

Updated Banking Industry Information

Currently, the state of the economy and that of the banking industry are making headlines. We understand that customers have an increased awareness, and concern, of what is happening in the banking industry. If you would like to gain more information on banking industry as a whole, the American Banker's Association (www.aba.com) and the FDIC (www.fdic.gov) have recently made strong statements regarding the banking industry, reassuring depositors and providing very useful information to consumers.

If Central Bank customers have questions or concerns about their accounts, we encourage you to contact your Central Banker or our customer service area at (859) 253-6222. However, we have developed the following quick reference for Central Bank customers seeking information on the internet.

Q: Is my money safe with any of the four banking charters of Central Bancshares (Central Bank & Trust Co., Central Bank, FSB, Central Bank of Jefferson County and Salt Lick Deposit Bank)?

A: The answer is "Yes", here's why.

- Central Bancshares and its four banking charters are all in good health.
 1. All four banking charters of Central Bancshares are insured and regulated by state and federal regulators that have established standards for insured banks regarding a bank's capital – which serves as a buffer against losses. Management believes that we are well capitalized in all areas at all four charters of Central Bancshares which has positioned our banks to handle economic downturns, and if necessary, take steps to put losses behind us.
 2. Central Bancshares' year-to-date earnings are greater this year than compared to the same period of time last year.
 3. Compared to others in our industry Central Bancshares has a very low delinquency rate on loan repayments (one of the primary contributors to problems many banks are facing).
- The bank deposits at our banks are FDIC insured. Depositors are insured by the FDIC for up to \$100,000 per depositor per insured bank and up to \$250,000 for retirement accounts. (See more about FDIC Insurance and structuring accounts see below).

Q: If I have more than \$100,000 in deposits at a Central Bancshares Bank, am I at risk?

A: As mentioned above, all banks in the Central Bancshares family are Members FDIC which means that depositors are insured by the FDIC for up to \$100,000 per depositor per insured bank and up to \$250,000 for retirement accounts.

Your Central Banker can assist you in maximizing your FDIC insurance coverage through account structuring using various ownership categories. Using the approved FDIC ownership categories it is possible for families of two, three and four to have FDIC insurance of \$600,000 to \$2,000,000 of insured deposits in a single bank. It would be a rare case that Central Bank could not meet your needs in this area.

Furthermore, we encourage you to use these websites and phone numbers for additional information regarding FDIC insurance:

1. To read more about FDIC insurance online, go to www.fdic.gov
2. Send questions via e-mail using the FDIC's online Customer Assistance at: www4.fdic.gov/starsmail
3. For more information from the FDIC, call toll-free at 1.877.275.3343 (Ask FDIC) from 8 a.m. until 8 p.m. Eastern Time, Monday through Friday. There is a hearing impaired line telephone number - 1.800.925.4618.

Q: What does Central Bank do to make sure the banks are sound?

A: There are many controls in place to ensure all of our banks remain healthy. Just a few of them include:

- The bank has an Enterprise Risk Management department which is directly responsible for establishing and ensuring that risk management processes are in place, implementing strong schemes of checks and balances, benchmarking performance to identify key risk factors to ensure we practice sound banking.
- We have very stringent auditing and internal control standards in place to ensure we meet regulation requirements of a well performing bank.
- The company's audit committee reports directly to the Central Bancshares' board of directors.

Q: What is the difference between commercial, thrift and savings banks, like Central Bancshares' chartered banks, and investment banks or mortgage banks?

A: Sometimes the word "bank" is used to mean several different things, and more recently it has created confusion. For example, we know what a bank is. But sometimes a business that wants to add status to its name will call itself a "bank" even though it is not an insured depository institution—such as a commercial bank, thrift or savings bank.

The term commercial bank came about as a way to distinguish it from an "investment bank." The primary difference between a commercial bank and its counterpart is that a commercial bank earns revenue by issuing primary loans from its pool of deposits while an investment bank brings debt and equity offerings to market for a fee. Among its assets, including loans, a commercial bank holds a portfolio of other securities to generate proprietary income.

Bear Stearns, the investment house headquartered in New York City, was not a commercial bank. It was an investment "bank."

The word "bank" is also sometimes applied to mortgage firms. Their function, their purpose and their regulation differ from federally insured depository institutions. And in this time of market turmoil, it is worthwhile remembering that only commercial banks, thrifts and savings banks carry FDIC insurance.

Q: Yes, but I am hearing and reading of the troubles that some commercial, thrift and savings banks are having as well (like IndyMac), so why isn't Central having these problems?

A: It appears that the majority of commercial, thrift and savings banks that have experienced some difficulty are due to poor loan quality...meaning they have customers that are not able to repay their loans to the bank. The housing market is a primary contributor to this problem, particularly home owners that selected adjustable rate mortgages (ARMs). Many of these homeowners are seeing their adjustable rate mortgage rates adjust and they are not able to make the higher payments. While Central Bank does provide mortgages, the company has chosen not to hold onto the loans. Therefore, once the Bank closes the loan on a new home that loan is then sold to other banks and investors that do hold onto mortgage loans as investments.

Another contributing factor to poor loan quality is the sluggish economy. Some businesses that have secured loans from commercial, thrift and savings banks are having trouble repaying their loans because of soaring costs of doing business combined with the fact that consumers are feeling the impact of increasing food and energy costs which results in sluggish sales for businesses that have secured the loans. This is where a bank's capitalization is critical. While Central Bank does have some exposure in this scenario (as we do lend money to businesses) the company has the capital in place to handle economic downturns, and if necessary, take steps to put losses behind us. Furthermore, we have very stringent policies and procedures to follow with regards to our lending practices as a way of minimizing our risk and exposure to bad loans.