Bank Director Magazine

ACQUIRE OR BE ACQUIRED
EXPLORING YOUR GROWTH OPTIONS
2013

GRIFFIN FINANCIAL GROUP LLC

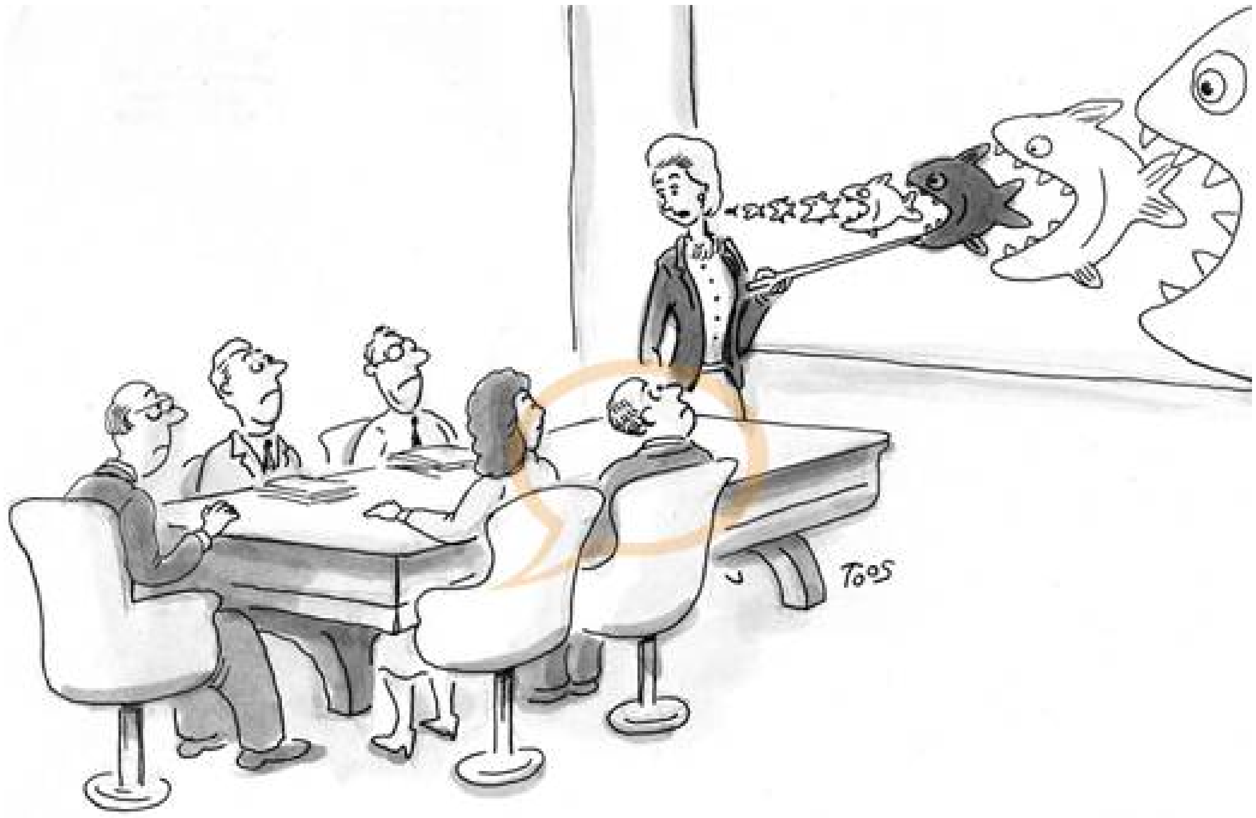
Maximizing Your Path:

ACQUIRE – How to Become and Stay a Good Acquirer

OR BE ACQUIRED – How to Become a Good Target

Some Opening Thoughts on Bank Consolidation

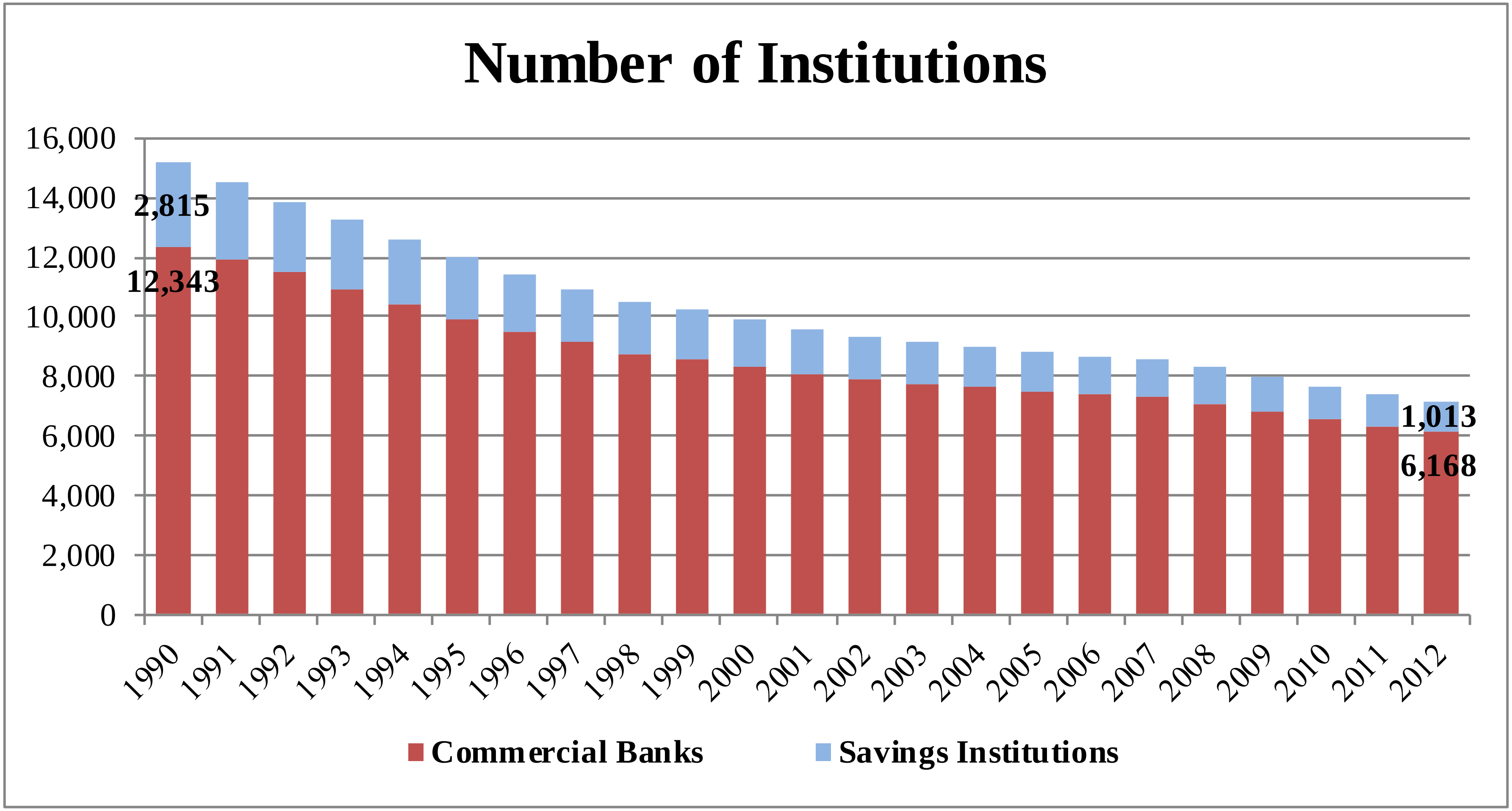
Some Opening Thoughts on Bank Consolidation



"This is us."

No One Can Dispute that the Banking Industry is Consolidating

- Net reduction of 7,977 companies over 22 years; net reduction of 255 in the last year



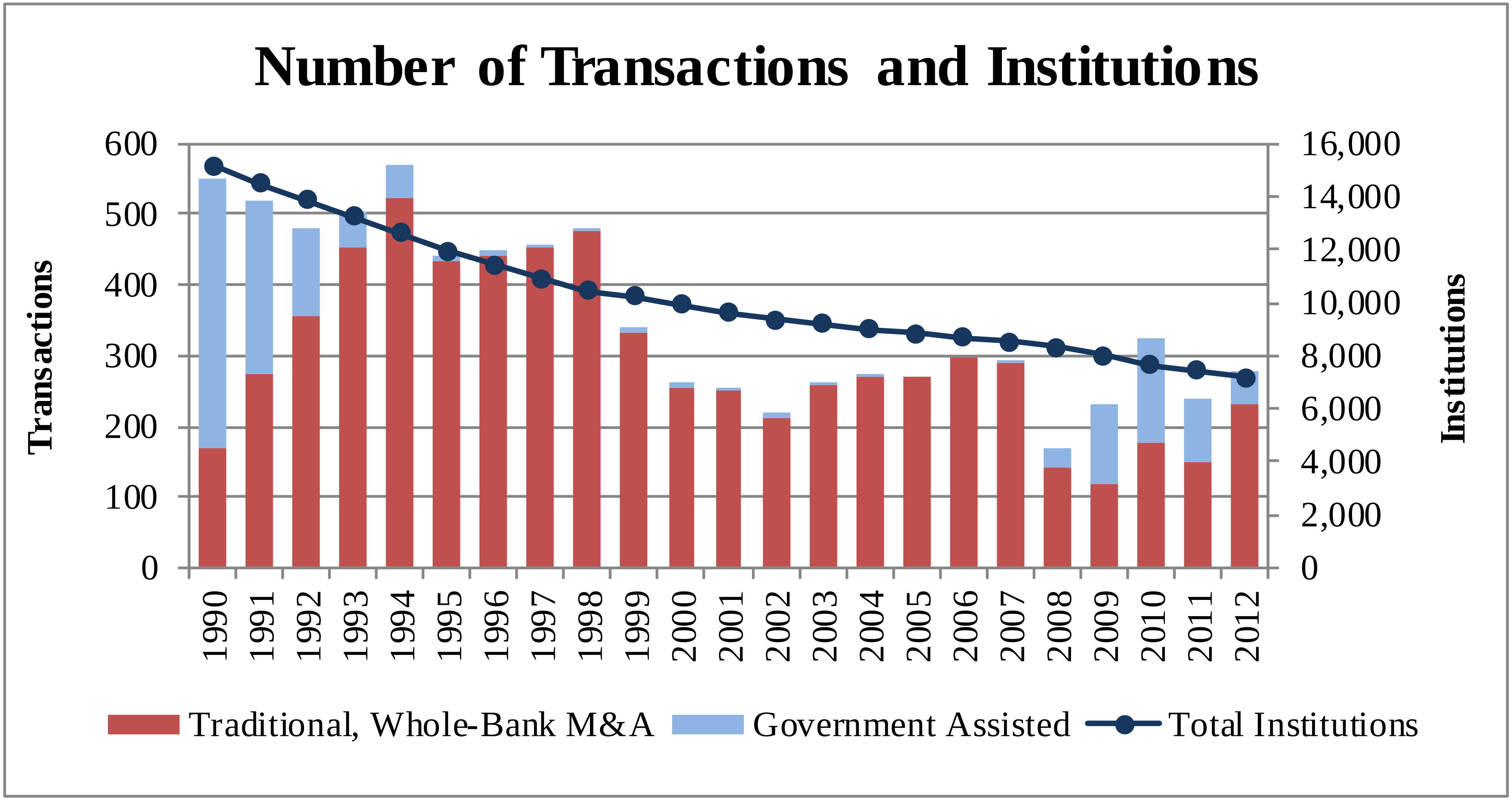
Source: FDIC Statistics at a Glance as of 9/30/2012

While Failures Have Had a Hand in the Consolidation...

- Failures during RTC era: 878, or a loss of 5.6% of outstanding institutions in 1989
- Failures during Great Recession era: 414, or a loss of 5.0% of pre-crisis (2008) institutions

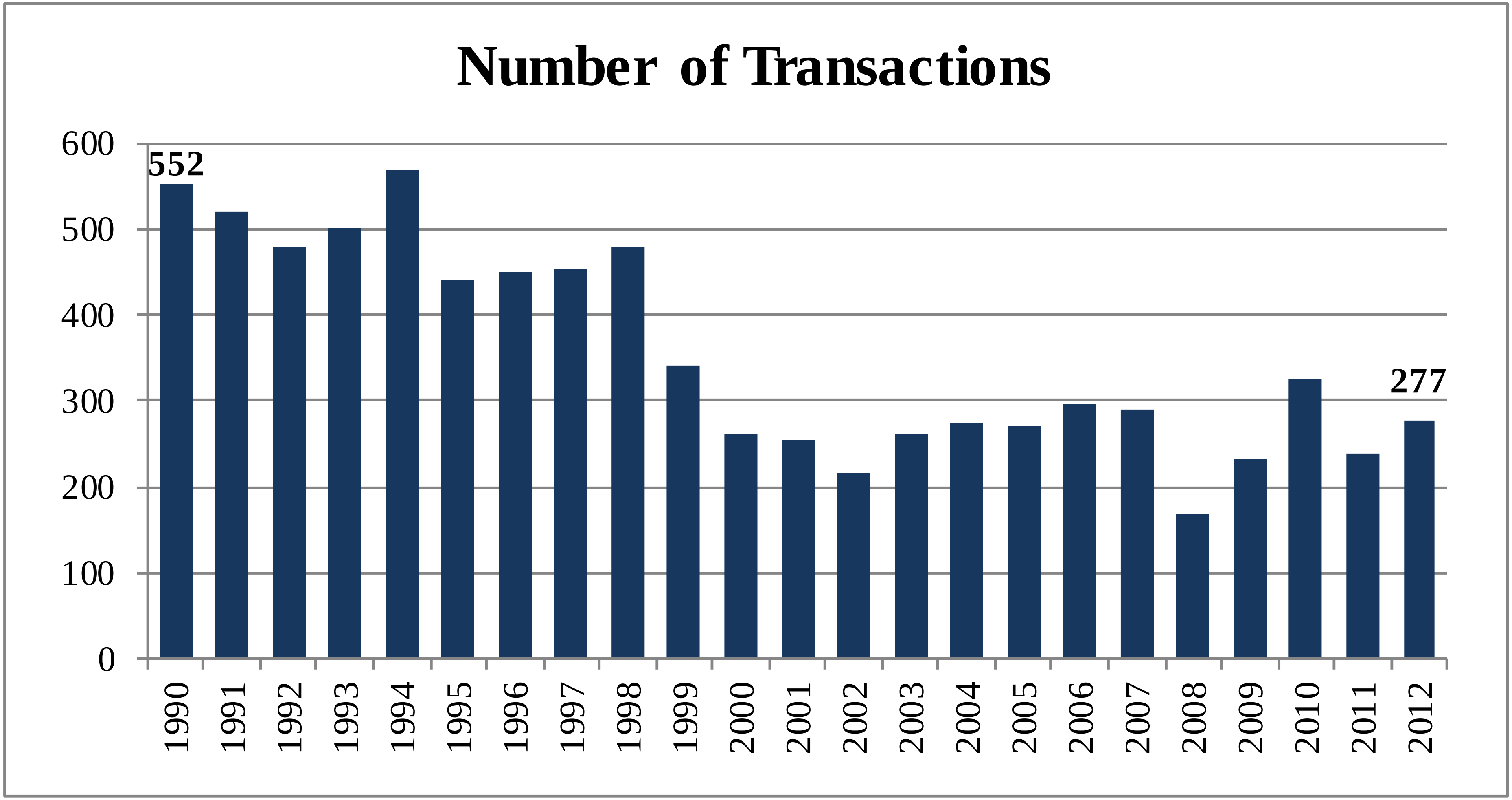
Source: FDIC Statistics at a Glance as of 9/30/2012

...Mergers and Acquisitions Have Been the Primary Driver...



Source: FDIC Statistics at a Glance as of 9/30/2012, SNL Financial as of 12/31/2012

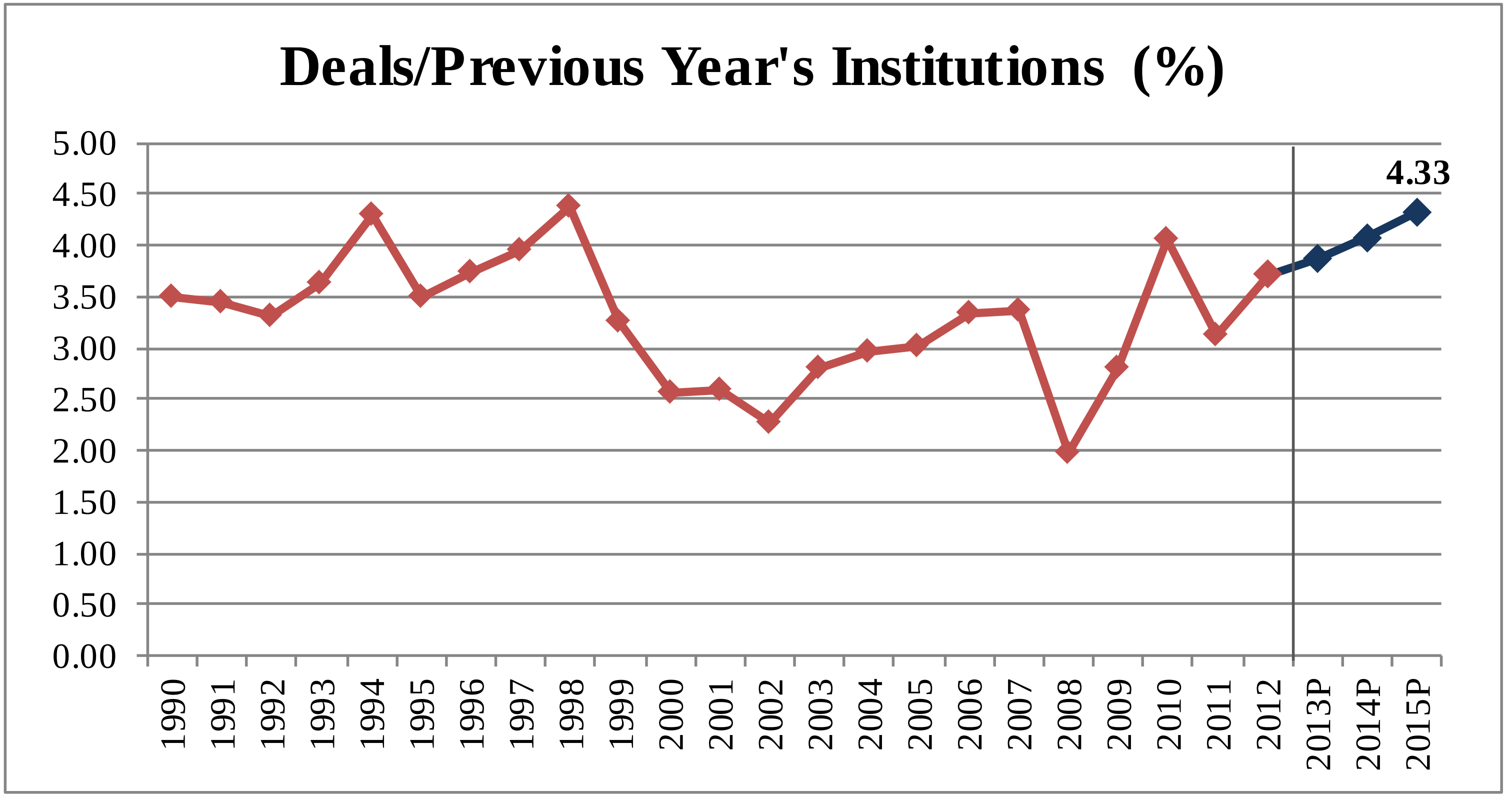
...But M&A Activity Has Slowed Considerably in Recent Years



Source: SNL Financial as of 12/31/2012

The Pace of Decline Has Remained Robust, as New Charters are Non-Existent and Fewer Charters Remain

- Griffin's projections, shown in the chart below, assume only 5 new charters per year and a continued decrease in the number of government-assisted deals



- Implied number of institutions remaining each year:
  - 2013: 6,903
  - 2014: 6,621
  - 2015: 6,335

Source: FDIC Statistics at a Glance as of 9/30/2012, SNL Financial as of 12/31/2012

Why We Believe M&A Will Increase in 2013-2015

A Confluence of Factors Will Drive Increased Consolidation Over the Next Few Years

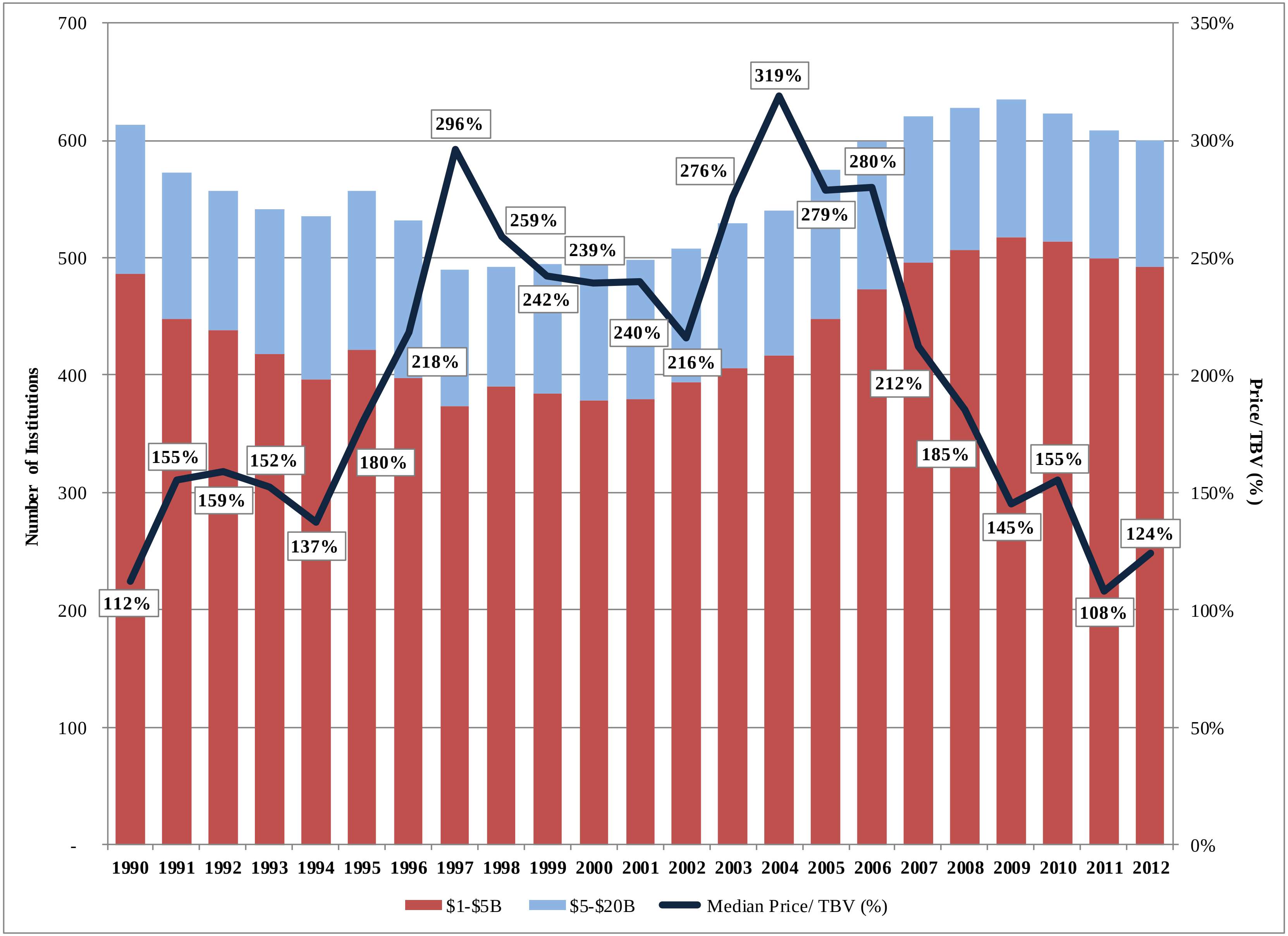
GRIFFIN FINANCIAL GROUP LLC

- Paradigm shift in return model – Basel III and regulatory bias against leverage
    - For some – the inability to generate sufficient returns on excess capital
    - For others – the inability to raise required capital to satisfy regulators
- Tepid pace of economic recovery and lack of earning asset growth
- Costs of compliance are driving the need for size and scale, but the organic path to size and scale is difficult
- No near-term change in political/regulatory climate toward the industry
- Monetary policy and near-to-intermediate term impact on bank NIMs
- Return of large banks to the spread business and the “trickle-down effect”
- Board and management fatigue
- Banks find it increasingly difficult to maintain “relevance”
- Uptick in buyer currency helps bridge pricing expectations gap

Last Year, We Discussed "Relevance" and Why it is Important to Remain "Relevant"

- For those in the audience last year, you may recall:
  - Reason #1 – Our sector is significantly out of favor with investors vs. the pre-recessionary boom
  - Reason #2 – Your customers are changing, in many ways
  - Reason #3 – Fewer liquidity events, and at reduced valuations
  - Reason #4 – De novos no longer have attractive options for liquidity
  - Reason #5 – The pool of viable buyers' currency has been cut in half
- You may also recall, we analyzed the last 10 years of M&A data to better understand what drove higher prices upon exit – a few key themes emerged:
  - Size
  - Geography
  - Urban/Suburban vs. Rural Market
  - Credit Performance
  - Financial Performance

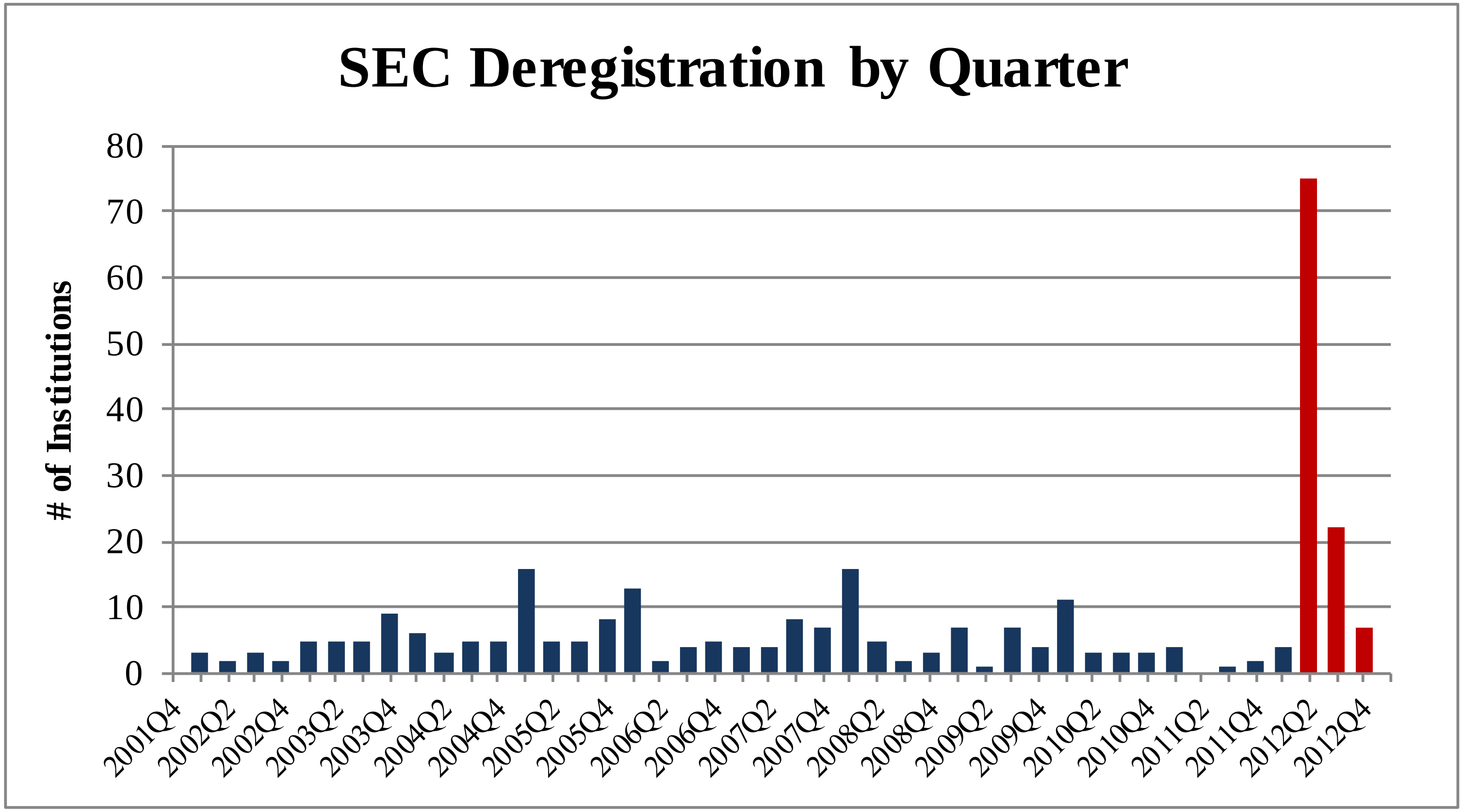
Pent-up Buyer Demand Received a Currency Boost in 2012



Source: SNL Financial as of 12/31/2012

So, Does Your Bank Truly Have a Need to Stay "Relevant" to All Stakeholders?

- Many banks do not need access to capital – only 3.3% of the nation's banks raised capital during 2011, and only 2.4% raised during 2012[1]
- Since April, 104 banks have relieved themselves from the reporting requirements of the SEC by deregistering with the Commission, thanks to rare easing of government regulation under the JOBS Act



[1] - according to publicly available data, counting both common and preferred equity
Source: SNL Financial as of 12/31/2012

So, Does Your Bank Really Need to Stay Relevant? We Believe, "Yes"

GRIFFIN FINANCIAL GROUP LLC

- <u>We believe the need for size and scale – and ultimately, the **liquidity** that comes with that</u> – will drive many strategic decisions

Situation	*Company Should Remain Or Consider SEC Registration*	*Company Should Remain a Non-Registrant or Consider Deregistration*
Periodic need for capital to cushion losses, to repay TARP, or meet new, challenging regulatory capital levels	✓	
Bank operates in strong growth market with a growth-minded management team and needs capital to continue that growth	✓	
Episodic need for capital to cushion losses, to repay TARP, or meet challenging regulatory capital levels	✓	
Need for strong currency – liquidity and valuation – to facilitate growth by M&A	✓	
Concentrated and /or aging shareholder base requires liquidity and higher valuation	✓	
Bank operates in slower growth market; primarily organic growth strategy; <u>shareholder base does not require liquidity</u>		✓
Preparation of bank for sale		✓

The Numbers Don't Lie...Bigger Still Tends to Be Better

GRIFFIN FINANCIAL GROUP LLC

Median ROA of Commercial Banks and Savings Institutions	1990	1995	2000	2005	2010	2012
> $20 Billion	0.51	1.06	1.12	1.33	0.77	0.79
$5-20 Billion	0.56	1.21	1.14	1.31	0.74	0.91
$1-5 Billion	0.80	1.20	1.12	1.24	0.62	0.89
$500 Million - $1 Billion	0.97	1.17	1.13	1.18	0.57	0.76
$250-500 Million	1.02	1.19	1.14	1.17	0.64	0.78
<$250 Million	0.93	1.13	1.06	1.03	0.62	0.74

The larger the bank, the higher the ROA

Median ROE of Commercial Banks and Savings Institutions	1990	1995	2000	2005	2010	2012
> $20 Billion	6.93	15.21	15.34	14.47	7.17	8.03
$5-20 Billion	10.77	16.10	14.42	13.69	6.63	8.28
$1-5 Billion	11.15	14.33	13.98	13.48	5.83	8.47
$500 Million - $1 Billion	11.48	13.84	13.46	12.81	5.38	7.25
$250-500 Million	11.95	13.34	13.11	12.71	6.29	7.37
<$250 Million	10.21	11.42	10.41	9.64	5.51	6.63

The larger the bank, the higher the ROE

Source: SNL Financial as of 12/31/2012. Includes all commercial banks and savings institutions.

The Numbers Don't Lie...Bigger Still Tends to Be Better

GRIFFIN FINANCIAL GROUP LLC

Median Efficiency Ratios of All Public Banks and Thrifts	1990	1995	2000	2005	2010	2012
>$20 Billion	63.98	58.70	56.27	57.23	61.21	62.93
$5-20 Billion	63.45	60.88	58.70	57.66	59.91	60.20
$2-5 Billion	63.13	60.04	55.16	58.33	62.46	62.41
$1-2 Billion	65.55	58.06	58.33	61.43	66.85	67.30
$500 Million - $1 Billion	60.86	62.42	59.63	63.16	68.94	68.04
$250-500 Million	62.93	60.85	61.64	64.94	72.47	72.89
<$250 Million	70.07	61.89	65.52	71.60	77.70	80.11

The larger the bank, the lower the ratio

Median P/TBV of All Public Banks and Thrifts	1990	1995	2000	2005	2010	2012
>$20 Billion	183.90	218.58	278.28	306.54	152.40	137.46
$5-20 Billion	120.62	190.60	238.87	285.05	156.36	141.22
$2-5 Billion	108.64	176.92	178.20	247.54	131.33	131.90
$1-2 Billion	102.79	150.61	146.30	214.42	101.90	103.38
$500 Million - $1 Billion	90.30	154.80	121.52	178.83	82.75	85.35
$250-500 Million	84.88	133.53	124.11	171.84	79.60	75.50
<$250 Million	57.97	111.74	96.00	142.04	68.61	69.96

The larger the bank, the higher the valuation

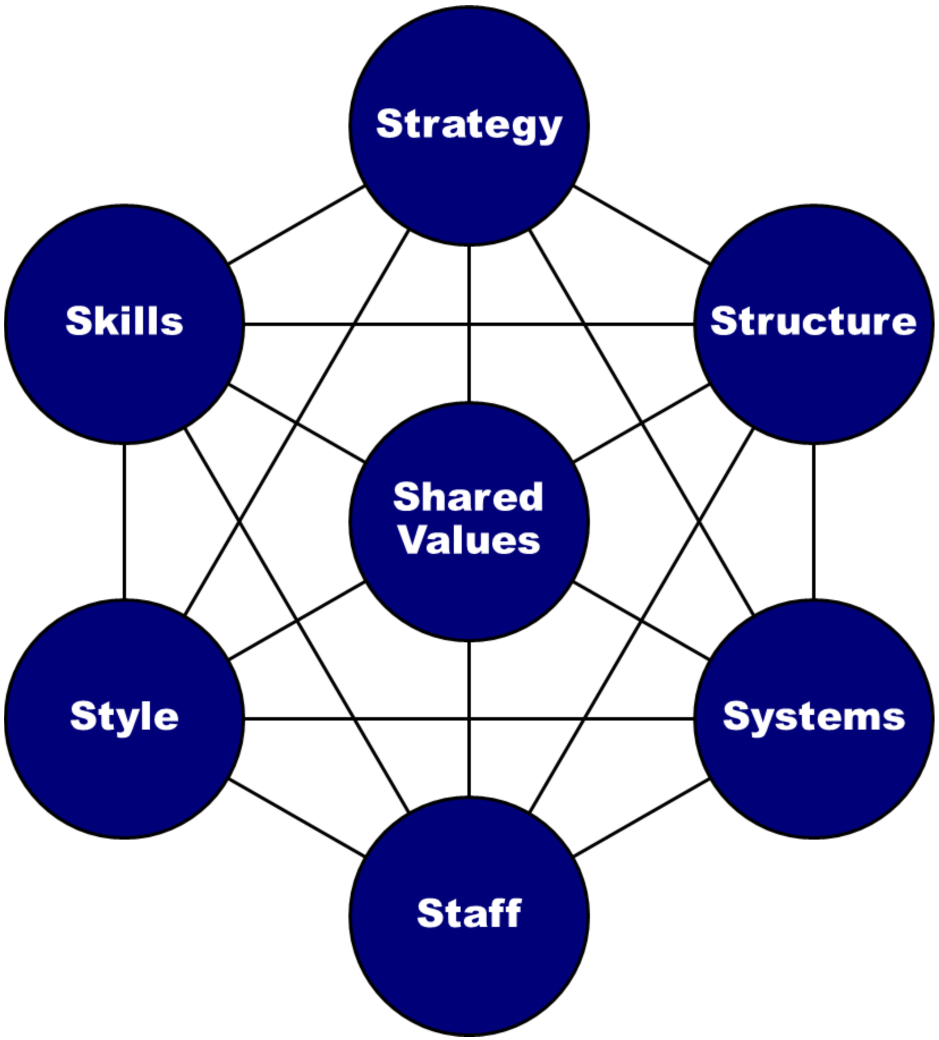
Source: SNL Financial as of 12/31/2012. Includes all publicly traded banks and thrifts.

How to Become (and Stay) a Good Acquirer

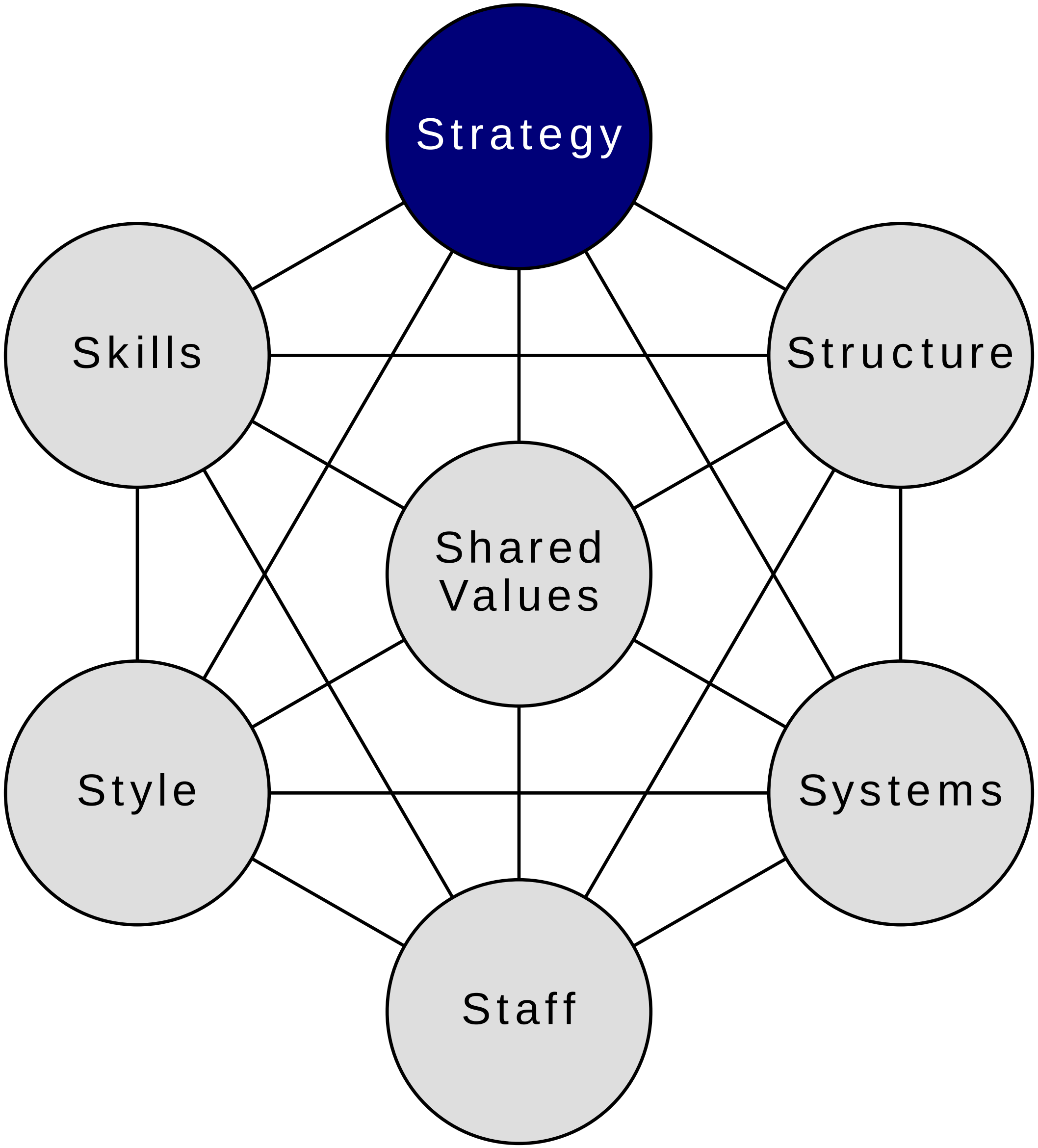
Being the Best Acquirer You Can Be – A Strategic Framework to Consider

GRIFFIN FINANCIAL GROUP LLC

- McKinsey & Co., the global consulting firm, designed a framework that emphasized "coordination over structure" in growing companies
- This framework – dubbed the 7-S Framework in Tom Peters' famous book, In Search of Excellence, has been used by countless companies over the last 30 years as a tool for building lasting value



The First “S” to Consider – Strategy



The First "S" to Consider – Strategy

"I'm looking for a strategy to leverage our core competencies with big data across multiple synergized paradigms. Or something that rhymes. Either way."

How to Be the Best Acquirer – Strategy

GRIFFIN FINANCIAL GROUP LLC

M&A is not a business strategy, it is a tool to help you achieve your strategy

- Before M&A is even considered, a bank's vision and mission must be clearly articulated and communicated to all critical stakeholders
  - Shareholders
  - Employees
  - Strategic Service Providers
  - Customers
  - Regulators
- Is your bank long-established and entrenched in the community, with goals that are a blend of financial and "social" goals?
- Is your bank a recent de novo operation that was formed with a pre-determined point at which an exit event would occur?
  - If so, was M&A included in your business plan filed with your regulator?

How to Be the Best Acquirer – Strategy (continued)

What is it that you want M&A to accomplish?

- Improved efficiency ratio?
- Broader array of products and services?
- Increased distribution network?
- Acquired bench strength / management talent?
- Greater liquidity?
- Diversity into new markets?
- Better penetration into existing markets?
- Stronger balance sheet?
- Defense – take out a significant competitor?
- Higher stock price / stronger TBV growth rate?

How to Be the Best Acquirer – Strategy (continued)

- If your bank is being built with an exit in mind, M&A may provide a quicker way to achieve the necessary size and scale to maximize a liquidity event
- Example scenario for a $600M bank wanting to achieve $1B in assets:

	2013Y	2014Y	2015Y	2016Y	2017Y	2018Y	2019Y
Go-it-Alone:							
Assets ($000)	**600,000**	660,000	726,000	798,600	878,460	966,306	**1,062,937**
Annual Growth Rate	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*	*10%*
Acquire:							
Assets ($000)	**600,000**	923,000	996,840	**1,076,587**	1,162,714	1,255,731	1,356,190
Acquisition ($000)		**275,000**					
Annual Growth Rate	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*	*8%*

- M&A achieves strategic goals and replaces 3 years of operating risk with 1 year of integration risk

How to Be the Best Acquirer – Strategy (continued)

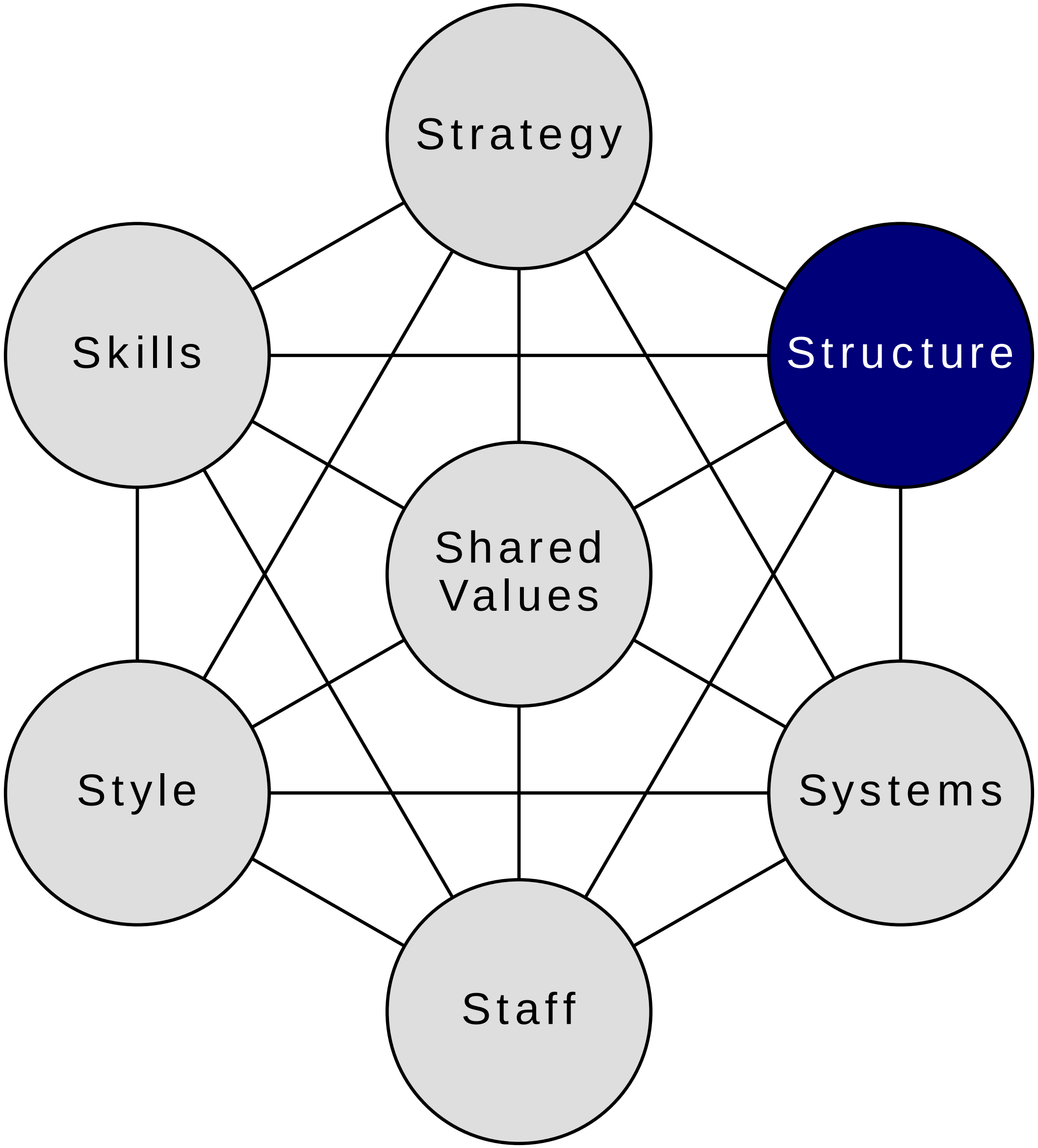
- If your bank is public, your use of M&A in your toolkit is largely influenced by the strength of your currency
- Deals are a lot easier to make happen when you have a strong currency advantage over your target
- Developing a strong investor relations program can give certain buyers an advantage
- Conversely, a weak IR program can create distrust between management and investors, which ultimately may lead to a weaker currency
- Communicate, communicate, communicate!
- Never say “never,” unless you really mean never!

How to Be the Best Acquirer – Strategy (continued)

<u>M&A should augment your broader strategic corporate goals</u>

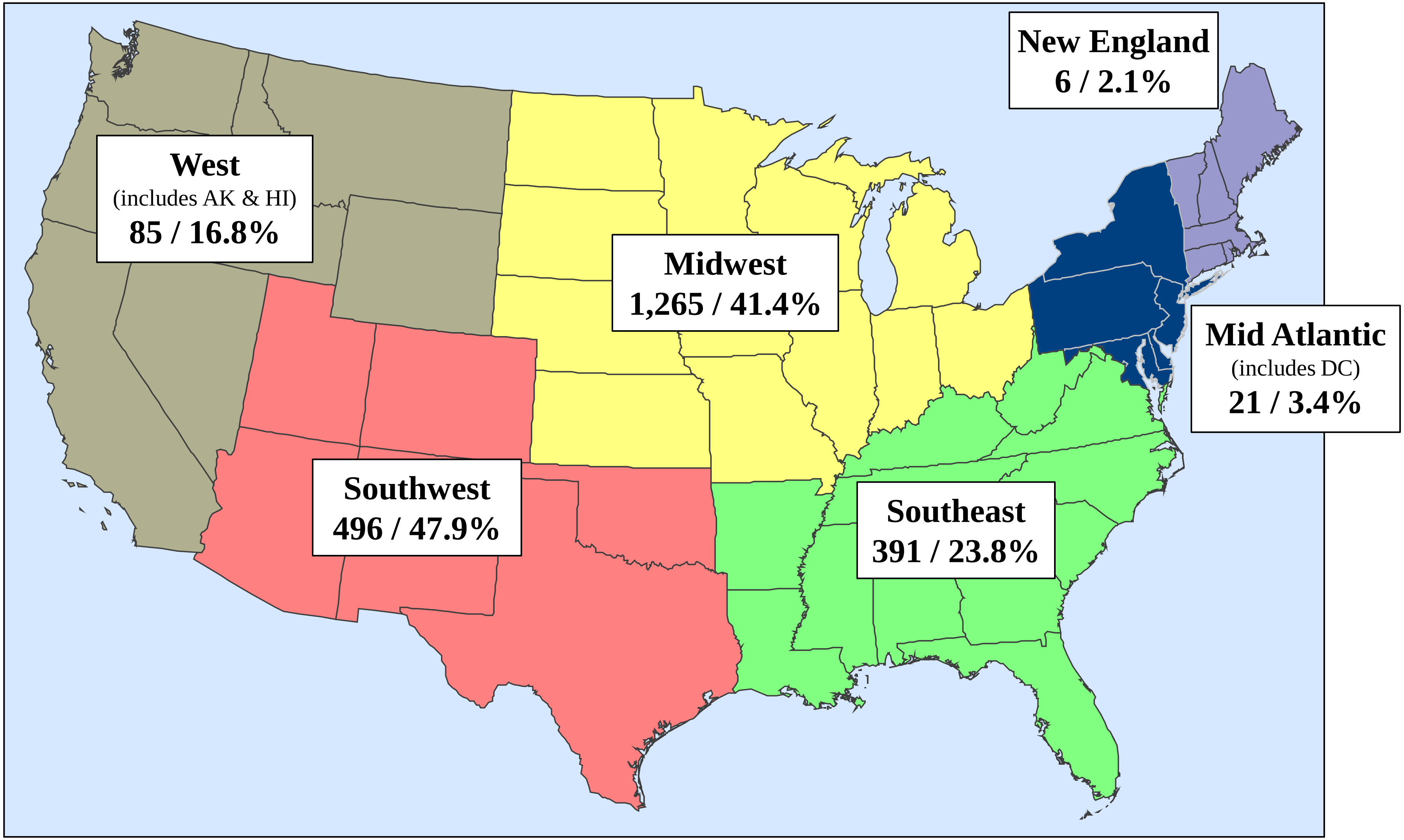
- Don't say:
  - "__ number of deals per year is a goal"
  - "__% of earnings growth per year should be generated from M&A"
  - "We will grow to a certain asset size in a certain timeframe"
  - "We are buyers, not sellers"
- Do say:
  - "We evaluate our strategic course annually (and really do it!)"
  - "We consider M&A to the extent that it augments or accelerates pre-defined corporate goals"
  - "We have M&A hurdle rates (TBV dilution, EPS accretion, IRR), and we stick to them"

The Second "S" to Consider – Structure



Structure Can Determine How You Must Approach M&A

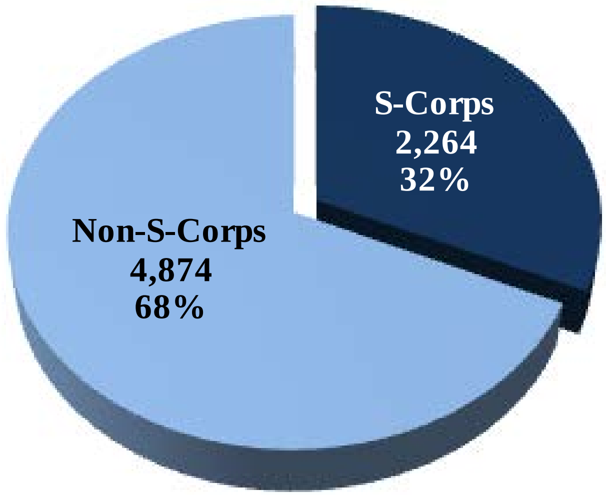
- 2,264 of the country's 7,138 banks, or 31.7%, are Subchapter S corporations and have, by their very structure, expressed a desire to stay private
- Here is the regional distribution:



Source: SNL Financial as of 12/31/2012

Structure Can Determine How You Must Approach M&A

Total Institutions: 7,138

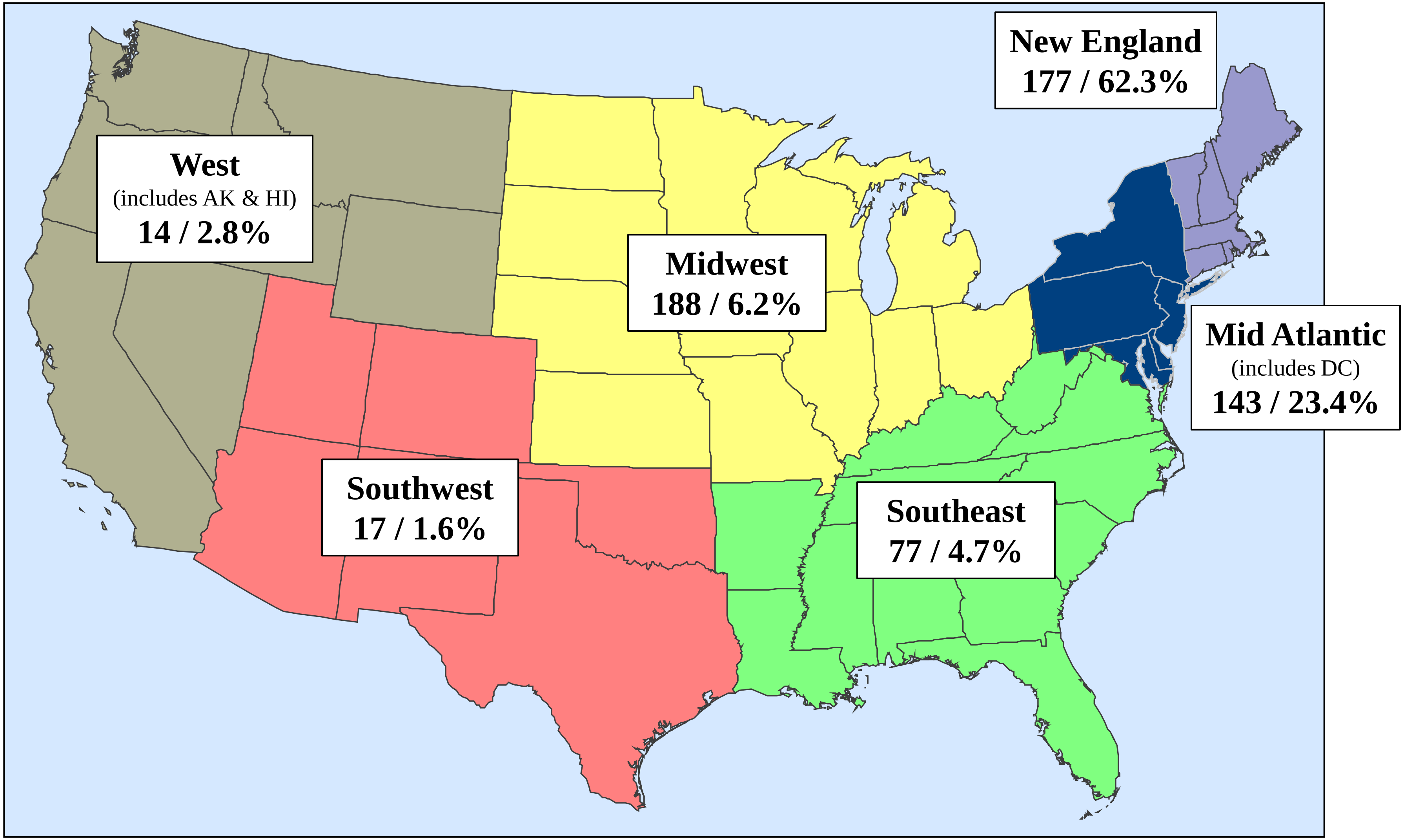


- The S-corp. structure limits the number of shareholders, which in turn limits the M&A potential and capital raising capabilities for these banks
- With the highest corporate tax rate at 35% and the highest personal tax rate at 39.6%, it might not be a huge consideration to switch, but it would depend on individual facts and circumstances
- Recent increases to the capital gains rate may curtail sales of S-corp. banks in the near term if perceived relief comes with the next administration

Source: SNL Financial as of 12/31/2012

Structure Can Determine How You Must Approach M&A

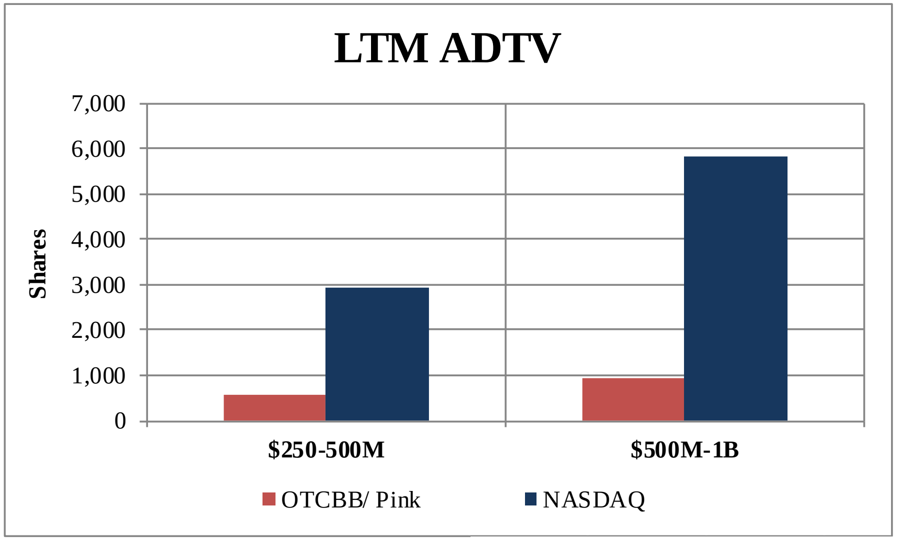
- Of those institutions that are not designated as S-corps, 616 are either mutuals or mutual holding companies, which limit shareholder ownership further – or prohibit it altogether
- This represents 8.6% of the nation's total banking institutions:

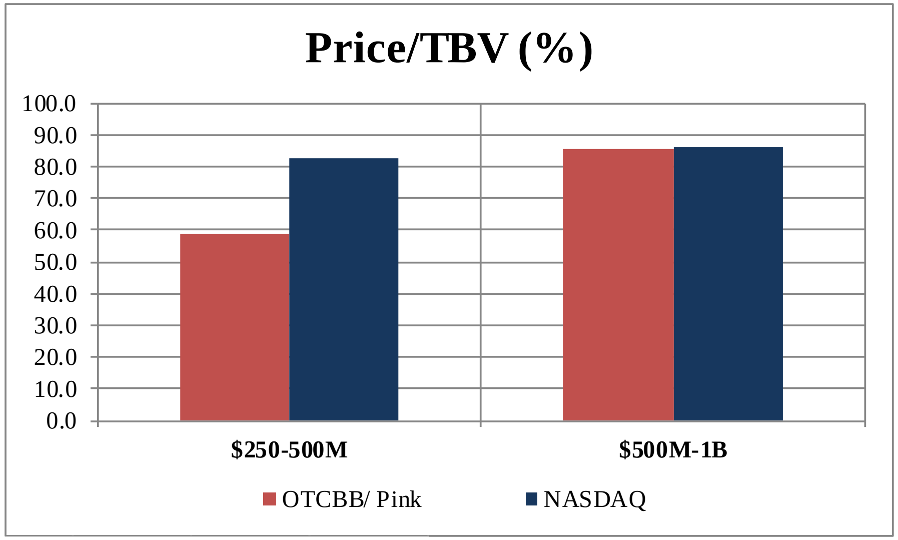


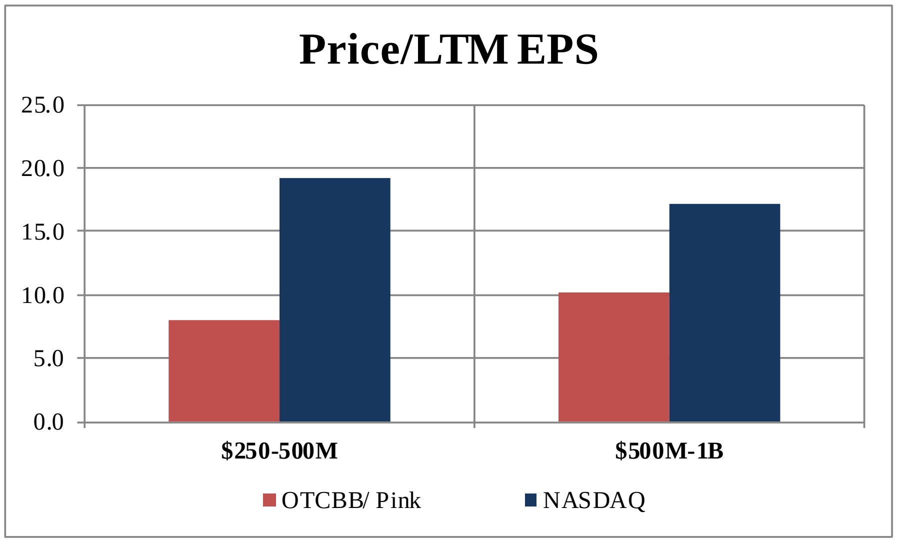
Source: SNL Financial as of 12/31/2012

Structure Can Determine How You Must Approach M&A

- Private companies and thinly traded companies are strategically limited in what they can offer merger targets, as their currency is usually thinly traded and at a significant discount to publicly traded comparables







Source: SNL Financial as of 12/31/2012

Structure – Sooner Rather than Later, Acquirers Should Consider ’34 Act Registration and Listing on a National Exchange

GRIFFIN FINANCIAL GROUP LLC

- Almost any M&A strategy will eventually involve a need for capital in excess of the buyer’s internal generation rate
  - Purchase accounting balance sheet marks create goodwill, even when P/TBV is close to 100%
  - Tier 2 capital hole created due to “disappearance” of ALLL when seller’s balance sheet is marked to market
  - Pending Basel III rules may create broader capital replacement needs
- The investment policies of many institutional capital sources require ’34 Act registration and national exchange listing
- As a result, there have been very, very few public capital raises for banks below $1 billion in assets in 2011 and 2012

Common Equity Offerings Completed Since January 1, 2011

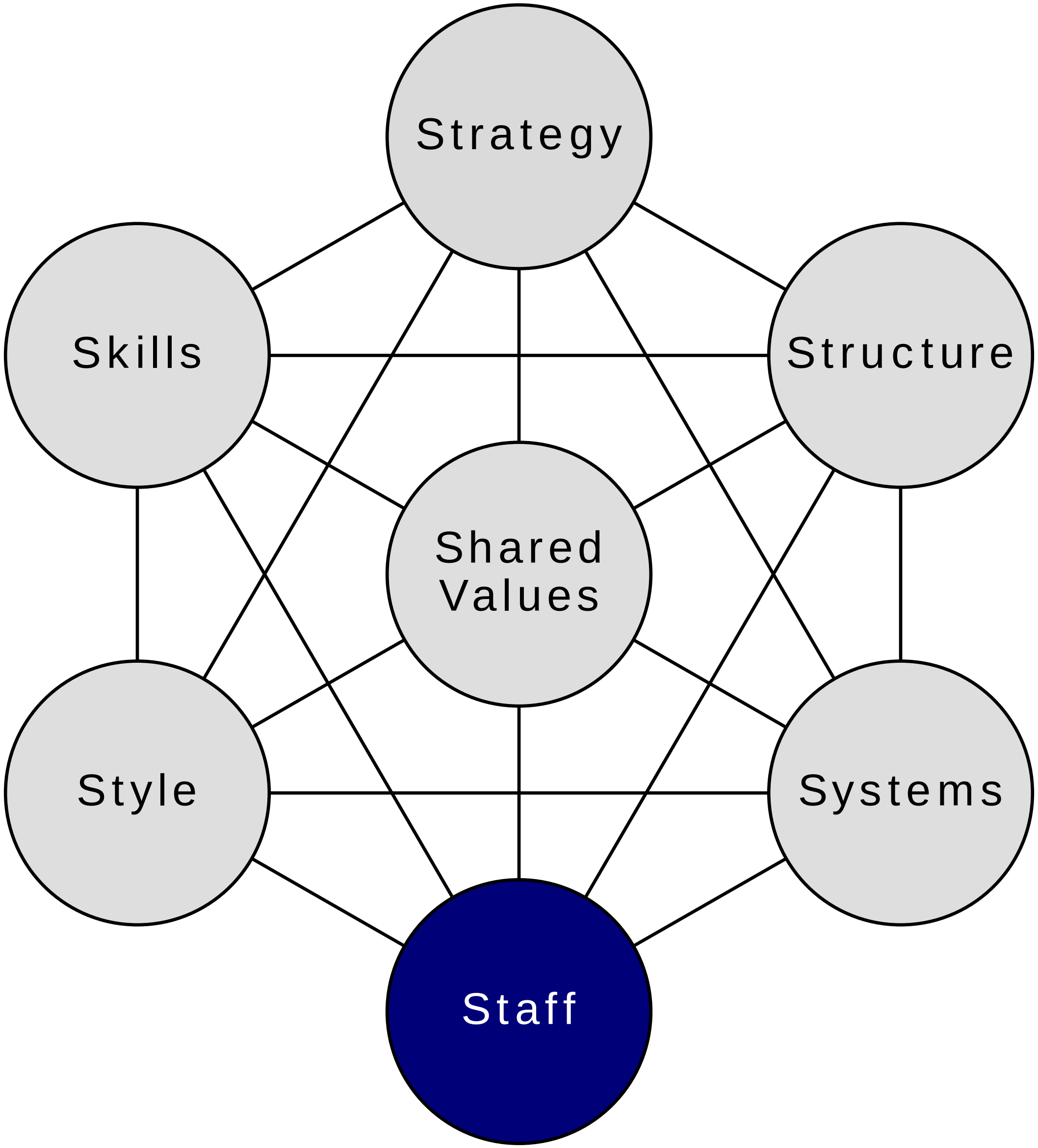
Bank Assets Segmentation	Total Number of Deals (#)	Number of Public Offerings (#)	Number of Private Placements (#)	Public Offering Total (Millions)	Private Placement Total (Millions)	Total Amount Issued (Millions)
$5-20 Billion	17	14	3	$2,908	$168	$3,076
$4 - 5 Billion	4	3	1	$145	$21	$166
$2-4 Billion	50	16	34	$765	$886	$1,651
$1-2 Billion	46	4	42	$145	$816	$962
$500 Million - $1 Billion	34	4	30	$109	$237	$346
$250 - $500 Million	34	1	33	$20	$179	$198
<$250 Million	41	0	41	$0	$112	$112

Source: SNL Financial as of 1/4/2013.

Table excludes rights offerings, exchange offerings, and shelf registrations.

Public offerings defined as being common offerings that were underwritten.

The Third "S" to Consider – Staff



Staff – How to Successfully Staff in Order to Be a Strong Acquirer

- In-house corporate development is generally not needed until you approach $10 billion
- However, CFOs wear many hats
- Meet with investment bankers to determine who is the best fit to be your strategic partner
  - Evaluate skill sets and experience
  - Important: always have a second choice, as conflicts always emerge
- Make sure you have sufficient staff to manage through conversions – don't hesitate to hire temporary staff if your data processing team needs it
- Additional staff skills / concentrations considered helpful
  - Strong internal accounting – a chief accounting officer
  - Deep understanding of legal and regulatory issues – internal counsel
  - Established H/R group – representation in the executive suite
  - An organized project management office (PMO) – possibly a PMO officer
- Why are these expanded roles important?
  - Perception – to the target and to the regulators when reviewing the transaction
  - In practice – to attain regulatory approval and maintain shareholder confidence

Staff – How to Successfully Staff in Order to Be a Strong Acquirer

GRIFFIN FINANCIAL GROUP LLC

- Acquisitions help to leverage costs and diversify revenue streams over a broader base:

M&A Impact on G&A Expense			
# Of Acquisitions	Efficiency Ratio	Non-Interest Expense /Avg. Assets	Number of Institutions
0	75.80	3.32	813
1-2	68.82	3.36	210
3-5	63.52	3.14	82
More than 5	60.42	3.17	31

M&A Impact on G&A Expense						
	$1B - $5B in Assets			$5B - $20B in Assets		
# Of Acquisitions	Efficiency Ratio	Non-Interest Expense /Avg. Assets	# of Institutions	Efficiency Ratio	Non-Interest Expense /Avg. Assets	# of Institutions
0	65.79	3.19	102	64.28	2.97	16
1-2	68.41	3.27	91	58.55	2.82	12
3-5	65.34	3.30	12	58.63	2.80	24
More than 5	62.90	3.46	6	61.89	2.95	14

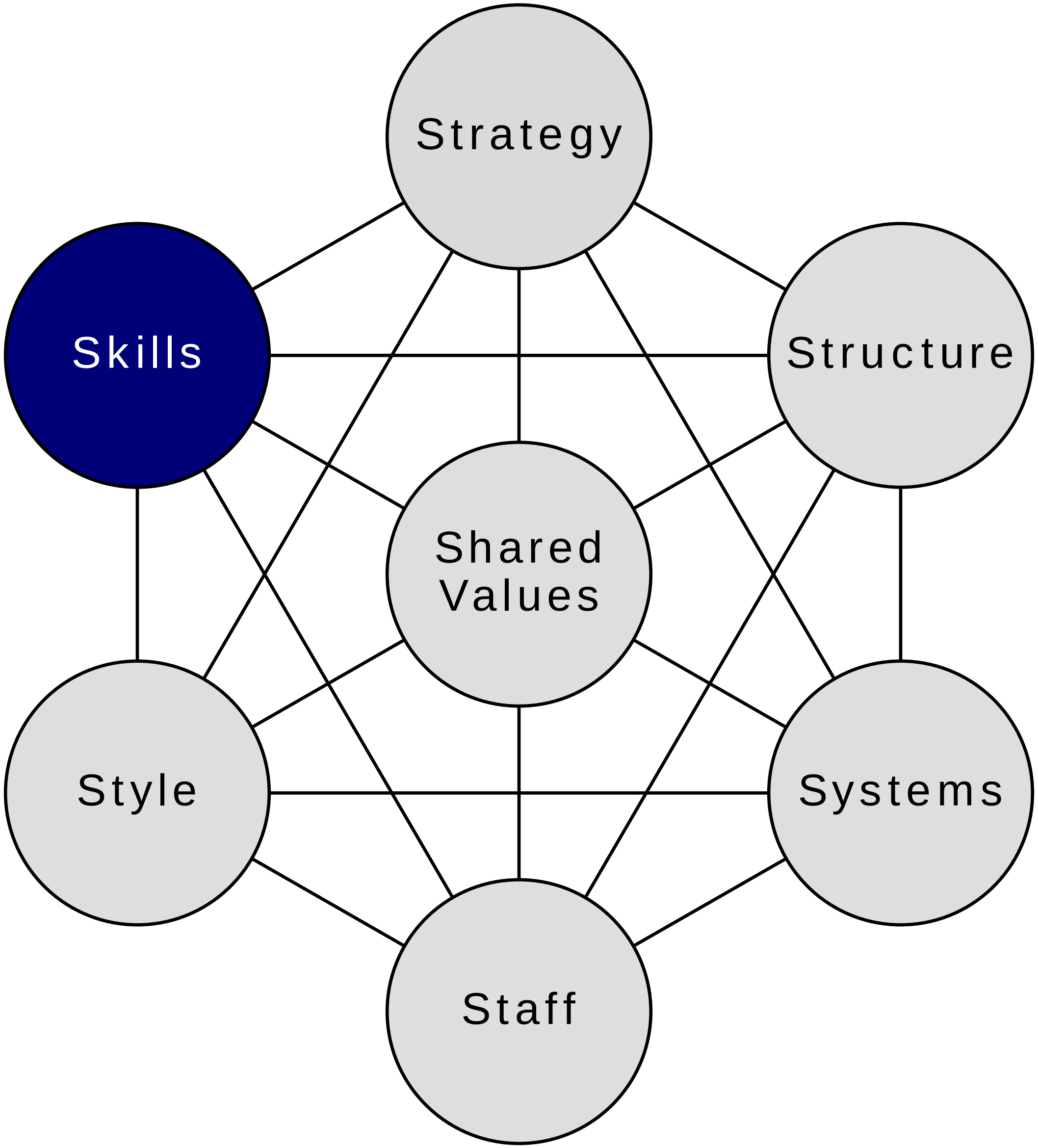
Source: SNL Financial as of 1/4/2013.
Includes transactions announced between 12/18/02 and 12/18/12 by currently listed companies and expense data reported for the trailing 12 months at 9/30/12.

Staff – The Importance of a Strong Investor Relations Program in M&A

GRIFFIN FINANCIAL GROUP LLC

- If your bank is a ’34 Act registrant and on a national exchange, this becomes amplified
- Investors have a right to understand the high-level, strategic rationale for a deal, and the financial details of what it will do to their investment
- Your I/R staff (which could also be your CEO or CFO) should be prepared to discuss:
  - The EPS accretion or dilution
  - The TBV accretion or dilution, and the “earn-back period”
  - The IRR, and the assumptions used
  - The level of cost savings assumed – they will come back to this number in future quarters!
  - The level of merger charges, and the timing of such
  - The level of purchase accounting mark-to-market adjustments
  - The growth prospects of the combined entity
  - New products or services being shared across the broader platform
  - A brief discussion of social issues – new board members, executive management posts, etc.
  - The strategy behind the M&A transaction

The Fourth "S" to Consider – Skills



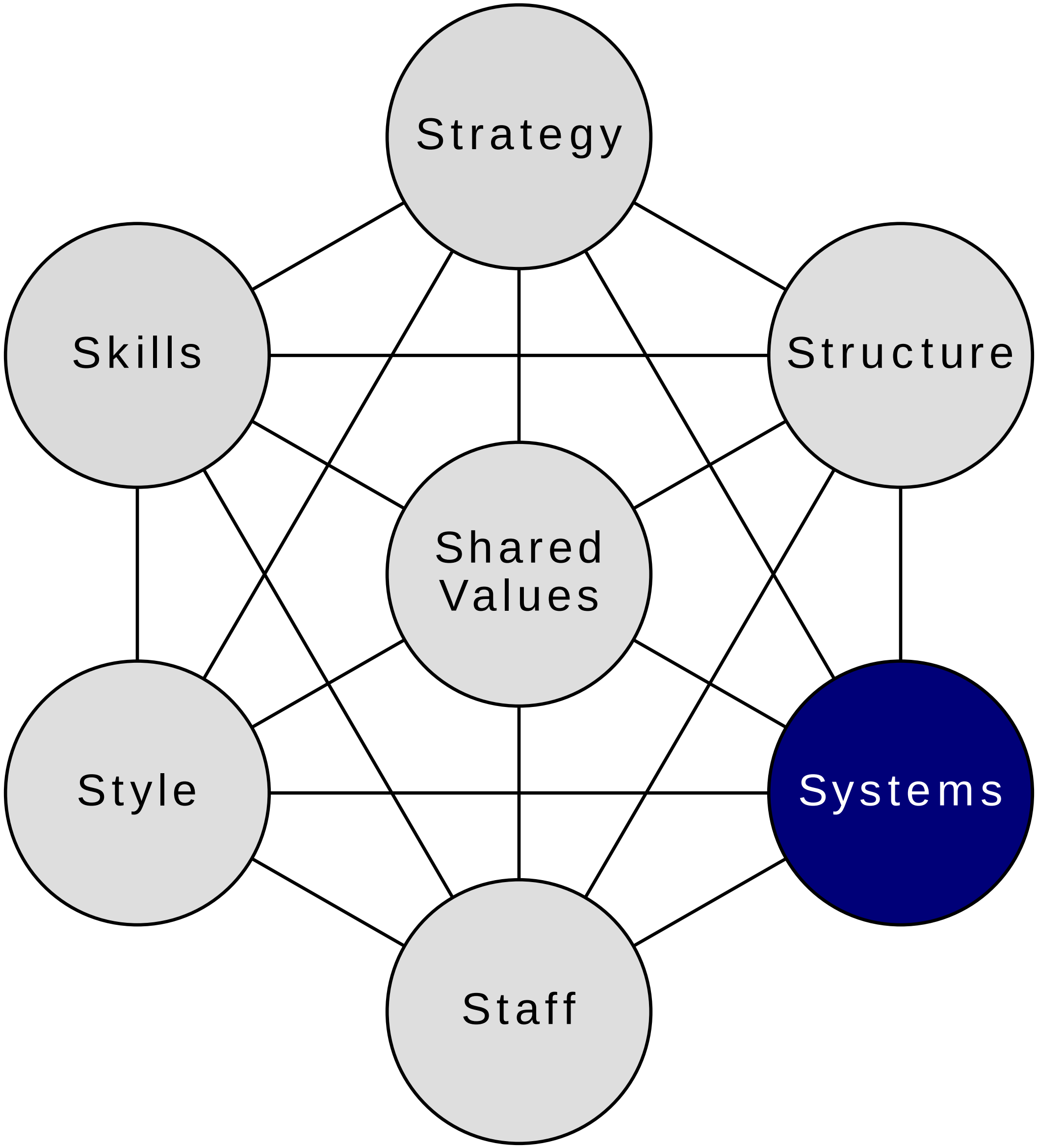
Necessary Skills for a Successful M&A Program

- A strong sense of **self-awareness** (the "8th S") – know what you know, and more importantly, know what you don't know
- **Humility** – be willing to accept that the seller may have pieces of its business that are better than yours; adopt a best practices approach
- **Humility** – don't allow job title, etc. to stand in the way of a great deal for shareholders
- **Market dynamics** – keen understanding of who owns your stock, what they value, and what factors of your deal should be "featured" (or downplayed)
- **Mastery of the external environment** – understand demographic, economic trends, ALCO, and legislative impact on the business model, both short- and intermediate-term
- **Mastery of the internal environment** – poor performers don't get to be buyers – strong companies do!
  - Maximize what you can from your existing franchise before undertaking an M&A program – don't "paint over the mold" by doing a deal

Necessary Skills for a Successful M&A Program

- A strong investment banker and a strong outside counsel will be able to guide you through all of the transactional steps
  - Sourcing and due diligence
  - Term sheets
  - Deal negotiations
  - Merger agreements
  - Board meetings
  - Regulatory filings
  - Shareholder approvals
- However, once "the dust settles," it is up to you and your team!
- Details, details, details! Find a key executive to run the merger PMO (more on this later)

The Fifth "S" to Consider – Systems

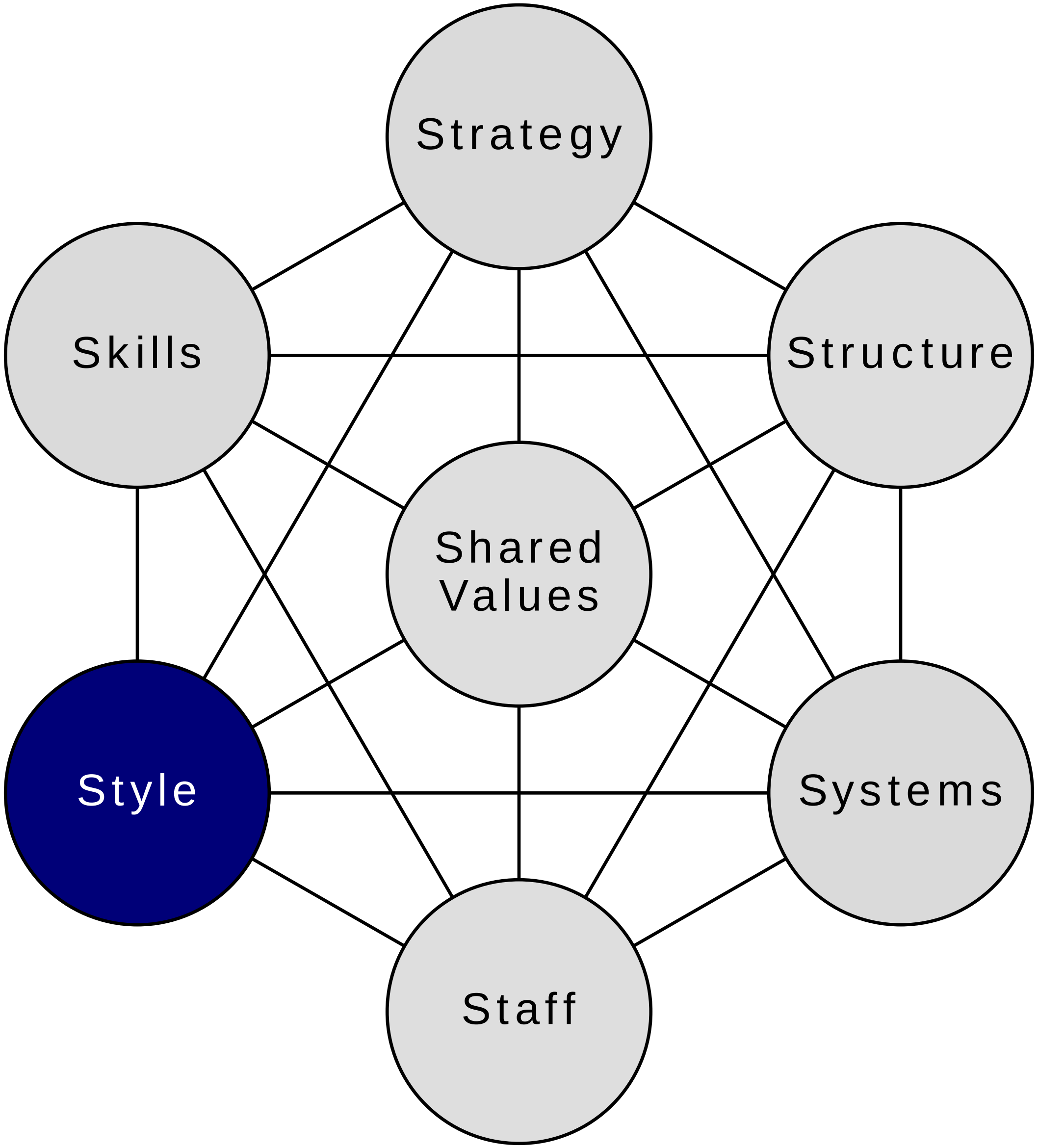


The Fifth "S" – How Systems Can Make or Break your M&A Strategy

GRIFFIN FINANCIAL GROUP LLC

- One of the unsung heroes of any successful acquirer is the systems conversion team
  - Cross-walk of the G/L
  - Cross-walk of sub-ledger application systems
  - Cross-walk of products – slotting the target's products into yours – identifying revenue pick-up (rare) or loss (more likely)
  - Establishment of account balancing and reconciliation and procedures
- Can your systems handle the level of account growth?
- Are both companies on the same D/P platform or not?
- Are there larger "breakage fees" in the target's D/P contracts?
- Can your sub-ledger application systems accommodate the loan types you are acquiring, or will you need to inherit some of the target's systems?
- Will those systems then be compatible with other systems you employ for:
  - Internal profitability reporting
  - Regulatory reporting
  - SEC / GAAP reporting?
- We all could tell stories of systems "gremlins" – M&A can magnify their impact

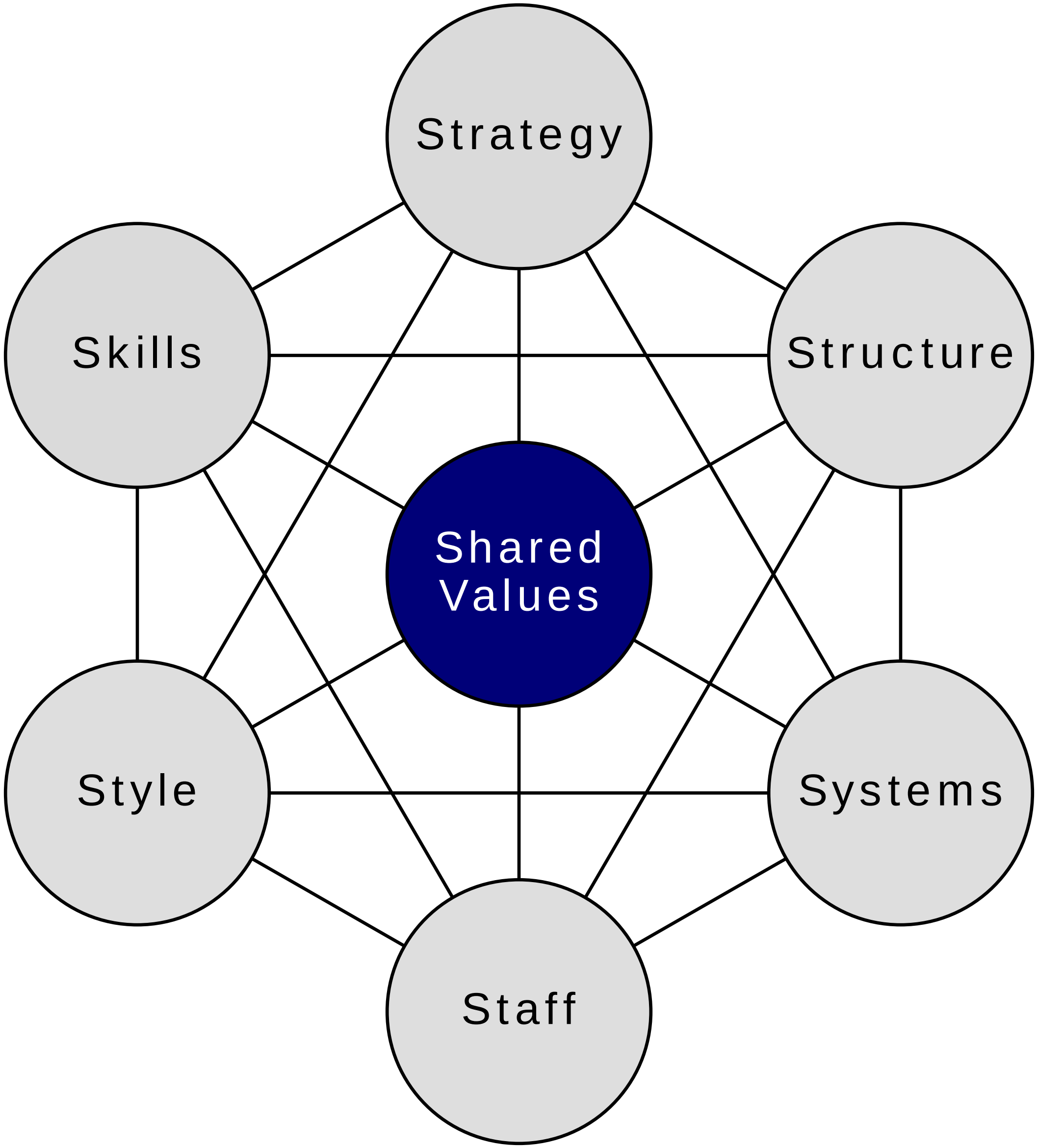
The Sixth "S" to Consider – Style



Style – How Culture Can Define a Good Deal Versus a Bad Deal

- Style generally is driven from the C-suite
- Style, while soft, is critical to creating the overall "identity" of a company
  - A strong corporate culture = committed, passionate employees
  - A weak corporate culture = disengaged employees
- Knowing what kind of company you are (self-awareness) can help you target companies with similar cultures
  - Are you shareholder-centric or customer-centric?
  - Are you regimented or open-door?
  - Is your company personality "Type A", or "Balanced Values"?
  - Are you collaborative, or silo-ed?
- Cultural integration becomes key post-deal, so that "us vs. them" does not permeate the culture
- **Culture, if not evident during initial meetings, will become evident during due diligence, as interaction with more people occurs**

The Seventh "S" to Consider – Shared Values

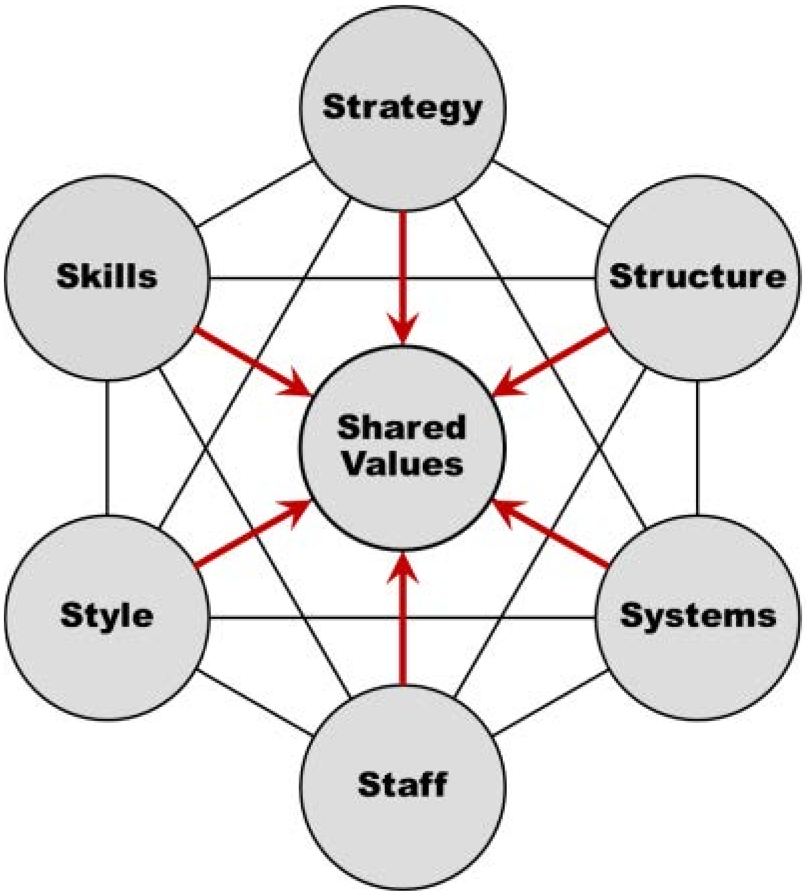


The Seventh "S" to Consider – Shared Values

"OK, now that we all agree, let's all go back to our desks and discuss why this won't work."

Shared Values – Your Company's DNA – How You Act and Interact with All of Your Stakeholders

- Assuming you've done everything else right within the first 6 "S's", the result should be a company with shared values
- With proper coordination and integration of strategy with structure, systems, staff, skills, and style, resultant companies will become incredibly nimble, efficient performers
- Mutual trust and respect – employees up and down the organization will think like-mindedly



"There is no limit to what you can accomplish as long as you don't care who gets the credit"

Shared Values – How Do You Uncover All of the "S's" During Due Diligence?

- A winning due diligence approach
- Designate one person to lead the effort (CFO in many cases)
- Have all major line and support functions represented. At a minimum:
  - Lending
  - Credit
  - Retail
  - Finance
  - Human Resources
  - Operations/ Technology
  - Audit
  - Compliance
  - Legal
- Here is the key…<u>REQUIRE</u> the <u>HEADS</u> of those groups, not their designees, to run that piece of the due diligence
  - This is the key to "shared values" – make every leader "have a seat on the bus" before it gets rolling
  - It <u>assigns clear accountability at an early stage</u>

Shared Values – How Do You Uncover All of the "S's" During Due Diligence?

- No one leaves the due diligence until they pass an "exit interview" with the head of due diligence
  - Interview with due diligence head generally focuses on 4 areas:
    - Level of staff reductions and other cost savings
    - Amount of one-time charges related to your area
    - Origination potential, portfolio run-off, cross-sell potential, etc. for revenue units
    - Risks: credit, interest rate, operational, reputational, legal, or otherwise
- Continuity of diligence teams can make future acquisitions go very smoothly
- A similar approach will also be used for a merger PMO to handle all integration issues from the day the deal is signed until 2-3 months post-conversion

Being the Best Acquirer You Can Be – Final Thoughts

- You can't over-estimate the importance of consistently and clearly communicating your business vision and mission and how an M&A strategy complements and augments that...
- ...and having the discipline to have your actions match your words
- Stay plugged in – "more at-bats equals more hits"
- Tap into counsel and experience from those who have been through this before
- Humility – view every first meeting, every pitch book, every due diligence, as an opportunity to learn and adopt best practices for your bank
- A 7-S framework can aid in your assessment of strategic opportunities

How to Become a Good Target

How to Become a Good Target

Topics for Discussion

- The environment for considering sale
- Attributes of a difficult sales process
- Attributes of a good seller / successful sale process
- What creates top value in a sale?
- If I am a seller, what should I do now?

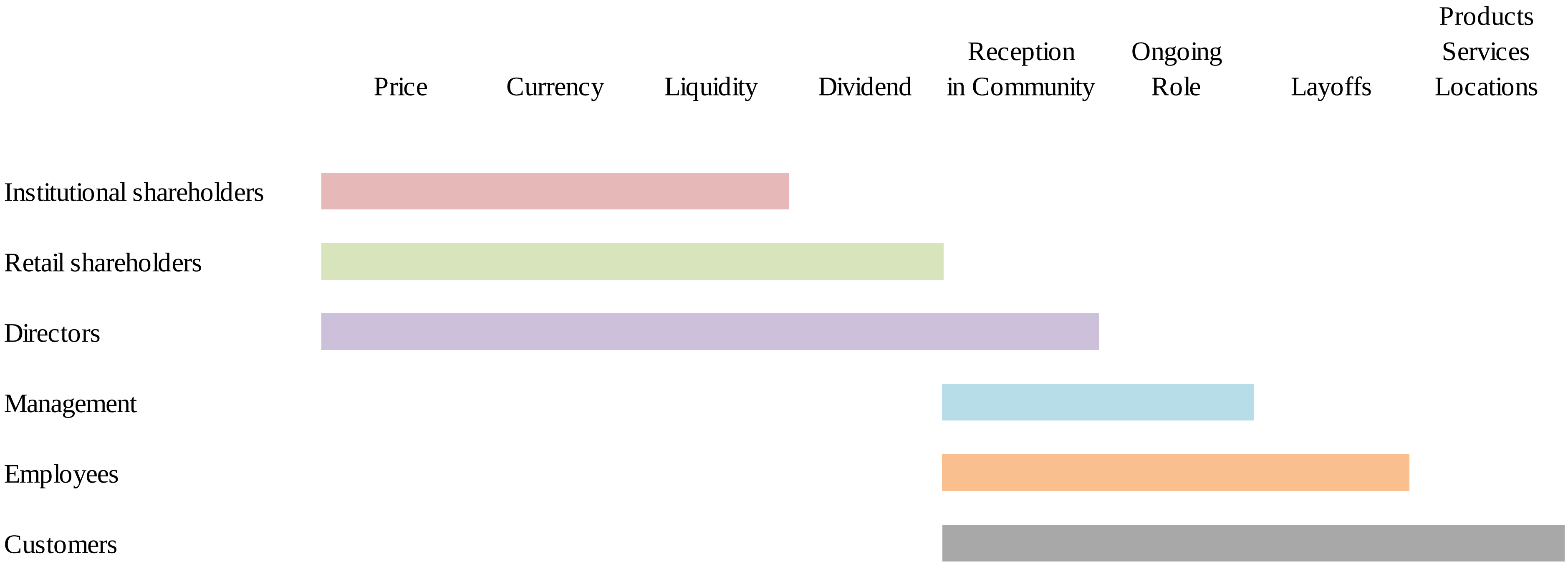
Why is SELL a four-letter word?

GRIFFIN FINANCIAL GROUP LLC

- Wanting to sell admits I can’t do it on my own;
- Not sure what I am worth;
- Reaction to synergies (i.e. layoffs) in my local community;
- Like the social component of being a director;
- Values will get better if I wait longer

Successful sellers de-mystify the sales process and look at it less emotionally, making a potential combination a regular part of strategic dialog

What Matters in a Sale Varies by Constituency



The Environment for Considering Sale

- Margin and earnings challenges
  - Slow road to recovery
  - Forecasted slow demographic growth
  - Lingering asset quality issues
  - Intense competition for fewer loans
  - Flat yield curve . . . may be that way for a while
  - Economic and political uncertainty

The Environment for Considering Sale

- New regulatory challenges
  - New Basel III capital requirements . . . uncertain, but will be higher
  - New Basel III risk weighting . . . uncertain, but will be higher
  - Phase out of Tier 1 treatment for TruPs
  - TARP and SBLF Redemption
  - New mark to market rules for loans and securities
  - Dodd-Frank overdraft and other regulation

The Environment for Considering Sale

- Need for <u>GROWTH</u> and <u>CAPITAL</u> not only to survive, but to prosper
  - With new regulations, need additional capital to grow and provide a cushion
    - Regulations still in development
    - Regulators like to "individualize" capital requirements
  - Growth helps offset new layer of regulatory cost and its effect on earnings
  - Margin challenges necessitate growth to leverage costs
    - Volume can only outpace spread for so long

The Environment for Considering Sale

- Organic growth
  - Difficult and takes longer
  - Very few good growth markets
  - No up front intangible creation / financial premium
  - Competition intense
  - No or slow increase in market value

The Environment for Considering Sale

- Acquire (or Merge)
  - Difficult environment
  - "Banks are sold not bought"
  - Have capital or access to capital
  - Quicker way to Grow
  - Enter new markets
  - ASC 805 marks
  - IRC 382
  - Capacity? Willingness?
  - Public currency to offer in a deal?
  - Merger of equals

The Environment for Considering Sale - Factors

GRIFFIN FINANCIAL GROUP LLC

- Long and rocky road to economic recovery
- Demand for credit <u>DOWN</u> and competition <u>UP</u> for indefinite period of time
- Asset growth and need for size and scale (NIM compression, asset quality, EPS potential, exit/liquidity)
- Regulation, regulation and more regulation
- Capital markets
  - Presence of TARP, SBLF or TruPS in capital structure
  - Access to and cost of capital
- Aging shareholder bases – need for liquidity, dividends, and/or exit
- Activism and threat of a proxy fight
- MOU / bad exam
- Board and management fatigue
- Board and management succession

The Environment for Considering Sale

Points of Resistance

- Low market valuation: Is this “the new normal” ?
- Is now the time to sell?
- Concern about pro forma bank – are we exchanging one problem for another
- Buyer lacks size and scale
- Buyer’s currency lacks liquidity or dividend
- Transaction certainty (regulatory approval) in this environment
- Capital gains
- Buyer still has TARP or SBLF

Attributes of a Difficult Sales Process

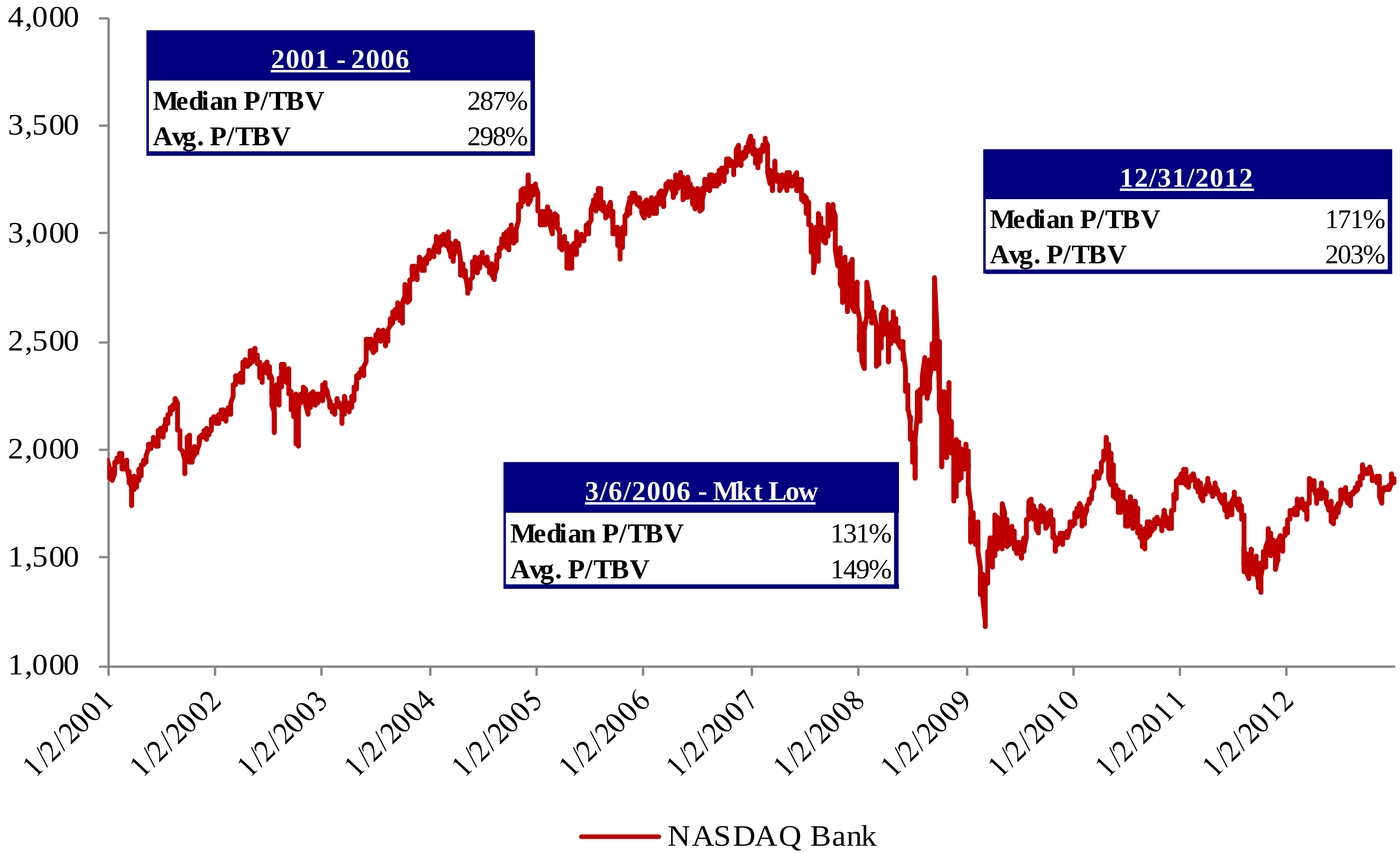
- Improvement is just around the corner . . .
- Market multiples will recover to where they once were if we just wait . . .
- My Board is unclear what they want to do, but they will come around by the time the process is complete . . .
- Buyer wants to do it their way and won't mind if our executive team just moves on . . .
- "I just want the highest multiple that I can get . . ."
- Let's go talk to people and see if we can get "X" and if not, we won't do it

Attributes of a Good Seller / Good Sales Process

- Think ahead and be proactive
  - Sell when you <u>want to</u>, not when you <u>have to</u> . . .
- Board of Directors united
- Insider ownership and “skin in the game” matters
- Understand the environment and what it means to go it alone
- Know your buyers / partners (and their <u>c</u>ulture, <u>c</u>urrency, <u>c</u>apability)
  - Mark to market accounting and higher capital requirements making it more and more likely that your partners are bigger in size than they used to be
- Know your shareholder base
- Know your valuation

High Premiums Come From Highly Valued Currencies

Valuation on Day 1 is not all that is important



Data includes deals announced between 1/1/2001 and 12/31/2006 which the buyer is still a current entity and the transaction included 100% stock consideration (61 deals). Excludes deals with total deal value < $10 million.

Deal Values at 3/6/2009 and 12/31/2012 were adjusted by reducing stock consideration by the change in the issuers stock price

Value Creators in a Sale

- PEOPLE
  - People create culture
  - People create control environment
  - Influence in the market (bankers, management, directors)
- Core deposits
- Branch size, density and market share
  - Half as many markets with top 3 deposit share versus twice as many markets with bottom 3 deposit share
- Fee income businesses
- Solid spread business – quality over quantity

Common denominator is growth potential – can I give a buyer the growth they are looking for with as little risk as possible?

Value Detractors in a Sale

- Asset quality
- Poor market reputation
- Low growth or volatile markets
- Small branches
- Expense inefficiency
- Poor control environment
- Excess executive compensation (280G gross-ups)
- Long-term operating contracts (data processing, etc.)

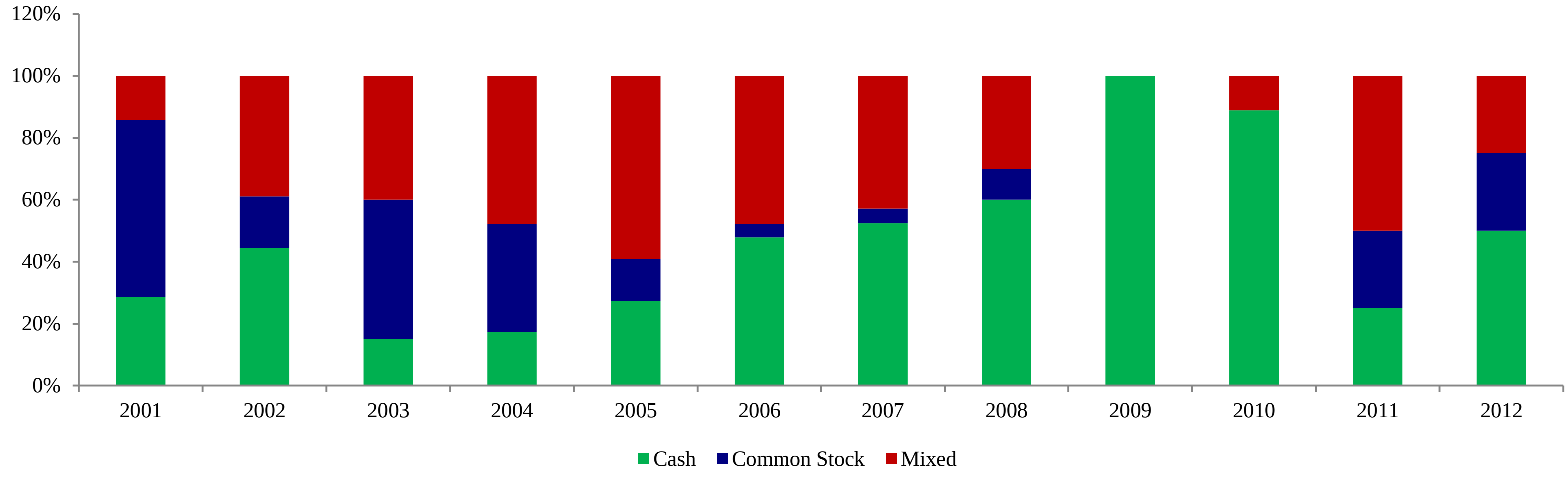
What Creates Top Value in a Sale?

- We looked at the top 10% of deal values (according to price to TBV) each year over the last 11 years (which adjusts out cyclical factors) and examined:
  - Asset size;
  - Geography;
  - Performance (ROAA);
  - Metro vs. rural markets;
  - Asset quality;
  - Deposits per branch.

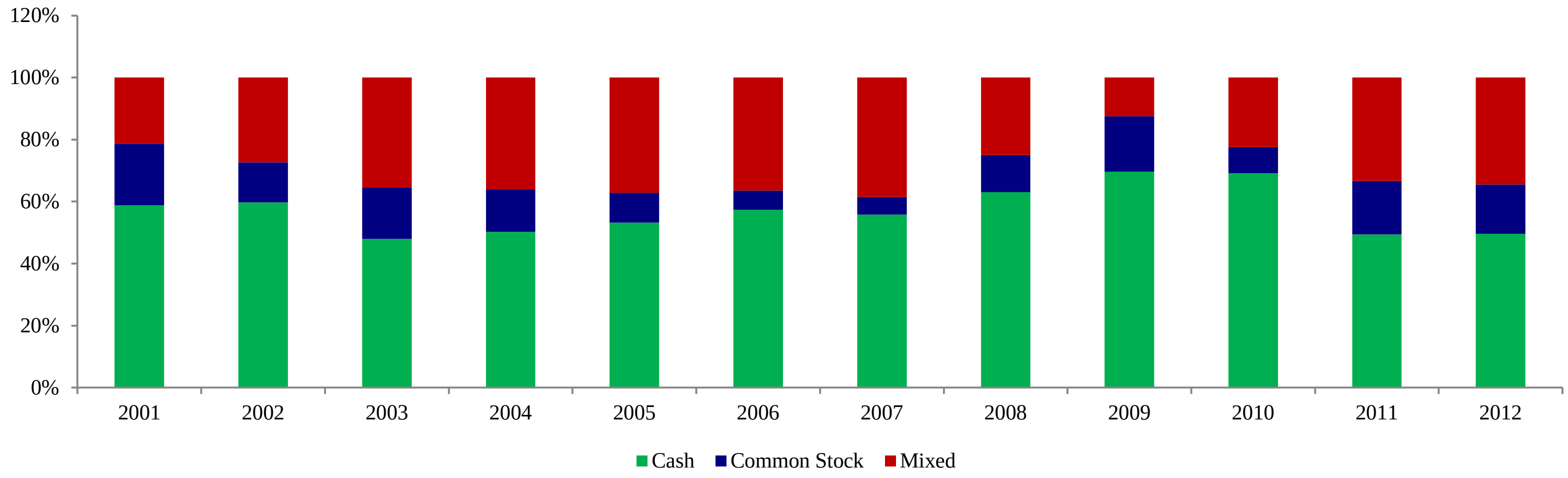
Consideration Type as Related to Deal Value

Top Ten Percent of Deals

% of Consideration



All Deals



Source: SNL Financial. Includes all deals for which deal value and consideration data was available

Asset Size as Determinant of Value

Target	2003 # Deals	2003 Avg P/TBV (%)	2004 # Deals	2004 Avg P/TBV (%)	2005 # Deals	2005 Avg P/TBV (%)	2006 # Deals	2006 Avg P/TBV (%)	2007 # Deals	2007 Avg P/TBV (%)	2008 # Deals	2008 Avg P/TBV (%)	2009 # Deals	2009 Avg P/TBV (%)	2010 # Deals	2010 Avg P/TBV (%)	2011 # Deals	2011 Avg P/TBV (%)	2012 # Deals	2012 Avg P/TBV (%)
$0-$250M	171	193.3	177	198.8	197	207.2	196	206.8	199	203.2	110	171.6	92	117.7	121	125.5	101	101.6	126	119.4
$250-$500M	32	227.2	23	224.9	29	266.6	33	255.4	27	282.1	9	219.6	9	96.5	18	108.4	19	98.8	28	111.5
$500M-$1B	20	269.0	24	246.2	17	280.7	25	315.6	22	263.2	9	147.8	6	127.8	14	113.9	15	109.5	18	107.8
$1-$5B	23	260.4	23	287.1	11	286.3	21	357.6	20	270.9	6	201.0	5	91.7	15	83.7	10	133.9	14	124.3
$5-$20B	3	284.7	4	278.9	4	312.0	6	357.3	6	358.0	3	108.1	2	114.7	6	111.3	3	229.7	4	146.4
>$20B	1	373.5	7	386.8	1	279.6	5	390.5	3	372.6	4	92.6	0	0.0	1	97.6	2	99.8	1	84.5
Top 10%	21	358.0	23	404.9	22	387.8	24	437.5	22	414.6	10	310.3	6	207.2	10	226.8	7	194.5	20	192.3

- Clearly….size matters
- Almost uniformly, the best deals involved larger companies
  - Size = efficiency
  - Scale = pricing power
  - Revenue Diversification = earnings consistency
- Of the best-priced deals, only 32% were for companies smaller than $250 million despite representing 70-80% historically of the total deal volume during the period from 2002-2011
- Conclusion – to increase your chances of a strong exit multiple……GROW

Top 10% of Deals	
$0-$250M	52
$250-$500M	26
$500M-$1B	31
$1-$5B	32
$5-$20B	12
>$20B	10
Total	**163**

Source: SNL Financial
Excludes Government Assisted Deals

Geography as Determinant of Value

Mid-Atlantic	11-Year Avg.	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Number of Deals	27	25	34	28	26	33	31	20	9	22	21	20
Average P/TBV	193.9	180.1	244.3	286.1	263.7	188.6	208.0	134.4	102.1	110.8	113.6	106.7

Midwest	11-Year Avg.	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Number of Deals	81	67	68	99	91	95	112	56	40	65	40	79
Average P/TBV	179.1	186.2	171.6	170.8	204.0	257.1	206.6	166.0	100.9	88.9	110.6	110.2

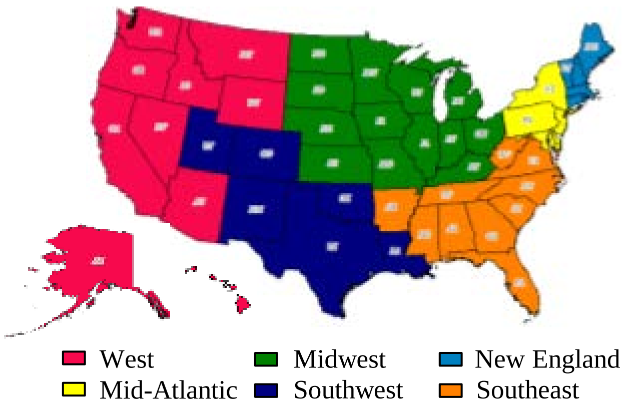
New England	11-Year Avg.	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Number of Deals	12	8	17	11	7	16	18	7	11	11	7	10
Average P/TBV	218.0	227.1	218.2	245.9	272.7	226.7	294.0	204.0	134.8	136.0	130.1	171.4

Southeast	11-Year Avg.	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Number of Deals	50	51	60	54	65	62	58	31	29	29	29	31
Average P/TBV	189.5	188.8	239.1	236.9	220.9	202.4	199.0	146.8	60.6	79.9	80.9	97.8

Southwest	11-Year Avg.	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Number of Deals	41	36	49	42	51	56	42	24	17	35	25	34
Average P/TBV	186.8	168.5	194.7	226.4	224.2	186.8	199.1	180.6	165.5	140.4	119.7	141.8

West	11-Year Avg.	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Number of Deals	27	24	32	35	30	32	25	6	12	16	29	27
Average P/TBV	186.6	141.5	182.3	190.1	231.3	311.6	248.3	190.5	73.7	92.5	83.5	97.5

Nationwide	11-Year Avg.	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Number of Deals	238	211	260	269	270	294	286	145	118	178	151	201
Average P/TBV	198.0	187.5	215.6	224.7	228.7	244.4	230.2	170.0	114.4	119.3	105.9	117.6



Top 10% of Deals	
Mid-Atlantic	27
Midwest	28
New England	12
Southeast	43
Southwest	38
West	15
Total	**163**

Source: SNL Financial
Excludes Government Assisted Deals

Performance (ROAA) as Determinant of Deal Value

- Better performers sell for a better price – the data bears this out

Nationwide (%)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Avg ROAA for Industry	0.77	0.65	0.43	0.77	0.62	0.44	(0.32)	(0.60)	(0.08)	0.34	0.93
Median ROAA for Industry	0.93	0.91	0.94	0.96	0.89	0.71	0.31	0.15	0.37	0.64	0.83
Avg ROAA - Top 10%	0.95	1.19	1.05	1.16	1.27	0.79	0.43	(0.20)	0.55	(1.00)	0.56
Avg ROAA - Total Targets	0.72	0.77	0.82	0.89	0.96	0.84	(0.17)	(4.57)	(1.58)	(0.77)	0.23

- Not surprisingly, buyers reward strong earners
- Selling from a position of strength is preferred – sounds easy to say, harder to execute

Nationwide (P/TBV %)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
<0 bp ROAA	133.2	155.3	156.0	189.9	194.0	169.7	120.4	99.7	95.2	77.1	89.7
0-25 bp ROAA	147.4	159.1	166.0	170.0	180.9	190.1	140.4	121.1	120.4	112.3	111.2
25-40 bp ROAA	199.0	165.4	165.8	207.4	217.4	196.5	142.7	135.3	116.9	116.4	113.5
40-60 bp ROAA	177.9	211.0	246.2	222.2	213.9	235.2	186.3	152.3	147.2	112.5	129.1
60-100 bp ROAA	179.9	219.7	226.1	216.8	234.9	223.0	177.5	125.9	136.3	132.5	127.3
>100 bp ROAA	222.4	241.2	254.1	256.9	275.3	266.7	218.6	158.7	160.2	131.6	144.1

Source: SNL Financial
Industry represents all public banks and thrifts
P/TBV reflects averages for each year
Excludes Government Assisted Deals

Market Population as Determinant of Value

Nationwide	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	*11-Year Avg.*
Number of Deals - Urban/Suburban	148	188	192	186	209	181	94	80	121	108	140	165
Average P/TBV - Urban/Suburban	199.1	229.1	246.4	240.0	260.9	248.0	170.8	103.4	117.1	108.8	116.4	208.1
Number of Deals - Rural	63	72	77	84	85	105	51	38	57	43	61	74
Average P/TBV - Rural	157.2	176.6	169.0	200.8	201.0	196.4	168.5	135.0	125.7	95.3	121.7	172.3

- Of the deals, 69.2% were for targets headquartered in MSAs with populations greater than 50k (defined for the above purposes as urban/suburban)
- 147 of the 163 of the top 10% of deals based on P/TBV were headquartered in metro areas since 2002
- Conclusion – Given a strategic choice for expansion, favor urban/suburban vs. rural (but be wary of mission drift)

Source: SNL Financial
Excludes Government Assisted Deals

Asset Quality as Determinant of Deal Value

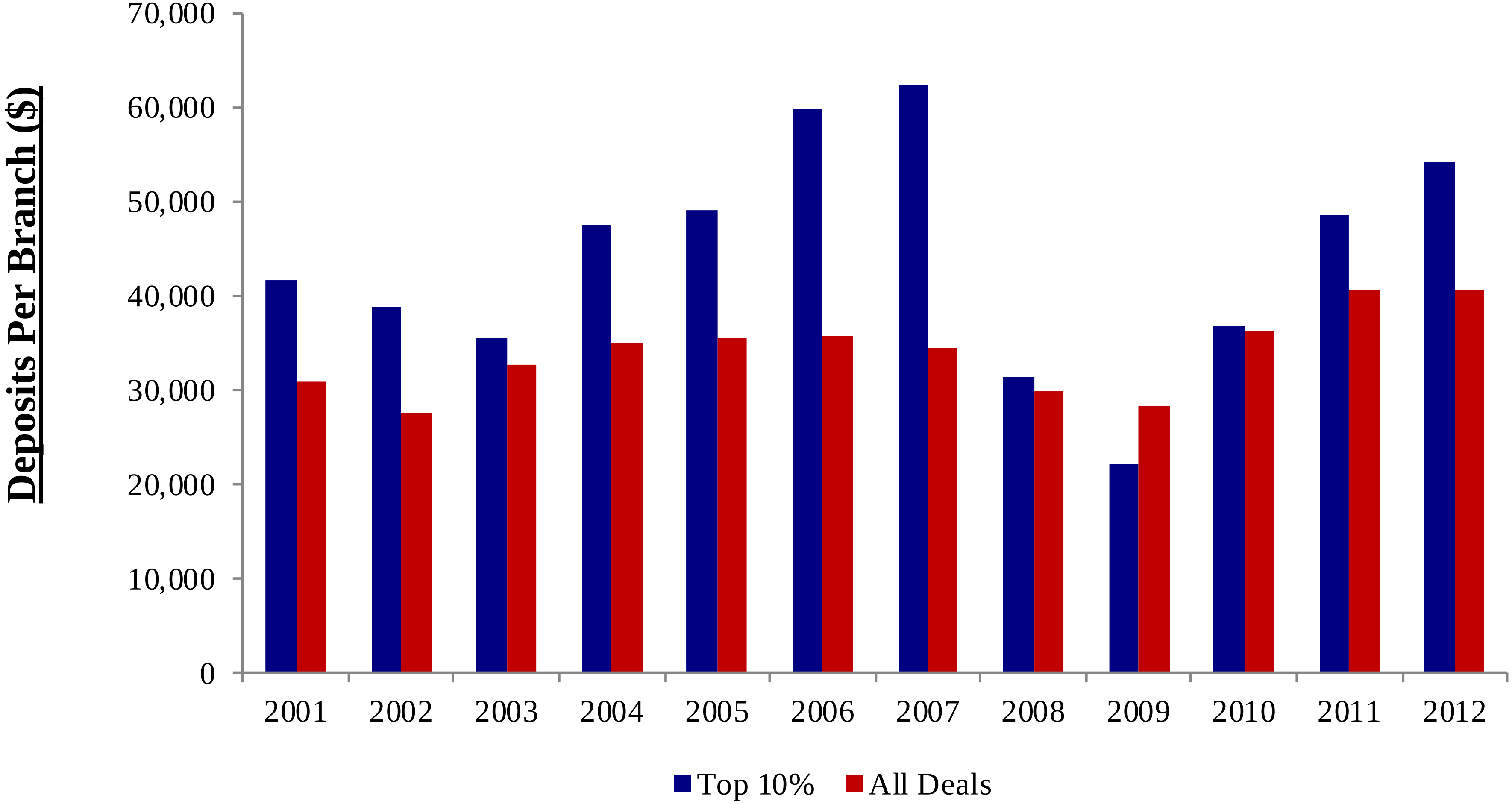
- Of the top 10% “best” deals, the average NPA/Assets was two to four times better than the average NPA/Assets of all targets sold during each discrete year analyzed over the ten year timeframe

Nationwide (%)	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	11-Year Avg.
P/TBV Top 10%	347.0	358.0	404.9	387.8	437.5	414.6	310.3	207.2	226.8	194.5	214.8	263.7
P/TBV - Total	187.5	215.6	224.7	228.7	244.4	230.2	170.0	114.4	119.3	105.9	117.6	198.0
NPA/Assets Top 10%	0.94	0.45	0.48	0.29	0.53	0.75	0.44	3.72	1.43	5.89	3.21	3.08
NPA/Assets - Total	1.16	0.99	1.04	0.86	0.76	1.09	1.93	3.98	4.63	5.08	4.20	2.08

- From this table, it is clear that superior asset quality will help to achieve strategic relevance
- More than any other factor considered, superior asset quality will help your bank “stand out” and improve your strategic relevance to potential acquirers
- Conclusion – clean up your asset quality yourself! A buyer will discount your credit issues significantly deeper than the actual work-out costs will be

Source: SNL Financial
P/TBV and NPAs/Assets reflect averages for each year
Excludes Government Assisted Deals

Branch Size as Determinant of Deal Value



Source: SNL Financial. Includes all deals for which deal value was available

If I Am A Seller, What Should I Do Now?

- Engage with a trusted set of advisors to understand your timing, partners, valuation;
- Be deliberate and thoughtful – time is your friend, not your enemy;
- Achieve operating synergies wherever possible – if you don't save excess cost you won't be paid for it, and will accrue to benefit of purchaser;
  - Long term focused, but short term mindful
- Get Board and senior management united on the same page;
- Understand your process – should come from knowing your partners;
- Do <u>NOT</u> enter into long-term contracts;
- Do <u>NOT</u> grow for growth sake (pay up for business, ill-timed M&A, etc.);
- Do <u>NOT</u> be nervous – the market is efficient and will reward value.

Not a SALE, but a PARTNERSHIP

- Wanting to sell admits I can’t do it on my own;
  - Finding someone who shares your culture and strategy will allow you to create more value with a partner than you can create on your own;
  - Do I want to own more of something worth less, or less of something worth more
- Not sure what I am worth;
  - Fair change of control valuation, plus currency that allows for appreciation;
  - Often times more up front value means more cost cuts (balance constituencies)
- Reaction to synergies (i.e. layoffs) in my local community;
  - Easier to mitigate if you pick your partner versus broader “auction”
  - The smaller the buyer, the more likely they need more of your staff to continue

Not a SALE, but a PARTNERSHIP

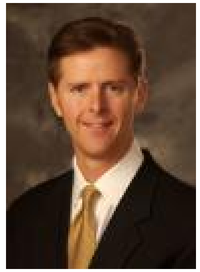
- I like the social component of being a director;
  - Partners not in your market will likely need board representation
  - More ability to make an impact in your community with a larger lending limit, broader branch reach, larger array of products and services
- Values will get better if I wait longer
  - . . . But what are you foregoing in the near term?
  - Don't' want to be the last one without a dance partner
  - If you sold a year ago and took a bank stock as currency, your value would likely be up significantly today, which would outweigh any potential multiple expansion
    - Nasdaq Bank Index up 16% in 2012

How to Become a Good Target – Takeaways

- Think about selling as partnering, not surrendering;
- Value is equally (if not more) important through the closing date than on the closing date;
- The sale process has changed as markets have become more volatile, and is a lot more personal and a lot less structured and impersonal;
- Have sale/partnership be a regular part of your strategic dialog;
- Know your partners, whether you are interested in a deal today or not
  - Hard to convey culture through the reading of documents
- Have a trusted team of advisors (bankers, attorneys, accountants) that help you regularly revisit strategic options;
- Know what creates value and what detracts from value and focus on those areas.

Speaker Biography

Mark R. McCollom
Senior Managing Director, Co-Head of Financial Institutions Group
Griffin Financial Group, LLC
Phone: (6106) 478-2106
mrm@griffinfingroup.com



Mark McCollom is a senior member of Griffin's Financial Institutions Group, where he provides merger and acquisition advisory, capital formation, and strategic alternative services to bank executives, directors, stockholders, and investors. Calling on his more than 20 years of experience as a senior financial executive in the banking industry, Mark works with both major and regional banks and thrifts, specialty lenders, and asset managers.

Over the course of his career, Mark has coordinated the financial and operational aspects of more than 20 acquisitions encompassing $57.3 billion in assets with a combined transaction value in excess of $6 billion. Additionally he coordinated over 20 debt and equity financings totaling in excess of $10 billion.

Prior to joining Griffin, Mark was Chief Financial Officer for Sovereign Bancorp, Inc. and Sovereign Bank, a financial institution with approximately $90 billion in assets and 12,000 team members with principal markets in the Northeastern United States. During his tenure at Sovereign, he was responsible for corporate strategy and development; the treasury, accounting and financial reporting functions; investor relations and management reporting; budgeting; corporate real estate; and tax.

Mark was instrumental in executing Sovereign's acquisition and capital markets programs, which permitted Sovereign to grow from less than $500 million to more than $80 billion in assets with total shareholder returns exceeding sector and broader market indices during his tenure. Prior to joining Sovereign, Mark was a senior corporate development officer at Meridian Bancorp.

A CPA, Mark is a member of the American Institute of Certified Public Accountants and the Pennsylvania Institute of Certified Public Accountants. He is also a member of the CFO Councils for both the Financial Services Roundtable and the BAI. He serves in a leadership capacity in several nonprofit organizations.

Mark received a B.S., with high distinction, from the Pennsylvania State University. He is a licensed General Securities Principal.

Speaker Biography

Richard L. Quad
Senior Managing Director, Co-Head of Financial Institutions Group
Griffin Financial Group, LLC
Phone: (646) 254-6387
Cell: (917) 796-7396
rlq@griffinfingroup.com

Mr. Quad is a Senior Managing Director and Co-Head of the Financial Institutions Group at Griffin Financial, where he is a trusted advisor to management teams and boards of directors of banks largely $10 billion in assets and below, located in the Northeast and other select geographies. Mr. Quad joined Griffin in August 2012, prior to which he was most recently Managing Director and Head of U.S. Financial Institutions M&A for RBC Capital Markets, where he had been since 2001. Mr. Quad joined RBC following its acquisition of Tucker Anthony Sutro, where he was a Vice President in the Financial Institutions Group.

Mr. Quad has completed buy-side and sell-side acquisitions, common stock, preferred and trust preferred offerings, and general advisory engagements for clients throughout the Eastern and Midwestern United States. Some of the assignments that Mr. Quad has completed include the sale of RBC Bank USA to PNC Financial Corporation, the FDIC-assisted acquisitions of Wakulla Bank and Gulf State Community Bank by Home BancShares, Inc., book run common stock offerings for Bar Harbor Bankshares, CNB Financial Corporation, Wintrust Financial Corporation, Home BancShares, Inc., Metro Bancorp, Inc. and Republic First Bancorp; a contingent convertible senior note offering for Alesco Financial Inc., the merger of Westborough Financial Services, Inc. into Assabet Valley Bancorp, the sale of Capital Crossing Bank to Lehman Brothers; the sale of Community Capital Bank to Carver Bancorp, Inc.; the sale of Mystic Financial, Inc. to Brookline Bancorp; an offering of REIT preferred securities for Capital Crossing Bank; the sale of specialty lender AmeriFee Corporation to Capital One Financial Corporation; the acquisition by Richmond County Financial Corporation of seven branches from FleetBoston Financial Corporation; a trust preferred offering for Sovereign Bancorp; and the acquisitions of North American Bank Corporation and thirteen branches of Shawmut Bank for Banknorth Group, Inc. while running Bankorth's internal M&A function.

Prior to joining Tucker Anthony Sutro, Mr. Quad was a Vice President in the Financial Institutions Group at Advest, Inc., where he also worked with financial institutions clients. Preceding Advest, Mr. Quad was Vice President and Director of Mergers and Acquisitions for Banknorth Group, Inc., at the time a $2 billion bank holding company headquartered in Burlington, Vermont, where he founded the company's internal M&A function and coordinated the bank's first two acquisitions and an internal restructuring of the company's trust subsidiaries. At Banknorth, Mr. Quad also gained valuable experience in cost accounting and budgeting, asset/liability management, consolidation accounting and SEC and regulatory reporting.

Mr. Quad holds a B.S. in Business Administration from The University of Vermont, magna cum laude, and an M.B.A. from Cornell University, with distinction. Mr. Quad is a Series 7 and Series 63 registered representative.

Disclosure Statement

This presentation is not considered complete without the accompanying oral presentation made by Griffin Financial Group ("Griffin").

Any projections or recommendations contained herein involve many assumptions regarding trends, company-specific operating characteristics, financial market perceptions and the general state of the economy as well as internal factors within management control, such as capital investment. As such, any projections contained herein represent only one of an infinite number of outcomes and should not be construed as the only possible outcome.

The information contained in this presentation and attached exhibits have been obtained from sources that are believed to be reliable. Griffin makes no representations or warranties as to the accuracy or completeness of the information herein.

All terms and conditions contained herein are based upon current market conditions and are estimates based upon prevailing market rates. Any or all estimates may or may not change as market conditions dictate. As such, any or all terms and conditions presented herein are preliminary in nature and should not be construed, either in whole or in part, as a commitment to perform or provide any specific services. Any and all services that may be provided by Griffin or any other entity referred to in this discussion outline will be contingent upon the signing of a proposal or contract.

Griffin Financial Group, Inc. does not provide legal, tax or accounting advice. Any statement contained in this communication (including any attachments) concerning U.S. tax matters was not intended or written to be used, and cannot be used, for the purpose of avoiding penalties under the Internal Revenue Code, and was written to support the promotion or marketing of the transaction(s) or matter(s) addressed. Clients of Griffin Financial Group, Inc. should obtain their own independent tax and legal advice based on their particular circumstances.