

2011

# STATE OF THE INDUSTRY

REPORT ON THE CONDITION OF  
CALIFORNIA COMMERCIAL BANKING

**CARPENTER**

**Carpenter & Company**

Five Park Plaza, Suite 950

Irvine, California 92614

949-261-8888

[www.carpentercompany.com](http://www.carpentercompany.com)

Edward J. Carpenter, Chairman

John D. Flemming, President

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2011

# INTRODUCTION

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# INTRODUCTION

Marking the 11<sup>th</sup> edition of the STATE OF THE INDUSTRY report in the year 2011 makes one wonder if there is any significance to the number 11 and to double 11s. Googling the meaning of 11 leads one to some strange websites. Parsing through the unconventional interpretations, 11 and 11:11 have characteristics that may hold meaning to community bankers and to those interested in the future course of the economy and community banking.

In numerology 11 represents impractical idealism, visionary, refinement of ideals, intuition, revelation, artistic and inventive genius and avant-garde. Many associate 11:11 with a wake-up call or as a metaphor for patterns that repeat over time. 11 suggests balance and synchronicity. 1s as well as 0s comprise the binary code that forms the instructions for computer processing.

Short of unlocking the block for the writing of this introduction to the STATE OF THE INDUSTRY, is there any significance to the talk about 11s?

For those of you reading this report on-line, Carpenter & Company has embraced the digital age and its inner greenness by distributing the report through its website, [www.carpentercompany.com](http://www.carpentercompany.com). In addition to getting the annual report to you more expeditiously, think of all the trees that were saved.

Returning to the talk about 11s, we'd like to think the research presented herein is visionary, artistic and inventive, avant-garde and refined. We try to shy away from impractical idealisms. Yet, sometimes idealism provides an escape from the hard issues facing the economy, especially here in California and as well as those challenges facing the banking industry, especially the community banking sector.

If ever a wake-up call was issued, the past three years sent reverberations throughout the world that the economy and the financial system were out of balance. Nowhere were the scales more out of alignment than in the real estate industry and the systems to finance real estate. As we passed the fifth anniversary of the start of the decline in homebuilding, the prospects for housing and home finance remained unclear and exceedingly murky. Are commercial banks becoming the savings & loans of the future? What vehicle will emerge to support the extension of residential mortgages? Will the government extricate itself from mortgage finance and guarantees without putting the housing market back into a tailspin?

Talking of balance, it's a difficult characteristic to find in the current economy. We all know that short-term interest rates can't go much lower—is that our visionary insight or the short distance from 0.1% and 0? When, however, will the Federal Reserve put a brake to its accommodative policy stance? What will be the effect of the policy shift on the banking industry?

## INTRODUCTION

Politics greatly color the current environment for the economy and banking. Look at the posturing in the discussions about taxes and spending on the federal and state government levels. One cringes to hazard a guess over the eventual resolutions of the fiscal issues. Will some balance be achieved to effect the passage of budgets on a timely basis? Will the deadlock on the debt ceiling be resolved or will imminent defaults lead the country to a precipice? Will political debates upturn banking legislation or alter the enactment of passed legislation?

The outlook for the economy feels repetitive. Clouding the pace of future economic activity remains the discordant trends involving the dual monetary policy objectives of maximum employment and contained inflation. Although the large number of the unemployed suggests significant slack in the resources available to support increased production, investors are increasingly concerned that growth and past policy accommodation will place upward pressures on prices. Hence, prices for many important commodities swing widely whenever the economic news support or refute the observations about growth and its potential to overheat the economy.

How about banking? Do you feel that the industry is recovering and that asset quality is on an improving trajectory? Or, do you feel that industry is divided between the gang of 19 and all the others? To give print to community banks, this year's STATE OF THE INDUSTRY presents statistical details on the longer-term performance of those banks with less than \$1 billion in assets for both the nation and California.

### Monthly and Quarterly Updates

Last year we distributed quarterly updates to the STATE OF THE INDUSTRY by email to those of you on our e-mail distribution list. Going forward, an email will be sent notifying the recipient that the report has been uploaded to our website. If you wish to be notified of these updates, please send an email to: [carpenter@carpentercompany.com](mailto:carpenter@carpentercompany.com) requesting that you be placed on the email notification list or go to the website at [www.carpentercompany.com](http://www.carpentercompany.com) under the research tab, state of the industry link and provide the requested information to be added to the notification list.

In addition, Carpenter & Company prepares a monthly stock report with a monthly update on the economy and banking industry. In the website, under the research tab, select the monthly stock report link and provide requested data to be added to that distribution list.

### Acknowledgements

This eleventh annual report on the STATE OF THE INDUSTRY has been developed from data and information obtained from a variety of public and private sources. The information contained in this report is believed to be accurate and reliable. However, no special warrant can be provided. Special thanks are due to the UCLA Anderson Forecasting Project for their forecasts of the United States and California economies.

Carpenter & Company wishes you much success in the year ahead.

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# THE ECONOMY

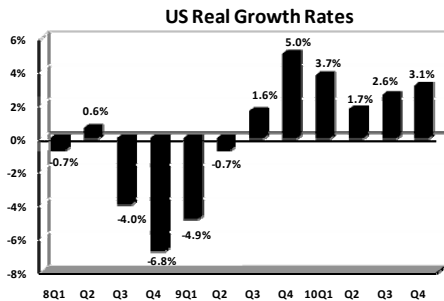
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# THE ECONOMY: *United States*

The U.S. economy continued its slow recovery during 2010. The path of the upturn was not steady, certain or typical. Markets alternated between concerns that the recovery was too robust and too weak. Goldilocks would be an apt spokesperson for the current phase of the business cycle, except that the descriptor of “just right” has not come into play. The U.S. economy grew in spurts and stops last year. Meanwhile, jobs displayed a yo-yo growth pattern. High rates of unemployment called into question the sustainability of the expansion after only 18 months of recovery. Consumers, however, broke out of their sluggish spending stance in late 2010. Business equipment spending grew robustly. Construction and state and local government spending provided brakes to the pace of growth. Monetary and fiscal policies, which were once accommodative, are currently expected to move toward restraint. In doubt at this juncture is when will the policy changes occur and by how much. Critical determinants to the changes in the direction of policy will be the future trends in employment and inflation.

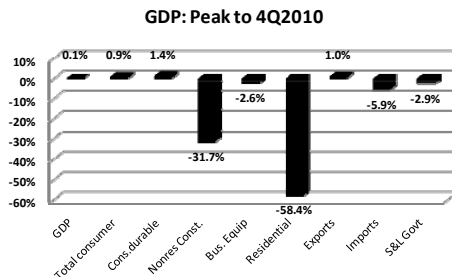
## Year in Review

The U.S. economy grew throughout the four quarters of 2010. This growth did not proceed at an accelerating pace. The steepest growth was in the first quarter, followed in the second quarter by the year’s slowest growth. As 2010 ended, real gross domestic output finally exceeded the fourth quarter 2007 peak in output. This business cycle took 12



quarters for GDP to regain its previous peak, by far the longest interval in postwar history. Before now, the longest duration to regain the prior GDP peak was eight quarters in the 1973 recession.

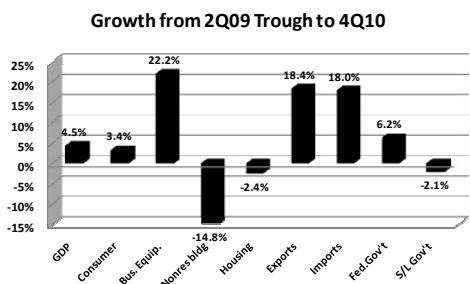
The recovery in GDP was not experienced by all economic sectors. The rise in output that pushed fourth quarter 2010 GDP 0.1% above the former peak was concentrated in consumer spending, notably for durable goods, and in exports. The federal government provided counter-cyclical stimulus, and generally



## U.S. Economy

- Uneven recovery in 2010 ..... 3
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rose throughout the business cycle. Federal government spending in the fourth quarter was 18.6% higher than at the start of the recession.



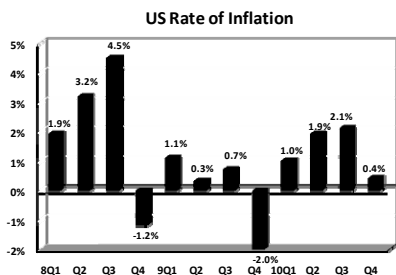
Building and state & local government weak

Business equipment spending strong

Construction, both residential and nonresidential, remained well below their respective peaks in spending. Construction-related investment continued to decline even after the recovery began in the second quarter of 2009.

Business spending on equipment and software was a major boost to the recovering economy by recording the steepest growth since mid-2009 for any of the major sectors of the economy. Yet, the volume of business spending on equipment had yet to regain its previous peak. Spending by state and local governments generally declined throughout the six quarters of the economic recovery.

The recovery in employment could best be described either as disappointing or non-existent. During 2010 there was moderate growth in employment and a decline in jobless rates. Nonetheless, employment remained 5% below its cyclical peak, a performance making this business cycle the most severe and prolonged period based upon the loss in jobs.



Rates of inflation appeared to be contained during 2010, especially according to the measures most watched by the Federal Reserve. Some indices rose as a result of price surges for

basic commodities. Stepped-up growth worldwide contributed to actual and/or expected increases in the demand for commodities. High unemployment tempered labor costs, while uneven growth in sales prompted discounting by retailers.

### Prospects from Here

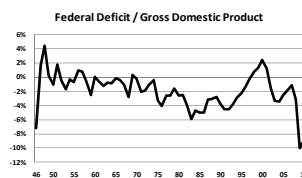
Trends in U.S. business activity reflected a number of positive aspects. Through year-end 2010, the economy had compiled six consecutive quarters of growth. Real output reached a new record. At year-end consumers and businesses were spending at an increasing rate. U.S. export shipments were expanding impressively.

These observations about the economic recovery obscured the challenges that may dog future economic activity and particularly the banking industry. Such challenges included the sustainability of the recovery, especially in the consumer sector as a result of limited employment growth, rising commodity prices, eroding net worth and declining equity in real estate assets. How robust will be business spending if the consumer falters? Will massive policy stimulus prove to be inflationary yet ineffective for longer-term growth? If the private economy begins to slow, what stimulus drivers are left for fiscal and monetary policy?

The future trends in fiscal and monetary policies are critical to the economic outlook. Both policies face important junctures that will alter their direction, impact and focus. That fiscal and monetary policies will shift from accommodation seems clear, the uncertainty is when will the change occur and by what magnitude. Again, future trends for employment and inflation will loom large in dictating the timing of policy movements.

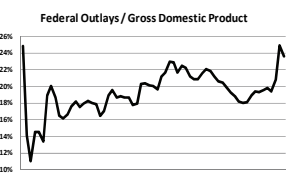
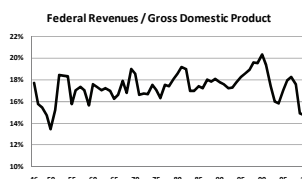
### Fiscal Policy

When the economy entered into recession and when the severity of the recession deepened, the federal government provided stimulus in the form of increased spending and reduced taxes. These

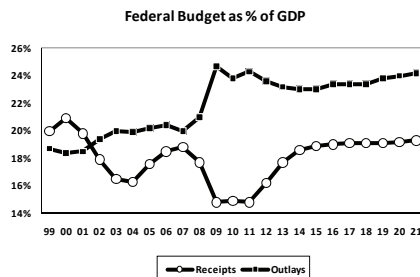


Federal deficits and outlays near recent highs as a % of GDP

Federal revenues near recent lows



stimulus measures contributed to a record federal budget deficit of \$1.41 trillion in fiscal 2009. The deficit equaled 10.0% of GDP, the largest share since 1945. Tax cuts trimmed revenues to 14.9% of GDP, compared with the pre-recession ratio of 18.3%. That was the lowest revenue share since 1950. Outlays rose to 24.9% of GDP in fiscal 2009, up from the pre-recession ratio of 19.4% and the highest rate since 1945.



In fiscal 2010, the deficit narrowed slightly to \$1.29 trillion or an 8.9% share of GDP. This deficit reduction was caused by a cut in outlays, which declined to a 23.6% share of GDP. Federal revenues grew in dollar terms, yet declined slightly as a share of GDP, according to the Congressional Budget Office (CBO).

Based upon the President’s budget, the federal deficit in FY 2011 was estimated at \$1.425 trillion, a new record. Compared with projections made in January 2011, the revised FY 2011 deficit estimate was \$55 billion lower, yet was up \$26 billion from the estimate made by the CBO in March 2011. The widening in the deficit relative to FY 2010 resulted from increased spending which more than offset the gain in revenues.

Congress and the Administration must address a host of important fiscal issues, including the debt ceiling and passage of the FY 2012 budget. The mid-term elections brought in a number of fiscally conservative new members of Congress and altered the composition of the budget committees. The House passed a FY 2012 budget resolution, termed The Path to Prosperity, by a partisan vote of 235-193 in mid-April. This budget proposal focused on deep cuts in both spending and taxes. The Senate voted down the proposal, largely due to the adverse public feedback regarding the privatization of Medicare.

As a lever in the budget debates, bills to raise the debt ceiling languished in Congress. On May 16, 2011 the government reached the \$14.3 trillion debt ceiling. Extraordinary measures could allow the government to continue to meet its legal obligations until August 2, 2011 when these measures are projected to be exhausted.

Budget debates will consume public policy over the upcoming period. The likely outcome will be reductions in federal spending, a compromise on future tax proposals and gradual reductions in the federal deficit. On balance, fiscal policy will be less accommodative than had been the case in recent years.

### Monetary Policy

The slow yet recovering growth in the economy and the even more sluggish creation of jobs, coupled with steady increases in commodity prices, presented conflicting trends influencing the direction of monetary policy. At the conclusion of the April 26-27, 2011 meeting of the Federal Open Market Committee (FOMC), Fed Chairman Bernanke held a press briefing to explain the decisions of the FOMC and elaborate on the revisions to the FOMC forecast through 2013. The revision to the FOMC forecast indicated that rates of economic growth were reduced through 2013 from the January 2011 forecast. Even with the lower projected growth, the FOMC felt that the rate of unemployment at the end of 2011 and 2012 would be below the levels forecast three months earlier. In reflection of the run-up in commodity prices, the FOMC marginally increased its projected rates for inflation and core inflation through 2013.

**Economic Projections**  
Federal Reserve Governors and Reserve Bank Presidents  
April 2011

Variable	Central Tendency			Longer run
	2011	2012	2013	
Change in real GDP	3.1-3.3%	3.5-4.2%	3.5-4.3%	2.5-2.8%
January projection	3.4-3.9%	3.5-4.4%	3.7-4.6%	2.5-2.8%
Unemployment rate	8.4-8.7%	7.6-7.9%	6.8-7.2%	5.2-5.6%
January projection	8.8-9.0%	7.6-8.1%	6.8-7.2%	5.0-6.0%
PCE Inflation	2.1-2.8%	1.2-2.0%	1.4-2.0%	1.7-2.0%
January projection	1.3-1.7%	1.0-1.9%	1.2-2.0%	1.6-2.0%
Core PCE inflation	1.3-1.6%	1.3-1.8%	1.4-2.0%	
January projection	1.0-1.3%	1.0-1.5%	1.2-2.0%	

Despite projections of lower rates of unemployment and higher rates of inflation, the stance of monetary policy was left unchanged at the late April 2011 FOMC meeting. The Fed affirmed that the treasury purchase program, known as Quantitative Easing 2, would end in June 2011. The Fed stated that the reinvestment of principal repayments of its portfolio would continue at this time. The shift in monetary policy from accommodation to tightening is likely to be subtle, beginning with ending QE2, followed by stopping the reinvestment of repaid principal, and

finally by increasing the federal funds rate. Employment trends will play a significant role in directing the shift in policy.

The minutes of the April 26-27, 2011 FOMC meeting indicated that the Committee was considering strategies for the normalization of policy in the light of a strengthening economy. The withdrawal of the extraordinary degree of accommodation was at the root of the normalization process. Policy actions will be directed toward draining the large reserve balances in the banking system and shrinking the Fed's balance sheet. The pace and sequencing of the policy steps to achieve this normalization will be driven by the policy objectives of maximum employment and price stability. The FOMC participants viewed that the first step toward the normalization of policy will be manifest through ceasing the reinvestment of principal payments from agency securities and simultaneously or shortly thereafter, ceasing the reinvestment of principal payments from treasury securities.

**Consumer Sector**

Many retail sectors reported renewed growth over the course of 2010, particularly in the final quarter of the year. Consumer spending provided the second highest boost, behind inventories, to GDP growth in 2010, accounting for 1.26 percentage points of the 2.9% growth in GDP. Total consumer spending grew 1.7% in 2010, led by the 4.3% growth in spending on

goods, notably the 7.7% rise in spending on consumer durable goods. Spending on consumer services grew only 0.5%, a pace that curbed the growth in total spending.

For the durable goods sector, large increases in spending occurred in the category of recreational goods and vehicles. Recreational goods and vehicles represented 38% of durable goods spending and accounted for 58% of the year over year ("YoY") increase in spending on durable goods. Consumer spending on durable goods increased nearly \$84 billion, representing more than 52% of the \$160 billion increase in total consumer spending in 2010.

Spending on nondurable goods rose \$55 billion in 2010 or nearly 35% of the increase in total consumer spending. The largest dollar increase in nondurable goods purchases was in other nondurable goods, which accounted for 37% of all nondurable goods spending. Spending on food and clothing also increased briskly, while inflation-adjusted spending declined in the categories of gasoline and other energy products.

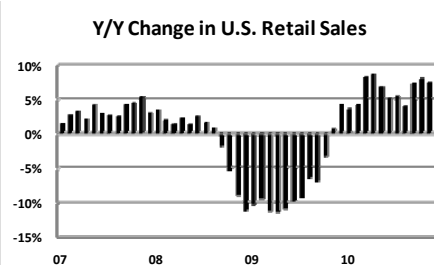
Spending on services accounted for nearly 65% of the total dollars spent by consumers. Last year spending on services provided only 20% of the boost to total consumer spending, thus acting as a drag on the consumer sector. Cutbacks in the volume of consumer services spending were centered in spending for recreational services, financial services and insurance and other services. The largest increases in inflation-adjusted services spending were in health care, followed by increased spending on housing and utilities.

Retail sales registered YoY increases beginning in November 2009. This rising trend generally accelerated in 2010. The largest YoY sales gain in 2010 was reported in April at 8.8%. By year-end 2010, retail sales reported a 7.8% YoY gain. The December 2010 retail sales of \$376.3 billion was within 0.5% of the November 2007 sales peak.

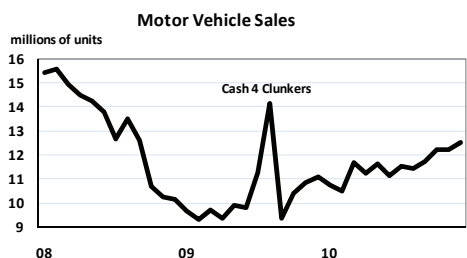
**Growth in Consumer Spending**

SPENDING CATEGORY	2009	2010
<b>Personal consumption expenditures</b>	-1.20%	1.75%
<b>Goods</b>	-1.98%	4.26%
<b>Durable goods</b>	-3.68%	7.65%
Motor vehicles & parts	-6.95%	3.52%
Furnishings & durable h/h equipment	-6.42%	8.61%
Recreational goods & vehicles	1.44%	12.10%
Other durable goods	-2.35%	5.82%
<b>Nondurable goods</b>	-1.17%	2.74%
Food & beverages	-0.94%	2.71%
Clothing & footwear	-4.37%	5.57%
Gasoline & other energy goods	1.23%	-0.36%
Other nondurable goods	-1.11%	2.92%
<b>Services</b>	-0.82%	0.53%
Household services	-0.67%	0.47%
Housing & utilities	1.12%	1.06%
Health care	2.15%	1.44%
Transportation services	-8.12%	1.21%
Recreation services	-2.35%	-0.63%
Food services & accommodations	-3.62%	2.37%
Financial services & insurance	-3.62%	-2.31%
Other Services	-1.16%	-0.97%

Retail sales neared the previous record as 2010 ended. The return to the past peak took more than three years.



Sales of motor vehicles expanded in 2010 even without the use of tax incentives. Sales climbed from an annual rate of 11.1 million units in December 2009 to 12.5 million units by the end of 2010. Sales registered impressive YoY gains over the course of 2010, except in July and August when the sales were compared with the volumes achieved during the 2009 “cash for clunkers” program. The December 2010 YoY reading equaled 12.6%. Despite the relentless increase in energy prices in 2010, the share of light truck sales to total motor vehicle sales rose from 47% in December 2009 to 51% a year later.



The aging fleet of cars on the road and the need for fuel efficiency stimulated sales.

Personal income increased 3.0% in 2010, a moderate gain from a historic perspective, but a significant improvement over the 1.7% decline in 2009. Most categories of income increased last year, except for personal interest income, which was the result of the persistently low interest rates.

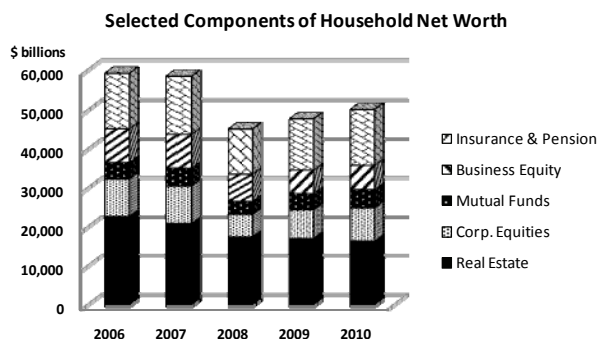
	Personal Income (\$ billions)			% Change	
	2008	2009	2010	2009	2010
Personal Income	\$12,391.1	\$12,174.9	\$12,546.7	-1.7%	3.1%
Employee comp	8,065.8	7,806.7	7,991.1	-3.2%	2.4%
Wage & salary	6,559.0	6,274.1	6,405.0	-4.3%	2.1%
Wage supplements	1,506.8	1,532.6	1,586.1	1.7%	3.5%
Proprietor income	1,102.0	1,011.9	1,055.0	-8.2%	4.3%
Farm income	50.8	30.5	44.9	-40.0%	47.2%
Nonfarm income	1,051.2	981.5	1,010.1	-6.6%	2.9%
Rental income	222.0	274.0	300.9	23.4%	9.8%
Receipts on assets	2,109.3	1,919.7	1,907.6	-9.0%	-0.6%
Interest income	1,314.7	1,222.3	1,194.9	-7.0%	-2.2%
Dividend income	794.6	697.4	712.7	-12.2%	2.2%
Transfer receipts	1,879.2	2,132.8	2,296.4	13.5%	7.7%
(Social insurance contri.)	987.2	970.3	1,004.4	-1.7%	3.5%
Taxes	1,438.2	1,140.0	1,166.8	-20.7%	2.4%
Disposable income	10,952.9	11,034.9	11,379.9	0.7%	3.1%
Outlays	10,505.0	10,379.6	10,720.7	-1.2%	3.3%
Savings	447.9	655.3	659.2	46.3%	0.6%
Saving rate	4.1	5.9	5.8		

Although personal income in 2010 exceeded the 2008 level by 1.3%, most 2010 income components were below their 2008 levels. High unemployment caused wages and salaries to be 2.3% below the earnings in 2008. Despite the 47% increase in farm income in 2010, farmers earned 11.6% less than in 2008. Dividend income, up 2.2% over 2009, was still 10%

below the 2008 level and exceeded the shortfall in personal interest income. Steady increases in income over the past two years were realized in rental income, receipts from transfer payments, and supplemental wage income, that is, unemployment benefits. Propelling income upward through subsidies and government transfers does not engender fulsome increases in consumer confidence.

Personal savings edged up in 2010, but at a lower rate than the growth in total income. The personal saving rate declined to 5.8% from 5.9% in 2009. In 2008 the annual personal saving rate equaled 4.1%.

Households not only experienced constraints on current income, but net worth declined steeply over the past five years. According to flow of funds data, the value of selected household assets peaked in 2006. The subsequent decline resulted from the pervasive and prolonged drop in the value of real estate, compounded by reductions in equity prices and in the value of household-owned businesses.



Real estate represented the largest asset for most households. Since 2006, real estate owned by households plunged 27.8% in value. Likewise, the decline in household equity in owned business equaled 28.3% from 2006 to 2010. Unlike the trend for real estate assets, business equity increased slightly in 2010. Household net worth in corporate equities plummeted from 2006 through 2008, triggering a 40% loss in net worth held in equities. Since 2008, corporate equity holdings expanded 47%, yet remained nearly 12% below the 2006 peak. Household net worth in insurance and pension fund holdings declined in 2008, due to the steep fall in equity prices. Since 2008, however, pension and insurance net worth climbed above the 2006 valuations, yet were off 1.6% from their 2007 peaks.

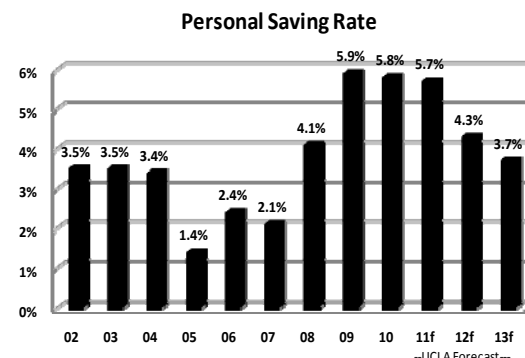
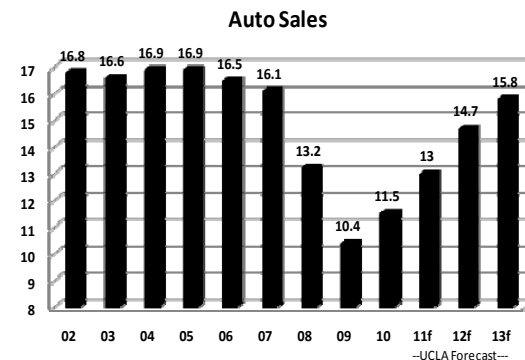
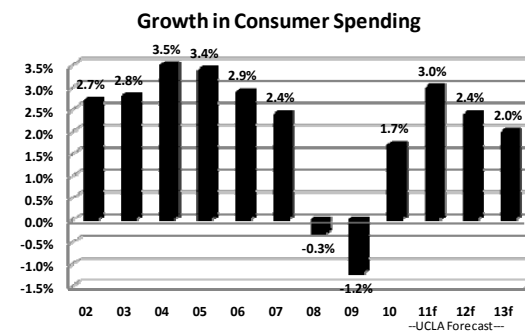
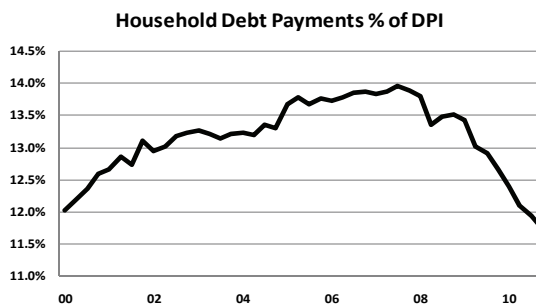
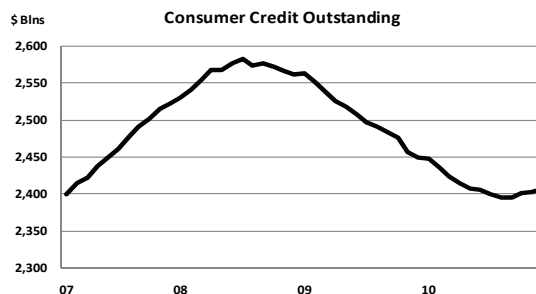
The persistent erosion in household net worth contributed to a step-up in consumer saving and limited consumer spending. The value of the selected assets contained in the graph on the preceding page, peaked in 2006 at \$59.1 trillion, fell 24% to its cyclical low in 2008 before staging an 11% advance through year-end 2010. The 2010 total for the household net worth in selected assets was 15% lower than in 2006.

The volume of outstanding consumer credit peaked in July 2008 at \$2.58 trillion. This peak occurred midway through the nation's worst postwar recession and near the start of the September 2008 credit meltdown. Consumers scaled back spending and steadily reduced their use of credit, primarily in revolving and credit card debt balances, as well as in non-revolving debt. Outstanding consumer credit continued generally lower until September 2010. Beginning in October 2010, consumer credit increased on a monthly basis, as gains in non-revolving debt more than offset the continuing declines in revolving debt. On a YoY comparison consumer credit ended 2010 down 1.7%.

The relentless growth in consumer credit and mortgage debt pushed household debt service payments to a high of 14% of disposable personal income in the third quarter of 2007. Despite the recession's adverse effect of slowing in the growth of disposable personal income, debt service payments declined precipitously, ending 2010 at a rate of 11.8%, the lowest debt service burden since the first quarter of 1998.

The UCLA Anderson School of Management March 2011 Business Forecasting Project ("UCLA") projects that the growth in consumer spending will pick up in 2011, supported by renewed growth in the sales of motor vehicles and other consumer discretionary spending. Obstacles to the future step-up in consumer spending, however, are the current shortages in autos and parts produced in Japan and the dampening effects of high and rising prices for food and fuel on consumer budgets for other goods, especially deferrable goods. UCLA forecasts that growth in real consumer spending will expand 3.0% in 2011 and slow to 2.4% in 2012 and 2.0% in 2013. The easing in consumer spending in 2012 and 2013 will be broadly based, across the categories of durable goods, nondurable goods and services.

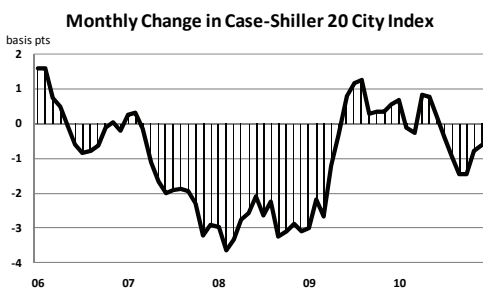
Auto sales are projected to average 15.8 million units in 2013, still 1.9% below the sales in 2006. Increased spending will trim the personal saving rate to 3.7% by 2013 from the 2010 rate of 5.8%.



### Housing Sector

The housing industry completed its fifth year of decline in 2010. Despite the longevity of the downturn, prospects do not bode well for a significant recovery in the near-term. Supporting this downbeat view were the renewed declines in home prices, as reflected in the Case-Shiller home price surveys, CoreLogic house price index and Zillow database.

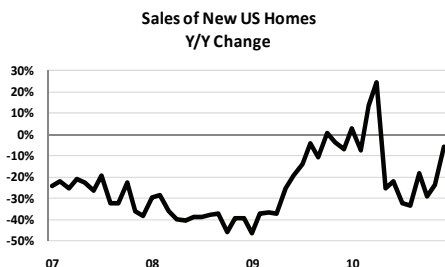
Beginning in June 2009, home prices, as measured by the 20 city Case-Shiller survey, rose for 11 of the 13 months through June 2010. Since last June, however, this index reported eight consecutive monthly declines and five YoY declines. These trends dashed expectations that housing markets were stabilizing.



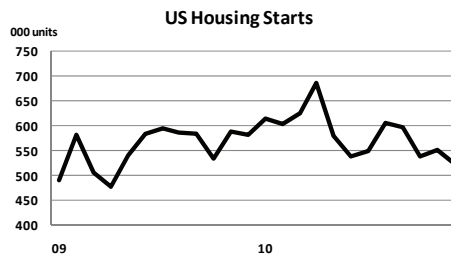
According to CoreLogic, home sales in 2010 were 10.3% below the level of sales in 2009. Only short sales evidenced an increase in 2010 over the 2009 volumes. Sales of new, existing and REO homes in 2010 were all below their 2009 averages. Distressed sales equaled 28.3% of total home sales in 2010, up from the 27.5% share in 2009.

Sales of new homes continued to drift downward, although at a significantly slower rate of decline as in recent years. The federal home buyer tax credit contributed to YoY gains in new home sales in early 2010. This uptick, however, was short-lived and YoY declines remerged in May and widened during much of the second half of 2010.

Declining home prices, high volumes of distressed home sales, constrained options for home finance,

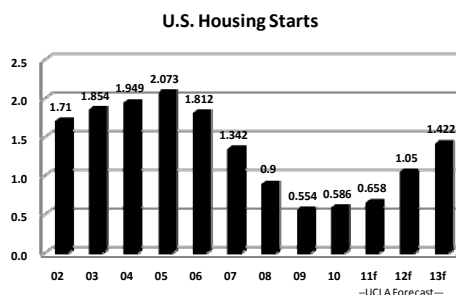


and the large overhang of homes in the process of foreclosure dampened new homebuilding. Housing starts were largely unchanged in 2010 at an average of 585,000 units, up 5.6% from the postwar record low of 554,000 units in 2009. The annual increase in starts was concentrated in single-family homes, while starts of multi-family units were unchanged over 2009. The pattern of housing starts through 2010 was uneven with starts higher in the initial months and reaching the yearly low in December. As 2010 ended, starts were down 9.5% YoY.

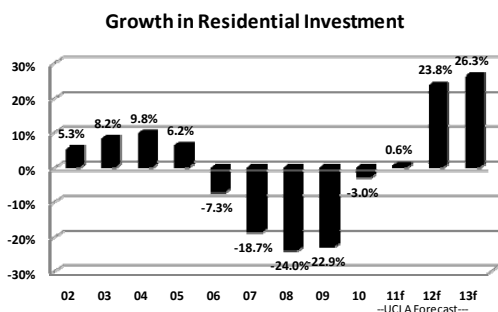


According to CoreLogic, nearly 23% of mortgage holders were in a negative equity position, owing more than the current value of the house. This proportion of mortgages with negative equity held stable over the past year. The aggregate negative equity of \$750 billion in the fourth quarter of 2010 was nearly evenly divided between borrowers with only a 1<sup>st</sup> lien mortgage and borrowers with one or more junior liens. Low home equity precluded homeowners from refinancing, achieving loan modifications, and/or conducting a standard home sale. According to CoreLogic, \$60 billion of the \$750 billion in negative equity mortgages were in the process of foreclosure at year end 2010.

UCLA forecasts that homebuilding activity will begin to rise gradually. A return to over 1 million housing starts, however, is not anticipated until the second half of 2012. Considering the severity of the current homebuilding downturn, the pace of building is well below the level associated with population growth and the replacement of aging and damaged housing.



UCLA estimates that the growth in residential investment will be unchanged in 2011, a turnaround after five years of declines. The recovery is projected to take hold and produce starts in excess of 1 million units in 2012 and over 1.4 million units in 2013. With this recovery, real residential investment is projected to expand by more than 20% in 2012 and 2013.



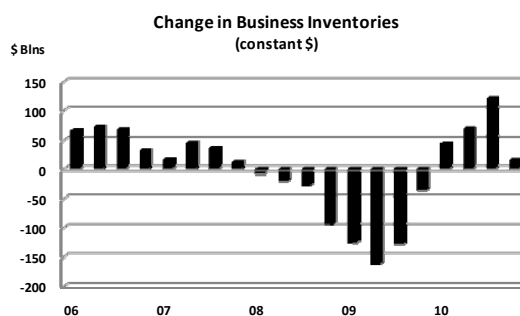
### Business Spending

Business spending in 2010 presented stark contrasts. Outlays on equipment and software accounted for nearly 1/3 of the recent growth in the economy. The decline in spending for non-residential structures carried a negative pull that was six times greater than the downward effect from housing. Business spending on inventories showed much volatility, often being a countervailing factor in GDP growth.

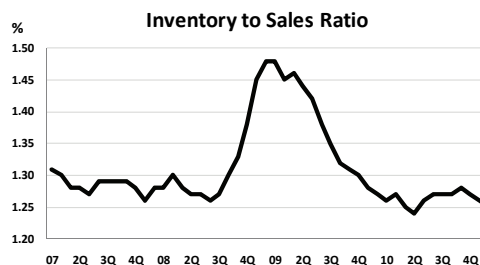
Business spending on equipment and software grew 15.3% in 2010, compared with the 15.3% decline in 2009. Leading the rise in equipment and software spending was increased spending on information processing equipment and software. Business spending on transportation equipment recovered sharply, up 61.5%, after declining 5.4%, 23.0% and 51.5% in 2007, 2008 and 2009, respectively. Businesses increased their spending on industrial and other equipment following multiple years of trimming such spending.

Limited financing, declining lease rates and rising vacancy rates were problematic issues facing commercial building in 2010. Investment in non-residential structures declined 20.4% in 2009 and 13.7% in 2010. Last year's decline was broadly based, except for mining and drilling construction, which grew 26.6%. Construction of manufacturing structures suffered the steepest decline, down an inflation-adjusted 32.1%. Building of commercial and health care structures declined 24.5% and matched the reduction in the building of other (religious, education, recreational) structures.

Inventory management contributed to the severity of the recent recession and provided support to the recovery. The liquidation of inventories began in the first quarter of 2008 and continued for eight consecutive quarters. The sizable liquidation of inventories accelerated the economic downturn, especially in the fourth quarter of 2008 and the first two quarters of 2009. The accumulation of business inventories contributed greatly to economic growth in the first three quarters of 2010. In the fourth quarter of 2010, the growth in real final sales exceeded the growth in GDP, suggesting that the surprisingly brisk sales caused an unintended reduction in inventories.

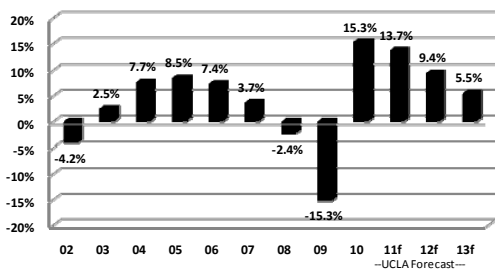


The inventory-to-sales ratio declined to 1.25 in December 2010, the lowest ratio in the 18-year history of the series and well below the average ratio of 1.38 from 1992 to 2010. Inventories adjusted for inflation swung from a \$113.1 billion liquidation in 2009 to a \$62.7 billion accumulation last year. Inventory replenishment on the wholesale level led the 2010 increase, followed by restocking in the durable goods manufacturing sector.



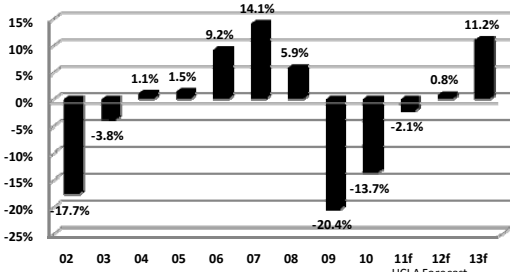
UCLA forecasts that business spending on equipment will continue to grow in 2011, but at a 13.7% rate, compared with 15.3% in 2010. The 2010-2011 expansion in business spending will allow this sector to recoup the declines that occurred during the recession. Growth will moderate to rates of 9.4% in 2012 and 5.5% in 2013.

Growth in Business Equipment Investment



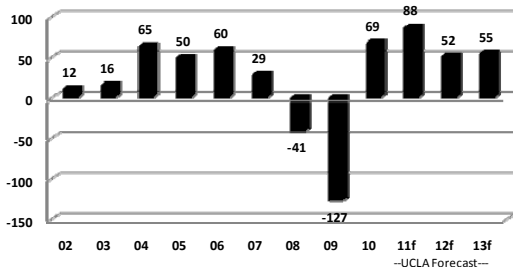
The recovery in commercial construction will continue to lag the general economy. A meaningful pickup in non-residential investment is not anticipated until mid-year 2012. The decline in construction investment will lessen over the course of 2011 with spending off 2.1%. The growth in non-residential investment spending will be unchanged in 2012 and up by more than 11% in 2013.

Growth in Non-Residential Investment



Inventory restocking will be a source of growth in 2011, according to UCLA. Thereafter, investment in inventories will be a drag upon the 2012 economy and will have a neutral impact in 2013.

Change in Business Inventories (\$ billions)



**Government**

Budgetary restraints and constraints summarize the outlook for government spending on the federal and state and local levels. With all of the government

sectors wrestling with budget deficits, spending will exert a downward drag on national output. Efforts to lower the federal budget deficit will translate into reduced funding allocated to state and local governments, thus compounding the budgetary challenges for those governmental levels.

UCLA projects that the entire government sector will be a net offset to the growth of gross domestic product through 2013. The spending cuts will also result in reduced government-sector employment.

**Trade**

The second half 2010 economy greatly benefitted from international trade developments. Expanding economic activity abroad and significant currency movements, which placed downward pressures on the U.S. dollar versus other currencies, contributed to a sizable growth in U.S. exports. The volume of U.S. exports declined 9.5% in 2009, while exports rebounded 11.7% in 2010.

The recovery in the U.S. economy, however, also renewed domestic demand for imported goods. Inflation-adjusted imports grew at a 12.6% rate in 2010, following a decline of 13.8% in 2009. The annual growth in imports occurred despite the 12.6% decline in real imports in the fourth quarter.

The nation's net export deficit widened in 2010 to an inflation-adjusted \$422.5 billion, up from the deficit of \$363.0 billion in 2009. The deficit in net exports increased sharply in the second and third quarters of 2010, as import growth greatly outstripped the rise in exports. Although increased oil prices pushed up nominal imports, shipments of imports declined sharply in price-adjusted terms in the fourth quarter, contributing to a narrowing in the fourth quarter deficit to \$397.7 billion, a result that compared favorably with the record deficit of \$756.5 billion in the third quarter of 2006.

Net Exports of Goods & Services (Constant \$Blns)

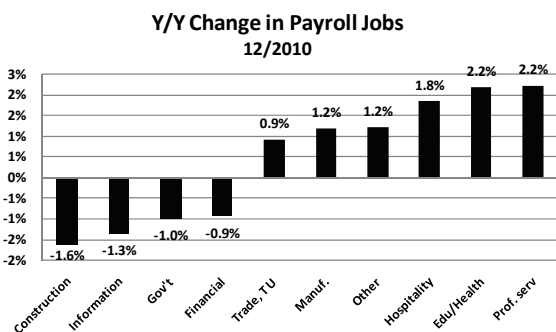


UCLA projects steady reductions in the net export deficit through 2013. Growth in exports will benefit from the global economic expansion and currency trends that are likely to make U.S. products more competitive in world markets. Higher prices for imported goods, through the combination of foreign exchange trends and commodity price movements, are projected to hold down the growth in the volume of imports through 2013.

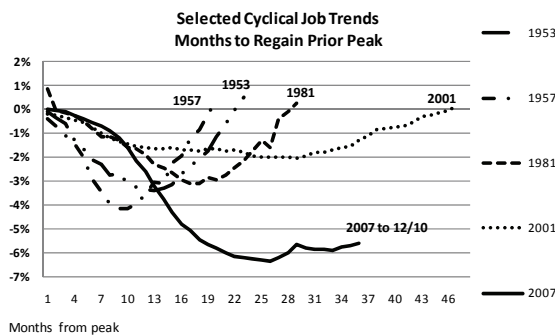
**Employment**

Employment growth for this recovery was disappointingly sluggish through year-end 2010. Non-farm payroll employment in 2010 averaged 0.7% below the 2009 average. The 2010 decline in employment, however, compared favorably with the 4.4% decline in 2009, yet was worse than the 0.6% decline in 2008.

Only two major industries reported increases in annual employment in 2010, specifically education/health services and professional/business services. Employment in education and health services grew throughout the business cycle. The job gains in professional and business services were centered in the temporary help sector. Use of temp workers reflected an unwillingness to expand permanent workforces in case the recovery lost steam and layoffs became necessary. By year-end, conditions improved and payroll employment was up 0.7% YoY, with six of ten industries reporting YoY gains.

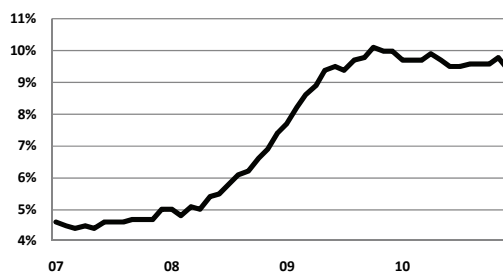


Over the course of 2010, payrolls compiled a balanced record of six declines and six gains. Payroll employment at December 2010 was 5.6% below the December 2007 peak. This 36-month history meant that the current cycle was the steepest cyclical decline in jobs of the postwar period. Unless 7.7 million jobs are created by December 2011, this period will rank as the most elongated cycle before regaining the peak in jobs compared with other post-war cycles.



The average annual rate of unemployment climbed from 9.3% in 2009 to 9.6% last year. Over the course of 2010, the jobless rate peaked at rates of 9.8% in April and again in November before declining in December to the lowest rate for the year at 9.4%. For 2010, the number of unemployed increased 3.5% to an average of 14.8 million. Unemployment declined on a consistent YoY basis in the final six months of 2010. These YoY declines in the number of unemployed contrasted with the YoY increases, some of which topped 80% in early 2009.

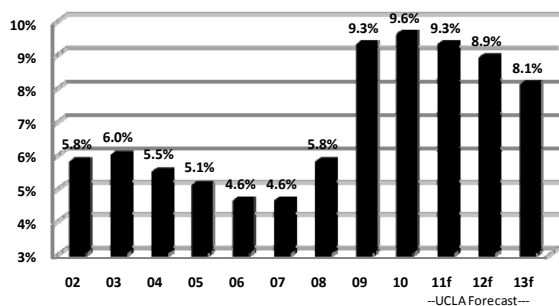
**U.S. Jobless Rate**



The labor force fell 0.1% in 2009 and 0.2% in 2010. The declines in those employed and actively seeking work held down the reported rate of unemployment. If the labor force had remained constant over the past two years, the jobless rate would have been 9.9% in 2010. If the labor force had grown at the 2008 rate of 0.8%, the 2010 jobless rate would have been 11.3%.

Once the growth in jobs gains momentum, formerly discouraged job seekers will reenter the labor force, thus slowing the decline in the unemployment rate. UCLA projects that the unemployment rate will decline to 8.1% by 2013. Payroll employment is projected to increase 1.0% in 2011, 1.9% in 2012 and 2.1% in 2013.

**U.S. Rate of Unemployment**

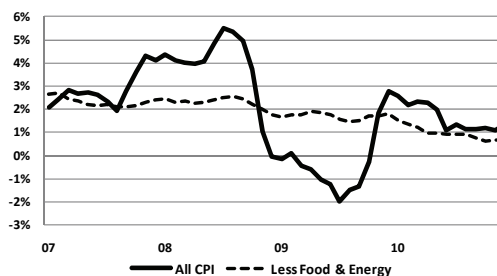


**Inflation**

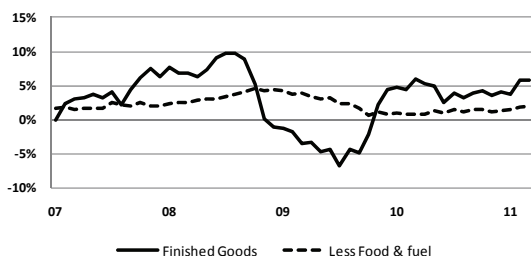
The severe economic downturn and only moderate recovery dampened upward pressures on prices in recent years. Inflation, based on the GDP deflator, equaled 1.0% in 2010, up slightly from 0.9% in 2009. Contributing to the continued moderate rate of inflation were declines in the prices associated with consumer durable goods, residential and commercial building and business spending on equipment and software. Partially offsetting the declining prices for those sectors were higher costs for government spending, consumer spending on services and nondurable goods and in the trade sector.

Food and energy prices were highly volatile over recent years. The YoY change in the monthly index for consumer food prices ranged from a low of -0.7% to a high of 6.3% over the period from 2008 through 2010. The annual increases in food prices equaled 5.5% in 2008, 1.8% in 2009 and 0.8% in 2010. Energy prices showed even greater volatility. The YoY change in the monthly index of consumer energy prices ranged from -28.1% to 29.4%. The average annual changes in energy prices were 13.7% in 2008, -18.7% in 2009 and 9.6% in 2010.

**Year-over-Year Change in Consumer Price Index**



**Producers Price Index -Y/Y Change**  
Finished Goods & Less Food & Fuel



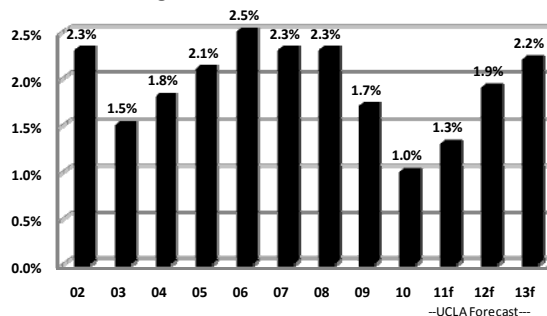
UCLA projects that inflation will remain relatively contained through 2013. UCLA forecasts that inflation calculated from the GDP price deflator will remain below 2% through 2013. Following the early 2011 run-up in commodity prices, the increase in producer prices will moderate significantly. The easing in producers prices will result, in part from the slack in productive resources, which will hold down the increase in unit labor costs.

Higher prices for energy and other commodities helped to boost the producer price index by 4.2% in 2010, a contrast to the 2.5% decline in 2009. Producer prices excluding food and energy increased 1.2% in 2010, following the rise of 2.5% in 2009.

Consumer price inflation is forecast in the range of 2.0% to 2.25% through 2013. In evaluating inflationary pressures, the Federal Reserve focuses on core consumer price inflation, this is, prices without food and fuel. UCLA forecasts that core consumer inflation will be less than rise in the CPI and will generally remain below the Fed's inflation threshold of 2.0%.

During 2009, the rate of consumer price inflation declined 0.3%, primarily due to steeply lower energy prices. In 2010, the CPI rose 1.7%, largely in response to higher prices for energy. The rise in consumer prices excluding food and fuel was a more moderate 1.0% last year and was less than the 1.7% advance in 2009.

**Change in Core Consumer Inflation**



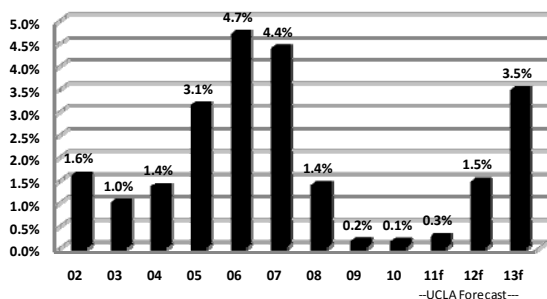
**Interest Rates**

The monetary policy of exceptionally low interest rates for an extended period characterized the 2010 trends in short-term interest rates. Monetary policy kept the target range for the federal funds rate within a bound of 0% and 0.25%. The federal funds rate averaged 0.18% in 2010, trading in a band of 0.5% and 0.22% over the year. The rate on 3-month treasury bills ranged between 0.04% and 0.18% during 2010 and averaged 0.14% for the year. Low short-term interest rates were supported by significant liquidity in financial markets and market reluctance to extend maturities due to the expectation that short-term interest rates would eventually rise.



Longer-term instruments showed much volatility last year. Concern over the potential for future spikes in inflation arising from excess liquidity, renewed growth and large budget deficits tended to push up long-term rates. Conversely, longer-term rates were pulled lower due to the demand for the safety and liquidity of treasury securities, especially during periods of financial and political turmoil. The annual fluctuation in the rate for the 10-year constant maturity treasury was 160 basis points, with trading last year ranging between 2.41% and 4.01%.

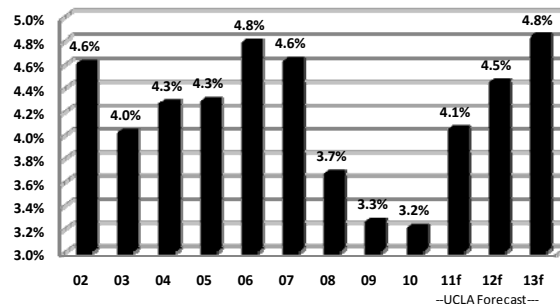
**Rate on 3-month Treasury Bill**



UCLA forecasts that the long-expected increase in short-term interest rates will occur by early 2012.

The federal funds rate will increase steadily from early 2012 and will average in excess of 3.5% by the middle of 2013. Longer-term rates are projected to increase through 2013, yet the rise in the 10-year treasury note is projected around 100 basis points over the next three years in contrast to the more than 300 basis point increase in short-term rates.

**Rate on 10-year Treasury Note**

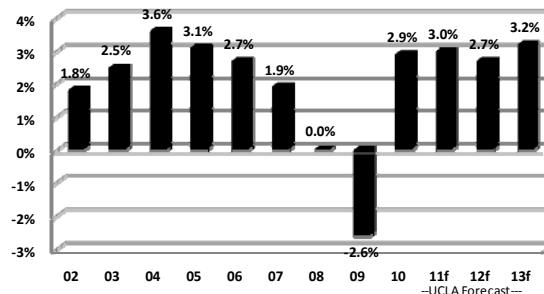


**Growth Implications**

The economic outlook through 2013 appears to be continuing repeats of the year just past. The UCLA forecasts for real growth through 2013 do not vary significantly from the 2.9% growth in 2010. The components of growth will show variation. For example, inventory restocking will not be a significant driver of growth over the next three years. In time, the construction sector will recover, yet that upturn will likely be in the latter half of the three-year forecast horizon.

Sustaining the consumer spending rally hinges upon employment prospects and the contained food and fuel prices. To date in 2011, the anticipated pick-up in jobs has yet to materialize. With the slack in the economy, inflation rates generally will remain moderate, thus tempering upward pressures on interest rates at least into 2012.

**Growth in Gross Domestic Product**



# THE ECONOMY: *California*

The California economy shared in the recovery experienced throughout the country. Nonetheless, the state faced challenges as reflected in having the second highest jobless rate in the nation and a budget deficit that pummeled its municipal bond credit rating. The rebound in international trade activity greatly benefited the state's economy. Increased production of high-tech and other goods slated for export created jobs and allowed many of the state's large metropolitan areas to report gains in payrolls and reduced rates of unemployment. The fundamentals for the state's housing industry continued to be weak, with home sales sluggish and home prices resuming a downward trajectory. In contrast, the commercial real estate markets showed evidence of gradual improvement. Although a ramp-up in building will be delayed for another year or more, renewed manufacturing production and retail sales provided stabilization to many commercial real estate markets. Exports through California ports ended 2010 at record levels. Recent data showed that the state's budget funding gap narrowed, with spending down and revenues higher.

The California economy continued to recover through 2010. Like the nation, this recovery was sluggish and fraught with challenges. The California reported one of the highest jobless rates and one of the lowest credit ratings in the nation. The housing industry continued to languish, held down by a large overhang of foreclosed and financially-distressed properties. Severe budget cuts led to layoffs in government jobs.

In the distant past, California with its steadily growing population supported a robust construction industry. The influx of residents bolstered sales, employment, and tax revenues. The state benefited from a booming construction industry, both for residential and commercial structures. When the construction industry peaked in 2006, jobs evaporated, the influx of new residents slowed, retail sales softened, growth of tax revenues slowed and demand for government services rose. The recent recession was global and severe. Demand for the state's high-value-added exports plummeted. As joblessness climbed, government revenues fell, notably from sales, personal income and corporate tax receipts. Government spending rose to provide counter-cyclical support and emergency relief services, especially to the unemployed.

The good news is that the state's economy is showing signs of recovery. Even budget trends appear to be improving. Importantly, the state is benefitting from robust foreign demand for its agricultural and high-technology products.

## **Employment**

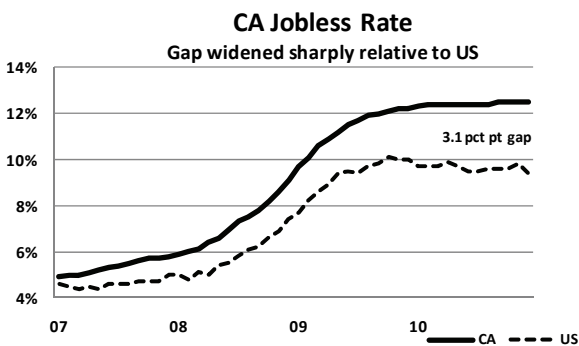
The jobless rate in California reached a record high of 12.5%, a rate that prevailed for four months from September to December 2010. The state's unemployment rate widened to a

## **California Economy**

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## THE ECONOMY: *California*

3.1 percentage point differential over the national jobless rate as of December. This chasm contrasted with the 2.3 percentage point spread over the national rate that prevailed in December 2009.

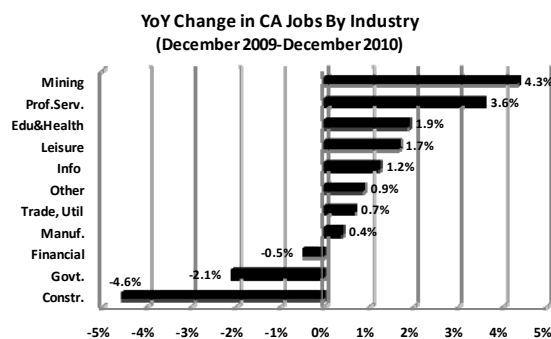


At year-end 2010, the state had the dubious distinction of having the nation's second highest jobless rate ranking behind Nevada. Employment, as measured by the household survey and as used to calculate the jobless rate, declined in California at a YoY rate of 0.3% in December 2010. With lower employment and no change in the labor force, California experienced a YoY increase of 2.2% in the number of unemployed and a rise in the jobless rate from 12.2% in December 2009 to 12.5% a year later.

The state's labor force peaked in March 2010 and trended lower for six consecutive months before posting moderate increases in the final three months of the year. The December 2010 labor force was 66,600 below the March peak. The declines in the labor force resulted as jobseekers became discouraged and stopped their job search. The uptick in the labor force occurred when renewed growth in jobs caused formerly discouraged jobseekers to restart their job search. Even with the recent increases, the California labor force equaled 63.8% of the working age population in December, the lowest labor force participation rate since June 1977.

Payroll employment reflected the transitional nature of 2010, a year in which employment trends shifted from severe losses to moderate gains. The California economy generated three consecutive months of job gains as last year ended. Non-farm payrolls grew by 110,800 jobs during the fourth quarter. For the entire year, non-farm payroll jobs increased in seven of the twelve months, compiling a net gain of 82,600 jobs over the year, compared with the loss of 777,400 jobs in 2009.

As of December 2010, eight of the eleven major industries reported YoY increases in jobs. The mining industry with its small employment base reported the largest YoY percentage increase. The largest number of jobs created in the year was in professional and business services, especially in the category of temporary help workers. Jobs in the education and health care services sector grew throughout the recession and continued to expand in 2010. Health services jobs represented more than 75% of that sector's increase in 2010.

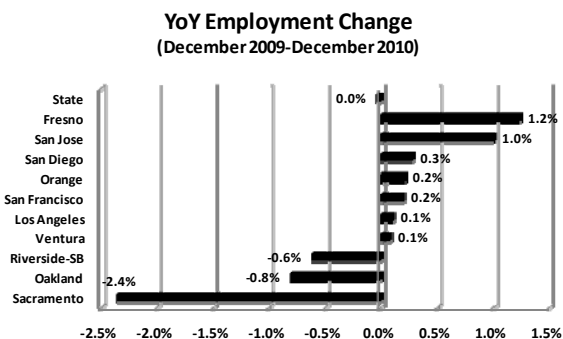


The construction industry continued to experience the largest percentage decline in jobs, based upon December YoY trends. Nonetheless, the 4.6% YoY drop in construction employment compared favorably with the 20.5% decline in December 2009. The construction industry shed 26,300 jobs in the year ending December 2010, which was significantly fewer than the YoY December declines of 128,300 in 2008 and 148,300 in 2009.

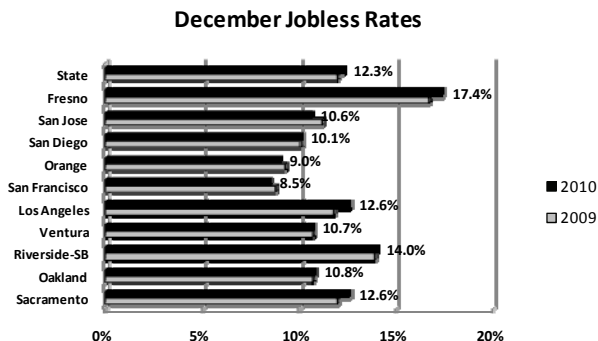
Employment reductions by local governments produced a significant drag on California's 2010 job performance. Local governments trimmed jobs by 61,700 YoY in December 2010, a widening from the 58,100 cut for the year ending December 2009. The decline in local government jobs in 2010 was partially offset by increased hiring on the federal and state government levels. For the year ending December 2009, state government employment declined 10,600, compared with an increase of 6,200 in 2010.

From the December 2007 beginning of the recession through December 2010, California lost a net of 1.23 million payroll jobs. The cyclical low in payroll employment occurred in September 2010, producing a decline of 1.34 million or 8.7% of pre-recession payrolls. From December 2007 to the employment nadir in September 2010, construction lost 310,000

jobs, the largest decline of any of the California industries. The second largest decline in jobs was in manufacturing, with durable goods industries accounting for 70% of the loss in total manufacturing jobs. For the services industry, the largest cyclical decline was reported in professional and business services, where job cuts were initially felt in the temporary help sector. Retail trade reported the second largest job loss within the services industry, and through December 2010 retail trade was continuing to shed jobs.



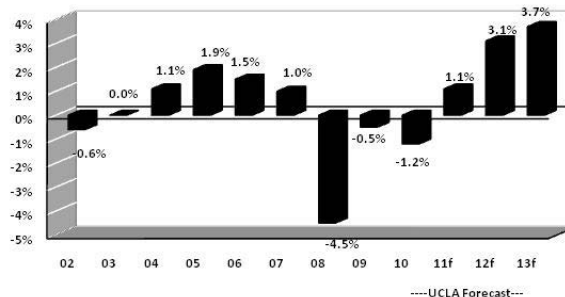
On a regional basis, most of the state's major metropolitan areas reported YoY gains in employment based upon December 2010 data. The exception to this improvement occurred in the inland areas of Sacramento, Riverside-San Bernardino and Oakland. Fresno reported the steepest YoY growth in jobs, up 1.2%. Increased production of high-technology products, especially goods earmarked for export, contributed to the 1.0% YoY job growth in San Jose and the greater Silicon Valley.



The December 2010 jobless rates for the major metropolitan areas ranged from a low of 8.5% in San Francisco to a high of 17.4% in Fresno. San Francisco, Orange County and San Jose reported December 2009

to December 2010 declines in unemployment rates, whereas Ventura and San Diego counties reported unchanged jobless rates. The remaining five metropolitan areas and the state reported higher jobless rates in 2010 than in the prior December.

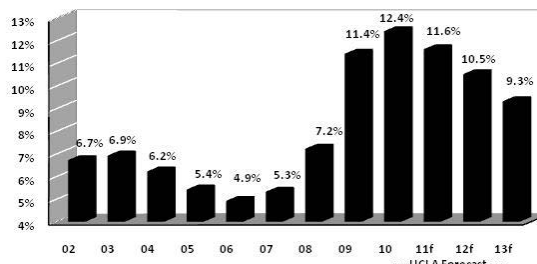
**Growth CA Employment**



UCLA forecasts that California will generate jobs in 2011 and job growth will steadily accelerate through 2013. Although the construction industry will be the last sector to experience a turnaround, all other private sector industries are projected to create jobs in 2011. Government and construction are projected to continue to trim workforces in 2011, although both sectors will create jobs in 2012 and through 2013. According to the California Governor's Budget Analysis released in May 2011, employment in California is not expected to return to its pre-recession level until 2016 and the state will not reach full employment rates of unemployment for several years thereafter.

The Governor's forecast places the growth in non-farm employment at 1.3% in 2011 and 1.9% in 2012. UCLA projects job growth of 1.1% in 2011, 3.1% in 2012 and 3.7% in 2013. The differing projections for the unemployment rate are 12.1% in 2011 and 10.8% in 2012 for the Governor's forecast and 11.6% in 2011, 10.5% in 2012 and 9.3% in 2013 for the UCLA forecast.

**CA Jobless Rate**



**Housing**

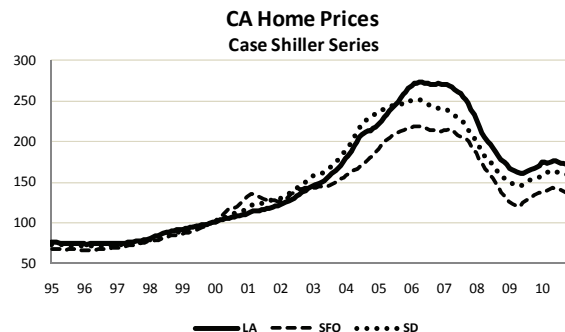
The California housing industry continued to bump along the bottom in 2010. Annualized homebuilding permits plummeted from 223,779 units in February 2006 to a low of 31,885 units in February 2009. In 2010, housing permits averaged 44,833 units. Permits jumped in December 2010 to the highest level since November 2008. The December surge, however, was an anomaly, primarily caused by permits pulled in anticipation of changes in building codes at the start of 2011. Permits increased 22.5% in 2010. Permits for the construction of single-family homes declined 1.5% last year, while permits for multi-family units rose 78.0%.

In December 2010 California home sales recorded a seven-month high, climbing to a seasonally adjusted annualized sales of 520,680 units. The median price for single-family homes sold in December equaled \$301,850, down 1.6% from the previous year. The federal home buyer tax credit affected the pattern of home sales. The pace of sales was more robust in the first half of last year than in the second half. The tax credit applied to home sales that closed by June. The median number of days that a California single-family home remained on the market equaled 57.5 days in December 2010, compared with 35.1 days a year earlier. The inventory of unsold homes equaled a 5.0 month supply in December, up from 3.8 months in December 2009.

The California region with the lowest median home price in December 2010 was the High Desert at \$125,480, while South Coast Santa Barbara reported the highest median price of \$778,500. Of the 19 major regions surveyed by the California Association of Realtors, six regions reported YoY increases in selling prices, specifically the High Desert, Monterey Region, Ventura, Palm Springs, Riverside/San Bernardino and San Francisco Bay. The sharpest decline in home prices was the 9.6% YoY drop in the Northern Wine Country. Of the 19 regions, only Northern California and Palm Springs reported YoY sales gains. The High Desert had steepest YoY sales decline at 19.6%.

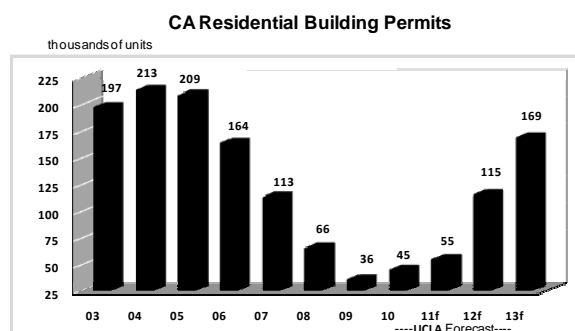
The Case-Shiller index is a survey of home prices for 20 major U.S. cities, including the three California cities of San Francisco, Los Angeles and San Diego. The California cities reported steadily increasing home prices beginning in the spring of 2009 and continuing through May 2010. In May 2010 the three cities reported YoY increases. Washington D.C. was the only other major city with such gains. Since May,

however, California home prices resumed a downward trend. Only San Diego and Washington DC experienced YoY price gains as of December 2010. Home prices for the three California cities were between 36% and 38% below peak levels.



The number of California homes entering the foreclosure process dropped in the fourth quarter of 2010 to the lowest level in over three years. Part of the decline was attributable to a foreclosure-action moratorium imposed by major lenders to ensure that their actions and paperwork were in compliance with policy. The fourth quarter volume of notices of default declined 16.2% over the third quarter and 17.5% from the year-earlier period. The fourth-quarter trends indicated that the time between notice of default and foreclosure equaled 8.8 months, up from 7.0 months a year earlier.

Based upon available data, mortgages least likely to go into default were located in San Francisco, Marin and San Mateo counties. The default probability was highest for the counties of Madera, San Joaquin and Stanislaus. Foreclosure sales accounted for 37.5% of California existing home sales in the fourth quarter of 2010, up from 35.5% in the third quarter yet down from the 40.6% share a year earlier. The peak share of foreclosure sales to total sales was in the first quarter 2009 at 57.8%.



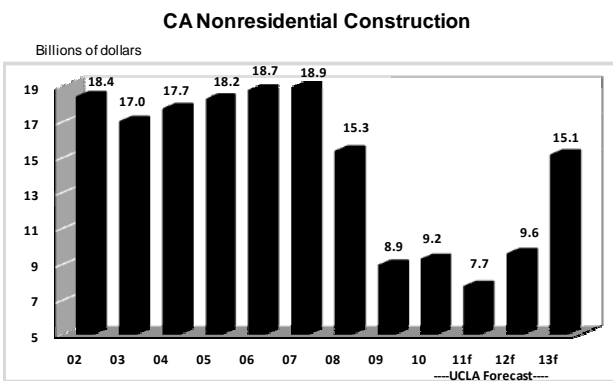
UCLA forecasts that California building permits will recover slowly in 2011, averaging 55,000 units in 2011, which is approximately 10,000 units higher than in 2010. The recovery will pick up momentum, with permits averaging 115,400 units in 2012 and 168,800 units in 2013. The Governor’s forecast of permits in 2011 matches the UCLA projection, while 2012 permits will average 87,000 units, about 25% below the UCLA forecast.

**Commercial Construction**

Like housing, commercial construction reported essentially no change in activity in 2010, remaining near the lows of 2009. In 2009 the value of new California permits for non-residential building plummeted 42%. Last year’s permits equaled \$11.1 billion, representing a gain of only 1.8% over 2009.

Market sentiment driving commercial real estate activity began to improve over the course of 2010, as the economic recovery continued to take hold in many regions of the state. The California regions, benefitting from increased international trade, experienced improvements in their commercial property markets. The expansion in the production of technology goods created jobs and increased demand for commercial and industrial space. Demand for industrial space benefited from rising trade through the major California ports. Consumer spending picked up to improve conditions for retail properties.

The improving economy will begin to gnaw away at the challenges that plagued commercial construction. Vacancy rates for some property types and in certain locations are beginning to decline. Nonetheless, the declines in vacancy rates and positive net absorption have yet to translate into consistent increases in lease rates. Needed will be continued gains in economic activity and employment to stabilize the commercial markets and gradually prompt increased building.



UCLA projects that the bottom in California non-residential building will be reached in late 2011 or early 2012. A significant recovery in commercial construction is not anticipated until 2013. The non-residential permit valuation forecast of \$15 billion in 2013 will place the commercial building nearly 20% below the pre-recession level.

**International Trade**

California exports reached a record volume of \$13.3 billion in December 2010, representing a 14.8% gain over the year and the 14<sup>th</sup> consecutive month of YoY increase. The annual total for California merchandise exports equaled \$143.3 billion, up 19% over 2009. California ranked as the second largest exporting state behind Texas. California maintained the position as the top importing state in the nation.

The March 2011 earthquake in Japan carried implications for the California economy. Japan is the fourth largest foreign market for California exports, behind China, Mexico and Canada. Trade with Japan through the ports of California included two-way trade in high technology goods, imports of vehicles and parts, exports of agricultural products, and tourism. Japan is a major supplier of electronic components to the Silicon Valley. Based upon preliminary 2010 data, 557,000 visitors from Japan came to California and spent approximately \$1,110 in the state per trip. Tourism from Japan accounted for approximately \$600 million in California sales and economic activity.

**Budget**

California struggled with massive budget deficits over most of the past ten years. The recurring deficits resulted from a variety of factors, including reliance on one-time solutions, such as borrowing, accounting maneuvers and/or illusory spending cuts or revenue gains. When Governor Brown took office in January 2011, the 2011-12 budget gap was estimated at \$25.4 billion and widened to \$26.6 billion following the cancellation of the sale of state buildings. In March, legislation was passed which produced \$13.4 billion in spending cuts.

Ten months into fiscal 2011, tax revenues were running ahead of budget projections. Personal income tax revenues and retail sales tax receipts were higher than budget estimates, while corporate tax revenues were below budget. Due to the recent growth in revenues, the Governor dropped the

## THE ECONOMY: *California*

proposal to extend the personal income tax surcharge that went into effect in 2010. Fiscal 2011 year-to-date spending showed that total disbursements were below budget estimates, notably for local assistance spending.

The original California budget gap for FY2011-12 was whittled down from \$26.6 billion to \$9.6 billion. The \$9.6 billion gap is comprised of a carry-in deficit of \$4.8 billion from FY2010-11 and an operating shortfall of \$4.8 billion in FY2011-12.

### Migration and Consumer Spending

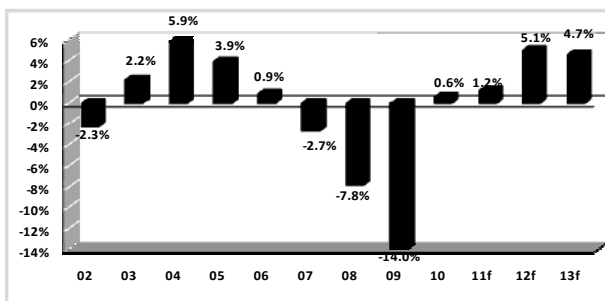
Typically in a recession, California experienced out-migration, as residents leave the state in search of job opportunities elsewhere. For example, when the rate of unemployment reached 9.8% during the aerospace and real estate recession of the 1990s, nearly 1.5 million Californians or 5% of the pre-recession population base left the state, according to Beacon Economics. In the current recession, the state experienced a significantly smaller share of its population leaving the state. During this cycle, out-migration represented approximately 1% of the pre-recession population, even with the state's jobless rate peaking at 12.5%.

A number of factors limited out-migration during the current recession. The economic recession was severe and nationwide. The business downturns in the states adjacent to California were as severe or nearly as severe as in California. Housing played two roles in limiting out-migration. The meltdown in sales made it difficult to sell existing homes, thus limiting mobility of California residents with homes. Favorably, the decline in home prices made California's homes more affordable, which coupled with the weak dollar, attracted foreign immigration into the state.

UCLA forecasts steady increases in net migration through 2013. Improving job conditions, renewed

business activity especially trade-related activity, and the greater affordability of the state's housing are significant factors contributing to projections of gradual gains in new residents.

Growth in Real CA Taxable Sales

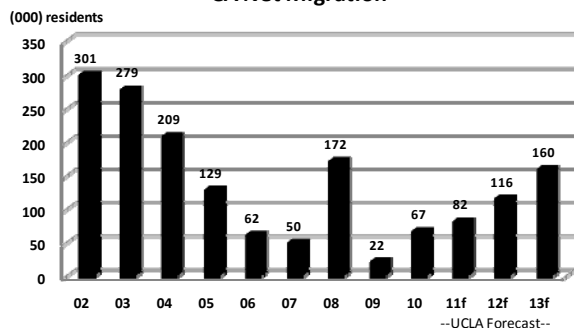


Consumer spending in California increased in 2010 following steep declines for the previous three years. The economic recovery improved consumer confidence, while job gains contributed to increased income. According to the Bureau of Economic Analysis, personal income in California grew 3.3% from the fourth quarter of 2009 to the fourth quarter of 2010. This income growth was below the national average of 3.9%, yet compared quite favorably to the state's 1.3% decline in 2009.

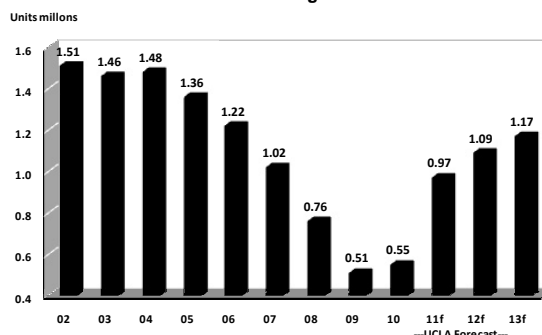
As was the case nationally, California car sales rose last year. New car registrations averaged 92,498 units in 2010, a 13% increase over the 82,183 unit rate of 2009. Auto registrations showed a noticeable pick up in momentum as the year ended.

UCLA forecasts that the volume of California retail and car sales will increase over the forecast period. The moderate increase in real taxable sales during 2011 will reflect the effect of high prices for gasoline on curbing consumer spending for other, more discretionary items.

CA Net Migration



CA New Car Registrations



2011

# **THE BANKING INDUSTRY**

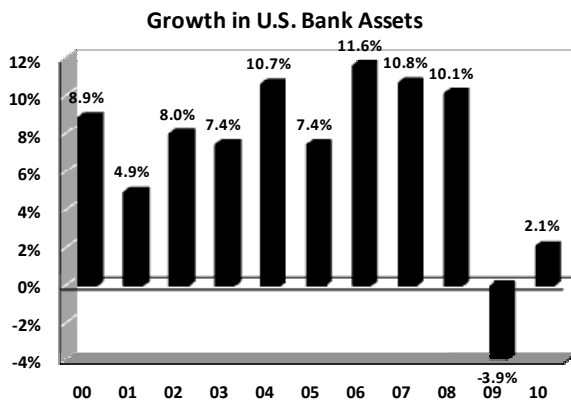
**CARPENTER**

# THE BANKING INDUSTRY: *United States*

The U.S. banking industry continued to mend, especially in terms of enhanced earnings and asset quality in 2010. Total assets grew slightly. A change in the accounting treatment of syndicated loans caused a sizable increase in commercial bank credit card balances. Net of that accounting change, lending last year was sharply lower. Bank holdings of other real estate owned increased 30%, with single-family residences representing 39% of all bank-owned properties. As the deterioration in asset quality slowed, banks reduced the amount of provision taken against future loan losses. The reduced provision contributed to the step-up in earnings last year, the best annual earnings since 2007. Banks reported declines in the percent of non-current to total loans in 2010, supported by reductions in non-current commercial & industrial loans. The sluggish lending activity produced lower loan-to-deposit ratios. The leverage ratios of U.S. banks continued to expand, rising 130 basis points over the annual low in 2008. Community banks, as defined as banks under \$1 billion, dwindled in number and reported significant reductions in loan portfolios last year.

## Balance Sheet

Total assets of U.S. commercial banks grew 2.1% in 2010, a contrast to the 3.9% decline in 2009. Last year's growth left total assets 2.0% below the year-end record that was set in 2008. Assets climbed to \$12.1 trillion in 2010, with most of the major assets classifications increasing. Balances held in cash and due from depository institutions, goodwill, and all other assets were the exceptions to the rising trend. U.S. commercial banks realized a 2.2% increase in total deposits and a 4.3% gain in equity capital. Due to the liquidity in balance sheets, banks reduced purchased federal funds and other borrowed funds by 2.3%.



Commercial banks generated significant sources of liquidity and greatly improved capital levels than had been the case at year-ends 2008 and 2009. This greater liquidity, however, partly resulted from the sluggish growth in loans. In 2009 net

## United States Banking

Assets of U.S. banks grew, loans did not .....21

Single-family homes accounted for 39% of bank OREO .....23

Banks generated best profits in two years, propelled by reduced provisions .....24

Asset quality improved, non-accrual loans declined .....25

Returns on assets and equity increased .....26

Community banks declined in number and experienced declines in lending .....27

**U.S. Bank Performance - 2006-2010**

*(Dollars in Thousands, % are Averages)*

	2006	2007	2008	2009	2010
Number of institutions	7,401	7,283	7,086	6,840	6,530
Total assets	10,091,959,195	11,175,989,438	12,308,837,052	11,822,975,264	12,066,352,708
Net loans & leases	5,912,752,635	6,537,181,655	6,681,740,774	6,281,387,454	6,377,184,273
Loan loss allowance	69,059,839	89,178,677	156,657,177	213,788,405	217,699,510
Allowance/Total Loans (%)	1.15%	1.35%	2.29%	3.29%	3.30%
Total deposits	6,731,411,258	7,309,831,307	8,082,183,718	8,333,219,756	8,514,350,004
Total equity capital	1,029,930,319	1,142,857,980	1,154,173,582	1,308,421,712	1,364,937,516
Net Income	128,201,039	97,583,439	15,265,235	-11,473,294	77,948,326
Return on Assets	1.33%	0.93%	0.13%	-0.10%	0.65%
Return on Equity	13.02%	9.12%	1.31%	-0.92%	5.90%
NPAs/Assets	0.52%	0.87%	1.84%	3.40%	3.11%
NPAs	52,478,188	97,231,108	226,482,602	401,981,159	375,263,569
Reserves to NPAs	131.6%	91.7%	69.2%	53.2%	58.0%
Core capital (leverage) ratio	7.86%	7.63%	7.40%	8.51%	8.73%
Total risk-based capital ratio	12.35%	12.21%	12.72%	14.09%	15.01%
% of unprofitable banks	7.54%	11.22%	23.44%	30.67%	21.45%
# of unprofitable banks	558	817	1,661	2,098	1,401
% of profitable banks	92.46%	88.78%	76.56%	69.33%	78.55%
# of profitable banks	6,843	6,466	5,425	4,742	5,129

loans and leases declined 6.0%. The 1.5% growth in loans in 2010 was primarily the result of a March 30, 2010 change in accounting rules, requiring that consumer loans held in securitizations be reported on bank balance sheets. Without this accounting reclassification, net loans in 2010 would have been 2.8% below the 2009 level and 8.6% below the net loan balance in 2008. Net loans and leases of commercial banks equaled \$6.38 trillion in 2010, compared with \$6.28 trillion in 2009 and the 2008 record volume of \$6.68 trillion.

Commercial banks experienced reduced volumes in real estate, farm and commercial and industrial loans during 2010. The aforementioned accounting change produced a 25.6% jump in consumer loans. Increased lending to government entities, foreign and domestic, contributed to a 9.8% rise in miscellaneous loans.

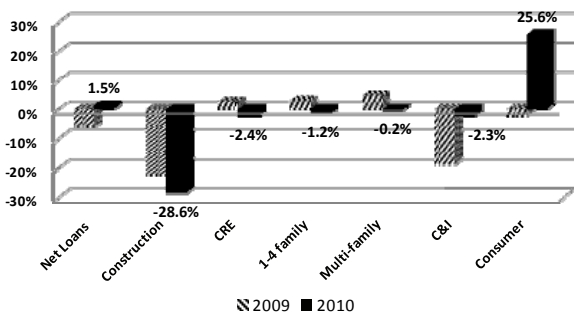
Stricter loan underwriting criteria and high volumes of loan charge-offs contributed to the reduction in real estate lending in 2010. Only farmland loans recorded increased volumes relative to 2009. Loans for construction and land development declined

28.6% from 2009 and were 47.2% below the 2007 record level of construction loans. Multi-family loans slipped slightly below the record volume of 2009, while commercial real estate loans were off 2.4% from 2009, which was a record for that category. Loans for 1-4 family mortgages declined 1.2% from the record volume in 2009.

Bank lending for commercial and industrial (“C&I”) purposes declined 2.3% from 2009. The decline in C&I lending to domestic companies fell 3.3%. Total C&I loans were down 20.7% from the record volume of 2008. Stricter loan underwriting was a partial reason for the decline in C&I lending. Surveys of small business owners, however, cited their limited willingness to borrow included concerns that the business was no longer credit-worthy, that economic conditions did not warrant expanding operations at this time, that alternative sources of credit were more competitively priced and/or that existing cash flow was sufficient for current operations.

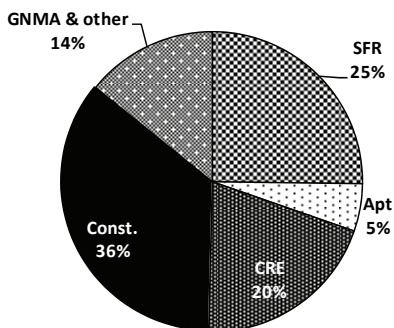
Commercial bank loans to individuals grew from \$977.3 billion in 2009 to \$1.23 trillion in 2010. The

**Growth in Bank Loans**



increase was centered in credit card balances, up 70.1% for the year. The Federal Reserve reported that revolving consumer debt, primarily credit card debt, declined 7.5% in 2010. Thus, the surge in bank credit card loan balances was principally caused by the FAS 166 and 167 rule changes requiring that consumer loans held in securitized pools be treated as an on-balance sheet item. The impact of this accounting change was estimated at \$290 billion.

**US OREO Share by Property Type**  
December 2010



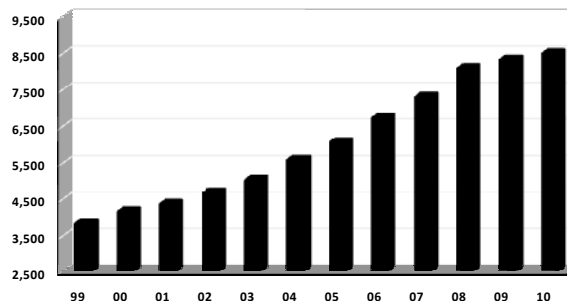
Banks reported that other real estate owned (“OREO”) increased 30.5% in 2010 to a record volume of \$46.7 billion. From the 2004 recent low, OREO soared by a factor of twelve. Properties obtained from construction and land development loans accounted for the largest share of OREO at 36%, yet represented the smallest increase, up 7.2% in 2010. Bank OREO obtained as foreclosed properties from GNMA loans soared 169% in 2010, while foreclosed homes from bank-held 1-4 family mortgages increased 21.8% last year. The combination of single family homes and GNMA foreclosed properties implied that single-family homes accounted for 39% of OREO. OREO obtained from commercial real estate loans and multi-family loans increased by 44% and 53%, respectively. The

high OREO volumes in homes and land bode for continued downward pressures on residential real estate prices in the current year.

Bank goodwill and other intangibles peaked in 2007 and declined steadily through 2010. This category was 3.5% below the level of 2009 and was 11.8% lower than the 2007 peak. Eroding asset quality contributed high impairment expense over recent years and the steady declines in goodwill.

Commercial banks in 2010 held a significantly higher proportion of their assets in cash, securities and federal funds than in 2007. Over the period from 2007 through 2010, combined balances of cash and due from, securities and fed funds sold increased by more than \$1 trillion, bringing the share of these balances to 30.9% of assets in 2010, up from 24.3% in 2007. Over this same period, commercial banks reduced balances in sold federal funds and increased their holdings of securities and interest-bearing balances. The prevailing sub-0.25% rate on federal funds was a major factor for this restructuring. Chasing yields, however, could contribute to interest rate and market risks if banks elongate investment maturity to achieve marginally higher yields and then interest rates rise.

**U.S. Bank Deposits**  
(billions of dollars)

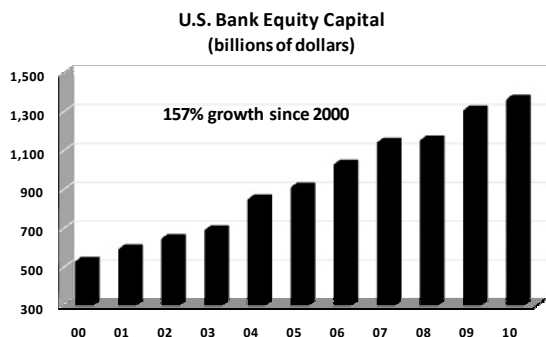


Total deposits increased 2.2% in 2010 to \$8.5 trillion. Since 2007 bank deposits grew 16.5%, as funds flowed into the safety of insured deposits during this prolonged period of significant volatility in the value of alternative investments and despite generally low interest rates. Banks realized sizable growth in core deposits over the past four years. Core deposits equaled \$6.2 trillion in 2010, up 5.8% over 2009 and 30.9% over 2007. Growth last year was concentrated in non-interest-bearing deposits. Liquidity and slack loan demand contributed to a strategy of reducing time deposit balances by 17.7%.

Compared with the record volumes in 2008, time deposits in 2010 were down 30.8%. Brokered deposits were down 7.3% from 2009 and down 25.7% from the record level of 2008.

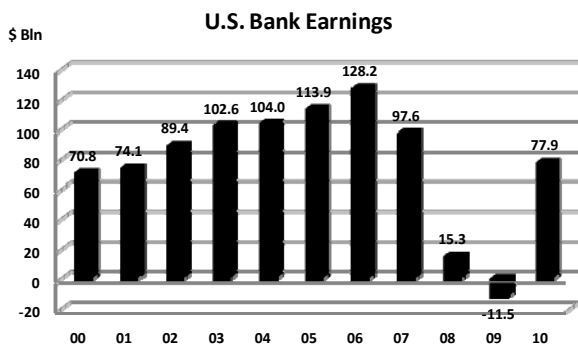
Adequate liquidity was reflected in the steady declines in bank borrowings. In 2008 the sum of fed funds purchased, other borrowed funds and subordinated debt equaled \$2.26 trillion. In 2010 the borrowings sum was \$1.59 trillion, a decline of 29.6% from the record level in 2008.

Total equity capital of commercial banks climbed to \$1.36 trillion, up 4.3% over 2009. Over the past ten years, the growth in total bank equity capital exceeded 157%.



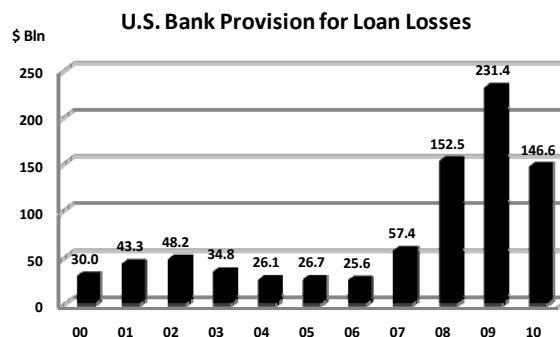
**Earnings**

Bottom line earnings for the banking industry showed an impressive turnaround in 2010. Total net income equaled \$77.9 billion compared with a loss of \$11.5 billion in 2009. A less favorable comparison was the fact that 2010 net income was 39.2% below the record earnings of \$128.2 billion in 2006. Pre-tax net operating income swung from a loss of \$1.3 billion in 2009 to a gain of \$104.5 billion last year.

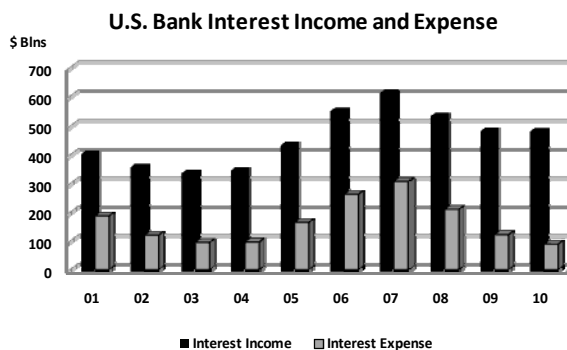


The industry benefited from reduced interest expense, improved asset quality and contained non-interest expenses to generate this profit.

If one aspect were to be highlighted in the earnings improvement, it would be the reduction in provision expense. Commercial banks reported provision expense of \$146.6 billion in 2010, a reduction of \$84.8 billion from the 2009 level of provision and \$6 billion below the provision taken in 2008. Provision was responsible for more than 80% of the change in net operating income over the past year.

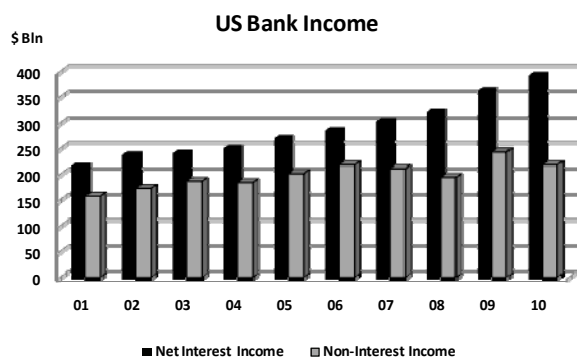


Total interest income declined \$0.7 billion in 2010, while total interest expense fell \$31.0 billion to generate a \$30.4 billion increase in net interest income. Net interest income equaled \$392.1 billion last year. In 2007 the banking industry earned a record amount of interest income at \$611.1 billion, but also paid a record amount of interest expense at \$308.0 to generate \$303.2 billion in net interest income. Compared with 2007, interest income in 2010 was 21.2% lower and interest expense was 71.0% lower, which resulted in a level of net interest income that was 29.3% higher.



Total non-interest income in 2010 was 10.3% lower than in 2009, largely due to reduced incomes from deposit account service charges, net servicing fees, net securitization income and insurance commissions and fees. Banks experienced larger losses from the sale of OREO and recognized lower gains on the sale of other assets than in 2009.

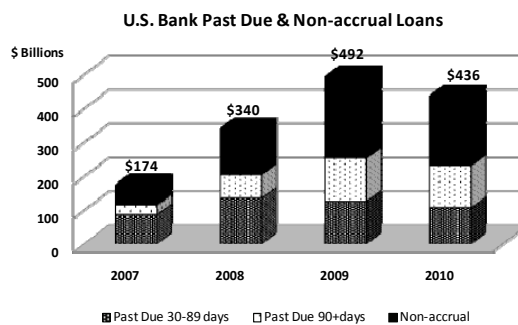
The fallout from the sizable reduction in the volume of securitizations was the decline in net securitization income. Such income equaled \$21.1 billion in 2007 and \$0.5 billion in 2010. Commercial banks realized securities gains of \$8.2 billion in 2010, compared with a \$1 billion loss in 2009.



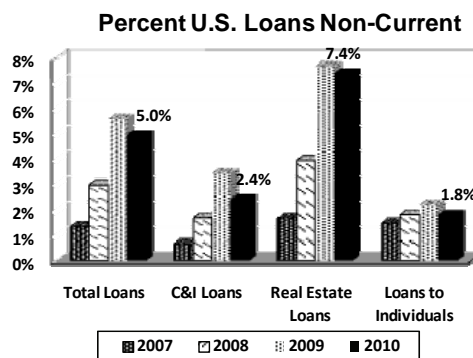
Total non-interest expense declined 4.2% compared with 2009. Salary expense was higher than in 2009, while premises and equipment expense was slightly lower. The significant reduction in expenses occurred in the additional non-interest expense category of goodwill impairment. Banks recognized impairments of \$30.2 billion in 2009 and \$22.8 billion in 2008. In 2010, goodwill impairment equaled \$1.8 billion, a decline of \$28.4 billion over 2009. The \$9.4 billion increase in other non-interest expense partially offset the reduction in impairment expense.

**Asset Quality**

The economic recovery, stricter loan underwriting and aggressive charge-offs of loans contributed to an improvement in the quality of banking assets in 2010. The progression of assets into troubled condition also slowed in 2010. The comparison with 2009 showed reduced balances of assets past due 30-89 days, assets past due 90 or more days, and assets in non-accrual status. The only exception to the lowering trend in troubled assets was the increase in OREO.



Assets past due 30-89 days were \$19 billion lower in 2010 than in 2009. Reductions were reported across all but one category of loans. The anomaly for the 30-89 day past due category was the uptick in credit cards. The 2010 reduction in assets past due 90 days or more was \$3 billion. Only credit cards showed an increase in delinquency. Assets in non-accrual status declined \$25.7 billion in 2010. The only loan category reporting an uptick in non-accruals was commercial real estate loans. Total loans delinquent 30 plus days and in non-accrual status equaled \$435.2 billion, a decline of 11.6% over 2009.

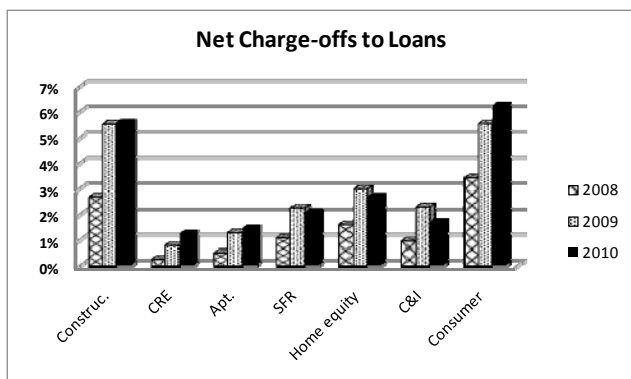


Non-current loans equaled 4.95% of total loans in 2010, compared with the 2009 ratio of 5.6%. The highest percentage of non-accrual loans to loans was the 16.1% ratio for construction and development loans. This ratio was little changed from 2009 since the dollar amount of non-current loans declined at approximately the same rate as the decline in total construction loans. Commercial real estate and home equity loans reported increased ratios of non-current to total loans.

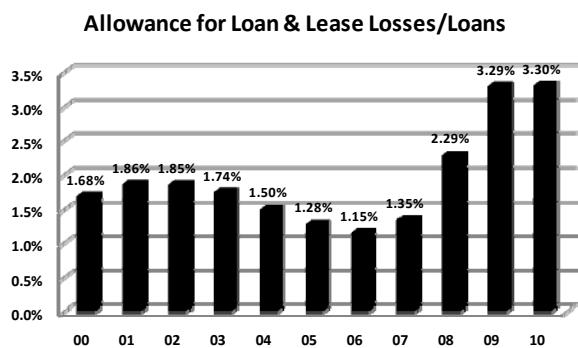
Credit card loans reported the largest percentage point decline in the ratio of non-current loans to total loans, down 129 basis points. The improvement resulted, in large measure, from the accounting-

related increase in the portfolios of credit card loans. Non-current credit card balances in 2010 were carried over a larger denominator of total credit card loans. The percentage of non-current C&I loans declined 103 basis points during 2010.

Part of the asset quality improvement in 2010 resulted from the increased charge offs of loans. Net charge-offs equaled \$175 billion in 2010, an increase of \$1.5 billion over 2009 and \$137.8 billion higher than in 2007. Total charge-offs increased to 2.67% of loans in 2010, up from 2.60% in 2009 and from 0.62% in 2007. The highest percentage of charge-offs was for credit cards, with charge-offs representing 10.4% of credit card loans. The next highest charge-off was the 5.6% rate for construction and land development loans. The rate of charge-offs also rose for commercial real estate and multifamily loans.



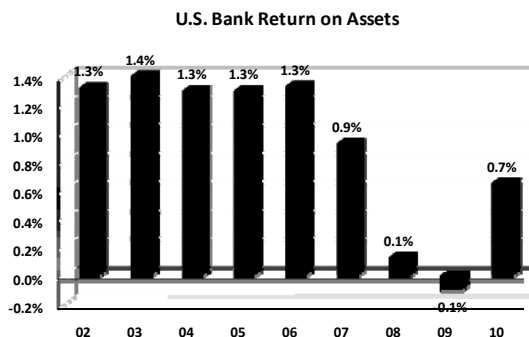
Non-current assets plus OREO equaled 3.1% of assets in 2010, down from 3.4% in 2009. Despite the lower level of loss provision in 2010, the loan loss allowance increased nearly \$4 billion in 2010. The ratio of loss allowance to loans increased from 3.29% in 2009 to 3.30% in 2010. With the decline in non-current loans, the ratio of allowance to non-current loans rose to 66.7%, up from 58.8% in 2009. This allowance to



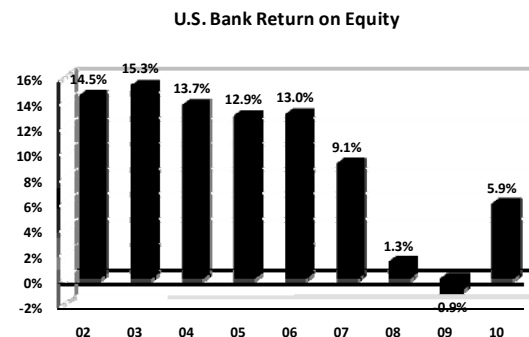
charge-off ratio reflected an improving trend yet remained well below the 101.2% coverage of 2007.

**Other Ratios**

The renewed earnings contributed to significant improvements in the returns on assets and equity. The 2010 return on assets equaled 0.65% in 2010, compared with -0.10% in 2009 and 0.13% in 2008.

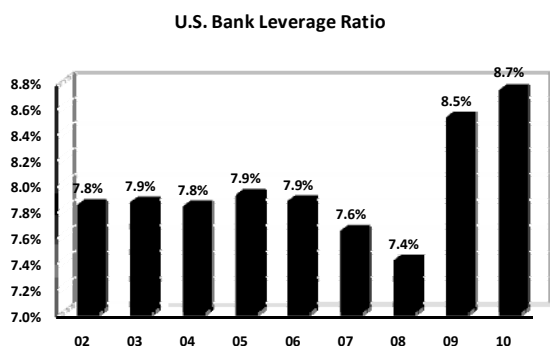


Likewise, the return on equity at 5.90% compared favorably with the rates of -0.92% in 2009 and 1.31% in 2008.

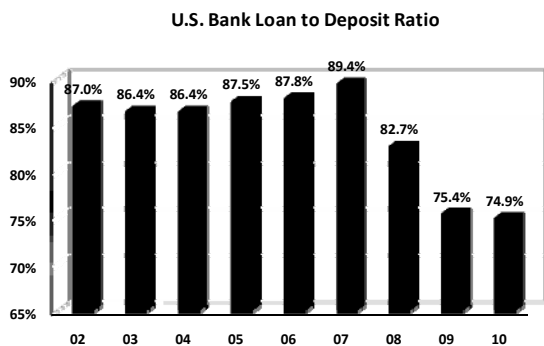


The net interest margin at 3.81% was 29 basis points higher than in 2009 and 60 basis points above 2008. Non-interest income equaled 2.11% of earning assets, down from 2.36% in 2009 but an improvement over the 1.95% ratio of 2008. Non-interest expense equaled 3.48% of earning assets in 2010, down from 3.64% in 2009 and above the 3.32% rate of 2008. The efficiency ratio, based on non-interest expense divided by the sum of net interest income and non-interest income, improved in 2010 declining to 58.8% from 61.9% in 2009.

With the growth of equity capital exceeding the growth in assets, the leverage ratio increased. The leverage ratio climbed 22 basis points in 2010 to an average of 8.73%. The tier 1 risk-based capital ratio increased 101 basis points to 12.32%, while the total risk-based capital ratio was 92 basis points higher over the year to a rate of 15.01%.



Sluggish loan growth coupled with the rise in deposits caused the loan-to-deposit ratio to slip to 74.9% from 75.4% in 2009. Current ratios contrasted significantly with the ratios averaging in excess of 85% from 2002 to 2007. In 2007 the loan-to-deposit ratio equaled 89.4%.

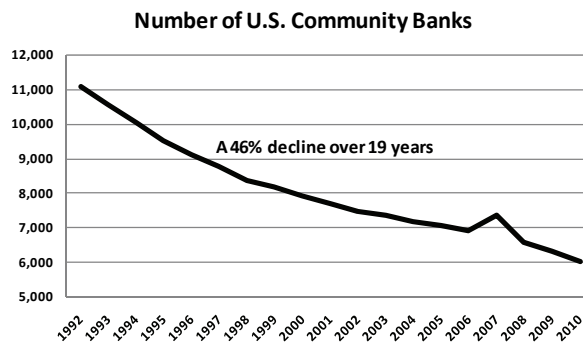


**Community Banking**

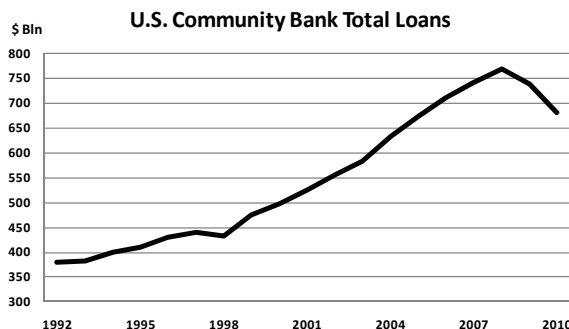
Other sections within this report discuss structural changes in banking, including the declining number of banks, the rising proportion of troubled banks and the significant asset concentration of the over \$10 billion banks. This section highlights the longer-term trends for community banks, defined as commercial banks with less than \$1 billion in assets.

In 2010 there were 6,021 banks under \$1 billion, a decline of nearly 46% since 1992. Despite the decline in the number of banks, total assets of community

banks increased 16% over the same period. Thus, the average community bank held \$197.8 million in asset in 2010, compared with the 1992 average of \$92.6 million. Total assets in the community banking sector peaked in 2008 and by 2010 assets were 5.3% below that level.



Community banks reported a dearth of loan production, with net loans peaking in 2008 and declining steadily through 2010. The 2010 decline from the peak equaled 12.3%. The peak in community bank deposits was reached in 2009. In 2010 deposits were 3.9% below the peak.



The declining trend for community bank balance sheets partly resulted from the steady decline in the number of community banks. The last annual increase in the number of community banks occurred in 2007. The 2010 number of banks was 18.3% below 2007. On a per-bank basis, assets edged down 0.1% in 2010 from the peak in 2009. The prior peak in loans occurred in 2008. The 2010 balances were down 4.2% from the peak and 3.5% below 2009. Per-bank deposits and capital climbed to new highs in 2010. Community banks matched the broader industry with its return to profitability in 2010. On a per-bank comparison, net income was slightly higher than in 2008.

## THE BANKING INDUSTRY: *United States*

### U.S. Banks with Assets under \$1 billion, 1992-2010

Category	1992	1993	1994	1995	1996	1997	1998
# of Banks	11,083	10,577	10,059	9,519	9,129	8,775	8,382
Total Assets (\$mln)	1,026,723	1,012,948	998,809	994,587	993,498	995,592	979,373
Net Loans (\$mln)	555,883	556,246	573,125	573,314	586,771	594,259	576,995
Reserves (\$mln)	10,606	10,358	9,862	9,354	9,199	8,954	8,716
Deposits (\$mln)	893,744	870,859	848,433	845,063	836,164	832,387	816,686
Brokered Deposits (\$mln)	3,994	4,499	5,682	5,439	5,631	6,790	8,721
Equity (\$mln)	88,271	91,964	91,107	96,442	96,868	98,935	97,005
Tier 1 Capital (\$mln)	86,331	89,494	91,866	92,262	92,945	93,498	91,576
Net Income (\$mln)	10,158	11,352	11,343	11,651	11,844	12,208	11,814
Non Performing Loans (\$mln)	9,906	8,228	6,360	5,996	5,959	5,435	5,256
Non Performing Assets (\$mln)	16,598	12,478	9,190	8,047	7,508	6,758	6,357
Return on Assets	0.99%	1.12%	1.14%	1.17%	1.19%	1.23%	1.21%
Return on Equity	11.51%	12.34%	12.45%	12.08%	12.23%	12.34%	12.18%
Leverage Ratio	8.60%	9.08%	9.12%	9.70%	9.75%	9.94%	9.90%
NPLs/Assets	0.96%	0.81%	0.64%	0.60%	0.60%	0.55%	0.54%
NPAs/Assets	1.62%	1.23%	0.92%	0.81%	0.76%	0.68%	0.65%
Reserves/NPLs	107.07%	125.90%	155.07%	155.99%	154.39%	164.74%	165.84%
Reserves/NPAs	63.90%	83.02%	107.31%	116.23%	122.52%	132.48%	137.11%
Brokered Dep/Deposits	0.45%	0.52%	0.67%	0.64%	0.67%	0.82%	1.07%
Category	1999	2000	2001	2002	2003	2004	2005
# of Banks	8186	7918	7681	7483	7346	7186	7051
Total Assets (\$mln)	997,603	1,004,563	1,041,093	1,081,200	1,110,829	1,142,934	1,180,634
Net Loans (\$mln)	618,759	637,661	658,182	682,778	703,687	747,867	784,101
Reserves (\$mln)	9,073	9,130	9,647	10,227	10,364	10,592	10,443
Deposits (\$mln)	817,803	827,655	856,101	885,712	905,962	929,082	963,211
Brokered Deposits (\$mln)	10,050	13,711	14,918	19,783	22,321	30,095	42,323
Equity (\$mln)	95,724	99,779	103,377	109,394	112,778	117,426	121,668
Tier 1 Capital (\$mln)	94,393	94,882	96,635	100,533	104,782	109,647	115,328
Net Income (\$mln)	12,052	11,574	11,046	12,394	12,838	13,401	14,154
Non Performing Loans (\$mln)	4,973	5,318	6,545	6,896	6,665	5,650	5,366
Non Performing Assets (\$mln)	6,013	6,331	7,845	8,453	8,232	7,069	6,631
Return on Assets	1.21%	1.15%	1.06%	1.15%	1.16%	1.17%	1.20%
Return on Equity	12.59%	11.60%	10.69%	11.33%	11.38%	11.41%	11.63%
Leverage Ratio	9.60%	9.93%	9.93%	10.12%	10.15%	10.27%	10.31%
NPLs/Assets	0.50%	0.53%	0.63%	0.64%	0.60%	0.49%	0.45%
NPAs/Assets	0.60%	0.63%	0.75%	0.78%	0.74%	0.62%	0.56%
Reserves/NPLs	182.46%	171.69%	147.39%	148.29%	155.49%	187.47%	194.62%
Reserves/NPAs	150.90%	144.23%	122.97%	120.98%	125.90%	149.85%	157.50%
Brokered Dep/Deposits	1.23%	1.66%	1.74%	2.23%	2.46%	3.24%	4.39%
Category	2007	2008	2009	2010	19 Yr Chg		
# of Banks	7,369	6,576	6,326	6,021	-45.67%		
Total Assets (\$mln)	1,223,756	1,257,414	1,252,865	1,191,144	16.01%		
Net Loans (\$mln)	840,532	863,871	824,872	757,862	36.33%		
Reserves (\$mln)	10,870	13,290	16,683	15,561	46.71%		
Deposits (\$mln)	987,872	1,012,626	1,037,207	997,039	11.56%		
Brokered Deposits (\$mln)	52,568	79,743	63,805	45,393	1036.63%		
Equity (\$mln)	131,211	128,204	124,634	120,937	37.01%		
Tier 1 Capital (\$mln)	121,795	119,697	116,782	114,430	32.55%		
Net Income (\$mln)	11,799	3,532	-1,277	3,361	-66.92%		
Non Performing Loans (\$mln)	10,729	21,259	29,781	27,171	174.30%		
Non Performing Assets (\$mln)	13,347	27,566	40,682	40,324	142.94%		
					19 Yr Avg		
Return on Assets	0.96%	0.28%	-0.10%	0.28%	1.03%		
Return on Equity	8.99%	2.75%	-1.02%	2.78%	10.55%		
Leverage Ratio	10.72%	10.20%	9.95%	10.15%	9.89%		
NPLs/Assets	0.88%	1.69%	2.38%	2.28%	0.86%		
NPAs/Assets	1.09%	2.19%	3.25%	3.39%	1.15%		
Reserves/NPLs	101.32%	62.52%	56.02%	57.27%	137.20%		
Reserves/NPAs	81.44%	48.21%	41.01%	38.59%	109.63%		
Brokered Dep/Deposits	5.32%	7.87%	6.15%	4.55%	2.43%		

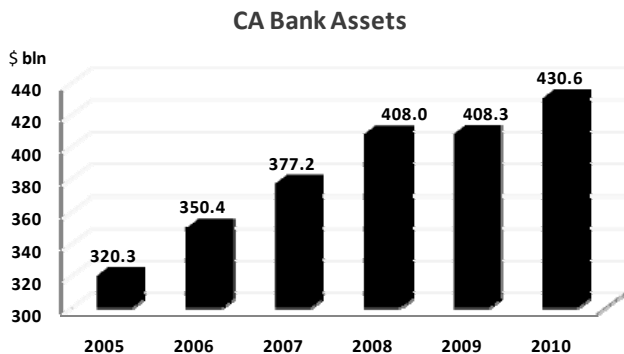
Source: FDIC

# THE BANKING INDUSTRY: *California*

Assets of California banks grew 5.5% in 2010, led by the establishment of the state's newest bank, the over \$20 billion First Republic Bank. Net of First Republic, assets would have been lower. Loan growth was concentrated in residential mortgages, while construction and commercial & industrial loans were lower. Profitability returned to the California banking industry following two years of losses. Earnings exceeded \$2 billion in 2010, fueled primarily by reduced provision expense and secondarily by increased net interest income. Asset quality improved for California banks, with a significant reduction occurring in non-accrual construction loans. California banks reported a greater reduction in the ratio of non-current loans as a percent of total loans than was the national experience. Returns on assets and equity turned positive in 2010. The average bank leverage ratio of California banks exceeded 10%. The number of California banks with less than \$1 billion in assets declined by 52% over the past 19 years. While community banks represented 83% of the number of California banks in 2010, their assets accounted for less than 13% of total assets.

## Balance Sheets

California banks reported \$430.6 billion in assets at year-end 2010, an increase of 5.5% over 2009. The rise in assets occurred despite the net reduction of 20 in the number of California headquartered banks. Even with a state as large as California, entrants and exits within the ranks of headquartered banks can create significant variations in asset and income trends. For example, investors acquired the operations known as First Republic Bank from Bank of America and initiated operations in the second half of 2010, creating a new California bank with more than \$20 billion in assets. Net of the creation of First Republic, total assets of California banks declined in 2010.



In the past, state banking history was altered by the exits of such large banking franchises as Bank of America, Wells Fargo, the West, N.A. subsidiary bank of Citibank and Comerica. For example, the peak year for California banking assets was 1998 at \$516 billion. A year later assets declined

## California Banking

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**California Bank Performance - 2006-2010**

*(Dollars in Thousands, % are Averages)*

	2006	2007	2008	2009	2010
Number of institutions	279	288	288	271	251
Total assets	350,268,234	377,170,111	408,005,093	408,312,460	430,590,156
Net loans & leases	240,811,265	269,567,646	289,615,665	270,084,086	286,772,370
Loan loss allowance	2,745,866	3,187,621	5,036,436	6,824,311	6,663,992
Allowance/Total Loans (%)	1.13%	1.17%	1.71%	2.46%	2.27%
Total deposits	257,575,343	256,628,500	267,325,156	287,545,434	299,327,131
Total equity capital	41,912,849	45,284,460	46,281,887	48,213,572	54,595,428
Net Income	4,238,701	2,666,080	(796,211)	(823,606)	2,043,292
Return on Assets	1.28%	0.74%	-0.21%	-0.21%	0.48%
Return on Equity	10.63%	6.17%	-1.82%	-1.80%	3.89%
NPAs/Assets	0.59%	0.69%	1.92%	3.22%	2.94%
NPAs	2,066,583	2,602,474	7,833,698	13,147,661	12,659,351
Reserves to NPAs	132.9%	122.5%	64.3%	51.9%	52.6%
Core capital (leverage) ratio	6.97%	9.25%	9.08%	9.51%	10.16%
Total risk-based capital ratio	12.53%	12.33%	12.49%	14.42%	15.48%
% of unprofitable banks	19.00%	25.69%	51.74%	63.10%	37.85%
# of unprofitable banks	53	74	149	171	95
% of profitable banks	81.00%	74.31%	48.26%	36.90%	62.15%
# of profitable banks	226	214	139	100	156

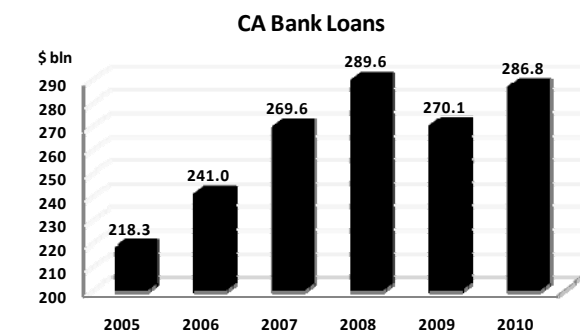
44% when Bank of America moved its headquarters to North Carolina.

First Republic Bank contributed importantly to the increased share of mortgage lending.

The following analysis will compare changes in the California bank balance sheets in dollar terms and as percentages of average assets to defuse volume changes impacted by the dynamic flows of institutions into and out of the state.

Net loans of California banks increased \$14 billion or 6% in 2010. This increase, however, did not recoup the 6.7% decline in 2009. Net loans were relatively constant at 66.6% of average assets in 2010, compared with 66.2% in 2009. In 2007, net loans equaled 71.5% of average assets.

Last year's increase in loans was concentrated in real estate loans, notably 1-4 family residential mortgages. Residential mortgages expanded 26.4% last year and were 69.4% above the 2007 level. Residential mortgages represented 25.0% of average assets in 2010 compared with 16.8% in 2007. Mortgage lending by the California subsidiaries of Bank of America and J. P. Morgan Chase and the newly formed



Rising loan balances were reported for commercial real estate, multi-family, farmland and consumer credit. Construction and land development loans plummeted 36.3% in 2010 and were down 66.6% from 2007. The majority of the California banks that failed since 2008 had sizable portfolios of construction loans. Upon FDIC resolutions, the troubled construction loans were marked to market and/or transferred to the FDIC or to an out of state

## THE BANKING INDUSTRY: *California*

acquirer. C&I lending was another declining loan category last year, off 4.5%.

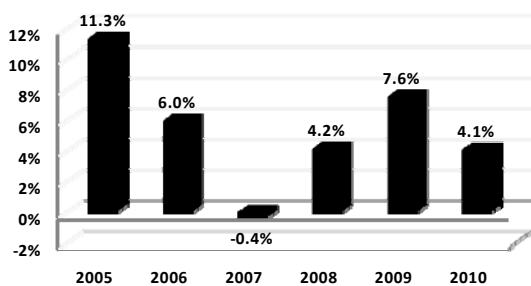
These trends caused construction loans to decline from 9.6% of average assets in 2007 to 2.8% in 2010. C&I loans declined from a high of 14.6% of assets in 2008 to 11.3% in 2010. Commercial real estate lending declined from 20.0% of assets in 2008 to 18.2% in 2010. All other major loans held relatively stable as a percent of assets over recent years.

OREO held by California banks increased 28.1% in 2010 to \$1.96 billion. The 2010 holdings represented a five-fold increase over the 2007 level of \$0.4 billion. Construction and land projects accounted for 49% of outstanding OREO, and CRE equaled 30% of the total.

California bank holdings of cash, investments and federal funds sold remained steady at 24.1% of assets in 2010, compared with a 24.6% share in 2009. To enhance returns from investments and liquid assets, banks increased their holdings of investment securities, while reducing holdings of cash and due from. Goodwill and other assets edged up slightly compared with 2009, while these categories declined as a percent of average assets.

California bank deposits grew 4.1% last year. The deposit growth was less than the growth in assets and produced a decline in the share of deposits to assets. Deposits equaled 69.5% of assets in 2010, compared with 70.4% in 2009. The 2010 ratio exceeded the 65.5% share in 2008. In sync with the national trends, California banks reported sizable increases in non-interest-bearing deposits, which expanded 17.5% in 2010. Reductions in time deposits slowed the growth in interest-bearing deposits to 1.2%. Core/retail deposits grew 14.1% last year.

**Growth in CA Bank Deposits**



Equity capital of California banks climbed 13.2% in 2010 to a record level of \$54.6 billion. The \$2.2 billion

capitalization of First Republic Bank accounted for more than one-third of last year's increase in equity capital. Nearly 71% of California headquartered banks reported increases in equity capital last year. Total equity capital rose to 12.7% of assets, up from 11.8% in 2009.

Unlike the national experience, California banks increased other borrowed funding in 2010. Without the \$12.2 billion in Federal Home Loan Bank advances taken down by JP Morgan Chase, other borrowed funds would have declined \$4.2 billion rather than the \$8.0 billion increase.

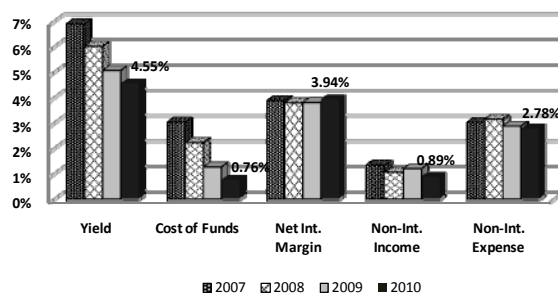
### Earnings

California banks generated annual earnings of \$2.0 billion in 2010, more than reversing the losses reported for 2008 and 2009. The combined losses in those previous two years equaled \$1.6 billion. Like the national trend, increased California earnings resulted primarily from reduced provision expense. At \$4.2 billion, the 2010 provision was 44.8% below the amount in 2009 and 14.3% below 2008.

California banks reported increased net interest income in 2010. The decline in interest expense greatly exceeded the decline in interest income. As a percent of earning assets, however, the net interest margin edged down a basis point to 3.79%.

Non-interest income fell 18.3%. The decline in non-interest income was broadly based with only trading account gains and fees advancing. Sizable declines in additional non-interest income resulted from reductions in other non-interest income, net servicing fees and gains from the sale of loans. Larger losses from the sale of OREO and from the sales of other assets contributed to last year's reduction in non-interest income.

**CA Bank Income Ratios**  
(% of Earning Assets)

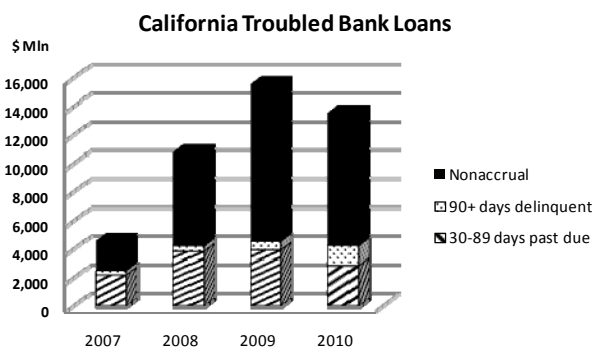


## THE BANKING INDUSTRY: *California*

Non-interest expense rose 6.5% in 2010, compared with a decline of 7.7% in 2009. Total expenses remained 1.8% below the 2008 level. Salary and employee benefits last year exceeded the 2008 level, while expenses for premises and equipment and goodwill remained below the levels in 2008. Despite the dollar increase in 2010 expenses, the ratio of non-interest expense to earning assets declined 9 basis points compared with 2009.

### Asset Quality

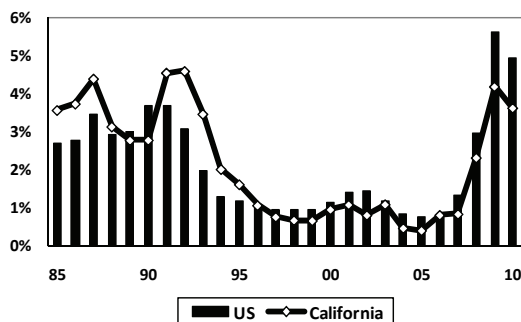
Asset quality of California banks generally improved in 2010, although the migration of loans into troubled condition indicated mixed results. Total loans 30 plus days delinquent and in non-accrual status declined 12.9% in 2010. The trends, however, were mixed, with assets past due 30-89 days declining 27.4% and non-accrual loans lower by 15.5%. Assets delinquent 90 or more days, however, more than doubled, increasing 127%. Assets past due 90 or more days accounted for about 10% of reported delinquent and non-accrual assets, the smallest of the three categories. The increase in assets over 90 days delinquent and the decline in loans 30-89 days delinquent occurred across the loan categories. The reduction in non-accrual assets was mixed, with increases in non-accrual residential mortgages and commercial real estate loans more than offset by declines in the other loan types. The sizable decline in non-accrual construction and land development loans more than offset the increases in single-family mortgages and CRE loans to produce the 12.2% drop in total non-accrual real estate loans.



Non-current assets plus OREO equaled 2.94% of assets in 2010, down 28 basis points from 2009. Non-current loans declined to 3.63% of loans in 2010, a 56 basis point reduction from 2009 and 132 basis points below the U.S. ratio. Construction and land loans

represented the largest percentage of non-current loans at 19.95%, yet were down from 20.64% in 2009. Although non-current construction loans declined in 2010, so did the volume of outstanding construction loans, thus maintaining the high ratio of non-current loans. Non-current C&I loans declined from 3.00% of loans in 2009 to 2.16% in 2010.

### Non-Current Loans to Total Loans



As a percent of assets, loans 30-89 days past due declined 30 basis points in 2010 to 0.66%. Loans past due 90 or more days rose 17 basis points to 0.32% of assets. Assets in non-accrual status equaled 2.16% of total assets, down from 2.70% in 2009.

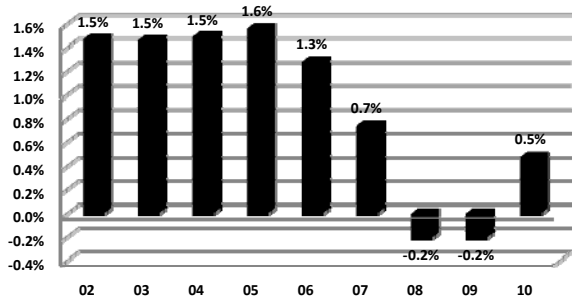
The lower provision for loan losses triggered a 19 basis point decline in the ratio of loss allowance to total loans. In 2009, the loss allowance equaled 2.46% of loans, compared with 2.27% in 2010.

Net charge-offs declined to 1.39% of loans in 2010 from the 2009 rate of 1.89%. The charge-off rate for construction loans was cut nearly in half to 4.66% in 2010 from 8.21%. Other loan types reporting reduced charge-off rates were multi-family, home equity, C&I and consumer loans, including credit cards. The charge-off rate for credit cards declined to 10.47% from 14.18% in 2009. This rate, however, contrasted with the 6.14% charge-off rate in 2007.

### Ratios and Other Trends

California banks generated positive returns on assets and equity in 2010. After two years of returns on assets at -0.21%, California banks reported an ROA of 0.48% in 2010. Returns on equity rebounded from -1.80% in 2009 to 3.89% in 2010. The earnings recovery was broadly shared as evidenced by the decline in the percentage of unprofitable California banks from 63.10% in 2009 to 37.85% in 2010.

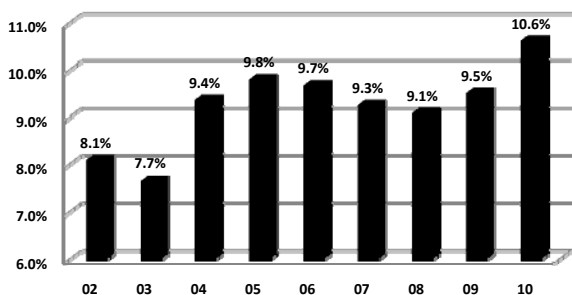
CA Bank Return on Assets



Nearly ¾'s of the California banks reported gains in earnings, up from the shares of 36.53% in 2009 and 17.71% in 2008.

The leverage ratio for California banks increased to 10.16% in 2010, a gain of 65 basis points over 2009 and significantly above the 9.08% leverage ratio of 2008. The rise in the tier 1 risk-based capital ratio was 120 basis points in 2010 to 13.86%. The total risk-based capital ratio expanded to 15.48% in 2010, up from 14.42% in 2009 and 12.49% in 2008.

CA Bank Leverage Ratio



California banks reported a loan-to-deposit ratio of 95.81%, up from 93.93% in 2009 yet below the 108.34% rate in 2008. With non-interest expenses up and operating income lower, the efficiency ratio worsened in 2010 to 59.4% from 57.4% in 2009.

The number of California banks declined by 20 in 2010 to 251. One bank opened in California last year, namely First Republic Bank. Ten banking charters failed, consisting of nine state chartered banks and one national bank. In addition, there was a failure of a California savings association in 2010. Of the remaining 11 banks that closed in 2010, five were acquired by another financial institution, and six were consolidated into a parent-owned affiliate bank.

### California Community Banks

At the end of 2010, there were 208 commercial banks headquartered in California with less than \$1 billion in assets, down from 435 in 1992. Average assets of community banks increased from \$143.1 million in 1992 to \$265.4 million in 2010. Community banks represented nearly 83% of the number of California banks at year-end 2010, while assets were less than 13% of total assets.

The peak in total assets of California community banks over the past 19 years was in 1992 at \$62 billion. The peak level of loans for California community banks was in 2008 at a volume of \$42.5 billion. The peak in deposits occurred in 1992. The California community banking industry showed consistent profitability following the annual loss reported in 1992. That string of positive earnings stopped in 2008. Losses equaled \$431 million in 2008 and \$616 million in 2009. The loss narrowed significantly in 2010 to \$51 million.

Due to the fewer number of community banks, an analysis is more relevant on a per-bank basis. Per-bank assets hit a new high in 2010 at \$265.4 million, an increase of 4.8% over 2009. The peak in loans continued to be in 2008. Instead of the 15.4% decline in community bank loans from 2008 to 2010, the per-bank decline in loans over that same period was 4.0%. Most categories of loans were lower in 2010 relative to 2008. The steepest decline in lending occurred in construction and development loans. Construction loans declined from a 2008 share of 14.7% of community bank loans to 6.6% of loans in 2010.

On a per-bank basis, deposits climbed to a community bank record in 2010, up 4.3% over 2009 and 13.0% above 2008. The high in per-bank brokered deposits was reached in 2008. Brokered deposits on a per-bank basis declined 48.6% in 2010 compared to 2008. Equity capital reached a record level in total and on a per-bank basis in 2010, climbing 8.4% in dollar terms and 18.8% on a per-bank basis.

Community banks in 2010 did not share the improving trend in asset quality. The decline in reported non-performing loans and assets in 2010 was insufficient to produce declines on a per-bank basis. The increase over 2009 was 5.9% for average non-performing loan balances and 8.1% for average non-performing assets.

## THE BANKING INDUSTRY: *California*

California Banks with Assets under \$1 billion, 1992-2010

Category	1992	1993	1994	1995	1996	1997	1998
# of Banks	435	405	382	357	334	310	300
Total Assets (\$mln)	62,256	59,923	56,203	54,198	54,193	58,004	56,512
Net Loans (\$mln)	39,672	36,080	33,309	31,116	32,210	33,767	33,680
Reserves (\$mln)	918	969	866	733	680	649	579
Deposits (\$mln)	55,476	53,100	49,644	47,070	46,407	49,587	47,204
Brokered Deposits (\$mln)	677	595	772	499	371	308	307
Equity (\$mln)	5,184	5,181	5,013	5,365	5,378	5,796	5,640
Tier 1 Capital (\$mln)	5,061	5,020	5,005	5,027	4,996	5,292	5,157
Net Income (\$mln)	-22	24	154	415	454	592	573
Non Performing Loans (\$mln)	2,996	2,646	1,907	1,406	987	671	461
Non Performing Assets (\$mln)	4,465	3,740	2,691	1,968	1,368	916	596

Return on Assets	-0.04%	0.04%	0.27%	0.77%	0.84%	1.02%	1.01%
Return on Equity	-0.43%	0.45%	3.06%	7.73%	8.44%	10.22%	10.16%
Leverage Ratio	8.33%	8.65%	8.92%	9.90%	9.92%	9.99%	9.98%
NPLs/Assets	4.81%	4.42%	3.39%	2.60%	1.82%	1.16%	0.82%
NPAs/Assets	7.17%	6.24%	4.79%	3.63%	2.52%	1.58%	1.05%
Reserves/NPLs	30.65%	36.60%	45.39%	52.12%	68.96%	96.65%	125.52%
Reserves/NPAs	20.57%	25.90%	32.16%	37.25%	49.75%	70.83%	97.12%
Brokered Dep/Deposits	1.22%	1.12%	1.55%	1.06%	0.80%	0.62%	0.65%

Category	1999	2000	2001	2002	2003	2004	2005
# of Banks	290	263	259	242	235	214	222
Total Assets (\$mln)	59,453	53,840	54,303	54,784	53,623	49,239	52,786
Net Loans (\$mln)	37,418	34,254	34,451	34,731	33,870	32,517	34,836
Reserves (\$mln)	611	542	596	575	514	434	458
Deposits (\$mln)	48,560	44,611	43,971	43,797	42,363	38,938	41,965
Brokered Deposits (\$mln)	381	521	968	1,221	935	775	1,199
Equity (\$mln)	5,903	5,511	5,843	6,207	6,359	6,162	7,097
Tier 1 Capital (\$mln)	5,408	4,935	5,076	5,482	5,219	5,057	5,955
Net Income (\$mln)	581	585	518	662	568	552	651
Non Performing Loans (\$mln)	349	312	336	376	238	1,257	140
Non Performing Assets (\$mln)	442	372	390	423	274	2,378	164

Return on Assets	0.98%	1.09%	0.95%	1.21%	1.06%	1.12%	1.23%
Return on Equity	9.85%	10.61%	8.87%	10.67%	8.93%	8.96%	9.18%
Leverage Ratio	9.93%	10.23%	10.76%	11.33%	11.86%	12.51%	13.44%
NPLs/Assets	0.59%	0.58%	0.62%	0.69%	0.44%	2.55%	0.27%
NPAs/Assets	0.74%	0.69%	0.72%	0.77%	0.51%	4.83%	0.31%
Reserves/NPLs	175.17%	173.97%	177.33%	153.04%	216.06%	34.52%	326.48%
Reserves/NPAs	138.32%	145.57%	152.64%	135.89%	187.38%	18.24%	278.71%
Brokered Dep/Deposits	0.78%	1.17%	2.20%	2.79%	2.21%	1.99%	2.86%

Source: FDIC

Category	2006	2007	2008	2009	2010	19 Yr Chg
# of Banks	227	235	236	228	208	-52.2%
Total Assets (\$mln)	52,327	54,580	58,498	57,772	55,209	-11.3%
Net Loans (\$mln)	36,030	39,114	42,523	39,843	35,966	-9.3%
Reserves (\$mln)	508	556	831	1,078	1,016	10.6%
Deposits (\$mln)	41,681	42,221	45,436	47,572	45,252	-18.4%
Brokered Deposits (\$mln)	1,821	2,295	4,839	3,511	2,192	224.0%
Equity (\$mln)	6,625	7,179	6,934	6,715	7,281	40.5%
Tier 1 Capital (\$mln)	6,249	6,692	6,493	6,223	6,740	33.2%
Net Income (\$mln)	582	452	-431	-616	-51	131.7%
Non Performing Loans (\$mln)	176	488	1,583	2,292	2,212	-26.2%
Non Performing Assets (\$mln)	196	541	1,843	2,784	2,746	-38.5%

						<b>19 Yr Avg</b>
Return on Assets	1.11%	0.83%	-0.74%	-1.07%	-0.09%	0.97%
Return on Equity	8.79%	6.30%	-6.22%	-9.18%	-0.70%	6.00%
Leverage Ratio	12.66%	13.15%	11.85%	11.62%	13.19%	10.96%
NPLs/Assets	0.34%	0.89%	2.71%	3.97%	4.01%	1.93%
NPAs/Assets	0.38%	0.99%	3.15%	4.82%	4.97%	2.63%
Reserves/NPLs	288.20%	113.94%	52.49%	47.05%	45.90%	118.95%
Reserves/NPAs	258.96%	102.74%	45.09%	38.73%	36.98%	101.99%
Brokered Dep/Deposits	4.37%	5.44%	10.65%	7.38%	4.84%	224.03%

Source: FDIC

2011

# **THE CHANGING ENVIRONMENT**

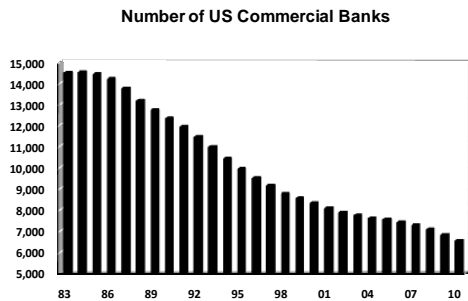
**CARPENTER**

# CHANGING ENVIRONMENT: *NUMBERS*

Consolidation and concentration were not new trends in the banking industry. The banking industry was declining in number beginning in the mid-1980s. Along with the declines in the number of banks, the assets of the banking industry were increasingly held within an increasingly limited number of banks. The U.S. banking industry dropped to a record low population in 2010, with banks currently 55% below its peak population. The ten largest banks controlled more than 55% of the banking assets up from a 17% share in 1992. The decline in the number of banking charters was centered in banks under \$100 million. The geographic concentration of banking assets shifted greatly over the past 19 years with only four of the states among the top ten banking states in 1992 remaining on the top ten list in 2010. Only one state reported more banks in 2010 than in 1992. Last year had a record low in the number of new bank openings in the history of the FDIC.

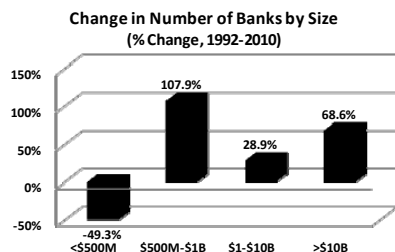
## Banking Population

By 2008, the number of commercial banks was less than half the 1984 peak of 14,496 banks. By the end of 2010 the count of 6,529 banks was 55% below the peak. The population of FDIC-insured savings institutions peaked in 1986 at 3,677. By 1997, the number of thrifts fell to less than half of the peak. By



2010, the 1,128 thrifts were more than 69% below the peak. For all FDIC institutions, the total declined from a high of 18,043 in 1985 to 7,657 in 2010, a reduction of 58%

The reduction in the number of banks from 1992 to 2010 was concentrated in relatively small institutions. The number of banks under \$500 million declined 49% over the past 19 years. Within this size subset, the decline was borne by banks under \$100 million, wherein the number of banks declined



72%. Granted, banks grew and became larger institutions, yet the migration of banks into larger asset classes typically occurred from the acquisition of small institutions with the

## Changing Population

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## THE CHANGING ENVIRONMENT

goal of creating larger banking charters and potentially more cost-efficient franchises.

The 44.7% decline in the number of institutions from 1992 to 2010 was centered in banks under \$100 million and in thrifts. The community bank subset of banks between \$100 million and \$1 billion increased 32.3% over the period, nearly matching the 34.2% rise for banks over \$1 billion.

### Number of Institutions 1992-2010

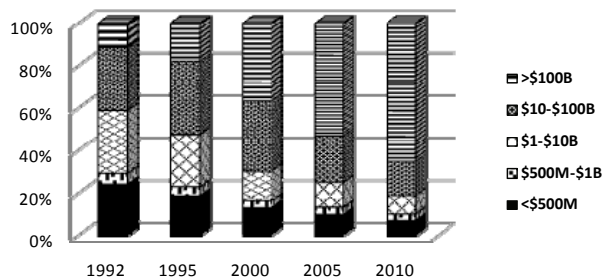
	Number 2010	Number 1992	% Chg 1992- 2010
All institutions	7,657	13,853	-44.7%
All Banks	6,529	11,463	-43.0%
Banks <\$1B	6,019	11,083	-45.7%
<i>Banks &lt;\$100M</i>	2,325	8,292	-72.0%
<i>Banks \$100M-\$1B</i>	3,694	2,791	32.3%
Banks >\$1B	510	380	34.2%
Thrifts	1,128	2,390	-52.8%

### Asset Concentration

In 1992, the concentration of banking assets was widely dispersed across the various size classes. Banks in the \$10-\$100 billion asset range held the highest share of assets at 29.6%, followed closely by banks in the \$1-\$10 billion range at 29.5%. Banks under \$500 million held 24.2% of the nation's bank assets. Banks over \$100 billion held 11.6% of total assets.

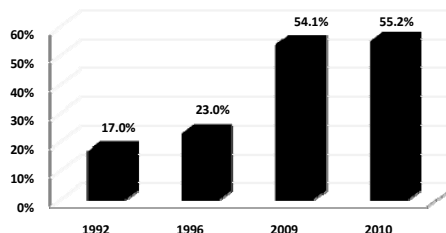
By 2010, all bank classes under \$100 billion reported significantly smaller shares of total assets. The sharpest decline in asset concentration occurred for the \$1-\$10 billion banks, down 20.5 percentage points to 9.0%. Banks under \$500 million experienced a 17.4 percentage point drop in asset

### Concentration of Assets by Bank Size



share to 6.9% of total bank assets. Banks over \$100 billion grew in number from three in 1992 to 19 in 2010 and their concentration of assets rose from 11.6% in 1992 to 65.2% in 2010. The ten largest banks accounted for 17% of assets in 1992. By 2010 that share climbed to 55.2%.

Share of U.S. Bank Assets Held by 10 Largest Banks



From 1992 to 2010, total assets of U.S. financial institutions grew at an inflation-adjusted rate of 103.8%. Banks under \$1 billion experienced a 19.5% decline in inflation-adjusted assets during the period from 1992 to 2010. The decline in asset share for community banks was borne by banks under \$100 million.

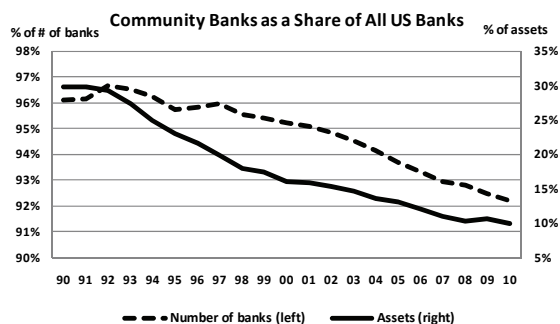
### Growth in Total Assets 1992-2010

	Total Assets	Assets, inflation adjusted
All institutions	193.7%	103.8%
All Banks	244.2%	138.8%
Banks <\$1B	16.0%	-19.5%
<i>Banks &lt;\$100M</i>	-61.9%	-73.5%
<i>Banks \$100M-\$1B</i>	55.5%	7.9%
Banks >\$1B	338.7%	204.4%
Thrifts	21.7%	-15.5%

In 2010, the 510 banks over \$1 billion in assets represented 6.7% of the number of financial institutions and held 82% of the total assets of financial institutions. In 1992 banks over \$1 billion in assets equaled 2.7% of the total number of financial institutions and held 55% of the assets.

Community banks, defined as banks under \$1 billion, represented 92% of the number of banks in 2010, down from a 96% share in 1992. The asset concentration of such banks plummeted over the 19 year period from a 30% share in 1992 to under 10% in 2010.

## THE CHANGING ENVIRONMENT



### Geographic Changes

The states that could be considered the banking power centers changed markedly from 1992 to 2010. In 1992 the top ten states based upon total assets of headquartered financial institutions were:

#### Top Ten States Based on Total Bank Assets in 1992

- |                 |                  |
|-----------------|------------------|
| 1. New York     | 6. Florida       |
| 2. California   | 7. Ohio          |
| 3. Illinois     | 8. Massachusetts |
| 4. Texas        | 9. New Jersey    |
| 5. Pennsylvania | 10. Michigan     |

By 2010, strategic relocations, mergers, regulatory advantages and shifts in the economy changed the rankings. Only four of the top ten states in the 1992 ranking remained in the top ten based upon 2010 data. Three states in the 2010 top ten were in the lowest quartile based upon 1992 data. The top ten states ranked by assets in 2010 (1992 ranking in parenthesis) were:

#### Top Ten States Based on Total Bank Assets in 2010

- |                        |                   |
|------------------------|-------------------|
| 1. Ohio (7)            | 6. New York (1)   |
| 2. North Carolina (11) | 7. Virginia (13)  |
| 3. South Dakota (41)   | 8. California (2) |
| 4. Nevada (39)         | 9. Texas (4)      |
| 5. Delaware (15)       | 10. Utah (42)     |

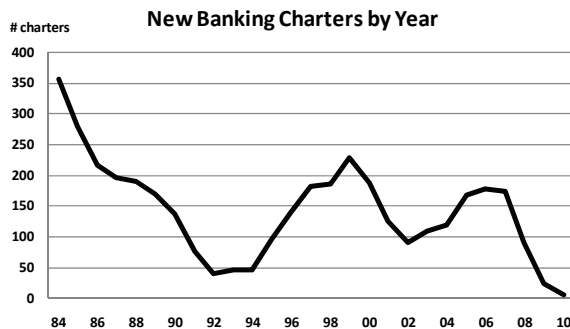
Nearly every state in the nation reported fewer financial institutions in 2010 than in 1992. The only exceptions were Nevada, with six more institutions in 2010 than in 1992, and Arizona, where the financial institution population held steady for the two years. Utah reported the smallest percentage decline in the number of institutions at 3.4%, and a net decline of two institutions. Illinois reported the largest decline

in number for the 1992 to 2010 comparison, down by 570 institutions, which represented a 48.4% decline. Eleven states and the District of Columbia reported that their population of financial institutions had been cut more than in half over the 1992 to 2010 period. D.C., Hawaii and Vermont all had 30 or fewer institutions in 1992, thus exhibiting large percentage declines due to the small 1992 base of institutions. Colorado, West Virginia, New Hampshire, Indiana, Connecticut, Arkansas, Maryland, California and Florida also reported declines in excess of 50%.

For 2010 alone, twelve states reported double-digit reductions in their number of headquartered institutions. Nine states reported no change in their banking population in 2010. Florida had the last decline, reporting a net reduction of 39 institutions, which was caused by 29 failures and ten mergers.

### Bank Formation

Thirteen banks were established in 2010. One new bank was formed to facilitate the acquisition of First Republic Bank from Bank of America. Ten banks were established to accommodate the acquisition of failed institutions. There were only two traditional community banks established in 2010. Lakeside Bank of Lake Charles, Louisiana opened in the third quarter of 2010, the first true start up of the year. Start Community Bank of New Haven, Connecticut, which opened on December 20, 2010, was the only true de novo bank both to receive FDIC approval and to open in 2010. The year 2010 established a record low in the history of the FDIC in terms of new charters. The previous record low in new charters was in 1942 when only 15 banks were chartered.

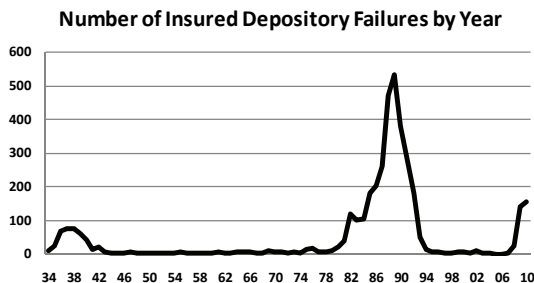


# CHANGING ENVIRONMENT: *FAILURES*

More insured financial depositories failed in 2010 than in any year since 1992. From 2008 through April 2011, there were 361 failures of financial institutions. The favorable trend emerging through the patterns of banking failures was that failed institutions were progressively smaller and less costly than the earlier failures, notably in 2008. The centers of rapid construction during the mid-2000's were the Southeast, Southwest and the West. It was no surprise that the failures were concentrated in the states from these regions. The list of problem institutions was growing longer. At year-end 2010, the problem institutions list represented 11.5% of all insured financial institutions. The previous high for that ratio was 9.8% in 1991.

Based upon FDIC observations and recent failure trends, the future period will be characterized by fewer failures. Troubled institutions generally are not of a significant size to warrant immediate closure. The problem list may eventually dwindle through improved operations or through non-assisted mergers.

More banks failed in 2010 than in any year since 1992. The FDIC closed 157 financial institutions last year, up from 140 in 2009 and 25 in 2008. Despite the increased number of failures, the volume of failed assets seized declined in 2010. Total failed assets equaled \$92 billion, compared with \$372 billion in 2008 and \$170 billion in 2009.



The failures in 2010 proved to be less costly to the deposit insurance fund ("DIF"), than in 2009 yet more costly than in 2008. The 2010 cost to the DIF equaled \$24 billion, compared with \$37 billion in 2009 and \$20 billion in 2008. Despite the lowered DIF cost relative to 2009, the 2010 failures were more costly as a percent of assets at 26% compared with 22% in 2009. Due to the zero cost associated with the failure of Washington Mutual in 2008, the 2008 DIF cost to assets equaled 5%. Excluding Washington Mutual, the 2008 ratio of DIF cost to assets was approximately 31%.

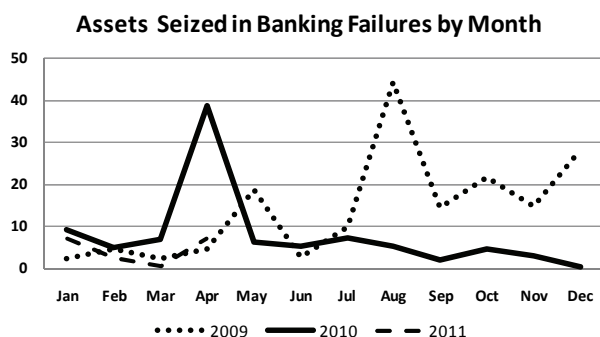
In 2008, the average size of the failed institution, excluding the \$307 billion Washington Mutual, equaled \$2.6 billion. The

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## THE CHANGING ENVIRONMENT

average size of failed institutions narrowed to \$1.2 billion in 2009 and to \$586 million in 2010. For the first four months of 2011, this trend continued. Year to date through April 30, 2011, 39 financial institutions failed representing \$17 billion in assets or an average asset size of \$432 million.



The 26 failures in the first quarter of 2011 were the fewest quarterly failures since the second quarter of 2009 and continued the declining trend in the number of failures that had started in the third quarter of 2010. In March 2011, three institutions failed, the lowest monthly failures since December 2008. The April 2011 seizure of 13 institutions was the most take-downs since July 2010.

From the beginning of 2008 through April 2011, 361 financial institutions failed. Net of Washington Mutual, the 360 failures involved \$343.6 billion in assets and carried a cost of \$84.6 billion to the DIF. The following analysis of the recent failures is based upon data excluding Washington Mutual.

Institutions in ten states accounted for 73% of the total failures. Georgia had the most at 61 failures. Florida was second with 49 failures, and Illinois ranked third with 42. California, in fourth position with 37 failures, continued to represent the highest share of the total DIF cost at 30% and the most failed assets at \$103 billion. IndyMac Bank, the single most costly failure, accounted for more than 15% of the total cost to the DIF. In terms of failure cost per institution, Puerto Rico reported the highest average at \$2.3 billion, followed by Alabama at \$0.8 billion.

Financial institutions under \$1 billion accounted for 84% of the number of failures since early 2008 and 24.6% of the failed assets. Institutions with less than \$200 million in assets represented 40% of the number of failures and 4.2% of the failed assets.

The oldest bank to fail this cycle was established in 1857. The bank with the shortest history failed in 2009 after two years of operations. Through April 2011 there was a total of four failures of banks that commenced operations in 2007. The number of failed institutions established since 2000 accounted for 26.5% of the number of failures, yet represented 6.9% of total assets. These newer banks generally pursued a strategy of funding construction loans with brokered and other non-core deposits, thus creating limited value for the franchise. The average cost of these younger banks was \$79.3 million, significantly below the DIF per-bank cost of \$235 million. Nonetheless, the younger banks carried a DIF cost to assets of 32.1%, compared with the average DIF cost to assets of 24.6%.

The majority of the recent failures were resolved through a whole bank purchase, wherein the acquiring bank obtained most of the assets and deposits. The majority of whole bank acquisitions utilized a loss-sharing agreement with the FDIC. Some of the recent acquisitions opted out of the loss-share structure. As banks remained in a troubled condition for an extended period and the troubled banks were typically small institutions, the acquiring banks had more time to conduct due diligence to structure their bid without resorting to the loss-share structure.

Through April 2011 there were eight recipients of TARP funding that failed, representing \$481.4 million in TARP investment. The largest TARP failure was United Commercial Bank, which had received \$298.7 million in TARP funding.

### Geography of Failures

The concentration of banking failures were in states with rapid growth in construction, notably the southeastern states of Georgia and Florida and the sand states of Arizona and Nevada. Ranking the states based upon failures relative to the state's entire banking population, Nevada, Georgia and Puerto Rico reported that more than 20% of the headquartered financial institutions in existence in 2007 had failed by early 2011. Oregon and Arizona experienced a failure rate between 15% and 19.9% of the 2007 total of headquartered institutions. California, Florida and Washington experienced failures in the range of 10% and 14.9% of their 2007 charters. The 41 failures in Illinois represented approximately 7% of the 2007 population of headquartered institutions.

## THE CHANGING ENVIRONMENT

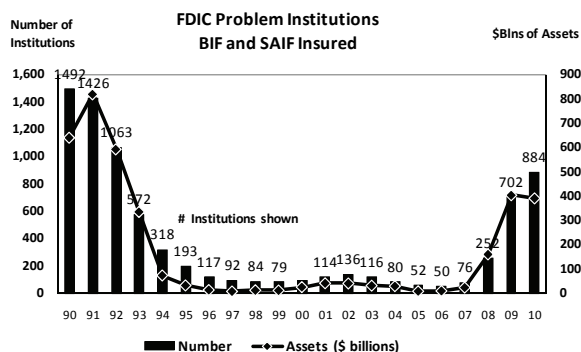
The sum of failed assets through early 2011 relative to total assets reported as of year-end 2007 showed a failure concentration in four states. The percentage of failed assets to total 2007 assets was more than 20% for California and Florida and a slightly lower rate for Puerto Rico and Nevada.

The common thread through the geography of banking failures was rapid loan growth, primarily in construction and land development lending. The West, Southwest and Southeast experienced rapid growth in population and new construction. For the failed banks outside of the Sunbelt states, problems developed through participating in or expanding construction lending outside their market area and/or from the real estate market downturn that impacted much of the nation.

There remained 11 states that were not tarred with a failed financial institution. These states were Alaska, Connecticut, Delaware, Hawaii, Maine, Montana, New Hampshire, North Dakota, Rhode Island, Tennessee and Vermont.

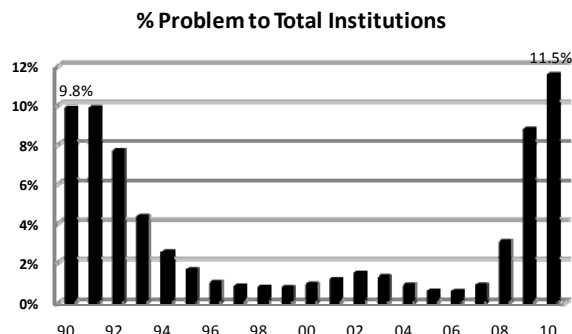
### Problem Institutions

The number of banks on the FDIC problem institution list continued to grow. As of the fourth quarter of 2010, there were 884 institutions on the list, up from 702 at the end of 2009. This problem list excluded the 157 financial institutions that failed over the course of 2010. The problem institution list increased steeply over the 2006 recent low of 50 institutions.



A number of the problem institutions remained on the list for an extended period. Trepp, LLC's Watch List is a tracking system showing elevated risk of bank failure. In early April 2011, there were over 170 banks that had been on the Watch List for six or more quarters, including nearly 70 that were on the list for eight or more quarters.

With the decline in the number of FDIC-insured institutions, the proportion of problem institutions to total banks rose sharply in 2010. During the savings & loan crisis of the early 1990s, the number of problem institutions exceeded a count of 1,400 institutions. The current number of problem institutions was 41% lower than the peak number. As a percent of total institutions, however, the 2010 problem list represented 11.5% of total institutions compared with the prior peak of 9.8% in 1990-91.



Based upon December 2010 data updated for the banking failures through first quarter 2011, there were 292 institutions reporting a leverage ratio under 6%. More than 77% of this low leverage group reported a Texas ratio in excess of 100. The Texas ratio measures problem assets as a percent of equity capital plus reserves. A ratio over 100 meant that problem assets exceeded the capital/reserve cushion and could place the bank in jeopardy. Based upon this shadow problem institution list, Georgia and Florida were likely to continue to experience a sizable number of banking failures. The percent of troubled banks, based upon the fourth quarter 2010 data, equaled more than 35% of the year-end 2010 number of banks in each of those two states. Arizona, Idaho, Nevada, South Carolina and Washington reported that troubled banks represented more than 25% of their headquartered banks.

The FDIC observed that the number of banking failures was likely to be fewer in the current and upcoming years than the 157 failures in 2010. Although there were some troubled banks with more than \$1 billion in assets, banks with less than \$500 million in assets continued to be the majority of the problem banks. Smaller banks appeared likely to remain open either until improved economic conditions produced a turnaround in earnings and the condition of the bank or they were acquired.

## THE CHANGING ENVIRONMENT

### Cost of Bank Failures By State, regardless of Charter January 2008 to April 29, 2011

State	#	Failures (\$ millions)			Failure Cost to		Share of DIF Cost	DIF Cost per Bank
		Assets	Deposits	Cost	Assets	Deposits		
Alabama	6	\$31,441	\$25,174	\$4,894	15.6%	19.4%	5.8%	\$816
Arizona	10	\$1,852	\$1,602	\$415	22.4%	25.9%	0.5%	\$41
Arkansas	2	\$2,087	\$1,988	\$855	41.0%	43.0%	1.0%	\$428
California	37	\$103,212	\$73,607	\$23,305	22.6%	31.7%	27.6%	\$630
Colorado	5	\$4,853	\$3,865	\$1,454	30.0%	37.6%	1.7%	\$291
Florida	49	\$33,928	\$27,006	\$10,899	32.1%	40.4%	12.9%	\$222
Georgia	61	\$27,456	\$24,503	\$8,619	31.4%	35.2%	10.2%	\$141
Idaho	1	\$491	\$371	\$176	35.8%	47.4%	0.2%	\$176
Illinois	42	\$31,050	\$28,703	\$5,929	19.1%	20.7%	7.0%	\$141
Indiana	1	\$2,840	\$2,254	\$788	27.7%	34.9%	0.9%	\$788
Iowa	1	\$504	\$394	\$101	20.0%	25.5%	0.1%	\$101
Kansas	7	\$4,138	\$3,580	\$1,019	24.6%	28.5%	1.2%	\$146
Kentucky	1	\$518	\$463	\$144	27.7%	31.1%	0.2%	\$144
Louisiana	1	\$243	\$208	\$60	24.7%	28.9%	0.1%	\$60
Maryland	6	\$1,717	\$1,559	\$461	26.8%	29.6%	0.5%	\$77
Massachusetts	1	\$246	\$233	\$28	11.3%	11.9%	0.0%	\$28
Michigan	12	\$3,942	\$3,510	\$1,312	33.3%	37.4%	1.6%	\$109
Minnesota	16	\$1,409	\$1,300	\$346	24.6%	26.6%	0.4%	\$22
Mississippi	2	\$284	\$260	\$74	26.1%	28.6%	0.1%	\$37
Missouri	11	\$1,726	\$1,536	\$626	36.3%	40.8%	0.7%	\$57
Nebraska	2	\$2,960	\$2,276	\$359	12.1%	15.8%	0.4%	\$180
Nevada	10	\$8,496	\$7,744	\$2,419	28.5%	31.2%	2.9%	\$242
New Jersey	3	\$286	\$276	\$62	21.8%	22.6%	0.1%	\$21
New Mexico	3	\$3,470	\$2,789	\$531	15.3%	19.0%	0.6%	\$177
New York	4	\$983	\$949	\$224	22.8%	23.7%	0.3%	\$56
North Carolina	3	\$1,664	\$1,371	\$436	26.2%	31.8%	0.5%	\$145
Ohio	4	\$12,163	\$9,206	\$2,438	20.0%	26.5%	2.9%	\$609
Oklahoma	4	\$811	\$722	\$148	18.3%	20.5%	0.2%	\$37
Oregon	6	\$2,326	\$2,190	\$542	23.3%	24.8%	0.6%	\$90
Puerto Rico	3	\$18,932	\$14,811	\$6,893	36.4%	46.5%	8.1%	\$2,298
Pennsylvania	3	\$232	\$210	\$47	20.2%	22.4%	0.1%	\$16
South Carolina	5	\$2,064	\$1,873	\$379	18.4%	20.2%	0.4%	\$76
South Dakota	1	\$211	\$232	\$79	37.2%	33.8%	0.1%	\$79
Texas	8	\$19,465	\$16,503	\$3,813	19.6%	23.1%	4.5%	\$477
Utah	5	\$3,030	\$2,990	\$1,175	38.8%	39.3%	1.4%	\$235
Virginia	2	\$213	\$189	\$43	20.1%	22.6%	0.1%	\$21
Washington	15	\$317,243	\$197,327	\$3,001	0.9%	1.5%	3.5%	\$200
West Virginia	1	\$104	\$101	\$38	36.5%	37.7%	0.0%	\$38
Wisconsin	6	\$1,944	\$1,641	\$428	22.0%	26.1%	0.5%	\$71
Wyoming	1	\$70	\$67	\$32	45.4%	47.9%	0.0%	\$32
<b>TOTAL</b>	<b>361</b>	<b>\$650,603</b>	<b>\$465,581</b>	<b>\$84,590</b>	<b>13.0%</b>	<b>18.2%</b>		
NET OF WAMU	360	\$343,581	\$277,320	\$84,590	24.6%	30.5%		
WaMu		\$307,022						

## THE CHANGING ENVIRONMENT

### Cost of Bank Failures By Size of Institution

January 2008 to April 29, 2011

Size	#	Failures (\$ millions)			Failure Cost to		Share of DIF Cost	DIF Cost per Bank
		Assets	Deposits	Cost	Assets	Deposits		
Under \$100 million	74	\$4,237	\$3,978	\$1,388	32.7%	34.9%	1.6%	\$19
\$100-200 Million	71	\$10,207	\$9,474	\$2,870	28.1%	30.3%	3.4%	\$40
\$200-300 Million	52	\$12,490	\$11,490	\$3,412	27.3%	29.7%	4.0%	\$66
\$300-500 Million	56	\$22,224	\$19,835	\$5,254	23.6%	26.5%	6.2%	\$94
\$500 Million-1 Billion	50	\$35,366	\$31,344	\$9,519	26.9%	30.4%	11.3%	\$190
\$1-10 Billion	49	\$130,416	\$107,709	\$27,573	21.1%	25.6%	32.6%	\$563
\$10-100 Billion	8	\$128,641	\$93,491	\$34,574	26.9%	37.0%	40.9%	\$4,322
<b>TOTAL, Net WAMu</b>	<b>360</b>	<b>\$343,581</b>	<b>\$277,320</b>	<b>\$84,590</b>	<b>24.6%</b>	<b>30.5%</b>	<b>100%</b>	<b>\$235</b>

### Cost of Bank Failures By Establishment Date

January 2008 to April 29, 2011

Year of Establishment	#	Failures (\$ millions)			Failure Cost to		Share of DIF Cost	DIF Cost per Bank
		Assets	Deposits	Cost	Assets	Deposits		
Pre-1900	23	\$332,387	\$207,782	\$4,977	1.5%	2.4%	5.9%	\$216
Pre-1900, net WA Mu	22	\$25,365	\$19,521	\$4,977	19.6%	25.5%	5.9%	\$226
1900-1929	53	\$57,447	\$47,810	\$9,379	16.3%	19.6%	11.1%	\$177
1930-1949	22	\$42,358	\$29,446	\$15,367	36.3%	52.2%	18.2%	\$699
1950-1979	49	\$78,838	\$62,856	\$16,955	21.5%	27.0%	20.0%	\$346
1980-1989	53	\$81,106	\$65,197	\$20,852	25.7%	32.0%	24.7%	\$393
1990-1999	65	\$34,767	\$30,895	\$9,445	27.2%	30.6%	11.2%	\$145
2000-2003	48	\$15,919	\$14,250	\$5,362	33.7%	37.6%	6.3%	\$112
2004-2007	48	\$7,781	\$7,345	\$2,254	29.0%	30.7%	2.7%	\$47
<b>TOTAL, net WA Mu</b>	<b>360</b>	<b>\$343,581</b>	<b>\$277,320</b>	<b>\$84,590</b>	<b>24.6%</b>	<b>30.5%</b>	<b>100.0%</b>	<b>\$235</b>

2000 and later 26.7% 6.9% 7.8% 9.0%

### Type of Resolution

January 2008 to April 29, 2011

Resolution	#	Failures (\$ millions)			Failure Cost to		Share of DIF Cost	DIF Cost per Bank
		Assets	Deposits	Cost	Assets	Deposits		
Deposits only	51	62,693	47,433	21,251	33.9%	44.8%	25.1%	\$417
Payout	21	14,368	12,510	4,980	34.7%	39.8%	5.9%	\$237
Whole Bank	289	573,541	405,638	58,360	10.2%	14.4%	69.0%	\$202
Whole Bank w/o WA Mu	288	266,519	217,377	58,360	21.9%	26.8%	69.0%	\$203
<b>TOTAL</b>	<b>361</b>	<b>\$650,603</b>	<b>\$465,581</b>	<b>\$84,590</b>		<b>13.0%</b>	<b>18.2%</b>	
TOTAL w/o WA Mu	360	\$343,581	\$277,320	\$84,590		24.6%	30.5%	

# CHANGING ENVIRONMENT: *HOME FINANCE*

The banking industry has become increasingly tied to housing and mortgage markets. The commercial bank share of residential mortgages grew steadily since 1990. Through acquisitions and other changes, banks held more than 30% of their loan portfolios in mortgages. Total mortgages outstanding grew from \$18.6 billion in 1945 to \$10.5 trillion in 2010. The expansion of mortgage finance was achieved through the creation of innovative loan products. The development and expansion of the securitization market allowed mortgages to be held by investors with longer-term horizons rather than financial institutions which typically have short-term financing.

The economic history of recent years has been colored by the meltdown in the mortgage markets and the realization that generally held assumptions of finance were flawed and inaccurate. The years ahead will be focused on new ways to finance housing within an environment of a reduced presence, if any, of government sponsored entities to support home finance.

Why is housing of interest to a community bank, especially one based in California? An argument could be proffered that mortgages are not a core business for community banks. Nonetheless, housing has had a significant impact on economic activity, monetary and fiscal policy and the financial industry over recent years.

Unlike many sectors of the economy, housing has not benefitted from the recovery that began in June 2009. Or, if there had been a housing recovery, it was transitory and the industry is now in a double-dip, that is, a renewed downturn. The following briefing analyzes the ties of housing to the financial industry, focuses on housing finance and discusses the proposals suggested for the future financing of mortgages.

## Overview of Mortgage Funding

Flow of funds data provide history from 1945 through 2010 on the volumes and holders of home mortgages. In 1945, total mortgages equaled \$18.6 billion. By year-end 2010 that total was \$10.5 trillion. Savings associations held nearly 38% of the outstanding home mortgages in 1945. The second largest supplier of mortgage credit was the household sector, which held 29% of mortgages. Banks and life insurance companies were in distant third and fourth positions, and finance companies provided negligible funding. Through the 1950's to the mid-1960's, life insurance companies typically held more mortgages than commercial banks.

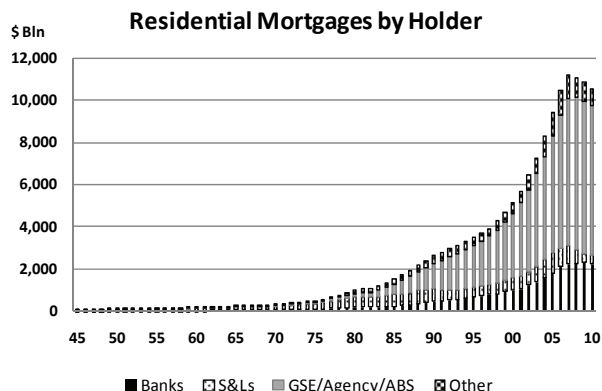
From 1958 to 1980, the thrift industry held more than 50% of all home mortgages. The watershed year was 1972 when thrifts had nearly 58% of the nation's mortgages. This concentration

## Home Finance

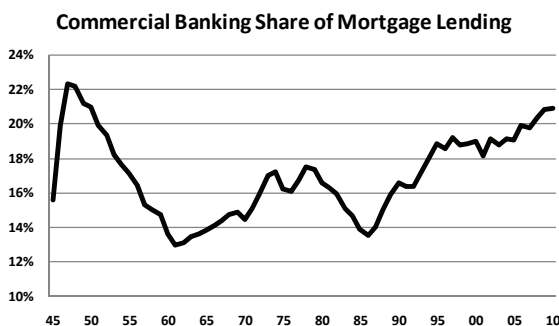
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## THE CHANGING ENVIRONMENT

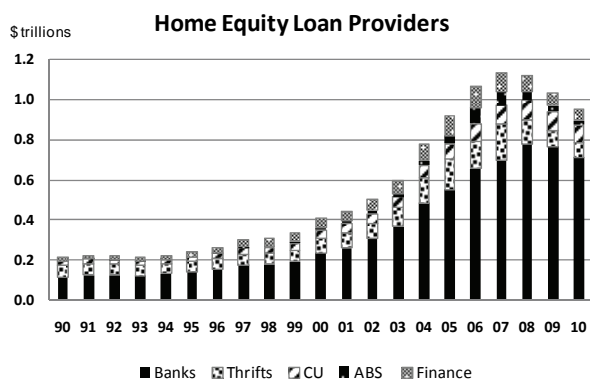
eventually would prove problematic. In 2010, thrifts accounted for 4.1% of total mortgages.



The commercial bank share of mortgages remained within a range of 15% to 20% from 1951 to 2007.



Statistics on home equity loans or lines of credit were reported beginning in 1970. Only finance companies reported holding such loans until 1990. Home equity credit grew slowly until the late 1990's. From 1998 until the peak of 2007, home equity loans grew 265%. Commercial bank home equity loans grew rapidly from 1998 until the peak in 2008. The growth in bank home equity loans over that period equaled 339%. Since 1990, banks held the majority of outstanding



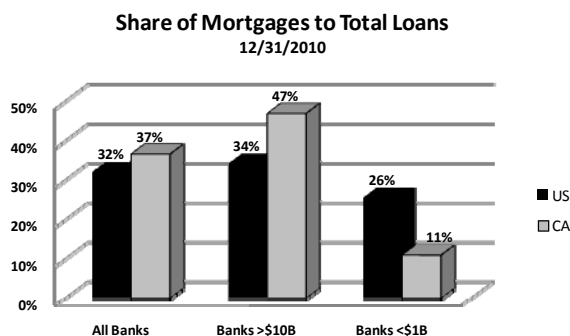
home equity loans. The bank share rose from 53% in 1990 to nearly 75% in 2010.

Picking up mortgage shares from households and life insurance companies was funding by three entities: government sponsored enterprises (GSE) beginning in 1955, agencies starting in 1966 and asset-based securities (ABS) starting in 1984. These three sectors typically funded mortgages and then bundled the mortgages into market securities. From zero holdings in 1954, GSE, agencies and ABS accounted for the majority of home mortgages beginning in 1992 and held more than 62% of mortgages since 2000. By 2010, their share was 67%.

### Mortgages and Banks

Residential mortgages represented 32% of bank loan portfolios at year-end 2010. Banks held \$2.1 trillion in residential mortgages on a total loan portfolio of \$6.6 trillion. The 86 U.S. banks over \$10 billion held \$1.8 trillion in mortgages. These large banks accounted for 78% of total bank loans and 83% of bank-held mortgages. The 6,019 U.S. community banks, defined as banks under \$1 billion, reported \$773 billion in loans and \$198 billion in mortgages.

Mortgages represented 26% of total loans held by community banks. U.S. community banks accounted for 11.7% of total bank loans and for 9.4% of the mortgages held in bank portfolios. The 424 banks with assets between \$1 and \$10 billion held 7.6% of the bank-held mortgages.



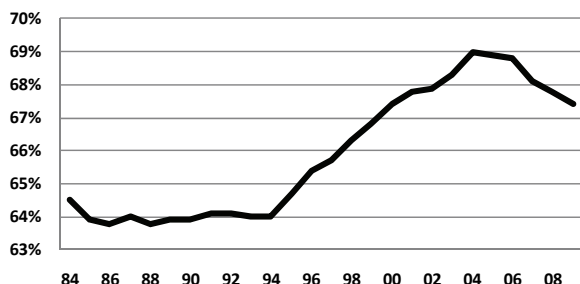
For California banks, single-family mortgages accounted for 36.6% of total loans in 2010. California banks over \$10 billion reported an above-average share of residential mortgages. The mortgage share for the eleven California banks over \$10 billion equaled 46.9% of total loans held by these banks. The California mortgage bank

subsidiaries of Bank of America and J.P. Morgan Chase accounted for 42% of the total mortgages held by the over \$10 billion bank group and for 37.4% of all California bank home mortgages. In contrast, residential mortgages accounted for 11% of the total loans of California community banks, the 208 banks at year-end 2010 with less than \$1 billion in assets.

**Rising Homeownership**

The percentage of U.S. households owning a home increased steeply during the ten years ending 2004. Innovations in the financing of mortgages and ever-appreciating home prices were contributing factors for the rise in the rate of homeownership from 64% of households in 1994 to more than 69% in 2004. That climb was in stark contrast to the decade ending in 1994 when homeownership held steady at 64%.

**U.S. Homeownership Rate (1984-2009)**



As home prices escalated, many potential buyers were priced out of the housing markets and could not qualify for agency-conforming, 30-year fixed-rate mortgages. Financial engineering supporting the mortgage markets created esoteric credit instruments that provided significant returns to originators and loan syndicators. Growth in mortgage-backed securities was based upon the assumption that the credit quality of bundled mortgages carried low risk, despite the often questionable underwriting of the underlying mortgage in the securitization pool. The economics of the securities were based upon a one-way direction for home prices, that is, upward.

To allow buyers to qualify for mortgages, homebuyers were offered financing alternatives, such as option ARMs with negative amortization, a loan product highly dependent upon increasing home values. Often carrying initial low start rates, called teaser rates, many option ARMs became delinquent by the first

rate adjustment. As underwriting criteria tightened and slowed the proliferation of less-than-prime mortgage credit, home sales declined, contributing to downward pressures on home prices.

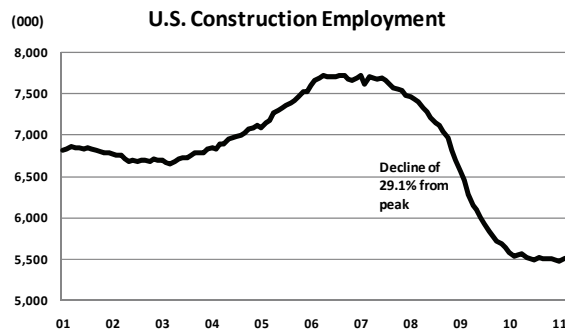
**Downturn of Housing**

Housing starts peaked at a record 2.27 million units in January 2006. Construction employment peaked in April 2006. Beginning in April 2006, housing starts declined on a YoY basis, a trend that continued for 44 consecutive months through November 2009.

April 2006 was also the month that the Case-Shiller 20-city home price index peaked. On the first anniversary of the home price peak, prices were down 1.9%. On the second anniversary, prices were off 16.6%. By the third anniversary (April 2009), prices were 31.6% lower. Then came the price “rally.” By April 2010 home prices were only 29.3% below the peak. Based on the most recent observation, home prices were 31.4% off their peak, not only signaling pervasive weakness in home prices, but an actual double-dip in prices.

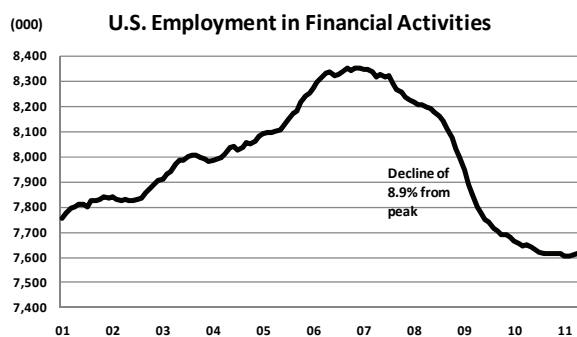
Construction employment increased 13.2% from the beginning of 2001 until its peak in April 2006. Since that peak, construction jobs declined 29.1% to the potential trough in construction employment that probably occurred in January 2011.

**U.S. Construction Employment**



Employment in the financial industry peaked in December 2006, a full year before the peak in total employment and eight months after the peak in construction employment. The apparent trough in financial employment may have occurred in February 2011. The climb in financial services employment equaled 7.7% from January 2001 until December 2006. From the peak to February 2011, financial services jobs declined 8.9%.

## THE CHANGING ENVIRONMENT



Although the construction industry experienced a more severe and prolonged decline in jobs than the financial services industry, the job patterns for both industries were highly correlated.

Total worker mobility was hampered by slack home sales and the loss of home equity. Reduced property tax revenue, due to lower home prices, created budget challenges for local governments. Programs to support housing markets and those unemployed due to the downturn in construction added to counter-cyclical spending by local, state and federal governments. The resultant budget constraints triggered cuts in government jobs.

The housing downturn created severe problems for the financial system. Losses from non-performing mortgages and residential construction loans contributed to the highest number of banking failures since 1992. Difficulties with mortgage finance stemmed from the following flawed assumptions:

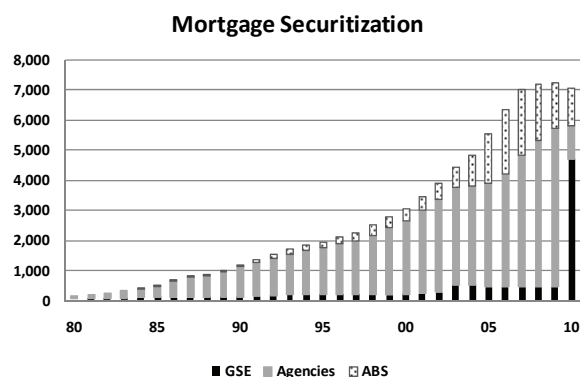
- Homeownership is a good investment
- Home prices will continue to increase
- Borrowers will not allow their homes to be lost to foreclosure
- Bundling risky mortgages lessens risk
- A few mortgages may go bad, but not enough to harm a mortgage securitization
- Problems in housing industry will be localized

### GSE and Agency Involvement

The Federal National Mortgage Association (“Fannie”) and the Federal Home Loan Mortgage Corporation (“Freddie”) were the linchpins in home mortgage finance and in creating a secondary market for mortgages. Fannie was established by Congress in 1938 as a federal agency to support home finance and was chartered by Congress in 1968 as a shareholder-owned company.

In 1970 Freddie was chartered by Congress, essentially to compete with Fannie in the creation of a secondary market for the sale of private mortgages, which are mortgages not guaranteed by the FHA, VA or FmHA. These two shareholder-owned and publicly traded entities carried the dual mandates of enhancing shareholder value and supporting homeownership, notably for low-income individuals.

The original role of Fannie and Freddie was the guaranteeing and securitizing of fully-documented, high-quality mortgages. Conforming mortgages were subject to strict underwriting and limits on loan size and debt ratios. When these agencies’ market share of securitization declined from 70% in 2003 to 40% in 2006, they pursued riskier loans to increase market share and generate profits.



As the housing market cratered and home prices plunged, mortgages became delinquent, went into default and were foreclosed. Fannie and Freddie experienced large losses, faced impending defaults on their outstanding bonds, and were severely undercapitalized. Upon their insolvency, they were brought into conservatorship by the federal government on September 7, 2008. Shareholders’ equity was written down to zero. Fannie and Freddie become government sponsored entities and no longer agencies. To date the estimated cost of the conservatorships was pegged at \$140 billion with that estimate rising.

The U.S. Treasury cited that the principal reasons for the failure of Fannie and Freddie were the following:

- Profit maximizing structure undermined their public mission

## THE CHANGING ENVIRONMENT

- Perceived government backing conferred unfair advantages
- Preferential tax treatment, low capital requirements and the government guarantee provided substantial pricing power which allowed them to build portfolios at a lower cost than competitors and subsequently to take on greater risks
- Capital standards were unfair and inadequate. The agencies were held to less stringent capital requirements than regulated institutions
- The Office of Federal Housing Enterprise Oversight (OFHEO), the regulator of Fannie and Freddie, was structurally ineffective

### Phase-Out

Since September 2008, public focus was redirected toward achieving the gradual and orderly elimination of Freddie and Fannie. In February 2011, the Obama Administration called for winding down both institutions. The orderly closure of these mortgage finance conduits was assumed to require at least five to seven years.

The phase-out of Fannie and Freddie would be based upon reducing the market reach of the agencies through raising the cost of their guarantees. In addition, standards would be set to increase required down payments, reduce the loan to value ratios, and lower the size of mortgages qualifying for securitization and guarantee. Over time, the Federal guarantees would apply only to mortgages conforming to the narrow determinants of the Federal Housing Administration for lower-income buyers, the Veteran Administration for veterans and the USDA for farm programs.

The phase-out will greatly limit the scope of Fannie and Freddie financing to a share estimated to cover about 10% to 15% of the mortgage market. That market share contrasts with the two entities' current 88% share of mortgages. Going from 88% of to a 10% market share will necessitate a gradual pace of implementation to prevent further weakening of conditions in the housing market. Fannie and Freddie played a role in the implementation of the government's foreclosure prevention efforts through facilitating modifications of GSE-guaranteed loans under the Home Affordable Modification Program (HAMP) and allowing high loan to value existing GSE-guaranteed loans to be refinanced under HAMP.

The Administration's proposals for the winding down of Fannie and Freddie included the following measures:

- Increase guarantee fees to encourage viable financing options that utilize private capital
- Hold the agencies to the same capital standards as regulated financial institutions
- Enhance protections against credit loss, such as raising required down payments for mortgages guaranteed by Fannie and Freddie
- Lower the financing limit for conforming loans and allow the temporary increase in loan limits to expire as scheduled on October 1, 2011
- Reduce risk-taking by winding down investment portfolios of the agencies at a minimum rate of 10% per year

In March 2011, the Treasury began a program of selling up to \$10 billion per month in agency-guaranteed mortgage-backed securities to an effort to eliminate the \$142 billion portfolio held by Freddie and Fannie.

Arguments for the federal withdrawal from the mortgage market were manifold. The quasi-government guarantee of mortgages produced distortions in the allocation of capital, favoring housing over other types of investment and investable assets. By eliminating this incentive, capital might flow into other economic uses, such as commercial properties and businesses. Redirecting dollars from housing into business formation potentially could create jobs and expand longer-run economic growth.

The orderly elimination of the agencies would reduce inflationary pressures that had previously plagued housing. However, the too rapid elimination of the agencies could accelerate current downward pressures on home prices. Eliminating the government guarantees on private mortgages would reduce the moral hazard in lending and minimize taxpayer exposure to private lender losses.

The mechanisms for winding down Fannie and Freddie and initiating alternative options to finance home purchases, however, are not in place or even been determined. Eliminating the agencies will require legislative approval. Achieving alternatives for mortgage finance will require public-private sector coordination.

Yet to be determined is the structure for an appropriate and transparent mechanism to mitigate the duration and funding risks associated with the long-term, fixed rate mortgage asset within a financial system that is largely funded by short-term liabilities. Complicating matters is the current environment where the value of the underlying collateral is declining. The murky outlook for mortgage finance continues to place downward pressures on home sales and prices and limits financing alternatives.

### Possible Solutions

The Dodd-Frank legislation provided a framework for the reform of unfair practices in the origination of mortgages. Other mortgage reforms included the strengthening of regulatory oversight on mortgage servicing and the foreclosure process.

Reform of the securitization markets was another major objective of Dodd-Frank. One reform was the requirement that entities that securitized loans retained an economic interest of 5% in the credit risk of the mortgages used to collateralize asset-backed securities. The carve out to this requirement was the exemption allowed for loans with low default risk, notably mortgages meeting the yet-to-be-determined Qualified Residential Mortgage ("QRM") standard.

Suggested QRM standards included maximum ratios for payment-to-income, debt-to-income and loan-to-value. The loan-to-value estimate would be based upon purchase price or appraised value and the first-lien balance. A minimum credit score would be required and calculated utilizing Fair Isaac Corporation (FICO) models. Loan types not qualifying under QRM were likely to include Alt-A, low or no doc mortgages, interest-only, negative amortizing and ARMS with an annual interest rate re-sets in excess of 2%. House debt to income ratios were suggested at a maximum of 28% and total debt to income would be capped at 36%. LTV minimums were suggested at 80% for home purchase mortgages, 75% for rate and term refinances, and 70% for cash-out refinances. The minimum FICO for QRMs was suggested at 690.

Mortgage securitization accounted for more than 66% of outstanding mortgages in 2010. These mortgage securities caused the transfer of long-term mortgage assets from short-term funders, such as banks and other mortgage originators, to investors seeking longer-term investment instruments. The disconnect

in the recent episode was the lack of transparency. Instead of a highly-rated mortgage instrument, many of debt obligations were poorly underwritten and risky.

Achieving the proper pricing for credit guarantees on mortgages required that guarantees were limited to high-quality mortgages adhering to strict underwriting criteria that conformed with maximum cumulative loan-to-value ratios, minimum credit scores and reliable income documentation.

Home finance requires a transition away from taxpayer guarantees of secondary market risk. It is important that the risks are appropriately priced in the secondary mortgage market. Solutions offered to address this risk disclosure include the covered bond, a financial instrument often used in Europe. Covered bonds fund home loans originated by federally chartered and regulated mortgage companies. The mortgage company funds the home loans through the issuance of covered bonds. These bonds are not a securitization. The lender issues a covered bond for each loan originated based upon the type of mortgage product, such as a 30-year fixed rate mortgage or an adjustable rate mortgage. Bond pricing is predicated upon the mortgage interest rate and a mark-up imposed by the lender. Such pricing would be accessible to both the borrower and lender. Hence, the covered bond would increase competition in mortgage origination and would make pricing more transparent.

Data on the performance of European mortgages indicate virtually no credit defaults under the covered bond system. The rate of owner occupancy in the European mortgage market is essentially comparable to the U.S. and home price inflation is only slightly lower than in the U.S. The mortgage interest rates and mortgage rate spread over each country's covered bonds are significantly lower than the prevailing U.S. mortgage rates.

About 95% of American residential mortgages are backed by the government in some manner. Fannie and Freddie account for the highest share of government backing. With approximately 23% of homeowners owing more than the current valuation of the property, there is little indication that private lenders will take over such underwater mortgages. Thus, a prolonged period will probably ensue before a new home financing structure gains traction.

2011

# **INDUSTRY VALUATIONS**

**CARPENTER**

# INDUSTRY VALUATIONS

The recovering economy and renewed earnings generally improved market valuations in the banking industry in 2010. Evidence of improving market sentiment included a pickup in merger announcements. Completed mergers of California banks rose to 13 compared with only two in 2009. The number of California publicly traded banks and thrifts declined by ten institutions in 2010 to a tally of 159. Nearly three-quarters of the companies traded below tangible book value, while 21% of the companies were trading below 50% of book value. There were more California banks with unchanged or rising stock prices in 2010 than those with declining stock prices.

Banks above \$500 million in assets reported more favorable market pricing than the smaller banks. More widely held stock ownership and greater share liquidity allowed larger banks to participate in the rising movement of the equities market.

## INDUSTRY VALUATIONS: *Merger and Acquisition Activity*

The pace of traditional bank mergers and acquisitions picked up in 2010. The number of announced mergers in 2010 was 26% higher than the rate in 2009. A total of 157 traditional mergers were completed in 2010, up from 153 completed mergers in 2009. Nearly 92% of the banking failures in 2010 found whole bank buyers. Last year 144 of the 157 banking failures were resolved through a whole bank purchase. The remaining 13 banking failures were resolved by means of eight direct payouts and five deposit only purchases.

For all of 2010, there were 209 merger announcements, up from 166 announcements in 2009. The status of the 209 merger announcements made in 2010 was as follows: 34 were terminated, 41 were still pending, as of March 31, 2011, and 134 were completed. Of the 134 completed mergers that had been announced in 2010, 28 were finalized in the first quarter of 2011 and 106 were closed in 2010.

A total of 157 mergers were completed in 2010, consisting of 51 acquisitions announced in 2009 and 106 mergers announced in 2010. During the first quarter of 2011, 29 mergers closed, including one announced in 2009 and 28 announced in 2010.

During 2010, 55 announced acquisitions were terminated. The count of terminated mergers included two transactions that were announced in 2008, 23 announced in 2009 and 30 announced in 2010. Of the 55 terminated mergers, 12 of the target institutions subsequently failed, while two were acquired by another entity. In the first quarter of 2011, four additional mergers announced in 2010 were terminated, including one bank that failed.

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## INDUSTRY VALUATIONS

Of the 157 acquisitions that were completed in 2010, 102 transactions reported deal ratios. The average price to tangible book value for the 102 completed transactions equaled 112.7 times. Completed merger pricing ranged from a low of 16.0% of tangible book value for the \$154 million White Rock Bank of Minnesota to a high of 363.3% of tangible book value for the \$143 million Frankston Bancorp of Texas. Of the 102 completed transactions with reported deal ratios, 61 acquisitions were priced at or above tangible book value. For the completed acquisitions in 2010, the average deal value to assets was 13.16% at announcement and 13.15% at close. The average deal value to book value was 106.7% at announcement and 108.5% at close. The average deal value to tangible book value was 110.9% at announcement and 112.7% at close.

The largest completed merger in 2010 was the investor group acquisition of the \$19 billion First Republic Bank from Bank of America, a transaction that was announced in 2009. The second largest transaction was the Toronto Dominion Bank acquisition of the \$12.1 billion South Financial Group of South Carolina. The smallest acquired institution was the purchase of the \$7.2 million Timewell State Bank of Illinois by Mount Sterling Bancorp. Total assets involved in the 157 completed acquisitions in 2010 equaled \$87 billion for an average asset size of \$558 million.

Of the transactions announced in 2010 yet still pending as of March 31, 2011, the largest was the December 2010 announcement by BMO Financial Group of Toronto of its intention to buy the \$52 billion Marshall & Ilsley Corporation for \$5.8 billion, a transaction equaled to 97.63% of tangible book value.

Texas was the state with the most completed mergers in 2010 at 17. There were 13 acquisitions completed in which California institutions were the targets. California also reported the highest volume of assets involved in mergers at \$28 billion. The California total included the \$19 billion First Republic Bank. Kansas and Nebraska ranked third and fourth in the acquisition tally with 12 and 10 completed acquisitions, respectively. The majority of the 2010 acquisitions involved in-state buyers.

The thirteen acquisitions involving California institutions ranged in target size from the \$27 million San Ana Business Bank to the \$19 billion First Republic. Grandpoint Capital completed the acquisition of two institutions, Santa Ana Business Bank and First Commerce Bancorp, and also acquired the failed First Vietnamese American Bank. Bank holding company SCJ, Inc. made control investments in Mission Community Bancorp and Professional Business Bank. Investor groups acquired control interest in five additional California banks, namely Pacific Capital Bancorp, Gold Country Financial Services, Golden Coast Bank, Bay Cities National Bank and Bank of San Francisco. In 2009 only two California banks were acquired in mergers.

For acquisitions announced through March 2011, there were 67 pending transactions, involving \$107 billion in target assets. There were 34 acquisitions announced in the first quarter of 2011 and 32 acquisitions still pending from announcements made in 2010 and one still pending from 2009. The average deal value to assets for the 47 pending transactions with reported deal terms equaled 12.8%. The deal value to book value averaged 106.0% and the deal value to tangible book value averaged 112.0%.

Of the 34 acquisitions announced in the first quarter of 2011, the largest transaction was Comerica's acquisition of Sterling Bancorp of Texas. Announcements in the first quarter involved two California acquisitions, Capitol Bancorp's Bank of Feather River by an investor group and Orange Community Bank by Grandpoint Bank.

### **INDUSTRY VALUATIONS: *National Stock Prices***

The path of 2010 stock prices, as measured by the major stock indices, followed a generally upward trend, with some downdrafts along the way. Market indices made a full recovery from the steep decline triggered by the financial crisis of late 2008. During 2010 equity prices rose on a year-end to year-end comparison, but suffered a prolonged decline from late April to late August 2010. The decline was most pronounced for bank stocks, as evidenced by the four month declines of 25.8% for the KBW bank index and 28.3% for the S&P bank index. The broader market also declined in the April-August period, yet not as steeply as the banking sector. Through the first quarter of 2011, the broader market generally rallied by a greater percentage than the banking sector.

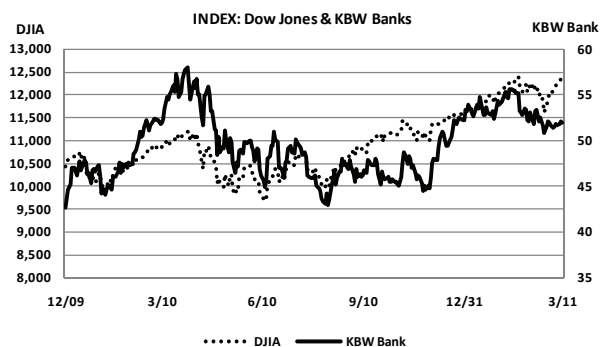
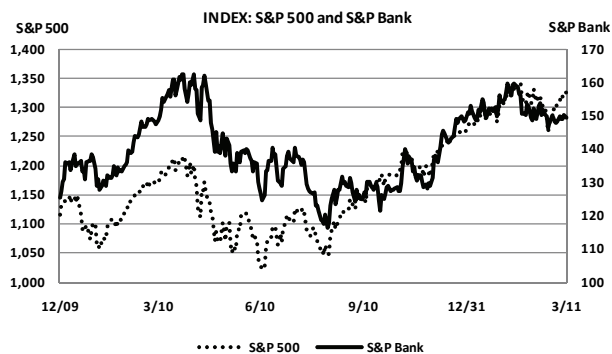
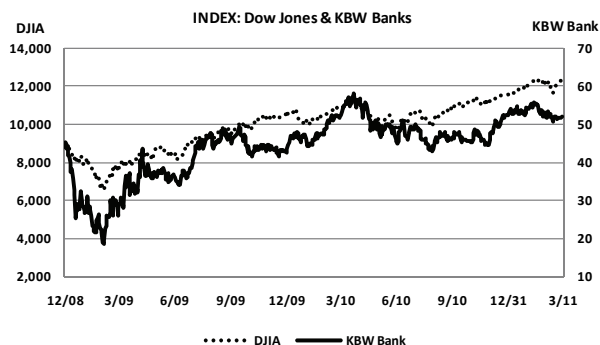
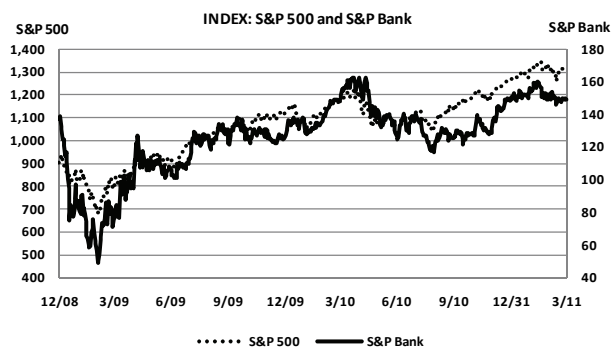
## INDUSTRY VALUATIONS

The following table tracks the performance of stock price indices over varying time periods:

### Percentage Change in Stock Indices

Period	KBW Bank	S&P Bank	Dow Jones Industrial	S&P 500
12/31/08 to 3/31/11	17.2%	8.64%	40.4%	46.8%
12/31/09 to 3/31/11	21.6%	19.2%	18.4%	18.9%
12/31/09 to 12/31/10	22.2%	18.7%	11.0%	12.8%
4/23/10 to 8/30/10	-25.8%	-28.3%	-10.7%	-13.8%
8/30/10 to 3/31/11	20.8%	28.2%	23.1%	26.4%

The following graphs chart the daily indices for the broader market relative to bank stock prices from year-end 2008 to month-end March 2011 as well as for 2010 through the first quarter of 2011.



### INDUSTRY VALUATIONS: *California Stock Prices*

The declining trend for the stock prices of California publicly traded financial institutions improved slightly in 2010 following the drop in stock prices that began in 2007. In 2010 there were more publicly traded companies reporting annual stock price declines than advances. The favorable news was that the number of companies reporting either no change or gains in stock prices exceeded the number of institutions reporting price declines. The stock price tally for banks and thrifts was as follows: 75 reported advances, seven were unchanged, and 77 reported declines. Of the 159 publicly traded companies, 118 or 74% of the total traded below book value, while stock prices for 34 of these companies traded below 50% of book value.

## INDUSTRY VALUATIONS

### Market Overview

At year-end 2008, there were 181 publicly traded bank and thrift companies that were followed by Carpenter & Company. At year-end 2009, there were 169 such companies. By the end of 2010 that count narrowed to 159 companies. The net reduction of ten in the number of California publicly traded banks and thrifts resulted from ten failures and two mergers, which were partially offset by the addition of two companies to the report.

Pricing of bank stocks relative to tangible book value greatly improved in 2010 compared with 2009. All of the bank size groups, except for commercial banks in the \$100-\$250 million range, reported that stock prices rose relative to tangible book value. The \$100-\$250 million range was unchanged over the past year. As a group, only banks over \$1 billion in assets traded above tangible book value. Thrifts continued to report the lowest pricing to tangible book value of the various categories analyzed, yet at least pricing was boosted to more than 50% of tangible book value.

From 2006 through 2010, the steepest decline in stock price to tangible book value was experienced by banks in the \$250-\$500 million range, down 68.9% over the period. Banks between \$100 and \$500 million in assets reported average stock prices to tangible book value of 0.71 times, the lowest valuation for the commercial banking categories. The highest valuation to book value was reported for banks in the \$10-\$100 billion range. Banks in the \$5-\$10 billion asset range reported the smallest decline over the 2006 to 2010 period with a 15.8% reduction in price to tangible book value.

### Stock Price to Tangible Book Value (At Year-end)

CA Bank Size	2006	2007	2008	2009	2010	Change 2006-10
<\$100 million	1.79	1.26	0.82	0.72	0.79	-55.9%
\$100-\$250 million	1.93	1.39	0.79	0.71	0.71	-63.2%
\$250-\$500 million	2.28	1.57	0.76	0.65	0.71	-68.9%
\$500 million-\$1 billion	2.62	1.65	0.80	0.62	0.85	-67.6%
\$1-\$5 billion	2.54	1.58	1.04	1.01	1.23	-51.5%
\$5-10 billion	2.09	2.10	1.89	1.06	1.76	-15.8%
\$10- \$100 billion	2.49	2.11	1.66	1.47	1.88	-24.5%
All Thrifts	1.40	0.80	0.41	0.42	0.59	-57.9%

During 2010 twelve California financial institutions failed, including ten publicly traded companies. The failures cut across most asset sizes. Experiencing the most failures was the \$250-\$500 million size group with three, followed by the \$500 million to \$1 billion group with two failures. There were no failures reported in the two classes of banks over \$5 billion. There was one failure of a publicly traded thrift in 2010. Privately held La Jolla Bank and Innovative Bank also failed. Year-to-date through March 31, 2011, three more publicly traded California financial institutions failed.

Two publicly traded California banks were acquired by Grandpoint Capital LLC. The acquisition of Santa Ana Business Bank was completed on June 14, 2010 at a closing price of 102.2% of tangible book value, paid through an all-cash transaction of \$7.4 million. Grandpoint Capital also acquired First Commerce Bancorp (FCCC) in an all-cash transaction that closed on December 28, 2010. The FCCC transaction equaled \$43.9 million and was priced at 128.9% of tangible book value. The completion ratio compared with the announced deal value to tangible book value of 130.4%. In the first quarter of 2011, Grandpoint announced its intention to acquire Orange Community Bancorp (OCBN) in an all-cash transaction valued at \$30 million and priced at 134.6% of tangible book value.

## INDUSTRY VALUATIONS

California United Bank acquired California Oaks State Bank (COSB) with the transaction completed after the close of trading on December 31, 2010. The mixed cash-stock transaction was valued at \$17.1 million. At completion the deal value equaled 128.0% of tangible book value, up from the announcement pricing of 126.4% of tangible book value.

Changes were made in the reported stratification of publicly traded companies. The size category of banks with total assets under \$50 million was incorporated into the \$50 to \$100 million asset group to comprise banks under \$100 million. In addition, to track California banks in relationship to the stock price indices compiled by SNL Financial, the category of banks between \$1 and \$10 billion in assets was divided to track banks in the ranges of \$1 to \$5 billion and \$5 to \$10 billion. **Please note that asset size and last twelve month (LTM) earnings were based upon data that were available to traders at year-end 2010, which would be financial information as of September 30, 2010.**

### **INDUSTRY VALUATIONS: *Banks with Total Assets under \$100 Million***

Six publicly traded California banks with assets under \$50 million at the end of 2009 were combined with the 20 banks with assets between \$50 and \$100 million to form the consolidated category of banks with total assets under \$100 million. At the end of 2010, there were 21 publicly traded California banks with assets under \$100 million. This count was down from 26 banks at the end of 2009.

Eight banks moved out of this asset class over the course of 2010. Six banks grew into a larger asset class, one bank failed and one bank was merged out. There were 18 banks that remained in this asset size from the previous year. The under \$100 million asset class experienced the additions of one new bank to the tracking report and the additions of two banks which reported reduced assets to reenter this class from a larger group.

Partners Bank of California of Mission Viejo (PBKX) was added to the tracking report and reported very limited trading activity with the last trade of the year occurring in February 2010. First Vietnamese American Bank (FVAB) failed in November 2010. Santa Ana Business Bank (SABB) was acquired by privately-held Grandpoint Capital LLC. Over the course of 2010, Bank of Napa, NA, Community Bank of the Bay, Folsom Lake Bank, Lighthouse Bank, Mojave Desert Bank and Promerica Bank grew to the next larger asset size. California Business Bank and Ventura County Business Bank declined in total assets to rejoin the under \$100 million asset class. Since the beginning of this year it was announced that Coronado First Bank planned to merge with Embarcadero Bank of San Diego. Embarcadero Bank will exchange common stock equaled to the tangible book value of Coronado First Bank for an aggregate deal value of approximately \$9.3 billion. The resultant bank will operate under the name of Coronado First Bank.

Over the year stock pricing for this group of 21 banks showed ten gains, nine declines and two unchanged. In 2009 only four banks reported stock price gains. The top price advance in percentage terms was reported by Pan American Bank, with an 80.0% price gain over the year. Capital Bank and California Business Bank both reported price advances in excess of 70%. The steepest stock price decline on a percentage basis was reported by Tri-Valley Bank, down 80.0%. Other sizable stock price declines were the 65.7% drop for Sierra Vista Bank and the 50.0% decline in Community Valley Bank.

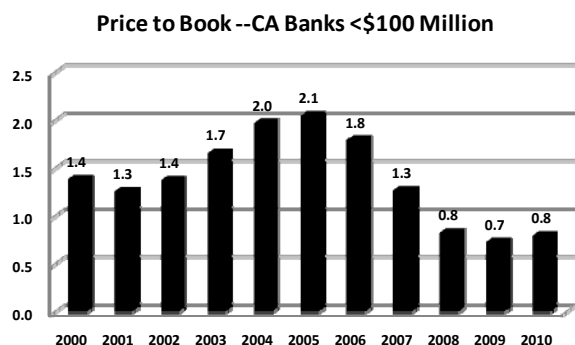
The stock of 15 banks in this asset class traded below book value, while six banks traded in excess of their book value. The highest multiple to book value in this asset class was reported by Capital Bank at 3.06 times, while the lowest was 0.06 times for Saigon National Bank. There were five additional banks trading at less than 50% of book value, including Coronado First Bank, Pan American Bank, Pan Pacific Bank, Sutter Community Bank and Tri-Valley Bank.

Six of the 21 banks reported positive earnings for the last twelve months ending September 30, 2010. The reported price to LTM earnings ranged from a high of 35.9 times for AltaPacific Bank to a low of 17.2 times for Pan American Bank. The P/E ratios for Pacific Alliance Bank and Sutter Community Bank exceeded 50 times and were termed N/M or not meaningful. Average P/E based upon the four relevant ratios equaled 25.4 times.

## INDUSTRY VALUATIONS

Stock trading in this size category of banks was generally limited. Four of the 21 banks did not report a stock trade in the month of December 2010. Partners Bank of California reported the lowest annual volume of shares traded at 1,000. The highest volume of trading was reported by Ventura County Business Bank.

The highest market capitalization for banks in this class was reported by Capital Bank at \$30.6 million. The lowest was the \$423 thousand for Saigon National Bank. Total market capitalization for this category equaled \$185 million, compared with \$210 million for all banks under \$100 million in 2009. Since there were five more banks in this asset group in 2009, the per-bank market capitalization actually rose in 2010 despite the decline in total market capitalization. The 2010 average market capitalization equaled \$8.8 million, compared with \$8.1 million in 2009.



### Largest Price Gainers

Pan American Bank	+80.0%
Capital Bank	+77.4%
California Business Bank	+73.3%

### Steepest Price Declines

Tri-Valley Bank	-80.0%
Sierra Vista Bank	-68.7%
Community Valley Bank	-50.0%

## INDUSTRY VALUATIONS: *Banks with Total Assets between \$100 and \$250 Million*

This asset class continued to have the largest number of California publicly traded banks. At year-end 2010, there were 62 banks in the category, unchanged from 2009 and up from the 57 banks at year-end 2008. Despite the unchanged count of banks, there was a substantial number of banks entering and exiting this class. There were 53 banks that remained in this group from the previous year. The net change of nine banks resulted from two banks declining to the smaller asset size, two banks failing, and five banks growing into the next larger size. The group was joined through the addition of nine banks. Six of the nine banks grew into the class, two banks shrank from a larger class and one bank started initial stock tracking in this group.

Two banks, California Business Bank and Ventura County Business Bank, declined in asset size to join the under \$100 million asset class. The subsidiary banks of Granite Bancshares, Inc. (Granite Bay Community Bank, NA) and WCB Holdings, Inc (Western Commercial Bank) failed. Six banks, consisting of Bank of Napa, NA, Community Bank of the Bay, Folsom Lake Bank, Lighthouse Bank, Mojave Desert Bank and Promerica Bank, were added from the smaller size class. Canyon National Bank and Orange County Business Bank rejoined this class from the larger asset class. The tracking of the trades for the stock of Valley Republic Bank commenced in this asset class.

After the last day of trading in 2010, California United Bank closed on its acquisition of California Oaks State Bank. First Standard Bank changed its name to Open Bank and continued to trade under its ticker symbol of FSTA. American Principle Bank changed its name to American Perspective Bank. First Business Bank, NA, which was formerly Ramona National Bank, changed its name to Bank of Southern California, NA and continued to trade under its ticker symbol of FBBN.

In the first quarter of 2011, Canyon National Bank, which had rejoined this category from the larger class, failed as did Charter Oaks Bank. Charter Oaks Bank was being acquired by Community Bank of the Bay when the FDIC seized control of Charter Oaks and Bank of Marin acquired the failed bank. Also in the first quarter of 2011, Grandpoint Capital announced its intention to acquire Orange Community Bancorp at an announced pricing of 134.6% of tangible book value.

## INDUSTRY VALUATIONS

At year-end 2010, the asset class of bankers between \$100 and \$250 million reported that 19 banks had full-year stock price gains, while two banks reported no change in stock prices, and 41 banks reported lower prices over the year.

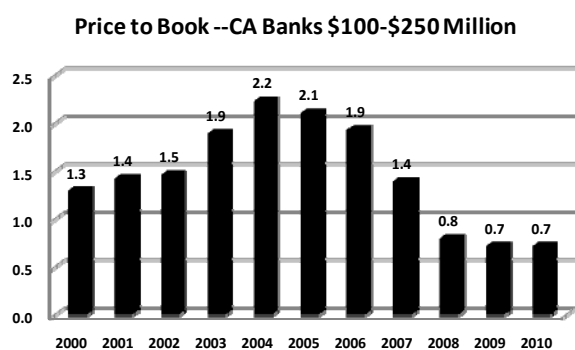
The largest price gain was reported by Open Bank, which experienced a 287.5% increase in stock price. Other sizable price advances were reported by Community Business Bank, up 96.4%, and California Oaks State Bank, up 91.4%. The steepest price decline over the course of 2010 was the 86% drop reported by Charter Oaks Bank which failed in February 2011. The price of American California Bank declined 77.5% and Canyon National Bank, which also failed this year, experienced a 66.0% decline.

Banks in this asset class generally traded well below book value. There were 51 banks priced below book value, including 16 banks that traded at less than 50% of book. The lowest book value multiple was the 0.15% pricing for Coast National Bank. Eleven banks in this asset class traded in excess of book value, with the highest multiple reported by San Diego Trust Bank at 1.60 times tangible book value. The average price to tangible book value equaled 0.71 times, which matched the next higher asset group for having the lowest multiple of all of the California commercial bank groups.

Twenty of the 62 banks reported positive earnings for the LTM ending September 30, 2010. The highest P/E ratio was 43.6 times for 1<sup>st</sup> Capital Bank, while the lowest reported P/E was 5.3 times for Mission National Bank. The P/E ratios for two of the banks exceeded 50 times and were reported as N/M, not meaningful. The average P/E ratios for the relevant 18 banks equaled 20.29 times, down from the 2009 average of 22.62 times.

This class of banks generally had limited trading volume. The average volume of annual shares traded for the 62 banks equaled 136,624, which was 47% higher than the average of 92,600 shares traded for the under \$100 million asset class. Six of the 62 banks in this class had no trades during December 2010. Northern California National Bank reported no trades since December 2008. America California Bank and Mojave Desert Bank reported no trades in December. Delta National Bank, Liberty Bancorp, and Security First Bank reported no trades in the fourth quarter. The annual volume of trading activity ranged from zero shares for Northern California National Bank to 638,300 shares for Canyon National Bank.

The bank with the highest market capitalization in this group was Valley Republic Bank at \$43.2 million. The lowest market capitalization was reported by Coast Bancorp at \$796 thousand. Total market capitalization for this category equaled \$762 million, compared with \$775 million in 2009. Since the number of banks in this category was unchanged, the average market capitalization in 2010 edged down to \$12.3 million from \$12.5 million in 2009.



### Largest Price Gainers

Open Bank	+287.5%
Community Business Bank	+96.4%
California Oaks State Bank	+91.4%

### Steepest Price Declines

Charter Oaks Bank	-86.0%
America California Bank	-77.5%
Canyon National Bank	-66.0%

**INDUSTRY VALUATIONS: Banks with Total Assets between \$250 and \$500 Million**

There were 28 publicly traded California commercial banks in this size range as of year-end 2010, a decline of one bank from 2009. Within this category 22 banks remained in this size group over the year. The movement of seven banks out of this group over the past year resulted from the failure of three banks, the acquisition of one bank, two banks declining in size to rejoin the smaller class and one bank growing into the next asset size. The six banks added to this classification resulted from five banks growing out of the smaller size group and one bank shrinking to rejoin this group.

The three banks that failed in 2010 were 1<sup>st</sup> Pacific Bank, Pacific State Bank and Sonoma Valley Bank. First Commerce Bank was acquired by Grandpoint Capital, LLC in an all-cash transaction at a valuation of 128.9 times tangible book value. Orange County Business Bank and Canyon National Bank declined in asset size to join the smaller classification. California United Bank grew to the next asset size. Joining this group from the smaller asset classes were California Bank of Commerce, California Republic Bank, Commerce National Bank, Presidio Bank and Plaza Bank. Plumas Bank declined in assets to rejoin this group.

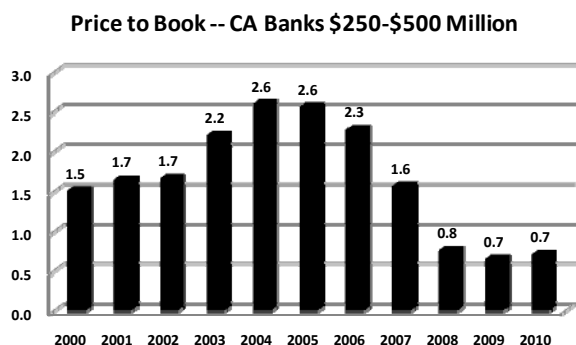
This asset class had an equal number of stock price gains and declines at 13 each, while two banks reported no price change over the year. The largest stock price advance was the 66.7% rise in the price of Premier Valley Bank. The steepest stock price decline was 81.5% for Santa Lucia Bancorp. California Republic Bank and Security California Bancorp reported no change in stock prices.

The average price to tangible book value matched the low average for the \$100-\$250 million asset group at 0.71 times tangible book value. A total of 25 banks in this class of 28 traded below tangible book value. Seven banks traded below 50% of tangible book, including Citizens Bancorp, which has negative tangible equity. Three banks reported pricing above tangible book value. Premier Valley Bank and 1<sup>st</sup> Enterprise Bank were tied with the highest multiple of 1.14 times tangible equity. Also trading above book value was California Republic Bank.

Fourteen banks, one half of the group's total, reported positive LTM earnings through September 2010. Three of the banks had P/E ratios in excess of 50% and thus showed N/M in the ratio listing. The average P/E for the remaining 11 banks was 22.49, down slightly from the 2009 average P/E of 23.58. The reported P/E ratios ranged from a low of 0.77 for Plaza Bank to a high of 46.90 for Private Bank of California.

This asset class had greater stock trading activity than the preceding smaller categories. All 28 banks reported a stock trade in December 2010. The annual trading volumes ranged from a low for Northern California Bancorp to the high for 1<sup>st</sup> Century Bancshares. The annual average annual trading volume for this class of banks was 133% greater than the average trading volume for the banks in the \$100 to \$250 million class.

The market capitalization of this asset class equaled \$618 million, up from \$590 million in 2009. On a per-bank basis, the average market capitalization equaled \$22.1 million, an 8.9% increase over the \$20.3 million average for 2009. The market capitalization for banks in the class ranged from a low of \$4.7 million for Citizens Bancorp to a high of \$55.9 million for Premier Valley Bank.



<b>Largest Price Gainers</b>	
Premier Valley Bank	+66.7%
Greater Sacramento Bancorp	+55.0%
Valley Commerce Bancorp	+41.4%
<b>Steepest Price Declines</b>	
Santa Lucia Bancorp	-81.5%
United American Bank	-54.0%
Citizens Bancorp	-50.0%

**INDUSTRY VALUATIONS: *Banks with Total Assets  
Between \$500 Million and \$1 Billion***

There were 17 banks in this asset class at the end of 2010, a decline of two banks from year-end 2009. Sixteen banks remained in this classification. The reduction of three from the 2009 tally resulted from the failure of two banks and the reduction in asset size by one bank to rejoin the smaller asset class. Growth in total assets allowed one bank to join this asset class.

The subsidiary banks of Tamalpais Bancorp (Tamalpais Bank) and Community Valley Bancorp (Butte Community Bank) failed in 2010. Assets of Plumas Bank declined below \$500 million to cause Plumas Bancorp to rejoin the smaller asset class. California United Bank joined this asset class from the smaller class.

There were more banks with gains in stock prices during 2010 than price declines. Ten banks reported increases in stock prices, while stock prices for seven banks showed declines. The largest decline in stock prices was reported for Pacific City Financial Corp. The announced acquisition of Pacific City by North Asia Investment, a special purpose acquisition company, was terminated in April 2010. The largest stock price gain of 129.4% was reported by Saehan Bancorp.

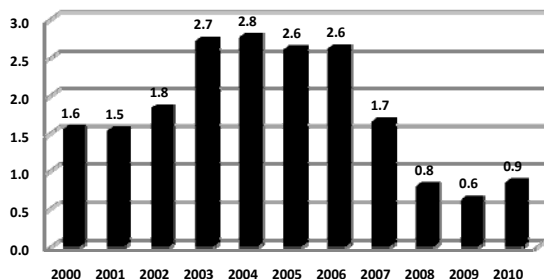
The majority of the banks in this group were valued below tangible book value. Thirteen banks traded below their tangible book value and two banks reported pricing at less than 50% of tangible book value. The lowest price to tangible book value was reported by Community West Bancshares at 47% of tangible book value. The highest pricing was for American Business Bank at 1.40 times tangible book value. The average price to tangible book value for this class equaled 0.85 times, an increase from the 0.62 times average in 2009.

Twelve of the 17 banks in the class reported LTM earnings through September 2010. Three of the twelve profitable banks reported P/E ratios in excess of 50 times and, thus carried N/M in their reported P/E ratio. The highest meaningful P/E ratio was 28.06 for Pacific Premier Bancorp. The lowest reported P/E was 1.01 for Bank of Commerce Holdings. The average P/E ratio for this asset class was 13.31, compared with 16.27 in 2009.

This asset class was characterized by significant volumes of trading activity. Nonetheless, two bank reported no trades during December, notably Pacific City Financial Corp. and Sunwest Bank. The average annual trading volume for this class equaled nearly 1.6 million shares or more than 5 times greater than the average trading volume for the banks in the \$250 to \$500 million class. The lowest number of shares traded was for Sunwest Bank, largely due to its concentrated ownership and its single share price of \$2,500. The highest annual trading activity was reported by Saehan Bancorp.

The market capitalization of the banks in the class totaled \$985 million, up from \$605 million in 2009. On a per-bank basis, the annual change was more remarkable from \$31.8 million in 2009 to \$57.9 million in 2010. Most of the banks in this class reported significant increases over the year in market capitalization with the exceptions of the declines posted by Pacific City Financial Corp. and United Security Bancshares. The lowest market capitalization was the \$15.2 million of Pacific City Financial Corp and the highest was \$97.5 million for American Business Bank.

Price to Book --CA Banks \$500 Million-\$1 Billion



**Largest Price Gainers**

Saehan Bancorp	+129.4%
Pacific Premier Bancorp	+91.7%
FNB Bancorp	+33.9%

**Steepest Price Declines**

Pacific City Financial Corp.	-43.5%
Heritage Oaks Bancorp	-34.2%
American River Bankshares	-23.7%

### INDUSTRY VALUATIONS: *Banks with Total Assets between \$1 and \$5 Billion*

This class was added to allow stock price comparison with the SNL index for banks in the \$1 to \$5 billion asset range. This change moved CVB Financial, PacWest Bancorp and Pacific Capital Bancorp to a new asset category of banks between \$5 and \$10 billion. The adjusted count for banks in this category in 2009 was 18, one more than the current population of 17. This reduction resulted from the failure of First Regional Bancorp. In December 2010, an announcement was made of the planned merger of equals between Nara Bancorp and Center Financial Corp. The merger was anticipated to be completed in the second half of 2011 and had an announced deal value of \$286.3 million. In 2010, River City Bank dissolved RCB Corp. its holding company and traded as River City Bank under its existing RCBC ticker symbol.

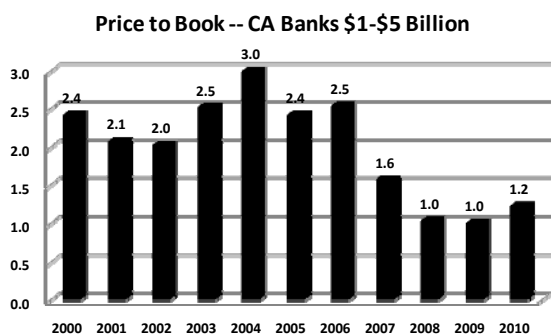
This class of banks reported significantly more stock price gains than declines for the full year of 2010. Twelve banks experienced increases in stock prices, while five banks suffered declines. The largest gain was the 64.8% advance in the stock price of Center Financial Corp. On the flip side of the announced merger, the steepest decline was the 13.1% drop in the stock price of Nara Bancorp.

The number of banks trading below tangible book value exceeded by one the number of banks with above tangible book value pricing. Nine banks traded below tangible book value, but no bank was priced below 50% of tangible book value. The lowest multiple to tangible book value was 0.61 times for River City Bank. The highest multiple to tangible book value for this class and for any publicly traded California bank was the 4.21 times for Westamerica Bancorp. Westamerica Bancorp achieved the top multiple to tangible book value ranking for the past four consecutive years. The average price to tangible book value for this class was 1.23 times, up from 1.02 times in 2009.

Ten of the 17 banks reported positive LTM earnings for the period ending September 2010. The range in P/E ratios was the low of 7.49 for Exchange Bank to a high of 49.90 for Trico Bancshares. The average P/E for the entire class was 22.78, up from 17.41 in 2009.

Stock trading for this group of banks was robust, with the annual number of shares trading exceeding 33 million shares. This average could have been higher, except that three banks had shares priced well above \$100. The last trading price for Farmers & Merchants Bancorp was \$415. The latest price for Farmers & Merchants Bank was \$3,970. Mechanics Bank was priced at \$12,000 per share. All of the banks record stock trades in December. The lowest trading volume was for Mechanics Bank at 77 shares. The highest number of shares traded was the 298 million shares of Hanmi Financial.

The market capitalization for this class equaled \$4.8 billion, up from \$3.8 billion in 2009. The average per-bank market capitalization was \$212.6 million in 2009 and increased 33% in 2010 to \$282.4 million. The market capitalization ranged from a low of \$38.7 million for Pacific Mercantile Bank to a high of \$1.6 billion for West America Bancorp. West America had the fifth highest market capitalization of all of the California publicly traded banks in this analysis.



**Largest Price Gainers**

Center Financial Corp	+64.8%
Sierra Bancorp	+40.6%
Exchange Bank	+24.4%

**Steepest Price Declines**

Nara Bancorp.	-13.1%
Wilshire Bancorp	-7.0%

## INDUSTRY VALUATIONS

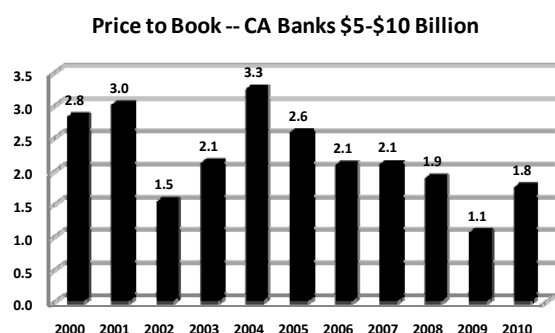
### INDUSTRY VALUATIONS: *Banks with Total Assets between \$5 and \$10 Billion*

This asset class was developed to allow for the establishment of the \$1 to \$5 billion asset group, as was previously mentioned. The three banks in this asset category were unchanged from the prior year and consisted of CVB Financial Corp., PacWest Bancorp and Pacific Capital Bancorp.

Ford Financial LP acquired 76% of the ownership in Pacific Capital Bancorp during 2010, while the U.S. Department of the Treasury, through its TARP investment, held an ownership position of 11%. Pacific Capital Bancorp made a 1 to 100 reverse stock split last year. Adjusted for the stock split, Pacific Capital experienced a 70.6% decline in its stock price during 2010. CVB Financial and PacWest experienced price gains.

All three banks were priced above tangible book value, at a rate that averaged 1.76 times, up from 1.06 times in 2009. Only CVB Financial had positive LTM earnings for the period ending September 2010. CVB's P/E ratio of 13.1 was up from its 12.4 P/E in 2009.

CVB was the more actively traded stock of the group, with 266 million shares traded during the year. Total market capitalization equaled \$2.6 billion this year, up from \$1.6 billion in 2009. With the two private placements of stock and the rights offerings conducted during 2010, the market capitalization of Pacific Capital increased from \$44.9 million in 2009 to \$929.9 million at year-end 2010.



#### Price Gainers

PacWest Bancorp	+6.1%
CVB Financial	+0.4%

#### Price Declines

Pacific Capital Bancorp	-70.6%
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### INDUSTRY VALUATIONS: *Banks with Total Assets between \$10 and \$100 Billion*

The year 2010 ended with five California publicly traded banks with assets in excess of \$10 billion yet under \$100 billion. First Republic Bank, which was acquired by investors from Bank of America, commenced public stock trading in December 2010.

All of the banks reported stock price gains over the year, with the 121.2% increase in the price of Cathay General Bancorp leading the group. All of the banks carried pricing in excess of tangible book value, ranging from a low of 1.53 times for Cathay General Bancorp to a high of 2.24 times for City National Bank.

Since First Republic Bank was established in July 2010, it does not have LTM earnings. Cathay General continued to report losses on a LTM basis. The three remaining banks reported the following P/E ratios: 7.59 for East West Bancorp, 22.21 for SVB Financial Group, and 26.59 for City National Corp. In 2009 only one bank had LTM earnings and the P/E ratio was not meaningful. The average P/E ratio for this class equaled 18.80.

This class was an actively traded group. East West Bancorp, Inc. continued to report the most shares traded at 412.4 million shares. Total market capitalization for this group equaled \$13.2 billion, a gain of 136% over the \$5.6 billion market capitalization of 2009. On a per-institution basis, the average market capitalization equaled \$2.6 billion in 2010, compared with \$1.4 billion in 2009. First Republic Bank reported the highest market capitalization at \$3.6 billion. Cathay General reported the lowest capitalization at \$1.3 billion.

## INDUSTRY VALUATIONS

### Larger Price Gainers

Cathay General Bancorp	121.2%
City National Bank	34.6%

## INDUSTRY VALUATIONS: *California Thrifts*

At the end of 2010 the Carpenter tracking of publicly traded thrifts totaled seven institutions, down one from 2009. During 2010 Bank of Las Padres, a subsidiary of Harrington West Financial Group, failed. In the first quarter of 2011, San Luis Trust Bank, FSB failed.

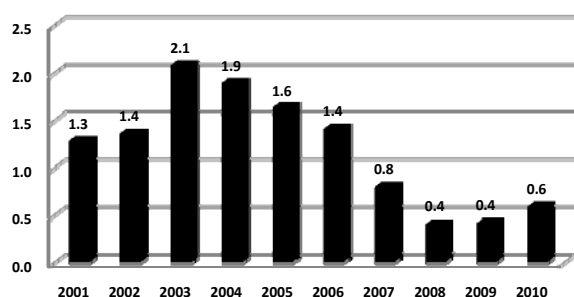
Five of the seven thrifts reported stock price gains during 2010. The steepest increase was the 162.3% advance in the stock price of Provident Financial Holdings, Inc. The two thrifts with declines in stock prices were Broadway Financial, down 59.4%, and San Luis Trust Bank, off 85.7%.

Only two thrifts traded above tangible book value. Malaga Financial Corp carried the highest ratio at 1.28 times book value. The lowest price to tangible book was 0.03 times for San Luis Trust Bank. Two other thrifts, Broadway Financial and RMG Capital Corp, traded at less than 50% of tangible book value. The average price to tangible book value for the entire class was 0.59 times, up from 0.42 times in 2009.

Four of the seven thrifts reported positive LTM earnings for the period ending September 2010. The P/E for First PacTrust Bancorp was reported as not meaningful, while the remaining three P/E ratios ranged narrowly from 6.86 to 8.85. Malaga Financial reported the highest P/E. The average P/E for the thrift class equaled 7.56, up from 7.37 in 2009.

The companies that comprise the thrift class were grouped according to charter, not asset size. Hence this class had significant variation in market capitalization and annual trading volumes. Only RMG Capital Corp did not report a trade in December. The highest annual trading volume was 20 million shares for BOFI Holding. RMG Capital reported the lowest volume of annual shares traded. Market capitalization ranged from a low of \$0.6 million for San Luis Trust Bank to a high of \$158.5 million for BOFI Holdings. The total market capitalization of the thrifts equaled \$403 million, up from \$225 million in 2009. The per-institution average market capitalization showed even greater improvement, up 105% from \$28.1 million in 2009 to \$57.6 million in 2010.

Price to Book -- CA Thrifts



### Largest Price Gainers

Provident Financial Holdings	+162.3%
First PacTrust Bancorp	+148.0%

### Largest Price Decline

San Luis Trust Bank, FSB	-85.7%
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2011

# INDUSTRY RANKINGS

CARPENTER

## **About the Rankings**

The following tables present an alphabetical listing of California financial institutions, as of December 31, 2010. The annual returns on average assets and average equity, obtained from the SNL Database, have been ranked based upon the following:

- Absolute return on assets and return on equity and
- Year-over-year change in these two measures.

### **Disclaimer Regarding Industry Ranking**

**Note:** No adjustments in the returns and therefore in the rankings have been made for any factor, including the following conditions that could distort the return ratios relative to other financial institutions:

- A financial institution that is a Sub-chapter S corporation.
- A financial institution with a high dependency on fee income.
- A financial institution that is owned by a holding company, especially when the holding company absorbs a portion of the operating expenses of the individual financial institution.
- A financial institution with a large income tax loss carry-forward or for a variety of reasons does not have earnings that are fully tax-adjusted.

Banks with short operating histories are listed but are not part of the rankings.

These rankings, while a useful measure, are not a precise indication of the relative performances of the various banks and financial institutions

# INDUSTRY RANKINGS: *Returns*

2010 RELATIVE PERFORMANCE OF CALIFORNIA FINANCIAL INSTITUTIONS						2010 RANKINGS BASED ON			
Company Name	Assets	Year	Type	ROAA	ROAE	Change in			
	(\$000)	Est.				ROAA	ROAE	ROAA	ROAE
1st Capital Bank	226,834	2007	Commercial Bank	0.51	3.62	96	107	100	100
1st Century Bank, N.A.	308,331	2004	Commercial Bank	-0.60	-3.92	192	190	46	63
1st Enterprise Bank	502,284	2006	Commercial Bank	0.39	4.24	114	94	226	213
AltaPacific Bank	79,806	2006	Commercial Bank	1.10	3.52	33	110	140	156
America California Bank	127,570	1972	Commercial Bank	-0.62	-6.04	193	198	52	37
American Business Bank	1,008,972	1998	Commercial Bank	0.91	13.70	44	18	187	191
American Continental Bank	129,131	2003	Commercial Bank	0.33	2.32	124	135	83	66
American Perspective Bank	228,884	2007	Commercial Bank	0.23	1.21	140	151	85	113
American Plus Bank, N.A.	158,854	2007	Commercial Bank	0.30	2.42	131	132	78	87
American Premier Bank	110,520	2003	Commercial Bank	0.02	0.15	166	167	94	85
American River Bank	577,408	1983	Commercial Bank	0.12	0.83	154	155	217	208
American Riviera Bank	139,540	2006	Commercial Bank	0.75	5.59	59	76	44	36
American Security Bank	413,555	1990	Commercial Bank	0.15	1.31	150	148	80	69
Americas United Bank	114,012	2006	Commercial Bank	-2.01	-13.33	225	220	68	105
Asian Pacific National Bank	51,567	1990	Commercial Bank	0.85	5.43	50	79	145	140
Avidbank	317,013	2003	Commercial Bank	0.67	7.27	74	53	107	75
Balboa Thrift and Loan Association	200,668	1980	Industrial Bank	1.11	10.91	32	28	101	76
Banamex USA	1,193,183	1963	Commercial Bank	0.64	2.89	80	121	65	84
Bank of Agriculture and Commerce	472,160	1965	Commercial Bank	1.12	11.53	30	27	214	204
Bank of Alameda	255,346	1998	Commercial Bank	-2.09	-21.46	228	235	233	232
Bank of America California, N.A.	23,162,616	1984	Commercial Bank	1.36	17.75	22	11	242	247
Bank of Feather River	38,934	2007	Commercial Bank	0.51	3.09	97	116	34	45
Bank of Hemet	444,531	1974	Commercial Bank	2.09	20.43	8	4	131	127
Bank of Internet USA	1,662,674	2000	Savings Assoc.	1.27	14.54	23	12	211	227
Bank of Manhattan, N.A.	150,923	2007	Commercial Bank	-1.30	-7.59	210	202	51	99
Bank of Marin	1,208,134	1990	Commercial Bank	1.18	12.73	28	20	195	183
Bank of Napa, N.A.	105,962	2006	Commercial Bank	0.26	1.50	136	145	86	111
Bank of New York Mellon Trust Company	2,068,070	1981	Commercial Bank	10.27	13.30	2	19	91	163
Bank of Rio Vista	175,797	1904	Commercial Bank	-0.82	-6.54	199	199	221	211
Bank of Sacramento	368,903	1998	Commercial Bank	0.27	2.85	134	123	194	187
Bank of San Francisco	100,502	2005	Commercial Bank	0.74	8.01	61	50	121	89
Bank of Santa Barbara	115,912	2005	Commercial Bank	-1.33	-15.71	211	225	7	4

All top 25 rankings are shaded

**INDUSTRY RANKINGS: 2010 Returns on Average Assets and Average Equity**

2010 RELATIVE PERFORMANCE OF CALIFORNIA FINANCIAL INSTITUTIONS						2010 RANKINGS BASED ON			
Company Name	Assets (\$000)	Year Est.	Type	ROAA	ROAE	Change in			
						ROAA	ROAE	ROAA	ROAE
Bank of Santa Clarita	208,973	2004	Commercial Bank	0.30	2.83	132	125	206	195
Bank of Southern California, N.A.	179,949	2001	Commercial Bank	-0.52	-3.39	190	185	150	155
Bank of Stockton	1,901,251	1867	Commercial Bank	0.68	6.54	73	60	161	152
Bank of the Orient	636,992	1971	Commercial Bank	-2.26	-28.34	234	241	240	245
Bank of the Sierra	1,282,986	1978	Commercial Bank	0.63	5.00	82	85	212	216
Bank of the West	57,652,826	1874	Commercial Bank	0.31	1.79	130	141	103	96
Bank of Whittier, N.A.	52,687	1982	Commercial Bank	0.41	2.83	111	124	224	212
Bay Commercial Bank	173,977	2004	Commercial Bank	0.41	2.73	112	127	173	178
Beach Business Bank	307,782	2004	Commercial Bank	0.57	4.57	88	90	33	27
Borel Private Bank & Trust Company	1,636,608	1980	Commercial Bank	-1.73	-21.06	221	233	259	257
Borrego Springs Bank, N.A.	138,849	1982	Commercial Bank	1.47	20.12	20	5	106	48
Bridge Bank, N.A.	990,278	2001	Commercial Bank	0.47	3.76	106	103	176	166
Broadway Federal Bank, F. S. B.	484,316	1947	Savings Assoc.	-0.39	-4.84	182	193	158	132
California Bank & Trust	10,765,543	1972	Commercial Bank	0.53	4.18	94	97	98	82
California Bank of Commerce	239,565	2007	Commercial Bank	1.53	13.96	18	16	36	25
California Business Bank	97,204	2005	Commercial Bank	-2.84	-31.29	244	247	138	226
California Community Bank	222,165	2003	Commercial Bank	0.73	6.99	62	56	95	71
California First National Bank	322,682	2001	Commercial Bank	2.02	8.29	9	46	229	228
California Pacific Bank	96,951	1980	Commercial Bank	0.94	3.50	41	112	175	175
California Republic Bank	313,260	2007	Commercial Bank	0.69	4.35	72	93	38	61
California United Bank	756,284	2005	Commercial Bank	-0.42	-3.82	185	189	238	230
<i>Canyon National Bank</i>	<i>210,859</i>	<i>1998</i>	<i>Commercial Bank</i>	<i>-4.24</i>	<i>-117.20</i>	<i>263</i>	<i>267</i>	<i>49</i>	<i>263</i>
Capital Bank	93,490	2008	Commercial Bank	0.11	0.91	155	153	13	33
Capital Bank and Trust Company, FSB	142,159	2000	Savings Assoc.	13.43	19.67	1	7	254	215
CapitalSource Bank	6,134,904	2008	Industrial Bank	0.89	5.86	47	68	48	44
Cathay Bank	10,787,818	1962	Commercial Bank	0.13	1.00	151	152	123	109
Centennial Bank	765,342	1979	Industrial Bank	0.39	3.77	115	102	81	55
Center Bank	2,270,931	1986	Commercial Bank	1.08	8.72	34	44	27	15
Central Valley Community Bank	777,134	1980	Commercial Bank	0.48	3.68	105	105	178	180
<i>Charter Oak Bank</i>	<i>120,833</i>	<i>2004</i>	<i>Commercial Bank</i>	<i>-9.42</i>	<i>-173.49</i>	<i>270</i>	<i>270</i>	<i>267</i>	<i>267</i>
Chinatrust Bank USA	1,374,400	1965	Commercial Bank	-3.62	-24.62	255	239	4	1
Chino Commercial Bank, N.A.	113,827	2000	Commercial Bank	0.51	5.94	98	67	208	193
Circle Bank	300,528	1990	Industrial Bank	0.76	9.98	58	32	200	200
Citizens Bank of Northern California	326,070	1995	Commercial Bank	-2.18	-36.21	230	251	90	149
Citizens Business Bank	6,428,771	1974	Commercial Bank	1.02	8.99	38	38	198	196

All top 25 rankings are shaded.

*The two banks in italics failed in 2011.*

**INDUSTRY RANKINGS: 2010 Returns on Average Assets and Average Equity**

2010 RELATIVE PERFORMANCE OF CALIFORNIA FINANCIAL INSTITUTIONS						2010 RANKINGS BASED ON			
Company Name	Assets (\$000)	Year Est.	Type	ROAA	ROAE	Change in			
						ROAA	ROAE	ROAA	ROAE
City National Bank	20,975,842	1953	Commercial Bank	0.70	7.24	69	54	154	136
Coast National Bank	140,868	1997	Commercial Bank	-3.09	-35.99	248	250	235	235
Commerce Bank of Temecula Valley	44,967	2007	Commercial Bank	-2.45	-11.49	236	214	43	93
Commerce National Bank	256,292	2003	Commercial Bank	0.04	0.37	163	163	157	153
CommerceWest Bank, N.A.	302,496	2001	Commercial Bank	0.17	1.26	146	150	117	110
Commercial Bank of California	276,548	2003	Commercial Bank	0.18	1.45	144	146	197	192
Commonwealth Business Bank	400,488	2005	Commercial Bank	-0.48	-3.69	188	188	231	221
Community 1st Bank	154,590	2006	Commercial Bank	-0.20	-1.98	179	180	109	97
Community Bank	2,503,167	1945	Commercial Bank	0.82	8.91	55	39	135	106
Community Bank of San Joaquin	130,937	1999	Commercial Bank	-4.20	-43.92	262	258	258	256
Community Bank of Santa Maria	151,999	2001	Commercial Bank	0.02	0.17	167	165	126	114
Community Bank of the Bay	115,950	1996	Commercial Bank	-0.85	-7.38	200	201	28	11
Community Business Bank	144,431	2005	Commercial Bank	0.73	5.67	63	72	16	17
Community Commerce Bank	360,810	1976	Industrial Bank	0.06	0.70	161	158	185	172
Community Valley Bank	66,168	2007	Commercial Bank	-1.61	-11.87	218	215	26	70
Community West Bank, N.A.	667,211	1989	Commercial Bank	0.38	4.22	117	96	84	42
Cornerstone Community Bank	76,328	2006	Commercial Bank	0.44	3.58	109	108	151	141
Coronado First Bank	83,239	2005	Commercial Bank	-0.12	-1.18	171	173	58	38
County Commerce Bank	170,383	2003	Commercial Bank	0.73	8.78	64	42	186	167
Delta Bank, N.A.	109,217	1973	Commercial Bank	-2.18	-19.52	231	229	66	58
Desert Commercial Bank	147,644	2005	Commercial Bank	0.07	0.65	159	159	32	13
East West Bank	20,690,782	1973	Commercial Bank	0.84	7.52	52	52	164	148
Eastern International Bank	115,830	1985	Commercial Bank	0.73	5.61	65	74	171	160
El Dorado Savings Bank, F.S.B.	1,656,896	1957	Savings Assoc.	0.65	7.06	78	55	193	189
Embarcadero Bank	72,591	2006	Commercial Bank	0.70	2.02	70	137	50	121
Evertrust Bank	491,987	1995	Commercial Bank	0.47	2.33	107	134	79	90
Excel National Bank	195,180	2005	Commercial Bank	-4.17	-54.87	261	263	264	264
Exchange Bank	1,501,698	1890	Commercial Bank	0.67	6.63	75	59	104	73
Far East National Bank	1,650,745	1974	Commercial Bank	-2.24	-15.27	233	224	210	112
Farmers & Merchants Bank of Central CA	1,841,670	1916	Commercial Bank	1.24	12.10	25	24	188	188
Farmers & Merchants Bank of Long Beach	4,262,406	1907	Commercial Bank	1.27	8.75	24	43	162	157
Finance & Thrift Company	120,382	1925	Industrial Bank	1.50	6.91	19	57	102	122
Fireside Bank	592,348	1950	Industrial Bank	1.82	5.85	15	69	56	101
First American Trust FSB	1,119,225	1985	Savings Assoc.	0.64	9.25	81	36	112	54
First California Bank	1,518,177	1979	Commercial Bank	0.23	1.57	141	144	148	143

All top 25 rankings are shaded.

**INDUSTRY RANKINGS: 2010 Returns on Average Assets and Average Equity**

2010 RELATIVE PERFORMANCE OF CALIFORNIA FINANCIAL INSTITUTIONS						2010 RANKINGS BASED ON			
Company Name	Assets (\$000)	Year Est.	Type	ROAA	ROAE	Change in			
						ROAA	ROAE	ROAA	ROAE
First Choice Bank	201,964	2005	Commercial Bank	0.58	6.19	87	64	76	56
First Commercial Bank (USA)	451,368	1997	Commercial Bank	0.80	4.76	56	87	115	124
First Community Bank	758,666	2005	Commercial Bank	-0.16	-1.63	175	178	132	104
First Credit Bank	481,618	1983	Commercial Bank	5.05	22.45	5	2	124	185
First Federal S & L Assoc. of San Rafael	175,782	1963	Savings Assoc.	0.80	4.23	57	95	170	168
First Foundation Bank, FSB	404,075	2007	Savings Assoc.	0.24	2.56	139	130	55	46
First General Bank	216,967	2005	Commercial Bank	0.50	4.11	103	98	156	145
First Mountain Bank	143,732	1981	Commercial Bank	0.06	0.59	162	160	69	50
First National Bank of Northern CA	715,563	1963	Commercial Bank	0.51	4.57	99	91	144	129
First National Bank of Southern CA	172,515	1984	Commercial Bank	-2.26	-20.98	235	232	246	236
First Northern Bank of Dixon	737,214	1910	Commercial Bank	0.37	3.51	120	111	136	119
First Private Bank & Trust	505,078	1983	Commercial Bank	0.18	1.59	145	143	35	24
First Republic Bank	22,377,633	2010	Commercial Bank	NA	NA	NA	NA	NA	NA
First Security Business Bank	550,682	1988	Industrial Bank	1.07	12.04	35	25	227	223
Five Star Bank	399,339	1999	Commercial Bank	1.04	9.91	37	33	64	34
Focus Business Bank	131,898	2007	Commercial Bank	-0.17	-0.96	176	171	20	40
Folsom Lake Bank	111,998	2007	Commercial Bank	0.32	3.00	128	118	29	28
Founders Community Bank	110,375	2005	Commercial Bank	0.30	3.10	133	115	59	32
Fremont Bank	2,419,551	1964	Commercial Bank	1.24	14.44	26	13	134	103
Fresno First Bank	143,065	2005	Commercial Bank	1.12	9.76	31	35	128	115
Friendly Hills Bank	94,623	2006	Commercial Bank	-0.70	-5.13	194	195	72	102
Frontier Bank, FSB	313,182	1998	Savings Assoc.	-3.89	-52.47	258	262	260	260
Fullerton Community Bank, FSB	688,176	1927	Savings Assoc.	-0.13	-1.50	174	177	166	147
Gateway Bank, FSB	305,753	1990	Savings Assoc.	-1.51	-21.18	213	234	213	158
Gateway Business Bank	198,117	1997	Commercial Bank	0.20	1.38	143	147	57	43
GBC International Bank	385,538	1976	Commercial Bank	1.88	21.02	13	3	92	49
Gilmore Bank	177,982	1955	Commercial Bank	0.34	3.54	123	109	19	10
Global Trust Bank	65,581	2008	Commercial Bank	-2.56	-9.34	239	208	11	133
Gold Country Bank, N.A.	122,801	1986	Commercial Bank	-2.02	-18.80	226	227	147	98
Golden Coast Bank	35,126	2007	Commercial Bank	-1.62	-10.62	219	211	2	2
Golden Security Bank	146,862	1982	Industrial Bank	-1.95	-30.98	224	246	232	243
Golden State Bank	121,767	2003	Commercial Bank	-2.91	-45.28	247	259	111	186
Golden Valley Bank	101,873	2006	Commercial Bank	0.86	5.36	49	81	141	139
Grandpoint Bank	491,701	2007	Commercial Bank	-2.88	-5.55	246	196	3	14
Hanmi Bank	2,900,322	1982	Commercial Bank	-2.76	-40.49	243	255	142	198

All top 25 rankings are shaded.

**INDUSTRY RANKINGS: 2010 Returns on Average Assets and Average Equity**

2010 RELATIVE PERFORMANCE OF CALIFORNIA FINANCIAL INSTITUTIONS						2010 RANKINGS BASED ON			
Company Name	Assets (\$000)	Year Est.	Type	ROAA	ROAE	Change in			
						ROAA	ROAE	ROAA	ROAE
Heritage Bank of Commerce	1,242,806	1994	Commercial Bank	-3.92	-29.03	259	243	262	255
Heritage Oaks Bank	978,810	1983	Commercial Bank	-1.86	-14.44	223	222	248	238
Home Bank of California	146,659	1981	Commercial Bank	2.02	19.82	10	6	191	225
Independence Bank	322,739	2004	Commercial Bank	0.36	3.64	122	106	77	41
Inland Community Bank, N.A.	263,937	1990	Commercial Bank	0.56	5.63	89	73	39	22
International City Bank, N.A.	178,695	1984	Commercial Bank	-0.12	-1.13	172	172	41	21
JPMorgan Bank and Trust Company, N.A.	22,400,131	2008	Commercial Bank	0.96	8.86	40	40	250	246
Kaiser Federal Bank	880,790	1953	Savings Assoc.	0.83	8.25	54	47	133	118
Liberty Bank	232,911	1982	Commercial Bank	-3.11	-32.06	249	248	263	258
Lighthouse Bank	116,830	2007	Commercial Bank	0.63	3.85	83	100	105	116
Los Angeles National Bank	202,070	1973	Commercial Bank	0.38	3.04	118	117	209	202
Luther Burbank Savings	3,454,464	1982	Savings Assoc.	2.31	22.57	7	1	96	91
Malaga Bank F.S.B.	813,260	1985	Savings Assoc.	1.38	12.68	21	22	174	203
Manufacturers Bank	1,941,574	1962	Commercial Bank	0.07	0.48	160	162	184	177
Mechanics Bank	2,891,728	1905	Commercial Bank	0.38	3.75	119	104	216	206
Mega Bank	164,853	2008	Commercial Bank	1.06	9.09	36	37	12	19
Merchants Bank of California, N.A.	86,796	1989	Commercial Bank	0.13	0.85	152	154	160	159
Merchants National Bank of Sacramento	173,393	1921	Commercial Bank	1.01	10.36	39	29	196	182
Metro United Bank	410,523	1991	Commercial Bank	-0.41	-3.02	183	184	125	131
Metropolitan Bank	149,059	1983	Commercial Bank	1.75	19.08	16	9	87	57
Mission Bank	233,205	1998	Commercial Bank	0.84	8.12	53	49	225	218
Mission Community Bank	199,369	1997	Commercial Bank	-2.86	-27.15	245	240	189	207
Mission National Bank	185,488	1982	Commercial Bank	0.94	10.36	42	30	218	222
Mission Oaks National Bank	158,801	2000	Commercial Bank	-4.04	-47.07	260	260	167	181
Mission Valley Bank	254,499	2001	Commercial Bank	0.44	3.84	110	101	139	120
Mizuho Corporate Bank of California	116,897	1974	Commercial Bank	-1.20	-3.55	207	186	244	209
Mojave Desert Bank, N.A.	97,584	1991	Commercial Bank	0.22	2.34	142	133	203	199
Montecito Bank & Trust	940,534	1975	Commercial Bank	0.33	3.21	125	114	239	240
Monterey County Bank	263,115	1977	Commercial Bank	-0.12	-1.31	173	175	243	242
Mother Lode Bank	61,738	2004	Commercial Bank	-1.56	-17.82	216	226	31	9
Murphy Bank	115,509	1984	Commercial Bank	2.00	14.00	12	15	180	184
Nara Bank	2,959,299	1989	Commercial Bank	-0.18	-1.38	178	176	202	190
National Bank of California	381,111	1982	Commercial Bank	-1.46	-12.23	212	216	237	229
Neighborhood National Bank	131,046	1997	Commercial Bank	-0.81	-12.36	198	217	99	59
New Resource Bank	154,880	2006	Commercial Bank	-1.23	-9.96	208	210	60	53

All top 25 rankings are shaded.

**INDUSTRY RANKINGS: 2010 Returns on Average Assets and Average Equity**

2010 RELATIVE PERFORMANCE OF CALIFORNIA FINANCIAL INSTITUTIONS						2010 RANKINGS BASED ON			
Company Name	Assets (\$000)	Year Est.	Type	ROAA	ROAE	Change in			
						ROAA	ROAE	ROAA	ROAE
North Valley Bank	880,473	1973	Commercial Bank	-0.42	-3.65	186	187	47	26
Northern California National Bank	101,782	2006	Commercial Bank	0.54	3.93	90	99	183	173
Oak Valley Community Bank	552,871	1991	Commercial Bank	0.90	7.56	46	51	137	125
Oceanic Bank	190,145	1981	Commercial Bank	0.41	2.49	113	131	177	174
Ojai Community Bank	123,917	2005	Commercial Bank	-0.25	-2.31	181	181	75	62
OMNI Bank, N.A.	158,614	1980	Commercial Bank	0.09	0.54	156	161	122	128
One PacificCoast Bank, FSB	294,945	2007	Savings Assoc.	-1.68	-15.09	220	223	67	137
OneWest Bank, FSB	27,153,457	2009	Savings Assoc.	2.90	19.40	6	8	NA	NA
Open Bank	118,402	2005	Commercial Bank	-2.64	-28.59	241	242	70	68
Opus Bank	693,542	1982	Commercial Bank	-8.37	-19.58	267	230	269	231
Orange Community Bank	223,630	2000	Commercial Bank	0.47	4.92	108	86	153	135
Orange County Business Bank	210,485	2002	Commercial Bank	-2.50	-10.93	238	212	255	239
Pacific Alliance Bank	100,564	2006	Commercial Bank	0.09	0.72	157	157	42	30
Pacific Capital Bank, N.A.	6,083,876	1960	Commercial Bank	0.39	6.11	116	65	10	3
Pacific City Bank	538,071	2003	Commercial Bank	-3.11	-32.24	250	249	230	233
Pacific Coast Bankers' Bank	525,521	1997	Commercial Bank	0.17	1.98	147	138	71	35
Pacific Commerce Bank	189,315	2002	Commercial Bank	-2.23	-23.68	232	238	256	252
Pacific Enterprise Bank	178,958	2007	Commercial Bank	0.73	5.44	66	78	82	81
Pacific Mercantile Bank	1,014,363	1999	Commercial Bank	-1.02	-14.32	205	221	146	117
Pacific Premier Bank	822,035	1983	Commercial Bank	0.59	5.83	86	70	130	108
Pacific Trust Bank, FSB	861,203	1941	Savings Assoc.	0.13	1.31	153	149	163	146
Pacific Valley Bank	172,316	2004	Commercial Bank	-0.77	-7.20	196	200	40	18
Pacific Western Bank	5,519,010	1982	Commercial Bank	-0.98	-9.29	203	207	247	244
Palm Desert National Bank	224,481	1981	Commercial Bank	-2.57	-77.40	240	265	14	134
Pan American Bank	42,009	1971	Commercial Bank	-1.12	-11.34	206	213	127	123
Pan Pacific Bank	94,153	2005	Commercial Bank	-0.74	-7.72	195	203	45	39
Partners Bank of California	98,042	2007	Commercial Bank	-2.45	-22.95	237	237	63	171
Pinnacle Bank	146,100	2006	Commercial Bank	-0.88	-8.22	201	204	24	20
Plaza Bank	314,204	2005	Commercial Bank	1.57	12.43	17	23	23	16
Plumas Bank	483,409	1980	Commercial Bank	0.26	2.74	137	126	53	23
Preferred Bank	1,255,931	1991	Commercial Bank	-1.24	-12.80	209	218	17	7
Premier Business Bank	94,661	2006	Commercial Bank	0.65	5.40	79	80	15	12
Premier Commercial Bank, N.A.	431,013	2001	Commercial Bank	0.26	2.59	138	129	182	176
Premier Service Bank	155,942	2001	Commercial Bank	-2.05	-22.29	227	236	252	249
Premier Valley Bank	472,064	2001	Commercial Bank	0.70	5.50	71	77	152	150

All top 25 rankings are shaded.

**INDUSTRY RANKINGS: 2010 Returns on Average Assets and Average Equity**

2010 RELATIVE PERFORMANCE OF CALIFORNIA FINANCIAL INSTITUTIONS						2010 RANKINGS BASED ON			
Company Name	Assets (\$000)	Year Est.	Type	ROAA	ROAE	Change in			
						ROAA	ROAE	ROAA	ROAE
Presidio Bank	291,525	2006	Commercial Bank	0.33	2.32	126	136	61	52
Private Bank of California	435,550	2005	Commercial Bank	0.03	0.25	165	164	199	194
Professional Business Bank	312,952	2009	Commercial Bank	0.51	1.88	100	139	1	NA
Promerica Bank	116,755	2006	Commercial Bank	-0.47	-2.74	187	182	25	65
Provident Savings Bank, FSB	1,358,086	1956	Savings Assoc.	0.91	10.19	45	31	89	47
Rabobank, N.A.	11,020,574	1981	Commercial Bank	0.00	0.01	168	168	219	201
Rancho Santa Fe Thrift & Loan	51,155	1982	Industrial Bank	5.88	9.86	4	34	8	72
Redding Bank of Commerce	923,832	1982	Commercial Bank	0.75	6.41	60	62	207	219
Redwood Capital Bank	213,428	2004	Commercial Bank	1.13	13.89	29	17	120	80
Regents Bank, N.A.	322,007	2001	Commercial Bank	0.17	1.69	148	142	222	220
River City Bank	1,026,054	1963	Commercial Bank	0.51	5.26	101	84	93	60
River Valley Community Bank	136,169	2006	Commercial Bank	0.87	6.47	48	61	165	154
Royal Business Bank	300,512	2008	Commercial Bank	-1.52	-5.89	214	197	30	151
Saehan Bank	589,832	1991	Commercial Bank	-3.17	-30.61	251	245	21	6
Saigon National Bank	62,433	2005	Commercial Bank	-4.37	-40.23	264	254	6	5
San Diego Private Bank	124,625	2006	Commercial Bank	-2.74	-36.64	242	252	220	237
San Diego Trust Bank	203,334	2003	Commercial Bank	0.54	5.32	91	83	190	161
<i>San Luis Trust Bank, FSB</i>	<i>332,596</i>	<i>1999</i>	<i>Savings Assoc.</i>	<i>-8.61</i>	<i>-161.50</i>	<i>268</i>	<i>268</i>	<i>268</i>	<i>266</i>
Santa Clara Valley Bank, N.A.	136,375	1998	Commercial Bank	-0.41	-4.57	184	191	62	29
Santa Cruz County Bank	284,906	2004	Commercial Bank	0.66	8.79	76	41	129	83
Santa Lucia Bank	249,577	1985	Commercial Bank	-5.32	-82.99	266	266	266	265
Savings Bank of Mendocino County	885,019	1903	Commercial Bank	0.73	4.71	67	88	228	217
Scott Valley Bank	481,722	1912	Commercial Bank	0.54	4.49	92	92	172	164
Seacoast Commerce Bank	129,669	2003	Commercial Bank	0.27	2.86	135	122	9	8
Security Bank of California	338,508	2005	Commercial Bank	0.37	2.91	121	120	88	79
Security Business Bank of San Diego	224,622	2002	Commercial Bank	-0.20	-1.66	180	179	234	224
Security First Bank	116,901	2007	Commercial Bank	-3.77	-30.32	256	244	265	259
Sierra Vista Bank	88,653	2007	Commercial Bank	-3.36	-38.59	253	253	245	250
Silicon Valley Bank	16,331,636	1983	Commercial Bank	0.92	12.70	43	21	192	165
Silvergate Bank	370,459	1988	Commercial Bank	0.85	8.64	51	45	155	138
South County Bank, N.A.	178,320	1999	Commercial Bank	-3.32	-51.11	252	261	241	253
State Bank of India (California)	781,186	1982	Commercial Bank	0.63	5.35	84	82	168	162
Stellar Business Bank	98,067	2007	Commercial Bank	-0.51	-2.79	189	183	118	126
Summit Bank	184,632	1982	Commercial Bank	0.54	5.60	93	75	159	144
Summit State Bank	347,931	1982	Commercial Bank	0.51	3.24	102	113	205	197

All top 25 rankings are shaded.

*The bank in italics failed in 2011.*

**INDUSTRY RANKINGS: 2010 Returns on Average Assets and Average Equity**

2010 RELATIVE PERFORMANCE OF CALIFORNIA FINANCIAL INSTITUTIONS						2010 RANKINGS BASED ON			
Company Name	Assets	Year	Type	ROAA	ROAE	Change in			
	(\$000)	Est.				ROAA	ROAE	ROAA	ROAE
Suncrest Bank	75,998	2008	Commercial Bank	-1.55	-8.82	215	205	54	107
Sunrise Bank	231,836	2004	Commercial Bank	-3.83	-43.91	257	257	249	248
Sunwest Bank	615,118	1970	Commercial Bank	1.24	11.55	27	26	257	254
Sutter Community Bank	65,337	2006	Commercial Bank	0.52	4.68	95	89	143	130
TomatoBank, N.A.	424,805	2000	Commercial Bank	-1.79	-12.96	222	219	119	86
Torrey Pines Bank	1,452,236	2003	Commercial Bank	0.62	6.79	85	58	108	74
Trans Pacific National Bank	125,668	1984	Commercial Bank	-1.56	-20.06	217	231	73	64
Tri Counties Bank	2,188,551	1975	Commercial Bank	0.32	2.96	129	119	223	210
Tri-Valley Bank	70,353	2005	Commercial Bank	-3.58	-42.36	254	256	169	241
Tustin Community Bank	60,502	1981	Commercial Bank	1.86	14.40	14	14	74	67
Union Bank, N.A.	78,674,854	1953	Commercial Bank	0.66	5.74	77	71	114	95
United American Bank	316,974	2003	Commercial Bank	-4.39	-56.90	265	264	261	261
United Labor Bank, F.S.B.	256,475	1990	Savings Assoc.	0.49	5.99	104	66	204	214
United Pacific Bank	153,306	1982	Commercial Bank	-0.04	-0.46	169	170	97	51
United Security Bank	680,166	1987	Commercial Bank	-0.59	-4.69	191	192	181	169
Uniti Bank	209,538	2001	Commercial Bank	-2.17	-19.11	229	228	110	92
Universal Bank	462,347	1954	Savings Assoc.	-0.78	-9.13	197	206	149	142
US Metro Bank	101,691	2006	Commercial Bank	-0.17	-1.21	177	174	37	31
Valley Business Bank	341,340	1996	Commercial Bank	0.73	6.22	68	63	113	94
Valley Community Bank	206,902	1998	Commercial Bank	0.09	0.83	158	156	215	205
Valley Republic Bank	204,653	2009	Commercial Bank	-0.04	-0.26	170	169	22	NA
Ventura County Business Bank	76,494	2003	Commercial Bank	-9.22	-172.00	269	269	251	262
Vibra Bank	73,984	2008	Commercial Bank	-0.88	-4.86	202	194	18	88
Visalia Community Bank	193,896	1977	Commercial Bank	0.16	1.82	149	140	116	78
Wedbush Bank	197,346	2008	Savings Assoc.	0.33	2.63	127	128	201	170
Wells Fargo Bank, Ltd.	394,223	1985	Commercial Bank	6.89	8.20	3	48	5	77
Wells Fargo Central Bank	6,166	1986	Commercial Bank	0.04	0.15	164	166	179	179
WestAmerica Bank	4,893,292	1884	Commercial Bank	2.01	18.20	11	10	236	234
Wilshire State Bank	2,966,215	1980	Commercial Bank	-0.98	-9.92	204	209	253	251

All top 25 rankings are shaded.

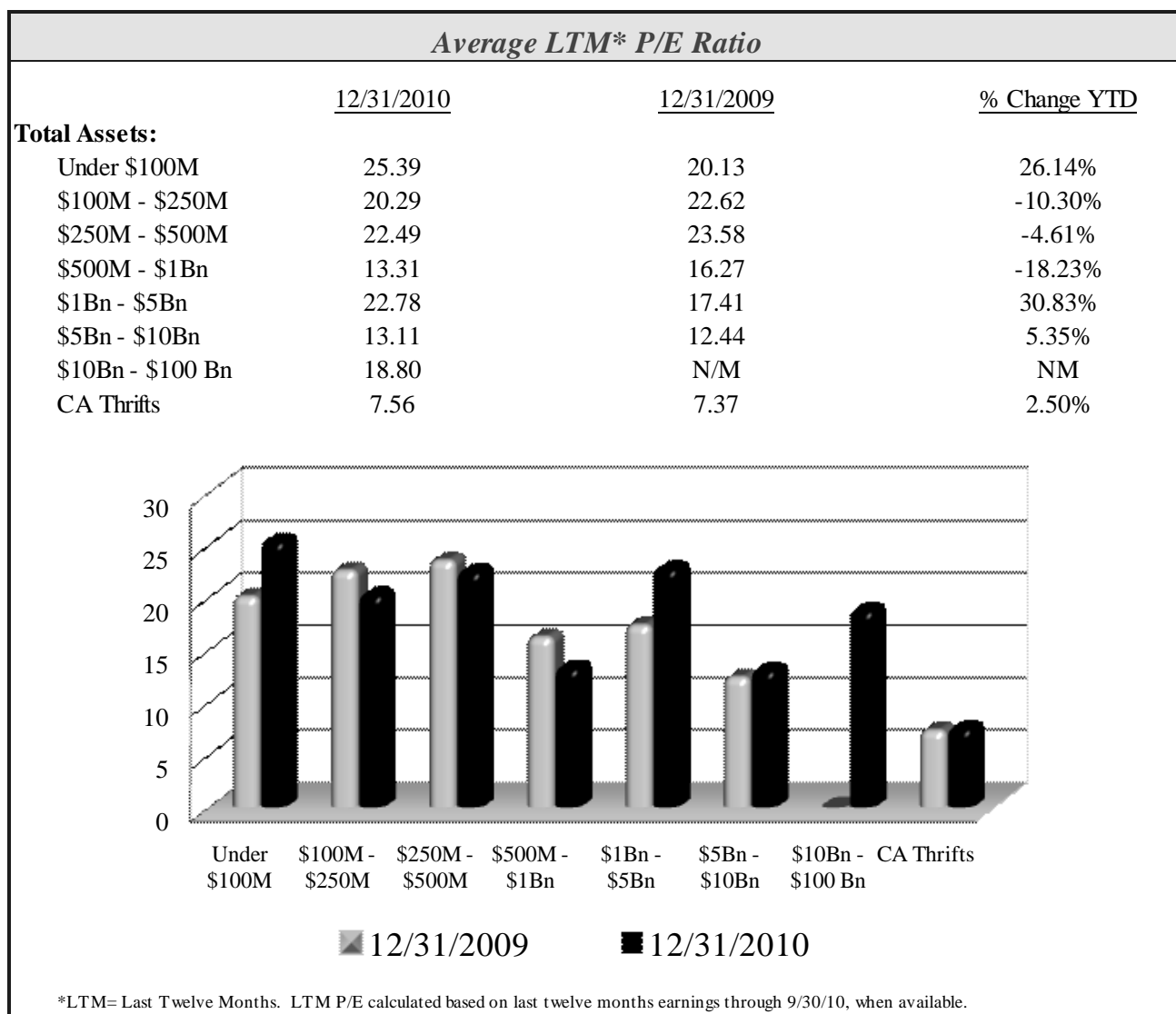
2011

# **STOCK PERFORMANCE CALENDAR YEAR 2010**

**CARPENTER**

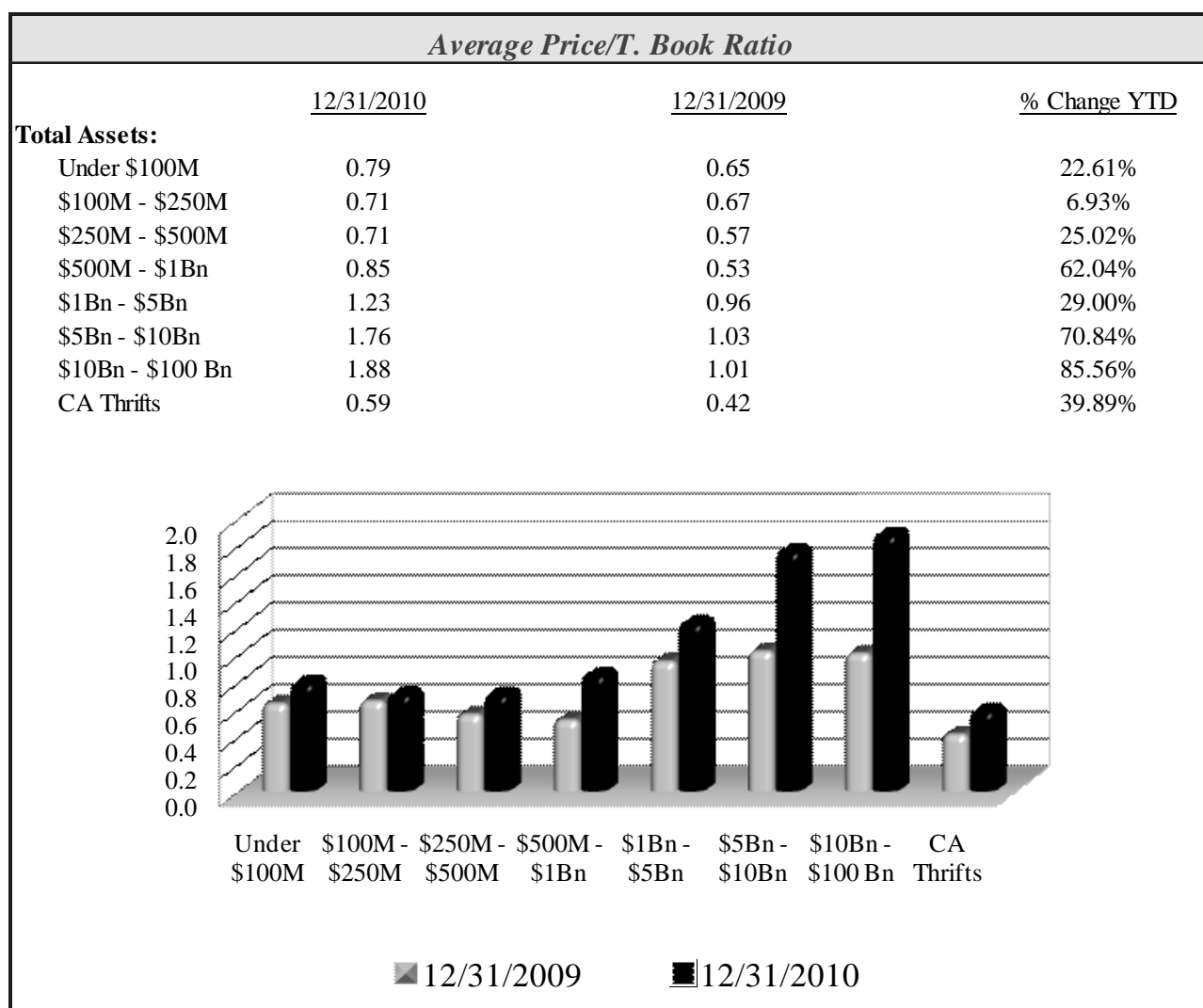
# STOCK PERFORMANCE: 2010 Annual Report

## Carpenter and Company—Stock Performance Report Average LTM P/E Ratios by Asset Group



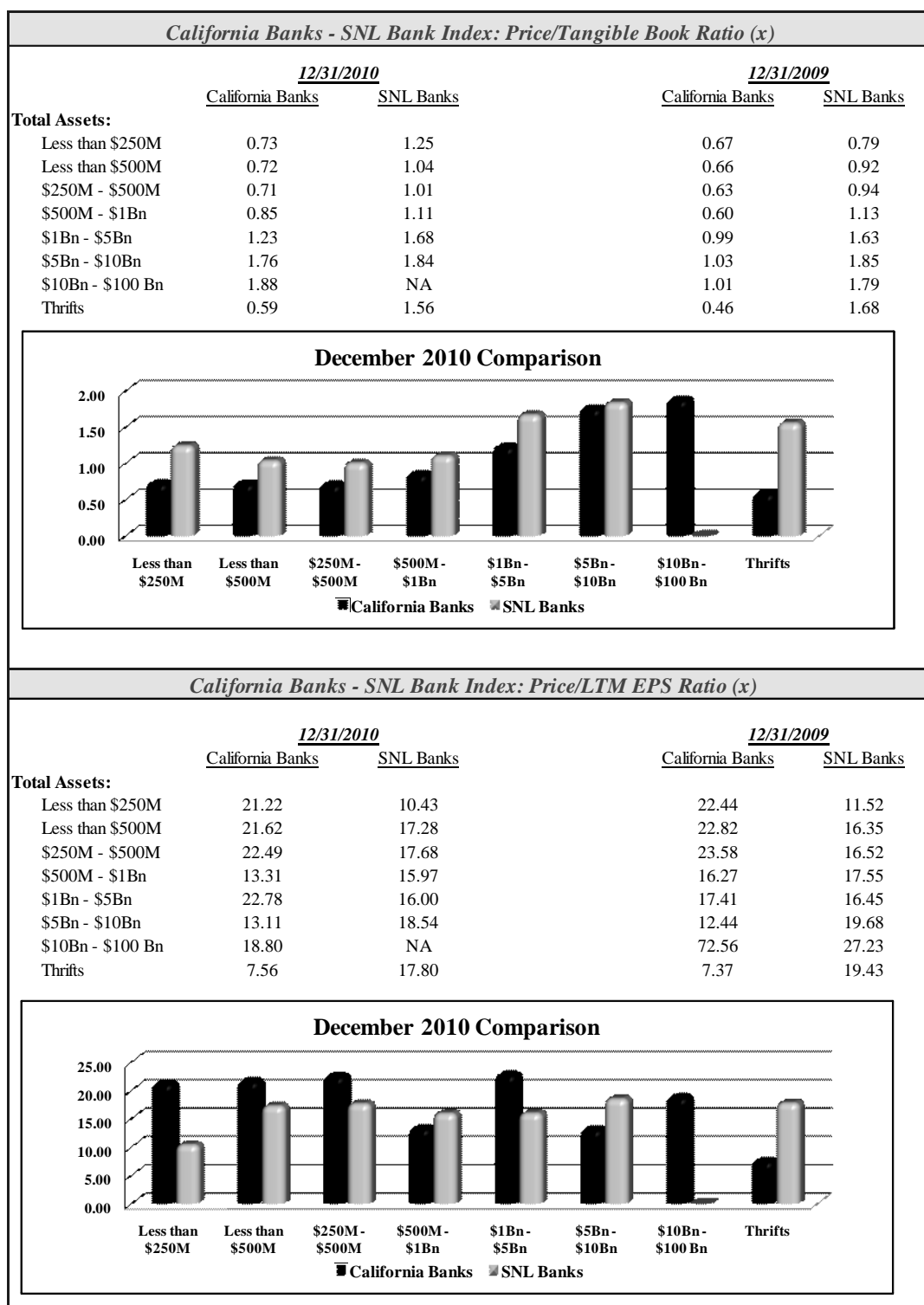
Information is gathered from sources believed to be reliable, however, the accuracy of the data cannot be guaranteed.

## Carpenter and Company—Stock Performance Report Price/Book Ratios by Asset Group



Information is gathered from sources believed to be reliable, however, the accuracy of the data cannot be guaranteed.

## Carpenter and Company—Stock Performance Report Industry-wide Ratio Comparisons



Information is gathered from sources believed to be reliable, however, the accuracy of the data cannot be guaranteed.

**STOCK PERFORMANCE**

## Carpenter and Company— 2010 Annual Stock Performance Report California Banks with Total Assets Under \$100 Million Total Market Capitalization: \$185 Million

Symbol	Name	Last Trade		Annual Volume	Mkt Cap (\$)	LTM EPS(\$)	LTM P/E	Price/ T. Book	2010 Change	
		Date	Price (\$)						(\$)	(%)
<u>ABNK</u>	ALT APACIFIC BANK	29-Dec	10.19	223,953	29,423,462	0.28	35.88	1.11	0.67	7.00%
<u>CABB</u>	CALIFORNIA BUSINESS BANK	30-Dec	2.60	63,401	4,884,040	NEG	NEG	0.56	1.10	73.33%
<u>CBJC</u>	CAPITAL BANK	28-Dec	20.40	102,072	30,606,569	NEG	NEG	3.06	8.90	77.39%
<u>CDFB</u>	CORONADO FIRST BANK	31-Dec	3.25	99,299	4,525,550	NEG	NEG	0.48	-0.05	-1.52%
<u>CKTM</u>	COMMERCE BANK OF TEMECULA V/	8-Nov	8.00	219,026	12,018,992	NEG	NEG	1.24	3.00	60.00%
<u>CMUV</u>	COMMUNITY VALLEY BANK	3-Dec	3.00	39,705	4,029,594	NEG	NEG	0.57	-3.00	-50.00%
<u>CRSE</u>	CORNERSTONE COMMUNITY BANK	31-Dec	6.10	9,697	7,320,000	0.21	28.72	0.79	2.50	69.44%
<u>FHLB</u>	FRIENDLY HILLS BANK	31-Dec	4.76	179,703	7,692,160	NEG	NEG	0.62	-0.04	-0.83%
<u>GVYB</u>	GOLDEN VALLEY BANK	31-Dec	7.00	29,031	14,433,531	0.35	19.80	0.94	-0.05	-0.71%
<u>MOLB</u>	MOTHER LODGE BANK	31-Dec	0.85	37,655	3,772,287	NEG	NEG	0.59	0.28	49.12%
<u>PAMB</u>	PAN AMERICAN BANK	9-Dec	0.72	22,471	1,098,866	0.04	17.17	0.25	0.32	80.00%
<u>PBKX</u>	PARTNERS BANK OF CALIFORNIA	11-Feb	7.00	1,000	13,302,926	NEG	NEG	1.33	0.00	0.00%
<u>PFBN</u>	PACIFIC ALLIANCE BANK	3-Aug	3.75	1,300	6,216,323	0.06	N/M	0.50	-0.25	-6.25%
<u>PPFC</u>	PAN PACIFIC BANK	29-Dec	2.00	181,073	3,169,000	NEG	NEG	0.36	0.50	33.33%
<u>SAGN</u>	SAIGON NATIONAL BANK	23-Dec	0.30	173,591	423,631	NEG	NEG	0.06	0.00	0.00%
<u>SBKK</u>	SUNCREST BANK	26-Nov	7.80	33,440	14,911,861	NEG	NEG	1.12	-1.45	-15.68%
<u>SUTB</u>	SUTTER COMMUNITY BANK	30-Dec	3.25	6,950	3,092,954	0.03	N/M	0.45	0.25	8.33%
<u>SVBA</u>	SIERRA VISTA BANK	31-Dec	2.50	31,033	5,033,713	NEG	NEG	0.55	-4.79	-65.71%
<u>TRVB</u>	TRI-VALLEY BANK	31-Dec	0.35	178,566	616,443	NEG	NEG	0.09	-1.40	-80.00%
<u>VBBK</u>	VIBRA BANK	17-Dec	18.00	16,665	13,299,570	NEG	NEG	1.21	1.00	5.88%
<u>VCBB</u>	VENTURA COUNTY BUSINESS BANK	28-Dec	0.75	294,971	5,407,382	NEG	NEG	0.79	-0.25	-25.00%

Average	25.39	0.79
Median	24.26	0.59
High	35.88	3.06
Low	17.17	0.06

## Carpenter and Company— 2010 Annual Stock Performance Report California Banks with Total Assets Between \$100 and \$250 Million Total Market Capitalization: \$762 Million

Symbol	Name	Last Trade		Annual Volume	Mkt Cap (\$)	LTM EPS(\$)	LTM P/E	Price/ T. Book	2010 Change	
		Date	Price (\$)						(\$)	(%)
<u>ACAL</u>	AMERICA CALIFORNIA BANK	30-Nov	2.25	3,000	3,080,729	NEG	NEG	0.26	-7.75	-77.50%
<u>APBA</u>	AMERICAN PERSPECTIVE BANK	21-Dec	6.80	59,325	29,312,168	0.13	N/M	0.74	-2.70	-28.42%
<u>ARBY</u>	AMERICAN RIVIERA BANK	31-Dec	4.50	225,567	11,280,402	0.50	8.95	0.60	0.00	0.00%
<u>AUNB</u>	AMERICAS UNITED BANK	30-Dec	3.12	167,977	8,979,828	NEG	NEG	0.50	-1.18	-27.44%
<u>BCML</u>	BAY COMMERCIAL BANK	31-Dec	6.99	164,192	24,813,060	0.42	16.60	0.74	-0.76	-9.81%
<u>BKOT</u>	BANK ON IT INC	31-Dec	1.10	33,125	1,711,962	NEG	NEG	0.19	-2.10	-65.63%
<u>BNNP</u>	BANK OF NAPA NA	27-Dec	6.75	62,307	15,449,967	NEG	NEG	0.92	2.25	50.00%
<u>BSCA</u>	BANK OF SANTA CLARITA	30-Dec	6.95	224,527	15,425,588	0.33	21.25	0.76	0.39	5.95%
<u>CABK</u>	CALIFORNIA COMMUNITY BANK	29-Dec	10.75	300,248	22,567,400	0.42	25.33	0.93	1.40	14.97%
<u>CALW</u>	CALWEST BANCORP	30-Dec	1.50	103,847	3,526,334	NEG	NEG	0.69	-0.50	-25.00%
<u>CBBC</u>	COMMUNITY BUSINESS BANK	30-Dec	5.50	79,865	11,763,939	NEG	NEG	0.83	2.70	96.43%
<u>CBYAA</u>	COMMUNITY BANK OF THE BAY	30-Dec	3.60	638,509	14,814,752	NEG	NEG	1.40	-0.50	-12.20%
<u>CCBC</u>	CHINO COMMERCIAL BANCORP	31-Dec	13.50	33,355	10,123,515	0.42	32.24	1.44	-1.50	-10.00%
<u>CFBN</u>	COMMUNITY 1ST BANK	31-Dec	3.79	275,887	6,670,400	NEG	NEG	0.49	-2.71	-41.69%
<u>CHOB</u>	CHARTER OAK BANK	31-Dec	0.75	511,100	1,377,191	NEG	NEG	0.29	-4.60	-85.98%
<u>CNYB</u>	COUNTY COMMERCE BANK	22-Dec	13.50	34,142	14,555,039	1.08	12.50	1.03	4.25	45.95%

Information is gathered from sources believed to be reliable, however, the accuracy of the data cannot be guaranteed.

**STOCK PERFORMANCE**

## Carpenter and Company— 2010 Annual Stock Performance Report California Banks with Total Assets Between \$100 and \$250 Million Total Market Capitalization: \$762 Million (continued)

Symbol	Name	Last Trade		Annual Volume	Mkt Cap (\$)	LTM EPS(\$)	LTM P/E	Price/ T. Book	2010 Change	
		Date	Price (\$)						(\$)	(%)
<u>COSE</u> (1)	CALIFORNIA OAKS STATE BANK	31-Dec	11.10	292,547	16,703,946	NEG	NEG	1.25	5.30	91.38%
<u>CTBP</u>	COAST BANCORP	30-Dec	1.10	48,378	796,070	NEG	NEG	0.15	-2.90	-72.50%
<u>CYBA</u>	CANYON BANCORP	30-Dec	0.85	638,300	2,837,006	NEG	NEG	0.52	-1.65	-66.00%
<u>CYSM</u>	COMMUNITY BANK OF SANTA MARIA	31-Dec	4.00	208,886	7,882,000	NEG	NEG	0.53	-0.50	-11.11%
<u>DCBC</u>	DESERT COMMERCIAL BANK	31-Dec	3.50	171,140	14,017,224	NEG	NEG	0.85	0.80	29.63%
<u>DEBC</u>	DELTA NATIONAL BANCORP	2-Jul	5.25	2,670	1,996,591	NEG	NEG	0.17	-1.25	-19.23%
<u>FBBN</u>	BANK OF SOUTHERN CALIFORNIA NA	17-Dec	5.21	2,960	13,767,602	NEG	NEG	0.87	-3.79	-42.11%
<u>FBCP</u>	FOUNDERS BANCORP	3-Dec	6.35	54,284	7,140,575	NEG	NEG	0.69	-2.65	-29.44%
<u>FCSB</u>	FOCUS BUSINESS BANK	31-Dec	5.75	93,483	15,812,500	NEG	NEG	0.75	0.75	15.00%
<u>FISB</u>	1ST CAPITAL BANK	28-Dec	8.50	159,580	26,840,442	0.19	43.65	0.95	0.90	11.84%
<u>FMBP</u>	FIRST MOUNTAIN BANCORP	30-Dec	3.05	163,803	4,773,024	NEG	NEG	0.32	-2.65	-46.49%
<u>FOLB</u>	FOLSOM LAKE BANK	29-Dec	6.40	78,160	10,195,910	NEG	NEG	0.84	-1.10	-14.67%
<u>FSNF</u>	FRESNO FIRST BANK	31-Dec	10.01	112,358	16,761,715	0.86	11.60	1.20	0.01	0.10%
<u>ESTA</u> (2)	OPEN BANK	15-Dec	1.55	57,360	5,012,334	NEG	NEG	0.40	1.15	287.50%
<u>GSBB</u>	GOLDEN STATE BANK	27-Dec	1.20	110,515	2,213,520	NEG	NEG	0.23	-0.55	-31.43%
<u>LGHT</u>	LIGHTHOUSE BANK	8-Dec	8.45	37,830	15,658,087	0.25	34.41	0.92	0.20	2.42%
<u>LIBC</u>	LIBERTY BANCORP INC	2-Sep	15.50	3,919	11,954,019	0.02	N/M	0.48	-2.75	-15.07%
<u>MISS</u>	MISSION COMMUNITY BANCORP	30-Dec	3.75	60,487	23,796,008	NEG	NEG	0.64	-2.50	-40.00%
<u>MNBO</u>	MNB HOLDINGS CORP	16-Dec	24.00	21,050	10,986,552	4.57	5.25	0.80	6.41	36.44%
<u>MNHN</u>	MANHATTAN BANCORP	30-Dec	5.15	310,448	20,536,300	NEG	NEG	0.81	-1.85	-26.43%
<u>MOJA</u>	MOJAVE DESERT BANK	24-Nov	15.00	70,323	6,010,395	0.81	18.47	0.66	-1.40	-8.54%
<u>MOKB</u>	MISSION OAKS BANCORP	31-Dec	1.04	347,605	11,677,309	NEG	NEG	1.23	-1.06	-50.48%
<u>MSBC</u>	MISSION BANCORP	15-Dec	22.50	70,014	28,345,770	1.43	15.77	1.17	-0.01	-0.04%
<u>NCNB</u>	NORTHERN CALIFORNIA NATIONAL B	N/A (3)	5.51	0	7,455,581	0.48	11.45	0.53	0.00	0.00%
<u>NWBN</u>	NEW RESOURCE BANK	20-Dec	2.75	113,653	10,368,622	NEG	NEG	0.51	-0.15	-5.17%
<u>OCBB</u>	ORANGE COUNTY BUSINESS BANK NA	29-Dec	3.85	496,983	18,189,618	NEG	NEG	0.36	-1.90	-33.04%
<u>OCBN</u>	ORANGE COMMUNITY BANCORP	28-Dec	4.85	80,383	12,422,509	NEG	NEG	0.60	-0.34	-9.35%
<u>OJCB</u>	OJAI COMMUNITY BANK	31-Dec	4.50	102,299	6,916,964	NEG	NEG	0.75	-1.00	-18.18%
<u>PBNK</u>	PINNACLE BANK	29-Dec	2.75	89,248	9,047,728	NEG	NEG	0.59	-1.25	-31.25%
<u>PFCI</u>	PACIFIC COMMERCE BANK	22-Dec	3.00	115,256	7,332,765	NEG	NEG	0.50	-2.00	-40.00%
<u>PMRA</u>	PROMERICA BANK	20-Dec	2.58	43,100	7,095,000	NEG	NEG	0.39	1.03	66.45%
<u>PSBK</u>	PREMIER SERVICE BANK	31-Dec	1.35	105,485	1,702,350	NEG	NEG	0.18	-3.65	-73.00%
<u>PVBK</u>	PACIFIC VALLEY BANK	31-Dec	6.36	125,202	20,796,914	NEG	NEG	1.16	-0.34	-5.07%
<u>RVVY</u>	RIVER VALLEY COMMUNITY BANK	27-Dec	13.75	10,358	23,586,379	0.61	22.66	1.42	4.55	49.46%
<u>RWCB</u>	REDWOOD CAPITAL BANCORP	29-Dec	5.50	67,828	9,607,395	0.37	14.91	0.70	-1.48	-21.20%
<u>SBBC</u>	SECURITY BUSINESS BANCORP	31-Dec	8.65	115,105	15,426,998	NEG	NEG	0.74	-0.35	-3.89%
<u>SCCB</u>	SEACOAST COMMERCE BANK	29-Dec	3.80	291,416	8,120,266	NEG	NEG	0.79	0.80	26.67%
<u>SCVE</u>	SANTA CLARA VALLEY BANK NA	13-Dec	6.85	12,250	9,878,844	NEG	NEG	0.98	-0.40	-5.52%
<u>SDBK</u>	SAN DIEGO TRUST BANK	31-Dec	16.00	140,950	31,583,936	0.39	41.03	1.60	4.00	33.33%
<u>SFRK</u>	SECURITY FIRST BANK	2-Sep	5.25	18,479	8,925,000	NEG	NEG	0.68	-2.55	-32.69%
<u>SLRB</u>	STELLAR BUSINESS BANK	22-Dec	4.00	41,164	9,181,084	NEG	NEG	0.51	1.00	33.33%
<u>SMAL</u>	SUMMIT BANCSHARES INC	28-Dec	8.25	51,760	10,726,469	0.86	9.56	0.59	0.25	3.13%
<u>UIFC</u>	UNITI FINANCIAL CORP	21-Dec	1.05	25,660	7,396,072	NEG	NEG	0.30	-0.15	-12.50%
<u>USMT</u>	US METRO BANK	30-Dec	2.90	156,471	5,742,000	NEG	NEG	0.45	-4.10	-58.57%
<u>VLX</u>	VALLEY REPUBLIC BANK	14-Dec	12.50	24,340	43,202,063	NEG	NEG	1.27	-2.50	-16.67%
<u>VCBC</u>	VALLEY COMMUNITY BANK	27-Dec	3.25	210,231	6,106,315	0.17	19.63	0.35	-2.60	-44.44%

(1) Merged with California United Bank on 12/31/10

(2) Changed to OPBK in 2011

(3) Last trade was in 2008

Average	20.29	0.71
Median	17.54	0.69
High	43.65	1.60
Low	5.25	0.15

Information is gathered from sources believed to be reliable, however, the accuracy of the data cannot be guaranteed.

**STOCK PERFORMANCE**

## Carpenter and Company— 2010 Annual Stock Performance Report

### California Banks with Total Assets Between \$250 and \$500 Million

### Total Market Capitalization: \$618 Million

<i>Symbol</i>	<i>Name</i>	<i>Last Trade</i>		<i>Annual Volume</i>	<i>Mkt Cap (\$)</i>	<i>LTM EPS(\$)</i>	<i>LTM P/E</i>	<i>Price/ T. Book</i>	<i>2010 Change</i>	
		<i>Date</i>	<i>Price (\$)</i>						<i>(\$)</i>	<i>(%)</i>
<u>BBBC</u>	BEACH BUSINESS BANK	31-Dec	<b>5.00</b>	266,018	20,279,860	0.30	16.81	0.69	0.50	11.11%
<u>CABC</u>	CALIFORNIA BANK OF COMMERCE	31-Dec	<b>6.19</b>	214,388	17,022,500	0.06	N/M	0.85	-1.06	-14.62%
<u>CNBF</u>	COMMERCE NATIONAL BANK	30-Dec	<b>5.55</b>	514,722	14,766,291	NEG	NEG	0.54	-0.30	-5.13%
<u>CRPB</u>	CALIFORNIA REPUBLIC BANK	29-Dec	<b>10.00</b>	210,563	52,000,000	0.28	35.99	1.08	0.00	0.00%
<u>CWBB</u>	COMMONWEALTH BUSINESS BANK	27-Dec	<b>6.00</b>	208,758	18,593,802	NEG	NEG	0.47	-2.50	-29.41%
<u>CWBK</u>	COMMERCEWEST BANK NA	31-Dec	<b>5.21</b>	1,135,845	22,903,519	0.04	N/M	0.59	-1.29	-19.85%
<u>CZNB</u>	CITIZENS BANCORP	31-Dec	<b>2.00</b>	241,907	4,670,180	NEG	NEG	NEG	-2.00	-50.00%
<u>FCTY</u>	1ST CENTURY BANCSHARES INC	31-Dec	<b>4.10</b>	1,174,193	36,496,117	NEG	NEG	0.77	0.65	18.84%
<u>FENB</u>	1ST ENTERPRISE BANK	20-Dec	<b>12.30</b>	120,412	34,667,550	0.73	16.95	1.14	-0.70	-5.38%
<u>GSCB</u>	GREATER SACRAMENTO BANCORP	30-Dec	<b>9.30</b>	204,802	23,881,405	0.09	N/M	0.84	3.30	55.00%
<u>ICBN</u>	ICB FINANCIAL	22-Dec	<b>3.95</b>	259,733	20,228,981	NEG	NEG	0.79	0.45	12.86%
<u>MVLY</u>	MISSION VALLEY BANCORP	30-Dec	<b>3.75</b>	260,464	9,462,349	NEG	NEG	0.71	-2.25	-37.50%
<u>NCAL</u>	NCAL BANCORP	31-Dec	<b>10.00</b>	80,246	23,602,450	NEG	NEG	0.87	-2.75	-21.57%
<u>NCLC</u>	NORCAL COMMUNITY BANCORP	31-Dec	<b>2.25</b>	196,816	7,125,199	NEG	NEG	0.46	0.20	9.76%
<u>NRLB</u>	NORTHERN CALIFORNIA BANCORP INC	29-Dec	<b>2.20</b>	19,366	3,928,960	NEG	NEG	0.26	-1.35	-38.03%
<u>PBCA</u>	PRIVATE BANK OF CALIFORNIA	30-Dec	<b>8.07</b>	200,862	29,741,380	0.17	46.90	0.80	0.37	4.81%
<u>PBKH</u>	PENINSULA BANK HOLDING CO	23-Dec	<b>6.10</b>	162,525	15,873,884	0.87	7.00	0.64	-1.65	-21.29%
<u>PCBP</u>	PREMIER COMMERCIAL BANCORP	31-Dec	<b>7.50</b>	200,862	26,422,680	0.16	45.52	0.67	0.01	0.13%
<u>PDOB</u>	PRESIDIO BANK	30-Dec	<b>6.30</b>	184,398	25,200,000	0.05	N/M	0.90	0.05	0.80%
<u>PLBC</u>	PLUMAS BANCORP	31-Dec	<b>2.34</b>	437,955	11,176,633	NEG	NEG	0.42	-0.66	-22.00%
<u>PLZB</u>	PLAZA BANK	31-Dec	<b>1.75</b>	45,895	14,806,050	2.28	0.77	0.39	0.19	12.18%
<u>PVLY</u>	PREMIER VALLEY BANK	31-Dec	<b>4.25</b>	812,584	55,913,000	0.21	20.59	1.14	1.70	66.75%
<u>SCAF</u>	SECURITY CALIFORNIA BANCORP	30-Dec	<b>8.50</b>	246,062	47,815,577	NEG	NEG	0.89	0.00	0.00%
<u>SCZC</u>	SANTA CRUZ COUNTY BANK	30-Dec	<b>10.50</b>	68,009	17,507,070	0.70	15.08	0.83	1.67	18.91%
<u>SLBA</u>	SANTA LUCIA BANCORP	30-Dec	<b>2.00</b>	190,195	4,006,262	NEG	NEG	0.70	-8.78	-81.45%
<u>SSBI</u>	SUMMIT STATE BANK	31-Dec	<b>6.99</b>	892,437	33,165,593	0.36	19.30	0.75	1.50	27.32%
<u>UABK</u>	UNITED AMERICAN BANK	31-Dec	<b>2.30</b>	134,759	5,564,149	NEG	NEG	0.28	-2.70	-54.00%
<u>VCBP</u>	VALLEY COMMERCE BANCORP	21-Dec	<b>8.20</b>	229,668	21,388,199	NEG	NEG	0.70	2.40	41.38%

<i>Average</i>	<b>22.49</b>	<b>0.71</b>
<i>Median</i>	<b>18.13</b>	<b>0.71</b>
<i>High</i>	<b>46.90</b>	<b>1.14</b>
<i>Low</i>	<b>0.77</b>	<b>0.26</b>

Information is gathered from sources believed to be reliable, however, the accuracy of the data cannot be guaranteed.

## STOCK PERFORMANCE

# Carpenter and Company— 2010 Annual Stock Performance Report

## California Banks with Total Assets Between \$500 Million and \$1 Billion

### Total Market Capitalization: \$985 Million

<i>Symbol</i>	<i>Name</i>	<i>Last Trade</i>		<i>Annual Volume</i>	<i>Mkt Cap (\$)</i>	<i>LTM EPS(\$)</i>	<i>LTM P/E</i>	<i>Price/ T. Book</i>	<i>2010 Change</i>	
		<i>Date</i>	<i>Price (\$)</i>						<i>(\$)</i>	<i>(%)</i>
<u>AMBZ</u>	AMERICAN BUSINESS BANK	31-Dec	<b>24.50</b>	207,967	97,489,322	2.47	9.94	1.40	3.65	17.51%
<u>AMRB</u>	AMERICAN RIVER BANKSHARES	31-Dec	<b>6.00</b>	3,183,898	59,249,322	0.06	N/M	0.81	-1.86	-23.66%
<u>BBNK</u>	BRIDGE CAPITAL HLDG	31-Dec	<b>8.70</b>	1,505,277	95,320,219	0.44	19.80	1.08	1.45	20.00%
<u>BOCH</u>	BANK OF COMMERCE HLDG	31-Dec	<b>4.25</b>	4,806,530	72,213,854	4.21	1.01	0.88	-1.03	-19.51%
<u>CUNB</u>	CALIFORNIA UNITED BANK	31-Dec	<b>12.35</b>	507,832	63,839,472	0.01	N/M	1.06	1.50	13.82%
<u>CVCY</u>	CENTRAL VALLEY COMMUNITY BANCO	31-Dec	<b>5.63</b>	757,154	52,741,930	0.35	15.94	0.79	0.08	1.44%
<u>CWBC</u>	COMMUNITY WEST BANCSHARES	31-Dec	<b>3.60</b>	1,884,592	21,294,468	0.18	19.89	0.47	0.85	30.91%
<u>FNBC</u>	FNB BANCORP	31-Dec	<b>10.00</b>	361,976	33,407,997	0.98	10.21	0.49	2.53	33.93%
<u>FNRN</u>	FIRST NORTHERN COMMUNITY BANCOR	31-Dec	<b>4.50</b>	409,160	40,794,372	NEG	NEG	0.65	-0.35	-7.22%
<u>HEOP</u>	HERITAGE OAKS BANCORP	31-Dec	<b>3.29</b>	2,205,345	82,520,912	NEG	NEG	0.96	-1.71	-34.20%
<u>NOVB</u>	NORTH VALLEY BANCORP	31-Dec	<b>8.95</b>	818,578	61,150,812	NEG	NEG	0.74	-1.50	-14.35%
<u>OVLY</u>	OAK VALLEY BANCORP	31-Dec	<b>5.90</b>	467,097	45,442,549	0.50	11.78	0.89	1.49	33.79%
<u>PFCF</u>	PACIFIC CITY FINANCIAL CORP	11-Nov	<b>1.75</b>	399,842	15,229,818	NEG	NEG	0.61	-1.35	-43.55%
<u>PPBI</u>	PACIFIC PREMIER BANCORP INC	31-Dec	<b>6.48</b>	2,299,608	65,019,257	0.23	28.06	0.83	3.10	91.72%
<u>SAEB</u>	SAEHAN BANCORP	27-Dec	<b>0.39</b>	4,830,255	73,748,171	NEG	NEG	1.34	0.22	129.41%
<u>SWBC</u>	SUNWEST BANK	8-Oct	<b>2,500.00</b>	581	57,147,500	794.57	3.15	0.82	100.00	4.17%
<u>UBFO</u>	UNITED SECURITY BANCSHARES	31-Dec	<b>3.76</b>	2,468,229	48,410,365	0.07	N/M	0.68	-0.51	-11.96%

<i>Average</i>	<b>13.31</b>	<b>0.85</b>
<i>Median</i>	<b>11.78</b>	<b>0.82</b>
<i>High</i>	<b>28.06</b>	<b>1.40</b>
<i>Low</i>	<b>1.01</b>	<b>0.47</b>

Information is gathered from sources believed to be reliable, however, the accuracy of the data cannot be guaranteed.

**STOCK PERFORMANCE**

**Carpenter and Company— 2010 Annual Stock Performance Report  
California Banks with Total Assets Between \$1 and \$5 Billion  
Total Market Capitalization: \$4.8 Billion**

<i>Symbol</i>	<i>Name</i>	<i>Last Trade</i>		<i>Annual</i>	<i>Mkt Cap</i>	<i>LTM</i>	<i>LTM</i>	<i>Price/</i>	<i>2010 Change</i>	
		<i>Date</i>	<i>Price (\$)</i>						<i>Volume</i>	<i>(\$)</i>
<u>BMRC</u>	BANK OF MARIN BANCORP	31-Dec	<b>35.00</b>	3,089,309	184,047,045	2.35	14.91	1.55	2.44	7.49%
<u>BSRR</u>	SIERRA BANCORP	31-Dec	<b>10.73</b>	6,956,433	125,012,451	0.79	13.51	0.94	3.10	40.63%
<u>CLFC</u>	CENTER FINANCIAL CORP	31-Dec	<b>7.58</b>	47,905,082	301,964,665	NEG	NEG	1.40	2.98	64.78%
<u>EXSR</u>	EXCHANGE BANK	31-Dec	<b>49.00</b>	88,289	84,002,856	6.55	7.49	0.74	9.60	24.37%
<u>FCAL</u>	FIRST CALIFORNIA FINANCIAL GROU	31-Dec	<b>2.80</b>	19,027,412	78,887,413	NEG	NEG	0.77	0.06	2.19%
<u>FMBL</u>	FARMERS & MERCHANT'S BANK	31-Dec	<b>3,970.00</b>	2,885	519,784,160	365.21	10.87	0.84	175.00	4.61%
<u>FMCB</u>	FARMERS & MERCHANT'S BANCORP	27-Dec	<b>415.00</b>	9,695	324,091,760	27.02	15.36	1.84	45.00	12.16%
<u>HAFC</u>	HANMI FINANCIAL CORP	31-Dec	<b>1.15</b>	298,447,902	173,878,149	NEG	NEG	1.03	-0.05	-4.17%
<u>HTBK</u>	HERITAGE COMMERCE CORP	31-Dec	<b>4.50</b>	5,742,525	118,048,505	NEG	NEG	0.96	0.48	11.94%
<u>MCHB</u>	MECHANICS BANK	27-Dec	<b>12,000.00</b>	77	232,560,000	496.80	24.15	0.78	1000.00	9.09%
<u>NARA</u>	NARA BANCORP INC	31-Dec	<b>9.86</b>	68,676,059	374,251,356	NEG	NEG	1.30	-1.48	-13.05%
<u>PFBC</u>	PREFERRED BANK	31-Dec	<b>1.76</b>	25,176,613	115,119,008	NEG	NEG	0.80	-0.04	-2.22%
<u>PMBC</u>	PACIFIC MERCANTILE BANCORP	31-Dec	<b>3.71</b>	4,766,805	38,712,607	NEG	NEG	0.70	0.69	22.85%
<u>RCBC</u>	RIVER CITY BANK	30-Dec	<b>48.00</b>	25,839	62,598,960	0.99	48.56	0.61	8.00	20.00%
<u>TCBK</u>	TRICO BANCSHARES	31-Dec	<b>16.15</b>	8,827,263	256,141,229	0.32	49.90	1.39	-0.50	-3.00%
<u>WABC</u>	WEST AMERICA BANCORP	31-Dec	<b>55.47</b>	45,054,234	1,615,175,460	3.22	17.23	4.21	0.10	0.18%
<u>WIBC</u>	WILSHIRE BANCORP INC	31-Dec	<b>7.62</b>	33,799,088	224,688,913	0.30	25.81	1.12	-0.57	-6.96%

<i>Average</i>	<b>22.78</b>	<b>1.23</b>
<i>Median</i>	<b>16.29</b>	<b>0.96</b>
<i>High</i>	<b>49.90</b>	<b>4.21</b>
<i>Low</i>	<b>7.49</b>	<b>0.61</b>

**Carpenter and Company— 2010 Annual Stock Performance Report  
California Banks with Total Assets Between \$5 and \$10 Billion  
Total Market Capitalization: \$2.6 Billion**

<i>Symbol</i>	<i>Name</i>	<i>Last Trade</i>		<i>Annual</i>	<i>Mkt Cap</i>	<i>LTM</i>	<i>Price/</i>	<i>2010 Change</i>	
		<i>Date</i>	<i>Price (\$)</i>					<i>Volume</i>	<i>(\$)</i>
<u>CVBF</u>	CVB FINANCIAL CORP	31-Dec	<b>8.67</b>	266,472,604	918,312,320	13.11	1.53	0.03	0.35%
<u>PACW</u>	PACWEST BANCORP	31-Dec	<b>21.38</b>	62,915,755	755,754,800	NEG	1.82	1.23	6.10%
<u>PCBC*</u>	PACIFIC CAPITAL BANCORP	31-Dec	<b>28.26</b>	11,264,885	929,868,990	NEG	1.93	-67.74	-70.56%

\* Prices adjusted for 1-100 reverse stock split.

<i>Average</i>	<b>13.11</b>	<b>1.76</b>
<i>Median</i>	<b>13.11</b>	<b>1.82</b>
<i>High</i>	<b>13.11</b>	<b>1.93</b>
<i>Low</i>	<b>13.11</b>	<b>1.53</b>

Information is gathered from sources believed to be reliable, however, the accuracy of the data cannot be guaranteed.

**STOCK PERFORMANCE**

**Carpenter and Company— 2010 Annual Stock Performance Report  
California Banks with Total Assets Between \$10 and \$100 Billion  
Total Market Capitalization: \$13.2 Billion**

<i>Symbol</i>	<i>Name</i>	<i>Last Trade</i>		<i>Annual Volume</i>	<i>Mkt Cap (\$)</i>	<i>LTM P/E</i>	<i>Price/ T. Book</i>	<i>2010 Change</i>	
		<i>Date</i>	<i>Price (\$)</i>					<i>(\$)</i>	<i>(%)</i>
<u>CATY</u>	CATHAY GENERAL BANCORP	31-Dec	<b>16.70</b>	229,321,746	1,311,382,597	NEG	1.53	9.15	121.19%
<u>CYN</u>	CITY NATIONAL CORP	31-Dec	<b>61.36</b>	102,790,981	3,197,723,999	26.59	2.24	15.76	34.56%
<u>EWBC</u>	EAST WEST BANCORP INC	31-Dec	<b>19.55</b>	412,418,286	2,893,042,509	7.59	1.82	3.75	23.73%
<u>FRC</u> <sup>(1)</sup>	FIRST REPUBLIC BANK	31-Dec	<b>29.12</b>	14,132,117	3,614,762,686	N/M	2.07		
<u>SIVB</u>	SVB FINANCIAL GROUP	31-Dec	<b>53.05</b>	128,111,828	2,226,230,730	22.21	1.76	11.39	27.34%

<sup>(1)</sup> Began trading in December 2010

<i>Average</i>	<b>18.80</b>	<b>1.88</b>
<i>Median</i>	<b>22.21</b>	<b>1.82</b>
<i>High</i>	<b>26.59</b>	<b>2.24</b>
<i>Low</i>	<b>7.59</b>	<b>1.53</b>

**Carpenter and Company— 2010 Annual Stock Performance Report  
California Thrifts  
Total Market Capitalization: \$403 Million**

<i>Symbol</i>	<i>Name</i>	<i>Last Trade</i>		<i>Annual Volume</i>	<i>Mkt Cap (\$)</i>	<i>LTM P/E</i>	<i>Price/ T. Book</i>	<i>2010 Change</i>	
		<i>Date</i>	<i>Price (\$)</i>					<i>(\$)</i>	<i>(%)</i>
<u>BOFI</u>	BOFI HOLDING INC	31-Dec	<b>15.51</b>	20,002,856	158,554,806	6.86	1.19	5.51	55.10%
<u>BYFC</u>	BROADWAY FINANCIAL CORP	31-Dec	<b>2.43</b>	574,317	4,237,835	NEG	0.13	-3.55	-59.36%
<u>FPTB</u>	FIRST PACTRUST BANCORP INC	31-Dec	<b>13.27</b>	4,230,837	56,316,341	N/M	0.57	7.92	148.04%
<u>MLGF</u>	MALAGA FINANCIAL CORP	23-Dec	<b>15.25</b>	93,884	88,715,030	8.85	1.28	2.40	18.68%
<u>PROV</u>	PROVIDENT FINANCIAL HOLDINGS INC	31-Dec	<b>7.24</b>	10,883,928	82,589,967	6.96	0.62	4.48	162.32%
<u>RMGC</u>	RMG CAPITAL CORP	11-Oct	<b>4.30</b>	60,101	12,110,172	NEG	0.29	0.30	7.50%
<u>SNLS</u>	SAN LUIS TRUST BANK FSB	31-Dec	<b>0.15</b>	433,900	655,039	NEG	0.03	-0.90	-85.71%

<i>Average</i>	<b>7.56</b>	<b>0.59</b>
<i>Median</i>	<b>6.96</b>	<b>0.57</b>
<i>High</i>	<b>8.85</b>	<b>1.28</b>
<i>Low</i>	<b>6.86</b>	<b>0.03</b>

Information is gathered from sources believed to be reliable, however, the accuracy of the data cannot be guaranteed.



# CARPENTER

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