FEDERAL RESERVE BANK OF SAN FRANCISCO

First Glance 12L (4Q16)

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

Signs of a Maturing Economic and Banking Cycle Continued

February 23, 2017

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This report is based upon preliminary data from 4Q16 and prior Condition & Income Reports as well as other examination and economic sources. Data has been prepared primarily for bank supervisors and bankers. The opinions expressed in this publication are those of the authors. Opinions are intended only for informational purposes, and are not formal opinions of, nor binding on, the Federal Reserve Bank of San Francisco or the Board of Governors of the Federal Reserve System.

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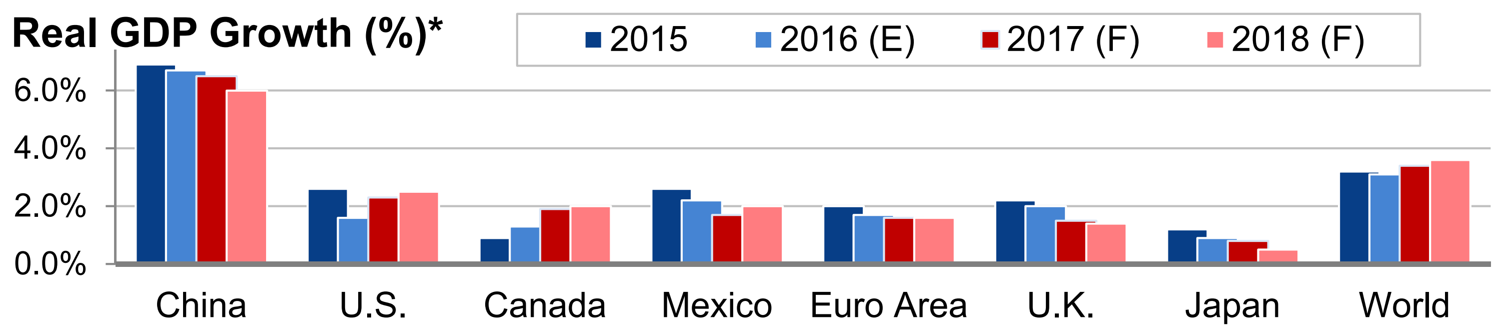
12th District Overview
"Signs of a Maturing Economic and Banking Cycle Continued"

The District's economy ended 2016 on a strong but slower note. Based upon preliminary estimates, aggregate annual 12th District job growth of 2.4% moderated further but continued to outpace a national growth rate of 1.6%. Job gains in Oregon led all states in the nation and the District remained home to several other fast-growing states. Still, employment growth in Idaho and Arizona downshifted notably and job gains remained elusive in energy-exposed Alaska (see table at right).

Homebuilding expanded and real estate prices appreciated. Single-family housing starts in the West increased 10% during the year but remained below the historical average. The supply of for-sale existing homes remained limited, lifting home prices and intensifying affordability strains in several areas. Multifamily starts, which had moderated in the first three quarters, rebounded in the fourth. Commercial real estate (CRE) price gains persisted, adding to an extended period of price appreciation. CRE finance conditions were mixed. In 2016, the commercial mortgage-backed security (CMBS) market reported moderating issuance volumes in advance of new risk retention rules and rising defaults driven by maturities among pre-crisis mortgages. Banks gained market share as a result, but not without some risk. CRE investor sentiment appears to be cooling and third-party forecasters expect CRE vacancies and rent growth in some markets and property types to come under pressure. Also, rising interest rates could raise debt service burdens among variable-rate borrowers and, possibly, capitalization rates.

Evolving policies at home and abroad could affect the District's economy. Future trade prospects and capital flows will depend in part on interest rate trends and trade policies, which remain in flux. Although the IMF expects economic growth to accelerate globally, the trend may be uneven geographically (see chart below). Recent stricter enforcement of capital controls in China could slow cross-border capital flows, which helped fuel CRE and housing demand in recent years. Meanwhile, potential changes to U.S. policy regarding immigration and federal funding could affect several 12th District markets.



*International Monetary Fund (IMF) World Economic Outlook Update, January 2017

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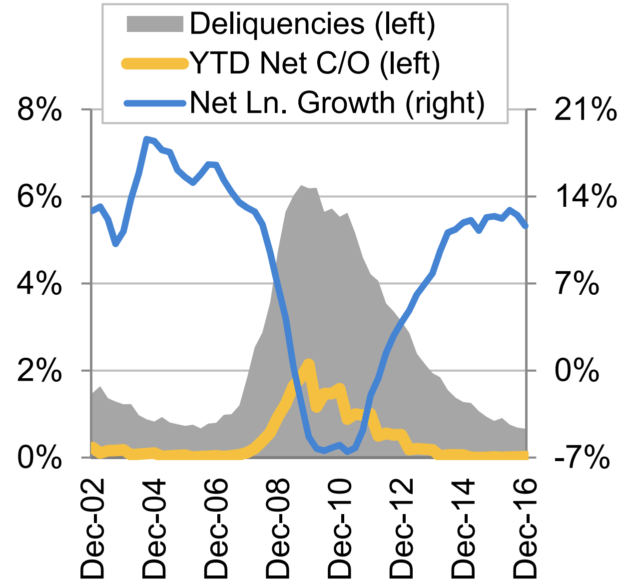
Year-Over-Year Change in Nonfarm Jobs (%)**
(Based on 3-Month Moving Average, Seasonally Adj.)

	12-Month Trend	Dec-16
OR		3.20%
WA		3.18%
UT		2.92%
NV		2.66%
ID		2.27%
CA		2.26%
HI		2.22%
AZ		1.45%
AK		-1.22%
Nation		1.63%

**Bureau of Labor Statistics / Haver

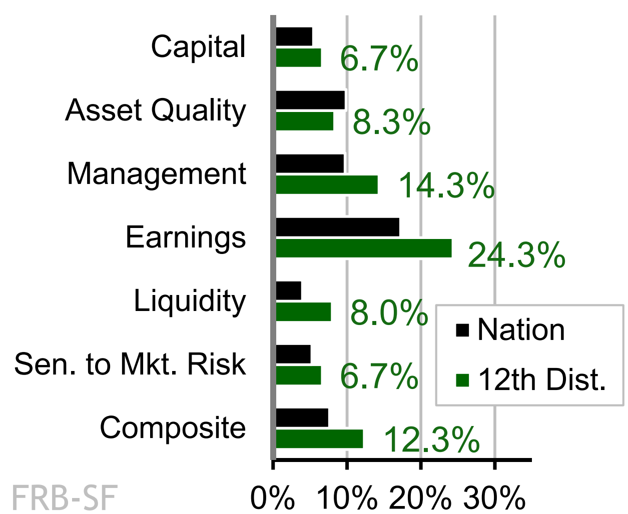
12th District Overview, Continued

Avg. District Credit Metrics*



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

% of Banks with Component or Composite Rating 3, 4, 5



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Loan growth continued at a strong but slower pace, reflecting employment trends. The District's average annual net loan growth rate of 11.6% was nearly two times a national average of 6.4% but edged down further from a post-crisis peak of 12.9% in 2Q16 (see chart at left). CRE loans contributed significantly to growth, leading to higher CRE loan concentrations. Overall loan delinquencies declined further, reaching lows not seen since mid-2006. Meanwhile, the District's average 2016 net chargeoff ratio was minimal, but slightly above 2015 levels.

The January 2017 Senior Loan Officer Survey suggested continued tightening of underwriting in some loan categories and that CRE loan standards may tighten further in 2017 (especially multifamily). In contrast, examiner surveys suggested standards loosened through at least mid-2016. Regulators remain concerned about potential lender over-reliance on CRE collateral values to mitigate risks posed by concessions on pricing, structure, and/or recourse. Rapid, post-crisis CRE price appreciation has been due partly to improved rents and vacancies but also to sustained low interest and capitalization rates, which can shift more rapidly. Some lenders and examiners indicated that CRE credit risks may increase in 2017.

Earnings improved at most District banks. The average 2016 return on average assets ratio (adjusted for Subchapter S tax filers) was 0.93%, up 5 bps from 2015 and compared favorably to the national average. Stronger net interest income and lower noninterest expense ratios led the overall improvement in earnings. The decline in average overhead ratio continued an earlier trend, reflecting ongoing improvements in banking conditions and growth/consolidation-related economies of scale. Still, banking regulators have lingering concerns that banks may forego needed operational controls as they cope with margin-related earnings pressures. Full-year provision expense ratios ticked up, but growth in allowances for loan and lease losses (ALLL) continued to significantly trail increases in loans. As a result, the average ratio of ALLL-to-loans not held for sale ended 2016 at 1.45%, the lowest year-end average since 2007.

On-balance sheet liquidity and capital ratios moderated further. Year-over-year, the share of assets held in loans increased while the proportion invested in liquid instruments and securities retreated. The continued shift caused risk-weighted asset growth to outpace equity formation, reducing risk-based capital ratios. Reliance on noncore funding remained well below pre-crisis peaks; although brokered deposit funding became more common at year-end 2016.

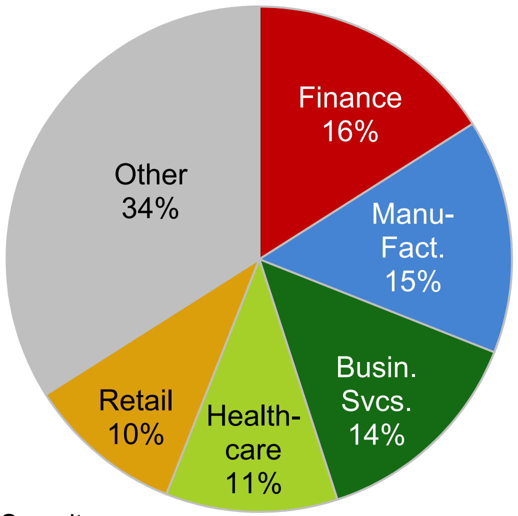
Examination ratings were relatively steady. Roughly 88% of District banks were rated satisfactory or strong for safety and soundness, with Earnings and Management component ratings still trailing other areas (see chart at left). In addition, more than 95% were rated satisfactory or better for consumer and/or Community Reinvestment Act compliance.

<u>Hot Topics</u>: 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. According to NTT Security's *Quarterly Threat Intelligence Report*, finance was the most targeted sector for cyber attacks (see chart at right). For institutions outsourcing core 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 role in the global economy and the array and strategic focus of institutions we supervise. BSA/AML risks have increased recently with California and Nevada's legalization of cannabis. Seven District states now allow recreational or medicinal use (see map at right). 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 weak program oversight 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 in several District states. Economic expansion played a role, as did commercial property price appreciation. However, some growth may have come by virtue of loosened underwriting. Recent credit performance has been good, but 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*. Following the financial crisis, banks increased their holdings of longer-term assets, driven by low short-term interest rates and a relatively steep yield curve. This trend moderated somewhat in the past year. 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.

4Q16 Cyber Attacks by Sector



NTT Security, *Quarterly Threat Intelligence Report*, 4Q16

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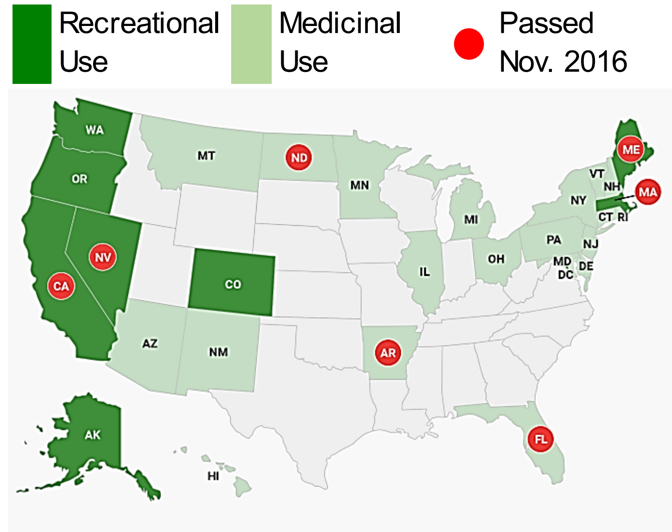
States Where Cannabis is Legal



Politico; Reuters via *Business Insider*

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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 averages were at or above the U.S. average across District states (see table at right). Loan concentration levels and trends, combined with potential competitive easing of underwriting standards and elevated property prices, increase regulatory concern. A rising interest rate environment could negatively impact debt service coverage ratios on variable-rate commercial mortgages and pressure commercial property price appreciation. 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**	Dec-16
AK	394%	275.7%
AZ	554%	370.8%
CA	451%	374.3%
HI	212%	199.9%
ID	358%	271.5%
NV	610%	416.0%
OR	483%	386.3%
UT	411%	232.9%
WA	517%	356.2%
Nation	236%	199.1%

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

Section 1 - Economic Conditions

Job Growth

Housing Market Metrics

Commercial Real Estate Market Conditions

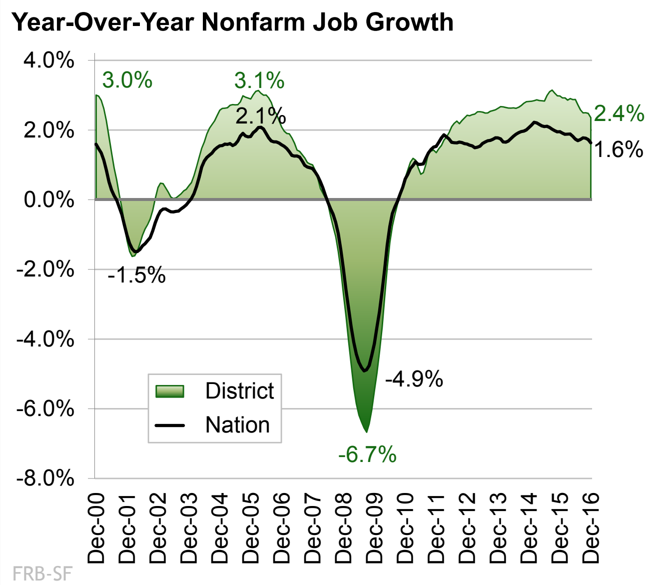
International Trade and Capital Flows

Immigration

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



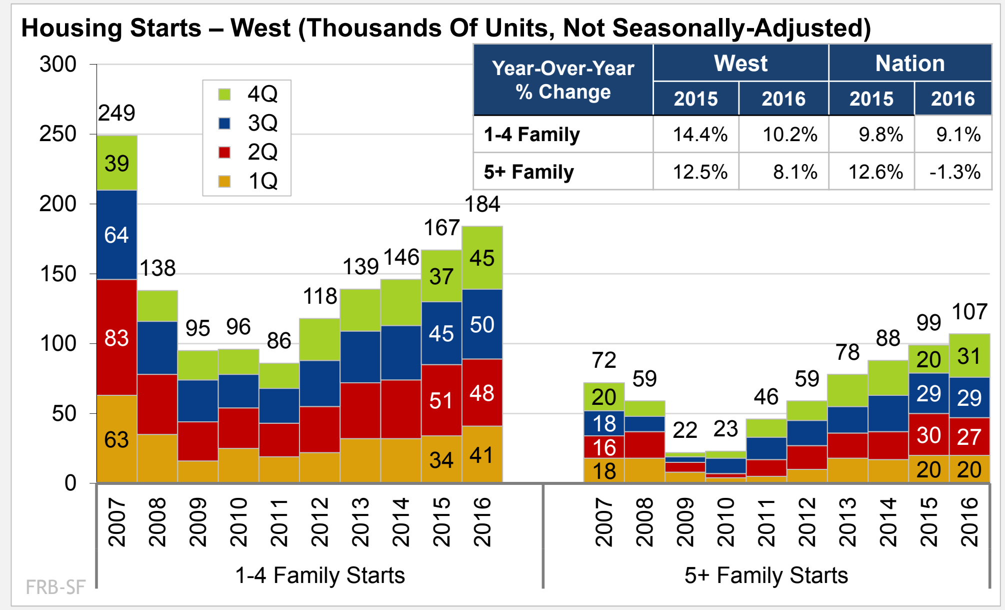
Job Growth by Sector 12th District

Job Sector	1-Yr % Change 4Q 2016
Construction	5.49%
Educ. & Health Svcs.	3.55%
Transport. & Utilities	3.29%
Information	3.06%
Leisure & Hospitality	2.89%
Financial Activities	2.48%
Prof. & Business Svcs.	2.35%
Government	2.07%
Retail Trade	1.66%
Wholesale Trade	1.59%
Other Private	0.60%
Manufacturing	-0.62%
Total	**2.36%**

Note: Construction sector includes mining in HI; Information sector excludes HI and NV.

Based on average nonfarm payroll levels over trailing three months; data are preliminary estimates subject to revision and annual re-benchmarking adjustments. Source: Bureau of Labor Statistics via Haver Analytics.

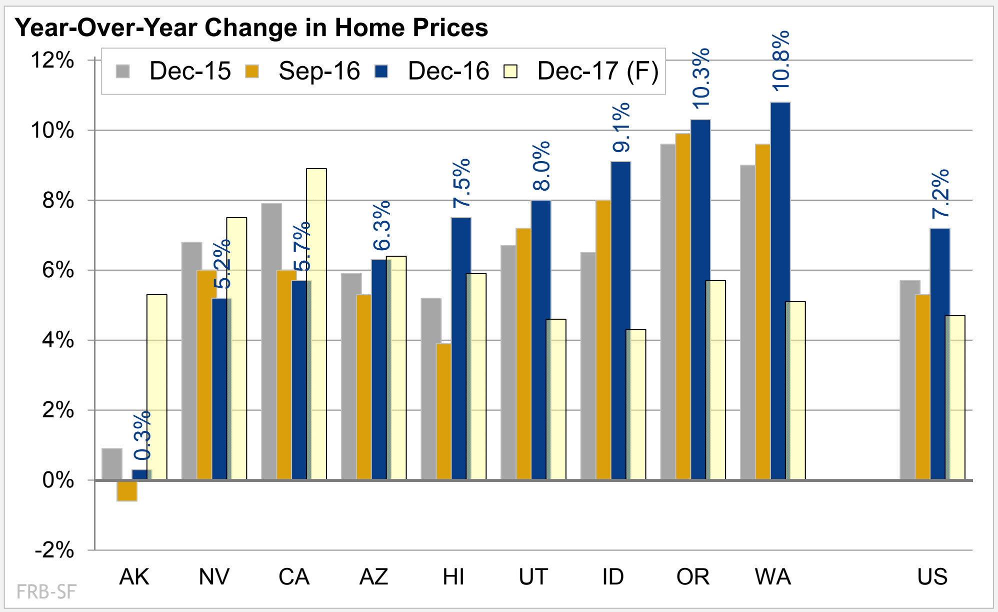
Regional 1-4 Family Starts Marched Higher; Multifamily Starts Rebounded in Late 2016



Year-Over-Year % Change	West 2015	West 2016	Nation 2015	Nation 2016
1-4 Family	14.4%	10.2%	9.8%	9.1%
5+ Family	12.5%	8.1%	12.6%	-1.3%

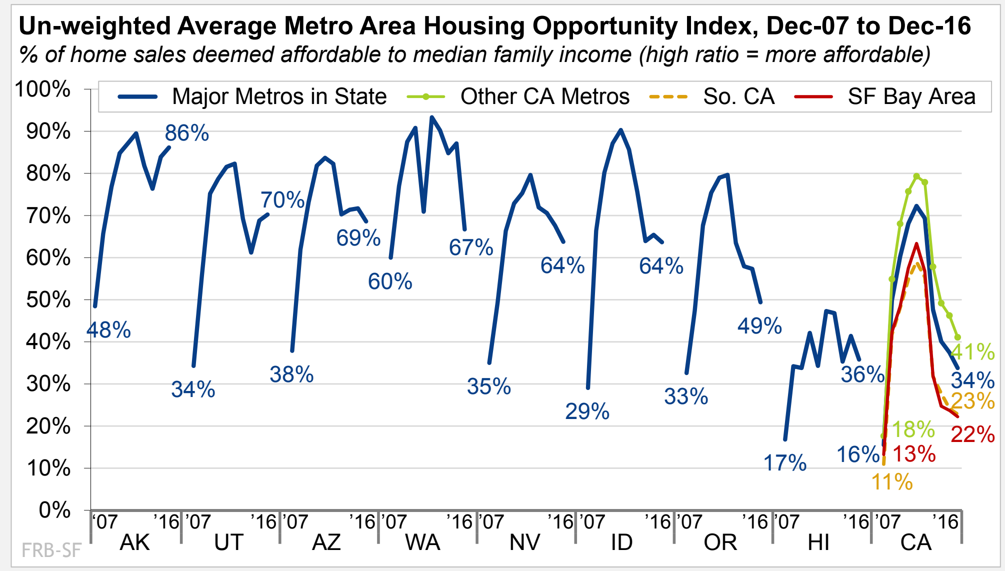
West = 12th District plus CO, MT, NM, and WY. Source: Census Bureau via Haver Analytics.

Core Logic Expects the Pace of Home Price Appreciation in Several District States to Slow in the Coming Year



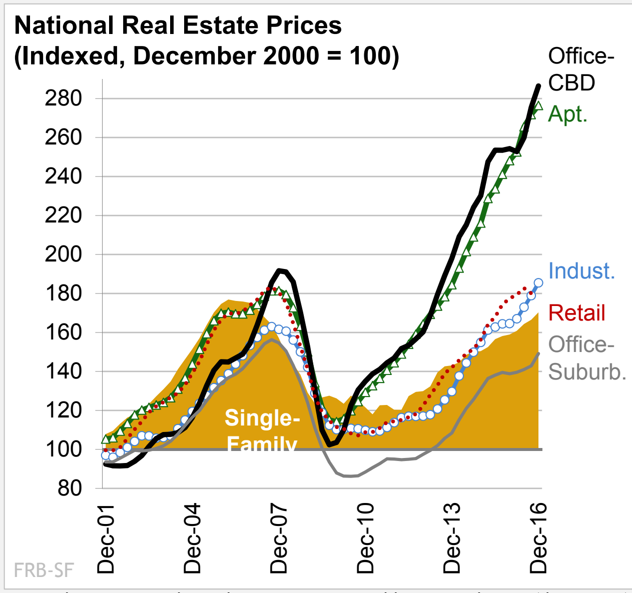
Source: Core Logic Home Price Index (includes all detached and attached homes).

Affordability Deteriorated in Many States; Higher Interest Rates Could Pressure Affordability Further



Assumes median income, 10% down payment, ratio of income-to-housing costs (principal, interest, taxes, and hazard insurance) of 28%, and a fixed-rate, 30-year mortgage; So. CA = Los Angeles, Orange, Riverside-San Bernard., San Diego, and Ventura metros; SF Bay Area = San Francisco, Oakland, San Jose, Napa, Vallejo, and Santa Cruz metros. Sources: National Association of Homebuilders/Wells Fargo, Federal Reserve Bank of San Francisco.

Nationally, Prices for Most Commercial Property Sectors Continued to Appreciate Rapidly, Outpacing Home Price Gains

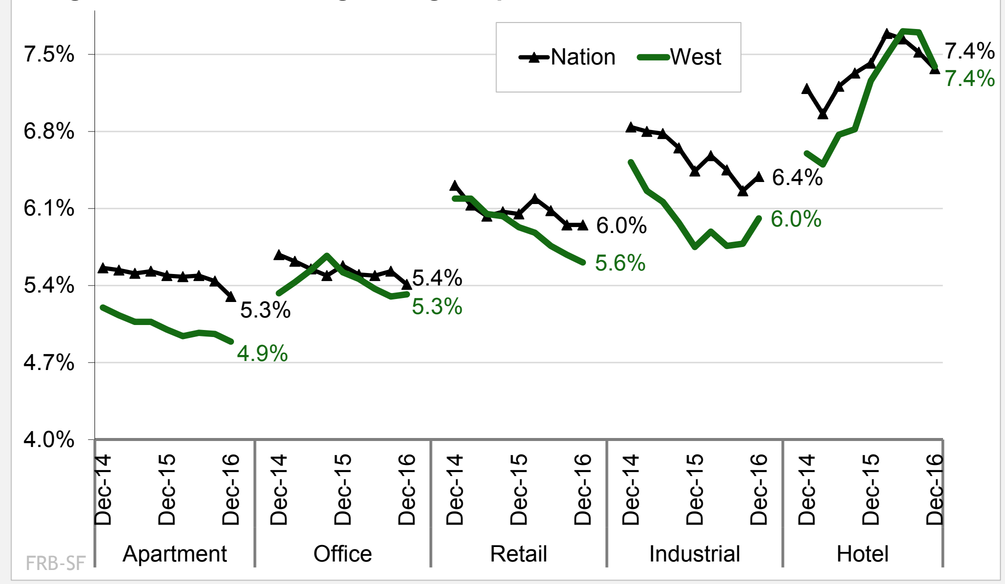


Change in National Property Price Indices

Property Type	1-Yr.	Prior Peak to 4Q16	Prior Trough to 4Q16
Industrial	12.7%	13.8%	70.3%
Office - CBD	12.6%	49.4%	179.8%
Apartment	11.4%	52.1%	142.0%
Office - Suburban	7.4%	-4.9%	73.3%
Retail	1.5%	-1.8%	68.0%
Single-Family	7.2%	-3.9%	44.3%

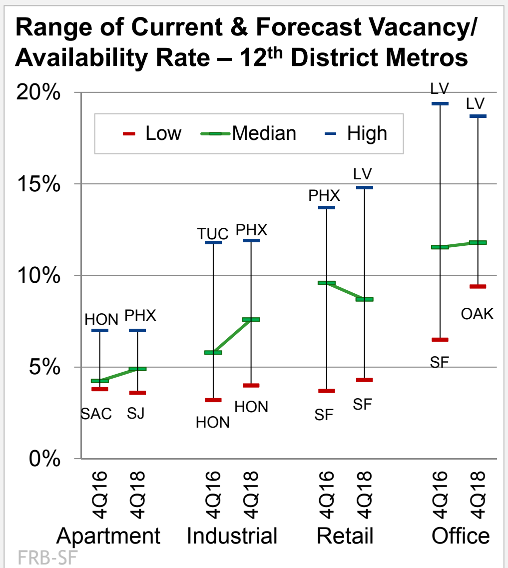
Based on repeat sales indices; CBD = central business district (downtown); CAGR = compound annual growth rate. Sources: Moody's/RCA (Commercial Property Price Indices), Core Logic (Home Price Index), Federal Reserve Bank of San Francisco.

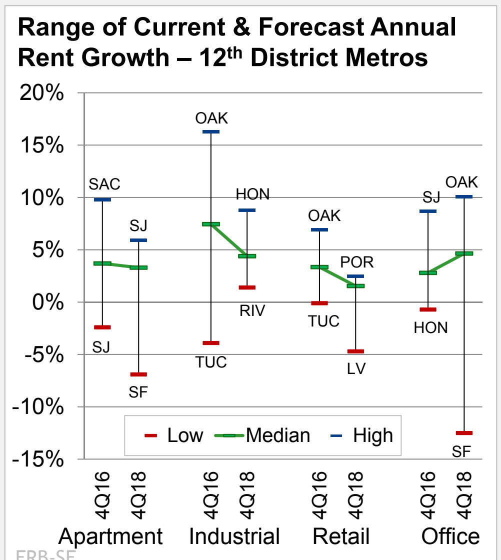
Commercial Properties in the West Often Traded at Relatively Low Capitalization Rates



Source: Real Capital Analytics.

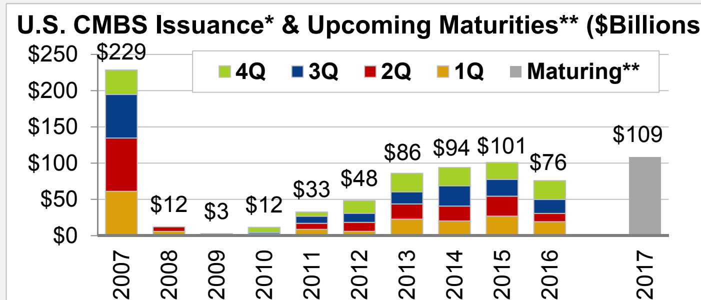
Third Party Forecasters Expect Modest Changes in Vacancy and Rent Growth Rates; Results Vary by Property Type and Market

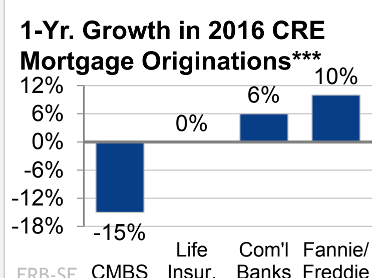




Includes vacancy/availability rates and annual rent growth within the following markets, where available: Bakersfield, Fresno, Honolulu (HON), Las Vegas, (LV), Los Angeles, Oakland (OAK), Orange County, Phoenix (PHX), Portland (POR), Riverside (RIV), Sacramento (SAC), San Diego, San Francisco (SF), San Jose (SJ), Salt Lake City, Seattle, Tucson (TUC), and Ventura. Sources: CBRE-Econometric Advisors, Federal Reserve Bank of San Francisco.

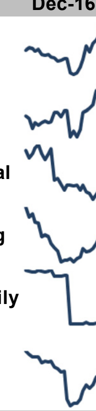
Banks May Seek Further Market Share Gains in the Face of CMBS Issuance and Delinquency Challenges





During 2016, defaulting matured loans pushed up CMBS delinquency rates. CMBS issuance volumes declined in 2016 but may increase in 2017 given upcoming loan maturities. Unlike CMBS, banks and federal housing agencies expanded originations in 2016.

CMBS Delinquency Rate by Property Type (%)**



	Dec-14 to Dec-16	Dec-16
Office		7.13%
Retail		6.37%
Industrial		5.62%
Lodging		3.57%
Multifamily		2.72%
Overall		5.23%

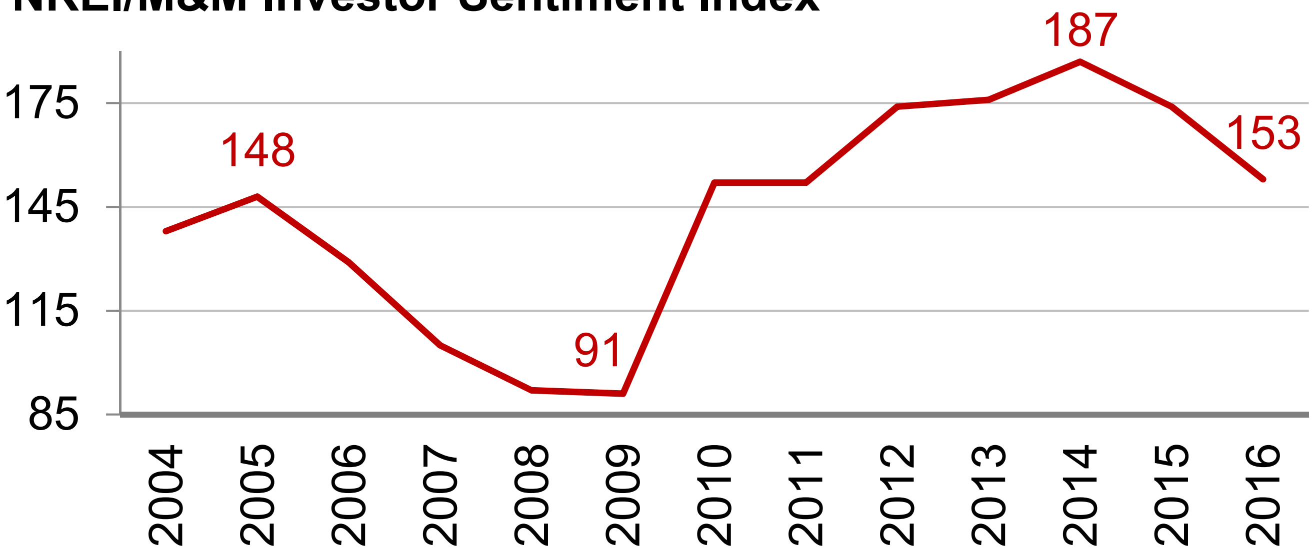
CMBS = commercial mortgage-backed securities; CRE = commercial and multifamily. Sources: *Commercial Mortgage Alert, **Trepp; ***Mortgage Bankers Association, Federal Reserve Bank of San Francisco.

Per NREI/Marcus & Millichap Surveys, Commercial Real Estate Investor Sentiment Has Cooled Since Peaking in 2014

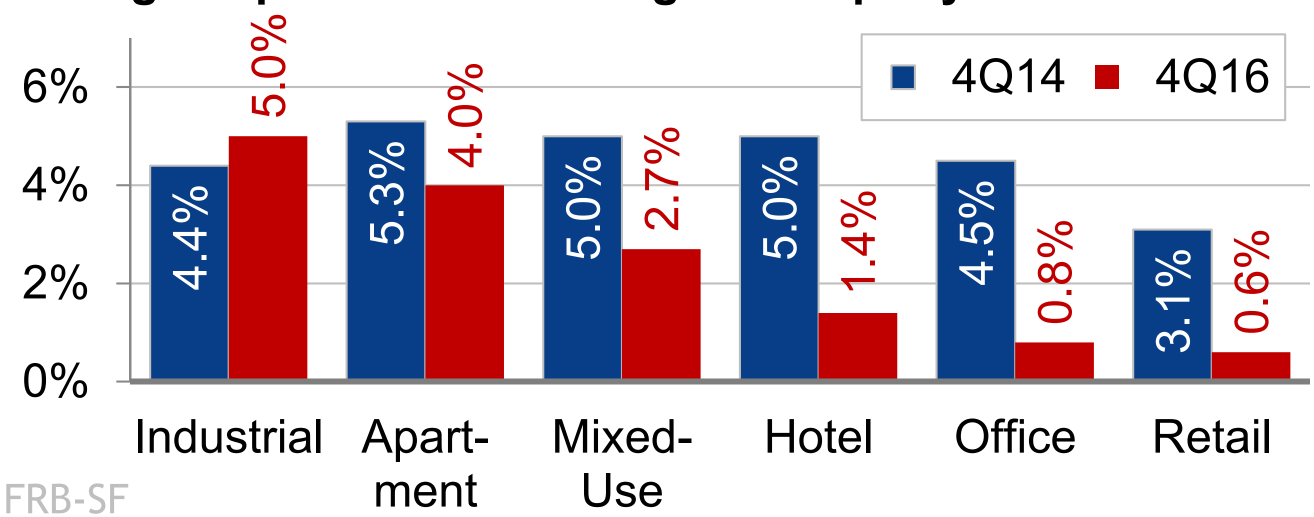
Net Share of Respondents Who Feel Now is the Time to Buy Property Type*

Property Type	4Q14	4Q16
Apartment	17%	-1%
Hotel	9%	-4%
Industrial	37%	35%
Mixed-Use	35%	18%
Office	25%	0%
Retail	26%	8%
Undev. Land	25%	1%

NREI/M&M Investor Sentiment Index



Average Expected 1-Yr. Change in Property Values



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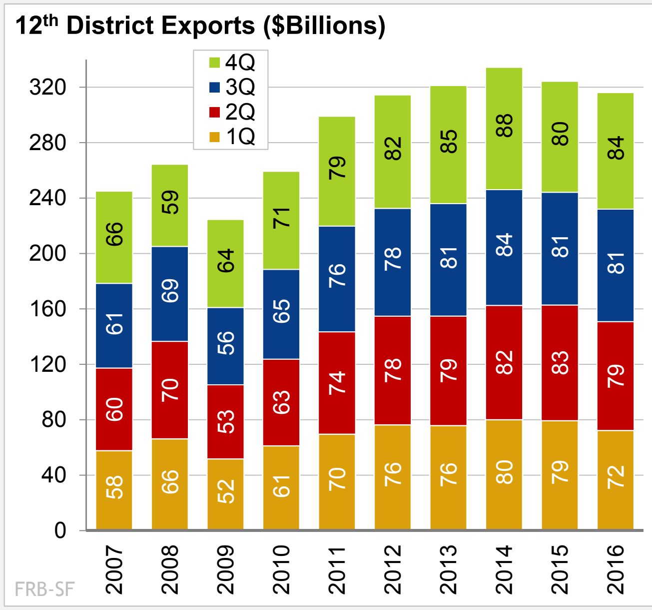
*Calculated as percentage responding it is time to buy minus percentage responding it is time to sell; Investor Sentiment Index data for 2013 & 2015 as of 3Q. Sources: National Real Estate Investor (NREI) / Marcus & Millichap (M&M) *Commercial Real Estate Investment Outlook* Reports, Federal Reserve Bank of San Francisco.

Weakness Abroad and a Stronger Dollar Led Exports Lower in Several District States, Especially in the First Half of 2016

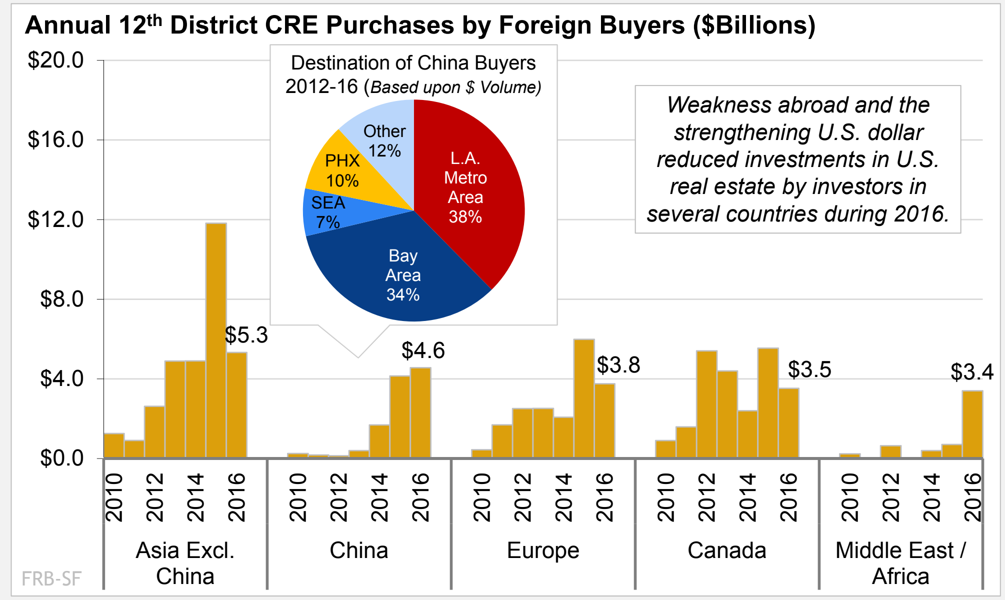


Export Trends
Export Volumes Based on Trailing 4 Quarters

	2007-16 Annual Export Vol.	1-Year Change 2016	Exports/ GSP
AK		-5.57%	8.58%
AZ		-2.69%	7.34%
CA		-1.28%	6.30%
HI		-34.89%	1.48%
ID		13.61%	7.27%
NV		13.00%	6.78%
OR		9.39%	9.66%
UT		-9.27%	7.88%
WA		-7.99%	17.05%
12L		-2.51%	7.82%
Nation		-3.29%	7.85%

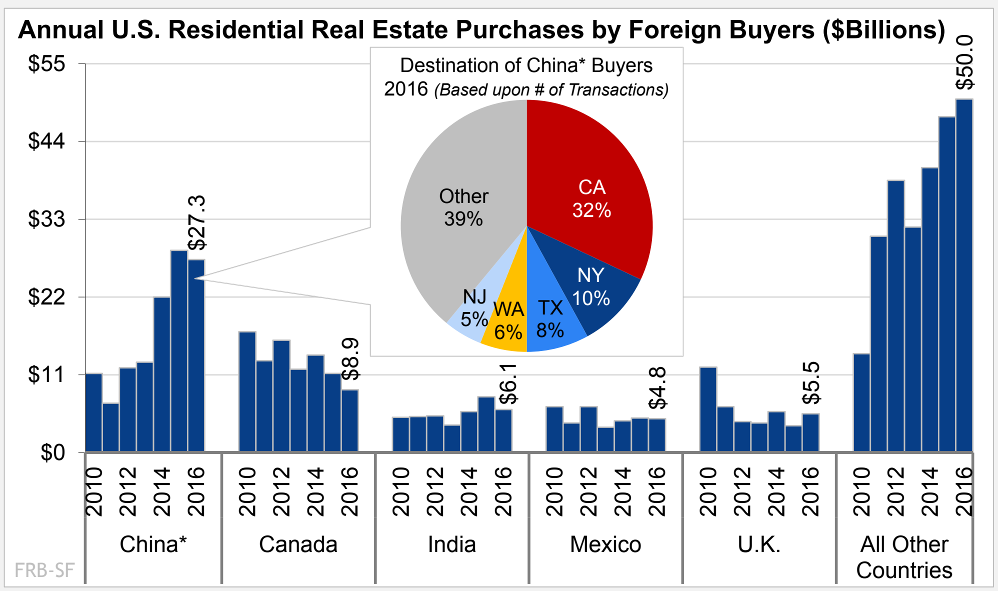
Export data based on origin of movement series; Gross State Product (GSP) based on 4-quarter trailing average through third quarter 2016. Sources: WISER Trade and Bureau of Economic Analysis via Haver Analytics.

Outbound Capital Controls in China Could Reduce Investment in 12th District CRE, Which Had Surged in 2015 and 2016



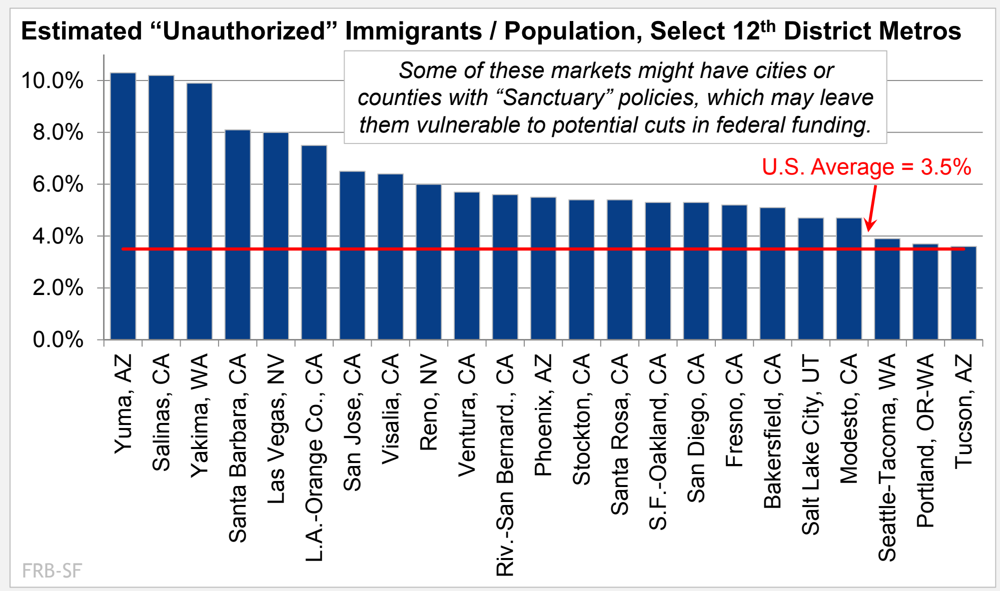
Los Angeles (L.A.) Metro Area = Los Angeles, Orange, and Inland Empire markets; Bay Area = San Francisco, San Jose, and East Bay markets; PHX = Phoenix; SEA = Seattle. Source: Real Capital Analytics.

China, Hong Kong, and Taiwan Were Also an Important Source of Foreign Investment in Homes, Including in CA and WA



Based upon a survey of REALTORS® through March each year; *includes mainland China, Hong Kong, and Taiwan; data for 2010 through 2015 includes some commercial transactions. Source: National Association of REALTORS® *2016 Profile of International Activity in U.S. Residential Real Estate.*

Deportations and/or Loss of Federal Funding to "Sanctuary Cities" Could Create Economic Challenges in Several Markets



Excludes 12th District markets with estimated "unauthorized" immigrant populations below 20,000 or a population concentration below 3.5%; L.A. = Los Angeles; S.F. = San Francisco. Source: Pew Research Center, "20 Metro Areas Are Home to Six-in-Ten Unauthorized Immigrants in U.S.," February 9, 2017.

Section 2
Commercial Bank Performance

Earnings

Provisions and Loan Loss Allowances

Loan Growth and Underwriting

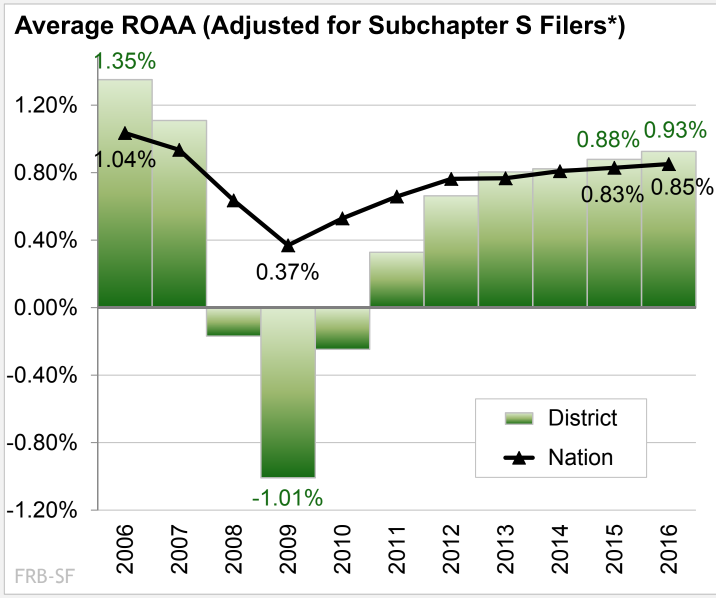
Credit Quality

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.

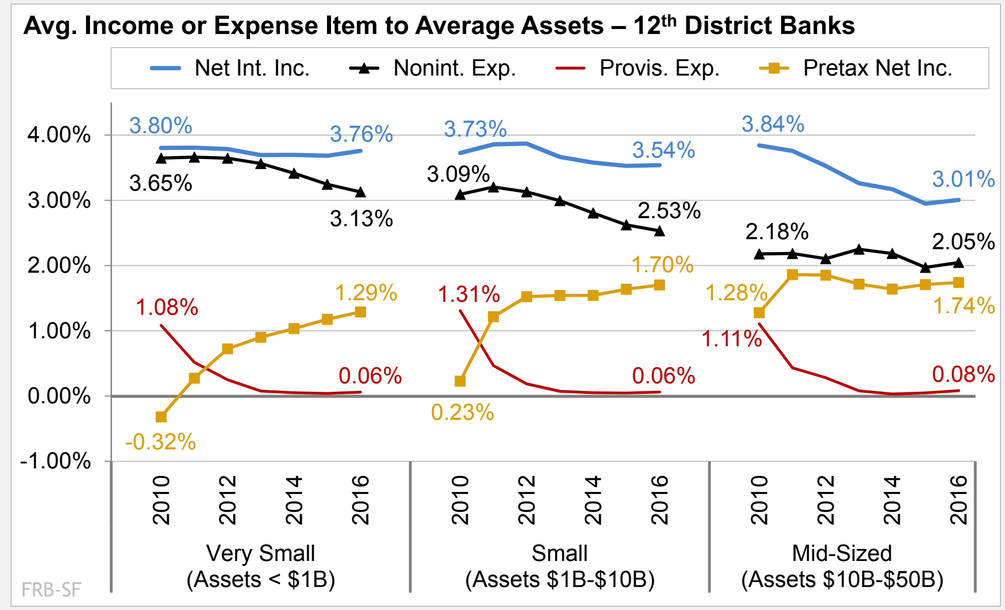
Earnings: Stronger Net Interest Income and Lower Overhead Ratios Boosted Average Full-Year ROAA Versus 2015



Average % of Average Assets 12th District (Expenses = Negative Values)		
Earnings Component	2015	2016
Interest Income	3.91	3.97
Interest Expense	(0.29)	(0.29)
Net Int. Income	3.61	3.66
Nonint. Income	0.63	0.61
Nonint. Expense	(3.07)	(2.93)
Provision Expense	(0.04)	(0.06)

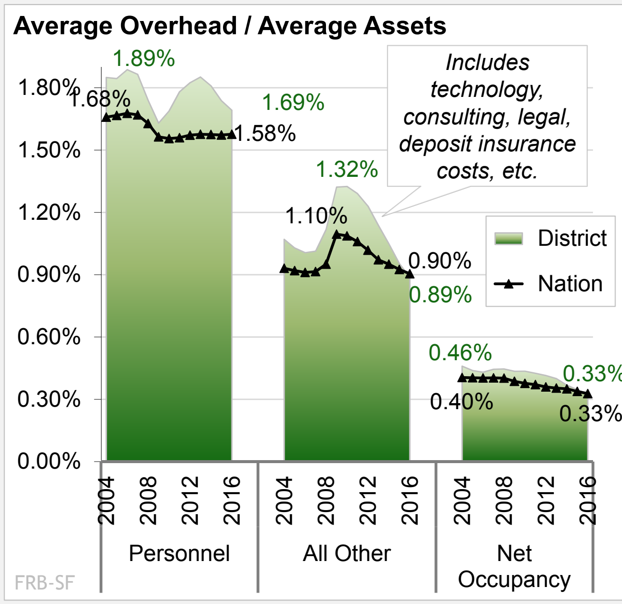
Average = trimmed mean; ROAA = return on average assets (net income / average assets), *adjusted for Subchapter S filers (theoretical tax expense deducted for comparability).

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



Average = trimmed mean.

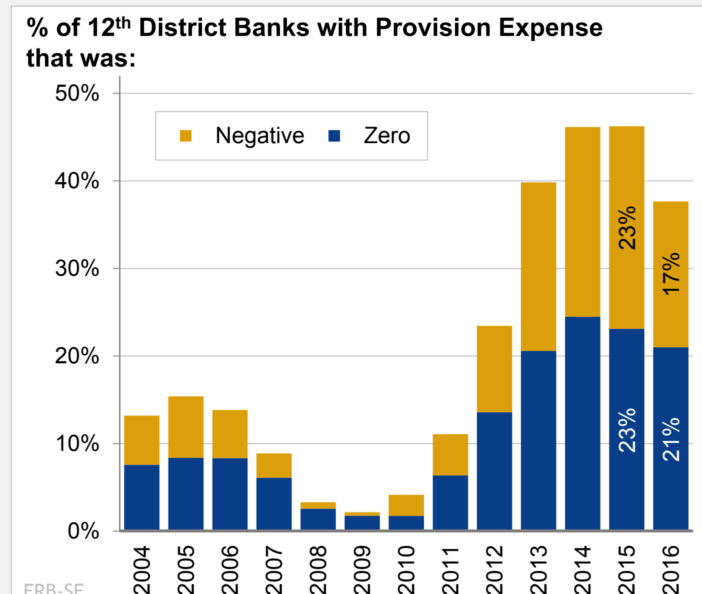
Personnel, Occupancy, and Other Overhead Expense Ratios Declined as Asset Growth Outpaced Expense Increases



Noninterest Expense Trends			
	Overhead/ Avg. Assets 2004-16*	Year-Over-Year % Chg., 2016 Overhead	Year-Over-Year % Chg., 2016 Total Assets
AK		4.51%	1.31%
AZ		7.66%	9.29%
CA		8.19%	10.91%
HI		3.49%	5.59%
ID		6.71%	6.27%
NV		3.98%	10.24%
OR		5.60%	9.89%
UT		7.38%	8.17%
WA		4.14%	6.49%
Nation		3.81%	4.03%

Average = trimmed mean; overhead = noninterest expense; NV excludes credit card and zero-loan banks; growth rates not merger-adjusted.

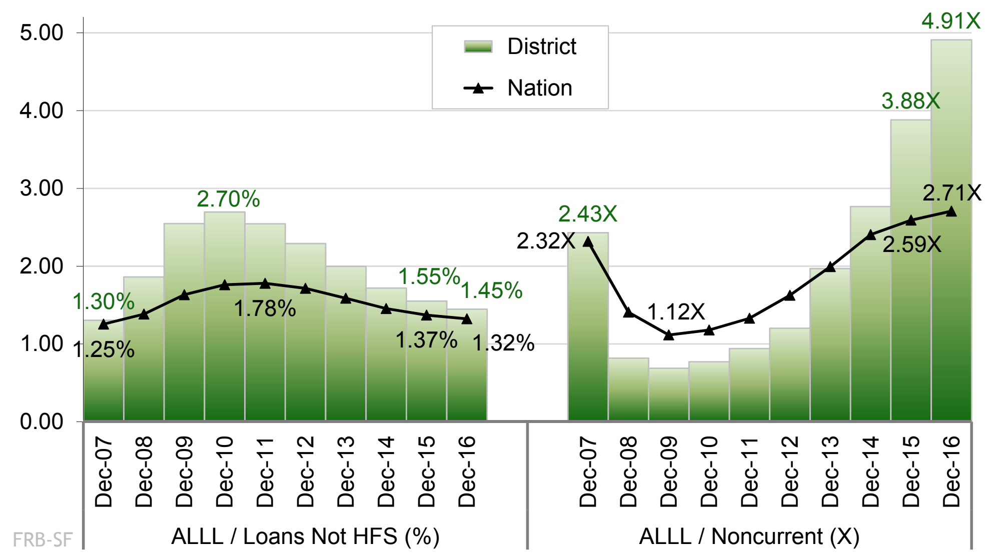
Loan Loss Allowances: A Larger Majority of Banks Recognized Provision Expenses During 2016



% of Banks with Zero or Negative Provision Expense		
Bank Size	2015	2016
District Very Small (<$1B)	50%	40%
District Small ($1B-$10B)	39%	37%
District Mid-Sized ($10B-$50B)	31%	20%
Nation Large (>$50B)	3%	6%

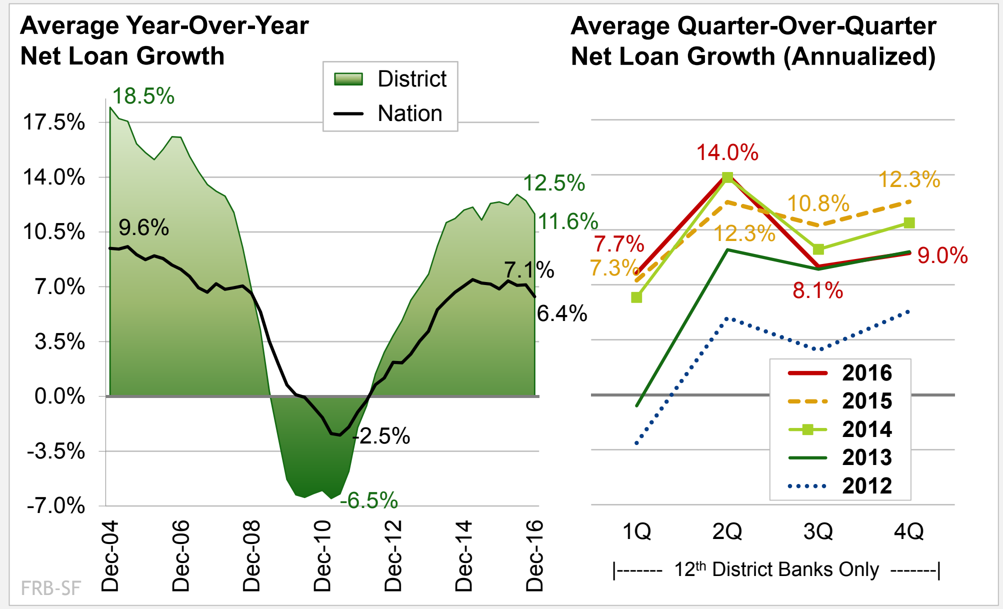
Growth in Allowances Continued to Trail Loan Increases but Outpaced Changes in Noncurrent Loans

Average ALLL Coverage of Loans not HFS (%) and Noncurrent Loans (X)



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

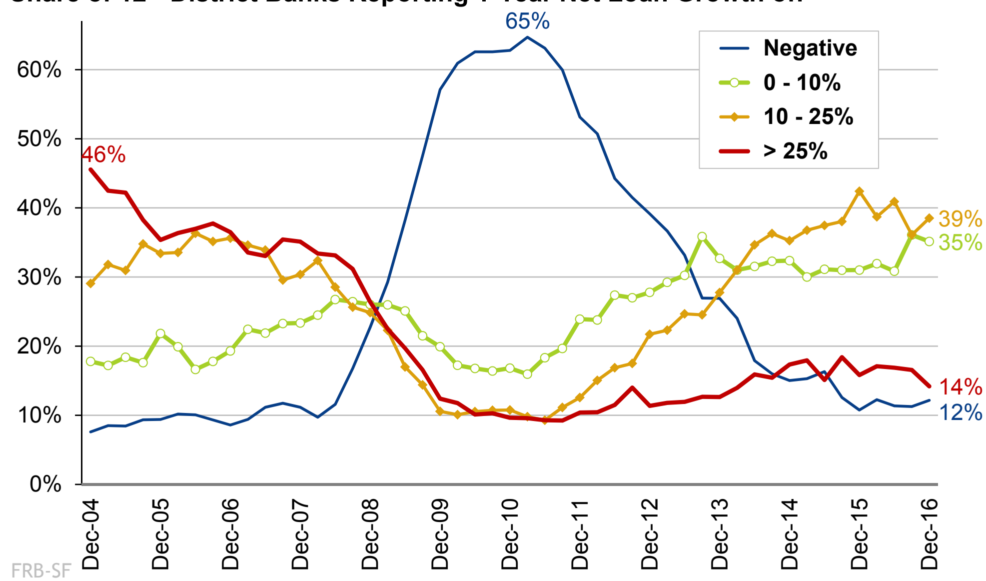
Loan Growth: Loan Growth Was Strong but Slowed Year-over-Year; Quarterly Growth Saw Modest Seasonal Uptick



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

More Than Half of Banks Reported Double-Digit Loan Growth; The Share With Extreme Growth Trailed the Pre-Crisis Era

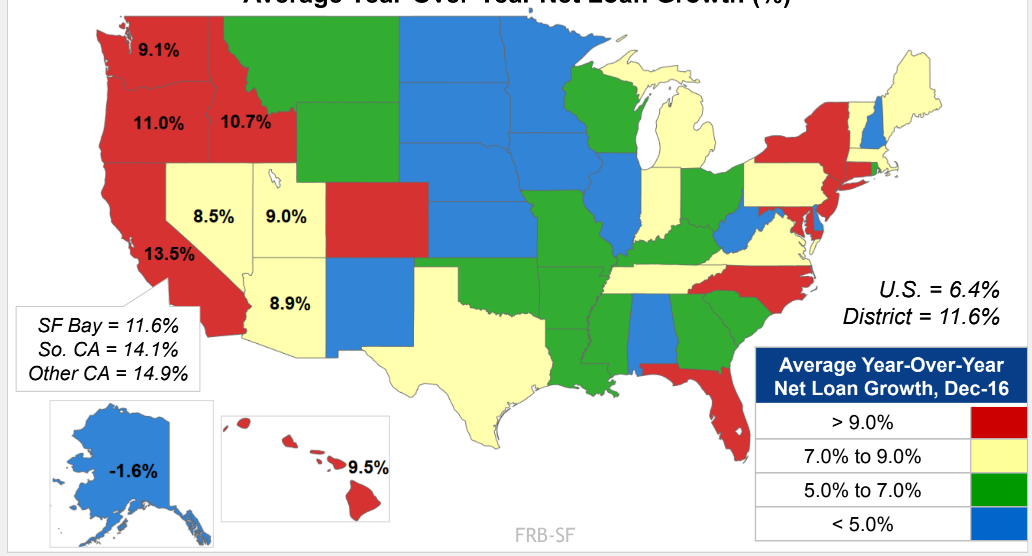
Share of 12th District Banks Reporting 1-Year Net Loan Growth of:



Growth rates are not merger-adjusted.

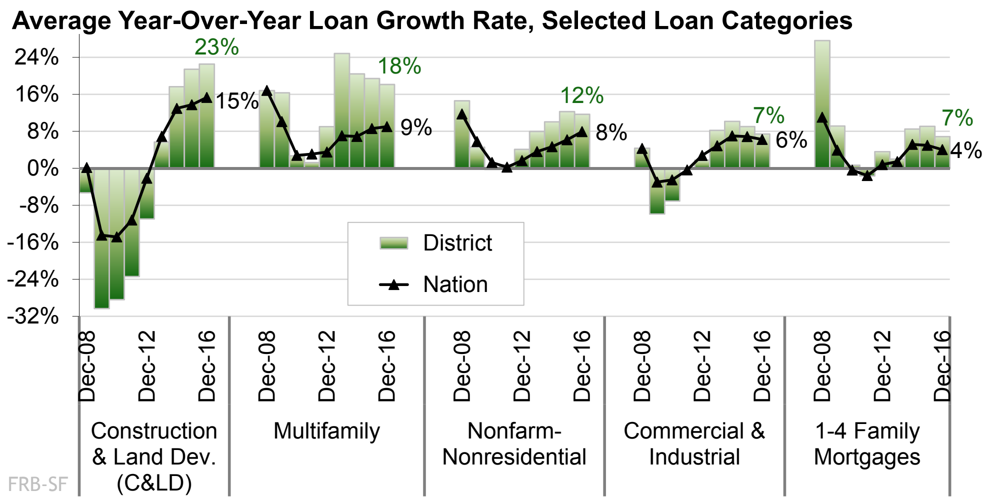
On Average, Most 12th District States Continued to Report Strong Annual Loan Growth

Average Year-Over-Year Net Loan Growth (%)



Average=trimmed mean; growth rates are not merger-adjusted; NV excludes zero loan and credit card banks. SF Bay=42 banks based in San Francisco-San Jose Consolidated Statistical Area (CSA); So. CA=81 banks based in Los Angeles CSA + San Diego Metropolitan Statistical Area; Other CA=41 banks based in all other California counties.

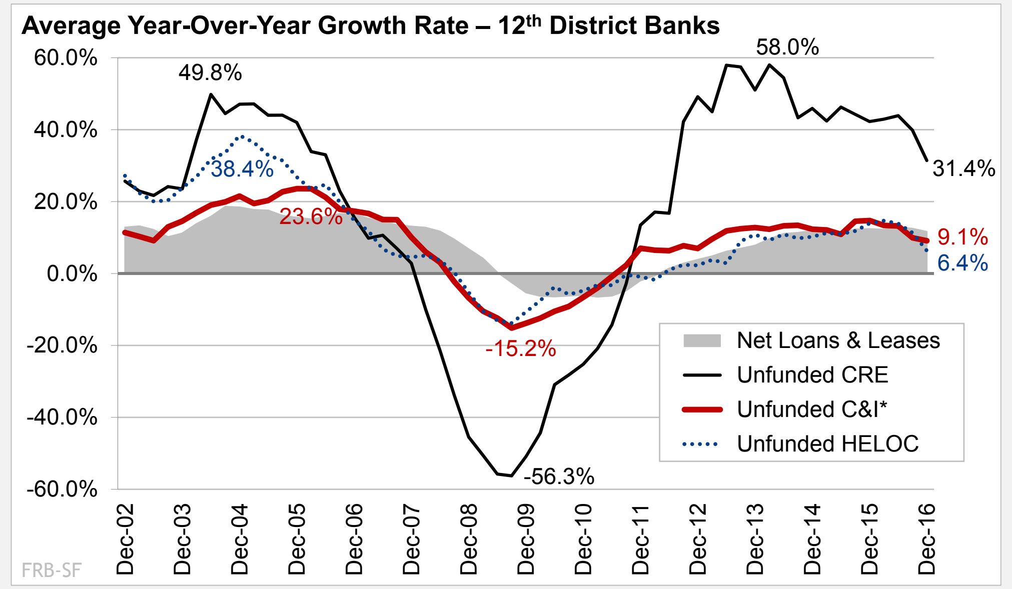
C&LD and Multifamily Portfolios Expanded Most Rapidly but Remained Smaller Than Other Loan Categories



Memo: Average Share of Total Loans, Dec-16	Construction & Land Dev. (C&LD)	Multifamily	Nonfarm-Nonresidential	Commercial & Industrial	1-4 Family Mortgages
District	5.69	5.23	44.83	15.22	14.04
Nation	5.03	2.13	24.17	12.59	25.09

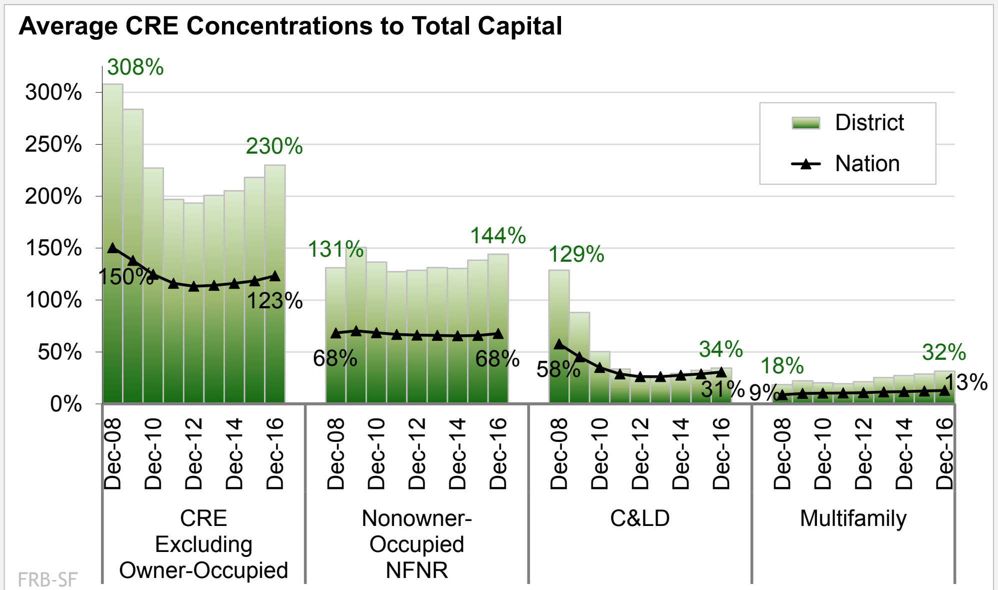
Average = trimmed mean; growth rates are not merger-adjusted.

Continued Deceleration in Unfunded Loan Growth May Suggest Further On-Balance Sheet Slowing Ahead



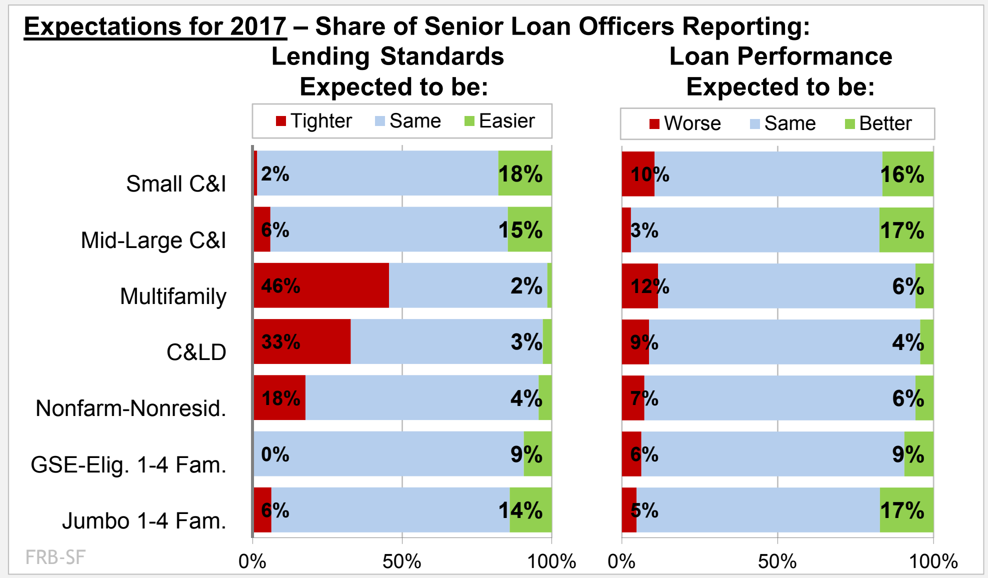
Average = trimmed mean; growth rates are not merger-adjusted; *C&I (commercial and industrial) also includes agricultural and other specialty lines of credit; CRE = commercial real estate (predominantly construction-related); HELOC = home equity line of credit.

Nonowner-Occupied CRE Loan Growth Outpaced Equity Formation, Pushing Concentrations Higher



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

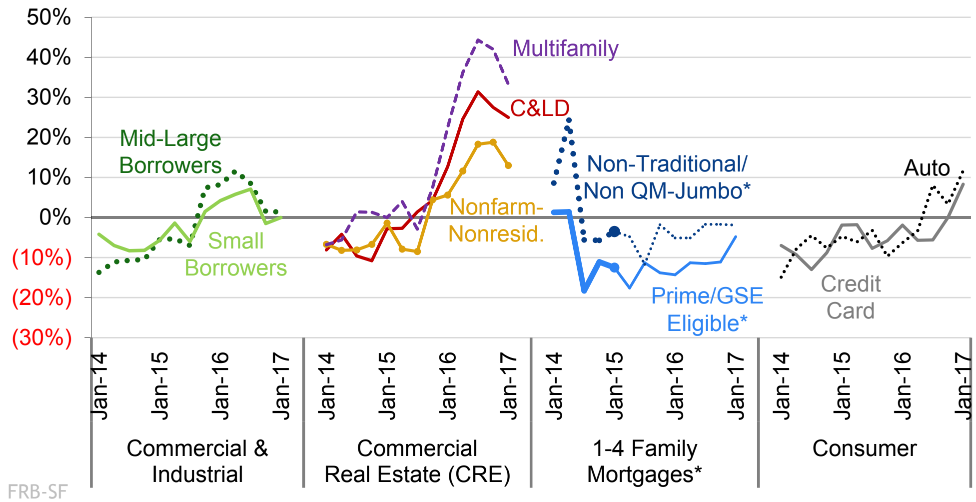
Surveyed Lenders Expect Tighter CRE Loan Standards and Possibly Weaker CRE Loan Performance in 2017



Based on a sample of loan officers at 64-69 domestic banks; C&I = commercial and industrial (excludes syndicated loans); CRE = commercial real estate; C&LD = construction and land development. Source: Federal Reserve *Senior Loan Officer Opinion Survey* (http://www.federalreserve.gov/BoardDocs/snloansurvey/), Jan. 2017

A Notable but Declining Fraction of Lenders Reported Tighter CRE Lending Standards Quarter-over-Quarter, but . . .

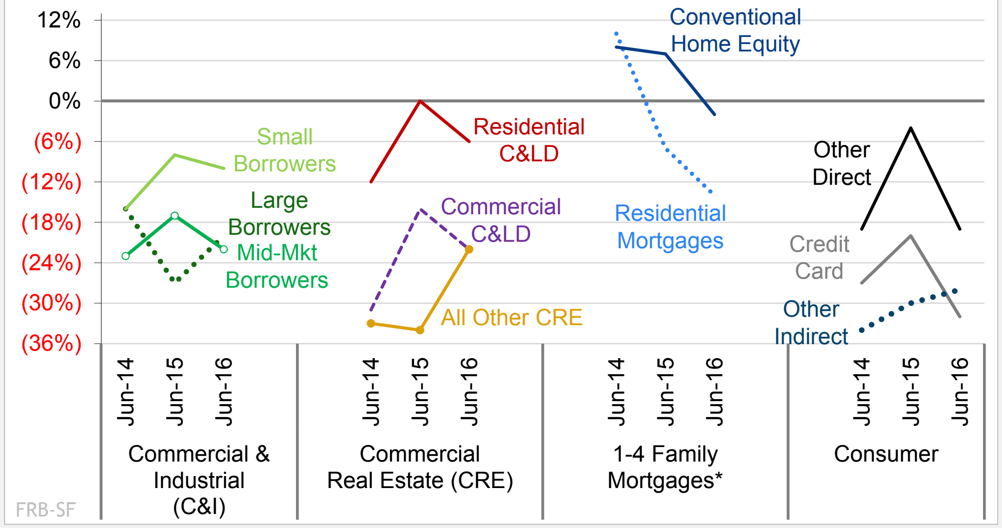
Net % of *Lenders* Reporting Tighter (Easier) Standards vs. 3 Months Prior



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, 2 categories were replaced with 6 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/).

. . . OCC Examiners Did Not Necessarily See Things the Same Way

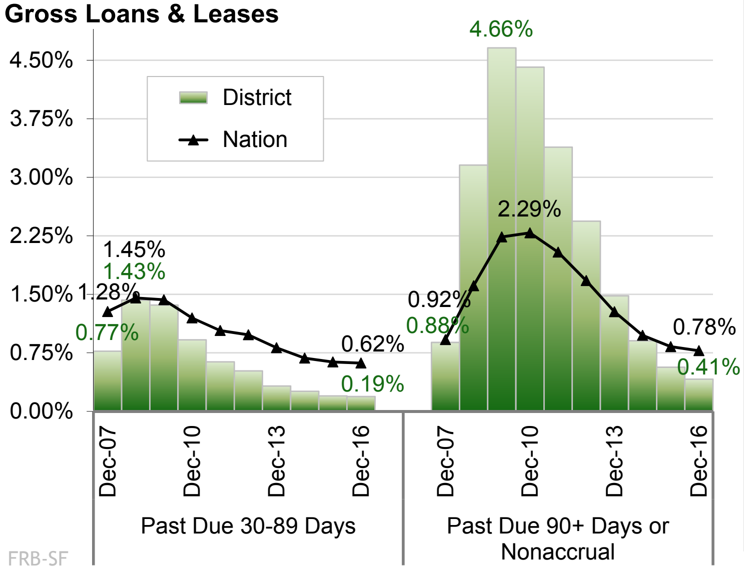
Net % of *Examiners* Reporting Tighter (Easier) Standards vs. Prior Year



C&LD = construction and land development; Other CRE includes nonfarm-nonresidential and multifamily mortgages. Sources: Office of the Comptroller of the Currency (OCC) *Survey of Credit Underwriting Practices* (published Dec. 2016), Federal Reserve Bank of San Francisco.

Credit Quality: Early-Stage Delinquencies Remained Very Low; Noncurrent Loan Ratios Receded Further

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



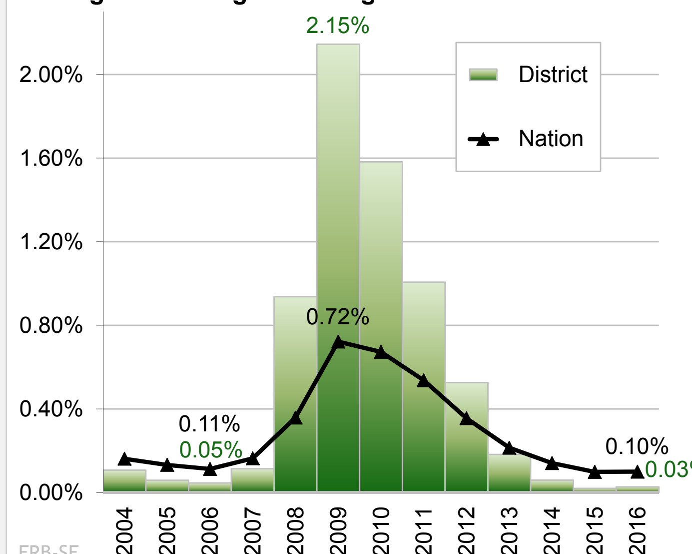
Average Past Due or Noncurrent / Gross Loans 12th District

Loan Type	Dec-15	Dec-16
1-4 Family Mortgages	0.77	0.74
C&I	0.84	0.70
Nonfarm-Nonresid.	0.51	0.34
Owner-Occupied	*0.61*	*0.43*
Nonowner-Occupied	*0.24*	*0.14*
Consumer	0.32	0.30
C&LD	0.49	0.24

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

Net Loan Loss Ratios Remained Low But Ticked Up in 2016 Except at Very Small District Banks

Average Net Chargeoffs / Avg. Loans and Leases



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

Bank Size	2015	2016
District Very Small (<$1B)	0.02	0.02
District Small ($1B-$10B)	(0.01)	0.02
District Mid-Sized ($10B-$50B)	0.07	0.08
Nation Large (>$50B)	0.26	0.30

Average = trimmed mean.

At Mid-2016, Surveyed OCC Examiners Expected Mildly Higher Credit Risk Across Several Major Loan Categories into 2017

OCC examiners tended to report increasing credit risk through mid-2016, especially for large C&I loans. Risk was expected to increase further in 2017, especially among credit cards and indirect consumer loans, commercial real estate and construction mortgages, and large C&I credits

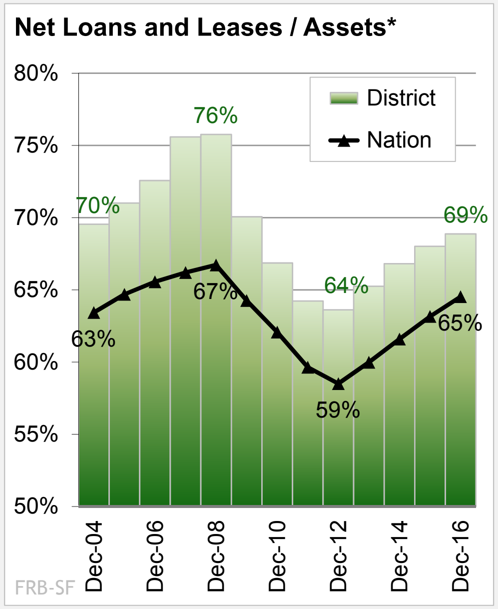
Year-Over-Year Change in Credit Risk, Weighted Index of Examiner Responses*

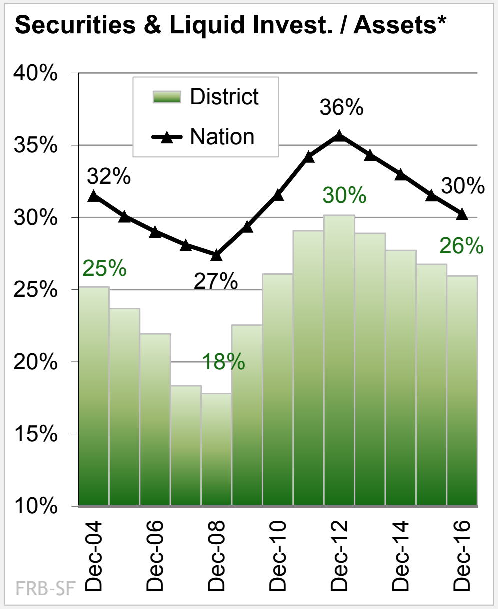
***Scale:** -2=declined significantly; -1=declined somewhat; 0=unchanged; +1=increased somewhat; +2=increased significantly*

FRB-SF	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017 Fore-cast
Small C&I	0.4	(0.0)	0.1	0.2	0.2	0.6	0.9	1.0	0.3	(0.3)	0.1	(0.0)	(0.0)	0.1	0.3
Middle-Mkt. C&I	0.4	(0.1)	(0.2)	-	0.4	0.5	0.9	1.2	0.1	(0.2)	(0.2)	0.1	0.3	0.3	0.3
Large C&I	0.0	(0.6)	(0.2)	0.2	0.3	0.6	1.0	1.2	(0.1)	(0.5)	(0.1)	0.3	0.4	0.7	0.5
Residential C&LD	0.4	0.2	0.2	0.4	0.7	1.4	1.7	1.0	(0.2)	(0.3)	(0.5)	0.1	0.1	0.3	0.3
Commercial C&LD	0.5	0.3	0.2	0.3	0.5	0.9	1.4	1.3	(0.1)	(0.4)	(0.3)	0.1	0.2	0.3	0.5
Other CRE	0.5	0.1	0.1	0.2	0.4	0.6	1.2	1.2	0.0	(0.3)	(0.2)	(0.0)	0.2	0.3	0.6
Resid. Mortgages	0.0	(0.0)	0.2	0.2	0.2	0.6	1.0	1.1	0.3	(0.0)	(0.1)	(0.1)	(0.1)	-	0.3
Convent. Home Equity	0.1	0.1	0.1	0.3	0.4	0.9	1.2	0.9	0.2	(0.1)	(0.2)	(0.1)	(0.2)	(0.1)	0.2
Credit Card	0.1	0.2	0.0	0.4	0.2	0.7	1.3	1.2	(0.6)	(0.6)	(0.1)	(0.2)	0.2	0.4	0.6
Other Direct Consumer	(0.1)	(0.1)	0.0	0.1	0.1	0.4	1.0	0.9	(0.2)	(0.0)	(0.1)	-	0.1	0.3	0.3
Indirect Consumer	(0.0)	(0.1)	(0.1)	0.1	0.1	0.6	1.1	0.3	(0.1)	0.1	0.5	0.3	0.4	0.5	0.6

*Weighted index derived by taking the percentage of respondents and multiplying by −2 for "declined significantly", −1 for "declined somewhat", 0 for "unchanged", +1 for "increased somewhat", and +2 for "increased significantly;" C&I = commercial and industrial; C&LD = construction and land development; Other CRE includes nonfarm-nonresidential and multifamily mortgages. Sources: Office of the Comptroller of the Currency (OCC) *Survey of Credit Underwriting Practices* (published Dec. 2016 with data as of March or June of each year), Federal Reserve Bank of San Francisco.

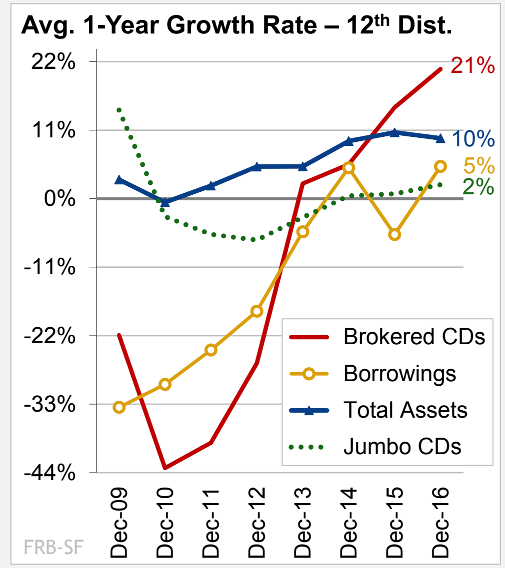
Liquidity: On-Balance Sheet Liquidity Tightened Further as Asset Mix Continued to Shift Towards Loans

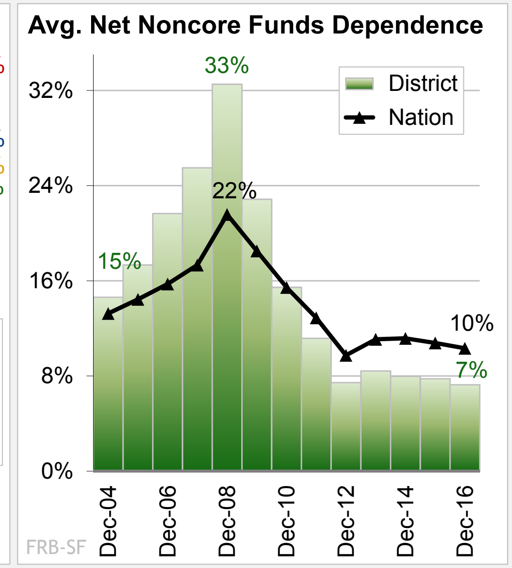




*All data are averages (trimmed means); liquid investments = cash, due from balances, and Federal funds sold & securities purchased under agreements to resell.

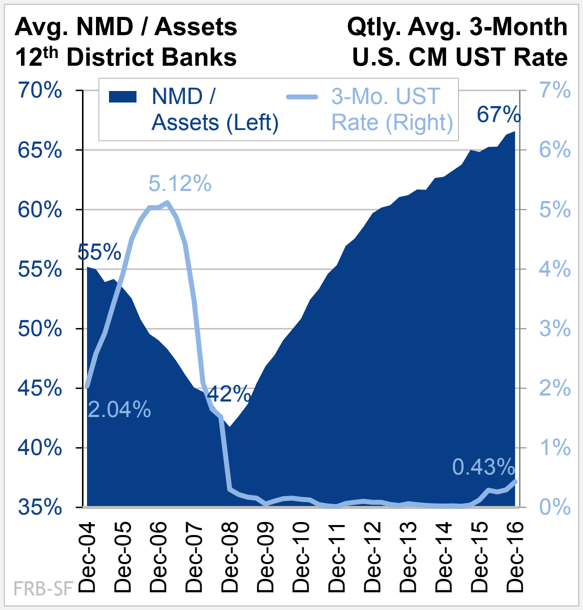
Brokered Deposit Usage Was Modest, but Growth Accelerated; Overall Noncore Funding Ratios Remained Low

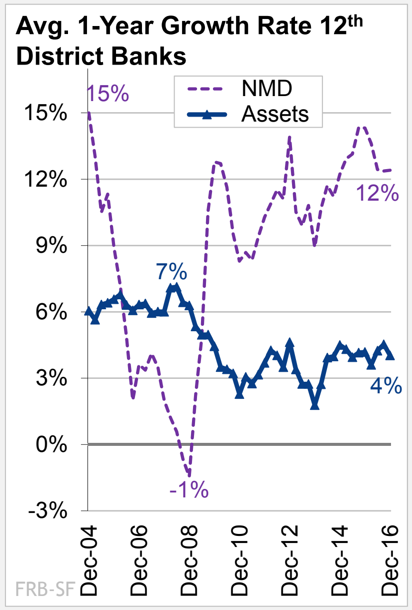




Average = trimmed mean; Net Noncore Funds Dependence = sum of borrowings (Fed funds purchased, repurchase agreements, and other borrowed money), foreign and brokered deposits, and jumbo CDs (> $100K), less short-term investments, divided by long-term assets.

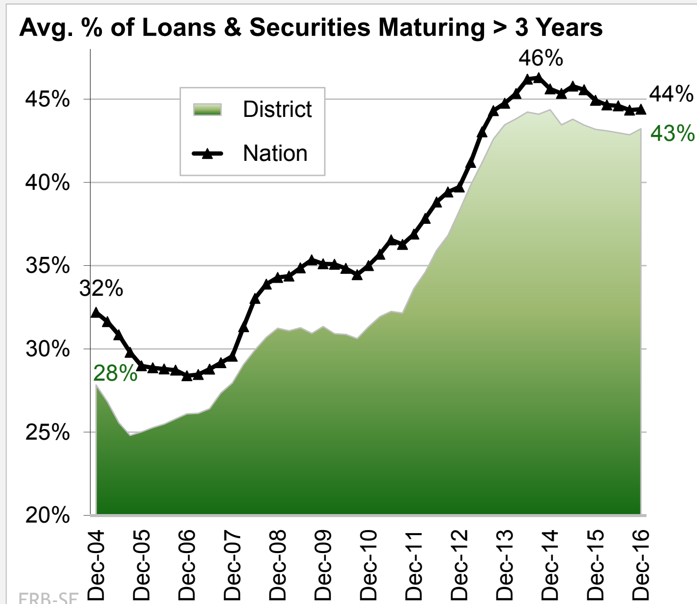
NMD Growth Continued to Outpace Assets, but Could Slow Sharply with Significant Rate Increases (à la 2004-06)



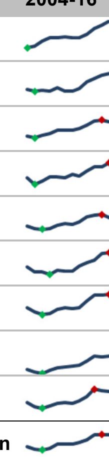


Average = trimmed mean (excluding Constant Maturity (CM) U.S. Treasury (UST) Rate); NMD (nonmaturity Deposits) = transaction, money market, and savings accounts; U.S. Treasury Rate from Federal Reserve via Haver Analytics.

Asset Maturities Lengthened Post-Crisis as Short-Term Rates Sank and Lenders Sought Higher Yields

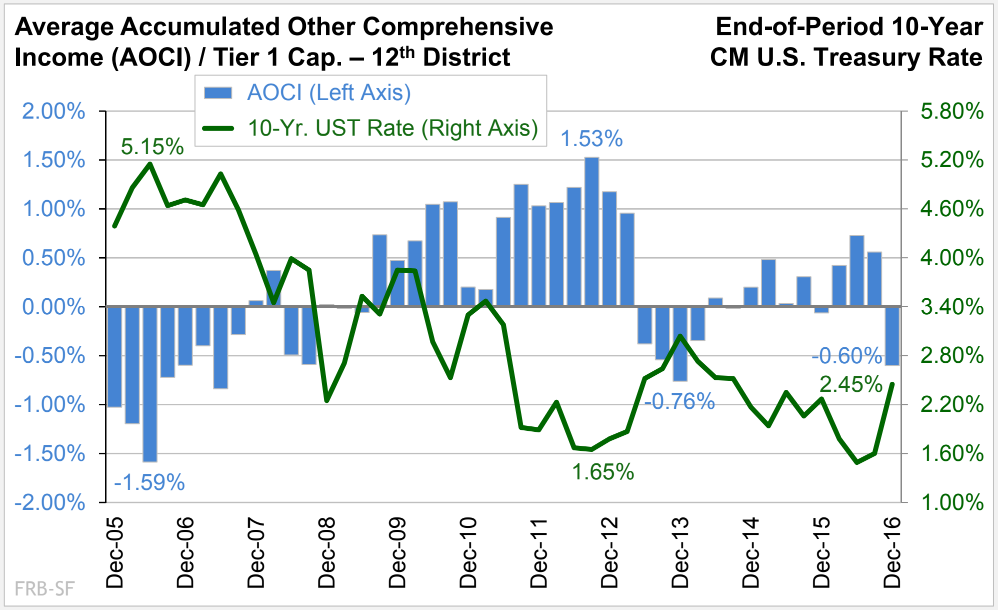


Average Loans & Securities > 3 Years / Assets (%)

	2004-16*	Dec-16
AK		56.6%
AZ		49.2%
CA		43.2%
HI		47.4%
ID		36.3%
NV		46.4%
OR		51.3%
UT		33.1%
WA		44.8%
Nation		44.4%

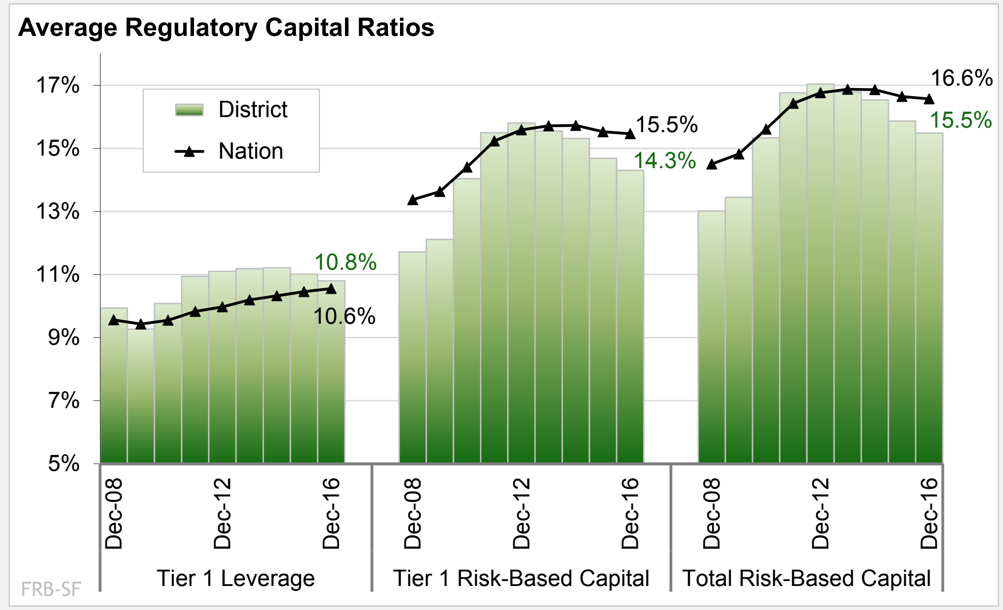
Average = trimmed mean; *December of each year; NV excludes credit card and zero-loan banks.

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



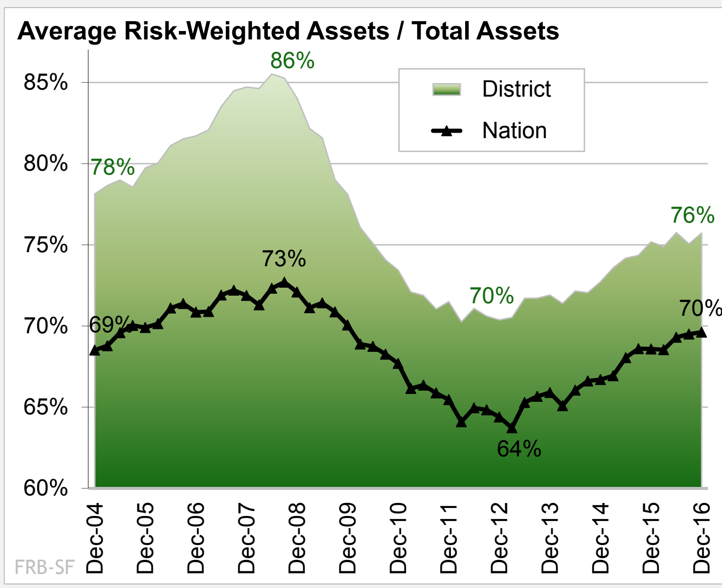
Average = trimmed mean; accumulated other comprehensive income includes net unrealized gains/losses on available-for-sale securities; Constant Maturity (CM) U.S. Treasury Rate from Federal Reserve/Haver Analytics.

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.

On Average, Risk-Weighted Asset Growth Has Outpaced Total Assets, Reflecting Balance Sheet Shift Towards Loans

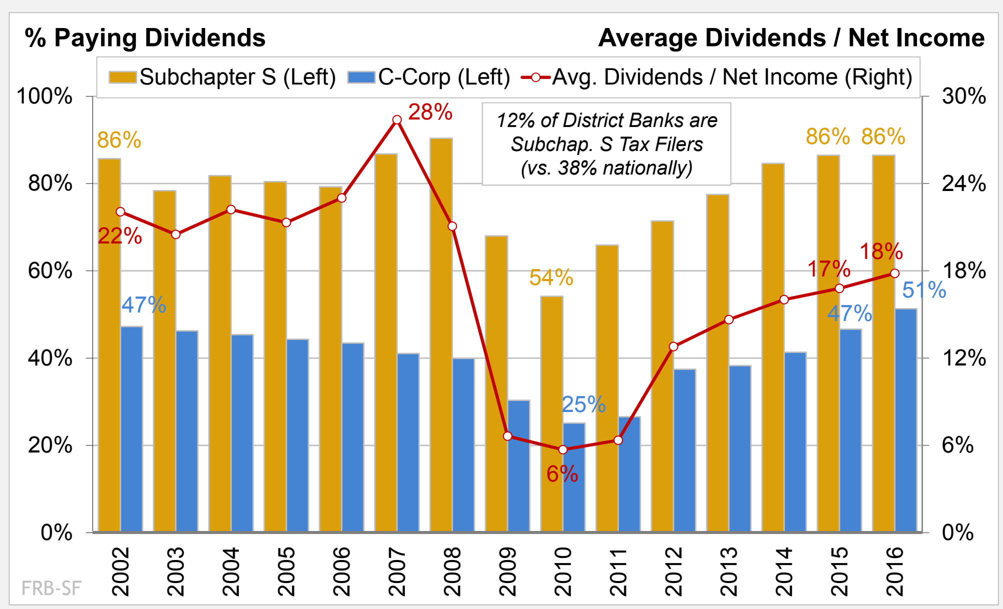


Average Risk-Wtd. Assets / Assets (%)

	2006-16*	Dec-16
AK		66%
AZ		73%
CA		76%
HI		68%
ID		74%
NV		77%
OR		78%
UT		77%
WA		75%
Nation		70%

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); NV excludes credit card and zero-loan banks; * December of each year.

District Banks Were Somewhat More Likely to Pay Out Dividends in 2016 Than in 2015



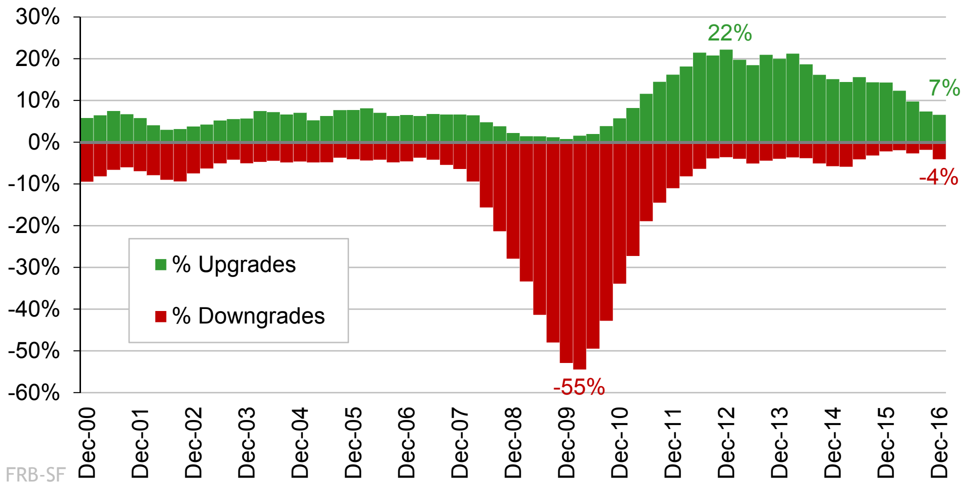
Average = trimmed mean; Subchapter S banks pay taxes as the shareholder rather than corporate level and typically distribute dividends so that shareholders can cover tax obligations.

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: Upgrades Outpaced Downgrades During 2016

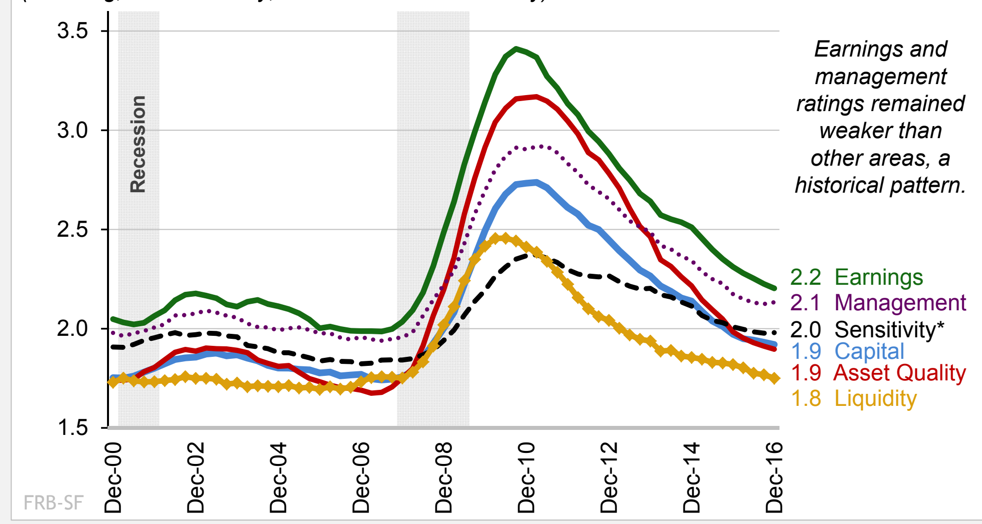
Rolling 4-Quarter Share of 12th District Examinations that Resulted in CAMELS Composite Rating Upgrade or Downgrade
(downgrades shown as negative percentages)



Includes any change in composite CAMELS rating for commercial banks; based on examination completion dates (mail dates); preliminary 2016 data updated through 2/15/17.

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

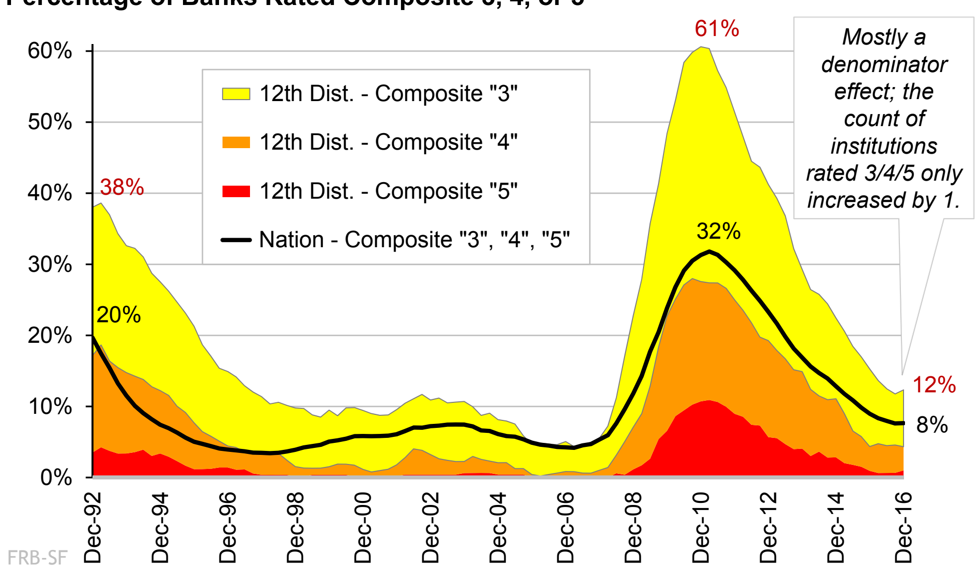
Average CAMELS Component Ratings for 12th District Banks
(1: strong; 2: satisfactory; 3-5: less-than-satisfactory)



Based on examination completion dates (mail dates); preliminary fourth quarter 2016 data updated through 2/15/17; *Sensitivity to Market Risk; Sources: Federal Reserve Bank of San Francisco, National Bureau of Economic Research.

The Share of District Banks with Composite Ratings of 3, 4, or 5 Was Relatively Steady

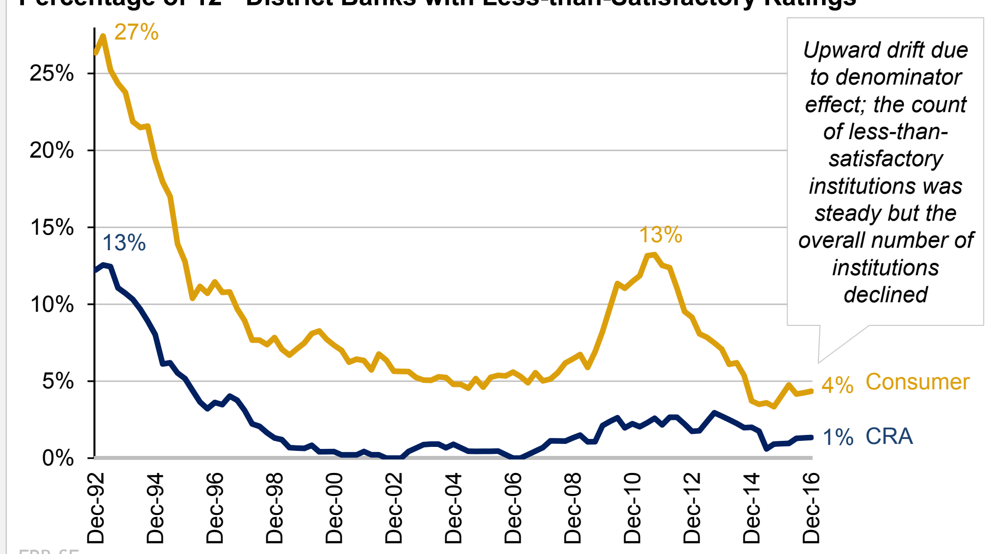
Percentage of Banks Rated Composite 3, 4, or 5



Trends for all commercial banks based on examination completion dates (mail dates); preliminary fourth quarter 2016 data updated through 2/15/17.

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 fourth quarter 2016 data updated through 2/15/17.

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)	
	Dec-15	*Dec-16*	*Dec-15*	*Dec-16*	*Dec-15*	*Dec-16*
AK	4 (0)	4 (0)	-	-	1 (0)	1 (0)
AZ	17 (0)	16 (0)	-	-	1 (0)	1 (0)
CA	179 (0)	164 (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	9 (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)	2 (0)	2 (0)
WA	40 (0)	39 (0)	-	-	12 (0)	10 (0)
12L	319 (0)	301 (0)	24 (0)	23 (0)	37 (0)	34 (0)
US	5,309 (4)	5,080 (2)	26 (0)	25 (0)	844 (1)	801 (1)

Based on preliminary 12/31/16 data.

Appendix 2: Technical Information

General: This report focuses on the financial trends and performance of commercial banks headquartered within the 12th Federal Reserve District ("12L"). 12L includes nine western states: AK, AZ, CA, HI, ID, NV, OR, UT, and WA, as well as Guam.

Banking Statistics: Unless otherwise noted, all data are for commercial banks based upon headquarters location. 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. Other than the table to the left, graphics exclude "De Novo" banks (banks less than five years old) and industrial banks and savings institutions (which have different operating characteristics).

Groups by Asset Size: "Very Small," "Small," and "Mid-Sized" bank groups are based on total asset ranges of <$1B, $1B-$10B, and $10B-$50B, respectively. The "Large" bank group uses banks with assets >$50B nationwide because these banks typically operate beyond the District's geographic footprint and a larger statistical population is needed to construct trimmed means.