FEDERAL RESERVE BANK OF SAN FRANCISCO

First Glance 12L (2Q16)

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

Strong Growth: A Double-Edged Sword?

August 20, 2016

Authors:
Judy Plock, Martin Karpuk, Michael Nimis, Colin Perez, Ken Wang

Editors:
Carolyn Bates, Cynthia Course, David Doyle, Sarah Mangi, Gary Palmer, Ron Pavlick, Wallace Young

Data Inquiries: please contact sf.bsr.publications@sf.frb.org
Press Inquiries: please contact Media Relations at http://www.frbsf.org/our-district/press/
First Glance 12L: http://www.frbsf.org/banking/publications/first-glance-12l/

Table of Contents

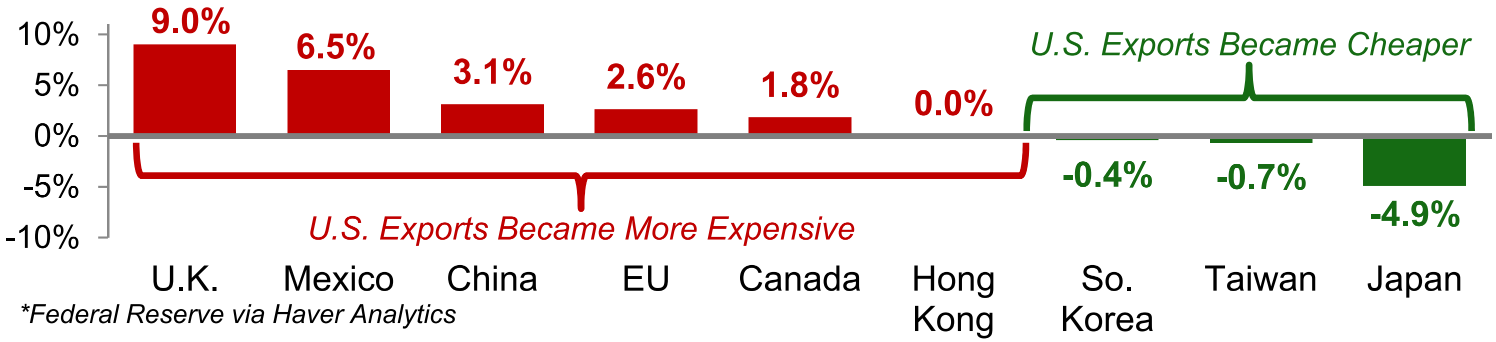
12th District Overview
"Strong Growth: A Double-Edged Sword?"

Growth in the District's economy and among banks continued into 2Q16, posing both opportunities and threats. Aggregate 12th District job growth of 2.9% continued to outpace the nation (1.8%). Districtwide, the education/health, professional/business services, leisure/hospitality, government, and construction sectors drove two out of every three new jobs. Subdued energy prices were a continued drag on growth in Alaska, the District's only state to report net job losses year-over-year (see table at right). Notwithstanding job growth, the number of unemployed people increased in all of the District's states except Idaho, lifting the districtwide unemployment rate to 5.3%, up from 5.2% in March.

House price increases stimulated additional homebuilding, albeit at a slowing pace, and also compounded housing affordability strains. Nationally, commercial real estate (CRE) prices resumed their upward march as investors shrugged off fears of a global economic slowdown. However, third-party forecasters expect appreciation returns to come under pressure in the coming quarters while income returns hold steady. Debt market volatility, which hampered the commercial mortgage-backed securities (CMBS) market earlier in the year, calmed during the quarter. Although spreads tightened modestly, CMBS issuance volumes languished and finished the first half of the year 44% below the same period in 2015. The prospect of new risk-retention rules in December dampened volumes and raised concerns about refinancing risks for the upcoming "wall of maturities", a vestige of heavy pre-crisis CMBS activity. So far, commercial banks have helped compensate for lackluster CMBS issuance volumes.

Economic challenges abroad and foreign currency weakness weighed on first half export volumes in the District. Britain's unexpected vote to exit the E.U. in June amplified weakening of the Pound Sterling vis-à-vis the U.S. dollar (see chart below). However, the U.K. accounted for a modest 4% of aggregate 12th District exports (mainly gold-related exports from Utah), limiting trade-related "Brexit" risks.

3-Month Change in Avg. Foreign Currency / $US, Jul-16 (%)*



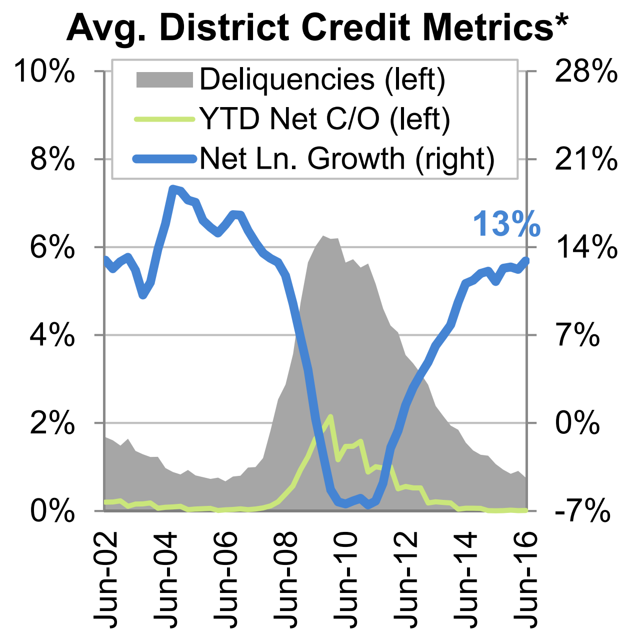
*Federal Reserve via Haver Analytics

Year-Over-Year Change in Nonfarm Jobs (%)**
(Based on 3-Month Moving Average, Seasonally Adj.)

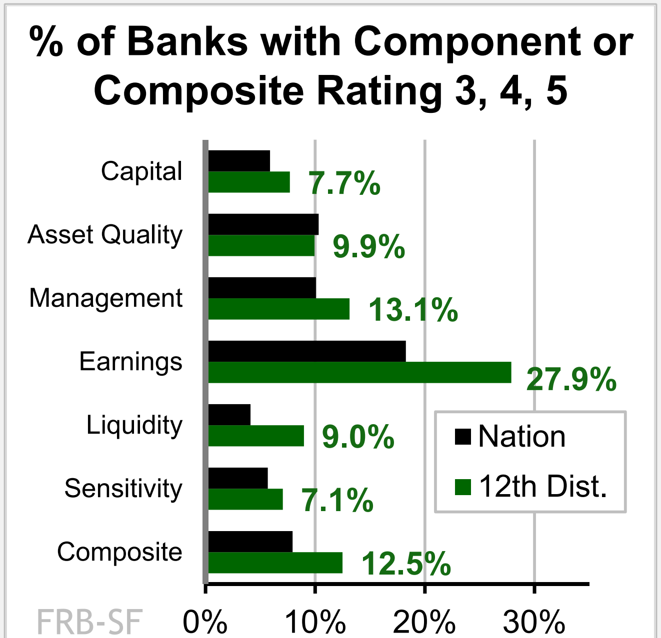
	12-Month Trend	Jun-16
OR		3.40%
UT		3.32%
ID		3.19%
WA		3.10%
AZ		2.94%
CA		2.87%
NV		2.51%
HI		2.14%
AK		-0.45%
Nation		1.77%

**BLS via Haver Analytics

12th District Overview, Continued



*Delinquent=30+ days past-due or nonaccrual; C/O= chargeoff (year-to-date annualized); trimmed means



Favorable banking conditions continued during the quarter, with strong loan growth both helping and hurting several metrics. At 13%, the District's average annual net loan growth rate was more than 80% higher than the national average. Construction and land development (C&LD) and multifamily mortgages once again ranked as the most rapidly-growing, albeit smaller, credit segments. Although loan performance improved overall, oil and gas sector stress continued to weigh on commercial and industrial (C&I) loan performance at larger banks. Overall ratios for loan delinquencies and credit losses remained at historic lows, partly because newer loans are "unseasoned" and less likely to default (see chart at left).

The April 2016 Senior Loan Officer Survey suggested modestly tighter underwriting among a small net fraction of lenders for C&I, CRE, and consumer auto loan categories, continuing an earlier trend. Tightening, to the extent it is occurring, has come on the heels of several years of post-crisis easing. Concerns remain that lenders have become reliant on loan-to-value ratios to mitigate risks posed by weaker covenants, longer maturities, and other concessions. The rapid run up in CRE prices over the past few years has left collateral values vulnerable to shifts in investor appetite and credit availability, potentially leaving lenders exposed.

As with prior quarters, earnings at most banks improved modestly. During the quarter, asset yields drifted higher while funding costs held steady, continuing a trend from the first quarter. In part, the increase reflected shifts into higher-yielding loans and away from lower-yielding investments, part of a cyclical and seasonal trend. Overhead cost containment continued. Because expenses have not kept pace with asset growth for several years, there is growing concern that internal controls also may have lagged risks. Meanwhile, provision expense ratios ticked up, especially at larger banks, but remained low by historical standards. As newer loans season and/or economic growth slows, provision expense burdens will likely increase, especially among those banks that fueled prior growth through looser underwriting.

Strong loan growth also adversely affected liquidity and capital measures. Loan-to-asset ratios increased, reducing on-balance sheet liquidity. The shift also caused risk-weighted asset growth to outpace equity formation, dampening risk-based capital ratios. To accommodate asset growth, banks mildly increased their reliance on noncore funds, including potentially volatile/costly brokered deposits and borrowings.

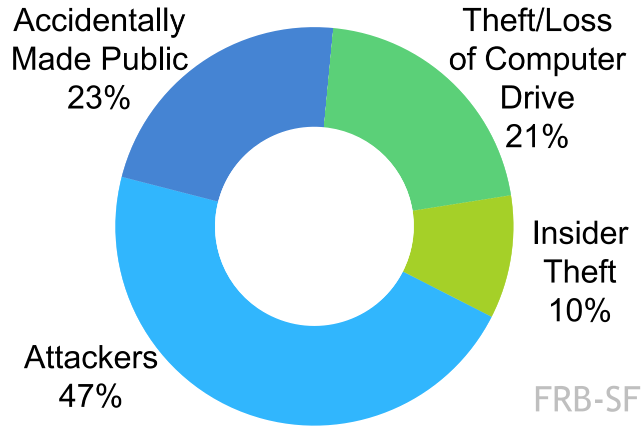
Safety and soundness and consumer compliance ratings continued to improve. Roughly 87% of District banks were rated satisfactory or strong for safety and soundness, compared with 92% nationally (see chart at left). In addition, 95% or more were rated satisfactory or better for consumer compliance and/or Community Reinvestment Act (CRA).

Hot Topics: Areas We are Monitoring Most Closely

We have identified the following as areas of higher concern within the 12th District, based on risk exposures and metrics of Federal Reserve-supervised institutions:

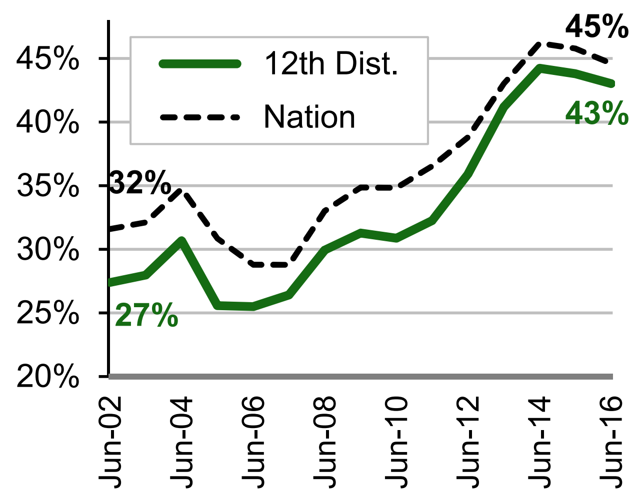
- *Cyberthreats*. Attacks continue to evolve in both complexity and frequency and expose institutions to financial, operational, reputational, legal, and compliance risks. Data breaches can originate in multiple ways, and, according to data from Symantec, not always from outside of the organization (see chart at right). For institutions outsourcing core banking operations and/or security administration, vendor management programs remain critical to managing and mitigating cyberthreats. Inherent risks can increase from a variety of factors, such as system complexity, services, and visibility. For an optional tool to help assess Cybersecurity vulnerabilities, see SR letter 15-9 (http://www.federalreserve.gov/bankinforeg/srletters/sr1509.htm).
- *Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) compliance*. Although most banks in the District have satisfactory BSA compliance programs, BSA/AML continues to be a significant "hot topic" due to the District's gateway location and the array and strategic focus of institutions we supervise. BSA/AML-related criticisms noted at bank examinations most often relate to internal controls (e.g., institutional risk assessments; customer due diligence, including customer risk assessments; and suspicious activity monitoring programs). Concerns related to scarce compliance resources and ineffective independent tests are also emerging as examination themes.
- *Quality of loan growth*. The District's average annual net loan growth continued to outpace the national average with Nevada, California, Hawaii, and Utah leading the way. Economic expansion played a role, as did commercial property price appreciation. Notwithstanding signs of recent tightening in the Federal Reserve's Senior Loan Office Survey, banks had eased underwriting for several years post-crisis. Credit performance has been good. Still, now is a critical time in the credit and economic cycle for bankers to maintain their lending discipline and enhance their credit risk management practices.
- *Lengthening asset maturities*. In prior years, banks increased their holdings of longer-term assets, driven by low short-term interest rates and a relatively steep yield curve (see chart at right). This trend recently reversed somewhat with a flattening of the yield curve. In a rising interest rate environment, higher concentrations in longer-dated assets could mute asset repricing and margin expansion and/or lead to mismatches in rate-sensitive assets and liabilities, if not appropriately managed.

Top Causes of Data Breach
% of Incidents Across All Industries 2015*



*Symantec, *Internet Security Threat Report*, April 2016

Average Loans & Securities Repricing > 3 Yrs. / Assets*



*Trimmed means

Hot Topics: Areas We are Monitoring Most Closely

Additionally, the following issues are drawing heightened attention:

- *Nonmaturity Deposit (NMD) risk management*. NMDs (traditionally viewed as "core" deposits) have become an increasingly important source of funding for most institutions. While these products proved inexpensive in a low-rate environment, these funds may disintermediate or transition to higher-cost deposit products in a rising interest rate environment. During the last economic expansion and rate tightening cycle (2004-2006), the mix of bank funding shifted away from NMDs and toward higher-cost time deposits and borrowings as growth in core deposits lagged loans.
- *Balancing overhead expense pressures with risk management requirements*. Asset growth has led to some economies of scale and improved efficiency ratios have helped boost profitability. Still, some banks may not be devoting sufficient resources to back-office operations, internal controls, and compliance programs commensurate with their increasing size and complexity.
- *Commercial real estate lending concentrations*. CRE (i.e., nonfarm-nonresidential, multifamily, C&LD, and unsecured CRE-purpose) loan concentrations to capital declined during the recession, but have edged higher since 2013 and remained above average in most District states (see table at right). Loan concentration levels and trends, combined with prior competitive easing of underwriting standards and recent signs of property price pressure, elevate regulatory concern. A potentially rising interest rate environment could negatively impact debt service coverage ratios on variable-rate commercial mortgages and weaken commercial property values. Given the increasing risks, lenders should review the recent Interagency Policy Statement (SR letter 15-17, http://www.federalreserve.gov/bankinforeg/srletters/sr1517.htm) which reiterates important CRE risk management considerations.
- *Redlining.* While not new, this is an area of renewed focus across the Federal banking agencies. Redlining, a form of illegal discrimination in which a financial institution makes it more difficult for customers to access credit based on the racial or ethnic composition of a neighborhood, could result in Department of Justice fines, public regulatory enforcement actions, and downgrades to consumer compliance/CRA examination ratings.
- *Financial technology (fintech) opportunities and threats*. Increasingly, depository institutions are partnering with fintech companies, in particular marketplace lenders. Given the different origination and underwriting methods that fintech lenders may use, banks should closely evaluate transactions for credit risk, fair lending, and unfair/deceptive acts or practices. Because credit decisions may use nontraditional data sources, it will be important to ensure that this does not lead to disparate treatment or have disparate impact on a prohibited basis.

Average Commercial Real Estate Loans / Total Capital* (%)

	2006-16**	Jun-16
NV	481%	418.8%
OR	491%	387.3%
CA	438%	372.4%
AZ	550%	358.1%
WA	482%	350.6%
AK	323%	302.1%
ID	358%	256.2%
UT	405%	224.1%
HI	230%	185.7%
Nation	231%	195.8%

*Trimmed means; includes owner-occupied collateral
**June of each year

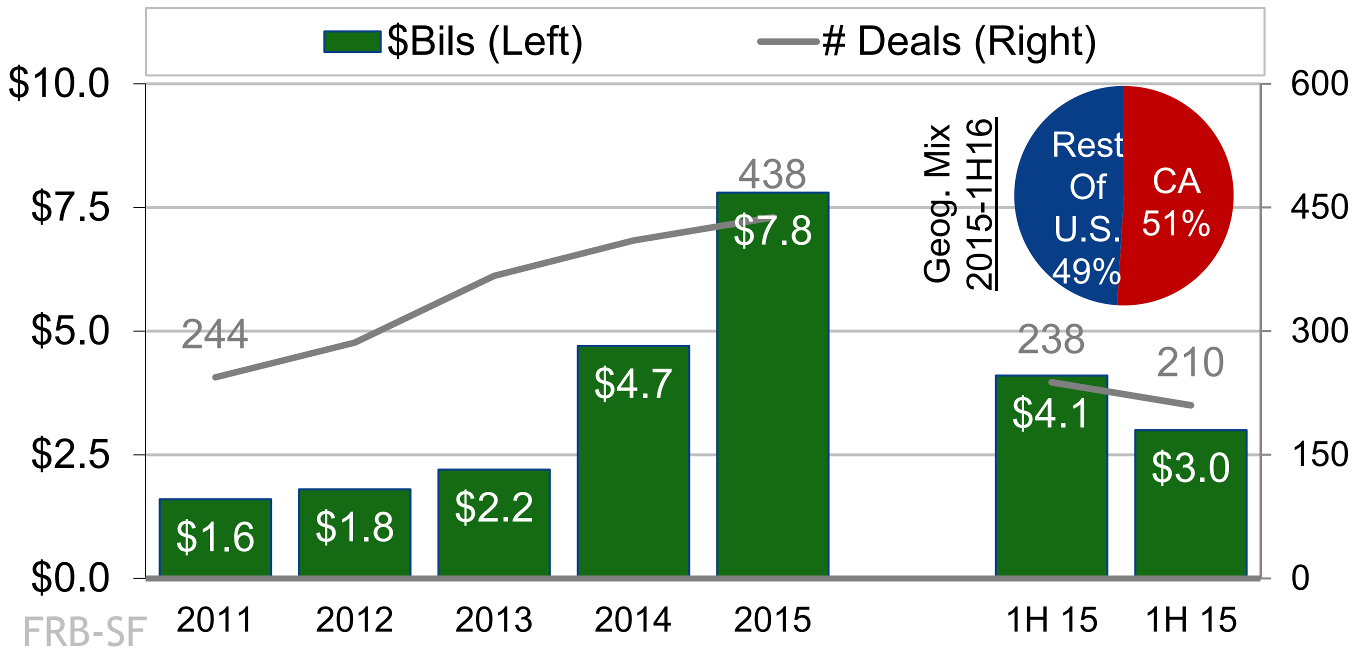
Hot Topics: Spotlight on Fintech

UBS Survey: Share of Respondents Likely to Use Non-Bank Service Provider in Next 12 Months (%)*

	Money Trans.	Mobile Pmts.	P2P Lending	Web Pmts.	Robo Adviser
Australia	15	14	9	55	9
Canada	12	12	9	43	7
France	10	9	6	11	7
Italy	13	20	25	57	11
Japan	8	8	6	40	7
Netherlands	10	9	3	52	6
Spain	11	17	14	56	12
Sweden	13	12	6	50	6
U.K.	13	12	10	50	7
U.S.	14	23	17	44	15

Peer-to-Peer (P2P) lenders and other fintech firms (many based in the District) have experienced explosive growth in recent years, fueled in part by VC and PE funding. Recently, VC/PE volumes have waned (see chart below) and some fintech firms have disclosed serious internal control issues. Still, fintech continues to disrupt and evolve, revealing both vulnerabilities and possibilities for traditional banks. Per UBS, threats are especially acute in the U.S., where potential fintech adoption rates are high (see table at left). Given consumer demand and fintech funding challenges, banks have begun partnering with these firms, bringing operational and consumer compliance challenges.

U.S. VC Invested and Deal Flow – Fintech, 2011-16



*Based upon UBS survey of 28,000 consumers in 24 countries; VC = venture capital; PE = private equity; Sources: UBS (*Is Fintech a Threat or an Opportunity?*, July 2016); KPMG International and CB Insights (data provided by CB Insights) (*The Pulse of Fintech, 2016Q2 and 2016Q1*, August 2016 and May 2016).

Section 1 - Economic Conditions

Job Growth

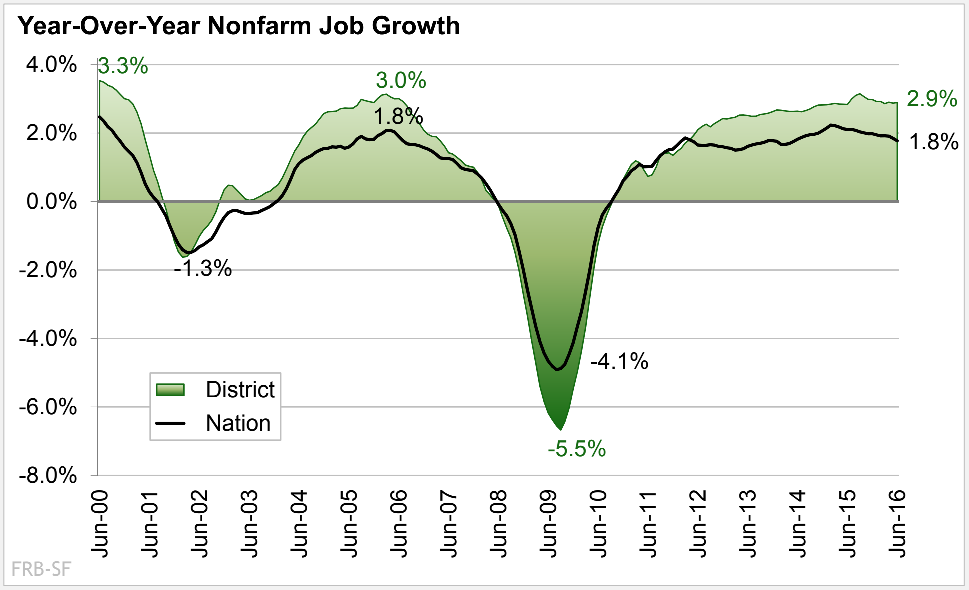
Housing Market Metrics

Commercial Real Estate Market Conditions

International Trade

For more information on the national economy, see:
FRBSF FedViews
(http://www.frbsf.org/economic-research/publications/fedviews/)
FOMC Calendar, Statements, & Minutes
(https://www.federalreserve.gov/monetarypolicy/fomccalendars.htm)

Job Growth Plateaued in the District and Slowed Nationally



Based on average nonfarm payroll levels over trailing three months; Source: Bureau of Labor Statistics via Haver Analytics.

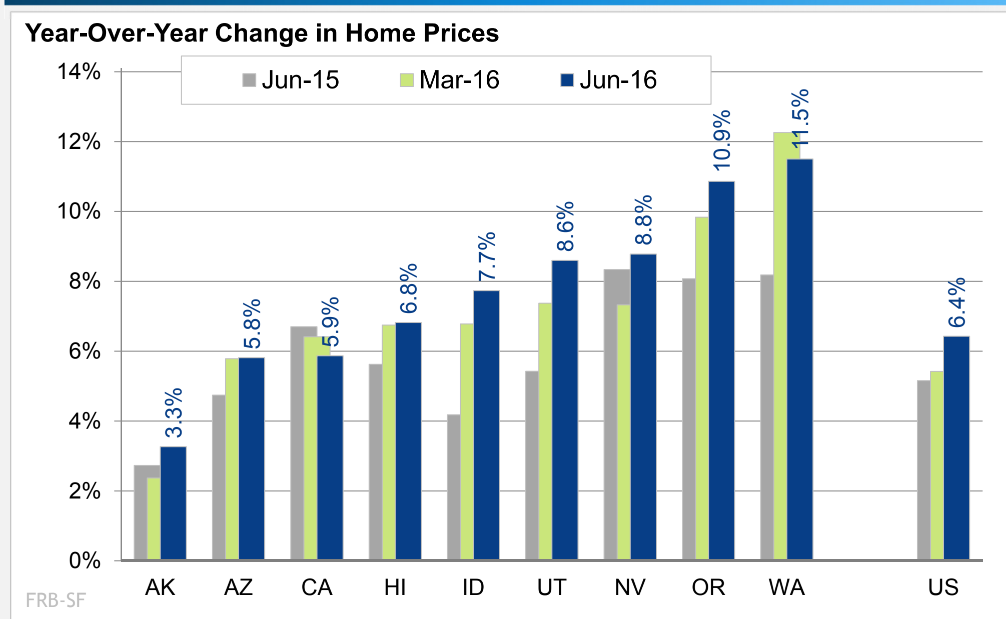
Education/Health, Professional/Business, Leisure, Government, and Construction Sectors Led Job Growth

12th District Sector Profile of Job Growth - 2Q 2016

Sector	Year-Over-Year % Change: 10-Year Trend	Year-Over-Year % Change: 2Q 2016	Mix of New Jobs	Mix of Overall Jobs
Education & Health Services		4.02%	20.38%	14.82%
Professional & Business Services		3.49%	17.53%	14.62%
Leisure & Hospitality		3.66%	15.02%	11.98%
Government		1.97%	10.89%	15.81%
Construction		6.33%	10.61%	5.01%
Retail Trade		2.43%	9.17%	10.85%
Financial Activities		2.99%	5.37%	5.20%
Transportation & Utilities		3.33%	4.09%	3.57%
Wholesale Trade		2.51%	3.61%	4.14%
Information		3.38%	3.05%	2.62%
Manufacturing		-0.23%	-0.61%	7.62%
Other Private		0.69%	0.91%	3.76%
Total		**2.89%**	**100.00%**	**100.00%**

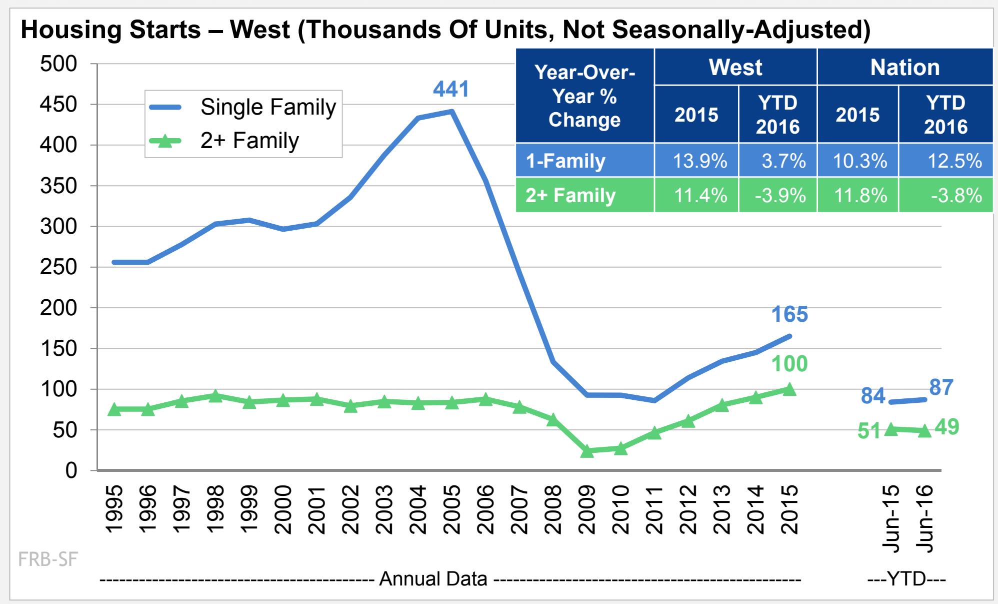
Based on average nonfarm payroll levels during 2Q of each year; because of data limitations, "Construction" includes mining in Hawaii and "Information" excludes Hawaii and Nevada; "Other Private" includes logging and mining (other than Hawaii) plus private industries in 2-digit NAICS code 81 category; Source: Bureau of Labor Statistics via Haver Analytics.

Annual Home Price Gains Cooled in California and Washington, but Held Steady or Improved in Other District States



Source: Core Logic Home Price Index (includes all detached and attached homes).

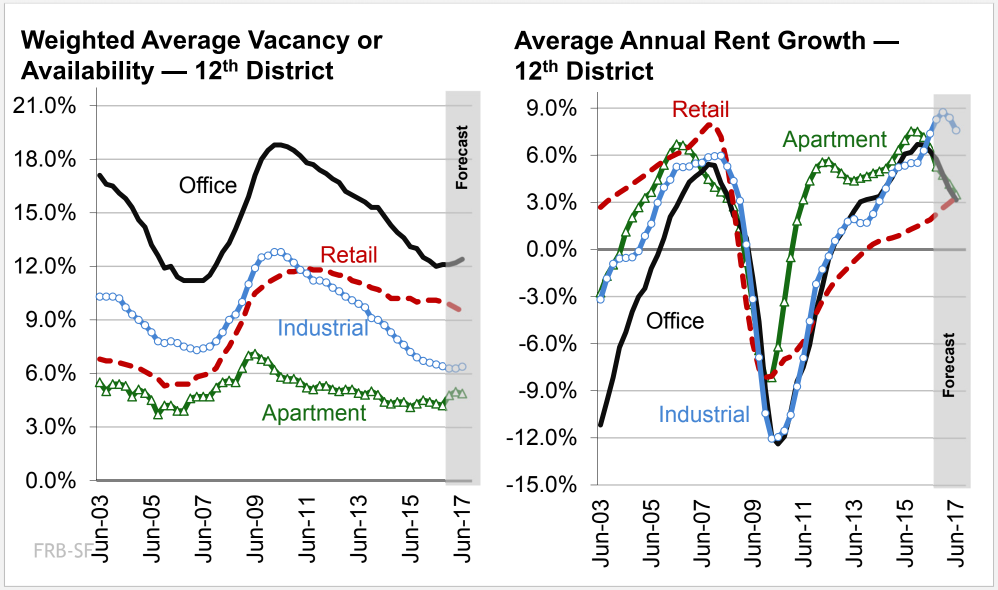
First Half Housing Start Growth in the West Decelerated for Single-Family and Turned Negative for 2+ Unit Buildings



Year-Over-Year % Change	West: 2015	West: YTD 2016	Nation: 2015	Nation: YTD 2016
1-Family	13.9%	3.7%	10.3%	12.5%
2+ Family	11.4%	-3.9%	11.8%	-3.8%

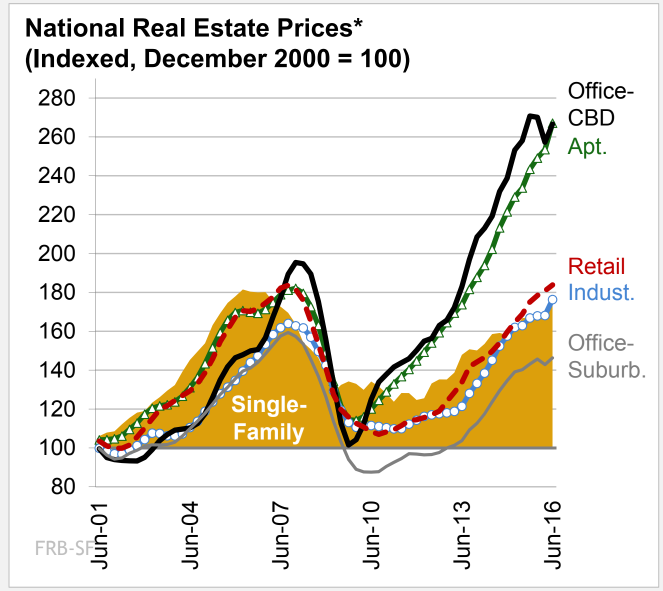
YTD = year-to-date; West=12th District plus CO, MT, NM, and WY; Source: Census Bureau via Haver Analytics.

According to Third-Party Forecasts, Vacancy Rates May Tick up and/or Rent Growth May Decelerate in Most Sectors



Based on aggregates across 15–16 large metropolitan areas; apartment data based upon number of units; other property types based upon square footage; Source: CBRE–Econometric Advisors.

CRE Price Appreciation Resumed After Slowing in the First Quarter, But For How Much Longer?

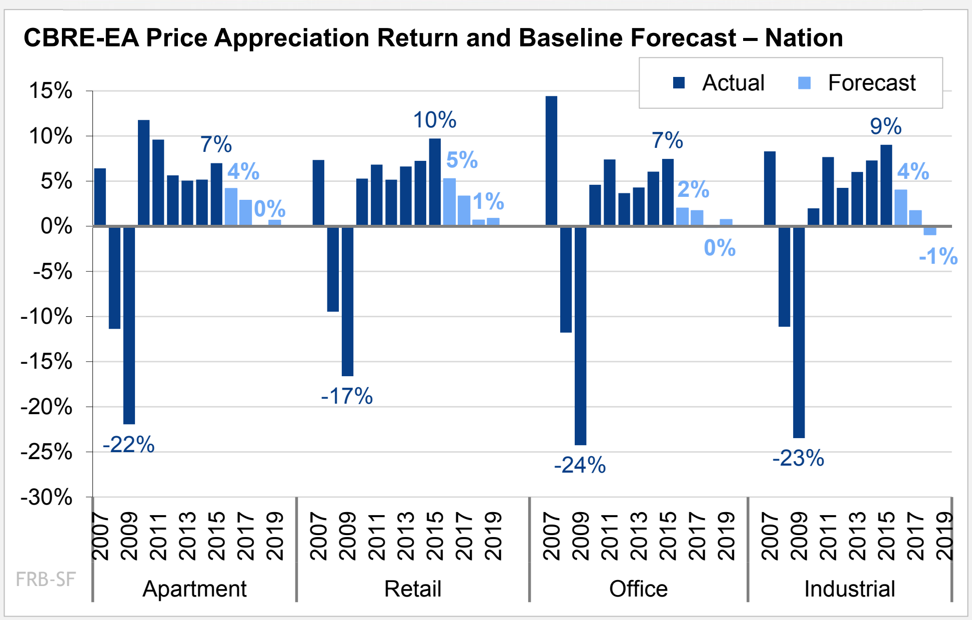


Cumulative Change in National Commercial Property Price Indices

Property Type	10 Years	5 Years
Apartment	57%	95%
Office - CBD	78%	85%
Retail	8%	65%
Industrial	22%	60%
Office - Suburban	4%	55%
Single-Family	-2%	38%

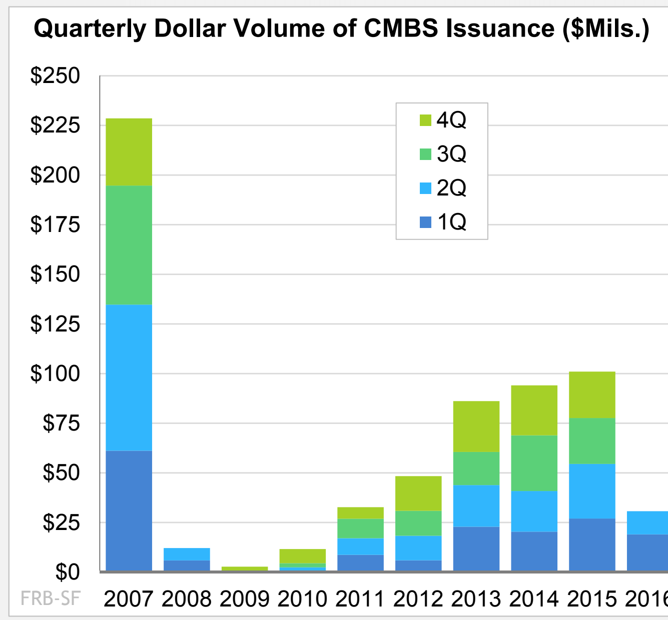
*Based on repeat sales indices; CBD = central business district (downtown); Sources: Moody's/RCA (Commercial Property Price Indices), Core Logic (Home Price Index).

CBRE's Baseline Forecast Anticipates Slowing Price Appreciation Over the Next Few Years



Source: CBRE–Econometric Advisor's Investment Outlook (baseline forecast as of 1Q 2016).

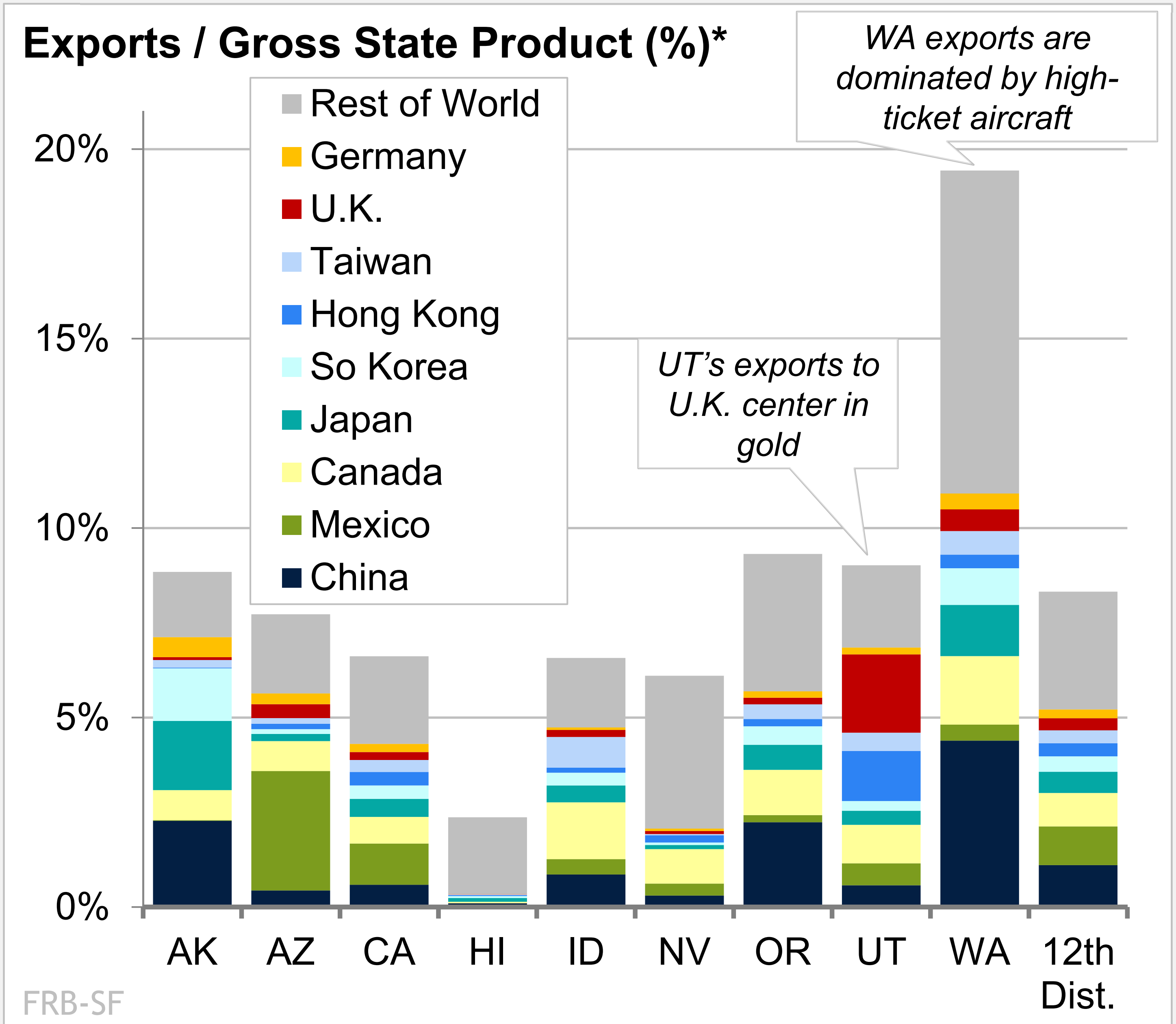
CMBS Issuance Remained Subdued In Spite of Current Sound CRE Market Conditions



Commercial mortgage-backed securities (CMBS) credit spreads narrowed in the second quarter, CRE fundamentals remained healthy, and prices increased. However, CMBS issuance finished the first half of 2016 down 44% year-over-year. Securitizers remained wary of risk-retention rules on the horizon; thus, conditions favored portfolio lenders. A large volume of loans backing pre-crisis CMBS are set to mature but have had some difficulty refinancing into new CMBS. According to Trepp, CMBS delinquencies moved higher for the fifth straight month in July after another uptick in maturity defaults.

Sources: Commercial Mortgage Alert, Trepp.

Overall District Exports Declined Year-Over-Year; Effects of “Brexit” on the District Should be Limited



$ Value of Aggregate 12th District Exports by Destination

	1H11 - 1H16	Yr./Yr. Change
China		-11%
Mexico		-12%
Canada		-11%
Japan		-9%
So. Korea		-7%
Hong Kong		-8%
Taiwan		-7%
U.K.		2%
Germany		-23%
All Other		-3%

*Based on 2015; Sources: Bureau of Economic Analysis (GSP); WISER (Exports) via Haver Analytics.

Section 2
Commercial Bank Performance

Earnings

Provisions and Loan Loss Reserves

Loan Growth and Underwriting

Credit Quality

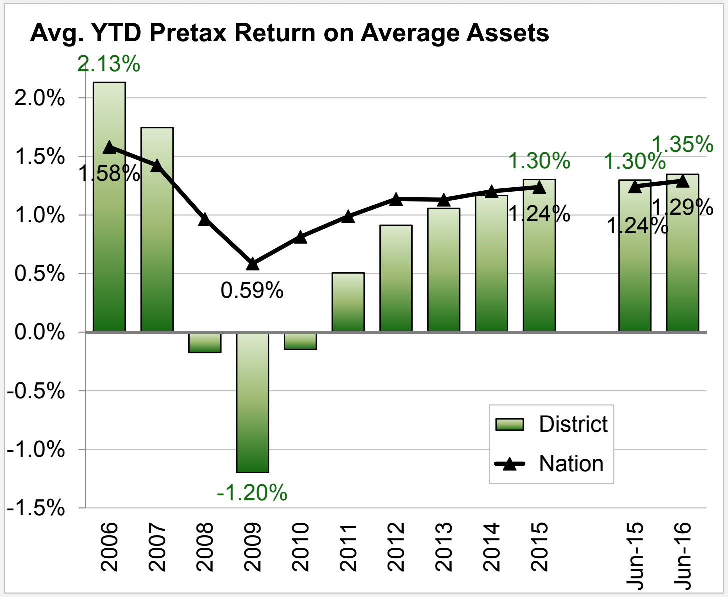
Liquidity and Interest Rate Risk

Capital

Note: Bank size groups are defined as very small (<$1B), small ($1B-$10B) mid-sized ($10B-$50B), and large (>$50B) banks. The large bank group covers nationwide banks (a larger statistical population), while the other three groups cover 12th District banks.

See also "Banks at a Glance," Bank Profiles by State:
http://www.frbsf.org/banking/publications/banks-at-a-glance/

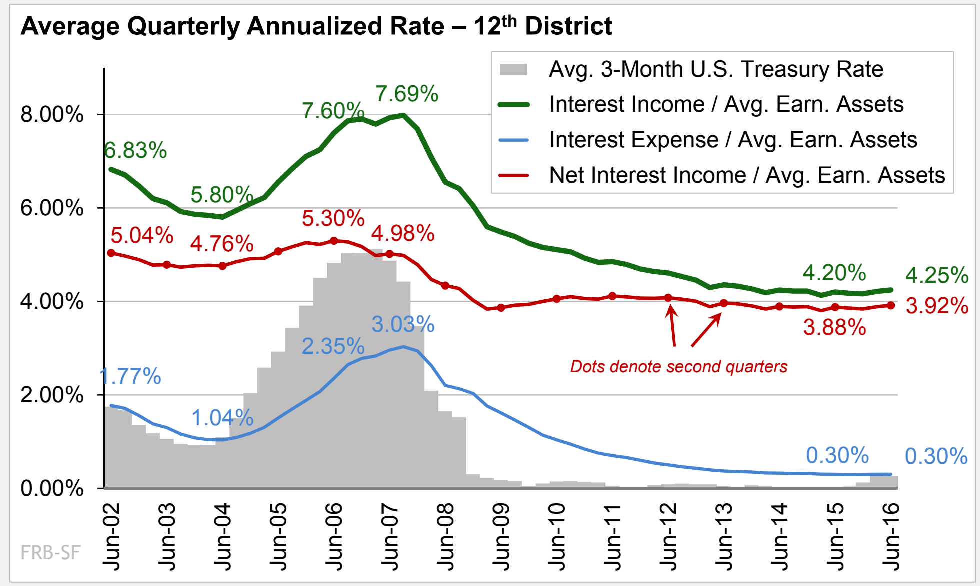
Earnings: First Half Earnings Strengthened Year-Over-Year, Led by Wider Net Interest Income and Lower Overhead Ratios



Avg. YTD % of Average Assets 12th District		
Earnings Component	Jun-15	Jun-16
Interest Income	3.91	3.98
Interest Expense	(0.29)	(0.28)
Net Int. Income	3.61	3.68
Nonint. Income	0.63	0.58
Nonint. Expense	(3.13)	(2.99)
Provision Expense	(0.03)	(0.06)

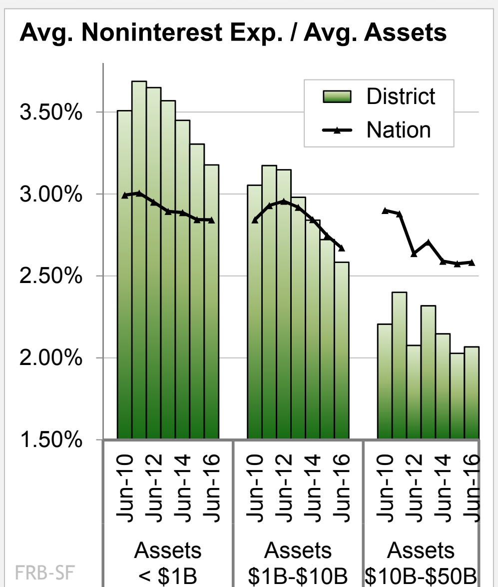
Based on commercial banks, excluding De Novos; year-to-date (YTD) annualized trimmed means; preliminary 6/30/16 data; for comparability, pretax ROAAs are adjusted on a tax-equivalent (TE) basis to assume taxes are paid on income from tax-free municipal loans and securities.

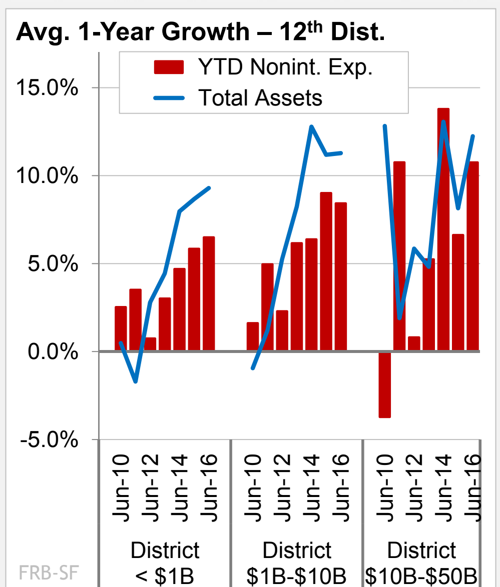
Net Interest Margins Were Buoyed by a Second Quarter Seasonal Lift and Rising Short-Term Rates



Based on 12th District commercial banks, excluding De Novos; quarterly annualized trimmed means; preliminary 6/30/16 data; data are presented on a tax-equivalent (TE) basis; average 3-month constant maturity U.S. Treasury (UST) Rate from Federal Reserve via Haver Analytics.

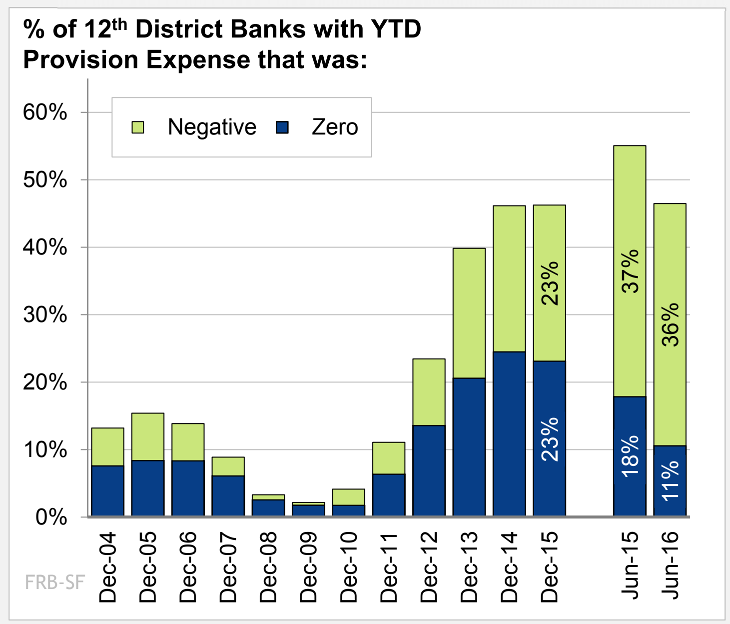
At Smaller Banks in the District, Overhead Expenses Have Not Kept Pace With Asset Growth, Reducing Relative Cost Burdens





Based on commercial banks, excluding De Novos; expense ratios based on year-to-date (YTD) annualized trimmed means; average growth rates not merger-adjusted; preliminary 6/30/16 data.

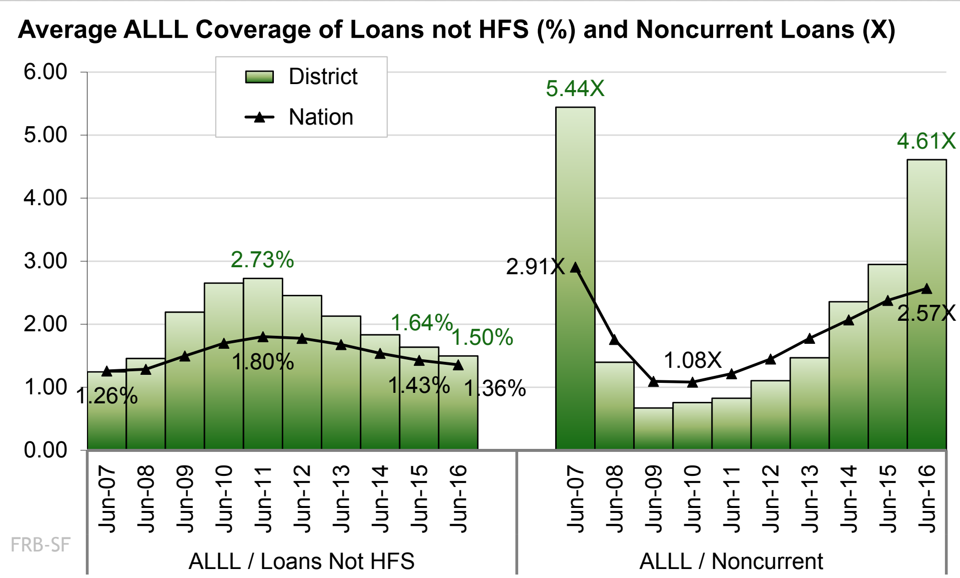
Loan Loss Reserves: Fewer Banks Avoided Provision Expenses, Especially Large Banks



Average Provision Expense / Average Assets (%)		
Bank Size	Jun-2015	Jun-2016
District Very Small (<$1B)	0.04%	0.05%
District Small ($1B-$10B)	0.03%	0.07%
District Mid-Sized ($10B-$50B)	0.02%	0.07%
Nation Large (>$50B)	0.14%	0.23%

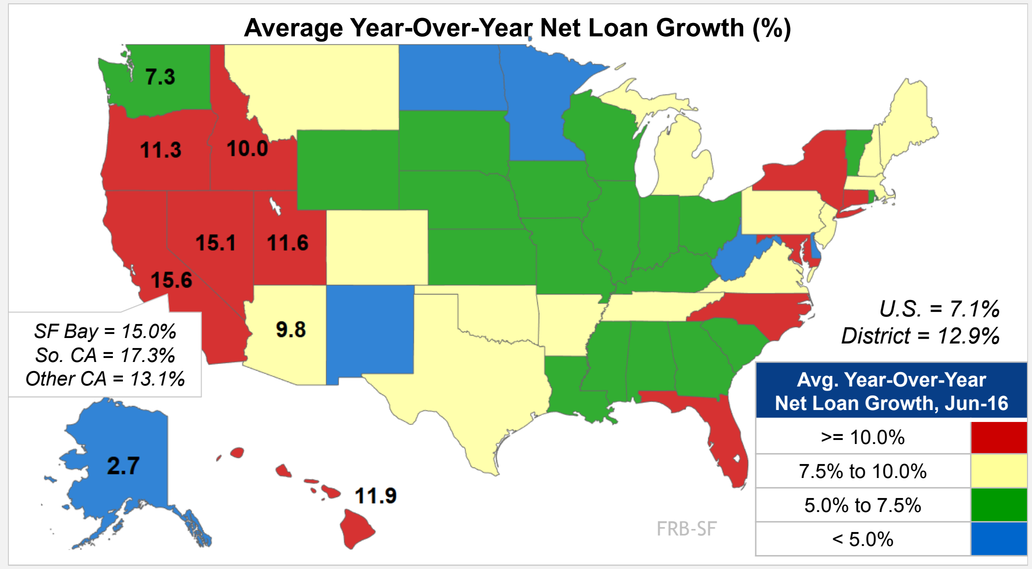
Based on commercial banks, excluding De Novos; based on year-to-date (YTD); preliminary 6/30/16 data.

Growth in Loans Outpaced ALLL, but Reserves Increased as a Share of (Declining) Noncurrent Loans



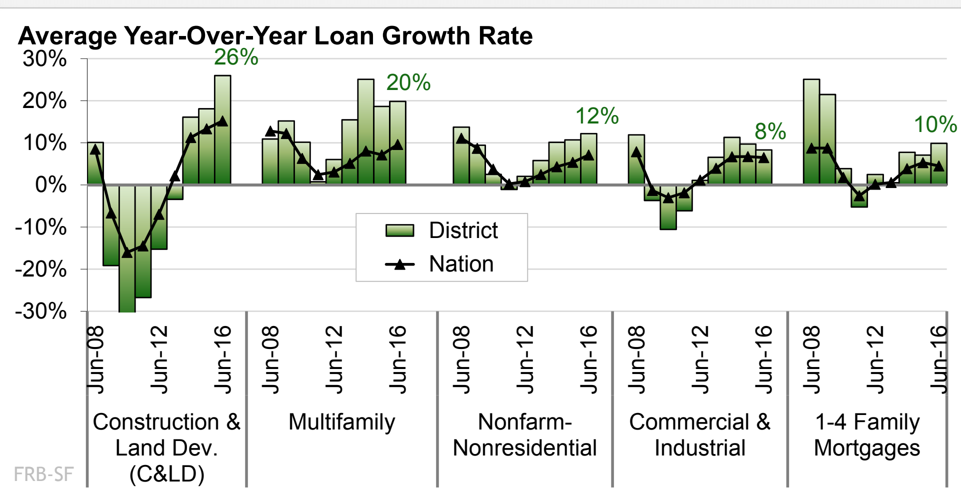
Based on commercial banks, excluding De Novos; trimmed means; preliminary 6/30/16 data; ALLL = allowance for loan and lease losses; HFS = held for sale; noncurrent = loans past due 90+ days or on nonaccrual status.

Loan Growth: Average Net Loan Growth Outpaced the Nation Throughout Much of the District



Based on commercial banks, excluding De Novos, by headquarters; trimmed means (not merger-adjusted); preliminary 6/30/16 data; SF Bay = San Francisco-San Jose Consolidated Statistical Area (CSA); So. CA = Los Angeles CSA + San Diego Metropolitan Statistical Area; Other CA = all other California counties.

Growth Still Fastest Among C&LD and Multifamily Portfolios; Larger Loan Categories Also Expanded Faster than the Nation

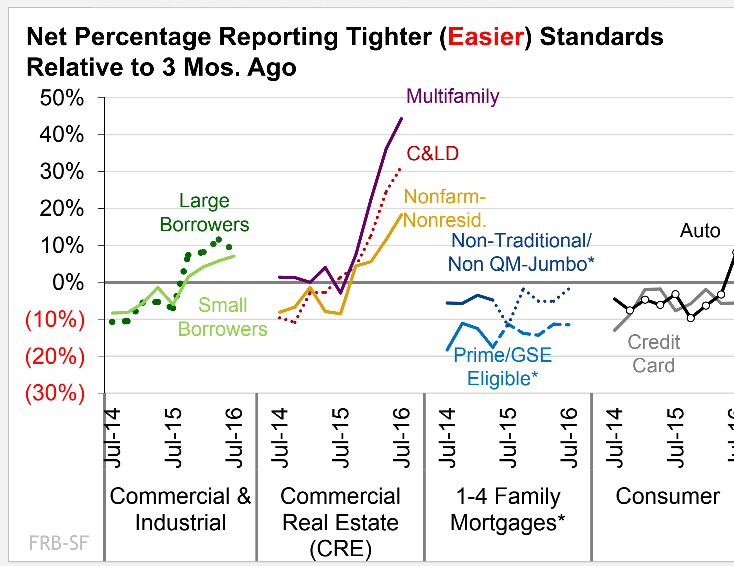


Memo: Average Share of Total Loans, Jun-16

District	6%	5%	45%	15%	14%
Nation	5%	2%	24%	13%	25%

Based on commercial banks, excluding De Novos; trimmed means (not merger-adjusted); preliminary 6/30/16 data.

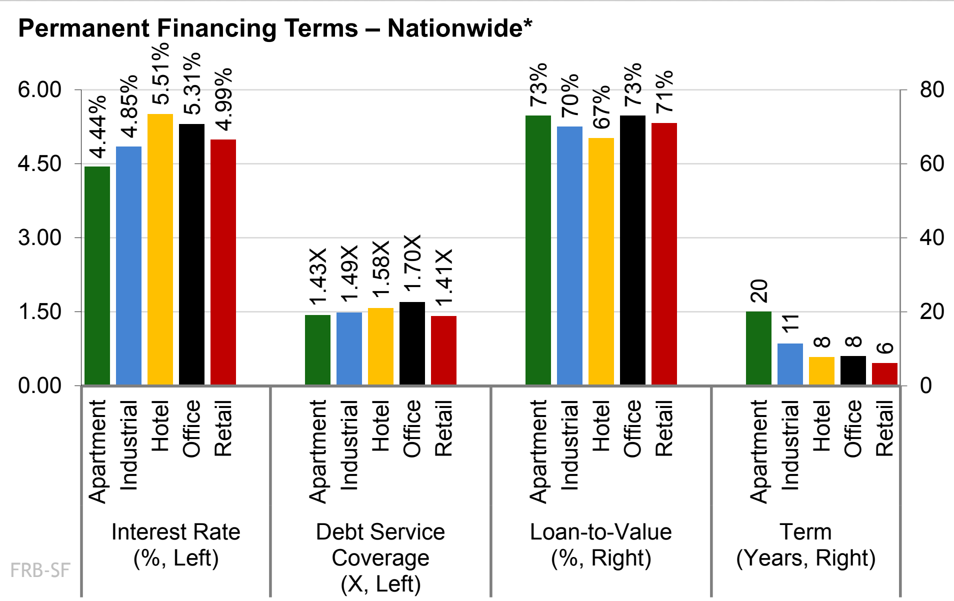
Standards Tightened Further for Commercial and CRE Loans and Shifted for Auto Lending



Recent "tightening" has come on the heels of several years of post-crisis loosening. Notwithstanding changes in the last year, loans underwritten during the prior period of easing remain within the portfolio. Performance will be important to watch if collateral prices come under pressure, broader credit availability tightens further, and/or the economy slows.

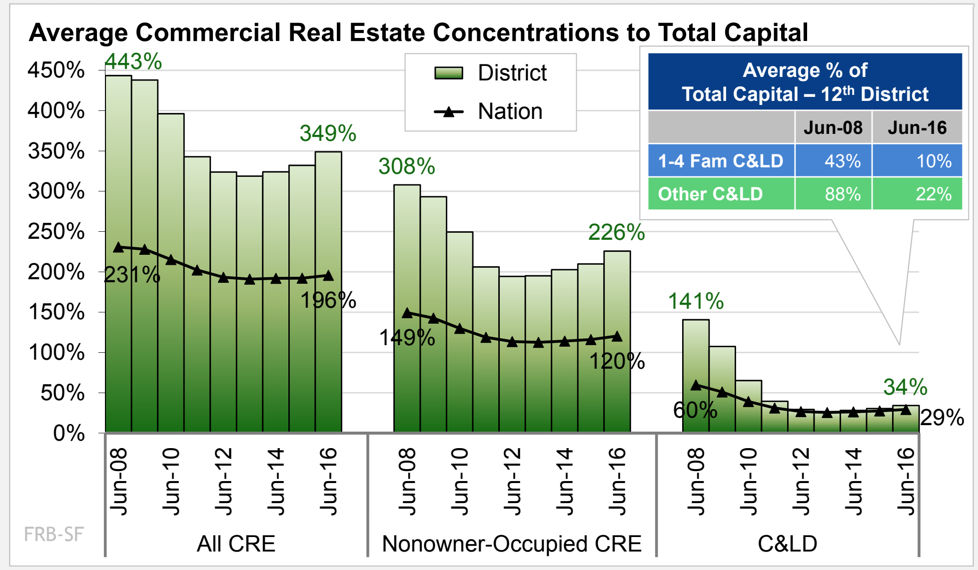
Based on a sample of loan officers at 70+/− domestic banks (number varies by period and loan type); C&LD = construction and land development; *beginning January 2015, two categories were replaced with six based on GSE eligibility, qualifying mortgage (QM) status, and size (making comparisons imperfect); Source: Federal Reserve Senior Loan Officer Opinion Survey (http://www.federalreserve.gov/BoardDocs/snloansurvey/).

Per RealtyRates.com, Lending Criteria Vary by CRE Collateral Type, and Tend to Favor Apartment Loans



*Based upon average response as of 1Q 2016; Source: Robert G. Watts/Realty Rates Investor Survey.

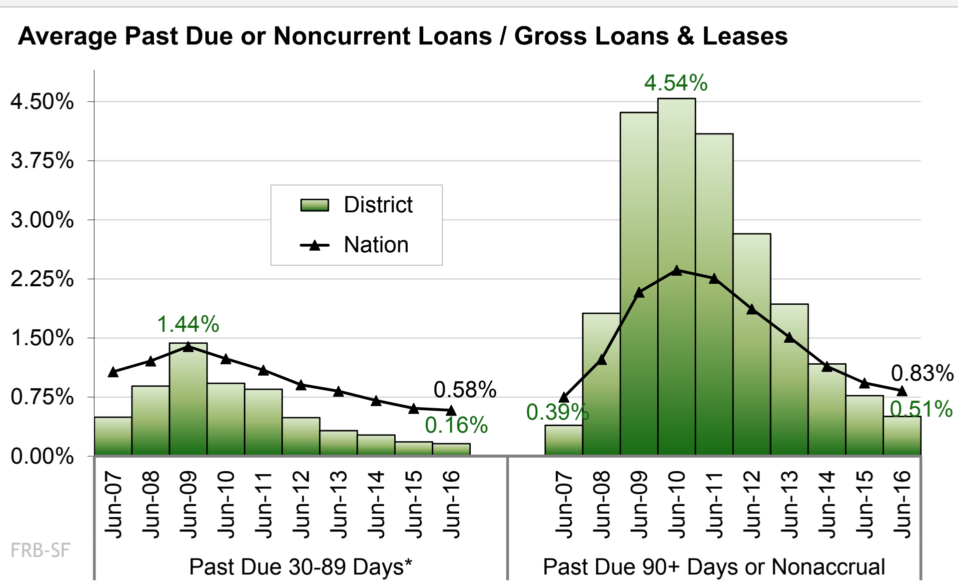
Although CRE Holdings Remained Well Below Prior Peak, Underwriting Remained Critical Given CRE Concentrations



Average % of Total Capital – 12th District	Jun-08	Jun-16
1-4 Fam C&LD	43%	10%
Other C&LD	88%	22%

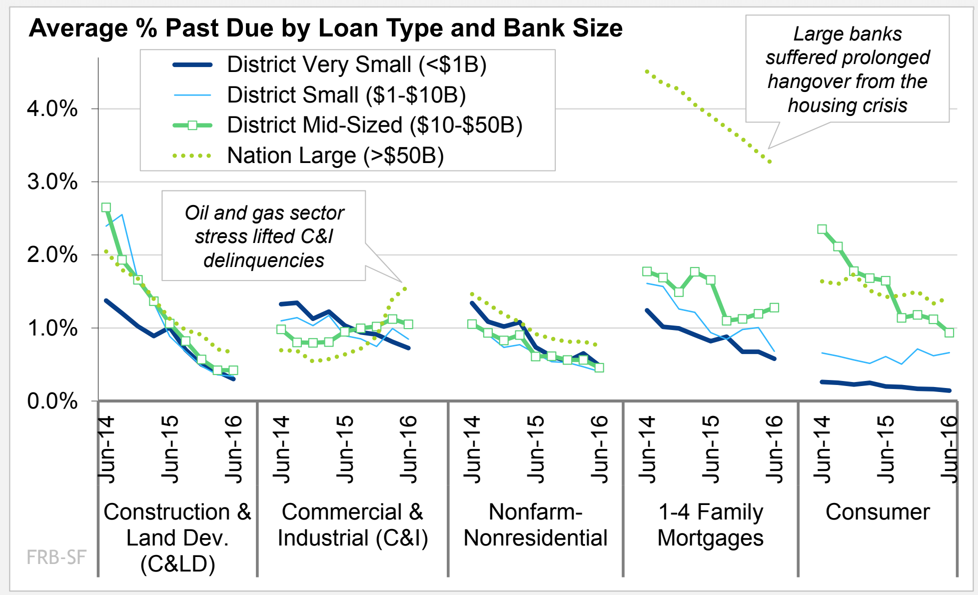
Based on commercial banks, excluding De Novos; trimmed means; preliminary 6/30/16 data; All CRE= multifamily, nonfarm-nonresidential (NFNR), construction and land development (C&LD), and other CRE-purpose loans; Nonowner-Occupied CRE excludes owner-occupied NFNR.

Credit Quality: Past-Due Loan and Lease Ratios Edged Down and Remained Below the National Average



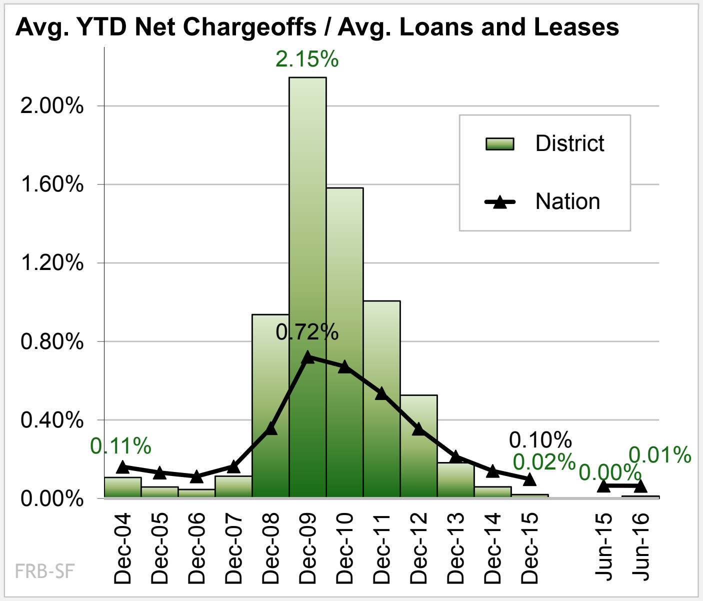
Based on commercial banks, excluding De Novos; trimmed means; preliminary 6/30/16 data; *delinquent but still accruing interest.

Commercial and Industrial Loan Delinquencies Drifted Higher at Large Banks; Mortgage Past-Dues Up at Mid-Sized Banks



Based on commercial banks, excluding De Novos; trimmed means; preliminary 6/30/16 data; past due = loans 30+ days past due or on nonaccrual status.

On Average, First-Half Net Loan Losses Remained Negligible; Increased Among District's Small and Nation's Large Banks

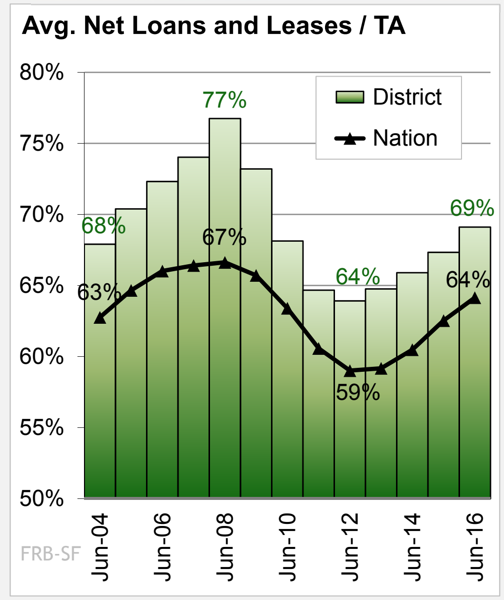


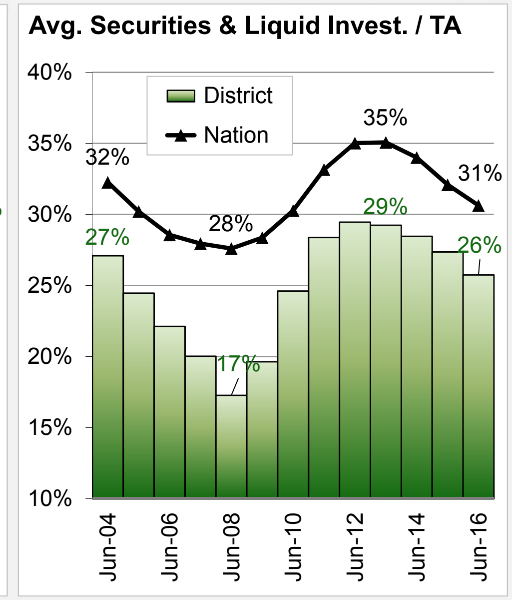
Average YTD Net Chargeoffs (Recoveries) / Avg. Loans (%)

Bank Size	Jun-2015	Jun-2016
District Very Small (<$1B)	0.00%	0.00%
District Small ($1B-$10B)	(0.02%)	0.02%
District Mid-Sized ($10B-$50B)	0.06%	0.05%
Nation Large (>$50B)	0.24%	0.29%

Based on commercial banks, excluding De Novos; year-to-date (YTD) annualized trimmed means; preliminary 6/30/16 data; C&I = commercial and industrial loans.

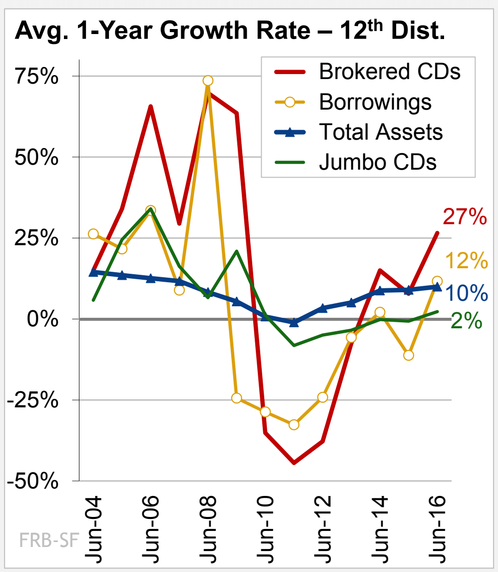
Liquidity: On-Balance Sheet Liquidity Tightened Further As Assets Shifted Towards Loans

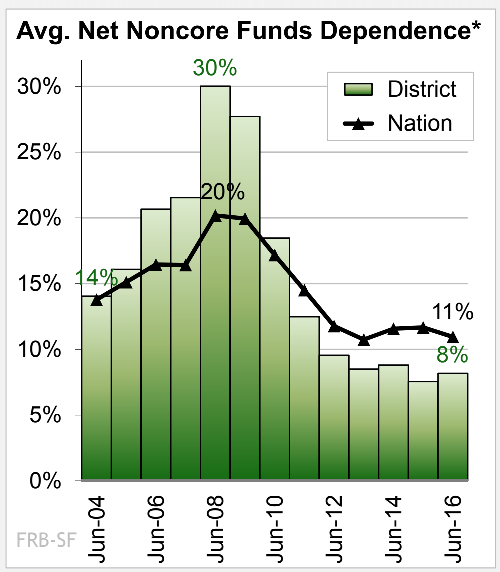




Based on commercial banks, excluding De Novos; trimmed means; preliminary 6/30/16 data; TA = total assets; Liquid invest. = cash, due from balances, and Federal funds sold & securities purchased under agreements to resell.

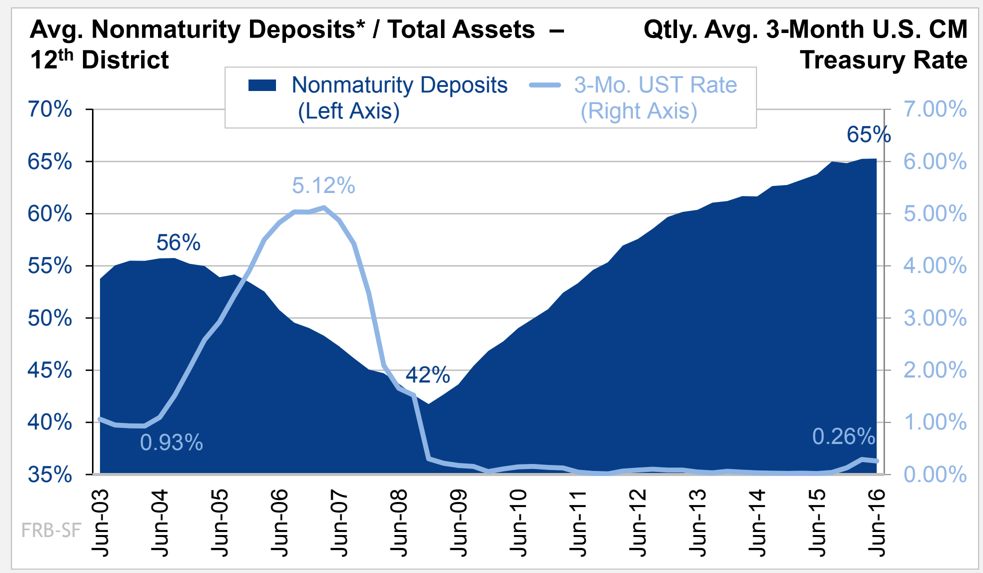
Continued Growth in Brokered Deposits and Recent Increases in Borrowings Nudged Up Noncore Funds Dependence





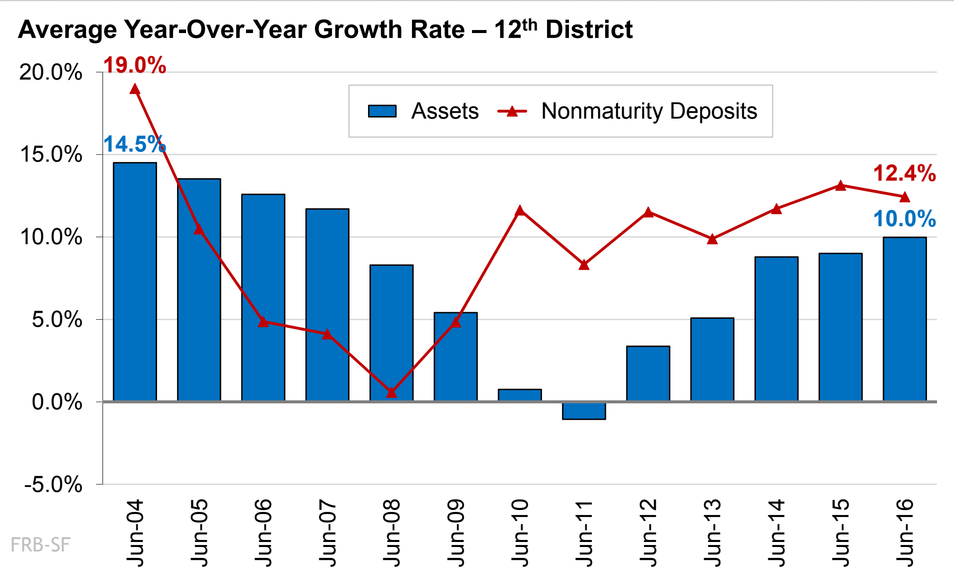
Based on commercial banks, excluding De Novos; trimmed means (not merger-adjusted); preliminary 6/30/16 data; *net noncore funds dependence is sum of borrowings (Fed funds purchased, repurchase agreements, and other borrowed money), foreign and brokered deposits, and jumbo CDs (defined here as > $100K), less short-term investments, divided by long-term assets.

The Share of Assets Funded by Nonmaturity Deposits Remained Elevated but May Shift With Interest Rates



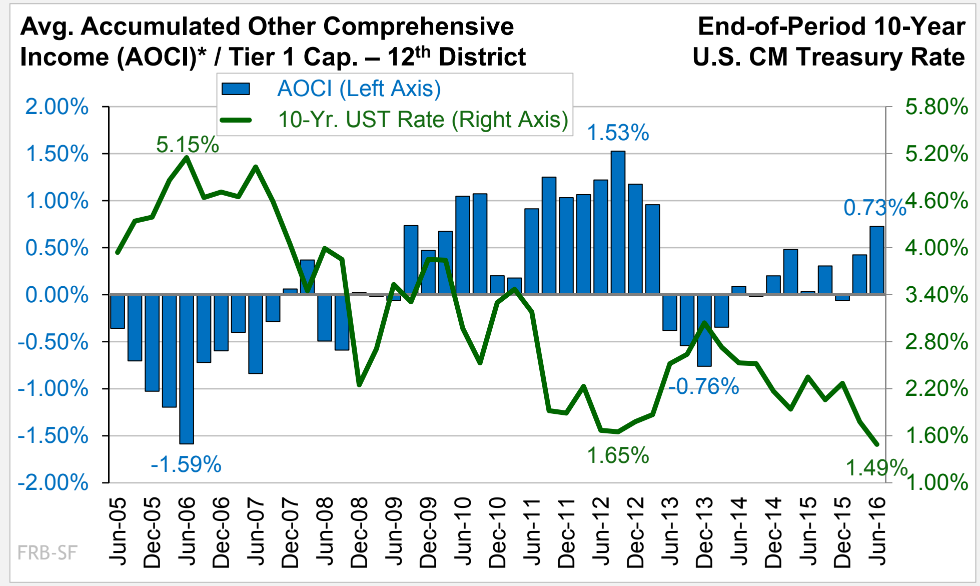
Deposit data based on commercial banks based in the 12th District, excluding De Novos; trimmed means; preliminary 6/30/16 data; *nonmaturity includes demand, money market, and savings accounts; Constant Maturity (CM) U.S. Treasury (UST) Rate from Federal Reserve via Haver Analytics.

During the 2004-06 Rate Hike Period, Nonmaturity Deposits Grew at a Decelerating Rate and Lagged Asset Increases



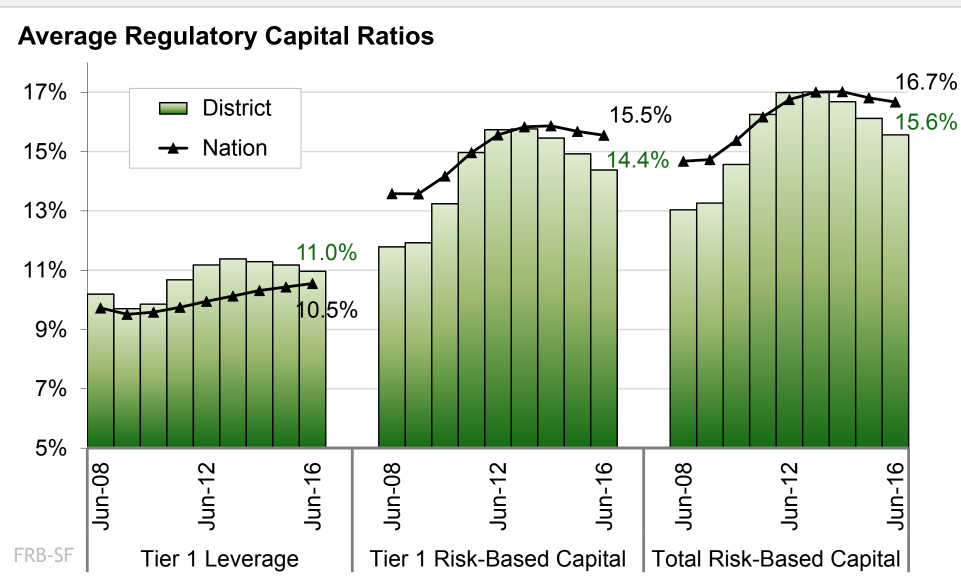
Deposit data based on commercial banks based in the 12th District, excluding De Novos; trimmed means (not merger-adjusted); preliminary 6/30/16 data; *nonmaturity includes demand, money market, and savings accounts.

Additional Declines in Long-Term Interest Rates Lifted Investment Portfolio Values and AOCI



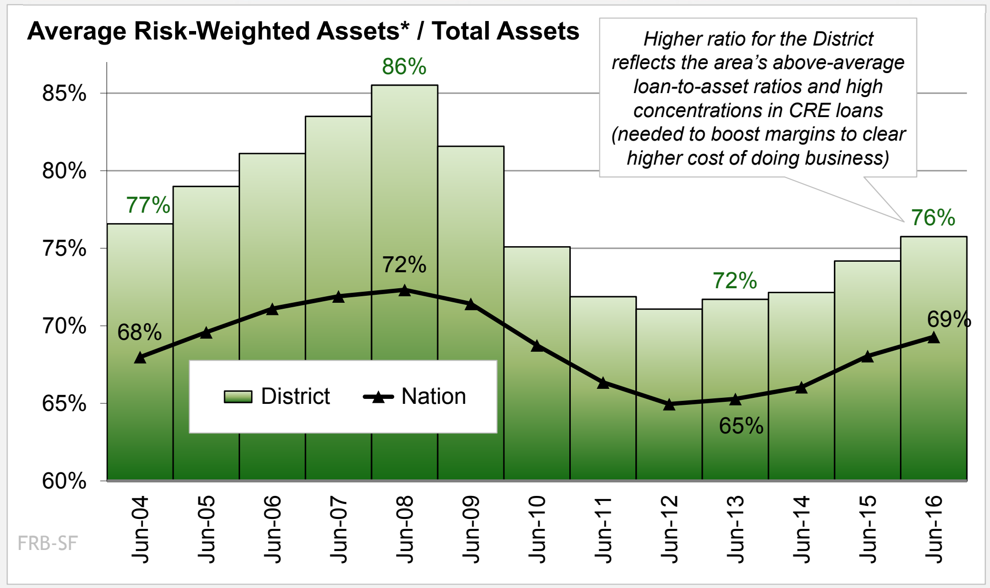
Based on commercial banks, excluding De Novos; trimmed means; preliminary 6/30/16 data; *accumulated other comprehensive income is comprised mainly of net unrealized gains and losses on available-for-sale securities; Constant Maturity (CM) Treasury Rate from Federal Reserve via Haver Analytics.

Capital: Regulatory Capital Ratios Moderated and the Gap Between District and Nationwide Risk-Based Ratios Widened



Based on commercial banks, excluding De Novos; trimmed means; preliminary 6/30/16 data; new risk-based capital reporting became effective March 2014 for advanced approach adopters and March 2015 for others.

Risk-Weighted Asset Growth Outpaced Capital Formation Mainly Because of a Further Shift in Assets Towards Loans



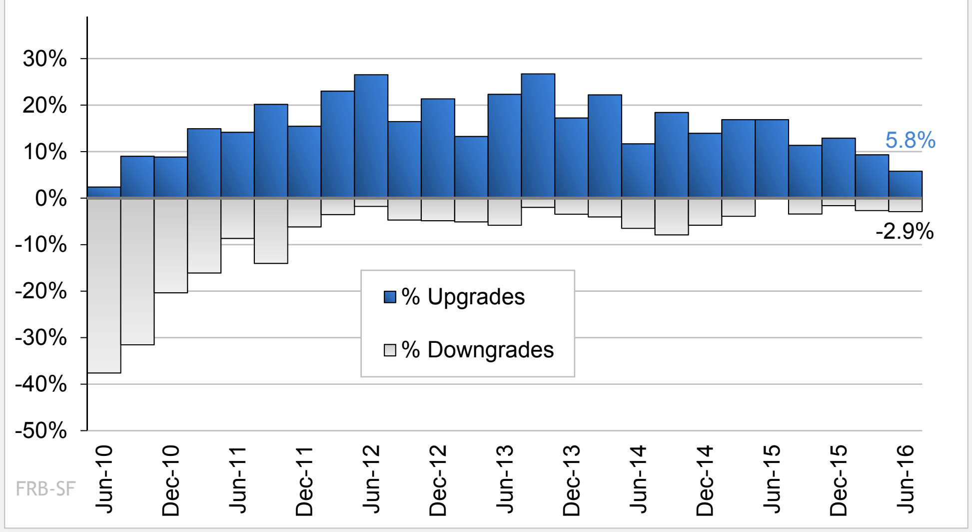
Based on commercial banks, excluding De Novos; trimmed means; preliminary 6/30/16 data; *assets risk weighted according to regulatory risk-based capital rules in effect as of the report filing date (weights generally reflect perceived credit risk).

Section 3 – Regulatory Ratings and Trends

Focusing on trends in safety and soundness, consumer compliance, and Community Reinvestment Act examination ratings assigned by regulatory agencies to commercial banks headquartered within the 12th Federal Reserve District.

Regulatory Ratings: As Banking Conditions Stabilized, Fewer Examinations Resulted in Rating Changes

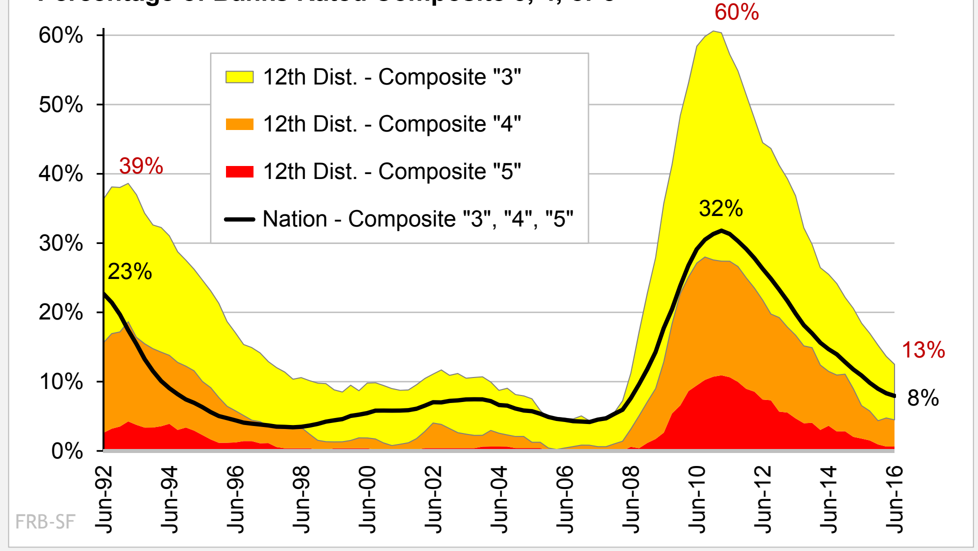
Percentage of 12th District Exams that Resulted in CAMELS Composite Rating Upgrade or Downgrade *(downgrades shown as negative percentages)*



Includes any change in composite CAMELS rating for commercial banks; quarterly data based on examination completion dates (mail dates); preliminary second quarter 2016 data updated through 08/10/16.

The Share of District Banks with Composite Ratings of 3, 4, or 5 Moderated Further

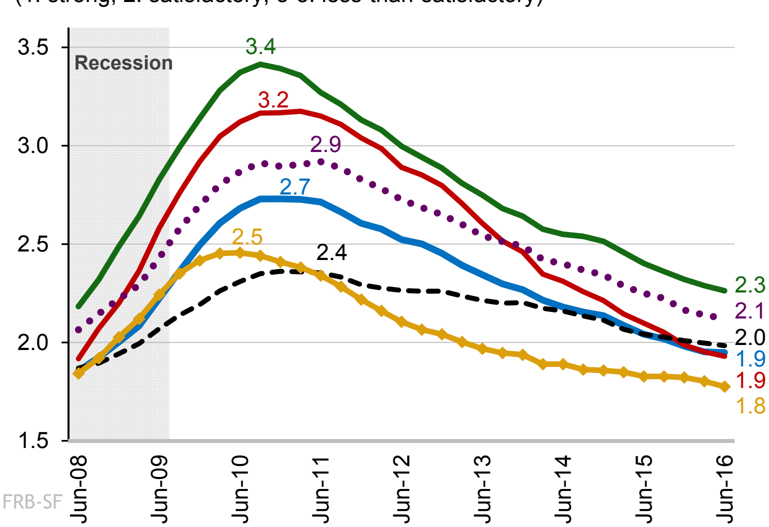
Percentage of Banks Rated Composite 3, 4, or 5



Trends for all commercial banks based on examination completion dates (mail dates); preliminary second quarter 2016 data updated through 08/10/16.

Earnings and Management Remained Weakest Components; Sensitivity Concerns Have Been Slow to Recede

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

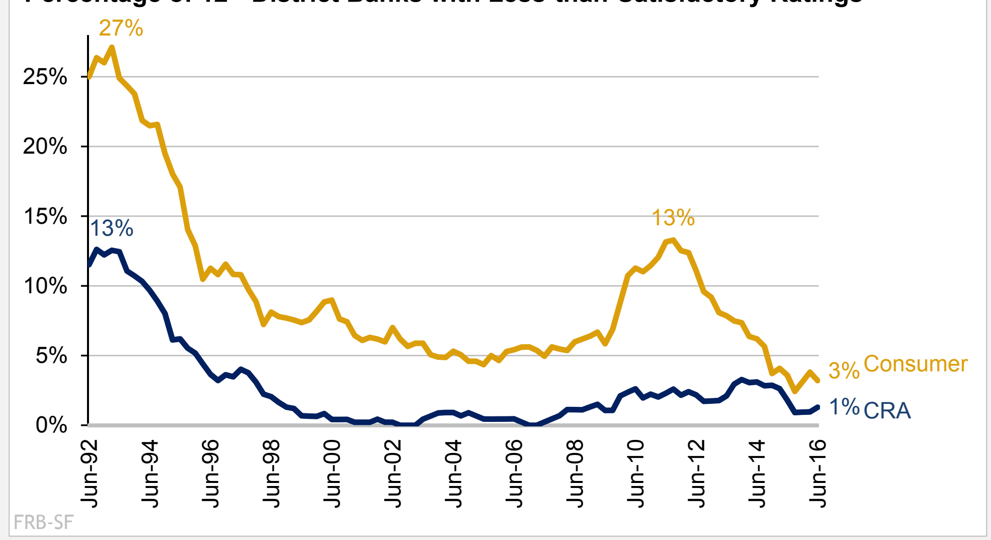


Earnings and Management continued to garner weaker ratings compared with other component areas—even before the financial crisis.

Trends for all commercial banks based on examination completion dates (mail dates); preliminary second quarter 2016 data updated through 08/10/16; *Sensitivity to Market Risk.

Very Few Banks Earned Less-Than-Satisfactory Consumer Compliance or CRA Ratings

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



Trends for all commercial banks based on examination completion dates (mail dates); CRA = Community Reinvestment Act; preliminary second quarter 2016 data updated through 08/10/16.

Appendices

1. Summary of Institutions
2. Technical Information

Appendix 1: Summary of Institutions

Area	Commercial Banks (De Novos)		Industrial Banks (De Novos)		Savings Institutions (De Novos)	
	Jun-15	*Jun-16*	*Jun-15*	*Jun-16*	*Jun-15*	*Jun-16*
AK	4 (0)	4 (0)	-	-	1 (0)	1 (0)
AZ	19 (0)	17 (0)	-	-	1 (0)	1 (0)
CA	186(1)	170 (0)	4 (0)	3 (0)	12 (0)	12 (0)
GU	2 (0)	2 (0)	-	-	1 (0)	1 (0)
HI	5 (0)	5 (0)	1 (0)	1 (0)	2 (0)	2 (0)
ID	11 (0)	11 (0)	-	-	1 (0)	1 (0)
NV	10 (0)	9 (0)	4 (0)	4 (0)	2 (0)	2 (0)
OR	22 (0)	22 (0)	-	-	3 (0)	3 (0)
UT	31 (0)	30 (0)	18 (0)	15 (0)	4 (0)	2 (0)
WA	45 (0)	42 (0)	-	-	12 (0)	10 (0)
12L	335 (1)	312 (0)	27 (0)	23 (0)	39 (0)	35 (0)
US	5,441 (10)	5,210 (2)	29 (0)	25 (0)	874 (2)	819 (1)

Based on preliminary 6/30/16 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. NV data excludes credit card and zero loan banks. Industrial banks and savings institutions, which have different operating characteristics, are excluded from graphics (other than the table to the left).

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.