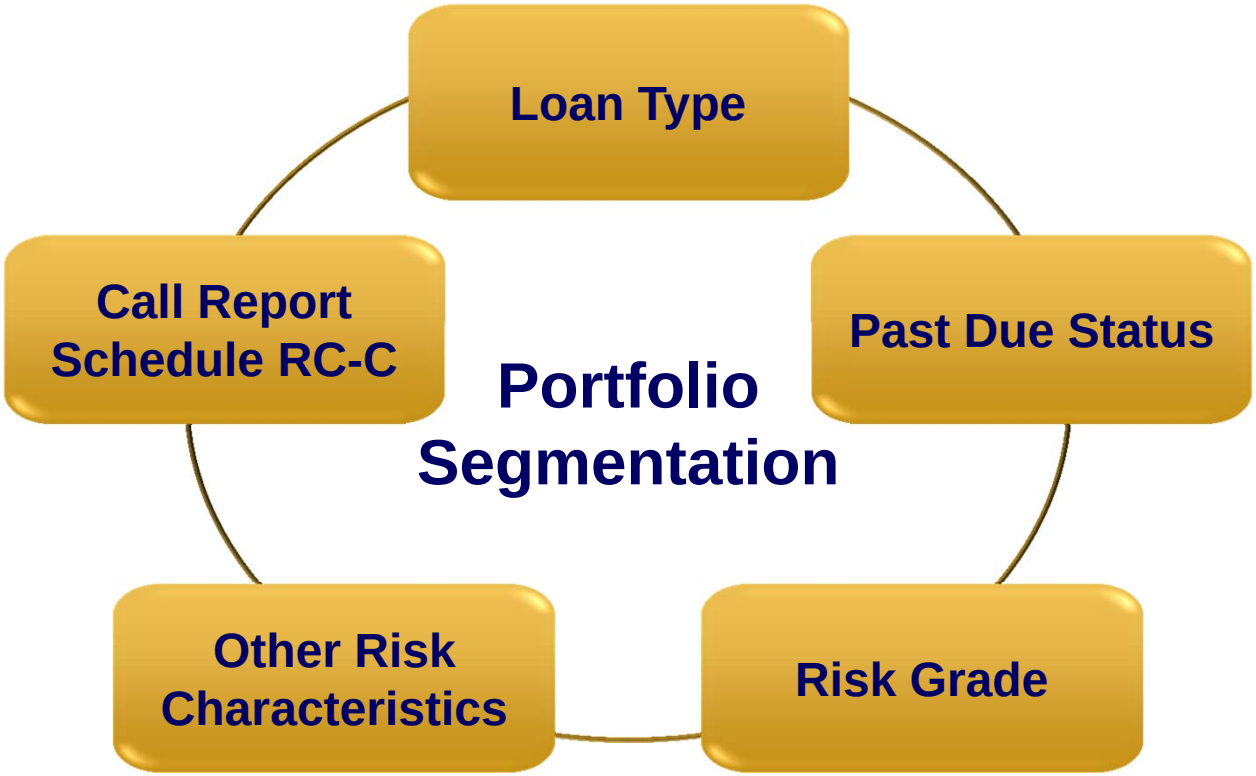
FDIC

FEDERAL DEPOSIT INSURANCE CORPORATION

Allowance for Loan and Lease Losses

IV. Estimating Credit Losses Under ASC 450

Segment the Portfolio



Portfolio Segmentation

Portfolio Segmentation
ASC 450 Loan Analysis - Loan Pools

	Grade						
	1	2	3	4	5	6 & 7	Total
Agriculture Loans	264,706	-	39,179,679	19,100,773	6,928,980	11,443,674	76,917,812
Real Estate Loans							
Spec Construction & Lot Development	-	113,467	12,701,159	5,763,951	9,948,323	53,383,361	81,910,261
All Other Real Estate	8,946	12,967,849	434,642,181	76,812,483	73,153,179	58,921,816	656,506,454
Commercial Loans	5,761,441	14,809,126	98,670,031	48,210,296	12,967,991	8,944,648	189,363,533
Consumer Loans	475,444	2,188,862	224,459,998	1,136,734	-	123,900	228,384,938
Total Balance							$ 1,233,082,998

Loss History Analysis

Portfolio Loss History	Loss Migration Analysis	Probability of Default / Loss Given Default
• Utilizes an average of losses over time	• Incorporates grade changes over time	• Requires more complex modeling and assumptions

Qualitative Adjustments

- Changes in lending policies and procedures, including underwriting standards
- Changes in economic and business conditions
- Changes in the nature and volume of the portfolio
- Changes in the experience, ability, and depth of lending management
- Changes in the volume and severity of past due loans, nonaccrual loans, and adversely classified loans
- Changes in the quality of the loan review system
- Changes in collateral values
- Existence of, and changes in, any concentrations of credit
- Changes in competition and legal/regulatory requirements

Sample Board Report

Community Bank of Anytown
Calculation of the Allowance for Loan and Lease Losses
March 31, 2012

ASC 310 (FAS 114) Summary	Loan Balance	ALLL Allocation
C&I - Widget Maker, Inc.	$305,000	$23,057
Comm'l RE - A+ Office	$4,555,000	$185,123
Multifamily-Garden Apts	$450,000	$27,999
RE SFR - Plumber, Joe	$550,000	$33,219
ADC - I.M. Builder	$2,057,000	$256,071
Sub-Total	$7,917,000	**$525,469**

Sample Board Report

ASC 450 (FAS 5) - Loss Migration Summary

		Loan Balance	Loss Factor %	Sum Q Factors	Adj Loss Factor	ALLL Allocation
Pass Loans	Comm'l & Industrial	27,000,000	0.27	0.40	0.67	$180,900
	Comm'l RE	35,000,000	0.41	0.55	0.96	$336,000
	Multifamily	28,500,000	0.28	0.10	0.38	$108,300
	RE 1-4 SFR	7,500,000	0.12	0.10	0.22	$16,500
	ADC Loans	8,250,000	1.45	0.25	1.70	$140,250
	Ag Loans	1,750,000	0.04	0.20	0.24	$4,200
	Installment	275,000	0.51	0.15	0.66	$1,815
Watch	Comm'l & Industrial	13,500,000	2.09	0.40	2.49	$336,150
	Comm'l RE	10,000,000	2.35	0.55	2.90	$290,000
	Multifamily	13,500,000	2.53	0.10	2.63	$355,050
	RE 1-4 SFR	1,500,000	0.98	0.10	1.08	$16,200
	ADC Loans	5,000,000	4.23	0.25	4.48	$224,000
Special Mention	Comm'l & Industrial	3,500,000	4.22	0.40	4.62	$161,700
	Comm'l RE	6,200,000	4.97	0.55	5.52	$342,240
	Multifamily	5,400,000	4.83	0.10	4.93	$266,220
	RE 1-4 SFR	200,000	1.14	0.10	1.24	$2,480
	ADC Loans	1,800,000	11.99	0.25	12.24	$220,320
Substandard	Comm'l & Industrial	750,000	14.88	0.40	15.28	$114,600
	Comm'l RE	1,500,000	15.35	0.55	15.90	$238,500
	Multifamily	6,000,000	13.47	0.10	13.57	$814,200
	RE 1-4 SFR	255,000	10.45	0.10	10.55	$26,903
	ADC Loans	5,200,000	27.93	0.25	28.18	$1,465,360
	Sub-Total	$182,580,000				**5,661,888**

Sample Board Report

Community Bank of Anytown
Calculation of the Allowance for Loan and Lease Losses
March 31, 2012

ASC 310 (FAS 114) Summary	$525,469
ASC 450 (FAS 5) - Loss Migration Summary	$5,661,888
Total ALLL	$6,187,357
Total Loans	$190,497,000
ALLL / Total Loans	3.25%