Office of the Comptroller of the Currency

Atlanta Field Office
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(770) 280-4408

April 4, 2014

Dear Chief Executive Officer:

This letter includes a summary of the financial performance and asset quality trends for the Southern District and the Atlanta Field Office national banks and federal savings associations for the fourth quarter 2013 (4Q13). The Addendum to this letter includes comparative data for both national banks and federal savings associations, unless otherwise noted. In addition, I have included an overview of current examination supervisory focus points.

District Focal Points

Return on average assets (ROAA) improved slightly in the 4Q13; however, pressure on earnings will continue to increase due to excess liquidity, low loan demand, and weak investment yields. Strategic risk remains a significant concern. Effective strategic planning and risk management systems are becoming increasingly important as institutions enter new markets and develop or expand into new product lines. Institutions are struggling to deploy funds effectively and profitably without assuming increased levels of credit or interest rate risk (IRR). Lender competition may be influencing loan pricing, terms and underwriting standards. Credit risk is still a concern but the level of problem assets and net loan losses continue to decline. The leverage capital ratio for Southern District community banks and thrifts has improved over 2013.

IRR continues to be a significant concern given the low rate environment, low loan demand and limited investment alternatives. The lengthening of earning asset maturities has resulted in increased exposure to rising rates. Institutions should incorporate "stressed" assumptions for nonmaturity deposits in IRR models to identify exposure to rising rates. The market volatility of investment portfolios has increased due to the lengthened maturities and declining yields. Institutions should be assessing both short and long-term risk and investment portfolio volatility under various scenarios.

Another area of increasing importance is third party relationships as discussed in OCC 2013-29 Third-Party Relationships: Risk Management Guidance. Institutions are increasingly outsourcing critical functions to third parties to gain expertise or save costs, and are using third party relationships and payment processors to generate fee income. While there are numerous advantages tied to the use of third party relationships, we have a growing list of "spilled milk" stories stemming from the lack of proper due diligence, ongoing monitoring, cyber-security controls and oversight. *A robust due diligence and ongoing monitoring program is essential to* *ensure risks are properly identified and processes are in place to monitor the ongoing appropriateness of this activity*.

Atlanta Field Office Summary

Financial performance for banks reporting to the Atlanta Field Office (AFO) is slightly below the district and national averages; however, the financial performance ratios continue to trend in a positive direction. The ROAA increased from 2012 results to 0.42% in 2013. The NIM has remained stable throughout 2013 decreasing only 6 basis points to 3.72%. The capital levels for the banks reporting to the AFO are above average. The leverage and tier one capital ratios are above both the district and national averages, while total risk based capital is even. All three ratios are trending upwards corresponding to increasing earnings. Credit quality metrics for AFO banks continue to be below average, and credit is still the main area of concern. Classified assets for AFO declined over the past year and now average 55%, which is still more than double the national and district averages. The overall condition of the banks reporting to AFO continues to improve.

I hope you find this information helpful, and I encourage you to share it with your Board of Directors. Please closely review the supervisory focus points as these are key things we will be focusing on in our upcoming examination activities. Please do not hesitate to contact me or your Portfolio Manager with questions or comments that you have regarding this summary.

Sincerely,

Joel T. Palmer

Joel T. Palmer
Assistant Deputy Comptroller for Bank Supervision
Atlanta Field Office

Attachment

ADDENDUM

District Financial Trends

Earnings Trends

The return on average assets (ROAA) increased from 0.72% in 4Q12 to 0.75% in 4Q13. The increase is primarily due to the significant decline in provision expense, from 0.21% in 4Q12 to 0.11% in 4Q13. Non-interest expense as a percentage of average assets improved from 3.13% in 4Q12 to 3.09% in 4Q13 as institutions continue to find ways to reduce overhead expenses. Non-interest income as a percentage of average assets increased from 0.73% in 4Q12 to 0.74% in 4Q13 resulting from reduced losses on OREO sales.

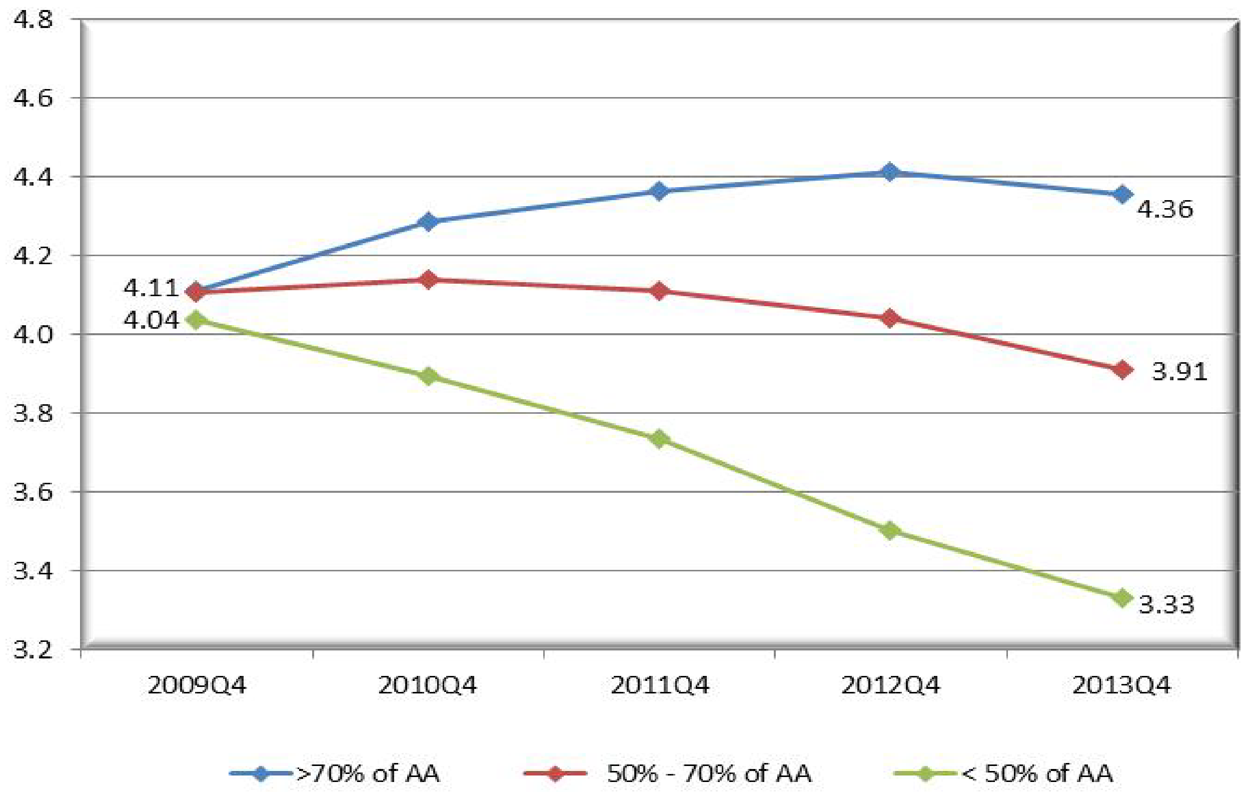
Although current returns appear modest compared to earnings generated prior to the previous recession, it is important to keep in mind that in this environment, "satisfactory" earnings are acceptable. Examiners have been reminded to not pressure any institution to take on additional risk in order to generate greater earnings if, in order to do so, it would require those institutions to take on additional risk in areas in which they have no prior experience or expertise. Given the challenges of managing a protracted low interest rate environment, now is not the time to engage in excessive risk taking or poor risk selection in order to boost earnings performance. As always, any change or expansion of risk parameters should be done only after you have ensured that proper risk management systems have been developed and implemented that will identify, measure, monitor, and control those risks.

Southern District Earnings Ratios

	ROA		ROE		NIM		Overhead Less NonInt Inc / AA		Provision Expense	
District Region	YTD 4Q2013	YTD 4Q2012	YTD 4Q2013	YTD 4Q2012	YTD 4Q2013	YTD 4Q2012	YTD 4Q2013	YTD 4Q2012	YTD 4Q2013	YTD 4Q2012
Western	0.85	0.90	10.05	10.19	3.75	3.89	2.11	2.17	0.10	0.12
DISTRICT	0.75	0.72	8.25	7.76	3.73	3.85	2.27	2.31	0.11	0.21
Central	0.74	0.68	7.01	6.28	3.83	3.95	2.35	2.38	0.11	0.26
NATION	0.64	0.63	6.51	6.37	3.52	3.65	2.26	2.24	0.11	0.21
Eastern	0.44	0.21	3.47	1.72	3.61	3.70	2.63	2.62	0.13	0.47

The NIM for 4Q13 is 3.73%, reflecting a 12 basis point decline from 3.85% in 4Q12. However, the NIM appears to have stabilized, as the 4Q13 NIM is slightly higher than 2Q13 of 3.69%. A further narrowing in the NIM remains possible over the next 12 months given continued relatively low loan demand, pricing pressure and the current rate environment. The following chart reflects a significant trend in the NIM tied to the loan-to-asset ratio. Institutions with less than 50% of average assets in loans have shown the steepest decline in the NIM since 4Q09 (71 basis points), going from 4.04% to 3.33% at 4Q13. The NIM dropped by 20 basis points to 3.91% as of 4Q13 in banks with between 50% and 70% of average assets in loans while it actually increased 25 basis points to 4.36% between 4Q09 and 4Q13 in banks with greater than 70% of average assets in loans.

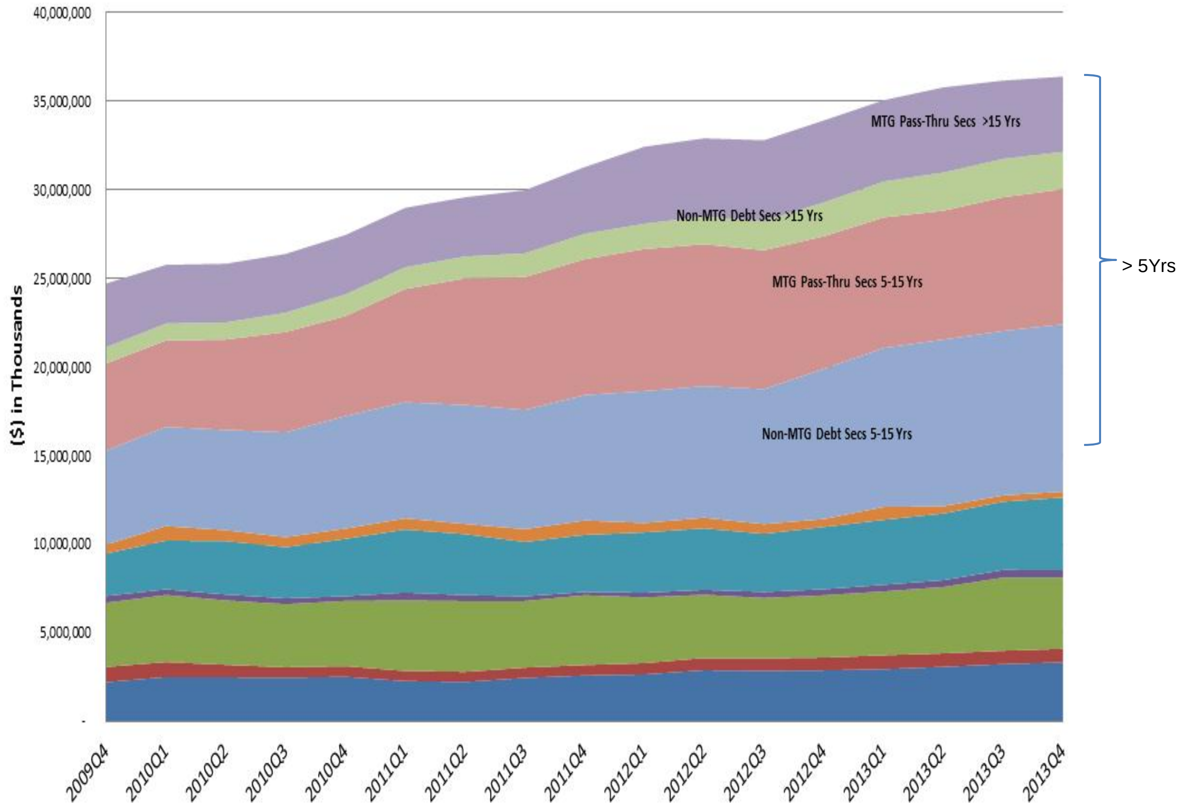
NIM Trends to Loan Volume
(Community Banks Only)



Interest Rate Risk

Competitive pressures and the continuing low interest rate environment make it difficult to obtain yields to cover overhead cost without assuming significant interest rate risk or credit risk. Institutions continue to report an increasing trend in long-term assets, locking in rates that are close to all-time lows. This will lead to heightened vulnerability to rising rates, and increased market value volatility of investment holdings. Investment market value volatility continues to increase through lengthening portfolio durations and lower coupon rates. The chart below shows significant increases in assets maturing or re-pricing after 5 years.

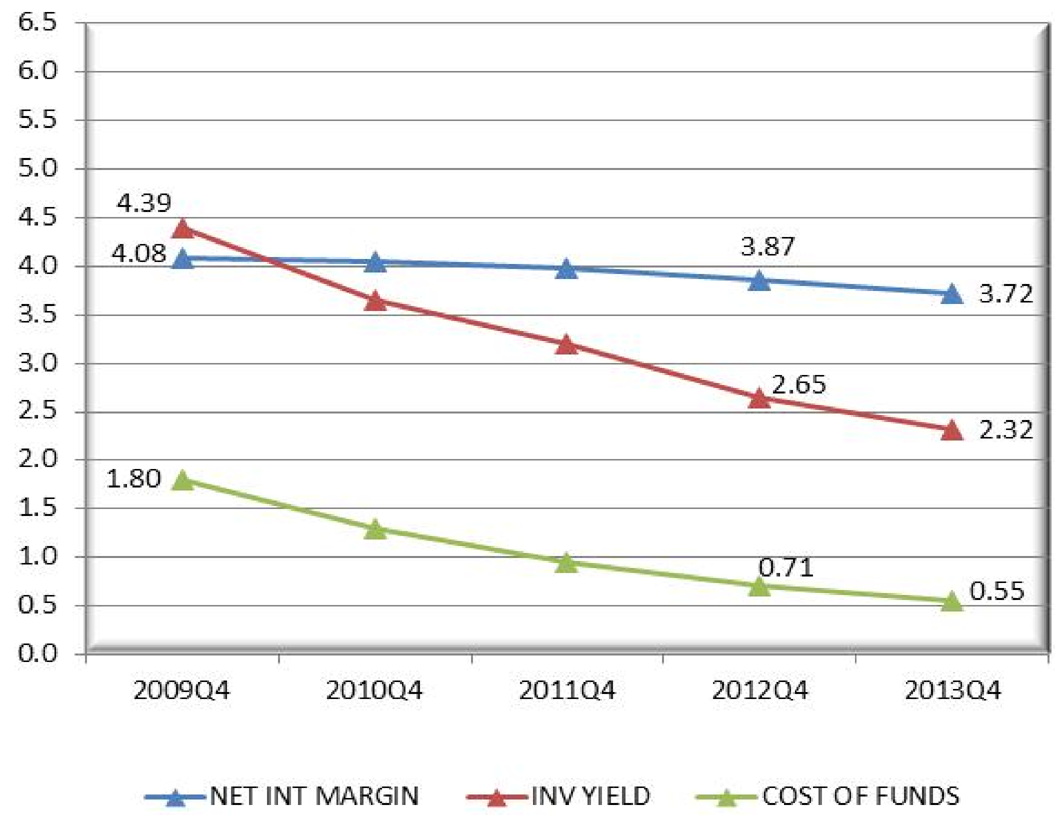
Southern District Banks – Maturity & Repricing Trends for



Management should continue to focus IRR measurement and reporting on alternative rate scenarios (i.e.; flattening, steepening or inverted yield curve). Additionally, institutions should continue to incorporate "stressed" deposit assumptions (i.e. higher than expected deposit betas and faster than expected decay rates). Assessing IRR exposure rates up to 300 and 400 basis points (stressed scenarios) is still a prudent practice. ***Lastly, IRR exposures reported by net interest income simulation models should be quantified for one and two year timeframes and compared to board-approved limits for both timeframes.***

The following chart shows the close correlation between the decline in investment yields and the cost of interest bearing funds. Banks have been effective in lowering funding costs to offset the declines in investment yields. However, reducing funding costs further will be increasingly difficult, and investment yields will likely remain low.

NIM - Investment Yield & Cost of Funds Trend
(Community Banks Only)

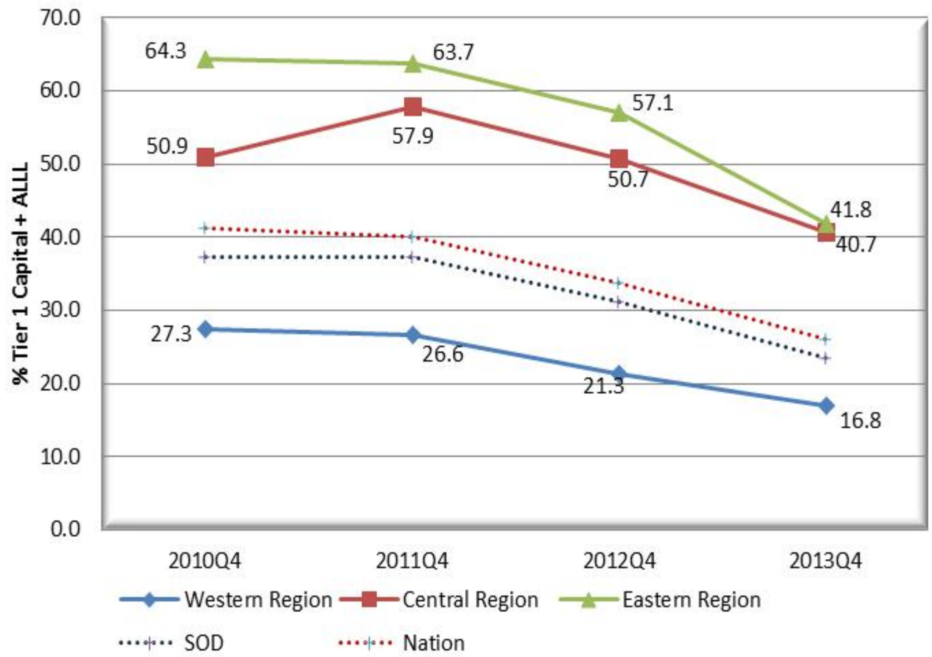


As reflected above, investment yields declined 33 basis points over the past 12 months. This decline reflects the difficulty in maintaining NIMs when loan demand is low. With investment yields declining to 2.3% at year-end, an institution would have to assume significant extension or credit risk to maintain or increase its NIM.

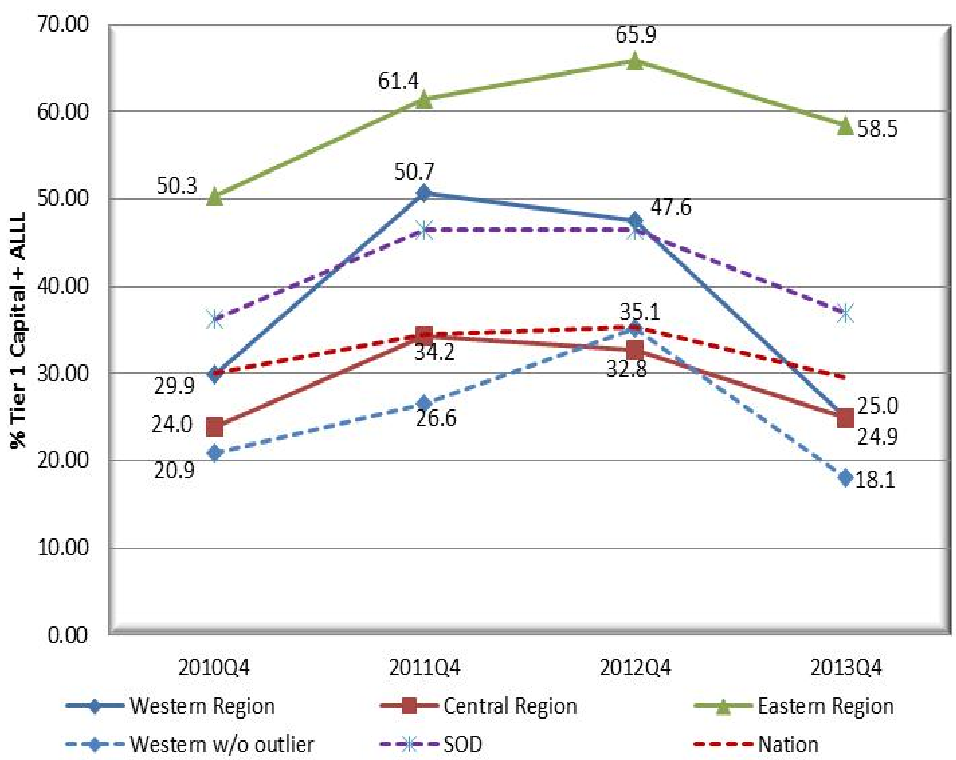
Asset Quality Trends

District-wide classified assets declined from 32.7% at 4Q12 to 25.3% of Tier 1 Capital and the ALLL at 4Q13, thereby continuing a trend we have seen for several quarters. Special mention assets have also continued to decline from 7.8% in 4Q12 to 6.5% at year-end 2013. Included in this reduction are OREO holdings, which declined $186 million or 20% over the prior year. Construction & land development, CRE and 1-4 single-family homes accounted for 43%, 38%, and 17% of the reduction, respectively. Noncurrent loans declined 43 basis points between 4Q12 and 4Q13 and now represent 1.5% of gross loans and leases. The Allowance for Loan and Lease Losses (ALLL)/Total Loans ratio has remained virtually unchanged from last quarter, but has declined 11 basis points over the last 12 months. This decline is directionally consistent with improving trends in asset quality. The following charts are good illustrations of the direction of credit risk.

Classified Assets
(Community Banks Only)



Classified Assets
(Thrift Only)



Credit risk remains higher in the Eastern Region of the Southern District where the average of classified assets is 45% of Tier 1 Capital and the ALLL. This compares to 34% in the Central

District and 17% in the Western District. The economic recovery is more noticeable in the Western Region, where new energy investments and new home construction are spurring job growth.

Southern District Banks and Thrifts grew their loan portfolios 4.0% during the year. This activity is still deemed low compared to pre-recession norms and remains intermittent across the regions. Larger Western-region cities have experienced more advanced economic recovery and report between 4% and 11% loan growth. Economic growth in Central Region cities such as Birmingham, Little Rock and Nashville, is still lagging, which has contributed to modest, and sometimes, negative loan growth in those areas. Loan activity in large Eastern-region cities such as Tampa and Miami has moderated since last quarter, but remains among the more active regions with growth ranging from 6% to 7%.

Capital

The average Tier 1 leverage and total risk-based capital (RBC) ratios for 4Q13 are 10.6% and 18.4%, respectively. These ratios continue to be strong from a historical perspective. The leverage ratio is declining in some offices due to the influx of deposits resulting from cash flow from oil and gas activity.

Supervisory Focus Points

Our Risk Committee periodically identifies and provides "points of emphasis" to assess as part of our supervisory activities. While these are intended as internal guidance only, I thought you would find these helpful since these areas will receive increased attention in our examinations.

- ***Reassess adequacy of strategic plan or business model, with specific emphasis on managing risks associated with new products and services.*** Due diligence, risk assessments, policies, processes, and personnel must be in place and sufficient before engaging in new activities.

- ***Assess the appropriateness of IRR model assumptions, particularly for nonmaturity deposits.*** Advise management to incorporate "stressed" deposit assumptions (i.e. higher than expected deposit betas and faster than expected decay rates) in rising rate scenarios.

- ***Assess the vulnerability to rising rates and the impact to short-term earnings and capital volatility.*** Management should focus more attention on developing appropriate risk limits and strategies to reduce excessive exposure to the impact of rising rates.

- ***Determine if bankers are increasing interest rate and/or credit risk by investing in higher yielding, nontraditional, or longer-term investments.***

- ***Focus on the quality of new underwriting, policy adherence and the adequacy of post-funding analysis,*** including new lending products and loan participations purchased.

- ***Encourage bankers to manage concentration risk proactively, including stress testing, vulnerability assessments, and financial analysis.*** Management should establish appropriate risk limits to capital, and implement controls to mitigate or lessen that risk. Discuss capital adequacy and capital planning in light of this risk with our bankers.

- ***Focus on compliance and reputation risks arising from new and expanded products and services.***

- ***Assess regulatory change management, including the appropriateness of policies, procedures, risk assessments, and employee training.***

- ***Determine whether banks are maintaining effective internal controls and audit programs.***

- ***Ensure banks develop comprehensive risk management processes, including sound vendor oversight and audit coverage, prior to making new products/ services.*** Areas of emphasis include advances in mobile banking, server virtualization, social media, prepaid debit cards, and mortgage origination practices.

- ***Determine whether banks have effective authentication and security controls for online banking activity*** (OCC Bulletin 2011-26) and sound response programs (OCC Bulletin 2005-13) to help detect, prevent and respond to cyber security threats and internet based fraud incidents such as wire transfer and ACH fraud.