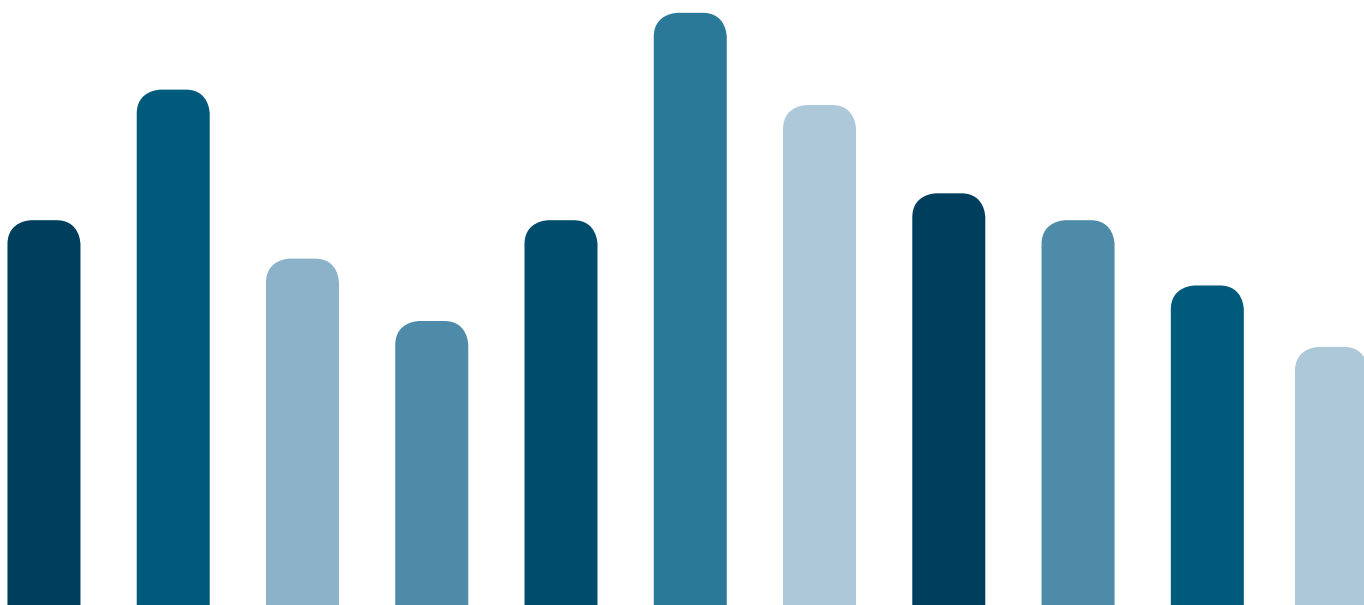


The Outlook for Bank M&A in 2013

February 12, 2013

Jeff K. Davis, CFA
Mercer Capital



About the Speaker

Jeff K. Davis, CFA

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Jeff K. Davis is the Managing Director of Mercer Capital's Financial Institutions Group. Prior to rejoining Mercer Capital, Davis spent 13 years as a sell-side analyst providing coverage of publicly traded banks and specialty finance companies to institutional investors evaluating common equity and fixed income investment opportunities. Jeff was most recently Managing Director of Guggenheim Securities, LLC, and was previously head of the Financial Institutions Group at FTN Equity Capital Markets. While at Mercer Capital in the 1990s, Jeff led the firm's financial institutions practice, providing valuation and transaction advisory services.

Jeff is a speaker at industry gatherings, including SNL Financial/University of Virginia's annual analyst training seminar, the ABA, various state banking meetings as well as security industry gatherings. Additionally, he regularly makes presentations to boards of directors and executive management teams.

He is a periodic guest on CNBC, Bloomberg TV and Bloomberg Radio and is quoted in the *American Banker*, the *Wall Street Journal*, *Reuters*, *Forbes* and other media outlets. Presently, he is an editorial contributor to *SNL Financial*.

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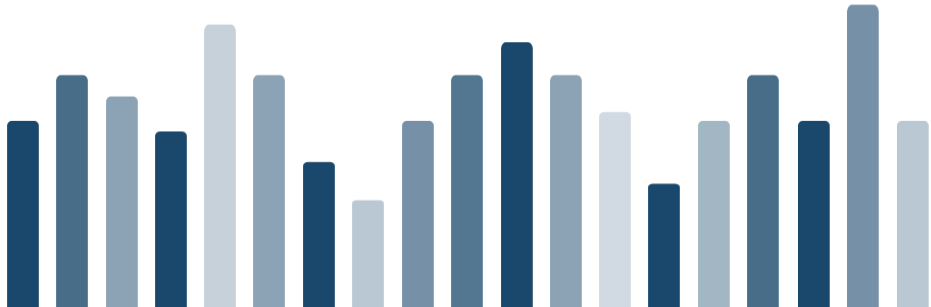
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M&A Drivers and Roadblocks

Drivers	Roadblocks
<ul style="list-style-type: none">▪ Buyer & Seller earnings pressure▪ Intensifying NIM pressure, soft loan demand, negative operating leverage▪ Credit earnings leverage nearly over▪ Less problematic credit marks▪ Regulatory burden▪ Shareholder return pressure, estate planning and succession issues▪ Lack of access to capital for small banks; coming step-up in TARP/SBLF coupons▪ Higher valuation of buyers' shares	<ul style="list-style-type: none">▪ Seller expectations▪ Regulatory process▪ Uncertain regulatory rulemaking▪ Not enough CAMEL 2s (yet)▪ Executive limbo post-deal (weak demand for bank executives; need for W-2)▪ Levered holding companies ... bank has value, but limited value of parent common after deductions for debt and preferred

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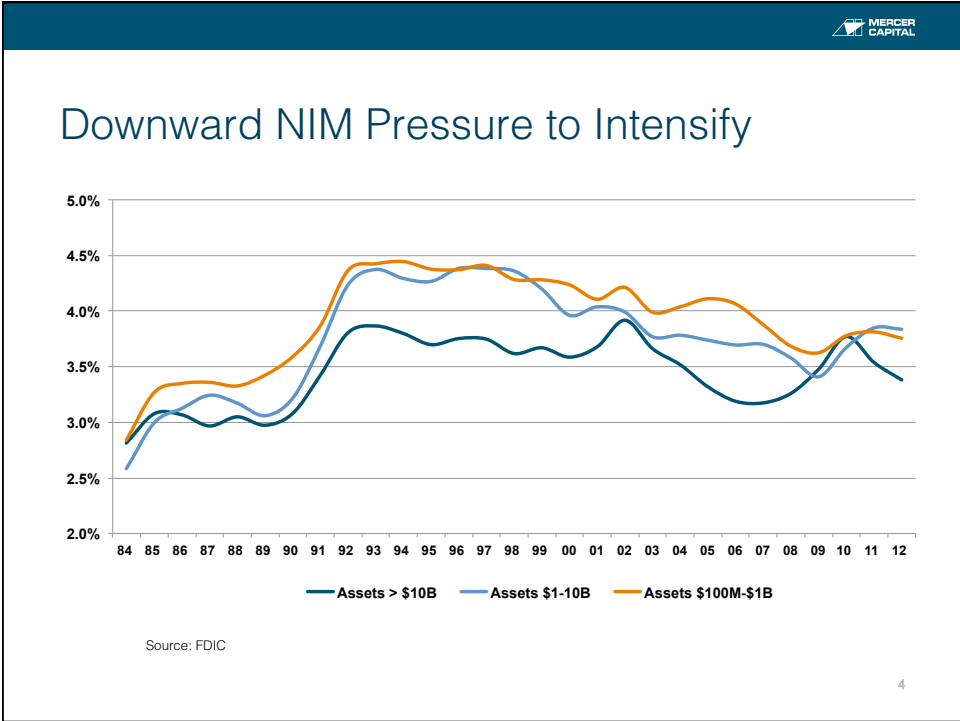
Large Banks Eventually Will Pressure Small Bank Loan Yields

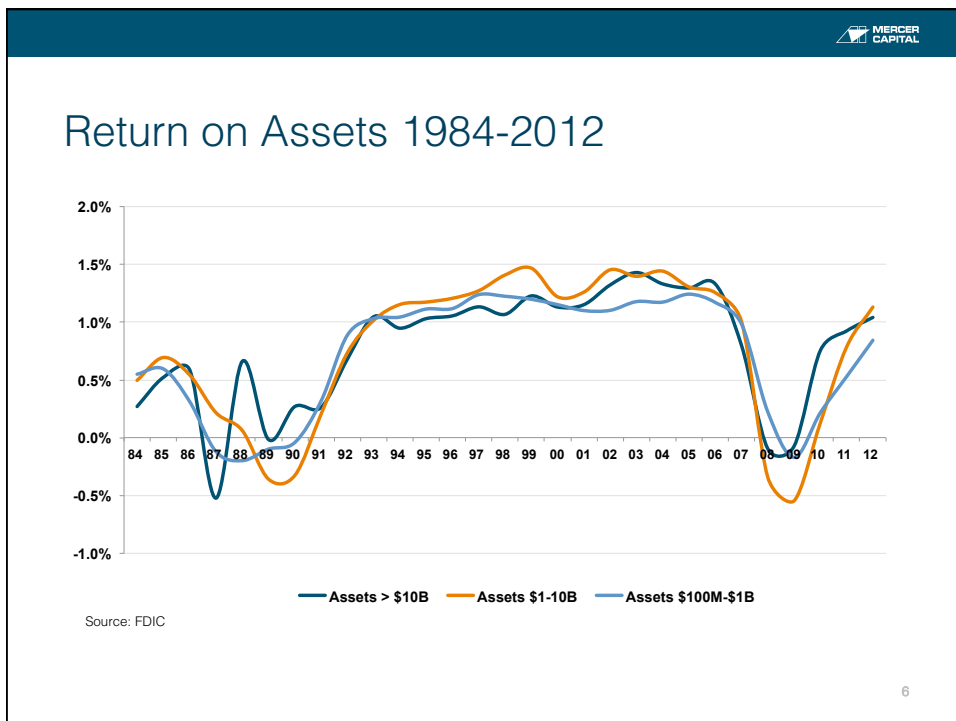
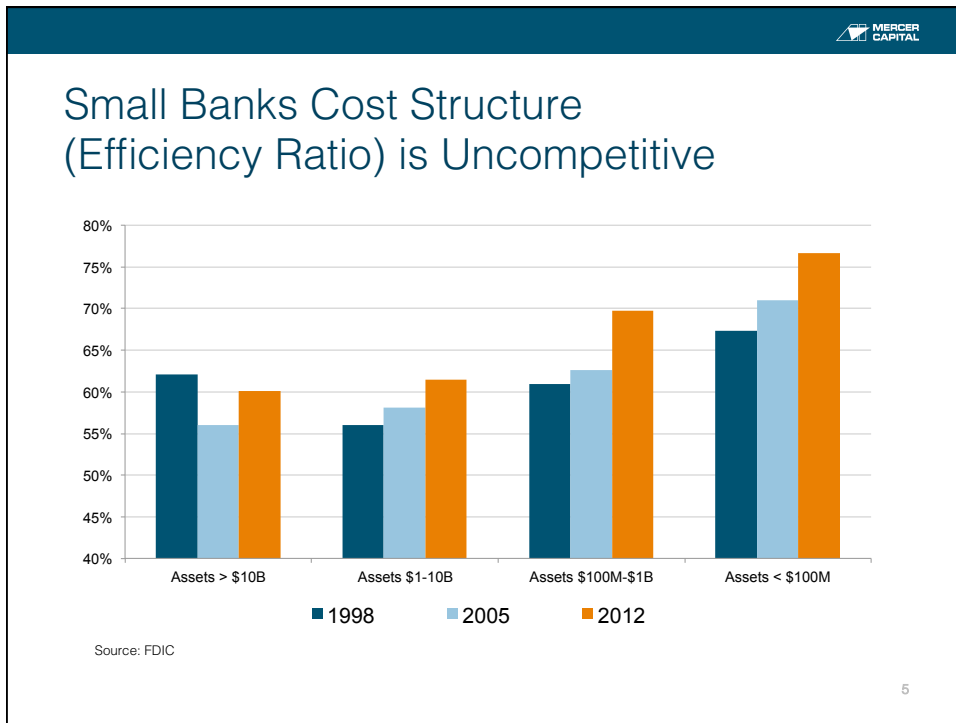
Yield / Cost of Funds	U.S. Bancorp (USB)			Associated (ASBC)			Commerce (CBSH)			Huntington (HBAN)		
	4Q12	4Q11	Δ	4Q12	4Q11	Δ	4Q12	4Q11	Δ	4Q12	4Q11	Δ
Commercial & Industrial	3.41	3.82	(0.41)	3.92	4.13	(0.21)	3.29	3.53	(0.24)	3.88	4.01	(0.13)
Commercial Real Estate	4.43	4.57	(0.14)	4.11	4.39	(0.28)	4.33	4.67	(0.34)	4.19	3.99	0.20
1-4 Residential Mortgage	4.35	4.75	(0.40)	4.59	4.71	(0.12)	4.15	4.64	(0.49)	4.07	4.30	(0.23)
Total Loans	3.55	3.60	(0.05)	3.98	4.27	(0.29)	4.64	5.01	(0.37)	4.13	4.28	(0.15)
Total Securities (TE)	2.48	2.91	(0.43)	2.79	2.76	0.03	2.59	2.56	0.03	2.43	2.46	(0.03)
COF - IB Deposits	0.38	0.48	(0.10)	0.30	0.53	(0.23)	0.28	0.37	(0.09)	0.42	0.61	(0.19)
Net Int Margin (TE)	3.55	3.60	(0.05)	3.32	3.21	0.11	3.35	3.44	(0.09)	3.45	3.38	0.07

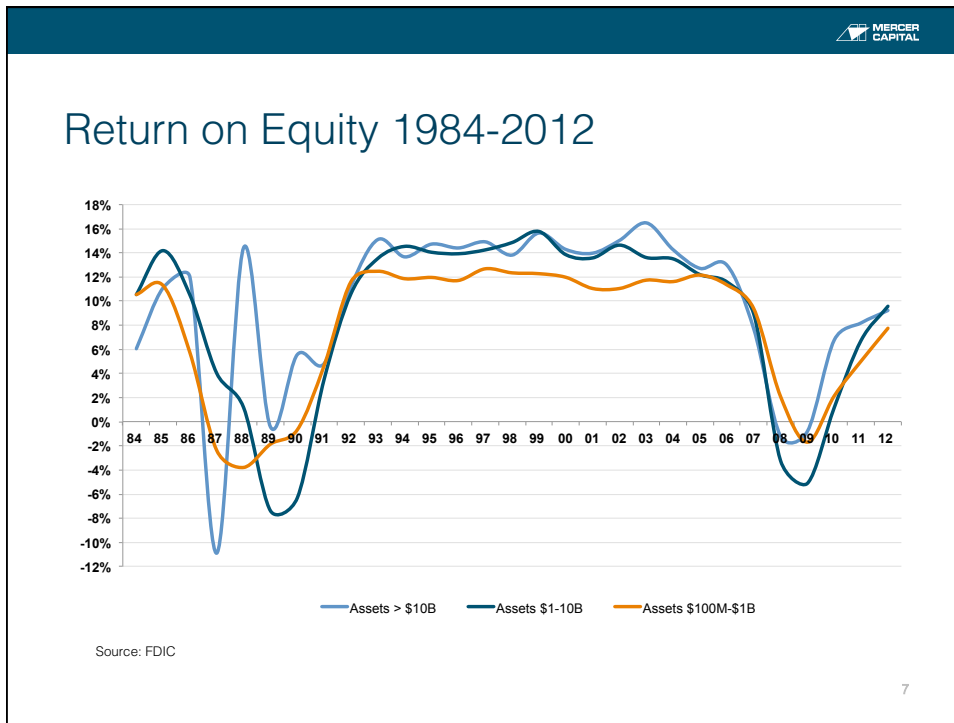
30-Day LIBOR	0.27	0.35	(0.08)	<- base for C&I loans
5 Year Swap	0.81	1.31	(0.50)	<- base for 5-year CRE loans

Source: company quarterly reports and the Federal Reserve's H.15 (selected interest rates-daily)

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Return on Equity vs. 10-Year UST

- ROE spread over 10-year UST similar to relative analysis for bonds
- YTD ROE spread of 6-8% is in-line with long-term history ... implies 8-9% ROE, which is okay but ...
- Spread likely to compress absent a change in the economy and/or rates

	84-89	90-99	00-07	08-12	00-12	84-12	YTD ROE	10Y UST	Current Spread	Current vs. 84-12
Assets > \$10B	1.7%	7.4%	9.1%	3.3%	7.6%	7.1%	9.1%	1.8%	7.2%	0.2%
Assets \$1-10B	-1.7%	7.6%	8.3%	-1.5%	6.9%	5.6%	9.9%	1.8%	8.1%	2.5%
Assets \$100M-\$1B	-4.6%	5.7%	6.6%	0.4%	5.8%	5.0%	7.7%	1.8%	5.9%	0.9%
Assets < \$100M	-2.5%	3.8%	3.3%	0.5%	2.9%	2.3%	6.2%	1.8%	4.4%	2.1%
All Insured Institutions	-3.0%	7.1%	8.4%	2.2%	7.2%	6.6%	9.0%	1.8%	7.2%	0.6%

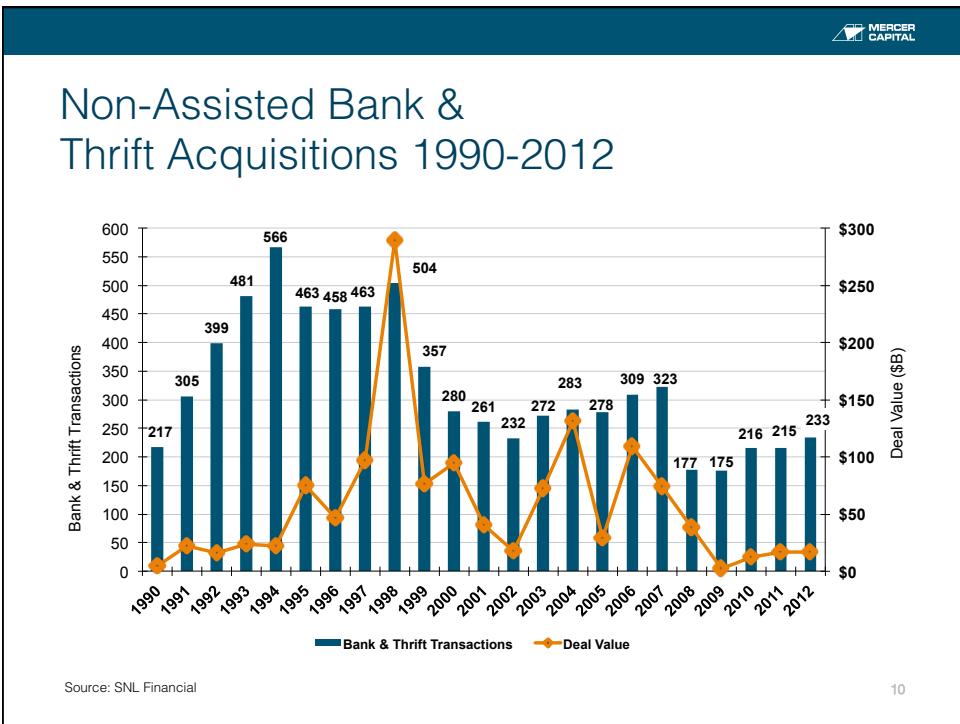
Source: FDIC and Federal Reserve's H.15

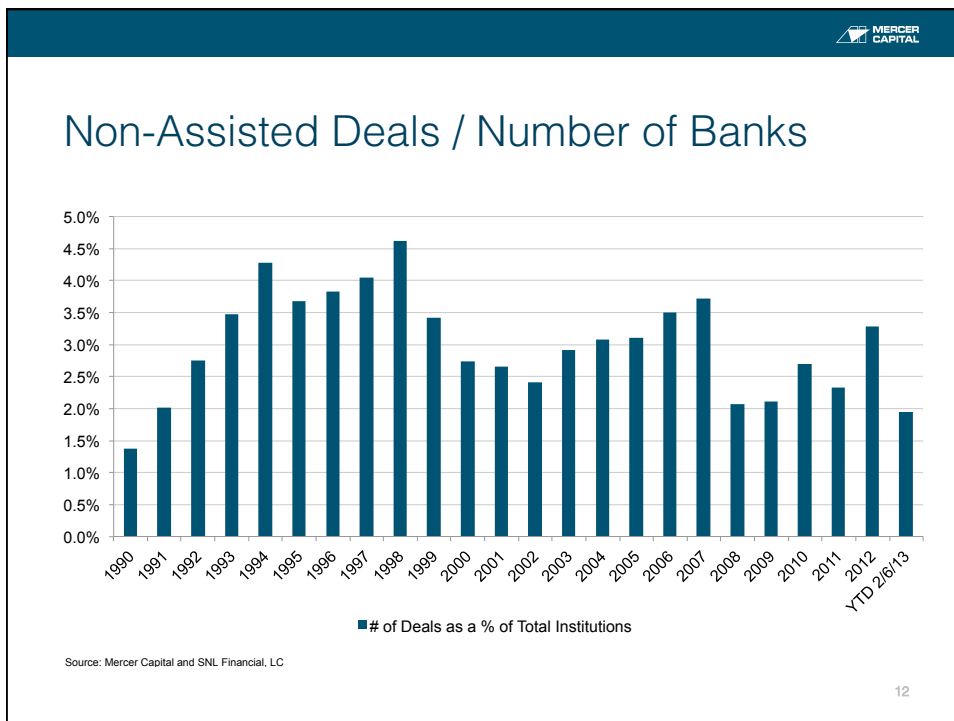
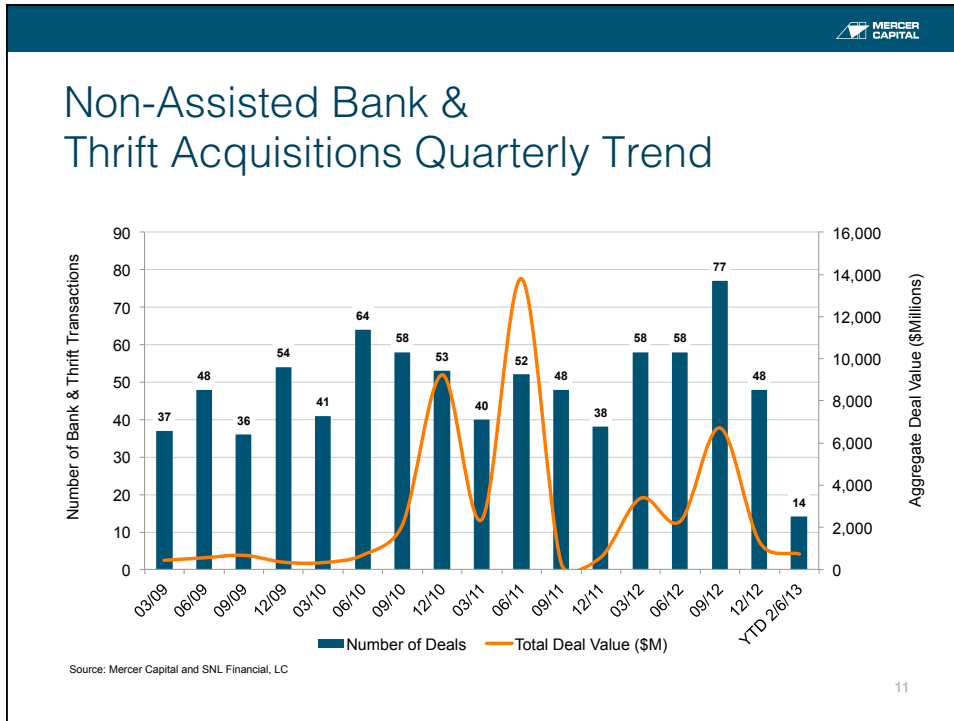
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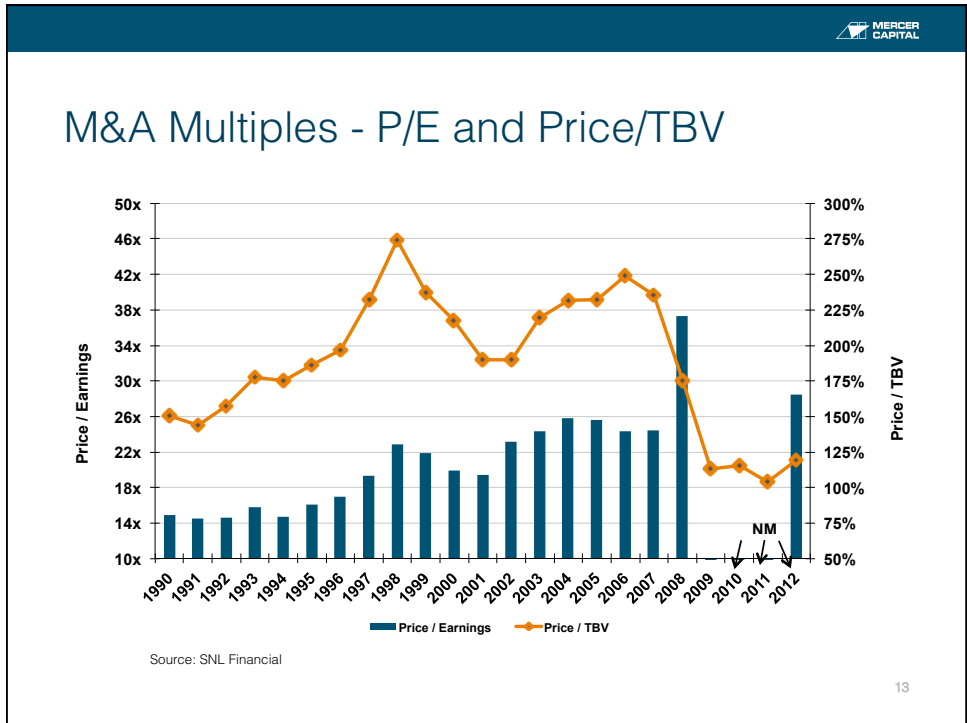
Recent Trends

- Much promised M&A wave remains elusive, but activity is steady
- 241 deals in 2012 equated to 3% of year-end 2011 institutions
- Pricing remains subdued—as does the profitability of most sellers—but 2012 saw some improvement as sellers’ financial position improved and public market valuations improved
- Scarcity value always matters
- Largest 2012 deal was M&T buying Hudson City for \$3.8B
- Consolidation has/will entail small banks getting larger, not big banks getting larger (through M&A)

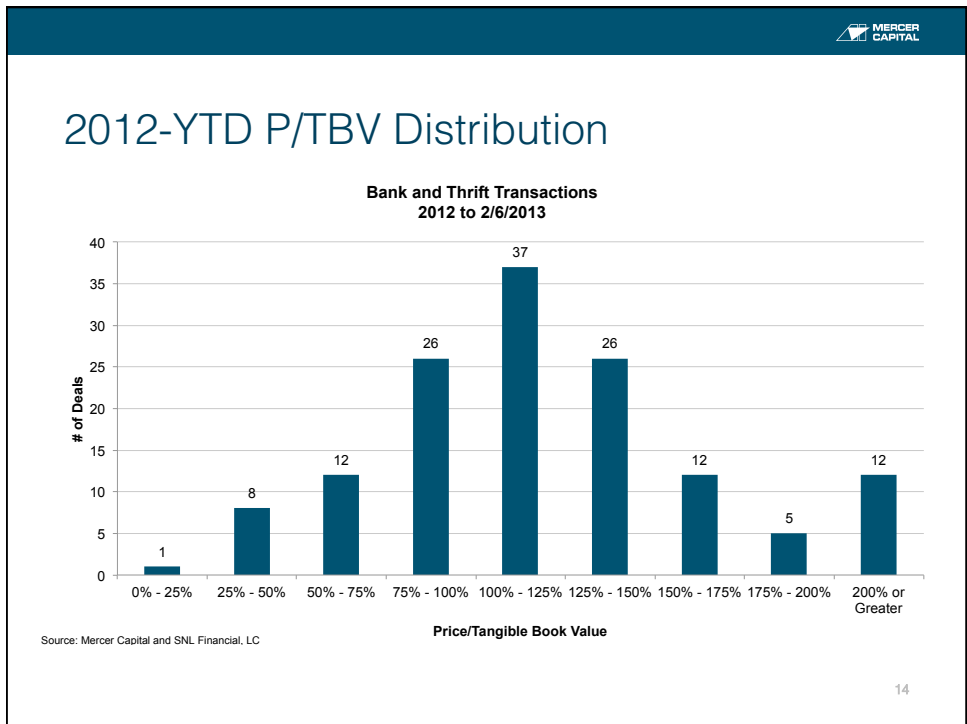
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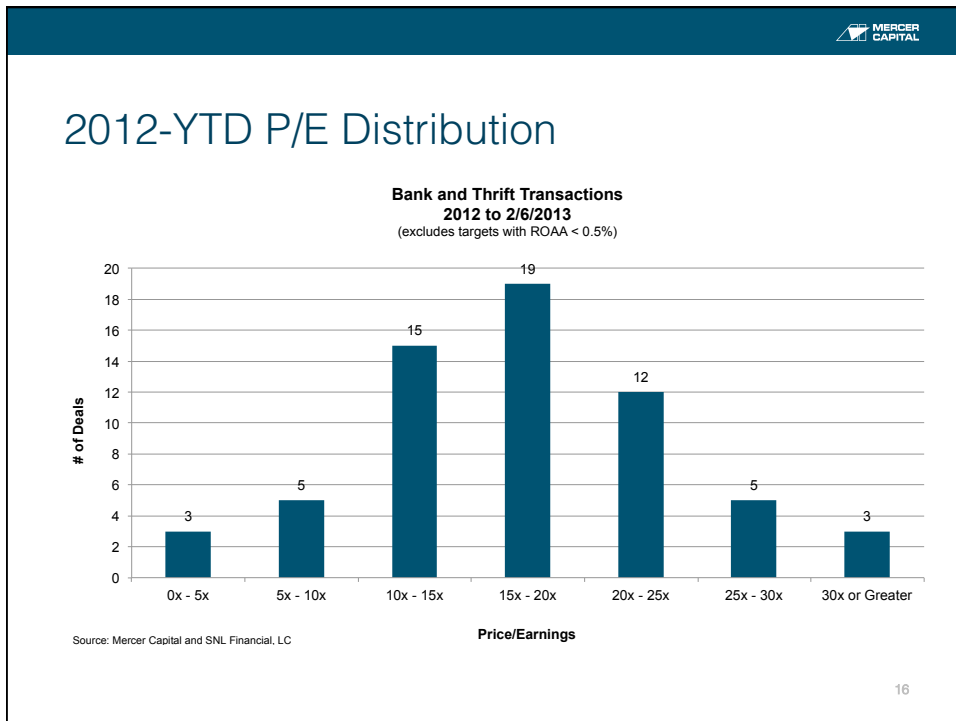
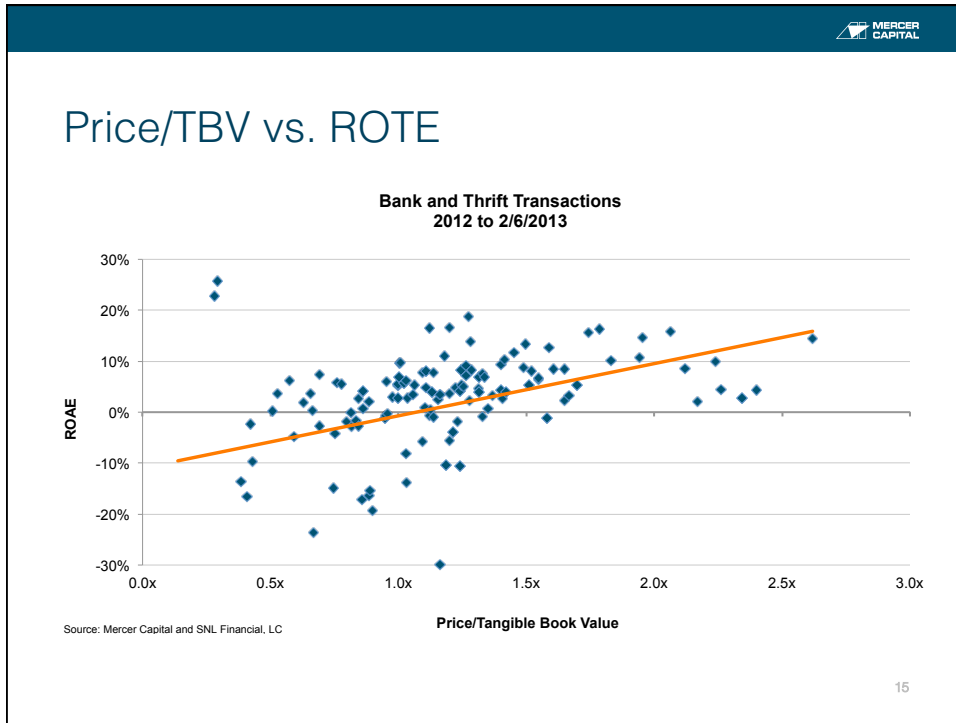




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2013 Keys

- Upgrades of would be buyers following 2013 regulatory exams ... more buyers
- Regulators make significant progress in Dodd-Frank related rule writing
- Shareholder pressure for boards to act before returns erode
- Would be seller recognition that math precludes pre-crisis pricing level
- But, we believe pricing can improve modestly provided
 - Credit continues to improve
 - Public market valuations for small- and micro-cap banks (i.e., buyers) improve
 - Buyers feel some pressure to acquire to offset earnings pressure
- Sellers "get it" re: structuring stock-swap deals that allow the buyer's shares to appreciate (i.e., shared upside)

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Credit Migration Positive

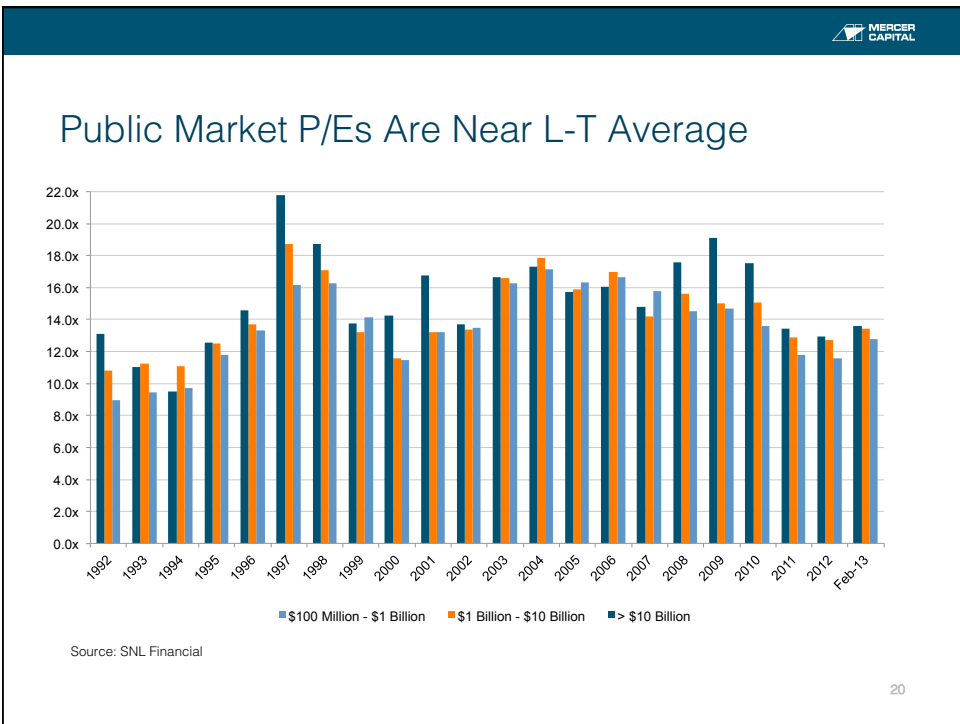
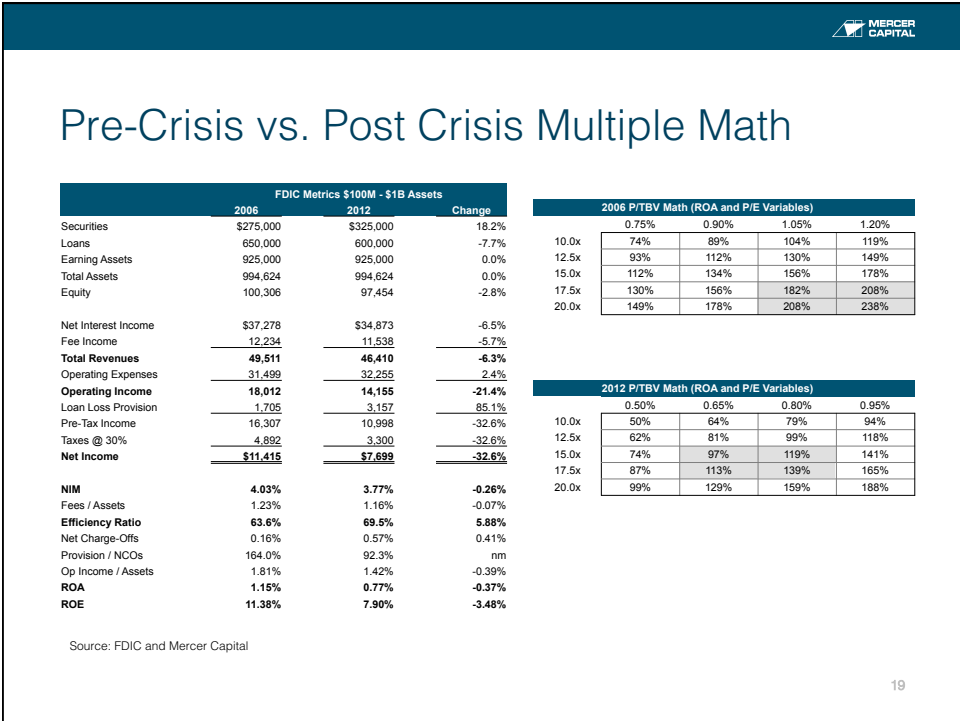
Noncurrent Loans as a % of Total Loans and Leases

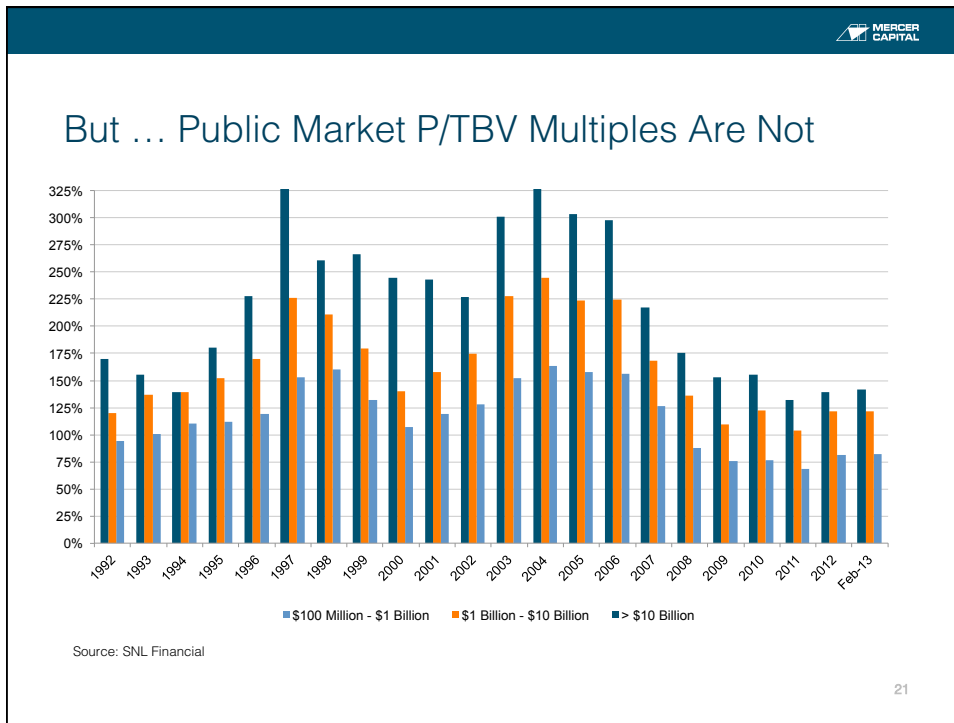
■ Assets \$1-10B ■ Assets \$100M-\$1B

Source: FDIC and SNL Financial

Announce Date	Seller	Credit Mark	Cycle Loss YE07
May-10	South Financial	13.0%	24.0%
Oct-10	Wilmington Trust	13.0%	17.0%
Dec-10	Marshall & Isley	12.1%	21.1%
Dec-10	Whitney	6.0%	13.2%
Jun-11	RBC Bank (USA)	11.2%	NA
Jan-11	Sterling Bancshares	12.0%	15.7%
Aug-12	Hudson City	1.5%	NA
Sep-12	Citizens Republic	6.8%	19.1%
Sep-12	West Coast Bancorp	5.0%	19.1%
Jan-13	Virginia Commerce	4.0%	11.5%
Feb-13	First M&F	5.4%	14.8%

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Public Market Valuations Improving

Median Price/Earnings	YE09	YE10	YE11	YE12	13-Feb	20-Year Average	Public Market P/E Relative to 20-Year Average				
	YE09	YE10	YE11	YE12	13-Feb	YE09	YE10	YE11	YE12	13-Feb	
\$100 Million - \$1 Billion	14.7x	13.6x	11.8x	11.6x	12.8x	13.6x	108%	100%	87%	85%	94%
\$1 Billion - \$10 Billion	15.0x	15.1x	12.9x	12.7x	13.4x	14.2x	106%	106%	91%	89%	94%
> \$10 Billion	19.1x	17.5x	13.4x	12.9x	13.6x	15.2x	126%	115%	88%	85%	89%
Median Acquisition P/E	nm	nm	nm	33.5x	32.0x						

Median Price/TBV	YE09	YE10	YE11	YE12	13-Feb	20-Year Average	Public Market P/TBV Relative to 20-Year Average				
	YE09	YE10	YE11	YE12	13-Feb	YE09	YE10	YE11	YE12	13-Feb	
\$100 Million - \$1 Billion	75%	77%	68%	81%	82%	116%	65%	66%	59%	70%	70%
\$1 Billion - \$10 Billion	109%	122%	104%	121%	122%	164%	67%	74%	63%	74%	74%
> \$10 Billion	153%	155%	132%	139%	142%	218%	70%	71%	61%	64%	65%
Median Acquisition P/TBV	114%	116%	104%	117%	101%						

Source: SNL Financial

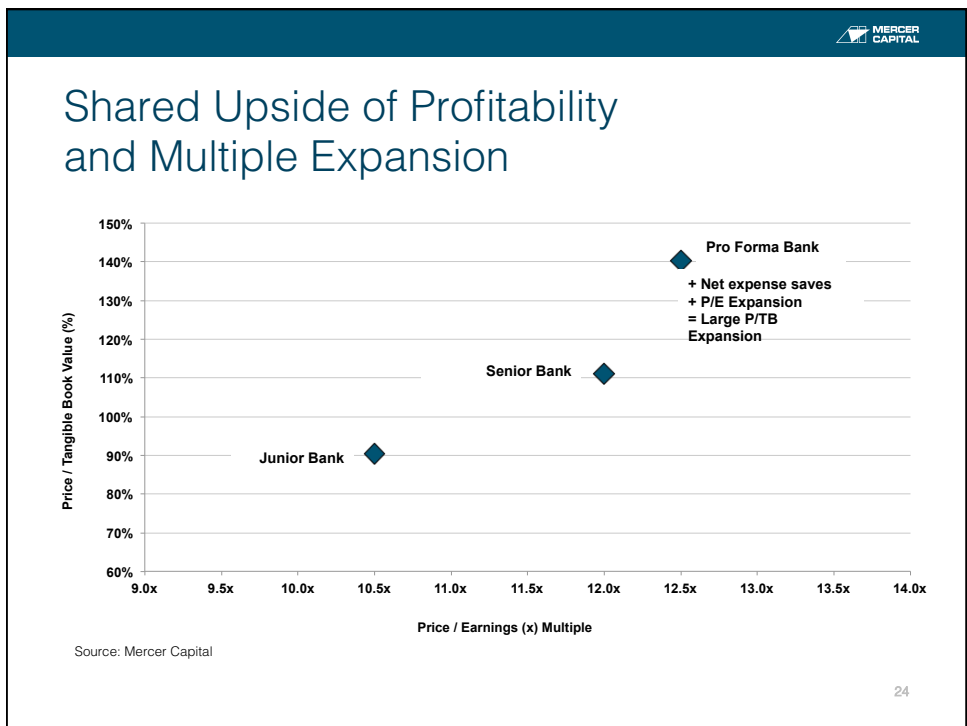
- Public market valuations are a proxy for the strength of acquisition currencies
- Valuations have rebounded from the 3Q11 sell-off (debt ceiling & funding issues among European banks) Ongoing trend or a rebound?

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Pathways from Recent Deals

Announce Date	Buyer / Seller	Buyer Multiples			Deal Val (\$M)	Seller Multiples			Expense Saves	Years to Earn Back TBVPS Dil.	Credit Mark	IRR	Buyer's Shares	Comments
		P/TBV	P/E LTM	P/E Fwd Est		P/TBV	P/E LTM	P/E Fwd Est						
2/6/13	Renasant / First M&F	157%	18.1x	15.4x	\$146	122%	23.3x	16.1x	25%	2.5	5%	20%	flat	In-market deal that provides for improved market share in key markets and expense saves
1/29/13	United Bankshares / Virginia Commerce	155%	23.5x	15.5x	\$495	183%	21.0x	16.8x	25%	3-4	4%	> cost of capital	-3%	Strategic deal that further shifts center of gravity to N. Va. from W. Va.
11/6/12	PacWest Bancorp / First California	172%	16.4x	11.8x	\$235	170%	21.1x	NA	50%	3.5	4%	18%	20%	EPS accretion 12% in first full year; FCAL to become 8th largest CA-based public bank
9/25/12	Columbia Banking / West Coast Bancorp	120%	16.0x	14.0x	\$509	145%	13.8x	21.4x	25%	7.0	5%	>15%	-10% 1st 6 wks	Investors disliked TBVPS earn-back, but 2013/14E EPS accretion for FY13/14E. Portland-I-5 play
9/12/12	FirstMerit / Citizens Republic	164%	15.2x	14.2x	\$1,291	130%	2.6x	4.3x	22%	2.5	7%	18%	-22% 1st 8 wks	Significant footprint expansion; 6-8% FY14E EPS accretion. Street concern re: relative size and who FMER had to out-bid
8/27/12	M&T Bank Corp. / Hudson City	219%	13.7x	11.0x	\$3,813	84%	NM	12.7x	24%	Accretive	2%	18%	+15% 1st 8 wks	Street liked the deal due to capital accretion, in-fill in high density markets, low-risk balance sheet and ~8% EPS accretion for FY14E

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Final Thoughts

- Wall Street is paid to be bullish
- Observe the bloodless verdict of the market
- M&A always is a strategic proposition
- #1 factor buyers and investors control that determines return on an investment is price paid
- Profitability x leverage x P/E = P/TBV

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Questions?

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