FEDERAL RESERVE BANK OF SAN FRANCISCO

# First Glance 12L (4Q14)

Financial Performance of Banks in the 12th Federal Reserve District ("12L")

## *2014: A Year of Opportunities and Challenges*

*February 23, 2015*

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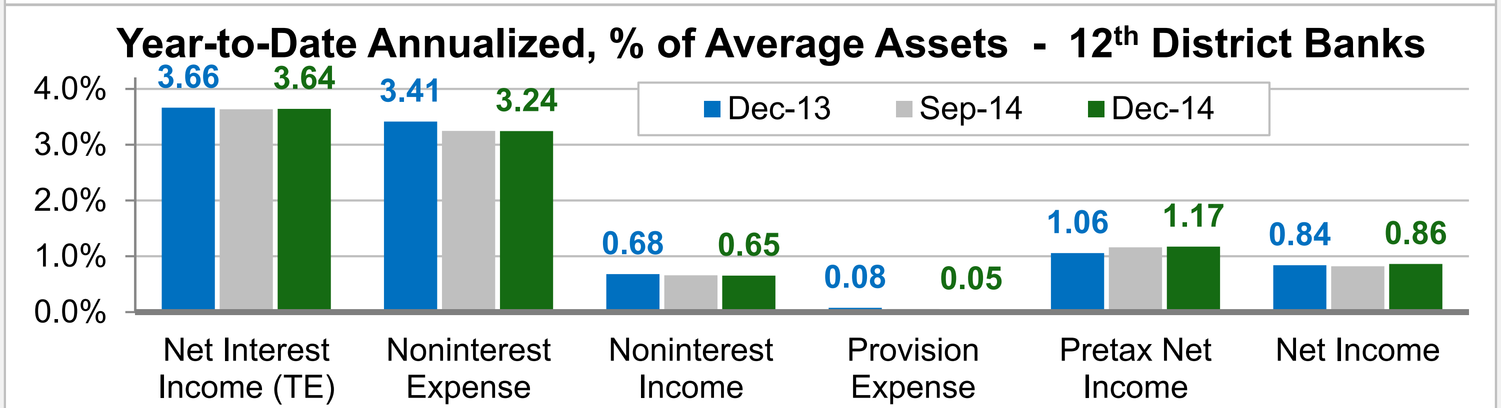
# 12th District Overview
# "2014: A Year of Opportunities and Challenges"

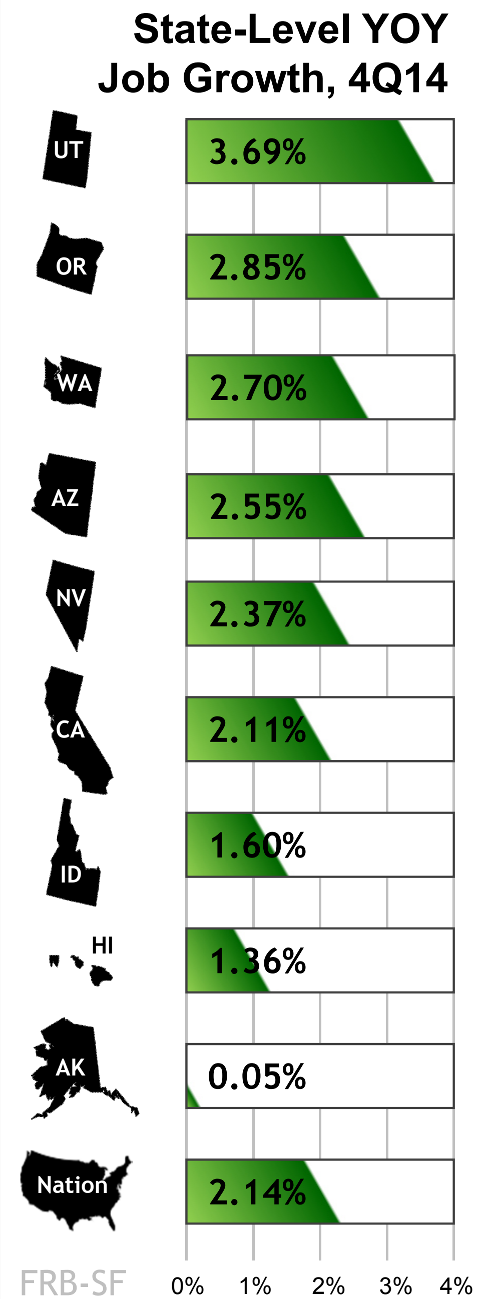
The District's economy continued to expand at a slightly above-average rate. Growth in jobs, single-family homebuilding, and residential and commercial property prices outpaced the nation. Job growth helped the District's aggregate unemployment rate decline to 6.6% in December 2014, down from 7.6% in 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.

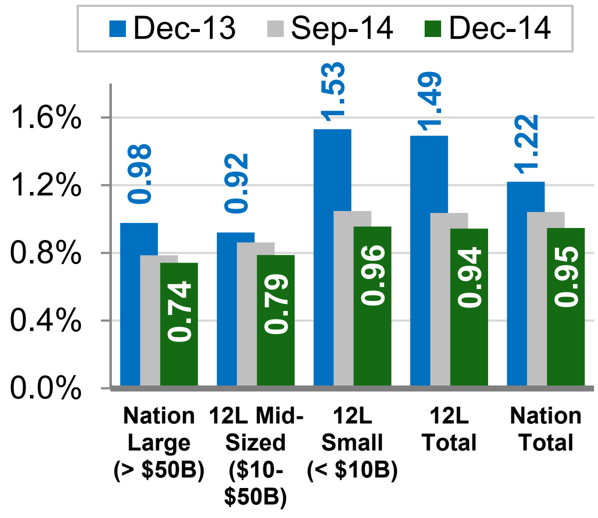
Year-to-date pretax profit ratios generally increased year-over-year but were flat on a linked-quarter basis and trailed national averages. Improved credit quality and stronger financial health drove noninterest and provision expenses lower, more than offsetting margin and fee income pressures.



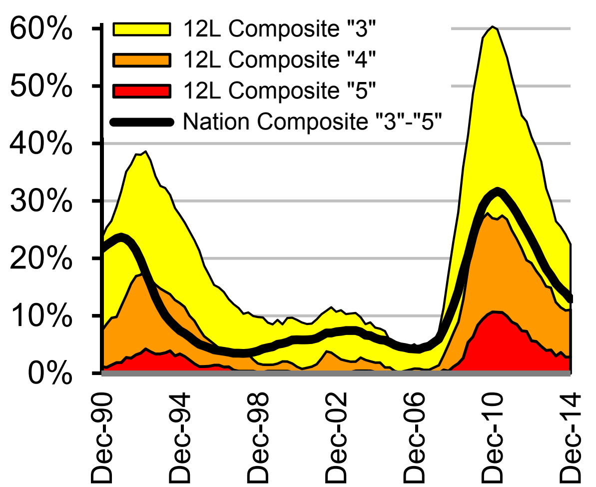



# 12th District Overview, Continued

**Average Nonperforming Assets/Assets (%)**




**Banks Rated CAMELS Composite 3, 4, or 5**




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

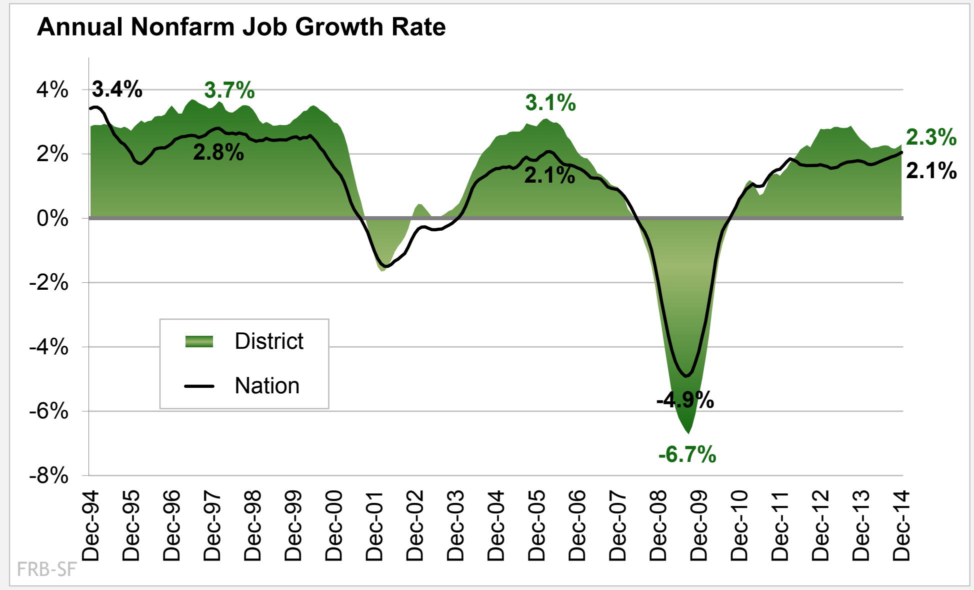
Housing Market Metrics

Commercial Real Estate Market Metrics

Oil-Related Employment Exposures



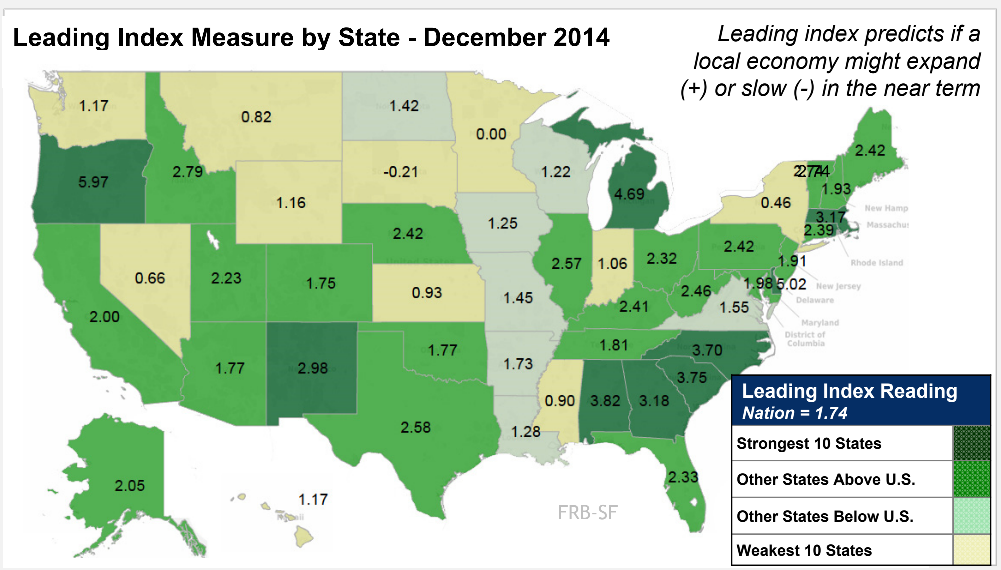
# District Job Growth Outpaced the Nation but Was Relatively Flat




Based on average nonfarm payrolls over trailing three months; Source: Bureau of Labor Statistics, Haver Analytics.



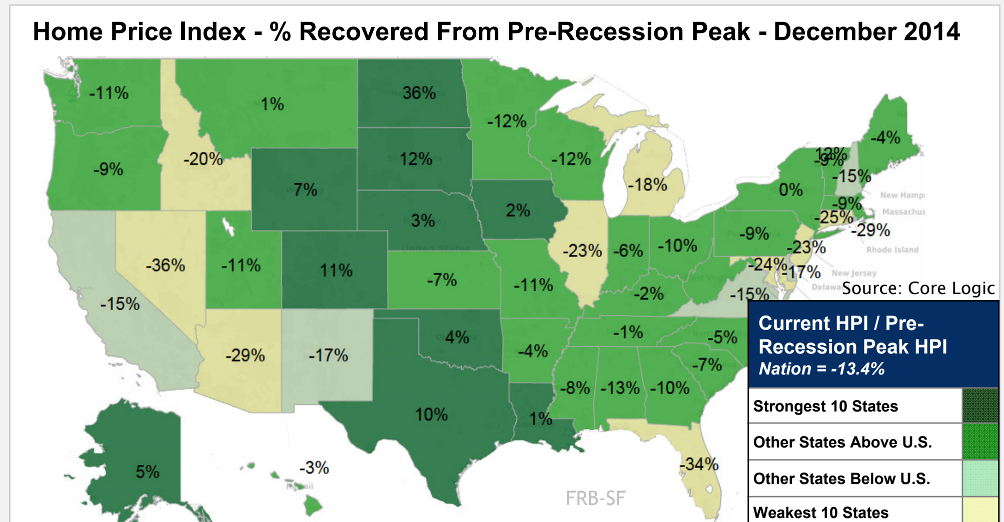
# Leading Index Measures Suggest Continued Economic Improvement; Oregon's Prospects are Particularly Strong




The Leading Index predicts the 6-month growth rate of state's coincident economic index (also calculated by the Philadelphia FRB). 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

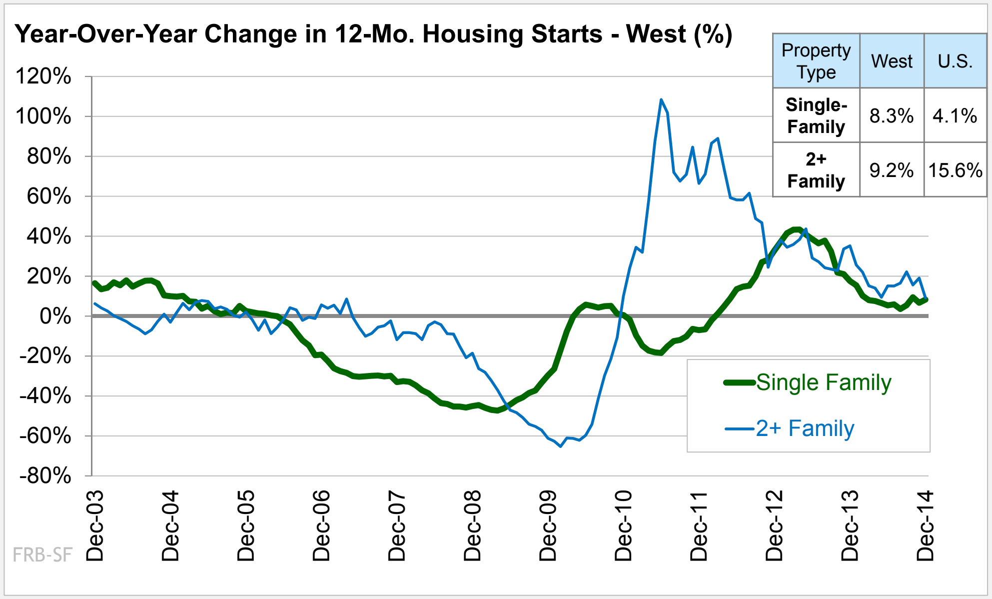


# While District Home Prices Continue to Rise, They Remained Below Pre-Recession Peaks in All but Alaska




| Year-Over-Year Change in Home Price Index (%) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | U.S. | AK | AZ | CA | HI | ID | NV | OR | UT | WA |
| December 2014 | 5.0% | 5.4% | 2.8% | 7.0% | 6.6% | 1.3% | 7.3% | 6.7% | 4.3% | 6.7% |
| December 2013 | 12.0% | 4.8% | 14.6% | 22.5% | 11.6% | 12.4% | 25.3% | 13.6% | 11.9% | 12.0% |

# Home Permit Growth Continued, With Moderate Slowing Among Annual Multifamily Starts

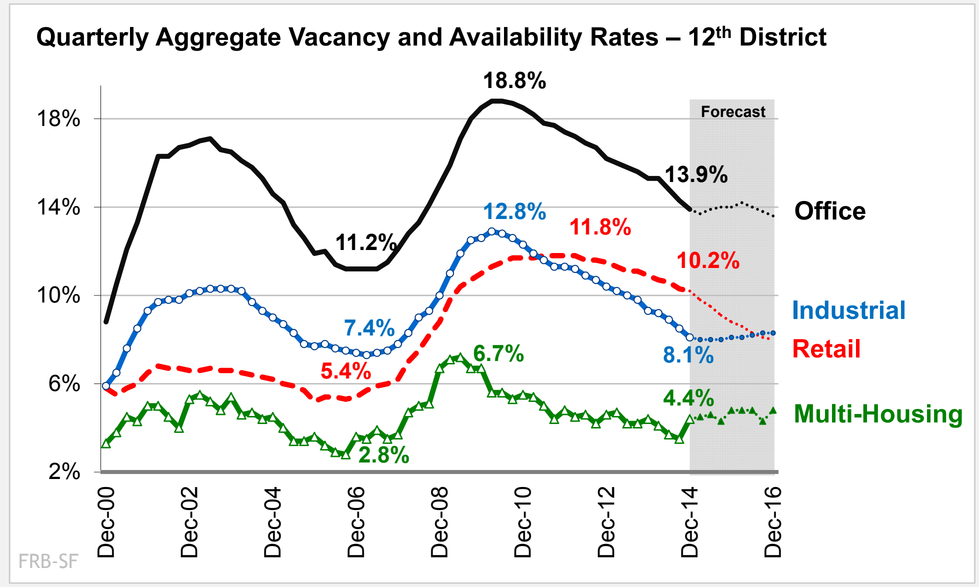



| Property Type | West | U.S. |
|---|---|---|
| Single-Family | 8.3% | 4.1% |
| 2+ Family | 9.2% | 15.6% |

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



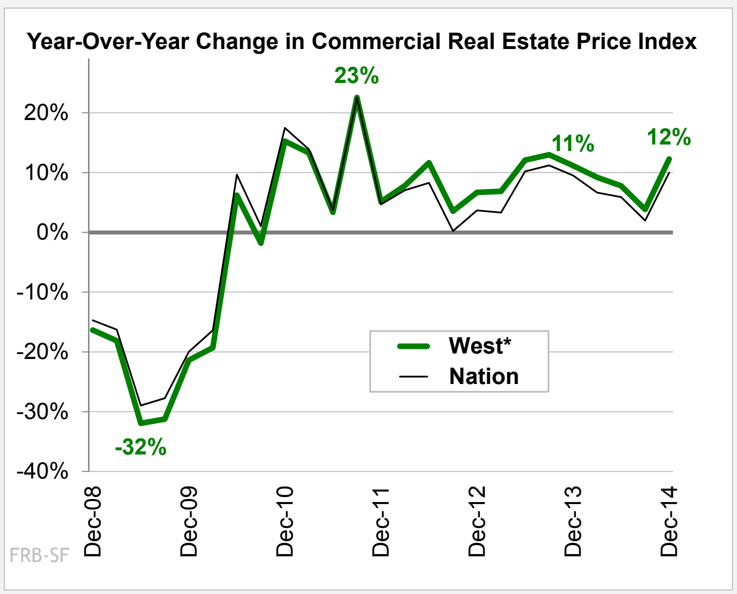
# CRE Markets: Vacancy and Availability Rates May Be Near Cyclical Lows, Except Among Retail Properties




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



# Commercial Property Price Appreciation Accelerated Year-Over-Year




**Year-Over-Year Change in National CRE Price Index by Type**

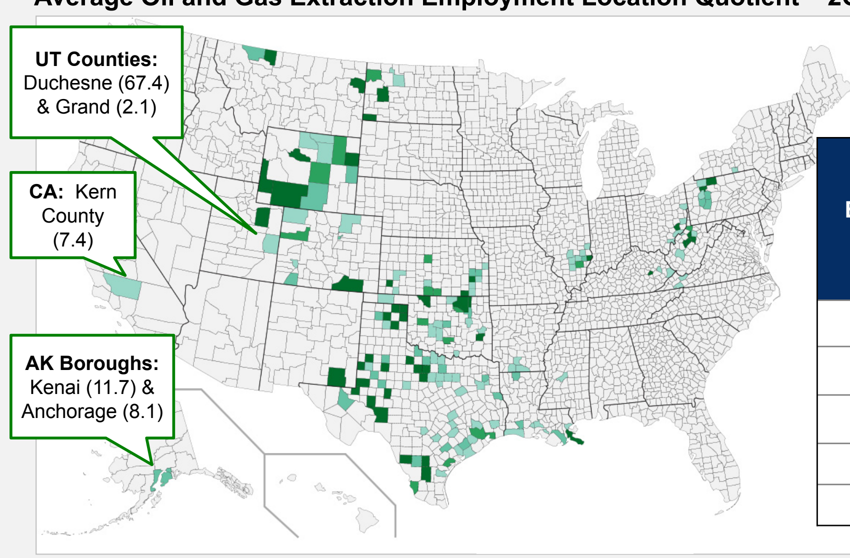
| Sector | 4Q 13 | 4Q 14 |
|---|---|---|
| Apartment | 10.5% | 10.0% |
| Industrial | 9.4% | 9.8% |
| Office | 9.4% | 11.0% |
| Retail | 9.4% | 10.8% |
| All | 9.5% | 10.0% |

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



# 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**
*Nation = 1.0*

- < 2.0
- 2.0 – 7.9
- 8.0 – 13.9
- 14.0 – 19.9
- => 20.0

Compares the concentration of oil and gas exploration jobs for the county to the nationwide employment concentration. Source: Bureau of Labor Statistics, U.S. Department of Labor, "The Economics Daily", 1/9/2015 (http://www.bls.gov/opub/ted/2015/counties-with-highest-concentration-of-employment-in-oil-and-gas-extraction-june-2014.htm)

# 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

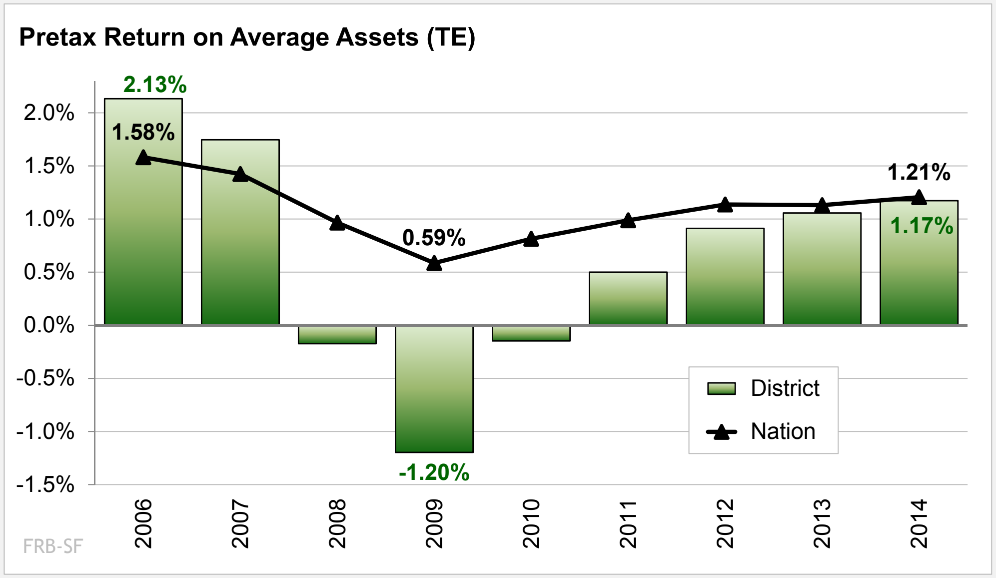
Merger Activity

*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/



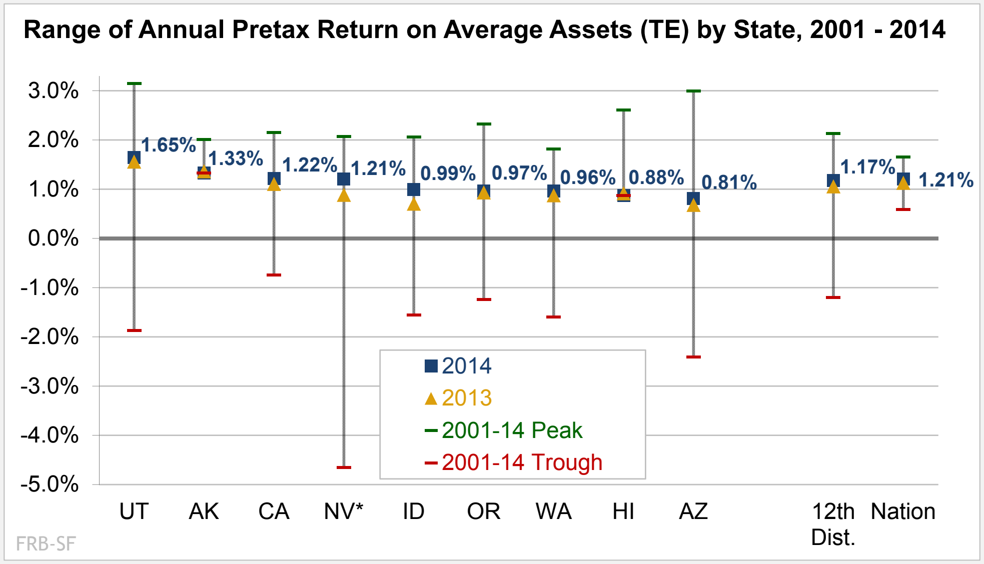
## Earnings: Pretax Profitability Improved Incrementally




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



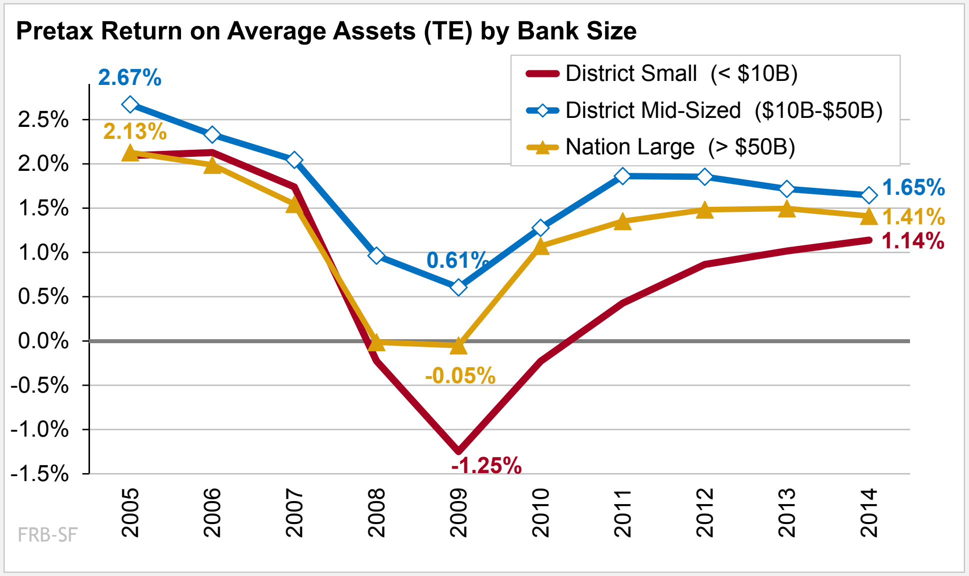
## In Most District States, Average Pretax Earnings Continued To Recover From Crisis-Era Troughs




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

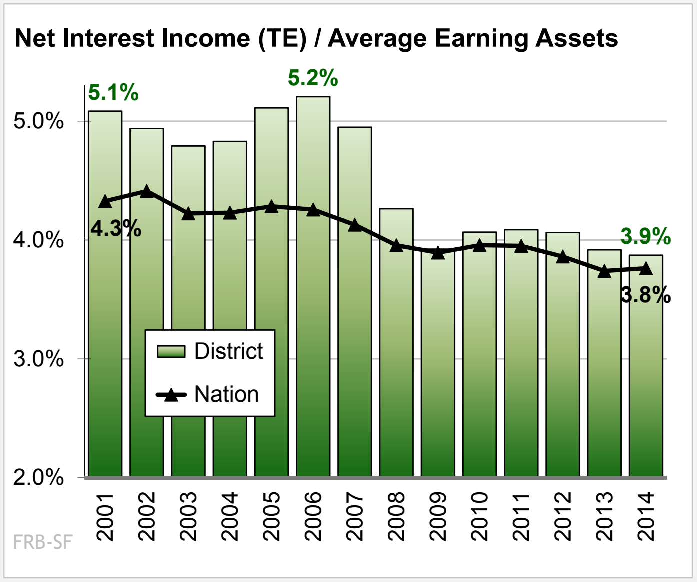


## Pretax Returns at Smaller Institutions Lagged Those of Larger Firms but Improved Year-Over-Year




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



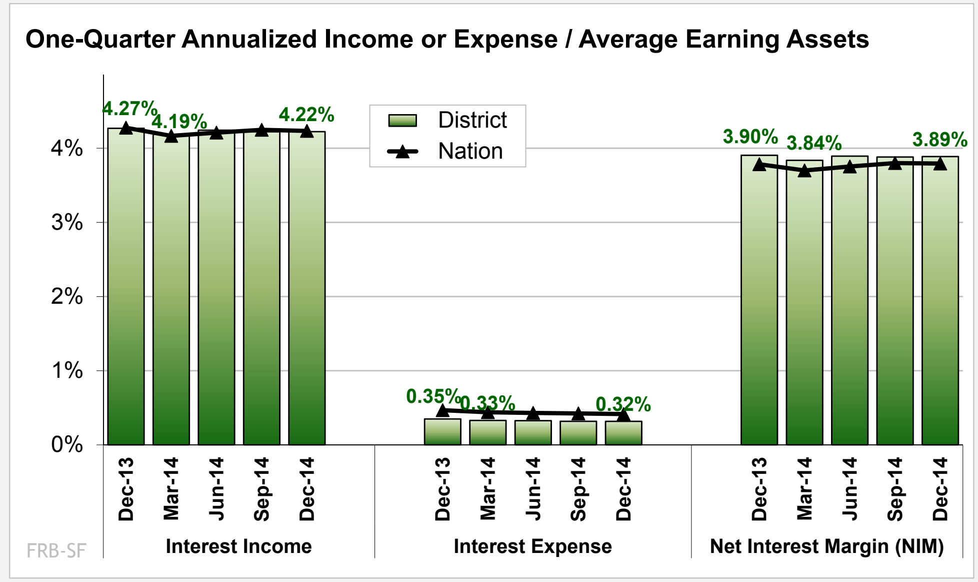

| Average Net Interest Income (TE) / Average Earning Assets | | |
|---|---|---|
| Bank Size | 2013 | 2014 |
| District Small (<$10B) | 3.95% | 3.90% |
| District Mid-Sized ($10B-$50B) | 3.48% | 3.39% |
| Nation Large (>$50B) | 2.97% | 2.77% |

*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



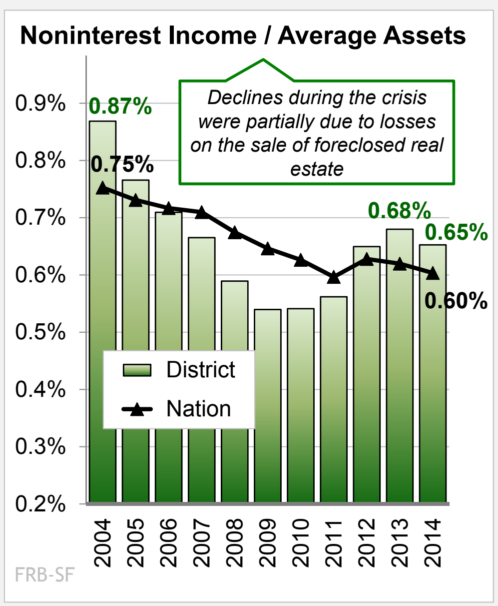
## Quarterly Margins Improved from Early 2014 But Were Flat on a Linked-Quarter Basis

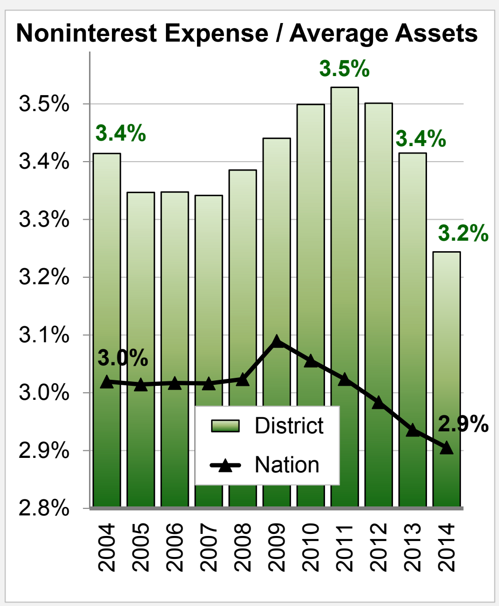



Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data; figures are adjusted on a tax-equivalent (TE) basis to assume taxes are paid on income from tax-free municipal loans and securities



## Improvements in Overhead More Than Offset Declines in Noninterest Income

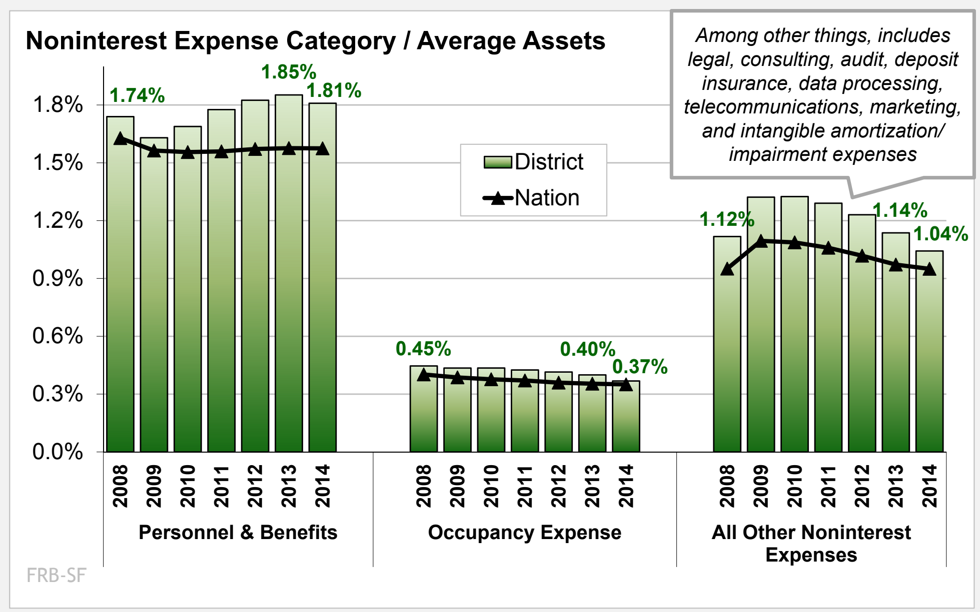



Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data

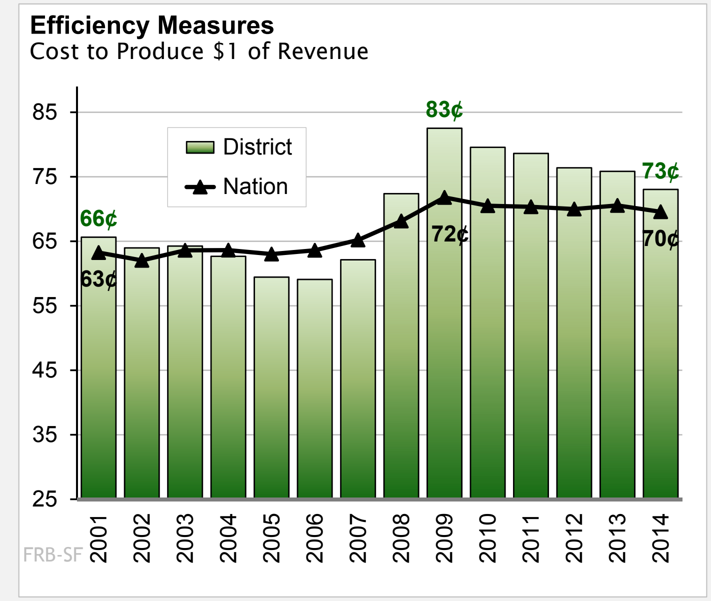


## Overhead Improvements Mainly in “All Other” Expenses




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

# Noninterest Expense Controls Fueled Further Efficiency Gains, Primarily Among The District's Smaller Banks



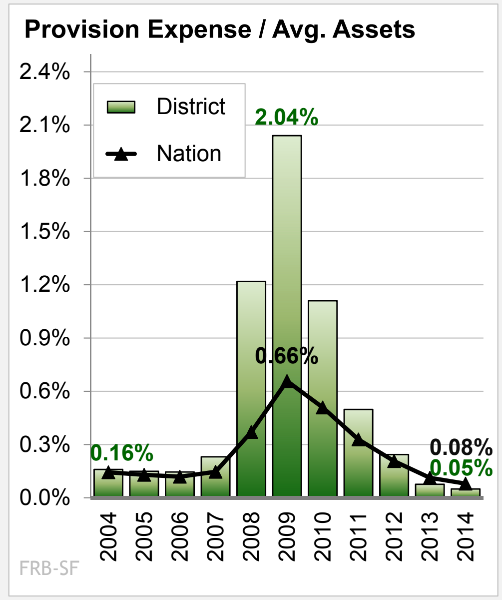

*Efficiency ratios were somewhat flat at large banks but improved among smaller firms.*

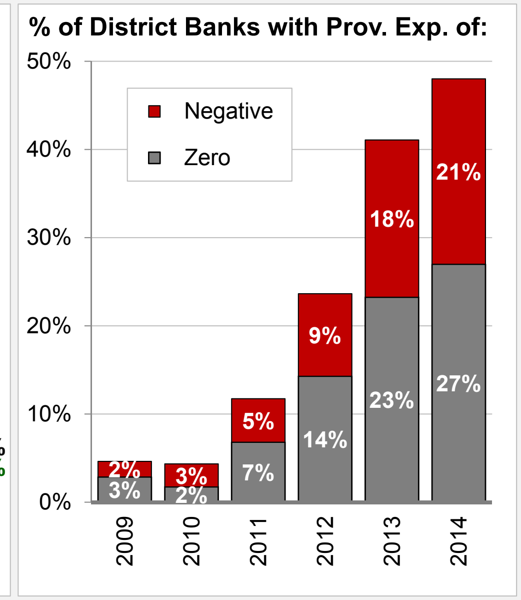
| Average Efficiency by Bank Size | | |
|---|---|---|
| Bank Size | 2013 | 2014 |
| **District Small** (<$10B) | 77¢ | 74¢ |
| **District Mid-Sized** ($10B-$50B) | 57¢ | 56¢ |
| **Nation Large** (>$50B) | 64¢ | 64¢ |

Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data; efficiency measure = overhead / (net interest income + noninterest income)



# Loan Loss Reserves: The Recent Pace of Provision Expenses May Not be Sustainable for Long Given Loan Growth Rates

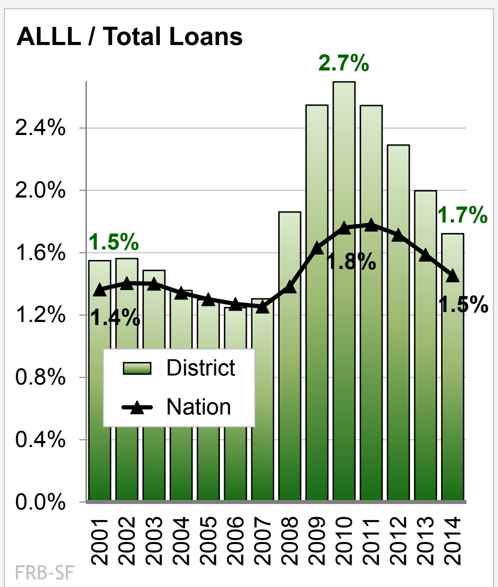


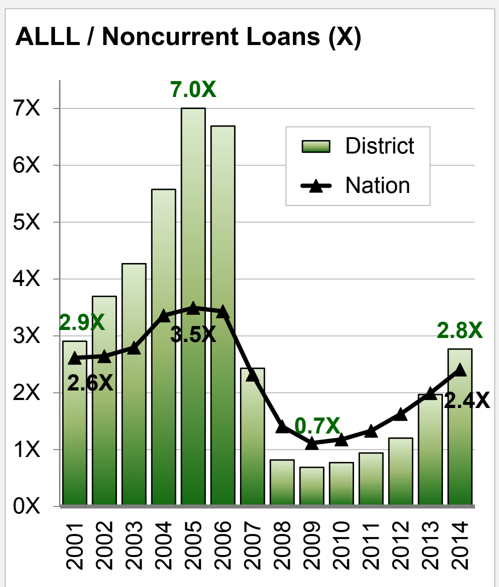




Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data



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

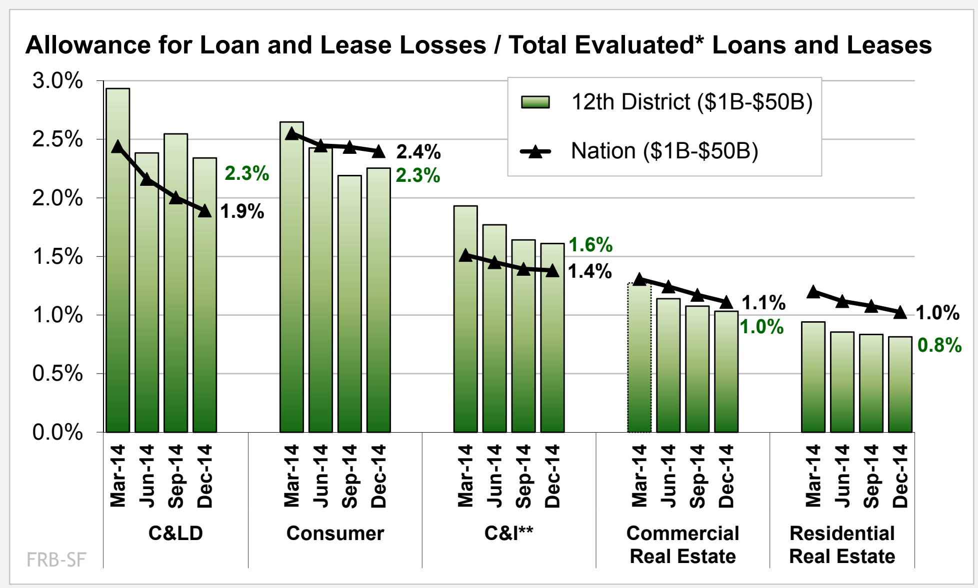



Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data; ALLL = allowance for loan and lease losses

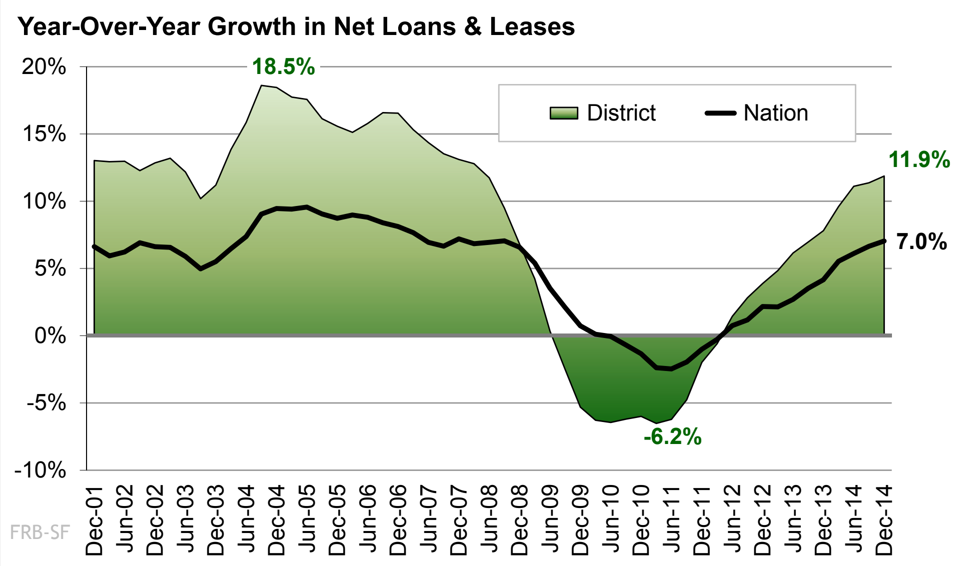


# Reserves Trailed Loan Growth Across Most Loan Segments, Similar to National Trends




Based on aggregate data for commercial banks with assets between $1 billion and $50 billion (smaller banks are not required to report this information); preliminary 12/31/14 data; *evaluated excludes loans accounted for at fair value or held for sale; **C&I also includes "all other" loan types not specified above

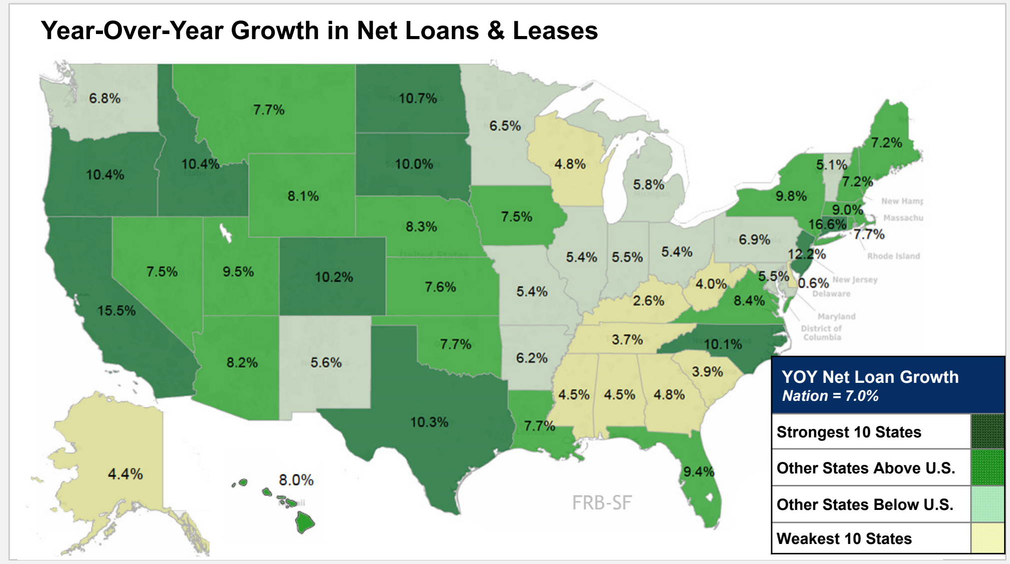
## Loan Growth: District Loan Growth Accelerated Faster Than Nation; Historically Prone to Broader Swings




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



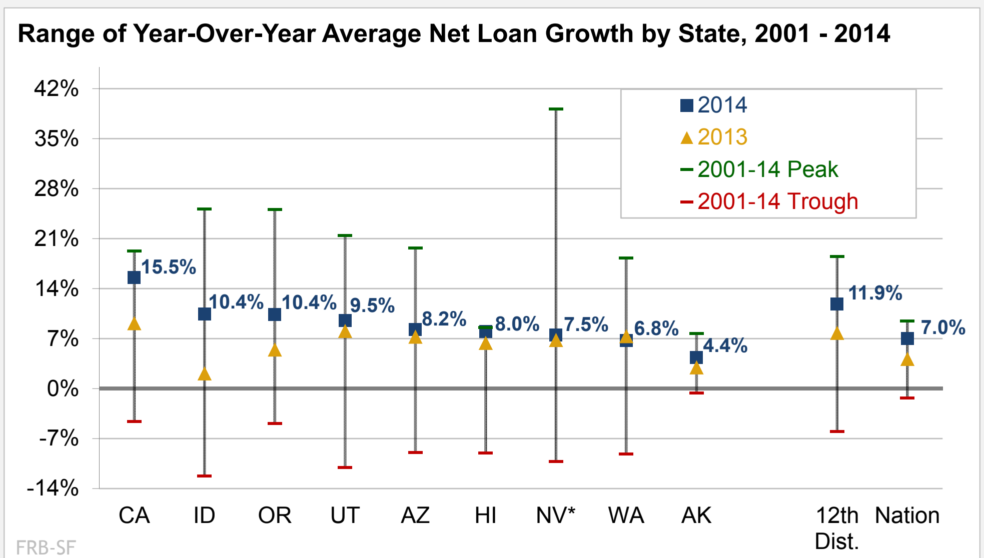
## Average Net Loan Growth in Most District States Outpaced the Nation




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



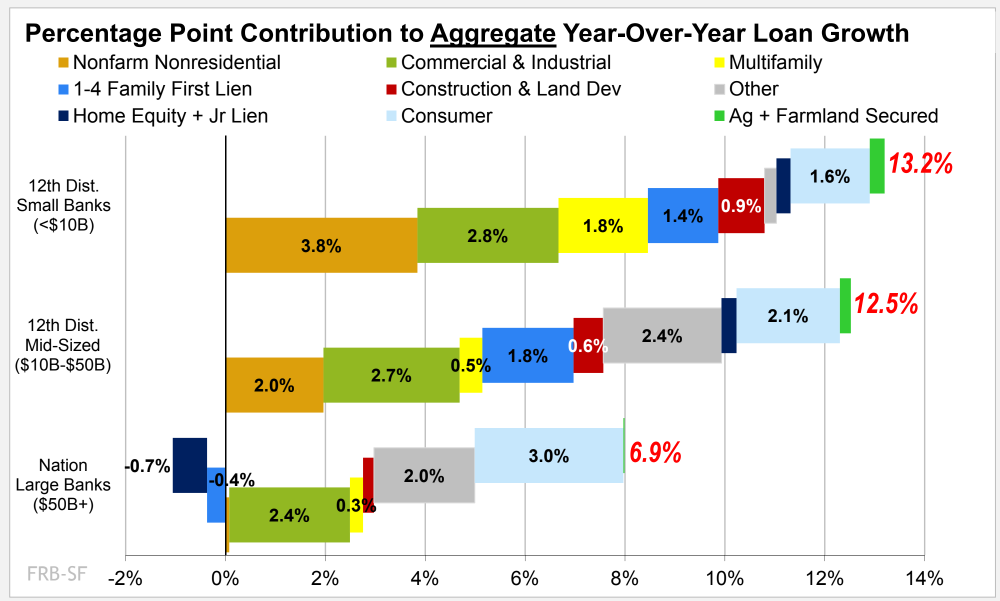
## Annual Loan Growth Accelerated in Most District States But Continued to Trail Pre-Recession Peaks




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

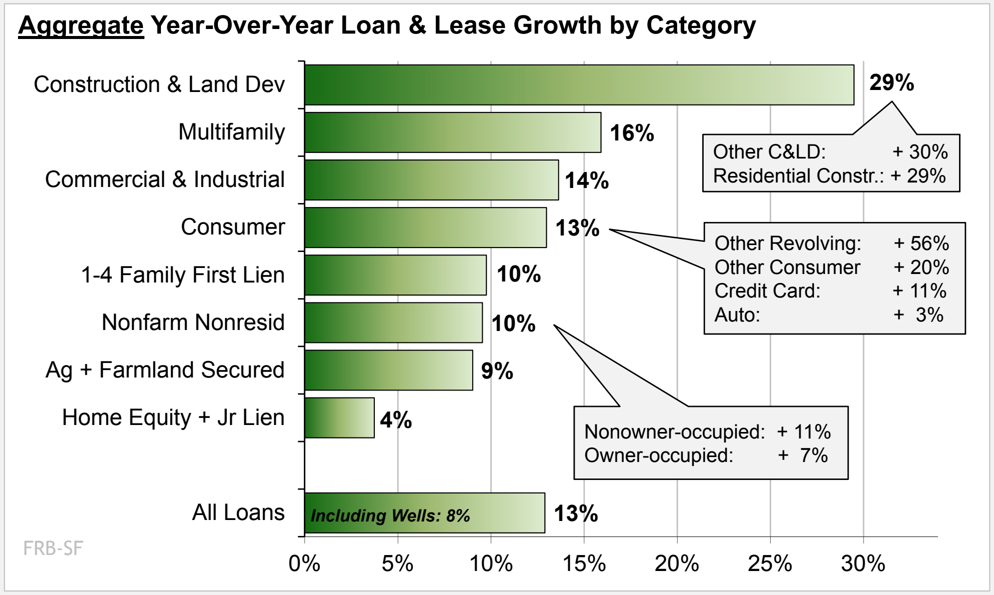


## Nonfarm Nonresidential, C&I, and Residential Were Big Percentage Point Contributors to Overall Growth Rate . . .




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

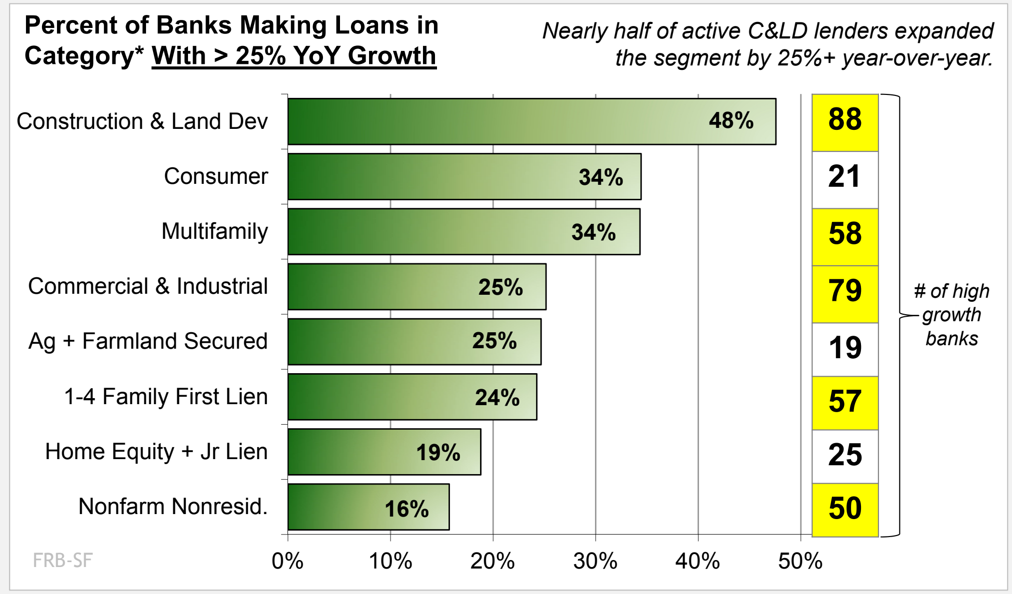
## . . . But at the Segment Level, Growth Rates Among Relatively Small C&LD Portfolios Outpaced Other Categories




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



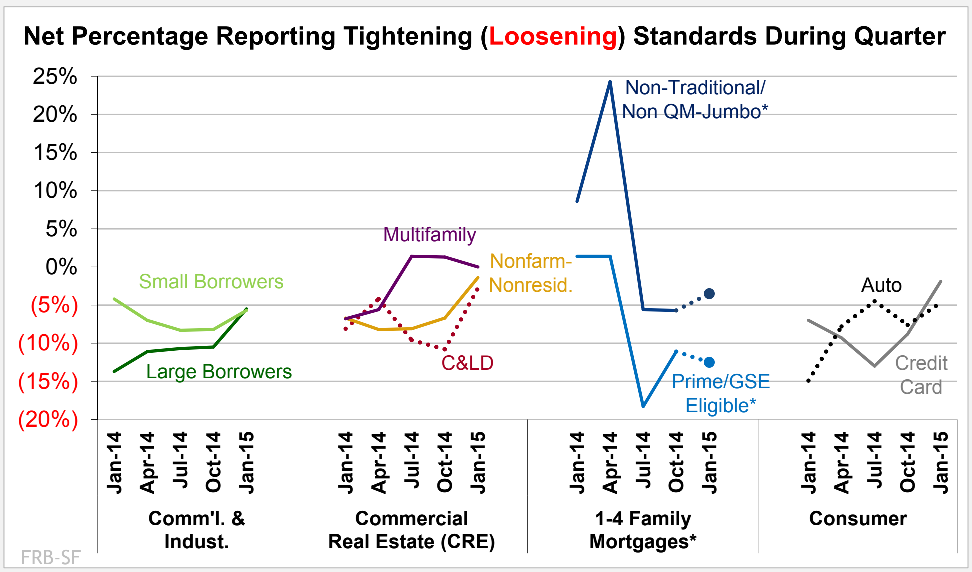
## HOT TOPIC Segment Growth Exceeded 25% Among a Large Share of Active C&LD, Consumer, and Multifamily Lenders




*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



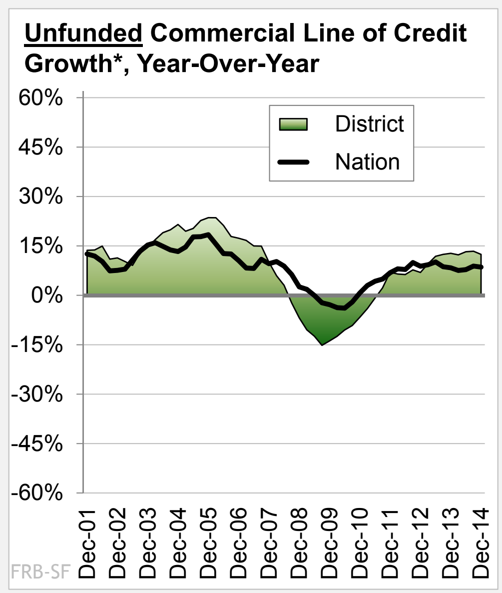
## HOT TOPIC On Net, More Lenders Eased Than Tightened Standards, but by a Declining Margin

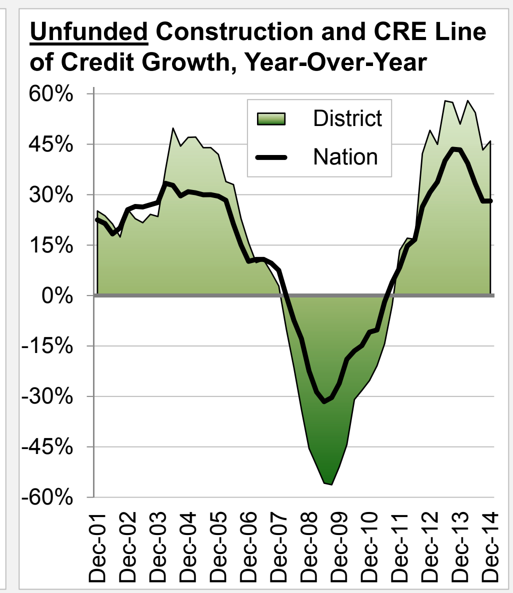



Based on a sample of loan officers at 70+/- domestic banks (number varies by period and loan type); *in the latest survey, two categories were replaced with six based on GSE eligibility, qualifying mortgage (QM) status, and size (making comparisons imperfect); Source: Federal Reserve Senior Loan Officer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



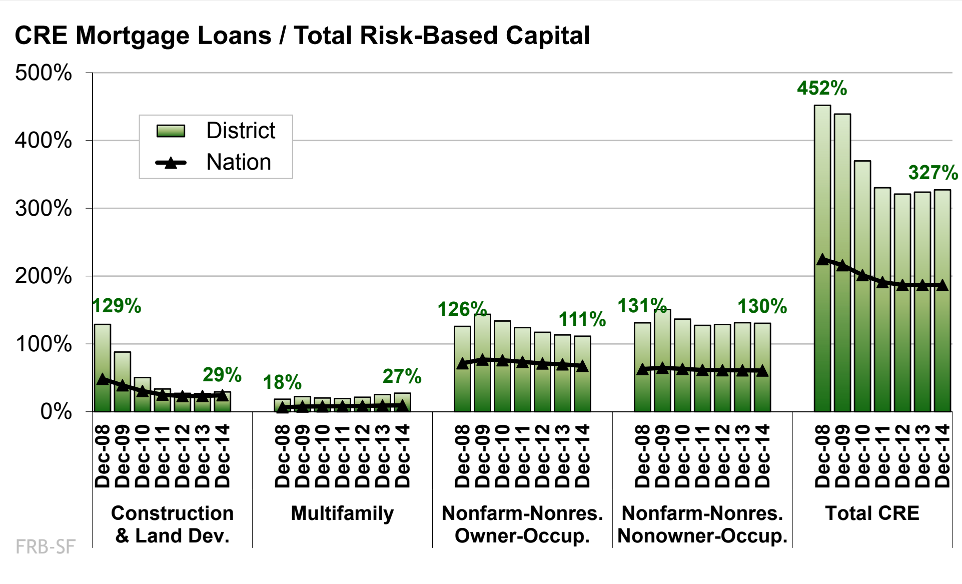
## Unfunded Growth in C&I and Construction Lines Decelerated but Continued to Outpace the Nation




Based on commercial banks, excluding De Novos; trimmed means (not merger adjusted); preliminary 12/31/14 data; *includes unfunded loan commitments not secured by residential or commercial real estate (CRE) or for CRE purposes or for credit cards (i.e., mostly commercial and industrial lines)

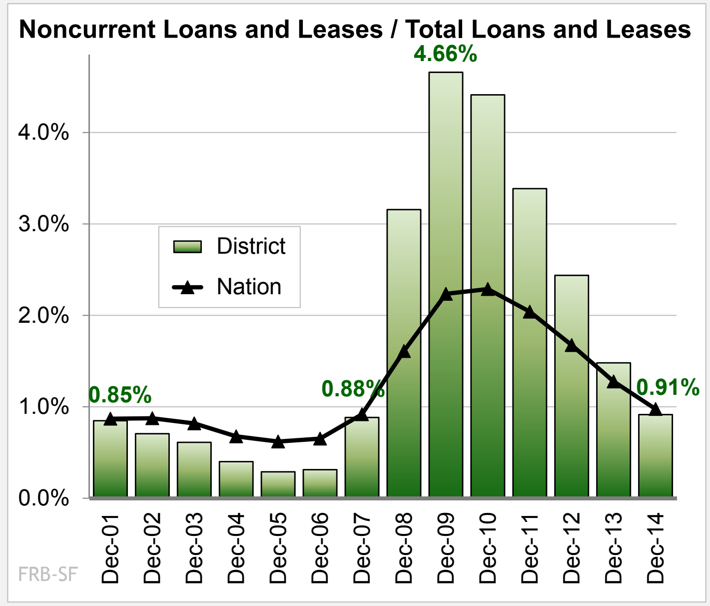
## Growth in Construction and Multifamily Pushed Overall Commercial Mortgage Concentrations Higher on Average




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



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




*Noncurrent loan rates improved the most among smaller banks.*

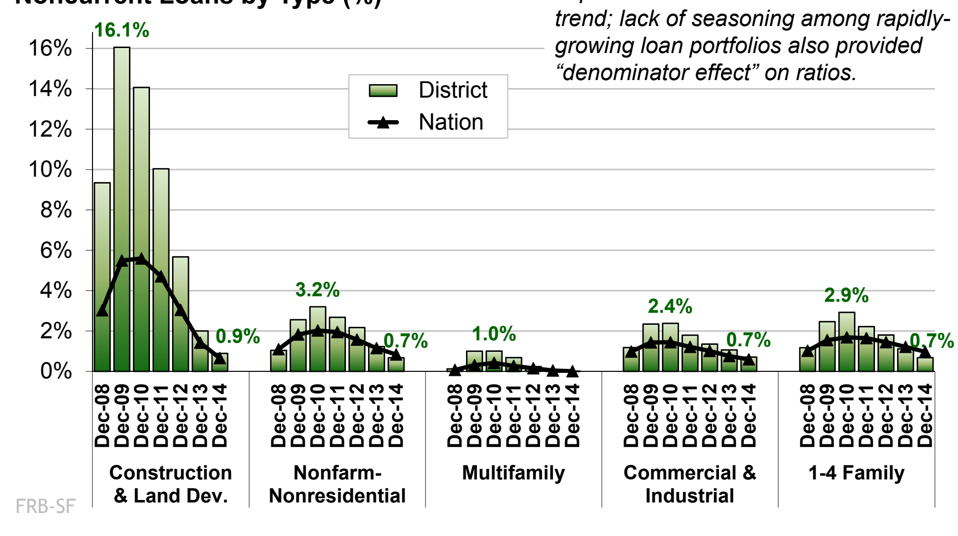
| Average Noncurrent Rate (%) | | |
|---|---|---|
| Bank Size | 2013 | 2014 |
| **District Small** (<$10B) | 1.49% | 0.91% |
| **District Mid-Sized** ($10B-$50B) | 1.11% | 0.92% |
| **Nation Large** (>$50B) | 1.49% | 1.14% |

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



## Noncurrent Rates Continued to Ebb Across Loan Categories

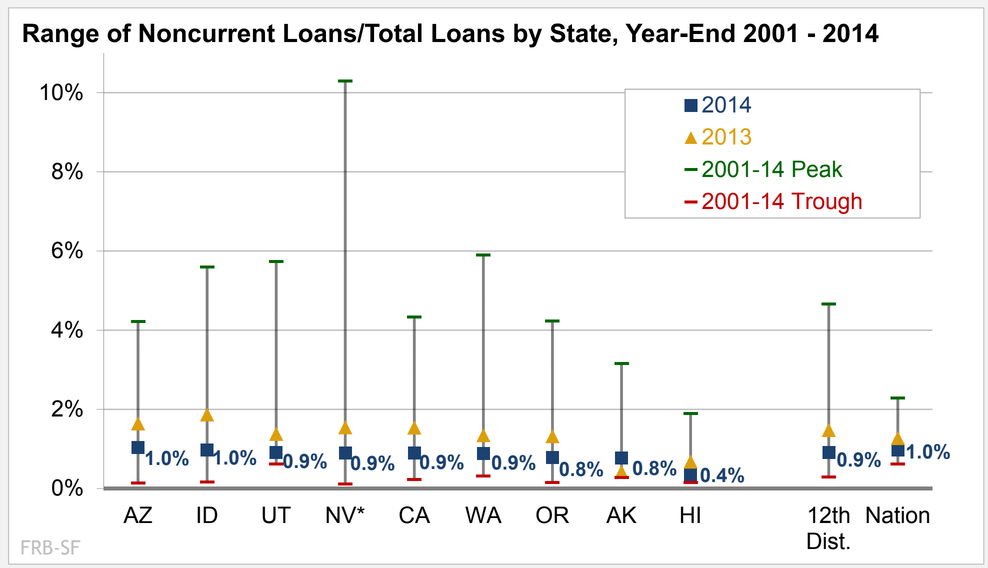
*Improved credit conditions led the trend; lack of seasoning among rapidly-growing loan portfolios also provided "denominator effect" on ratios.*




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

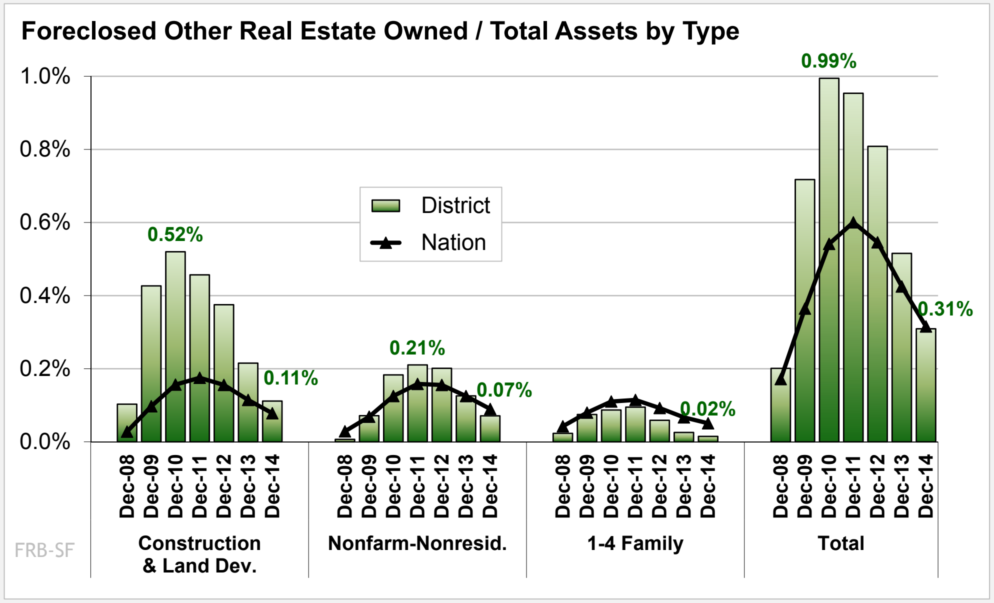


## Most State-Level Noncurrent Loan Rates Continued to Revert Toward Pre-Crisis Troughs




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

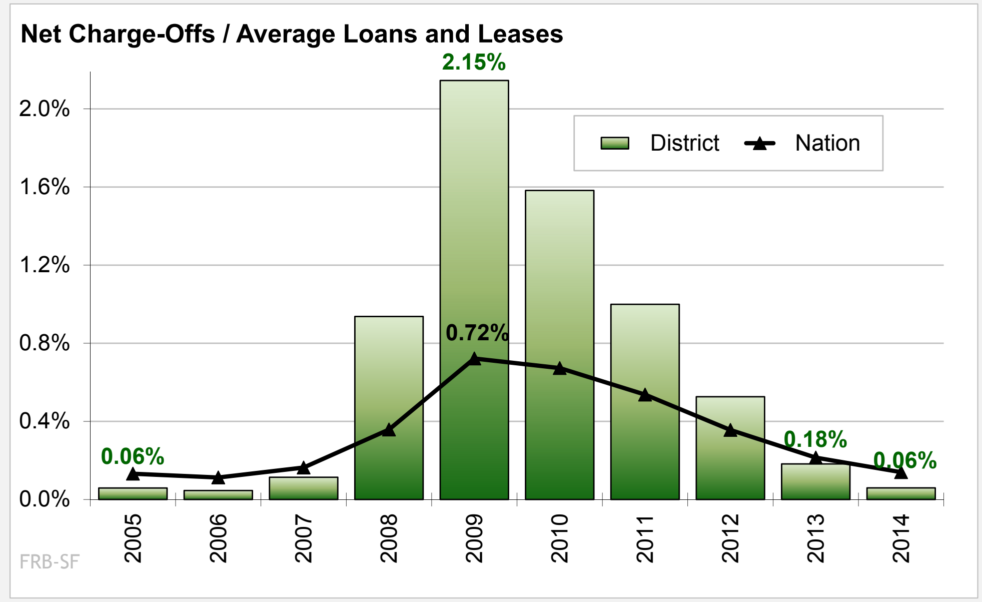
## Foreclosure Volumes Continued to Wane And Were In Line with National Levels




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



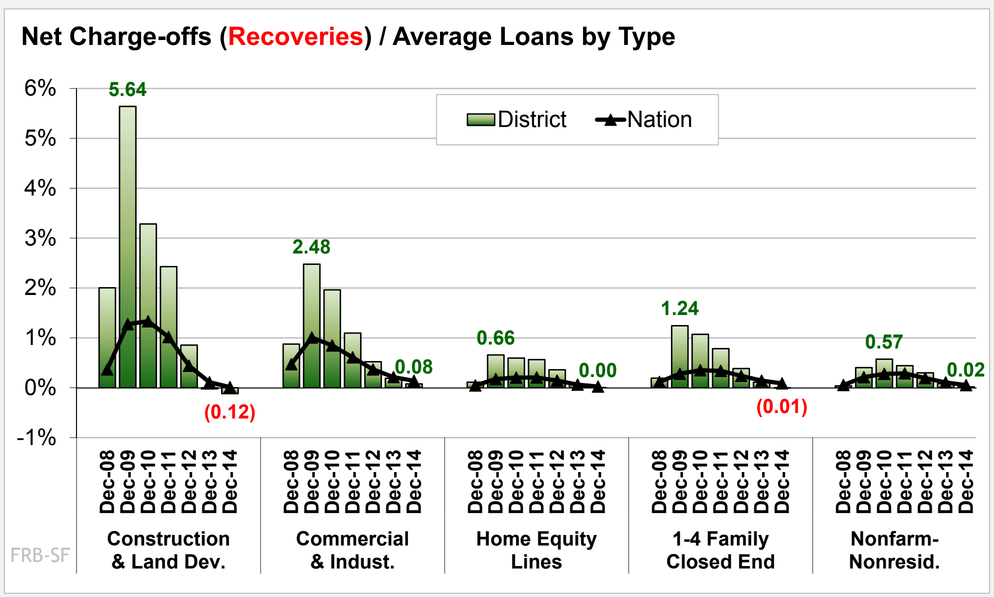
## Average District Net Charge-off Rate Sank to Pre-Crisis Levels




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



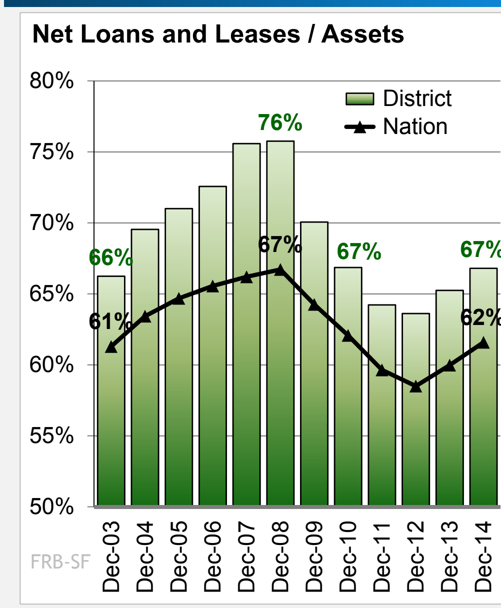
## Net Losses Declined Across Major Loan Types; C&LD and 1-4 Family Categories Registered Net Recoveries

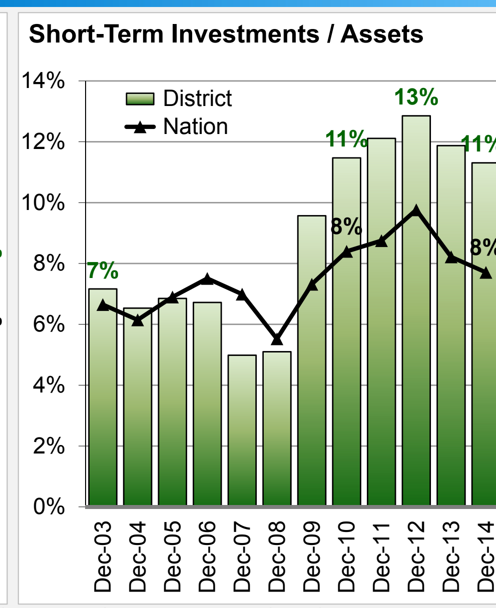



Based on all 12th District commercial banks; trimmed means; preliminary 12/31/14 data



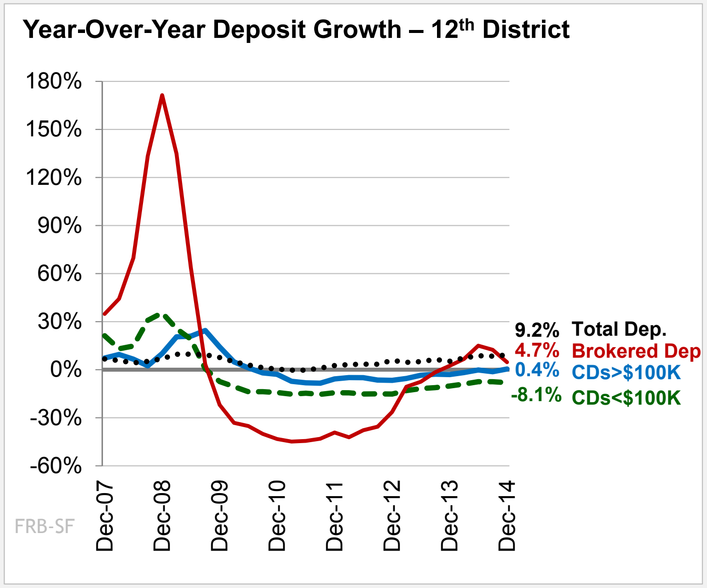
## Liquidity: On-Balance Sheet Liquidity Back to 2010 Level, Down From 2012 Peak




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



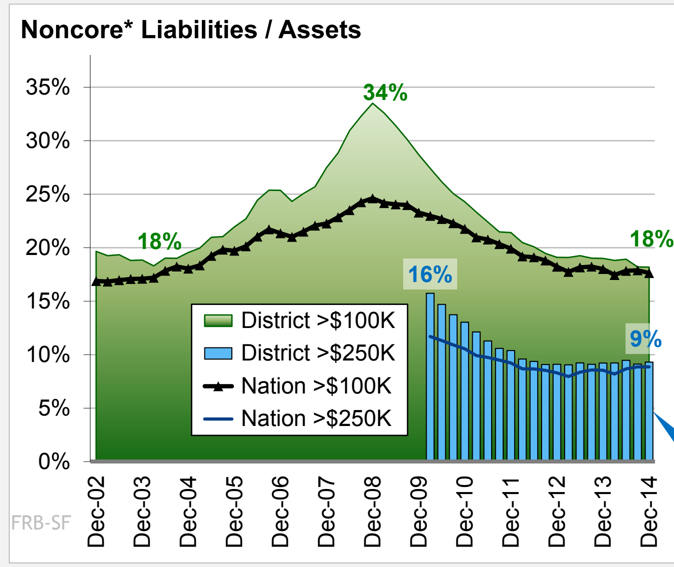

*Deposit growth was fastest among mid-sized banks, in part because of mergers*

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

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



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




| Average Noncore* Liabilities / Assets by Bank Size *(Using CDs > $100K)* | | |
|---|---|---|
| Bank Size | Dec-08 | Dec-14 |
| **District Small** (<$10B) | 33% | 18% |
| **District Mid-Sized** ($10B-$50B) | 45% | 20% |
| **Nation Large** (>$50B) | 39% | 24% |

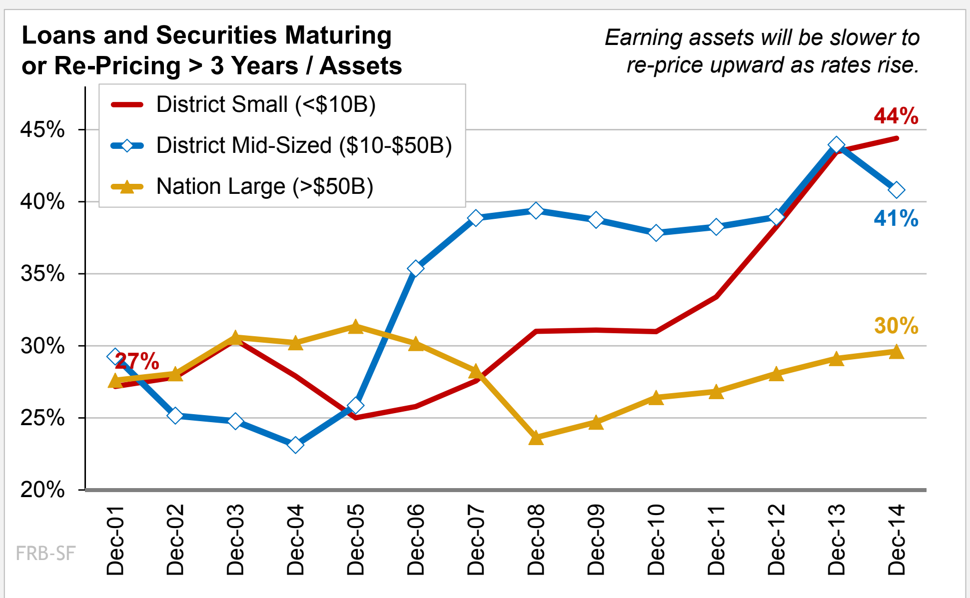
*On average, half of traditional noncore funding derived from CDs $100K - $250K*

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)



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

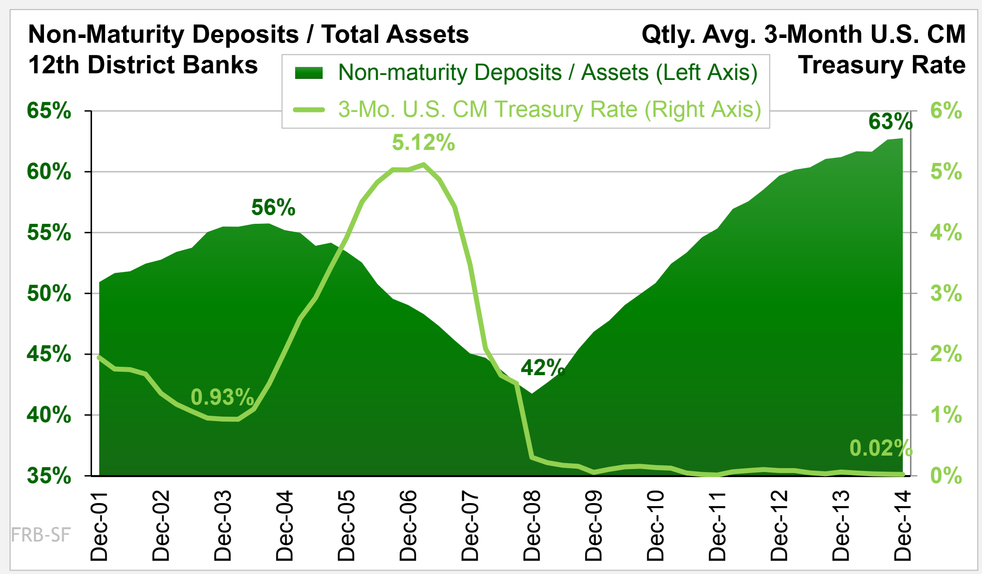
*Earning assets will be slower to re-price upward as rates rise.*




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



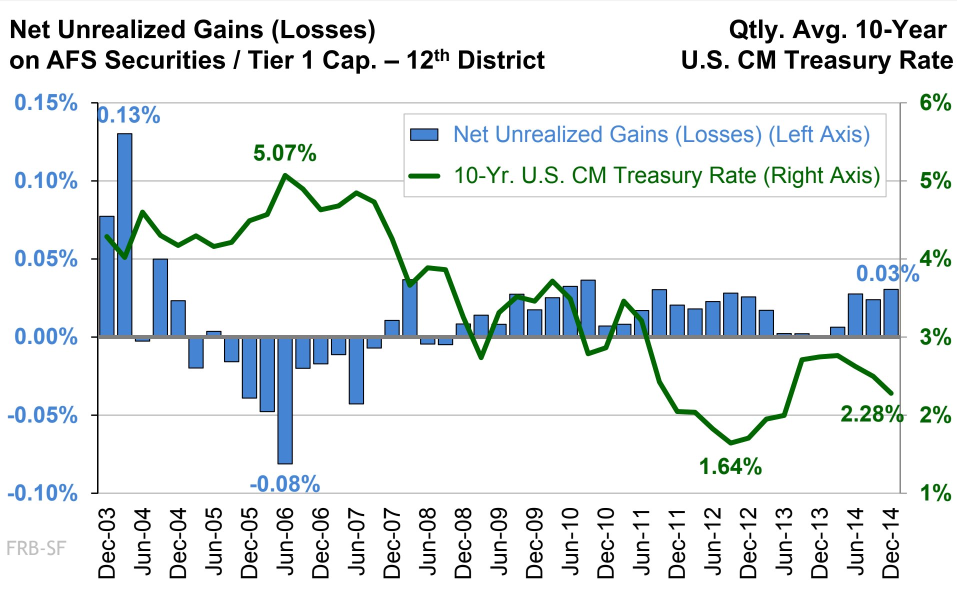
# HOT TOPIC Non-Maturity Deposits Increased As Rates Remained Low, but the Trend Could Reverse




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

## A Flight to Safety in Late 2014 Boosted Bonds, but Values Could Slip Again Should Interest Rates Rise

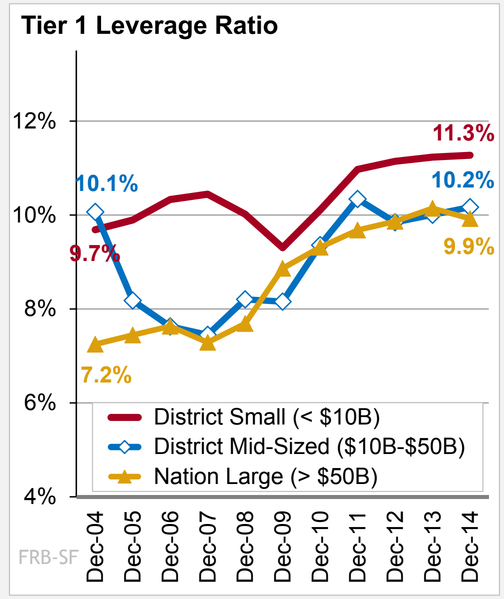
HOT TOPIC

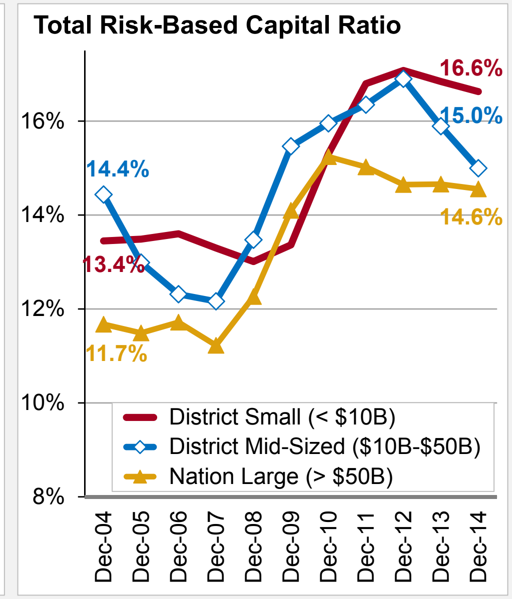



Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data; available for sale (AFS) securities only; Constant Maturity (CM) Treasury Rate from Federal Reserve, Haver Analytics



## Capital: Risk-Based Capital Ratios Moderated More Than Leverage Measure as Assets Shifted Into Higher Risk Weights

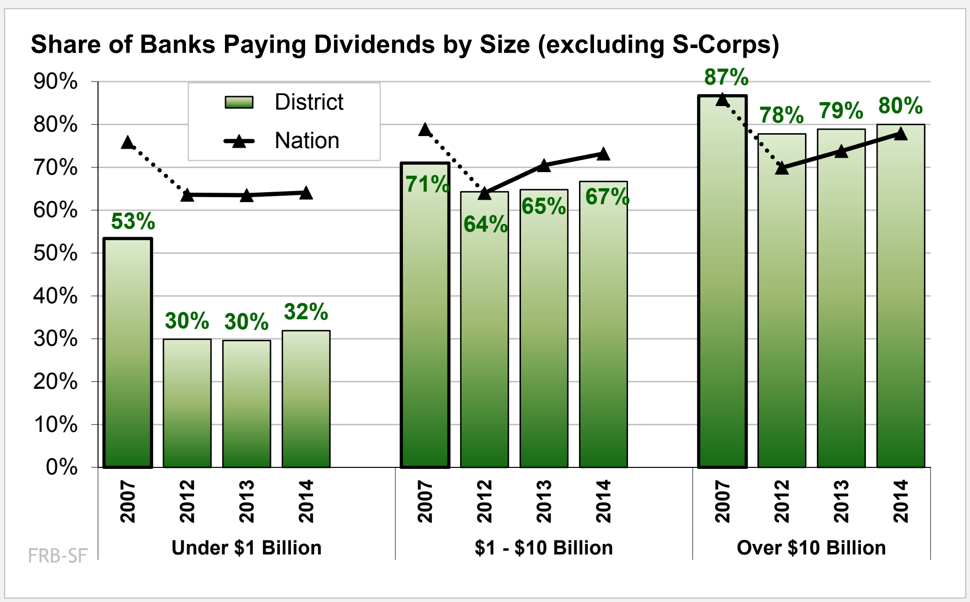



Based on commercial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data



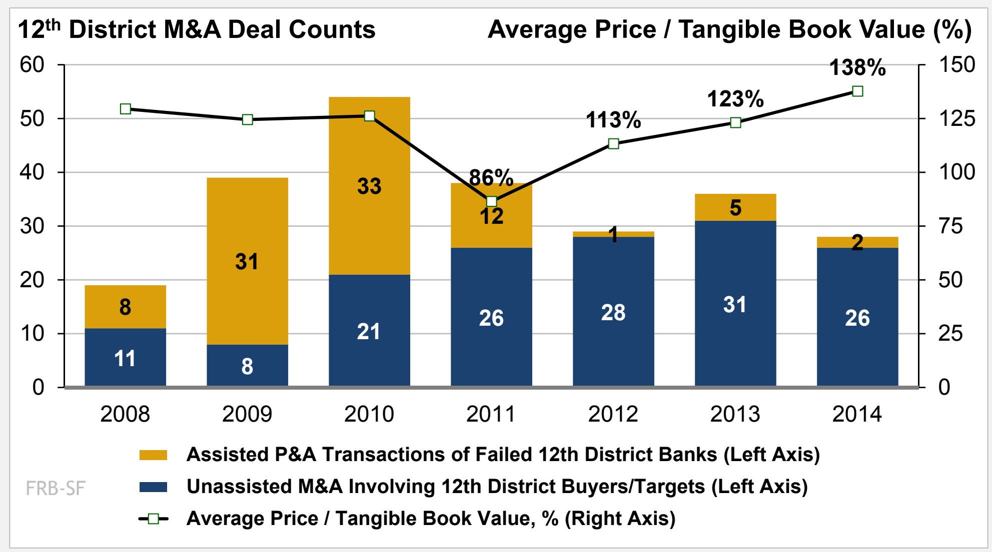
## Dividend Payout Activity Trailed Pre-Crisis Levels but Increased Modestly Year-Over-Year




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



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

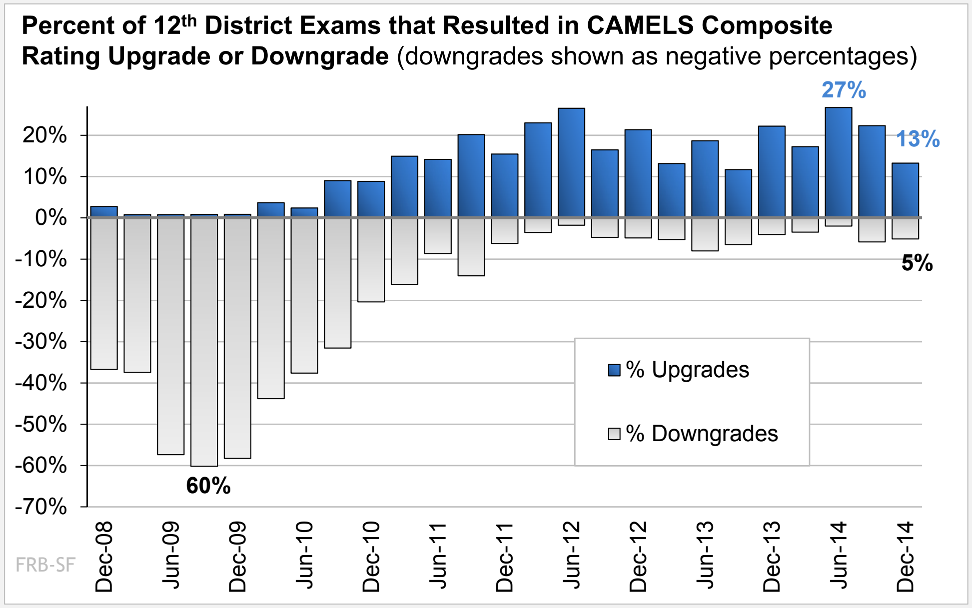



Assisted purchase and assumption (P&A) data by failure year and excludes liquidations and deposit transfers; unassisted merger and acquisition (M&A) data by announcement year and includes whole/minority/thrift merger conversion deals completed or with a pending definitive agreement; price multiple data 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.*

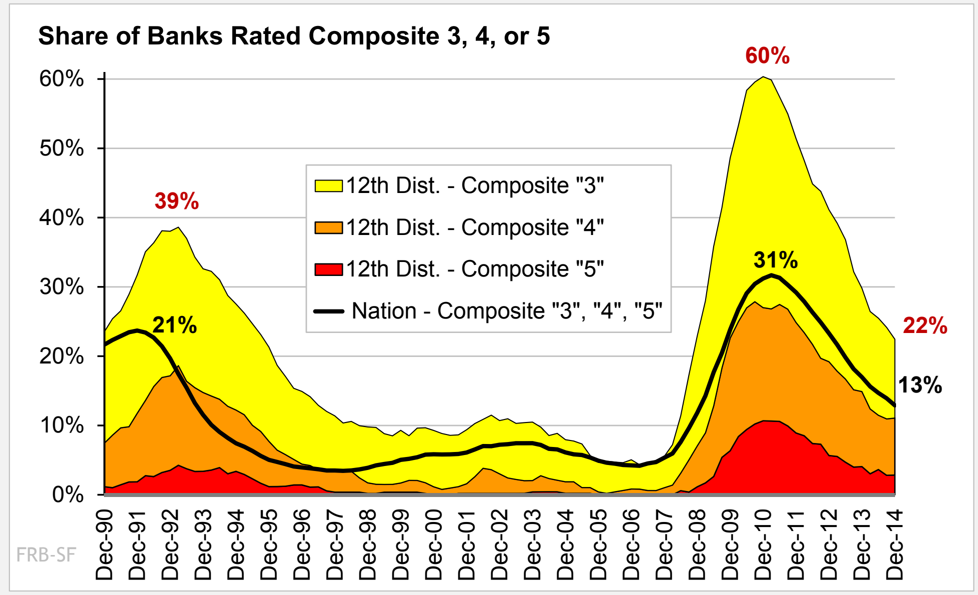
## Regulatory Ratings: Pace of CAMELS Upgrades Moderated but Continued to Outpaced Downgrades




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



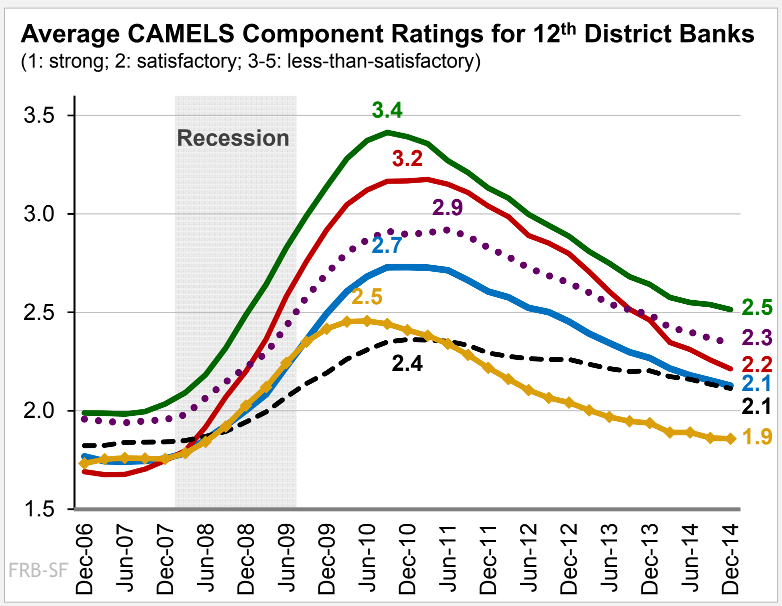
## Percentage of Banks with CAMELS Composite Ratings of 3, 4, or 5 Continued to Fall




Trends for all commercial banks based on examination completion dates (mail dates); data updated through 2/11/15



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

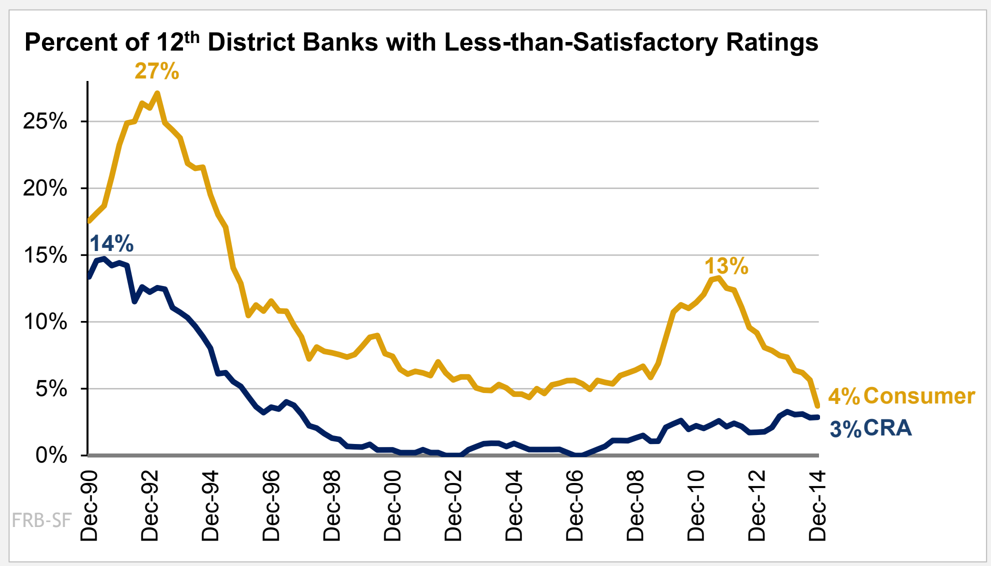



*Earnings and Management ratings remained the weakest; sensitivity ratings remained pressured by interest rate risk concerns.*

Trends for all commercial banks based on examination completion dates (mail dates); recent data are preliminary; data updated through 2/11/15; *Sensitivity to Market Risk



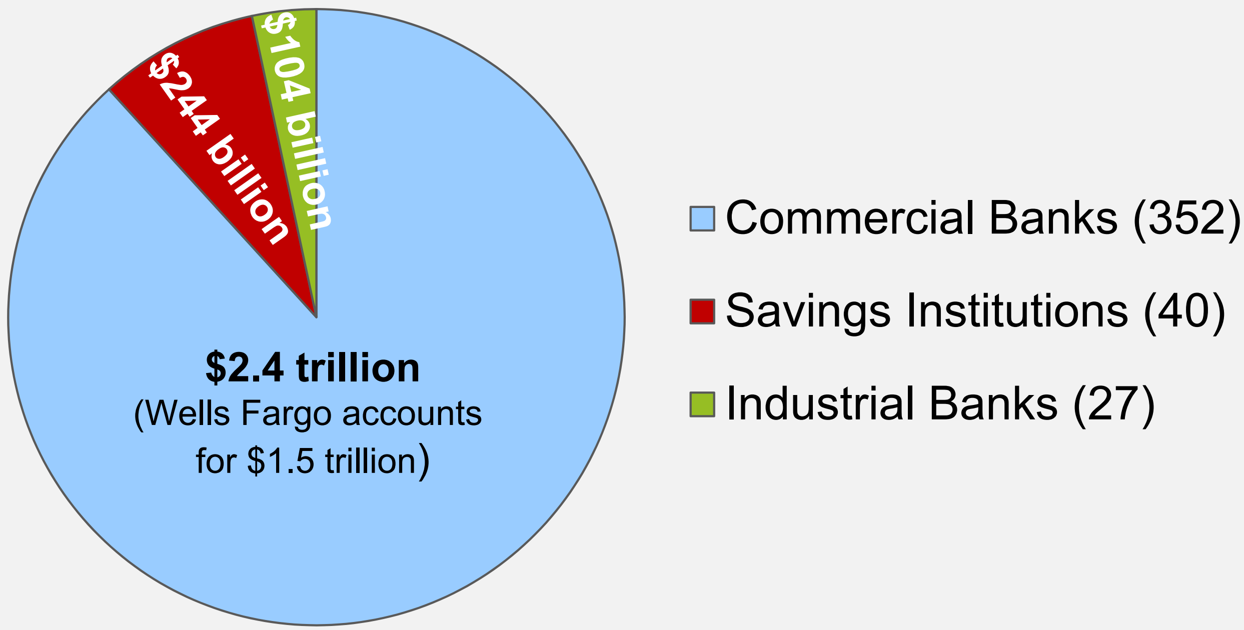
## Consumer Compliance Ratings Continued Improving; CRA Ratings Have Plateaued




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

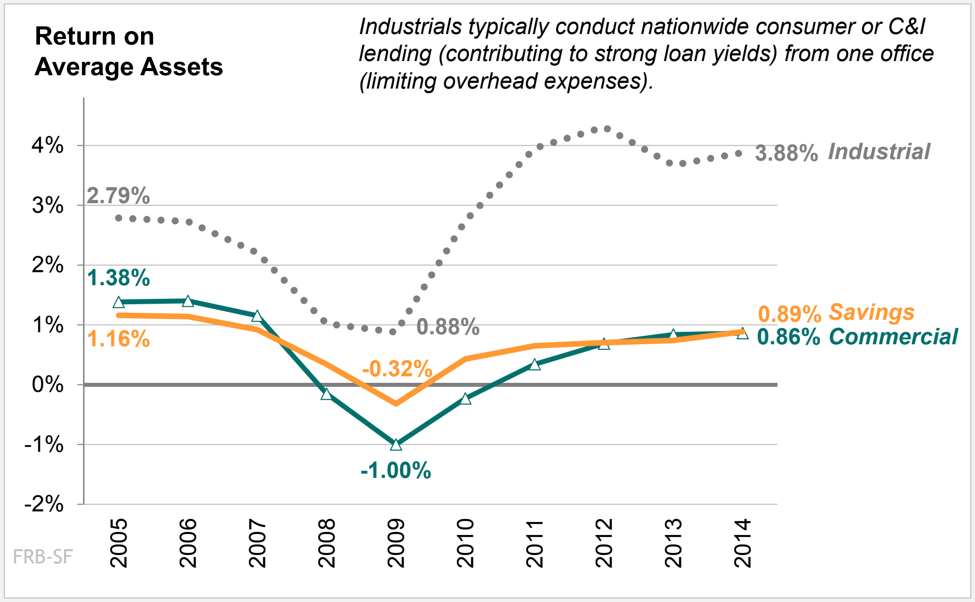
# Section 4 - Savings Institution and Industrial Bank Performance

*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

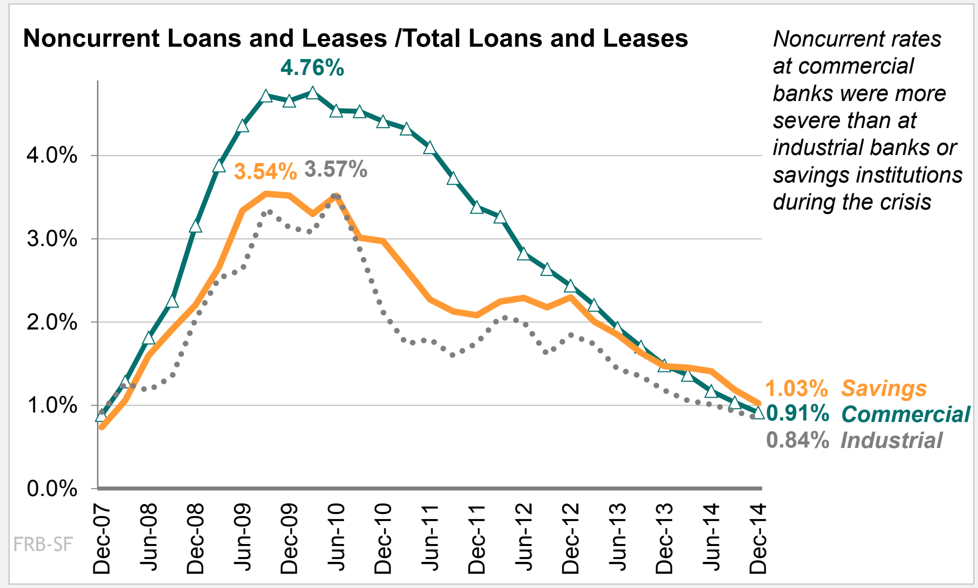
## High Yield Lending and Limited Branching Enabled Industrial Banks to Out-Earn Commercial and Savings Institutions




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



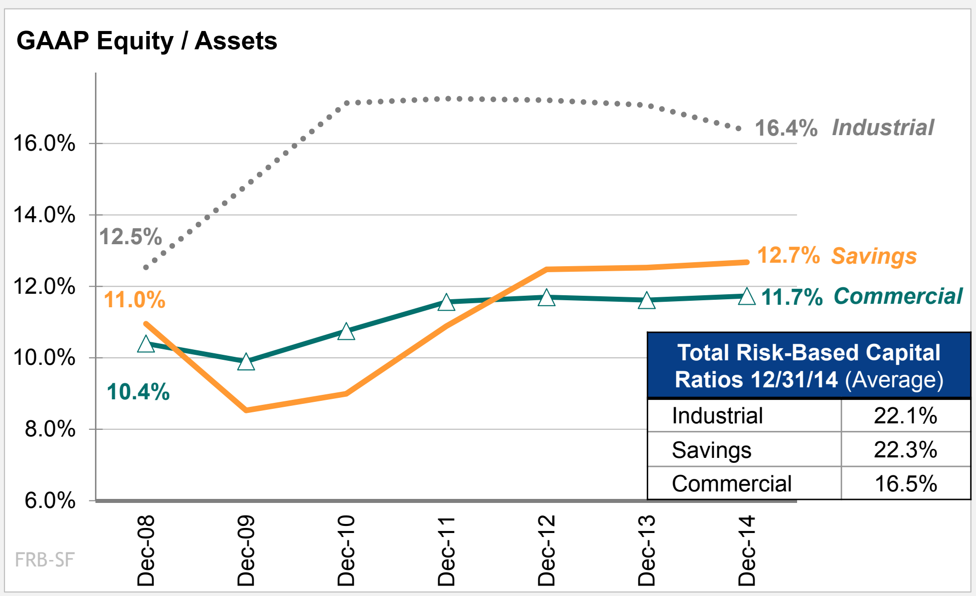
## Noncurrent Loan Ratios Continued to Ebb Across Charter Types




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

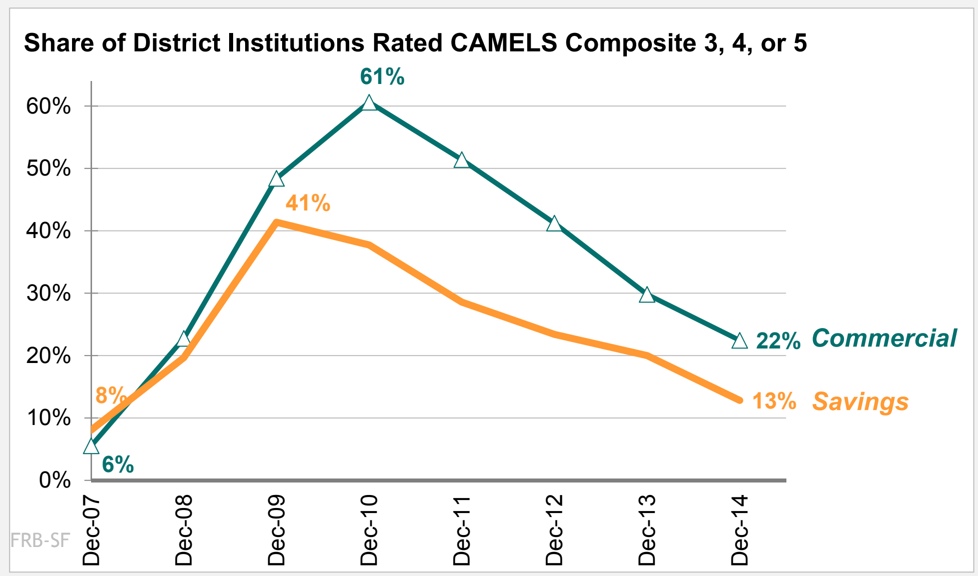



| Total Risk-Based Capital Ratios 12/31/14 (Average) | |
|---|---|
| Industrial | 22.1% |
| Savings | 22.3% |
| Commercial | 16.5% |

Based on District commercial banks, savings institutions, and industrial banks, excluding De Novos; trimmed means; preliminary 12/31/14 data; Equity = equity capital per generally accepted accounting principles (GAAP)



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




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.

# Appendices

1. Banks Covered in this Report

2. Technical Information

3. Regulatory Hot Topics

## Appendix 1: Institutions Covered in this Report

| Geography | Commercial Banks (De Novos) | | Industrial Banks (De Novos) | | Savings Institutions (De Novos) | |
|---|---|---|---|---|---|---|
| FRB-SF | Dec-13 | Dec-14 | Dec-13 | Dec-14 | Dec-13 | Dec-14 |
| Alaska | 4 (0) | 4 (0) | - | - | 2 (0) | 1 (0) |
| Arizona | 23 (0) | 21 (0) | - | - | 1 (0) | 1 (0) |
| California | 200 (2) | 193 (1) | 6 (0) | 4 (0) | 17 (1) | 13 (0) |
| Guam | 2 (0) | 2 (0) | - | - | 1 (0) | 1 (0) |
| Hawaii | 6 (0) | 6 (0) | 1 (0) | 1 (0) | 2 (0) | 2 (0) |
| Idaho | 15 (0) | 11 (0) | - | - | 1 (0) | 1 (0) |
| Nevada | 13 (0) | 12 (0) | 4 (0) | 4 (0) | 2 (0) | 2 (0) |
| Oregon | 25 (0) | 25 (0) | - | - | 3 (0) | 3 (0) |
| Utah | 32 (0) | 31 (0) | 18 (0) | 18 (0) | 4 (0) | 4 (0) |
| Washington | 50 (1) | 47 (0) | - | - | 12 (0) | 12 (0) |
| 12th District | 370 (3) | 352 (1) | 29 (0) | 27 (0) | 45 (1) | 40 (0) |
| Nation | 5,815 (33) | 5,571 (13) | 31 (0) | 29 (0) | 964 (4) | 904 (2) |

Based on preliminary 12/31/14 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.

# 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.*

**DIRECTION OF CONCERN**

| LEVEL OF CONCERN | Decreasing | Stable | Increasing |
|---|---|---|---|
| High | | BSA/AML - *Internal Control Environment* | |
| Elevated | | Credit - *Quality of Loan Growth*<br>Market - *Lengthening Asset Maturities*<br>Other - *Capital Plans & Stress Testing* | Operational - *Info./Cyber Security* |
| Moderate | FRB-SF | Operat'l. - *Business Continuity Planning*<br>Operat'l. - *Service Provider Risk Management*<br>Operat'l. - *Internal Audit Oversight & Program*<br>Operat'l. - *Model Risk Management*<br>Compliance - *New/Complex Prod. & Services*<br>Compliance - *Keeping Pace with Reg. Change* | Credit - *Loan Concentrations*<br>Liquidity - *Non-Maturity Deposit Sensitivity*<br>BSA/AML - *Board and Mgmt. Oversight* |

*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.*

**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.