Small”, and “Mid-Sized” bank groups are based on 12th District community banks (<$10B) and Regional banks ($10B-$50B), respectively. The “Large” bank group is based on nationwide banks with assets >$50B, because a larger statistical population was needed to construct trimmed means.

Trimmed Mean (also referred to as “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 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 4. There, the savings institution data include institutions that file the bank Call Report plus those that, up until March 2012, filed the thrift Call Report.
Evolving competitive, economic, regulatory, and technological challenges have heightened risks in many areas, especially BSA/AML, information technology, interest rate risk/liquidity, operations, and consumer compliance.

**Moderate-to-High Concern Areas to Watch**

<table>
<thead>
<tr>
<th>Direction of Concern</th>
<th>Decreasing</th>
<th>Stable</th>
<th>Increasing</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>High</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BSA/AML - Internal Control Environment</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit - Quality of Loan Growth</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Market - Lengthening Asset Maturities</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other - Capital Plans &amp; Stress Testing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Elevated</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operational - Info./Cyber Security</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Moderate</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operat'l. - Business Continuity Planning</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operat'l. - Service Provider Risk Management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operat'l. - Internal Audit Oversight &amp; Program</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operat'l. - Model Risk Management</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compliance - New/Complex Prod. &amp; Services Compliance</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Compliance - Keeping Pace with Reg. Change</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit - Loan Concentrations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Liquidity - Non-Maturity Deposit Sensitivity</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>BSA/AML - Board and Mgmt. Oversight</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Concern Outlook** – based on outlook within 1-2 years.

**High** - Represents a current or future (next 1-2 years) problem area that if realized would likely lead District institutions to unprofitability, downgrade, or failure (note: High concern cannot have an Increasing outlook because High is already the highest concern level).

**Elevated** - Represents a lower likelihood than High of becoming a problem area and/or the problem area has a somewhat lower impact on District institutions’ profitability, supervisory ratings, or ongoing concern.

**Moderate** - Represents a concern that is notable, but has low likelihood of realization or low impact to District institutions. Typically, these issues are of an emerging nature.

BSA/AML policies, processes, and procedures have not always kept pace with the District’s vulnerability to trade-based money laundering, bulk cash smuggling, marijuana related businesses, and virtual currencies.

Preventing and detecting rapidly evolving IT vulnerabilities and threats is an ongoing challenge. The stakes are very high in the event of a breach.