Financial Managers Society
Key Strategic Planning Initiatives in 2013
February 20, 2013

FinPro
Building value together
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A. Strategic Planning Process Overview

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As a result of the current environment, many bankers have been asking FinPro a lot of questions . . .

- When will loan demand return?
- Is the competition seriously offering a 3.25% five year commercial real estate loan?
- How should we structure our balance sheet?
- Are rates going to stay low forever?
- How can we deploy our cash position?
- What should we focus on when we don't know the rules?
- How do we compete and outperform our competition?
- How do we combat spread compression?

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Planning is going through a revolution . . .

- Too many people think of planning as some great ethereal exercise
- It is not a kumbaya “feel good” event
- Spending time and money on “Soft” topics (mission statements, vision statements, core competencies, etc.) does not build value and should therefore be relegated to minor roles
- Rather, planning is a process through which an entity goes to delineate alternative paths, selecting the optimal one after examining the execution risk, to achieve a stated goal.

In short, we must all recognize that one size does not fit all and all banks CANNOT IMPLEMENT the same strategy!

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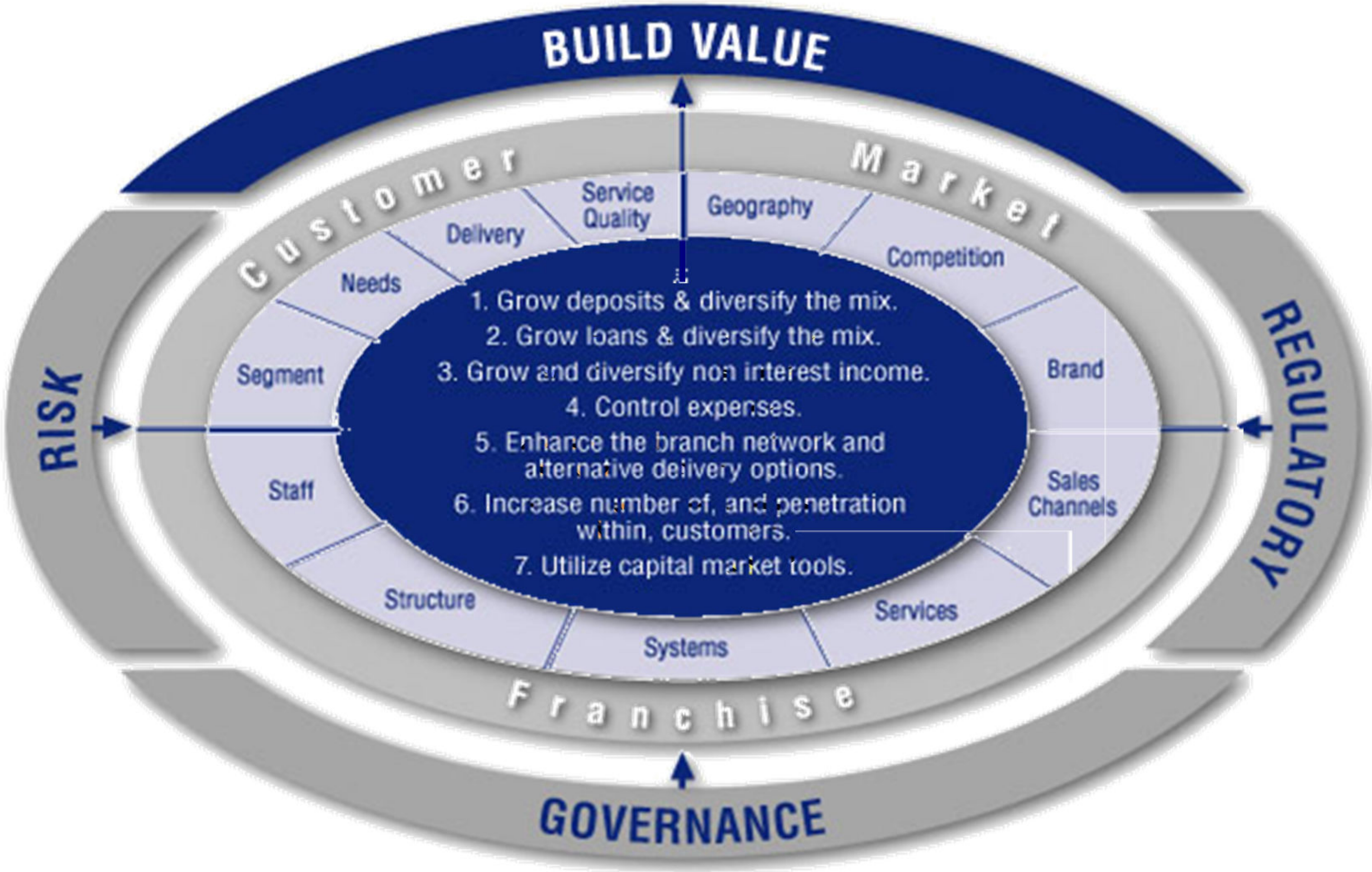
The "Best in Class" strategic plans are derived from a decision tree methodology that allows for flexible, pro-active thinking . . .



Remember all strategic plans must address BUILDING VALUE

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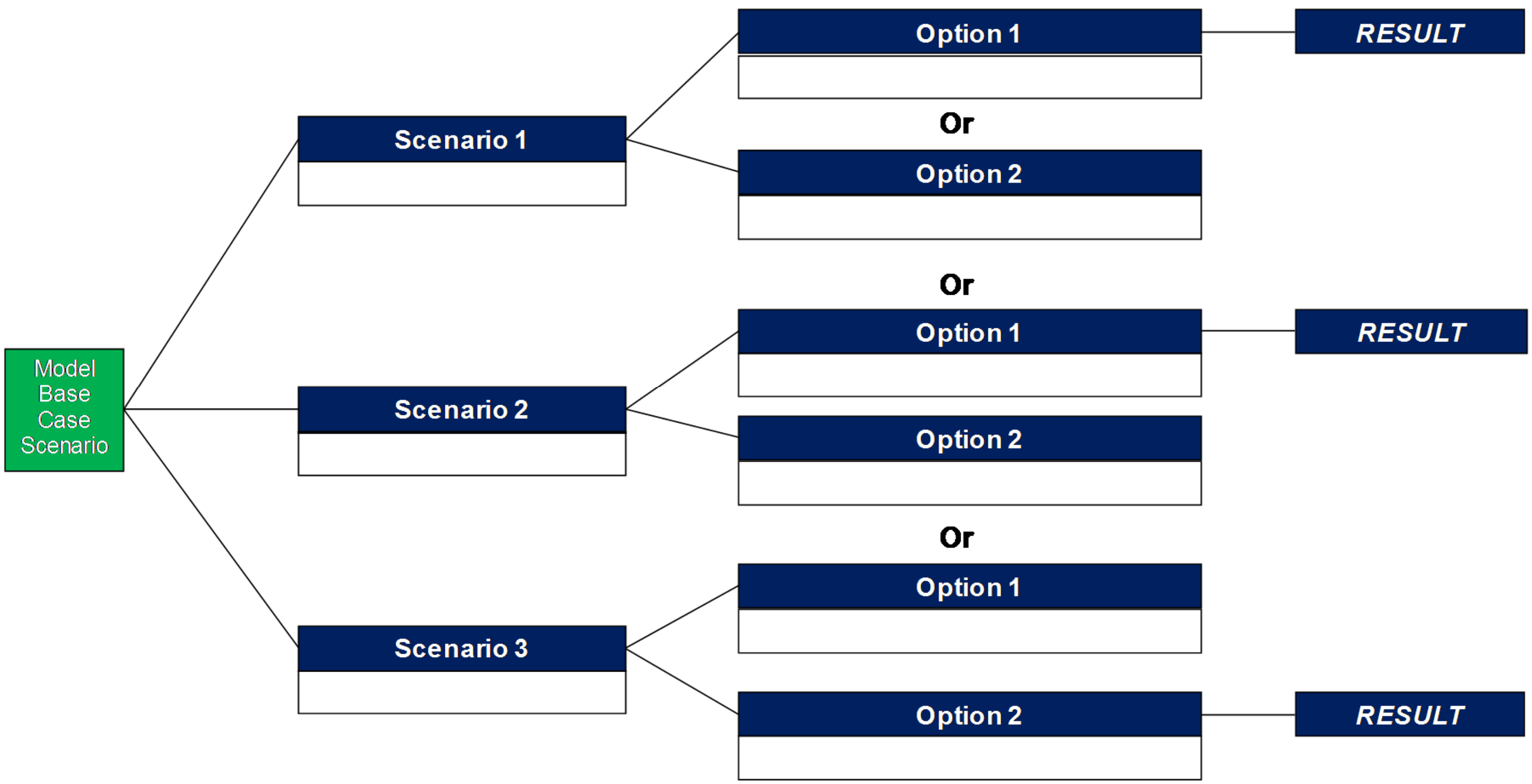
1. Lays out the potential options available to the bank in a decision tree . . .



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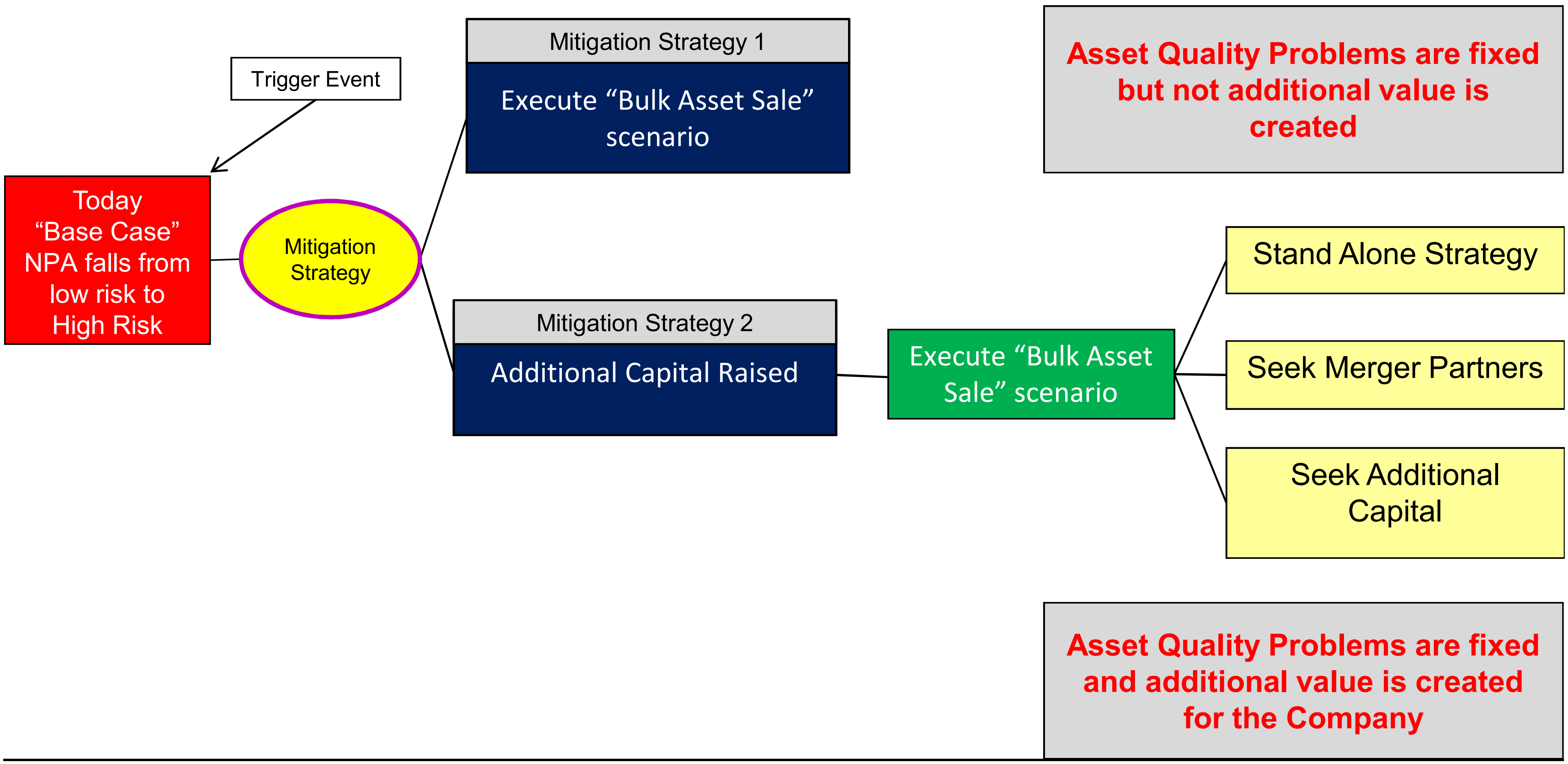
2. Determines the trigger points that cause specific actions to occur . . .



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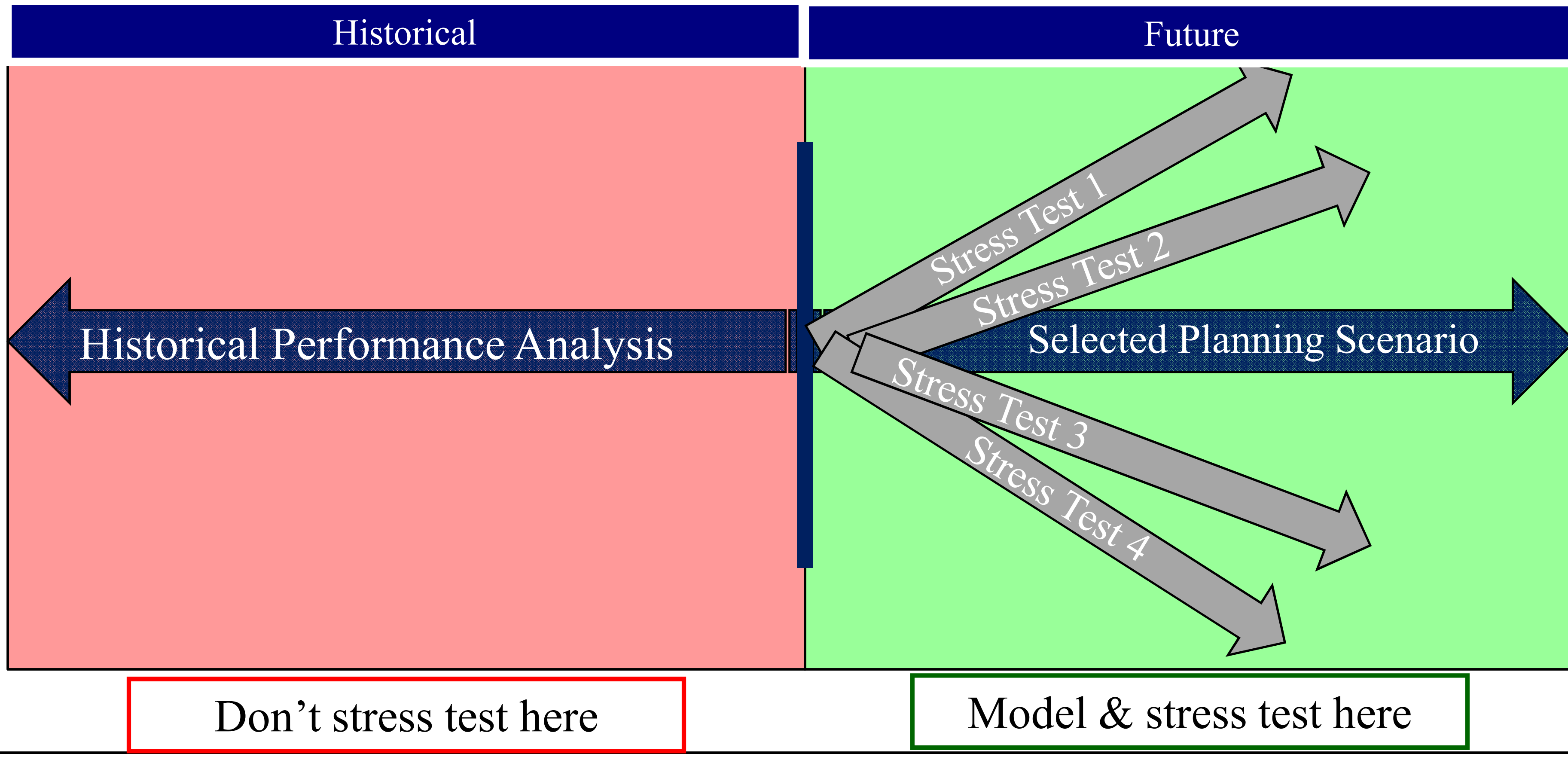
3. Allows for scenario modeling and single/multi variable stress testing . . .

Historical Analysis and ALM: Reactionary process using stale data

Stress testing should be a forward looking pro-active process



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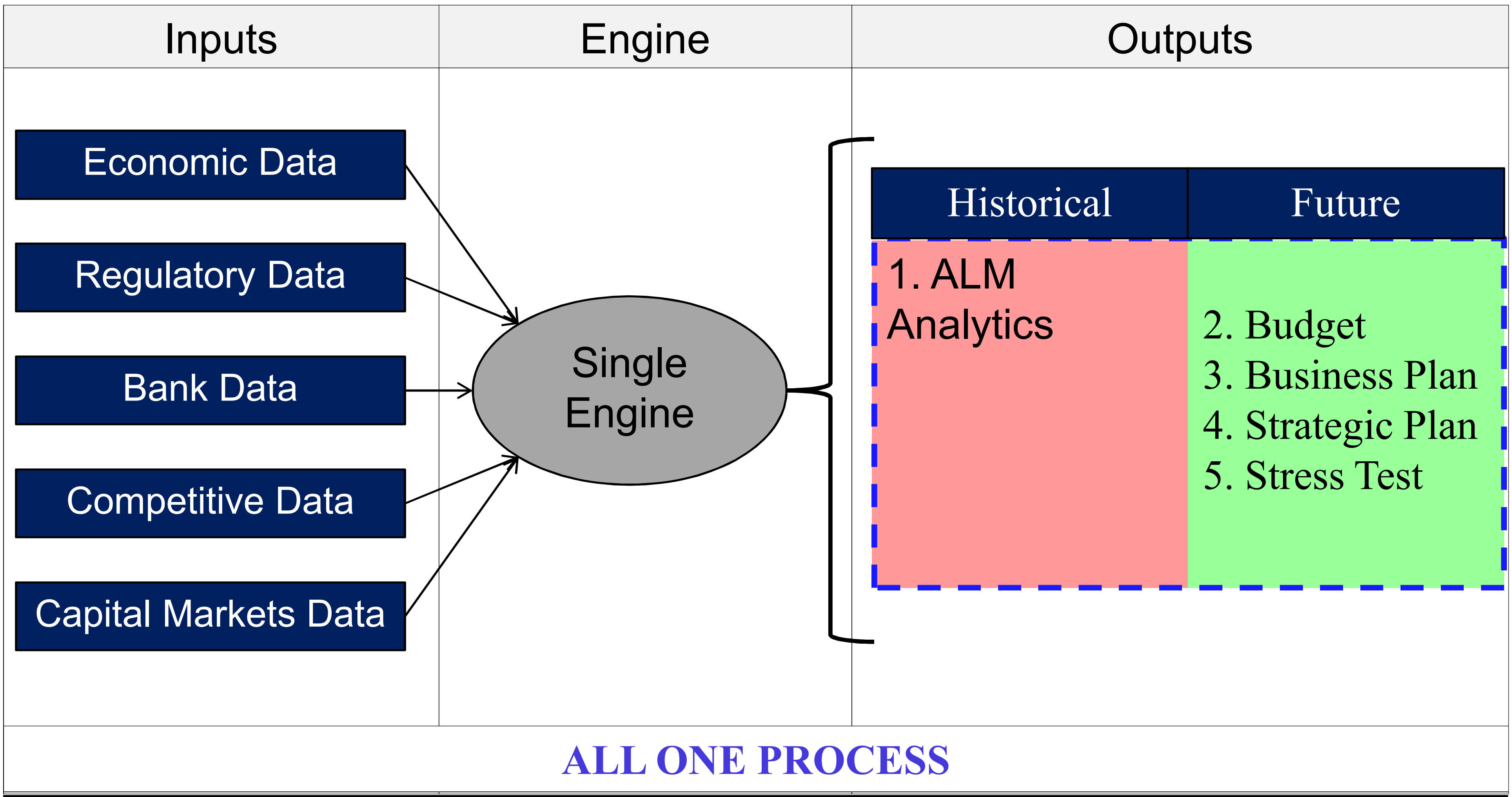
As such, this process necessitates a single integrated engine that allows for multiple scenario and stress tests all in one engine . . .



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A few examples of stress tests that FinPro runs for its clients include . . .

- LTV and DSC stress testing on loan portfolio
- Deposit runoff
- Net interest margin compression
- Increasing nonperforming assets
- Increasing charge-offs
- Less than anticipated loan production
- Various interest rate scenarios

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Stress testing should be modeled on both a horizontal and vertical basis. The following is a horizontal stress test for capital . . .

	Actual	Net Loss Stress Test					
	31-Dec	$ 2,000	$ 3,000	$ 4,000	$ 5,000	$ 6,000	$ 7,000
Equity capital	46,943	44,943	43,943	42,943	41,943	40,943	39,943
Total core capital	45,062	43,062	42,062	41,062	40,062	39,062	38,062
Total risk based capital	49,670	47,670	46,670	45,670	44,670	43,670	42,670
Total adjusted tangible assets	503,087	501,087	500,087	499,087	498,087	497,087	496,087
Toal risk-weighted assets	365,482	363,482	362,482	361,482	360,482	359,482	358,482
Tier 1 leverage capital	8.96%	8.59%	8.41%	8.23%	8.04%	7.86%	7.67%
Total Risk-based	13.59%	13.11%	12.88%	12.63%	12.39%	12.15%	11.90%

**Reduction in risk-weighted assets assumes 100% risk weighting*

The Bank could lose approx. $5 million or grow by $55 million and still have an 8% tier I core capital ratio

	Actual	Net Balance Sheet Growth Stress Test					
	31-Dec	$ 25,000	$ 35,000	$ 45,000	$ 55,000	$ 65,000	$ 75,000
Equity capital	46,943	46,943	46,943	46,943	46,943	46,943	46,943
Total core capital	45,062	45,062	45,062	45,062	45,062	45,062	45,062
Total risk based capital	49,670	49,670	49,670	49,670	49,670	49,670	49,670
Total adjusted tangible assets	503,087	528,087	538,087	548,087	558,087	568,087	578,087
Toal risk-weighted assets	365,482	390,482	400,482	410,482	420,482	430,482	440,482
Tier 1 leverage capital	8.96%	8.53%	8.37%	8.22%	8.07%	7.93%	7.80%
Total Risk-based	13.59%	12.72%	12.40%	12.10%	11.81%	11.54%	11.28%

**Increase in risk-weighted assets assumes 100% risk weighting and capital was assumed to be flat in each scenario*

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Horizontal stress testing also could include an LTV stress test . . .

LTV SUMMARY		Estimated Current Count	Estimated Current Balance	Estimated Current Deficiency $	Stress 1 -5% Count	Stress 1 -5% Balance	Stress 1 -5% Deficiency $	Stress 2 -10% Count	Stress 2 -10% Balance	Stress 2 -10% Deficiency $	Stress 3 -15% Count	Stress 3 -15% Balance	Stress 3 -15% Deficiency $
0%	10%	392	7,645,519	-	369	7,107,486	-	360	6,764,357	-	341	5,285,745	-
10%	20%	295	15,550,273	-	296	15,072,969	-	278	14,359,579	-	270	13,588,260	-
20%	30%	226	19,383,825	-	214	16,465,777	-	203	12,467,720	-	203	13,180,730	-
30%	40%	220	32,275,395	-	197	22,188,360	-	208	23,020,433	-	200	22,465,344	-
40%	50%	214	40,109,853	-	223	46,511,423	-	186	40,448,069	-	162	30,350,299	-
50%	60%	252	44,177,611	-	224	38,176,845	-	215	35,909,831	-	200	32,368,260	-
60%	70%	242	41,331,243	-	233	34,805,168	-	217	36,159,623	-	209	41,009,475	-
70%	80%	288	53,855,256	-	257	54,673,003	-	225	44,455,722	-	208	31,426,386	-
80%	90%	151	17,072,427	-	207	28,768,482	-	259	42,947,179	[illegible]	[illegible]	[illegible]	-
90%	100%	90	7,614,458	-	108	11,950,892	-	129	14,868,890	[illegible]	[illegible]	[illegible]	-
100%	110%	26	2,623,791	(82,998)	61	4,978,121	(196,515)	79	6,581,838	[illegible]	[illegible]	[illegible]	[illegible]
110%	120%	9	891,748	(91,915)	13	1,733,017	(212,156)	35	3,377,581	[illegible]	[illegible]	[illegible]	[illegible]
120%	130%	1	734,179	(147,175)	3	99,854	(18,682)	9	1,113,559	[illegible]	[illegible]	[illegible]	[illegible]
130%	140%	1	19,760	(4,642)	2	753,939	(181,924)	3	791,199	[illegible]	[illegible]	[illegible]	[illegible]
140%	150%	1	8,990	(2,990)	-	-	-	1	19,760	[illegible]	[illegible]	[illegible]	[illegible]
150%	160%	2	66,087	(22,481)	2	67,152	(24,895)	-	-	[illegible]	[illegible]	[illegible]	(6,910)
160%	170%	-	-	-	1	7,924	(3,056)	2	67,152	[illegible]	[illegible]	[illegible]	-
170%	180%	1	149,946	(61,946)	1	149,946	(66,346)	1	7,924	[illegible]	[illegible]	[illegible]	(29,343)
180%	190%	-	-	-	-	-	-	1	149,946	[illegible]	[illegible]	[illegible]	(3,568)
190%	200%	-	-	-	-	-	-	-	-	-	-	-	-
200%	1E+19	7	2,319,255	(1,776,925)	7	2,319,255	(1,804,041)	7	2,319,255	(1,831,158)	8	2,469,201	(1,933,421)
Total		2,418	285,829,616		2,418	285,829,616		2,418	285,829,616		2,418	285,829,616	
Total Above 100% LTV		48	6,813,755	(2,191,072)	90	10,109,209	(2,507,615)	138	14,428,214	(3,052,426)	203	22,493,668	(3,885,927)
Total Above 80% LTV		289	31,500,641		405	50,828,584		526	72,244,283		625	96,155,119	
Not Classified		1,851	23,378,339		1,851	23,378,339		1,851	23,378,339		1,851	23,378,339	
Total		4,269	309,207,955		4,269	309,207,955		4,269	309,207,955		4,269	309,207,955	

Under a -5% collateral stress test, 42 additional loans for a total of 90 loans move into a collateral deficient position.

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In order to properly stress test, data integrity is of paramount importance. Banks usually have the data, but it simply isn't available in an automated environment. Invest the time to get it right . . .

Phase 4: *Ensure Data Integrity*

Account	Borrower Name	Loan Grade	Principal Balance	Appraisal Amount	Appraisal Date
12345678	XYZ LLC	Special Mention	1,080,789	1,100,000	8/2/2010
23456789	XYZ LLC	Special Mention	348,808	1,100,000	2/2/2009
34567890	XYZ LLC	Special Mention	698,338	1,100,000	8/2/2010
45678901	XYZ LLC	Special Mention	451,483	540,000	7/29/2010
		Total	**2,579,417**	**3,840,000**	

Loans appear to be well collateralized in the event of default based on appraisal values.

In reality, three of the four loans are backed by the same piece of property

Account	Borrower Name	Loan Grade	Principal Balance	Appraisal Amount	Appraisal Date
12345678	XYZ LLC	Special Mention	1,080,789	1,100,000	8/2/2010
23456789	XYZ LLC	Special Mention	348,808	-	2/2/2009
34567890	XYZ LLC	Special Mention	698,338	-	8/2/2010
45678901	XYZ LLC	Special Mention	451,483	540,000	7/29/2010
		Total	**2,579,417**	**1,640,000**	
		Potential loss		**(1,047,145)**	

When allocating collateral value appropriately, the other two loans have no protection in the event of default, resulting in a $1.1 million potential loss.

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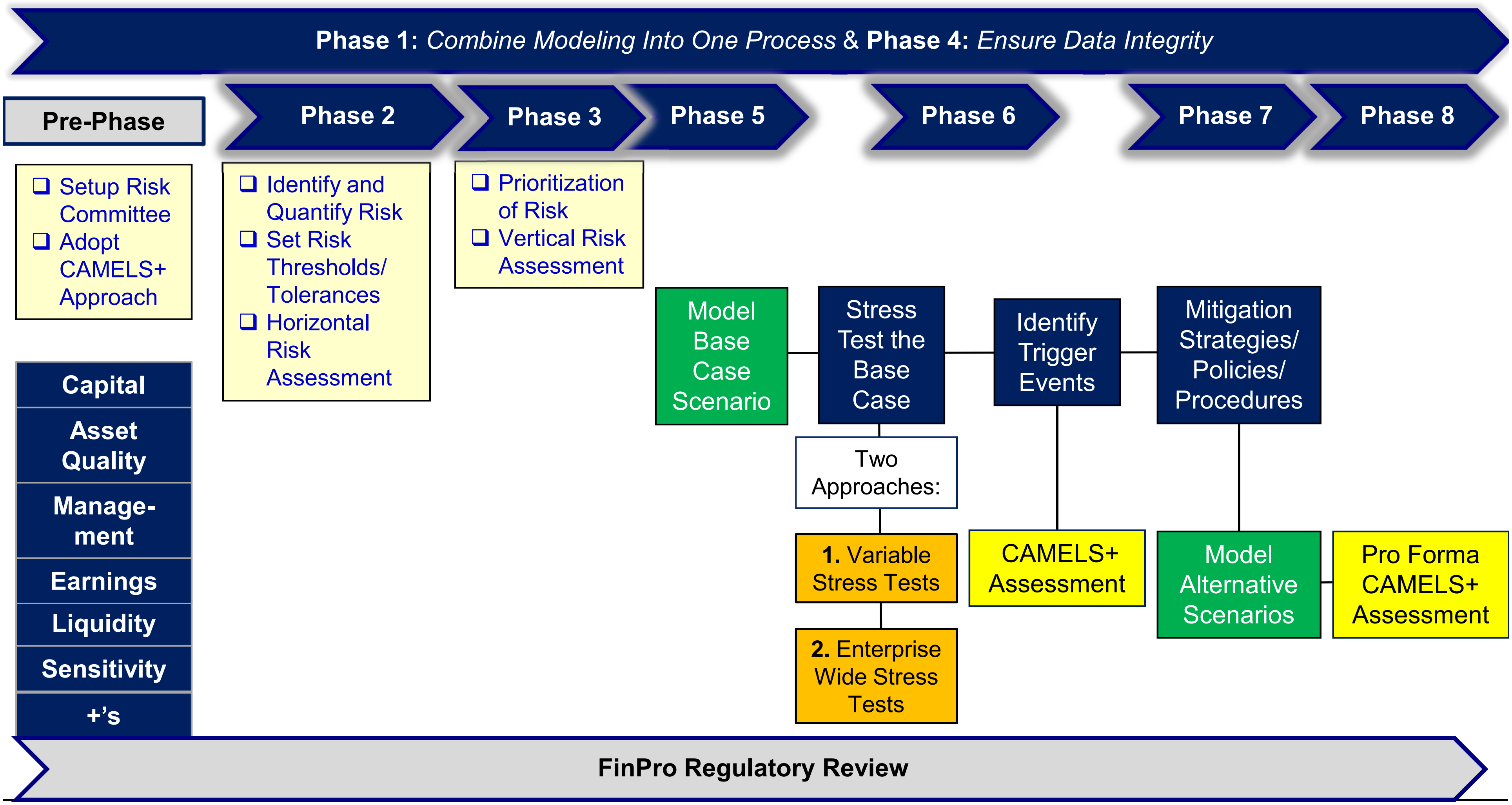
4. Conducts an ERM assessment of each path . . .



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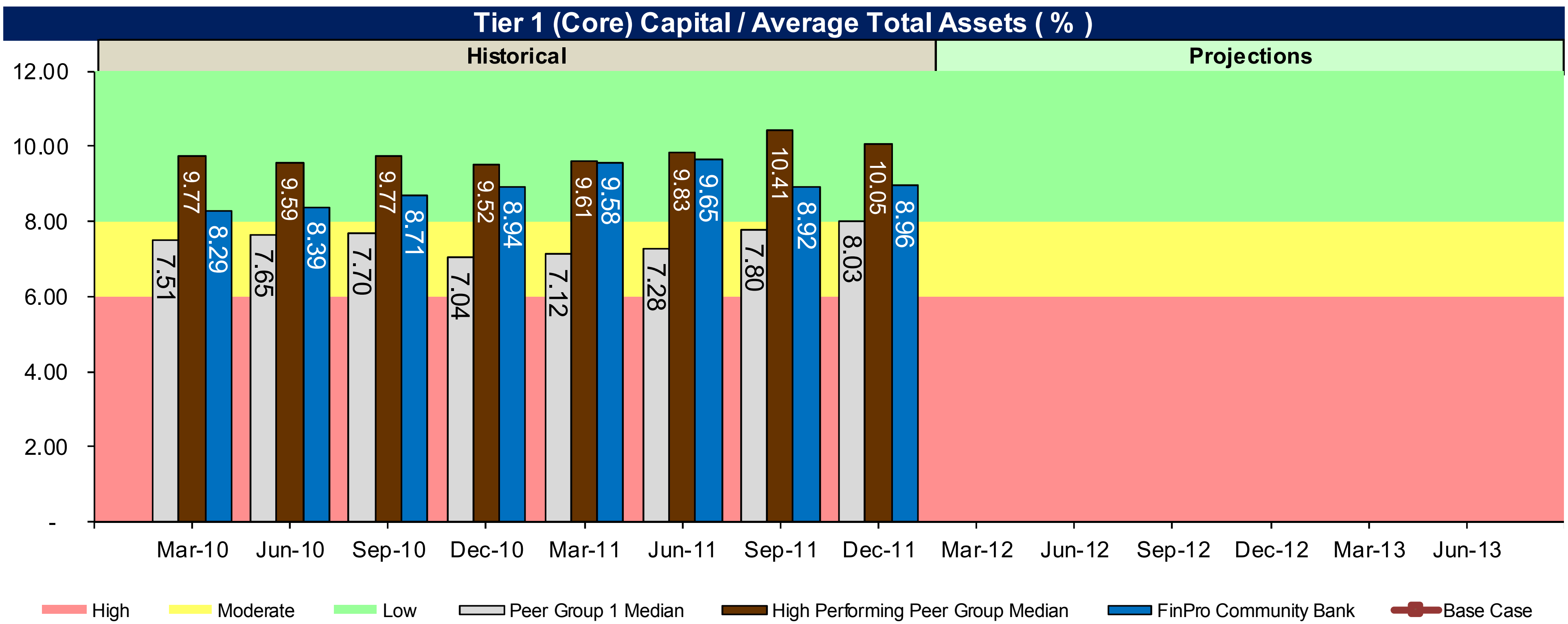
As part of the ERM, forward looking projections need to be modeled by scenario for each of the identified ratios. Each ratio is examined to see where the projected Bank would be in terms of low, moderate or high risk and projected trend . . .



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The results of each individual scenario, in relation to the risk thresholds, can be measured using a “scenario scorecard”, which drives strategic decisions . . .

	Risk Thresholds		Current At 2011Q4	Base Case: Forward Looking Projections					
	Low Risk / Moderate Risk	Moderate Risk / High Risk		Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
Capital Adequacy Ratios									
Equity Capital / Total Assets	8.00%	6.00%	9.47%	9.53%	9.56%	9.91%	10.02%	10.02%	10.25%
Tangible Equity / Tangible Assets	8.00%	6.00%	9.47%	9.53%	9.56%	9.91%	10.02%	10.02%	10.25%
Tier 1 (Core) Capital / Average Total Assets	8.00%	6.00%	8.96%	9.08%	9.15%	9.27%	9.58%	9.58%	9.62%
Risk Based Capital / Risk-Weighted Assets	11.50%	10.00%	13.59%	13.50%	13.74%	13.65%	13.93%	14.01%	14.11%
Asset Quality Ratios									
Nonaccrual/Total Loans	2.00%	5.00%	7.61%	8.14%	8.09%	8.09%	7.73%	5.98%	5.55%
Net Charge offs/ Total Loans	0.50%	1.00%	0.64%	0.92%	0.94%	1.90%	0.00%	0.94%	0.96%
Reserves/ Total Loans	1.50%	1.00%	2.50%	2.54%	2.58%	2.62%	2.66%	2.73%	2.77%
Reserves/ Nonaccrual	60.00%	30.00%	33.98%	32.07%	32.76%	33.22%	35.33%	46.94%	51.41%
Texas Ratio	30.00%	50.00%	84.80%	80.70%	76.09%	76.68%	72.57%	71.17%	68.86%
Earnings Ratios									
Yield/ Cost Spread	3.00%	2.25%	3.52%	3.27%	3.37%	3.59%	3.65%	3.74%	3.84%
Tot Provision Expense/ AA	0.50%	1.00%	1.46%	0.55%	0.56%	1.17%	0.00%	0.57%	0.57%
Non Interest Income/ AA	1.00%	0.50%	0.69%	1.13%	1.15%	1.19%	1.22%	1.22%	1.23%
Non Recurring Income/ AA	0.25%	0.50%	0.19%	0.10%	0.10%	0.11%	0.11%	0.11%	0.11%
Non Interest Expense/ AA	3.50%	3.90%	3.54%	3.78%	3.83%	3.97%	4.05%	4.06%	4.09%
ROAA	0.50%	0.20%	-0.85%	-0.25%	-0.25%	-0.79%	0.42%	-0.13%	-0.13%
ROAE	7.00%	2.00%	-9.00%	-2.58%	-2.57%	-8.01%	4.19%	-1.33%	-1.33%
Liquidity Ratios									
Cash Liquidity	7.00%	5.00%	10.23%	11.29%	11.96%	7.37%	8.86%	10.07%	8.95%
On Balance Sheet Liquidity	15.00%	10.00%	25.93%	27.48%	28.30%	24.54%	25.83%	26.51%	25.31%
On Balance Sheet Liquidity + Borrowing	20.00%	15.00%	25.96%	33.66%	34.40%	30.39%	31.58%	32.14%	30.95%
Capacity / Core Deposits & ST Funding	20.00%	15.00%	32.11%	43.06%	43.17%	37.55%	37.97%	37.83%	34.98%
Total Brokered Deposits / Total Deposits	5.00%	10.00%	21.04%	19.99%	18.52%	17.26%	14.96%	13.21%	9.64%
Total Borrowings / Total Deposits	15.00%	25.00%	3.01%	4.29%	4.34%	5.16%	5.17%	5.19%	5.35%
Sensitivity Ratios									
Net Loans / Total Assets	70.00%	80.00%	60.40%	60.61%	60.26%	62.85%	61.91%	60.37%	61.08%
Earning Assets / Costing Liabilities	93.00%	90.00%	112.31%	109.58%	105.79%	110.82%	111.10%	108.71%	110.83%
Noninterest Bearing Deposits / Total Deposits	10.00%	5.00%	13.06%	13.56%	13.83%	14.94%	15.09%	15.27%	15.89%
Time Deposits / Total Deposits	50.00%	60.00%	48.83%	47.01%	46.16%	42.00%	41.59%	40.68%	38.06%
Valuation Ratios									
Quarterly Tangible Book Value per Share ($)			5.67	5.61	5.47	5.18	5.23	5.12	5.02
Quarterly Core EPS ($)			(0.34)	(0.12)	(0.12)	(0.27)	0.07	(0.08)	(0.08)

Capital remains strong

Focus on nonaccrual loans and reserve levels

Non interest expense remains high and needs attention

Bank needs to focus on reducing its concentration of Brokered deposits

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Through the ERM process, an institution should be able to determine its current CAMELS rating and when it may be able to project changes to its ratings under each path of the decision tree . . .

	Historical Trend	Jun-12	Sep-12	Dec-12	Prospective Trend	Mar-13	Jun-13	Sep-13	Dec-13	Mar-14	Jun-14
Capital	↔	4	4	4	+						
Asset Quality	+	4	4	3	+				2		
Earnings	↔	5	5	5	+				4		
Liquidity	↔	3	3	3	↔				2		
Sensitivity	↔	3	3	3	↔				2		
Management	+	3	3	3	↔						
Legal / Reg.	↔	U	U	U	+						
Reputation	↔	O	O	O	↔						
Operational	↔	S	S	S	+						
IT	↔	O	O	O	↔						
Compliance	↔	S	S	S	↔						
Overall		4	4	4							

Note: + = positive trend ↔ = neutral trend - = negative trend

Note: O= Oustanding; S= Satisfactory; U= Unsatisfactory

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Key Strategic Planning Initiatives for 2013

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Within each strategic plan, there are multiple areas that need to be addressed . . .

1. Economy
2. Regulatory
3. Capital
4. Asset Quality
5. Loans
6. Investment
7. Funding
8. Liquidity/ Contingency Funding
9. M&A

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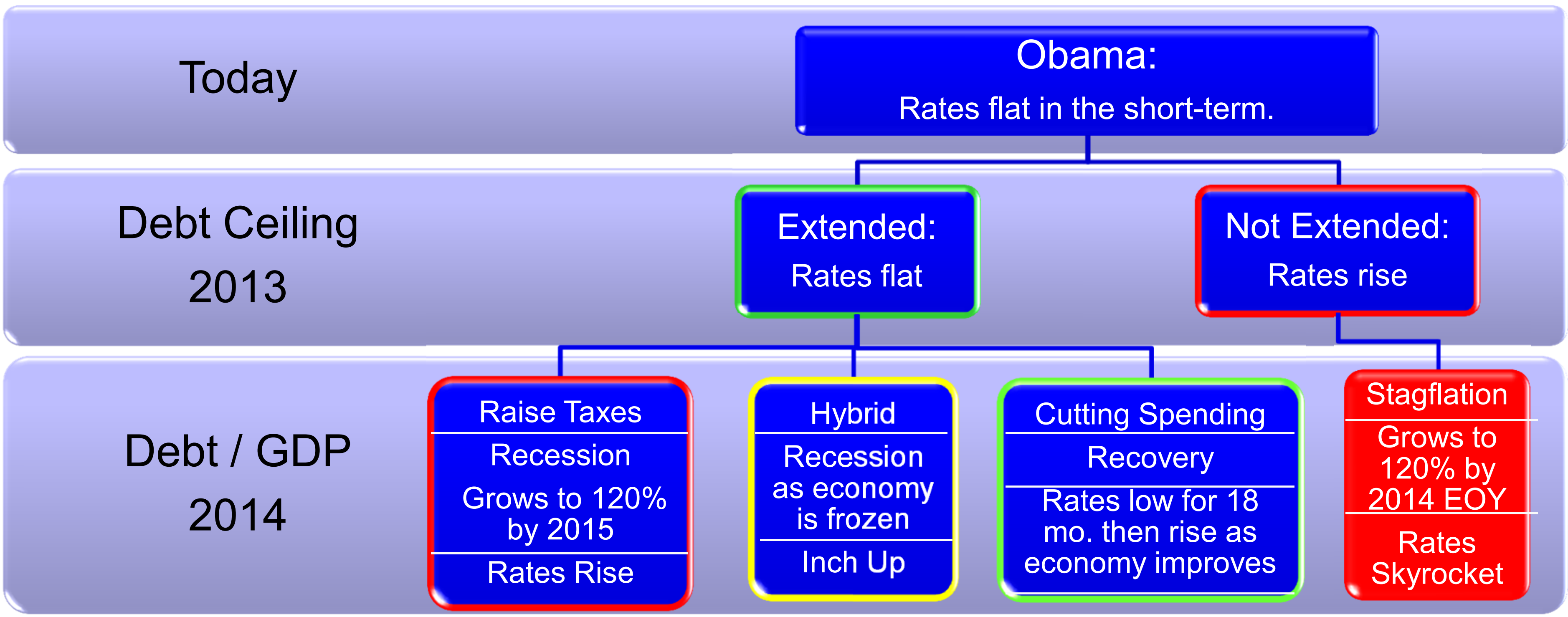
1. Economy

In order to conduct a detailed plan, the projected economic environment needs to be analyzed . . .



The results of these trigger events lead to very different interest rate environments and economic opportunities for community banks. Banks must take actions to minimize the greatest risks to CAMELS+ in each of these scenarios.

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2. Regulatory

The planning process should also address the same areas that the Regulators are focusing on . . .

- **CRE** - evaluate exposures to CRE and assess the appropriateness of the ALLL
- **C&I** - scrutinize commercial credit underwriting practices of new originations for slippage in structure and terms
- **Strategic Planning** - assess the adequacy of the strategic plan and capital planning process
  - Ensure reasonable assumptions for this economic environment
  - Determine adequacy of risk management for new products and services
- **IRR** – determine the adequacy of interest rate risk scenarios and the appropriate support for key modeling assumptions (nonmaturity deposits assumptions in particular)
- **New products and services** – gauge the adequacy of due diligence to identify inherent risks and to ensure appropriate risk management infrastructure before new products are rolled out

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Continued . . .

- **Compliance** – focus on consumer laws, regulations, guidance, BSA/AML (note that BSA/AML issues will now be captured under the Management Component of the Report of Examination)
- **Operational Risk from High Volume/Rapid Growth** – focus on system weaknesses and process flaws. Consider will be given to Unfair and Deceptive Acts and Practices (UDAP) and know-your-customer risks
- **Corporate Governance**
  1. Board's willingness to provide credible challenge
  2. Talent management and compensation processes
  3. Defining and communicating risk appetite across the company
  4. The development and maintenance of strong audit and independent risk management functions
  5. Board responsibility to preserve the sanctity of the national bank charter

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3. Capital

Capital raising for community banks remains a challenge. Therefore, institutions need to understand their “true” market value and the types of capital options available . . .

- Small, illiquid institutions trading OTC or on Pink Sheets are experiencing significant liquidity discounts and current pricing may not reflect true value.
- Pending Basel III and Dodd-Frank legislation prohibits the use of trust preferred debt as a source of Tier 1 capital.
- Strict dividend policies and the Federal Reserve have made issuing debt and/or preferred stock at the Holding Company less attractive.

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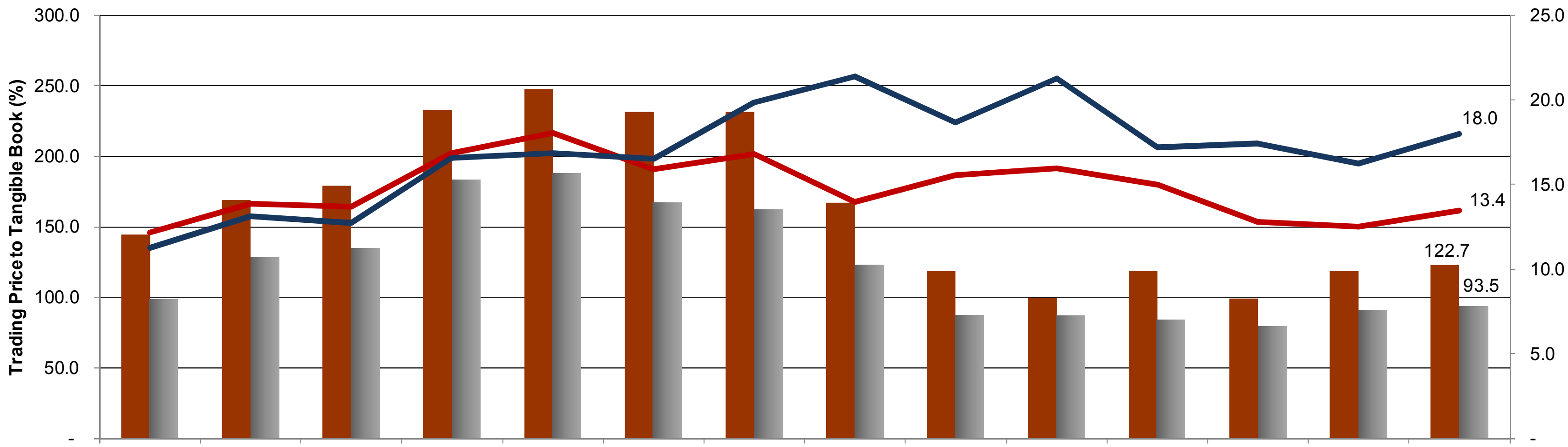
On a trading basis, both the national bank and national thrift price to tangible book and earnings multiples continue to rebound off of 2011 floor. The national bank median price to tangible book is 122.7% while the national thrift price to tangible book multiple is 93.5% . . .

National Bank and Thrift Trading Multiples



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013 YTD*
National Bank P/TBVS	144.4	169.3	179.4	233.1	248.0	231.3	231.7	167.1	119.0	99.7	118.9	99.3	118.7	122.7
National Thirft P/TBVS	98.2	128.0	135.4	183.4	188.2	166.7	162.4	122.6	87.6	86.9	84.0	79.7	90.7	93.5
National Bank P/EPS	12.2	13.9	13.7	16.8	18.1	15.9	16.8	14.0	15.6	16.0	15.0	12.8	12.5	13.4
National Thrift P/EPS	11.3	13.2	12.7	16.6	16.9	16.5	19.8	21.4	18.6	21.3	17.2	17.4	16.2	18.0

Note: YTD 2013 as of 02/15/13

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The size of an institution plays a role in the tangible book value trading multiple in publicly traded market. However, liquidity also plays a role in the trading multiples. The larger the institution, the more liquidity in the institution's stock . ..

Tangible Book Trading Multiples Stratified By Total Asset Size														
	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013 YTD*
Asset Size Medians														
<$500 Mil Bank	111.0	120.1	136.0	177.8	177.3	171.6	159.9	125.6	76.8	73.2	80.5	69.1	77.5	88.4
$500 Mil and $1 Bil Bank	107.2	128.2	141.8	187.4	195.7	192.0	182.1	138.5	84.8	74.1	80.0	68.2	86.2	93.4
$1 Bil and $2 Bil Bank	125.8	153.4	164.5	209.3	235.9	205.5	206.5	153.2	102.7	86.4	100.9	87.1	110.4	120.6
$2 Bil and $5 Bil Bank	150.5	178.6	210.5	255.2	277.5	253.1	280.2	177.5	174.7	126.6	141.4	122.1	125.0	134.3
>$5 Bil Bank	235.7	244.0	232.6	300.5	332.2	295.6	299.2	218.4	192.3	150.5	155.8	133.0	141.9	153.2
<$500 Mil Thrift	102.8	126.5	131.0	161.7	186.0	131.9	134.5	105.6	71.1	80.1	79.3	71.0	82.8	83.8
$500 Mil and $1 Bil Thrift	89.3	104.5	124.5	167.2	167.3	150.8	153.5	109.9	71.5	57.2	75.2	73.5	76.7	87.0
$1 Bil and $2 Bil Thrift	96.8	114.2	130.5	197.4	177.3	168.9	168.6	132.5	98.9	99.7	92.9	85.1	94.7	98.1
$2 Bil and $5 Bil Thrift	136.4	174.9	210.5	259.5	236.8	192.9	195.6	152.3	153.3	109.1	120.1	109.8	127.5	123.6
>$5 Bil Thrift	197.0	176.0	188.1	227.1	279.3	225.3	250.3	183.9	177.8	138.6	127.1	111.9	120.6	124.0
<$500 Mil MHC	87.9	173.7	209.6	262.6	197.9	164.0	179.7	138.8	99.2	87.3	99.6	89.1	101.2	104.8
$500 Mil and $1 Bil MHC	77.2	118.8	137.8	230.3	214.0	186.4	175.0	130.9	96.6	103.2	113.9	85.7	107.4	116.2
$1 Bil and $2 Bil MHC	NA	127.1	238.6	306.5	242.1	211.1	281.6	289.4	178.0	167.8	142.9	130.9	149.1	164.9
$2 Bil and $5 Bil MHC	NA	NA	NA	NA	NA	209.3	296.3	215.9	169.5	135.2	145.0	152.1	170.2	181.3
>$5 Bil MHC	NA	NA	NA	NA	NA	144.5	202.4	187.0	194.8	159.2	160.1	155.0	164.2	182.3

**Note: YTD 2013 as of 02/15/13*

Note: Medians are calculated only for liquidly traded companies/

Source: SNL Financial, FinPro calculations

FinPro Building value together

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When contemplating raising capital, the Bank should run multiple pro forma scenarios to understand the impact of raising capital at low valuation levels . . .

Total Shares Outstanding		2,000
Tangible Book Value		20,000
Tangible Book Value per Share	$	10.00
Net Income		1,200
EPS	$	0.60
Additional Capital		5,000
Price of New Shares	$	6.00
Additional Shares		833
Pro forma Shares Outstanding		2,833
Tangible Book Value		25,000
Tangible Book Value per Share	$	8.82
Pro forma EPS	$	0.42
Net Income needed to earn $0.60 per share	$	1,700

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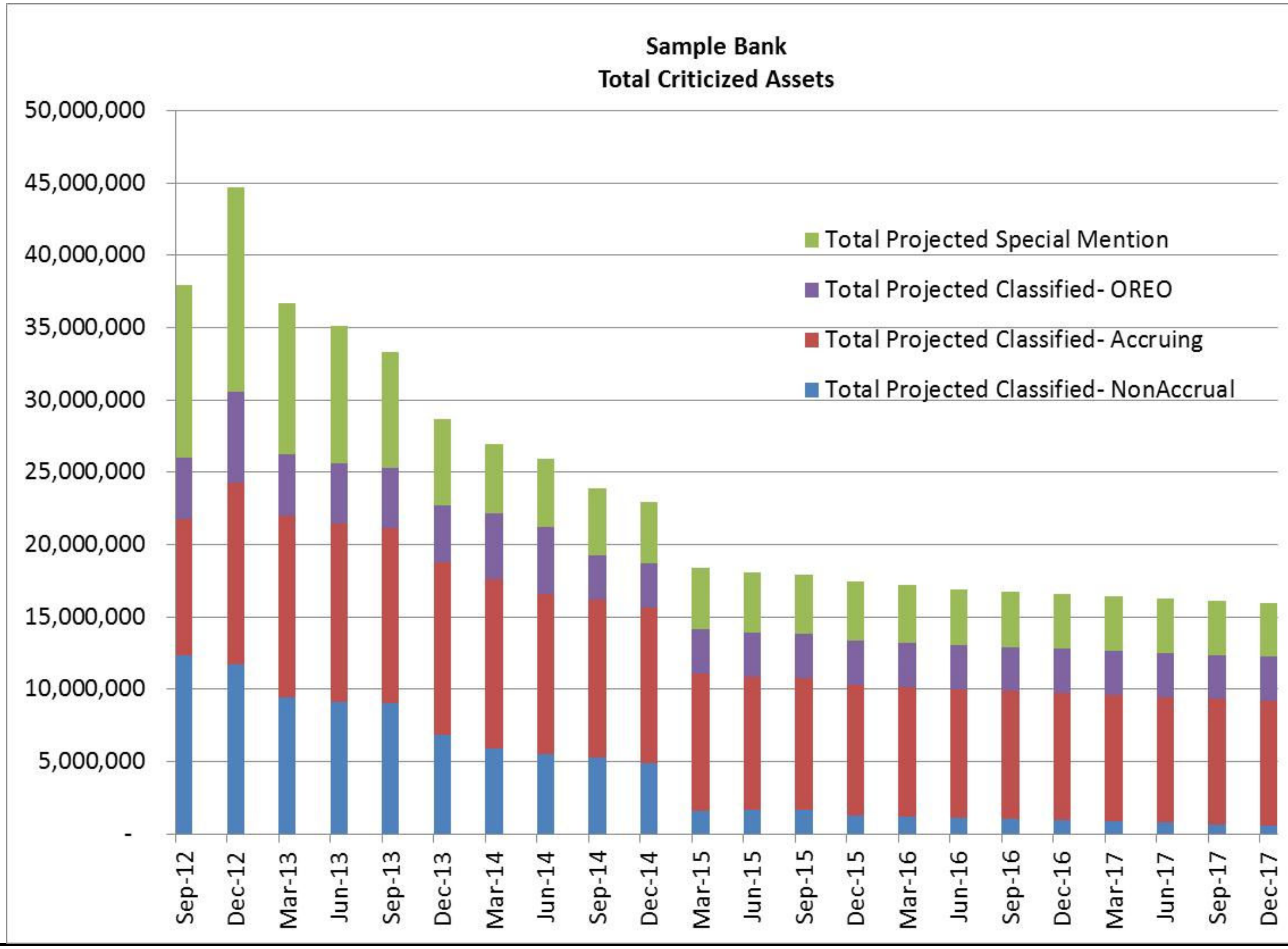
4. Asset Quality

For institutions struggling with asset quality, detailed asset migration plans are critical for building credibility with Regulators. Asset migration needs to be incorporated into all strategic plans and budgets . . .



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5. Loans

As there are limited “new” loans in the market, banks must keep the following points in mind to successfully grow the loan portfolio . . .

1. Assess risk appetite
2. Establish buckets
3. Understand cash flows
4. Price to win
5. Diversification
6. People and performance
7. Explore possibilities of new loan relationships
8. Participations
9. Think outside of the box

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6. Investments

With the lack of quality loans being generated in the market, investment strategies become even more important . . .

- If you haven’t done so already, satisfy Section 939A of the Dodd-Frank Act.
- MBS purchases should be held off until the long end of the curve rises.
- Avoid future purchases of higher premium CMO structures.
- Examine the prepayment speeds and geographic concentrations on mortgage backed securities holdings.
- Consider finding yield in investment grade corporate bonds.
- Before purchasing, determine the pro-forma impact on interest rate risk measures such as EVE and Net Interest Income sensitivity.

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7. Funding

With the perceived threat of deposit runoff when interest rates increase, institutions should be analyzing their deposit portfolios to determine "loyalty" of their deposit base. There are six factors banks should monitor to determine the loyalty of a deposit account . . .

1. Relationships
2. Transactions
3. Geography
4. Tenure
5. Price
6. Size

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8. Liquidity/ Contingency Funding

The inverse liquidity crisis has had a significant impact on net interest margin and overall profitability. Banks need to have a liquidity plan that fits its overall business plan . . .

- FinPro has long espoused three key minimum liquidity ratios as a percent of deposits and short term borrowings:
  - Cash liquidity of 2% to 4%
  - Cash plus unpledged securities of 10% to 12%
  - Cash plus unpledged securities plus wholesale funding capacity of 20% to 25%.
- Do not hold excess cash liquidity. Holding excess cash will be a drag on profitability unless rates increase significantly over the next 12 months.
- Fund with long term borrowings while rates are at historical lows.
- Utilize listing service CDs
- Establish contingency funding thresholds for each contingency funding source.

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Stress testing liquidity and identifying the contingency funding sources under various “stressed” environments is an important element in liquidity planning . . .

CFP Stress Test - Stage 1	Balance	Stress	Stage 1 Stress	Primary Remediation	Remediated	Pledge/ Sell	Secondary Remediation	Remediated
Balance Sheet:	**Dec-12**							
Assets								
Cash & Due From Banks	3,046		(32,199)		1,802			1,802
Fed Funds Sold	30,001		30,001	(30,001)	(0)			(0)
MBS & Investments	113,311		113,311		113,311	0%	0	113,311
Loans, Gross	318,404	0%	331,199		331,199	0%	0	331,199
Allowance for Loan and Lease Losses	(7,278)	0%	(7,278)		(7,278)			(7,278)
Other Assets	38,945		38,945		38,945			38,945
Total Assets	496,427		473,978		477,978			477,978
Total Retail Deposits	448,987	-5%	426,538		426,538	0%	0	426,538
Total Brokered Deposits	0	0%	0	0	0			0
Total Listing Service Deposits	0	0%	0	4,000	4,000			4,000
Borrowings	0		0	0	0		0	0
Other Liabilities	9,120		9,120		9,120			9,120
Total Liabilities	458,107		435,658		439,658			439,658
Minority Interest	0		0		0			0
Equity	38,320		38,320		38,320			38,320
Total Liabilities and Equity	496,427		473,978		477,978			477,978
Unfunded Loan Commitments	51,181	-25%	38,386		38,386			38,386
Available Liquidity Sources:								
Unpledged Investments	115,745	0%	115,745		115,745			115,745
Unpledged Loans	304,333	0%	317,128		317,128			317,128
Available Cash	3,046		(32,199)		1,802			1,802
Reserve Requirement (Set To 1.0% Of DDA Balances)	1,597		1,597		1,597			1,597
Cash Liquidity GAP	**1,448**		**(33,796)**		**205**			**205**
Fed Funds	**30,001**		**30,001**	30,001	**(0)**			**(0)**
FHLB	160,797	90%	144,717		144,717			144,717
FRB	111,379	100%	111,379		111,379		0	111,379
REPO	-	90%	-		-			-
Other	-	90%	-		-			-
Total Unsecured Borrowings	-	90%	-		-			-
Borrowing Capacity Net	**272,176**		**256,096**		**256,096**			**256,096**
Brokered Capacity Net	**-**	100%	**-**		**-**			**-**
Listing Service Capacity Net	**89,797**	100%	**89,797**	4,000	**85,797**			**85,797**
Available Funds	**391,974**		**375,894**		**341,893**			**341,893**

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9. M&A

In determining your M&A plan, you need to know whether or not you are an acquirer or a seller or neither. . .

- Factors that acquirers need to consider:
  - Regulatory Status
  - Opportunistic Capital
  - Valuation
  - Game Plan
- Factors that targets need to consider:
  - Franchise
  - Credit
  - Retention of Asset Generators
  - Manage transaction costs

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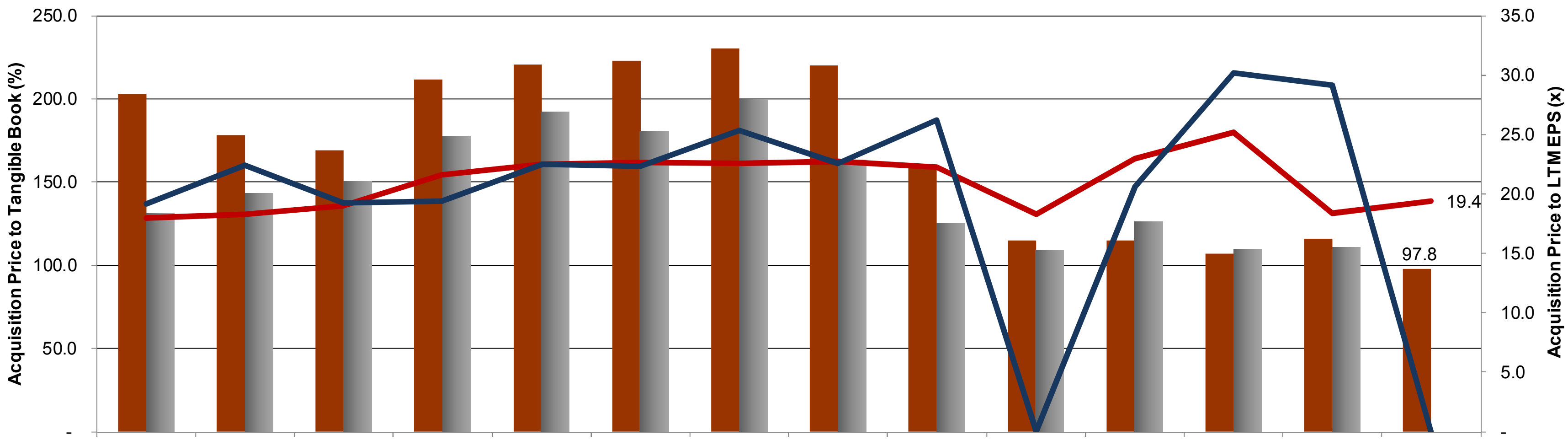
Median national acquisition tangible book multiples for both banks and thrifts improved in 2012 but remain well below historic levels . . .

National Bank and Thrift Acquisition Multiples



		2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013 YTD*
National Bank P/TBVS		203.4	178.4	169.1	211.8	220.5	223.0	230.3	220.2	160.7	114.7	114.8	106.7	116.3	97.8
National Thirft P/TBVS		131.1	142.9	150.3	177.2	192.0	180.5	199.5	163.1	124.9	108.9	125.8	109.5	110.7	NA
National Bank P/EPS		18.0	18.3	19.0	21.6	22.5	22.7	22.6	22.7	22.3	18.3	23.0	25.2	18.4	19.4
National Thrift P/EPS		19.2	22.4	19.3	19.4	22.5	22.4	25.3	22.6	26.2	NA	20.6	30.2	29.1	NA

Note: YTD 2013 as of 02/15/13

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Source: SNL Financial, FinPro calculations

In conclusion, an institution's strategies for 2013 should be driven by loan generation capacity . . .

Today

Loan Generation Capability

Yes

Strategies

- Continue growth
- Keep/hire the right team
- Setup buckets to manage portfolio concentrations
- Consider match funding strategies
- Consider sales if quota filled

No

Strong Capital Position

Strategies

- Demonstrate ability to manage risk
- Hire lenders or lending teams
- Evaluate acquisition opportunities with a focus on loan growth capability

Constrained Capital Position

Evaluate Other Strategies

1. Funding Strategies

- Run off wholesale funding
- If possible, lower offering rates
- Eliminate certain CD product offerings
- Run off "hot money" (high rate municipal deposits for many institutions)

2. Investment Portfolio Management

- Stay in plain vanilla instruments
- Look at corporates selectively (ensure pre-purchase analysis)
- Evaluate short term ladder strategies
- Keep duration short to inter. term

3. Deleveraging/Cost Reduction

- Consider branch sales/closings
- Org. chart review and analysis
- Consider eliminating Holding Co.
- Outsource problem asset services
- Manage risk for lower FDIC insurance

4. Consider Merger

- Evaluate synergies

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