

Making the First Move: Consolidation of the Banking Industry



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Making the First Move: Consolidation of the Banking Industry

Current Banking Landscape

- ❑ **Unprecedented change has permanently altered the banking landscape over the last decade**
- ❑ **In recent years, industry focus has shifted from credit recovery to growth and profitability**
- ❑ **A tepid economy coupled with increasing regulatory burdens are leading to revenue headwinds, rising expenses and other operating challenges**
- ❑ **Focus on operating scale is high and expected to remain important**
- ❑ **Industry poised for meaningful consolidation**

The “New Normal” Operating Environment

Regulatory & Economic Factors Impacting the Banking Industry

Broader Based Growth Evident

- Economic growth accelerated in the 2nd half of 2014
- While loan growth is broader based, banks will find difficulty in maintaining loan growth at extremely competitive rates

Revenue Pressures

- NSF fees
- Interchange fees
- Continued low interest rate environment
- Derivatives, alternative investments, trading
- Impact of CFPB and Dodd-Frank

Higher Costs

- Increased regulatory costs
- Potential higher deposit rates to maintain core funding accounts
- Deposit assessments

Credit

- Decrease in credit costs/ reserve releases
- Proposed current expected credit loss reserve methodology

Capital

- Higher capital ratios (8% / 10% / 12%)
- Higher quality of capital
- Basel III
- Tier 1 Common ratio
- Capital conservation buffer

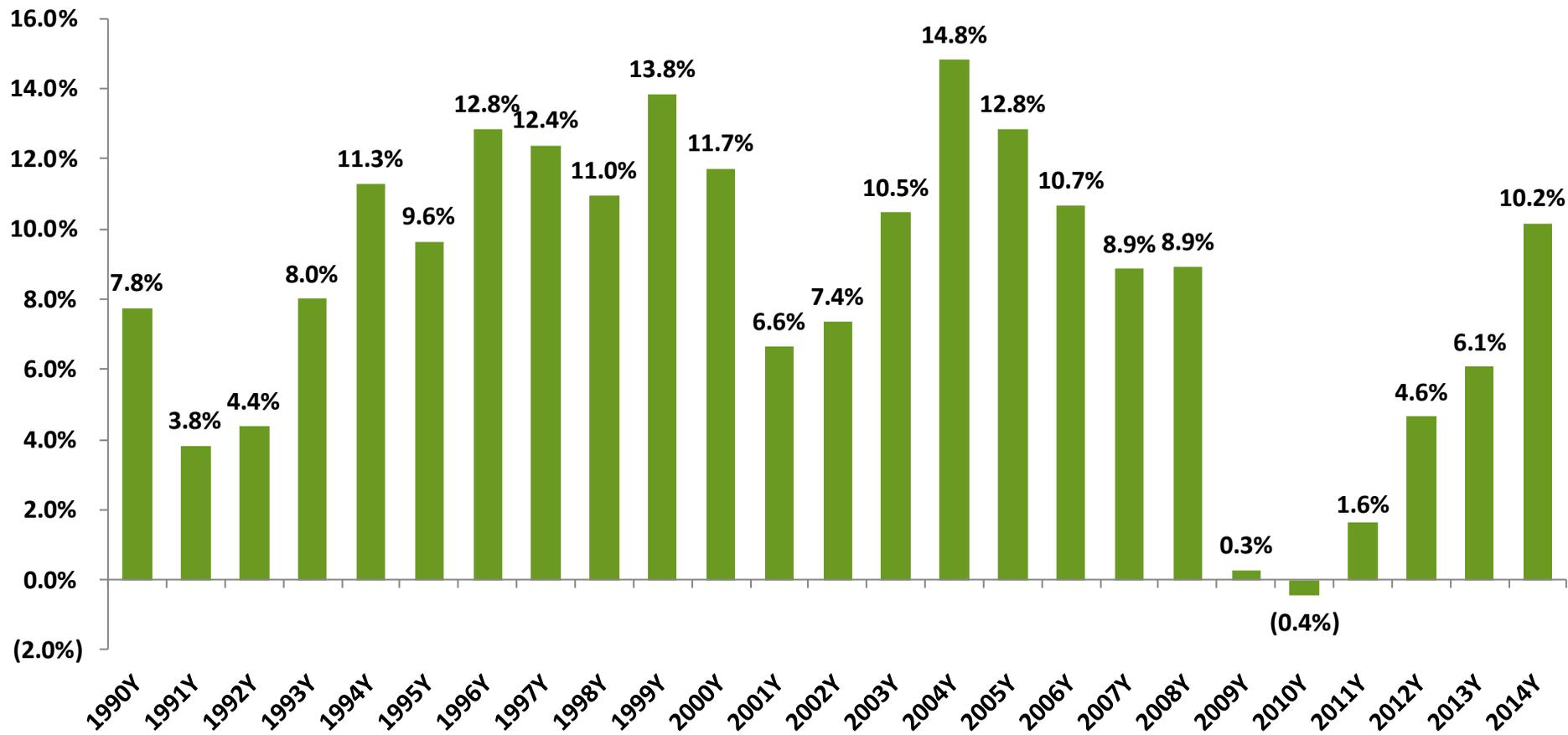
	Pre-Crisis Median ⁽¹⁾	LTM Median ⁽²⁾
Asset Growth	8.4%	7.1%
Net Interest Margin	3.94%	3.56%
Noninterest Income / Revenue	17.5%	20.4%
Noninterest Expense / Average Assets	2.94%	2.99%
Efficiency Ratio	61.8%	68.2%
ROAA	1.07%	0.91%
ROAE	11.2%	8.6%
EPS Growth	5.2%	10.3%
Loans / Deposits	92.5%	86.8%
NPAs/ Assets	0.34%	1.01%
Reserves / NPAs	195.3%	77.5%
Reserves / Loans	1.2%	1.3%
NCOs/ Avg. Loans	0.10%	0.12%
Tg. Common Equity / Tg. Assets	7.37%	9.17%
Tier 1 Ratio	11.71%	13.47%
Price / Tangible Book	245%	140%
Price / FWD EPS	15.7x	14.3x

(1) Based on public banks and thrifts between \$1.0 and \$10.0 billion in total assets as of the end of 2006

(2) Based on public banks and thrifts between \$1.0 and \$10.0 billion in total assets as of the end of the most recent quarter

Loan Growth is Challenging

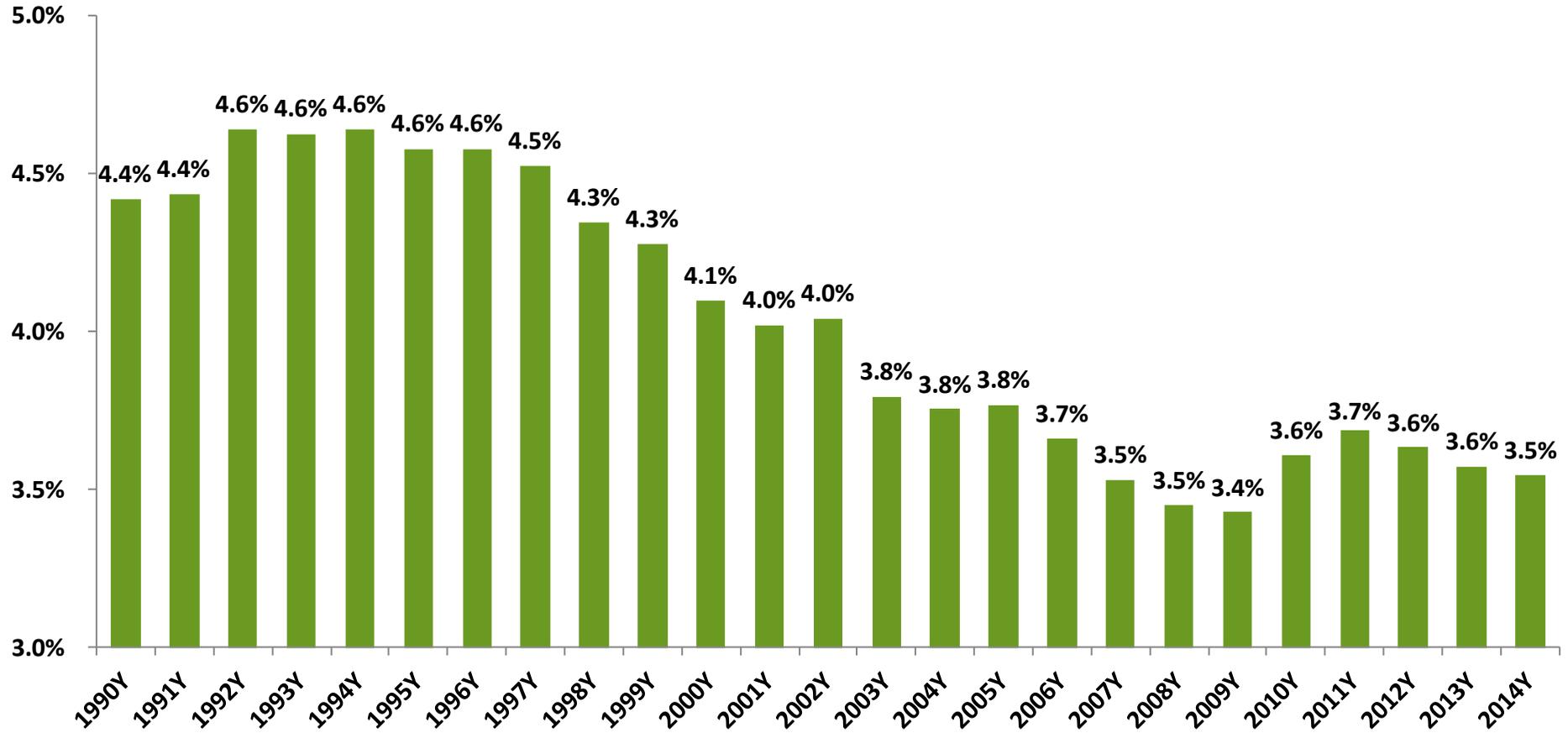
Median Gross Loan Held for Investment Growth (%)



Note: Includes all major exchange traded banks; excludes merger targets
Data Source: SNL Financial

Prolonged Low Interest Rate Environment Pressuring NIM

Median Net Interest Margin (%)



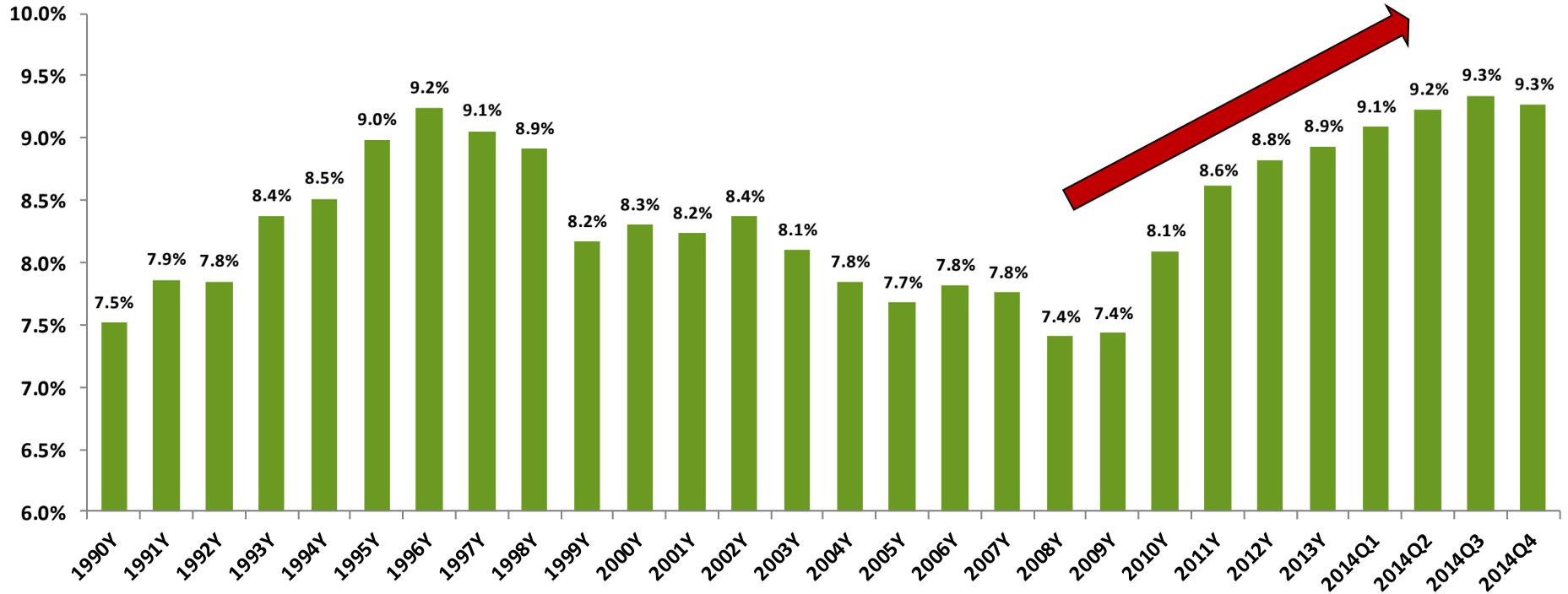
Note: Includes all major exchange traded banks; excludes merger targets
Data Source: SNL Financial

Costs and Effects of Recent Regulations

	Impact to Normalized EPS			Purpose
	Universal Banks	Large Cap Banks	SMID Cap Banks	
Volcker Rule	2 - 5%	0 - 2%	0%	Regulate proprietary trading
Derivatives Reform	2 - 3.5%	0 - 2%	0%	Deleverage the system and reduce systemic risk of banks
Interchange / Durbin Amendment	2 - 3%	4 - 7%	4 - 8%	Determination of a reasonable debit interchange rate
Financial Crisis Responsibility	4 - 6%	4 - 6%	0%	Provide revenue stream to the Government to offset TARP at a cost to financial companies - over \$50 billion in assets - an estimated \$19 billion
Regulation E	2 - 4%	3 - 6%	6 - 12%	Restrict overdraft fees on ATMs and one-time debit card transaction fees
Card Act	3 - 5%	0 - 2%	0%	Prohibits risk based rate increase on existing credit card balances
Aggregate Impact	15 - 26.5%	11 - 25%	10 - 20%	

Climbing up “Capital” Hill

Median Tangible Common Equity / Tangible Assets (%)

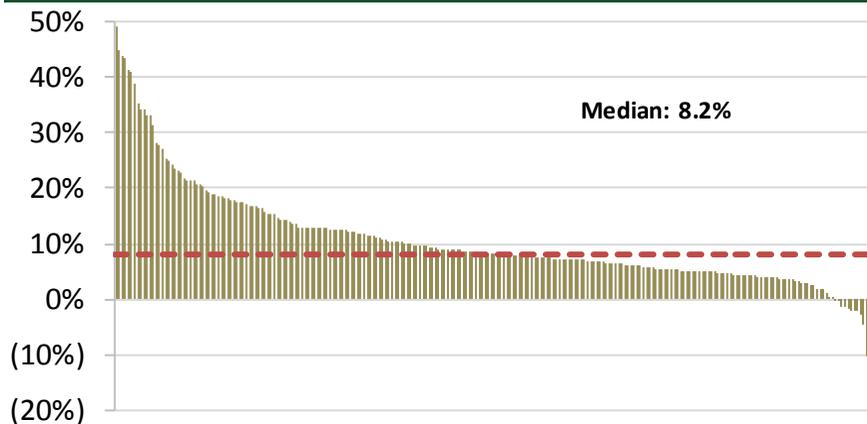


Note: Includes all major exchange traded banks; excludes merger targets
Data Source: SNL Financial

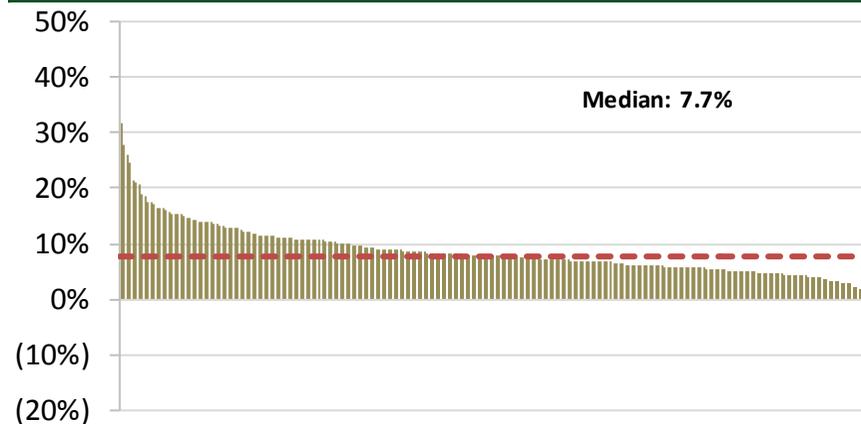
Outlook for EPS and Loan Growth

Projected Loan Growth

SNL B&T Index '14 – '15 Loan Growth

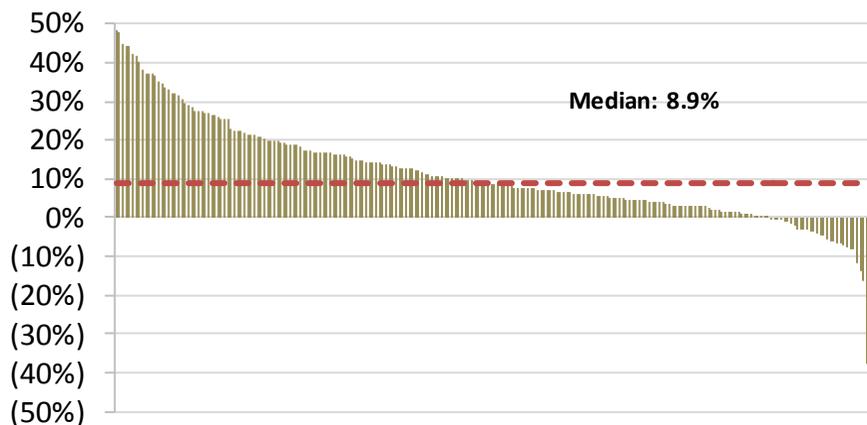


SNL B&T Index '15 – '16 Loan Growth

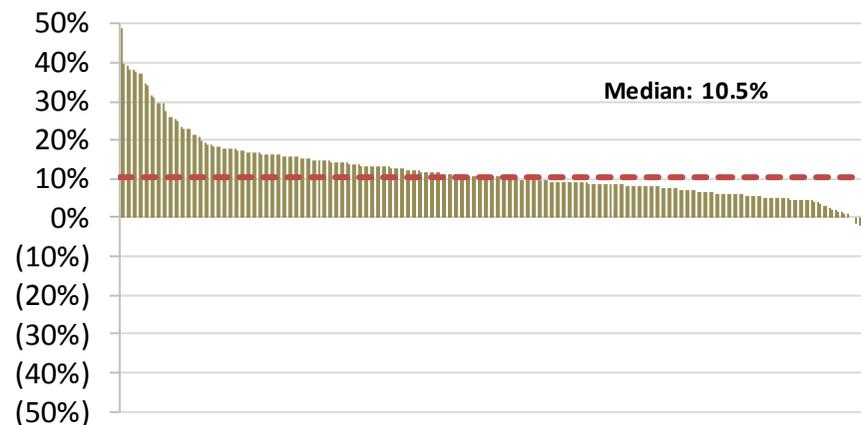


Projected EPS Growth

SNL B&T Index '14 – '15 EPS Growth



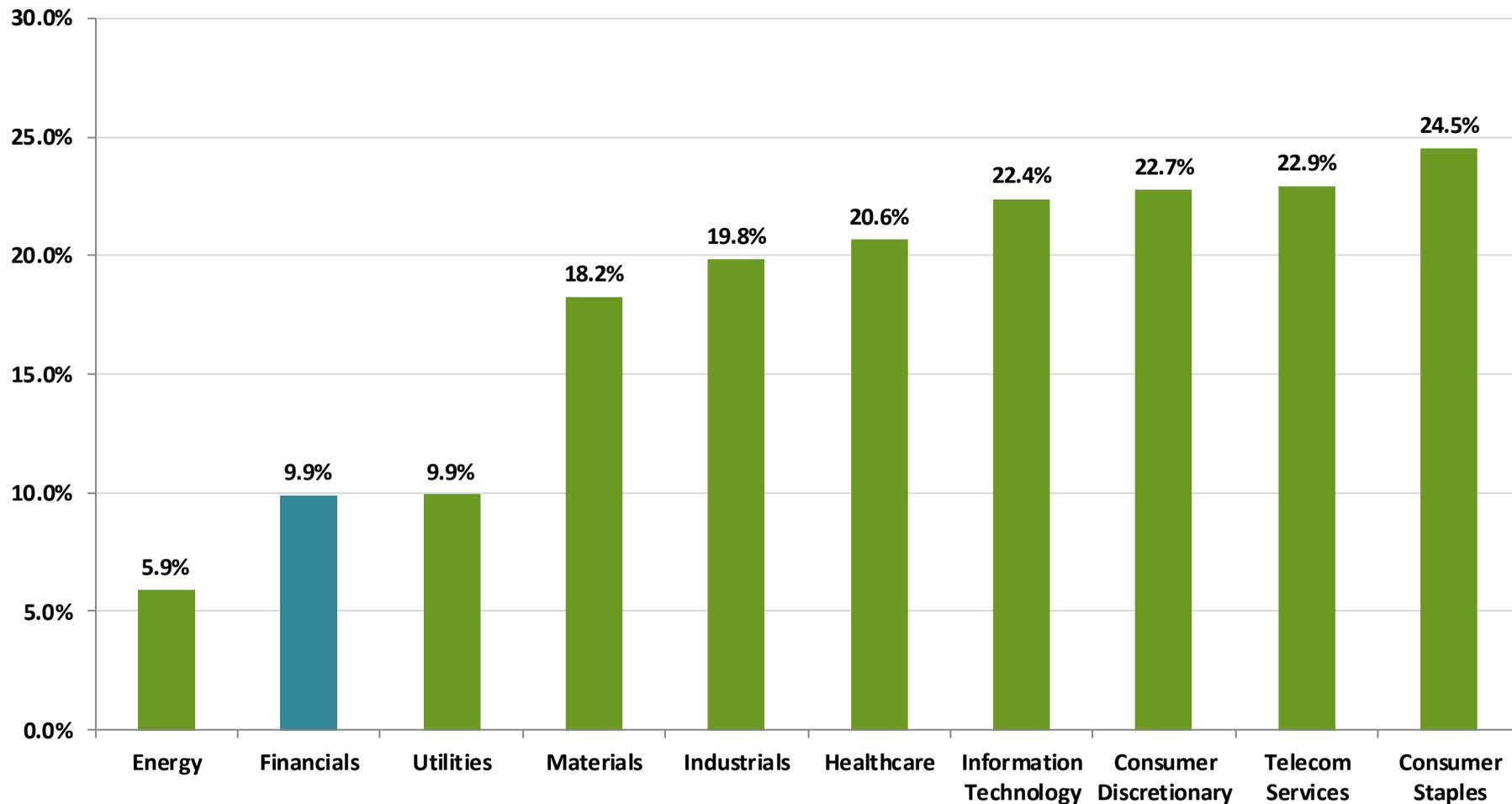
SNL B&T Index '15 – '16 EPS Growth



Note: SNL B&T median excludes merger targets and MHCs; EPS and Loan Growth excludes banks with >50% or <(50%) growth
Data Source: SNL Financial, Company Documents

S&P Projected Returns

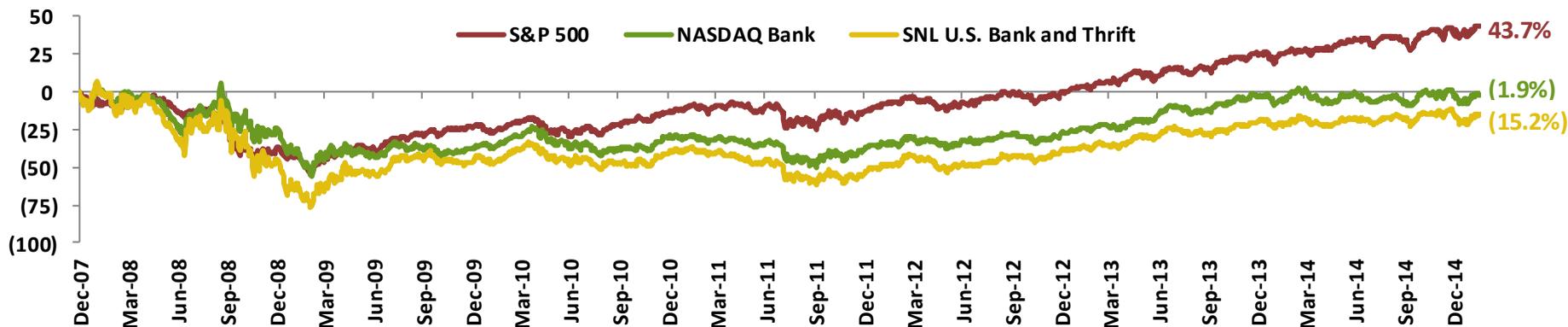
2015E Return on Average Common Equity by Sector (%)



Stock Market Performance

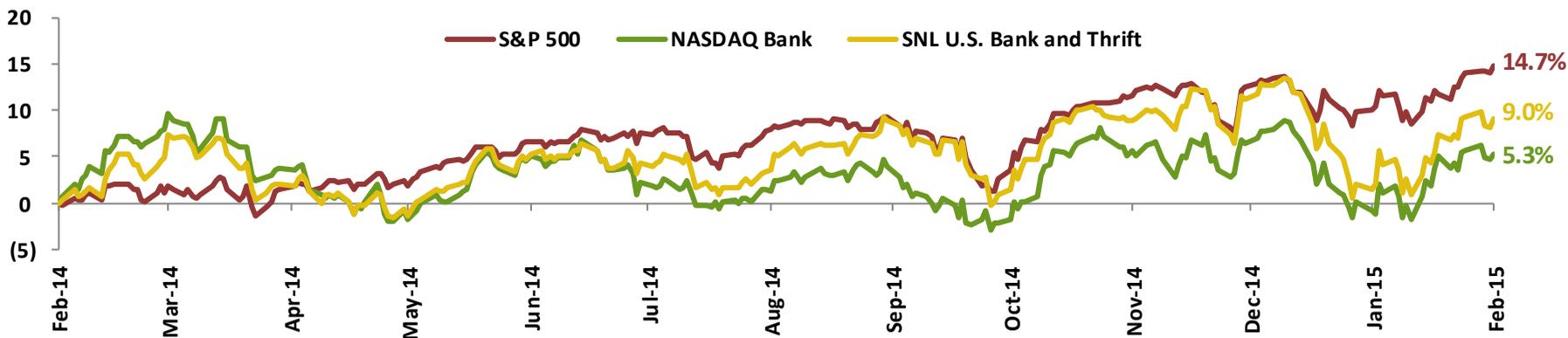
- Since 2008, bank stocks have meaningfully underperformed the broader market

Price Performance Since 2008



- Over the last year, bank stocks have performed better but still trail the broader market

1 Year Price Performance



Note: Market data as of February 20, 2015

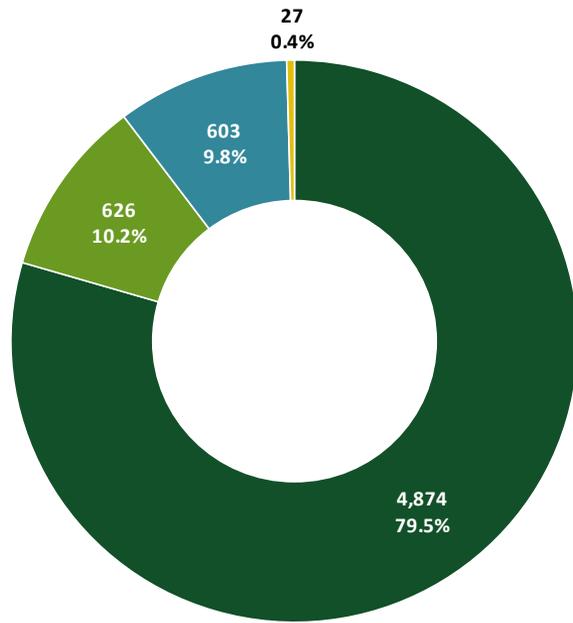
Data Source: SNL Financial

Current Landscape: Over-Banked America

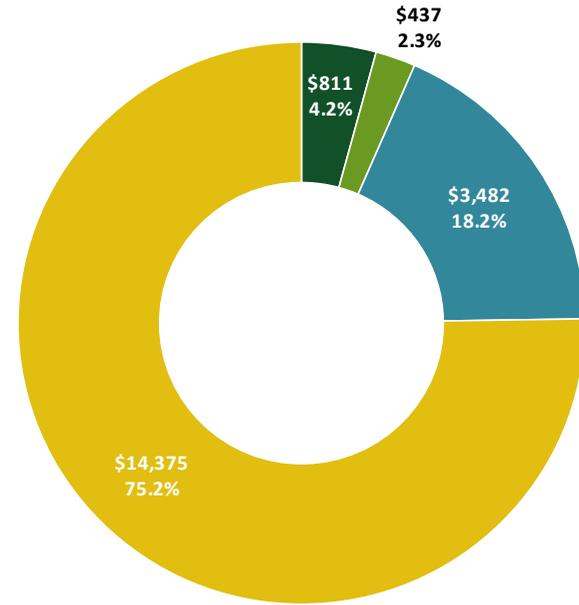


- ❑ The Top 27 banks control 75% of the assets
- ❑ The bottom 4,874 banks control < 5% of the assets

Distribution of Banks



Distribution of Assets (\$B)



■ < \$500M
 ■ \$500M - \$1B
 ■ \$1B - \$100B
 ■ > \$100B

Note: Includes all top-tier consolidated banks and thrifts nationwide; excludes merger targets
 Data Source: SNL Financial

Catalysts for Current M&A Discussions

- **Increased competition**
 - Smaller institutions, specifically, will continue to experience a competitive disadvantage when competing against institutions with greater scale

- **Revenue headwinds**
 - Banks are experiencing a continued negative impact on net interest margins from the low interest rate environment

- **Regulation/compliance costs**
 - Post crisis regulations such as Dodd-Frank have led to increased operational costs for community banks

- **Increased capital requirements**
 - Basel III
 - SBLF step-up in 2016

- **Buyer's capacity to pay is increasing**
 - Transaction multiples continue to rise as stock valuations increase
 - Buyers are able to use their currency to pay premiums for smaller institutions but are maintaining discipline

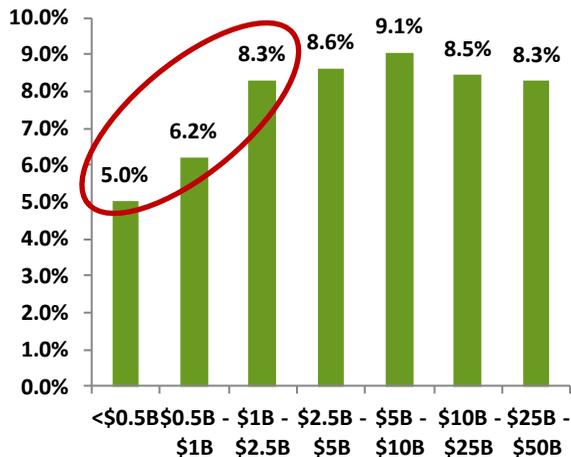
The Value of Scale – Operating Performance

Asset Size Stratification – Performance Ratios

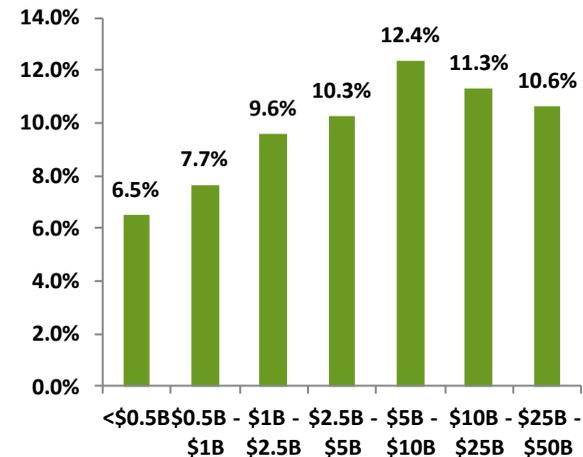
Core ROAA



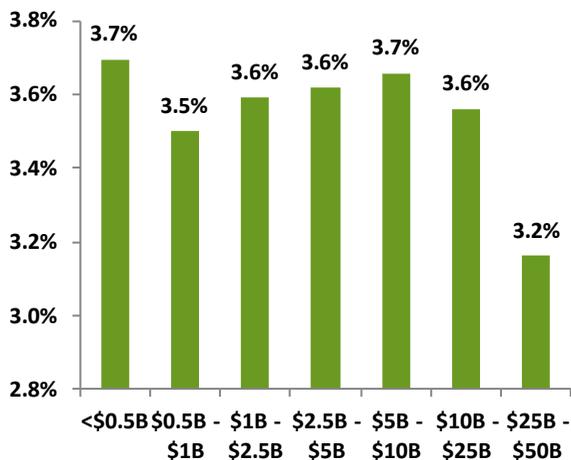
Core ROAE



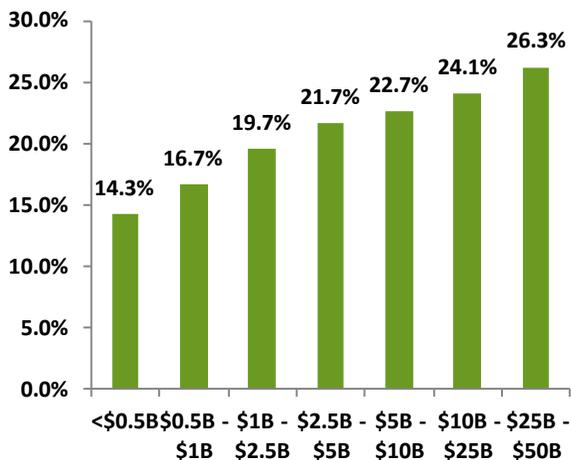
ROATCE



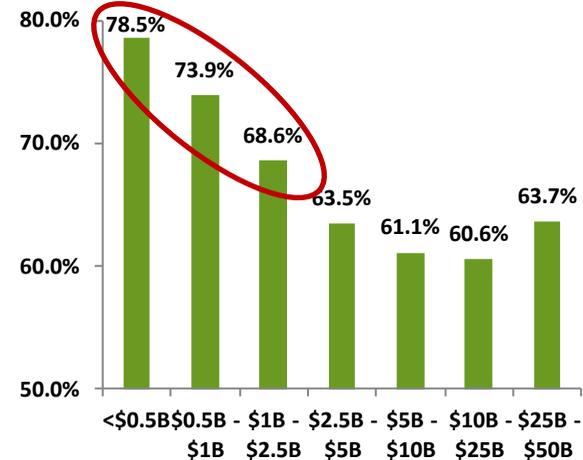
Net Interest Margin



Fee Income / Revenue



Efficiency Ratio



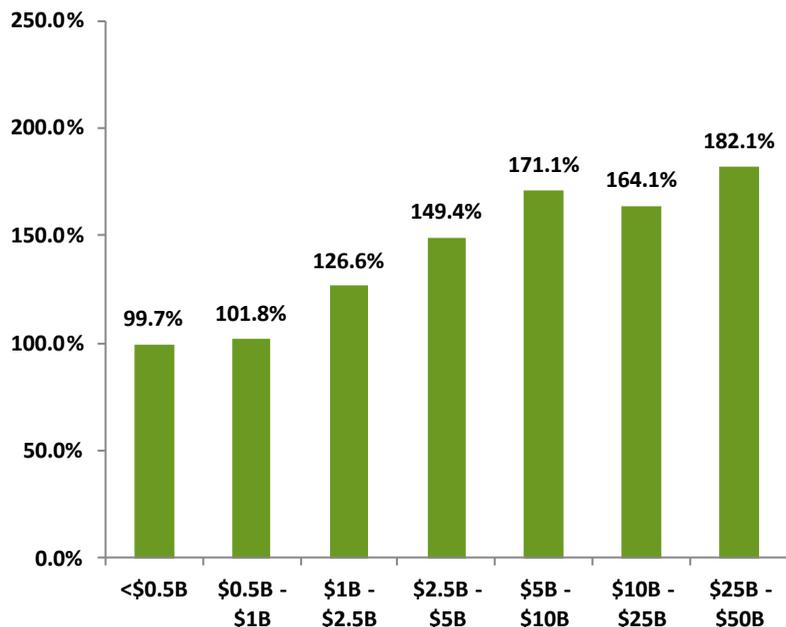
Note: Based on all public bank & thrifts traded on a major exchange; financial data as of the last twelve months available
Data Source: SNL Financial

Valuation: Scale, Profitability or Both?

☐ All publicly-traded banks on a major exchange

P / TBV Multiples

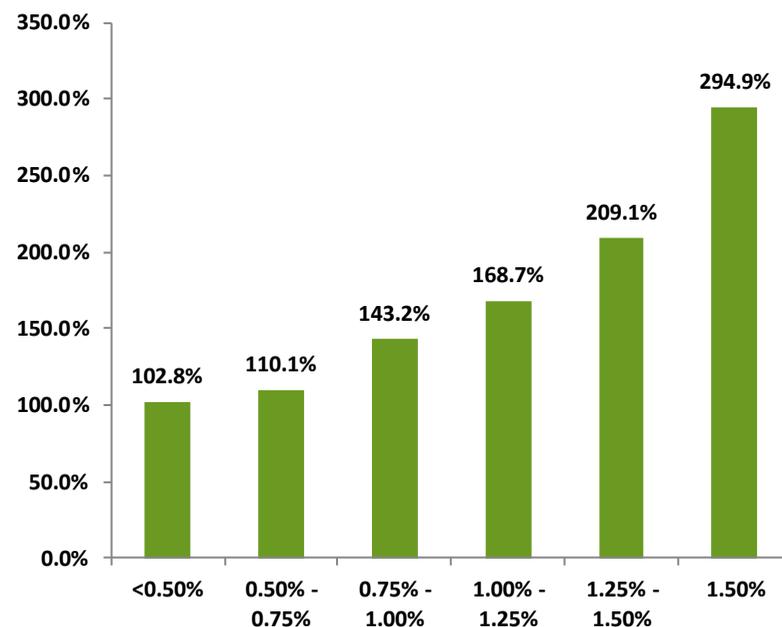
Total Assets



Median Metrics:

ROAA	0.54%	0.67%	0.83%	0.99%	1.03%	1.06%	1.00%
P / 2015 EPS	N/A	13.2x	14.0x	13.6x	14.8x	15.0x	15.9x
P / 2016 EPS	N/A	11.8x	12.8x	12.5x	13.0x	13.4x	14.5x

2015 Est. ROAA

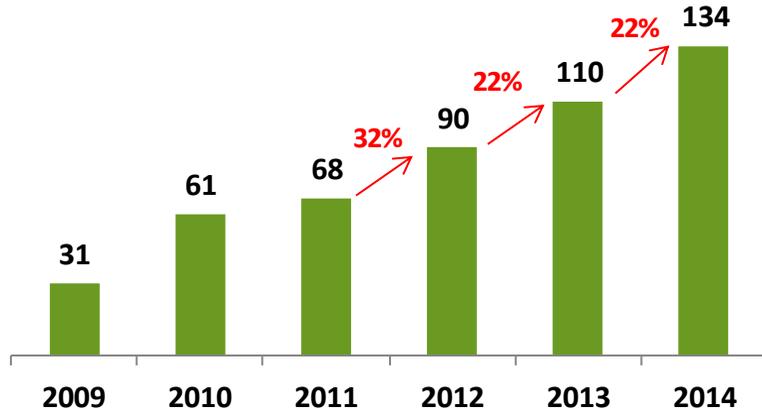


Median Metrics:

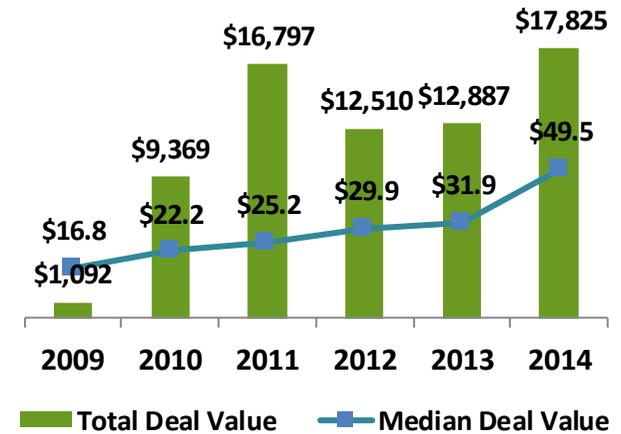
Total Assets	\$1,524.1	\$1,833.6	\$4,174.2	\$4,454.8	\$6,698.1	\$6,307.4
P / 2015 EPS	22.4x	16.4x	14.2x	13.7x	13.8x	16.7x
P / 2016 EPS	20.2x	13.5x	12.7x	12.3x	12.9x	14.8x

Whole Bank M&A Activity Since 2009

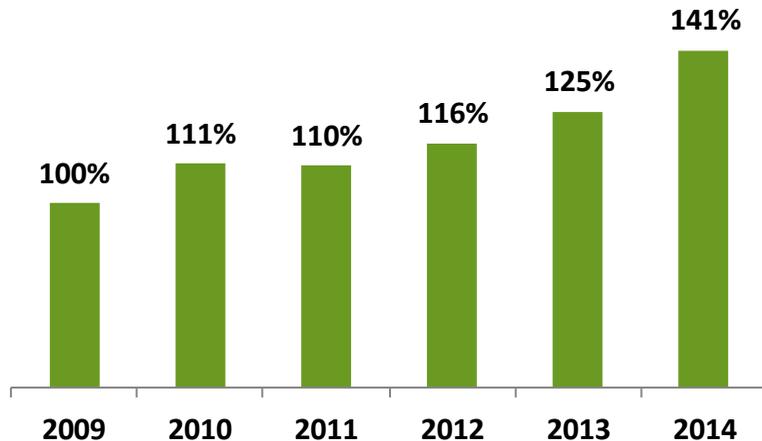
Number of Transactions



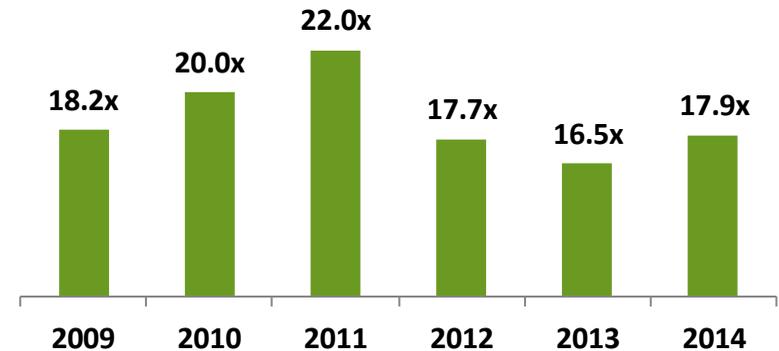
Deal Value (\$ Millions)



Price / Tangible Book Value (%)



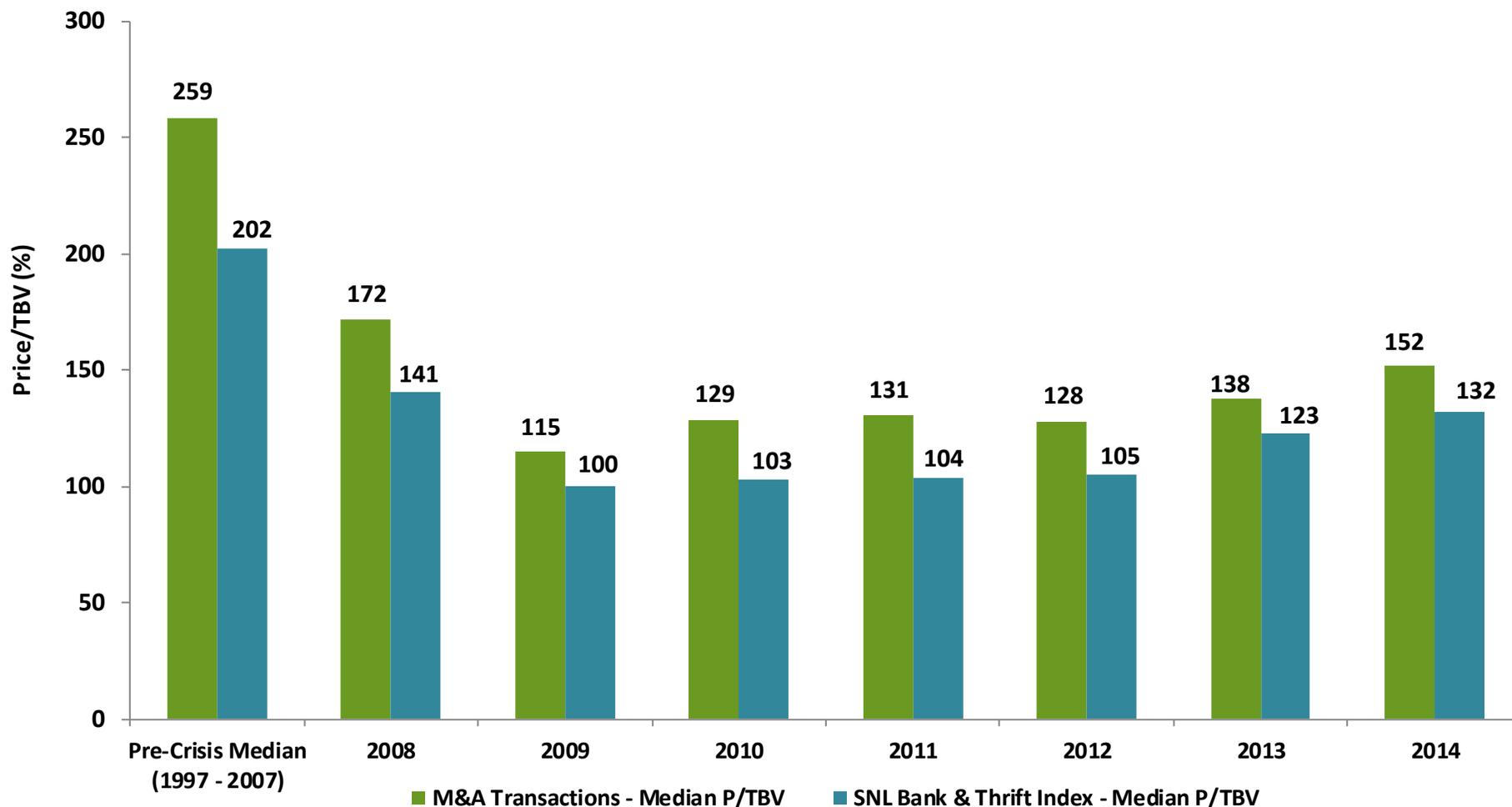
Price / LTM Earnings (x)



Note: Includes all nationwide bank and thrift deals where the target's assets were greater than \$100 million and deal value is announced; excludes mergers of equals; Price / LTM Earnings multiples less than zero or greater than 30 not included in the median calculation
 Data Source: SNL Financial

Transaction Multiples Continue to Rise as Stock Valuation Increase

Price / Tangible Book Value: SNL Bank & Thrift Index vs. M&A Transactions

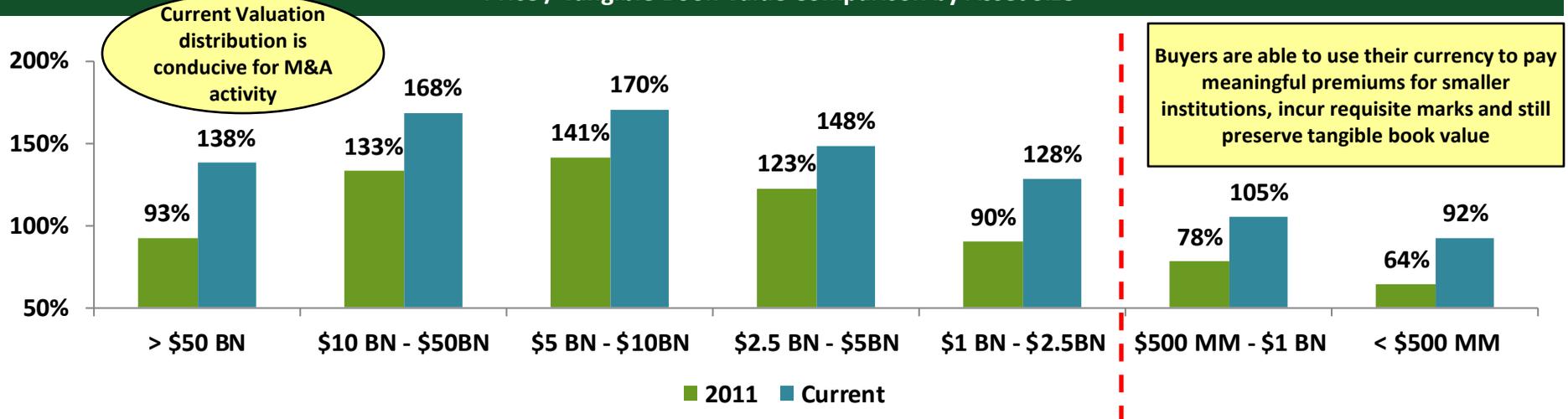


Note: Includes deals greater than \$25 million in deal value at announcement, excludes FDIC assisted transactions

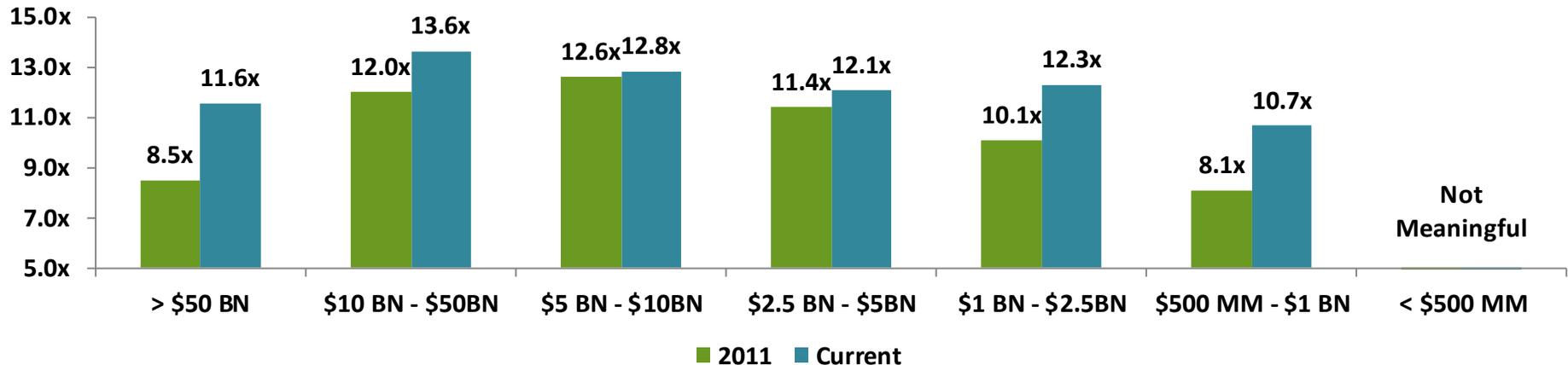
Data Source: SNL Financial

Buyer's Capacity to Pay is Increasing

Price / Tangible Book Value Comparison by Asset Size



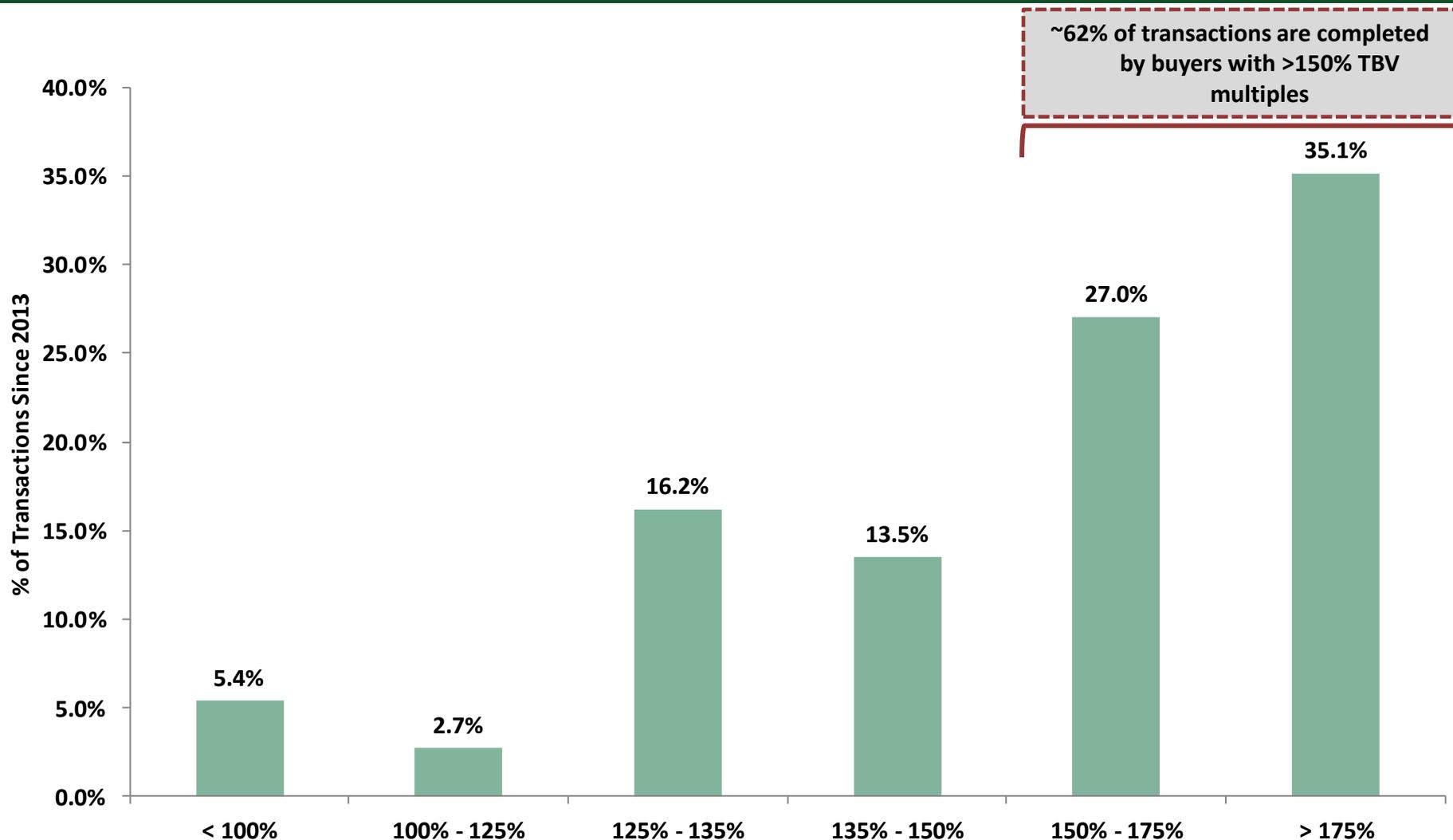
Price to Forward Earnings Comparison by Asset Size



Note: Data reflects median values for all public US banks & thrifts traded on the NYSE, NYSE MKT, OTC, or NASDAQ; excludes MHCs, trust banks, and merger targets
 Data Source: SNL Financial

Buyers with Strong TBV Multiples Dominated M&A

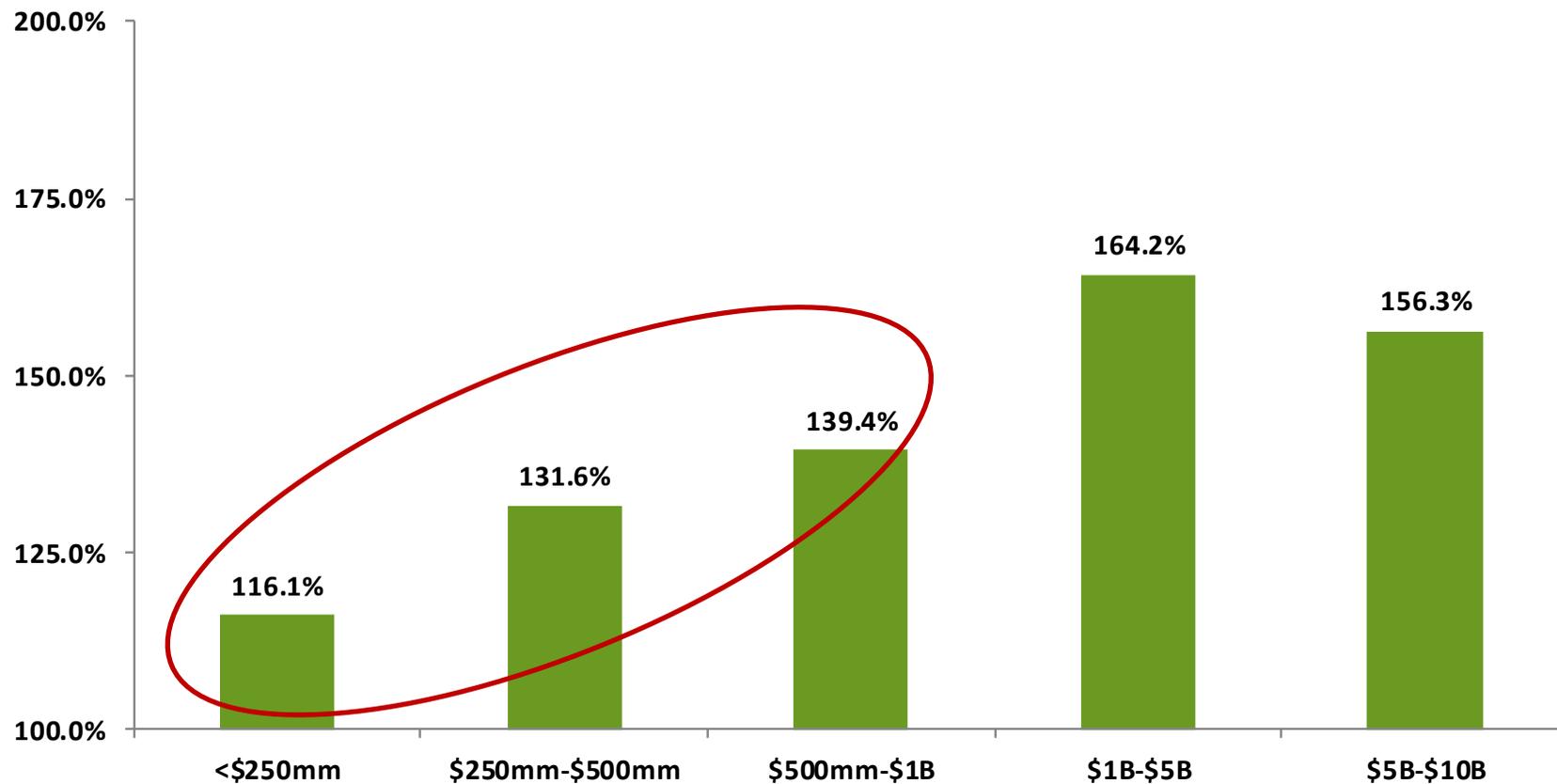
Correlation of Southeast Buyer Trading Multiples and Deal Activity



Note: Includes Southeast whole-bank deals announced since 2013 with a public buyer and deal value > \$50 million; Southeast defined as AL, AR, FL, GA, KY, LA, MS, NC, SC, TN, VA, and WV
Data Source: SNL Financial

The Value of Scale – M&A Valuations

2012 – Present



# of Transactions	233	91	64	57	8
% of Total	51.4%	20.1%	14.1%	12.6%	1.8%
Median LTM ROAA	0.37%	0.63%	0.63%	0.76%	1.22%
P / LTM EPS	21.9x	19.4x	18.1x	19.8x	12.5x

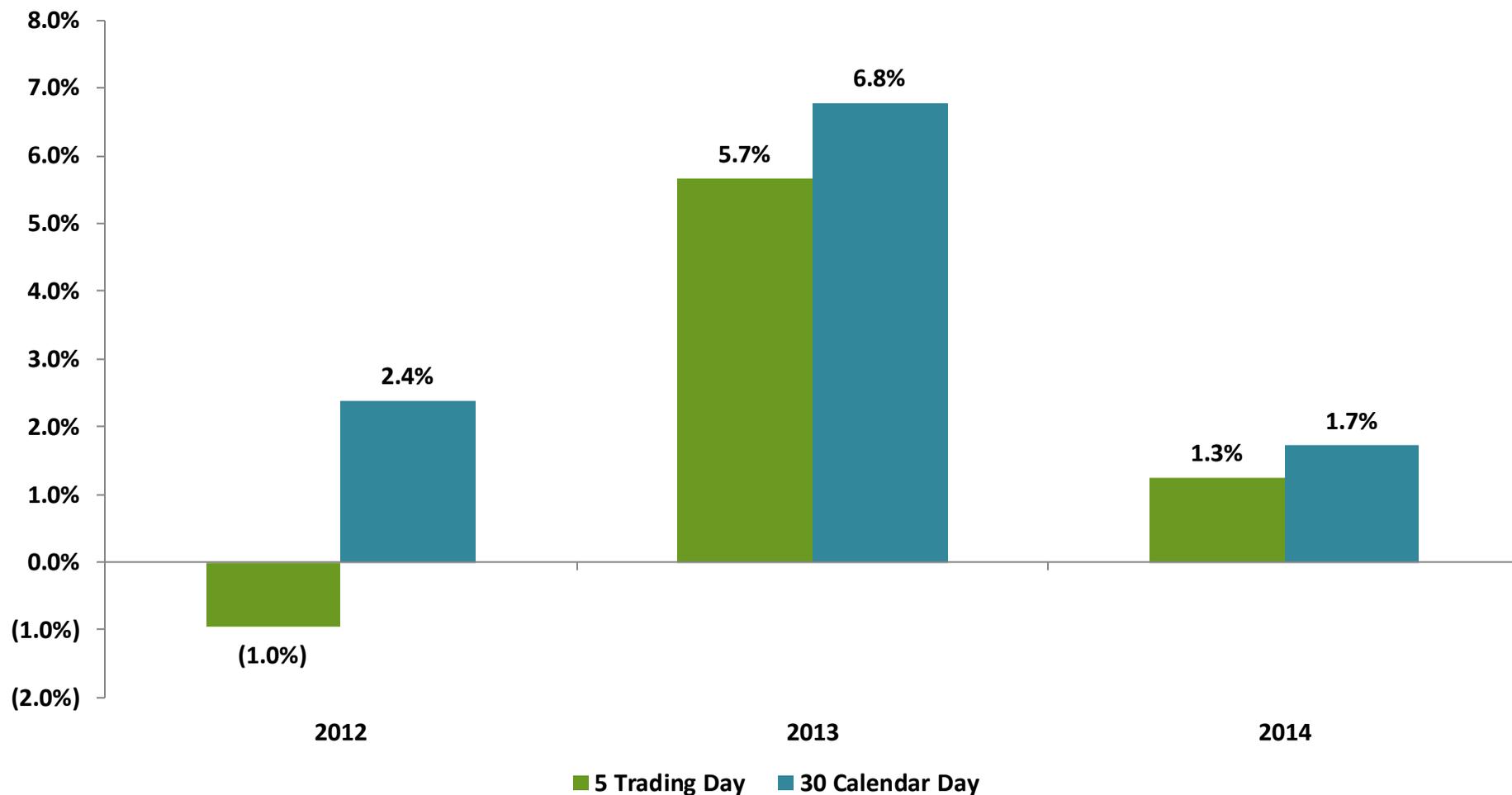
Note: Includes nationwide bank and thrift deals with target total assets less than \$10B and publicly-disclosed deal values
Data Source: SNL Financial

Parameters for a “Well Received” M&A Transaction

Compelling Strategic Fit or Rationale	<ul style="list-style-type: none">■ Can be cost savings driven (in-market) or franchise enhancing (market extension or product extension)
Valuation	<ul style="list-style-type: none">■ Multiples paid appear in line with present “M&A market”■ Do not want to be an outlier, unless you can justify it
Pro Forma Impact	<ul style="list-style-type: none">■ Use of “reasonable and supportable” assumptions related to:<ul style="list-style-type: none">- Credit mark on the loan portfolio- Cost savings- Transaction costs- Underlying earnings of the target- While there may be revenue enhancements, these will be discounted by the investor and research communities■ Impact on EPS – Meaningful accretion in first full year with fully phased-in synergies (excl. deal costs)■ Impact on Tangible Book Value/ Earnback – Absolute level of tangible book value dilution is less relevant although the market still favors an earnback period of 5 years or less■ Internal Rate of Return – Should be above the cost of capital■ Purchase Accounting Adjustments – Investors will increasingly want to know how the numbers are driven by purchase accounting accretion and what happens when this eventually tails off
Appropriate Deal Protections / Structures to Mitigate Transaction Risk	<ul style="list-style-type: none">■ Use of price adjustments, earnout structures, contingent value rights (CVRs) tied to specific assets or litigation, and asset dividends■ Detailed due diligence with use of 3rd parties to assist in key parts of the analysis including credit mark determination as well as other purchase accounting and tax adjustments

Buyer Post-Deal Stock Reaction

Buyer Relative Price Performance vs. NASDAQ Bank Index



Note: Includes Southeast whole-bank deals announced since 2013 with a public buyer and deal value > \$50 million; market performance is relative to the NASDAQ Bank Index for the first 5 trading days post-announcement and the first 30 calendar days post announcement; Southeast defined as AL, AR, FL, GA, KY, LA, MS, NC, SC, TN, VA, and WV

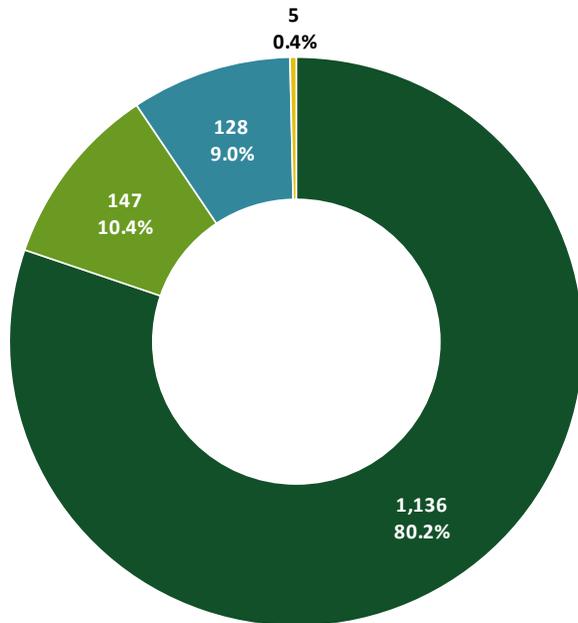
Data Source: SNL Financial

Southeast Banking Landscape

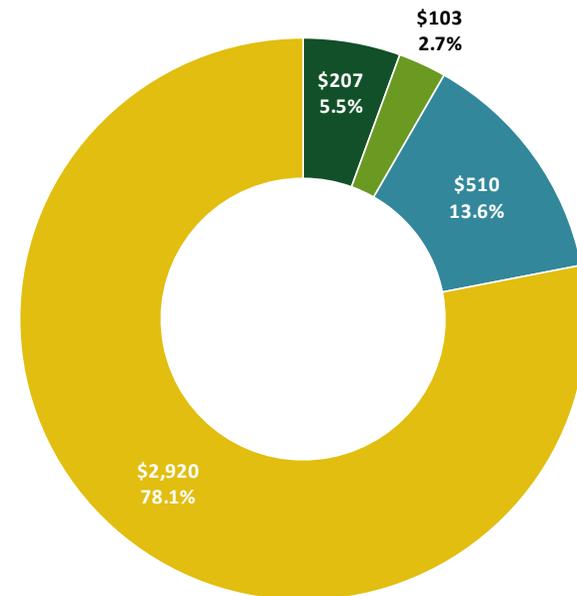


- ❑ The Top 5 banks control 78% of the assets
- ❑ The bottom 1,136 banks control < 6% of the assets

Distribution of Banks



Distribution of Assets (\$B)

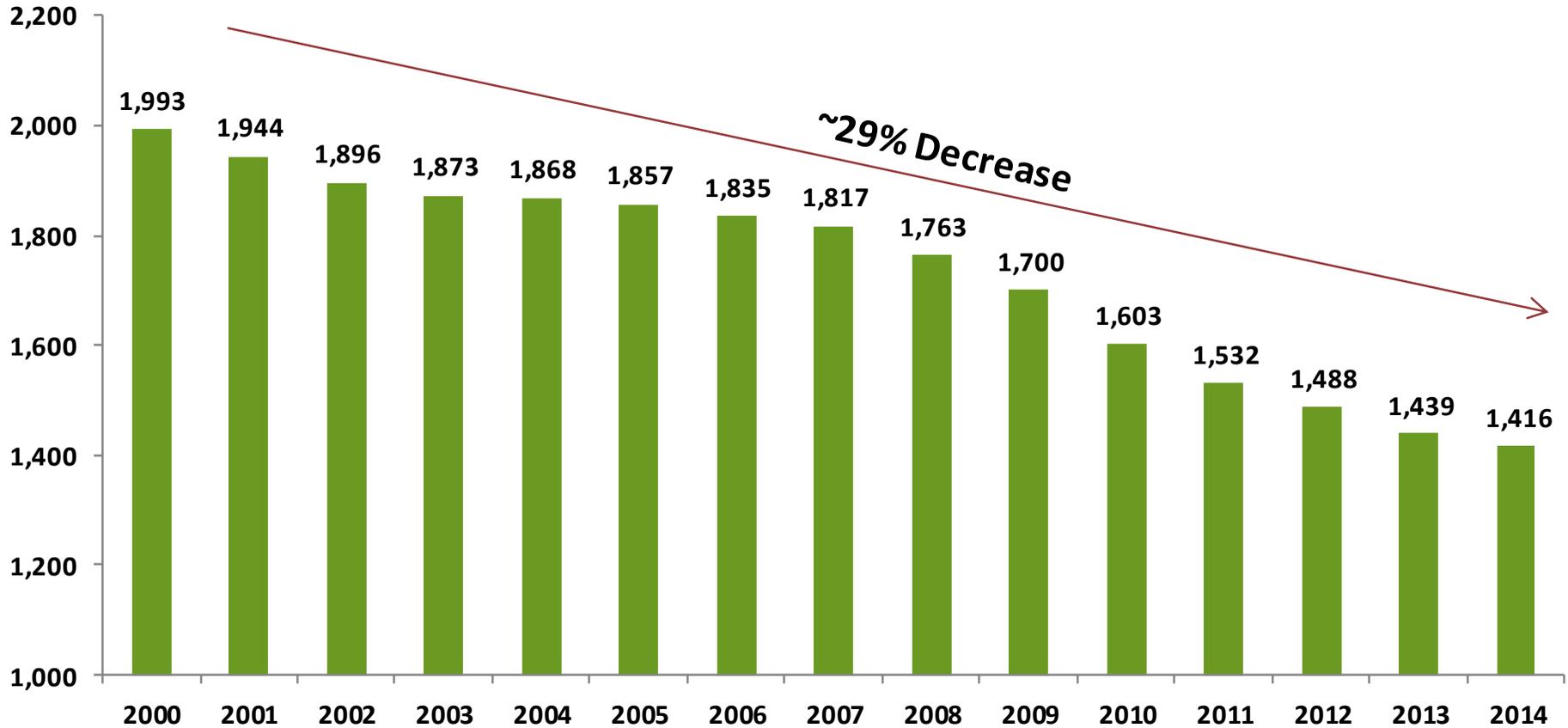


■ < \$500M
 ■ \$500M - \$1B
 ■ \$1B - \$100B
 ■ > \$100B

Note: Includes all top-tier consolidated banks and thrifts headquartered in the Southeast; excludes merger targets; Southeast defined as AL, AR, FL, GA, KY, LA, MS, NC, SC, TN, VA, and WV
 Data Source: SNL Financial

Southeast Banking Landscape

Number of Southeast Banks Since 2000



Note: Includes top-tier consolidated banks and thrifts in the Southeast; excludes merger targets; Southeast defined as AL, AR, FL, GA, KY, LA, MS, NC, SC, TN, VA, and WV
Data Source: SNL Financial and FDIC

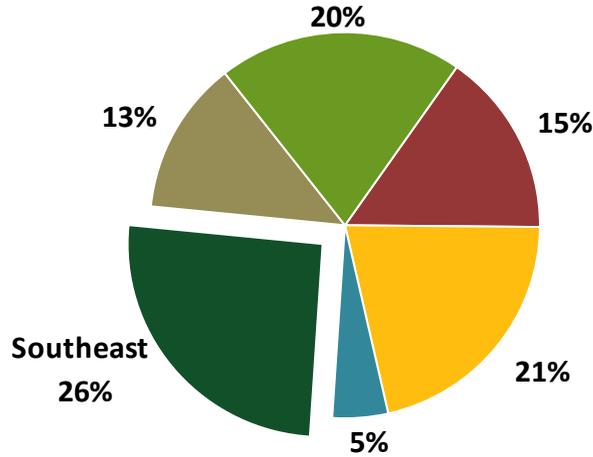
Southeast Banking Landscape – Growing More Concentrated

Southeastern Banks		
	Pre-Crisis 12/31/07	Current 12/31/14
Total Number of Banks:	1,997	1,450
% < \$500mm in Assets	85 %	80 %
% < \$1B in Assets	94	91
% > \$1B in Assets	6	9
Number of Banks:		
\$500mm - \$1.0B	183	157
\$1.0 - \$2.5B	72	64
\$2.5 - \$5.0B	24	32
\$5.0 - \$10.0B	10	15
> \$10.0 B	14	16
Banking Assets (%):		
% < \$500mm in Assets	20 %	12 %
% < \$1B in Assets	28	19
% \$1 - \$10B in Assets	18	18
% > \$10B in Assets	54	64

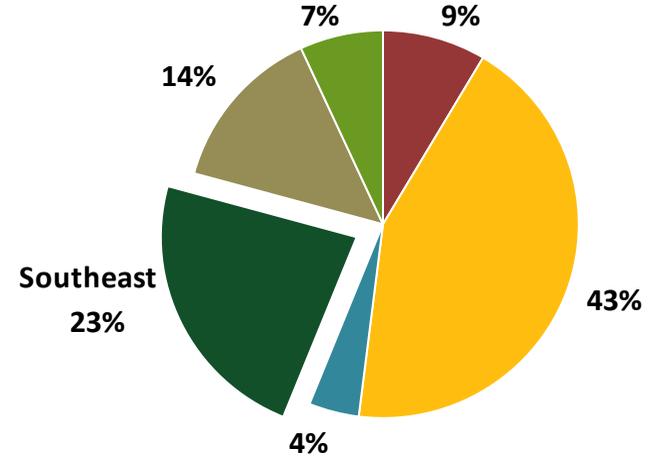
Note: 2014 data excludes merger targets; Includes all Commercial and Savings Banks headquartered in AL, AR, FL, GA, KY, LA, MS, NC, SC, TN, VA, and WV; excludes Bank of America, HSBC, Etrade, Raymond James, and Wachovia
Data Source: SNL Financial

Southeast Banking Landscape: Regional Perspective

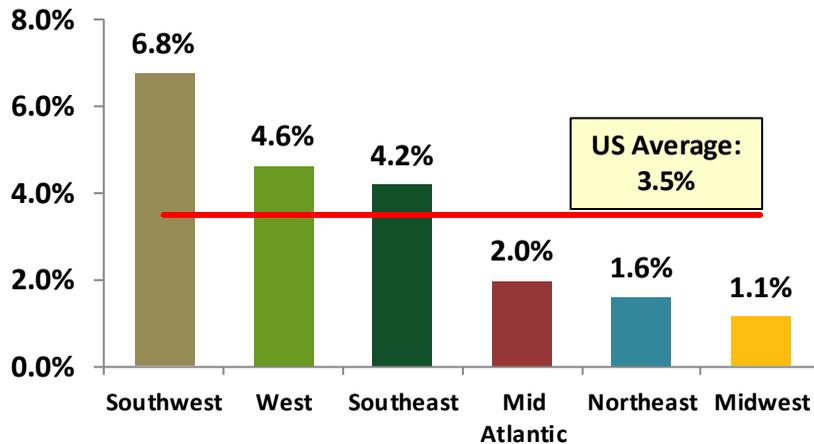
Geographic Distribution of Population



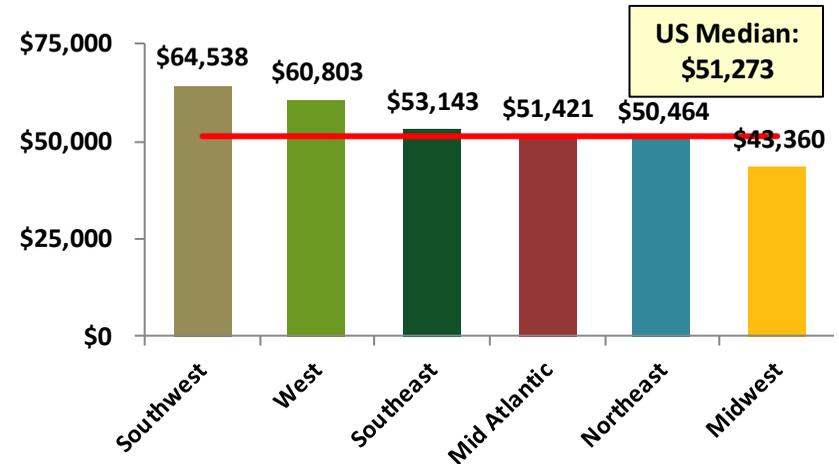
Geographic Distribution of Banks



Projected Population Growth ('14 - '19)



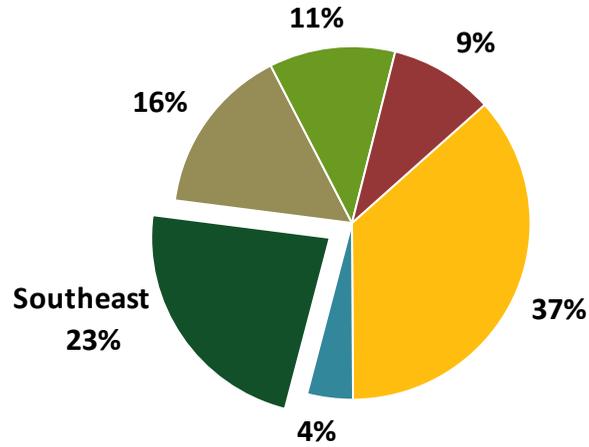
Median Household Income



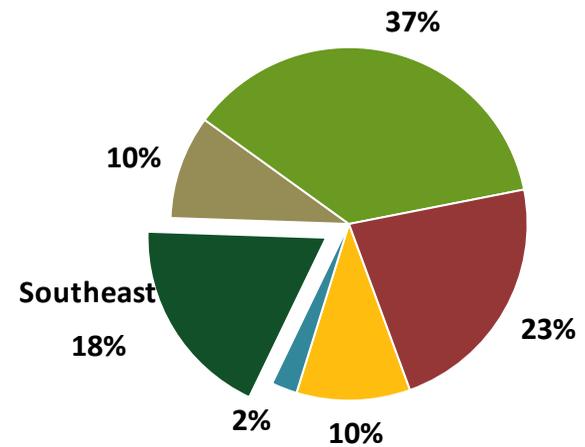
Note: Includes banks and thrifts excluding merger targets; Southeast defined as AL, AR, FL, GA, KY, LA, MS, NC, SC, TN, VA, and WV
Data Source: SNL Financial

Southeast Banking Landscape: Regional Perspective

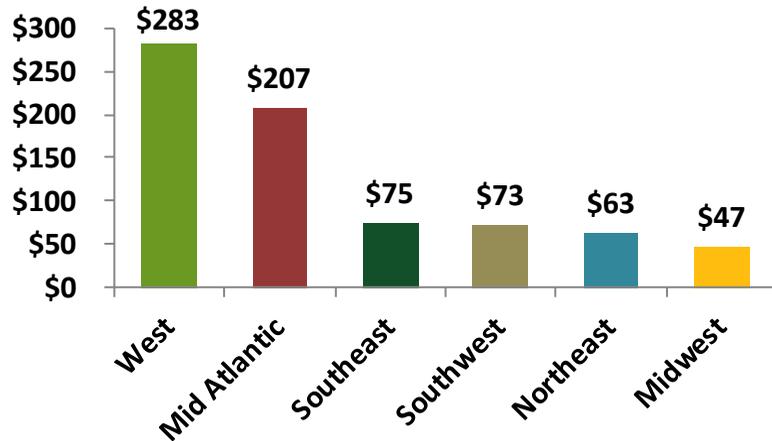
Regional M&A Activity (# of Deals)



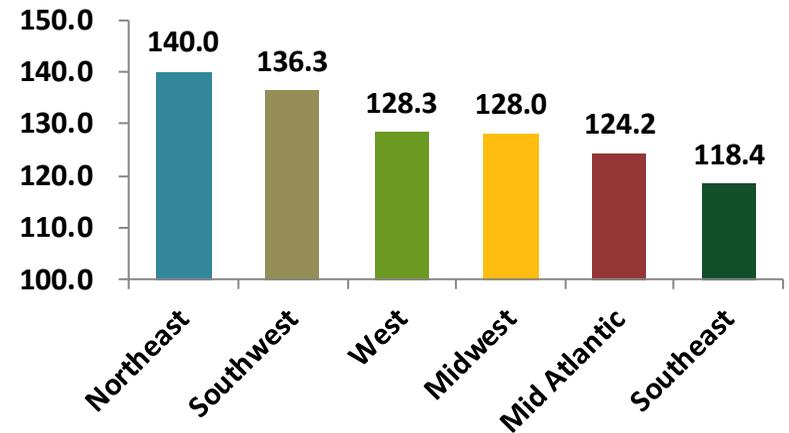
Regional M&A Activity (\$ Volume)



Average Deal Size (\$mm)



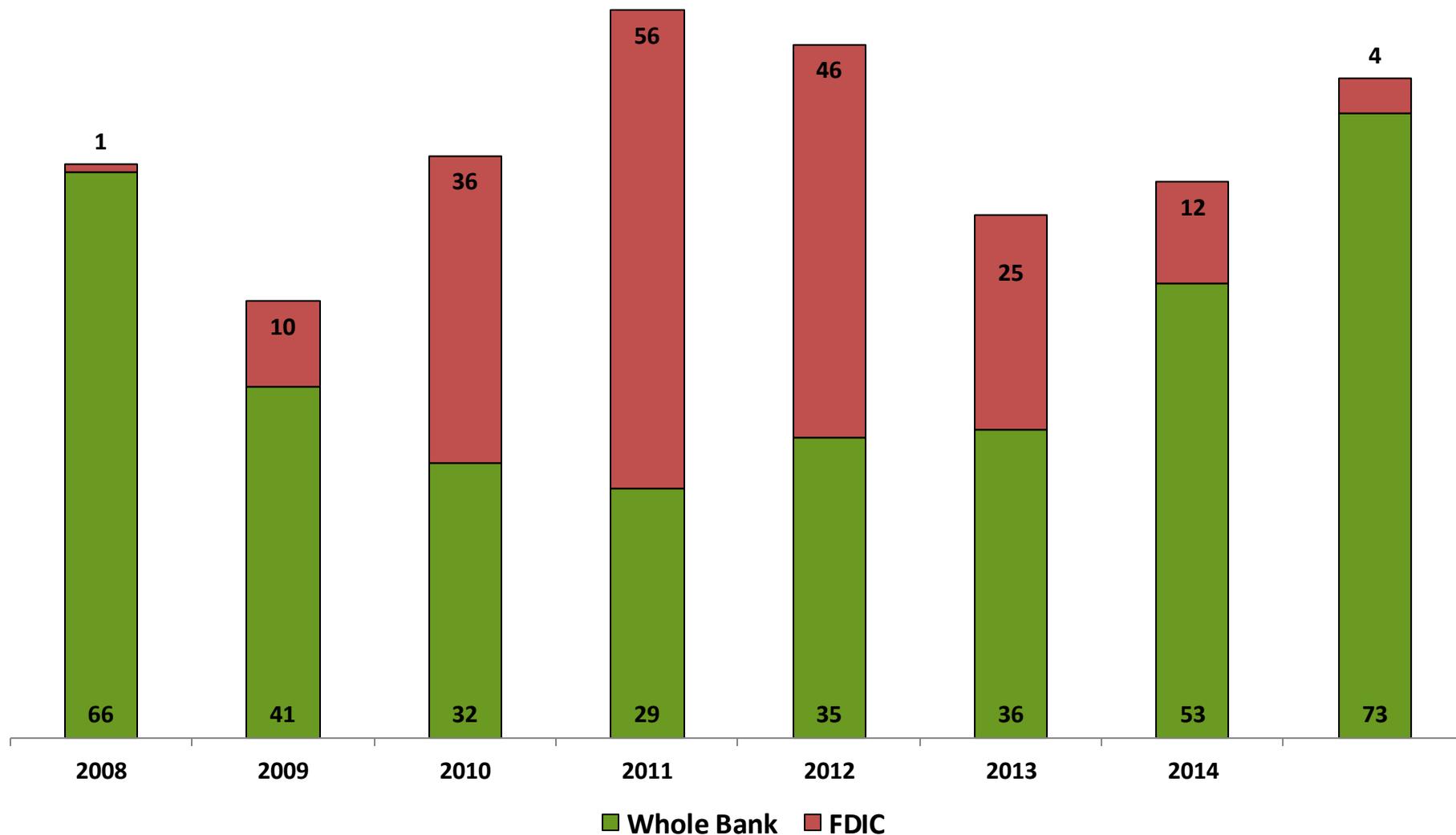
Price / Tangible Book Value (%)



Note: Includes whole-bank deals announced since January 1, 2012; excludes deals involving private investors and 363 bankruptcy transactions

Data Source: SNL Financial

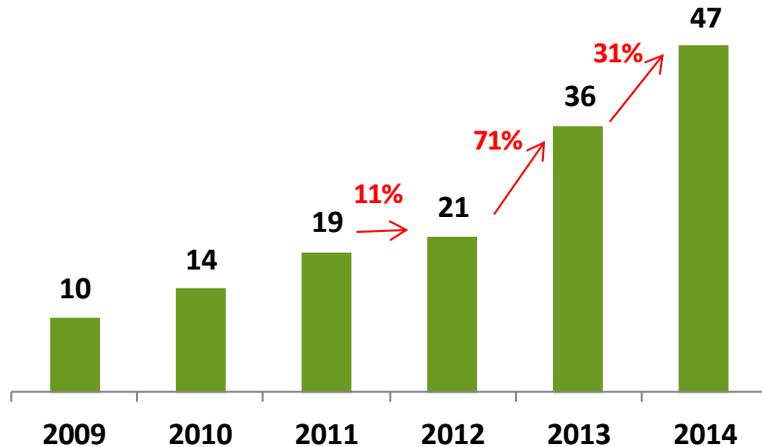
Southeast M&A – All Whole Bank and FDIC Deals



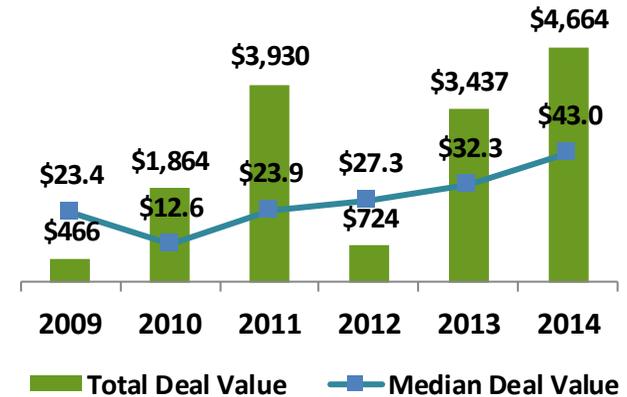
Note: Includes all bank and thrift deals in AL, AR, FL, GA, KY, LA, MS, NC, SC, TN, VA, and WV
Data Source: SNL Financial

Southeast Whole Bank M&A Since 2009

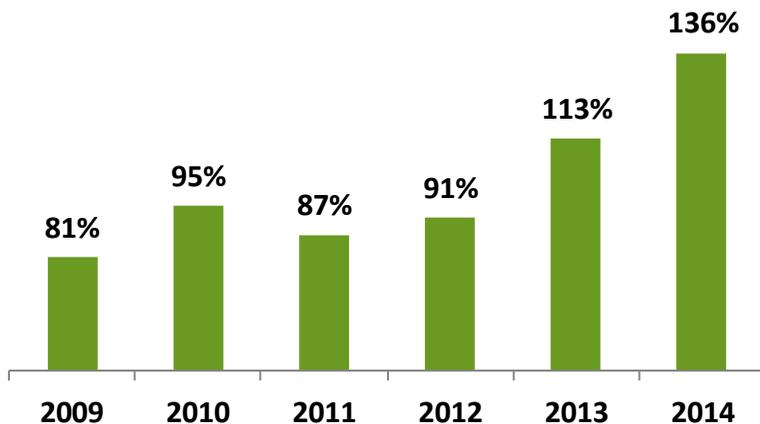
Number of Transactions



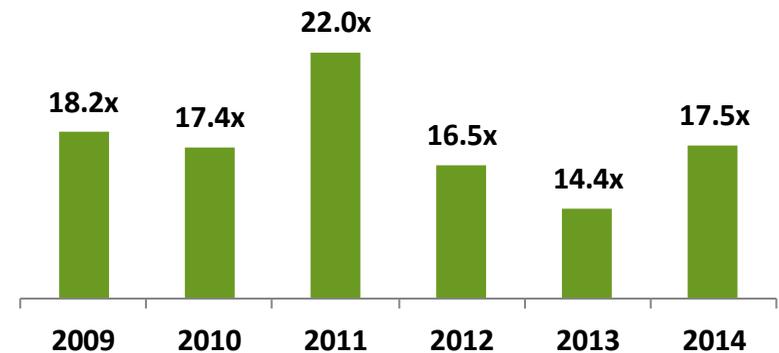
Deal Value (\$ Millions)



Price / Tangible Book Value (%)



Price / LTM Earnings (x)



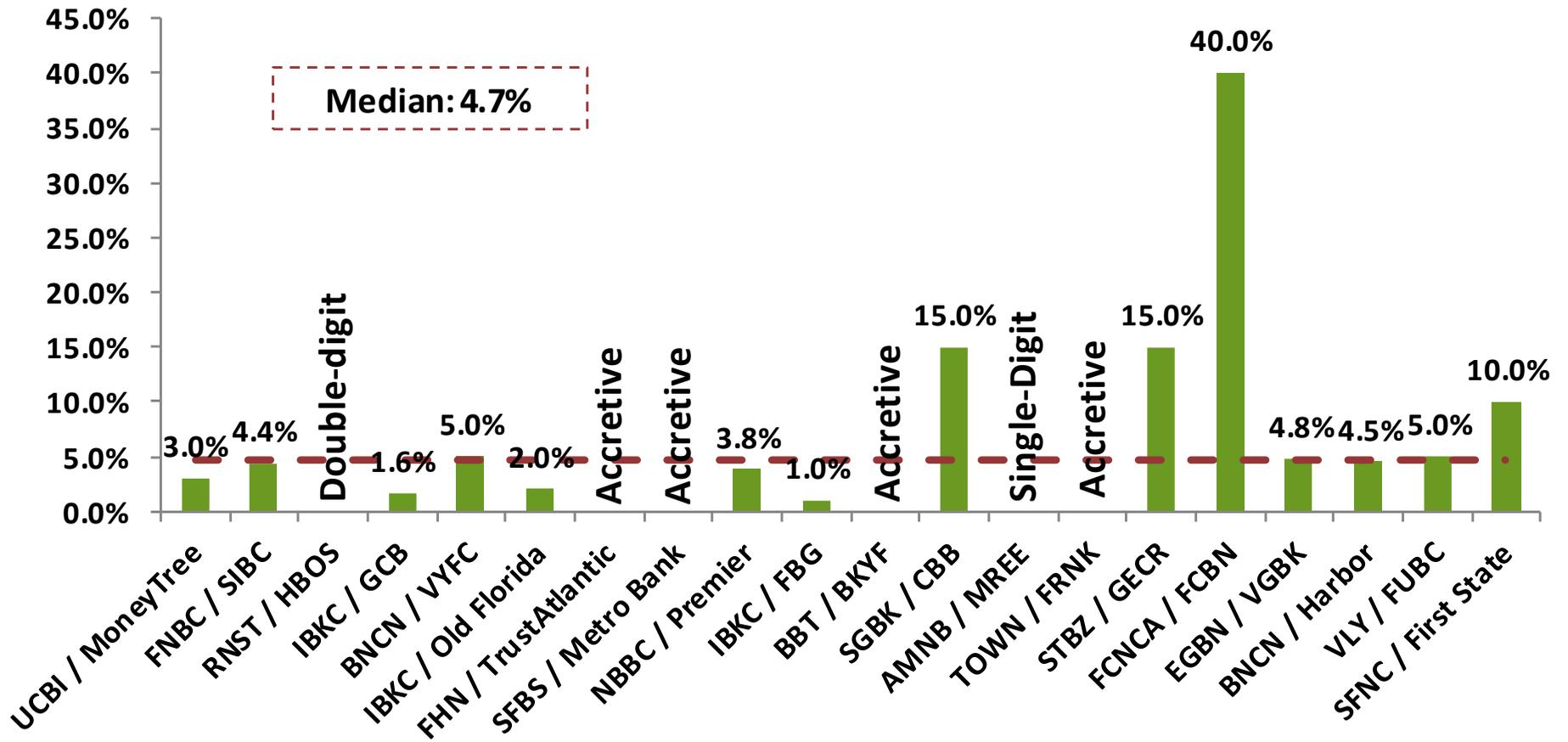
Note: Includes all bank and thrift deals in the Southeast where the target's assets were greater than \$100 million and deal value is announced; excludes mergers of equals; Price / LTM Earnings multiples less than zero or greater than 30 not included in the median calculation

Data Source: SNL Financial

Recent Southeast Transactions: EPS Accretion

Twenty most recent Southeastern deals with disclosed deal metrics

EPS Accretion (%)

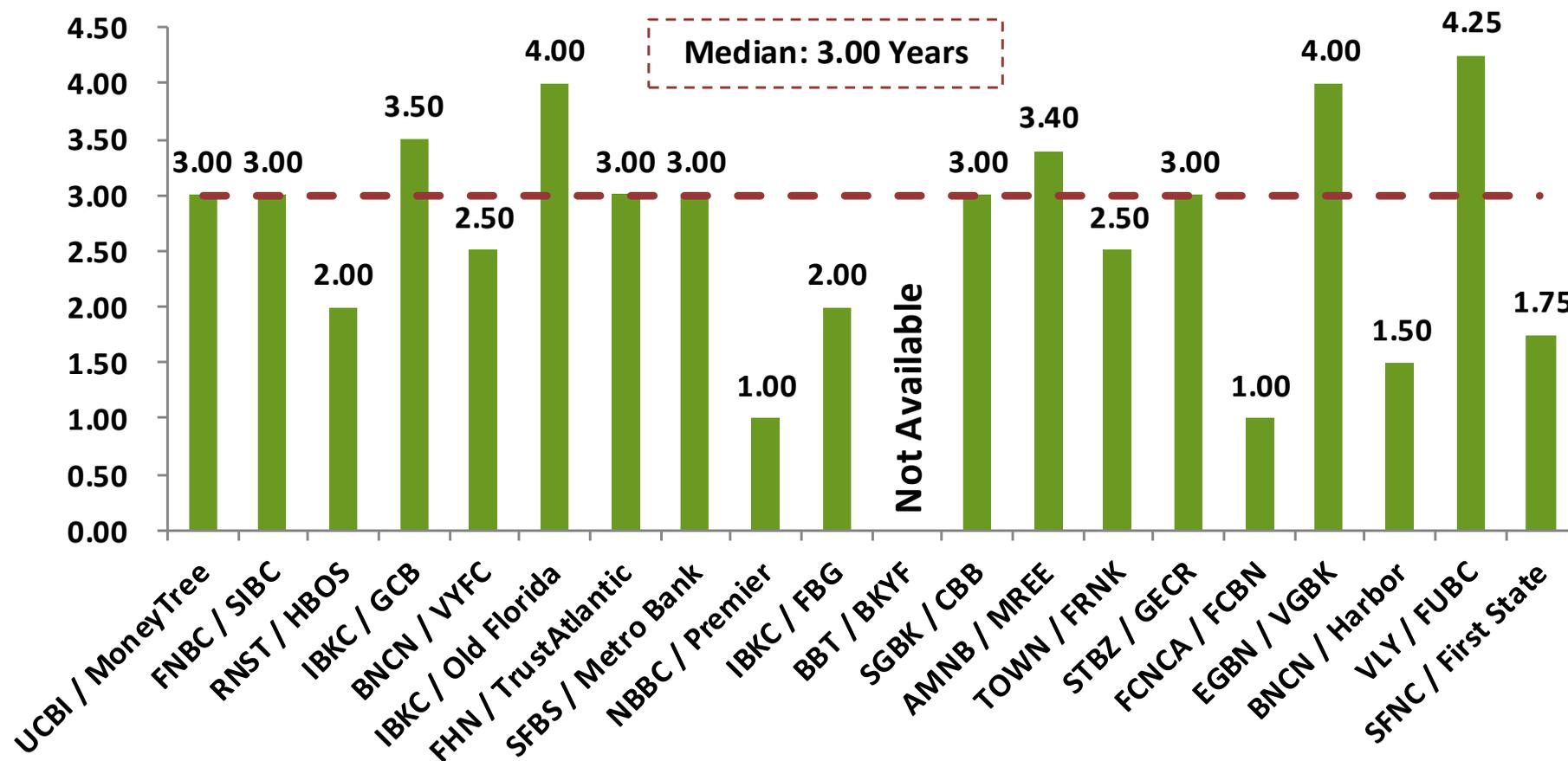


Note: Disclosed EPS accretion for first full fiscal year post-conversion; estimated figures by Sterne Agee Research where available
 Data Source: Company documents, Sterne Agee Research

Recent Southeast Transactions: Tangible Book Earnback

Twenty most recent Southeastern deals with disclosed deal metrics

Tangible Book Value Earnback Period (Years)

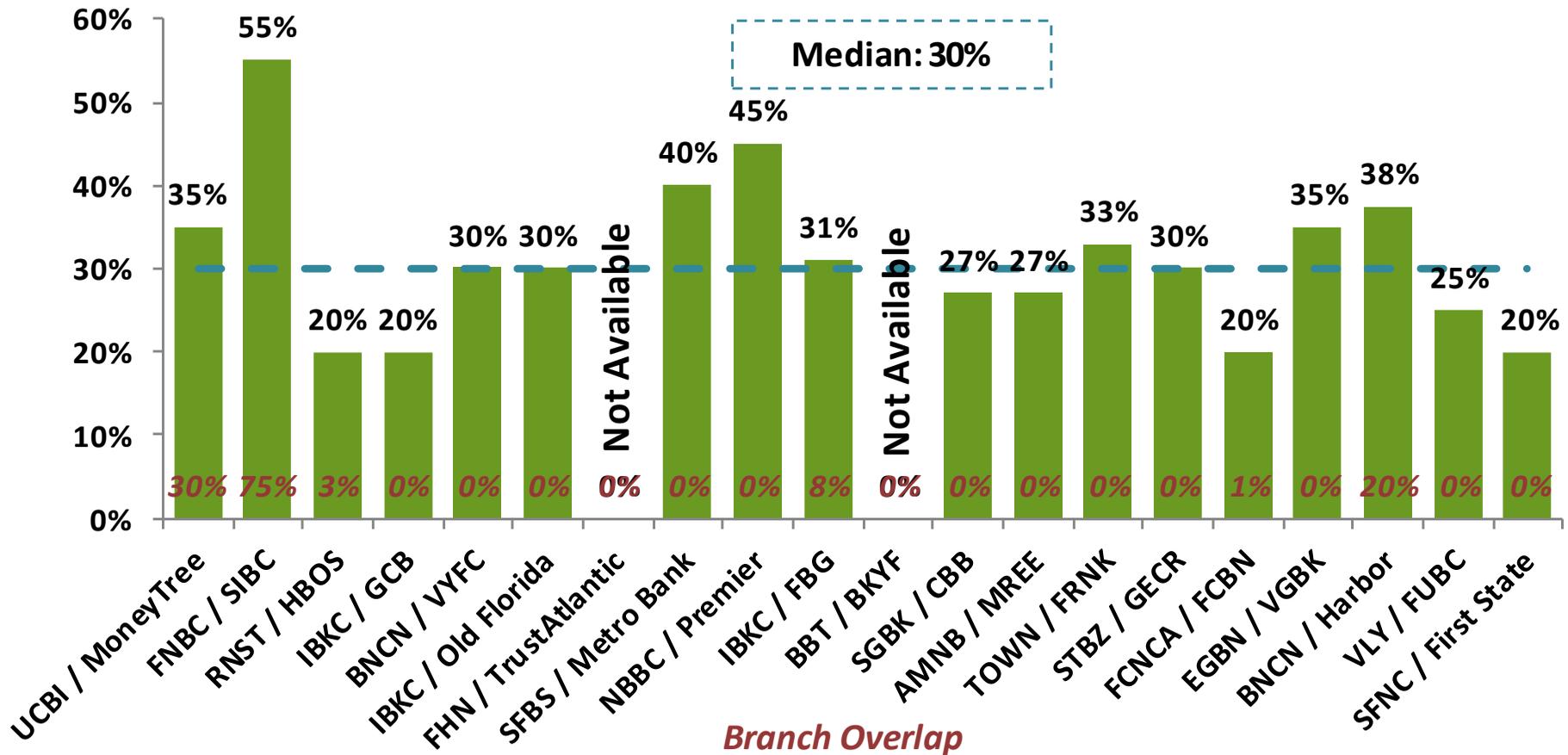


Note: Disclosed tangible book value earnback period; estimated figures by Sterne Agee Research where available
 Data Source: Company documents, Sterne Agee Research

Recent Southeast Transactions: Cost Savings

Twenty most recent Southeastern deals with disclosed deal metrics

Cost Savings (%)



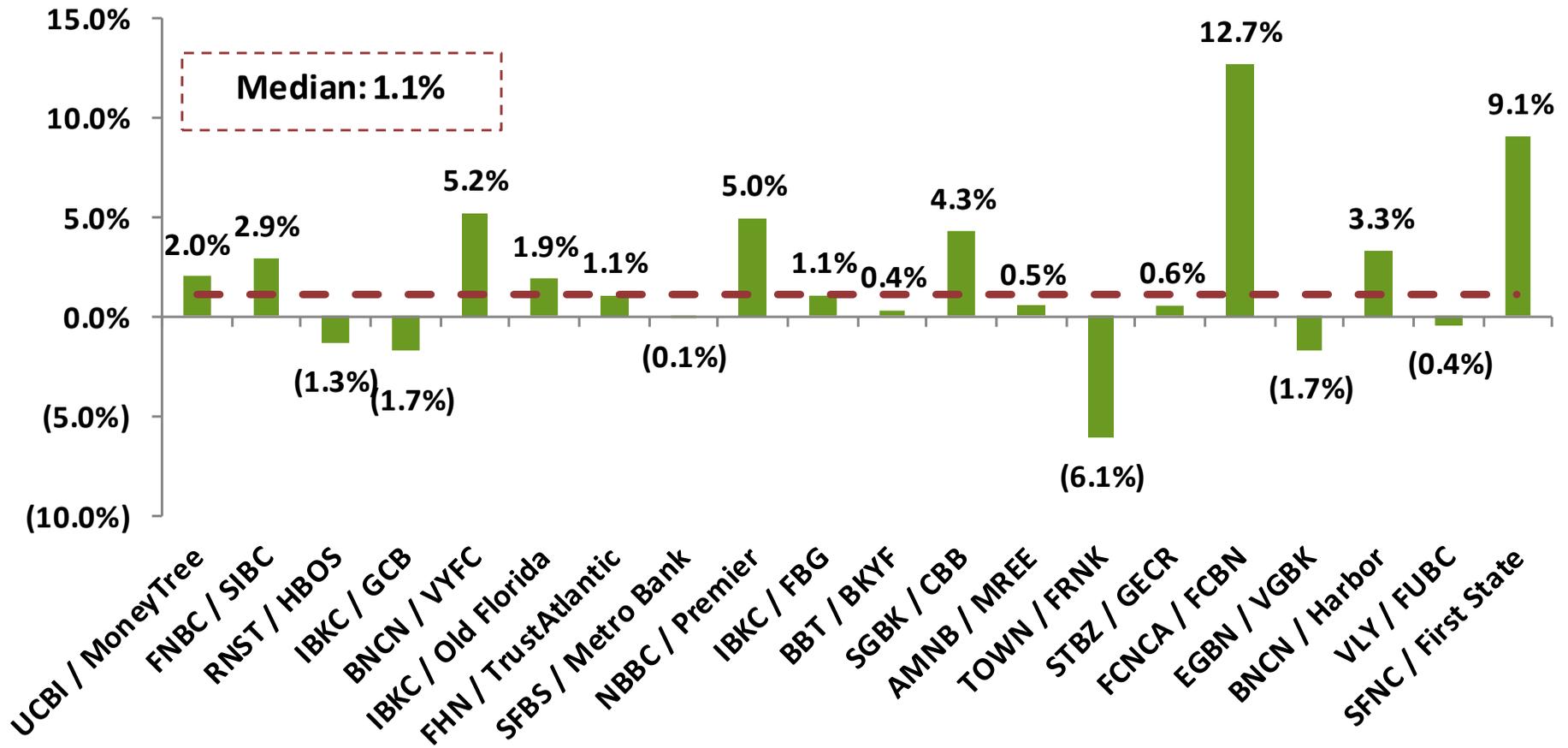
Note: Disclosed cost savings per company documents; estimated figures by Sterne Agee Research where available; branch overlap represents the percentage of the target's branches within 1 mile of a buyer's branch

Data Source: Company documents, Sterne Agee Research

Recent Southeast Transactions: Stock Price Performance

Twenty most recent Southeastern deals with disclosed deal metrics

One-Week Relative Stock Price Performance (%)



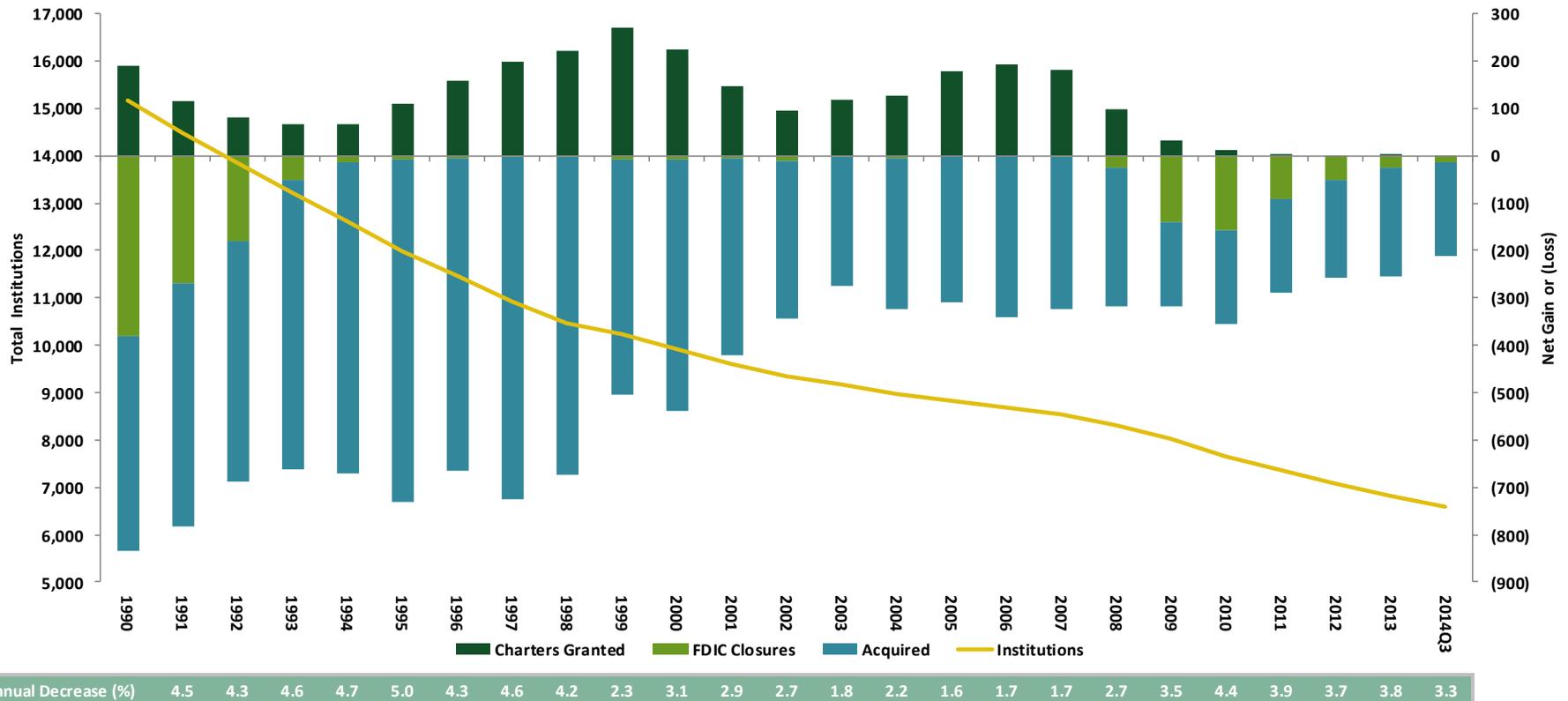
Note: Market performance is relative to the NASDAQ Bank Index for the first 5 trading days post-announcement
Data Source: FactSet

What's Next

Consolidating Industry

- **1990:** 15,158 Institutions
- **2000:** 9,904 Institutions (35% decrease from '90)
- **2010:** 7,658 Institutions (50% decrease)
- **Q3'2014:** 6,589 Institutions (57% decrease)

Bank Consolidation Since 1990



Note: Includes commercial banks and savings institutions
Data Source: FDIC

Looking Ahead – What We Expect

- **Technology will continue to transform how we bank**
- **The importance of operating scale will not diminish**
- **Growth and profitability will remain key drivers of bank valuations**
- **Competitive landscape will grow more concentrated with banks \$5 - \$10 billion in total assets and \$15 – 25 billion**
- **M&A activity will remain highly correlated to the age of a bank’s management team and board**
- **Larger institutions with perceived scarcity value will continue to receive higher change-of-control valuations**
- **Many banks will not be able to find a merger partner**

Appendix

Brian Branson – Managing Director

Mr. Branson joined Sterne Agee in July 2010 as a Director in the firm’s Financial Institutions Group and was promoted to the level of Managing Director in the Spring of 2013. Based in Atlanta, he is responsible for client coverage of depository institutions in the Southeast. Prior to joining Sterne Agee, Mr. Branson was an Associate Director at Sandler O’Neill & Partners, L.P. In January 2004, he was the second professional hired in that firm’s Atlanta Investment Banking Group. In this capacity, he was involved in numerous merger and acquisition (16 transactions; approximately \$3.0 billion in aggregate deal value) and capital raising transactions (22 capital raises; approximately \$3.6 billion raised) for Southeastern financial institutions. Mr. Branson began his career in the Corporate Finance Analyst program at Stephens Inc.

Education

Masters in Accountancy, Wake Forest University

- *Bronze Medal Winner for 3rd Highest CPA Score in the State of North Carolina in May 2001*

B.S. in Finance, Wake Forest University

Selected Bank & Thrift Transactions

M&A

- MoneyTree Corp.’s merger with United Community Banks
- State Investors Bancorp’s merger with First NBC Bank
- Reliant Bank’s merger with Commerce Union Bank
- MidSouth Bank’s merger with Franklin Synergy Bank
- State Bank & Trust’s acquisition of Altera Payroll
- Investar Bank’s acquisition of South Louisiana Business Bank
- SCBT Financial Corporation’s FDIC-Assisted acquisition of Community Bank and Trust
- Pinnacle Financial Partners Inc.’s acquisition of Mid-America Bancshares, Inc.
- Flag Financial Corporation's acquisition of First Capital Bancorp, Inc.

Capital Raises

- Avenue Financial Holdings, Inc.’s \$31.6 million IPO
- Investar Holding Corporation’s \$40 million IPO
- Florida Bank Group, Inc. Private Placement of \$33.0 million of Investment Units
- First NBC Bank Holding Company’s \$115 million IPO
- United Community Bank’s \$222.5 million follow-on offering
- First Financial Holdings, Inc.’s \$74.8 million follow-on offering
- Pinnacle Financial Partners Inc.’s \$115 million follow-on offering
- SunTrust Banks, Inc.’s \$1.6B follow-on offering
- Atlantic Capital Bancshares, Inc.’s \$125.4 million private placement

M&A League Table Momentum

2010 - 2012 League Table by Number of Deals

Firm	# of Deals	Ann. Deal Value (\$MM)
1 Stifel Financial Corp	92	6,241
2 Sandler O'Neill	83	9,392
3 Raymond James	26	478
4 Capital Corporation	22	102
5 Sheshunoff & Co.	18	346
6 J.P. Morgan	14	25,785
6 RBC Capital Markets	14	5,871
6 Hovde Group	14	210
9 FinPro, Inc.	13	296
10 FIG Partners	12	280
15 Sterne, Agee & Leach	10	137

2013 League Table by Number of Deals

Firm	# of Deals	Ann. Deal Value (\$MM)
1 Sandler O'Neill	47	6,372
2 Stifel Financial Corp	44	3,793
3 Raymond James	11	1,108
3 Hovde Group	11	303
3 Commerce Street Capital	11	296
6 Capital Corporation	10	32
7 Sterne, Agee & Leach	9	771
7 D.A. Davidson & Co.	9	471
9 RBC Capital Markets	8	909
9 FIG Partners	8	154

2014 League Table by Number of Deals

Firm	# of Deals	Ann. Deal Value (\$MM)
1 Sandler O'Neill	58	6,083
2 Stifel Financial Corp	47	8,312
3 Sterne, Agee & Leach	18	1,297
4 Hovde Group	15	367
5 D.A. Davidson & Co.	13	658
6 Raymond James	12	998
7 Commerce Street Capital	11	341
7 Sheshunoff & Co.	11	324
9 FIG Partners	10	210
10 Boenning & Scattergood, Inc.	8	267
10 Austin Associates, LLC	8	139

\$52,400,000



MoneyTree Corporation

Merger with



United
COMMUNITY BANKS, INC.

Financial Advisor
January 2015

\$51,100,000



STATE INVESTORS BANK

Merger with



First NBC

Financial Advisor
December 2014

\$206,900,000



Simmons First National Corporation

Acquisition of



LIBERTY
BANCSHARES, INC.

Financial Advisor
May 2014

\$21,000,000



CBank
Community & Small

Acquisition of



ALLIANCE NATIONAL BANK

Financial Advisor
May 2014

\$243,000,000



Simmons First National Corporation

Acquisition of



First State

Financial Advisor
May 2014

\$48,100,000



Reliant BANK

Merger with



Commerce Bancorp

Financial Advisor
April 2014

\$66,000,000



Simmons First National Corporation

Acquisition of



DELTA TRUST & BANK

Financial Advisor
March 2014

\$189,500,000



CenterState BANKS, INC.

Acquisition of



First Southern Bancorp

Financial Advisor
January 2014

\$23,000,000



OMNIBANK N.A.

Merger with



BANK of the OZARKS

Financial Advisor
December 2013

\$38,000,000



MIDSOUTH BANK

Merger with



FRANKLIN FINANCIAL NETWORK

Financial Advisor
November 2013

Note: Tombstones represent recent deals in the Southeast by announcement date
Data Source: SNL Financial, Company Documents

Sterne Agee's Recent Bank Capital Raising Transactions

\$31,625,000



INITIAL PUBLIC OFFERING

February 2015

\$21,372,750



INITIAL PUBLIC OFFERING

January 2015

\$25,000,000



COMMON STOCK PRIVATE PLACEMENT

January 2015

\$331,200,000



INITIAL PUBLIC OFFERING

October 2014

\$35,100,000



INITIAL PUBLIC OFFERING

October 2014

\$325,000,000



SECOND STEP CONVERSION

July 2014

\$46,000,000



INITIAL PUBLIC OFFERING

June 2014

\$60,000,000



COMMON STOCK FOLLOW-ON

May 2014

\$2,200,000,000



SECOND STEP CONVERSION

May 2014

\$220,222,000



INITIAL PUBLIC OFFERING

February 2014

\$33,000,000



PRIVATE PLACEMENT OF INVESTMENT UNITS

August 2013

\$200,000,000



COMMON STOCK FOLLOW-ON

August 2013

\$40,250,000



PERPETUAL PREFERRED OFFERING

June 2013

\$103,499,992



INITIAL PUBLIC OFFERING

May 2013

\$115,000,000



INITIAL PUBLIC OFFERING

May 2013

\$45,934,000



COMMON STOCK FOLLOW-ON

December 2012

\$150,000,000



PERPETUAL PREFERRED OFFERING

November 2012

\$158,282,000



INITIAL PUBLIC OFFERING

September 2012

Note: Deals highlighted in red represent IPOs

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