FEDERAL RESERVE BANK
OF SAN FRANCISCO

First Glance 12L (4Q18)

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

Bank Profits Strong amid Waning Growth and Weaker Sentiment

February 28, 2019

A Product of the Surveillance and Analysis and Data Analytics Units

Data Inquiries: please contact sf.fisc.publications@sf.frb.org
Press Inquiries: please contact Media Relations at https://www.frbsf.org/our-district/press/
First Glance 12L: https://www.frbsf.org/banking/publications/first-glance-12l/

Table of Contents

12th District Overview
“Bank Profits Strong amid Waning Growth and Weaker Sentiment”

District job growth decelerated in 4Q18, with mixed performance across District states. Year-over-year, nonfarm jobs grew by 2.2% in the 12th District (District), down slightly from 2.4% in 3Q18 and in contrast to a mildly accelerating growth rate of 1.8% nationally. Slowdowns in the retail trade and education and health services sectors were the main drivers of the overall deceleration, while the professional and business services sector gained momentum across most District states. In Idaho, Utah, and Hawaii, slower hiring in the leisure/hospitality and construction sectors, constrained in part by tight labor markets, contributed to decelerating job growth. Alaska’s job losses moderated, but a 4Q18 decline in oil prices may affect its future growth. Unemployment rates were relatively stable in most states, but ticked up in Oregon, Hawaii, and Arizona, where unemployment increased faster than the labor force. Of note, job figures remained subject to annual benchmark revisions in March 2018, which have been significant on occasion in the past.

Home price gains continued year-over-year in all District states, but signs of cooling were apparent. The pace of home price increases slowed across District states, most notably in California, where price appreciation trailed the national average for the first time since May 2012. In several District states, more expensive homes moderated in value, while more affordable homes registered gains. Separately, the National Association of Realtors reported that the volume of existing homes sold during 4Q18 declined 7.6% nationally and 13.9% in the West on a year-over-year basis. Another sign of possible weakness was a shift in lenders’ outlook. Fannie Mae noted in 4Q18 that 25% of surveyed mortgage lenders expected home prices to decline in the year ahead, up from 6% of lenders in 4Q17. Likewise, 33% anticipated price gains, down from 69% in 4Q17.

Commercial real estate (CRE) fundamentals were solid across property sectors, but CRE investor pessimism increased. In 2018, vacancy rates improved in the majority of District markets in every sector. Demand for office properties was particularly strong with large portions of new construction pre-leased by tech companies. Coworking operators were also an increasing source of office space demand; however, as detailed in a recent *Real Estate Lending Risk Monitor*, most of these firms are not yet recession-tested. Meanwhile, apartments continued to benefit from job growth and modest single-family construction. Retail properties maintained steady improvement, with most District markets posting lower vacancy rates amid low construction levels. In the industrial sector, several markets had weaker vacancy rates because of higher levels of supply, which was spurred by exceptional rent growth. CRE property prices generally increased year-over-year, but the pace of appreciation slowed for all but suburban office properties. Surveyed CRE investors noted that market conditions have cooled somewhat and that they had grown less sanguine about future CRE market conditions, property prices, and financing availability.

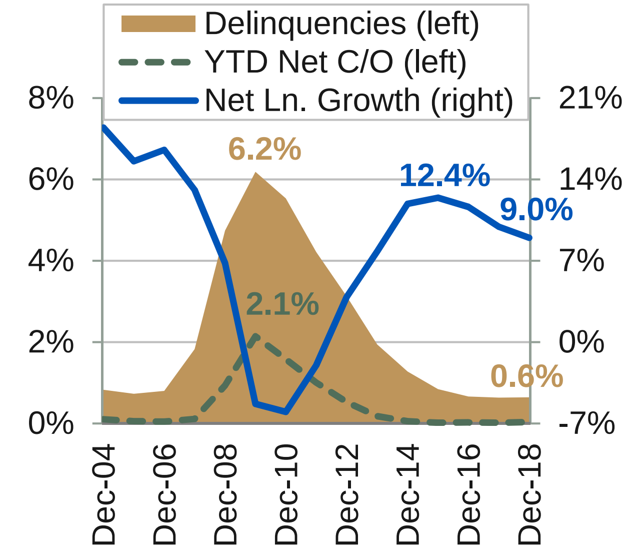
Nonfarm Job Growth & Unemployment (%)

State	Year-over-Year Job Growth 12 Mo.	Year-over-Year Job Growth 4Q18	Unemp. Rate Dec-18
NV		3.76%	4.40%
AZ		3.41%	4.80%
UT		3.13%	3.20%
WA		3.08%	4.30%
OR		2.22%	4.10%
ID		2.01%	2.60%
CA		1.75%	4.20%
HI		1.71%	2.50%
AK		-0.29%	6.30%
US		1.80%	3.90%

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

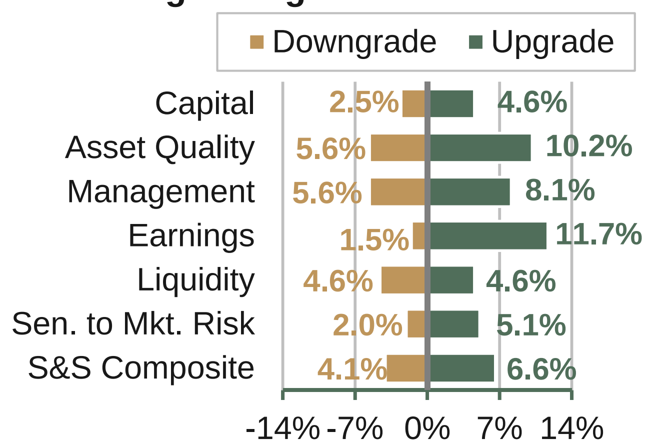
FRB-SF

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 December, mailed through 2/12/2019. FRB-SF

Wider net interest margins and tax cuts benefitted full-year bank profits. District banks' average, year-to-date return on average assets (ROAA) ratio improved to 1.26%, up 2 bps from 3Q18 and 37 bps from 2017 (adjusted for Subchapter S tax filers). Year-over-year comparisons were magnified by large, one-time writedowns on deferred tax assets in 2017 and lower effective tax rates in 2018. Stronger net interest margins reflected the effects of higher interest rates on asset yields; however, deposit funding costs picked up steam as the year progressed and funding shifted slightly towards costlier time deposits and borrowings.

Annual net loan growth eased further but loan performance remained strong. The District's average annual net loan growth rate closed 2018 just shy of 9.0%, down from 9.3% and 9.9% in the prior quarter and year, respectively. Meanwhile, the national average net loan growth rate decelerated to 5.9%. Compared with 2017, overall construction and land development and nonfarm-nonresidential real estate portfolios increased at a strong but slowing pace; concurrently, commercial and industrial and 1-4 family segments posted comparatively low but accelerating growth rates. Capital accreted more quickly than CRE loans, moderating the District's average CRE loan-to-total capital ratio. Still, at 230% of capital, the average CRE loan concentration surpassed the national average by more than 100 percentage points. On average, the volume of delinquent loans increased, but from a low base and concurrent with loan growth, so past-due rates continued to be minimal (see chart on left). Although credit performance remained strong, Federal Reserve and third party surveys noted worsening banker optimism regarding future loan growth, credit quality, and economic conditions.

Liquidity risks edged higher, but stronger earnings boosted capital ratios. Continuing an earlier trend, nonmaturity deposit gathering slowed, prompting an uptick in more costly time deposits and borrowings, especially among mid-sized and large banks. Technically, the average noncore funding ratio declined year-over-year, but this was led by legislative changes in the treatment of reciprocal deposits rather than a structural shift. Although on-balance sheet liquidity tightened, regulatory capital ratios improved. Capital accretion among mid-sized and large banks trailed that of small ones because of comparatively higher dividend payouts.

Examination upgrades outpaced downgrades. In the twelve months ending December, the share of safety and soundness examinations that resulted in upgrades continued to equal or exceed that of downgrades across component areas. Overall, nearly 93% of District banks were rated satisfactory or strong for safety and soundness. In addition, 95% and 98% were rated satisfactory or better for consumer compliance and Community Reinvestment Act performance, respectively.

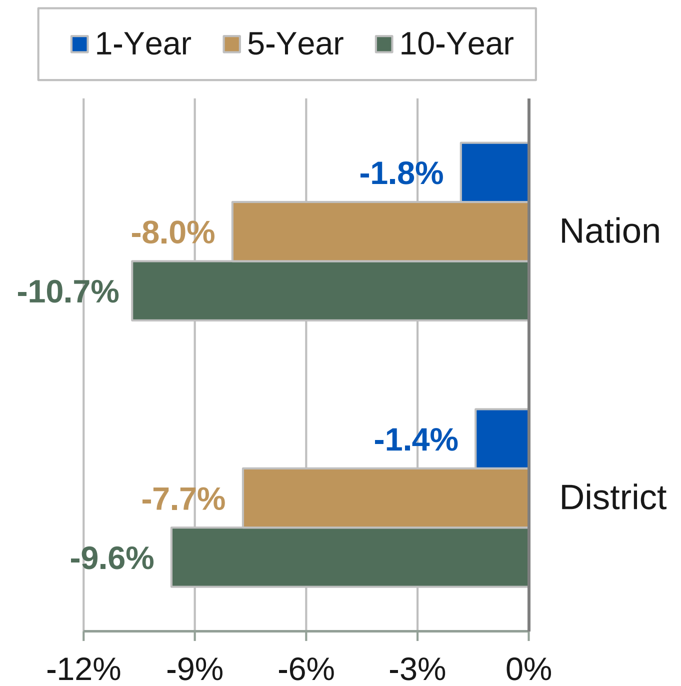
Spotlight: Branching Trends in the District

Industry consolidation, financial crisis-driven failures, competitive cost pressures, and the proliferation of mobile and online banking have contributed to branch closures over the past decade. According to the FDIC's annual *Survey of Deposits*, insured depositories operated nearly 12,400 full service brick and mortar and retail (BMR) banking offices in the District as of mid-2018, down 1.4%, 7.7%, and 9.6% during the past one-, five-, and ten-year periods, respectively. This trailed the nationwide pace of closures (see chart at right).[1] There were also roughly 200 other offices, including limited-service drive through (43%), trust (18%), administrative (15%), and mobile/seasonal (11%) facilities, as well as cyber offices (13%).

Within the District, the states with the largest build up in BMR offices prior to the financial crisis tended to have significant declines in the years following (see chart at bottom). For instance, counts in fast-growing Arizona and Nevada expanded more than 50% between 1998 and 2009, including by way of denovo formation, but these states also experienced high rates of bank and thrift failures and consolidation in the ensuing years. In contrast, insular markets like Alaska and Hawaii lost BMR offices for the better part of 20 years.

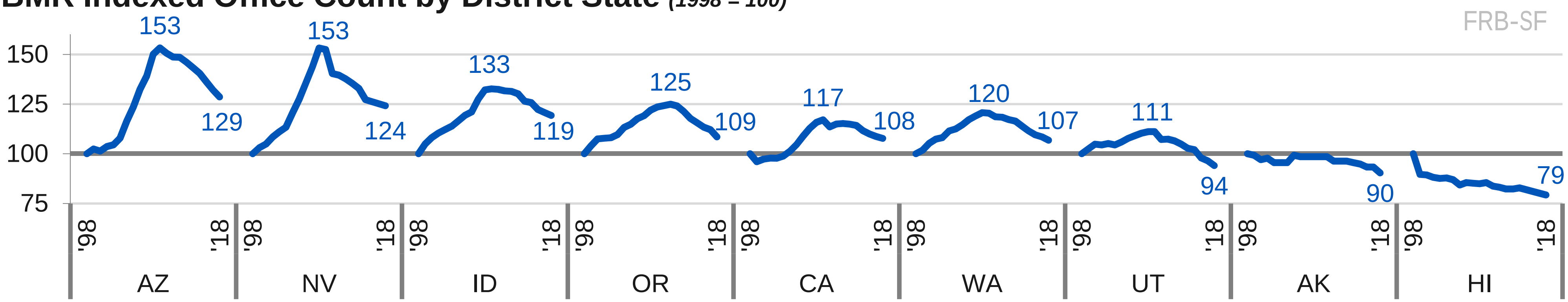
Because the District is home to a large number of major urban cores, 91% of BMR offices were located within metropolitan (metro) areas, another 6% were within micropolitan (micro) counties, and the remaining 3% were within other areas.[2] Nationwide, the mix tended to be slightly less urbanized, with 79%, 11%, and 10% of BMR offices within metro, micro, and other counties, respectively.

Net Change in BMR Offices, 2018



Source: FDIC Summary of Deposits, June each year.

BMR Indexed Office Count by District State ***(1998 = 100)***



[1] This analysis and most accompanying graphics include bank and thrift (but not credit union) full-service offices that are either "brick and mortar" or located within retail locations (e.g., supermarkets), and excludes single-office entities with deposits exceeding $3 billion. [2] In general, metropolitan areas are those with one or more related counties containing an urbanized core with 50,000 or more people while micropolitan areas are those with one or more related counties containing an urbanized core with 10,000 to 50,000 people. Source: FDIC *Summary of Deposits* (June of each year).

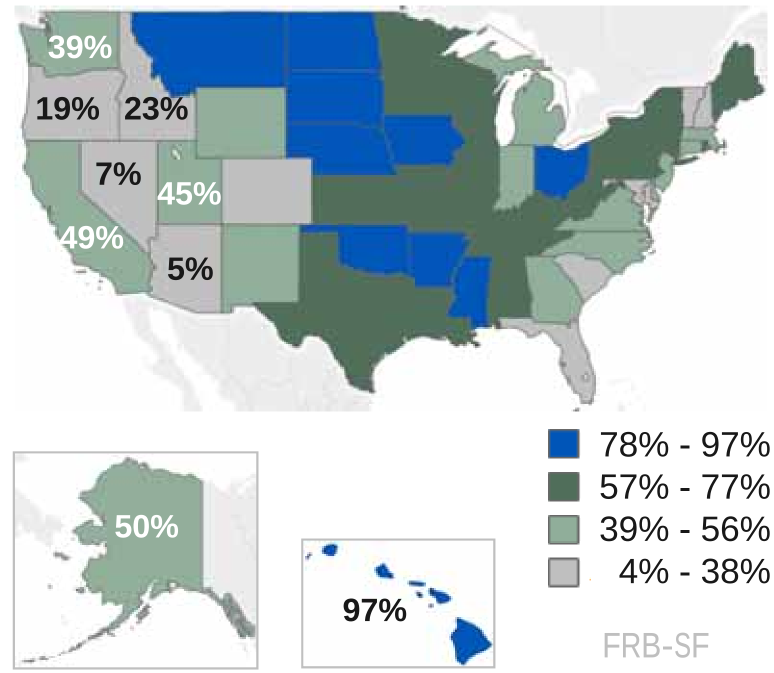
Spotlight: Branching Trends in the District

Although non-metro areas were home to a relatively small share of BMR offices, they experienced slightly higher rates of closure. For instance, between 1998 and 2009, the District's metro-area BMR count expanded by 23%, then contracted through 2018, but still ended the 20-year period 11% higher on net (see bottom left chart). In contrast, micro- and other-area office counts did not expand as strongly in the early 2000s and lagged 1998 levels by mid-2018. Of note, the districtwide net closure rate for non-metro BMR offices exceeded the national average.

Because of merger activity and corporate consolidations, the share of offices held by out-of-state institutions also shifted. In aggregate, roughly 40% of the District's offices were controlled by institutions headquartered within the same state, down steadily from 77% in 1998. By mid-2018, in Arizona, Nevada, Oregon, and Idaho, at least three out of every four BMR offices were owned by depositories headquartered in other states (see map at right). In contrast, offices in Hawaii were rarely held by out-of-state institutions. This implies that the competitive landscape in the West differs from the central part of the nation, where offices of locally-owned banks are more dominant.

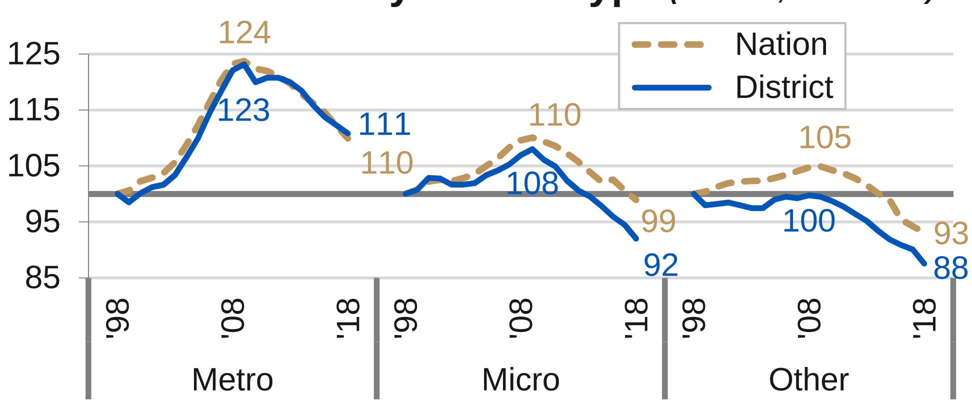
As office counts shrank, the median volume of deposits-per-office increased notably, even after adjusting for inflation (see bottom right chart). A state's median volume of deposits per office correlated to factors such as how metro-centric the office mix was, the cost of doing business, and the amount of gross state product per BMR. California's and Hawaii's median office sizes ranked among the top five nationally alongside the District of Columbia (2nd), New Jersey (3rd), and New York (4th).

Share of BMR Offices Held by Institutions Headquartered in State



Source: FDIC Summary of Deposits, June 2018.

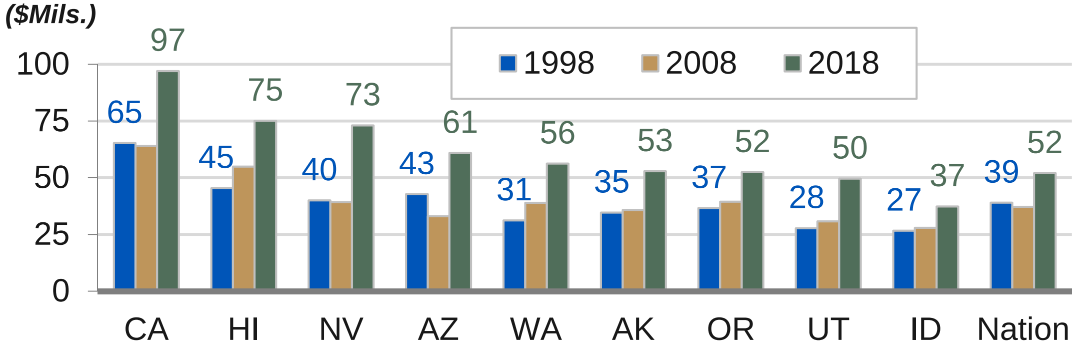
BMR Office Count by Market Type *(Indexed, 1998 = 100)*



Source: FDIC Summary of Deposits.

Median Inflation-Adjusted Deposits per BMR Office

($Mils.)



*1998 and 2008 inflated to current (2018) dollars for comparability.
Sources: FDIC Summary of Deposits, Bureau of Labor Statistics.

FRB-SF

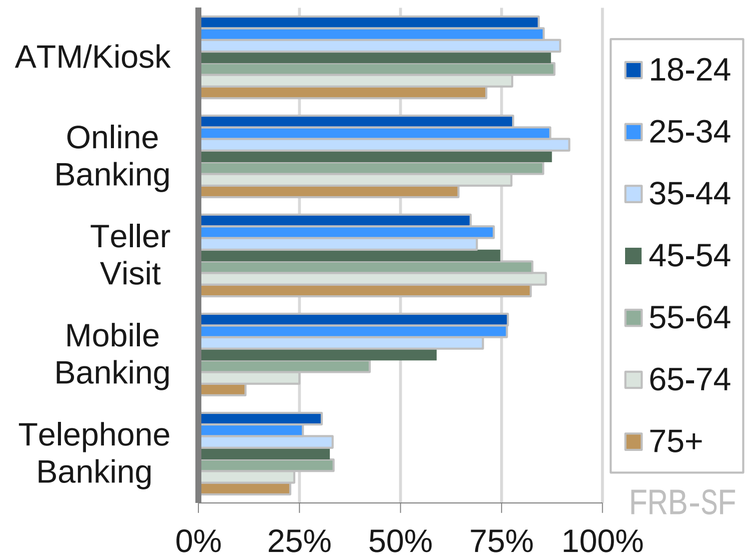
Prospectively, the pace of office consolidations will depend upon many factors, including customer migration to electronic channels, competition from bank and non-bank firms, and shifting demographics. Data from the Federal Reserve's *2017 Survey of Household Economics and Decisionmaking* showed that younger customers tended to embrace mobile banking, while older customers preferred tellers (see chart at right). As tech-savvy consumers age and account for a larger share of financial service business, physical offices and attendant staffing are expected to decline. Already, new technologies and office closures have fed a structural decline in teller jobs, which shrank 26% in the District between 2008 and 2017 (see chart at bottom right).

Community banks have adapted to meet customer demand to some degree. According to the CSBS/Federal Reserve *2018 National Survey of Community Banks*, many banks offered or planned to offer certain technologies, but adoption of tools like interactive teller machines, automated underwriting, and online loan closings was less widespread (see chart at bottom left). Roughly two-thirds of bankers said it was important/very important to adopt new or emerging technologies to meet customer demand; however, only one-quarter felt it was as important to be a leader in adopting such capabilities. New technologies require upfront costs and pose operational risks. Other challenges include legacy system limitations, technology staffing, and privacy and data security.

PwC's *2018 Digital Banking Survey* of consumers found that branches may have some staying power for now: 65% of respondents felt it was important to have a local branch, and over 50% preferred to apply for a loan or deposit account in a physical office. In the near term, institutions may opt to modify the branch experience rather than eliminate it.

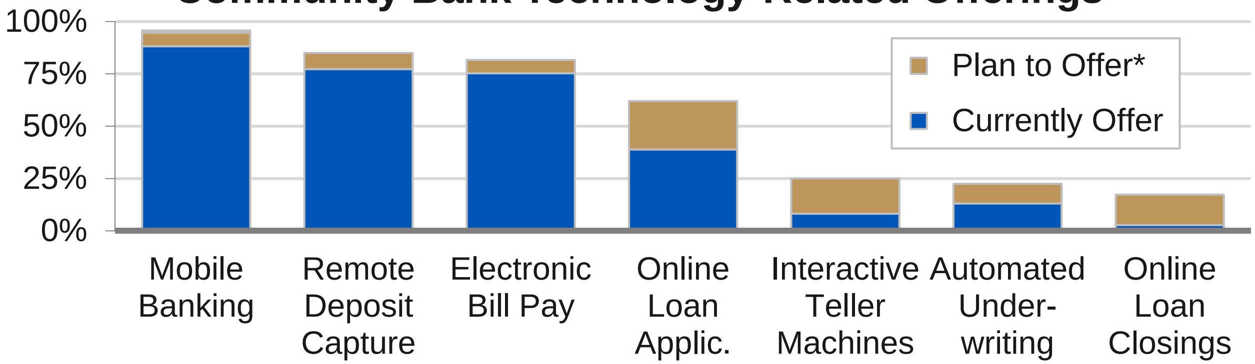
12th District Banking Habits By Age Cohort, 2017

Share Using in Trailing 12 Mos.



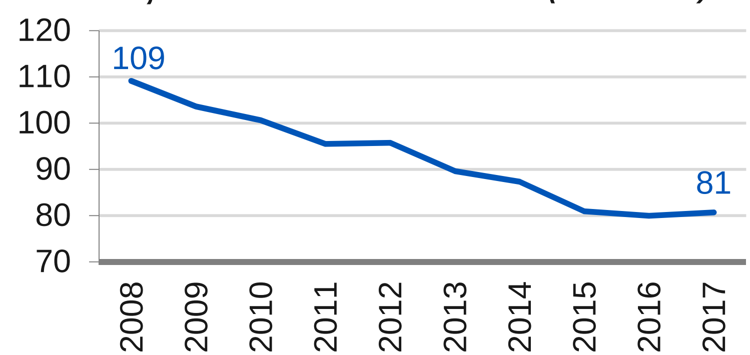
12th District respondents only, shown as a share of those willing to disclose a response. Source: Federal Reserve *2017 Survey of Household Economics and Decisionmaking.*

Community Bank Technology-Related Offerings



*Within the coming year; based on a nationwide survey of 521 community bankers. FRB-SF
Source: CSBS/FRB/FDIC, *Community Banking in the 21st Century,* 2018.

Tellers, 12th District States ***(Thousands)***



Source: Bureau of Labor Statistics, Occupational Employment Statistics Survey, May each year.

Section 1
Economic Conditions

Job Growth

Housing Market

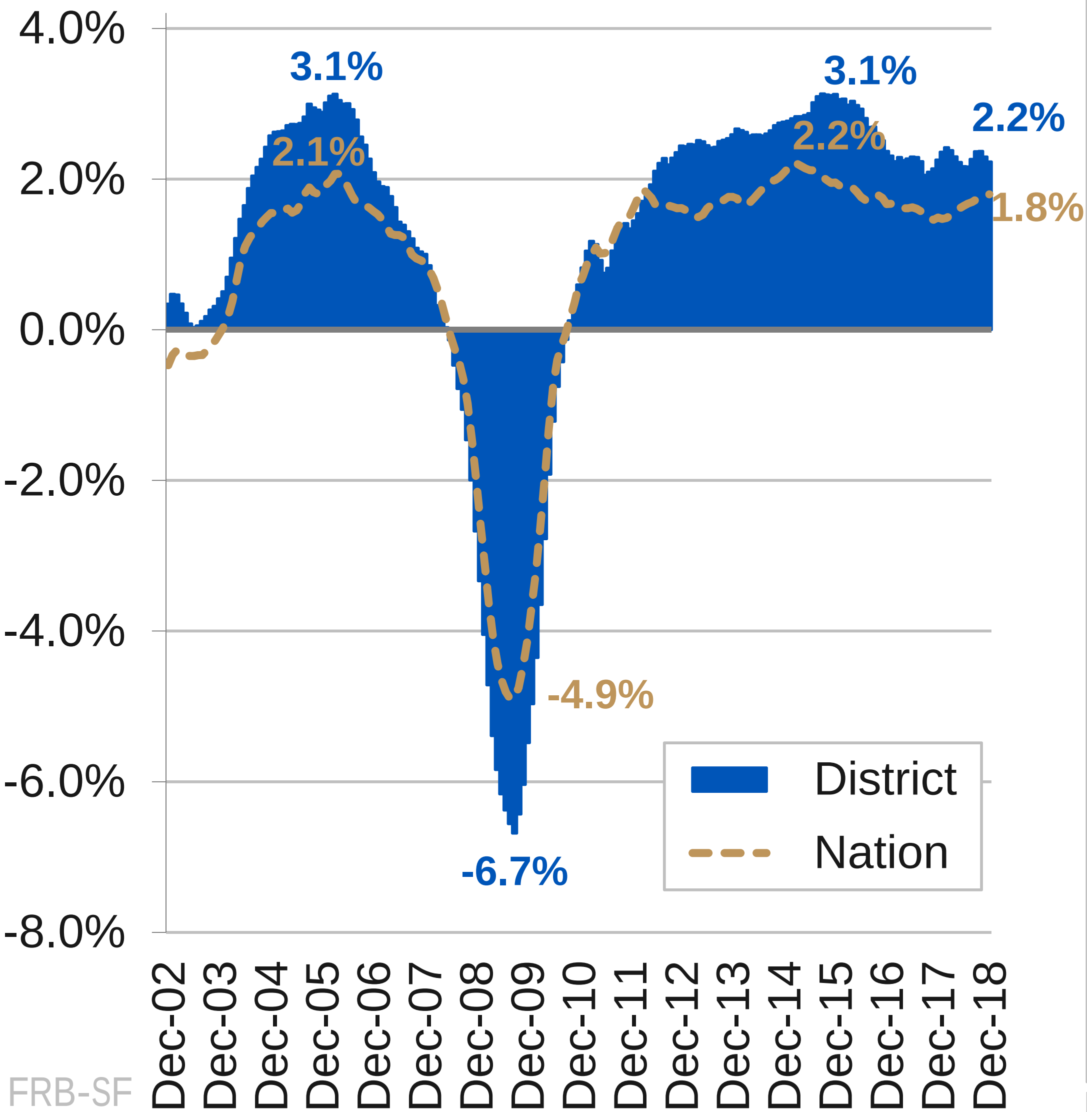
Commercial Real Estate

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

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

9 District hiring slowed, led by retail and education/ health, but professional/business hiring accelerated.

Year-over-Year Nonfarm Job Growth



12th District Jobs by Sector

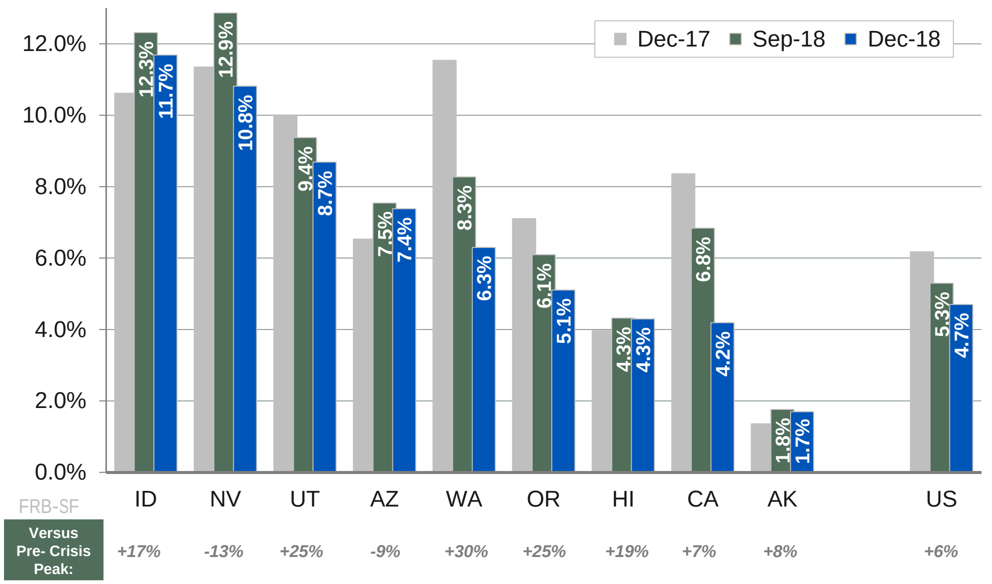
Job Sector	Year-over-Year % Change 1Q17-4Q18	Year-over-Year % Change 4Q18	Share of Total Jobs (4Q18)
Construction		4.83%	5.45%
Prof. & Business Svcs.		3.59%	14.61%
Transport. & Utilities		3.51%	3.83%
Edu. & Health Svcs.		2.96%	15.11%
Leisure & Hospitality		2.70%	12.15%
Information		2.39%	2.70%
Manufacturing		2.01%	7.53%
Financial Activities		1.30%	5.14%
Government		0.93%	15.45%
Retail Trade		0.78%	10.47%
Other Private		0.56%	3.65%
Wholesale Trade		0.48%	3.91%
Total Nonfarm		2.23%	100%

FRB-SF

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

10 Idaho, Nevada, and Utah led the nation for price gains; growth slowed from 3Q18 across most District states.

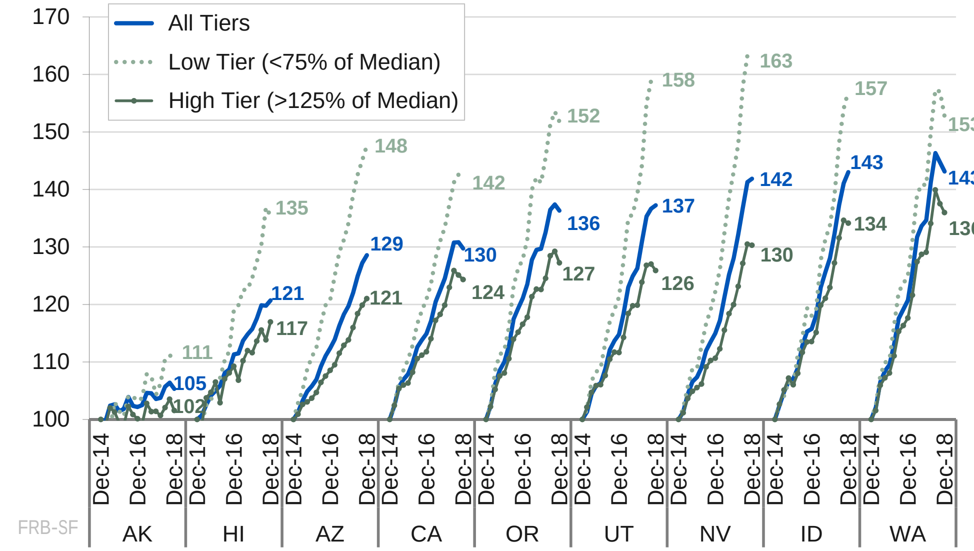
Year-over-Year % Change in Home Price Index



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

11 Growth rate for high tier homes came under pressure in the second half of 2018, further lagging low price tier.

Home Price Index *(Re-indexed, Dec-14 = 100)*

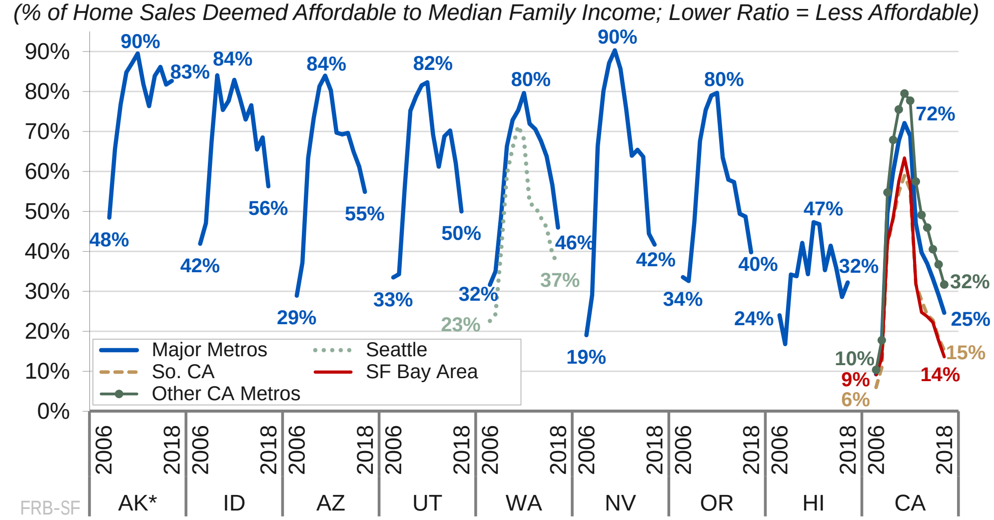


HPI = home price index (includes all detached and attached homes, including distressed sales). Index values re-indexed to December 2014. Source: CoreLogic.

12 Housing affordability deteriorated further, but most areas were still more affordable than in 4Q06.

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

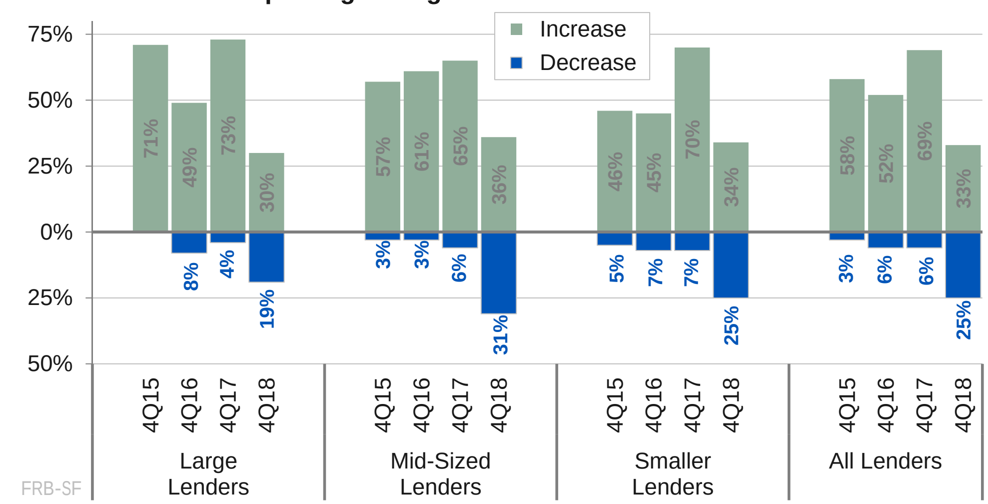
(% of Home Sales Deemed Affordable to Median Family Income; Lower Ratio = Less Affordable)



Assumes median income, 10% down payment, ratio of income-to-housing costs (principal, interest, taxes, and hazard insurance) of 28%, and a fixed-rate, 30-year mortgage; So. CA = Los Angeles, Orange, Riverside-San Bernardino, San Diego, and Ventura metros; SF Bay Area = San Francisco, Oakland, San Jose, Napa, Vallejo, and Santa Cruz metros. *AK series starts in 2007. Sources: National Association of Homebuilders/Wells Fargo via Haver Analytics, FRB-SF calculations.

13 Per Fannie Mae, a growing share of mortgage lenders expect prices to stabilize/decline in the coming year.

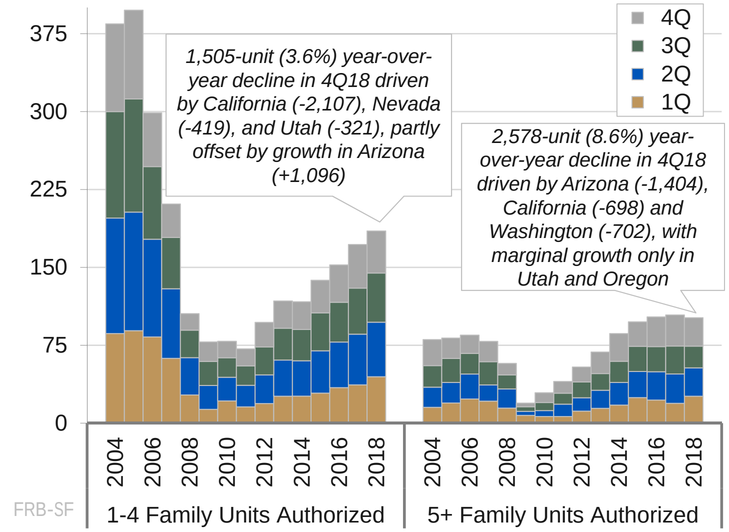
Share of Lenders Expecting Change in Home Prices in the Next 12 Months:



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

14 District permit activity continued to shift to 1-4 family; multifamily declined year-over-year in 3Q18 and 4Q18.

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



New Authorized Housing Units

Trailing 12-Month Totals

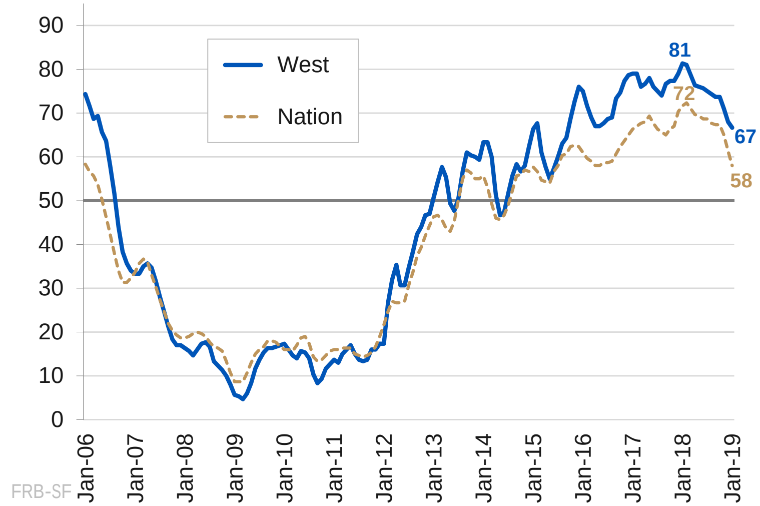
FRB-SF	Level 2005-2018*	Dec-18 vs. Dec-06	% Multif. Dec-18
UT		105%	26%
WA		92%	42%
ID		86%	17%
CA		76%	42%
OR		72%	44%
AZ		64%	22%
AK		60%	16%
HI		57%	36%
NV		47%	25%
Dist.		75%	35%

◆ = trough ◆ = peak

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

15 Homebuilder sentiment remained positive on net, but optimism weakened during 2018.

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



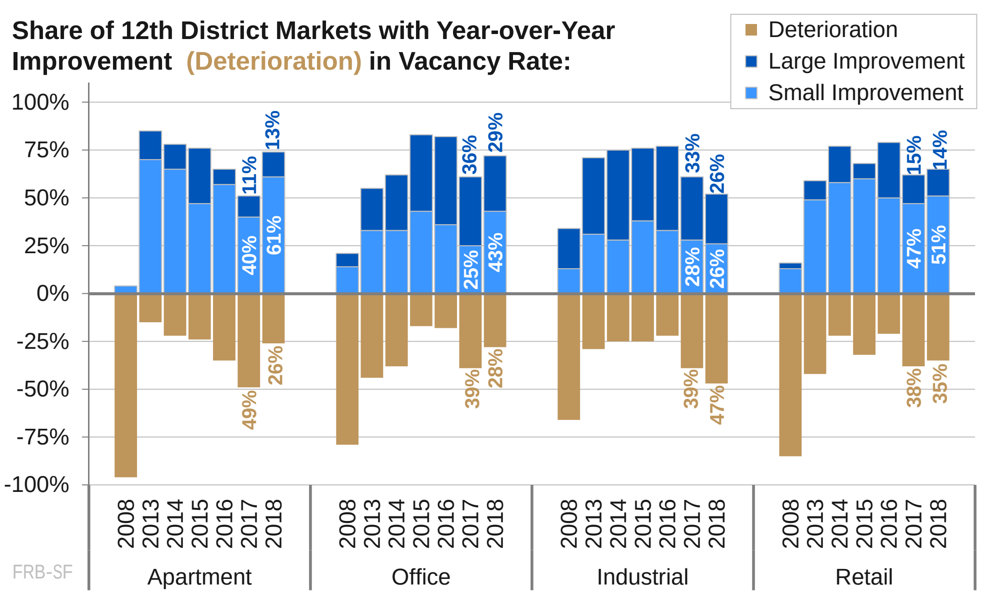
Regional Home Builder Diffusion Indices *(Trailing 3 Mo. Avg.)*

Region	Jan-18	Jan-19
West	81.3	66.7
South	73.3	62.3
Midwest	70.0	51.7
Northeast	58.0	45.3
Nation	71.7	58.0

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

16 CRE vacancy rates improved in most District markets; industrial vacancies showed signs of deterioration.

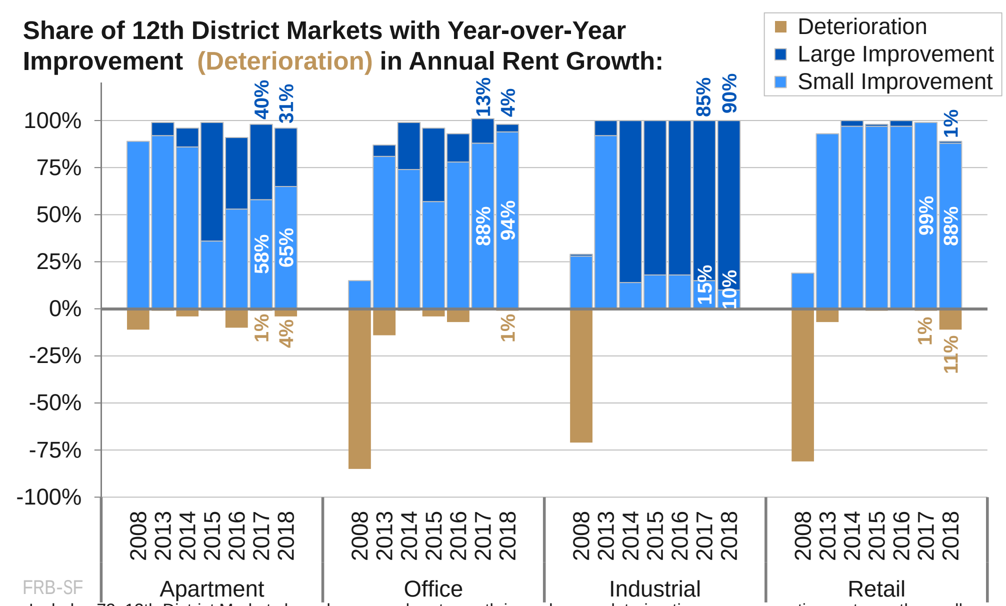
Share of 12th District Markets with Year-over-Year Improvement (Deterioration) in Vacancy Rate:



Includes 72, 12th District Markets based on a comparison of 4Q vacancy rates in each year; deterioration means an increase in vacancy rates; small improvement means a vacancy rate decline of <100bps; large improvement means a vacancy rate decline of >=100bps. May not equal 100% due to rounding. Source CoStar.

17 CRE rents strengthened in most District markets; industrial properties saw the largest rent growth.

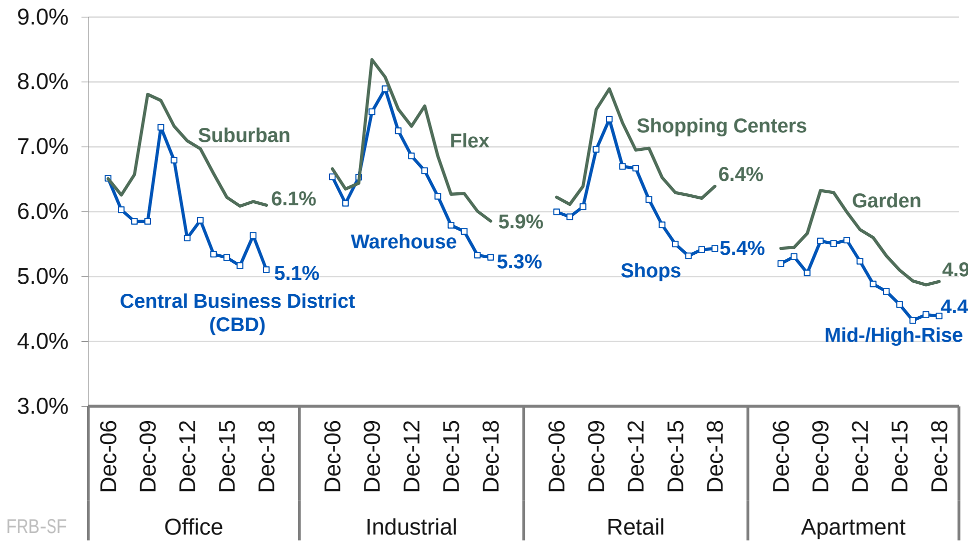
Share of 12th District Markets with Year-over-Year Improvement (Deterioration) in Annual Rent Growth:



Includes 72, 12th District Markets based on annual rent growth in each year; deterioration means negative rent growth, small improvement means annual rent growth <5%, large improvement means annual rent growth >5%. May not equal 100% due to rounding. Source CoStar.

18 West Region capitalization rates were stable-to-higher for some CRE types, dipped for office and industrial.

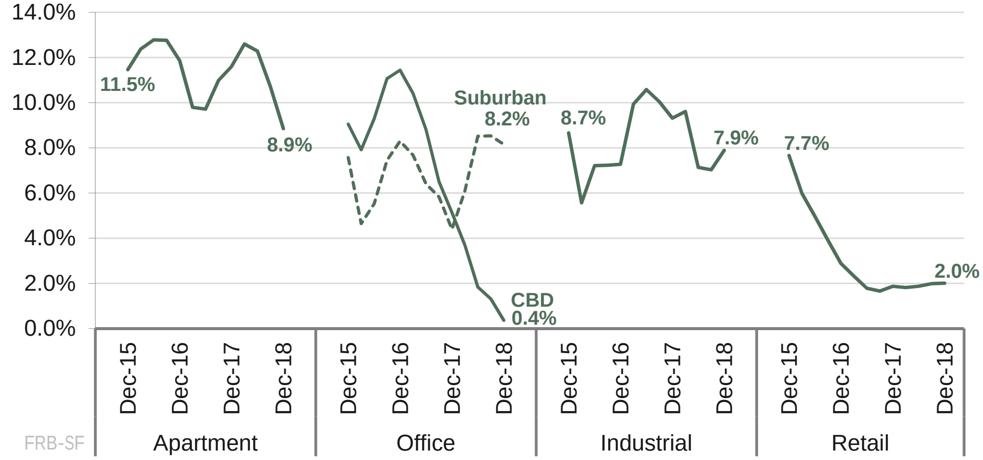
Western U.S. CRE Capitalization Rates *(Trailing 12-Month Average %)*



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

19 CRE prices appreciated across sectors, but gains were often low for retail and scant for CBD office properties.

Year-over-Year % Change in Commercial Property Price Index – Nation

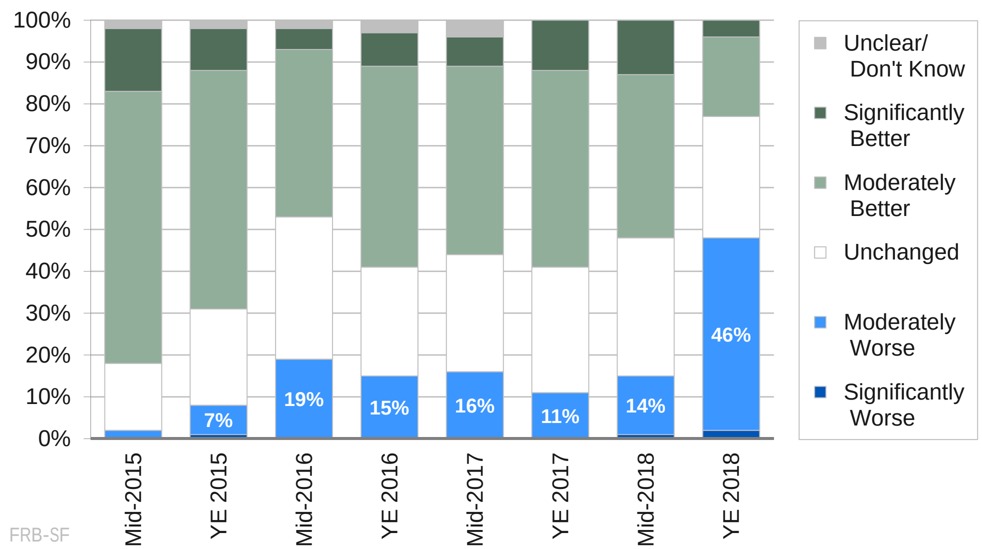


Average Cumulative Change in CPPI	Apartment	Office	Industrial	Retail
5-Year	70.6%	45.2%	54.1%	26.9%
10-Year	94.2%	27.9%	36.1%	18.2%

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

20 CRE investor sentiment shifted notably in the second half of 2018 according to one survey.

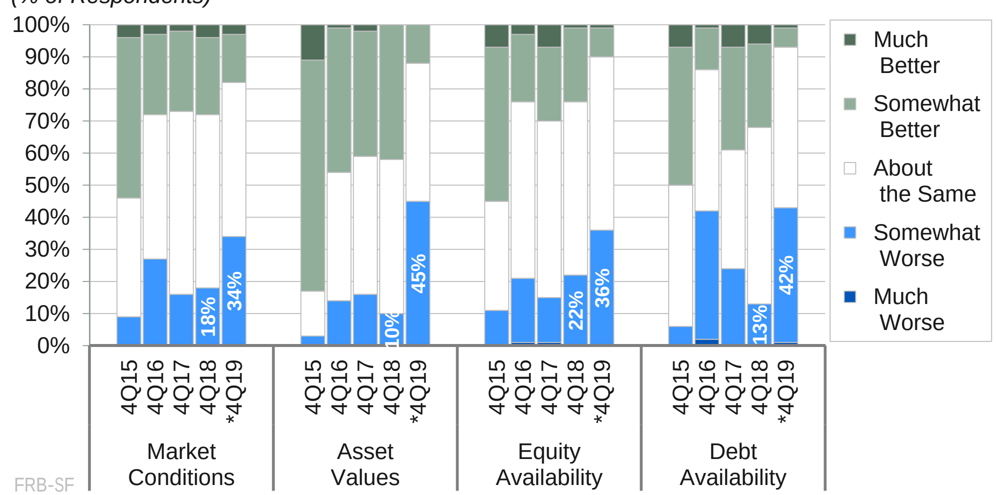
National Real Estate Market Conditions Today vs. One-Year Ago
(% of Respondents)



YE = year end. Source: RCLCO Real Estate Advisors (formerly Robert Charles Lesser & Co.) *Sentiment Surveys.*

21 CRE investors also expressed pessimism about future market conditions, asset values, and financing.

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



*4Q19 reflects expectations for the next 12 months; survey was conducted by FPL Advisory Group on behalf of The Real Estate Roundtable and measures the views of chief executives, presidents, and other top CRE industry executives regarding conditions in the past 12 months and expectations for the next 12 months; 4Q surveys were typically conducted in October. Source: Real Estate Roundtable *Sentiment Index Reports.*

Section 2
Commercial Bank Performance

Earnings

Loan Growth and Concentrations

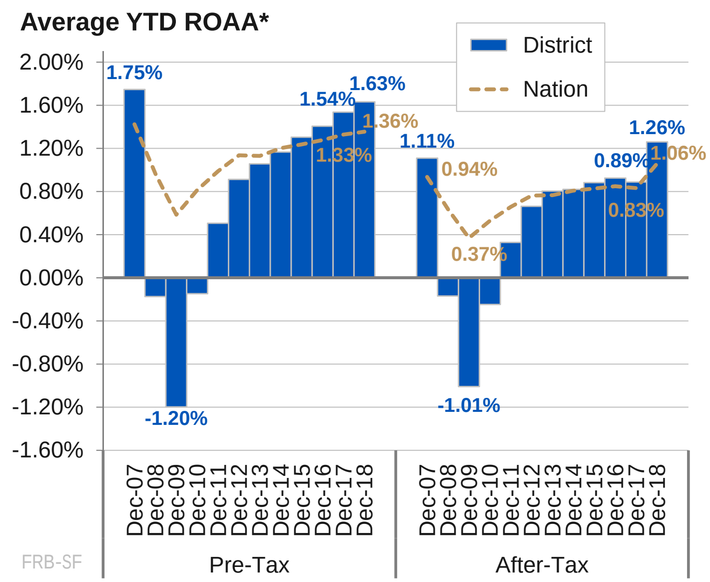
Credit Quality

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.

23 Wider margins and lower taxes more than offset higher noninterest expenses during 2018.

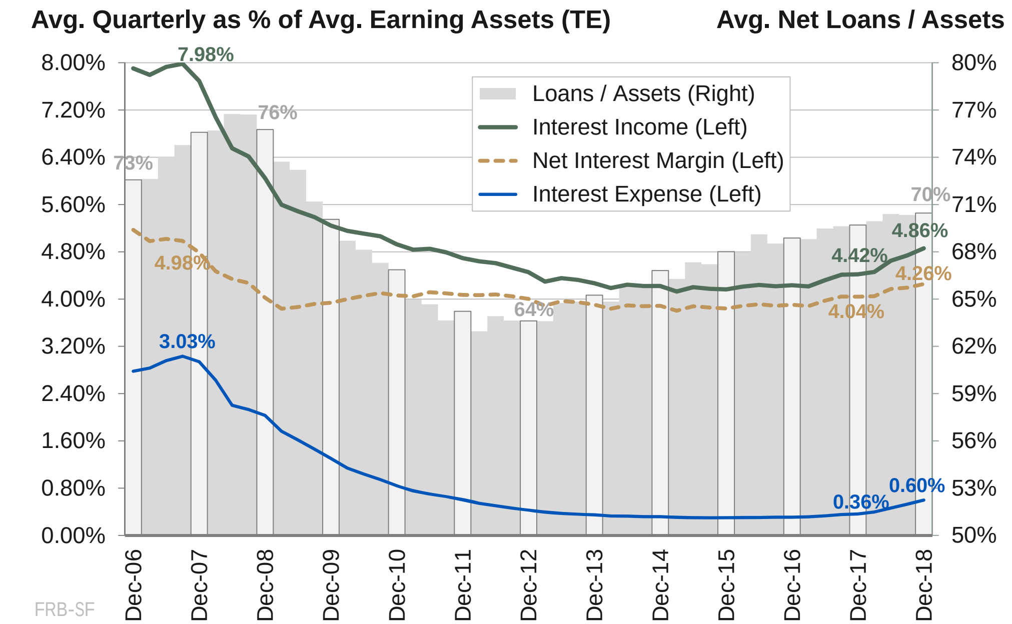


Average YTD as % of Average Assets 12th District *(Expenses = Negative Values)*

Profit Component	Dec-17	Dec-18
Interest Income (TE)	4.11%	4.42%
Interest Expense	-0.32%	-0.48%
Net Int. Income (TE)	3.78%	3.94%
Nonint. Income	0.62%	0.59%
Nonint. Expense	-2.88%	-2.90%
Provision Expense	-0.06%	-0.08%
Tax Expense (TE)	-0.58%	-0.35%

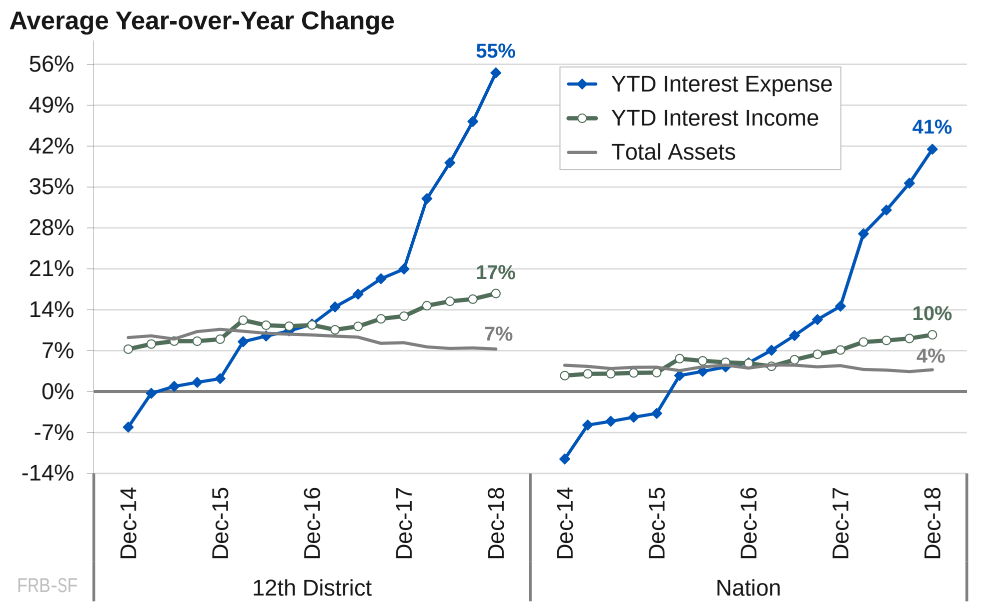
Average = trimmed mean; YTD = year-to-date (annualized); *ROAA = return on average assets (net income/average assets), with theoretical tax expense deducted from Subchapter S filers for after-tax ratio; TE = tax equivalent (yields and applicable tax expense adjusted for tax-exempt revenues).

24 Quarterly net interest margins edged up, lifted primarily by higher short-term interest rates.



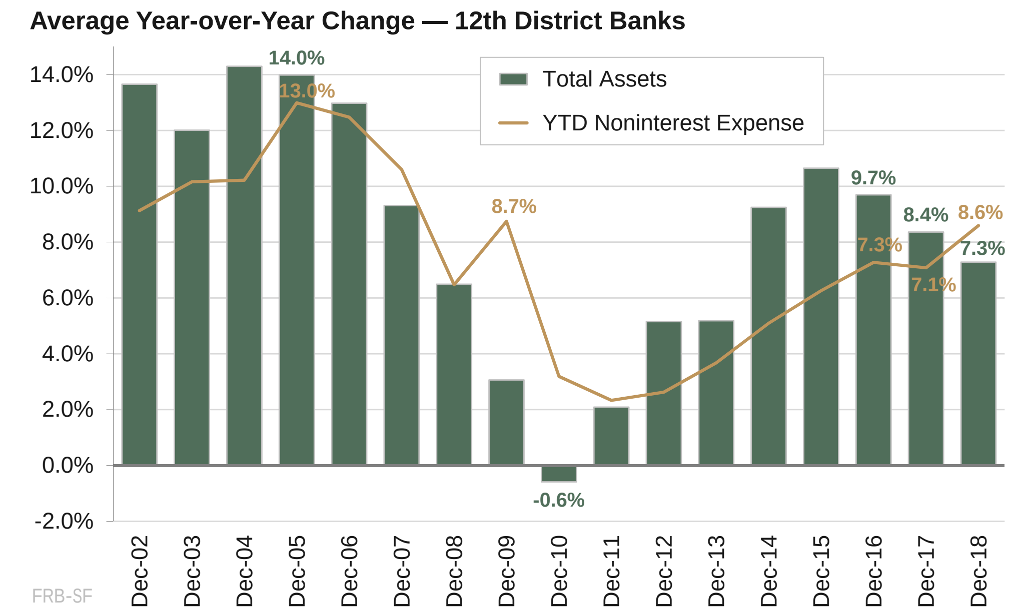
Average = trimmed mean (12th District banks only); one-quarter annualized data; TE = tax equivalent.

25 Interest expense growth accelerated from a low base, and outpaced increases in interest income and assets.



Average = trimmed mean; YTD = year-to-date; growth rates are not merger-adjusted.

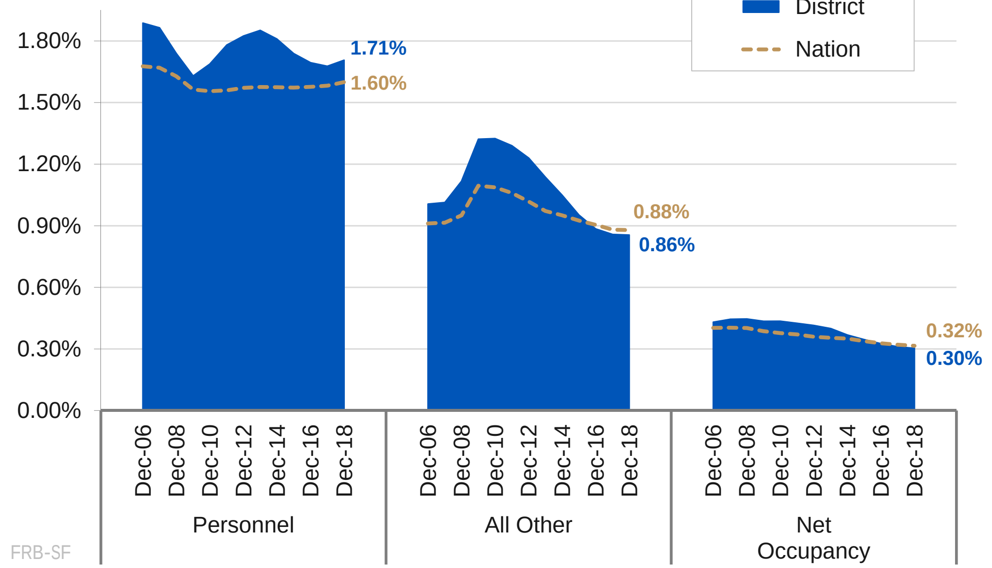
26 On average, overhead expenses also increased faster than assets during 2018.



Average = trimmed mean (12th District banks only); growth rates are not merger-adjusted; YTD = year-to-date.

27 Rising personnel expenses contributed heavily to overhead trends.

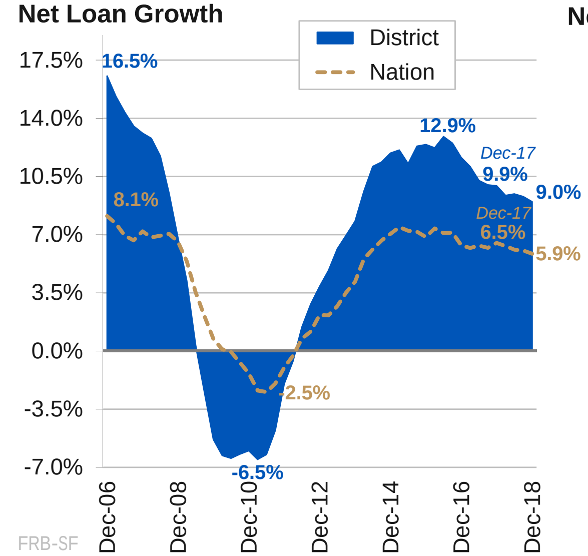
Average YTD Overhead Expense / Average Assets



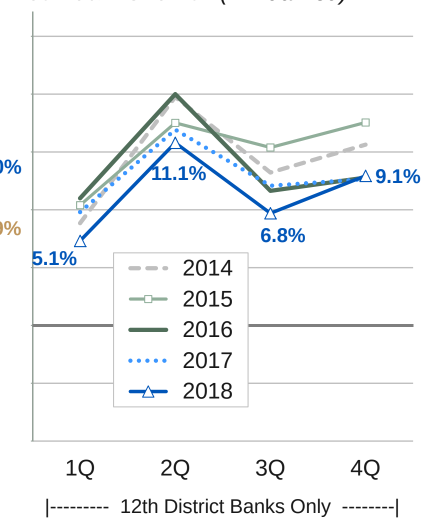
Average = trimmed mean; YTD = year-to-date (annualized); overhead = noninterest expense.

28 In isolation, 4Q18 net loan growth matched pace with 4Q17 and 4Q16, but full-year 2018 growth trailed 2017.

Average Year-over-Year Net Loan Growth



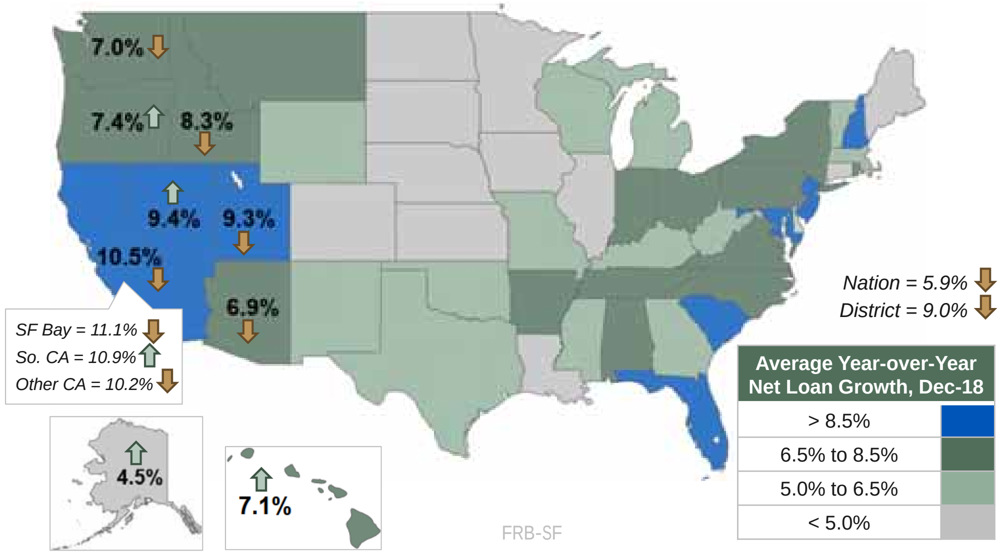
Average Quarter-over-Quarter Net Loan Growth *(Annualized)*



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.

29 Average annual net loan growth decelerated across several District states, weighing on the District average.

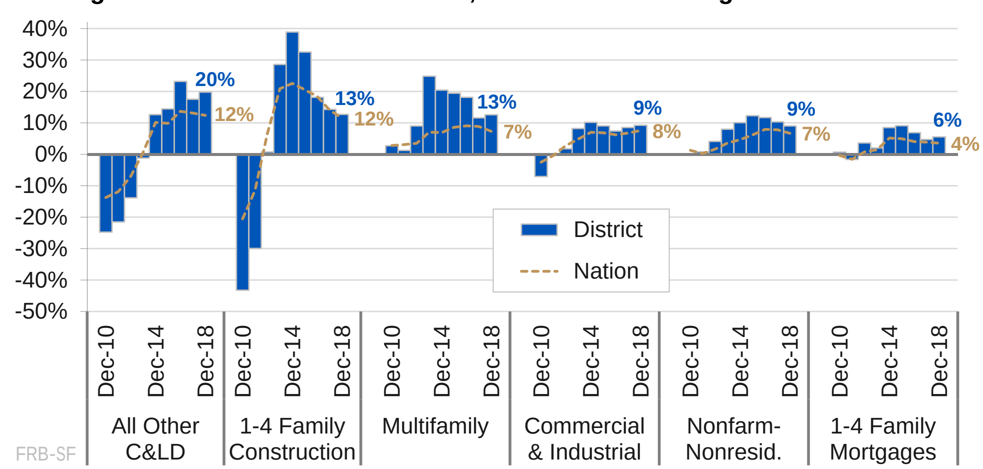
Average Year-over-Year Net Loan Growth (%), Faster ⇧ / Slower ⇩ Rate vs. 3Q18



Average = trimmed mean; growth for loans net of allowances for loan losses, not merger-adjusted; NV excludes zero loan and credit card banks. SF Bay = 37 banks based in San Francisco-San Jose Combined Statistical Area (CSA); So. CA = 69 banks based in Los Angeles CSA + San Diego metropolitan area; Other CA = 34 banks based in all other areas.

30 Construction and multifamily remained among the fastest-growing major portfolio segments.

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



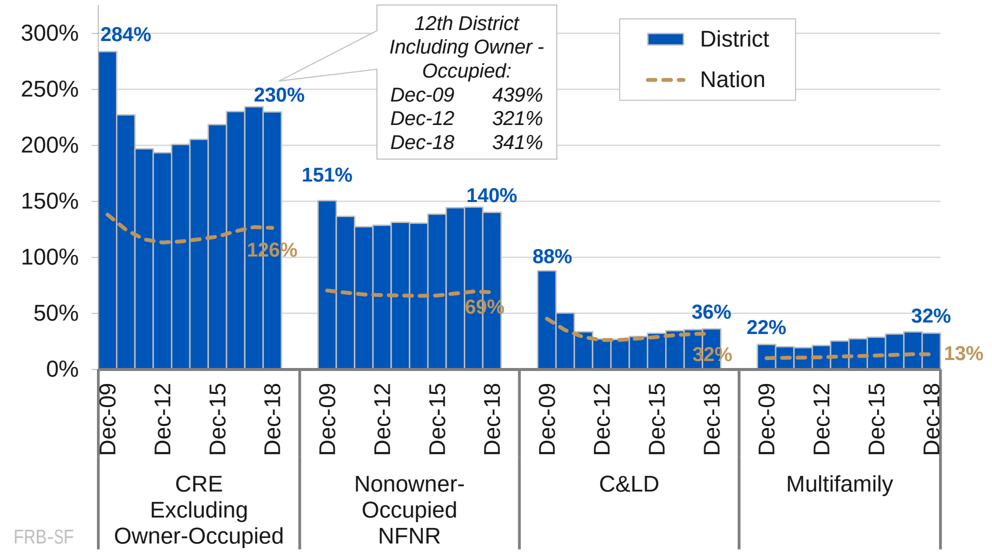
Memo: Average Concentration to Total Capital, Dec-18

	All Other C&LD	1-4 Family Construction	Multifamily	Commercial & Industrial	Nonfarm-Nonresid.	1-4 Family Mortgages
District	23.61	10.10	32.35	83.78	248.40	79.07
Nation	19.27	10.20	13.46	71.06	141.55	137.55

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

31 Earnings-fueled capital accretion outpaced increases in CRE loans, reducing concentrations to capital.

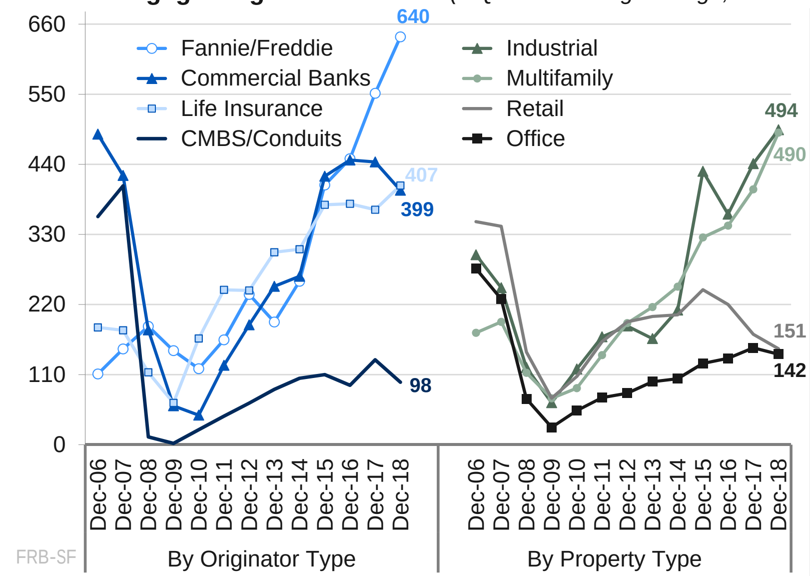
Average CRE Loans Outstanding / Total Capital



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.

32 CRE mortgage originations eased on average in 2018 at banks, but surged at GSEs because of multifamily.

CRE Mortgage Origination Indices *(4-Quarter Trailing Average, 2001 = 100)*

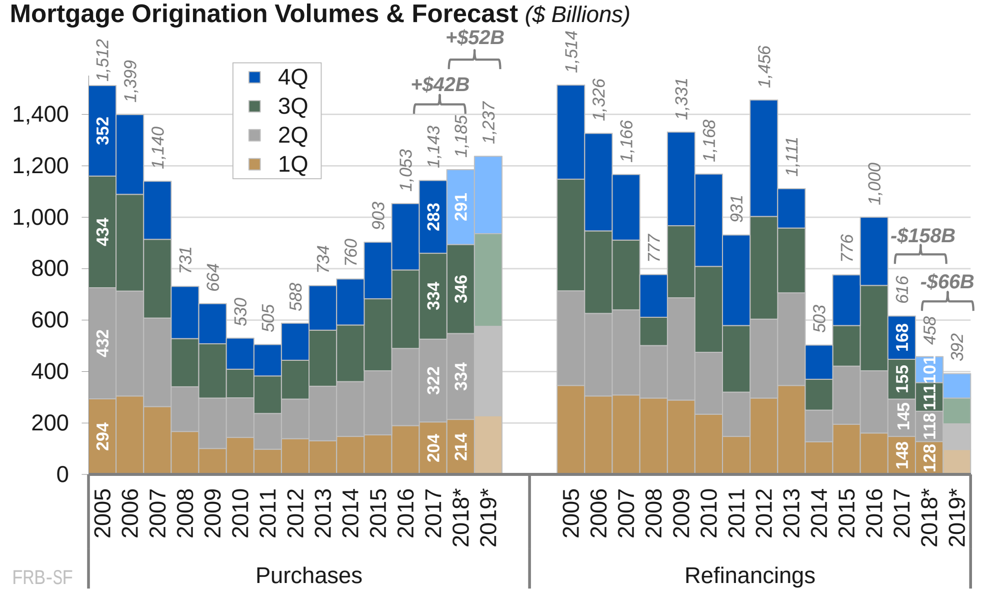


Per MBA, CRE originations surged during 4Q18, increasing 33% quarter-over-quarter and 14% year-over-year. For the full year, originations grew a more modest 3%. Growth among GSEs and insurance cos. outpaced banks and CMBS/ Conduits. As of February 10, 2019, MBA expected 2019 originations to be similar to 2018.

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

33 Per MBA, a decline in refi-related business may again overshadow an uptick in purchase originations in 2019.

Mortgage Origination Volumes & Forecast *($ Billions)*

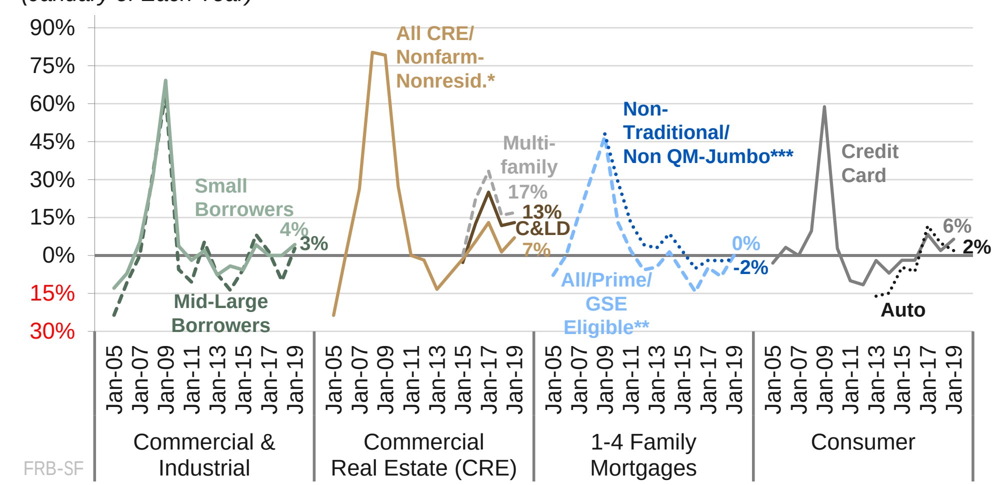


*4Q18 and 2019 forecasted. Sources: Mortgage Bankers Association (MBA) 2/11/19 *Mortgage Finance Forecast,* Haver Analytics.

34 Surveyed lenders indicated modest signs of credit tightening during 4Q18 versus the same period in 2017.

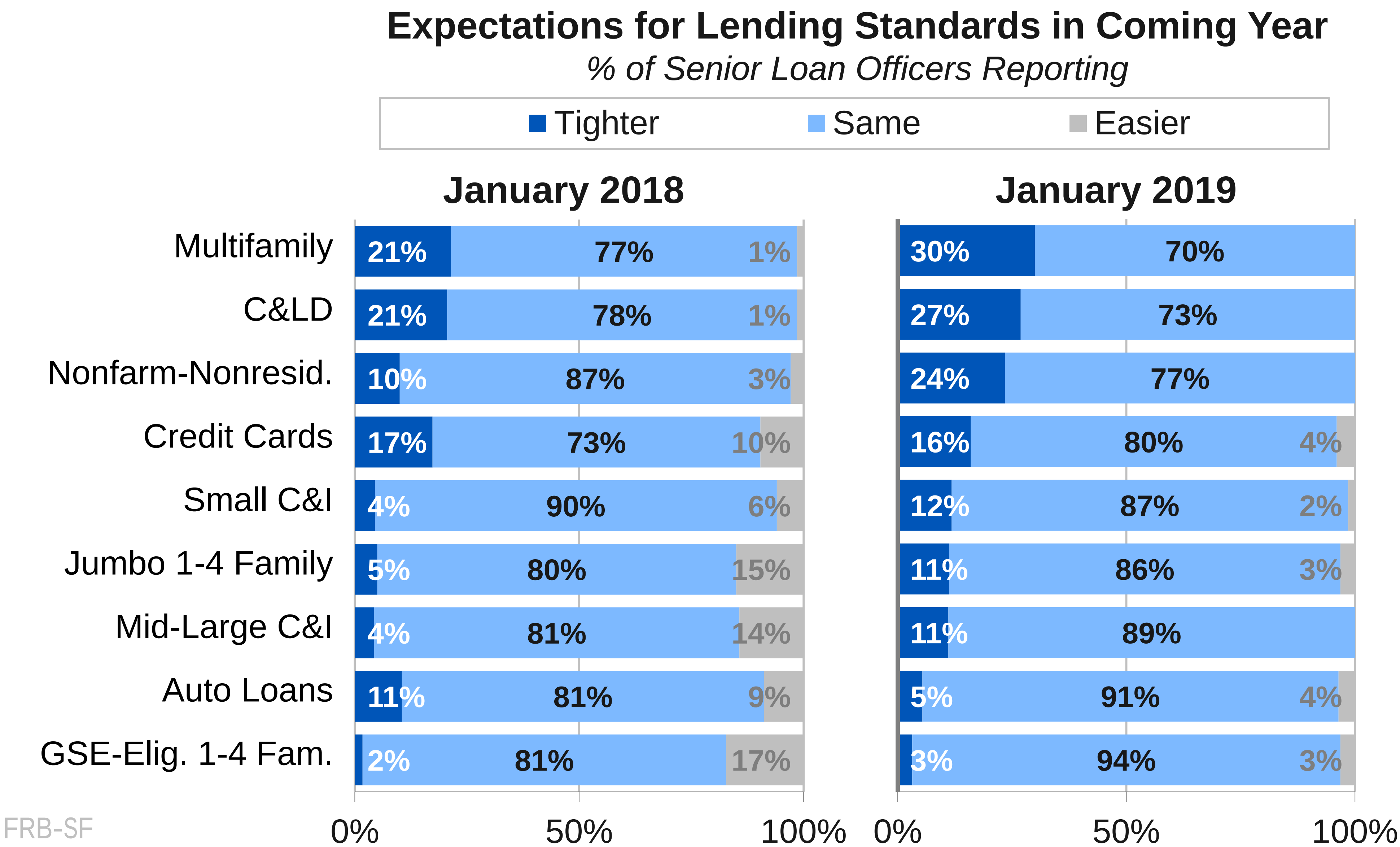
Net % of Lenders Reporting Tighter (Looser) Loan Standards vs. 3 Months Prior

(January of Each Year)



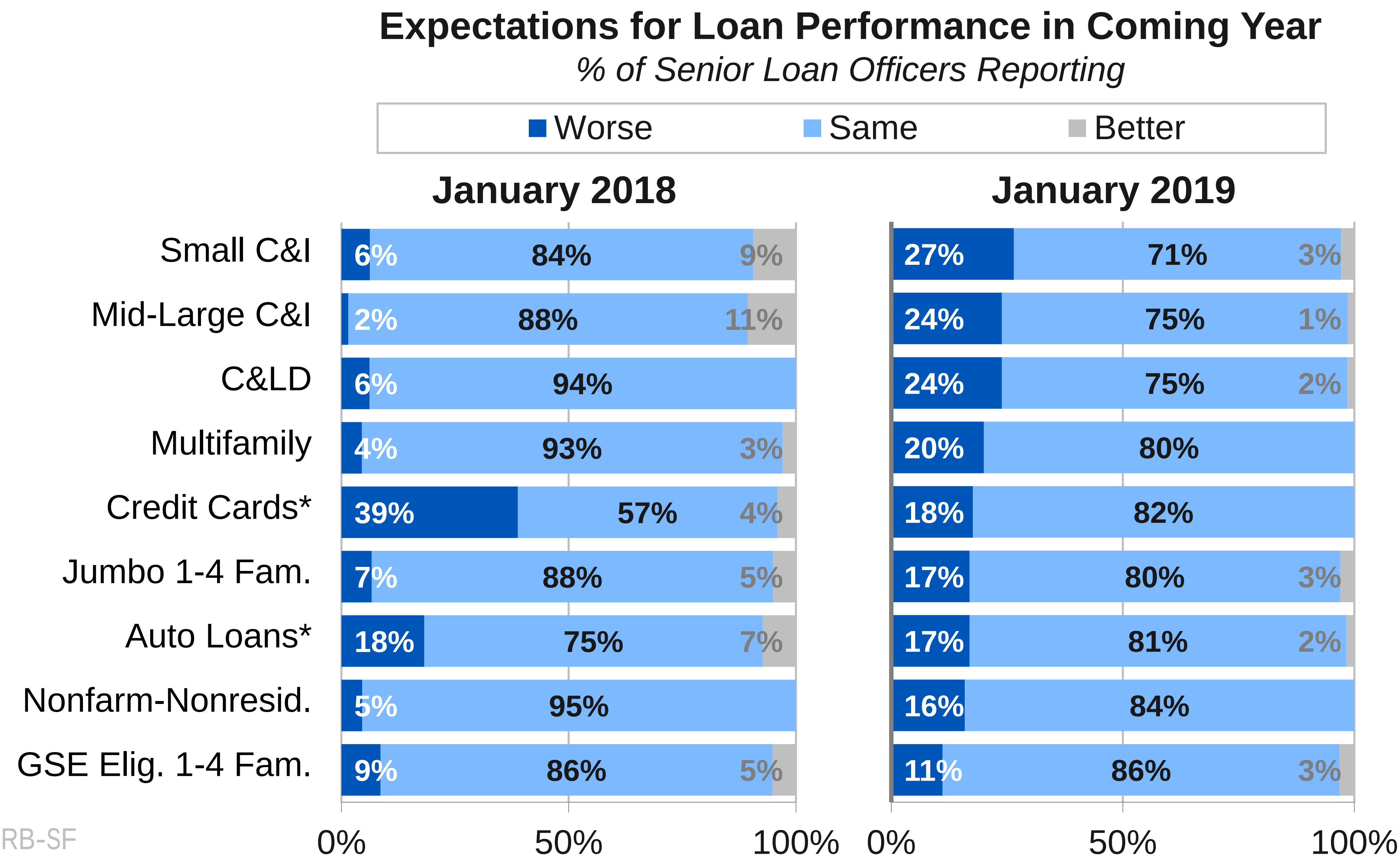
Based on a sample of 70+/- loan officers at domestic banks (number varies by period and loan type); C&LD = construction and land development; *includes all CRE loans prior to Oct-13; **includes all residential mortgages prior to Apr-07, "prime" mortgages Apr-07 to Oct-14, and GSE-Eligible starting Jan-15;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

35 Versus Jan. 2018, more lenders expected tighter and fewer expected easier standards in the coming year.



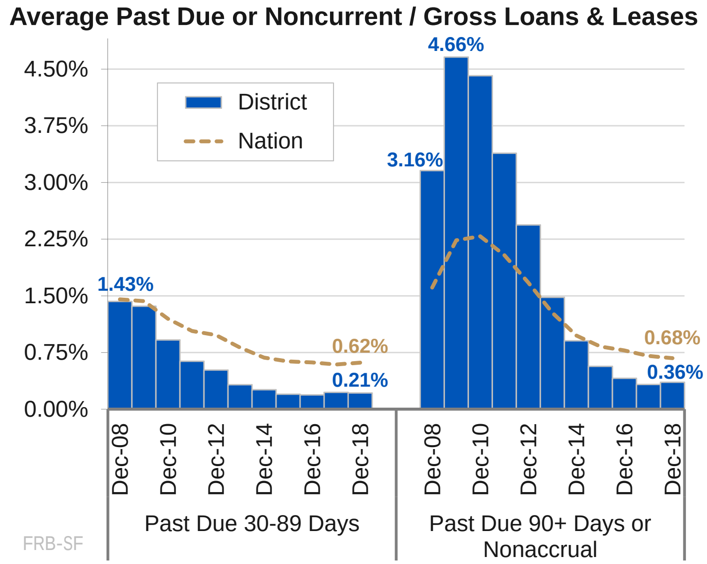
Based on a sample of loan officers at 50-72 domestic banks (count varies by loan type and year); C&LD = construction and land development; C&I = commercial and industrial; GSE = government sponsored enterprise. Source: Federal Reserve *Senior Loan Officer Opinion Survey* (http://www.federalreserve.gov/BoardDocs/snloansurvey/).

36 By 2019, a growing share of senior lenders forecasted weakening performance across most loan categories.



Based on a sample of loan officers at 46-71 domestic banks (varies by loan type and year); C&I = commercial and industrial; C&LD = construction and land development; GSE = government sponsored enterprise; *2019 data excludes subprime.
Source: Federal Reserve *Senior Loan Officer Opinion Survey* (http://www.federalreserve.gov/BoardDocs/snloansurvey/).

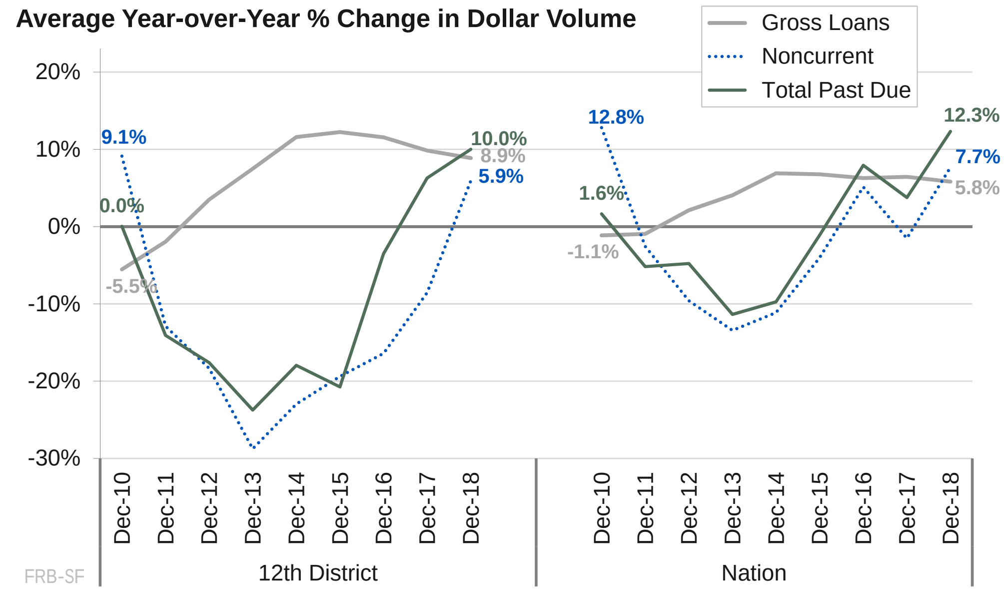
37 Past-due ratios remained low; delinquencies among C&I and 1-4 family often exceeded other major categories.



Avg. % Past Due 30+ Days or Nonaccrual 12th District			
Loan Type	Dec-17	Sep-18	Dec-18
C&I	0.59	0.67	0.66
1-4 Family	0.65	0.60	0.59
Consumer	0.27	0.26	0.32
Credit Card	*0.57*	*0.71*	*0.86*
Auto	*0.20*	*0.20*	*0.24*
Other	*0.21*	*0.16*	*0.18*
Agriculture	0.26	0.23	0.30
NFNR	0.31	0.31	0.28
Owner-Occ	*0.38*	*0.36*	*0.35*
Other	*0.11*	*0.11*	*0.07*
C&LD	0.19	0.16	0.16
All Loans	0.64	0.65	0.64

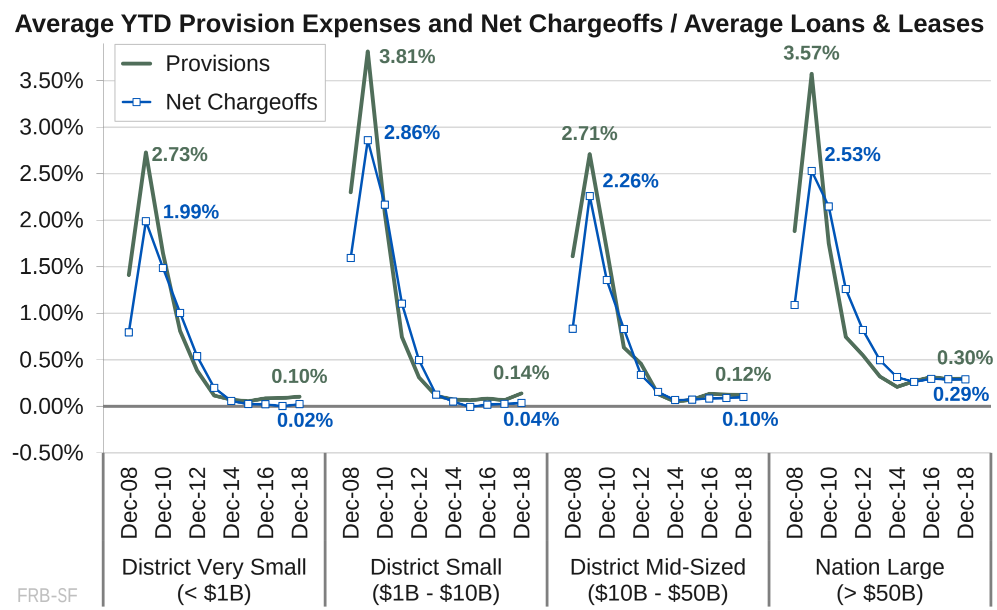
Average = trimmed mean; loans past due 30-89 days are delinquent but still accruing interest (early-stage); noncurrent = loans past due 90+ days or on nonaccrual status; C&I = commercial & industrial; NFNR = nonfarm-nonresidential mortgages; C&LD = construction & land development; average overall past 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.

38 Annual growth in delinquencies outpaced gross loans, which could lift past-due ratios in future periods.



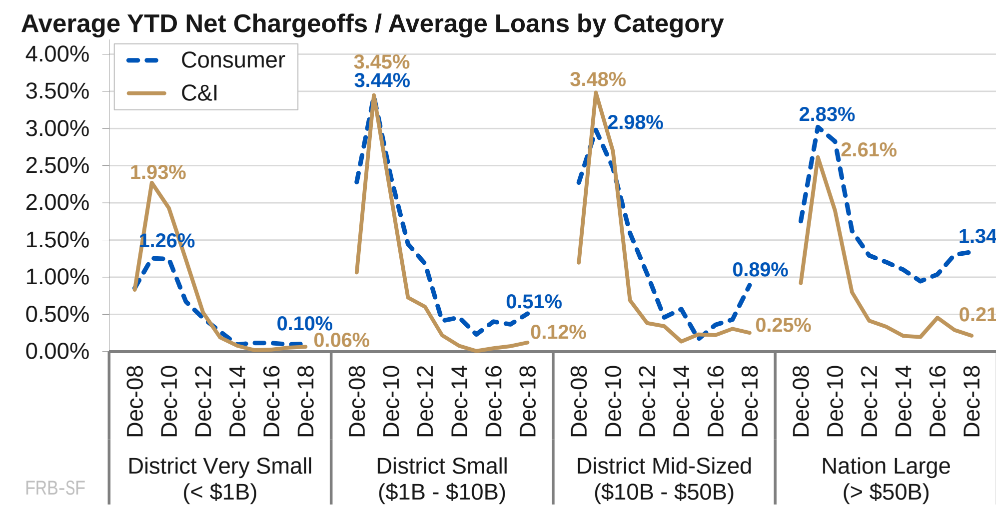
Average = trimmed mean; total past due = loans past due 30+ days past due or on nonaccrual status; noncurrent = loans past due 90+ days or on nonaccrual status.

39 Annual net chargeoff ratios tended to be higher at mid-sized and large banks.



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

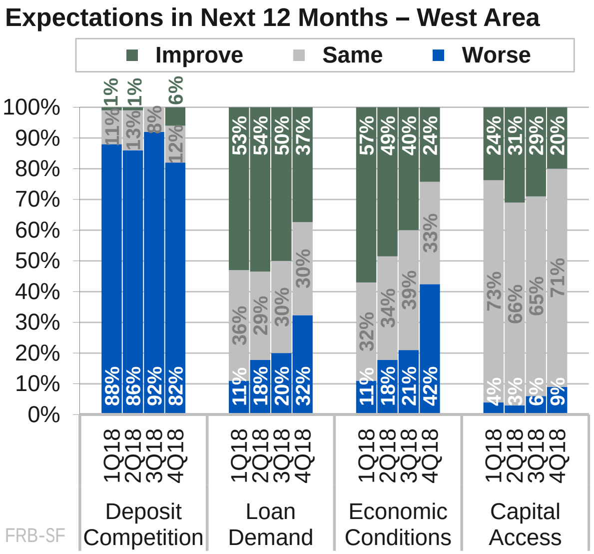
40 Losses at mid-sized and large banks were led by larger holdings of and losses on C&I and/or consumer loans.

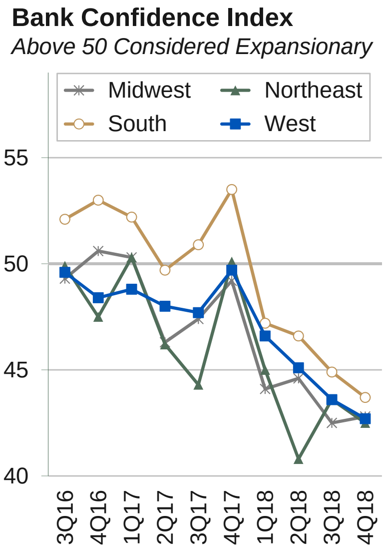


Memo: Average Concentration to Total Capital, Dec-18				
Consumer	4.70	8.75	5.83	89.01
C&I	81.46	71.69	114.95	141.85

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

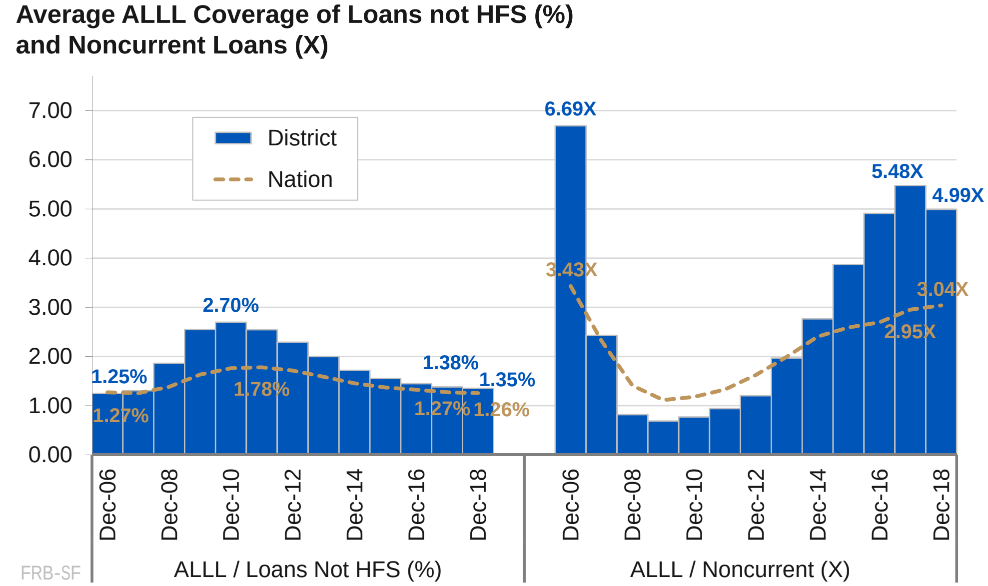
41 Per Promontory, bankers' outlooks for loan demand and the economy dimmed notably in 4Q18.





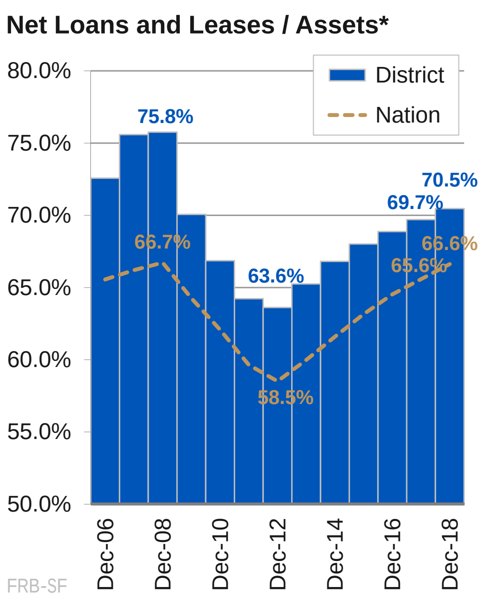
4Q18 data based on a nationwide survey of bank chief executive officers, chief financial officers, and presidents at 447 institutions, queried between January 3 and January 16, 2019; West = Kansas City/San Francisco Districts; Midwest = Chicago/Cleveland/Minneapolis/St. Louis Districts; South = Atlanta/Dallas/Richmond Districts; Northeast = Boston/New York/Philadelphia Districts. Source: Promontory Interfinancial Network *Bank Executive Business Outlook Surveys*.

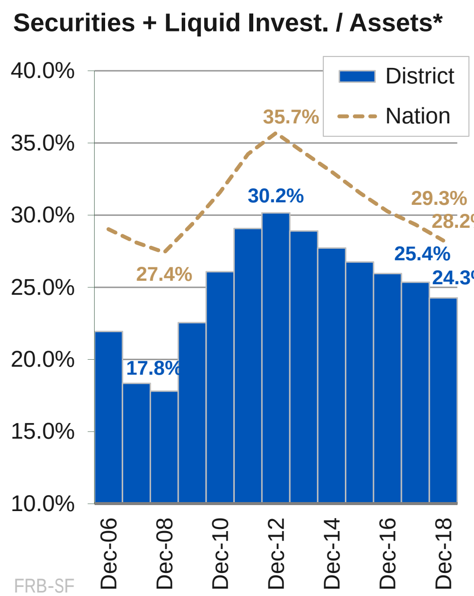
42 Loan loss allowances continued to lag loan growth and dipped as a multiple of noncurrent loans.



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

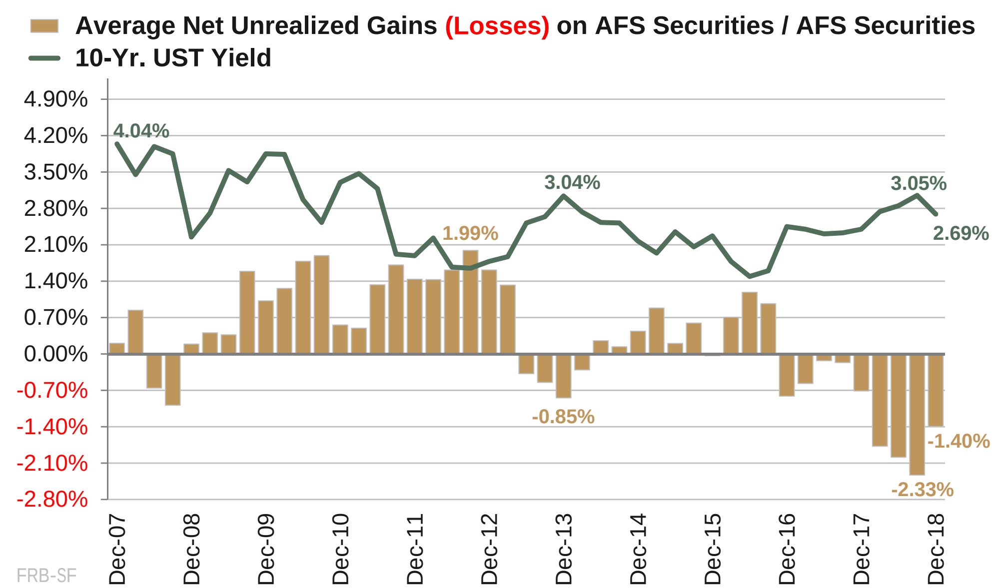
43 On-balance sheet liquidity tightened, continuing an earlier trend, but was stronger than pre-crisis levels.





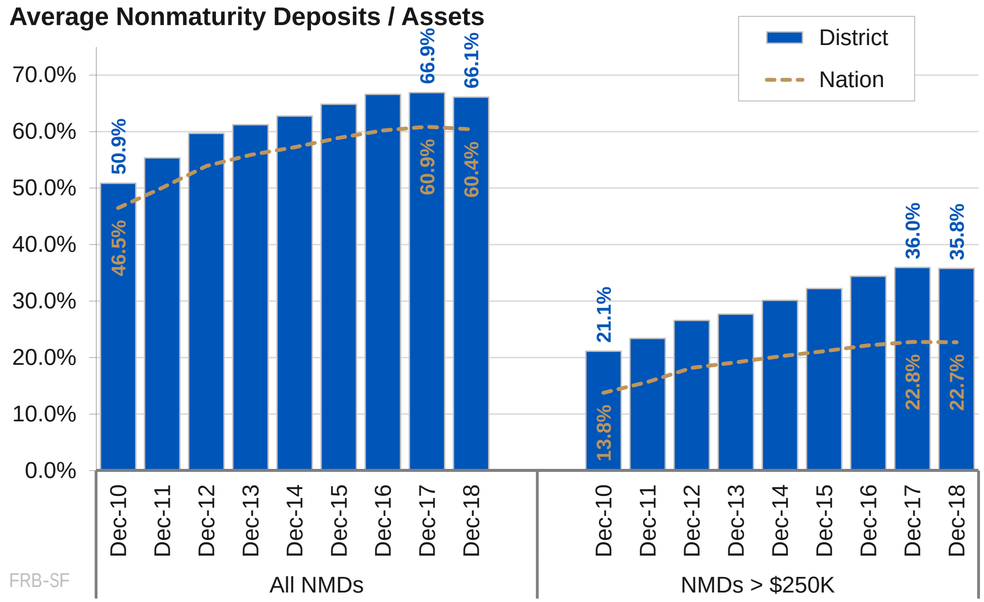
*All data are averages (trimmed means); liquid investments = cash, due from balances, interest bearing balances, and federal funds sold & securities purchased under agreements to resell.

44 Although lower, net unrealized losses within securities portfolios also crimped on-balance sheet liquidity.



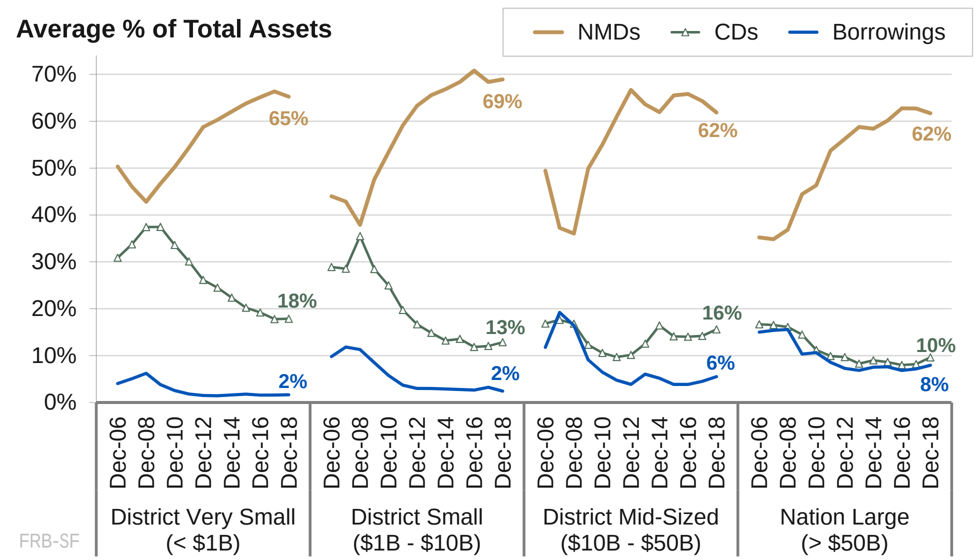
Average = trimmed mean (12th District banks only); AFS = available-for-sale; changes in valuation reported net of deferred tax effects; UST = end of period U.S. Treasury yield at a constant maturity (from Federal Reserve via Haver Analytics); AFS securities excludes equities beginning with the March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

45 Total and jumbo NMDs ticked down as a share of assets as NMD growth stalled.



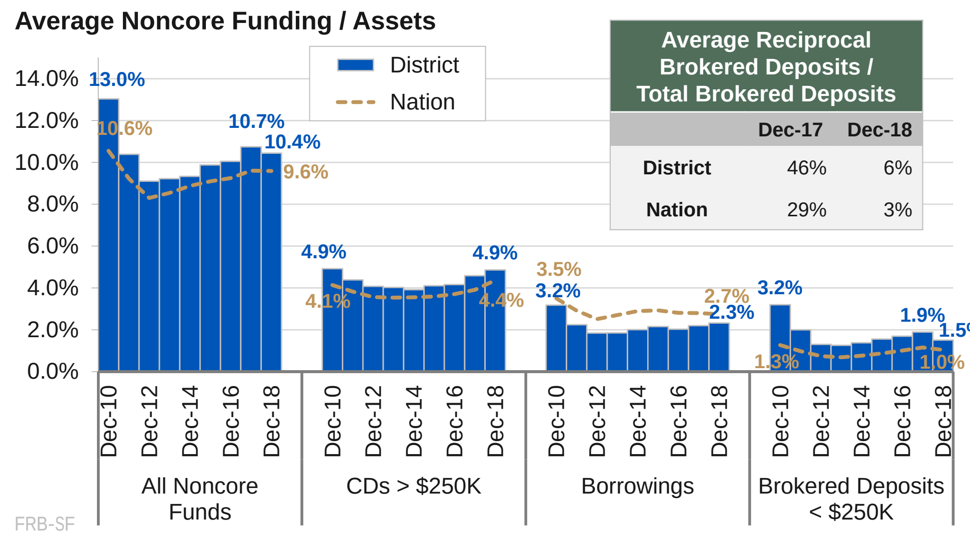
Average = trimmed mean; NMD = nonmaturity deposits (all deposits excluding time deposits); jumbo = > $250K.

46 As NMD growth slowed, many banks turned to costlier CDs and borrowings.



Average = trimmed mean; growth rates are not merger-adjusted; NMD = nonmaturity deposits; CD = certificate of deposit; borrowings includes federal funds purchased, repurchase agreements, federal home loan bank advances, and other borrowed money; 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.

47 Legislative changes in the treatment of reciprocal deposits reduced technical noncore funding ratios.

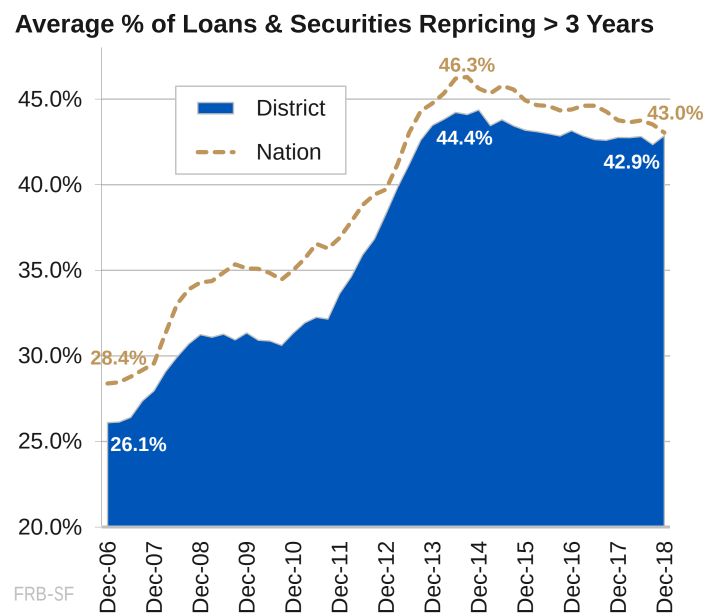


Average Reciprocal Brokered Deposits / Total Brokered Deposits

	Dec-17	Dec-18
District	46%	6%
Nation	29%	3%

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

48 Investments in longer-term loans and securities remained elevated.



Average % of Loans & Securities Repricing > 3 Years

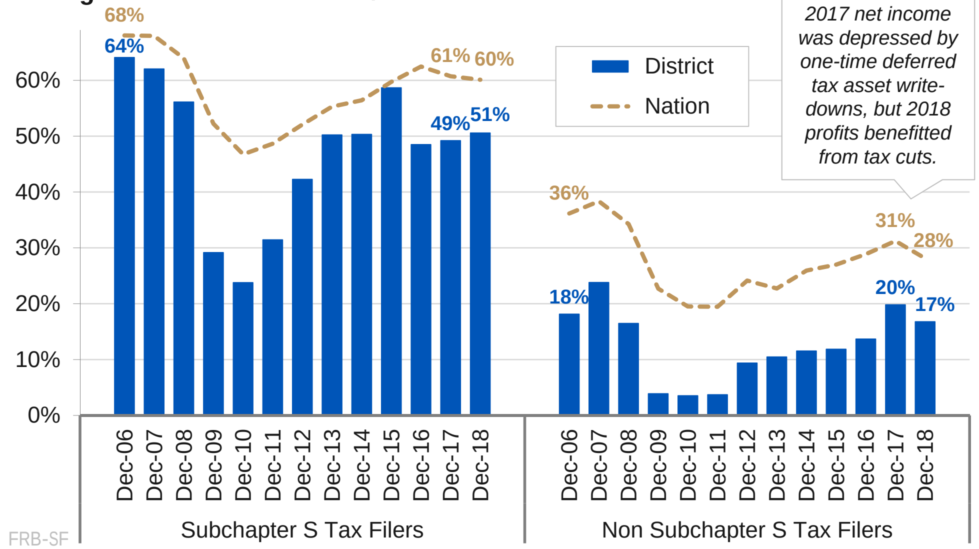
FRB-SF	2006-18*	Dec-18
AK		53.2%
OR		53.0%
HI		48.0%
WA		47.5%
AZ		46.9%
NV		46.5%
CA		43.2%
ID		34.3%
UT		31.2%
Nation		43.0%

= trough = peak

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

49 Dividend payout ratios eased among District C-corp. banks; tax reform created denominator effects.

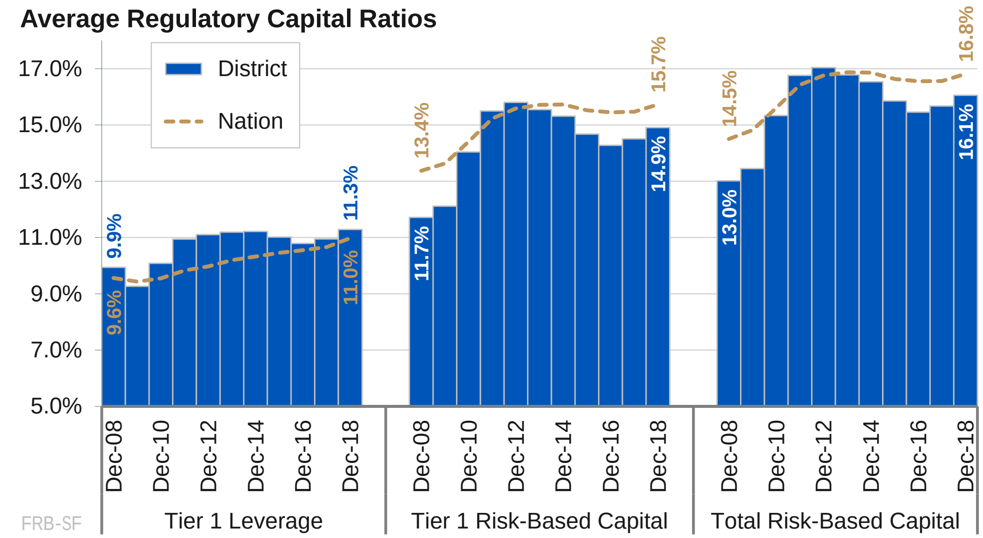
Average YTD Cash Dividends / Net Income



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.

50 Capital ratios edged up as capital formation eclipsed average and risk-weighted asset growth.

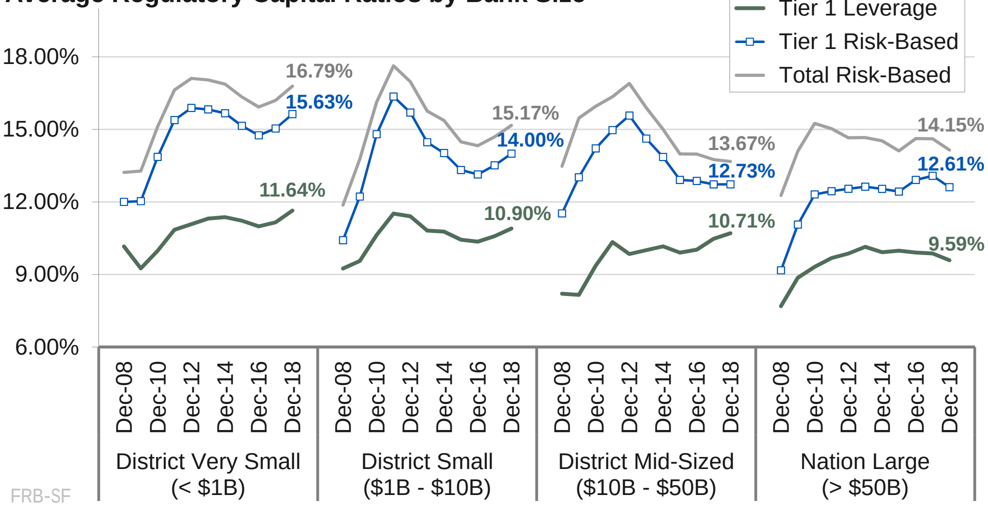
Average Regulatory Capital Ratios



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; beginning with the June 2018 Call Report, banks could opt to implement changes to the definition of high volatility commercial real estate (per the Economic Growth, Regulatory Relief, and Consumer Protection Act of 2018), which may have reduced risk weightings for a generally small subset of assets previously weighted at 150%.

51 Improvements in capital ratios were more pronounced among smaller banks.

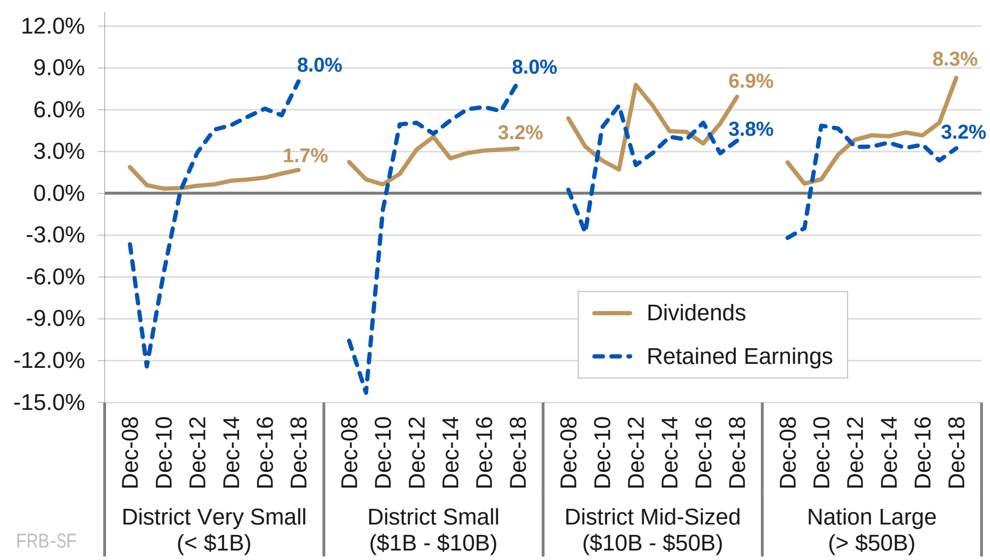
Average Regulatory Capital Ratios by Bank Size



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

52 Smaller banks achieved greater capital accretion in part because of lower dividend impacts on equity.

Average YTD Dividends and Retained Earnings / Avg. Equity – 12th District



Average = trimmed mean (12th District banks only); YTD = year-to-date (annualized); as of 4Q18, roughly 17% of District very small, 7% of District small banks, and none of the mid-sized or large banks were Subchapter S tax filers.

Appendices

Summary of Institutions

Technical Information

Appendix 1: Summary of Institutions

Area	Commercial Banks (De Novos)		Industrial Banks (De Novos)		Savings Institutions (De Novos)	
	Dec-17	*Dec-18*	*Dec-17*	*Dec-18*	*Dec-17*	*Dec-18*
AK	4 (0)	4 (0)	-	-	1 (0)	1 (0)
AZ	15 (0)	15 (0)	-	-	-	-
CA	152 (1)	140 (2)	3 (0)	3 (0)	11 (0)	11 (0)
GU	2 (0)	2 (0)	-	-	1 (0)	1 (0)
HI	5 (0)	5 (0)	1 (0)	1 (0)	2 (0)	2 (0)
ID	12 (0)	12 (0)	-	-	1 (0)	1 (0)
NV	10 (0)	10 (0)	4 (0)	4 (0)	3 (0)	4 (1)
OR	17 (0)	15 (0)	-	-	3 (0)	2 (0)
UT	27 (0)	26 (0)	15 (0)	14 (0)	2 (0)	1 (0)
WA	37 (0)	33 (0)	-	-	10 (0)	9 (0)
12L	281 (1)	262 (2)	23 (0)	22 (0)	34 (0)	32 (1)
U.S.	4,890 (7)	4,685 (12)	25 (0)	24 (0)	752 (1)	690 (1)

Based on preliminary fourth 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.