

This document is proprietary work product of the author. Please do not reproduce, forward or disseminate without permission.

Raising Capital in the Community Banking Sector

The Little-known and Misunderstood \$3 Trillion Marketplace

PRESENTATION FOR FINPRO CONFERENCE

NOVEMBER 5, 2009

STONECASTLE
PARTNERS LLC

- New York-based asset management company focused on investing in the U.S. banking sector
- Manages approximately \$3.1 billion of assets including direct, private investments in 220+ community banks across 43 States
- Pioneered use of hybrid capital to invest in community banks
- Charlesbank owns a minority interest in StoneCastle Partners
 - Spinout of Harvard endowment private equity unit
 - Manages \$3.5+ billion of private equity
 - History of profitable investments in banks & other financial services companies

Cross-Disciplinary Expertise

■ Team of 25+ investment professionals

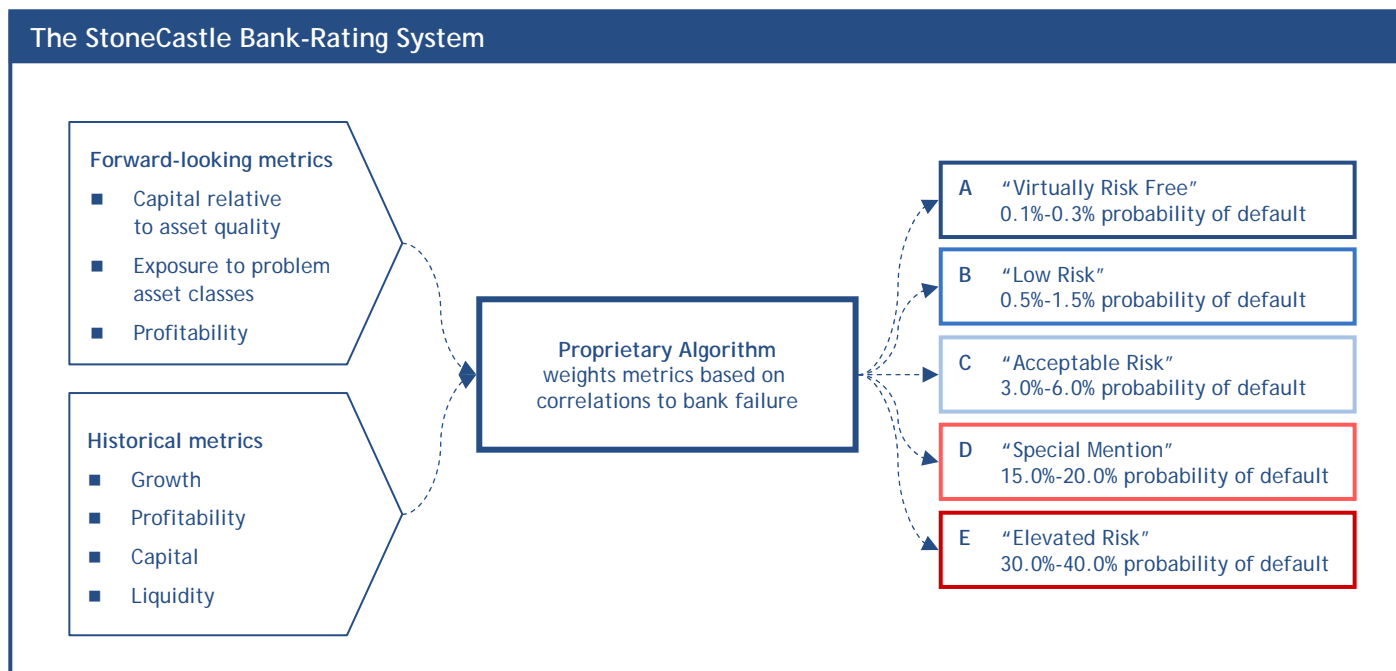
- Equity & fixed-income analysts
- Distressed asset investors
- Rating agency analysts
- Senior bank treasury executives
- Private equity investors
- FIG investment bankers
- Banking regulators
- Regulatory attorneys

Firm	Bank Credit Group	Corporate Credit Group	Municipal Credit Group	Mortgage & Structured Credit Group	Administration
<ul style="list-style-type: none"> • Community bank focus • Complementary disciplines • Shared resources 	<ul style="list-style-type: none"> • Direct investments in banks • Bank industry research • Direct relationships with regulators • Managed accounts and private funds of Bank Bond Portfolios 	<ul style="list-style-type: none"> • Manage corporate credit fund • Corporate credit research • Regional economic research 	<ul style="list-style-type: none"> • Advisor on municipal credit to: <ul style="list-style-type: none"> - Banks - Insurance companies - Public bond funds 	<ul style="list-style-type: none"> • Advisor to banks on: <ul style="list-style-type: none"> - Non-agency RMBS - Residential mortgage loan portfolios - ABS CDOs, CLOs, CRE CDOs 	<ul style="list-style-type: none"> • Accounting • Risk management • Compliance • Technology
Assets	\$2.1 billion AUM \$800 million AUA	\$220 million AUM	\$3.3 billion AUA	\$1 billion AUA	N/A

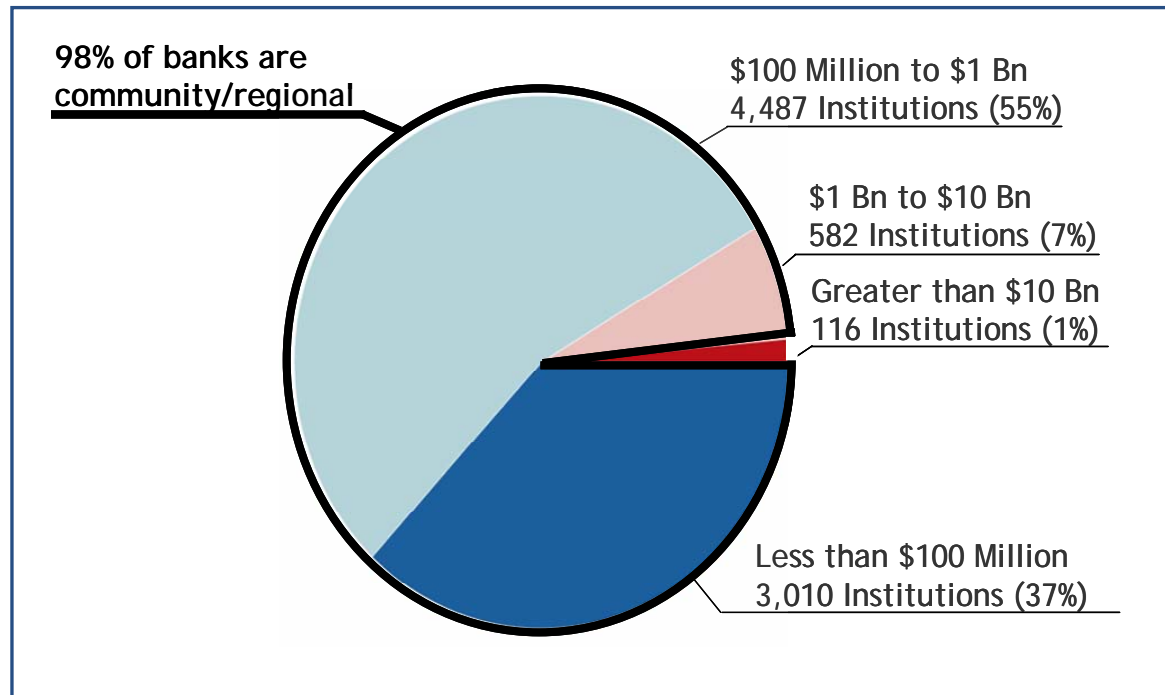
Portfolio-Allocation Tool

StoneCastle's proprietary bank-rating system allows it to quickly assess a bank's strength and performance record

- Efficient system for screening bank investments
 - Internally-developed algorithm rates the entire universe of banks using CAMELS methodology, serving as an initial investment screen
 - Incorporates various metrics selected based on observed correlation to bank health
 - Indicates that while many institutions are likely to fail, 6,000+ are potential investments worthy of fundamental analysis

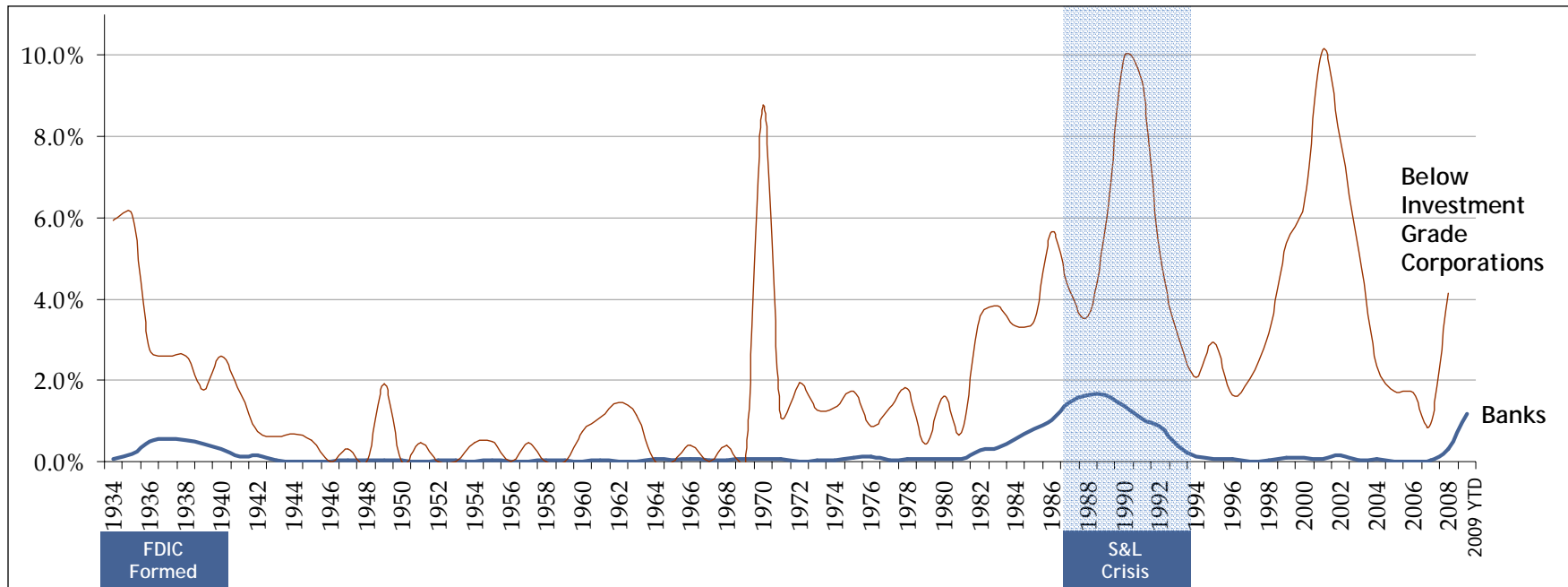


Number of Institutions by Asset Size



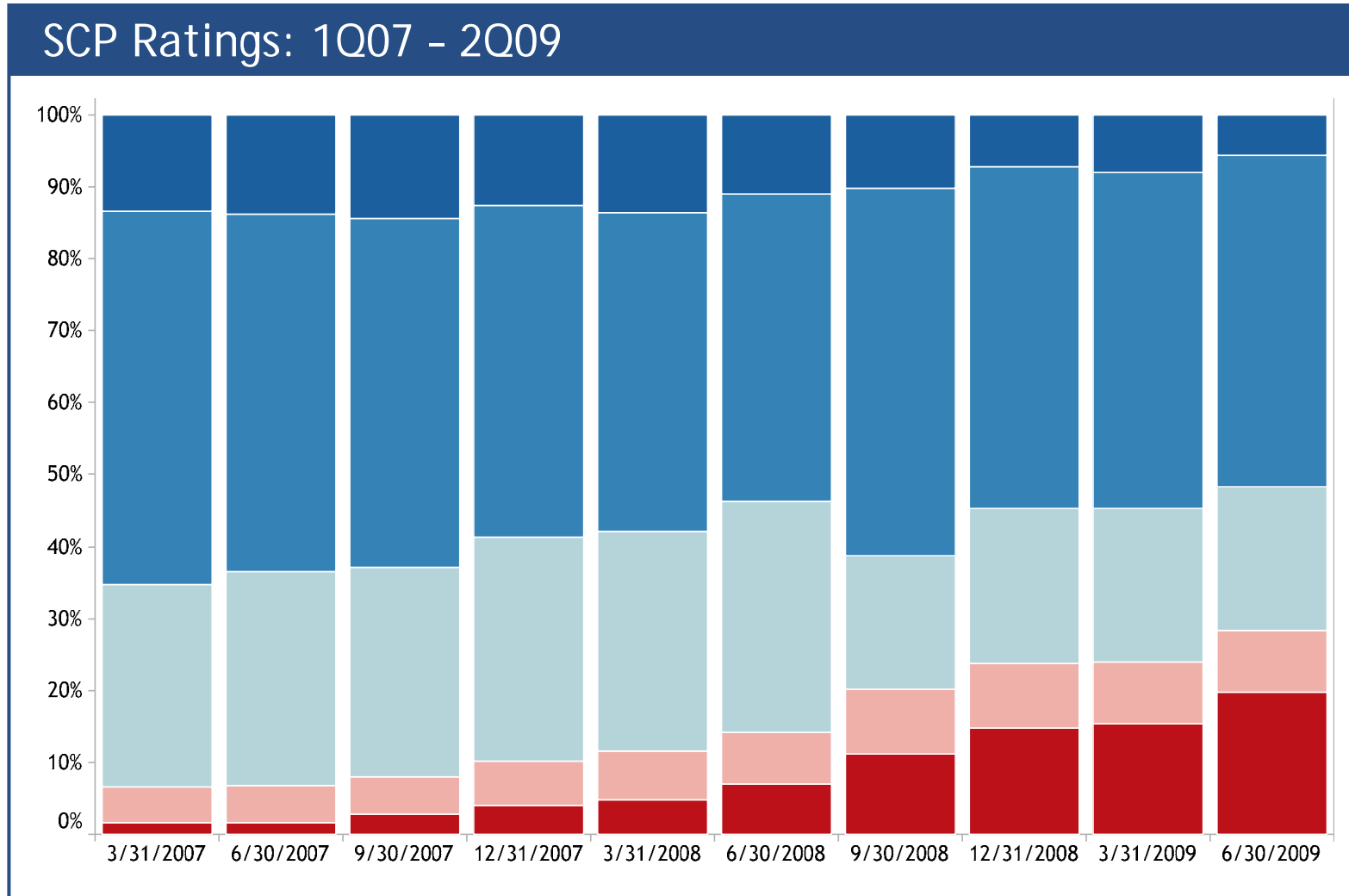
- Highly fragmented industry - 8,079 community banks have less than \$10 billion of assets
 - 98.6% of total U.S. banks
 - \$3.0 trillion of combined assets
 - \$314 billion of combined equity capital

Putting Things In Perspective



- Banks are generally less risky than other corporations
- Banks have performed similar to A/BBB corporate credits since '34
- Banks are on average 62+ years old...can not be high risk and last that long without failing

Downward Migration of Industry Performance



CONFIDENTIAL

Community Banks Outperform Larger Peers

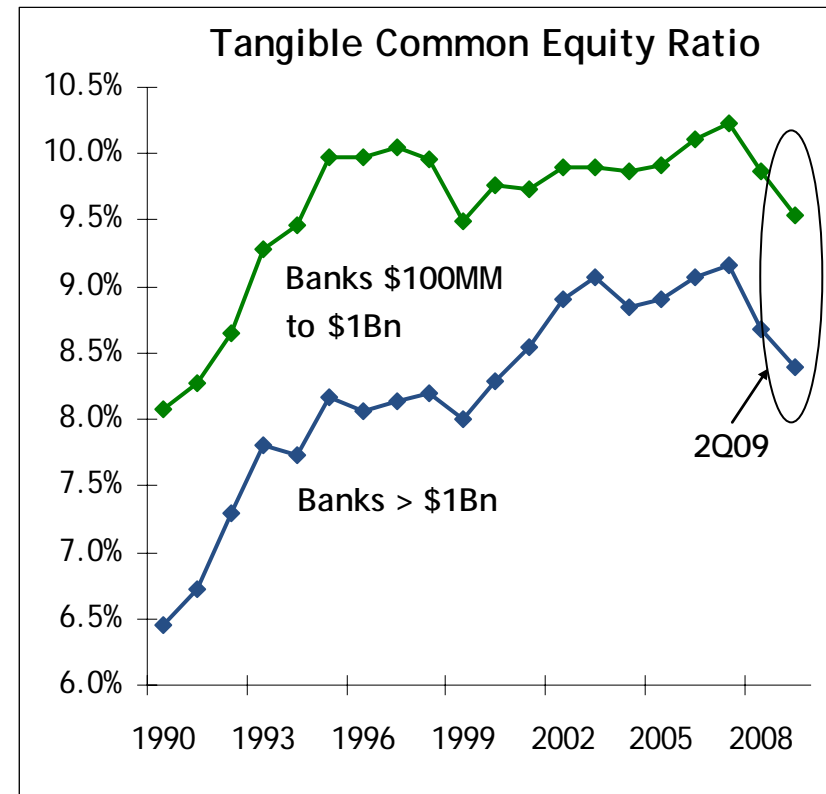
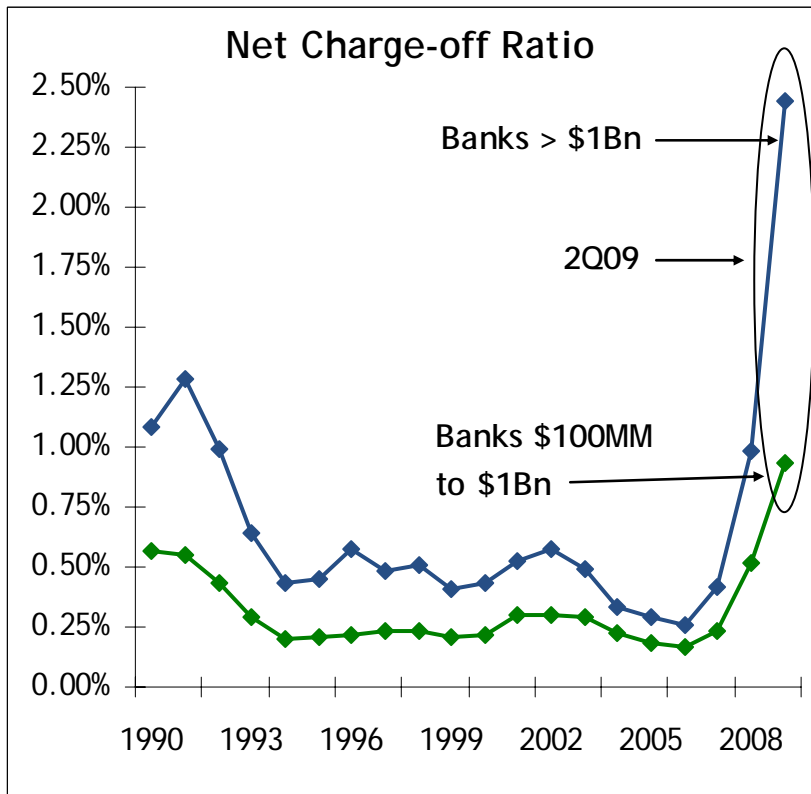
Select YTD Data 1 st Half 2009	Assets < \$1 Billion	\$1 Billion to \$10 Billion	Assets > \$10 Billion
Number of Institutions	7,497	582	116
Total Assets (bn)	\$1,514	\$1,501	\$10,287
ROA	0.11%	-0.45%	0.10%
Net Interest Margin	3.59%	3.36%	3.42%
Non-current Loans ⁽¹⁾	3.11%	4.21%	4.61%
Past Due Loans ⁽²⁾	1.62%	1.46%	1.97%
Net Charge-off Rate	0.91%	1.77%	2.56%
Leverage Ratio	9.75%	9.14%	7.90%
Tier I Ratio	13.42%	12.12%	10.55%
Total Risk-Based Ratio	14.58%	13.46%	13.68%

Source: FDIC

(1) Loans 90+ days past due or that are non-accrual

(2) Loans 30 - 89 days past due

Consistently Better Credit Performance & Higher Capital



- Community banks have demonstrated superior credit performance and generally have higher capital
- Community banks make a higher % of secured loans

Bank Capital & Investment Structures

CONFIDENTIAL

Indicative Deal Terms of Select Investments

Deal Terms	Subordinated Debt	Trust Preferred	Convertible Preferred	Common Equity
Term	5 - 10 years	30+ years	Perpetual	Perpetual
Rate	8% - 10%	8% - 12%	~10%	2% - 4%
Capital Treatment	Tier 2	Tier 1	Tier 1	Tier 1
Tax Treatment	Ordinary Income	Ordinary Income	QDI	Dividend
Call Protection	5 years	5 - 10 years	3 - 5 years	NA
Voting Rights	No	No	Yes	Yes
Warrants	Yes	Yes	NA	NA

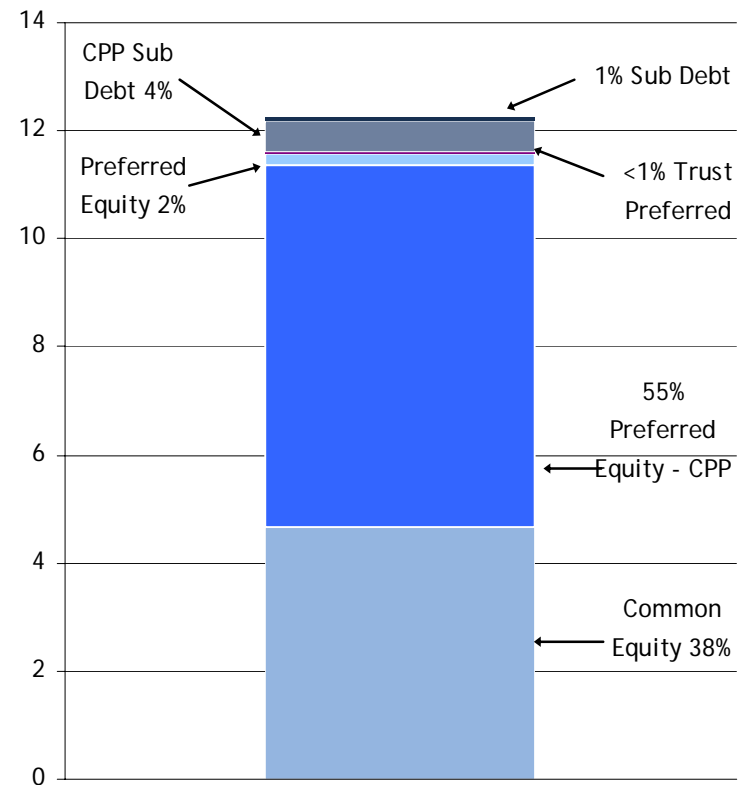
YTD Community Bank Issuance

- Record amounts of capital raised
 - TARP issuance (Capital Purchase Program - CPP)
 - How will community banks refinance TARP?

Community Bank Issuance

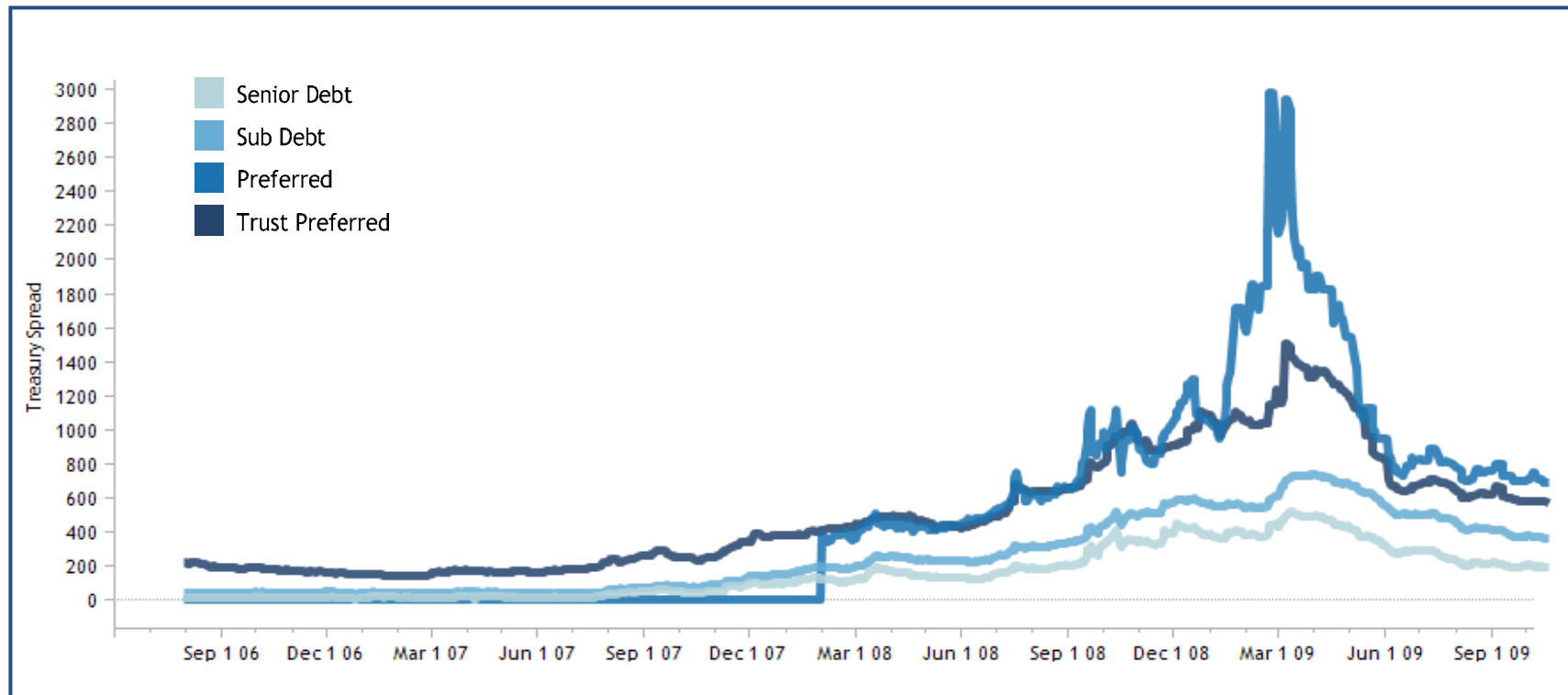
Structure (in millions)	2008	YTD Oct. 2009
Sub Debt - CPP	0	552
Sub Debt	457	91
Trust Preferred	545	33
Preferred Equity	460	205
Preferred Equity - CPP	7,674	6,706
Common Equity	2,239	4,674
Capital Security Issuance	11,375	12,261

Community Bank Issuance by Structure



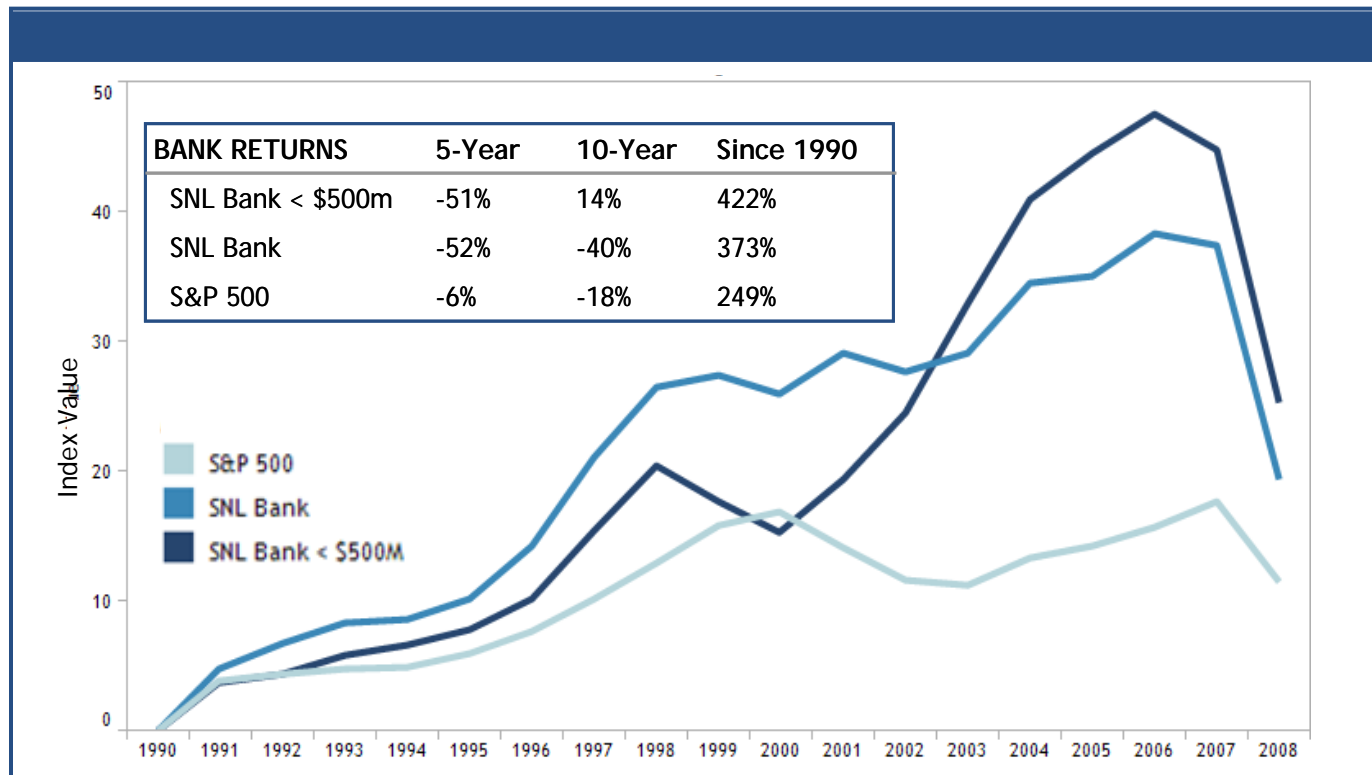
Performance of Fixed Income Securities

- Credit spreads tightened from the highs in March, however remain wide with yields ranging from +300 on the tight end to +1000 on the wide end
- Expect supply as banks continue to refinance TARP or TLGP debt while rates remain low



Equity Performance of Community Banks

- Banking sector has underperformed the broader market during the downturn
 - Community and small regional bank equities, which have outperformed larger peers since 1990, have sold-off more deeply
- Smaller banks are likely to outperform over time...have greater growth potential than larger banks
 - Larger banks already have regional/nationwide footprints, and thus less room to grow



Private Market Solution Structures

Deal Terms	Non-control Capital Infusion	Traditional Bank Buyouts
Form of Investment	Convertible Preferred Shares/ Trust Preferred with Warrants	Common Shares
Control ⁽¹⁾	No	Yes
Quality of Management	Deep knowledge of the bank's local markets and customers	Weak to average knowledge of the bank's local markets
Age of Institution	30+ Years	Typically De Novo to 10 Years
Subject to BHC Rules	No	Yes
Voting Shares ⁽¹⁾	Yes	Yes
Ownership % (Diluted) ⁽¹⁾	<33%	>33%
Liquidation Preference	Senior to Equity	N/A
Current Dividend Yield	8%+	0-5%
Board Seats ⁽¹⁾	Typically	Yes
Harvest Period	3-5 years	Uncertain
Targeted Investment Size	\$5 - \$50	\$50+ million
Targeted IRR	12% - 25%+	30%+
Targeted MOI	2.0x - 3.0x+	4.0x+

CONFIDENTIAL

Sample Attribution of Returns - Non-Control Private Equity

- Healthier banks need capital in strong & weak markets
 - Acquire weaker banks and divested branches
 - Acquire strategically aligned banks
 - Organic growth of loan portfolio and deposits due to competitors' weaknesses
 - FDIC-assisted asset sales
 - Expand branch network

Assumptions

	Year 1	Year 2	Year 3	Year 4	Year 5
Dividend Rate	8%	8%	8%	8%	8%
Book Value	\$100	\$110	\$121	\$133	\$146
Price / Book	1.00x	1.12x	1.25x	1.40x	1.57x

Returns

Initial Investment: \$100

	Cash Returns
Returns from Dividends	\$40
Increase in Book Value	\$46
Increase in Price/Book Multiple	\$84
Total Returns	\$170
IRR	25%

Outlook

- Overall economic environment likely to deteriorate further before it stabilizes or improves, albeit at a slower pace than in previous recessions
 - Unemployment to remain high and strength of recovery in question
 - Inflation as well as government budgets and spending remain wildcards to the pace of recovery
- The banking environment remains challenging in the near- to medium-term
 - Expect more failures, SCP has approximately 1,200 banks on its troubled bank list
 - Heightened pressure on CRE in response to the weak economy coupled with increasing office and industrial vacancies with declining rents
 - Residential real estate overhang
 - Regulatory uncertainty: too big to fail, new Consumer Financial Protection Agency, consolidation of bank regulators, call for higher capital levels, etc.
- Volatility creates opportunities
 - Pick your spots

Question & Answer Session

Joshua S. Siegel

Managing Principal

StoneCastle Partners, LLC

ph: 212-354-6500 x303

JSiegel@stonecastlepartners.com