

# BOENNING & SCATTERGOOD

ESTABLISHED 1914

## Current Investor Focus and Capital Trends in the Banking Sector

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## Disclosure Statement

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# What Are Investors In Banks Focusing On?

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## ➤ Capital first and foremost

- Institutions need staying power
  - Investors want to see you can survive the worst case scenario.
  - Pre-crisis investor comfort level was over 6% tangible equity to assets, now many investors want to see that ratio over 10%.
- The ability to capitalize on opportunities
  - Distressed and assisted deals are becoming more prevalent. Investors want to see that a bank is able to participate.
  - Last bank standing: Banks that are growing market share, either on an overall or product basis, should highlight that trend.

## ➤ Solid sense of further credit losses

- Bank managers need to demonstrate a clear understanding of likely future loan losses and the collateral values of the portfolio
  - Investors are looking for managers to have good information (LTVs, collateral values, etc.) and a proactive approach to mitigating legacy credit risk.
- Securities marked appropriately
  - Investors want to see securities, especially securitizations, marked to market clearing prices if there is reduced or no cash flow.

# What Makes A Bank A Good But from An Investor Perspective?

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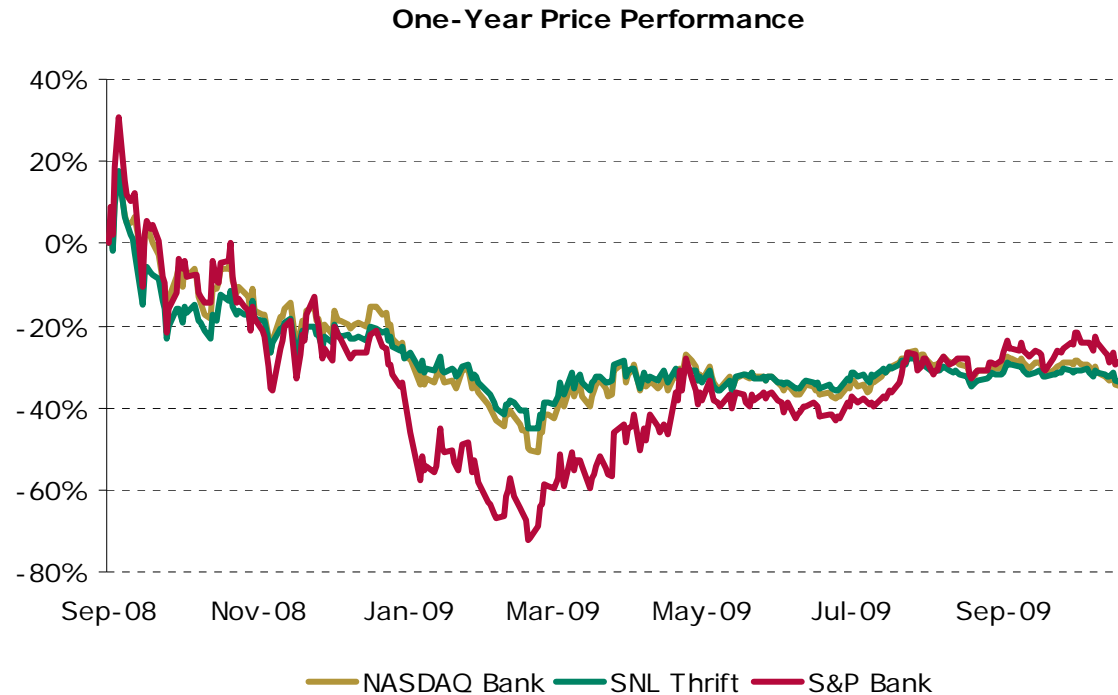
- Capital levels are more important than valuation
  - Most investors appear more focused on the upside and want to see that capital levels are stronger than need be.
  - Having raised ample capital or in the process of doing so encourages participation among institutional investors.
  - Investors valuation focus is on tangible book value and “normalized” earnings that exclude or look past legacy credit costs.
  
- Demonstration of management competence and clarity
  - Investors want to see that managers have shored up the bank’s capital or have a clear path to do so.
  - Want to see that actions have been taken to get in front of losses in the portfolio and resolve the ones that currently exist.
  - Want to see that the bank is a better relative competitor going forward than it was before the crisis.

# How Are Banks Successfully Raising Capital?

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- Conversion of preferred to common is a prevalent trend in the market place
  - Retail investors have been more open to conversion based on how the valuation of large banks' preferreds reacted back in the spring.
  - Institutional investors and preferred pool managers are less likely to swap or settle preferreds for less than par unless failure looks likely.
- Raising equity at a low price is painful to bank managers and existing investors but attractive to new investors
  - Many institutional investors have participated in offerings in smaller super community names that were substantial in size.
    - Enthusiasm comes from low valuations on the banks doing the raises and pessimism about the economic recovery, real estate prices, government regulation, etc...
- Taking the government's money
  - Typically not a turn-off for institutional investor looking at participating in a smaller bank offering that has TARP.
  - Can be a negative issue from a competitive standpoint due to derision among the general public and retail investors.

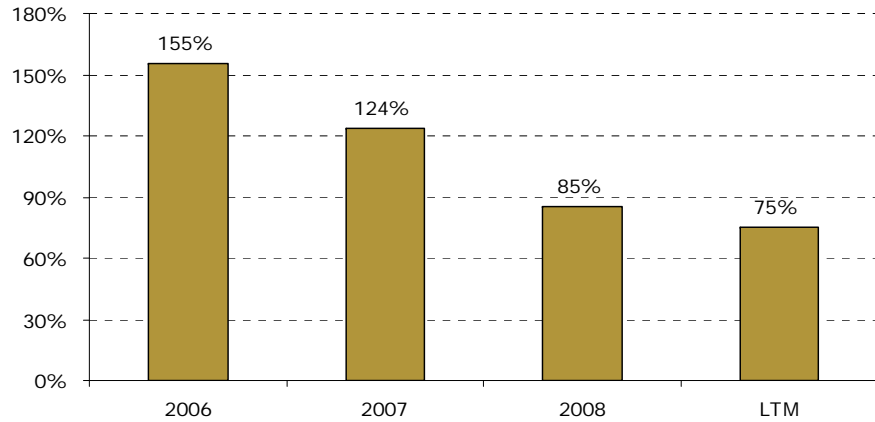
# Price Performance Since September 15, 2008



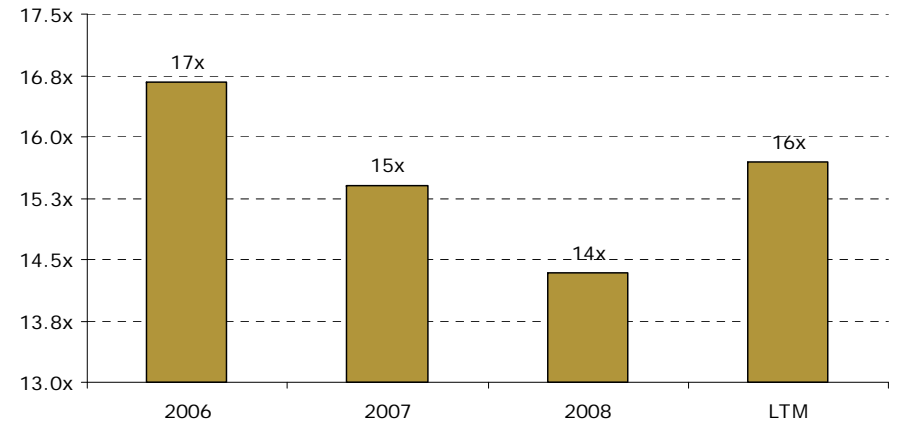
- Severe volatility has made accessing the public capital markets extremely difficult, but conditions have recently shown some improvement.
- Sector funds experienced significant losses and redemptions during the market meltdown.
- Market volatility led to increased instances of narrowly marketed private transactions.
- The private equity community led several unsuccessful early capitalizations. After an absence, funds are returning but the regulatory environment has not been as accommodating as originally hoped.

# Public Bank Trading Metrics

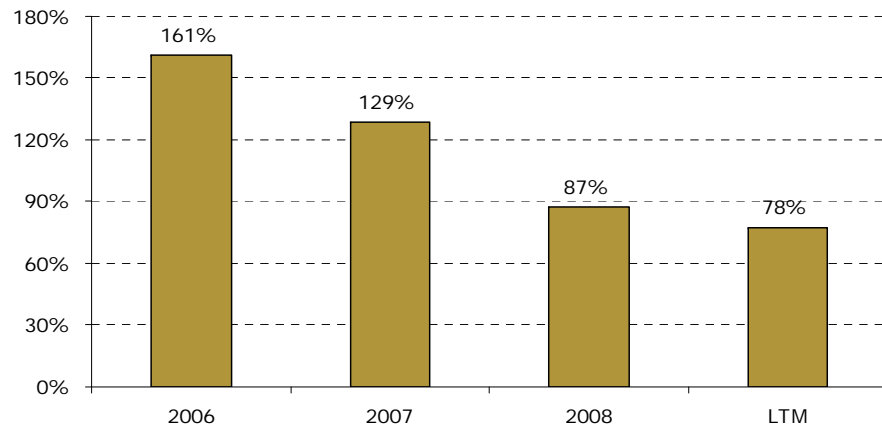
Median Price / Book



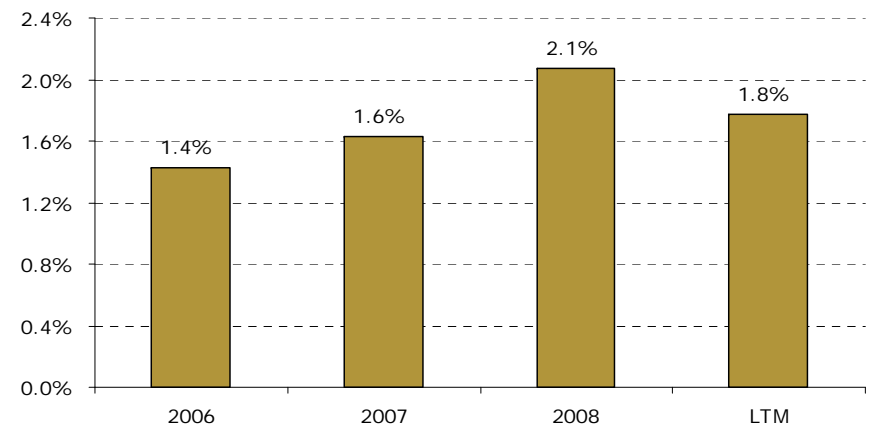
Median Price / EPS



Median Price / Tangible Book

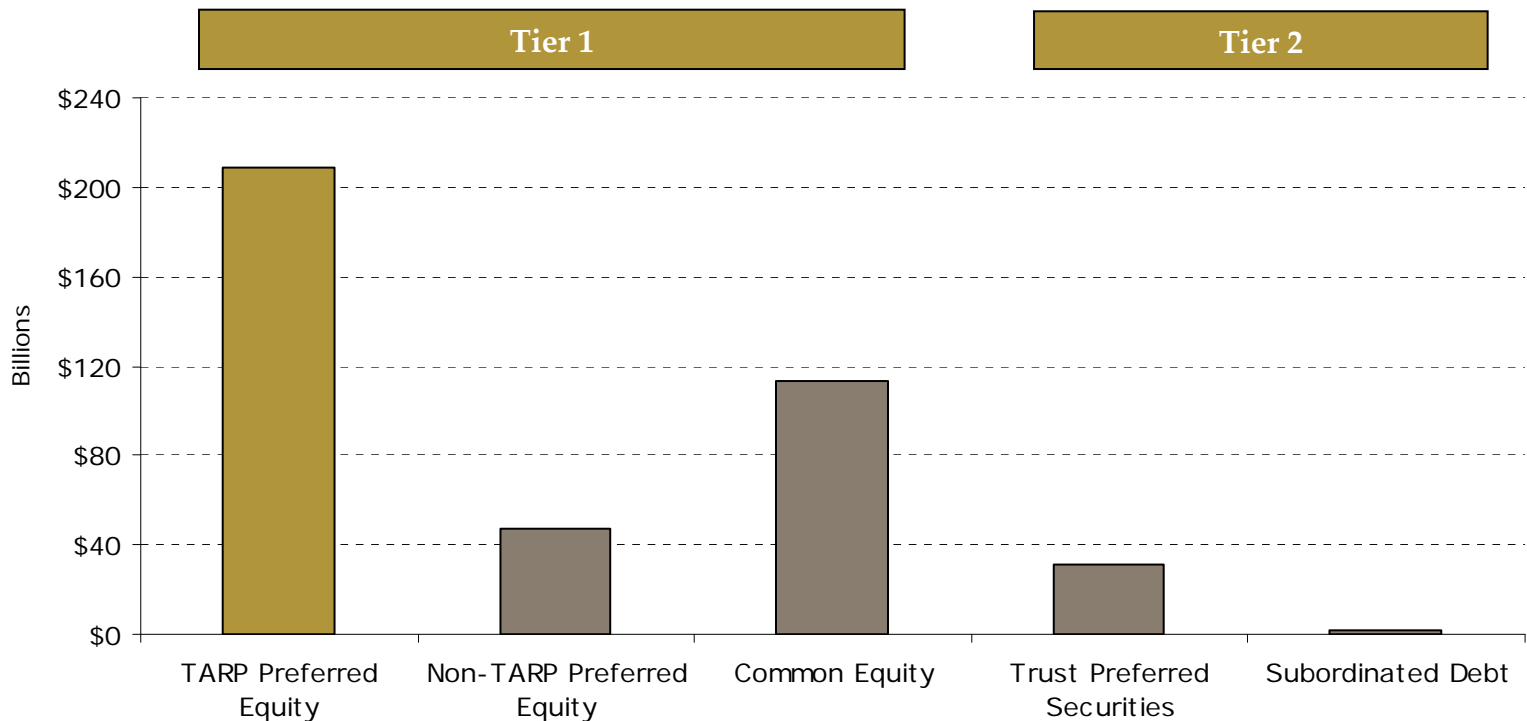


Median Dividend Yield



LTM 2009 as of November 9, 2009

# Financing Activity Since September 15, 2008

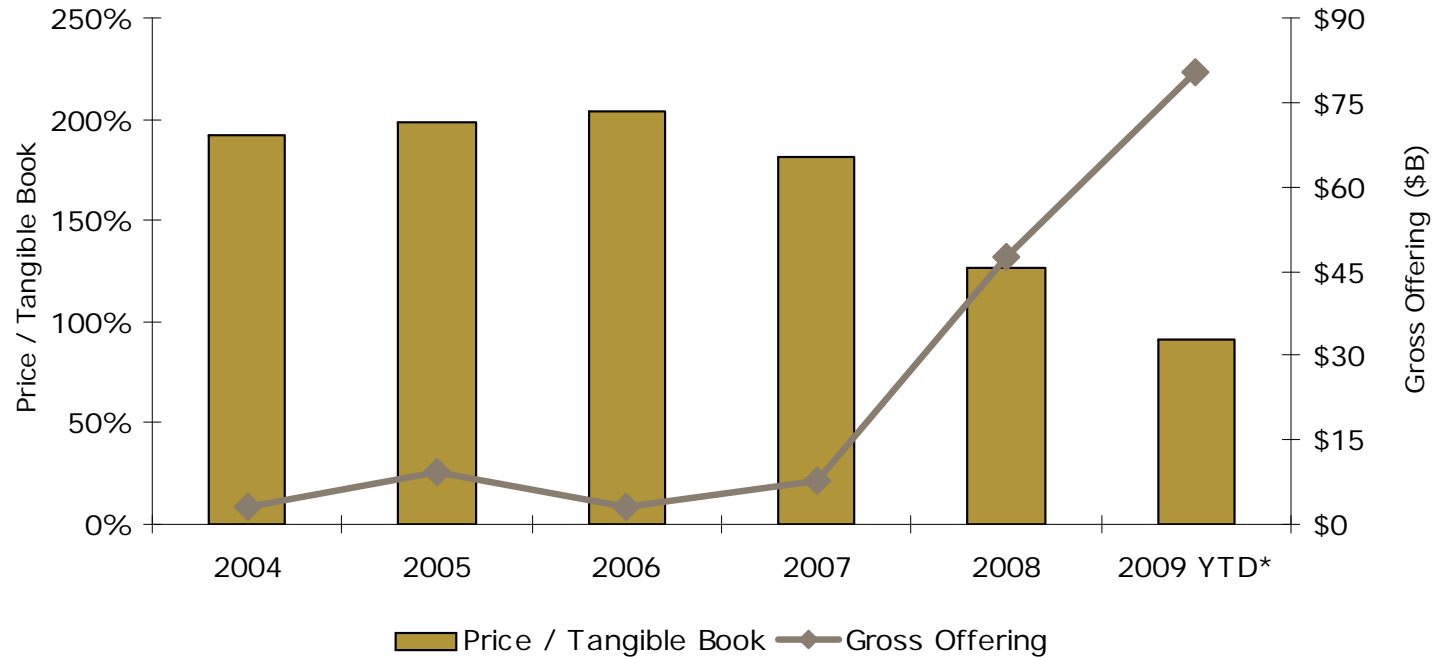


- In an effort to avoid the dilution associated with issuing common stock at a depressed valuation, companies sought to replenish their Tier 1 capital through issuing a significant amount of preferred equity, particularly under the TARP program.
  - As the equity markets have stabilized and improved, there has been an increased interest in common equity issuances to repay TARP funds, due to their less than predictable political and financial implications.
  - Liquidity issues have significantly constrained new issuances of fixed income regulatory capital instruments.

Source: SNL Financial; Data as of November 9, 2009.

# Common Equity Financing

## Historical Common Equity Issuances & Valuations

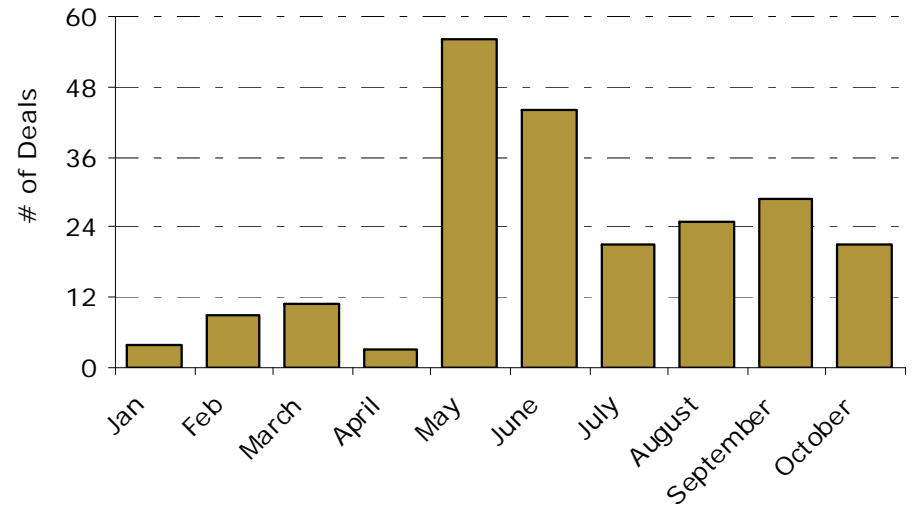
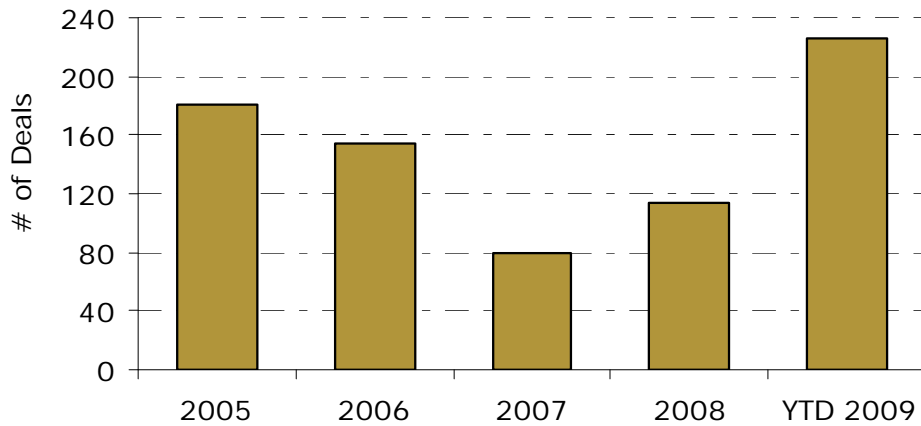


- Demand for capital, due to balance sheet erosion, led to a dramatic increase in the aggregate amount of common equity raised despite the advent of TARP capital availability in late 2008.
- In prior years, capital was raised for growth purposes whereas today capital is being issued to absorb inherent losses, exploit unique growth opportunities or to repay TARP.

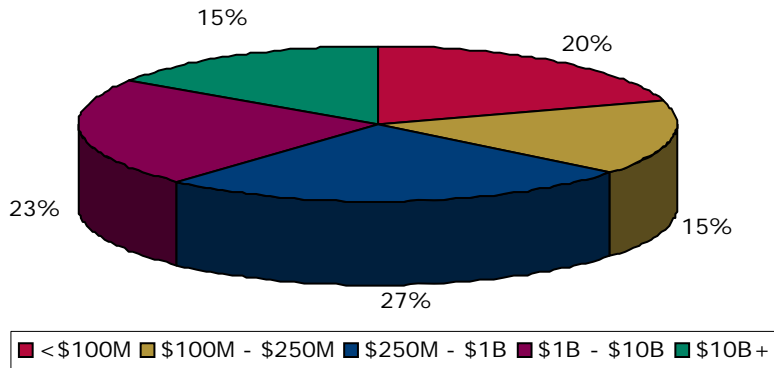
Source: SNL Financial; YTD as of November 9, 2009.

# Common Equity Financing

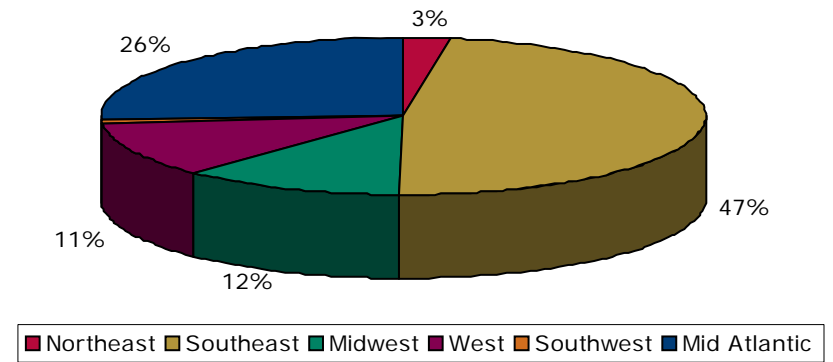
## Common Equity Offering



## LTM Volume by Market Cap



## LTM Capital Raised by Region



Source: SNL Financial; YTD 2009 as of November 9, 2009

## How Capital Is Currently Being Raised

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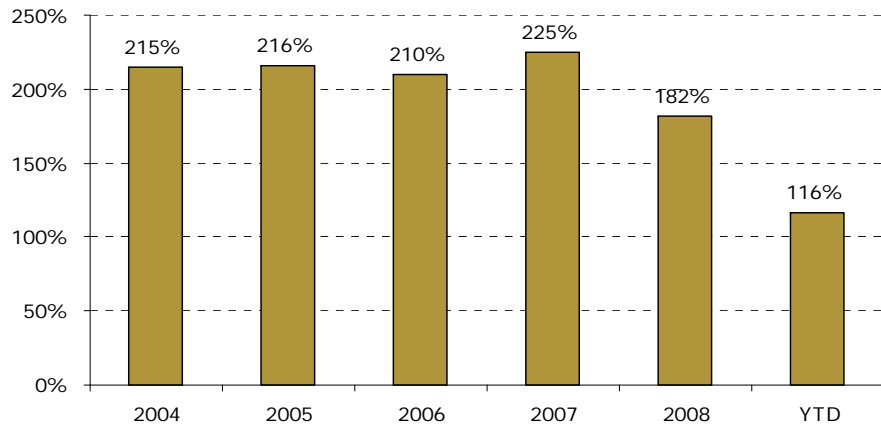
- Capital offerings are generally being completed by smaller sector specific funds, wealthy individual investors, and to a lesser extent private equity funds looking to get into the banking sector at attractive valuations.
- Current shareholders and community members have also provided a source of capital albeit at normal levels.
- Investor Road Shows have been truncated significantly.
- Investors, presented with numerous investment opportunities, have demanded attractive market discounts of 10% to 30% discounts to prevailing, depressed market prices.
- Offerings with specific uses of proceeds (e.g. repay TARP, acquisitions, open new market, etc...) have been best received by the broadest investment communities.
- In the current environment, investors are focused on “adjusted tangible book value” as opposed to a P/E multiple.

# Review of Recent Transactions

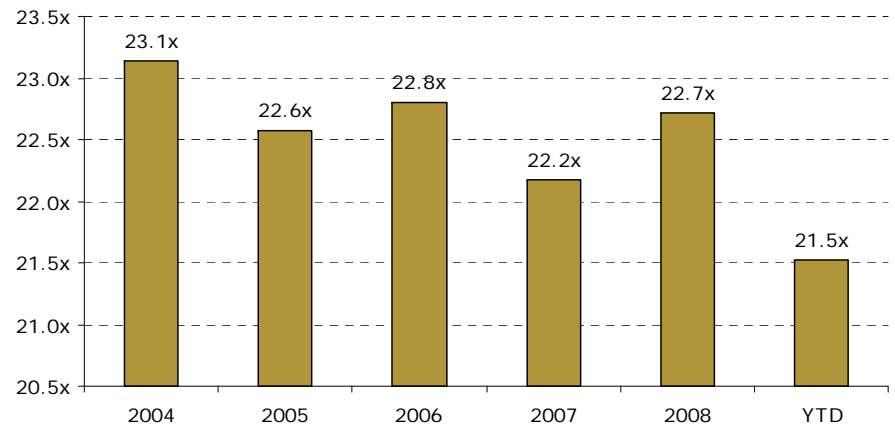
Date Filled	Date Priced	Company / Symbol	Transaction Size (\$M)	Market Cap (\$M)	Transaction Size/ Market Cap	Shares Sold/ Average Daily Volume	Price/ Tangible Book Value	Offering Price/ Closing Price Day Before Filing	Offering Price / Closing Price Day Before Pricing
10/26/2009	10/28/2009	OceanFirst Financial Corp. (NasdaqGS:OCFC)	50.0	120.0	41.7%	46.2x	74.3%	(25.4%)	(12.1%)
10/19/2009	10/21/2009	Whitney Holding Corp. (NasdaqGS:WTNY)	200.0	561.9	35.6%	18.0x	79.6%	(16.1%)	(8.0%)
10/19/2009	10/21/2009	Nara Bancorp Inc. (NasdaqGS:NARA)	75.0	210.5	35.6%	26.2x	94.3%	(16.2%)	(6.3%)
10/14/2009	10/29/2009	Southern National Bancorp of Virginia Inc. (NasdaqGM: SONA)	25.0	42.8	58.4%	123.8x	83.6%	(17.7%)	(11.1%)
10/12/2009	10/13/2009	Cathay General Bancorp (Nasdaq:CATY)	70.4	506.3	13.9%	5.1x	70.1%	0.8%	2.0%
10/09/2009	11/4/2009	Pacific Premier Bancorp Inc. (NasdaqGM:PPBI)	15.0	16.3	92.3%	40.8x	27.0%	(24.3%)	3.2%
09/22/2009	9/24/2009	First Niagara Financial Group Inc. (NasdaqGM:FNFG)	400.1	1,824.6	21.9%	14.3x	163.0%	(7.8%)	(5.0%)
09/23/2009	9/24/2009	United Community Banks Inc. (NasdaqGS:UCBI)	193.5	297.9	65.0%	23.6x	75.3%	(30.3%)	(23.8%)
09/21/2009	9/22/2009	Old National Bancorp. (NYSE:ONB)	180.0	707.9	25.4%	15.6x	156.8%	(11.3%)	(1.6%)
09/21/2009	9/24/2009	Metro Bancorp, Inc. (NasdaqGS:METR)	75.0	84.9	88.3%	114.7x	77.6%	(23.3%)	(14.5%)
09/21/2009	9/24/2009	First Busey Corporation (NasdaqGS:BUSE)	72.0	161.9	44.5%	49.9x	105.8%	(37.9%)	(22.9%)
09/21/2009	9/23/2009	First Financial Holdings Inc. (NasdaqGS:FFCH)	65.0	190.7	34.1%	34.6x	77.7%	(11.9%)	(9.3%)
09/17/2009	9/18/2009	Huntington Bancshares Inc. (NasdaqGS:HBAN)	400.0	3,045.1	13.1%	3.5x	92.6%	(7.5%)	(6.9%)
09/15/2009	9/16/2009	Flushing Financial Corp. (NasdaqGS:FFIC)	95.7	269.2	35.5%	62.9x	92.9%	(6.5%)	(8.1%)
09/14/2009	9/16/2009	Synovus Financial Corp. (NYSE:SNV)	600.0	1,463.5	41.0%	10.5x	70.6%	13.3%	(8.0%)
09/14/2009	9/15/2009	Washington Federal Inc. (NasdaqGS:WFSL)	304.5	1,339.9	22.7%	17.7x	112.8%	(1.3%)	(0.4%)
09/14/2009	9/14/2009	MB Financial Inc. (NasdaqGS:MBFI)	175.0	676.1	25.9%	20.0x	141.2%	(6.0%)	(6.0%)
09/14/2009	9/16/2009	Heritage Financial Corp. (NasdaqGS:HFWA)	43.4	83.9	51.7%	210.0x	111.0%	(12.7%)	(7.6%)
09/11/2009	9/15/2009	Home Bancshares, Inc. (Conway, AR) (NasdaqGS:HOMB)	98.3	403.0	24.4%	72.8x	170.7%	(4.8%)	(1.7%)
09/09/2009	9/17/2009	Huntington Bancshares Inc. (NasdaqGS:HBAN)	149.9	2,727.6	5.5%	1.3x	93.2%	2.9%	(7.5%)
09/09/2009	9/15/2009	Eagle Bancorp, Inc. (NasdaqCM:EGBN)	48.0	107.5	44.7%	149.0x	108.8%	(7.6%)	(7.9%)
09/08/2009	9/9/2009	National Penn Bancshares Inc. (NasdaqGS:NPBC)	140.2	550.1	25.5%	15.9x	105.5%	1.2%	(1.5%)
09/08/2009	9/10/2009	Union Bankshares Corp. (NasdaqGS:UBSH)	62.6	197.1	31.8%	60.4x	90.7%	(18.3%)	(6.0%)
08/26/2009	9/17/2009	1st United Bancorp, Inc. (OTCPK:FSDB)	70.0	43.4	161.5%	604.8x	97.6%	(13.0%)	0.0%
08/20/2009	8/28/2009	Tower Bancorp Inc. (NasdaqGM:TOBC)	52.7	191.4	27.5%	72.5x	146.2%	(18.2%)	(3.6%)
08/17/2009	8/17/2009	BB & T Corp. (NYSE:BBT)	869.7	17,130.3	5.1%	4.0x	208.9%	(7.9%)	(7.9%)
8/11/2009	8/13/2009	Umpqua Holdings Corp. (NasdaqGS:UMPO)	225.0	644.0	34.9%	23.6x	133.6%	(13.2%)	(13.8%)
08/10/2009	9/16/2009	United Western Bancorp, Inc. (NasdaqGM:UWBK)	80.0	31.6	253.3%	83.4x	24.7%	(50.8%)	(10.4%)
08/10/2009	8/13/2009	The Bancorp Inc. (NasdaqGS:TBBK)	57.5	88.3	65.1%	187.8x	72.8%	(27.5%)	(13.0%)
08/04/2009	8/12/2009	Ocwen Financial Corp. (NYSE:OCN)	252.0	617.7	40.8%	29.8x	101.7%	(36.4%)	(7.8%)
08/03/2009	8/5/2009	Columbia Banking System Inc. (NasdaqGS:COLB)	104.1	237.8	43.8%	46.4x	96.0%	0.9%	(1.6%)
08/03/2009	8/6/2009	Univest Corp. of Pennsylvania (NasdaqGS:UVSP)	51.6	249.9	20.7%	51.2x	168.2%	(32.4%)	(10.9%)
<b>Median</b>			<b>\$ 87.8</b>	<b>\$ 259.6</b>	<b>35.6%</b>	<b>37.7x</b>	<b>95.1%</b>	<b>(12.9%)</b>	<b>(7.7%)</b>

# Bank M&A Deal Metrics

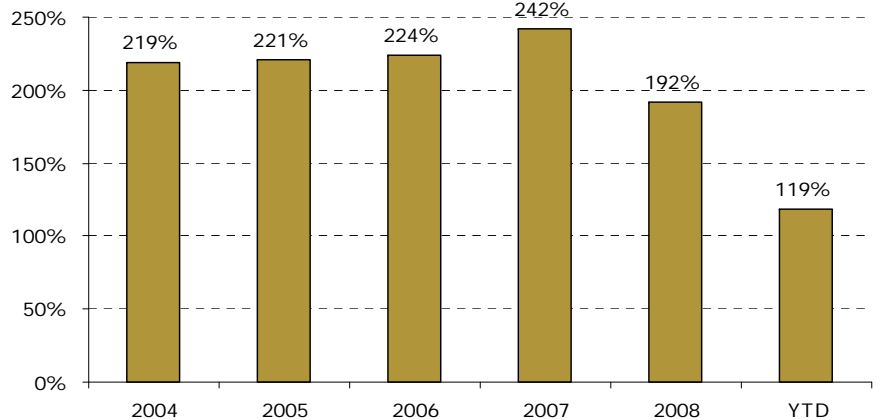
### Median Price / Book



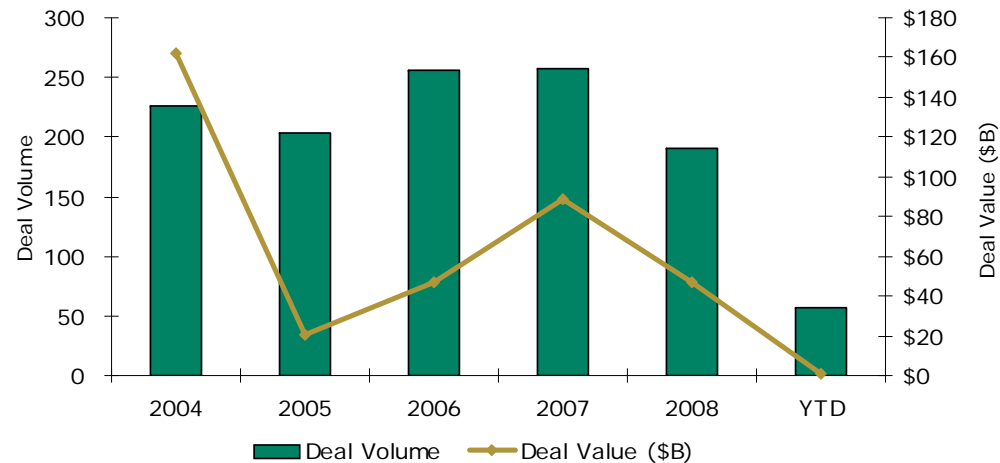
### Median Price / EPS



### Median Price / Tangible Book



### National M&A Deal Volume and Value

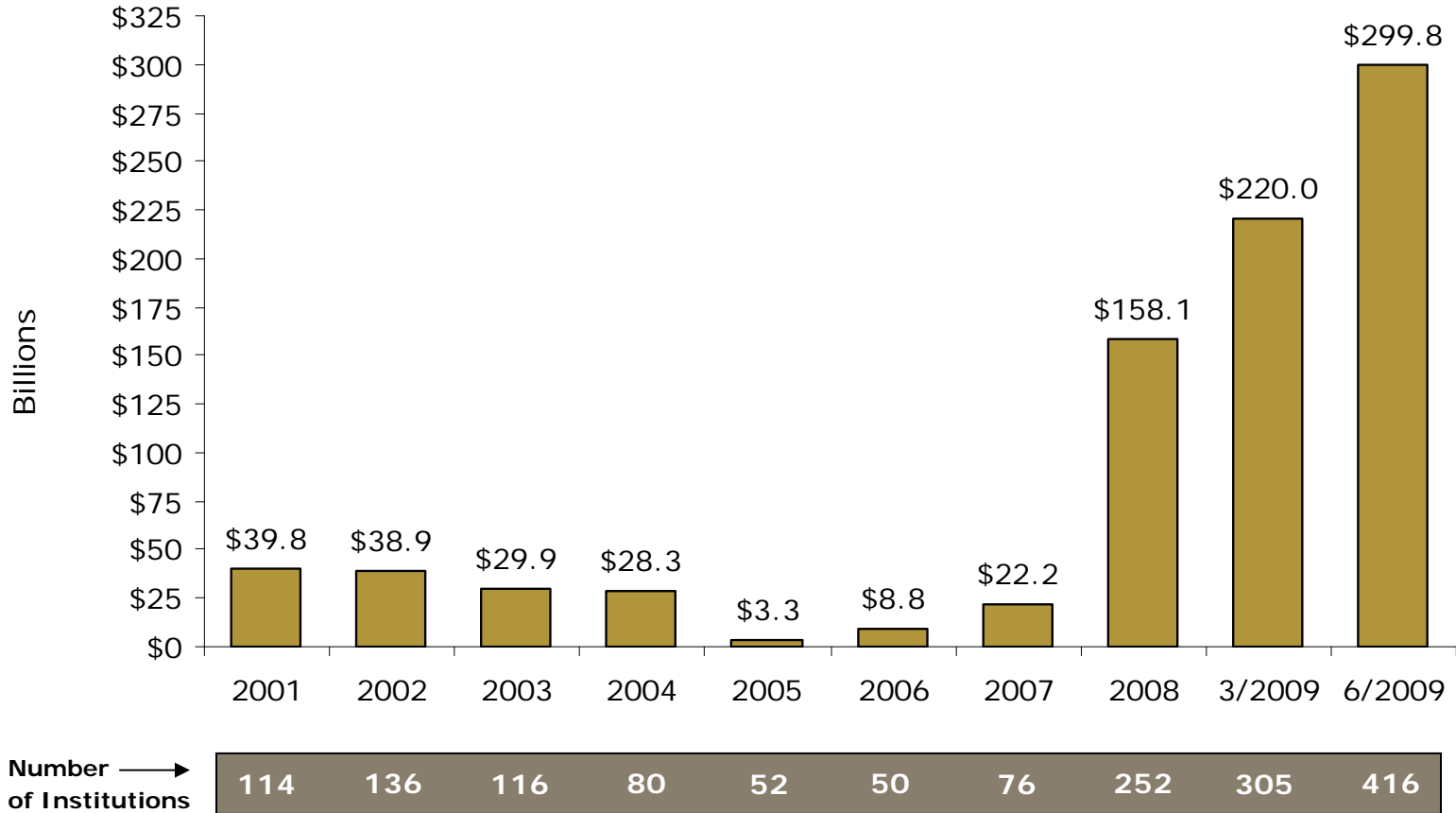


LTM 2009 as of November 9, 2009

# Problem Institutions

The number of problematic institutions has skyrocketed to a 15-year high.

## Assets of FDIC – Insured “Problem” Institutions 2001-2009



Source: FDIC

# Private Equity Landscape – Recent Transactions

Recent Private Equity Transactions						
PE Firm	Target Investment	Date	Security Type	Board Seat	Deal Size (\$M)	Stake
Lightyear Capital LLC	Cascade Bancorp	10/29/09	Common stock	No	65.0	NA
Castle Creek Capital LLC	West Coast Bancorp	10/23/09	Conv. Preferred	No	155.0	NA
CapGen Capital Advisors	Seacoast Banking Corp. of Flo:	10/23/09	Common stock	No	13.5	10.2%
Warburg Pincus	Webster Financial Corp.	07/27/09	Common Stock	Yes	40.3	NA
Peninsula Capital Advisors	WSFS Financial Corp.	07/27/09	Common Stock	Yes	25.0	20.9%
Leading Investment & Securities	Hanmi Financial Corp.	06/12/09	Common Stock	No	11.0	14.9%
Patriot Financial Partners	Guaranty Bancorp	05/06/09	Conv. Preferred	No	50.0	NA
Fortress Partners	Pacific Continental Corp.	01/07/09	Common Stock	No	10.1	9.9%
BankCap Partners GP LP	Xenith Bank	09/17/08	Common Stock	Yes	35.0	NA
BH Equity Research	Heritage Bank NA	09/16/08	Common Stock	NA	2.3	NA
Carpenter & Co.	Heritage Bank NA	09/16/08	Common Stock	NA	NA	9.9%
FrontPoint Partners LLC	Heritage Bank NA	09/16/08	Common Stock	NA	NA	9.9%
Cap Gen Capital Advisors	PacWest	09/02/08	Common Stock	Yes	100.0	12.0%
CIVC Partners LP	Wintrust	08/27/08	Conv. Preferred	NA	50.0	NA
FA Capital LLC	Freedom Bank	07/01/34	Common Stock	Yes	5.0	NA
Sageview Capital LP affiliate	EverBank Financial	07/24/08	Common Stock Conv. Preferred	Yes	100.0	NA
Carlyle Group	Boston Private	07/22/08	Conv. Preferred	Yes	75.0	19.0%
Belevedere Capital Partners LLC	Presidio Bank	07/17/08	Common Stock	NA	NA	NA
Vernon Hill-led investor group	Republic First	06/10/08	Conv. Trust Preferred	Yes	7.8	9.9%
FSI Group	Security Group	04/29/08	Sub. Debt; Common Stock Warrants	Yes	40.0	NA
Corsair Capital	National City Corp.	04/21/08	Conv. Preferred	Yes	985.0	NA

Source: SNL Financial

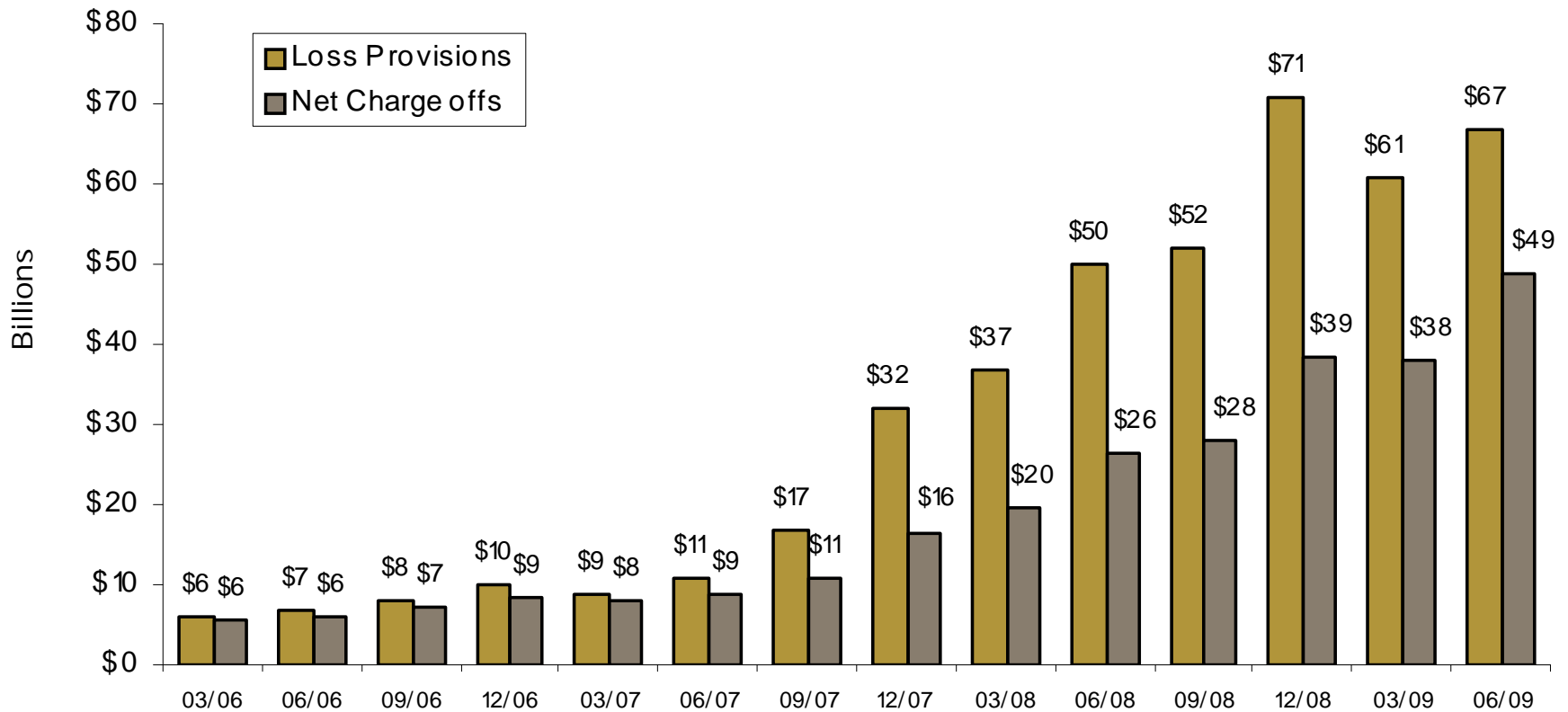
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# Appendix A

# Charge Offs and Provisions

During the second quarter of 2009, charge offs and provisions have resumed growth.

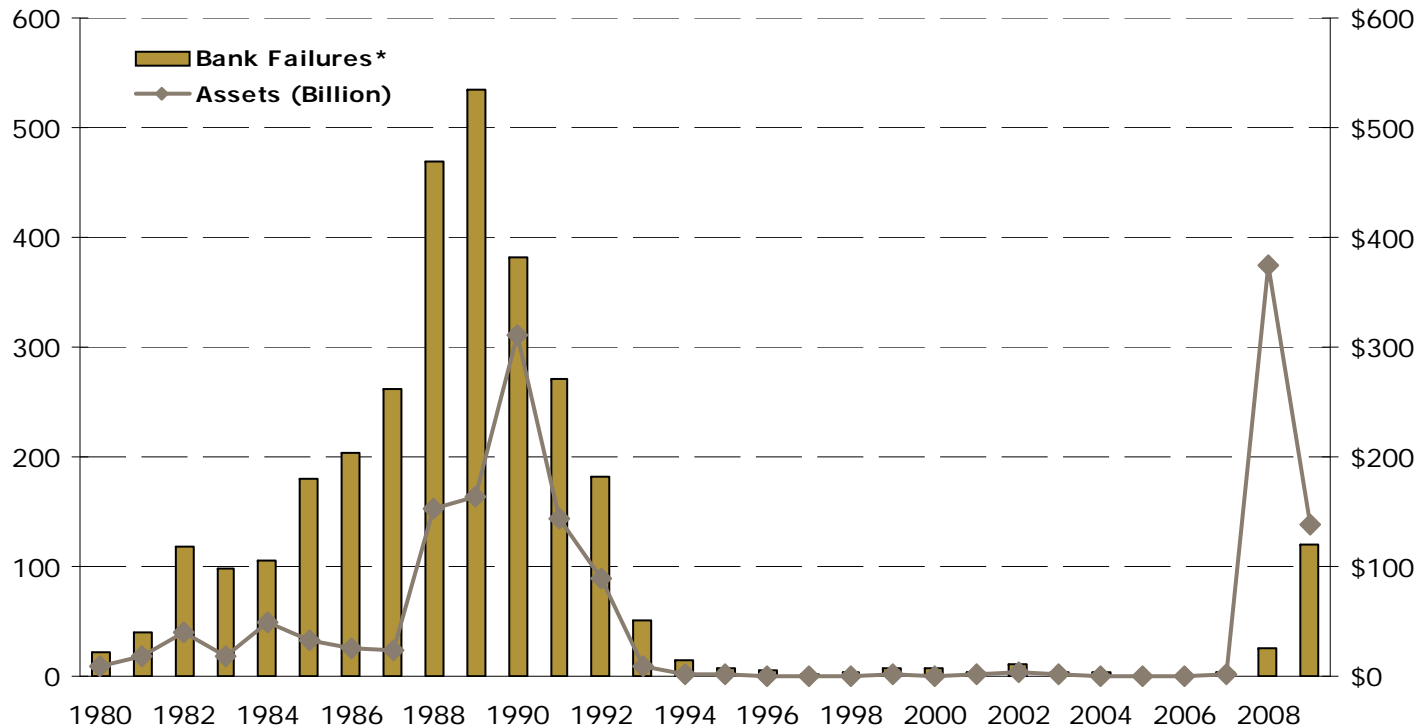
Quarterly Net Charge-Offs vs. Loan Loss Provisions  
2006 - 2009



Source: FDIC

# Bank Failures

## History of Bank & Thrift Failures



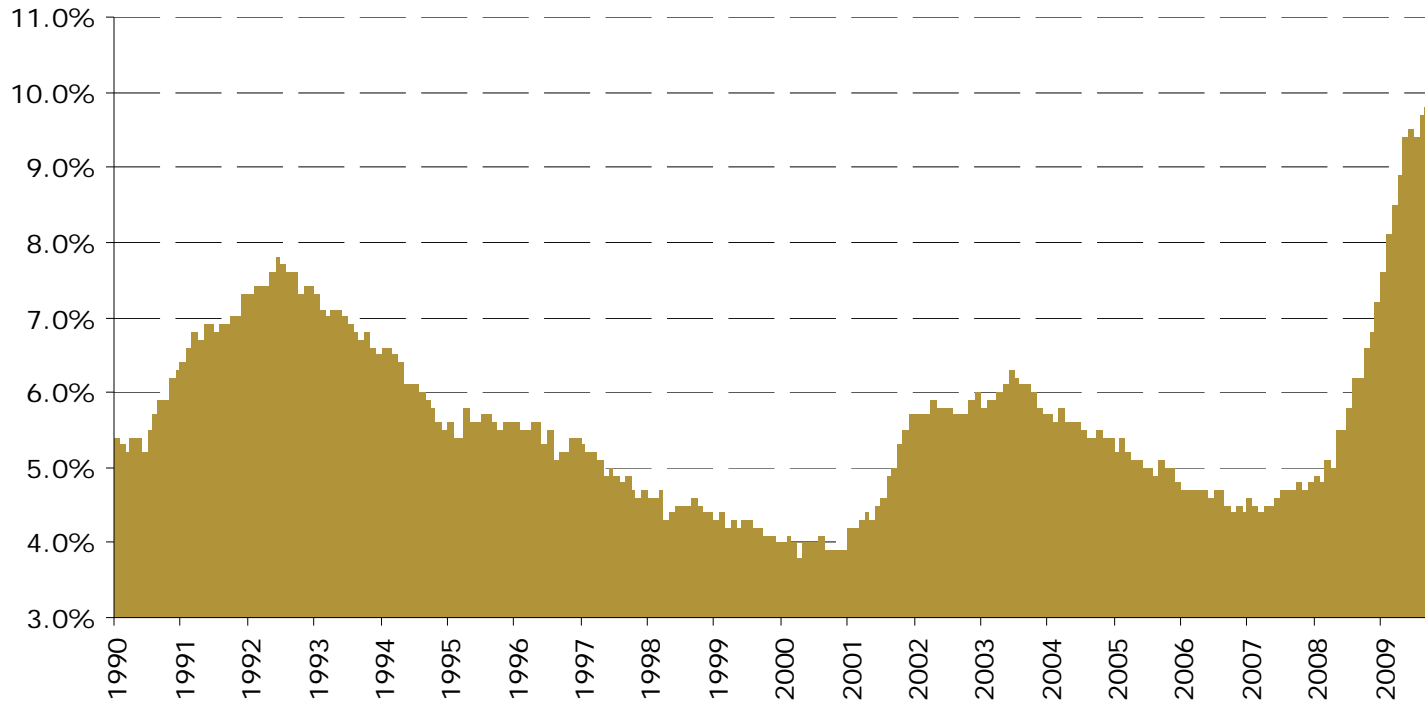
\*Includes public & private transactions

- 120 banks have failed thus far in 2009. Failed company assets in 2008 exceeded the peak year during the S&L crisis 20 years ago.
- There are currently over 400 banks on the FDIC's watch list of troubled banks, compared to 1,485 in 1990.

Source: FDIC

# Unemployment

## National Unemployment Rate

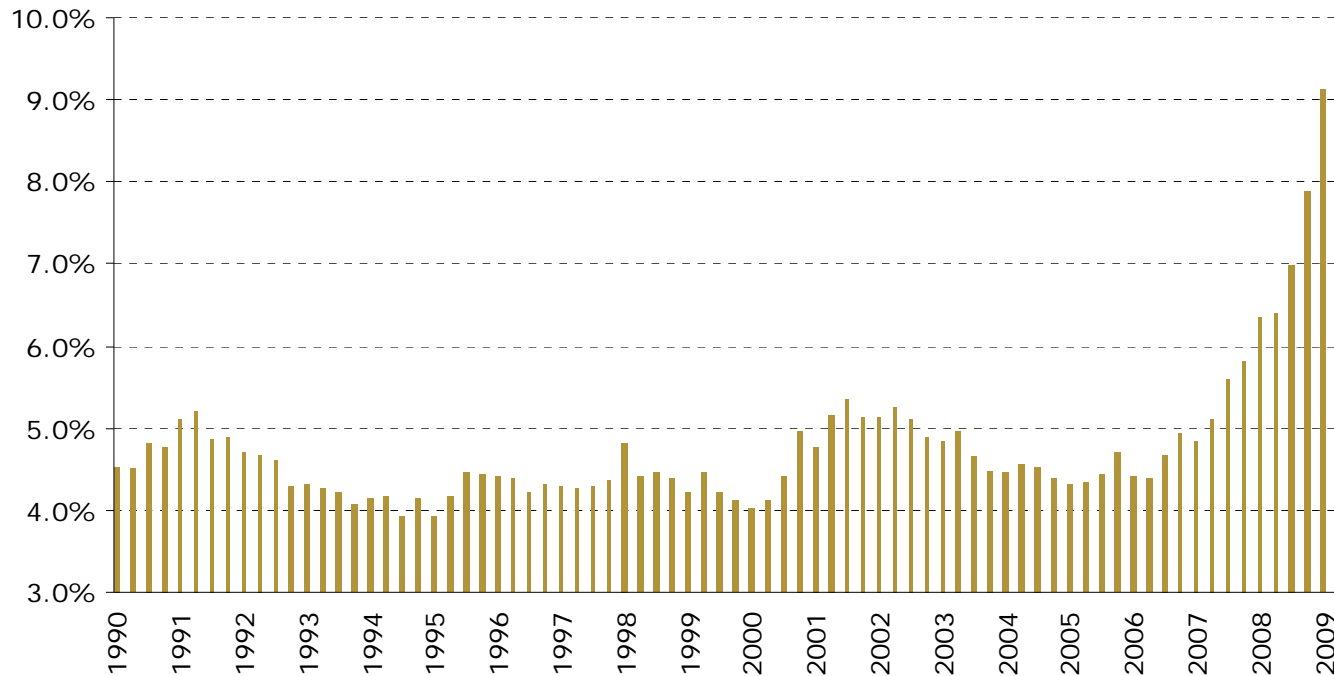


- The latest unemployment data indicates that 10.2% of the national labor force is currently unemployed, surpassing the June 1992 high of 7.8%.

Source: Bureau of Labor Statistics

# 1-4 Family Home Delinquencies

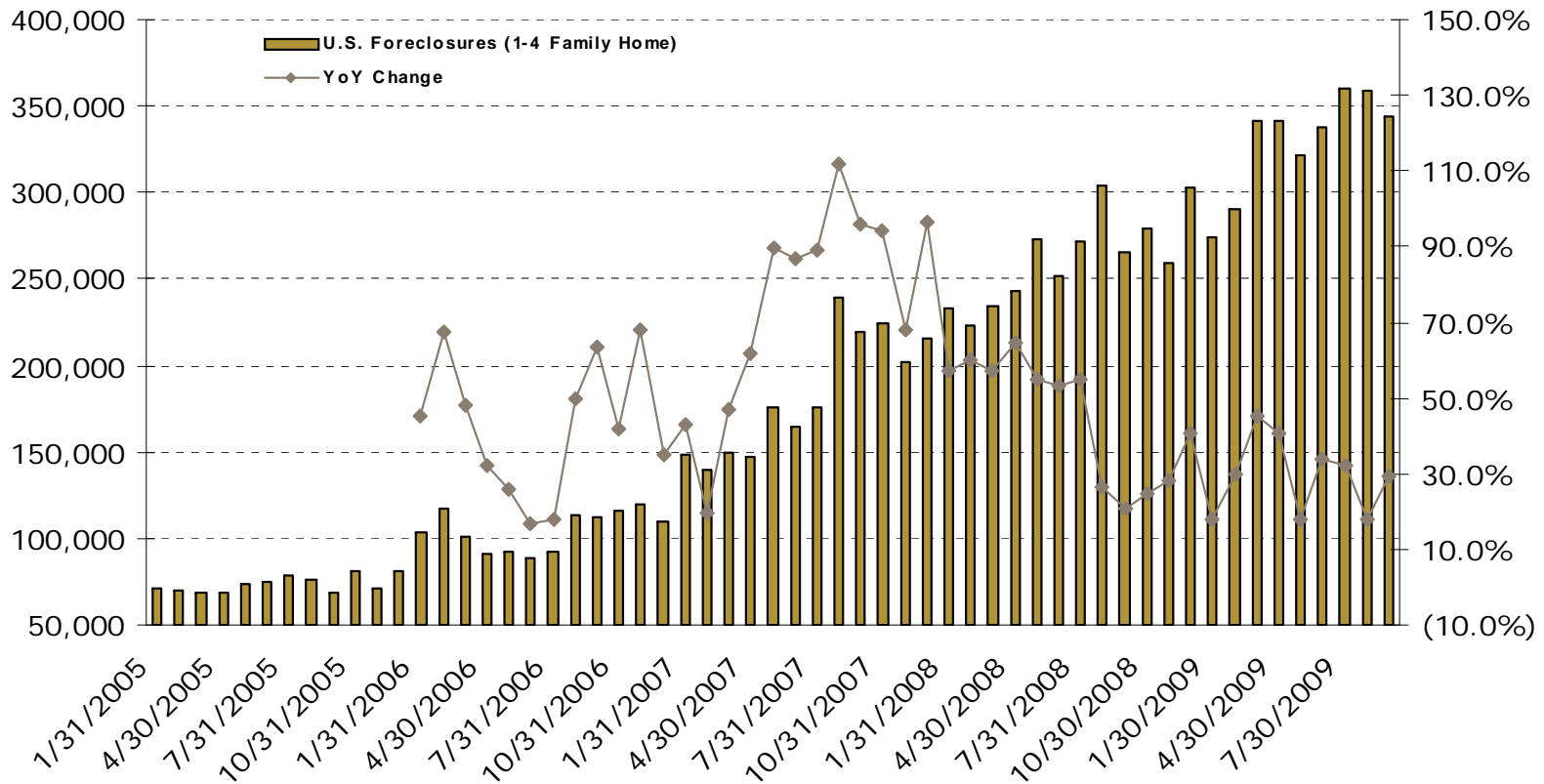
1-4 Family Home Delinquencies as a Percent of Total 1-4 Family Home Loans



- Delinquent mortgages have rising since 1Q07.
- The percentage of delinquencies of total 1-4 family home loans rose to 9.24% in June 2009 - the highest percentage since 1990.

Source: Mortgage Bankers Association

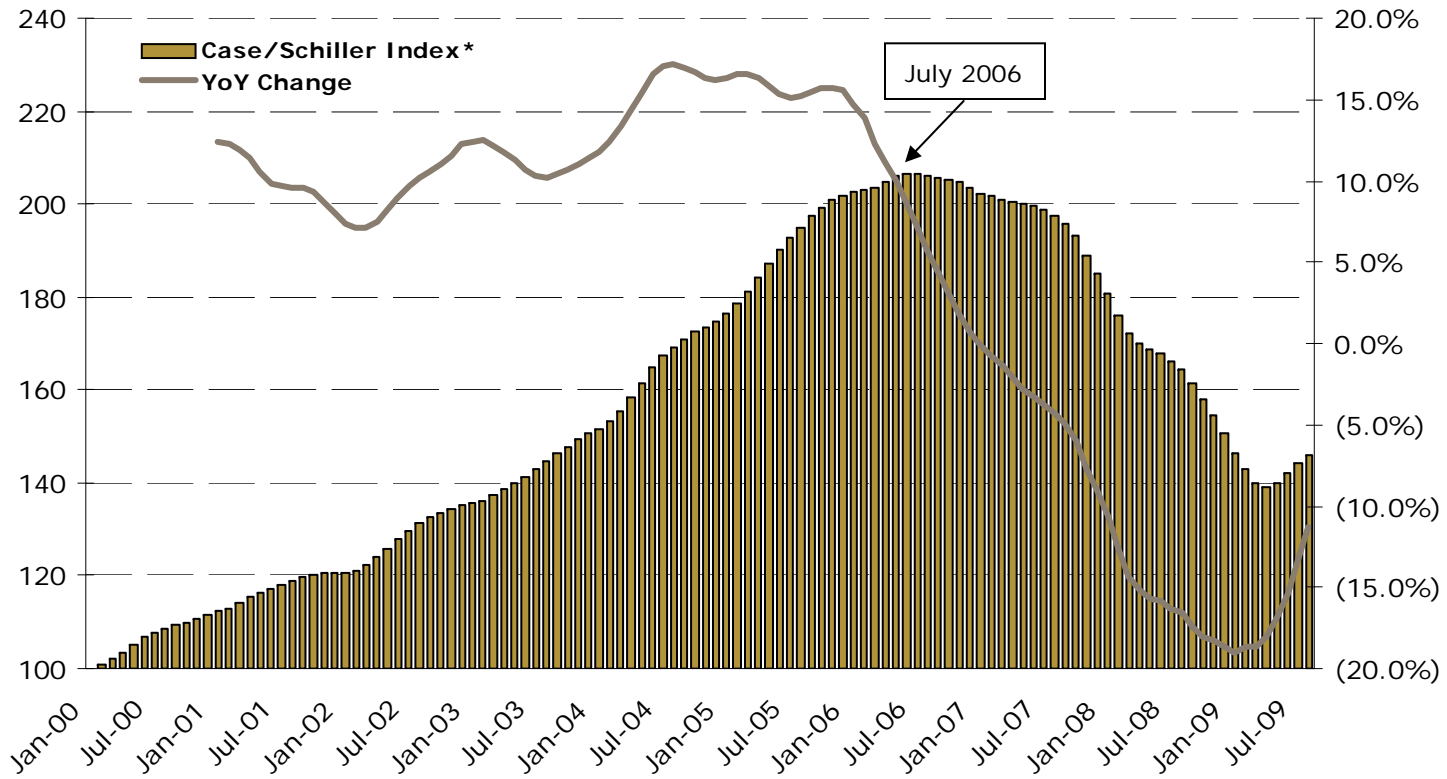
# 1-4 Family Foreclosures



- The latest information from RealtyTrac shows that more than 343,000 households received a foreclosure filing in September 2009
- This number includes notices of default, auction sales and bank repossessions

Source: RealtyTrac

# Case/Schiller Index

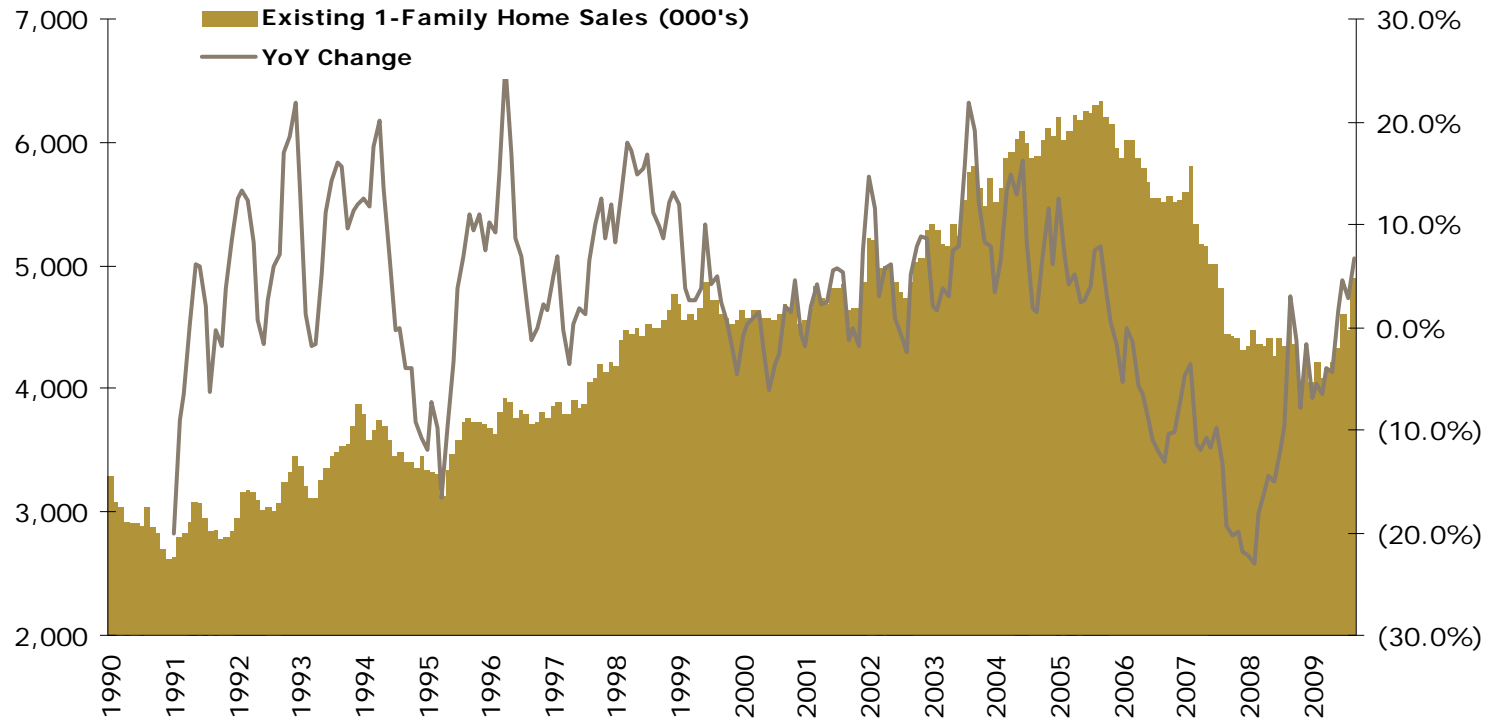


\* Indexed at 100, January 2000

- After falling for 34 consecutive months the Case/Shiller 20 City Index bottomed in April of 2009.

Source: Bloomberg

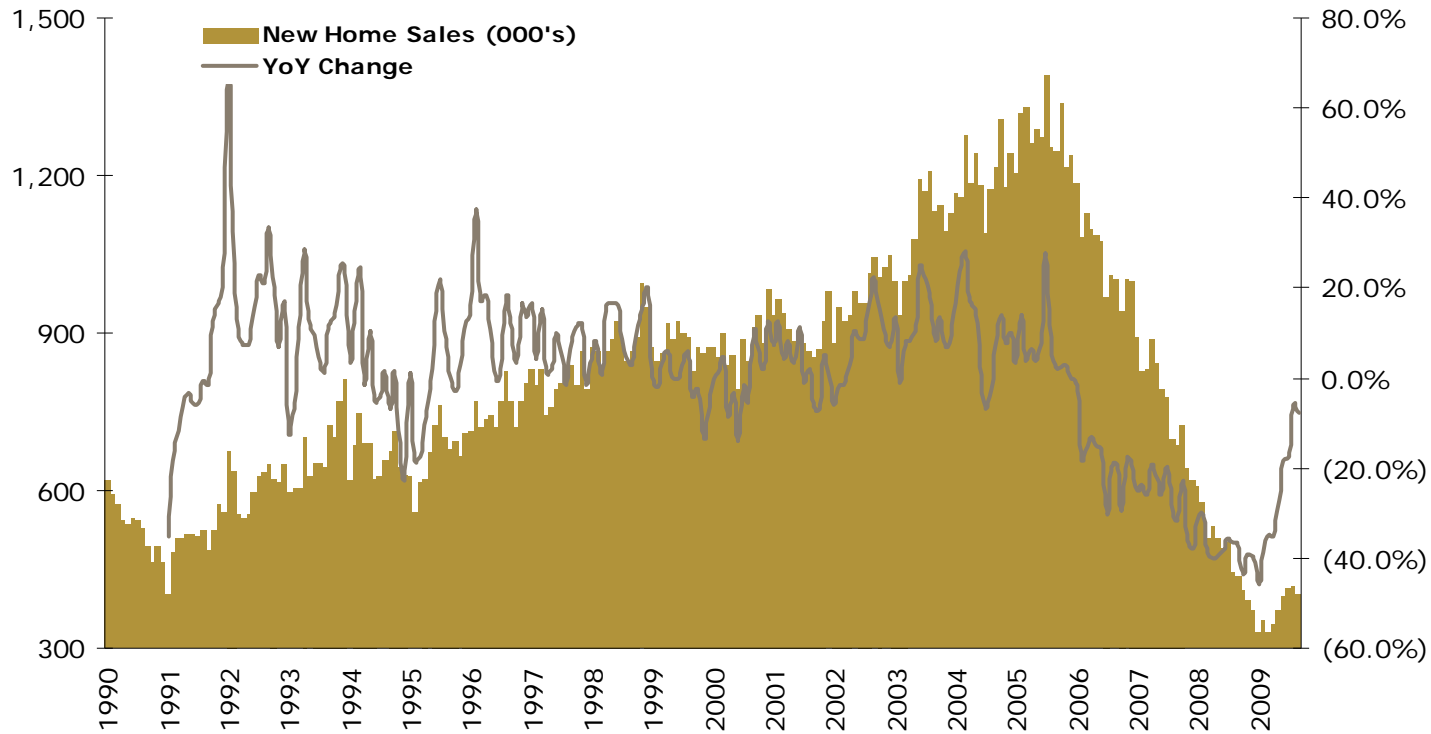
# 1-4 Family Existing Home Sales



- Existing home sales increased in January 2009 for the first time in months.
- The September 2009 figure of 4.8 million, however, is currently equal to the September 2002 level.

Source: Bloomberg

# 1-4 Family New Home Sales



- New home sales rose in February 2009 for the first time in months.
- The September 2009 figure of 402,000, however, is currently equal to the January 1991 level.

Source: U.S. Census Bureau