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Buyers and Bleeders

Invictus believes more than half of US banks should or must undertake M&A activity in order to preserve shareholder value. The sooner they act the better—the capital (i.e. the purchase price) of the banks needing to sell greatly exceeds the buying capacity of the banks that must or should buy. This imbalance implies that the early movers will achieve the better results.

Executive Summary

Invictus Consulting Group runs a stress test on all 7,200+ US banks each quarter using publicly available data. We rate and rank each bank. The impact of the 2007-2009 recession on bank loans and capital, the prolonged recession/jobless recovery, and an historically low interest rate environment have created an extraordinarily difficult time for many banks, leaving them few viable options. For other banks, there are tremendous opportunities.

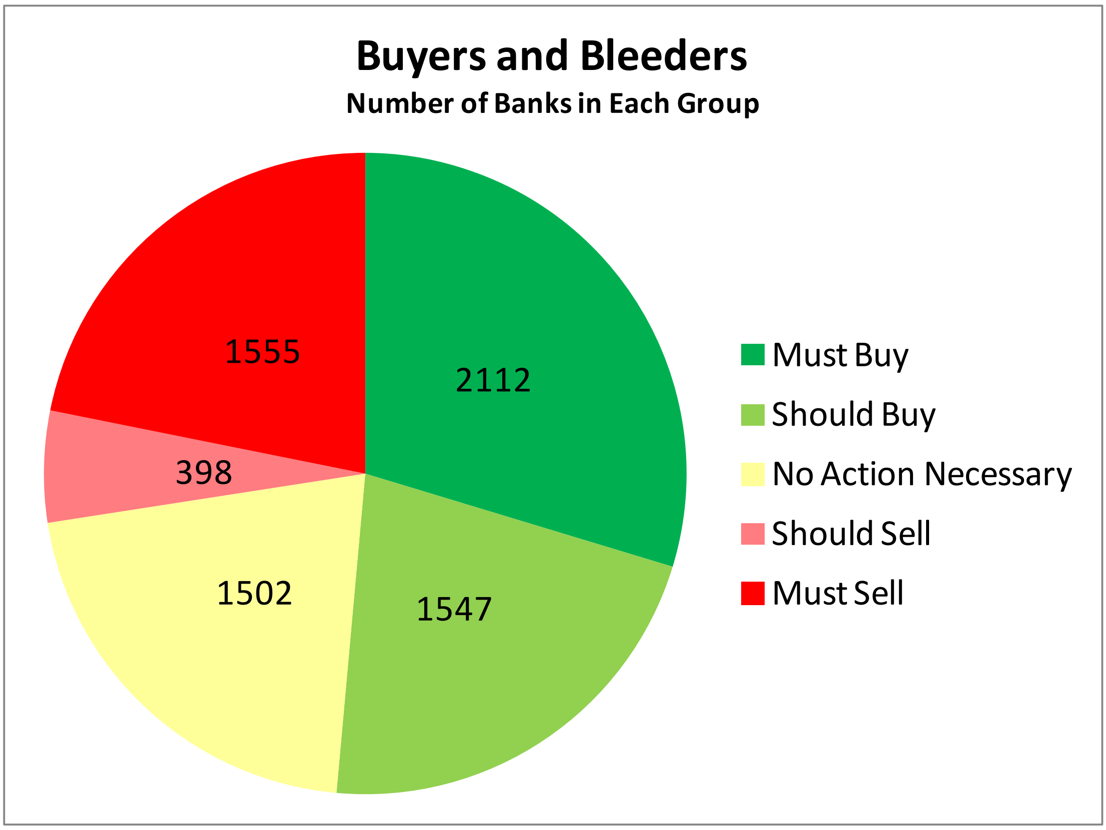
Capital requirements are tightening due to the Dodd-Frank Act and Basel III regulations, with the consequence that many banks will require hefty capital increases. Capital used to be cheap and readily available -- now it is expensive or not available at all. Bank earnings are likely to remain under pressure over the next few years. **For a majority, consolidation means survival** – while others have a chance to make game-changing acquisitions. Overall, this inevitable activity will result in massive industry consolidation along with far-reaching changes in the way services are provided to retail and commercial bank customers on a local basis.

The U.S. banking landscape is characterized by increasing regulatory capital requirements, an economic environment of declining net interest margins, limited access to capital, increasing competition, and the widening disparity between strong and weak banks. This leaves many U.S. banks with limited options for increasing return on shareholder capital, except to look for an agreeable M&A partner.

This "Buyers and Bleeders" report is an offshoot of our quarterly stress testing review of all banks within the continental US. It is not intended to be a comprehensive review of the present or expected mergers and acquisitions activities in the marketplace. However our forward-looking stress tests result in projected capital and income levels, and performance under stress, for each and every bank. These results can then be used to measure each bank’s potential for M&A activity – allowing us to categorize each bank as a buyer, a seller, or (for banks with acceptable returns and capital levels) as either.

According to our latest analysis, there are 1,953 banks with assets totaling $1.2 trillion and estimated purchase price of $139 billion (assuming **no** purchase premium) that can protect shareholder value only by selling or merging. There are 3,659 banks with assets of $2.2 trillion that can and should acquire -- however those banks have only $57.6 billion of Free Capital available for purchasing. A third group of 1,502 banks, with assets of $1.2 trillion and Free Capital of $39.7 billion, are currently comfortably positioned, but could also decide to do a transaction. **Thus, the Free Capital available is exceeded by the estimated purchase price of the banks that must or should sell.**

Invictus helps banks, institutional investors and investment bankers to best position themselves for this coming wave of M&A activity. The Invictus stress-based analysis of potential banks for sale, coupled with the significant imbalance between buyers and sellers, creates an extraordinary opportunity for non-bank investors to capitalize on the market.



In this analysis and in all our stress testing processes, we have assumed that presently-contemplated regulations will be imposed. However the regulatory position is subject to change, which will create changes in the outcome of our analysis.

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Major conclusions

1,953 Banks Should Sell

- There are 1,953 banks with required or reported Tier 1 Capital of $108.5 billion and representing $1.2 trillion in assets whose capital and/or returns are so low that, barring some extraordinary strategic action, they **need to sell or merge to preserve shareholder value**.
- Of that group, 1,555 banks with required or reported Tier 1 capital of $84 billion representing $775 billion in assets and having a mean Return on Required Tier 1 Capital of -3.1% **must sell or merge** or they will continue to decline.
- The balance, 398 banks with required or reported Tier 1 capital of $54 billion representing $460 billion in assets, and having a mean Return on Required Tier 1 Capital of 12.8%, should very seriously **consider a sale or merger** option because they simply will not thrive due to insufficient post-stress capital.

3,659 Banks Should Be Buyers

- There are 3,659 banks with Free Capital of $57.6 billion representing $2.2 trillion in assets that should seriously consider acquisitions.
- Of that group, there are 2,112 banks representing $1.3 trillion in assets that, despite having a potential war-chest of Free Capital under stress ($25.8 billion), generate extremely low returns on their Required Tier 1 Capital (0.4%). It is doubtful that organic growth would be sufficient for these banks to rebuild their returns, leaving acquisitions as their best option. These are the **Must Buy** banks.
- The balance of 1,547 banks representing $893 billion in assets have a total of $31.8 billion in Free Tier 1 Capital, and Returns on Required Tier 1 Capital after stress of 8.8%. While their capital is sufficient, their returns are merely adequate and they should take action to improve. These are the **Should Buy** banks.
- Additionally there are 1,502 banks with Free Tier 1 Capital of $39.7 billion that can ride out the next few years without having to take a major strategic action (the "No Action Necessary" banks). However it is entirely possible that banks in this group, seeing "blood in the water" (banks failing, unrealistic selling expectations), would step in as opportunistic buyers.
- Imposing a minimum Tier 1 Capital threshold of $25MM on the buyers reduces the number of banks that are Must Buys to 696 and the Should Buys to 585.

Regional Breakdown

	No. of Buyers	Assets ($ bil)	Free Capital ($ bil)	No. of Sellers	Assets ($ bil)	Required Capital ($ bil)
New England	161	$106.2	$3.0	111	$118.7	$12.4
Mideast	346	568.8	9.7	176	398.3	38.5
Southeast	889	455.9	12.1	496	199.7	21.9
Great Lakes	734	418.8	9.1	375	202.0	20.3
Plains	773	148.1	5.1	458	114.7	12.9
Rocky Mountains	126	41.4	3.0	58	38.2	14.0
Southwest	417	198.1	5.3	179	120.0	13.6
Far West	207	252.6	9.7	98	36.4	4.4
Other	6	19.9	0.5	2	7.7	0.9
Total	3,659	$2,209.8	$57.6	1,953	$1,235.7	$139.0

The Demand/Supply Imbalance and its Implications

- The capital requirement of the Should Sell and Must Sell banks is more than twice the Free Capital of the Should Buys and Must Buys.
- If we add in the Free Capital of the No Action Necessary banks ($39.7 billion) and consider them potential buyers, the capital required of the sellers is still more than the Free Capital of all potential buyers. **This difference indicates a serious imbalance.** While M&A transaction volume has been muted to date, we believe that **an increase in activity in a buyers' market is in development**.
- We believe that more and more banks in the Must and Should Sell groups will become increasingly interested in selling as their profitability continues to erode. As more banks look to sell, we expect to see transaction multiples decline and possibly move to a discount. **Selling banks that wait will become the victims and suffer lower price/earnings or price/book ratios compared to what they will fetch by selling now**.
- To further complicate the situation, some banks we have identified as buyers would likely become sellers if presented with a good bid. Their superior financials will attract the attention of larger banks – which naturally increases the imbalance of buyers to sellers. However, there is little chance for a seller to become a buyer unless it is able to raise capital – a rare feat in the current economic situation.
- The No Action Necessary group of banks, 1,502 banks with $1.2 trillion in assets. This group is neither pressured to buy nor sell, but may act opportunistically. If members of this group take action, the demand/supply imbalance could change in unpredictable ways.
- Finally, the implementation of Basel III could exacerbate the imbalance, as capital requirements increase.

Additional explanation and detail constitutes the remainder of this analysis.

Stress Testing the Results

Our powerful models permit us to estimate regulatory capital with great accuracy. We have looked to CCAR and Dodd-Frank for guidance in designing our stress tests to duplicate a Severely Adverse case of a double dip recession. We have extended that process to all banks so that it is applied consistently and evenly nationwide. Thus, even if there are change in the parameters, economic forecasts or regulatory capital requirements, **the relative performance of the banks to one another will generally not change materially**. (For more detail on our stress testing methodology, please refer to our website http://www.invictusgrp.com/.)

The M&A Selection Process

We have divided the banks into three groups: Buyers, Sellers, and No Action Required. This categorization is driven by Invictus' patent-pending models, and makes the following assumptions.

- Each bank is considered "as is." No strategic actions, such as capital raises, are available to fix the banks.
- Each bank is considered as a stand-alone entity. Parent companies are ignored.

Buyers have enough capital available to purchase other banks and are subdivided into "Must Buy" and "Should Buy." Neither category has demonstrated the ability to generate acceptable returns on capital, but Must Buy banks need to take action sooner rather than later.

For each Buyer (and also for the No Action Necessary banks) we calculate the amount of *Free Capital* available for purchases. **Free Capital** is the difference between their actual capital and 120% of their forecast required regulatory capital, post-stress in a Severely Adverse case. We gross up the regulatory capital by 20% to leave a capital cushion, as is recommended by Basel III guidance and consistent with regulators' calculations. **Post-stress regulatory capital is the constraining factor for buyers.**

While Buyers demonstrate sufficient capital but insufficient returns, Sellers have both capital and returns that are insufficient. Some are unsustainable, i.e. their capital levels are such that regulators may close them over the medium term. Others have just enough capital to sustain themselves, but are not in a position to improve returns via organic growth or acquisitions. Impeded by low interest rates and low net interest margins, insufficient loan demand, and strong competition, these banks will not generate returns sufficient to reward existing shareholders or to raise outside capital. These banks will **"bleed" value** if they wait for transaction multiples to improve.

In order to value each Seller, we assume neither premium nor discount to their capital value – i.e. we value the Sellers at par. While there are currently premiums over book value being paid on acquisitions today, our analysis shows that these will likely disappear as **the amount of capital available to acquire banks is significantly less than the value of the banks needing to be acquired**. **Thus the premiums will decline and very likely become discounts** as more potential sellers are forced into a selling posture. Where a Seller's projected capital is less than its projected regulatory capital, we use regulatory capital as the true cost. In such cases the Buyer will need to demonstrate to the regulator that it can recapitalize the purchase to the regulatory level.

The No Action Required banks have both sustainable capital and earnings. These banks may well emerge as opportunistic buyers of other franchises, but they are under no immediate pressure to act.

This analysis does not include potential capital introduced into the market from private equity. Nor does it look at mergers of equals.

Selection Universe

All 7,200+ US banks were stress tested. A number of these banks were eliminated from the analysis for the following reasons:

- We believe that the 19 Comprehensive Capital Analysis and Review (CCAR) banks (i.e., “too big to fail”) and their subsidiaries are neither buyers nor sellers at this time.
- Banks with less than 10% loan to assets were eliminated. These are typically “trust banks,” banks in name only, or de novo banks that had not begun to expand their lending.
- Banks owned by European parents were eliminated. Europe’s own banking problems make acquisitions impossible. However, because of the need for a US market presence, we do not believe that any of them are sellers.
- Certain banks were removed due to data reporting inconsistencies.

This left us with a universe of 7,114 banks.

The Tests

Capital Adequacy Test

We assume that regulators will increasingly be inclined to evaluate the capital adequacy of banks under a Severely Adverse case via a stress test. Using our proprietary Invictus Capital Adequacy Model (ICAM) (www.invictusgrp.com/about/icam.php) and LoanLayering (www.invictusgrp.com/about/loan-layering.php) technology, we have stressed each bank individually to compute its excess capital (if any). From this number we have included an imputed Capital Conservation Buffer as discussed in the proposed Basel III guidelines. Although this is not a rule or even a guideline yet, our experience indicates that regulators in practice are already looking for a capital buffer when evaluating banks’ potential strategic decisions.

Return on Required Tier 1 Capital Test

The second test is the Return on Required Tier 1 Capital test. We compute Required Tier 1 Capital by calculating the capital that would be necessary to have today to ensure the bank meets the required minimum Tier 1 capital *after stress*.   This approach is consistent with the CCAR approach. Together with the Capital Adequacy Test, we filtered and classified the banks in terms of their need to buy or sell. Return on Required Tier 1 Capital (RORT1C) is presented in the tables below.

Deal Liquidity

Banks with liquidity to execute transactions will be in a better competitive position. Liquidity gives a bank flexibility in how to consummate a transaction, either with cash or stock. To this end, we have developed various proprietary tests involving the securities balances and liquidity tests for publicly traded banks.

Geographical Footprint

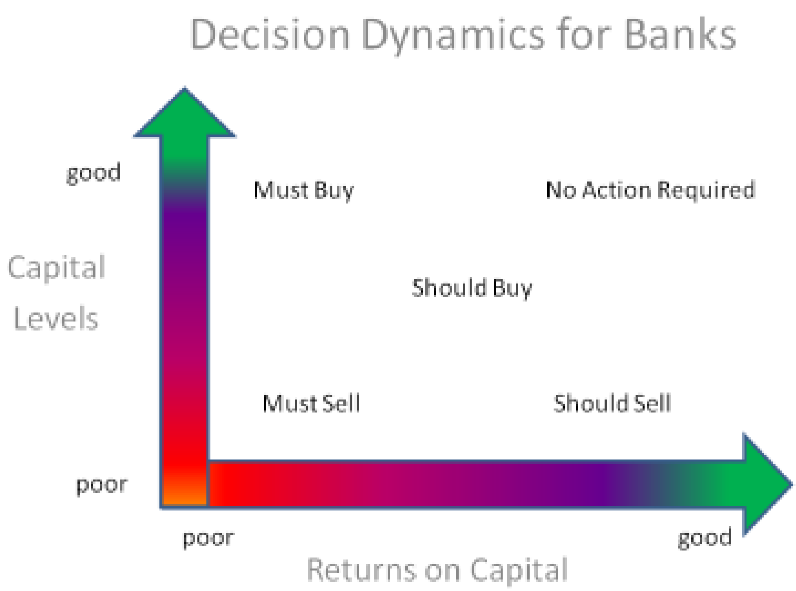
Coming up with a list of buyers and sellers is the first step. For historical and regulatory reasons (such as the lack of desire of engaging an additional regulator or regulatory regime), the majority of US banks have single-state geographical footprints. While there will always be exceptions, we believe that the majority of the bank acquisitions that will occur will involve a stronger bank buying a weaker bank within the state, or a defensive mergers of equals.

The Filters

Buyers, Sellers and the remainder were segregated on the basis of regulatory capital and returns on that capital.

As shown in the CCAR exercise, capital adequacy will be defined in the context of a severely adverse economic environment. Using our proprietary methodologies, we individually stressed each bank in the dataset. Our determination of regulatory capital in our Severely Adverse case set the base for measuring capital adequacy. Banks with a specified margin above the calculated minimum are potential buyers. **Post-stress regulatory capital is the constraining resource.**

Returns on regulatory capital were then used to determine whether banks could profitably grow and generate acceptable returns to shareholders. Banks with poor returns would be forced to take action sooner, while banks with acceptable or good returns had more time to consider strategic alternatives.



As we continue to refine our criteria, we may add or remove certain filters in future editions of this report.

The Results

Buyers and How Much To Spend

Must Buys

Given the prospective economic environment of a jobless recovery, the group of banks that must make acquisitions includes those that have a sufficient amount of excess capital but inadequate Returns on Required Tier 1 Capital (RORT1C).

Must Buy	No. of Banks	Total Assets ($bil)	Free Capital ($bil)	RORT1C	Buying Capacity ($bil)
New England	142	$78.4	$2.2	-1.5%	$45.0
Mideast	243	497.8	6.4	0.8%	139.5
Southeast	524	244.7	5.3	-0.1%	128.6
Great Lakes	429	212.3	5.0	1.4%	103.8
Plains	369	59.5	1.6	0.4%	39.7
Rocky Mountains	66	11.4	0.3	-3.8%	6.9
Southwest	199	104.4	1.8	1.5%	41.7
Far West	135	88.8	2.7	-1.1%	62.3
Other	5	19.8	0.5	2.7%	12.4
Total	2,112	$1,317.0	$25.8	0.4%	$580.0

Should Buys

The difference between the Must Buys and the Should Buys is driven by sustainability of returns. The Should Buys have excess capital available for acquisition, but also have higher Return on Required Tier 1 Capital. These banks could continue to struggle along the way they are, generating inadequate but survivable returns, but we believe that they should do a deal to maximize shareholder value.

Should Buy	No. of Banks	Total Assets ($bil)	Free Capital ($bil)	RORT1C	Buying Capacity ($bil)
New England	19	$27.8	$0.8	6.9%	$15.7
Mideast	103	71.1	3.3	8.5%	78.5
Southeast	365	211.2	6.8	8.2%	145.9
Great Lakes	305	206.6	4.1	7.7%	97.5
Plains	404	88.6	3.5	9.5%	85.0
Rocky Mountains	60	30.0	2.7	23.4%	46.6
Southwest	218	93.7	3.5	9.2%	78.6
Far West	72	163.8	7.0	8.7%	134.3
Other	1	0.1	0.0	14.9%	0.3
Total	1,547	$892.8	$31.8	8.8%	$682.3

How Much to Spend

From a practical perspective, most banks making acquisitions would generally not want to risk more than 20-30% of their capital in any one transaction. To extent that their Free Capital is greater than that of the guideline, they are unlikely to spend all of the free capital on a single acquisition. As such the capital truly available is less than our calculations, which further increases the imbalance between Buyers' Free Capital and Sellers' capital requirements. **Narrowing the focus to only publicly traded banks produces an even more interesting picture, which is available to subscribers to our proprietary analysis.**

Sellers Should Sell Soon

Must Sells

We include in this category all banks that have deficient or barely acceptable capital and poor Returns on Required Tier 1 Capital. These banks will have significant problems competing against stronger, well-capitalized banks in their states and regions. The ravages of flat loan origination will continue to put pressure on these banks.

Must Sell	No. of Banks	Total Assets ($bil)	RORT1C	Required Capital ($bil)
New England	107	$110.8	-1.2%	$11.4
Mideast	163	179.6	-0.8%	17.2
Southeast	425	167.6	-5.7%	18.9
Great Lakes	314	110.7	-3.2%	12.3
Plains	287	66.7	-8.4%	8.3
Rocky Mountains	54	11.0	-6.1%	1.3
Southwest	114	97.0	1.2%	11.3
Far West	89	24.7	-3.5%	3.1
Other	2	7.7	-10.1%	0.9
Total	1,555	$775.8	-3.1%	$84.7

Should Sells

This is an interesting category in that there is less immediate selling pressure on this group. These banks are capital constrained but still produce acceptable Returns on Required Tier 1 Capital. Thus, while they provide a mediocre (but positive) or even reasonable return**, their lack of available post-stress Tier 1 capital will limit their growth. We believe that, over the stress horizon, the value of these banks will begin to decline**. As more of the Must Sells are sold, Should Sell banks will find themselves in an even less desirable position to be acquired. Maximum sale value for shareholders would be achievable sooner rather than later. Waiting out the market is not conducive to providing a good transaction for the stockholders.

Should Sell	No. of Banks	Total Assets ($bil)	RORT1C	Required Capital ($bil)
New England	4	$7.9	5.5%	$1.1
Mideast	13	218.7	15.8%	21.4
Southeast	71	32.0	9.1%	3.0
Great Lakes	61	91.3	9.5%	8.0
Plains	171	48.0	8.8%	4.6
Rocky Mountains	4	27.2	13.3%	12.7
Southwest	65	22.9	10.2%	2.3
Far West	9	11.7	12.5%	1.3
Other				
Total	398	$459.9	12.8%	$54.3

State Level Summary

The dollar figures below are all in ***millions***, unlike previous tables in the document which are in billions.

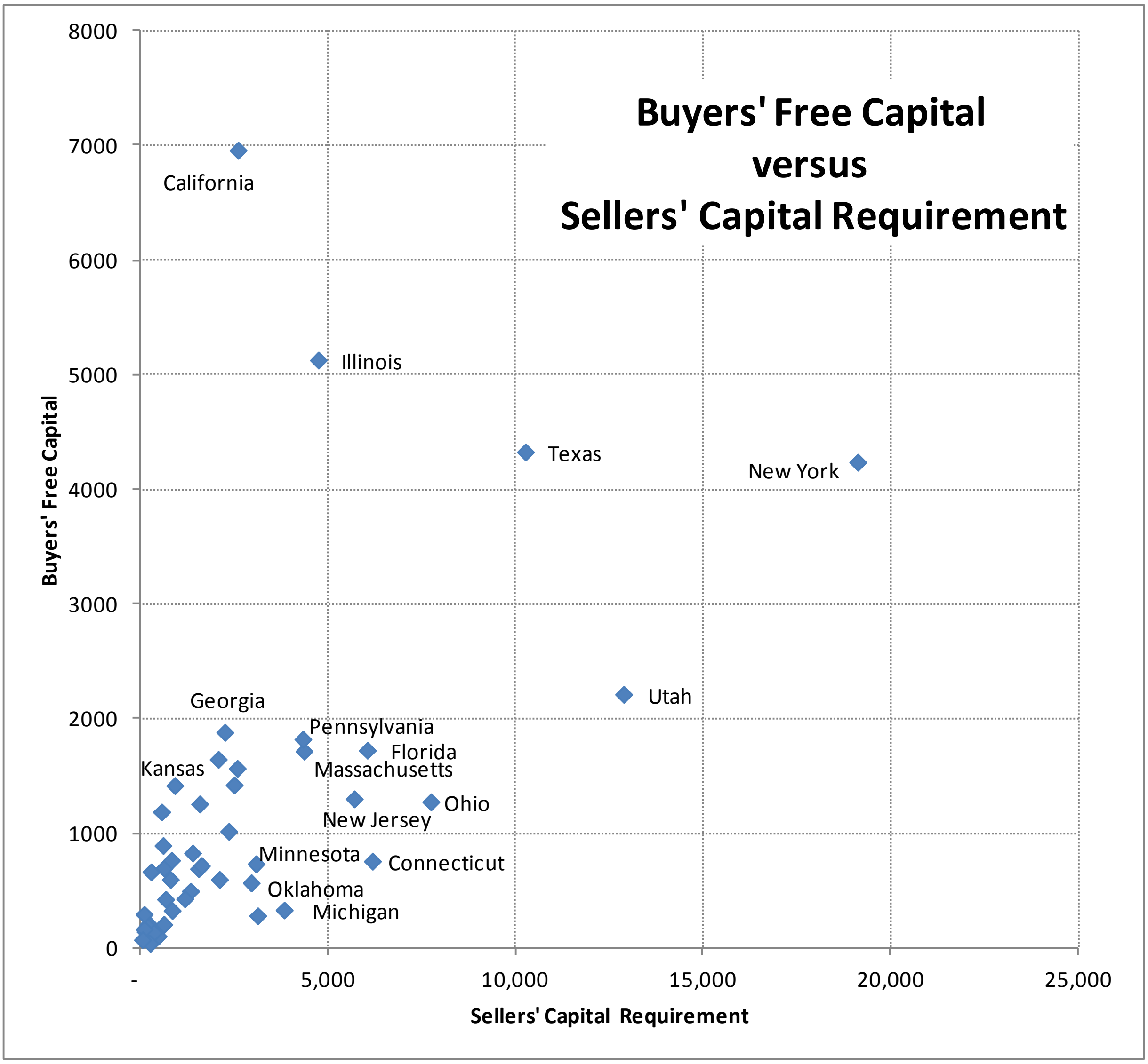
	No. of Buyers	No. of Sellers	No. of "No Action Nec."	Free Capital Must Buy	Free Capital Should Buy	Required Capital Must Sell	Required Capital Should Sell	Free Capital Buyers	Free Capital No Action	Required Capital All Sellers	Total Free Capital / Seller Req't
Alabama	87	28	23	$353	$543	$516	$98	$896	$319	$614	198%
Arkansas	68	23	35	300	398	585	55	698	827	641	238%
Arizona	13	13	4	199	14	228		213	62	228	120%
California	137	53	50	2,097	4,863	1,375	1,240	6,960	4,362	2,615	433%
Colorado	55	23	26	99	327	662	23	426	493	685	134%
Connecticut	27	23		581	177	6,190		758		6,190	12%
Florida	92	100	21	1,013	714	6,012	46	1,726	1,169	6,058	48%
Georgia	105	90	38	545	1,339	2,029	232	1,883	844	2,261	121%
Iowa	143	65	131	130	562	812	753	692	703	1,565	89%
Idaho	9	6	1	86	106	198		192	89	198	142%
Illinois	309	146	111	3,549	1,581	4,039	713	5,130	1,628	4,752	142%
Indiana	83	33	21	221	608	951	449	830	475	1,400	93%
Kansas	161	61	91	768	649	652	275	1,417	874	927	247%
Kentucky	115	47	31	384	334	851	788	719	575	1,639	79%
Louisiana	79	31	35	557	461	1,955	410	1,018	307	2,364	56%
Massachussetts	93	55	5	1,177	541	3,563	808	1,718	126	4,371	42%
Maryland	42	34	3	239	258	1,345		497	42	1,345	40%
Maine	17	11		172	35	637		207		637	32%
Michigan	58	51	19	147	185	3,238	603	332	650	3,842	26%
Minnesota	154	162	67	240	495	1,877	1,215	735	387	3,092	36%
Missouri	135	105	84	264	1,159	1,395	1,114	1,423	1,285	2,509	108%
Mississippi	52	15	20	124	473	703	109	598	378	812	120%
Montana	32	13	20	57	87	139		144	1,018	139	834%
North Carolina	52	33	5	488	110	2,116		598	953	2,116	73%
North Dakota	27	16	46	58	45	190	294	104	239	484	71%
Nebraska	117	39	60	93	337	286	908	430	589	1,194	85%
New Hampshire	14	8		102	34	366		136		366	37%
New Jersey	61	40	5	1,021	280	5,352	356	1,301	139	5,708	25%
New Mexico	22	7	19	52	113	58	56	165	220	114	338%
Nevada	7	6	7	37	258	109		295	7,194	109	6893%
New York	110	32	16	2,576	1,663	7,197	11,922	4,239	1,149	19,119	28%
Ohio	149	66	14	830	446	1,940	5,810	1,276	191	7,749	19%
Oklahoma	76	64	98	56	513	2,175	789	569	771	2,964	45%
Oregon	21	10	2	61	604	296		665	25	296	233%
Pennsylvania	118	64	18	1,141	681	3,133	1,209	1,822	467	4,342	53%
South Carolina	38	26	7	521	245	833	7	767	127	841	106%
South Dakota	36	10	31	48	234	3,049	88	282	496	3,137	25%
Tennessee	95	59	30	259	1,388	1,744	342	1,647	435	2,085	100%
Texas	306	95	182	1,464	2,865	8,812	1,453	4,329	3,281	10,265	74%
Utah	16	9	19	38	2,176	270	12,615	2,213	2,731	12,885	38%
Vermont	6	8		40		275		40		275	15%
Virginia	57	35	13	589	669	1,460	131	1,258	345	1,591	101%
Washington	34	25	12	428	760	538	36	1,188	538	574	300%
Wisconsin	135	79	55	291	1,277	2,160	431	1,568	807	2,591	92%
West Virginia	49	9	4	182	146	68	788	328	63	856	46%
Wyoming	14	7	14	46	26	54	15	72	138	69	305%
Smaller Areas	33	18	9	2,105	973	2,259	8,146	3,078	2,174	10,405	50%
				$25,829	$31,754	$84,693	$54,328	$57,583	$39,684	$139,021	70%

* Smaller Areas is comprised of Alaska, Delaware, District of Columbia, Guam, Hawaii, Micronesia, Puerto Rico, Rhode Island and Virgin Islands, each of which have five or fewer buyers and/or sellers.

Name-by-name details are available to subscribers to our proprietary data.

The State Level Summary shows the considerable variance in buying and selling opportunities within each state:

- New York, Texas and Utah have the highest aggregated seller capital requirements.
- Michigan, South Dakota, Connecticut, Ohio and Vermont show the greatest deficiency between Free Capital available and sellers' requirements.
- A very few states (Nevada, Oregon, California, Washington, possibly Kansas) run contrary to the national trends, and a seller's market could develop.



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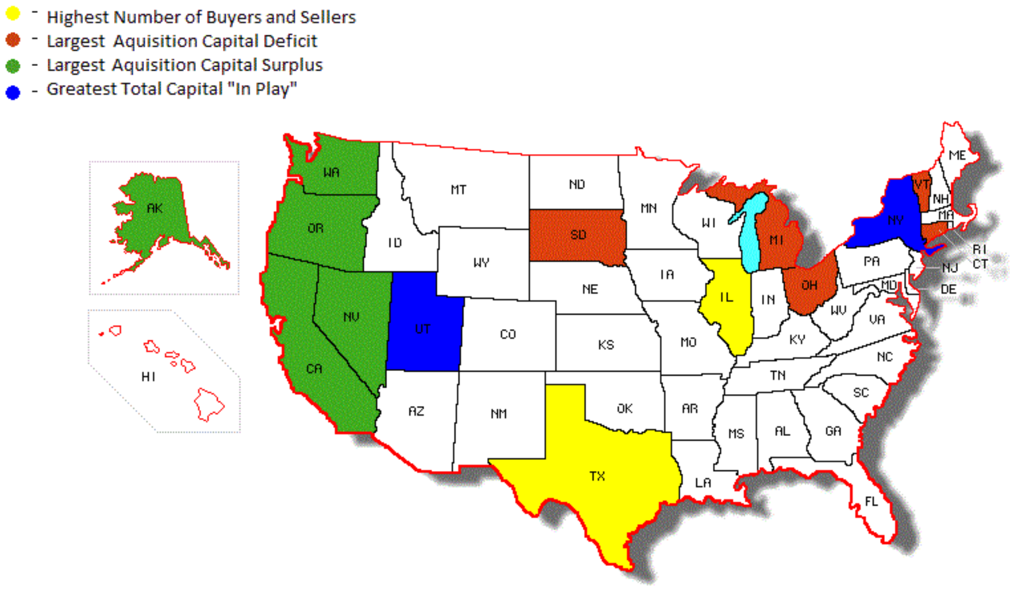


Attractiveness

The most attractive acquisition targets are likely the first to be scooped up. We believe that most community bank transactions will at least initially occur intra-state or between immediately adjacent states. Familiarity with local market conditions, physical proximity of premises, and a known regulator combine to offer the greatest possibility for cost reductions and earnings accretion. While the table below is aggregated into regions, we evaluated transactions on a state-by-state basis, including size and excess capital constraints.

We have categorized the sellers into five "Attractiveness" classifications. Because we believe that most transactions will occur intra-state or in adjacent states, we have considered each region separately. As expected, Should Sells generally rank higher than Must Sells. The Attractiveness ratings of the Sellers (both Should and Must Sells) are noted in the table below on a scale of 1-5 in which 1 is the most attractive and 5 is the least.

				Required Capital & Attractiveness ($bil)					
Capital	**No. of Buyers**	**Buyers' Free Capital**	**No. of Sellers**	**1**	**2**	**3**	**4**	**5**	**Total**
New England	161	$3.0	111	$11.8	$0.1	$0.2	$0.1	$0.3	$12.4
Mideast	346	9.7	176	32.6	2.9	0.4	2.0	0.7	38.5
Southeast	889	12.1	496	3.0	9.0	1.5	1.0	7.4	21.9
Great Lakes	734	9.1	375	8.4	3.7	4.3	1.3	2.7	20.3
Plains	773	5.1	458	3.2	3.8	0.5	1.1	4.3	12.9
Rocky Mountains	126	3.0	58	0.1	12.6	0.2	0.8	0.2	14.0
Southwest	417	5.3	179	11.8	0.3	0.1	0.4	1.0	13.6
Far West	207	9.7	98	1.0	1.9		0.6	0.9	4.4
Other	6	0.5	2				0.0	0.9	0.9
Total	3,659	$57.6	1,953	$71.9	$34.2	$7.2	$7.3	$18.3	$139.0

1= Most Attractive, 5= Least Attractive

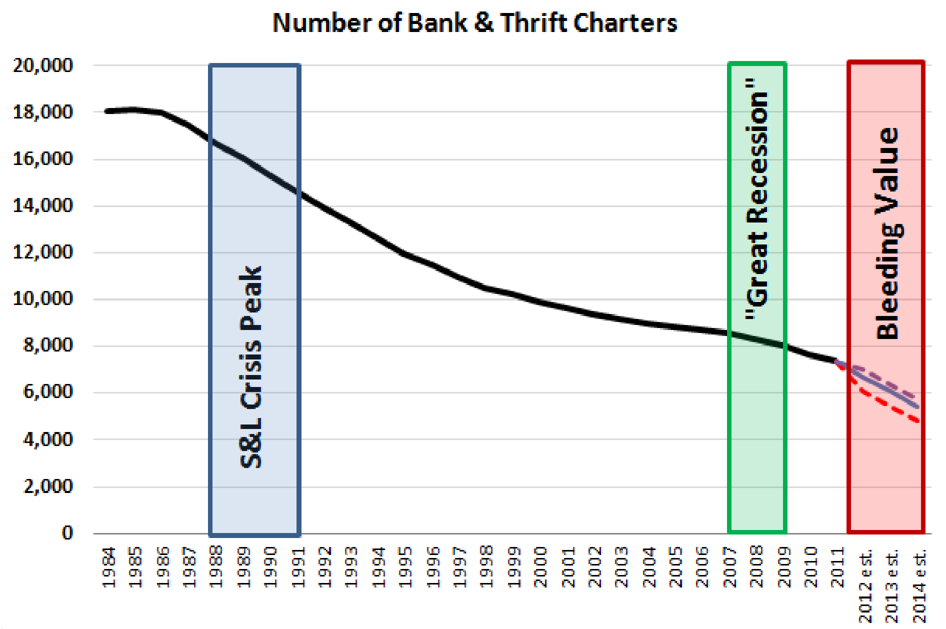
This table highlights a potentially serious demand/supply imbalance between buyers and sellers, even without consideration of some of the limiting factors noted above. There is no doubt that a market-clearing price will be found for the assets that must be sold. However, this imbalance will put pressure on prices, and in some cases the clearing price will be determined via FDIC auctions.

Once the easy in-state acquisitions are done, we believe that the stronger banks will feel more comfortable expanding beyond their local footprint. We have constructed the database that allows the screenings and sorting of potential buyers and sellers on a contiguous state basis. Thus, a bank in New York might acquire a bank in New Jersey, Connecticut, Massachusetts or Vermont. We then sort and scan these potential transactions based on the post-stress desirability of the deal, and rate and rank them by their impact to stressed earnings and post stress capital levels. That data is part of our proprietary dataset and not presented here.

Conclusion

Traditional analytics use historical performance to derive conclusions about the future of the industry. In normal operating environments this may work. However, the financial bubble running up to the 2008 financial crisis, the subsequent recession and resulting regulatory pressures have **changed the banking industry forever.** The old methodologies no longer produce accurate results. Since banks operate in a highly regulated environment, where regulators place restrictions on their capital, **the only way to determine banks' ability to perform is by viewing them under the stress environment and evaluating their capital position in the same way the regulators do**. Once stress testing is done, then the strategic planning process can take place.

From the preceding analysis it is clear that the face of banking must and will change. There is very little doubt that, given the economic environment and given the paucity of available capital for smaller banks, **the number of banks will decline over the next several years**. This decline may simply be a continuation of recent history – but Invictus believes **the consolidation of the banking market is set to accelerate.** (The graph below presents a range of possibilities with three projected lines for 2012-2014. Source data for history is from the FDIC.)



Invictus' powerful stress testing technology identifies banks that need to take action, and sorts those that require action to survive from those for whom taking action is an expansionary opportunity. This information is of tremendous value to the banks themselves, to bank investors, to regulators, and to D&O insurers. Invictus provides detailed bank analytics to those parties, and also assists banks in corporate finance advisory services on mergers, acquisitions, divestitures, fund raising activities, sale or acquisition of assets, corporate restructurings, valuations and fairness opinions.

Over the next several months we will generate additional information, data and analysis about "Buyers and Bleeders."

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Invictus offers:

- Individual bank analysis including full performance under stress tests;
- Large Bank Stress Test & Strategic Planning services for Dodd-Frank banks;
- Customized Bank Stress Testing process for all banks;
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Please contact us to purchase a report, access to our data or for further information.

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