

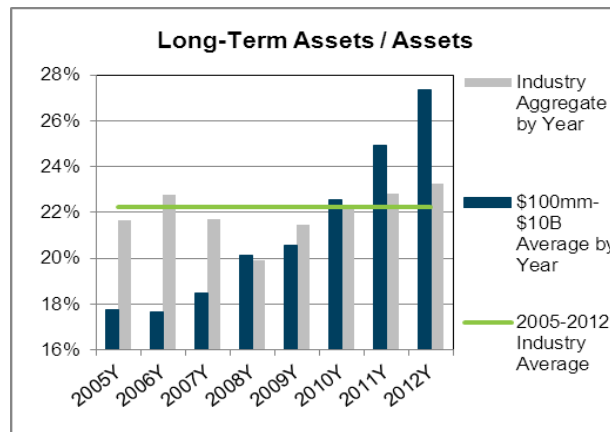
RECENT NEWS

Interest Rate Risk Resurfaces

Since 2008, banks have been increasing their bond holdings. Weak loan demand after the financial crisis has pressed many banks, especially community banks with fewer revenue streams, to search for yield through longer term investments. The increasing size of bond portfolios is exposing banks to vulnerabilities even though their holdings (typically Government and Agency bonds) are largely considered safe investments. When long-term rates jumped in May and June due to worries the Federal Reserve would slow its bond-buying stimulus program, bond holdings lost value. Rising interest rates present certain risks, but will also benefit earnings as banks will be able to charge more for loans. These second-quarter losses on bond positions did not affect banks' earnings due to accounting rules that allow institutions to keep any paper losses on many bonds out of the profit and loss equation. However, new international capital rules will require large banks to count bond price movements as part of their total common equity. Under these new rules, declining bond values would erode an institution's capital base which could impact growth and capital planning. In addition, if rates continue to rise and prices don't recover, banks will be forced to reclassify losses as other-than-temporary-impairments and realize losses in their earnings.

Community banks will see some relief from the new capital rules. Beginning January 2015, banks with assets less than \$250 billion will be allowed to take a one-time election to exclude unrealized gains/losses from regulatory capital. Expectations are that many banks will opt out as a way of reducing volatility in their regulatory capital.

Sources: Federal Reserve Bank; Wall Street Journal; The Street; SNL Financial



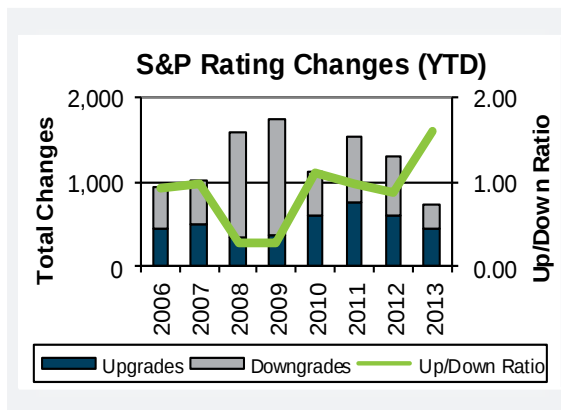
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CREDIT TRENDS

S&P RATING CHANGES

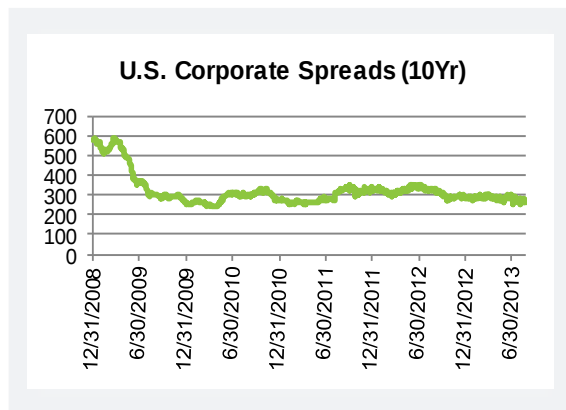
The number of Standard & Poor's U.S. rating changes and the ratio of upgrades to downgrades.



Source: Bloomberg

U.S. CORPORATE SPREADS

The spread between U.S. 10-year Moody's Baa-rated corporate bonds and 10-year U.S. Treasuries.



BANK FAILURES

2013	20
Georgia	3
Florida	3
Arizona	3
Tennessee	2
Wisconsin	2
2012	51
Georgia	10
Illinois	8
Florida	8
Minnesota	4
Missouri	4

Source: Federal Deposit Insurance Corporation (FDIC)

BANKING TRENDS

2nd Quarter 2013 Highlights

FDIC insured institutions reported net income of \$42.4 billion, an increase of 22.6% compared with second quarter 2012 (when industry earnings were reduced by losses on credit derivatives). More than half of all banks (53.8%) reported higher quarterly net income than a year ago and only 8.2% reported negative net income. This is the lowest proportion of unprofitable institutions since the third quarter of 2005.

Asset quality continued to improve across the industry during the second quarter, as net chargeoffs and noncurrent loan balances declined in all major loan categories. Net chargeoffs declined 30.7% year-over-year, while noncurrent loan balances fell by 8.3%.

For the second consecutive quarter, total industry assets posted a small decline (only 0.1%), led by drops in trading accounts and securities. Total loans and lease balances increased by 1% following a seasonal first quarter decline, which continues a pattern observed over the past three years. The increase was led by commercial and industrial loan balances by 2%. Small business loans trended upward, with community banks leading the increase. However, real estate loan growth was weak.

During the second quarter, the number of FDIC-insured institutions declined to 6,940, from 7,014 at the end of the first quarter. Mergers absorbed 62 institutions and 12 institutions failed. The number of institutions on the FDIC's problem list declined for the ninth consecutive quarter.

Source: FDIC: Quarterly Banking Profile

PRUDENT MAN PROCESS

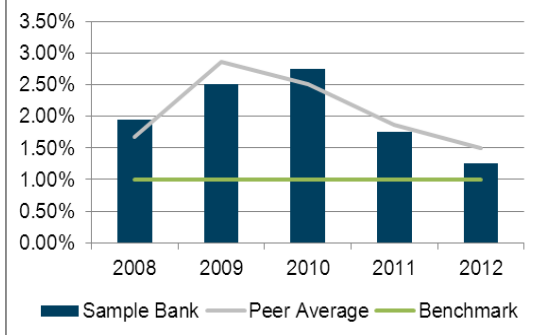
The Prudent Man Analysis

The Prudent Man Process includes a four step process which begins with gathering data and analyzing a bank's credit quality and continues with ongoing risk management throughout the life of a deposit. The process helps public funds investors avoid repayment, reinvestment and reputation risk that may be associated with a bank failure.

STEP 2: DATA ANALYSIS - QUANTITATIVE

Nonperforming Assets includes nonaccrual loans and repossessed assets. Loans are considered non-accruing when full payment is not expected and repossessed assets are typically assets owned as a result of a foreclosure. Deteriorating asset quality, especially relative to peers, indicates that a bank may be operating with an above average risk profile. Nonperforming assets is graphed to compare a bank to historical trends, bank peers and performance benchmarks.

Nonperforming Assets (%)



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