First Glance 12L (3Q16)

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

FEDERAL RESERVE BANK
OF SAN FRANCISCO

District Growth Was Solid but Showed Signs of Slowing

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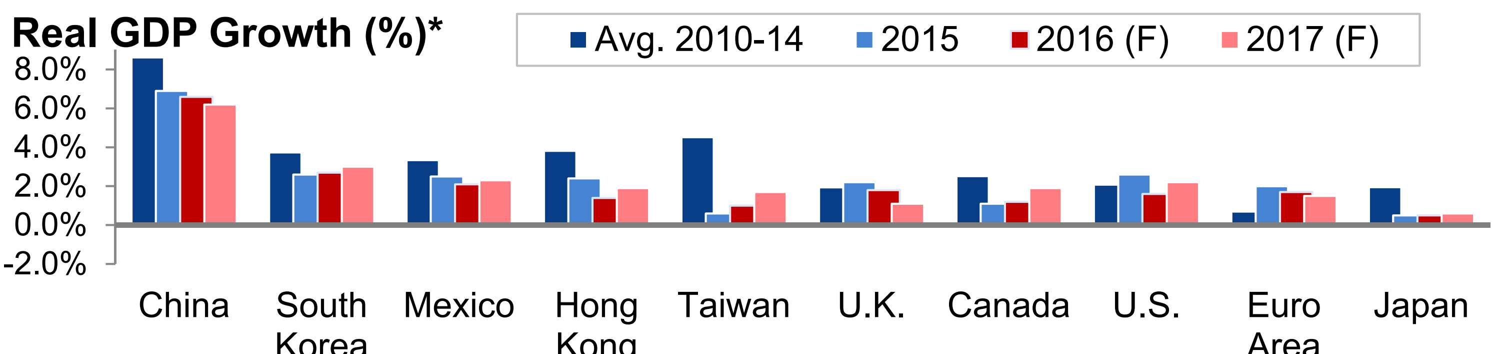
12th District Overview
"District Growth Was Solid but Showed Signs of Slowing"

The District's economy remained strong but downshifted slightly in 3Q16. Aggregate annual 12th District job growth of 2.5% cooled from a prior quarter rate of 2.9% but handily outpaced the nation (1.7%). Job growth slowed in Idaho, Utah, Arizona, and California in particular but still topped 2% in each state (see table at right). And, the District was home to five of the six states with the fastest-growing job markets nationally. Bucking the trend, Alaska continued to report net job losses year-over-year.

Real estate markets remained strong but face risks. Single-family housing starts expanded in the West but did not keep pace with demand, prompting further increases in existing home prices. Consequently, already-weak affordability slipped further across many of the District's markets. Meanwhile, multifamily construction showed signs of cooling and the pipeline of new apartments is expected to weigh adversely on occupancy levels and rent growth in several markets. Forecasters also expect office and industrial vacancy rates to edge higher and rent growth to decelerate in the coming quarters. Commercial real estate (CRE) prices generally increased through 3Q16. Several issues on the horizon could dampen home and CRE price appreciation and pose challenges. Recent increases in interest rates could lift debt service burdens and capitalization rates, which could pressure CRE prices, all else equal. Also, the commercial mortgage-backed security (CMBS) market faces new risk-retention rules and the challenge of refinancing a large volume of maturing mortgages originated before the financial crisis.

Economic conditions abroad remained somewhat subdued through 3Q16. IMF forecasts suggest that 2016 real gross domestic product (GDP) growth among several key 12th District trading partners could lag 2015 levels (see chart below). In 3Q16, trailing four-quarter District export volumes were flat quarter-over-quarter but down 6% relative to the year-earlier period. International trade prospects will depend, in part, upon future interest rates and trade policies, which were in flux following the U.S. election in early November.

Real GDP Growth (%)*



*International Monetary Fund (IMF) World Economic Outlook, October 2016

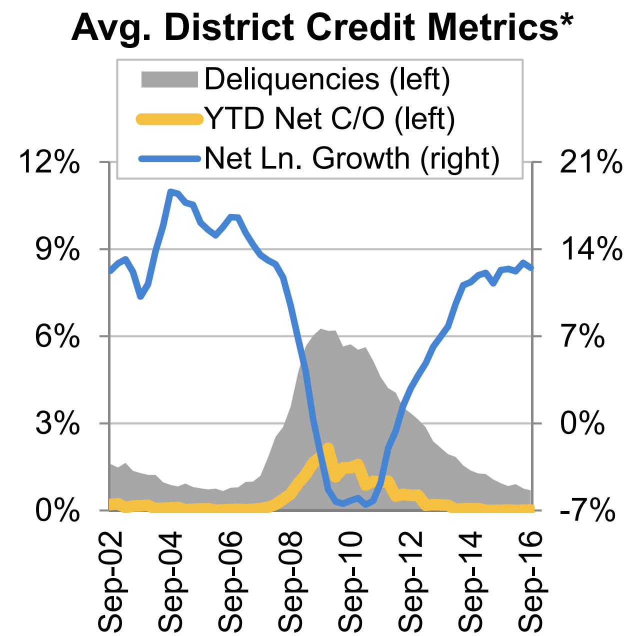
FRB-SF

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

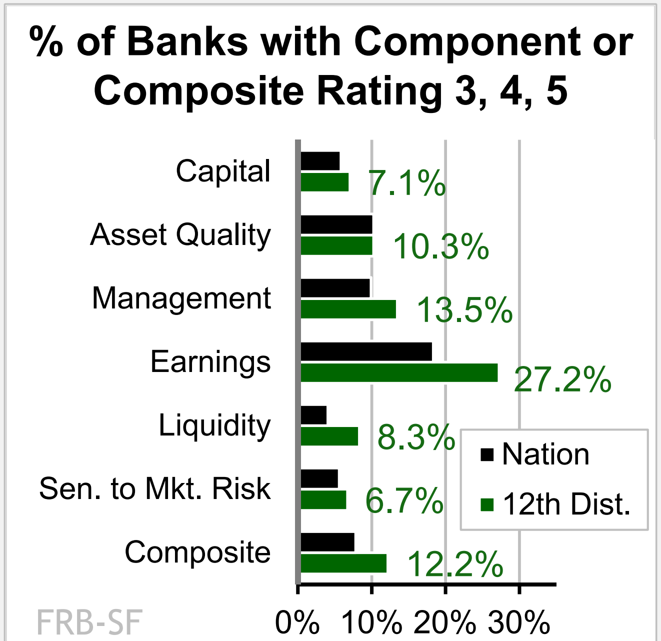
	12-Month Trend	Sep-16
OR		3.40%
ID		3.19%
UT		2.96%
WA		2.95%
NV		2.89%
AZ		2.37%
CA		2.27%
HI		2.19%
AK		-0.11%
Nation		1.71%

***BLS via Haver Analytics*

12th District Overview, Continued



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



Strong employment and property price gains contributed to continued loan growth among banks. The District's average annual net loan growth rate of 12.5% remained well above a national average of 7.1% but cooled modestly from a second quarter rate of 12.9% (see chart at left). CRE loans contributed significantly to growth, leading to higher CRE loan concentrations. Overall, loan delinquencies and losses declined further. That said, weakness in commercial and industrial (C&I) loan performance persisted at larger banks as they worked to resolve oil and gas-related credit problems.

The October 2016 Senior Loan Officer Survey suggested continued tightening of underwriting in some loan categories. Although a small net fraction of respondents indicated continued CRE tightening, loan growth has persisted. Regulators remain concerned that lenders have become overly reliant on CRE 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. For C&I loans, the share of lenders tightening standards declined from the July survey period as risk tolerance increased and competition intensified. Growth in C&I lending could contribute to further corporate sector leverage, which is already elevated in relation to GDP.

Earnings improved at most District banks but still trailed pre-crisis performance. The average year-to-date annualized pretax return on average assets (ROAA) ratio was 1.39%, up 9 bps. from the same period in 2015. Year-over-year improvement is attributed mostly to stronger net interest income and lower noninterest expense ratios. Because noninterest expenses have not kept pace with asset growth for several years, there is concern that operational controls may be lagging risks. Although still very low by historical standards, year-to-date provision expenses ticked up on a linked quarter and one-year basis, partly to accommodate loan growth.

Liquidity and capital ratios moderated year-over-year. Although loan-to-asset ratios dipped seasonally during the quarter, they increased from the prior year period. The shift caused risk-weighted asset growth to outpace equity formation during the year, dampening risk-based capital ratios. To accommodate asset growth, banks mildly increased their reliance on noncore funds, including potentially volatile/costly brokered deposits.

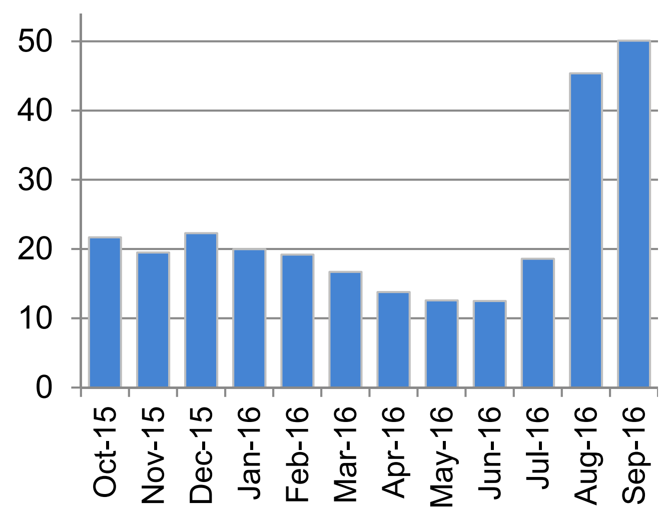
Safety and soundness and consumer compliance ratings continued to improve. Roughly 88% of District banks were rated satisfactory or strong for safety and soundness, compared with 92% nationally (see chart at left). In addition, 97% or more were rated satisfactory or better for consumer compliance and/or Community Reinvestment Act (CRA).

Hot Topics: Areas We are Monitoring Most Closely

The following are areas drawing heightened supervisory attention within the 12th District, based on risk exposures and metrics of Federal Reserve-supervised institutions:

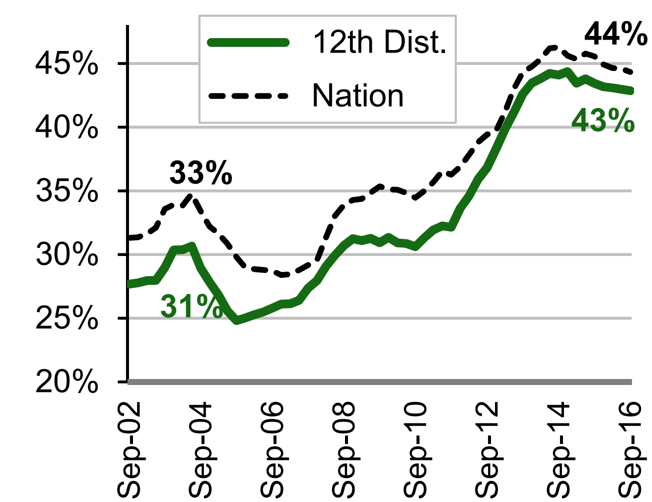
- *Cyberthreats*. Attacks continue to evolve in both complexity and frequency and expose institutions to financial, operational, reputational, legal, and compliance risks. Constant changes in cybercrime methods make this type of risk especially difficult to mitigate (see chart at right). For institutions 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 the adequacy of an institution's cybersecurity preparedness, 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 California, Hawaii, Oregon, 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 Officer Survey, banks had eased underwriting for several years post-crisis. While recent credit performance has been good, now is a critical time in the credit and economic cycle for bankers to maintain lending discipline and enhance 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 moderated in the past year with a flattening of the yield curve; however, the proportion of longer-dated assets remains elevated. In a rising interest rate environment, longer-term assets may be slower to reprice and mute margin expansion if not appropriately matched, hedged, or managed.

New Malware Variants*



*Symantec, *Monthly Threat Report*

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



*Trimmed means

Hot Topics: Areas We are Monitoring Most Closely

- *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 the national average in most District states (see table at right). Loan concentration levels and trends, combined with prior competitive easing of underwriting standards and elevated property prices, increases regulatory concern. A 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 CRE risk management guidance, including the 2015 Interagency Policy Statement (SR letter 15-17, http://www.federalreserve.gov/bankinforeg/srletters/sr1517.htm).

- *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 NMDs 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.

- *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, and with marketplace lenders in particular. 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 of consumers.

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

	2006-16**	Sep-16
AK	319%	284.9%
AZ	538%	367.0%
CA	447%	372.6%
HI	217%	190.8%
ID	358%	262.9%
NV	506%	419.2%
OR	490%	384.8%
UT	385%	230.0%
WA	481%	349.2%
Nation	233%	196.4%

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

Section 1 - Economic Conditions

Job Growth

Housing Market Metrics

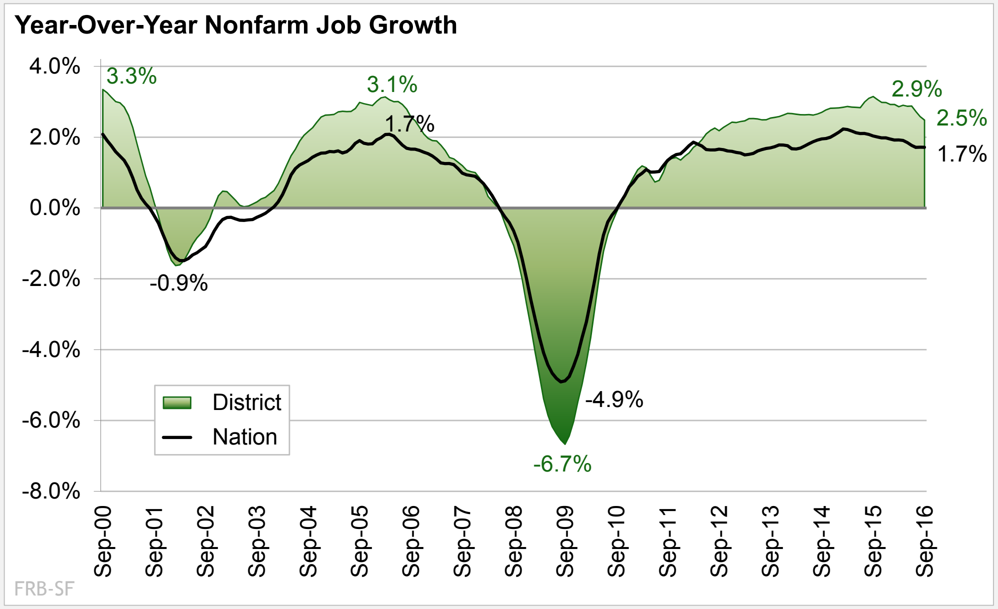
Commercial Real Estate Market Conditions

Trade

For more information on the District's real estate markets, see:
Real Estate Lending Risks Monitor
http://www.frbsf.org/banking/publications/real-estate-lending-risks-monitor/

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 in the District Outpaced the Nation but Slowed



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

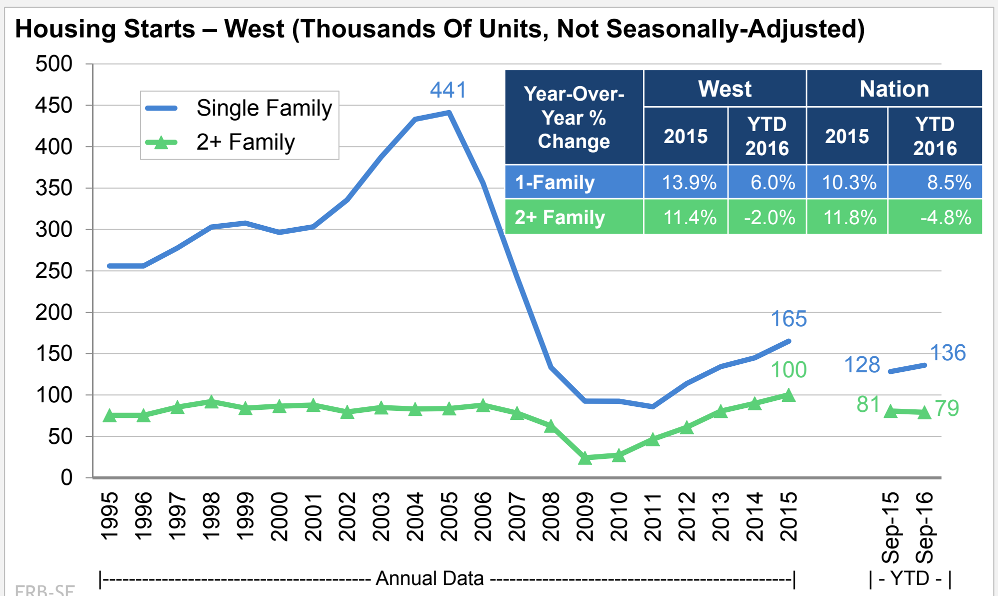
Education/Health, Professional/Business, Leisure, Government, and Construction Sectors Led Job Growth

12th District Sector Profile of Job Growth - 3Q16

Sector	Year-Over-Year % Change 10-Year Trend: 10-Year Trend	Year-Over-Year % Change 10-Year Trend: 3Q 2016	Mix of New Jobs	Mix of Overall Jobs
Education & Health Services		3.68%	21.84%	14.89%
Professional & Business Svcs.		3.32%	19.49%	14.69%
Leisure & Hospitality		3.06%	14.65%	11.95%
Government		1.62%	10.41%	15.78%
Construction		5.68%	11.14%	5.02%
Retail Trade		1.83%	8.03%	10.82%
Financial Activities		2.65%	5.54%	5.20%
Transportation & Utilities		2.57%	3.70%	3.58%
Information		3.21%	3.37%	2.63%
Wholesale Trade		1.98%	3.31%	4.13%
Other Private		0.25%	0.39%	3.74%
Manufacturing		-0.60%	-1.89%	7.57%
Total		**2.48%**	**100.00%**	**100.00%**

10-year trend and 1-year change based on average nonfarm payroll levels during 3Q of each year; because of data limitations, "Construction" includes mining in Hawaii and "Information" excludes Hawaii and Nevada; Source: Bureau of Labor Statistics via Haver Analytics.

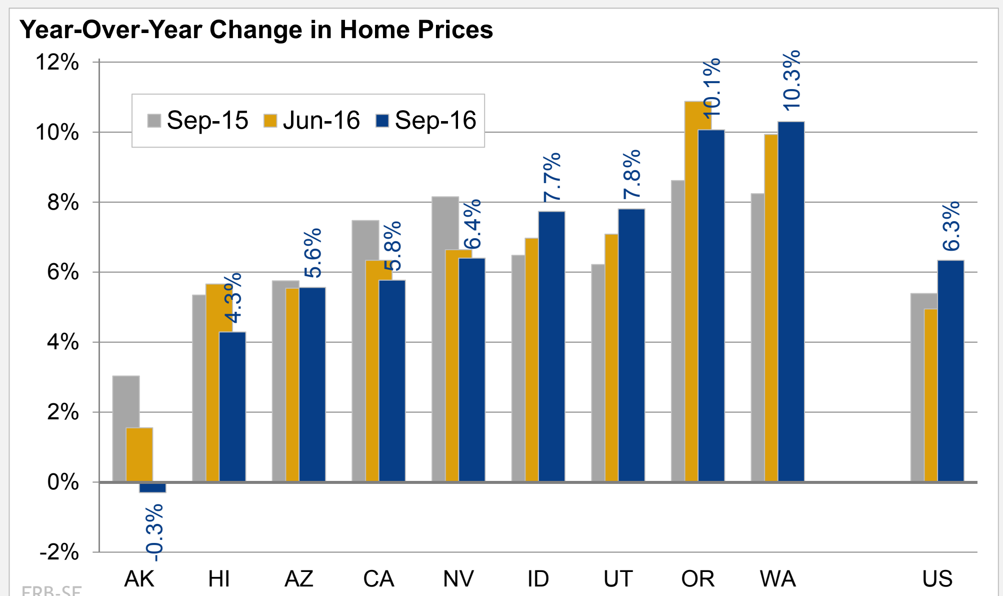
Year-to-Date Housing Starts in the West Decelerated for Single-Family and Declined for 2+ Unit Buildings



Year-Over-Year % Change	West: 2015	West: YTD 2016	Nation: 2015	Nation: YTD 2016
1-Family	13.9%	6.0%	10.3%	8.5%
2+ Family	11.4%	-2.0%	11.8%	-4.8%

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

Annual Home Price Gains Followed Job Growth Trends; Strongest in WA, OR, UT, and ID but Weak in AK

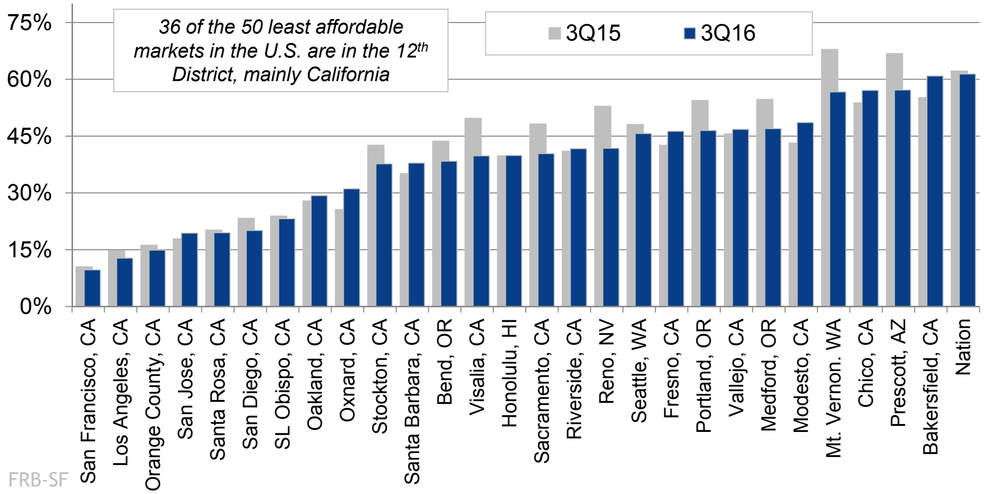


Source: Core Logic Home Price Index (includes all detached and attached homes).

Home Prices Remained Elevated in Relation to Household Incomes Throughout Much of the District

Housing Opportunity Index – 12th District Metro Areas Below U.S. Average*

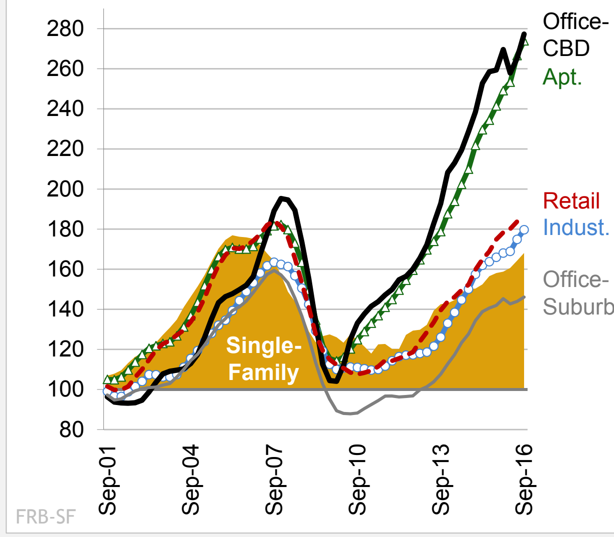
% of home sales deemed affordable to median family income (high ratio = more affordable)



Represents the share of homes sold that could be considered affordable to a family earning the median income (with a 10% downpayment, a gross income-to-housing cost ratio of 28%, and a fixed-rate, 30-year mortgage loan); housing costs include principal, interest, property taxes, and hazard insurance (not mortgage insurance); *chart excludes markets with < 1,000 transactions in 3Q16; Source: National Association of Homebuilders/Wells Fargo.

CRE Prices Marched Higher in Third Quarter in Most Sectors; Retail Prices Paused

National Real Estate Prices (Indexed, December 2000 = 100)



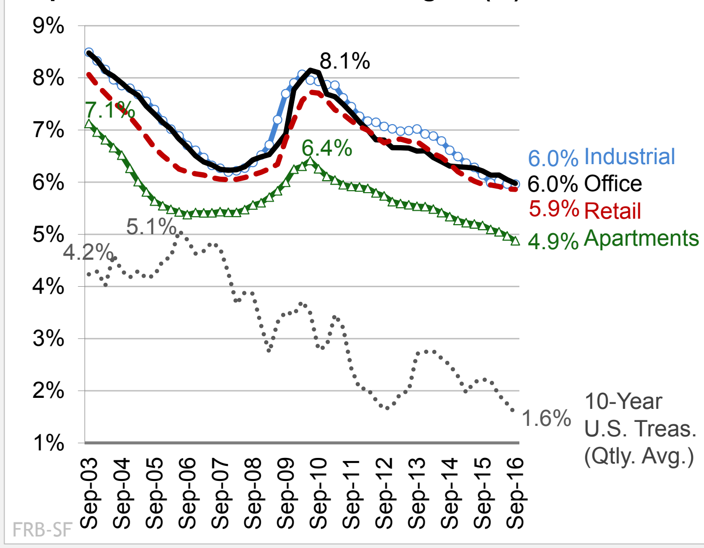
Change in National Property Price Indices

Property Type	1 Qtr. Annualized	1-Yr.	5-Yr. CAGR	10-Yr. CAGR
Apartment	11.0%	13.5%	14.2%	4.9%
Office - CBD	18.1%	6.9%	13.5%	6.2%
Industrial	11.0%	8.3%	10.0%	1.9%
Retail	-2.3%	4.5%	9.8%	0.6%
Office - Suburban	6.0%	2.9%	8.6%	0.1%
Single-Family	9.3%	6.3%	6.5%	-0.5%

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

Capitalization Rates Remained Low, Especially for Apartments; Spreads to 10-Year Treasury Were Relatively Wide

Capitalization Rates - Western Region (%)



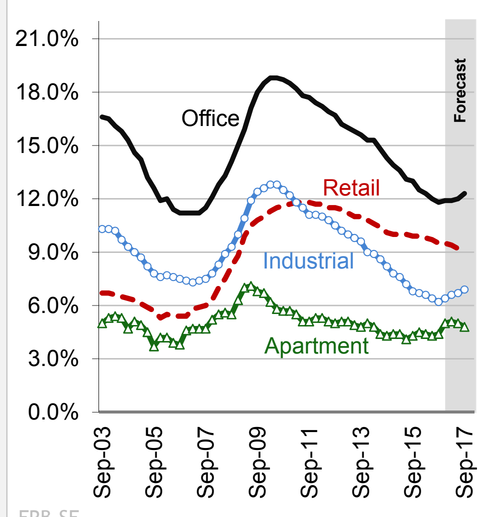
Capitalization Rates Spread to 10-Year U.S. Treasury Rate (bps) - West -

Property Type	Sep-07	Sep-16
Industrial	181	440
Office	178	441
Retail	130	430
Apartment	48	331

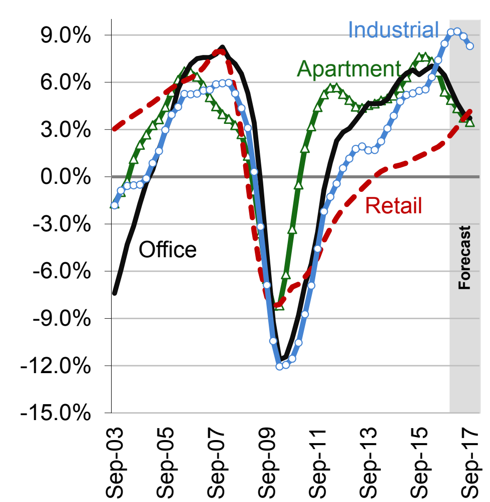
Western Region includes Central CA, East Bay, Hawaii, Inland Empire, Las Vegas, Los Angeles, Monterey, North Bay, Orange Co, Portland, Reno, Sacramento, Salt Lake City, San Diego, San Francisco, San Jose, and Seattle; based on trailing 12-mo. transactions>$2.5 million; Sources: Real Capital Analytics, Federal Reserve.

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

Weighted Average Vacancy or Availability — 12th District

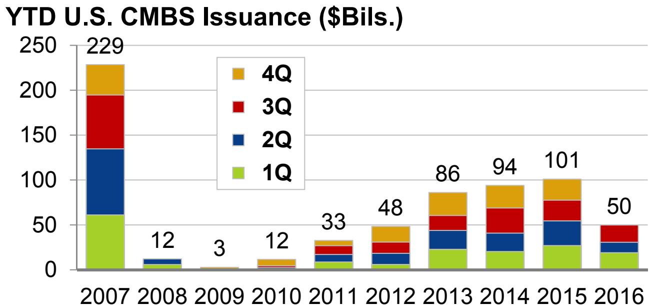


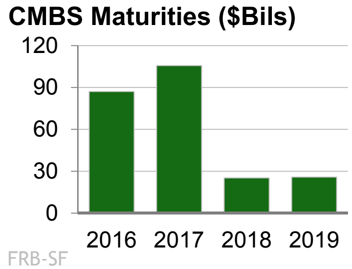
Average Annual Rent Growth — 12th District



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.

CMBS Issuance Was Better in 3Q16 but Down YTD; CMBS Delinquencies Edged Higher; Many Loans Maturing in 2017





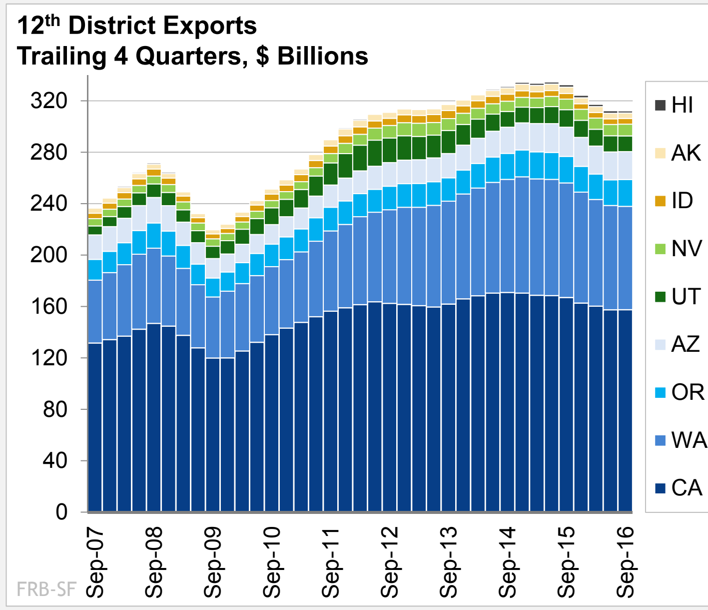
Some of the recent increase in CMBS delinquencies stemmed from troubled matured loans. Rising interest rates may further increase debt service burdens and hamper property values, leading to additional defaults.

CMBS Delinquency Rate by Property Type (%)

	Oct-14 to Oct-16	Oct-16
Office		6.44
Retail		6.19
Industrial		5.54
Lodging		3.43
Multifamily		2.41
Overall		4.98

YTD = year-to-date; Sources: Commercial Mortgage Alert (issuance), Trepp/CREFC (maturities, delinquencies).

The District's Trailing 12-Month Exports Were Flat Quarter-Over-Quarter; Down 6% Year-Over-Year

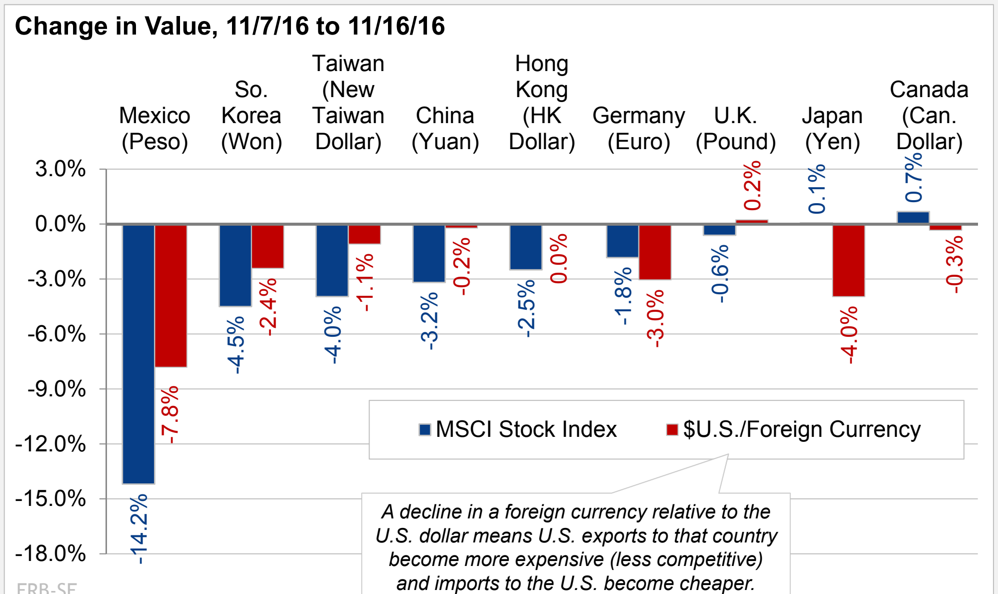


State Export Trends
Based on Trailing 4 Quarters

	2007-16 (3Q Each Year)	1-Year Change 3Q16
AK		-13.93%
AZ		-4.58%
CA		-5.69%
HI		-16.81%
ID		2.57%
NV		10.79%
OR		1.07%
UT		-10.26%
WA		-9.77%
Nation		-6.50%

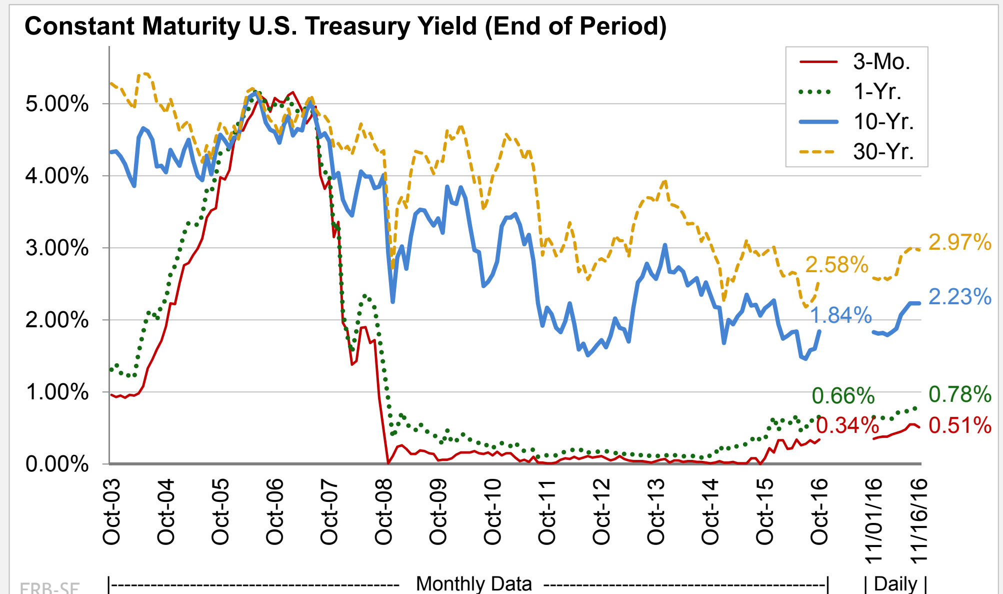
Export data based dollar volumes and origin of movement series; Sources: Federal Reserve (G.5, Nominal Indices) and WISER Trade via Haver Analytics.

Post-Election, Interest Rates and Uncertainty Weighed on Foreign Markets & Currencies; Further Volatility is Expected



Sources: MSCI, xe.com, Federal Reserve Bank of San Francisco.

U.S. Interest Rates Increased in Early November Following Bond Market Sell-Off



Sources: Federal Reserve/Haver Analytics (monthly rates), U.S. Treasury (daily rates).

Section 2
Commercial Bank Performance

Earnings

Provisions and Loan Loss Reserves

Loan Growth and Underwriting

Credit Quality

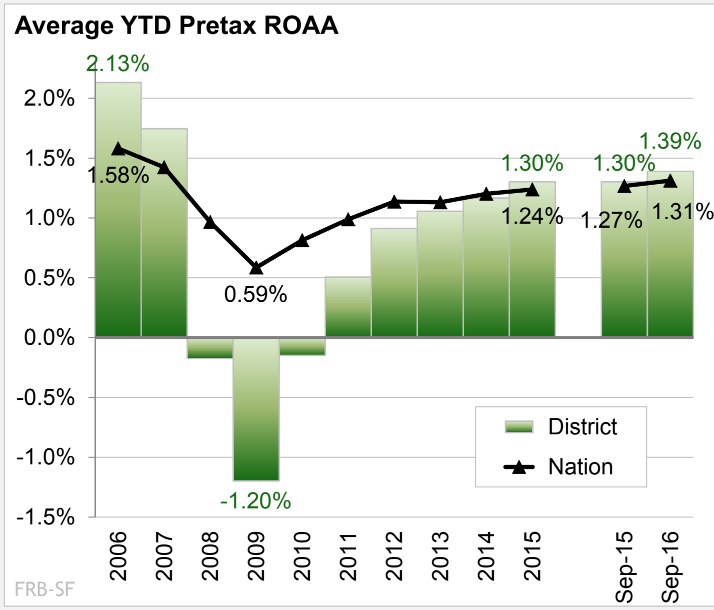
Liquidity and Interest Rate Risk

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.

Also visit our soon-to-be redesigned "Banks at a Glance," Bank Profiles by State:
http://www.frbsf.org/banking/publications/banks-at-a-glance/

Earnings: Stronger Net Interest Income and Lower Overhead Ratios Boosted Year-to-Date Pretax ROAA Versus 2015

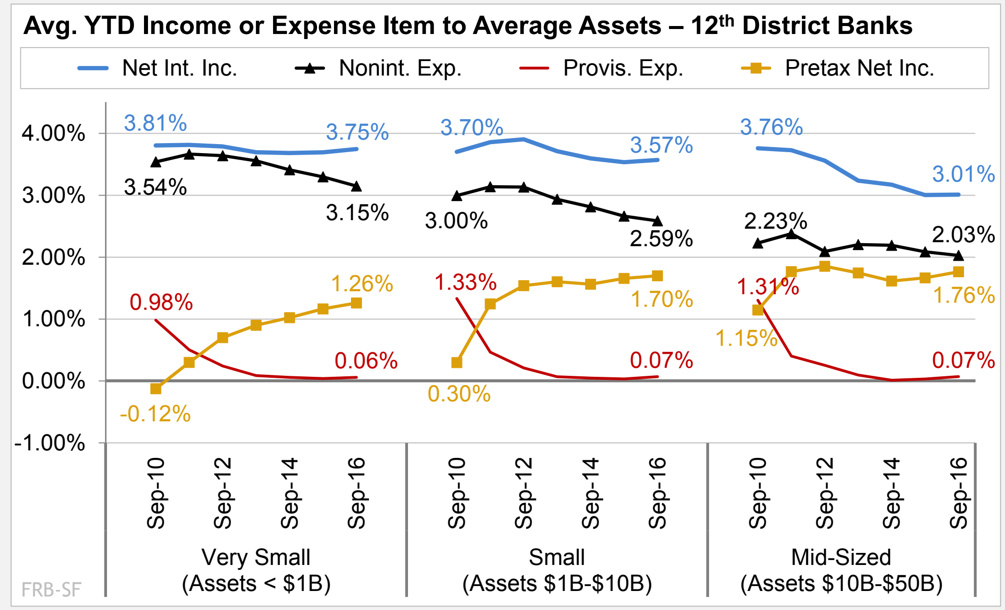


Average YTD % of Average Assets 12th District

Earnings Component	Sep-15	Sep-16
Interest Income	3.92	3.97
Interest Expense	(0.28)	(0.29)
Net Int. Income	3.62	3.66
Nonint. Income	0.63	0.60
Nonint. Expense	(3.12)	(2.96)
Provision Expense	0.04	0.06

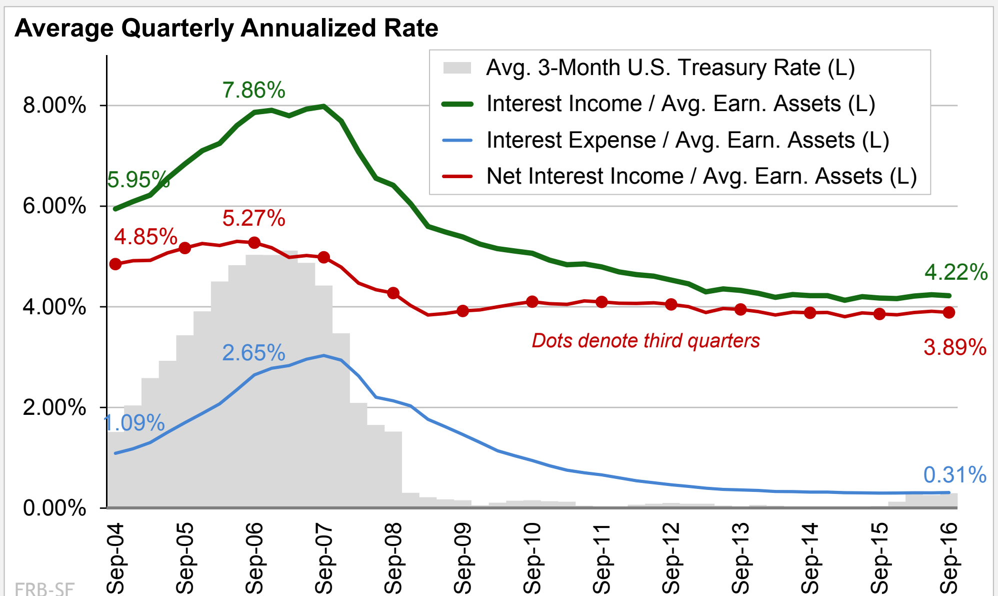
Average = trimmed mean; ROAA = return on average assets (net income / average assets).

Since 2010, Noninterest Expense Ratios Declined at Most Banks, Especially Those With Less Than $10 Billion in Assets



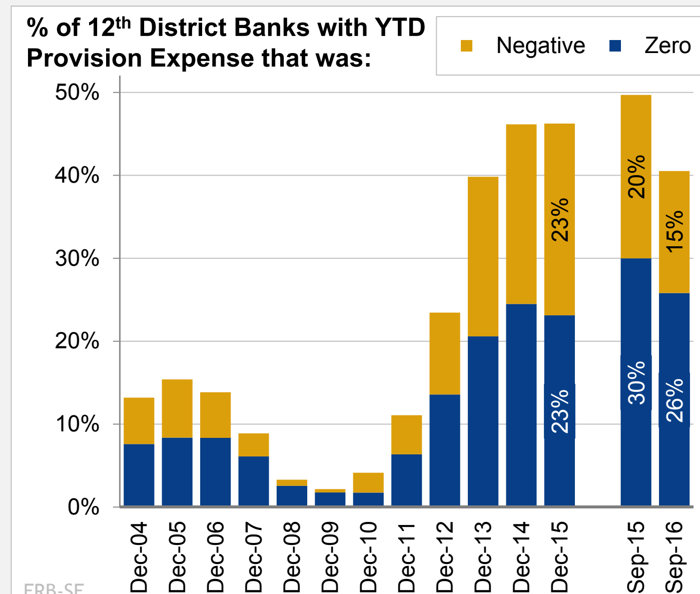
Average = trimmed mean; YTD = year-to-date.

Although Up Year-to-Date, Margins Ticked Down on a Quarterly Basis, Led by a Seasonal Dip in Loan-to-Asset Ratios



Average = trimmed mean (excluding Constant Maturity (CM) U.S. Treasury rate); CM U.S. Treasury Rate from Federal Reserve via Haver Analytics.

Loan Loss Allowances: Fewer Banks Skipped Provision Expenses, Especially "Mid-Sized"

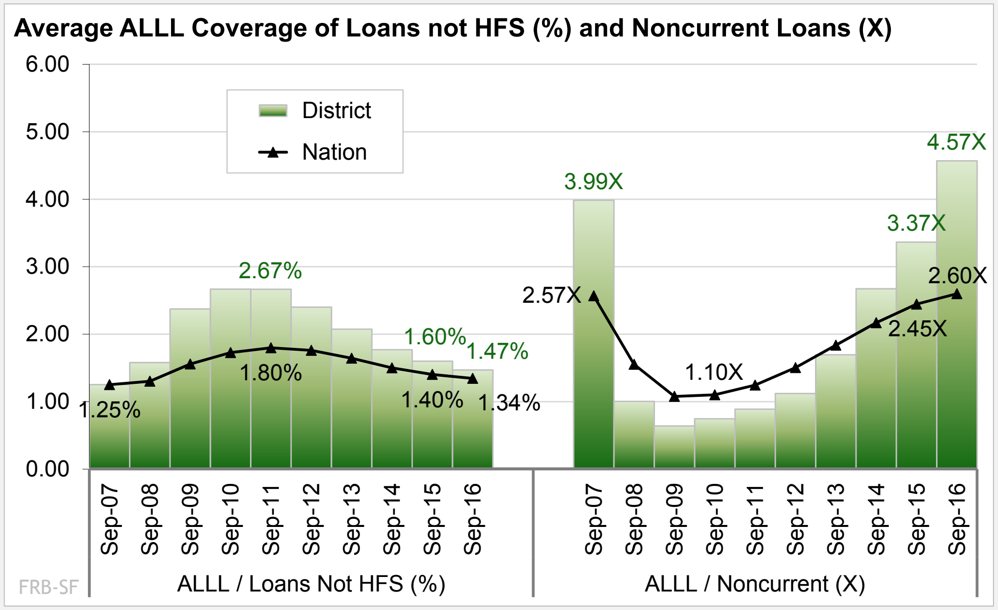


% of Banks with Zero or Negative YTD Provision Expense

Bank Size	Sep-15	Sep-16
District Very Small (<$1B)	53%	43%
District Small ($1B-$10B)	45%	39%
District Mid-Sized ($10B-$50B)	47%	27%
Nation Large (>$50B)	9%	3%

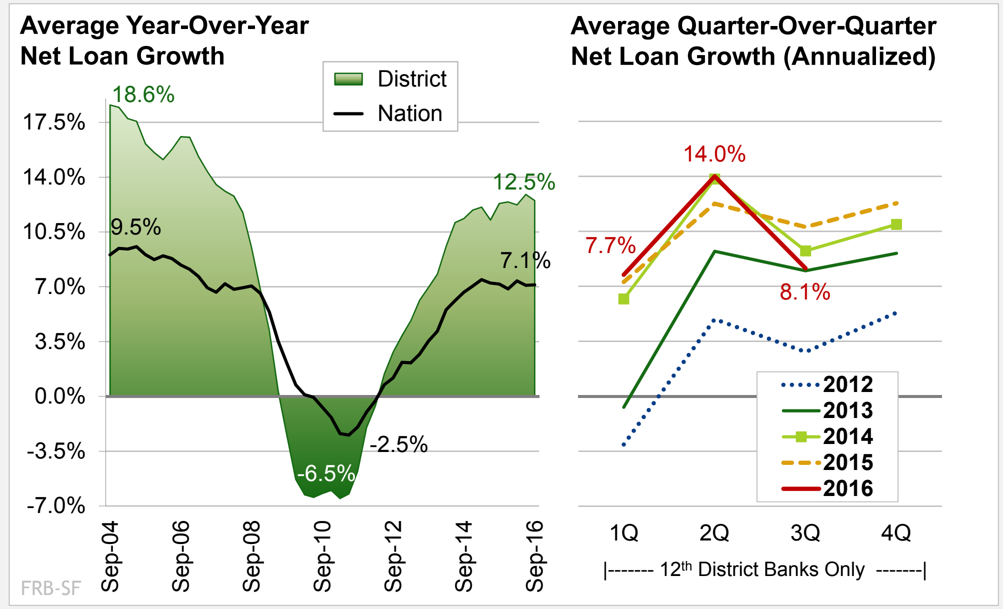
YTD = year-to-date.

Growth in Allowances Continued to Trail Loans but Increased as a Share of Noncurrent Loans



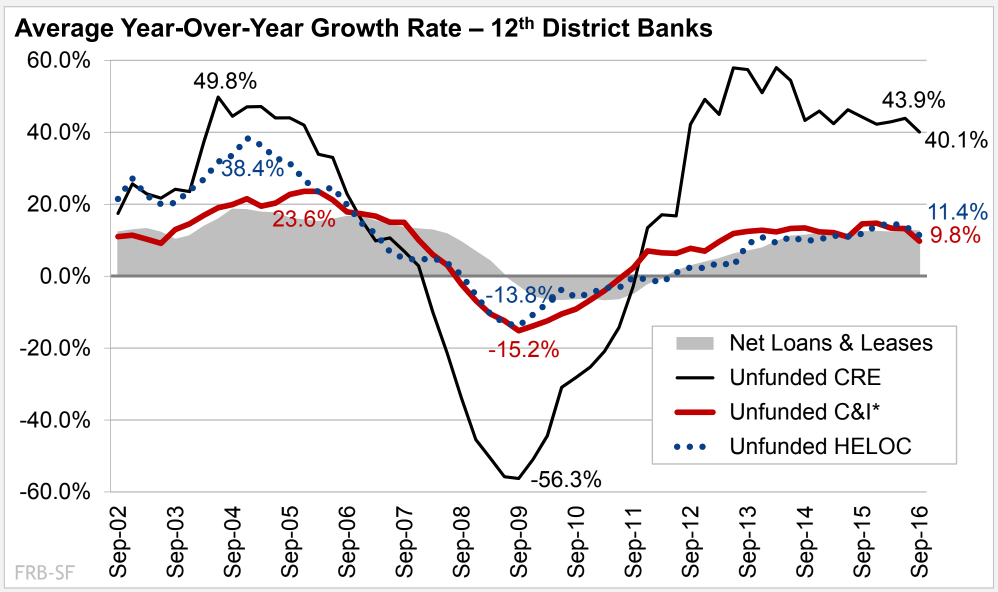
Average = trimmed mean; ALLL = allowance for loan and lease losses; HFS = held for sale; noncurrent = loans past due 90+ days or on nonaccrual status.

Loan Growth: Annual Pace of Increase Was Strong but the Downshift in Quarterly Growth Seemed More Than Seasonal



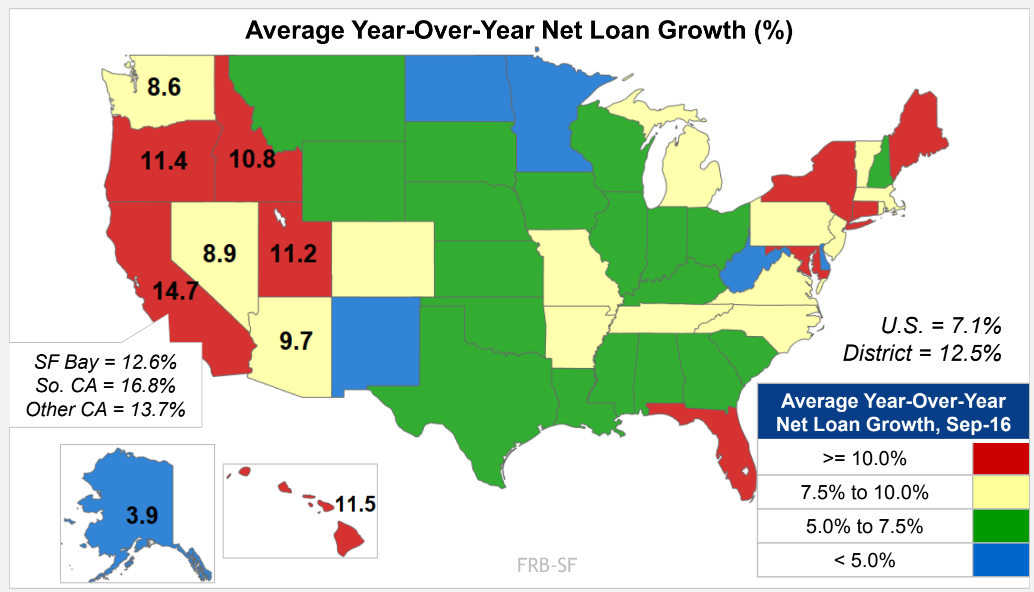
Average = trimmed mean; growth rates are not merger-adjusted.

Does Slower Growth in Unfunded Commitments Portend Weaker Loan Growth Ahead?



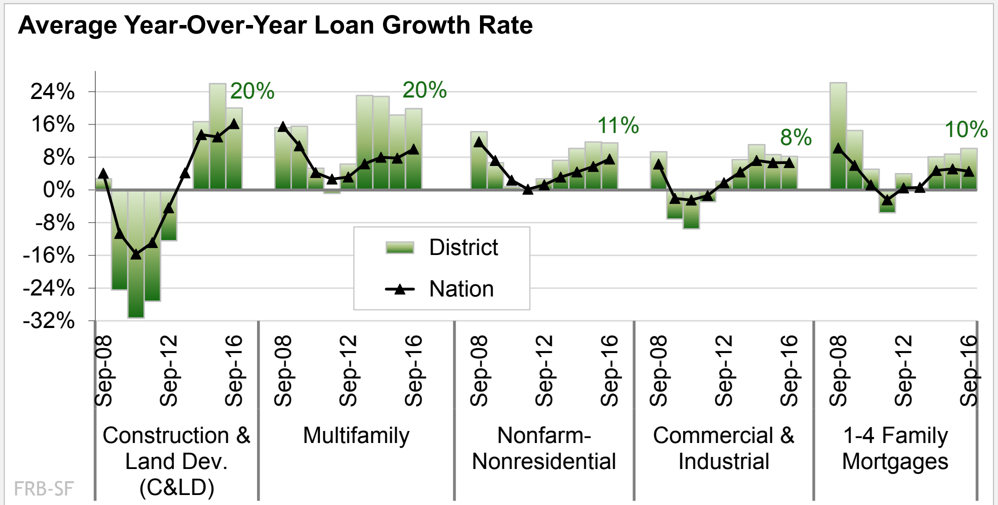
Average = trimmed mean; growth rates are not merger-adjusted; CRE = commercial real estate, including construction; C&I* = commercial and industrial (also includes agricultural and other specialty lines of credit); HELOC = home equity line of credit.

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



Average = trimmed mean; Growth rates are not merger-adjusted; 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.

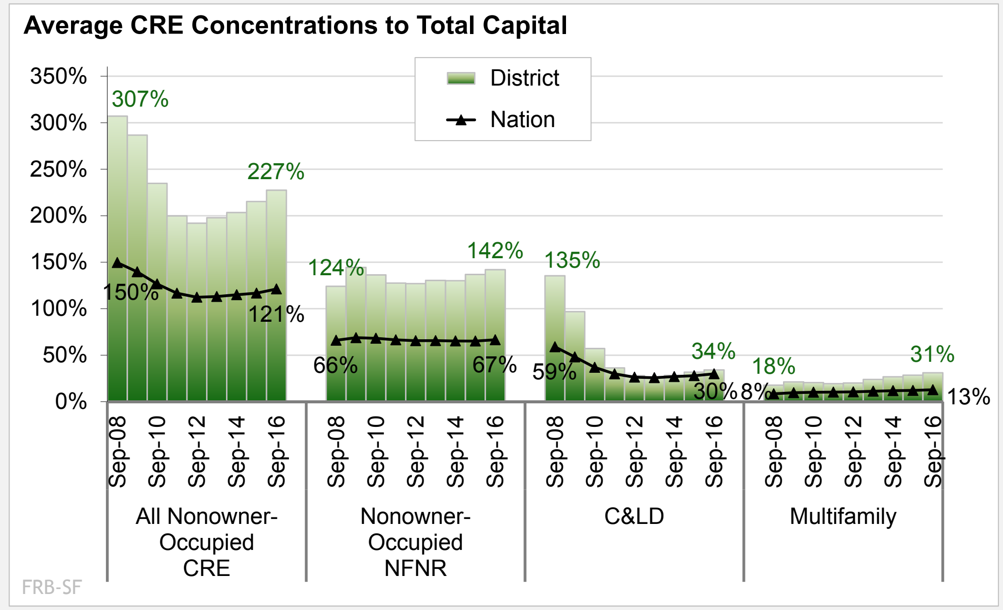
Loan Growth Was Highest in Relatively Small C&LD and Multifamily Portfolios; Larger Categories Also Expanded Briskly



Memo: Average Share of Total Loans, Sep-16	Construction & Land Dev. (C&LD)	Multifamily	Nonfarm-Nonresidential	Commercial & Industrial	1-4 Family Mortgages
District	6%	5%	45%	15%	14%
Nation	5%	2%	24%	13%	25%

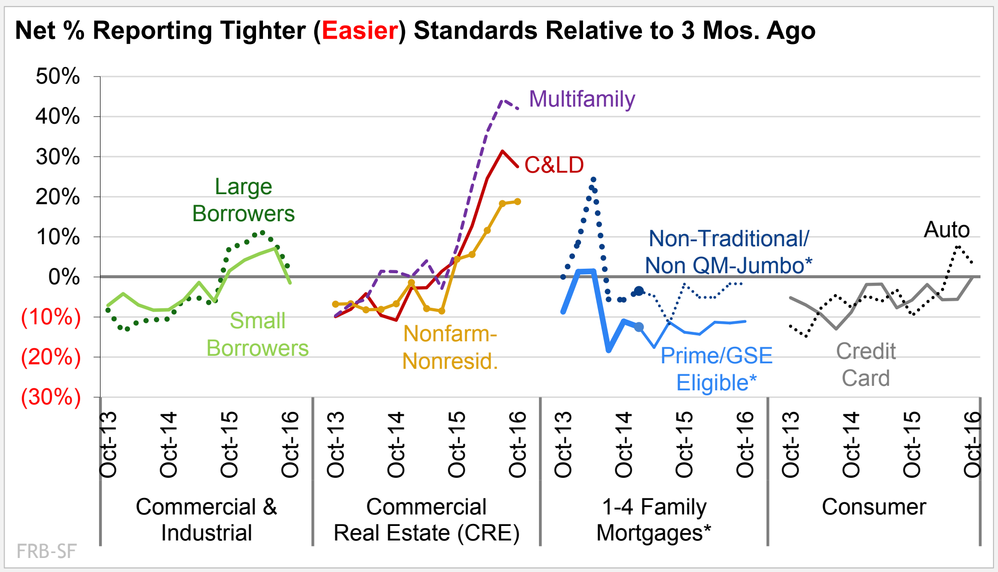
Average = trimmed mean; growth rates are not merger-adjusted.

Because of the Pace and Mix of Loan Growth, Nonowner-Occupied CRE Loan Concentrations Edged Higher



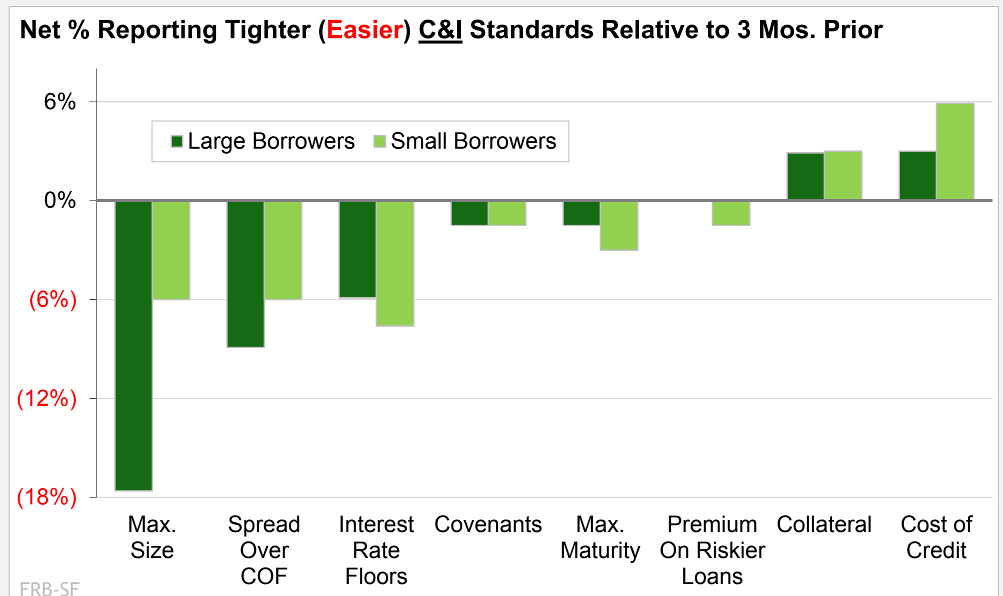
Average = trimmed mean; All Nonowner-Occupied Commercial Real Estate (CRE) = nonowner-occupied nonfarm-nonresidential (NFNR), construction and land development (C&LD), multifamily, and other CRE-purpose loans.

Loan Officers Remained Cautious About CRE Loans but Eased Up Slightly on C&I Loan Terms



Based on a sample of loan officers at 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/).

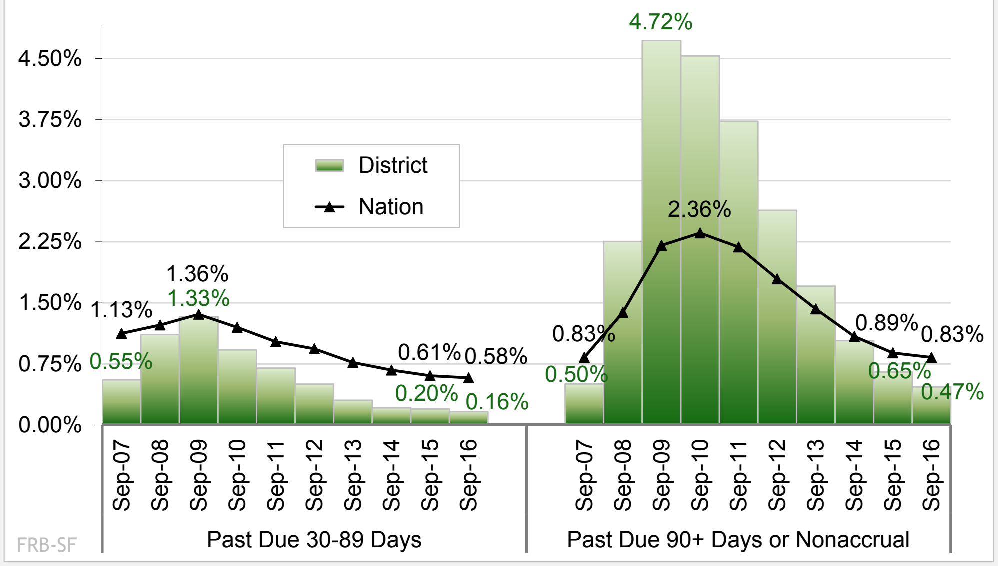
For C&I Credits, Lenders Eased Terms on Size, Spread Over Cost of Funds, and Interest Rate Floors in Particular



Based on a sample of loan officers at domestic banks; COF = cost of funds; Source: Federal Reserve Senior Loan Officer Opinion Survey, October 2016 (http://www.federalreserve.gov/BoardDocs/snloansurvey/).

Credit Quality: Early-Stage Delinquencies Remained Very Low; Noncurrent Loan Ratios Receded to Pre-Crisis Averages

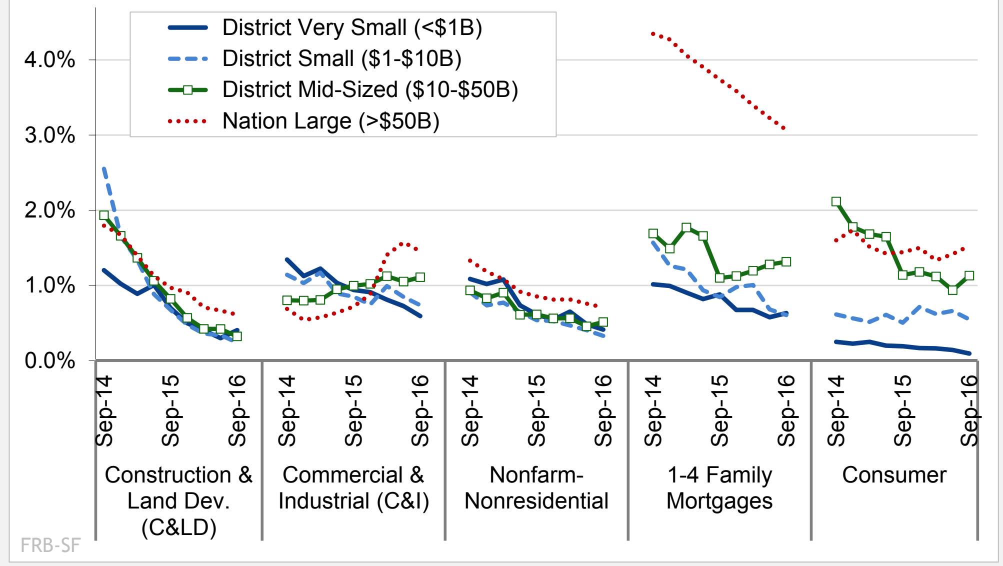
Average Past Due or Noncurrent Loans & Leases / Gross Loans & Leases



Average = trimmed mean; loans past due 30–89 days are delinquent but still accruing interest.

Bucking the Trend: C&I Loan Delinquencies Still Elevated at "Large" Banks; Mortgage Past-Dues Drifted Up at "Mid-Sized"

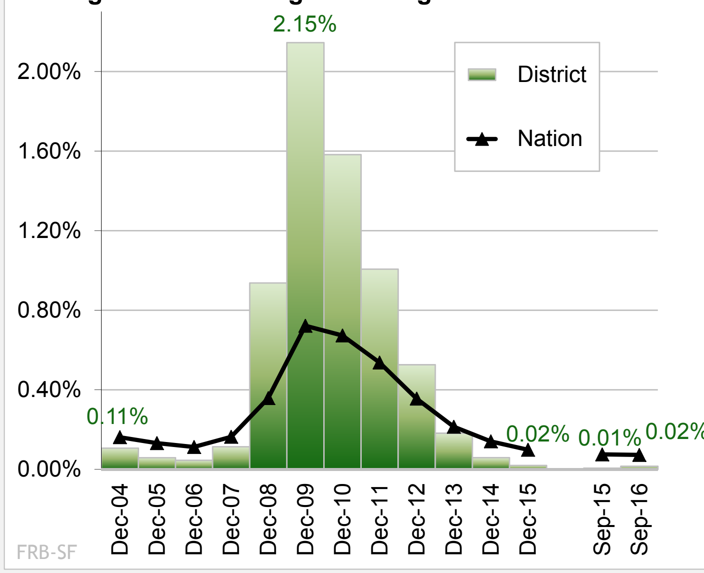
Average % Past Due by Loan Type and Bank Size



Average = trimmed mean; past due = loans 30+ days past due or on nonaccrual status.

Although Very Low, Average Year-to-Date Net Loan Losses Ticked Up at District Banks

Average YTD Net Chargeoffs / Avg. Loans and Leases



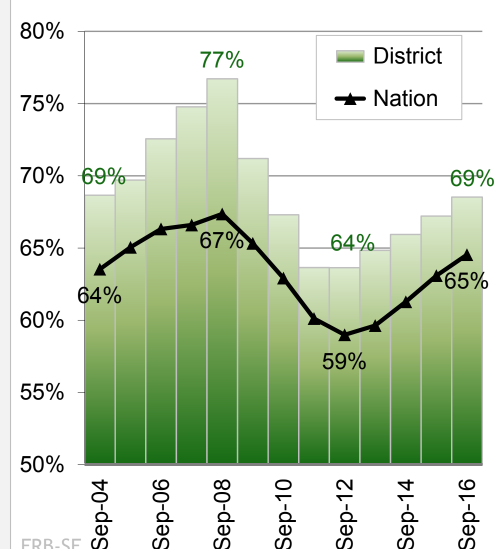
Average YTD Net Chargeoffs (Recoveries) / Average Loans (%)

Bank Size	Sep-15	Sep-16
District Very Small (<$1B)	0.01%	0.01%
District Small ($1B-$10B)	-0.02%	0.01%
District Mid-Sized ($10B-$50B)	0.08%	0.07%
Nation Large (>$50B)	0.25%	0.29%

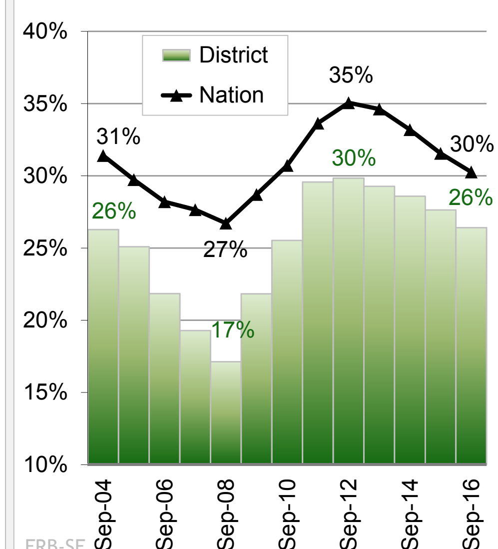
Average = trimmed mean; YTD = year-to-date.

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

Net Loans and Leases / Assets*



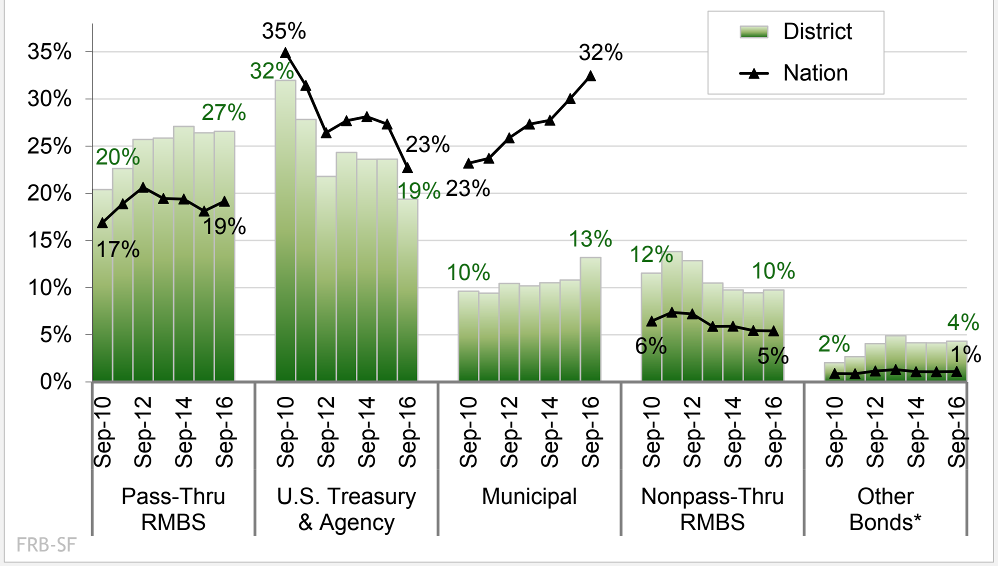
Securities & Liquid Invest. / Assets*



All data are averages (trimmed means); liquid investments = cash, due from balances, and Federal funds sold & securities purchased under agreements to resell.

Meanwhile, RMBS, Munis, and Corporate Debt Represented an Increasing Proportion of Investment Portfolios

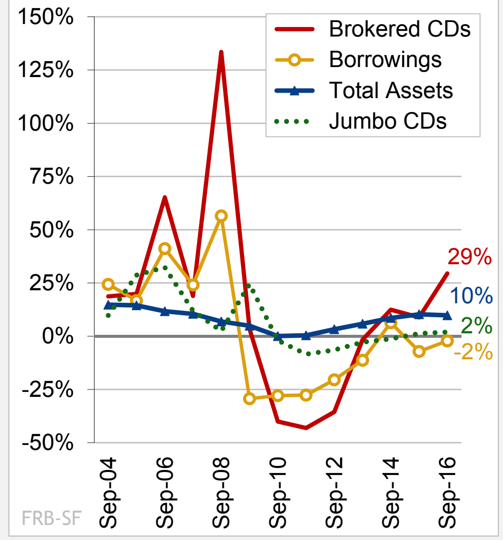
Average Mix of Securities (% of Total Securities)



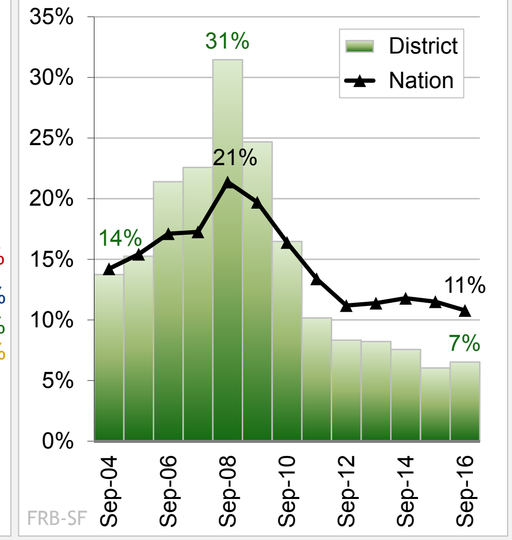
Average = trimmed mean; RMBS = residential mortgage-backed securities; *Other Bonds excludes asset-backed securities and commercial mortgage-backed securities.

Continued Growth in Brokered Deposits Nudged Up District Net Noncore Funds Dependence

Avg. 1-Year Growth Rate – 12th Dist.



Avg. Net Noncore Funds Dependence

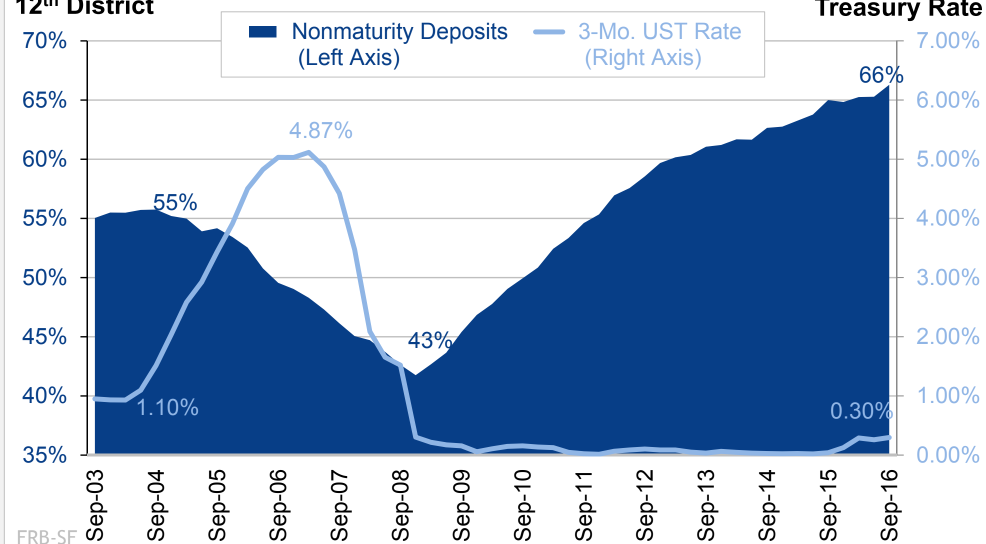


Average = trimmed mean; Net noncore funds dependence = sum of borrowings (Fed funds purchased, repurchase agreements, and other borrowed money), foreign and brokered deposits, and jumbo CDs (defined here as > $100K), less short-term investments, divided by long-term assets.

Reliance on Nonmaturity Deposits Remained Elevated but May Shift With Interest Rates

Avg. Nonmaturity Deposits / Total Assets – 12th District

Qtly. Avg. 3-Month U.S. CM Treasury Rate

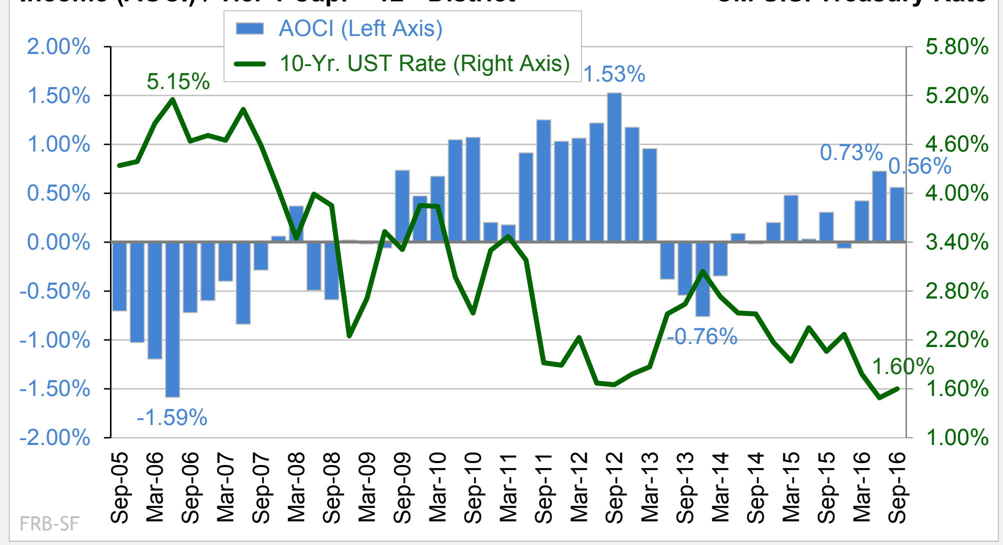


Average = trimmed mean (excluding Constant Maturity (CM) U.S. Treasury Rate); Nonmaturity Deposits = demand, money market, and savings accounts; average CM U.S. Treasury Rate from Federal Reserve via Haver Analytics.

Rising Long-Term Interest Rates Reduced Gains in Bond Portfolios; Further Rate Increases Likely to Weigh on Values

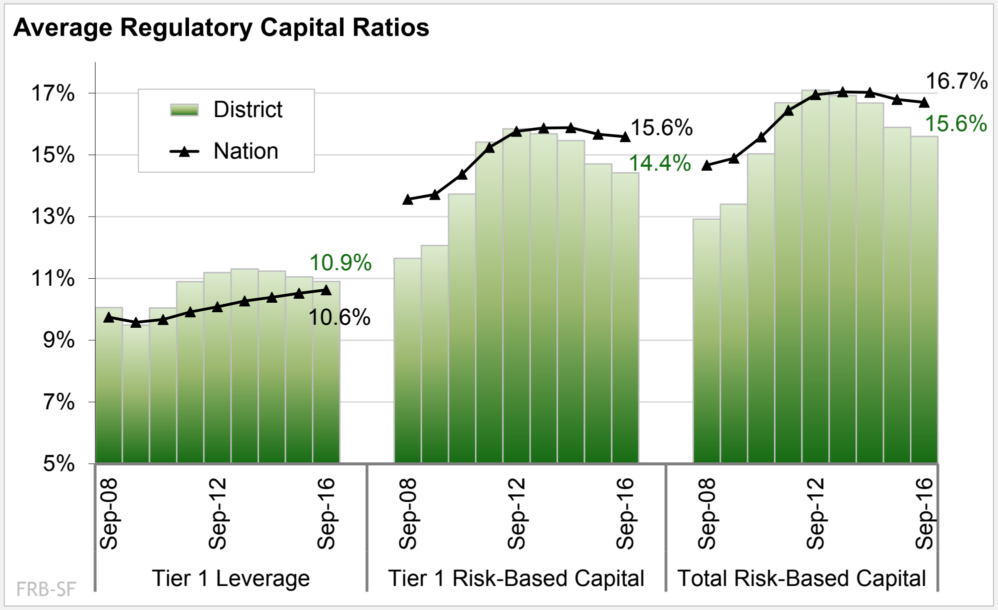
Average Accumulated Other Comprehensive Income (AOCI) / Tier 1 Cap. – 12th District

End-of-Period 10-Year CM U.S. Treasury Rate



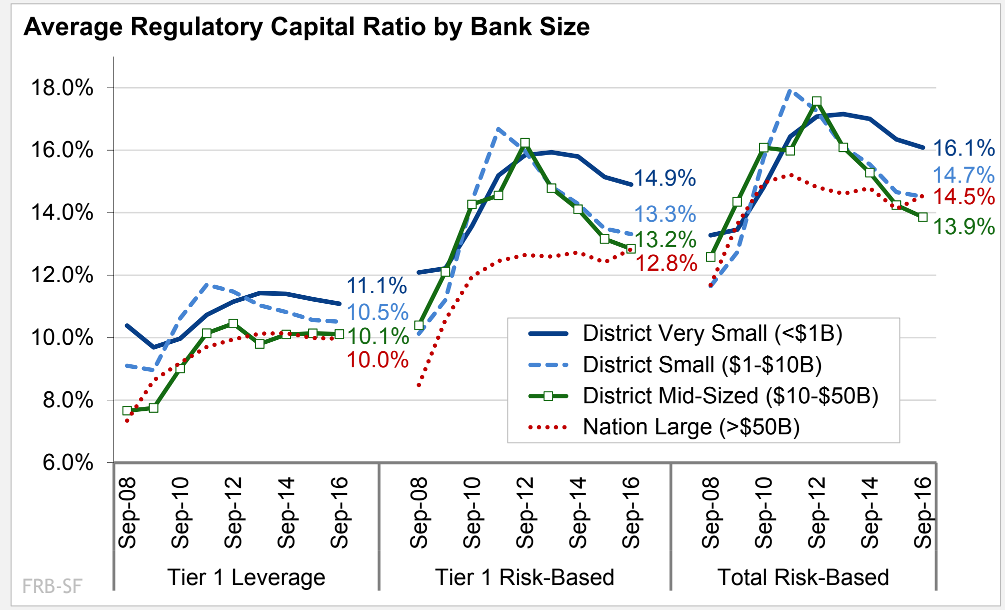
Average = trimmed mean; accumulated other comprehensive income includes net unrealized gains/losses on available-for-sale securities; Constant Maturity (CM) U.S. Treasury Rate from Federal Reserve/Haver Analytics.

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



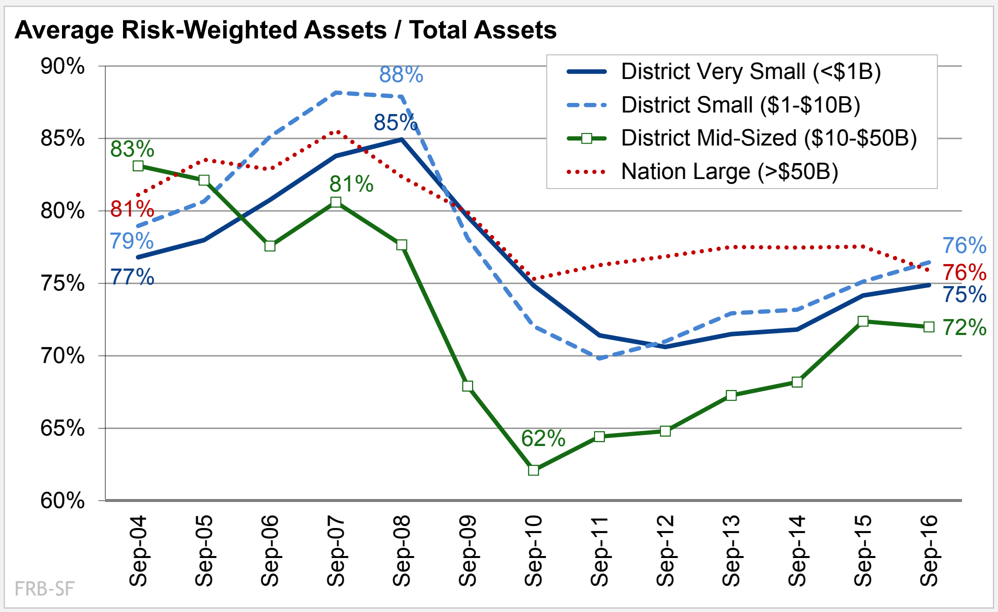
Average = trimmed mean; new risk-based capital reporting became effective March 2014 for advanced approach adopters and March 2015 for others.

Since Peaking in 2012, Risk-Based Capital Ratios Have Moderated, Especially Among "Small" and "Mid-Sized" Banks



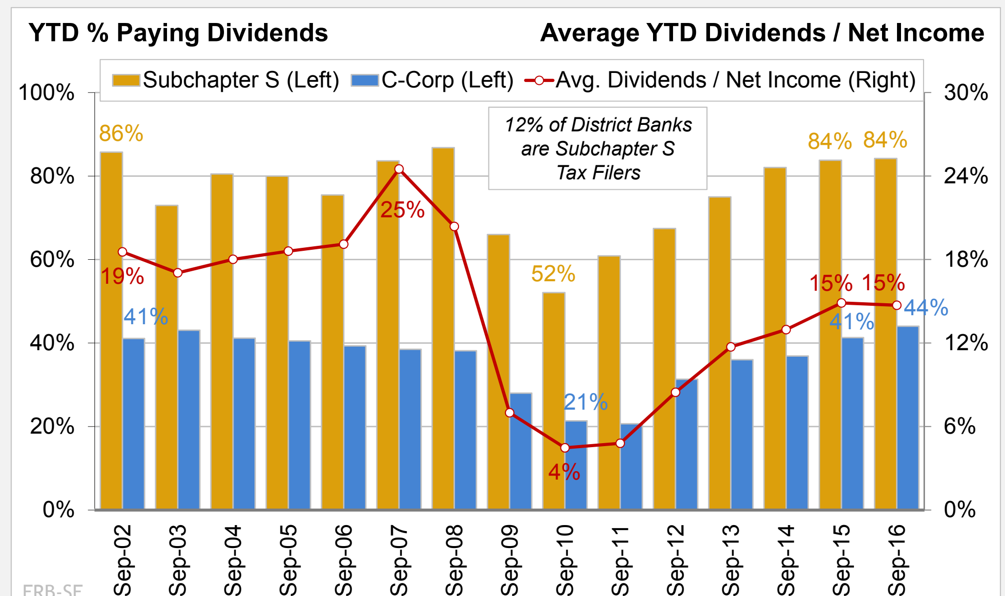
Average = trimmed mean; new risk-based capital reporting became effective March 2014 for advanced approach adopters and March 2015 for others.

Varying Risk-Based Capital Trends Were Driven in Part by Swings in Asset Mix (and Thus Risk-Weighted Assets)



Average = trimmed mean; Risk-Weighted Assets are weighted according to regulatory risk-based capital rules in effect as of the report filing date (weights generally reflect perceived credit risk).

Year-to-Date, District Banks Were Generally as Likely to Pay Out Dividends in 2016 as in 2015



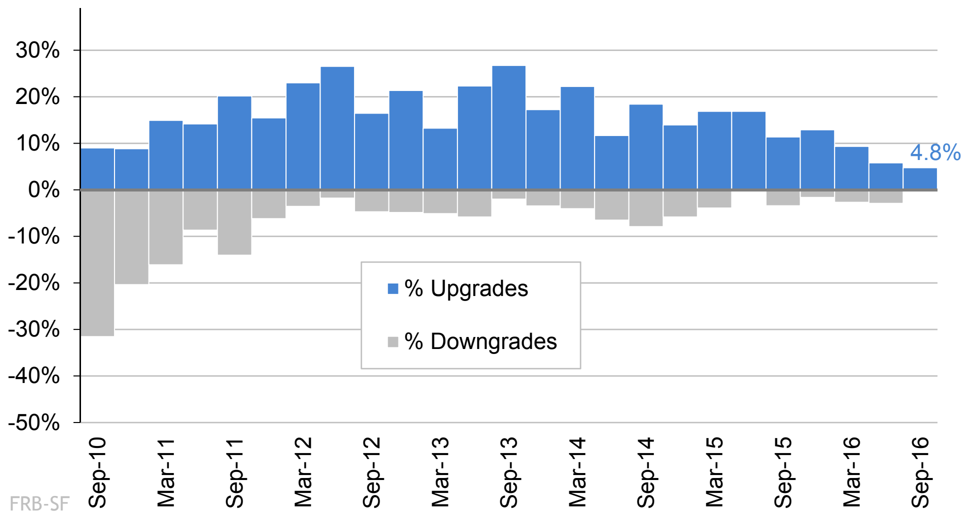
Average = trimmed mean; YTD = year-to-date; Subchapter S banks pay taxes as the shareholder rather than corporate level and typically distribute dividends to cover tax obligations.

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: A Small Fraction of District Banks Continued to be Upgraded

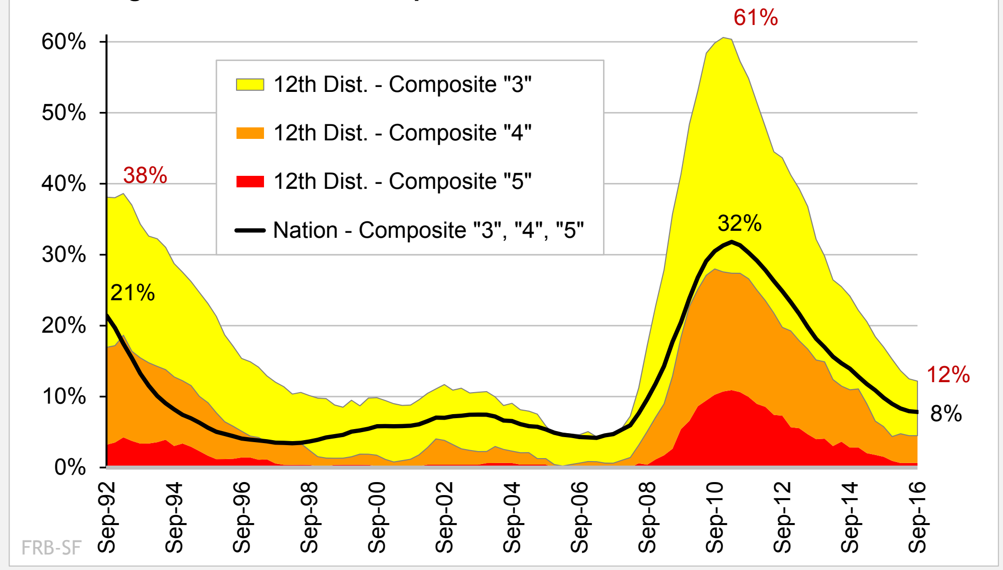
Percentage of 12th District Exams that Resulted in CAMELS Composite Rating Upgrade or Downgrade *(downgrades shown as negative percentages)*



Includes any change in composite CAMELS rating for commercial banks; quarterly data based on examination completion dates (mail dates); preliminary third quarter 2016 data updated through 11/15/16.

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

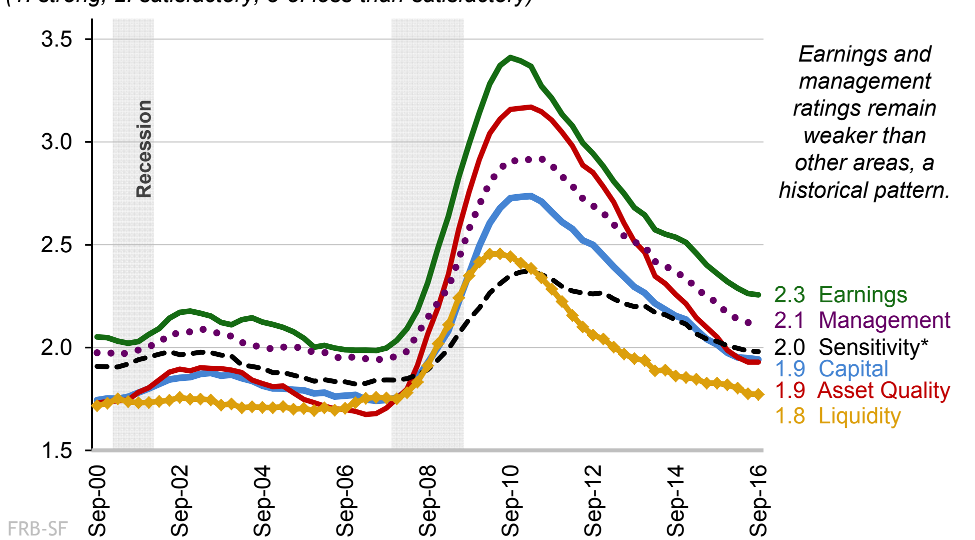
Percentage of Banks Rated Composite 3, 4, or 5



Trends for all commercial banks based on examination completion dates (mail dates); preliminary third quarter 2016 data updated through 11/15/16.

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

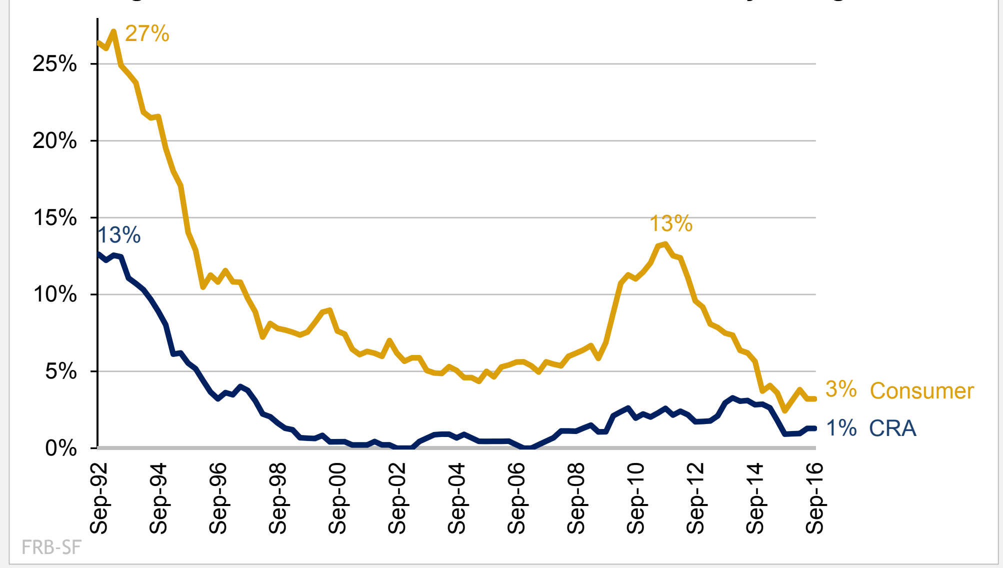
Average CAMELS Component Ratings for 12th District Banks
(1: strong; 2: satisfactory; 3-5: less-than-satisfactory)



Trends for all commercial banks based on examination completion dates (mail dates); preliminary third quarter 2016 data updated through 11/15/16; *Sensitivity to Market Risk; Sources: Federal Reserve, NBER

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 third quarter 2016 data updated through 11/15/16.

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)	
	Sep-15	*Sep-16*	*Sep-15*	*Sep-16*	*Sep-15*	*Sep-16*
AK	4 (0)	4 (0)	-	-	1 (0)	1 (0)
AZ	18 (0)	16 (0)	-	-	1 (0)	1 (0)
CA	183 (0)	168 (0)	3 (0)	3 (0)	12 (0)	11 (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)	21 (0)	-	-	3 (0)	3 (0)
UT	30 (0)	30 (0)	16 (0)	15 (0)	4 (0)	2 (0)
WA	44 (0)	40 (0)	-	-	12 (0)	10 (0)
12L	329 (0)	306 (0)	24 (0)	23 (0)	39 (0)	34 (0)
US	5,381 (7)	5,141 (2)	26 (0)	25 (0)	860 (1)	810 (1)

Based on preliminary 9/30/16 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).

Banking Statistics: Unless otherwise noted, all data are for commercial banks based upon headquarters location. Data excludes "De Novo" banks (banks less than five years old). Averages are calculated on a "trimmed" basis by removing the highest 10% and lowest 10% of ratio values prior to averaging to prevent distortion from outliers. Earnings figures are presented on an annualized, year-to-date or quarterly basis, as noted. Growth rates are not adjusted for mergers. The latest quarter of data is considered preliminary.

Groups by Asset Size: "Very Small", "Small", and "Mid-Sized" bank groups are based on total assets ranges of <$1B, $1B-$10B, and $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.