

Regional and Community Bankers' Conference

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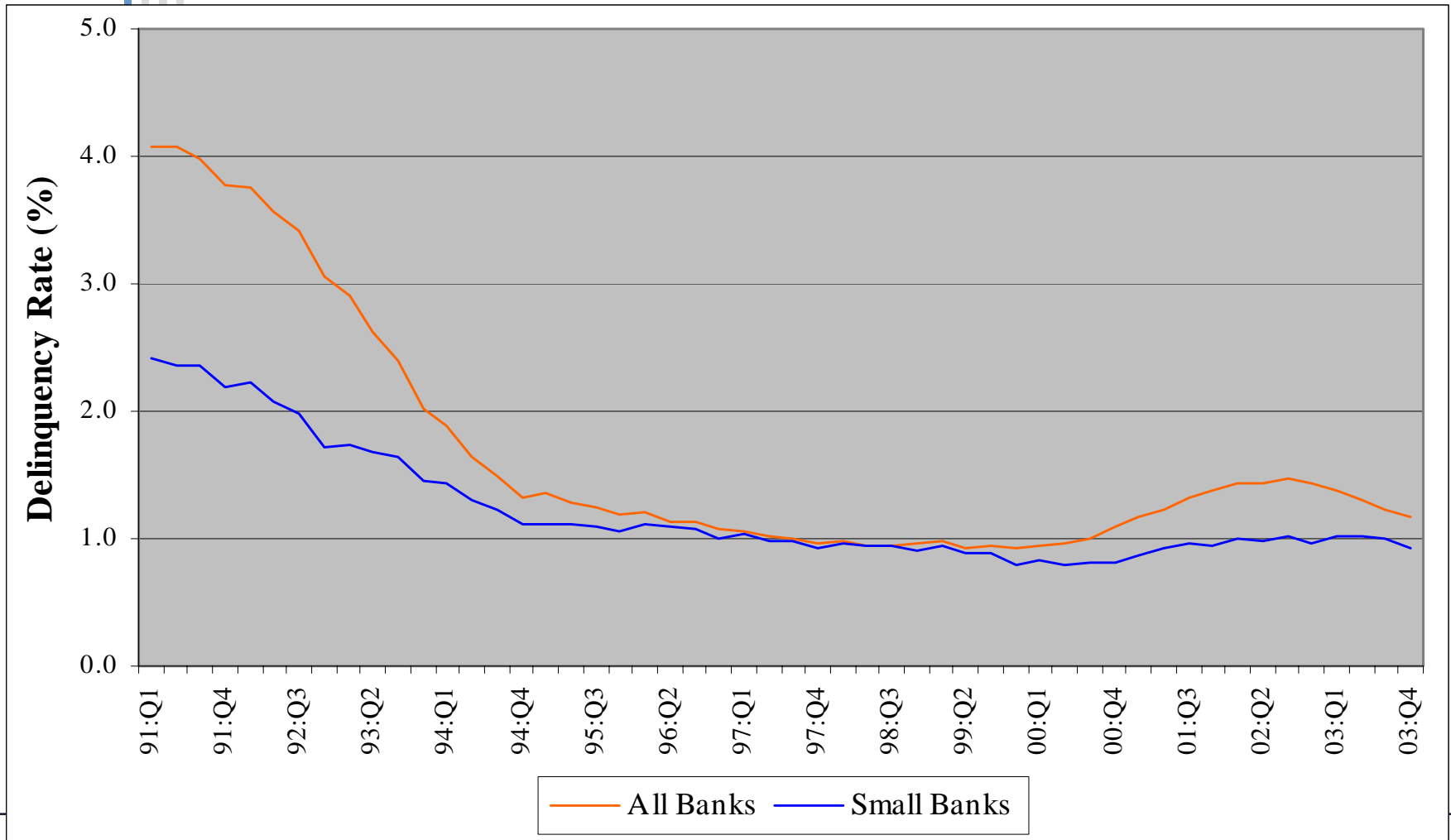
May 18, 2004



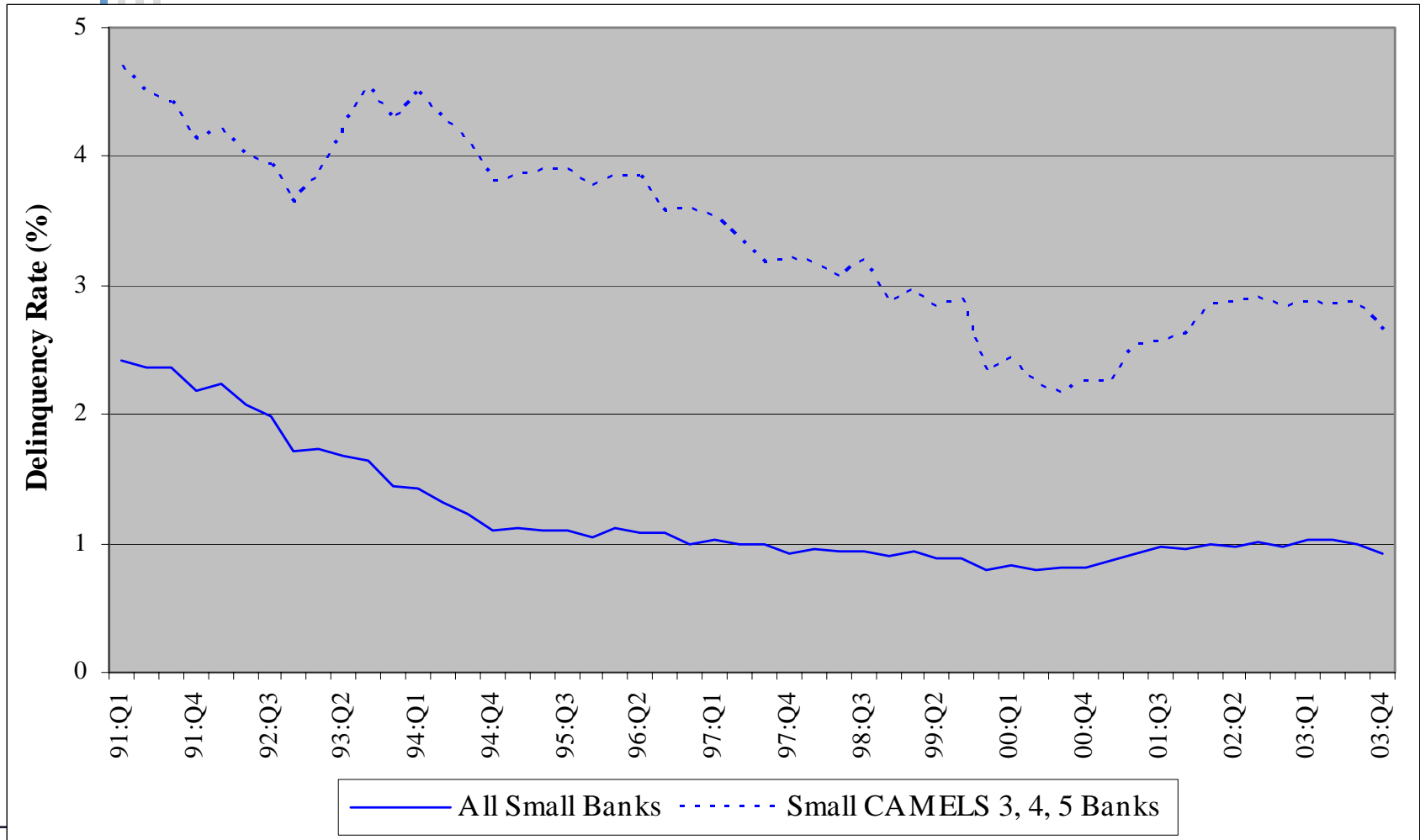
Overview

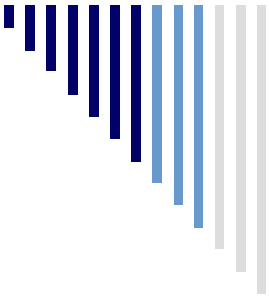
- CAMELS trends are improving but are still elevated relative to the late 1990s
- Credit risk is a problem at many troubled banks
- Credit risk should continue to improve with the economy
- Many banks are experiencing a squeeze on net interest margins
- Interest rate risk, operational risk, and compliance risk are areas of supervisory focus

The Delinquency Rate All Banks & Small Banks 91:Q1 to 03:Q4



The Delinquency Rate at Small Banks & Small CAMELS 3, 4, 5 Banks, 91:Q1 to 03:Q4





New CAMELS 3, 4, & 5 Institutions by Type of Lending

Lender Type	CAMELS 3, 4, and 5 Added in 2003	
	Number of Banks	Assets of Banks
	Percent	Percent
Residential R/E	16.7	12.5
Commercial R/E	19.6	30.4
Credit Card	0.0	0.0
Other Consumer	1.5	1.0
C&I	2.0	1.8
Other (Diversified)	56.9	53.8
De Novo	3.4	0.5



Improvement (Decline) in Sales-Weighted Expected Default Frequency at Top Industries

Industry (in order of most sales)	Sales-Weighted EDF March 2004	% Change from March 2003	% Change from December 2003
Energy	0.77	-76.6	-9.1
Banks and Finance Companies	0.22	-67.5	-21.4
Food & Beverage	0.77	-35.5	-1.9
Insurance	0.33	-63.3	-18.9
Chemicals	0.42	-51.7	-5.7
Automotive	0.79	-54.8	6.2
General Retail	0.52	-72.3	-16.0
Computer Equipment	0.92	-69.1	-19.6
Telecommunications	2.81	-50.2	9.0
Business Services	0.92	-69.6	-23.9



Interest Rate Risk

- Fed Funds futures are anticipating the federal funds rate will rise 100 basis points by year end
- Managing the direct and indirect impact of rising interest rates will be important
- Asset/liability management will receive supervisory attention



Operational Risk

- ❑ Major losses incurred across banks.
- ❑ Fraud responsible for significant losses to FDIC for failed banks.
- ❑ With innovation, new opportunities for control weaknesses to be exploited.
- ❑ Education of customers as important as education of employees – ATMs, Identity theft, internet scams



Compliance Risk

- Enforcement actions have focused on compliance issues
- Major reputational risk and potential applications issue
- Enforcement agencies are increasingly asking why patterns were not detected earlier by financial institutions