FEDERAL RESERVE BANK OF SAN FRANCISCO

First Glance 12L (4Q17)

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

Tax Reform Lifted Optimism but Crimped Bank Profits

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12th District Overview
"Tax Reform Lifted Optimism but Crimped Bank Profits"

Aggregate job growth in the District continued to outpace the nation and accelerated modestly in 4Q17. 12th District (District) nonfarm jobs expanded 1.9% year-over-year, up slightly from 1.8% in 3Q17. Improvement was driven mainly by acceleration in Nevada, California, and Idaho. In most other District states, annual job growth remained positive, but was generally flat or cooled slightly relative to 3Q17. One key exception was Alaska, which lost jobs year-over-year. Across many parts of the District, labor availability was relatively tight. State-level unemployment rates were usually below 5%, and dipped below 3% in Hawaii and Idaho (see table at right). In several cases, metro-area jobless rates were below state averages. For example, unemployment in the San Francisco-Oakland, San Rafael, San Jose, and Santa Rosa markets was 3.0% or less versus 4.3% for California as a whole.

Housing markets remained supply-constrained, forcing up home prices and rents. During 2017, 1-4 family housing starts in the West increased 12.0%, outpacing a national growth rate of 8.4%. Meanwhile, 5+-unit starts were robust by historical standards but eased slightly from 2016's pace. Because labor and developed lot shortages and other constraints pushed up input prices, homebuilding increasingly focused on high-end or attached units and lagged household formation rates. In addition, existing for-sale home inventories remained limited, causing home prices to increase faster than incomes, straining affordability. Per CoreLogic, six of the District's states ranked in the top ten nationally for annual home price appreciation. Prospectively, rising long-term interest rates could slow home sales and lending. High cost markets also face new, lower caps on property tax and mortgage interest deductibility, which favors renters over homeowners. Ultimately, tight and high-cost housing and labor markets may put several District metros at a competitive disadvantage.

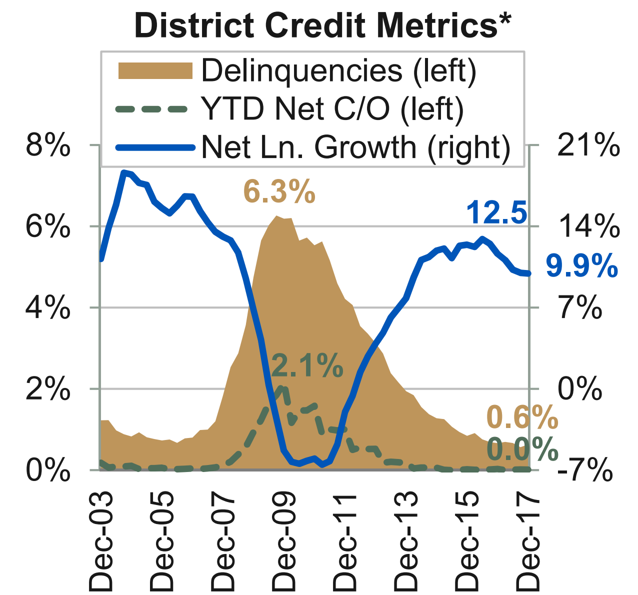
Tax reform boosted CRE investor sentiment, but prices remained a concern. In a January 2018 survey by *National Real Estate Investor* magazine, 41% of respondents believed CRE markets were at a peak, down from 59% in November. Likewise, per Situs Real Estate Research Corporation's (RERC)® 4Q17 *Flash Report*, investor sentiment shifted favorably relative to the 3Q17 survey. Still, in a sign that property prices may be nearing a peak, an increasing share of respondents indicated it was a better time to sell than to buy across most property types (except neighborhood retail, suburban office, and industrial warehouse). Further, respondents indicated that risk exceeded returns overall for CRE and price exceeded value in all but the industrial property sector. Some markets and sectors may already be facing headwinds: Real Capital Analytics reported that the average price per square foot paid in 2017 for most retail and some office markets in the District slipped year-over-year. Also, the volume of property sales declined, especially for apartment buildings. Further, CBRE-Econometric Advisors expected demand (absorption) for commercial space to slow in 2018 relative to the past five year average in several metros, especially for industrial properties.

Nonfarm Job Growth & Unemployment (%)

	Year-Over-Year Job Growth 12 Mos.	Year-Over-Year Job Growth 4Q17	Unemp. Rate Dec-17
NV		3.02%	5.00%
UT		2.70%	3.10%
OR		2.34%	4.10%
ID		2.33%	2.90%
WA		2.10%	4.50%
CA		1.82%	4.30%
AZ		1.29%	4.50%
HI		1.00%	2.00%
AK		-0.48%	7.30%
US		1.50%	4.10%

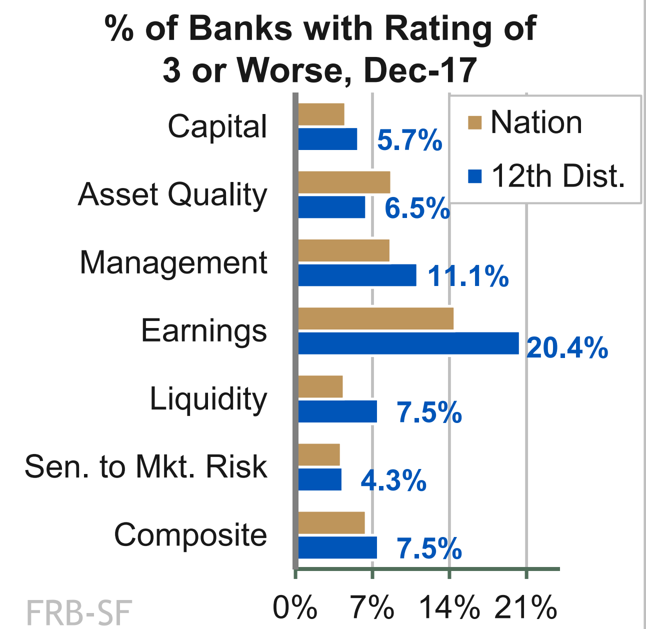
Growth based on change in 3-month moving average; all data seasonally adjusted. Source: Bureau of Labor Statistics / Haver Analytics

12th District Overview, Continued



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

FRB-SF



Tax reform-driven, one-time expenses crimped 4Q17 bank profits. The District's average, year-to-date return on average assets (ROAA) ratio (adjusted for Subchapter S tax filers) dipped 10 bps to 0.90% quarter-over-quarter, but still outperformed a national average of 0.83%. During the year, deposit pricing did not respond to rising interest rates as strongly as asset yields, lifting net interest margins. However, in 4Q17, anticipated declines in tax rates prompted write-downs of deferred tax assets (reported as higher tax expenses), payments of one-time bonuses, and in some cases increased charitable donations. These actions dented after-tax profits. Effective tax rates are expected to ease in 2018 as new federal tax rates take effect.

Loan growth flattened. The District's average annual net loan growth rate was 9.9% in 4Q17, a notch lower than the 10.0% reported in 3Q17, but not as sharp a deceleration as in prior quarters (see chart at left). Slowing in California, Idaho, Washington, and Nevada led the trend. Still, average net loan growth remained strong in relation to a national average of 6.5%. On average, CRE loan categories continued to post double-digit growth rates, further lifting CRE loan concentrations. Banks faced strong competition for CRE loans: securitizers ramped up originations in part to refinance maturing, pre-crisis debts, and Fannie Mae and Freddie Mac remained very active in the multifamily space. Bank past-due loan and net chargeoff rates were very low, although average delinquency ratios in some loan categories, such as agriculture and automobile loans, edged higher. Wildfires during 4Q17 appeared to have little effect on average performance ratios among banks based in the San Francisco Bay Area or Southern California.

Year-over-year, on-balance sheet liquidity eased but average capital ratios edged higher. Compared with 4Q16, the District's average loan-to-asset ratio increased to 69.7% at the expense of lower investments in liquid assets and securities. Although bank funding continued to center in relatively inexpensive nonmaturity deposits (NMDs), loan growth during 2017 outpaced increases in core deposits. To compensate, banks turned to brokered and/or large time deposits or borrowings, causing the average reliance on noncore liabilities to tick higher. Average regulatory capital ratios improved year-over-year, but large 4Q17 write-downs on deferred tax assets eroded average capital ratios on a linked-quarter basis. Still, average capital ratios remained well above levels observed prior to the last recession.

Examination upgrades continued to outpace downgrades. More than 92% of District banks were rated satisfactory or strong for safety and soundness, the highest proportion since early 2008. Earnings, and to a lesser degree Management, remained areas of relative weakness (see chart at left). At examinations conducted during 2017, upgrades outpaced or matched downgrades across all major components. Similarly, at least 94% of District banks were rated satisfactory or better for consumer and/or Community Reinvestment Act compliance.

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 continued to evolve and information security remained one of the District's top banking risks*. Sometimes attackers prey on the vulnerability of humans as opposed to systems. According to Symantec's January 2018 *Monthly Threat Report*, phishing accounted for 1 in every 1,900 emails received by companies in the Finance, Insurance, and Real Estate sector, higher than any other industry. The pace of phishing compared unfavorably to a year-earlier rate of 1 in every 2,475 emails. Such statistics highlight the need for vigilant staff training. 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 (see Federal Reserve 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. Regulatory requirements in this area continue to evolve, such as upcoming Customer Due Diligence rules (effective May 2018). 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 common examination issues.

- *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	2008-17**	Dec-17
CA	305%	269.4%
WA	352%	237.3%
OR	330%	235.5%
NV	389%	215.3%
AZ	326%	179.2%
ID	231%	166.3%
HI	163%	154.9%
AK	155%	143.9%
UT	264%	127.2%
Nation	150%	127.0%

**Trimmed means; excludes owner-occupied ; **December 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. Overdraft fees generate a significant share of deposit service charges, but not without legal, regulatory, and reputational risk. Litigation and/or regulatory action have been taken for a variety of practices, including use of the "available balance" to assess overdraft fees. While each case is fact specific, the agencies discussed a number of overdraft practices concerns during a November 9, 2016, Outlook Live webinar, "Interagency Overdraft Services Consumer Compliance Discussion" (https://www.consumercomplianceoutlook.org/outlook-live/2016/interagency-overdraft-services-consumer-compliance-discussion/).
- *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. 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. This is especially true as banks approach the implementation of new rules for accounting for credit losses (a/k/a Current Expected Credit Losses, or CECL).
- *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 size composition of NMDs also 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 21% at year-end 2010 and above a national average of 23%. Larger depositors in particular may be more sensitive to changes in interest rates.
- *Balancing overhead expense pressures with risk management requirements*. Asset growth and technology have led to some economies of scale and improved efficiency ratios, which has helped boost profitability. However, there is a regulatory concern that banks may not be devoting sufficient resources to back-office operations, internal controls/audit, and compliance programs commensurate with their increasing size and complexity.
- *Financial technology (fintech) opportunities and risks*. It is expected that depository institutions will increasingly partner 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) continued to improve through year-end 2017, led by rising interest rates. Returns had sank in late 2016 because of loan losses and pricing.

Section 1
Economic Conditions

Job Growth

Housing Market Metrics

Commercial Real Estate Market Conditions

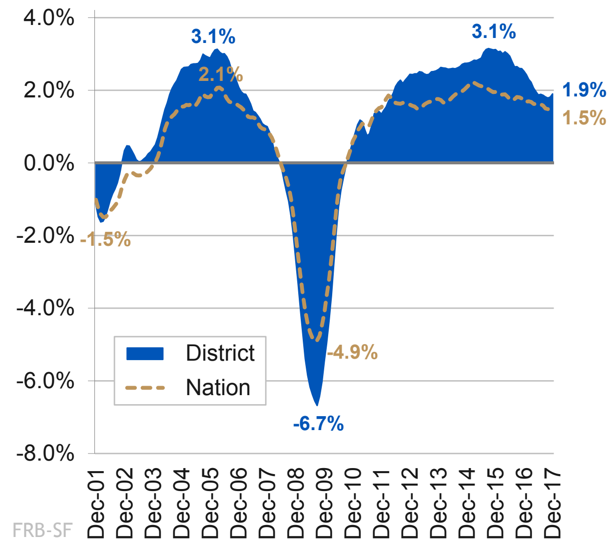
For more information on the District's real estate markets and economy, see:
Real Estate Lending Risks Monitor
(https://www.frbsf.org/banking/publications/real-estate-lending-risks-monitor/)
Banks at a Glance
(https://www.frbsf.org/banking/publications/banks-at-a-glance/)

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)

Annual Job Growth Accelerated Slightly in the Fourth Quarter, but Slowed Overall from the Year-Ago Pace

Economy

Year-over-Year Nonfarm Job Growth



Job Growth by Sector 12th District

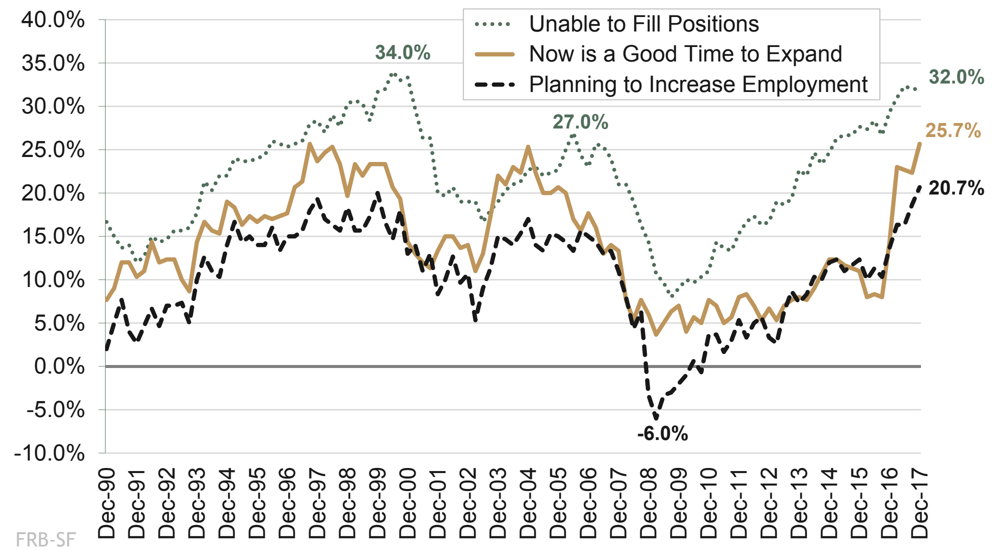
Job Sector	1-Yr % Change 2007-17*	1-Yr % Change 4Q 2017
Construction		6.51%
Educ. & Health Svcs.		2.94%
Transport. & Utilities		2.51%
Leisure & Hospitality		2.45%
Other Private		2.04%
Information		1.75%
Government		1.49%
Prof. & Business Svcs.		1.46%
Wholesale Trade		1.24%
Financial Activities		1.23%
Manufacturing		0.49%
Retail Trade		0.23%
Total		1.90%

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

Small Businesses Reported Optimism for Expansion, but Will Labor Shortages Hamper Hiring Plans?

Economy

Net Percentage of Small Businesses Reporting *(Quarterly Average)*:

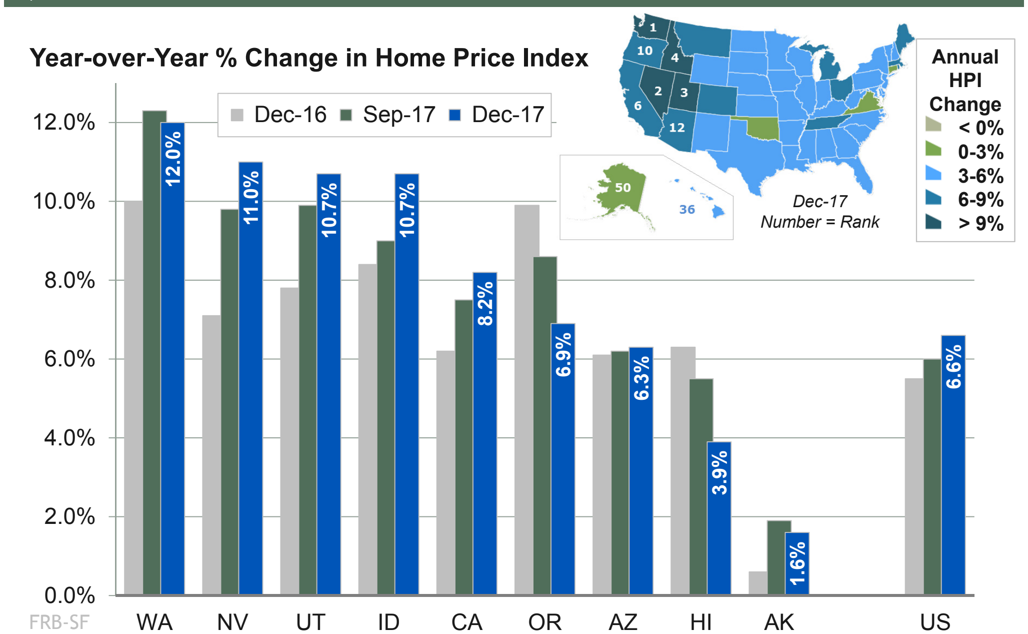


All data seasonally-adjusted. Source: National Federation of Independent Businesses, *Small Business Economic Trends Report.*

Home Price Appreciation Rates Accelerated in Five District States; Six States Ranked in Top Ten for Price Gains

Economy

Year-over-Year % Change in Home Price Index



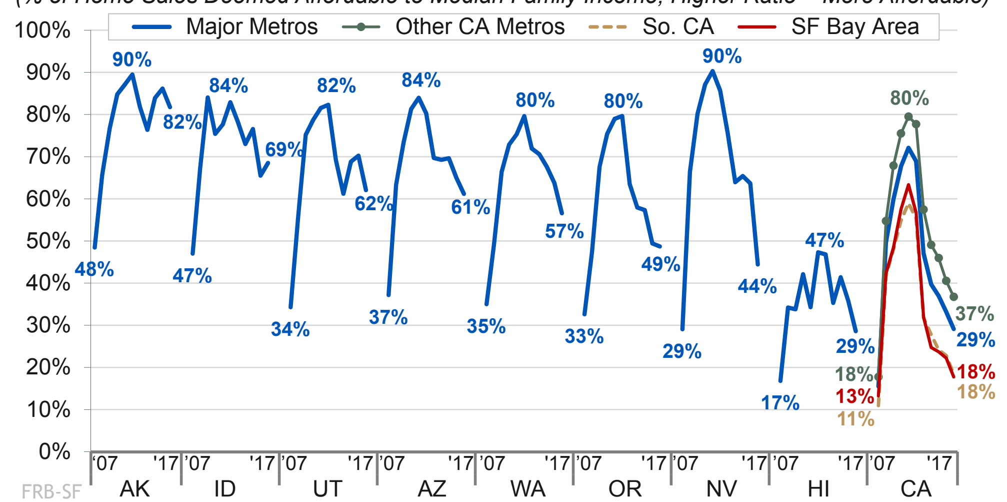
HPI = home price index (includes all detached and attached homes, including distressed sales). Source: CoreLogic.

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

Economy

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

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



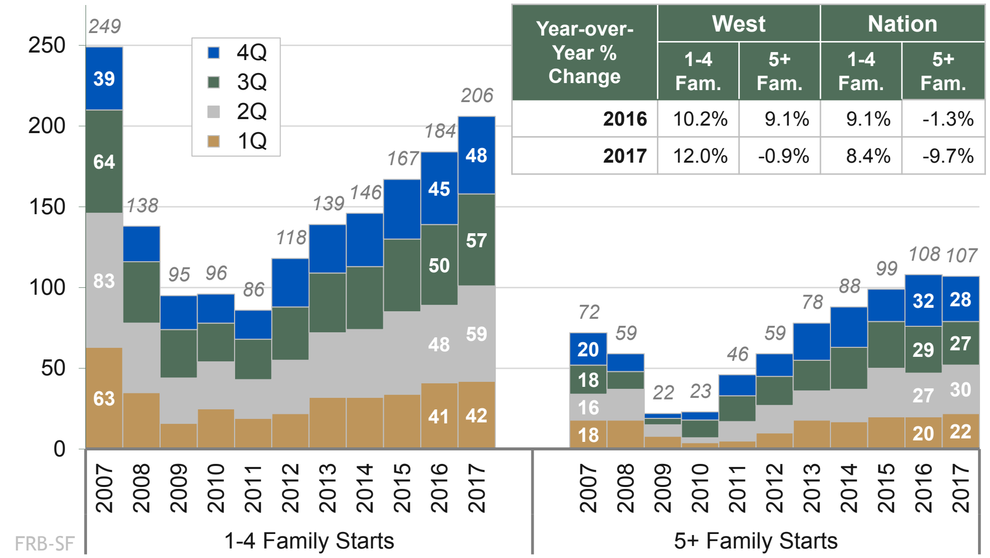
Assumes median income, 10% down payment, ratio of income-to-housing costs (principal, interest, taxes, and hazard insurance) of 28%, and a fixed-rate, 30-year mortgage; So. CA = Los Angeles, Orange, Riverside-San Bernardino, San Diego, and Ventura metros; SF Bay Area = San Francisco, Oakland, San Jose,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

Economy

1-4 Family Homebuilding Expanded as Multifamily Starts Cooled

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%
2017	12.0%	-0.9%	8.4%	-9.7%

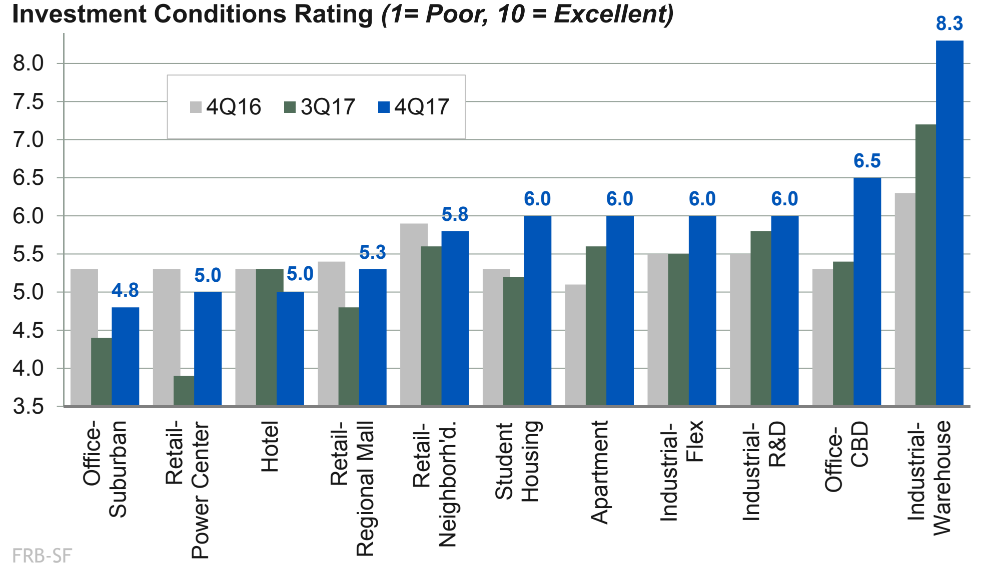


West = 12th District plus CO, MT, NM, and WY. Source: Census Bureau/Haver Analytics.

Economy

Per Situs RERC, Investment Conditions Improved Post-Tax Reform for Most Property Types; Strongest for Warehouse

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

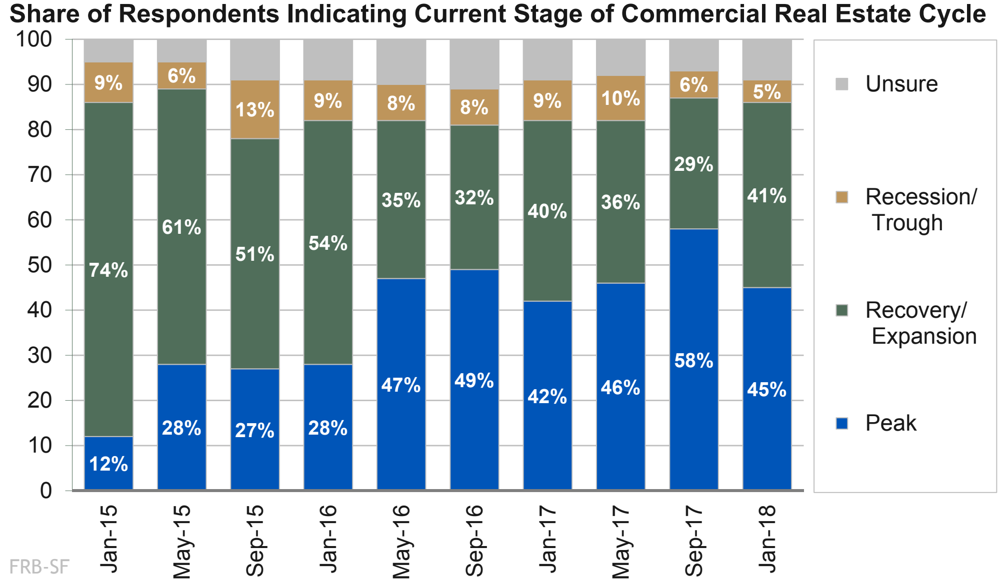


Based on a survey of CRE institutional investors; Retail Power Center = unenclosed shopping area that contains "big box" retailers; R&D = research & development; CBD = central business district (downtown). Source: Situs Real Estate Research Corporation (RERC) ® *Flash Report: 4Q 2017* (https://www.situs.com/situs-rerc-flash-report-4q-2017/).

Economy

Per NREI, Tax Reform Changed Some CRE Investors View of How Much Longer the Cycle May Run

Share of Respondents Indicating Current Stage of Commercial Real Estate Cycle

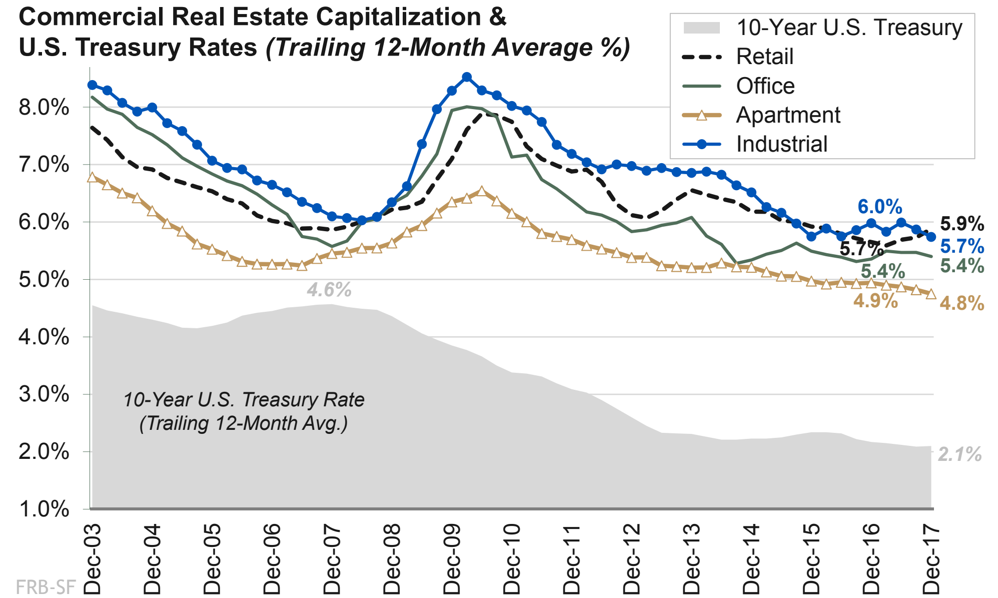


Source: *National Real Estate Investor (NREI)*, "Investor Sentiment Indicates More Pros Think CRE Cycle Is in Expansion Phase," January 8, 2018.

Economy

Year-over-Year, Cap Rates in the West Were Flat-to-Lower for All but the Retail Sector

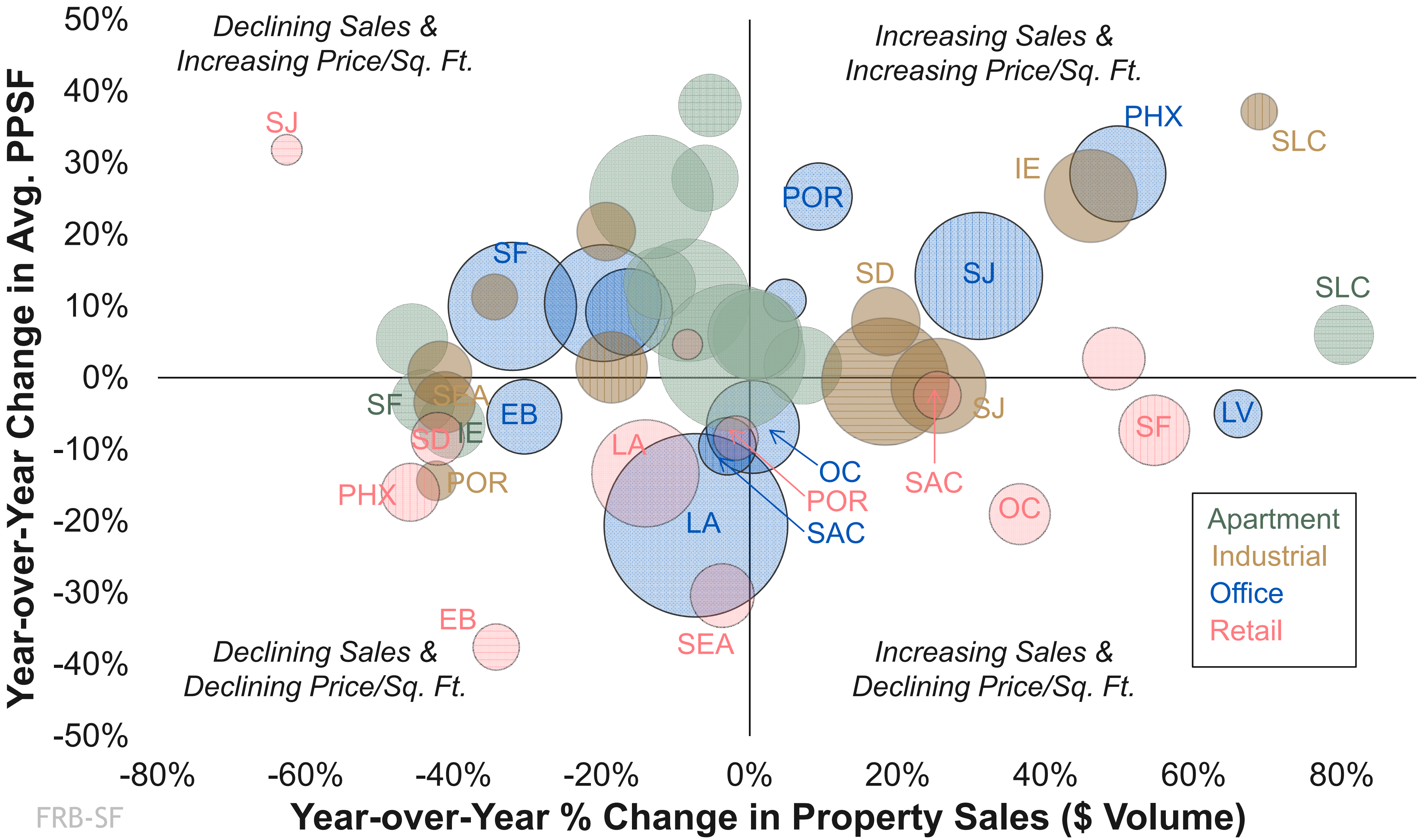
Commercial Real Estate Capitalization & U.S. Treasury Rates *(Trailing 12-Month Average %)*



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; U.S. Treasury rate at constant maturity. Sources: Real Capital Analytics, Federal Reserve.

Economy

Apartment Property Prices Increased on Lower Volumes; Retail Sector PPSF Fell in the Majority of District Markets

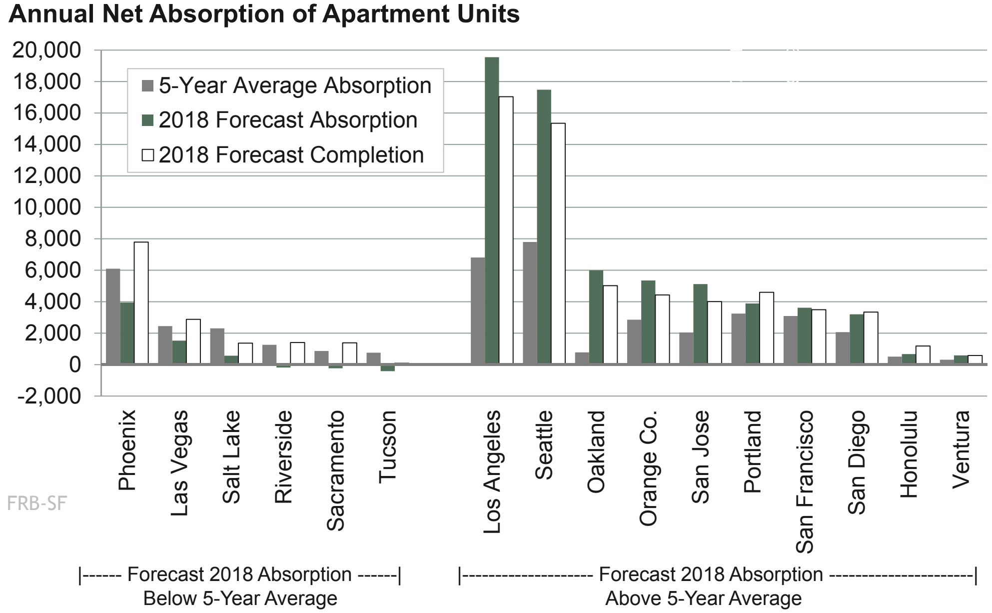


FRB-SF

PPSF = price per square foot; EB = East Bay; IE = Inland Empire; LA = Los Angeles; LV = Las Vegas; OC = Orange County; PHX = Phoenix; POR = Portland; SAC = Sacramento; SD = San Diego; SEA = Seattle; SF = San Francisco; SJ = San Jose; bubble size denotes 2017 volume. Source: Real Capital Analytics.

Per CBRE-EA, Apartment Absorption Could Dip Below 5-Year Average in Six Markets; Above-Average in Ten Others

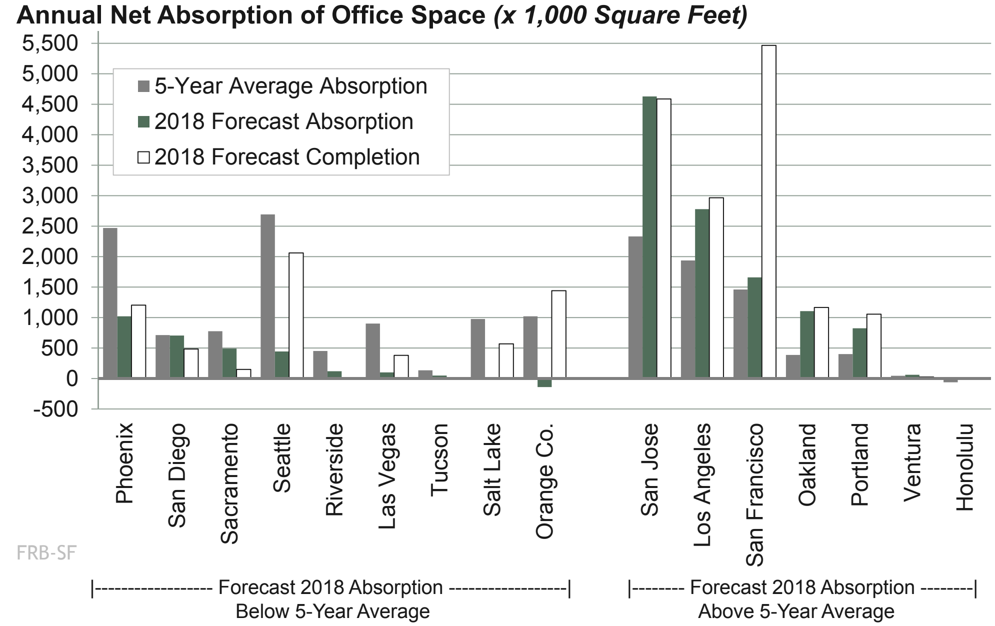
Economy



Forecast per CBRE Econometric Advisors (CBRE-EA) baseline scenario; 5-year period based on 2013-17. Source: CBRE-EA.

CBRE-EA Expects Office Absorption to Lag Historical Averages in Nine Markets; Forecast Supply Large in a Few

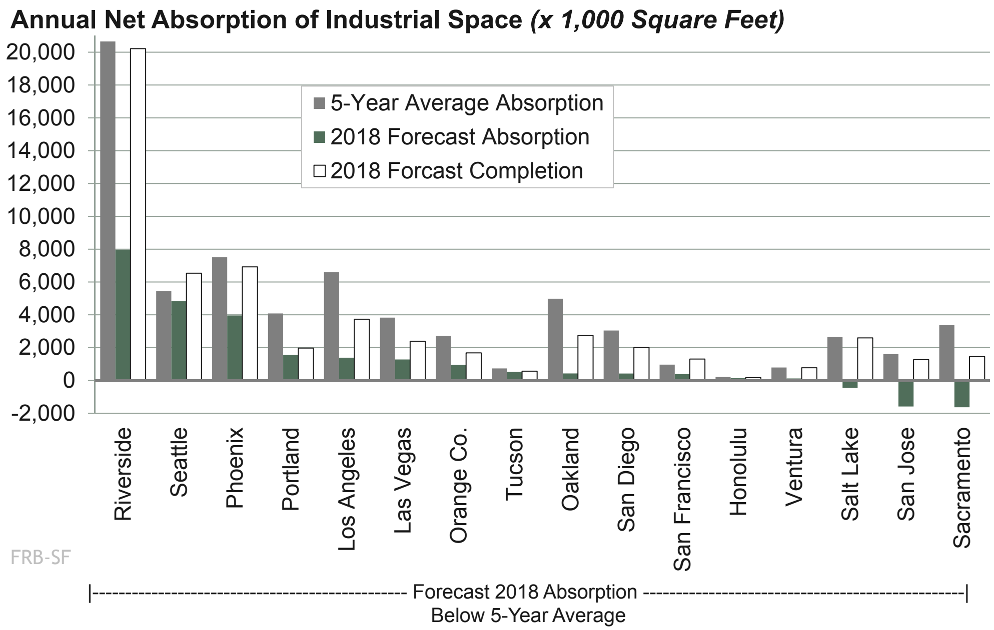
Economy



Forecast per CBRE Econometric Advisors (CBRE-EA) baseline scenario; 5-year period based on 2013-17. Source: CBRE-EA.

Per CBRE-EA, Industrial Absorption Could Run Below the Recent Historical Average in All Major 12th District Markets

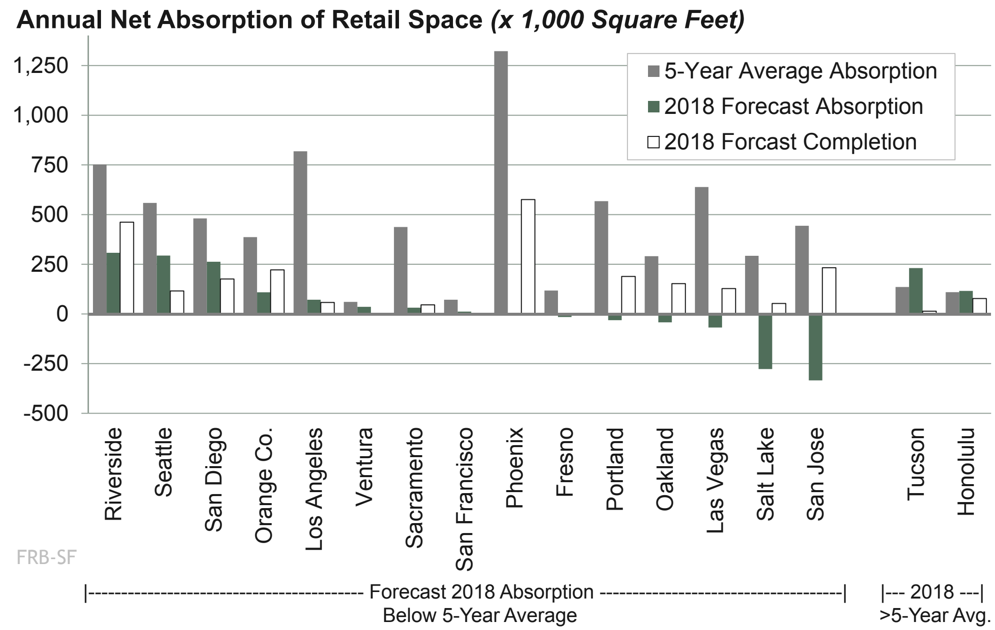
Economy



Forecast per CBRE Econometric Advisors (CBRE-EA) baseline scenario; 5-year period based on 2013-17. Source: CBRE-EA.

CBRE-EA Expects Retail Absorption in 2018 to Fall Short of the Recent 5-Year Average in Most Major District Markets

Economy



Forecast per CBRE Econometric Advisors (CBRE-EA) baseline scenario; 5-year period based on 2013-17. Source: CBRE-EA.

Section 2
Commercial Bank Performance

Earnings

Credit Quality

Loan Growth and Concentrations

Liquidity and Interest Rate Risk

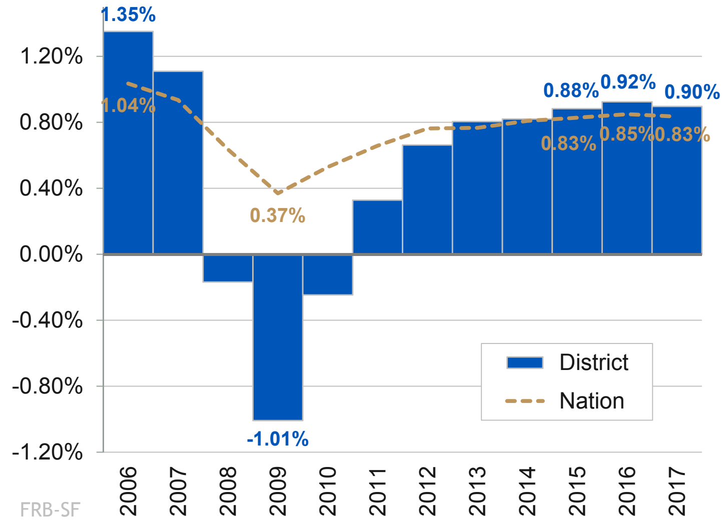
Capital

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

Earnings

For Full-Year 2017, One-Time Deferred Tax Asset Write-Downs Offset Benefits of Wider Margins and Cost Controls

Average YTD ROAA *(Adjusted for Subchapter S Filers)**



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

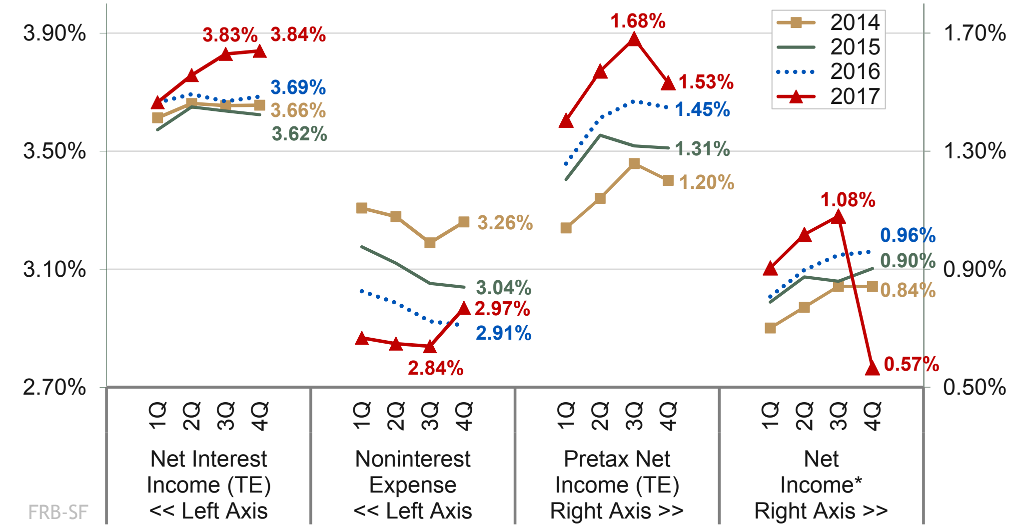
Profit Component	Dec-16	Dec-17
Interest Income (TE)	3.97%	4.12%
Interest Expense	-0.29%	-0.32%
Net Int. Income (TE)	3.66%	3.78%
Nonint. Income	0.61%	0.62%
Nonint. Expense	-2.93%	-2.89%
Provision Expense	-0.06%	-0.06%
Tax Expense (TE)	-0.44%	-0.57%

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 comparability); TE = tax equivalent (yields and applicable tax expense adjusted for tax-exempt revenues); deferred tax asset write-downs flowed through income tax expense.

Earnings

Quarterly Net Income Ratios Sank, Led by Tax Reform-Driven Bonuses and Deferred Tax Asset Write-Downs

Average Qtly. Income or Expense / Average Assets – 12th District Banks

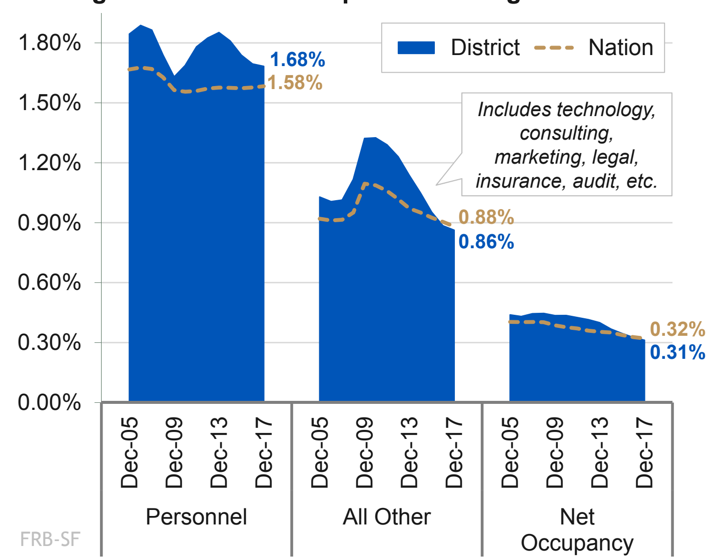


Average = trimmed mean; quarterly figures are annualized; TE = tax equivalent (theoretical tax benefit added to yields on tax-exempt investments and loans); *Net Income adjusted for Subchapter S filers (theoretical tax expense deducted for comparability); deferred tax asset write-downs flowed through income tax expense.

Earnings

Declines in Full-Year Noninterest Expense Ratios Slowed; One-Time Tax Reform-Driven Bonuses Fed the Trend

Average YTD Overhead Expense / Average Assets



Average Overhead Metrics Dec-17

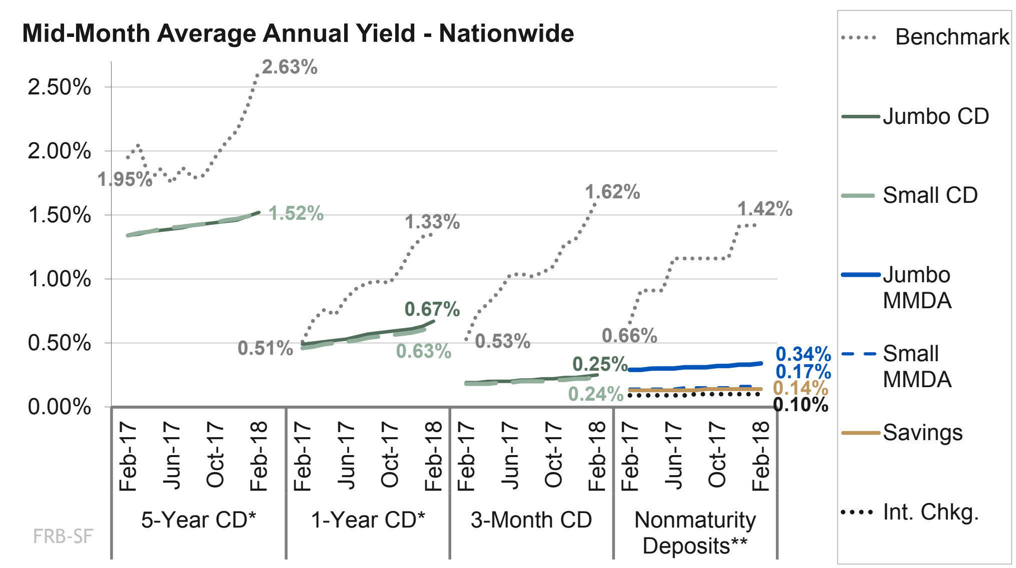
	12th Dist.	Nation
YTD Personnel Exp./ Emp. ($Thous.)	$ 97.5	$ 73.9
Assets per Employee ($Mils.)	$ 6.4	$ 4.9
Assets per Dom. Office ($Mils.)	$120.2	$ 64.8
Total Assets ($Mils.)	$917.4	$298.7

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

Earnings

Deposit Pricing Remained Relatively Unchanged Despite Rising Benchmark Interest Rates, Benefitting Margins

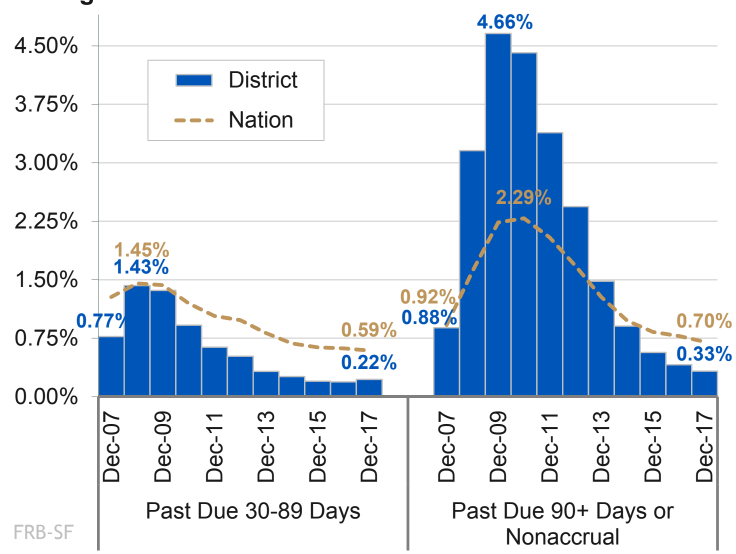
Mid-Month Average Annual Yield - Nationwide



*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; all data as of mid-month; Source: S&P Global Market Intelligence/SNL Financial.

Credit Quality — Early-Stage Past-Dues Flattened but Noncurrent Rates Edged Lower; Delinquent Ag. and Auto Moved Higher

Average Past Due or Noncurrent / Gross Loans & Leases

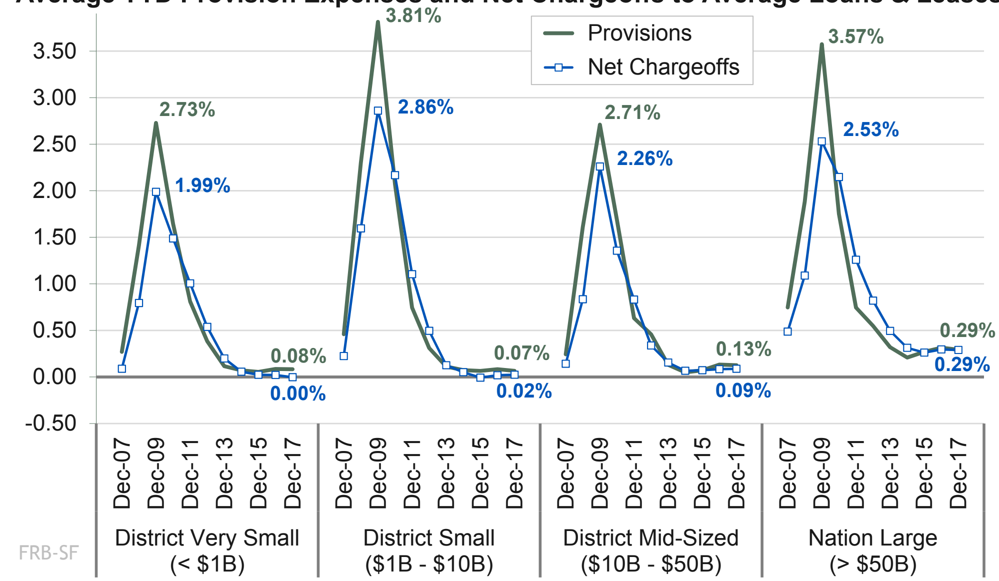


Average % Past Due 30+ Days or Nonaccr. 12th District		
Loan Type	Dec-16	Dec-17
1-4 Family	0.73	0.65
C&I	0.70	0.58
NFNR	0.34	0.31
Owner-Occ	*0.43*	*0.38*
Other	*0.14*	*0.11*
Consumer	0.31	0.27
Credit Card	*0.59*	*0.57*
Auto	*0.14*	*0.21*
Other	*0.23*	*0.20*
Agriculture	0.17	0.26
C&LD	0.24	0.19
All Loans	0.66	0.63

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, 2017 Provisions Outpaced Net Chargeoffs at 12th District Commercial Banks

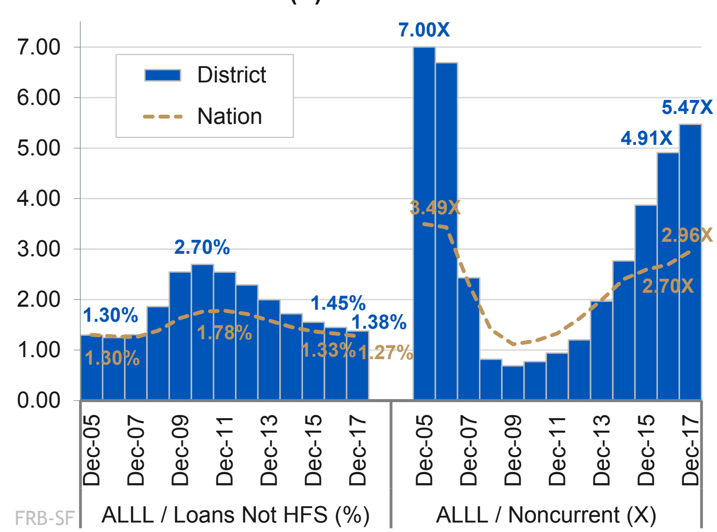
Average YTD Provision Expenses and Net Chargeoffs to Average Loans & Leases



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

Credit Quality — ALLL Build Lagged Growth in Loans & Leases Not HFS but Compared Favorably to Change in Noncurrent Loans

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

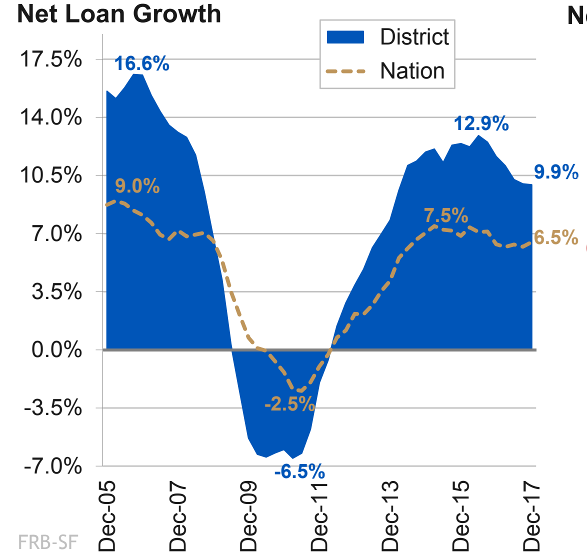


Average Year-over-Year Growth Rate Dec-17		
	12th Dist.	Nation
Loans & Leases not HFS	10.0%	6.5%
Noncurrent Loans	-9.2%	-1.7%
ALLL	5.2%	3.7%

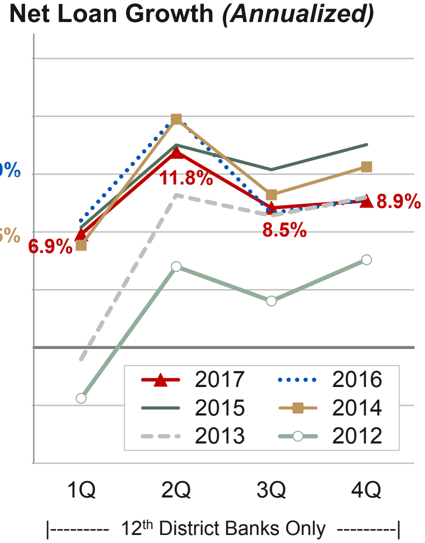
Average = trimmed mean; ALLL = allowance for loan and lease losses; HFS = held for sale; noncurrent = loans past due 90+ days or on nonaccrual status.

Growth — Average Annual Loan Growth Was Strong and Flattened; Quarterly District Loan Growth Had Slight Seasonal Uptick

Average Year-over-Year Net Loan Growth



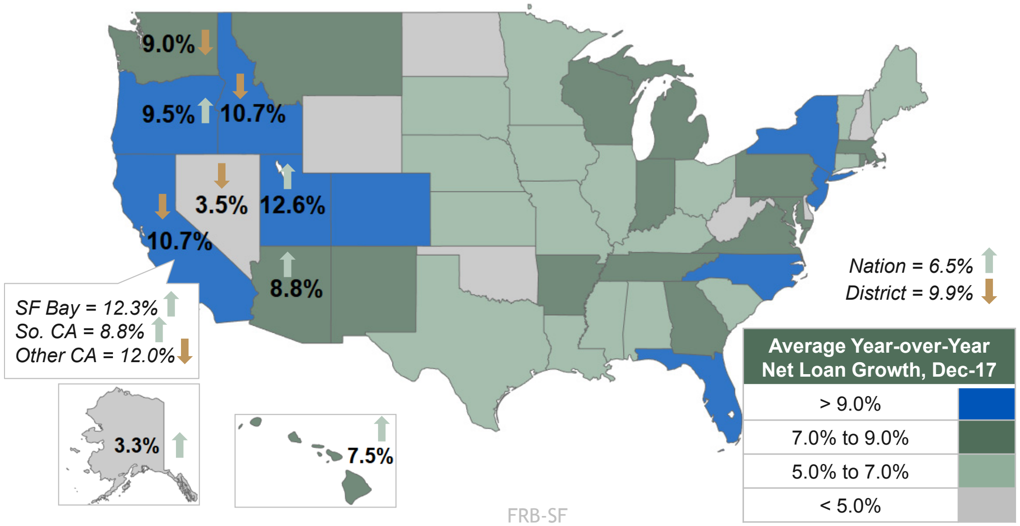
Average Quarter-over-Quarter Net Loan Growth *(Annualized)*



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.

Net Loan Growth Was Very Strong in Most District States; Accelerated in Five of Nine States Compared with 3Q17

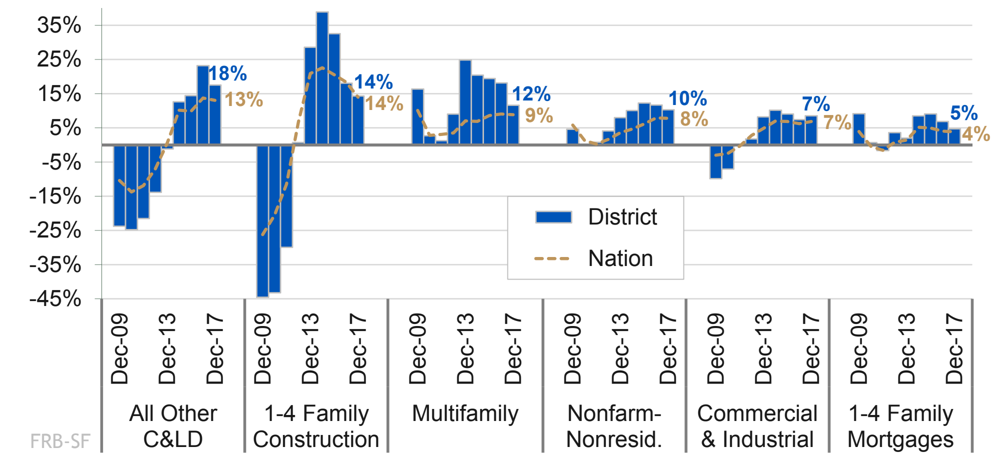
Average Year-over-Year Net Loan Growth (%) | Faster ↓ Slower Rate vs. Sep-17



Average = trimmed mean; growth rates are not merger-adjusted; NV excludes zero loan and credit card banks. SF Bay = 41 banks based in San Francisco-San Jose Consolidated Statistical Area (CSA); So. CA = 75 banks based in Los Angeles CSA + San Diego Metropolitan Statistical Area; Other CA = 36 banks based in all other California counties.

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

Average Year-over-Year Loan Growth, Selected Loan Categories

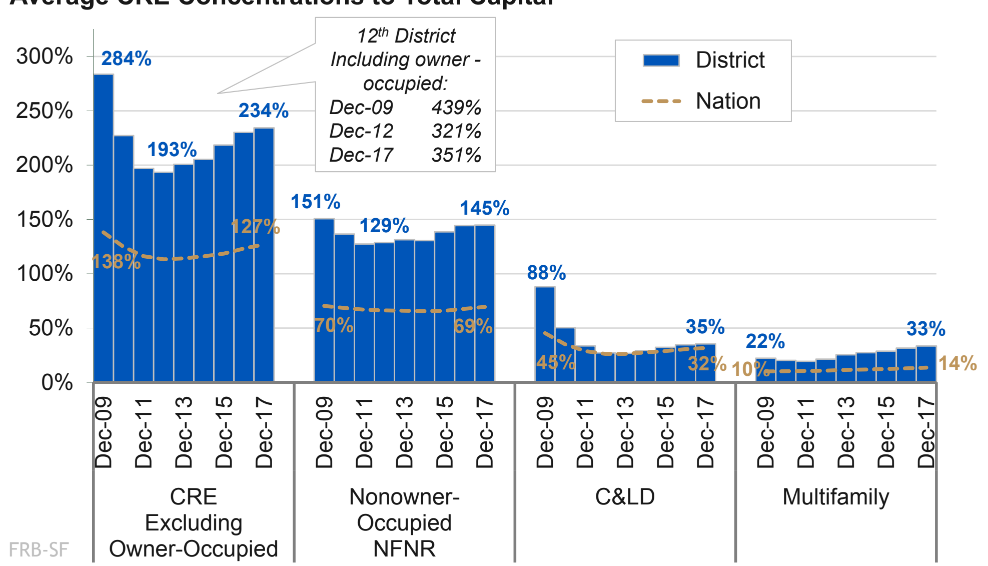


Memo: Average Concentration to Total Capital, Dec-17						
District	22.76	10.43	33.46	258.99	86.39	79.83
Nation	19.01	10.22	13.52	143.93	71.40	139.68

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

Growth Pushed Overall CRE Loan Concentrations Higher

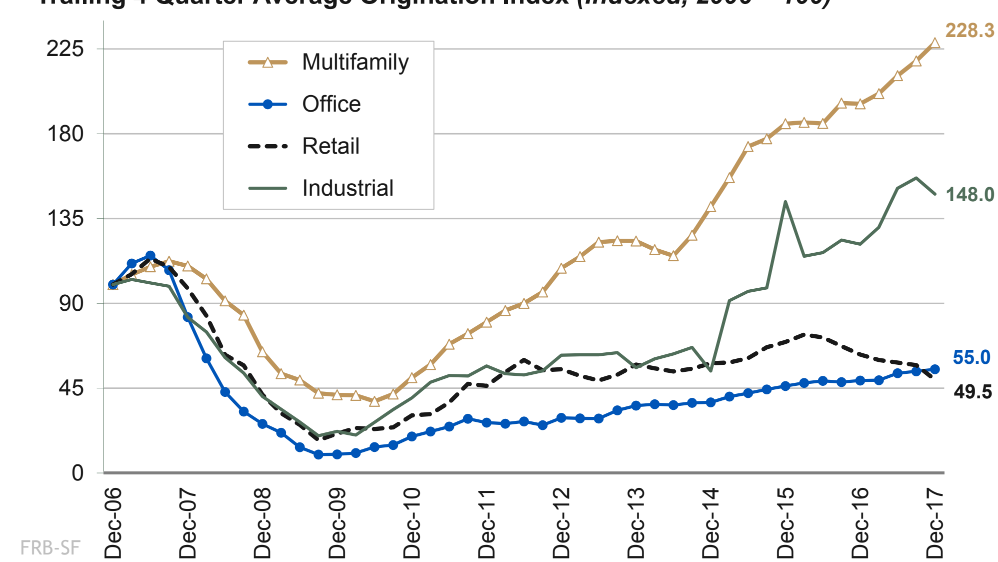
Average CRE Concentrations to Total Capital



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.

CRE Origination Data from MBA Suggests Both Multifamily and Industrial Loan Originations above Historical Norms

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

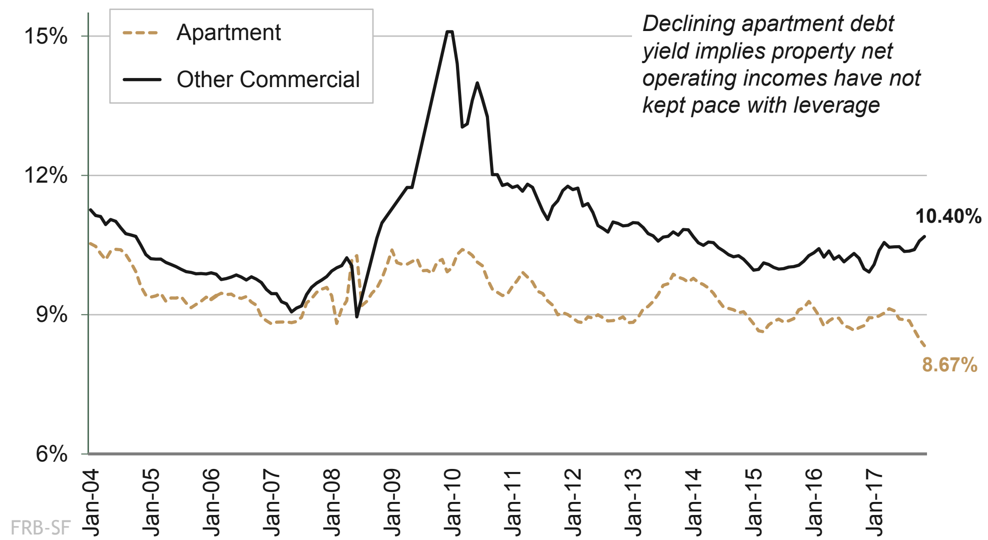


Includes originations by commercial banks, life insurance companies, Fannie Mae/Freddie Mac, and commercial mortgage backed securities/conduits. Source: Mortgage Bankers Association.

Growth

Per RCA, Apartment Lenders Have Allowed Rising Mortgage Balances in Relation to Net Operating Income

Debt Yield *(3-Month Moving Average)*

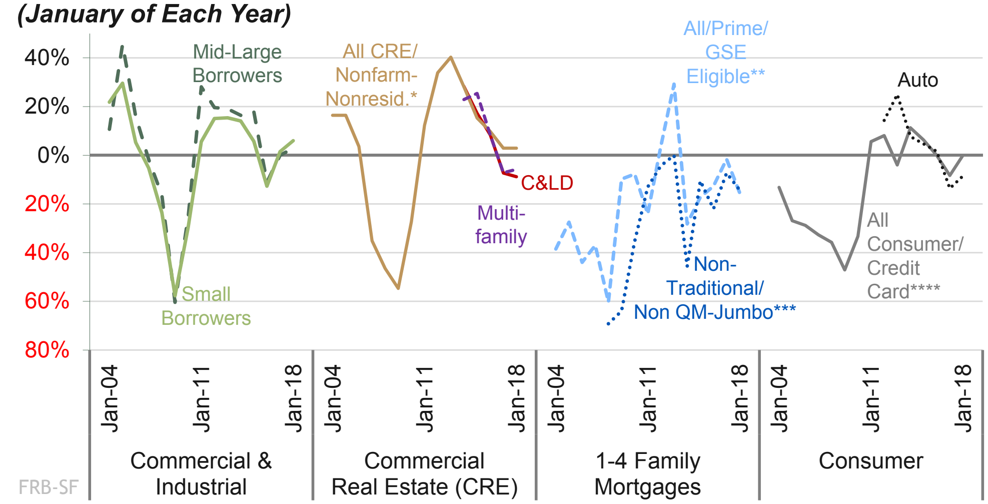


Debt yield = net operating income / loan amount; limited to fixed-rate first mortgages with a 7-10 year loan term where debt yield is between 4% and 20%; Other Commercial = office, industrial, and retail. Source: Real Capital Analytics (RCA).

Growth

In 4Q17, Senior Loan Officers Were More Likely to Report Stronger Demand for C&I, Weaker Demand for Some CRE

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

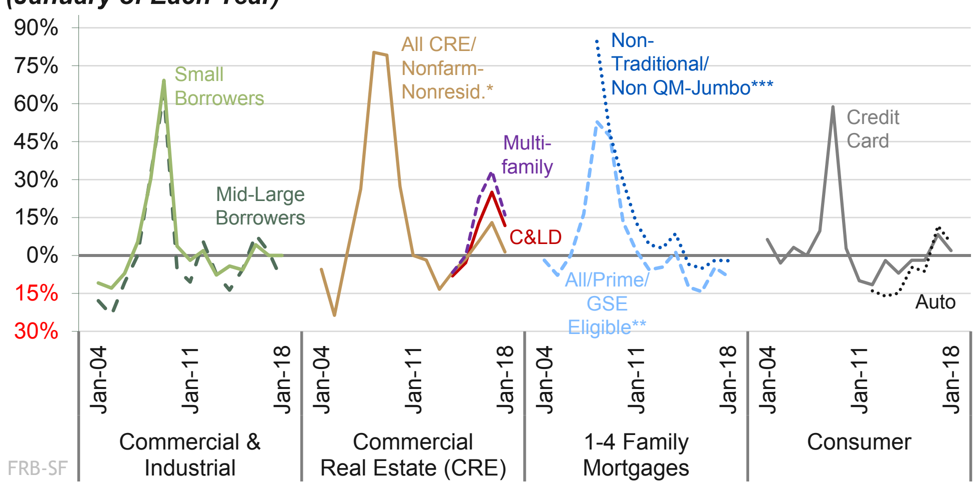


Based on a sample of 70+/- loan officers at domestic banks (number varies by period and loan type); C&LD = construction and land development; *includes all CRE loans prior to Oct-13; **includes all residential mortgages prior to Apr-07, "prime" mortgages Apr-07 to Oct-14, and GSE-Eligible starting Jan-15; ***includes "nontraditional" mortgages Apr-07 to Oct-14 and Non QM Jumbo mortgages starting Jan-15; ****includes all consumer loans prior to Apr-11. Source: Federal Reserve *Senior Loan Officer Opinion Survey* (https://www.federalreserve.gov/data/sloos.htm).

Growth

Nationally, Lenders Were Less Likely to Tighten Standards in 4Q17 Compared with the Same Period in 2016

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

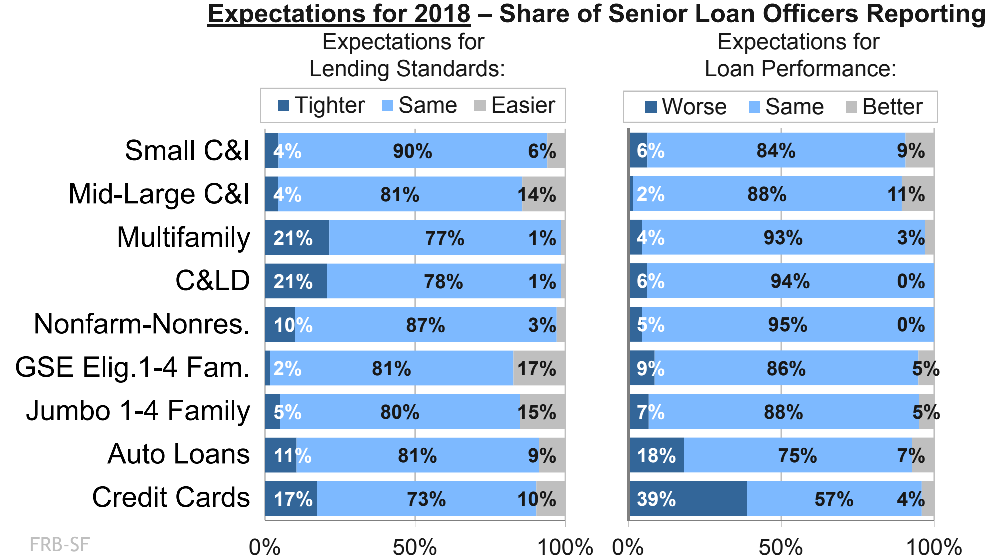


Based on a sample of 70+/- loan officers at domestic banks (number varies by period and loan type); C&LD = construction and land development; *includes all CRE loans prior to Oct-13; **includes all residential mortgages prior to Apr-07, "prime" mortgages Apr-07 to Oct-14, and GSE-Eligible starting Jan-15;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

Growth

In 2018, Some Lenders Expect Tighter Standards for CRE & Consumer Loans, Weaker Consumer Loan Performance

Expectations for 2018 – Share of Senior Loan Officers Reporting:

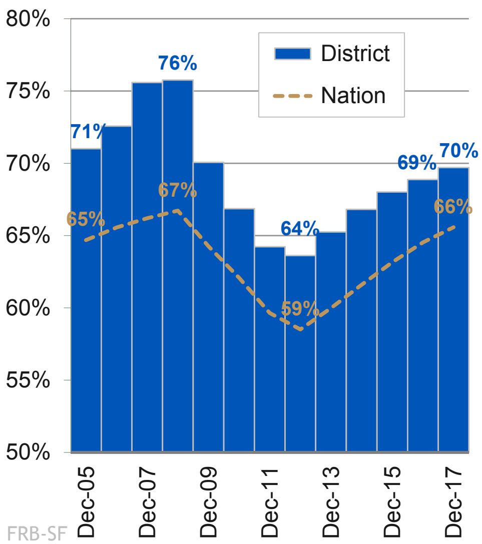


Based on a sample of loan officers at 49-70 domestic banks (count varies by loan type); C&I = commercial and industrial (excludes syndicated loans); CRE = commercial real estate; C&LD = construction and land development. Source: Federal Reserve *Senior Loan Officer Opinion Survey* (http://www.federalreserve.gov/BoardDocs/snloansurvey/), Jan. 2018.

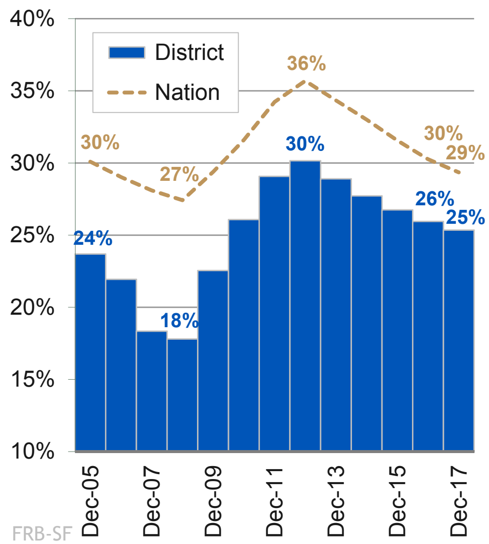
Liquidity

On-Balance Sheet Liquidity Retreated in the Past Year, Approaching Year-End 2005 Levels

Net Loans and Leases / Assets*



Securities + Liquid Invest. / Assets*

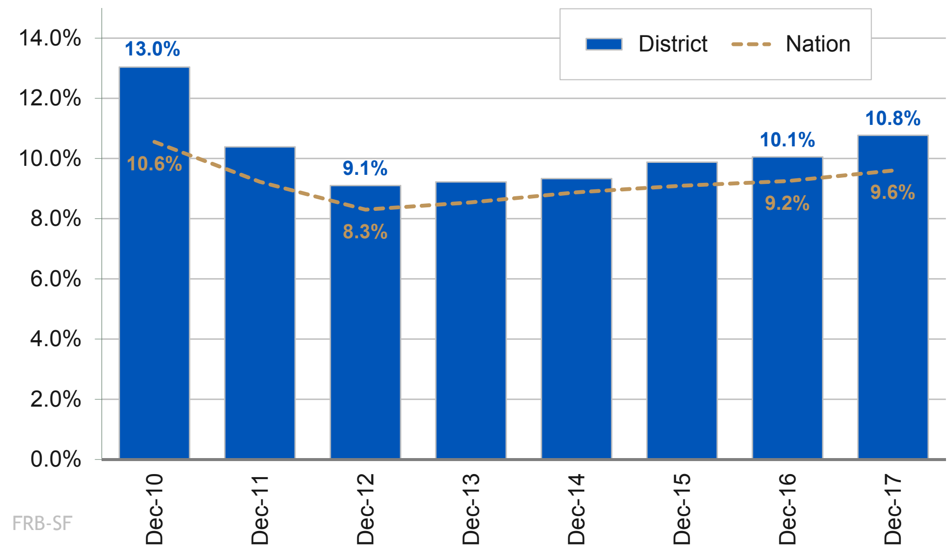


*All data are averages (trimmed means); liquid investments = cash, due from balances, interest bearing balances, and federal funds sold & securities purchased under agreements to resell.

Liquidity

Average District Noncore Funding Edged Higher

Average Noncore Liabilities / Total Assets

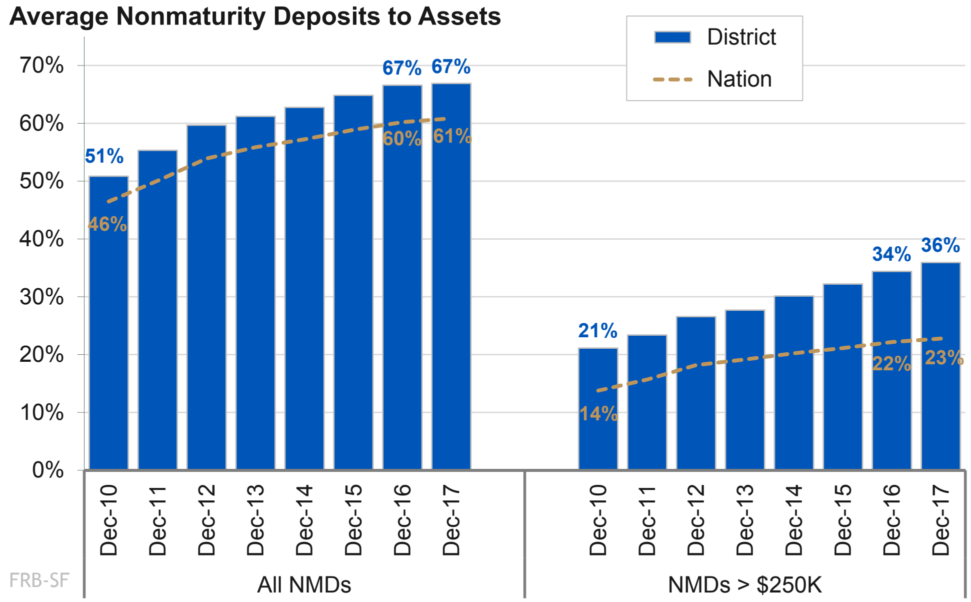


Average = trimmed mean; noncore liabilities = sum of borrowings (e.g., federal funds purchased, repurchase agreements, and other borrowed money), foreign deposits, certificates of deposit > $250K, and brokered deposits < $250K.

Liquidity

Jumbo Nonmaturity Deposits Continued to Increase, Especially in the District

Average Nonmaturity Deposits to Assets

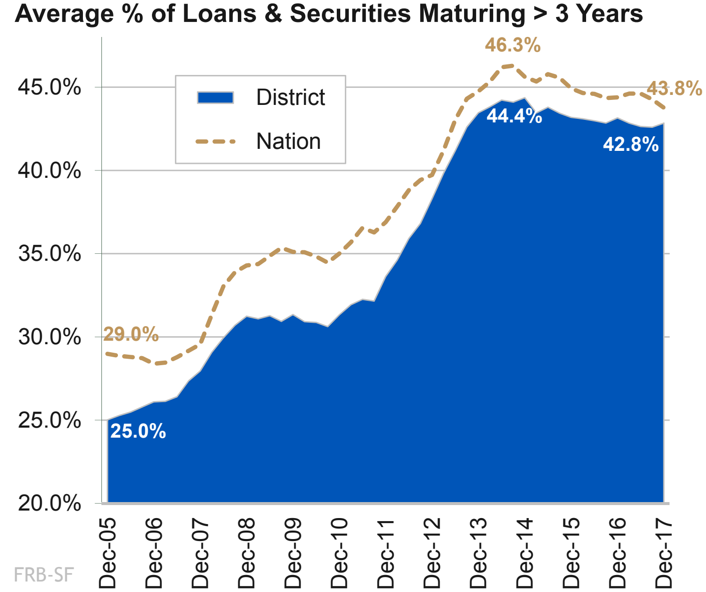


Average = trimmed mean; NMD = nonmaturity deposits (all deposits excluding time deposits); Jumbo = > $250K.

Int. Rate Risk

Exposures to Longer-Term Assets Remained Elevated, with a Seasonal Uptick in the Fourth Quarter

Average % of Loans & Securities Maturing > 3 Years



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

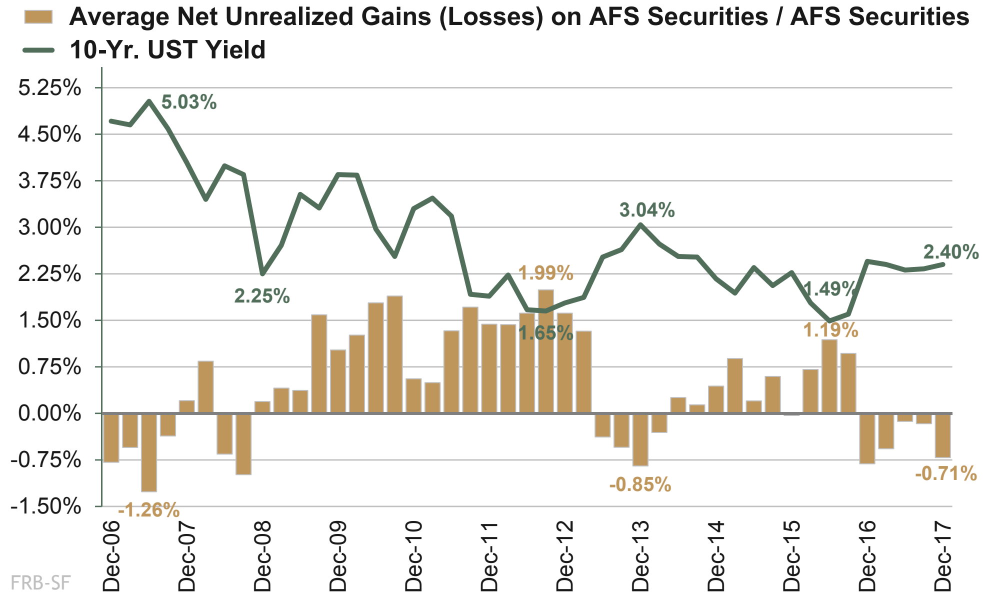
	2005-17*	Dec-17
AK		54.6%
AZ		47.2%
CA		43.4%
HI		47.9%
ID		33.9%
NV		39.9%
OR		52.6%
UT		30.0%
WA		47.6%
Nation		43.8%

◆ = trough ◆ = peak

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

Int. Rate Risk

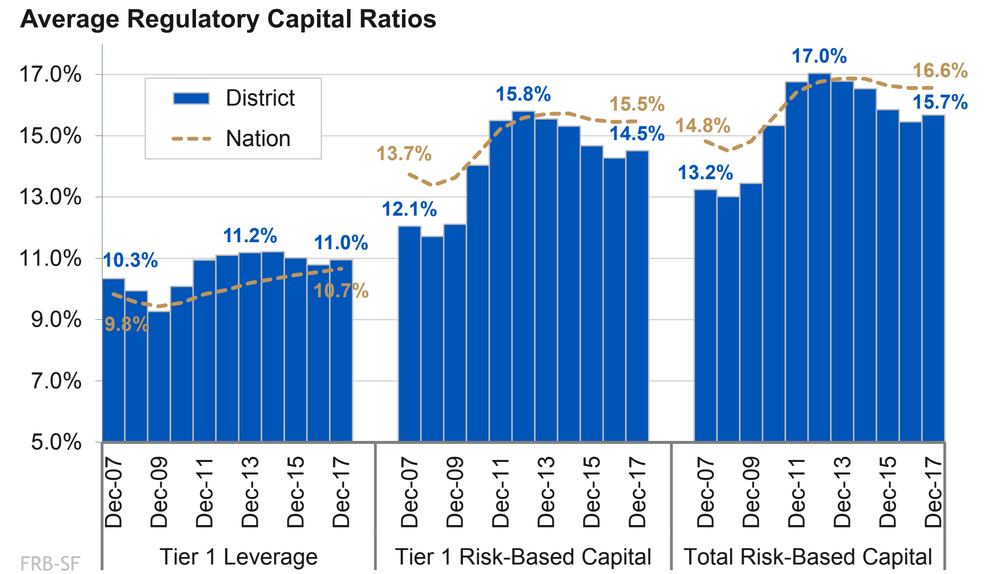
Rising Interest Rates and Changes in Tax-Related Adjustments Steepened Unrealized AFS Securities Losses



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).

Capital

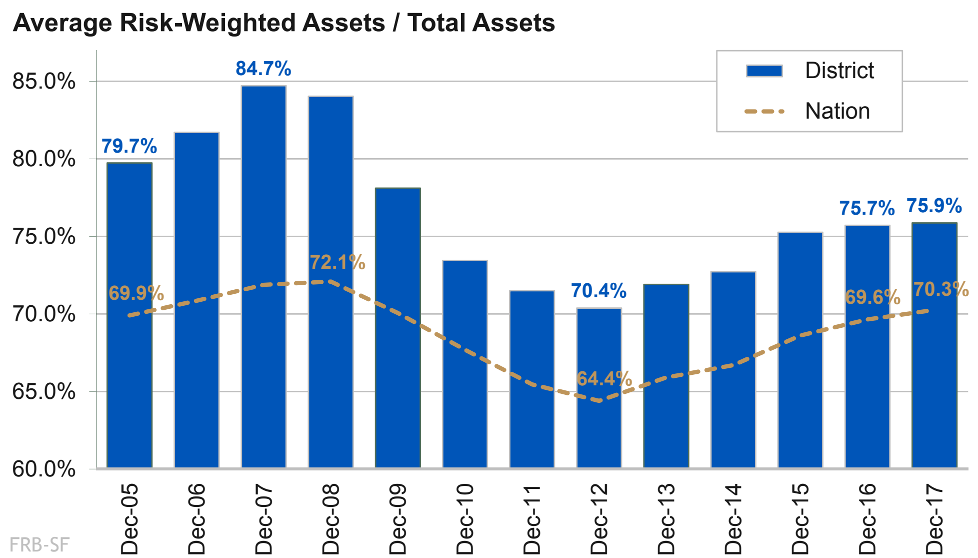
Average Regulatory Capital Ratios Improved Year-over-Year



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.

Capital

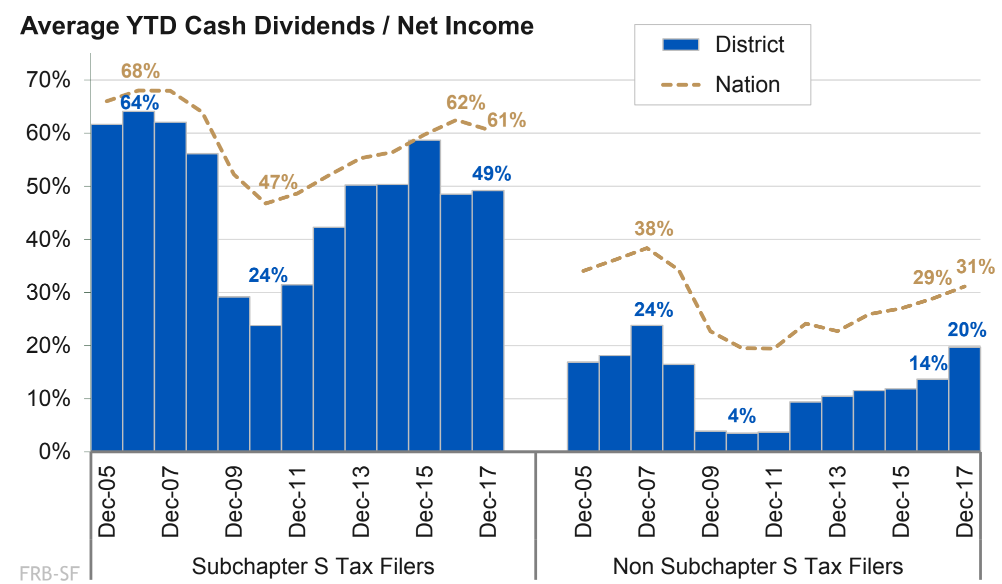
District Bank Risk-Weighted Asset Mix Held Steady vis-à-vis Total Assets, Benefitting Risk-Based Capital Ratios



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.

Capital

Average 12th District Dividend Payout Ratios Trailed the Nation but Strengthened Notably for C-Corporation Banks



Average = trimmed mean; YTD = year-to-date; Subchapter S filing banks (13% of banks in the 12th District, 39% of banks nationwide) pay taxes at the shareholder rather than corporate level and typically have higher dividend payout rates (also known as distributions) so that shareholders can cover tax obligations.

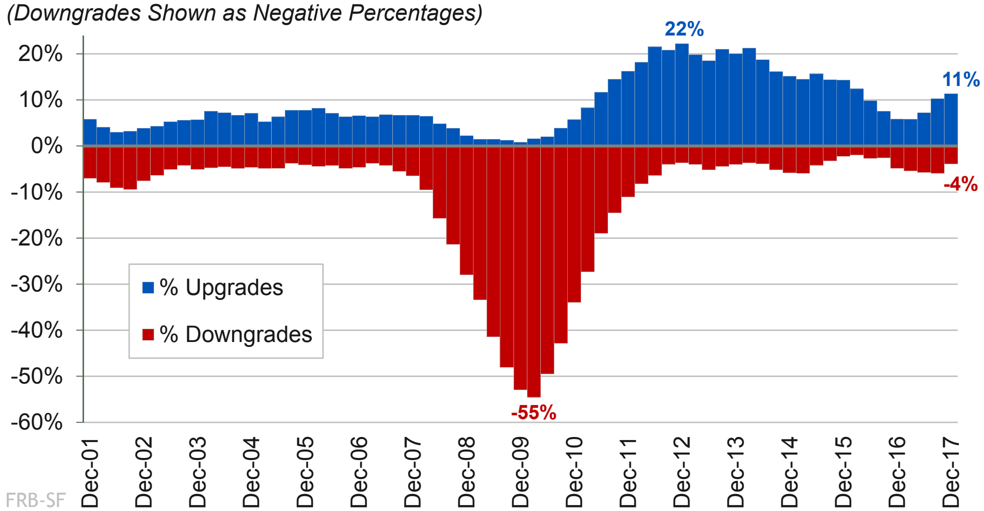
Section 3
Commercial Bank Regulatory Ratings & Trends

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

During 2017, Composite Safety and Soundness Examination Rating Upgrades Continued to Outpace 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)



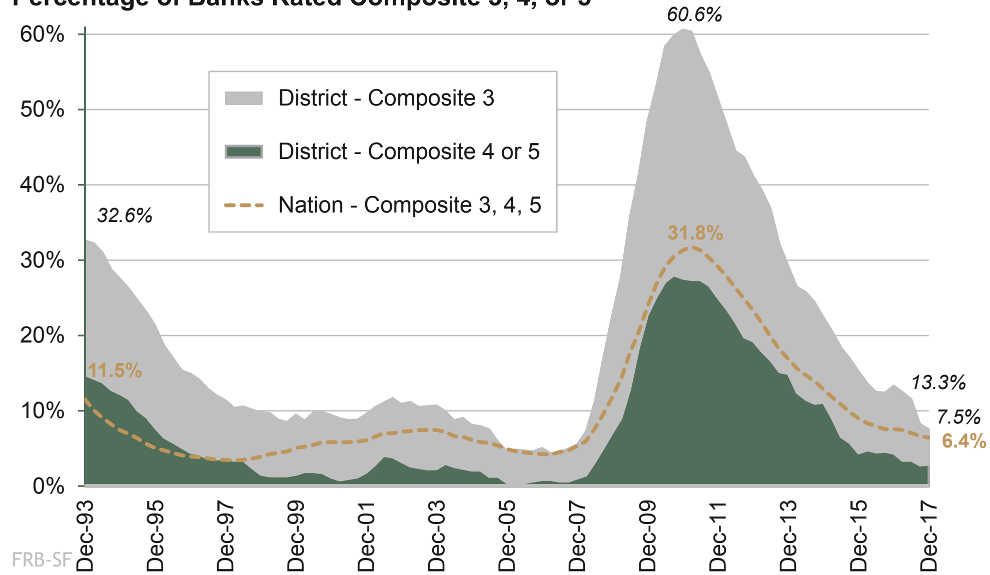
FRB-SF

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 fourth quarter 2017 data through 02/13/18.

Ratings

As a Result, the Share of District Banks with Composite Ratings of 3, 4, or 5 Dropped Notably by Year-End

Percentage of Banks Rated Composite 3, 4, or 5



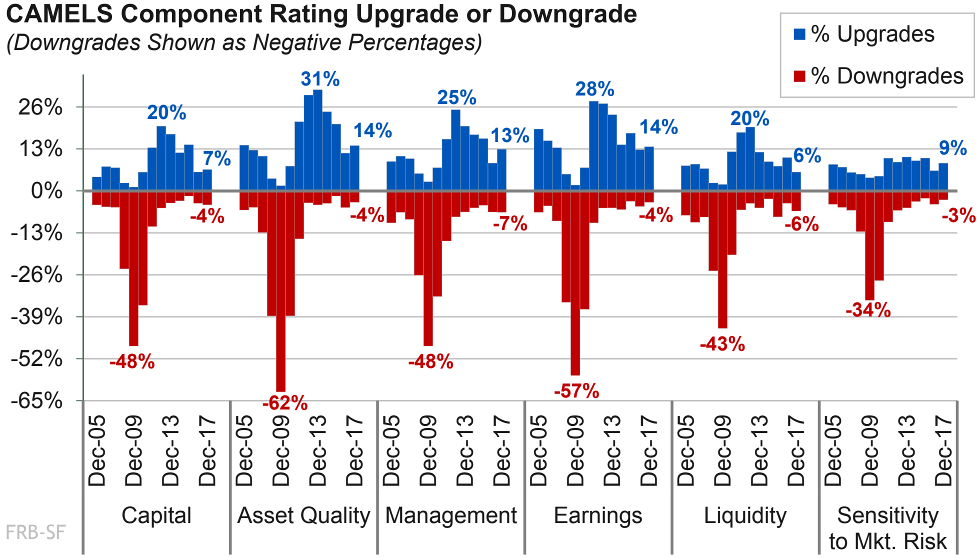
FRB-SF

Dated based upon examination completion; includes De Novo banks; preliminary fourth quarter 2017 data through 02/13/18.

Ratings

Earnings and 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)



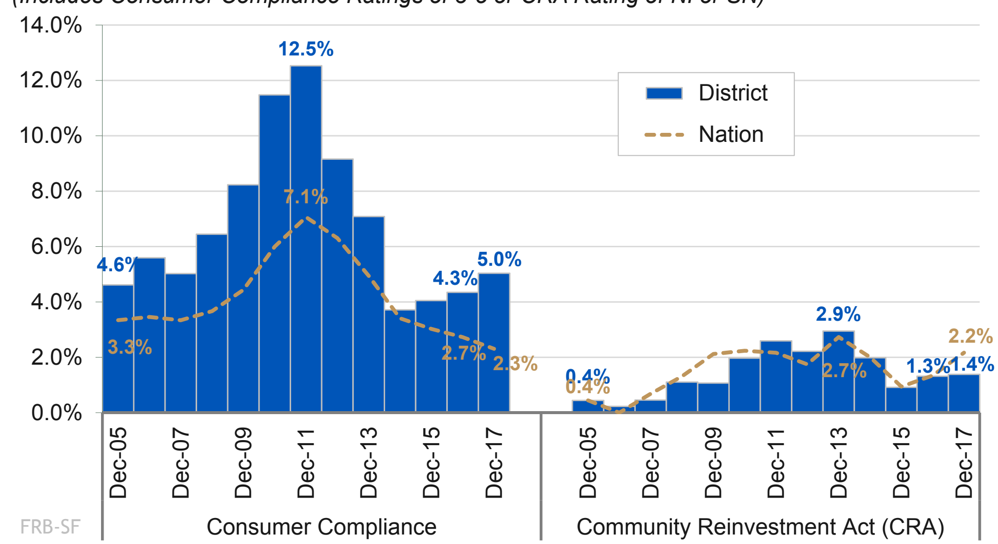
FRB-SF

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 fourth quarter 2017 data through 02/13/18.

Ratings

The District's Share of Banks with Less-Than-Satisfactory Consumer Compliance/CRA Ratings Edged Higher

Percentage of 12th District Banks with Less-than-Satisfactory Ratings
(Includes Consumer Compliance Ratings of 3-5 or CRA Rating of NI or SN)



FRB-SF

NI = Needs to Improve; SN = Substantial Noncompliance; includes De Novo banks; dated based upon examination completion; preliminary fourth quarter 2017 data through 02/13/18.

Appendices

Summary of Institutions

Technical Information

Appendix 1: Summary of Institutions

Area	Commercial Banks (De Novos)		Industrial Banks (De Novos)		Savings Institutions (De Novos)	
	Dec-16	*Dec-17*	*Dec-16*	*Dec-17*	*Dec-16*	*Dec-17*
AK	4 (0)	4 (0)	-	-	1 (0)	1 (0)
AZ	16 (0)	15 (0)	-	-	1 (0)	-
CA	164 (0)	152 (1)	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	11 (0)	12 (0)	-	-	1 (0)	1 (0)
NV	9 (0)	10 (0)	4 (0)	4 (0)	2 (0)	3 (0)
OR	21 (0)	17 (0)	-	-	3 (0)	3 (0)
UT	30 (0)	27 (0)	15 (0)	15 (0)	2 (0)	2 (0)
WA	39 (0)	37 (0)	-	-	10 (0)	10 (0)
12L	301 (0)	281 (1)	23 (0)	23 (0)	34 (0)	34 (0)
U.S.	5,084 (2)	4,889 (7)	25 (0)	25 (0)	801 (1)	753 (1)

Based on preliminary fourth 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.