

RECENT NEWS

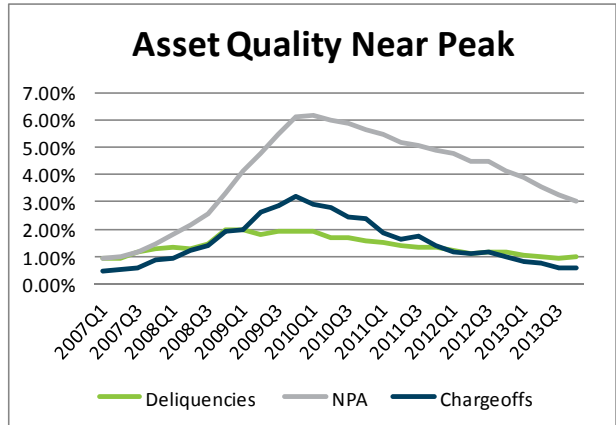
Chargeoffs Return to Pre-Crisis Levels

The financial crisis of 2008 caused severe stress in the U.S. banking industry. Banks experienced a rapid increase in nonperforming assets, which hit peak levels during the first quarter of 2010 at over 6%. These troubled loans resulted in much higher charged off (or written-down) loans. During the financial crisis, the banking industry tightened its credit and lending standards and consumers demonstrated more prudence with borrowings. Since 2010, the banking system has recovered and chargeoffs have nearly returned to the 2007 level. This indicates we are near the top of the credit cycle where it becomes more likely that chargeoffs will begin to increase rather than fall further.

Unlike past recoveries, nonperforming assets are still elevated, with weakness centered in the real estate sector. Improved economic activity and rising property values have aided commercial real estate loans, but many residential real estate loans remain stressed. Based on falling chargeoff levels, nonperforming residential real estate loans appear to have been written down to fair value. However, homeowners could face an additional risk when home equity lines of credit issued pre-crisis are reset during 2015 to 2017, forcing consumers to make principal, in addition to interest payments. Positively, according to Standard & Poor's, banks have recognized this risk and have set aside reserves.

In another sign the credit cycle is near its peak, the January 2014 Senior Loan Officer Survey from the Federal Reserve showed that banks have eased lending policies across loan categories to seize opportunities related to higher loan demand and increased competition. This could erode the gains in asset quality the banking industry has made during the last four years.

Sources: Federal Reserve, Standard & Poor's, SNL Financial



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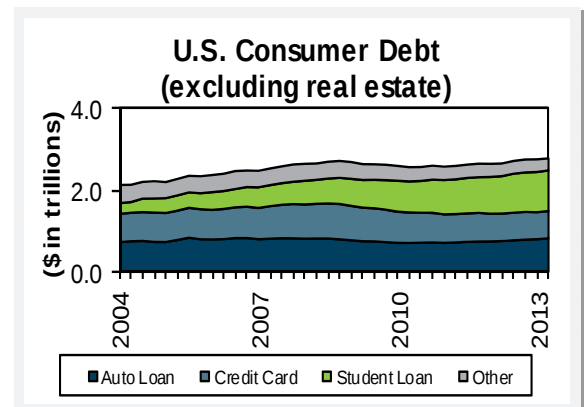
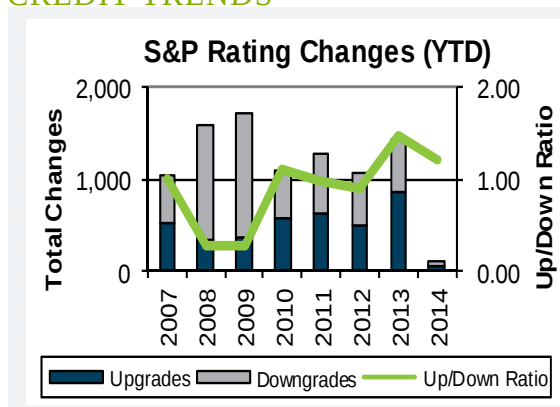
CREDIT TRENDS

S&P RATING CHANGES

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

U.S. CONSUMER DEBT:

Total outstanding debt by loan type in trillions of dollars, excluding debt secured by real estate.



Source: Bloomberg, Federal Reserve Bank of New York

BANK FAILURES

2014	5
Idaho	1
Illinois	1
Oklahoma	1
Pennsylvania	1
Virginia	1
2013	24
Florida	4
Arizona	3
Georgia	3

Source: Federal Deposit Insurance Corporation (FDIC)

BANKING TRENDS

4th Quarter 2013 Highlights

FDIC insured institutions reported a 17% increase in net income compared with fourth quarter 2012. More than half of all banks (53.1%) reported higher quarterly net income than a year ago and only 12.2% reported a loss. Income increased as lower loan loss provisions and a reduction in litigation expenses offset lower noninterest income from mortgage and trading activity. The average return on assets rose to 1.10% from 0.96% a year ago as net interest income improved from the previous quarter. Higher income helped core capital reach its highest level in the 23 years since the current capital standards have been in effect.

Total assets increased by .9%, with loan portfolios growing for the 9th time in the past 11 quarters. Nearly two out of the every three banks reported growth in their loan portfolios during the quarter. Additionally, securities portfolios increased by 1.5% on increased holdings of U.S. Treasury securities.

Asset quality continued to improve in the fourth quarter, as net chargeoffs declined 36.7% from fourth quarter 2012. This is the 14th consecutive quarter that net chargeoffs have posted a year-over-year decline and is the lowest fourth-quarter total since 2006. At year-end 2013, 2.62% of all loan and lease balances were noncurrent, the lowest percentage since third quarter 2008.

During the fourth quarter, mergers absorbed 73 institutions and 2 institutions failed. This is the smallest number of quarterly failures since the second quarter of 2008. One new bank was added during the quarter, the first de novo charter since the fourth quarter 2010. For all of 2013, there were 232 mergers during the year, while 24 insured institutions failed.

Source: FDIC: Quarterly Banking Profile

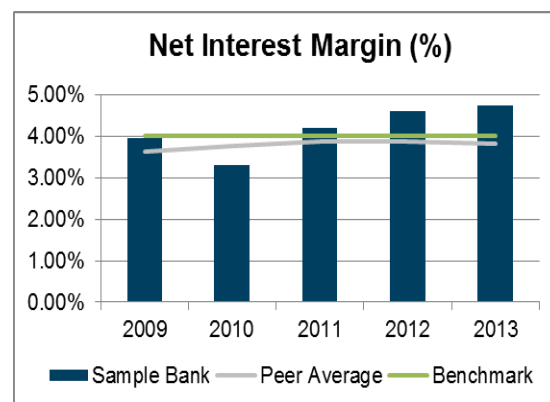
PRUDENT MAN PROCESS

The Prudent Man Analysis

The Prudent Man Process includes four steps which begin 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

Net Interest Margin (NIM) is typically a bank's main source of income. It is calculated as interest income on earning assets including loans, leases and securities minus the amount of interest paid to depositors and other lenders to the bank, divided by average total assets. NIM reflects a bank's pricing on loans and deposits as well as its management of interest rate risk. In the Prudent Man Analysis, it is graphed to compare a bank to historical trends, bank peers and performance benchmarks.



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