INTRODUCTION

For the first time in many years, the State of Michigan and its community banks have experienced a relatively stable year. Enthusiasm within the State, and specifically the banking community, is improving despite the trepid times in the state's largest municipality. When compared to national statistics, the Michigan economy was one of the very first to be hit with the recession. However, both the State and our banks have displayed a fundamental improvement in health over the past couple of years, which has reopened the door for M&A activity in the state. From an economic standpoint, both unemployment and payrolls are stabilized and forecasts are calling for household incomes to grow over the next five years above the national average. From the banks' perspective, we have had no bank failures since Fidelity Bank in March 2012, and banking fundamentals (credit quality, capital ratios, and profitability) all have shown steady improvements.

STATE OF MICHIGAN DEMOGRAPHIC OVERVIEW

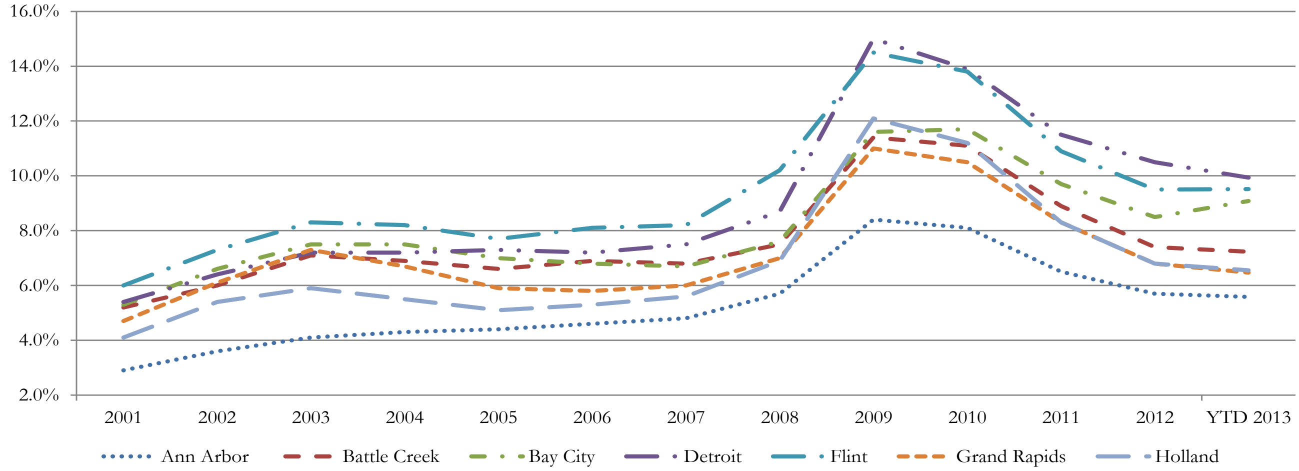
MSA	Total Population 2012 (actual)	Population Change 2010 - 2012 (%)	Projected Change 2012 - 2017 (%)	Median HH Income 2012 ($)	Projected HH Income Change 2012 - 2017 (%)
Ann Arbor, MI	348,690	1.13	2.02	54,333	11.82
Battle Creek, MI	135,490	(0.48)	(1.37)	38,299	17.62
Bay City, MI	108,584	0.75	(0.27)	39,919	19.68
Detroit-Warren-Livonia, MI	4,272,744	(0.55)	(1.43)	49,579	12.79
Flint, MI	421,517	(1.00)	(3.06)	40,899	19.25
Grand Rapids-Wyoming, MI	783,052	1.15	1.96	45,273	16.43
Holland-Grand Haven, MI	266,454	1.01	2.48	52,210	10.24
Jackson, MI	161,029	0.49	(0.58)	41,332	18.31
Kalamazoo-Portage, MI	328,709	0.65	1.91	41,746	20.64
Lansing-East Lansing, MI	466,242	0.48	0.40	45,599	15.53
Monroe, MI	152,050	0.02	(1.06)	51,258	11.69
Muskegon-Norton Shores, MI	172,639	0.26	(1.05)	37,502	15.67
Niles-Benton Harbor, MI	156,446	(0.23)	(0.80)	37,964	20.10
Saginaw-Saginaw Township North, MI	200,412	0.12	(1.55)	38,826	19.54
State of Michigan	9,887,588	0.04	(0.62)	44,947	16.30

For the last decade, Michigan's population has been remained relatively flat. From 2010 to 2012, we saw population improve slightly by 0.04%, a nominal improvement, and over the next five years, the population in the state is projected to decline by (0.62%).

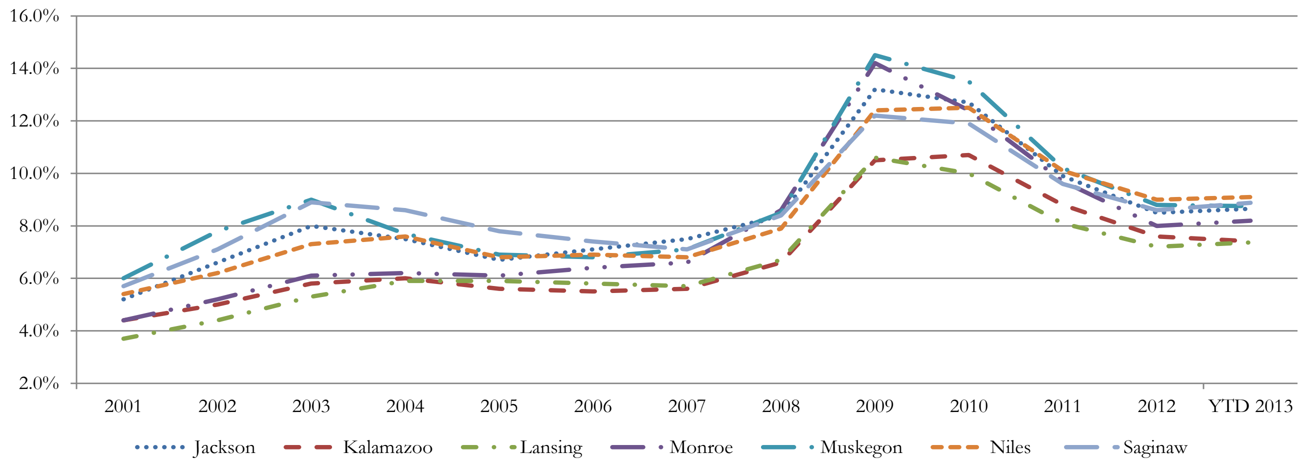
Household income in Michigan in 2012 was $44,947, which was slightly above $44,734 in 2011 and well below 2010's mark of $46,481. Household income is projected to grow by 16.30% over the next 5 years, above the national average of 13.43%.

MICHIGAN UNEMPLOYMENT OVERVIEW

Unemployment Figures for Ann Arbor, Battle Creek, Bay City, Detroit, Flint, Grand Rapids, and Holland MSAs:



Unemployment Figures for Jackson, Kalamazoo, Lansing, Monroe, Muskegon, Niles, and Saginaw MSAs:



We collected unemployment data from the 14 largest MSAs in the state of Michigan (see table below) from 2001 through June 2013. From 2001 – 2007, Michigan's unemployment levels in the representative MSAs averaged 6.3%. The last five and a half years, that unemployment number has averaged 9.5% and has reached levels above 12%, with a peak in 2009 of 12.3%. However, as displayed in the charts above, unemployment has been steadily decreasing since 2009 and as of June 2013 the unemployment rate for the State of Michigan was at 8.1%, which compared to the national rate of 7.6%.

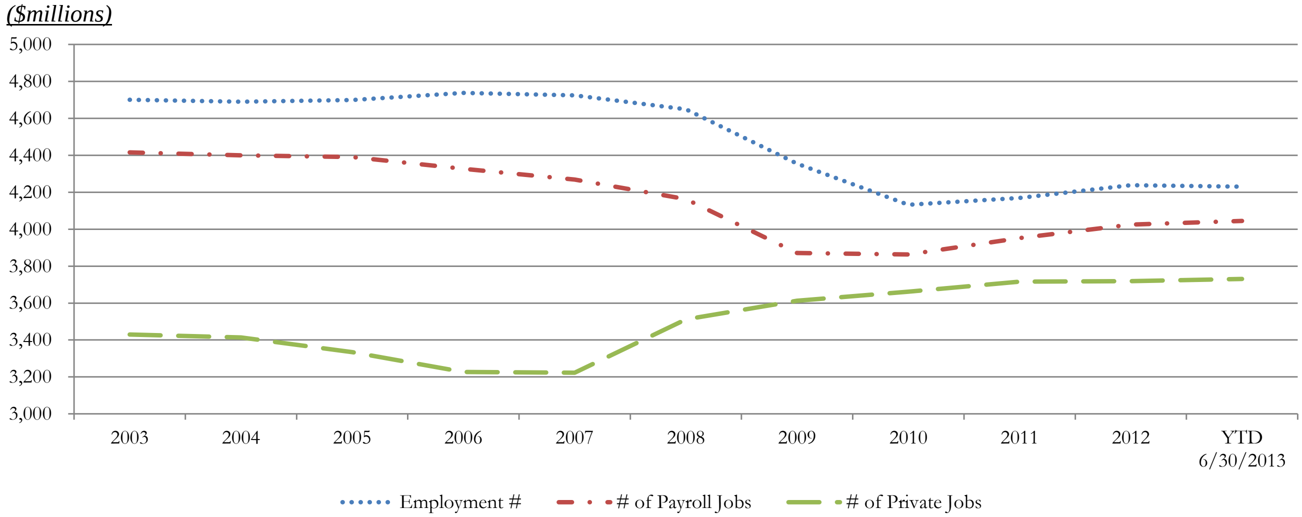
Unemployment Figures for selected MSAs:

	Ann Arbor	Battle Creek	Bay City	Detroit	Flint	Grand Rapids	Holland	Jackson	Kalamazoo	Lansing	Monroe	Muskegon	Niles	Saginaw	Average
2001	2.9%	5.2%	5.3%	5.4%	6.0%	4.7%	4.1%	5.2%	4.4%	3.7%	4.4%	6.0%	5.4%	5.7%	4.9%
2002	3.6%	6.0%	6.6%	6.4%	7.3%	6.1%	5.4%	6.6%	5.0%	4.4%	5.2%	7.8%	6.2%	7.1%	6.0%
2003	4.1%	7.1%	7.5%	7.2%	8.3%	7.3%	5.9%	8.0%	5.8%	5.3%	6.1%	9.0%	7.3%	8.9%	7.0%
2004	4.3%	6.9%	7.5%	7.2%	8.2%	6.7%	5.5%	7.5%	6.0%	5.9%	6.2%	7.7%	7.6%	8.6%	6.8%
2005	4.4%	6.6%	7.0%	7.3%	7.7%	5.9%	5.1%	6.7%	5.6%	5.9%	6.1%	6.9%	6.8%	7.8%	6.4%
2006	4.6%	6.9%	6.8%	7.2%	8.1%	5.8%	5.3%	7.1%	5.5%	5.8%	6.4%	6.8%	6.9%	7.4%	6.5%
2007	4.8%	6.8%	6.7%	7.5%	8.2%	6.0%	5.6%	7.5%	5.6%	5.7%	6.6%	7.1%	6.8%	7.1%	6.6%
2008	5.7%	7.5%	7.6%	8.7%	10.2%	7.0%	6.9%	8.4%	6.6%	6.7%	8.6%	8.5%	7.9%	8.4%	7.8%
2009	8.4%	11.4%	11.6%	15.0%	14.5%	11.0%	12.1%	13.2%	10.5%	10.6%	14.2%	14.5%	12.4%	12.2%	12.3%
2010	8.1%	11.1%	11.7%	13.9%	13.8%	10.5%	11.2%	12.7%	10.7%	10.0%	12.4%	13.5%	12.5%	11.9%	11.7%
2011	6.5%	8.9%	9.7%	11.5%	10.9%	8.3%	8.3%	9.9%	8.8%	8.1%	9.7%	10.2%	10.1%	9.6%	9.3%
2012	5.7%	7.4%	8.5%	10.5%	9.5%	6.8%	6.8%	8.5%	7.6%	7.2%	8.0%	8.8%	9.0%	8.6%	8.1%
YTD 2013	5.6%	7.2%	9.1%	9.9%	9.5%	6.5%	6.6%	8.7%	7.4%	7.4%	8.2%	8.8%	9.1%	8.9%	8.1%

MICHIGAN EMPLOYMENT OVERVIEW

We collected employment data for the state of Michigan from 2003 through June 2013. The results show a rapid decline in the number of individuals employed throughout the 2008-2010 national recession. The overall employment number has stabilized around 4.2 million employed, with just over 4 million represented by individuals on payroll which suggests improved job security and stability, albeit at a lower aggregate employment level.

Employment Figures for State of Michigan:



MICHIGAN COMMUNITY BANK FAILURES

Michigan has had 13 of its community banks taken over by the FDIC since 2008 as a result of the prolonged economic downturn. Below is a table detailing the failed institutions.

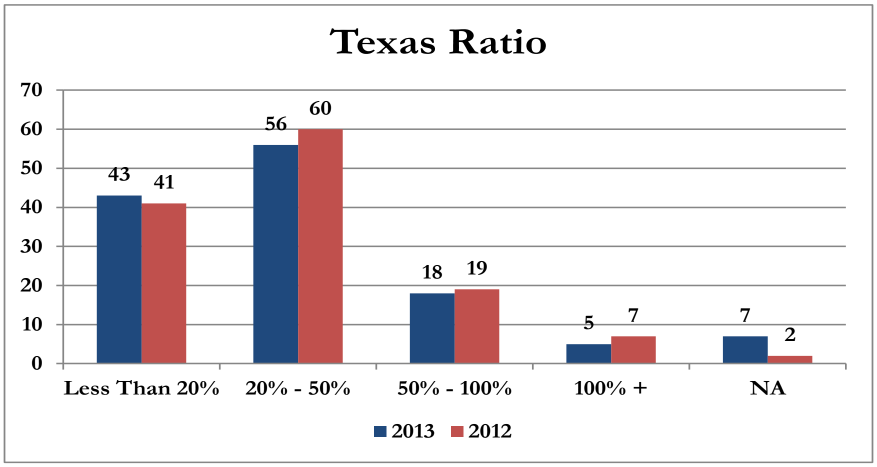
Failed Banks in Michigan

Bank	City	County	Branches	Assets ($000s)	Deposits ($000s)	Tier 1 Leverage Ratio	Nonaccrual + 90PD + OREO / Assets	Texas Ratio (NPAs + 90PD / Tang. Equity + LLR)	Date of Failure	Acquirer
Fidelity Bank	Dearborn	Wayne, MI	15	818,237	747,640	1.86%	18.80%	261.10%	3/30/2012	Huntington Bank
Community Central Bank	Mt. Clemens	Macomb, MI	4	476,334	385,350	0.16%	12.28%	303.83%	4/29/2011	First Michigan Bank
Peoples State Bank	Hamtramck	Wayne, MI	10	390,524	389,868	-0.25%	15.49%	592.24%	2/11/2011	First Michigan Bank
Paramount Bank	Farmington Hills	Oakland, MI	4	252,744	213,550	0.98%	8.99%	275.01%	12/10/2010	Level One Bank
MainStreet Savings Bank, FSB (MHC)	Hastings	Barry, MI	2	93,701	62,374	1.34%	8.13%	312.75%	7/16/2010	Commercial National
New Liberty Bank	Plymouth	Wayne, MI	1	111,239	101,884	0.10%	12.95%	638.08%	5/14/2010	Bank of Ann Arbor
CF Bancorp	Port Huron	St. Clair, MI	22	1,599,122	1,418,445	-4.89%	7.89%	1042.75%	4/30/2010	First Michigan Bank
Lakeside Community Bank	Sterling Heights	Macomb, MI	1	49,173	48,622	0.73%	12.29%	288.57%	4/16/2010	None
Citizens State Bank	New Baltimore	Macomb, MI	7	168,551	157,149	1.23%	13.73%	432.44%	12/18/2009	None
Home Federal Savings Bank	Detroit	Wayne, MI	2	12,994	12,730	0.75%	14.48%	582.66%	11/6/2009	Liberty Bank and Trust Company
Warren Bank	Warren	Macomb, MI	6	504,816	467,767	1.09%	19.29%	514.99%	10/2/2009	Huntington - Deposits Only
Michigan Heritage Bank	Farmington Hills	Oakland, MI	4	167,710	149,065	1.39%	10.81%	183.35%	4/24/2009	Level One Bank - Deposits Only
Main Street Bank	Northville	Wayne, MI	2	112,368	98,934	2.28%	9.49%	236.29%	10/10/2008	Monroe Bank & Trust
		Total	80	4,757,513	4,253,378					

Source: FDIC, call reports, and SNL Financial

On a more positive note, the last bank to fail was in March 2012 (Fidelity Bank). The lack of bank failures over the last year is indicative of a changing dynamic for financial institutions in Michigan and across the nation. As the economy continues to improve, we expect to see few institutions taken over by the FDIC, and a return to a more normalized mergers & acquisitions environment. Furthermore, the introduction of asset sales through a formal bankruptcy proceeding (Section 363 Sale of Assets) is beginning to pick up momentum as an option for distressed banks. Talmer Bancorp Inc. (Troy, MI) acquired First Place Bank from its parent, First Place Financial Corp., through such a Chapter 11 bankruptcy proceeding in early 2013.

The table below is a snapshot of the capital and credit quality health of Michigan banks as of June 30, 2013. Texas Ratio is defined as the sum of all nonperforming assets (nonaccrual loans, loans past due 90+ days, other real estate owned, and troubled debt restructuring) divided by the sum of tangible common equity and loan loss reserves.



As shown above, we have seen improving health at Michigan institutions as indicated by a migration to lower Texas Ratios. We anticipate this trend will continue as the Michigan economy recovers, and credit quality and profitability return to more normalized levels.

<u>OVERVIEW OF FINANCIAL SUMMARY</u>

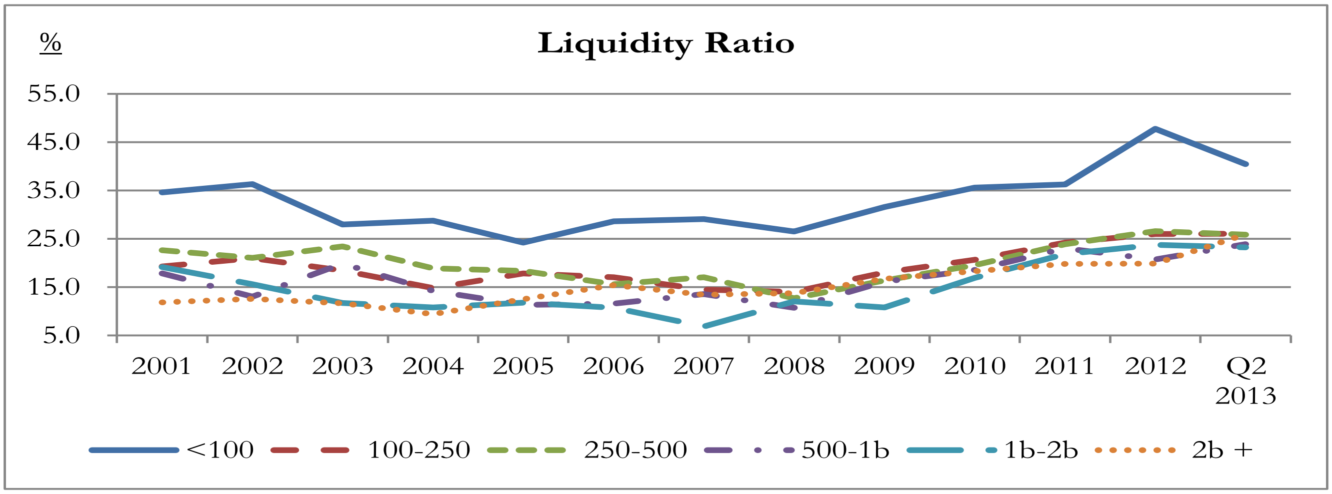
Data was collected for all of the banks headquartered in Michigan on an annualized basis from 2001 through 2012, as well as the year-to-date results through June 30, 2013. From here, we classified the institutions by assets size in the following manner:

Classification	# of Institutions	Collective Branches
Less than $100 million	34	78
$100 million to $250 million	45	229
$250 million to $500 million	29	252
$500 million to $1 billion	12	146
$1 billion to $2 billion	4	85
$2 billion and over	5	604

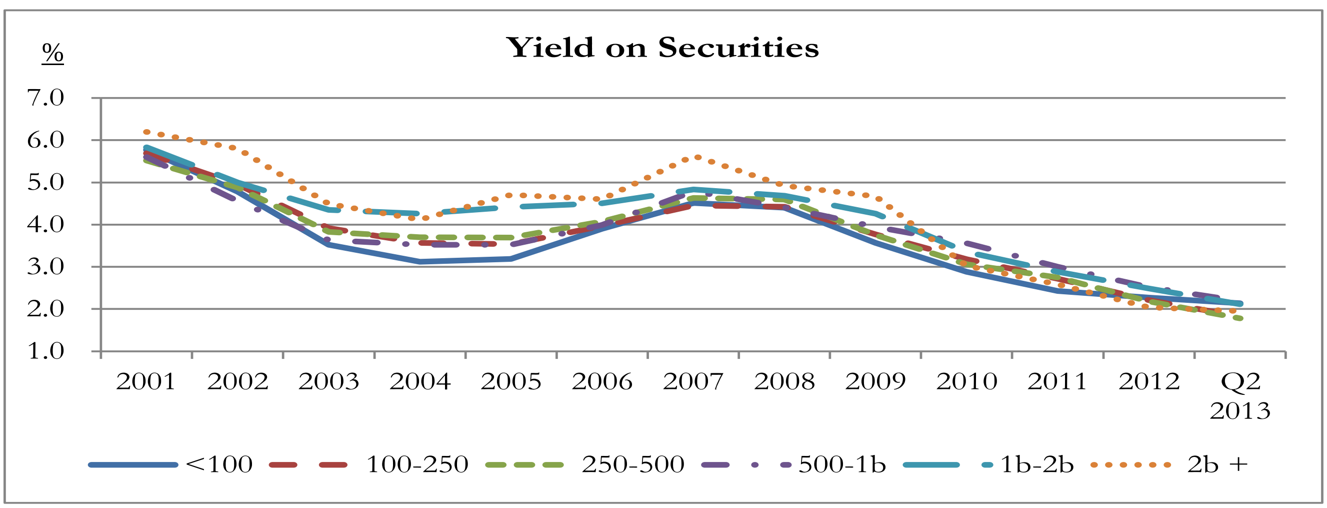
The median results for each grouping (except where noted otherwise) were taken and trends were highlighted throughout the past decade.

BALANCE SHEET TRENDS

Investment Securities/Liquidity:



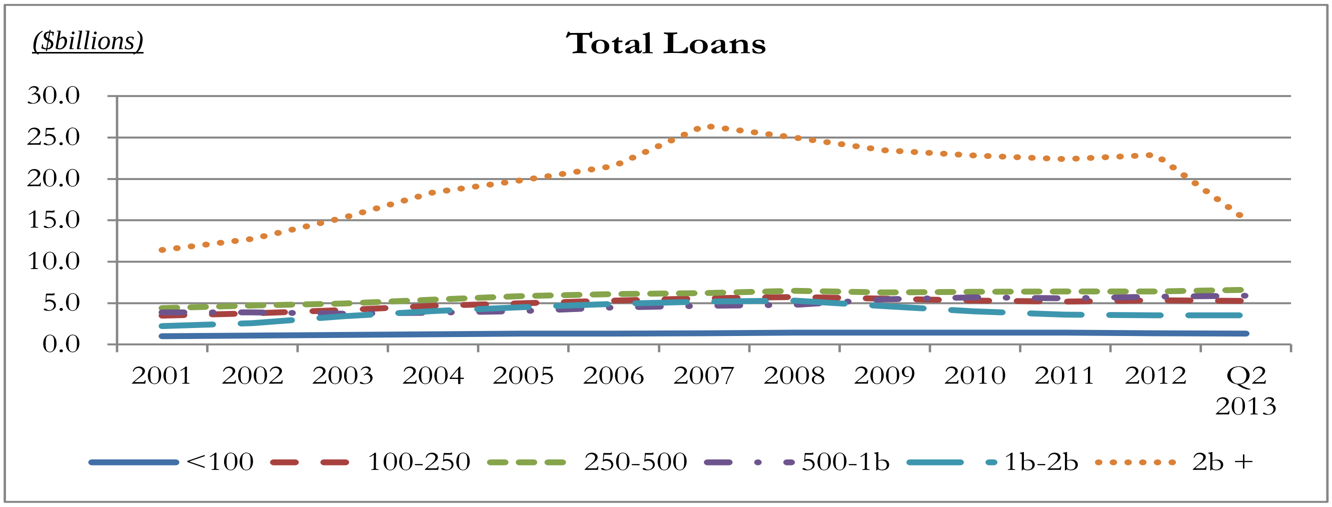
We define the liquidity ratio as the sum of all cash and equivalents and non-pledged short term securities divided by liabilities. As you can see from the chart above, there is a vast disparity in liquidity ratio between the banks with less than $100 million in assets and the rest of the segments, demonstrated by a regularly occurring spread between the next nearest segment, although this tightened through the first half of 2013. The trend also shows an increasing amount of liquidity on banks' balance sheets, which is the result of multiple factors, a couple of which being lack of quality loan opportunities and increased customer deposits. We expect liquidity to remain high for the foreseeable future as the economy continues to stabilize.



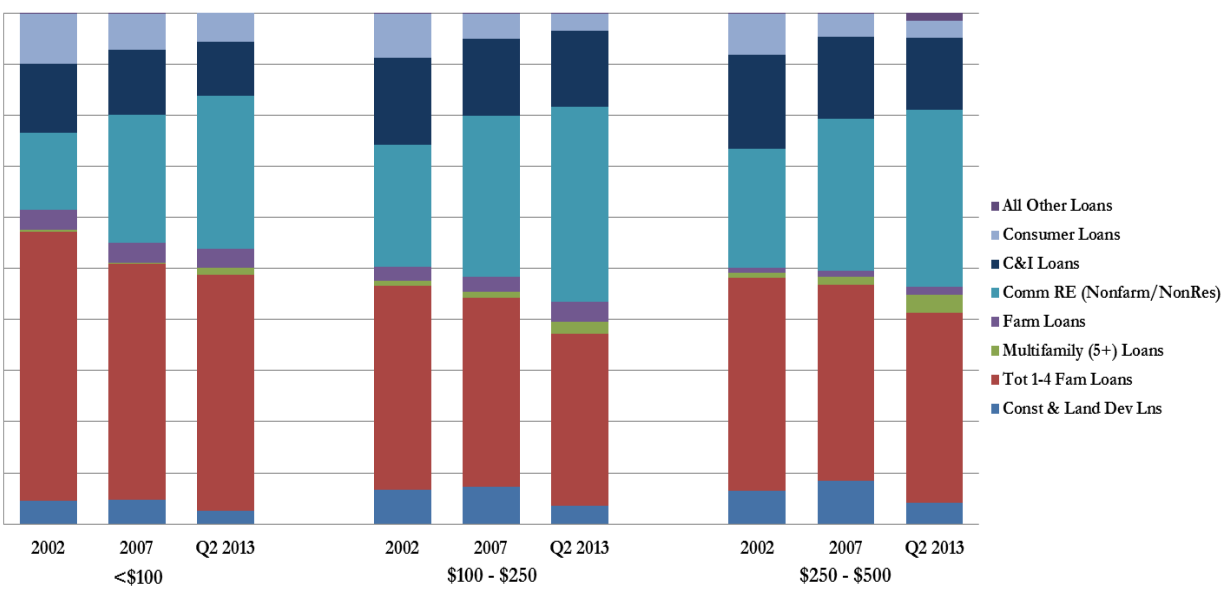
As detailed in the chart above, overall yields on security portfolios has declined significantly over the past few years. This is primarily a result of the economic recession, Federal Reserve maintaining low interest rates, and a shift in the composition of banks' investment securities to a more vanilla portfolio.

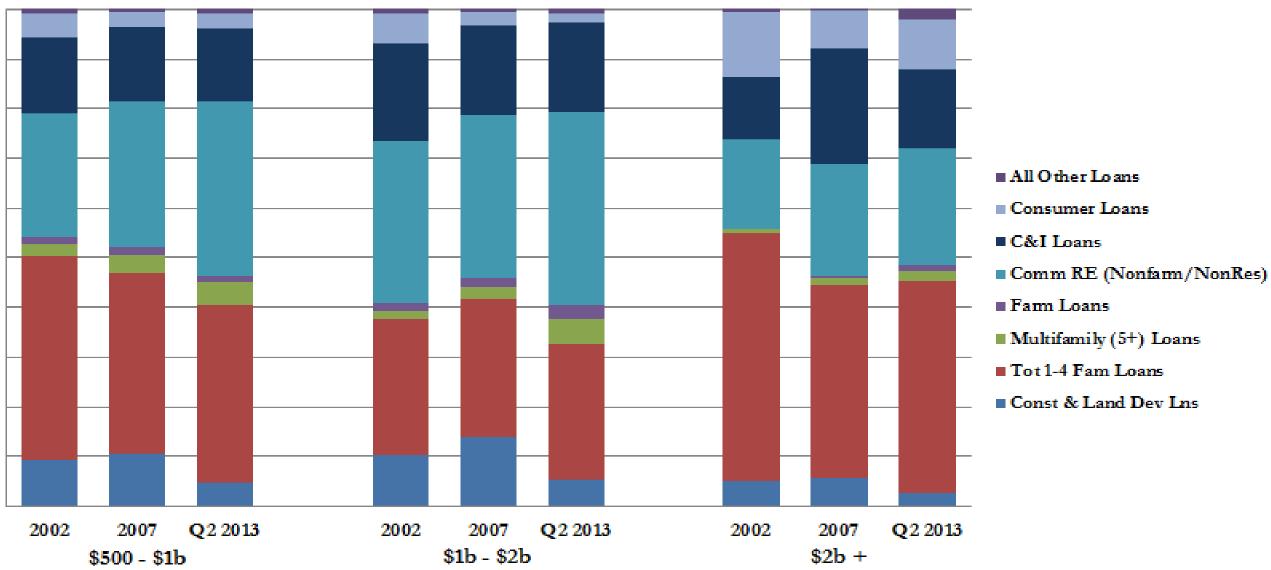
Loans:

As displayed in the chart below, total loans in the State of Michigan have declined across all segments, most notably in the $2 billion and over segment which saw a significant drop in their loan portfolios. Recently we have seen increasing loan demand for community banks, however there remain many unused lines of credit and commercial loan growth is challenging.

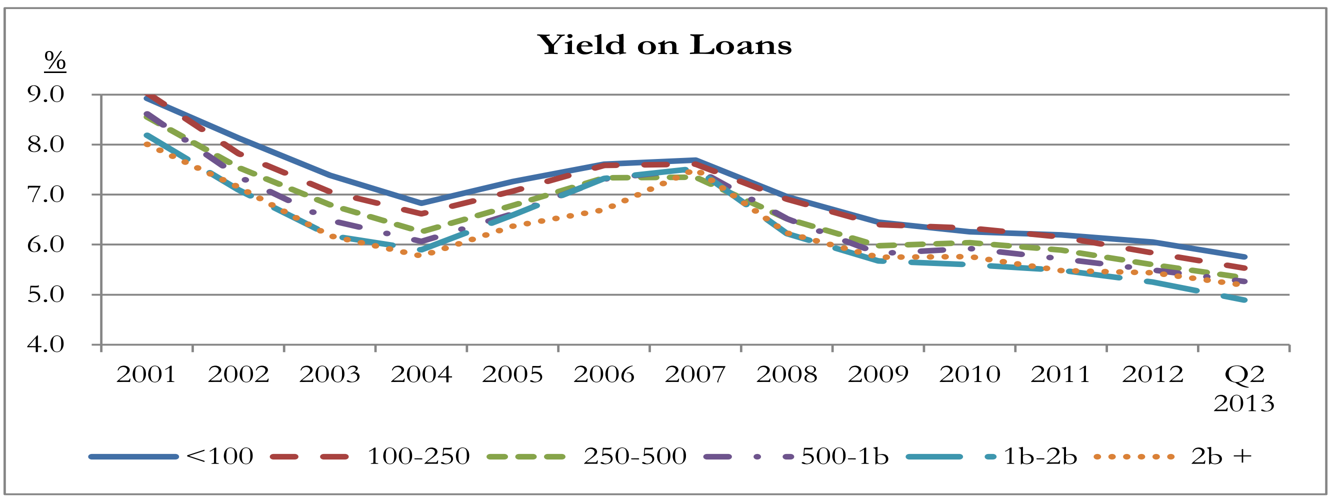


With respect to loan composition, the charts below detail the trend from 2002 to 2007 to Q2 2013 across the different asset sizes.

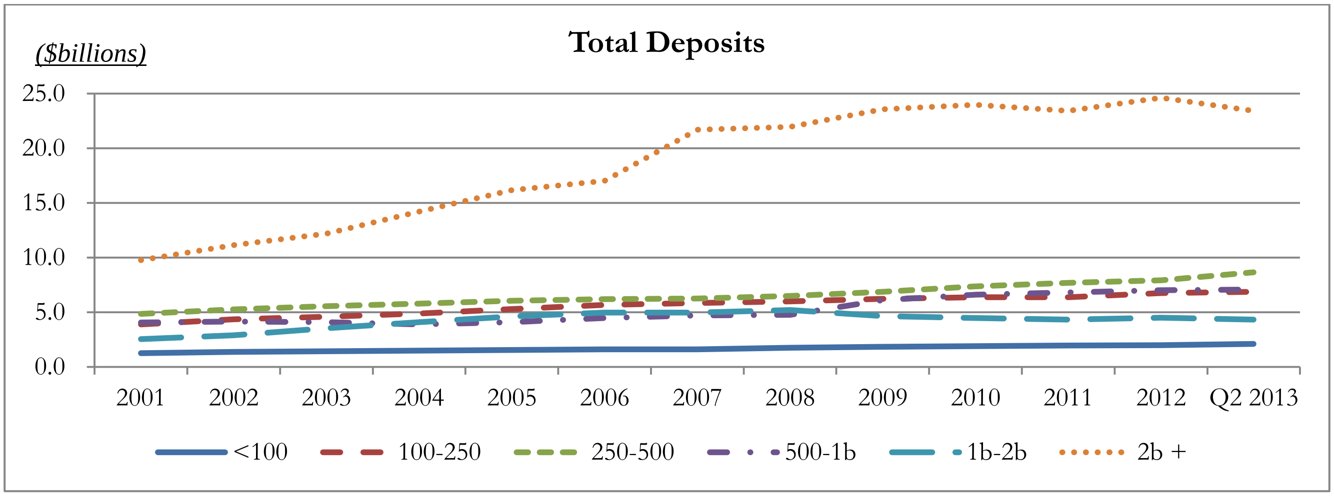




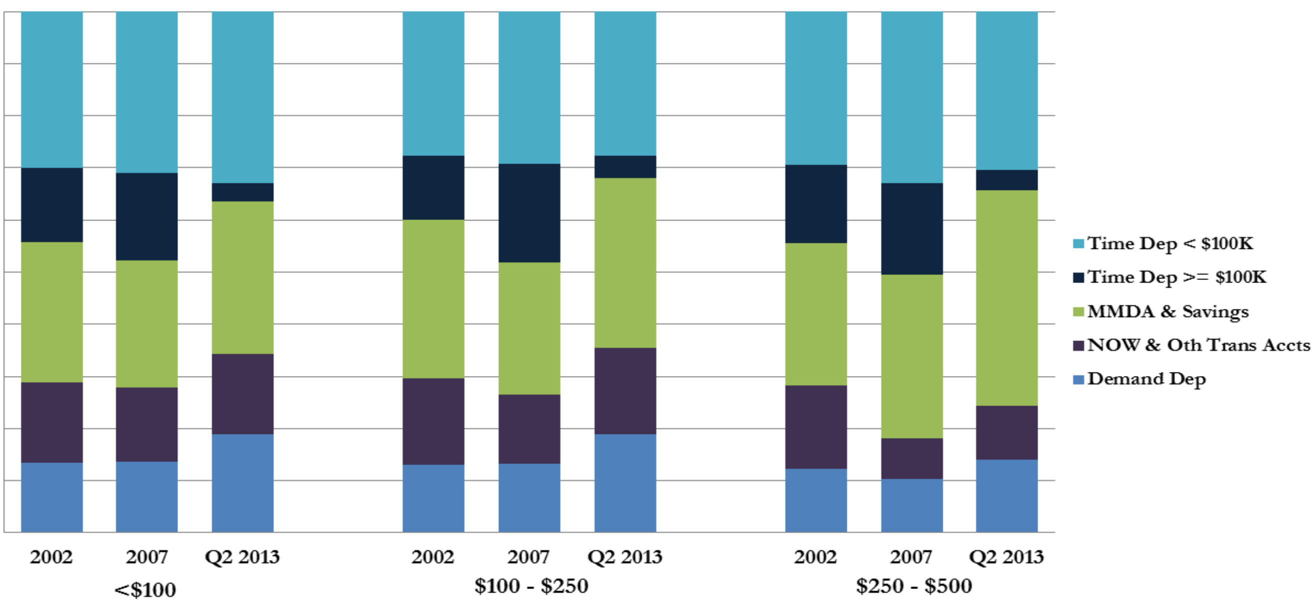
As the residential real estate markets cooled off with the economic recession, banks have seen a shift in the composition of their loan portfolios with more focus on commercial real estate and C&I loans, and less on construction and development loans. As the chart below details, loan yields have been steadily declining in the low interest rate environment of the past few years. This also is a factor of the changing composition of community banks' loan portfolios. With the Federal Reserve publicly announcing that it plans to keep key interest rates low for the foreseeable future (2014-2015), we do not expect this trend to meaningfully reverse over the coming year.

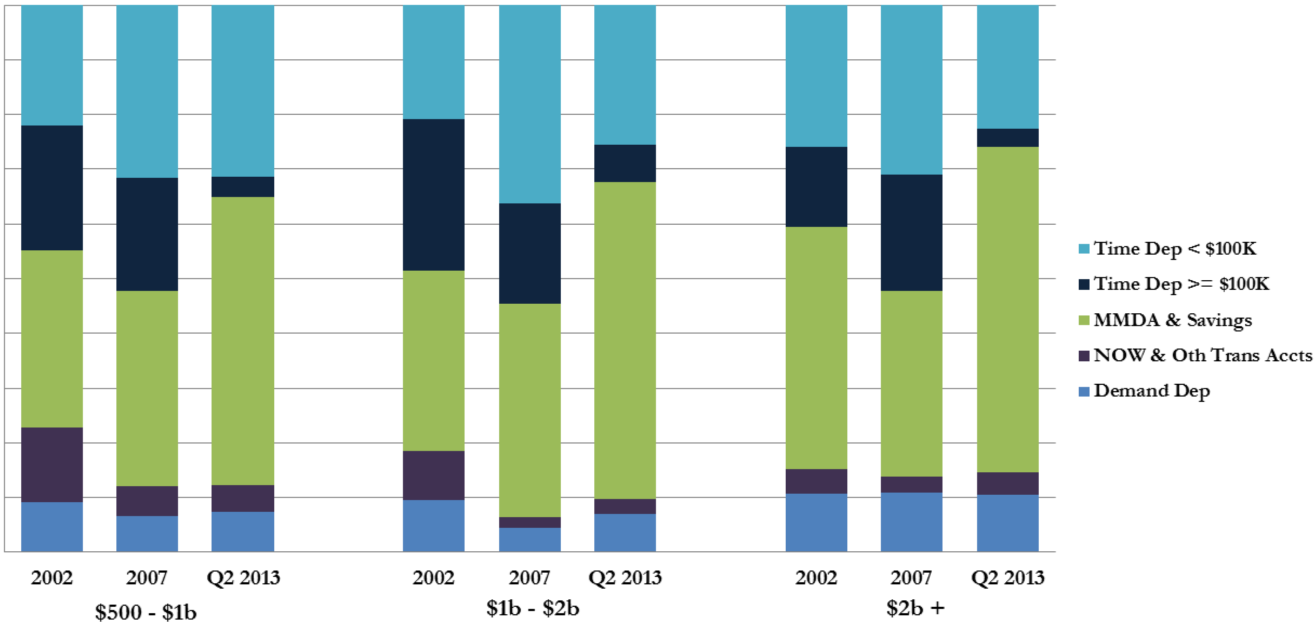


Deposits and Other Borrowings:
The chart below details the total level of deposits by segment. Total deposits are flat to slightly up across the segments, particularly since the economic recession as the savings rate has increased substantially for households and also as municipalities maintain higher cash reserves.

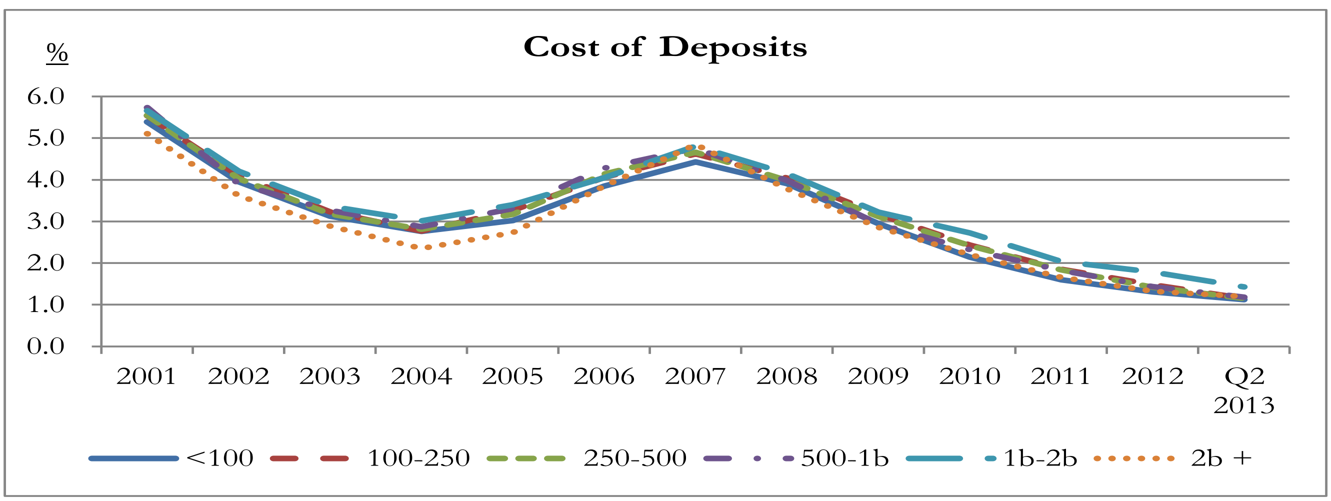


The charts below detail the shifting deposit composition from 2002 to 2007 to Q2 2013. Banks are generating more demand and core deposits today, and relying less on CD funding.



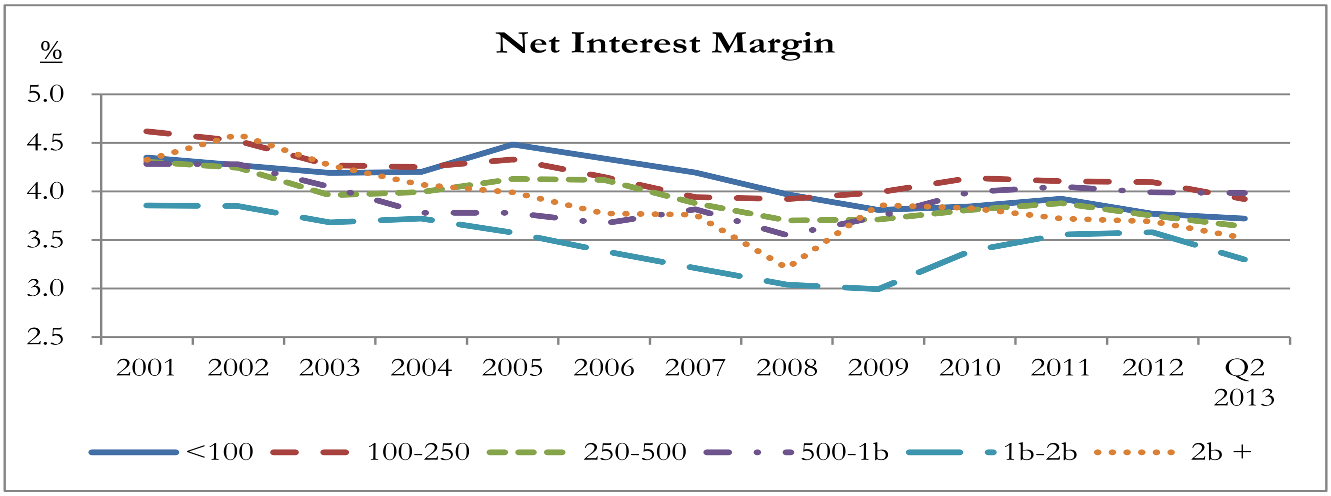


Similar to the trends displayed on yields, the cost of deposits has declined dramatically. This is not only due to the low interest rate environment experienced since the recession, but also a factor of the change in composition of banks' deposits to a more "core" funding focus.



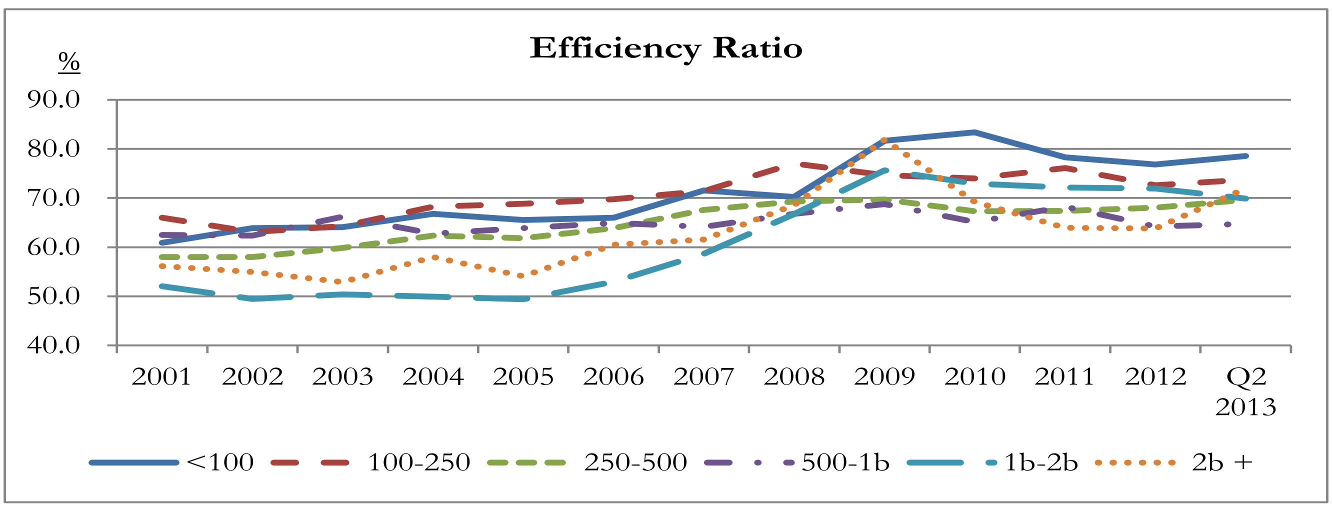
PROFITABILITY TRENDS

Net Interest Margin:



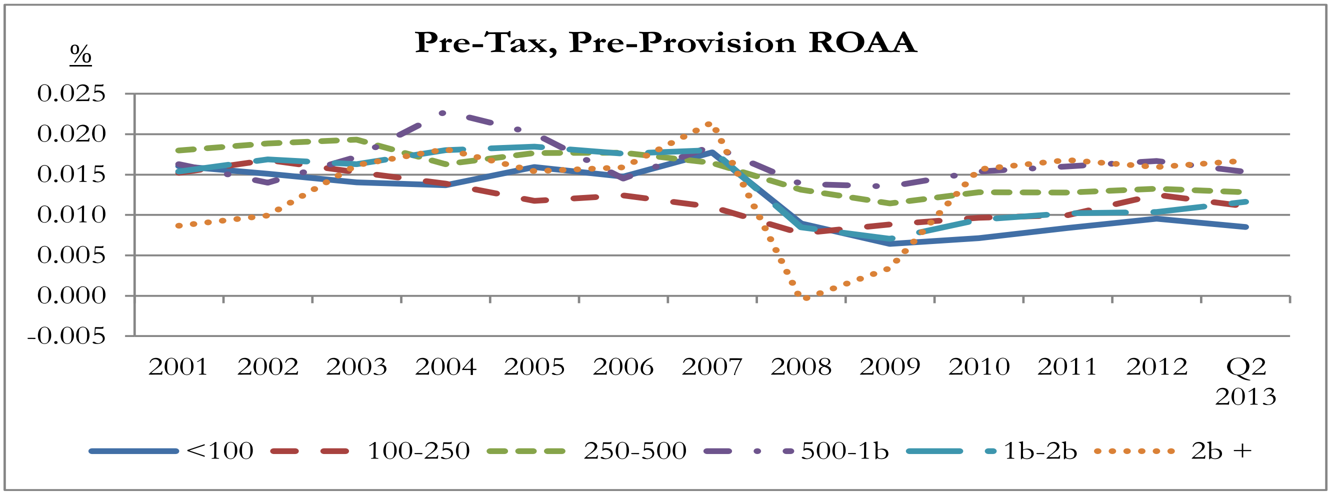
With little room for improvement in deposit and other borrowing costs, and extended low interest rates, we expect to see further pressure on margin going forward through 2014/2015. Due to the declining yields on the asset side of the balance sheet, banks have been unable to sustain high margins in the low interest rate and slow growth environment. This has resulted in declining net interest margins. Expect this to improve as rates rise, but there may be a lag as fixed rates and floors protected banks on the downside but hinder the immediate rebound in overall portfolio yield.

Efficiency Ratio:



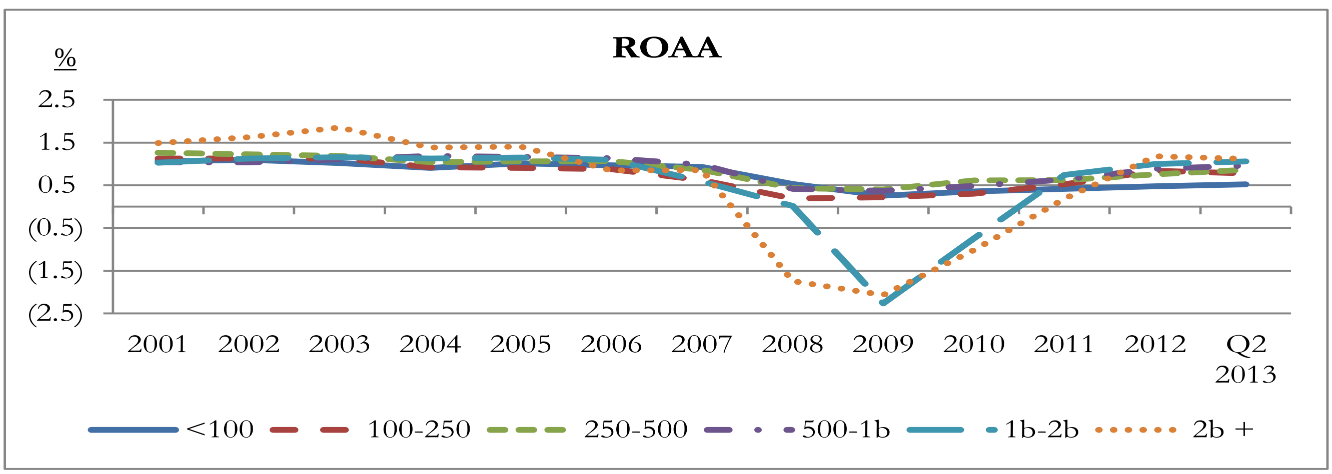
As loan portfolios shrink and yields are pressured lower, banks have increasingly become more focused on managing noninterest expenses. Gone are the days of sub 70% efficiency ratios for most institutions. Controlling expenses has been a formidable task with increasing regulatory, compliance, and deposit insurance costs, but the efficiency ratio is showing some signs of stabilization.

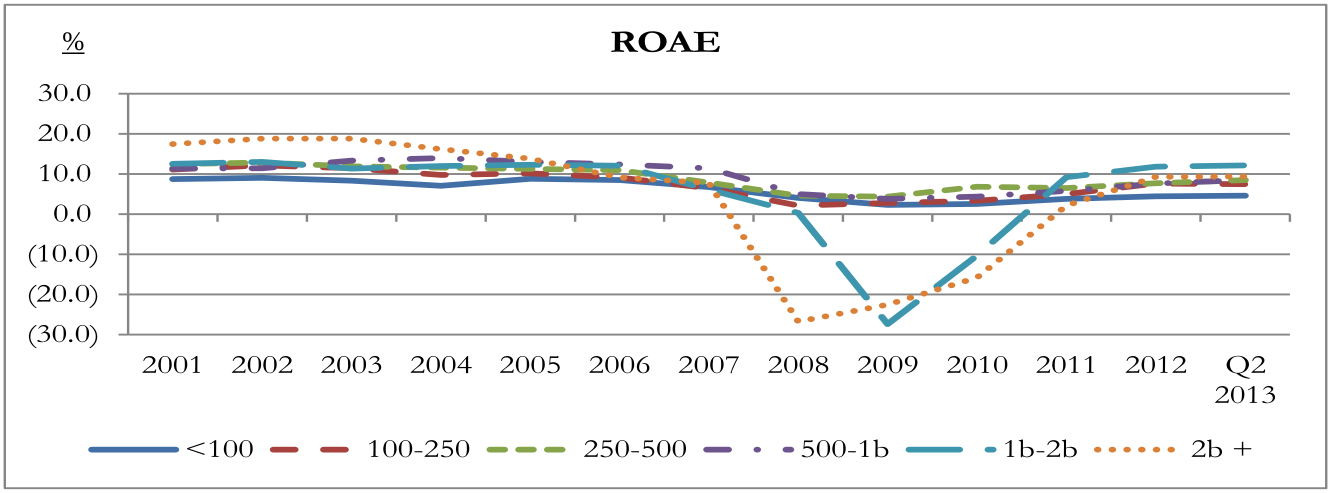
Pre-Tax, Pre-Provision ROAA:



As banks are focusing on diversifying revenue with ancillary sources (mortgage banking, trust, wealth management, etc.) and controlling expenses, there has been an improvement in core profitability as compared with the recent past.

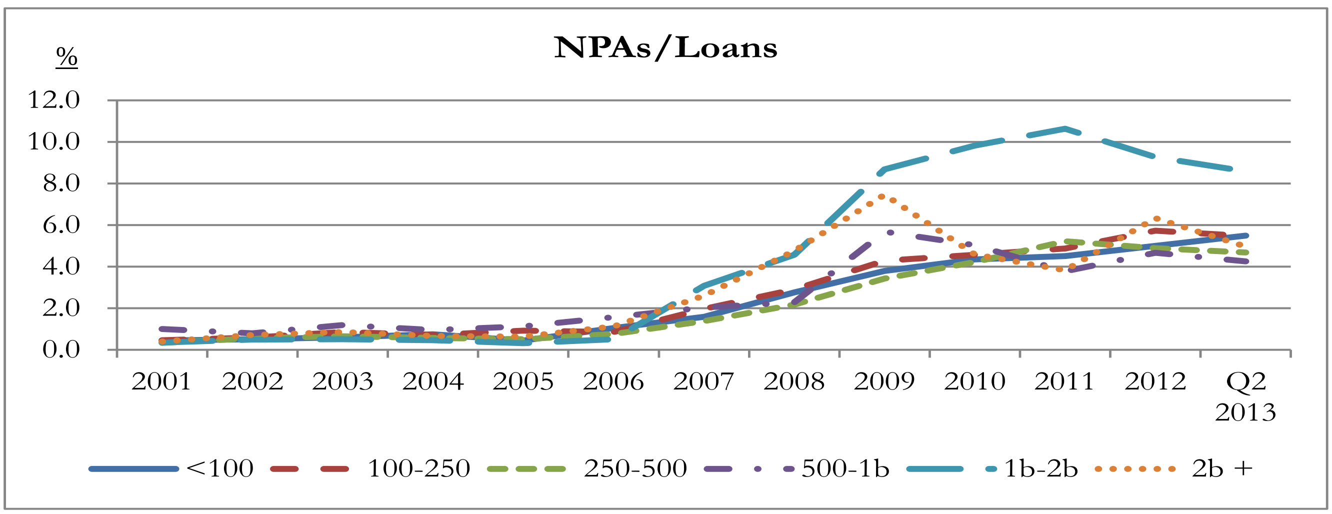
Return on Average Assets and Equity:
Credit costs were significant in the banking industry from 2008-2010 (and continue to be above historical averages), which led to much lower profitability. Return on average assets and equity have both improved recently, but return on equity will likely remain lower than history as a result of higher capital requirements (to be discussed below).





<u>CREDIT QUALITY</u>

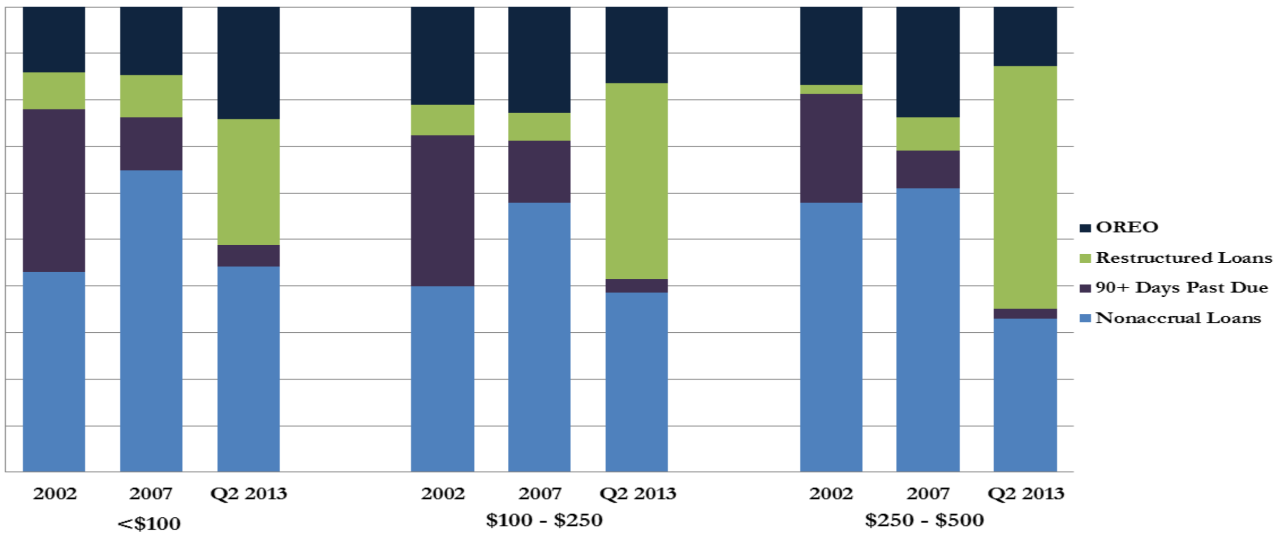
Nonperforming Assets / Loans:

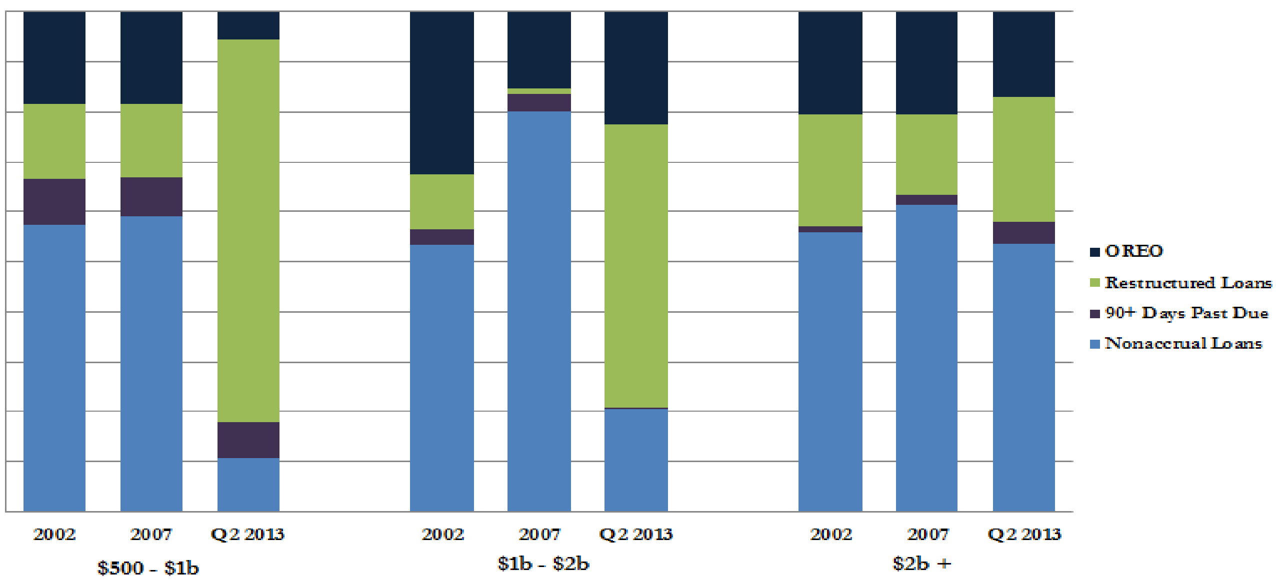


With the economic downturn, banks experienced much higher than normal delinquent and nonperforming loans. While there are not as many loans moving into nonperforming status today, the level of NPAs remains elevated, but is showing signs of stabilization.

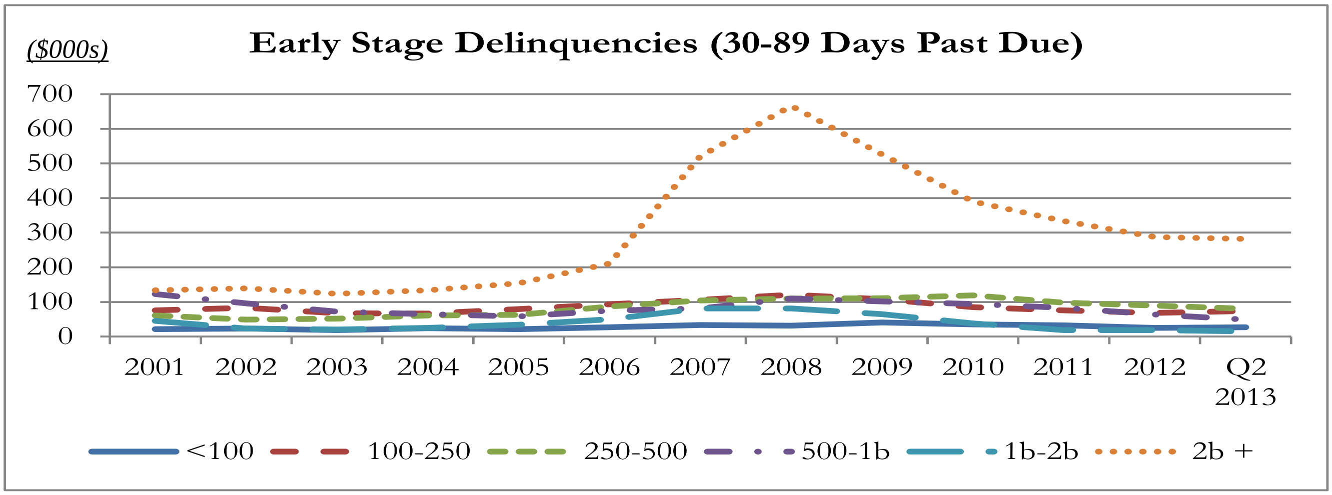
NPA Composition:

The charts below show the trending composition of nonperforming assets (broken out by nonaccrual loans, loans past due 90+ days, restructured loans, and other real estate owned). Nonperforming loans have been migrating to restructured loans and OREO, and we expect this trend to continue as banks continue to work through troubled loans.

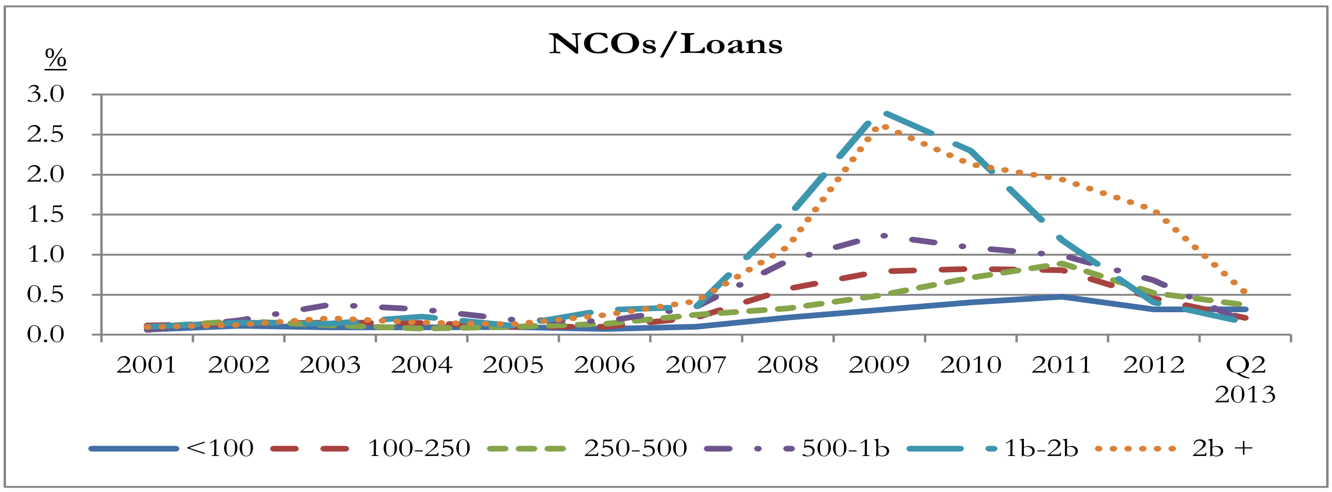




Cumulative Early Stage Delinquencies (30-89 Days Past Due):
As discussed above, credit quality has stabilized (albeit at elevated levels), and an even more encouraging trend is the declining balance of early stage delinquencies (defined as loans 30-89 days past due).



Net Chargeoffs / Loans:

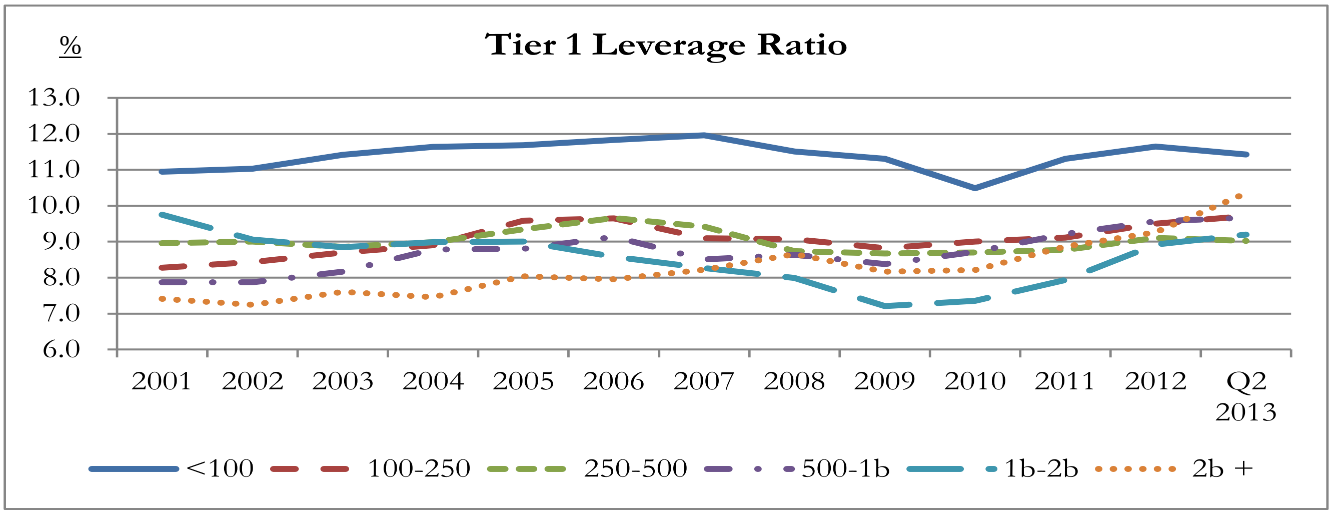


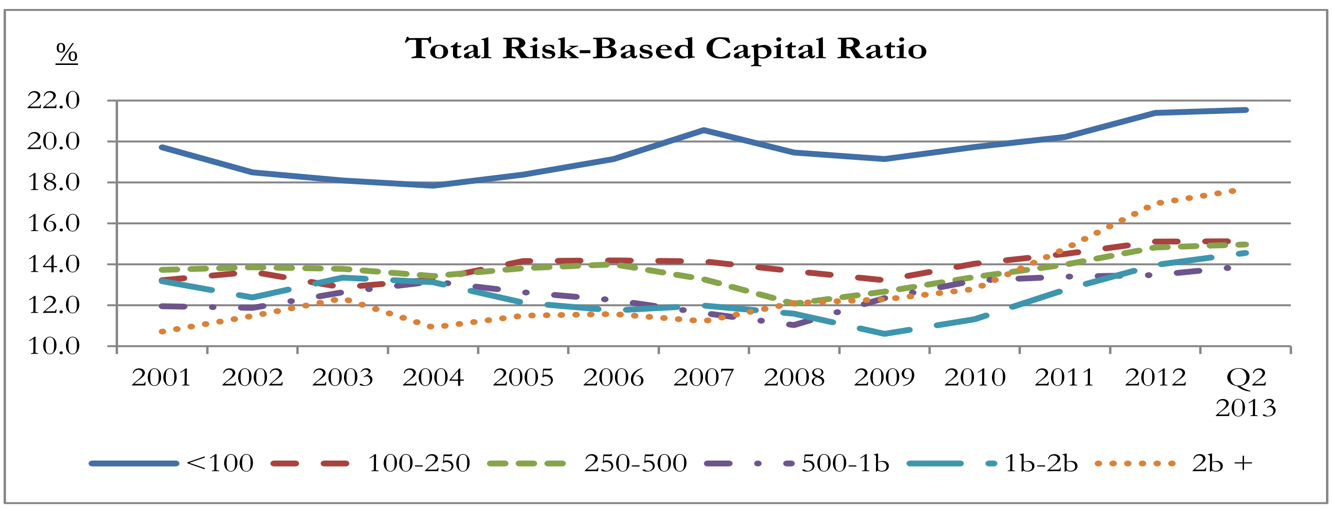
As the economy continues to rebound, we expect to see the recent trend of declining chargeoffs continue. Many loans that banks made back in the early and mid-2000s have paid off, worked out, or charged off.

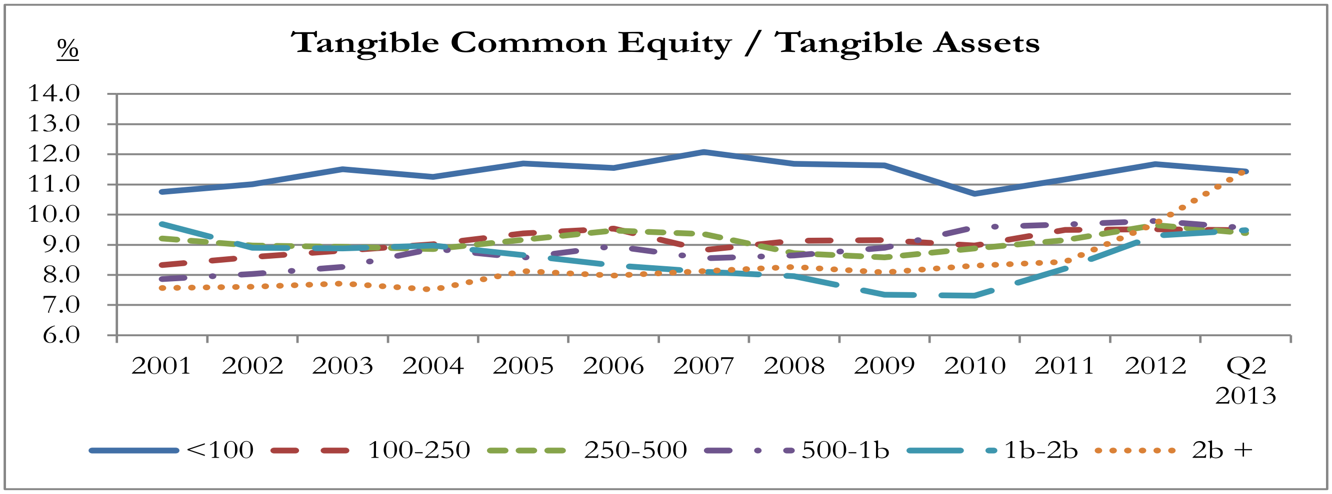
CAPITALIZATION

The overriding trend in banking is that "capital is king". With Basel III rules becoming clearer and implications that banks will be required to retain higher levels of capital, we do not anticipate the trends displayed below to reverse. The industry experienced significant losses in 2008-2010, however consistent profitability has returned and capital is increasing. Additionally, many institutions elected or were forced to raise capital over the past few years.

Below are the trends in capital and capital ratios. There is also a shift in composition of capital, as many institutions are focused on increasing the level (and %) of common equity, and certain hybrid instruments such as trust preferred securities are being phased out.



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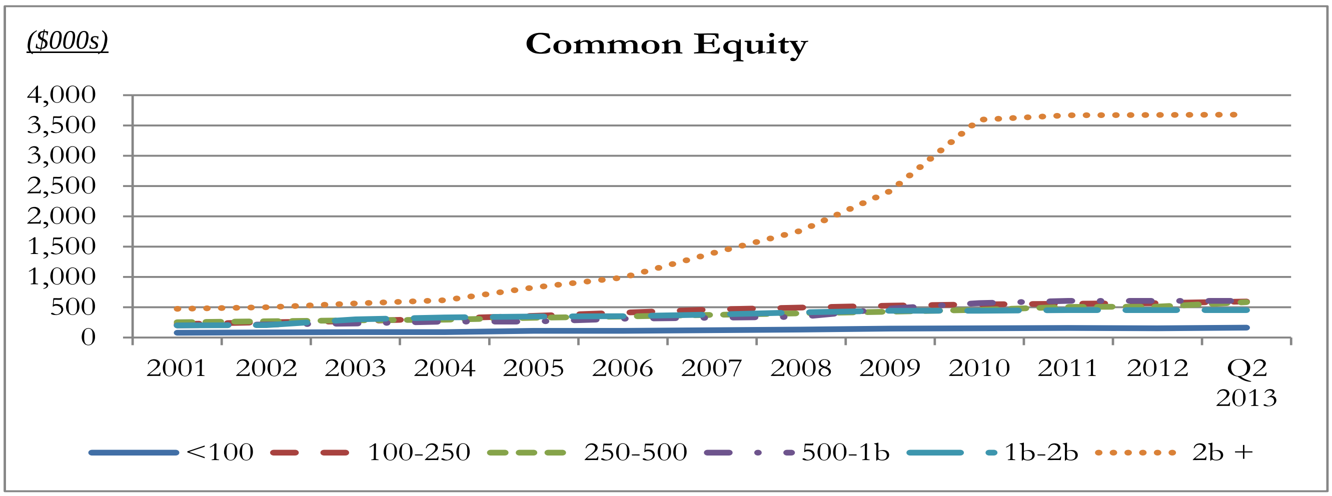
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