

The Capital Dilemma: Resources and Alternatives

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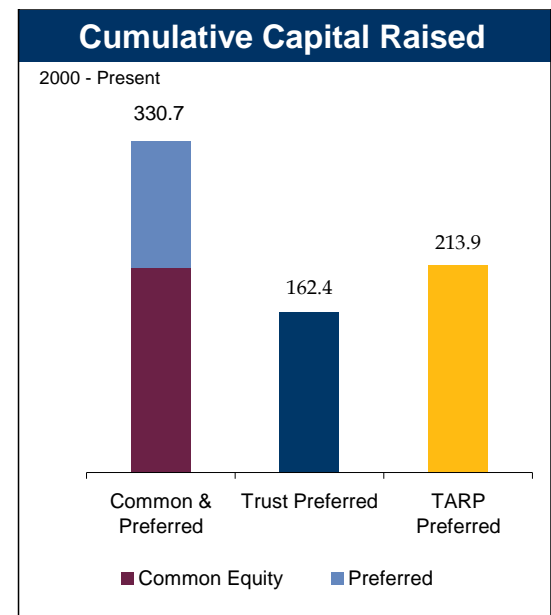
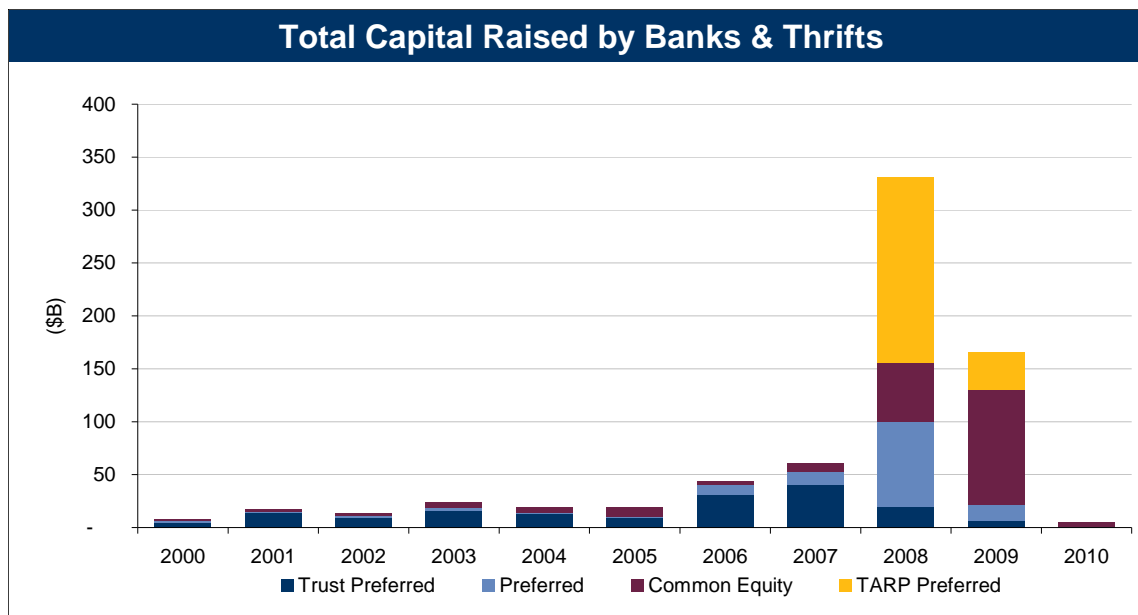
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I. Capital Markets Environment

Capital Raising Activity

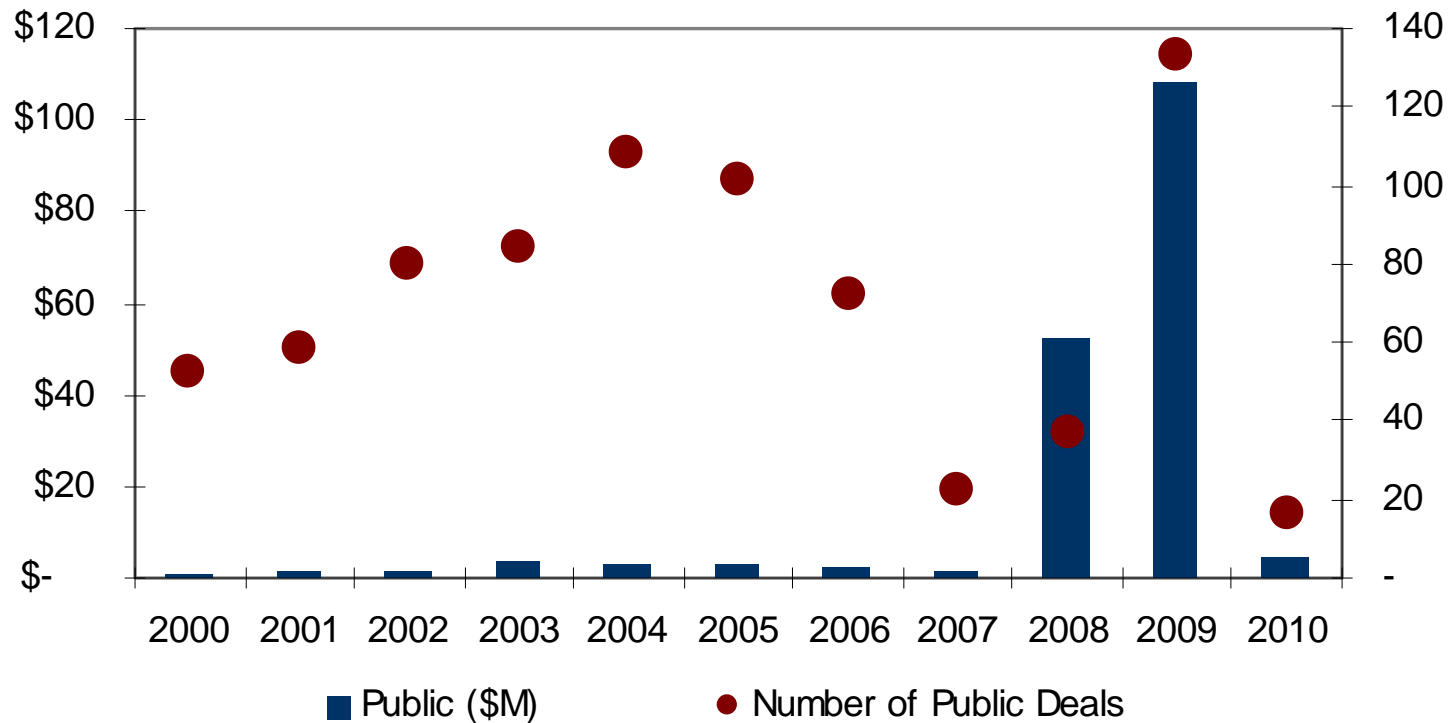
- The amount of TARP preferred issued by banks nearly equals the cumulative amount of Tier 1 capital raised since 2000.
- A flurry of recent capital raising, led by the strongest of the large banks, demonstrates a growing risk tolerance.



Source: SNL Financial.

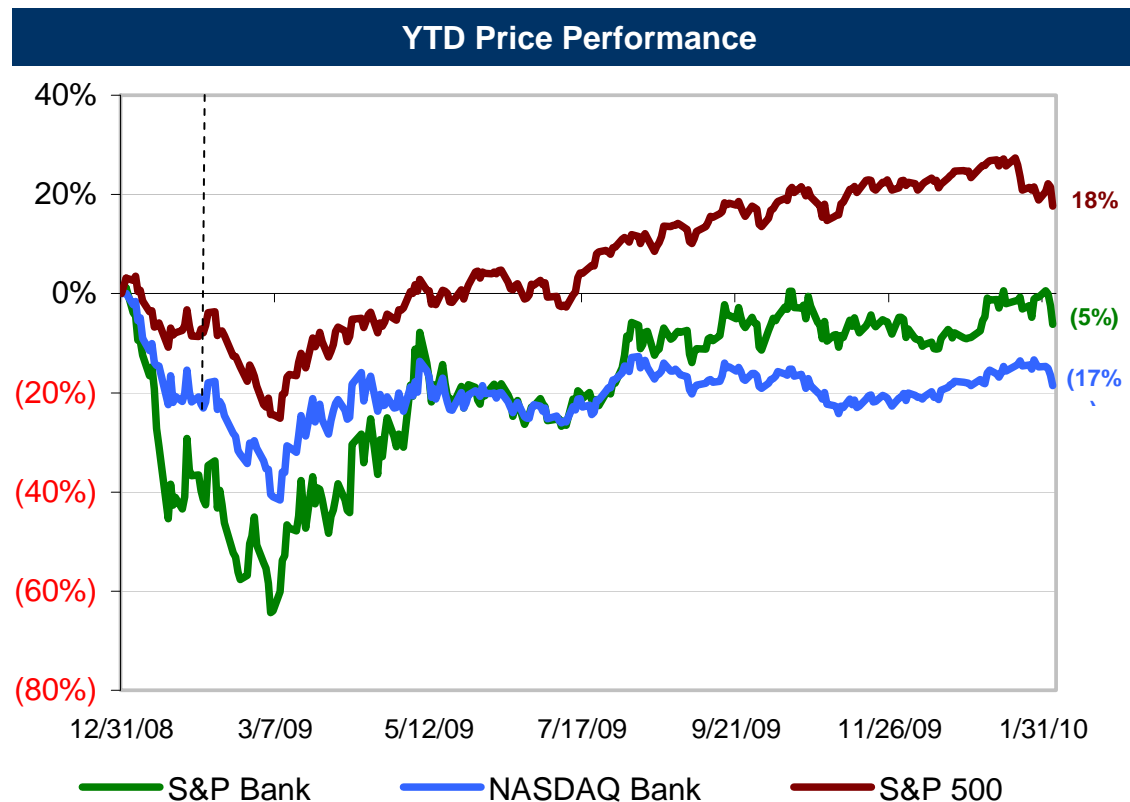
Bank and Thrift Common Offerings

Bank & Thrift Public Common Stock Offerings



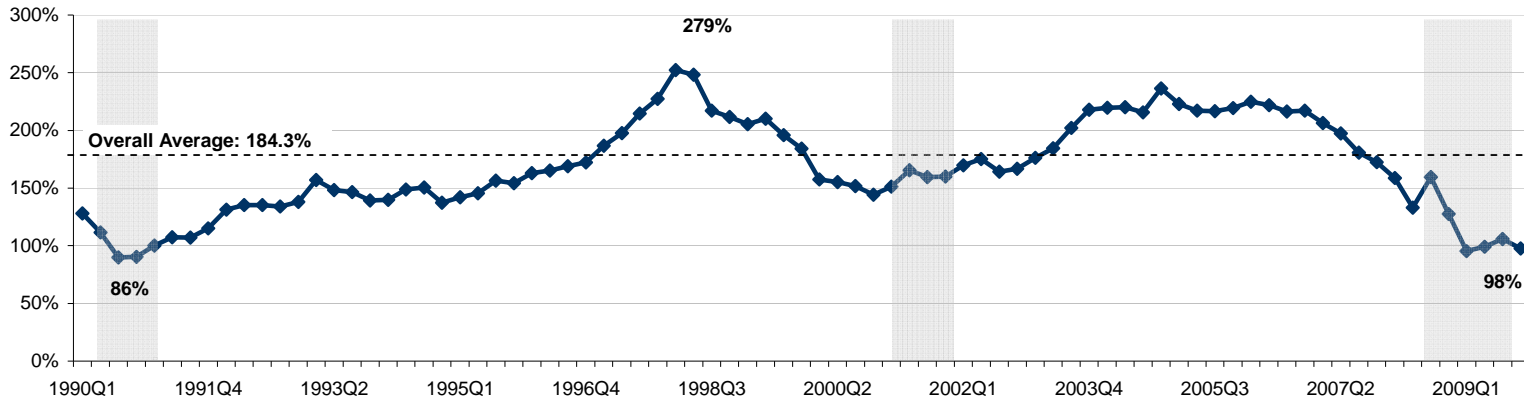
Equity Market Conditions

- While well below highs, markets have rebounded considerably from Mar. 9, 2009 lows:
- S&P Bank Index is up 138%
- NASDAQ Bank Index is up 41%
- S&P 500 is up 58%



Valuation Levels Reaching Historical Lows

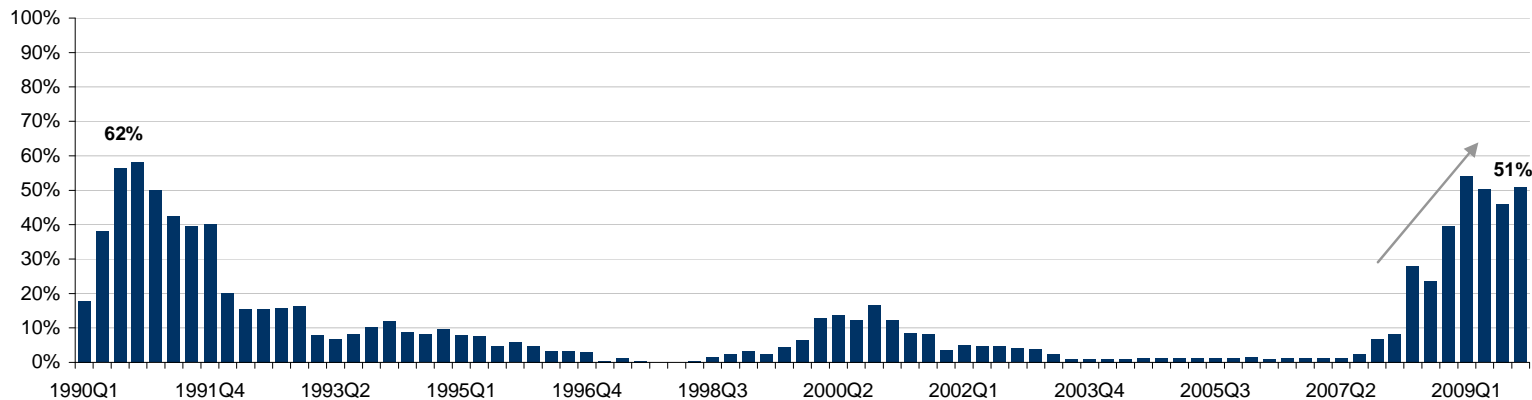
Median Price to Tangible Book Value Multiples



Shading in the above chart references periods of economic recession.

Valuations have re-trenched to levels not seen since the early 90's and are significantly below the near 20-year average.

Percentage of Institutions Trading Below Tangible Book Value

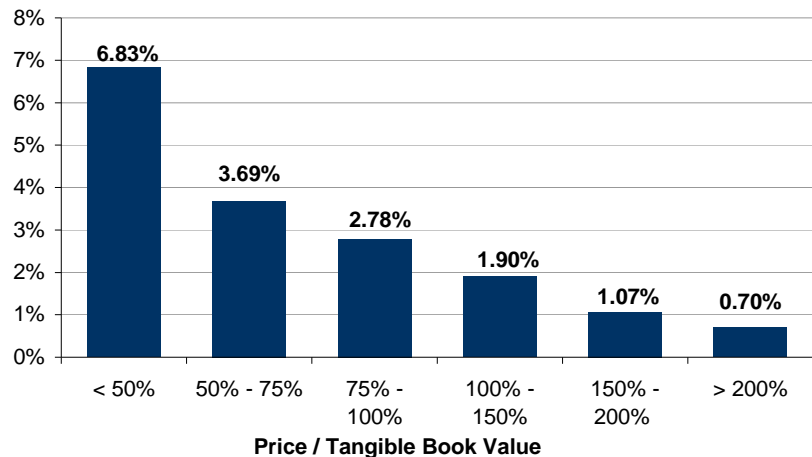


Source: SNL as of 2/5/10. Includes institutions with assets greater than \$1 billion.

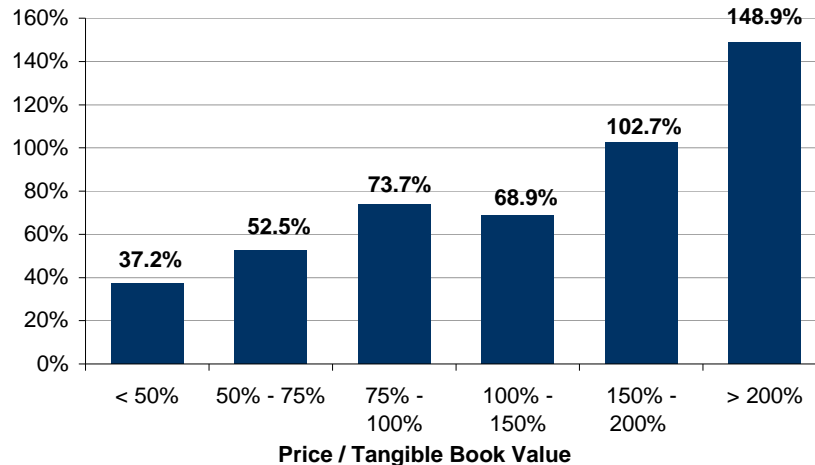
There are currently 135 institutions with assets greater than \$1 billion trading below tangible book value.

Valuation Focus on the Balance Sheet

Median NPAs / Assets

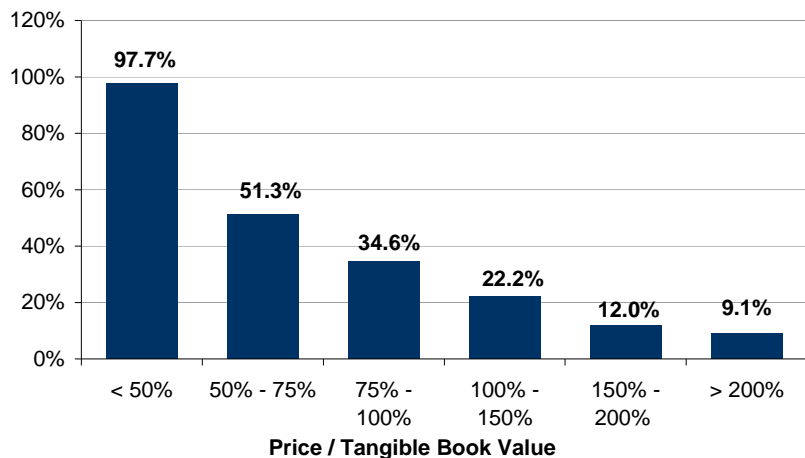


Median Reserves / NPLs

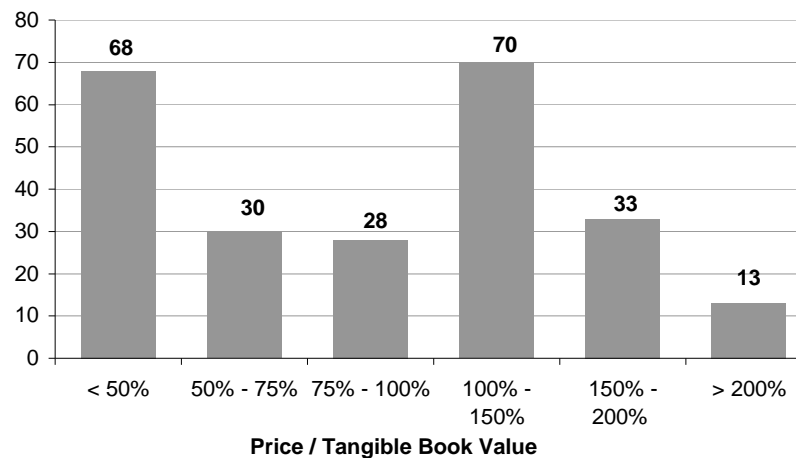


Investors have turned towards price to tangible book value as the primary valuation metric with a focus on balance sheet strength.

Median Texas Ratio*

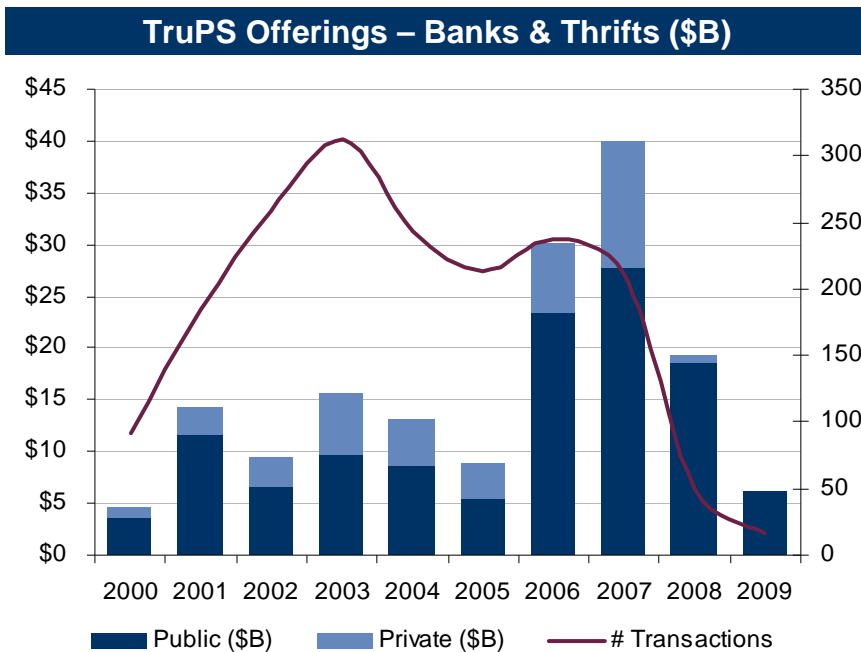


Number of Companies



Source: SNL Financial. Includes institutions with assets greater than \$1 billion.
*Defined as NPAs + 90PD / tangible common equity + reserves

Trust Preferred Market Environment



- Limited access to the public markets, except for banks with investment grade ratings, a strong equity base, solid asset quality, clarity around TARP participation and redemption and acceptable levels of leverage.
- Investors' focus is still on minimum tangible common equity levels with appropriate amounts of leverage.
- Other initiatives are ongoing to create more options but practically this is unavailable to the vast majority of the banking industry.

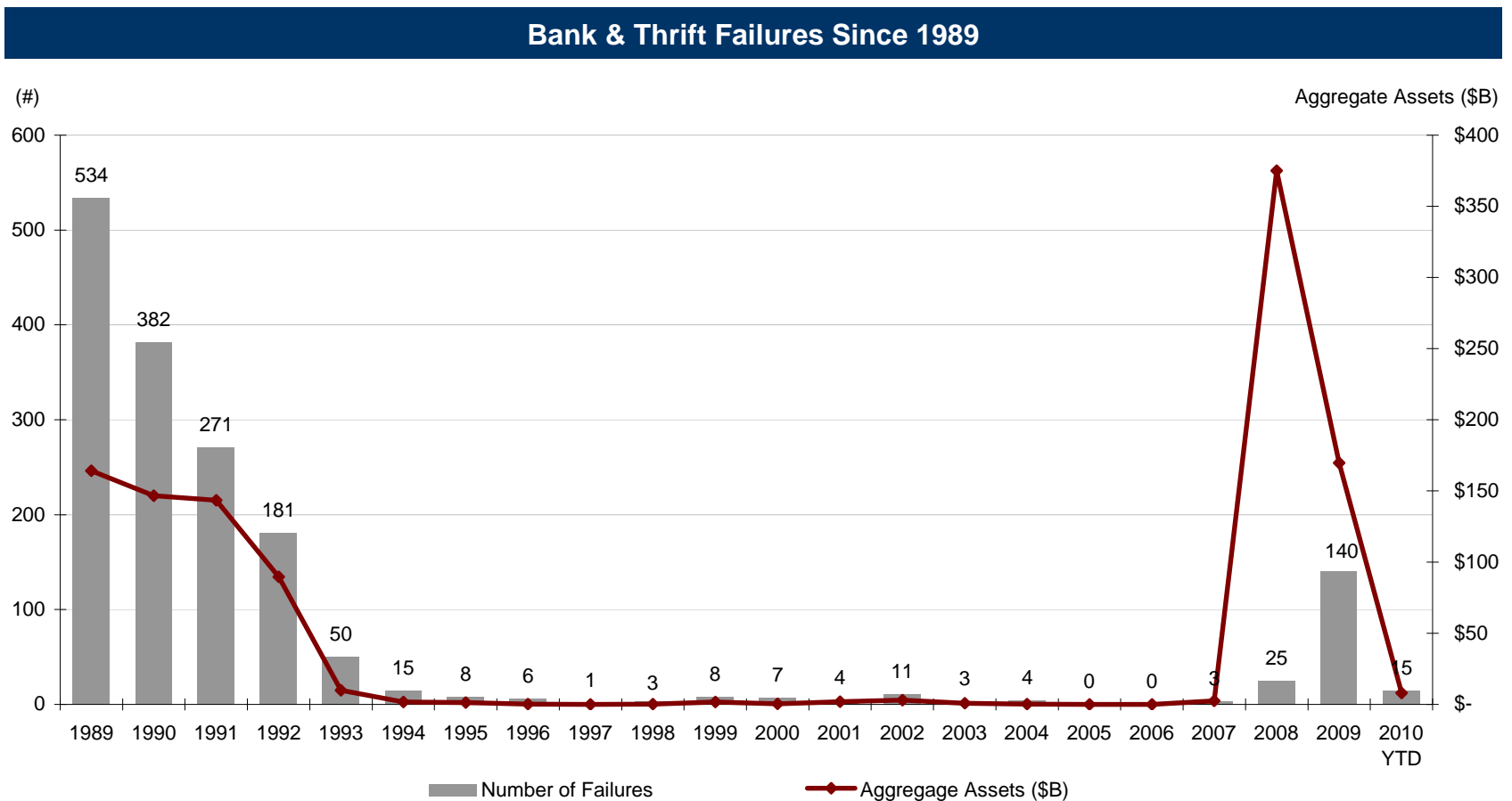
Demutualization Activity

- Mutual-to-stock conversion activity slowed in 2008 & 2009 due to market conditions.
- Over the past few months, more companies have started to announce and file transactions. There are currently 5 Standard Conversions and 2 Second Step transaction with filed applications.

Number of Conversions That Have Closed in Each Year					
	MHC	2nd Step	STD	Totals	Proceeds Raised
2002	4	3	6	13	\$885.0M
2003	2	6	6	14	\$1.9B
2004	17	5	3	25	\$2.1B
2005	17	5	5	27	\$5.8B
2006	12	4	3	19	\$718.5M
2007	11	7	8	26	\$6.3B
2008	5	1	4	10	\$535.9M
2009	1	2	3	6	\$870.3.M
2010	0	0	4	4	\$196.4M

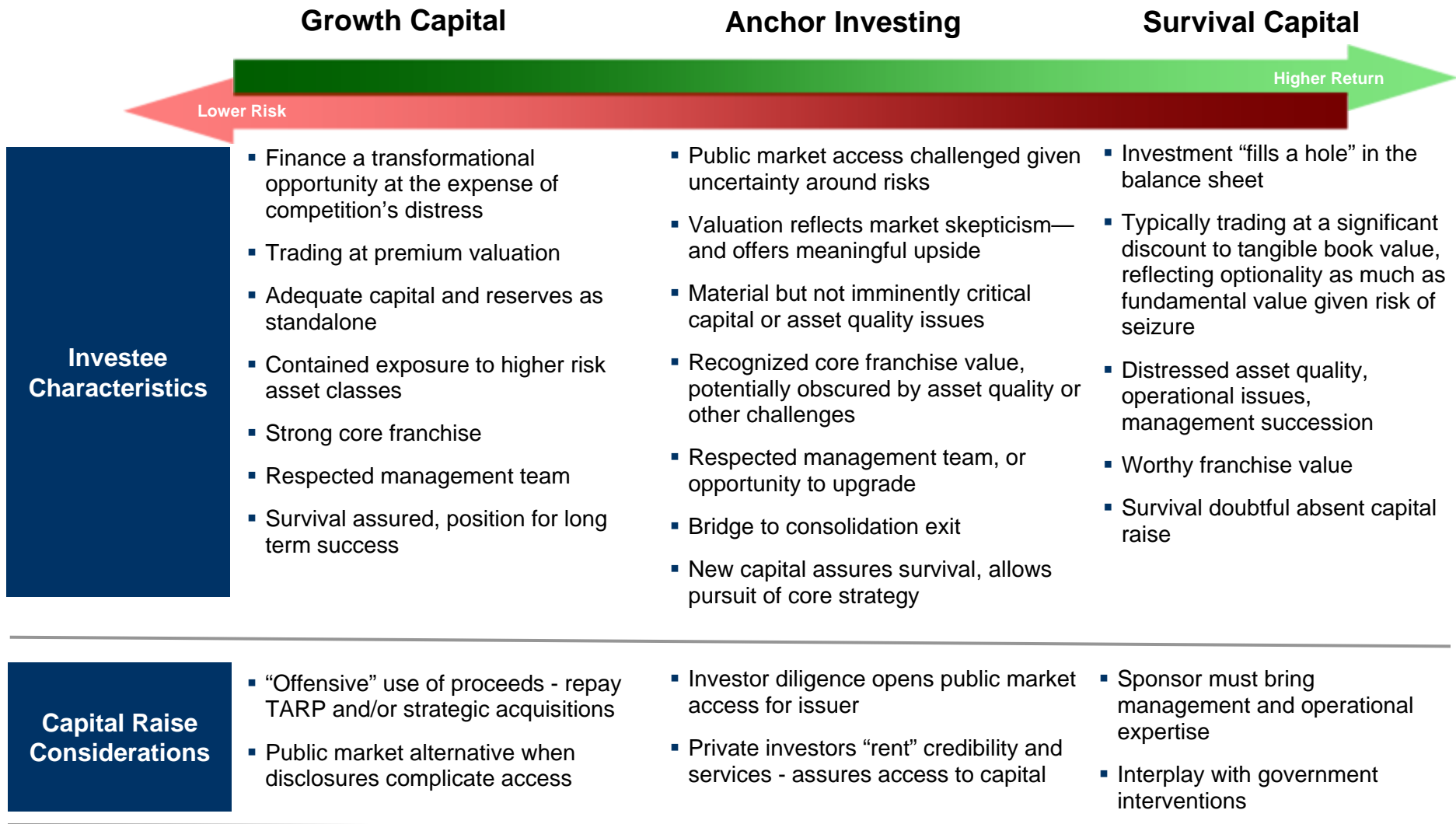
Historical Bank and Thrift Failures

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



II. Private Equity in Financial Institutions

Opportunity in Depository Sector



Passive PE Non-Control Investments

PARTIES	REGULATOR	INVESTMENT	CONTROL REBUTTAL	CONCERTED REBUTTAL	OTHER
Bear Stearns Merchant Bank , 11 PE Firms and Doral Financial*	FRB	Each PE firm holds up to 9.9% of Voting Common	Yes	Yes	Bondholders paid out; hold 5 of 11 Board seats at BHC
Citadel Investment Group and E*TRADE Financial Group*	OTS	< 24.9% of Voting Common; \$1.65Bn Debt; \$3.1Bn ABS	Yes	No	Permitted 1 Board seat
TPG Investors VI, LP, Olympic Investment Partners and WAMU	OTS	< 24.9% of Voting Common	Yes	Yes	Permitted 1 Board seat and 1 nonvoting Board observer
Corsair NC, LP and National City Corp.*	FRB	Mandatorily Conv. Preferred and Warrants for 9.8% of Voting Common	Yes	Yes	Permitted 1 Board seat

* Fried Frank represented parties in this transaction.

Passive PE Non-Control Investments

PARTIES	REGULATOR	INVESTMENT	CONTROL REBUTTAL	CONCERTED REBUTTAL	OTHER
J.C. Flowers & Co., LLC and HSH Nordbank, AG	FRB	26.58% of Voting Common through 5 advised trusts	Yes	Yes	Subject to US jurisdiction because of branch in NYC
Icahn Partners LP and Guaranty Financial Group, Inc.	OTS	< 24.9% of Voting Common	Yes	Yes	
Carlyle Group and Boston Private Financial Holdings, Inc.	FRB	Series A and B Cont. Conv. Pref. & Warrants for up to 24.9% of Voting Common	Yes	Yes	Permitted 1 Board seat
Warburg Pincus and Webster Financial Corporation	FRB	15.2% of Voting Common and Warrants for Series C and D Conv. Pref. up to 24.9% of Voting	Yes	No	Permitted 1 Board seat and 1 nonvoting Board observer; conversion blockers and transfer restrictions

* Fried Frank represented parties in this transaction.

Passive PE Non-Control Investments

PARTIES	REGULATOR	INVESTMENT	CONTROL REBUTTAL	CONCERTED REBUTTAL	OTHER
Patriot Financial Partners and Capital Bank Corporation	FRB	9.9% of Voting Common simultaneously with public offering	No	No	Permitted 1 Board seat
Patriot Financial Partners, Relational Investors, Castle Creek Capital Partners and Guaranty Bancorp	FRB	Conv. Voting Pref. Stock for up to 19.9% (14.9% for Relational) of Voting Common	Yes (Patriot and Relational only)	Yes	Permitted 1 Board seat; conversion blockers; (Patriot and Relationship)
Castle Creek Capital Partners, MFP Partners, GF Financial and West Coast Bancorp	FRB	Series A and B Mand. Conv. Pref. Stock and Warrants for Series B for up to 9.9% of Voting Common by any investor	Yes	Yes	2 investors permitted 1 Board Seat; 2 investors permitted 1 nonvoting Board observer; conversion blockers; Series B and Warrants must be transferred to exercise

Passive Failed Bank Non-Control Investments

PARTIES	REGULATOR	INVESTMENT	CONTROL REBUTTAL	CONCERTED REBUTTAL	OTHER
IndyMac Bank and IMB Holdings, Paulson & Co., J.C. Flowers & Co., MDS Capital, Stone Point, SSP & SILAR *	FDIC & OTS	100% of IndyMac	Yes	No	Investors get Board seats
BankUnited and WL Ross & Co., Carlyle Investment, Blackstone Capital, Centerbridge Capital, LeFrak Organization, Wellcome Trust, East Rock Endowment and Greenaap Investments	FDIC & OTS	100% of BankUnited, FSB	Yes	No	Loss-sharing arrangement includes mark-to-market losses on MBS and other securities; FDIC granted warrant exercisable in event of successful IPO or sale within 10 years

* Fried Frank represented parties in this transaction.

Blind Pool and Similar Non-Control Investments

PARTIES	REGULATOR	INVESTMENT	CONTROL REBUTTAL	CONCERTED REBUTTAL	OTHER
State Bank & Trust Company and subsidiaries of Security Bank Corporation	FDIC, Georgia	100%	No	No	State Bank recapitalized by private placement among over 30 investors; new management provided by experienced banker team
Bond Holdings, LLC and Premier American Bank*	FDIC, OCC, FRB	100%	No	No	Over 65 investors; no PE investor over 4.9%; shelf charter issued to acquire failed bank
Community & Southern Holdings, Inc. and First National Bank of Georgia*	FDIC, Georgia, FRB	100%	No	No	New charter issued to acquire failed bank; no PE investor over 4.9%

* Fried Frank represented parties in this transaction.

Control Transactions

PARTIES	REGULATOR	INVESTMENT	CONTROL REBUTTAL	CONCERTED REBUTTAL	OTHER
Blackstone Group and Alliance Data Systems	OCC	100%	No	No	OCC required \$400 MM CALMA from Blackstone and deal collapsed
GWY and Western Capital Bank*	FRB	100%	No	No	Establishment of BHC
Crescent Capital and Cowlitz Bancorp*	FRB	30%	No	No	Unsolicited offer for control and proxy contest
Hellman & Friedman, TPG, and Private Trust Bank	OCC	100%	No	No	\$10 MM CALMA required by OCC
Cap/Gen and PacWest Bancorp	FRB, Washington	12%	No	No	CapGen will register as a BHC; Castle Creek also a large shareholder

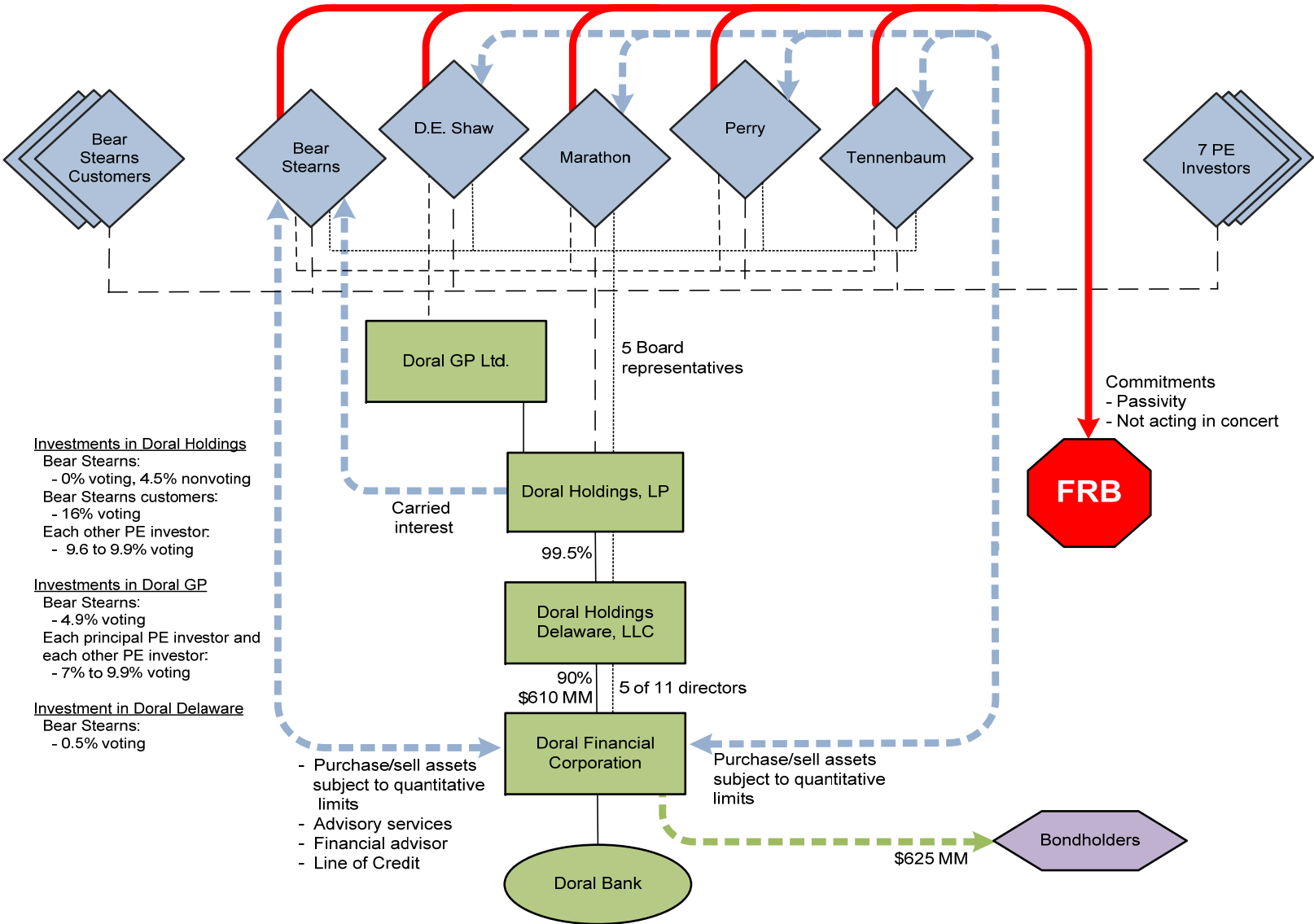
* Fried Frank represented parties in this transaction.

Silo Transactions & Inflatable Charters

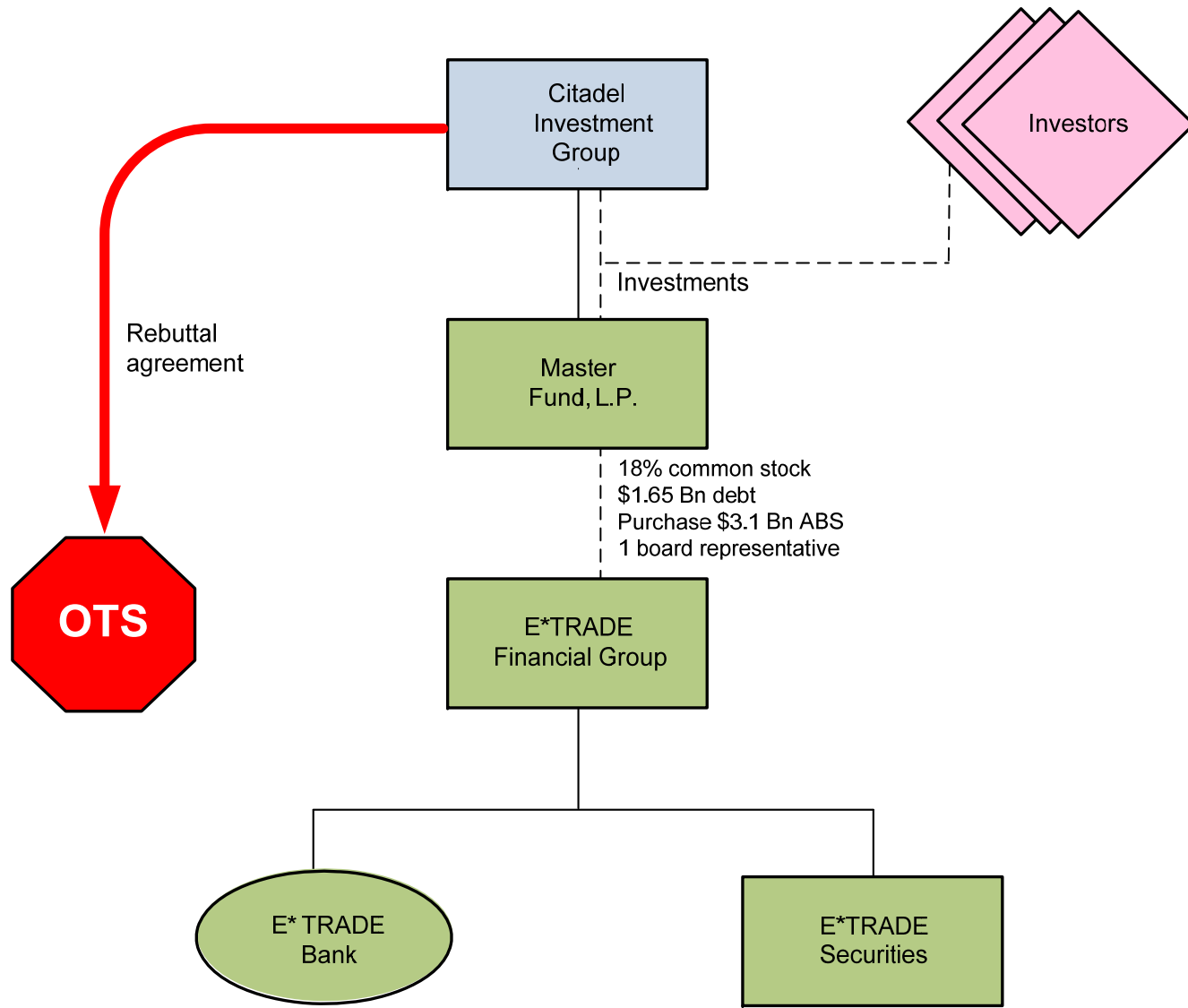
PARTIES	REGULATOR	INVESTMENT	CONTROL REBUTTAL	CONCERTED REBUTTAL	OTHER
Paul Levy of JLL Partners FC Holdings, Inc.	FRB	100%	No	No	Formed a BHC with LPs under Paul Levy to wall off other funds from BHC limitations
David Matlin and Mark Patterson of MatlinPatterson Global Advisers LLC and Flagstar Bancorp, Inc.	OTS	70% of SLHC of Flagstar Bank, FSB, Troy, Michigan	No	No	Treasury also provided \$266.7 million under CPP
J.C. Flowers and First National Bank of Cainesville	OCC	100%	No	No	Flowers acquired bank as an individual; required to enter into a regulatory agreement re operation

* Fried Frank represented parties in this transaction.

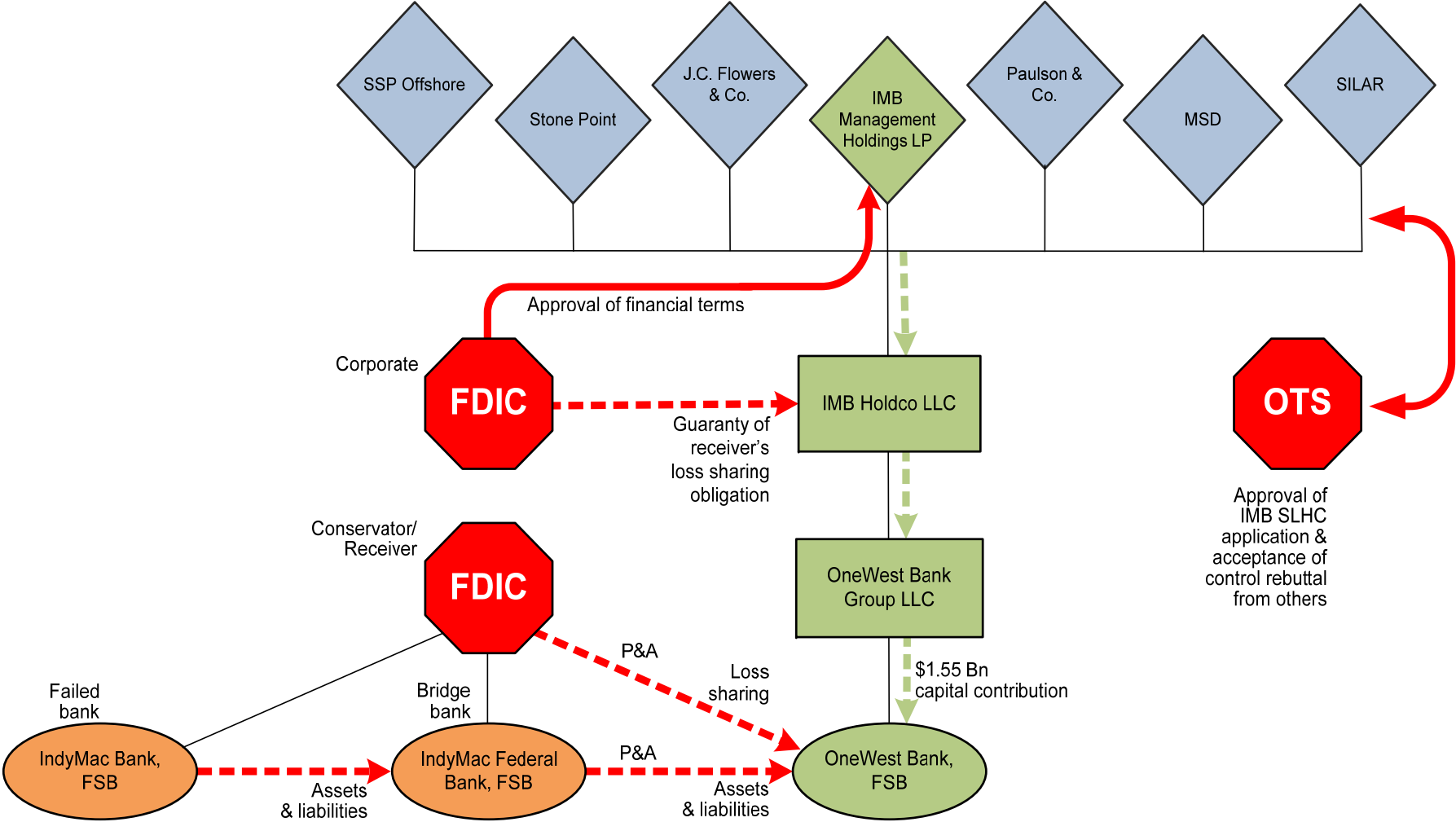
Doral Financial Corp. Reorganization (7.18.07)



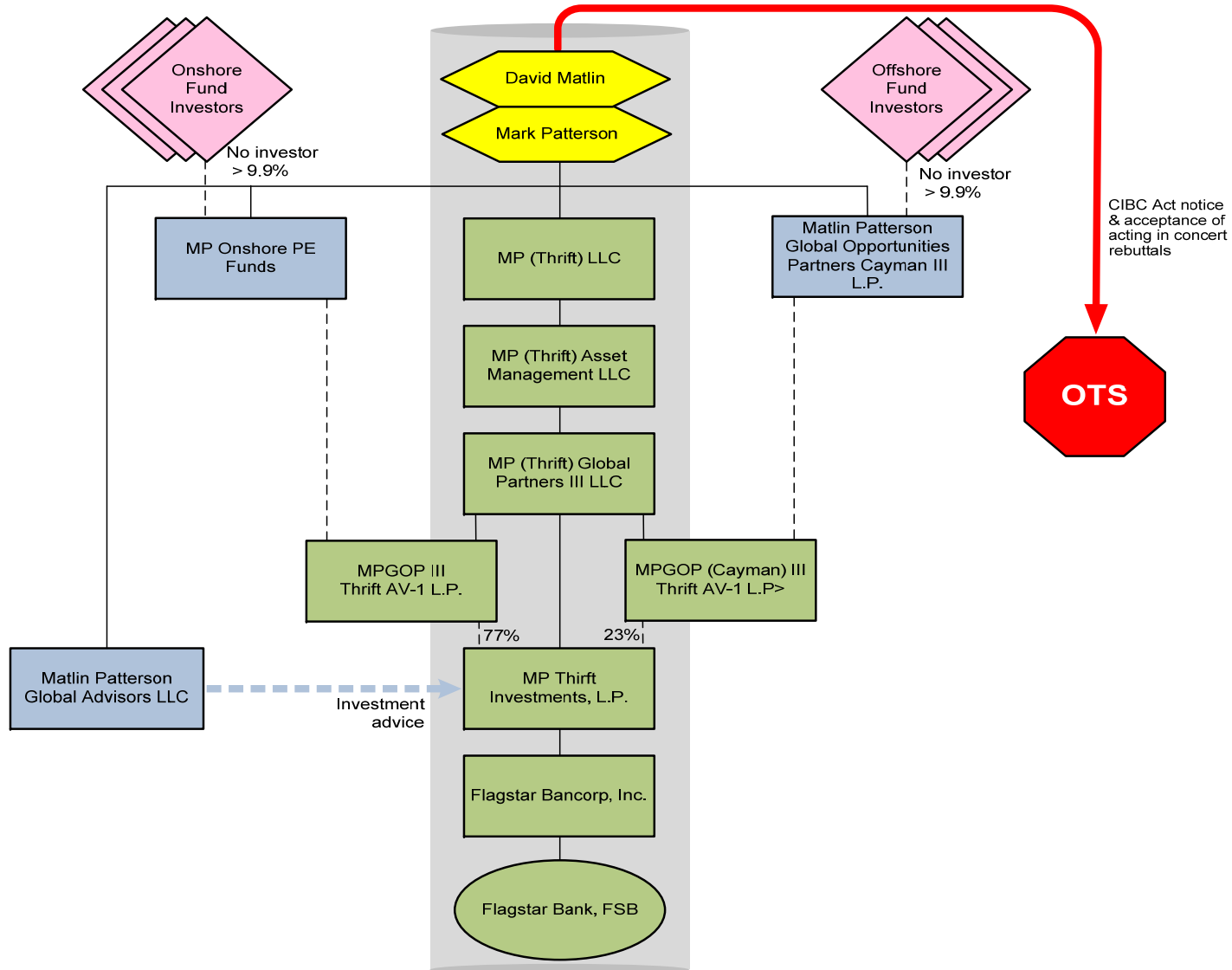
Citadel/E*TRADE Reorganization



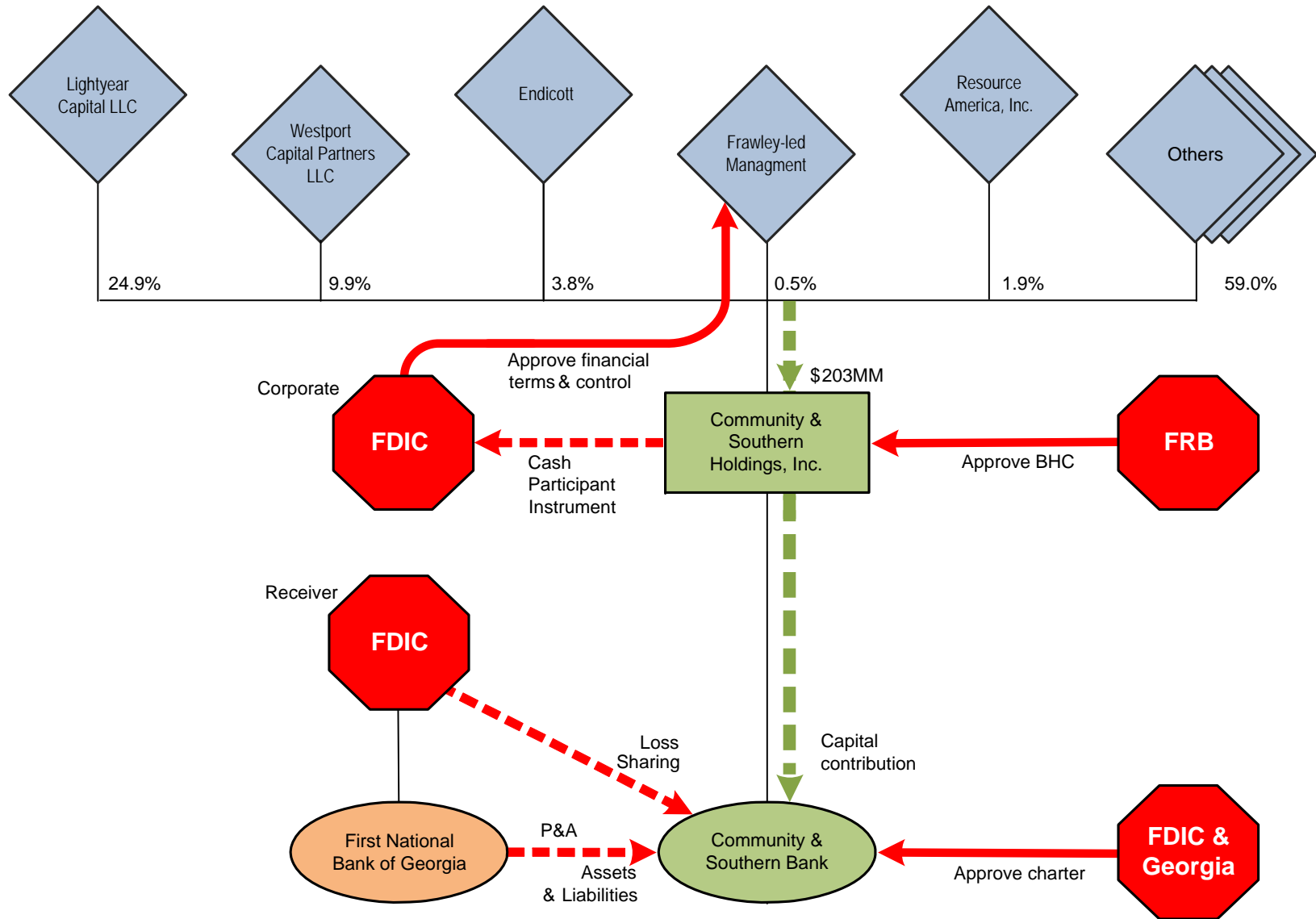
IndyMac Bridge Bank Transaction (3.19.09)



Flagstar "Silo" Transaction



Community & Southern Blind Pool (1.29.10)



Payments Flow Under Loss-Sharing Arrangements

Year	P&A Agreement
Closing	■ <u>Payment to bank</u> if First Loss Tranche (FLT) is negative
1	– Assets purchased at failed bank's book value, adjusted for specific Charge-Offs (CO) but w/o reserves
2	– Assets purchased – liabilities assumed = Equity Adjustment (EA)
3	– Deposit premium + asset discount + EA = FLT
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Payments Flow Under Loss-Sharing Arrangements

Year	Single Family Shared-Loss Agreement
Closing	<p><u>Monthly payment to bank</u> for 10 yrs for Loss Sharing (LS) on Covered Assets (CA)</p> <ul style="list-style-type: none"> -- Coverage of losses to unpaid loan balance + interest \leq 90 days + reimbursable expenses (RE) -- If FLT > \$0, bank covers 100%
1	<ul style="list-style-type: none"> -- 2nd tranche up to Stated Threshold (ST), bank covers 20% and FDIC covers 80%
2	<ul style="list-style-type: none"> -- 3rd tranche above ST, bank covers 5% and FDIC 95%
3	<ul style="list-style-type: none"> -- ST negotiated based on estimated catastrophic losses
4	<p>Net of <u>payment to FDIC</u> of collections on CA if FDIC previously made LS payment for foreclosure loss or restructuring loss on that asset, up to amount of its LS payments on that asset</p>
5	<ul style="list-style-type: none"> -- FDIC also shares restructuring incentives -- % based on tranche
6	
7	
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10	<p><u>Payment to FDIC</u> if cumulative LS payments are < 80% of ST</p> <ul style="list-style-type: none"> -- FDIC receives 50% of shortfall

Payments Flow Under Loss-Sharing Arrangements

Year	Commercial Shared- Loss Agreement
Closing	<p><u>Quarterly payment to bank</u> for 5 yrs for LS on CA</p>
1	<ul style="list-style-type: none"> - CO + RE + loss or gain on sale of MBS + OTTI adjustments on MBS - % based on tranche
2	<p><u>Net of payment to FDIC of Recoveries (REC)</u> = collections on CA that remain after reducing book value of loan or ORE + (gain on sale of loan or ORE > losses & expenses on that asset) + RE + other expenses recovered from 3rd parties (OX)</p>
3	<ul style="list-style-type: none"> - % based on tranche
4	
5	<p><u>Quarterly profit-sharing (PS) payment to FDIC</u> for 8 yrs = REC - (OX + gain on sale of MBS + OTTI reversals on MBS)</p>
6	<ul style="list-style-type: none"> - fixed @ 80% - If PS < \$0, FDIC does not pay bank but amount is credited to reduce PS for next quarter
7	
8	
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III. Comparison of Financing Alternatives

Potential Financing Alternatives

	Key Advantages	Key Disadvantages
Common Stock	<ul style="list-style-type: none"> Tier 1 Capital Foundation of Capital Base Increase Float / Exposure May Be Accretive to Book Value 	<ul style="list-style-type: none"> Highest Cost of Capital/Most Dilutive to Earnings May Expect Dividends Periods of Market Volatility Offering May Pressure Price
Private / Public Trust Preferred	<ul style="list-style-type: none"> Tier 1 Capital No Dilution to Shareholders Tax Deductible Fixed or Floating Coupon Callable at Par 	<ul style="list-style-type: none"> Cash Flow Requirement Adds Balance Sheet Leverage Does Not Increase Book Value Does not Improve Liquidity Complexity of Public Offering/Pool Market Dislocation
Convertible Trust Preferred	<ul style="list-style-type: none"> Tier 1 Capital Premium to Market Callable at Par / Forced Conversion More Attractive Coupon Rate Over Time Increases Float Execution in Volatile Markets 	<ul style="list-style-type: none"> Tier 1 Capital Treatment may be Restricted Depending on Existing Capital Structure Common Dilution + Yield Requirement Adds Complexity to Capital Structure Dilutes Existing Common Shares Upon Conversion
Non-Cumulative Convertible Preferred	<ul style="list-style-type: none"> Tier 1 Capital Equivalent to Selling Common at Premium Less Dilutive than Common Offering Execution in Volatile Markets Over Time Increases Float More Attractive Coupon Rate 	<ul style="list-style-type: none"> Not Deductible for Tax Purposes Common Dilution + Yield Requirement Creates Distribution Requirement Prior to Conversion Dilutes Existing Common Shares Upon Conversion Adds Complexity to Capital Structure
Non-Cumulative Perpetual Preferred Stock	<ul style="list-style-type: none"> Tier 1 Capital Callable at Par Fixed or Floating Coupon Increases Capacity for Trust Preferred 	<ul style="list-style-type: none"> Lack of Tax Deductibility Leverages Pressure on Common Dividend in Adverse Situation
Tier 2 Subordinated Debt	<ul style="list-style-type: none"> Lowest Cost of Capital Tier 2 Treatment Tax Deductible Callable at Par 	<ul style="list-style-type: none"> No Tier 1 Treatment Short-term Capital Diminishes After 2-5 years Depending on Maturity Issuance Not Commoditized

Questions?

A. Overview of Fried Frank

About Fried Frank

- World-class law firm with 500 internationally recognized lawyers in New York, Washington, DC, London, Paris, Frankfurt, Hong Kong and Shanghai
- We represent leading corporations and financial institutions on some of the largest and most-high profile matters, whether transactional or litigation-oriented, in financial centers around the world
- From the period January 1, 2005 through June 30, 2009, we represented clients in more than 450 M&A deals worldwide, totaling approximately US\$1 trillion
- We also advised clients in more than 200 public and private debt and equity offerings with an aggregate value of over US\$90 billion during that period
- We have recently been involved in private equity recaps or FDIC-assisted acquisitions of Doral Financial Corp., IndyMac Federal Bank, BankUnited and E*Trade Financial Corp.

B. Overview of Stifel Nicolaus

Financial Institutions Investment Banking Capabilities

- Stifel's Financial Institutions Group (FIG) provides investment banking services to banks and thrifts and other financial services companies, including Finance REITs, Mutual Companies, Business Development Companies (BDC)s and Insurance Companies.
- 39 dedicated bankers, 15 of whom are managing directors.
- Stifel's Financial Institutions Group Managing Directors have extensive experience managing public offerings of common stock, preferred stock and debt securities, as well as providing merger and acquisition advisory services.
- 451 completed public and private offerings which raised over \$44.6 billion in capital since 2000.
- 84 buy-side and 107 sell-side advisory transactions valued at over \$6.0 billion and \$8.3 billion, respectively since 2000.
- 35 mutual conversions which raised over \$11.7 billion in capital since 2000.

