Supervisory Capital Assessment Program
and Stress Test

What Were Its Results and
What Do They Mean to Community Banks?

Information as of 05/11/09
For more information regarding the material which follows, please contact:

**Samuel A. McCullough**  
President and CEO  
Griffin Holdings Group LLC  
(610) 478-2151  
sam@griffinfingroup.com

**Joseph M. Harenza**  
CEO and Senior Managing Director  
Griffin Financial Group LLC  
(610) 478-2160  
jmh@griffinfingroup.com

**Richard A. Vader**  
Senior Managing Director  
Griffin Financial Group LLC  
(610) 205-6119  
rav@griffinfingroup.com

**Mark R. McCollom**  
Senior Managing Director  
Griffin Financial Group LLC  
(610) 478-2016  
mrm@griffinfingroup.com
Scaped/Tarped and Feathered Twice??

Government’s stress test of the Nation’s 19 largest banks has been completed and its results published. It has established a bright line between those of the 19 who are strong and those of the 19 who are weak and the markets are reacting accordingly. Although the Treasury has made it clear that it will not apply the exercise to other than the 19, numerous analysts (without the benefit of the mitigating discussion and negotiation which accompanied the government’s stress test of the large banks) applied and published SCAP– like analysis to banks of all sizes. What does all of this mean to community banks?
This is the ninth in a series of material designed to help community banks keep abreast of the challenges and opportunities created first by the Bush Administration’s response to the nation’s credit crisis (TARP in 2008) and now by the Obama Administration’s FSP in 2009. Materials we have previously prepared can be found on our website - www.griffinfingroup.com. We plan to update as developments occur.

<table>
<thead>
<tr>
<th>Contents</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Glossary of Terms</td>
<td>5</td>
</tr>
<tr>
<td>FSP Matrix</td>
<td>6</td>
</tr>
<tr>
<td>Stress Test</td>
<td>7</td>
</tr>
<tr>
<td>General</td>
<td></td>
</tr>
<tr>
<td>Process</td>
<td></td>
</tr>
<tr>
<td>Projections – Matrix</td>
<td></td>
</tr>
<tr>
<td>Projections – Loss Estimates</td>
<td></td>
</tr>
<tr>
<td>Projections – Resources Available to Absorb Losses</td>
<td></td>
</tr>
<tr>
<td>Projections – Capital Buffer</td>
<td></td>
</tr>
<tr>
<td>Stress Test – Observations and Commentary --</td>
<td>16</td>
</tr>
<tr>
<td>What Does All Of This Mean to Community Banks?</td>
<td></td>
</tr>
<tr>
<td>Our Take</td>
<td>25</td>
</tr>
<tr>
<td>About Griffin</td>
<td>29</td>
</tr>
</tbody>
</table>
## Glossary of Terms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>AB</td>
<td>Asset Backed (normally credit card, student loan and auto loan securities)</td>
</tr>
<tr>
<td>AFS</td>
<td>Available for Sale securities</td>
</tr>
<tr>
<td>ALLL</td>
<td>Allowance for Loans and Lease Losses</td>
</tr>
<tr>
<td>BHC</td>
<td>Bank Holding Company</td>
</tr>
<tr>
<td>BV</td>
<td>Book Value, In the case of loans or securities, carrying value net of reserves</td>
</tr>
<tr>
<td>CAP</td>
<td>The Capital Assistance Program of the FSP</td>
</tr>
<tr>
<td>CPP</td>
<td>The Capital Purchase Program under TARP</td>
</tr>
<tr>
<td>CMBS</td>
<td>Commercial Mortgage Backed Securities</td>
</tr>
<tr>
<td>CDS</td>
<td>Credit Default Swap</td>
</tr>
<tr>
<td>CRE</td>
<td>Commercial Real Estate</td>
</tr>
<tr>
<td>FAS 157</td>
<td>GAAP fair value accounting</td>
</tr>
<tr>
<td>FHC</td>
<td>Financial Holding Company</td>
</tr>
<tr>
<td>FV</td>
<td>Fair Value – What a willing buyer would pay a willing seller at any point in time</td>
</tr>
<tr>
<td>FSP</td>
<td>Financial Stability Plan of 2009</td>
</tr>
<tr>
<td>GSE</td>
<td>Government Sponsored Equity</td>
</tr>
<tr>
<td>HTM</td>
<td>Held to Maturity securities</td>
</tr>
<tr>
<td>MBS</td>
<td>Mortgage-Backed Securities</td>
</tr>
<tr>
<td>OTTI</td>
<td>Other-Than-Temporary Impairment</td>
</tr>
<tr>
<td>PEG</td>
<td>Private Equity Group</td>
</tr>
<tr>
<td>PPIF</td>
<td>FSP’s Private Public Investment Fund Program</td>
</tr>
<tr>
<td>PPNR</td>
<td>Pre Provision Net Income</td>
</tr>
<tr>
<td>RWA</td>
<td>Risk Weighted Assets</td>
</tr>
<tr>
<td>SCAP</td>
<td>Supervisory Capital Assessment Program (&quot;Stress Test&quot;)</td>
</tr>
<tr>
<td>SPE</td>
<td>Special Purpose Entity</td>
</tr>
<tr>
<td>TARP</td>
<td>Troubled Asset Relief Program</td>
</tr>
<tr>
<td>TALF</td>
<td>Term Asset Backed Securities Loan Facility</td>
</tr>
<tr>
<td>TCE</td>
<td>Tangible Common Equity</td>
</tr>
<tr>
<td>THC</td>
<td>Thrift Holding Company</td>
</tr>
<tr>
<td>Tier 1 Common Capital Ratio</td>
<td>Capital available to common shareholders as a percentage of bank’s risk weighted assets</td>
</tr>
<tr>
<td>TRUPS</td>
<td>Trust Preferred Securities (usually pooled)</td>
</tr>
<tr>
<td>UST</td>
<td>United States Treasury</td>
</tr>
</tbody>
</table>
On February 10, the Treasury announced a “plan for a plan” designed to deal with the crisis.

The SCAP stress test program is an integral part of the broader FSP plan and are the subject matter of this material.

The key conceptual components of the plan are as follows:
STRESS TEST:

- General
- Process
- Projections–Matrix
- Projections – Loss Estimates
- Projections – Resources Available to Absorb Losses
- Capital Buffer
Stress Test – General

♦ General
  • The much publicized “stress tests” of the nation’s 19 largest financial institutions were completed last week

♦ Financial Institutions Tested
  • 1st Wave (Mandatory)
    – The nation’s BHCs and FHCs with over $100 billion in assets (14 in number) plus Goldman Sachs, Morgan Stanley, American Express, GMAC and MetLife (19 in total)
  • 2nd Wave (Mandatory only for those wanting direct US investment under the new CAP program)
    – Publicly traded, Non-publicly traded, Sub S, and Mutual banks and thrifts

♦ The Treasury has stated that there is at present no plan to test other than the 19

♦ Nevertheless, analysts are applying **SCAP** or **SCAP—LIKE METHODOLOGY** to banks of all sizes and some are publishing the results

♦ The stress test indicates that the 19 need the following levels of capital in the UST “more adverse” scenario to get through 2010

  B of A: $33.9 B  Citi: $5.5 B  Sun Trust: $2.2 B  Fifth Third: $1.1 B  MS: $1.8 B  
  W. Fargo: $13.7 B  Regions: $2.5 B  Key Corp: $1.8 B  PNC: $0.6 B  GMAC: $11.58 B

♦ The stress test showed USB, JPM, BB&T, GS, BONY, Amex, State Street, MetLife and Cap One needed no capital

♦ We understand that the regulators have been or will most probably use similar methodology as part of the next bank exam
Stress Test – The Process

BHCs & FHCs prepare 2009/2010 projections of loans and securities losses and net income, capital, and reserves available to absorb them

Interagency group of regulators evaluate projections for 2009 and 2010 and review with management. Projections covered (i) loss estimates for loans, securities and trading and counterparty losses, and (ii) capital estimated to be generated by other resources (e.g. – 2009/2010 earnings, calculated for asset sales, acquisitions, debt equity swaps, etc.)

Interagency group ran these projections through stress test to determine capital (both Tier 1 and Tier 1 Common) shortfalls and the size of the “buffer” needed to cushion losses in the “base case” and more adverse economic scenario)

Interagency group in consultation with and input from management determines and publishes capital shortfall for the BHC or FHC at December 31, 2010

BHCs and FHCs sign commitment to sell CAP securities to UST sufficient to cover shortfall and to accept conditions which come with it. BHC and FHC has six months to fill up hole. If hole is filled up in whole – commitment to sell to UST falls away. If not – sale of CAP (mandatorily convertible preferred) securities to UST for shortfall

See Following Pages for More on Process and Projections

Stress Test Assumptions

- Two sets of economic assumptions for each of 2009 and 2010
  “Baseline” and “More Adverse”

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP</th>
<th>UNEMPLOYMENT</th>
<th>HOUSING PRICES</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>- Baseline 2.7</td>
<td>NA 8.9</td>
<td>- Baseline -14</td>
</tr>
<tr>
<td></td>
<td>- More Adverse 3.3</td>
<td>8.9 10.3</td>
<td>- More Adverse -22</td>
</tr>
<tr>
<td>2010</td>
<td>2.0</td>
<td>8.9</td>
<td>-4</td>
</tr>
<tr>
<td></td>
<td>Flat</td>
<td>10.3</td>
<td>-7</td>
</tr>
</tbody>
</table>
### Stress Test – Projection Matrix – Adverse Case

#### At December 31, 2008

<table>
<thead>
<tr>
<th></th>
<th>$ Billions</th>
<th>As % of RWA</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1 Capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier 1 Common Capital</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk-Weighted Assets</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

#### Estimated for 2009 and 2010 for the More Adverse Scenario

<table>
<thead>
<tr>
<th>Total Estimated Losses (Before purchase accounting adjustments)</th>
<th>$Billions</th>
<th>As % of Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Lien Mortgages</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Second/Junior Lien Mortgages</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial and Industrial Loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Commercial Real Estate Loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit Card Loans</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Securities (AFS and HTM)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading &amp; Counterparty</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (1)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Memo:** Purchase Accounting Adjustments

Resources Other than Capital to Absorb Losses in the More Adverse Scenario (2)

#### SCAP Buffer Added for More Adverse Scenario

<table>
<thead>
<tr>
<th>Indicated SCAP Buffer as of December 31, 2008</th>
<th>$</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less: Capital Actions and Effects of 1st Q 2009 Results (3) (4)</td>
<td>$</td>
</tr>
</tbody>
</table>

**SCAP Buffer (5)**

(1) Includes other consumer and nonconsumer loans and miscellaneous commitments and obligations
(2) Resources to absorb losses include pre-provision net revenue less the change in the allowance for loan and lease losses
(3) Capital actions include completed or contracted transactions since 12/31/08
(4) Total includes only capital actions and effects of 1st Q 2009 results for firms that need to establish a SCAP buffer
(5) There may be a need to establish an additional Tier 1 capital buffer, but this would be satisfied by the additional Tier 1 common capital buffer unless otherwise specified for a particular BHC

*(SCAP buffer is defined as additional Tier 1 Common/contingent Common)*
Loans – The Government provided management with indicative loss rates as follows:

<table>
<thead>
<tr>
<th>Loan Type</th>
<th>Baseline</th>
<th>More Adverse</th>
</tr>
</thead>
<tbody>
<tr>
<td>First Lien Mortgages</td>
<td>5 - 6</td>
<td>7 - 8.5</td>
</tr>
<tr>
<td>Prime</td>
<td>1.5 - 2.5</td>
<td>3 - 4</td>
</tr>
<tr>
<td>Alt-A</td>
<td>7.5 - 9.5</td>
<td>9.5 - 13</td>
</tr>
<tr>
<td>Subprime</td>
<td>15 - 20</td>
<td>21 - 28</td>
</tr>
<tr>
<td>Second/Junior Lien Mortgages</td>
<td>9 - 12</td>
<td>12 - 16</td>
</tr>
<tr>
<td>Close-end Junior Liens</td>
<td>18 - 20</td>
<td>22 - 25</td>
</tr>
<tr>
<td>HELOCs</td>
<td>6 - 8</td>
<td>8 - 11</td>
</tr>
<tr>
<td>C&amp;I Loans</td>
<td>3 - 4</td>
<td>5 - 8</td>
</tr>
<tr>
<td>CRE</td>
<td>5 - 7.5</td>
<td>9 - 12</td>
</tr>
<tr>
<td>Construction</td>
<td>8 - 12</td>
<td>15 - 18</td>
</tr>
<tr>
<td>Multifamily</td>
<td>3.5 - 6.5</td>
<td>10 - 11</td>
</tr>
<tr>
<td>Nonfarm, Non-residential</td>
<td>4 - 5</td>
<td>7 - 9</td>
</tr>
<tr>
<td>Credit Cards</td>
<td>12 - 17</td>
<td>18 - 20</td>
</tr>
<tr>
<td>Other Consumer</td>
<td>4 - 6</td>
<td>8 - 12</td>
</tr>
<tr>
<td>Other Loans</td>
<td>2 - 4</td>
<td>4 - 10</td>
</tr>
</tbody>
</table>

These loss rates were derived using a variety of methods for predicting losses, both historical and quantitative. BHCs and FHCs then provided the government with granular detail (past performance, origination year, borrower and collateral characteristics and geography) to permit the government to provide tailored indicated rates.

In preparing projected loan losses, BHCs and FHCs were instructed to estimate cash flow (failure to pay losses, and not “mark to market losses”)

BHCs were permitted to deviate from these loss rates only if they could convince the government that they were too high (rigorous underwriting, over collateralization, etc.)
To evaluate losses on securities in the AFS and HTM portfolios, the government focused principally on those securities subject to credit risk:

- Non-agency MBSs
- Corporate Bonds
- Mutual Funds
- Other ABSs
- Other securities products

and not Treasuries, high grade munis, sovereign securities or agency paper (50% of the losses come from non-agency MBSs)

The government took into account credit support focused on the creditworthiness of the counterparty

The focus was on OTTI (equal to the difference between book and FV)

BHCs and FHCs with trading assets of $100 billion or more were required to estimate trading losses from trading-related exposures including private equity holdings and derivatives, where counterparty risk exists, etc.
Stress Test – The Projections: Resources to Absorb Losses

- The projections estimated pre-provision net income (PPNR) and other resources available to the BHC or FHC to absorb losses in both the base case and adverse case scenarios.

- ALLL – Government developed ALLL estimates independent of management and then reviewed with management. If the estimate of the year end 2008 ALLL was less than ALLL needed as of the end of 2010, then additional ALLL was required to cover the increase – thus decreasing PPNR and resources available to absorb losses.
Under SCAP, the government evaluated the extent to which each of the 19 BHC’s would need to increase the amount or alter the mix of capital it needed today in excess of regulatory minimums in order to exceed regulatory minimums at 12/31/10 in both the base line and adverse case.

The “final” buffer incorporates completed or contracted capital initiatives undertaken by the BHCs and FHCs and the impact of Q1 2009 operating performance.

Tier 1 Capital at 12/31/08 minus
Capital needed today to meet Regulatory Tier 1 and Tier 1 Common Capital minimums at 12/31/10 under baseline and adverse scenarios per projection and SCAP process equals “Initial” Buffer
Projection – Capital Buffer

♦ If Capital Buffer is “0” or greater, the government concluded the BHC or FHC has capital today (including that provided by UST) and other estimated resources which will be available to cover losses in the more adverse scenario and still achieve the 4% Tier 1 Common Capital and 6% Tier 1 Capital ratio requirements at 12/31/10 (9 of the 19)

♦ Those with a negative capital buffer must find capital –
  • Capital raises
  • Asset sales
  • M&A
  • Debt to Equity Swaps
  • Tarp CPP to FSP CAP conversion
  • Net Income Growth (outperform PPNR estimates)
  • FSP CAP Program

♦ These institutions will have until June 8th to develop a capital plan and until November 9th to implement the plan

♦ The government does not appear to want to hear no or slowed growth
Stress Test – Observations and Commentary
What Does All of this Mean to Community Banks?
The results separate the 19 Banks into 2 categories:

- **Strong** (No to low capital holes)
  - Rush to Pay off TARP and repay FDIC guaranteed debt
  - Valuation up (Fifth Third with $1.1 billion hole up 59%; Regions with $2.5 billion hole-up 25%)

- **Weak ER** (Larger capital hole)
  - Rush to create capital via equity offerings, debt/equity swaps, branch or other asset or deposit sales
  - UST FSP CAP mandatory convertible preferred stock

The government has confirmed that the *remainder of the banks in the nation are clearly not subject to mandatory stress test rules. They are optional*
However, many analyst have undertaken “SCAP—like” reviews of mid cap and small cap banks and actually publicized results which are not derived from the same or similar interactive and rigorous process as the ones run by government in consultation with the banks.

Some have even made “sell,” “buy,” and “hold” recommendations predicated on these analyses:

• We fear that these “back of the envelope” analyses may have the effect of inappropriately categorizing all banks into either the “weak” or “strong” category.

• We also fear this may not only impact valuation and ability to raise capital, but competitive position as well.

Four Institutions (Regions, BAC, Fifth Third and Sun Trust) were all deemed to need capital amounting to over 50% of their market capitalization as of May 6, 2009 and high levels of capital needs are also required based on analysts’ estimates of mid and small caps.
The Stress Test involved more than a little bargaining between the BHCs and FHCs and the government. According to published sources:

- The Fed, in April, provided the 19 with preliminary capital hole assessments
- Many (reportedly 50% or more) of the 19 objected strongly to the amount of the hole despite significant prior input into the loss estimates. They said:
  - The test discounted the ability of the banks to generate strong income and reduce costs to create income and capital, especially, in many cases, because of good 1st Q 2009 results
  - The test underestimated the income statement and balance sheet impact from asset sales
  - Wells Fargo was reputed to have threatened a lawsuit
- The WSJ reported that the Citi hole went from $35.0 billion to $5.5 billion; and that Fifth Third’s from $2.6 billion to $1.1 billion and others also dropped
- *Non-19 banks can’t negotiate published 3rd party assessments of their perceived stress test results, no matter how flawed*
Stress Test – Observations and Commentary

♦ Stress Test Methodology

- GDP is assumed in the stress test to suffer a 3.3% decline in 2009 – but actual GDP for 2009 is at a 6.1% decline through April

- Unemployment varies region by region. Yet the analyses used one set of unemployment inputs. Also, the “more adverse” scenario assumes 10% unemployment at the end of 2010. Some forecasters say we will be there at the end of 2009

- What happens if adverse case becomes baseline?

- Some third party pre-provision earnings estimates for 2009 and 2010 for the 19 banks are lower than those assumed by the government and are based on earnings and trends for the 1st Q 2009 results. Some also wonder whether these lower 1st Q earnings are sustainable

- Many believe that the government indicated loss ratios on CRE loans are too low

- Some think the risk weight being put on assets for purposes of arriving at the 4.0% (25-1 leverage) and 6.0% requirements are not severe enough

- Loss severity rates were not disclosed

- The two credible detailed analysis of stress are the IMF and Roubini (named after the NYU economist Nouriel Roubini). A comparative review by the Brookings Institute indicates that SCAP’s loss estimates are much more conservative than the IMF test, but that this conservatism is offset by much higher assumed bank earnings. The SCAP is much more bullish than Roubini in both loss and earnings estimates
Stress Test – Observations and Commentary

♦ Insolvency Risk
  • The government has said it will not let any one of the 19 fail. This should take the
    insolvency risk out of the investment equation for the 19 banks and instead cause
    investors to go back and focus on “normalized earnings” and the dilution risk for these
    banks and the market’s response to the results confirms this view in the short run.
    Some analysts view this view as insane because (i) the credit cycle is not over, and (ii)
    “normalized” earnings are a long way off

♦ Investor Confidence
  • In early April and through last week, the President, the Fed and the UST have all made
    upbeat statements about the economy and the length of the recovery
  • The President stopped bashing Wall Street and the banking industry
  • There is only $110 million of TARP funds left for release by Congress, and the
    President has said he does not want to call on Congress to expand the funding
  • The capital holes are not as deep as many investors thought they would be
  • Have U.S. investors been gamed by an administration which needs investor
    confidence, but does not want to go back to Congress and ask for bailout money
  • Regardless, the rally on Friday and Monday suggest confidence is on the rise whether
    or not warranted
Stress Test – Observations and Commentary

♦ Why the Switch to the Tier 1 Common Capital Ratio? – Quite possible to help Citi and B of A get the amount of capital they needed to raise down to an amount which was doable and thus avoid nationalization

♦ M&A
  • No one we know sees any head long rush into M&A as a result of the stress test. We see sales of business units and branches to generate assets, but not traditional M&A. Some have taken a contrary view and suggest that the stress test calls for consolidation and suggested mergers between Sun Trust and BB&T, KeyCorp and US Bancorp, and Regions and PNC

♦ Will capital be available for the 19?
  • With the insolvency risk removed and unprecedented transparency on asset quality and earnings, the answer is “yes,” subject to concerns:
    – About dilution
    – That the economy and that estimated losses will be worse than the adverse case
    – That the banks will not earn as forecasted over the next 6 or 7 quarters
    – About what new risk weighting, new capital requirements and increases in supervisory cost will have on returns and valuation over time
Stress Test – Observations and Commentary

- Transparency for the 19 is beyond anything in American history
- Some say the full $160 billion over the next few months is not in the cards and that private equity will not be there to help
  - “Unlikely” says Joshua Siegal of Stone Castle Partners – The TRUPS Pool people
  - “Unlikely” says Blackstone President Tony James
  - “Remember the WAMU”
  - “We all want another Indy Mac deal.”
- 10 of the 19 have announced common equity money raises –
  - Will capital be there for Community Banks? We don’t think so at valuations that make sense
  - No transparency
  - Insolvency risk still present
  - Earnings problematic
  - High capital requirements as a percentage of market cap
Stress Test – Observations and Commentary

♦ Effect of Stress Test on PPIP legacy programs – PPIP may be moot for the 19
  • The 19 will probably be comfortable holding loans in light of the UST stamp of approval of the Stress Test behind them
  • Why sell assets at FV when you know FV is lower than life of loan “Cash flow” valuations, especially if you are relying on those loans through 2010 for earnings with or without a stress test and by selling them at FV you increase your capital hole

♦ New Capital Standard?
  • The UST has gone out of its way to state the SCAP Buffer (6% Tier 1 ratio and 4% Tier 1 common capital ratio) does not represent a new capital standard
  • Maybe not today, but how about tomorrow?

♦ Will SCAP spur lending by community banks?
  • Unlikely:
    − Many banks will be in a planned low growth mode to conserve capital
    − Demand for loans is down, absent dislocation and the flight away from the big banks, which as a result of the stress test shall wane
    − Underwriting standards
    − Credit spreads
Our Take –
What Does All of This Mean to Community Banks?
Our Take – What Does SCAP mean to Community Banks?

- **Third Party Analyses**
  - Stress test analyses by third parties and reliance on them by the market is inappropriate and misleading:

<table>
<thead>
<tr>
<th></th>
<th>Government Stress Test</th>
<th>Third Party Analyses</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Loss Estimates</strong></td>
<td>Indicated loss ratios</td>
<td>Ratios indicated by UST</td>
</tr>
<tr>
<td></td>
<td>adjusted to make bank</td>
<td>with no or very little mgt.</td>
</tr>
<tr>
<td></td>
<td>specific</td>
<td>input or tailoring</td>
</tr>
<tr>
<td></td>
<td>Strong management input</td>
<td>No management input</td>
</tr>
<tr>
<td><strong>Earnings Estimates</strong></td>
<td>Management estimates</td>
<td>IBES street median</td>
</tr>
<tr>
<td></td>
<td>tested (especially as to ALL adequacy) by UST</td>
<td>estimates</td>
</tr>
<tr>
<td><strong>Resources Available</strong></td>
<td>Inclusion of planned assets sales results; debt equity swaps, etc</td>
<td>Not included</td>
</tr>
<tr>
<td><strong>Negotiation of Final Hole</strong></td>
<td>Substantial</td>
<td>Non-Existent</td>
</tr>
</tbody>
</table>
Our Take – What Does SCAP Mean to Community Banks

♦ **Should Banks Perform Their Own SCAP-Like Stress Tests?**
  - We think the answer should be “yes” for two reasons: First, the exercise will help management prepare for the next exam, and, second, it will help deal with the investor community and other third parties.

♦ **Independent Review**
  - Should banks engage a third party to conduct a stress test using a SCAP-like process? Probably not. We think it would be better to attack the credibility of the third party guesstimater. Banks should also talk to your lawyer.

♦ **Impact of SCAP Competitive Position**
  - The government “seal of approval” resulting from stress test, together with statements that the government will not permit any of the 19 to fail has to help the 19 competitively in the hunt for deposits effectively ending over the rest of 2009 the dislocation experienced in many markets as customers fled from the 19 to community banks.
  - The big banks will get bigger absent the core assumptions of the stress test being wrong.

♦ **Impact on Equity Market for Community Bank Stocks**
  - Could be favorable – community bank valuations clearly are impacted by big bank valuations, **BUT NOTE:**
    - The transparency, absent third party review or management evidence, relates to the 19, not other banks
    - The elimination of the insolvency risk relates to the 19, not other banks
    - TBV valuations become more problematic in light of the absence of loss estimates resulting from a stress test
    - Earnings for the rest of 2009 will be adversely impacted by rising NPAs and slowed growth to preserve capital

♦ **Will Examinations Involve SCAP-like Analysis Going Forward**
  - We think most probably – yes
OUR OVERALL TAKE

Community Banks Were First Tarped and Now Will Be Scaped and Feathered
About Griffin

For Information About Griffin And Our Platform, Please Visit Our Website:
www.griffinfingroup.com
Our Griffin Financial Institutions Group is part of an integrated professional services firm consisting of:

- A FINRA licensed investment bank focusing on the financial services sector
- A full service AmLaw 200 law firm focusing on the financial services sector
- An SEC registered money manager focusing on the community bank sub-sector, with exceptional sector insights and exceptional track record
- A private equity placement and due diligence business which understands the intersection between the financial institutions and private equity sectors
- A D&O and E&O insurance risk consulting business focusing on the financial institutions sector
- A tax consulting business which assists financial institutions manage its tax provision
- Strong federal and state government affairs and several other businesses which focus on financial institutions and complement and expand our platform
Our Platform – How We Are Different

- Our Griffin Platform consists of over 240 multidisciplinary professionals covering the Northeastern U.S. from 17 offices
  - Our platform stresses the value of occupational and educational diversity and sector experience
  - In addition to sector experienced investment bankers, lawyers, placement agents, government affairs and investment professionals, our team members include former senior executive officers, accountants, tax professionals, risk managers, regulatory compliance officers, economists, swap advisors, and research analysts
    - The inclusion of in-house, industry specific financial accounting and tax capabilities in Griffin is unique among investment banks specializing in the financial institutions sector

- Our Griffin Platform stresses the value of understanding sector needs from its clients’ perspective
  - Our staff includes many former senior executive officers of both large and small depository institutions, specialty lenders and others in the sector with hands-on operating and transactional experience
    - Our professionals have managed and built both small multi-billion institutions growing them organically as well as via acquisition and then selling them. These capabilities are in addition to those of any other investment bank which generally lack professionals with any meaningful operating experience in the sector

- Our Griffin platform also consists of transactional professionals with broad and deep and best of class bank and thrift experience comparable to or better than any of its competitors

- Our sector experience coupled with our occupational and educational diversity, multi-disciplinary approach and experienced transaction professionals combine to deliver exceptional value to our clients
Disclosure Statement

This presentation is not considered complete without the accompanying oral presentation made by Griffin Financial Group (“Griffin”)

The observations, takeaways and other information contained herein involve many assumptions regarding trends, industry-specific operating characteristics, financial market perceptions and the general state of the economy

The information contained in this presentation have been obtained from sources that are believed to be reliable. Griffin makes no representations or warranties as to the accuracy or completeness of the information herein

The information contained herein does not constitute legal, accounting or financial advice