

Surviving the Storm: Community Bank Success Strategies

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Independent Bankers Association
of New York State

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Rick Maroney
Managing Director and Principal

Recent Events...By the Numbers

- 25 bank failures in 2008...77 more in 2009
- 43% decline in SNL Bank & Thrift index in 2008;
4% increase for the year-to-date period ending 8/14/09
- \$700B in TARP (\$22B to GM, Chrysler, GMAC)
- Over \$2.0T of reported housing value declines...2Q09
home values fell 15.6% from the prior-year period

> \$11.0T of US Government Intervention

Publicly Traded Banks & Thrifts

In 2008...

- 88% Realized a DECREASE in Stock Price
- \$479B Loss of Market Capitalization
- \$327B of Capital Offerings
 - \$51B of Common Stock
 - \$17B of Trust Preferred
 - \$79B of Preferred or Convertible Preferred
 - \$180B of TARP Capital
- Average Price/Tangible Book Trading Multiples
 - 94% @ 8/14/09 down from 146% @ 12/31/07

Financial Performance Review

Median Results

<u>Profitability Comparison</u>	LTM Net Interest Margin	LTM PPNR/ Average Assets	LTM ROAA
NY State (Excluding NYC MSA)	3.76%	1.16%	0.60%
New York City MSA	3.03%	0.77%	0.30%
Mid-Atlantic Region	3.25%	0.90%	0.31%
Nation	3.70%	1.12%	0.51%

Includes Commercial Banks, Savings Banks and Savings Institutions.

Mid-Atlantic Region as defined by SNL Financial includes the following states: DE, MD, PA, NJ, NY, PR & DC.

LTM = Last Twelve Months

PPNR = Pre Provision Net Revenue (Net Interest Income + Non Interest Income – Non Interest Expense)

Financial Performance Review

Median Results

<u>Balance Sheet Growth</u>	LTM Asset Growth Rate	LTM Loan Growth Rate	LTM Deposit Growth Rate
NY State (Excluding NYC MSA)	7.03%	6.03%	8.33%
New York City MSA	6.72%	8.44%	8.49%
Mid-Atlantic Region	7.20%	6.90%	9.49%
Nation	5.05%	4.17%	6.35%

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LTM = Last Twelve Months

Financial Performance Review

Median Results

<u>Asset Quality Measures</u>	MRQ NPAs/ Total Assets	MRQ NPAs/ Tg. Equity +LLR	MRQ LLR/ Total Loans
NY State (Excluding NYC MSA)	0.70%	6.75%	1.16%
New York City MSA	0.81%	8.53%	1.01%
Mid-Atlantic Region	0.96%	9.61%	1.09%
Nation	1.51%	14.06%	1.32%

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MRQ = Most Recent Quarter

Financial Performance Review

Median Results

<u>Capital Adequacy Measures</u>	MRQ Leverage Ratio	MRQ Total RB Capital Ratio
NY State (Excluding NYC MSA)	9.15%	16.30%
New York City MSA	9.83%	16.69%
Mid-Atlantic Region	9.33%	14.85%
Nation	9.42%	14.29%

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MRQ = Most Recent Quarter

Financial Performance Review

<u>MRQ Leverage Ratio</u>	% of Institutions			
	< 5%	5% - 8%	8% - 10%	> 10%
NY State (Excluding NYC MSA)	0%	27%	34%	39%
New York City MSA	3%	29%	20%	48%
Mid-Atlantic Region	1%	29%	29%	42%
Nation	2%	20%	37%	41%

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MRQ = Most Recent Quarter

Bank & Thrift Stock Performance (As of 08/14/09)

<u>Pricing Multiples</u>	Average Price/Book	Average Price/Tangible Book	Median Price/LTM Core EPS	Median 1-year Stock Price Change	% Realizing Price Increase Over LTM
NY State (Excluding NYC MSA)	114%	132%	14.1	-13.88%	25.0%
New York City MSA	102%	131%	14.2	-22.35%	12.9%
Mid-Atlantic Region	98%	110%	15.9	-20.70%	17.1%
Nation	84%	94%	16.5	-26.26%	12.9%

Bank & Thrift Stock Performance Trends

Average Price/Tangible Book Value



CAMELS Score – State of New York vs. Nation

Estimated CAMELS Score	New York		Nation	
	#	% of Total	#	% of Total
1 – 1.5	123	63%	5,319	65%
2 – 2.5	34	17%	1,606	20%
3 – 5	38	20%	1,216	15%

Note: Does not represent actual regulatory CAMELS Ratings.

Estimated CAMELS Score presents how Veribanc Safety ratings theoretically line up with CAMELS ratings. The actual CAMELS ratings are confidential and are not released to the public by supervisory agencies.

Bank Failures – State of New York vs. Nation

<u>Bank Failures</u>	New York		Nation	
	#	Assets	#	Assets
YTD 2009 (thru 8/14)	1 *	\$55.7 mil	77	\$73.6 bil
2008Y	0	NA	25	\$376.3 bil

* Waterford Village Bank, Williamsville, NY – June 24, 2009

Note: Of the \$376.3 billion in assets reported from the failed banking institutions in 2008, \$309.7 billion (82%) was associated with the failure of Washington Mutual in September 2008.

What Does All This Mean?

A Wide Range of Potential

PERSPECTIVES

&

STRATEGIES

Facing Each of Your Institutions

#1: SURVIVAL MODE

Survival Defined: To continue living or existing

Company Profile

- On-going operating losses and/or loan losses
- High NPAs (exceeding 50% of capital)
- Low capital (below 8% Bank Level)
- CAMELS 3-5 rating w/ enforcement action
- Classified assets approaching or exceeding 100% of capital

Estimate: 1 out of 10 in this category

SURVIVAL STRATEGIES

- Swift and deep operating expense cuts
- Aggressive problem asset identification and management
- **Explore de-leveraging strategies (branches, departments, lines of business, customers)**
- **Raise capital (board members, private equity, new investors)...likely to be highly dilutive**
- **Aggressive COMPLIANCE with regulatory enforcement directives**
- Concurrent exploration of merger/sale

#2: PRESERVE THE FRANCHISE

Preserve Defined: To protect, conserve, maintain

Company Profile

- Higher than normal loan losses and NPAs
- Still generating operating profits
- Stable and acceptable capital levels
- Little or no balance sheet growth
- Weak 2 or Strong 3 CAMELS Rating – limited scope MOU may exist

Estimate: More than HALF in this category

PRESERVATION STRATEGIES

- Careful expense reductions
- Aggressively reserve for problem assets
- **Modest de-leveraging – customer/pricing oriented**
- **Capital building – suspend stock repurchases, evaluate dividend levels, consider TARP**
- **Aggressively target next examination cycle to eliminate any regulatory issues**
- Preserve and build shareholder confidence
- Prepare to change course quickly in advance of economic upturn

#3: SEIZE THE OPPORTUNITY

Opportunity Defined: A favorable circumstance

Opportunistic: To take advantage of the circumstance

Company Profile

- Virtually no change in asset quality levels
- Operating profit levels unchanged or improved
- Excess capital levels relative to risk profile
- Continued balance sheet growth opportunities
- 1 or Strong 2 CAMELS Rating – no regulatory issues

Estimate: Less than a THIRD in this category

OPPORTUNISTIC STRATEGIES

- Manage balance sheet leverage with existing expense/capital structure
- **Hire best talent from weaker competition**
- **Target “A” customers from competition – equip lenders and branches to identify**
- **Build capital for market opportunities - buyer-of-choice for shot-gun weddings, assisted transactions, divestitures**
- Promote company differentiation through aggressive public and shareholder relations

OPPORTUNISTIC STRATEGIES

Key Factors for Long-Term Viability

- **Disciplined Underwriting**
- **Disciplined Pricing**
- **Disciplined Capital Management**

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Q & A Session

Speaker Information

Richard F. Maroney, Jr.
Managing Director & Principal
Austin Associates, LLC
Toledo, Ohio

rmaroney@austinassociates.com

419.841.8521

Additional Firm Information:

www.austinassociates.com