FEDERAL RESERVE BANK OF SAN FRANCISCO

First Glance 12L (3Q17)

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

Bank Margins Made Headway Amid Slackening Job and Loan Growth

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This report is based upon preliminary data from 3Q17 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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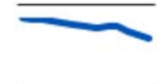
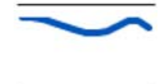
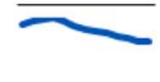
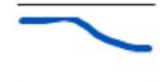
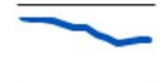
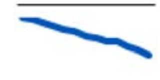
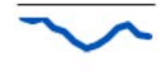
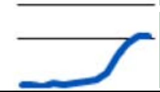
12th District Overview
"Bank Margins Made Headway Amid Slackening Growth"

Solid but decelerating employment growth in the District continued to outpace the nation. 12th District (District) nonfarm jobs expanded 1.8% year-over-year, slower than prior quarters, but still above a national growth rate of 1.4%. Compared with 2Q17, the pace of annual payroll gains decelerated in all District states except California, where growth stabilized, and Alaska, which gained jobs for the first time since late 2015. Tight labor markets contributed to slower job gains.

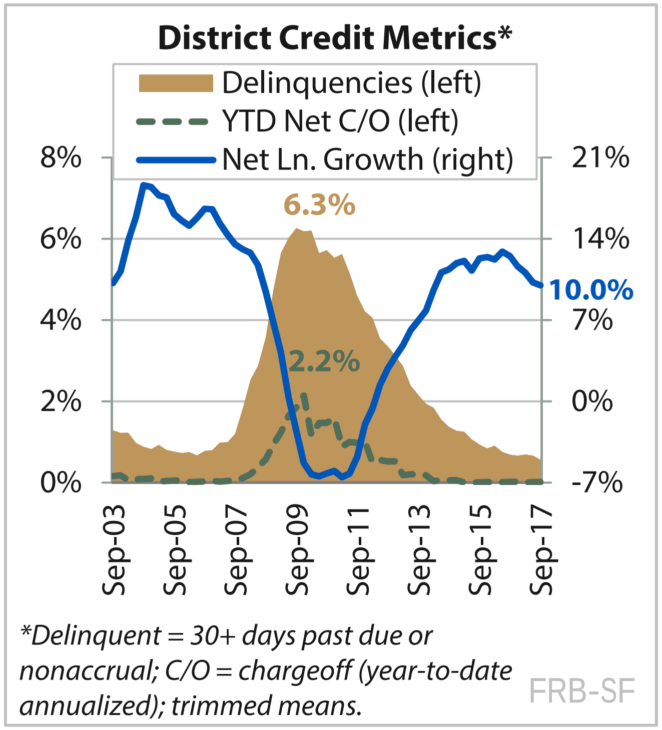
Housing markets continued to be supply-constrained, causing home price appreciation to accelerate. Year-to-date, the West's 1-4 family housing starts increased 13.9% compared with the first nine months of 2016, far above the 8.8% national rate. But 1-4 family homebuilding remained below historical norms and the supply of existing homes for sale also remained tight in relation to demand. Per CoreLogic, the five states with the fastest rate of annual home price appreciation in the nation were in the District, led by double-digit growth rates in Washington and Utah. Annual price appreciation accelerated within seven of the nine District states, most notably in Nevada (ranked 3rd highest rate of appreciation) and Hawaii (ranked 8th). Although improving, Nevada's price index remained nearly 25% below its pre-crisis peak. Favorably, home values in Alaska gained positive traction after suffering during the energy price slump. CoreLogic also estimated that prices in one third of U.S. markets may be "overvalued" in relation to "long-run, sustainable levels" (http://www.corelogic.com/about-us/researchtrends/corelogic-home-price-insights.aspx#).

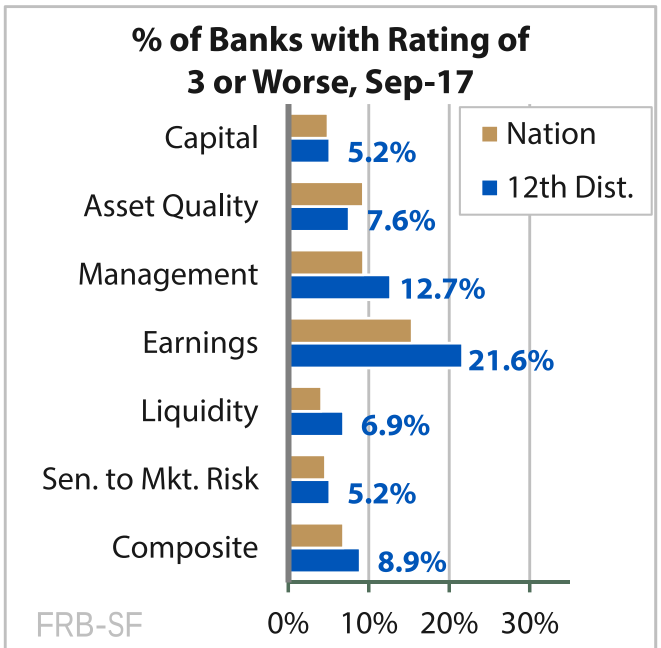
Commercial real estate (CRE) rent growth and vacancy fundamentals remained solid, but supply may begin to outpace demand and investor sentiment has been shifting. CRE construction contributed to modest year-over-year increases in vacancy/availability rates in several of the District's 19 major CRE markets. By 3Q18, CBRE Econometric Advisors expects construction to outpace absorption in several District markets and property types, making vacancy rate upticks more widespread. Nationally, commercial real estate (CRE) price appreciation continued, but on lower transaction volumes. Credit remained plentiful, but price appreciation limited investor buying opportunities. Industrial properties remained a particular favorite among investors and lenders, driven in part by strong rent growth. Per a Situs Real Estate Research Corporation (RERC)® institutional investor survey, the industrial sector was perceived as having the best value proposition and investment conditions (especially warehouse). However, on net, more respondents considered it a better time to sell rather than buy CRE across most major building types, suggesting property values may be at or near a peak. Similarly, a November 2017 real estate cycle sentiment survey by *National Real Estate Investor* magazine noted that 59% of respondents believed CRE markets were at a peak, up from 42% in January 2017 and 28% in January 2016.

Nonfarm Job Growth & Unemployment (%)

	Year-Over-Year Job Growth		Unemp. Rate
	12 Mos.	3Q17	3Q17
NV		2.78%	4.70%
UT		2.55%	3.23%
OR		2.43%	3.67%
WA		2.20%	4.53%
ID		2.14%	3.23%
CA		1.66%	4.73%
AZ		1.28%	5.07%
HI		1.11%	2.73%
AK		0.05%	6.70%
US		1.36%	4.37%

Based on change in 3-month moving average; seasonally adjusted. Source: Bureau of Labor Statistics / Haver Analytics





Bank earnings improved. The District's average year-to-date return on average assets (ROAA) ratio (adjusted for Subchapter S tax filers) topped 1.00% for the first time since 2007, and outperformed a national average of 0.90%. Asset yields responded to rising interest rates more strongly than deposit pricing, which remained relatively sticky. This resulted in wider net interest margins on average. Year-over-year declines in overhead expense ratios also contributed to ROAA trends, especially among smaller banks. Improved technologies, stronger credit performance, and industry consolidation have fueled efficiency gains in recent years. Still, regulators have persisting concerns that cost controls may lead to internal control gaps.

Similar to jobs, loan growth decelerated further. The District's average annual net loan growth rate continued to slow to 10.0%, from 12.9% in mid-2016 (see chart at left). However, District loan portfolios continued to expand at a faster clip than the national average of 6.2%. Commercial construction and land development (C&LD) and mortgages against commercial properties remained an outsized source of growth, contributing to higher CRE loan concentrations. Loan delinquencies and chargeoffs remained low overall, but consumer and agricultural loan performance slipped at several banks, in particular mid-sized and large banks. Bay Area-based banks reported strong and accelerating loan growth, improving earnings, and few credit problems ahead of several destructive wildfires north of San Francisco. However, some performance metrics may slip modestly in future quarters as the effects of these fires are felt.

Compared with the same time last year, on-balance sheet liquidity weakened but capital ratios improved. Loan-to-asset ratios edged higher year-over-year and on a linked-quarter basis. Meanwhile, investments in liquid assets and securities dipped further. Notably, securities portfolios, which on average represented 12% of District bank assets, exhibited a potentially riskier profile than that observed nationwide, with District banks holding higher proportions in non-pass through mortgage backed securities (MBS), commercial MBS, and corporate bonds. On the funding side, nonmaturity deposits (NMDs) continued to support the majority of bank balance sheets, propelled in part by growth in deposits greater than $250 thousand. Favorably, strengthening earnings and modest dividend payout rates enabled capital formation to outpace growth in average and risk-weighted assets, lifting regulatory capital ratios on average.

Examination ratings continued to improve. Nine out of ten District banks were rated satisfactory or strong for safety and soundness, the highest proportion since 1Q08. Earnings component ratings continued to fare worse than other areas (see chart at left). In the past twelve months, upgrades outpaced or matched downgrades across all major components. Similarly, more than 95% of District banks 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 areas are drawing heightened supervisory attention within the 12th District based on risk exposures and metrics of Federal Reserve-supervised institutions:

- *Cyberthreats continued to evolve and cybersecurity remained one of the District's top banking risks.* According to Symantec's *Monthly Threat Report*, the email malware rate worsened in September 2017 to one in every 312 emails, and there continued to be millions of new malware variants each month. 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. In 2015, the Federal Financial Institutions Examination Council developed an optional tool to help banks assess the adequacy of their cybersecurity preparedness. For more information, see Federal Reserve Supervision and Regulation (SR) letter 15-9 at 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 of activities being conducted by supervised institutions. BSA/AML-related criticisms noted at bank examinations most often relate to internal controls (e.g., institutional risk assessments, customer due diligence, and suspicious activity monitoring programs). Concerns related to weak program oversight and ineffective independent tests are also emerging as examination themes.

- *Commercial real estate lending concentrations*. CRE (i.e., non-owner occupied nonfarm-nonresidential, multifamily, C&LD, and other CRE-purpose) loan concentrations to capital declined during the recession, but have edged higher in recent years, and averages remained at or above the U.S. average across all District states (see table at right). Increased loan concentration levels, combined with potential competitive easing of underwriting standards and elevated property prices, heighten 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 Statement on Prudent Risk Management for Commercial Real Estate Lending* (SR letter 15-17, available at http://www.federalreserve.gov/bankinforeg/srletters/sr1517.htm).

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

FRB-SF	2007-17**	Sep-17
CA	301%	264.6%
OR	374%	239.6%
WA	342%	232.5%
NV	374%	219.6%
AZ	378%	174.1%
ID	246%	162.4%
HI	163%	154.8%
AK	190%	133.3%
UT	338%	128.6%
Nation	224%	125.2%

*Trimmed means; excludes owner-occupied ; **September of each year

◆ = trough ◆ = peak

Hot Topics: Areas We are Monitoring Most Closely

- *Consumer compliance issues*. In addition to redlining, overdraft practices have gained attention. Consumer overdraft fees generate a significant share of deposit service charges, but not without legal, regulatory, and reputational risk. Litigation and/or regulatory action has occurred at banks that used the "available balance method" when assessing overdraft fees, imposed "continuing negative balance" fees on extended overdrafts, or added overdraft balances to loans without customer authorization.
- *Lengthening asset maturities*. Following the financial crisis, many 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 few years; however, the proportion of longer-dated assets remained elevated. In a rising interest rate environment, longer-term assets are slower to reprice and could mute margin expansion if not appropriately matched, hedged, or managed.
- *Quality of loan growth*. The District's average annual net loan growth continued to outpace the national average in several District states. Economic expansion has played a significant role; however, many loans are underpinned by near-historic collateral values and some lenders loosened standards in recent years per OCC examiner surveys. Even if loan-to-value and debt service coverage ratio policy limits were held steady, if collateral values prove unsustainably high and/or rising interest rates increase debt service requirements on variable rate loans, the risk of default and/or loss increases. Recent credit performance has been good, but now is a critical time in the cycle for bankers to maintain lending discipline and enhance risk management practices.
- *Nonmaturity Deposit (NMD) risk management*. NMDs, which are 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 loan demand outstripped NMD availability. The current scale and size composition of NMDs may leave banks vulnerable. On average, "jumbo" NMDs (i.e., accounts with balances above $250,000) supported 36% of bank assets within the 12th District, up from 20% in 2010 and above a national average of 22%. Larger accounts in particular may be more sensitive to changes in interest rates.
- *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. There is a regulatory concern that banks may not be devoting sufficient resources to back-office operations, internal controls, and compliance programs commensurate with their increasing size and complexity.
- *Financial technology (fintech) opportunities and threats*. Depository institutions have increasingly partnered with fintech companies, and with marketplace lenders in particular. Given the different origination and underwriting methods that consumer fintech lenders may use, banks should closely evaluate transactions for credit risk, fair lending, and unfair/deceptive acts or practices, especially since credit decisions may use nontraditional data sources. Data from Orchard Platform's U.S. Consumer Online Lending Index indicated that online consumer lending returns (a function of yields, loan prices, re/prepayments, and chargeoffs) have stabilized since sinking in late 2016 because of loan losses and pricing. Returns improved modestly in 2017 with rising interest rates.

Section 1
Economic Conditions

Job Growth

Housing Market Metrics

Commercial Real Estate Market Conditions

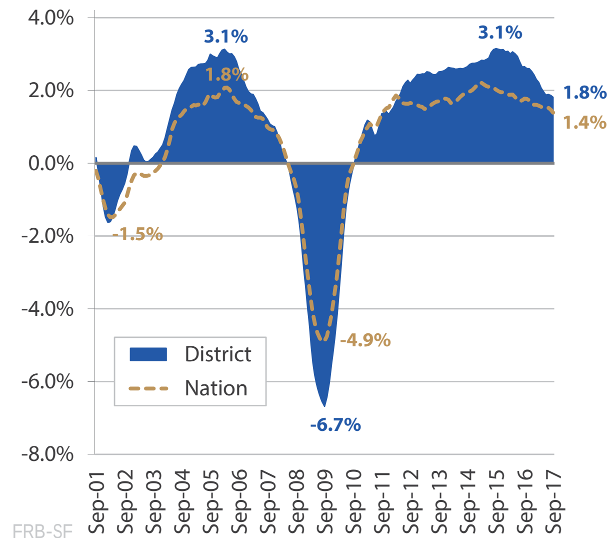
For more information on the District's real estate markets and economy, see:
Real Estate Lending Risks Monitor
(http://www.frbsf.org/banking/publications/real-estate-lending-risks-monitor/)
Banks at a Glance
(http://www.frbsf.org/banking/publications/banks-at-a-glance/)

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 Slowed Further, Which Could Have Implications For Residential and Commercial Real Estate Demand

Economy

Year-Over-Year Nonfarm Job Growth



Job Growth by Sector 12th District

Job Sector	1-Yr % Change 2007-17*	1-Yr % Change 3Q 2017
Construction		5.72%
Educ. & Health Svcs.		3.06%
Leisure & Hospitality		2.32%
Other Private		2.16%
Government		1.79%
Transport. & Utilities		1.40%
Financial Activities		1.34%
Wholesale Trade		1.27%
Prof. & Business Svcs.		0.93%
Information		0.85%
Retail Trade		0.75%
Manufacturing		0.21%
Total		1.81%

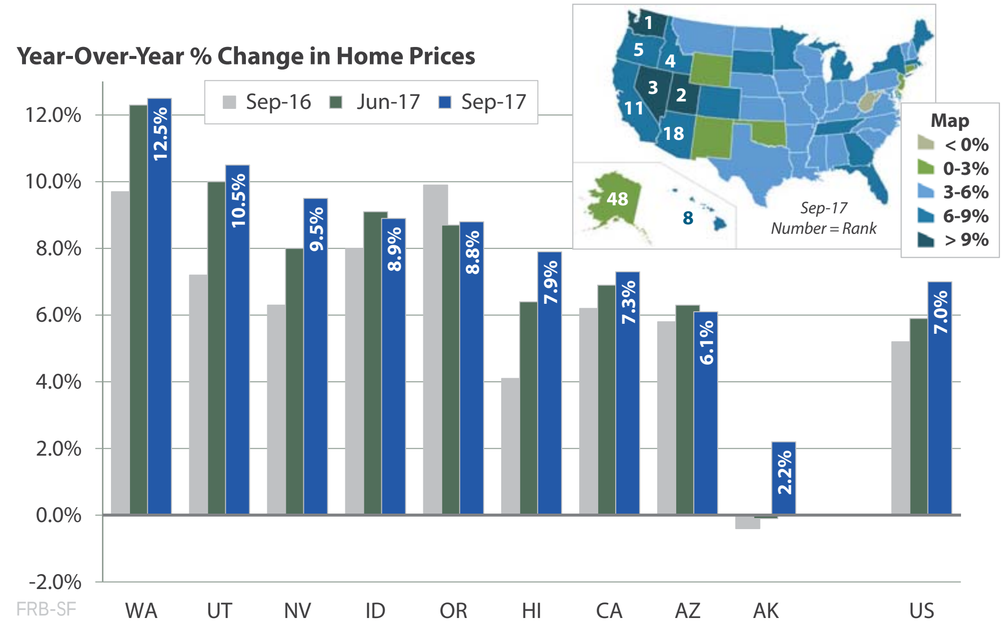
Note: Construction sector includes mining in HI; Information sector excludes HI and NV.

Based on average nonfarm payroll levels over trailing three months; data are preliminary estimates; *year-over-year change in sector table as of third quarter of each year. Source: Bureau of Labor Statistics via Haver Analytics.

Home Price Appreciation Rates Accelerated in Most District States; Top Five States for Price Gains All in the District

Economy

Year-Over-Year % Change in Home Prices



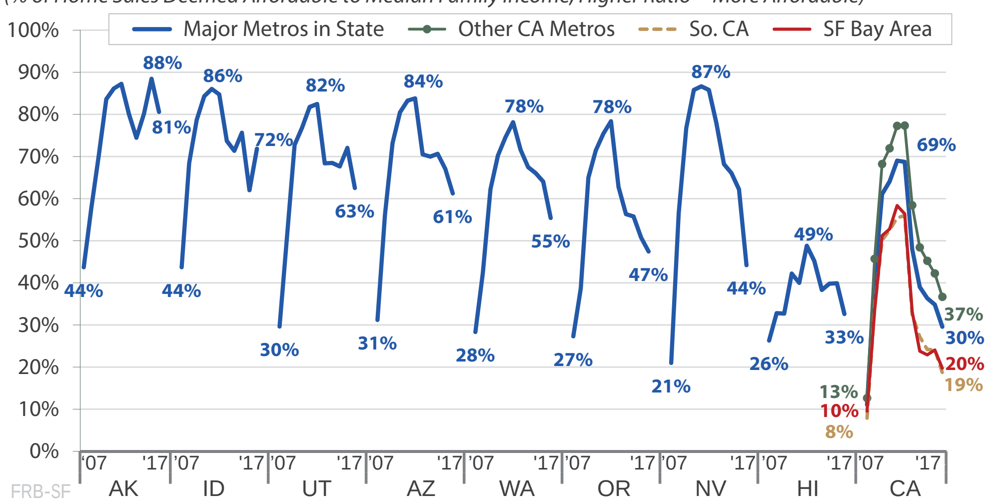
Source: CoreLogic (includes all detached and attached homes, including distressed sales).

Housing Affordability Remained Under Pressure in Most District Markets, Especially California and Hawaii

Economy

Un-weighted Average Market Housing Opportunity Index, September Each Year

(% of Home Sales Deemed Affordable to Median Family Income; Higher Ratio = More Affordable)

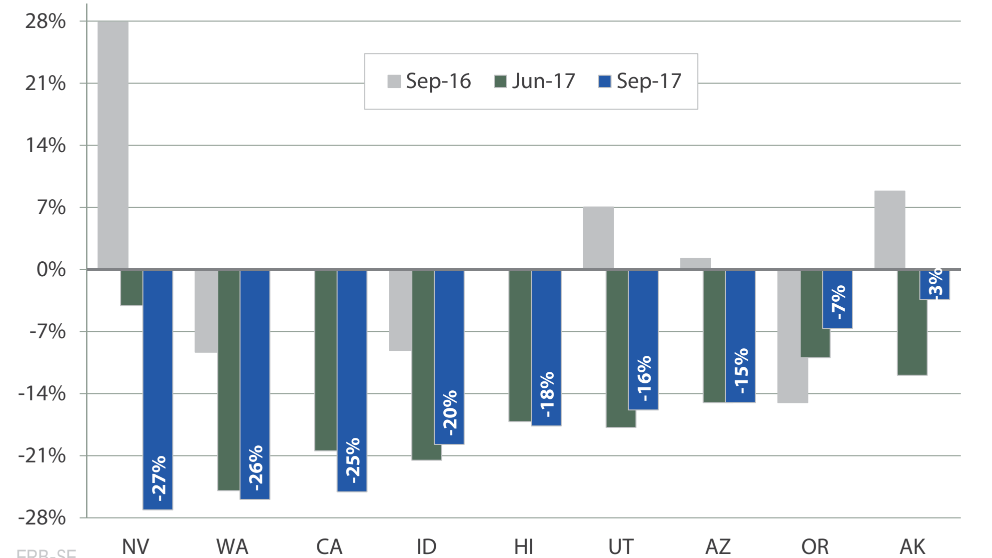


Assumes median income, 10% down payment, ratio of income-to-housing costs (principal, interest, taxes, and hazard insurance) of 28%, and a fixed-rate, 30-year mortgage; So. CA = Los Angeles, Orange, Riverside-San Bernardino, San Diego, and Ventura metros; SF Bay Area = San Francisco, Oakland, San Jose,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

Tighter For-Sale Inventories Played a Role in Home Price Trends

Economy

Year-Over-Year % Change in Inventory of Homes for Sale

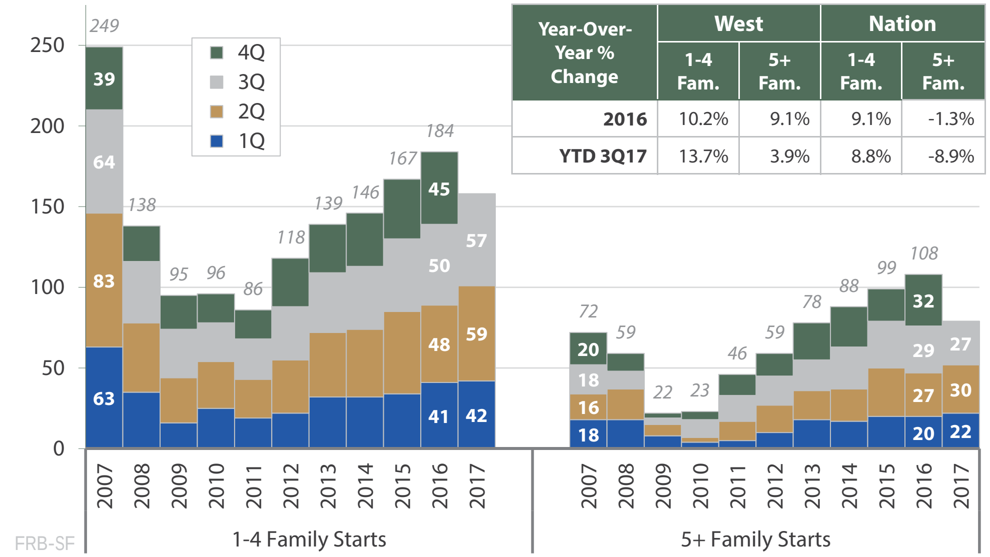


Source: Zillow

1-4 Family Homebuilding Expanded but Remained Low by Pre-Crisis Standards, Contributing to Supply Constraints

Economy

Housing Starts – West *(Thousands Of Units, Not Seasonally Adjusted)*



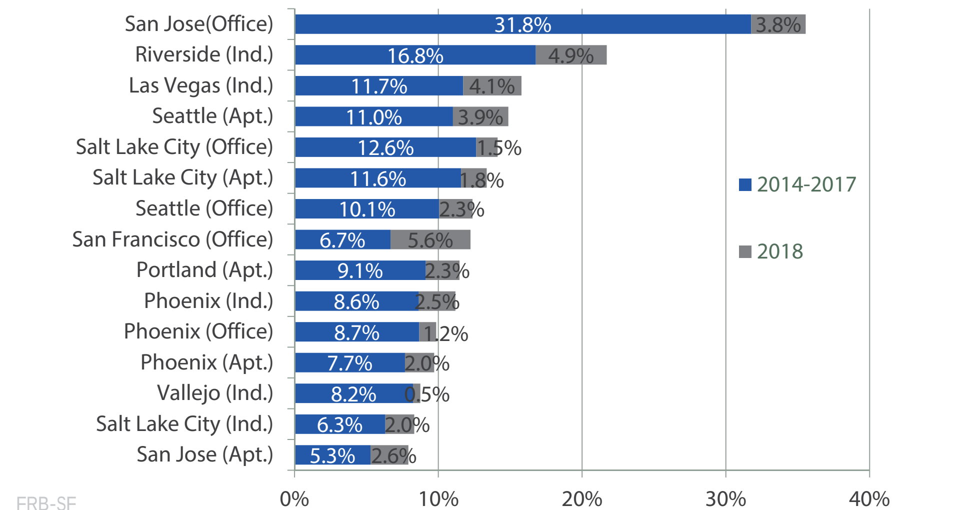
Year-Over-Year % Change	West		Nation	
	1-4 Fam.	5+ Fam.	1-4 Fam.	5+ Fam.
2016	10.2%	9.1%	9.1%	-1.3%
YTD 3Q17	13.7%	3.9%	8.8%	-8.9%

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

High Levels of CRE Construction Have Been Concentrated in a few District Metros; and Equally Spread Among Sectors Except Retail

Economy

Top 15 District Metros (Cumulative Completions to Beginning Stock, 2014 – 2018(F))

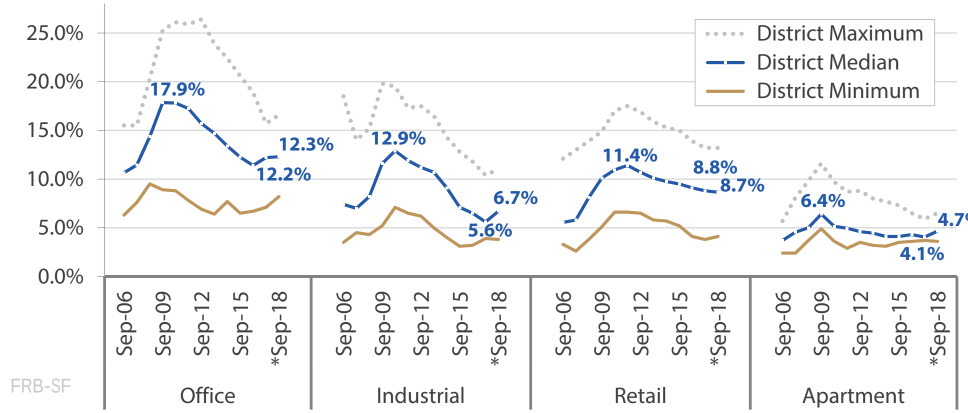


Includes 19 markets within the 12th District (not available for all sectors in all markets); retail data for neighborhood & community centers only; actual data 2014 through 3Q17; forecast (F) data 4Q17 and 2018. Calculation based on units for apartments and square feet for other sectors. Source: CBRE Econometric Advisors.

Per CBRE Econometric Advisors, There Could Be More Widespread Upticks in CRE Vacancy Rates by 3Q18

Economy

Vacancy or Availability Rate – 12th District Major Markets *(September Each Year)*



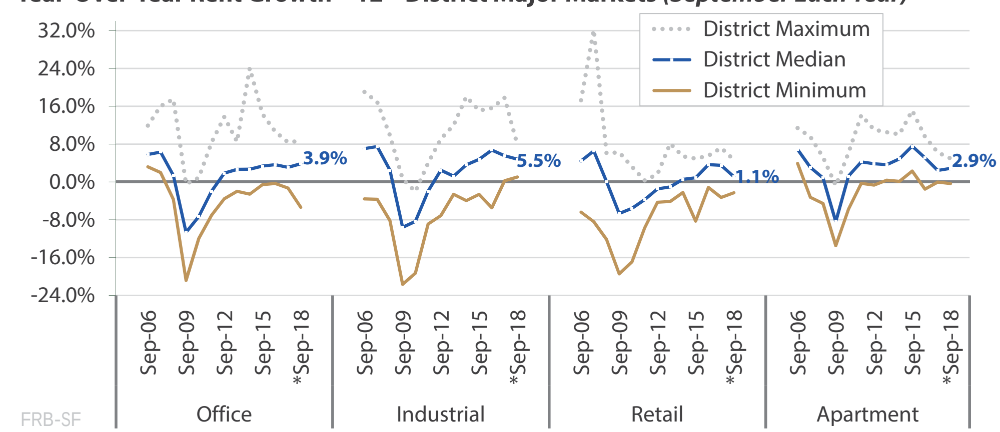
Forecasted Vacancy Increase => 30 bps, 3Q17-3Q18	Office	Industrial	Retail	Apartment
	Las Vegas, Orange Co., Salt Lake City, San Francisco, Seattle	*13 of 17 markets for which data is available (all EXCEPT Honolulu, Las Vegas, Los Angeles, Tucson)*	*Bakersfield, Las Vegas, Oakland, San Francisco, San Jose*	*Honolulu, Las Vegas, Phoenix, Portland, Riverside, Sacramento, Salt Lake City, Tucson, Ventura*

Based upon actual and forecasted (*) vacancy and availability rates across 19 major markets in the District (not available for all sectors in all markets); apartment vacancy based upon number of units, other sectors based upon square footage; retail data for neighborhood & community centers only. Source: CBRE Econometric Advisors.

CBRE EA Also Forecasted Slower, and in Some Cases Negative, Rent Growth in Some Markets and/or Sectors

Economy

Year-Over-Year Rent Growth – 12th District Major Markets *(September Each Year)*



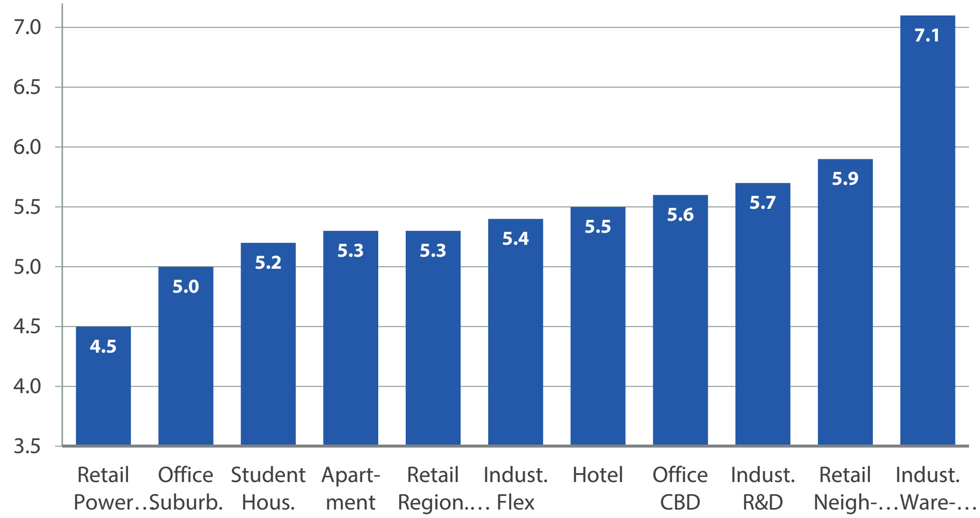
Forecasted Negative Rent Growth, 3Q17-3Q18	Office	Industrial	Retail	Apartment
	San Francisco, San Jose	*None in 12th District*	*Fresno, Orange Co., Salt Lake City, Tucson*	*San Francisco*

Based upon actual and forecasted (*) rent index growth rates across 19 major markets in the District (not available for all sectors in all markets); apartment vacancy based upon number of units, other sectors based upon square footage; retail data for neighborhood and community centers only. Source: CBRE Econometric Advisors.

Economy

Per Situs RERC, CRE Investors Much Preferred Investment Conditions in the Warehouse Sector

Investment Conditions Rating, 3Q17 ***(1= Poor, 10 = Excellent)***

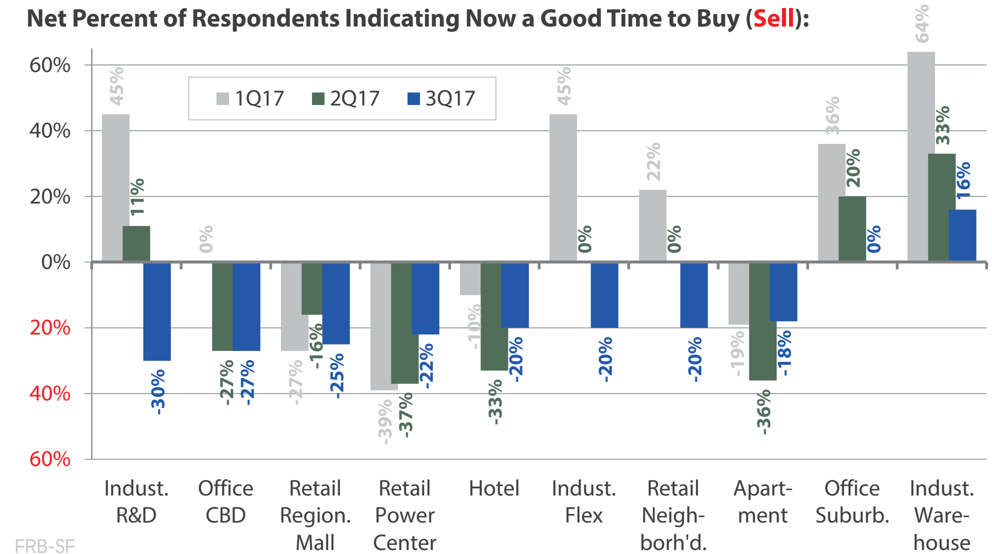


Based on a survey of CRE institutional investors; Retail Power Center = unenclosed shopping area that contains "big box" retailers; R&D = research & development; CBD = central business district (downtown); Source: Situs Real Estate Research Corporation (RERC) ® *Flash Report: 3Q 2017* (https://fweb.rsma.frb.gov/edma/ratewatch/src/).

Economy

Per Situs RERC, An Increasing Share of Respondents Indicated it Was a Good Time to Sell Versus Early 2017

Net Percent of Respondents Indicating Now a Good Time to Buy (Sell):

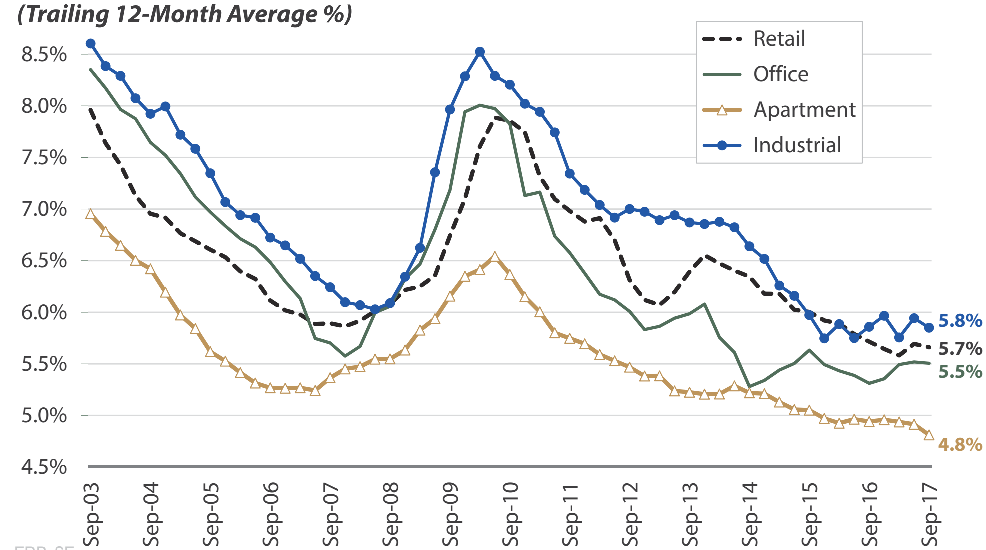


Based on a survey of institutional CRE investors; represents the share responding it was a good time to buy minus those indicating it was a good time to sell; Retail Power Center = unenclosed shopping area that contains "big box" retailers; R&D = research & development; CBD = central business district (downtown); Source: Situs Real Estate Research Corporation (RERC) ® *Flash Report: 3Q 2017* (https://fweb.rsma.frb.gov/edma/ratewatch/src/).

Economy

Short-Term Interest Rate Hikes Did Not Affect Cap Rates, But Cap Rates May Be Near an Inflection Point

Commercial Real Estate Capitalization Rates – West
(Trailing 12-Month Average %)

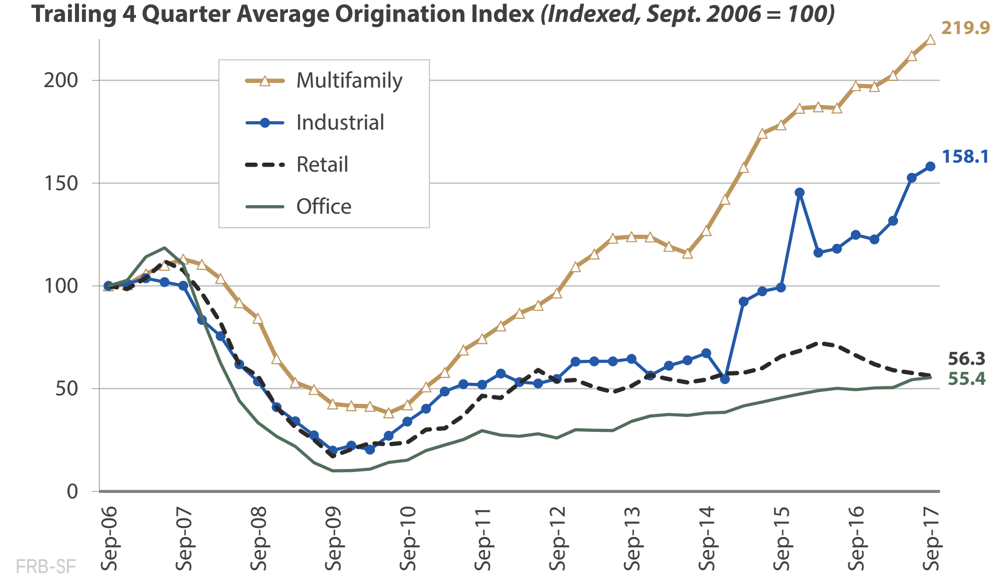


West = AK, CA, HI, ID, MT, NV, OR, UT, WA, and WY (excludes AZ); limited to property sales > $2.5 million for which capitalization rate data was available. Source: Real Capital Analytics.

Economy

Commercial Mortgage Origination Activity Strengthened, Especially for Apartments and Industrial Properties

Trailing 4 Quarter Average Origination Index ***(Indexed, Sept. 2006 = 100)***



Includes originations by commercial banks, life insurance companies, Fannie Mae/Freddie Mac, and commercial mortgage backed securities/conduits. Source: Mortgage Bankers Association.

Section 2
Commercial Bank Performance

Earnings

Provisions and Loan Loss Allowances

Loan Growth and Concentrations

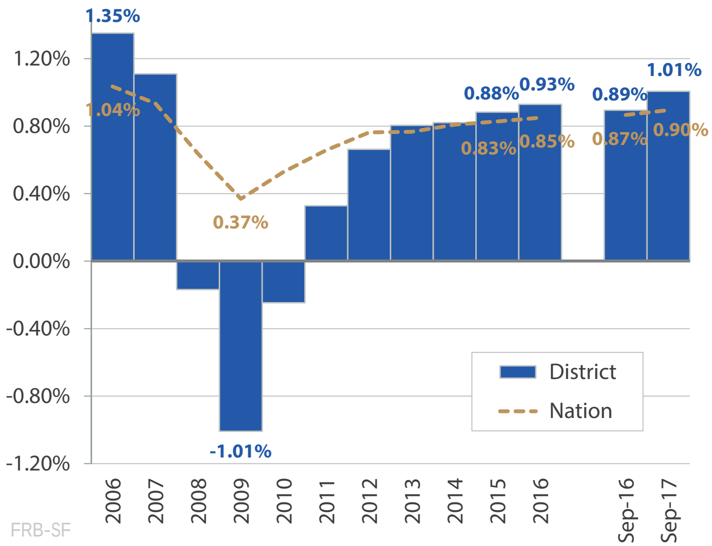
Credit Quality

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.

Year-Over-Year, Margin Expansion and Cost Controls Lifted Bank Net Income Ratios

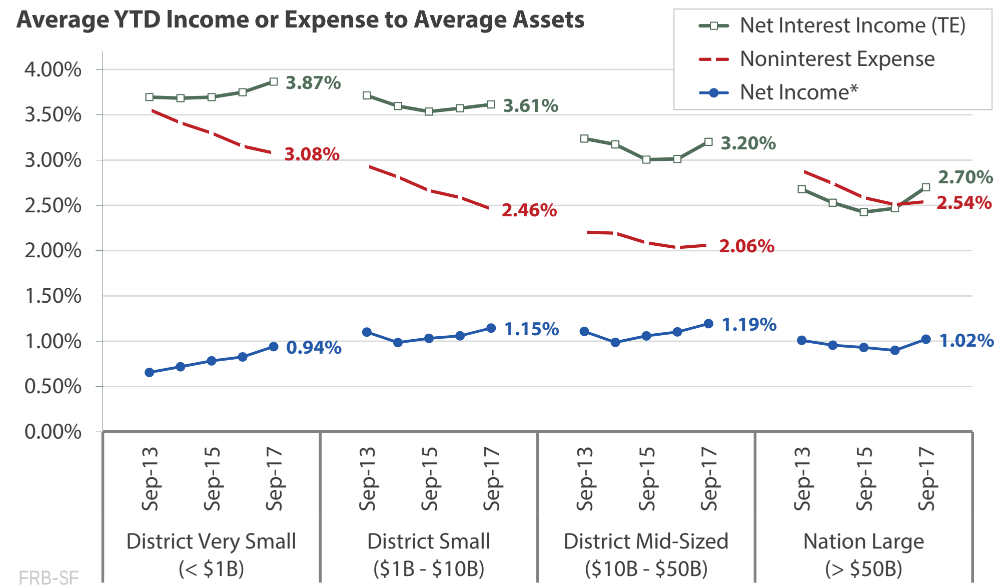


Average YTD Profit Components as % of Average Assets 12th District
(Expenses = Negative Values)

Profit Component	Sep-16	Sep-17
Interest Income	3.97%	4.09%
Interest Expense	-0.29%	-0.32%
Net Int. Income	3.66%	3.76%
Nonint. Income	0.60%	0.62%
Nonint. Expense	-2.97%	-2.86%
Provision Expense	-0.06%	-0.06%

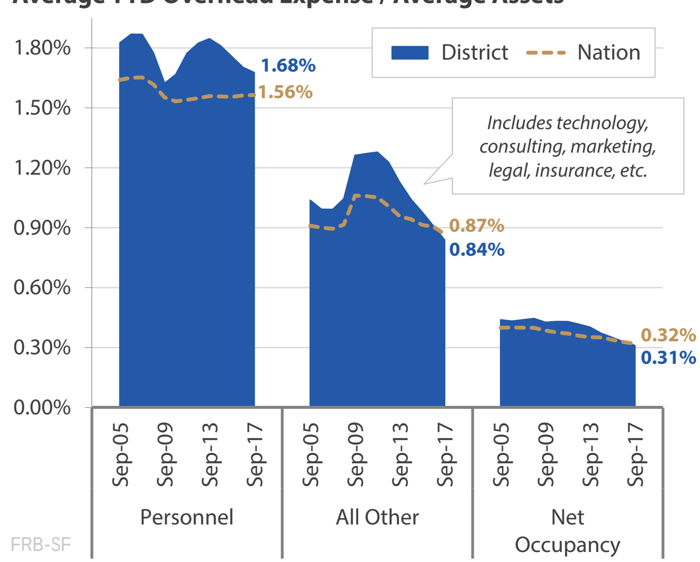
Average = trimmed mean; YTD = year-to-date (annualized); ROAA = return on average assets (net income / average assets), *adjusted for Subchapter S filers (theoretical tax expense deducted from Subchapter S filers for comparability).

Net Interest Income Gains Were Greater at Mid-Sized/Large Banks; Overhead Declines More Common at Smaller Banks



Average = trimmed mean; YTD = year-to-date (annualized); TE = tax equivalent (theoretical tax expense deducted from tax-free investments); *Net Income adjusted for Subchapter S filers (theoretical tax expense deducted for comparability).

Mobile Banking, Relatively Dense Market Populations, and Economies of Scale Influenced District Overhead Metrics

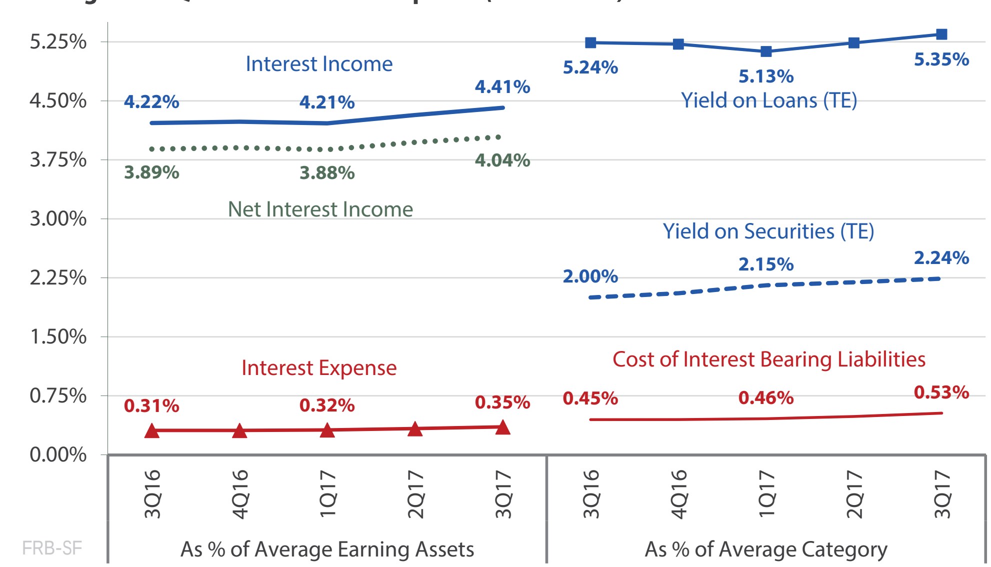


Average Overhead Metrics YTD Sep-17

	12th Dist.	Nation
Annualized Personnel Exp./Emp. ($Thous.)	$ 98.7	$ 73.0
Assets per Employee ($Mils.)	$ 6.3	$ 4.9
Assets per Dom. Office ($Mils.)	$118.9	$ 64.2
Total Assets ($Mils.)	$863.5	$294.9

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

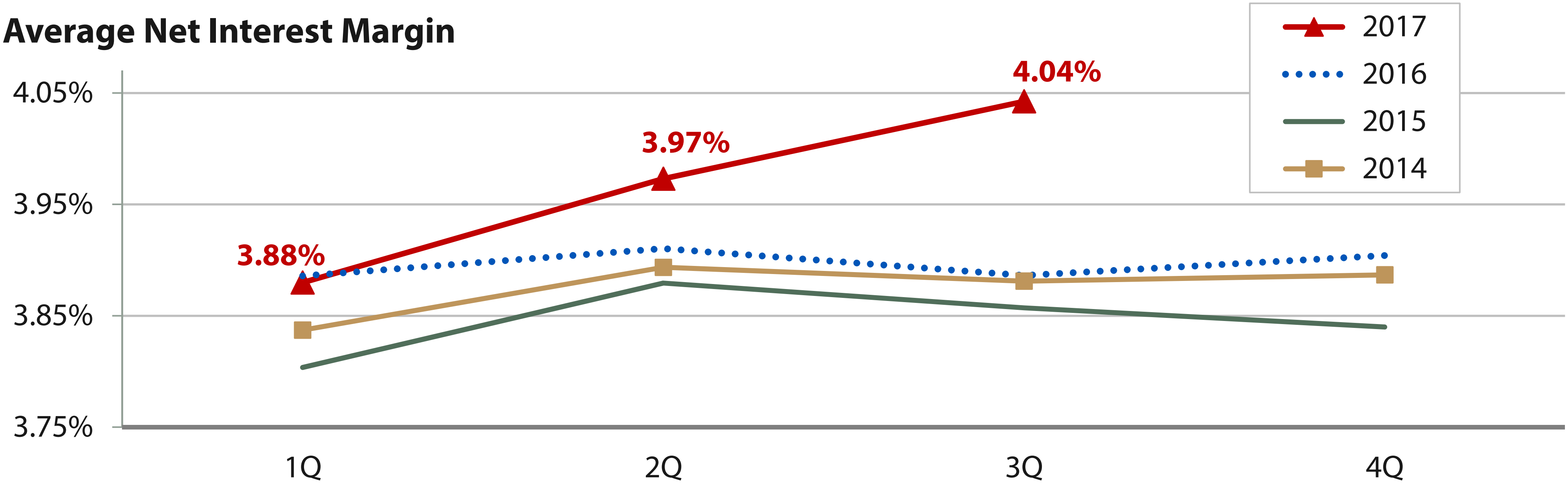
Average Quarterly Margins Gained Traction Because Asset Yields Increased Faster Than Funding Costs



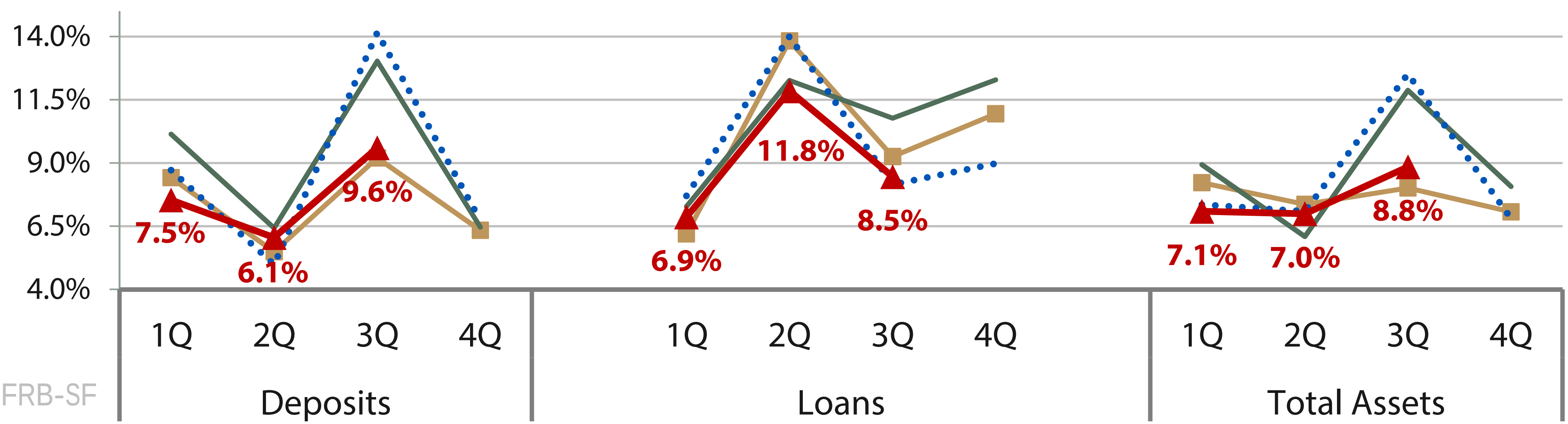
Average = trimmed mean; TE = tax equivalent (theoretical tax deducted from yields on tax-free investments).

Quarterly Margins Avoided a Typical Seasonal 3Q Dip Caused When Deposit Inflows Outpace Loan Growth

Average Net Interest Margin



Average Quarter-Over-Quarter Growth *(Annualized)*



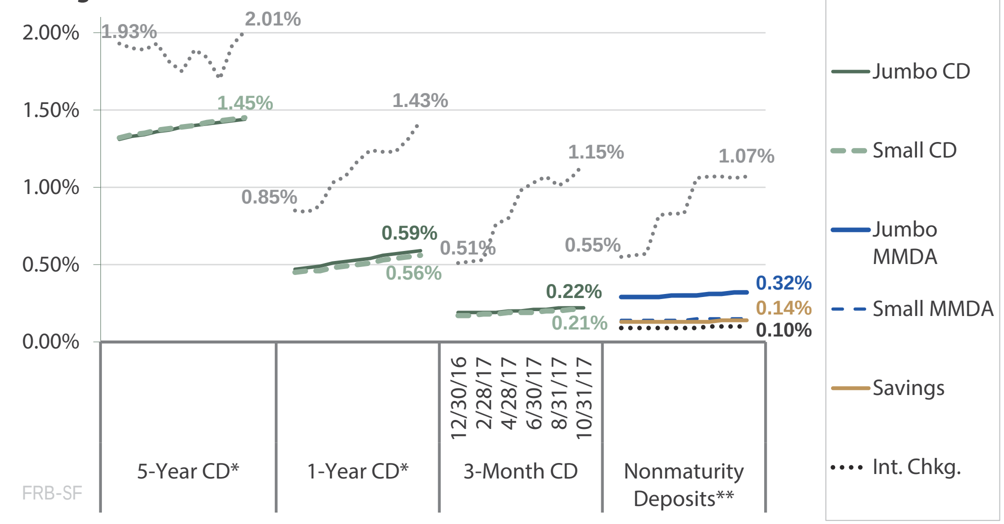
FRB-SF

All ratios are average (trimmed mean) annualized rates; growth rates are not merger-adjusted; margin = net interest income / average earning assets.

Earnings

Deposit Pricing Was Sticky Relative to Increases Among Similar-Maturity Benchmark Interest Rates

Average Annual Yield - Nationwide

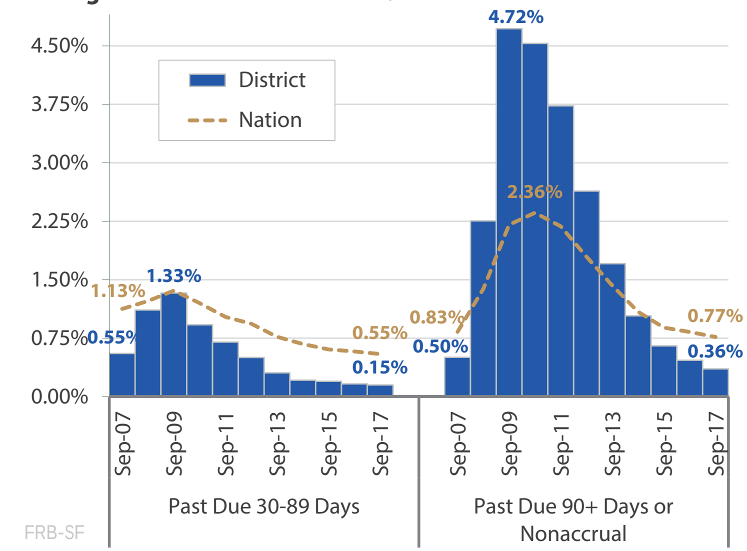


*For certificates of deposit (CDs), small minimum is $10K, jumbo minimum is $100K, and benchmark rate is bond-equivalent yield for similar-maturity U.S. Treasury Bill or Note; **for nonmaturity deposits, minimum is $2.5K, jumbo money market deposit account (MMDA) minimum is $100K, and benchmark rate is the Federal funds rate; Source: S&P Global Market Intelligence/SNL Financial.

Credit Quality

Average District Past Due Rates Dipped Year-Over-Year Except Among Agricultural Lines and Consumer Loans

Average Past Due or Noncurrent / Gross Loans & Leases



Average % Past Due 30+ Days or Nonaccr. 12th District

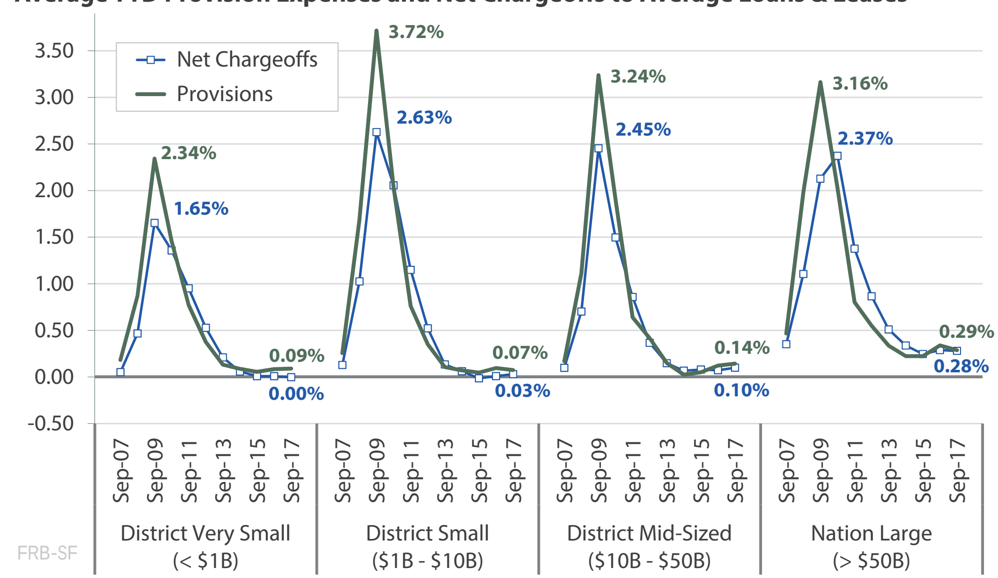
Loan Type	Sep-16	Sep-17
C&I	0.67	0.58
1-4 Family	0.66	0.52
NFNR	0.38	0.30
Owner-Occupied	*0.42*	*0.41*
Nonowner-Occupied	*0.18*	*0.11*
Consumer	0.24	0.29
C&LD	0.35	0.21
Agriculture	0.11	0.19
All Loans	0.69	0.57

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.

Credit Quality

On Average, Provisions Outpaced Net Chargeoffs, Especially at the District's Smaller & Mid-Sized Banks

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

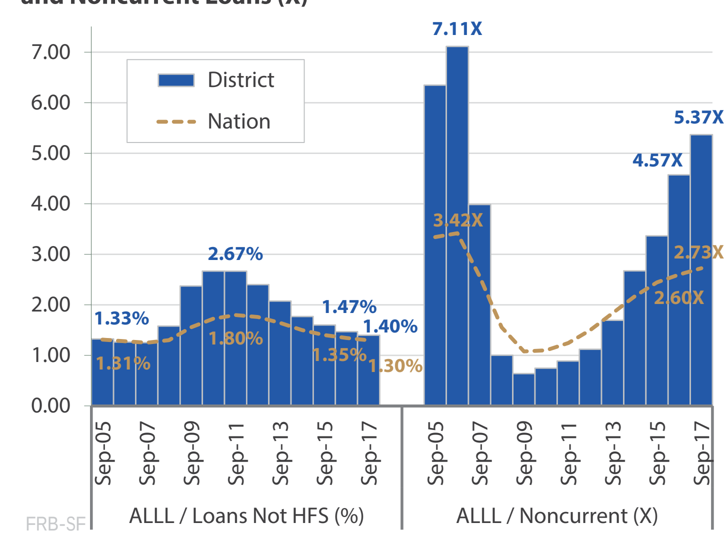


Average = trimmed mean; YTD = year-to-date (annualized).

Credit Quality

ALLL Build Up Did Not Keep Pace with Loan Growth But Compared Favorably to (Declining) Noncurrent Loans

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



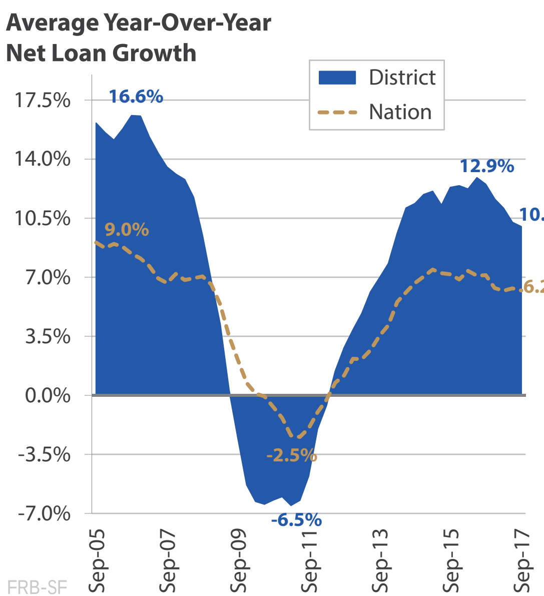
Average Year-Over-Year Growth Sep-17

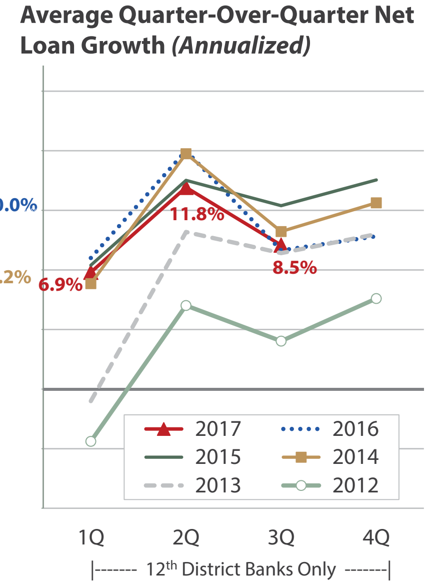
	12th Dist.	Nation
Loans not HFS	10.0%	6.3%
Noncurrent Loans	-9.3%	2.1%
ALLL	5.2%	4.0%

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

Growth

Districtwide Average Annual Loan Growth Eased and Quarterly Loan Growth Took a Seasonal Breather

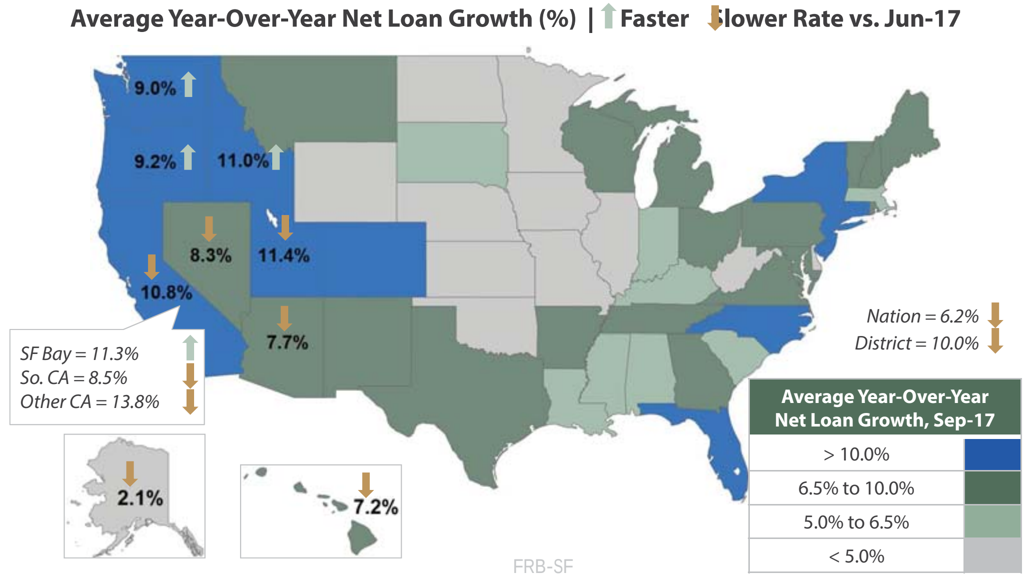




Average = trimmed mean; growth rates are not merger-adjusted.

Growth

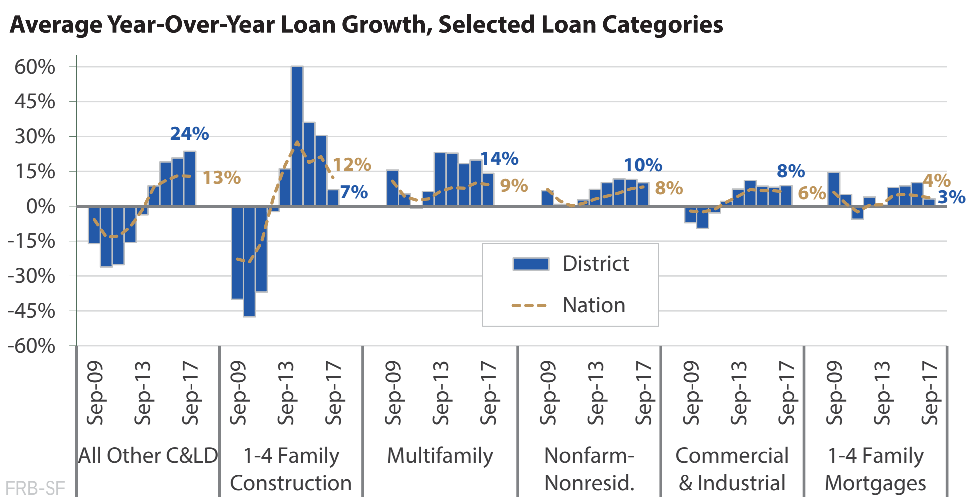
Although Decelerating in Many Cases, Most District States Still Had Annual Loan Growth Rates Above the Nation



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 = 38 banks based in all other California counties.

Growth

District Loan Growth Slowed Across Several Categories; Nonresidential C&LD Remained Fastest Growing Segment

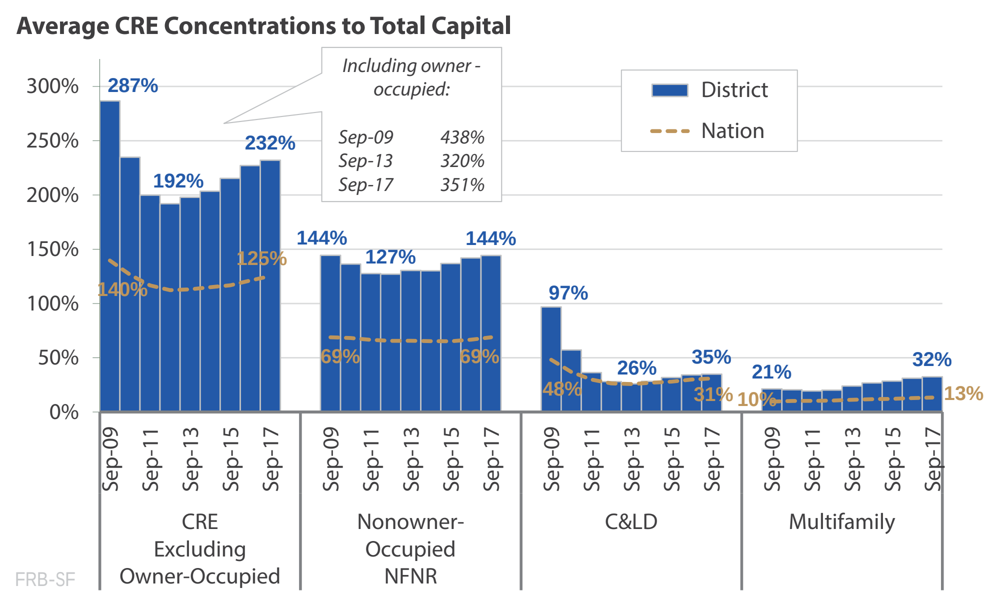


Memo: Average Concentration to Total Capital, Sep-17						
District	22.1%	10.2%	32.5%	260.0%	86.1%	79.2%
Nation	18.7%	10.0%	13.4%	143.0%	70.6%	138.9%

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

Growth

Notwithstanding Growth, Average C&LD Concentrations Were Stable; Overall CRE Exposures Edged Higher

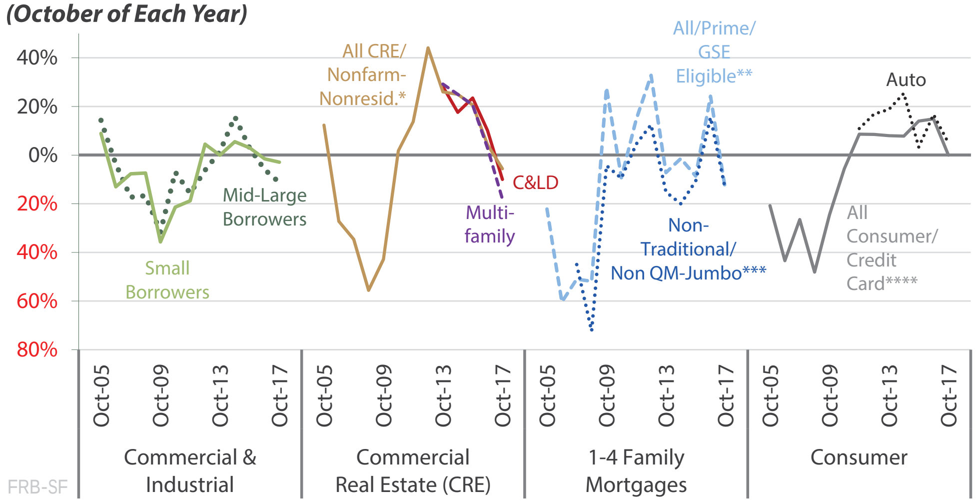


Average = trimmed mean; Commercial Real Estate (CRE) Excluding Owner-Occupied = nonowner-occupied nonfarm-nonresidential (NFNR), construction and land development (C&LD), multifamily, and other CRE-purpose loans.

Growth

Nationally, 3Q Loan Demand Weakened on a Quarterly Basis for Many Loan Types, Unlike Last Year

Net % of Lenders Reporting Stronger (Weaker) Loan Demand vs. 3 Months Prior
(October of Each Year)

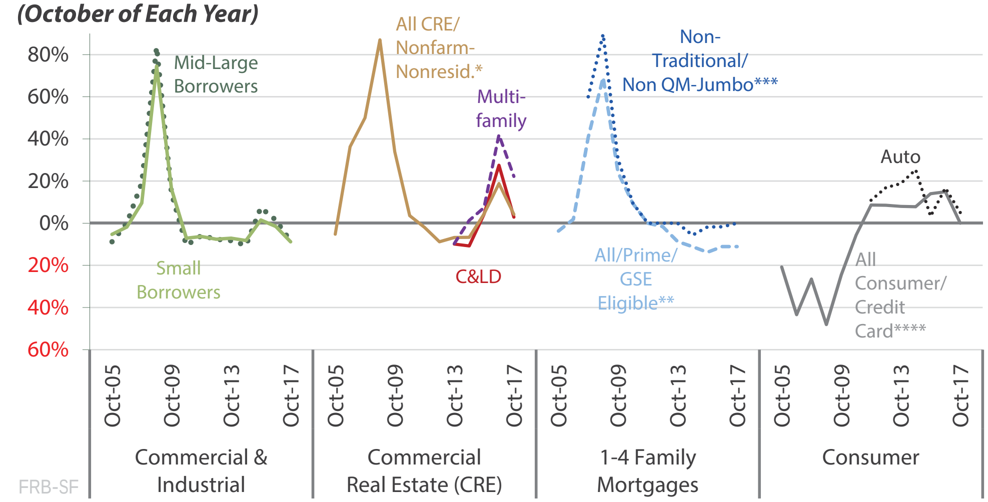


Based on a sample of 70+/- loan officers at domestic banks (number varies by period and loan type); C&LD = construction and land development; *includes all CRE loans prior to 2014; **includes all residential mortgages prior to 2007, "prime" mortgages 2007-2014, and GSE-Eligible after 2014; ***includes "nontraditional" mortgages 2007-2014 and Non QM Jumbo mortgages after 2014; ****includes all consumer loans prior to 2011. Source: Federal Reserve Senior Loan Officer Opinion Survey (https://www.federalreserve.gov/data/sloos/201710/default.htm).

Growth

Commercial and Commercial Mortgage Loan Standards Shifted Slightly Year-Over-Year

Net % of Lenders Reporting Tighter (Looser) Loan Standards vs. 3 Months Prior
(October of Each Year)

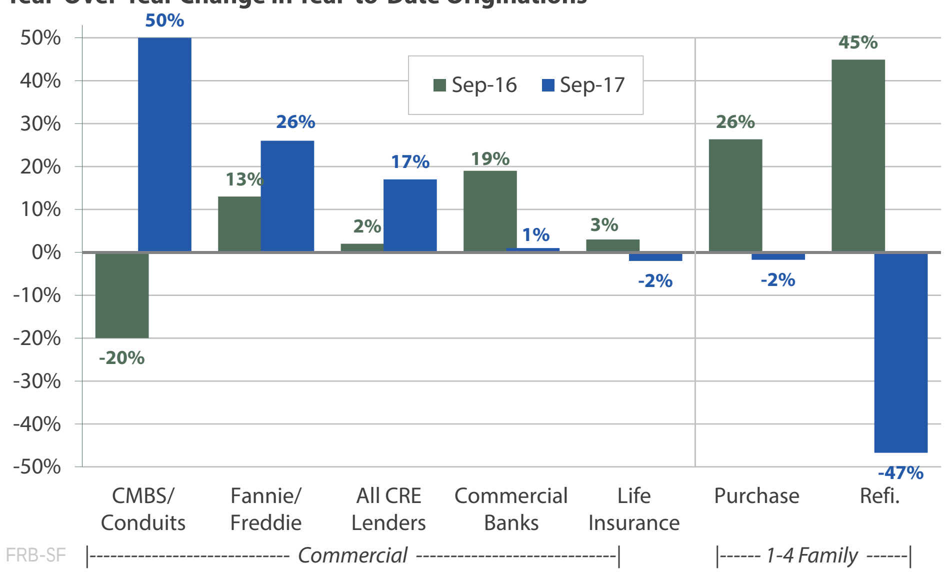


Based on a sample of 70+/- loan officers at domestic banks (number varies by period and loan type); C&LD = construction and land development; *includes all CRE loans prior to 2014; **includes all residential mortgages prior to 2007, "prime" mortgages 2007-2014, and GSE-Eligible after 2014; ***includes "nontraditional" mortgages 2007-2014 and Non QM Jumbo mortgages after 2014; ****includes all consumer loans prior to 2011. Source: Federal Reserve Senior Loan Officer Opinion Survey (https://www.federalreserve.gov/data/sloos/201710/default.htm).

Growth

Home Mortgage Originations Plunged; CMBS Was Buoyed by Refinancing of Maturing Loans Made Before the Crisis

Year-Over-Year Change in Year-to-Date Originations

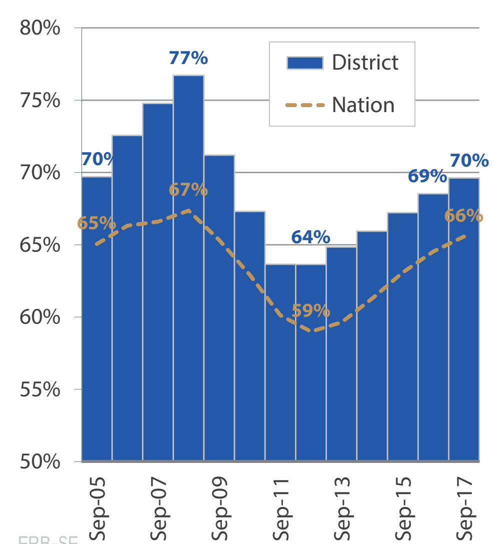


CMBS = commercial mortgage-backed security. Source: Mortgage Bankers Association.

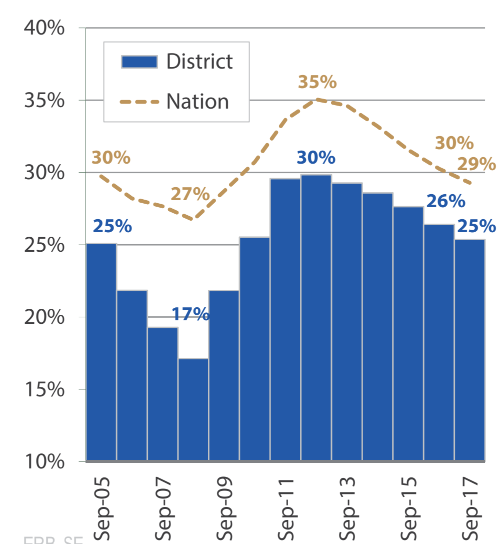
Liquidity

On-Balance Sheet Liquidity Retreated in the Past Year, Roughly Matching 2005 Levels

Net Loans and Leases / Assets*



Securities + Liquid Invest. / Assets*

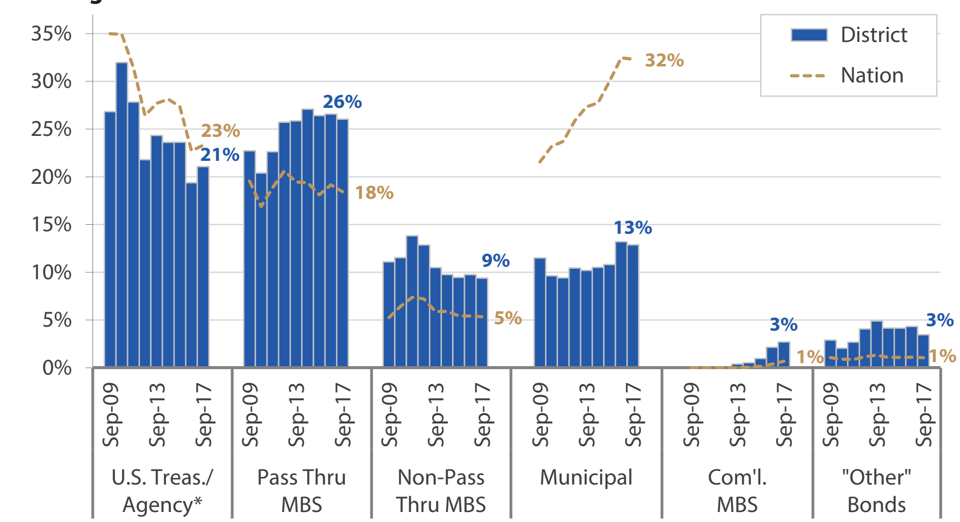


*All data are averages (trimmed means); liquid investments = cash, due from balances, interest bearing balances, and Federal funds sold & securities purchased under agreements to resell.

Liquidity

District Bank Securities Portfolio Mix May Carry Higher Risks Than the National Average

Average Share of Total Securities



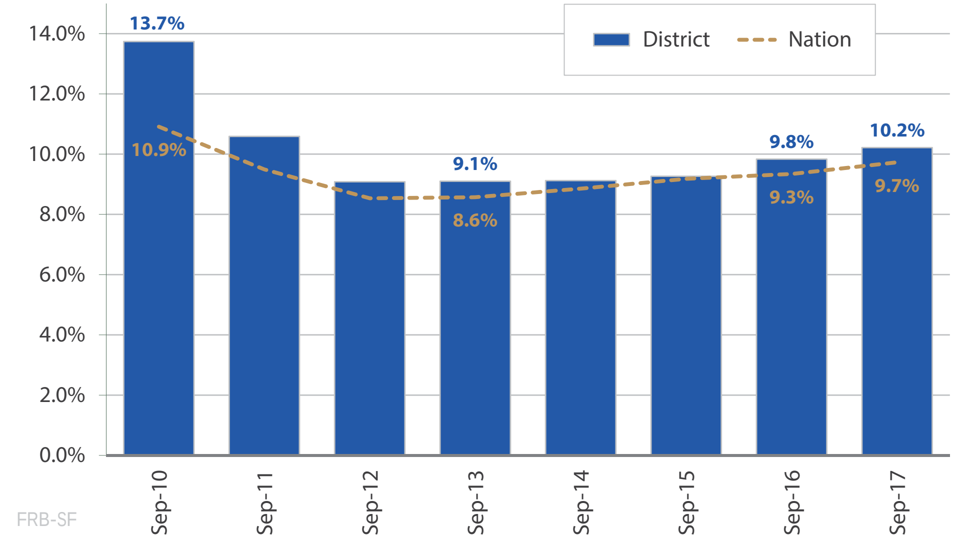
FRB-SF

Average = trimmed mean; *includes direct debt of agencies and government-sponsored enterprises (GSEs) but excludes agency/GSE-sponsored mortgage-backed securities (MBS); "Other" bonds includes domestic corporate debt but excludes asset-backed securities and structured financial products..

Liquidity

Average District Noncore Funding Edged Higher but Remained at Manageable Levels

Average Noncore Liabilities / Total Assets



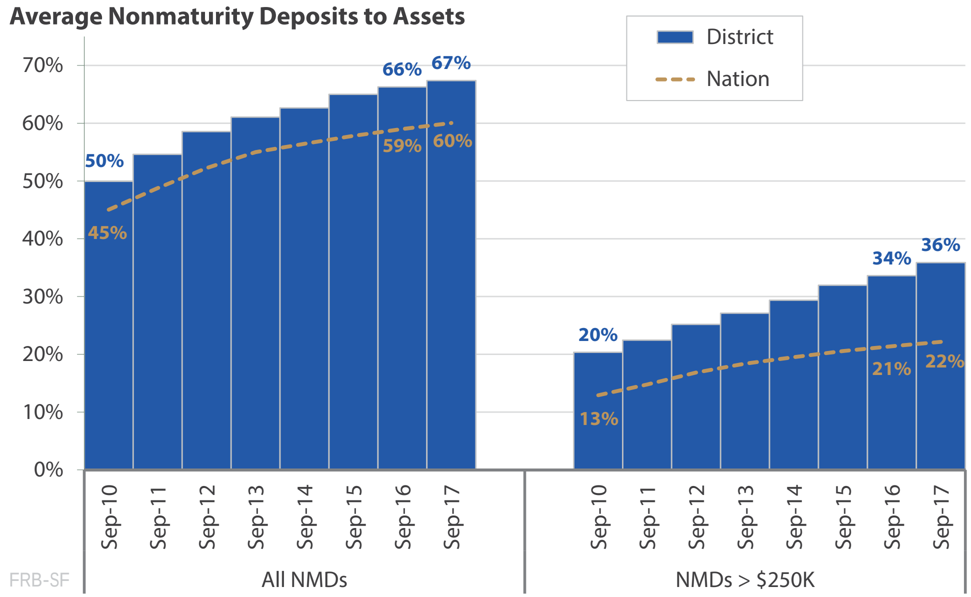
FRB-SF

Average = trimmed mean; Noncore liabilities = sum of borrowings (Federal funds purchased, repurchase agreements, and other borrowed money), foreign deposits, certificates of deposit > $250K, and brokered deposits < $250K.

Liquidity

"Jumbo" Nonmaturity Deposits Continued to Increase, Especially in the District

Average Nonmaturity Deposits to Assets



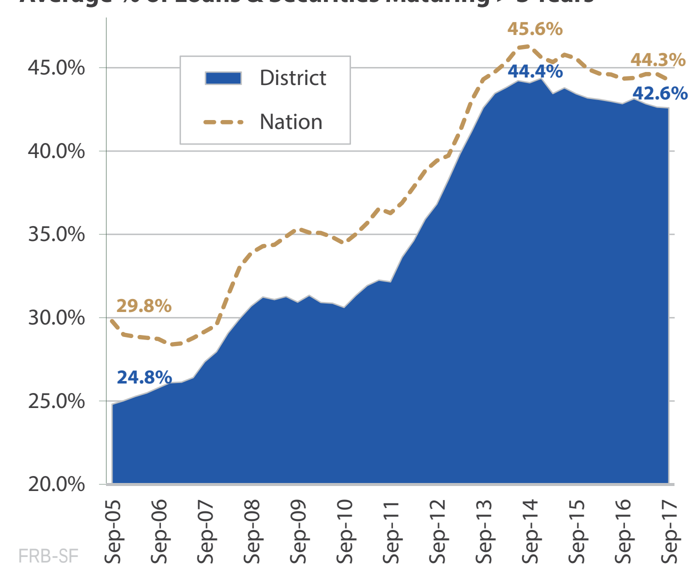
FRB-SF

Average = trimmed mean; NMD = nonmaturity deposits (all deposits excluding time deposits).

Int. Rate Risk

Exposures to Longer-Term Assets Remained Elevated, But Eased Modestly as the Yield Curve Flattened

Average % of Loans & Securities Maturing > 3 Years



FRB-SF

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

	2005-17*	Sep-17
AK		52.9%
AZ		46.4%
CA		43.0%
HI		46.8%
ID		34.7%
NV		44.3%
OR		51.2%
UT		30.2%
WA		47.3%
Nation		44.3%

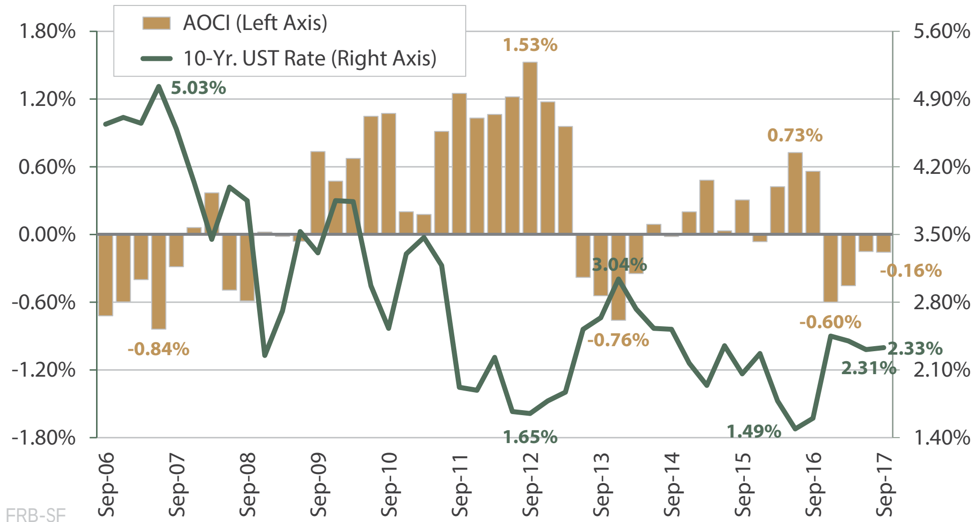
= trough = peak

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

Long-Term Interest Rates and Net Unrealized Losses on AFS Securities Held Relatively Steady in 3Q17

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

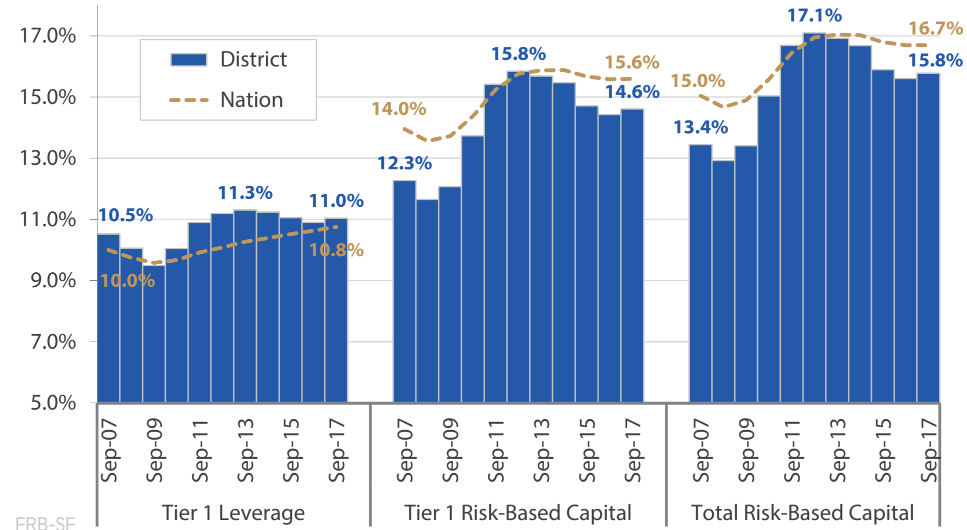
End-of-Period 10-Year CM U.S. Treasury Rate



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

Improving Earnings and Moderating Asset Growth Benefitted Regulatory Capital Ratios

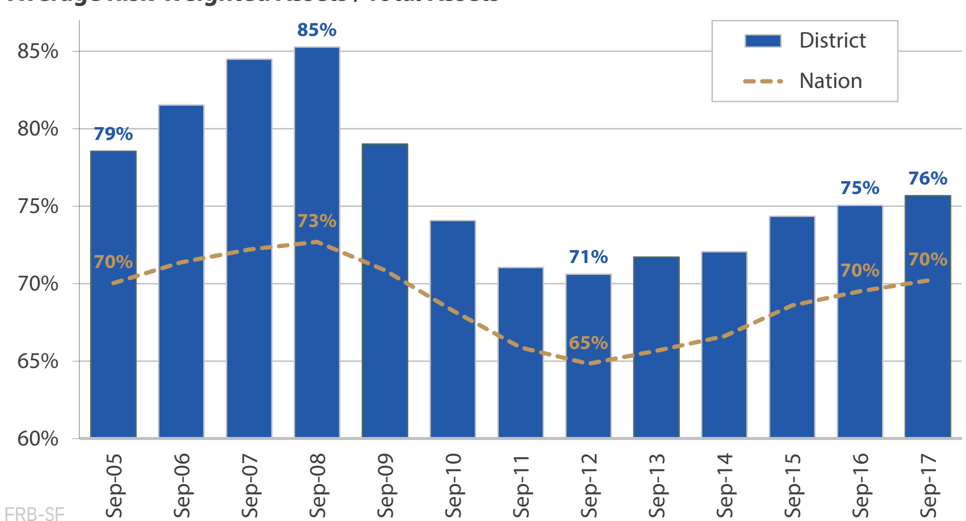
Average Regulatory Capital Ratios



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.

Risk-Based Capital Ratios Strengthened Notwithstanding Heavier Investments in Higher Risk-Weighted Assets

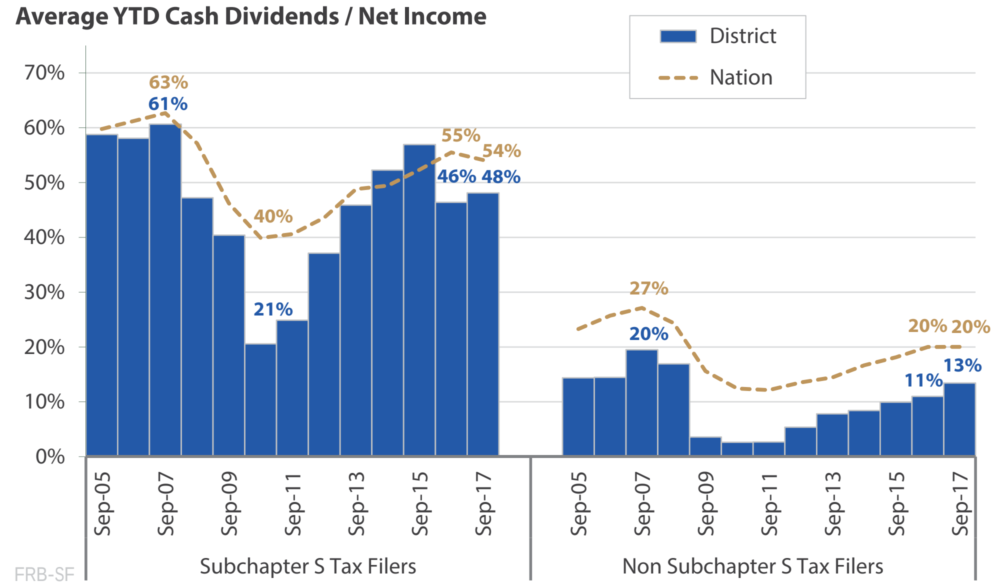
Average Risk-Weighted Assets / Total Assets



Average = trimmed mean; Risk-Weighted Assets are weighted according to regulatory risk-based capital rules in effect as of the report filing date (weights generally reflect perceived credit risk); includes off-balance sheet values subject to credit conversion and risk weighting; new capital rules that became effective March 2015 for most banks (March 2014 for some larger/more complex banks) included higher risk weights on some asset and off-balance sheet commitment categories.

Average Dividend Payout Ratios Edged Up But Remained Below the National Average

Average YTD Cash Dividends / Net Income



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

Section 3
Commercial Bank Regulatory Ratings & Trends

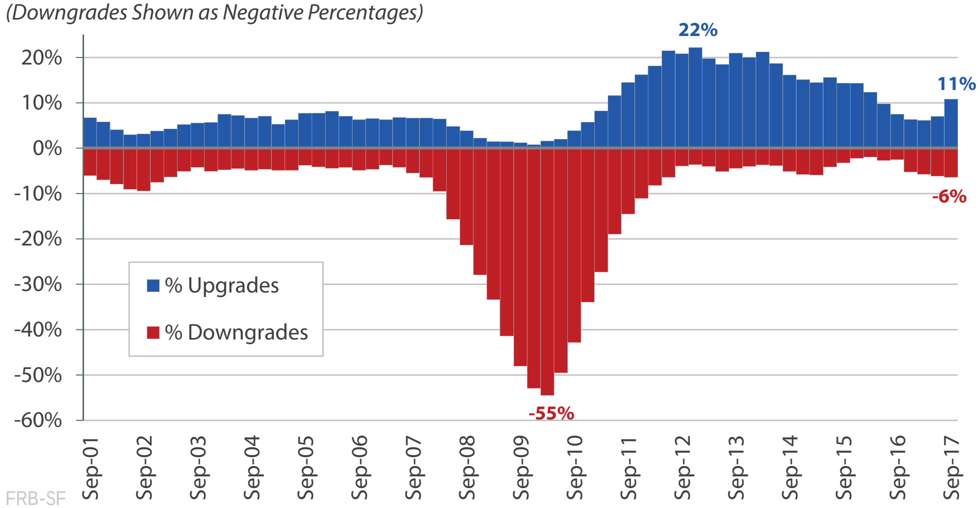
Focusing on trends in safety and soundness, consumer compliance, and Community Reinvestment Act examination ratings assigned by regulatory agencies to commercial banks headquartered within the 12th Federal Reserve District.

Ratings

A Growing Share of Examinations Resulted in Composite Rating Upgrades, With Upgrades Outpacing Downgrades

Trailing 4-Quarter Share of 12th District S&S Examinations that Resulted in CAMELS Composite Rating Upgrade or Downgrade

(Downgrades Shown as Negative Percentages)

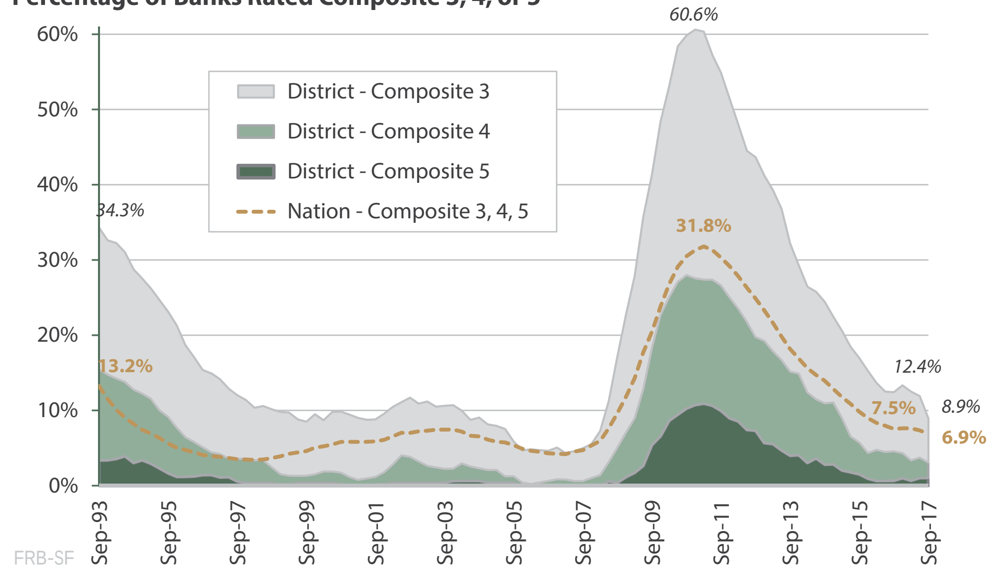


S&S = safety and soundness; includes any change in composite CAMELS rating for commercial banks regardless of severity; includes De Novo banks; dated based upon examination completion; preliminary third quarter 2017 data through 11/14/17.

Ratings

As a Result, the Share of District Banks with Composite Ratings of 3, 4, or 5 Dropped Notably in the Past Year

Percentage of Banks Rated Composite 3, 4, or 5



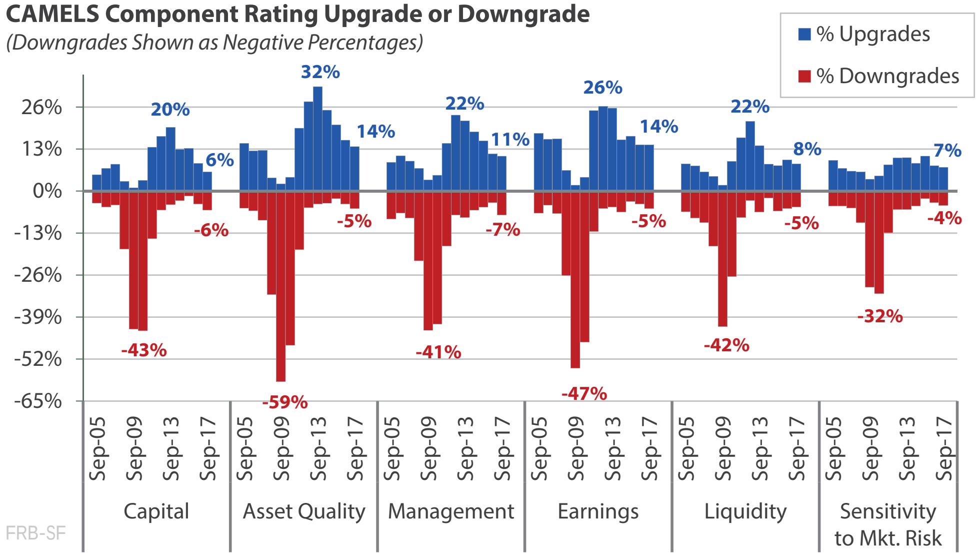
Dated based upon examination completion; includes De Novo banks; preliminary third quarter 2017 data through 11/14/17.

Ratings

Earnings & Asset Quality Upgrades Still Most Common; Upgrades Matched or Outpaced Downgrades in All Areas

Trailing 4-Quarter Share of 12th District S&S Examinations that Resulted in CAMELS Component Rating Upgrade or Downgrade

(Downgrades Shown as Negative Percentages)



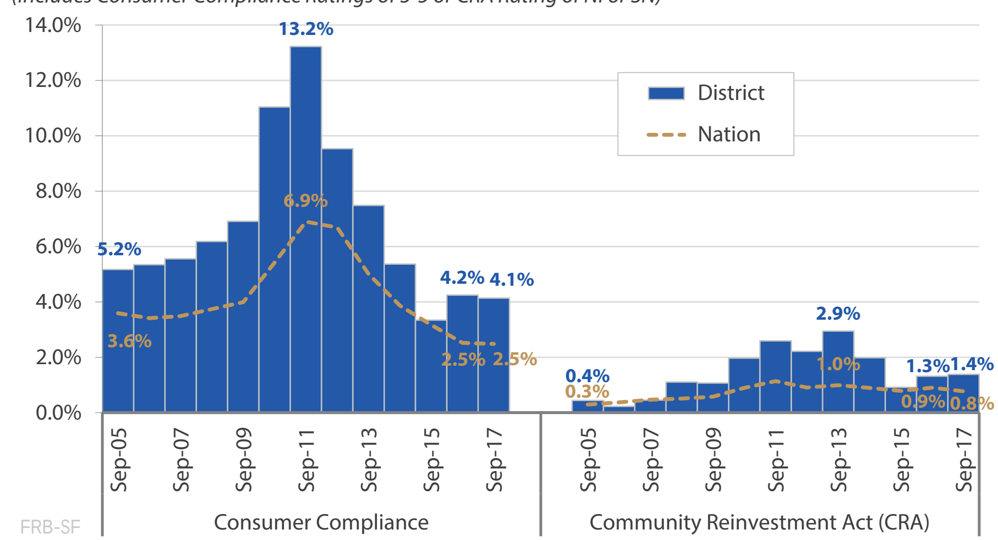
S&S = safety and soundness; includes any change in component CAMELS rating for commercial banks regardless of severity; includes De Novo banks; dated based upon examination completion; preliminary third quarter 2017 data through 11/14/17.

Ratings

The Share of Banks With Less-Than-Satisfactory Consumer Compliance/CRA Ratings Held Relatively Steady

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

(Includes Consumer Compliance Ratings of 3-5 or CRA Rating of NI or SN)



NI = Needs to Improve; SN = Substantial Noncompliance; includes De Novo banks; dated based upon examination completion; preliminary third quarter 2017 data through 11/14/17.

Appendices

Summary of Institutions

Technical Information

Appendix 1: Summary of Institutions

Area	Commercial Banks (De Novos)		Industrial Banks (De Novos)		Savings Institutions (De Novos)	
	Sep-16	*Sep-17*	*Sep-16*	*Sep-17*	*Sep-16*	*Sep-17*
AK	4 (0)	4 (0)	-	-	1 (0)	1 (0)
AZ	16 (0)	15 (0)	-	-	1 (0)	1 (0)
CA	168 (0)	161 (1)	3 (0)	3 (0)	11 (0)	10 (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)	12 (0)	-	-	1 (0)	1 (0)
NV	9 (0)	10 (0)	4 (0)	4 (0)	2 (0)	2 (0)
OR	21 (0)	18 (0)	-	-	3 (0)	3 (0)
UT	30 (0)	28 (0)	15 (0)	15 (0)	2 (0)	2 (0)
WA	40 (0)	38 (0)	-	-	10 (0)	10 (0)
12L	306 (0)	293 (1)	23 (0)	23 (0)	34 (0)	33 (0)
US	5,141 (2)	4,940 (6)	25 (0)	25 (0)	811 (1)	768 (1)

Based on preliminary third quarter 2017 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, most 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 <$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.