



Financial Managers Society:

New Jersey Banking in 2013: Challenges and Opportunities

Stony Hill Inn – Hackensack, NJ

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NICOLAUS
WEISEL

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Independence of Research

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Basis of Presentation

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On November 5, 2012, Stifel Financial Corp., the parent company of Stifel, Nicolaus & Company, Incorporated, entered into an Agreement and Plan of Merger to acquire KBW, Inc., the parent company of Keefe, Bruyette & Woods, Inc., which merger is subject to customary closing conditions and regulatory approvals.

I. Introduction – Banking Industry Overview



What industry is most similar to the community banking business?

1. Railroads
2. Prostitution
3. Horse & Buggy
4. U.S. Postal Service

From a historical perspective, how bad is
the current regulatory environment
impacting banks?

Brief History of U.S. Banking System

- ▶ **1775** – Continental Congress introduces country's first fiat currency
- ▶ **1791 - 1811** – “First Bank of the U.S.” is chartered by congress, however, charter is not renewed
- ▶ **1816 - 1836** – “Second Bank of the U.S.” is chartered by congress, again its charter is not renewed
- ▶ **1836 - 1865** – State-chartered and unchartered banks spread as a central governing agency has yet to be established
- ▶ **1863 - 1864** - National Banking Act of 1863 and 1864 established a national currency along with the OCC and federally issued bank charters
- ▶ **1907** – Worsening of the Panic of 1907 is prevented by J.P. Morgan organizing liquidity injections into ailing financial institutions
- ▶ **1913** – Federal Reserve Act creates decentralized central bank with twelve regional reserve banks to be established
- ▶ **1933** – The Banking Act of 1933 or Glass-Steagall Act establishes FDIC to insure bank deposits and calls for rigid separation of commercial banking and investment banking
- ▶ **1935** – The Banking Act of 1935 establishes FOMC as separate legal entity from the Federal Reserve
- ▶ **1956** – Bank Holding Company Act empowered the FRB to regulate and exercise supervisory authority over BHCs and restricted acquisition activities of multi bank holding companies.
- ▶ **1980** – Depository Institutions Deregulation and Monetary Control Act of 1980 established NOW accounts and marked phase-out of interest rate ceilings on deposits
- ▶ **1991** – Federal Deposit Insurance Corp. Improvement Act introduced PCA standards and risk-based deposit insurance premiums
- ▶ **1994** – Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 enabled interstate branching and acquisitions
- ▶ **1999** – Gramm-Leach-Bliley Act (aka Financial Services Modernization Act) reversed Glass-Steagall and marks height of de-regulation
- ▶ **2010** – Dodd-Frank Wall Street Reform and Consumer Protection Act introduces comprehensive and sweeping financial regulation

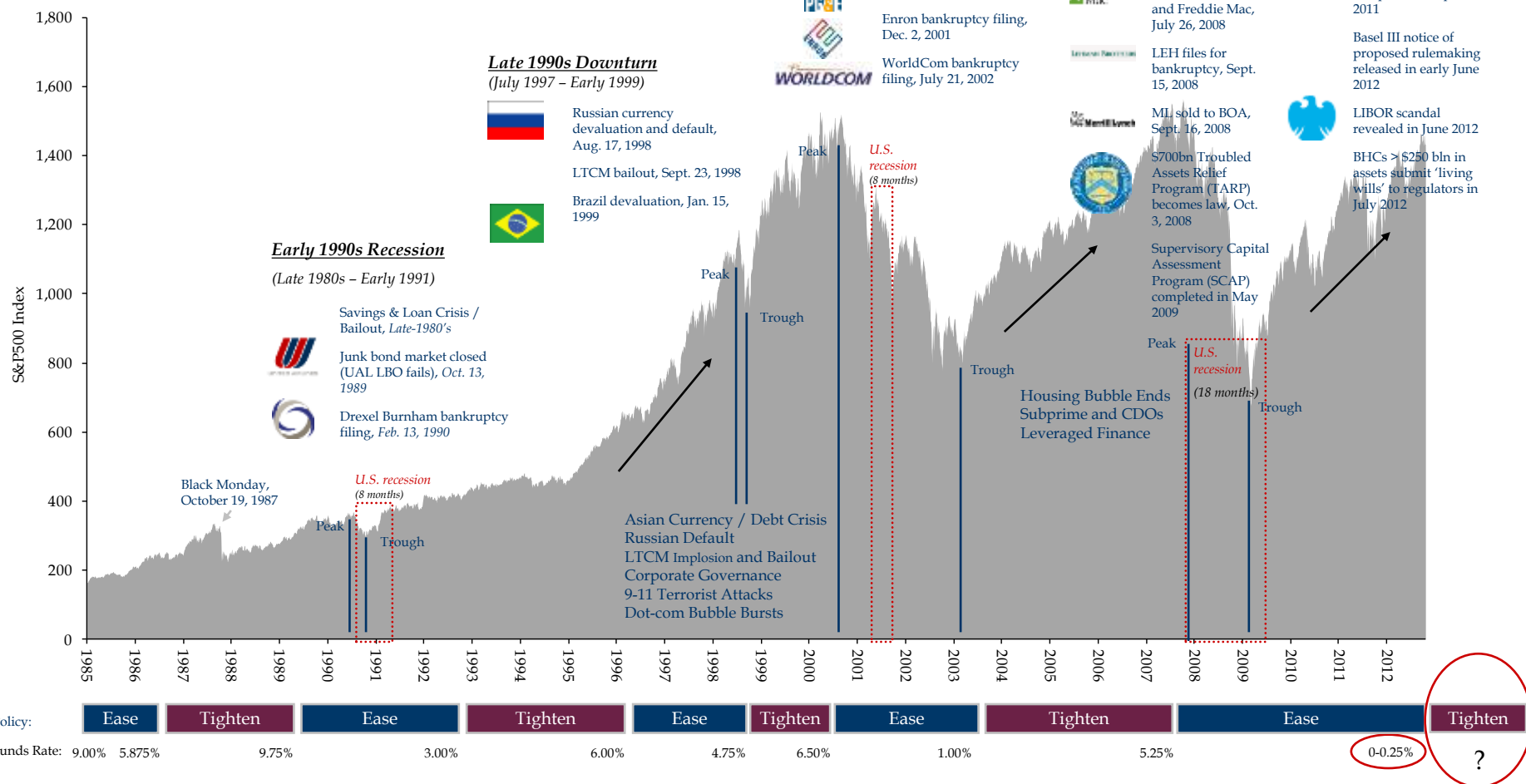


Defining Historic Financial Crises: 1985-2012



"You're right, we did it. We're very sorry. But thanks to you, we won't do it again."

Ben Bernanke's quip to Milton Friedman referring to the Fed's responsibility for the Great Depression (November 8, 2002 at the University of Chicago).



What are the challenges faced by banks
today?

What Are the Challenges Faced By Banks Today?

- **Financial and Valuation Challenges**
- **Customer and Demographic Challenges**
- **Distribution Channel Challenge**
- **Overcapacity Challenge**
- **Business Model Challenge**
- **Regulatory Challenge**

The Financial Challenge

Economic and Regulatory Factors Impacting Bank & Thrift Industry

Future Prospects



- Economic growth below long-term GDP trend
- Low commercial lines utilization rates
- Weak consumer loan demand
- Prospect for increase in rates

Revenue Pressures



- Reg Q / Reg E / NSF Fees
- Interchange Fees
- Credit card Fees
- Derivatives, alternative investments, trading
- Impact of new CFPB

Higher Costs



- Increased regulatory compliance costs
- Deposit assessments

Credit



- Decrease in credit costs/ reserve releases
- Uncertainty remains around major asset classes (e.g., CRE)
- Inflows into NPAs still elevated at community banks

Capital



- Higher capital ratios (8% / 10% / 12%)
- Trust Preferred exclusion from Tier 1 Capital
- Basel III and impact of higher rates
- New Tier 1 Common ratio
- Capital conservation buffer

	Pre-Crisis Median ⁽¹⁾	Q3 2013 Median ⁽²⁾
Asset Growth	9.2%	2.5%
Noninterest Income / Revenue	36.5%	33.2%
Noninterest Expense / Revenue	59.5%	65.7%
ROAA	1.31%	0.98%
ROACE	13.9%	8.6%
NPAs / Assets	0.25%	1.79%
Reserves / NPAs	259%	69%
NCOs / Average Loans	0.16%	0.58%
TCE Ratio	6.53%	8.16%
Tier 1 Ratio	9.6%	12.7%
Price / Tangible Book	297%	139%
Price / Est. Earnings (3)	12.5x	11.3x

(1) Based on data for the top 50 public U.S. BHCs as of calendar year-end 2006.

(2) Based on data for the top 50 public U.S. BHCs as of 9/30/2012. Pricing ratios reflect stock price at 1/8/2013.

(3) Based on median two-year forward earnings estimates provided by FactSet.

Source: SNL Financial, FactSet.

The Valuation Challenge

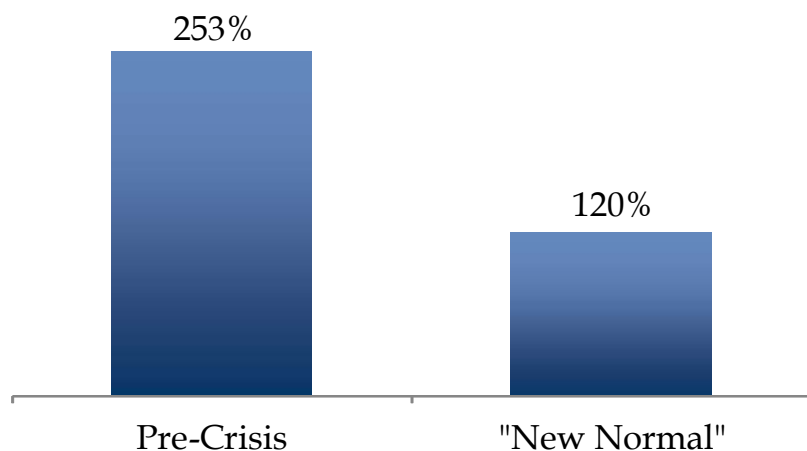
Illustrative Model – Bank XYZ

	Pre-Crisis	"New Normal"
TCE / TA	6.00%	8.00%
ROAA	1.25%	1.00%
Asset Growth	6.0%	3.0%
Implied Forward P / E	11.5x	9.3x
Implied P / TBV	253%	120%

Approach and Assumptions

Illustrative, bottoms up valuation approach which depicts how the theoretical value of a bank and implied multiples are impacted by changes in assumptions in terms of profitability, asset growth and required capital

- By projecting an earnings stream based on an assumed ROAA and asset growth rate, one is able to calculate a dividend stream in relation to the excess capital generated above a certain TCE requirement. This dividend stream is then discounted back at the assumed cost of capital (assuming the dividend is a growing annuity) to arrive at the implied valuation of the bank. From that point, one can arrive at the implied pricing multiples.

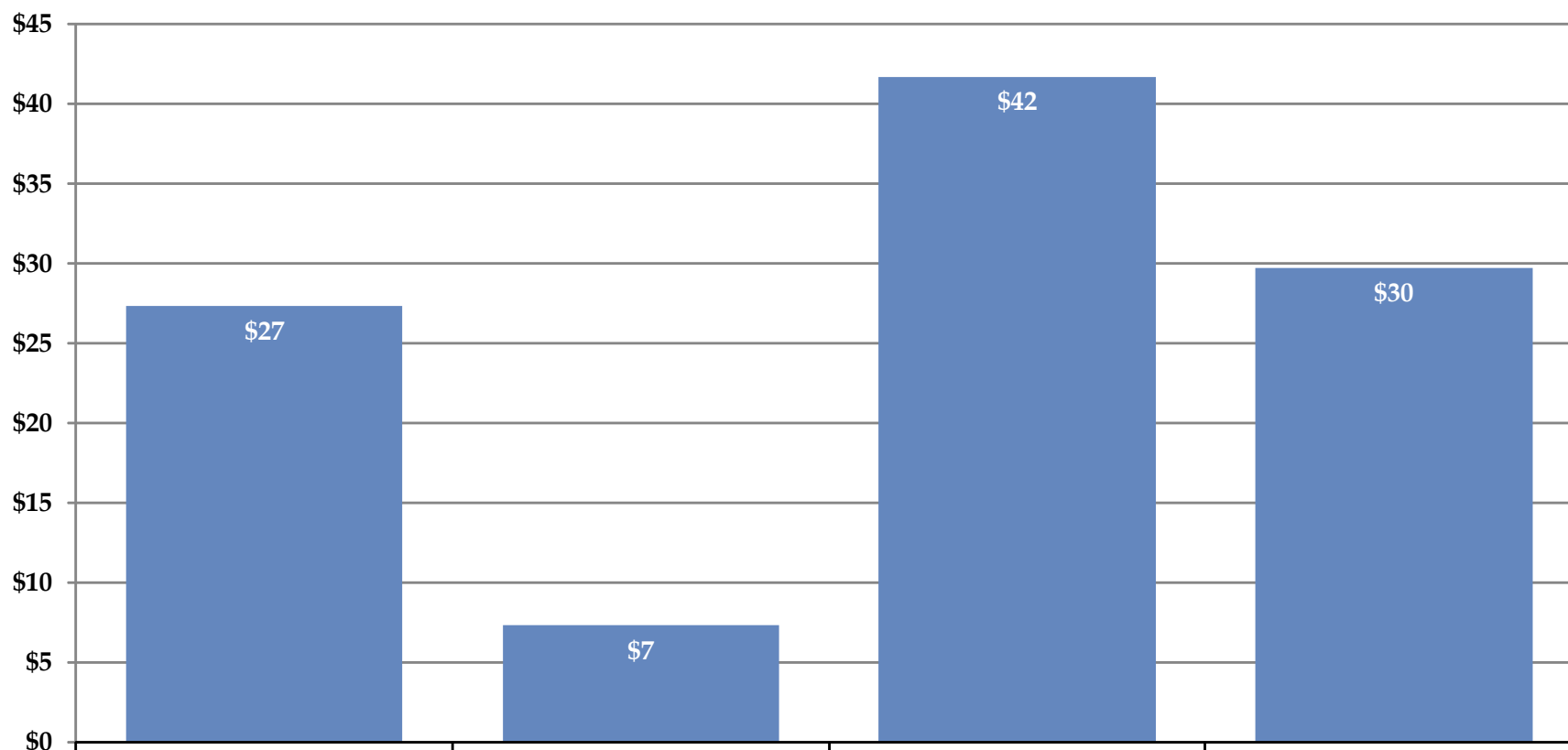


II. New Jersey Banking Industry Overview

Current Bank & Thrift Asset Stratification

New Jersey*

Assets (\$Billions)



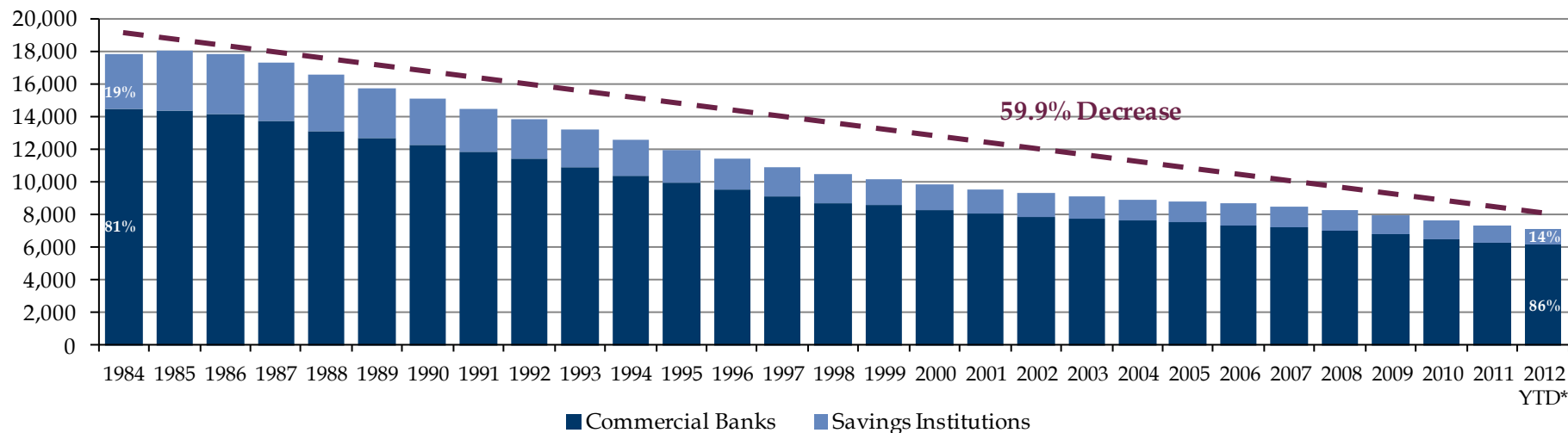
	Over \$10 B	\$5B-\$10B	\$1B-\$5B	Less than \$1B
# of Inst.	2	1	20	84
% of Inst.	1.9%	0.9%	18.7%	78.5%
% of Assets	25.8%	6.9%	39.4%	28.0%

Source: SNL Financial, based on regulatory reported financial information. Excludes merger targets.

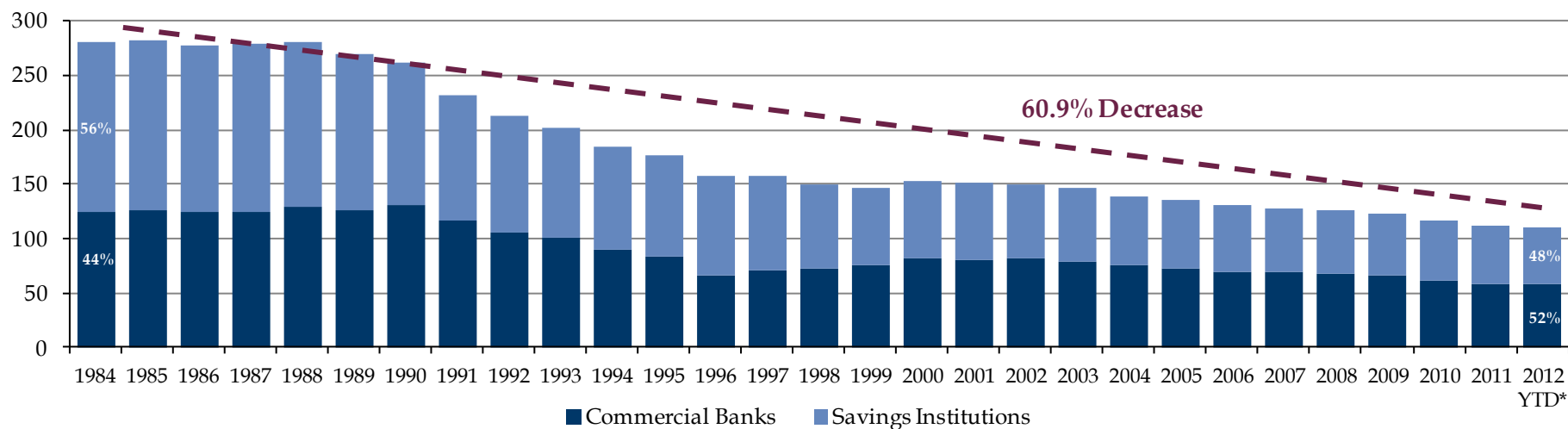
* Denotes institutions headquartered in New Jersey.

Banking Industry Consolidation

Nationwide



New Jersey



Source: FDIC. Data for the respective years as of December 31st. *YTD through 9/30/2012.

Top New Jersey Institutions – Then and Now

- The NJ banking landscape has changed dramatically as super-regional and national banks have entered the market and larger local institutions have been acquired

Market Rank	NJ Inst. Rank	Institution (ST)	Market Presence		
			Branches	Deposits (\$MM)	Market Share
1	1	Summit Bancorp. (NJ)	379	\$22,308	14.3%
2		First Union Corporation (NC)	389	18,258	11.7
3		FleetBoston Financial Corporation (MA)	180	12,919	8.3
4		PNC Financial Services Group, Inc. (PA)	251	12,450	8.0
5	2	Hudson City, MHC (NJ)	80	6,829	4.4
6		Sovereign Bank (PA)	136	6,702	4.3
7		Merrill Lynch & Company, Inc. (NY)	1	5,907	3.8
8	3	Commerce Bancorp, Inc. (NJ)	97	5,475	3.5
9		Toronto-Dominion Bank	1	5,169	3.3
10	4	Valley National Bancorp (NJ)	118	5,057	3.2
11		Bank Of New York Company, Inc., The (NY)	100	3,029	1.9
12	5	Hudson United Bancorp (NJ)	105	2,617	1.7
13	6	The Trust Company of New Jersey (NJ)	69	2,611	1.7
14		Chase Manhattan Corporation, The (NY)	41	2,453	1.6
15		The Dime Savings Bank of NY, FSB (NY)	28	2,188	1.4
16	7	Provident Savings Bank (NJ)	51	2,158	1.4
17	8	Investors Bancorp, Mhc (NJ)	32	2,107	1.4
18	9	Ocwen Federal Bank FSB (NJ)	1	1,641	1.1
19	10	Columbia Savings Bank (NJ)	32	1,590	1.0
20	11	United National Bancorp (NJ)	35	1,500	1.0
21	12	First Savings Bank (NJ)	23	1,240	0.8
22	13	Sun Bancorp, Inc (NJ)	65	1,209	0.8
23	14	Amboy Bancorporation (NJ)	15	1,105	0.7
24	15	Penn Federal Savings Bank (NJ)	20	1,088	0.7
25	16	OceanFirst Bank (NJ)	14	1,087	0.7
Top 25 Institutions			2,263	\$128,695	82.3%
NJ-Based Institutions in the Top 25 (16)			1,136	\$59,621	38.1%

Source: FDIC. Data as of June 30, 2000.

Market Rank	NJ Inst. Rank	Institution (ST)	Market Presence		
			Branches	Deposits (\$MM)	Market Share
1		Bank of America Corp. (NC)	324	\$40,405	15.3%
2		Wells Fargo & Co. (CA)	304	31,530	11.9
3		Toronto-Dominion Bank	274	29,918	11.3
4		PNC Financial Services Group (PA)	340	21,533	8.1
5		M&T Bank Corp. (NY)	99	19,908	7.5
6		JPMorgan Chase & Co. (NY)	237	12,694	4.8
7	1	Investors Bancorp Inc. (MHC) (NJ)	107	8,907	3.4
8		Santander	152	8,317	3.1
9	2	Valley National Bancorp (NJ)	172	8,193	3.1
10		New York Community Bancorp (NY)	51	8,138	3.1
11		Capital One Financial Corp. (VA)	62	5,745	2.2
12	3	Provident Financial Services (NJ)	80	5,235	2.0
13		HSBC	9	4,581	1.7
14	4	Columbia Bank MHC (NJ)	44	2,907	1.1
15		Fulton Financial Corp. (PA)	74	2,760	1.0
16	5	Sun Bancorp Inc. (NJ)	61	2,627	1.0
17	6	Lakeland Bancorp (NJ)	47	2,286	0.9
18	7	Kearny Financial Corp. (MHC) (NJ)	41	2,178	0.8
19	8	Amboy Bancorp. (NJ)	23	1,750	0.7
20		Citigroup Inc. (NY)	32	1,744	0.7
21	9	OceanFirst Financial Corp. (NJ)	24	1,725	0.7
22		Susquehanna Bancshares Inc. (PA)	29	1,564	0.6
23		Beneficial Mutual Bncp (MHC) (PA)	26	1,550	0.6
24	10	Peapack-Gladstone Financial (NJ)	24	1,424	0.5
25	11	Oritani Financial Corp. (NJ)	26	1,410	0.5
Top 25 Institutions			2,662	\$229,029	86.5%
NJ-Based Institutions in the Top 25 (11)			649	\$38,642	14.6%

Source: SNL Financial. Data as of June 30, 2012, pro forma for pending and completed acquisitions.

 - Institutions headquartered in New Jersey

New Jersey Market Share Migration

- Deposits have largely been moving toward money-center banks, reducing market share for community banks and especially regional banks

Market Deposit Sizing Tiers*	2000			2012			Change Between 2000 and 2012		
	# of Companies**	Total Deposits (\$B)	Market Share (%)	# of Companies**	Total Deposits (\$B)	Market Share (%)	# of Companies**	Total Deposits (\$B)	Market Share (%)
Top (\$20B+)	1	\$22.3	14.3%	4	\$123.4	46.0%	3	\$101.1	31.7%
Regional (\$5B-\$20B)	9	\$78.8	50.4%	8	\$77.1	28.7%	(1)	(\$1.6)	(21.6%)
Middle (\$1B-\$5B)	16	\$28.7	18.4%	18	\$36.4	13.6%	2	\$7.7	(4.8%)
Community (<\$1B)	137	\$26.6	17.0%	120	\$31.5	11.7%	(17)	\$4.9	(5.3%)
Total	163	\$156.3		150	\$268.4		(13)	\$112.0	

* Market sizing tiers defined as “Top” for institutions with total deposits in New Jersey greater than \$20B; “Regional” for institutions with total deposits in New Jersey between \$5B and \$20B; “Middle” for institutions with total deposits in New Jersey between \$1B and \$5B; and “Community” for institutions with total deposits in New Jersey less than or equal to \$1B.

** Number of companies includes any institution with deposits in the state of New Jersey, not just those headquartered in New Jersey.

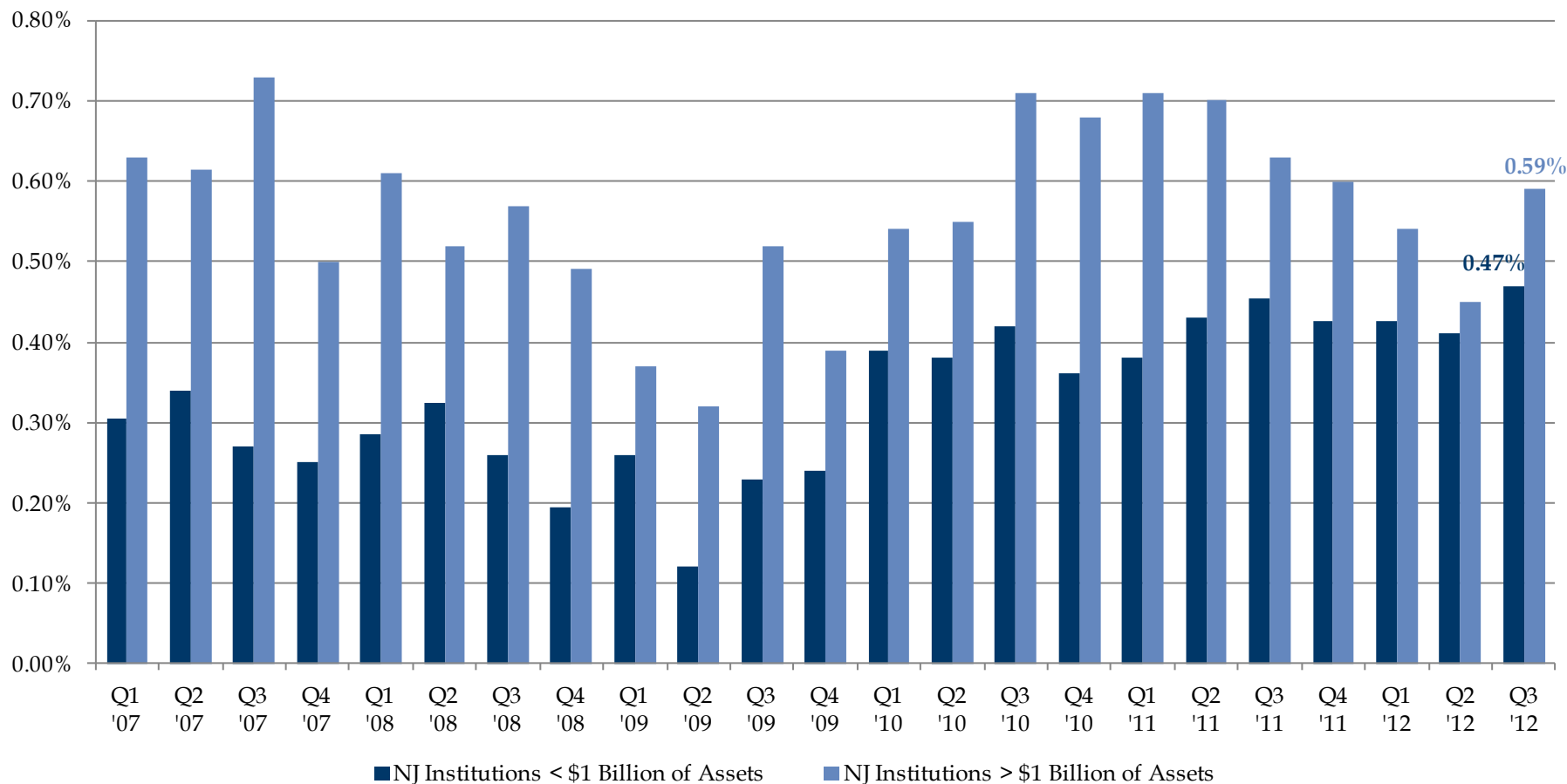
Source: SNL Financial. Deposits are as of June 30th for each year for all banks and thrifts in New Jersey.

III. New Jersey Banking Industry Operating Trends

New Jersey Banking Industry Operating Trends

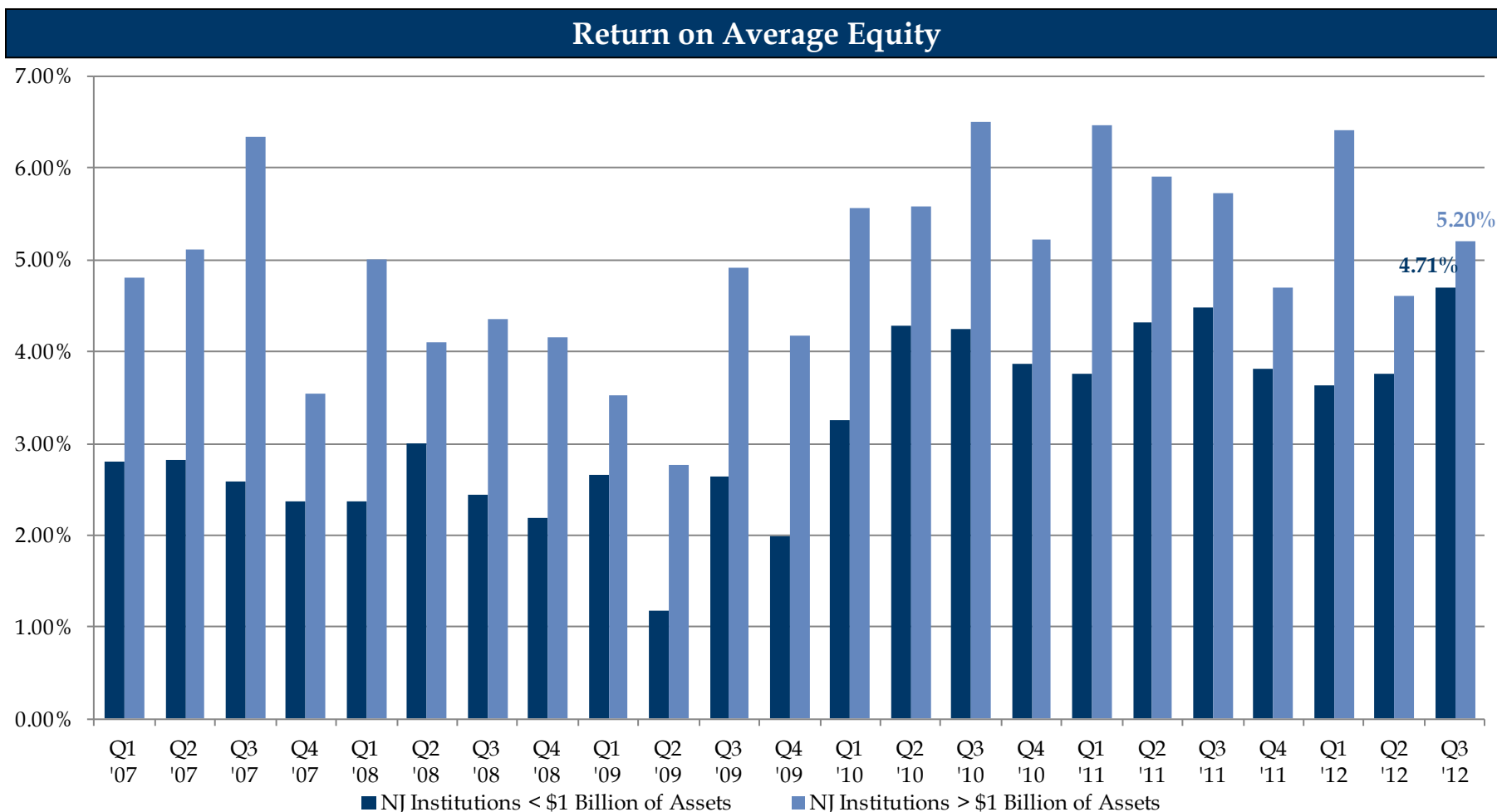
- Bank profitability has improved since the financial crisis. Larger institutions continue to outperform smaller institutions on an ROAA basis...

Return on Average Assets



New Jersey Banking Industry Operating Trends

- ...And on an ROAE basis

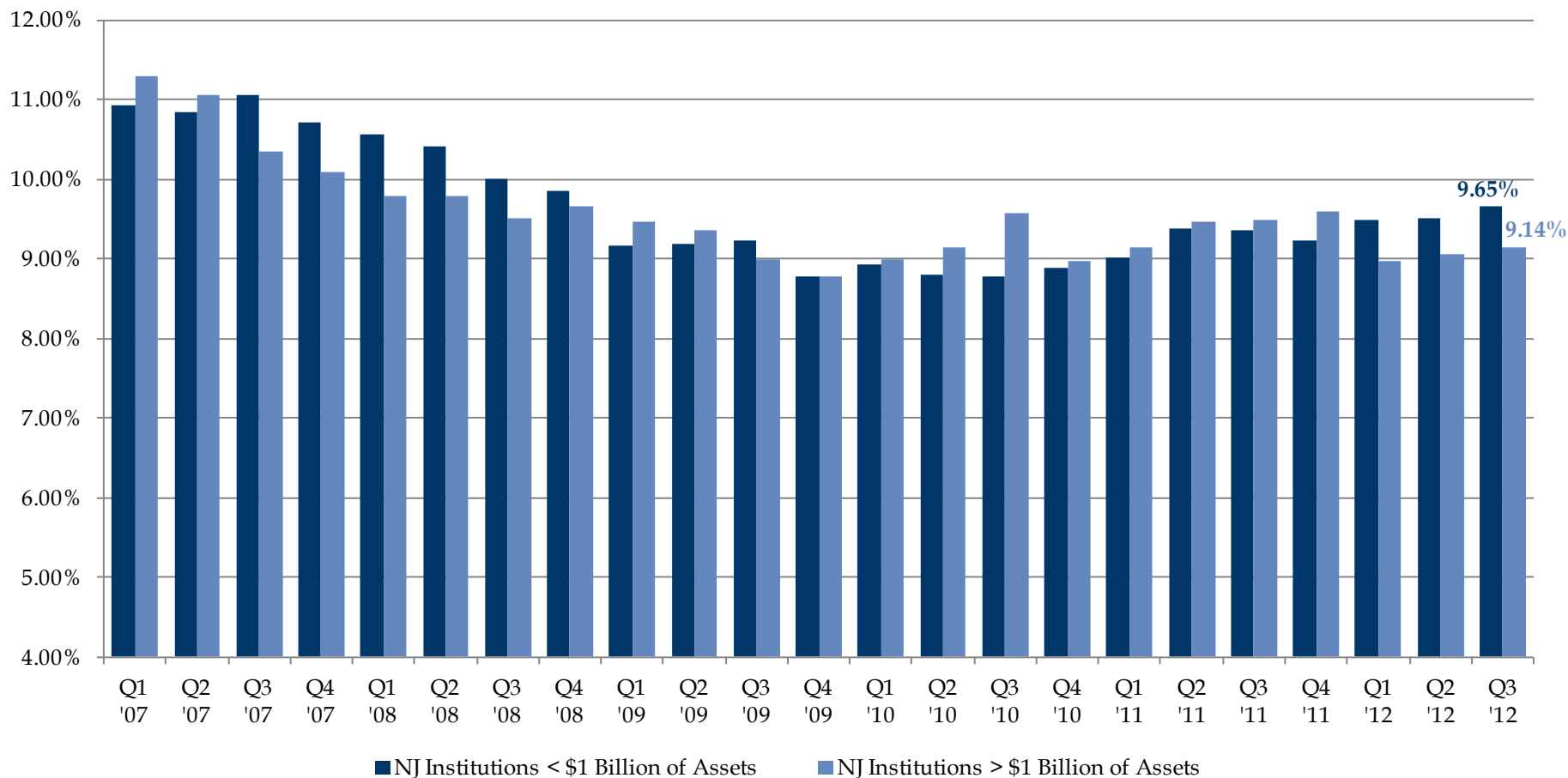


Source: SNL Financial. Represents regulatory reported information. Excludes merger targets, trust banks, and bank subsidiaries of foreign banks and non-banking entities. Data reflect medians.

New Jersey Banking Industry Operating Trends

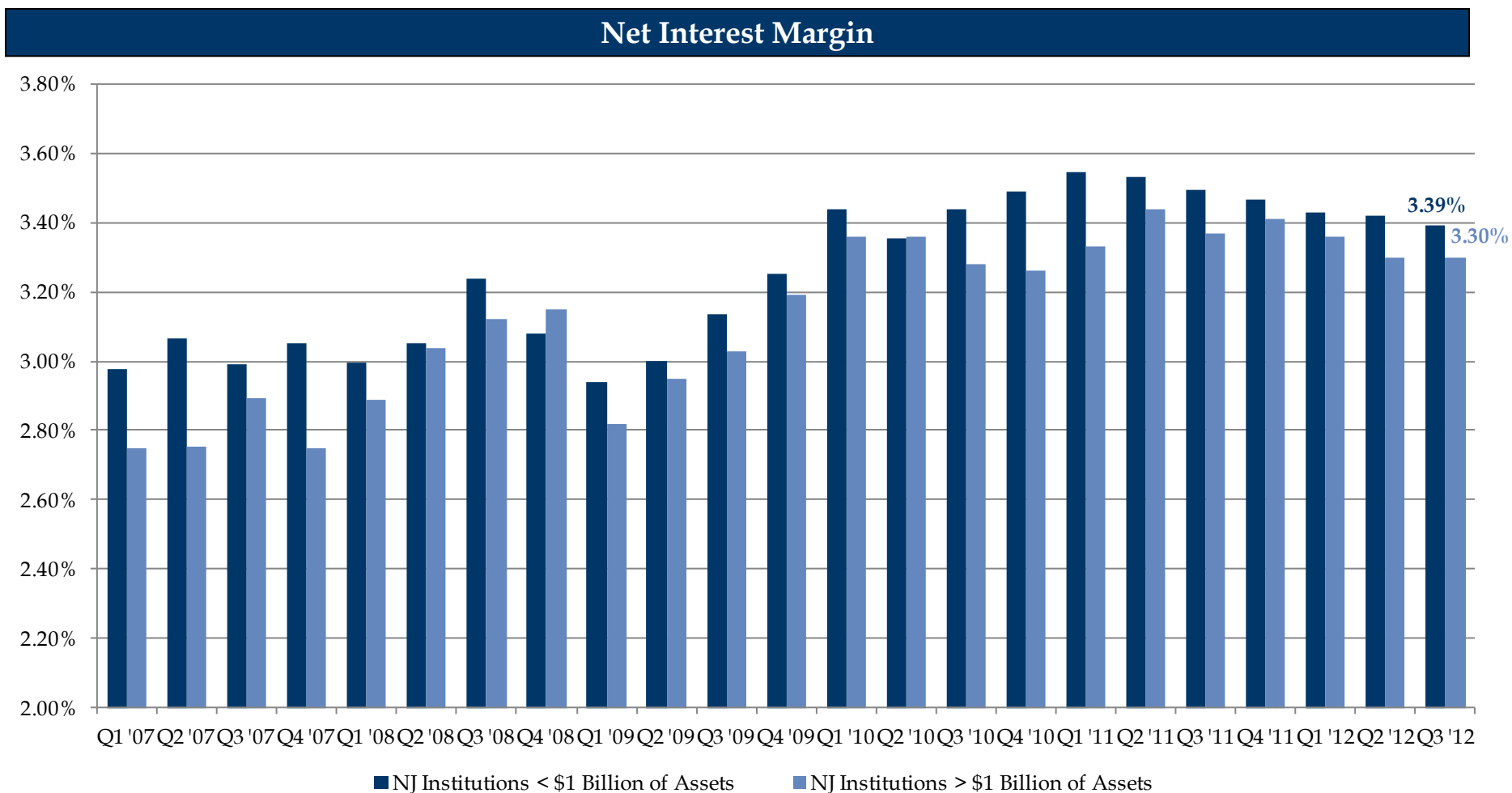
- Capital positions have rebounded and stabilized since crisis lows and appear to be sufficient to withstand an adverse economic environment

Tangible Common Equity / Tangible Assets



New Jersey Banking Industry Operating Trends

- Banks continue to face a difficult margin environment

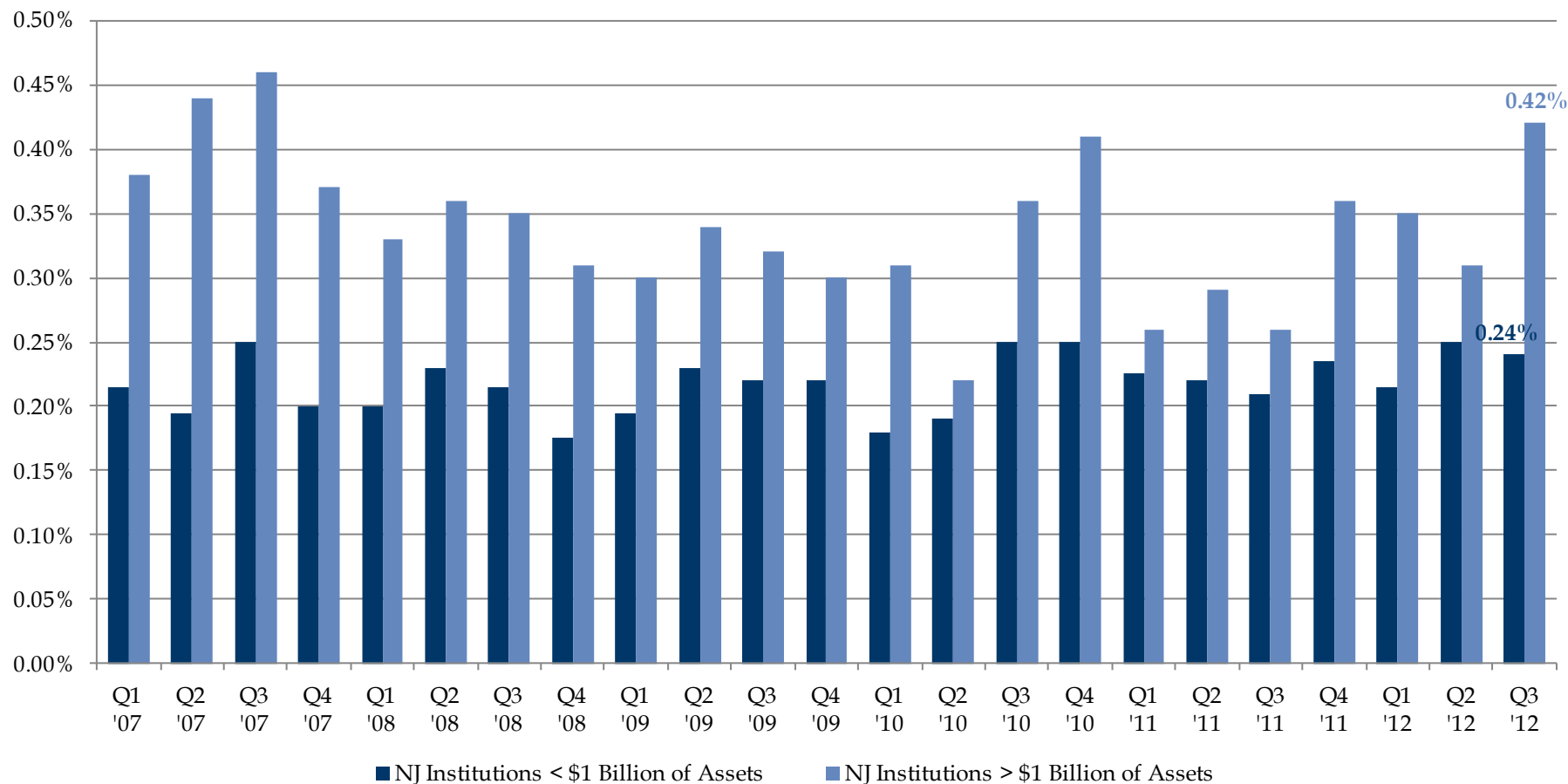


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New Jersey Banking Industry Operating Trends

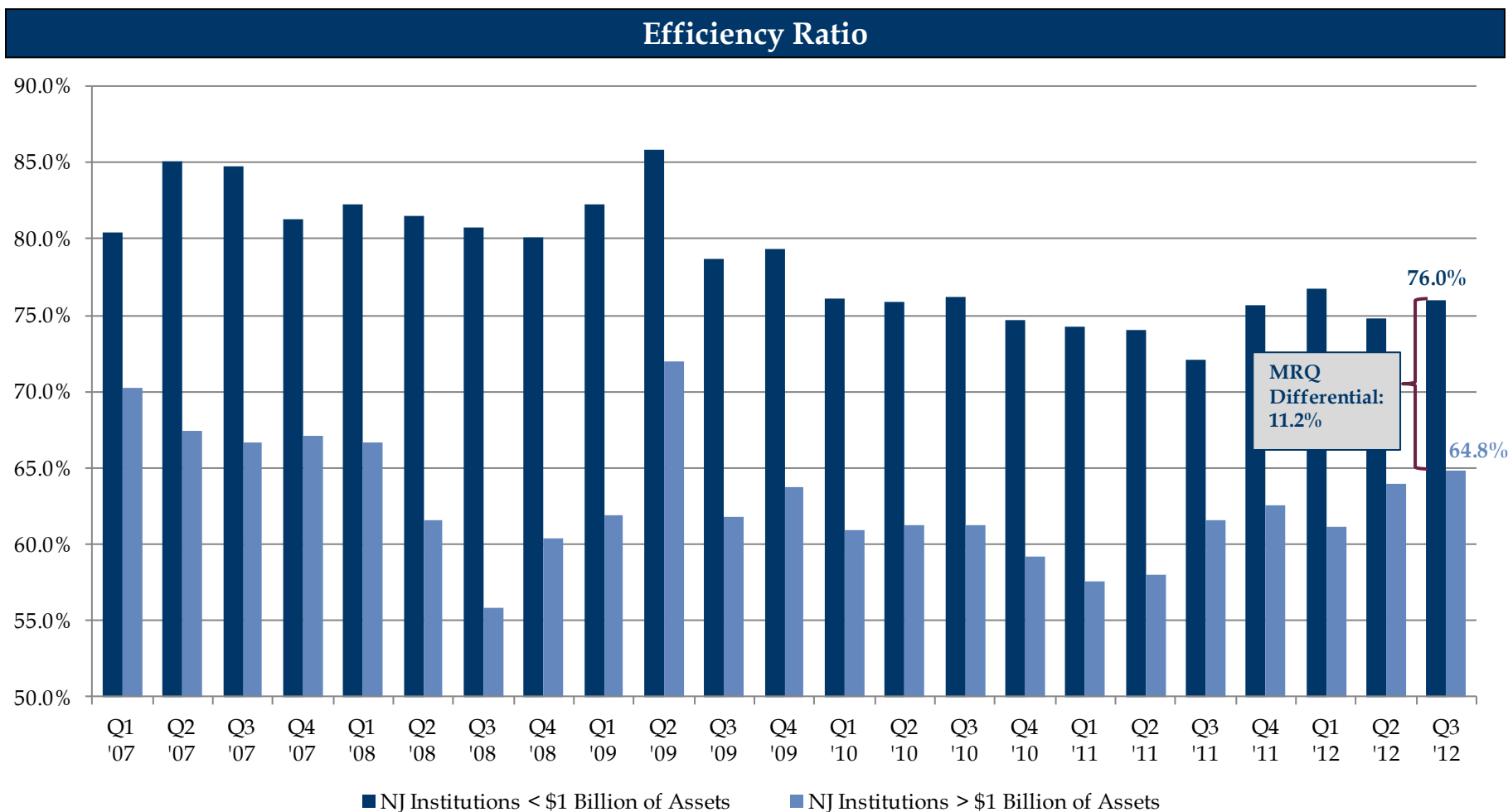
- Larger institutions continue to generate superior fee revenue

Non-Interest Income / Average Assets



New Jersey Banking Industry Operating Trends

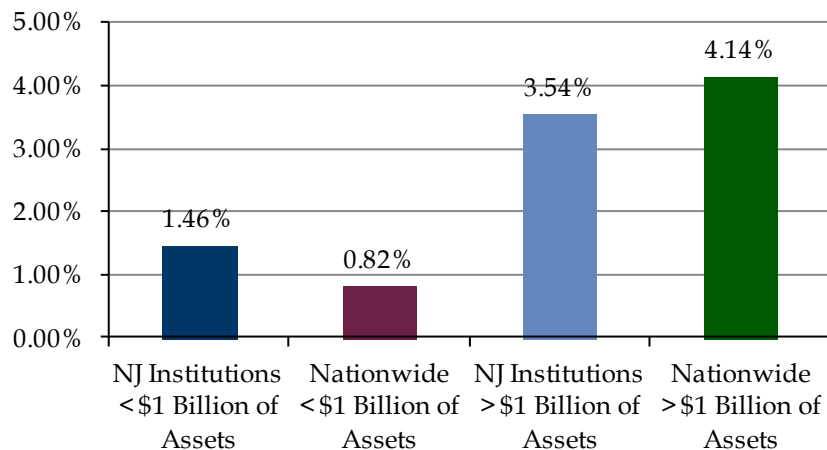
- Larger institutions continue to be more cost-efficient than smaller institutions. Increased regulatory and compliance costs will weigh on expenses going forward



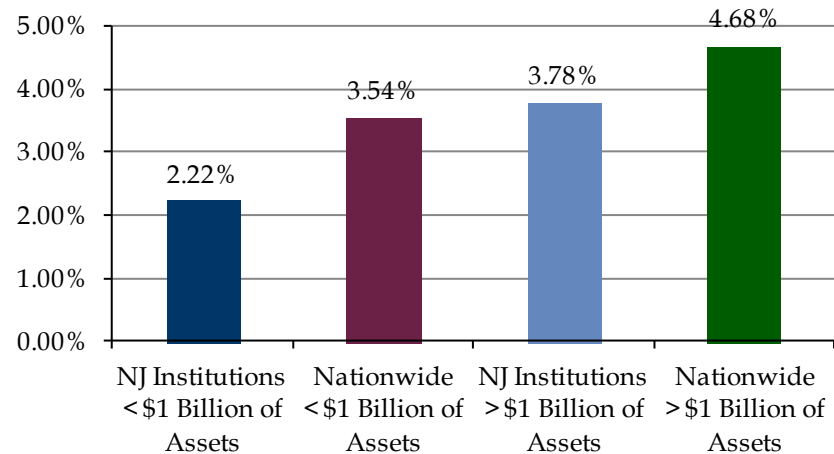
New Jersey Banking Industry Operating Trends

Nationwide Comparison

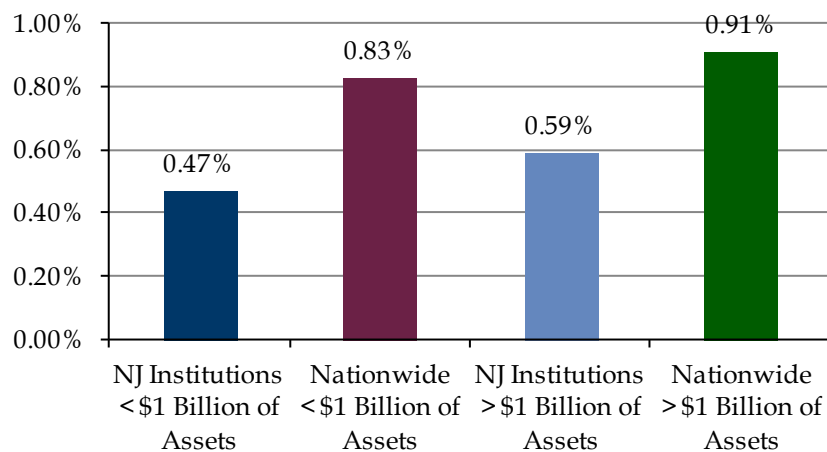
LTM Loan Growth



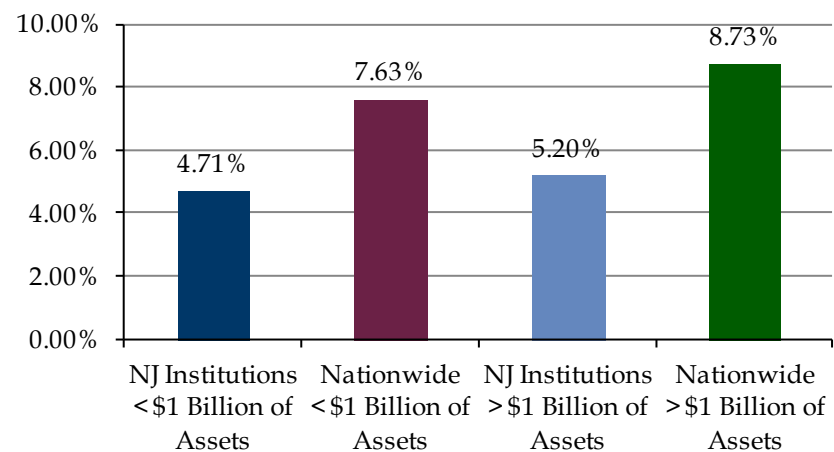
LTM Deposit Growth



ROAA



ROAE

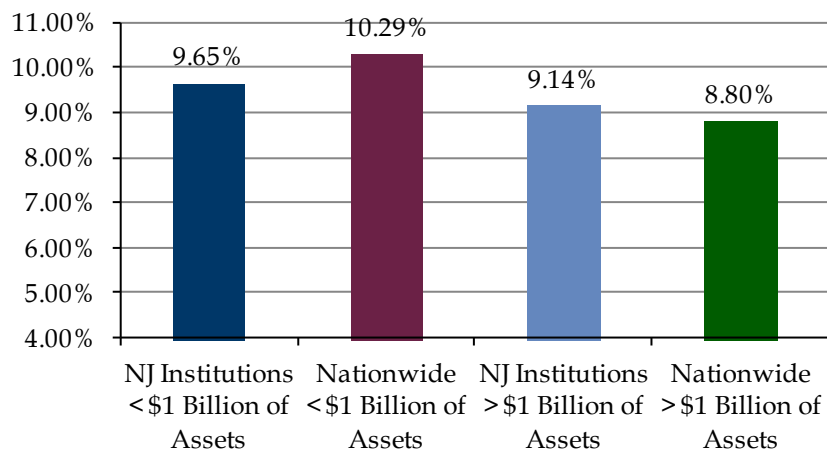


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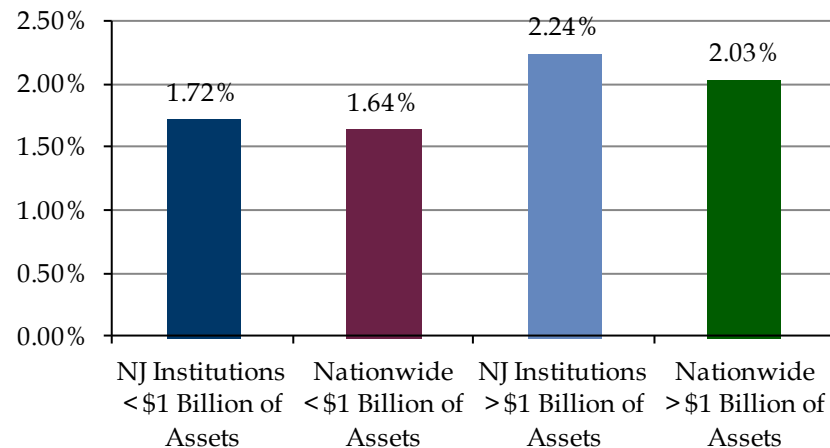
New Jersey Banking Industry Operating Trends

Nationwide Comparison

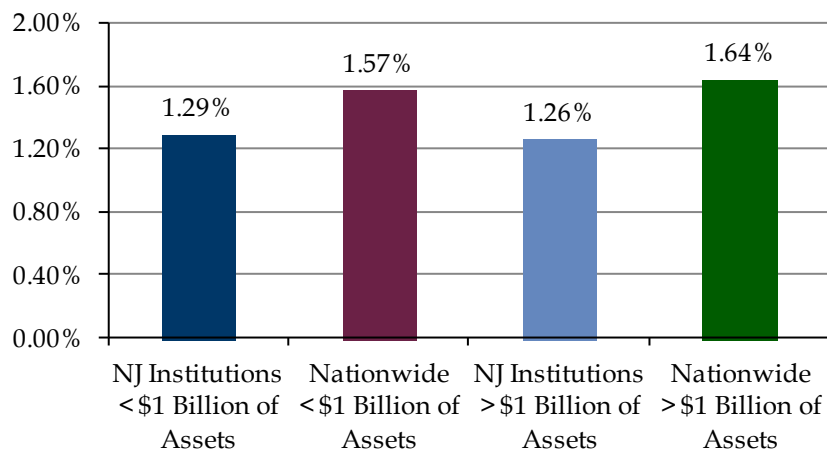
Tangible Common Equity / Tangible Assets



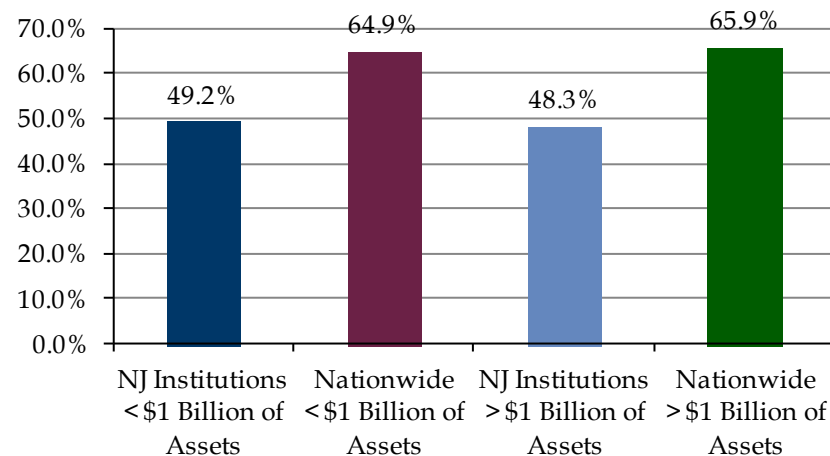
NPAs / Assets



Reserves / Loans



Reserves / NPLs

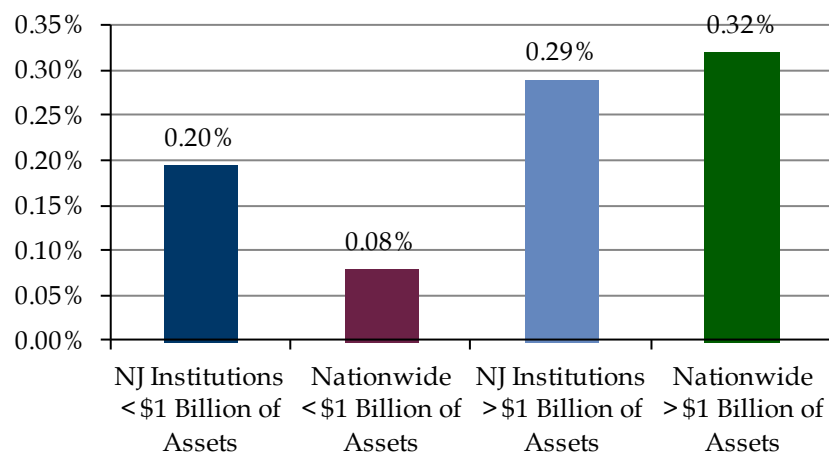


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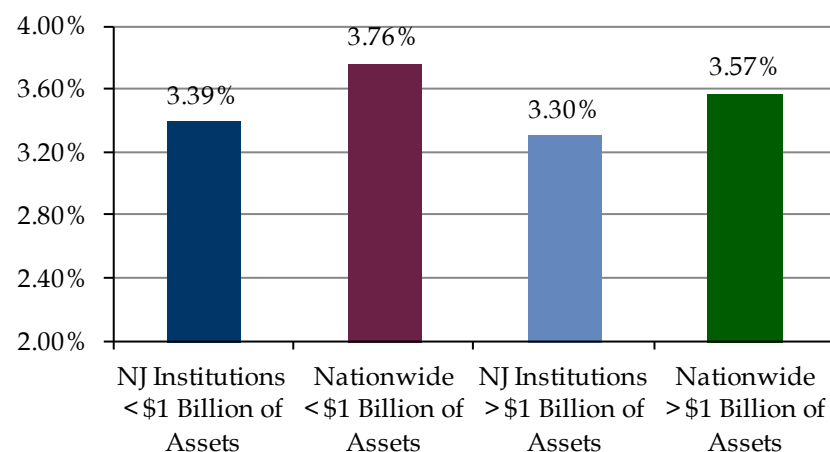
New Jersey Banking Industry Operating Trends

Nationwide Comparison

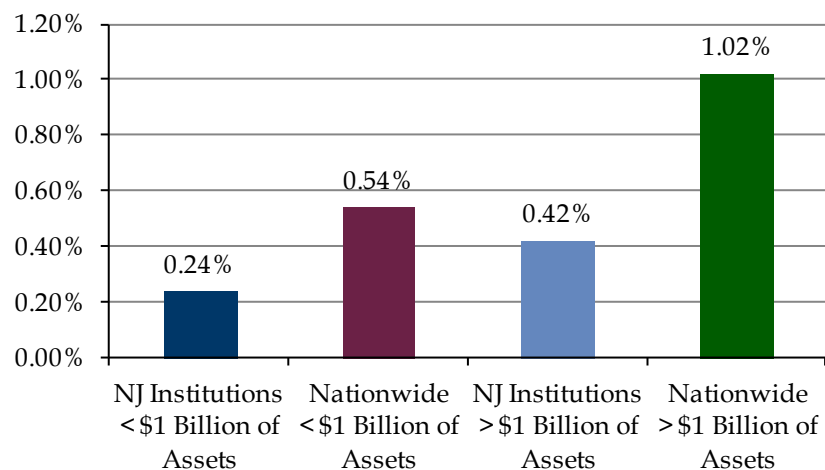
Net Charge-offs / Average Loans



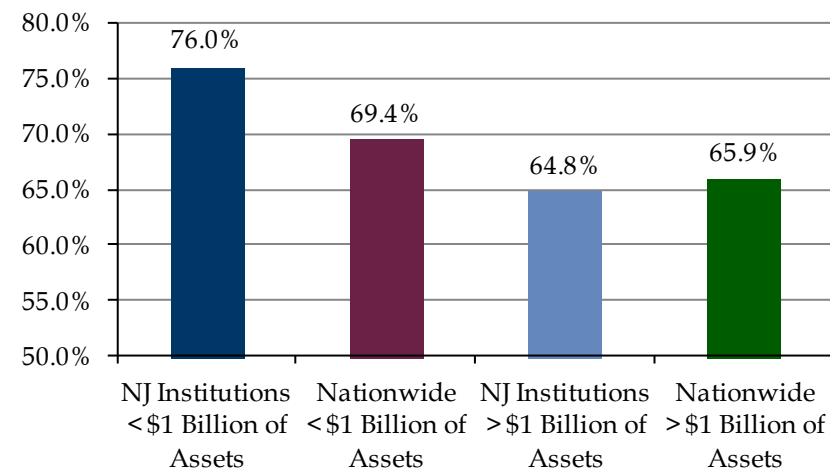
Net Interest Margin



Non-Interest Income / Average Assets



Efficiency Ratio

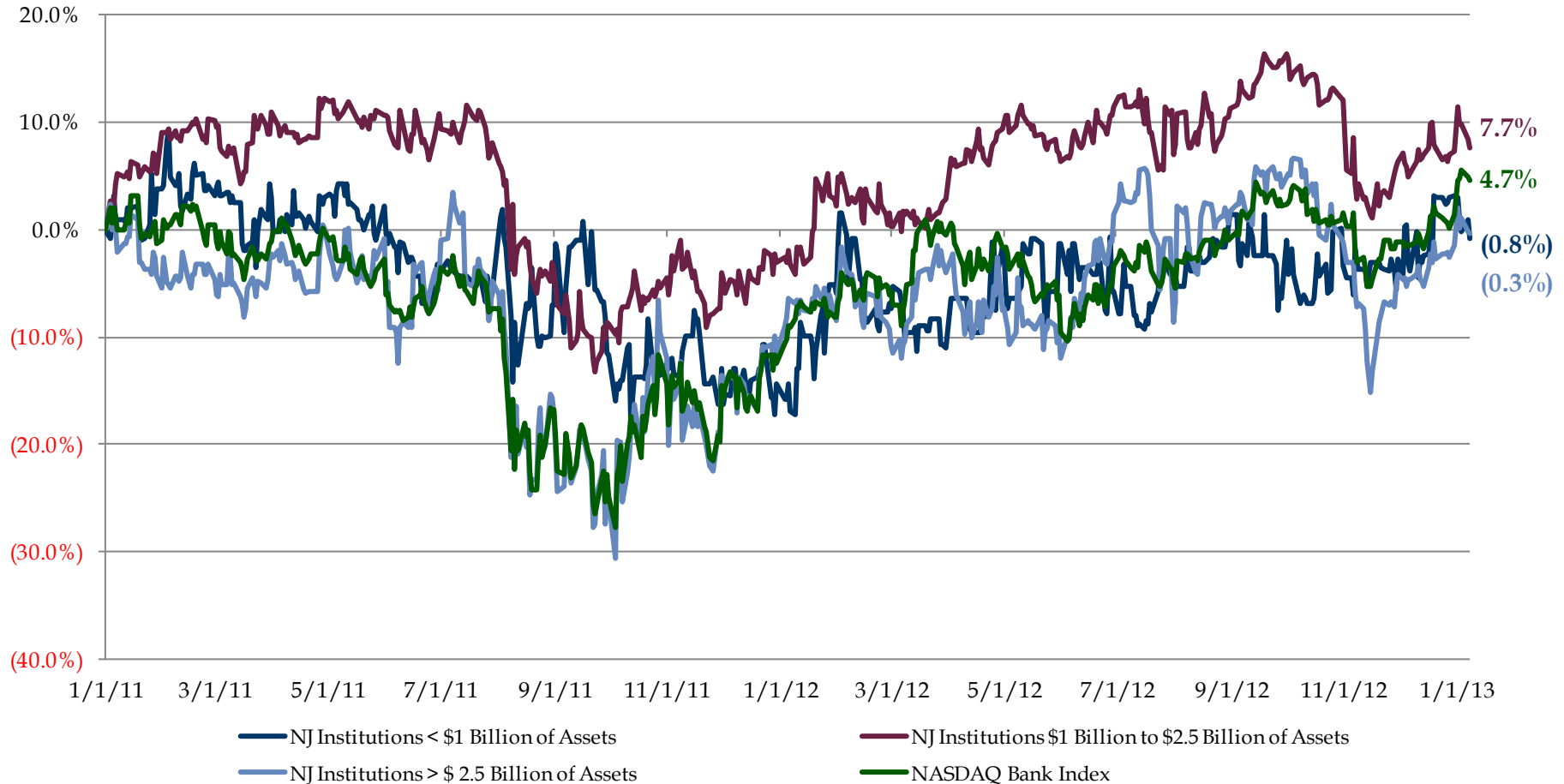


Source: SNL Financial. Represents regulatory reported information, presented MRQ unless otherwise indicated. Excludes merger targets, trust banks, and bank subsidiaries of foreign banks and non-banking entities. Data reflect medians.

IV. New Jersey Banking Industry Valuation Trends

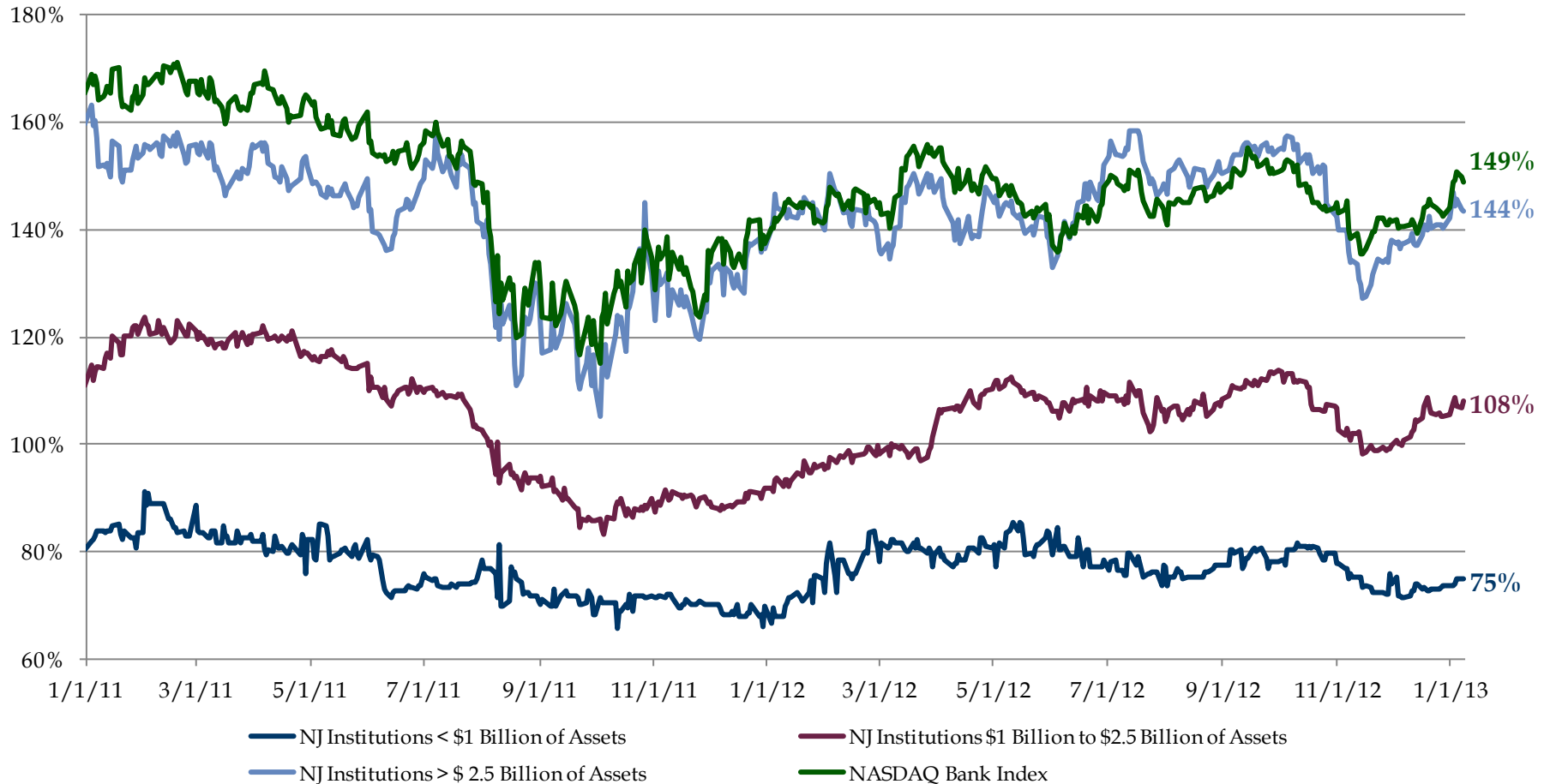
New Jersey Bank Price Performance Update

Relative Price Performance Since 2011



New Jersey Bank Price Performance Update

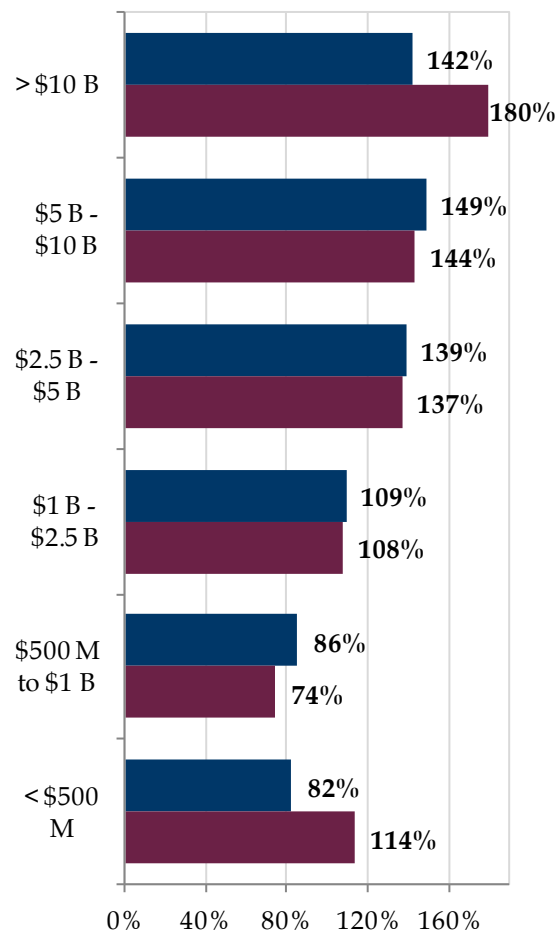
Price/Tangible Book Since 2011



Investors Value Balance Sheet Size, Strength and Profitability

Price / Tangible Book Value Stratification

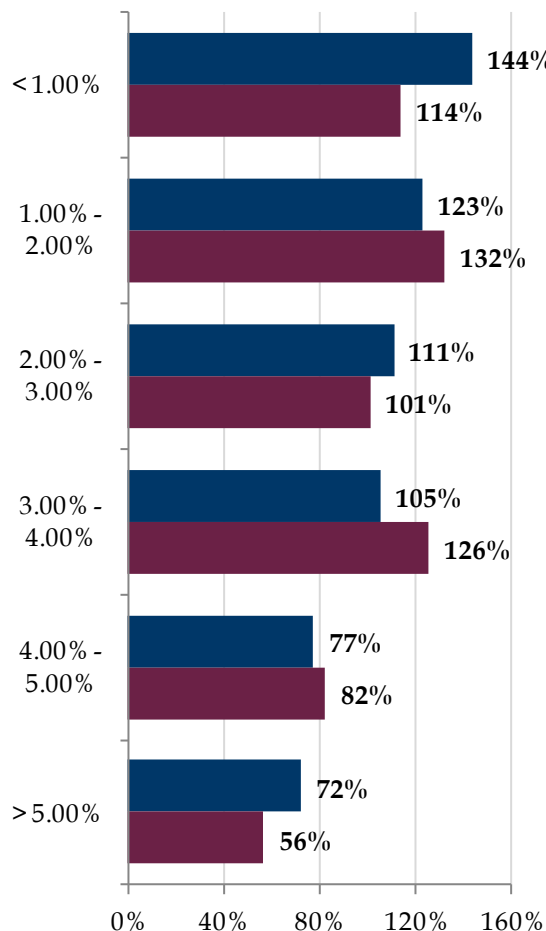
Total Assets



■ Nationwide ■ New Jersey
Price / Tangible Book Value

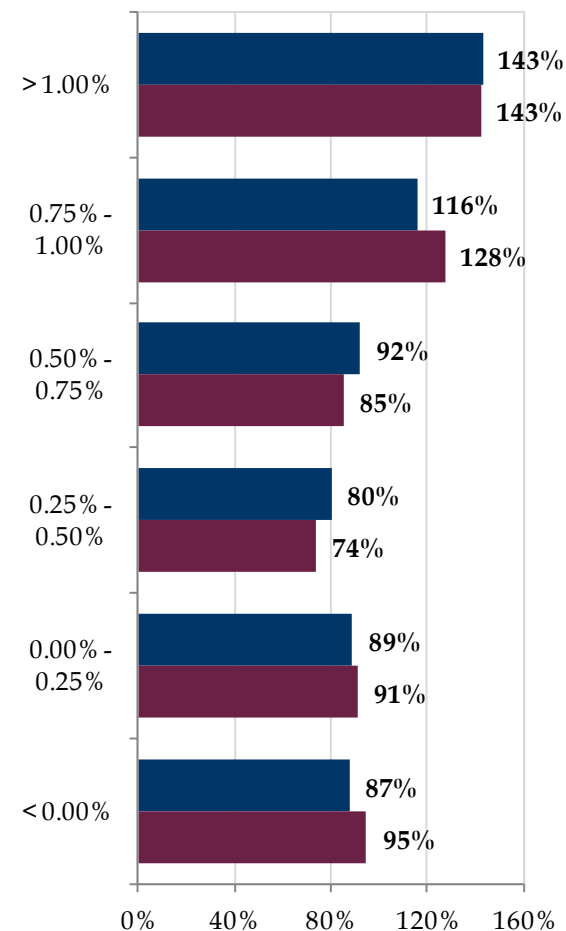
Nationwide Median: 109%

NPA/Assets



■ Nationwide ■ New Jersey
Price / Tangible Book Value

MRQ ROAA



■ Nationwide ■ New Jersey
Price / Tangible Book Value

New Jersey Median: 108%

V. New Jersey Bank M&A and Capital Offerings Trends

“New Normal” – Impact on Strategic Alternatives for Banks

- Asset growth is essential in order to create the revenue necessary to overcome the increased costs of doing business

BUT

- Capital is necessary to fund asset growth

AND

- Smaller institutions, perceived by the investment community as not being able to earn their cost of equity, lack access to affordable capital

AS A RESULT...



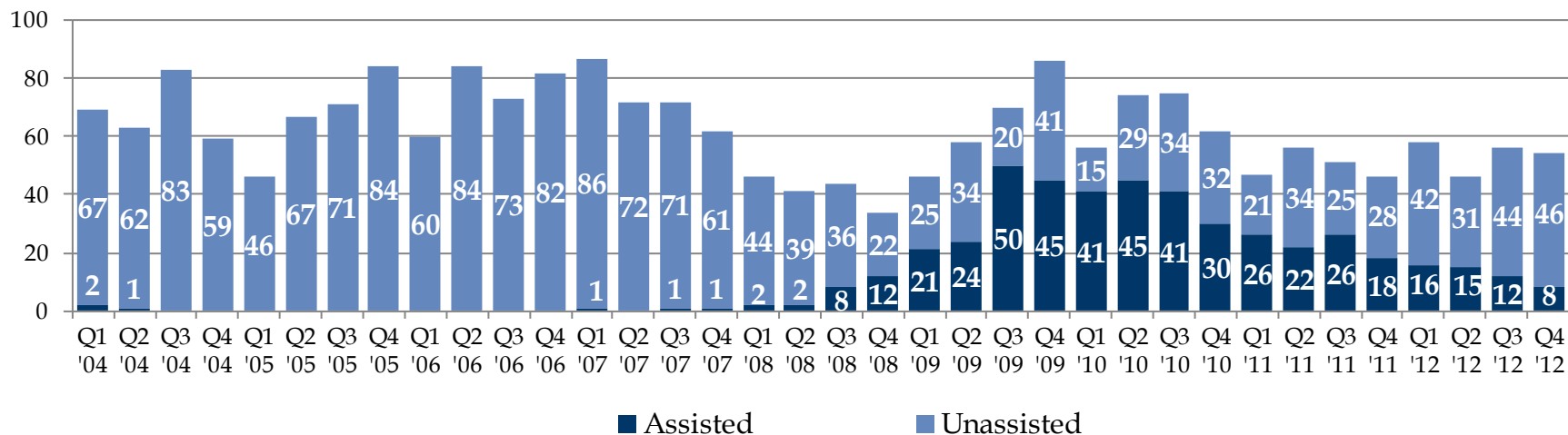
- Larger institutions with access to the capital markets will pursue M&A in order to overcome organic growth challenges

- Smaller institutions without capital access may consider the strategic alternatives of an “upstream” partnership

Nationwide Bank and Thrift M&A Overview

Evolution from Assisted Transactions Back Toward Traditional M&A

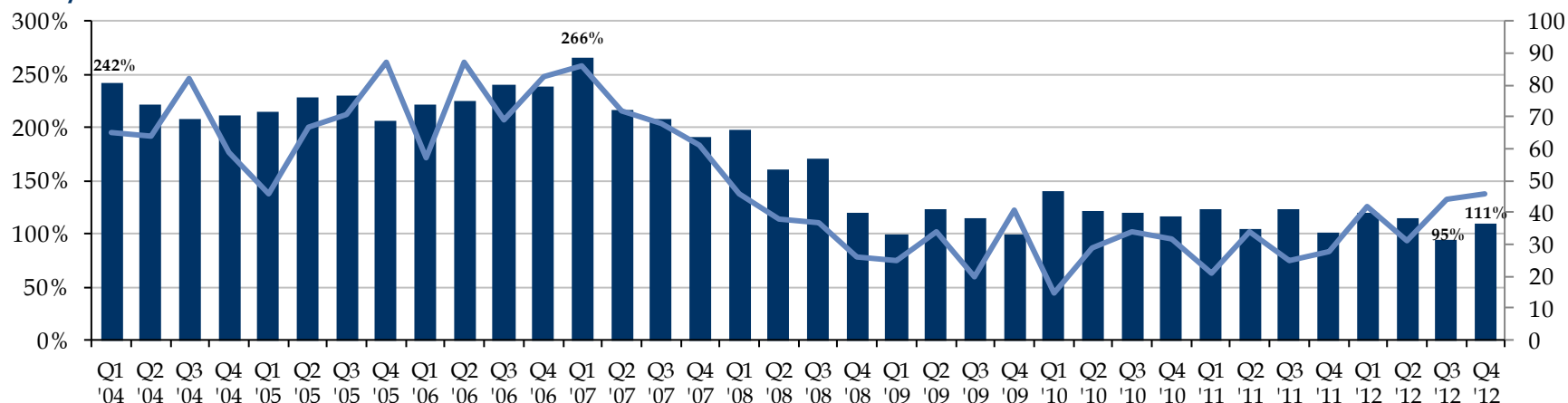
Transactions



Significant Talk of Unassisted Activity... But Volume Has Not Yet Grown

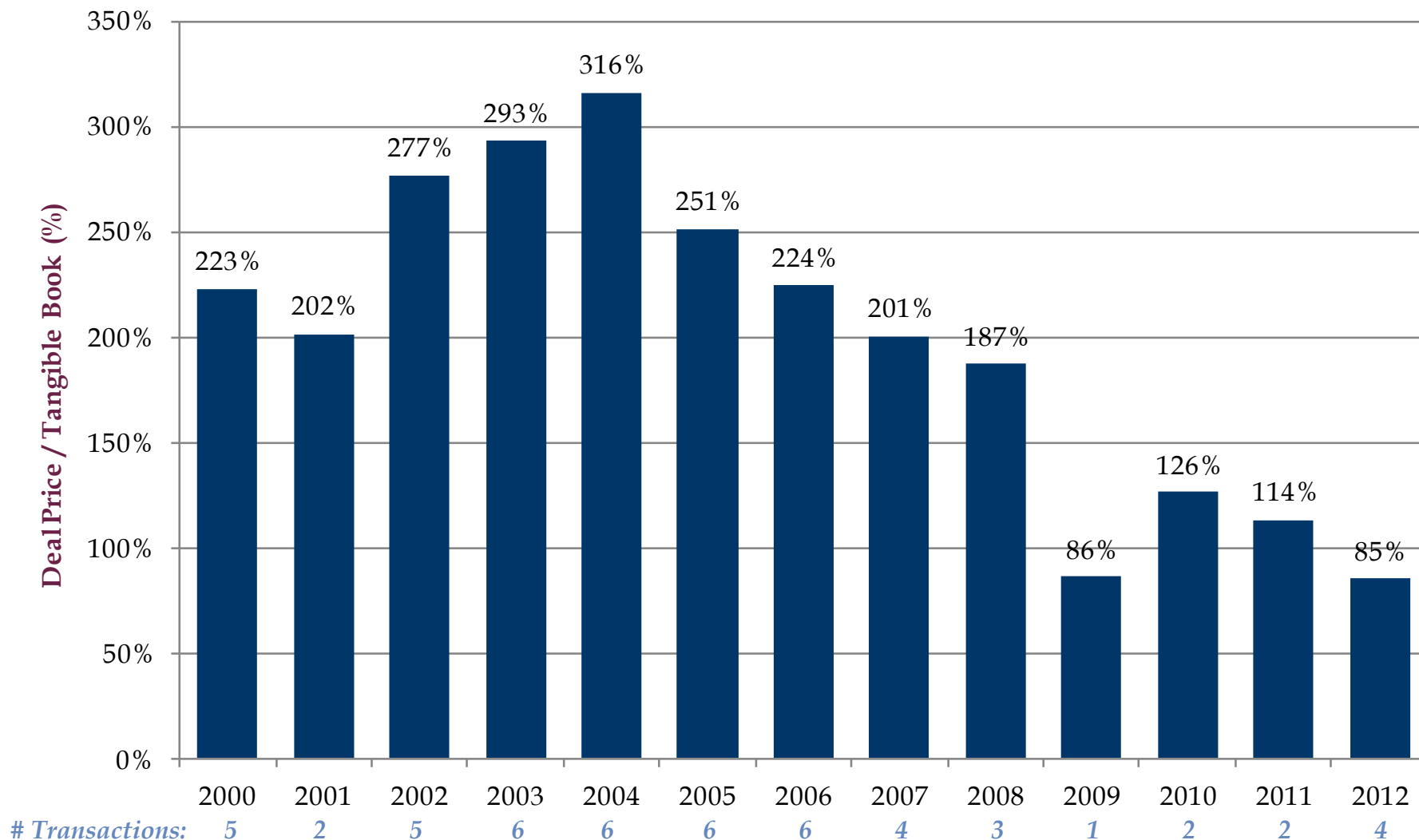
Deal P/TBV

of Transactions



New Jersey Bank and Thrift M&A Overview

Median Deal Price / Tangible Book for New Jersey Bank and Thrift Transactions Since 2000



New Jersey Bank and Thrift M&A Overview

Transactions Since 2009 In Which the Target Was Headquartered In New Jersey

Acquiror/ Target	Announce Date	Deal Value (\$M)	Target Assets (\$000)	TCE/ TA	NPAs/ Assets	Target		Consideration Mix	Cost Save Ratio	1 Day Market Premium	Price /			Core Deposit Premium
						ROAA	ROAE				LTM EPS	Book	TBV	
TF Financial Corporation/ Roebling Financial Corp, Inc. (NJ)	12/28/12	\$14.6	\$161,793	10.44%	2.09%	0.08%	0.75%	Mixed	NA	81.2%	NM	86%	86%	(18.1)%
Investors Bancorp, MHC/ Roma Financial Corporation, MHC (NJ)*	12/19/12	459.3	1,835,093	11.83	3.01	0.20	1.68	Common Stock	25	70.5	NM	51	52	(13.1)
M&T Bank Corporation/ Hudson City Bancorp, Inc. (NJ)	8/27/12	3,813.2	43,590,185	10.38	2.50	0.66	6.26	Mixed	24	12.1	NM	82	84	(6.2)
Center Bancorp, Inc./ Saddle River Valley Bank (NJ)	2/1/12	11.5	120,216	10.88	1.41	(2.85)	(19.41)	Cash	NA	NA	NM	88	90	(2.1)
BCB Bancorp, Inc./ Allegiance Community Bank (NJ)	4/4/11	6.8	121,348	5.78	4.79	0.32	5.42	Common Stock	NA	NA	17.9	97	97	(0.4)
Ocean Shore Holding Co./ CBHC Financialcorp, Inc. (NJ)	2/15/11	11.9	136,038	7.69	0.61	0.91	12.28	Cash	NA	NA	10.3	130	130	4.9
Kearny Financial Corp. (MHC)/ Central Jersey Bancorp (NJ)	5/25/10	72.3	571,295	9.79	1.60	0.52	5.27	Cash	26	NM	NM	150	153	9.1
Roma Financial Corporation (MHC)/ Sterling Banks, Inc. (NJ)	3/17/10	14.7	383,087	3.88	5.45	(3.68)	(61.08)	Cash	27	40.2	NM	88	100	(0.0)
BCB Bancorp, Inc./ Pamrapo Bancorp, Inc. (NJ)	6/29/09	46.9	592,373	9.19	1.29	0.29	3.21	Common Stock	NA	(2.7)	24.8	86	86	(3.4)
High		\$3,813.2	\$43,590,185	11.83%	5.45%	0.91%	12.28%		27%	81%	24.8x	150%	153%	9.1%
Median		14.7	383,087	9.79	2.09	0.29	3.21		26	40	17.9	88	90	(2.1)
Mean		494.6	5,279,048	8.87	2.53	(0.40)	(5.07)		26	40	17.7	95	98	(3.3)
Low		6.8	120,216	3.88	0.61	(3.68)	(61.08)		24	(3)	10.3	51	52	(18.1)

Transactions Since 2009 by New Jersey Buyers In Which the Target Was Headquartered Outside New Jersey

Acquiror/ Target	Announce Date	Deal Value (\$M)	Target Assets (\$000)	TCE/ TA	NPAs/ Assets	Target		Consideration Mix	Cost Save Ratio	1 Day Market Premium	Price /			Core Deposit Premium
						ROAA	ROAE				LTM EPS	Book	TBV	
Investors Bancorp, Inc. (MHC)/ Marathon Banking Corporation (NY)	6/14/12	\$135.0	\$902,092	10.14%	0.79%	0.72%	5.93%	Cash	30%	NA	23.8x	123%	151%	8.8%
Northfield Bancorp, Inc. (MHC)/ Flatbush Federal Bancorp, Inc. (MHC) (NY)*	2/29/12	18.2	144,102	10.53	7.17	(0.73)	(6.72)	Common Stock	NA	90.1	NM	55	55	(17.3)
Investors Bancorp, Inc. (MHC)/ BFS Bancorp, MHC (NY)*	8/16/11	10.3	469,929	8.67	24.93	(1.58)	(17.69)	Mixed	35	3.4	NM	7	7	(22.9)
Valley National Bancorp/ State Bancorp, Inc. (NY)	4/28/11	266.9	1,579,735	9.97	2.46	0.76	7.71	Mixed	25	25.7	23.7	188	188	11.5
Bank of Princeton/ MoreBank (PA)	5/5/10	5.5	72,607	6.38	1.28	(0.26)	(4.00)	Common Stock	NA	NA	NM	119	119	2.9
High		\$266.9	\$1,579,735	10.53%	24.93%	0.76%	7.71%		35%	90%	23.8x	188%	188%	11.5%
Median		18.2	469,929	9.97	2.46	(0.26)	(4.00)		30	26	23.8	119	119	2.9
Mean		87.2	633,693	9.14	7.33	(0.22)	(2.95)		30	40	23.8	98	104	(3.4)
Low		5.5	72,607	6.38	0.79	(1.58)	(17.69)		25	3	23.7	7	7	(22.9)

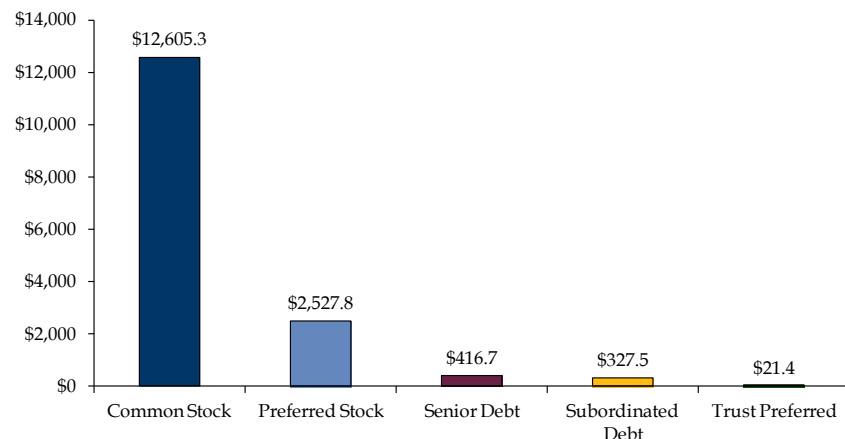
Source: SNL Financial. Includes regular way transactions where both buyer and seller were banks or thrifts. Price to tangible book ratios are based on deal terms and financials at announcement.

*Price / Book, Price / TBV and Core Deposit Premium reflect consideration to minority shareholders.

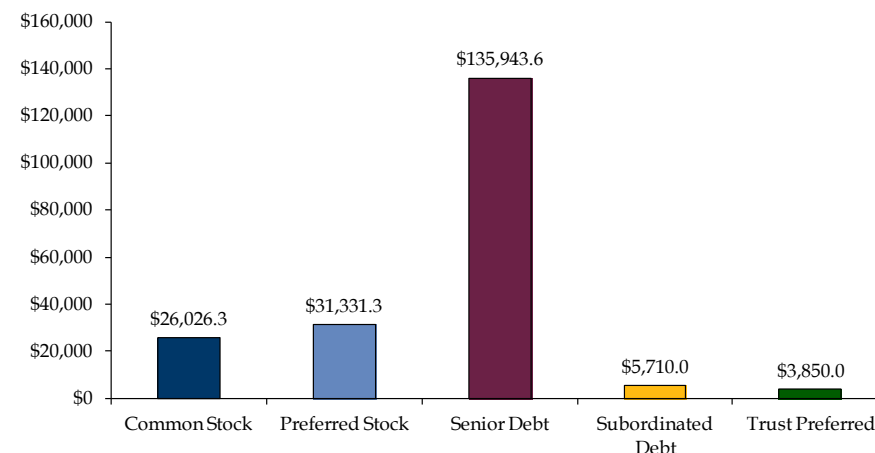
Nationwide Bank and Thrift Capital Offerings Overview

Capital Raises Among Banks & Thrifts – 1/1/10 – 12/31/12

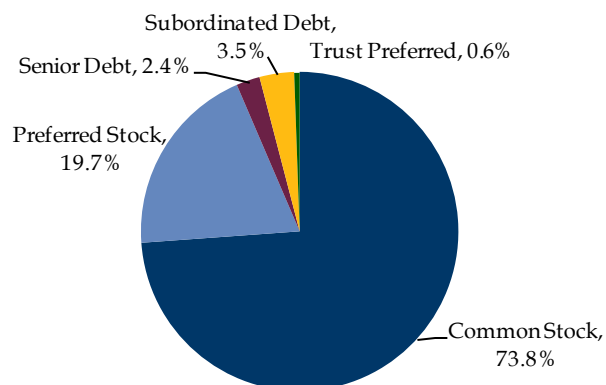
Capital Raises By Banks With Assets < \$10B (\$M)



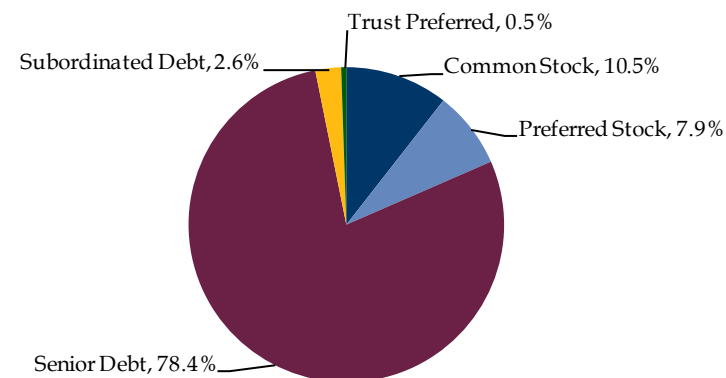
Capital Raises By Banks With Assets >= \$10B (\$M)



Number of Deals for Banks With Assets < \$10B



Number of Deals for Banks With Assets >= \$10B

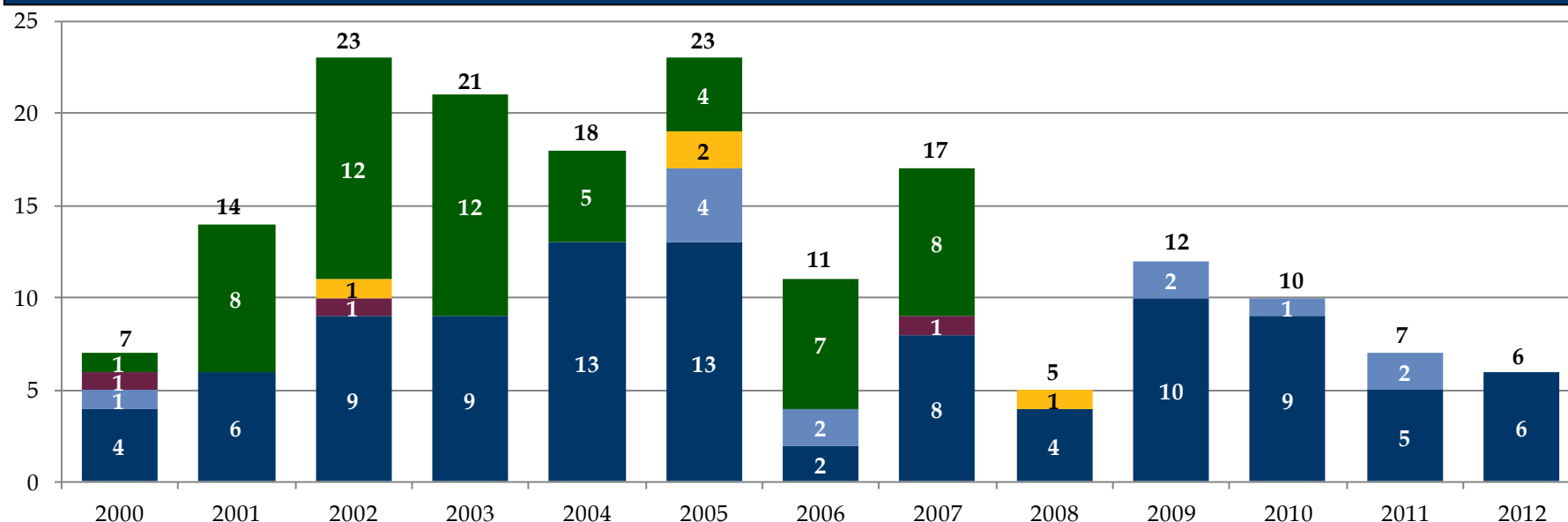


Source: SNL Financial

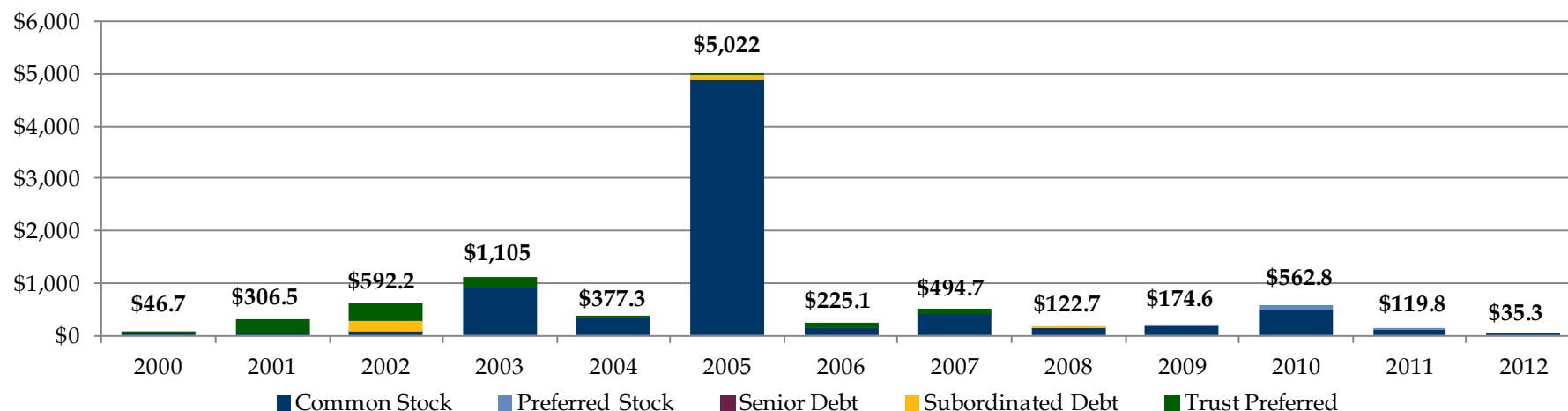
Note: Includes offerings made in USD, does not include secondary or exchange offerings, or medium term notes, branded notes or structured finance issues. Excludes preferred stock issued under TARP and SBLF.

New Jersey Bank and Thrift Capital Offerings Overview

Number of Capital Offerings by New Jersey Institutions Since 2000



Capital Raised in Offerings by New Jersey Institutions Since 2000 (\$ Millions)



Source: SNL Financial. Excludes offerings by selling shareholders.

VI. Prescription for the Banking Industry

Evolution of Industry in the Face of Financial & Regulatory Challenge

- Many other industries have dealt with extreme regulatory pressure coupled with financial challenges and have emerged transformed...

- Utilities



- Retail



- Railroads



- Grocery



- Home Improvement



Prescription – What History Tells Us

1. Extreme margin pressure will drive consolidation and branch closings
2. Demographic and technological changes will drive move from expensive to more efficient distribution channels
3. Business model for banks will migrate to a more variable expense structure (compensation)
4. Undue regulatory involvement in banks will lead to credit scarcity which will ultimately lead to better pricing



Prescription for Banks

1. Ensure you have capital to have staying power through evolutionary period
2. To extent possible, modify expense base from fixed to variable
3. Embrace a more adaptive/ entrepreneurial workplace culture
4. Be involved in consolidation!

