INTRODUCTION

Much like 2012 and 2013, the State of Michigan and its community banks continue to experience relative stability, although the State's economy continues to lag most other states and unemployment remains high (7.9% for the State in June 2014). 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. In fact, in 2014 the State has seen 3 of its community banks announce the sale of their institution, all for more than 175% of stated tangible book value and 2 of which were greater than 200% of stated tangible book value. These valuations are much higher than the national average for bank M&A transactions and are a positive signal. With interest rates expected to be low for the foreseeable future, and the costs of banking (salaries, benefits, regulatory, etc.) expected to continue to increase, achieving profitability and returns sufficient to satisfy shareholders will be challenging. This likely will lead to an increasing focus on strategic alternatives and discussions on whether independence is the best option for each bank.

STATE OF MICHIGAN DEMOGRAPHIC OVERVIEW

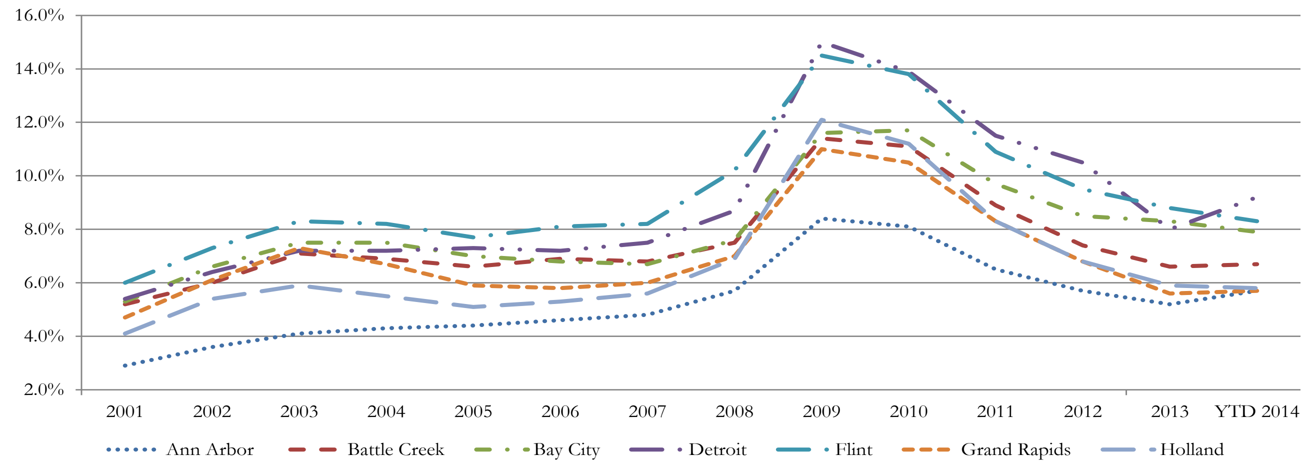
MSA	Total Population 2014 (Actual)	Population Change 2010-2014 (%)	Projected Population Change 2014-2019	Median HH Income 2014	Projected HH Income Change 2014-2019
Ann Arbor, MI	354,530	2.82	2.55	58,718	5.70
Battle Creek, MI	134,347	(1.32)	(1.35)	39,666	1.00
Bay City, MI	106,345	(1.32)	(1.37)	44,269	4.35
Detroit-Warren-Livonia, MI	4,291,337	(0.11)	(0.09)	48,514	0.73
Flint, MI	412,977	(3.01)	(3.11)	41,617	2.50
Grand Rapids-Wyoming, MI	1,017,542	2.89	2.75	50,978	4.73
Holland, MI	112,520	1.00	1.01	52,911	12.13
Jackson, MI	160,609	0.23	0.34	44,432	2.44
Kalamazoo-Portage, MI	332,269	1.74	1.62	43,721	0.03
Lansing-East Lansing, MI	466,131	0.45	0.31	46,508	(0.44)
Monroe, MI	150,220	(1.18)	(1.29)	54,511	6.30
Muskegon-Norton Shores, MI	169,536	(1.54)	(1.25)	37,778	1.96
Niles-Benton Harbor, MI	155,419	(0.89)	(0.98)	40,741	(0.09)
Saginaw-Saginaw Township North, MI	197,163	(1.50)	(1.51)	40,886	1.90
State of Michigan	9,882,647	(0.01)	(0.03)	46,476	2.19

For the last decade, Michigan's population has been remained relatively flat. From 2010 to 2014, we saw that population trend remain, with a nominal decline of (0.01%), and over the next five years, the population in the state is projected to decline by (0.03%).

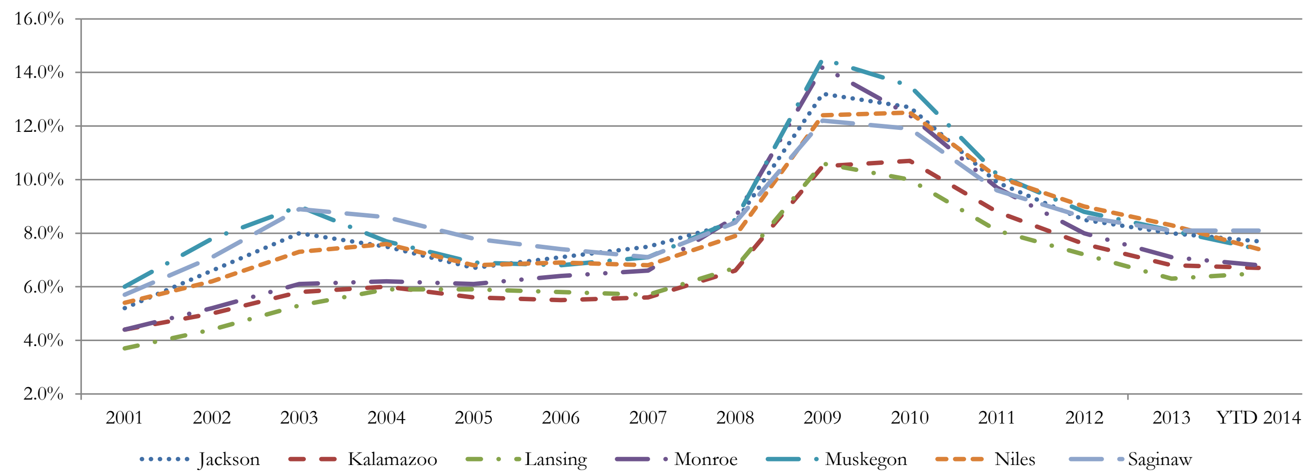
Household income in Michigan in 2014 was $46,476, which was above $44,947 in 2012 and in line with 2010's mark of $46,481. Household income is projected to grow by 2.19% over the next 5 years, below the national average of 4.58%.

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 2014. From 2001 – 2007, Michigan's unemployment levels in the representative MSAs averaged 6.3%. The last four and a half years, that unemployment number has averaged 9.0% and has reached levels above 12%, with a peak in 2009 of 12.3%. However, as displayed in the charts above, unemployment has mostly been steadily decreasing since 2009 and as of June 2014 the unemployment rate for the State of Michigan was at 7.9%, which compared to the national rate of 6.3%.

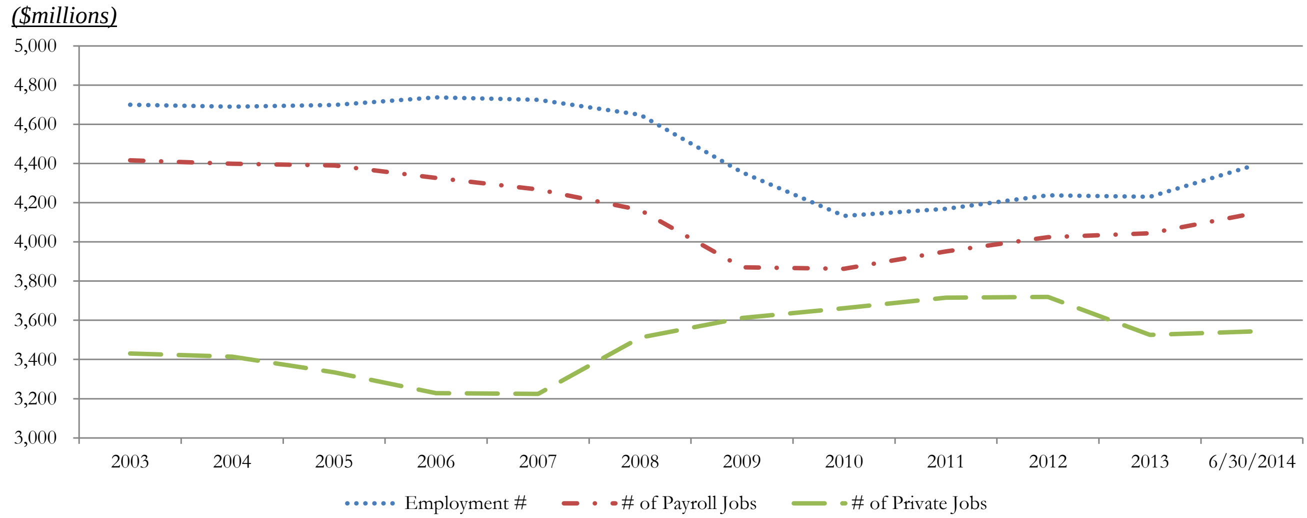
Unemployment Figures for selected MSAs:

Year	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%
2013	5.2%	6.6%	8.3%	8.0%	8.8%	5.6%	5.9%	8.0%	6.8%	6.3%	7.1%	8.1%	8.3%	8.1%	7.7%
YTD 2014	5.7%	6.7%	7.9%	9.2%	8.3%	5.7%	5.8%	7.7%	6.7%	6.5%	6.8%	7.4%	7.4%	8.1%	7.9%

MICHIGAN EMPLOYMENT OVERVIEW

We collected employment data for the state of Michigan from 2003 through June 2014. The results show a rapid decline in the number of individuals employed throughout the 2008-2010 national recession. The overall employment number has rebounded to nearly 4.4 million employed, with just over 4.1 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:



OVERVIEW OF FINANCIAL SUMMARY

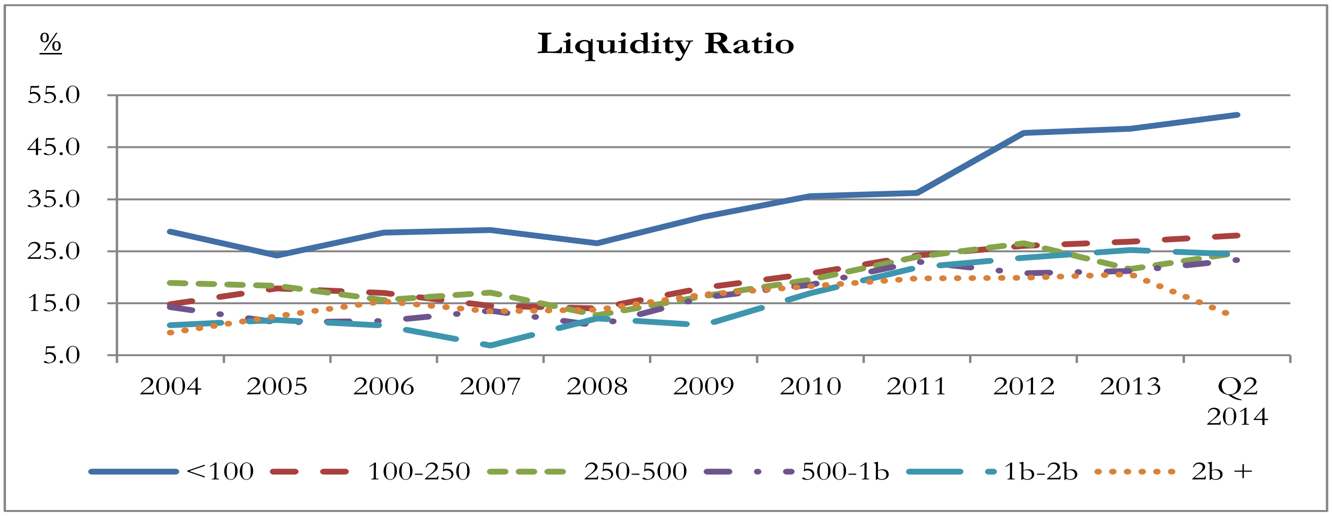
Data was collected for all of the banks headquartered in Michigan on an annualized basis from 2003 through 2013, as well as the year-to-date results through June 30, 2014. From here, we classified the institutions by assets size in the following manner:

Classification	# of Institutions	Collective Branches
Less than $100 million	28	66
$100 million to $250 million	44	229
$250 million to $500 million	24	172
$500 million to $1 billion	13	146
$1 billion to $2 billion	4	99
$2 billion and over	5	471

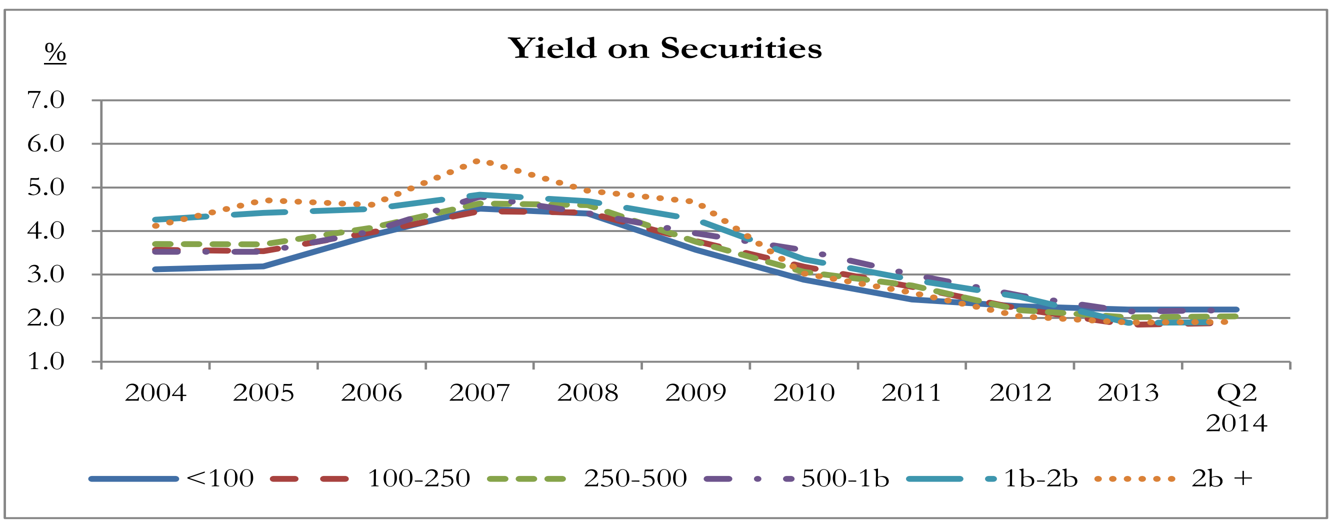
The median results for each grouping (except where noted otherwise) were taken and trends were highlighted throughout the past decade.

BALANCE SHEET TRENDS

Investment Securities/Liquidity:

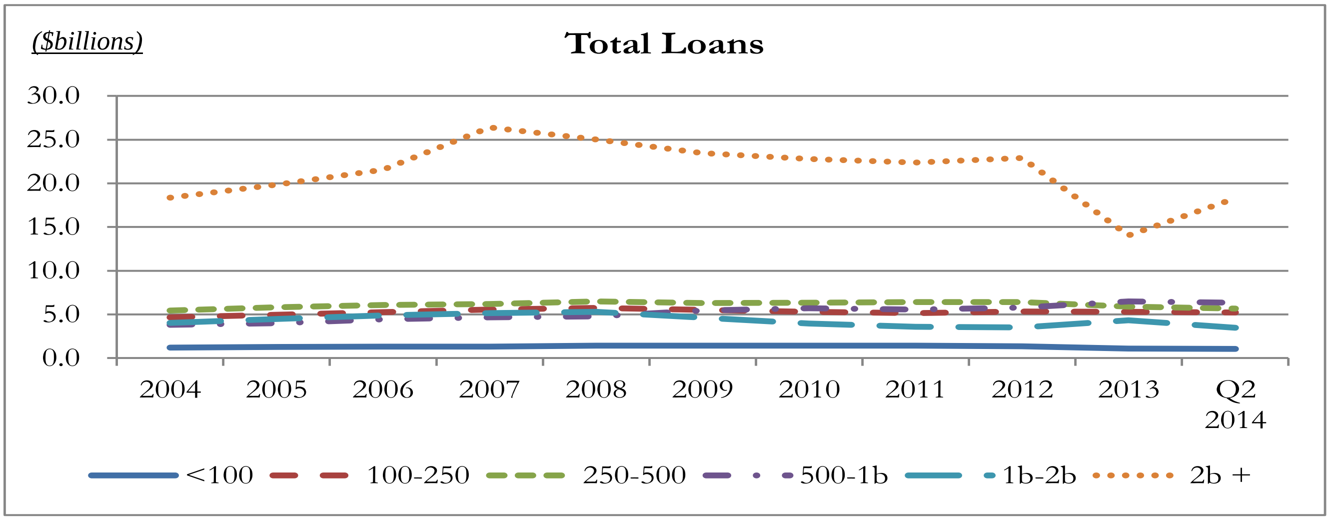


We define the liquidity ratio as the sum of all cash and equivalents and non-pledged short term securities divided by liabilities. As you can see from the chart above, there is a vast disparity in liquidity ratio between the banks with less than $100 million in assets and the rest of the segments, demonstrated by a regularly occurring spread between the next nearest segment, which continued to increase through the first half of 2014. Additionally, the $2b and over banks saw a decline in liquidity through June 30, 2014. The trend generally 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.

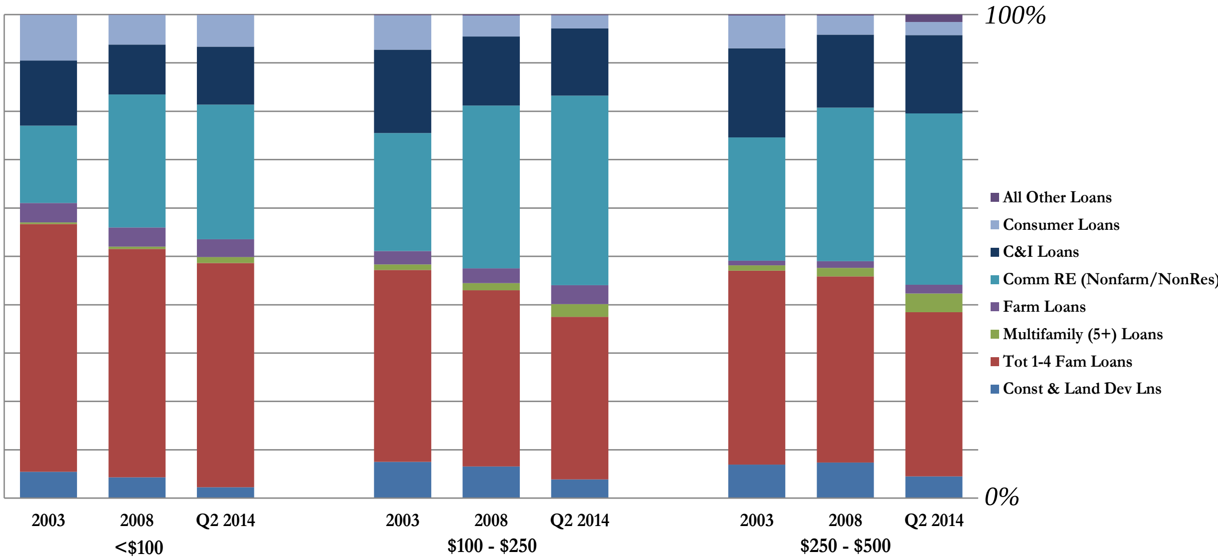


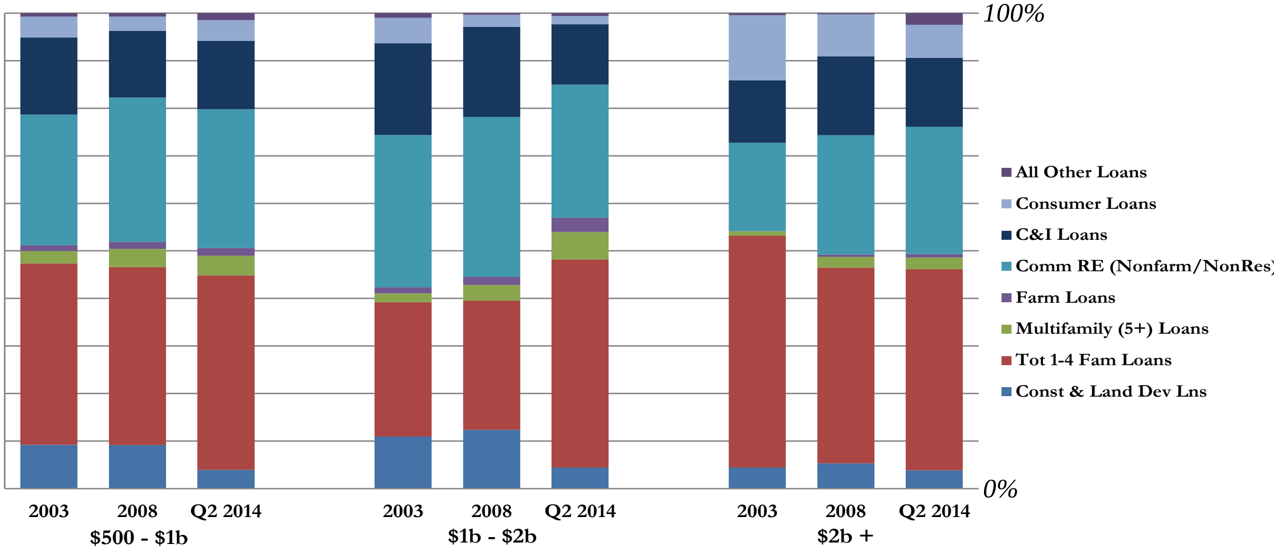
As detailed in the chart above, overall yields on security portfolios have declined significantly over the past few years. This is primarily a result of the economic recession, Federal Reserve maintaining low interest rates, and a shift in the composition of banks' investment securities to a more vanilla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

Loans:
As displayed in the chart below, total loans in the State of Michigan have declined across all asset classes, most notably in the $2 billion and over segment which saw a significant drop in their loan portfolios in 2013, but rebounded through six months 2014. Recently we have seen increasing loan demand for community banks, however there remain many unused lines of credit and commercial loan growth is challenging and competition is fierce.

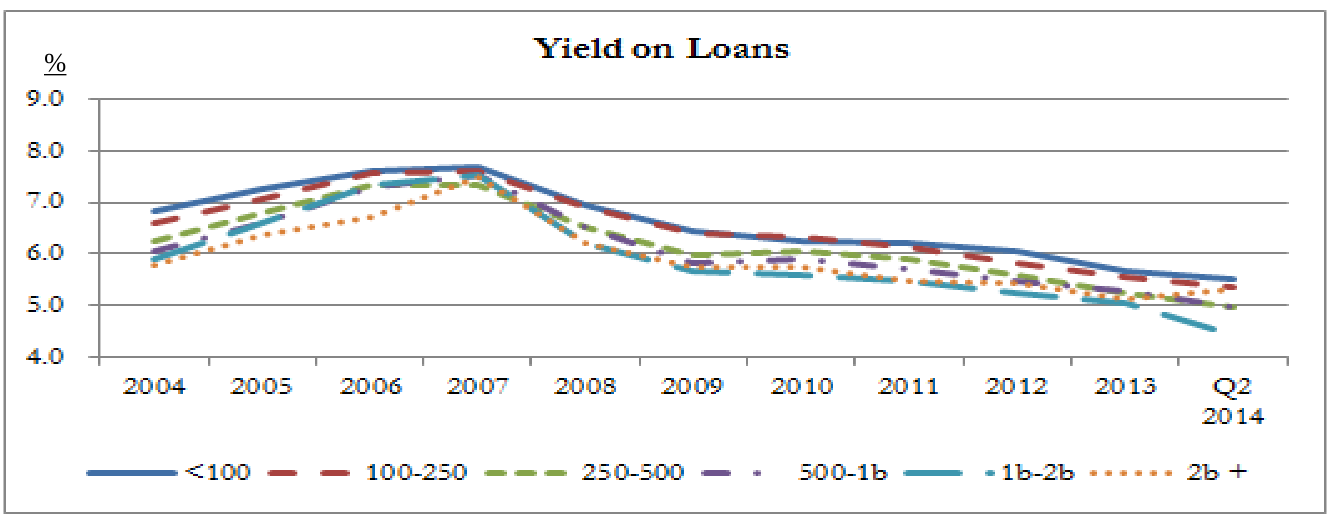


With respect to loan composition, the charts below detail the trend from 2003 to 2008 to Q2 2014 across the different asset sizes.

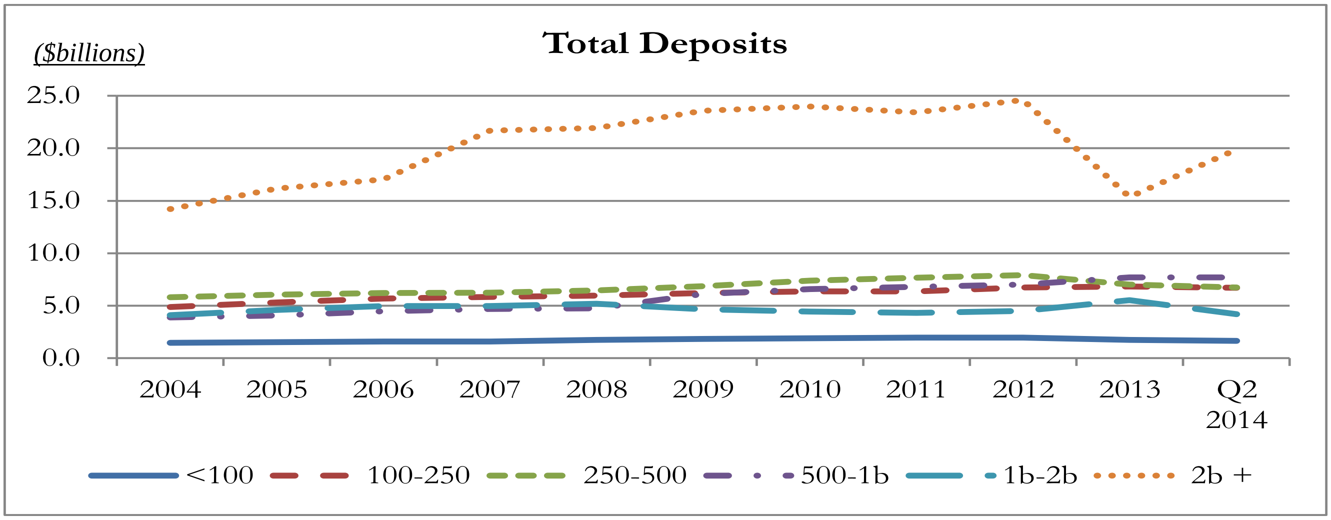




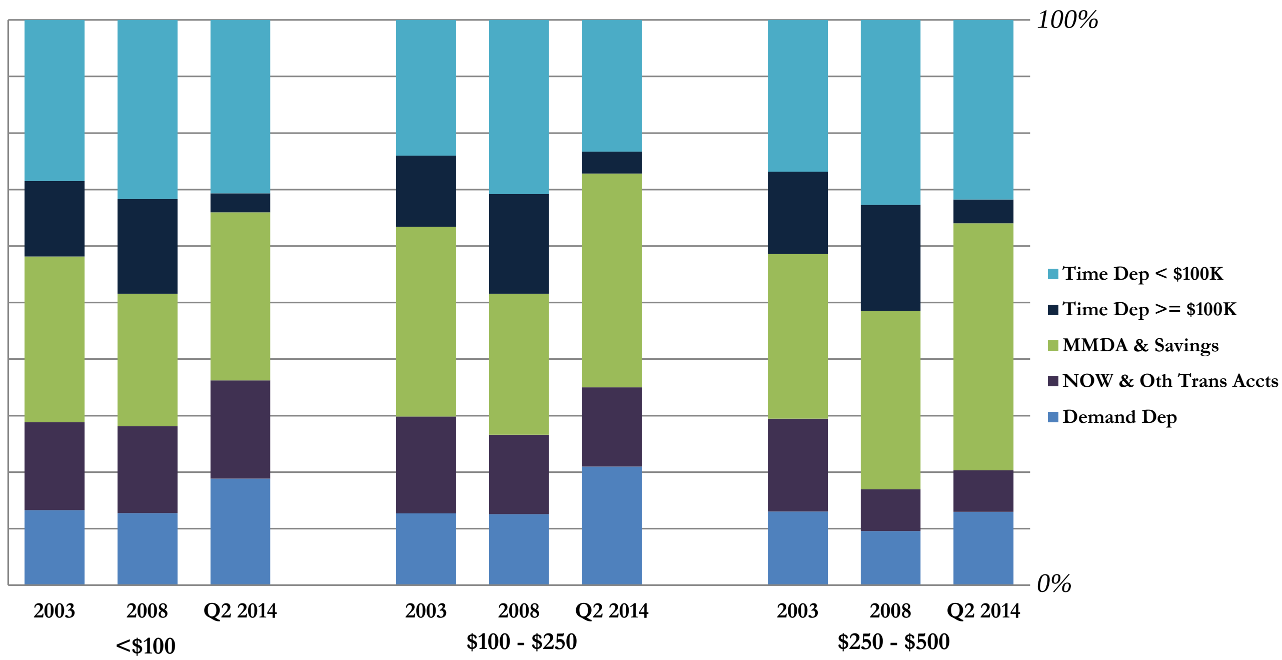
As the residential real estate markets cooled off with the economic recession, banks have seen a shift in the composition of their loan portfolios with more focus on commercial real estate and C&I loans, and less on construction and development loans. As the chart below details, loan yields have been 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.

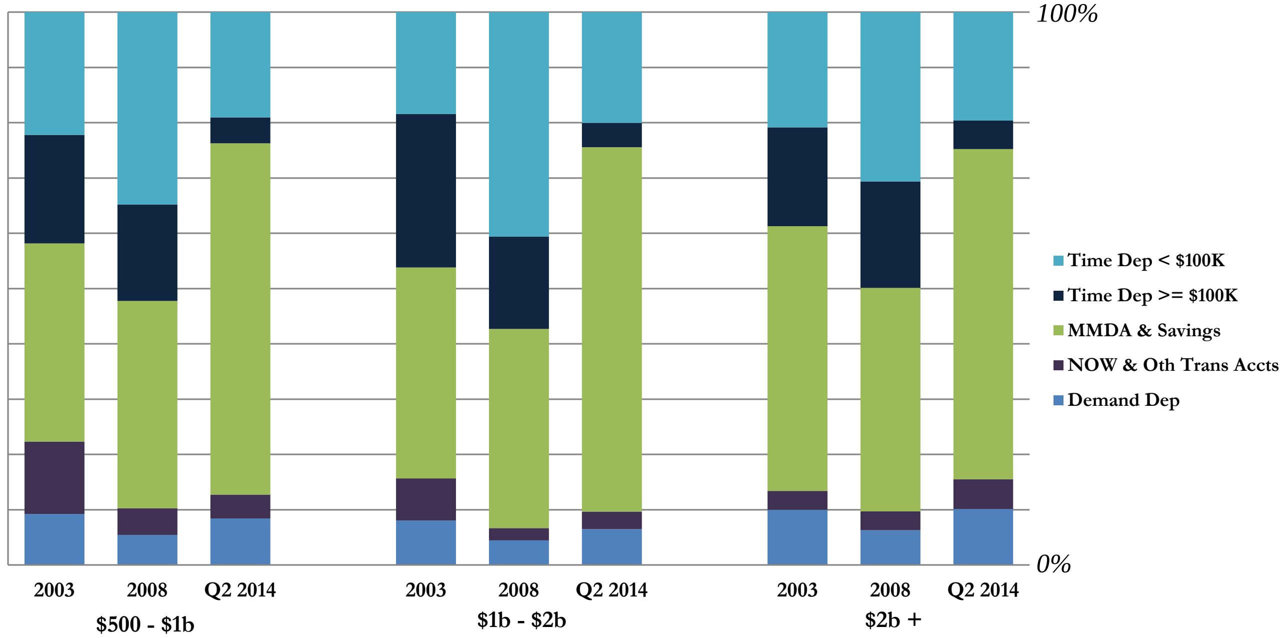


Deposits and Other Borrowings:
The chart below details the total level of deposits by segment. Total deposits generally have steadily increased, particularly since the economic recession as the savings rate has increased substantially for households and also as municipalities maintain higher cash reserves.

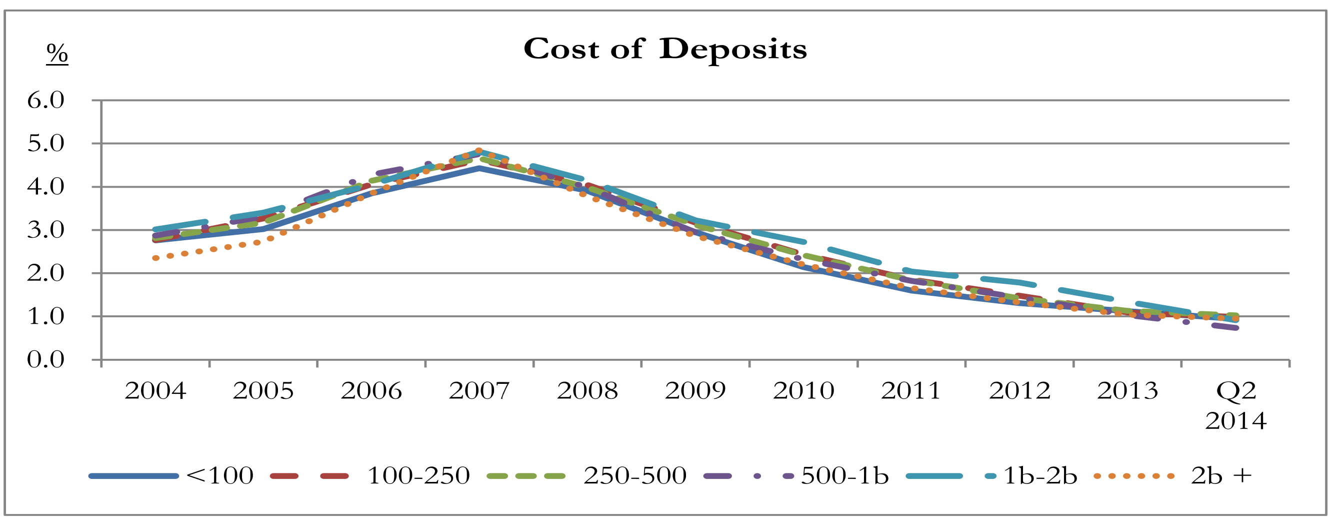


The charts below detail the shifting deposit composition from 2003 to 2008 to Q2 2014. Banks are generating more demand and core deposits today, and relying less on CD funding. As displayed in the charts, larger institutions generally have a larger concentration of core deposits, but not as large of a concentration of demand deposits as the smaller banks.



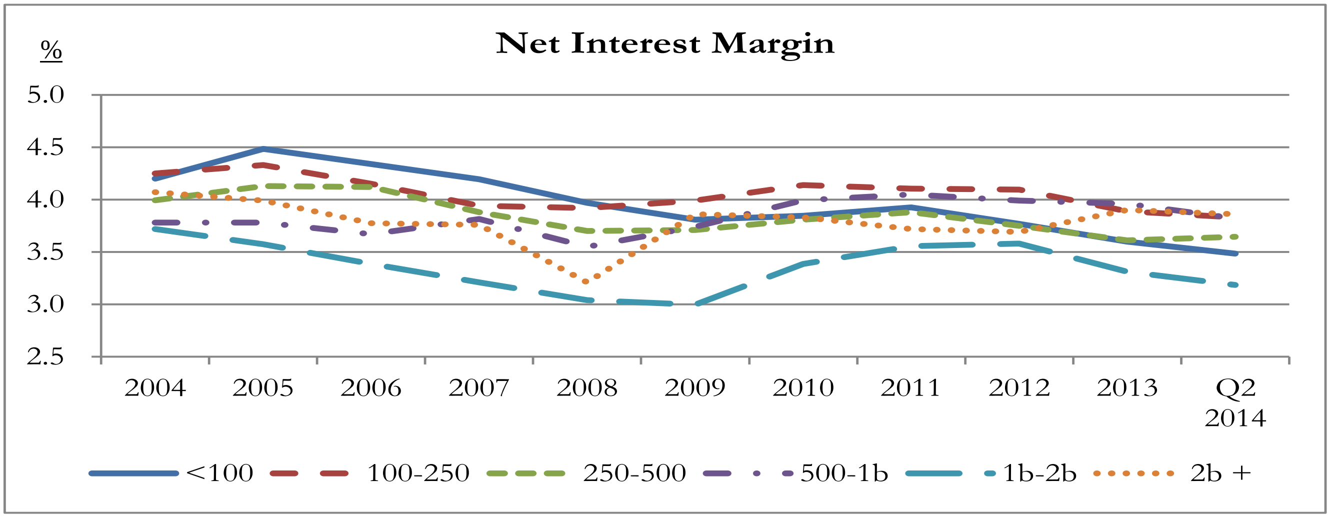


Similar to the trends displayed on yields, the cost of deposits has declined dramatically. This is not only due to the low interest rate environment experienced since the recession, but also a factor of the change in composition of banks' deposits to a more "core" funding focus.



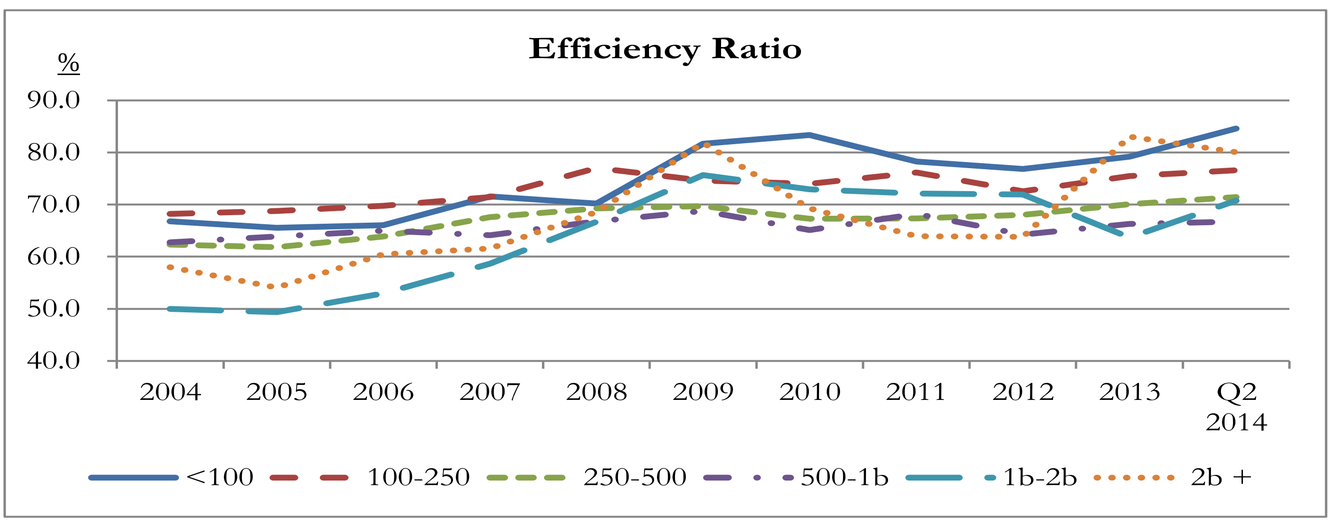
PROFITABILITY TRENDS

Net Interest Margin:



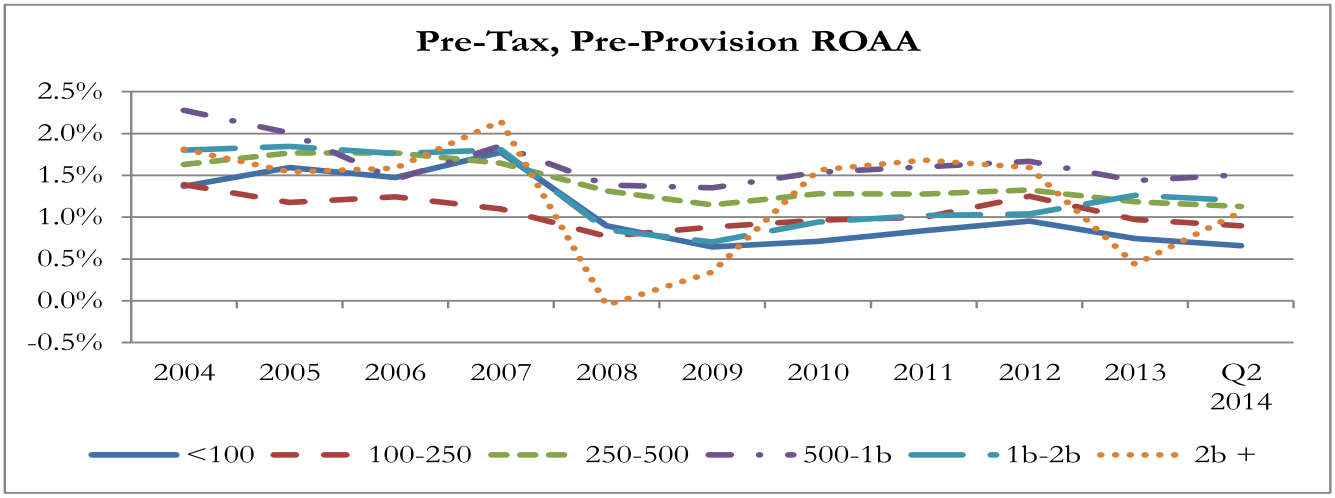
With little room for improvement in deposit and other borrowing costs, and extended low interest rates, we expect to see further pressure on margin going forward through 2014/2015. Due to the declining yields on the asset side of the balance sheet, banks have been unable to sustain high margins in the 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:



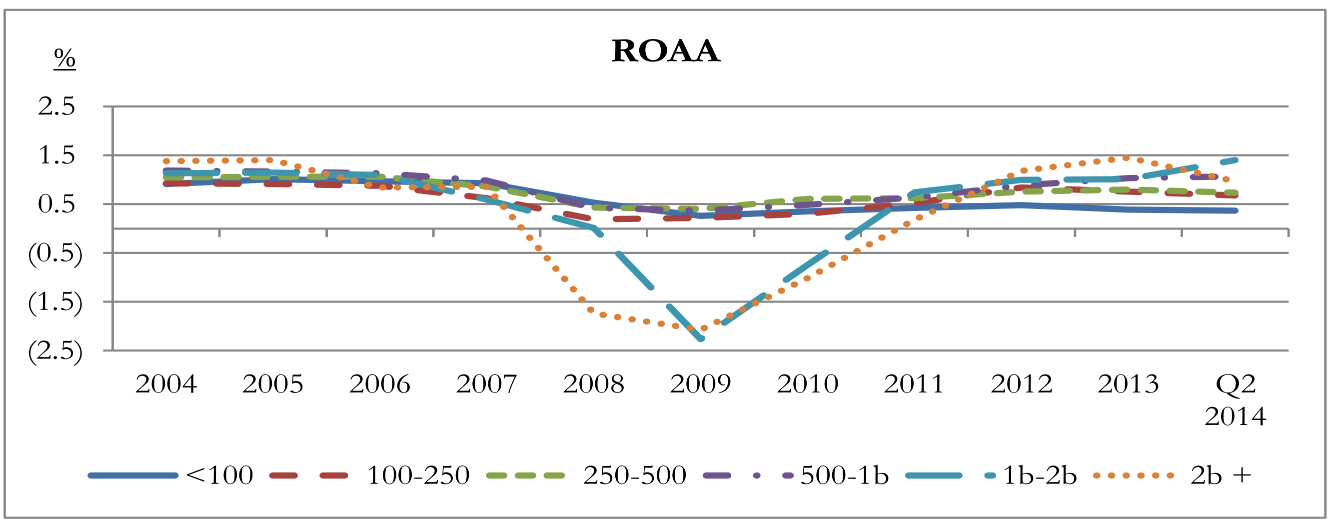
As loan portfolios shrink and yields are pressured lower, banks have increasingly become more focused on managing noninterest expenses. Gone are the days of sub 70% efficiency ratios for most institutions. Controlling expenses has been a formidable task with increasing regulatory, compliance, and deposit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

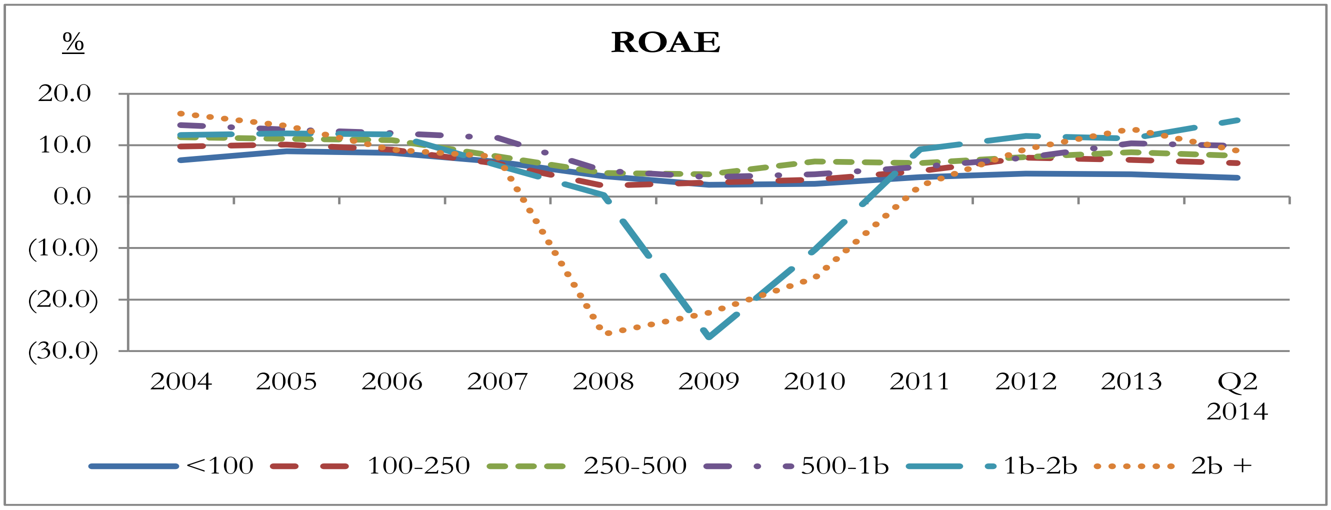
Pre-Tax, Pre-Provision ROAA:



As banks are focusing on diversifying revenue with ancillary sources (mortgage banking, trust, wealth management, etc.) and controlling expenses, there has been some stabilization in core profitability as compared with the recent past. This, however, remains challenging and is compressing, albeit at a slower rate

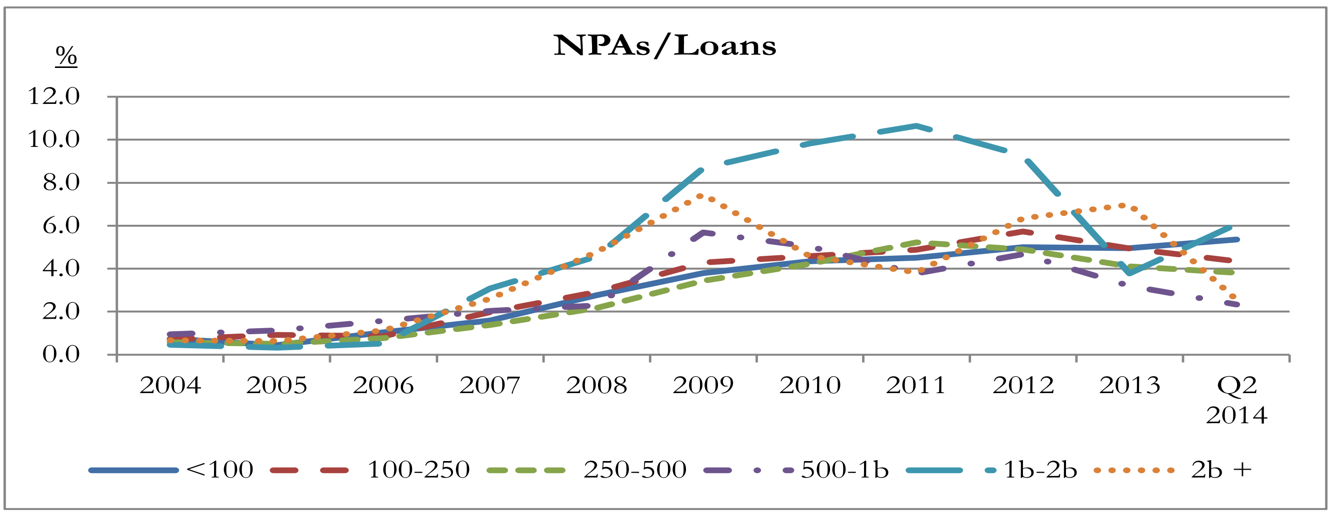
Return on Average Assets and Equity:
Credit costs were significant in the banking industry from 2008-2010 (and continue to be above historical averages for many), which led to much lower profitability. Return on average assets and equity have both improved recently, but return on equity will likely remain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





CREDIT QUALITY

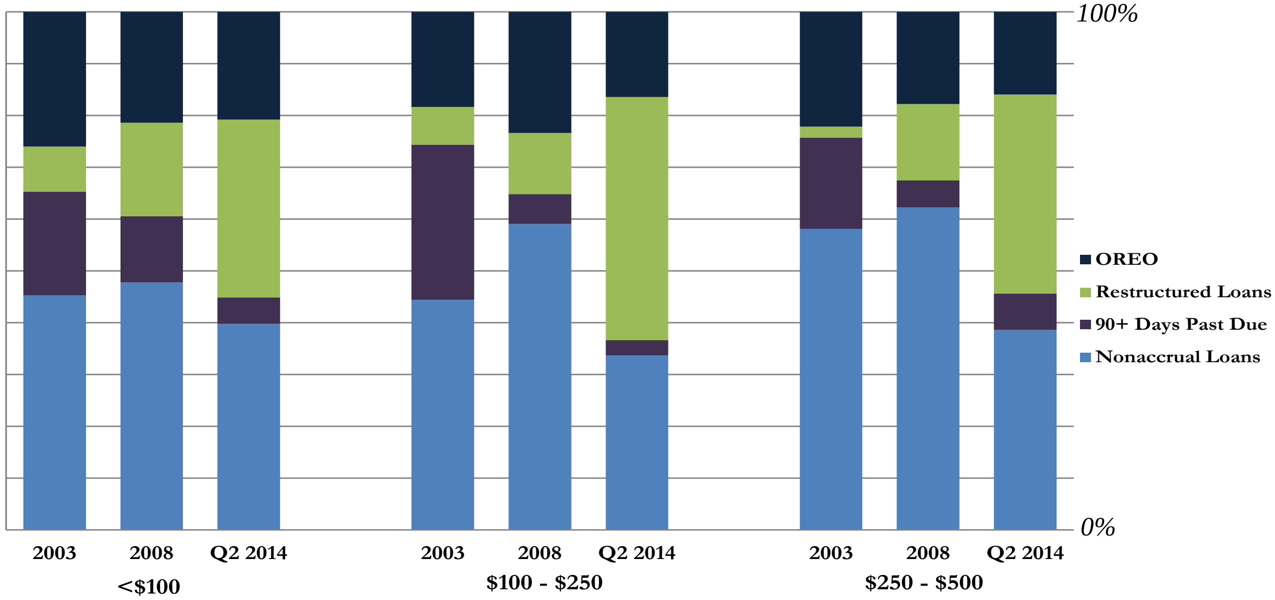
Nonperforming Assets / Loans:

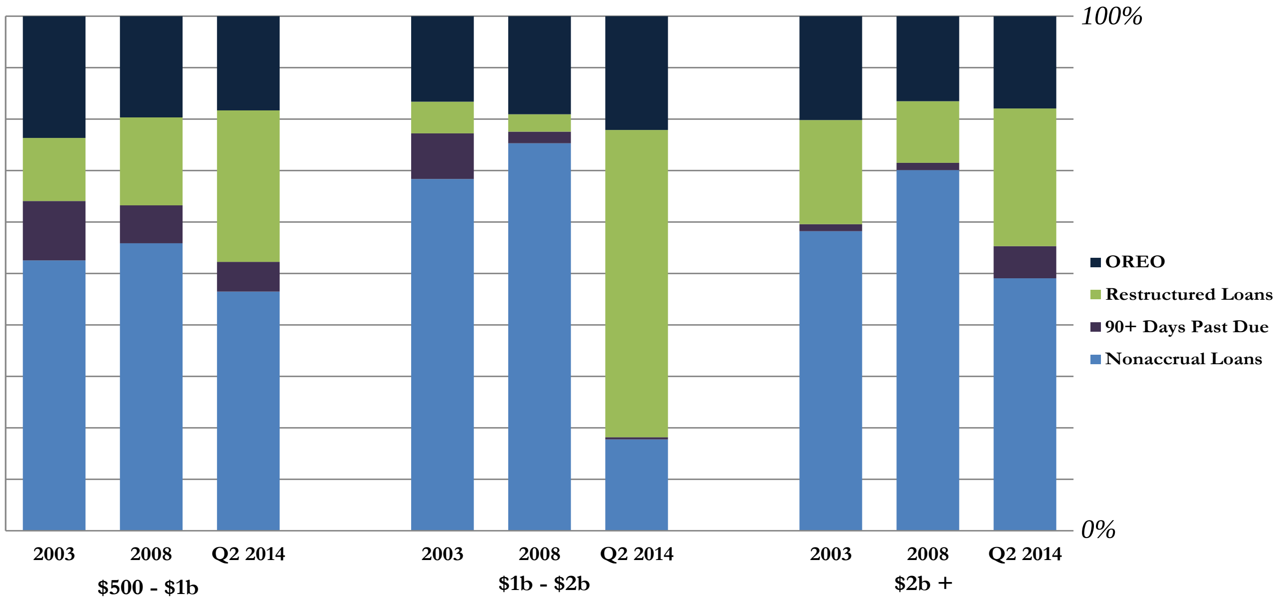


With the economic downturn, banks experienced much higher than normal delinquent and nonperforming loans. While there are not as many loans moving into nonperforming status today, the level of NPAs remains elevated, but is showing signs of stabilization.

NPA Composition:

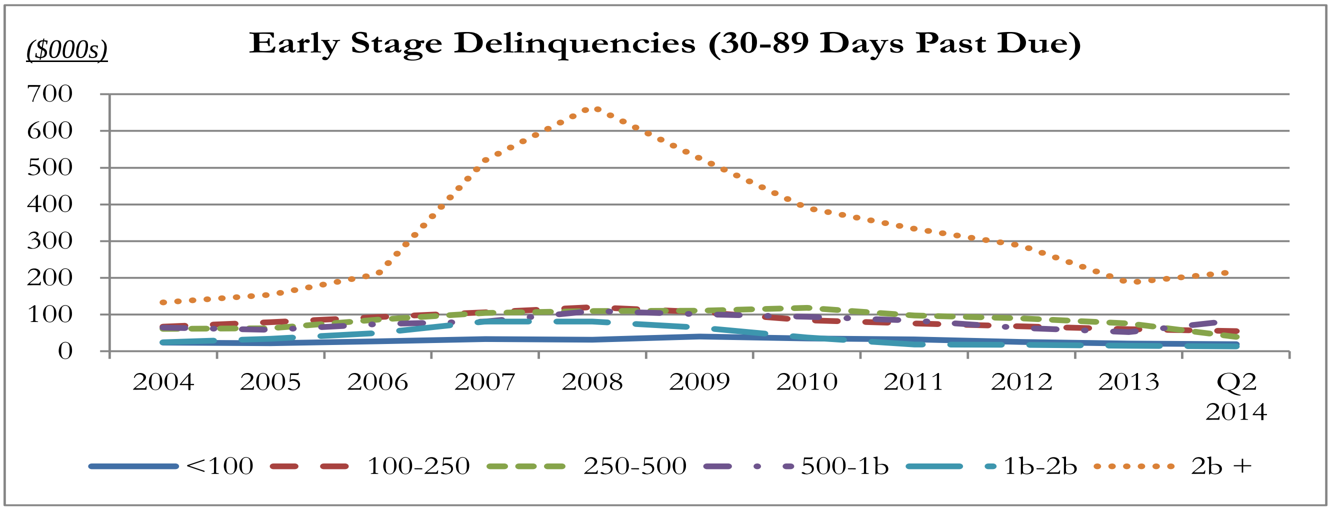
The charts below show the trending composition of nonperforming assets (broken out by nonaccrual loans, loans past due 90+ days, restructured loans, and other real estate owned). Nonperforming loans have been migrating to restructured loans and OREO, and we expect this trend to continue as banks continue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



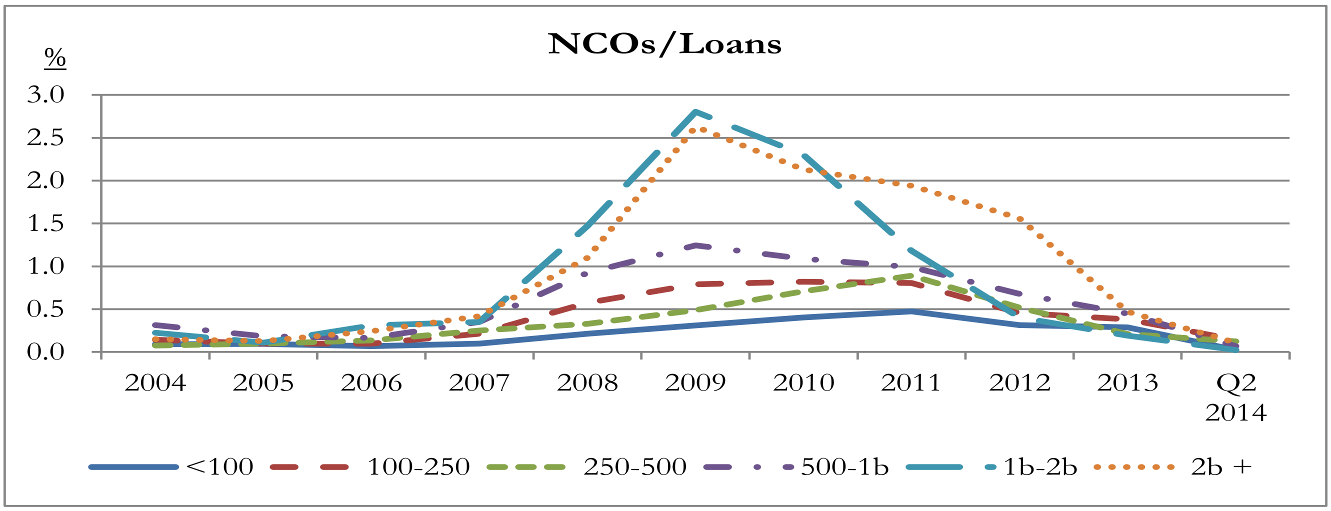


Cumulative Early Stage Delinquencies (30-89 Days Past Due):

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:

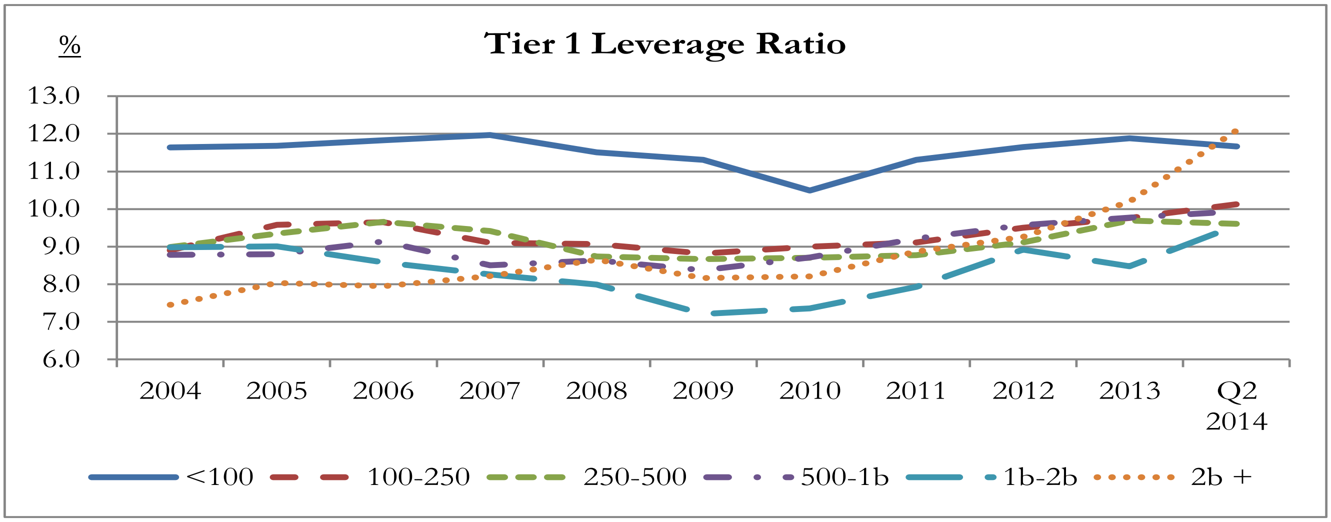


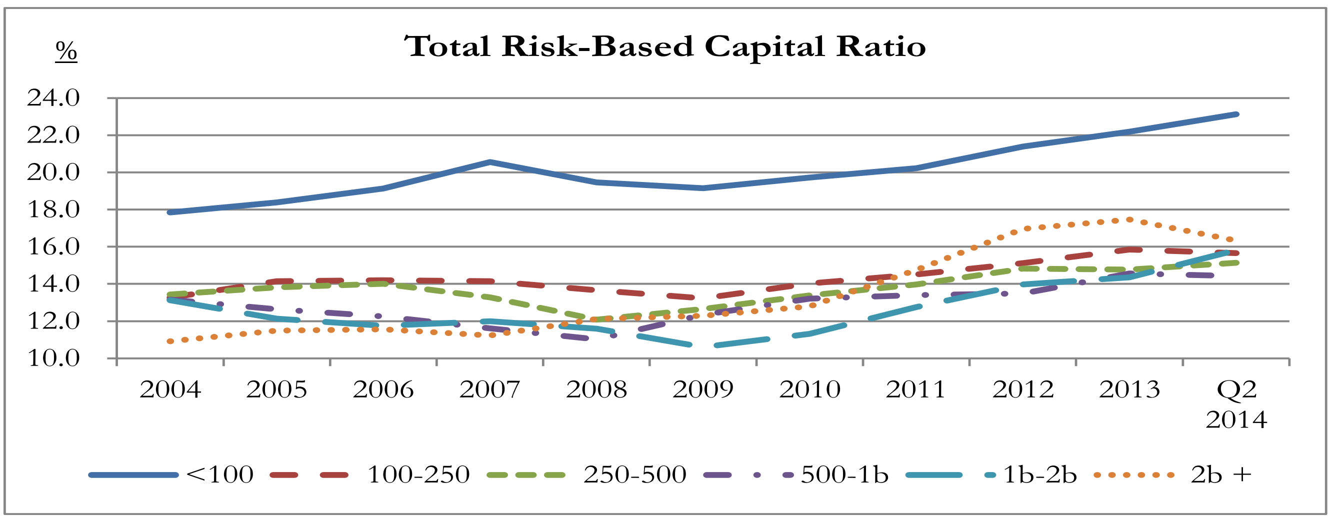
As the economy continues to rebound, we expect to see the recent trend of declining chargeoffs continue. Many loans that banks made back in the early and mid-2000s have paid off, worked out, or charged off.

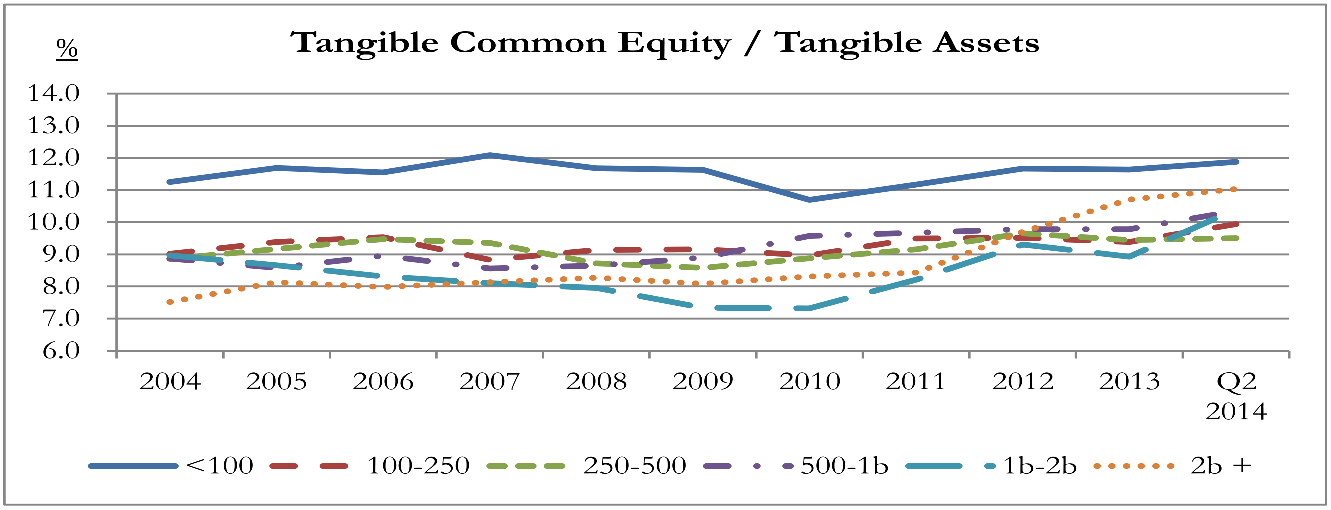
CAPITALIZATION

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.






Tangible Common Equity / Tangible Assets
%
14.0
13.0
12.0
11.0
10.0
9.0
8.0
7.0
6.0
2004
2005
2006
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2013
Q2 2014
<100
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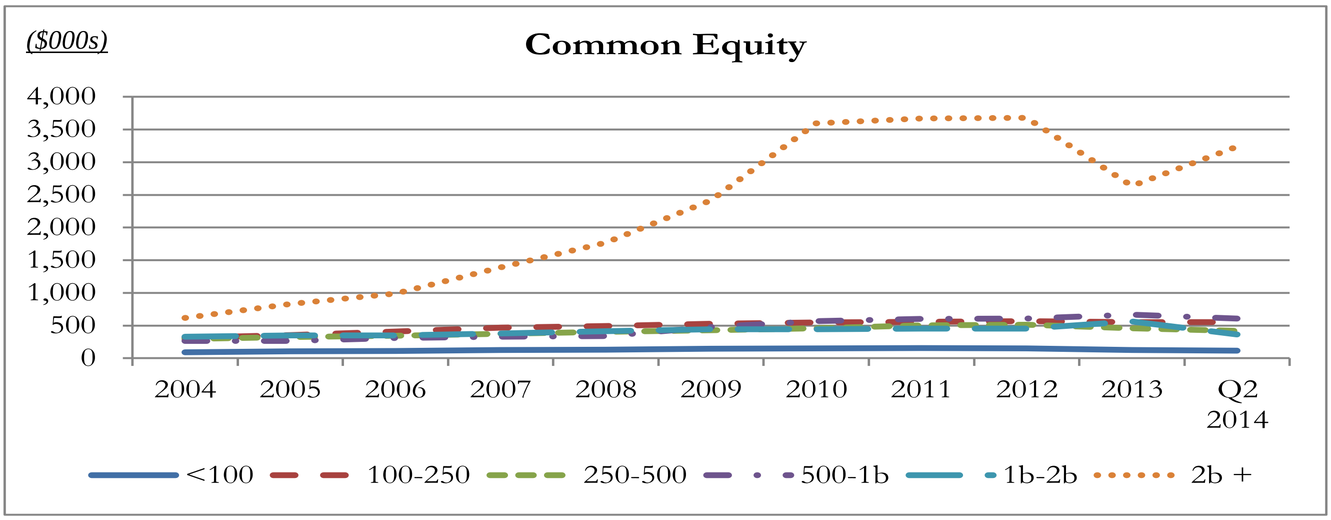
250-500
500-1b
1b-2b
2b +


Common Equity
($000s)
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
2004
2005
2006
2007
2008
2009
2010
2011
2012
2013
Q2 2014
<100
100-250
250-500
500-1b
1b-2b
2b +