

Sheshunoff & Co

INVESTMENT BANKING



Community Bank of the Arbuckles
has agreed to merge with
Vision Bank



Bank

I Bank Texas SSB
has agreed to sell to
Independent Bank Group Inc.



Cameron State Bank
has agreed to sell to
IBERIABANK



The Leader in Community Bank Mergers and Acquisitions

Your Bank's Worth Today and Tomorrow

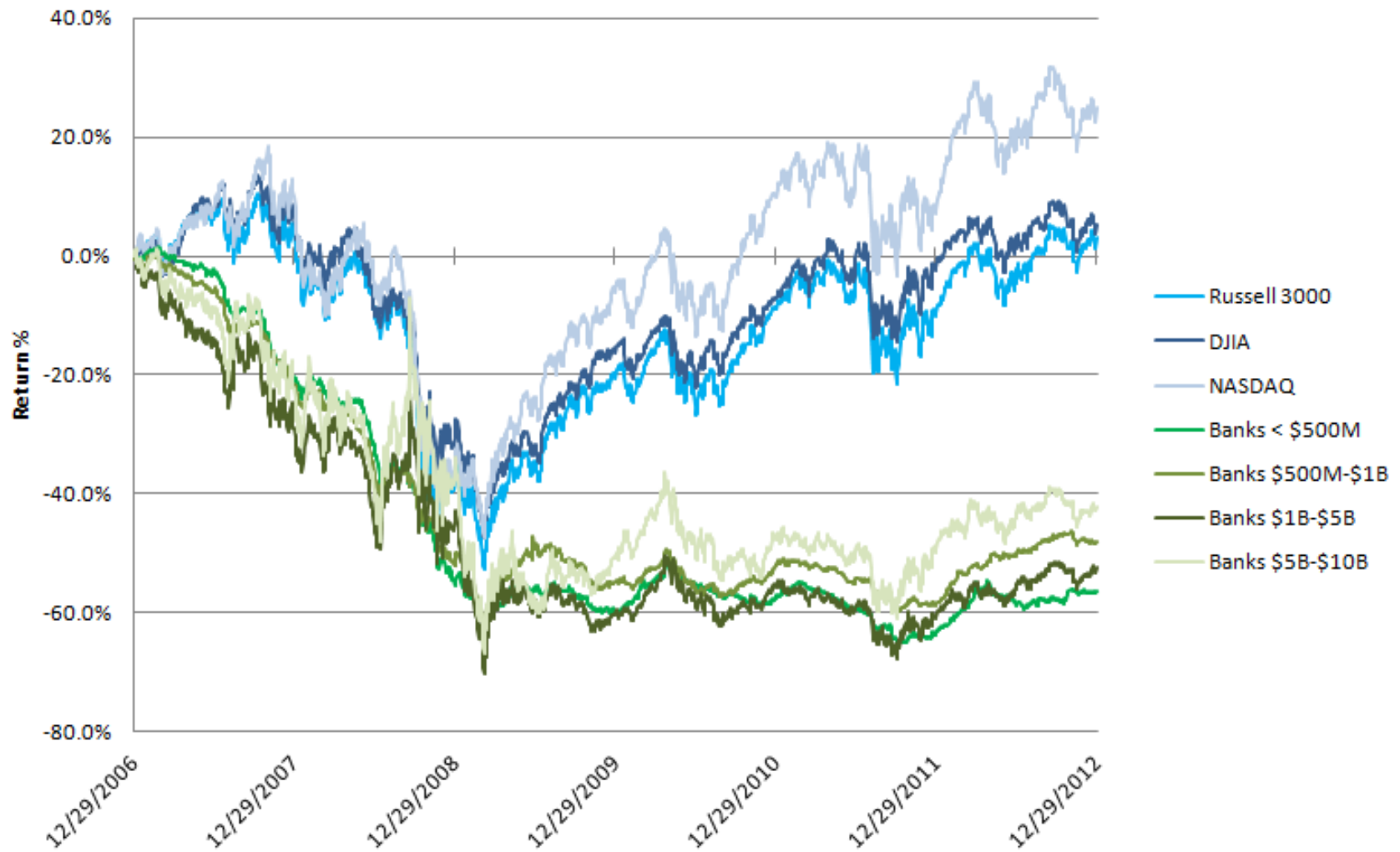
Curtis Carpenter
Managing Director – Sheshunoff & Co. Investment Banking

Acquire or Be Acquired Conference
January 2013

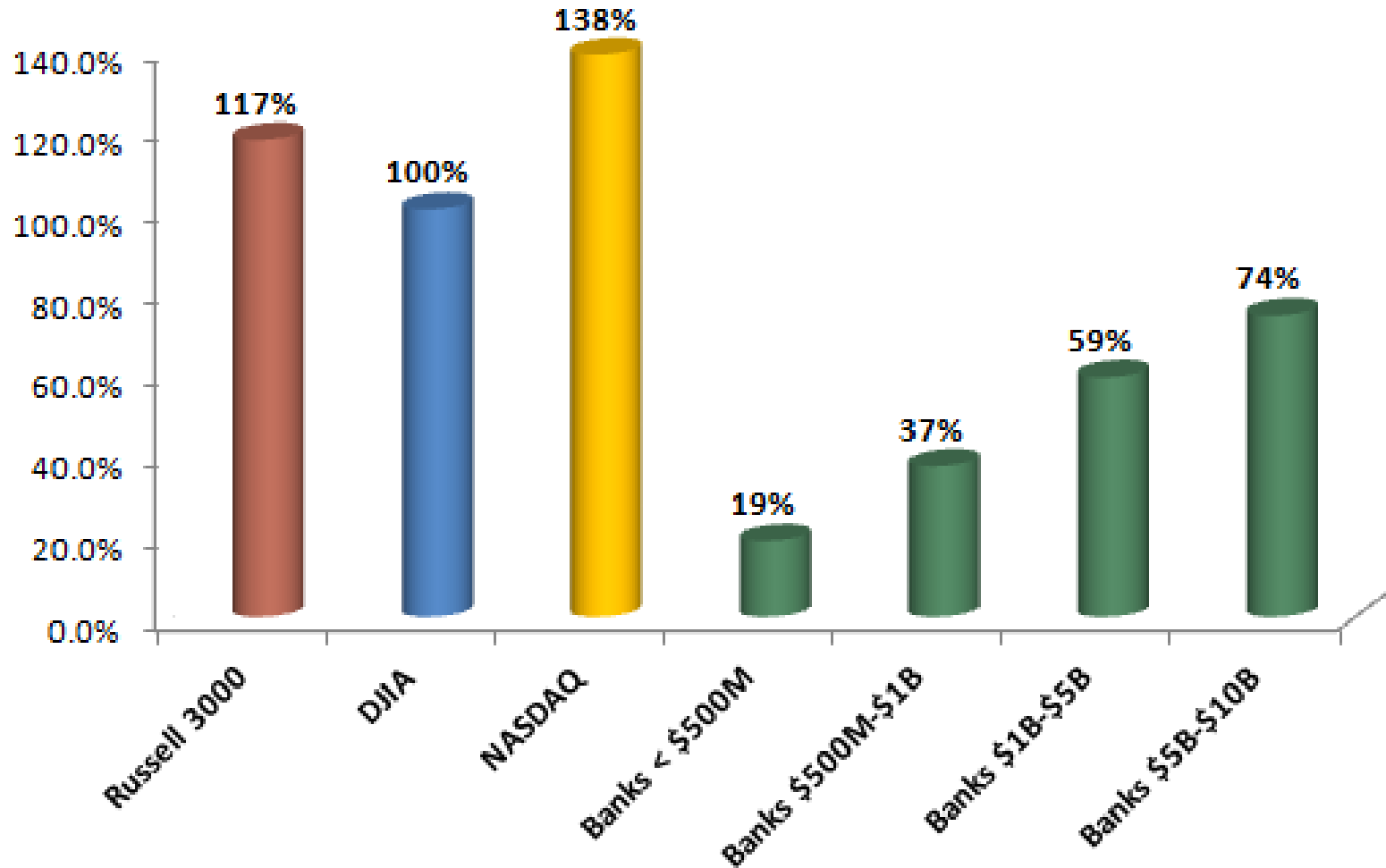
Bank Value:

What Factors are Driving Bank Values in
This Market?

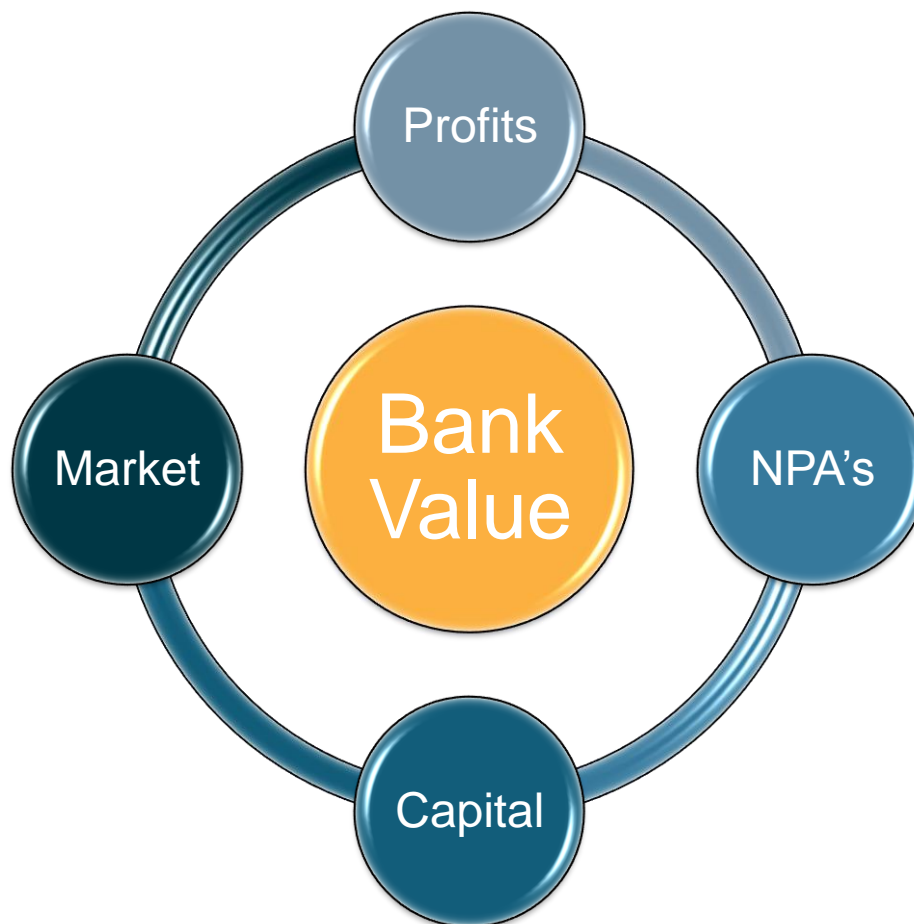
Index Returns 2007 through 2012



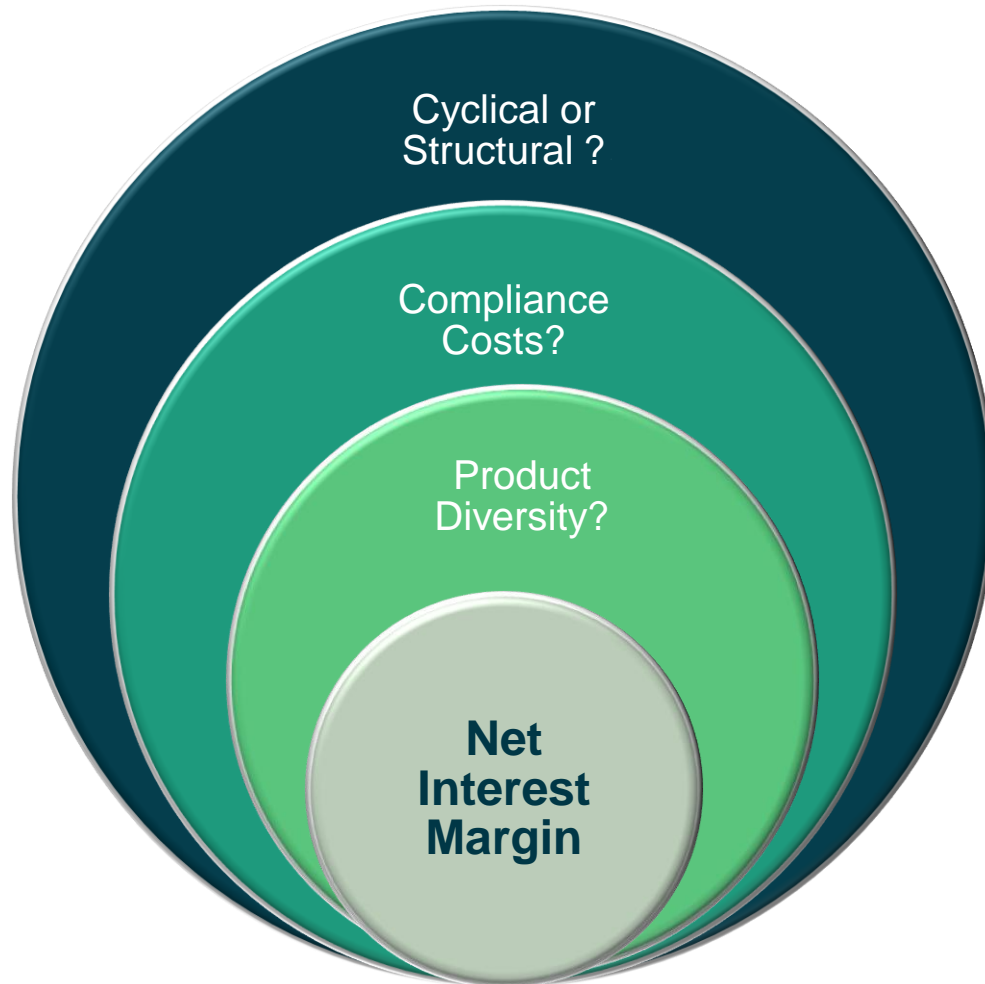
Index Performance from Market Low (March 2009)



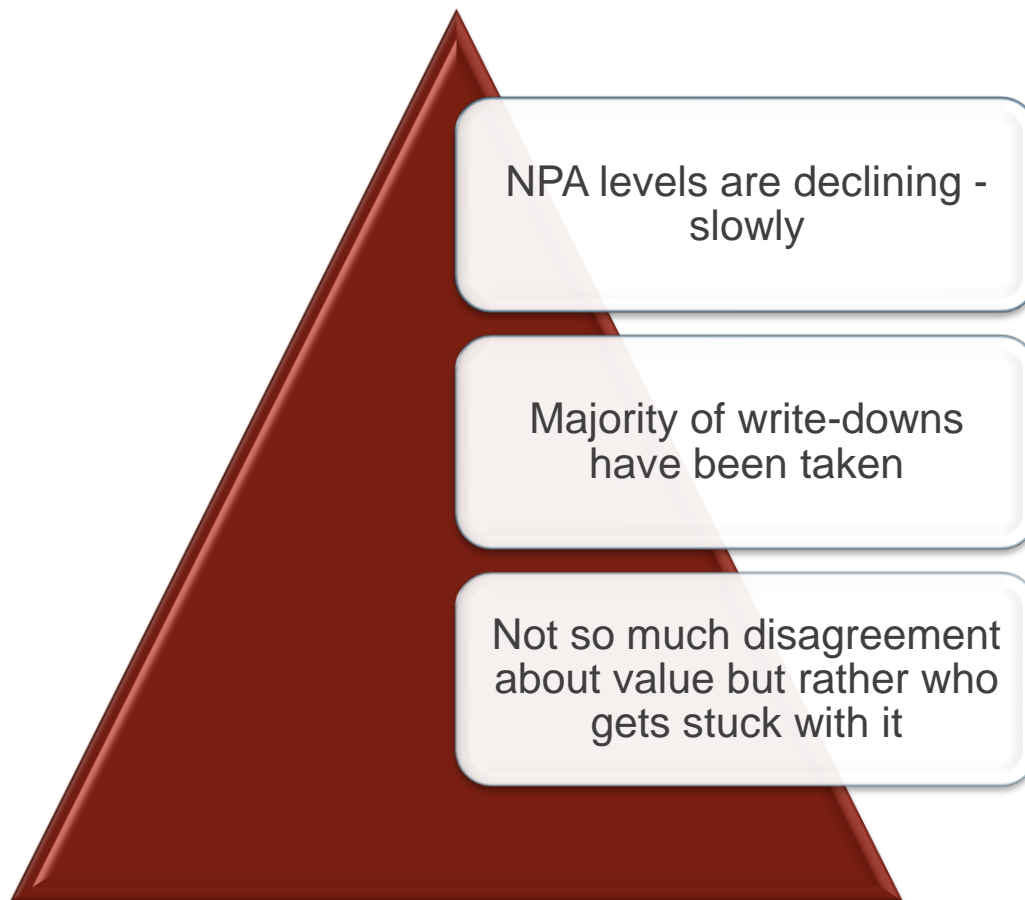
Many Factors Determine Value



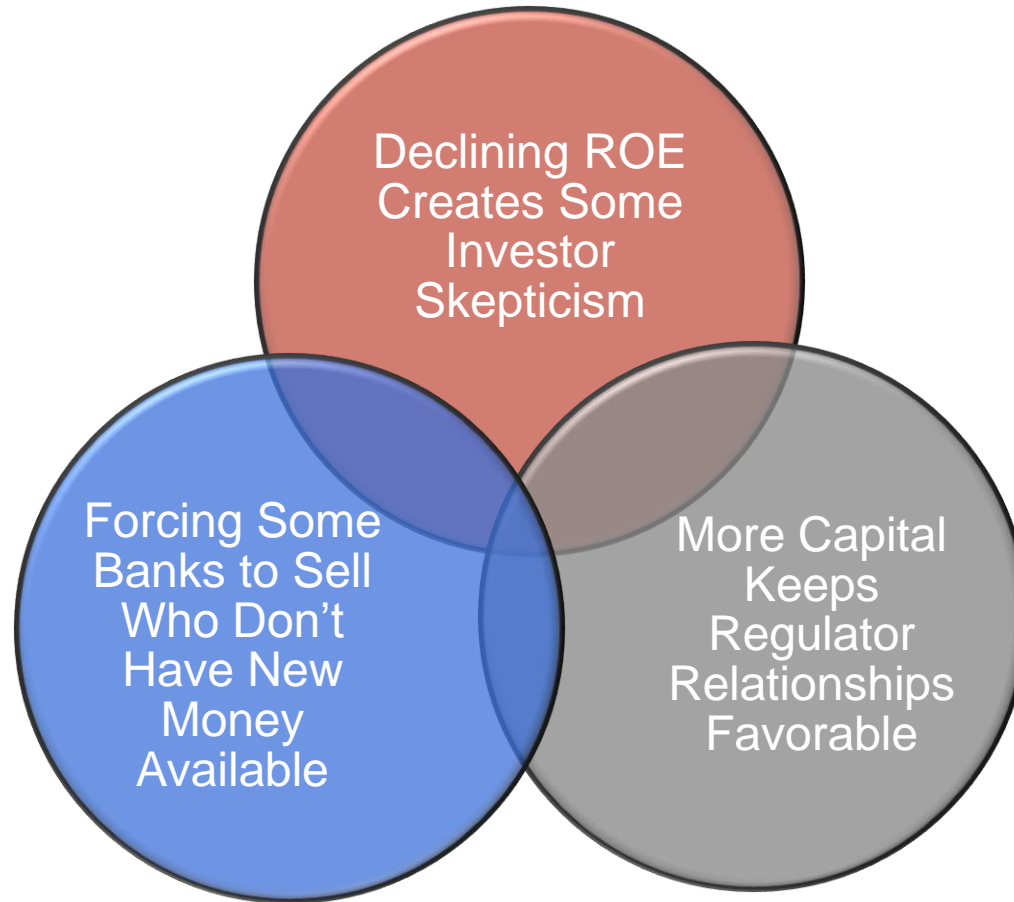
Where is Bank Profitability Heading?



How Much a Factor is Asset Quality?



How are Capital Requirements Factoring In?



Market Factors Driving Consolidation and Value

NIM Challenges Intensifying – Especially for Banks with Low Loan-to-Deposit Ratios

Much Harder for Small Banks to Cut Costs and Diversify Revenues

Compliance Burden is Growing: Dodd Frank; CFPB – Fair Lending; UDAPP; Mortgage Reform

Board and Management Fatigue Plus Persistent Management Succession Dilemma

Regulators Are Now Facilitating Mergers vs. Opposing Them

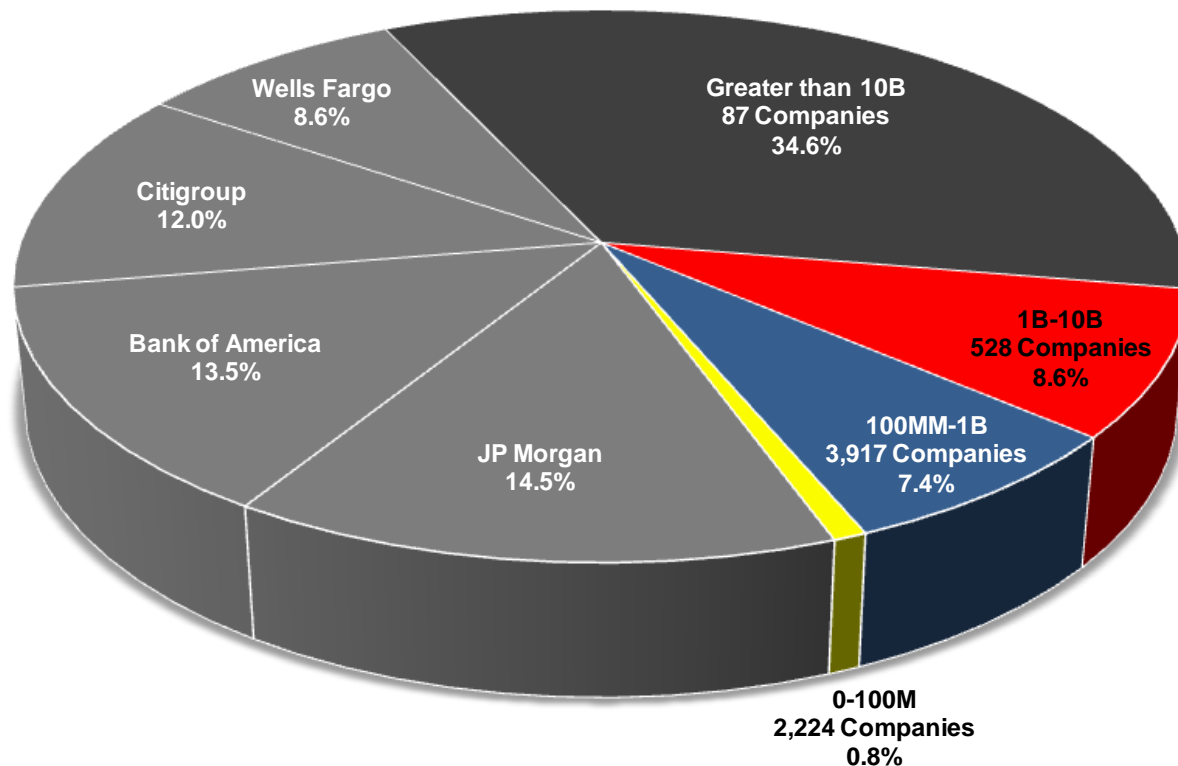
Industry Update:

How has the financial crisis impacted community banks?

Asset Distribution Among Banks and Thrifts

Total Industry Assets = \$16.0 Trillion

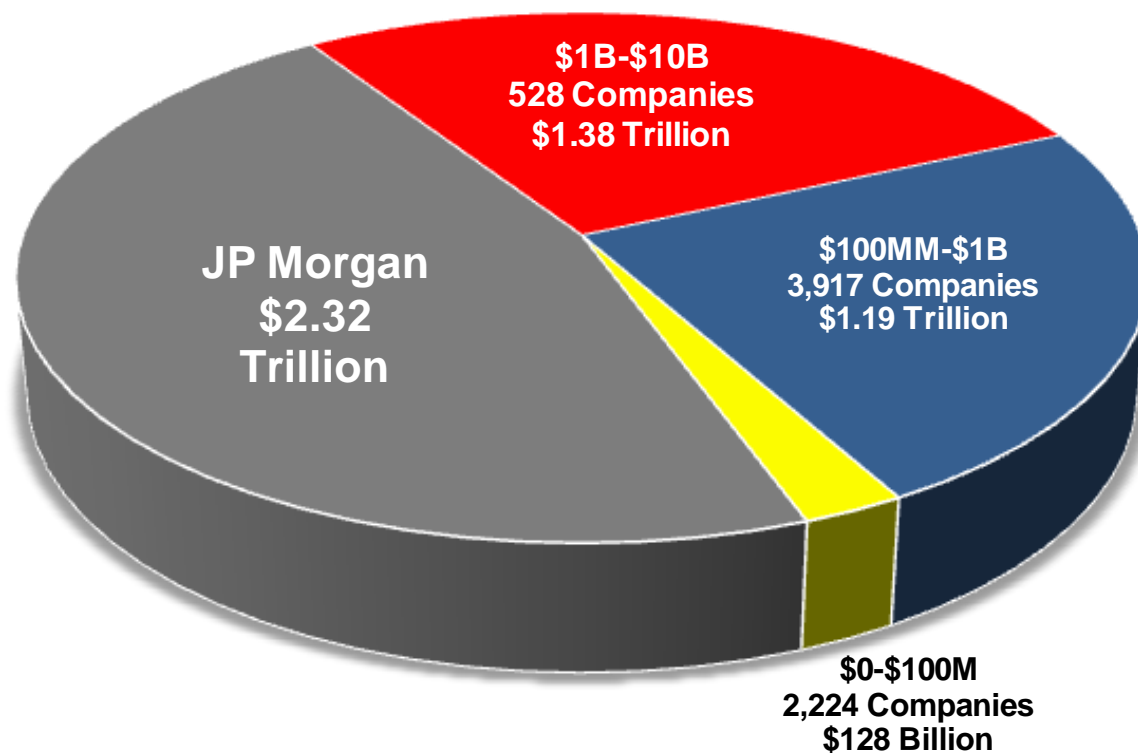
Top 4 Banks:
\$7.8T in Assets
48.6% of Industry Assets



September 30, 2012 Data Consolidated by HC

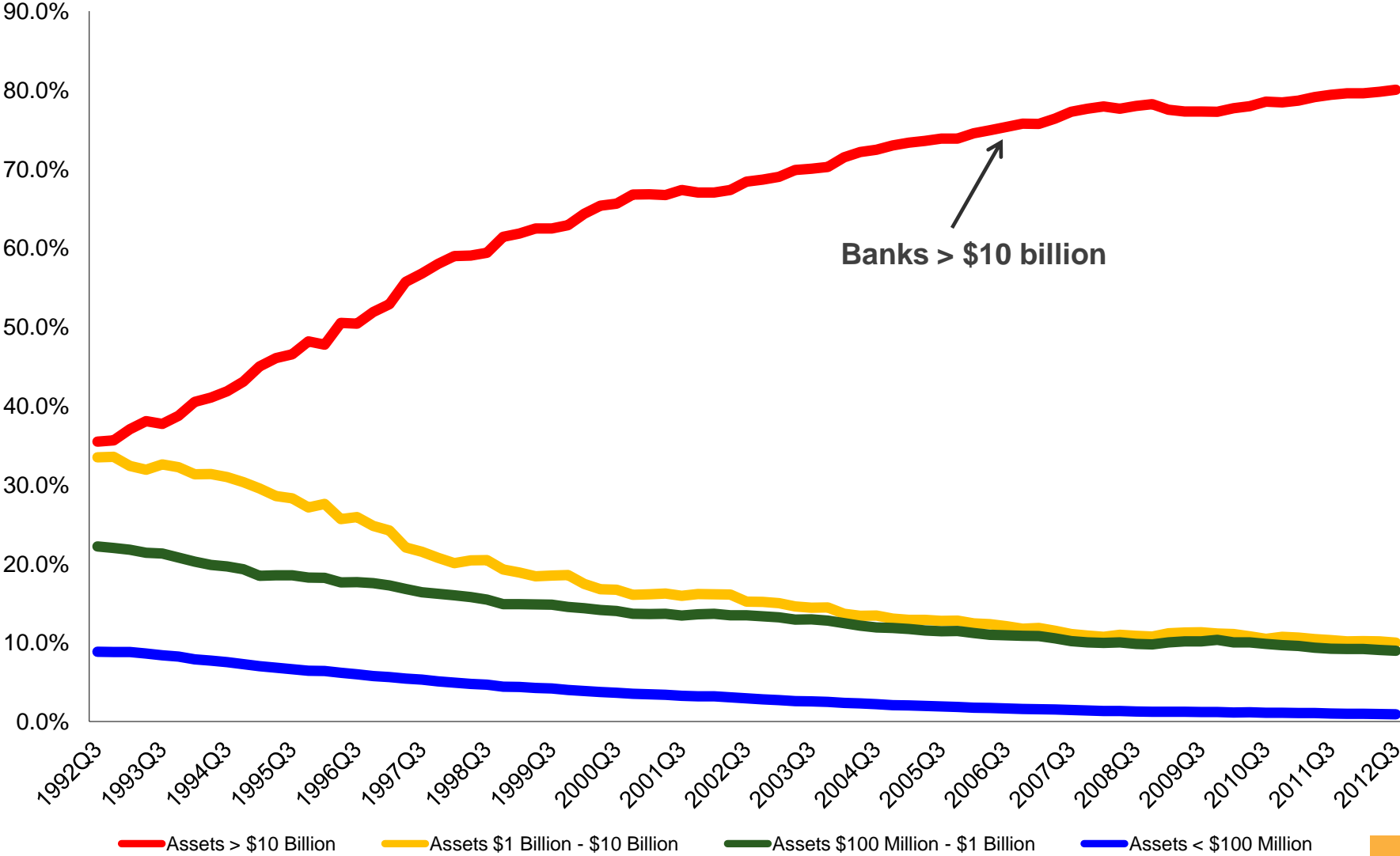
Excludes any bank larger than \$1 billion in assets with a deposits to assets ratio of less than 10%

All Banks Smaller than \$10B vs. JP Morgan

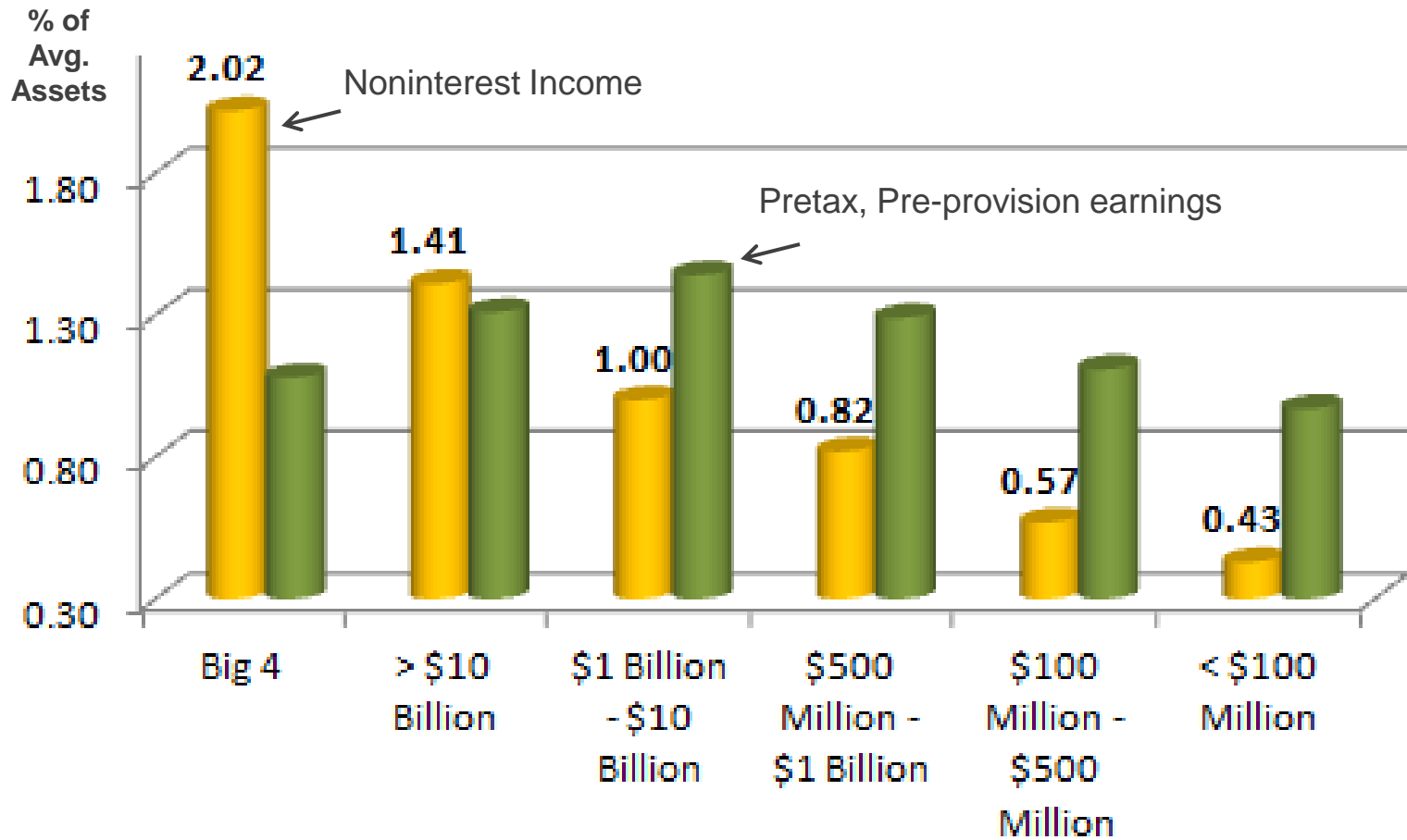


September 30, 2012 Data Consolidated by HC
Excludes any bank larger than \$1 billion in assets with a deposits to assets ratio of less than 10%

Share of Industry Assets – Change over 20 years



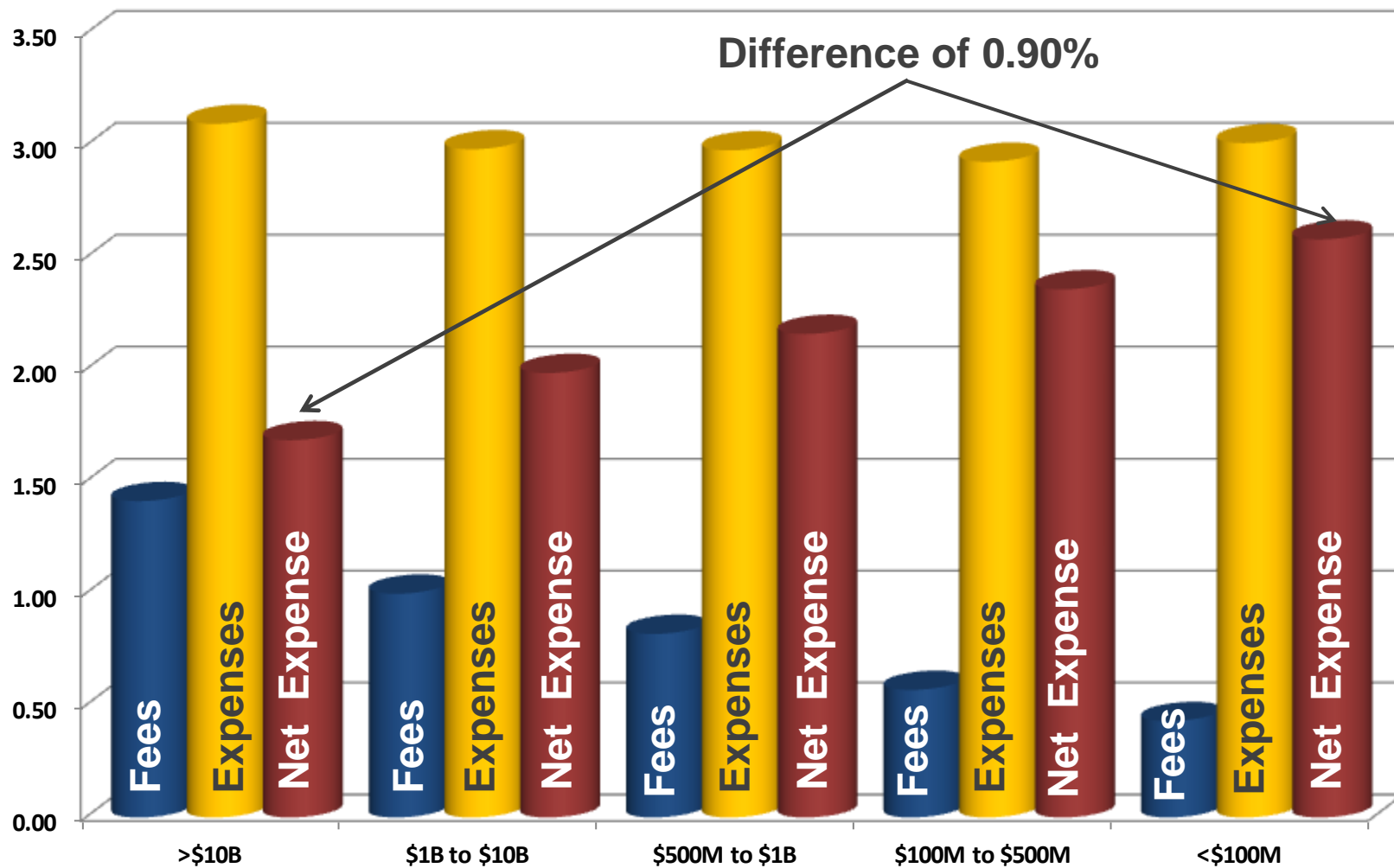
Noninterest Income and Pretax, Pre-provision Earnings by Size



12 months ending 9-30-12

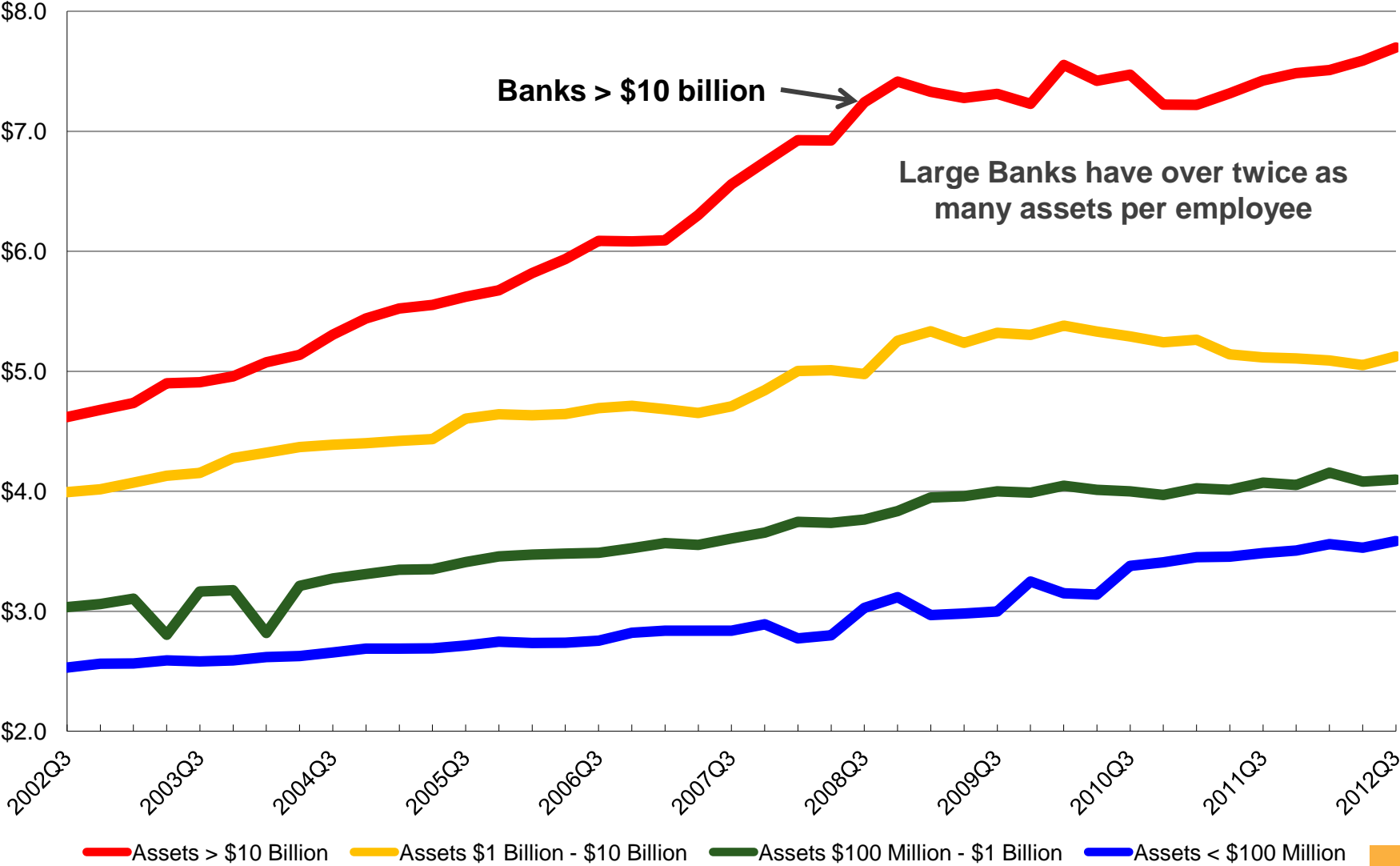
Net Noninterest Expense by Size

LTM 9/30/2012



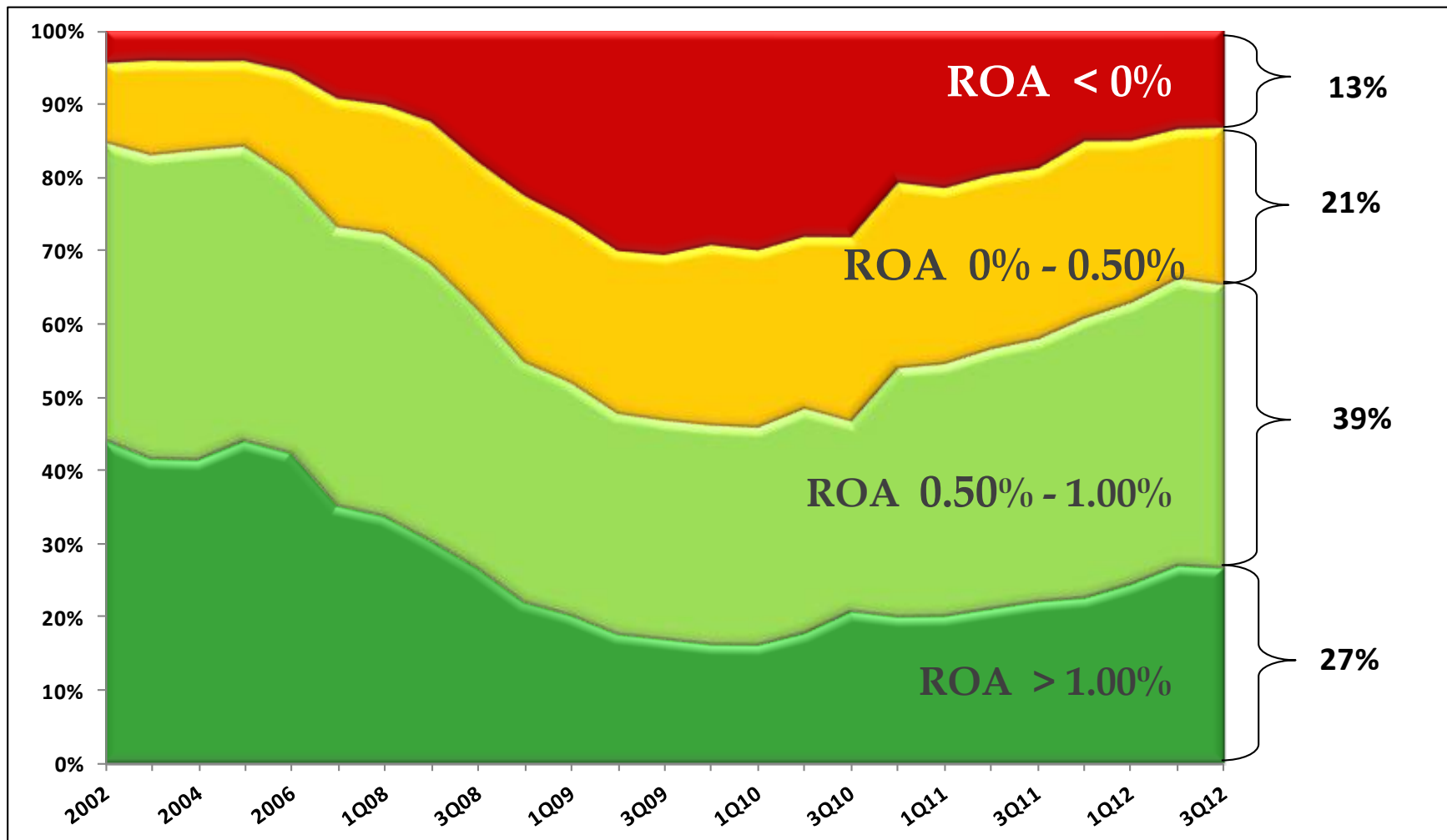
Median Data, % of Average Assets, LTM September 30, 2012

Average Total Assets per Employee (\$ Millions)



Bank and Thrift ROAs

% of the industry by bank

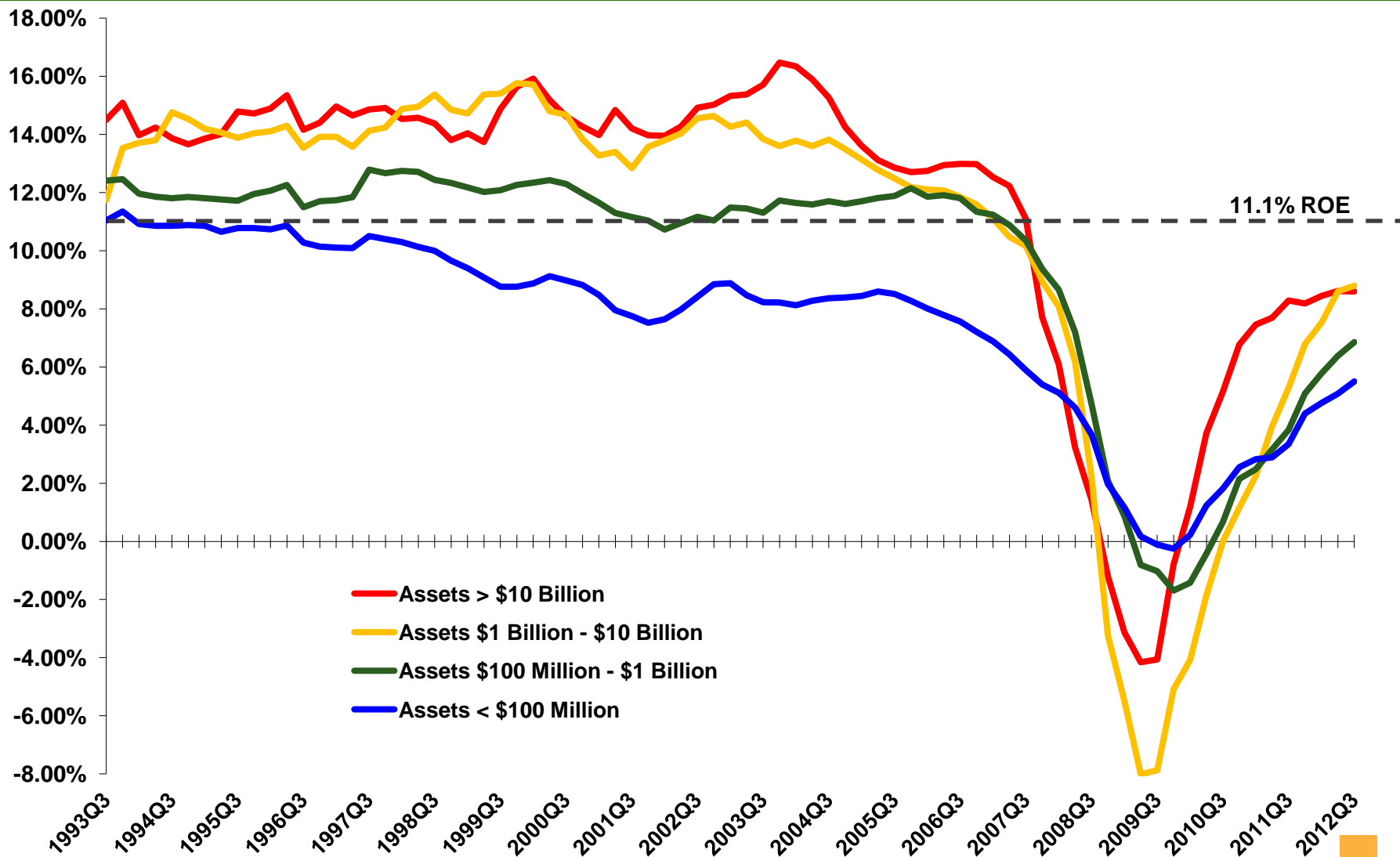


35% Tax Rate Applied to S-Corps

Last Twelve Months Data 9/30/12

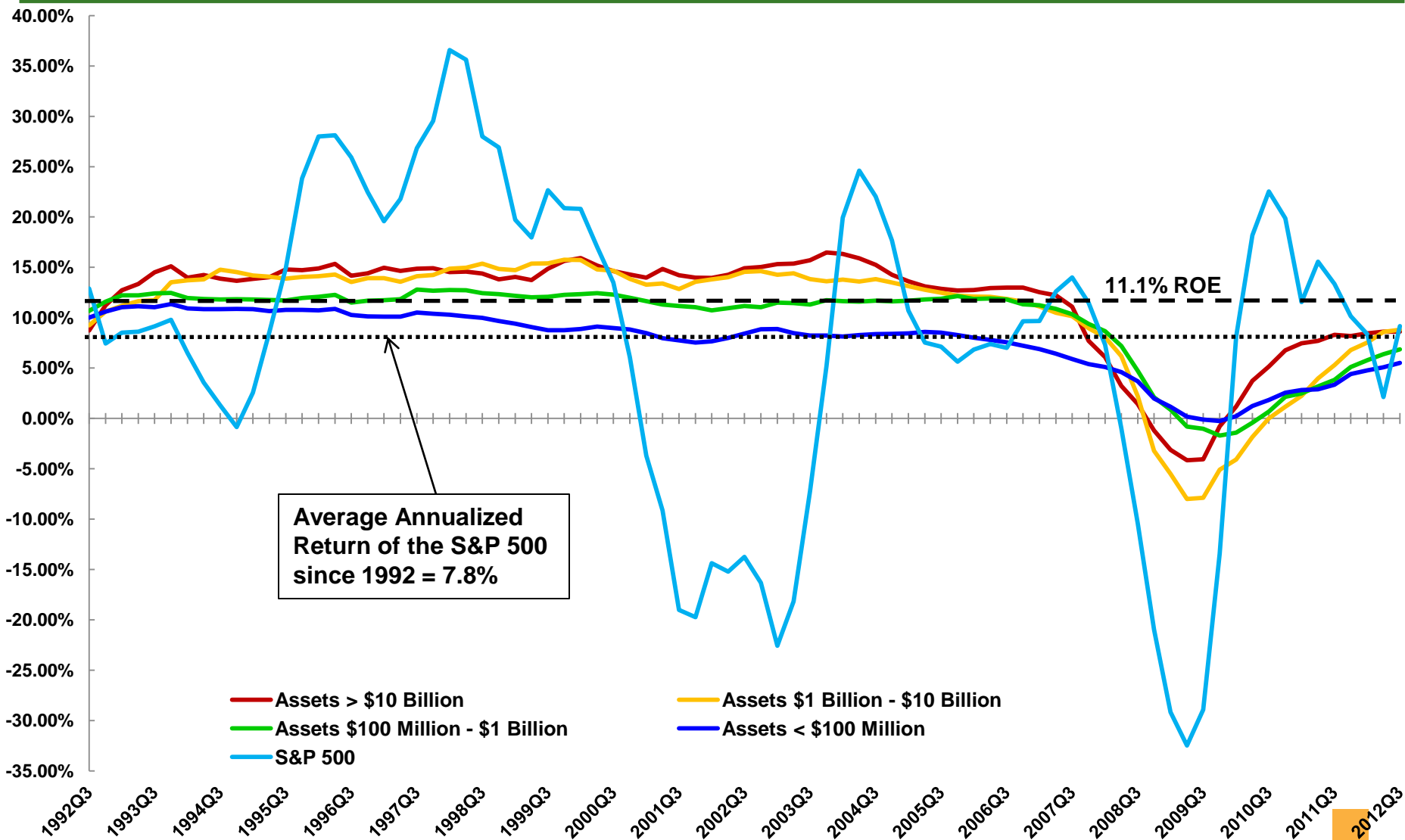
Bank and Thrift Return on Equity

(4 Qtr moving average since 1992)



Bank and Thrift ROE vs S&P 500 Annual Return

(4 Qtr moving average since 1992)

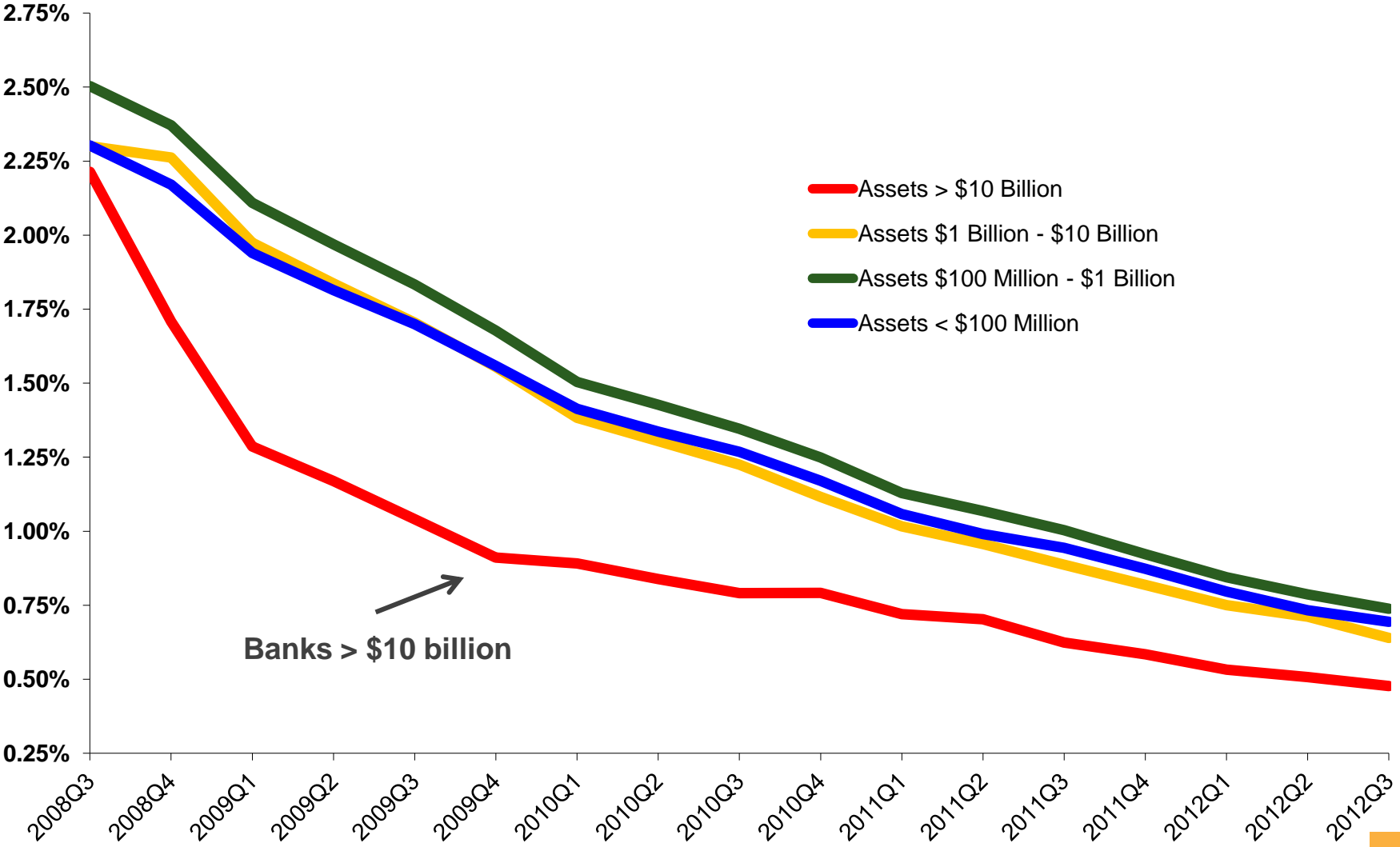


Average Annualized Return of the S&P 500 since 1992 = 7.8%

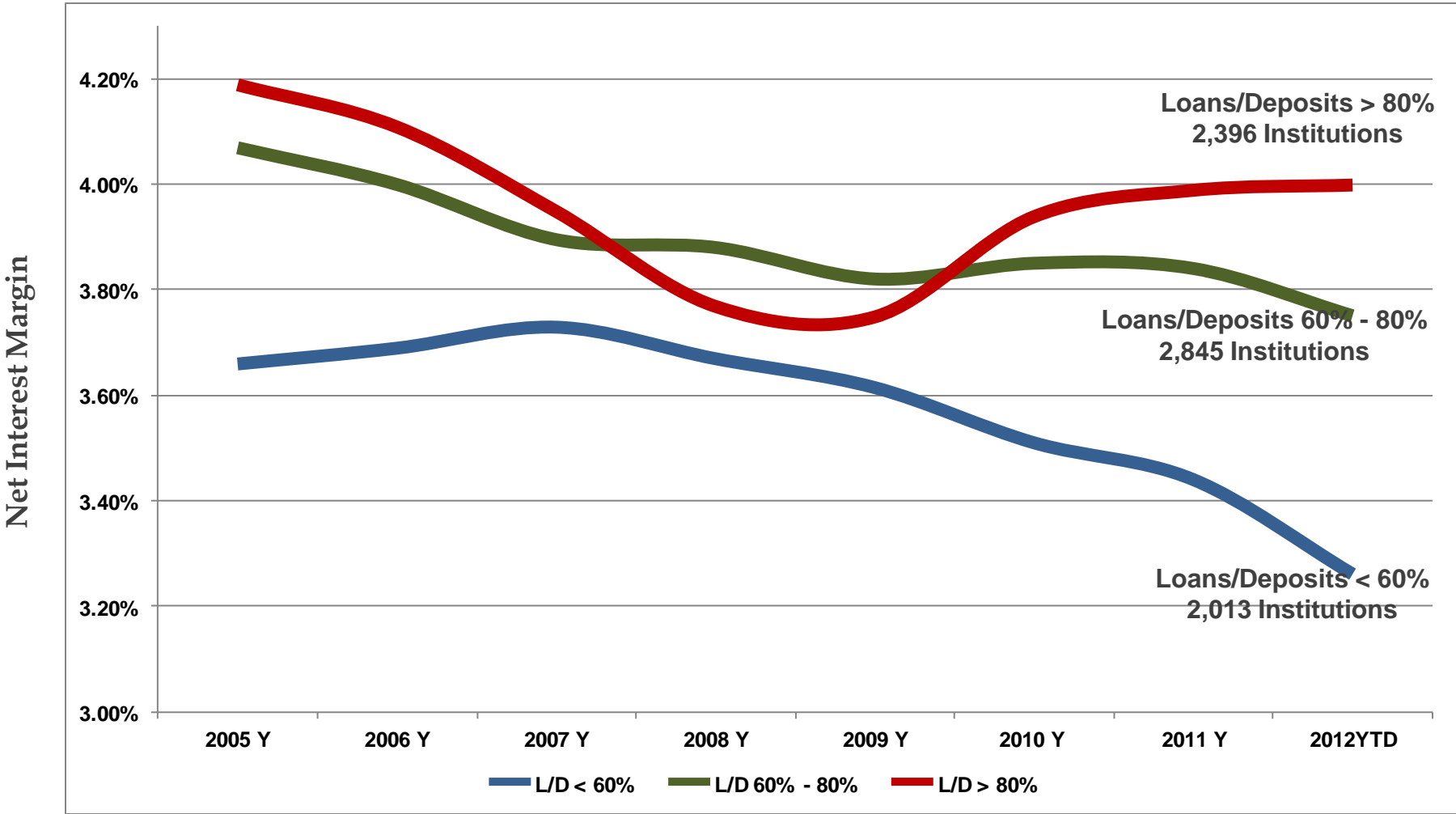
11.1% ROE

- Assets > \$10 Billion
- Assets \$1 Billion - \$10 Billion
- Assets \$100 Million - \$1 Billion
- Assets < \$100 Million
- S&P 500

Average Cost of Funding Earning Assets

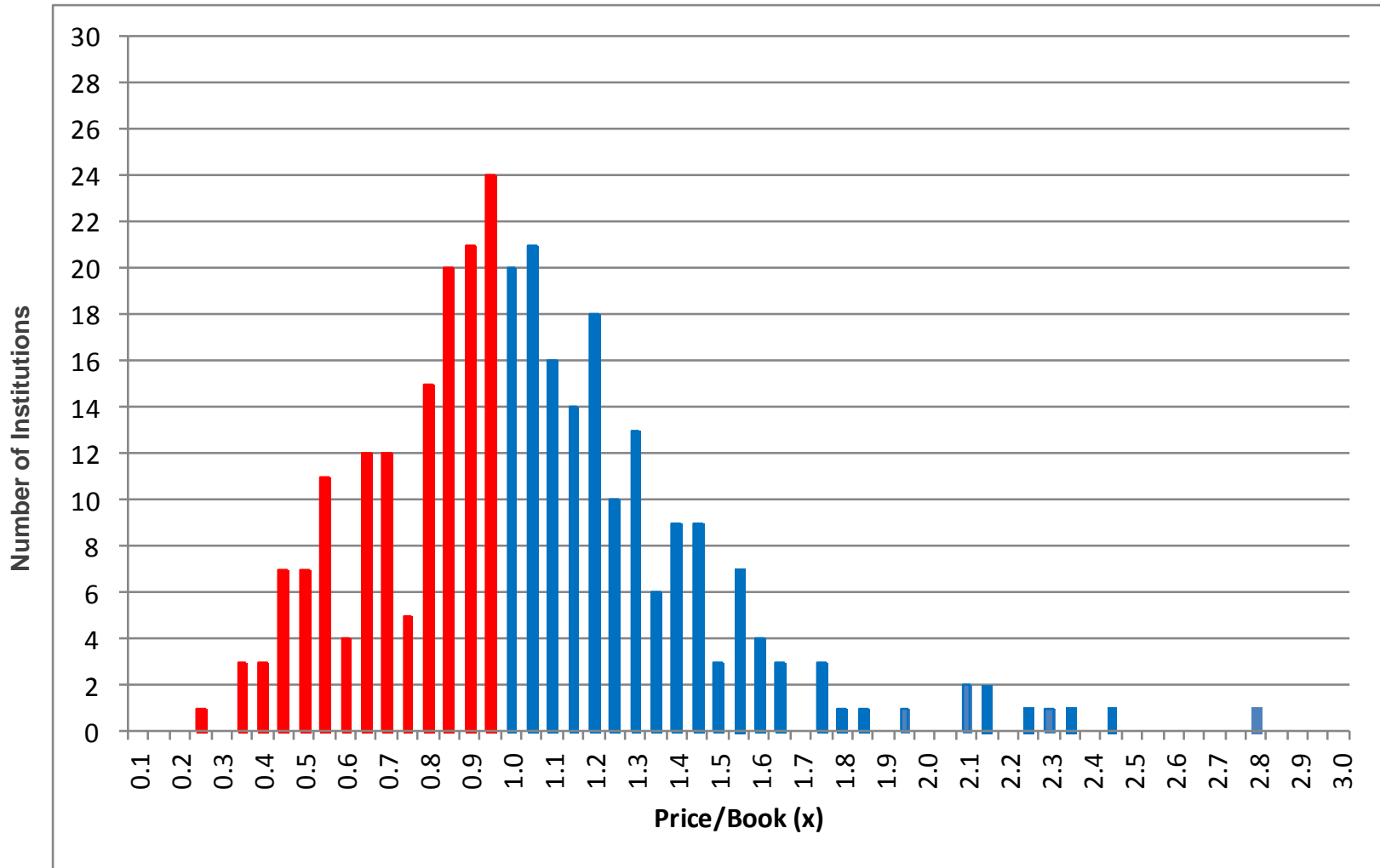


Loan to Deposits Impact on Net Interest Margin



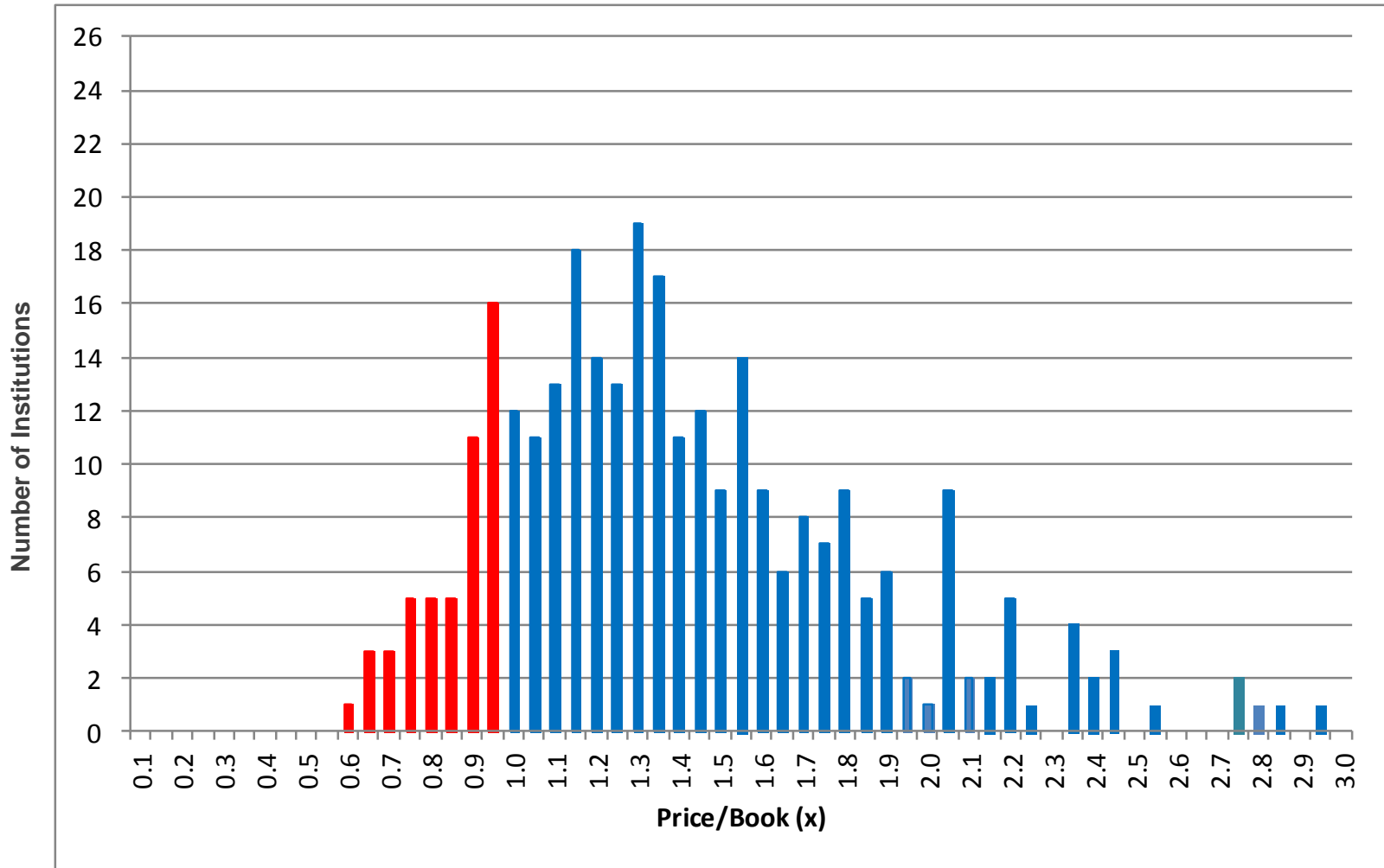
2012 Year-to Date

Publicly Traded Price Distribution - 2012



Financial Data as of September 30, 2012, Stock Prices as of December 31, 2012, Intervals of 0.05x;

Publicly Traded Price Distribution - 2007

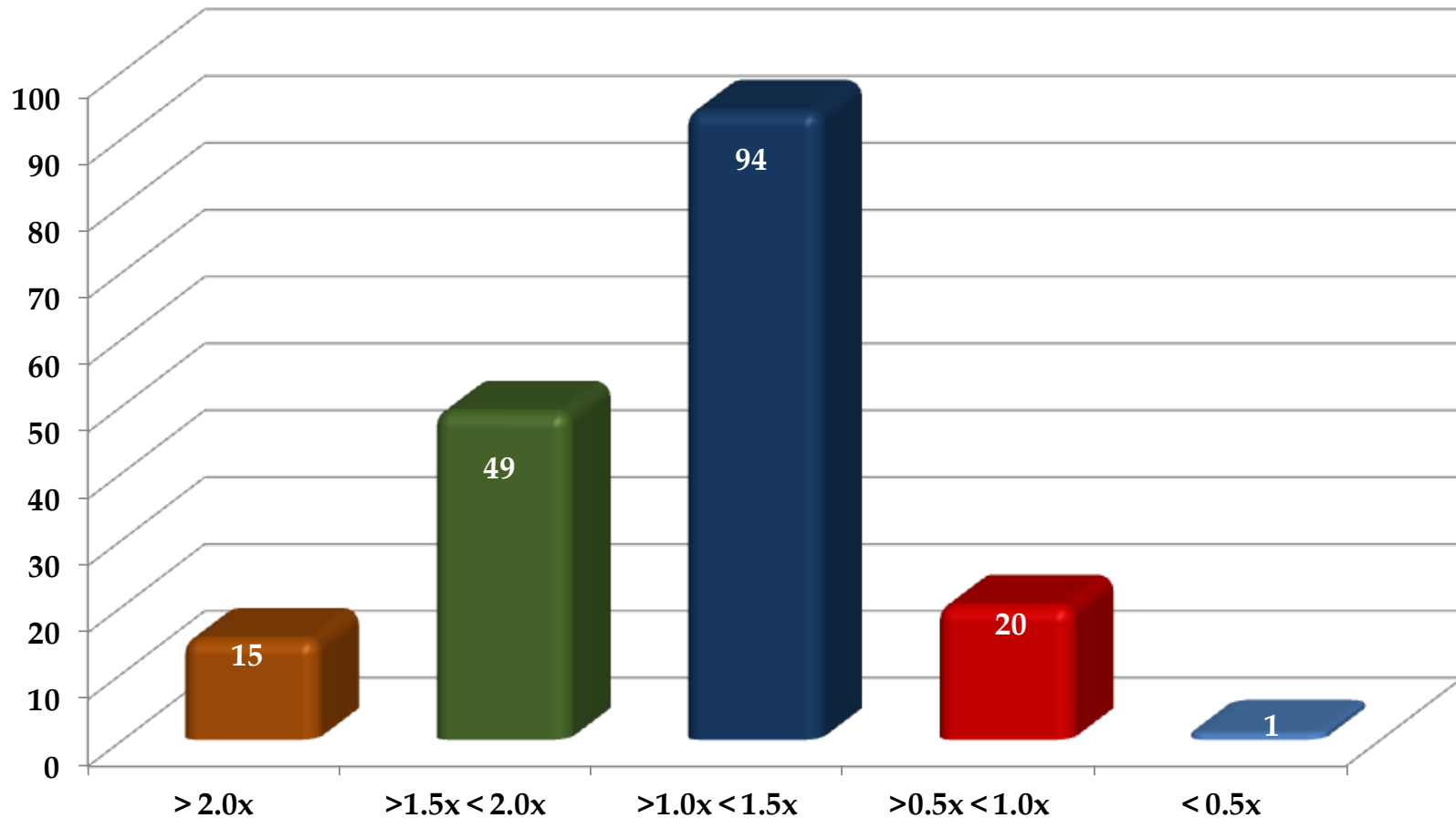


Using the same institutions as at year-end 2012, Stock Prices as of December 31, 2007, Intervals of 0.05x;

Publicly Traded Banks and Thrifts

Greater than \$2 Billion in Assets

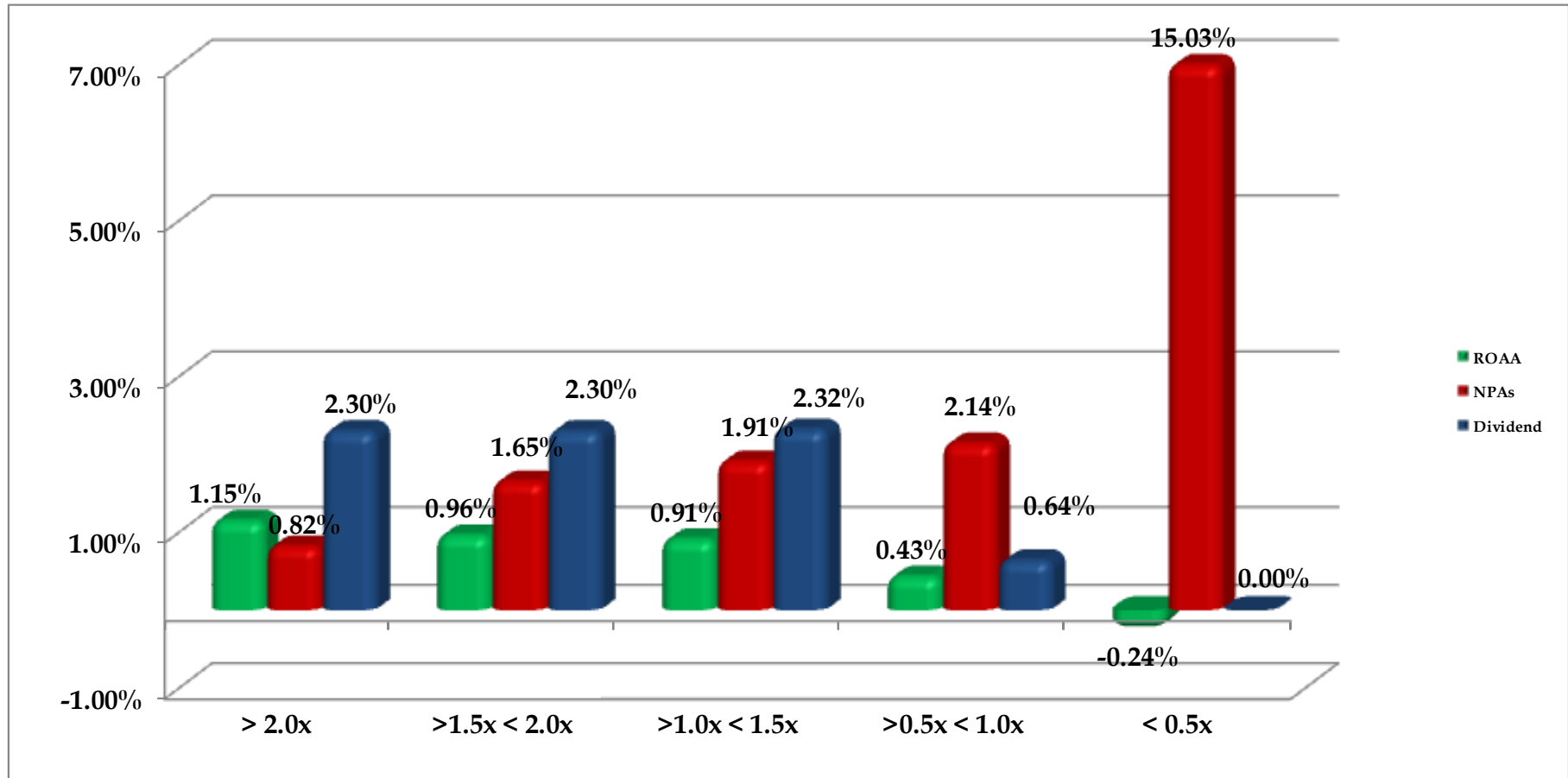
Price to Tangible Book as of December 31, 2012



Publicly Traded Banks and Thrifts

Greater than \$2 Billion in Assets

Comparison of Median ROAA, NPAs and Dividend Yield

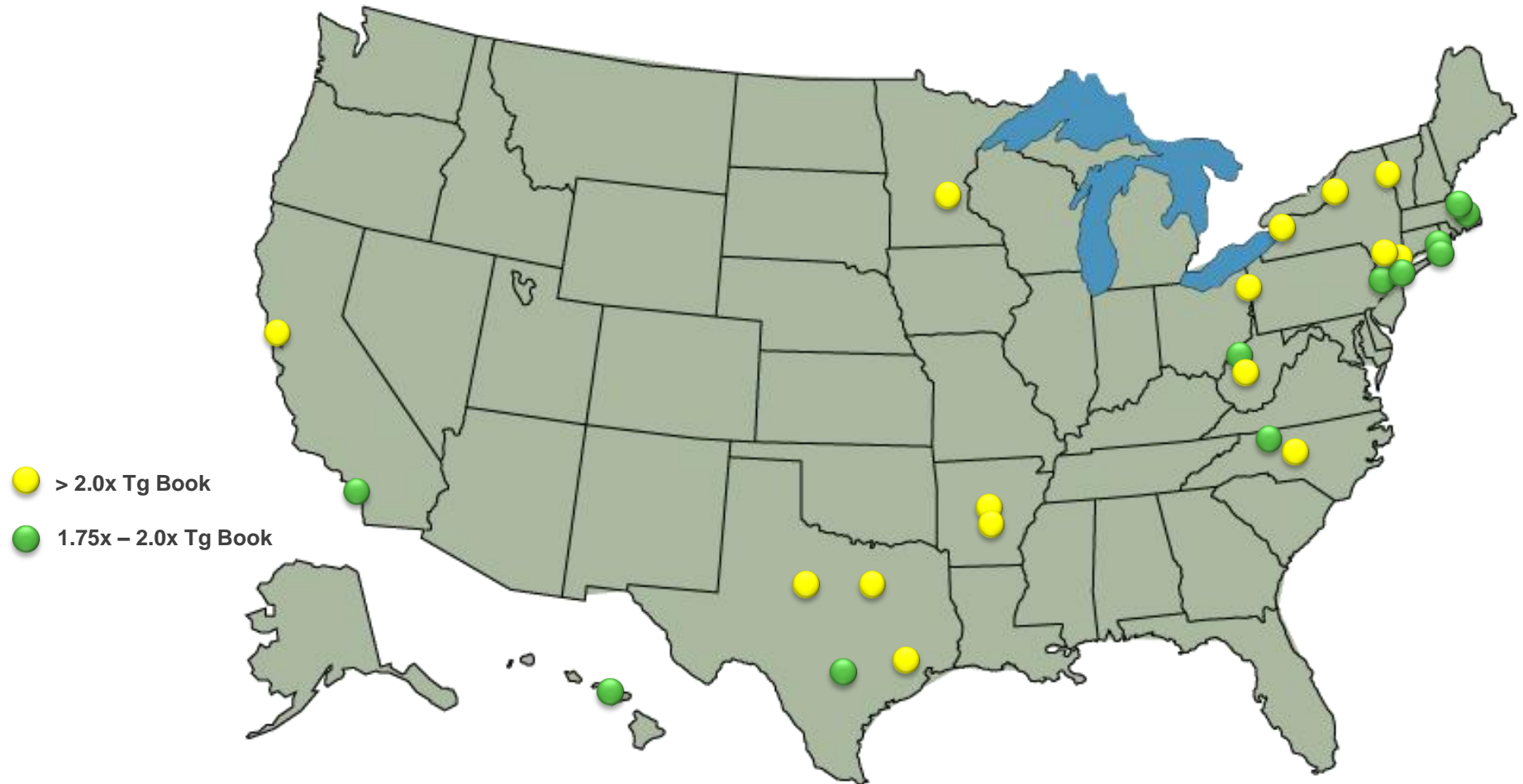


Price to Tangible Book

As of December 31, 2012

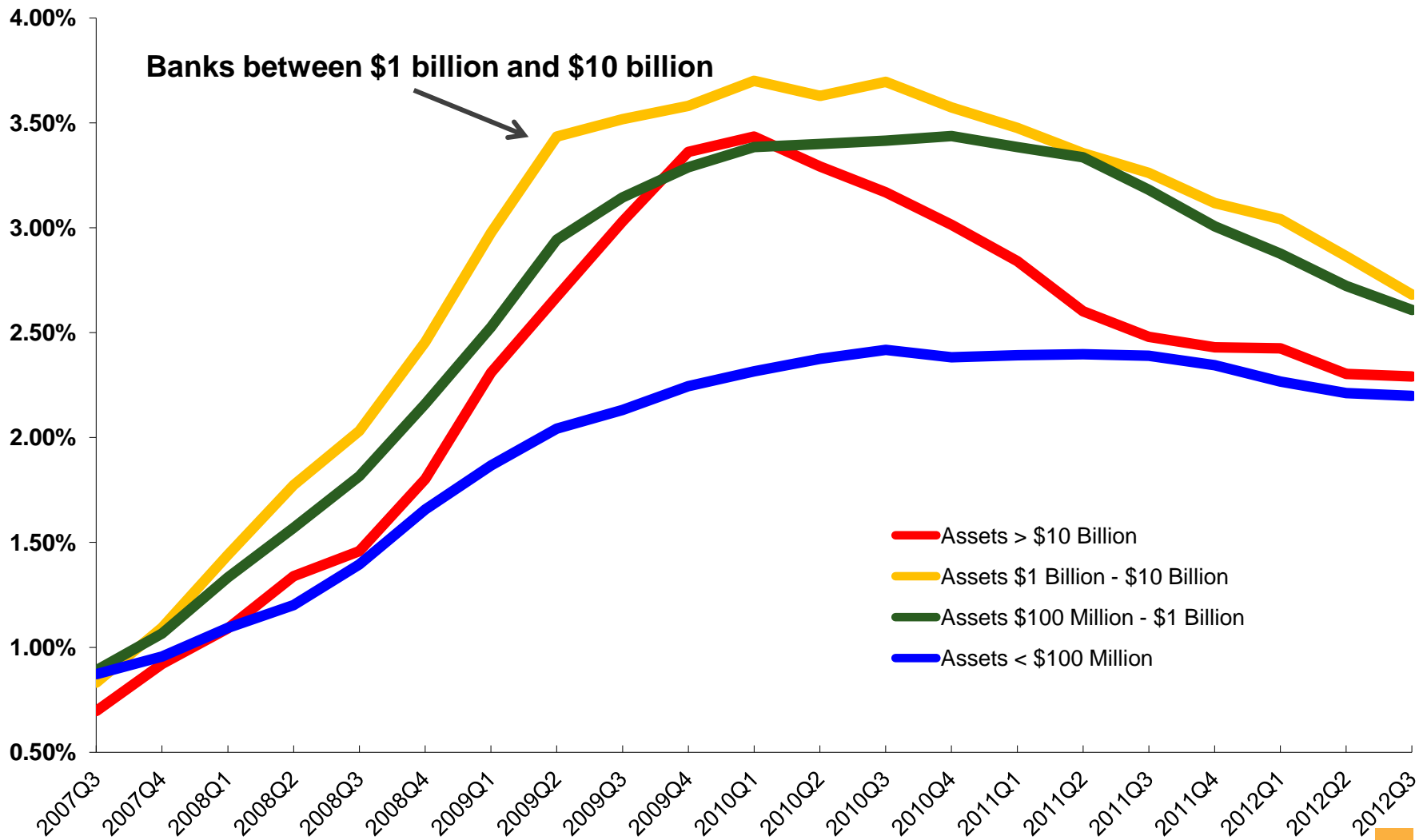
Publicly Traded Banks and Thrifts > \$2 Billion

Price-to-Tangible Book Locations



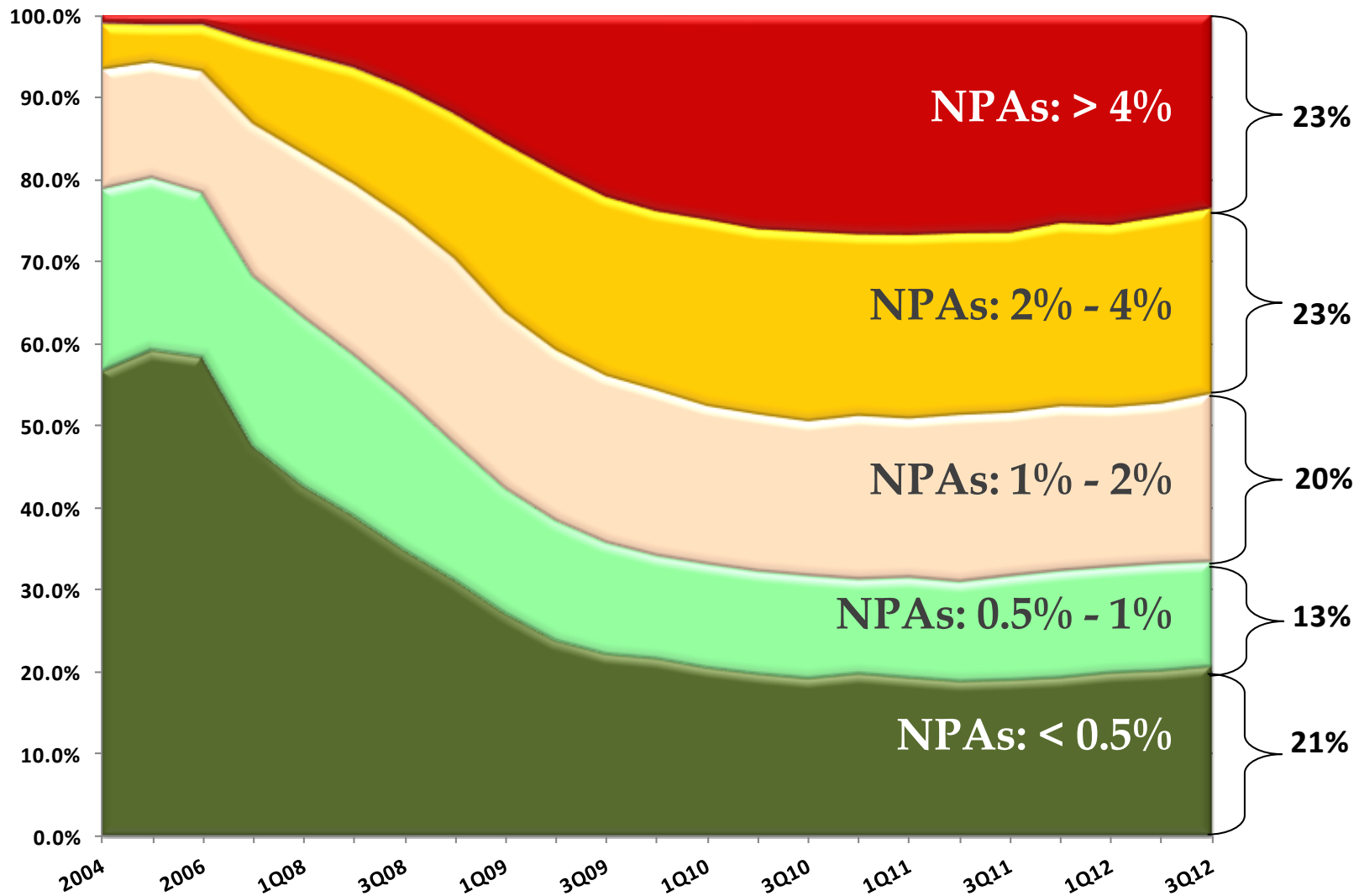
As of December 31, 2012

NPAs + OREO as a % of Total Assets



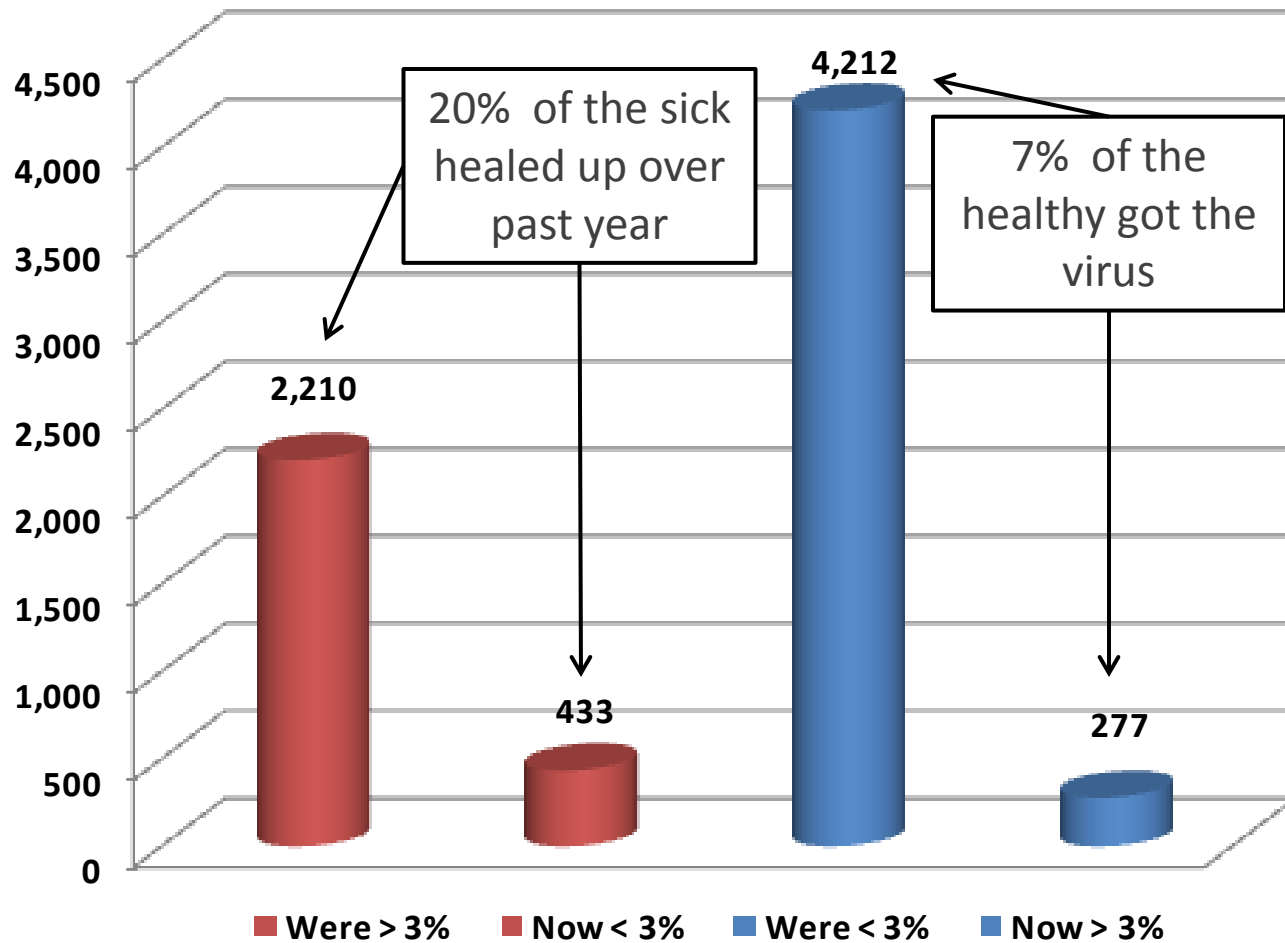
Non-Performing Assets / Assets

% of the industry by bank and thrift – September 30, 2012



Non-Performing Assets – One Year Trend

Third Quarter 2011 to Third Quarter 2012

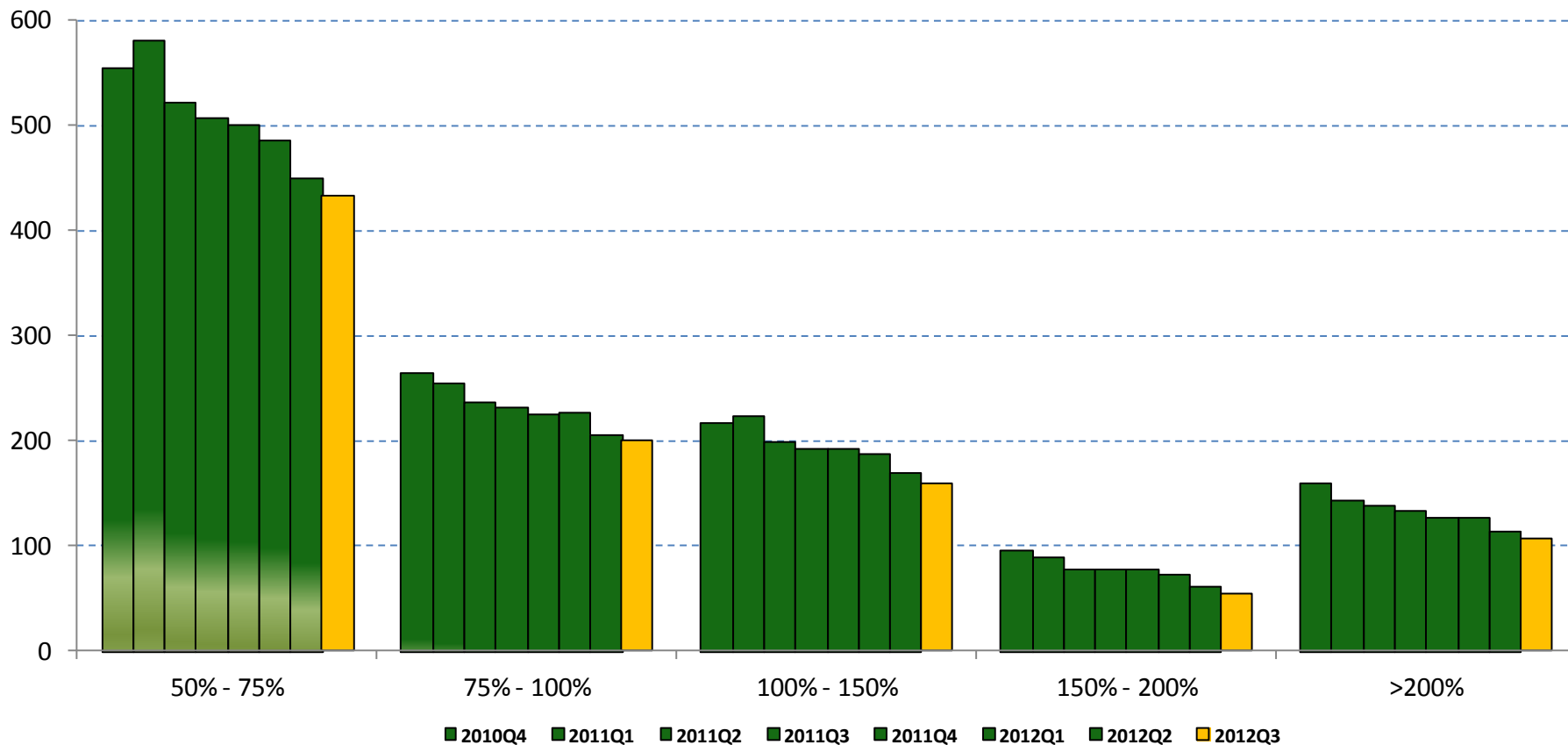


September 30, 2012 Data

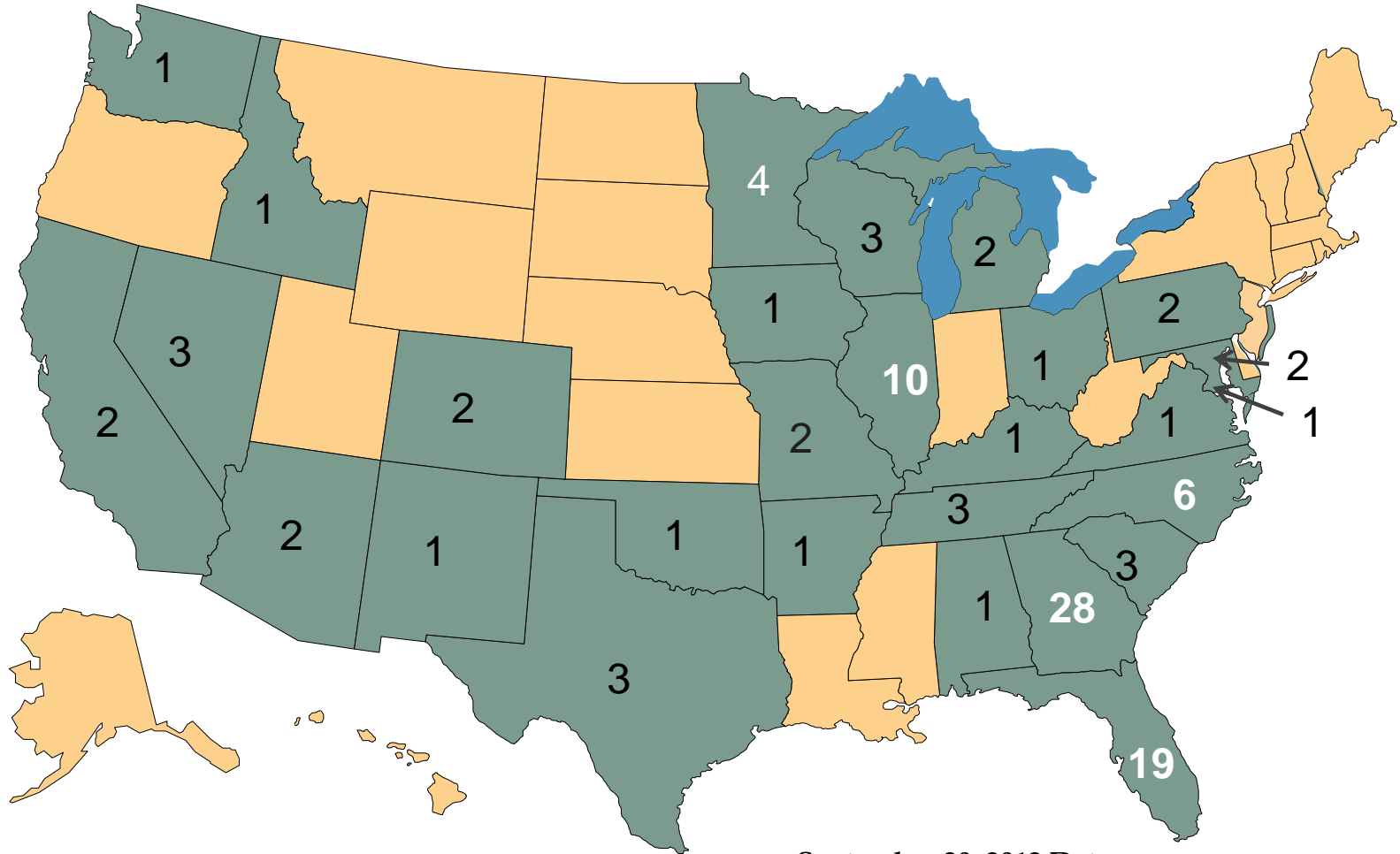
Modified Texas Ratio

Quarterly Trend

Modified Texas Ratio Breakdown by Number of Institutions



Institutions with Modified Texas Ratio Above 200%



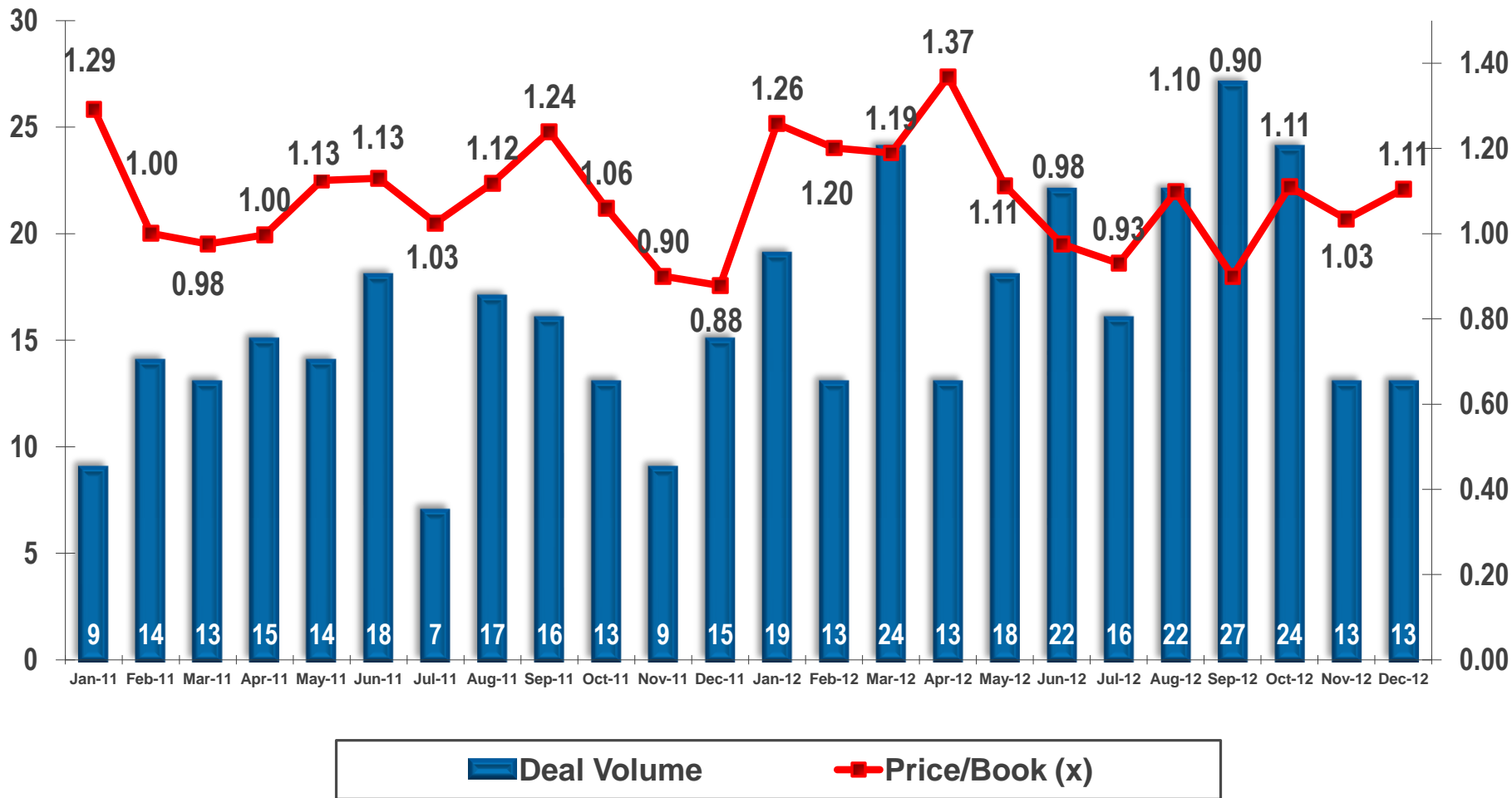
September 30, 2012 Data

M&A Update:

What trends are developing?

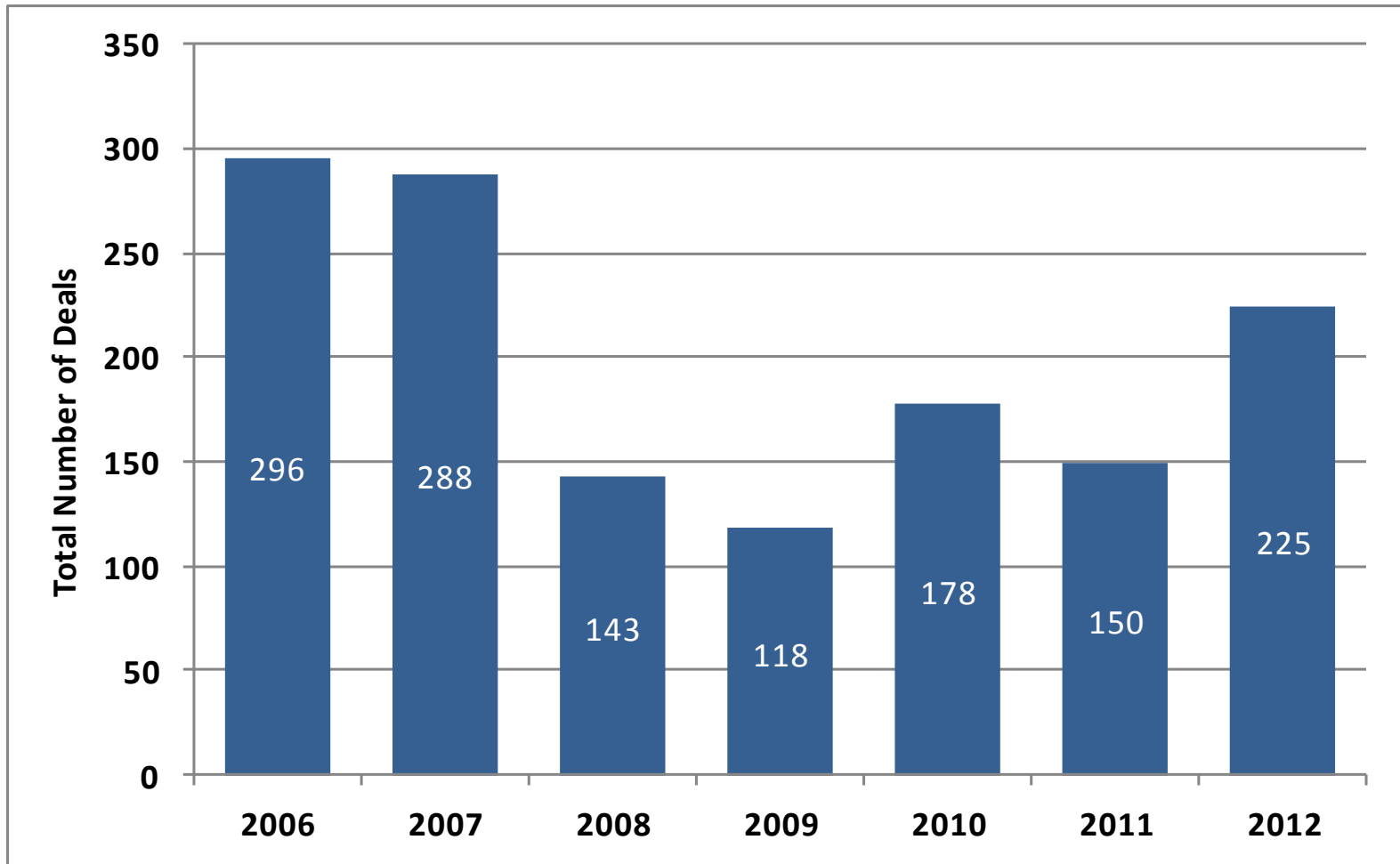
National Bank and Thrift Acquisition Pricing

Deal Volume & Price / Book



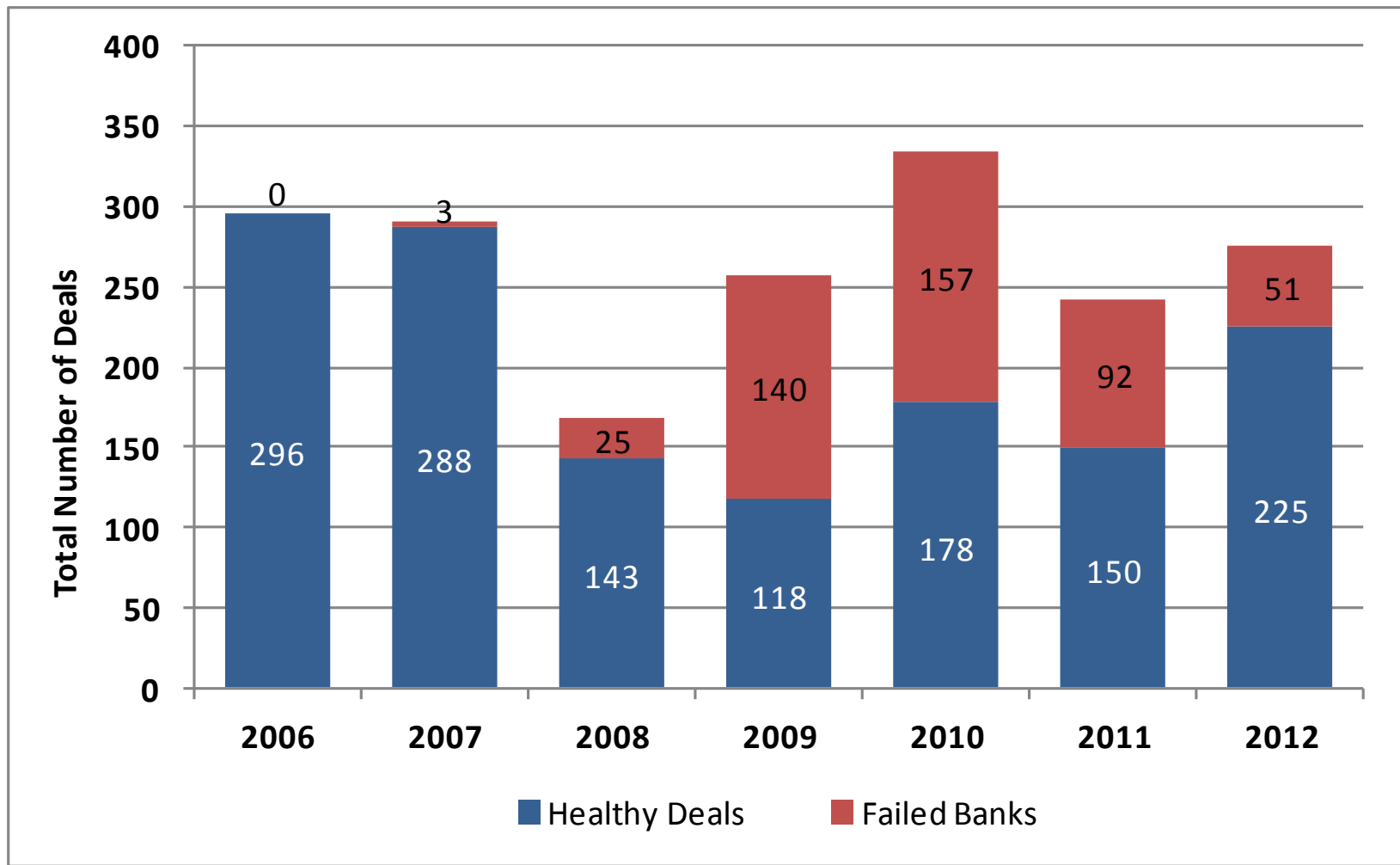
Data as of December 31, 2012

Healthy (Non-FDIC) Bank & Thrift Transactions



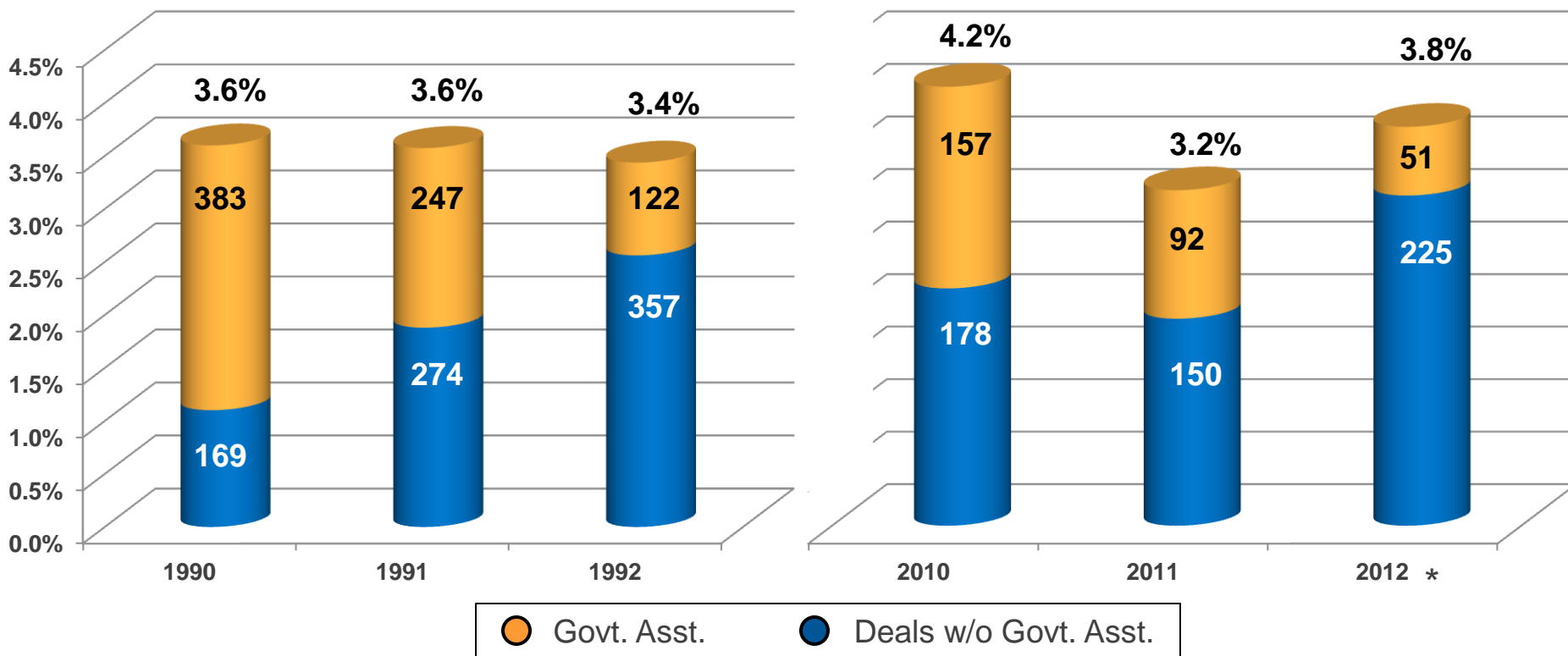
Data as of December 31, 2012

Healthy Versus Failed Bank Transactions



Data as of December 31, 2012

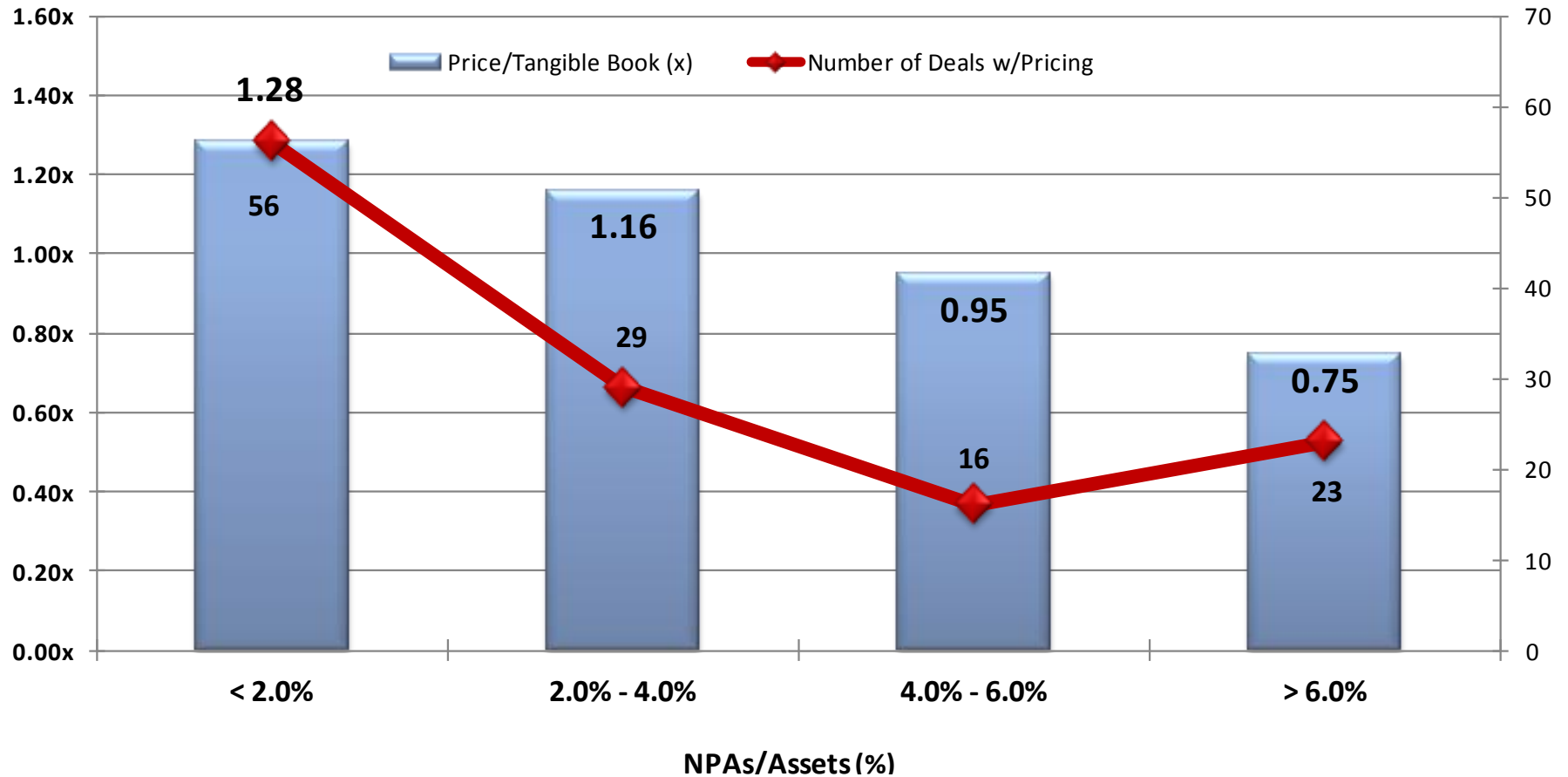
Number of Deals as a % of FDIC Institutions



* Number of institutions as of 9/30/2012, Number of deals as of 12/31/2012

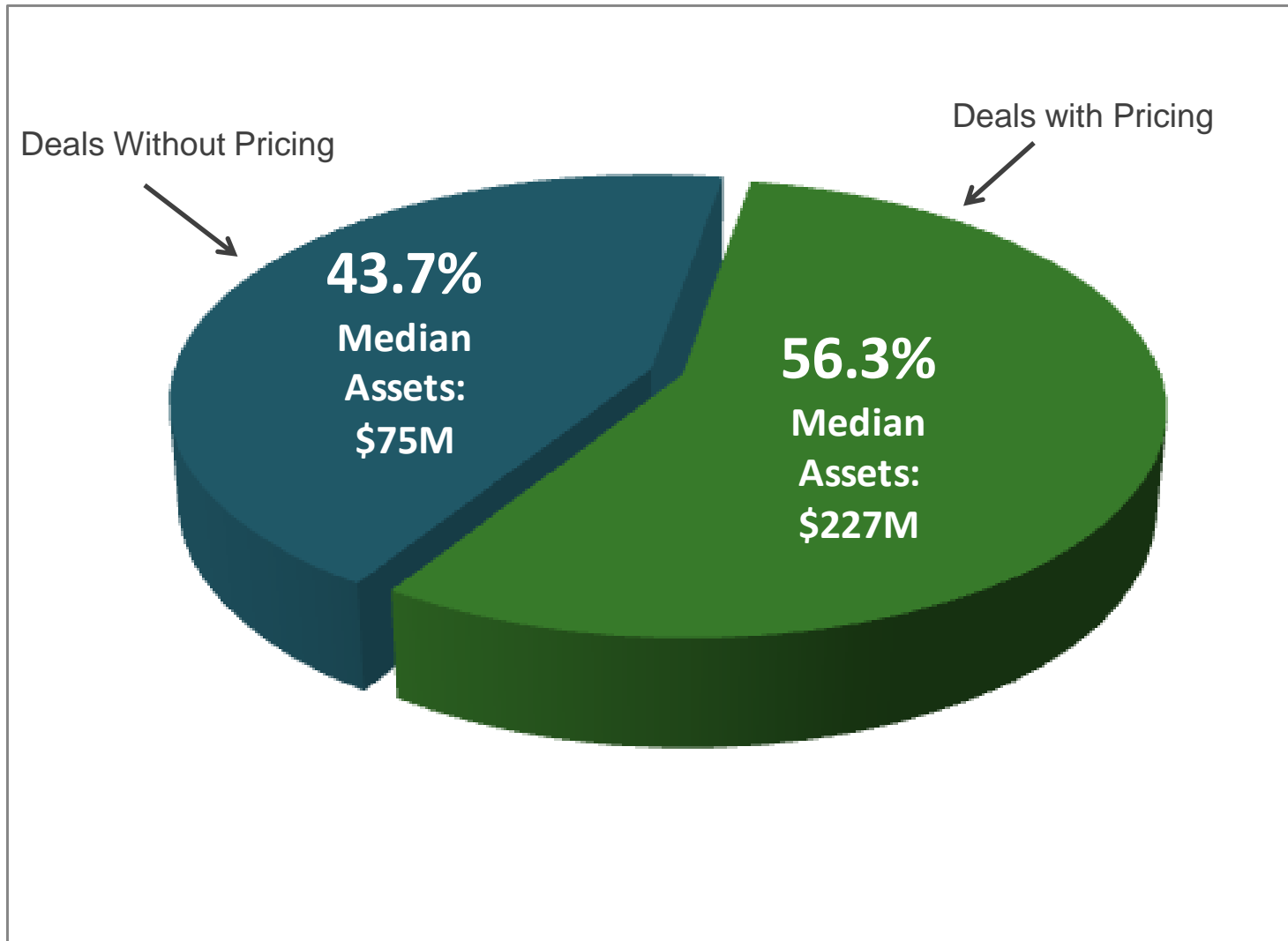
Price to Tangible Book by Asset Quality

Bank & Thrift Transactions Since January 1, 2012



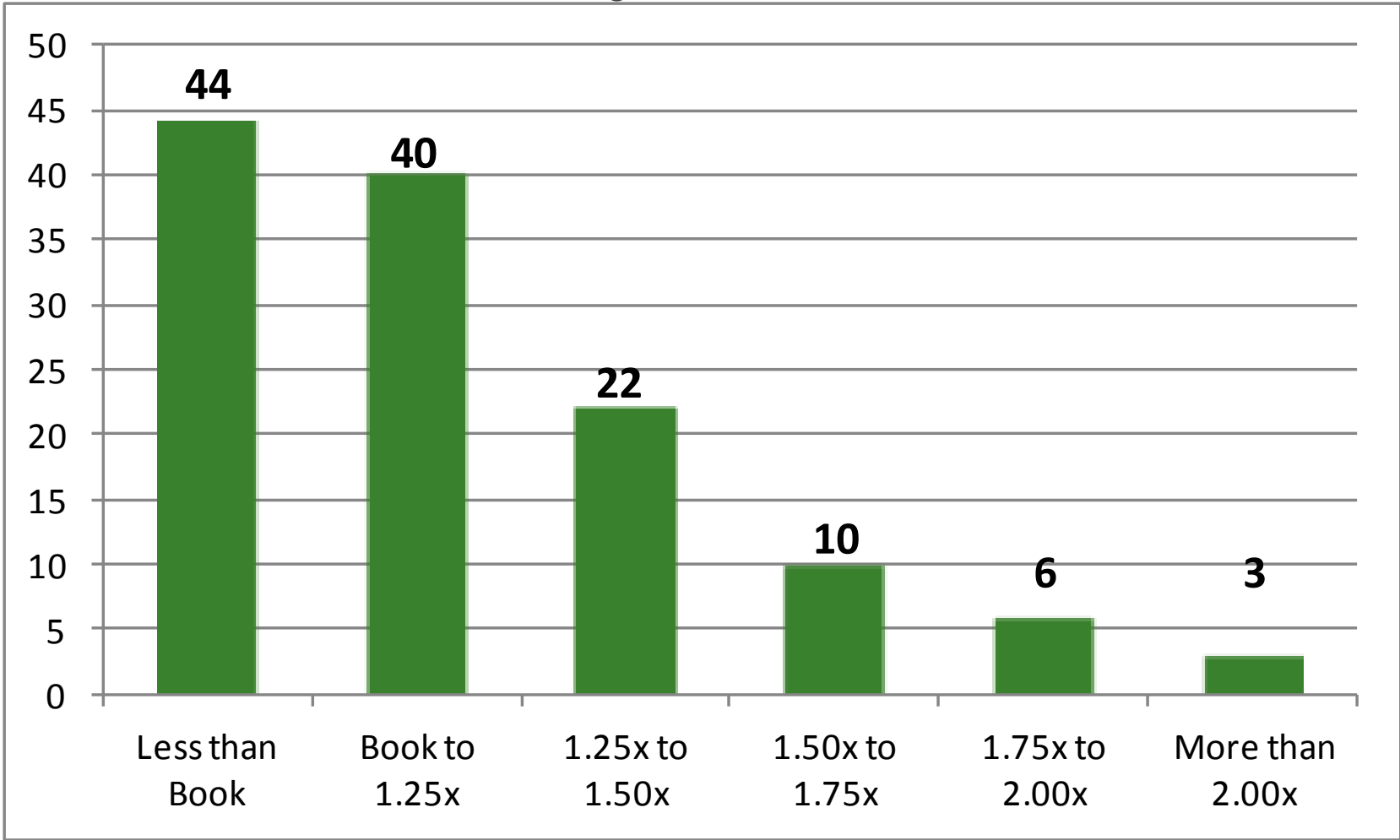
Data as of December 31, 2012

2012 Bank & Thrift Deal Pricing



2012 Bank & Thrift Deal Count by Pricing

YTD through 12/31/2012



Price to Book Value

Why Deal Volume and 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

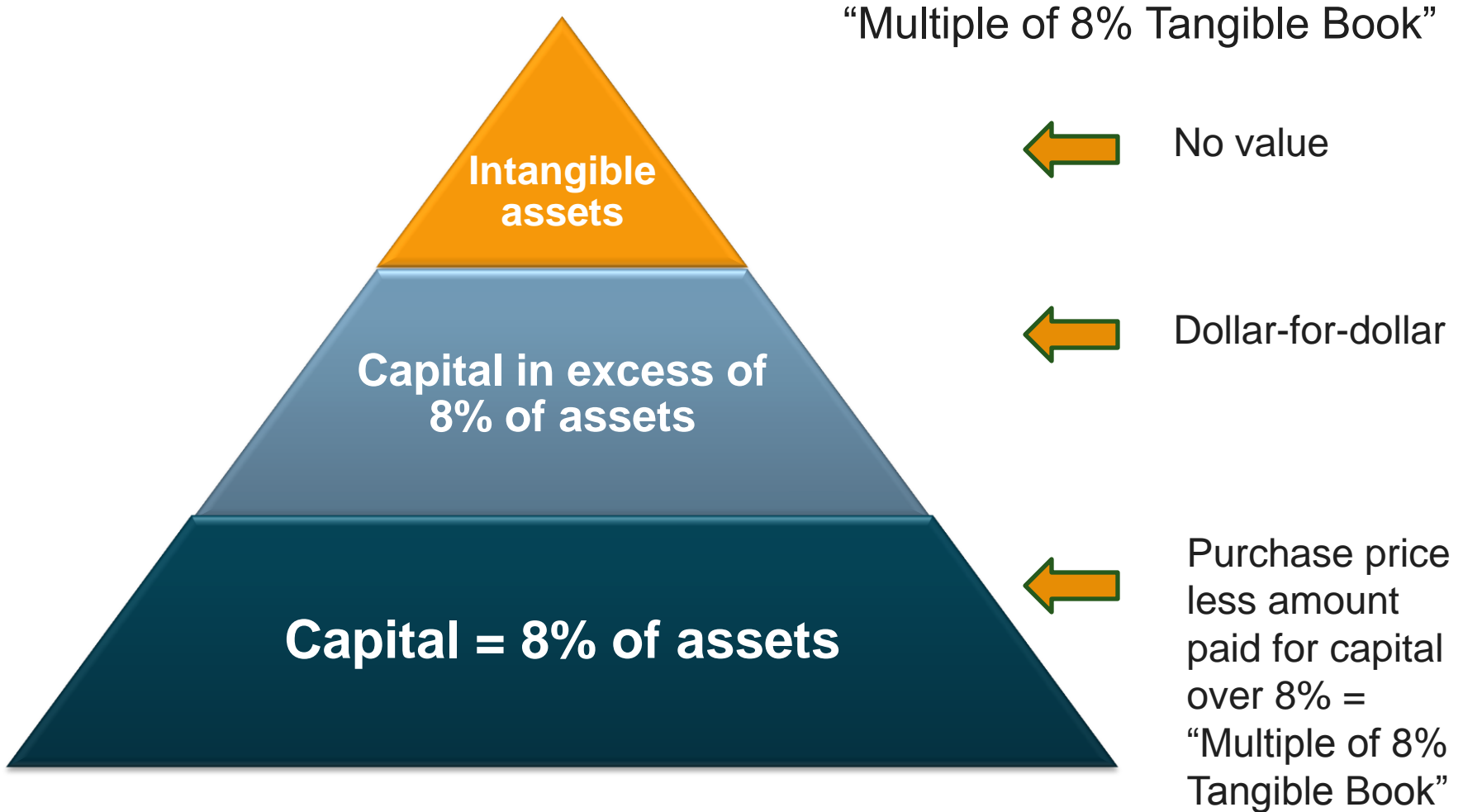
Loan Growth

- 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

How are Prices for Banks Reported?



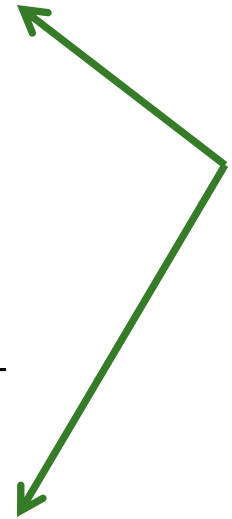
Multiple of 8% Book - Example

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



Sample Pricing Page in Your Report

	Consolidated Data as of 9/30/12 (\$000's)	Discounted Cash Flow Value \$87,000	Pricing Levels and Resulting Multiples		Banks/Thriffs NPAs < 2% Medians	Banks/Thriffs NPAs 2% - 4% Medians
			Estimated Range in Today's Environment			
<i>Sample Bank</i>			\$87,000	\$94,000		
Book Value	\$68,025	1.28x	1.28x	1.38x	1.25x	1.14x
Tangible Book Value	\$68,025	1.28x	1.28x	1.38x	1.28x	1.16x
Tangible Book Value of 8%	\$52,308	1.36x	1.36x	1.50x	1.34x	1.16x
LTM Company Earnings	\$6,872	12.7x	12.7x	13.7x	18.4x	20.0x
Assets	\$653,856	13.3%	13.3%	14.4%	13.9%	11.3%
Deposits	\$591,076	14.7%	14.7%	15.9%	17.2%	13.7%
Premium on Total Deposits	NM	3.2%	3.2%	4.4%	3.4%	1.6%
Tangible Common Equity/ Tangible Assets	10.40%				9.00%	9.62%
ROAA	1.06%				0.68%	0.37%
NPAs/ Total Assets	2.96%				0.91%	2.96%
Avg DDA/ Total Deposits	19.5%					
Brokered Deposits/ Total Deposits	0.0%					

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 impact of intangibles

What Should Sub-S Banks Do?

Probably Best to Retain Sub-S Status:

If Paying Out
Most of
Earnings

- Personal rate (while higher) is still better than being taxed twice
- Tax on C-Corp dividends is now higher

If Paying
Out Only
Enough to
Cover Taxes

- The build up in tax basis will save capital gains taxes upon sale
- There is more flexibility in deal structure (i.e. asset purchase)

Negotiating Suggestions

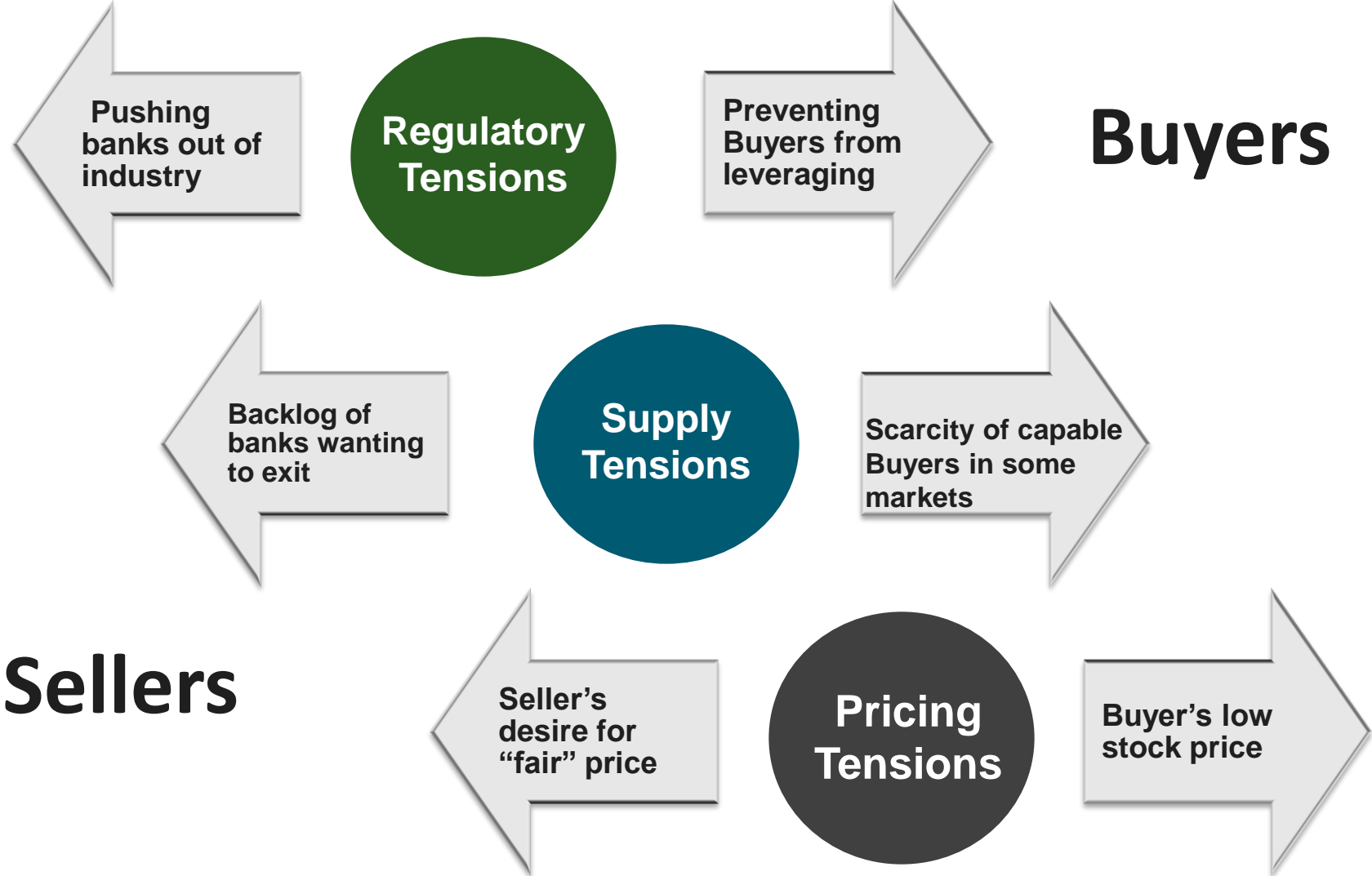
Pricing the Deal

- Future Earnings Determine the Value
- Equity in excess of 8% of Assets is Worth Face Value – No Multiple
- Separate Asset Quality Concerns from Deal Value Discussion

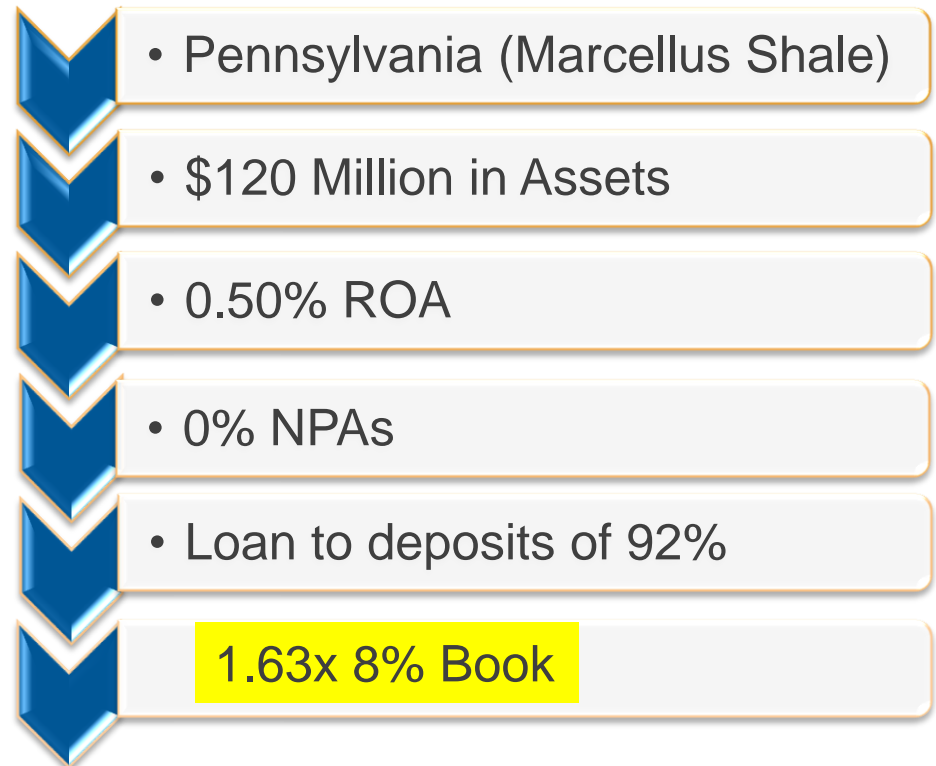
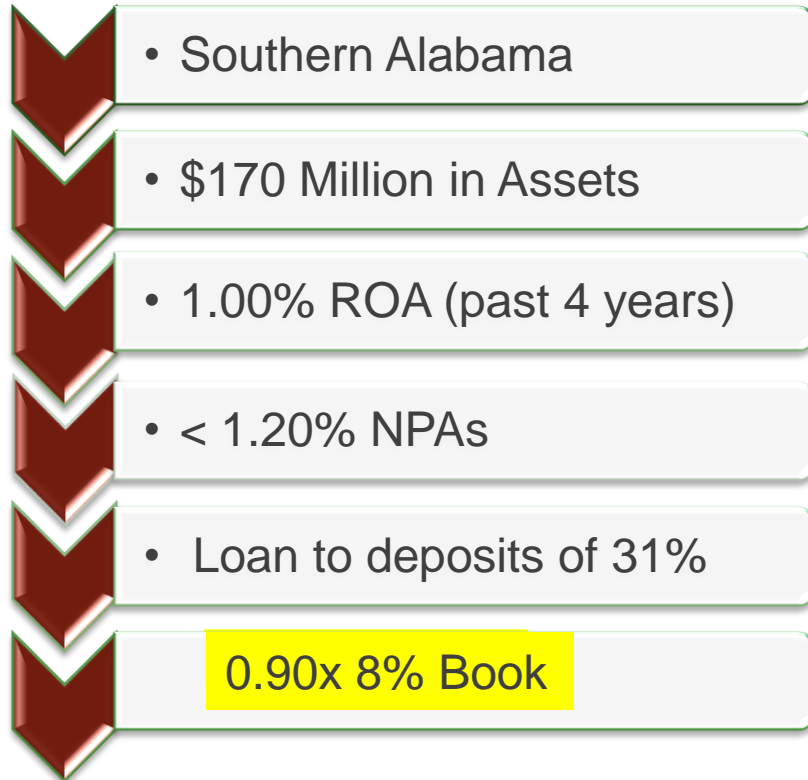
Deal Structure

- Sellers May Realize More Value by Retaining Selected Assets
- Negotiate Price Before Agreeing to Asset Purchase Structure - 338 (h) (10)

Short-Term Tensions: Sellers vs. Buyers



Tale of Two Transactions



A Consistent Leader in Community Bank M&A



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

Sheshunoff & Co Investment Banking

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