Breakout II:

Advice and Counsel for First-Time Acquirers

GRIFFIN FINANCIAL GROUP LLC

STINSON

ACQUIRE OR BE ACQUIRED

January 26, 2020
Arizona Biltmore
Phoenix, AZ

Table of Contents

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I. Industry Overview

2019 M&A TBV Pricing by Size

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- In general, the bigger the bank, the higher the P/TBV valuation
- Smaller banks typically have less earnings, and a larger percent of their value may be in cost savings. As a result, there is an inverse relationship between size and the P/E multiple.

Asset Range		Median P/TBV %	Median P/E	# of Deals in 2019	# Not Reporting P/TBV	% Not Reporting P/TBV
-	100,000	129	21.5x	72	61	85%
100,000	200,000	138	18.1x	56	33	59%
200,000	300,000	154	16.4x	37	15	41%
300,000	400,000	167	14.9x	21	5	24%
400,000	500,000	175	17.0x	18	8	44%
500,000	750,000	171	17.3x	25	6	24%
750,000	1,000,000	167	16.5x	10	3	30%
1,000,000	5,000,000	177	15.6x	15	0	0%
5,000,000	10,000,000	126	13.2x	5	2	40%
10,000,000	300,000,000	157	10.2x	5	2	40%

- Note that many smaller banks do not report pricing information

Regional M&A Sale Pricing

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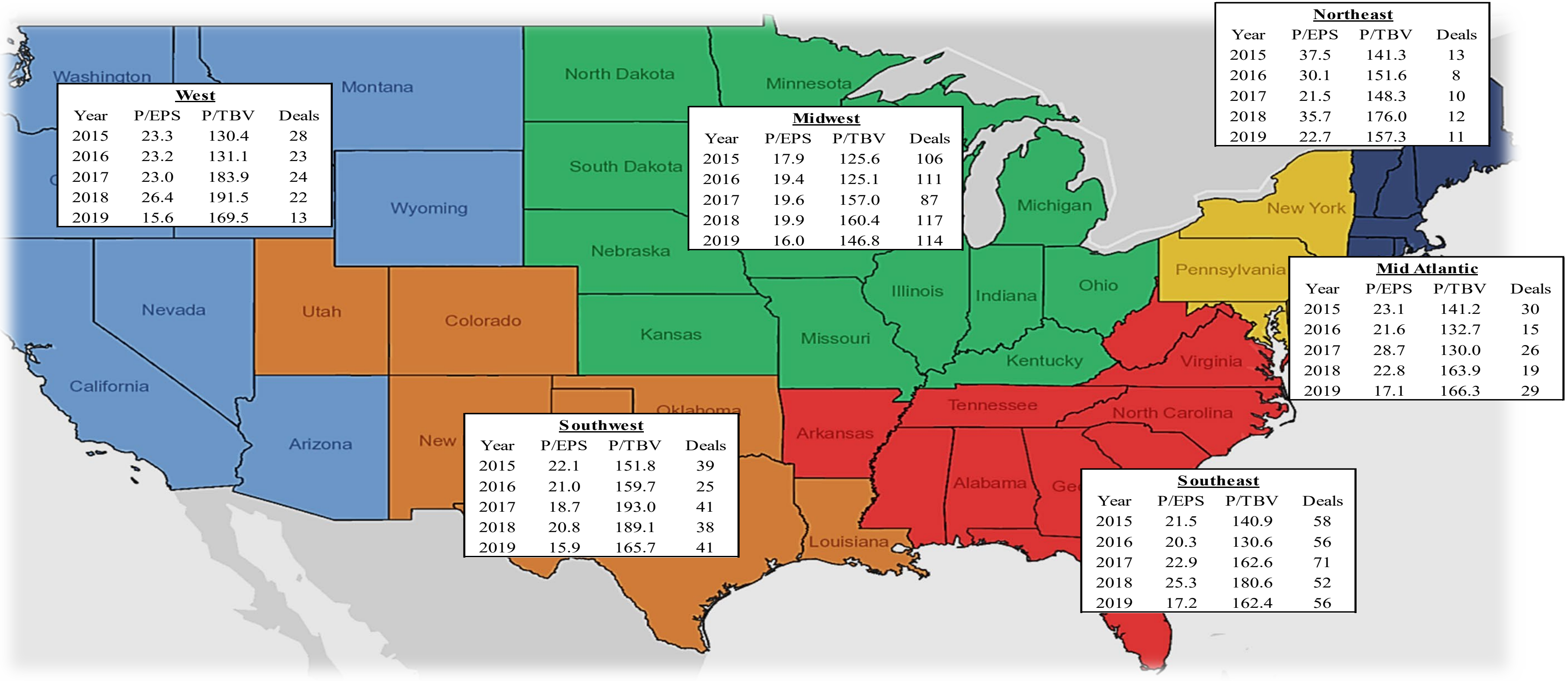

West

Year	P/EPS	P/TBV	Deals
2015	23.3	130.4	28
2016	23.2	131.1	23
2017	23.0	183.9	24
2018	26.4	191.5	22
2019	15.6	169.5	13

Midwest

Year	P/EPS	P/TBV	Deals
2015	17.9	125.6	106
2016	19.4	125.1	111
2017	19.6	157.0	87
2018	19.9	160.4	117
2019	16.0	146.8	114

Northeast

Year	P/EPS	P/TBV	Deals
2015	37.5	141.3	13
2016	30.1	151.6	8
2017	21.5	148.3	10
2018	35.7	176.0	12
2019	22.7	157.3	11

Mid Atlantic

Year	P/EPS	P/TBV	Deals
2015	23.1	141.2	30
2016	21.6	132.7	15
2017	28.7	130.0	26
2018	22.8	163.9	19
2019	17.1	166.3	29

Southwest

Year	P/EPS	P/TBV	Deals
2015	22.1	151.8	39
2016	21.0	159.7	25
2017	18.7	193.0	41
2018	20.8	189.1	38
2019	15.9	165.7	41

Southeast

Year	P/EPS	P/TBV	Deals
2015	21.5	140.9	58
2016	20.3	130.6	56
2017	22.9	162.6	71
2018	25.3	180.6	52
2019	17.2	162.4	56

Source: S&P Global Market Intelligence. May contain normalized information.
Includes announced bank and thrift acquisitions from 1/1/2015-12/31/2019. Does not include terminated transactions.

M&A Activity By Deal Volume | 2015-2019

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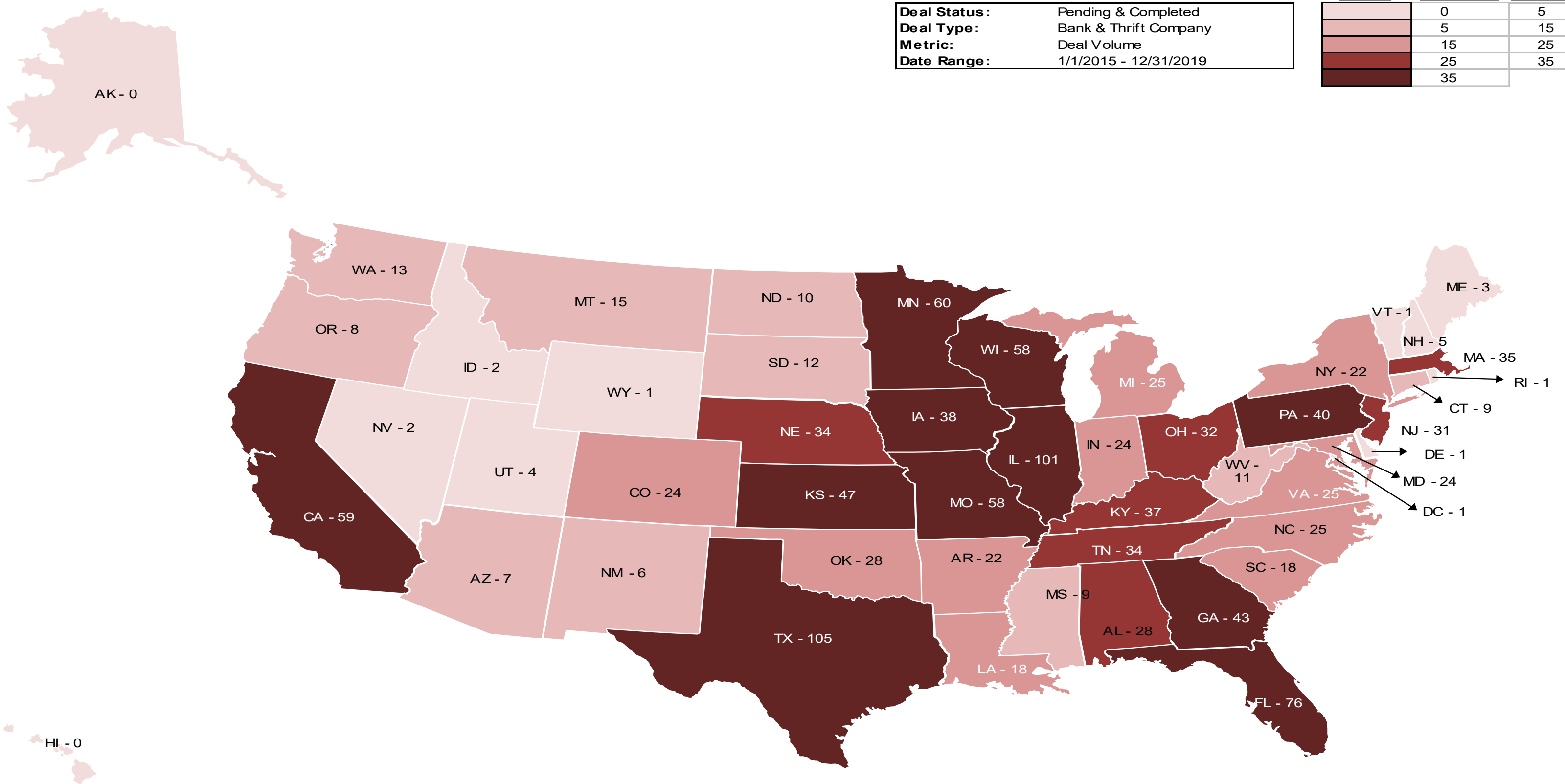
Data as of January 3, 2020.

Deal Status:	Pending & Completed
Deal Type:	Bank & Thrift Company
Metric:	Deal Volume
Date Range:	1/1/2015 - 12/31/2019

Shades	Lower Limit	Upper Limit
	0	5
	5	15
	15	25
	25	35
	35	



Source: S&P Global Market Intelligence. May contain normalized information.
Includes announced bank and thrift acquisitions from 1/1/2015-12/31/2019 Does not include terminated transactions.

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II. Why Acquire?

Why Do I Want To Be A Buyer?

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Reasons To Buy

- Not getting growth (particularly loan growth) in my own footprint;
- Access to core deposits (becoming increasingly valuable);
- Size and scale, improved earnings and leverage expense base over larger platform (efficiency ratio);
- New (better?) geographic markets;
- Consolidation in an existing market; eliminate a competitor;
- New product lines or cross sell existing product lines.

Reasons Not To Buy:

- Economic uncertainty and its impact on forecasted growth;
- Differences in pricing expectations;
- Buyer "currency" and valuation, and impact on deal metrics (EPS accretion, TBV dilution and earn back of that dilution);
- Regulatory road blocks to timely completion; regulatory approval issues;
- Impact on capital with no/limited access to capital
- Transaction and diligence rick

Not being a buyer is OK if you can achieve competitive growth in assets and earnings organically.

Understand your strengths and capabilities on a stand alone basis first –
Have a flexible plan!

Other Alternatives for Shareholder Improvement

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- Share repurchase
- Increase dividend
- Acquire (other than a bank)
  - Trust division
  - Mortgage operation
  - Wealth division
  - Branch purchase
  - Technology

The M&A Process Summary

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	Buy-Side	Sell-side
M&A strategy/Self Assessment (ongoing)	1. What/who do I want to buy? What types of institutions? 2. Identify/ engage partners—legal, investment banker, etc. 3. What can I afford? Can I issue cash or stock? 4. Regulatory status / BSA, AML / capital readiness, etc.	1. Performance analysis - am I creating shareholder value? 2. What am I worth? Who are my potential partners? 3. Regulatory back drop
Action Plan (2+ weeks)	1. Model potential targets, capacity to pay, competitors for each	1. Engage advisors 2. Initial modeling / presentations to Board 3. Preparation of deal materials and online data room
Initial bid process (2-3 weeks)	1. Early stage modeling, ability to pay and competitive analysis 2. Initial board presentations	1. Contact potential parties / provide initial information 2. Address any questions from potential parties 3. Initial indication of interest due 2-3 weeks later
Diligence and refresh of bids (2-3 weeks)	1. On site diligence and management interviews 2. Detailed loan review 3. Updated indication of interest at conclusion of diligence	1. Limited number move to next round 2. Facilitate diligence and management interviews
Preferred party and negotiation of merger agreement (2-3 weeks)	1. Preparation and negotiation of merger agreement 2. Disclosure schedules, employment agreements, other related docs 3. Press release	1. Board chooses one party to pursue transaction 2. Reverse diligence on buyer
Regulatory and shareholder approval (4-6 months)	1. Roughly 45-60 days to file regulatory applications 2. Potential buy side shareholder approval 3. Closing once all approvals in hand	1. Seller shareholder approval 2. Manage employee transition

Total process 3-4 months to execute, another 4-6 months for approval and closing

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III. Steps in the Deal Process

Step 1: Self-Assessment

<u>What are the bank's strengths and weaknesses in terms of pursuing an acquisition?</u>

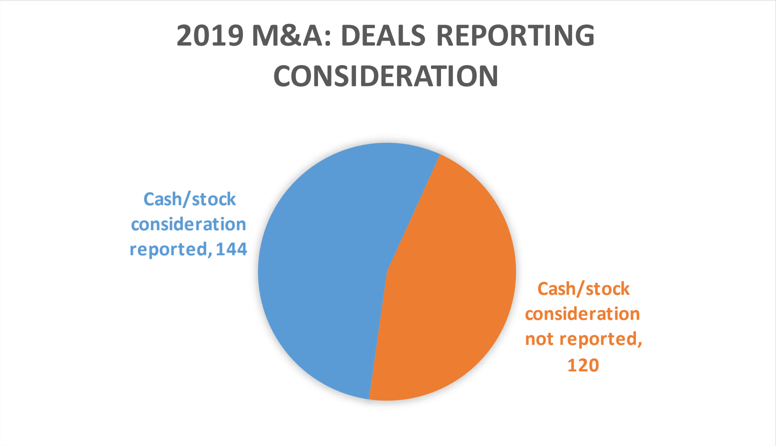
- Does the bank have the personnel to pursue an acquisition and do they have the bandwidth?
- Does the bank have the management team that can manage a larger franchise, or will it want to retain much of the target bank's team?
- Does the bank have excess capital to deploy, or access to additional capital? Is it an S-Corp?
- Does the bank have a liquid currency that will be attractive to a target?
- What does the bank want to accomplish with an acquisition?
- Leadership succession?
- Market expansion?
- Market penetration?
- Product line expansion or depth?
- Scale?
- Liquidity?

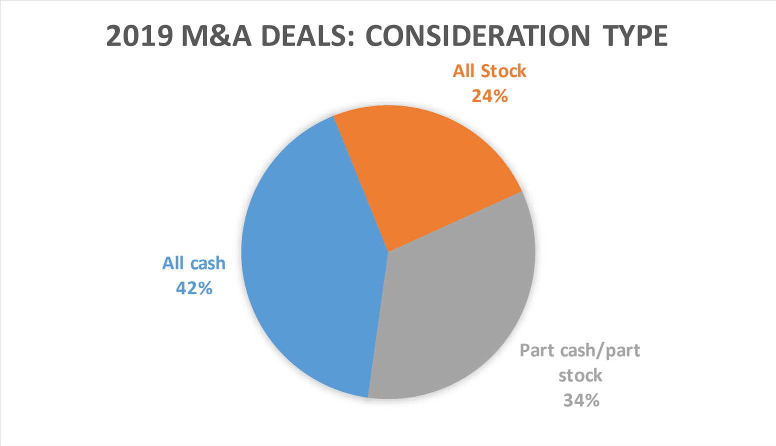
Step 1a: Be Prepared

Finding the right deal may require a combination of art, science, time, effort, persistence, tenacity, investment, or strategy. Or the perfect deal could fall out of the sky.

- Being known as a capable and/or interested buyer is the best way to see opportunities as they arise.
  - Banks involved in a sale process and their advisors often will not want to risk exposure by approaching unknown buyers.
  - Banks who would entertain a sale will approach capable banks first, and interested banks second. Unknown banks - not at all.

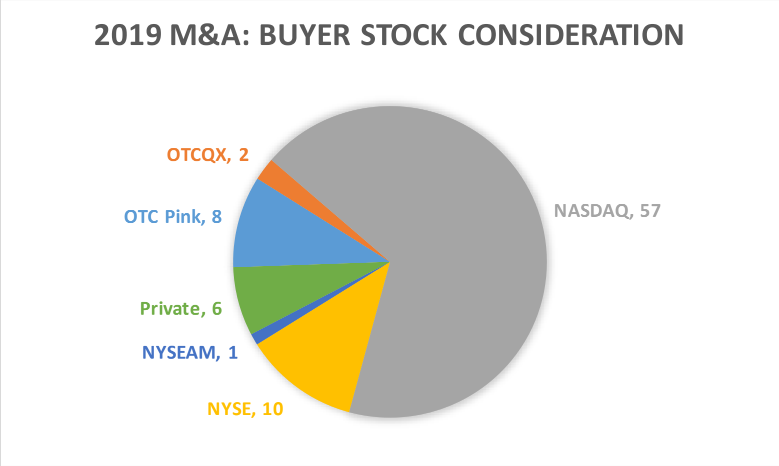
Buyer Consideration





- For transactions that report consideration mix, 58% included some amount of stock consideration.
- Of the 84 deals reported to include stock consideration, only 6 buyers did not have a ticker.

If an acquisition is in your future, consider taking steps to improve stock liquidity



Source: S&P Global Market Intelligence. Assumes transactions with credit union buyers are all cash.

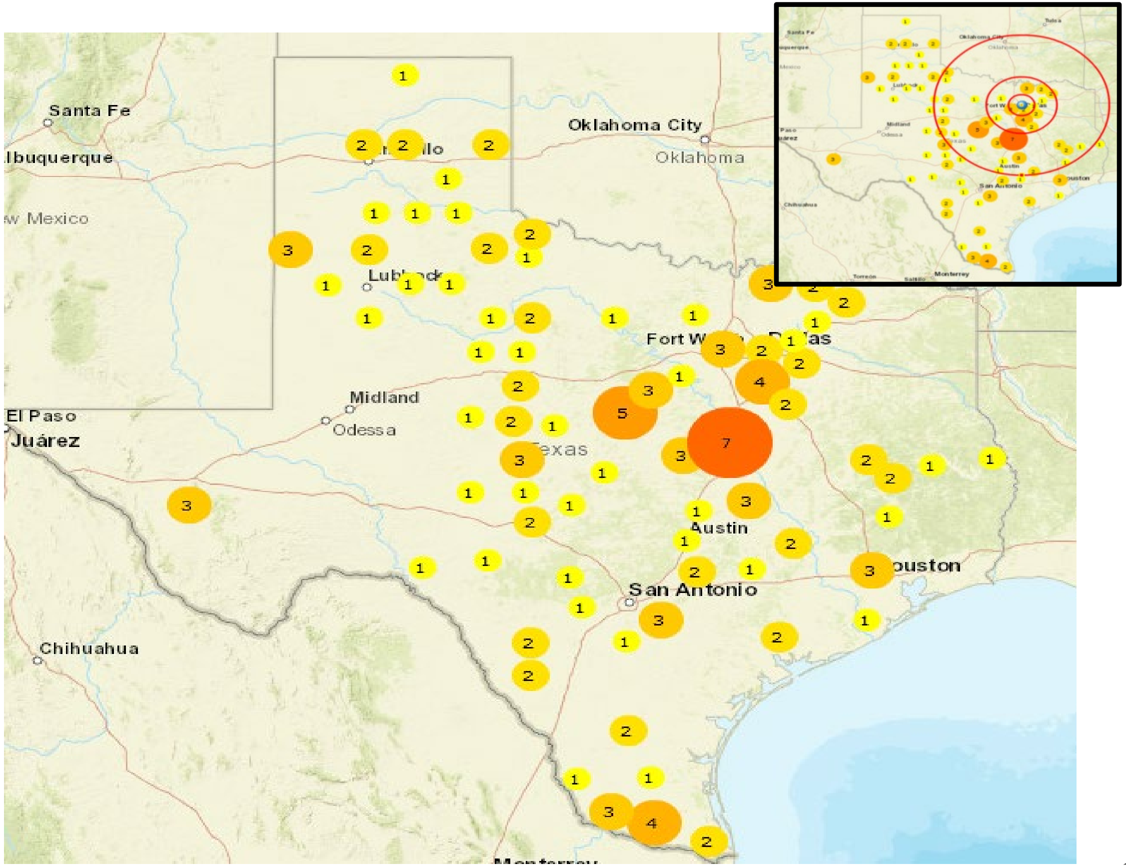
Step 2: Action Plan

- Discuss self-assessment with the board and obtain board input
- Consult bank regulators early in the process
- Identify roles
  - Typically led by the CEO or CFO
  - Consider forming an M&A committee comprised of members of the board and management
  - Identify a potential transaction team to execute due diligence
  - Consider when to engage an investment banker (financial advisor) and counsel
    - Helpful to have them from the beginning so they are well educated on your bank history, board, executives and strategy
  - The investment banker should be the familiar with the region (and will have valuable insight regarding potential targets)
- Identify potential targets
  - Based on size, geography, business model, opportunity, etc.
  - Get to know your competitors and their management teams – assess culture
  - Attend industry functions and talk to other banks and service providers
  - Attempt to identify potential targets that may be both actionable and desirable

Targeting Example:

There are nearly 90 stock banks in Texas with total equity less than \$15 million and total assets less than \$100 million. Of these:

- 5 have NPA/Assets greater than 2%
- Over 70 have year to date ROAA greater than 0.50%, over 40 are greater than 1%
- 14 have equity/assets less than 8%, 7 of which are less than 7%
- Almost half of the banks have a loans to deposits ratio of less than 50%
- 44 banks are within 200 miles, 17 are within 80 miles and 4 are within 30 miles



Step 3: Target Focus

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- 2 Tracks
  - Negotiated—Friendly
  - Auction or Bid Solicitation—Highest Bid Wins
- Target Review
  - Evaluate potential target(s)
    - Financial—does it makes sense?
    - Culture, receptiveness, synergies, vision, etc.
  - Whether additional capital or other resources will be necessary
  - Discuss internally and with advisors
  - Determine whether to pursue
- Negotiated Target
  - Term Sheet—preliminary and non-binding
  - Non-Disclosure Agreement
- Bid Solicitation Target
  - Non-Disclosure Agreement

Step 3: Target Focus (Continued)

- Begin In Depth Review
  - Exchange high level data (CIM—Confidential Information Memorandum)
  - Discuss specifics: operations, goals, strategy, challenges, opportunities, culture, markets, etc.
  - Begin to identify key personnel
  - Consult internally – chairman, board committee, etc.
  - Determine whether (or seek approval) to pursue

Step 3: Target Focus (Continued)

- Negotiate pricing and other terms
  - Pricing
  - Consideration
  - Post closing operations (operate as a division, bank name retention, headquarters, branch closures, etc.)
  - Legal structure of the merger
  - Retention of management and roles
  - Inclusion of target directors on bank and/or holding company boards or advisory board
  - Identification and retention of key employees
- Present Letter of Intent to Target

Step 4: Due Diligence

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- Prepare for Due Diligence—Form an acquisition team
- Information Flow Through Virtual Data Room
  - Some key matters to review:
    - EVERYTHING
    - Loan Review—large loans, random all others, onsite
    - Lending polices and procedures, authorities, large relationships, credit in general, etc.
    - Participations in and out
    - Executive compensation arrangements and employee contracts
    - Data processing, ATM and other contracts
      - Vendors common between buyer and seller can create efficiencies
    - Investments, valuation, unrealized gains/losses, illiquid instruments
    - Debt agreements
    - Deposit composition, insider deposits, CD maturity schedule
    - Other fee income transactions, SBA, mortgage banking, wealth management operations, trust, etc.
    - Regulatory issues
    - Environmental issues, OREO
    - Fixed asset valuations, attractiveness, egress, leases
    - Market concentrations for HHI analysis
    - Board and committee minutes

Systems Can Make or Break Your M&A Strategy

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- One of the unsung heroes of any successful acquirer is the systems conversion team
  - Cross-walk of the G/L and 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 "gremlin" – M&A can magnify their impact

Step 4: Due Diligence (Continued)

- Consider engaging specialists
  - Loan review
  - Valuation firm for purchase accounting and CDI
  - Compensation and benefits
  - BOLI
  - Tax
  - BSA/AML
  - Accounting
  - Regulatory
  - Legal

Step 4: Due Diligence (Continued)

- Prepare for Reverse Due Diligence
- Visit with regulators (frequent communication)
  - Identify potential regulatory pitfalls and prepare
  - Transaction overview that addresses and mitigates potential regulatory concerns
  - Use meetings to identify any unknown issues
- Ensure pro forma capital is sufficient
- Ensure combined personnel has the appropriate skillset
- Assess regulator expectations and regulatory approval risk

Step 4: Due Diligence (Continued)

- Re visit pricing and form of consideration
  - Update or confirm all previously discussed terms
  - Discuss detailed terms, like employee severance, stay bonuses, new employment contract terms, valuation of stock consideration, name change or retention, break up fee, payment of accrued bonuses, dividends, disposition of executory period earnings, etc.
  - Seek exclusivity through expected execution date if not already in place

Step 5: Finalize Agreement

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- Draft Definitive and Related Agreements
  - Price
  - Form of consideration
  - Reps and Warranties (survival)
  - Indemnification
  - Operating covenants
  - Pricing adjustments, if any
  - Fiduciary out provisions
  - Confidential Schedules
  - Employment Agreements
  - Voting & Support Agreements
  - Bank Merger Agreement
  - Non Compete Agreements
  - Stay Bonus Arrangements

Step 5: Finalize Agreement (Continued)

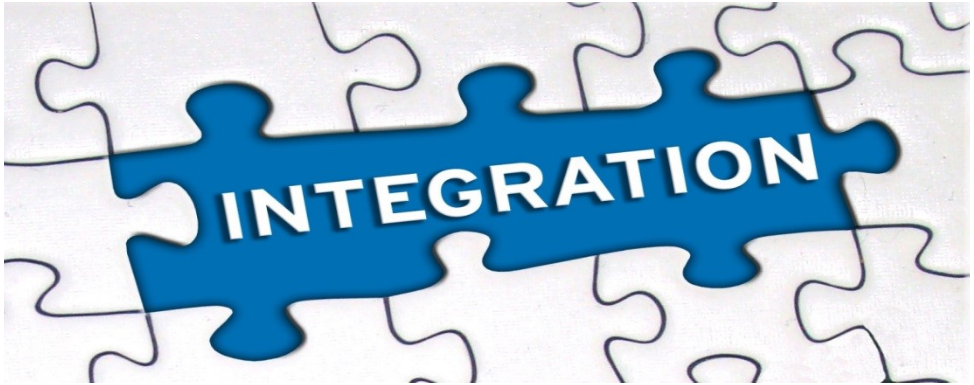
- Executing the Agreement
  - Special board meetings
    - Generally held by buyer and target on the same day or as close as practicable
    - Transaction and agreement are reviewed by investment bankers and attorneys
    - Fairness opinions?
    - Vote and related resolutions to approve the transaction and permit CEO to execute the agreement
  - Announce transaction
    - Consider need for investor presentation and conference call
  - Hold employee meetings immediately
  - Shareholder outreach
    - Develop shareholder Q&A for management and directors. Refer all questions to management for a consistent response
  - Inform external accountants if not done in due diligence

Step 6: File

- Once definitive agreement is signed, prepare and file regulatory application to obtain approval of the deal.
  - If issuing stock, SEC registration may be required.
  - Continued shareholder outreach, and potentially proxy solicitation
  - Continued employee communication
  - Get on DP conversion schedule
  - Know exactly when contracts come up for renewal
  - Formulate more specific integration plans
- Continue discussions with employees to maximize desired retention

Step 7: Close and Begin Integration

- Assign transition team
  - Focus on getting employees integrated and on the team
  - Focus on getting employees integrated and on the team
  - Focus on getting employees integrated and on the team
  - Focus on customer retention
  - Don’t let contract renewal periods slip by
- Adjust the plan as necessary and execute



IV. Legal and Regulatory Considerations

Social Issues

- Board of Directors
  - Participation on bank and/or BHC boards, Advisory Board, etc.
  - Indemnification and insurance
- Senior Management
  - Retention, role, employment and change-in-control agreements
  - IRC Section 280G
  - IRC Section 409A
  - "Rabbi" trusts
- Employee Severance: typically 2-4 weeks of severance per year served with a 6-12 month maximum.
- Retention bonus agreements
- Bonus Plans
  - Accrued bonuses and acceleration issues
  - Performance targets
- Equity Grants
  - Cash-out vs. rollover

Benefit Plans

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- ESOP
  - Loan outstanding?
  - Termination issues?
  - Determination letter
- 401K Plan and Retirement Plan
  - Merge or terminate
  - Determination letter
  - Crediting for service
- Welfare Benefits
  - Waiving pre-conditions
  - Crediting for service
  - No diminishment vs. best-of

Regulatory Diligence Preparation

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- Must consider the regulatory risk profile of a target institution and whether the target's operations and compliance systems can effectively integrate with the buyer's systems
- The seller's board needs to be aware of existing or potential regulatory issues facing the acquiring institution
- Before approving a transaction, management should conduct adequate due diligence on the buyer that focuses on a number of key regulatory areas including:
  - supervisory history of the buyer and status of any corrective actions that remain outstanding;
  - record of compliance and adequacy of programs, policies and procedures, including "hot button" issues such as BSA/AML laws and fair lending;
  - capital levels and stress test results;
  - potential asset quality issues;
  - Community Reinvestment Act record and history of consumer activism; and
  - for larger institutions, the absence of systemic risk resulting from the proposed transaction.
- Parties cannot assume that a strong buyer can mitigate regulatory concerns about the seller

Regulatory Diligence Preparation

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- Enterprise Risk Management
  - Assess ability to establish uniform strategic objectives, risk appetite and culture, and ERM framework post-merger
  - Assess ability of target to identify and mitigate risk
  - Assess ability of buyer to timely integrate sources of risk
  - Strength and depth of ERM team is critical
- Stress Testing Requirement
  - Requirements change depending on the size and type of the institution
  - $10 billion threshold; $50 billion for BHCs
  - Sufficient personnel dedicated to stress testing
  - Procedure for creating, administering and reporting test
    - Test must be tailored to unique aspects of the institution
    - Identify and test key vulnerabilities

Regulatory Diligence Preparation

- Issues Related to Organizational Structure
  - Capital Adequacy Requirements
    - Based on risk
    - Effect M&A will have on ratios
- Privacy and Security Protections of the Target Institution
  - Identifying and mitigating system vulnerabilities
  - Implications of privacy protections of states in which institution had not previously operated
  - Ability to monitor systems, control access and respond to breaches
- Issues Presented by Activities of Affiliates to be Acquired
- Prominence of Insider Transactions
- Issues Related to Consumer Financial Products
  - Overdraft policies of the target institution
    - Limitations and restrictions on overdrafts
    - Transaction posting process
  - Other products that recently have been subject to enforcement actions

Regulatory Diligence Preparation

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- Issues Related to Residential Mortgages and Lending
  - FCRA, Regulation E and Regulation Z
    - Proper disclosure statements and procedures to trigger disclosure
  - Community Reinvestment Act
    - Target institution’s rating
    - New “community” as a result of M&A transaction
  - Fair lending requirements
    - Risk of disparate impact (discriminatory effect) due to changes to composition of institution’s customer base
    - Loan terms, credit availability, application procedures, lending standards
  - “Qualified mortgages” and “ability to repay” assessments
    - Determining what specific underwriting criteria to use
    - What types of mortgages and features will be offered
  - Mortgage servicing, loss mitigation and foreclosure procedures
    - RESPA

Regulatory Diligence Preparation

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- Issues Related to BSA/AML
  - Compliance requirements tied to combined institution's size and complexity
  - Robust transaction monitoring system
  - Adequate policies, procedures and experience
    - BSA Officer's position in the organization relative to the board of directors and senior leadership
  - Legacy compliance issues
    - Identified and unidentified by target institution's regulator

Shareholder Activism

- Know your investors
- Investor Relations
  - Stock watch – track institutional investment
  - Understand tendencies of your institutional shareholders
  - Proactive discussions with institutional/larger shareholders
- Corporate Governance
  - Bylaw review of director nomination process
  - Periodic Board preparation/review of defense strategies with counsel

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Final Thoughts

The Ten Commandments of M & A

Run Thy Bank

Thou Shall Do Deals to Get Better, Not Bigger

Know Thy Self

Thou Shall Employ Best Practices

Listen to Thy Brain, Not Thy Heart

The Ten Commandments of M & A

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Thou Shall Avoid Analysis Paralysis

Don't Delegate to the Team What Leaders Should Do

Thou Shall Listen to Thy Team

Thou Shall Not be Penny-wise and Pound Foolish

Trust Thy Advisors

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Exhibit—Deal Pricing Example

Deal Pricing – Pro Forma Results

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<u>The Relationship between EPS, TBV dilution, and consideration mix</u>

- **Deals that will result in <u>more</u> initial TBV dilution**:
  - 100% cash deals
    - But, they will produce immediate EPS accretion (assuming the Target has positive earnings!)
  - 100% stock deals where the per share value of the Buyer's currency is less than the adjusted TBV of the price for the Target

- **Deals that will result in <u>less</u> initial TBV accretion**:
  - 100% stock deals where the per share value of the Buyer's stock is in excess of the adjusted TBV of the price for the Target

- **With mixed consideration…it depends**; but most deals result in some level of TBV dilution, especially in the post-2000 accounting environment, where fair value adjustments erode TBV

Drivers of TBV and EPS Change

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- Many factors work together (and against each other) to influence TBV and EPS
- Cash transactions are more straightforward – cash paid to shareholders reduces TBV. Any cash paid in excess of TBV acquired will cause dilution
- With Stock as consideration, the valuation of the buyer stock impacts how many shares get issued. If it is valued at a higher TBV multiple than the purchase price, the transaction may be TBV *accretive*

	100% Cash Consideration		100% Stock Consideration	
	TBV	EPS	TBV	EPS
As purchase price premium increases	More dilutive	No impact	More Dilutive	More dilutive
As size of target increases relative to buyer (and purchase price relative to buyer equity)	More dilutive	No impact	It Depends	It Depends
As buyer stock price increases	No impact	No impact	Less dilutive	Less dilutive
As deal costs increase	More dilutive	No impact	More dilutive	No impact
As cost savings increase	No impact	Less dilutive	No impact	Less dilutive

- Target earnings and cost savings will impact future EPS

Some Benchmarks to Consider

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TBV Dilution	< 5%	5-10%	> 10%
EPS Accretion	> 2%	0-2%	< 0%
Cost Savings *(% of Target's Non-Interest Expense)*	< 25%	25-40%	> 40%
Merger Costs *(Multiple of Estimated Cost Savings)*	< 1x	1.0-1.5x	> 1.5x
IRR	> 15%	10-15%	< 10%

Every deal, every bank, and every investor are different – the above ranges do not apply in all situations

The Recession Caused Investors to Flee to Safety of the Balance Sheet

- Bank valuations, and bank mergers, were historically based on earnings
- The Great Recession casted doubt on the predictability of those earnings, and investors turned to the balance sheet for safety – equity investors began to think like bondholders
- Because of this, P / TBV became the driving metric for bank valuations and bank merger pricing
- While larger, liquid banks are once again trading largely on a P/E basis, smaller, less liquid names are still valued on a P/ TBV basis

Deal Pricing (cont.)

- Price to TBV – what is it? – a simple illustration

Cash + Investments	$	75	Deposits	$	400
Loans		385	Borrowings		40
Allowance		(5)	Other Liabilities		10
Intangibles		10	Total Liabilities		450
Other Assets		35	Equity		50
	$	500		$	500

- Shares outstanding: 2,500,000
- 2014 earnings: 60 bp ROA, or $3.0 million
- 2015 earnings (est.): $3.5 million

Dollars in millions, other than per share amounts

Deal Pricing (cont.)

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- TBV:

Cash + Investments	$ 75		Deposits	$ 400
Loans	385		Borrowings	40
Allowance	(5)		Other Liabilities	10
Intangibles	10		Total Liabilities	450
Other Assets	35		Equity	50
	$ 500			$ 500

- What is the Target Bank's current TBV and TBV/share?
- Sh

	$	Per Share		
Equity	50	$20.00	←	Book Value Per Share
Less: Intangibles	(10)			
Equals: Current TBV	40	$16.00	←	Tangible Book Value Per Share

Dollars in millions, other than per share amounts

Deal Pricing (cont.)

- Now assume a buyer offers $26.00 per share…what does this number equate to?

Cash + Investments	$	75	Deposits	$	400
Loans		385	Borrowings		40
Allowance		(5)	Other Liabilities		10
Intangibles		10	Total Liabilities		450
Other Assets		35	Equity		50
	$	500		$	500

- Shares outstanding: 2,500,000
- 2014 earnings: 60 bp ROA, or $3.0 million
- 2015 earnings (est.): $3.5 million
- A $26.00 offer equals:
  - $65 million deal ($26.00 * 2.5 million shares)
  - 130% of "Book" ($26.00 / $20.00)
  - 163% of "Tangible Book" ($26.00 / $16.00)
  - 21.7 times ("LTM") earnings ($3M / 2.5M shares) = $1.20 EPS

    $26.00 / $1.20 = **21.7x**
  - 18.6 times 2015, or "forward" earnings ($3.5M / 2.5M shares) = $1.40 EPS,

    $26.00 / $1.40 = **18.6x**

Dollars in millions, other than per share amounts

Deal Pricing (cont.)

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"Adjusted TBV" – the REAL price to a Buyer

Balance Sheet			Fair Value Adjustments	Adjusted Balance Sheet		
Cash + Investments	$	75		Cash + Investments	$	75
Loans		385	(10)	Loans		375
Allowance		(5)	5	Allowance		-
Intangibles		10	22	Intangibles		32
Other Assets		35	4	Other Assets		39
	$	500	21		$	521
Deposits		400	4	Deposits		404
Borrowings		40	2	Borrowings		42
Other Liabilities		10		Other Liabilities		10
Equity		50	15	Equity		65
	$	500	21		$	521
Tangible Book Value		**40**	**(7)**			**33**
TBV Per Share	**$**	**16.00**	**$ (2.80)**		**$**	**13.20**

- Buyer must "mark-to-market," or "fair value adjust" Target's Balance Sheet
- Net impact of balance sheet adjustments – reduces Target's TBV from $40 million to ~$33 million, or $13.20 per share
- Pricing to Adjusted TBV is as follows:
  - $26.00 / $13.20 = 197% vs. 163% of stated TBV

Deal Pricing (cont.)

STINSON GRIFFIN FINANCIAL GROUP LLC

Another Way to Look at Adjusted TBV

- In addition to balance sheet fair value adjustments, restructuring ("merger" or "one time") charges can also impact a deal

- Examples of restructuring charges include:
  - Executive employment agreements
  - Severance
  - Contract terminations
  - Branch closures
  - Systems conversions

Deal Pricing (cont.)

STINSON GRIFFIN FINANCIAL GROUP LLC

Merger Charges and Adjusted TBV

- While adjusted TBV is generally not reported or disclosed, its impact on the Buyer is real, especially when calculating the TBV dilution and earn-back (more on those terms later)
- Restructuring charges such as data processing contract termination and severance also serve to dilute TBV

TBV after fair value adjustments:	$33 million
Assumed restrucuring charges:	($3 million) after tax
Adjusted TBV, net of restructuring charges:	$30 million
Purchase price:	$65 million
Price/Adjusted "Final" TBV:	**217%**

Pro Forma Results

STINSON GRIFFIN FINANCIAL GROUP LLC

EPS Accretion / Dilution – Where It All Comes Together

- Buyer's shares outstanding: 10,000,000
- Buyer's market price - $24.00
- Buyer's market cap – 10,000,000 multiplied by $24.00 = $240 million
- Buyer P/ TBV – 160%
- 2015 estimated earnings: $16 million
- Buyer's stand-alone 2015 EPS: $16.0 million / 10.0 million shares O/S = $1.60 EPS
- Shares issued to target ($65 million deal / $24.00 stock) = 2,708,333 new shares
- Pro forma shares outstanding: 12,708,333
- Pro forma earnings:
  - Stand-alone earnings: $16.0 million
  - Target earnings: $ 3.5 million
  - Cost savings, net: $ 1.6 million ($12 million of Target NIE x 20% savings, after tax)
  - Total earnings: $21.1 million
- Pro forma EPS: $21.1 million / 12.708 million shares O/S = $1.66
- EPS Accretion / Dilution: **$.06 accretive, or 3.75% accretive**

Pro Forma Results (cont.)

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Tangible Book Value Dilution – Where it All Comes Together

	Buyer	Target	Purchase Accounting Adjustments	Pro Forma
Cash + Investments	$ 225	75	-	$ 300
Loans	1,155	385	(10)	1,530
Allowance	(15)	(5)	5	(15)
Intangibles	-	10	22	32
Other Assets	135	35	4	174
	$ 1,500	$ 500	$ 21	$ 2,021
Deposits	1,200	400	4	1,604
Borrowings	120	40	2	162
Other Liabilities	30	10		40
Equity	150	50	15	215
	$ 1,500	$ 500	$ 21	$ 2,021
Shares	10,000,000	2,500,000	208,333	12,708,333
Tangible Book Value	**150**	**40**	**(7)**	**183**
TBV Per Share	**$ 15.00**	**$ 16.00**		**$ 14.40**

- Assumes an all stock acquisition by an institution 3x the size of our target bank
- Assumes the buyer's stock trades at 160% of TBV, or $24.00 per share
- Buyer TBV is diluted $7 by fair value adjustments and issues 2,708,333 new shares, resulting in TBV per share dilution of 4%
- Using cash as consideration will result in dollar for dollar additional TBV dilution, offset by a reduction in required new shares
- A stronger or weaker buyer share price will also alter the number of new shares required and per share dilution

Speaker Biographies

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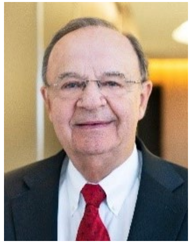
John Gosser is a Director in Griffin's Financial Institutions Group. Resident in our Dallas/Fort Worth office, he brings his more than 30 years of community banking experience to bear in assisting clients to capitalize on their strategic growth objectives.

A proven financial executive, John has advised boards, ALCO and executive teams for hundreds of community banks resulting in improved balance sheets and increased earnings. Prior to joining Griffin, John served as Senior Vice President of Capital Markets and SBA Sales for TIB-The Independent Bankers Bank, where he advised bank presidents, CFOs, ALCOs and bank boards on fixed income securities, interest rate risk and hedging and mergers and acquisitions, as well as strategies to generate income and reduce risk. He also served as a Managing Director and Director of Sales for Shay Financial Services where he worked with numerous banks on strategies to leverage capital and improve their balance sheets and net interest margins, and as a Vice President of Federal Home Loan Bank of Dallas and One National Bank, where he began banking.

He is a frequent speaker and trainer who has worked with bank boards, banking associations, banking schools and state and federal regulators, including the OCC, Federal Reserve and FDIC.

John received a B.A. in Economics and a B.A. in Business from Ouachita Baptist University and graduated from the Southwestern Graduate School of Banking at Southern Methodist University, Cox School of Business. He is a member of the Financial Managers Association, Independent Bankers Association of Texas, Texas Bankers Association, Louisiana Bankers Association and is a community bank advocate at both state and national levels.



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Peers describe Bob as "very talented - the number-one guy in Kansas City," and say: "There is nobody better on banking in this region, from Chicago to Dallas," according to *Chambers USA*.

As legal counsel to well over 150 financial institutions, Bob uses his financial acumen and regulatory and compliance knowledge to guide strategic acquisitions, structure complex finance plans and advise on regulatory and liability issues.

Attuned to the goals and concerns of financial institutions, Bob brings significant experience to bear in bank and bank holding company acquisitions, bank formations, branch acquisitions, capital raising and recapitalizations. Clients turn to Bob to handle their most complex reorganizations, address their succession planning needs and advise on director and officer liability issues. In this highly regulated industry, Bob represents buyers of failed banks, negotiates regulatory orders and navigates bank examination and interstate banking issues.

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