



PORTFOLIO MANAGER'S REPORT



Tuesday May 25, 2010 8:53 AM

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CURRENT OFFERING YIELDS - Tuesday: 05/25/2010 8:53 AM

TODAY'S ECONOMIC DATA

Trsy (Last Price)	Change (From Yest)	Agcy NC (Bullets)	Muni - TEY (A1; GO; BQ)	CMO (Avg Life)	MBS (Avg Life)	25-May	S&P/CS Composite-20 YoY
3 mo	0.150%	-1.00 bp's	0.179%	0.435%		25-May	Prior: 0.64% Actual: 2.35%
6 mo	0.211%	-0.70 bp's	0.275%	0.526%		25-May	S&P/CS 20 City MoM% SA
12 mo	0.310%	-0.6 32'ds	0.525%	0.738%		25-May	Prior: -0.10% Actual: -0.05%
2 yr	0.706%	+1.0 32'ds	0.968%	1.253%	1.606%		Consumer Confidence
3 yr	1.113%		1.378%	1.849%	2.113%		Prior: 57.9 Actual: ---
5 yr	1.926%	+3.0 32'ds	2.199%	3.041%	2.776%	DJIA	9,840.53 -226.04
10 yr	3.118%	+3.0 32'ds	3.423%	5.071%	4.068%	NASDAQ	2,153.70 -59.85
30 yr	4.015%	+21.0 32'ds	4.635%	6.950%	4.118%	S & P 500	1,048.52 -25.13

Source: Bloomberg Fair Value Curve or Last Price (Treasury only); ALL yields and spreads are "representative", not actual. Spreads change as the market changes, actual offerings may be higher or lower than

TODAY'S NEWS

Treasuries Lead Sovereign Debt Higher as Euro, Korea Boost Safety Demand

May 25 (Bloomberg) -- Treasuries rose, leading benchmark government bond markets higher, as concern Europe's debt crisis is spreading and tension between North and South Korea boosted the refuge appeal of sovereign debt. The yield on the 10-year Treasury note dropped to its lowest in more than a year as stocks slid and the euro weakened after the International Monetary Fund urged Spain to take more steps to overhaul ailing banks. Bonds remained higher as data showed home prices in 20 U.S. cities rose less than forecast.

Today's Topic: What's the Story on LIBOR?

If you've been paying attention lately, you have already seen that the 3 month LIBOR rate has more than doubled in just the past 2 months. Incredibly, EVERY day since 3/1, this rate has increased, almost imperceptibly at first, gradually becoming more and more pronounced until now, where it stands at .53%. When portfolio managers talk about "higher rates" we typically think of rates like the Fed Funds Rate, or PRIME, but we understand that these are "controlled" rates. You've heard us talk often about the 10 year treasury as a benchmark because it is generally believed to be the part of the curve least influenced by monetary policy, and fully reflective of the inflation expectations of the market. But what if the forces we are facing are a phenomenon that nobody in banking today has ever experienced (at least not on a large scale)? What if large scale sovereign debt concerns lead to higher interest rates? Often these are accompanied by a "flight to quality", generally the U.S Dollar and dollar denominated assets. That may well be the case again this time, however with a twist. As US Treasury rates remain low from this flight to quality, the higher LIBOR rates generally translate into higher spreads on Agencies, MBS securities, Municipal debt and other assets that financial institutions typically invest in.

What does this mean for us? First of all, it demands that we pay ever closer attention to the influences to our market from outside forces, like LIBOR. It forces us to come to grips with the cost of funding our assets, and our ever changing asset mix. We can no longer expect loan growth to "bail out" the earning hole we create by overpaying for deposits. It means that the change in our asset mix demands a more specific plan for our investment portfolio's, as regulators require more on balance sheet liquidity and the historical balance between loans and investments is changing daily. It requires a PLAN and DISCIPLINE. If you haven't signed up for our Portfolio Analytics Reporting, contact your investment representative today and request a Sample Copy. It has all of the tools you need to develop the plan, and the discipline to succeed in these most trying times.

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GP - Line Chart

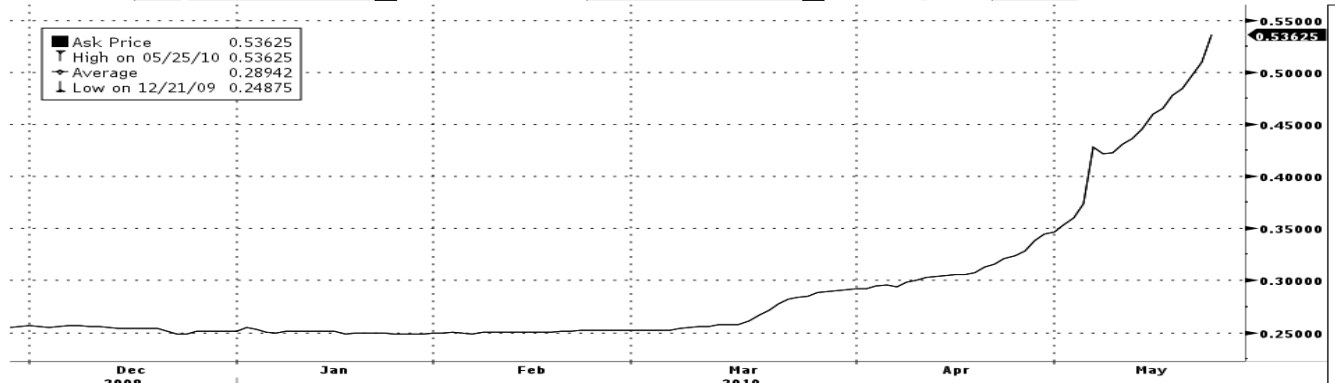
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Range 11/26/09 - 05/25/10 Upper Lower

Ask Yield None

Mov. Avgs Mov. Avg Events

■ Ask Price 0.53625
 ↑ High on 05/25/10 0.53625
 + Average 0.28942
 ↓ Low on 12/21/09 0.24875



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