Quarterly Economic Environment

4th Quarter 2013

THE BAKER GROUP
Portfolio Management & Asset / Liability Strategies

Economic Statistics

	Sept 2013	Aug 2013	Jul 2013	Jun 2013	May 2013	Apr 2013	Mar 2013	Feb 2013	Jan 2013	Dec 2012	Nov 2012	Oct 2012
The Economy												
GDP				2.5			1.1			0.1		
Unemployment Rate		7.3	7.4	7.6	7.6	7.5	7.6	7.7	7.9	7.8	7.8	7.9
Non-Farm Payrolls (000's)		169	104	172	176	199	142	332	148	219	247	160
Manufacturing												
Industrial Production		0.41	(0.30)	0.13	0.12	(0.34)	0.26	0.67	0.02	0.04	1.31	(0.12)
Capacity Utilization		77.8	77.6	77.8	77.8	77.8	78.2	78.1	77.7	77.8	77.9	77.0
ISM	56.2	55.7	55.4	50.9	49.0	50.7	51.3	54.2	53.1	50.2	49.9	51.7
ISM Prices	56.5	54.0	49.0	52.5	49.5	50.0	54.5	61.5	56.5	55.5	52.5	55.0
The Consumer												
Consumer Confidence	77.5	82.1	85.1	84.1	84.5	76.4	78.6	77.6	73.8	72.9	82.7	82.6
Retail Sales		0.2	0.4	0.7	0.5	0.2	(0.3)	1.1	0.1	0.3	0.4	0.0
Durable Goods		0.1	(8.1)	3.9	5.5	3.6	(5.9)	6.4	(6.1)	5.1	(0.4)	0.7
Personal Income		0.4	0.2	0.3	0.3	0.0	0.3	1.3	(4.4)	3.1	1.2	0.4
Personal Spending		0.3	0.2	0.6	0.2	(0.2)	0.2	0.7	0.2	0.1	0.2	0.1
Housing												
Housing Starts (Mill)		0.89	0.88	0.84	0.92	0.86	1.01	0.97	0.90	0.98	0.84	0.86
Existing Home Sales (Mill)		5.48	5.39	5.06	5.14	4.97	4.94	4.95	4.94	4.90	4.96	4.83
New Home Sales (Thou)		421	390	454	429	446	443	445	458	396	398	365
S&P/CS Home Price (YoY)			12.39	12.07	12.18	12.06	10.81	9.32	8.12	6.95	5.52	4.26
Inflation												
Consumer Price Index*		1.5	2.0	1.8	1.4	1.1	1.5	2.0	1.6	1.7	1.8	2.2
CPI Core (Ex Fd & Engy)*		1.8	1.7	1.6	1.7	1.7	1.9	2.0	1.9	1.9	1.9	2.0
Producer Price Index (PPI)*		1.4	2.1	2.5	1.7	0.5	1.1	1.8	1.5	1.4	1.5	2.3
PPI Core (Ex Fd & Engy)*		1.1	1.2	1.7	1.7	1.7	1.7	1.8	1.8	2.1	2.2	2.2
PCE Core (Ex Fd & Engy)*		1.23	1.13	1.15	1.16	1.21	1.39	1.50	1.54	1.60	1.67	1.76
Employment Cost Index				0.5			0.6			0.3		
GDP Price Deflator				1.4			1.7			1.8		

** Year-Over-Year % Change*

Fed Watch

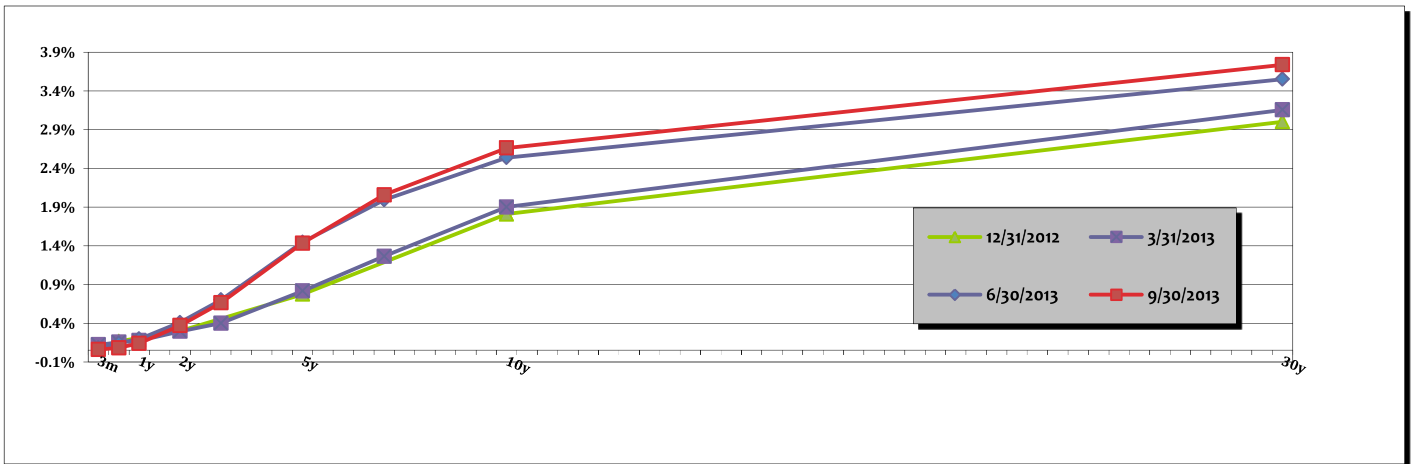
Recent & Upcoming FOMC Meetings

Date	Fed	Change	Bias
Sep 29, 2011	0 - 0.25	- -	Risk to Growth
Nov 2, 2011	0 - 0.25	- -	Risk to Growth
Dec 13, 2011	0 - 0.25	- -	Risk to Growth
*Jan 25, 2012	0 - 0.25	- -	Risk to Growth
Mar 13, 2012	0 - 0.25	- -	Risk to Growth
*Apr 25, 2012	0 - 0.25	- -	Risk to Growth
*Jun 20, 2012	0 - 0.25	- -	Risk to Growth
Jul 31, 2012	0 - 0.25	- -	Risk to Growth
*Sep 13, 2012	0 - 0.25	- -	Risk to Growth
Oct 24, 2012	0 - 0.25	- -	Risk to Growth
*Dec 12, 2012	0 - 0.25	- -	Risk to Growth

Date	Fed Funds	Change	Bias
Jan 30, 2013	0 - 0.25	- -	Risk to Growth
*Mar 20, 2013	0 - 0.25	- -	Risk to Growth
May 1, 2013	0 - 0.25	- -	Risk to Growth
*Jun 19, 2013	0 - 0.25	- -	Risk to Growth
Jul 31, 2013	0 - 0.25	- -	Risk to Growth
*Sep 18, 2013	0 - 0.25	- -	Risk to Growth
Oct 30, 2013			
*Dec 18, 2013			
Jan 29, 2014			
*Mar 19, 2014			
Apr 30, 2014			

** Meeting associated with a Summary of Economic Projections and a press conference by the Chairman.*

Current Interest Rates:



Following Fed Chairman Bernanke's mid-summer comments when he first suggested the central bank would soon slow their bond purchases, the market tried to anticipate when and to what degree the Fed would taper. The aftermath was a surge in longer term Treasury rates, notably pushing the benchmark 10Yr Treasury yield up from 1.63% in early May to just shy of 3% by September 5. The 137bps jump in rates nearly froze the housing refinancing activity as 30Yr mortgage rates climbed as high as 4.95%by summer's end. The spread on the 2's/10's similarly spiked, widened out from 143bps in May to 253bps in mid-August. On quarter over quarter comparison, shorter and intermediate Treasury paper saw yields fall slightly, while the longer-end of the curve priced in uncertainty by adding a 12bps uptick on the 10Yr Note to 2.61% and a 19bps increase to 3.69% on the Long Bond.

Quarterly Treasury Note & Bond Comparison

	Yield Change In Basis Points	Holding Period Total Return	Annual-Total Return
3-Month	(3)	0.03	0.12
6-Month	(6)	0.05	0.18
2-Year	(4)	0.25	1.02
5-Year	(1)	0.78	3.18
10-Year	12	(0.18)	(1.51)
30-Year	19	(2.43)	(9.59)

Note: Total Return is calculated using the current On-The-Run Treasury as of the beginning of the quarter and a reinvestment rate equal to the yield of the 3-Month T-Bill at the beginning of the quarter

Federal Reserve District Profile Summary – September 2013:

For additional District profiles, please visit the Fed's web site: http://www.federalreserve.gov/monetarypolicy/beigebook/default.htm

Reports from the twelve Federal Reserve Districts suggest that national economic activity continued to expand at a modest to moderate pace during the reporting period of early July through late August. Eight Districts characterized growth as moderate; of the remaining four, Boston, Atlanta, and San Francisco reported modest growth, and Chicago indicated activity had improved. Consumer spending rose in most Districts, reflecting, in part, strong demand for automobiles and housing-related goods. Activity in the travel and tourism sector expanded in most areas. Demand for nonfinancial services, including professional and transportation services, increased slightly on net. Manufacturing activity expanded modestly. Residential real estate activity increased moderately in most Districts, and demand for nonresidential real estate gained overall. Lending activity was mixed. Lending standards were largely unchanged, while credit quality improved. Demand for agricultural products was strong during the reporting period, but growing conditions and production in some areas were somewhat weak as a consequence of extreme weather. Demand for natural resource products was stable or up slightly, and extraction increased in anticipation of further demand growth.

For most occupations and industries, hiring held steady or increased modestly relative to the prior reporting period. Upward price pressures remained subdued, and prices increased slightly during the reporting period. Wage pressures continued to be modest overall.

Banking and Finance

Lending activity weakened a bit, and several Districts reported less-favorable conditions than in the preceding reporting period. Most Districts indicated no better than modest growth. Loan growth in the Atlanta, Chicago, St. Louis, and San Francisco Districts was slower than in the previous reporting period. Kansas City reported a decline in lending, reversing slight growth earlier in the summer. Several Districts characterized business lending as largely flat. Chicago reported that recent interest rate increases likely were depressing commercial investment. However, Kansas City noted that expectations for better economic conditions and stronger profit growth had offset any effects of rate increases on business loan demand. Demand for mortgage refinance loans declined in the New York, Philadelphia, Cleveland, and Richmond Districts. By contrast, purchase mortgage lending continued to grow moderately in most Districts, although San Francisco noted that applications have dropped a bit in some areas of that District. In the Atlanta District, increases in home values generated a surge in second mortgages, and Philadelphia and Cleveland reported modest increases in demand for home equity lines of credit.

Lending standards were largely unchanged, while credit quality improved. Reports indicated little change in standards across all lending categories. However, a few Districts commented that stiff competition for high-quality commercial borrowers was eroding loan volumes at banks that maintained prudent interest rates and terms. New York reported widespread declines in delinquency rates, especially for consumer loans and home mortgages, while Philadelphia, Cleveland, Richmond, and Kansas City all reported general improvement in loan quality.

Economic Outlook (Bloomberg Economic Survey):

	Quarter End/Latest	4Q 2013	3Q 2014
Fed Funds	0 – 0.25%	0.25%	0.25%
10 Year T-Note	2.49%	2.85%	3.20%
GDP	2.5%	2.5%	3.0%
Jobless Rate	7.3%	7.2%	6.8%
CPI (YoY)	1.5%	1.6%	2.0%

The table above is taken from a survey of economists conducted monthly by Bloomberg Financial Markets. The forecasts shown are from a third party and do not reflect the ideas of The Baker Group.

Asset/Liability Position, Balance Sheet Structure, and Liquidity:

The Loan/Deposit ratio is:

The current Fed Funds position is:

Liability accounts in greatest demand are:

The Overall liquidity position is:

The Institution's Effective GAP ratio (RSA/RSL) in the 1-year time frame is approximately ____________%, (compared to our policy limits of 70% to 120%.)

The projected change in net interest income over the next 12 months is:

Rate Environment:	Net Interest Change:
+200 BP	
Unchanged	
-200 BP	