

Update: United States Economy: Second Quarter 2011

Economic growth in 2011 was weaker than previously reported. Persistently high rates of unemployment suggested that the economy required more stimulus. With large budget deficits and low interest rates, policy options appeared limited.



The longevity of the economic recovery was called into question. New data indicated that growth slowed. The protracted debate over the debt ceiling and disagreements over how to reign in the deficit dampened consumer confidence and contributed to increased volatility in financial markets. The unprecedented downgrade in the U.S. credit rating and debt problems in the Euro-zone added to the prevailing uncertainty. A market analyst characterized the recent developments as a game of whack-a-mole, an endless process of old and new problems emerging to spook investors.

Through August, upheaval in financial and foreign exchange markets contributed to an erosion in consumer and business confidence regarding the sustainability and strength of the current recovery. Data showed that growth slowed, surveys pointed toward declines in manufacturing, and job creation remained tepid. The prolonged wrangling over the extension of the debt ceiling, lingering uncertainty regarding the federal budget, and potentially limited options for future monetary policy left many economic analysts anticipating that fiscal and monetary policy will carry a neutral, if not restrictive, effect on future economic activity.

Fiscal Policy

The mid-summer Congressional debate over the extension of the debt ceiling vividly demonstrated the wide divide held by lawmakers over how to rein in the federal deficit. Fed Chairman Bernanke provided a pointed assessment in his Jackson Hole speech when he stated, "...the country would be well served by a better process for making fiscal decisions. The negotiations that took place over the summer disrupted financial markets and probably the economy as well, and similar

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events in the future could, over time, seriously jeopardize the willingness of investors around the world to hold U.S. financial assets or make direct investments in job-creating U.S. businesses." Considering that some of the more contentious budget negotiators were calling for the elimination of the Federal Reserve or at least its independence, those uncharacteristically blunt comments by a Fed Chairman may not hold much sway.

The Congressional Budget Office ("CBO") released an August update of the budget and economic outlook. The revised forecast by the CBO placed the fourth quarter to fourth quarter growth in GDP at 2.3% in 2011 and 2.7% in 2012. Both rates were considered to be sluggish for a period of recovery. Due to this slow growth, the rate of unemployment would remain high, averaging 8.9% by the fourth quarter of 2011 and 8.5% in the final quarter of 2012. The achievement of the 2.3% 4Q/4Q growth in 2011 would require an annualized growth of 3.9% in the second half, a turnaround from the 0.7% annualized growth in the first half. Based upon CBO analysis of existing legislation, fiscal policy will provide decreasing support for economic activity in 2011 and will significantly retard the growth in the economy during 2012 and 2013.

Revised estimates for the fiscal 2011 budget deficit equaled \$1.3 trillion or an 8.5% share of GDP. CBO out-year estimates assumed that current laws were not changed. Included in the assumptions was that the Bush-era tax cuts expired, Medicare payments in 2012 were reduced by nearly 30% and \$1.2 trillion in budget cuts occurred. Based upon these assumptions, the deficit share of GDP would fall to 6.2% in 2012, 3.2% in 2013 and 1.6% in 2014.

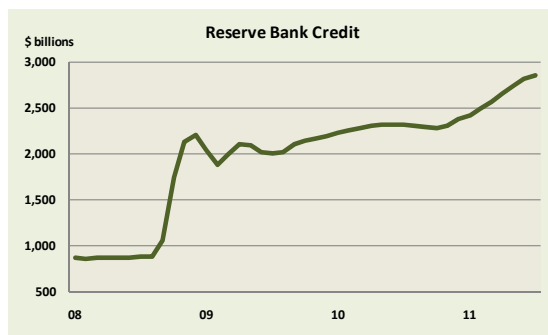
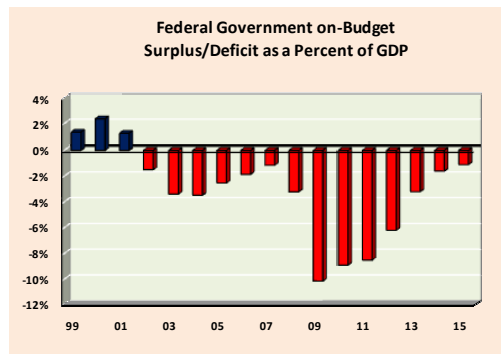
Monetary Policy

The statement issued after the August 9 meeting of the FOMC presented a sober assessment of the state of the U.S. economy. Economic growth so far in 2011 was quite a bit slower than the FOMC expected earlier in the year. While job growth picked up early in the year, conditions in the labor market deteriorated in recent months and the unemployment rate edged up. Household spending flattened, and housing remained depressed. Investment in business equipment expanded, but investment in commercial buildings continued to be weak.

Some of the weakness in economic activity was due to temporary factors such as the impact on household income of higher prices for food and energy and the supply disruptions following the earthquake in Japan. These restraining forces appeared to have abated and the economy should have stronger growth in the second half. But it was clear to the FOMC that not all of the weakness was due to one-time factors—and in light of this, the FOMC revised down expectations for the future pace of the recovery.

On the inflation front, the FOMC noted that inflation has moderated recently as energy and commodity prices have declined from their peaks. Longer-term inflation expectations remained stable. The Committee expected rates of inflation to settle over upcoming quarters at levels that were at or below those consistent with the FOMC mandate to promote full employment and price stability.

The Federal Reserve's program known as Quantitative Easing, part 2, ended as scheduled on June 30, 2011. Over the eight months from November 2010 through June, the Fed purchased intermediate-term treasury securities at a rate of \$75 billion a month for a total of \$600 billion. Through QE-1, QE-2 and other stimulus measures, reserve bank credit had risen at a rate in excess of 220% over the past three years.



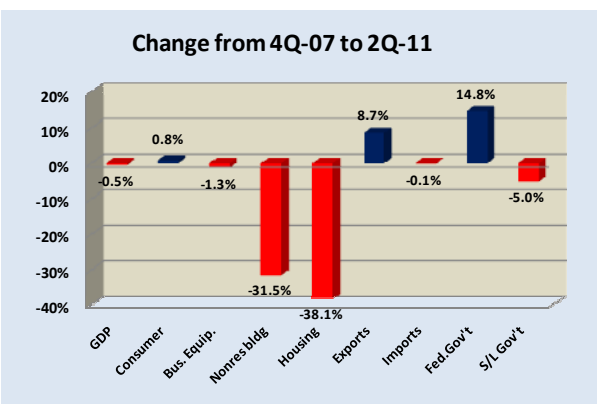
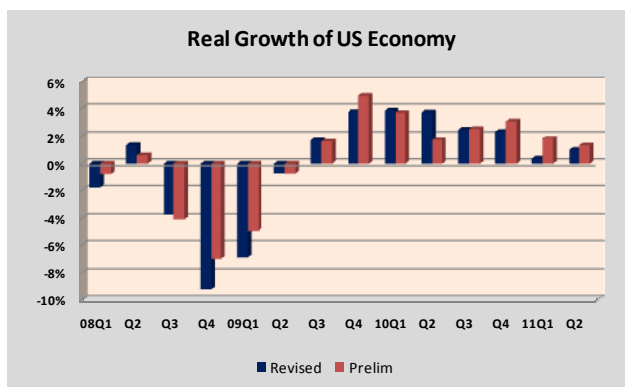
In light of the current outlook, the FOMC announced that it would keep short-term interest rates exceptionally low at least through mid-2013. Following the release of the FOMC's August statement, market interest rates moved generally lower, which should provide some support for increased economic activity and jobs. Post-meeting conditions remained unsettled and equity markets showed subsequent volatility in prices.

At the Jackson Hole gathering of central bankers, Fed Chairman Bernanke acknowledged that the U.S. economic recovery was less robust than the Fed had expected. Even so, the economy experienced positive events for this recovery, such as the 15% increase in manufacturing activity from the recession trough, improved household balance sheets and reductions in commodity prices. Nonetheless, high rates of unemployment, especially high levels of long-term unemployment, represented a force that may significantly and adversely affect the longer-term performance of the economy. The Jackson Hole speech did not foreshadow any additional monetary policy stimulus. Chairman Bernanke stated that the Fed has a range of tools that could be used to provide additional stimulus. Such measures will be considered at the September meeting of FOMC, which has been extended to a two-day meeting to allow a fuller discussion on the economy and policy responses.

Gross Domestic Product

Whether it is a soft patch or a deep hole, recent data made it clear that the national economy slowed significantly in the first half of 2011. It is becoming difficult to refute the observation that the economy is in a growth recession. The reason that jobs aren't growing is that the economy hasn't grown sufficiently to generate jobs. The late July 2011 annual revision of the national income and product account data revealed that the recent recession was steeper and the subsequent recovery was milder than previously reported. Output declined 0.3% in 2008, instead of being unchanged as originally reported. The decline in 2009 was 3.5%, not 2.6% as previously reported. Revised growth for 2010 at 3.0% was essentially unchanged from the preliminary estimate of 2.9%.

Revised estimates showed that growth decelerated beginning in the second half of 2010. The first quarter 2011 growth rate was revised substantially to 0.4% from the earlier estimate of 1.9%. The lower growth resulted from reduced spending on consumer services, a slower rise in inventories and a higher volume of imports, a sector that offsets domestic output. The 1.0% growth in the second quarter 2011 was well below market expectations. Consumer spending edged only slightly higher as the steep decline in spending on motor vehicles was more than offset by moderate gains in other consumer spending. Business investment and residential construction were sources of growth in the second quarter, while inventories acted as a damper on growth. The trade sector had a generally neutral effect on second quarter growth.



For the third consecutive quarter, government spending was a drag on total output, with reduced state and local government spending offsetting the upturn in federal defense spending.

Due to the downward revisions in GDP over the past three years, the U.S. economy through the second quarter of 2011 remained 0.5% below the previous peak in output, a contrast to the preliminary data findings that the economy had regained its prior peak by the fourth quarter of 2010.

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The rate of inflation picked up in the first half of 2011, with higher prices for food and energy boosting inflation in the consumer and import sectors. The GDP price deflator rose 2.5% in the first quarter and 2.4% in the second quarter. For the first two quarters of 2010 the rate of inflation equaled 1.5%. Prices of gross domestic purchases climbed to 4.0% in the first quarter and 3.3% in the second quarter, compared with rates of 1.5% for all of 2010.

Recent Trends

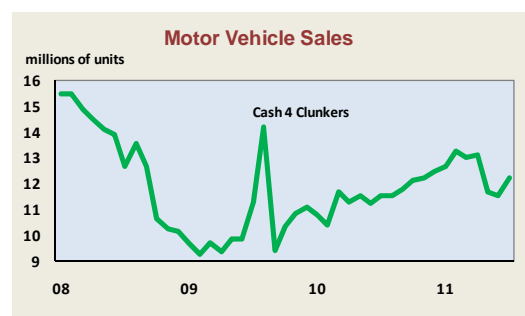
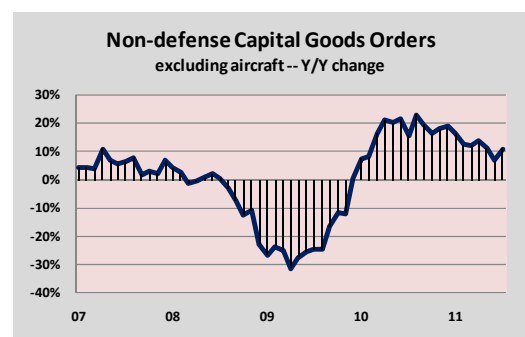
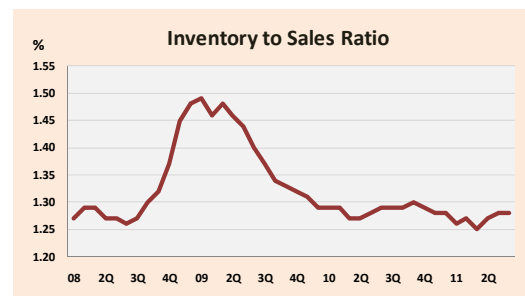
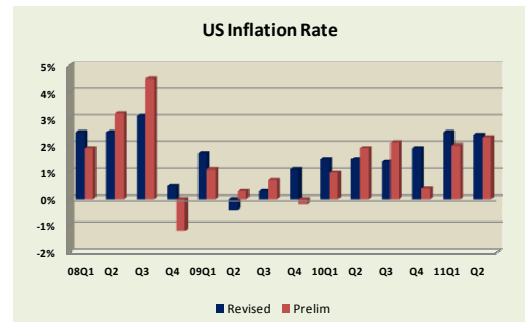
The factory index surveyed by the Institute for Supply Management (ISM) revealed a surprisingly sharp decline, falling from 55.3 in June to 50.9 in July. The July reading edged close to the 50 demarcation between expanding and declining activity. The index was the lowest since the economic recovery began two years ago. All five components of the index fell in July, led by declines in employment. Supplier deliveries and inventories also were sharply lower.

As retail sales slowed, the inventory-to-sales ratios for the first two months of the second quarter climbed to 1.28 from 1.25 in March. Due to efforts to limit unintended supplies, spending on inventories yielded a neutral impact on growth in the second quarter. The recently indications of softening economic activity are likely to limit planned inventory investments in the current quarter.

Orders for durable goods fell in June and rebounded in July. Transportation bookings, notably in the aircraft sector, contributed to the recent volatility in orders. Excluding transportation, orders were relatively steady, up 0.6% in June and 0.7% in July. Non-defense capital goods orders, excluding aircraft, declined 1.5% in July, following the 1.9% surge in May and the 0.6% gain in June. Although orders declined in July, YoY growth rose to 10.8% from 6.8% in June.

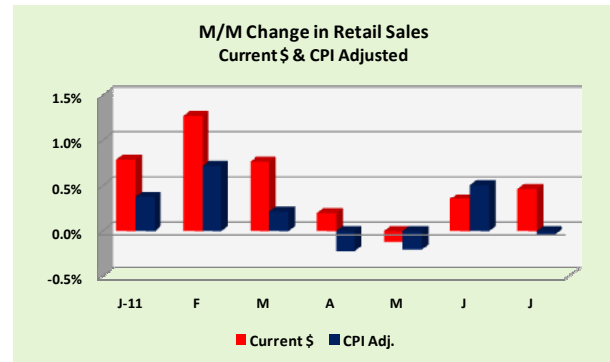
Sales of cars and light-duty trucks picked up in July, following two months of declines. Motor vehicle sales equaled an annualized rate of 12.2 million units in July, up from 11.5 million units in June. Nonetheless, sales were well below the high so far for the year of 13.2 million units. On a YoY comparison, July sales were up only 2.3%. The import share of motor vehicle sales declined to 22.3%, the lowest reading since early 2006. With the dollar under downward pressure, especially against the Japanese Yen, the market share for imports is likely to remain low.

Retail sales were affected by a variety of factors, including supply disruptions following the earthquake in Japan and significant volatility in fuel and food prices. Retail sales, not adjusted for



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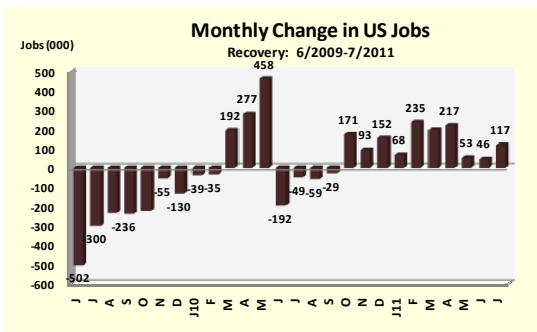
inflation, evidenced considerable swings in growth month to month ("M/M"). In contrast, sales, adjusted by the consumer price index, generally weakened beginning in March, as reflected in the chart on the M/M change in current and inflation-adjusted sales. Nominal sales grew 0.5% in July, while price-adjusted sales fell 0.03%



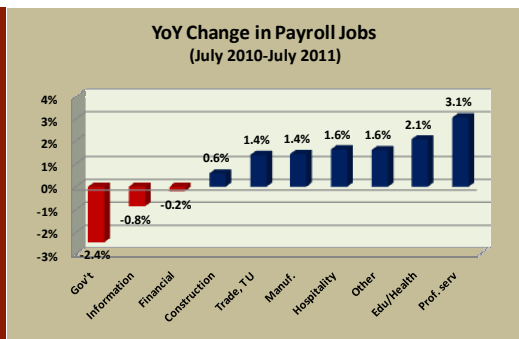
Important future data to watch will be the pace of sales and orders following the unsettling events of the S&P degrade of the U.S. government credit rating, the worsening in the Euro-zone debt crisis and the significant volatility in equity markets. The late August report from the University of Michigan showed that U.S. consumer confidence declined to its lowest reading since August 2008. The July survey of small business owners showed that optimism regarding future economic activity fell to the lowest level since last September and that the percentage of firms with job openings declined.

Employment

During the first seven months of 2011, the U.S. economy generated 930,000 jobs, a total that nearly matched the jobs created for all of 2010. Recent trends, however, were disappointing, especially the uneven pattern of growth of payrolls. The impressive increases in employment in February through April were followed by anemic gains in May and June and a slightly larger gain in July. A headwind in the creation of total jobs was the steady decline in government-sector jobs. On a YoY comparison, government employment was down 2.4% in July, with declines reported on the local, state and federal government levels. In recent months, there was an acceleration in the rate of decline in state and local government jobs. The jobless rate in July equaled 9.1%, down from 9.2% in June yet up from 8.8% in March. The average duration for unemployment equaled 40.1 weeks, and 44.4% of the unemployed had been out of work for more than 27 weeks.



43 months after the peak in the business cycle, payroll jobs are 4.9% below that peak level.

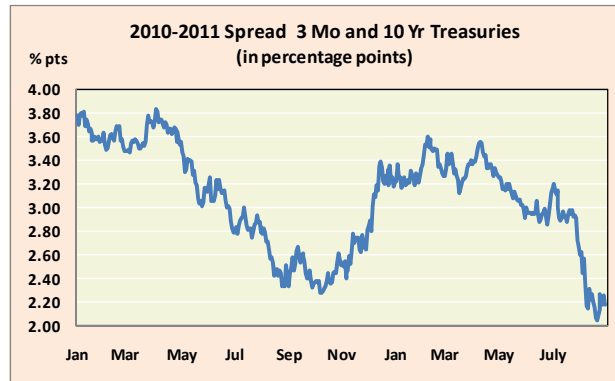
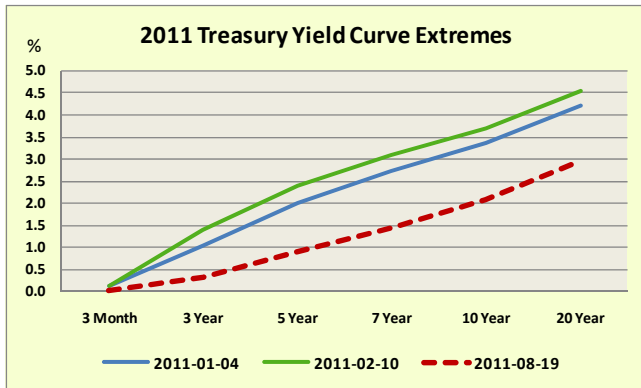


Financial Trends

For the first eight months of 2011, the peak in interest rates on U.S. treasuries generally occurred in early to mid February. Partially defying logic, treasury rates plummeted to their lows for the year immediately following the credit rating downgrade by S&P. As equity prices plummeted in early August 2011, investors showed a preference for the safety and liquidity of treasuries over alternative investments. During one August trading day, investor demand for treasuries pushed the inter-day rate for 10-year treasuries below 2% for the first time in history.

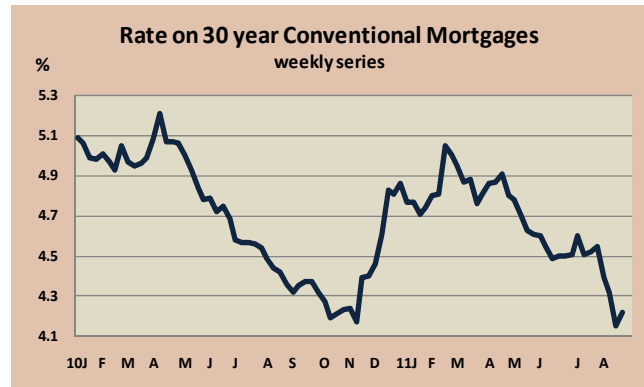
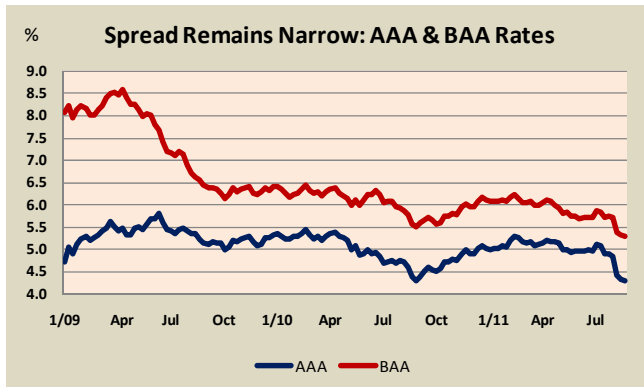


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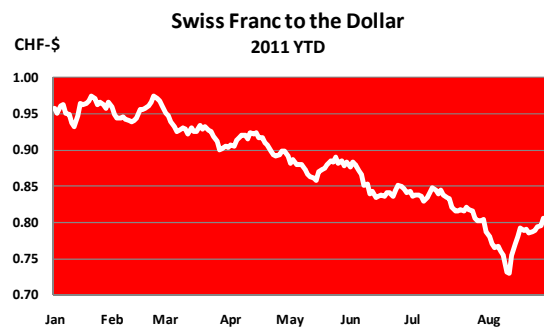
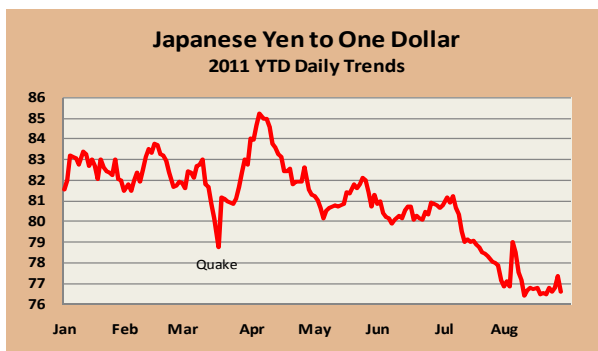


For the first eight months of 2011, the yield slope between three month and 20-year treasuries narrowed from a peak of 443 basis points in February to a low of 295 basis points in August. The spread between three-month and ten-year treasuries retraced the lows that were last reached in late 2010 and established a new record low for the spread.

From the beginning of July to late August, the rate on AAA-rated corporate bonds declined 80 basis points, while the decline in BAA-rated bonds equaled 59 basis points. Thus, the risk spread widened to 98 basis points as of August 19, compared with the recent low in the spread at 75 basis points. The rate on a 30 year conventional mortgage fell to a weekly low of 4.15% in late August, a decline of 90 basis points from the high for the year.



The S&P downgrade coincided with renewed concerns over the viability of sovereign debt for many European countries and the ability of the Euro to withstand this period of financial instability. Market sentiments created a flight to safety by investors into the Japanese Yen, Swiss franc and gold. Concerted efforts were made by the Japanese and Swiss central banks to limit the appreciation of their currencies. Gold began July at a price of \$1,480/ounce, peaked on August 23 at \$1,880 and ended the month at \$1,825 for a two-month price appreciation of 23%.



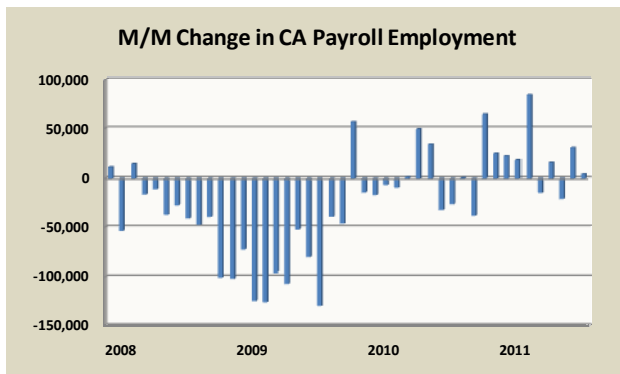
Update: California Economy: Second Quarter 2011

Job growth was uneven and the jobless rate was second highest in the nation. The economy showed signs of expansion, especially in tech and manufacturing centered areas such as the Silicon Valley and Los Angeles. Housing remained the weakest link.



Employment

The California economy realized a gain in payroll jobs during the first seven months of this year, yet the path to the gains was not steady or consistent. Payrolls expanded by 102,200 jobs in the first two months of this year, a good beginning to the year. In the next three months, the state lost 21,100 jobs only to more than recoup those losses with the June-July gain of 34,900. For the first seven months of this year, the state reported an increase in non-farm payroll employment of 116,000. This gain contrasted with the first seven months of 2010 when 9,200 payroll jobs were created.



The YTD gains in employment would have been 15% higher if government employment had not declined. The business and professional services sector led the major industries with the steepest growth in jobs YTD. The education and health care services sector was in second position. These two industries accounted for 1/2 of the YTD increase in payrolls.

The jobless rate is based upon a survey of households, not from payroll data. Household employment declined by a

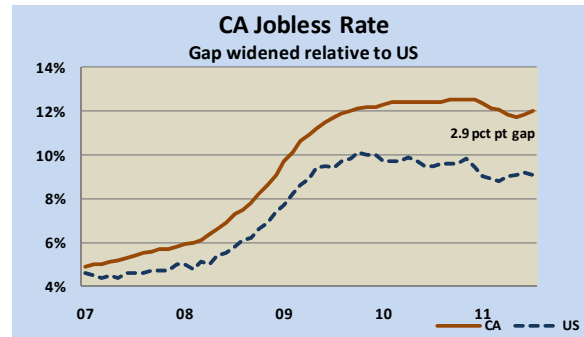
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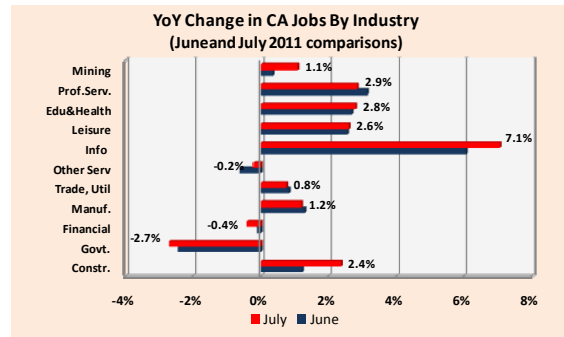
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total of 30,700 in the first seven months of 2011. The household survey revealed that 136,000 left the labor force, allowing the number of unemployed to decline by 105,400. These general trends produced a reduction in the jobless rate from 12.5% in December 2010 to 12.0% in July. The July jobless rate placed California in second place based upon the ranking of unemployment rates by states. At 12.0%, California ranked behind Nevada at 12.9% and was well ahead of Michigan and South Carolina, which were tied for third place at 10.9%.

The July jobless rate for the state contrasted with the 9.1% national rate. The resultant gap of 2.9 percentage points was below the record differential of 3.4 percentage points that occurred in January of this year.



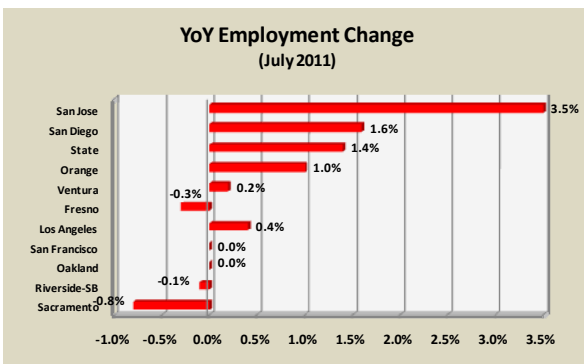
The slow growth in jobs and persistently high rates of unemployment prompted many Californians to stop looking for a job, thus dropping out of the labor force. The size of the California labor force peaked in January 2009. Since then through July 2011, 274,900 have left the labor force, a drop of 1.5%. The labor force participation rate, which is measured relative to the civilian, non-institutionalized population over 16 years of age, fell to 63.0% in July, the lowest rate since early 1977.



In July, eight of the eleven major California industries reported YoY gains in employment. Over the past year, payroll employment expanded by 189,400 jobs. The rise in jobs was led by the 59,400 increase in business services employment, with education and health care services industry reporting a 50,200 job gain. The information industry showed the steepest percentage growth, up 7.1%. The construction industry compiled six consecutive months of YoY job gains. The total YoY increase in construction jobs over the past six months equaled 28,700 or 0.6% of the 4.54 million construction jobs that were lost during the prior 52 months of YoY declines. The financial services and other services sectors experienced small

YoY job declines in July, while total government employment was down 2.7% YoY.

Of the ten major metropolitan areas in the state, five reported YoY job gains in July, while three reported job losses and two areas were unchanged. The San Jose area rebounded briskly, with YoY job growth of 3.5%. Job growth in San Jose was stimulated by increased hiring in the information sector and from expansion funded by a series of successful initial public stock offerings. San Diego and Orange Counties reported YoY job growth in excess of 1% in July. Areas still suffering YoY job losses were Sacramento, Riverside-San Bernardino and Fresno.



Two of the ten major metropolitan areas reported July rates of unemployment below 10%. The low jobless rates equaled 8.8% for San Francisco and 9.3% for Orange County. The high jobless rates were 16.7% for Fresno and 14.7% for Riverside/San Bernardino.

Consumer Sector

California personal income increased 1.4% in the first quarter of 2011, easing from the 1.8% advanced in the fourth quarter. The first quarter growth rate placed California 48th lowest

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growth rate nationwide. Only the farm states of South Dakota and Iowa reported lower first-quarter growth in income. The primary reason for California's slow income growth was the lack of jobs. The rise in California's workplace net earnings equaled 1.5% in the first quarter, compared with the national average of 2.2% and was the third lowest in the nation. Also contributing to the low income growth was the 0.3% decline in transfer payment receipts. Income from dividends, investment and rents showed a 0.25% gain, which was among the highest growth rates in the nation.

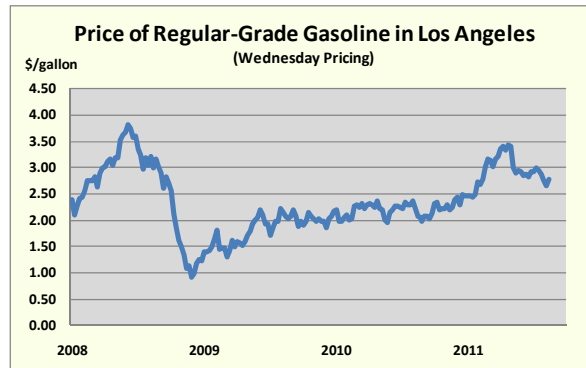
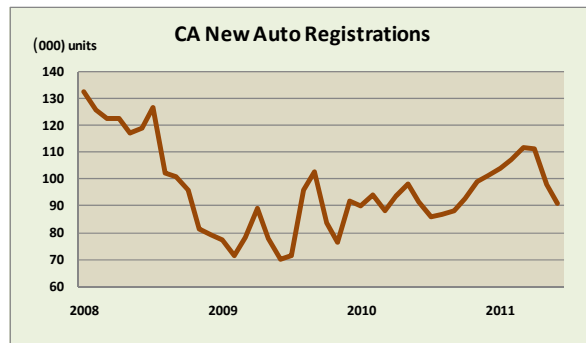
New auto registrations were quite brisk in California from December 2010 to April 2011. The May and June data showed a steep deceleration in registrations, largely due to the limited inventories of motor vehicles from Japan caused by the supply disruptions following from the March 2011 earthquake and tsunami. If national trends proved to be valid predictors of auto buying in California, it is likely that registration activity will pick up in July and August.

In auto-dependent Southern California, trends in gasoline prices greatly impact consumer spending, especially on other and discretionary purchases. The retail price of regular gasoline in Los Angeles trended higher from August 2010 through April 2011. Since the April peak in prices, the price of gasoline declined nearly 19% through August. Unlike the pattern in 2008, when the peaking in gasoline prices was followed by a steep and rapid decline, current trends implied that gasoline prices had settled in a high plateau.

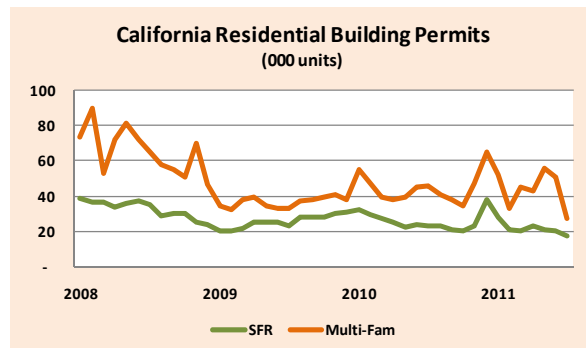
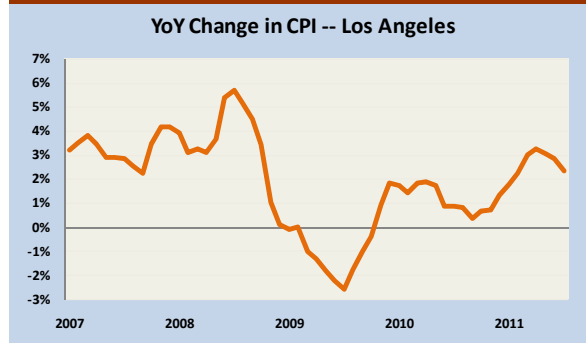
Gasoline prices contributed to the run-up in the rate of inflation, as measured by the consumer price index for Los Angeles. This index recorded YoY increases in excess of 3% in the March through May 2011 period, before edging to a 2.4% YoY rate in July. The recent trends contrasted with the negative YoY rates for most of 2009 and the sub-1% rates for most of 2010.

Construction

The housing industry in California continued to be disappointing. Building permits plunged to a record low in July. Total housing permits fell 41.3% on a YoY basis to an annualized rate of 27,100 units. Single family permits were off 26% YoY and multi-family were 56.5% lower. The magnitude of the decline was attributable to changes in building codes that went into effect in January. To avoid the code changes, permits needed to be applied for prior to January and be issued prior to July 1, 2011. One analyst



Higher prices for food and fuel pushed local area inflation to their highest YoY increases in two years. Recently, higher prices for apparel and for used cars and trucks placed upward pressures on prices.



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posited that permits issued late last year and earlier this year may have borrowed from second-half 2011 activity. Permits averaged 47,000 units in the first half of this year, compared with 44,000 units in the first half of 2010 and 45,000 units in the second half of last year – not a significantly large amount of “borrowing”.

Sales of existing homes in July were up 4.5% on a YoY comparison, yet declined 4.1% compared with June. The median price of a home sold declined 7.6% on a YoY basis and was down 0.3% on a monthly basis. The inventory of unsold homes equaled 5.5 months in July, which was essentially unchanged from the year-earlier level. The YoY unsold inventory rose for all major price points. The median number of days to sell a single-family home equaled 52.1 days, up from 42.4 days a year earlier.

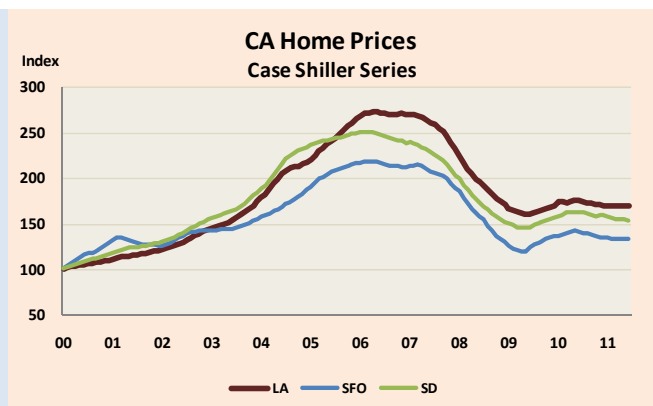
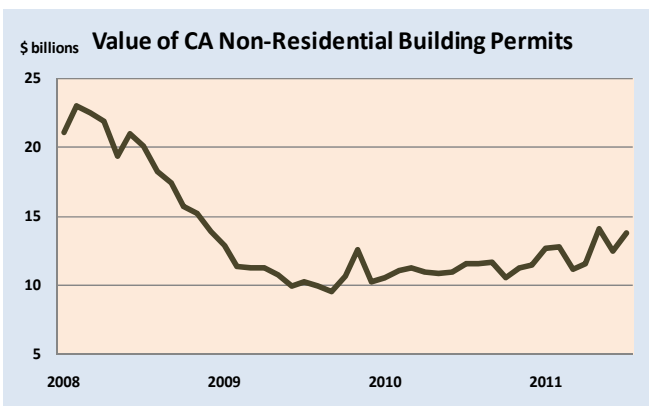
As was the case for all 20 cities in the Case-Shiller index, home prices in Los Angeles, San Diego and San Francisco reported YoY declines in June. Prices for the California cities had been positive on a YoY basis generally throughout 2010, yet resumed a negative course in 2011. These trends supported the findings of a recent report by Fannie Mae that 21% of California homeowners with a mortgage owed more than the current value of the home.

Permit valuation for non-residential construction in July increased 11% over June and 19% on a YoY basis. The July advance only partially reversed the 12% decline that occurred in June. During July increased valuations for industrial and hotel permits more than offset the declines in permit valuations for office and retail properties.

Conditions appeared to be improving for commercial real estate, notably for industrial properties in Los Angeles and the Silicon Valley and for office buildings in San Francisco and the Silicon Valley. Renewed manufacturing in the apparel, aerospace and metal products industries boosted demand for industrial space in Los Angeles. The Silicon Valley experienced recent gains in manufacturing activity. Demand for warehouse space increased for the sixth consecutive quarter. The Silicon Valley recorded during the first half one of the region’s most robust periods for the office market since 2003. San Francisco had the most active market for office space in over four years, punctuated by increased rents, fewer concessions and decreased allowances for tenant improvements.

State Finances

The state generated \$1.8 billion more in revenues than in expenses during fiscal 2011. Receipts from personal income and sales taxes exceeded estimates, while spending on state operations came in below expectations. Including the \$9.9 billion deficit from fiscal 2010, the state ended fiscal 2011 with a combined deficit of \$8.2 billion. The state budget enacted for the 2011-12 fiscal year was designed to close a \$26.6 billion budget gap. The new fiscal year budget required \$15 billion in spending cuts. General fund spending was projected at \$85.9 billion for fiscal 2012, which was down 6.1% from actual spending in fiscal 2011. Revenue increases and other changes were enacted to close the budget gap. Expectations that economic activity will continue to improve contributed to the closing of the estimated two-year budget gap of \$27.2 billion.



Update: United States Banking: Second Quarter 2011

Banks grew assets, loans, deposits & equity. Earnings were lower due to a reduction in operating revenues. Provision expense was the lowest in nearly 4 years. There were fewer banks, fewer failures and fewer problem institutions.

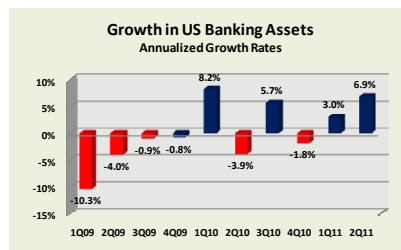


The U.S. banking industry recorded favorable results in the second quarter. The declining trend in loans was reversed, and assets achieved the steepest growth since the first quarter of 2010. Banks reported a sizable decline in delinquent assets. Assets on non-accrual fell to the lowest level in two years. The sustained improvement in asset quality allowed banks to reduce provision expense, which contributed greatly to the YoY increase in earnings. Growth in equity capital was the most robust since the second quarter of 2010. The leverage ratio climbed to new highs.

Operating earnings continued its generally downward trend. Total operating revenue, net of operating expense, declined in four of the past five quarters. Second quarter net operating earnings were 19.4% below the level in the first quarter 2010. The percent of banks reporting losses fell to 14.3%, the lowest reading since the first quarter of 2008.

Balance Sheet Trends

Assets of commercial banks expanded at an annualized rate of 6.9% to a level of \$12.4 trillion. Unlike the past four quarters, banks reported an increase in loans in the second quarter. Cash, securities and federal funds expanded at an annualized rate of 16.2%.

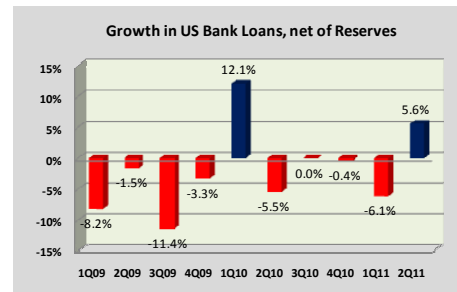


The annualized increase of 5.6% in net loans was the steepest growth since the first quarter of 2010, when changed accounting rules required that securitized consumer loans be reported on portfolios. The recent rise was centered in

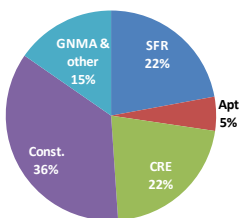
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commercial and industrial (C&I) loans. Loans to consumers also rose led by increased auto lending. Real estate loans declined. Construction loans were down at an annualized pace of 26.6%. Residential and commercial real estate loans declined at annualized rates of 1.5% each. Despite the second quarter rise in loans, commercial bank loans, net of reserves, remained 3.8% below the record in the third quarter of 2008. Since the third quarter of 2008, net loans declined in ten of the intervening twelve quarters.

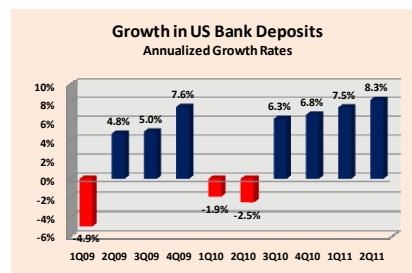


US OREO by Property Type
June 2011

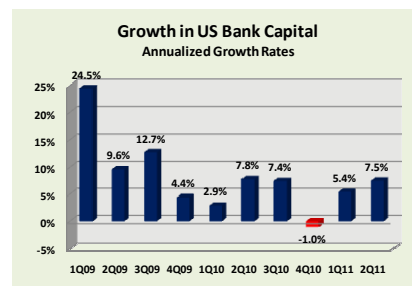


Other real estate owned (OREO) by banks edged lower for the third consecutive quarter during the June quarter. Reductions in single-family and construction properties offset increases in apartment, CRE and GNMA foreclosed properties to produce the recent drop. Homes and GNMA foreclosures accounted for over 37% of outstanding OREO, while construction and land carried a 35% share.

The growth in deposits accelerated for the fourth consecutive quarter. Total deposits expanded 8.3% in the second quarter, up from 7.5% in the first quarter. Banks reduced time deposits at an annualized rate of 7.6%. Since the fourth quarter 2008 peak in time deposits, these balances fell 34.1%, while total domestic deposits grew 11.8%. Time deposits declined from a 36.5% share of domestic deposits in the fourth quarter of 2008 to 21.5%. All other deposit categories increased their shares, with the steepest gain occurring for money market deposit accounts, which expanded from 39.1% in 2008 to 47.0%. The deposit restructuring and the rate environment contributed to lower funding costs.



Equity capital grew at an annualized rate of 7.5%, exceeding the 5.4% rise in the first quarter. Banks greatly expanded capital, especially since the fourth quarter of 2008 when losses related to the credit crisis had caused a steep decline in capital. From the fourth quarter of 2008 through the second quarter of 2011, total bank assets grew 0.5%. Over that same period, bank equity capital expanded 22.1%.



Income Statement

Commercial banks reported \$26.6 billion in quarterly earnings, down from \$27.1 billion in the first quarter, yet up from the year-earlier level of \$19.0 billion. Compared to the first quarter, net interest income was lower, non-interest income was higher, non-interest expense was sharply higher, and provision expense was lower. The comparison with the year-earlier earnings revealed lower net interest income and non-interest income, reduced provision expense, and sharply higher operating expenses.

Net interest income in the second quarter equaled \$96.2 billion compared to \$96.5 billion in the first quarter. The decline in second quarter interest income exceeded the drop in interest expense. The rise in non-interest income resulted from gains in income from fiduciary activities and deposit service charges, which outstripped the declines in trading account gains and fees and in additional non-interest income.

Banks reported a \$17.3 billion provision expense, down from \$18.9 billion in the first quarter and from \$37.7 billion in the second quarter of 2010. The record level of provision expense was the \$48.3 billion taken in the first quarter of 2010. The second quarter provision was 60.9% below that record amount and was the lowest provision expense since the third quarter of 2007.

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Non-interest expense rose to \$95.2 billion from \$92.2 billion in the first quarter. Expenses for salaries and benefits and for premises and equipment declined in the second quarter. The second quarter step-up in non-interest expense occurred in the miscellaneous category of other non-interest expense, where costs increased \$4.1 billion over the first quarter. Increased miscellaneous expenses incurred by JPMorgan Chase and Citibank accounted for ¾ of the quarterly rise in this category. JPMorgan attributed their stepped-up expenses to increased foreclosure-related costs.

Asset Quality

Asset quality continued to improve in the second quarter. Metrics of asset quality showed further reductions in the level of problem assets, which factored greatly in the recent reductions in provision expense.

Banks reported a decline in delinquent and non-accrual loans. The total of loans 30 plus days past due and on non-accrual declined during the past five quarters. In the second quarter, the three categories of loans 30-89 past due, loans 90 plus days delinquent and non-accrual loans all declined relative to the first quarter. Non-accrual loans fell to their lowest level since the first quarter of 2009.

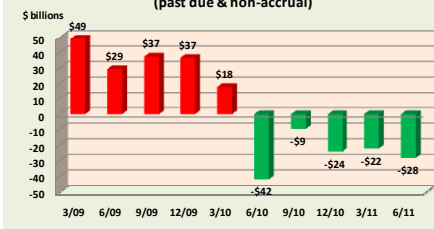
Non-current loans declined to 4.44% of total loans in the second quarter, down from 4.80% in the previous quarter and from 5.34% in the second quarter of 2010. The 4.44% non-current ratio was the lowest rate since the second quarter of 2009. The recent decline in non-current loan ratios was broadly based with all categories of loans reporting reduced ratios. The non-current ratio for construction loans fell a full percentage point in the second quarter. Construction continued to report the highest non-current rate among all loan categories at 15.09%. Non-performing loans equaled 2.74% of total assets in the second quarter, down from 2.96% in the first quarter and the lowest ratio since the second quarter of 2009.

Net charge-offs fell to 1.64% of loans in the second quarter, down from 1.91% in the previous quarter and from the cyclical peak of 3.14% in December 2009. The second quarter's charge-off ratio was the lowest rate since the third quarter of 2008. Charge-off ratios increased in the second quarter for commercial real estate, multi-family and non-credit card consumer loans. The charge-off ratios declined markedly for credit cards and construction and land development loans.

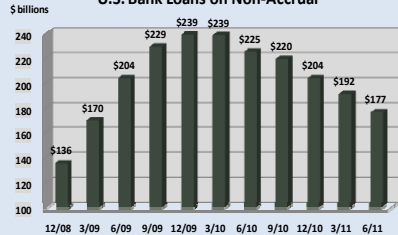
Quarterly Earnings of US Commercial Banks
(\$ millions)

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11
Total interest income	124,239	121,211	119,657	118,141	115,992	115,391
Total interest expense	24,285	22,925	21,581	21,372	19,509	19,147
Net interest income	99,954	98,286	98,075	96,769	96,482	96,244
Provision for loan losses	48,347	37,745	32,431	29,739	18,862	17,265
Total non-interest income	56,031	54,723	51,507	54,411	53,835	54,417
Fiduciary activities	6,075	6,347	6,372	6,701	6,621	6,942
Service charges on deposits	9,411	9,646	8,634	8,045	7,766	8,149
Trading account gains	8,297	6,700	4,126	3,472	7,413	7,368
Additional non-interest income	32,249	32,031	32,375	36,194	32,036	31,958
Total non-interest expense	87,189	89,030	88,322	94,811	92,167	95,240
Salaries & employee benefits	38,358	39,738	38,856	39,996	41,822	41,016
Premises & equipment	10,099	9,883	10,017	10,593	10,315	10,048
Additional expense	38,732	39,408	39,449	44,223	40,030	44,176
Pre-tax net operating income	20,450	26,235	28,828	26,630	39,289	38,156
Securities gains (losses)	1,360	2,072	2,780	2,108	(333)	713
Incomes taxes	6,237	8,875	9,485	8,909	11,745	12,260
Extraordinary gains/other	(200)	(409)	(461)	(126)	(143)	(49)
Net income	15,373	19,022	21,663	19,705	27,068	26,559

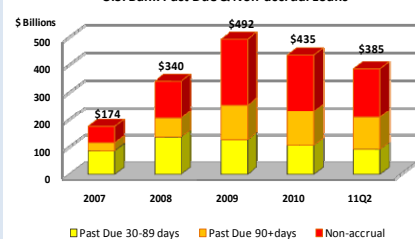
Dollar Change in Problem Loans for U.S. Banks
(past due & non-accrual)



U.S. Bank Loans on Non-Accrual



U.S. Bank Past Due & Non-accrual Loans



The loss allowance declined to 2.97% of loans, down from 3.17% in the first quarter and from the peak ratio of 3.69% in the first quarter of 2010. The second quarter reported the lowest ratio since the 2.91% allowance coverage to loans in the second quarter of 2009.

Key Ratios

The moderate reduction in quarterly earnings coupled with the pick-up in assets produced a slight decline in the return on assets to 0.87%, compared with 0.89% in the first quarter. Likewise, due to the step-up in bank equity, the return on equity in the second quarter equaled 7.71%, down from 8.01%. The return ratios for the first half of 2011 compared impressively to the trends for the previous two years.

Ratios for the components of earnings were generally less favorable in the second quarter than in the first quarter. The yield on earning assets and the cost of funding earning assets both declined in the second quarter. Yields declined eight basis points and costs fell three basis points, thus producing the five basis point decline in net interest as a percent of earning assets. The ratio of non-interest income to earning assets remained unchanged at 2.06% in the second quarter. Non-interest expense as a percent of earning assets rose seven basis points during the quarter. These trends caused the efficiency ratio to worsen from 59.99% in the first quarter to 61.72%.

Since deposit growth exceeded the growth of loans, the loan-to-deposit ratio declined to 71.91% from 72.38% in the first quarter. The second quarter represented a continuation of the declining trend in the loan-to-deposit ratio that commenced in the second quarter of 2010. The last time that the loan-to-deposit ratio was below 71.91% was in 1983, according to annual data from the FDIC.

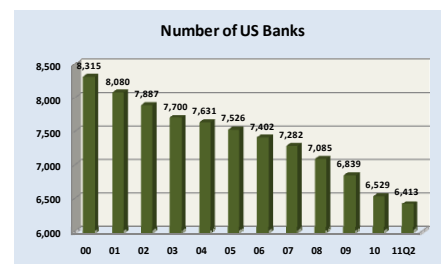
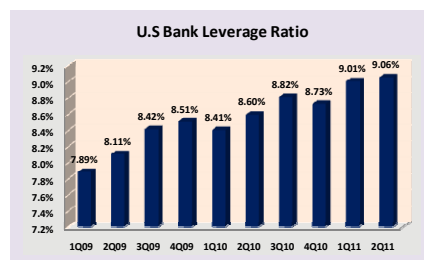
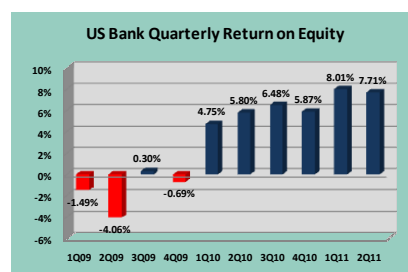
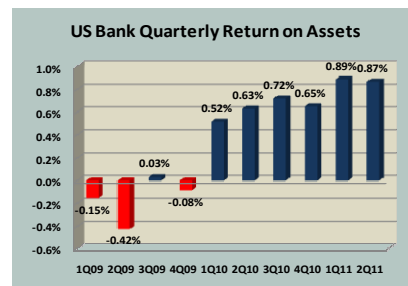
With capital growing at a faster pace than assets, the banking industry reported an increase in its leverage ratio from 9.01% in the first quarter to 9.06%. The leverage ratio had reached a low for the current cycle at 7.40% in the fourth quarter of 2008. In the intervening ten quarters, this ratio increased by 166 basis points.

Risk-based capital ratios showed mixed trends, but were still at impressive levels. Tier-1 risk-based capital edged up 6 basis points to 12.74% from 12.68% in the first quarter. Total risk-based capital decreased three basis points to 15.26%.

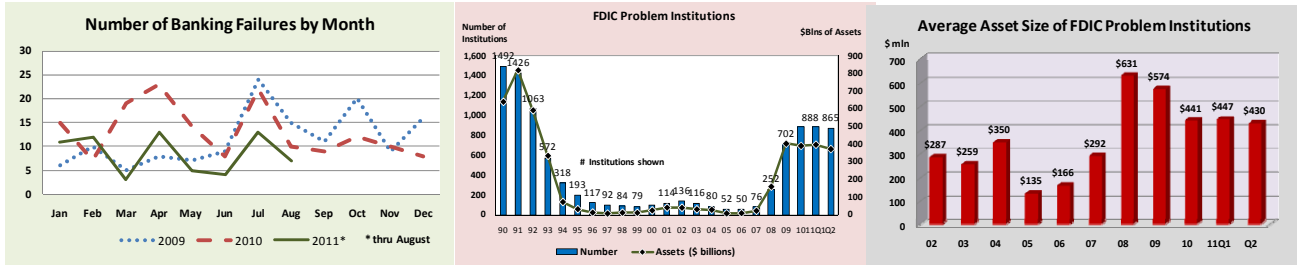
Number of Banks

The second quarter ended with a count of 6,413 commercial banks, a reduction of 40 banks over the level in the first quarter and creating a new record low in the history of the FDIC for the number of commercial banks. The reduction resulted from the failure of 19 banks, the establishment of a bank to acquire a failed institution and 22 mergers or consolidations of banking charters.

A total of 22 financial institutions failed in the second quarter, represented by 19 commercial banks and three savings associations. The second quarter failure count compared with the 24 failures in the first quarter and the 20 failures



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for the months of July and August. To date, 68 financial institutions were seized by the FDIC, compared with the year through August counts of 84 in 2009 and 118 in 2010. Georgia was the state with the most 2011 failures at 17, followed by Florida with ten. The largest institution to fail so far in 2011 was the \$3 billion Superior Bank of Birmingham, Alabama. The size of the average failed institutions was \$428 million YTD 2011, compared with the average failure size since 2007 (net of Washington Mutual) of \$921 million.

The number of institutions on the FDIC’s problem list declined to 865 from 888 in the first quarter. This decline was the first reduction since the third quarter of 2006. In addition to the reduction in the number, the assets held by problem institutions fell 6.3% to \$372 billion. The average asset size of problem institutions declined to \$430 million, more than reversing the first quarter uptick in average asset size. The percentage of problem institutions to total FDIC institutions edged down to 11.5% from 11.7% in the first quarter.

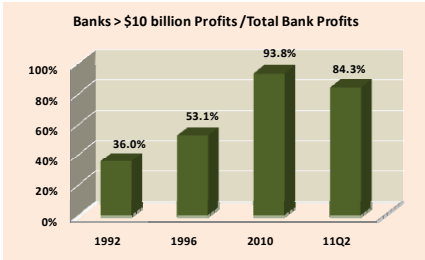
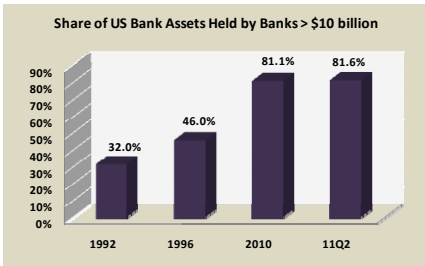
The number of financial institutions with a Texas ratio in excess of 100 equaled 428 at the end of the second quarter, compared with 440 in the first quarter and 474 at the end of 2010. The number of financial institutions with a leverage ratio below 6% equaled 283 at the end of the second quarter, compared with 287 in the first quarter and 325 at year-end 2010. The number of institutions with both a leverage ratio under 6% and a Texas ratio in excess of 100 equaled 230 in the second quarter, compared with 228 in the first quarter and 252 at the end of 2010.

Cost of Bank Failures By State, regardless of Charter January 1 to August 31, 2011

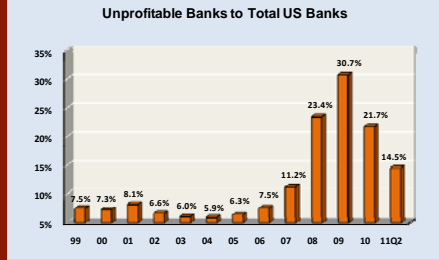
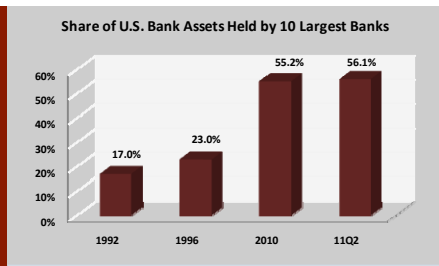
State	#	Failures (\$ millions)			Failure Cost to		Share of DIF Cost	per Bank
		Assets	Deposits	Cost	Assets	Deposits		
Alabama	2	\$3,798	\$3,319	\$435	11.5%	13.1%	7.6%	\$218
Arizona	2	\$208	\$186	\$39	18.8%	21.1%	0.7%	\$20
California	3	\$664	\$583	\$128	19.3%	21.9%	2.2%	\$43
Colorado	5	\$4,772	\$3,916	\$1,084	22.7%	27.7%	19.0%	\$217
Florida	10	\$3,590	\$2,986	\$555	15.5%	18.6%	9.7%	\$55
Georgia	17	\$5,512	\$5,087	\$1,576	28.6%	31.0%	27.6%	\$93
Illinois	7	\$1,736	\$1,646	\$448	25.8%	27.2%	7.8%	\$64
Indiana	1	\$2,200	\$1,900	\$171	7.8%	9.0%	3.0%	\$171
Kansas	1	\$538	\$524	\$117	21.7%	22.2%	2.0%	\$117
Michigan	2	\$867	\$775	\$271	31.2%	34.9%	4.7%	\$135
Minnesota	1	\$38	\$37	\$4	9.6%	9.8%	0.1%	\$4
Mississippi	1	\$224	\$196	\$49	21.9%	25.0%	0.9%	\$49
Nevada	1	\$145	\$136	\$32	22.0%	23.4%	0.6%	\$32
New Mexico	1	\$2,188	\$1,848	\$260	11.9%	14.1%	4.5%	\$260
North Carolina	1	\$205	\$199	\$56	27.4%	28.2%	1.0%	\$56
Oklahoma	2	\$135	\$110	\$47	34.6%	42.6%	0.8%	\$23
Pennsylvania	1	\$47	\$46	\$11	23.5%	24.0%	0.2%	\$11
South Carolina	3	\$789	\$721	\$148	18.8%	20.5%	2.6%	\$49
Virginia	1	\$96	\$85	\$17	18.1%	20.4%	0.3%	\$17
Washington	3	\$865	\$811	\$185	21.4%	22.9%	3.2%	\$62
Wisconsin	3	\$515	\$456	\$83	16.2%	18.3%	1.5%	\$28
TOTAL	68	\$29,131	\$25,567	\$5,716	19.6%	22.4%		

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The nation's largest banks continued to expand their share of assets. At the end of 2010, the 86 banks with more than \$10 billion in assets accounted for 81.1% of total assets. Six months later, the count of banks over \$10 billion was reduced by one, yet the market share expanded to 81.6%. The ten largest banks in the nation held 56.1% of total assets up from 55.2% six months earlier. Not all shares were rising for the largest banks. At year-end 2010, profits attributed to banks over \$10 billion equaled 93.8% of total bank profits. For the first half of 2011, profits of the banks over \$10 billion equaled 84.5% of the industry's earnings. A partial explanation for the declining earnings share of the larger banks was the general return to profitability of the entire industry, wherein the share of unprofitable banks to total banks declined from 30.7% for the full year of 2009 to 14.5% in June 2011.



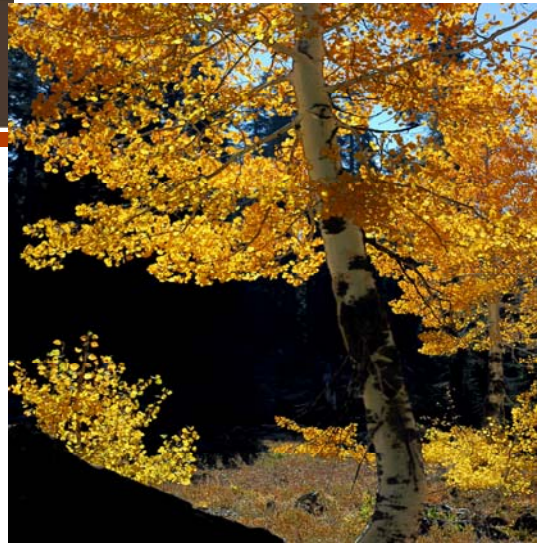
Even with the rising share of assets held by the largest banks, the health of the industry improved across the board. Ever expanding capital, renewed profits and declining troubled assets placed the banking industry in a significantly better position than had been the case in late 2008 and 2009. The industry is still waiting for the economic recovery to stimulate loan demand.



2009-11 U.S. Bank Performance - By Quarter

(Dollars in Millions % are Averages)

	03/31/09	06/30/09	09/30/09	12/31/09	03/31/10	06/30/10	09/30/10	12/31/10	03/31/11	06/30/11
Number of institutions	7,039	6,996	6,912	6,840	6,773	6,677	6,623	6,530	6,453	6,413
Total assets	11,992,091	11,873,290	11,845,195	11,822,923	12,065,683	11,948,391	12,120,116	12,066,061	12,157,324	12,366,774
Net loans & leases	6,544,429	6,519,281	6,333,029	6,281,336	6,471,392	6,382,880	6,382,523	6,376,789	6,279,077	6,367,430
Loan loss allowance	176,061	195,179	204,228	213,836	248,249	237,264	228,196	217,913	205,192	195,143
Loan loss allowance (%)	2.62%	2.91%	3.12%	3.29%	3.69%	3.58%	3.45%	3.30%	3.16%	2.97%
Total deposits	7,982,848	8,077,803	8,178,250	8,333,220	8,294,125	8,242,708	8,373,015	8,514,344	8,674,568	8,855,118
Total equity capital	1,224,832	1,254,312	1,294,022	1,308,380	1,317,957	1,343,530	1,368,495	1,364,938	1,383,443	1,409,344
Net Income (Quarterly)	(4,405)	(12,465)	946	(2,228)	15,373	19,022	21,663	19,705	27,068	26,559
ROA (Quarterly)	-0.15%	-0.42%	0.03%	-0.08%	0.52%	0.63%	0.72%	0.65%	0.89%	0.87%
ROE (Quarterly)	-1.49%	-4.06%	0.30%	-0.69%	4.75%	5.80%	6.48%	5.87%	8.01%	7.71%
NPAs/Assets	2.33%	2.73%	3.06%	3.40%	3.49%	3.35%	3.26%	3.11%	2.96%	2.74%
NPAs	279,416	324,141	362,463	401,979	421,092	400,271	395,116	375,255	359,857	338,850
Core capital (leverage) ratio	7.89%	8.11%	8.42%	8.51%	8.41%	8.60%	8.82%	8.73%	9.01%	9.06%
Total risk-based capital ratio	13.24%	13.55%	13.92%	14.09%	14.46%	14.82%	14.99%	15.00%	15.29%	15.26%
% of unprofitable banks	21.84%	28.90%	26.95%	35.57%	18.96%	20.61%	19.15%	27.24%	14.94%	14.53%
# of unprofitable banks	1,537	2,022	1,863	2,433	1,284	1,376	1,268	1,779	964	932
% of profitable banks	78.16%	71.10%	73.05%	64.43%	81.04%	79.39%	80.85%	72.76%	85.06%	85.47%
# of profitable banks	5,502	4,974	5,049	4,407	5,489	5,301	5,355	4,751	5,489	5,481



Update: California Banking: Second Quarter 2011

Assets were slightly lower, yet loans grew. Earnings continued to grow. Improved asset quality allowed banks to reduce provision expense. Leverage and risk-based capital ratios hit new highs. There were fewer unprofitable banks and the number of banks declined by two.

The California banking industry shrank in assets and number during the second quarter. Assets declined 0.1% following three consecutive quarters of gains. There were two fewer banks by the end of the quarter. Despite the lower assets, California banks grew loans, deposits and equity capital in the second quarter. The leverage ratio rose to record highs.

California banks reported improved asset quality. Non-current loans and other real estate owned (OREO) declined. Improved asset quality supported an increase in earnings, and after-tax quarterly profits climbed to their highest level since the fourth quarter of 2009.

Balance Sheet

Total assets of California banks were \$132 million lower in the second quarter, equaling \$434.1 billion compared with \$434.2 billion in the first quarter. Reductions in cash, due from depositories and OREO contributed to the reductions in assets.

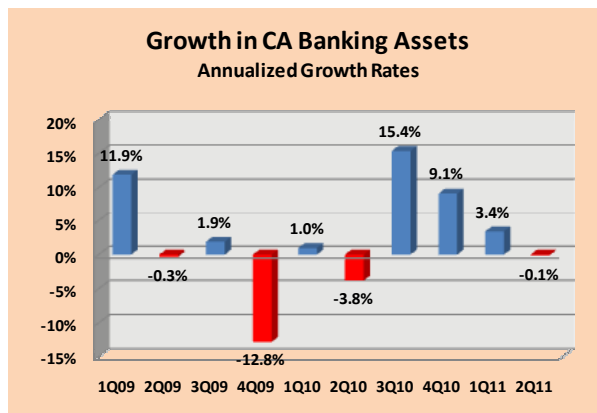


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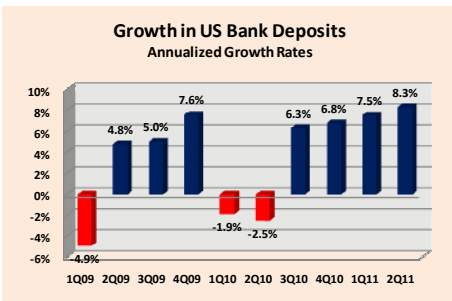
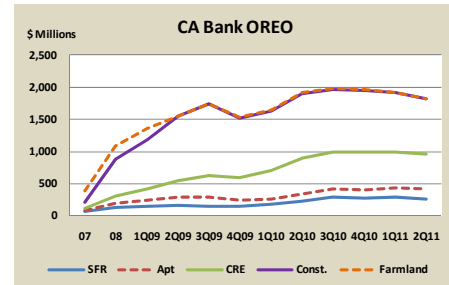
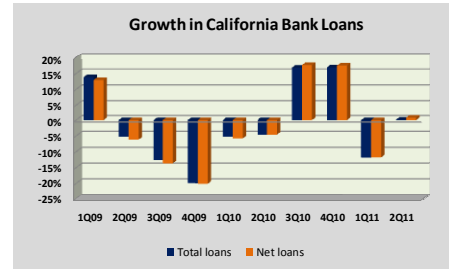
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September, 2011
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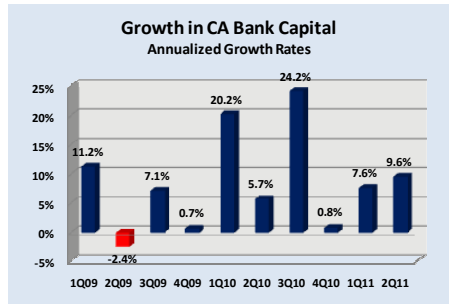
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Total loans rose slightly in the second quarter, while net loans grew more rapidly due to the reduction in the allowance for loan losses. Real estate loans declined \$2.5 billion, led by the drop in commercial real estate loans. The only increases in real estate loans were in multi-family and farmland. Commercial and industrial loans climbed nearly \$2 billion, more than reversing the first quarter decline in such loans. Consumer loans edged higher, largely due to increased auto lending. The allowance for loan losses declined more than \$400 million to \$6.0 billion, the lowest level since the first quarter of 2009.

OREO declined nearly \$100 million, extending the decline in OREO to three consecutive quarters. OREO fell to the lowest level since the first quarter of 2010. The decline in OREO was broadly based, with only holdings of apartments increasing. Bank-owned single-family homes declined 11.9% from the first quarter, while construction-related OREO was down 23.7% from its second quarter 2010 peak.



Total deposits at California banks grew at an annual rate of 3.2%, a slowdown from the 13.5% growth in the first quarter. As was the trend nationally, California banks reduced time deposits, while experiencing significant gains in money market and other saving deposits. Non-interest bearing deposit balances grew at an annualized rate of 10.7%, a trend that helped to hold down funding costs.

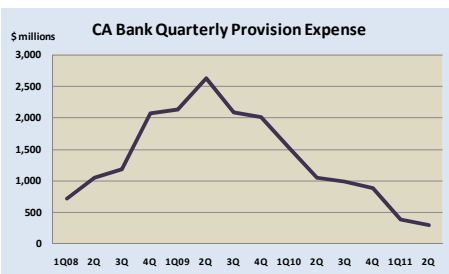
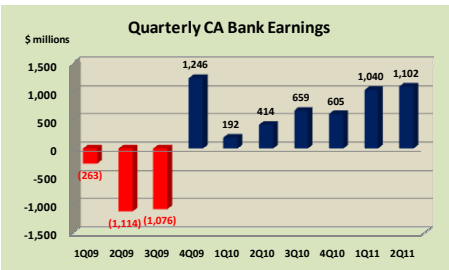


Equity capital of California banks grew at an annualized pace of 9.6%, compared with 7.5% in the first quarter. The pick-up in the growth of capital combined with the unchanged assets produced an increase in the leverage ratio to 10.63%, from 10.32% in the first quarter.

Earnings

Net earnings of California banks equaled \$1.1 billion in the second quarter, up from \$1.0 billion in the prior quarter. First-half earnings of \$2.1 billion compared favorably to \$606 million in the first half of 2010.

As had occurred nationally, California earnings received a significant boost from the improvement in asset quality, which allowed for the reduction in provision expense. Provision expenses were lower both on the first to second quarter 2011 comparison and in comparison with the first half of 2010. Second quarter 2011 provision was trimmed by more than \$80 million compared with the prior quarter. At \$302.6 million, the quarterly provision expense in the second quarter was the lowest since the third quarter of 2007. Total provision expense in the first half of 2011 equaled \$686 million, compared with \$2.57 billion in the first half of 2010. This 73% reduction in provision expense for the first half comparisons accounted significantly in the 254% surge in reported first half earnings on a YoY comparison.



Quarterly Earnings of CA Commercial Banks
(\$ millions)

	1Q10	2Q10	3Q10	4Q10	1Q11	2Q11
Total interest income	4,351	4,277	4,432	4,476	4,436	4,418
Total interest expense	842	773	711	649	602	584
Net interest income	3,509	3,504	3,721	3,827	3,834	3,834
Provision for loan losses	1,518	1,054	990	887	383	303
Total non-interest income	757	900	822	970	997	897
Fiduciary activities	119	120	120	123	125	117
Service charges on deposits	243	237	213	215	205	213
Trading account gains	37	37	46	58	51	41
Additional non-interest income	358	506	444	574	616	525
Total non-interest expense	2,493	2,671	2,583	3,017	2,847	2,834
Salaries & employee benefits	1,278	1,286	1,321	1,478	1,478	1,470
Premises & equipment	307	310	331	335	328	333
Additional expense	908	1,076	931	1,204	1,042	1,031
Pre-tax net operating income	255	678	970	892	1,600	1,595
Securities gains (losses)	93	25	78	61	39	105
Incomes taxes	166	291	390	354	600	598
Extraordinary gains/other	9	1	1	6	1	1
Net income	192	414	659	605	1,040	1,102

Net interest income was essentially unchanged from first quarter results. Declines were recorded for both interest income and interest expense. On a first half 2011 comparison, net interest income was 9.3% above 2010. A significant reason for the YoY growth resulted from the inclusion of California's newest commercial bank, the \$21 billion First Republic Bank, which opened in the third quarter of 2010. That bank's net interest income accounted for nearly 80% of the YoY increase in statewide income.

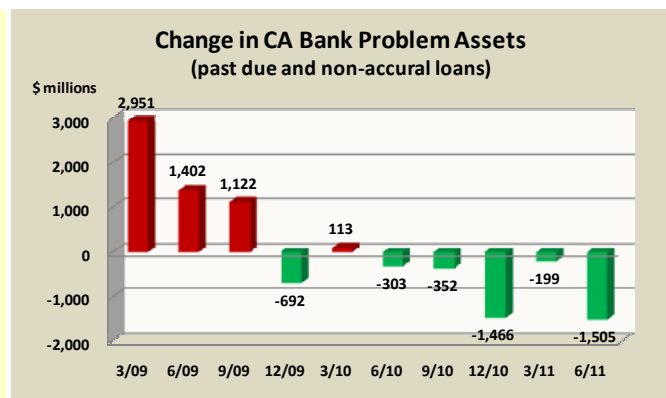
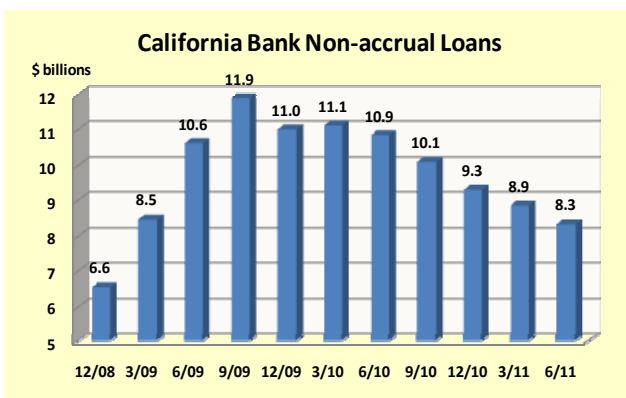
Non-interest income declined \$100 million in the second quarter compared with the prior quarter. Most types of income were lower, with only deposit service charge income exceeding the first quarter.

In contrast to the national experience, California banks reported reduced non-interest expense. Premise and equipment expense edged up slightly, while salaries and additional non-interest expenses were lower.

Pre-tax net operating income was nearly \$6 million below the first quarter. California banks, however, reported increased gains from securities and a slightly lower income tax liability to produce the increase in second quarter net income.

Asset Quality

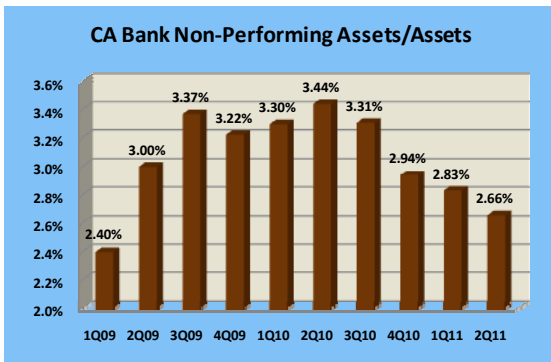
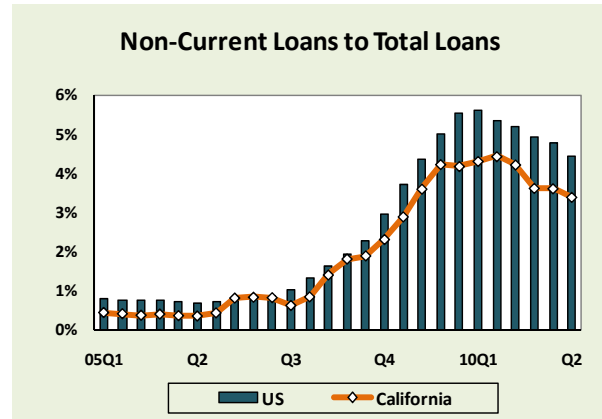
Like the nation, the asset quality of California banks improved in the second quarter. The total volume of assets migrating into delinquent or troubled classifications was significantly lower than in the first quarter. The sum of loans 30-89 days late, loans 90 plus days delinquent and in non-accrual status declined by \$1.5 billion to produce the fifth consecutive quarterly decline in this statistic. Non-accrual loans fell to their lowest level since the fourth quarter of 2008. Improvement in these trends were reported across all loan types. Loans more than 30 days late and in non-accrual status equaled \$11.8 billion, down from \$13.3 billion in the first quarter and the lowest balance since the fourth quarter of 2008.



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California banks reported that non-current loans declined to 3.40% of total loans, down from 3.62% in the first quarter and from 4.43% in the second quarter of 2010. In contrast, banks nationally reported a non-current loan ratio of 4.44% or 104 basis points higher than California.

During the second quarter, only California home equity loans and consumer non-credit card loans reported increased ratios of non-current loans. Non-current construction loans equaled 19.47% of total construction loans, remaining the category with highest non-current ratio. The ratio for construction loans was down 247 basis points from the peak in the third quarter of 2010.



Net charge-offs of loans as a percent of total loans picked up slightly. The rate of 0.88% compared with 0.85% in the first quarter. Yet, the recent reading contrasted favorably with the 2.58% peak rate in the second quarter of 2009. The quarterly rise in charge-off rates was concentrated in construction, commercial real estate and commercial & industrial loans. The charge-off rate for credit cards declined to 5.94% from 8.67% in the first quarter and from 10.37% in the third quarter of 2010.

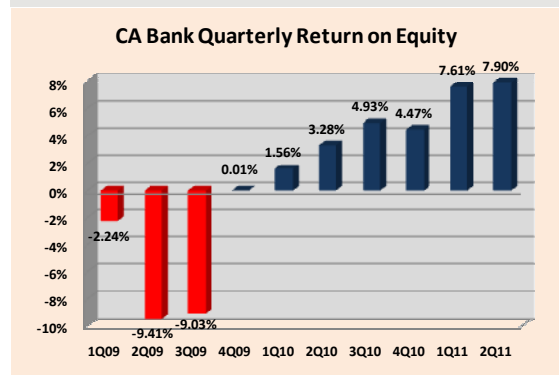
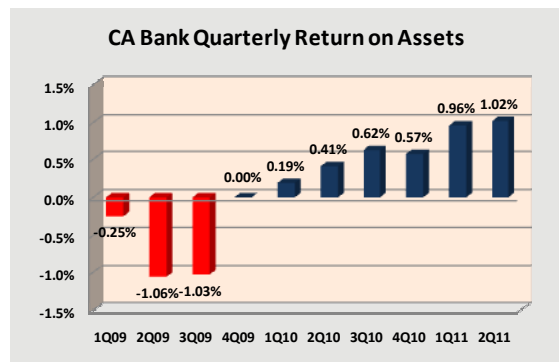
Noncurrent assets plus OREO equaled 2.66% of total assets, compared with 2.83% in the first quarter and the 3.44% peak in the second quarter of 2010.

The reduction in the rate of provision and the steady declines in the allowance for loan losses brought the loss allowance to 2.11% of loans, compared with 2.25% in the first quarter and the peak of 2.59% in the first and second quarters of 2010.

Other Ratios

The California banking industry reported favorable comparisons in many key ratios during the second quarter. For example, the return on assets climbed to 1.02%, up from 0.96% in the first quarter and the highest quarterly return since the third quarter of 2007.

Likewise, the return on equity equaled 7.90%, up from 7.61% in the first quarter. This recent reading was the highest return on equity since the third quarter of 2007. Although these metrics compared favorably to the pattern for the past couple of years, they seemed to be anemic in comparison with the fourth quarter of 2005 when the California bank return on assets equaled 1.62% and the return on equity equaled 13.78%.



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Both interest yields and costs as a percent of earning assets declined slightly to leave the net interest margin unchanged at 3.95% in the second quarter. The 3.95% net interest margin represented the highest margin for California banks since the first quarter of 2007, when the margin equaled 4.12%. Non-interest income declined to 0.92% of earning assets, down 11 basis points from the first quarter. Non-interest expense equaled 2.92% of earning assets, a decline of two basis points over the first quarter.

The loan-to-deposit ratio for California banks declined to 89.42% from 89.95% in the first quarter and 95.81% in the fourth quarter of 2010.

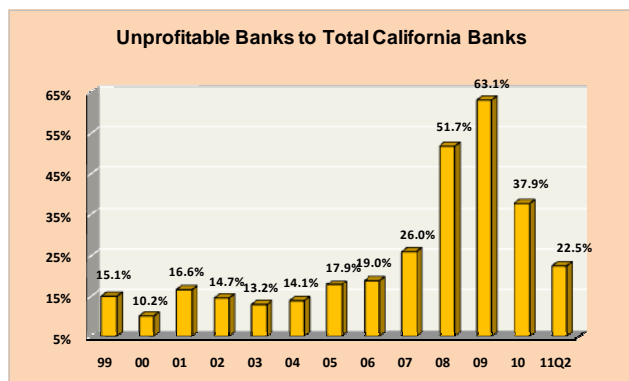
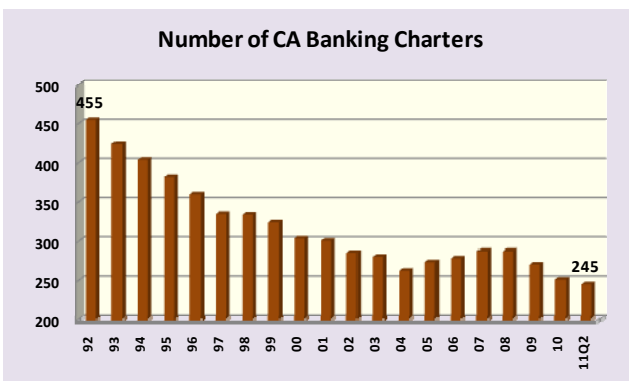
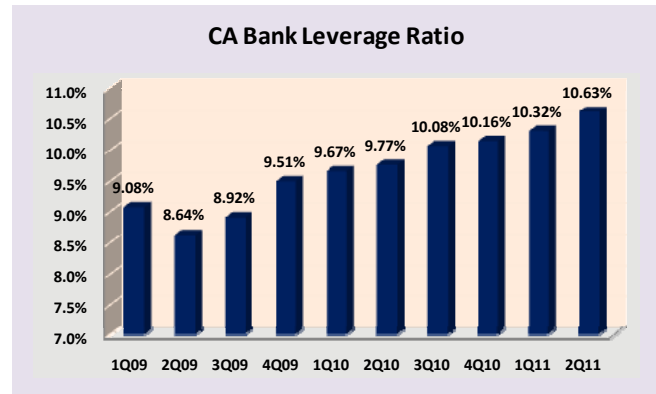
With growth in capital exceeding the growth of assets, leverage ratios increased impressively in the second quarter. The leverage ratio equaled 10.63%, up from 10.32% in the first quarter and a new record for the state's banking industry. The Tier 1 risk-based capital ratio climbed to 14.62%, up from 14.37% in the first quarter. The quarterly rise for the total risk-based capital ratio equaled 14 basis points, as the ratio climbed from 16.07% in the first quarter to 16.21%.

Banking Population

The number of California banks declined by two in the second quarter to a total of 245 banks. This reduction resulted from the consolidation by Boston Private Bank & Trust Company of its two California subsidiary banks into its Massachusetts-based banking charter. There were no failures of California banks in the second quarter.

Based upon the volume of pending and recently completed mergers, the number of California banks will likely be reduced by ten charters by the end of 2011. So far in the third quarter, Sunrise Bank of San Diego was acquired by AmericanWest Bank of Spokane. Of the pending twelve announced acquisitions through mid-August, two involved acquisitions by investor groups interested in acquiring a banking charter. The remaining ten pending acquisitions involved nine commercial banks and one thrift.

The 11 California banks with more than \$10 billion in assets represented 68.9% of the industry's assets in the second quarter, this ratio compared with 68.4% in the first quarter and 67.4% in the third quarter of 2010. These large banks accounted for 70.1% of the state's total loans, up from the 68.4% share in the third quarter of last year. Earnings by banks over \$10 billion accounted for 72.3% of total earnings, a disproportionately higher share than was represented by assets. Since the third quarter of 2010, earnings of California banks climbed 66.3%. The increase in earnings by all California banks under \$10 billion, however, equaled 69.5%, which implied that the improvement in earnings was broadly experienced. The percent of unprofitable institutions in California edged up to 22.45% in the second quarter from 21.86% in the first quarter yet remained well below the 37.85% rate for all of 2010.



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2009-11 California Bank Performance - By Quarter

(Dollars in Millions, % are Averages)

	03/31/09	06/30/09	09/30/09	12/31/09	03/31/10	06/30/10	09/30/10	12/31/10	03/31/11	06/30/11
Number of institutions	287	284	278	271	266	260	257	251	247	245
Total assets	420,138	419,800	421,787	408,312	409,291	405,405	420,977	430,583	434,233	434,091
Net loans & leases	298,994	294,394	284,355	270,084	266,184	263,122	274,752	286,774	278,344	278,866
Loan loss allowance	5,849	6,481	7,063	6,824	7,085	7,007	6,766	6,667	6,411	6,009
Loan loss allowance (%)	1.92%	2.15%	2.42%	2.46%	2.59%	2.59%	2.40%	2.27%	2.25%	2.11%
Total deposits	275,114	286,383	291,201	287,545	285,997	282,323	298,905	299,326	309,433	311,865
Total equity capital	47,580	47,290	48,134	48,214	50,648	51,372	54,473	54,581	55,615	56,948
Net Income (Quarterly)	(263)	(1,114)	(1,076)	1,246	192	414	659	605	1,040	1,102
ROA (Quarterly)	-0.25%	-1.06%	-1.03%	0.00%	0.19%	0.41%	0.62%	0.57%	0.96%	1.02%
ROE (Quarterly)	-2.24%	-9.41%	-9.03%	0.01%	1.56%	3.28%	4.93%	4.47%	7.61%	7.90%
NPAs/Assets	2.40%	3.00%	3.37%	3.22%	3.30%	3.44%	3.31%	2.94%	2.83%	2.66%
NPAs	10,083	12,594	14,214	13,148	13,507	13,946	13,934	12,659	12,289	11,547
Core capital (leverage) ratio	9.08%	8.64%	8.92%	9.51%	9.67%	9.77%	10.08%	10.16%	10.32%	10.63%
Total risk-based capital ratio	12.69%	12.54%	13.21%	14.42%	15.08%	15.32%	15.74%	15.48%	16.07%	16.21%
% of unprofitable banks	50.52%	57.04%	51.80%	59.04%	38.35%	36.54%	28.79%	34.66%	21.86%	22.45%
# of unprofitable banks	145	162	144	160	102	95	74	87	54	55
% of profitable banks	49.48%	42.96%	48.20%	40.96%	63.16%	63.46%	71.21%	65.34%	78.14%	77.55%
# of profitable banks	142	122	134	111	168	165	183	164	193	190

Carpenter & Company

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