2014: A Year of Opportunities and Challenges

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This report is based upon preliminary data from 4Q2014 and prior Condition & Income Reports as well as other examination and economic sources. Data 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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The District’s economy continued to expand at a slightly above-average rate. Growth in jobs, single-family homebuilding, and residential and commercial property prices outpaced the nation. Job growth helped the District’s aggregate unemployment rate decline to 6.6% in December 2014, down from 7.6% in the prior year, but still above a national figure of 5.6%.

The District is fairly insulated from the direct negative effects of the slump in oil prices, except where oil is an important economic driver (e.g., Alaska and pockets of Utah and California). Overall, lower energy costs are expected to benefit consumers and provide some economic lift. Still, banks are vulnerable to the indirect effects of a concurrent “flight to safety”, such as the impact of lower interest rates on margins and of a strengthening dollar on the export economy and foreign currency translation adjustments. Trade-related risks posed by currency fluctuations and a slowing global economy could be compounded by the West Coast port disruption.

2014 was generally a year of continued financial improvement among District banks. With problem asset volumes easing, earnings inched higher but remained below long-term, pre-recession averages due to ongoing margin pressures. Loan growth accelerated further. Liquidity and capital measures moderated but remained well above pre-crisis troughs.

Year-to-date pretax profit ratios generally increased year-over-year but were flat on a linked-quarter basis and trailed national averages. Improved credit quality and stronger financial health drove noninterest and provision expenses lower, more than offsetting margin and fee income pressures.
District annual net loan growth remained strong, accelerating to 12%. Among the District’s states, year-over-year net loan growth ranged from 15% in California to 4% in Alaska. Only two states, Washington and Alaska, trailed the national average growth rate of 7%. Districtwide, commercial and industrial lines and certain real estate loan categories continued to lead in dollar terms. However, the relatively small construction and land development category continued to register the largest segment-level growth rate. While economic gains likely fueled most loan growth, Federal Reserve Senior Loan Officer Opinion Surveys suggest that looser underwriting may have contributed 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, ended the year at 0.94%, comparable to the nation. Although lower, the District ratio still exceeded pre-recession averages. Prospectively, rising interest rates could increase debt service coverage requirements for loans priced with variable interest rates. An expanding economy and strengthening incomes, revenues, and rents, which typically accompany rising interest rates, could provide some offset to higher credit costs.

Ongoing shifts in balance sheet maturities also pose risks in a rising interest rate environment. Longer-duration loans and securities drifted higher and their value may decline more severely than short-term assets should interest rates increase. Meanwhile, non-maturity deposit reliance increased further. These deposits’ sensitivity to rising interest rates may be difficult to forecast accurately.

District on-balance sheet liquidity and capital measures moderated slightly but were still strong overall. Noncore funds reliance remained relatively low. However, history suggests a rising interest rate environment may alter the mix of deposits and funding prospectively. Meanwhile, risk-based capital ratios ebbed as banks continued to shift assets towards higher risk-weight buckets in response to stronger loan demand.

Examination ratings improved along with financial performance. The share of District banks with less-than-satisfactory examination ratings declined to 22%, still above a national ratio of 13%, but well below a peak of 60% in late 2010. Consumer compliance ratings also continued to recover from the Crisis.
Section 1 - Economic Conditions

Job Growth
State Leading Index
Housing Market Metrics
Commercial Real Estate Market Metrics
Oil-Related Employment Exposures

Leading Index Measures Suggest Continued Economic Improvement; Oregon’s Prospects are Particularly Strong

Leading Index Measure by State - December 2014

Leading Index Reading
Nation = 1.74

Strongest 10 States
Other States Above U.S.
Other States Below U.S.
Weakest 10 States

While District Home Prices Continue to Rise, They Remained Below Pre-Recession Peaks in All but Alaska

Home Price Index - % Recovered From Pre-Recession Peak - December 2014

Source: Core Logic

<table>
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<th>Year-Over-Year Change in Home Price Index (%)</th>
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<tr>
<td>U.S.</td>
</tr>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td>December 2014</td>
</tr>
<tr>
<td>December 2013</td>
</tr>
</tbody>
</table>
Home Permit Growth Continued, With Moderate Slowing Among Annual Multifamily Starts

Year-Over-Year Change in 12-Mo. Housing Starts - West (%)

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

Commercial Property Price Appreciation Accelerated Year-Over-Year

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

CRE Markets: Vacancy and Availability Rates May Be Near Cyclical Lows, Except Among Retail Properties

Quarterly Aggregate Vacancy and Availability Rates – 12th District

Oil and Gas Job Concentrations Highest in AK, Parts of CA, and Eastern UT (and Bordering Counties in WY and CO)

Average Oil and Gas Extraction Employment Location Quotient – 2Q 2014

Oil & Gas Extraction Employment Location Quotient

*West: AZ, CA, CO, ID, MT, NV, NM, OR, UT, WA, WY; Source: NCREIF Transactions-Based Index of Institutional Commercial Property Investment Performance
Section 2
Commercial Bank Performance

Earnings
Provisions and Loan Loss Reserves
Loan Growth and Mix
Credit Quality
Liquidity and Interest Rate Risk
Capital and Dividends
Merger Activity

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/

Earnings: Pretax Profitability Improved Incrementally

Pretax Return on Average Assets (TE)

Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data; for comparability, Pretax ROAAs are adjusted on a tax-equivalent (TE) basis to assume taxes are paid on income from tax-free municipal loans and securities.

In Most District States, Average Pretax Earnings Continued To Recover From Crisis-Era Troughs

Range of Annual Pretax Return on Average Assets (TE) by State, 2001 - 2014

Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data; for comparability, Pretax ROAAs are adjusted on a tax-equivalent (TE) basis to assume taxes are paid on income from tax-free municipal loans and securities; *NV: excludes credit card and zero-loan banks.

Pretax Returns at Smaller Institutions Lagged Those of Larger Firms but Improved Year-Over-Year

Pretax Return on Average Assets (TE) by Bank Size

Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data; for comparability, Pretax ROAAs are adjusted on a tax-equivalent (TE) basis to assume taxes are paid on income from tax-free municipal loans and securities.
Margin Compression Continued to Weigh on Earnings, Especially at Large and Mid-Sized Banks

Quarterly Margins Improved from Early 2014 But Were Flat on a Linked-Quarter Basis

Improvements in Overhead More Than Offset Declines in Noninterest Income

Overhead Improvements Mainly in “All Other” Expenses

Net Interest Income (TE) / Average Earning Assets

Average Net Interest Income (TE) / Average Earning Assets

One-Quarter Annualized Income or Expense / Average Earning Assets

Noninterest Income / Average Assets

Noninterest Expense / Average Assets

Noninterest Expense Category / Average Assets

Large banks rely more heavily on noninterest income than mid-sized and small banks for earnings.

Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data; for comparability, net interest income is adjusted on a tax-equivalent (TE) basis to assume taxes are paid on income from tax-free municipal loans and securities.

Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data; figures are adjusted on a tax-equivalent (TE) basis to assume taxes are paid on income from tax-free municipal loans and securities.

Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data.

Among other things, includes legal, consulting, audit, deposit insurance, data processing, telecommunications, marketing, and intangible amortization/impairment expenses.
Noninterest Expense Controls Fueled Further Efficiency Gains, Primarily Among The District’s Smaller Banks

Efficiency Measures
Cost to Produce $1 of Revenue

Efficiency ratios were somewhat flat at large banks but improved among smaller firms.

Average Efficiency by Bank Size

Provision Expense / Avg. Assets

% of District Banks with Prov. Exp. of:

FRB-SF

Reserves Slipped Relative to Total Loans but Coverage of (Declining) Noncurrent Loan Balances Improved

ALLL / Total Loans

ALLL / Noncurrent Loans (X)

FRB-SF

Reserves Trailed Loan Growth Across Most Loan Segments, Similar to National Trends

Allowance for Loan and Lease Losses / Total Evaluated* Loans and Leases

FRB-SF

Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data; ALLL = allowance for loan and lease losses
Loan Growth: District Loan Growth Accelerated Faster Than Nation; Historically Prone to Broader Swings

Year-Over-Year Growth in Net Loans & Leases

Based on aggregate data for commercial banks, preliminary 12/31/14 data; excludes banks with assets <$1 billion, which do not report this information; *evaluated excludes loans accounted for at fair value or held for sale; **C&I also includes “all other” loan types not specified above

Annual Loan Growth Accelerated in Most District States But Continued to Trail Pre-Recession Peaks

Range of Year-Over-Year Average Net Loan Growth by State, 2001 - 2014

Based on commercial banks, excluding De Novos; trimmed means (not merger adjusted); preliminary 12/31/14 data; *NV: excludes credit card and zero-loan banks

Percentage Point Contribution to Aggregate Year-Over-Year Loan Growth

Based on a panel of commercial banks; excludes banks with significant mergers, loan sales, or loan purchases over the period; preliminary 12/31/14 data
... But at the Segment Level, Growth Rates Among Relatively Small C&LD Portfolios Outpaced Other Categories

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

<table>
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<th>Category</th>
<th>YoY Growth</th>
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<tr>
<td>Construction &amp; Land Dev</td>
<td>29%</td>
</tr>
<tr>
<td>Multifamily</td>
<td>16%</td>
</tr>
<tr>
<td>Commercial &amp; Industrial</td>
<td>14%</td>
</tr>
<tr>
<td>Consumer</td>
<td>13%</td>
</tr>
<tr>
<td>1-4 Family First Lien</td>
<td>10%</td>
</tr>
<tr>
<td>Nonfarm Nonresid</td>
<td>10%</td>
</tr>
<tr>
<td>Ag + Farmland Secured</td>
<td>9%</td>
</tr>
<tr>
<td>Home Equity + Jr Lien</td>
<td>4%</td>
</tr>
<tr>
<td>All Loans</td>
<td>13%</td>
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- Other C&LD: + 30% Residential Constr.: + 29%
- Other Revolving: + 56%
- Other Consumer: + 20%
- Credit Card: + 11%
- Auto: + 3%
- Nonowner-occupied: + 11%
- Owner-occupied: + 7%

Based on a panel of commercial banks with assets <$200B; excludes banks with significant mergers, loan sales, or loan purchases over the period; preliminary 12/31/14 data.

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

- Construction & Land Dev: 48%
- Consumer: 34%
- Multifamily: 34%
- Commercial & Industrial: 25%
- Ag + Farmland Secured: 25%
- 1-4 Family First Lien: 24%
- Home Equity + Jr Lien: 19%
- Nonfarm Nonresid.: 16%

*Based on a panel of 346 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 12/31/14 data.

### On Net, More Lenders Eased Than Tightened Standards, but by a Declining Margin

**Net Percentage Reporting Tightening (Loosening) Standards During Quarter**

- Non-Traditional/Non-QM-Jumbo*
- Multifamily
- Nonfarm Nonresid.
- Large Borrowers
- Small Borrowers

**Unfunded Growth in C&I and Construction Lines Decelerated but Continued to Outpace the Nation**

**Unfunded Commercial Line of Credit Growth**, Year-Over-Year

- District
- Nation

**Unfunded Construction and CRE Line of Credit Growth**, Year-Over-Year

- District
- Nation

Based on a sample of loan officers at 70 +/- domestic banks (number varies by period and loan type); "in the latest survey, two categories were replaced with six based on GSE eligibility, qualifying mortgage (QM) status, and size (making comparisons imperfect); Source: Federal Reserve Senior Loan Officer Opinion Survey. (http://www.federalreserve.gov/BoardDocs/snloansurvey/)
Growth in Construction and Multifamily Pushed Overall Commercial Mortgage Concentrations Higher on Average

Credit Quality: Year-End Noncurrent Rates Continued to Recede, Approaching Levels Not Seen Since 2007

Noncurrent loan rates improved the most among smaller banks.

Average Noncurrent Rate (%)

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<th>Bank Size</th>
<th>2013</th>
<th>2014</th>
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<tr>
<td>District Small (&lt;$10B)</td>
<td>1.49%</td>
<td>0.91%</td>
</tr>
<tr>
<td>District Mid-Sized ($10B-$50B)</td>
<td>1.11%</td>
<td>0.92%</td>
</tr>
<tr>
<td>Nation Large (&gt;=$50B)</td>
<td>1.49%</td>
<td>1.14%</td>
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Noncurrent Rates Continued to Ebb Across Loan Categories

Most State-Level Noncurrent Loan Rates Continued to Revert Toward Pre-Crisis Troughs

Range of Noncurrent Loans/Total Loans by State, Year-End 2001 - 2014

Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data; Noncurrent = 90+ days past due or on nonaccrual

Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data; *NV: excludes credit card and zero-loan banks

Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data

Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data

Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data

Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data
Foreclosure Volumes Continued to Wane  
And Were In Line with National Levels

Foreclosed Other Real Estate Owned / Total Assets by Type

- **Construction & Land Dev.**
  - Dec-08: 0.52%
  - Dec-10: 0.21%
  - Dec-12: 0.21%
  - Dec-14: 0.31%

- **Nonfarm-Nonresid.**
  - Dec-08: 0.11%
  - Dec-10: 0.07%
  - Dec-12: 0.02%
  - Dec-14: 0.02%

- **1-4 Family**
  - Dec-08: 2.0%
  - Dec-10: 0.8%
  - Dec-12: 1.0%
  - Dec-14: 0.52%

- **Total**
  - Dec-08: 0.99%
  - Dec-10: 0.31%
  - Dec-12: 0.21%

**Note:** Based on all 12th District commercial banks; trimmed means; preliminary 12/31/14 data.

Net Charge-Offs / Average Loans and Leases

- **District**
  - 2005: 0.06%
  - 2006: 0.06%
  - 2007: 0.72%
  - 2008: 2.15%
  - 2009: 0.72%
  - 2010: 0.18%
  - 2011: 0.06%
  - 2012: 0.06%
  - 2013: 0.06%
  - 2014: 0.06%

- **Nation**
  - 2005: 0.06%
  - 2006: 0.06%
  - 2007: 0.72%
  - 2008: 2.15%
  - 2009: 0.72%
  - 2010: 0.18%
  - 2011: 0.06%
  - 2012: 0.06%
  - 2013: 0.06%
  - 2014: 0.06%

**Note:** Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data.

Net Charge-offs (Recoveries) / Average Loans by Type

- **District**
  - Construction & Land Dev.: 5.64%
  - Commercial & Indus.: 2.48%
  - Home Equity Lines: 0.66%
  - 1-4 Family Closed End: 1.24%
  - Nonfarm-Nonresid.: 0.57%

- **Nation**
  - Construction & Land Dev.: 0.12%
  - Commercial & Indus.: 0.08%
  - Home Equity Lines: 0.00%
  - 1-4 Family Closed End: 0.01%
  - Nonfarm-Nonresid.: 0.02%

**Note:** Based on all 12th District commercial banks; trimmed means; preliminary 12/31/14 data.

Net Loans and Leases / Assets

- **District**
  - Dec-03: 66%
  - Dec-05: 67%
  - Dec-06: 67%
  - Dec-07: 67%
  - Dec-08: 67%
  - Dec-09: 67%
  - Dec-10: 67%
  - Dec-11: 67%
  - Dec-12: 67%
  - Dec-13: 67%
  - Dec-14: 67%

- **Nation**
  - Dec-03: 66%
  - Dec-05: 67%
  - Dec-06: 67%
  - Dec-07: 67%
  - Dec-08: 67%
  - Dec-09: 67%
  - Dec-10: 67%
  - Dec-11: 67%
  - Dec-12: 67%
  - Dec-13: 67%
  - Dec-14: 67%

**Note:** Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data.

Short-Term Investments / Assets

- **District**
  - Dec-03: 61%
  - Dec-05: 67%
  - Dec-06: 67%
  - Dec-07: 67%
  - Dec-08: 67%
  - Dec-09: 67%
  - Dec-10: 67%
  - Dec-11: 67%
  - Dec-12: 67%
  - Dec-13: 67%
  - Dec-14: 67%

- **Nation**
  - Dec-03: 61%
  - Dec-05: 67%
  - Dec-06: 67%
  - Dec-07: 67%
  - Dec-08: 67%
  - Dec-09: 67%
  - Dec-10: 67%
  - Dec-11: 67%
  - Dec-12: 67%
  - Dec-13: 67%
  - Dec-14: 67%

**Note:** Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data; Short-Term Investments: interest-bearing bank balances, Federal funds sold & securities purchased under agreements to resell, <1-year debt securities
**Jumbo CD Growth Gained Modest Momentum; Brokered Deposit Growth Cooled**

Deposit growth was fastest among mid-sized banks, in part because of mergers.

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

- **Total Dep.**
  - Dec-07: 9.2%
  - Dec-08: 4.7%
  - Dec-09: -6.1%
  - Dec-10: -3%
  - Dec-11: -11%
  - Dec-12: -6%
  - Dec-13: -14%
  - Dec-14: -20%
- **Brokered Dep.**
  - Dec-07: 6.4%
  - Dec-08: 5.4%
  - Dec-09: 2%
  - Dec-10: 0%
  - Dec-11: 3%
  - Dec-12: 6%
  - Dec-13: 9%
  - Dec-14: 13%
- **CDs>$100K**
  - Dec-07: 4.7%
  - Dec-08: 8.2%
  - Dec-09: 2.5%
  - Dec-10: 2%
  - Dec-11: 3%
  - Dec-12: 5%
  - Dec-13: 7%
  - Dec-14: 9%
- **CDs<$100K**
  - Dec-07: 0%
  - Dec-08: 0%
  - Dec-09: 0%
  - Dec-10: 0%
  - Dec-11: 0%
  - Dec-12: 0%
  - Dec-13: 0%
  - Dec-14: 0%

Based on commercial banks, excluding De Novos; trimmed means (not merger adjusted); preliminary 12/31/14 data.

**Average Annual Deposit Growth**

- **Bank Size**
  - District Small (<$10B)
    - 2013: 5.1%
    - 2014: 9.0%
  - District Mid-Sized ($10B-$50B)
    - 2013: 7.9%
    - 2014: 15.0%
  - Nation Large (>50B)
    - 2013: 3.0%
    - 2014: 6.8%

**Noncore* Liabilities / Assets**

- **Bank Size**
  - District Small (<$10B)
    - Dec-08: 18%
    - Dec-14: 15%
  - District Mid-Sized ($10B-$50B)
    - Dec-08: 22%
    - Dec-14: 20%
  - Nation Large (>50B)
    - Dec-08: 21%
    - Dec-14: 24%

Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data; *Noncore includes borrowed funds, foreign and brokered deposits, large CDs (previously defined as > $100K—green area, now defined as > $250K—blue bars).

**Average Noncore* Liabilities / Assets by Bank Size (Using CDs > $100K)**

- **Bank Size**
  - District Small (<$10B)
    - Dec-08: 33%
    - Dec-14: 18%
  - District Mid-Sized ($10B-$50B)
    - Dec-08: 45%
    - Dec-14: 20%
  - Nation Large (>50B)
    - Dec-08: 39%
    - Dec-14: 24%

**On average, half of traditional noncore funding derived from CDs $100K - $250K**

**Interest Rate Risk: Longer-Term Assets Inched Higher at All But Mid-Sized Bank Group**

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

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

- **Bank Size**
  - District Small (<$10B)
    - Dec-01: 27%
    - Dec-08: 41%
    - Dec-14: 44%
  - District Mid-Sized ($10-$50B)
    - Dec-01: 30%
    - Dec-08: 39%
    - Dec-14: 41%
  - Nation Large (>50B)
    - Dec-01: 30%
    - Dec-08: 39%
    - Dec-14: 41%

Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data.

**Non-Maturity Deposits Increased As Rates Remained Low, but the Trend Could Reverse**

**Non-Maturity Deposits / Total Assets**

- **12th District Banks**
  - Qtly. Avg. 3-Month U.S. CM Treasury Rate
  - Dec-01: 35%
  - Dec-02: 40%
  - Dec-03: 45%
  - Dec-04: 50%
  - Dec-05: 45%
  - Dec-06: 50%
  - Dec-07: 45%
  - Dec-08: 50%
  - Dec-09: 55%
  - Dec-10: 60%
  - Dec-11: 65%
  - Dec-12: 70%
  - Dec-13: 75%
  - Dec-14: 80%

Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data; non-maturity includes demand, money market and savings; Constant Maturity (CM) Treasury Rate from Federal Reserve, Haver Analytics.

**Reliance on Noncore Funding, Which Swelled As the Crisis Unfolded, Continued to Recede**

- **Average Noncore* Liabilities / Assets by Bank Size**
  - District Small (<$10B)
    - Dec-08: 33%
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    - Dec-14: 41%
  - Nation Large (>50B)
    - Dec-01: 30%
    - Dec-08: 39%
    - Dec-14: 41%

Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data.
A Flight to Safety in Late 2014 Boosted Bonds, but Values Could Slip Again Should Interest Rates Rise

HOT TOPIC

Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data; available for sale (AFS) securities only; Constant Maturity (CM) Treasury Rate from Federal Reserve, Haver Analytics

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

Qty. Avg. 10-Year U.S. CM Treasury Rate

Tier 1 Leverage Ratio

Total Risk-Based Capital Ratio

Dividend Payout Activity Trailed Pre-Crisis Levels but Increased Modestly Year-Over-Year

Share of Banks Paying Dividends by Size (excluding S-Corps)

Based on commercial banks organized as C-Corps (S-Corps omitted as these typically have high payout rates to cover shareholder tax obligations), excluding De Novos; preliminary 12/31/14 data

12th District M&A Deal Counts

Average Price / Tangible Book Value (%)

Mergers: Merger Activity Persisted in the District; Average Valuation Multiples Drifted Higher

Assisted purchase and assumption (P&A) data by failure year and excludes liquidations and deposit transfers; unassisted merger and acquisition (M&A) data by announcement year and includes whole/minority/thrift merger conversion deals completed or with a pending definitive agreement; price multiple data includes unassisted transactions only and was not available for all transactions; Source: SNL Financial (1/29/2015)
Section 3 – Regulatory Ratings and Trends

Focusing on trends in examination (CAMELS) ratings assigned by regulatory agencies among commercial banks headquartered within the 12th Federal Reserve District.
**Regulatory Ratings: Pace of CAMELS Upgrades Moderated but Continued to Outpace Downgrades**

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

- **27%** Upgrade
- **13%** Downgrade

Includes any change in composite CAMELS rating for commercial banks; quarterly data based on examination completion dates (mail dates); recent data are preliminary; data updated through 2/11/15

**Earnings and Management Better but Weakest; Asset Quality Rating Upgrades Continued; Sensitivity Ratings Somewhat Flat**

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

- **Recession**
  - Earnings: 3.4
  - Management: 3.2
  - Asset Quality: 2.7
  - Capital: 2.5
  - Sensitivity*: 2.4
  - Liquidity: 1.9

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

**Consumer Compliance Ratings Continued Improving; CRA Ratings Have Plateaued**

Percent of 12th District Banks with Less-than-Satisfactory Ratings

- **27%** CRA
- **14%** Consumer

Trends for all commercial banks based on examination completion dates (mail dates); CRA = Community Reinvestment Act; recent data are preliminary; updated 2/11/15

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Focusing on trends among savings institutions and industrial banks headquartered within the 12th Federal Reserve District.

The savings institutions represent a combined population of District savings & loan associations plus savings banks.
High Yield Lending and Limited Branching Enabled Industrial Banks to Out-Earn Commercial and Savings Institutions

Return on Average Assets

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

<table>
<thead>
<tr>
<th>Year</th>
<th>Industrial</th>
<th>Savings</th>
<th>Commercial</th>
</tr>
</thead>
<tbody>
<tr>
<td>2005</td>
<td>2.79%</td>
<td>1.16%</td>
<td>-1.00%</td>
</tr>
<tr>
<td>2006</td>
<td>1.38%</td>
<td>-0.32%</td>
<td>0.0%</td>
</tr>
<tr>
<td>2007</td>
<td>0.86%</td>
<td>0.89%</td>
<td>0.91%</td>
</tr>
<tr>
<td>2008</td>
<td>3.88%</td>
<td>3.54%</td>
<td>3.57%</td>
</tr>
<tr>
<td>2009</td>
<td>1.16%</td>
<td>0.84%</td>
<td>0.84%</td>
</tr>
<tr>
<td>2010</td>
<td>0.0%</td>
<td>1.0%</td>
<td>2.0%</td>
</tr>
<tr>
<td>2011</td>
<td>2.0%</td>
<td>3.0%</td>
<td>4.0%</td>
</tr>
<tr>
<td>2012</td>
<td>3.0%</td>
<td>4.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>2013</td>
<td>4.0%</td>
<td>5.0%</td>
<td>6.0%</td>
</tr>
<tr>
<td>2014</td>
<td>5.0%</td>
<td>6.0%</td>
<td>7.0%</td>
</tr>
</tbody>
</table>

Based on District commercial banks, savings institutions, and industrial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data

Noncurrent Loan Ratios Continued to Ebb Across Charter Types

Noncurrent rates at commercial banks were more severe than at industrial banks or savings institutions during the crisis.

Noncurrent Loans and Leases /Total Loans and Leases

<table>
<thead>
<tr>
<th>Year</th>
<th>Industrial</th>
<th>Savings</th>
<th>Commercial</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-07</td>
<td>4.76%</td>
<td>0.91%</td>
<td>0.84%</td>
</tr>
<tr>
<td>Dec-08</td>
<td>3.54%</td>
<td>0.91%</td>
<td>0.84%</td>
</tr>
<tr>
<td>Dec-09</td>
<td>3.57%</td>
<td>0.91%</td>
<td>0.84%</td>
</tr>
<tr>
<td>Jun-08</td>
<td>0.84%</td>
<td>0.91%</td>
<td>0.84%</td>
</tr>
<tr>
<td>Jun-09</td>
<td>0.84%</td>
<td>0.91%</td>
<td>0.84%</td>
</tr>
<tr>
<td>Dec-09</td>
<td>0.84%</td>
<td>0.91%</td>
<td>0.84%</td>
</tr>
<tr>
<td>Jun-10</td>
<td>0.84%</td>
<td>0.91%</td>
<td>0.84%</td>
</tr>
<tr>
<td>Dec-10</td>
<td>0.84%</td>
<td>0.91%</td>
<td>0.84%</td>
</tr>
<tr>
<td>Jun-11</td>
<td>0.84%</td>
<td>0.91%</td>
<td>0.84%</td>
</tr>
<tr>
<td>Dec-11</td>
<td>0.84%</td>
<td>0.91%</td>
<td>0.84%</td>
</tr>
<tr>
<td>Jun-12</td>
<td>0.84%</td>
<td>0.91%</td>
<td>0.84%</td>
</tr>
<tr>
<td>Dec-12</td>
<td>0.84%</td>
<td>0.91%</td>
<td>0.84%</td>
</tr>
<tr>
<td>Jun-13</td>
<td>0.84%</td>
<td>0.91%</td>
<td>0.84%</td>
</tr>
<tr>
<td>Dec-13</td>
<td>0.84%</td>
<td>0.91%</td>
<td>0.84%</td>
</tr>
<tr>
<td>Jun-14</td>
<td>0.84%</td>
<td>0.91%</td>
<td>0.84%</td>
</tr>
<tr>
<td>Dec-14</td>
<td>0.84%</td>
<td>0.91%</td>
<td>0.84%</td>
</tr>
</tbody>
</table>

Based on District commercial banks, savings institutions, and industrial banks excluding De Novos; trimmed means; preliminary 12/31/14 data; Noncurrent = 90+ days past due or on nonaccrual.

Industrial Banks’ Capital Still High on a GAAP Basis; Margin Relative to Savings Institutions Disappears When Risk-Based

GAAP Equity / Assets

Industrial: 16.4%
Commercial: 11.7%
Savings: 12.7%

Total Risk-Based Capital Ratios 12/31/14 (Average)

<table>
<thead>
<tr>
<th>Charter Type</th>
<th>Ratio</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industrial</td>
<td>22.1%</td>
</tr>
<tr>
<td>Savings</td>
<td>22.3%</td>
</tr>
<tr>
<td>Commercial</td>
<td>16.5%</td>
</tr>
</tbody>
</table>

Similar to Banks, Share of Savings Institutions Rated Composite 3, 4, or 5 Drifted Downward

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

Industrial: 22%
Commercial: 41%
Savings: 61%

Trends for all institutions based on examination completion dates (mail dates); recent data are preliminary; data updated through 2/11/15; note: there are too few industrials to disclose specifics.
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>FRB-SF</td>
<td>Dec-13</td>
<td>Dec-14</td>
<td>Dec-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>200 (2)</td>
<td>193 (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>11 (0)</td>
<td>-</td>
</tr>
<tr>
<td>Nevada</td>
<td>13 (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>18 (0)</td>
</tr>
<tr>
<td>Washington</td>
<td>50 (1)</td>
<td>47 (0)</td>
<td>-</td>
</tr>
<tr>
<td>12th District</td>
<td>370 (3)</td>
<td>352 (1)</td>
<td>29 (0)</td>
</tr>
<tr>
<td>Nation</td>
<td>5,815 (33)</td>
<td>5,571 (13)</td>
<td>31 (0)</td>
</tr>
</tbody>
</table>

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 are sometimes 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.

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### Appendix 3: Regulatory Hot Topics

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

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.

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

**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.

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

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.

Prevention and detection of rapidly evolving IT vulnerabilities and threats is challenging. The stakes are very high in the event of a breach.