



2009 Annual Development Banking Conference  
November 4-5, 2009

**Mergers, Acquisitions & Valuation**  
10:45 am – 12:00 pm

**Moderator:**

**Charles Van Loan**  
Director, Independent Bank Corporation  
Trustee, National Community Investment Fund

**Panelists:**

**Phil Baldwin**  
President & Chief Executive Officer, Southern Bancorp, AR

**Steve Kent**  
Managing Director, Keefe, Bruyette & Woods

**Thomas FitzGibbon Jr.**  
Executive Vice President, MB Financial Bank, IL

November 4, 2009

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Presentation Materials for:



November 4, 2009



**KEEFE, BRUYETTE & WOODS**

Steven P. Kent  
Managing Director

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1. Current Banking Environment
2. M&A Update
3. Equity Capital Markets Update
4. Capital Alternatives for Banking Institutions
5. Recapitalizations
6. Case Studies



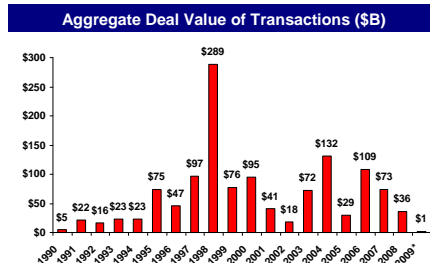
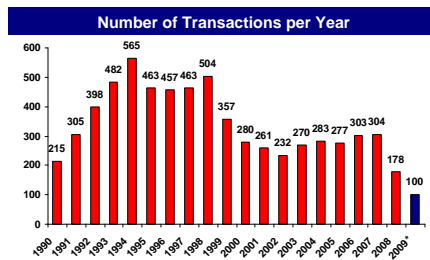
Conditions in the Banking Industry

- ❑ Economic uncertainty remains
  - Over 11% of U.S. homes are delinquent or in foreclosure
  - Unemployment levels are now 9.5% and are predicted to go higher
  
- ❑ State of banking industry
  - Unprecedented asset quality deterioration
  - Residential R.E. led, however, Commercial R.E. losses are accelerating
  - Securities portfolio marks-to-market (OTTI)
  - Financial industry regulatory change
  - Bank failures are increasing in 2009
  - DeNovo activity has slowed



Source: Mortgage Bankers Association, MarketWatch, National Association for Business Economics and KBW Corporate Finance.

1. After significant activity over recent years, M&A slowed materially in 2008 & 2009
2. Numerous factors have conspired to slow M&A activity:
  - Deteriorating loan portfolios
  - Securities portfolio weaknesses
  - Mark-to-market accounting
  - Capital preservation
  - Higher financing costs
  - Depressed stock prices
3. 2009 transaction stratification:
  - Deals over \$100 million – 3
  - Deals between \$25 - \$100 million – 9
  - Deals less than \$25 million - 88

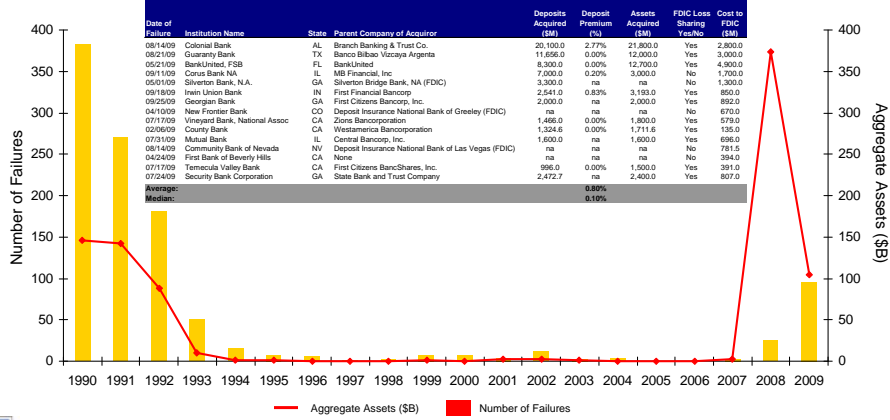


Source: SNL Financial  
Note: Data based on all announced transactions  
\* Data as of September 28, 2009

### 1. Government assisted transactions have become a priority for buyers and investors

#### Bank & Thrift Failures since 1990

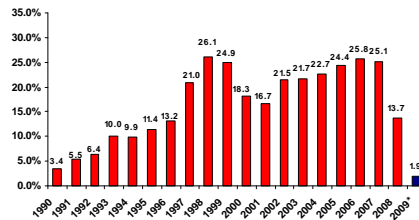
##### 15 Largest Failures YTD



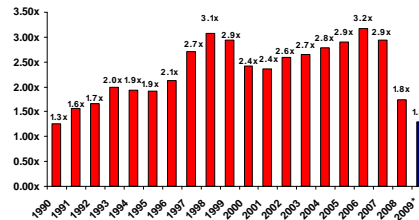
Source: SNL Financial and Federal Deposit Insurance Corporation

### Industry Consolidation: valuation Summary

#### Core Deposit Premium (%) by Year

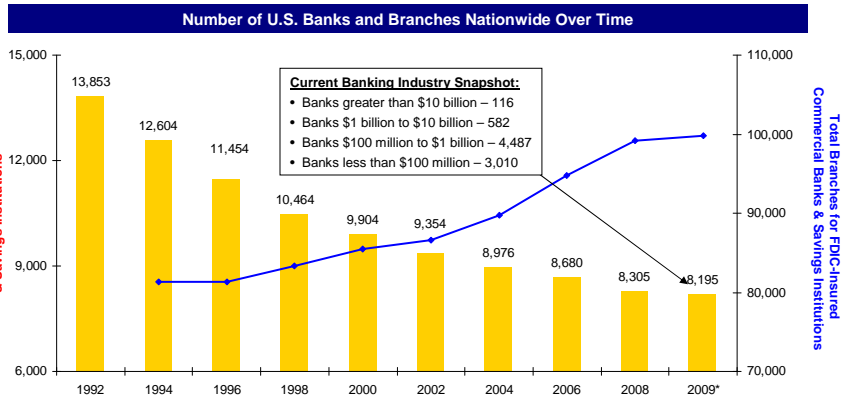


#### Price / Tangible Book (x) by Year



Source: SNL Financial  
Note: For metrics, data represents median calculations and excludes transactions with deal values less than \$50 million, MOEs and transactions which have been terminated  
\*Data as of September 28, 2009

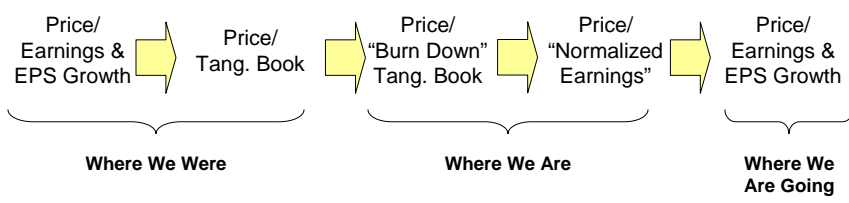
Industry Consolidation Snapshot



Source: SNL Financial and Federal Deposit Insurance Corporation  
 \*Data as of June 30, 2009; branch data for 2009 per SNL Financial

Factors Setting the Stage for a Rebound in Activity

- Industry profitability is coming down
  - Share counts are up
  - P/E multiples likely to remain relatively low
- Banks are being recapitalized
- Investors' Valuation Perspective Cycle:



*Future M&A: Assessments & Predictions*

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- 1. Secular drivers of consolidation are intact and will drive increased M&A activity**
  - Excess capacity
  - Inability of certain institutions to compete in current environment
  - Need to eventually drive earnings per share growth
- 2. Window of opportunity has opened for certain acquirors to reshape their franchises and drive excess returns**
- 3. Value transfer will, on balance, favor acquirors**
- 4. Likely to see:**
  - Acquirors trying to “un-dilute” themselves from prior capital raises
  - More creative deal structures
  - Asset dispositions
  - More meaningful role for private equity
  - Some degree of seller capitulation
  - Emergence of new foreign buyers



## Current Banking Environment

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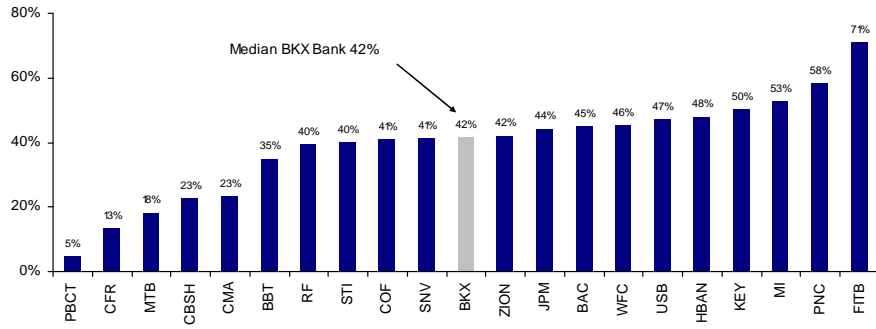


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KBW Research: BKX Cumulative Losses—How Far Along Are We?

- ❑ We estimate the median BKX bank is currently about 42% of the way through the cycle as of 2Q09

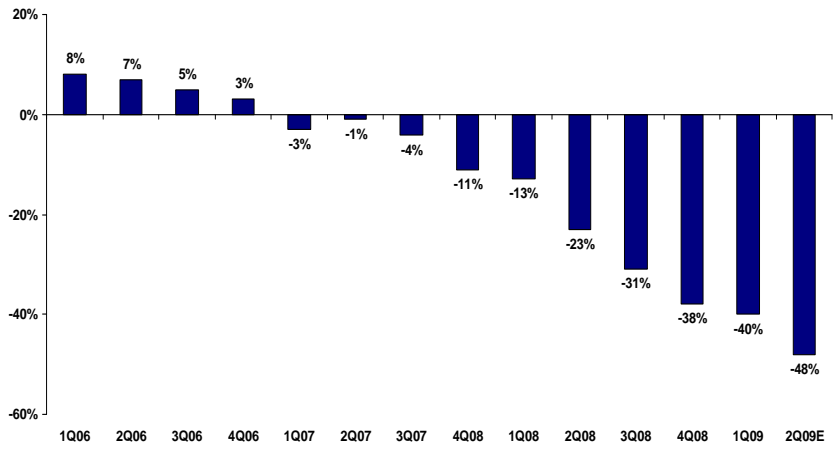
Provisions / Cumulative Losses (2Q08-2Q09)



Source: SNL DataSource, Company Reports, KBW Research. Note: Excludes BK, C, NTRS, STT.

Banking Industry Earnings: Two Years of Declining EPS

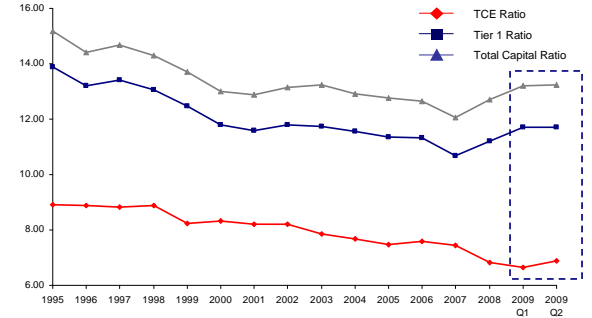
Median Annual Operating EPS Growth for Banking Industry



Source: KBW Research. Banking Industry defined as banks and thrifts under KBW Research coverage.

The Balance Between TCE and Regulatory Capital Ratios

Historical Bank Capital Ratios



	Well Capitalized	"New Environment"	IL Banks <sup>(1)</sup> (207 Banks)	Public IL Banks <sup>(2)</sup> (22 Banks)
Total Capital Ratio	10.0%	12.0%	12.6%	12.9%
Tier 1 Ratio	6.0%	8.0%	11.3%	11.1%
TCE Ratio	NA	6.0%	8.2%	5.5%



Source: SNL Financial. Includes all banks with assets between \$500 million and \$50 billion. (1) Illinois banks include those with assets between \$150M and \$50B. (2) Public IL banks include those publicly traded with assets between \$500M and \$50B.

Equity Capital Markets Update



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What Governs Valuation? "Burn Down" Book Value

- ❑ Focus on tangible book value as earnings are difficult to predict
- ❑ Investors "burn down" balance sheet earning assets (SCAP analysis)
  - Determine what the "true" tangible book value would be adjusting for an estimate of anticipated losses from the loan portfolio
  - Resulting incremental loan loss provision expense
- ❑ Utilized to determine whether a company will need to raise additional capital (and if so how much?) based on:
  - The pro forma capital ratios post the "burn down" analysis
  - The existing loan loss reserve adequacy
- ❑ The determination of the cross-over point at which a winning franchise has capital to support external growth



Supervisory Capital Assessment Program (SCAP) Loss Rates

	Indicative Loss Rates Provided to BHCs for SCAP (cumulative two-year) Government Loss Rate Assumptions	
	Baseline (%)	More Adverse (%)
First Lien Mortgages	5.0 - 6.0	7.0 - 8.5
Prime	1.5 - 2.5	3.0 - 4.0
Alt-A	7.5 - 9.5	9.5 - 13.0
Subprime	15.0 - 20.0	21.0 - 28.0
Second / Junior Lien Mortgages	9.0 - 12.0	12.0 - 16.0
Closed-end Junior Liens	18.0 - 20.0	22.0 - 25.0
HELOCs	6.0 - 8.0	8.0 - 11.0
C&I Loans	3.0 - 4.0	5.0 - 8.0
CRE	5.0 - 7.5	9.0 - 12.0
Construction	8.0 - 12.0	15.0 - 18.0
Multifamily	3.5 - 6.5	10.0 - 11.0
Nonfarm, Non-residential	4.0 - 5.0	7.0 - 9.0
Credit Cards	12.0 - 17.0	18.0 - 20.0
Other Consumer	4.0 - 6.0	8.0 - 12.0
Other Loans	2.0 - 4.0	4.0 - 10.0



Stress Test Example

Dollars in thousands  
 Note: Loss Rates From 12/31/08 Regulatory Loan Balances

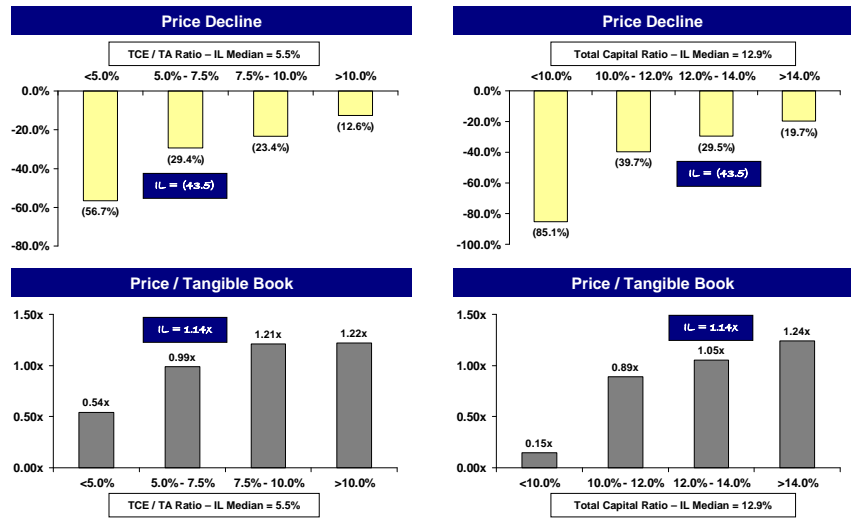
Loan Portfolio	12/31/2008		SCAP More Adverse			
	Balance	% of Total	Low-End Cumulative Loss	Potential Loss	High-End Cumulative Loss	Potential Loss
<b>Loans Secured by Real Estate:</b>						
1-4 Family residential construction	\$ 60,000	4.2%	15.00%	\$ (9,000)	18.00%	\$ (10,800)
Other construction and land development	275,000	19.2%	15.00%	(41,250)	18.00%	(49,500)
Secured by farmland	10,000	0.7%	5.00%	(500)	8.00%	(800)
1-4 Fam. Closed End, Secured by first liens	175,000	12.2%	3.00%	(5,250)	4.00%	(7,000)
1-4 Fam. Closed End, Secured by junior liens	30,000	2.1%	22.00%	(6,600)	25.00%	(7,500)
1-4 Fam. Revolving, open-end loans	40,000	2.8%	8.00%	(3,200)	11.00%	(4,400)
Multifamily	50,000	3.5%	10.00%	(5,000)	11.00%	(5,500)
Owner-occupied nonfarm, nonresidential	215,000	15.0%	7.00%	(15,050)	9.00%	(19,350)
Other nonfarm nonresidential properties	100	0.0%	7.00%	(7)	9.00%	(9)
<b>Total Loans Secured by Real Estate:</b>	<b>\$ 855,100</b>	<b>59.8%</b>	<b>6.01%</b>	<b>\$ (85,857)</b>	<b>7.33%</b>	<b>\$ (104,859)</b>
<b>Agricultural Loans</b>	<b>\$ 2,000</b>	<b>0.1%</b>	<b>5.00%</b>	<b>\$ (100)</b>	<b>8.00%</b>	<b>\$ (160)</b>
<b>Commercial and Industrial Loans</b>	<b>\$ 550,000</b>	<b>38.5%</b>	<b>5.00%</b>	<b>\$ (27,500)</b>	<b>8.00%</b>	<b>\$ (44,000)</b>
<b>Consumer Loans</b>						
Other revolving credit plans	1,500	0.1%	8.00%	(120)	12.00%	(180)
Other consumer loans	6,000	0.4%	8.00%	(480)	12.00%	(720)
<b>Total Consumer Loans</b>	<b>\$ 7,500</b>	<b>0.5%</b>	<b>8.00%</b>	<b>\$ (600)</b>	<b>10.00%</b>	<b>\$ (900)</b>
<b>All other loans and leases</b>	<b>\$ 15,000</b>	<b>1.0%</b>	<b>4.00%</b>	<b>\$ (600)</b>	<b>10.00%</b>	<b>\$ (1,500)</b>
<b>Total Loans</b>	<b>\$ 1,429,600</b>	<b>100.0%</b>	<b>8.02%</b>	<b>\$ (114,657)</b>	<b>10.59%</b>	<b>\$ (151,419)</b>
<b>Equity Impact</b>						
Pre-Tax, Pre-Provision Earnings Shield (over 1.50 year(s))				50,000		48,000
Net Charge-Offs Since 12/31/07				25,000		25,000
End of Cycle Excess Reserve (above 1.30%)				20,000		21,000
Pre-Tax Net Loss				(19,657)		(21,419)
After-Tax Impact to Equity				\$ (12,777)		\$ (37,322)
<b>End of Cycle Capital Ratios 6/30/2009</b>				<b>Pro Forma For Losses</b>		<b>Pro Forma For Losses</b>
Tang. Common Equity / Tang. Assets	4.57%			3.73%		2.80%
Tier 1 Common Ratio	5.97%			4.85%		3.65%
Tier 1	8.07%			6.57%		5.23%
Total Risk Based	13.00%			11.76%		10.48%

\$14.2M and \$34.8M to be raised to return to Total Capital Ratio of 12.5% for Low and High End scenarios

You may have enough regulatory capital, but do you have enough common equity?



Influence of Capital Ratios on Valuation



Note: Includes publicly traded banks and thrifts with assets between \$1bn - \$10bn; excludes announced merger targets.  
 IL Banks includes publicly traded IL banks with Total Assets between \$500M and \$50B.  
 Price decline over LTM; pricing as of July 31, 2009.  
 Source: SNL Financial.



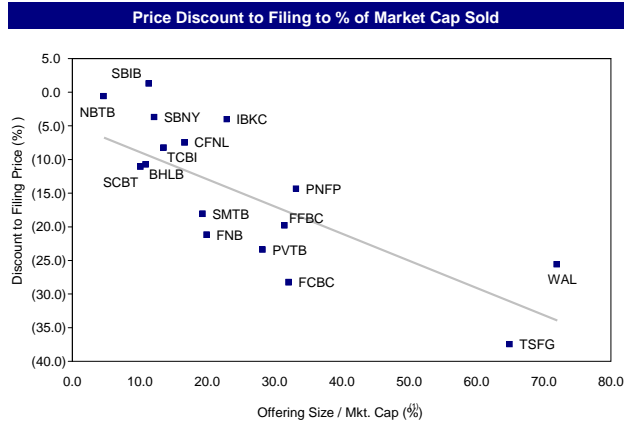
Issuer	Ticker	Market Cap At Pricing (\$mm)	Pricing Date	Deal Value (\$mm)	Shares Issued vs. Pre-Deal (vs (%))	Shares Issued vs. ADTV	Offer Price / Stated Tang. Book (x)	Offer Price / Pro Forma Tang. Book (x)	Discount to		% Change Offer to		KBW Role		
									Filing Price	Last Trade	1 day	1 week		Current	
<b>Sub \$1 billion pre-deal market cap</b>															
1	Capital Financial Corp	COFC	119.98	10/28/09	50.00	44.7%	173.89 x	0.87	0.92	(25.37)	(12.11)	na	na	Co-Manager	
2	Private Bancorp Inc	PVTB	445.77	10/28/09	188.89	46.7%	31.96 x	0.55	0.64	(55.26)	(11.92)	10.24	na	Co-Manager	
3	Hudson Valley Holding Corp	HVHL	295.17	10/26/09	90.00	34.1%	2192.45 x	1.50	1.36	(42.53)	(7.41)	0.60	na	0.00	
4	Nova Bancorp Inc	NVBA	210.54	10/21/09	66.25	43.7%	107.41 x	0.88	0.92	(16.38)	(6.25)	2.67	(2.40)	(2.48)	Bookrunner
5	Whitney Holding Corporation	WTNY	561.89	10/21/09	230.00	42.5%	41.67 x	0.75	0.82	(15.16)	(3.61)	7.25	3.13	3.13	Co-Manager
6	Pacific Continental Corp	PCBK	121.26	10/14/09	48.30	42.9%	167.50 x	1.15	1.12	(16.51)	(7.11)	12.57	14.97	18.34	
7	Calbay General Bancorp	CATY	595.31	10/13/09	81.00	16.5%	5.65 x	0.71	0.74	1.98	(3.04)	3.76	4.11	(0.88)	
8	United Community Banks Inc	UCBI	297.85	09/24/09	222.53	80.1%	209.96 x	0.58	0.72	(30.26)	(17.08)	1.80	(6.00)	(18.00)	
9	Metro Bancorp Inc	METR	84.52	09/24/09	82.50	105.2%	37.44 x	0.67	0.61	(23.32)	(7.69)	(2.33)	0.17	(0.78)	
10	First Busey Corp	BUSE	161.89	09/24/09	82.80	57.8%	205.31 x	0.82	0.88	(37.89)	(11.50)	23.75	16.25	3.25	
11	First Financial Holdings, Inc.	FFCH	190.71	09/23/09	74.75	41.2%	86.90 x	0.94	0.97	(11.88)	(4.91)	0.77	3.03	(12.45)	Co-Manager
12	Old National Bancorp	ONB	707.94	09/22/09	297.00	31.1%	41.79 x	1.54	1.40	(11.27)	(6.10)	10.30	10.50	2.30	Co-Manager
13	1st United Bancorp	FUBC	47.69	09/17/09	80.50	165.7%	1555.56 x	0.98	1.03	(13.04)	0.00	14.00	18.20	13.20	
14	Flushing Financial Corp	FFIC	269.19	09/16/09	107.30	42.2%	87.50 x	1.11	1.10	(6.50)	(6.88)	0.26	(0.35)	(1.74)	Bookrunner
15	Heritage Financial Corp	HFCVA	63.00	09/16/09	49.92	84.7%	144.95 x	1.03	1.04	(9.38)	(0.07)	7.74	9.04	10.00	Bookrunner
16	United Western Bancorp Inc	UWBC	31.59	09/16/09	87.85	299.1%	987.91 x	0.23	0.53	(50.80)	(6.98)	(6.00)	3.75	(8.79)	
17	Eagle Bancorp Inc	EBIN	107.47	09/15/09	55.20	52.7%	166.37 x	1.00	1.02	(7.56)	(2.61)	6.71	9.39	16.10	
18	Home Bancshares Inc	HOMB	402.89	09/15/09	113.00	28.6%	87.44 x	1.68	1.50	(4.70)	(1.79)	3.83	10.58	11.13	
19	MB Financial Inc	MBFI	676.07	09/14/09	175.00	29.1%	30.15 x	1.37	1.28	(8.05)	(6.05)	12.31	26.63	15.44	
20	Urban Bancshares Corp	UBSH	187.11	09/10/09	62.61	34.7%	151.75 x	1.30	1.28	(18.28)	(8.62)	3.30	(0.98)	(8.53)	Bookrunner
21	National Penn Bancshares, Inc.	NPBC	550.10	09/09/09	161.20	32.1%	26.60 x	1.04	1.04	1.16	(8.70)	17.33	25.33	19.24	Co-Manager
22	Tower Bancorp, Inc	TDBC	198.78	08/28/09	87.29	42.3%	91.01 x	1.41	1.29	(18.20)	(3.60)	3.29	0.90	(10.84)	Co-Manager
23	Seacoast Banking Corp of Florida	SBFC	49.89	08/14/09	75.77	175.7%	173.51 x	0.43	0.68	(29.25)	(16.36)	13.33	26.22	(30.67)	
24	The Bancorp Bank	TBBK	88.28	08/13/09	66.13	79.0%	155.76 x	0.63	0.77	(4.96)	(27.50)	0.17	0.17	(11.13)	
25	Umpqua Holdings Corp	UMPF	643.95	08/13/09	259.75	38.2%	36.06 x	1.15	1.12	(6.36)	(6.79)	7.08	7.08	3.18	Co-Manager
26	Univest Corp. of PA	UNVP	249.91	08/08/09	59.37	26.0%	114.39 x	1.50	1.39	(32.46)	(6.64)	17.89	15.43	7.09	Bookrunner
27	Columbia Banking System Inc	COLB	237.81	08/05/09	119.74	53.4%	77.34 x	0.94	0.98	0.66	(0.70)	13.22	24.90	16.98	Bookrunner
28	CenterState Banks, Inc.	CSFL	81.24	07/29/09	86.28	105.2%	399.00 x	0.70	0.84	(27.78)	(11.08)	6.00	17.54	11.08	Bookrunner
29	CVB Financial Corp	CVBF	167.63	07/21/09	132.63	77.2%	19.76 x	1.12	1.10	(4.72)	(6.55)	7.69	24.96	20.15	Bookrunner
30	East West Bancorp Inc	EWBC	530.89	07/20/09	69.85	13.0%	9.52 x	0.64	0.67	(9.16)	(5.51)	5.67	20.47	50.71	
31	Colby Financial Inc	COLB	113.55	07/14/09	69.43	54.0%	140.37 x	0.83	0.97	(23.47)	(7.02)	(4.44)	(5.78)	4.89	Bookrunner
32	BKC Bancorp	BKCC	631.86	06/30/09	172.67	27.6%	28.45 x	1.57	1.42	(4.13)	(1.04)	1.54	2.56	11.92	Bookrunner
33	South Financial Group Inc	SFIG	110.82	06/19/09	85.00	99.7%	84.26 x	0.11	0.19	(37.50)	(26.47)	30.00	25.00	(25.50)	
34	Pincock Financial Services Inc	PNFP	343.31	06/11/09	115.12	36.6%	29.19 x	1.11	1.09	(9.47)	(4.09)	3.69	9.62	0.77	
35	FNB Corp	FNB	502.11	06/10/09	132.83	26.9%	35.74 x	1.38	1.30	(21.32)	(10.57)	5.46	9.27	31.64	Bookrunner
36	First Community Bankshares Inc	FCBC	166.88	06/04/09	66.13	45.6%	122.10 x	1.61	1.41	(28.23)	(13.13)	0.00	0.96	(7.52)	
37	First Financial Bancorp (OH)	FFBC	298.28	06/03/09	103.50	36.6%	63.90 x	1.23	1.18	(19.79)	(14.98)	4.26	0.19	66.97	Bookrunner
38	Signature Bank	SBNY	920.66	06/02/09	117.00	13.0%	12.18 x	1.58	1.49	(3.81)	(6.65)	3.00	3.65	19.31	
39	Central Financial Corp	CFNL	185.11	05/21/09	33.93	18.0%	35.38 x	1.27	1.23	(7.52)	(7.52)	10.19	0.13	6.58	
40	Western Alliance Bancorp	WAL	244.06	05/14/09	200.64	85.8%	160.07 x	0.95	0.99	(25.56)	(4.15)	0.33	6.50	(23.83)	Bookrunner
41	Smithtown Bancorp Inc	SMTB	133.30	05/14/09	28.00	23.6%	122.13 x	1.01	1.01	(18.10)	(11.03)	10.80	11.40	10.70	
42	Private Bancorp Inc (Illinois)	PVTB	672.08	05/13/09	229.43	36.2%	21.76 x	1.38	1.28	(23.48)	(35.51)	1.14	(1.80)	(51.30)	Co-Manager
43	Berkshire Hills Bancorp Inc	BHBL	265.81	05/12/09	34.62	13.1%	33.98 x	1.34	1.30	(10.83)	(3.11)	0.47	0.23	(1.07)	Co-Manager
44	SCBT Financial Corp	SCBT	262.83	05/12/09	31.20	12.0%	27.90 x	1.42	1.37	(11.06)	(6.86)	(3.39)	(1.96)	(17.09)	Bookrunner
45	Biering Bancshares Inc	BBIB	515.24	05/06/09	57.96	11.2%	6.14 x	1.50	1.44	1.30	(0.99)	1.86	(2.43)	(17.88)	
46	Texas Capital Bancshares Inc	TCBI	440.09	05/05/09	63.25	14.8%	17.35 x	1.08	1.08	(8.21)	(8.21)	3.20	11.71	9.45	
47	NBT Bancorp Inc	NBTB	722.30	03/26/09	34.88	4.8%	2.92 x	2.44	2.30	(8.09)	(6.99)	(3.84)	4.09	1.23	Bookrunner
<b>Median</b>			<b>262.83</b>		<b>62.89</b>	<b>33.8%</b>	<b>65.90 x</b>	<b>1.66</b>	<b>1.58</b>	<b>(13.66)</b>	<b>(6.80)</b>	<b>4.64</b>	<b>5.31</b>	<b>3.23</b>	

Source: Dealogic. As of October 28, 2009 closing prices. Note: Includes year-to-date public follow-on offerings for banks and thrifts from the US or Puerto Rico. Excludes ATMs, PIPEs and 144A offerings.

Issuer	Ticker	Market Cap At Pricing (\$mm)	Pricing Date	Deal Value (\$mm)	Shares Issued vs. Pre-Deal (vs (%))	Shares Issued vs. ADTV	Offer Price / Stated Tang. Book (x)	Offer Price / Pro Forma Tang. Book (x)	Discount to		% Change Offer to		KBW Role		
									Filing Price	Last Trade	1 day	1 week		Current	
<b>Over \$1 billion pre-deal market cap</b>															
1	Marshall & Ilsley	MI	2,213.55	10/21/09	782.00	36.9%	15.75 x	0.45	0.53	(19.92)	(4.33)	6.09	na	(10.78)	
2	Hancock Holding Company	HBHC	1,136.42	10/20/09	175.55	15.5%	30.85 x	1.93	1.75	(2.82)	(0.42)	2.54	na	3.83	Bookrunner
3	First Niagara Financial Group	FNFG	1,824.56	09/24/09	460.09	25.6%	15.59 x	2.10	1.80	(8.33)	(1.48)	0.92	4.83	8.50	Bookrunner
4	Huntington Bancshares Inc	HBAN	2,630.63	09/18/09	460.00	18.1%	4.62 x	0.83	0.85	(6.87)	(6.87)	1.57	(0.45)	(5.29)	
5	Synovus Financial Corp	SNV	1,463.55	09/16/09	600.00	45.4%	33.11 x	0.65	0.74	5.26	(9.71)	(2.50)	(5.00)	(44.25)	
6	Washington Federal Inc	WFSL	1,339.91	09/15/09	350.18	27.4%	33.37 x	1.12	1.11	(1.29)	(4.87)	11.31	15.72	21.24	
7	BST Corp	BST	17,130.29	08/11/09	1,000.00	5.9%	3.45 x	1.76	1.85	(7.50)	(11.63)	8.88	5.46	(4.77)	
8	Marshall & Ilsley	MI	1,631.53	06/11/09	575.00	37.6%	15.13 x	0.40	0.49	(10.44)	(6.35)	6.61	(11.13)	(10.78)	Co-Manager
9	Huntington Bancshares Inc	HBAN	1,796.26	06/03/09	372.60	22.8%	3.88 x	0.59	0.65	(13.25)	(9.09)	12.50	11.67	5.83	
10	JPMorgan Chase & Co	JPM	129,691.02	06/02/09	5,756.33	4.3%	1.57 x	1.54	1.51	(2.38)	(2.38)	2.10	0.40	21.08	
11	SunTrust Banks	STI	4,824.74	06/01/09	1,614.60	34.8%	6.97 x	0.47	0.55	(1.29)	(5.80)	22.61	33.46	45.31	
12	Regions Financial Corp	RF	3,398.70	05/20/09	1,840.00	62.3%	16.58 x	0.38	0.51	(23.66)	(18.20)	2.50	(1.00)	20.50	
13	State Street Corp	STT	16,170.67	05/18/09	2,300.04	13.6%	4.50 x	2.99	2.44	1.27	(6.88)	10.79	9.92	9.18	
14	BKLT Corp	BKLT	12,614.42	05/12/09	725.00	15.4%	5.78 x	1.99	1.48	(24.04)	(11.11)	7.50	5.50	23.80	
15	US Bancorp	USB	32,537.12	05/11/09	2,755.49	8.7%	3.56 x	3.39	2.86	(12.37)	(2.70)	(0.61)	7.50	30.72	Co-manager
16	Capital One Financial Corp	COF	10,727.70	05/11/09	1,554.00	14.2%	2.32 x	1.16	1.14	(11.46)	(11.46)	(2.34)	(1.77)	34.74	
17	Bank of New York Mellon Corp	BK	34,084.45	05/11/09	388.63	4.2%	2.51 x	2.24	4.50	(2.71)	(2.71)	11.11	(0.97)	(5.15)	
18	Wells Fargo & Co	WFC	122,975.29	05/08/09	8,627.30	9.0%	2.15 x	3.03	2.60	(11.15)	(11.15)	28.09	16.77	24.82	
19	City National Corp	CYN	1,996.30	05/05/09	125.58	6.7%	2.19 x	1.62	1.57	(2.74)	(2.74)	6.10	7.44	(0.72)	
20	Northern Trust Corp	NTRS	11,894.39	04/28/09	862.50	7.7%	3.77 x	2.45	2.23	(6.11)					

Pricing Discount Analysis

- ☐ Includes all follow-on equity offerings where the filer had below \$1.0 billion market cap at filing



Source: KBW Equity Capital Markets. (1) Calculated based upon announced offering size; Market Cap. as of one day prior to pricing date.

**Capital Alternatives for Banking Institutions**



KEEFE, BRUYETTE & WOODS

**NCIF** NATIONAL COMMUNITY INVESTMENT FUND  
LEVERAGING CAPITAL FOR CHANGE

Capital Alternatives for Banking Institutions

Non-Traditional Alternatives: Capital Preservation Tactics

Left Side of the Balance Sheet	Right Side of the Balance Sheet
<ul style="list-style-type: none"> <li><input type="checkbox"/> Bond portfolio restructuring</li> <li><input type="checkbox"/> Loan portfolio restructuring</li> <li><input type="checkbox"/> ALCO based tactics:               <ul style="list-style-type: none"> <li><input type="checkbox"/> BOLI</li> <li><input type="checkbox"/> Sale of corporate real estate</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li><input type="checkbox"/> Debt extinguishment</li> <li><input type="checkbox"/> Exchange:               <ul style="list-style-type: none"> <li><input type="checkbox"/> Debt-for-equity</li> <li><input type="checkbox"/> Debt-for-debt</li> <li><input type="checkbox"/> Preferred-for-equity</li> </ul> </li> <li><input type="checkbox"/> Suspension / reduction of dividends</li> </ul>
<p>Divestiture Tactics</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Spin-offs</li> <li><input type="checkbox"/> Branch sales</li> <li><input type="checkbox"/> Business line / unit sales</li> </ul>	

Objective: Achieve Gain and / or Reduce Risk Weighted Assets

Source: KBW. 25


**NCIF** NATIONAL COMMUNITY INVESTMENT FUND  
LEVERAGING CAPITAL FOR CHANGE


Capital Alternatives for Banking Institutions

Current Capital Alternatives: Tradeoffs for Banks

	Dilution	Regulatory Capital Credit	Cost to Issue
Senior Debt	Low	None	Low
Subordinated Debt			
Trust Preferred			
Preferred Stock			
TARP I - CPP			
Convertible Preferred			
TARP II - CAP			
Common Stock			
	High	High	High

Source: KBW. 26

NCIF NATIONAL COMMUNITY INVESTMENT FUND LEVERAGING CAPITAL FOR CHANGE		Capital Alternatives for Banking Institutions
<i>Types of Capital - Debt</i>		
Capital Instrument	Historical Overview	Current Environment Impact
Senior Debt	Typically provided by correspondent bank, no HC capital treatment, downstream to bank sub as Tier 1; L+100 range	Correspondent banks tightening credit standards and monitoring, limited availability
Subordinated Debt	Available from correspondents or CDOs, Tier 2 HC capital treatment, downstream to bank sub as Tier 1; L+140 range	CDO market closed, only strongest credits being funded by correspondent banks at wider spreads or via private placement (often with an equity kicker)
Trust Preferred	Available from correspondents, CDOs and limited retail public offerings, Tier 1 HC consolidated capital treatment subject to 25% limit; L+150 range, 8-10% fixed	CDO market closed, only strongest credits being funded by correspondent banks at wider spreads or via private placement
		
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NCIF NATIONAL COMMUNITY INVESTMENT FUND LEVERAGING CAPITAL FOR CHANGE		Capital Alternatives for Banking Institutions
<i>Types of Capital - Equity</i>		
Capital Instrument	Historical Overview	Current Environment Impact
Non Cumulative Perpetual Preferred & REIT Preferred	Infrequent public or private issuance, generally fixed rate, specialized funds, temporarily provided L+400 floating range, non-deductible	Specialized funds not active; institutional investors in public offerings demanding double-digit returns
TARP I / TARP II	The Treasury currently has investments totaling \$134B in 632 Banking Institutions. The Treasury actually invested in 667 institutions but 35 banks repaid a total of \$70.2 billion in CPP TARP capital	Applications have been submitted, smaller institutions receiving approval for funding; larger institutions looking for ways to repay funds
Convertible Debt or Preferred Stock	Infrequent public or private offering, Tier 1 consolidated HC capital treatment available for preferred only	Public offerings becoming more frequent, very large short seller activity/hedging strategy, stock prices continue weaker
Common Equity	Periodic institutional and retail public offerings to support organic growth and fund acquisitions	Public offerings becoming more frequent, very large short selling pressure anticipating common offering, opportunity to squeeze shorts with long term oriented investors
		
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**NCIF** NATIONAL COMMUNITY INVESTMENT FUND  
LEVERAGING CAPITAL FOR CHANGE

Capital Alternatives for Banking Institutions

Current Capital Market Sources

- Insiders
- Board of Directors
- Local communities
- Current investors
  - Rights Offering
- New investors
  - Correspondent banks
  - Private Equity investors
  - Institutional investors
- U.S. Government

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**NCIF** NATIONAL COMMUNITY INVESTMENT FUND  
LEVERAGING CAPITAL FOR CHANGE


Capital Alternatives for Banking Institutions

Bank Level Investment Can Act as Safe Haven for Investors

Hierarchy Position of Investment Alternatives	
<b>Bank Level</b>	
	Deposits
	Purchased Funds
	<b>Subordinated Debt</b>
	Preferred Stock
	Common Stock
<b>Holding Company Level</b>	
	Senior Debt
	Subordinated Debt
	Trust Preferred Debt
	Preferred Stock
	<b>Common Stock (Including Warrants) <sup>(1)</sup></b>

**Bank Level Mezzanine Financing**

Select Banks Will Have to Put Investors on the Safest Island in the Storm - Yet Provide an Equity Return

 (1) Warrants to acquire common stock. 30

## Recapitalizations



KEEFE, BRUYETTE & WOODS

**NCIF** NATIONAL COMMUNITY INVESTMENT FUND  
LEVERAGING CAPITAL FOR CHANGE

**Recapitalizations**

*Summary of Select Recent Recapitalizations*

Company		Capital Raise Information						Stock Performance						
Name	Ticker	Date	Equity Raised (\$mm)	Common %	Price / Share	Common Discount to Market (%) <sup>(1)</sup>	Investor Group Ownership (%) <sup>(1)</sup>	Preferred Coupon Rate (%)	Preferred Conversion Premium (%) <sup>(2)</sup>	Return Since Ann.	Stock Price (%)	BKX (%)	Investor Return (%)	
<b>Private Raise</b>														
Washington Mutual, Inc.	WM	4/8/08	\$7,200	21.4%	\$8.75	33%	48.2%	14.00%	(33%)	NA	(74%)	NA	NA	
National City Corporation	NCC	4/21/08	7,000	9.0%	5.00	40%	68.8%	14.00%	(40%)	NA	(73%)	NA	NA	
Guaranty Financial Group Inc.	GFG	5/27/08	325	11.9%	5.17	5%	62.7%	14.00%	(5%)	(90%)	(72%)	(89%)	(89%)	
Taylor Capital Group, Inc.	TAYC	7/29/08	60	0.0%	na	na	34.3%	8.00%	26%	(54%)	(64%)	NA	(63%)	
Flagstar Bancorp, Inc.	FBC	12/17/08	350	100.0%	0.80	(33%)	70.0%	na	na	87%	(53%)	40%	NA	
<b>Average</b>			<b>28.5%</b>			<b>11%</b>	<b>56.8%</b>	<b>12.50%</b>	<b>(13%)</b>	<b>(19%)</b>	<b>(67%)</b>	<b>(89%)</b>	<b>(76%)</b>	
<b>Public Raise</b>														
South Financial Group, Inc.	TSFG	8/20/09	na	na	na	na	na	na	na	na	na	na	na	
Wachovia Corporation	WB	4/14/08	8,050	43.5%	24.00	14%	13.0%	7.50%	12%	NA	(73%)	NA	NA	
Huntington Bancshares Incorporated	HBAN	4/15/08	500	0.0%	na	na	10.3%	8.50%	28%	(69%)	(71%)	NA	(76%)	
Colonial BancGroup, Inc.	CNB	4/21/08	350	100.0%	8.00	19%	21.7%	na	na	(91%)	(73%)	(88%)	NA	
East West Bancorp, Inc.	EWBC	4/23/08	200	0.0%	na	na	17.0%	8.00%	23%	(48%)	(73%)	NA	(58%)	
First Horizon National Corporation	FHN	4/28/08	690	100.0%	10.00	4%	32.1%	na	na	26%	(74%)	31%	NA	
South Financial Group, Inc.	TSFG	5/2/08	250	0.0%	na	na	34.6%	10.00%	0%	(77%)	(75%)	NA	(77%)	
Sovereign Bancorp, Inc.	SOV	5/12/08	1,438	100.0%	8.00	(2%)	27.1%	na	na	NA	(73%)	NA	NA	
UCBH Holdings, Inc.	UCBH	6/4/08	135	0.0%	na	na	22.4%	8.50%	7%	(45%)	(70%)	NA	(49%)	
PrivateBancorp, Inc.	PVTB	6/4/08	136	100.0%	34.00	6%	12.4%	na	na	(50%)	(69%)	(47%)	NA	
Citizens Republic Bancorp, Inc.	CRBC	6/5/08	200	39.8%	4.00	23%	39.8%	na	(23%)	(69%)	(70%)	(59%)	(59%)	
Webster Financial Corporation	WBS	6/5/08	225	0.0%	na	na	13.6%	8.50%	6%	(77%)	(70%)	NA	(79%)	
KeyCorp	KEY	6/12/08	1,650	60.6%	11.75	25%	24.7%	7.75%	(10%)	(41%)	(67%)	(21%)	(35%)	
Fifth Third Bancorp	FITB	6/18/08	1,000	0.0%	na	na	14.0%	8.50%	(9%)	(66%)	(67%)	NA	(63%)	
Boston Private Financial Holdings (3)	BPFH	7/22/08	171	56.1%	6.00	8%	47.0%	na	(16%)	(37%)	(65%)	(32%)	(26%)	
First Niagara	FNFG	9/23/08	100	100.0%	13.50	16%	6.3%	na	na	(8%)	(71%)	9%	NA	
JPMorgan Chase	JPM	9/25/08	10,000	100.0%	40.50	0%	6.7%	na	na	(7%)	(69%)	(7%)	NA	
Bank of America	BAC	10/6/08	10,010	100.0%	22.00	32%	9.1%	na	na	(29%)	(68%)	4%	NA	
First Commonwealth	FCF	10/27/08	100	100.0%	10.00	16%	12.0%	na	na	(6%)	(58%)	12%	NA	
<b>Average</b>			<b>55.6%</b>			<b>13%</b>	<b>20.2%</b>	<b>8.41%</b>	<b>2%</b>	<b>(43%)</b>	<b>(70%)</b>	<b>(20%)</b>	<b>(58%)</b>	
<b>Combined Average</b>						<b>49.7%</b>	<b>13%</b>	<b>28.2%</b>	<b>9.77%</b>	<b>(2%)</b>	<b>(40%)</b>	<b>(69%)</b>	<b>(21%)</b>	<b>(61%)</b>

**Active Market & By Necessity Moving Downstream**

Source: Public filings, SNL Financial and KBW estimates.  
 (1) Common discount to market and conversion price of preferred stock based on the company's price one day prior to the capital raise.

NCIF NATIONAL COMMUNITY INVESTMENT FUND  
LEVERAGING CAPITAL FOR CHANGE

Recapitalizations

### Recap Accounting Implications

- ❑ Recap accounting
  - Recapitalizations are increasing in the current M&A environment
  - Enables buyers to avoid creation of goodwill
    - An exception to purchase accounting if stockholders retain a significant ownership stake in the target
    - No income statement impact from impairment of goodwill
  - Goal = boosting earnings per share and resulting valuation
  
- ❑ SEC permits a transaction to be accounted for with recap accounting when a buyer acquires up to 94.9% of a target's voting stock if two conditions are met:
  - Target must be an existing established entity
  - Holders of the remaining minority interest in the target must be independent from the buyer
  
- ❑ Recap accounting issues:
  - NOL preservation
  - Existing target stockholders participation – maintaining independence / avoid guarantees

Key – Goodwill is Not Created & Regulatory Ratios Preserved

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NCIF NATIONAL COMMUNITY INVESTMENT FUND  
LEVERAGING CAPITAL FOR CHANGE

Recapitalizations

### Push Down Accounting Implications

- ❑ Push down accounting:
  - A method of accounting in which the financial statements of a subsidiary are presented to reflect the costs incurred by the parent company in buying the subsidiary instead of the subsidiary's historical costs
    - Assets and liabilities are restated at fair value
    - Goodwill is recorded
    - Equity of the acquired bank is restated to equal the purchase price paid by the buyer
    - Retained earnings (prior to acquisition) are eliminated

Purchase Accounting Requirement Based on New Ownership %

Push Down Accounting (PDA) Not Required    80% PDA Might Be Required    95% PDA Required

Key – Goodwill is Created & Regulatory Ratios Decreased

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**NCIF** NATIONAL COMMUNITY INVESTMENT FUND  
LEVERAGING CAPITAL FOR CHANGE

Recapitalizations

### Debt and Preferred Stock Exchange for Common Stock

- A restructuring tool for institutions facing earnings (cash flow) stress
- Significant market, legal & accounting dynamics
- For bank holding companies can involve
  - Capital Stock
    - Traditional Preferred Stock
    - TARP CPP Preferred Stock
  - Debt Securities or Loans
    - Trust Preferred
    - Subordinated Debt
    - Senior Debt (secured or unsecured)
- Hierarchy approach will be dictated – must address most junior first to gain support of more senior
- Implications – Managed vs. passive pool trust preferred

An Inevitable Tool to Avoid Receivership / Bankruptcy


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**NCIF** NATIONAL COMMUNITY INVESTMENT FUND  
LEVERAGING CAPITAL FOR CHANGE

Recapitalizations

### Citigroup Recap – The Recap of all Recaps

Citi will expand its public exchange offers previously announced on February 27, 2009 by increasing the maximum amount of preferred securities and trust preferred securities that it will accept in exchange for common stock from \$27.5 billion to \$33 billion to further increase Tier I Common without any additional U.S. government investment or conversion of U.S. government securities into common shares

<div style="background-color: #003366; color: white; text-align: center; padding: 2px; font-weight: bold;">U.S. Government Preferred Stock Exchange</div> <ul style="list-style-type: none"> <li><input type="checkbox"/> <b>Target Securities</b> – TARP Preferred (\$25 billion) issued on October 8, 2008</li> <li><input type="checkbox"/> <b>Amount Exchanged</b> – Equal the amount of preferred stock of private and public holders and trust preferred securities exchanged, up to \$25 billion</li> <li><input type="checkbox"/> <b>Exchange Price</b> - \$3.25/share at par</li> <li><input type="checkbox"/> <b>U.S. Treasury Receives</b> - Interim securities and warrants</li> <li><input type="checkbox"/> <b>Remaining Preferreds</b> - All outstanding preferred stock not exchanged for the interim securities will be exchanged for trust preferred securities with a coupon of 8%</li> <li><input type="checkbox"/> <b>Non-target Securities</b> - TARP Series I Preferred Stock (\$20 billion) issued on December 31, 2008 and Series G (\$7 billion) will each convert into trust preferred securities with a coupon of 8%</li> </ul>	
<div style="background-color: #003366; color: white; text-align: center; padding: 2px; font-weight: bold;">Privately Placed Convertible Preferred Stock Exchange</div> <ul style="list-style-type: none"> <li><input type="checkbox"/> <b>Target Securities</b> - Private convertible preferred stock (series A1, B1, C1, D1, J1, K1, L2, N1) initially issued on January 2, 2008 (the private preferred stock)</li> <li><input type="checkbox"/> <b>Amount Exchanged</b> - Target \$12.5 billion</li> <li><input type="checkbox"/> <b>Exchange Price</b> - \$3.25/share at par</li> <li><input type="checkbox"/> <b>Investors Receive</b> - Interim securities and warrants</li> <li><input type="checkbox"/> <b>Remaining Preferreds</b> - Dividends on outstanding private preferred stock not exchanged will be suspended</li> </ul>	<div style="background-color: #003366; color: white; text-align: center; padding: 2px; font-weight: bold;">Publicly Issued Straight and Convertible Preferred Stock and Trust Preferred Securities Exchange</div> <ul style="list-style-type: none"> <li><input type="checkbox"/> <b>Target Securities</b> - Public preferred stock (series AA, E, F), Public convertible preferred (series T), E-TruPS, &amp; TruPS</li> <li><input type="checkbox"/> <b>Amount Exchanged</b> - Target \$20.5 billion (increased from \$15.0 billion)</li> <li><input type="checkbox"/> <b>Exchange Price</b> - \$3.25/share</li> <li><input type="checkbox"/> <b>Investors Receive</b> – Common stock</li> <li><input type="checkbox"/> <b>Remaining Preferreds</b> - Dividends on outstanding private preferred stock not exchanged will be suspended</li> </ul>


Source: Company press release.

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## Case Studies



KEEFE, BRUYETTE & WOODS




Case Studies



*KBW Places \$250 Million of Capital for Flagstar Bancorp*

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**Overview of the Transaction**

- ❑ **KBW successfully negotiated as sole placement agent an investment of \$250 million of capital from MatlinPatterson into Flagstar Bancorp at a 33% premium to market**
- ❑ KBW was able to complete the assignment within 2 months of engagement
- ❑ KBW launched a targeted and aggressive call effort to find a financial partner that would be able to quickly understand the business model and make the investment decision
- ❑ KBW was instrumental in Flagstar's discussions with their regulators regarding the transaction and the possible TARP investment of additional \$250 million
- ❑ Unique private equity "silo" ownership structure




**\$250 Million**  
**\$0.80 (33% premium to close)**  
Common Equity  
**Issued to:**  
  
**Private Placement**  
**December 2008**  


**Flagstar Bancorp**

**MatlinPatterson**

<ul style="list-style-type: none"> <li>❑ Largest publicly traded savings bank headquartered in the Midwest</li> <li>❑ 173 banking centers in Michigan, Indiana and Georgia</li> <li>❑ Home loan offices in 26 states, wholesale offices in 13 states and originating mortgages in all 50 states</li> <li>❑ Originates approximately 2% - 4% of the mortgages in the United States</li> <li>❑ One of the largest loan sellers to Fannie Mae and Freddie Mac</li> <li>❑ 7th largest FHA lender, 4th largest FHA wholesale lender and 9th largest overall wholesale lender</li> <li>❑ Servicer of \$62.7 billion of loans</li> </ul>	<ul style="list-style-type: none"> <li>❑ \$9 billion global private equity franchise</li> <li>❑ Founded in 1994 by David Matlin and Mark Patterson within Credit Suisse</li> <li>❑ Established MatlinPatterson in 2002 as an independent entity</li> <li>❑ Invested across a broad range of industries in over 25 countries and made substantial investments in more than 65 companies</li> <li>❑ Strong record of working with management teams to further their strategic plans</li> <li>❑ Offices in New York, London, Hong Kong and Sao Paulo</li> </ul>
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Macatawa Bank Corporation \$26.2 Million Private Placement



**MCBC Mission**

**"To provide financial services in an exceptional manner for the mutual benefit of our customers, communities, employees and shareholders"**

November 2008

\$26.2 Million

Non-Cumulative Convertible Preferred

**Use of Proceeds:**

- The additional capital will further enhance Macatawa's capital ratios, which were already above the regulatory requirements for well-capitalized banks. Macatawa intends to use the net proceeds of the transaction to:
  - Continue making commercial and consumer loans to businesses, organizations, homeowners and individuals throughout its market area
  - Strengthen its balance sheet and maintain its position as a well-capitalized financial institution under regulatory guidelines

**Deal Terms:**

- Private placement of \$26.2 million of 12% non-cumulative convertible perpetual preferred stock issued by Macatawa Bank Corporation
- 26,200 preferred shares convertible at \$8.95 per share into 2.9 million common shares of MCBC which is an 87% premium to the MCBC stock price the day prior to announcement
- On or after October 31, 2011, the preferred stock will be subject to mandatory conversion into common stock under certain circumstances

**Transaction Highlights:**

- Investors in the offering include White Bay Capital, LLC, management, and a number of western Michigan-based investment firms and individuals
- Mark Bugge the designee of White Bay Capital, LLC has been appointed to MCBC's board and will serve for a term expiring at the 2011 annual meeting of shareholders
- KBW acted as financial advisor to MCBC for the transaction

**Macatawa Bank Corporation Overview:**

- Macatawa Bank Corporation is a \$2.2 billion bank holding company headquartered in Holland, Michigan
- Through its banking subsidiary, Macatawa Bank, the Corporation offers a full range of banking, investment and trust services to individuals, businesses, and governmental entities from a network of 26 full service branches located in communities in Kent County, Ottawa County and northern Allegan County
- Macatawa Bank Corporation emphasizes its local management team and decision-making, along with providing customers excellent service and superior financial products



Source: Company Press Releases and Public Filings.

Taylor Capital Group, Inc. \$120 Million Private Placement



**TAYC Objective**

**To be Chicago's banking specialists for closely-held businesses and the people who own and manage them**

September 2008

\$60.0 Million

Convertible Preferred

September 2008

\$60.0 Million

Units<sup>1</sup> of subordinated bank notes & warrants

**Taylor Capital Group, Inc. Overview:**

- Taylor Capital Group, Inc. is a \$3.7 billion bank holding company with its Operations Center at Rosemont, Illinois, a suburb of Chicago, currently operates 9 banking centers throughout the Chicago metropolitan market
- Taylor Capital Group, Inc. focuses on closely held businesses and the people who own and manage them and provides a range of products and services concentrating in three primary banking areas: commercial banking, CRE lending and wealth management

**Deal Terms:**

- Private placement of \$60 million of 8% non-cumulative convertible perpetual preferred stock issued by Taylor Capital Group
- 2.4 million preferred shares convertible at \$10.00 per share into 6.0 million common shares of TAYC at holders option
- A shareholder vote is required due to NASDAQ regulations, therefore a Series B will be issued until the shareholder approval is received (Taylor family has agreed to vote their 44% of the voting power in favor of the transaction)
- Will cease to pay dividends after two years if the volume weighted avg. price of TAYC is greater than 200% of conversion price for 20 trading days in a 30 day period, or after three years if exceeds 130% conversion price
- Convertible at TAYC's option after fifth anniversary
- Private placement of \$60 million of 10% subordinated bank notes issued by Cole Taylor Bank with detachable warrants to purchase TAYC common stock
- For every \$1,000 in principal amount of the notes, investors receive a warrant to purchase 15 shares of TAYC common stock, an aggregate of 900,000 shares of common stock
- Exercise price of \$10.00 per common share for warrants

**Transaction Highlights:**

- Investors in the offering include Harrison I. Steans, Jennifer W. Steans, management, and a number of Chicago-based investment firms and individuals
- Harrison I. Steans and Jennifer W. Steans appointed to TAYC board
- Mr. Steans also to serve as Chairman of newly created Executive Committee which will serve for a period of five years and initially will also include Bruce W. Taylor and Mark A. Hoppe
- On a fully converted/ exercise basis, the shares from the transaction will represent approximately 40% of the pro forma shares
- KBW acted as financial advisor to TAYC for the transaction



1. Units are comprised of subordinated bank notes to be issued by Cole Taylor Bank and warrants to purchase in the aggregate, 900,000 shares of TAYC common stock.  
Source: Company Press Releases and Public Filings.

Case Study: Investor Group / Ridgestone

**Acquiror:**  
RAC Investor Group – Milwaukee, WI

	Announcement 3/20/2006
Total Deal Value:	\$14.0 million
Deal Value per Share:	\$14.00
Market Premium:	11.1 %
Price / LTM Earnings:	27.3 x
Price / Book Value:	140 %
Price / Tangible Book Value:	140 %
Core Deposit Premium:	9.5 %

- KBW Total Deal Coverage**
- KBW acted as sellside advisor to Ridgestone Financial Services, Inc.
  - KBW acted as sole manager of \$30 million private placement to fund acquisition
  - **KBW located and developed relationships with strategic Partners / Investors**



**Acquiree:**  
Ridgestone Financial Services, Inc. – Brookfield, WI

Branches:	2
Assets:	\$110.2 million
Deposits:	86.6
Loans:	81.1
Equity:	8.7

- Transaction Highlights:**
- RAC, Inc. Wisconsin ("RAC") was formed by Bruce W. Lammers to acquire Ridgestone Financial Services, Inc. (RFSV), and its subsidiary Ridgestone Bank, Brookfield, WI
  - Bruce W. Lammers (CEO) has over 28 years senior management experience in commercial banking at AMCORE Bank and US Bank
  - Transaction funded by a private placement of common stock to QIBs and accredited investors of approximately \$30 million
  - Strategic Partner / Investors:
    - Ziegler Securities** - RE related bond underwriter: Healthcare, Senior Living, Church/School
    - Bridge Healthcare Finance** - Healthcare related asset-based working capital, restructuring and acquisition financing
  - Both Ziegler and Bridge had been actively pursuing a strategy to gain access to commercial banking products and services to offer into their respective client bases; RAC provides the platform and management capabilities to fulfill this strategy
  - Transaction closed in the third quarter of 2006
  - RFSV shareholders received 100% cash consideration



Note: Financial data as of 12/31/05.

Case Study: North Country Financial Corporation Recapitalization

**Transaction Synopsis**

- Recapitalization of C&D troubled North Country Financial Corporation
- New proven management team
- KBW assembled group of blue chip institutional bank stock investors in a "PIPE" transaction
- Successfully negotiated recapitalization terms, including a deeply discounted trust preferred securities repurchase, enabling consummation of a mutually beneficial transaction for all parties



December 15, 2004

mackinac [financial]

3,076,923 Shares

**Mackinac Financial Corporation**

Common Stock  
Private Investment in Public Equity  
Recapitalization Transaction

**Price: \$9.75 Per Share**

KEEFE, BRUYETTE & WOODS





## Hidden Value

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Analyzing the Process for FDIC assisted transactions



## Hidden Value

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- Initial Review of the offering
- Due Diligence review of assets and liabilities
- Facilities analysis
- Staff Competency analysis
- Customer analysis (historical and financial)



## Hidden Value

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- Asset and Liability Performance projections and assumptions
- Post-acquisition capital assumptions and requirements
- Community and customer reaction evaluation (PR)
- Conversion (technical) assumptions



## Hidden Value

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- Business Line analysis related to integration
- Work out team capacity evaluation
  - Theirs and/or Ours
- Competitive Landscape evaluation
- Bid process
  - Conforming or non-conforming