Stock Performance
Southwest Regional Banks

September 30, 2011

Condition of the Texas State Banking System

Prepared by:

Texas Department of Banking
Texas Department of Savings and Mortgage Lending

Financial Data as of June 30, 2011

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Symbols Used Throughout this Report:	**Abbreviations Used Throughout this Report:**
⇧ Improving or strong conditions	FDIC – Federal Deposit Insurance Corporation
⇩ Deteriorating or weak conditions	OCC – Office of the Comptroller of the Currency
⇳ Mixed conditions	FRB – Federal Reserve Board
❖ Interest item	

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BANKING SYSTEM OVERVIEW

Recovery has been slow for the nation, however, Texas' economy pressed forward during the first eight months of 2011. Texas experienced a mild recession and its recovery has been modest. The Texas Comptroller of Public Accounts recently released its analysis of the state's economy which indicates that tax revenues are improving. Additionally, all indications are that the energy sector continues to add strength to the Lone Star state's economy. The latter part of 2011 may be less optimistic given this summer's historic drought that is impacting state resources and industries.

Nationally, economic analysts and banking officials believe that clear fiscal and regulatory policies are needed to induce businesses to feel more comfortable and thus begin to invest once again leading to job creation. Recent employment reports have only reinforced the lack of confidence businesses continue to exhibit. For those businesses that are interested in expanding, Texas has been their state of choice. Given the state's position in the post-recession, many believe that the recovery will continue. Surveys of bankers suggest that there is optimism; however, it is tempered by consumer fears about the economy, the Texas drought, and the uncertainty in fiscal policy.

Bankers have seen a mixture of demand for loans in the last quarter, with overall activity being flat. Loan pricing remains aggressive amidst a highly competitive lending landscape. Reports from the Federal Reserve indicate corporate loan demand was very active for the first half of the year, but has since moderated. Meanwhile, commercial real estate (CRE) activity trends have shown improvement. Lending to small businesses has received a boost from the U.S. government. The Small Business Jobs Act of 2010 created the Small Business Lending Fund (SBLF). This $30 billion fund encourages lending to small businesses by providing capital to qualified community banks with assets of less than $10 billion. As of August 31, 2011, eight Texas financial institutions, including two state-chartered banks and two state-savings banks, had received funding through the SBLF.

Bankers concerns over economic conditions are followed by the burden and costs associated with the implementation of new regulations. Although Texas banks did not participate in the securitization of subprime mortgages or credit default swaps, they will have to comply with the various provisions of the Dodd–Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank).

Bank failures are down from 87 in the first six months of 2010 to 48 in 2011 for the same time period. As of September 30, 2011, Texas had one state-chartered bank fail. Problem banks[1] continue to be a concern for regulators and financial institutions. The FDIC problem bank[2] list dropped from 888 to 865, down 23 banks from the first quarter of 2011. Representing about 12% of all FDIC insured institutions, these problem banks have significant challenges to overcome.

With regard to Texas state-chartered entities, the Texas Department of Banking and the Texas Department of Savings and Mortgage Lending Departments remain dedicated to providing support to institutions in a problem status and assisting them back to a satisfactory regulatory position. Each Department provides a general synopsis and insight of the condition of the Texas banking industry below.

STATE-CHARTERED BANKS

The number of Texas state-chartered banks declined from 314 to 310[3] in the first half of 2011, primarily as a result of mergers. Their financial condition continues to show improvement despite a lackluster recovery. Much of the improvement comes from declining provisions for loan and lease losses. The lack of quality loan demand and increased competition for quality loans may be an earnings headwind for

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[1] Problem banks are defined by the Texas Department of Banking as any financial institution with a composite rating of "3", "4", or "5".
[2] The FDIC defines problem banks as any financial institution with a composite rating of "4" or "5".
[3] FDIC financial data does not include one state-chartered bank that has fiduciary activities only and does not have the power to accept or pay deposits. Therefore, the institution is not required to report financial information to the FDIC.

these banks going forward. While total assets for state-chartered banks have risen, loan volume has actually declined over the past year. Asset quality ratios continue to reflect the stress that the industry is under, but show improvement over prior periods.

State-Chartered Thrifts

Increased profitability occurred in 69% of the thrift institutions during the first half of 2011, despite declines in net interest income due to a decrease in the yield on earning assets. Excluding one institution with significant non-comparative issues after acquiring and merging a failed institution, the total industry net income decreased by $4.5 million compared to the same six month time period in 2010. State thrifts increased total assets by $355.3 million or 4.4%. The number of thrift charters remained the same at twenty-nine. Securities comprised 68% of the asset growth with other assets comprising 30% of the growth. Nonperforming, nonaccrual loans and other real estate foreclosed total $118.3 million or 2.4% of total assets, decreasing by $6.8 million, excluding one institution with significant covered assets, and continues to be monitored closely by regulators.

Economic Progress Report
(Change from previous year)

Texas Unemployment	↑ Increasing
Texas Nonfarm Employment	↑ Increasing
Texas Consumer Price Index	↑ Increasing
Sales Tax Collections, Retail Establishments	↑ Increasing
U.S. Consumer Confidence	↑ Increasing
Gasoline and Diesel Retail Prices	↑ Increasing

***Source:** Texas Comptroller of Public Accounts*

Texas Economic Profile

The last census revealed that Texas' population growth between 2000 and 2010 added approximately 4.3 million residents, attributing over 15% of the numerical change in the United States. Analysts attribute the population influx to the state's reputation and job creation abilities. These factors played a major roll for the boost in population over the years.

The state consistently added jobs during the post-recession; however, the unemployment rate inched up to 8.4% in August 2011. The nation's unemployment rate continues to remain at an elevated level of 9.1%. Nationally, job reports have not improved over the last few months, with the August report indicating there was a zero net change for the month, the worst number since September 2010. Economists estimate the nation needs to add about 150,000 jobs each month to keep up with population growth, and even stronger growth to recover the millions of jobs lost during the financial crisis.

For Texas, the energy, health care, education, and government sectors kept the state moving forward during the slow recovery. According to a new survey of U.S. executives, Texas is the top state when it comes to having the best business environment. Respondents indicate that the tax climate, economic development incentives, and a low cost to doing business make Texas attractive. Texas is among three states and the District of Columbia that are home to more jobs today than when the recession began in December 2007. According to the Federal Reserve Bank of Dallas, without the state's gains, the annual U.S. job growth would have been less than 1% instead of 1.17%.

The big job producer for Texas is the energy industry. Advances in drilling technology have revolutionized the combination of hydraulic fracturing and horizontal drilling of shale rock, opening up new gas and oil fields throughout the state. For example, in North Texas, companies are drilling under schools, airports and parks. More recently, the Eagle Ford Shale formation in South Texas has brought thousands of oil and gas industry jobs to the area. This rock formation is said to contain one of the nation's biggest oil and gas fields. According to the Railroad Commission of Texas, the shale formations stretch across Texas from the Mexican border up to East Texas, roughly 50 miles wide and 400 miles long with an average thickness of 250 feet. Various reports indicate that drilling in this area could last 20 to 30 years.

In general, natural gas and oil production tax collections show an upward movement. Combined, production was 44% higher for the first 11 months of fiscal year 2011 compared to the same period in 2010. By contrast, fiscal 2010 oil and natural gas production tax collections combined were 24% lower than collections in 2009. Additionally, sales tax collections have increased for 15 consecutive months, boosted by strong business spending in the oil and gas and manufacturing sectors.

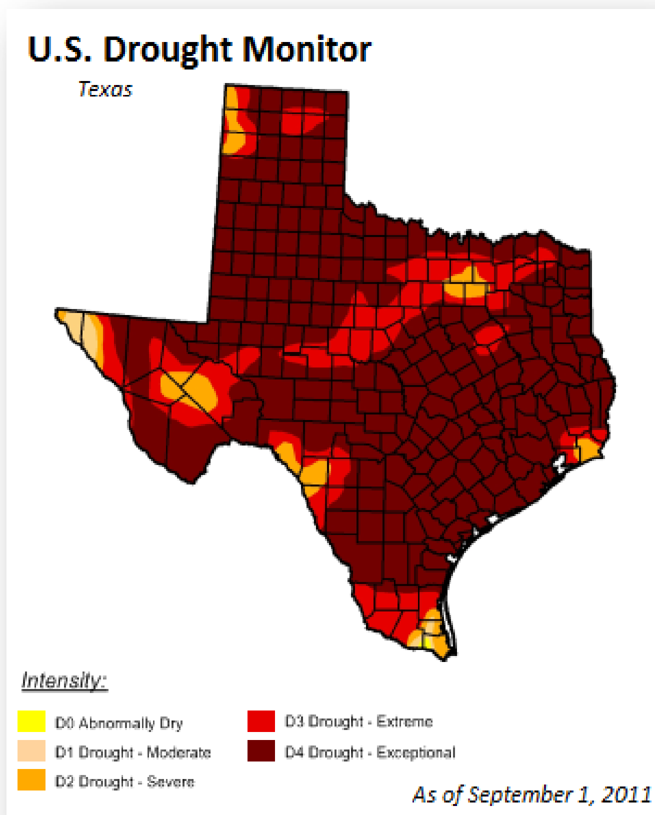
However, the state is not completely immune from depressing factors. The state unemployment rate increased to 8.4%, the highest in the last twelve months. Faced with budget issues this last legislative session, state leadership was forced to make cuts in three sectors: education, health care, and government sectors. The effects of these cuts have yet to be realized.

The Texas housing market was relatively stable, which contrasted with the national housing bubble. Homebuyer tax credits initially kept the market moving, however, sales and construction activity dropped to pre-2007 levels. In 2010, the housing market began to shows signs of recovery. The Federal Reserve Bank of Dallas' Beige Book expects to see further market improvement in the latter half of 2011 or early 2012. Construction permits for single-family homes were down slightly in July 2011; however, multi-family showed an increase over the previous year. The sales of existing homes were up approximately 17.7% over the previous year, with prices declining less than 1% from July 2010.

In June, the U.S. Department of Housing and Urban Development (HUD) in conjunction with NeighborWorks® America announced the launch of the Emergency Homeowners' Loan Program (EHLP), to help homeowners who are at risk of foreclosure in Texas. Congress provided $1 billion dollars to HUD, as part of the Dodd-Frank Act, to implement EHLP. The program assists homeowners who have experienced a reduction in income and are at risk of foreclosure due to involuntary unemployment, underemployment, economic conditions or a medical condition. Texas, along with 26 states and Puerto Rico are participating in this program. HUD allocated $135,418,959.00 to fund this emergency loan program in Texas. In July 2011, the Texas foreclosure rate was one in 920 mortgages, in contrast to Nevada's one in 115, California's one in 239, Arizona's one in 273, and Utah's one in 373.

ECONOMIC IMPACT OF THE 2011 DROUGHT

Natural disasters and other weather related events have been known to cause disruptions in state economies. This summer, the entire Lone Star State exhibited the second-worst drought on record, and the worst one-year drought recorded, affecting numerous industries. The drought has lead to wildfires which have caused substantial damages and resulted in counties issuing burn bans.



Economists at the Texas AgriLife Extension Service report that agricultural losses in late August were estimated at $5.2 billion, making it the most costly drought on record. This year's losses thus far have outpaced the previous mark of $4.1 billion set in the 2006 drought. The primary reason for the high loss estimate is that agricultural products are worth more this year.

The Central Texas corn harvest is down by two-thirds or more. In the Panhandle, farmers are allowing their corn crop to perish in the fields as a result of insufficient water to support irrigation. Texas cotton is suffering similarly, and hay production statewide has been greatly reduced. The crop losses also include wheat and sorghum. The estimates do not include those from fruit and vegetable producers, horticultural and nursery crops, or other grain and row crops. Some farmers have abandoned their fields due to their poor condition. Adding to the damaging conditions was an increase in the grasshopper population which further harmed crops. It is anticipated that farmers will be depending heavily on crop insurance in the coming months.

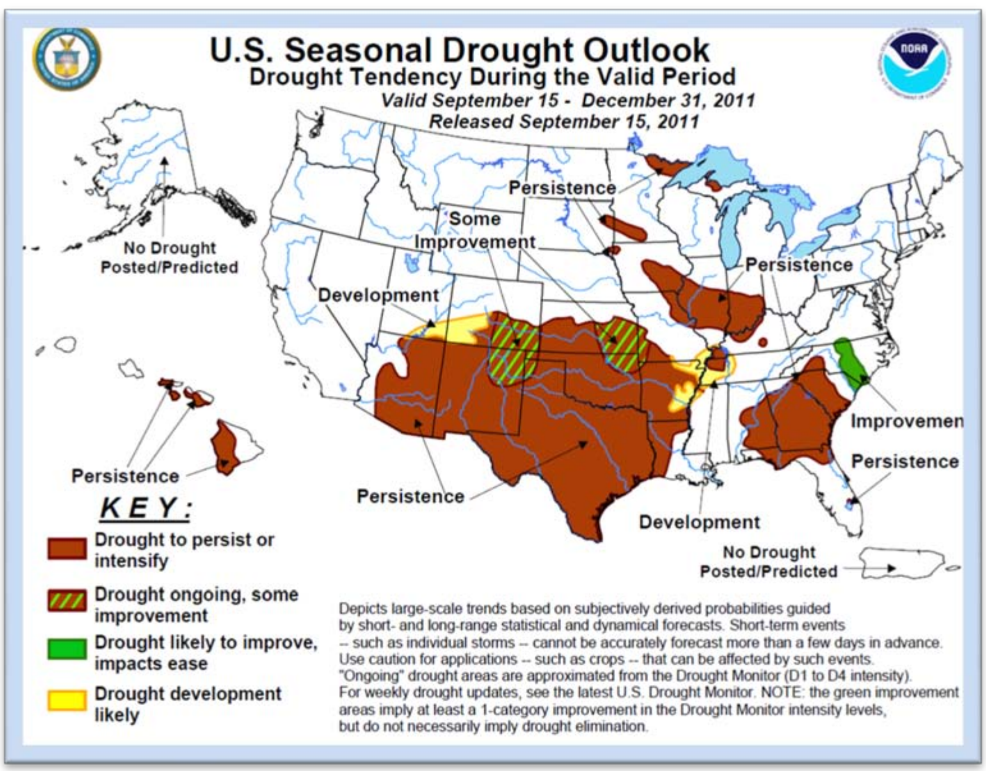
Texas is the largest beef producing state in the U.S. with more than five million head. However, the weather conditions have forced ranchers to sell off cattle as pastures turn to dust and feed prices balloon. Dwindling food supplies caused ranchers to sell harvest-ready cattle and cattle intended for breeding earlier than anticipated, while others relocated cattle to other parts of the U.S. in order to obtain cash to maintain their businesses.

Strong global demand and tight supplies pushed up prices for commodities like corn, cotton, wheat and beef. It has yet to be seen how much of the agriculture industry losses will be passed on to consumers in the form of higher food prices.

Another industry affected by the drought is tourism. The heat and lack of rain diminished or halted summer recreational activities throughout the state. Many lake boat ramps were closed due to low or no water and a few lakes have dried up completely. Lakefront businesses are seeing less traffic, cutting into their summer revenue resulting in less sales tax revenue for the state.

As of September, 7.2 million acres had burned in wildfires across the nation. As of September 2, 2011, the Texas Forest Service (TFS) reported that since fire season started on November 15, 2010, TFS and area fire departments had responded to 20,631 fires that burned 3,549,047 acres. As the drought persists, this figure is expected to continue to climb.

Some of these fires took place in East Texas, where the primary economic sector is the timber industry. Valuable trees used for lumber, plywood and paper products have been destroyed. The products derived from the timber make this industry the largest manufacturing sector for the Eastern portion of the state.



Meteorologists are not predicting any relief for the fall season, as another La Niña system, which is to blame for the summer drought, is anticipated. Financial institutions throughout the state will likely encounter distressed customers impacted by the drought well into the end of the year.

State-Chartered Banking Profile (Department of Banking)

As of June 30, 2011, the reduction in the number of state-chartered banks was a result of five mergers. One charter was gained through a national bank converting to a state-charter. Despite the decline in the number of state-chartered banks, total assets actually increased over the period by over $1.8 billion to $164.6 billion or 2.2% annualized, with deposits growing by just over $3 billion, or 4.7% on an annualized basis.

We do not expect any new bank chartering activity until economic conditions improve. Nevertheless, we continue to note interest in acquiring small or troubled institutions as a way for investor groups to gain access to a bank charter. We expect to continue seeing a modest number of mergers as bank boards and management adjust to the post Dodd-Frank federal regulatory environment.

State-Chartered Thrift Profile (Department of Saving and Mortgage Lending)

State-chartered thrift assets under the Department's jurisdiction totaled $8.5 billion as of June 30, 2011, and increased by 4.4% or $355.3 million from last year. The total number of state-chartered savings banks at mid-year 2011 remains the same at twenty-nine.

The Department continues to receive and process a fair volume of applications. During the past six months there have been two charter conversion applications from federal savings banks both finalized effective July 1, 2011, eight branch office applications, and various other types of applications.

Due to the merger of the Office of Thrift Supervision into the Office of the Comptroller of the Currency, some federal savings banks are seeking a state thrift charter. Additional applications to convert are anticipated but it is unknown at this time the total number that will do so.

Supervisory Concerns

Highlights of Departmental Concerns/Actions	
Concerns	**Responses**
★ Concentrations in: • Interim construction • Land development • Lots loans • CRE (non-owner occupied) ★ Management's risk management practices ★ Management's level of resources devoted to troubled asset resolution ★ Narrowing net interest margins ★ Extending investment maturities in our present low rate environment ★ Drought conditions	★ Frequent on-site examinations of problem entities ★ Enhanced off-site monitoring ★ Increased use of enforcement actions ★ Expanded use of supervisor program ★ Targeted reviews of specific areas as needed

Bank management's ability to identify, monitor and control various risk elements significantly influences how each Department responds to these supervisory concerns. The Departments continue to diligently and proactively address regulatory and compliance issues before they become severe to ensure operations are handled in a safe and sound manner.

As mentioned previously, the number of problem banks reported by the FDIC has improved; however, when this is placed into perspective, the number remains sizable compared to pre-recessionary numbers. Banks in a problem status will likely continue to struggle throughout 2011 and into 2012, with some not surviving without significant infusions of new capital. At the state level, working with problem banks who have troubled asset totals that well exceed their capital and overwhelm their management resources continues to be the agencies' focus.

Loans comprise a major portion of most banks' assets, and it is the asset category which ordinarily presents the greatest credit risk and potential loss exposure to banks. Banks are still struggling with nonperforming loans and weak property values, and are further constrained by very marginal revenue growth reflected by decreased loan demand. Improvement in their financial condition depends on the level of adversely classified assets and the ability of bank management to successfully divest of the troubled assets without sustaining major losses. During examinations, examiners evaluate the depth and scope of the bank's lending policies and credit administration procedures used to manage and control loan portfolio risk. The evaluation also involves assessing the quality of the loan portfolio, which is among the most important aspects of the examination process. Significant deficiencies in any one area can result in an enforcement action.

Regulators have the use of enforcement actions to direct institutions to take specific actions to improve their banking situation and to ensure operations are safe and sound. These regulatory tools include Consent Orders and Prompt Corrective Actions. A bank that executes a Consent Order agrees to enter into a formal enforcement action "without admitting or denying any charges of unsafe or unsound banking practices or violations of law or regulations relating to weaknesses in asset quality, capital adequacy, earnings, management effectiveness, liquidity, and sensitivity to market risk". A Prompt Corrective Action order is a more serious enforcement action "that requires the board to take one or more specified actions to return the bank to required minimum capital standards".

OTHER AREAS RECEIVING INCREASED ATTENTION

Overdraft Programs	Capital Levels	Fraud
Internal Watch List	Tax Liens	Compliance
Bank Secrecy Act/Anti-Money Laundering	Bank Holding Company Strength	Make-up of Classified Assets
Private Label Collateralized Mortgage Obligations		

Dominating the banking industry is consumer protection. Various changes to federal consumer laws have begun to take place as a result of Dodd-Frank. However, hundreds of rules mandated by statute have yet to be written. Deadlines for implementing the law are being pushed back as federal agencies find themselves overwhelmed with the sheer size and complexity of the task under the timetable set by Congress.

Some of the provisions already implemented are causing concerns for community banks, including the repeal of Regulation Q, the limitation on interchange fees, and increased compliance cost. Profits are being affected making it difficult for smaller community banks to remain competitive. The Consumer Financial Protection Bureau and its ability to impact consumer laws is further placing a strain on community banks. Various media sources report that bankers believe Dodd-Frank will hasten the consolidation of smaller institutions as they will be unable to keep up with the changes and costs of more regulations.

Supervisory Measures Being Taken

Timely regulatory identification, intervention oversight, and communication with management are all important aspects to assisting individual banks that demonstrate difficulty in today's economy and regulatory environment. Measures taken by each agency to ensure that safe and sound banking practices are being followed are noted below.

The Texas Department of Banking is concentrating in the following areas:

- Conducting frequent on-site examinations of problem institutions;
- Communicating and coordinating joint enforcement actions and other supervisory activities with other state and federal regulators;
- Initiating enforcement actions early in the detection of deteriorating trends;
- Placing monthly calls to state banks to obtain industry input on prevailing economic conditions;
- Conducting targeted reviews of high risk areas, such as CRE and exposure to the devaluation of private-label collateralized mortgage obligations, asset concentrations, liquidity, and funding sources;
- Expanding off-site monitoring to include follow-up of examination concerns;
- Utilizing a more defined risk-focused examination process to free up resources for problem institutions;
- Internal monitoring of state, national, and world political and economic events impacting the industry such as federal programs designed to stabilize the financial markets and new regulations;
- Performing targeted reviews of specific troubled areas, such as banks that may be affected by drought conditions or banks which are overly-reliant on overdraft service charges; and,
- Increasing internal communication and training to improve examiner awareness of pertinent issues.

The Texas Department of Savings and Mortgage Lending's supervisory monitoring and enforcement staff are taking the following actions:

- Regular conference calls and close coordination with other state and federal regulators;
- Regular correspondence with state savings banks regarding institution-specific issues and industry issues;
- Conducting targeted examinations of high risk areas of state savings banks;
- Enforcement actions and placement of supervisory agents when deemed necessary;
- Off-site monitoring of each institution's activity (i.e., regulatory correspondence and approvals, independent audit reports, reports of examination, and institution responses to examination comments, criticisms and recommendations);
- Joint review by the FDIC and the Department of a savings bank's contingency/disaster recovery plan;
- Regular assessments of each institution's activities, strengths and weaknesses, and revising the Department's plan of examination and monitoring for the institution, including the downgrading of institutions, if deemed necessary, by the Department and the FDIC;
- Monitoring increased foreclosure activity and changes in the housing market;
- Working with various community groups on foreclosure prevention / education;
- Reviewing concentrations in commercial real estate and monitoring compliance with Commercial Real Estate Lending Joint Guidance, issued December 12, 2006;
- Internal monitoring of local, state, national and world political and economic events impacting the industry;
- Monitoring of any state savings bank's participation in the U. S. Treasury's Troubled Asset Relief Program and Capital Purchase Program, and the FDIC's Temporary Liquidity Guarantee Program, and other effects of the Emergency Economic Stabilization Act of 2008, and proposals for increased FDIC assessments; and,
- Monitoring of any state savings bank's participation in the Small Business Lending Fund as part of the Small Business Jobs Act of 2010.

STATE-CHARTERED BANKS

The financial condition of Texas state-chartered banks shows improvement. Both return on average assets and return on average equity ratios increased over the first half of 2011 from 0.77% to 0.92%, and 7.14% to 8.29%, respectively. Similarly, the number of unprofitable state-chartered banks has improved by declining to 10.03% from 13.52% over the same period.

Declining provisions for loan and lease losses have contributed to the improving financial condition, which decreased to 0.28% of average assets for the first half of 2011 as compared to 0.63% for 2010. While total assets for state-chartered banks have risen by $1.9 billion, loan volume has actually declined over the same time frame by approximately the same amount.

A closer look at loan demand shows the decline in net loans and leases has been occurring since June 2009, when net loans were $104.8 billion. As of June 30, 2011, this figure now sits at $96.2 billion. The most notable decline has been in construction and land development. FDIC financial data shows that the volume of these loans has declined by 38% during the last two years.

Net interest margins (NIM) continue to be squeezed as banks continue to see declining interest income. Five years ago, the NIM was around 4.21% but since then, the margin has slowly decreased. As of June 30th, it was at 3.59%.

Although improving, asset quality ratios continue to reflect the industry's stress. The ratio of noncurrent assets plus other real estate to total assets started to decline and as of June 30, 2011, was 2.06% as compared to 2.11% a year ago. Net charge offs as a percentage of loans declined appreciably in the first half of 2011 to 0.68% as compared to 0.96% one year ago.

Aiding the improving asset quality picture for Texas state-chartered banks are increasingly healthy leverage capital ratios which as a group average just over 10.0%.

STATE-CHARTERED THRIFTS

Through June 30, 2011, net income for state thrifts was $25.6 million. Return on assets for these institutions decreased to 0.60% at mid-year 2011, down from 1.41% at the previous year. The level of unprofitable thrifts increased from 24.14% to 27.59%. While most recently chartered, reorganized or converted institutions have reached profitability; several institutions continue to struggle with high overhead expenses and increased provisions for loan losses. Provisions for loan and lease losses to average assets increased 27 basis points (bp). Net non-interest expense to earning assets has decreased by 49 bp. Earnings on securities have decreased by 8 bp.

State thrifts experienced a 72 bp increase in their regulatory capital levels between June 2010 and 2011, from 15.72% to 16.44%. The increase in the capital ratio is due to the industry raising over $25 million in capital, including one closing on funding from the Small Business Lending Fund. State thrifts also continue to exceed the national capital ratios for all savings institutions, which was 11.83% for mid-year 2011, and 11.34% for mid-year 2010.

NIMs for state thrifts posted a 46 bp decrease from 5.19% to 4.73% at mid-year. Year-to-date provisions to the allowance for loan losses increased $24.5 million during the year. The Texas thrift allowances for loan and lease losses to non-current loans and leases, presently at 18.23%, is below the ratio of 43.60% for all FDIC regulated savings institutions nationwide; however, the Texas thrifts ratio includes a large volume of covered assets, which if removed from this calculation would reflect a ratio for Texas thrift stronger than the national average.

Thrifts' noncurrent assets plus other real estate owned to total assets decreased to a total of 7.78% in June 2011. Thrifts also experienced a decrease in noncurrent loans to 9.96%.

Net charge-offs decreased for thrifts to $27.8 million in the first half of 2011. Almost all of these are related to residential property loans. Loss reserves now represent 1.82% for savings institutions. This is a 76 bp increase for savings institutions since June 2010.

Number of Institutions and Total Assets

FDIC financial data is reflective of FDIC insured institutions only

	6-30-2011 No. of Institutions	6-30-2011 Assets	6-30-2010 No. of Institutions	6-30-2010 Assets	Difference No. of Institutions	Difference Assets
Texas State-Chartered Banks	309	$164.7	318	$162.2	-9	+$2.5
Texas State-Chartered Thrifts	29	$8.5	29	$8.2	0	+$0.3
	338	$173.2	347	$170.4	-9	+$2.8
Other states' state-chartered:						
Banks operating in Texas*	21	$35.5	21	$36.9	0	-$1.4
Thrifts operating in Texas*	0	0	0	0	0	0
	21	$35.5	21	$36.9	0	-$1.4
Total State-Chartered Activity	359	$208.7	368	$207.3	-9	+$1.4
National Banks Chartered in Texas	249	$140.6	260	$152.5	-11	-$11.9
Federal Thrifts Chartered in Texas	18	$57.8	19	$50.9	-1	+$6.9
	267	$198.4	279	$203.4	-12	-$5.0
Other states' federally-chartered:						
Banks operating in Texas*	19	$214.0	19	$220.2	0	-$6.2
Thrifts operating in Texas*	12	$1.3	8	$1.0	+4	+$0.3
	31	$215.3	27	$221.2	+4	-$5.9
Total Federally-Chartered Activity	298	$413.7	306	$424.6	-8	-$10.9
Total Banking/Thrift Activity	657	$622.4	674	$631.9	-17	-$9.5

Assets in Billions

**Indicates estimates based on available FDIC information.*

Ratio Analysis

As of June 30, 2011

FDIC financial data is reflective of FDIC insured institutions only.

Number of Banks	*State-Chartered Banks* 309	*Texas National Banks* 249	*All Texas Banks* 558	*State-Chartered Thrifts* 29	*Texas Federal Thrifts* 18	*All Texas Thrifts* 47
% of Unprofitable Institutions	10.03%	7.23%	8.78%	27.59%	16.67%	23.40%
% of Institutions with Earnings Gains	56.31%	65.46%	60.39%	68.97%	61.11%	65.96%
Yield on Earning Assets	4.25%	4.67%	4.45%	5.64%	4.93%	5.02%
Net Interest Margin	3.59%	4.15%	3.85%	4.73%	4.00%	4.10%
Return on Assets	0.92%	1.28%	1.08%	0.60%	1.06%	1.00%
Return on Equity	8.29%	11.04%	9.60%	3.77%	11.99%	10.23%
Net Charge-offs to Loans	0.68%	0.86%	0.77%	1.05%	1.67%	1.60%
Earnings Coverage of Net Loan C/Os	3.56	3.76	3.67	3.12	2.13	2.20
Loss Allowance to Loans	1.85%	2.36%	2.10%	1.82%	2.38%	2.32%
Loss Allowance to Noncurrent Loans	72.89%	77.25%	75.19%	18.23%	270.49%	119.79%
Noncurrent Assets+OREO to Assets	2.06%	2.47%	2.25%	7.78%	0.71%	1.62%
Net Loans and Leases to Core Deps	81.02%	86.81%	83.71%	121.84%	90.93%	93.70%
Equity Capital to Assets	11.29%	11.95%	11.60%	16.44%	8.88%	9.85%
Core Capital (Leverage) Ratio	10.08%	10.26%	10.16%	15.77%	8.80%	9.70%

Data for other state-chartered institutions doing business in Texas is not available and therefore excluded.

Comparison Report

Select Balance Sheet and Income/Expense Information
FDIC financial data is reflective of FDIC insured institutions only.
June 30, 2011

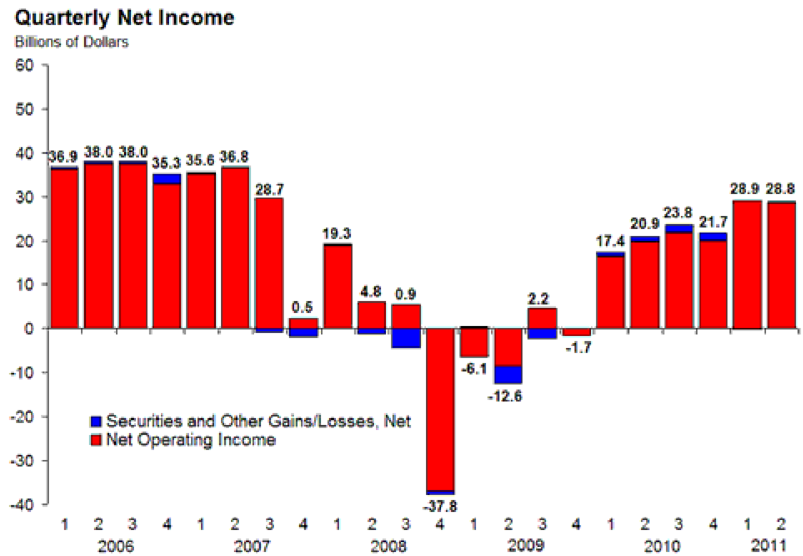
	State Banks*		State Thrifts	
	End of Period	***% of Total Assets***	**End of Period**	***% of Total Assets***
Number of Institutions	309		29	
Number of Employees (full-time equivalent)	36,328		1,555	
(In millions)				
Total Assets	$164,639		$8,508	
Net Loans and Leases	$96,224	58.45%	$5,283	62.09%
Loan Loss Allowance	$1,811	1.10%	$98	1.15%
Other Real Estate Owned	$900	0.55%	$126	1.48%
Goodwill and Other Intangibles	$2,148	1.30%	$23	0.27%
Total Deposits	$132,451	80.45%	$6,543	76.91%
Federal Funds Purchased and Repurchase Agreements	$2,971	1.80%	$4	0.05%
Other Borrowed Funds	$6,534	3.97%	$313	3.68%
Equity Capital	$18,594	11.29%	$1,399	16.44%
Memoranda:				
Noncurrent Loans and Leases	$2,484	1.51%	$536	6.30%
Earning Assets	$148,344	90.10%	$7,602	89.35%
Long-term Assets (5+ years)	$42,477	25.80%	$3,172	37.29%
	Year-to Date	***% of Avg. Assets***	**Year-to Date**	***% of Avg. Assets***
Total Interest Income	$3,146	3.83%	$217	5.10%
Total Interest Expense	$487	0.59%	$35	0.82%
Net Interest Income	$2,659	3.24%	$182	4.28%
Provision for Loan and Lease Losses	$226	0.28%	$56	1.32%
Total Noninterest Income	$1,062	1.29%	$40	0.93%
Total Noninterest Expense	$2,535	3.09%	$135	3.17%
Securities Gains	$31	0.04%	-$4	-0.09%
Net Income	$752	0.92%	$26	0.60%
Memoranda:				
Net Loan Charge-offs	$333	0.41%	$28	0.65%
Cash Dividends	$307	0.37%	$7	0.17%

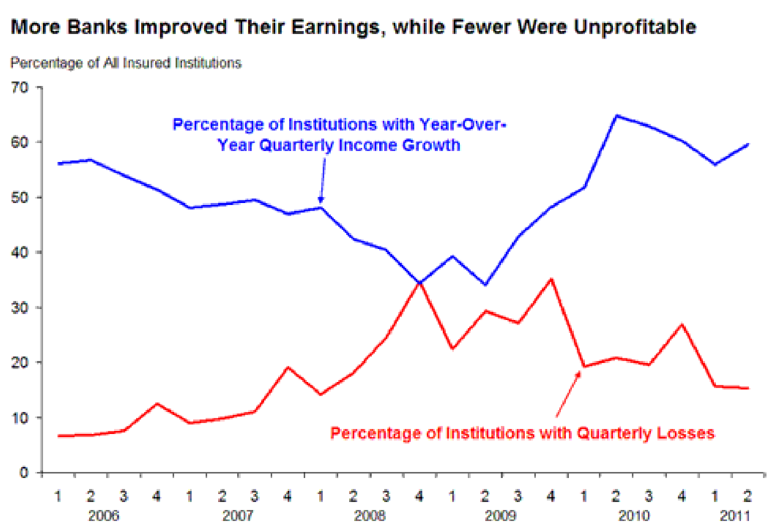
**Excludes branches of state-chartered banks of other states doing business in Texas. As of June 30, 2011, there are an estimated twenty one out-of-state state-chartered institutions with $35.5 billion in assets.*

No branches of state-chartered thrifts of other states conducted business in Texas as of June 30, 2011.

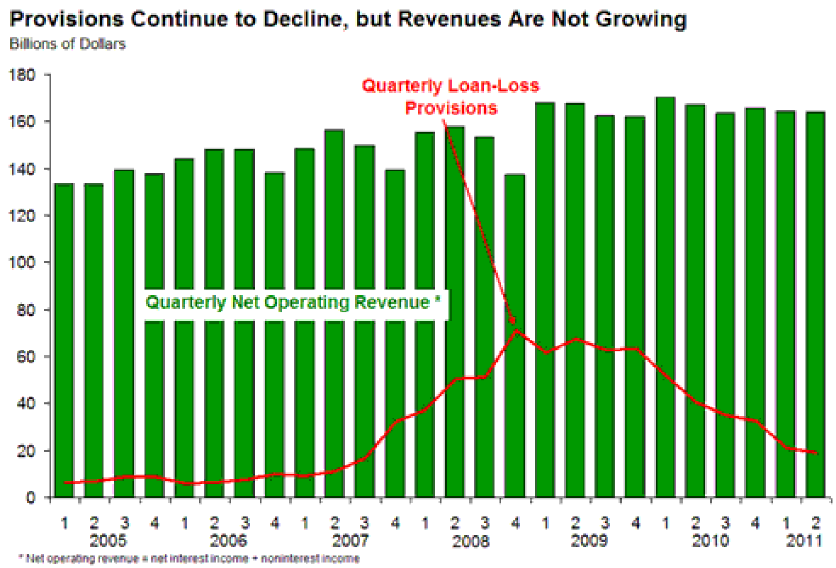
Quarterly Banking Profile – National Level
Second Quarter 2011
Federal Deposit Insurance Corporation

⇧ **Earnings Performance** - FDIC-insured institutions reported net income of $28.8 billion in second quarter 2011, an increase of $7.9 billion (37.9 percent) from a year earlier. This is the eighth consecutive quarter that industry earnings have improved year-over-year, but it is the smallest such improvement in the past seven quarters. Lower expenses for loan-loss provisions were the principal source of the increase in quarterly net income. More than half of all institutions (59.6 percent) reported improved earnings compared with a year ago. This represents an improvement over first quarter 2011, when 56 percent of institutions reported year-over-year earnings gains. Only 15.2 percent of institutions reported a net loss for the quarter. This is the smallest percentage of institutions that were unprofitable since first quarter 2008. The average return on assets (ROA) rose to 0.85 percent, from 0.63 percent a year earlier. At community banks (institutions with less than $1 billion in assets), the average ROA of 0.57 percent was below the industry average, but more than twice the 0.26 percent registered a year ago.

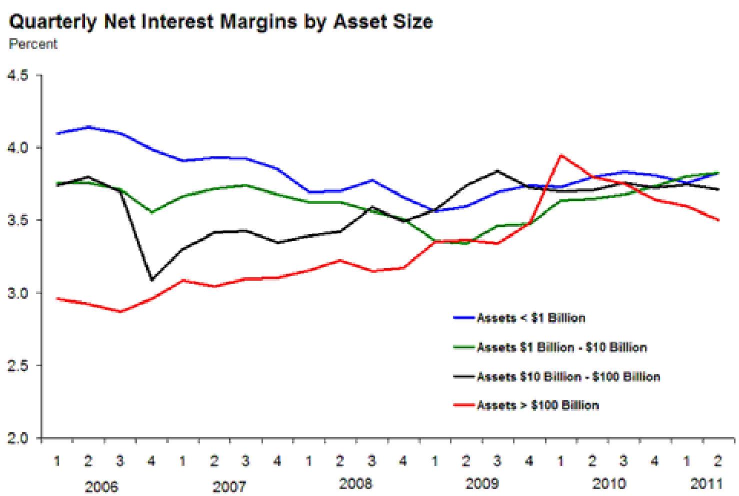




⇧ **Loss Provisions Continue to Fall** - Loan-loss provisions totaled $19 billion, a decline of $21.4 billion (53 percent) from second quarter 2010. This is the seventh consecutive quarter that provisions have declined from year-earlier levels. The $21.4 billion provision decline was the smallest year-over-year decline in the past five quarters. Half of all institutions (50.4 percent) reported reduced provisions, while fewer than a third (32.6 percent) increased their provisions. Among community banks, 48.6 percent reported lower provisions, while 68.5 percent of institutions with more than $1 billion in assets reduced their provisions. As has been the case in recent quarters, the largest reductions in provisions occurred at credit card lenders that had reported large increases in loss reserves in first quarter 2010.



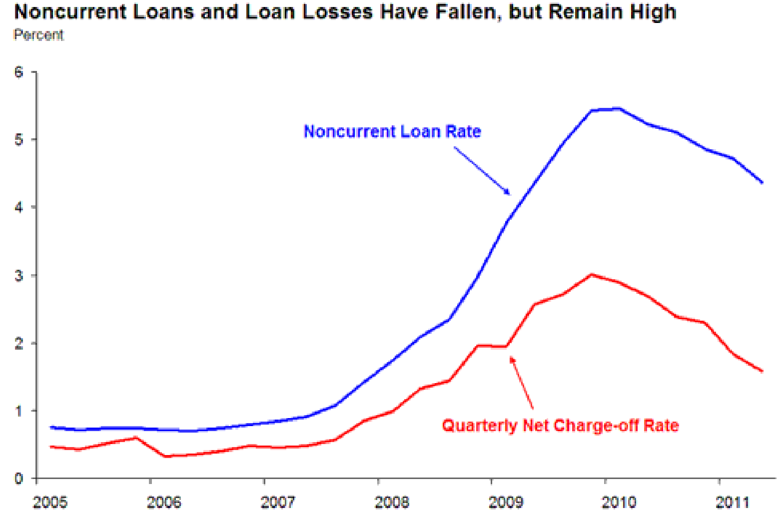
⇩ **Revenue Decline for a Second Consecutive Quarter** - Net operating revenue (net interest income plus total noninterest income) was lower than a year ago for the second quarter in a row, as net interest income declined by $1.9 billion (1.7 percent) and noninterest income fell by $1.1 billion (1.9 percent). The decline in net interest income was caused by lower asset yields at a number of the largest banks, reflecting growth in low-yielding balances at Federal Reserve banks. Net interest margins (NIMs) were lower than a year earlier at nine of the ten largest banks. Industry-wide, half of all banks (50.7 percent) had NIM declines, although only 39.4 percent reported declines in net interest income. The average NIM in the second quarter was 3.61 percent, down from 3.76 percent in second quarter 2010. At community banks, the average NIM improved slightly, from 3.80 percent to 3.83 percent. The reduction in the industry's noninterest income reflected lower loan-servicing fee income (down $1.5 billion, or 40.9 percent), and a decline in service charges on deposit accounts (down $1.3 billion, or 12.8 percent). The only categories of noninterest income that had year-over-year growth were income from fiduciary activities (up $595 million, or 9.3 percent), investment banking fees (up $416 million, or 17.7 percent), and trading revenue (up $388 million, or 5.5 percent). Slightly more than half of all institutions (51.6 percent) reported year-over-year declines in noninterest income. In addition to the decline in net operating revenue, realized gains on securities and other assets fell by $1.3 billion (61.1 percent). Total noninterest expenses were $6 billion (6.2 percent) higher than a year ago.



⇧ **Trend in Loan Losses Remains Favorable** - Net loan charge-offs (NCOs) declined year-over-year for a fourth consecutive quarter, as the pace of improvement in loan losses continued to gain momentum. The $20.9 billion (42.1 percent) decline was the largest since the recovery in credit quality began. NCOs were lower across all major loan categories. The largest decline was in credit card NCOs, which were $9.6 billion (51.6 percent) lower than in second quarter 2010. Real estate construction loan NCOs were $2.9 billion (55.3 percent) less than a year earlier, while commercial and industrial loan (C&I) NCOs fell by $2.7 billion (50.9 percent). Half of all institutions (50.3 percent) reported year-over-year declines in NCOs, while 41.3 percent reported increases.

⇧ **Banks Report Sizable Declines in Noncurrent Loans** - At the end of June, insured institutions reported $319.8 billion in noncurrent loans (loans 90 days or more past due or in nonaccrual status), which was $22.2 billion (6.5 percent) less than they reported at the end of the first quarter. The decline in noncurrent balances in the second quarter was led by a $6.8 billion (3.9 percent) reduction in noncurrent closed-end 1-4 family residential real estate loans, and by a $6.1 billion (12.8 percent) reduction in noncurrent real estate construction and development loans. All other major loan categories also had declines in noncurrent levels during the quarter. This is the fifth consecutive quarter in which noncurrent loan balances have fallen; they are now $90.2 billion (22 percent) below the peak level reached at the end of first quarter 2010.

Noncurrent Loans and Loan Losses Have Fallen, but Remain High

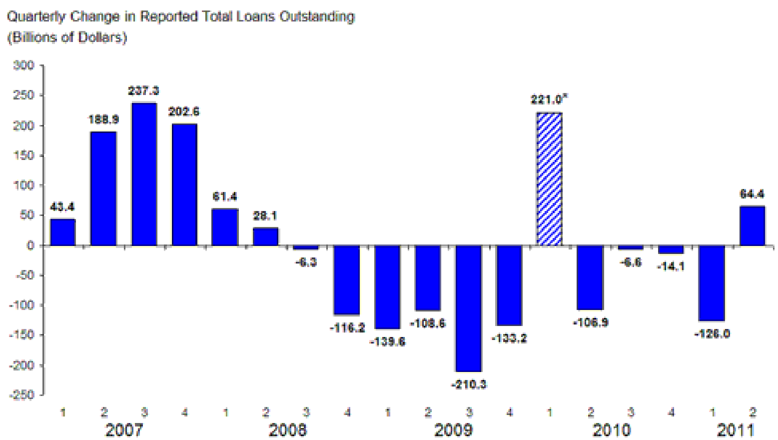


⇧ **Most Large Banks Continued to Reduce Their Loss Reserves** - Reserves for loan losses declined by $10.9 billion (5 percent) during the second quarter. This is the fifth consecutive quarter that reserves have fallen; at $207.6 billion, they are down $55.6 billion (21.1 percent) from their cyclical peak at the end of first quarter 2010. Banks added $9.8 billion less in loss provisions to their reserves than they charged-off during the quarter. Reserve reductions were more prevalent among the largest banks. Seventy of the 100 largest banks reduced their reserve balances during the quarter; in the remainder of the industry, only 36.8 percent reported reserve declines. The coverage ratio of reserves to noncurrent loans improved slightly, despite the decline in industry reserves, from 63.9 percent to 64.9 percent, reflecting lower noncurrent loan balances.

⇧ **Higher Securities Values Provide a Boost to Equity Capital** - Equity capital increased by $26.6 billion (1.8 percent), due in part to a $12.6 billion increase in unrealized gains on securities held for sale. Much of the increase in unrealized gains consisted of appreciation in the values of banks' mortgage-backed securities portfolios. Retained earnings contributed $8.5 billion to equity formation, as banks paid $20.3 billion of their quarterly earnings in dividends. A year ago, second quarter dividends totaled $12.9 billion. Tangible common equity (equity less intangible assets, preferred stock, and deferred tax assets) increased by $35 billion (3.3 percent). At the end of the second quarter, the industry's equity-to-assets ratio was 11.3 percent, the highest level since 1938. The industry's three regulatory capital ratios— the leverage capital ratio, tier 1 risk-based capital ratio, and total risk-based capital ratio—were at all-time highs at the end of the quarter.

⇧ **<u>Loan Balances Post a $64.4 Billion Increase</u>** - Total loans and leases at insured institutions rose by $64.4 billion (0.9 percent) during the quarter. Apart from the $221 billion increase in reported balances in first quarter 2010 that was caused by new accounting rules, this is the first actual growth in loan balances since second quarter 2008. C&I loans increased for a fourth consecutive quarter, rising by $34.3 billion (2.8 percent), while auto loans were up by $9.7 billion (3.4 percent), credit card loan balances rose by $5.2 billion (0.8 percent), and closed-end first lien residential mortgages increased by $2.6 billion (0.2 percent). Loans to depository institutions increased by $27 billion (22.6 percent), but the increase in reported balances consisted of growth in intracompany loans between related institutions. Real estate construction loans declined for a 13th consecutive quarter, falling by $20.7 billion (7 percent). Home equity lines of credit declined by $8.5 billion (1.4 percent), and closed-end second-lien mortgage loans fell by $8.1 billion (5.8 percent). A majority of banks (53 percent) reported growth in loan balances in the second quarter.

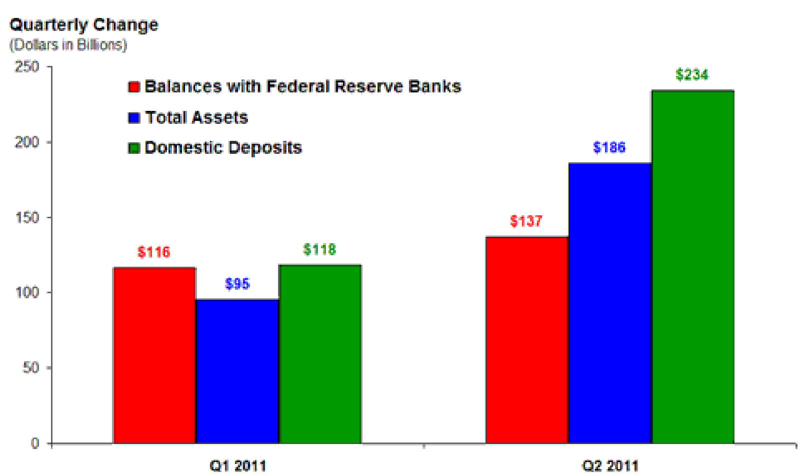
Loan Balances Posted Their First Actual Increase in Three Years



* FASB Statements 166 and 167 resulted in the consolidation of large amounts of securitized loan balances back onto banks' balance sheets in the first quarter of 2010. Although the total amount consolidated cannot be precisely quantified, the industry would have reported a decline in loan balances for the quarter absent this change in accounting standards.

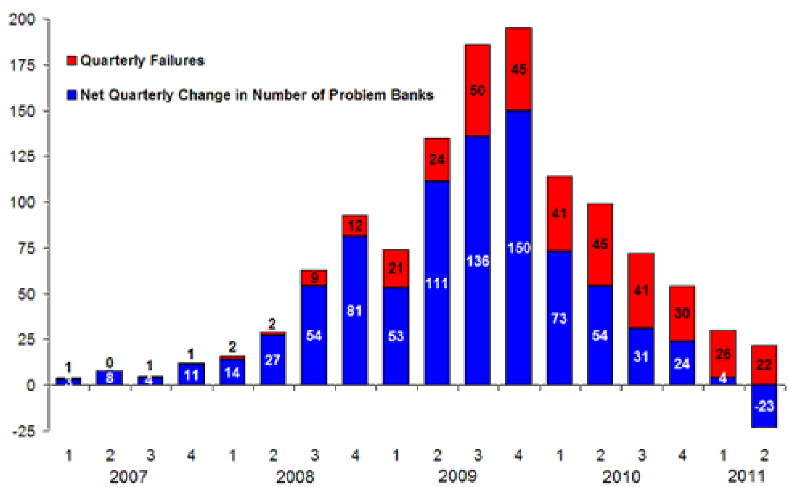
⇧ **<u>Large Noninterest-bearing Deposits Register Strong Growth</u>** - Total deposits increased by $163.1 billion (1.7 percent) in the second quarter. Deposits in domestic offices rose by $234.4 billion (2.9 percent), while foreign office deposits fell by $71.3 billion (4.4 percent). Noninterest-bearing domestic deposits increased by $165.6 billion (9.5 percent), and domestic deposits in accounts with balances greater than $250,000 rose by $279.6 billion (8.8 percent). Balances in large (greater than $250,000) noninterest-bearing transaction accounts that have temporary unlimited deposit insurance coverage through 2012 increased by $161.8 billion (15.4 percent). Most of the growth in large denomination deposits occurred at the largest banks. The 19 banks with assets greater than $100 billion reported an aggregate increase of $241.4 billion (12.6 percent) in domestic deposits with balances greater than $250,000 during the quarter. More than half of this increase ($127.7 billion) consisted of growth in large noninterest-bearing transaction accounts with unlimited deposit insurance coverage. All other insured institutions reported an aggregate increase of $35.1 billion (2.8 percent) in large-balance deposits. Time deposits declined for the 10th quarter in a row, falling by $41.3 billion (2.1 percent). Fed funds purchased and securities sold under repurchase agreements fell by $24.6 billion (4.6 percent). Advances from Federal Home Loan Banks declined by $16.9 billion (4.7 percent), and other secured borrowings fell by $30 billion (8.1 percent).

Most of the Recent Deposit Inflows Have Been Invested at Federal Reserve Banks

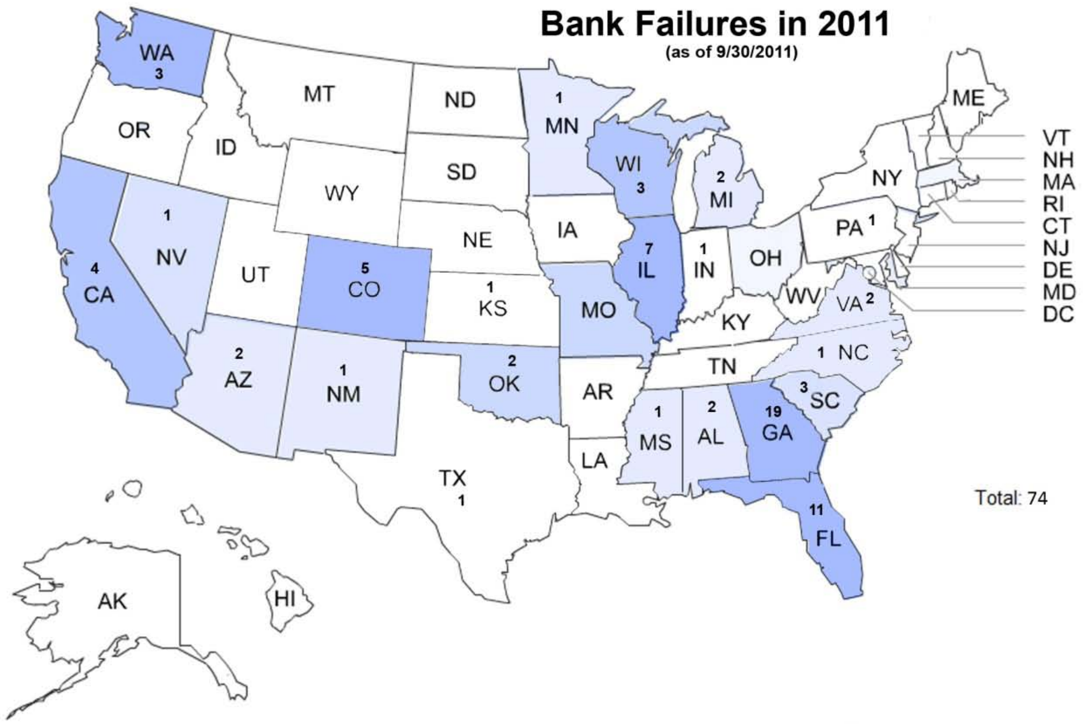


⇧ **<u>Numbers of "Problem" Banks and Failures Decline</u>** - The number of insured commercial banks and savings institutions reporting quarterly financial results declined to 7,513, from 7,574 in first quarter 2011. Two new charters were created to absorb failed institutions during the second quarter, while 39 institutions were absorbed by mergers, and 22 insured institutions failed. This is the smallest number of failures in a quarter since first quarter 2009. The number of institutions on the FDIC's "Problem List" declined for the first time since third quarter 2006. At the end of the second quarter, there were 865 "problem" institutions, down from 888 at the end of the first quarter. Total assets of "problem" institutions declined from $397 billion to $372 billion. The number of full-time equivalent employees reported by insured institutions—2,104,698—was 12,124 (0.6 percent) higher than in first quarter 2011.

Quarterly Changes in the Number of Troubled Institutions, 2007-2011



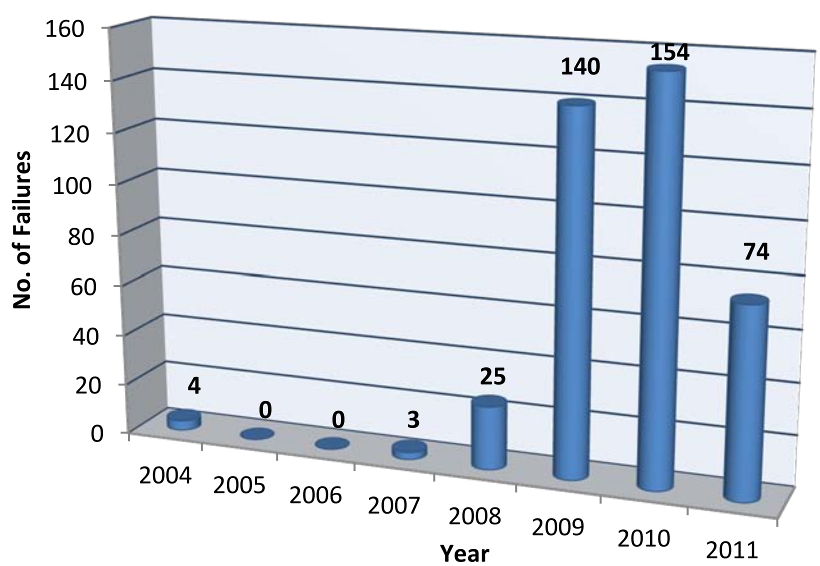
Bank and Thrift Closures Nationwide
Federal Deposit Insurance Corporation



Texas Failures 2011

Bank Name	Charter	Date Closed	Total Assets
First International Bank, Plano, TX	State	09-30-11	$240 Million

Nationwide Bank Failures 2004-2011*



Source: FDIC

***Through September 30, 2011**

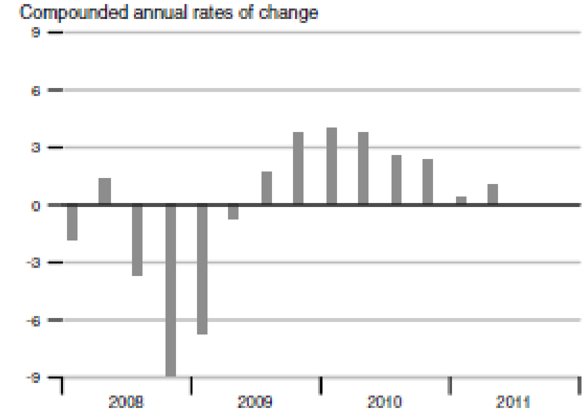
Snapshot Stock Performance
Southwest Regional Banks

Name	Last Trade		52 Wk Range		PE	EPS	Mkt Cap	Div/Shr	Div Yld
ACNB Corporation	09/08	**14.97**	13.28	16.50	10.45	1.43	88.88M	0.76	5.10%
BancFirst Corporation	09/07	**35.25**	31.87	44.67	12.73	2.77	537.77M	1.08	3.20%
Banco Bilbao Vizcaya Argentaria	09/07	**8.26**	7.71	14.05	5.62	1.47	37.25B	0.46	5.40%
BOK Financial Corporation	09/07	**48.33**	42.56	56.58	12.88	3.75	3.31B	1.10	2.40%
Cass Information Sys, Inc.	09/07	**35.70**	32.07	40.49	15.26	2.34	336.12M	0.64	1.90%
CoBiz Incorporated	09/07	**4.99**	4.58	7.02	N/A	-0.30	183.35M	0.04	0.80%
Commerce Bancshares, Inc.	9/07	**38.00**	34.35	44.00	13.48	2.82	3.30B	0.23	2.43%
Comerica, Inc.	09/07	**23.54**	22.12	43.53	12.11	1.94	4.16B	0.40	1.70%
Community Shores Bank Corp	09/07	**0.60**	0.32	1.79	N/A	-5.80	0.00	N/A	N/A
Cullen Frost Bankers, Inc.	09/07	**49.02**	46.02	62.59	14.05	3.49	3.00B	0.46	3.76%
Encore Bancshares, Inc.	09/08	**11.00**	6.49	12.69	N/A	-0.73	128.69M	N/A	N/A
Enterprise Fin Serv Corp	09/07	**14.48**	8.08	15.25	8.69	1.67	256.86M	0.21	1.60%
First Community Corp S C	09/07	**6.275**	4.80	7.99	14.94	0.42	20.56M	0.16	2.40%
First Financial Bankshares, Inc.	09/07	**28.71**	26.40	37.16	13.95	2.06	902.96M	0.96	3.50%
Firstcity Financial Corp	09/07	**6.46**	6.25	8.69	6.31	1.02	67.02M	N/A	N/A
Great Southern Bancorp, Inc.	09/07	**16.93**	15.20	24.60	11.29	1.50	227.89M	0.72	4.50%
Guaranty Fed Bancshares, Inc.	09/07	**4.92**	4.02	7.14	36.18	0.14	13.15M	N/A	N/A
Heartland Financial USA, Inc.	09/07	**14.03**	13.01	18.50	10.24	1.37	230.68M	0.40	3.00%
International Bancshares Corp	09/07	**14.82**	13.47	21.20	8.57	1.73	1.00B	0.38	2.70%
Landmark Bancorp, Inc.	09/07	**15.75**	14.01	18.99	11.42	1.38	41.71M	0.76	4.90%
Liberty Bancorp, Inc.	09/07	**9.50**	8.35	10.00	7.20	1.32	33.82M	0.10	1.10%
Mackinac Financial Corp	09/07	**5.60**	3.95	7.01	N/A	-0.39	19.15M	N/A	N/A
Metrocorp Bancshares, Inc.	09/07	**5.61**	2.43	7.14	16.65	0.34	74.79M	N/A	N/A
MidWest One Finl Group, Inc.	09/07	**14.50**	12.20	15.95	11.60	1.25	125.11M	0.24	1.70%
OmniAmerican Bancorp, Inc.	09/08	**13.95**	11.11	15.93	72.19	0.20	150.19M	N/A	N/A
Osage Bancshares, Inc.	09/07	**7.70**	6.50	10.50	31.56	0.24	20.35M	0.34	4.40%
Prosperity Bancshares, Inc.	09/07	**36.63**	30.37	46.87	12.81	2.86	1.72B	0.70	2.00%
QCR Holdings, Inc.	09/07	**8.98**	6.75	9.93	10.04	0.89	42.58M	0.08	0.90%
Southwest Bancorp, Inc.	09/08	**4.53**	4.32	14.82	25.45	0.18	88.06M	N/A	N/A
Texas Capital Bancshares, Inc.	09/07	**24.71**	15.55	29.48	18.62	1.33	922.42M	N/A	N/A
UMB Financial Corporation	09/07	**37.05**	33.07	45.81	15.06	2.46	1.50B	0.78	2.20%
West Bancorp Incorporated	09/07	**8.90**	5.90	10.00	12.54	0.71	154.89M	0.20	2.50%
Zions Bancorp	09/07	**16.92**	14.82	25.60	N/A	-0.82	3.12B	0.04	0.20%

Source: Yahoo Finance (September 2011) and Tickertech.com (September 2011)
NA – Indicates information was not available.

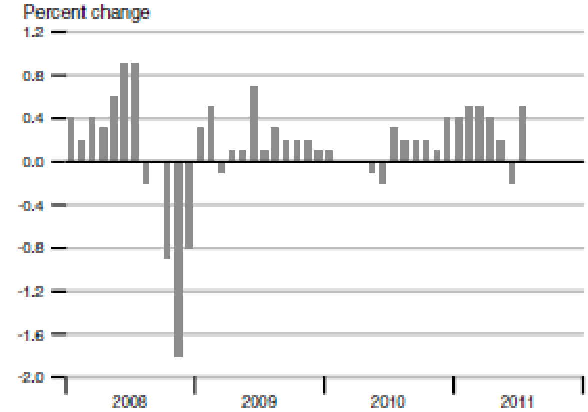
Real GDP Growth

Compounded annual rates of change



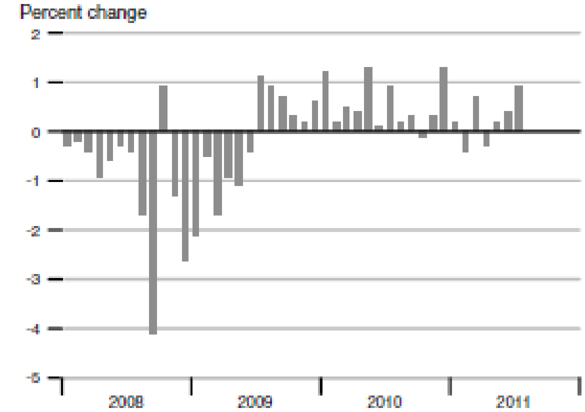
Consumer Price Index

Percent change



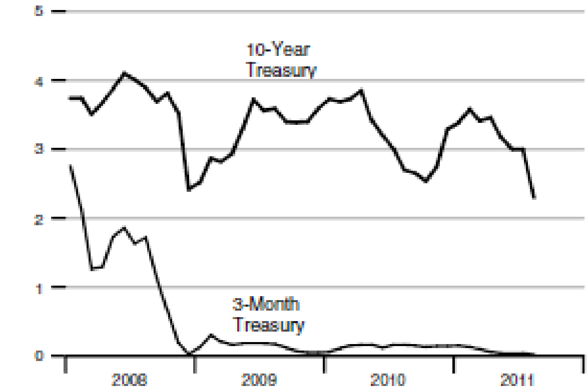
Industrial Production

Percent change



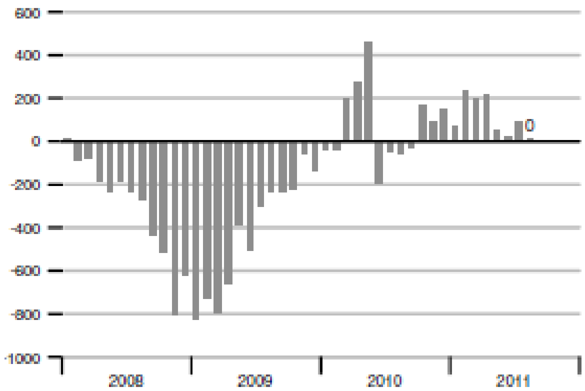
Interest Rates

Percent



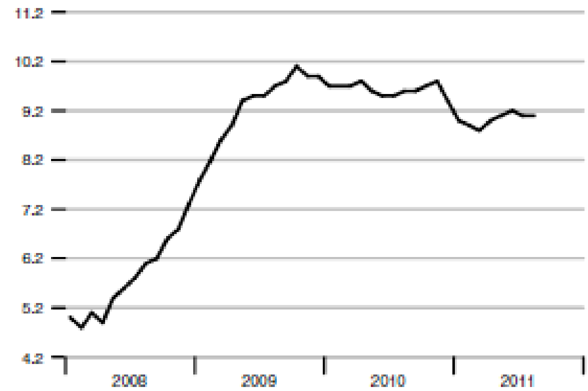
Change in Nonfarm Payrolls

Thousands



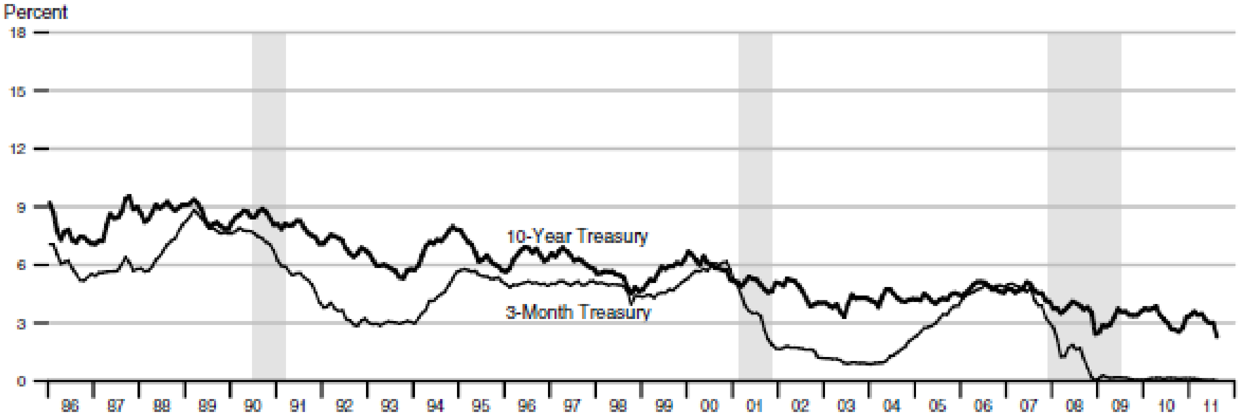
Unemployment Rate

Percent of labor force

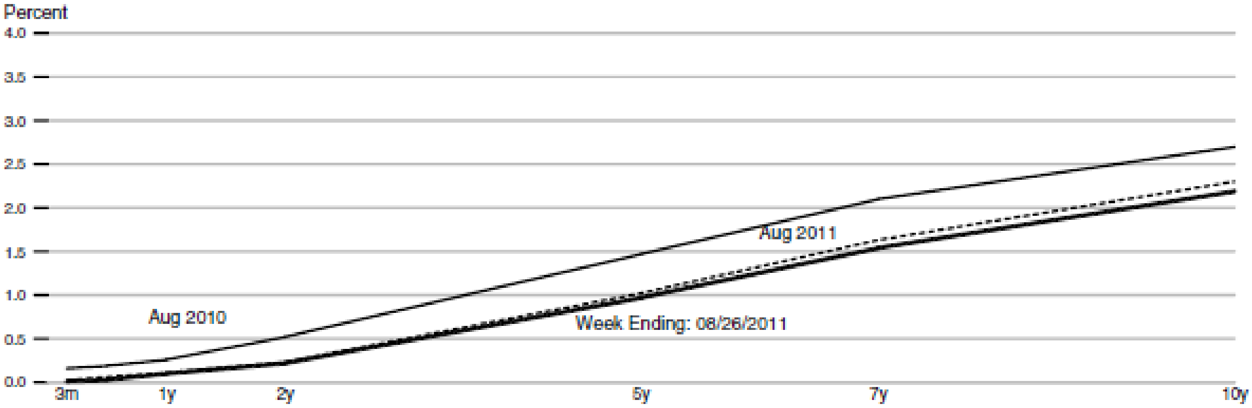


Provided by the Federal Reserve Bank of St. Louis, National Economic Trends. Updated September 2, 2011.

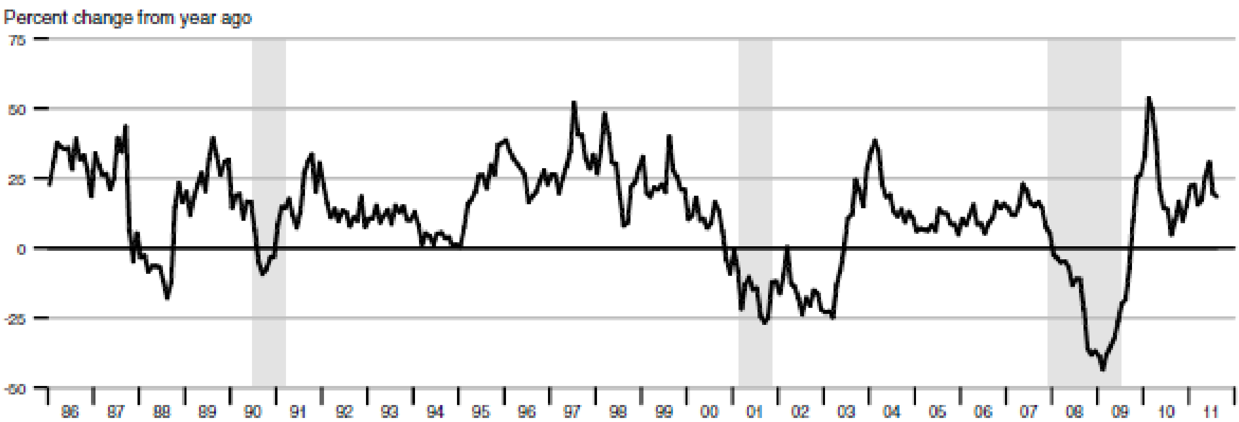
Interest Rates



Treasury Yield Curve



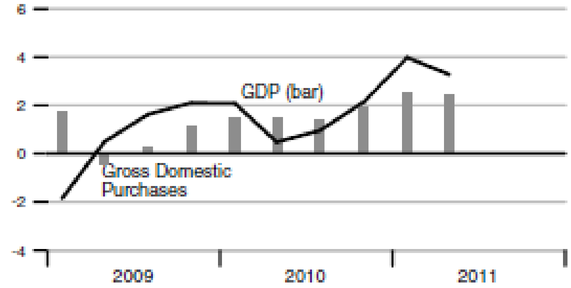
Standard and Poor's 500 Index with Reinvested Dividends



Provided by the Federal Reserve Bank of St. Louis, National Economic Trends.
Updated September 2, 2011.

NIPA Chain Price Indexes

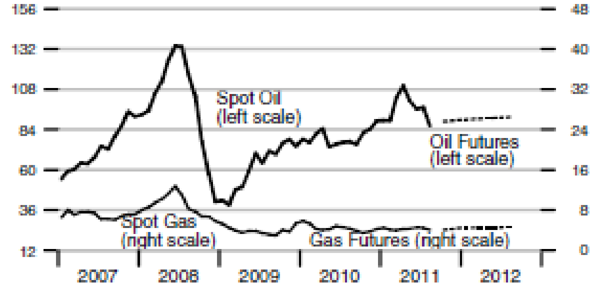
Compounded annual rates of change



Oil & Natural Gas Prices: Spot & Futures

Dollars per barrel

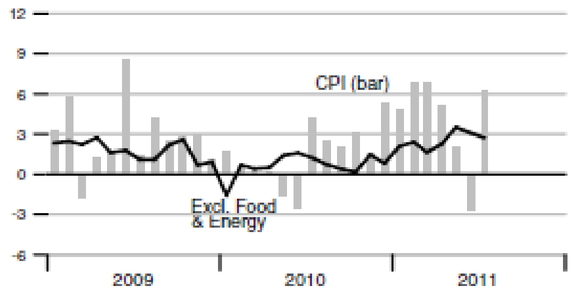
Dollars per million btu



Note: Futures prices as of 8/31/2011.

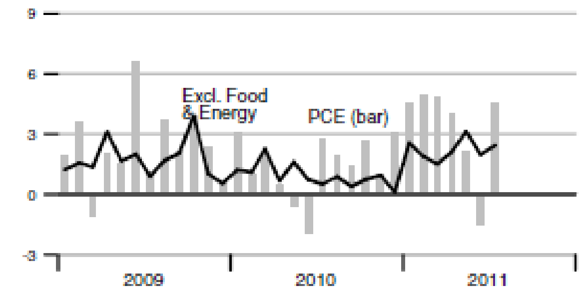
Consumer Price Index

Compounded annual rates of change



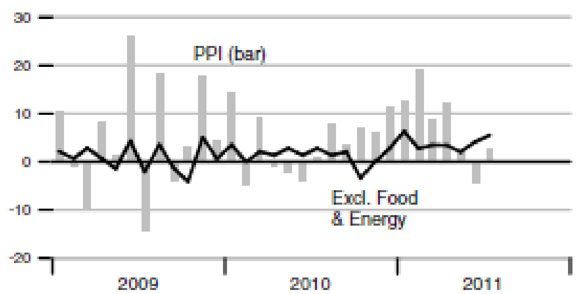
Consumption Chain Price Index

Compounded annual rates of change



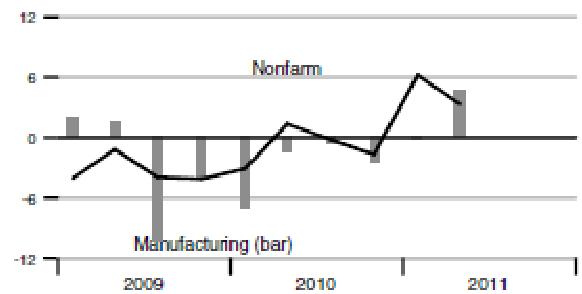
Producer Price Index, Finished Goods

Compounded annual rates of change



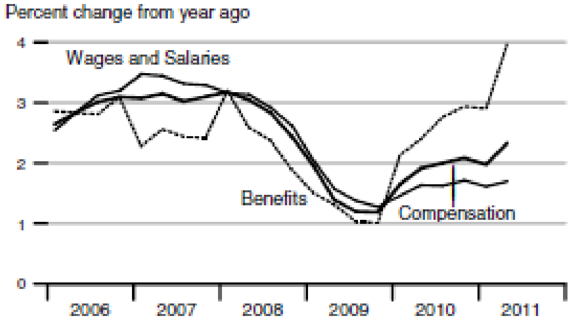
Unit Labor Cost

Compounded annual rates of change



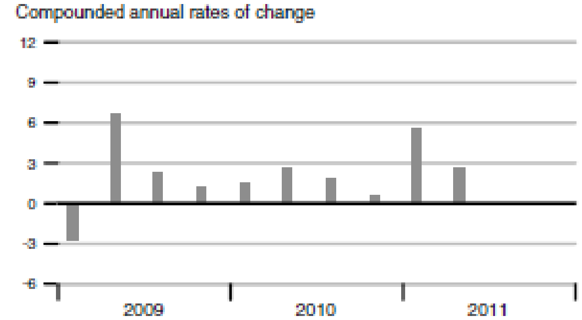
Employment Cost Index

Percent change from year ago



Compensation per Hour

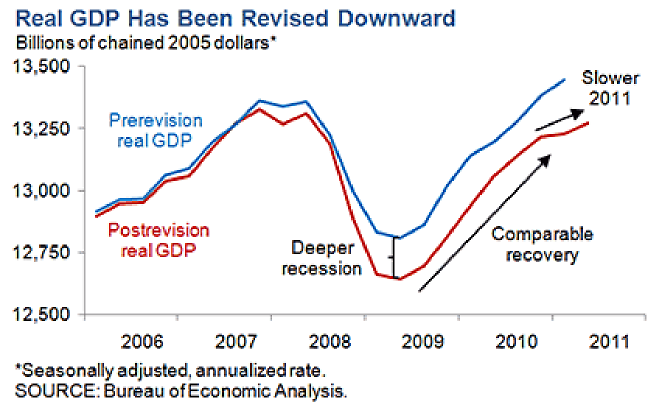
Compounded annual rates of change



Provided by the Federal Reserve Bank of St. Louis, National Economic Trends. Updated September 2, 2011.

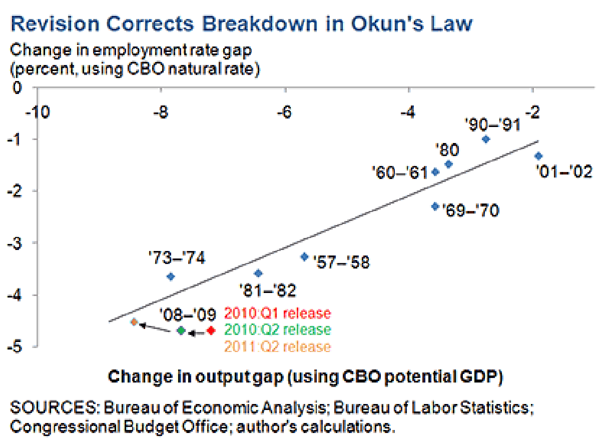
National Update – August 2011
Federal Reserve Bank of Dallas

⇩ **<u>Economy</u>** - The advance release of gross domestic product (GDP) for second quarter 2011 reported that real output grew by only 1.3 percent annualized, below what most forecasters had predicted. Along with this disappointing reading on overall economic activity, GDP was significantly revised back to 2007. The revisions can be broken down into three periods: a deeper recession, a comparable recovery and a slower 2011.



*Seasonally adjusted, annualized rate.
SOURCE: Bureau of Economic Analysis.

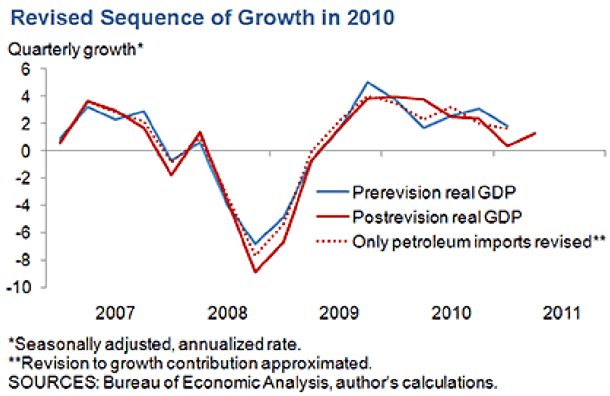
⇩ **<u>A Deeper Recession</u>** - From the peak in fourth quarter 2007 to the trough in second quarter 2009, real output is now estimated to have fallen 5.1 percent, compared with the prior estimate of 4.1 percent. Personal consumption expenditures accounted for about two-thirds of the downward revision. Consumers pulled back in the recession to an even greater extent than previously believed. The revision to the categories of goods and services was broad, with the largest downward revisions coming from financial and insurance services. Before the annual revisions of the previous two years, no one would argue that the drop in output wasn't large, but it wasn't large enough to explain the disproportionate rise in unemployment above its natural rate. This statistical relationship between changes in the output gap and changes in the employment gap had previously been so consistent that it was dubbed "Okun's Law," after President Kennedy's economic advisor who identified it. The apparent breakdown suggested a possible shift in the way firms respond to cash flow pressures or even a substantial rise in the structural rate of unemployment. The annual GDP revisions in July 2010 and 2011 showed a deeper recession: The revisions almost completely erased the discrepancy between output and unemployment and the need for explanation.



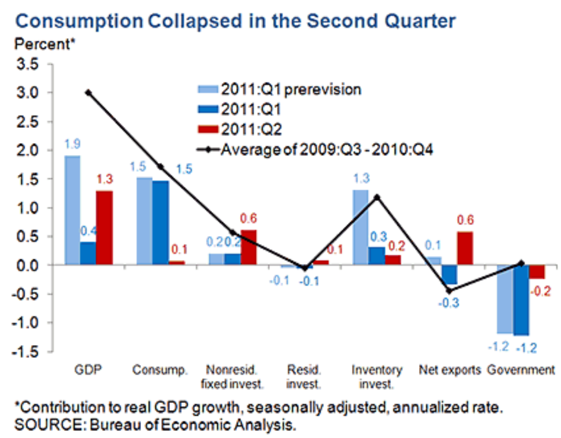
SOURCES: Bureau of Economic Analysis; Bureau of Labor Statistics; Congressional Budget Office; author's calculations.

⇧ **<u>Payroll Employment Improves</u>** - The better-than-expected July employment report was a welcome relief after a string of disappointing data. Nonfarm private payroll employment increased by 154,000 in July, and June and May were revised up to increases of 80,000 and 99,000, from the previous estimates of 57,000 and 73,000. Government employment continued to trend down, subtracting 37,000 jobs, some of which can be attributed to the temporary Minnesota state government shutdown. This left total nonfarm employment growth for July at 117,000, probably not enough to keep up with population growth, but consistent with a still-growing economy. The household survey reported a small decrease in employment that was offset by a larger decrease in the labor force, lowering the unemployment rate to 9.1 from 9.2 percent.

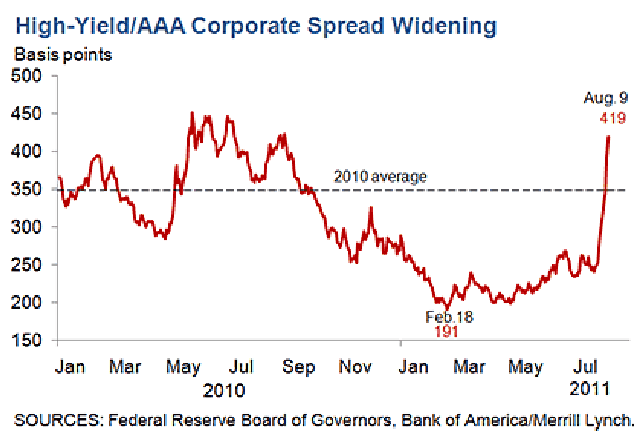
⇳ **A Comparable Recovery** - The total rate of recovery through 2010 was hardly revised. The average quarterly growth rate from second quarter 2009 to fourth quarter 2010 was revised from 2.95 to 3.00 percent annualized. The almost unchanged average masks the altered pattern of growth. Prevision estimates showed a strengthening recovery that slowed down in second quarter 2010 but then regained its footing in the second half of the year. The revised data show a still strong recovery in second quarter 2010 followed by consistently decelerating growth. Some of this revision comes from a better adjustment for seasonal factors in oil imports. In other words, some of the volatility in reported GDP last year was normal seasonal variation.



⇳ **A Slower First Half of 2011** - Real GDP growth in first quarter 2011 was revised down from 1.9 to 0.4 percent annualized. The composition of the revision is less troubling because a whole percentage point of the revision came from inventories, which can be traced back to now-fading supply chain disruptions. The fallback in government spending remained the key source of the slowdown in the first quarter, subtracting 1.2 percentage points from growth, with the federal government responsible for two-thirds of that. The second quarter was boosted by less of a drag from government and strong net exports, but personal consumption expenditures collapsed.



⇩ **Financial Markets Unsettled** - Financial markets have moved cautiously since disruptive geopolitical events early in the year, gauging the potential impacts of higher commodity prices on U.S. growth and the slowly unfolding European debt crisis. These concerns accelerated in the first week of August. The chart shows the spread between yields on junk bonds and AAA-rated corporate bonds has been on the rise since its three-year low in February, increasing from 200 to 250 basis points at the end of July, and then jumping to 419 by Aug. 9. This is associated with increasing uncertainty. As the economic outlook deteriorates, there is an increased probability of default, and more-risky bonds have to pay a higher premium relative to bonds seen as safe.



⇧ **Looking Ahead** - Incoming data and revisions to past data dampened expectations. The relief of resolved U.S. debt negotiations was quickly replaced by questions regarding the strength of the global recovery. There are obvious reasons for caution, but leading indicators still point to growth, and employment continues to increase, however slowly.

U.S. Economy at a Glance
U.S. Bureau of Labor Statistics

Data Series	March 2011	Apr 2011	May 2011	June 2011	July 2011	Aug 2011
Unemployment Rate (1)	8.8	9.0	9.1	9.2	9.1	9.1
Change in Payroll Employment (2)	194	217	53	20	85(P)	0 (P)
Average Hourly Earnings (3)	22.89	22.93	23.02	23.01	23.12 (P)	23.09 (P)
Consumer Price Index (4)	0.5	0.4	0.2	-0.2	0.5	
Producer Price Index (5)	0.7	0.9(P)	0.2 (P)	-0.4 (P)	0.2 (P)	
U.S. Import Price Index (6)	3.0	2.6(R)	0.2 (R)	-0.6 (R)	0.3 (R)	

Footnotes:
(1) In percent, seasonally adjusted. Annual averages are available for not seasonally adjusted data.
(2) Number of jobs, in thousands, seasonally adjusted.
(3) Average hourly earnings for all employees on private nonfarm payrolls.
(4) All items, U.S. city average, all urban consumers, 1982-84=100, 1-month percent change, seasonally adjusted.
(5) Finished goods, 1982=100, 1-month percent change, seasonally adjusted.
(6) All imports, 1-month percent change, not seasonally adjusted.
(R) Revised.
(P) Preliminary.

Data Series	2nd Qtr 2010	3rd Qtr 2010	4th Qtr 2010	1st Qtr 2011	2nd Qtr 2011
Employment Cost Index (1)	0.4	0.4	0.4	0.6	0.7
Productivity (2)	1.2	2.1	2.2	-0.6	-0.7

Footnotes:
(1) Compensation, all civilian workers, quarterly data, 3-month percent change, seasonally adjusted.
(2) Output per hour, nonfarm business, quarterly data, percent change from previous quarter at annual rate, seasonally adjusted.

Data extracted on: September 2, 2011

The Beige Book – September 2011
The Federal Reserve Board
Excerpt

⇳ Reports from the twelve Federal Reserve Districts indicated that economic activity continued to expand at a modest pace, though some Districts noted mixed or weakening activity. The St. Louis, Minneapolis, Kansas City, Dallas, and San Francisco Districts all reported either modest or slight expansion. Atlanta said activity continued to expand at a very subdued pace, while Cleveland reported slow growth and New York indicated growth remained sluggish. Economic activity expanded more slowly in the Chicago District and slowed in the Richmond District. Business activity in the Boston and Philadelphia Districts was characterized as mixed, with Philadelphia adding that activity was somewhat weaker overall. Several Districts also indicated that recent stock market volatility and increased economic uncertainty had led many contacts to downgrade or become more cautious about their near-term outlooks.

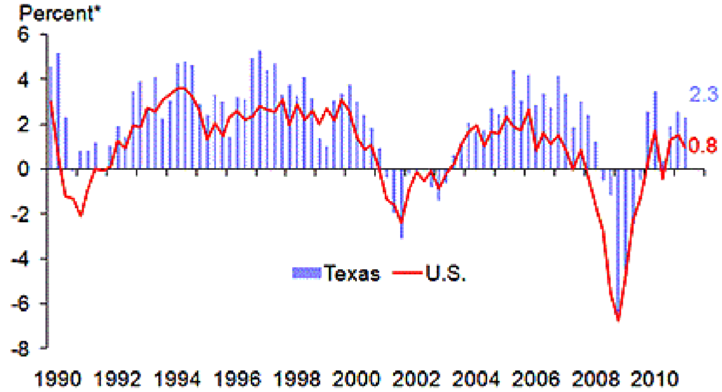
Consumer spending increased slightly in most Districts since the last survey, but non-auto retail sales were flat or down in several Districts. Although poor weather dampened growth in some areas, tourist activity remained solid in most Districts. The demand for services was generally positive throughout the nation, but one region said conditions were deteriorating. Of the five Districts reporting on transportation, three said conditions were mostly positive, while the other two reported activity as flat or slightly below expectations. Manufacturing conditions were mixed across the country, but the pace of activity slowed in many Districts. Residential real estate markets remained weak overall with only a few slight improvements in some Districts. Most Districts characterized commercial real estate and construction activity as weak or little changed, but improvements were noted in several areas. Loan demand remained stable or slightly weaker and lending standards were largely unchanged with an improvement in loan quality. Harsh summer weather negatively affected agricultural activity, although recent rains in several Districts provided some relief. Districts reporting on energy activity said it generally expanded, with further growth expected. Price pressures edged lower, although input costs continued to increase in some industries and retail prices rose in several Districts. Labor markets were generally stable, although some Districts reported modest employment growth. Wage pressures were generally minimal outside of some upward movement for skilled positions.

Regional Economic Update – August 2011
Federal Reserve Bank, Dallas

⇧ **Overall Economy** - Regional economic growth continued at a moderate rate in the second quarter, down slightly from the first-quarter pace. While supply-chain disruptions from the Japanese disasters and uncertainty about the U.S. economic outlook caused a slowdown in May, evidence suggests conditions in the Eleventh District have since improved and are better than elsewhere in the nation.

⇳ **Labor Market** - Texas job growth was moderately strong in the second quarter at an annualized rate of 2.3 percent. Following a slowdown in May, employment data indicates job growth of 3.5 percent at an annualized rate in June. Year-to-date job growth stands at 2.4 percent, double the national average. This job creation comes from strong hiring in the energy sector, which has seen 18.6 percent annualized year-to-date growth, and in manufacturing. Although job growth has been broad-based across most sectors, government jobs have fallen 0.14 percent year to date after rising during the recession and in 2010. The Texas unemployment rate was up to 8.2 percent in June but remained below the national average of 9.1 percent. Texas temporary employment, which leads trends in total employment, fell in June. However, contacts from the Dallas Fed's Beige Book report on current economic conditions say temp-to-hire activity remains strong in Texas.

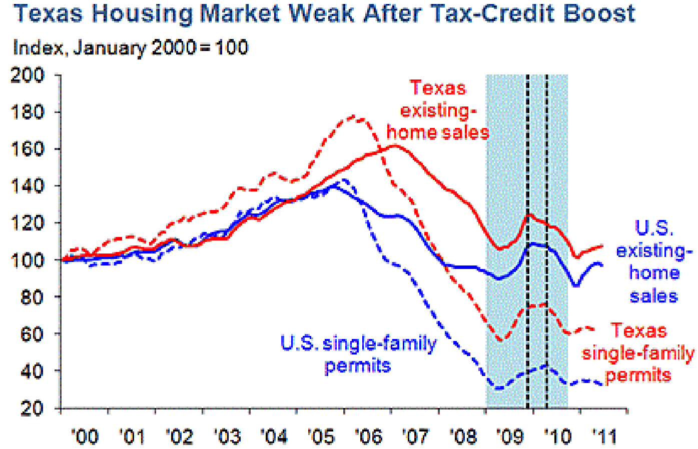
Texas Job Growth Moderates Slightly in Second Quarter



*Quarter/quarter; seasonally adjusted, annualized rate.
NOTE: Quarterly employment figure is the last month of the quarter.
SOURCES: Bureau of Labor Statistics; Texas Workforce Commission; seasonal and other adjustments by the Federal Reserve Bank of Dallas.

⇳ **Construction and Real Estate** - Overall construction activity is languishing at low levels. Data on nonresidential contract values and anecdotal Beige Book reports show recent movement toward private projects from public projects. New-home construction remained weak in the second quarter. Expiration of the homebuyer tax credits led to an initial decline in single-family permits in first quarter 2011 and construction has remained relatively flat since. However, traffic and pending sales are improving, and Dallas Fed contacts are cautiously optimistic. Texas existing-home price statistics show that nominal median sales prices in June were up slightly from last June. Additionally, apartment rents are rising in many Texas metro areas, which could make single-family homes more attractive to buyers.

Texas Housing Market Weak After Tax-Credit Boost

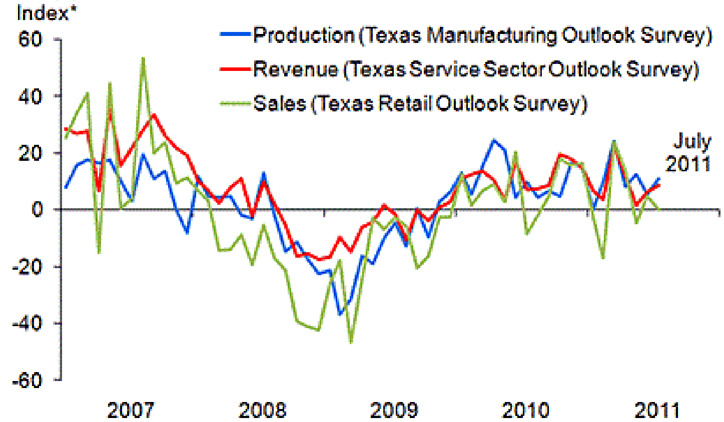


NOTES: The existing-home sales series uses a six-month moving average; the permit series plots a five-month moving average. Shading represents the period during which homebuyer tax credits were effective. Dotted lines indicate tax credit expiration dates.
SOURCES: Census Bureau; National Association of Realtors; Multiple Listing Service.

⇧ **Commercial Real Estate** - Nonresidential real estate continues to improve, particularly for office and industrial markets, although retail remains weak. Beige Book contacts note improvements in the second quarter, and larger users of space are becoming more numerous. Some contacts predict office rent increases in the near term.

⇳ **Manufacturing Activity** - Texas Business Outlook Surveys point toward improved service sector and manufacturing activity in July. The Texas Manufacturing Outlook Survey (TMOS) production index rose from 5.6 in June to 10.8 in July, suggesting stronger output growth for July. The Texas Retail Outlook Survey's sales index was zero in July, indicating sales likely did not change from June. However, Beige Book contacts say Texas sales are holding up better than the national average. Measures of general business activity, which reflect national economic conditions, were mostly negative. Some respondents indicated uncertainty over taxes and regulations.

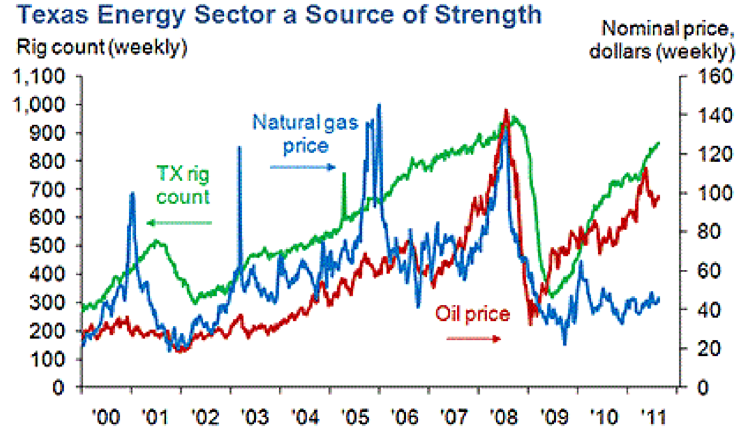
Service and Manufacturing Headline Indexes Suggest Growth



*Seasonally adjusted.
SOURCE: Federal Reserve Bank of Dallas Texas Business Outlook Surveys.

⇧ **Energy** - The energy sector continued to be a driver of the Texas economy. Jobs in the sector rose at an annualized rate of 18.9 percent in June. The Texas rig count continued to climb, with drilling activity shifting toward oil. Shale activity also remains profitable for Texas companies.

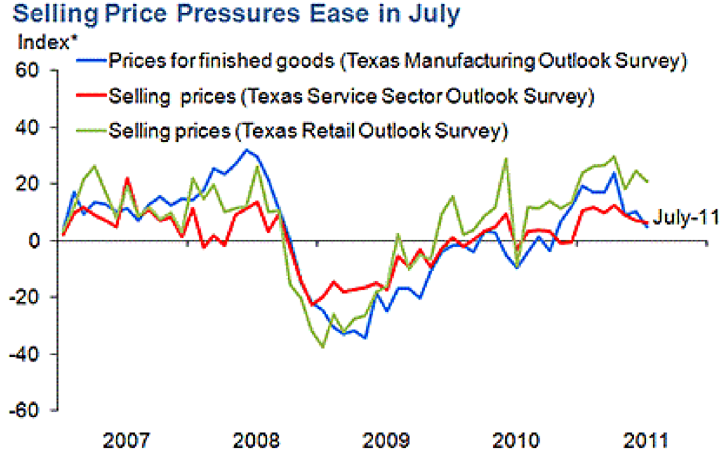
Texas Energy Sector a Source of Strength



NOTE: Gas price, per million British thermal units, is multiplied by 10.
SOURCES: *Wall Street Journal*; Baker Hughes; Haver Analytics.

⇧ **Prices** - Price pressures eased in July, according to both Beige Book and the Texas Business Outlook Surveys. Price indexes for finished goods in manufacturing, and selling prices in the retail and service sectors, all declined in July. In contrast, 40.5 percent of TMOS respondents reported an increase in raw materials prices, up from 36.1 percent in June.

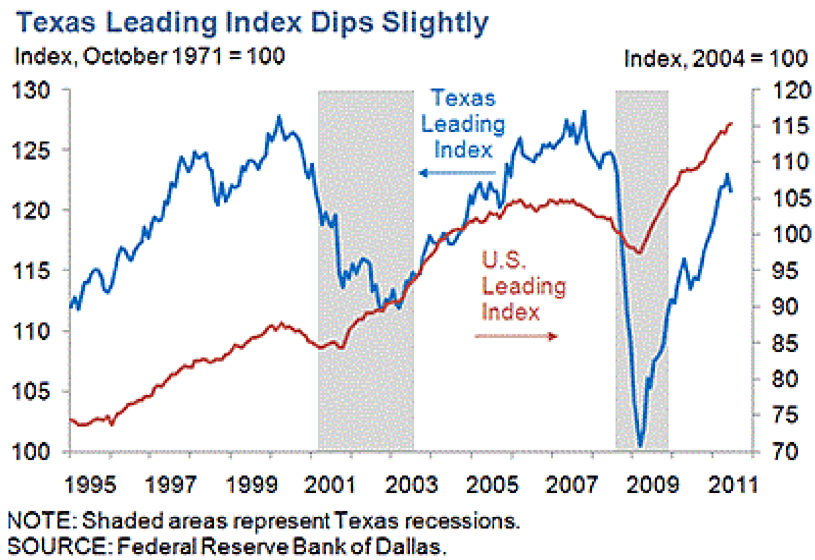
Selling Price Pressures Ease in July



*Seasonally adjusted.
SOURCE: Federal Reserve Bank of Dallas Texas Business Outlook Surveys.

⇩ **Export** - Texas exports dipped slightly in May, although in the first five months, exports rose at an annualized pace of 6.3 percent. High-tech orders, which fell briefly following supply disruptions from the Japanese disasters, are expected to grow in June and July as demand picks up again, according to Dallas Fed contacts. Petrochemical demand was strong, and transportation services firms said cargo volumes were up in June and July after declining sharply earlier in the year

⇧ **Outlook Still Positive** - Consumer confidence remains high—even rising in July—in the Conference Board's West South Central region, of which Texas makes up a large share. This contrasts with a decline in consumer confidence at the national level. The Dallas Fed's Texas Leading Index, a composite of eight leading indicators, dipped in June. But the Bank's forecast for job growth remains positive. Employment is expected to grow 2.5 percent in 2011. And while this prediction is slightly lower than previous estimates, this pace would still allow Texas to regain all the jobs it lost in the recession by October 2011.



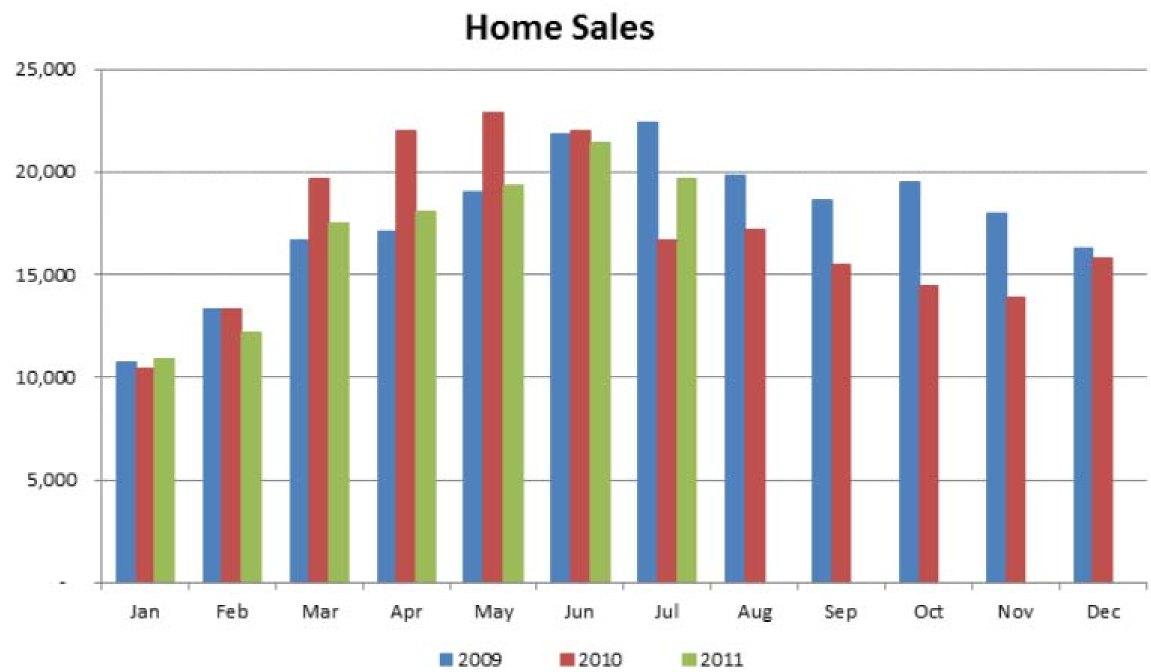
Texas Economic Statistics
U. S. Bureau of Labor Statistics

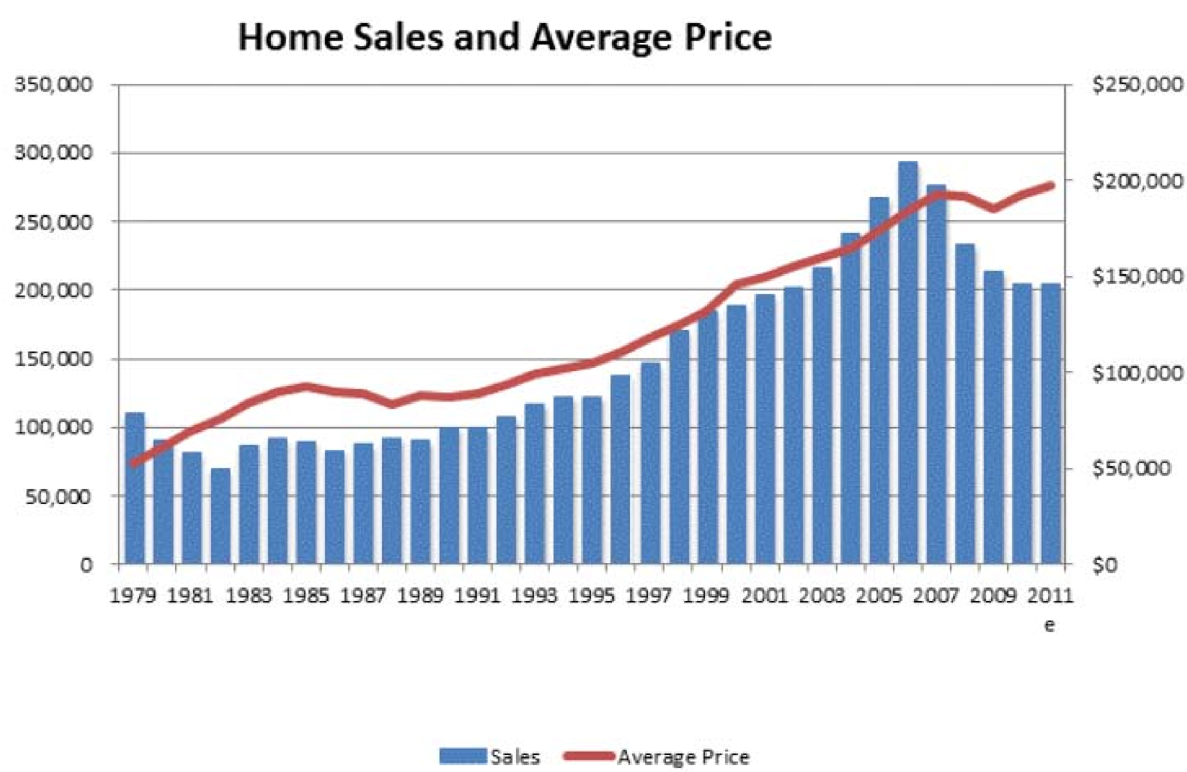
Texas

Data Series	Feb 2011	Mar 2011	Apr 2011	May 2011	June 2011	July 2011
Labor Force Data						
Civilian Labor Force (1)	12,214.2	12,232.6	12,265.9	12,281.1	12,264.0	(P) 12,241.5
Employment (1)	11,212.5	11,236.9	11,281.1	11,295.5	11,261.2	(P) 11,218.4
Unemployment (1)	1,001.6	995.7	984.8	985.6	1,002.8	(P) 1,023.2
Unemployment Rate (2)	8.2	8.1	8.0	8.0	8.2	(P) 8.4
Nonfarm Wage and Salary Employment						
Total Nonfarm (3)	10,488.9	10,524.2	10,554.5	10,556.6	10,590.5	(P) 10,619.8
12-month % change	2.4	2.4	2.4	1.9	2.1	(P) 2.6
Mining and Logging (3)	225.5	231.3	234.9	239.5	244.3	(P) 248.0
12-month % change	15.0	16.4	16.2	16.7	18.0	(P) 18.9
Construction (3)	596.6	597.2	587.6	591.1	597.4	(P) 591.4
12-month % change	6.4	5.8	4.1	4.5	5.8	(P) 4.2
Manufacturing (3)	817.5	821.6	819.6	821.8	828.3	(P) 832.0
12-month % change	1.3	1.5	1.3	1.4	2.1	(P) 2.5
Trade, Transportation, and Utilities (3)	2,071.6	2,075.9	2,091.6	2,091.2	2,095.0	(P) 2,110.3
12-month % change	1.8	1.8	2.3	2.0	2.0	(P) 2.8
Information (3)	188.4	187.1	186.7	187.1	186.7	(P) 188.9
12-month % change	-4.2	-4.6	-5.2	-4.4	-4.8	(P) -2.8
Financial Activities (3)	621.6	622.7	626.2	627.2	628.9	(P) 630.4
12-month % change	-0.2	-0.1	0.6	0.7	1.0	(P) 1.5
Professional & Business Services (3)	1,301.9	1,314.3	1,318.7	1,322.3	1,323.1	(P) 1,324.3
12-month % change	4.0	4.4	4.3	4.2	3.9	(P) 3.8
Education & Health Services (3)	1,417.0	1,417.9	1,430.3	1,425.1	1,419.2	(P) 1,425.1
12-month % change	3.4	3.0	3.6	3.0	2.3	(P) 2.8
Leisure & Hospitality (3)	1,018.5	1,029.2	1,030.1	1,025.3	1,037.6	(P) 1,045.1
12-month % change	2.0	2.9	2.9	2.2	3.4	(P) 4.3
Other Services (3)	367.2	368.3	369.0	369.8	365.5	(P) 369.2
12-month % change	2.3	2.5	2.6	2.7	1.5	(P) 2.6
Government (3)	1,863.1	1,858.7	1,859.8	1,856.2	1,864.5	(P) 1,855.1
12-month % change	1.2	0.6	0.2	-1.8	-1.3	(P) -0.8
Mass layoffs						
Layoff events, all industries	32	54	67	50	86	58
Initial claimants, all industries	2,468	7,970	7,118	4,762	9,229	6,259

Footnotes
(1) Number of persons, in thousands, seasonally adjusted.
(2) In percent, seasonally adjusted.
(3) Number of jobs, in thousands, seasonally adjusted.
(P) Preliminary

Data extracted on August 25, 2011
Source: U.S. Bureau of Labor Statistics


Home Sales
25,000
20,000
15,000
10,000
5,000
-
Jan
Feb
Mar
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
2009
2010
2011


Home Sales and Average Price
350,000
300,000
250,000
200,000
150,000
100,000
50,000
0
$250,000
$200,000
$150,000
$100,000
$50,000
$0
1979 1981 1983 1985 1987 1989 1991 1993 1995 1997 1999 2001 2003 2005 2007 2009 2011 e
Sales
Average Price

❖ **Senior Loan Officer Opinion Survey -** The July 2011 Senior Loan Officer Opinion Survey on Bank Lending Practices addressed changes in the supply of, and demand for, bank loans to businesses and households over the past three months. This summary is based on responses from 55 domestic banks and 22 U.S. branches and agencies of foreign banks (hereafter referred to as foreign banks). The July survey indicated that, on net, banks continued to ease lending standards and most terms on all major types of loans other than loans secured by real estate over the past three months. Modest net fractions of respondents noted an increase in demand for commercial and industrial (C&I) and commercial real estate (CRE) loans over the same period; at the same time, banks reportedly experienced, on net, slightly weaker demand for some categories of residential real estate loans. In response to a special question, most banks indicated that they expected originations of residential real estate loans in the second half of 2011 to be about the same as in the first half of the year. Significant fractions of respondents to another special question indicated that, for most loan categories, the current level of lending standards was tighter than the middle of its recent historical range, though the reported degrees of tightness varied noticeably across categories. Domestic banks further eased standards on C&I loans to firms of all sizes over the past three months. The net fraction of banks that reported easing on loans to smaller firms remained relatively low and below the net fraction that reportedly eased for large and middle-market firms. On net, domestic and foreign banks indicated that they had eased most terms on C&I loans over the survey period, and the reported easing was especially pronounced for price-related terms. As in the past several surveys, the most commonly cited reason for having eased standards or terms on C&I loans was increased competition from other lenders. Modest net fractions of domestic and foreign banks continued to report an increase in demand for C&I loans over the past three months. Domestic banks indicated that standards on both commercial and residential real estate loans were unchanged over the past three months. The net portion of domestic respondents indicating an increase in demand for CRE loans in the current survey declined in comparison with the April survey. In contrast, small net fractions of respondents indicated that demand for both prime and nontraditional residential real estate loans as well as for home equity lines of credit had weakened or remained basically unchanged over the survey period. With respect to consumer lending, the net percentages of banks that reported easing standards were low and roughly in line with the previous survey. While positive net fractions of respondents reportedly experienced an increase in demand for both credit card and auto loans over the past three months, the pickup in demand was not widespread; moreover, demand for other consumer loans was unchanged.

Business Lending

C&I Loans. The net fraction of domestic banks that indicated that they had eased standards on C&I loans to large and middle-market firms rose slightly to around 20 percent. On net, fewer domestic banks--about 10 percent--indicated an easing of standards on loans to smaller firms. On balance, domestic banks eased all of the surveyed terms on C&I loans to large and middle-market firms, with the most sizable net fractions of respondents reporting easing of price terms, including the spread of loan rates over banks' cost of funds, the use of interest rate floors, and the cost of credit lines. Domestic survey respondents also indicated some easing of loan terms for smaller firms, though the reported easing was less widespread than for loans to larger firms. For standards and for most terms on C&I loans, reported easing among domestic survey respondents was concentrated at large banks. Of foreign banks, almost all indicated that standards on C&I loans had remained basically unchanged, though between 5 and 35 percent reported easing various C&I loan terms on balance.

Among both domestic and foreign banks that had eased standards or terms on C&I lending loans, the most commonly cited reason for doing so was more aggressive competition from other banks or nonbank lenders. A number of domestic banks also pointed to a more favorable or less uncertain economic outlook as an important reason for the change in their lending policies. The reasons most widely cited by domestic banks that reported that they had tightened C&I lending standards and terms over the past three months were a less favorable or more uncertain economic outlook, and increased concerns about the effects of legislative changes, supervisory actions, or changes in accounting standards.

A modest net fraction of domestic respondents indicated that demand for C&I loans from large and middle-market firms had increased over the past three months, while the net fraction that reported stronger loan demand from smaller firms was close to zero. Most domestic banks that experienced a strengthening of demand cited a shift to bank borrowing from other funding sources as an important reason for the change in demand, as well as to an increase in customers' inventory financing needs. About 20 percent of foreign banks, on net, reported in the July survey that demand for C&I loans had increased.

A special question in the July survey asked respondents to describe the current *level* of lending standards at their bank for several loan categories. Loan officers were asked to report how their current lending stance stood, relative to the range defined by the easiest and tightest standards applied by their bank since 2005. For different types of C&I loans, between 25 and 50 percent of domestic respondents indicated that their bank's current lending standards were near the middle of that range. Of the remaining domestic respondents, more indicated that their current levels of standards on C&I loans were tighter than the middle of the range, compared with the number that indicated that standards were easier than the middle of the range. The margin by which the number of banks with standards that were tighter than the midpoint exceeded the number of banks with standards that were easier than the midpoint varied according to borrower credit quality classification, loan syndication status, and borrower size. This margin was largest for non-investment-grade syndicated loans and nonsyndicated loans to smaller firms, as compared with investment-grade syndicated loans and nonsyndicated loans to large and middle-market firms. Foreign banks' responses for syndicated loans were about the same as those of domestic banks. By contrast, foreign banks were somewhat more likely than domestic banks to characterize the current level of standards as being tighter than the middle of their range for nonsyndicated loans to large and middle-market firms.

CRE lending. The net fraction of domestic banks that reported that they had eased standards on CRE loans over the past three months remained close to zero, about the same as in the previous two surveys. Though few domestic banks have indicated any change in CRE standards over the past year, the July survey's special question revealed that standards for all types of CRE lending remain tight relative to the range that has prevailed since 2005 at most banks. Indeed, roughly 75 percent of domestic respondents indicated that their bank's standards for construction and land development (CLD) loans were tighter than the middle of the range that these standards have occupied since 2005, with nearly one third of banks stating that standards on CLD loans were currently at their tightest level seen over this period. While fewer banks indicated that standards were at their tightest levels for nonfarm nonresidential CRE loans and for multifamily CRE loans, a majority of domestic respondents noted that their current level of standards was tighter than the middle of its recent historical range for these lending categories as well. Nearly 25 percent of foreign respondents reported that their CRE lending standards had eased, on net, over the past three months. Nearly all foreign banks indicated that their current level of standards was at or tighter than the middle of its recent historical range for all types of CRE loans.

On net, more than one-third of large domestic banks described demand for CRE loans as having strengthened over the previous three months, while smaller banks indicated that demand for such loans had remained unchanged on net. Of the foreign banks, about 15 percent noted an increase in demand.

Lending to Households

Residential real estate lending. On net, banks reported that standards on residential real estate loans were little changed for both prime and nontraditional loans over the past three months. About 10 percent of respondents, on net, indicated that they had eased standards on home equity lines of credit. Demand for prime residential mortgages was reportedly little changed, on net, while a small net fraction of banks indicated a weakening of demand for nontraditional residential mortgages.

For categories of residential real estate lending including prime mortgages, nontraditional mortgages, and home equity lines of credit, between about 10 and 15 percent of respondents to the special question described the current level of their lending standards as being easier than the middle of the range that standards have occupied since 2005. Significantly larger fractions indicated that standards were tighter than the middle of the range, and the remaining respondents indicated that standards were near the middle of the range.

Another special question queried banks about whether they expected their originations of residential real estate loans, which were quite weak, in the aggregate, over the first half of 2011, to increase or decrease over the remainder of this year. About three-quarters of banks reported that they expected the pace of their originations to remain at about the same level through the rest of 2011; the remaining respondents were roughly split between those that expected an increase and those that expected a decrease in the pace of originations. A follow-up question asked banks that did not anticipate any increase why they expected their originations to remain flat or to decrease. All respondents to this question cited reduced or unchanged demand from creditworthy borrowers and almost all of these respondents also pointed to unfavorable or uncertain forecasts for the broad economy and for house prices. Another common but less frequently cited reason for the expected lack of expansion in originations was increased concerns about the effects of legislative changes, supervisory actions, or changes in accounting standards.

Consumer lending. Moderate net fractions of banks reportedly eased their lending standards on consumer loans over the past three months. For credit card loans and for consumer loans other than credit card and auto loans, positive net fractions of banks reported having eased standards, but these fractions were less than 10 percent. For auto loans, the fraction that reported easing standards was more substantial, at nearly 20 percent. For all three consumer loan categories, the net fraction of large banks reporting an easing of standards was greater than the corresponding fraction of other banks. With respect to loan terms, banks eased some of the surveyed terms, on balance, but most banks reported no change in most terms; in addition, the indicated easing in terms was slightly more widespread for auto than for other consumer loans.

In the special questions on the level of standards, roughly one-third of respondent banks described the current level of their standards for auto loans as being tighter than the middle of the range at their bank since 2005, while the corresponding percentages for credit card and other consumer loans were over 50 percent. For all three consumer loan types, the majority of the remaining banks reported that the current level of standards was near the middle of its recent historical range.

A moderate net fraction of banks reportedly experienced an increase in demand for auto loans over the past three months. In contrast, the reported demand for credit card and other consumer loans was unchanged, on net.

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