

Sheshunoff & Co

INVESTMENT BANKING



American State Bank & Trust Company

has agreed to buy

Rose Hill Bank

June 2011



Eagle Bank

has agreed to sell to

Round Top State Bank

May 2011



Cameron State Bank

has agreed to sell to

IBERIABANK

March 2011

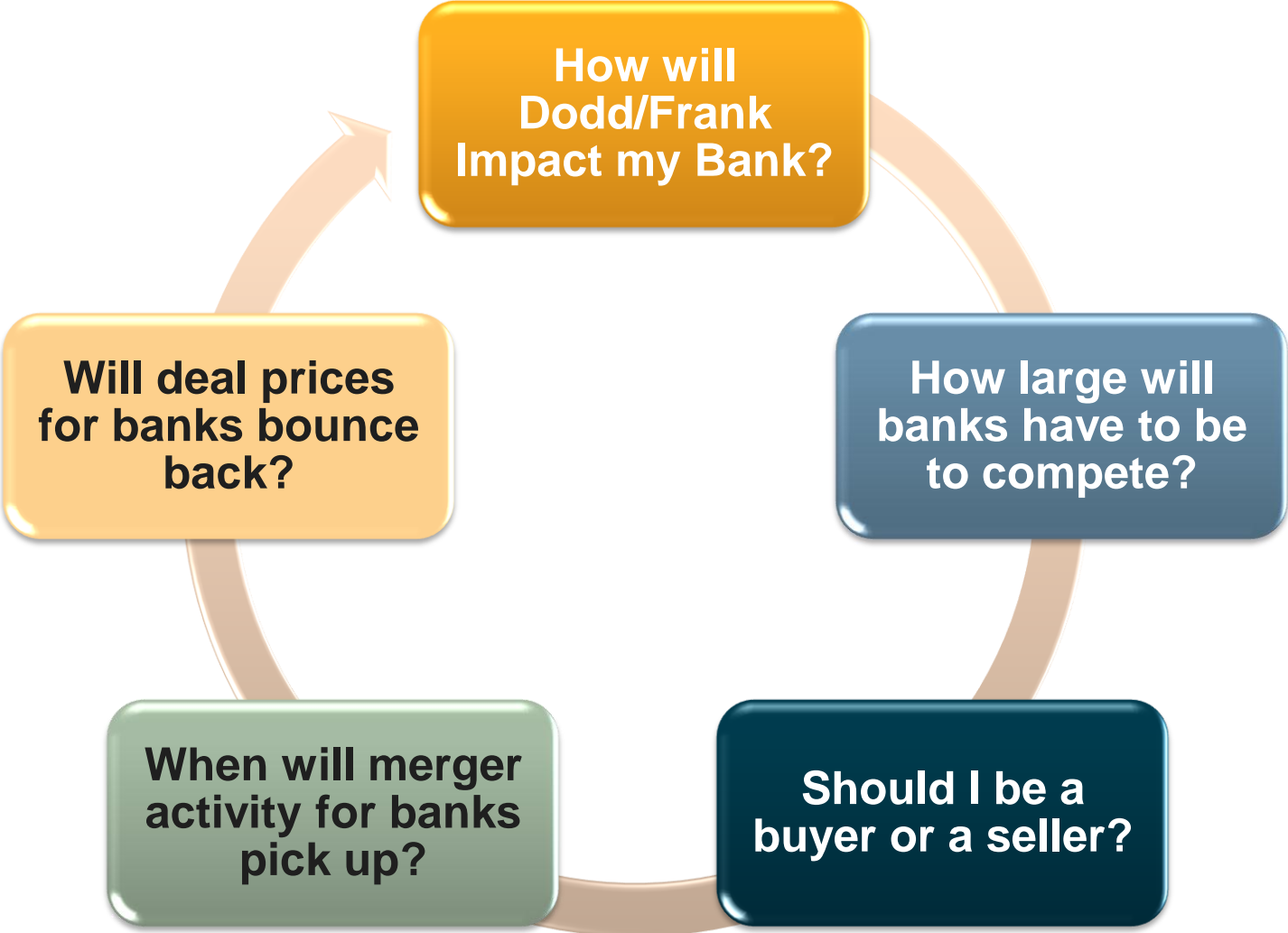


The Leader in Community Bank Mergers and Acquisitions

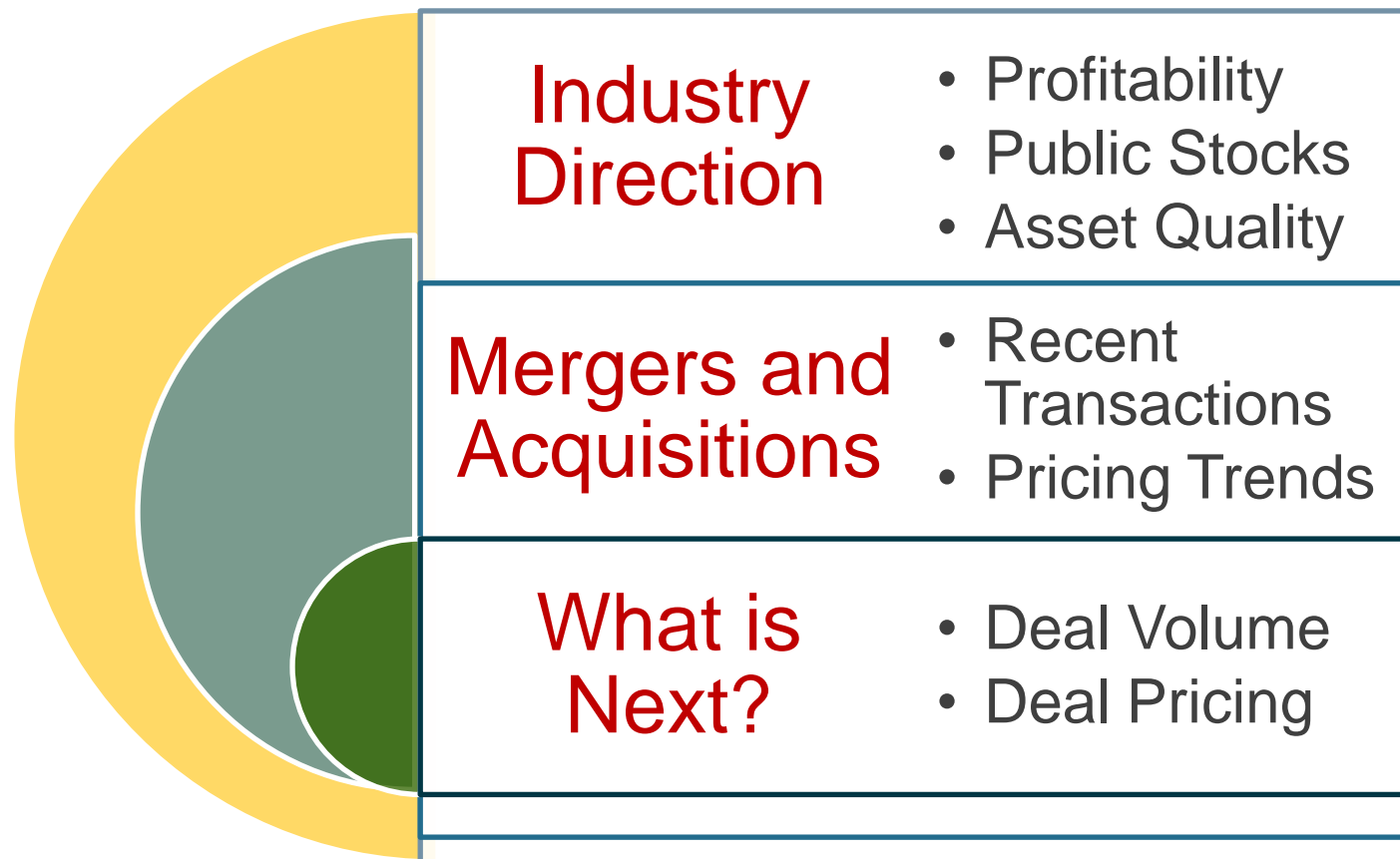
**Your Bank's Worth
Today and Tomorrow**

**2012 Acquire or Be Acquired Conference
Phoenix, Arizona**

Questions abound



Presentation Guide



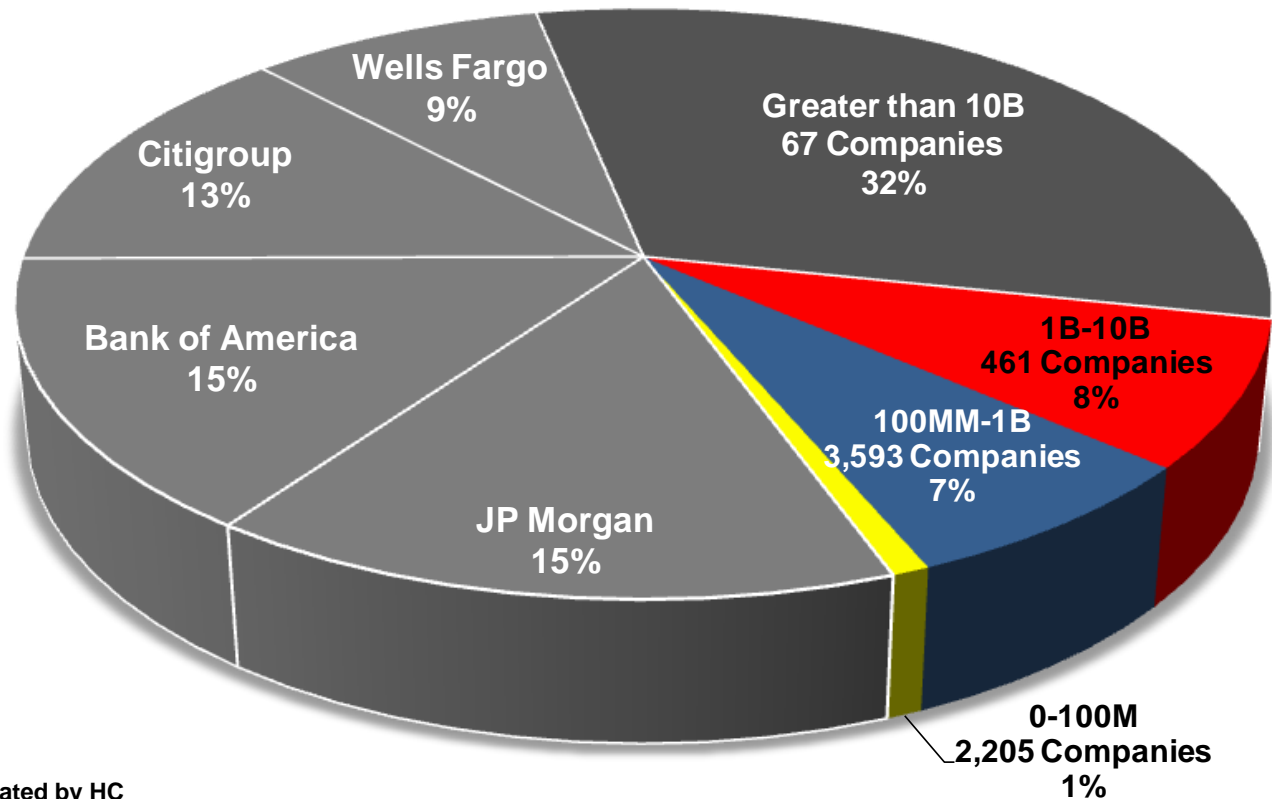


**Industry Structure and
Profitability**

Asset Distribution

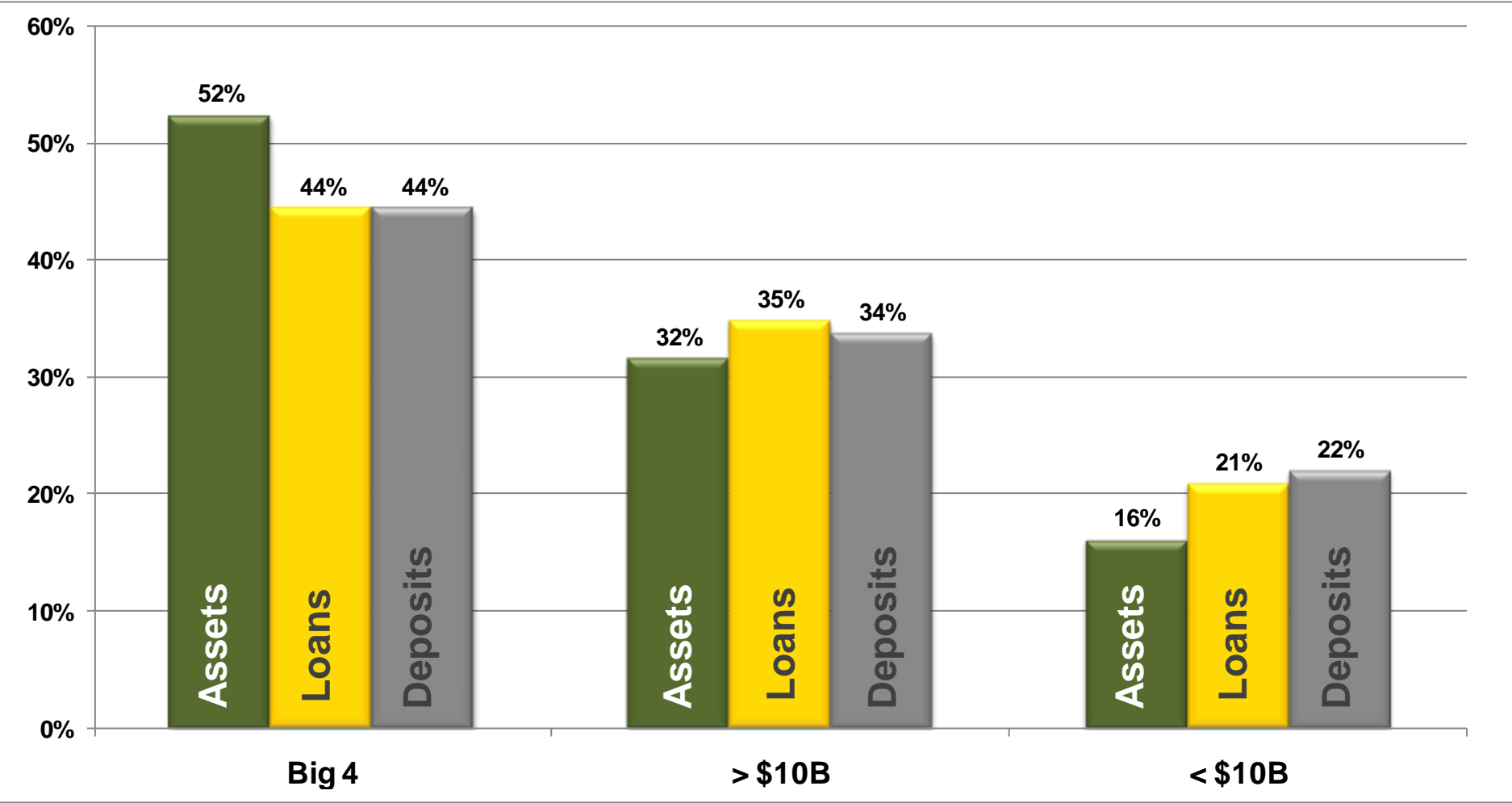
Total Industry Assets = \$14.8 Trillion

Top 4 Banks:
\$7.8T in Assets
52% of Industry Assets



September 30, 2011 Data Consolidated by HC
Excludes any bank larger than \$1 billion in assets with a deposits to assets ratio of less than 10%

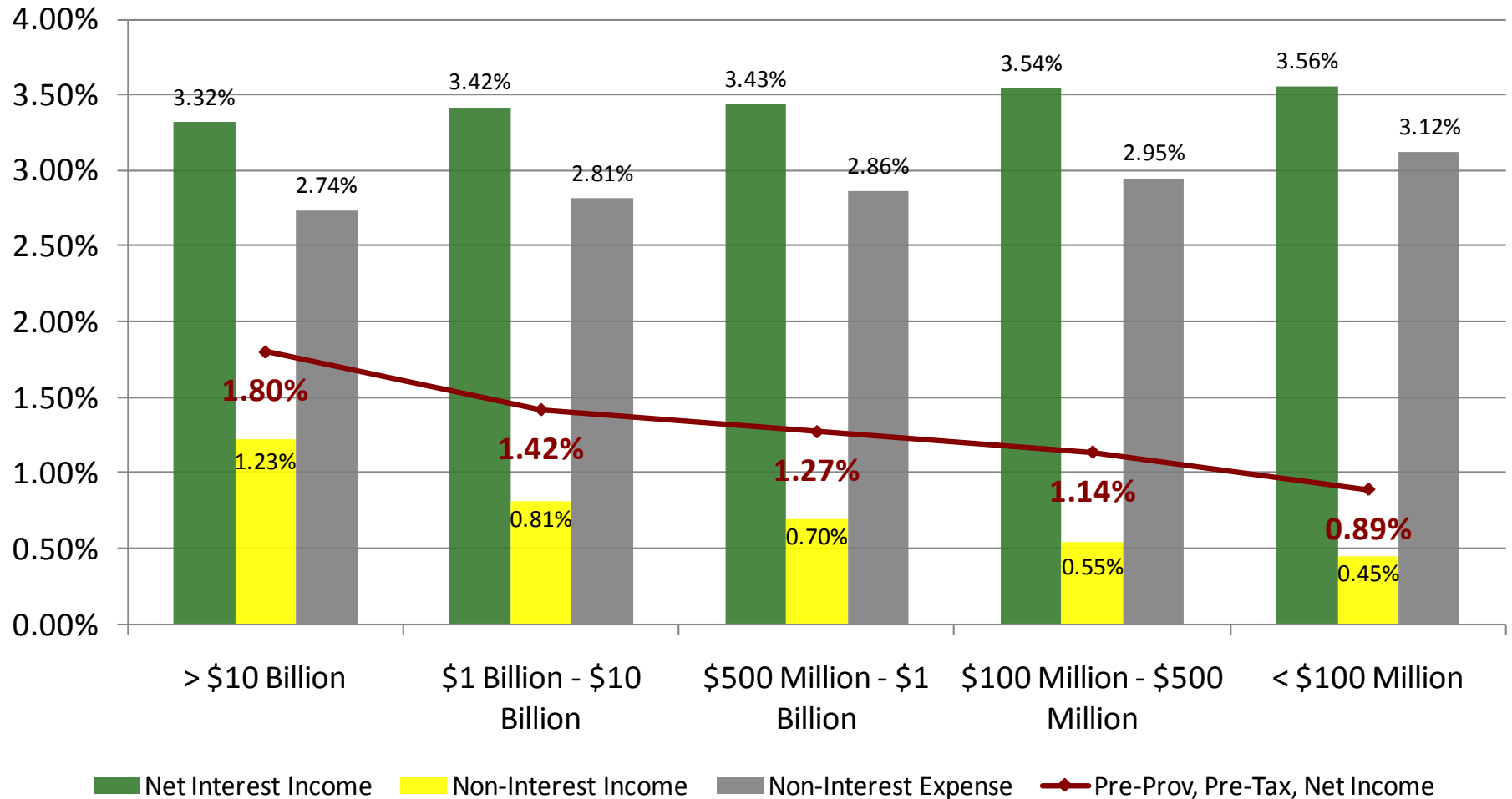
Industry Profile – Balance Sheet



September 30, 2011 LTM Median Data Consolidated by HC

Comparison of Earnings Components

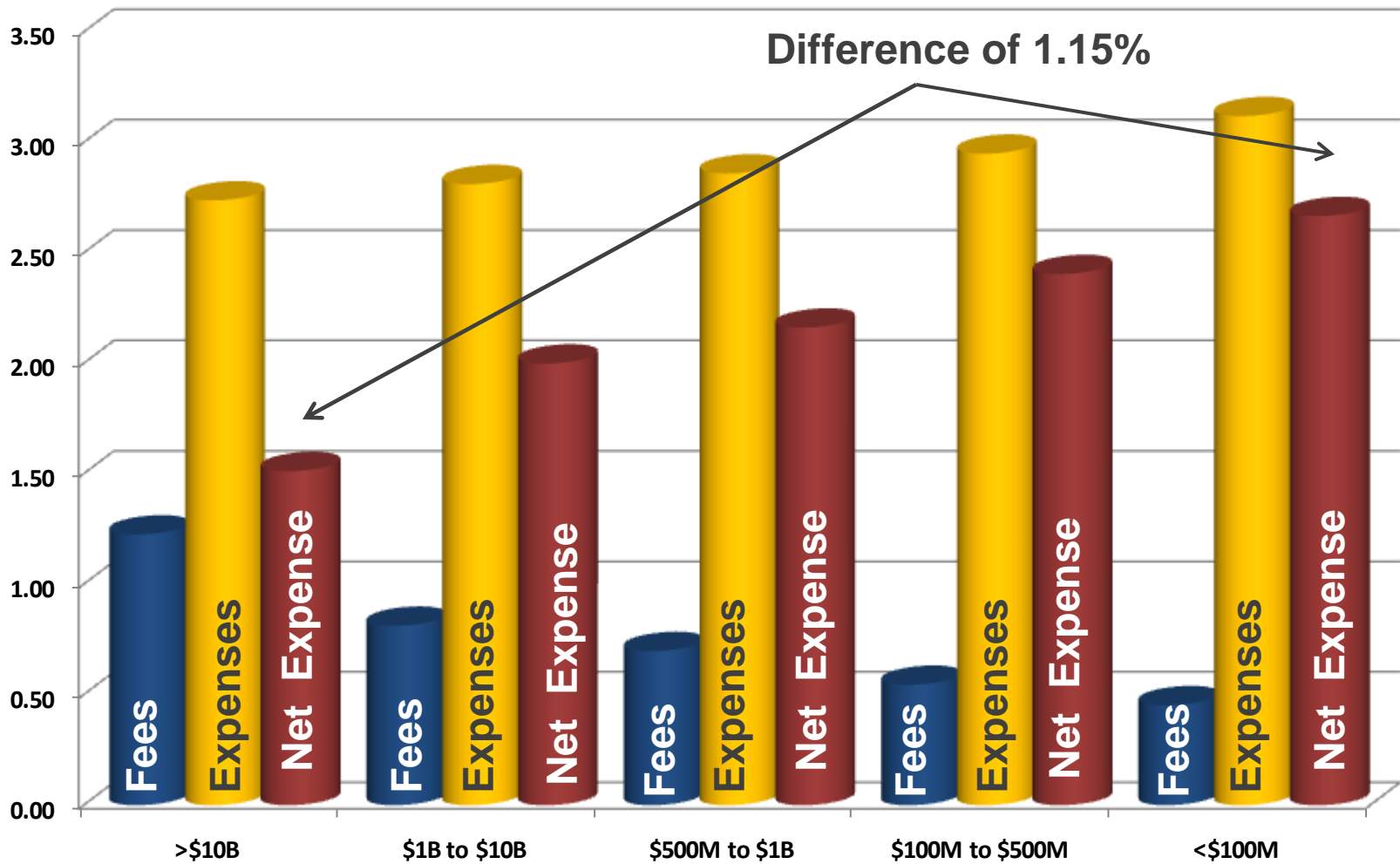
(% of average assets)



Median Bank Level Data, % of Average Assets, LTM September 30, 2011

Net Noninterest Expense by Size

LTM 09/30/2011



Median Data, % of Average Assets

Challenges Facing Smaller Banks

Mobile banking technology is already in place at large banks

Few options to replace declining OD and Interchange fees

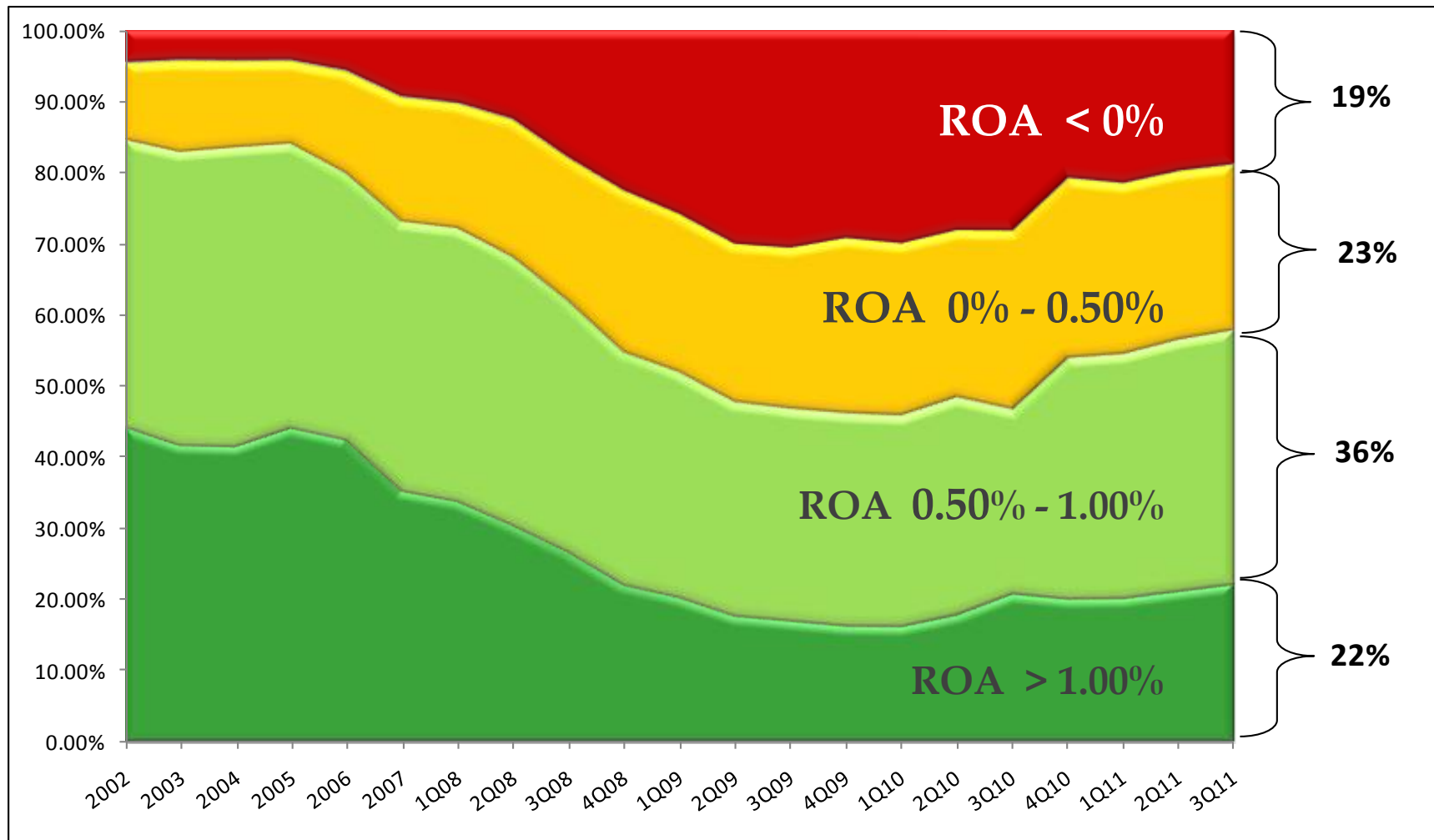
Dodd/Frank standardization favors wholesale providers

Larger banks have more access to capital

Increased regulatory burden favors larger banks with more economies of scale

Bank and Thrift ROAs

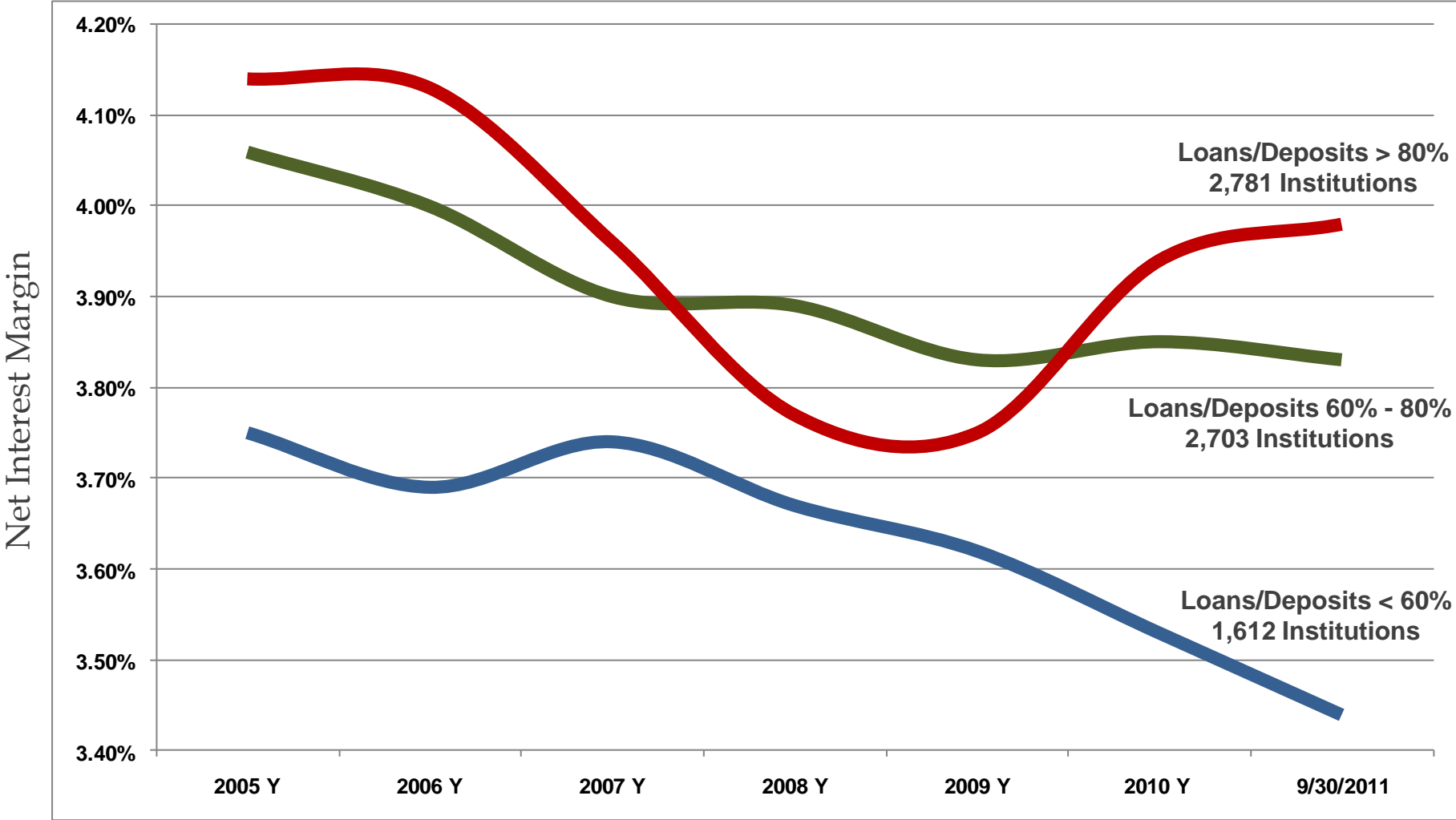
% of the industry by bank



35% Tax Rate Applied to S-Corps

Last Twelve Months Data

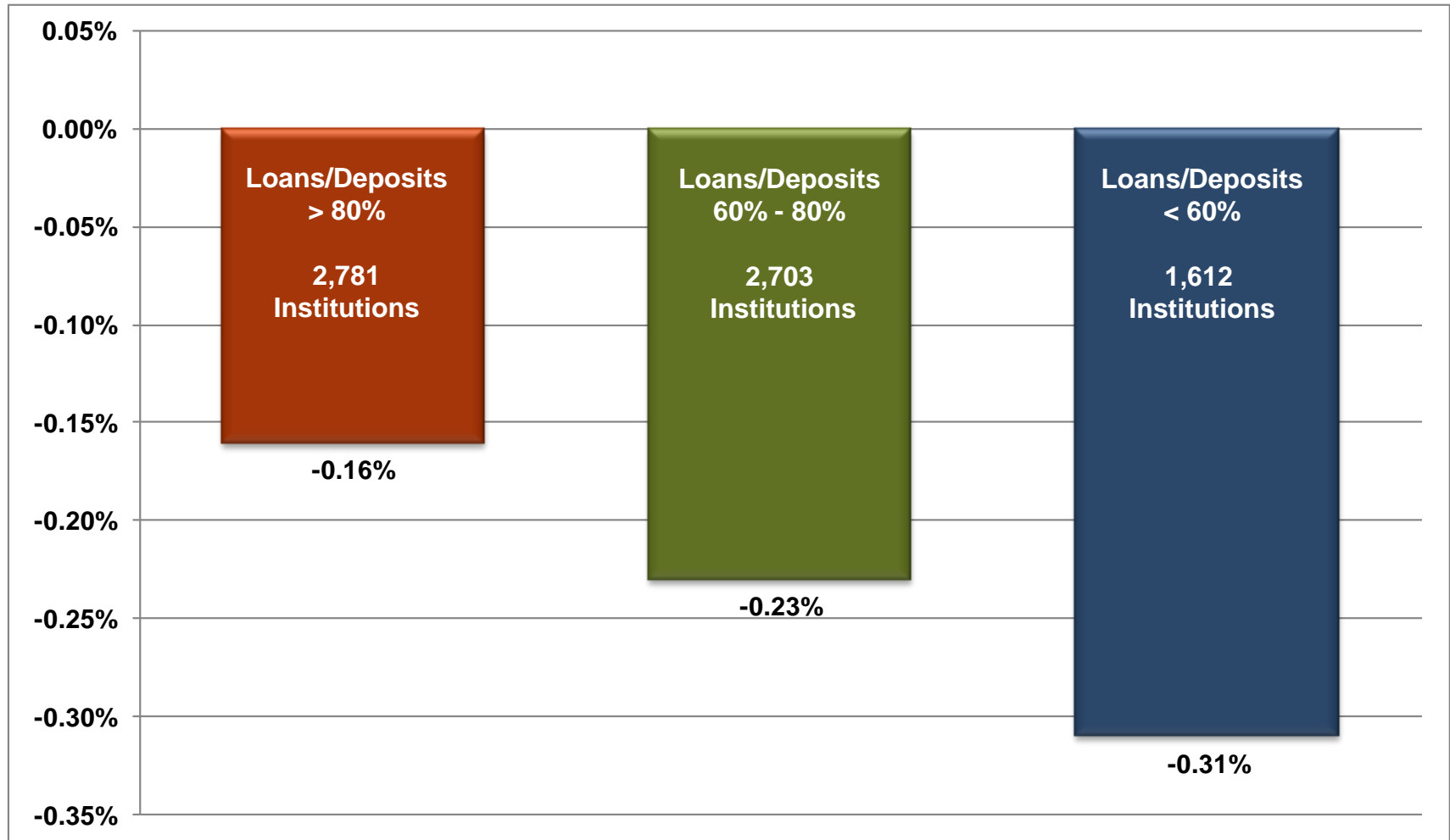
Loan to Deposits Impact on Net Interest Margin



Last Twelve Months Median Data

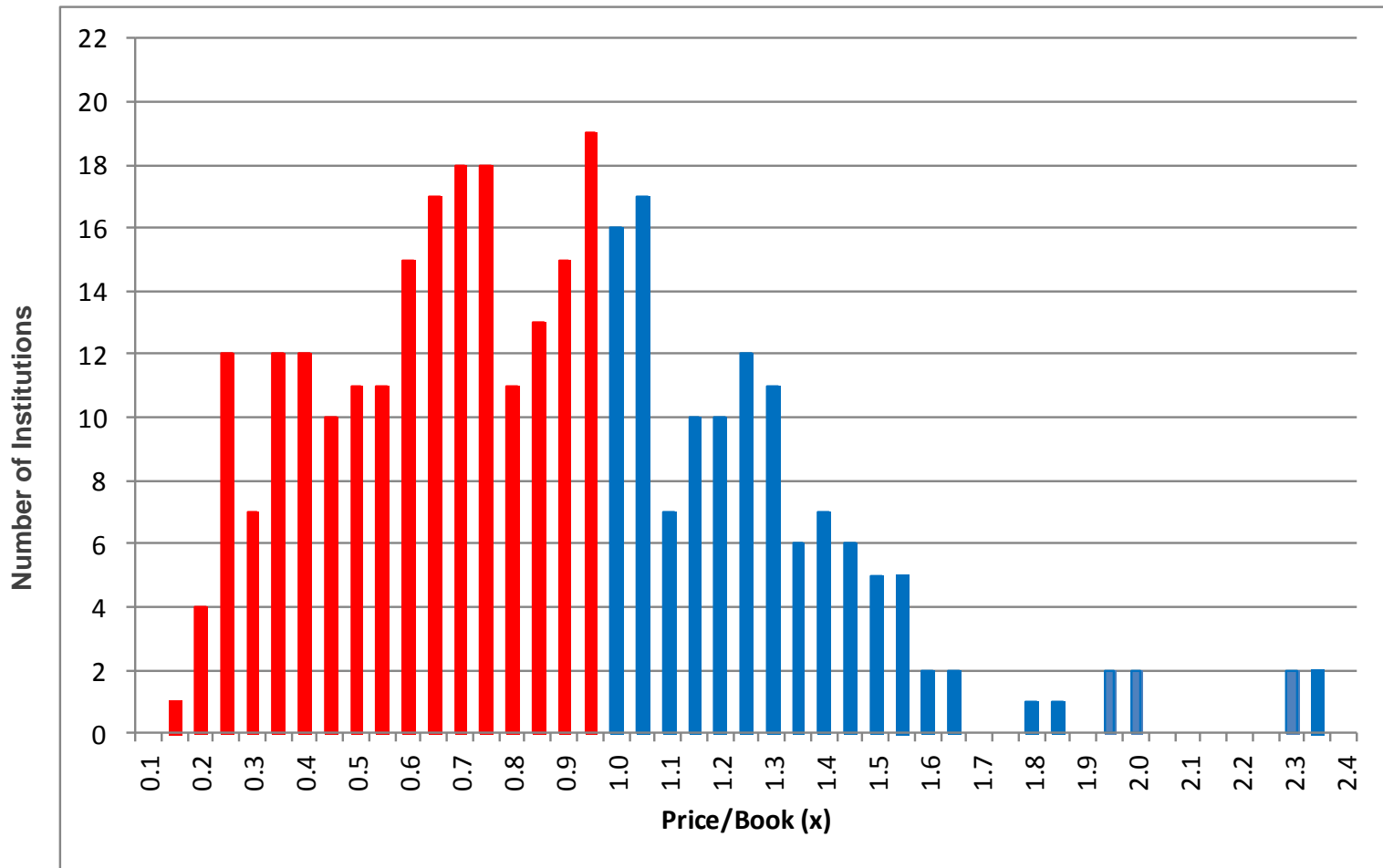
Decline in Net Interest Margin Since 2005

Based on Loan to Deposit Ratio



Last Twelve Months Median Data

Publicly Traded Price Distribution

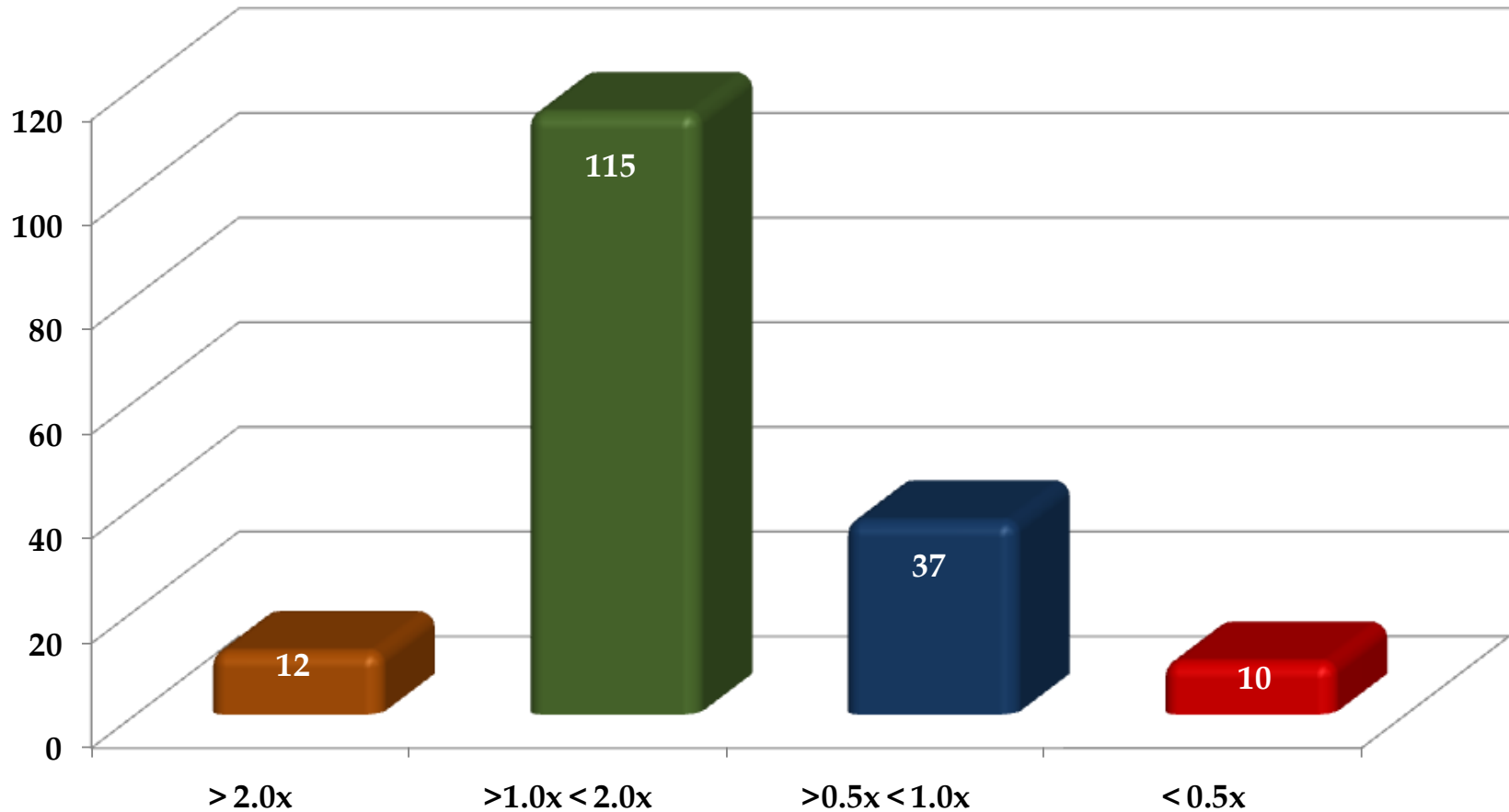


Financial Data as of September 30, 2011, Stock Prices as of January 24, 2012 Intervals of 0.05x;

Publicly Traded Banks and Thrifts

Greater than \$2 Billion in Assets

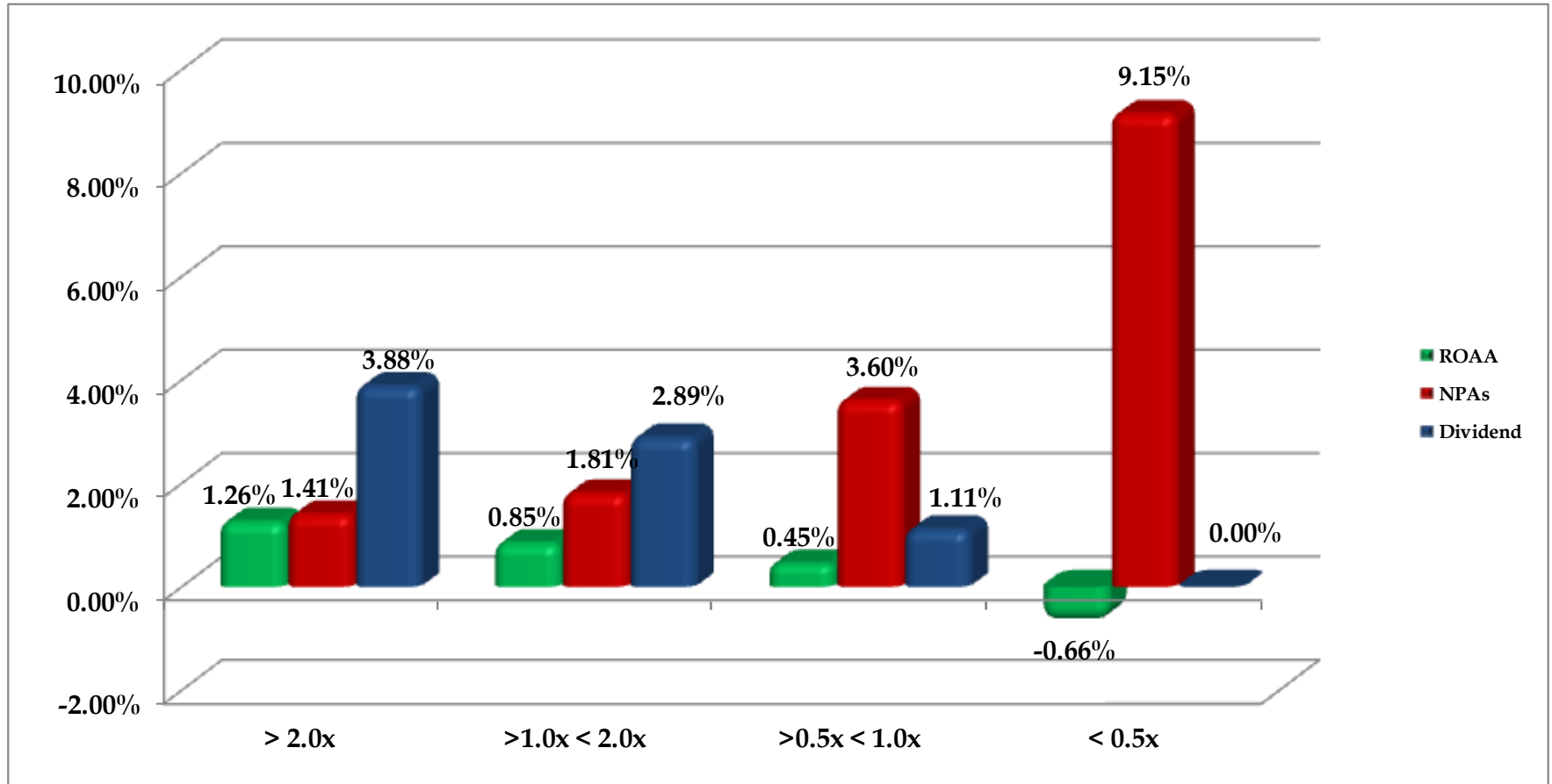
Price to Tangible Book as of January 24, 2012



Publicly Traded Banks and Thrifts

Greater than \$2 Billion in Assets

Comparison of Median ROAA, NPAs and Dividend Yield

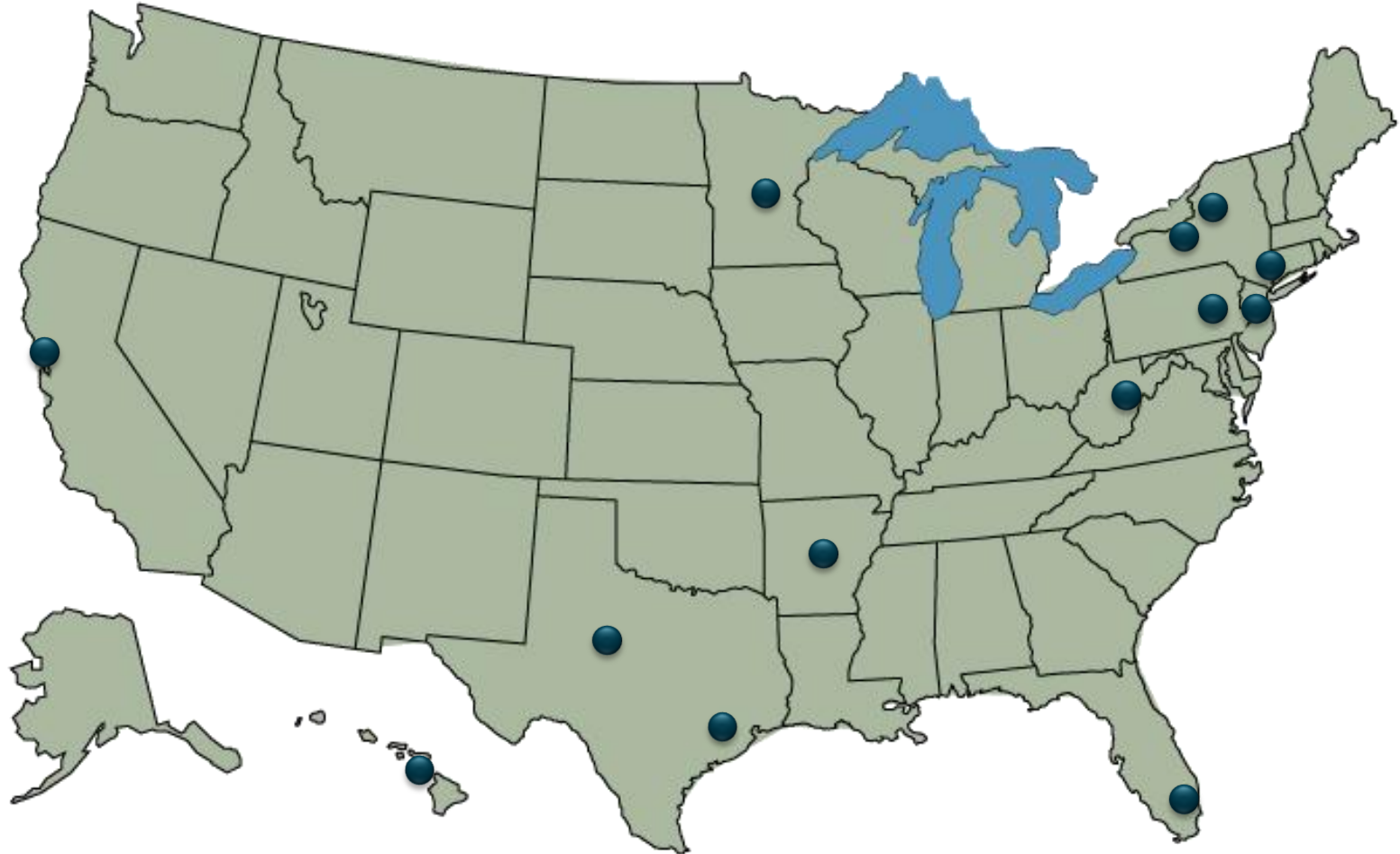


Price to Tangible Book

As of January 24, 2012

Publicly Traded Banks and Thrifts

Price-to-Tangible Book > 2.0x



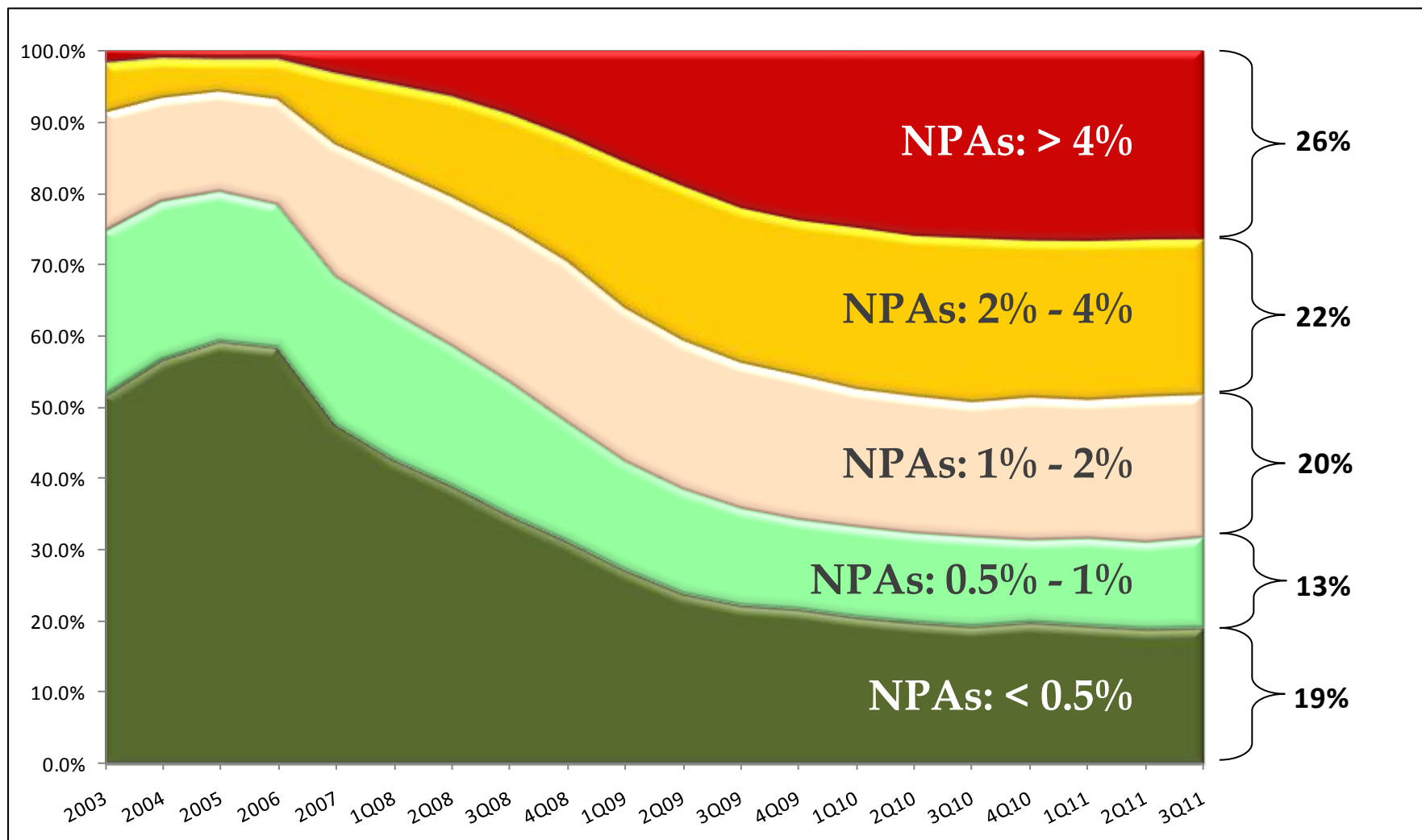
As of January 24, 2012



**Industry Credit Quality
Trends**

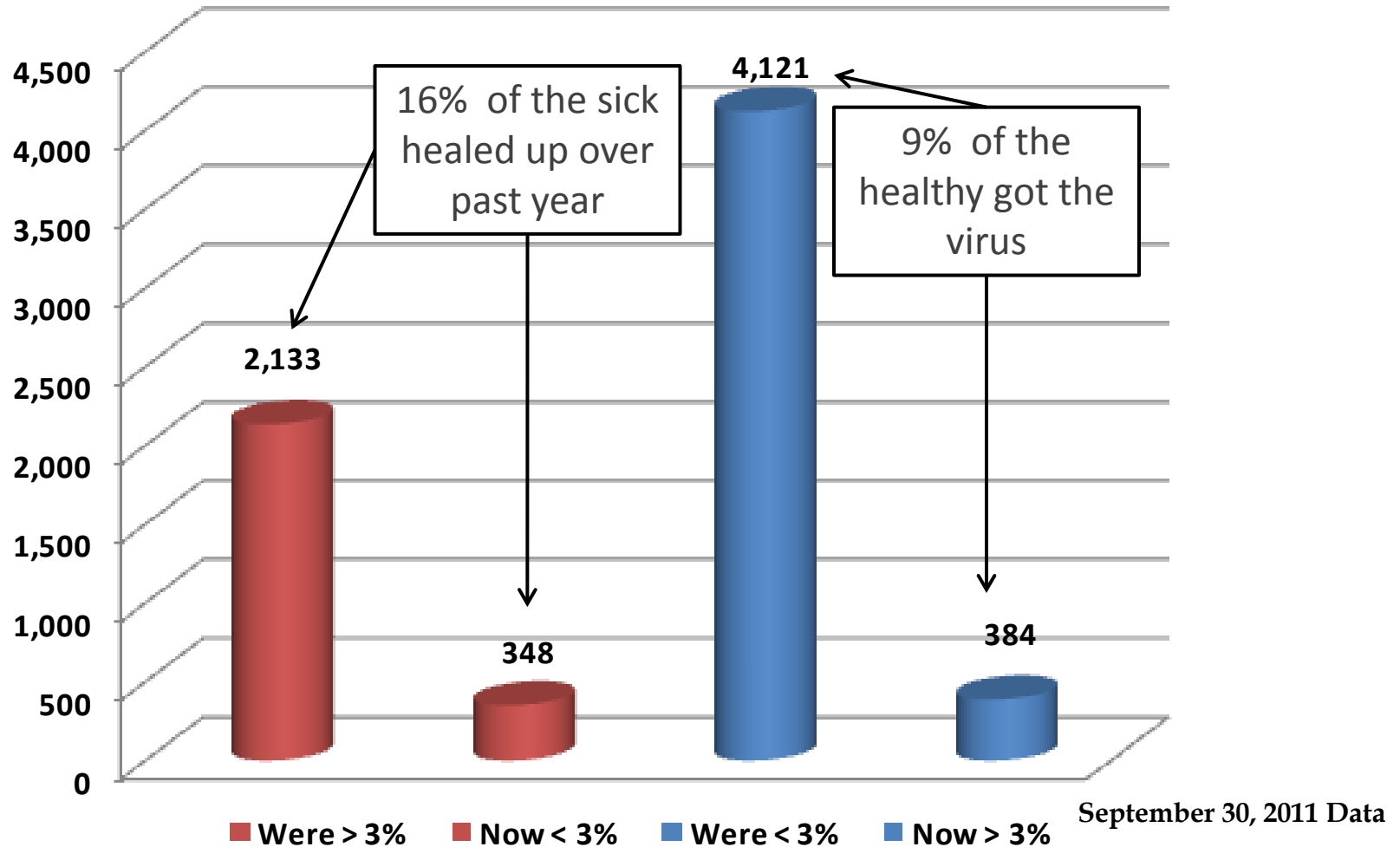
Non-Performing Assets / Assets

% of the industry by bank



Non-Performing Assets – One Year Trend

Third Quarter 2010 to Third Quarter 2011

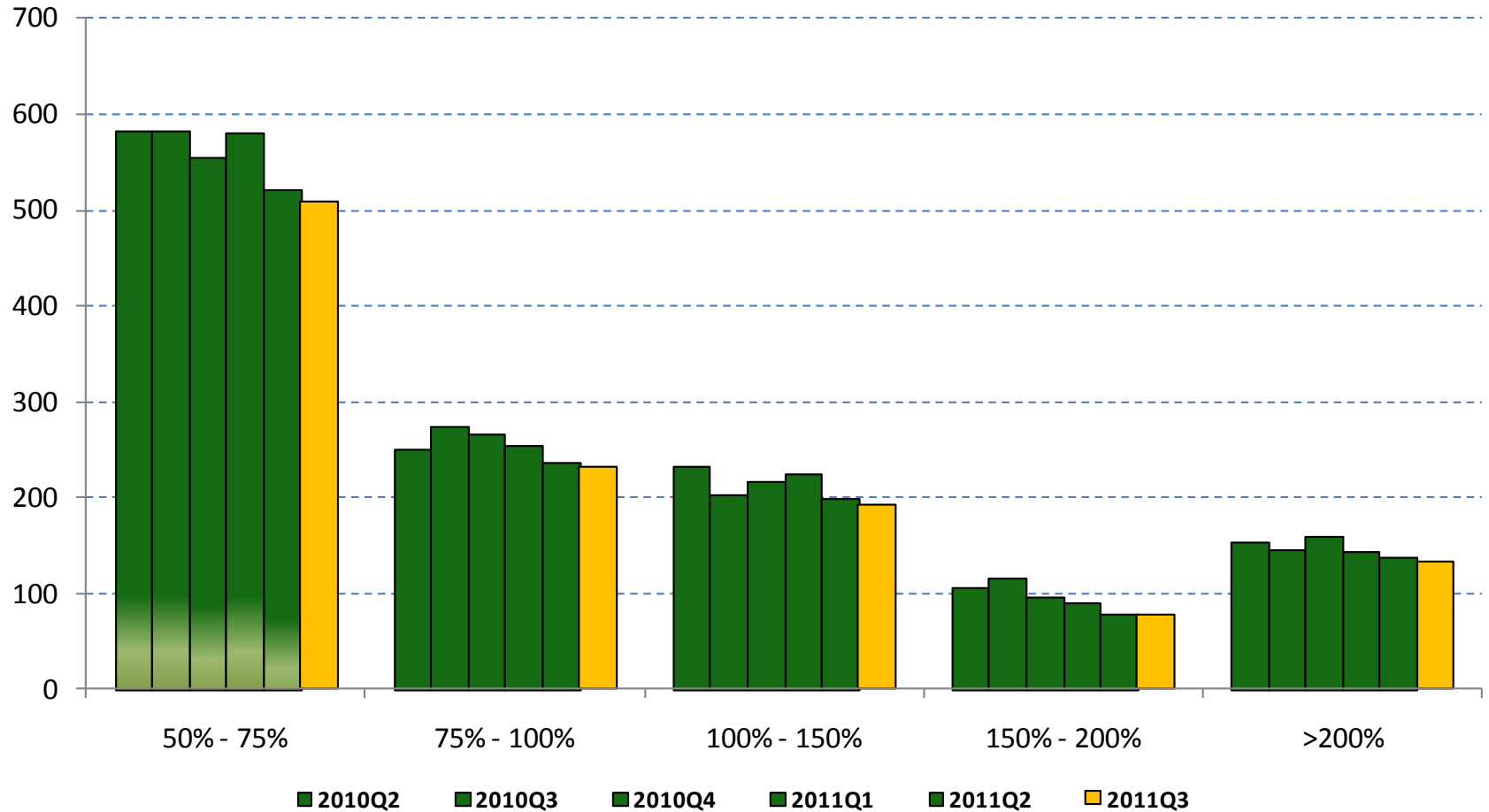


Modified Texas Ratio Definition

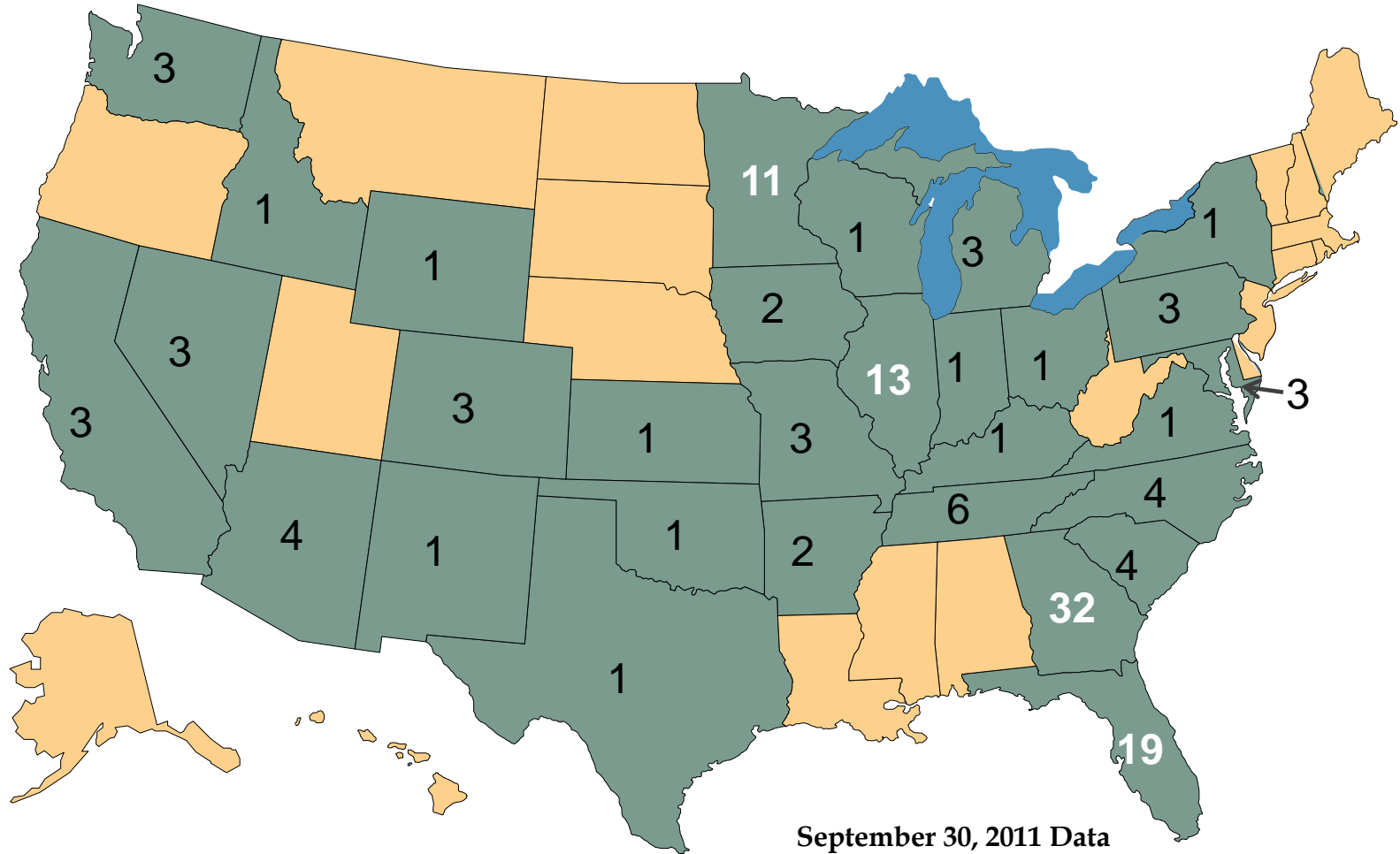
$$\text{Texas Ratio} = \frac{\text{Loans 90+ Days Past Due} + \text{Non Accrual Loans} + \text{OREO} - \text{Gov't Guaranteed Loans and OREO Covered by FDIC L/S}}{\text{Tangible Equity} + \text{Loan Loss Reserves}}$$

Modified Texas Ratio: Quarterly Trend

Modified Texas Ratio Breakdown by Number of Institutions



Institutions with Modified Texas Ratio Above 200%



How Many Distressed Banks are Viable?

Viable Defined as Saleable or Could Attract Capital

Begin with all banks with modified
Texas Ratio between 50 and 150

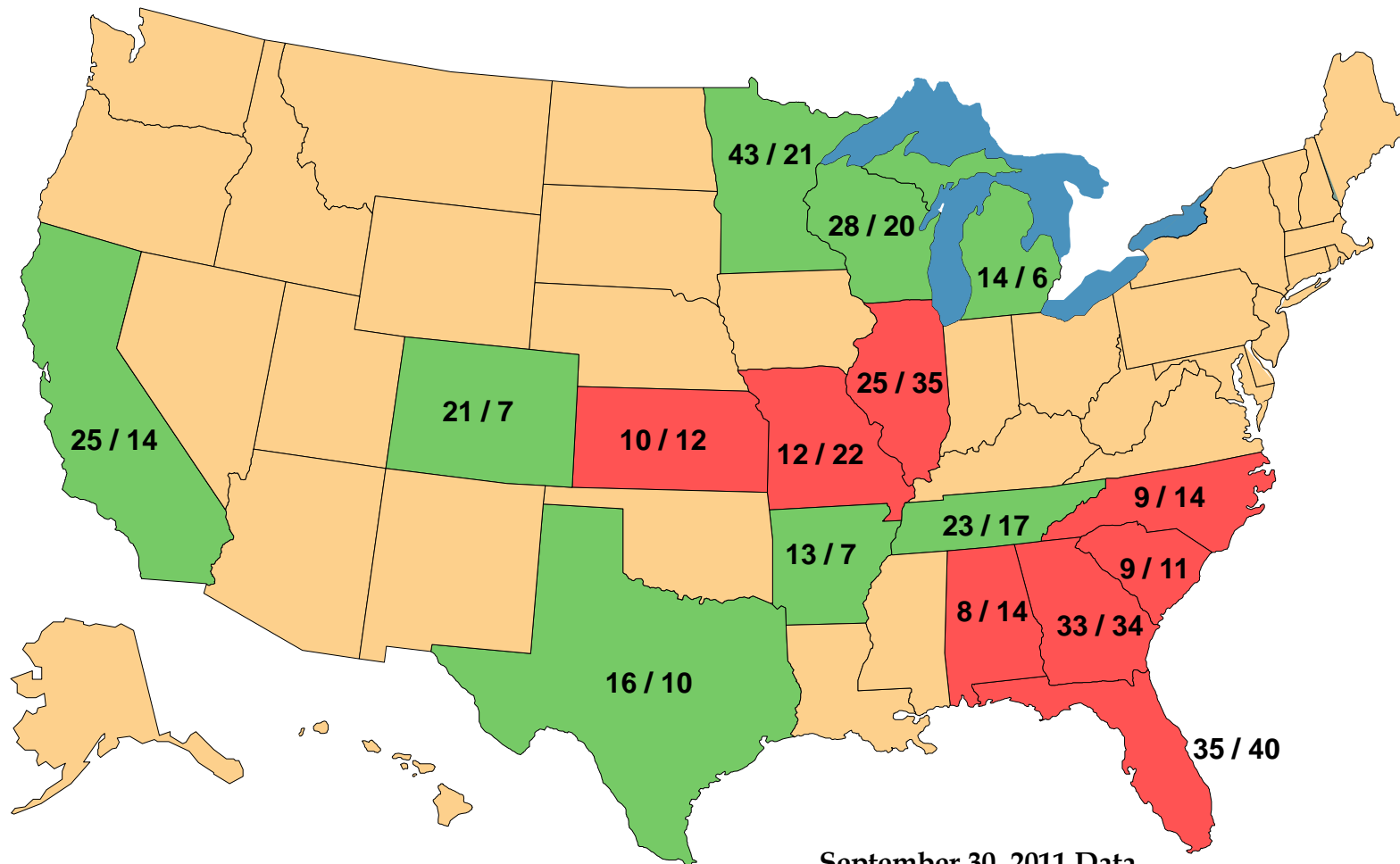
Pre-tax, pre-provision ROA >1.00%?
Yes = Saleable, No = continue

NIM > 4.00%?
Yes = Saleable, No = continue

Other factors: Cost of deposits, DDA
as % of total deposits; CD's as % of
total deposits, etc....

Saleable Distressed Banks (saleable / too distressed)

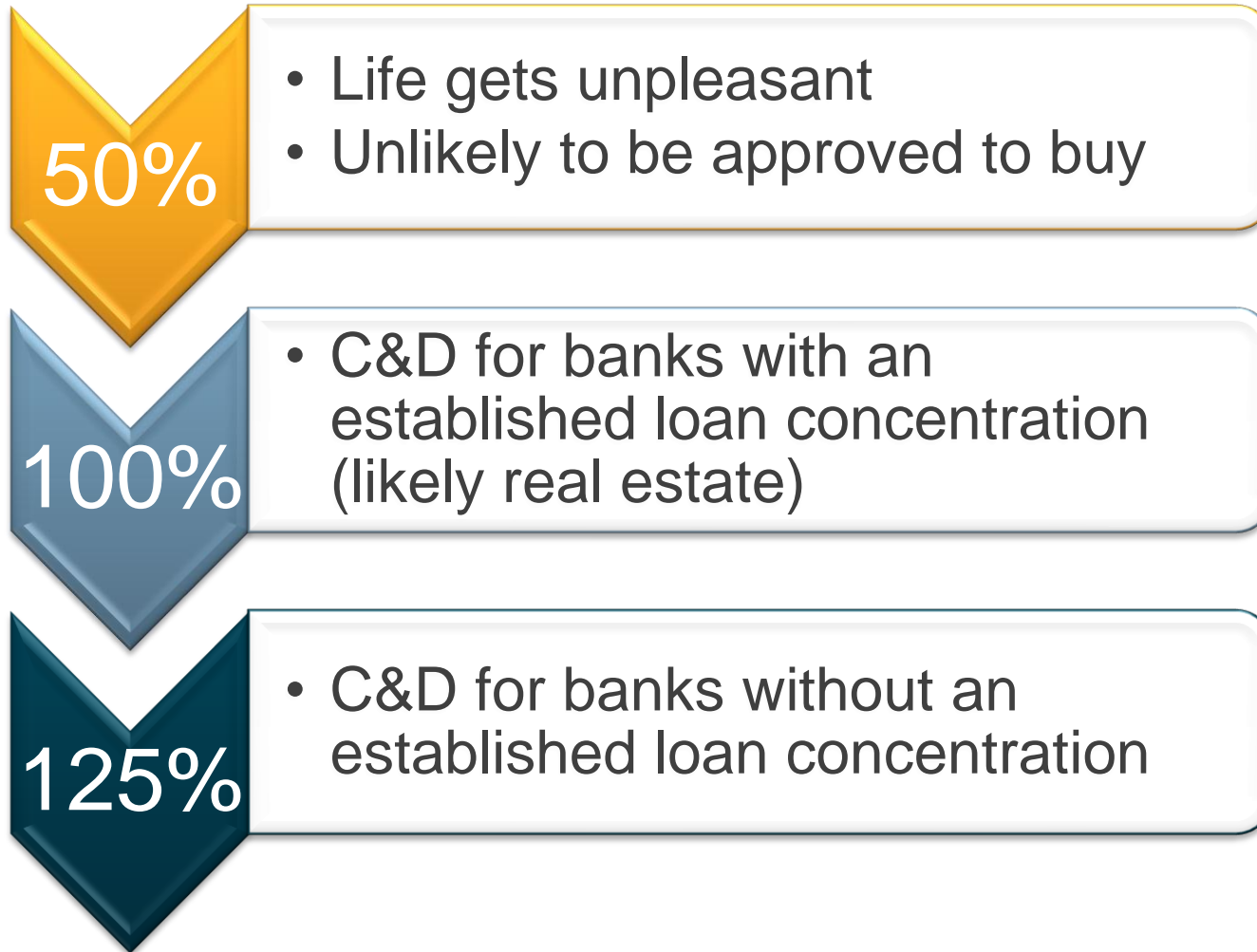
States with 20 or More Banks with a Modified Texas Ratio B/W 50% and 150%



September 30, 2011 Data

Unofficial Regulatory Response to Classified Loans

Ratio of Classified Loans to Tier 1 Capital plus Reserves



Unofficial Removal of C&D

Ratio of Classified Loans to Tier 1 Capital plus Reserves

75%

- With new money
- With new management

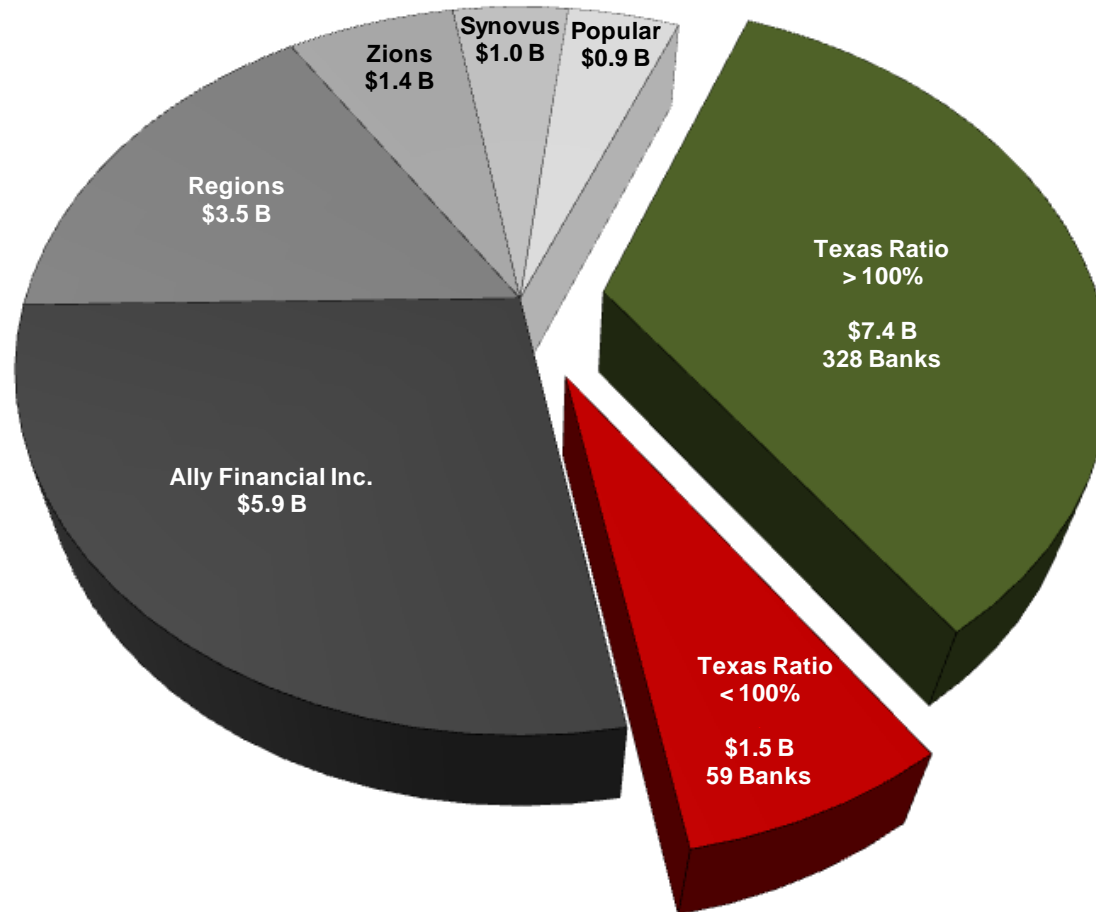
40% to 50%

- Without new money
- Same management

TARP Summary – Discounts Anyone?

The Treasury reports it has already recouped over 100% of the money invested in Banks & Thrifts

\$21.6 Billion in TARP Outstanding

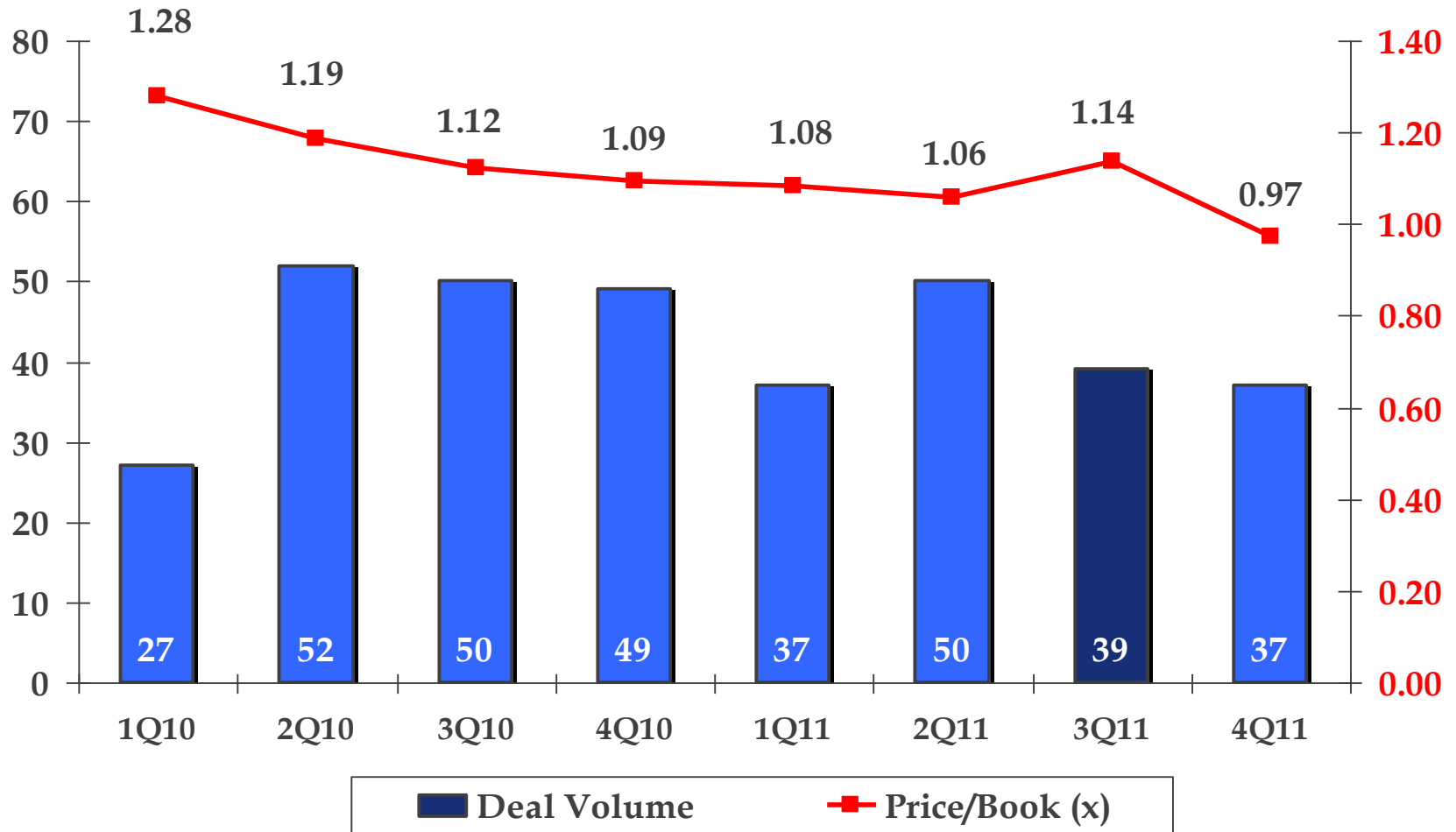




**Merger Activity and What
it Means**

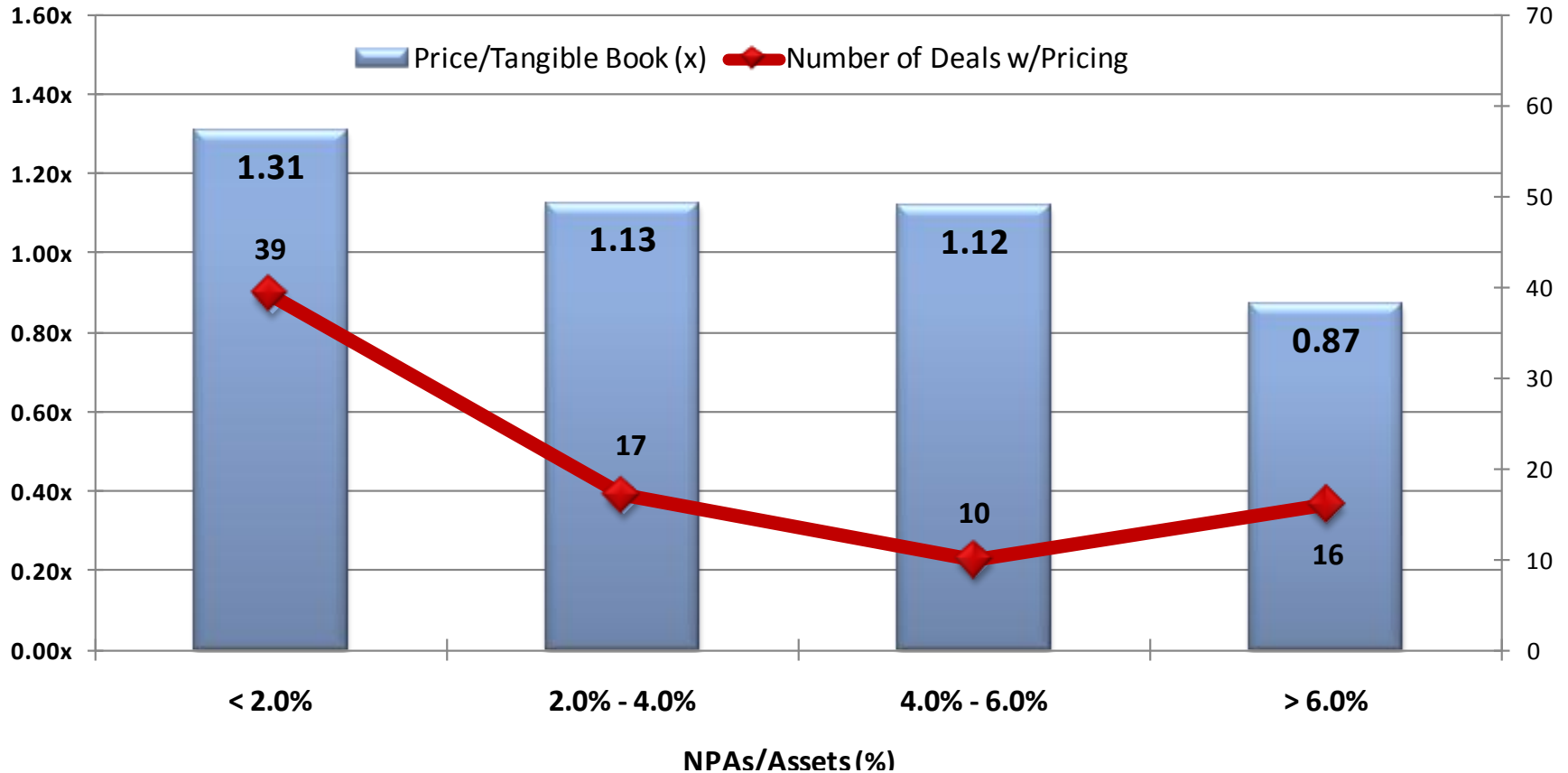
National Bank and Thrift Acquisition Pricing

Deal Volume & Price / Book

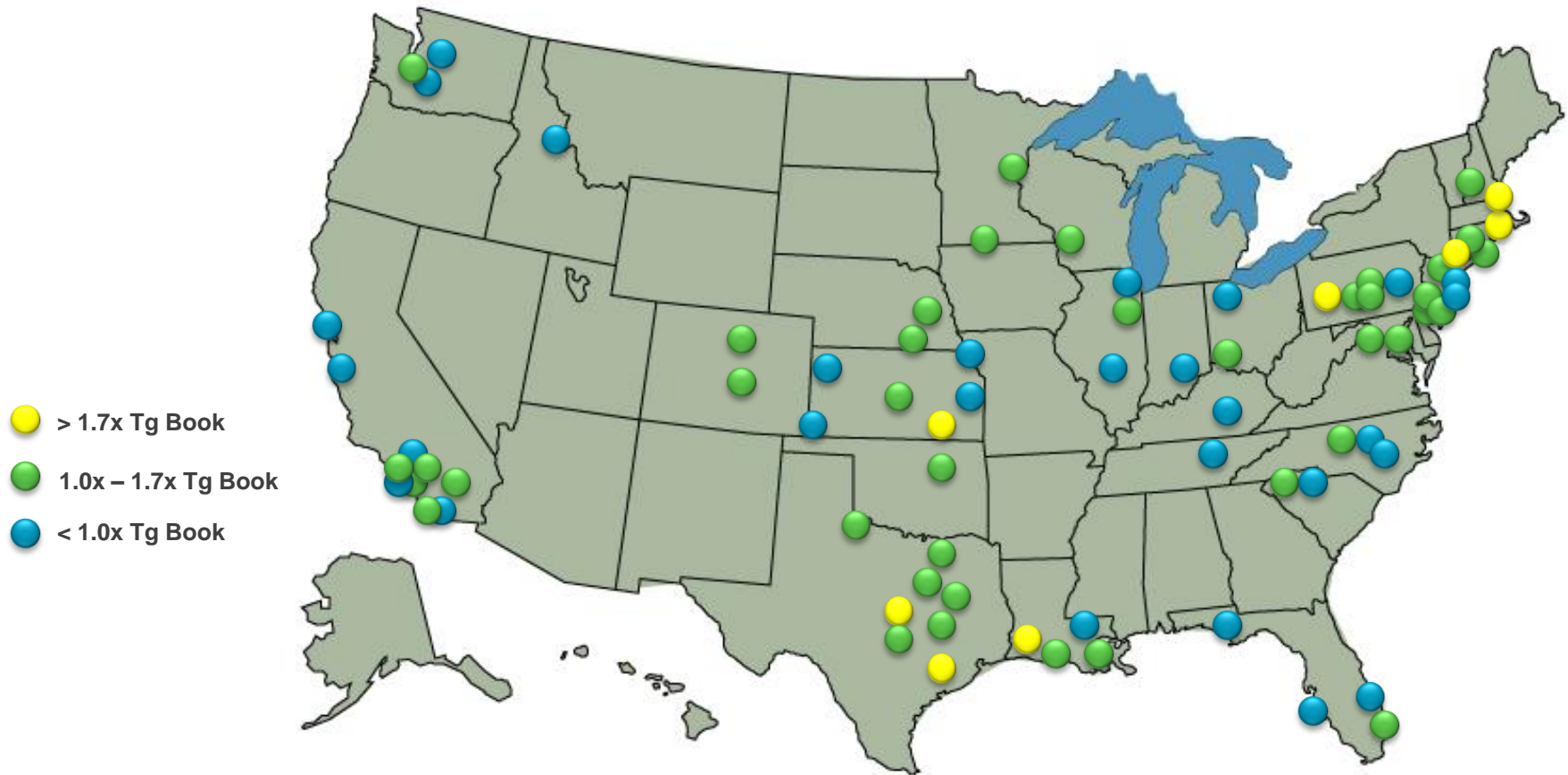


Price to Tangible Book by Asset Quality

2011 Transactions (Excludes Recaps)

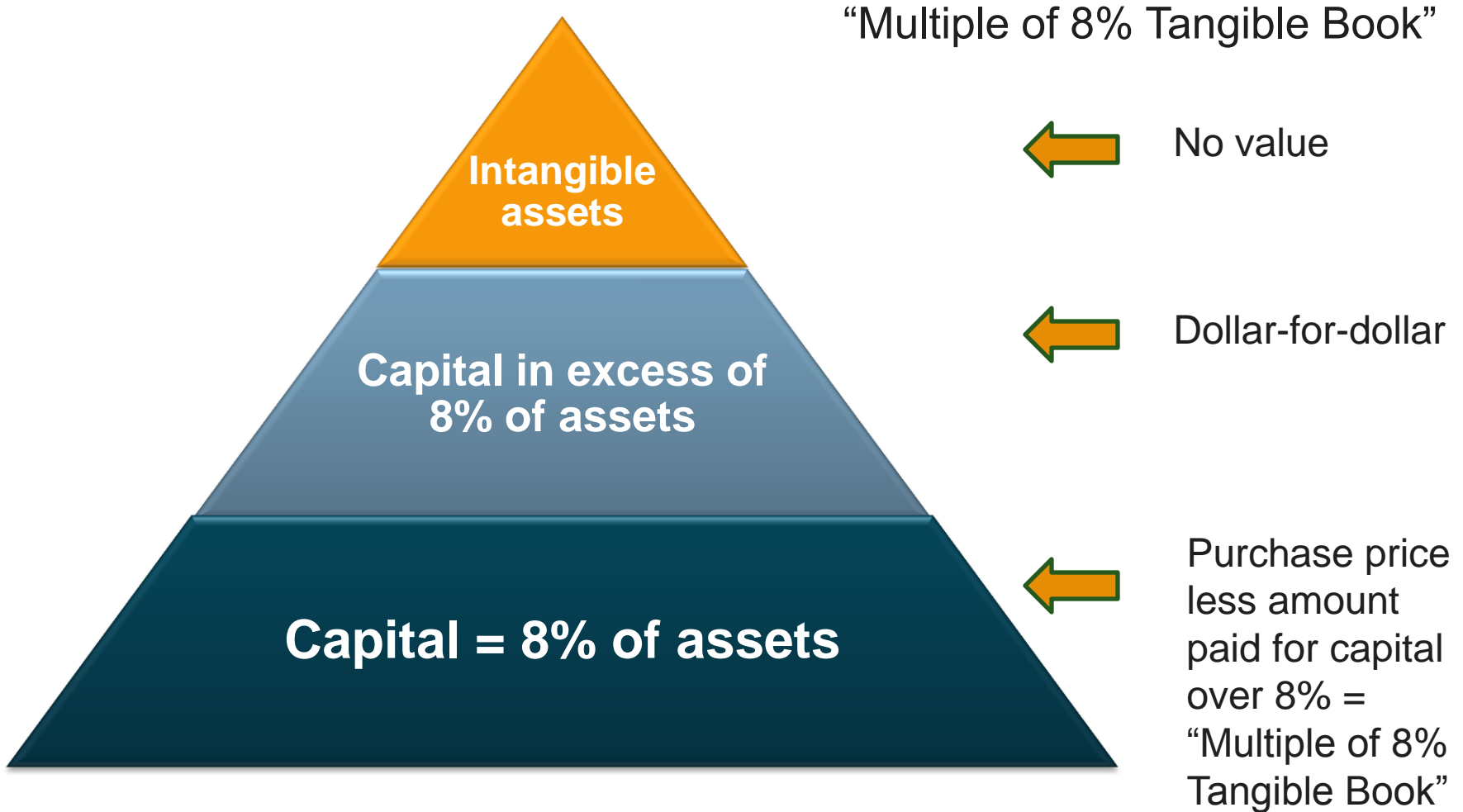


2011 Deal Activity Map



Note: Recapitalizations and deals without pricing are not included on map

How are Prices for Banks Reported?



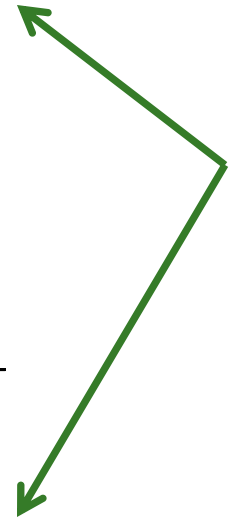
Multiple of 8% Book - Example

Multiple of Book

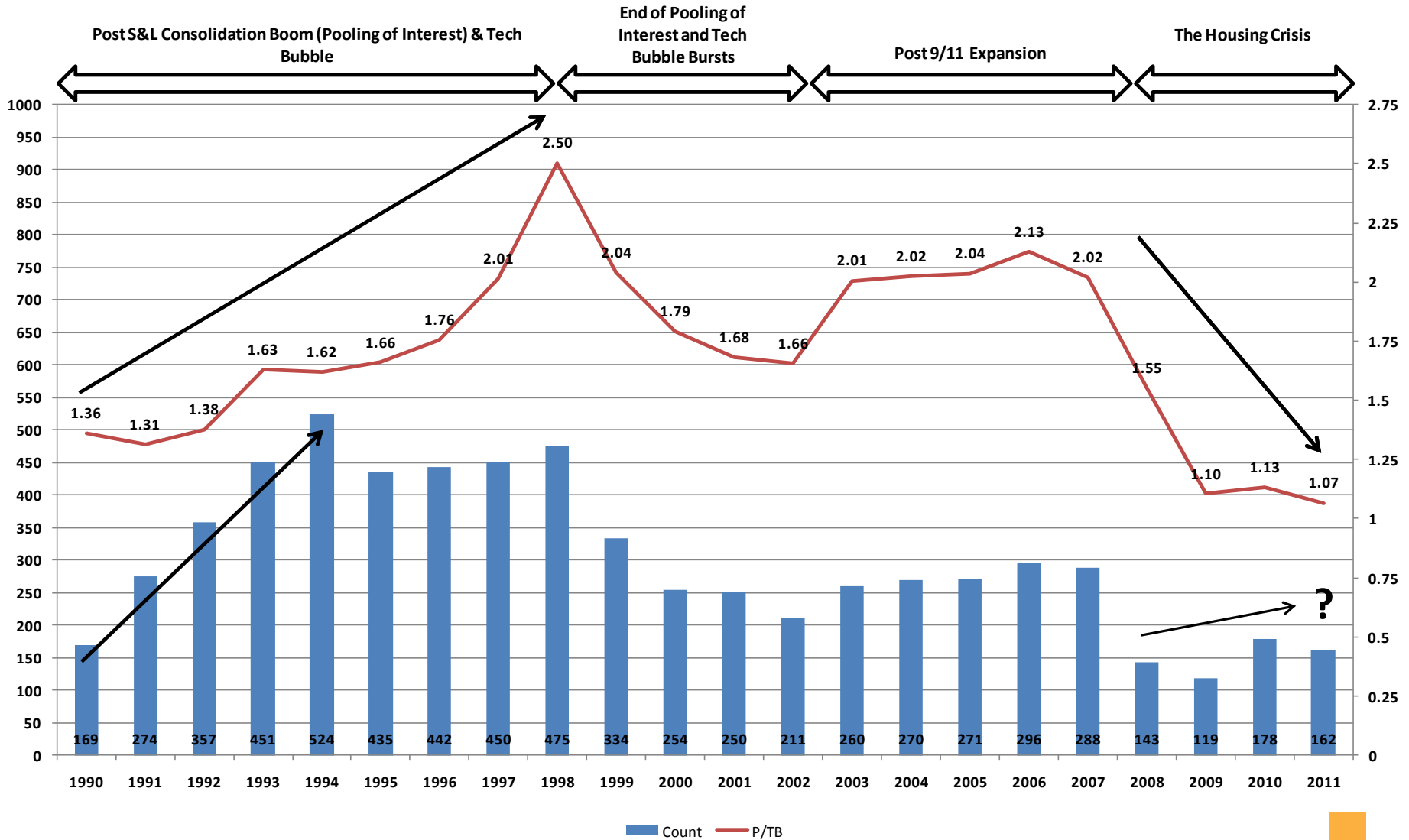
Total assets	200,000	Purchase price:	\$ 33,200
Equity capital	22,000	Multiple of book:	1.51
Equity to assets	11.0%		

Multiple of 8% Book

Total assets	200,000	Purchase price	\$ 33,200
	8.00%	Less: excess capital	<u>(6,000)</u>
Equity at 8%	<u>16,000</u>	Adjusted purchase price	\$ 27,200
"Excess capital"	<u>6,000</u>	Equity at 8%	16,000
Total capital	<u><u>22,000</u></u>	Multiple of 8% book	1.70



Recent M&A Cycles



New Trend - Using Private Stock as Deal Currency ?

Helps buyer capitalize transaction

Provides tax deferral on stock portion

Capital gains rate on cash

Seller keeps some chips on table

Have some sellers requesting it

Helps limit intangibles

Will deal volume increase and deal pricing improve in 2012?



Factors supporting both sides of the debate...

Effect of Dodd-Frank on Community Banks?

No rush for the exits.....yet

Optimist View

Wait and see approach

Largest banks impacted most

Might get repealed

Oppressive compliance costs

Further restricts product development

Creates uneven playing field

Pessimist View

Reasons M&A Activity Could Remain Sluggish

High level of NPA's and classified loans on buyer's books

Purchase accounting – effect on tangible book value

Paralysis from Dodd/Frank – What is going to happen?

Renewed volatility in financial markets from sovereign debt levels

Why Merger Activity Could Accelerate

Buyers are Motivated

- Need size for economies of scale
- Perception that we have hit bottom – only way is up
- Urgency to shop before other buyers crowd the market

Sellers are Motivated

- Many have been waiting for years
- Fun is gone – regulator exasperation
- Feel future earnings will not be as strong as historical earnings
- Capital gains tax changing?

Downward Pressures on Deal Prices



- Slower projections of economic growth
- Lower projections of banking profits



- Publicly-traded banks have depressed currency
- Analyst scrutiny of tangible book ratios



- Regulatory pressure on capital ratios
- Regulatory pressure on problem assets

Why Deal Pricing Could Improve

Buyers Need Earnings

- Fee income in decline
- Shareholder and market expectations

Little Organic Growth

- Opening new locations is less attractive in a slow economy

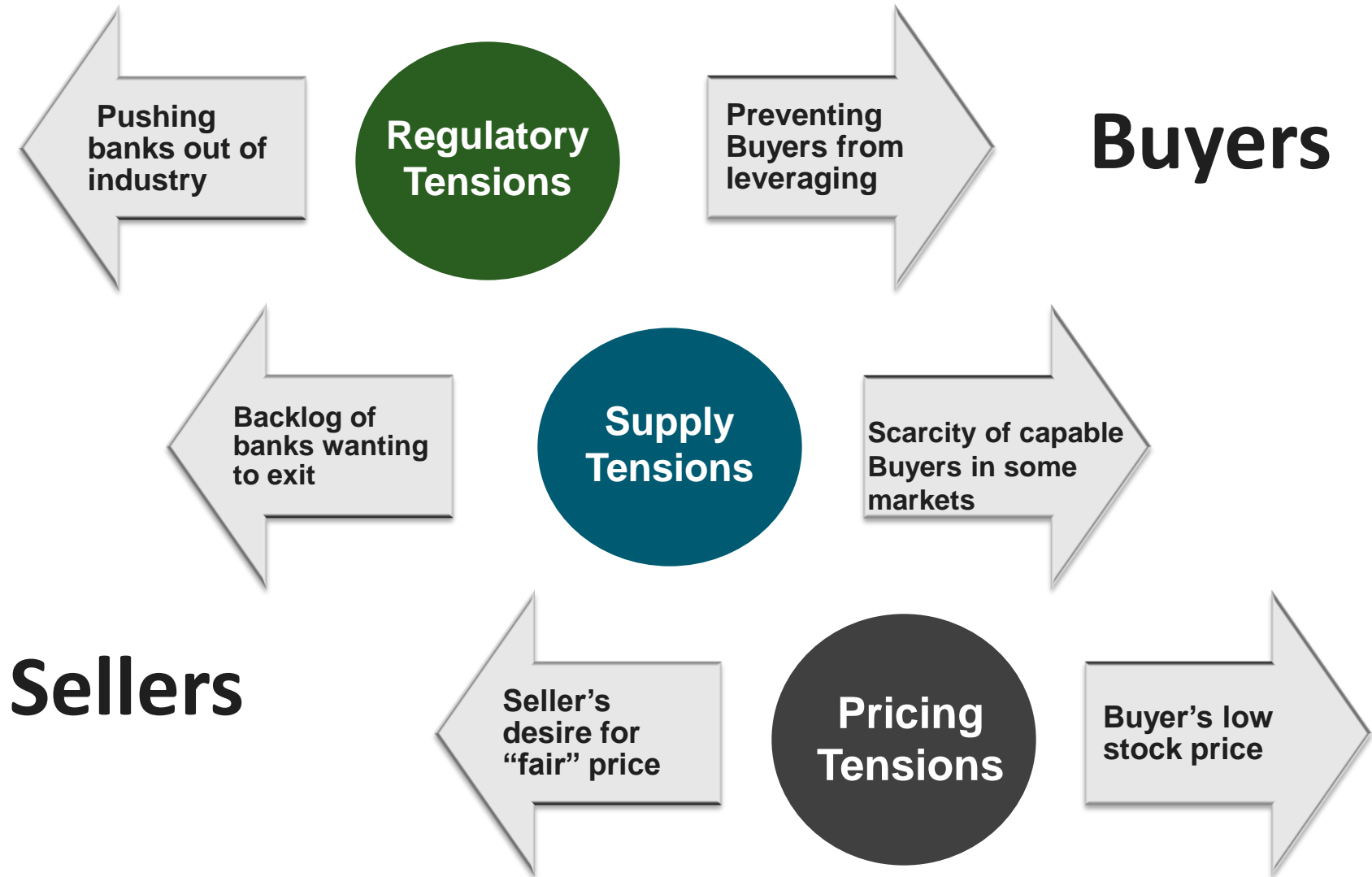
Loan Growth

- Targets in good loan markets fix two problems:
 - a) current earnings
 - b) future earnings

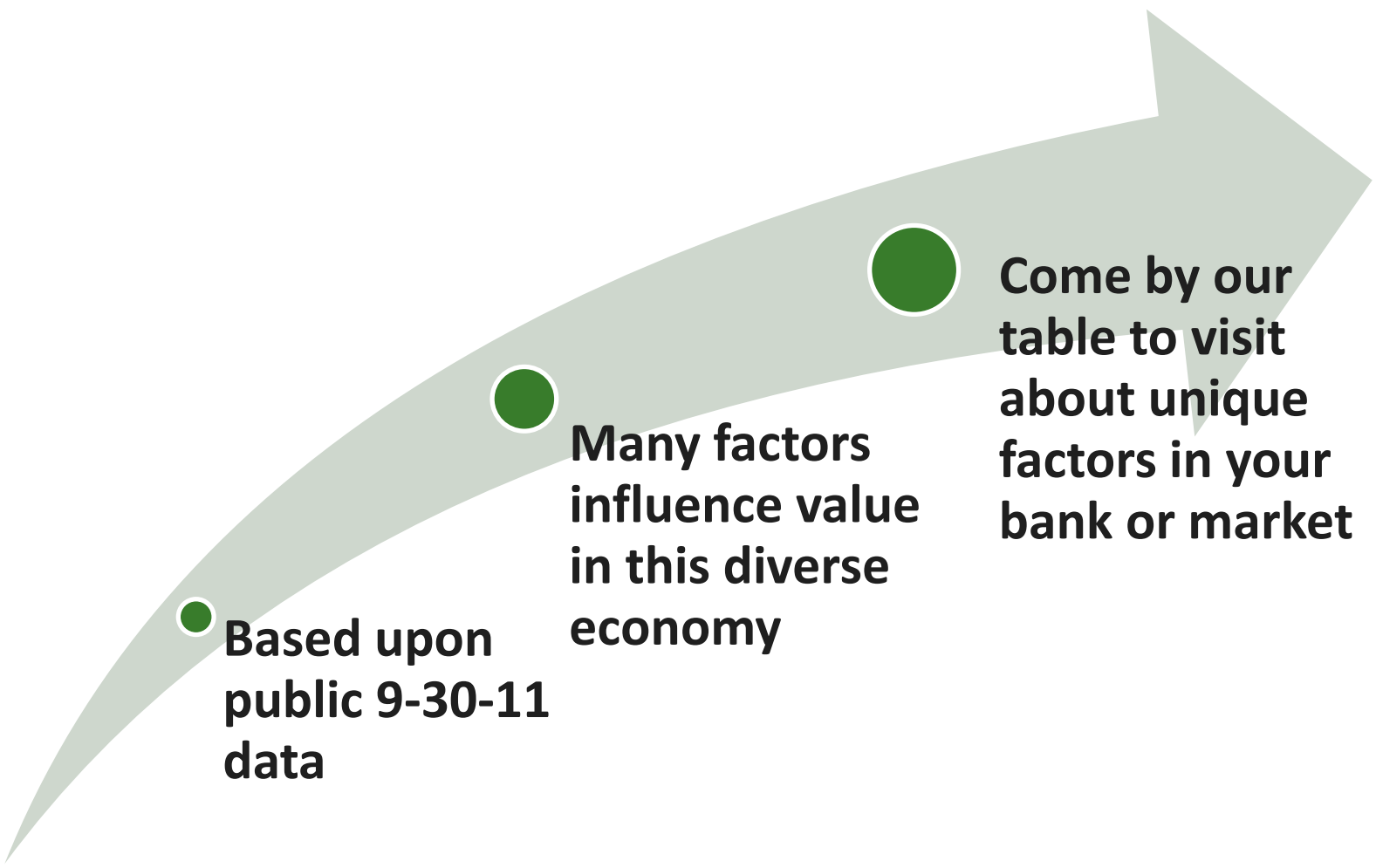
Shifting Opinions

- Many buyers are shifting their focus from bargain hunting to value creation

Short-Term Tensions: Sellers vs. Buyers



Your Current Market Pricing Report



**Based upon
public 9-30-11
data**

**Many factors
influence value
in this diverse
economy**

**Come by our
table to visit
about unique
factors in your
bank or market**

A Consistent Leader in Community Bank M&A



Buyside & Sellside Representation ∞ **Strategic Options Alternatives**
Fairness Opinions ∞ **Valuation Services** ∞ **Failed Bank Advisory Services**

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