FEDERAL RESERVE BANK OF SAN FRANCISCO

First Glance 12L (1Q19)

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

District Growth Solid but Slowing amid Rising Trade Tensions

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A Product of the Surveillance and Analysis and Data Analytics Units

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First Glance 12L: https://www.frbsf.org/banking/publications/first-glance-12l/

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12th District Overview
"District Growth Solid but Slowing amid Rising Trade Tensions"

District job growth decelerated more rapidly in 1Q19, converging with national-level job growth for the first time since early 2012. Year-over-year, nonfarm jobs grew 1.8% in the Federal Reserve's 12th District (District), from a revised 2.1% in 4Q18. The professional/business services sector led the slowdown—although it remained one of the District's main sources of growth—with hiring in the construction and educational/health services sectors also decelerating significantly. Job gains eased in all District states except for Alaska, Oregon, and Nevada (see table on right). Arizona, California, and Washington posted the sharpest hiring slowdowns in the District, largely due to softer gains in construction and professional/business services. Growth in Alaska was led higher by the mining and manufacturing sectors, and hiring in Oregon and Nevada was steady. Low, albeit in some cases rising, unemployment rates served as a constraint on growth in several states.

Annual home price gains slowed from the prior quarter and year in all District states except Alaska. Idaho topped the nation with the only double-digit year-over-year price increase. Price gains tended to be highest in states with fast growing job markets. Meanwhile expensive coastal states saw the softest price increases. According to the National Association of REALTORS®, 1Q19 seasonally-adjusted existing single-family home sales in the West were down 10% from 1Q18. Affordability constraints and tight inventories contributed to the trend. Sales volumes may pick up in 2Q19 if mortgage rates continue to recede from last year's peak, but price appreciation could narrow further. Mortgage lender sentiment improved in 1Q19 according to a Fannie Mae survey—compared with 4Q18, a larger share of lenders expected home prices to stabilize rather than decline in the coming year. Granted, the survey preceded an escalation of trade tensions, which could alter sentiment.

CRE activity and price growth showed some signs of cooling; investor sentiment improved from late 2018/early 2019. In aggregate, industrial fundamentals slowed from a year ago, with slightly higher vacancy rates, a lower annual net absorption rate, and slower, albeit high, annual rent growth. New supply was a factor. The apartment sector strengthened year-over-year despite even larger additions to supply, but there remains a sizeable number of units under construction in several District markets. Aggregate office fundamentals were respectable, with lower vacancy rates likely coming at the cost of slower annual rent growth. The retail sector's aggregate vacancy rate ticked down year-over-year despite anemic demand because of a dearth of new supply, but its already modest annual rent growth slowed. Elevated levels of CRE under construction in some markets could weigh on future vacancies and/or rents. CRE price appreciation slowed in 1Q19; industrial and apartment properties outperformed other sectors. Third-party surveys noted more positive CRE sentiment than in late 2018/early 2019, but pre-dated May's trade tension escalation.

Nonfarm Job Growth & Unemployment (%)

State	Year-over-Year Job Growth		Unemp. Rate
	12 Mo.	1Q19	Mar-19
NV		3.76%	4.20%
UT		3.14%	3.00%
AZ		2.58%	5.00%
ID		2.45%	2.90%
WA		2.20%	4.60%
OR		1.61%	4.40%
CA		1.41%	4.30%
AK		0.88%	6.50%
HI		0.35%	2.80%
US		1.78%	3.80%

Growth based on change in 3-month average; data seasonally adjusted. Source: Bureau of Labor Statistics via Haver Analytics.

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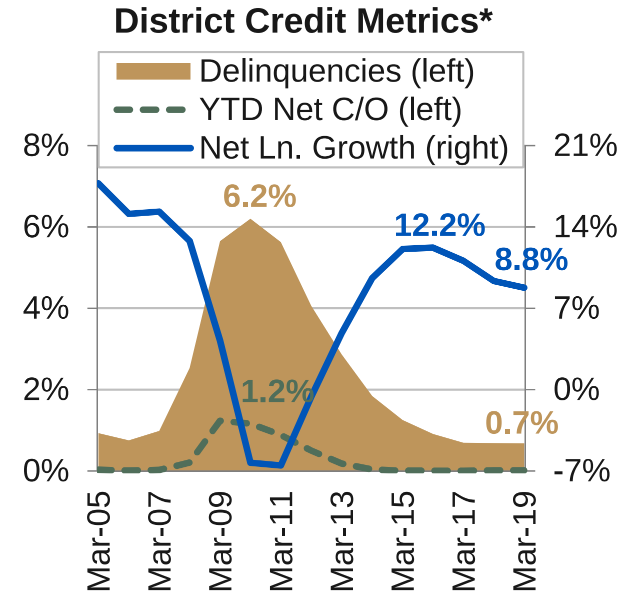
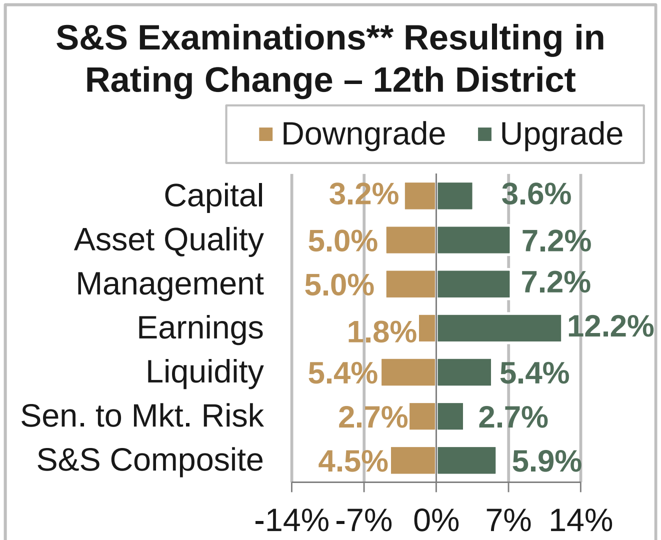
12th District Overview, Continued



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

FRB-SF



**% of safety & soundness (S&S) exams completed in 12 months ending March, mailed through 5/20/2019.

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First quarter bank profits were up year-over-year, but slipped quarter-over-quarter on margin trends. District banks' average quarterly annualized ROAA ratio was 1.23%, up 8 bps from 1Q18 but down 5 bps from 4Q18 (adjusted for Subchapter S tax filers). Year-over-year improvement was driven by the effects of higher short-term interest rates on asset yields, which initially increased more quickly than deposit pricing. But funding cost increases accelerated into 2019, which, when combined with a seasonal dip in loan yields, crimped average quarterly net interest margin and profitability ratios on a linked-quarter basis.

Year-over-year net loan growth slowed but credit problems remained low. The District's average annual net loan growth rate eased to 8.8%, continuing an earlier trend since its cyclical peak in 2016. District growth remained above a flat national average of 5.9%. Residential construction and nonowner-occupied NFNR real estate portfolios expanded at moderating albeit double-digit paces in the District. Growth rates in other major loan segments generally ticked higher year-over-year, but slowed on a linked-quarter basis, due in part to seasonal factors. The average nonowner-occupied CRE loan-to-capital ratio slipped further to 229% as capital accretion outpaced loan growth, but still exceeded the national average by more than 100 percentage points. Although overall past-due loan ratios remained low and stable (see chart on left), delinquent loan volumes continued to increase on average, and past-due rates among C&I and consumer loans edged higher year-over-year. Further, a growing share of bankers in the West surveyed by Promontory Interfinancial Network anticipated weaker loan growth and economic conditions over the next twelve months.

Deposit mix shifted further and on-balance sheet liquidity tightened. NMD growth slowed year-over-year, including among noninterest bearing accounts. Many banks, in particular mid-sized and large ones, turned to time deposits and borrowings to fill the gap. Notwithstanding an uptick in jumbo time deposits and borrowings, the District's average noncore funding ratio flattened year-over-year, aided by legislative changes in the treatment of certain reciprocal deposits in mid 2018. Although on-balance sheet liquidity tightened, regulatory capital ratios improved, in particular among smaller banks. Capital accretion among mid-sized and large banks remained comparatively slow, weighed down by dividend payouts.

Examination upgrades continued to exceed downgrades, but by a narrowing margin. In the twelve months ending March, 5.9% of safety and soundness examinations resulted in a composite rating upgrade versus 4.5% that garnered downgrades. The trend held across most component areas, especially earnings. Overall, 93% of District banks were rated satisfactory or strong for safety and soundness. Also, 96% and 97% were rated satisfactory or better for consumer compliance and Community Reinvestment Act performance, respectively.

Section 1
Spotlight Feature & Hot Topics

Spotlight on District Economic Exposures to Tariffs

Hot Topics We Are Monitoring Most Closely

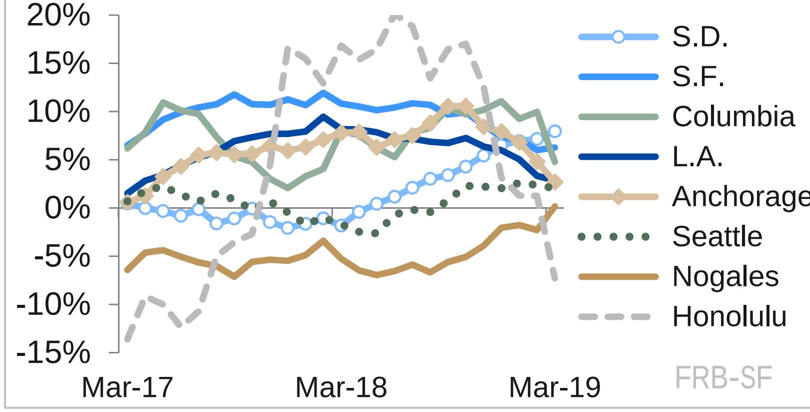
Spotlight: District Economic Exposures to Tariffs

U.S. trade tensions with China escalated in May 2019, with the U.S. raising tariffs on $200 billion of imports from China on May 10, and China subsequently indicating that it would raise tariffs on $60 billion of imports from the U.S. These moves followed six previous rounds of tariff increases by the U.S., including global actions on solar panels, washing machines, steel, and aluminum imports. The U.S. has also threatened tariffs on all other imports from China and separately on imports from Mexico, which could become effective on an escalating schedule between June and October 2019.

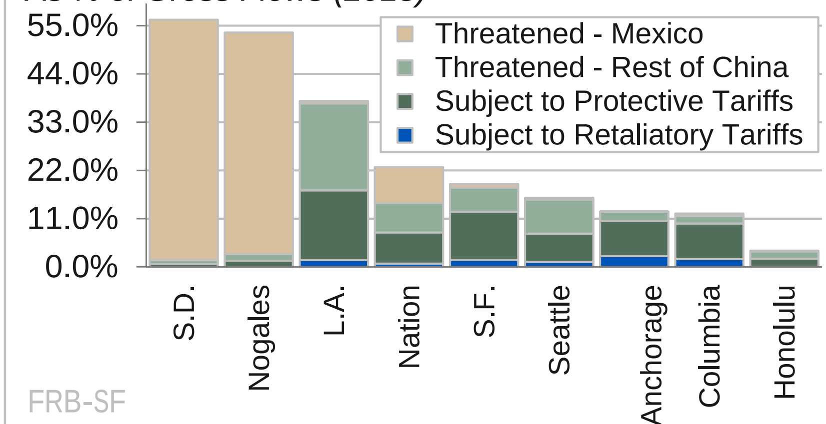
Tariffs have the potential to affect the District through various channels. Protective actions imposed by the U.S. on imports may help domestic producers of targeted products, but can also increase the cost of imported goods to intermediate and end users. Meanwhile, retaliatory tariffs charged by countries on U.S. exports may make U.S. products less competitive overseas and could restrict demand for targeted products, thereby affecting U.S. manufacturing or agricultural activity. Recent economic research by the Federal Reserve Bank of San Francisco suggests that protective tariffs on Chinese goods have increased average national personal consumption prices by 0.1 percentage points and business investment prices by 0.4 percentage points. A March 2019 working paper by the National Bureau of Economic Research concluded that the full economic costs of protective tariffs falls on domestic consumers, and that tariffs levied since 2017 have reduced U.S. real income.

To the extent tariffs crimp demand for goods, they could also affect the volume of gross trade (imports plus exports) flowing through Western ports, which has already come under pressure in recent months (see chart, upper right). Notably, unlike most 12th District port districts, the value of gross trade flows through Nogales, Arizona and San Diego, California—which are dominated by land-based trade with Latin America—strengthened. However, threatened tariffs on imports from Mexico, which account for at least half of gross trade through these two port districts, could reverse recent improvements (see chart, lower right). In aggregate, an estimated 12% of gross trade through Western ports in 2018 were in categories subject to protective or retaliatory tariffs in place as of May 23, 2019, compared with 8% nationally. If enacted, threatened tariffs on other imports from China and Mexico could increase that figure to 30%. The proportion of affected trade could move even higher if those countries impose retaliatory actions.

Year-over-Year Change in Value of Gross Trade Flows by Port District *Based on Trailing 12-Months*



Targeted Trade Flows by Port District
As % of Gross Flows (2018)



Port districts include surrounding air, sea, and land points of entry. L.A. = Los Angeles, S.F. = San Francisco, S.D. = San Diego; retaliatory tariffs = levies imposed by China, the E.U., India, Russia, and Turkey on U.S. exports; protective tariffs = U.S. levies on certain imports from China and on aluminum, steel, washing machines, and solar panels from nations other than Canada and Mexico; threatened = all imports from Mexico and remaining imports from China. Sources: Census Bureau, Moody's Economy.com, Haver Analytics.

Spotlight: District Economic Exposures to Tariffs, Cont'd.

Shifts in trade flows could also have implications for CRE demand in the District, particularly for industrial properties. Although currently a favored sector among investors, if trade movements change or export producers face headwinds, industrial property demand could slip or shift to other locations. This could affect port areas as well as logistics hubs well inland, such as the Riverside-San Bernardino and Stockton markets.

Manufacturers and farmers in the District could also be affected to the extent they export products targeted by retaliatory tariffs. Based upon somewhat less granular trade data that tracks the state of product origin, targeted exports were highest in relation to gross state product (GSP) in areas like Alaska, Washington, and Oregon (see chart, upper right). Alaska stands out due to its large, targeted exports of oil, metal ores, and fish to China. Exposures could move higher if China, Mexico, or other nations enact new retaliatory measures.

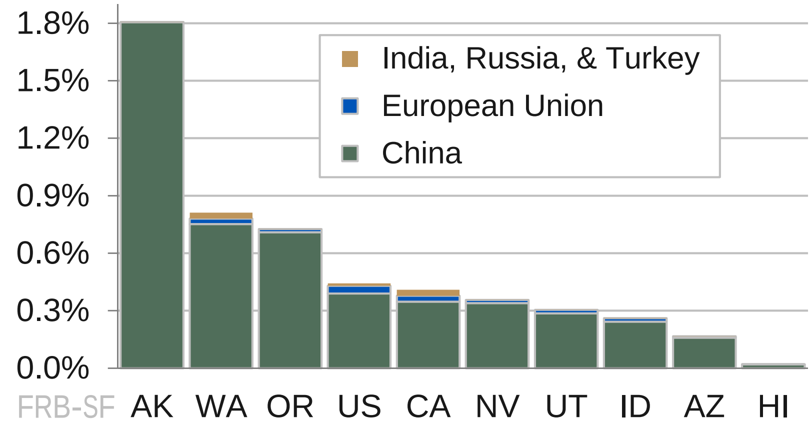
Likewise, imports targeted by current U.S. protective tariffs, by state of destination not port of entry, were relatively high in Idaho, California, and Washington (see chart, lower right). Idaho's exposure is led by its importation of targeted computer parts from China. If enacted, threatened tariffs against additional Chinese products and all imports from Mexico could magnify supply chain disruptions or consumption price increases, particularly in California, Utah, and Arizona.

It is possible that protective tariffs will stimulate industries that compete with targeted imports. Import and export comparisons do not provide a clear indication of which states would be more likely to benefit in this regard, since the impact would be more a function of the mix of output or jobs rather than trade.

Ultimately, because imported intermediate and final goods consumed in the District can originate from any point of entry, tariffs are likely to affect businesses and consumers in the West regardless of where production occurs. Also, trade uncertainty in and of itself can mute business optimism. In a recent AICPA *Business and Industry Economic Outlook Survey* of business executives, 43% of respondents feared that trade tensions would lead to a global economic slowdown, up from 36% in 3Q18. Another 16% cited potential cost impacts. Overall, nearly half indicated that trade tensions would have at least a slight negative impact on their business versus 3% anticipating a benefit. Should these concerns persist, it could disrupt expansion plans and slow growth overall.

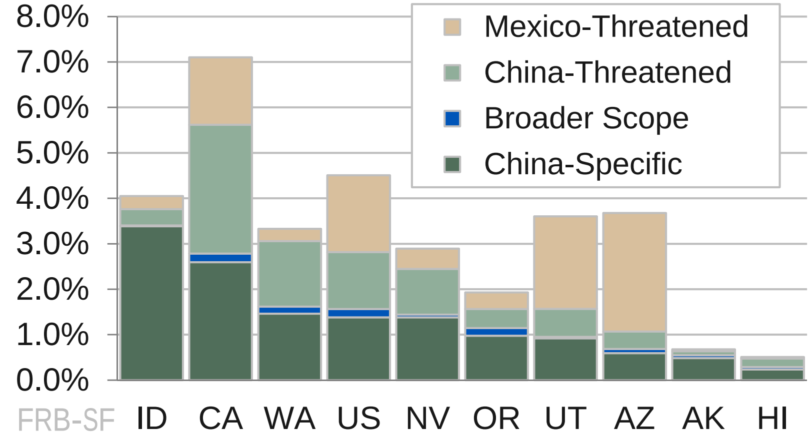
Exports Targeted by Retaliatory Tariffs

As % of Gross State or Domestic Product (2018)



Imports Targeted by Protective Tariffs

As % of Gross State or Domestic Product (2018)



Retaliatory tariffs = levies imposed by China, the E.U., India, Russia, and Turkey on U.S. exports; protective tariffs = U.S. levies on certain imports from China and broadly on aluminum, steel, washing machines, and solar panels from nations other than Canada and Mexico; threatened = all imports from Mexico and remaining imports from China.
Sources: Census Bureau and Moody's Economy.com.

Hot Topics: Areas We Are Monitoring Most Closely

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

- *Cyberthreats*. Attackers prey on the vulnerability of humans as well as systems, leaving bank networks, their employees, and their clients targets for cyberattacks. According to Symantec's *2019 Internet Security Threat Report*, during 2018, 1 in 491 emails to the finance, insurance, and real estate sector globally were malicious and 1 in 2,628 were phishing attempts. At the same time, enterprise ransomware increased 12%, mobile ransomware was up 33%, and poorly-secured cloud databases were a popular target. Cryptojacking waned as the value of cryptocurrencies sank, but in its place, thieves turned to strategies such as formjacking—the use of malicious code to steal payment card and other data from payment forms—compromising an average of 4,800 websites per month. Strong staff and customer training and vendor management are key to cybersecurity. All firms are vulnerable, regardless of size, complexity, and scale, but a bank's inherent risk can vary depending upon these dimensions.
- *Bank Secrecy Act (BSA)/Anti-Money Laundering (AML) compliance*. Even though related supervisory criticisms at District institutions have started to moderate, this area remains a "hot topic" due to the District's role in the global economy and the array of activities being conducted by supervised institutions. BSA/AML compliance risks also continue to garner supervisory attention as more states legalize cannabis for medical and recreational purposes and cannabis sales in District states increase. Ensuring that BSA/AML strategies evolve remains a key factor in maintaining a satisfactory compliance program.
- *CRE lending concentrations*. Although down from pre-crisis peaks, non-owner occupied CRE loan concentrations remained above the U.S. average across all District states (see table at right). Concentration levels, combined with potential competitive easing of underwriting standards and elevated property prices, heighten regulatory concern. A significant shift in financing conditions and/or job markets could pressure CRE price appreciation, all else equal. For risk management-related guidance, see the 2015 *Interagency Statement on Prudent Risk Management for Commercial Real Estate Lending* (SR letter 15-17).
- *Widening funding gap.* Subsequent to the financial crisis, strong, sustained loan growth was supported by an influx of NMDs, especially large NMD accounts, as well as a decline in on-balance sheet liquidity. However, NMD growth has slowed in the past year, increasingly lagging asset and loan growth within the District and nationwide. Meanwhile, the share of District bank assets held in securities and liquid assets declined to its lowest first quarter level since 2010. In the face of slowing NMD growth, in particular noninterest bearing deposits, banks have turned to pricier noncore funding sources, pressuring net interest margins.

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

FRB-SF	2008-19**	Mar-19
CA	299%	267.3%
WA	339%	224.1%
OR	349%	212.8%
NV	333%	200.5%
AZ	372%	177.0%
ID	245%	164.2%
HI	161%	159.9%
AK	162%	159.4%
UT	323%	132.6%
Nation	148%	126.2%

*Trimmed means; excludes owner-occupied CRE; **March 31st of each year.

◆ = trough ◆ = peak

Hot Topics: Areas We Are Monitoring Most Closely

- *Quality of loan growth*. The average annual net loan growth rate continued to outpace the national average in most District states. Economic expansion fostered growth; however, many loans are underpinned by historically high collateral values and some lenders loosened standards in the face of competition from both bank and non-bank lenders. If collateral values prove unsustainably high and/or rising interest rates increase debt service on variable rate loans, the risk of default and/or loss may increase. Monitoring credit performance will be critical as the economic expansion slows.
- *Lengthened asset maturities*. In prior years, many banks increased their holdings of longer-term assets, driven by low short-term interest rates and a relatively steep yield curve. Banks also offered longer maturities to borrowers as a competitive strategy. This trend moderated somewhat after 2014 as the yield curve flattened; however, the proportion of longer-dated assets remained elevated through early 2019. In a rising interest rate environment, longer-term assets may be slower to reprice and could mute margin expansion if not properly matched or hedged.
- *Consumer compliance issues.* In addition to redlining, overdraft practices, unfair or deceptive acts or practices, and recent changes to the Home Mortgage Disclosure Act, supervisors are monitoring risks posed by increased merger and acquisition activity. Mergers can pose new consumer compliance risks by expanding business volumes; changing operations, delivery channels, and market areas; and creating new products or business lines.
- *Evolving financial technology (fintech) opportunities and risks*. Fintech includes a broad range of technologies and services involving digitization of lending and servicing, payments, wealth management, and other areas. Banks have increasingly partnered with fintech firms, including marketplace lenders, which have rapidly expanded their footholds across multiple loan types. For instance, according to TransUnion, fintech's market share of unsecured personal lending surged from 5% in 2013 to 38% by 2018 (see table at right). Likewise, the Federal Reserve's most recent *Small Business Credit Survey* noted that among small businesses applying for credit in 2018, 32% turned to an online lender, up from 24% in 2017 and 19% in 2016. Small business borrowers cited quicker approval, higher probability of funding, and lower collateral requirements as drivers. Given the nontraditional origination methods that fintech lenders may use, bank partners should closely evaluate transactions for credit risk, fair lending, and unfair/deceptive acts or practices.
- *Systemic issues*. The Federal Reserve's second, semi-annual *Financial Stability Report*, released in May 2019, noted continued systemic vulnerabilities from elevated stock, bond, and real estate values and investor risk appetites; although, market shifts in 4Q18 reduced prices in some asset sectors. Corporate bond and leveraged loan volumes and underwriting trends remained a concern. In the near-term, risks include linkages to Europe, the potential for a "no deal" Brexit, and economic slowing in and trade tensions with China.

Market Share of Unsecured Personal Loan Balances

Lender Type	Share 2013	Share 2018
Bank	40.0%	28.0%
Credit Union	31.0%	21.0%
Traditional Finance Companies	24.0%	13.0%
Fintech	5.0%	38.0%

Source: TransUnion, "FinTechs Continue to Drive Personal Loan Growth," February 21, 2019.

Section 2
Economic Conditions

Job Growth

Housing Market

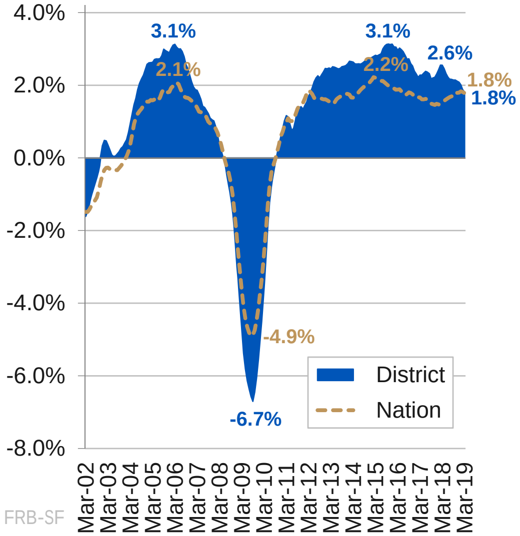
Commercial Real Estate

For more information on the District's real estate markets and economy, see:
Real Estate Lending Risks Monitor
(https://www.frbsf.org/banking/publications/real-estate-lending-risks-monitor/)
Banks at a Glance
(https://www.frbsf.org/banking/publications/banks-at-a-glance/)

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

11 District hiring slowed further, professional/ business, construction, and education/health sectors led the trend.

Year-over-Year Nonfarm Job Growth



12th District Jobs by Sector

Job Sector	Year-over-Year % Change 2Q17-1Q19	Year-over-Year % Change 1Q19	Share of Total Jobs (1Q19)
Construction		4.13%	5.51%
Transport. & Utilities		3.31%	3.93%
Edu. & Health Svcs.		2.68%	15.25%
Prof. & Business Svcs.		2.56%	14.68%
Manufacturing		2.23%	7.57%
Information		2.13%	2.72%
Leisure & Hospitality		2.02%	12.07%
Other Private		1.19%	3.69%
Government		0.70%	15.33%
Financial Activities		0.63%	5.13%
Wholesale Trade		0.44%	3.80%
Retail Trade		0.11%	10.33%
Total Nonfarm		1.81%	100%

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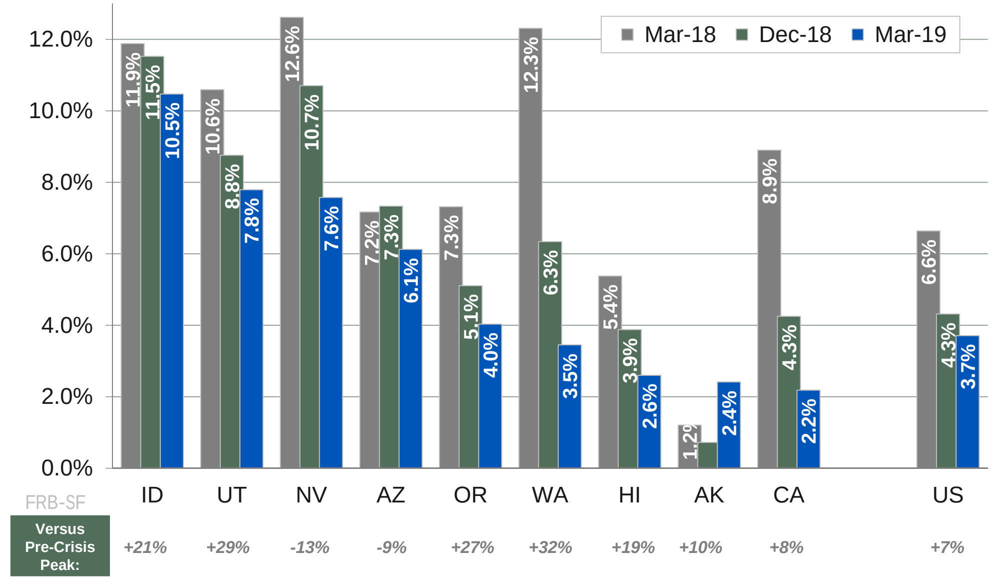
Based on average nonfarm payroll levels over trailing three months; data are preliminary estimates; construction sector includes mining in Hawaii; information sector excludes Hawaii and Nevada. Source: Bureau of Labor Statistics via Haver Analytics.

12 Idaho led the nation in home price gains; price growth slowed in past year, dramatically in NV, WA, and CA.

Year-over-Year % Change in Home Price Index

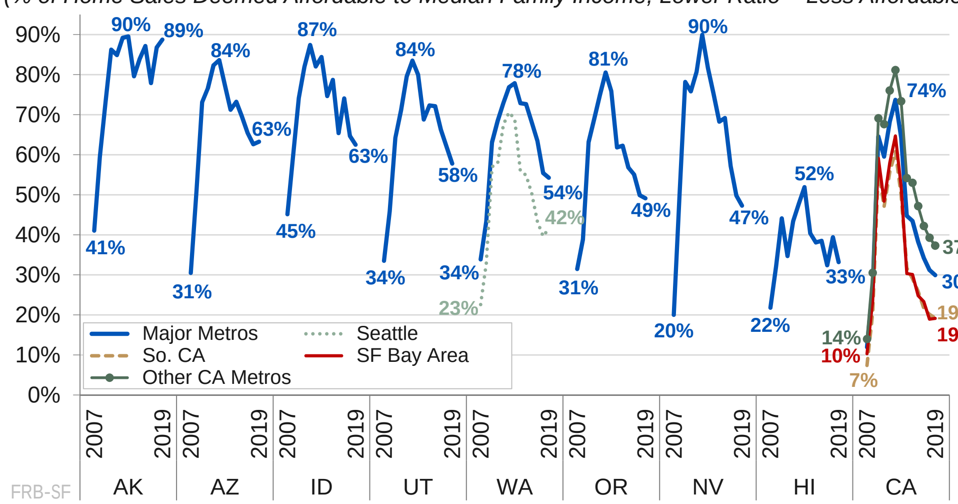


HPI = home price index (includes all detached and attached homes, including distressed sales). Source: CoreLogic.

13 Housing affordability generally worsened; eased slightly in some areas partly because of higher median incomes.

Un-weighted Average Metro Housing Opportunity Index, March Each Year

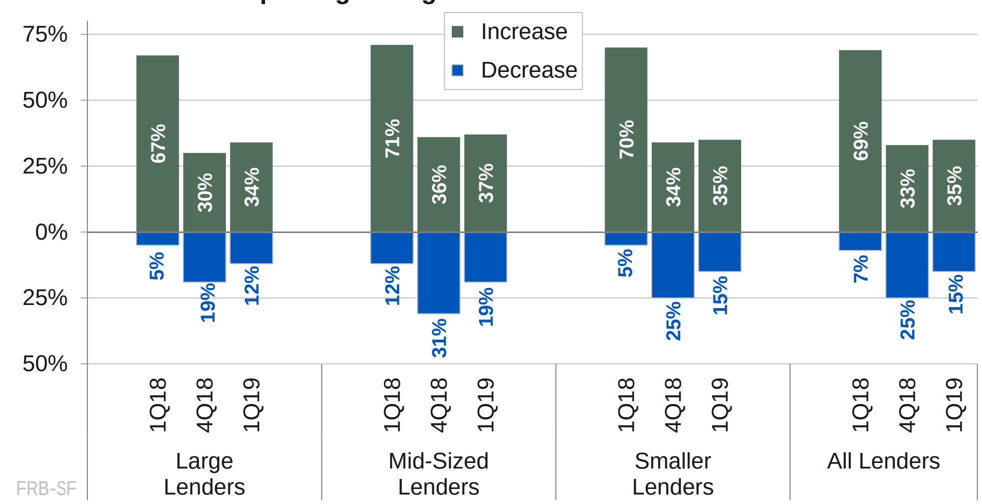
(% of Home Sales Deemed Affordable to Median Family Income; Lower Ratio = Less Affordable)



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 Bernardino, 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 via Haver Analytics, FRB-SF calculations.

14 Mortgage lenders' home price sentiment improved quarter-over-quarter, but was below prior-year readings.

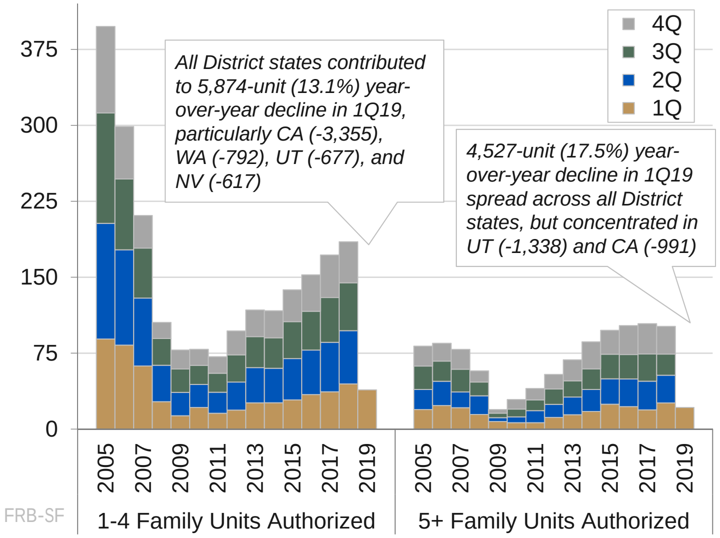
Share of Lenders Expecting Change in Home Prices in the Next 12 Months



Lender size based upon 2017 total loan originations: Large = lenders in the top 15% of lending institutions (volume above $1.18 billion); Mid-Sized = lenders in the next 20% of lending institutions (volume between $400 million and $1.18 billion); Smaller = bottom 65% of lending institutions (volume less than $400 million); includes responses from nonbanks as well as banks, thrifts, and credit unions; data for "All Lenders" is an average of the three size groupings; 1Q responses generally collected in early- to mid-February, 4Q responses from early- to mid-November. Source: Fannie Mae *Mortgage Lender Sentiment Surveys*.

15 Year-over-year declines in 1-4 family and multifamily permits intensified, with all District states slowing.

Housing Permits – 12th District
(Thousands Of Units, Not Seasonally Adjusted)



New Authorized Housing Units

Trailing 12-Month Totals

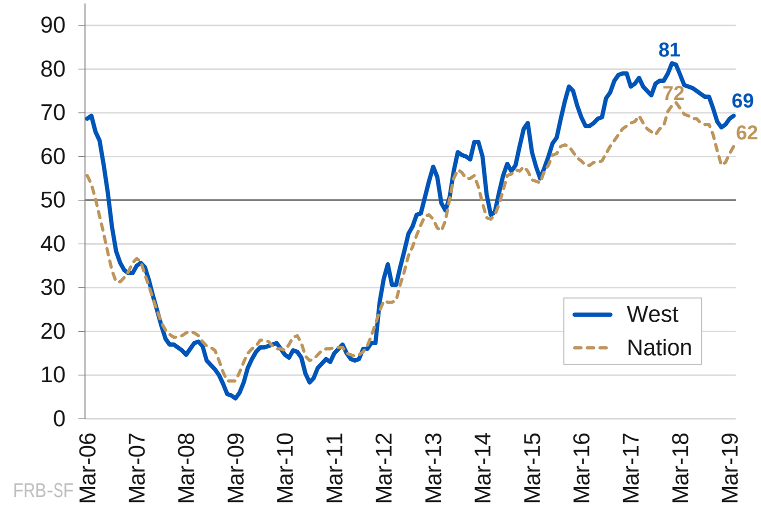
FRB-SF	Level 2003-2019*	Mar-19 vs. Peak	% Multif. Mar-19
UT		91%	23%
WA		83%	42%
ID		67%	14%
OR		63%	45%
CA		54%	43%
AK		47%	16%
AZ		46%	21%
HI		42%	34%
NV		33%	26%
Dist.		58%	35%

◆ = trough ◆ = peak

*Year-over-year change trend lines as of March of each year. Source: Census Bureau/Haver Analytics.

16 Homebuilder optimism rebounded in 1Q19 despite slower permitting, but remained below Feb. 2018 peak.

Homebuilder Diffusion Index *(Trailing 3-Mo. Moving Avg.)*
Index Above 50 Considered Positive



Regional Home Builder Diffusion Indices *(Trailing 3 Mo. Avg.)*

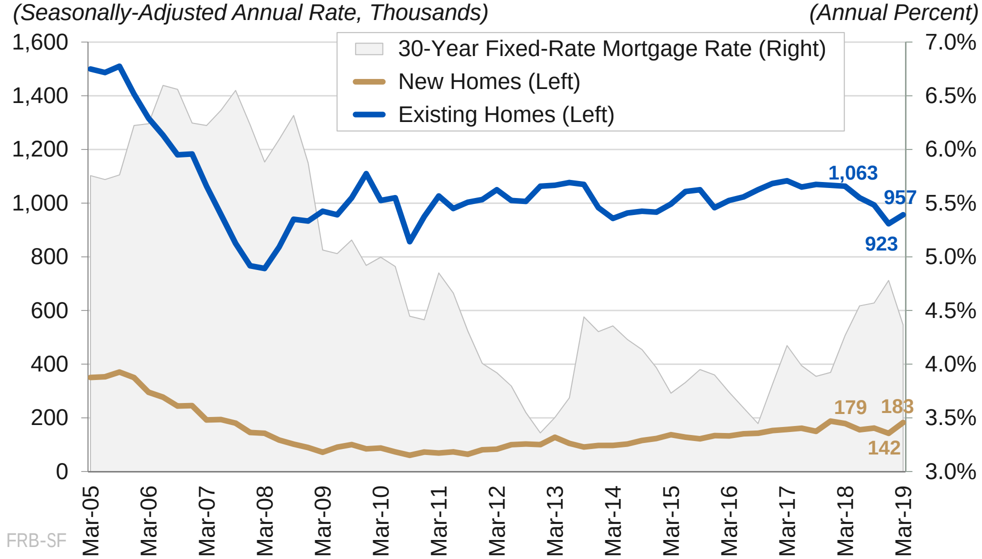
Region	Apr-18	Apr-19
West	76.3	69.3
South	73.0	67.3
Midwest	65.7	53.0
Northeast	54.7	51.0
Nation	69.7	62.3

Data are seasonally adjusted; index is a weighted average of current sales (59.2%), sales in next six months (13.6%), and traffic of prospective buyers (27.2%); West = 12th District plus CO, MT, NM, and WY. Source: National Association of Home Builders (NAHB)/Wells Fargo *Builders Economic Council Survey* via Haver Analytics.

17 New and existing home sales volumes edged up in 1Q19 after declining in response to rising mortgage rates.

Single-Family Home Sales – West
(Seasonally-Adjusted Annual Rate, Thousands)

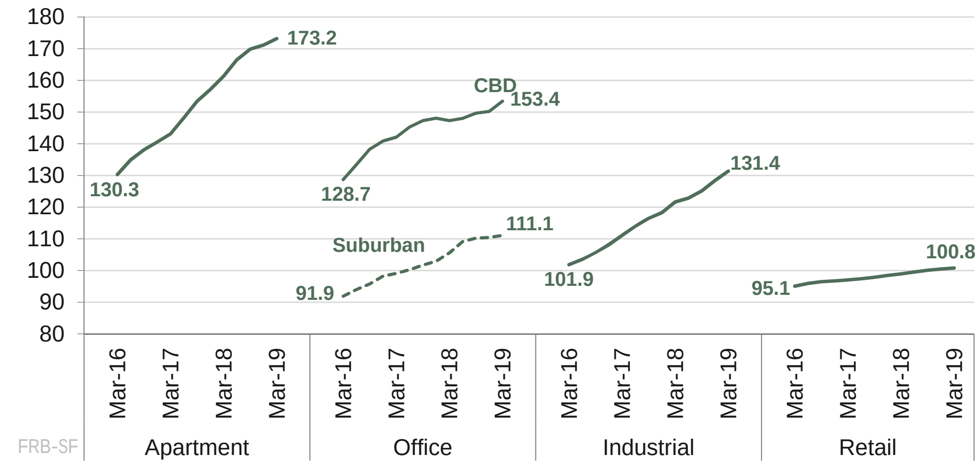
30-Year Fixed Mortgage Rate
(Annual Percent)



All data are quarterly averages. Sources: National Association of REALTORS® (existing), Census Bureau (new), and Freddie Mac (mortgage rate) via Haver Analytics.

18 Apartment and industrial properties have posted the strongest price gains over the past few years.

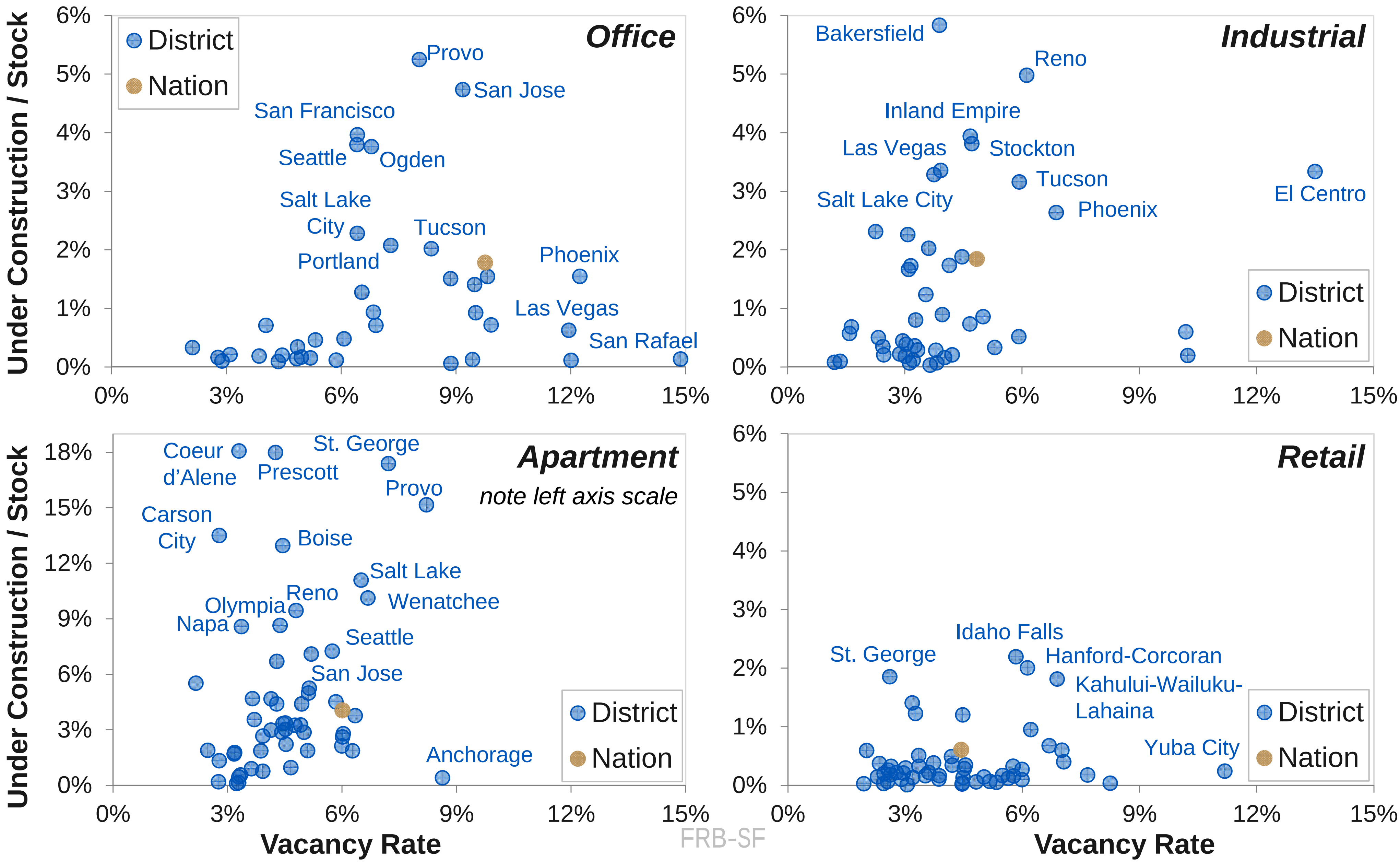
Value of Commercial Property Price Index – Nation *(Dec-06 = 100)*



Cumulative Change in CPPI	Apartment	Office	Industrial	Retail
5 Yrs.	67.2%	42.7%	55.2%	23.8%
10 Yrs.	108.4%	36.3%	50.3%	26.1%

CPPI = Commercial Property Price Index; CBD = central business district (downtown); based upon repeat-sales transactions. Source: Real Capital Analytics, Inc.

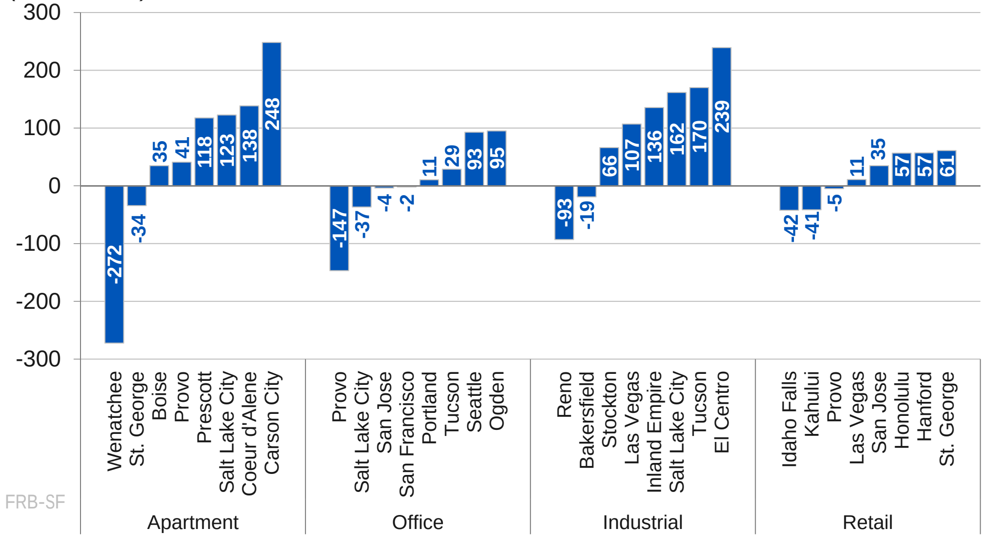
19 Low vacancies spurred construction in areas that are fast growing, tech-centric, or distribution hubs, but . . .



Source: CoStar baseline data as of 1Q19.

20 . . . several 12th District markets with elevated CRE construction could see vacancy rates edge higher.

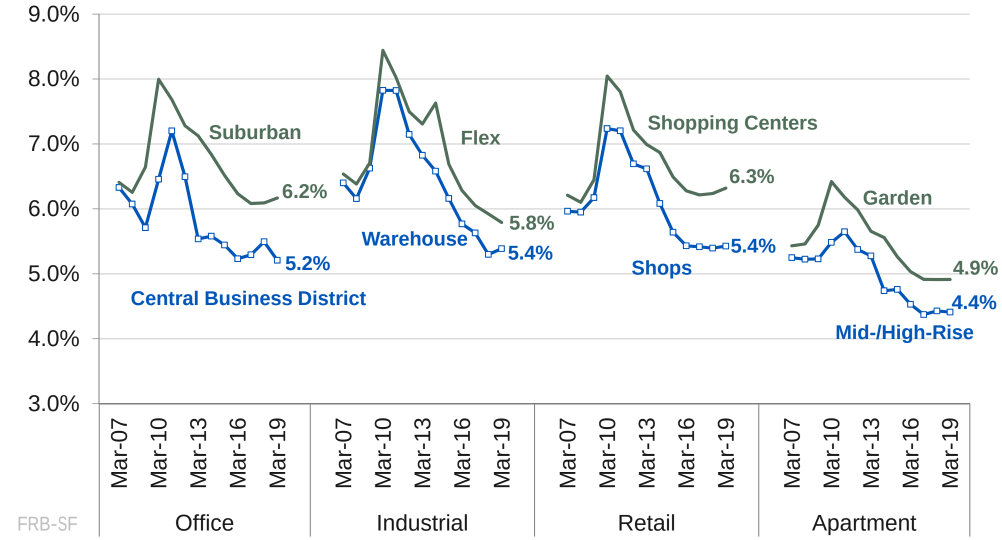
Forecasted 1-Year Change in Vacancy Rates for High Construction Markets
(Basis Points)



Limited to top eight 12th District markets (out of 72) for under construction as a percentage of stock in each property sector as of 1Q19; Hanford = Hanford-Corcoran; Kahului = Kahului-Wailuku-Lahaina. Source CoStar.

21 West Region capitalization rates ticked higher year-over-year for suburban office, warehouse, and retail.

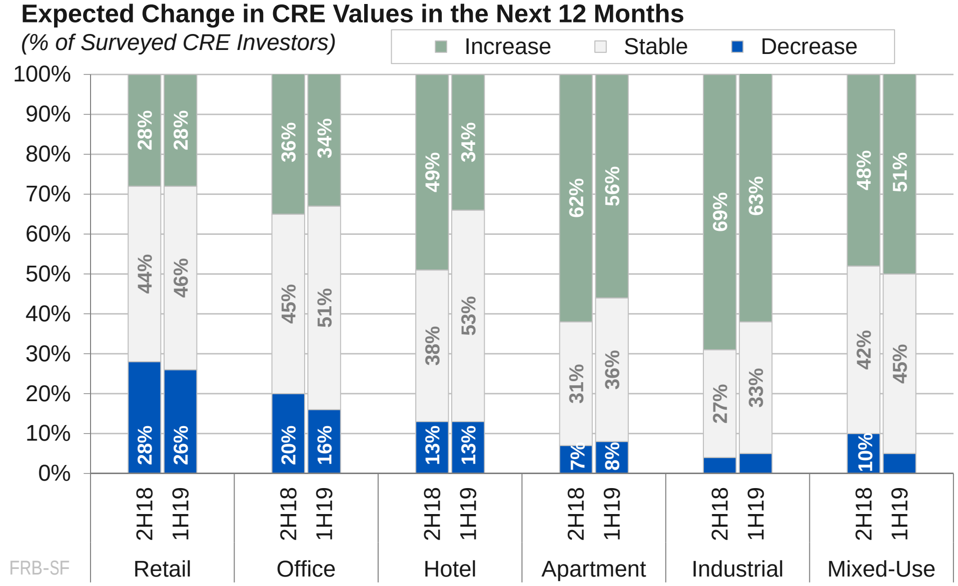
Western U.S. CRE Capitalization Rates *(Trailing 12-Month Average %)*



Includes transactions in the West (AK, CA, HI, ID, MT, NV, OR, UT, WA, and WY, but not AZ); property sales > $2.5 million with available capitalization rate data. Source: Real Capital Analytics.

22 A growing share of surveyed investors expected CRE prices to stabilize vs. increase over the coming year

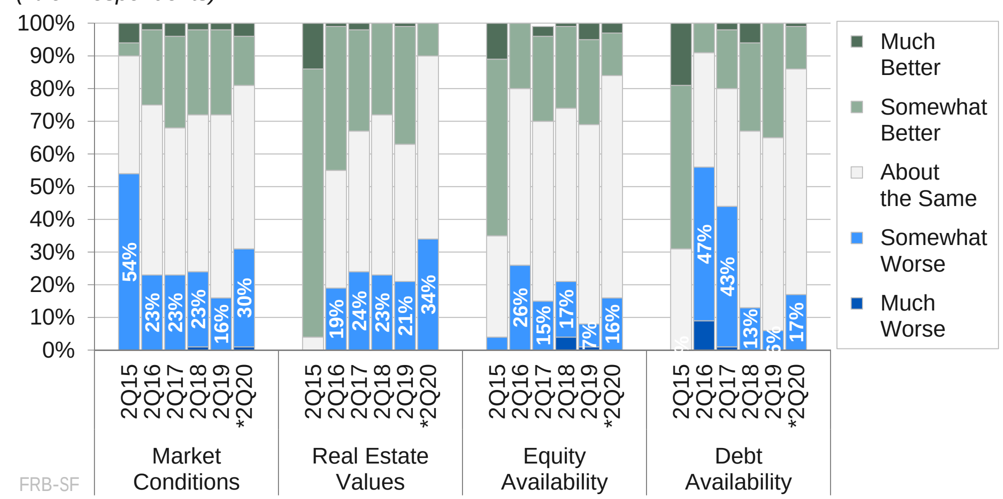
Expected Change in CRE Values in the Next 12 Months
(% of Surveyed CRE Investors)



2H18 included 543 respondents surveyed in 3Q18; 1H19 included 661 respondents surveyed in February 2019. Source: Marcus & Millichap *CRE Investment Outlook Special Reports*.

23 Another survey noted brighter sentiment about current CRE conditions but some concerns about the future.

CRE Investor Sentiment Compared with Year Ago or Next Year*
(% of Respondents)



*2Q20 reflects expectations for the next 12 months; survey was conducted by FPL Advisory Group on behalf of The Real Estate Roundtable and measures the views of chief executives, presidents, and other top CRE industry executives regarding conditions in the past 12 months and expectations for the next 12 months. Source: Real Estate Roundtable *Sentiment Index Reports*.

Section 3
Commercial Bank Performance

Earnings

Loan Growth and Concentrations

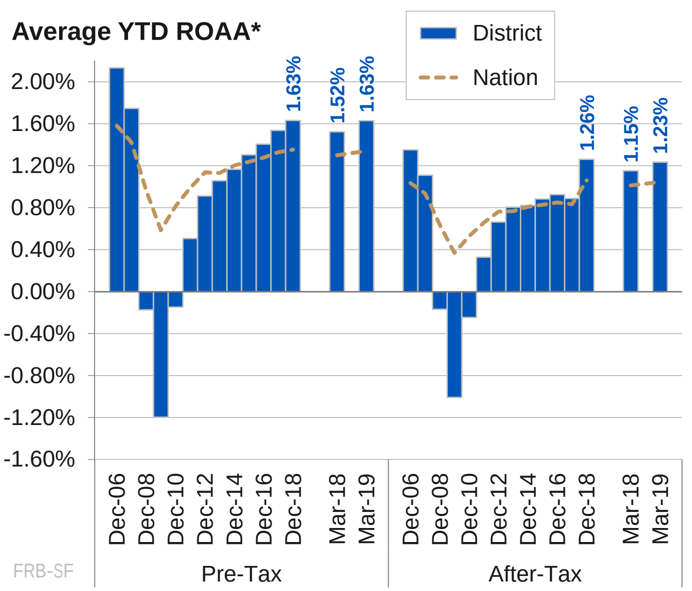
Credit Quality

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.

25 First quarter profits improved year-over-year, led predominantly by wider net interest margins.

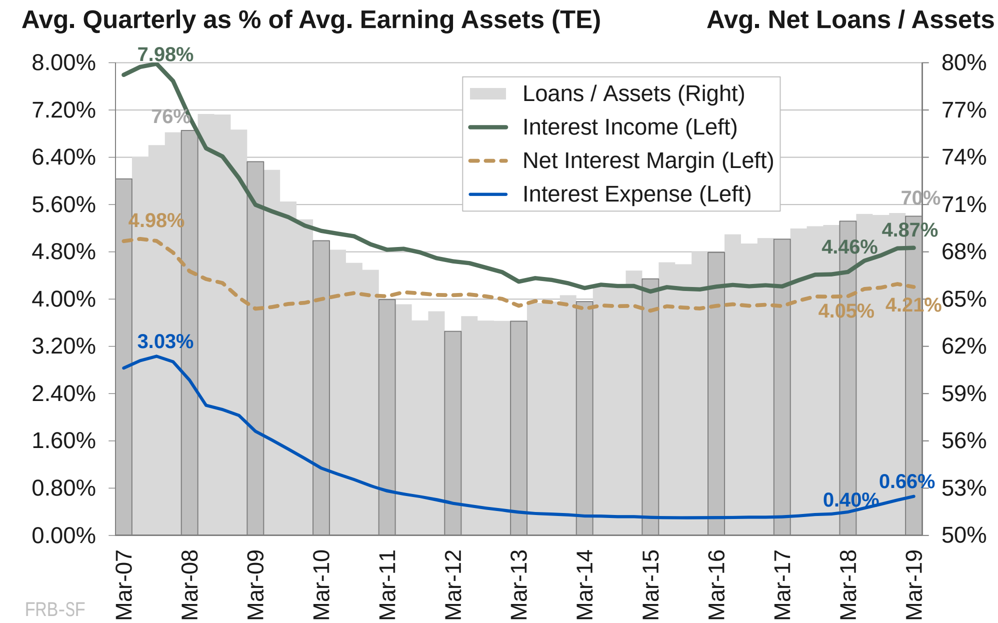


Average YTD as % of Average Assets 12th District *(Expenses = Negative Values)*

Profit Component	Mar-18	Mar-19
Interest Income (TE)	4.21%	4.62%
Interest Expense	-0.38%	-0.63%
Net Int. Income (TE)	3.83%	3.99%
Nonint. Income	0.58%	0.53%
Nonint. Expense	-2.89%	-2.89%
Provision Expense	-0.05%	-0.06%
Tax Expense (TE)	-0.33%	-0.36%

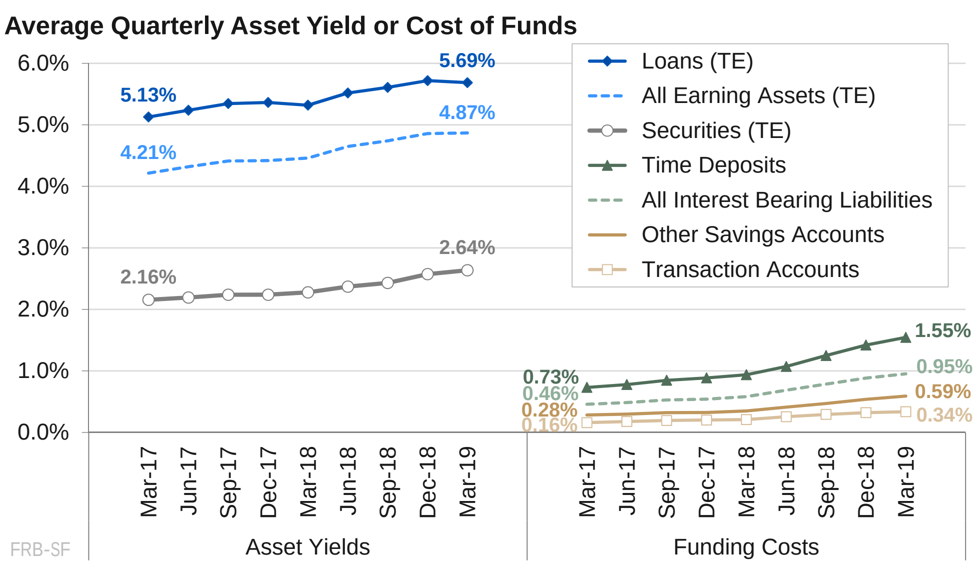
Average = trimmed mean; YTD = year-to-date (annualized); *ROAA = return on average assets (net income/average assets), with theoretical tax expense deducted from Subchapter S filers for after-tax ratio; TE = tax equivalent (yields and applicable tax expense adjusted for tax-exempt revenues).

26 But the average quarterly margin eased—funding costs increased as seasonal factors pressured asset yields.



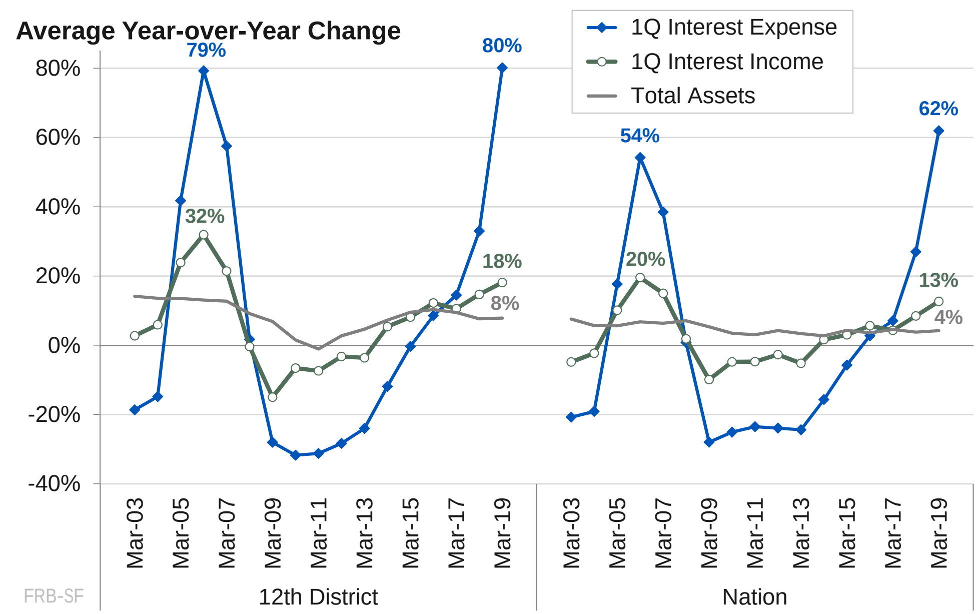
Average = trimmed mean (12th District banks only); one-quarter annualized data; TE = tax equivalent.

27 In the past few years, loan yields have drifted up, but funding costs have essentially doubled from a low base.



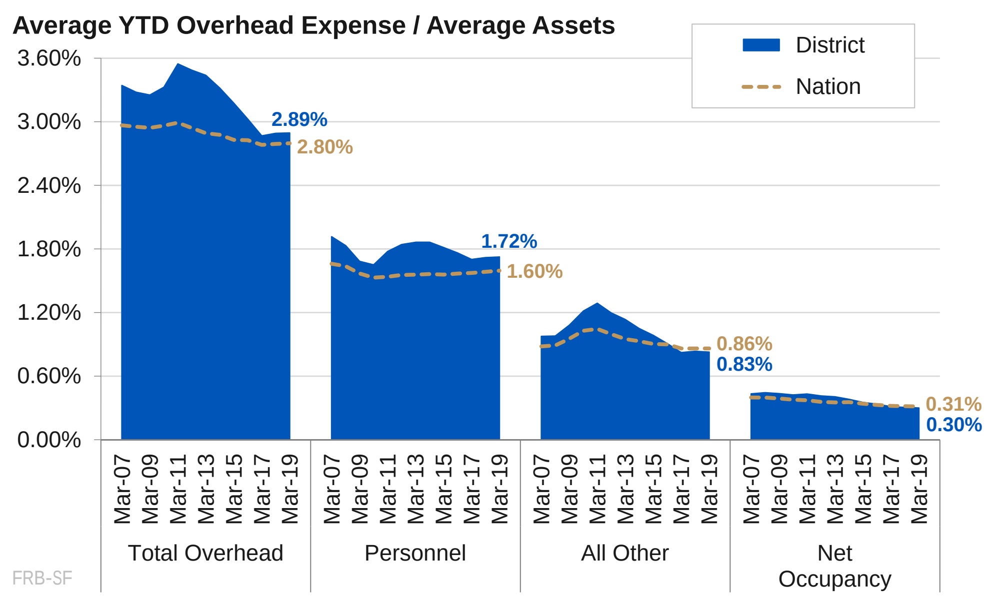
Average = trimmed mean (12th District banks only); one-quarter annualized data; TE = tax equivalent; transaction accounts = interest-bearing demand deposits, NOW accounts, ATS accounts, and telephone and preauthorized transfer accounts; other savings accounts = MMDA, passbook, and other non-time deposit savings products; all interest bearing liabilities include interest-bearing deposits, federal funds purchased, repurchase agreements, and other borrowings.

28 Annual growth in interest expense accelerated to a pace last seen in the 2004-06 rate tightening cycle.



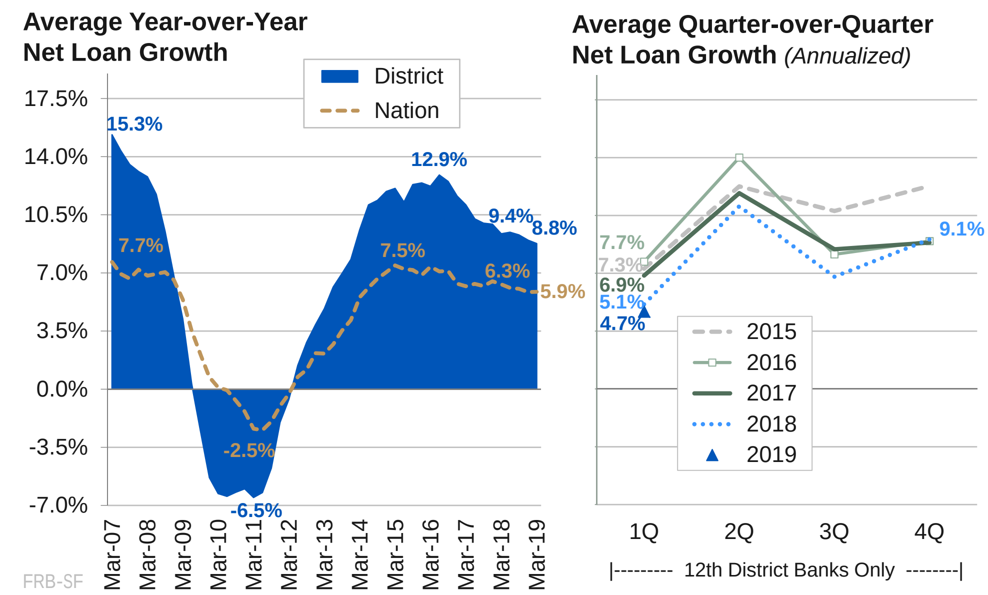
Average = trimmed mean; 1Q = first quarter; growth rates are not merger-adjusted.

29 Personnel expense growth outpaced increases in assets as well as occupancy and other overhead expenses.



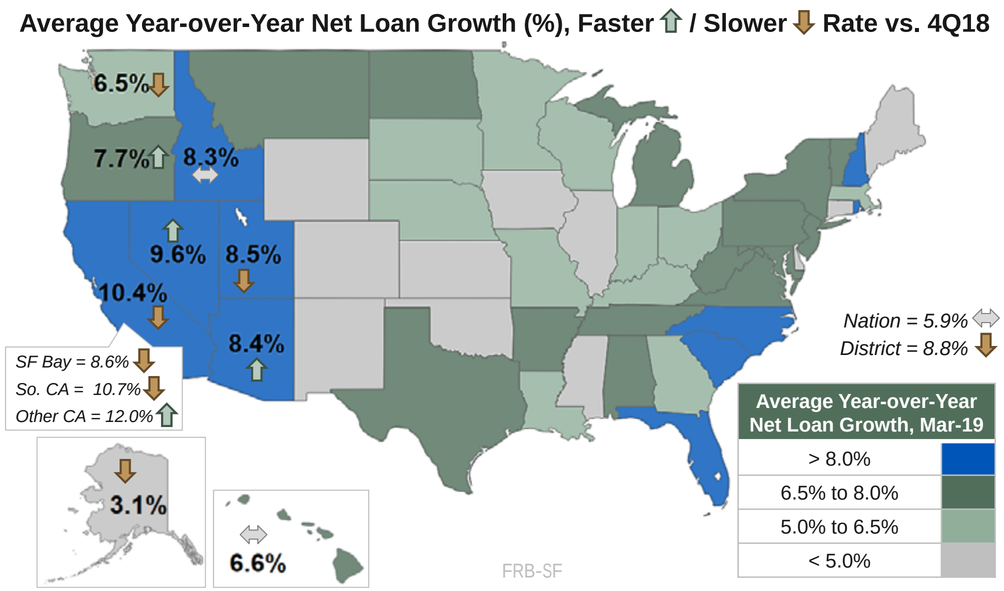
Average = trimmed mean; YTD = year-to-date (annualized); overhead = noninterest expense; components will not sum to overall overhead ratio because of trimmed average properties.

30 Annual net loan growth slowed further; quarterly growth also dipped, driven partly by seasonal factors.



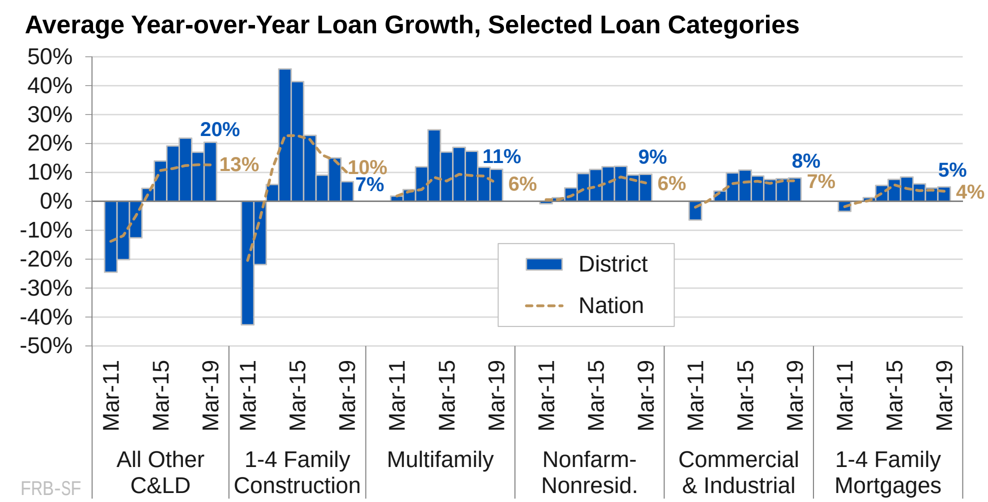
Average = trimmed mean; growth rates are not merger-adjusted; includes loans and leases held for sale and for investment, net of allowances for loan and lease losses.

31 District states' average net loan growth generally outpaced the U.S., but slowed compared with 4Q18.



Average = trimmed mean; growth for loans net of allowances for loan losses, not merger-adjusted; NV excludes zero loan and credit card banks. SF Bay = 37 banks based in San Francisco-San Jose Combined Statistical Area (CSA); So. CA = 69 banks based in Los Angeles CSA + San Diego metropolitan area; Other CA = 33 banks based in all other areas.

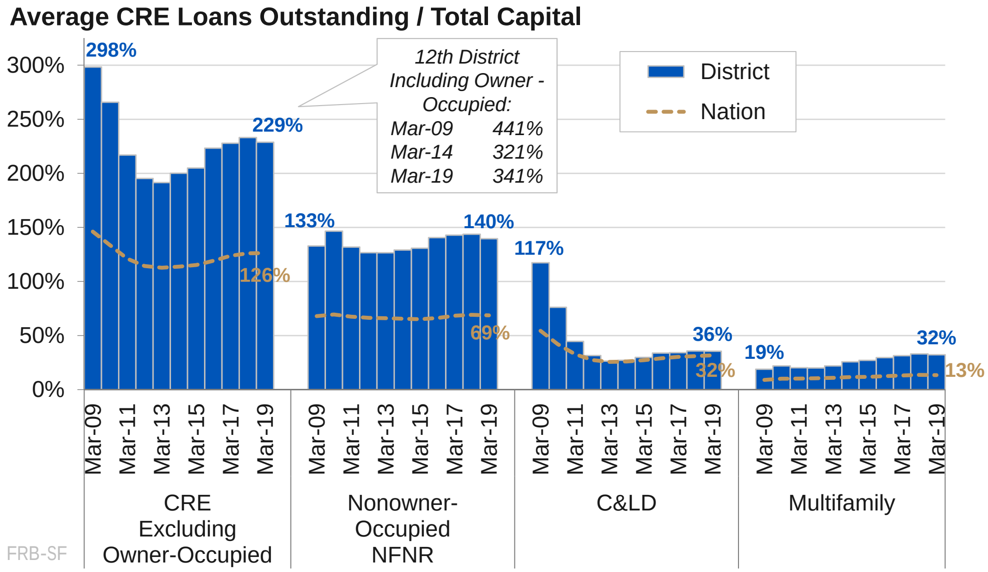
32 With the exception of 1-4 family construction, CRE-related loan growth continued to outpace the nation.



Memo: Average Concentration to Total Capital, Mar-19						
District	23.48	9.68	32.24	247.54	82.57	76.07
Nation	19.34	10.09	13.42	141.05	70.52	136.01

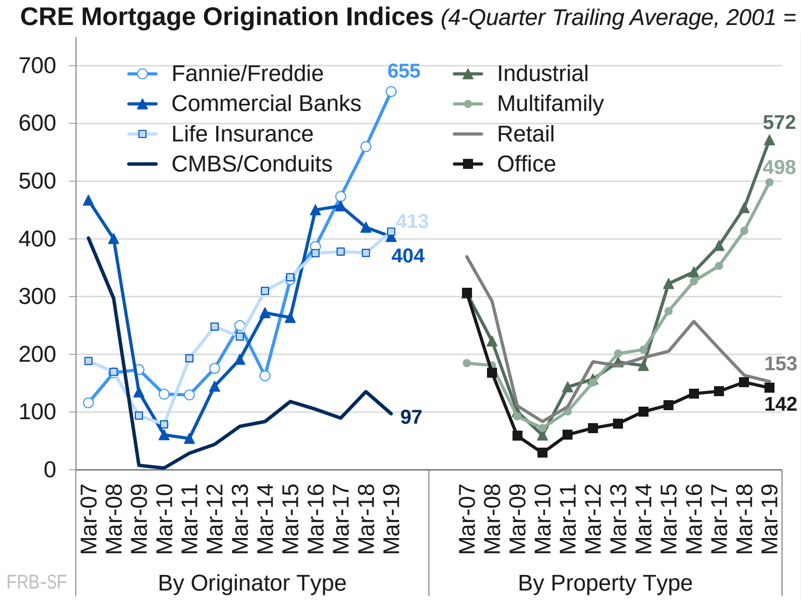
Average = trimmed mean; growth rates are not merger-adjusted; C&LD = construction and land development; nonfarm-nonresidential includes mortgages with owner-occupied collateral.

33 Still, nowner-occupied CRE concentrations eased as total increases in capital eclipsed CRE loan growth.



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; components will not sum to overall CRE concentration because of trimmed average properties and other CRE-purpose loans not itemized here.

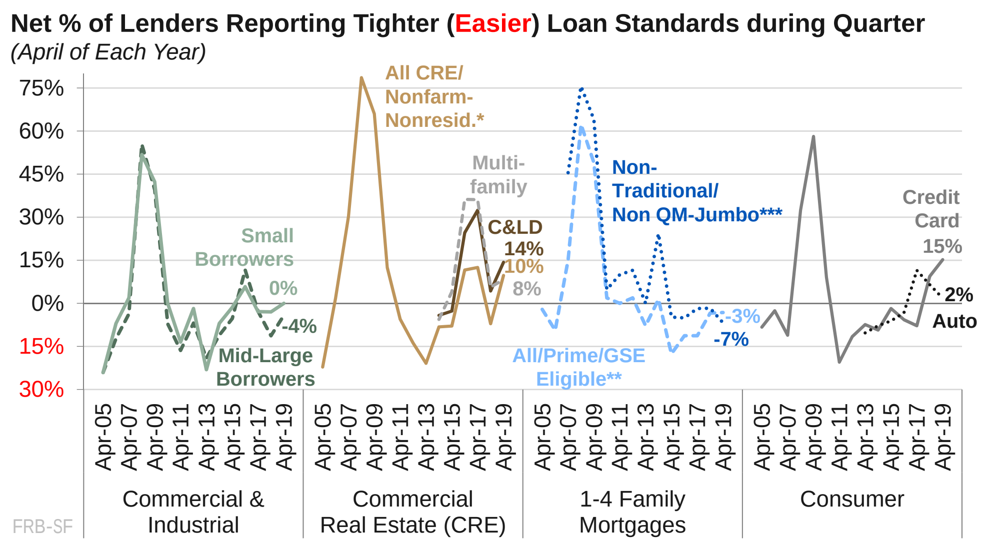
34 CRE mortgage originations have been under pressure at banks, but intensified at GSEs, led by multifamily.



Per MBA, 1Q19 CRE originations increased 12% year-over-year, but sank 34% quarter-over-quarter, driven by seasonal factors. Growth among GSEs and insurance companies continued to outpace banks and CMBS/ Conduits. Year-over-year growth in industrial property loans far outpaced other sectors.

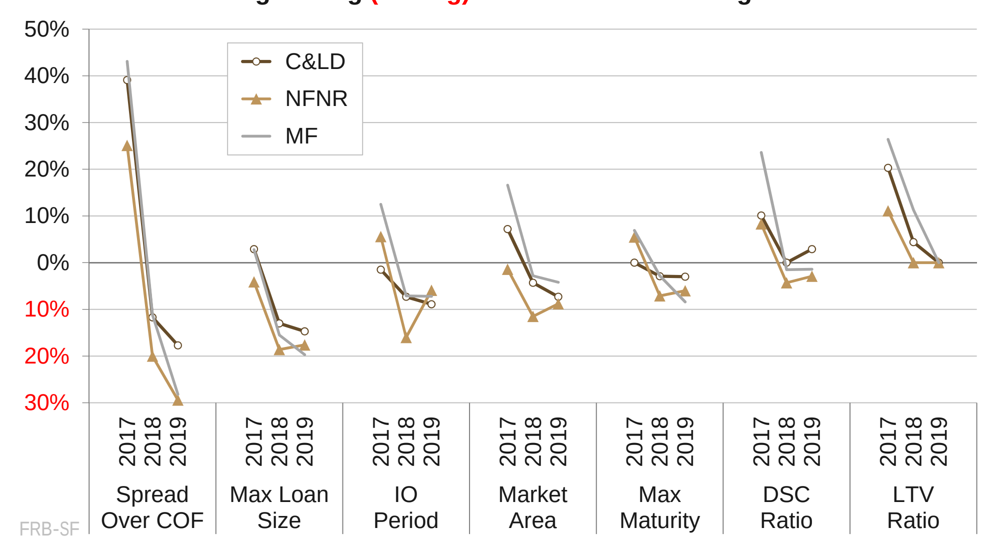
GSE = government sponsored enterprises (Fannie/Freddie) specialize in multifamily. Source: Mortgage Bankers Association (MBA).

35 Although a small share of bank lenders indicated tightening of CRE loan standards during the quarter . . .



Based on a sample of 70+/- loan officers at domestic banks (number varies by period and loan type); C&LD = construction and land development; *includes all CRE loans prior to Oct-13; **includes all residential mortgages prior to Apr-07, "prime" mortgages Apr-07 to Oct-14, and GSE-Eligible starting Jan-15; ***includes "nontraditional" mortgages Apr-07 to Oct-14 and Non QM Jumbo mortgages starting Jan-15. Source: Federal Reserve (FR) *Senior Loan Officer Opinion Survey,* https://www.federalreserve.gov/data/sloos.htm) via Haver Analytics.

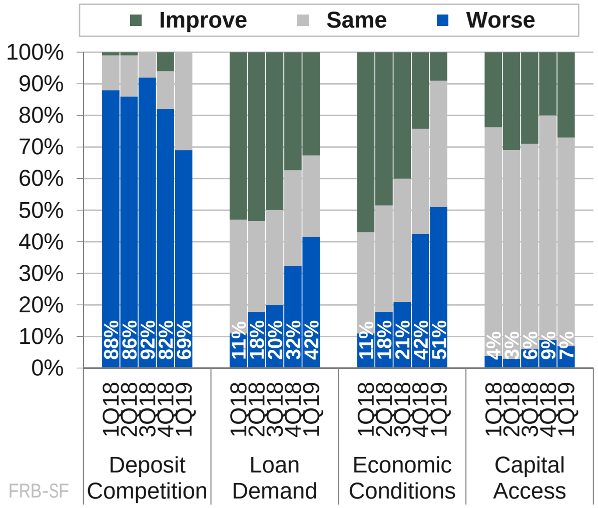
36 . . . others noted loosening of certain CRE terms in the past year, most notably pricing, size, and IO period.



Based on sample 70+/- senior lenders; C&LD = construction and land development; NFNR = nonfarm-nonresidential mortgages; MF = multifamily; COF = cost of funds; IO = interest only; DSC = debt service coverage; LTV = loan-to-value. Source: Federal Reserve *Senior Loan Officer Opinion Survey*, April 2019.

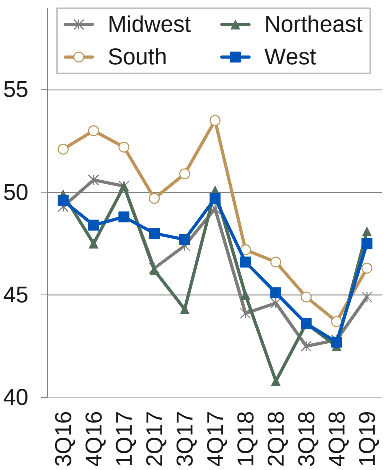
37 Deposit pressures eased, lifting banker sentiment, but concerns about loan demand and the economy lingered.

Expectations in Next 12 Months – West Area



Bank Confidence Index

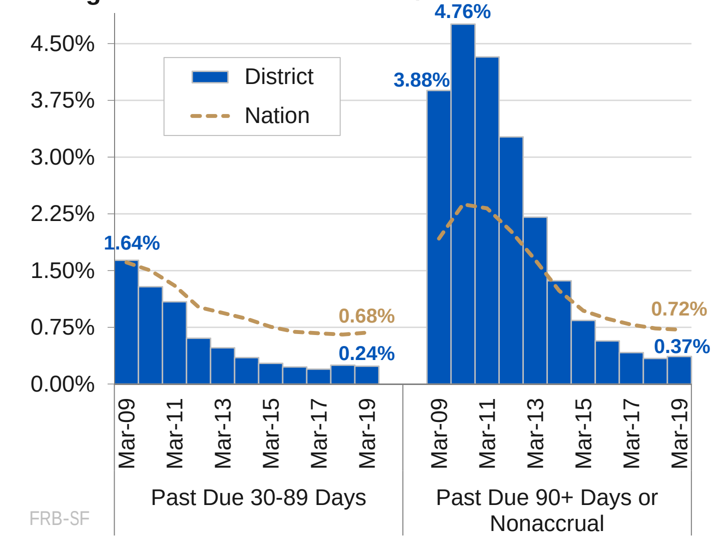
Above 50 Considered Expansionary



1Q19 data based on a nationwide survey of bank chief executive officers, chief financial officers, and presidents at 453 institutions, queried between April 2 and April 12, 2019; Confidence is scored based on perceptions of deposit competition, funding costs, loan demand, and access to capital (economic conditions are not a factor); West = Kansas City/San Francisco Districts; Midwest = Chicago/Cleveland/Minneapolis/St. Louis Districts; South = Atlanta/Dallas/Richmond Districts; Northeast = Boston/New York/Philadelphia Districts. Source: Promontory Interfinancial Network *Bank Executive Business Outlook Surveys*.

38 The average past-due ratio edged higher quarter-over-quarter, driven mainly by C&I performance.

Average Past Due or Noncurrent / Gross Loans & Leases



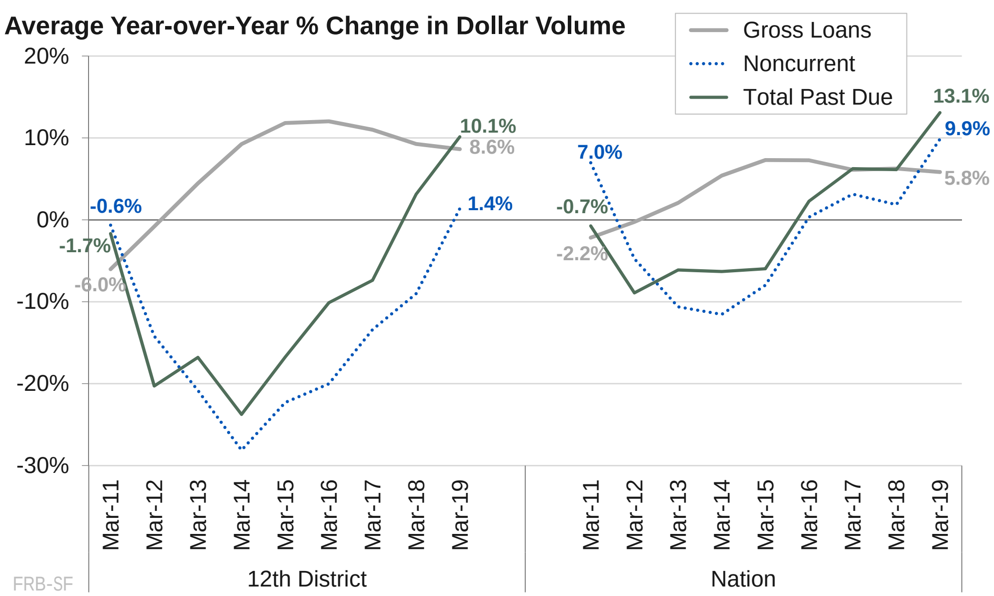
Avg. % Past Due 30+ Days or Nonaccrual 12th District

Loan Type	Mar-18	Dec-18	Mar-19
C&I	0.69	0.65	0.78
1-4 Family	0.62	0.59	0.49
Agriculture	0.41	0.31	0.40
NFNR	0.33	0.28	0.34
Owner-Occ	*0.41*	*0.36*	*0.41*
Other	*0.11*	*0.07*	*0.11*
Consumer	0.24	0.32	0.28
Credit Card	*0.84*	*0.86*	*0.79*
Other	*0.16*	*0.24*	*0.22*
Auto	*0.17*	*0.18*	*0.14*
C&LD	0.20	0.16	0.13
All Loans	0.69	0.64	0.68

Average = trimmed mean; loans past due 30-89 days are delinquent but still accruing interest (early-stage); noncurrent = loans past due 90+ days or on nonaccrual status; C&I = commercial & industrial; NFNR = nonfarm-nonresidential mortgages; C&LD = construction & land development; average overall past due ratio differs from the sum of the average 30-89 day rate plus the average noncurrent rate because each ratio is trimmed and averaged separately.

39 Annual growth in delinquencies outpaced increases in gross loans, which could pressure past-due ratios.

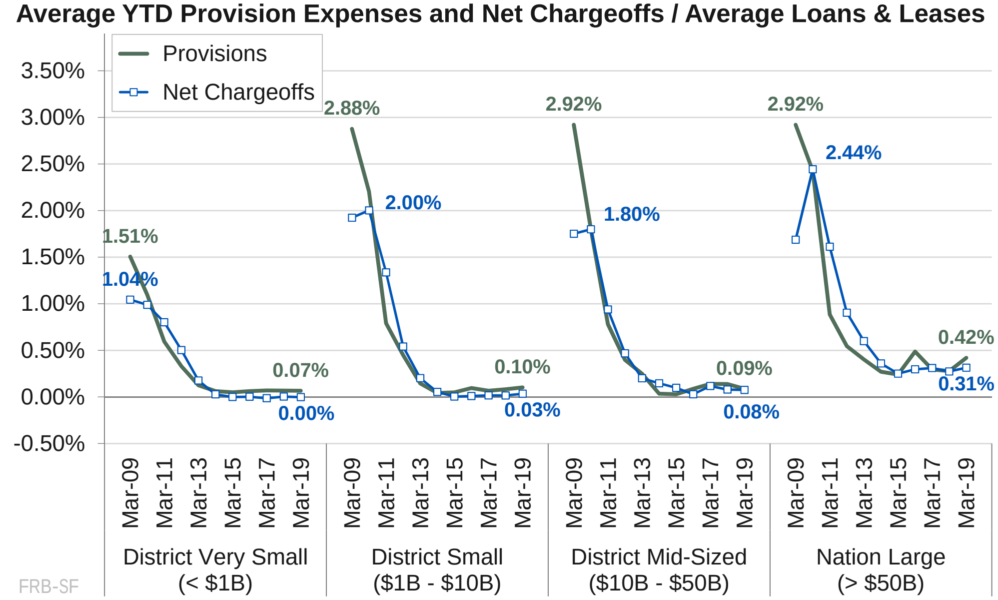
Average Year-over-Year % Change in Dollar Volume



Average = trimmed mean; total past due = loans past due 30+ days past due or on nonaccrual status; noncurrent = loans past due 90+ days or on nonaccrual status.

40 Year-to-date net charge off and provision expense ratios remained highest (and increased) among large banks.

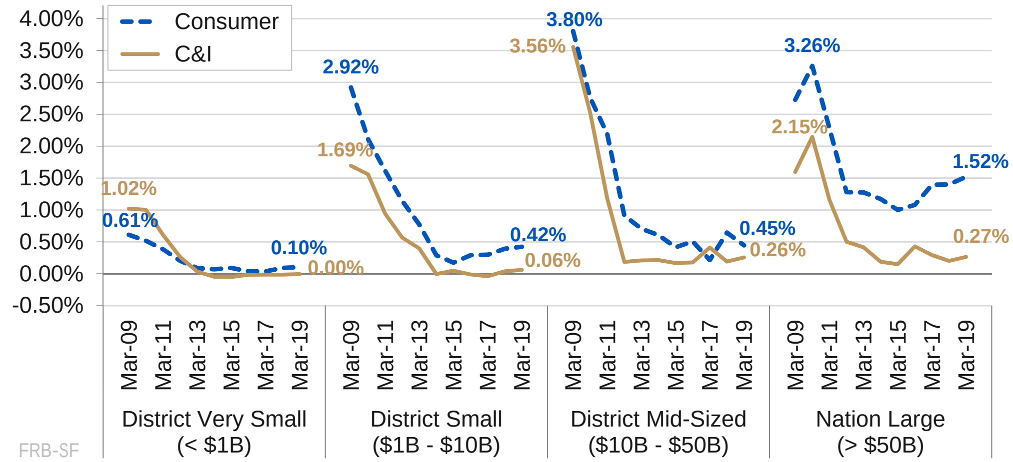
Average YTD Provision Expenses and Net Chargeoffs / Average Loans & Leases



Average = trimmed mean; YTD = year-to-date (annualized).

41 Chargeoffs at large banks continued to be led by higher holdings of and losses on C&I and/or consumer loans.

Average YTD Net Chargeoffs / Average Loans by Category



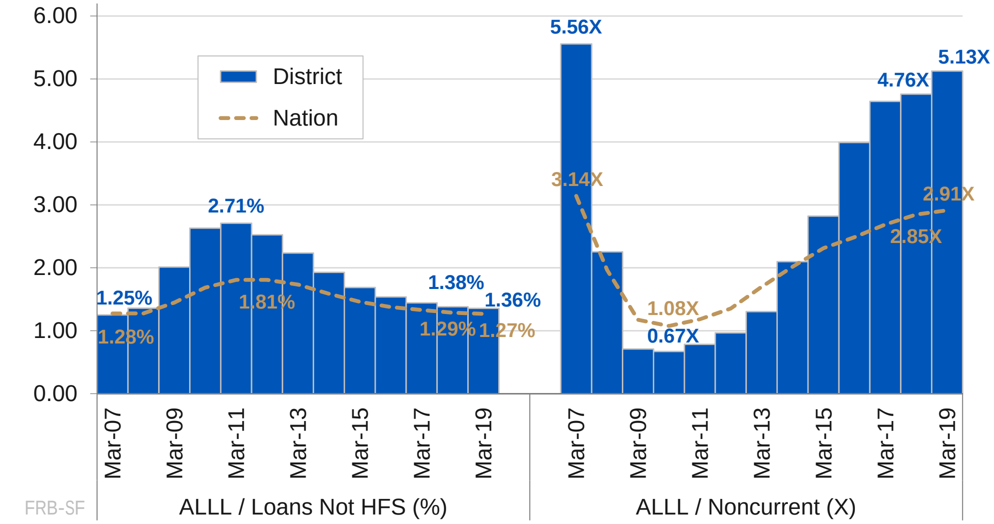
Memo: Average Concentration to Total Capital, Mar-19

	District Very Small	District Small	District Mid-Sized	Nation Large
Consumer	4.57	8.12	5.43	84.80
C&I	79.43	74.44	111.23	141.77

Average = trimmed mean; YTD = year-to-date (annualized); C&I = commercial and industrial; consumer includes credit cards, auto loans, and other loans to individuals for household, family, and other personal expenditures.

42 Loan loss allowances continued to lag loan growth but outpaced increases in noncurrent loans.

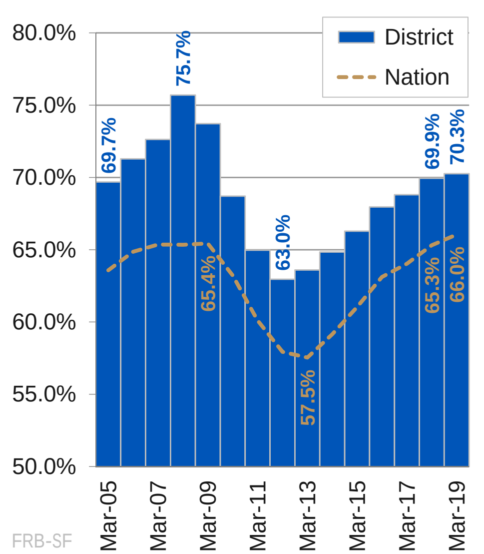
Average ALLL Coverage of Loans not HFS (%) and Noncurrent Loans (X)



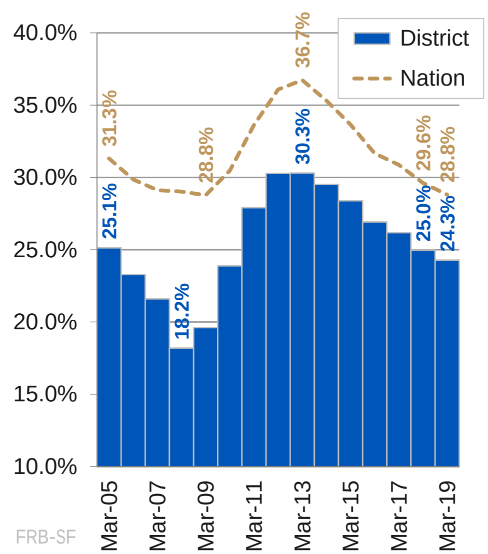
Average = trimmed mean; ALLL = allowance for loan and lease losses; HFS = held for sale; noncurrent = loans past due 90+ days or on nonaccrual status.

43 On-balance sheet liquidity tightened year-over-year, but District average remained better than pre-crisis levels.

Net Loans and Leases / Assets*

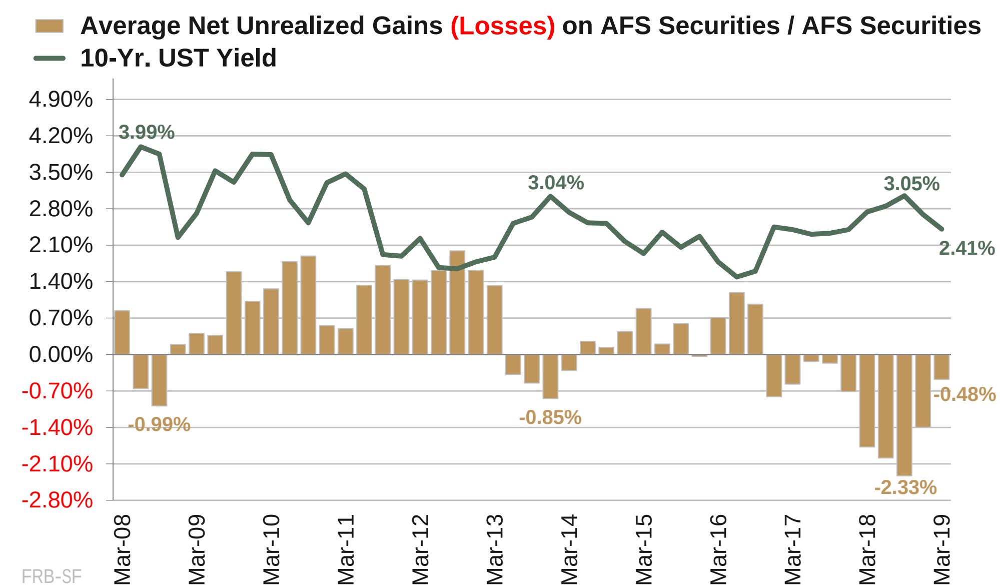


Securities + Liquid Invest. / Assets*



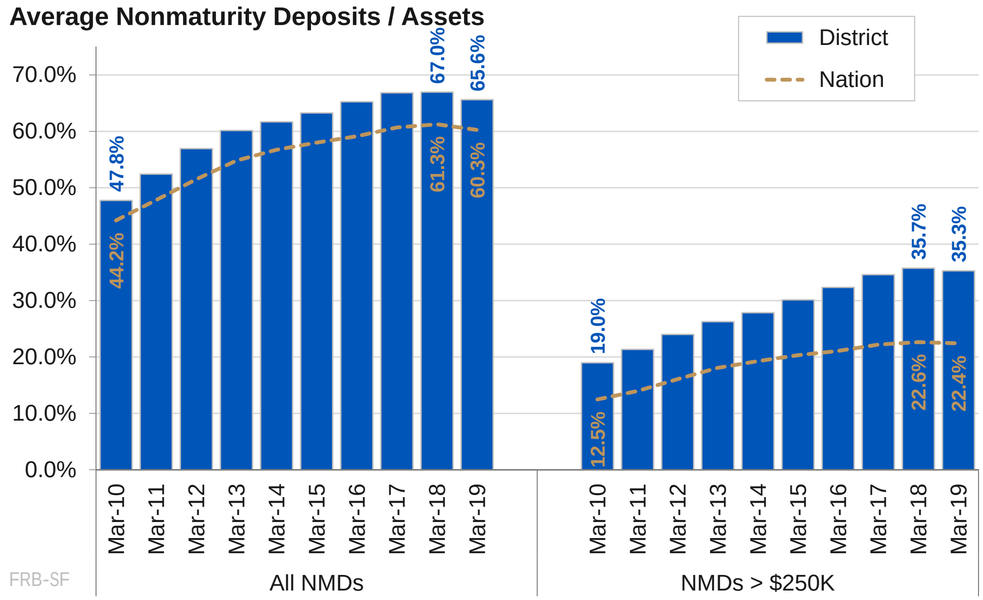
*All data are averages (trimmed means); liquid investments = cash, due from balances, interest bearing balances, and federal funds sold & securities purchased under agreements to resell.

44 1Q19 declines in long-term interest rates moderated net unrealized losses within bank bond portfolios.



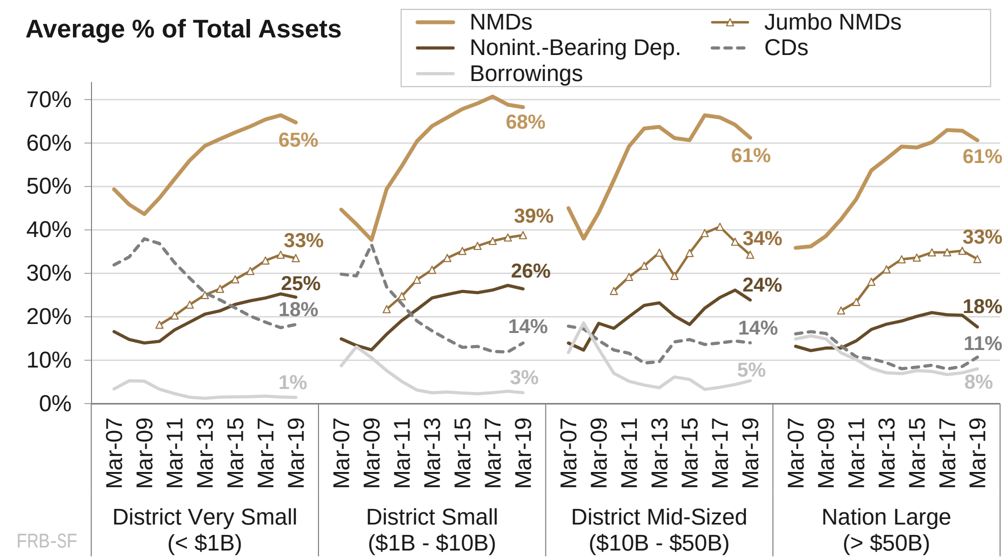
Average = trimmed mean (12th District banks only); AFS = available-for-sale; changes in valuation reported net of deferred tax effects; UST = end of period U.S. Treasury yield at a constant maturity (from Federal Reserve via Haver Analytics); AFS securities excludes equities beginning with the March 2018 Call Report.

45 Funding mix shifted as total and jumbo NMDs increases trailed balance sheet growth.



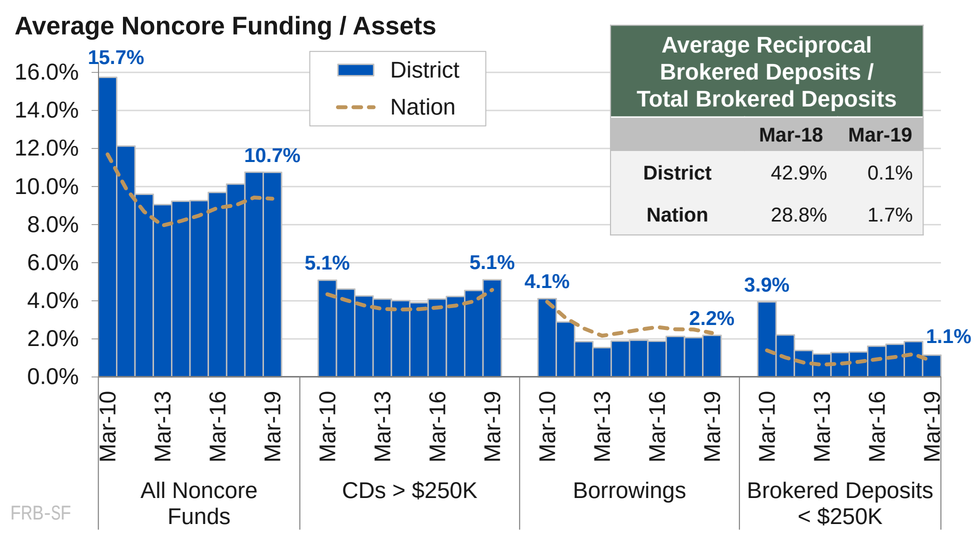
Average = trimmed mean; NMD = nonmaturity deposits (all deposits excluding time deposits); jumbo = > $250K.

46 Banks turned to costlier funding as NMD growth slowed, in particular large and/or noninterest-bearing accounts.



Average = trimmed mean; NMD = nonmaturity deposit (includes noninterest-bearing deposits); jumbo => $250k (beginning in 2010); CD = certificate of deposit; borrowings = federal funds purchased, repurchase agreements, federal home loan bank advances, and other borrowed money; in response to market dislocation, the FDIC provided an unlimited guarantee on certain transaction accounts between Oct-08 and Dec-10, which was extended with modification through Dec-12.

47 Noncore funding ratios flattened year-over-year, led by changes in the reporting of certain reciprocal deposits.

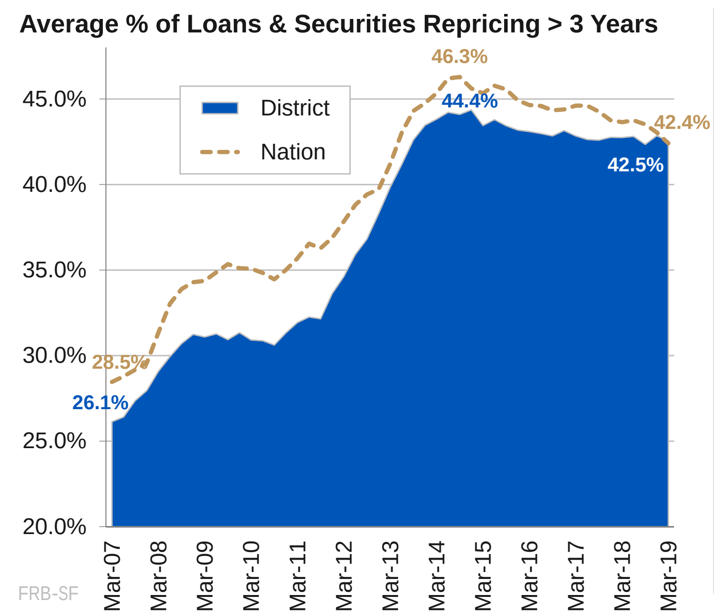


Average Reciprocal Brokered Deposits / Total Brokered Deposits

	Mar-18	Mar-19
District	42.9%	0.1%
Nation	28.8%	1.7%

Average = trimmed mean; noncore liabilities = sum of borrowings (e.g., federal funds purchased, repurchase agreements, and other borrowed money), foreign deposits, certificates of deposit > $250K, and brokered deposits < $250K; beginning with the June 2018 Call Reports, qualifying (generally well-rated and well-capitalized) banks could opt to discontinue reporting reciprocal deposits as brokered so long as they aggregated less than $5 billion or 20% of total liabilities, as permitted under the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA) of 2018.

48 Investments in longer-term loans and securities remained elevated in the District, receded nationally.



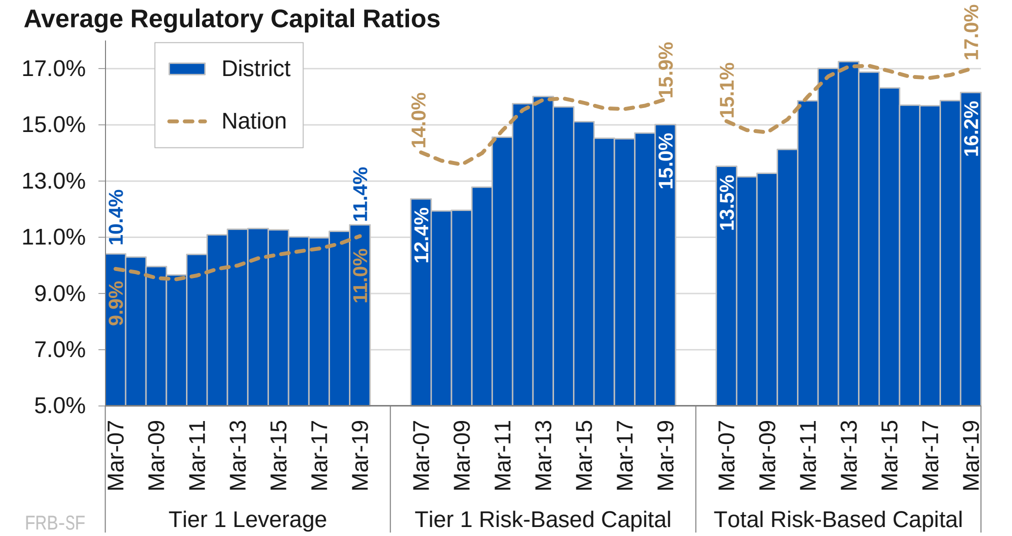
Average % of Loans & Securities Repricing > 3 Years

FRB-SF	2006-19*	Mar-19
AK		53.9%
OR		51.1%
HI		48.3%
NV		47.3%
AZ		46.3%
WA		46.1%
CA		43.2%
ID		34.0%
UT		31.7%
Nation		42.4%

◆ = trough ◆ = peak

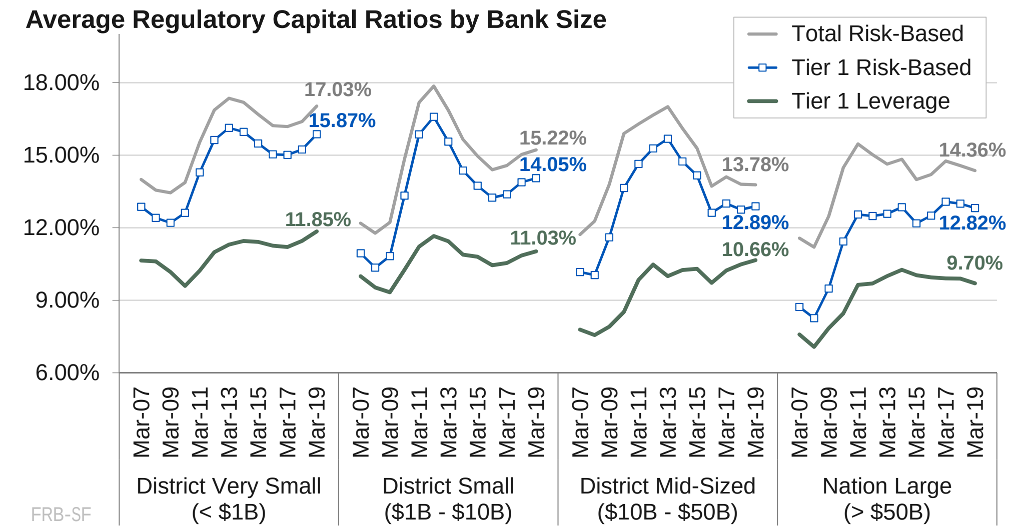
Average = trimmed mean; *March 31st of each year; NV excludes credit card and zero-loan banks.

49 Average capital ratios improved to the highest 1Q levels since 2015, lifted by solid profits and slowing growth.



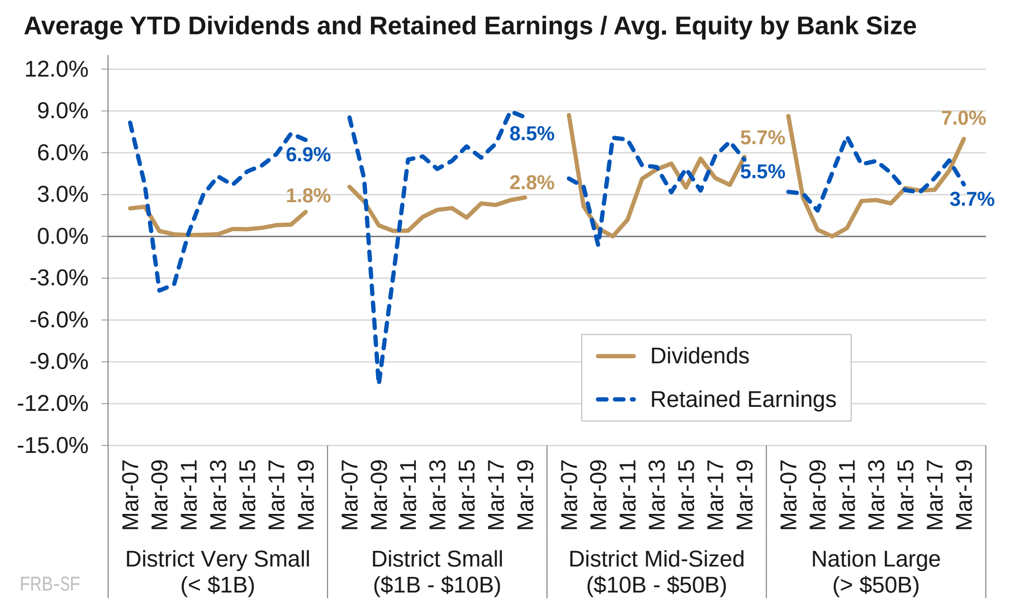
Average = trimmed mean; new risk-based capital rules that became effective March 2015 for most banks (March 2014 for some larger/more complex banks) included the phase out of some capital instruments and higher risk weights on some asset and off-balance sheet commitment categories; beginning with the June 2018 Call Report, banks could opt to implement changes to the definition of high volatility commercial real estate (per the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018), which may have reduced risk weightings for a generally small subset of assets previously weighted at 150%.

50 Gains in risk-based capital ratios were more common at smaller banks than mid-sized/large ones.



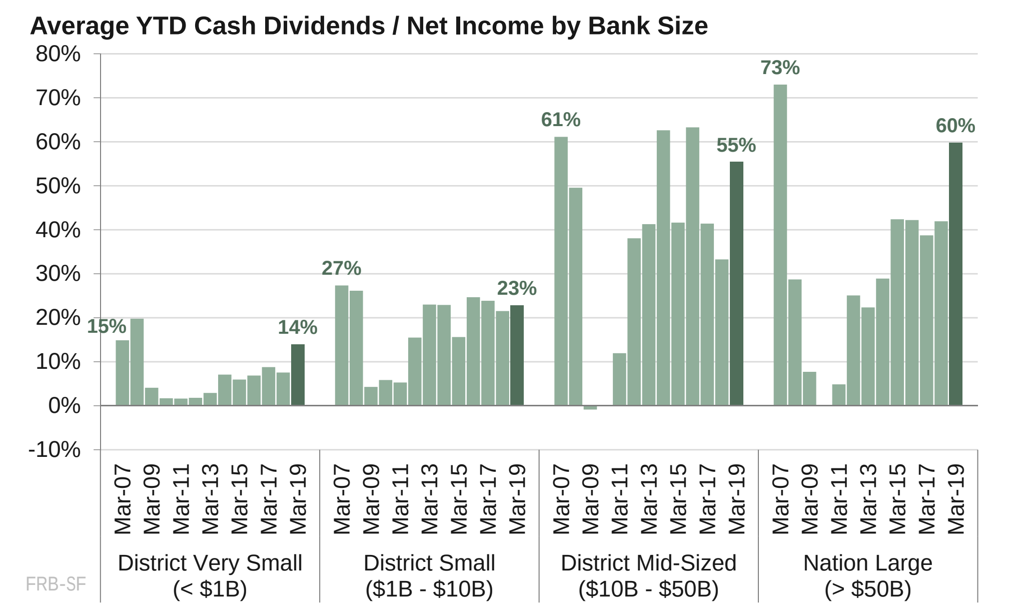
Average = trimmed mean; new risk-based capital (RBC) rules that became effective March 2015 for most banks (March 2014 for some larger/more complex banks) included the phase out of some capital instruments and higher risk weights on some asset and off-balance sheet commitment categories; beginning with the June 2018 Call Report, banks could opt to implement changes to the definition of high volatility commercial real estate (per the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018), which may have reduced risk weightings for some assets previously weighted at 150%.

51 Smaller bank capital performance reflected comparatively stronger earnings retention.



Average = trimmed mean; YTD = year-to-date (annualized); as of 1Q19, roughly 16% of District very small banks, 5% of District small banks, and none of the mid-sized or large banks were Subchapter S tax filers.

52 Mid-sized/large banks paid out a majority of their profits, usually to support HC share repurchases/dividends.



Average = trimmed mean; HC = holding company; YTD = year-to-date (annualized); as of 1Q19, roughly 16% of District very small banks, 5% of District small banks, and none of the mid-sized or large banks were Subchapter S tax filers.

Appendices

Summary of Institutions

Technical Information

Appendix 1: Summary of Institutions

Area	Commercial Banks (De Novos)		Industrial Banks (De Novos)		Savings Institutions (De Novos)	
	Mar-18	*Mar-19*	*Mar-18*	*Mar-19*	*Mar-18*	*Mar-19*
AK	4 (0)	4 (0)	-	-	1 (0)	1 (0)
AZ	15 (0)	15 (0)	-	-	-	-
CA	154 (3)	139 (2)	3 (0)	3 (0)	11 (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	12 (0)	12 (0)	-	-	1 (0)	1 (0)
NV	11 (0)	11 (0)	4 (0)	4 (0)	3 (0)	4 (1)
OR	16 (0)	15 (0)	-	-	3 (0)	2 (0)
UT	27 (0)	25 (0)	15 (0)	14 (0)	2 (0)	1 (0)
WA	36 (0)	32 (0)	-	-	10 (0)	9 (0)
12L	282 (3)	260 (2)	23 (0)	22 (0)	34 (0)	32 (1)
U.S.	4,853 (10)	4,653 (13)	25 (0)	24 (0)	726 (1)	682 (1)

Based on preliminary first quarter 2019 data.

Appendix 2: Technical Information & Abbreviations

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, most graphics exclude "De Novo" banks (i.e., 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 <$1 billion, $1-$10 billion, and $10-$50 billion, respectively. The "Large" bank group uses banks with assets >$50 billion nationwide because these banks typically operate beyond the District's geographic footprint and a larger statistical population is needed to construct trimmed means.

Commonly Used Abbreviations:

AFS	Available for sale	**HFS**	Held for sale
ALLL	Allowance for loan and lease losses	**MMDA**	Money market deposit account
BSA/ AML	Bank Secrecy Act / Anti-Money Laundering	**NFNR**	Nonfarm-nonresidential
C&I	Commercial & industrial	**NMD**	Nonmaturity deposit
C&LD	Construction & land development	**NOW**	Negotiable order of withdrawal
CD	Certificate of deposit	**ROAA**	Return on average assets
CMBS	Commercial mortgage-backed securities	**TE**	Tax equivalent
CRE	Commercial real estate	**YTD**	Year-to-date