

Economic & Banking Conditions

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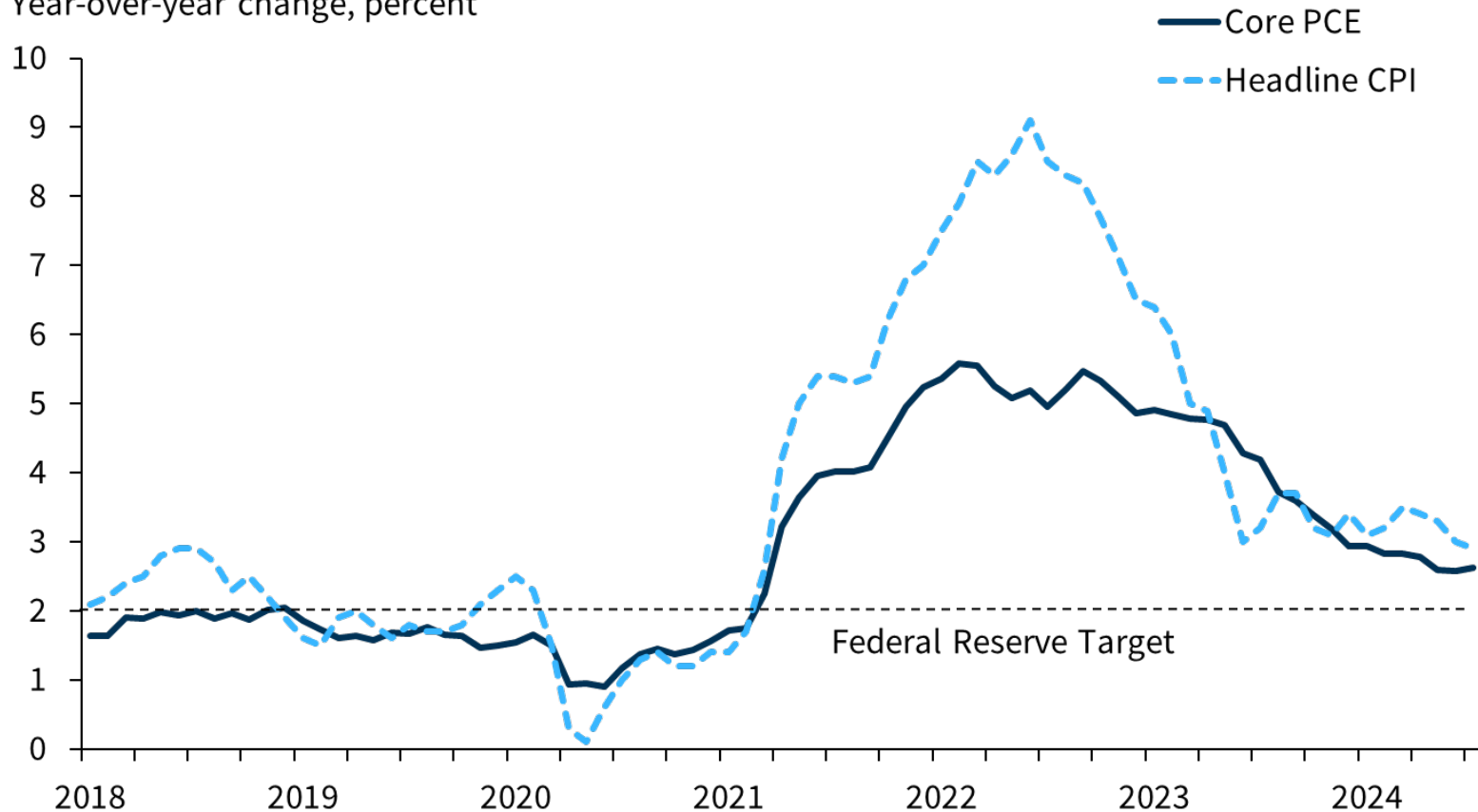
Economic Conditions



Inflation Rate Has Eased From its 2022 Peak but Remains Above Target

Inflation Measures

Year-over-year change, percent

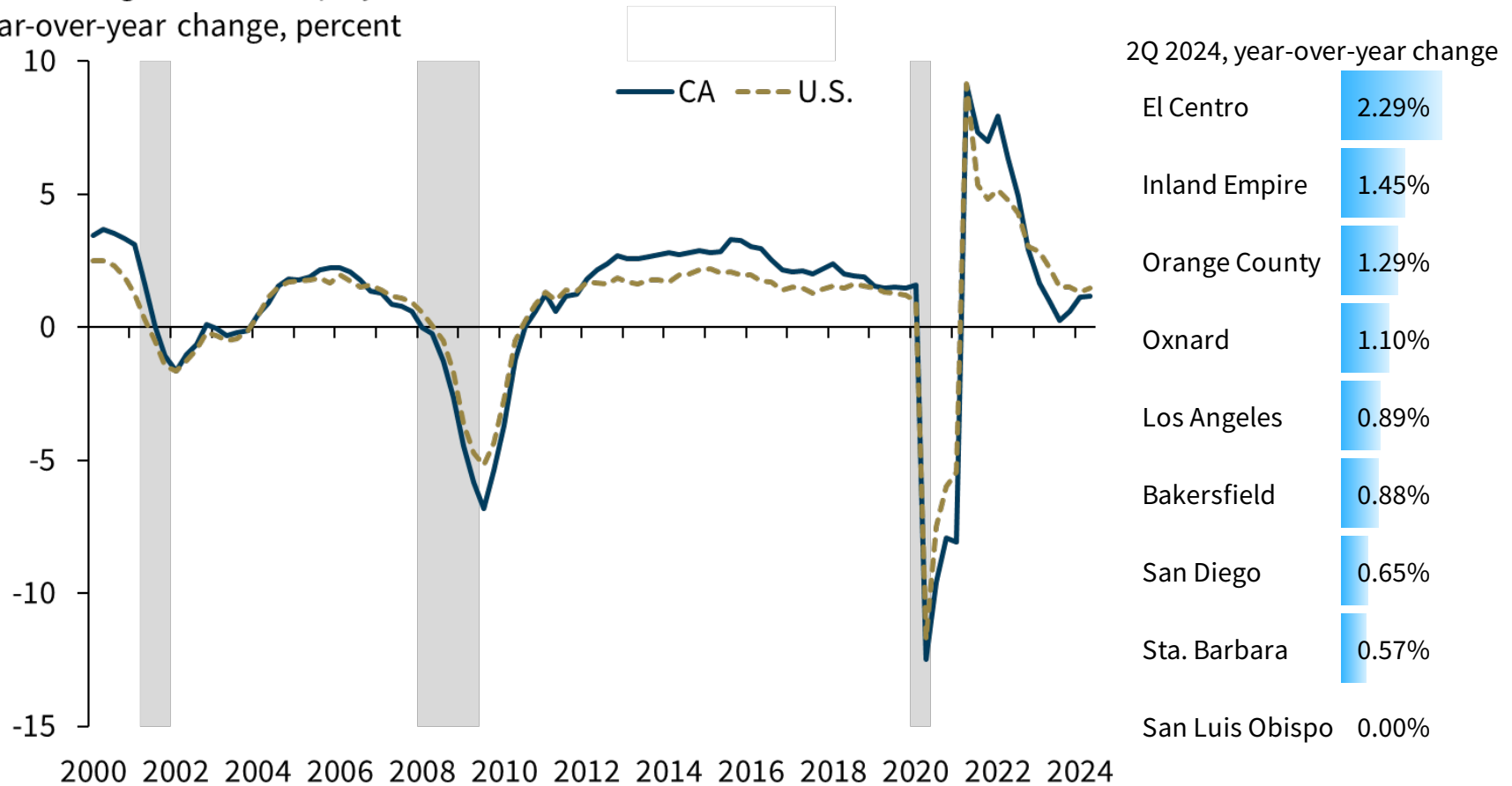


Source: Bureau of Economic Analysis, Bureau of Labor Statistics (Haver Analytics).

Note: Data are monthly figures for core personal consumption expenditures (PCE) and headline consumer price index (CPI) through July 2024. Core PCE excludes volatile categories of food and energy.

Employment Growth Has Been Ticking Upward in Much of Southern California

Total Nonagricultural Employment
Year-over-year change, percent

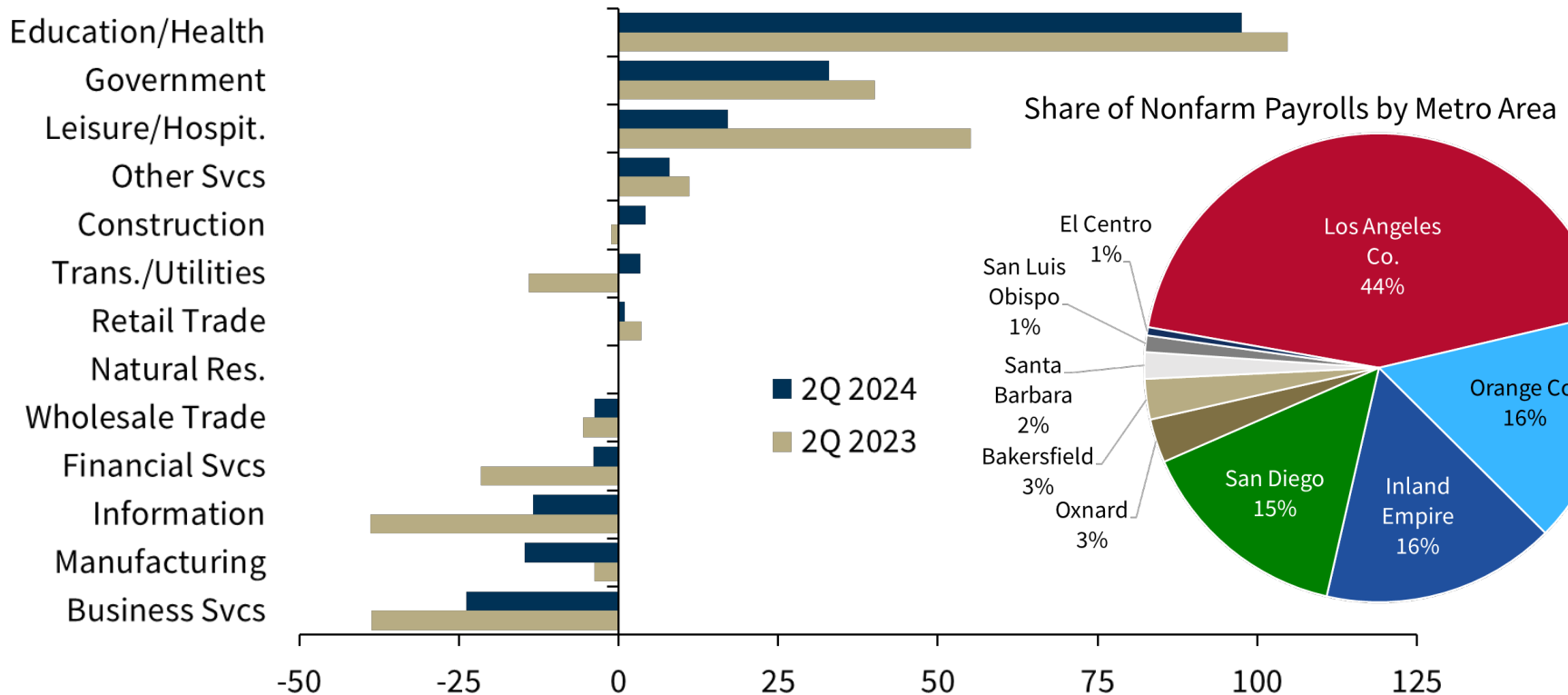


Source: Bureau of Labor Statistics (Haver Analytics).

Note: Data are non-seasonally adjusted quarterly averages through second quarter 2024. Shading denotes recessions.

Growth Has Been Uneven Across Southern California's Job Sectors

Southern California Job Growth
Year-over-year change, thousands

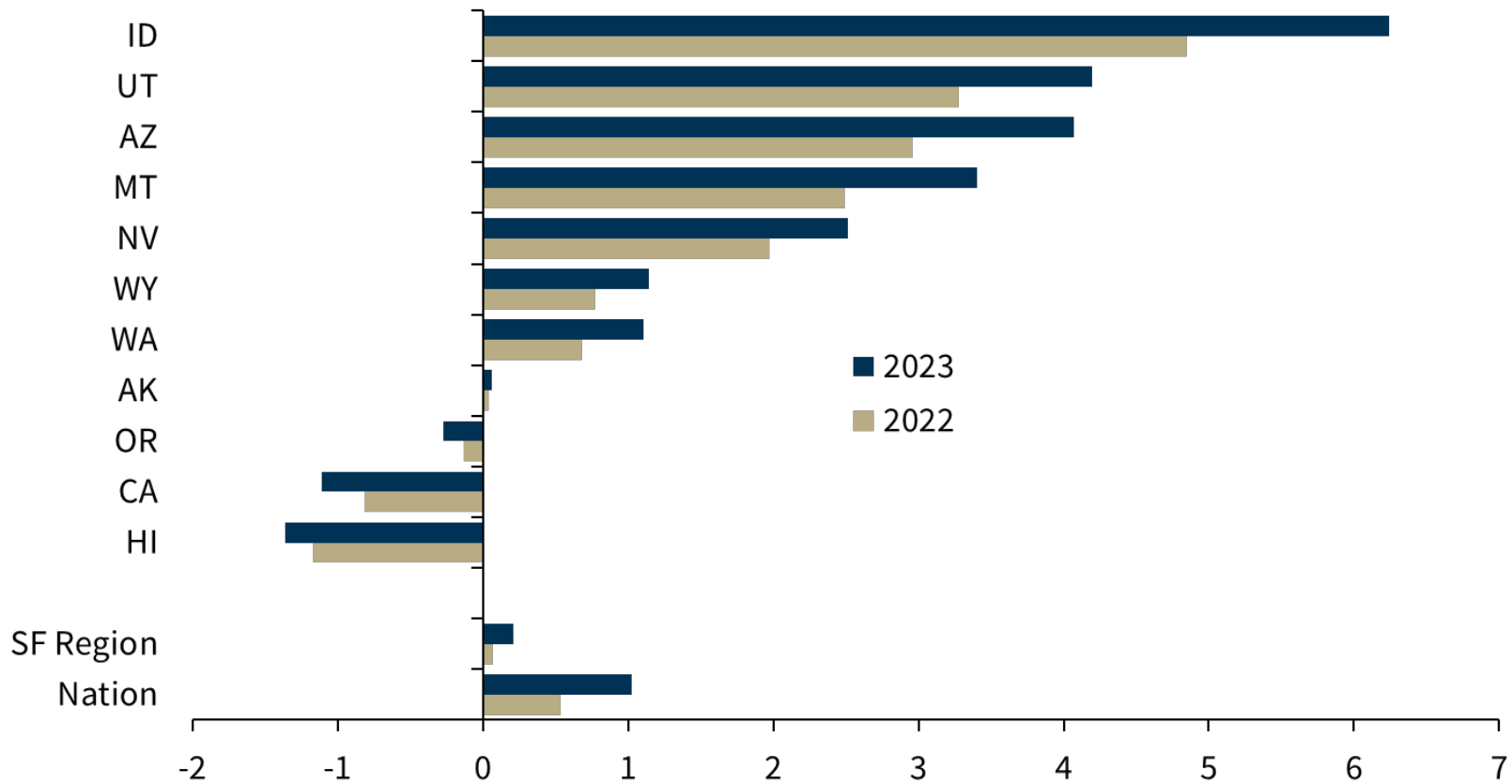


Source: Bureau of Labor Statistics (Haver Analytics).

Note: Southern California includes Los Angeles and Orange County metro divisions plus Bakersfield, El Centro, Inland Empire, Oxnard, San Diego, San Luis Obispo, and Santa Barbara metro areas. Natural resource employment in El Centro and San Luis Obispo aggregated into construction sector data.

Population Growth in California Has Been Comparatively Weak

Population
Cumulative percent change from 2020



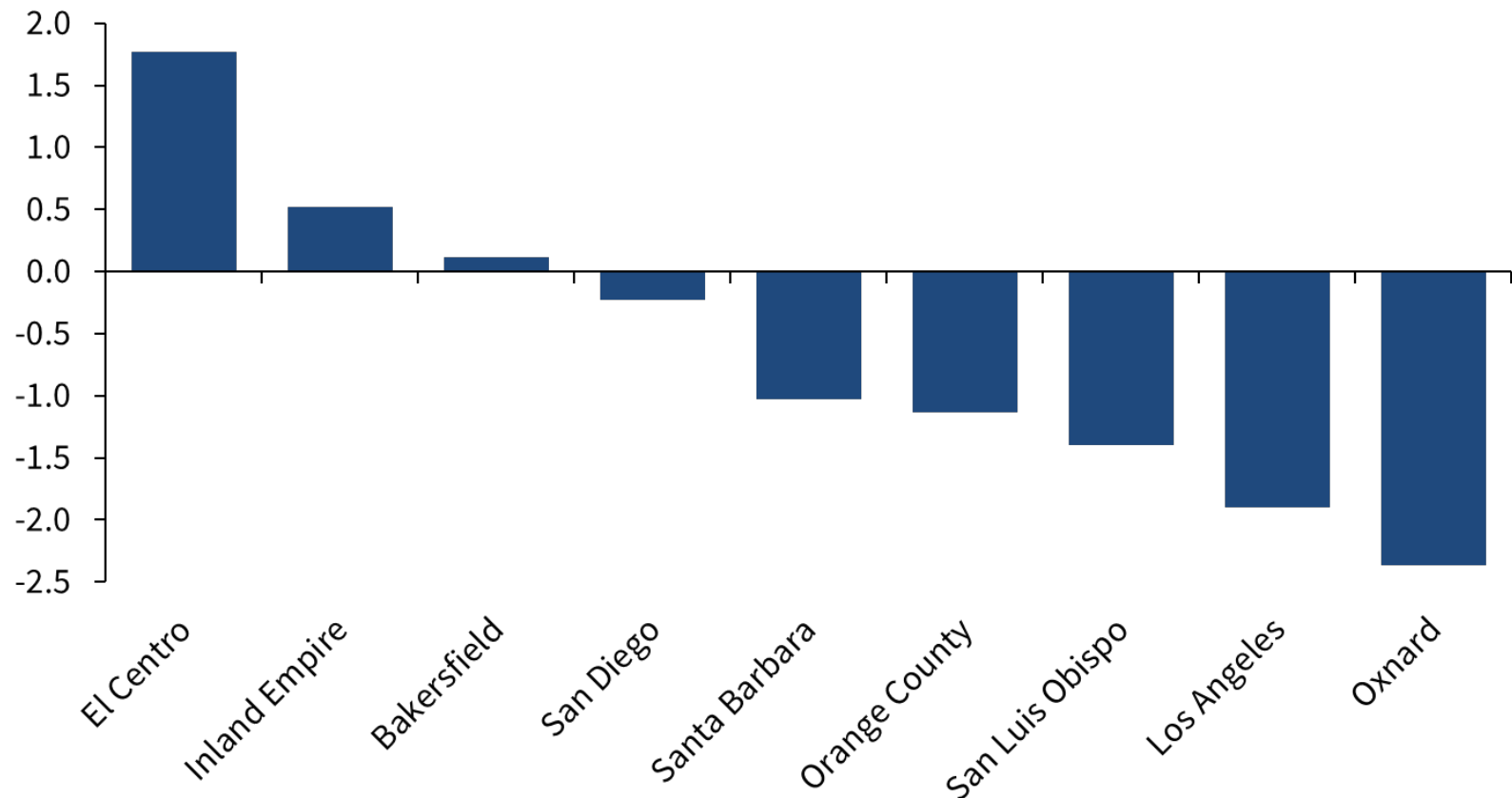
Source: Census Bureau (Haver Analytics).

Note: Annual population change at July 1 of each year.

Cumulative Outflows in Southern CA Have Been More Notable in Coastal Counties

Cumulative Change in Population From April 1, 2020 to January 1, 2024

Percent

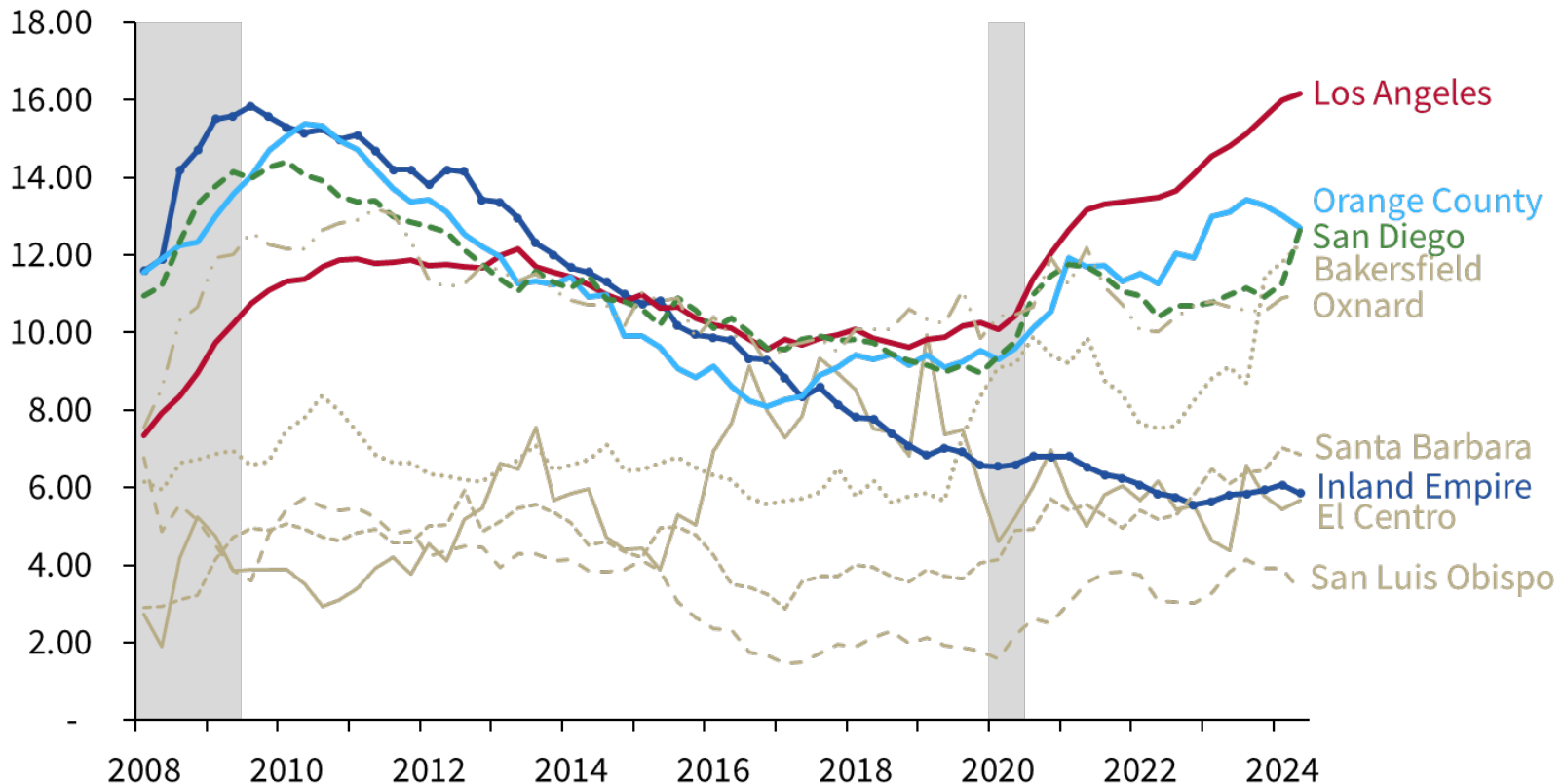


Sources: California Department of Finance.

Note: Data shows population at January 1, 2024 compared to the level at April 1, 2020. Los Angeles and Orange County are metro divisions, while others are metro areas.

Office Vacancies Have Trended Upward, Particularly in Los Angeles

Office Vacancy
Percent

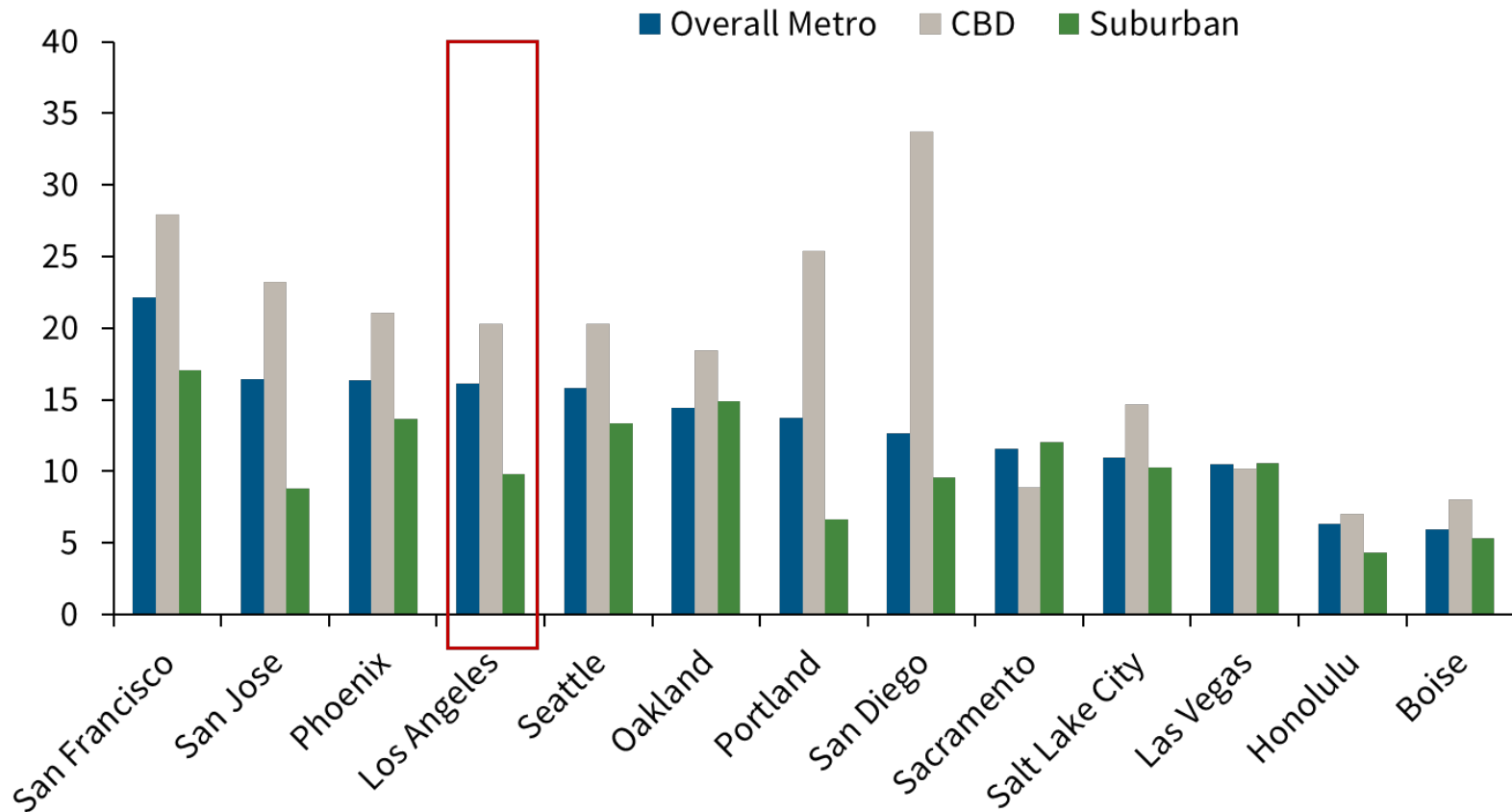


Source: CoStar.

Note: Data are quarterly figures through second quarter 2024. Los Angeles and Orange County are metro divisions; all others are metro areas. Shaded periods represent recessions.

Central Business District Office Vacancy Usually Exceeds Suburban Levels

Office Vacancy
Percent

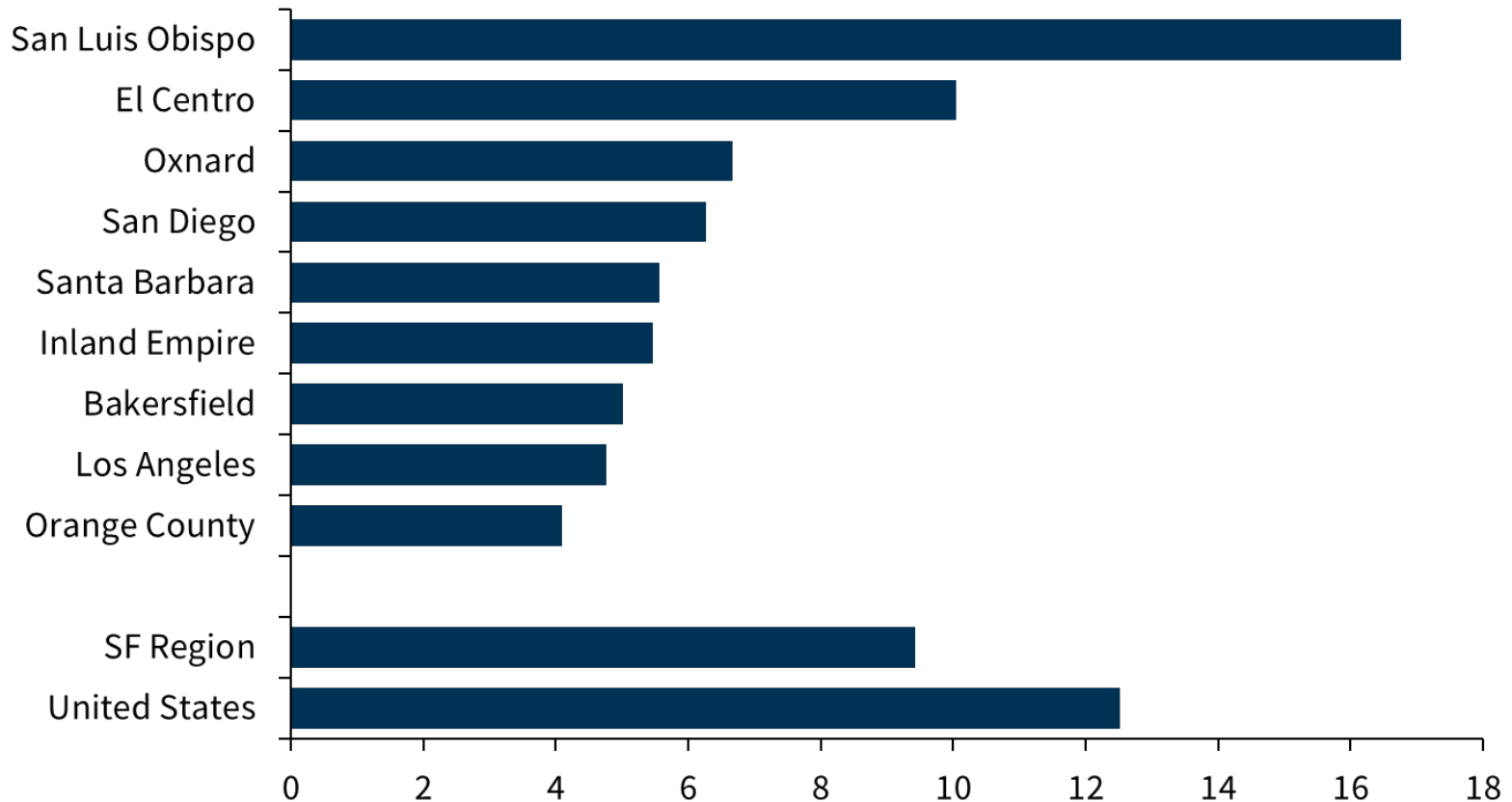


Source: Costar.

Note: Data are quarterly office vacancy rates as of second quarter 2024 for metros and their central business district (CBD) and suburban office segments.

Some So. California Metros Had Notable Multifamily Construction Since 2019

Multifamily Completions Since 4Q19
Percent of 4Q19 stock



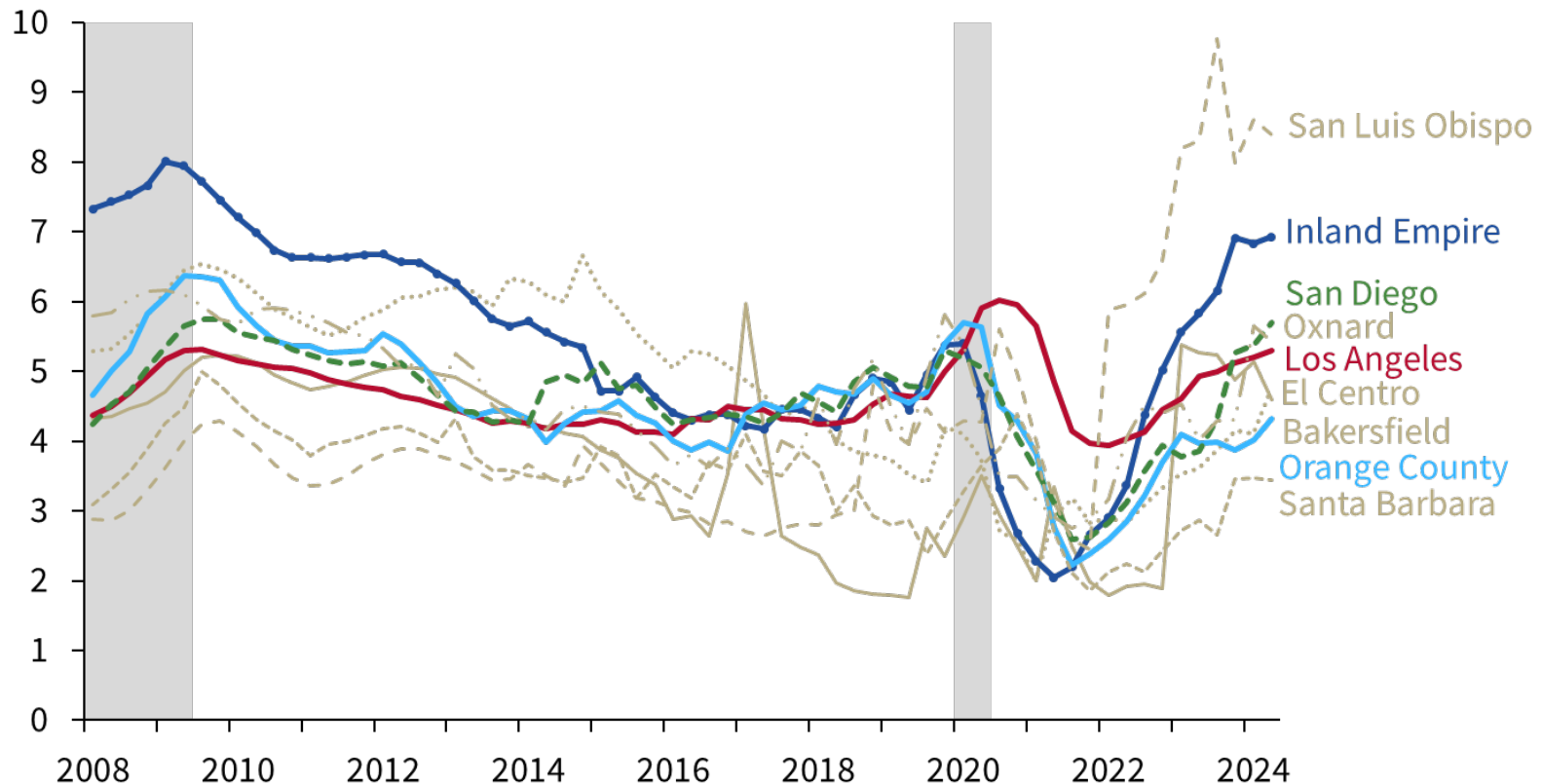
Source: CoStar.

Note: Data as of second quarter 2024. San Francisco Region data is aggregation of its 42 major metros.

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Multifamily Vacancies Increasing Among Most Southern California Metros

Multifamily Vacancy
Percent

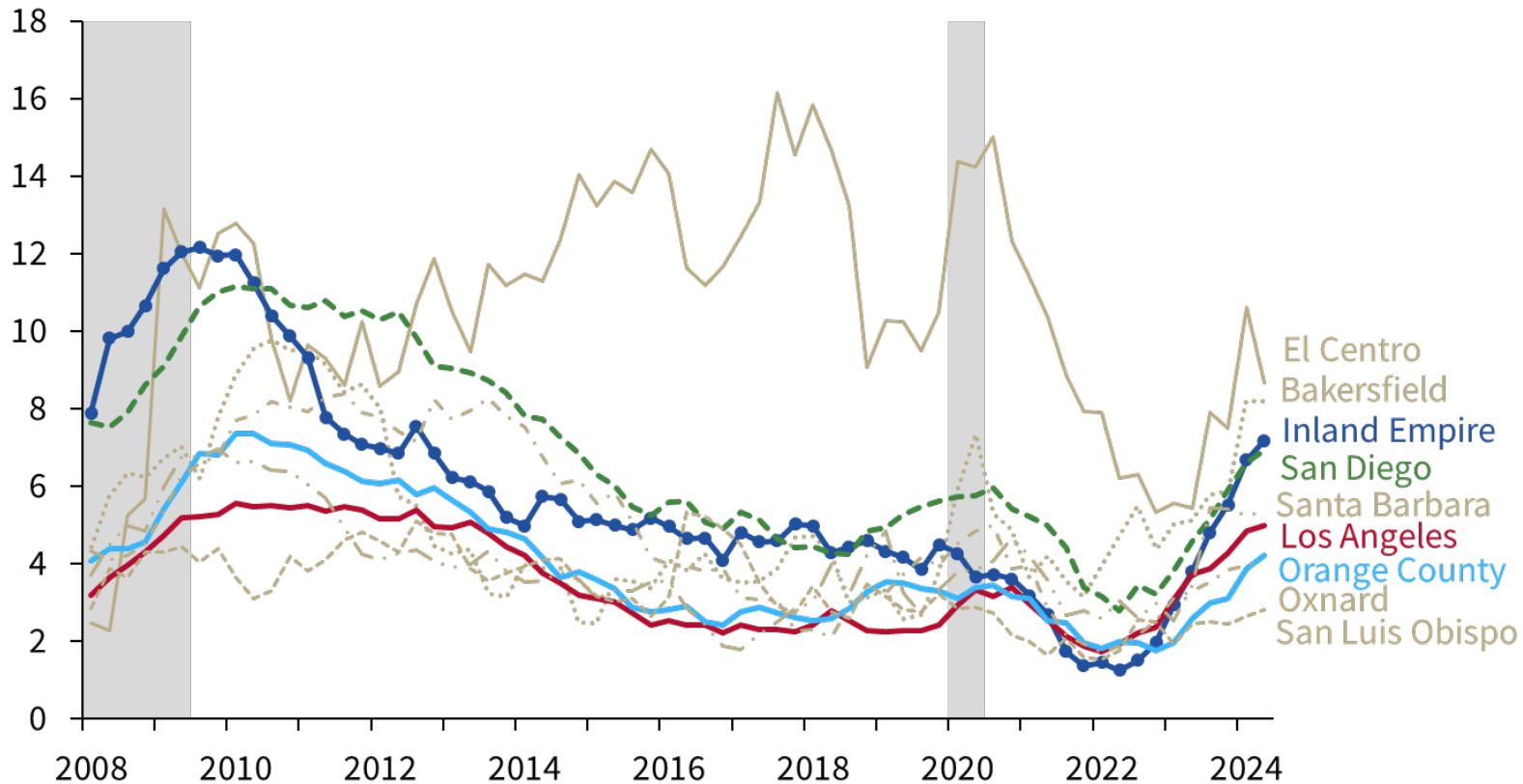


Source: CoStar.

Note: Data are quarterly figures through second quarter 2024. Los Angeles and Orange County are metro divisions; all others are metro areas. Shaded periods represent recessions.

Industrial Vacancies Are Increasing, but Generally Trail 2009/2010 Peaks

Industrial Vacancy
Percent

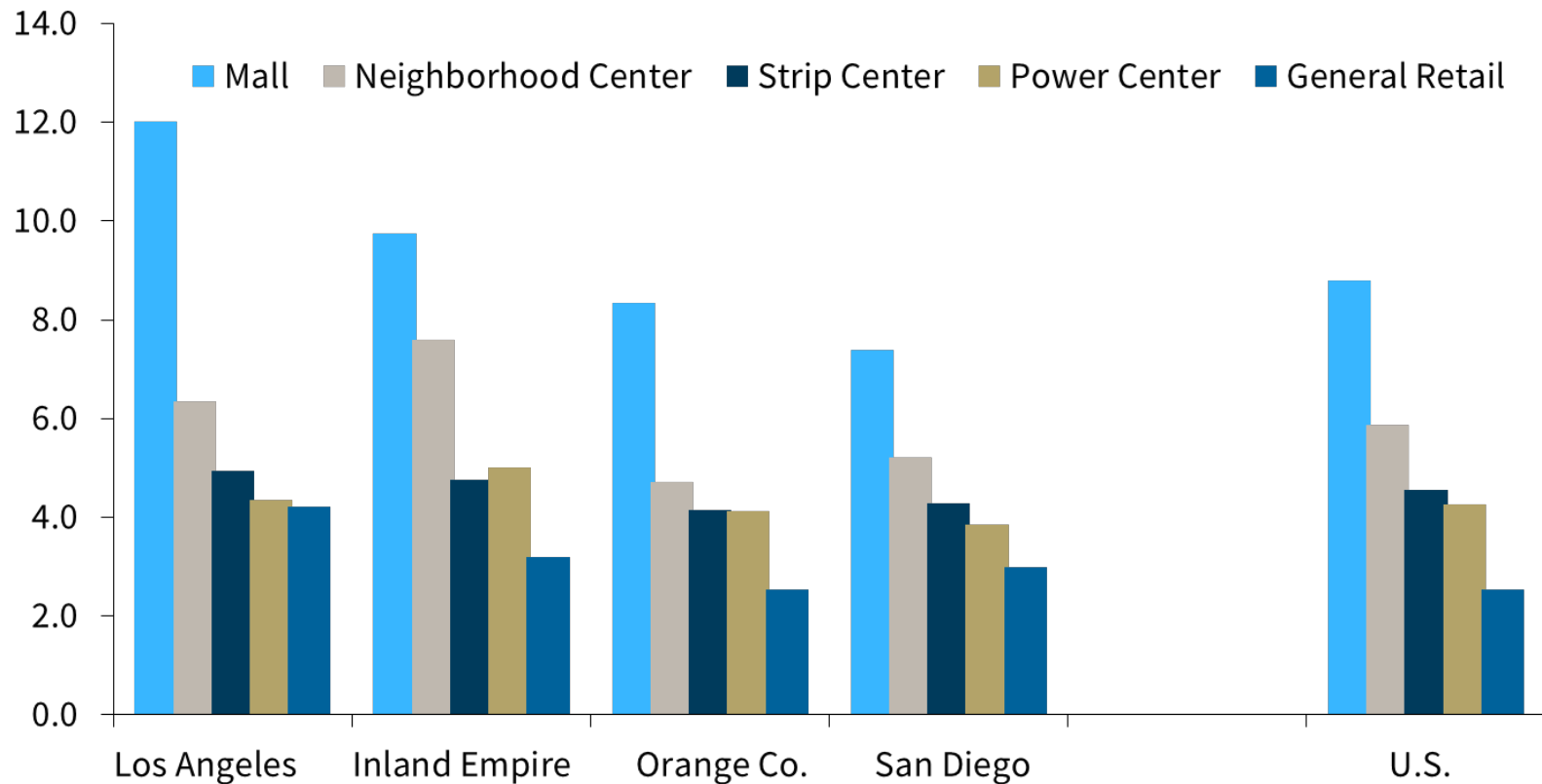


Source: CoStar.

Note: Data are quarterly figures through second quarter 2024. Los Angeles and Orange County are metro divisions; all others are metro areas. Shaded periods represent recessions.

Among Retail Properties, Malls Have Been Struggling More Than Other Types

Retail Vacancy Rate by Market and Sub-Type
Percent

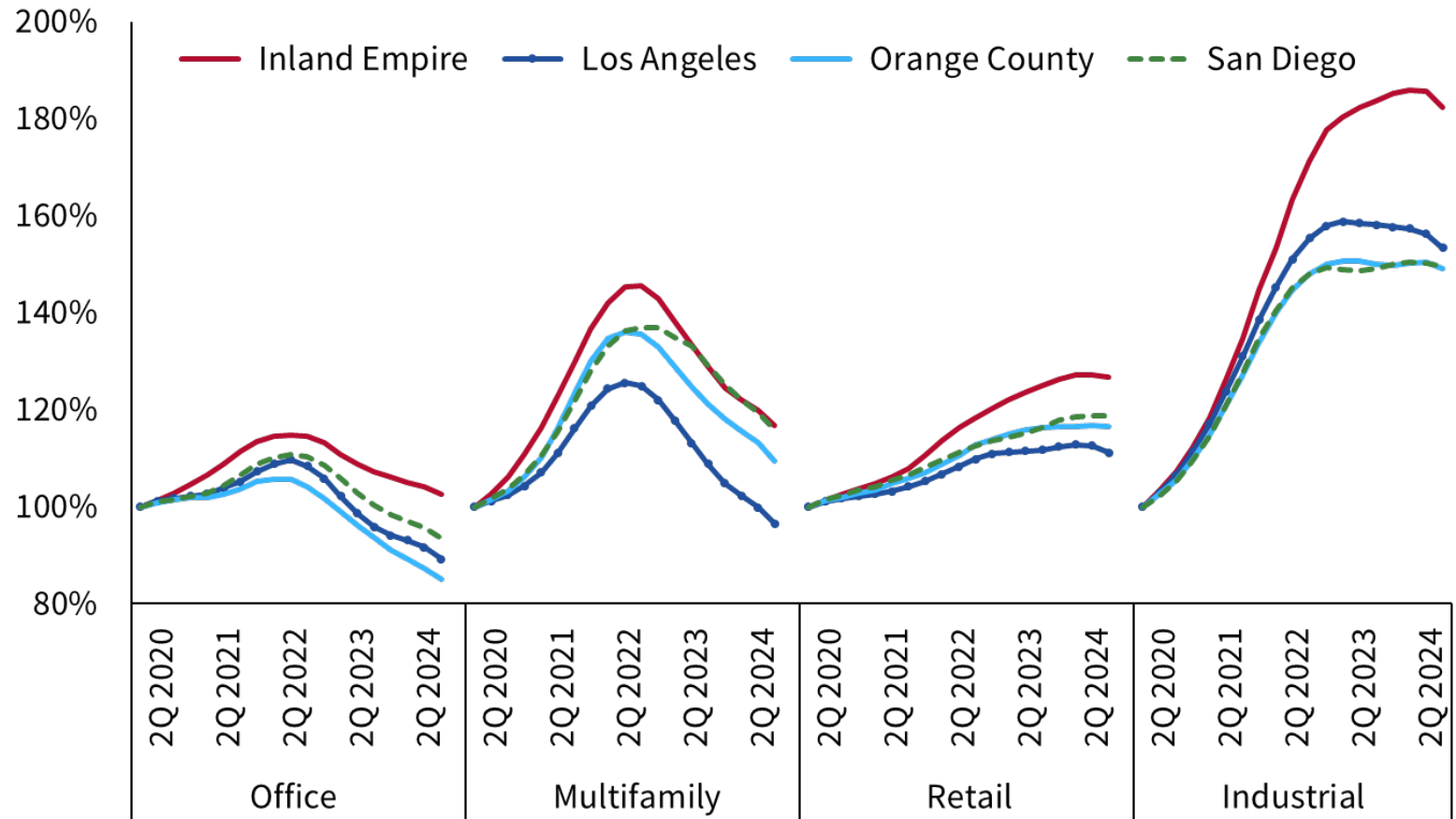


Source: CoStar.

Note: Data are as of second quarter 2024.

Office and Multifamily Property Prices Have Declined From Recent Peaks

Commercial Property Prices Relative to Pre-Pandemic
Indexed, 4Q 2019 = 100%



Source: CoStar.

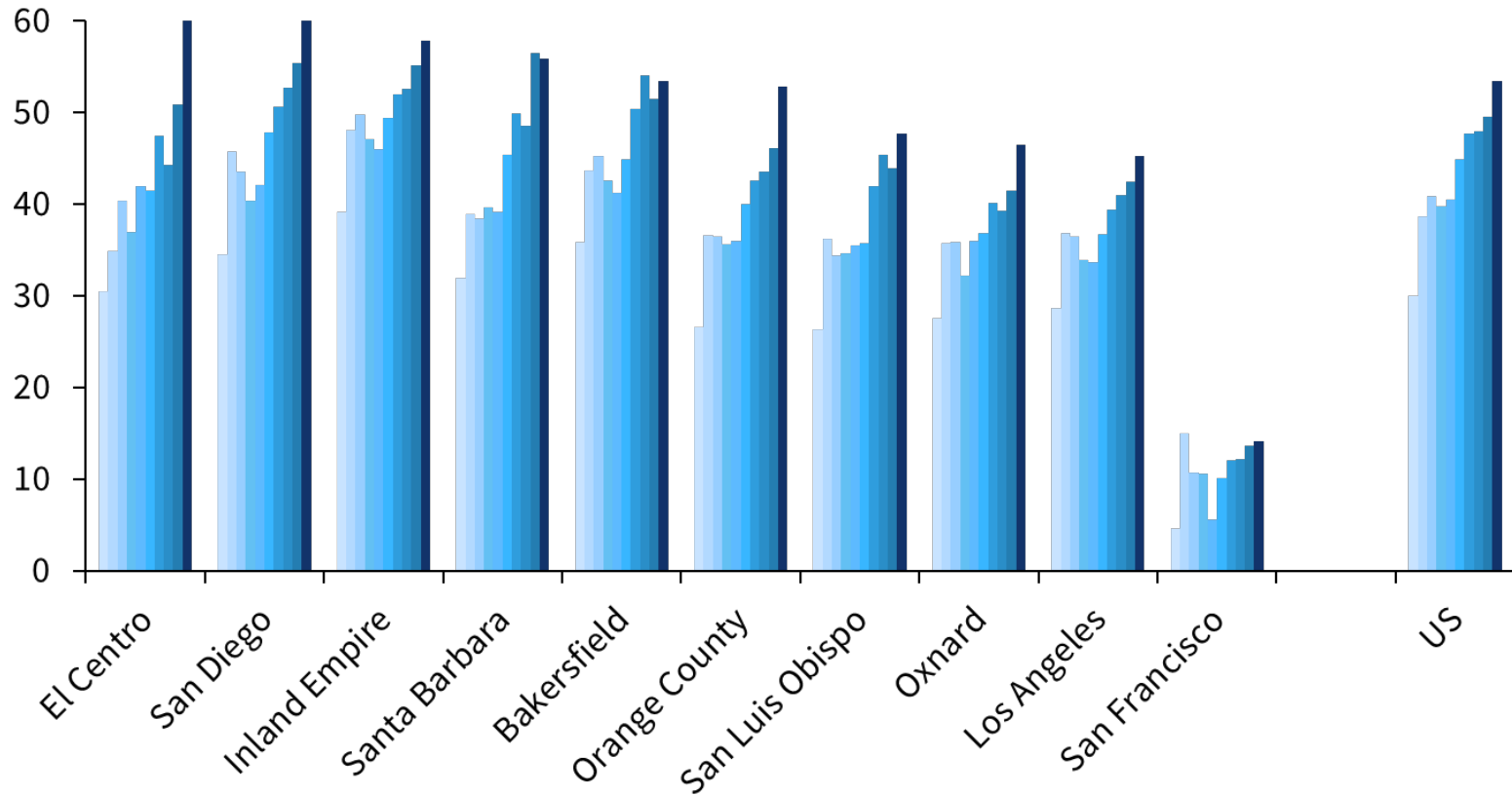
Note: Data are quarterly figures through second quarter 2024.

Southern California Home Prices Have Recovered Since Dipping in 2022/2023

House Price Index

Cumulative change from 4Q 2019, percent

■ 1Q 2022 ■ 2Q 2024

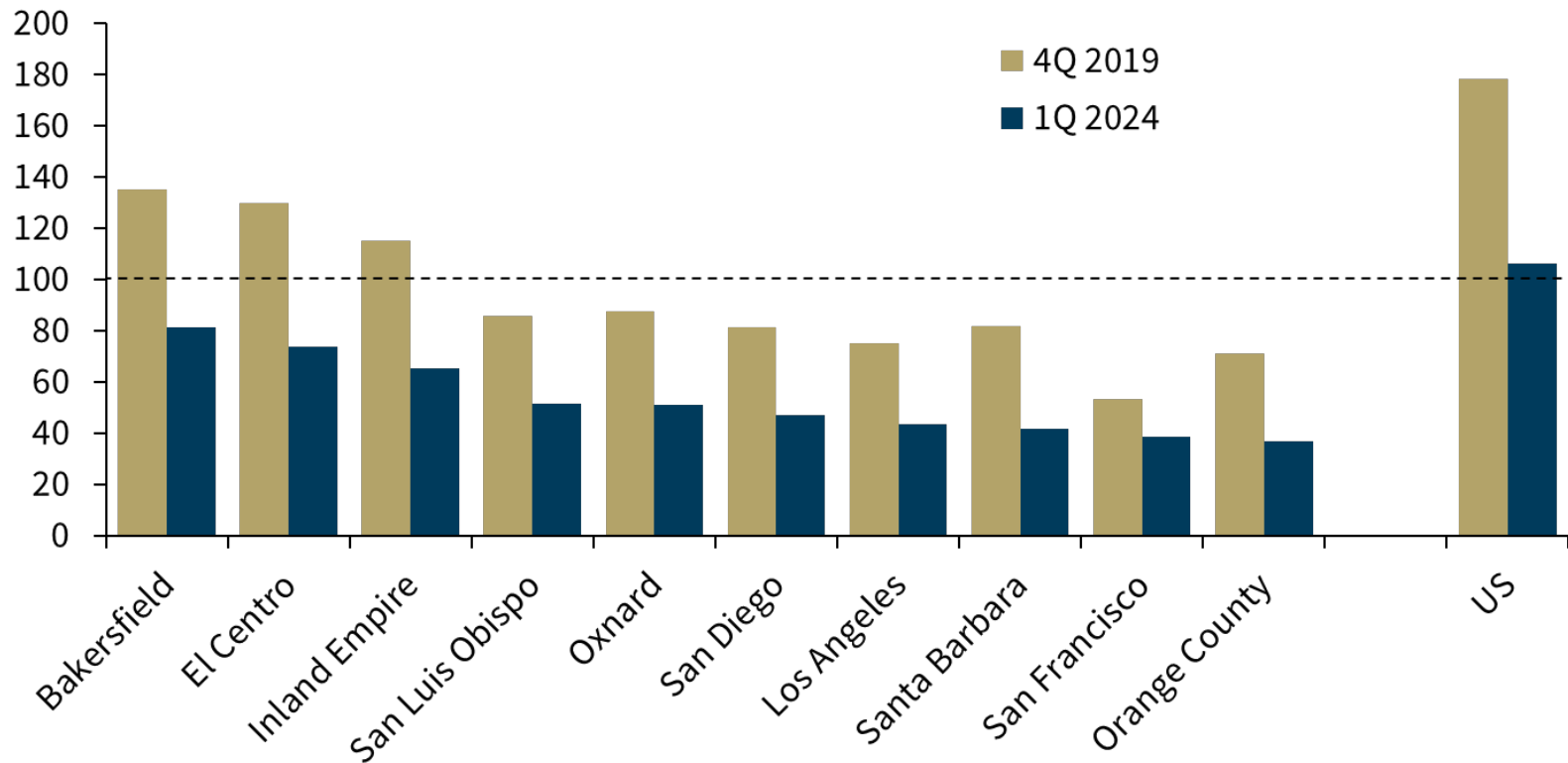


Source: Federal Housing Finance Agency (Haver Analytics).

Note: Data are quarterly, non-seasonally adjusted, all-transactions price indexes. Los Angeles, Orange County, and San Francisco are metro divisions, while others are metro areas.

Price Increases Have Come at the Expense of Affordability

Housing Affordability Index



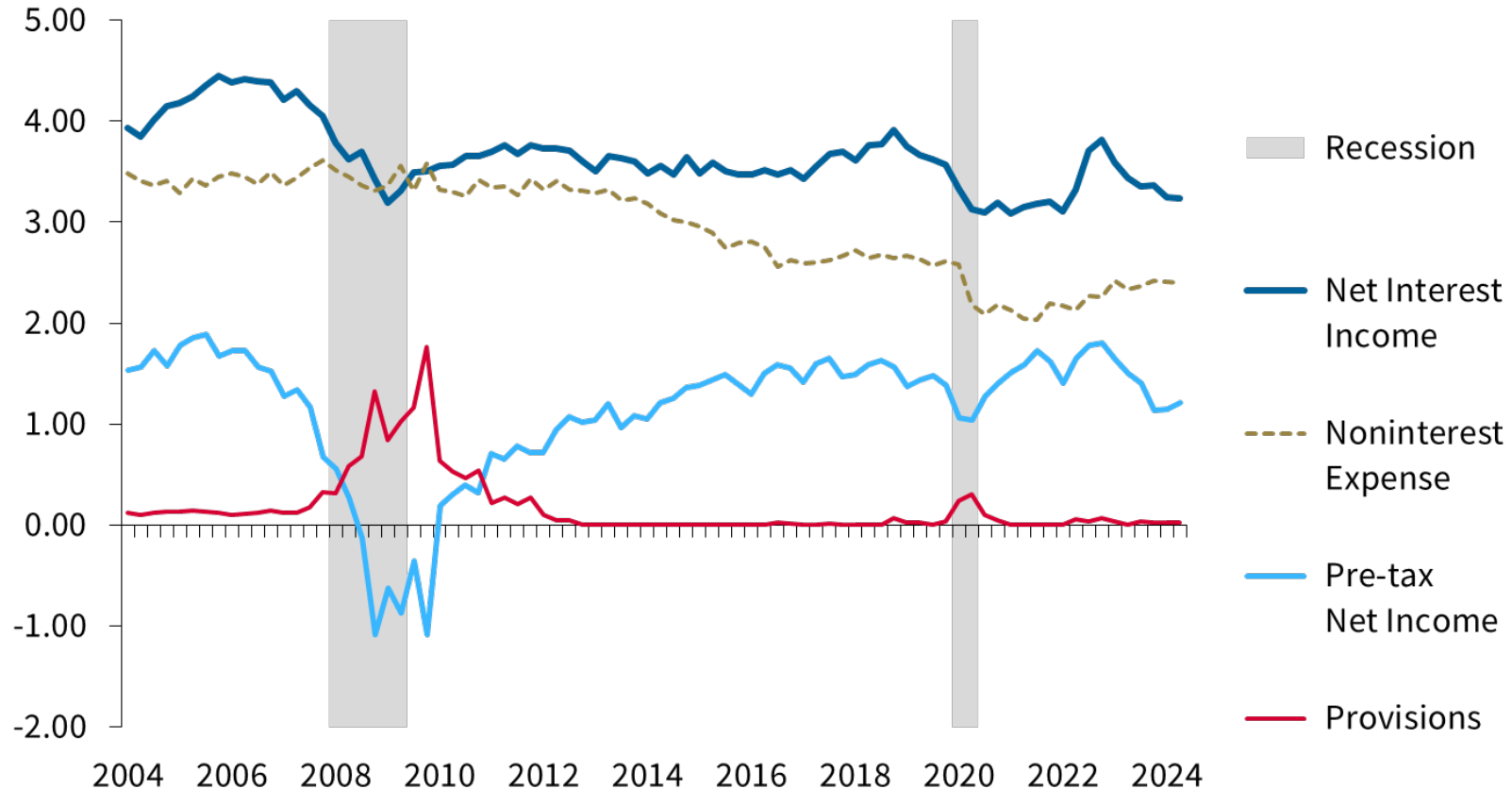
Sources: Moody's Analytics and National Association of Realtors.

Note: The Housing Affordability Index (HAI) is a measure of the degree to which a typical middle-income family can afford the mortgage payments on a typical home in the specified quarter based on income, home prices and mortgage rates. An index of 100 indicates exactly enough income to qualify for a typical mortgage on a median-priced single-family home. Los Angeles, Orange County, and San Francisco are metro divisions, while others are metro areas.

Banking Conditions

Quarterly Net Interest Income Ratios Stabilized and Overhead Ratios Moderated

One-Quarter Annualized as Share of Average Assets, Southern California Banks
Median percent

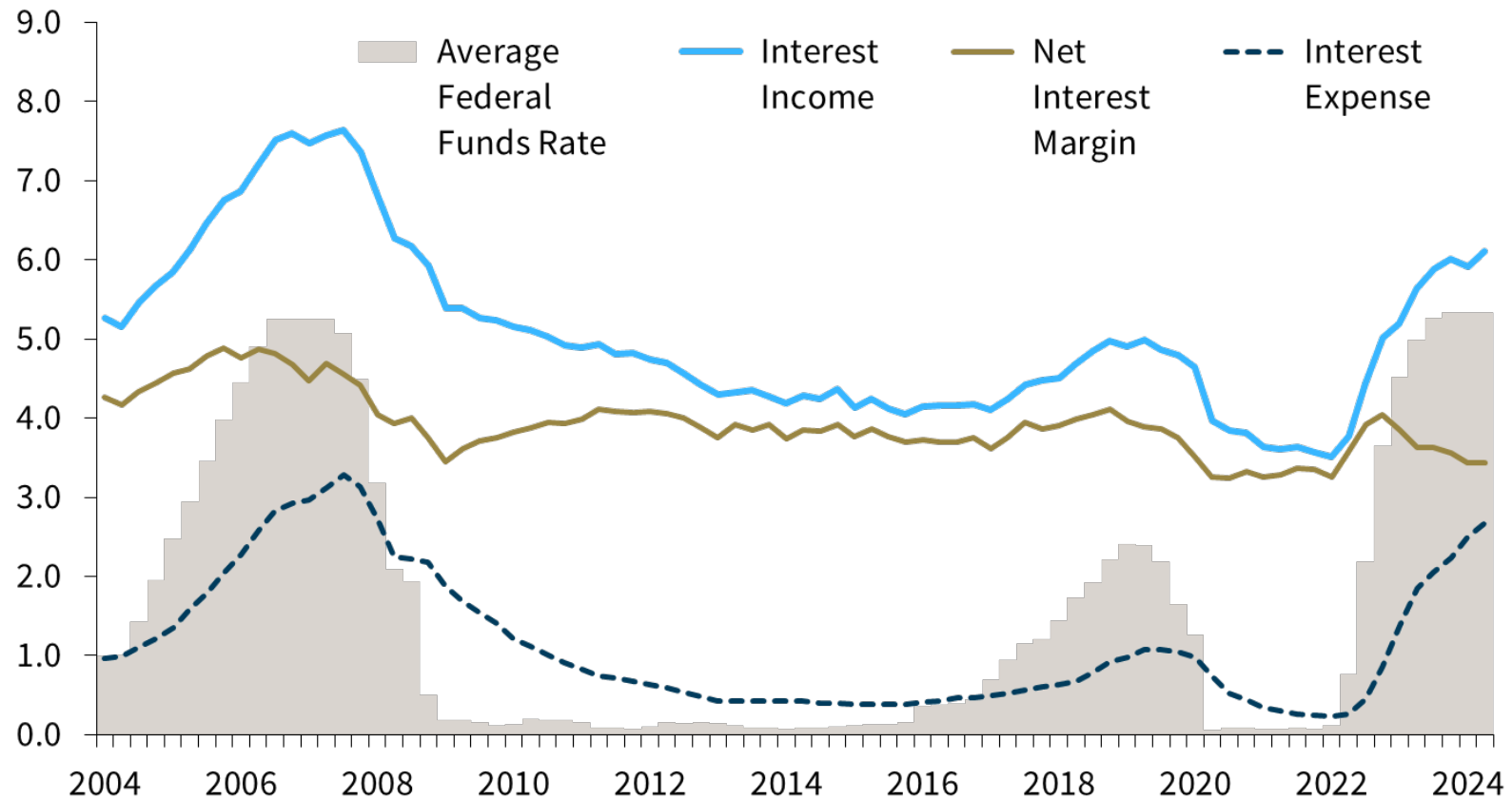


Sources: FDIC and National Bureau of Economic Research (Haver Analytics).

Note: Data are quarterly through second quarter 2024 and are limited to banks based in ten contiguous Southern California counties. Pre-tax return on average assets (ROAA) = pre-tax net income / average assets.

Quarterly Yields Improved During Second Quarter, Nearly Offsetting Funding Costs

One-Quarter Annualized as Share of Average Earning Assets, Southern California Banks
Median percent



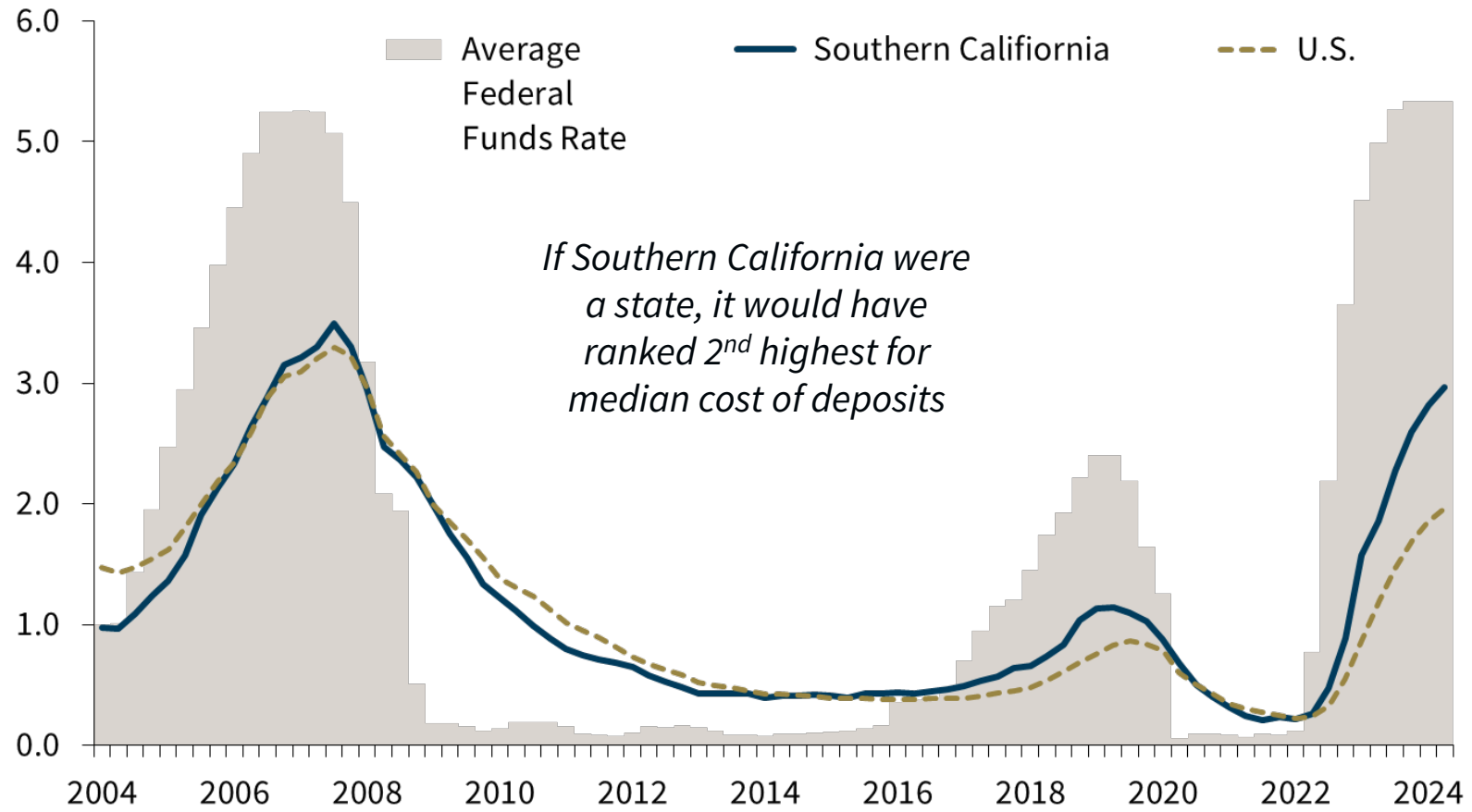
Sources: FDIC and Federal Reserve (Haver Analytics).

Note: Data are quarterly through second quarter 2024 and are limited to banks based in ten contiguous Southern California counties.

Deposit Competition has Been Stiff in Southern California

One-Quarter Annualized Interest Expense on Deposits / Average Deposits

Median percent

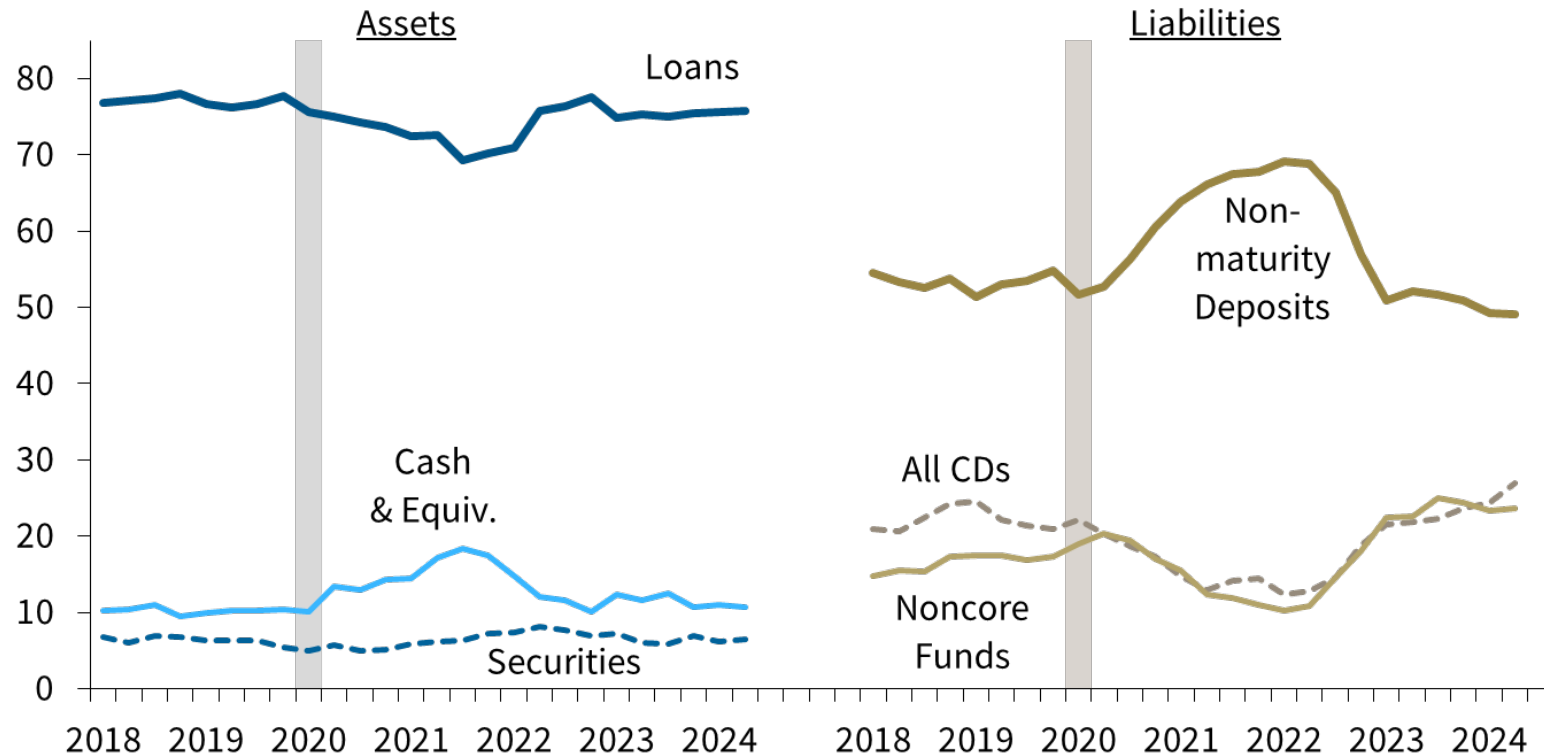


Sources: FDIC and Federal Reserve (Haver Analytics).

Note: Data are quarterly through second quarter 2024. Southern California includes ten contiguous counties.

Assets Tilt Heavily Towards Loans; Costlier Funding Sources Growing

Share of Total Assets, Southern California Banks
Median percent



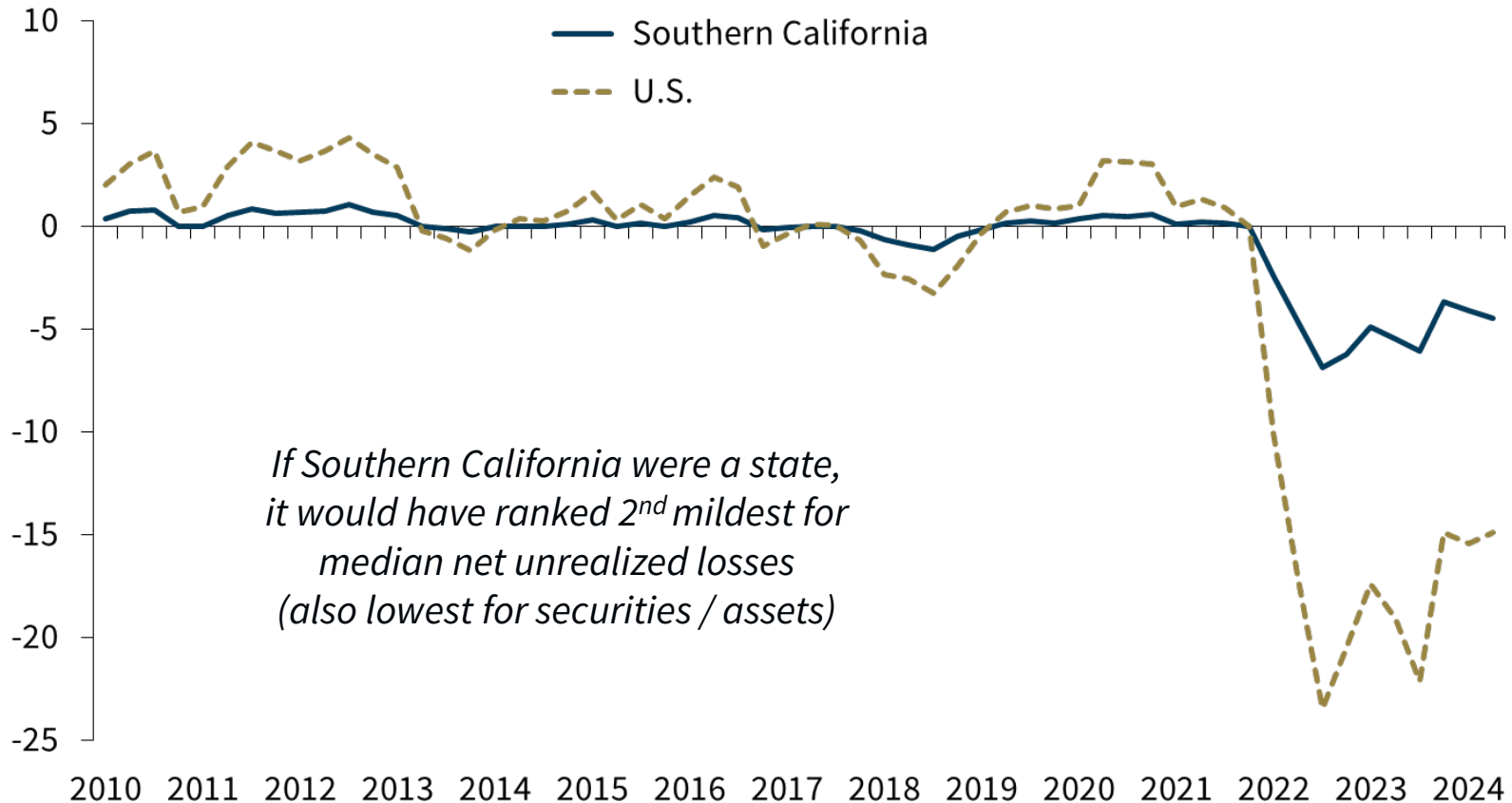
Source: FDIC.

Note: Data are quarterly through second quarter 2024 and are limited to banks based in ten contiguous Southern California counties. Shading = pandemic onset. Cash and equivalents = cash, due from, federal funds sold, and reverse repos; noncore = certificates of deposit (CD) > \$250K, smaller brokered accounts, foreign deposits, federal funds purchased and repos, and borrowings; nonmaturity deposits (NMDs) includes all deposits other than CDs.

Unrealized Bond Losses Remained a Headwind but Not as Much as Elsewhere

Pre-Tax Net Unrealized Gains or Losses on Securities / Tier 1 Capital

Median percent



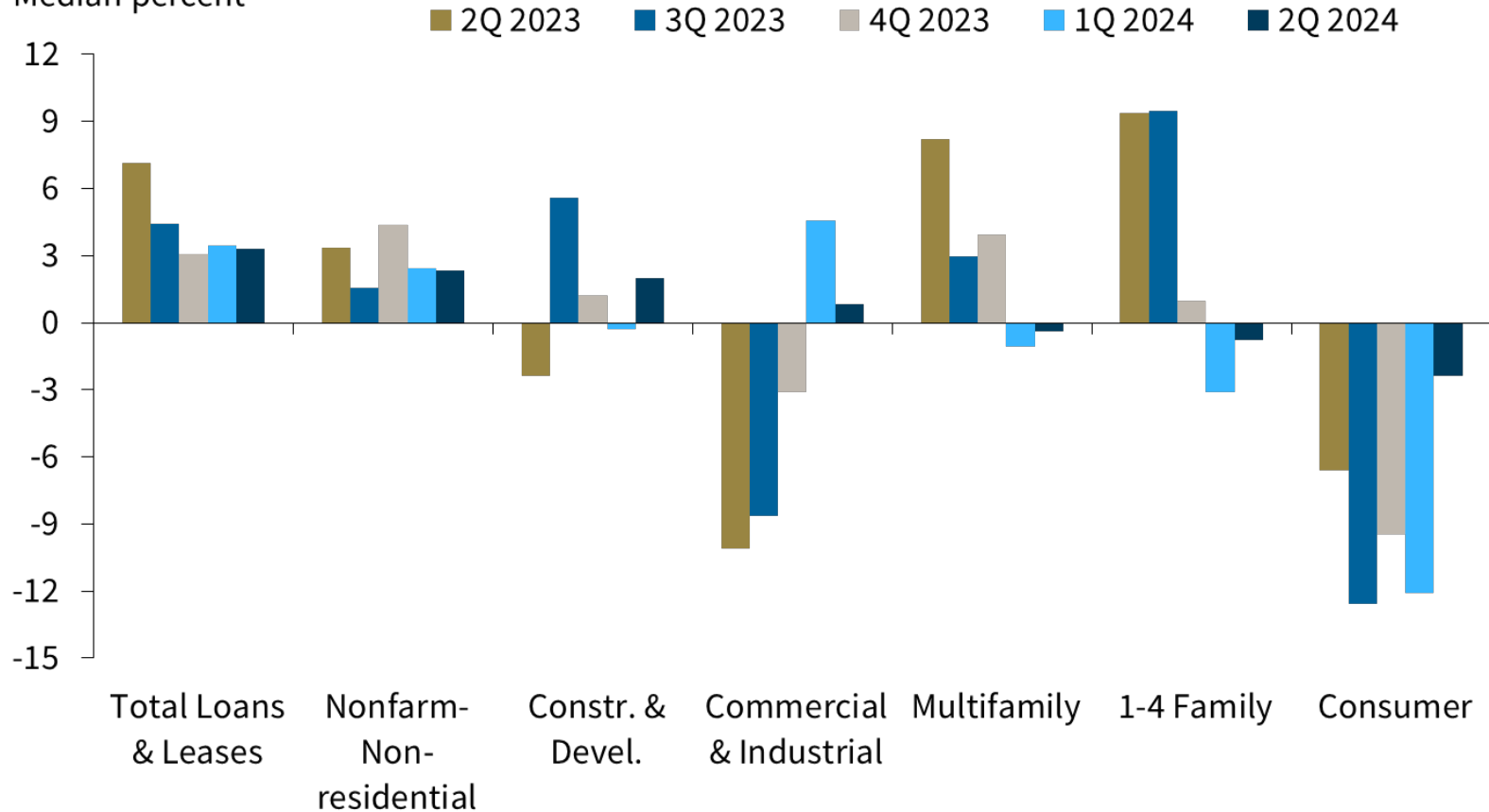
Source: FDIC.

Note: Data are quarterly through the second quarter of 2024 based upon differences between the fair value and amortized cost of securities. Southern California includes ten contiguous counties.

Median Annual Loan Growth Remained Modestly Positive

Year-Over-Year Growth Rates, Southern California Banks

Median percent

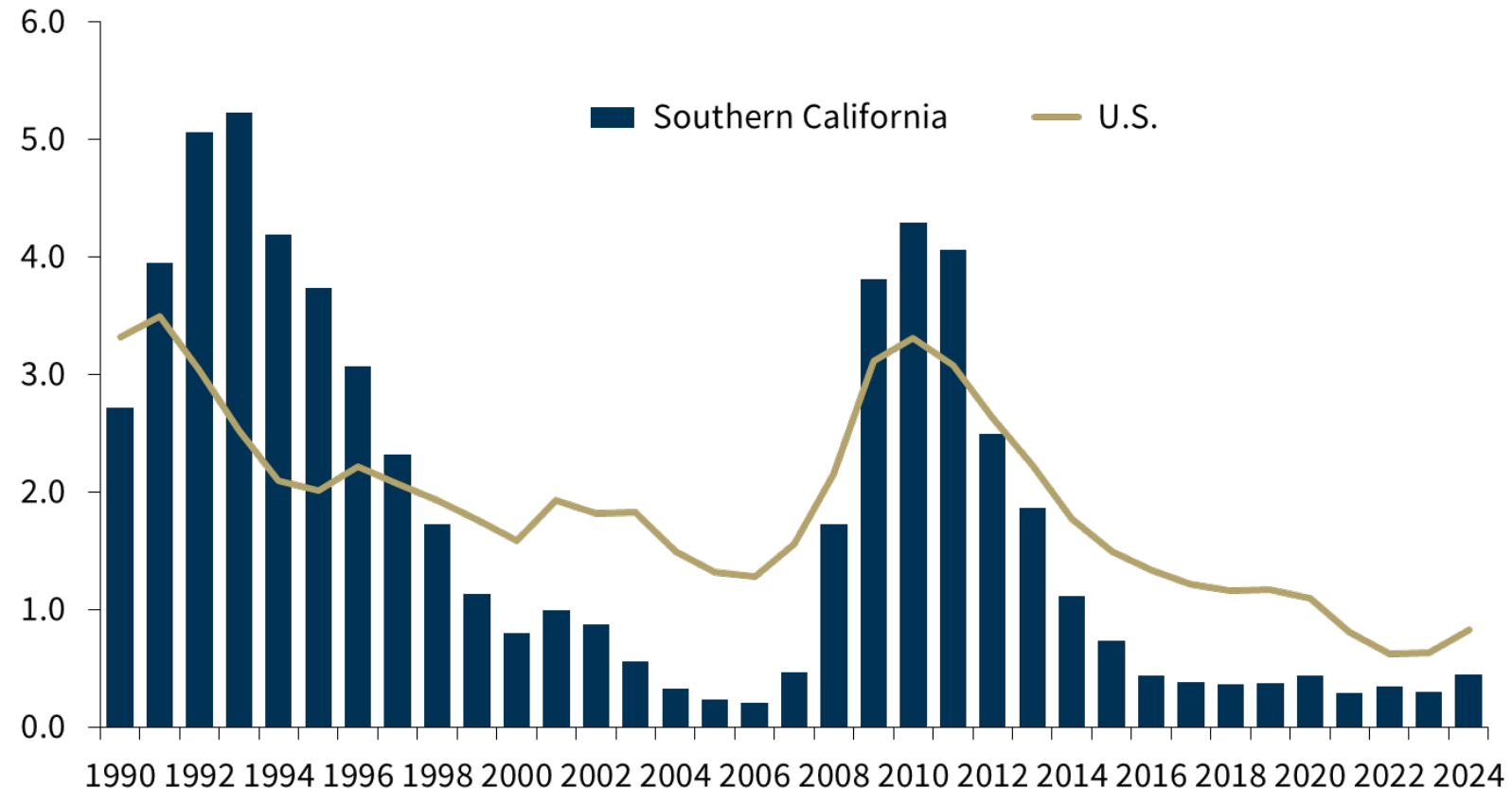


Source: FDIC.

Note: Includes Paycheck Protection Program loans. Limited to banks based in ten contiguous Southern California counties.

Loan Delinquencies Edged Up, Similar to a Nationwide Trend

Loans Past Due 30+ Days or Nonaccrual
Median percent



Source: FDIC.

Note: Data are as of second quarter of each year. Southern California includes ten contiguous counties. Denominator excludes Paycheck Protection Program loans.

Key Banking Takeaways

- Funding cost increases pressured margins. Rate cuts have historically led to margin compression.
- Loan-to-asset ratios are very high in Southern California. Good for yields; bad for liquidity.
- Bond portfolios remain underwater.
- Loan performance slipped and faces headwinds:
 - Inflation and economic uncertainty;
 - CRE valuation declines, operating cost increases, and refinancing risks amid very high CRE loan concentrations; and
 - Credit availability and negative feedback loops.
 - Provisions can be a big swing factor in profitability.

Questions?