Banking Conditions in Minnesota and the Twin Cities: Second Quarter 2012 Results

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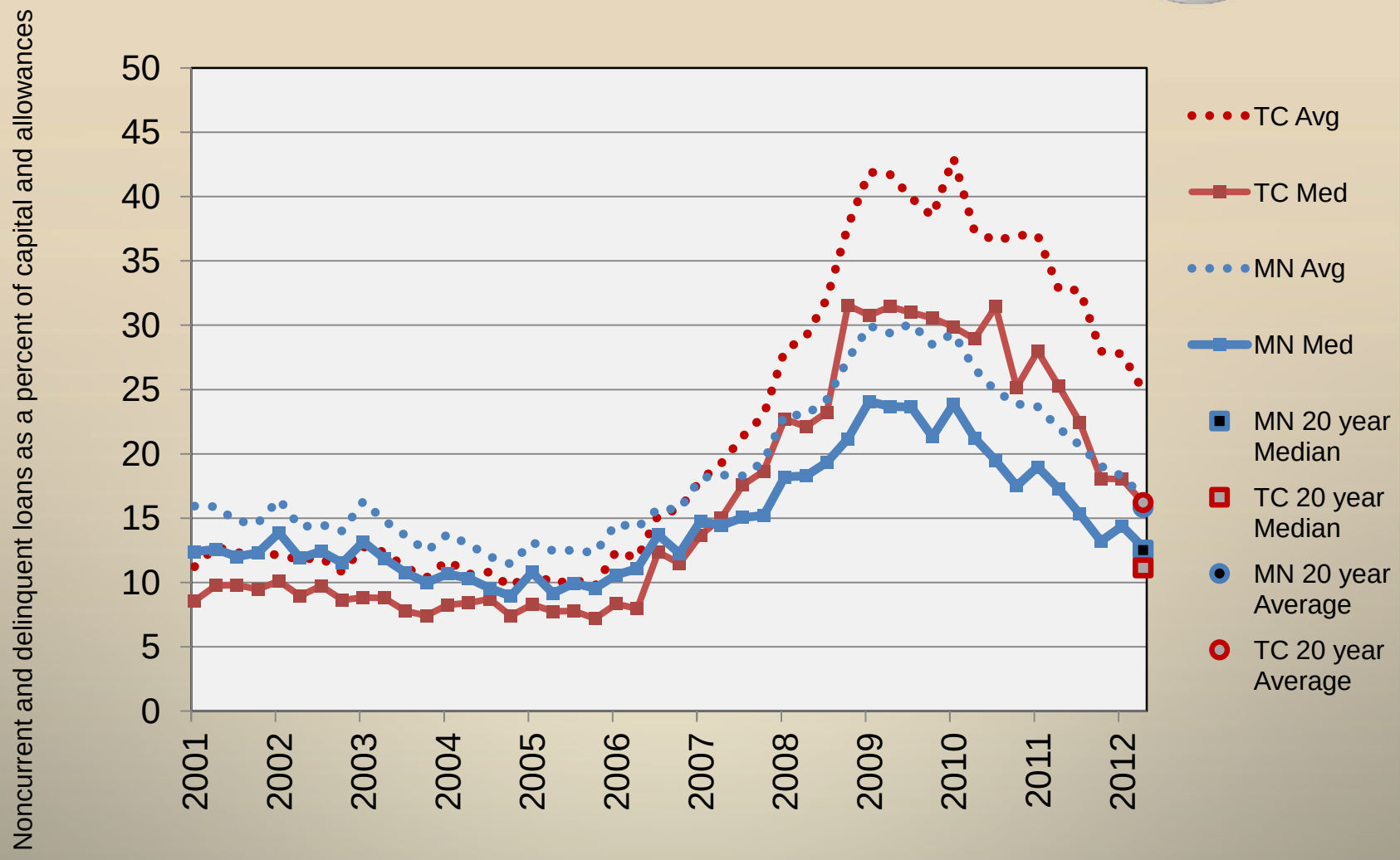
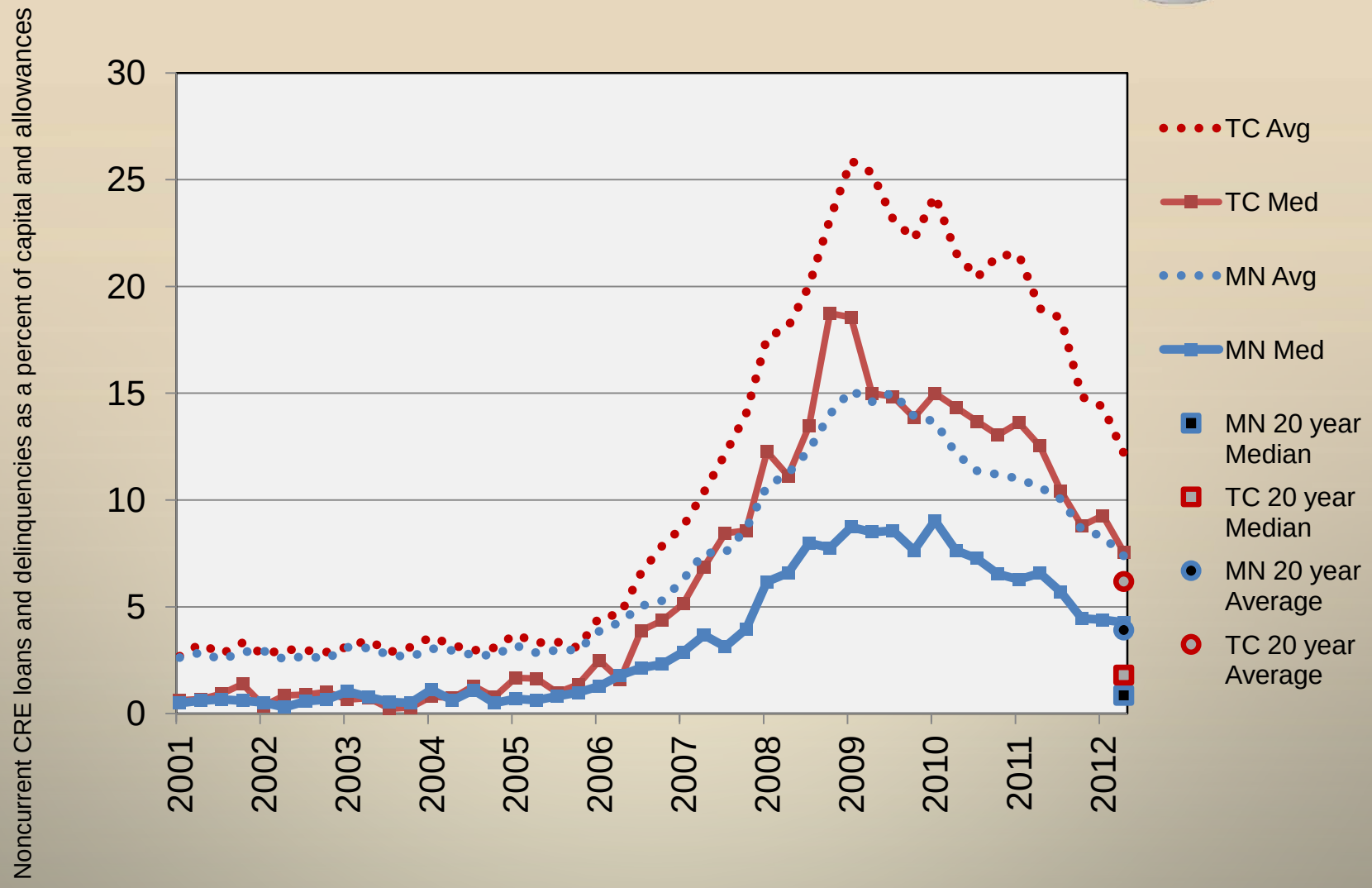
Summary of Second Quarter Banking Performance

- Asset quality near 20-year averages; profits less so and loan growth way off
- Improvement in 2Q12
  - Strong improvement in asset quality
  - Small improvement in profits
  - Strong improvement in loan growth
- Year-to-date changes consistent with 2012 forecast
  - State ratios already within forecast range; TC ratios a little less so
- Current banking recovery seems slower than prior one

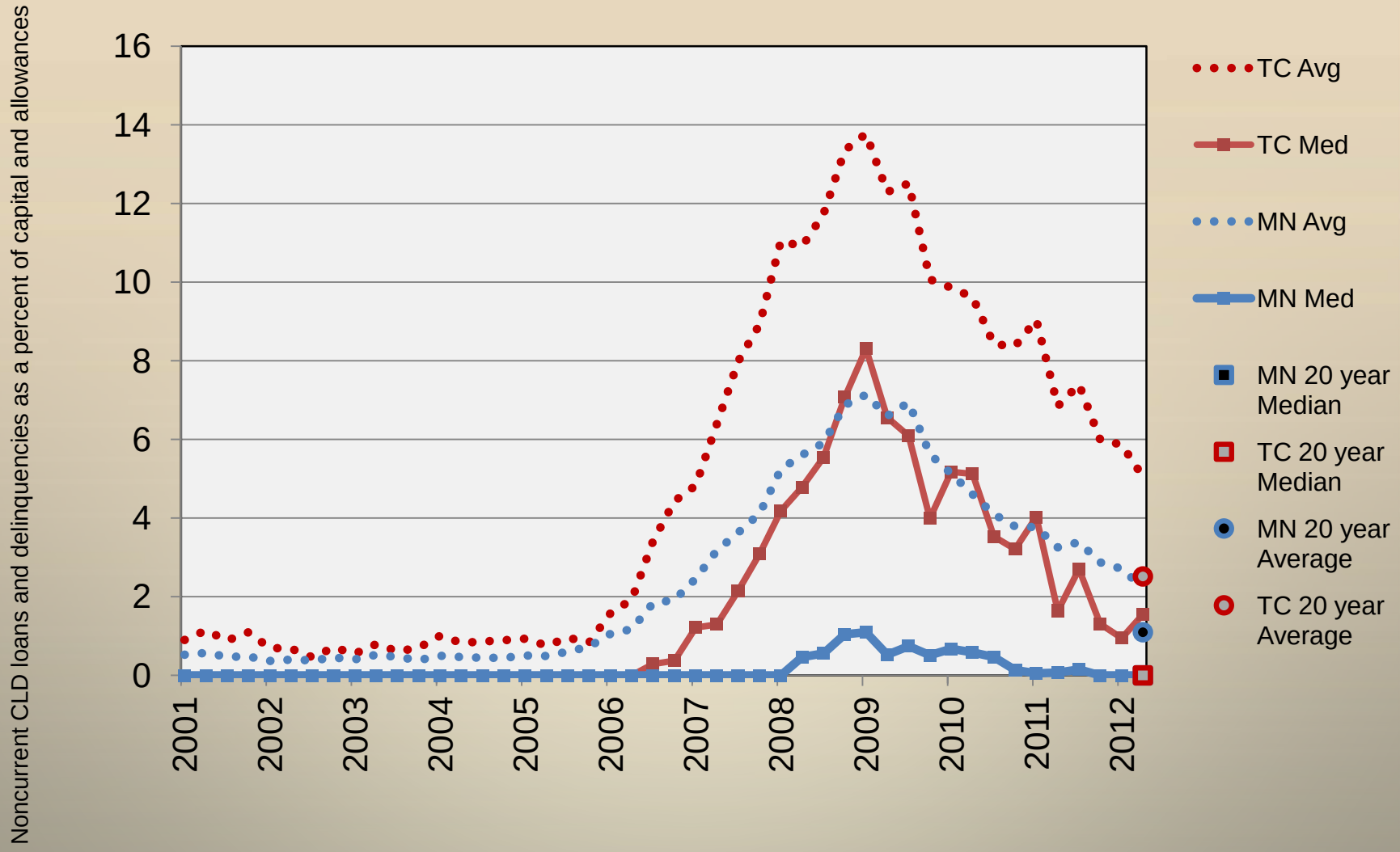
Strong Improvement in Overall Asset Quality



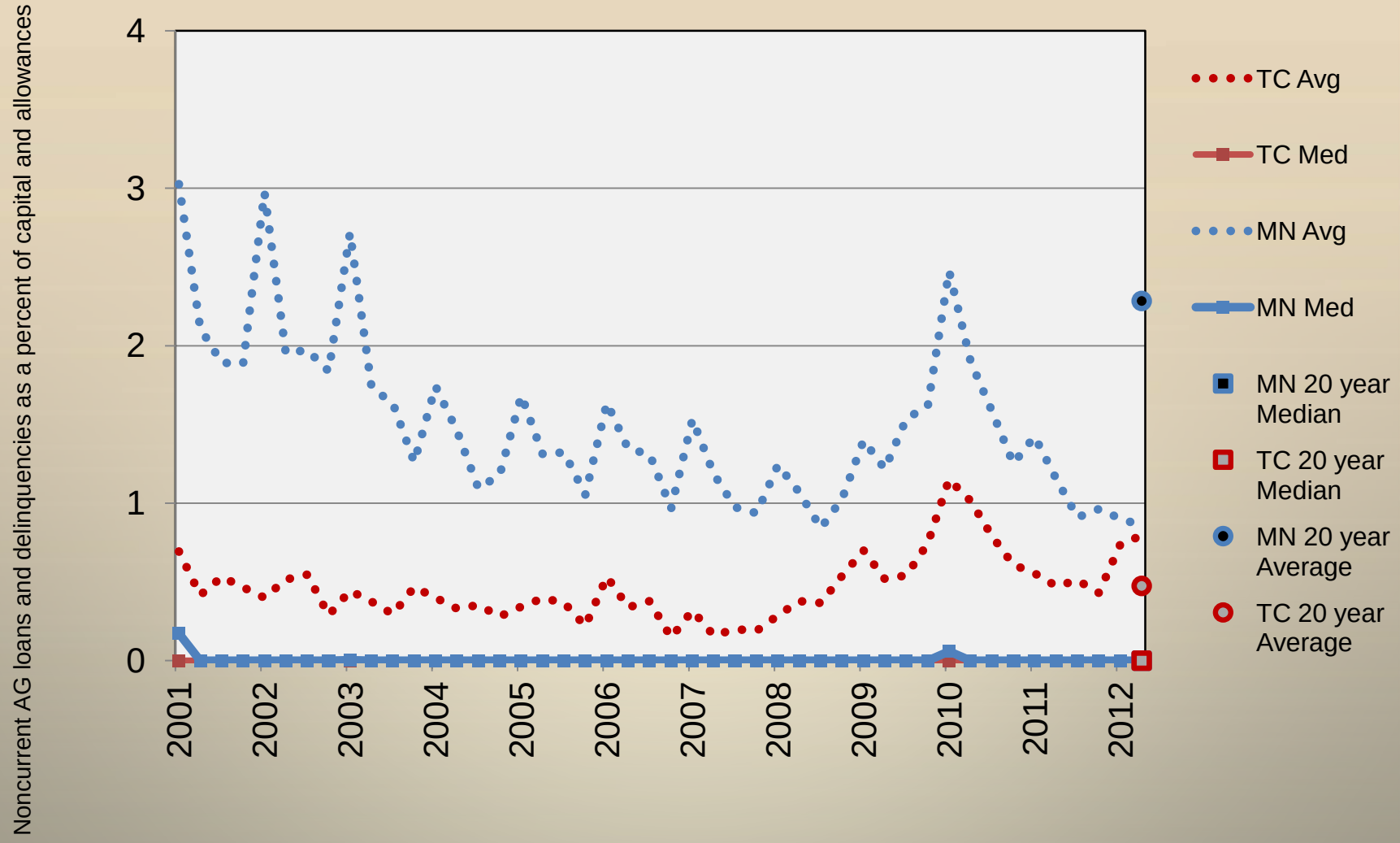
Strong General Improvement in Commercial Real Estate Asset Quality



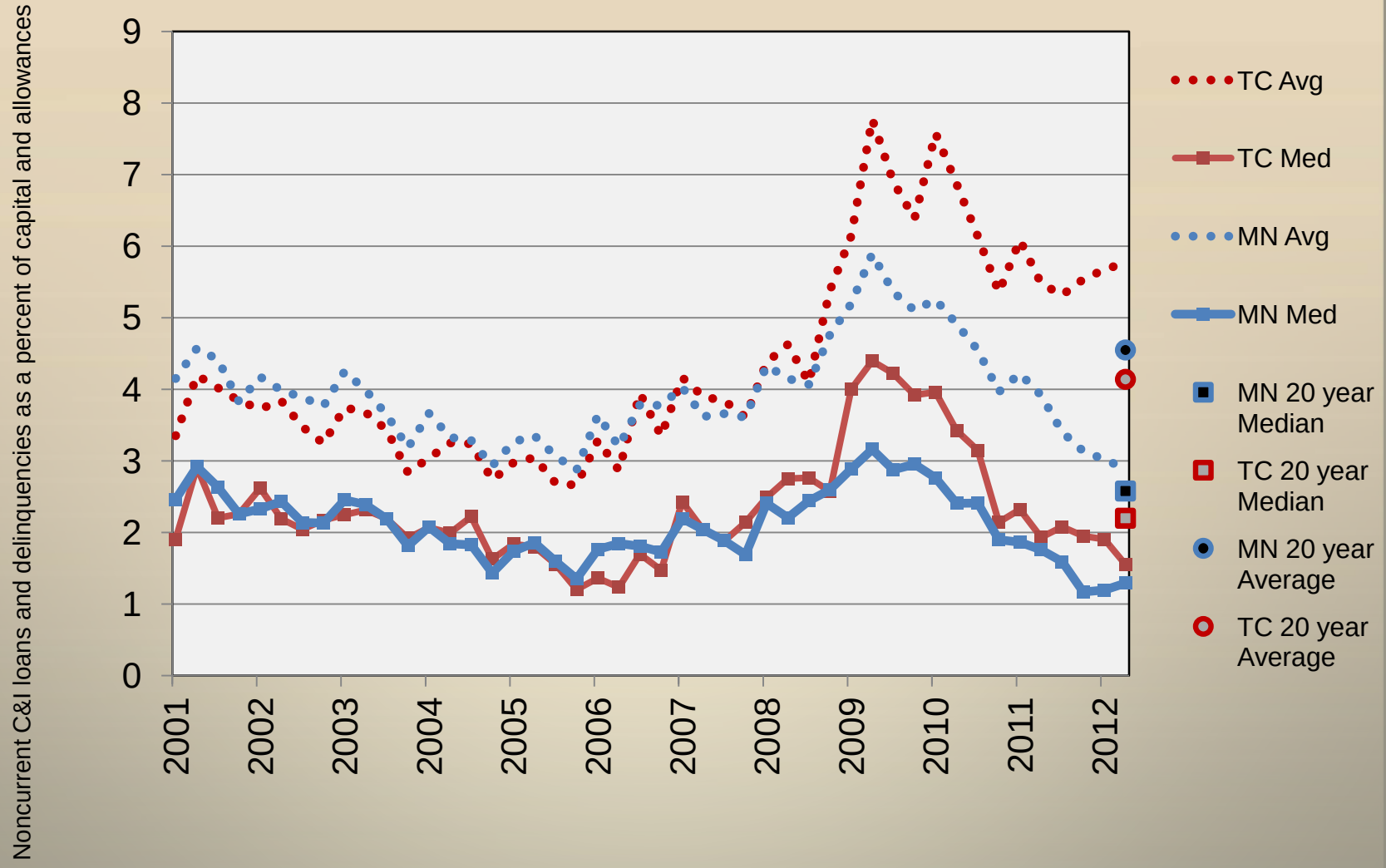
Strong Improvement in Construction and Land Development Asset Quality for Average Bank



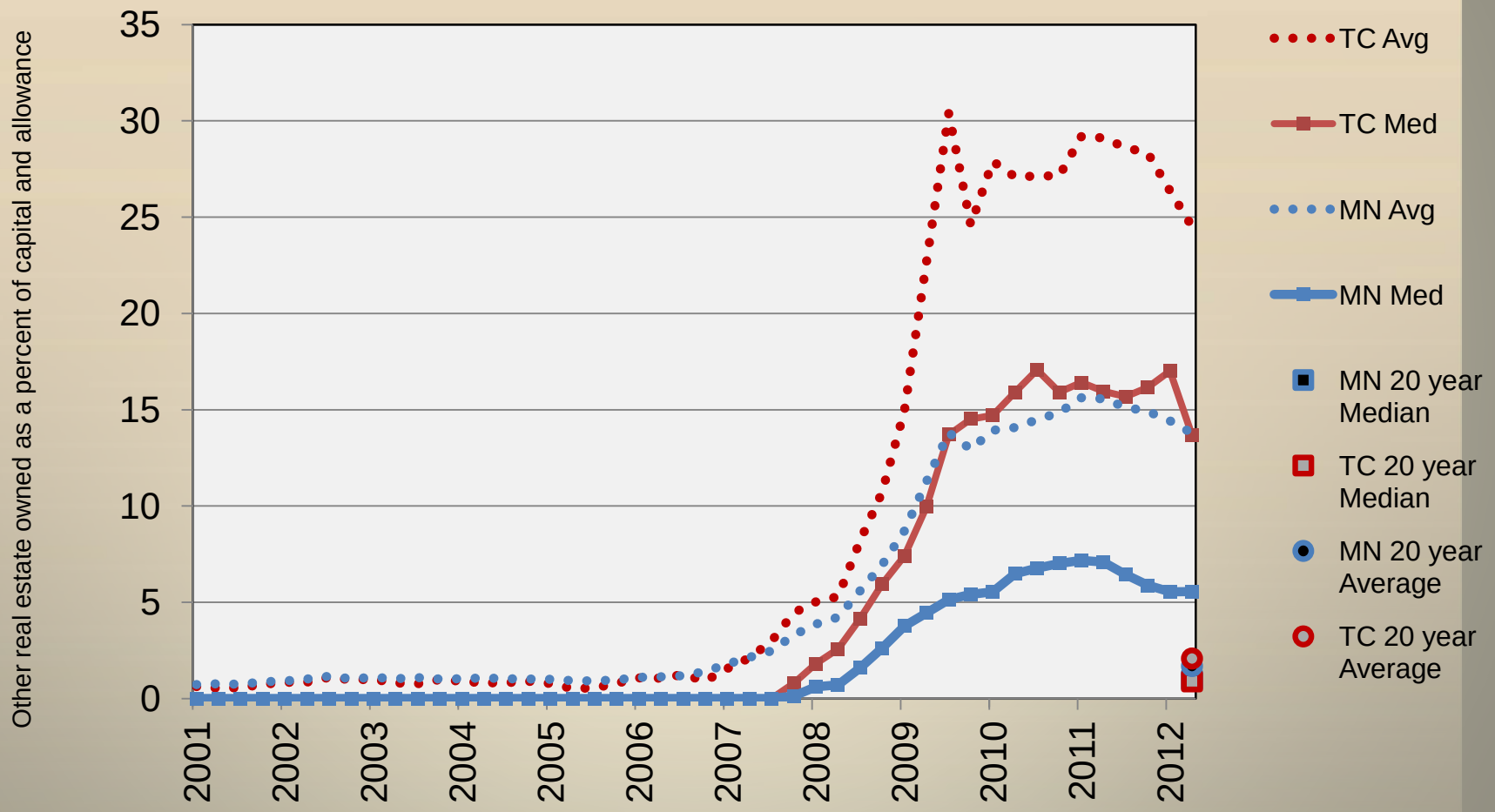
Agricultural Asset Quality Flat



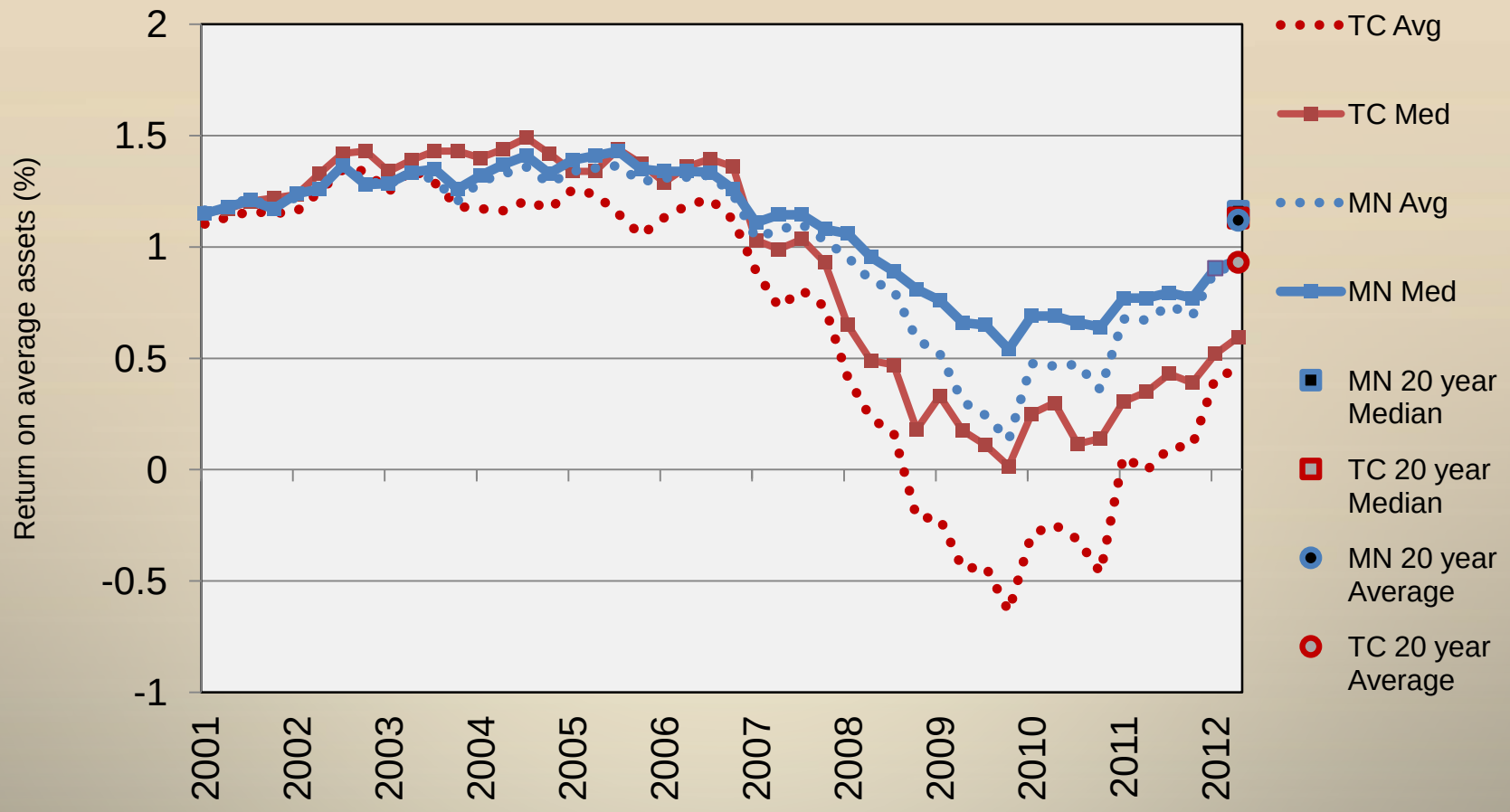
Small but Mixed Changes in Commercial/Industrial Asset Quality



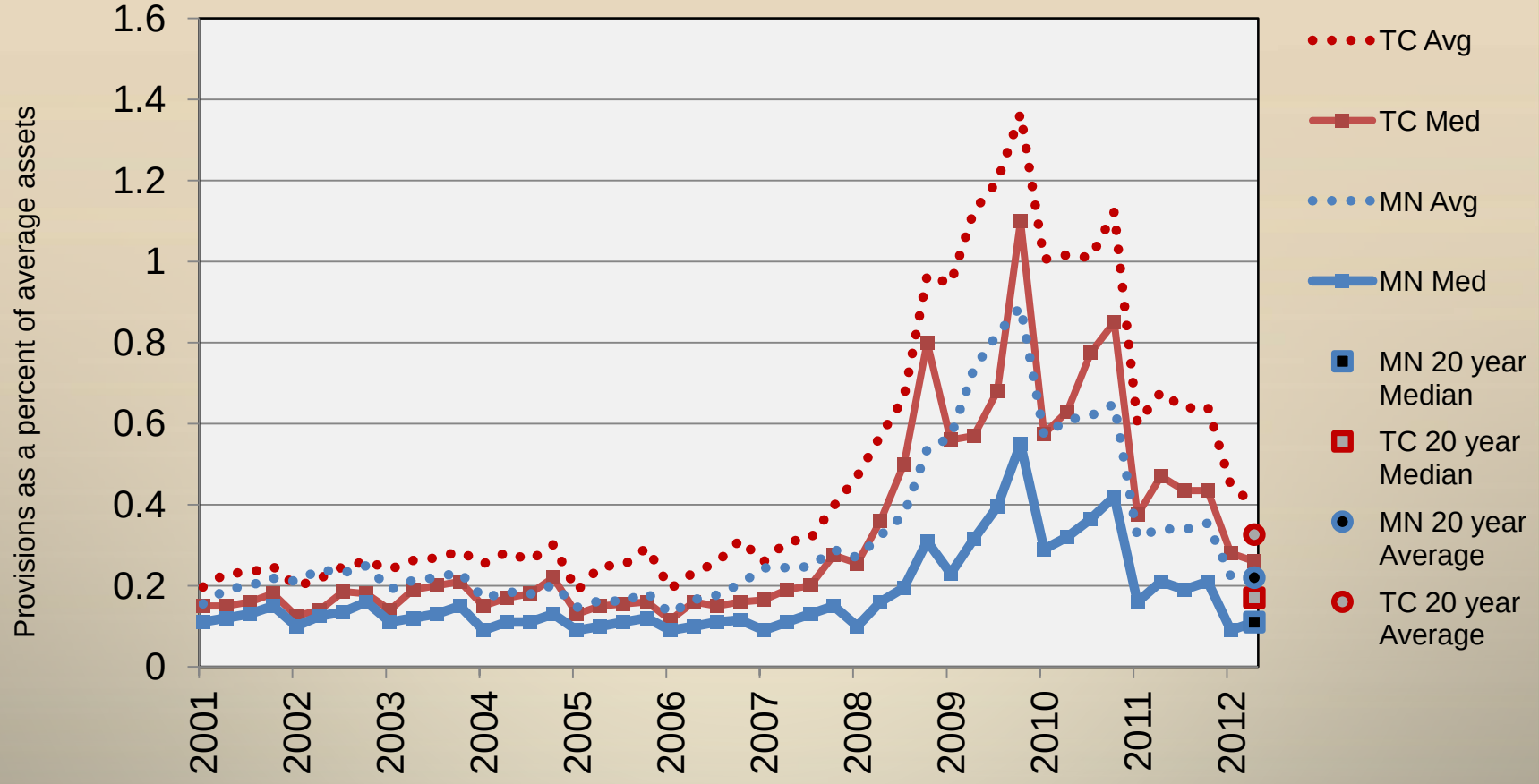
Strong Improvement in Other Real Estate Owned



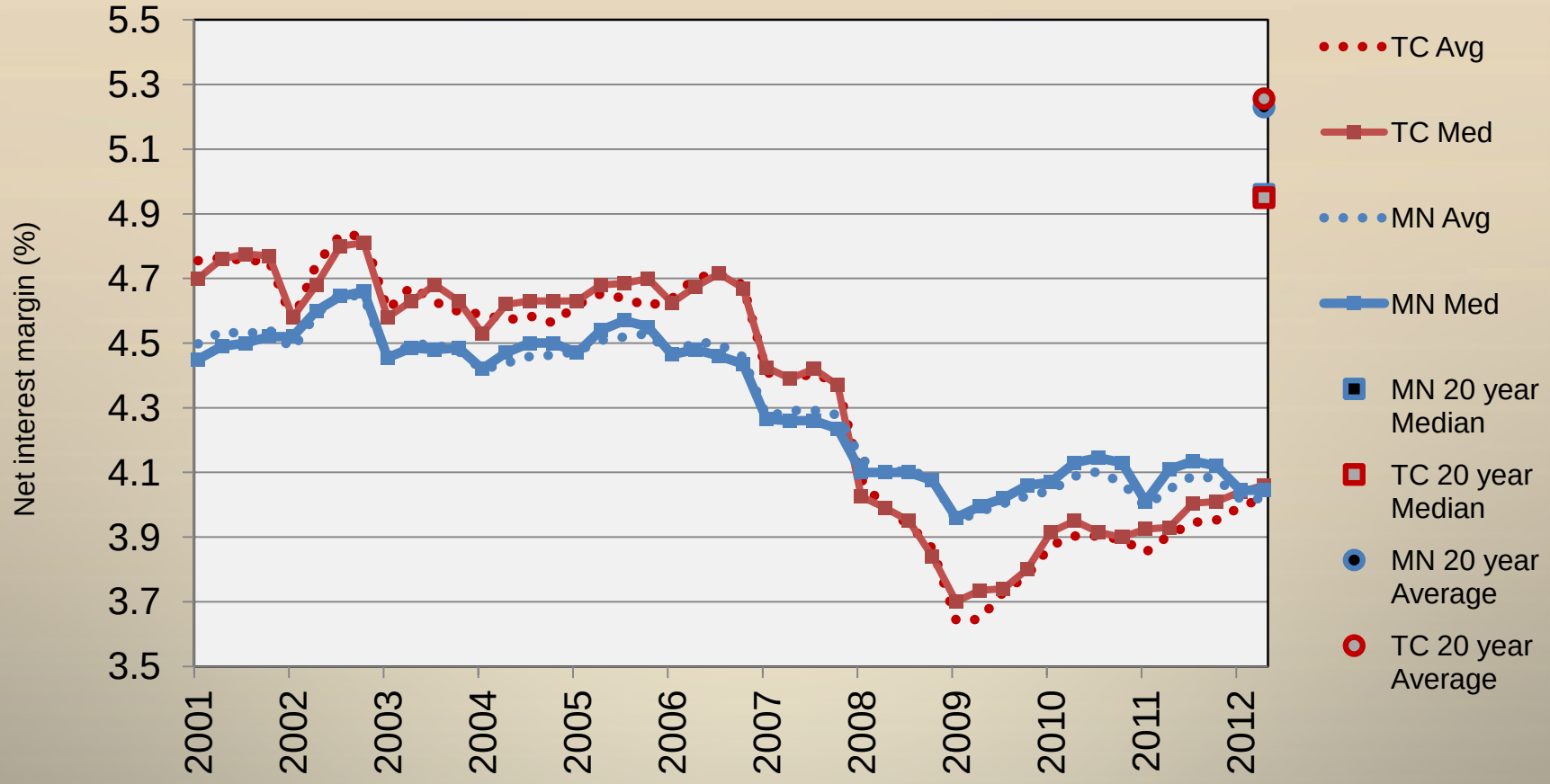
Small Improvement in Second Quarter Profits



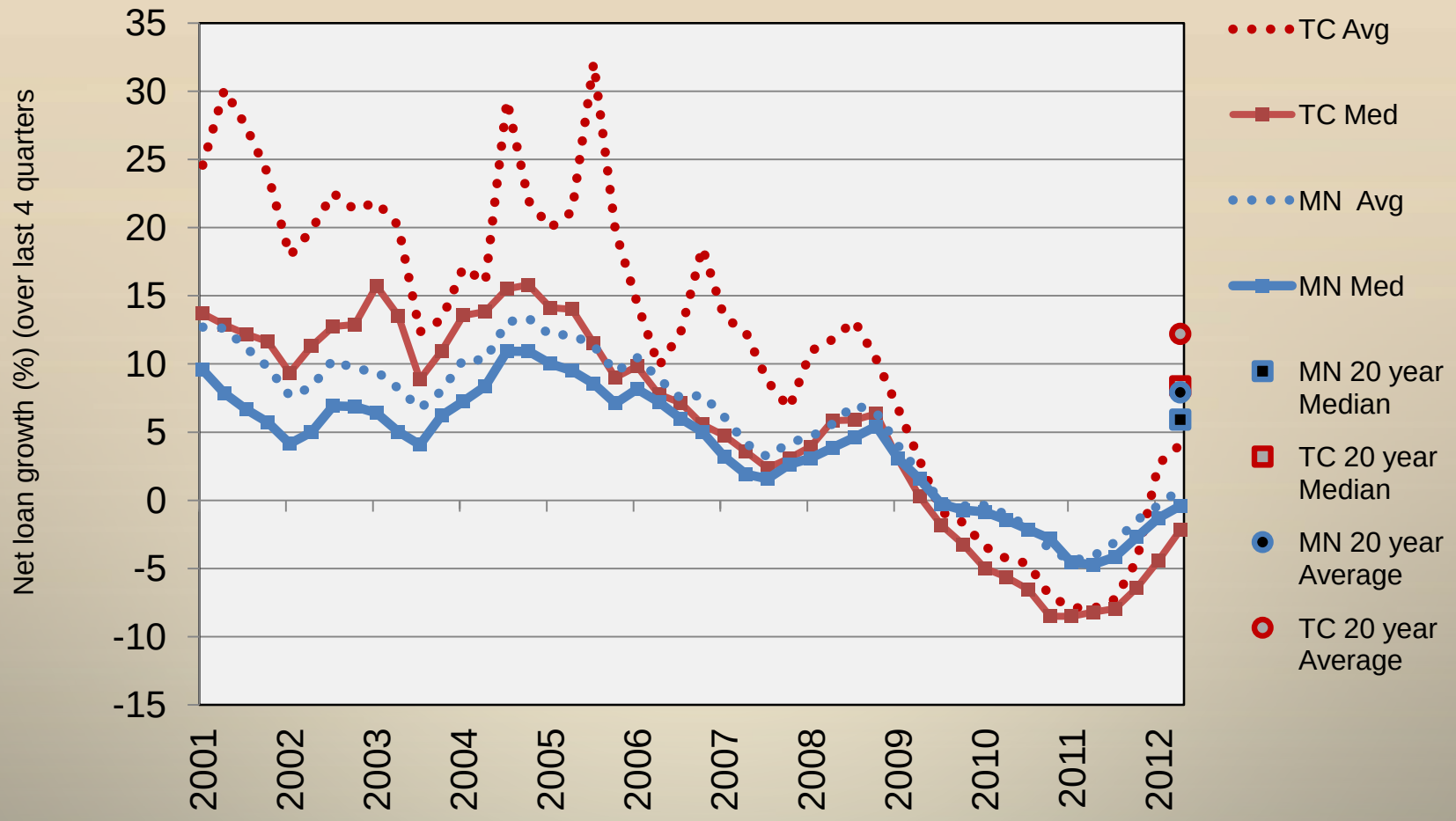
Little Change in Provisions



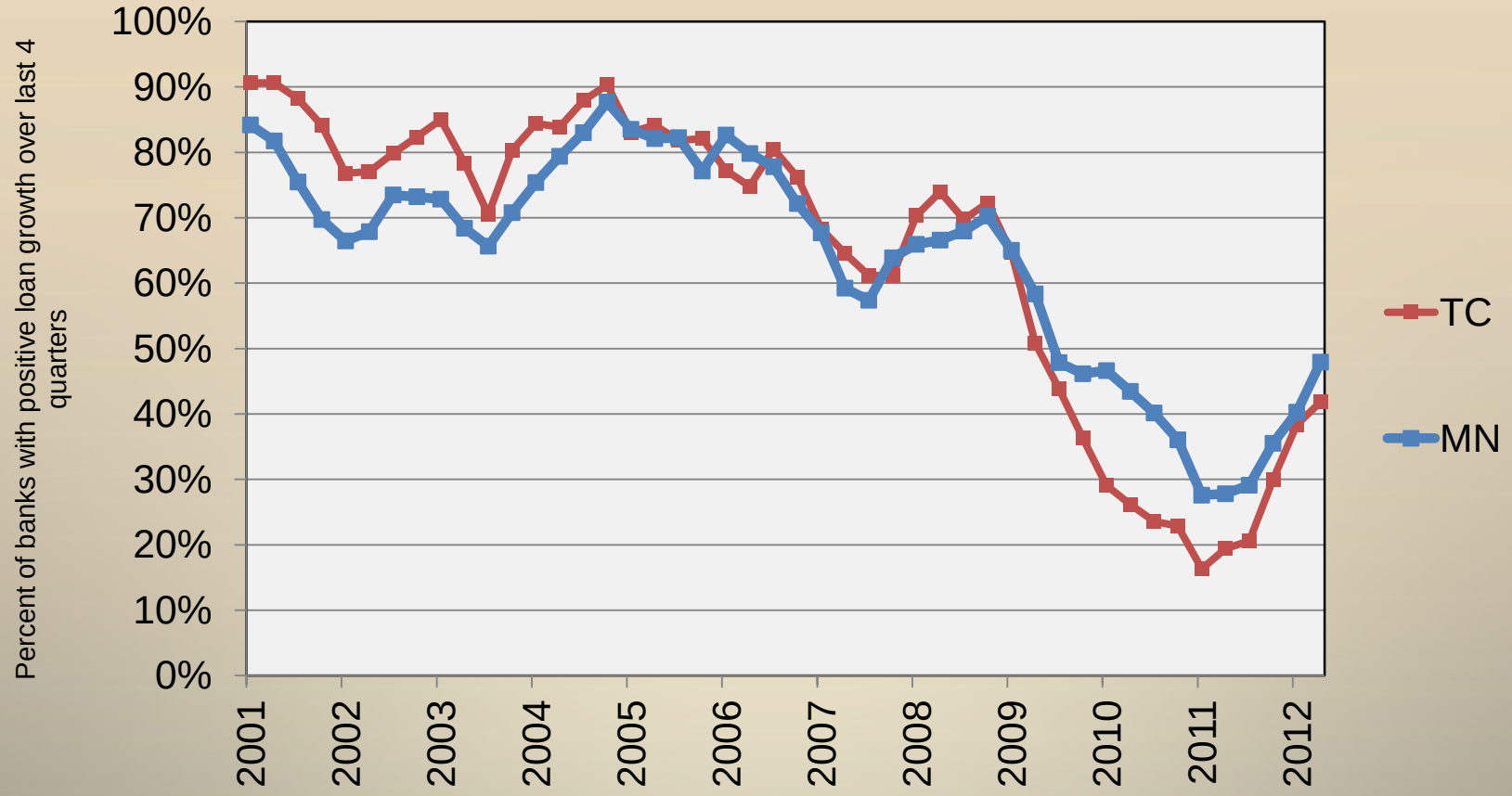
Net Interest Margin Up for TC, Down for State



Strong Improvement Continues in Loan Growth But Still Negative to Slightly Positive Levels



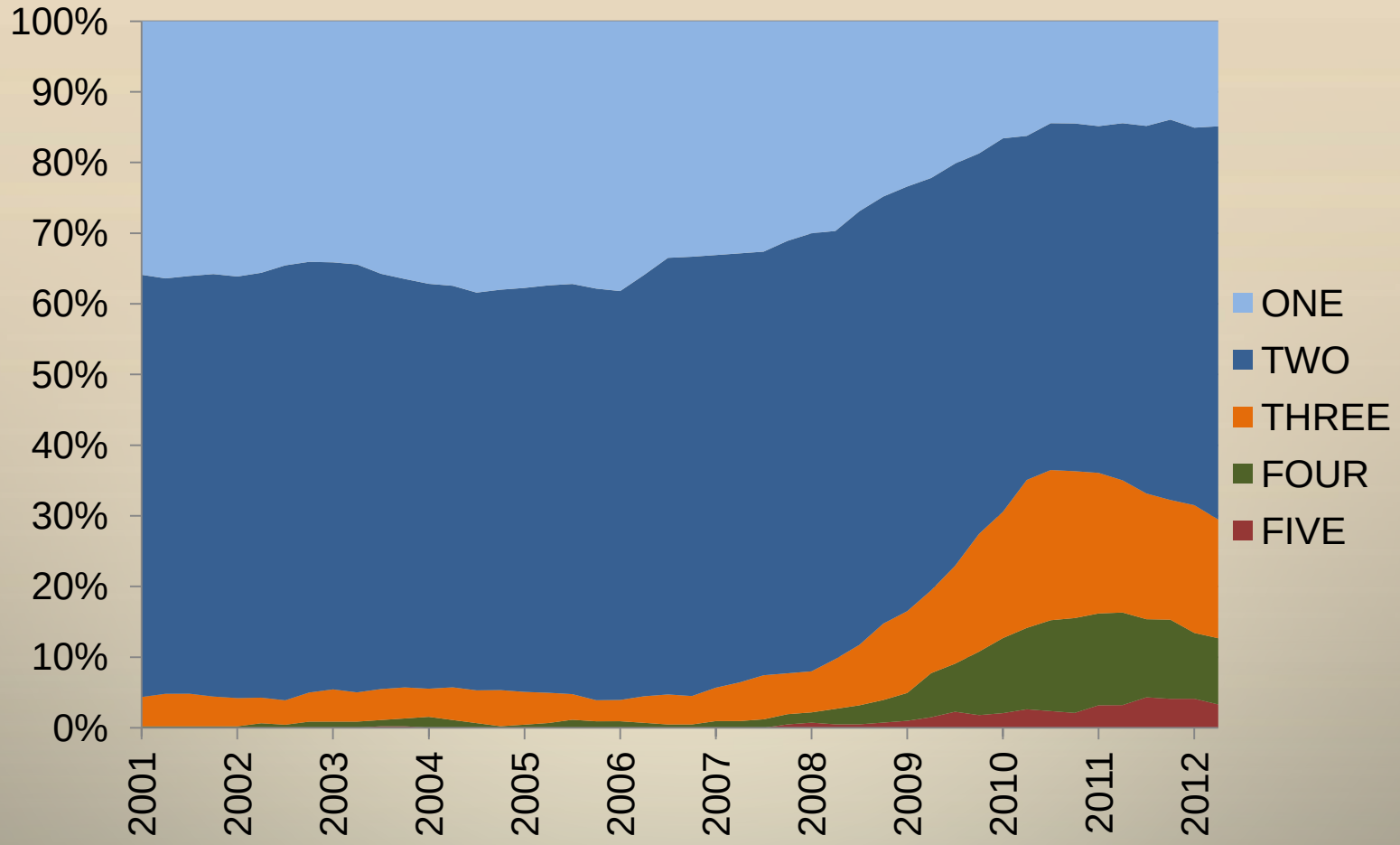
More Banks with Positive Loan Growth; Now Almost Half of MN Banks



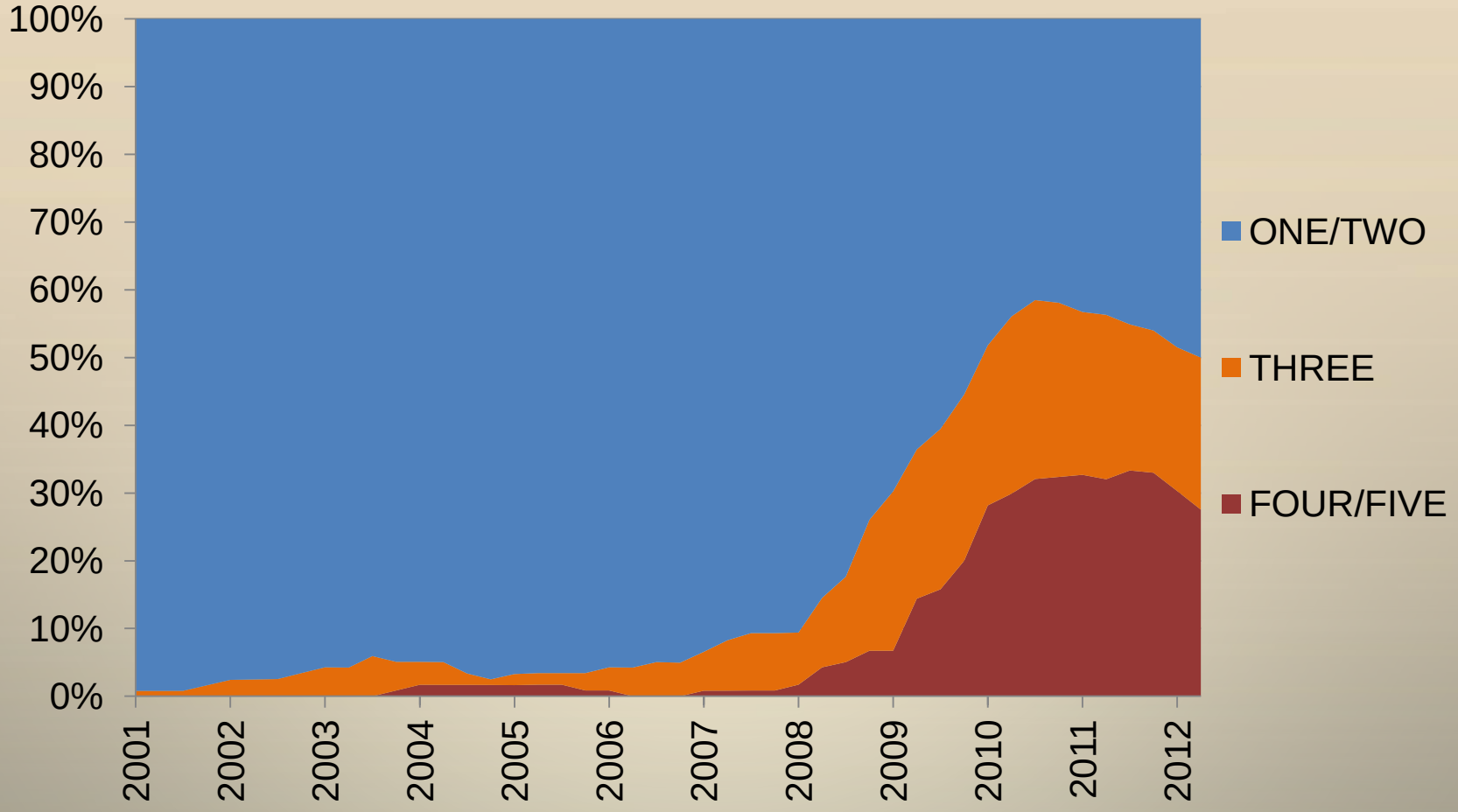
Stronger Funding and Capital Levels

- Liquidity continues to improve
  - Noncore funding continued to drop at a moderate rate
  - Liquid assets remain very high; however, fell slightly after reaching a 10-year high last quarter
  - Declining use of brokered deposits; lowest level since 2004
- Little change for capital levels; remain strong/improving

Middling to Strong Improvement in MN Bank Ratings

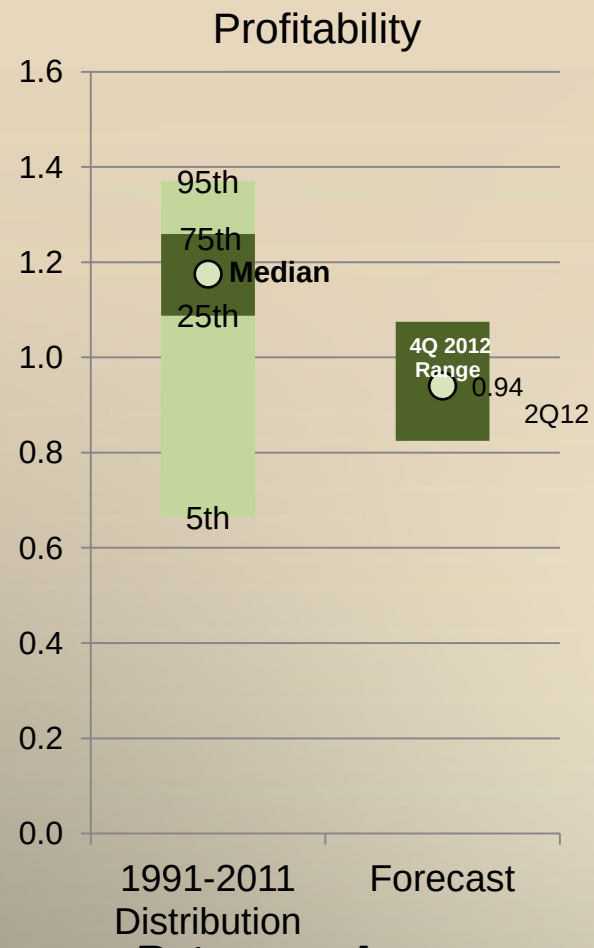


Small Improvement in TC Bank Ratings

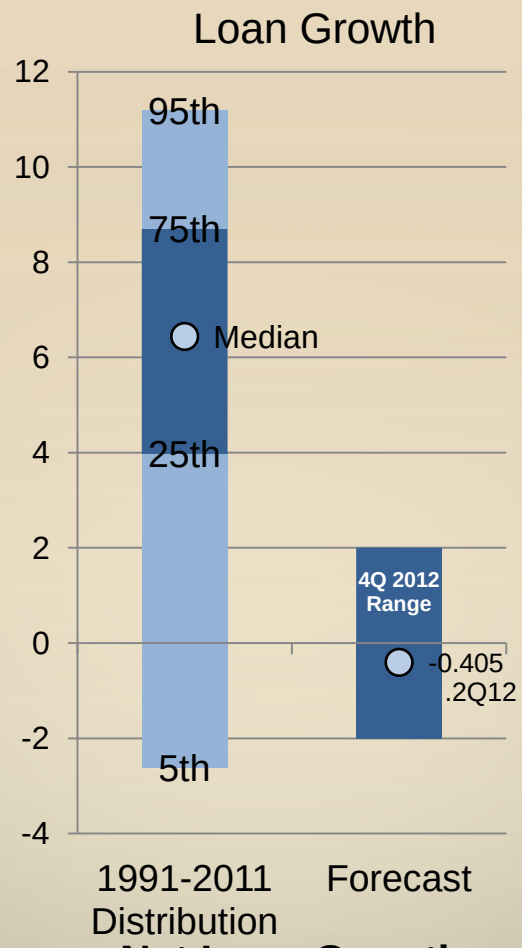


Status of YE12 Minnesota Forecast as of 2Q12

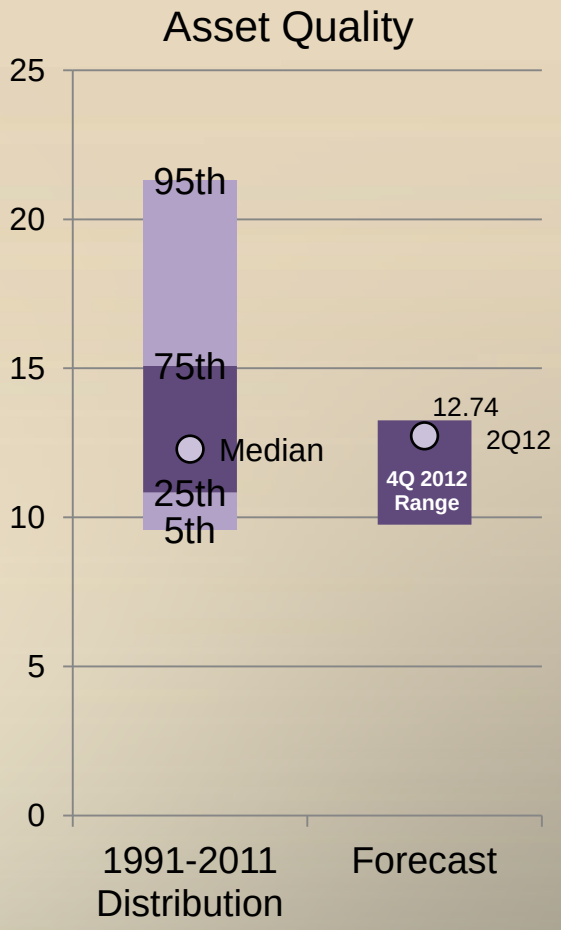
Bank Median



Return on Average Assets



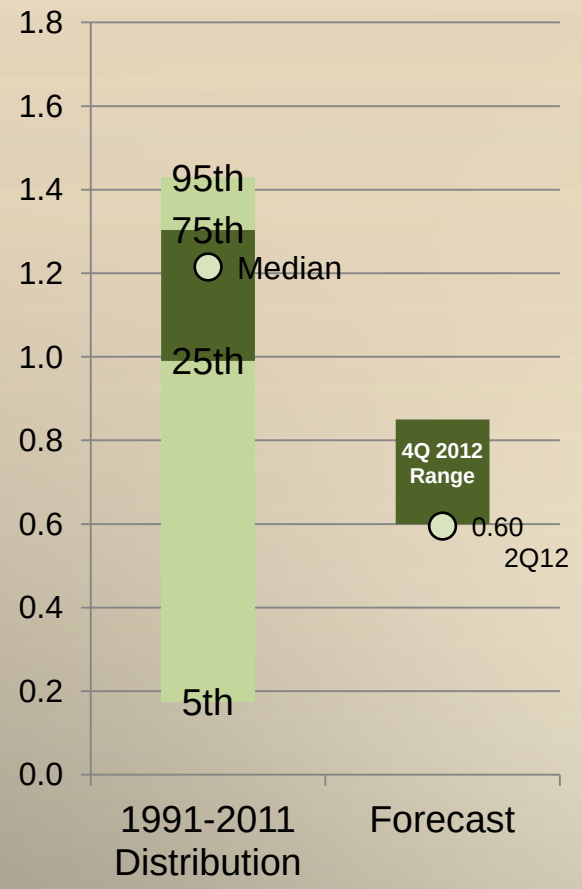
Net Loan Growth (Y-to-Y)



Noncurrent and Delinquent Loans as a Percent of Capital and Allowance

Status of YE12 Twin Cities Forecast as of 2Q12

Bank Median



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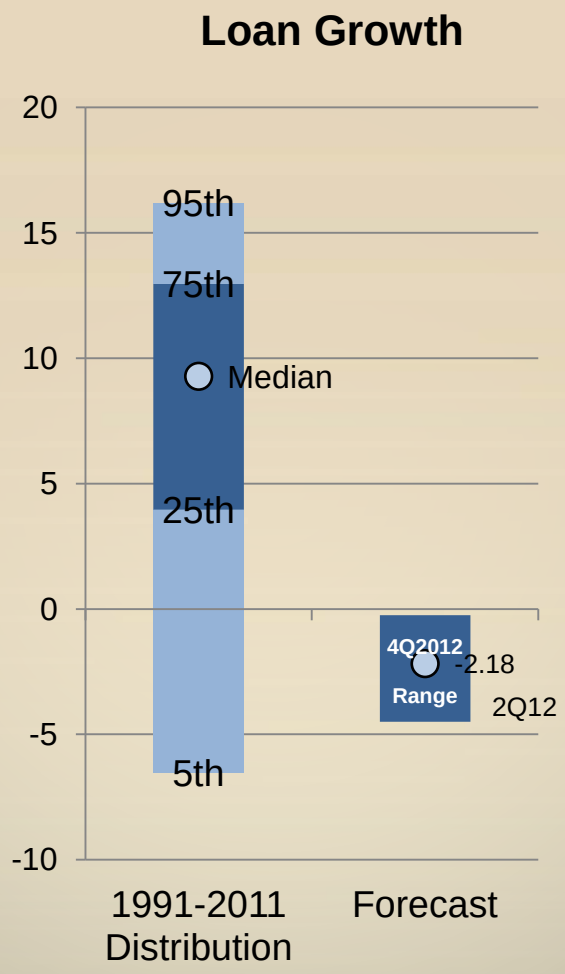

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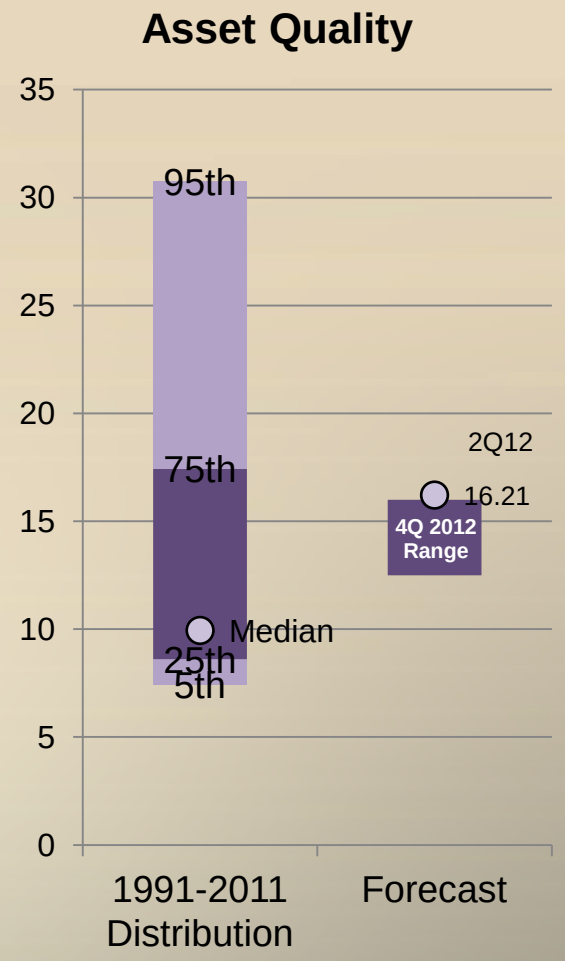


Noncurrent and Delinquent Loans as a Percent of Capital and Allowance

Minnesota 2Q12 Performance Data

Bank Median

Profitability (ROAA)	(%)
Current Value (2nd Quarter 2012)	0.94
Median Value for 1991 to 2011	1.175
High Value, Range of Forecast	1.075
Low Value, Range of Forecast	0.825

Loan Growth (Yr Over Yr)	(%)
Current Value (2nd Quarter 2012)	-0.405
Median Value for 1991 to 2011	6.44
High Value, Range of Forecast	2.0
Low Value, Range of Forecast	-2.0

Asset Quality (NC+DL Ratio)	(%)
Current Value (2nd Quarter 2012)	12.74
Median Value for 1991 to 2011	12.29
High Value, Range of Forecast	13.25
Low Value, Range of Forecast	9.75

Forecast made for YE2012 as of YE2011

Twin Cities 2Q12 Performance Data

Bank Median

Profitability (ROAA)	(%)
Current Value (2nd Quarter 2012)	0.60
Median Value for 1991 to 2011	1.215
High Value, Range of Forecast	0.85
Low Value, Range of Forecast	0.60

Loan Growth (Yr over Yr)	(%)
Current Value (2nd Quarter 2012)	-2.18
Median Value for 1991 to 2011	9.28
High Value, Range of Forecast	-0.25
Low Value, Range of Forecast	-4.25

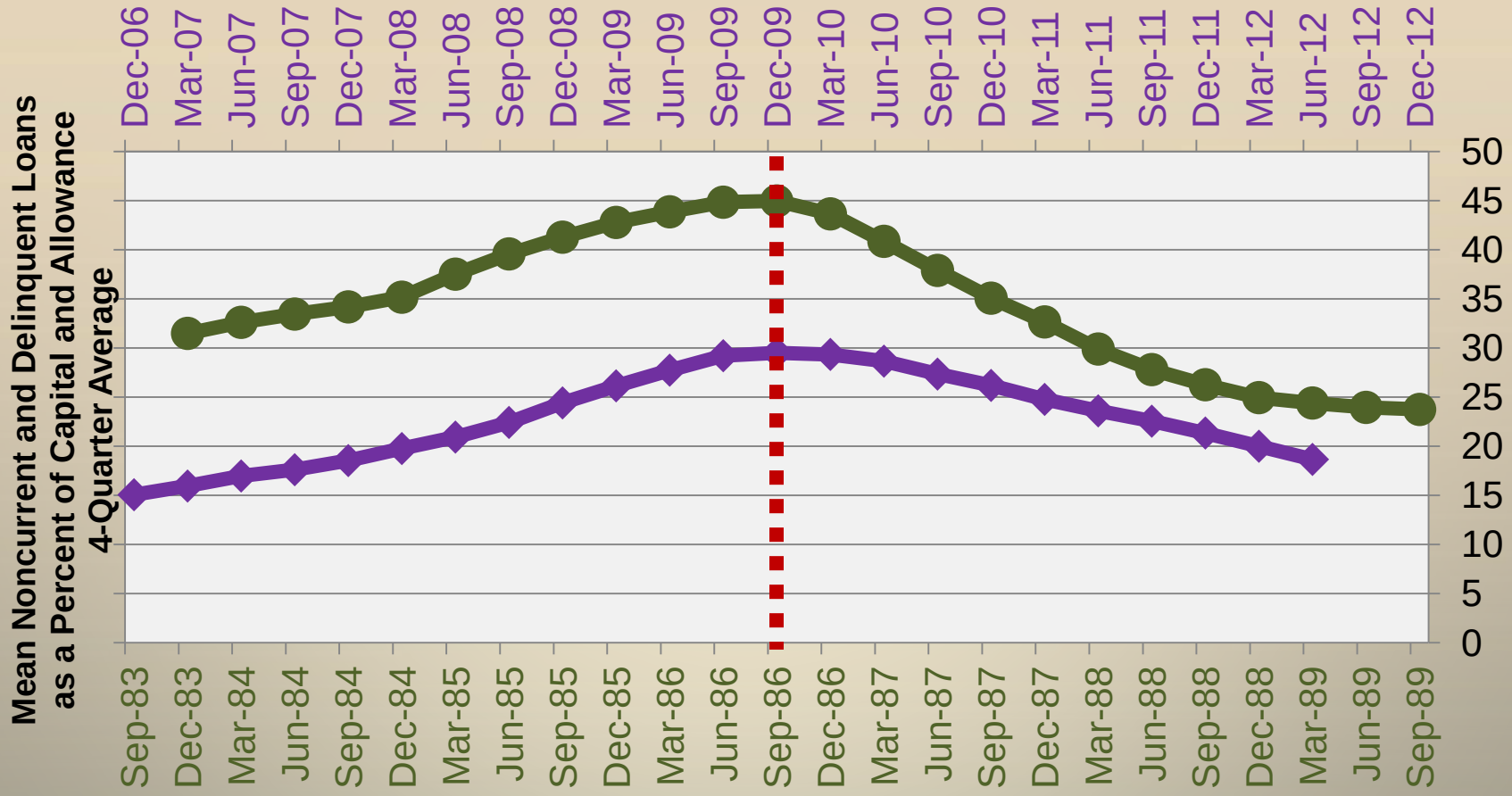
Asset Quality (NC+DL Ratio)	(%)
Current Value (2nd Quarter 2012)	16.21
Median Value for 1991 to 2011	9.94
High Value, Range of Forecast	16.0
Low Value, Range of Forecast	12.5

Forecast made for YE2012 as of YE2011

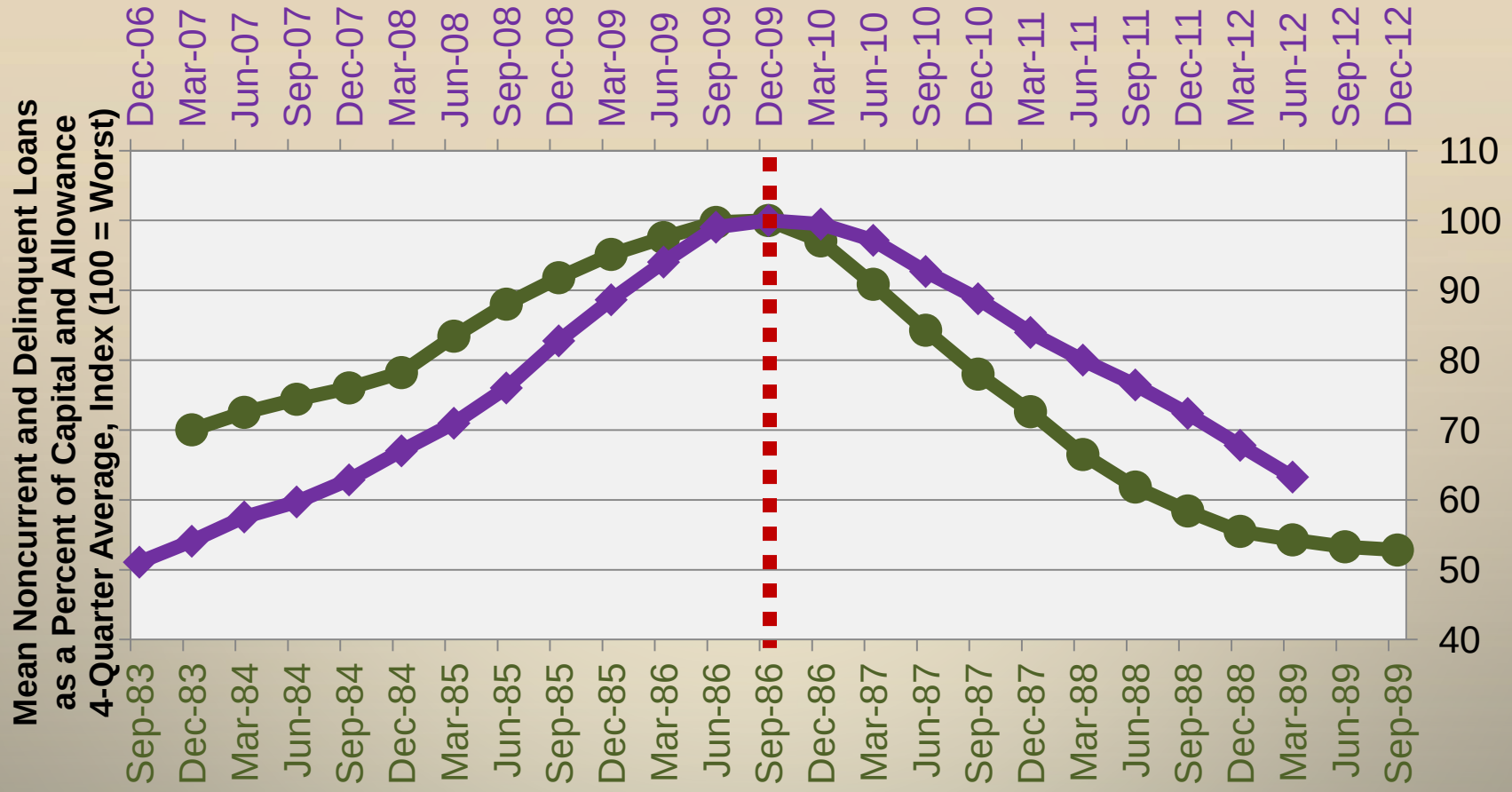
Comparing Banking Recoveries: Late 1980s to Current

- Current asset quality recovery seems slower
  - Data limitations prevent sharp conclusions
- Earnings fell further/recovering more slowly in current period
- Current TC loan growth recovery similar to past; current MN loan growth changes less volatile
  - Will loan growth return to pre-crisis peaks?

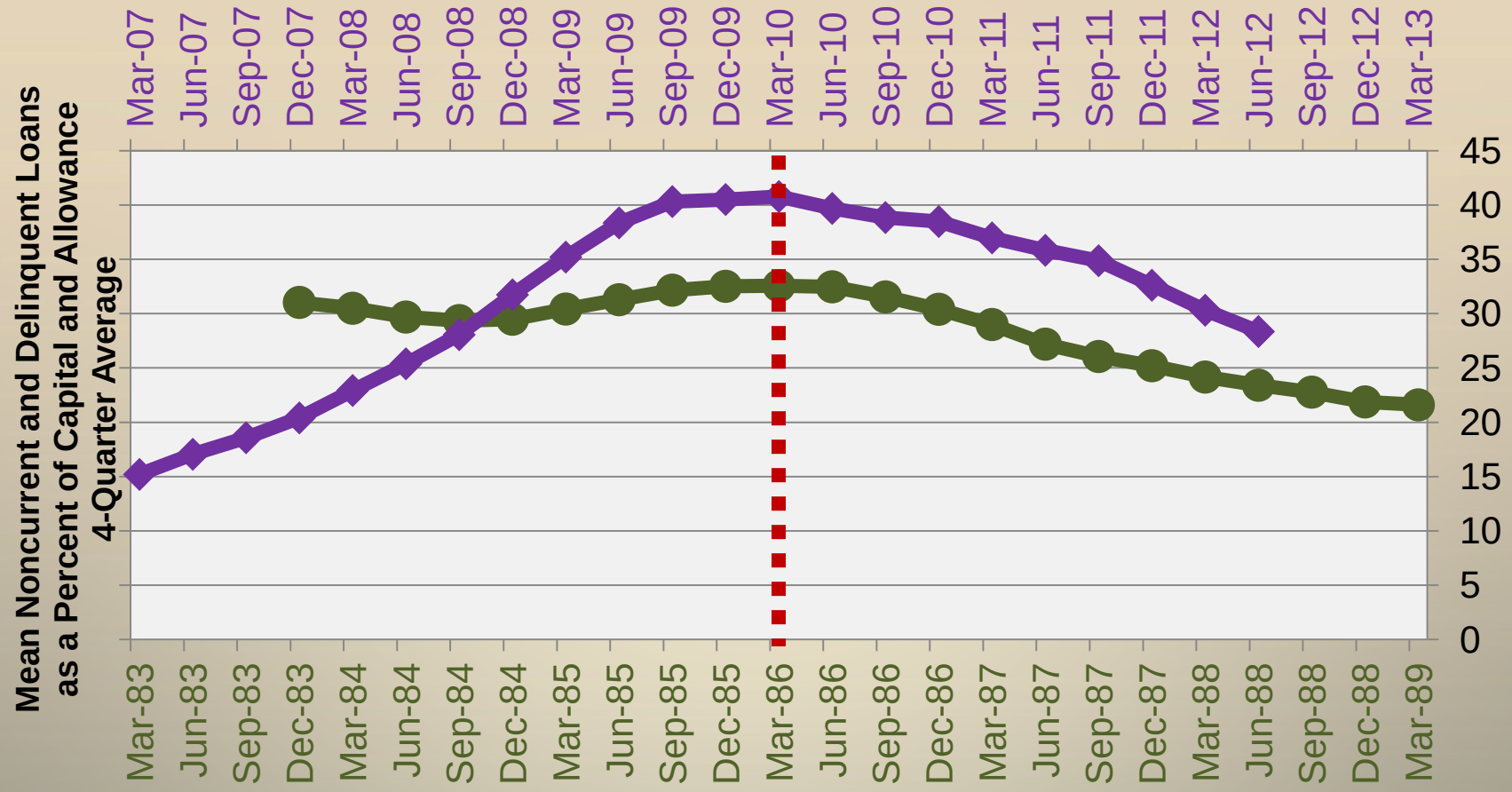
Problem Assets (Absolute Levels)
Minnesota Banks



Problem Assets (Indexed)
Minnesota Banks



Problem Assets (Absolute Levels)
Twin Cities Banks



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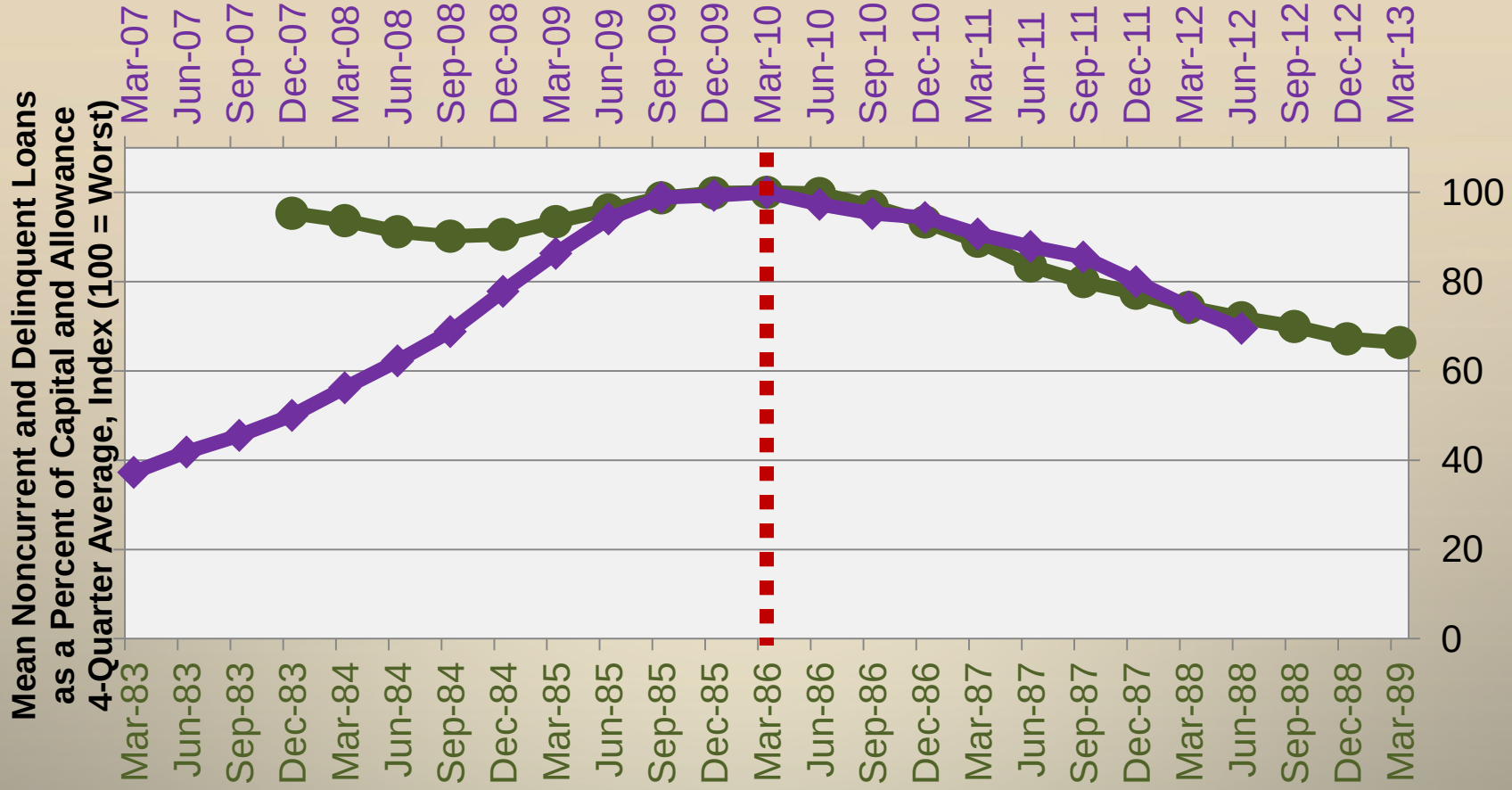
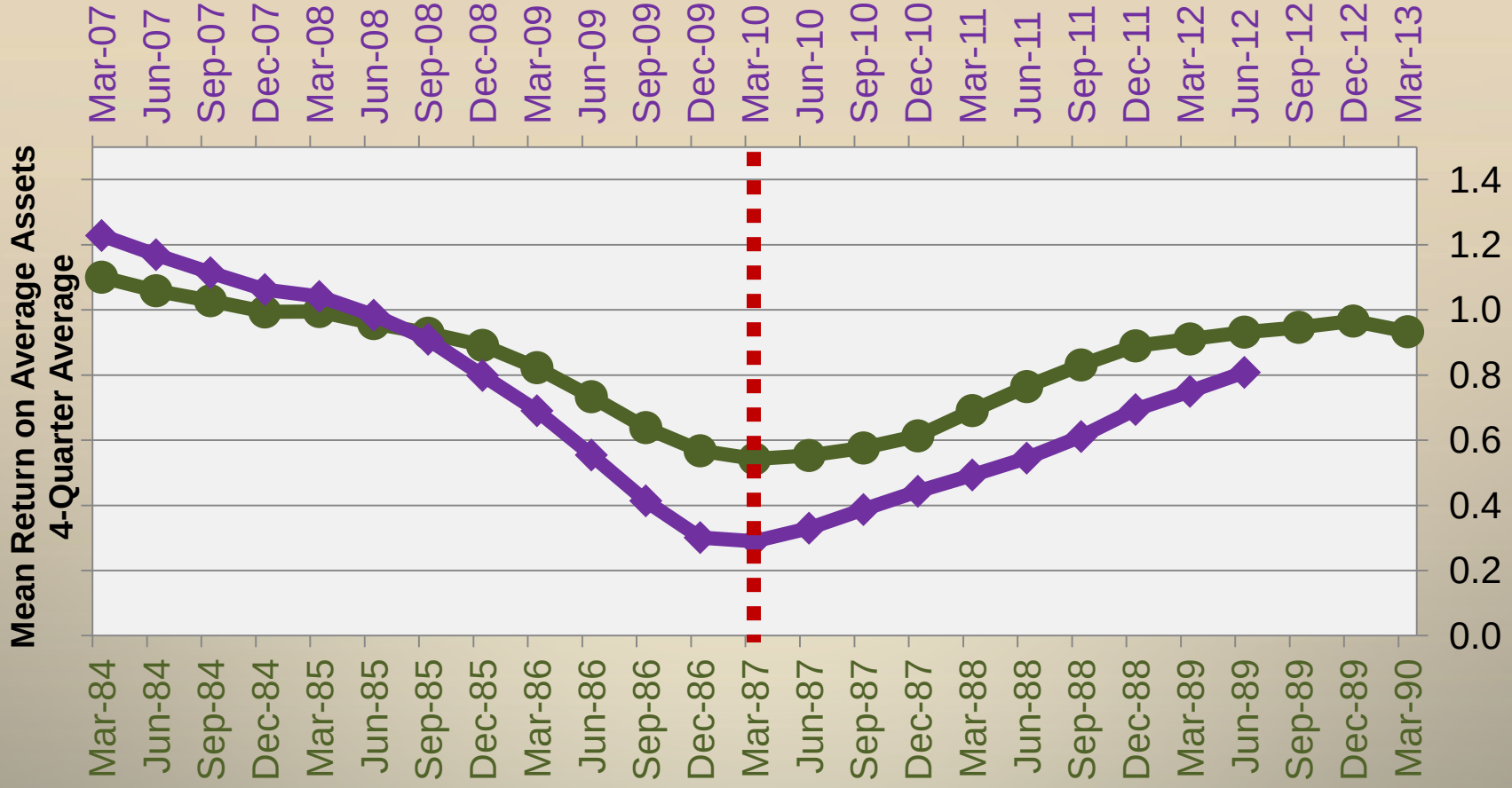


Earnings (Absolute Levels)
Minnesota Banks



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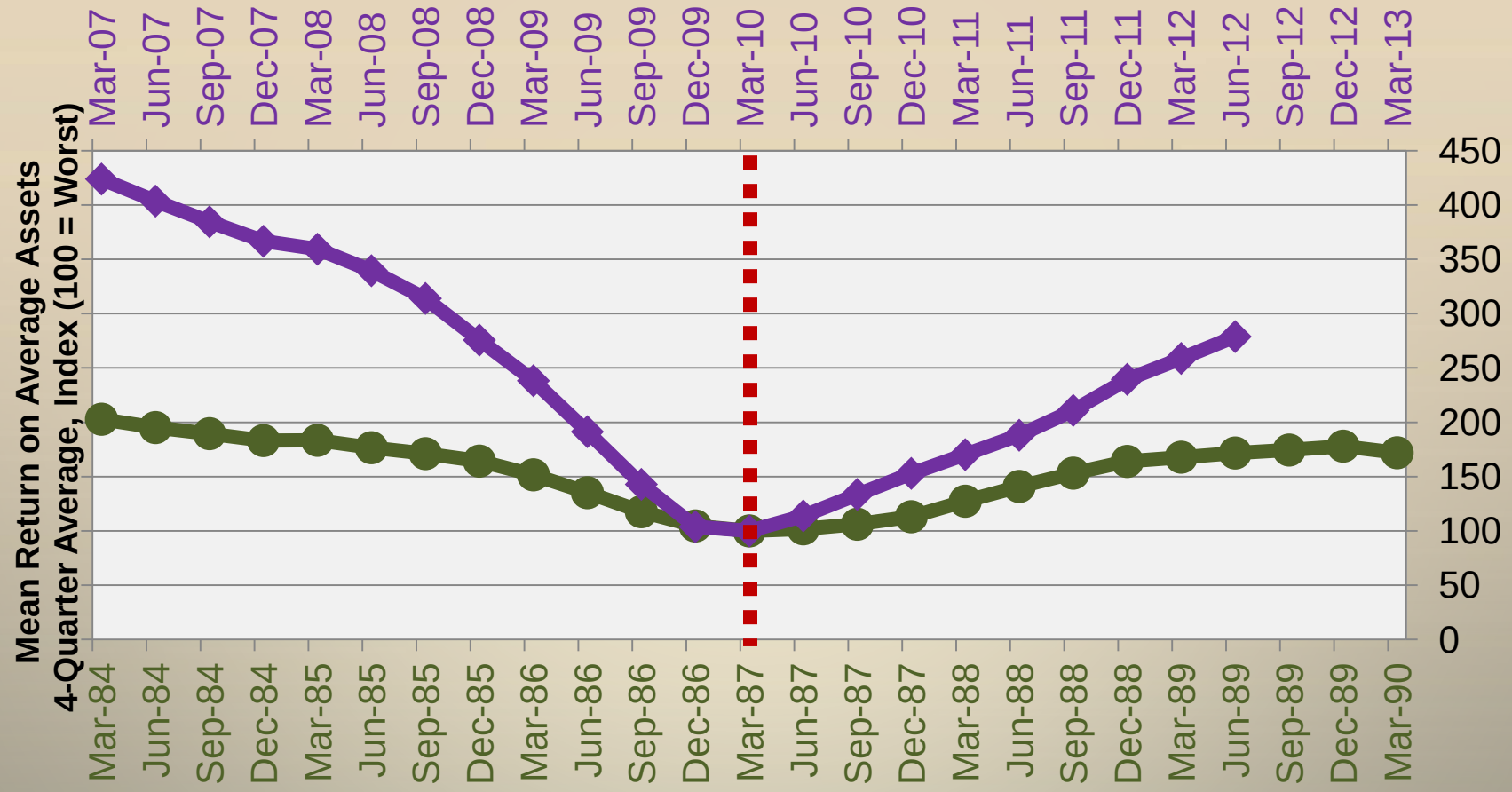
Minnesota Banks



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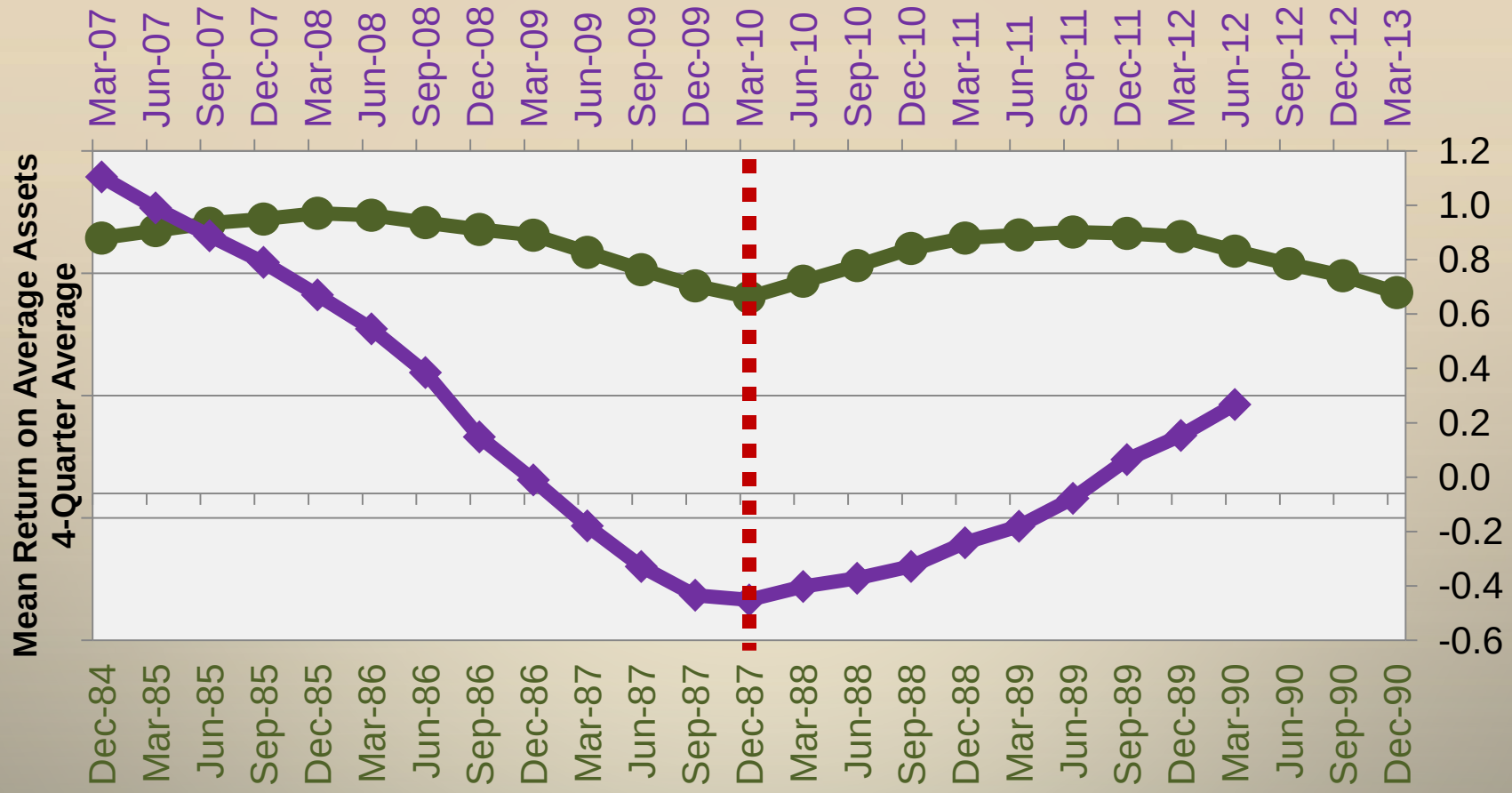
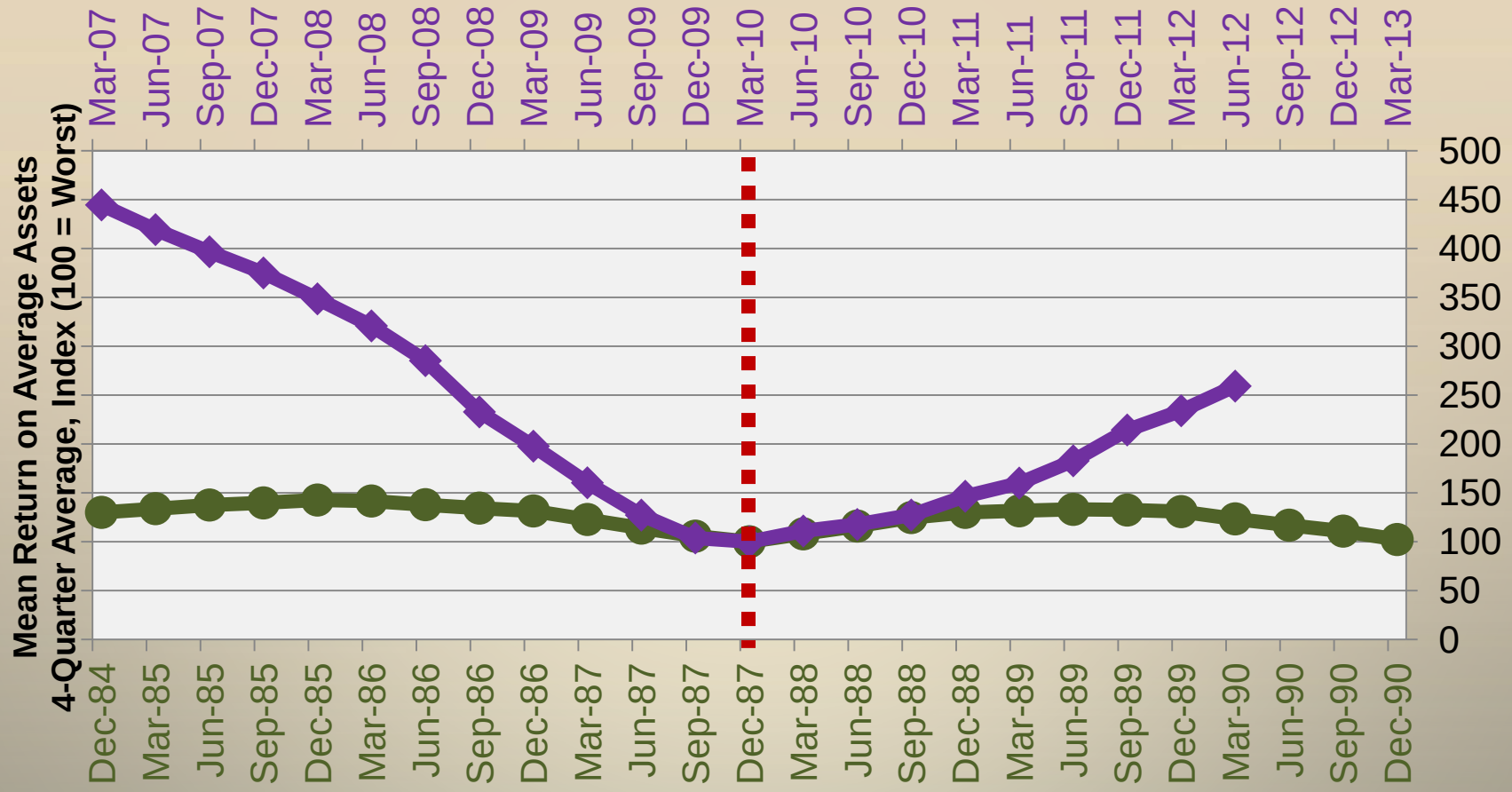
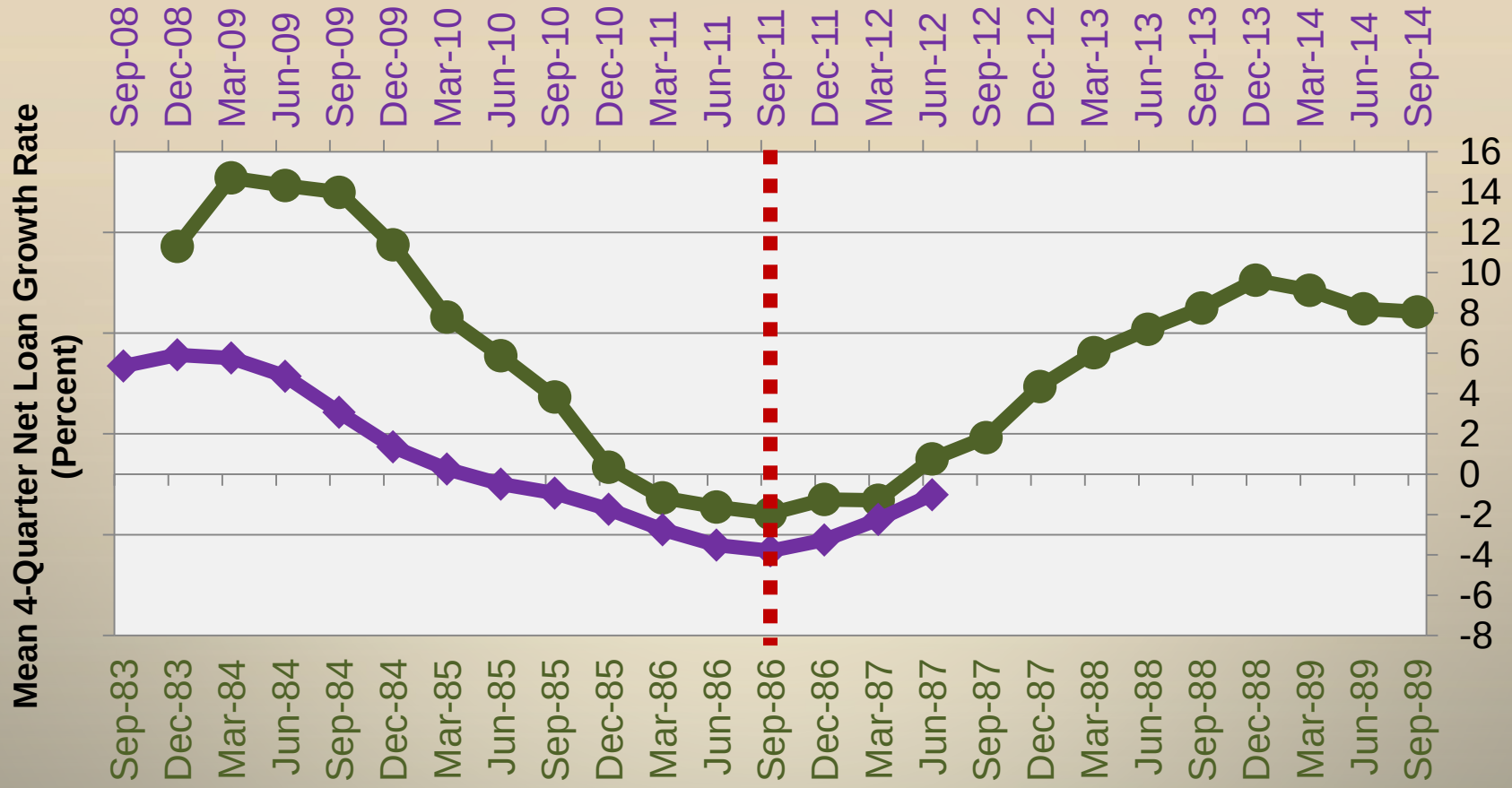
Twin Cities Banks



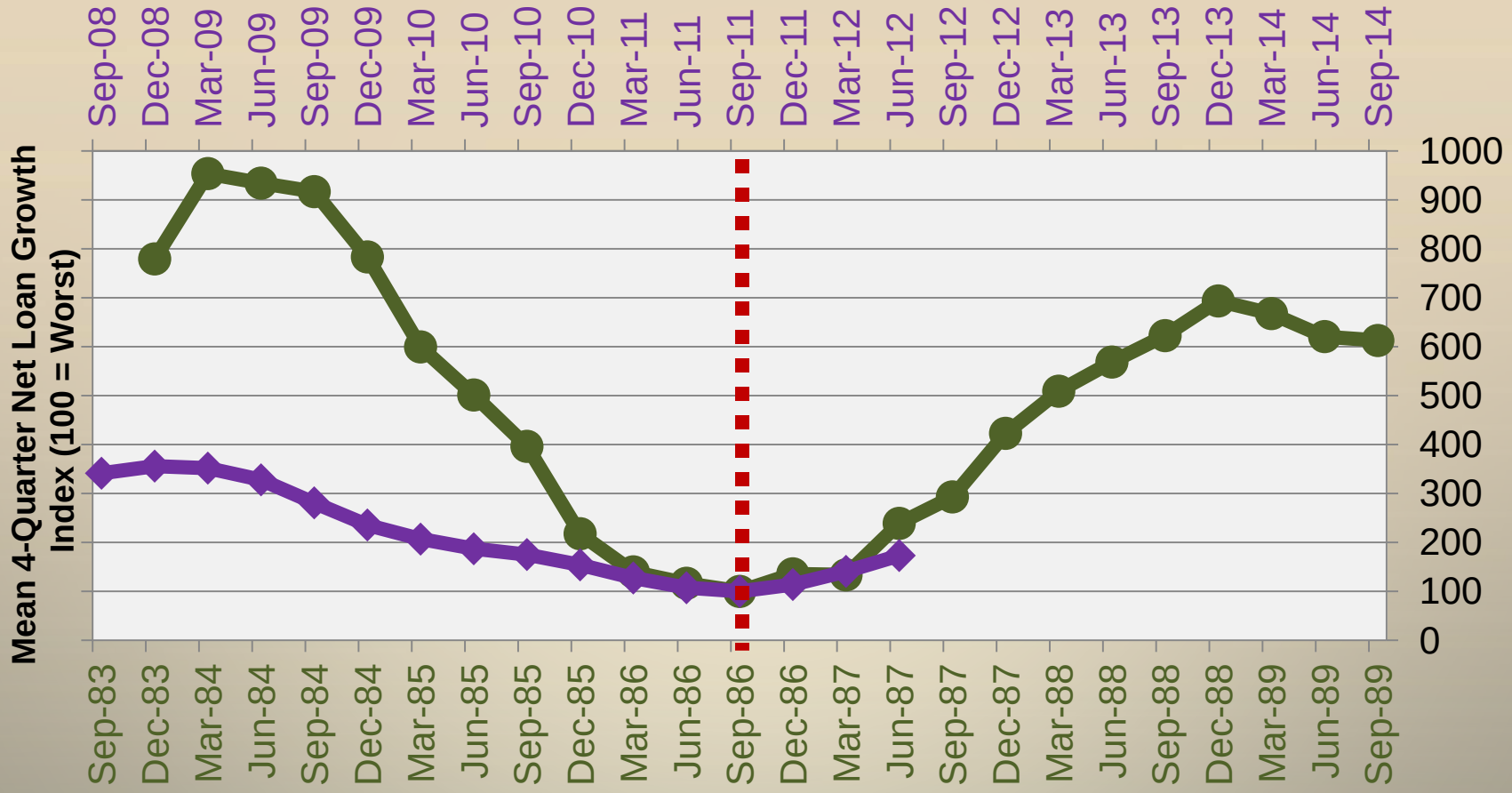
Earnings (Indexed)
Twin Cities Banks



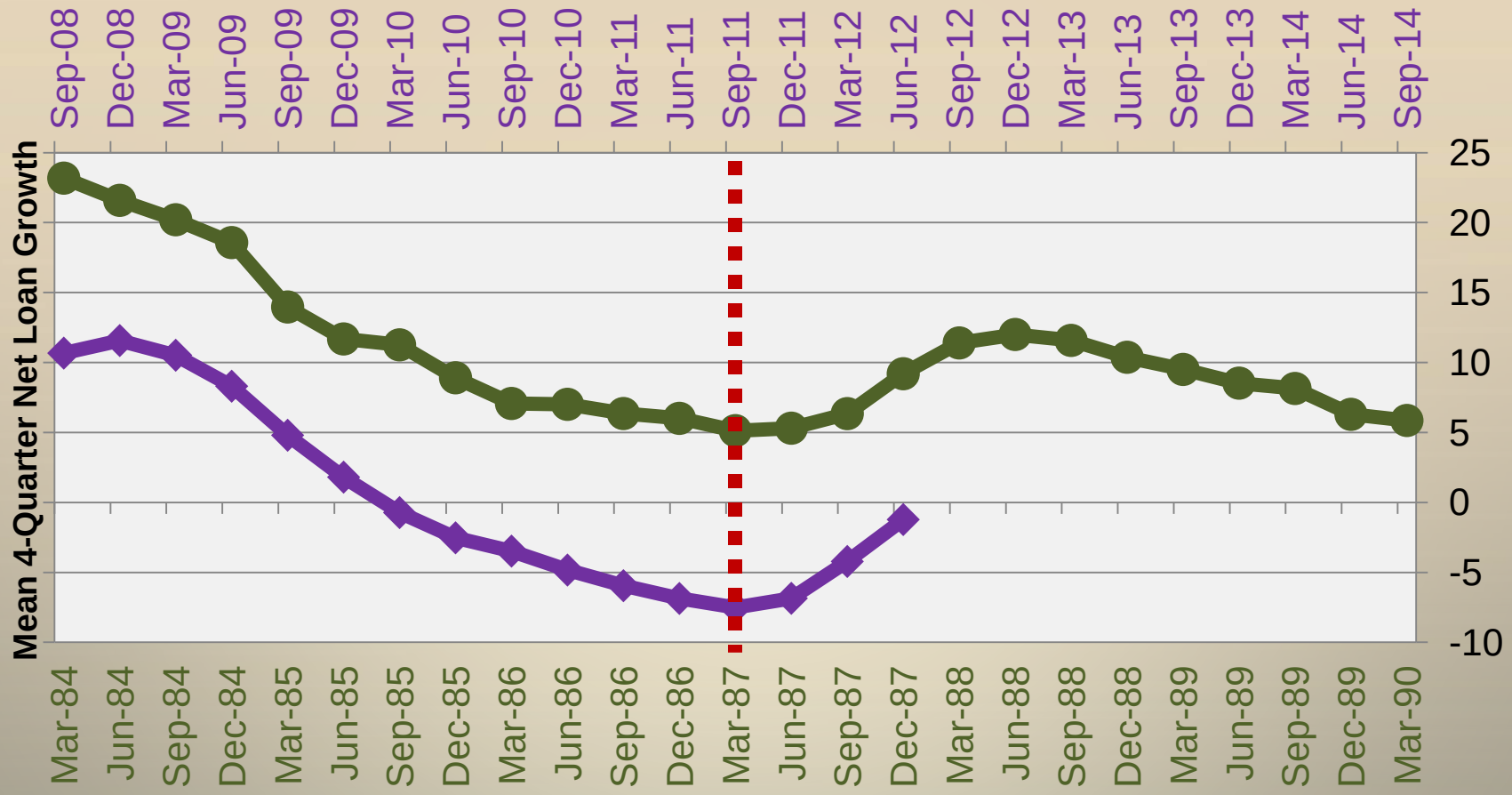
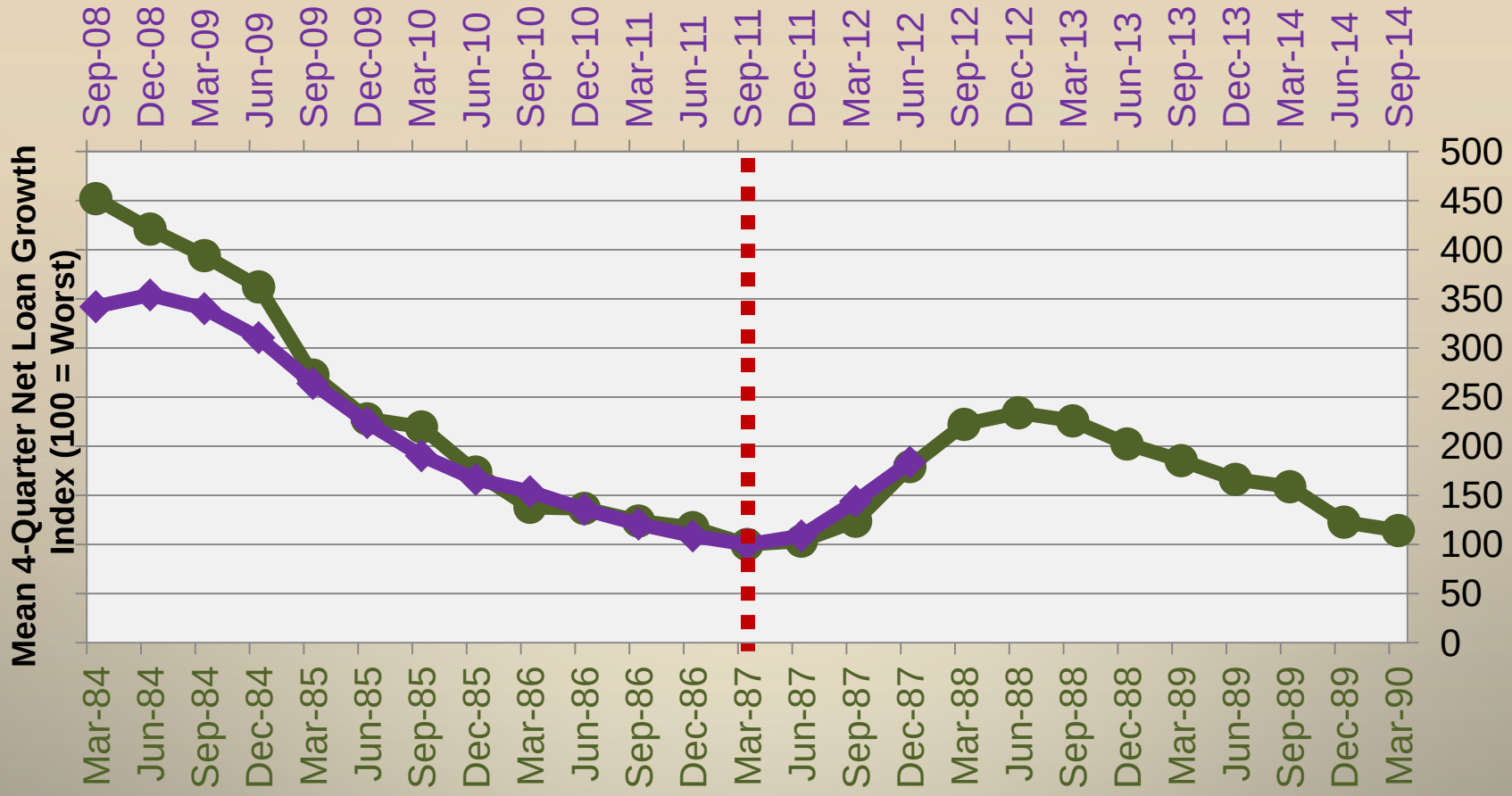
Growth (Absolute Levels)
Minnesota Banks



Growth (Indexed)
Minnesota Banks



Growth (Absolute Levels)
Twin Cities Banks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