First Glance 12L (1Q18)

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

Job Gains and Bank Profits Improved as Loan Growth Slowed

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A Product of the Surveillance and Analysis and Data Analytics Units

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

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12th District Overview
"Job Gains and Bank Profits Improved as Loan Growth Slowed"

Job growth notched higher in the District but remained flat nationwide. Year-over-year, nonfarm jobs grew by 2.4% in the 12th District (District), compared to a significantly-revised 2.3% in 4Q17 and a national aggregate of 1.5%. Annual gains were strongest in Idaho and Utah, while Alaska continued to shed jobs (see table at right). Outside of Alaska, unemployment remained below 5.0% among the District's states, and was especially low in Hawaii, Idaho, and Utah. In aggregate, the construction sector continued to report the fastest sector-level job growth rate, with a year-over-year increase of 7.9%, more than four percentage points above the next fastest sector of transportation and utilities.

District housing prices soared as growing demand pressures met continuing supply constraints. According to data from CoreLogic, the top five states for year-over-year home price appreciation were all in the District (Nevada, Washington, Idaho, Utah, and California). Prices in many of these states increased at the fastest year-over-year pace since 2013. Solid economic growth, retiree inflows, and/or prospects for higher mortgage rates drove demand. New single family housing starts increased, but remained below pre-recession levels; developed lot and construction labor shortages remained headwinds. Nationally, the for-sale inventory of existing homes was down 7.2% year-over-year in March, a multi-year low for the month. The supply/demand imbalance intensified affordability strains in most states, and, in turn contributed to net domestic outmigration in California and Hawaii. Alaska also lost residents; however, its trend was more a function of energy-related job losses than housing affordability. Most other District states experienced net in migration as people pursued retirement, sought jobs, or looked for less expensive living costs.

Commercial real estate (CRE) sentiment and transaction volumes varied by sector. The 1Q18 *National Real Estate Investor/Marcus & Millichap* survey of investor sentiment showed slight improvement for all property sectors from 3Q17. Perceived economic benefits of and favorable CRE tax treatment in the 2017 tax legislation contributed to the trend. Industrial and apartment properties, which recorded the strongest price gains over the past year, were viewed most favorably by investors. In contrast, both investor survey and transaction data pointed to weakness in the retail sector. In the office sector, lower transaction volumes, moderating price per square foot, and relatively weak investor sentiment may reflect the lack of opportunities investors see in downtown and gateway markets. For additional CRE market analysis, see the FRB-SF's recent *Real Estate Lending Risks Monitor* at https://www.frbsf.org/banking/publications/real-estate-lending-risks-monitor/.

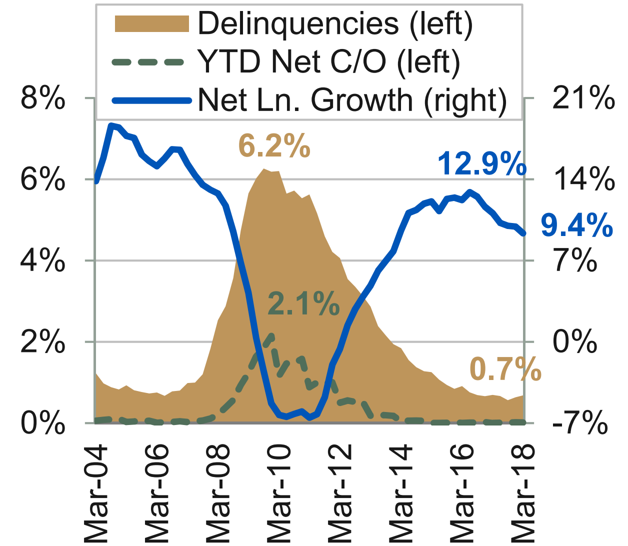
Trade tensions persisted. Developments with China, Mexico, Canada, Japan, and South Korea in particular will bear watching given their critical role in District trade and port activity. Washington and California remained the District's most trade-exposed states. On the downside, tariffs imposed on U.S. exports could reduce demand abroad and levies on imports could pressure price inflation.

Nonfarm Job Growth & Unemployment (%)

	Year-Over-Year Job Growth		Unemp. Rate
	12 Mos.	1Q18	Mar-18
ID		3.25%	2.90%
UT		3.24%	3.10%
NV		3.07%	4.90%
WA		2.86%	4.80%
OR		2.39%	4.10%
AZ		2.29%	4.90%
CA		2.21%	4.30%
HI		1.21%	2.10%
AK		-0.39%	7.30%
US		1.51%	4.10%

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

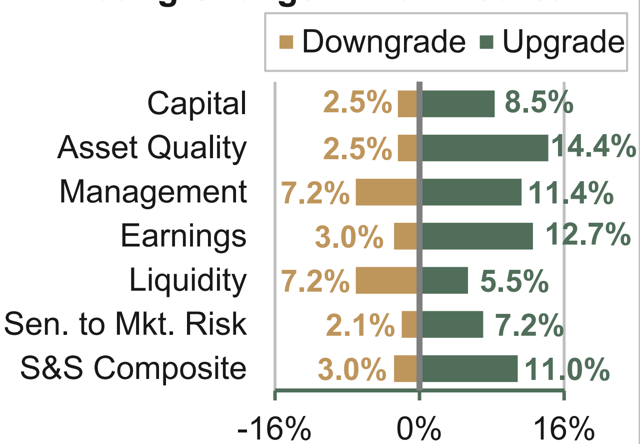
District Credit Metrics*



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

FRB-SF

S&S Examinations Resulting in Rating Change – 12th District**



**% of safety & soundness (S&S) exams completed in 12 months ending March, mailed through 5/18/18.

FRB-SF

Bank profits strengthened year-over-year in 1Q18 as margins widened and lower tax rates took effect. The District's average, year-to-date (YTD) return on average assets (ROAA) ratio (adjusted for Subchapter S tax filers) improved to 1.15%, up 25 bps year-over-year and above a national average of 1.01%. Higher asset yields and rising loan-to-asset ratios, in combination with "sticky" deposit pricing, fueled year-over-year net interest margin expansion. However, most of the improvement occurred in mid-to-late 2017; the District's average quarterly margin was relatively flat on a linked-quarter basis. The average effective tax rate sank to 22%, adding 7 bps year-over-year to the average ROAA. Overhead ratios edged down on a linked-quarter basis but increased slightly compared with 1Q17 as expense growth outpaced assets. Tight labor markets and higher statutory wage minimums may have influenced the trend.

Districtwide loan growth decelerated, but credit performance was strong. The District's average annual net loan growth rate was 9.4% in 1Q18, down from 9.9% in 4Q17, but still higher than a national average of 6.3%. State-level results were mixed, with accelerating growth in five District states weighed down by slower growth among banks in Arizona, California, Oregon, and Utah. On average, construction and land development (C&LD) and multifamily continued to have double-digit segment-level growth rates. CRE remained dominant in most District bank loan portfolios, a typical niche given retail loan competition from nonbank lenders, credit unions, and finance companies. According to the Federal Reserve's Senior Loan Officer Opinion Survey, there were signs of loosening conditions for CRE loans, mainly for pricing, size, and length of interest-only period. Average past-due loan and net chargeoff rates remained low, but delinquency rates for agricultural and some consumer loan categories ticked up year-over-year.

Compared with 1Q17, liquidity tightened but capital ratios improved. The District's average loan-to-asset ratio increased to 70% as relative investments in liquid assets and securities declined. Year-over-year, average growth in nonmaturity deposits (NMDs) slowed, possibly because account pricing was little moved by interest rate hikes. Meanwhile, noncore funds inched higher as a share of assets, driven primarily by jumbo time deposits and smaller brokered funds. Overall reliance on these sources remained below pre-recession peaks. Average regulatory capital ratios improved on strengthening earnings retention and moderating asset growth.

Safety and soundness (S&S) examination upgrades outpaced downgrades by nearly four to one. In the twelve months ending March, upgrades exceeded downgrades for all components except Liquidity. Nearly 93% of District banks were rated satisfactory or strong for safety and soundness, comparable to early 2008 and far better than a crisis-era low of less than 40%. Similarly, roughly 95% 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*. During 2017, the number of ransomware variants increased 46%, and malware, and financial Trojans increased in the second half of the year according to Symantec's latest annual *Internet Security Threat Report*. Globally, within the finance, insurance, and real estate sector, the report also noted that nine email viruses were sent to the average employee and that 1 in every 3,013 emails was a phishing attempt. Such statistics reinforce the need for both staff and customer training and strong vendor management programs. Inherent risks can increase from a variety of factors, such as system complexity, services, and visibility.

- *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 new Customer Due Diligence rules that took effect in May 2018. BSA/AML-related criticisms noted at bank examinations most often related to internal controls (e.g., institutional risk assessments, customer due diligence, and suspicious activity monitoring). Weak program oversight and ineffective independent tests continued to be noted at examinations as well.

- *CRE lending concentrations*. Non-owner occupied CRE loan concentrations remained at or above the U.S. average across all District states (see table at right). Increased loan concentrations, 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 and pressure commercial property price appreciation, all else equal. For risk management-related guidance, see the 2015 *Interagency Statement on Prudent Risk Management for Commercial Real Estate Lending* (SR letter 15-17, available at http://www.federalreserve.gov/bankinforeg/srletters/sr1517.htm).

- *Lengthening asset maturities*. 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 may be slower to reprice and could mute margin expansion if not appropriately matched, hedged, or managed.

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

FRB-SF	2008-18**	Mar-18
CA	299%	268.2%
WA	339%	233.9%
OR	349%	226.7%
NV	333%	201.9%
AZ	372%	178.3%
ID	245%	168.4%
HI	161%	153.0%
AK	162%	147.5%
UT	323%	127.3%
Nation	148%	126.2%

*Trimmed means; excludes owner-occupied ; **March 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/).
- *Quality of loan growth*. The average annual net loan growth rate continued to outpace the national average in most District states. Economic expansion continued to drive growth; however, many loans are underpinned by near-historic high collateral values and some lenders have loosened standards in the face of competition. 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. Closely monitoring credit performance will be important as banks approach the implementation of new accounting rules for Current Expected Credit Losses (a/k/a CECL).
- *Nonmaturity Deposit (NMD) risk management*. NMDs, traditionally viewed as "core" funding, became an increasingly important source of funding for most banks after the last recession. While these products proved inexpensive in a low-rate environment, these funds may disintermediate or transition to higher-cost products in a rising interest rate environment. Concurrent with recent interest rate increases, the District's average year-over-year growth in NMDs slowed to 8.2% in March 2018, down from an annual rate of 11.8% in March 2017. Meanwhile, growth rates for brokered and jumbo time deposits accelerated slightly. To the extent larger accounts may be more rate sensitive, the size composition of NMDs also may leave banks vulnerable. At 36% of assets, 12th District banks reported the highest reliance on jumbo NMDs in the nation (see table at right).
- *Balancing overhead expense pressures with risk management requirements*. Asset growth and technology have led to some economies of scale and efficiency gains, helping to boost profitability. The risk is 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*. 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, and since credit decisions may use nontraditional data sources, banks should closely evaluate transactions for credit risk, fair lending, and unfair/deceptive acts or practices.

Average Jumbo NMD / Assets* by Federal Reserve District

District	Mar-10	Mar-18
San Francisco	19.0%	35.8%
New York	21.3%	31.4%
Dallas	16.5%	29.0%
Boston	15.3%	24.9%
Atlanta	12.8%	24.2%
Philadelphia	12.1%	22.1%
Kansas City	11.7%	21.2%
Minneapolis	11.1%	20.8%
Richmond	10.6%	20.6%
Chicago	11.1%	20.3%
Cleveland	10.9%	19.3%
Saint Louis	10.8%	19.1%

*Trimmed means; NMD = nonmaturity deposit; jumbo = balance > $250,000.

Section 1
Economic Conditions

Job Growth

Housing Market

Migration

Commercial Real Estate

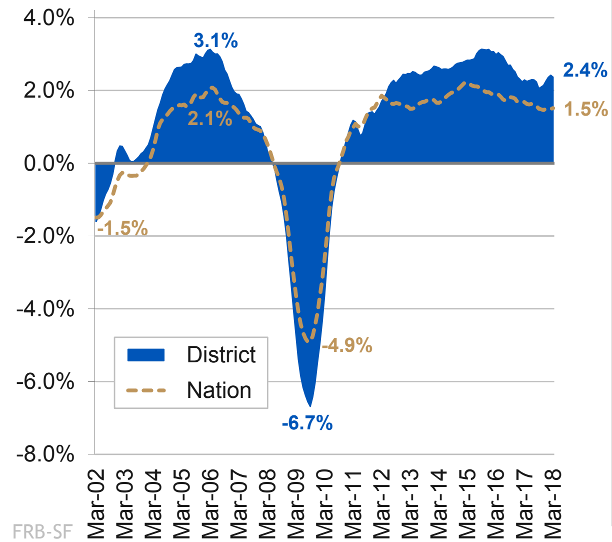
Trade

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)

8 Job Growth Notched Higher in the District, Held Steady in the Nation; Construction Still Fastest-Growing Sector

Year-over-Year Nonfarm Job Growth



Job Growth by Sector 12th District

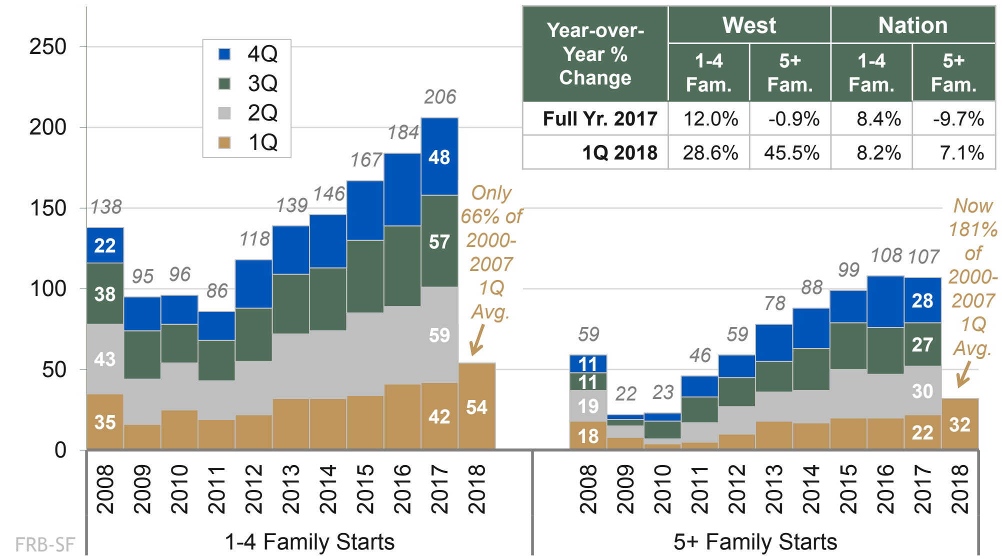
Job Sector	1-Yr % Change 2008-18*	1-Yr % Change 1Q 2018
Construction		7.92%
Transport. & Utilities		3.88%
Educ. & Health Svcs.		3.85%
Leisure & Hospitality		2.76%
Prof. & Business Svcs.		2.18%
Financial Activities		1.69%
Manufacturing		1.54%
Retail Trade		1.44%
Information		1.37%
Wholesale Trade		1.17%
Other Private		0.90%
Government		0.75%
Total		2.37%

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.

9 Homebuilding in the West Surged; 1-4 Family Starts Still Trailed 2000-2007 Average, but Multifamily Was High

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

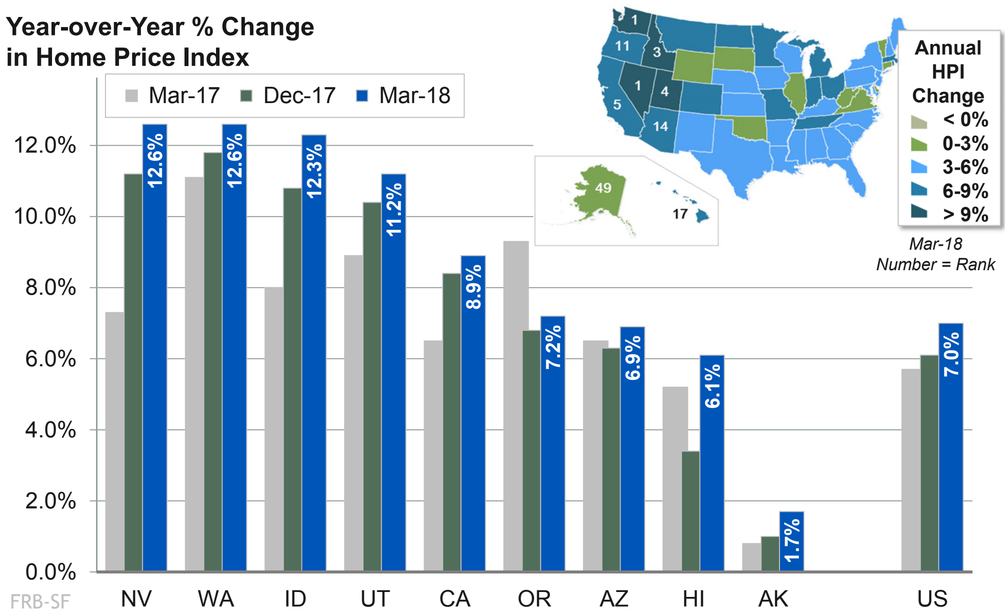
Year-over-Year % Change	West 1-4 Fam.	West 5+ Fam.	Nation 1-4 Fam.	Nation 5+ Fam.
Full Yr. 2017	12.0%	-0.9%	8.4%	-9.7%
1Q 2018	28.6%	45.5%	8.2%	7.1%



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

10 Housing Demand Outstripped Supply, Spurring Further Price Gains; Top Five States for Growth Within District

Year-over-Year % Change in Home Price Index

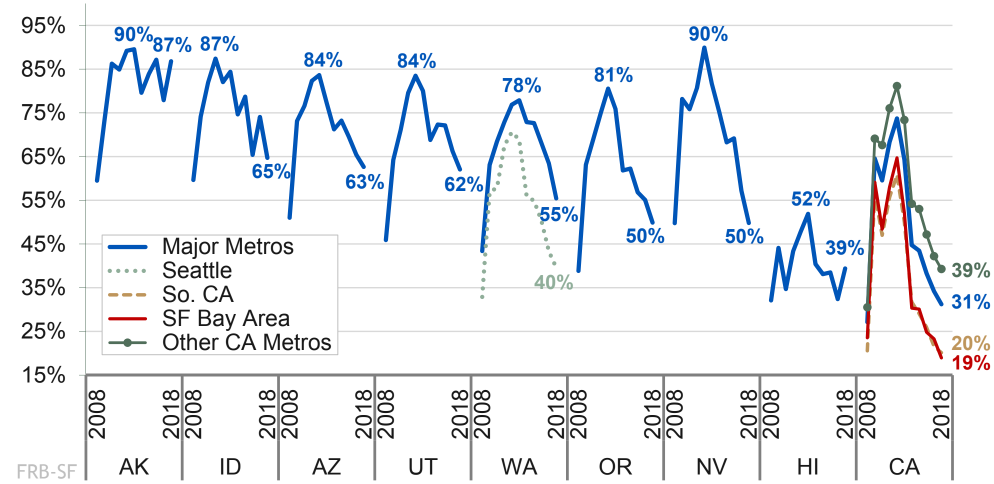


HPI = home price index (includes all detached and attached homes, including distressed sales). NV and WA tied for largest HPI increase. Source: CoreLogic.

11 Price Increases Outpaced Incomes; Affordability as Weak as 2008 in Nevada, So. California, and the Bay Area

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

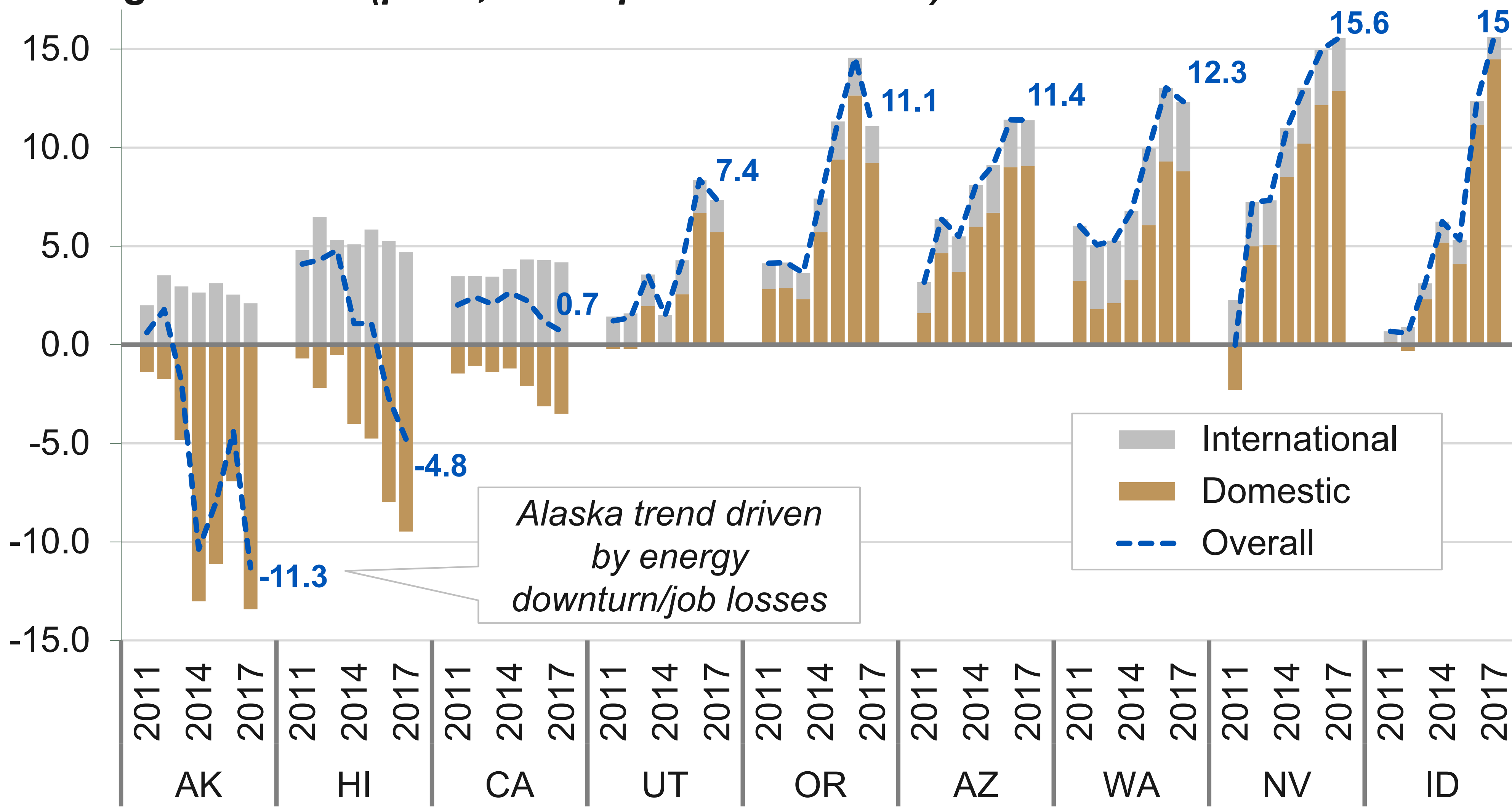
(% of Home Sales Deemed Affordable to Median Family Income; Higher Ratio = More Affordable)



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, FRB-SF calculations.

12 Domestically, Hawaii and California Lost Residents on Net; Affordability Strains Contributed

Net Migration Rate ***(per 1,000 Population in State)***

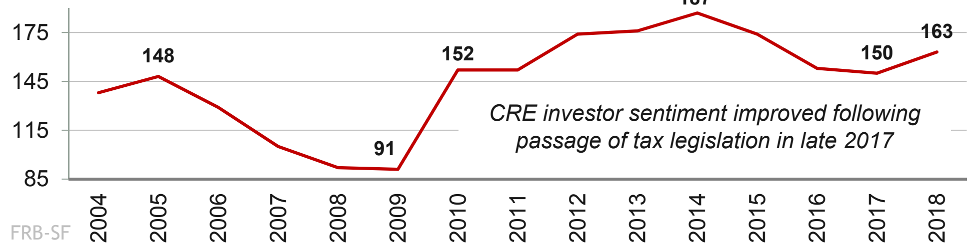


2016 Top 5 Net Flows To/From:	To UT, NC, ID, VA, MO	To NV, OR, VA, CA, CO	To AZ, TX, OR, WA, NV	From CA, ID, NV, AK, NY	From CA, HI, FL, ID, TX	From CA, IL, OK, VA, OR	From CA, CO, OR, IL, MA	From CA, HI, NY, NJ, WY	From CA, NV, WY, AZ, CO

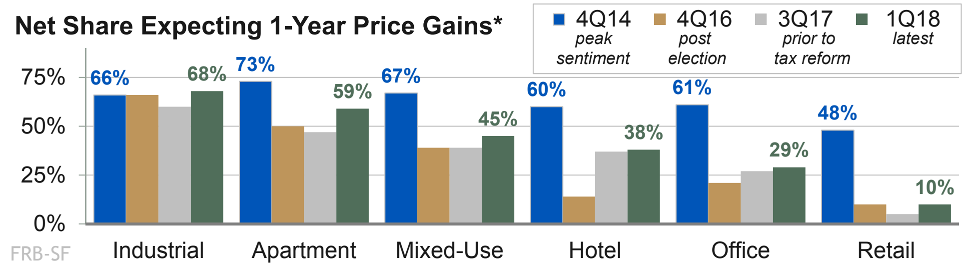
States driving main net domestic flows based upon 2016 American Community Survey. Source: Census Bureau.

13 Per NREI/Marcus & Millichap, Investors More Upbeat About Industrial and Multifamily Than Other Sectors

NREI/M&M CRE Investor Sentiment Index



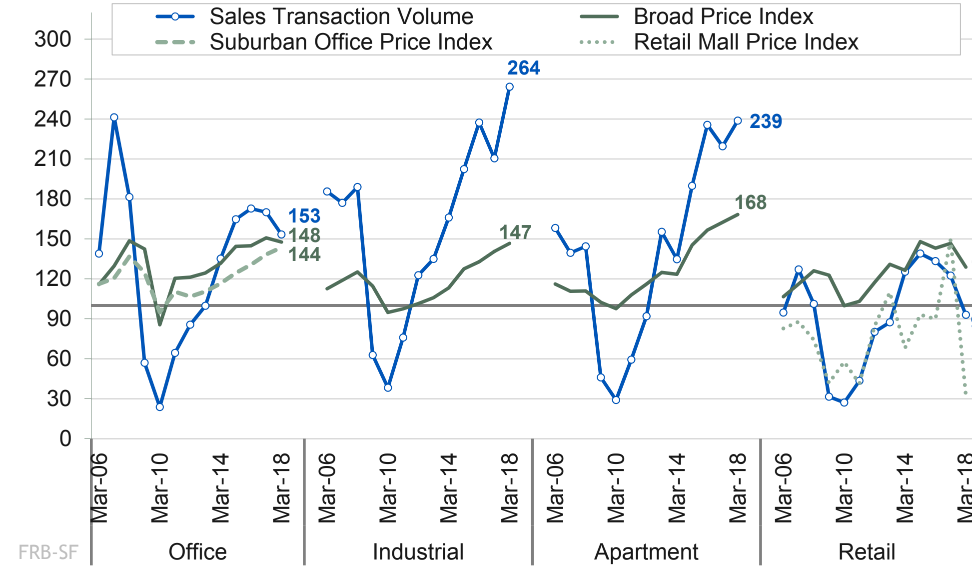
Net Share Expecting 1-Year Price Gains*



The sentiment index measures investors' views on anticipated changes in property values and plans to increase or decrease real estate holdings in the coming year; given irregular survey interval, data for 2017 and 2018 as of 3Q and 1Q, respectively; *net share equals percent responding they expect price increases minus percent expecting price declines; based on a survey of 500-700 CRE investors and developers. Source: National Real Estate Investor (NREI) / Marcus & Millichap (M&M) *Commercial Real Estate Investment Outlook* Reports.

14 Industrial and Apartment Prices and Volume Climbed; Malls Hurt Retail; CBD Office Underperformed Suburban

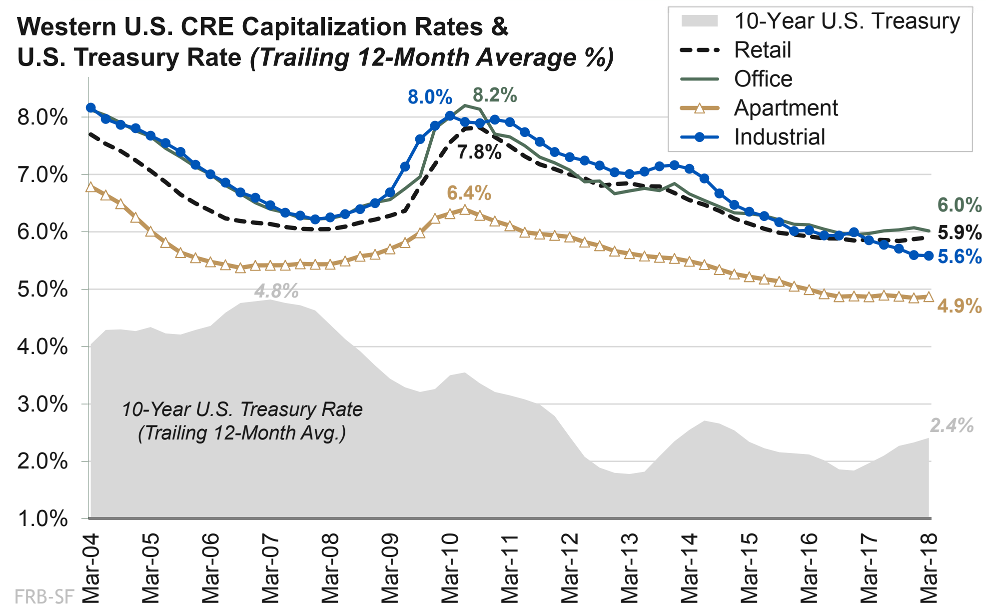
U.S. Commercial Real Estate Transaction Metrics *(Indexed, March 2005 = 100)*



Sales transaction volume index based upon rolling 4 quarter $ volume; price indices based upon rolling 4 quarter price per square foot (per unit for apartments); CBD = central business district (downtown). Source: Real Capital Analytics

15 Treasury Rates Up but Average Annual Cap Rates in the West Were Relatively Flat for All but the Retail Sector

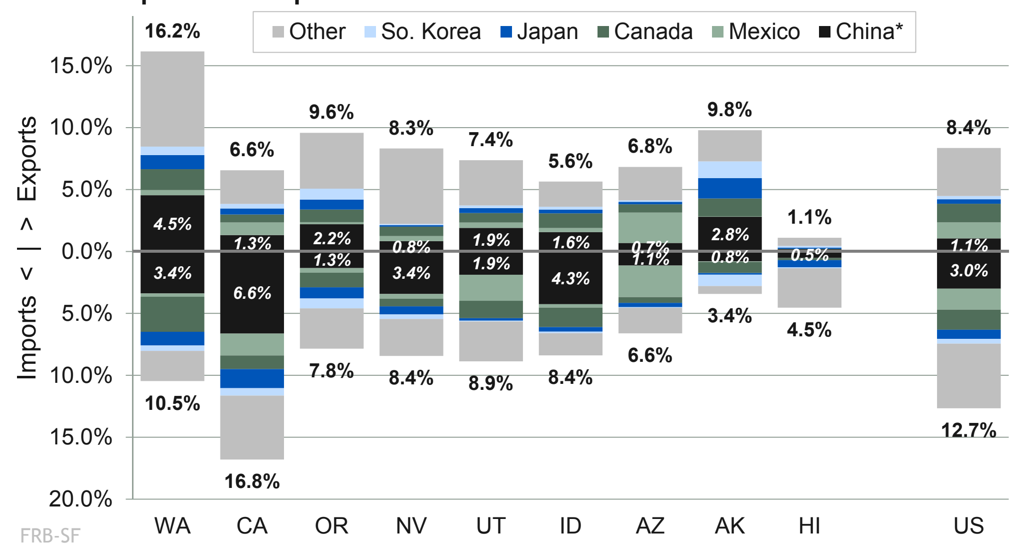
Western U.S. CRE Capitalization Rates & U.S. Treasury Rate *(Trailing 12-Month Average %)*



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.

16 Changes in Trade Policies Could Affect All District States, Most Notably Washington and California

Goods Exports and Imports / Gross State Product



Note: Exports based upon origin of movement; imports based upon state destination (to the extent available); excludes trade in services; trade data as of 2017, gross product as of 2016; China* includes mainland plus territories of Hong Kong and Taiwan. Sources: Bureau of Economic Analysis, Census Bureau, Department of Commerce (Internat. Trade Administration), FRB-SF.

Section 2
Commercial Bank Performance

Earnings

Loan Growth and Concentrations

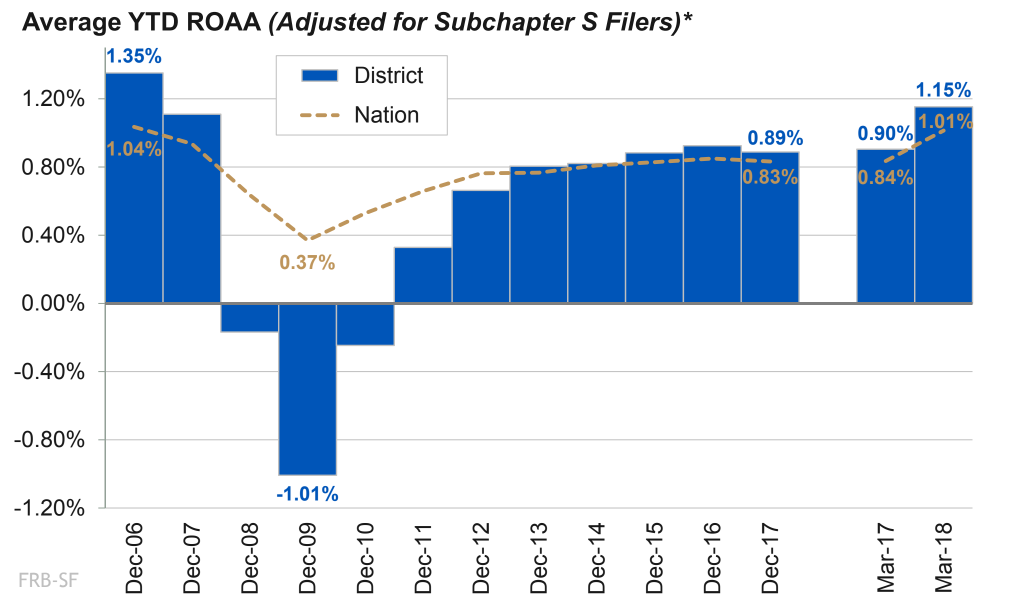
Credit Quality

Liquidity and Interest Rate Risk

Capital

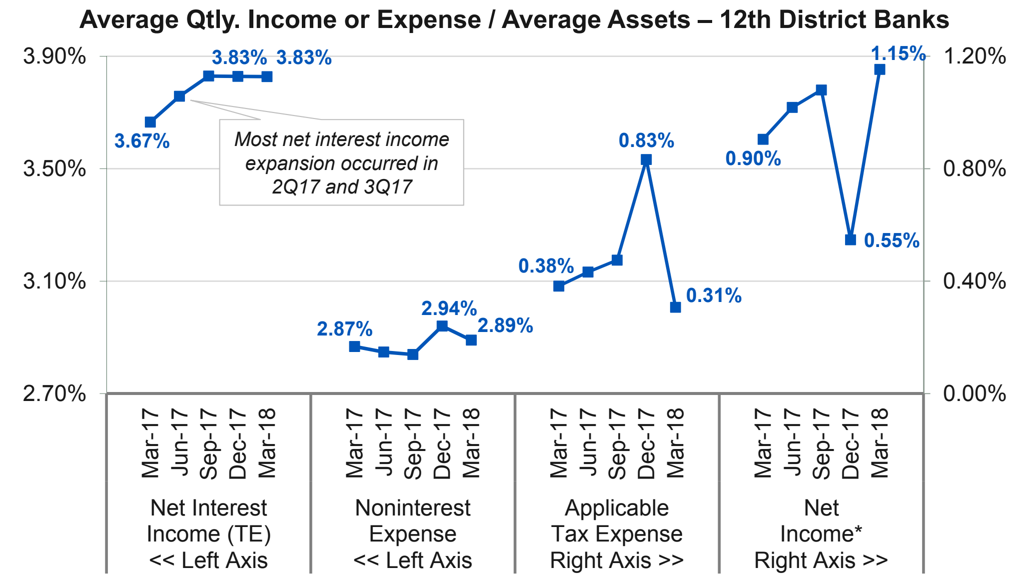
Note: Bank size groups are defined as very small (< $1B), small ($1B - $10B), mid-sized ($10B - $50B), and large (> $50B) banks. The large bank group covers nationwide banks (a larger statistical population), while the other three groups cover 12th District banks.

18 Profits Strengthened Year-over-Year, Led by Wider Net Interest Margins and Lower Federal Tax Rates



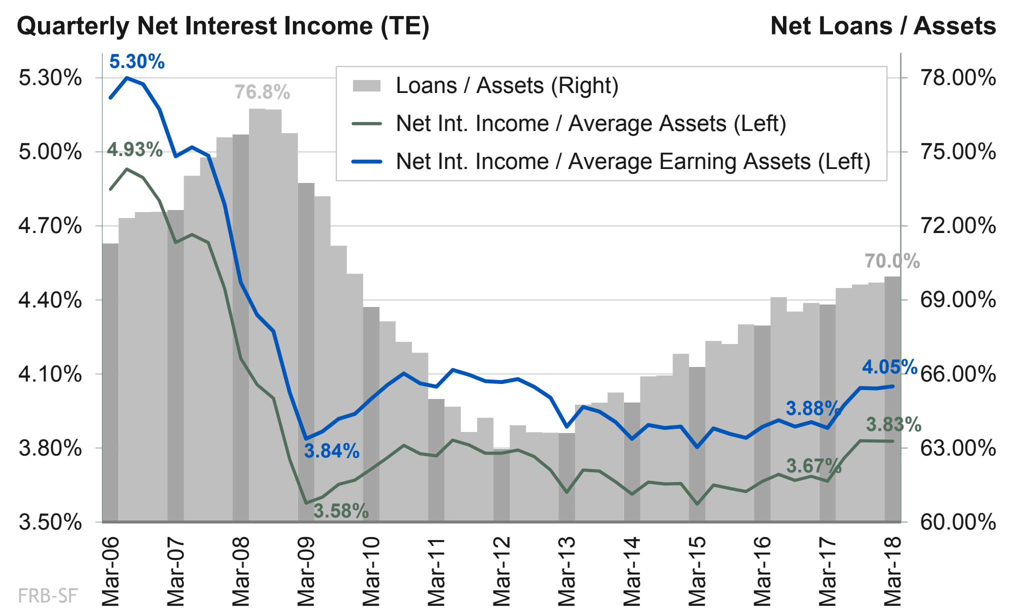
Average = trimmed mean; YTD = year-to-date (annualized); *ROAA = return on average assets (net income/average assets, with theoretical tax expense deducted from Subchapter S filers for comparability).

19 Margins Led the Year-over-Year Upswing in ROAAs; Tax-Related Declines Fueled a Linked-Quarter ROAA Surge



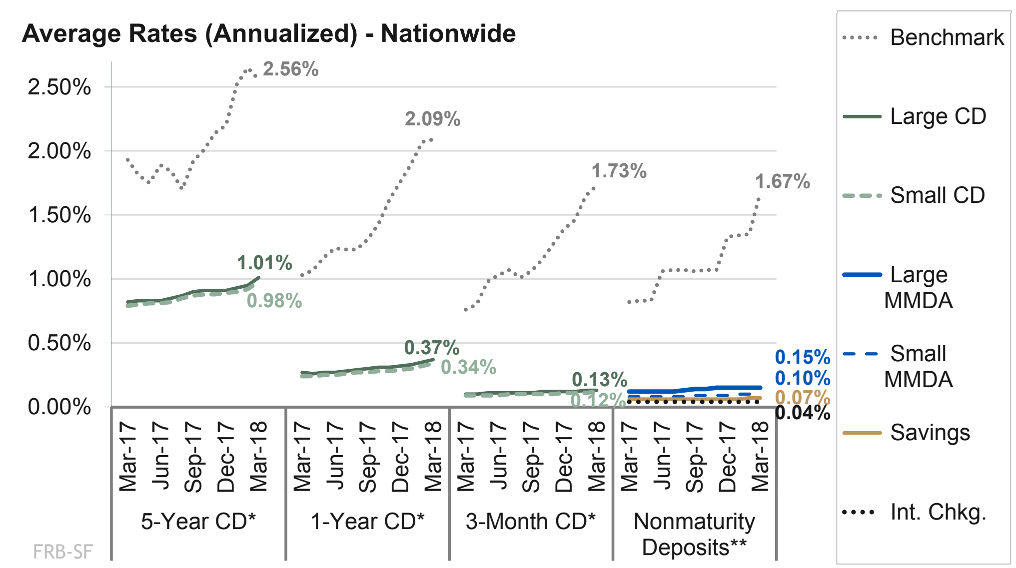
Average = trimmed mean; quarterly figures are annualized; TE = tax equivalent (theoretical tax benefit added to yields on tax-exempt investments and loans); *Net Income adjusted for Subchapter S filers (theoretical tax expense deducted for comparability); deferred tax asset write-downs flowed through income tax expense in 4Q17.

20 First Quarter Loan-to-Asset Ratios Moved Higher, Atypical for the Season, Stabilizing Quarterly Margins



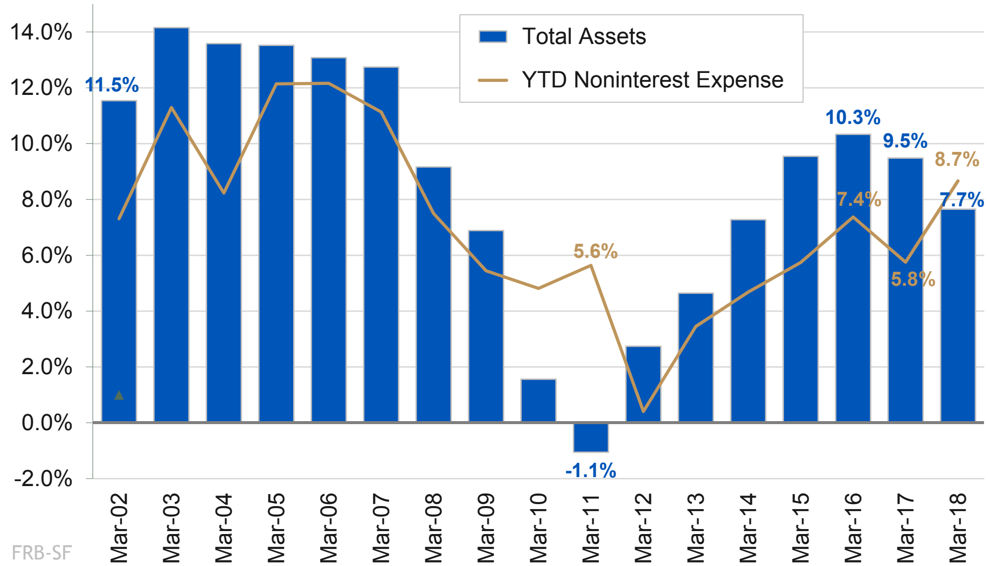
Average = trimmed mean; 1-quarter annualized income; TE = tax equivalent; includes banks based in the 12th District only.

21 Nationally, CD Pricing Ticked Up, but Deposit Rates Trailed Similar-Maturity Treasury/Fed Funds Yields



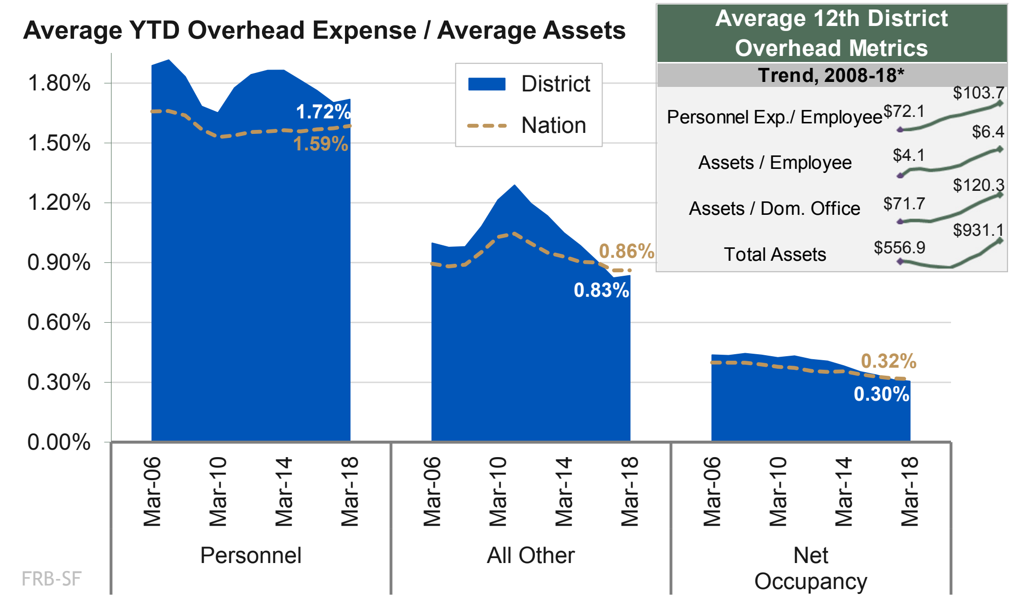
*For certificates of deposit (CDs), small is $10K, large minimum is $100K, and benchmark rate is constant-maturity for similar-maturity U.S. Treasury Bill or Note; **for nonmaturity deposits, large money market deposit account (MMDA) minimum is $100K, minimum for other types = $2.5K, and benchmark rate is the federal funds rate; all data as of month end; includes FDIC-insured banks, thrifts, and branches but excludes credit unions. Source: RateWatch/FDIC via Haver Analytics.

22 Growth in Noninterest Expense Accelerated, Eclipsing the Pace of Asset Growth for the First Time Since 2010



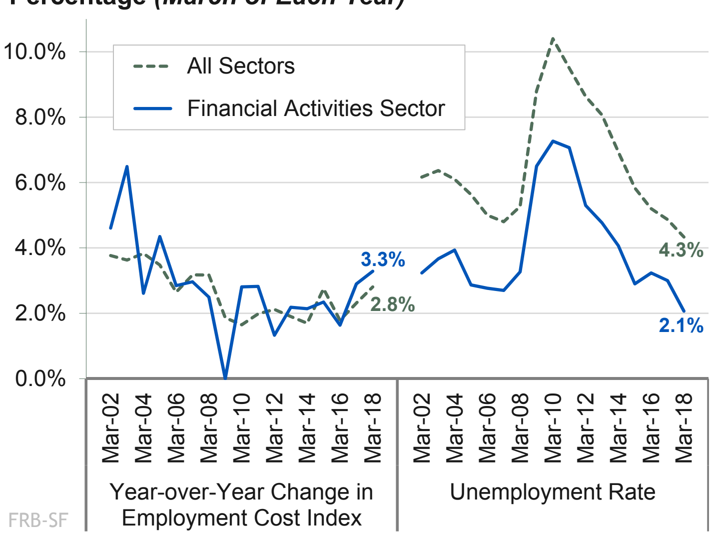
Average = trimmed mean; growth rates not merger-adjusted; YTD = year-to-date; includes banks based in the 12th District only.

23 In Particular, Personnel and Non Occupancy-Related Expenses Edged Up as a Share of Average Assets



Average = trimmed mean; YTD = year-to-date (annualized); overhead = noninterest expense; *March each year (personnel expense is YTD annualized in thousands, other table figures in millions).

24 Tighter Labor Markets, Higher Benefits Costs, and Rising Minimum Wage Rates Influenced Overhead Trends

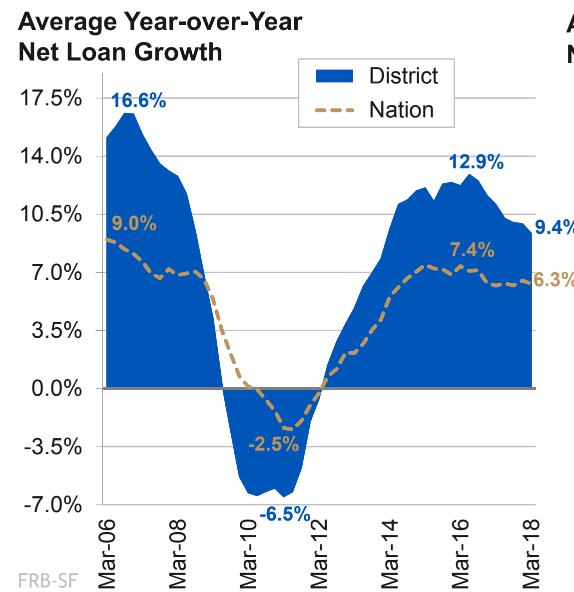


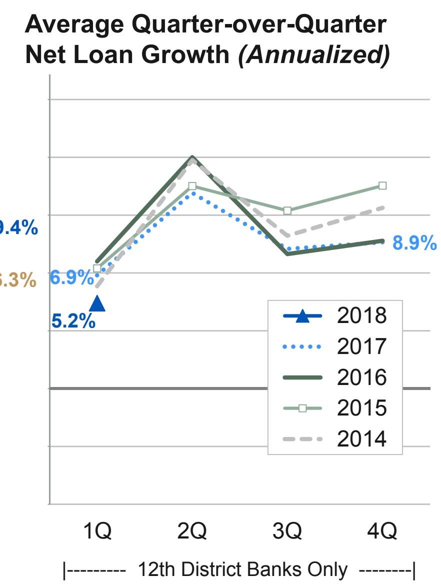
Statutory Minimum Wages by State

	2008-2018	2018
WA		$11.50
CA		$11.00
AZ		$10.50
OR		$10.25
HI		$10.10
AK		$9.84
NV		$8.25
ID		$7.25
UT		$7.25
US Avg.*		$8.25

Employment cost index includes wages, salaries, and employee benefits; table includes state-level statutory wages, minimum wages were higher in certain cities within some states and sometimes varied by large vs. small and urban vs. rural employers; *US represents median minimum wage across all states (national minimum wage has been $7.25 since 2009). Data not seasonally-adjusted. Sources: Bureau of Labor Statistics, Labor Law Center.

25 Average Annual Loan Growth Decelerated; Quarterly Growth Was Slow Relative to Prior First Quarters

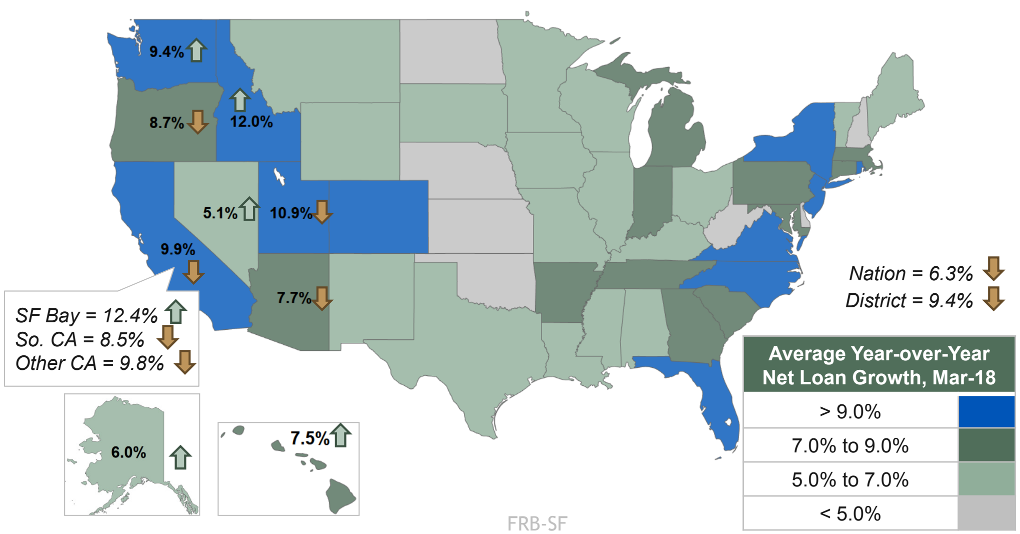




Average = trimmed mean; growth rates are not merger-adjusted; includes loans and leases held for sale and for investment, net of allowances for loan and lease losses.

26 Annual Loan Growth Cooled in Four District States, Accelerated in Five Others Compared with Yearend 2017

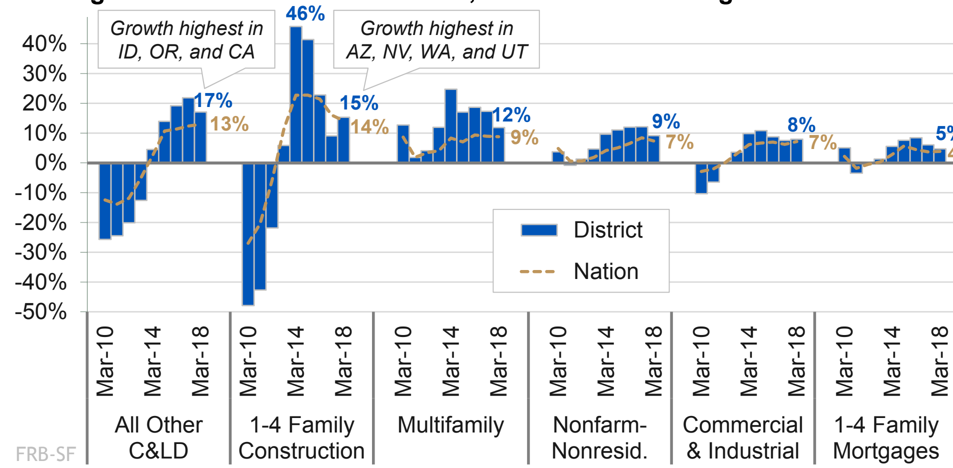
Average Year-over-Year Net Loan Growth (%), Faster ⇧ / Slower ⇩ Rate vs. Dec-17



Average = trimmed mean; growth for loans net of allowances for loan losses, not merger-adjusted; NV excludes zero loan and credit card banks. SF Bay = 42 banks based in San Francisco-San Jose Consolidated Statistical Area (CSA); So. CA = 76 banks based in Los Angeles CSA + San Diego Metropolitan Statistical Area; Other CA = 36 banks based in all other areas.

27 District Loan Growth Slowed Across Several Categories; C&LD and Multifamily Growth Still in Double Digits

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

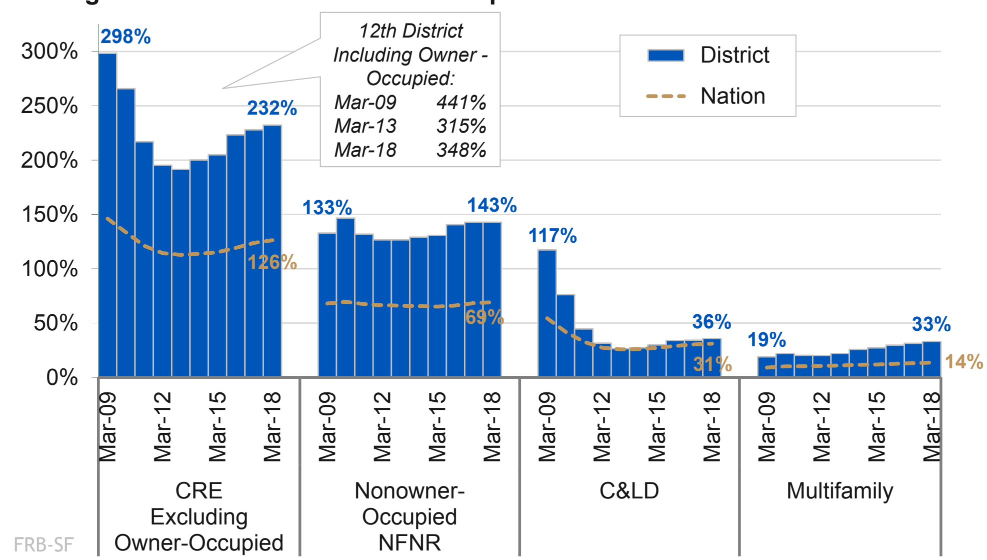


Memo: Average Concentration to Total Capital, Mar-18						
District	22.99	10.53	33.06	255.73	83.54	78.38
Nation	18.77	10.02	13.66	143.47	70.81	138.69

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

28 CRE Loan Concentrations Moved Higher, Led by Growth in C&LD and Multifamily Mortgages

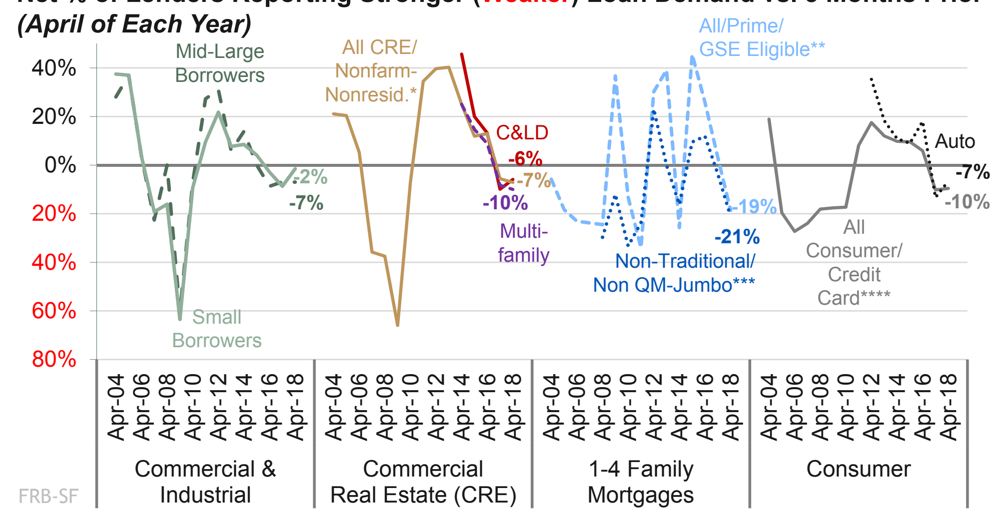
Average CRE Concentrations / Total Capital



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.

29 A Small Portion of Senior Loan Officers Reported Weaker Demand Across Major Categories Quarter-over-Quarter

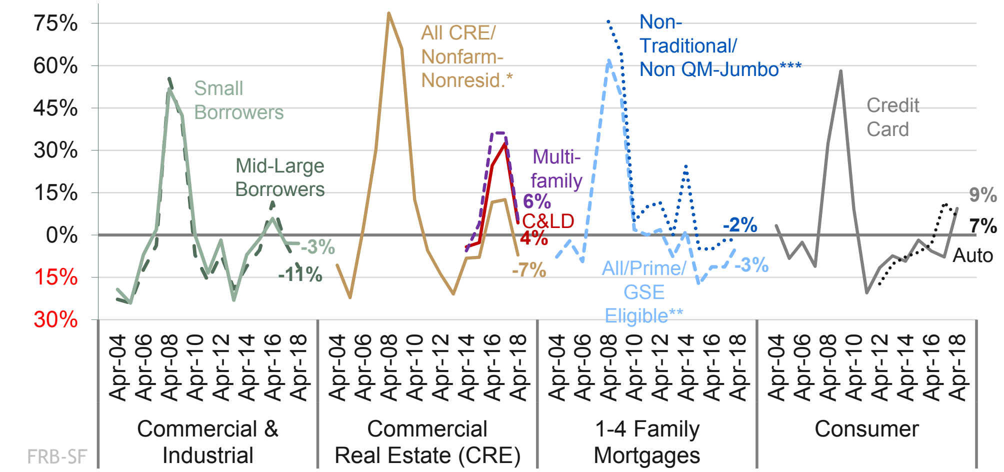
Net % of Lenders Reporting Stronger (Weaker) Loan Demand vs. 3 Months Prior *(April of Each Year)*



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).

30 Some Respondents Eased 1-4 Family and C&I; Fewer Tightened CRE Standards; Consumer Tighter on Net

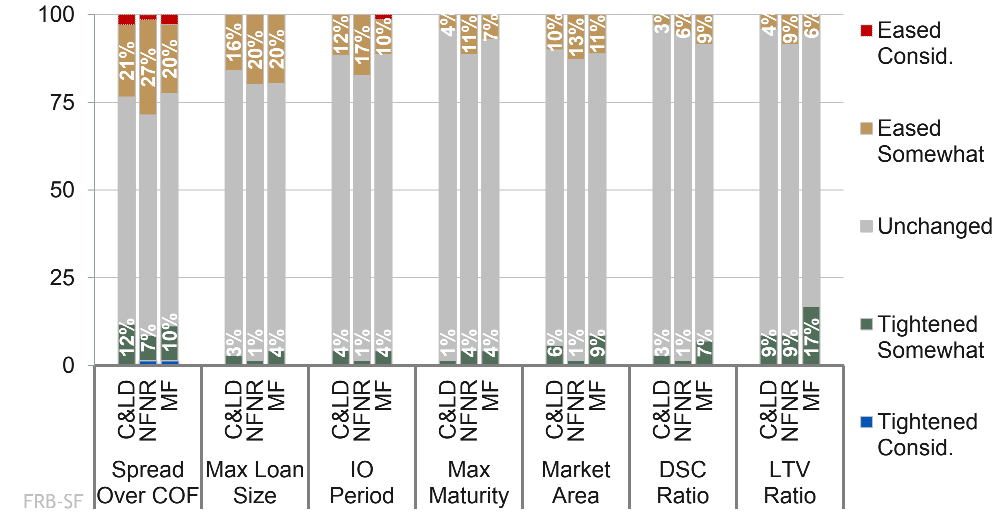
Net % of Lenders Reporting Tighter (Looser) Loan Standards vs. 3 Months Prior *(April of Each Year)*



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).

31 CRE Loan Terms for Pricing, Size, and Interest Only Period Were More Likely to be Eased Than DSC or LTV

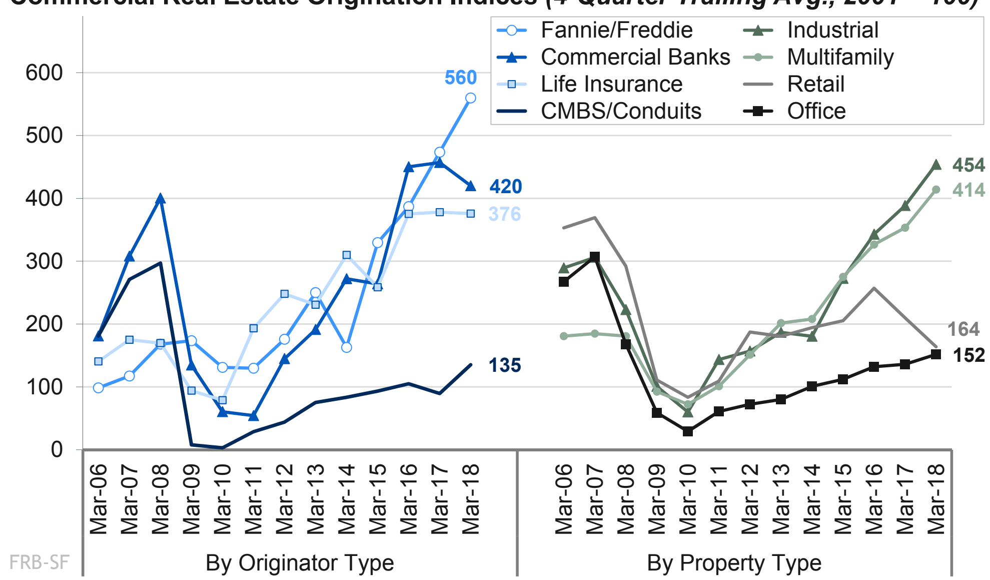
Share of Respondents Changing CRE Lending Standards During Prior 12 Mos.



Based on sample 70+/- senior lenders in April 2018; C&LD = construction and land development; NFNR = nonfarm-nonresidential mortgages; MF = multifamily; COF = cost of funds; IO = interest only; DSC = debt service coverage; LTV = loan-to-value; Source: Federal Reserve Senior Loan Officer Opinion Survey, April 2018.

32 During Trailing Twelve Months, Bank CRE Originations Eased; Fannie/Freddie Active with Multifamily

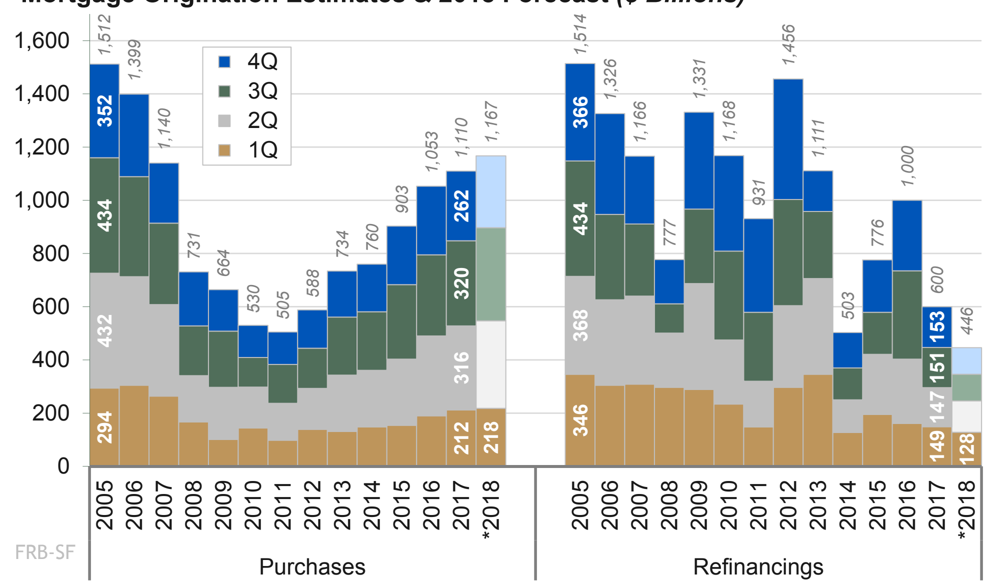
Commercial Real Estate Origination Indices *(4-Quarter Trailing Avg., 2001 = 100)*



Note: Fannie/Freddie specialized in multifamily. Source: Mortgage Bankers Association

33 MBA Expected 2018 Home Purchase Originations to Tick Up and Rate-Sensitive Refis to Drop Further

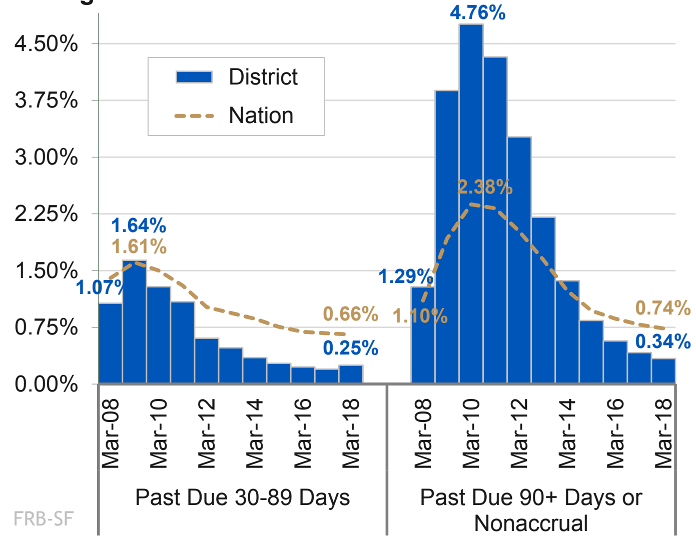
Mortgage Origination Estimates & 2018 Forecast *($ Billions)*



*2Q18-4Q18 forecast per Mortgage Bankers Association (MBA) as of 5/18/18. Source: MBA/Haver Analytics

34 Delinquency Ratios Generally Declined Year-over-Year; Some Categories Ticked Higher Compared with 4Q17

Average Past Due or Noncurrent / Gross Loans & Leases



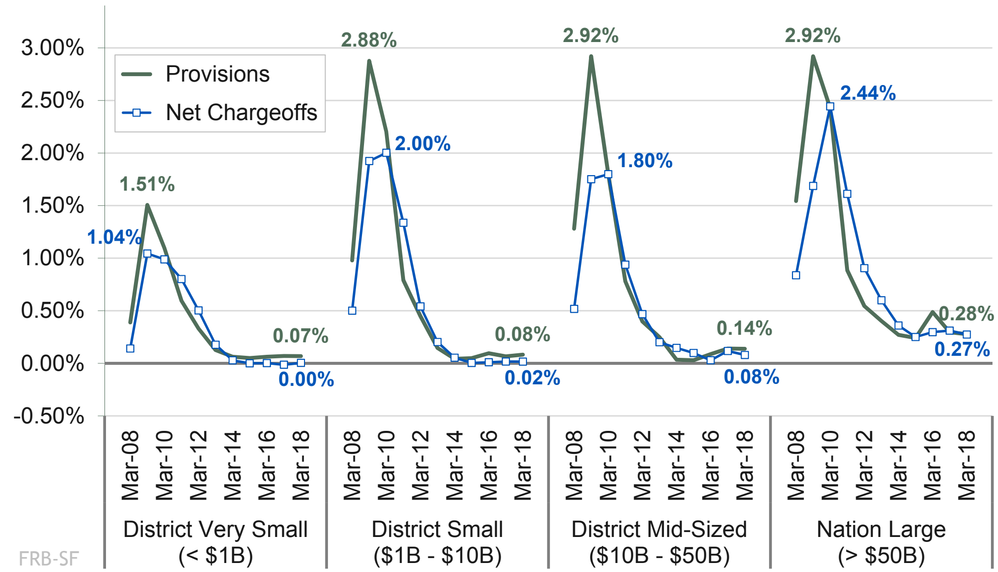
Average % Past Due 30+ Days or Nonaccrual 12th District

Loan Type	Mar-17	Dec-17	Mar-18
C&I	0.73	0.59	0.69
1-4 Family	0.71	0.65	0.61
Agriculture	0.28	0.26	0.41
NFNR	0.35	0.31	0.34
Owner-Occ	*0.43*	*0.38*	*0.41*
Other	*0.15*	*0.11*	*0.12*
Consumer	0.28	0.27	0.24
Credit Card	*0.83*	*0.57*	*0.84*
Auto	*0.09*	*0.21*	*0.17*
Other	*0.29*	*0.20*	*0.16*
C&LD	0.23	0.19	0.21
All Loans	0.70	0.64	0.69

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

35 Loan Losses and Provisions Were Low; Losses at Larger Banks Tended to Outpace Smaller Banks

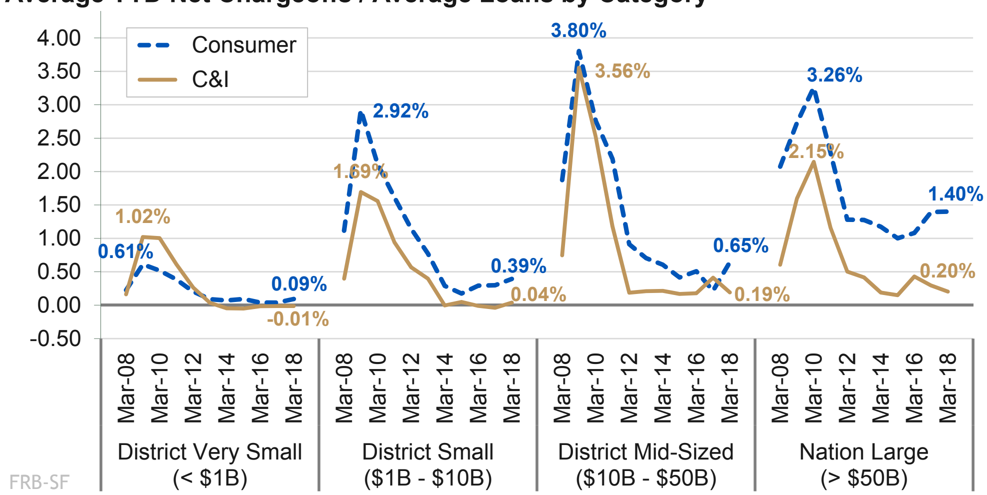
Average YTD Provision Expenses and Net Chargeoffs / Average Loans & Leases



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

36 Larger Bank Net Chargeoff Ratios Influenced by Higher Concentrations and Losses in Consumer and C&I Loans

Average YTD Net Chargeoffs / Average Loans by Category



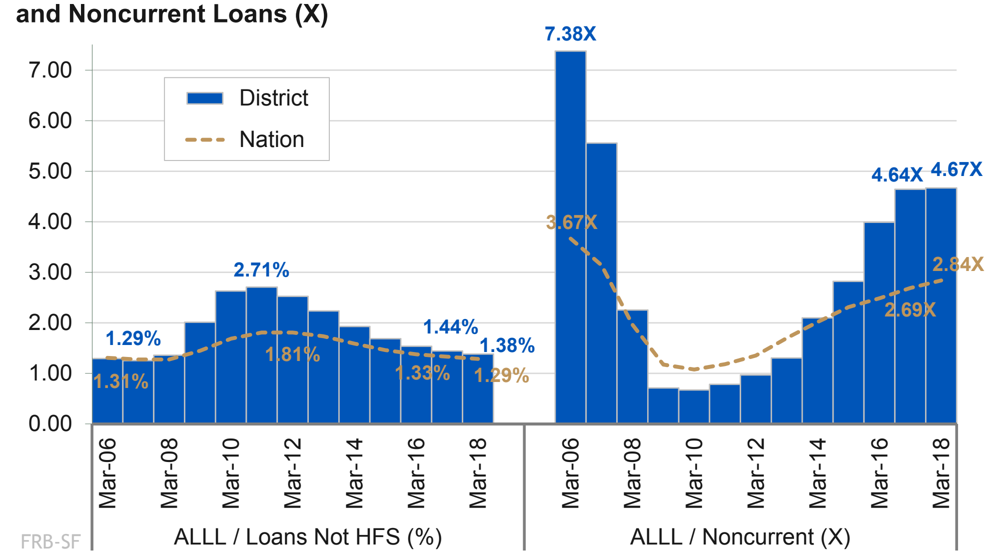
Memo: Average Concentration to Total Capital, Mar-18

	District Very Small	District Small	District Mid-Sized	Nation Large
Consumer	4.57	8.10	7.39	76.96
C&I	82.11	72.25	123.94	131.87

Average = trimmed mean; YTD = year-to-date (annualized); C&I = commercial and industrial.

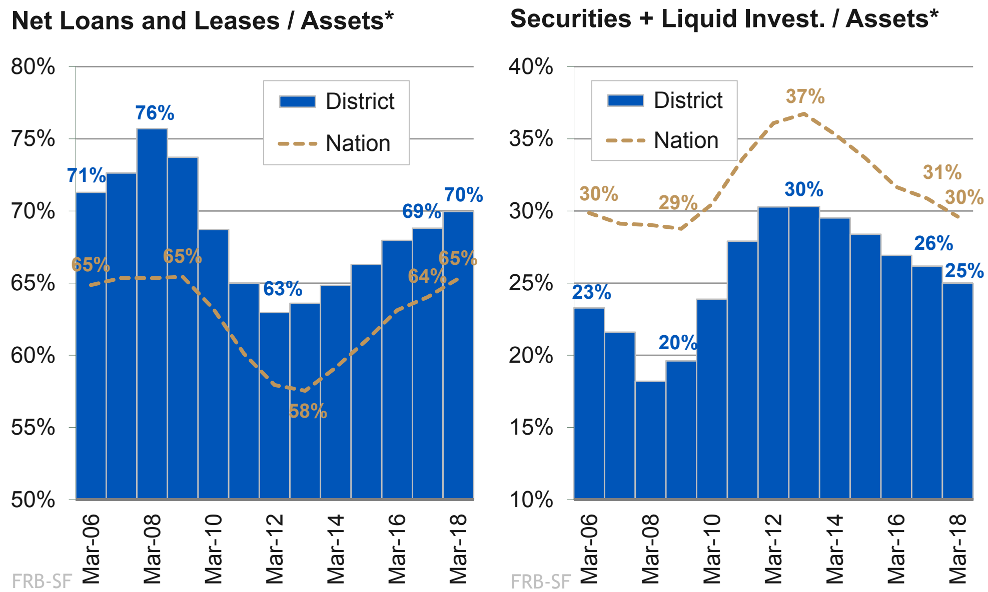
37 ALLL Build Lagged Growth in Loans and Leases Not HFS; Steadied as a Share of Noncurrent Loans

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



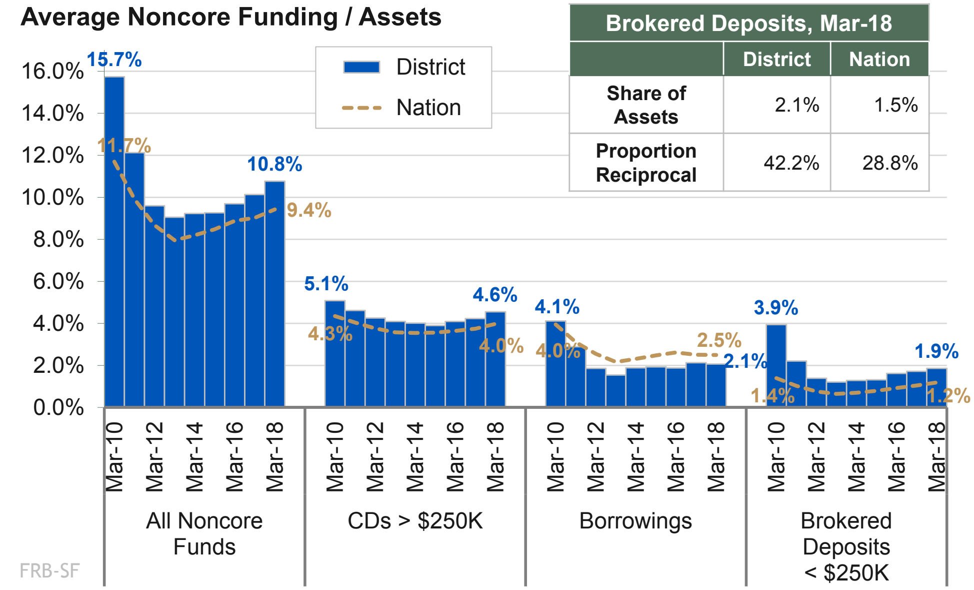
Average = trimmed mean; ALLL = allowance for loan and lease losses; HFS = held for sale; noncurrent = loans past due 90+ days or on nonaccrual status.

38 On-Balance Sheet Liquidity Tightened Modestly Year-over-Year, Continuing an Earlier Trend



*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.

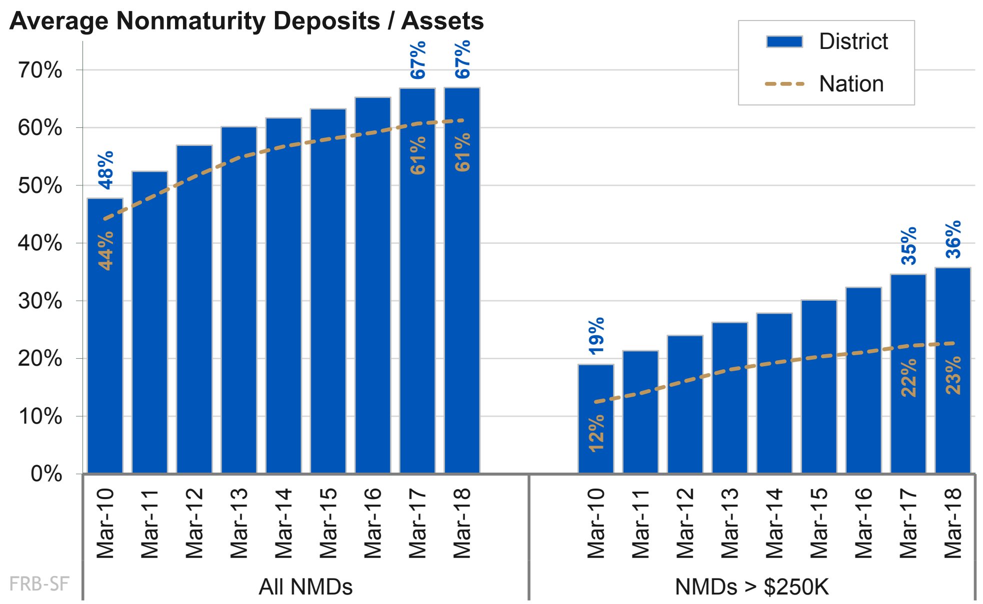
39 Growth in Jumbo CDs and Smaller Brokered Accounts Outpaced Assets, Nudging up Noncore Funding Ratios



Brokered Deposits, Mar-18	District	Nation
Share of Assets	2.1%	1.5%
Proportion Reciprocal	42.2%	28.8%

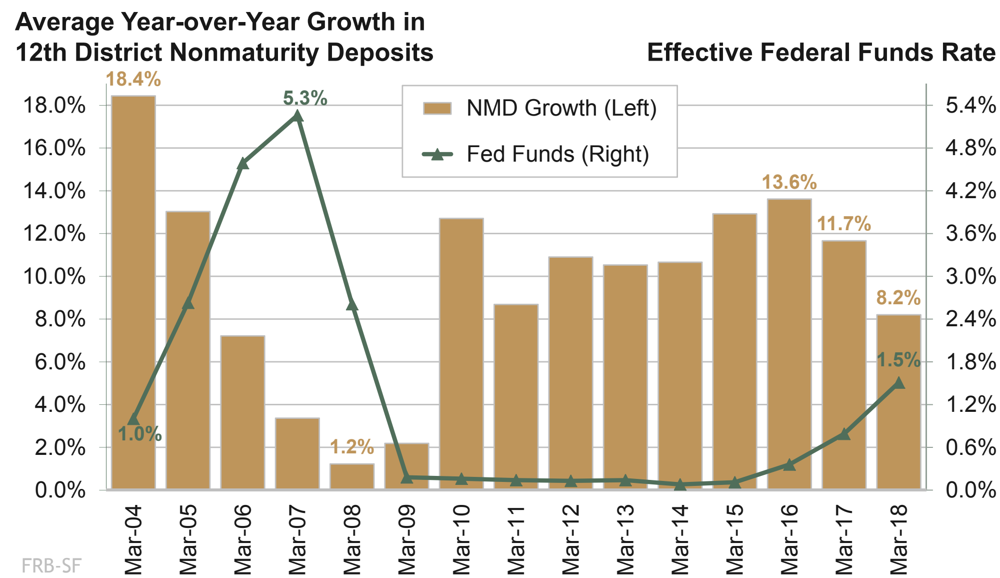
Average = trimmed mean; noncore liabilities = sum of borrowings (e.g., federal funds purchased, repurchase agreements, and other borrowed money), foreign deposits, certificates of deposit > $250K, and brokered deposits < $250K.

40 NMDs Supported Majority of District Bank Assets; Jumbo Accounts Drove a lot of NMD Growth Since 2010



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

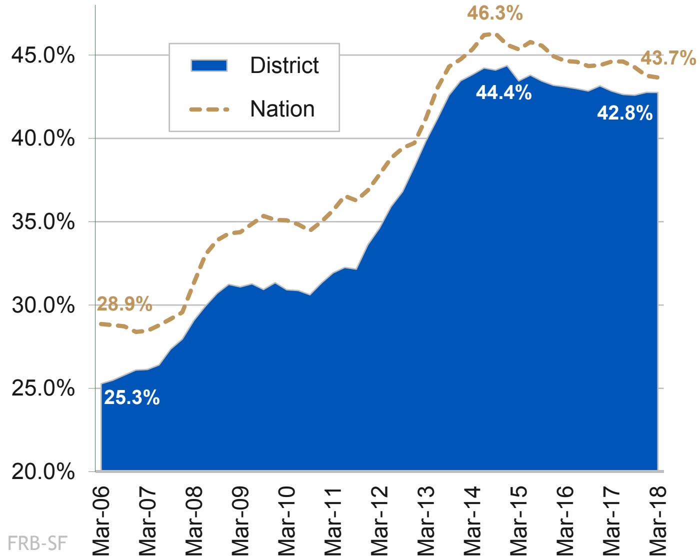
41 Growth in Nonmaturity Deposits Continued to Slow As Rising Interest Rates Reduced Their Attractiveness



Average = trimmed mean; growth rates are not merger-adjusted; NMD = nonmaturity deposits; federal funds rate from Federal Reserve via Haver Analytics; as part of a coordinated response to market dislocation, the FDIC provided an unlimited guarantee on certain transaction accounts between Oct-08 and Dec-10, which was extended with modification through Dec-12.

42 Longer-Term Asset Ratio Steadied for the District, but Reached New First Quarter Peaks in Four States

Average % of Loans & Securities Maturing > 3 Years



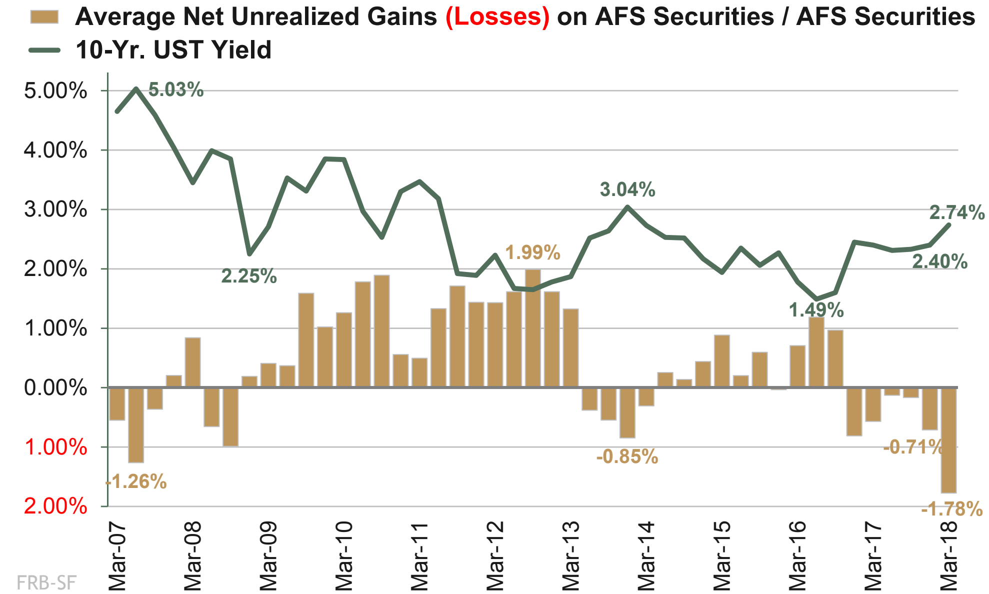
Average Loans & Securities > 3 Years / Assets (%)

	2006-18*	Mar-18
AK		55.9%
AZ		46.1%
CA		43.3%
HI		49.0%
ID		34.4%
NV		38.9%
OR		52.8%
UT		29.7%
WA		47.5%
Nation		43.7%

◆ = trough ◆ = peak

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

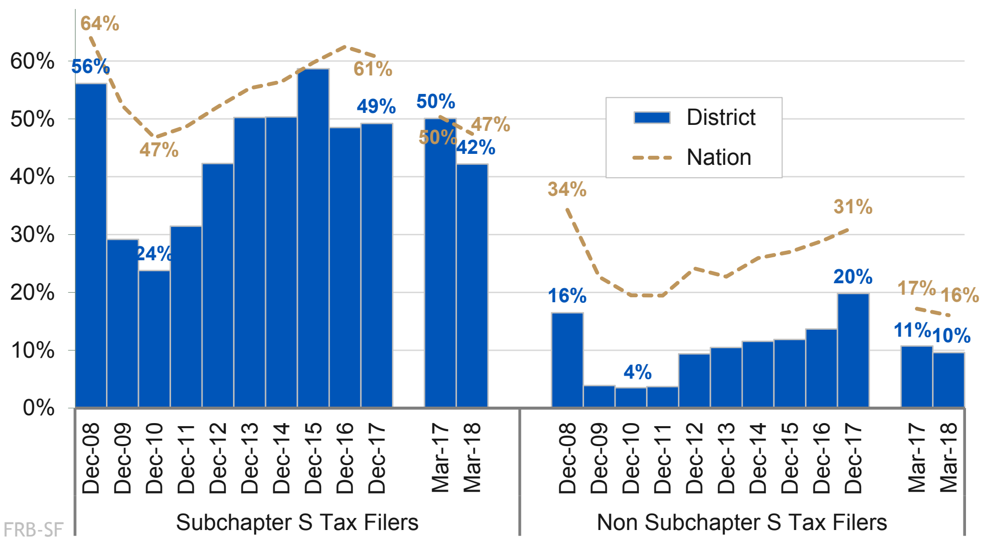
43 Average Net Unrealized Losses on AFS Securities Intensified, Driven by Rising Long-Term Interest Rates



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).

44 First Quarter Dividend Payments Trailed Growth in Net Income, Moderating Average Payout Ratios

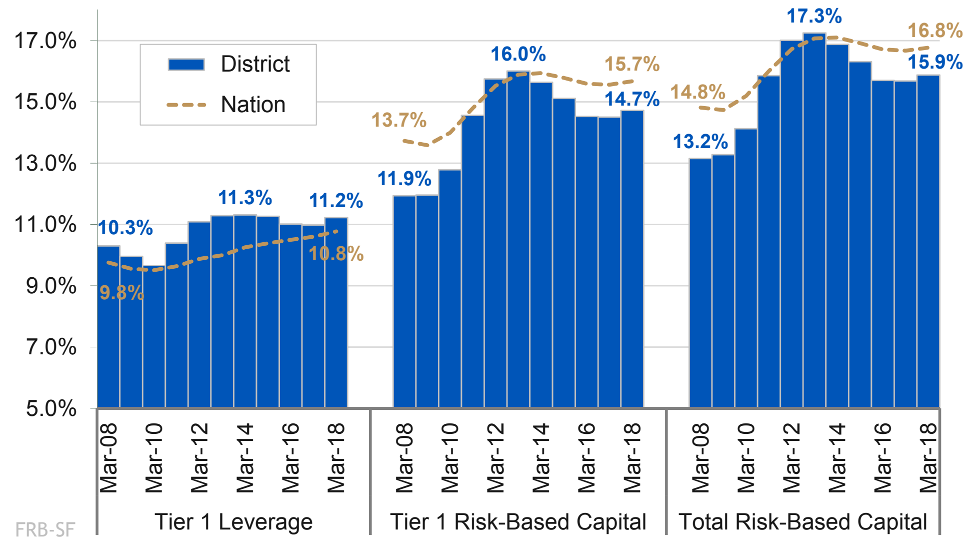
Average YTD Cash Dividends / Net Income



Average = trimmed mean; YTD = year-to-date; Subchapter S filing banks (13% of banks in the 12th District, 38% 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.

45 Strengthening Earnings Retention and Moderating Asset Growth Lifted Average 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.

Appendices

Summary of Institutions

Technical Information

Appendix 1: Summary of Institutions

Area	Commercial Banks (De Novos)		Industrial Banks (De Novos)		Savings Institutions (De Novos)	
	Mar-17	***Mar-18***	***Mar-17***	***Mar-18***	***Mar-17***	***Mar-18***
AK	4 (0)	4 (0)	-	-	1 (0)	1 (0)
AZ	16 (0)	15 (0)	-	-	1 (0)	-
CA	163 (1)	154 (3)	3 (0)	3 (0)	11 (0)	11 (0)
GU	2 (0)	2 (0)	-	-	1 (0)	1 (0)
HI	5 (0)	5 (0)	1 (0)	1 (0)	2 (0)	2 (0)
ID	12 (0)	12 (0)	-	-	1 (0)	1 (0)
NV	9 (0)	10 (0)	4 (0)	4 (0)	2 (0)	2 (0)
OR	20 (0)	16 (0)	-	-	3 (0)	3 (0)
UT	29 (0)	27 (0)	15 (0)	15 (0)	2 (0)	2 (0)
WA	38 (0)	36 (0)	-	-	10 (0)	10 (0)
12L	298 (1)	281 (3)	23 (0)	23 (0)	34 (0)	33 (0)
U.S.	5,034 (4)	4,850 (10)	25 (0)	25 (0)	794 (1)	726 (1)

Based on preliminary first quarter 2018 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.