Acquire or Be Acquired Conference

What Bank Boards and CEOs Need to Know in 2010

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John E. Freechack
(312) 984-3223
john.freechack@bfkn.com

Allen G. Laufenberg
(312) 269-0381
aglaufenberg@stifel.com

BARACK FERRAZZANO
Financial Institutions Group

STIFEL NICOLAUS
INVESTMENT BANKING

INTRODUCTION

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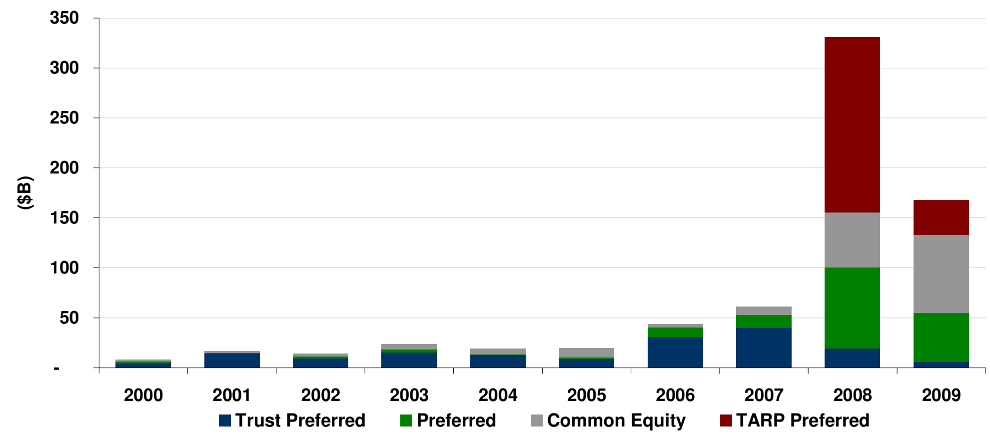
1 Market Overview

Equity Market Overview

- The economic crisis continues to create an environment where there are perceived winners within the bank sector
- Investors recognize that the economic environment creates a "once in a generation opportunity"
- Investors want to invest in banks that exhibit the following characteristics:
  - Solid asset quality
  - Positive core GAAP earnings
  - Core deposit funding
  - Path to exit the investment over a defined time period

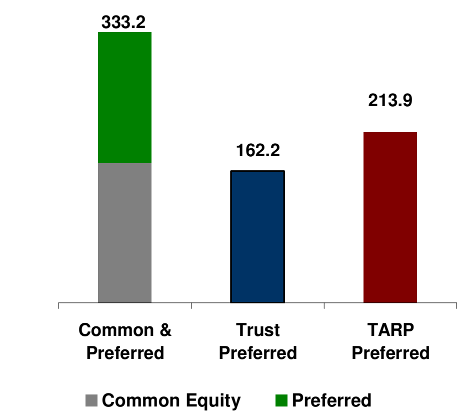
Capital Raising Activity

Total Capital Raised by Banks & Thrifts

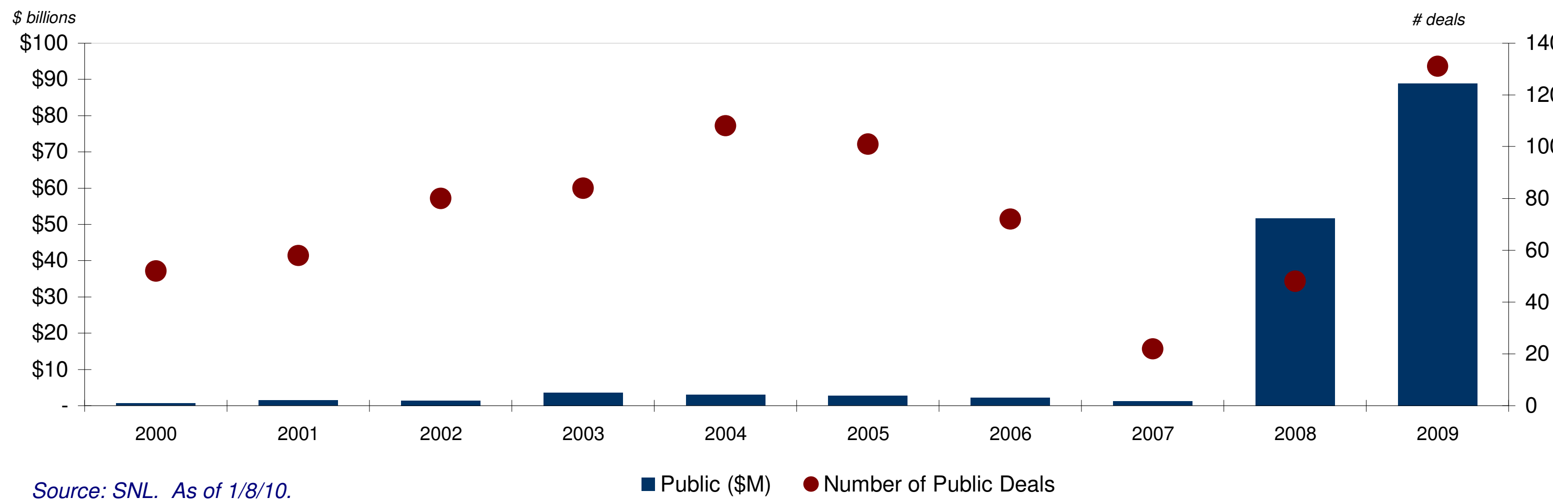


Cumulative Capital Raised

2000 - Present



Public Bank & Thrift Common Offerings



Source: SNL. As of 1/8/10.

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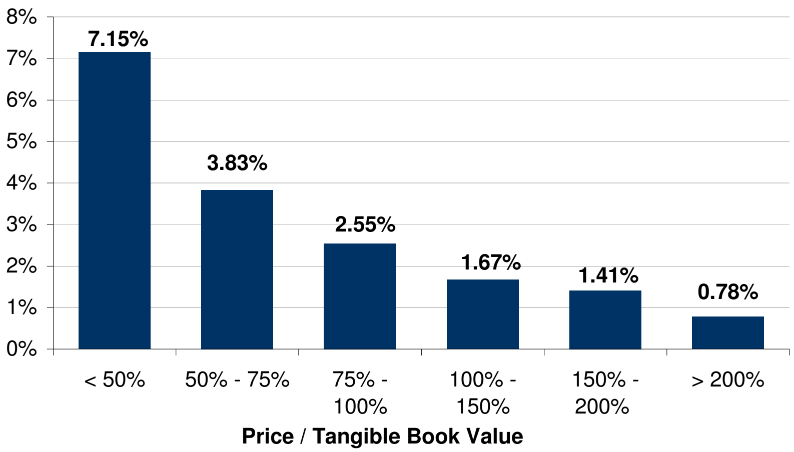
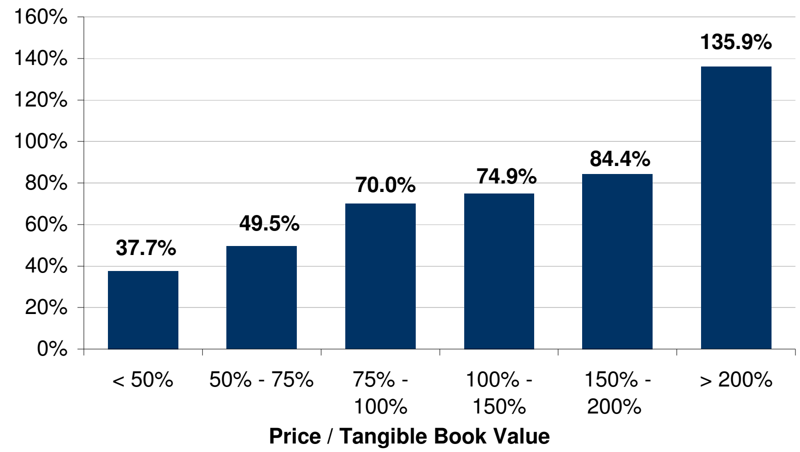
Valuation Focus on the Balance Sheet

Investors have turned toward price to tangible book value as the primary valuation metric with a focus on balance sheet strength.

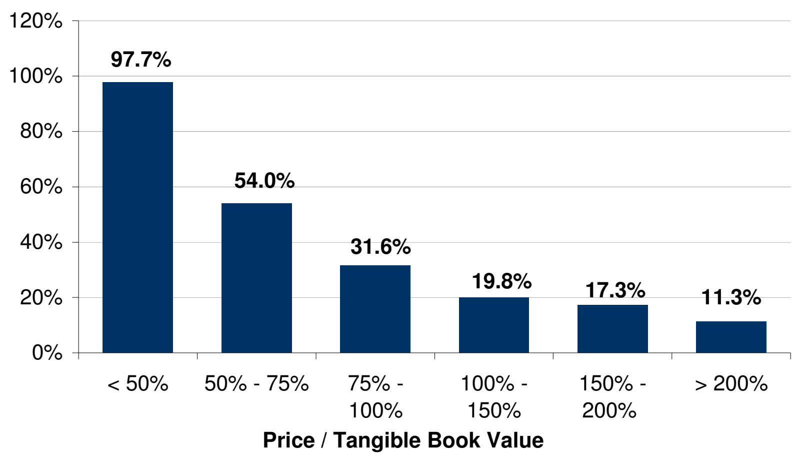
Median NPAs / Assets



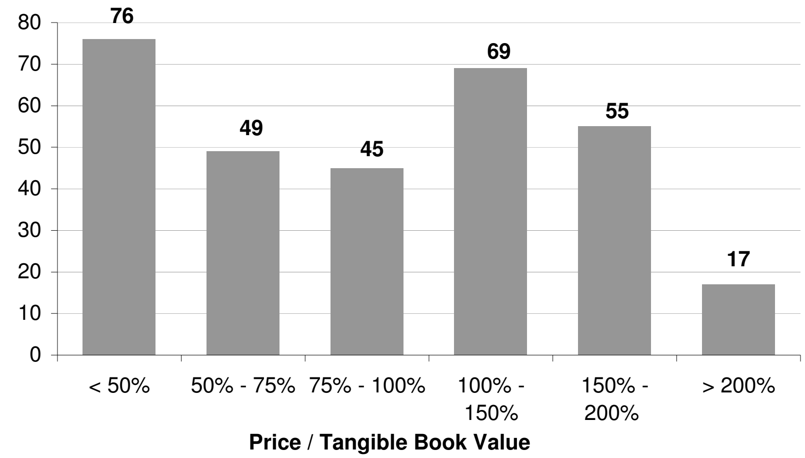
Median Reserves / NPLs



Median Texas Ratio*



Number of Companies



Source: SNL as of 1/8/10. Includes institutions with assets greater than $1 billion.
**Defined as NPAs + 90PD / tangible common equity + reserves.*

What Bank Boards and CEOs Need to Know in 2010

2 Changing Strategies in a Changing Regulatory Climate

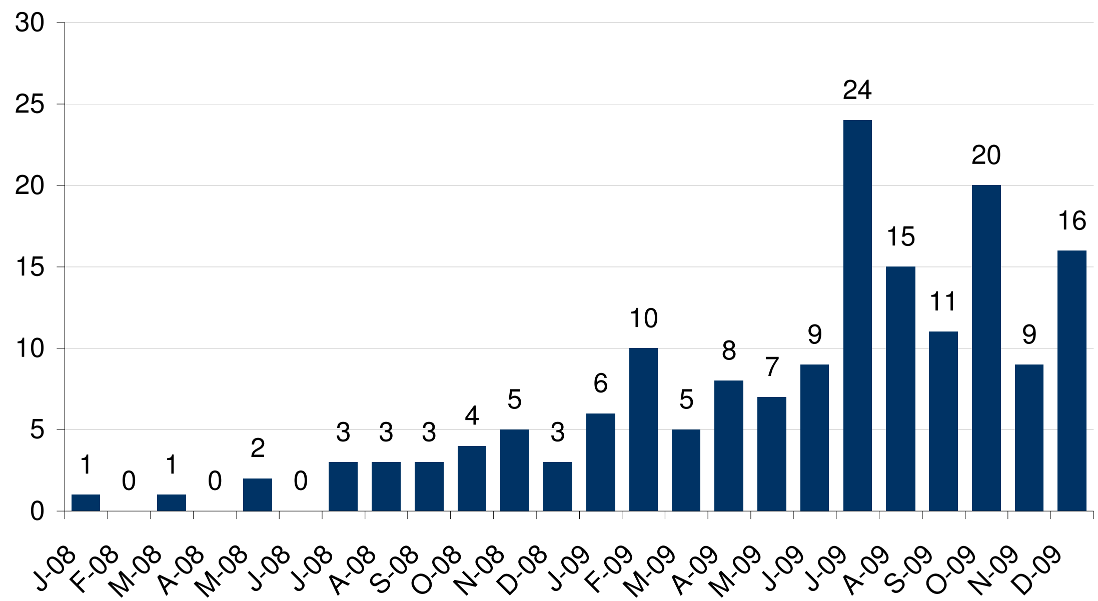
Regulatory Lessons From 2009

- Last year, we outlined some basic strategies for dealing with regulatory enforcement actions
- We have witnessed a continuation of harsher and more frequent regulatory enforcement actions and overall tougher supervision
- Added to that is the onslaught of weekly bank closures, with more expected to occur in 2010
    - Regulators have been stung with criticism of their prior judgments when a bank fails. That may affect regulators' willingness to "stick their necks out"

Failed Bank Class of 2008 - 2009

- The number of bank failures increased dramatically during 2009 with at least 5 banks closing each month
- While Georgia, California, and Illinois have had the most bank closings since 2008, failures have not been contained to a certain region

Monthly Bank Failures



Source: SNL and FDIC.

Failures Since 2008	
Georgia	30
California	22
Illinois	22
Florida	16
Minnesota	7
Texas	7
Nevada	6
Arizona	5
Michigan	5
Missouri	5
Kansas	4
Alabama	3
Colorado	3
Oregon	3
Washington	3
Maryland	2
New Jersey	2
North Carolina	2
Ohio	2
Utah	2
Arkansas	1
Idaho	1
Indiana	1
Iowa	1
Kentucky	1
Nebraska	1
New York	1
Oklahoma	1
Pennsylvania	1
South Dakota	1
Vermont	1
West Virginia	1
Wisconsin	1
Wyoming	1
TOTAL	165

Other Issues Affecting Supervisory Relations

- Recently increased examination staffs may be more rigid and less likely to "negotiate"
    - Inexperience
    - Unfamiliarity with your institution and management
    - Directives
    - Time pressure
- Time for remedial action has compressed
- Promises to act are now less likely to buy time or concessions
- Capital (in the bank or in escrow) is your most persuasive argument

Recent Regulatory Changes and Expectations for 2010

- Positive: The FDIC's adoption of consent orders late last year was a positive change
- Negative: Many predictions that the FDIC will pursue directors and management of closed banks

Examination Focus/Asset Quality

- The classified assets ratio (classified assets over Tier 1 plus ALLL) is a key indicator of your bank's health
- Don't let examiners inform you about the risk in your portfolio. Give them comfort about your loan grading methodology
- Ensure that you have updated appraisals and financial information about your borrowers
- Commercial real estate concentrations are an ongoing concern for the regulators
- Consider aligning lender compensation to risk identification rather than origination volume
- Monitor your investment portfolio for risk, like your loan portfolio

Examination Focus/Liquidity

- There is more examiner emphasis on having a robust liquidity contingency plan
- Be aware of and plan for restrictions on brokered deposits and interest rates if you fall below well-capitalized

Examination Focus/Capital and the Directive to Raise Additional Capital

- While the regulations have not changed, new minimum capital levels are coming into focus
    - However, those levels tend to be situational
- Have a detailed and well thought out capital plan
- There are many institutions attempting to raise capital under the gun
    - Capital raising strategies

Other Capital Raising Efforts

- We expect alternative capital raising efforts to continue throughout 2010. Examples include:
  - Branch Sales – First Banks, Inc.'s announcement in November 2009 to sell 24 branches in Illinois with approximately $1.2 billion in deposits and $1.15 billion in assets to FirstMerit Corporation
  - Divestitures – Bank of America's announcement in September 2009 to sell the long-term asset management business of Columbia Management to Ameriprise Financial for $1.2 billion
  - Loan / Security Sales – Integra Bank Corporation's sale of its commercial loan portfolio in September 2009 to Bank of Kentucky Financial Corporation for $68.0 million
  - Debt / Preferred Exchanges for Common Equity – Citizens Republic Bancorp's exchange of subordinated notes and trust preferred securities for $199 million of common equity in September 2009

As the Environment Changes, the Strategy for Dealing with the Regulatory Process Also Should be Adjusted

- Honestly assess your situation
- Determine what is in your control to "fix"
- Make an assessment regarding time - is your needle pointing up or down?

Think of the Process as a Negotiation and Consider "Continuing Advocacy"

- Used to be able to wait for receipt of exam report to respond
    - By then, decisions at higher levels concerning your proposed action may already be locked in
    - Those decisions could be based on incomplete, stale or erroneous information
    - Downgrades between exams based on offsite financial information are occurring
- An effective strategy is to think of the process as continuous and to view the exam wish list request as the beginning of a new cycle

Understand the Long and Short Term Purposes of Such a Strategy

- One effect is to constantly supplement and correct the record
- Give yourself the opportunity to frame your unique issues for the examiners, rather than having them use offsite ratio reviews to form their impressions
- Demonstrate to the regulators that you already understand your own situation and unique risks
- You may get the benefit of the doubt, obtain additional time or move the spotlight elsewhere
- Can also help to establish a more complete record if you are sued, sold or closed (so be careful)

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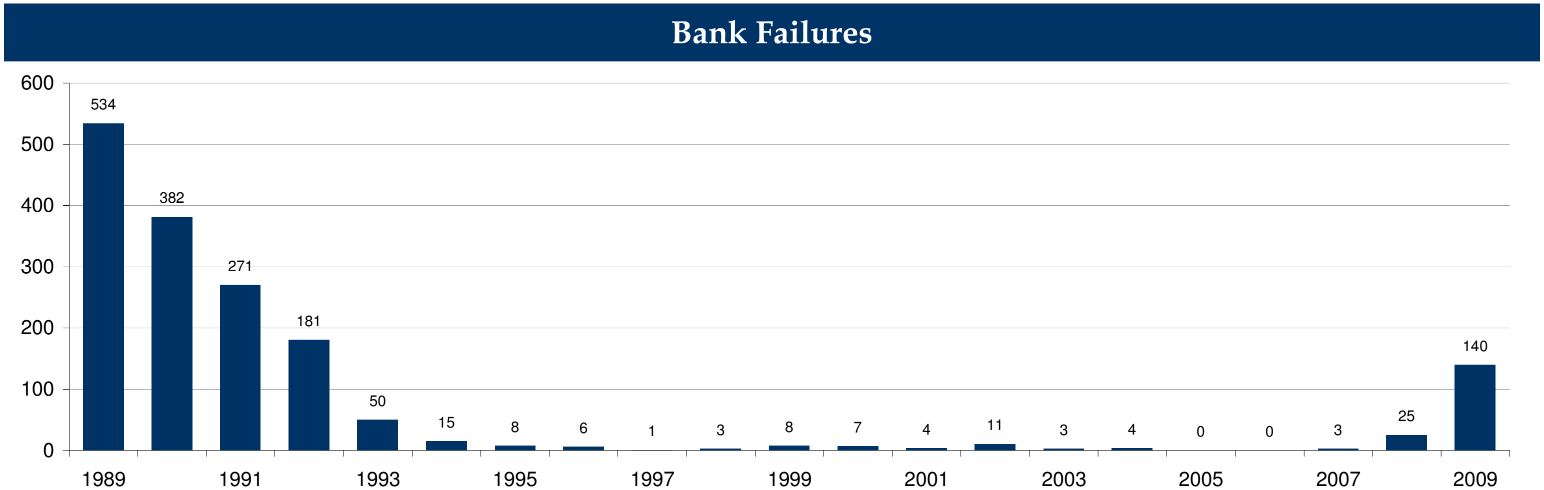
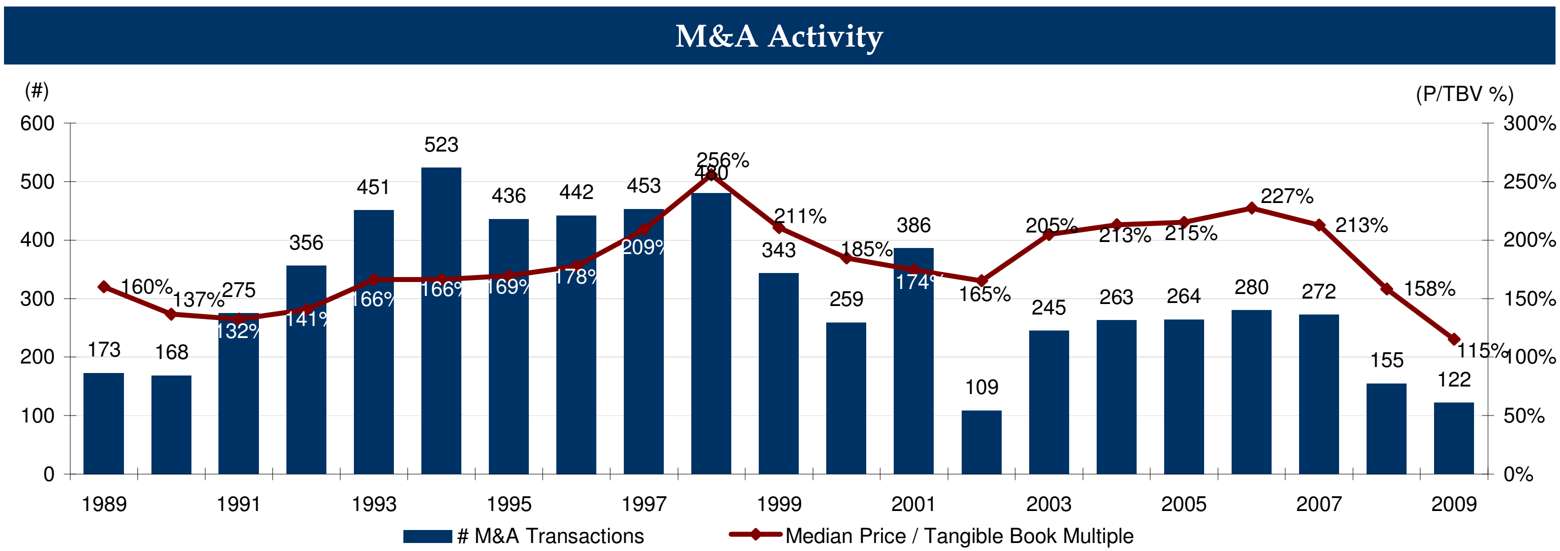
3 Bank Sector Remains a Consolidating Industry

Future Consolidation – History as a Guide

The S&L crisis led to massive numbers of bank failures in the late 80's and early 90s



These failures led to a rapid acceleration of consolidation activity in the early 90's.



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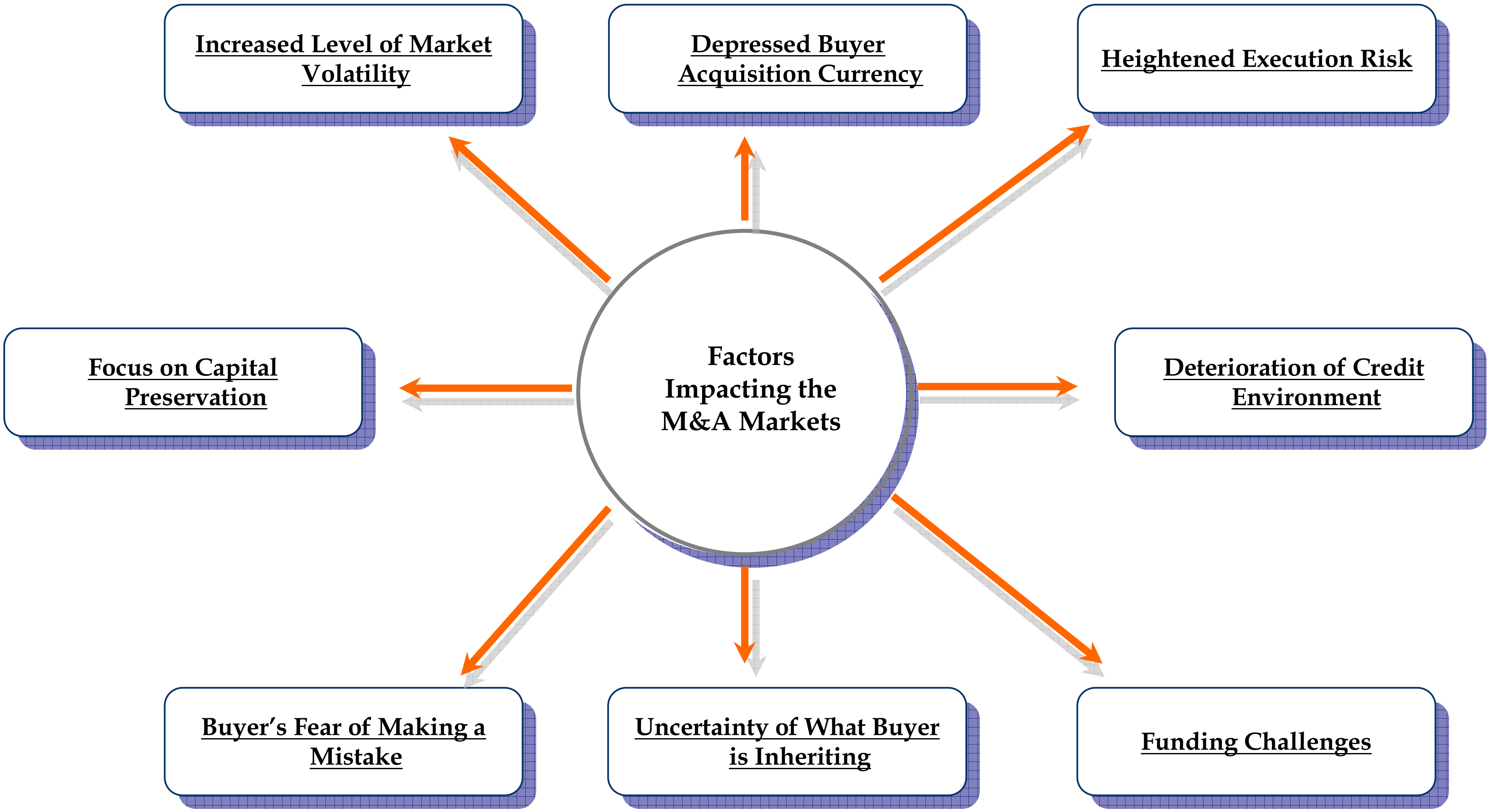
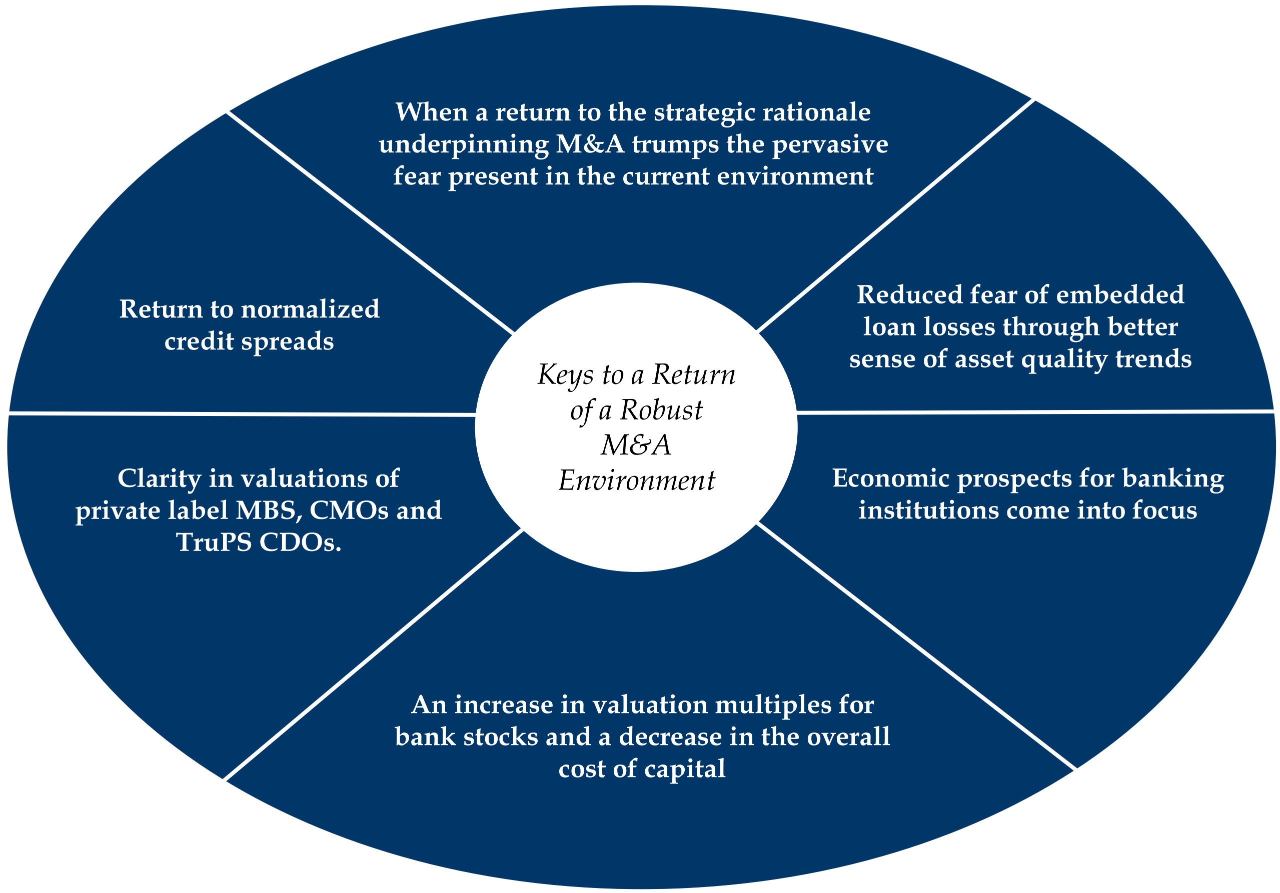
Structure and Trends in the M&A Market



Keys to a Return of a Robust M&A Environment



Current M&A Environment

- This economic crisis has forced boards and management teams to reevaluate their businesses and to look at allocation of both capital and management time
- As a result, banks (both buyers and sellers) will continue to look at branch divestitures, business line divestitures, and loan diversification
- Environment is currently acquiror-friendly as pricing has come down and sellers are motivated to raise short-term capital by necessity, not by choice, even if it is to the long-run detriment of the franchise
- Buyers are currently focused on FDIC-assisted transactions and branch acquisitions
- The winning organizations are able to take advantage of the "once in a lifetime" opportunities

Strategic Acquisitions Will Increase

- Conducive environment for low-premium, merger of equals type transactions
- Can enable shift from a defensive strategy to one of market share gain or earnings growth
- Combination can address capital or liquidity deficiencies
- Opportunity to improve earnings from continuing operations
- Up front premium will vary inversely to ongoing influence
- Provides strong economic incentive to both parties
- Until bank valuations increase above book value and tangible book value, buyers will be hesitant to pay meaningful premiums
- Investment decision that the combined entity is better than the stand-alone entities

Are MOEs Possible in this Environment?

- Most MOE conversations and negotiations typically last 12-18 months
  - A lot of false starts should be expected
  - Capital raise will most likely be necessary for the combined entity to complete the merger (may be easier to raise money for the combined entity than each separate entity)
  - Although the size may be similar, the issues may be very different
  - Do financial realities turn some proposed "MOEs" into recaps?

Why Consider Merger of Equals?

- Purchase price is typically at or near current share price, which minimizes the goodwill and premium paid to overcome
- Enhance management team
- Combine slower growth markets with high growth markets
- Excess capital entity combined with another entity with very low capital base
- Efficiencies of larger organization

Overview of MOE Negotiations

Successful MOE Negotiations	What Kills MOE Negotiations
◆ Early financial analysis ◆ Reasonable discussion of touchy issues ◆ Good management fit ◆ Necessity leads to compromise ◆ Pro forma board composition	◆ Lack of early honesty ◆ Cultural and business compatibility ◆ Fitting all the egos "inside the box" ◆ Possibly easier in the current environment ◆ Structure of new board

Merger of Equals – Items to Consider

- Structuring to maximize possibility of regulatory approval
- Integration cautions
- In-market competitive issues
- Deal protection
- Remember your shareholders

Consolidation Expectations for 2010

- M&A premiums will remain low for 2010 for a number of reasons:
  - Accounting rules such as FAS 141R raise a significant impediment, making many deals simply undoable now from a financial perspective
- There remains a significant supply of government assisted deals at low prices with loss sharing protection and lower risk that will continue to divert buyer attention
- Tax deductible capital is elusive
- Continued emphasis on the Exchange Ratio instead of the announced pricing multiples
  - Would the seller rather "invest" in the buyer's stock price now that it trades at $10 a share or when it traded at $25 a share 18 months ago?
- Expectations, although coming down, still remain high for many potential sellers that are not troubled

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4 Communication, Disclosure & Making the Record Continue to be a Challenge

Making the Record/Disclosure Issues

- We are continuously being asked questions in this area
- It is a time to be especially careful as to what you say (and don't say)
- This applies to both internal and external communications

Reasons to Take Care in Communications

- Regulatory prohibitions and red flags
- Privacy laws
- Securities laws
- Fiduciary duties
- Attorney-client privilege limitations
- Stockholder lawsuits
- Sending the wrong message in general

Some Practical Considerations in this Environment

- What information is the FDIC requesting lately from directors of closed banks?
- Who is "protected" in email battles or exchanges?
  - Should the new financial reform bill include a prohibition concerning drinking and texting?

Best Practices for Minute Taking Have Changed over the Past Decade

- This is especially true in a tough environment
- Discussion descriptions may need to be more robust and review by counsel is advisable
- Take care who sees minutes that deal with CAMELS ratings or with examination and supervisory findings
  - Redacting
  - Requesting permission from regulators to disclose
- Memos, emails and other communications

There Can Be a Tension between a Contractual Obligation to Disclose and Regulatory Constraints

- Examples are supervisory information requested by insurance providers and correspondent banks
    - Regulatory guidelines were issued in 2005, but not a bright line test
    - Can you provide underlying information without crossing the line?
    - Understand the impacts of impermissible disclosure or failure to disclose

Disclosure to Shareholders/Ongoing

- There has been much bad news disclosed by institutions over the past couple of years
- Smaller institutions that communicate less frequently with shareholders face different disclosure issues
- How are you communicating your revamped strategy and goals?
- Disclosure of interest deferrals resulting from regulatory restrictions or direction from the regulators

Disclosure to Shareholders/Annual Meeting

- Annual meeting season is approaching and non-SEC reporting institutions should assess the disclosure opportunity
  - More institutions may need to raise capital and this can form a foundation for disclosure
  - Legal review of annual letter to shareholders, etc.
  - Is the disclosure in your proxy materials both sufficient and useful?
    - Corporate governance initiatives
    - Executive compensation

Disclosure to Shareholders/Annual Meeting

- Private companies should also consider recently enhanced disclosure requirements for SEC companies:
  - Leadership structure
  - Additional director disclosure
  - Diversity policy
- Both public and private should consider enhanced disclosure of "hot button" issues (see recent SEC comment letters):
  - Capital
  - Liquidity
  - Asset quality (but consider privacy issues)

Disclosure to Shareholders/Raising Capital

- Level of disclosure varies with who you intend to approach
  - “Can we just add 3 guys to the buying group?“
- Ensure that disclosure is accurate and complete
  - Lawsuits have been filed over banks raising capital on the way down
  - “Whoa! We don't want to spook our investors“
- Use of 3rd parties to verify information, such as asset quality
  - Institutional vs. "friends and family" or community offerings - may affect who you hire

Interaction with the media, employees, customers and others

- Developing a communications plan
  - What can "proactively reactive" possibly mean?
  - “...tool used by government in connection with a crime, fraud, etc....“
  - Caution when using public relations firms / legal review
- Consider what "need to know" means in different contexts

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Appendix

Barack Ferrazzano Financial Institutions Group

- Barack Ferrazzano has a premier financial services law practice that includes representation ranging from money center and regional financial institutions to small community banks and thrifts. Thirty of our attorneys regularly practice in the financial institutions area having represented over 250 financial institutions over the past few years.
  - **M&A** – The SNL Securities rankings listed our firm in the top 5 in the nation in number of announced bank and thrift merger and acquisition transactions during the past five years. For the past decade, our firm ranked #1 in the Midwest.
  - **Regulatory practice** – We have a large bank regulatory practice that includes the handling of enforcement actions, bank closure issues and general regulatory and compliance issues.
  - **SEC reporting companies** –We have assisted with the periodic reporting of over 20 financial institutions, headquartered in various states such as Illinois, New Mexico, Kansas, Iowa, Indiana, Texas and Wisconsin, a number of which are listed on Nasdaq.
  - **De novos** –We have assisted over 90 investor groups and organizations in the formation and legal aspects of new financial institutions in a number of states, including Colorado, Illinois, Indiana, Wisconsin, Arizona and New Mexico.

Stifel Nicolaus Financial Institutions Group

- Stifel's Financial Institutions Group (FIG) provides investment banking services to banks and thrifts and other financial services companies, including Finance REITs, Mutual Companies, Business Development Companies (BDC)s and Insurance Companies.
- 36 dedicated bankers, 15 of whom are managing directors.
- Stifel's Financial Institutions Group Managing Directors have extensive experience managing public offerings of common stock, preferred stock and debt securities, as well as providing merger and acquisition advisory services.
- 442 completed public and private offerings which raised over $42.9 billion in capital since 2000.
- 83 buy-side and 102 sell-side advisory transactions valued at over $6.0 billion and $8.3 billion, respectively since 2000.
- 34 mutual conversions which raised over $11.0 billion in capital since 2000.

FINANCIAL INSTITUTIONS GROUP

- BANKS AND THRIFTS
- FINANCE REITS
- BUSINESS DEVELOPMENT COMPANIES
- FINANCIAL SERVICES COMPANIES
- MUTUAL COMPANIES
- INSURANCE

For Additional Information Contact:

John E. Freechack

Name:	John E. Freechack
Title:	Chairman
Company:	Barack Ferrazzano
Department:	Financial Institutions Group
Contact Information:	(312) 984-3223 john.freechack@bkfn.com
Education:	Northwestern University School of Law, J.D. 1975 Northwestern University, B.A., 1972

BACKGROUND INFORMATION

- John is Chairman of the firm's financial institutions group and concentrates his practice in the banking and thrift area.
- He has advised hundreds of financial institutions on corporate and regulatory matters for over 25 years.
- His extensive experience includes the representation of numerous public companies, as well as regional and community banks and thrifts. John spends considerable time counseling institutions with respect to mergers and acquisitions, regulatory enforcement, and securities and corporate law matters.
- John is an Adjunct Professor at the Northwestern University School of Law. He has taught banking law and regulation courses at law schools for the past 15 years.
- He is the Co-Editor of a two-volume handbook on banking law. A long time member of the American Bar Association Business Law Section's Banking Law Committee, he founded and has also served as Chairman of its Community Bank Subcommittee.

Allen G. Laufenberg, CFA

Name:	Allen G. Laufenberg
Title:	Managing Director
Company:	Stifel Nicolaus
Department:	Financial Institutions Group
Contact Information:	(312) 269-0381 aglaufenberg@stifel.com
Education:	B.B.A., Finance Kemper Scholar University of Wisconsin at Whitewater

BACKGROUND INFORMATION

- Mr. Laufenberg joined the firm in connection with Stifel's purchase of the Capital Markets division of Legg Mason in 2005; he joined Legg Mason in 2000.
- Mr. Laufenberg is a member of the firm's Private Placement and Fairness Opinion Committees.
- Mr. Laufenberg's responsibilities include advising public and privately-owned companies on a wide range of alternatives. Mr. Laufenberg is also responsible for managing the entire transaction process from deal origination to transaction execution.
- Prior to joining the firm, Mr. Laufenberg was a Vice President in the Financial Institutions Group at First Union Securities (now Wachovia Securities). Mr. Laufenberg has been involved in investment banking since joining EVEREN Securities (a predecessor firm to First Union Securities) in 1995. Prior to entering investment banking, Mr. Laufenberg spent over three years as a financial analyst at Kemper Corporation. Mr. Laufenberg has earned the Chartered Financial Analyst (CFA) designation.