

Balance Sheet / Liquidity Management

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Group



Yield Curve – Recent High to Current

HISTORICAL YIELD CURVE

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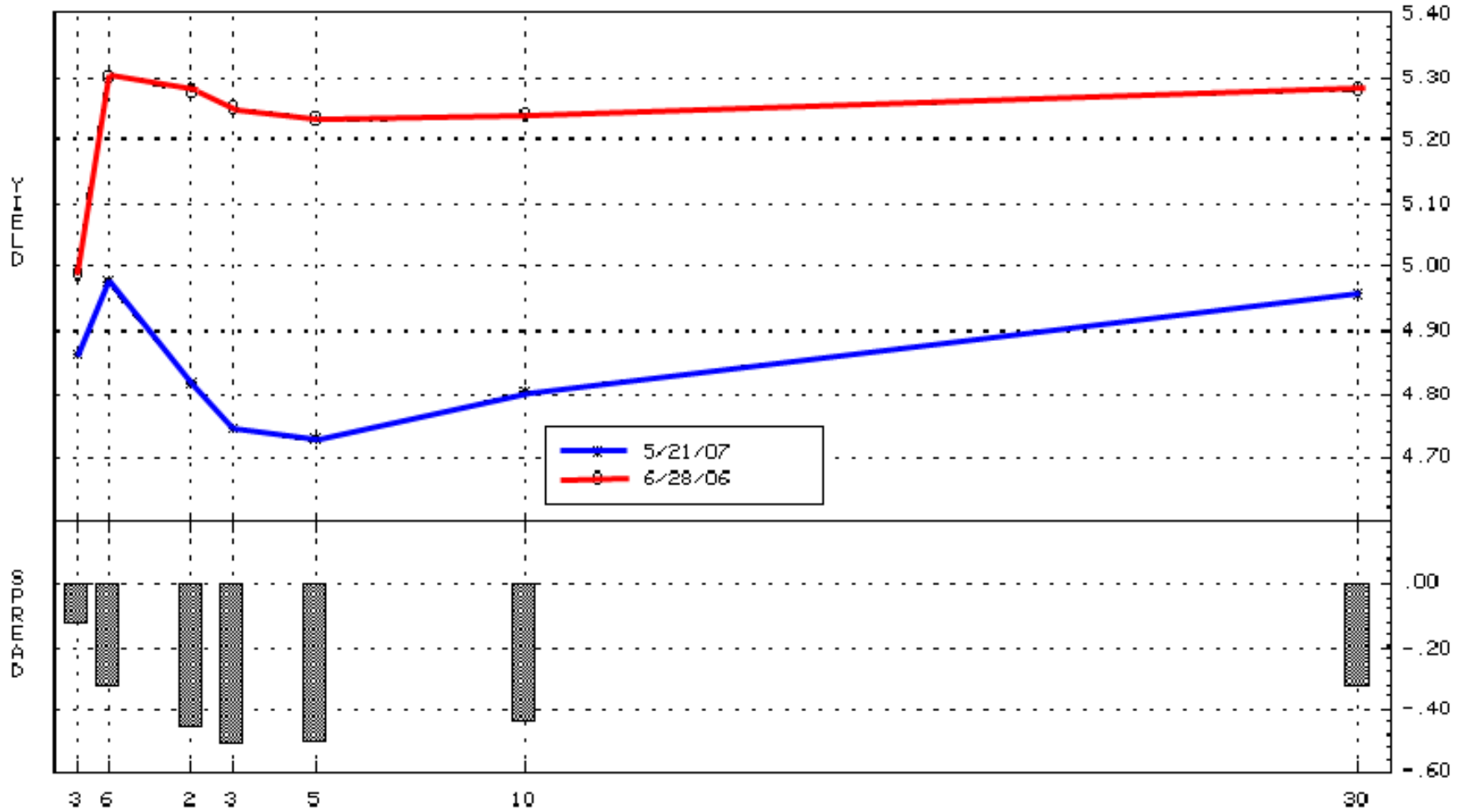
DATE RANGE

6/28/06

5/21/07

MTY RANGE 3M

30Y



Bloomberg Economic Survey

| Monthly Bloomberg Survey of Economists | | 2Q <u>2007</u> | 3Q <u>2007</u> | 4Q <u>2007</u> | 1Q <u>2008</u> | 2Q <u>2008</u> | 3Q <u>2008</u> | 6 Qtr Avg |
|--|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|--------------|
| # of replies | | 63 | 63 | 63 | 61 | 57 | 54 | |
| Median | Fed Funds | 5.25% | 5.25% | 5.00% | 5.00% | 5.00% | 5.00% | 5.08% |
| Average | 5/9/07 | 5.23% | 5.07% | 4.94% | 4.89% | 4.92% | 4.90% | 4.99% |
| High Forecast | | 5.50% | 5.50% | 5.75% | 6.00% | 6.00% | 6.00% | 5.79% |
| Low Forecast | | 4.75% | 3.00% | 2.50% | 3.00% | 3.25% | 3.25% | 3.29% |
| Previous median | | 5.25% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.04% |
| Change in median | | 0.00% | 0.25% | 0.00% | 0.00% | 0.00% | 0.00% | 0.04% |
| # of replies | | 57 | 57 | 56 | 55 | 50 | 48 | |
| Median | 2-Year | 4.70% | 4.70% | 4.75% | 4.70% | 4.73% | 4.77% | 4.73% |
| Average | 5/9/07 | 4.65% | 4.63% | 4.65% | 4.69% | 4.78% | 4.85% | 4.71% |
| High Forecast | | 4.95% | 5.20% | 5.45% | 5.60% | 5.75% | 5.80% | 5.46% |
| Low Forecast | | 4.00% | 2.84% | 2.47% | 2.93% | 3.68% | 4.00% | 3.32% |
| Previous median | | 4.70% | 4.72% | 4.75% | 4.79% | 4.75% | 4.80% | 4.75% |
| Change in median | | 0.00% | -0.02% | 0.00% | -0.09% | -0.02% | -0.03% | -0.03% |
| # of replies | | 64 | 64 | 63 | 62 | 56 | 53 | |
| Median | 10-year | 4.70% | 4.74% | 4.80% | 4.80% | 4.90% | 5.00% | 4.82% |
| Average | 5/9/07 | 4.66% | 4.71% | 4.76% | 4.81% | 4.91% | 4.98% | 4.81% |
| High Forecast | | 4.90% | 5.25% | 5.45% | 5.50% | 5.60% | 5.75% | 5.41% |
| Low Forecast | | 4.15% | 4.20% | 4.00% | 3.80% | 4.35% | 4.40% | 4.15% |
| Previous median | | 4.67% | 4.70% | 4.80% | 4.85% | 4.90% | 4.93% | 4.81% |
| Change in median | | 0.03% | 0.04% | 0.00% | -0.05% | 0.00% | 0.07% | 0.02% |

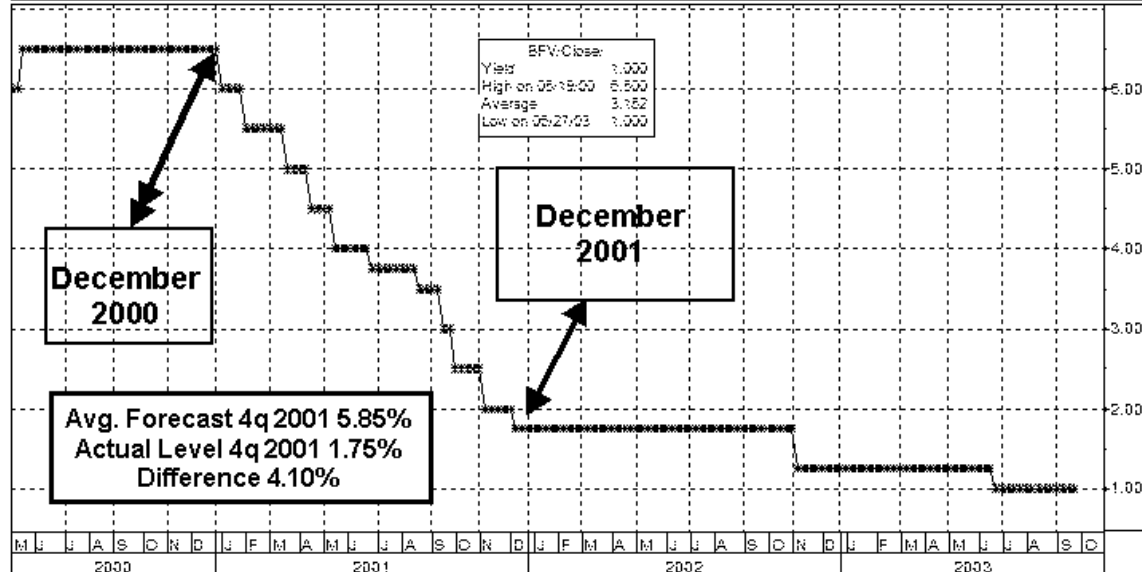
Economic Forecasters - Not Always Accurate

Washington, Dec. 29 (Bloomberg) -- The following table shows economists' forecasts for the U.S. federal funds rate as surveyed by Bloomberg News from Dec. 15 to 27. All figures are as of the end of the quarter.

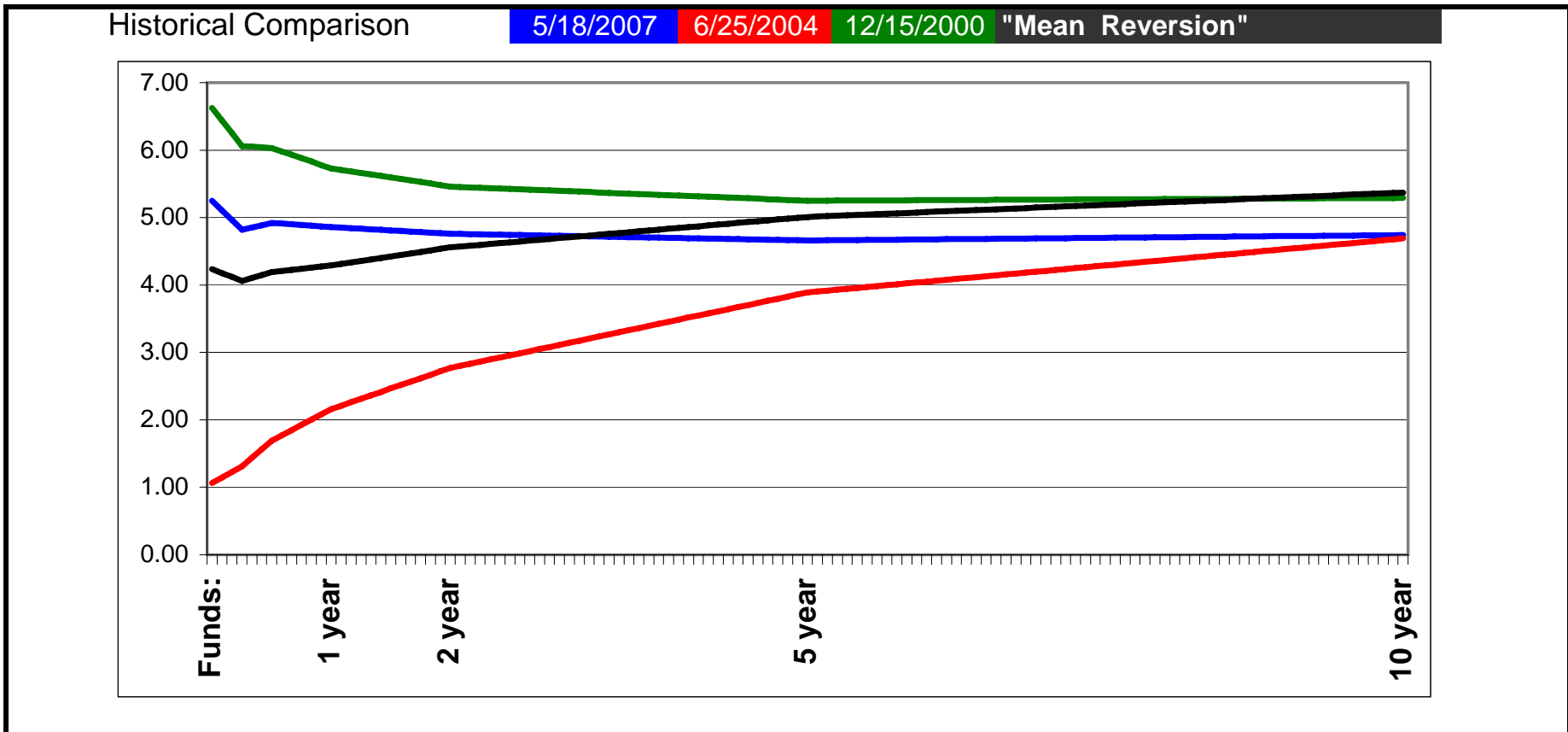
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| Firm | Economist | 1Q 2001 | 2Q 2001 | 3Q 2001 | 4Q 2001 |
|-------------------|-----------|------------|------------|------------|------------|
| ===== | | | | | |
| Number of replies | | 32 | 32 | 29 | 29 |
| Median | | 6.25% | 6.00% | 6.00% | 6.00% |
| Average (mean) | | 6.20% | 5.98% | 5.88% | 5.85% |
| High forecast | | 6.50% | 6.50% | 6.50% | 6.50% |
| Low forecast | | 5.75% | 5.50% | 5.50% | 5.25% |

Range - Period Weekly
 Upper Chart: Type Revised Line Moving Averages
 1) News

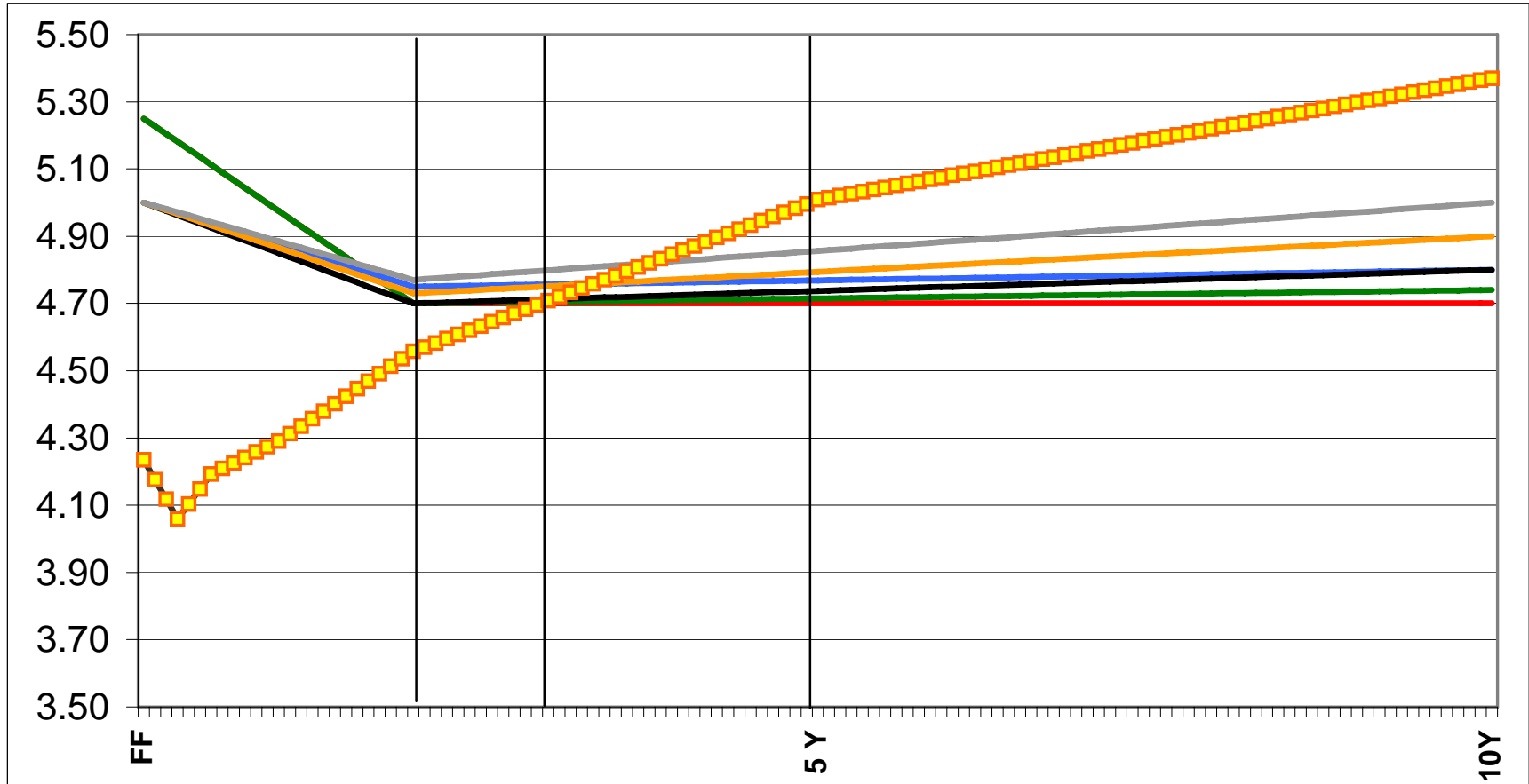


Yield Curve - Past, Present, Mean Reversion



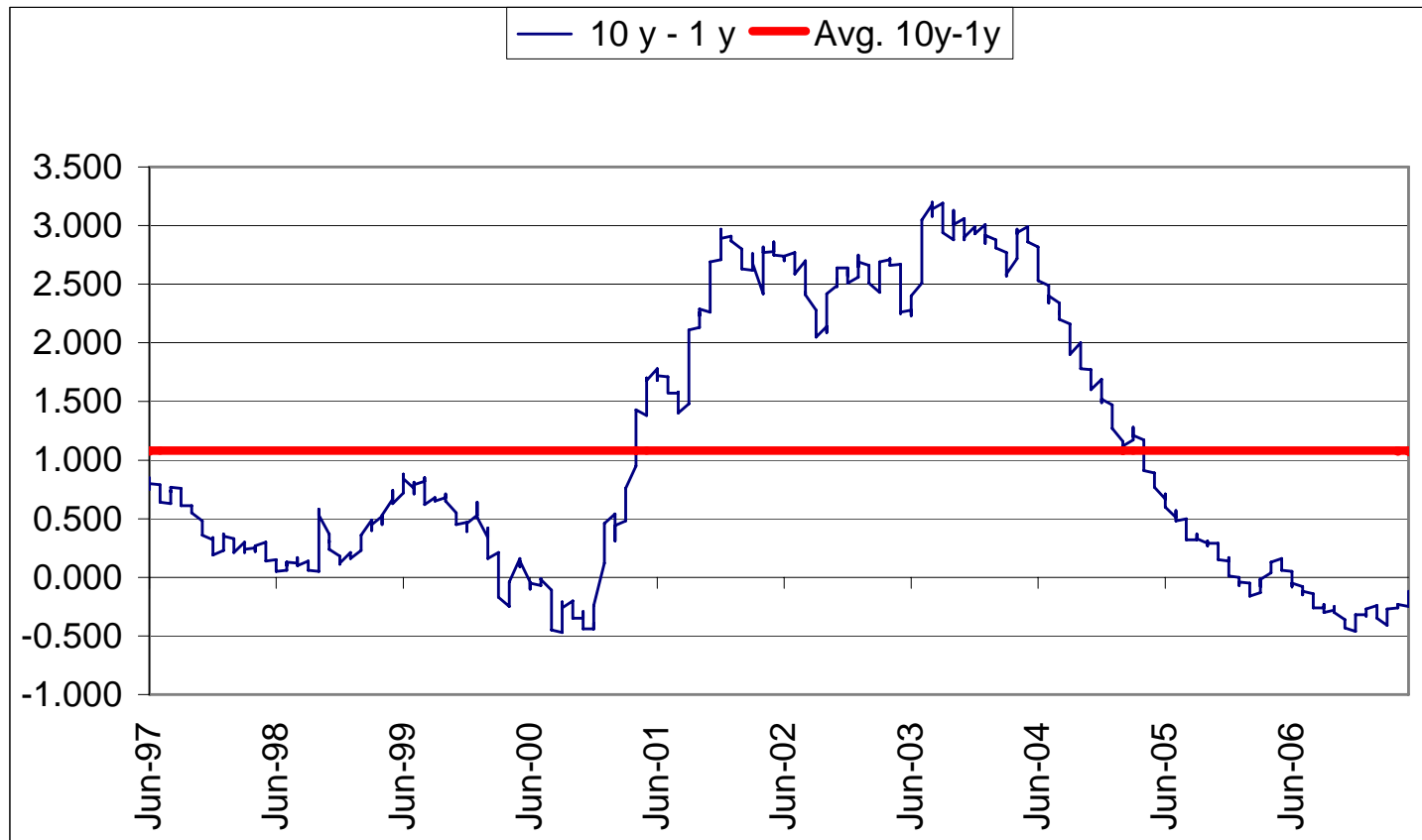
Mean Reversion vs Avg Economic Survey

| Bloomberg Outlook | | 5/24 | 2Q 2007 | 3Q 2007 | 4Q 2007 | 1Q 2008 | 2Q 2008 | 3Q 2008 | Mean Rev |
|-------------------|----------|-------|---------|---------|---------|---------|---------|---------|----------|
| Funds | | 5.25% | 5.25% | 5.25% | 5.00% | 5.00% | 5.00% | 5.00% | 4.23% |
| 2 Yr | 99 12/32 | 4.84% | 4.70% | 4.70% | 4.75% | 4.70% | 4.73% | 4.77% | 4.56% |
| 10 Yr | 97 5/32 | 4.86% | 4.70% | 4.74% | 4.80% | 4.80% | 4.90% | 5.00% | 5.37% |



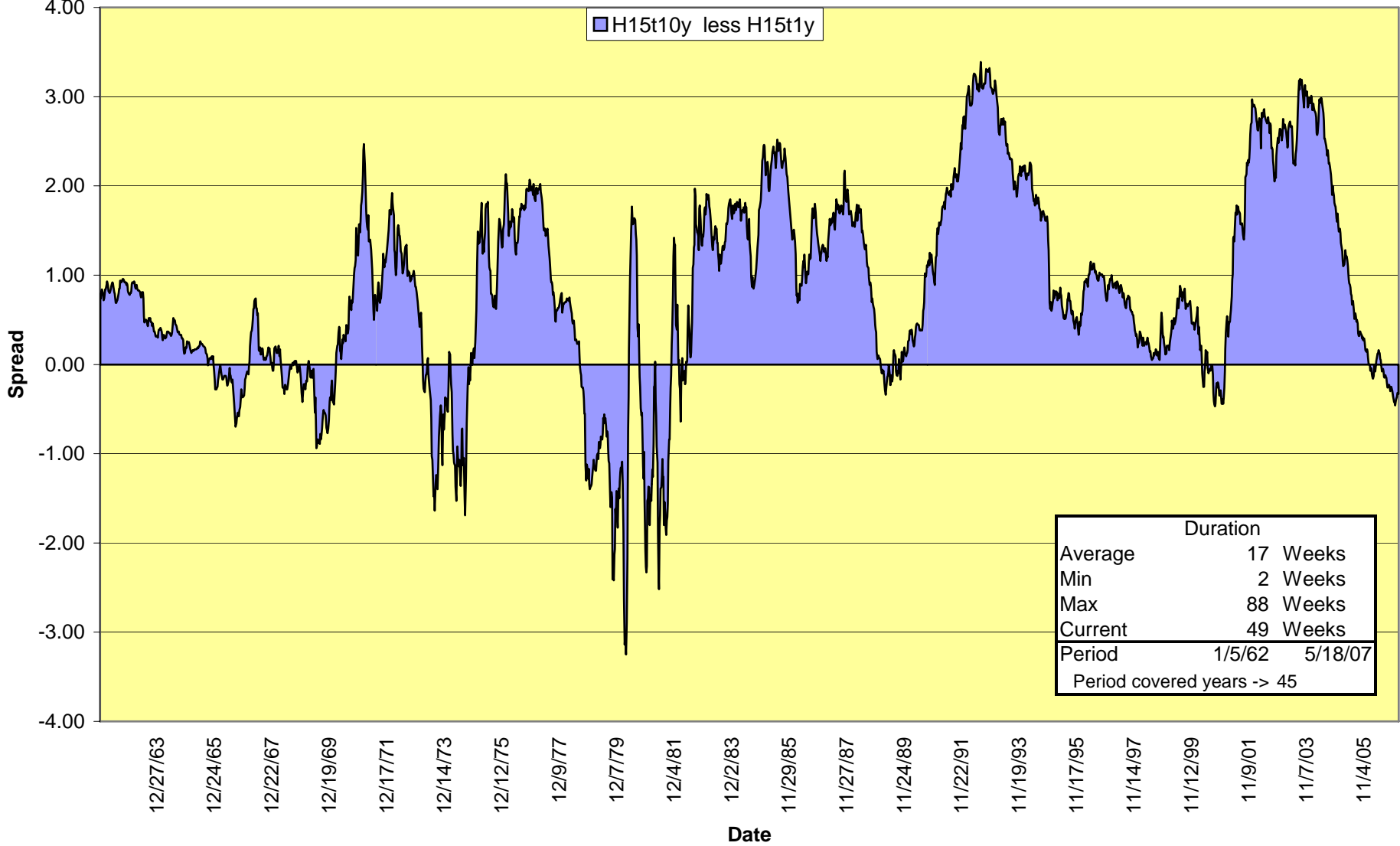
10 year to 1 year Historical Spread

| Historical: | Date | 10y-1y | Ladders: | 4/30/07 | Spreads | 10y-1y | Wk chg | 10y-3M | Wk chg |
|--|-------------|---------------|-----------------|----------------|----------------|---------------|---------------|---------------|---------------|
| Steepest Curve | 8/15/03 | 3.20 | 2 Yr Tsy | 4.54 | 5/18/07 | -0.12 | 0.12 | -0.08 | 0.15 |
| Flattest Curve | 9/1/00 | -0.47 | 3 Yr Tsy | 4.09 | 5/11/07 | -0.24 | 0.01 | -0.23 | 0.02 |
| Current | 5/18/07 | -0.12 | 5 Yr Tsy | 3.81 | 5/4/07 | -0.25 | -0.02 | -0.25 | 0.05 |
| Current Quartile | | 4 | 7 Yr Tsy | 4.44 | 4/27/07 | -0.23 | 0.01 | -0.30 | 0.01 |
| (1 = Steepest)current: #449 of 520 weeks | | | | | 4/20/07 | -0.24 | | -0.31 | |
| Avg. Over 120 periods | | 1.08 | | | Avg 10 yrs | 1.08 | | 1.31 | |



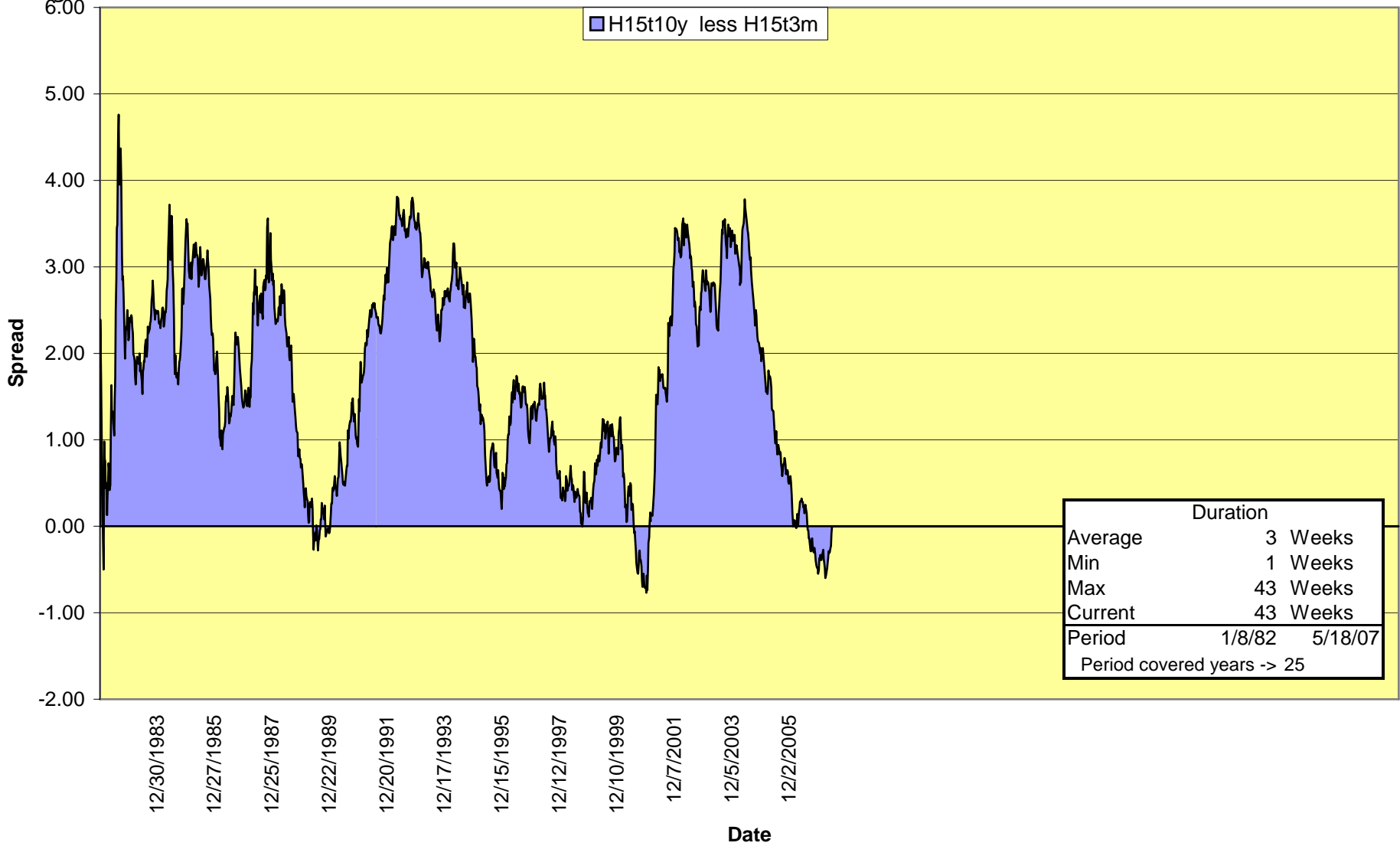
10yr CMT - 1 Yr CMT

Curve Inversion



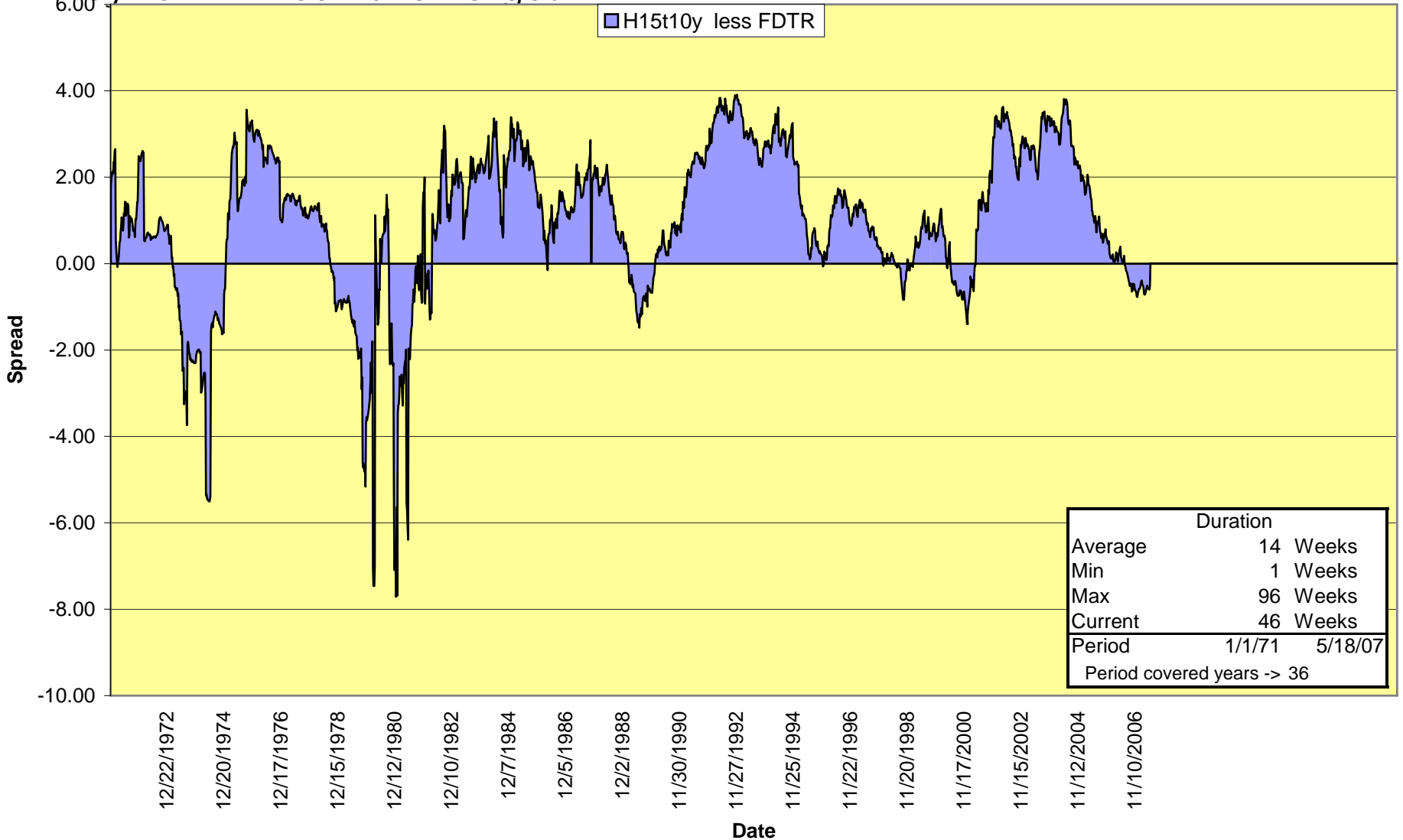
10yr CMT - 3 Mo CMT

Curve Inversion



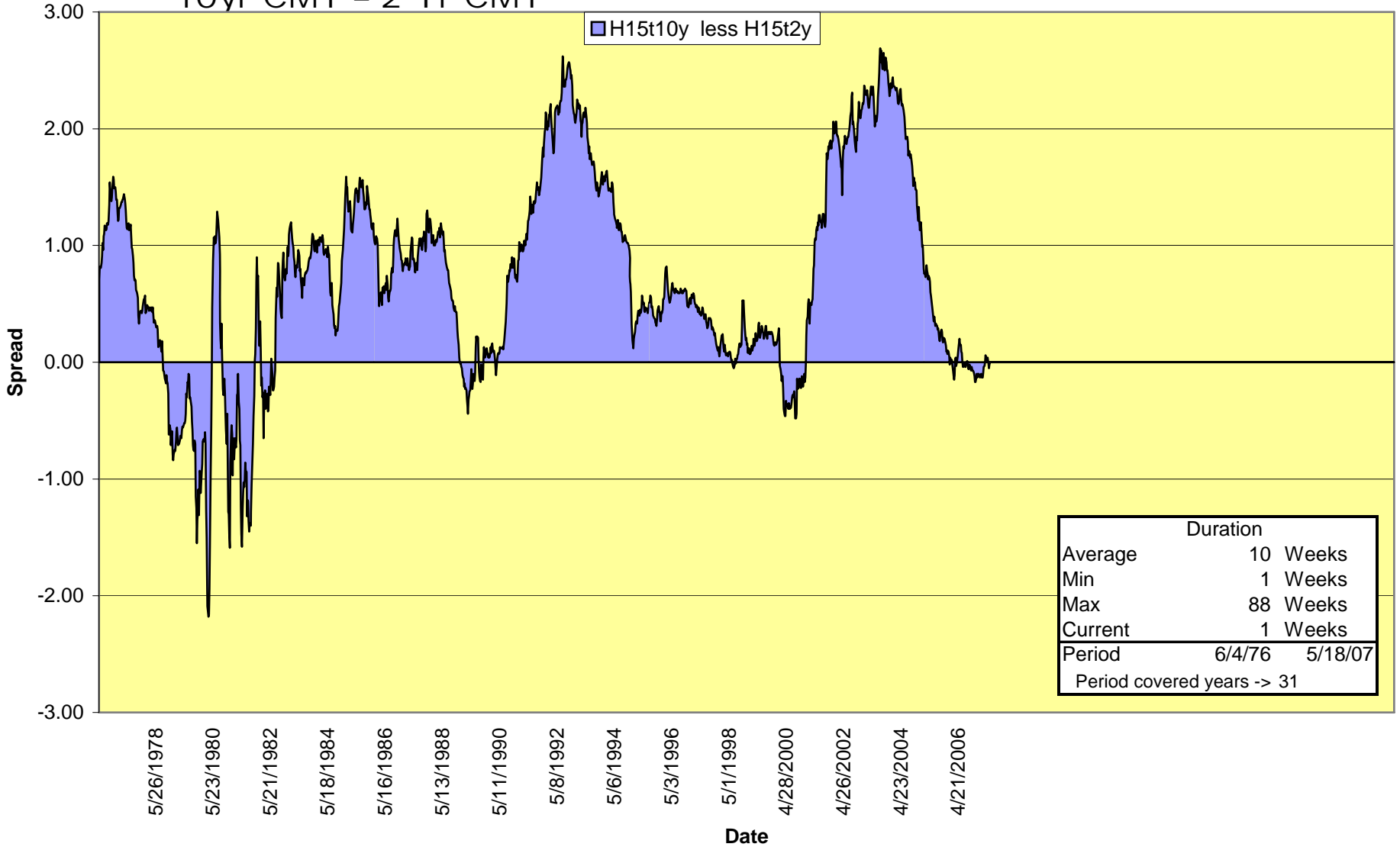
Curve Inversion

10yr CMT - Fed Fund Target

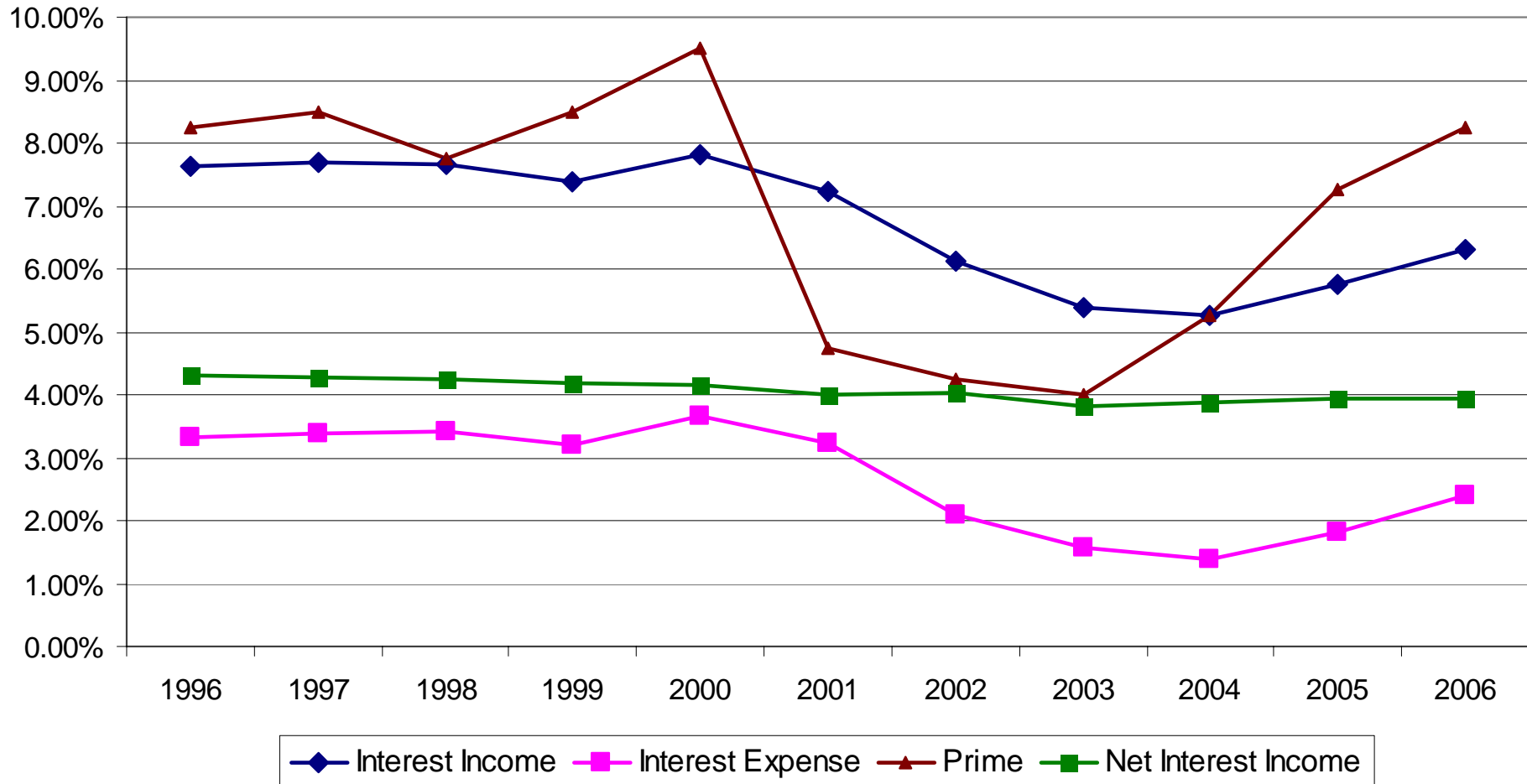


Curve Inversion

10yr CMT - 2 Yr CMT



Interest Income, Expense, and Margins



Current market realities

- **Growth is necessary for success**
 - N.I.M.'s declining for most
 - Funding costs have increased dramatically
 - Loan spreads have decreased for many
 - Flat yield curve is problematic for most
 - Deposit growth is not meeting loan demand
 - Operating expenses increasing
 - Cost of technology/human resources
(Major De Novo Impact)
 - Competition intensifying/irrational pricing
 - Assets
 - Funding
- and...**

Current challenges are significant

- Tighter margins in foreseeable future
- Continued high demand for low-cost deposits
- Changing demographics
 - Savers vs. investors
 - Geographic redistribution
 - Actuarial tables
- Impact of technology
 - Funds can be more easily moved
 - Younger customers will need different services

Options to maintain & grow core deposits efficiently

- Understand sources of past growth
- Understand segmentation opportunities
 - Rate sensitive depositors
 - At-risk deposits
 - How can pricing be directed discretely
- Result:
 - Product design
 - Market segmentation
 - Careful pricing

Trust Preferred Availability

- Pre-2001 issues size was \$20 million per deal to justify creation expense of private placements.
- **Pooling** began in earnest in 2001 with banks as small as \$200MM in total assets qualified for pooling.
- In 2002, qualifying bank asset size reduced to \$100 million, eventually banks less than \$100 million were accepted on individual review basis.
- Rating agencies constraints have driven participation.

Trust Preferred Pricing History

Sample 2001 Pricing

Floating: 3Mo Libor + 325-400

Fixed Rate: 10.25% to 10.75%

Underwriting Fees: 3%

Legal Fees: \$20M -\$25M

Sample 2007 Pricing

Floating: 3Mo Libor + 145-165

Fixed Rate: hard to find

Underwriting Fees: 0%

Legal Fees: \$0

Terms and Features: Trust Preferred

- Non-dilutive Tier 1 capital issued through a special purpose vehicle
- 30 year final maturity
- Callable by issuer at par after year 5, and each interest payment date thereafter
- Callable at a make-whole amount prior to year 5 upon the occurrence of a Tax, Investment company, or a Regulatory Capital Event
- Interest rate may be floating, hybrid (5/1), or fixed (rare)
- Underwriting Fee: absorbed by underwriter
- Legal Fee: \$10,000 allowance should cover all legal fees, could go higher
- Tax-deductible distributions payable quarterly in arrears
- Issuer may defer distributions on a cumulative basis for up to 5 consecutive years provided that dividends are suspended on all other securities that rank equal to or junior to the TPS (e.g., common stock)

Additional information – CD Rom

- ◆ Tutorial introduction to Asset Liability adjustment using both sides of the balance sheet
- ◆ Information on the WIB Sparks Bond University sponsored by Vining Sparks
- ◆ Excel Spreadsheet introducing how to adjusting a balance sheet gap mismatch using asset and /or liability restructure options
- ◆ Introduction to outsourcing Asset Liability modeling
- ◆ Trust Preferred analysis kit request form

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Will Taylor began his career as an employee of Shelby County, TN working in the investment and distribution of public funds. Will later moved to the correspondent banking group of Union Planters Bank. During this time he was appointed to a number of key committees and subcommittees of the Mortgage Bankers Association of America. During his tenure he oversaw the financing and securitization of CMO, MBS and SBA Securities. Will joined Vining Sparks as a result of a combination of Union Planters dealer operation with Vining Sparks in September 1990. Will received his B.A. in finance from the University of Mississippi in Oxford.

**Investment Securities
Portfolio Management &
Reporting
Bond Accounting
Balance Sheet
Management
Interest Rate Risk
Management
Education & training
Trust Preferred
Issuance
Refinancing
Analysis**

Notes

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