# ABA GRADUATE SCHOOL OF BANKING CAPSTONE STRATEGIC PROJECT

## Earning Your Cost of Capital via M&A

FINAL REPORT

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# Executive Summary

According to Joe Knight, author of the Harvard Business Review TOOLS: Return on Investment[1], "A wise company only invests in projects and initiatives that exceed the cost of capital. If you make investments that don't get a return that exceeds the cost of capital, you're encouraging investors to go elsewhere. You're basically saying that we're not getting the return you expected."

Today's banking industry provides significant operational challenges for banks to earn their cost of capital. The overall economy, interest rate environment, and mounting regulatory burden are among the key contributors to a challenging bank environment. With over 4,500 banks across varying geographies, there are winners and losers when it comes to financial performance. Some banks are able to easily achieve top quartile returns in a risk-adverse manner while other banks might struggle to meet peer returns despite riskier business lines.

This paper discusses three Focus Banks and assesses which operational strategy to pursue as it relates to: (1) remaining independent as a stand-alone entity (2) growing through acquisition of a smaller bank or (3) selling to a larger institution. Many different financial metrics are analyzed in this paper, but the primary target returns discussed and reflected upon are: (1) internal rate of return and (2) discounted cash flow value per share.

The three Focus Banks each uniquely represent three different profitability cohorts within the bank industry and are identified as follows: Bank Top (top quartile profitability in the bank industry), Bank Median (median profitability in the bank industry), and Bank Bottom

[1] Amy Gallo, "A Refresher on Cost of Capital," *Harvard Business Review,* https://hbr.org/2015/04/a-refresher-on-cost-of-capital. (Accessed December 21, 2018)

(bottom quartile profitability in the bank industry). Each operational strategy is examined to determine which option makes the most sense for a bank in a given profitability cohort.

When controlling for geographies, business models, earnings multiples, and capital levels, banks with stronger earnings and growth profiles will always have higher book value stock valuations. A higher book value stock valuation justifies a bank's independence as it prevents other banking institutions the opportunity to afford a takeout valuation without sacrificing punitive ownership and financial dilution.

The key to remaining independent is determined when a bank can achieve enough earnings to outperform its peer group to the point that any buy-side acquisition or sell-side divestiture would be immaterially accretive to its independent strategy. However, in the bank industry, there will always be certain banks that are not able to achieve peer returns given certain business models, strategies, and geographies. As such, both buy-side and sell-side M&A can be the best use of capital to help bridge the returns gap and help maximize stockholder returns.

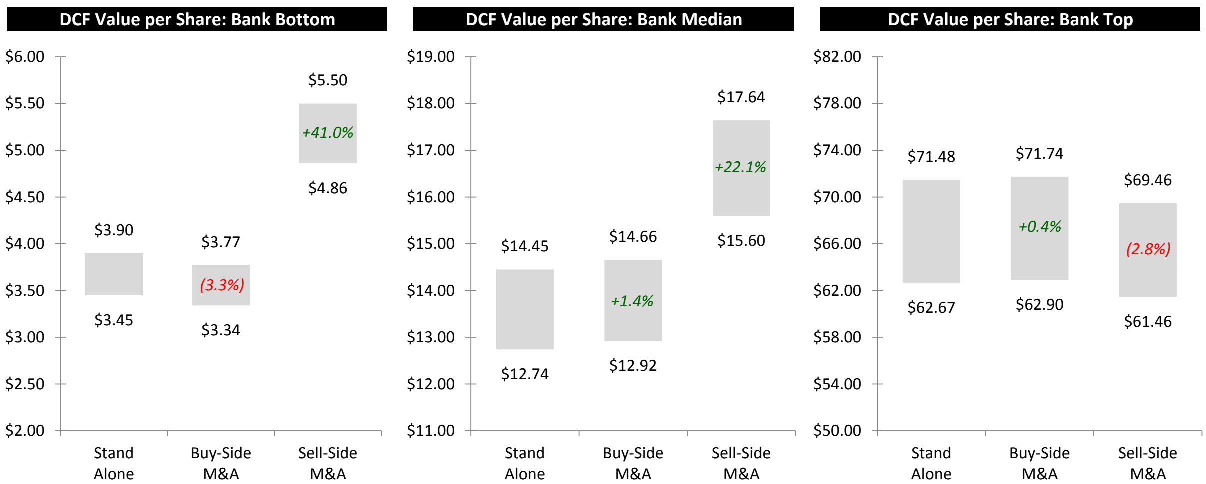
Buy-side M&A transactions are mathematically biased towards stronger companies that command premium currencies. A stronger valued acquirer pays less for each dollar of book value than the market values its own book value, resulting in proportionally less shares issued in a transaction versus a weaker valued acquirer. Fewer issued shares generally translates to greater financial accretion and less ownership dilution. Lower performing banks generally struggle with buy-side M&A transactions because of the significant bid-ask spread between what a lower-performing buyer can afford and what a target bank is asking for. As such, lower performing banks have limited options when it comes to building strong enough returns that ultimately beat their cost of capital. Although limited options exist as a stand-alone entity, lower performing banks can still enhance shareholder value by partnering with a larger bank through a sell-side divestiture and participating in the combined financial upside.

In an all-stock sell-side transaction, the selling institution receives its purchase price in stock of the buyer at transaction close. If the selling institution decides to hold onto the stock indefinitely, the seller then becomes a long-term buyer in the pro forma franchise. The fundamentals of selling an institution in an all-stock transaction is ultimately more of a buying decision than it is a selling decision. Ultimately, the selling institution is “buying into” the pro forma vision and betting on the pro forma combined financial upside as opposed to liquidating its newly issued shares at close. Being able to partner with a stronger earning bank allows for the seller to benefit from stronger combined future cash flows potentially providing enough return to outperform the selling bank’s existing cost of capital.

This paper analyzes three different Focus Banks, with three different stand-alone projections, and compares such stand-alone scenarios to (1) acquiring an average bank in the industry (known as “Sample Target”) and (2) selling to an average buyer in the industry (known as “Sample Buyer”). Sample Target and Sample Buyer embody many of the same profitability characteristics of Bank Median as all three entities mirror an average performing bank in the industry. The purpose of this exercise is to determine which operational strategy fits a given profitability cohort.

Below is a valuation analysis analyzing the three Focus Banks and whether or not it makes strategic sense to remain independent, acquire a smaller institution, or sell to a larger institution. Ultimately, the weaker the earnings profile, the less operational flexibility and options the Focus Bank has to enhance investor returns and fulfill a Board of Director's fiduciary responsibility. In contrast, the stronger the earnings profile, the larger the opportunity set is when determining both the financial and strategic reasons to pursue a given strategy.

Exhibit A




Note: Percentages illustrate delta from Stand Alone Valuation

Note: The top end of the range assumes a 12% discount rate. The bottom end of the valuation range assumes a 15% discount rate to account for execution risk

In summary, Bank Top's top quartile stand-alone profitability produces immaterial returns when analyzing both buy-side and sell-side M&A scenarios. The execution risk associated with pursuing an M&A transaction further emphasizes the more favorable strategy of remaining independent as a stand-alone entity.

Bank Median's average returns produce more uncertain results as a sell-side transaction with Sample Buyer adds financial value to Bank Median's existing returns but when accounting for execution risk related to losing management control in the pro forma entity, is it worth the premium valuation received?

Bank Bottom's underperforming returns provide limited options for management and the Board of Directors. Bank Bottom's inability to reach peer performance thresholds forces Bank Bottom to entertain selling to a more profitable bank as Bank Bottom's existing independent case and buy-side case both produce sub-optimal returns when compared to its cost of capital. Selling to a stronger bank allows Bank Bottom to add a material amount of value to its underlying shareholder returns thus solidifying a Director's fiduciary responsibility.

# Introduction to "Cost of Capital" and Why It Matters?

Since 2013, there have been 790 whole bank M&A transactions with 477 unique M&A buyers. Of the 477 unique buyers, there are 148 serial buyers with more than one buy-side acquisition[2]. There are many factors when determining which banks become buyers and which banks become sellers. However, the pivotal force in determining which banks remain independent, acquire, or sell, is driven primarily by the given strategy that produces the highest value to its shareholders.

According to Fryar Law Firm, "the fiduciary duty of both officers and directors requires that they exercise the powers of their offices solely for the benefit of the corporation and its stockholders collectively"[3]. Because stockholders own equity positions in a company, it is crucial for a company to continuously identify strategies that enhance an investors' return on investment ("ROI"[4]). Since shareholders expect to receive a certain return on their investments in a company, the equity holders' required rate of return is a cost from the company's perspective because if the company fails to deliver this expected return, also known as the "cost of equity", shareholders will simply sell off their shares ultimately leading to a decrease in share price and in the company's value.

There are many ways to value a company including the two most popular: (1) enterprise discounted cash flow ("DCF") and (2) discounted economic profit. When applied correctly, both valuation methods yield the same results. For this paper, the discounted economic profit will

[2] Source: S&P Global Market Intelligence. (Accessed August 27, 2018)
[3] Eric Fryar, "The Fiduciary Duty Board of Directors and Officers Owe to the Corporation," *Fryar Law Firm P.C.,* http://www.shareholderoppression.com/fiduciary-duty-board-of-directors. (Accessed August 27, 2018)
[4] "Return on Investment" will be used intermittently with "Internal Rate of Return or IRR" and "Return on Equity or ROE"

be used due its close link to economic theory and competitive strategy. Economic profit highlights whether a company is earning its cost of capital and how its financial performance is expected to change over time.

The cost of equity ("cost of capital"[5]) is the price charged by investors for bearing the risk that the company's future cash flows may differ from what is anticipated upon making the investment. The cost of capital to a company equals the minimum return that investors expect to earn from investing in the company. That is why the terms "expected return to investors" and "cost of capital" are essentially the same. The cost of capital can also be referred as the "discount rate", because future cash flows are discounted at this rate when calculating the present value of an investment, to reflect what a company must theoretically pay its investors[6].

For the bank space and for purposes of this paper, cost of capital and the cost of equity are intermittently used due to a bank's capital structure being in inextricable part of its operations. More specifically, the operational and financial cash flows of banks cannot be separated, given that banks are expected to create value from funding as well as lending operations. In contrast to non-financial companies, the weighted average cost of capital ("WACC") is used where operating decisions and financing decision are separate. For banks, however, operations can't separately be valued from interest income and expense, since these are the main categories of a bank's core operations[6].

For purposes of this paper, the cost of equity and required rate of return will be 12% going forward due to the assumption that investors will require excess risk-adjusted annual returns above the Standard & Poor's 500 historical return of approximately 10%, according to

[5] "Cost of Capital" will be used intermittently with "Weighted Average Cost of Capital or WACC" and "Discount Rate"
[6] Tim Koller, Marc Goedhart, David Wessels, *Valuation: Measuring and Managing the Value of Companies* (McKinsey & Company, 2010)

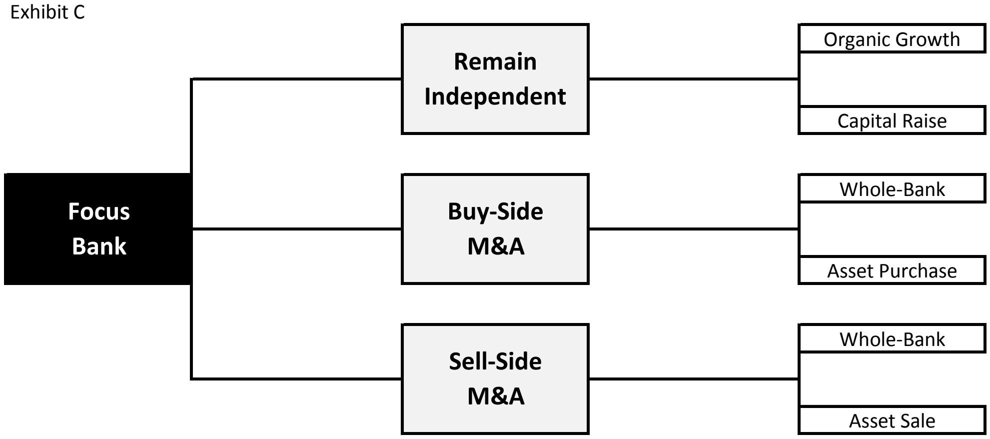
Investopedia[7]. The 12% discount rate can also be supported by a mathematical calculation sourced from the Duff & Phelps 2018 Valuation Handbook[8].

Exhibit B

| Calculation of Discount Rate | | |
|---|---|---|
| **Cost of Equity Build-Up** | **(%)** | **Source** |
| Risk-Free Rate (as of 9/20/18) (%) | 3.06% | 10-Year US Treasury sourced from Bloomberg L.P |
| Equity Risk Premium (%) | 5.00% | Duff & Phelps: Recommended as of May 2018 |
| Adjusted Beta (x) | 1.000x | Cohn assumption due to insufficient illiquidity and size |
| Beta Adjusted Risk Premium (%) | 5.00% | |
| Industry Premium (%) | 0.70% | Duff & Phelps: Depository Institutions - SIC Code 60 |
| Size Premium (%) | 3.48% | Duff & Phelps: For market caps between $2.531M - $656.845M |
| Additional Premiums (%) | 4.18% | |
| Cost of Equity (Discount Rate) (%) | 12.24% | Cost of Equity = Rf + B(Rm - Rf) |

There are three key avenues for a bank to pursue in hopes of earning its cost of capital. Within each avenue are multiple initiatives that help a bank further focus its attention on the right strategic options. The below decision tree illustrates the basic decision pattern a company's Board of Directors and management must operate within to successfully enhance shareholder returns.

Exhibit C




[7] Investopedia, "What is the average annual return for the S&P 500?", https://www.investopedia.com/ask/answers/042415/what-average-annual-return-sp-500.asp (Accessed September 5, 2018)
[8] Carla Nunez, James Harrington, Roger Grabowski, *Duff & Phelps 2018 Valuation Handbook – International Guide to Cost of Capital* (Duff & Phelps, 2018)

The most common strategy for a management team is to remain independent and operate as a stand-alone entity in order to presumably control the company's own destiny. Most companies attempt to improve internal operations enough to hopefully outperform their cost of capital and justify independence. However, there are often operational hurdles that prevent companies from achieving such returns. In the bank industry, the most material hurdles are the economy, interest rate environment, and mounting regulatory burden.

If the above operational headwinds are too strong for a bank, there are alternative strategies to pursue that help bridge the gap to earning a bank's cost of capital. A bank can elect to acquire another bank or non-bank institution, merge with a similarly-sized bank ("merger-of-equals" or "MOE") or sell itself outright to a larger acquiring institution. Choosing to buy or sell cannot be viewed in isolation as it is still crucial to compare such strategies to a bank's current expected return or cost of capital. More specifically, it is still important to determine if the elected M&A strategy enhances or erodes shareholder value as compared to remaining independent.

This paper introduces and analyzes three different Focus Banks that each uniquely represent three different profitability cohorts within the bank industry and determines which strategic option builds the most shareholder value. Each operational strategy is examined to determine which option makes the most sense for a bank in a given profitability cohort.

# The Three Focus Banks

There are 755 publicly traded banks across the nation with varying degrees of earnings both in terms of quality and quantity. The below table depicts the top quartile, median, and bottom quartile performance metrics for the bank industry[2].

Exhibit D

| | Balance Sheet | | Profitability | |
|---|---|---|---|---|
| Profitability Cohorts | Assets ($M) | Asset Growth (%) | ROA (%) | ROE (%) |
| **Top Quartile** | $3,507 | 13.7 | 1.31 | 12.19 |
| **Median** | $1,035 | 6.6 | 1.03 | 9.74 |
| **Bottom Quartile** | $415 | 2.7 | 0.76 | 6.98 |

The below three sample banks are identified in order to capture the varying earnings profiles of banks across the industry. "Bank Top" will be a top quartile performing bank and incorporate very similar financial characteristics to the top quartile metrics illustrated in the above summary table. "Bank Median" will be a median performing bank and incorporate very similar financial characteristics to the median metrics illustrated in the above summary table. "Bank Bottom" will be a bottom quartile performing bank and incorporate very similar financial characteristics to the bottom quartile metrics illustrated in the above summary table. Asset sizes, growth, and profitability will differ based on the top quartile, median, and bottom quartile profitability cohorts. Below are three financial snapshots of Bank Top, Bank Median, and Bank Bottom. The grey highlighted segments in the snapshots are the key financial characteristics that symbolize the profitability cohorts illustrated in Exhibit D.

Exhibit E

| Snapshot of Focus Banks (Most Recent Period) | Bank Bottom | Bank Median | Bank Top |
|---|---|---|---|
| **Balance Sheet** | | | |
| Total Assets ($M) | $ 400 | $ 1,000 | $ 3,500 |
| *5-Year Asset CAGR (%)* | *3.0%* | *7.0%* | *13.5%* |
| **Valuation (Based on 14x Terminal EPS) (9)** | | | |
| Stock Price ($) | $ 4.86 | $ 16.00 | $ 65.24 |
| Market Cap ($M) | $ 48.6 | $ 160.0 | $ 652.4 |
| Price / TBV (x) | 1.52x | 2.00x | 2.33x |
| **Balance Sheet Composition** | | | |
| Loans / Deposits (%) | 90.0 | 90.0 | 90.0 |
| Core Deps / Deposits (%) | 80.0 | 80.0 | 80.0 |
| **Capital Adequacy** | | | |
| TCE / TA (%) | 8.00 | 8.00 | 8.00 |
| Leverage Ratio (%) | 8.00 | 8.00 | 8.00 |
| Tier 1 Capital Ratio (%) | 9.25 | 9.25 | 9.25 |
| Total Capital Ratio (%) | 10.50 | 10.50 | 10.50 |
| **Profitability** | | | |
| ROAA (%) | 0.56 | 0.80 | 0.96 |
| ROAE (%) | 7.00 | 10.00 | 12.00 |
| Net Interest Margin (%) | 3.33 | 3.50 | 3.64 |
| Efficiency Ratio (%) | 77.8 | 72.0 | 69.6 |
| Burden Ratio (%) | 2.44 | 2.32 | 2.25 |

# Key Assumptions

For comparative purposes, all three Focus Banks will be headquartered in the same city, maintain the same branch footprint, the balance sheet composition will be identical, and all current stock valuations will assume no expansion of valuation multiples throughout the terminal period in order to better isolate the incremental earnings run-rate for each Focus Bank[9].

In order to derive valuations for each of the Focus Banks, all terminal earnings are valued based on a 14.0x multiple ascribed to forward earnings per share. The 14.0x EPS multiple is conservatively used in this paper to better resemble the current banking market dynamics as the current median P/Fwd. EPS for the entire bank universe is 14.3x. Although, each bank encompasses a very different earnings profile, the purpose of using the same EPS valuations is to better illustrate how growth and profitability impact strategic decision making and to limit the discussion on how multiple expansion impacts stock market valuations.

A more mathematically technical method to justify the 14.0x EPS multiple is by starting with the Dividend Discount Model (or Gordon Growth Model)[10] formula and solving for the Sustainable P/E Ratio or Justified P/E Ratio. The Sustainable P/E ratio can be simplified by the formula (P/E = 1 / (Cost of Capital – Growth)). Assuming a 12% discount rate (as illustrated in "Introduction to Cost of Capital and Why It Matters?") and the average US GDP growth of

[9] Valuation Methodology: A 14.0x terminal EPS multiple is ascribed to the Year 6 earnings stream to derive an implied Price / TBV multiple for Year 5 (terminal year). This valuation is then used as the basis for the current stock price in order to limit any multiple expansion over the course of the forecast period given the annual TCE / TA floor of 8.0%

[10] The Dividend Discount Model is a method of valuing a company's stock price based on the theory that its stock is worth the sum of all of its future dividend payments, discounted back to their present value (Value of Stock = Dividends per Share / (Discount Rate – Dividend Growth Rate). The Gordon Growth Model assumes a stable dividend growth

4.97% from 2017 to June 2018, the implied P/E ratio of 14.2x thereby justifies the 14.0x EPS used in this paper.

The dividend policy assumed in the stand-alone forecasted periods assumes all excess capital above 8.0% TCE / TA is distributed annually to shareholders to prevent valuing excess capital above regulatory thresholds, maintain an efficient capital structure, and focus more on the differing earnings trajectories across the Focus Banks.

All models illustrate six years of forecasted financials, but valuations will be based on five years of earnings and discounted accordingly. The primary purpose of the sixth year is to serve as the “forward EPS” or “next twelve months EPS” to derive a Year 5 terminal valuation.

# Bank Top

Bank Top symbolizes the top quartile as illustrated in Exhibit D. Bank Top starts with a 12% ROE in Year 1 and grows assets at a 14% rate into perpetuity. The 12% ROE improves to 15% by Year 5 primarily derived from an improvement in the burden ratio[11]. Bank Top achieves better economies of scale due to its growth and therefore improves its overall cost structure as a percentage of its asset base. The below financials illustrate an expense base growing at 10% resulting in an overall improvement in burden due to overall balance sheet growth of 14%.

Exhibit F

| *(Dollars in Millions)* | At or for the year ended, | | | | | | | CAGR |
|---|---|---|---|---|---|---|---|---|
| | 12/31/2018 | 12/31/2019 | 12/31/2020 | 12/31/2021 | 12/31/2022 | 12/31/2023 | 12/31/2024 | '18 - '24 |
| **Balance Sheet** | | | | | | | | |
| Total Assets ($) | 3,500.0 | 3,969.2 | 4,507.0 | 5,118.0 | 5,811.7 | 6,599.2 | 7,493.0 | *14%* |
| Total Loans ($) | 2,898.0 | 3,289.2 | 3,733.3 | 4,237.3 | 4,809.3 | 5,458.6 | 6,195.5 | *13%* |
| Total Deposits ($) | 3,220.0 | 3,651.8 | 4,146.6 | 4,708.5 | 5,346.5 | 6,070.9 | 6,893.5 | *14%* |
| Tang. Common Equity ($) | 280.0 | 317.4 | 360.4 | 409.5 | 465.2 | 528.3 | 599.4 | *14%* |
| **Balance Sheet Composition** | | | | | | | | |
| Loans / Deposits (%) | 90.0 | 90.1 | 90.0 | 90.0 | 90.0 | 89.9 | 89.9 | *(0%)* |
| Core Deps / Deposits (%) | 80.0 | 80.0 | 80.0 | 80.0 | 80.0 | 80.0 | 80.0 | *0%* |
| **Capital Adequacy** | | | | | | | | |
| TCE / TA (%) | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | *(0%)* |
| Leverage Ratio (%) | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | *(0%)* |
| Tier 1 Capital Ratio (%) | 9.25 | 9.25 | 9.25 | 9.25 | 9.25 | 9.26 | 9.25 | *(0%)* |
| Total Capital Ratio (%) | 10.50 | 10.50 | 10.50 | 10.50 | 10.50 | 10.51 | 10.50 | *(0%)* |
| **Income Statement** | | | | | | | | |
| Net Interest Income ($) | 127.0 | 140.1 | 159.1 | 180.6 | 205.0 | 232.7 | 264.2 | *13%* |
| Provision Expense ($) | 5.7 | 9.0 | 10.2 | 11.5 | 13.1 | 14.9 | 16.9 | *20%* |
| Noninterest Income ($) | 31.4 | 33.6 | 38.1 | 43.3 | 49.1 | 55.7 | 63.2 | *12%* |
| Noninterest Expense ($) | 110.2 | 117.4 | 130.6 | 145.2 | 161.4 | 179.3 | 199.0 | *10%* |
| Tax Expense ($) | 8.9 | 9.9 | 11.8 | 14.1 | 16.7 | 19.8 | 23.4 | *17%* |
| Net Income ($) | 33.6 | 37.4 | 44.6 | 53.0 | 62.9 | 74.5 | 88.1 | *17%* |
| **Per Share Metrics** | | | | | | | | |
| EPS ($) | 3.36 | 3.74 | 4.46 | 5.30 | 6.29 | 7.45 | 8.81 | *17%* |
| TBV per Share ($) | 28.00 | 31.74 | 36.04 | 40.95 | 46.52 | 52.83 | 59.94 | *14%* |
| Dividends per Share ($) | 0.00 | 0.00 | 0.15 | 0.39 | 0.72 | 1.14 | 1.69 | *NA* |
| **Profitability** | | | | | | | | |
| ROAA (%) | 0.96 | 1.00 | 1.05 | 1.10 | 1.15 | 1.20 | 1.25 | *5%* |
| ROAE (%) | 12.00 | 12.51 | 13.15 | 13.76 | 14.38 | 15.00 | 15.62 | *4%* |
| Net Interest Margin (%) | 3.64 | 3.54 | 3.54 | 3.54 | 3.54 | 3.54 | 3.53 | *(0%)* |
| Efficiency Ratio (%) | 69.6 | 67.6 | 66.2 | 64.9 | 63.5 | 62.2 | 60.8 | *(2%)* |
| Burden Ratio (%) | 2.25 | 2.25 | 2.18 | 2.12 | 2.05 | 1.99 | 1.93 | *(3%)* |
| **Asset Quality** | | | | | | | | |
| Reserves / Loans (%) | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | *0%* |
| NPAs / Assets (%) | 0.94 | 0.83 | 0.73 | 0.64 | 0.57 | 0.50 | 0.44 | *(12%)* |

[11] Burden Ratio is defined as Non-Interest Expense less Non-Interest Income divided by Average Assets

The discounted cash flow valuation for Bank Top is $71.48 assuming a Terminal Value to Earnings and TBV of 14.0x and 2.33x, respectively. Assuming an investor purchases Bank Top's shares today at $65.24 (Current P/TBV of 2.33x as illustrated in Exhibit E), the Internal Rate of Return is 14.1% which exceeds the 12.0% expected return discussed in "Introduction to "Cost of Capital" and Why It Matters?". Therefore, based on the current operational run-rate, Bank Top is producing enough earnings and growth to earn its cost of capital and justify a stand-alone strategy. Below is the discounted cash flow analysis for Bank Top.

Exhibit G

| Top: Assumptions | |
|---|---|
| Discount Rate (Expected Rate of Return) (%) | 12.0% |
| Terminal Multiple (Forward P/E) (x) | 14.0x |

| Top: Valuation Analysis | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Financial Data** | **12/31/2018** | **12/31/2019** | **12/31/2020** | **12/31/2021** | **12/31/2022** | **12/31/2023** | **12/31/2024** |
| EPS ($) | $ 3.36 | $ 3.74 | $ 4.46 | $ 5.30 | $ 6.29 | $ 7.45 | $ 8.81 |
| TBV per Share ($) | 28.00 | 31.74 | 36.04 | 40.95 | 46.52 | 52.83 | 59.94 |
| Dividends per Share (8% TCE) ($) | - | - | 0.15 | 0.39 | 0.72 | 1.14 | 1.69 |
| **Terminal Value** | | | | | | | |
| EPS ($) | $ 3.36 | $ 3.74 | $ 4.46 | $ 5.30 | $ 6.29 | $ 7.45 | $ 8.81 |
| Terminal Multiple (x) | 14.0x | 14.0x | 14.0x | 14.0x | 14.0x | 14.0x | 14.0x |
| Terminal Value on EPS ($) | $ 47.03 | $ 52.32 | $ 62.38 | $ 74.19 | $ 88.05 | $ 104.29 | $ 123.32 |
| **Top Cash Flows per Share** | | | | | | | |
| Investment (Current Stock Price) ($) | $ (65.24) | $ - | $ - | $ - | $ - | $ - | $ - |
| Dividends per Share (8% TCE) ($) | - | - | 0.15 | 0.39 | 0.72 | 1.14 | - |
| Terminal Value per Share ($) | - | - | - | - | - | 123.32 | - |
| **Cash Flows per Share ($)** | **(65.24)** | **-** | **0.15** | **0.39** | **0.72** | **124.46** | **-** |
| **Discounted Cash Flows** | | | | | | | |
| Timing of Cash Flows | - | 1.00 | 2.00 | 3.00 | 4.00 | 5.00 | 6.00 |
| Discounted Cash Flows ($) | $ (65.24) | $ - | $ 0.12 | $ 0.28 | $ 0.46 | $ 70.63 | $ - |

| Top: Investment Returns (5-Year Horizon) | |
|---|---|
| **Terminal Year** | **12/31/2023** |
| **Internal Rate of Return (%)** | **14.1%** |
| DCF Value per Share ($) | $ 71.48 |
| Terminal Value / Forward EPS (x) | 14.0x |
| Terminal Value / TBV (x) | 2.33x |

| Top: IRR Sensitivity Analysis (Based on Varying Terminal Multiples) | | | | |
|---|---|---|---|---|
| **Terminal Value / TBV (x)** | | | | |
| 2.00x | 2.17x | 2.33x | 2.50x | 2.67x |
| **Terminal Value / LTM EPS (x)** | | | | |
| 12.0x | 13.0x | 14.0x | 15.0x | 16.0x |
| 10.7% | 12.4% | **14.1%** | 15.6% | 17.1% |

# Bank Median

Bank Median symbolizes the median as illustrated in Exhibit D. Bank Median starts with a 10% ROE in Year 1 and grows assets at a 7% rate into perpetuity. The 10% ROE improves to 13% by Year 5 primarily derived from an improvement in the Burden Ratio. Bank Median achieves better economies of scale similar to the Bank Top assumption. The below financials illustrate an expense base growing at 4% resulting in an overall improvement in Burden due to overall balance sheet growth of 7%.

Exhibit H

| *(Dollars in Millions)* | At or for the year ended, | | | | | | | CAGR |
|---|---|---|---|---|---|---|---|---|
| | 12/31/2018 | 12/31/2019 | 12/31/2020 | 12/31/2021 | 12/31/2022 | 12/31/2023 | 12/31/2024 | '18 - '24 |
| **Balance Sheet** | | | | | | | | |
| Total Assets ($) | 1,000.0 | 1,069.9 | 1,144.9 | 1,225.1 | 1,310.9 | 1,402.6 | 1,500.7 | *7%* |
| Total Loans ($) | 828.0 | 886.0 | 948.0 | 1,014.3 | 1,085.3 | 1,161.3 | 1,242.6 | *7%* |
| Total Deposits ($) | 920.0 | 984.4 | 1,053.3 | 1,127.0 | 1,205.9 | 1,290.3 | 1,380.7 | *7%* |
| Tang. Common Equity ($) | 80.0 | 85.5 | 91.6 | 98.1 | 104.9 | 112.2 | 120.1 | *7%* |
| **Balance Sheet Composition** | | | | | | | | |
| Loans / Deposits (%) | 90.0 | 90.0 | 90.0 | 90.0 | 90.0 | 90.0 | 90.0 | *0%* |
| Core Deps / Deposits (%) | 80.0 | 80.0 | 80.0 | 80.0 | 80.0 | 80.0 | 80.0 | *0%* |
| **Capital Adequacy** | | | | | | | | |
| TCE / TA (%) | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | *0%* |
| Leverage Ratio (%) | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | *0%* |
| Tier 1 Capital Ratio (%) | 9.25 | 9.24 | 9.25 | 9.26 | 9.25 | 9.25 | 9.25 | *0%* |
| Total Capital Ratio (%) | 10.50 | 10.49 | 10.50 | 10.51 | 10.50 | 10.50 | 10.50 | *0%* |
| **Income Statement** | | | | | | | | |
| Net Interest Income ($) | 35.0 | 36.8 | 39.4 | 42.2 | 45.1 | 48.3 | 51.7 | *7%* |
| Provision Expense ($) | 1.6 | 1.7 | 1.8 | 2.0 | 2.1 | 2.3 | 2.4 | *7%* |
| Noninterest Income ($) | 7.0 | 7.3 | 7.8 | 8.3 | 8.9 | 9.5 | 10.2 | *6%* |
| Noninterest Expense ($) | 30.2 | 31.3 | 32.7 | 34.3 | 35.9 | 37.5 | 39.2 | *4%* |
| Tax Expense ($) | 2.1 | 2.3 | 2.6 | 3.0 | 3.4 | 3.8 | 4.3 | *12%* |
| Net Income ($) | 8.0 | 8.8 | 9.9 | 11.2 | 12.7 | 14.3 | 16.0 | *12%* |
| **Per Share Metrics** | | | | | | | | |
| EPS ($) | 0.80 | 0.88 | 0.99 | 1.12 | 1.27 | 1.43 | 1.60 | *12%* |
| TBV per Share ($) | 8.00 | 8.55 | 9.16 | 9.81 | 10.49 | 11.22 | 12.01 | *7%* |
| Dividends per Share ($) | 0.00 | 0.32 | 0.39 | 0.48 | 0.58 | 0.70 | 0.82 | *NA* |
| **Profitability** | | | | | | | | |
| ROAA (%) | 0.80 | 0.85 | 0.90 | 0.95 | 1.00 | 1.05 | 1.10 | *6%* |
| ROAE (%) | 10.00 | 10.60 | 11.23 | 11.83 | 12.50 | 13.17 | 13.81 | *6%* |
| Net Interest Margin (%) | 3.50 | 3.45 | 3.45 | 3.45 | 3.45 | 3.45 | 3.45 | *(0%)* |
| Efficiency Ratio (%) | 72.0 | 70.9 | 69.4 | 68.0 | 66.4 | 64.8 | 63.3 | *(2%)* |
| Burden Ratio (%) | 2.32 | 2.32 | 2.25 | 2.19 | 2.13 | 2.06 | 2.00 | *(2%)* |
| **Asset Quality** | | | | | | | | |
| Reserves / Loans (%) | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | *0%* |
| NCOs / Avg. Loans (%) | 0.08 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | *3%* |
| NPLs / Loans (%) | 1.21 | 1.13 | 1.05 | 0.99 | 0.92 | 0.86 | 0.80 | *(7%)* |
| NPAs / Assets (%) | 1.00 | 0.93 | 0.87 | 0.82 | 0.76 | 0.71 | 0.67 | *(7%)* |

The discounted cash flow valuation for Bank Median is $14.45 assuming a Terminal Value to Earnings and TBV of 14.0x and 2.00x, respectively. Assuming an investor purchases Bank Median's shares today at $16.00 (Current P/TBV of 2.00x as illustrated in Exhibit E), the Internal Rate of Return is 9.6% which fails to achieve the 12.0% expected return previously discussed. However, the materiality of the approximate 20% underperformance is difficult to quantify due to execution risk. Some execution risks may include, but not limited to, economic uncertainties, the conservativeness of a Company's budget, and assumed capital structure as it relates to how much leverage is utilized to enhance investor returns. Regardless, Bank Median is currently operating in the "gray-area" as it relates to earning its cost of capital and justifying a stand-alone strategy. Below is the discounted cash flow analysis for Bank Median.

Exhibit I

| **Median: Assumptions** | |
|---|---|
| Discount Rate (Expected Rate of Return) (%) | 12.0% |
| Terminal Multiple (Forward P/E) (x) | 14.0x |

| **Median: Valuation Analysis** | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Financial Data** | **12/31/2018** | **12/31/2019** | **12/31/2020** | **12/31/2021** | **12/31/2022** | **12/31/2023** | **12/31/2024** |
| EPS ($) | $ 0.80 | $ 0.88 | $ 0.99 | $ 1.12 | $ 1.27 | $ 1.43 | $ 1.60 |
| TBV per Share ($) | 8.00 | 8.55 | 9.16 | 9.81 | 10.49 | 11.22 | 12.01 |
| Dividends per Share (8% TCE) ($) | - | 0.32 | 0.39 | 0.48 | 0.58 | 0.70 | 0.82 |
| **Terminal Value** | | | | | | | |
| EPS ($) | $ 0.80 | $ 0.88 | $ 0.99 | $ 1.12 | $ 1.27 | $ 1.43 | $ 1.60 |
| Terminal Multiple (x) | 14.0x | 14.0x | 14.0x | 14.0x | 14.0x | 14.0x | 14.0x |
| Terminal Value on EPS ($) | $ 11.20 | $ 12.28 | $ 13.93 | $ 15.71 | $ 17.77 | $ 20.01 | $ 22.46 |
| **Median Cash Flows per Share** | | | | | | | |
| Investment (Current Stock Price) ($) | $ (16.00) | $ - | $ - | $ - | $ - | $ - | $ - |
| Dividends per Share (8% TCE) ($) | - | 0.32 | 0.39 | 0.48 | 0.58 | 0.70 | - |
| Terminal Value per Share ($) | - | - | - | - | - | 22.46 | - |
| **Cash Flows per Share ($)** | **(16.00)** | **0.32** | **0.39** | **0.48** | **0.58** | **23.16** | **-** |
| **Discounted Cash Flows** | | | | | | | |
| Timing of Cash Flows | - | 1.00 | 2.00 | 3.00 | 4.00 | 5.00 | 6.00 |
| Discounted Cash Flows ($) | $ (16.00) | $ 0.29 | $ 0.31 | $ 0.34 | $ 0.37 | $ 13.14 | $ - |

| **Median: Investment Returns (5-Year Horizon)** | |
|---|---|
| **Terminal Year** | **12/31/2023** |
| **Internal Rate of Return (%)** | **9.6%** |
| DCF Value per Share ($) | $ 14.45 |
| Terminal Value / Forward EPS (x) | 14.0x |
| Terminal Value / TBV (x) | 2.00x |

| **Median: IRR Sensitivity Analysis (Based on Varying Terminal Multiples)** | | | | |
|---|---|---|---|---|
| **Terminal Value / TBV (x)** | | | | |
| 1.72x | 1.86x | 2.00x | 2.14x | 2.29x |
| **Terminal Value / LTM EPS (x)** | | | | |
| 12.0x | 13.0x | 14.0x | 15.0x | 16.0x |
| 6.6% | 8.1% | **9.6%** | 11.0% | 12.4% |

# Bank Bottom

Bank Bottom symbolizes the bottom quartile as illustrated in Exhibit D. Bank Bottom starts with a 7% ROE in Year 1 and grows assets at a 3% rate into perpetuity. The 7% ROE improves to 10% by Year 5 primarily derived from an improvement in the Burden Ratio. Bank Bottom achieves better economies of scale similar to the Bank Top and Bank Median assumption. The below financials illustrate an expense base growing at 1% resulting in an overall improvement in burden due to overall balance sheet growth of 3%.

Exhibit J

| *(Dollars in Millions)* | At or for the year ended, | | | | | | | CAGR |
|---|---|---|---|---|---|---|---|---|
| | 12/31/2018 | 12/31/2019 | 12/31/2020 | 12/31/2021 | 12/31/2022 | 12/31/2023 | 12/31/2024 | '18 - '24 |
| **Balance Sheet** | | | | | | | | |
| Total Assets ($) | 400.0 | 412.0 | 424.3 | 437.1 | 450.2 | 463.7 | 477.6 | *3%* |
| Total Loans ($) | 331.2 | 341.1 | 351.4 | 361.9 | 372.8 | 384.0 | 395.5 | *3%* |
| Total Deposits ($) | 368.0 | 379.0 | 390.4 | 402.1 | 414.2 | 426.6 | 439.4 | *3%* |
| Tang. Common Equity ($) | 32.0 | 33.0 | 33.9 | 34.9 | 36.0 | 37.1 | 38.2 | *3%* |
| **Balance Sheet Composition** | | | | | | | | |
| Loans / Deposits (%) | 90.0 | 90.0 | 90.0 | 90.0 | 90.0 | 90.0 | 90.0 | *0%* |
| Core Deps / Deposits (%) | 80.0 | 80.0 | 80.0 | 80.0 | 80.0 | 80.0 | 80.0 | *0%* |
| **Capital Adequacy** | | | | | | | | |
| TCE / TA (%) | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | *0%* |
| Leverage Ratio (%) | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | *0%* |
| Tier 1 Capital Ratio (%) | 9.25 | 9.25 | 9.25 | 9.25 | 9.25 | 9.26 | 9.25 | *0%* |
| Total Capital Ratio (%) | 10.50 | 10.50 | 10.50 | 10.50 | 10.50 | 10.51 | 10.50 | *0%* |
| **Income Statement** | | | | | | | | |
| Net Interest Income ($) | 13.3 | 13.4 | 13.8 | 14.2 | 14.6 | 15.1 | 15.5 | *3%* |
| Provision Expense ($) | 0.6 | 0.5 | 0.5 | 0.5 | 0.5 | 0.5 | 0.6 | *(2%)* |
| Noninterest Income ($) | 2.4 | 2.4 | 2.5 | 2.6 | 2.7 | 2.8 | 2.8 | *3%* |
| Noninterest Expense ($) | 12.2 | 12.3 | 12.3 | 12.4 | 12.6 | 12.6 | 12.7 | *1%* |
| Tax Expense ($) | 0.6 | 0.6 | 0.7 | 0.8 | 0.9 | 1.0 | 1.1 | *10%* |
| Net Income ($) | 2.2 | 2.4 | 2.7 | 3.0 | 3.3 | 3.7 | 4.0 | *10%* |
| **Per Share Metrics** | | | | | | | | |
| EPS ($) | 0.22 | 0.24 | 0.27 | 0.30 | 0.33 | 0.37 | 0.40 | *10%* |
| TBV per Share ($) | 3.20 | 3.30 | 3.39 | 3.49 | 3.60 | 3.71 | 3.82 | *3%* |
| Dividends per Share ($) | 0.00 | 0.15 | 0.17 | 0.20 | 0.23 | 0.26 | 0.29 | *NA* |
| **Profitability** | | | | | | | | |
| ROAA (%) | 0.56 | 0.60 | 0.65 | 0.70 | 0.75 | 0.80 | 0.85 | *7%* |
| ROAE (%) | 7.00 | 7.48 | 8.14 | 8.78 | 9.38 | 10.04 | 10.68 | *7%* |
| Net Interest Margin (%) | 3.33 | 3.26 | 3.26 | 3.26 | 3.26 | 3.27 | 3.27 | *(0%)* |
| Efficiency Ratio (%) | 77.8 | 77.5 | 75.8 | 74.1 | 72.6 | 70.9 | 69.2 | *(2%)* |
| Burden Ratio (%) | 2.44 | 2.42 | 2.35 | 2.29 | 2.23 | 2.16 | 2.10 | *(3%)* |
| **Asset Quality** | | | | | | | | |
| Reserves / Loans (%) | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | *0%* |
| NCOs / Avg. Loans (%) | 0.15 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | *(6%)* |
| NPLs / Loans (%) | 1.25 | 1.22 | 1.18 | 1.15 | 1.11 | 1.08 | 1.05 | *(3%)* |
| NPAs / Assets (%) | 1.04 | 1.01 | 0.98 | 0.95 | 0.92 | 0.89 | 0.87 | *(3%)* |

The discounted cash flow valuation for Bank Bottom is $3.90 assuming a Terminal Value to Earnings and TBV of 14.0x and 1.52x, respectively. Assuming an investor purchases Bank Bottom's shares today at $4.86 (Current P/TBV of 1.52x as illustrated in Exhibit E), the Internal Rate of Return is 6.8% which fails to achieve the 12.0% expected return previously discussed. This underperformance relative to a 12% investor expected return is material enough for a Board of Directors to discuss strategic alternatives such as buy-side and sell-side M&A opportunities. Below is the discounted cash flow analysis for Bank Bottom.

Exhibit K

| Bottom: Assumptions | |
|---|---|
| Discount Rate (Expected Rate of Return) (%) | 12.0% |
| Terminal Multiple (Forward P/E) (x) | 14.0x |

| Bottom: Valuation Analysis | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Financial Data** | **12/31/2018** | **12/31/2019** | **12/31/2020** | **12/31/2021** | **12/31/2022** | **12/31/2023** | **12/31/2024** |
| EPS ($) | $ 0.22 | $ 0.24 | $ 0.27 | $ 0.30 | $ 0.33 | $ 0.37 | $ 0.40 |
| TBV per Share ($) | 3.20 | 3.30 | 3.39 | 3.49 | 3.60 | 3.71 | 3.82 |
| Dividends per Share (8% TCE) ($) | - | 0.15 | 0.17 | 0.20 | 0.23 | 0.26 | 0.29 |
| **Terminal Value** | | | | | | | |
| EPS ($) | $ 0.22 | $ 0.24 | $ 0.27 | $ 0.30 | $ 0.33 | $ 0.37 | $ 0.40 |
| Terminal Multiple (x) | 14.0x | 14.0x | 14.0x | 14.0x | 14.0x | 14.0x | 14.0x |
| Terminal Value on EPS ($) | $ 3.14 | $ 3.40 | $ 3.81 | $ 4.23 | $ 4.66 | $ 5.14 | $ 5.63 |
| **Bottom Cash Flows per Share** | | | | | | | |
| Investment (Current Stock Price) ($) | $ (4.86) | $ - | $ - | $ - | $ - | $ - | $ - |
| Dividends per Share (8% TCE) ($) | - | 0.15 | 0.17 | 0.20 | 0.23 | 0.26 | - |
| Terminal Value per Share ($) | - | - | - | - | - | 5.63 | - |
| **Cash Flows per Share ($)** | **(4.86)** | **0.15** | **0.17** | **0.20** | **0.23** | **5.89** | **-** |
| **Discounted Cash Flows** | | | | | | | |
| Timing of Cash Flows | - | 1.00 | 2.00 | 3.00 | 4.00 | 5.00 | 6.00 |
| Discounted Cash Flows ($) | $ (4.86) | $ 0.13 | $ 0.14 | $ 0.14 | $ 0.14 | $ 3.34 | $ - |

| Bottom: Investment Returns (5-Year Horizon) | |
|---|---|
| **Terminal Year** | **12/31/2023** |
| **Internal Rate of Return (%)** | **6.8%** |
| DCF Value per Share ($) | $ 3.90 |
| Terminal Value / Forward EPS (x) | 14.0x |
| Terminal Value / TBV (x) | 1.52x |

| Bottom: IRR Sensitivity Analysis (Based on Varying Terminal Multiples) | | | | |
|---|---|---|---|---|
| **Terminal Value / TBV (x)** | | | | |
| 1.30x | 1.41x | 1.52x | 1.62x | 1.73x |
| **Terminal Value / LTM EPS (x)** | | | | |
| 12.0x | 13.0x | 14.0x | 15.0x | 16.0x |
| 3.9% | 5.4% | **6.8%** | 8.1% | 9.4% |

# Welcome to the Buy-Side

Since 2014, M&A has been used extensively by companies to pursue growth. Many banks took advantage of the weak economy, uncertain Fed outlook, rallying share prices, readily available cheap debt and record levels of cash to pursue M&A activity. In a sluggish economy, it is difficult for banks to achieve the necessary stand-alone growth rates to outperform target return thresholds. Such operational hurdles provide for the attractiveness of a buy-side M&A opportunity. Aside from improving a company's fundamentals, bank M&A activity can lead to revaluations in bank stock multiples due to its ability to serve as a "quick-fix" to an acquiror's existing business model, scale, efficiency, and talent pool. However, market conditions and investors' rules are constantly changing and the ability for acquirors to adapt and justify an acquisition is more crucial than ever before.

Originating from the financial crisis, bank investors put a renewed focus on certain M&A deal metrics due to the inherent credit risk embedded in bank portfolios at the time. As such, concerns over dilution to tangible book value ("TBV") became one of the most important metrics when assessing the attractiveness of an M&A deal due to its relevance during the Great Recession, when investors shifted their focus away from other metrics like price-to-earnings because of earnings volatility. The following section illustrates an updated view for how investors digest M&A deals in today's current banking environment.

# How to Assess Value Creation in Bank M&A

In today's banking environment, bank investors primarily focus on three pricing methodologies that assess whether an M&A transaction created value for shareholders: (1) internal rate of return, (2) tangible book value earn-back and (3) EPS accretion. Other notable metrics that are indeed important but less emphasized are: (1) return on investment less cost of equity, (2) synergies-to-premium ratio, (3) impact to the Buyer's TCE ratio, and (4) pricing multiples paid such as P/EPS, P/TBV and core deposit premiums.

Internal Rate of Return ("IRR") is the discount rate that sets the present value of the incremental stream of earnings equal to the price paid. IRR measures the average investment yield of an acquisition over time and compares the price paid with the stream of expected earnings over time. According to Morgan Stanley, many bank management teams target a roughly 15% IRR when assessing deals likely due to the outperformance needed relative to an acquiror's existing cost of capital[12]. Positives of the IRR methodology include, but not limited to: (1) measures the profitability of a variable earnings stream and (2) compares to cost of equity in measuring value creation as well as across other acquisition opportunities. Drawbacks of the IRR methodology include, but not limited to: (1) requires typically unavailable data integral for a robust analysis and (2) relies heavily on undisclosed management assumptions.

TBV earn-back period measures the length of time until a bank's pre-deal stand-alone TBV equals its post-deal TBV including combined pro forma earnings. Although the TBV earnback is widely used in today's market, it is controversial due to its inability to fully capture

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[12] Todd Castagno and Snehaja Mogre, *Bank Buyers Beware – Let's Use the Right Metrics for Assessing Vale Creation in Bank M&A,* (Morgan Stanley, March 9, 2016)

varying impacts of consideration mixes and buyer currencies. According to Morgan Stanley, coming out of the financial crisis, most buyers were targeting a rather short earn-back period of two to four years due to investors emphasis on potential credit losses and book value diminution. However, in today's market, buyers are focused on TBV earnbacks of less than five years as higher prices are being justified due to better earnings clarity, the opportunity to enter new markets, or ability to complement existing business lines. Positives of the TBV earnback methodology include, but not limited to: (1) solves for the "break-even" period for when the closing dilution is earned back with stronger pro forma combined earnings and (2) provides a valuation floor for the acquiror if a financial crisis were to occur in the future and TBV valuations are en vogue again. Drawbacks of the TBV earnback methodology include, but not limited to: (1) emphasizes buyer currencies more than the actual price paid for the target bank, (2) M&A deal mix structure materially impacts earn-back returns as an all-cash acquisition has a different effect on book value than an all-stock transaction, and (3) external factors such as stock repurchases and dividend policies can influence earnback metrics.

EPS accretion helps an investor understand if they have more earnings on each share owned than prior to the announcement of the deal. EPS accretion is perhaps the most commonly used metric across the Street for evaluating whether a deal is good or bad, which is mostly attributable to its simplicity. Not only does the Street focus on EPS accretion, but management teams do as well, given its ease of use and prevalence in some management's compensation decisions. Ultimately, from a practical perspective, if management can pursue an acquisition and the earnings per share that a shareholder expects to receive goes up, then chances are, the stock price will rise. The magnitude of EPS accretion expected from a deal is based largely on both the size of the target and the deal mix consideration used. Assuming similar earnings profiles and assuming a 100% all-cash transaction, a $5 billion asset bank acquiring a $1 billion asset bank should expect 20% EPS accretion given the target bank makes up 20% of the combined entity. When stock mix and varying incremental earnings are introduced, EPS accretion varies and will adjust accordingly. Positives of the EPS accretion methodology include, but not limited to: (1) the ease for investors to understand given the emphasis placed on price-to-earnings multiples. Drawbacks of the EPS accretion methodology include the same reasons previously mentioned for TBV earnback as it relates to buyer currencies, deal mix structure, and external factors.

Ultimately, assessing whether an M&A transaction creates value for shareholders is a constant moving target as evidenced by the Street over the last few economic cycles. Research analysts consistently diagnose the current economy and distill it down into certain priority issues. In distressed markets with lack of earnings transparency, the Street tends to value book value and core deposits due to embedded portfolio losses and subsequent earnings volatility. However, in strong markets, the Street tends to value earnings due to better visibility in projecting cash flows. In order to defend against varying economic cycles, it is important to be able to dissect a merger utilizing different valuation methodologies in order to limit the downside financial risks associated with an M&A transaction.

# The Sample Bank M&A Target

Not all M&A deals are the same nor should they be treated as so. A successful acquisition by one buyer may be a failed attempt by another. Differing cultures and business models both contribute to the root cause of why one M&A target could be appealing to one buyer and not another. As such, the financial return metric checklist discussed in "How to Assess Value Creation in Bank M&A" will be revisited throughout this paper in order to determine which Focus Bank should acquire the Sample Bank M&A Target ("Sample Target") and which Focus Bank would erode shareholder value if a transaction were consummated.

The Sample Target selected for this paper is an "adjusted" Bank Median case in order to fairly assess the ability for each of the Focus Banks (Bank Top, Bank Median, and Bank Bottom) to acquire an "average bank", otherwise known as the Sample Target for this paper. The purpose of selecting a similar case as Bank Median is to focus on the industry's "average bank" and determine if an acquisition of an average bank creates or erodes shareholder value for each of the Focus Banks (Bank Top, Bank Median, and Bank Bottom).

Sample Target's starting capitalization and profitability is the same as Bank Median but with a smaller balance sheet which provides each of the Focus Banks the opportunity to feasibly acquire Sample Target. Due to the smaller balance sheet versus Bank Median, this paper assumes Sample Target is unable to capitalize on some of its efficiencies which explains the primary delta between the terminal ROA of 1.00% versus 1.05% as seen in the Bank Median case.

Sample Target starts with a 10% ROE in Year 1 and grows assets at a 5% rate into perpetuity, which is the median growth rate for banks with less than $500 million in assets. The

Sample Target's 10% ROE improves to 12% by Year 5 primarily driven by an improvement in the burden ratio. However, due to Target Bank's smaller balance sheet, Target Bank is not able to achieve the same magnitude of efficiencies as Bank Median. The below financials illustrate an expense base growing at 3% resulting in an overall improvement in burden due to overall balance sheet growth of 5%.

Exhibit L

| *(Dollars in Millions)* | At or for the year ended, | | | | | | | CAGR |
|---|---|---|---|---|---|---|---|---|
| | 12/31/2018 | 12/31/2019 | 12/31/2020 | 12/31/2021 | 12/31/2022 | 12/31/2023 | 12/31/2024 | '18 - '24 |
| **Balance Sheet** | | | | | | | | |
| Total Assets ($) | 250.0 | 262.5 | 275.6 | 289.4 | 303.9 | 319.1 | 335.0 | *5%* |
| Total Loans ($) | 206.9 | 217.3 | 228.2 | 239.6 | 251.5 | 264.1 | 277.3 | *5%* |
| Total Deposits ($) | 230.0 | 241.5 | 253.6 | 266.3 | 279.6 | 293.5 | 308.2 | *5%* |
| Tang. Common Equity ($) | 20.0 | 21.0 | 22.0 | 23.2 | 24.3 | 25.5 | 26.8 | *5%* |
| **Balance Sheet Composition** | | | | | | | | |
| Loans / Deposits (%) | 90.0 | 90.0 | 90.0 | 90.0 | 90.0 | 90.0 | 90.0 | *0%* |
| Core Deps / Deposits (%) | 80.0 | 80.0 | 80.0 | 80.0 | 80.0 | 80.0 | 80.0 | *0%* |
| **Capital Adequacy** | | | | | | | | |
| TCE / TA (%) | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | *0%* |
| Leverage Ratio (%) | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | *0%* |
| Tier 1 Capital Ratio (%) | 9.25 | 9.25 | 9.25 | 9.25 | 9.25 | 9.26 | 9.26 | *0%* |
| Total Capital Ratio (%) | 10.50 | 10.50 | 10.50 | 10.50 | 10.50 | 10.51 | 10.51 | *0%* |
| **Income Statement** | | | | | | | | |
| Net Interest Income ($) | 9.0 | 9.3 | 9.8 | 10.3 | 10.8 | 11.3 | 11.9 | *5%* |
| Provision Expense ($) | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.4 | 0.5 | *3%* |
| Noninterest Income ($) | 1.8 | 1.9 | 2.0 | 2.1 | 2.2 | 2.3 | 2.4 | *5%* |
| Noninterest Expense ($) | 7.9 | 8.1 | 8.4 | 8.7 | 9.0 | 9.3 | 9.7 | *3%* |
| Tax Expense ($) | 0.5 | 0.6 | 0.6 | 0.7 | 0.7 | 0.8 | 0.9 | *9%* |
| Net Income ($) | 2.0 | 2.2 | 2.4 | 2.6 | 2.8 | 3.0 | 3.3 | *9%* |
| **Per Share Metrics** | | | | | | | | |
| EPS ($) | 0.20 | 0.22 | 0.24 | 0.26 | 0.28 | 0.30 | 0.33 | *9%* |
| TBV per Share ($) | 2.00 | 2.10 | 2.20 | 2.32 | 2.43 | 2.55 | 2.68 | *5%* |
| Dividends per Share ($) | 0.00 | 0.12 | 0.13 | 0.15 | 0.16 | 0.18 | 0.20 | *NA* |
| **Profitability** | | | | | | | | |
| ROAA (%) | 0.80 | 0.85 | 0.88 | 0.91 | 0.94 | 0.97 | 1.00 | *4%* |
| ROAE (%) | 10.00 | 10.66 | 10.97 | 11.42 | 11.80 | 12.16 | 12.53 | *4%* |
| Net Interest Margin (%) | 3.62 | 3.56 | 3.56 | 3.56 | 3.56 | 3.56 | 3.56 | *(0%)* |
| Efficiency Ratio (%) | 72.9 | 72.0 | 71.3 | 70.3 | 69.4 | 68.5 | 67.7 | *(1%)* |
| Burden Ratio (%) | 2.43 | 2.42 | 2.38 | 2.34 | 2.30 | 2.26 | 2.23 | *(1%)* |
| **Asset Quality** | | | | | | | | |
| Reserves / Loans (%) | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | *0%* |
| NCOs / Avg. Loans (%) | 0.11 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | *(2%)* |
| NPLs / Loans (%) | 1.23 | 1.17 | 1.11 | 1.06 | 1.01 | 0.96 | 0.92 | *(5%)* |
| NPAs / Assets (%) | 1.02 | 0.97 | 0.92 | 0.88 | 0.84 | 0.80 | 0.76 | *(5%)* |

The valuation methodology used for Sample Target is consistent with the Focus Banks. The discounted cash flow valuation for Sample Target is $3.13 assuming a Terminal Value to Earnings and TBV of 14.0x and 1.80x, respectively. Similar to the Focus Banks, Sample Target's current stock price assumes no tangible book value multiple expansion and therefore ascribes a 1.80x value to current TBV per share of $2.00 resulting in a current stock price of $3.60.  This stock price is fundamental to determining the purchase prices paid for the buy-side acquisition scenarios illustrated in the following section.

# M&A Assumptions and Value Drivers

M&A is often pursued due to the opportunity to quickly build shareholder value through stronger pro forma combined cash flows. One of the main drivers of such value accretion pertains to the ability for a buyer to capitalize on revenue and cost synergies. Typically, companies are able to achieve material revenue synergies through the pro forma supply chain, sales & marketing, research and development, patents, and compensation. However, in the bank space, the geographical footprint of a buyer and seller's branches plays a much larger role in terms of capitalizing on cost savings related to branch overlap and associated salaries.

Of all the components that contribute to transaction adjustments in an M&A deal, cost savings assumptions are the most material. Cost savings are synergies resulting in reduction to net operating expenses, whereas the realization of actual cost savings is contingent on the quality of due diligence, and the buyer's ability to execute after the deal closes. Typically, employee compensation, professional fees, and data processing costs are the main drivers of redundancies when two banks merge resulting in the largest portion of cost savings.

For this paper, a 30% cost savings assumption is applied to Sample Target's existing non-interest expense base resulting in approximately $2.7 million of pre-tax earnings per year. This static cost savings driver assumes there are no incremental cost efficiencies achieved based on a Focus Bank's asset size in order to limit the variables impacting capacity-to-pay. Cost savings is often dependent on geographical overlap between a buyer and seller. However, for comparative purposes, the 30% cost savings assumption is used due to it being the median metric assumed in M&A deals since 2013[2].

In addition to cost savings, there are a few other material merger assumptions generally modeled by buyers which include, but not limited to: (1) transaction expenses (2) purchase accounting fair value adjustments (3) normalization of future loan provisioning (4) accretable yield derived from purchase accounting adjustments and (5) redeployment of excess cash and securities into higher yielding loans. For simplicity purposes, all buy-side and sell-side models will only assume 30% cost savings and no other net asset marks. Each model will ignore the additional five variables disclosed above to simplify the incremental earnings stream acquired by the Focus Banks.

When assessing the capacity-to-pay for each of the Focus Banks, it is important to isolate the valuation currency discrepancies and to limit the variable of leverage. As such, all buy-side and sell-side M&A transactions will use 100% stock mix consideration. More specifically, each buyer will be issuing shares to Sample Target as opposed to paying cash to acquire its stock. Paying cash for an acquisition target allows a buyer to more materially lower its existing capitalization and subsequently increase its leverage. For this paper, pro forma capitalization is crucial in managing pro forma valuations and dividend levels for comparative purposes, which supports the use of 100% stock mix.

This paper assumes the same purchase price paid by all Focus Banks for Sample Target. More specifically, this paper is operating under the assumption that the Sample Target's shareholders have a theoretical sales price that a Focus Bank must pay, otherwise a sale will not occur. The purchase price assumed for all Focus Banks is a 30% market premium to the Sample Target's current stock price. As such, each Focus Bank will pay $4.68 per share (30% market premium to $3.60) to acquire the stock of the Sample Target by using 100% stock mix. A 30%

market premium is supported by the median market premium for M&A transactions since 2013[2].

# Bank Top's Acquisition of the Sample Bank M&A Target

Bank Top is acquiring Sample Target for $4.68 per share, which equates to a Purchase Price / TBV of 2.34x. The funding for this transaction is 100% stock and assumes Bank Top is issuing shares at a stock price of $65.24 with a Price / TBV multiple of 2.33x. At a $4.68 purchase price, the Transactional IRR is 12.8%, TBV earnback is 0.6 years, and EPS accretion ranges from approximately 0.0% - 3.0%.

Below is a pro forma B/S illustrating Bank Top's acquisition of Sample Target.

Exhibit M

| Assets | Top 12/31/2018 | + | Target 12/31/2018 | + | Source of Funding | + | Purchase Accounting | = | Target Post FMV | = | Top Pro Forma 12/31/2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash and Equivalents | $ 52,500 | | $ 4,000 | | $ - | | $ - | | $ 4,000 | | $ 56,500 |
| Investment Securities | 592,970 | | 42,160 | | - | | - | | 42,160 | | 635,131 |
| Total Loans | 2,898,000 | | 206,944 | | - | | (3,104) | | 203,840 | | 3,101,840 |
| Loan Loss Reserves | 43,470 | | 3,104 | | - | | (3,104) | | - | | 43,470 |
| Net Loans | 2,854,530 | | 203,840 | | - | | - | | 203,840 | | 3,058,370 |
| Goodwill | - | | - | | - | | 23,893 | | 23,893 | | 23,893 |
| Other Intangibles | - | | - | | - | | 3,680 | | 3,680 | | 3,680 |
| Deferred Tax Asset | - | | - | | - | | (773) | | (773) | | (773) |
| Other Assets | - | | - | | - | | - | | - | | - |
| **Total Assets** | 3,500,000 | | 250,000 | | - | | 26,800 | | 276,800 | | 3,776,800 |
| **Liabilities** | | | | | | | | | | | |
| Non-Time Deposits | 2,576,000 | | 184,000 | | - | | - | | 184,000 | | 2,760,000 |
| Time Deposits | 644,000 | | 46,000 | | - | | - | | 46,000 | | 690,000 |
| Total Deposits | 3,220,000 | | 230,000 | | - | | - | | 230,000 | | 3,450,000 |
| Borrowings | - | | - | | - | | - | | - | | - |
| Other Liabilities | - | | - | | - | | - | | - | | - |
| **Total Liabilities** | 3,220,000 | | 230,000 | | - | | - | | 230,000 | | 3,450,000 |
| **Equity** | | | | | | | | | | | |
| Common Stock | 50,000 | | 3,000 | | - | | (3,000) | | - | | 50,000 |
| Common Stock Surplus | 175,000 | | 12,500 | | 46,800 | | (12,500) | | 46,800 | | 221,800 |
| Retained Earnings | 55,000 | | 4,500 | | - | | (4,500) | | - | | 55,000 |
| **Total Equity** | 280,000 | | 20,000 | | 46,800 | | (20,000) | | 46,800 | | 326,800 |
| **Total Liabilities and Equity** | 3,500,000 | | 250,000 | | 46,800 | | (20,000) | | 276,800 | | 3,776,800 |
| **Book Value per Share** | | | | | | | | | | | |
| **TBV per Share ($)** | **28.00** | | **2.00** | | | | | | **26.80** | | **27.92** |
| ***Accretion / (Dilution) ($)*** | | | | | | | | | | | ***$ (0.08)*** |
| ***Accretion / (Dilution) (%)*** | | | | | | | | | | | ***(0.29%)*** |
| | | | | | | | TBV Earnback - Crossover (Years) | | | | 0.6 yrs |
| **Balance Sheet Composition** | | | | | | | | | | | |
| **Loans / Deposits (%)** | **90.0** | | **90.0** | | | | | | **88.6** | | **89.9** |
| **Core Deposits / Deposits (%)** | **80.0** | | **80.0** | | | | | | **80.0** | | **80.0** |
| **Capital Adequacy** | | | | | | | | | | | |
| **TCE / TA (%)** | **8.00** | | **8.00** | | | | | | **7.71** | | **7.98** |
| **Tier 1 Leverage Ratio (%)** | **8.00** | | **8.00** | | | | | | **7.71** | | **7.98** |
| **Tier 1 Common Ratio (%)** | **9.25** | | **9.25** | | | | | | **9.02** | | **9.23** |
| **Tier 1 Capital Ratio (%)** | **9.25** | | **9.25** | | | | | | **9.02** | | **9.23** |
| **Total Capital Ratio (%)** | **10.50** | | **10.50** | | | | | | **9.02** | | **10.48** |

Below is a financial overview of Bank Top's acquisition of Sample Target.

Exhibit N

| Transaction Summary | | |
|---|---|---|
| Total Deal Value ($000) | $ | 46,800 |
| Purchase Price per Share ($) | $ | 4.68 |
| Exchange Ratio (Current Cons. Mix) (x) | | 0.072x |
| Exchange Ratio (As if 100% Stock) (x) | | 0.072x |
| Stock / Cash Consideration (%) | | 100.0% / 0.0% |

| Pricing Multiples | |
|---|---|
| **Pricing Metrics** | **At Close** |
| Market Premium (%) | 30.0% |
| Core Deposit Premium (%) | 14.6% |
| Purchase Price / TBV (x) | 2.34x |
| Purchase Price / Adj. TBV (x) | 2.04x |
| Purchase Price / TBV (8% TCE) (x) | 2.34x |
| Purchase Price / 2018 EPS (x) | 23.4x |
| Purchase Price / 2019 EPS (x) | 21.4x |
| Purchase Price / 2019 EPS (Deal Adj.) (x) | 12.3x |

| Pro Forma Ownership (Common Shares) | | |
|---|---|---|
| **Ownership** | **Shares (000)** | **Ownership (%)** |
| Top | 10,000 | 93.3% |
| Target | 717 | 6.7% |
| New Investor | - | 0.0% |
| **Total Ownership** | **10,717** | **100.0%** |

| Investment Returns (Assumes No TBV Multiple Expansion) | | |
|---|---|---|
| **Returns** | **Merger** | **Buy Today** |
| IRR (%) | **12.8%** | 14.1% |
| MOIC (x) | **1.73x** | 1.93x |

| Stand Alone Trading Multiples | | |
|---|---|---|
| **Multiples** | **Top** | **Target** |
| Price / TBV (x) | 2.33x | 1.80x |
| Price / 2018 EPS (x) | 19.4x | 18.0x |
| Price / 2019 EPS (x) | 17.5x | 16.5x |
| Core Deposit Premium (%) | 14.5% | 8.7% |

| PF Valuation at Close (Static Top Stock Price) | | | | |
|---|---|---|---|---|
| **Valuation** | | **Top** | | **Pro Forma** |
| Market Cap ($M) | $ | 652.4 | $ | 699.2 |
| Price / TBV (x) | | 2.33x | | 2.34x |
| Price / 2019 EPS (x) | | 17.5x | | 17.0x |
| Core Deposit Premium (%) | | 14.5% | | 14.5% |

| Earnings Impact | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Top EPS Impact** | | **2019E** | | **2020E** | | **2021E** | | **2022E** | | **2023E** |
| Pro Forma EPS ($) | $ | 3.84 | $ | 4.54 | $ | 5.35 | $ | 6.30 | $ | 7.41 |
| Top Stand Alone EPS ($) | | 3.74 | | 4.46 | | 5.30 | | 6.29 | | 7.45 |
| ***Accretion / (Dilution) ($)*** | ***$*** | ***0.11*** | ***$*** | ***0.08*** | ***$*** | ***0.05*** | ***$*** | ***0.01*** | ***$*** | ***(0.04)*** |
| ***Accretion / (Dilution) (%)*** | | ***2.81%*** | | ***1.79%*** | | ***0.95%*** | | ***0.17%*** | | ***(0.53%)*** |
| **Target EPS Impact (X-Ratio Adjusted)** | | **2019E** | | **2020E** | | **2021E** | | **2022E** | | **2023E** |
| Pro Forma EPS (As if 100% Stock) ($) | $ | 0.28 | $ | 0.33 | $ | 0.38 | $ | 0.45 | $ | 0.53 |
| Target Stand Alone EPS ($) | | 0.22 | | 0.24 | | 0.26 | | 0.28 | | 0.30 |
| ***Accretion / (Dilution) ($)*** | ***$*** | ***0.06*** | ***$*** | ***0.09*** | ***$*** | ***0.13*** | ***$*** | ***0.17*** | ***$*** | ***0.23*** |
| ***Accretion / (Dilution) (%)*** | | ***26.15%*** | | ***37.75%*** | | ***48.65%*** | | ***61.41%*** | | ***75.31%*** |

| Tangible Book Value Impact | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Top TBV Impact** | | **2019E** | | **2020E** | | **2021E** | | **2022E** | | **2023E** |
| Pro Forma TBV per Share ($) | $ | 31.80 | $ | 36.21 | $ | 41.21 | $ | 46.82 | $ | 53.12 |
| Top Stand Alone TBV per Share ($) | | 31.74 | | 36.04 | | 40.95 | | 46.52 | | 52.83 |
| ***Accretion / (Dilution) ($)*** | ***$*** | ***0.06*** | ***$*** | ***0.17*** | ***$*** | ***0.26*** | ***$*** | ***0.30*** | ***$*** | ***0.30*** |
| ***Accretion / (Dilution) (%)*** | | ***0.19%*** | | ***0.48%*** | | ***0.63%*** | | ***0.65%*** | | ***0.56%*** |

| | | | |
|---|---|---|---|
| TBV Earnback - Crossover (Years) | 0.6 yrs | TBV Earnback - Static (Years) | 0.0 yrs |

| Pro Forma Financial Highlights | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance Sheet:** | | **2019E** | | **2020E** | | **2021E** | | **2022E** | | **2023E** |
| Total Assets ($000) | $ | 4,261,278 | $ | 4,815,159 | $ | 5,442,890 | $ | 6,153,954 | $ | 6,959,554 |
| Total Loans ($000) | | 3,503,262 | | 3,958,009 | | 4,473,238 | | 5,057,068 | | 5,718,712 |
| Total Deposits ($000) | | 3,893,302 | | 4,400,196 | | 4,974,742 | | 5,626,055 | | 6,364,482 |
| Total Equity ($000) | | 367,976 | | 414,963 | | 468,148 | | 527,899 | | 595,072 |
| **Balance Sheet Ratios:** | | | | | | | | | | |
| TCE / TA (%) | | 8.05% | | 8.11% | | 8.15% | | 8.19% | | 8.21% |
| Tier 1 Leverage Ratio (%) | | 8.05% | | 8.11% | | 8.16% | | 8.20% | | 8.22% |
| Tier 1 Capital Ratio (%) | | 9.32% | | 9.39% | | 9.44% | | 9.49% | | 9.51% |
| Total Capital Ratio (%) | | 10.57% | | 10.64% | | 10.69% | | 10.74% | | 10.76% |
| **Income Statement:** | | | | | | | | | | |
| Net Income ($000) | $ | 41,176 | $ | 48,607 | $ | 57,329 | $ | 67,513 | $ | 79,412 |
| Cost Savings ($000) | | (2,421) | | (2,510) | | (2,603) | | (2,699) | | (2,799) |
| Return on Average Assets (%) | | 1.09% | | 1.07% | | 1.12% | | 1.16% | | 1.21% |
| Return on Average Equity (%) | | 12.45% | | 12.42% | | 12.98% | | 13.56% | | 14.14% |
| Net Interest Margin (%) | | 3.54% | | 3.54% | | 3.54% | | 3.53% | | 3.53% |
| Efficiency Ratio (%) | | 66.6% | | 65.3% | | 64.1% | | 62.8% | | 61.5% |
| Burden Ratio (%) | | 2.32% | | 2.13% | | 2.07% | | 2.01% | | 1.95% |

At first glance, the transactional IRR is below Bank Top's terminal ROE of 15.0% (see Exhibit F) and current existing internal rate of return of 14.1% (see Exhibit G). Such underperformance poses a red flag and requires further scrutiny. The financial risk for pursuing an acquisition below a company's existing cost of capital generally drives pro forma valuations down. When combining Bank Top's and Sample Target's earnings with added cost savings, the pro forma IRR of the company is 14.1%, which is approximately the same as if Bank Top were to remain independent and never acquire Sample Target in the first place. The main driver of Sample Target's immaterial impact on Bank Top is the lack of earnings accretion stemming from the merger.

Bank Top's strong stand-alone profitability and growth allows for a premium valuation currency versus its peers and generally allows for more capacity to pay for an acquisition target. However, with such strong performance, it is often more difficult to find an M&A target with enough earnings to drive EPS accretion for Bank Top. More specifically, based on Exhibit F, Bank Top achieves a 1.20% ROA in Year 5 while Sample Target is only earning an approximate 1.00% ROA, excluding cost savings. Sample Target's earnings drag to Bank Top is the core reason why the EPS accretion is nominal and ultimate IRR is below Bank Top's cost of capital. When incorporating the assumed 30% cost savings, the Sample Targets adjusted ROA increases to 1.40% from 1.00% which is a material improvement and illustrates the strong dynamic of cost savings. However, for Bank Top to achieve the incremental ROA of 1.40%, share ownership needs to be transferred to Sample Target due to the consideration paid in stock. More specifically, Bank Top incurs a cost of giving up 7% ownership to improve its overall ROA by only 1% given that Sample Target is only contributing an adjusted ROA of 1.40% on a very small balance sheet (7% of pro forma assets) relative to Bank Top. More specifically, Bank Top's stand-alone ROA in Year 5 is 1.20% and is improved to only 1.21% with the merger due to Sample Target's smaller incremental earnings stream. A metric known as the "Give-Get Ratio" also helps illustrate the dynamic between ownership and earnings contribution. Excluding business models and deal rationale, when looking solely at earnings, a theoretically "equal" merger exists when earnings contribution mirrors ownership contribution. On a stand-alone basis, in the terminal year, Bank Top is earning $74.5 million and Sample Target is projected to earn $3.0 million. Excluding cost savings, Bank Top and Sample Target's earnings contribution is 96.1% and 3.9%, respectively. However, 7% of ownership is being transferred to Sample Target due to the control premium being paid, therefore providing an imbalance between earnings contribution and ownership. When isolating earnings, a target bank contributing 3.9% of the pro forma earnings should theoretically own 3.9% of the pro forma entity, as cost savings are generally viewed as "shared upside" between a buyer and seller. An additional metric to illustrate the cost of Bank Top's pursuit for Sample Target is to look at Sample Target's EPS accretion versus Bank Top's. In a merger, an "exchange ratio" is the relative number of new shares issued to selling shareholders and is designed to represent the number of acquirer shares issued in exchange for one target share. Exhibit N illustrates the exchange-ratio adjusted EPS accretion for the Sample Target and ranges from approximately 25.0% - 75.0% compared to only 0.0% - 3.0% for Bank Top. This imbalanced return is again supported by Sample Target's earnings drag relative to Bank Top and the significant ownership give-up for such a muted incremental earnings stream.

When dissecting Bank Top's acquisition of Sample Target, the most appealing financial metric is the TBV earnback of only 0.6 years. When compared to Morgan Stanley's report of a target TBV earnback of less than five years, a 0.6 year earnback is very valuable. However, when looking at the low transactional IRR and low EPS accretion, it becomes quickly apparent that much of the TBV earnback is due to Bank Top's premium P/TBV valuation currency of 2.33x instead of solely paying an attractive price for Sample Target. Regardless, earning back the transaction book value dilution in less than one year is a positive attribute for an otherwise expensive deal from Bank Top's perspective.

Below is the pro forma discounted cash flow analysis for Bank Top with the acquisition of Sample Target. Consistent with the prior passages, Bank Top's DCF Value per Share only increases by 0.4% versus its stand-alone case. Such execution risk and lack of valuation upside will be discussed in "*Summary of Buy-Side Opportunity: Which Bank Should Proceed*".

Exhibit O

| **Top (Pro Forma Buy-Side): Assumptions** | |
|---|---|
| Discount Rate (Expected Rate of Return) (%) | 12.0% |
| Terminal Multiple (Forward P/E) (x) | 14.2x |

| **Top (Pro Forma Buy-Side): Valuation Analysis** | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Financial Data** | **12/31/2018** | **12/31/2019** | **12/31/2020** | **12/31/2021** | **12/31/2022** | **12/31/2023** | **12/31/2024** |
| EPS ($) | $ 3.36 | $ 3.84 | $ 4.54 | $ 5.35 | $ 6.30 | $ 7.41 | $ 8.71 |
| TBV per Share ($) | 27.92 | 31.80 | 36.21 | 41.21 | 46.82 | 53.12 | 60.17 |
| Dividends per Share (8% TCE) ($) | - | - | 0.15 | 0.39 | 0.72 | 1.14 | 1.69 |
| | | | | | | | |
| **Terminal Value** | | | | | | | |
| EPS ($) | $ 3.36 | $ 3.84 | $ 4.54 | $ 5.35 | $ 6.30 | $ 7.41 | $ 8.71 |
| Terminal Multiple (x) | 14.2x | 14.2x | 14.2x | 14.2x | 14.2x | 14.2x | 14.2x |
| Terminal Value on EPS ($) | $ 47.75 | $ 54.62 | $ 64.48 | $ 76.05 | $ 89.56 | $ 105.34 | $ 123.78 |
| | | | | | | | |
| **Pro Forma Cash Flows per Share** | | | | | | | |
| Investment (Current Stock Price) ($) | $ (65.24) | $ - | $ - | $ - | $ - | $ - | $ - |
| Dividends per Share (8% TCE) ($) | - | - | 0.15 | 0.39 | 0.72 | 1.14 | - |
| Terminal Value per Share ($) | - | - | - | - | - | 123.78 | - |
| **Cash Flows per Share ($)** | **(65.24)** | **-** | **0.15** | **0.39** | **0.72** | **124.92** | **-** |
| | | | | | | | |
| **Discounted Cash Flows** | | | | | | | |
| Timing of Cash Flows | - | 1.00 | 2.00 | 3.00 | 4.00 | 5.00 | 6.00 |
| Discounted Cash Flows | $ (65.24) | $ - | $ 0.12 | $ 0.28 | $ 0.46 | $ 70.89 | $ - |

| **Top (Pro Forma Buy-Side): Investment Returns (5-Year Horizon)** | |
|---|---|
| **Terminal Year** | **12/31/2023** |
| **Internal Rate of Return (%)** | **14.1%** |
| DCF Value per Share ($) | $ 71.74 |
| *Implied Upside to Top Stand Alone DCF (%)* | *+0.4%* |
| Terminal Value / Forward EPS (x) | 14.2x |
| Terminal Value / TBV (x) | 2.33x |

| **Top: IRR Sensitivity Analysis (Based on Varying Terminal Multiples)** | | | | |
|---|---|---|---|---|
| **Terminal Value / TBV (x)** | | | | |
| 1.97x | 2.13x | 2.33x | 2.46x | 2.62x |
| **Terminal Value / LTM EPS (x)** | | | | |
| 12.0x | 13.0x | 14.2x | 15.0x | 16.0x |
| 10.4% | 12.2% | **14.1%** | 15.4% | 16.8% |

# Bank Median's Acquisition of the Sample Bank M&A Target

Bank Median is acquiring Sample Target for the same purchase price of $4.68 per share as Bank Top, which equates to a Purchase Price / TBV of 2.34x. The funding for this transaction is 100% stock and assumes Bank Median is issuing shares at a stock price of $16.00 with a Price / TBV multiple of 2.00x. At a $4.68 purchase price, the Transactional IRR is 12.7%, TBV earnback is 2.8 years, and EPS accretion ranges from approximately 3.0% - 10.0%.

Below is a pro forma B/S with illustrating Bank Median's acquisition of Sample Target.

Exhibit P

| Assets | Median 12/31/2018 | + | Target 12/31/2018 | + | Source of Funding | + | Purchase Accounting | = | Target Post FMV | = | Median Pro Forma 12/31/2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash and Equivalents | $ 15,000 | | $ 4,000 | | $ - | | $ - | | $ 4,000 | | $ 19,000 |
| Investment Securities | 169,420 | | 42,160 | | - | | - | | 42,160 | | 211,580 |
| Total Loans | 828,000 | | 206,944 | | - | | (3,104) | | 203,840 | | 1,031,840 |
| Loan Loss Reserves | 12,420 | | 3,104 | | - | | (3,104) | | - | | 12,420 |
| Net Loans | 815,580 | | 203,840 | | - | | - | | 203,840 | | 1,019,420 |
| Goodwill | - | | - | | - | | 23,893 | | 23,893 | | 23,893 |
| Other Intangibles | - | | - | | - | | 3,680 | | 3,680 | | 3,680 |
| Deferred Tax Asset | - | | - | | - | | (773) | | (773) | | (773) |
| Other Assets | - | | - | | - | | - | | - | | - |
| **Total Assets** | 1,000,000 | | 250,000 | | - | | 26,800 | | 276,800 | | 1,276,800 |
| **Liabilities** | | | | | | | | | | | |
| Non-Time Deposits | 736,000 | | 184,000 | | - | | - | | 184,000 | | 920,000 |
| Time Deposits | 184,000 | | 46,000 | | - | | - | | 46,000 | | 230,000 |
| Total Deposits | 920,000 | | 230,000 | | - | | - | | 230,000 | | 1,150,000 |
| Borrowings | - | | - | | - | | - | | - | | - |
| Other Liabilities | - | | - | | - | | - | | - | | - |
| **Total Liabilities** | 920,000 | | 230,000 | | - | | - | | 230,000 | | 1,150,000 |
| **Equity** | | | | | | | | | | | |
| Common Stock | 10,000 | | 3,000 | | - | | (3,000) | | - | | 10,000 |
| Common Stock Surplus | 50,000 | | 12,500 | | 46,800 | | (12,500) | | 46,800 | | 96,800 |
| Retained Earnings | 20,000 | | 4,500 | | - | | (4,500) | | - | | 20,000 |
| **Total Equity** | 80,000 | | 20,000 | | 46,800 | | (20,000) | | 46,800 | | 126,800 |
| **Total Liabilities and Equity** | 1,000,000 | | 250,000 | | 46,800 | | (20,000) | | 276,800 | | 1,276,800 |
| **Book Value per Share** | | | | | | | | | | | |
| **TBV per Share ($)** | **8.00** | | **2.00** | | | | | | **6.57** | | **7.68** |
| ***Accretion / (Dilution) ($)*** | | | | | | | | | | | ***$ (0.32)*** |
| ***Accretion / (Dilution) (%)*** | | | | | | | | | | | ***(4.04%)*** |
| | | | | | | | TBV Earnback - Crossover (Years) | | | | 2.8 yrs |
| **Balance Sheet Composition** | | | | | | | | | | | |
| **Loans / Deposits (%)** | **90.0** | | **90.0** | | | | | | **88.6** | | **89.7** |
| **Core Deposits / Deposits (%)** | **80.0** | | **80.0** | | | | | | **80.0** | | **80.0** |
| **Capital Adequacy** | | | | | | | | | | | |
| **TCE / TA (%)** | **8.00** | | **8.00** | | | | | | **7.71** | | **7.94** |
| **Tier 1 Leverage Ratio (%)** | **8.00** | | **8.00** | | | | | | **7.71** | | **7.94** |
| **Tier 1 Common Ratio (%)** | **9.25** | | **9.25** | | | | | | **9.02** | | **9.21** |
| **Tier 1 Capital Ratio (%)** | **9.25** | | **9.25** | | | | | | **9.02** | | **9.21** |
| **Total Capital Ratio (%)** | **10.50** | | **10.50** | | | | | | **9.02** | | **10.36** |

Below is a financial overview of Bank Median's acquisition of Sample Target.

Exhibit Q

| Transaction Summary | |
|---|---|
| Total Deal Value ($000) | $ 46,800 |
| Purchase Price per Share ($) | $ 4.68 |
| Exchange Ratio (Current Cons. Mix) (x) | 0.292x |
| Exchange Ratio (As if 100% Stock) (x) | 0.292x |
| Stock / Cash Consideration (%) | 100.0% / 0.0% |

| Pricing Multiples | |
|---|---|
| **Pricing Metrics** | **At Close** |
| Market Premium (%) | 30.0% |
| Core Deposit Premium (%) | 14.6% |
| Purchase Price / TBV (x) | 2.34x |
| Purchase Price / Adj. TBV (x) | 2.04x |
| Purchase Price / TBV (8% TCE) (x) | 2.34x |
| Purchase Price / 2018 EPS (x) | 23.4x |
| Purchase Price / 2019 EPS (x) | 21.4x |
| Purchase Price / 2019 EPS (Deal Adj.) (x) | 12.4x |

| Pro Forma Ownership (Common Shares) | | |
|---|---|---|
| **Ownership** | **Shares (000)** | **Ownership (%)** |
| Median | 10,000 | 77.4% |
| Target | 2,925 | 22.6% |
| New Investor | - | 0.0% |
| **Total Ownership** | **12,925** | **100.0%** |

| Investment Returns (Assumes No TBV Multiple Expansion) | | |
|---|---|---|
| **Returns** | **Merger** | **Buy at Close** |
| IRR (%) | **12.7%** | 10.0% |
| MOIC (x) | **1.72x** | 1.58x |

| Stand Alone Trading Multiples | | |
|---|---|---|
| **Multiples** | **Median** | **Target** |
| Price / TBV (x) | 2.00x | 1.80x |
| Price / 2018 EPS (x) | 20.0x | 18.0x |
| Price / 2019 EPS (x) | 18.2x | 16.5x |
| Core Deposit Premium (%) | 10.9% | 8.7% |

| PF Valuation at Close (Static Median Stock Price) | | |
|---|---|---|
| **Valuation** | **Median** | **Pro Forma** |
| Market Cap ($M) | $ 160.0 | $ 206.8 |
| Price / TBV (x) | 2.00x | 2.08x |
| Price / 2019 EPS (x) | 18.2x | 16.5x |
| Core Deposit Premium (%) | 10.9% | 11.7% |

| Earnings Impact | | | | | |
|---|---|---|---|---|---|
| **Median EPS Impact** | **2019E** | **2020E** | **2021E** | **2022E** | **2023E** |
| Pro Forma EPS ($) | $ 0.97 | $ 1.08 | $ 1.20 | $ 1.33 | $ 1.48 |
| Median Stand Alone EPS ($) | 0.88 | 0.99 | 1.12 | 1.27 | 1.43 |
| ***Accretion / (Dilution) ($)*** | ***$ 0.09*** | ***$ 0.09*** | ***$ 0.08*** | ***$ 0.06*** | ***$ 0.05*** |
| ***Accretion / (Dilution) (%)*** | ***10.77%*** | ***8.58%*** | ***6.87%*** | ***5.04%*** | ***3.41%*** |
| **Target EPS Impact (X-Ratio Adjusted)** | **2019E** | **2020E** | **2021E** | **2022E** | **2023E** |
| Pro Forma EPS (As if 100% Stock) ($) | $ 0.28 | $ 0.32 | $ 0.35 | $ 0.39 | $ 0.43 |
| Target Stand Alone EPS ($) | 0.22 | 0.24 | 0.26 | 0.28 | 0.30 |
| ***Accretion / (Dilution) ($)*** | ***$ 0.07*** | ***$ 0.08*** | ***$ 0.09*** | ***$ 0.11*** | ***$ 0.13*** |
| ***Accretion / (Dilution) (%)*** | ***30.13%*** | ***33.78%*** | ***35.88%*** | ***39.27%*** | ***42.58%*** |

| Tangible Book Value Impact | | | | | |
|---|---|---|---|---|---|
| **Median TBV Impact** | **2019E** | **2020E** | **2021E** | **2022E** | **2023E** |
| Pro Forma TBV per Share ($) | $ 8.35 | $ 9.08 | $ 9.83 | $ 10.60 | $ 11.41 |
| Median Stand Alone TBV per Share ($) | 8.55 | 9.16 | 9.81 | 10.49 | 11.22 |
| ***Accretion / (Dilution) ($)*** | ***$ (0.20)*** | ***$ (0.09)*** | ***$ 0.02*** | ***$ 0.11*** | ***$ 0.19*** |
| ***Accretion / (Dilution) (%)*** | ***(2.34%)*** | ***(0.94%)*** | ***0.20%*** | ***1.07%*** | ***1.69%*** |

| | | | |
|---|---|---|---|
| TBV Earnback - Crossover (Years) | 2.8 yrs | TBV Earnback - Static (Years) | 0.5 yrs |

| Pro Forma Financial Highlights | | | | | |
|---|---|---|---|---|---|
| **Balance Sheet:** | **2019E** | **2020E** | **2021E** | **2022E** | **2023E** |
| Total Assets ($000) | $ 1,361,089 | $ 1,451,019 | $ 1,546,765 | $ 1,648,655 | $ 1,757,099 |
| Total Loans ($000) | 1,099,992 | 1,172,710 | 1,250,305 | 1,333,107 | 1,421,470 |
| Total Deposits ($000) | 1,225,900 | 1,306,883 | 1,393,293 | 1,485,499 | 1,583,892 |
| Total Equity ($000) | 135,189 | 144,136 | 153,472 | 163,156 | 173,207 |
| **Balance Sheet Ratios:** | | | | | |
| TCE / TA (%) | 8.10% | 8.24% | 8.35% | 8.45% | 8.52% |
| Tier 1 Leverage Ratio (%) | 8.11% | 8.26% | 8.38% | 8.49% | 8.57% |
| Tier 1 Capital Ratio (%) | 9.39% | 9.57% | 9.72% | 9.83% | 9.92% |
| Total Capital Ratio (%) | 10.58% | 10.79% | 10.96% | 11.08% | 11.17% |
| **Income Statement:** | | | | | |
| Net Income ($000) | $ 12,562 | $ 13,963 | $ 15,499 | $ 17,229 | $ 19,103 |
| Cost Savings ($000) | (2,421) | (2,510) | (2,603) | (2,699) | (2,799) |
| Return on Average Assets (%) | 0.97% | 0.99% | 1.03% | 1.08% | 1.12% |
| Return on Average Equity (%) | 9.69% | 10.00% | 10.42% | 10.88% | 11.36% |
| Net Interest Margin (%) | 3.47% | 3.47% | 3.46% | 3.46% | 3.46% |
| Efficiency Ratio (%) | 66.8% | 65.6% | 64.4% | 63.0% | 61.8% |
| Burden Ratio (%) | 2.18% | 2.08% | 2.03% | 1.97% | 1.91% |

Because the purchase price paid for Sample Target of $4.68 is the same as Bank Top, the transactional IRR for both Bank Top and Bank Median are almost identical at approximately 12.7%. The immaterial difference is explained by the opportunity cost related to the dividend policies at each bank. Because each bank dividends any excess capital beyond 8%, the opportunity cost of cash associated with such capital deployment is assumed to be 2.50% as the excess funds could theoretically be invested in earning assets or investment securities in this case.

At first glance, the transactional IRR is within 4% of Bank Median's terminal ROE of 13.2% (see Exhibit H) but outperforms Bank Median's current existing internal rate of return of

9.6% (see Exhibit I). Such conflicting returns warrants further investigation to determine if an acquisition of Sample Target makes financial sense for Bank Median. When combining Bank Median's and Sample Target's earnings with added cost savings, the pro forma IRR of the company improves slightly to 10.0% from 9.6%, which is primarily due to the outperformance of the transactional IRR versus Bank Median's existing stand-alone IRR. At first glance, this acquisition slightly improves Bank Median's overall earnings and valuation, which poses the following follow-up questions for management: (1) Is there strategic rationale for pursuing Sample Target such as an attractive geographic footprint or complementary loan and deposit book or (2) is the merger integration and execution risk of Sample Target worth the slight incremental pick-up in valuation. Such execution risk and slight valuation upside will be discussed in "*Summary of Buy-Side Opportunity: Which Bank Should Proceed*".

Bank Median's existing P/TBV currency of 2.00x is 15% lower than Bank Top which puts Bank Median at a disadvantage in terms of capacity to pay for Sample Target. More specifically, if this analysis solely focused on a Focus Bank's ability to pay the highest price for Sample Target in an 100% stock transaction, Bank Median would fall behind Bank Top due to its' weaker currency. However, because the same purchase price of $4.68 is assumed across all Focus Banks, other financial return metrics become the focal points. Bank Median's weaker stand-alone profitability and growth compared to Bank Top allows for more opportunity for Sample Target to provide meaningful incremental earnings accretion to Bank Median's slower earnings run-rate. More specifically, based on Exhibit H, Bank Median achieves a 1.05% ROA in Year 5 while Sample Target is earning a 1.00% ROA, excluding cost savings. Sample Target's earnings are almost identical to Bank Median's and is the core reason why the ultimate IRR and valuation immaterially impacts Bank Median's stand-alone trendline. When incorporating the assumed 30% cost savings, the Sample Target's adjusted ROA increases to 1.40% from 1.00% which is a material improvement to Bank Median's existing ROA and covers up the transfer cost in share ownership. The "Give-Get Ratio" explains much of this equitable impact of Bank Median's acquisition of Sample Target as Sample Target owns approximately 20% of the pro forma entity. More specifically, Sample Target's existing earnings stream (excluding cost savings) makes up approximately 20% of the combined pro forma earnings run-rate which seems appropriate given Sample Target makes up approximately 20% of the combined pro forma balance sheet. Generally, equity in earnings and ownership composition creates a transaction that is immaterial to an acquiror's existing returns and forces management to discuss further the overall strategic rationale and integration risk of pursuing the acquisition. When accounting for the 30% cost savings, Bank Medians's stand-alone ROA in Year 5 of 1.05% is improved to 1.12% with the merger due to the adjusted acquired ROA of 1.40%. When accounting for the cost savings, Exhibit Q illustrates the exchange-ratio adjusted EPS accretion for the Sample Target and ranges from approximately 30.0% - 40.0% compared to 3.0% - 10.0% for Bank Median. Although, this appears to still be a relatively imbalanced return similar to Bank Top, much of the imbalance derives from the "shared" cost savings by both a buyer and seller, which further inflates the implied exchange-ratio adjusted EPS accretion currently experienced by the Sample Target. To further support the reasonable EPS accretion deltas, there is generally a subjective intangible cost associated with Sample Target giving up full control and governance in a sell-side divestiture. However, when solely looking at the earnings metrics, this transaction is more fairly priced than Bank Top due to the equitable "Give-Get Ratio" illustrated above.

When further dissecting Bank Median's acquisition of Sample Target, an appealing financial metric is the TBV earnback of only 2.8 years. When compared to Morgan Stanley's report of a target TBV earnback of less than five years, a 2.8 year earnback is still valuable and falls comfortably below those thresholds.

Below is the pro forma discounted cash flow analysis for Bank Median with the acquisition of Sample Target. Consistent with the prior passages, Bank Median's DCF Value per Share only increases by 1.4% versus its stand-alone case. Such execution risk and lack of valuation upside will be discussed in "*Summary of Buy-Side Opportunity: Which Bank Should Proceed*".

Exhibit R

| **Median (Pro Forma Buy-Side): Assumptions** | |
|---|---|
| Discount Rate (Expected Rate of Return) (%) | 12.0% |
| Terminal Multiple (Forward P/E) (x) | 14.0x |

**Median (Pro Forma Buy-Side): Valuation Analysis**

| **Financial Data** | **12/31/2018** | **12/31/2019** | **12/31/2020** | **12/31/2021** | **12/31/2022** | **12/31/2023** | **12/31/2024** |
|---|---|---|---|---|---|---|---|
| EPS ($) | $ 0.80 | $ 0.97 | $ 1.08 | $ 1.20 | $ 1.33 | $ 1.48 | $ 1.64 |
| TBV per Share ($) | 7.68 | 8.35 | 9.08 | 9.83 | 10.60 | 11.41 | 12.26 |
| Dividends per Share (8% TCE) ($) | - | 0.32 | 0.39 | 0.48 | 0.58 | 0.70 | 0.82 |
| **Terminal Value** | | | | | | | |
| EPS ($) | $ 0.80 | $ 0.97 | $ 1.08 | $ 1.20 | $ 1.33 | $ 1.48 | $ 1.64 |
| Terminal Multiple (x) | 14.0x | 14.0x | 14.0x | 14.0x | 14.0x | 14.0x | 14.0x |
| Terminal Value on EPS ($) | $ 11.17 | $ 13.57 | $ 15.08 | $ 16.74 | $ 18.60 | $ 20.63 | $ 22.82 |
| **Pro Forma Cash Flows per Share** | | | | | | | |
| Investment (Current Stock Price) ($) | $ (16.00) | $ - | $ - | $ - | $ - | $ - | $ - |
| Dividends per Share (8% TCE) ($) | - | 0.32 | 0.39 | 0.48 | 0.58 | 0.70 | - |
| Terminal Value per Share ($) | - | - | - | - | - | 22.82 | - |
| **Cash Flows per Share ($)** | **(16.00)** | **0.32** | **0.39** | **0.48** | **0.58** | **23.52** | **-** |
| **Discounted Cash Flows** | | | | | | | |
| Timing of Cash Flows | - | 1.00 | 2.00 | 3.00 | 4.00 | 5.00 | 6.00 |
| Discounted Cash Flows | $ (16.00) | $ 0.29 | $ 0.31 | $ 0.34 | $ 0.37 | $ 13.35 | $ - |

| **Median (Pro Forma Buy-Side): Investment Returns (5-Year Horizon)** | |
|---|---|
| **Terminal Year** | **12/31/2023** |
| **Internal Rate of Return (%)** | **10.0%** |
| DCF Value per Share ($) | $ 14.66 |
| *Implied Upside to Median Stand Alone DCF (%)* | *+1.4%* |
| Terminal Value / Forward EPS (x) | 14.0x |
| Terminal Value / TBV (x) | 2.00x |

**Median: IRR Sensitivity Analysis (Based on Varying Terminal Multiples)**

| **Terminal Value / TBV (x)** | 1.72x | 1.86x | 2.00x | 2.15x | 2.29x |
|---|---|---|---|---|---|
| **Terminal Value / LTM EPS (x)** | 12.0x | 13.0x | 14.0x | 15.0x | 16.0x |
| | 6.9% | 8.5% | **10.0%** | 11.4% | 12.8% |

# Bank Bottom's Acquisition of the Sample Bank M&A Target

Bank Bottom is acquiring Sample Target for the same purchase price of $4.68 per share as Bank Top and Bank Median, which equates to a Purchase Price / TBV of 2.34x. The funding for this transaction is 100% stock and assumes Bank Bottom is issuing shares at a stock price of $4.86 with a Price / TBV multiple of 1.52x. At a $4.68 purchase price, the Transactional IRR is 12.6%, TBV earnback is 7.0 years, and EPS accretion ranges from approximately 17.0% - 30.0%.

Below is a pro forma B/S illustrating Bank Bottom's acquisition of Sample Target.

Exhibit S

| Assets | Bottom 12/31/2018 | + | Target 12/31/2018 | + | Source of Funding | + | Purchase Accounting | = | Target Post FMV | = | Bottom Pro Forma 12/31/2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash and Equivalents | $ 7,000 | | $ 4,000 | | $ - | | $ - | | $ 4,000 | | $ 11,000 |
| Investment Securities | 66,768 | | 42,160 | | - | | - | | 42,160 | | 108,929 |
| Total Loans | 331,200 | | 206,944 | | - | | (3,104) | | 203,840 | | 535,040 |
| Loan Loss Reserves | 4,968 | | 3,104 | | - | | (3,104) | | - | | 4,968 |
| Net Loans | 326,232 | | 203,840 | | - | | - | | 203,840 | | 530,072 |
| Goodwill | - | | - | | - | | 23,893 | | 23,893 | | 23,893 |
| Other Intangibles | - | | - | | - | | 3,680 | | 3,680 | | 3,680 |
| Deferred Tax Asset | - | | - | | - | | (773) | | (773) | | (773) |
| Other Assets | - | | - | | - | | - | | - | | - |
| **Total Assets** | 400,000 | | 250,000 | | - | | 26,800 | | 276,800 | | 676,800 |
| **Liabilities** | | | | | | | | | | | |
| Non-Time Deposits | 294,400 | | 184,000 | | - | | - | | 184,000 | | 478,400 |
| Time Deposits | 73,600 | | 46,000 | | - | | - | | 46,000 | | 119,600 |
| Total Deposits | 368,000 | | 230,000 | | - | | - | | 230,000 | | 598,000 |
| Borrowings | - | | - | | - | | - | | - | | - |
| Other Liabilities | - | | - | | - | | - | | - | | - |
| **Total Liabilities** | 368,000 | | 230,000 | | - | | - | | 230,000 | | 598,000 |
| **Equity** | | | | | | | | | | | |
| Common Stock | 4,000 | | 3,000 | | - | | (3,000) | | - | | 4,000 |
| Common Stock Surplus | 15,000 | | 12,500 | | 46,800 | | (12,500) | | 46,800 | | 61,800 |
| Retained Earnings | 13,000 | | 4,500 | | - | | (4,500) | | - | | 13,000 |
| **Total Equity** | 32,000 | | 20,000 | | 46,800 | | (20,000) | | 46,800 | | 78,800 |
| **Total Liabilities and Equity** | 400,000 | | 250,000 | | 46,800 | | (20,000) | | 276,800 | | 676,800 |
| **Book Value per Share** | | | | | | | | | | | |
| **TBV per Share ($)** | **3.20** | | **2.00** | | | | | | **2.00** | | **2.61** |
| ***Accretion / (Dilution) ($)*** | | | | | | | | | | | ***$ (0.59)*** |
| ***Accretion / (Dilution) (%)*** | | | | | | | | | | | ***(18.41%)*** |
| | | | | | | | TBV Earnback - Crossover (Years) | | | | 7.0 yrs |
| **Balance Sheet Composition** | | | | | | | | | | | |
| **Loans / Deposits (%)** | **90.0** | | **90.0** | | | | | | **88.6** | | **89.5** |
| **Core Deposits / Deposits (%)** | **80.0** | | **80.0** | | | | | | **80.0** | | **80.0** |
| **Capital Adequacy** | | | | | | | | | | | |
| **TCE / TA (%)** | **8.00** | | **8.00** | | | | | | **7.71** | | **7.89** |
| **Tier 1 Leverage Ratio (%)** | **8.00** | | **8.00** | | | | | | **7.71** | | **7.89** |
| **Tier 1 Common Ratio (%)** | **9.25** | | **9.25** | | | | | | **9.02** | | **9.16** |
| **Tier 1 Capital Ratio (%)** | **9.25** | | **9.25** | | | | | | **9.02** | | **9.16** |
| **Total Capital Ratio (%)** | **10.50** | | **10.50** | | | | | | **9.02** | | **10.05** |

Below is a financial overview of Bank Bottom's acquisition of Sample Target.

Exhibit T

| Transaction Summary | |
|---|---|
| Total Deal Value ($000) | $ 46,800 |
| Purchase Price per Share ($) | $ 4.68 |
| Exchange Ratio (Current Cons. Mix) (x) | 0.962x |
| Exchange Ratio (As if 100% Stock) (x) | 0.962x |
| Stock / Cash Consideration (%) | 100.0% / 0.0% |

| Pricing Multiples | |
|---|---|
| **Pricing Metrics** | **At Close** |
| Market Premium (%) | 30.0% |
| Core Deposit Premium (%) | 14.6% |
| Purchase Price / TBV (x) | 2.34x |
| Purchase Price / Adj. TBV (x) | 2.04x |
| Purchase Price / TBV (8% TCE) (x) | 2.34x |
| Purchase Price / 2018 EPS (x) | 23.4x |
| Purchase Price / 2019 EPS (x) | 21.4x |
| Purchase Price / 2019 EPS (Deal Adj.) (x) | 12.4x |

| Pro Forma Ownership (Common Shares) | | |
|---|---|---|
| **Ownership** | **Shares (000)** | **Ownership (%)** |
| Bottom | 10,000 | 51.0% |
| Target | 9,622 | 49.0% |
| New Investor | - | 0.0% |
| **Total Ownership** | **19,622** | **100.0%** |

| Investment Returns (Assumes No TBV Multiple Expansion) | | |
|---|---|---|
| **Returns** | **Merger** | **Buy at Close** |
| IRR (%) | **12.6%** | 6.0% |
| MOIC (x) | **1.72x** | 1.32x |

| Stand Alone Trading Multiples | | |
|---|---|---|
| **Multiples** | **Bottom** | **Target** |
| Price / TBV (x) | 1.52x | 1.80x |
| Price / 2018 EPS (x) | 21.7x | 18.0x |
| Price / 2019 EPS (x) | 20.0x | 16.5x |
| Core Deposit Premium (%) | 5.7% | 8.7% |

| PF Valuation at Close (Static Bottom Stock Price) | | |
|---|---|---|
| **Valuation** | **Bottom** | **Pro Forma** |
| Market Cap ($M) | $ 48.6 | $ 95.4 |
| Price / TBV (x) | 1.52x | 1.86x |
| Price / 2019 EPS (x) | 20.0x | 15.4x |
| Core Deposit Premium (%) | 5.7% | 9.2% |

| Earnings Impact | | | | | |
|---|---|---|---|---|---|
| **Bottom EPS Impact** | **2019E** | **2020E** | **2021E** | **2022E** | **2023E** |
| Pro Forma EPS ($) | $ 0.32 | $ 0.34 | $ 0.37 | $ 0.40 | $ 0.43 |
| Bottom Stand Alone EPS ($) | 0.24 | 0.27 | 0.30 | 0.33 | 0.37 |
| ***Accretion / (Dilution) ($)*** | ***$ 0.07*** | ***$ 0.07*** | ***$ 0.07*** | ***$ 0.07*** | ***$ 0.06*** |
| ***Accretion / (Dilution) (%)*** | ***30.24%*** | ***25.70%*** | ***22.56%*** | ***19.89%*** | ***17.05%*** |
| **Target EPS Impact (X-Ratio Adjusted)** | **2019E** | **2020E** | **2021E** | **2022E** | **2023E** |
| Pro Forma EPS (As if 100% Stock) ($) | $ 0.30 | $ 0.33 | $ 0.36 | $ 0.38 | $ 0.41 |
| Target Stand Alone EPS ($) | 0.22 | 0.24 | 0.26 | 0.28 | 0.30 |
| ***Accretion / (Dilution) ($)*** | ***$ 0.09*** | ***$ 0.09*** | ***$ 0.10*** | ***$ 0.10*** | ***$ 0.11*** |
| ***Accretion / (Dilution) (%)*** | ***39.32%*** | ***39.44%*** | ***38.13%*** | ***37.07%*** | ***36.40%*** |

| Tangible Book Value Impact | | | | | |
|---|---|---|---|---|---|
| **Bottom TBV Impact** | **2019E** | **2020E** | **2021E** | **2022E** | **2023E** |
| Pro Forma TBV per Share ($) | $ 2.80 | $ 2.99 | $ 3.17 | $ 3.37 | $ 3.56 |
| Bottom Stand Alone TBV per Share ($) | 3.30 | 3.39 | 3.49 | 3.60 | 3.71 |
| ***Accretion / (Dilution) ($)*** | ***$ (0.50)*** | ***$ (0.41)*** | ***$ (0.32)*** | ***$ (0.24)*** | ***$ (0.16)*** |
| ***Accretion / (Dilution) (%)*** | ***(15.08%)*** | ***(12.03%)*** | ***(9.20%)*** | ***(6.56%)*** | ***(4.18%)*** |

| | | | |
|---|---|---|---|
| TBV Earnback - Crossover (Years) | 7.0 yrs | TBV Earnback - Static (Years) | 3.5 yrs |

| Pro Forma Financial Highlights | | | | | |
|---|---|---|---|---|---|
| **Balance Sheet:** | **2019E** | **2020E** | **2021E** | **2022E** | **2023E** |
| Total Assets ($000) | $ 702,652 | $ 729,402 | $ 757,114 | $ 785,885 | $ 815,684 |
| Total Loans ($000) | 555,168 | 576,103 | 597,881 | 620,537 | 644,108 |
| Total Deposits ($000) | 620,540 | 643,986 | 668,377 | 693,754 | 720,158 |
| Total Equity ($000) | 82,112 | 85,416 | 88,737 | 92,132 | 95,527 |
| **Balance Sheet Ratios:** | | | | | |
| TCE / TA (%) | 8.13% | 8.34% | 8.52% | 8.69% | 8.84% |
| Tier 1 Leverage Ratio (%) | 8.15% | 8.38% | 8.59% | 8.78% | 8.94% |
| Tier 1 Capital Ratio (%) | 9.47% | 9.73% | 9.97% | 10.19% | 10.39% |
| Total Capital Ratio (%) | 10.41% | 10.73% | 11.02% | 11.29% | 11.53% |
| **Income Statement:** | | | | | |
| Net Income ($000) | $ 6,207 | $ 6,716 | $ 7,271 | $ 7,826 | $ 8,434 |
| Cost Savings ($000) | (2,421) | (2,510) | (2,603) | (2,699) | (2,799) |
| Return on Average Assets (%) | 0.90% | 0.94% | 0.98% | 1.01% | 1.05% |
| Return on Average Equity (%) | 7.65% | 8.02% | 8.35% | 8.65% | 8.99% |
| Net Interest Margin (%) | 3.37% | 3.37% | 3.37% | 3.36% | 3.36% |
| Efficiency Ratio (%) | 66.4% | 65.1% | 63.8% | 62.7% | 61.4% |
| Burden Ratio (%) | 2.02% | 1.97% | 1.91% | 1.86% | 1.81% |

As discussed in *"Bank Median's Acquisition of Sample Target"*, because the purchase price paid for Sample Target of $4.68 is the same as Bank Top and Bank Median, the transactional IRR is approximately the same at 12.6% with the delta being attributed to the opportunity cost related to each Focus Bank's excess dividend policies.

The transactional IRR exceeds both Bank Bottom's terminal ROE of 10.0% (see Exhibit J) and Bank Bottom's current existing internal rate of return of 6.8% (see Exhibit K). However, the pro forma IRR of the company decreases slightly to 6.0% from 6.8% which is primarily due to the significant tangible book value dilution incurred in this transaction.

At first glance, this acquisition materially improves Bank Bottom's overall earnings but sacrifices material tangible book value dilution. The fundamental reason for the significant book value dilution derives from Bank Bottom's weak P/TBV currency of 1.52x. Furthermore, with a P/TBV of 1.52x, Bank Bottom is paying 2.04x (when adjusting for purchase accounting marks), which is a significant premium to where Bank Bottom is currently trading. All things being equal, if the acquirer's P/TBV is lower than the target, then the deal will be dilutive to the acquirer's TBV per share. This is because the acquirer has to pay more for each dollar of TBV than the market values for its own TBV; the acquirer will therefore have to issue proportionally more shares in a merger transaction. Ignoring synergies and cost savings, you can see mechanically that the pro-forma TBV (the numerator in TBV per share), will increase less than the pro-forma share count (the denominator), causing TBV per share to decline. Both Bank Top and Bank Median have currencies much greater than Bank Bottom, which limits the significant TBV dilution at close.

Bank Bottom's existing P/TBV currency of 1.52x is approximately 55% and 30% lower than Bank Top and Bank Median, respectively. Such a valuation discrepancy puts Bank Bottom at a disadvantage in terms of capacity to pay for Sample Target. Bank Bottom's weaker stand-alone profitability and growth compared to both Bank Top and Bank Median allows for more opportunity for Sample Target to provide meaningful incremental earnings accretion to Bank Bottom's slower earnings run-rate. More specifically, based on Exhibit J, Bank Bottom achieves a 0.80% ROA in Year 5 while Sample Target is earning a 1.00% ROA, excluding cost savings. Sample Target's earnings exceeds Bank Bottom's and is the core reason why the EPS accretion is so strong and materially improves Bank Bottom's stand-alone earnings trendline. The "Give-

Get Ratio" explains much of this earnings benefit resulting from the acquisition of Sample Target. On a stand-alone basis, Bank Bottom is earning $3.7 million and Sample Target is projected to earn $3.0 million. Excluding cost savings, Bank Bottom and Sample Target's earnings contribution is 55.0% and 45.0%, respectively. On an earnings basis, this transaction is priced very favorably from Bank Bottom's perspective as Bank Bottom is only giving up 49% ownership but acquiring an earnings stream (including cost savings) that makes up over 57%.

Although the transaction IRR and EPS accretion metrics are the most favorable with Bank Bottom as compared to Bank Top and Bank Median, it is crucial to still look at other financial metrics such as TBV dilution in order to better grasp the complete financial impact. As discussed above, when further dissecting Bank Bottom's acquisition of Sample Target, one of the least appealing financial metrics is the TBV earnback of 7.0 years which is 40% higher than the Morgan Stanley report. The TBV earnback of 7.0 years is the core reason why the pro forma DCF and IRR of Bank Bottom is actually lower with the acquisition of Sample Target even though the Transactional IRR and EPS accretion metrics are all favorable. The lack of TBV multiple expansion assumed in this paper is a fundamental reason why book value dilution negatively impacts valuations. This paper does not assume any TBV multiple expansion over the investment horizon which therefore assumes that the Street revalues the Focus Banks' stock prices each period to maintain current P/TBV currencies into perpetuity. As such, any TBV dilution that extends beyond the 5-year terminal horizon will ultimately hurt valuations.

Below is the pro forma discounted cash flow analysis for Bank Bottom with the acquisition of Sample Target. Consistent with the prior passages, Bank Bottom's DCF Value per Share actually decreases by 3.3% versus its stand-alone case. Such financial valuation deterioration will be discussed in "*Summary of Buy-Side Opportunity: Which Bank Should Proceed*".

Exhibit U

| Bottom (Pro Forma Buy-Side): Assumptions | |
|---|---|
| Discount Rate (Expected Rate of Return) (%) | 12.0% |
| Terminal Multiple (Forward P/E) (x) | 11.7x |

**Bottom (Pro Forma Buy-Side): Valuation Analysis**

| Financial Data | 12/31/2018 | 12/31/2019 | 12/31/2020 | 12/31/2021 | 12/31/2022 | 12/31/2023 | 12/31/2024 |
|---|---|---|---|---|---|---|---|
| EPS ($) | $ 0.22 | $ 0.32 | $ 0.34 | $ 0.37 | $ 0.40 | $ 0.43 | $ 0.46 |
| TBV per Share ($) | 2.61 | 2.80 | 2.99 | 3.17 | 3.37 | 3.56 | 3.74 |
| Dividends per Share (8% TCE) ($) | - | 0.15 | 0.17 | 0.20 | 0.23 | 0.26 | 0.29 |
| **Terminal Value** | | | | | | | |
| EPS ($) | $ 0.22 | $ 0.32 | $ 0.34 | $ 0.37 | $ 0.40 | $ 0.43 | $ 0.46 |
| Terminal Multiple (x) | 11.7x | 11.7x | 11.7x | 11.7x | 11.7x | 11.7x | 11.7x |
| Terminal Value on EPS ($) | $ 2.62 | $ 3.71 | $ 4.01 | $ 4.34 | $ 4.67 | $ 5.03 | $ 5.41 |
| **Pro Forma Cash Flows per Share** | | | | | | | |
| Investment (Current Stock Price) ($) | $ (4.86) | $ - | $ - | $ - | $ - | $ - | $ - |
| Dividends per Share (8% TCE) ($) | - | 0.15 | 0.17 | 0.20 | 0.23 | 0.26 | - |
| Terminal Value per Share ($) | - | - | - | - | - | 5.407 | - |
| **Cash Flows per Share ($)** | **(4.86)** | **0.15** | **0.17** | **0.20** | **0.23** | **5.66** | **-** |
| **Discounted Cash Flows** | | | | | | | |
| Timing of Cash Flows | - | 1.00 | 2.00 | 3.00 | 4.00 | 5.00 | 6.00 |
| Discounted Cash Flows | $ (4.86) | $ 0.13 | $ 0.14 | $ 0.14 | $ 0.14 | $ 3.21 | $ - |

| Bottom (Pro Forma Buy-Side): Investment Returns (5-Year Horizon) | |
|---|---|
| **Terminal Year** | **12/31/2023** |
| **Internal Rate of Return (%)** | **6.0%** |
| DCF Value per Share ($) | $ 3.77 |
| *Implied Upside to Bottom Stand Alone DCF (%)* | *(3.3%)* |
| Terminal Value / Forward EPS (x) | 11.7x |
| Terminal Value / TBV (x) | 1.52x |

**Bottom: IRR Sensitivity Analysis (Based on Varying Terminal Multiples)**

| | | | | |
|---|---|---|---|---|
| **Terminal Value / TBV (x)** | | | | |
| 1.30x | 1.43x | 1.52x | 1.69x | 1.82x |
| **Terminal Value / LTM EPS (x)** | | | | |
| 10.0x | 11.0x | 11.7x | 13.0x | 14.0x |
| 3.1% | 4.9% | **6.0%** | 8.0% | 9.5% |

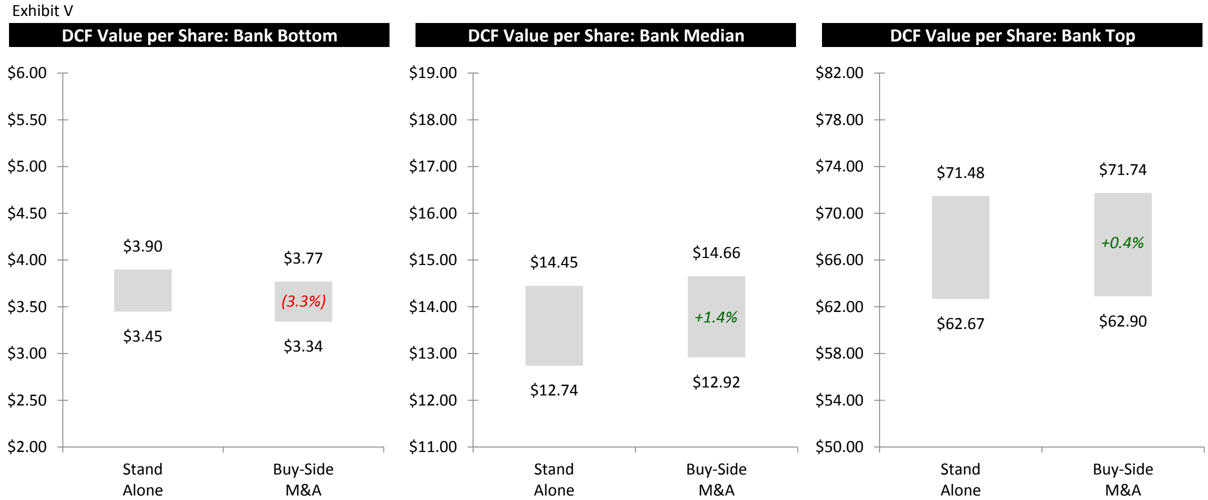
## Summary of Buy-Side Opportunity: *Which Bank Should Proceed?*

When pursuing an acquisition, there are core principles worth understanding both from a financial and strategic rationale perspective. There are countless methods to analyze an acquisition and there is never only one perfect answer. As a result, it is crucial to dissect a transaction from numerous angles to best focus an acquiror's attention on the core drivers of value. It is important to analyze an acquisition with financial return metrics that are consistent with how research analysts might view the transaction; as a negative reaction could jeopardize an acquiror's stock price and subsequent merger returns. Buyers generally pursue acquisitions to either expand, complement, or supplement an existing service or business model. Pursuing an acquisition target for strategic reasons can incentivize a buyer to pay more than a financial model might justify. Financial analyses are never perfect and never perfectly capture future outcomes. Such a lack of financial clarity in the future is why strategic rationale is so important. In this paper, the core financial metrics identified are: (1) internal rate of return, (2) tangible book value earn-back, (3) EPS accretion, (4) pricing multiples, and (5) Give-Get Ratio. Some examples of strategic rationale for pursuing an acquisition target include, but not limited to: (1) expanding, complementing, or supplementing an existing business model, (2) seeking a specific geographical footprint and (3) determining the merger and integration risk associated with an acquisition target.

It is difficult to quantify the value of expanding or supplementing an existing business model, but it is possible to quantify merger and integration risk. Unfortunately, there is no mathematical formulae to calculate merger and integration risk outside of adjusting the discount rate when calculating a discounted cash flow valuation. As discussed in *"Introduction* *to "Cost of Capital" and Why it Matters"*, the discount rate is the price charged by investors for bearing the risk that the company's future cash flows may differ from what is anticipated upon making the investment. Generally, pursuing an acquisition is viewed as more of a risky endeavor than a company's own stand-alone model. As such, when analyzing the risk of acquiring Sample Target, management could elect to increase the assumed modeled discount rate as this transaction could be viewed as riskier than the Focus Banks' existing stand-alone cases, thereby further decreasing the pro forma valuations. However, in order to limit subjectivity related to transactional risks, all discount rates remain static at 12% to better isolate the impact of incremental earnings streams relative to a company's cost of capital (while ignoring the risks of those incremental cash flows).

Strategic rationale can be justified by strong financial returns but can also be contested as well. It is often up to management to weigh the pros and cons of both the financial and strategic rationale and determine what risk-adjusted price makes most sense for the target. The below summary table illustrates the impact to DCF valuations if Bank Top, Bank Median, and Bank Bottom were to acquire Sample Target for $4.68 or a P/TBV of 2.34x.

Exhibit V




Note: Percentages illustrate delta from Stand Alone Valuation

Note: The top end of the range assumes a 12% discount rate. The bottom end of the valuation range assumes a 15% discount rate to account for execution risk

As discussed earlier, an acquisition of Sample Target is immaterial to Bank Top and Bank Median and value deteriorating to Bank Bottom. Bank Top and Bank Median would experience an increase in DCF valuation of 0.4% and 1.5%, respectively. Bank Bottom would ultimately see a 3.3% valuation decrease.

Bank Top and Bank Median are the only two banks that can afford to pay a P/TBV of 2.34x (when strictly focusing on positive EPS accretion and short TBV earnback), however, Sample Target does not provide a meaningfully stronger earnings stream to Bank Top's and Bank Median's existing cash flows which provides a substantial barrier to acquire. Although, Sample Target brings 17.0% - 30.0% EPS accretion and a stronger incremental IRR to Bank Bottom, Bank Bottom would sacrifice too much TBV dilution in the process.

Ultimately, pursuing Sample Target by any of the Focus Banks would not be worth management's time unless the pros significantly outweigh the cons when determining if the acquisition makes strategic sense. Management teams must ask themselves, does the strategic upside and overall franchise accretion outweigh the negative financial returns and execution risk associated with Sample Target? This core principle of financial returns vs. strategic rationale is integral to a management's decision-making process and always must be taken cautiously prior to placing a bid for an acquisition target.

# Welcome to the Sell-Side

For the same reasons a buy-side M&A transaction might be attractive to a buyer, a sell-side M&A transaction could also provide similar value enhancing attributes. In order to combat some of the operational hurdles as discussed in *"Welcome to the Buy-Side",* a sell-side transaction can lead to opportunities that achieve the necessary growth needed to outperform stand-alone target return thresholds. From the perspective of a seller, the value of the stock it is being "paid" is dependent in large part to the financial strength of the buyer. If the buyer grows faster and has stronger earnings than the target, then a merger will generally be accretive to the seller. This value-enhancing partnership is also known as "riding a buyer's currency". Given that this paper analyzes mergers assuming 100% stock consideration, it is important to assess the strength of a buyer relative to the Focus Banks. Similar to the dynamics discussed in *"Welcome to the Buy-Side"*, the attractiveness of a sell-side transaction is strictly dependent on the attractiveness of the buyer's stand-alone model versus that of the Focus Banks. When a bank decides to sell for 100% stock, it is evident that the selling bank is making a new investment in the pro forma entity. More specifically, if a selling bank receives stock as consideration, the selling bank is now a stockholder in the buyer. It is this core concept that practically equates pursuing a buy-side and sell-side transaction, as the focus entity is making an investment in the pro forma regardless. If an existing stand-alone model is insufficient to earning a company's cost of capital then choosing the right merger partner, whether it's a buy-side or sell-side, is essential in enhancing shareholder value. *"Selling is Not Really Selling"* will discuss this merger partner concept in more detail.

# The Sample Bank M&A Buyer

Similar to the Sample Target, the Sample Buyer selected for this paper is an “adjusted” Bank Median case in order to fairly assess the ability for the Sample Buyer to reasonably acquire each of the Focus Banks (Bank Top, Bank Median, and Bank Bottom). Sample Buyer is a larger bank than Sample Target in order for Sample Buyer to maintain greater than a 55% ownership stake across all of the merger acquisition scenarios. Although Sample Buyer and Sample Target’s asset size are different, both banks start with the same ROA. Similar to Sample Target, Sample Buyer is meant to symbolize an “average bank” or “average buyer” in the bank industry. The purpose of selecting a similar case as Bank Median and Sample Target is to focus on the average bank in the industry and determine if selling to an average buyer creates or erodes shareholder value for each of the Focus Banks in a given profitability cohort.

Similar to Bank Median and Sample Target, Sample Buyer starts with a 10% ROE in Year 1 and grows assets at a 5% rate into perpetuity consistent with current peer banks of this size. The Sample Buyer’s 10% ROE improves to 12% by Year 5 primarily driven by an improvement in the burden ratio. The below financials illustrate an expense base growing at 4% resulting in an overall improvement in burden due to overall balance sheet growth of 5%.

Exhibit W

| *(Dollars in Millions)* | At or for the year ended, | | | | | | | CAGR |
|---|---|---|---|---|---|---|---|---|
| | 12/31/2018 | 12/31/2019 | 12/31/2020 | 12/31/2021 | 12/31/2022 | 12/31/2023 | 12/31/2024 | '18 - '24 |
| **Balance Sheet** | | | | | | | | |
| Total Assets ($) | 7,500.0 | 7,875.0 | 8,268.7 | 8,682.2 | 9,116.3 | 9,572.1 | 10,050.7 | *5%* |
| Total Loans ($) | 6,210.0 | 6,520.5 | 6,846.5 | 7,188.9 | 7,548.3 | 7,925.7 | 8,322.0 | *5%* |
| Total Deposits ($) | 6,900.0 | 7,245.0 | 7,607.3 | 7,987.6 | 8,387.0 | 8,806.3 | 9,246.7 | *5%* |
| Tang. Common Equity ($) | 600.0 | 630.0 | 661.5 | 694.6 | 729.3 | 765.8 | 804.1 | *5%* |
| **Balance Sheet Composition** | | | | | | | | |
| Loans / Deposits (%) | 90.0 | 90.0 | 90.0 | 90.0 | 90.0 | 90.0 | 90.0 | *0%* |
| Core Deps / Deposits (%) | 80.0 | 80.0 | 80.0 | 80.0 | 80.0 | 80.0 | 80.0 | *0%* |
| **Capital Adequacy** | | | | | | | | |
| TCE / TA (%) | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | *(0%)* |
| Leverage Ratio (%) | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | 8.00 | *(0%)* |
| Tier 1 Capital Ratio (%) | 9.25 | 9.25 | 9.25 | 9.25 | 9.25 | 9.25 | 9.25 | *(0%)* |
| Total Capital Ratio (%) | 10.50 | 10.50 | 10.50 | 10.50 | 10.50 | 10.50 | 10.50 | *(0%)* |
| **Income Statement** | | | | | | | | |
| Net Interest Income ($) | 253.2 | 260.8 | 273.8 | 287.5 | 301.9 | 317.0 | 332.8 | *5%* |
| Provision Expense ($) | 12.1 | 11.0 | 11.6 | 12.2 | 12.8 | 13.4 | 14.1 | *3%* |
| Noninterest Income ($) | 67.3 | 69.3 | 72.8 | 76.4 | 80.3 | 84.3 | 88.5 | *5%* |
| Noninterest Expense ($) | 232.5 | 238.3 | 247.6 | 257.3 | 267.4 | 277.9 | 288.8 | *4%* |
| Tax Expense ($) | 15.9 | 17.0 | 18.4 | 19.8 | 21.4 | 23.1 | 24.9 | *8%* |
| Net Income ($) | 60.0 | 63.8 | 69.1 | 74.6 | 80.6 | 86.9 | 93.6 | *8%* |
| **Per Share Metrics** | | | | | | | | |
| EPS ($) | 6.00 | 6.38 | 6.91 | 7.46 | 8.06 | 8.69 | 9.36 | *8%* |
| TBV per Share ($) | 60.00 | 63.00 | 66.15 | 69.46 | 72.93 | 76.58 | 80.41 | *5%* |
| Dividends per Share ($) | 0.00 | 3.38 | 3.76 | 4.15 | 4.59 | 5.04 | 5.53 | *NA* |
| **Profitability** | | | | | | | | |
| ROAA (%) | 0.80 | 0.83 | 0.86 | 0.88 | 0.91 | 0.93 | 0.95 | *3%* |
| ROAE (%) | 10.00 | 10.38 | 10.70 | 11.01 | 11.32 | 11.62 | 11.93 | *3%* |
| Net Interest Margin (%) | 3.39 | 3.32 | 3.32 | 3.32 | 3.32 | 3.32 | 3.32 | *(0%)* |
| Efficiency Ratio (%) | 72.5 | 72.2 | 71.4 | 70.7 | 70.0 | 69.3 | 68.5 | *(1%)* |
| Burden Ratio (%) | 2.20 | 2.20 | 2.17 | 2.13 | 2.10 | 2.07 | 2.04 | *(1%)* |
| **Asset Quality** | | | | | | | | |
| Reserves / Loans (%) | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | 1.50 | *0%* |
| NCOs / Avg. Loans (%) | 0.08 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | *3%* |
| NPLs / Loans (%) | 1.21 | 1.15 | 1.10 | 1.04 | 0.99 | 0.95 | 0.90 | *(5%)* |
| NPAs / Assets (%) | 1.00 | 0.95 | 0.91 | 0.86 | 0.82 | 0.78 | 0.75 | *(5%)* |

The valuation methodology used for Sample Buyer is consistent with the Focus Banks. The discounted cash flow valuation for Sample Buyer is $89.12 assuming a Terminal Value to Earnings and TBV of 14.0x and 1.71x, respectively. Similar to the Focus Banks, Sample Buyer's current stock price assumes no tangible book value multiple expansion and therefore ascribes a 1.71x value to current TBV per share of $60.00 resulting in a current stock price of $102.60. This stock price is fundamental to determining the purchase prices paid for the sell-side acquisition scenarios illustrated in the following section.

# Bank Top's Divestiture to the Sample Bank M&A Buyer

Bank Top is selling to Sample Buyer for $84.81 per share, which equates to a Purchase Price / TBV of 3.03x and a 30% market premium to Bank Top's current stock price of $65.24. The funding for this transaction is 100% stock and assumes Sample Buyer is issuing shares at a stock price of $102.60 with a Price / TBV multiple of 1.71x. As discussed during the buy-side M&A passages, when assessing how a merger impacts a seller, it is important to look at exchange-ratio adjusted financial returns. Such exchange-ratio adjusted returns will be quoted accordingly for the remainder of the sell-side M&A sections. At a $84.81 purchase price, the exchange-ratio adjusted Transactional IRR is 13.0%, exchange-ratio adjusted TBV earnback is immediately accretive (signifying no TBV dilution at close), and the exchange-ratio adjusted EPS accretion ranges from approximately 20.0% - 50.0%.

Below is a pro forma B/S illustrating Bank Top's divestiture to Sample Buyer.

Exhibit X

| Assets | Buyer 12/31/2018 | + Top 12/31/2018 | + Source of Funding | + Purchase Accounting | = Top Post FMV | = Buyer Pro Forma 12/31/2018 |
|---|---|---|---|---|---|---|
| Cash and Equivalents | $ 112,500 | $ 52,500 | $ - | $ - | $ 52,500 | $ 165,000 |
| Investment Securities | 1,270,650 | 592,970 | - | - | 592,970 | 1,863,620 |
| Total Loans | 6,210,000 | 2,898,000 | - | (43,470) | 2,854,530 | 9,064,530 |
| Loan Loss Reserves | 93,150 | 43,470 | - | (43,470) | - | 93,150 |
| Net Loans | 6,116,850 | 2,854,530 | - | - | 2,854,530 | 8,971,380 |
| Goodwill | - | - | - | 527,420 | 527,420 | 527,420 |
| Other Intangibles | - | - | - | 51,520 | 51,520 | 51,520 |
| Deferred Tax Asset | - | - | - | (10,819) | (10,819) | (10,819) |
| Other Assets | - | - | - | - | - | - |
| **Total Assets** | 7,500,000 | 3,500,000 | - | 568,121 | 4,068,121 | 11,568,121 |
| **Liabilities** | | | | | | |
| Non-Time Deposits | 5,520,000 | 2,576,000 | - | - | 2,576,000 | 8,096,000 |
| Time Deposits | 1,380,000 | 644,000 | - | - | 644,000 | 2,024,000 |
| Total Deposits | 6,900,000 | 3,220,000 | - | - | 3,220,000 | 10,120,000 |
| Borrowings | - | - | - | - | - | - |
| Other Liabilities | - | - | - | - | - | - |
| **Total Liabilities** | 6,900,000 | 3,220,000 | - | - | 3,220,000 | 10,120,000 |
| **Equity** | | | | | | |
| Common Stock | 75,000 | 50,000 | - | (50,000) | - | 75,000 |
| Common Stock Surplus | 375,000 | 175,000 | 848,121 | (175,000) | 848,121 | 1,223,121 |
| Retained Earnings | 150,000 | 55,000 | - | (55,000) | - | 150,000 |
| **Total Equity** | 600,000 | 280,000 | 848,121 | (280,000) | 848,121 | 1,448,121 |
| **Total Liabilities and Equity** | 7,500,000 | 3,500,000 | 848,121 | (280,000) | 4,068,121 | 11,568,121 |
| **Book Value per Share** | | | | | | |
| **TBV per Share ($)** | **60.00** | **28.00** | | | **32.56** | **47.58** |
| ***Accretion / (Dilution) ($)*** | | | | | | ***$ (12.42)*** |
| ***Accretion / (Dilution) (%)*** | | | | | | ***(20.69%)*** |
| | | | | TBV Earnback - Crossover (Years) | | 6.7 yrs |
| **Balance Sheet Composition** | | | | | | |
| **Loans / Deposits (%)** | **90.0** | **90.0** | | | **88.7** | **89.6** |
| **Core Deposits / Deposits (%)** | **80.0** | **80.0** | | | **80.0** | **80.0** |
| **Capital Adequacy** | | | | | | |
| **TCE / TA (%)** | **8.00** | **8.00** | | | **7.71** | **7.91** |
| **Tier 1 Leverage Ratio (%)** | **8.00** | **8.00** | | | **7.71** | **7.91** |
| **Tier 1 Common Ratio (%)** | **9.25** | **9.25** | | | **9.02** | **9.18** |
| **Tier 1 Capital Ratio (%)** | **9.25** | **9.25** | | | **9.02** | **9.18** |
| **Total Capital Ratio (%)** | **10.50** | **10.50** | | | **9.02** | **10.16** |

Below is a financial overview of Bank Top's divestiture to Sample Buyer.

Exhibit Y

| Transaction Summary | |
|---|---|
| Total Deal Value ($000) | $ 848,121 |
| Purchase Price per Share ($) | $ 84.81 |
| Exchange Ratio (Current Cons. Mix) (x) | 0.827x |
| Exchange Ratio (As if 100% Stock) (x) | 0.827x |
| Stock / Cash Consideration (%) | 100.0% / 0.0% |

| Pricing Multiples | |
|---|---|
| **Pricing Metrics** | **At Close** |
| Market Premium (%) | 30.0% |
| Core Deposit Premium (%) | 22.1% |
| Purchase Price / TBV (x) | 3.03x |
| Purchase Price / Adj. TBV (x) | 2.64x |
| Purchase Price / TBV (8% TCE) (x) | 3.03x |
| Purchase Price / 2018 EPS (x) | 25.2x |
| Purchase Price / 2019 EPS (x) | 22.7x |
| Purchase Price / 2019 EPS (Deal Adj.) (x) | 14.0x |

| Pro Forma Ownership (Common Shares) | | |
|---|---|---|
| **Ownership** | **Shares (000)** | **Ownership (%)** |
| Buyer | 10,000 | 54.7% |
| Top | 8,266 | 45.3% |
| New Investor | - | 0.0% |
| **Total Ownership** | **18,266** | **100.0%** |

| Investment Returns (Assumes No TBV Multiple Expansion) | | |
|---|---|---|
| **Returns** | **Merger** | **Buy at Close** |
| IRR (%) | **17.8%** | 11.6% |
| MOIC (x) | **2.20x** | 1.69x |

| Stand Alone Trading Multiples | | |
|---|---|---|
| **Multiples** | **Buyer** | **Top** |
| Price / TBV (x) | 1.71x | 2.33x |
| Price / 2018 EPS (x) | 17.1x | 19.4x |
| Price / 2019 EPS (x) | 16.1x | 17.5x |
| Core Deposit Premium (%) | 7.7% | 14.5% |

| PF Valuation at Close (Static Buyer Stock Price) | | |
|---|---|---|
| **Valuation** | **Buyer** | **Pro Forma** |
| Market Cap ($M) | $ 1,026.0 | $ 1,874.1 |
| Price / TBV (x) | 1.71x | 2.16x |
| Price / 2019 EPS (x) | 16.1x | 15.1x |
| Core Deposit Premium (%) | 7.7% | 12.4% |

| Earnings Impact | | | | | |
|---|---|---|---|---|---|
| **Buyer EPS Impact** | **2019E** | **2020E** | **2021E** | **2022E** | **2023E** |
| Pro Forma EPS ($) | $ 6.81 | $ 7.63 | $ 8.55 | $ 9.58 | $ 10.75 |
| Buyer Stand Alone EPS ($) | 6.38 | 6.91 | 7.46 | 8.06 | 8.69 |
| *Accretion / (Dilution) ($)* | *$ 0.43* | *$ 0.72* | *$ 1.08* | *$ 1.53* | *$ 2.06* |
| *Accretion / (Dilution) (%)* | *6.70%* | *10.45%* | *14.52%* | *18.94%* | *23.74%* |
| **Top EPS Impact (X-Ratio Adjusted)** | **2019E** | **2020E** | **2021E** | **2022E** | **2023E** |
| Pro Forma EPS (As if 100% Stock) ($) | $ 5.63 | $ 6.31 | $ 7.07 | $ 7.92 | $ 8.89 |
| Top Stand Alone EPS ($) | 3.74 | 4.46 | 5.30 | 6.29 | 7.45 |
| *Accretion / (Dilution) ($)* | *$ 1.89* | *$ 1.85* | *$ 1.77* | *$ 1.63* | *$ 1.44* |
| *Accretion / (Dilution) (%)* | *50.66%* | *41.53%* | *33.34%* | *25.96%* | *19.30%* |

| Tangible Book Value Impact | | | | | |
|---|---|---|---|---|---|
| **Buyer TBV Impact** | **2019E** | **2020E** | **2021E** | **2022E** | **2023E** |
| Pro Forma TBV per Share ($) | $ 51.29 | $ 55.45 | $ 60.12 | $ 65.40 | $ 71.39 |
| Buyer Stand Alone TBV per Share ($) | 63.00 | 66.15 | 69.46 | 72.93 | 76.58 |
| *Accretion / (Dilution) ($)* | *$ (11.71)* | *$ (10.70)* | *$ (9.34)* | *$ (7.53)* | *$ (5.19)* |
| *Accretion / (Dilution) (%)* | *(18.58%)* | *(16.18%)* | *(13.44%)* | *(10.32%)* | *(6.77%)* |

| | |
|---|---|
| TBV Earnback - Crossover (Years) | 6.7 yrs |
| TBV Earnback - Static (Years) | 3.1 yrs |

| Pro Forma Financial Highlights | | | | | |
|---|---|---|---|---|---|
| **Balance Sheet:** | **2019E** | **2020E** | **2021E** | **2022E** | **2023E** |
| Total Assets ($000) | $ 12,407,526 | $ 13,335,317 | $ 14,357,780 | $ 15,486,442 | $ 16,734,522 |
| Total Loans ($000) | 9,760,392 | 10,523,802 | 11,362,561 | 12,285,454 | 13,302,385 |
| Total Deposits ($000) | 10,896,802 | 11,753,871 | 12,696,101 | 13,733,482 | 14,877,280 |
| Total Equity ($000) | 1,510,724 | 1,581,446 | 1,661,679 | 1,752,961 | 1,857,242 |
| **Balance Sheet Ratios:** | | | | | |
| TCE / TA (%) | 7.92% | 7.93% | 7.96% | 8.00% | 8.06% |
| Tier 1 Leverage Ratio (%) | 7.97% | 8.03% | 8.10% | 8.19% | 8.30% |
| Tier 1 Capital Ratio (%) | 9.24% | 9.32% | 9.41% | 9.51% | 9.64% |
| Total Capital Ratio (%) | 10.29% | 10.43% | 10.58% | 10.74% | 10.89% |
| **Income Statement:** | | | | | |
| Net Income ($000) | $ 124,414 | $ 139,341 | $ 156,129 | $ 175,044 | $ 196,380 |
| Cost Savings ($000) | (35,227) | (39,183) | (43,564) | (48,414) | (53,780) |
| Return on Average Assets (%) | 1.03% | 1.08% | 1.13% | 1.17% | 1.22% |
| Return on Average Equity (%) | 8.40% | 9.01% | 9.63% | 10.25% | 10.88% |
| Net Interest Margin (%) | 3.41% | 3.43% | 3.44% | 3.46% | 3.48% |
| Efficiency Ratio (%) | 63.7% | 62.5% | 61.3% | 60.1% | 58.9% |
| Burden Ratio (%) | 1.85% | 1.81% | 1.77% | 1.72% | 1.67% |

At first glance, the transactional IRR of 13.0% is below Bank Top's terminal ROE of 15.0% (see Exhibit F) and current existing internal rate of return of 14.1% (see Exhibit G). Regardless of the additional potential cost savings, the pro forma IRR of Bank Top still drops to 13.5% mostly attributable to the fact that Bank Top is giving up ownership to a much less profitable partner bank in Sample Buyer.

Bank Top's strong stand-alone profitability and growth hinders an average buyer's ability-to-pay a control premium for Bank Top. Although, Bank Top could drive significant EPS accretion to an average buyer, Bank Top will command premium pricing that an average buyer likely can't afford due to its own sub-optimal financial returns. More specifically, based on

Exhibit F, Bank Top achieves a 1.20% ROA in Year 5, while Sample Buyer is only earning an approximate 0.95% ROA. Sample Buyer's earnings drag to Bank Top is the core reason why Bank Top will command premium pricing but at a detriment to Sample Buyer's own financial returns. When incorporating the assumed 30% cost savings, Bank Top's adjusted ROA increases even more, which provides a larger pricing gap for Sample Buyer to cover. At the purchase price of $84.81 Sample Buyer gives up 45% ownership of the pro forma company to Bank Top shareholders.

The TBV earnback for Sample Buyer is 6.7 years but is immediately TBV accretive to Bank Top (signifying no TBV dilution at close). The transactional IRRs for both Sample Buyer and Bank Top are 17.8% and 13.0%, respectively. The EPS accretion for both Sample Buyer and Bank Top are approximately 15.0% and 35.0%, respectively. When dissecting Bank Top's divestiture to Sample Buyer, it becomes quickly apparent that there is a material bid-ask spread between what Sample Buyer can afford and what Bank Top deserves in the form of a control premium. For example, if Sample Buyer were to target a 5.0 year TBV earnback (as discussed in Morgan Stanley's report), the target pricing for Bank Top would need to be $75.00 or a 15% market premium. However, a 15% market premium falls far below the median for M&A transactions since 2013[2]. Much of the extended TBV earnback is due to Bank Top's premium P/TBV valuation currency of 2.33x versus Sample Buyer's P/TBV currency of 1.71x, which derives from the vast earnings power discrepancies when comparing Bank Top versus the Sample Buyer.

Below is the pro forma exchange-ratio adjusted discounted cash flow analysis for Bank Top with its divestiture to Sample Buyer. Bank Top's DCF Value per Share decreases by 2.8%

versus its stand-alone case. Such execution risk and lack of valuation upside will be discussed in "*Selling is Not Really Selling*".

Exhibit Z

| Top (Pro Forma Sell-Side): Assumptions | |
|---|---|
| Discount Rate (Expected Rate of Return) (%) | 12.0% |
| Terminal Multiple (Forward P/E) (x) | 10.1x |
| Exchange Ratio (x) | 0.827x |

| **Top (Pro Forma Sell-Side): Valuation Analysis** | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Financial Data** | **12/31/2018** | **12/31/2019** | **12/31/2020** | **12/31/2021** | **12/31/2022** | **12/31/2023** | **12/31/2024** |
| EPS ($) | $ 6.00 | $ 6.81 | $ 7.63 | $ 8.55 | $ 9.58 | $ 10.75 | $ 12.07 |
| TBV per Share ($) | 47.58 | 51.29 | 55.45 | 60.12 | 65.40 | 71.39 | 78.21 |
| Dividends per Share (8% TCE) ($) | - | 3.38 | 3.76 | 4.15 | 4.59 | 5.04 | 5.53 |
| | | | | | | | |
| **Terminal Value** | | | | | | | |
| EPS ($) | $ 6.00 | $ 6.81 | $ 7.63 | $ 8.55 | $ 9.58 | $ 10.75 | $ 12.07 |
| Terminal Multiple (x) | 10.1x | 10.1x | 10.1x | 10.1x | 10.1x | 10.1x | 10.1x |
| Terminal Value on EPS ($) | $ 60.68 | $ 68.89 | $ 77.15 | $ 86.45 | $ 96.92 | $ 108.74 | $ 122.08 |
| | | | | | | | |
| **Pro Forma Cash Flows per Share (Exchange Ratio-Adjusted)** | | | | | | | |
| Investment (Current Stock Price) ($) | $ (65.24) | $ - | $ - | $ - | $ - | $ - | $ - |
| Dividends per Share (8% TCE) ($) | - | 2.80 | 3.11 | 3.43 | 3.79 | 4.17 | - |
| Terminal Value per Share ($) | - | - | - | - | - | 100.91 | - |
| **Cash Flows per Share ($)** | **(65.24)** | **2.80** | **3.11** | **3.43** | **3.79** | **105.08** | **-** |
| | | | | | | | |
| **Discounted Cash Flows** | | | | | | | |
| Timing of Cash Flows | - | 1.00 | 2.00 | 3.00 | 4.00 | 5.00 | 6.00 |
| Discounted Cash Flows | $ (65.24) | $ 2.50 | $ 2.48 | $ 2.44 | $ 2.41 | $ 59.63 | $ - |

| Top (Pro Forma Sell-Side): Investment Returns (5-Year Horizon) | |
|---|---|
| **Terminal Year** | **12/31/2023** |
| **Internal Rate of Return (%)** | **13.5%** |
| DCF Value per Share ($) | $ 69.46 |
| *Implied Upside to Stand Alone DCF (%)* | *(2.8%)* |
| Terminal Value / Forward EPS (x) | 10.1x |
| Terminal Value / TBV (x) | 1.71x |

| **Top: IRR Sensitivity Analysis (Based on Varying Terminal Multiples)** | | | | |
|---|---|---|---|---|
| **Terminal Value / TBV (x)** | | | | |
| 1.52x | 1.69x | 1.71x | 1.86x | 2.03x |
| **Terminal Value / LTM EPS (x)** | | | | |
| 9.0x | 10.0x | 10.1x | 11.0x | 12.0x |
| 11.2% | 13.3% | **13.5%** | 15.2% | 17.0% |

## Bank Median's Divestiture to the Sample Bank M&A Buyer

Bank Median is selling to Sample Buyer for $20.80 per share, which equates to a Purchase Price / TBV of 2.60x and a 30% market premium to Bank Median's current stock price of $16.00. Similar to Bank Top's divestiture to Sample Buyer, the funding for this transaction is 100% stock and assumes Sample Buyer is issuing shares at a stock price of $102.60 with a Price / TBV multiple of 1.71x. At a $20.80 purchase price, the exchange-ratio adjusted Transactional IRR is 19.1%, exchange-ratio adjusted TBV earnback is immediately accretive (signifying no TBV dilution at close), and the exchange-ratio adjusted EPS accretion ranges from approximately 30.0% - 50.0%.

Below is a pro forma B/S illustrating Bank Median's divestiture to Sample Buyer.

Exhibit AA

| Assets | Buyer 12/31/2018 | + | Median 12/31/2018 | + | Source of Funding | + | Purchase Accounting | = | Median Post FMV | = | Buyer Pro Forma 12/31/2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash and Equivalents | $ 112,500 | | $ 15,000 | | $ - | | $ - | | $ 15,000 | | $ 127,500 |
| Investment Securities | 1,270,650 | | 169,420 | | - | | - | | 169,420 | | 1,440,070 |
| Total Loans | 6,210,000 | | 828,000 | | - | | (12,420) | | 815,580 | | 7,025,580 |
| Loan Loss Reserves | 93,150 | | 12,420 | | - | | (12,420) | | - | | 93,150 |
| Net Loans | 6,116,850 | | 815,580 | | - | | - | | 815,580 | | 6,932,430 |
| Goodwill | - | | - | | - | | 116,372 | | 116,372 | | 116,372 |
| Other Intangibles | - | | - | | - | | 14,720 | | 14,720 | | 14,720 |
| Deferred Tax Asset | - | | - | | - | | (3,091) | | (3,091) | | (3,091) |
| Other Assets | - | | - | | - | | - | | - | | - |
| **Total Assets** | 7,500,000 | | 1,000,000 | | - | | 128,001 | | 1,128,001 | | 8,628,001 |
| **Liabilities** | | | | | | | | | | | |
| Non-Time Deposits | 5,520,000 | | 736,000 | | - | | - | | 736,000 | | 6,256,000 |
| Time Deposits | 1,380,000 | | 184,000 | | - | | - | | 184,000 | | 1,564,000 |
| Total Deposits | 6,900,000 | | 920,000 | | - | | - | | 920,000 | | 7,820,000 |
| Borrowings | - | | - | | - | | - | | - | | - |
| Other Liabilities | - | | - | | - | | - | | - | | - |
| **Total Liabilities** | 6,900,000 | | 920,000 | | - | | - | | 920,000 | | 7,820,000 |
| **Equity** | | | | | | | | | | | |
| Common Stock | 75,000 | | 10,000 | | - | | (10,000) | | - | | 75,000 |
| Common Stock Surplus | 375,000 | | 50,000 | | 208,001 | | (50,000) | | 208,001 | | 583,001 |
| Retained Earnings | 150,000 | | 20,000 | | - | | (20,000) | | - | | 150,000 |
| **Total Equity** | 600,000 | | 80,000 | | 208,001 | | (80,000) | | 208,001 | | 808,001 |
| **Total Liabilities and Equity** | 7,500,000 | | 1,000,000 | | 208,001 | | (80,000) | | 1,128,001 | | 8,628,001 |
| **Book Value per Share** | | | | | | | | | | | |
| **TBV per Share ($)** | **60.00** | | **8.00** | | | | | | **37.94** | | **56.28** |
| ***Accretion / (Dilution) ($)*** | | | | | | | | | | | ***$ (3.72)*** |
| ***Accretion / (Dilution) (%)*** | | | | | | | | | | | ***(6.20%)*** |
| | | | | | | | TBV Earnback - Crossover (Years) | | | | > 8.0 yrs |
| **Balance Sheet Composition** | | | | | | | | | | | |
| **Loans / Deposits (%)** | **90.0** | | **90.0** | | | | | | **88.7** | | **89.8** |
| **Core Deposits / Deposits (%)** | **80.0** | | **80.0** | | | | | | **80.0** | | **80.0** |
| **Capital Adequacy** | | | | | | | | | | | |
| **TCE / TA (%)** | **8.00** | | **8.00** | | | | | | **7.71** | | **7.97** |
| **Tier 1 Leverage Ratio (%)** | **8.00** | | **8.00** | | | | | | **7.71** | | **7.97** |
| **Tier 1 Common Ratio (%)** | **9.25** | | **9.25** | | | | | | **9.02** | | **9.22** |
| **Tier 1 Capital Ratio (%)** | **9.25** | | **9.25** | | | | | | **9.02** | | **9.22** |
| **Total Capital Ratio (%)** | **10.50** | | **10.50** | | | | | | **9.02** | | **10.47** |

Below is a financial overview of Bank Median's divestiture to Sample Buyer.

Exhibit AB

| Transaction Summary | | |
|---|---|---|
| Total Deal Value ($000) | $ | 208,001 |
| Purchase Price per Share ($) | $ | 20.80 |
| Exchange Ratio (Current Cons. Mix) (x) | | 0.203x |
| Exchange Ratio (As if 100% Stock) (x) | | 0.203x |
| Stock / Cash Consideration (%) | | 100.0% / 0.0% |

| Pricing Multiples | |
|---|---|
| **Pricing Metrics** | **At Close** |
| Market Premium (%) | 30.0% |
| Core Deposit Premium (%) | 17.4% |
| Purchase Price / TBV (x) | 2.60x |
| Purchase Price / Adj. TBV (x) | 2.27x |
| Purchase Price / TBV (8% TCE) (x) | 2.60x |
| Purchase Price / 2018 EPS (x) | 26.0x |
| Purchase Price / 2019 EPS (x) | 23.7x |
| Purchase Price / 2019 EPS (Deal Adj.) (x) | 14.0x |

| Pro Forma Ownership (Common Shares) | | |
|---|---|---|
| **Ownership** | **Shares (000)** | **Ownership (%)** |
| Buyer | 10,000 | 83.1% |
| Median | 2,027 | 16.9% |
| New Investor | - | 0.0% |
| **Total Ownership** | **12,027** | **100.0%** |

| Investment Returns (Assumes No TBV Multiple Expansion) | | |
|---|---|---|
| **Returns** | **Merger** | **Buy at Close** |
| IRR (%) | **13.2%** | 8.1% |
| MOIC (x) | **1.78x** | 1.44x |

| Stand Alone Trading Multiples | | |
|---|---|---|
| **Multiples** | **Buyer** | **Median** |
| Price / TBV (x) | 1.71x | 2.00x |
| Price / 2018 EPS (x) | 17.1x | 20.0x |
| Price / 2019 EPS (x) | 16.1x | 18.2x |
| Core Deposit Premium (%) | 7.7% | 10.9% |

| PF Valuation at Close (Static Buyer Stock Price) | | |
|---|---|---|
| **Valuation** | **Buyer** | **Pro Forma** |
| Market Cap ($M) | $ 1,026.0 | $ 1,234.0 |
| Price / TBV (x) | 1.71x | 1.82x |
| Price / 2019 EPS (x) | 16.1x | 15.7x |
| Core Deposit Premium (%) | 7.7% | 8.9% |

| Earnings Impact | | | | | |
|---|---|---|---|---|---|
| **Buyer EPS Impact** | **2019E** | **2020E** | **2021E** | **2022E** | **2023E** |
| Pro Forma EPS ($) | $ 6.55 | $ 7.09 | $ 7.68 | $ 8.31 | $ 8.98 |
| Buyer Stand Alone EPS ($) | 6.38 | 6.91 | 7.46 | 8.06 | 8.69 |
| ***Accretion / (Dilution) ($)*** | ***$ 0.16*** | ***$ 0.19*** | ***$ 0.22*** | ***$ 0.25*** | ***$ 0.30*** |
| ***Accretion / (Dilution) (%)*** | ***2.53%*** | ***2.72%*** | ***2.91%*** | ***3.15%*** | ***3.41%*** |
| **Median EPS Impact (X-Ratio Adjusted)** | **2019E** | **2020E** | **2021E** | **2022E** | **2023E** |
| Pro Forma EPS (As if 100% Stock) ($) | $ 1.33 | $ 1.44 | $ 1.56 | $ 1.68 | $ 1.82 |
| Median Stand Alone EPS ($) | 0.88 | 0.99 | 1.12 | 1.27 | 1.43 |
| ***Accretion / (Dilution) ($)*** | ***$ 0.45*** | ***$ 0.44*** | ***$ 0.44*** | ***$ 0.42*** | ***$ 0.39*** |
| ***Accretion / (Dilution) (%)*** | ***51.23%*** | ***44.56%*** | ***38.77%*** | ***32.78%*** | ***27.44%*** |

| Tangible Book Value Impact | | | | | |
|---|---|---|---|---|---|
| **Buyer TBV Impact** | **2019E** | **2020E** | **2021E** | **2022E** | **2023E** |
| Pro Forma TBV per Share ($) | $ 59.56 | $ 63.03 | $ 66.67 | $ 70.52 | $ 74.59 |
| Buyer Stand Alone TBV per Share ($) | 63.00 | 66.15 | 69.46 | 72.93 | 76.58 |
| ***Accretion / (Dilution) ($)*** | ***$ (3.43)*** | ***$ (3.12)*** | ***$ (2.79)*** | ***$ (2.41)*** | ***$ (1.99)*** |
| ***Accretion / (Dilution) (%)*** | ***(5.45%)*** | ***(4.72%)*** | ***(4.01%)*** | ***(3.30%)*** | ***(2.60%)*** |

| | | | |
|---|---|---|---|
| TBV Earnback - Crossover (Years) | > 8.0 yrs | TBV Earnback - Static (Years) | 1.2 yrs |

| Pro Forma Financial Highlights | | | | | |
|---|---|---|---|---|---|
| **Balance Sheet:** | **2019E** | **2020E** | **2021E** | **2022E** | **2023E** |
| Total Assets ($000) | $ 9,075,425 | $ 9,546,731 | $ 10,043,229 | $ 10,566,312 | $ 11,117,496 |
| Total Loans ($000) | 7,393,171 | 7,780,283 | 8,187,972 | 8,617,353 | 9,069,602 |
| Total Deposits ($000) | 8,229,400 | 8,660,558 | 9,114,652 | 9,592,925 | 10,096,690 |
| Total Equity ($000) | 846,025 | 886,173 | 928,577 | 973,386 | 1,020,806 |
| **Balance Sheet Ratios:** | | | | | |
| TCE / TA (%) | 8.01% | 8.05% | 8.09% | 8.12% | 8.16% |
| Tier 1 Leverage Ratio (%) | 8.02% | 8.07% | 8.11% | 8.16% | 8.20% |
| Tier 1 Capital Ratio (%) | 9.28% | 9.34% | 9.39% | 9.44% | 9.50% |
| Total Capital Ratio (%) | 10.53% | 10.59% | 10.64% | 10.69% | 10.75% |
| **Income Statement:** | | | | | |
| Net Income ($000) | $ 78,723 | $ 85,329 | $ 92,378 | $ 99,962 | $ 108,061 |
| Cost Savings ($000) | (9,379) | (9,825) | (10,296) | (10,760) | (11,244) |
| Return on Average Assets (%) | 0.90% | 0.92% | 0.94% | 0.97% | 1.00% |
| Return on Average Equity (%) | 9.65% | 9.85% | 10.18% | 10.51% | 10.84% |
| Net Interest Margin (%) | 3.34% | 3.34% | 3.34% | 3.34% | 3.34% |
| Efficiency Ratio (%) | 69.6% | 68.8% | 68.0% | 67.2% | 66.4% |
| Burden Ratio (%) | 2.13% | 2.06% | 2.02% | 1.99% | 1.95% |

At first glance, the transactional IRR is above Bank Median's terminal ROE of 13.2% (see Exhibit H) and current existing internal rate of return of 9.6% (see Exhibit I). When combining Bank Median's and Sample Buyer's earnings with added cost savings, the pro forma IRR of Bank Median increases to 14.4%.

Although Bank Median has a stronger ROA and growth trend than Sample Buyer, the cost savings makes up for the delta and is the driving force to the strong returns experienced by Bank Median shareholders. However, due to Bank Median's weaker earnings versus Bank Top, Sample Buyer suffers material dilution to many of the accretive metrics experienced with Bank Top. At the purchase price of $20.80 Sample Buyer gives up 17% ownership of the pro forma company to Bank Median shareholders. Although, less ownership is transferred to Bank Median versus Bank Top, Sample Buyer is acquiring a weaker earnings stream thus hurting its overall pro forma returns.

The TBV earnback for Sample Buyer is permanently dilutive (approximately 9.3 years) but is immediately TBV accretive to Bank Median. The transactional IRRs for both Sample Buyer and Bank Median are 13.2% and 19.1%, respectively. The EPS accretion for both Sample Buyer and Bank Median are approximately 3.0% and 40.0%, respectively. Similar to Bank Top, it is evident that there is a material bid-ask spread between what Sample Buyer can afford and what Bank Median deserves in the form of a control premium. For example, if Sample Buyer were to target a 5.0 year TBV earnback, the target pricing for Bank Median would need to be 15% lower and therefore fall far below the median for M&A transactions since 2013[2]. Much of the TBV earnback is due to Bank Median's premium P/TBV valuation currency of 2.00x versus Sample Buyer's P/TBV currency of 1.71x which derives from the earnings power discrepancies when comparing Bank Median versus the Sample Buyer. Although, this transaction is accretive to Bank Median on all financial metrics, it is at a price that Sample Buyer can't afford without justifying other intangible franchise accretive aspects of this transaction as discussed earlier in this paper.

Below is the pro forma exchange-ratio adjusted discounted cash flow analysis for Bank Median with the divestiture to Sample Buyer. Bank Median's DCF Value per Share increases by 22.1% versus its stand-alone case and thus provides substantial downside protection to any fallout from a failed merger execution. The only true overall risk for a merger with Bank

Median and Sample Buyer is Sample Buyer's ability to afford paying $20.80 per share for Bank Median.

Exhibit AC

| Median (Pro Forma Sell-Side): Assumptions | |
|---|---|
| Discount Rate (Expected Rate of Return) (%) | 12.0% |
| Terminal Multiple (Forward P/E) (x) | 13.1x |
| Exchange Ratio (x) | 0.203x |

| Median (Pro Forma Sell-Side): Valuation Analysis | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Financial Data** | **12/31/2018** | **12/31/2019** | **12/31/2020** | **12/31/2021** | **12/31/2022** | **12/31/2023** | **12/31/2024** |
| EPS ($) | $ 6.00 | $ 6.55 | $ 7.09 | $ 7.68 | $ 8.31 | $ 8.98 | $ 9.70 |
| TBV per Share ($) | 56.28 | 59.56 | 63.03 | 66.67 | 70.52 | 74.59 | 78.88 |
| Dividends per Share (8% TCE) ($) | - | 3.38 | 3.76 | 4.15 | 4.59 | 5.04 | 5.53 |
| | | | | | | | |
| **Terminal Value** | | | | | | | |
| EPS ($) | $ 6.00 | $ 6.55 | $ 7.09 | $ 7.68 | $ 8.31 | $ 8.98 | $ 9.70 |
| Terminal Multiple (x) | 13.1x | 13.1x | 13.1x | 13.1x | 13.1x | 13.1x | 13.1x |
| Terminal Value on EPS ($) | $ 78.72 | $ 85.88 | $ 93.09 | $ 100.78 | $ 109.05 | $ 117.89 | $ 127.32 |
| | | | | | | | |
| **Pro Forma Cash Flows per Share (Exchange Ratio-Adjusted)** | | | | | | | |
| Investment (Current Stock Price) ($) | $ (16.00) | $ - | $ - | $ - | $ - | $ - | $ - |
| Dividends per Share (8% TCE) ($) | - | 0.69 | 0.76 | 0.84 | 0.93 | 1.02 | - |
| Terminal Value per Share ($) | - | - | - | - | - | 25.81 | - |
| **Cash Flows per Share ($)** | **(16.00)** | **0.69** | **0.76** | **0.84** | **0.93** | **26.83** | **-** |
| | | | | | | | |
| **Discounted Cash Flows** | | | | | | | |
| Timing of Cash Flows | - | 1.00 | 2.00 | 3.00 | 4.00 | 5.00 | 6.00 |
| Discounted Cash Flows | $ (16.00) | $ 0.61 | $ 0.61 | $ 0.60 | $ 0.59 | $ 15.23 | $ - |

| Median (Pro Forma Sell-Side): Investment Returns (5-Year Horizon) | |
|---|---|
| **Terminal Year** | **12/31/2023** |
| **Internal Rate of Return (%)** | **14.4%** |
| DCF Value per Share ($) | $ 17.64 |
| *Implied Upside to Stand Alone DCF (%)* | *+22.1%* |
| Terminal Value / Forward EPS (x) | 13.1x |
| Terminal Value / TBV (x) | 1.71x |

| Median: IRR Sensitivity Analysis (Based on Varying Terminal Multiples) | | | | |
|---|---|---|---|---|
| **Terminal Value / TBV (x)** | | | | |
| 1.43x | 1.56x | 1.71x | 1.82x | 1.95x |
| **Terminal Value / LTM EPS (x)** | | | | |
| 11.0x | 12.0x | 13.1x | 14.0x | 15.0x |
| 10.9% | 12.6% | **14.4%** | 15.7% | 17.1% |

# Bank Bottom's Divestiture to the Sample Bank M&A Buyer

Bank Bottom is selling to Sample Buyer for $6.32 per share, which equates to a Purchase Price / TBV of 1.98x and a 30% market premium to Bank Bottom's current stock price of $4.86. Similar to the previous two sell-side Focus Bank divestitures to Sample Buyer, the funding for this transaction is 100% stock and assumes Sample Buyer is issuing shares at a stock price of $102.60 with a Price / TBV multiple of 1.71x. At a $6.32 purchase price, the exchange-ratio adjusted Transactional IRR is 23.1%, exchange-ratio adjusted TBV earnback is immediately accretive (signifying no TBV dilution at close), and the exchange-ratio adjusted EPS accretion ranges from approximately 50.0% - 65.0%.

Below is a pro forma B/S illustrating Bank Median's divestiture to Sample Buyer.

Exhibit AD

| Assets | Buyer 12/31/2018 | + | Bottom 12/31/2018 | + | Source of Funding | + | Purchase Accounting | = | Bottom Post FMV | = | Buyer Pro Forma 12/31/2018 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Cash and Equivalents | $ 112,500 | | $ 7,000 | | $ - | | $ - | | $ 7,000 | | $ 119,500 |
| Investment Securities | 1,270,650 | | 66,768 | | - | | - | | 66,768 | | 1,337,418 |
| Total Loans | 6,210,000 | | 331,200 | | - | | (4,968) | | 326,232 | | 6,536,232 |
| Loan Loss Reserves | 93,150 | | 4,968 | | - | | (4,968) | | - | | 93,150 |
| Net Loans | 6,116,850 | | 326,232 | | - | | - | | 326,232 | | 6,443,082 |
| Goodwill | - | | - | | - | | 26,581 | | 26,581 | | 26,581 |
| Other Intangibles | - | | - | | - | | 5,888 | | 5,888 | | 5,888 |
| Deferred Tax Asset | - | | - | | - | | (1,236) | | (1,236) | | (1,236) |
| Other Assets | - | | - | | - | | - | | - | | - |
| **Total Assets** | 7,500,000 | | 400,000 | | - | | 31,232 | | 431,232 | | 7,931,232 |
| **Liabilities** | | | | | | | | | | | |
| Non-Time Deposits | 5,520,000 | | 294,400 | | - | | - | | 294,400 | | 5,814,400 |
| Time Deposits | 1,380,000 | | 73,600 | | - | | - | | 73,600 | | 1,453,600 |
| Total Deposits | 6,900,000 | | 368,000 | | - | | - | | 368,000 | | 7,268,000 |
| Borrowings | - | | - | | - | | - | | - | | - |
| Other Liabilities | - | | - | | - | | - | | - | | - |
| **Total Liabilities** | 6,900,000 | | 368,000 | | - | | - | | 368,000 | | 7,268,000 |
| **Equity** | | | | | | | | | | | |
| Common Stock | 75,000 | | 4,000 | | - | | (4,000) | | - | | 75,000 |
| Common Stock Surplus | 375,000 | | 15,000 | | 63,232 | | (15,000) | | 63,232 | | 438,232 |
| Retained Earnings | 150,000 | | 13,000 | | - | | (13,000) | | - | | 150,000 |
| **Total Equity** | 600,000 | | 32,000 | | 63,232 | | (32,000) | | 63,232 | | 663,232 |
| **Total Liabilities and Equity** | 7,500,000 | | 400,000 | | 63,232 | | (32,000) | | 431,232 | | 7,931,232 |

| **Book Value per Share** | | | | |
|---|---|---|---|---|
| **TBV per Share ($)** | **60.00** | **3.20** | **49.92** | **59.41** |
| ***Accretion / (Dilution) ($)*** | | | | ***$ (0.59)*** |
| ***Accretion / (Dilution) (%)*** | | | | ***(0.98%)*** |
| | | | TBV Earnback - Crossover (Years) | 4.0 yrs |
| **Balance Sheet Composition** | | | | |
| **Loans / Deposits (%)** | **90.0** | **90.0** | **88.7** | **89.9** |
| **Core Deposits / Deposits (%)** | **80.0** | **80.0** | **80.0** | **80.0** |
| **Capital Adequacy** | | | | |
| **TCE / TA (%)** | **8.00** | **8.00** | **7.71** | **7.99** |
| **Tier 1 Leverage Ratio (%)** | **8.00** | **8.00** | **7.71** | **7.99** |
| **Tier 1 Common Ratio (%)** | **9.25** | **9.25** | **9.02** | **9.24** |
| **Tier 1 Capital Ratio (%)** | **9.25** | **9.25** | **9.02** | **9.24** |
| **Total Capital Ratio (%)** | **10.50** | **10.50** | **9.02** | **10.49** |

Below is a financial overview of Bank Bottom’s divestiture to Sample Buyer.

Exhibit AE

| **Transaction Summary** | | |
|---|---|---|
| Total Deal Value ($000) | $ | 63,232 |
| Purchase Price per Share ($) | $ | 6.32 |
| Exchange Ratio (Current Cons. Mix) (x) | | 0.062x |
| Exchange Ratio (As if 100% Stock) (x) | | 0.062x |
| Stock / Cash Consideration (%) | | 100.0% / 0.0% |

| **Pricing Multiples** | |
|---|---|
| **Pricing Metrics** | **At Close** |
| Market Premium (%) | 30.0% |
| Core Deposit Premium (%) | 10.6% |
| Purchase Price / TBV (x) | 1.98x |
| Purchase Price / Adj. TBV (x) | 1.73x |
| Purchase Price / TBV (8% TCE) (x) | 1.98x |
| Purchase Price / 2018 EPS (x) | 28.2x |
| Purchase Price / 2019 EPS (x) | 26.0x |
| Purchase Price / 2019 EPS (Deal Adj.) (x) | 12.7x |

| **Pro Forma Ownership (Common Shares)** | | |
|---|---|---|
| **Ownership** | **Shares (000)** | **Ownership (%)** |
| Buyer | 10,000 | 94.2% |
| Bottom | 616 | 5.8% |
| New Investor | - | 0.0% |
| **Total Ownership** | **10,616** | **100.0%** |

| **Investment Returns (Assumes No TBV Multiple Expansion)** | | |
|---|---|---|
| **Returns** | **Merger** | **Buy at Close** |
| IRR (%) | **11.6%** | 7.4% |
| MOIC (x) | **1.64x** | 1.40x |

| **Stand Alone Trading Multiples** | | |
|---|---|---|
| **Multiples** | **Buyer** | **Bottom** |
| Price / TBV (x) | 1.71x | 1.52x |
| Price / 2018 EPS (x) | 17.1x | 21.7x |
| Price / 2019 EPS (x) | 16.1x | 20.0x |
| Core Deposit Premium (%) | 7.7% | 5.7% |

| **PF Valuation at Close (Static Buyer Stock Price)** | | |
|---|---|---|
| **Valuation** | **Buyer** | **Pro Forma** |
| Market Cap ($M) | $ 1,026.0 | $ 1,089.2 |
| Price / TBV (x) | 1.71x | 1.73x |
| Price / 2019 EPS (x) | 16.1x | 15.8x |
| Core Deposit Premium (%) | 7.7% | 7.9% |

| **Earnings Impact** | | | | | |
|---|---|---|---|---|---|
| **Buyer EPS Impact** | **2019E** | **2020E** | **2021E** | **2022E** | **2023E** |
| Pro Forma EPS ($) | $ 6.48 | $ 7.00 | $ 7.55 | $ 8.14 | $ 8.76 |
| Buyer Stand Alone EPS ($) | 6.38 | 6.91 | 7.46 | 8.06 | 8.69 |
| ***Accretion / (Dilution) ($)*** | ***$ 0.10*** | ***$ 0.09*** | ***$ 0.09*** | ***$ 0.08*** | ***$ 0.07*** |
| ***Accretion / (Dilution) (%)*** | ***1.54%*** | ***1.36%*** | ***1.17%*** | ***0.98%*** | ***0.82%*** |
| **Bottom EPS Impact (X-Ratio Adjusted)** | **2019E** | **2020E** | **2021E** | **2022E** | **2023E** |
| Pro Forma EPS (As if 100% Stock) ($) | $ 0.40 | $ 0.43 | $ 0.47 | $ 0.50 | $ 0.54 |
| Bottom Stand Alone EPS ($) | 0.24 | 0.27 | 0.30 | 0.33 | 0.37 |
| ***Accretion / (Dilution) ($)*** | ***$ 0.16*** | ***$ 0.16*** | ***$ 0.16*** | ***$ 0.17*** | ***$ 0.17*** |
| ***Accretion / (Dilution) (%)*** | ***64.47%*** | ***58.43%*** | ***53.92%*** | ***50.74%*** | ***47.03%*** |

| **Tangible Book Value Impact** | | | | | |
|---|---|---|---|---|---|
| **Buyer TBV Impact** | **2019E** | **2020E** | **2021E** | **2022E** | **2023E** |
| Pro Forma TBV per Share ($) | $ 62.57 | $ 65.87 | $ 69.32 | $ 72.93 | $ 76.70 |
| Buyer Stand Alone TBV per Share ($) | 63.00 | 66.15 | 69.46 | 72.93 | 76.58 |
| ***Accretion / (Dilution) ($)*** | ***$ (0.43)*** | ***$ (0.28)*** | ***$ (0.14)*** | ***$ (0.00)*** | ***$ 0.12*** |
| ***Accretion / (Dilution) (%)*** | ***(0.69%)*** | ***(0.43%)*** | ***(0.20%)*** | ***(0.01%)*** | ***0.16%*** |

| | |
|---|---|
| TBV Earnback - Crossover (Years) | 4.0 yrs |
| TBV Earnback - Static (Years) | 0.2 yrs |

| **Pro Forma Financial Highlights** | | | | | |
|---|---|---|---|---|---|
| **Balance Sheet:** | **2019E** | **2020E** | **2021E** | **2022E** | **2023E** |
| Total Assets ($000) | $ 8,320,162 | $ 8,728,221 | $ 9,156,353 | $ 9,605,493 | $ 10,076,739 |
| Total Loans ($000) | 6,856,519 | 7,192,625 | 7,545,334 | 7,915,471 | 8,303,901 |
| Total Deposits ($000) | 7,624,040 | 7,997,661 | 8,389,736 | 8,801,180 | 9,232,956 |
| Total Equity ($000) | 696,122 | 730,560 | 766,617 | 804,312 | 843,784 |
| **Balance Sheet Ratios:** | | | | | |
| TCE / TA (%) | 8.01% | 8.04% | 8.06% | 8.09% | 8.10% |
| Tier 1 Leverage Ratio (%) | 8.02% | 8.04% | 8.07% | 8.09% | 8.11% |
| Tier 1 Capital Ratio (%) | 9.27% | 9.31% | 9.33% | 9.36% | 9.38% |
| Total Capital Ratio (%) | 10.52% | 10.56% | 10.58% | 10.61% | 10.63% |
| **Income Statement:** | | | | | |
| Net Income ($000) | $ 68,814 | $ 74,319 | $ 80,167 | $ 86,378 | $ 92,999 |
| Cost Savings ($000) | (3,677) | (3,705) | (3,734) | (3,767) | (3,788) |
| Return on Average Assets (%) | 0.87% | 0.87% | 0.90% | 0.92% | 0.95% |
| Return on Average Equity (%) | 10.33% | 10.42% | 10.71% | 11.00% | 11.29% |
| Net Interest Margin (%) | 3.32% | 3.32% | 3.31% | 3.31% | 3.31% |
| Efficiency Ratio (%) | 71.4% | 70.6% | 69.9% | 69.2% | 68.5% |
| Burden Ratio (%) | 2.21% | 2.13% | 2.10% | 2.07% | 2.04% |

At first glance, the transactional IRR far exceeds Bank Bottom’s terminal ROE of 10.0% (see Exhibit J) and current existing internal rate of return of 6.8% (see Exhibit K). When combining Bank Bottom’s and Sample Buyer’s earnings with added cost savings, the pro forma IRR of Bank Bottom increases to 15.0%.

Bank Bottom has a weaker ROA and growth trend than Sample Buyer which further magnifies the accretion Bank Bottom will see in a transaction with Sample Buyer. However, similar to Sample Buyer’s lower EPS accretion from Bank Median versus Bank Top, Sample Buyer suffers far less EPS accretion with Bank Bottom, but actually experiences less TBV dilution as the overall purchase price paid relative to TBV is 24% lower than Bank Median’s. At the purchase price of $6.32 Sample Buyer gives up only 6% ownership of the pro forma company to Bank Bottom shareholders.

The TBV earnbacks for both Sample Buyer and Bank Bottom are the most equitable in this paper at 4.0 years for Sample Buyer and immediately TBV accretive for Bank Bottom. The transactional IRRs for both Sample Buyer and Bank Median are 11.6% and 23.1%, respectively. The EPS accretion for both Sample Buyer and Bank Median are approximately 1.5% and 55.0%, respectively. In contrast to the acquisitions of Bank Top and Bank Median, the financial returns for Sample Buyer's acquisition of Bank Bottom are far more equitable for both sides. More specifically, Sample Buyer's transaction IRR of 11.6% is 33% better than its stand-alone case, the overall transaction is accretive to EPS, and Sample Buyer only experiences a TBV earnback of 4.0 years.

Below is the pro forma exchange-ratio adjusted discounted cash flow analysis for Bank Bottom with the divestiture to Sample Buyer. Bank Bottom's DCF Value per Share increases by 41.0% versus its stand-alone case which far exceeds any risk associated with merger integration and any management control and governance give-up to Sample Buyer.

Exhibit AF

| Bottom (Pro Forma Sell-Side): Assumptions | |
|---|---|
| Discount Rate (Expected Rate of Return) (%) | 12.0% |
| Terminal Multiple (Forward P/E) (x) | 13.9x |
| Exchange Ratio (x) | 0.062x |

| Bottom (Pro Forma Sell-Side): Valuation Analysis | | | | | | | |
|---|---|---|---|---|---|---|---|
| **Financial Data** | **12/31/2018** | **12/31/2019** | **12/31/2020** | **12/31/2021** | **12/31/2022** | **12/31/2023** | **12/31/2024** |
| EPS ($) | $ 6.00 | $ 6.48 | $ 7.00 | $ 7.55 | $ 8.14 | $ 8.76 | $ 9.42 |
| TBV per Share ($) | 59.41 | 62.57 | 65.87 | 69.32 | 72.93 | 76.70 | 80.64 |
| Dividends per Share (8% TCE) ($) | - | 3.38 | 3.76 | 4.15 | 4.59 | 5.04 | 5.53 |
| **Terminal Value** | | | | | | | |
| EPS ($) | $ 6.00 | $ 6.48 | $ 7.00 | $ 7.55 | $ 8.14 | $ 8.76 | $ 9.42 |
| Terminal Multiple (x) | 13.9x | 13.9x | 13.9x | 13.9x | 13.9x | 13.9x | 13.9x |
| Terminal Value on EPS ($) | $ 83.52 | $ 90.23 | $ 97.45 | $ 105.12 | $ 113.26 | $ 121.94 | $ 131.16 |
| **Pro Forma Cash Flows per Share (Exchange Ratio-Adjusted)** | | | | | | | |
| Investment (Current Stock Price) ($) | $ (4.86) | $ - | $ - | $ - | $ - | $ - | $ - |
| Dividends per Share (8% TCE) ($) | - | 0.21 | 0.23 | 0.26 | 0.28 | 0.31 | - |
| Terminal Value per Share ($) | - | - | - | - | - | 8.08 | - |
| **Cash Flows per Share ($)** | **(4.86)** | **0.21** | **0.23** | **0.26** | **0.28** | **8.39** | **-** |
| **Discounted Cash Flows** | | | | | | | |
| Timing of Cash Flows | - | 1.00 | 2.00 | 3.00 | 4.00 | 5.00 | 6.00 |
| Discounted Cash Flows | $ (4.86) | $ 0.19 | $ 0.18 | $ 0.18 | $ 0.18 | $ 4.76 | $ - |

| Bottom (Pro Forma Sell-Side): Investment Returns (5-Year Horizon) | |
|---|---|
| **Terminal Year** | **12/31/2023** |
| **Internal Rate of Return (%)** | **15.0%** |
| DCF Value per Share ($) | $ 5.50 |
| *Implied Upside to Stand Alone DCF (%)* | *+41.0%* |
| Terminal Value / Forward EPS (x) | 13.9x |
| Terminal Value / TBV (x) | 1.71x |

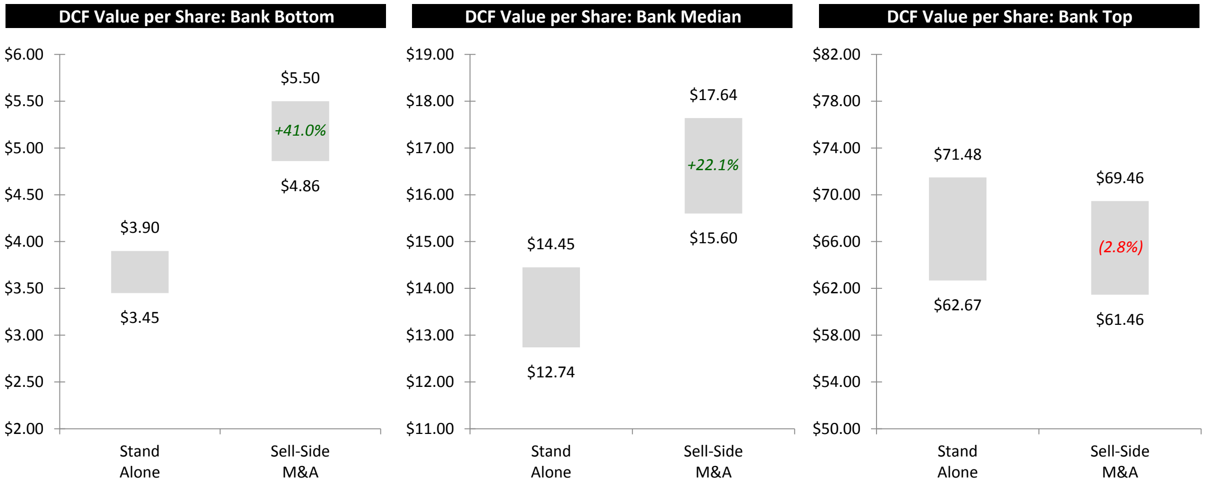
| Bottom: IRR Sensitivity Analysis (Based on Varying Terminal Multiples) | | | | |
|---|---|---|---|---|
| **Terminal Value / TBV (x)** | | | | |
| 1.47x | 1.60x | 1.71x | 1.84x | 1.97x |
| **Terminal Value / LTM EPS (x)** | | | | |
| 12.0x | 13.0x | 13.9x | 15.0x | 16.0x |
| 12.0% | 13.6% | **15.0%** | 16.5% | 17.9% |

# Selling is Not Really Selling

In an all-stock merger, the selling party traditionally is paid a control premium to hold stock in the pro forma enterprise. Generally, when there is a control premium paid, the investment going forward far exceeds that of the current seller's cost basis. For example, in an all-stock transaction, if a selling company has $10 in book value and is paid $13 to sell to a buyer, the selling company's theoretical investment in the pro forma company going forward is $13 (unless the stock proceeds are immediately liquidated for cash). Assuming that the selling institution decides to hold onto its stock, the selling institution is investing $13 in a company it had $10 in initial cost basis or book value. Ultimately, when companies sell for 100% stock consideration, the selling institution is not making a decision to sell, rather, it is making a decision to buy for potential future upside.

When pursuing a sell-side divestiture, the core financial and strategic principles are much the same as a buy-side acquisition as previously mentioned in "*Summary of Buy-Side Opportunity: Which Bank Should Proceed*". Buyers and sellers are able to use the same financial returns such as transactional IRR, EPS accretion, and TBV earnback to assess value with the difference being that sellers use the exchange ratio in order to account for the new shares received in the pro forma entity. The below summary table illustrates the impact to DCF valuations if Bank Top, Bank Median, and Bank Bottom were to sell to Sample Buyer for a 30% market premium to existing stock prices.

Exhibit AG




Note: Percentages illustrate delta from Stand Alone Valuation
Note: The top end of the range assumes a 12% discount rate. The bottom end of the valuation range assumes a 15% discount rate to account for execution risk

It is important to understand the execution risk of a sell-side merger. In most cases during an M&A transaction, the selling entity forgoes management positions for the ability to receive a control premium at close. The inability to control the day-to-day operations limits the selling institution's control over the future. This lack of control can be seen as a downside risk from the selling institution's perspective, but the downside risk can be often mitigated by the control premium received. A 30% market premium is used in this paper for all buy-side and sell-side transactions and is supported by the median market premium for M&A transactions since 2013[2]. For this paper, the 30% market premium is assumed to be the premium required for a selling institution to be willing to sell in order to account for all transaction risks including execution, integration, and any unforeseen third-party risk.

Selling to a stronger performing institution allows a weaker company to ride the pro forma currency to stronger overall returns. Although, a selling institution is likely giving up management rights, the seller is ideally receiving stronger returns as compensation for said lack of control. For example, let's say a theoretical buyer's ROE is 15% and a theoretical seller's

ROE is 10%. In this theoretical example, the seller would be selling for a premium, lose management control, but be able to hold onto the stock and earn a 15% rate of return into perpetuity. The moment the merger closes, the selling institution essentially becomes a brand-new investor at close. As a new investor, it will pay 50% better returns to pay the same price for cash flows yielding 15% versus 10%. This "new investor" concept is the underlying principle for understanding how "selling is not really selling". If a selling institution decides to hold onto the currency received in a merger transaction, the seller immediately becomes a shareholder in the pro forma enterprise. The only material difference between becoming a shareholder in the buyer versus remaining a shareholder in a stand-alone franchise is the lack of management control. However, as discussed prior, the lack of management control is often mitigated by the control premium received. Therefore, once the lack of management control and execution risk is offset by the control premium, it's up to management to determine which earnings stream is higher and should be invested in going forward.

The below merger proof diagram further illustrates management's decision-making process. The key drivers for the below formula assume that a company would only sell for a control premium price higher than its existing NPV and that the control premium received in a sell-side transaction mitigates the value for management control. Ultimately, the below formula distills down to the key question of: Which ROE stream is stronger; the buyer's or the seller's?

Exhibit AH

| Assumptions | |
|---|---|
| Seller ROE = 10% | Management Control = 30% |
| Buyer ROE = 15% | Control Premium = 30% |

| | Sell-Side Merger Proof | | |
|---|---|---|---|
| 1. | Management Control | = | Control Premium Paid |
| 2. | Seller ROE + Management Control | > | Buyer ROE |
| 3. | Seller ROE + Management Control | < | Buyer ROE + Control Premium Paid |
| 4. | Seller ROE + (Management Control - Control Premium Paid) | < | Buyer ROE |
| 5. | **Seller ROE** | **<** | **Buyer ROE** |

Note: Proof assumes that a bank would only sell if paid a control premium. As such, #2 above "Seller ROE + Management Control" is greater than the "Buyer ROE" scenario due to the lack of a control premium being paid to the Seller's stand-alone case (otherwise all banks need to sell to higher ROE-yielding banks regardless of whether a control premium is being paid or not).

As discussed earlier, a divestiture by Bank Top to Sample Buyer would result in detrimental returns to Bank Top resulting in a 2.8% decrease to Bank Top’s current net present value. Although, a transaction with Sample Buyer is immaterial to Bank Top’s overall valuation, Bank Top is hurting it’s own valuation by selling to Sample Buyer mostly due to Sample Buyer’s lower growth trends and profitability versus Bank Top’s strong positioning. Therefore, it is not worth the downside risk for Bank Top to sell to Sample Buyer.

Bank Median and Bank Bottom would experience an increase in DCF valuation of 22.1% and 41.0%, respectively. Bank Median and Bank Bottom are the only two banks that see valuation upside when partnering with Sample Buyer mostly attributable to weaker earnings streams when compared to Sample Buyer. Although, Bank Median’s 22.1% NPV upside is strong, this paper assumes that a 30% upside is needed to justify execution risk and a lack of management control. As such, it is crucial for Bank Median’s management team and Board of Directors to more thoroughly analyze the pros and cons of selling to determine if the 22.1% valuation upside is worth the risk of giving up control.

Bank Bottom's outsized returns of 41.0% is material enough to justify partnering with Sample Buyer. Sample Buyer provides enough earnings accretion to Bank Bottom where any give-up of control is mitigated by the premium price received. There likely isn't any new stand-alone strategic initiative Bank Bottom can pursue to bridge the 41.0% valuation gap enough to justify independence. Selling to Sample Buyer and buying into the future results in far better returns for both legacy and new investors.

Similar to the previously discussed buy-side scenarios, pursuing Sample Buyer by any of the Focus Banks would not be worth management's time unless the pros significantly outweigh the cons when determining if a divestiture makes strategic sense. More specifically, management teams must determine if the strategic upside and franchise accretion outweigh the negative financial returns and execution risks associated with Sample Buyer. This core principle of financial returns vs. strategic rationale is integral to a management's decision-making process and always must be taken seriously prior to selling to an M&A buyer.

# Conclusion

It's helpful to think of M&A as one of the ways that a company can execute its business plan and deliver higher value to its shareholders versus its own stand-alone model. Such value can be tangible as it relates to financial accretion or intangible as it relates to a better overall strategic brand. On the buy-side, management and Directors must carefully probe the financial underpinnings of proposed acquisitions, which may be premised on unrealistic assumptions about growth and cost savings. Buyers should be aware of the principal reasons why acquisitions do not achieve their anticipated results, which could range from overpaying for a target, cultural clashes, and integration failures. When weighing the pros and cons of pursuing a buy-side acquisition, it is important for a Buyer to understand and quantify the risk-adjusted financial returns versus a more plain-vanilla stand-alone strategy.

Although the sell-side is structurally different than the buy-side, a sale transaction can be the best opportunity for stockholders to achieve a control premium for their investment in the near term. If a sell-side transaction is composed of an all cash offer, then it is the fiduciary responsibility for the Directors to choose the highest cash offer to maximize stockholder value. However, if the purchase price is composed of all stock, as this paper examines, the selling institution must assess the value of the stock received by understanding both the tangible and intangible qualities of the buyer and the execution risks of holding the pro forma stock into perpetuity. When stock is used for M&A, the fundamentals of buying and selling merge together into one shared concept; to determine which strategy maximizes shareholder value.

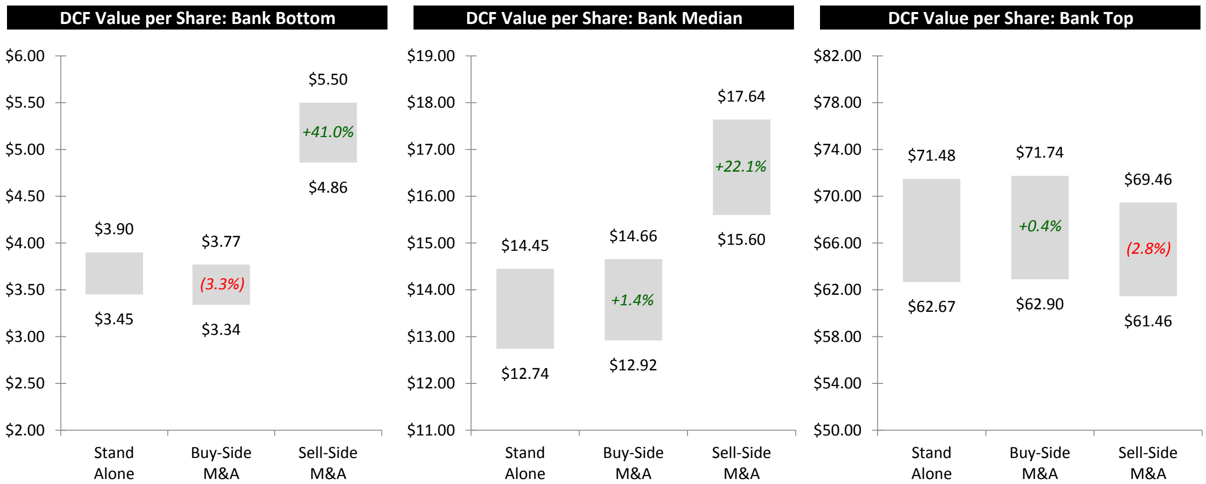
Maximizing shareholder value can take many different forms and is often a combination of both objective and subjective discussions. For this paper, value ascribed to franchise and brand is limited as it is difficult to measure the intangible reasons to pursue certain strategies. In contrast, measuring financial returns is far more objective as growth and earnings are the only variables needed to control for. In this paper, a combination of many financial returns are measured and balanced against each other to assess the viability of certain strategies. Such financial returns previously examined include; but are not limited to: (1) stand-alone growth and earnings (2) EPS accretion (3) TBV earnback and (4) transactional IRR. However, these financial returns can be summarized and further distilled down to two objectives to determine: (1) which scenario earns a higher risk-adjusted internal rate of return than the Focus Company's existing cost of capital and (2) which scenario increases the discounted cash flow valuation beyond the Focus Company's existing net present value

The above IRR and NPV objectives can be further summarized by the fundamental principle of whether a company is able to generate strong enough returns to outperform its cost of capital. The ability for a company to essentially earn its cost of capital provides justification to operate as a stand-alone entity. When a company falters and fails to generate strong enough returns, the possibility that alternative strategies could enhance stockholder value are materialized and must be therefore identified and assessed.

The below tables illustrate all three scenarios for Bank Top, Bank Median, and Bank Bottom as it relates to pursuing a stand-alone strategy, buy-side acquisition, or sell-side divestiture.

## Conclusion

Exhibit AI




Note: Percentages illustrate delta from Stand Alone Valuation

Note: The top end of the range assumes a 12% discount rate. The bottom end of the valuation range assumes a 15% discount rate to account for execution risk

Exhibit AJ

| Risk-Return Decision Matrix | Bank Bottom | | | Bank Median | | | Bank Top | | |
|---|---|---|---|---|---|---|---|---|---|
| | Remain Independent | Acquire Sample Target | Sell to Sample Buyer | Remain Independent | Acquire Sample Target | Sell to Sample Buyer | Remain Independent | Acquire Sample Target | Sell to Sample Buyer |
| **Focus Bank Decision:** | No | No | Yes | ??? | No | ??? | Yes | No | No |
| Asset Growth (%) | 3.0% | 3.8% | 4.9% | 7.0% | 6.6% | 5.2% | 13.5% | 13.1% | 7.9% |
| EPS Growth (%) | 10.2% | 13.9% | 19.2% | 12.0% | 13.1% | 17.9% | 17.4% | 17.1% | 21.5% |
| ROE (Terminal Year) (%) | 10.0% | 9.0% | 11.3% | 13.2% | 11.4% | 10.8% | 15.0% | 14.1% | 10.9% |
| Internal Rate of Return (%) | 6.8% | 6.0% | 15.0% | 9.6% | 10.0% | 14.4% | 14.1% | 14.1% | 13.5% |
| DCF Value per Share ($) | $3.90 | $3.77 | $5.50 | $14.45 | $14.66 | $17.64 | $71.48 | $71.74 | $69.46 |
| DCF Value Increase / (Decrease) (%) | --- | (3.3%) | +41.0% | --- | +1.4% | +22.1% | --- | +0.4% | (2.8%) |

It comes as no surprise that Bank Top's buy-side and sell-side transactions attribute no material improvement to it's existing DCF valuation. Because both the Sample Target and Sample Buyer both underperform relative to Bank Top in terms of growth and earnings, both transactions are not accretive to Bank Top's stand-alone scenario. For example, Bank Top's terminal year ROE is 15% and far outpaces that of the 12% ROE earned by both the buy-side

M&A target and sell-side M&A buyer. This ROE outperformance is the fundamental reason why Bank Top justifies its independence and should remain as a stand-alone entity by not pursuing Sample Target or Sample Buyer. The justification for remaining independent provides operational flexibility for Bank Top and allows the bank to be more selective in its decision-making process as it relates to either pursuing an organic growth or M&A strategy.

Bank Median's management and Directors have a much more difficult decision to make regarding remaining independent versus partnering with a strategic buyer. Sample Target's ROE aligns much closer with Bank Median as opposed to Bank Top. As such, an acquisition of Sample Target will be more accretive to Bank Median's valuation but not by a material amount as Sample Target's ROE and earnings fail to materially outperform Bank Median's. Unfortunately, a nominal 1.4% increase in Bank Median's valuation is not worth the execution and integration risk of acquiring Sample Target. However, the decision of Bank Median partnering with Sample Buyer contains much more uncertainty. At first glance, the new 14.4% internal rate of return far outpaces Bank Median's stand-alone of 9.6% by approximately 50%. When accounting for an investor's annual expected rate of return of 12%, the discounted valuation upside drops to 22%. Although, the 22% upside is materially better than Bank Median's current projections, it is important to note that Bank Median would be foregoing management control in the pro forma entity going forward. Bank Median must determine if the 22% financial upside is worth the loss of control and subsequent merger execution risk.

Quantifying execution risk is a difficult task but can be sensitized when analyzing discounted cash flows. As discussed earlier in this paper, the discount rate is the price charged by investors for bearing the risk that the company's future cash flows may differ from what is anticipated upon making the investment. As such, because a selling institution loses managerial control of the pro forma enterprise, it is reasonable to increase the discount rate to try to sensitize such an execution risk. However, quantifying how much risk to apply to projected cash flows is a difficult measure. According to the Joe Knight, author of the Harvard Business Review TOOLS: Return on Investment[13], "In many businesses, the cost of capital is lower than the discount rate or the required rate of return. For example, a company's cost of capital may be 10% but the finance department will pad that some and use 10.5% or 11% as the discount rate. "They're building in a cushion," says Knight, which is not a bad thing. And how much they pad it will depend on their appetite for risk. A risk-averse company might raise the discount rate even further, as high as 15-20%. But if the business is looking to stimulate investments, they might lower the rate, even if just for a period of time." Joe Knight explains the flexibility management teams and Directors have when it comes to ascribing value to execution risk. For more risky endeavors, it is logical for a management team to increase the discount rate, which forces the project to yield higher risk-adjusted returns to make the investment worthwhile. For simplicity purposes, let's say that because Bank Median is no longer in control of the day-to-day operations of the pro forma entity, Bank Median ascribes an increase risk factor of 25%. Therefore, the discount rate applied to future cash flows is no longer 12%, but instead 15%, which is consistent with Joe Knight's risk range above. If a 15% discount rate is applied to future pro forma cash flows then the new Bank Median DCF Value per Share is $15.60 instead of $17.64. As a result, the new updated Bank Median DCF value is now 8% higher than its stand-alone case. If the execution risk is perfectly captured in the

[13] Amy Gallo, "A Refresher on Cost of Capital," *Harvard Business Review,* https://hbr.org/2015/04/a-refresher-on-cost-of-capital. (Accessed December 21, 2018)

updated discount rate, then it appears selling to Sample Buyer provides excess risk-adjusted returns beyond Bank Median's current stand-alone case. Quantifying execution risk is more art than science, which is the primary reason why selling to Sample Buyer warrants further discussion. Although there is uncertainty related to Bank Median's decision process, Bank Bottom has much more clarity.

Bank Bottom's significant underperformance in growth and earnings forces Bank Bottom into very limited options. At a 7% stand-alone IRR, Bank Bottom is failing to earn an expected return by its investor base and forces Bank Bottom to seek other value enhancing alternatives. In order for Bank Bottom to bolster its shareholder returns, Bank Bottom must pursue other avenues such as buy-side acquisitions and sell-side divestitures. Unfortunately, the lack of Bank Bottom's earnings generates a weak valuation currency further limiting Bank Bottom's ability to afford to pay for acquisition targets. As a result, Bank Bottom's options are limited and selling to a more profitable and stronger growing franchise such as Sample Buyer is a logical decision. By selling to Sample Buyer, Bank Bottom increases its DCF valuation by over 40% which accounts for any lack of pro forma control and execution risk going forward. The 40% enhanced shareholder returns translate to a 15% pro forma IRR, which is in far excess of expected investor returns of 12%. As a result, selling to Sample Buyer allows Bank Bottom to generate strong enough shareholder returns and earn its cost of capital by partnering with a stronger bank. Although Bank Bottom is no longer an independent franchise, Bank Bottom is able to attach itself onto a better performing company and reap the better financial returns accordingly. Partnering with Sample Buyer provides Bank Bottom the opportunity to generate better returns than its stand-alone case further illustrating the ability to earn its cost of capital via M&A.

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# Appendix (Sample Target: *Stand Alone*)

Exhibit AK

| Assets | Transaction Close 12/31/2018 | For the year ended, 12/31/2019 | 12/31/2020 | 12/31/2021 | 12/31/2022 | 12/31/2023 | 12/31/2024 |
|---|---|---|---|---|---|---|---|
| Cash and Equivalents | $ 4,000 | $ 4,199 | $ 4,406 | $ 4,632 | $ 4,868 | $ 5,118 | $ 5,376 |
| Investment Securities | 42,160 | 44,268 | 46,482 | 48,806 | 51,246 | 53,809 | 56,499 |
| Total Loans | 206,944 | 217,291 | 228,155 | 239,563 | 251,541 | 264,118 | 277,324 |
| Loan Loss Reserves | 3,104 | 3,259 | 3,422 | 3,593 | 3,773 | 3,962 | 4,160 |
| Net Loans | 203,840 | 214,032 | 224,733 | 235,970 | 247,768 | 260,157 | 273,165 |
| Goodwill | - | - | - | - | - | - | - |
| Other Intangibles | - | - | - | - | - | - | - |
| Deferred Tax Asset | - | - | - | - | - | - | - |
| Other Real Estate Owned | - | - | - | - | - | - | - |
| Other Assets | - | - | - | - | - | - | - |
| **Total Assets** | 250,000 | 262,499 | 275,621 | 289,408 | 303,882 | 319,083 | 335,040 |
| **Liabilities** | | | | | | | |
| Non-Time Deposits | 184,000 | 193,200 | 202,860 | 213,003 | 223,653 | 234,836 | 246,578 |
| Time Deposits | 46,000 | 48,300 | 50,715 | 53,251 | 55,913 | 58,709 | 61,644 |
| Total Deposits | 230,000 | 241,500 | 253,575 | 266,254 | 279,566 | 293,545 | 308,222 |
| Borrowings | - | - | - | - | - | - | - |
| Trust Preferred | - | - | - | - | - | - | - |
| Other Sub Debt | - | - | - | - | - | - | - |
| Other Liabilities | - | - | - | - | - | - | - |
| **Total Liabilities** | 230,000 | 241,500 | 253,575 | 266,254 | 279,566 | 293,545 | 308,222 |
| **Equity** | | | | | | | |
| Preferred Stock | - | - | - | - | - | - | - |
| Common Stock | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 | 3,000 |
| Common Stock Surplus | 12,500 | 12,500 | 12,500 | 12,500 | 12,500 | 12,500 | 12,500 |
| Retained Earnings | 4,500 | 5,499 | 6,546 | 7,654 | 8,816 | 10,038 | 11,318 |
| Accumulated Other Comp. Income | - | - | - | - | - | - | - |
| Noncontrolling Interests | - | - | - | - | - | - | - |
| **Total Equity** | 20,000 | 20,999 | 22,046 | 23,154 | 24,316 | 25,538 | 26,818 |
| **Total Liabilities and Equity** | 250,000 | 262,499 | 275,621 | 289,408 | 303,882 | 319,083 | 335,040 |
| **Book Value per Share** | | | | | | | |
| **BV per Share ($)** | **2.00** | **2.10** | **2.20** | **2.32** | **2.43** | **2.55** | **2.68** |
| **TBV per Share ($)** | **2.00** | **2.10** | **2.20** | **2.32** | **2.43** | **2.55** | **2.68** |
| **Balance Sheet Composition** | | | | | | | |
| **Cash & Securities / Assets (%)** | **18.5** | **18.5** | **18.5** | **18.5** | **18.5** | **18.5** | **18.5** |
| **Loans / Deposits (%)** | **90.0** | **90.0** | **90.0** | **90.0** | **90.0** | **90.0** | **90.0** |
| **Core Deposits / Deposits (%)** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** |
| **Capital Adequacy** | | | | | | | |
| **Equity / Assets (%)** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** |
| **TE / TA (%)** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** |
| **TCE / TA (%)** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** |
| **Tier 1 Leverage Ratio (%)** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** |
| **Tier 1 Common Ratio (%)** | **9.25** | **9.25** | **9.25** | **9.25** | **9.25** | **9.26** | **9.26** |
| **Tier 1 Capital Ratio (%)** | **9.25** | **9.25** | **9.25** | **9.25** | **9.25** | **9.26** | **9.26** |
| **Total Capital Ratio (%)** | **10.50** | **10.50** | **10.50** | **10.50** | **10.50** | **10.51** | **10.51** |
| **Asset Quality** | | | | | | | |
| **LLR / Loans (%)** | **1.50** | **1.50** | **1.50** | **1.50** | **1.50** | **1.50** | **1.50** |
| **NPLs / Loans (%)** | **1.23** | **1.17** | **1.11** | **1.06** | **1.01** | **0.96** | **0.92** |
| **NPAs / Assets (%)** | **1.02** | **0.97** | **0.92** | **0.88** | **0.84** | **0.80** | **0.76** |
| **Texas Common Ratio (%)** | **11.0** | **10.5** | **10.0** | **9.5** | **9.1** | **8.6** | **8.2** |
| **Classified Asset Ratio (%)** | **16.5** | **15.7** | **15.0** | **14.3** | **13.6** | **12.9** | **12.3** |

# Appendix (Sample Target: *Stand Alone*)

Exhibit AL

| Interest Income | YTD 12/31/2018 | For the year ended, 12/31/2019 | 12/31/2020 | 12/31/2021 | 12/31/2022 | 12/31/2023 | 12/31/2024 |
|---|---|---|---|---|---|---|---|
| Interest on Loans | $ 9,342 | $ 9,651 | $ 10,134 | $ 10,641 | $ 11,173 | $ 11,731 | $ 12,318 |
| Interest on Securities | 1,054 | 1,080 | 1,134 | 1,191 | 1,251 | 1,313 | 1,379 |
| Interest on Other | - | - | - | - | - | - | - |
| Total Interest Income | 10,396 | 10,732 | 11,268 | 11,832 | 12,423 | 13,044 | 13,697 |
| | | | | | | | |
| **Interest Expense** | | | | | | | |
| Interest on Non-Time Deposits | 736 | 754 | 792 | 832 | 873 | 917 | 963 |
| Interest on Time Deposits | 639 | 655 | 688 | 723 | 759 | 797 | 836 |
| Interest on Total Deposits | 1,375 | 1,410 | 1,480 | 1,554 | 1,632 | 1,714 | 1,799 |
| Interest on Borrowings | - | - | - | - | - | - | - |
| Interest on Trust Preferred | - | - | - | - | - | - | - |
| Interest on Other Sub Debt | - | - | - | - | - | - | - |
| Interest on Other | - | - | - | - | - | - | - |
| Total Interest Expense | 1,375 | 1,410 | 1,480 | 1,554 | 1,632 | 1,714 | 1,799 |
| | | | | | | | |
| Net Interest Income | 9,021 | 9,322 | 9,788 | 10,277 | 10,791 | 11,331 | 11,897 |
| Provision for Loan Losses | 404 | 367 | 386 | 405 | 425 | 446 | 469 |
| Net Interest Income after Provisions | 8,617 | 8,955 | 9,402 | 9,872 | 10,366 | 10,884 | 11,429 |
| | | | | | | | |
| **Noninterest Income** | | | | | | | |
| Fiduciary Activities | - | - | - | - | - | - | - |
| Service Charges on Deposits | 460 | 474 | 493 | 522 | 548 | 576 | 605 |
| Net Gain on Sale of Assets | - | - | - | - | - | - | - |
| Net Realized Gain on Secs. | - | - | - | - | - | - | - |
| Other Noninterest Income | 1,365 | 1,406 | 1,462 | 1,550 | 1,627 | 1,709 | 1,794 |
| Total Noninterest Income | 1,825 | 1,880 | 1,955 | 2,072 | 2,176 | 2,285 | 2,399 |
| | | | | | | | |
| **Noninterest Expense** | | | | | | | |
| Other Noninterest Expense | 7,911 | 8,069 | 8,367 | 8,677 | 8,998 | 9,331 | 9,676 |
| Amortization of CDI | - | - | - | - | - | - | - |
| Total Noninterest Expense | 7,911 | 8,069 | 8,367 | 8,677 | 8,998 | 9,331 | 9,676 |
| | | | | | | | |
| Net Income before Taxes | 2,532 | 2,765 | 2,990 | 3,268 | 3,544 | 3,838 | 4,151 |
| Tax Expense | 532 | 581 | 628 | 686 | 744 | 806 | 872 |
| **Net Income** | 2,000 | 2,185 | 2,362 | 2,581 | 2,800 | 3,032 | 3,279 |
| | | | | | | | |
| Extraordinary Items | - | - | - | - | - | - | - |
| Net Income Att. to Minority Interest | - | - | - | - | - | - | - |
| Preferred Dividends | - | - | - | - | - | - | - |
| **Net Income Avail. to Common** | 2,000 | 2,185 | 2,362 | 2,581 | 2,800 | 3,032 | 3,279 |
| | | | | | | | |
| S-Corp Dividends | - | - | - | - | - | - | - |
| **Net Income Avail. to Common** | 2,000 | 2,185 | 2,362 | 2,581 | 2,800 | 3,032 | 3,279 |
| | | | | | | | |
| Other Equity Adjustments | - | - | - | - | - | - | - |
| | | | | | | | |
| **Earnings per Share** | | | | | | | |
| Earnings per Share ($) | 0.20 | 0.22 | 0.24 | 0.26 | 0.28 | 0.30 | 0.33 |
| | | | | | | | |
| **Profitability Metrics** | | | | | | | |
| **Return on Average Assets (%)** | **0.80** | **0.85** | **0.88** | **0.91** | **0.94** | **0.97** | **1.00** |
| **Return on Average Equity (%)** | **10.00** | **10.66** | **10.97** | **11.42** | **11.80** | **12.16** | **12.53** |
| **Net Interest Margin (%)** | **3.62** | **3.56** | **3.56** | **3.56** | **3.56** | **3.56** | **3.56** |
| **Efficiency Ratio (%)** | **72.9** | **72.0** | **71.3** | **70.3** | **69.4** | **68.5** | **67.7** |
| **Burden Ratio (%)** | **2.43** | **2.42** | **2.38** | **2.34** | **2.30** | **2.26** | **2.23** |
| | | | | | | | |
| **NII / Average Assets (%)** | **0.73** | **0.73** | **0.73** | **0.73** | **0.73** | **0.73** | **0.73** |
| **NIE / Average Assets (%)** | **3.16** | **3.15** | **3.11** | **3.07** | **3.03** | **3.00** | **2.96** |
| | | | | | | | |
| **Dividends** | | | | | | | |
| Common Dividends per Share ($) | - | 0.12 | 0.13 | 0.15 | 0.16 | 0.18 | 0.20 |
| Common Dividends ($000) | - | 1,186 | 1,315 | 1,473 | 1,638 | 1,810 | 2,000 |
| ***Dividend Payout Ratio (%)*** | ***0.00%*** | ***54.27%*** | ***55.67%*** | ***57.07%*** | ***58.50%*** | ***59.68%*** | ***60.99%*** |

# Appendix (Sample Buyer: *Stand Alone*)

Exhibit AM

| Assets | Transaction Close 12/31/2018 | 12/31/2019 | 12/31/2020 | 12/31/2021 | 12/31/2022 | 12/31/2023 | 12/31/2024 |
|---|---|---|---|---|---|---|---|
| | | For the year ended, | | | | | |
| Cash and Equivalents | $ 112,500 | $ 118,124 | $ 124,031 | $ 130,246 | $ 136,743 | $ 143,581 | $ 150,760 |
| Investment Securities | 1,270,650 | 1,334,183 | 1,400,892 | 1,470,936 | 1,544,483 | 1,621,707 | 1,702,793 |
| Total Loans | 6,210,000 | 6,520,500 | 6,846,525 | 7,188,851 | 7,548,294 | 7,925,709 | 8,321,994 |
| Loan Loss Reserves | 93,150 | 97,807 | 102,698 | 107,833 | 113,224 | 118,886 | 124,830 |
| Net Loans | 6,116,850 | 6,422,693 | 6,743,827 | 7,081,018 | 7,435,069 | 7,806,823 | 8,197,164 |
| Goodwill | - | - | - | - | - | - | - |
| Other Intangibles | - | - | - | - | - | - | - |
| Deferred Tax Asset | - | - | - | - | - | - | - |
| Other Real Estate Owned | - | - | - | - | - | - | - |
| Other Assets | - | - | - | - | - | - | - |
| **Total Assets** | 7,500,000 | 7,874,999 | 8,268,750 | 8,682,200 | 9,116,295 | 9,572,111 | 10,050,717 |
| **Liabilities** | | | | | | | |
| Non-Time Deposits | 5,520,000 | 5,796,000 | 6,085,800 | 6,390,090 | 6,709,595 | 7,045,074 | 7,397,328 |
| Time Deposits | 1,380,000 | 1,449,000 | 1,521,450 | 1,597,523 | 1,677,399 | 1,761,269 | 1,849,332 |
| Total Deposits | 6,900,000 | 7,245,000 | 7,607,250 | 7,987,613 | 8,386,993 | 8,806,343 | 9,246,660 |
| Borrowings | - | - | - | - | - | - | - |
| Trust Preferred | - | - | - | - | - | - | - |
| Other Sub Debt | - | - | - | - | - | - | - |
| Other Liabilities | - | - | - | - | - | - | - |
| **Total Liabilities** | 6,900,000 | 7,245,000 | 7,607,250 | 7,987,613 | 8,386,993 | 8,806,343 | 9,246,660 |
| **Equity** | | | | | | | |
| Preferred Stock | - | - | - | - | - | - | - |
| Common Stock | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 |
| Common Stock Surplus | 375,000 | 375,000 | 375,000 | 375,000 | 375,000 | 375,000 | 375,000 |
| Retained Earnings | 150,000 | 179,999 | 211,500 | 244,588 | 279,302 | 315,768 | 354,057 |
| Accumulated Other Comp. Income | - | - | - | - | - | - | - |
| Noncontrolling Interests | - | - | - | - | - | - | - |
| **Total Equity** | 600,000 | 629,999 | 661,500 | 694,588 | 729,302 | 765,768 | 804,057 |
| **Total Liabilities and Equity** | 7,500,000 | 7,874,999 | 8,268,750 | 8,682,200 | 9,116,295 | 9,572,111 | 10,050,717 |
| **Book Value per Share** | | | | | | | |
| **BV per Share ($)** | **60.00** | **63.00** | **66.15** | **69.46** | **72.93** | **76.58** | **80.41** |
| **TBV per Share ($)** | **60.00** | **63.00** | **66.15** | **69.46** | **72.93** | **76.58** | **80.41** |
| **Balance Sheet Composition** | | | | | | | |
| **Cash & Securities / Assets (%)** | **18.4** | **18.4** | **18.4** | **18.4** | **18.4** | **18.4** | **18.4** |
| **Loans / Deposits (%)** | **90.0** | **90.0** | **90.0** | **90.0** | **90.0** | **90.0** | **90.0** |
| **Core Deposits / Deposits (%)** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** |
| **Capital Adequacy** | | | | | | | |
| **Equity / Assets (%)** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** |
| **TE / TA (%)** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** |
| **TCE / TA (%)** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** |
| **Tier 1 Leverage Ratio (%)** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** |
| **Tier 1 Common Ratio (%)** | **9.25** | **9.25** | **9.25** | **9.25** | **9.25** | **9.25** | **9.25** |
| **Tier 1 Capital Ratio (%)** | **9.25** | **9.25** | **9.25** | **9.25** | **9.25** | **9.25** | **9.25** |
| **Total Capital Ratio (%)** | **10.50** | **10.50** | **10.50** | **10.50** | **10.50** | **10.50** | **10.50** |
| **Asset Quality** | | | | | | | |
| **LLR / Loans (%)** | **1.50** | **1.50** | **1.50** | **1.50** | **1.50** | **1.50** | **1.50** |
| **NPLs / Loans (%)** | **1.21** | **1.15** | **1.10** | **1.04** | **0.99** | **0.95** | **0.90** |
| **NPAs / Assets (%)** | **1.00** | **0.95** | **0.91** | **0.86** | **0.82** | **0.78** | **0.75** |
| **Texas Common Ratio (%)** | **10.8** | **10.3** | **9.8** | **9.3** | **8.9** | **8.5** | **8.1** |
| **Classified Asset Ratio (%)** | **16.2** | **15.5** | **14.7** | **14.0** | **13.4** | **12.7** | **12.1** |

# Appendix (Sample Buyer: *Stand Alone*)

Exhibit AN

| | YTD | For the year ended, | | | | | |
|---|---|---|---|---|---|---|---|
| **Interest Income** | **12/31/2018** | **12/31/2019** | **12/31/2020** | **12/31/2021** | **12/31/2022** | **12/31/2023** | **12/31/2024** |
| Interest on Loans | $ 262,719 | $ 270,523 | $ 284,049 | $ 298,252 | $ 313,164 | $ 328,823 | $ 345,264 |
| Interest on Securities | 31,766 | 32,560 | 34,188 | 35,898 | 37,693 | 39,577 | 41,556 |
| Interest on Other | - | - | - | - | - | - | - |
| Total Interest Income | 294,485 | 303,084 | 318,238 | 334,150 | 350,857 | 368,400 | 386,820 |
| **Interest Expense** | | | | | | | |
| Interest on Non-Time Deposits | 22,080 | 22,632 | 23,764 | 24,952 | 26,199 | 27,509 | 28,885 |
| Interest on Time Deposits | 19,182 | 19,662 | 20,645 | 21,677 | 22,761 | 23,899 | 25,094 |
| Interest on Total Deposits | 41,262 | 42,294 | 44,408 | 46,629 | 48,960 | 51,408 | 53,978 |
| Interest on Borrowings | - | - | - | - | - | - | - |
| Interest on Trust Preferred | - | - | - | - | - | - | - |
| Interest on Other Sub Debt | - | - | - | - | - | - | - |
| Interest on Other | - | - | - | - | - | - | - |
| Total Interest Expense | 41,262 | 42,294 | 44,408 | 46,629 | 48,960 | 51,408 | 53,978 |
| Net Interest Income | 253,223 | 260,790 | 273,829 | 287,521 | 301,897 | 316,992 | 332,841 |
| Provision for Loan Losses | 12,110 | 11,023 | 11,574 | 12,153 | 12,760 | 13,398 | 14,068 |
| Net Interest Income after Provisions | 241,114 | 249,767 | 262,256 | 275,368 | 289,137 | 303,594 | 318,773 |
| **Noninterest Income** | | | | | | | |
| Fiduciary Activities | - | - | - | - | - | - | - |
| Service Charges on Deposits | 12,480 | 12,854 | 13,497 | 14,172 | 14,881 | 15,625 | 16,406 |
| Net Gain on Sale of Assets | - | - | - | - | - | - | - |
| Net Realized Gain on Secs. | - | - | - | - | - | - | - |
| Other Noninterest Income | 54,836 | 56,482 | 59,306 | 62,271 | 65,384 | 68,654 | 72,086 |
| Total Noninterest Income | 67,316 | 69,336 | 72,803 | 76,443 | 80,265 | 84,278 | 88,492 |
| **Noninterest Expense** | | | | | | | |
| Other Noninterest Expense | 232,484 | 238,297 | 247,632 | 257,333 | 267,414 | 277,889 | 288,776 |
| Amortization of CDI | - | - | - | - | - | - | - |
| Total Noninterest Expense | 232,484 | 238,297 | 247,632 | 257,333 | 267,414 | 277,889 | 288,776 |
| Net Income before Taxes | 75,946 | 80,807 | 87,427 | 94,479 | 101,988 | 109,982 | 118,490 |
| Tax Expense | 15,949 | 16,969 | 18,360 | 19,841 | 21,418 | 23,096 | 24,883 |
| **Net Income** | 59,997 | 63,837 | 69,067 | 74,638 | 80,571 | 86,886 | 93,607 |
| Extraordinary Items | - | - | - | - | - | - | - |
| Net Income Att. to Minority Interest | - | - | - | - | - | - | - |
| Preferred Dividends | - | - | - | - | - | - | - |
| **Net Income Avail. to Common** | 59,997 | 63,837 | 69,067 | 74,638 | 80,571 | 86,886 | 93,607 |
| **Earnings per Share** | | | | | | | |
| Earnings per Share ($) | 6.00 | 6.38 | 6.91 | 7.46 | 8.06 | 8.69 | 9.36 |
| **Profitability Metrics** | | | | | | | |
| **Return on Average Assets (%)** | **0.80** | **0.83** | **0.86** | **0.88** | **0.91** | **0.93** | **0.95** |
| **Return on Average Equity (%)** | **10.00** | **10.38** | **10.70** | **11.01** | **11.32** | **11.62** | **11.93** |
| **Net Interest Margin (%)** | **3.39** | **3.32** | **3.32** | **3.32** | **3.32** | **3.32** | **3.32** |
| **Efficiency Ratio (%)** | **72.5** | **72.2** | **71.4** | **70.7** | **70.0** | **69.3** | **68.5** |
| **Burden Ratio (%)** | **2.20** | **2.20** | **2.17** | **2.13** | **2.10** | **2.07** | **2.04** |
| **NII / Average Assets (%)** | **0.90** | **0.90** | **0.90** | **0.90** | **0.90** | **0.90** | **0.90** |
| **NIE / Average Assets (%)** | **3.10** | **3.10** | **3.07** | **3.04** | **3.00** | **2.97** | **2.94** |
| **Dividends** | | | | | | | |
| Common Dividends per Share ($) | - | 3.38 | 3.76 | 4.15 | 4.59 | 5.04 | 5.53 |
| Common Dividends ($000) | - | 33,839 | 37,566 | 41,550 | 45,856 | 50,420 | 55,319 |
| ***Dividend Payout Ratio (%)*** | ***0.00%*** | ***53.01%*** | ***54.39%*** | ***55.67%*** | ***56.91%*** | ***58.03%*** | ***59.10%*** |

# Appendix (Bank Top: *Stand Alone*)

Exhibit AO

| Assets | Transaction Close 12/31/2018 | For the year ended, 12/31/2019 | 12/31/2020 | 12/31/2021 | 12/31/2022 | 12/31/2023 | 12/31/2024 |
|---|---|---|---|---|---|---|---|
| Cash and Equivalents | $ 52,500 | $ 54,777 | $ 62,510 | $ 71,570 | $ 81,764 | $ 93,268 | $ 105,939 |
| Investment Securities | 592,970 | 674,504 | 767,248 | 872,745 | 992,747 | 1,129,250 | 1,284,522 |
| Total Loans | 2,898,000 | 3,289,230 | 3,733,276 | 4,237,268 | 4,809,300 | 5,458,555 | 6,195,460 |
| Loan Loss Reserves | 43,470 | 49,338 | 55,999 | 63,559 | 72,139 | 81,878 | 92,932 |
| Net Loans | 2,854,530 | 3,239,892 | 3,677,277 | 4,173,709 | 4,737,160 | 5,376,677 | 6,102,528 |
| Goodwill | - | - | - | - | - | - | - |
| Other Intangibles | - | - | - | - | - | - | - |
| Deferred Tax Asset | - | - | - | - | - | - | - |
| Other Real Estate Owned | - | - | - | - | - | - | - |
| Other Assets | - | - | - | - | - | - | - |
| **Total Assets** | 3,500,000 | 3,969,172 | 4,507,034 | 5,118,024 | 5,811,671 | 6,599,194 | 7,492,989 |
| **Liabilities** | | | | | | | |
| Non-Time Deposits | 2,576,000 | 2,921,442 | 3,317,297 | 3,766,791 | 4,277,191 | 4,856,750 | 5,514,840 |
| Time Deposits | 644,000 | 730,360 | 829,324 | 941,698 | 1,069,298 | 1,214,188 | 1,378,710 |
| Total Deposits | 3,220,000 | 3,651,802 | 4,146,621 | 4,708,488 | 5,346,489 | 6,070,938 | 6,893,550 |
| Borrowings | - | - | - | - | - | - | - |
| Trust Preferred | - | - | - | - | - | - | - |
| Other Sub Debt | - | - | - | - | - | - | - |
| Other Liabilities | - | - | - | - | - | - | - |
| **Total Liabilities** | 3,220,000 | 3,651,802 | 4,146,621 | 4,708,488 | 5,346,489 | 6,070,938 | 6,893,550 |
| **Equity** | | | | | | | |
| Preferred Stock | - | - | - | - | - | - | - |
| Common Stock | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 |
| Common Stock Surplus | 175,000 | 175,000 | 175,000 | 175,000 | 175,000 | 175,000 | 175,000 |
| Retained Earnings | 55,000 | 92,370 | 135,413 | 184,535 | 240,183 | 303,256 | 374,439 |
| Accumulated Other Comp. Income | - | - | - | - | - | - | - |
| Noncontrolling Interests | - | - | - | - | - | - | - |
| **Total Equity** | 280,000 | 317,370 | 360,413 | 409,535 | 465,183 | 528,256 | 599,439 |
| **Total Liabilities and Equity** | 3,500,000 | 3,969,172 | 4,507,034 | 5,118,024 | 5,811,671 | 6,599,194 | 7,492,989 |
| **Book Value per Share** | | | | | | | |
| **BV per Share ($)** | **28.00** | **31.74** | **36.04** | **40.95** | **46.52** | **52.83** | **59.94** |
| **TBV per Share ($)** | **28.00** | **31.74** | **36.04** | **40.95** | **46.52** | **52.83** | **59.94** |
| **Balance Sheet Composition** | | | | | | | |
| **Cash & Securities / Assets (%)** | **18.4** | **18.4** | **18.4** | **18.5** | **18.5** | **18.5** | **18.6** |
| **Loans / Deposits (%)** | **90.0** | **90.1** | **90.0** | **90.0** | **90.0** | **89.9** | **89.9** |
| **Core Deposits / Deposits (%)** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** |
| **Capital Adequacy** | | | | | | | |
| **Equity / Assets (%)** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** |
| **TE / TA (%)** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** |
| **TCE / TA (%)** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** |
| **Tier 1 Leverage Ratio (%)** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** |
| **Tier 1 Common Ratio (%)** | **9.25** | **9.25** | **9.25** | **9.25** | **9.25** | **9.26** | **9.25** |
| **Tier 1 Capital Ratio (%)** | **9.25** | **9.25** | **9.25** | **9.25** | **9.25** | **9.26** | **9.25** |
| **Total Capital Ratio (%)** | **10.50** | **10.50** | **10.50** | **10.50** | **10.50** | **10.51** | **10.50** |
| **Asset Quality** | | | | | | | |
| **LLR / Loans (%)** | **1.50** | **1.50** | **1.50** | **1.50** | **1.50** | **1.50** | **1.50** |
| **NPLs / Loans (%)** | **1.14** | **1.00** | **0.88** | **0.78** | **0.68** | **0.60** | **0.53** |
| **NPAs / Assets (%)** | **0.94** | **0.83** | **0.73** | **0.64** | **0.57** | **0.50** | **0.44** |
| **Texas Common Ratio (%)** | **10.2** | **9.0** | **7.9** | **7.0** | **6.1** | **5.4** | **4.8** |
| **Classified Asset Ratio (%)** | **15.3** | **13.5** | **11.9** | **10.4** | **9.2** | **8.1** | **7.1** |

# Appendix (Bank Top: *Stand Alone*)

Exhibit AP

| Interest Income | YTD 12/31/2018 | For the year ended, 12/31/2019 | 12/31/2020 | 12/31/2021 | 12/31/2022 | 12/31/2023 | 12/31/2024 |
|---|---|---|---|---|---|---|---|
| Interest on Loans | $ 130,525 | $ 143,853 | $ 163,273 | $ 185,315 | $ 210,333 | $ 238,728 | $ 270,956 |
| Interest on Securities | 14,824 | 15,843 | 18,022 | 20,500 | 23,319 | 26,525 | 30,172 |
| Interest on Other | - | - | - | - | - | - | - |
| Total Interest Income | 145,349 | 159,697 | 181,295 | 205,815 | 233,651 | 265,253 | 301,128 |
| | | | | | | | |
| **Interest Expense** | | | | | | | |
| Interest on Non-Time Deposits | 10,304 | 10,995 | 12,477 | 14,168 | 16,088 | 18,268 | 20,743 |
| Interest on Time Deposits | 8,050 | 8,590 | 9,748 | 11,069 | 12,569 | 14,272 | 16,206 |
| Interest on Total Deposits | 18,354 | 19,585 | 22,226 | 25,237 | 28,657 | 32,540 | 36,949 |
| Interest on Borrowings | - | - | - | - | - | - | - |
| Interest on Trust Preferred | - | - | - | - | - | - | - |
| Interest on Other Sub Debt | - | - | - | - | - | - | - |
| Interest on Other | - | - | - | - | - | - | - |
| Total Interest Expense | 18,354 | 19,585 | 22,226 | 25,237 | 28,657 | 32,540 | 36,949 |
| | | | | | | | |
| Net Interest Income | 126,995 | 140,112 | 159,070 | 180,578 | 204,995 | 232,713 | 264,179 |
| Provision for Loan Losses | 5,651 | 8,962 | 10,172 | 11,545 | 13,104 | 14,873 | 16,881 |
| Net Interest Income after Provisions | 121,344 | 131,150 | 148,898 | 169,033 | 191,891 | 217,840 | 247,299 |
| | | | | | | | |
| **Noninterest Income** | | | | | | | |
| Fiduciary Activities | - | - | - | - | - | - | - |
| Service Charges on Deposits | 5,901 | 6,314 | 7,166 | 8,134 | 9,232 | 10,478 | 11,893 |
| Net Gain on Sale of Assets | - | - | - | - | - | - | - |
| Net Realized Gain on Secs. | - | - | - | - | - | - | - |
| Other Noninterest Income | 25,480 | 27,264 | 30,944 | 35,122 | 39,863 | 45,245 | 51,353 |
| Total Noninterest Income | 31,381 | 33,578 | 38,111 | 43,256 | 49,095 | 55,723 | 63,245 |
| | | | | | | | |
| **Noninterest Expense** | | | | | | | |
| Other Noninterest Expense | 110,206 | 117,424 | 130,609 | 145,213 | 161,379 | 179,268 | 199,043 |
| Amortization of CDI | - | - | - | - | - | - | - |
| Total Noninterest Expense | 110,206 | 117,424 | 130,609 | 145,213 | 161,379 | 179,268 | 199,043 |
| | | | | | | | |
| Net Income before Taxes | 42,519 | 47,303 | 56,399 | 67,076 | 79,607 | 94,295 | 111,501 |
| Tax Expense | 8,929 | 9,934 | 11,844 | 14,086 | 16,717 | 19,802 | 23,415 |
| **Net Income** | 33,590 | 37,370 | 44,555 | 52,990 | 62,889 | 74,493 | 88,086 |
| | | | | | | | |
| Extraordinary Items | - | - | - | - | - | - | - |
| Net Income Att. to Minority Interest | - | - | - | - | - | - | - |
| Preferred Dividends | - | - | - | - | - | - | - |
| **Net Income Avail. to Common** | 33,590 | 37,370 | 44,555 | 52,990 | 62,889 | 74,493 | 88,086 |
| | | | | | | | |
| S-Corp Dividends | - | - | - | - | - | - | - |
| **Net Income Avail. to Common** | 33,590 | 37,370 | 44,555 | 52,990 | 62,889 | 74,493 | 88,086 |
| | | | | | | | |
| Other Equity Adjustments | - | - | - | - | - | - | - |
| | | | | | | | |
| **Earnings per Share** | | | | | | | |
| Earnings per Share ($) | 3.36 | 3.74 | 4.46 | 5.30 | 6.29 | 7.45 | 8.81 |
| | | | | | | | |
| **Profitability Metrics** | | | | | | | |
| **Return on Average Assets (%)** | **0.96** | **1.00** | **1.05** | **1.10** | **1.15** | **1.20** | **1.25** |
| **Return on Average Equity (%)** | **12.00** | **12.51** | **13.15** | **13.76** | **14.38** | **15.00** | **15.62** |
| **Net Interest Margin (%)** | **3.64** | **3.54** | **3.54** | **3.54** | **3.54** | **3.54** | **3.53** |
| **Efficiency Ratio (%)** | **69.6** | **67.6** | **66.2** | **64.9** | **63.5** | **62.2** | **60.8** |
| **Burden Ratio (%)** | **2.25** | **2.25** | **2.18** | **2.12** | **2.05** | **1.99** | **1.93** |
| | | | | | | | |
| **NII / Average Assets (%)** | **0.90** | **0.90** | **0.90** | **0.90** | **0.90** | **0.90** | **0.90** |
| **NIE / Average Assets (%)** | **3.15** | **3.14** | **3.08** | **3.02** | **2.95** | **2.89** | **2.82** |
| | | | | | | | |
| **Dividends** | | | | | | | |
| Common Dividends per Share ($) | - | - | 0.15 | 0.39 | 0.72 | 1.14 | 1.69 |
| Common Dividends ($000) | - | - | 1,512 | 3,868 | 7,242 | 11,419 | 16,903 |
| ***Dividend Payout Ratio (%)*** | ***0.00%*** | ***0.00%*** | ***3.39%*** | ***7.30%*** | ***11.52%*** | ***15.33%*** | ***19.19%*** |

# Appendix (Bank Top + Sample Target: *Pro Forma*)

Exhibit AQ

| Assets | Transaction Close 12/31/2018 | 12/31/2019 | 12/31/2020 | 12/31/2021 | 12/31/2022 | 12/31/2023 | 12/31/2024 |
|---|---|---|---|---|---|---|---|
| | | For the year ended, | | | | | |
| Cash and Equivalents | $ 56,500 | $ 62,508 | $ 74,077 | $ 87,068 | $ 101,210 | $ 116,631 | $ 133,104 |
| Investment Securities | 635,131 | 718,772 | 813,730 | 921,551 | 1,043,993 | 1,183,058 | 1,341,021 |
| Total Loans | 3,101,840 | 3,503,262 | 3,958,009 | 4,473,238 | 5,057,068 | 5,718,712 | 6,468,624 |
| Loan Loss Reserves | 43,470 | 49,695 | 56,721 | 64,663 | 73,645 | 83,806 | 95,303 |
| Net Loans | 3,058,370 | 3,453,566 | 3,901,289 | 4,408,575 | 4,983,422 | 5,634,905 | 6,373,322 |
| Goodwill | 23,893 | 23,893 | 23,893 | 23,893 | 23,893 | 23,893 | 23,893 |
| Other Intangibles | 3,680 | 3,312 | 2,944 | 2,576 | 2,208 | 1,840 | 1,472 |
| Deferred Tax Asset | (773) | (773) | (773) | (773) | (773) | (773) | (773) |
| Other Real Estate Owned | - | - | - | - | - | - | - |
| Other Assets | - | - | - | - | - | - | - |
| **Total Assets** | 3,776,800 | 4,261,278 | 4,815,159 | 5,442,890 | 6,153,954 | 6,959,554 | 7,872,038 |
| **Liabilities** | | | | | | | |
| Non-Time Deposits | 2,760,000 | 3,114,642 | 3,520,157 | 3,979,794 | 4,500,844 | 5,091,586 | 5,761,417 |
| Time Deposits | 690,000 | 778,660 | 880,039 | 994,948 | 1,125,211 | 1,272,896 | 1,440,354 |
| Total Deposits | 3,450,000 | 3,893,302 | 4,400,196 | 4,974,742 | 5,626,055 | 6,364,482 | 7,201,772 |
| Borrowings | - | - | - | - | - | - | - |
| Trust Preferred | - | - | - | - | - | - | - |
| Other Sub Debt | - | - | - | - | - | - | - |
| Other Liabilities | - | - | - | - | - | - | - |
| **Total Liabilities** | 3,450,000 | 3,893,302 | 4,400,196 | 4,974,742 | 5,626,055 | 6,364,482 | 7,201,772 |
| **Equity** | | | | | | | |
| Preferred Stock | - | - | - | - | - | - | - |
| Common Stock | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 |
| Common Stock Surplus | 221,800 | 221,800 | 221,800 | 221,800 | 221,800 | 221,800 | 221,800 |
| Retained Earnings | 55,000 | 96,176 | 143,163 | 196,348 | 256,099 | 323,272 | 398,466 |
| Accumulated Other Comp. Income | - | - | - | - | - | - | - |
| Noncontrolling Interests | - | - | - | - | - | - | - |
| **Total Equity** | 326,800 | 367,976 | 414,963 | 468,148 | 527,899 | 595,072 | 670,266 |
| **Total Liabilities and Equity** | 3,776,800 | 4,261,278 | 4,815,159 | 5,442,890 | 6,153,954 | 6,959,554 | 7,872,038 |
| **Book Value per Share** | | | | | | | |
| Pro Forma TBV per Share ($) | 27.92 | 31.80 | 36.21 | 41.21 | 46.82 | 53.12 | 60.17 |
| Stand Alone TBV per Share ($) | 28.00 | 31.74 | 36.04 | 40.95 | 46.52 | 52.83 | 59.94 |
| ***Accretion / (Dilution) ($)*** | ***$ (0.08)*** | ***$ 0.06*** | ***$ 0.17*** | ***$ 0.26*** | ***$ 0.30*** | ***$ 0.30*** | ***$ 0.23*** |
| ***Accretion / (Dilution) (%)*** | ***(0.29%)*** | ***0.19%*** | ***0.48%*** | ***0.63%*** | ***0.65%*** | ***0.56%*** | ***0.38%*** |
| **Balance Sheet Composition** | | | | | | | |
| **Cash & Securities / Assets (%)** | **18.3** | **18.3** | **18.4** | **18.5** | **18.6** | **18.7** | **18.7** |
| **Loans / Deposits (%)** | **89.9** | **90.0** | **90.0** | **89.9** | **89.9** | **89.9** | **89.8** |
| **Core Deposits / Deposits (%)** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** |
| **Capital Adequacy** | | | | | | | |
| **TE / TA (%)** | **7.98** | **8.05** | **8.11** | **8.15** | **8.19** | **8.21** | **8.22** |
| **TCE / TA (%)** | **7.98** | **8.05** | **8.11** | **8.15** | **8.19** | **8.21** | **8.22** |
| **Tier 1 Leverage Ratio (%)** | **7.98** | **8.05** | **8.11** | **8.16** | **8.20** | **8.22** | **8.23** |
| **Tier 1 Common Ratio (%)** | **9.23** | **9.32** | **9.39** | **9.44** | **9.49** | **9.51** | **9.52** |
| **Tier 1 Capital Ratio (%)** | **9.23** | **9.32** | **9.39** | **9.44** | **9.49** | **9.51** | **9.52** |
| **Total Capital Ratio (%)** | **10.48** | **10.57** | **10.64** | **10.69** | **10.74** | **10.76** | **10.77** |
| **Asset Quality** | | | | | | | |
| **LLR / Loans (%)** | **1.40** | **1.42** | **1.43** | **1.45** | **1.46** | **1.47** | **1.47** |
| **NPLs / Loans (%)** | **1.06** | **0.94** | **0.83** | **0.74** | **0.65** | **0.58** | **0.51** |
| **NPAs / Assets (%)** | **0.87** | **0.77** | **0.68** | **0.60** | **0.53** | **0.47** | **0.42** |
| **Texas Common Ratio (%)** | **9.6** | **8.4** | **7.4** | **6.5** | **5.7** | **5.0** | **4.4** |
| **Classified Asset Ratio (%)** | **14.6** | **12.8** | **11.3** | **9.9** | **8.7** | **7.7** | **6.8** |

# Appendix (Bank Top + Sample Target: *Pro Forma*)

Exhibit AR

| | Top YTD | For the year ended, | | | | | |
|---|---|---|---|---|---|---|---|
| **Interest Income** | **12/31/2018** | **12/31/2019** | **12/31/2020** | **12/31/2021** | **12/31/2022** | **12/31/2023** | **12/31/2024** |
| Interest on Loans | $ 130,525 | $ 153,504 | $ 173,407 | $ 195,956 | $ 221,505 | $ 250,459 | $ 283,274 |
| Interest on Securities | 14,824 | 16,924 | 19,156 | 21,691 | 24,569 | 27,838 | 31,551 |
| *Cost of Incremental Dividends Paid* | - | - | *(3)* | *(10)* | *(23)* | *(43)* | *(73)* |
| Interest on Other | - | - | - | - | - | - | - |
| Total Interest Income | 145,349 | 170,428 | 192,561 | 217,637 | 246,052 | 278,254 | 314,751 |
| | | | | | | | |
| **Interest Expense** | | | | | | | |
| Interest on Non-Time Deposits | 10,304 | 11,749 | 13,270 | 15,000 | 16,961 | 19,185 | 21,706 |
| Interest on Time Deposits | 8,050 | 9,245 | 10,436 | 11,791 | 13,327 | 15,068 | 17,042 |
| Interest on Total Deposits | 18,354 | 20,994 | 23,706 | 26,791 | 30,289 | 34,253 | 38,748 |
| Interest on Borrowings | - | - | - | - | - | - | - |
| Interest on Trust Preferred | - | - | - | - | - | - | - |
| Interest on Other Sub Debt | - | - | - | - | - | - | - |
| Interest on Other | - | - | - | - | - | - | - |
| Total Interest Expense | 18,354 | 20,994 | 23,706 | 26,791 | 30,289 | 34,253 | 38,748 |
| | | | | | | | |
| Net Interest Income | 126,995 | 149,434 | 168,855 | 190,846 | 215,763 | 244,001 | 276,003 |
| Provision for Loan Losses | 5,651 | 9,329 | 10,558 | 11,950 | 13,529 | 15,319 | 17,349 |
| Net Interest Income after Provisions | 121,344 | 140,104 | 158,297 | 178,896 | 202,234 | 228,681 | 258,654 |
| | | | | | | | |
| **Noninterest Income** | | | | | | | |
| Total Noninterest Income | 31,381 | 35,457 | 40,066 | 45,328 | 51,271 | 58,008 | 65,644 |
| | | | | | | | |
| **Noninterest Expense** | | | | | | | |
| Other Noninterest Expense | 110,206 | 125,493 | 138,977 | 153,890 | 170,377 | 188,599 | 208,720 |
| *Amortization of CDI* | - | *368* | *368* | *368* | *368* | *368* | *368* |
| *Cost Savings* | - | *(2,421)* | *(2,510)* | *(2,603)* | *(2,699)* | *(2,799)* | *(2,903)* |
| Total Noninterest Expense | 110,206 | 123,440 | 136,835 | 151,655 | 168,046 | 186,168 | 206,185 |
| | | | | | | | |
| Net Income before Taxes | 42,519 | 52,122 | 61,528 | 72,569 | 85,459 | 100,521 | 118,113 |
| Tax Expense | 8,929 | 10,946 | 12,921 | 15,239 | 17,946 | 21,109 | 24,804 |
| **Net Income** | 33,590 | 41,176 | 48,607 | 57,329 | 67,513 | 79,412 | 93,309 |
| | | | | | | | |
| Extraordinary Items | - | - | - | - | - | - | - |
| Net Income Att. to Minority Interest | - | - | - | - | - | - | - |
| Preferred Dividends | - | - | - | - | - | - | - |
| **Net Income Avail. to Common** | 33,590 | 41,176 | 48,607 | 57,329 | 67,513 | 79,412 | 93,309 |
| | | | | | | | |
| **Earnings per Share** | | | | | | | |
| Pro Forma EPS ($) | 3.36 | 3.84 | 4.54 | 5.35 | 6.30 | 7.41 | 8.71 |
| Stand Alone EPS ($) | 3.36 | 3.74 | 4.46 | 5.30 | 6.29 | 7.45 | 8.81 |
| ***Accretion / (Dilution) ($)*** | ***$ -*** | ***$ 0.11*** | ***$ 0.08*** | ***$ 0.05*** | ***$ 0.01*** | ***$ (0.04)*** | ***$ (0.10)*** |
| ***Accretion / (Dilution) (%)*** | ***0.00%*** | ***2.81%*** | ***1.79%*** | ***0.95%*** | ***0.17%*** | ***(0.53%)*** | ***(1.16%)*** |
| | | | | | | | |
| **Profitability Metrics** | | | | | | | |
| **Return on Average Assets (%)** | **0.96** | **1.09** | **1.07** | **1.12** | **1.16** | **1.21** | **1.26** |
| **Return on Average Equity (%)** | **12.00** | **12.45** | **12.42** | **12.98** | **13.56** | **14.14** | **14.75** |
| **Net Interest Margin (%)** | **3.64** | **3.54** | **3.54** | **3.54** | **3.53** | **3.53** | **3.53** |
| **Efficiency Ratio (%)** | **69.6** | **66.6** | **65.3** | **64.1** | **62.8** | **61.5** | **60.2** |
| **Burden Ratio (%)** | **2.25** | **2.32** | **2.13** | **2.07** | **2.01** | **1.95** | **1.90** |
| | | | | | | | |
| **NII / Average Assets (%)** | **0.90** | **0.94** | **0.88** | **0.88** | **0.88** | **0.88** | **0.89** |
| **NIE / Average Assets (%)** | **3.15** | **3.26** | **3.02** | **2.96** | **2.90** | **2.84** | **2.78** |
| | | | | | | | |
| **Dividends** | | | | | | | |
| Common Dividends per Share ($) | - | - | 0.15 | 0.39 | 0.72 | 1.14 | 1.69 |
| Common Dividends ($000) | - | - | 1,620 | 4,145 | 7,762 | 12,238 | 18,115 |
| ***Dividend Payout Ratio (%)*** | ***0.00%*** | ***0.00%*** | ***3.33%*** | ***7.23%*** | ***11.50%*** | ***15.41%*** | ***19.41%*** |

# Appendix (Bank Top + Sample Buyer: *Pro Forma*)

Exhibit AS

| | Transaction Close | For the year ended, | | | | | |
|---|---|---|---|---|---|---|---|
| **Assets** | **12/31/2018** | **12/31/2019** | **12/31/2020** | **12/31/2021** | **12/31/2022** | **12/31/2023** | **12/31/2024** |
| Cash and Equivalents | $ 165,000 | $ 181,858 | $ 206,164 | $ 235,211 | $ 270,003 | $ 311,889 | $ 362,345 |
| Investment Securities | 1,863,620 | 2,008,686 | 2,168,140 | 2,343,681 | 2,537,230 | 2,750,957 | 2,987,314 |
| Total Loans | 9,064,530 | 9,760,392 | 10,523,802 | 11,362,561 | 12,285,454 | 13,302,385 | 14,424,522 |
| Loan Loss Reserves | 93,150 | 106,378 | 120,605 | 136,337 | 153,757 | 173,069 | 194,508 |
| Net Loans | 8,971,380 | 9,654,013 | 10,403,197 | 11,226,223 | 12,131,697 | 13,129,316 | 14,230,014 |
| Goodwill | 527,420 | 527,420 | 527,420 | 527,420 | 527,420 | 527,420 | 527,420 |
| Other Intangibles | 51,520 | 46,368 | 41,216 | 36,064 | 30,912 | 25,760 | 20,608 |
| Deferred Tax Asset | (10,819) | (10,819) | (10,819) | (10,819) | (10,819) | (10,819) | (10,819) |
| Other Real Estate Owned | - | - | - | - | - | - | - |
| Other Assets | - | - | - | - | - | - | - |
| **Total Assets** | 11,568,121 | 12,407,526 | 13,335,317 | 14,357,780 | 15,486,442 | 16,734,522 | 18,116,881 |
| **Liabilities** | | | | | | | |
| Non-Time Deposits | 8,096,000 | 8,717,442 | 9,403,097 | 10,156,881 | 10,986,785 | 11,901,824 | 12,912,168 |
| Time Deposits | 2,024,000 | 2,179,360 | 2,350,774 | 2,539,220 | 2,746,696 | 2,975,456 | 3,228,042 |
| Total Deposits | 10,120,000 | 10,896,802 | 11,753,871 | 12,696,101 | 13,733,482 | 14,877,280 | 16,140,210 |
| Borrowings | - | - | - | - | - | - | - |
| Trust Preferred | - | - | - | - | - | - | - |
| Other Sub Debt | - | - | - | - | - | - | - |
| Other Liabilities | - | - | - | - | - | - | - |
| **Total Liabilities** | 10,120,000 | 10,896,802 | 11,753,871 | 12,696,101 | 13,733,482 | 14,877,280 | 16,140,210 |
| **Equity** | | | | | | | |
| Preferred Stock | - | - | - | - | - | - | - |
| Common Stock | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 |
| Common Stock Surplus | 1,223,121 | 1,223,121 | 1,223,121 | 1,223,121 | 1,223,121 | 1,223,121 | 1,223,121 |
| Retained Earnings | 150,000 | 212,603 | 283,325 | 363,558 | 454,840 | 559,121 | 678,551 |
| Accumulated Other Comp. Income | - | - | - | - | - | - | - |
| Noncontrolling Interests | - | - | - | - | - | - | - |
| **Total Equity** | 1,448,121 | 1,510,724 | 1,581,446 | 1,661,679 | 1,752,961 | 1,857,242 | 1,976,672 |
| **Total Liabilities and Equity** | 11,568,121 | 12,407,526 | 13,335,317 | 14,357,780 | 15,486,442 | 16,734,522 | 18,116,881 |
| **Book Value per Share** | | | | | | | |
| Pro Forma TBV per Share ($) | 47.58 | 51.29 | 55.45 | 60.12 | 65.40 | 71.39 | 78.21 |
| Stand Alone TBV per Share ($) | 60.00 | 63.00 | 66.15 | 69.46 | 72.93 | 76.58 | 80.41 |
| ***Accretion / (Dilution) ($)*** | ***$ (12.42)*** | ***$ (11.71)*** | ***$ (10.70)*** | ***$ (9.34)*** | ***$ (7.53)*** | ***$ (5.19)*** | ***$ (2.19)*** |
| ***Accretion / (Dilution) (%)*** | ***(20.69%)*** | ***(18.58%)*** | ***(16.18%)*** | ***(13.44%)*** | ***(10.32%)*** | ***(6.77%)*** | ***(2.73%)*** |
| **Balance Sheet Composition** | | | | | | | |
| **Cash & Securities / Assets (%)** | **17.5** | **17.7** | **17.8** | **18.0** | **18.1** | **18.3** | **18.5** |
| **Loans / Deposits (%)** | **89.6** | **89.6** | **89.5** | **89.5** | **89.5** | **89.4** | **89.4** |
| **Core Deposits / Deposits (%)** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** |
| **Capital Adequacy** | | | | | | | |
| **TE / TA (%)** | **7.91** | **7.92** | **7.93** | **7.96** | **8.00** | **8.06** | **8.13** |
| **TCE / TA (%)** | **7.91** | **7.92** | **7.93** | **7.96** | **8.00** | **8.06** | **8.13** |
| **Tier 1 Leverage Ratio (%)** | **7.91** | **7.97** | **8.03** | **8.10** | **8.19** | **8.30** | **8.42** |
| **Tier 1 Common Ratio (%)** | **9.18** | **9.24** | **9.32** | **9.41** | **9.51** | **9.64** | **9.78** |
| **Tier 1 Capital Ratio (%)** | **9.18** | **9.24** | **9.32** | **9.41** | **9.51** | **9.64** | **9.78** |
| **Total Capital Ratio (%)** | **10.16** | **10.29** | **10.43** | **10.58** | **10.74** | **10.89** | **11.03** |
| **Asset Quality** | | | | | | | |
| **LLR / Loans (%)** | **1.03** | **1.09** | **1.15** | **1.20** | **1.25** | **1.30** | **1.35** |
| **NPLs / Loans (%)** | **0.83** | **0.77** | **0.71** | **0.65** | **0.60** | **0.55** | **0.50** |
| **NPAs / Assets (%)** | **0.65** | **0.60** | **0.56** | **0.51** | **0.47** | **0.43** | **0.40** |
| **Texas Common Ratio (%)** | **7.8** | **7.2** | **6.6** | **6.0** | **5.4** | **4.9** | **4.4** |
| **Classified Asset Ratio (%)** | **12.3** | **11.3** | **10.4** | **9.5** | **8.6** | **7.8** | **7.0** |

# Appendix (Bank Top + Sample Buyer: *Pro Forma*)

Exhibit AT

| Interest Income | Buyer YTD 12/31/2018 | For the year ended, 12/31/2019 | 12/31/2020 | 12/31/2021 | 12/31/2022 | 12/31/2023 | 12/31/2024 |
|---|---|---|---|---|---|---|---|
| Interest on Loans | $ 262,719 | $ 414,376 | $ 447,323 | $ 483,567 | $ 523,497 | $ 567,550 | $ 616,220 |
| Interest on Securities | 31,766 | 48,404 | 52,210 | 56,398 | 61,011 | 66,102 | 71,728 |
| *Cost of Incremental Dividends Paid* | - | *(699)* | *(1,476)* | *(2,334)* | *(3,282)* | *(4,324)* | *(5,467)* |
| Interest on Other | - | - | - | - | - | - | - |
| Total Interest Income | 294,485 | 462,081 | 498,057 | 537,630 | 581,226 | 629,329 | 682,481 |
| **Interest Expense** | | | | | | | |
| Interest on Non-Time Deposits | 22,080 | 33,627 | 36,241 | 39,120 | 42,287 | 45,777 | 49,628 |
| Interest on Time Deposits | 19,182 | 28,251 | 30,393 | 32,746 | 35,329 | 38,171 | 41,299 |
| Interest on Total Deposits | 41,262 | 61,878 | 66,634 | 71,866 | 77,617 | 83,948 | 90,927 |
| Interest on Borrowings | - | - | - | - | - | - | - |
| Interest on Trust Preferred | - | - | - | - | - | - | - |
| Interest on Other Sub Debt | - | - | - | - | - | - | - |
| Interest on Other | - | - | - | - | - | - | - |
| Total Interest Expense | 41,262 | 61,878 | 66,634 | 71,866 | 77,617 | 83,948 | 90,927 |
| Net Interest Income | 253,223 | 400,203 | 431,424 | 465,765 | 503,610 | 545,381 | 591,554 |
| Provision for Loan Losses | 12,110 | 19,985 | 21,746 | 23,698 | 25,864 | 28,271 | 30,949 |
| Net Interest Income after Provisions | 241,114 | 380,218 | 409,678 | 442,067 | 477,746 | 517,110 | 560,605 |
| **Noninterest Income** | | | | | | | |
| Total Noninterest Income | 67,316 | 102,914 | 110,913 | 119,698 | 129,360 | 140,001 | 151,738 |
| **Noninterest Expense** | | | | | | | |
| Other Noninterest Expense | 232,484 | 355,721 | 378,241 | 402,545 | 428,793 | 457,158 | 487,819 |
| *Amortization of CDI* | - | *5,152* | *5,152* | *5,152* | *5,152* | *5,152* | *5,152* |
| *Cost Savings* | - | *(35,227)* | *(39,183)* | *(43,564)* | *(48,414)* | *(53,780)* | *(59,713)* |
| Total Noninterest Expense | 232,484 | 325,645 | 344,210 | 364,134 | 385,531 | 408,529 | 433,258 |
| Net Income before Taxes | 75,946 | 157,486 | 176,381 | 197,632 | 221,575 | 248,582 | 279,084 |
| Tax Expense | 15,949 | 33,072 | 37,040 | 41,503 | 46,531 | 52,202 | 58,608 |
| **Net Income** | 59,997 | 124,414 | 139,341 | 156,129 | 175,044 | 196,380 | 220,477 |
| Extraordinary Items | - | - | - | - | - | - | - |
| Net Income Att. to Minority Interest | - | - | - | - | - | - | - |
| Preferred Dividends | - | - | - | - | - | - | - |
| **Net Income Avail. to Common** | 59,997 | 124,414 | 139,341 | 156,129 | 175,044 | 196,380 | 220,477 |
| **Earnings per Share** | | | | | | | |
| Pro Forma EPS ($) | 6.00 | 6.81 | 7.63 | 8.55 | 9.58 | 10.75 | 12.07 |
| Stand Alone EPS ($) | 6.00 | 6.38 | 6.91 | 7.46 | 8.06 | 8.69 | 9.36 |
| ***Accretion / (Dilution) ($)*** | ***$ -*** | ***$ 0.43*** | ***$ 0.72*** | ***$ 1.08*** | ***$ 1.53*** | ***$ 2.06*** | ***$ 2.71*** |
| ***Accretion / (Dilution) (%)*** | ***0.00%*** | ***6.70%*** | ***10.45%*** | ***14.52%*** | ***18.94%*** | ***23.74%*** | ***28.94%*** |
| **Profitability Metrics** | | | | | | | |
| **Return on Average Assets (%)** | **0.80** | **1.03** | **1.08** | **1.13** | **1.17** | **1.22** | **1.27** |
| **Return on Average Equity (%)** | **10.00** | **8.40** | **9.01** | **9.63** | **10.25** | **10.88** | **11.50** |
| **Net Interest Margin (%)** | **3.39** | **3.41** | **3.43** | **3.44** | **3.46** | **3.48** | **3.49** |
| **Efficiency Ratio (%)** | **72.5** | **63.7** | **62.5** | **61.3** | **60.1** | **58.9** | **57.6** |
| **Burden Ratio (%)** | **2.20** | **1.85** | **1.81** | **1.77** | **1.72** | **1.67** | **1.62** |
| **NII / Average Assets (%)** | **0.90** | **0.86** | **0.86** | **0.86** | **0.87** | **0.87** | **0.87** |
| **NIE / Average Assets (%)** | **3.10** | **2.71** | **2.67** | **2.63** | **2.58** | **2.54** | **2.49** |
| **Dividends** | | | | | | | |
| Common Dividends per Share ($) | - | 3.38 | 3.76 | 4.15 | 4.59 | 5.04 | 5.53 |
| Common Dividends ($000) | - | 61,811 | 68,619 | 75,896 | 83,762 | 92,099 | 101,046 |
| ***Dividend Payout Ratio (%)*** | ***0.00%*** | ***49.68%*** | ***49.25%*** | ***48.61%*** | ***47.85%*** | ***46.90%*** | ***45.83%*** |

# Appendix (Bank Median: *Stand Alone*)

Exhibit AU

| Assets | Transaction Close 12/31/2018 | For the year ended, 12/31/2019 | 12/31/2020 | 12/31/2021 | 12/31/2022 | 12/31/2023 | 12/31/2024 |
|---|---|---|---|---|---|---|---|
| Cash and Equivalents | $ 15,000 | $ 15,742 | $ 16,652 | $ 17,565 | $ 18,470 | $ 19,373 | $ 20,375 |
| Investment Securities | 169,420 | 181,534 | 194,513 | 208,421 | 223,323 | 239,291 | 256,400 |
| Total Loans | 828,000 | 885,960 | 947,977 | 1,014,336 | 1,085,339 | 1,161,313 | 1,242,605 |
| Loan Loss Reserves | 12,420 | 13,289 | 14,220 | 15,215 | 16,280 | 17,420 | 18,639 |
| Net Loans | 815,580 | 872,671 | 933,758 | 999,121 | 1,069,059 | 1,143,893 | 1,223,966 |
| Goodwill | - | - | - | - | - | - | - |
| Other Intangibles | - | - | - | - | - | - | - |
| Deferred Tax Asset | - | - | - | - | - | - | - |
| Other Real Estate Owned | - | - | - | - | - | - | - |
| Other Assets | - | - | - | - | - | - | - |
| **Total Assets** | 1,000,000 | 1,069,946 | 1,144,923 | 1,225,107 | 1,310,852 | 1,402,557 | 1,500,741 |
| **Liabilities** | | | | | | | |
| Non-Time Deposits | 736,000 | 787,520 | 842,646 | 901,632 | 964,746 | 1,032,278 | 1,104,538 |
| Time Deposits | 184,000 | 196,880 | 210,662 | 225,408 | 241,186 | 258,070 | 276,134 |
| Total Deposits | 920,000 | 984,400 | 1,053,308 | 1,127,040 | 1,205,932 | 1,290,348 | 1,380,672 |
| Borrowings | - | - | - | - | - | - | - |
| Trust Preferred | - | - | - | - | - | - | - |
| Other Sub Debt | - | - | - | - | - | - | - |
| Other Liabilities | - | - | - | - | - | - | - |
| **Total Liabilities** | 920,000 | 984,400 | 1,053,308 | 1,127,040 | 1,205,932 | 1,290,348 | 1,380,672 |
| **Equity** | | | | | | | |
| Preferred Stock | - | - | - | - | - | - | - |
| Common Stock | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 |
| Common Stock Surplus | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 | 50,000 |
| Retained Earnings | 20,000 | 25,546 | 31,615 | 38,067 | 44,920 | 52,209 | 60,069 |
| Accumulated Other Comp. Income | - | - | - | - | - | - | - |
| Noncontrolling Interests | - | - | - | - | - | - | - |
| **Total Equity** | 80,000 | 85,546 | 91,615 | 98,067 | 104,920 | 112,209 | 120,069 |
| **Total Liabilities and Equity** | 1,000,000 | 1,069,946 | 1,144,923 | 1,225,107 | 1,310,852 | 1,402,557 | 1,500,741 |
| **Book Value per Share** | | | | | | | |
| **BV per Share ($)** | **8.00** | **8.55** | **9.16** | **9.81** | **10.49** | **11.22** | **12.01** |
| **TBV per Share ($)** | **8.00** | **8.55** | **9.16** | **9.81** | **10.49** | **11.22** | **12.01** |
| **Balance Sheet Composition** | | | | | | | |
| **Cash & Securities / Assets (%)** | **18.4** | **18.4** | **18.4** | **18.4** | **18.4** | **18.4** | **18.4** |
| **Loans / Deposits (%)** | **90.0** | **90.0** | **90.0** | **90.0** | **90.0** | **90.0** | **90.0** |
| **Core Deposits / Deposits (%)** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** |
| **Capital Adequacy** | | | | | | | |
| **Equity / Assets (%)** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** |
| **TE / TA (%)** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** |
| **TCE / TA (%)** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** |
| **Tier 1 Leverage Ratio (%)** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** |
| **Tier 1 Common Ratio (%)** | **9.25** | **9.24** | **9.25** | **9.26** | **9.25** | **9.25** | **9.25** |
| **Tier 1 Capital Ratio (%)** | **9.25** | **9.24** | **9.25** | **9.26** | **9.25** | **9.25** | **9.25** |
| **Total Capital Ratio (%)** | **10.50** | **10.49** | **10.50** | **10.51** | **10.50** | **10.50** | **10.50** |
| **Asset Quality** | | | | | | | |
| **LLR / Loans (%)** | **1.50** | **1.50** | **1.50** | **1.50** | **1.50** | **1.50** | **1.50** |
| **NPLs / Loans (%)** | **1.21** | **1.13** | **1.05** | **0.99** | **0.92** | **0.86** | **0.80** |
| **NPAs / Assets (%)** | **1.00** | **0.93** | **0.87** | **0.82** | **0.76** | **0.71** | **0.67** |
| **Texas Common Ratio (%)** | **10.8** | **10.1** | **9.4** | **8.8** | **8.3** | **7.7** | **7.2** |
| **Classified Asset Ratio (%)** | **16.2** | **15.2** | **14.2** | **13.2** | **12.4** | **11.6** | **10.8** |

# Appendix (Bank Median: *Stand Alone*)

Exhibit AV

| | YTD | For the year ended, | | | | | |
|---|---|---|---|---|---|---|---|
| **Interest Income** | **12/31/2018** | **12/31/2019** | **12/31/2020** | **12/31/2021** | **12/31/2022** | **12/31/2023** | **12/31/2024** |
| Interest on Loans | $ 36,225 | $ 38,136 | $ 40,805 | $ 43,661 | $ 46,718 | $ 49,988 | $ 53,487 |
| Interest on Securities | 4,236 | 4,387 | 4,701 | 5,037 | 5,397 | 5,783 | 6,196 |
| Interest on Other | - | - | - | - | - | - | - |
| Total Interest Income | 40,461 | 42,523 | 45,506 | 48,698 | 52,115 | 55,771 | 59,683 |
| **Interest Expense** | | | | | | | |
| Interest on Non-Time Deposits | 2,944 | 3,047 | 3,260 | 3,489 | 3,733 | 3,994 | 4,274 |
| Interest on Time Deposits | 2,558 | 2,647 | 2,832 | 3,031 | 3,243 | 3,470 | 3,713 |
| Interest on Total Deposits | 5,502 | 5,694 | 6,093 | 6,519 | 6,976 | 7,464 | 7,986 |
| Interest on Borrowings | - | - | - | - | - | - | - |
| Interest on Trust Preferred | - | - | - | - | - | - | - |
| Interest on Other Sub Debt | - | - | - | - | - | - | - |
| Interest on Other | - | - | - | - | - | - | - |
| Total Interest Expense | 5,502 | 5,694 | 6,093 | 6,519 | 6,976 | 7,464 | 7,986 |
| Net Interest Income | 34,959 | 36,828 | 39,413 | 42,179 | 45,139 | 48,307 | 51,697 |
| Provision for Loan Losses | 1,615 | 1,726 | 1,847 | 1,977 | 2,115 | 2,263 | 2,421 |
| Net Interest Income after Provisions | 33,344 | 35,102 | 37,566 | 40,202 | 43,024 | 46,044 | 49,276 |
| **Noninterest Income** | | | | | | | |
| Fiduciary Activities | - | - | - | - | - | - | - |
| Service Charges on Deposits | 1,840 | 1,914 | 2,048 | 2,191 | 2,344 | 2,508 | 2,684 |
| Net Gain on Sale of Assets | - | - | - | - | - | - | - |
| Net Realized Gain on Secs. | - | - | - | - | - | - | - |
| Other Noninterest Income | 5,149 | 5,355 | 5,730 | 6,131 | 6,560 | 7,019 | 7,511 |
| Total Noninterest Income | 6,989 | 7,269 | 7,777 | 8,322 | 8,904 | 9,528 | 10,195 |
| **Noninterest Expense** | | | | | | | |
| Other Noninterest Expense | 30,206 | 31,264 | 32,749 | 34,321 | 35,865 | 37,479 | 39,166 |
| Amortization of CDI | - | - | - | - | - | - | - |
| Total Noninterest Expense | 30,206 | 31,264 | 32,749 | 34,321 | 35,865 | 37,479 | 39,166 |
| Net Income before Taxes | 10,127 | 11,107 | 12,594 | 14,203 | 16,063 | 18,092 | 20,305 |
| Tax Expense | 2,127 | 2,332 | 2,645 | 2,983 | 3,373 | 3,799 | 4,264 |
| **Net Income** | 8,000 | 8,774 | 9,950 | 11,221 | 12,690 | 14,293 | 16,041 |
| Extraordinary Items | - | - | - | - | - | - | - |
| Net Income Att. to Minority Interest | - | - | - | - | - | - | - |
| Preferred Dividends | - | - | - | - | - | - | - |
| **Net Income Avail. to Common** | 8,000 | 8,774 | 9,950 | 11,221 | 12,690 | 14,293 | 16,041 |
| **Earnings per Share** | | | | | | | |
| Earnings per Share ($) | 0.80 | 0.88 | 0.99 | 1.12 | 1.27 | 1.43 | 1.60 |
| **Profitability Metrics** | | | | | | | |
| **Return on Average Assets (%)** | **0.80** | **0.85** | **0.90** | **0.95** | **1.00** | **1.05** | **1.10** |
| **Return on Average Equity (%)** | **10.00** | **10.60** | **11.23** | **11.83** | **12.50** | **13.17** | **13.81** |
| **Net Interest Margin (%)** | **3.50** | **3.45** | **3.45** | **3.45** | **3.45** | **3.45** | **3.45** |
| **Efficiency Ratio (%)** | **72.0** | **70.9** | **69.4** | **68.0** | **66.4** | **64.8** | **63.3** |
| **Burden Ratio (%)** | **2.32** | **2.32** | **2.25** | **2.19** | **2.13** | **2.06** | **2.00** |
| **NII / Average Assets (%)** | **0.70** | **0.70** | **0.70** | **0.70** | **0.70** | **0.70** | **0.70** |
| **NIE / Average Assets (%)** | **3.02** | **3.02** | **2.96** | **2.90** | **2.83** | **2.76** | **2.70** |
| **Dividends** | | | | | | | |
| Common Dividends per Share ($) | - | 0.32 | 0.39 | 0.48 | 0.58 | 0.70 | 0.82 |
| Common Dividends ($000) | - | 3,229 | 3,880 | 4,769 | 5,837 | 7,004 | 8,181 |
| ***Dividend Payout Ratio (%)*** | ***0.00%*** | ***36.80%*** | ***39.00%*** | ***42.50%*** | ***46.00%*** | ***49.00%*** | ***51.00%*** |

# Appendix (Bank Median + Sample Target: *Pro Forma*)

Exhibit AW

| Assets | Transaction Close 12/31/2018 | For the year ended, 12/31/2019 | 12/31/2020 | 12/31/2021 | 12/31/2022 | 12/31/2023 | 12/31/2024 |
|---|---|---|---|---|---|---|---|
| Cash and Equivalents | $ 19,000 | $ 22,510 | $ 26,191 | $ 29,856 | $ 33,437 | $ 36,918 | $ 40,410 |
| Investment Securities | 211,580 | 225,802 | 240,995 | 257,227 | 274,569 | 293,099 | 312,899 |
| Total Loans | 1,031,840 | 1,099,992 | 1,172,710 | 1,250,305 | 1,333,107 | 1,421,470 | 1,515,769 |
| Loan Loss Reserves | 12,420 | 13,646 | 14,941 | 16,319 | 17,786 | 19,348 | 21,010 |
| Net Loans | 1,019,420 | 1,086,345 | 1,157,769 | 1,233,986 | 1,315,321 | 1,402,122 | 1,494,759 |
| Goodwill | 23,893 | 23,893 | 23,893 | 23,893 | 23,893 | 23,893 | 23,893 |
| Other Intangibles | 3,680 | 3,312 | 2,944 | 2,576 | 2,208 | 1,840 | 1,472 |
| Deferred Tax Asset | (773) | (773) | (773) | (773) | (773) | (773) | (773) |
| Other Real Estate Owned | - | - | - | - | - | - | - |
| Other Assets | - | - | - | - | - | - | - |
| **Total Assets** | 1,276,800 | 1,361,089 | 1,451,019 | 1,546,765 | 1,648,655 | 1,757,099 | 1,872,660 |
| | | | | | | | |
| **Liabilities** | | | | | | | |
| Non-Time Deposits | 920,000 | 980,720 | 1,045,506 | 1,114,635 | 1,188,399 | 1,267,114 | 1,351,115 |
| Time Deposits | 230,000 | 245,180 | 261,377 | 278,659 | 297,100 | 316,778 | 337,779 |
| Total Deposits | 1,150,000 | 1,225,900 | 1,306,883 | 1,393,293 | 1,485,499 | 1,583,892 | 1,688,894 |
| Borrowings | - | - | - | - | - | - | - |
| Trust Preferred | - | - | - | - | - | - | - |
| Other Sub Debt | - | - | - | - | - | - | - |
| Other Liabilities | - | - | - | - | - | - | - |
| **Total Liabilities** | 1,150,000 | 1,225,900 | 1,306,883 | 1,393,293 | 1,485,499 | 1,583,892 | 1,688,894 |
| | | | | | | | |
| **Equity** | | | | | | | |
| Preferred Stock | - | - | - | - | - | - | - |
| Common Stock | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 | 10,000 |
| Common Stock Surplus | 96,800 | 96,800 | 96,800 | 96,800 | 96,800 | 96,800 | 96,800 |
| Retained Earnings | 20,000 | 28,389 | 37,336 | 46,672 | 56,356 | 66,407 | 76,966 |
| Accumulated Other Comp. Income | - | - | - | - | - | - | - |
| Noncontrolling Interests | - | - | - | - | - | - | - |
| **Total Equity** | 126,800 | 135,189 | 144,136 | 153,472 | 163,156 | 173,207 | 183,766 |
| | | | | | | | |
| **Total Liabilities and Equity** | 1,276,800 | 1,361,089 | 1,451,019 | 1,546,765 | 1,648,655 | 1,757,099 | 1,872,660 |
| | | | | | | | |
| **Book Value per Share** | | | | | | | |
| Pro Forma TBV per Share ($) | 7.68 | 8.35 | 9.08 | 9.83 | 10.60 | 11.41 | 12.26 |
| Stand Alone TBV per Share ($) | 8.00 | 8.55 | 9.16 | 9.81 | 10.49 | 11.22 | 12.01 |
| ***Accretion / (Dilution) ($)*** | ***$ (0.32)*** | ***$ (0.20)*** | ***$ (0.09)*** | ***$ 0.02*** | ***$ 0.11*** | ***$ 0.19*** | ***$ 0.25*** |
| ***Accretion / (Dilution) (%)*** | ***(4.04%)*** | ***(2.34%)*** | ***(0.94%)*** | ***0.20%*** | ***1.07%*** | ***1.69%*** | ***2.07%*** |
| | | | | | | | |
| **Balance Sheet Composition** | | | | | | | |
| **Cash & Securities / Assets (%)** | **18.1** | **18.2** | **18.4** | **18.6** | **18.7** | **18.8** | **18.9** |
| **Loans / Deposits (%)** | **89.7** | **89.7** | **89.7** | **89.7** | **89.7** | **89.7** | **89.7** |
| **Core Deposits / Deposits (%)** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** |
| | | | | | | | |
| **Capital Adequacy** | | | | | | | |
| **TE / TA (%)** | **7.94** | **8.10** | **8.24** | **8.35** | **8.45** | **8.52** | **8.57** |
| **TCE / TA (%)** | **7.94** | **8.10** | **8.24** | **8.35** | **8.45** | **8.52** | **8.57** |
| | | | | | | | |
| **Tier 1 Leverage Ratio (%)** | **7.94** | **8.11** | **8.26** | **8.38** | **8.49** | **8.57** | **8.63** |
| **Tier 1 Common Ratio (%)** | **9.21** | **9.39** | **9.57** | **9.72** | **9.83** | **9.92** | **10.00** |
| **Tier 1 Capital Ratio (%)** | **9.21** | **9.39** | **9.57** | **9.72** | **9.83** | **9.92** | **10.00** |
| **Total Capital Ratio (%)** | **10.36** | **10.58** | **10.79** | **10.96** | **11.08** | **11.17** | **11.25** |
| | | | | | | | |
| **Asset Quality** | | | | | | | |
| **LLR / Loans (%)** | **1.20** | **1.24** | **1.27** | **1.31** | **1.33** | **1.36** | **1.39** |
| **NPLs / Loans (%)** | **0.97** | **0.91** | **0.85** | **0.80** | **0.75** | **0.70** | **0.66** |
| **NPAs / Assets (%)** | **0.78** | **0.73** | **0.69** | **0.64** | **0.60** | **0.57** | **0.53** |
| **Texas Common Ratio (%)** | **9.0** | **8.2** | **7.6** | **7.0** | **6.4** | **6.0** | **5.5** |
| **Classified Asset Ratio (%)** | **14.1** | **12.9** | **11.9** | **10.9** | **10.1** | **9.4** | **8.7** |

# Appendix (Bank Median + Sample Target: *Pro Forma*)

Exhibit AX

| | Median YTD | For the year ended, | | | | | |
|---|---|---|---|---|---|---|---|
| **Interest Income** | **12/31/2018** | **12/31/2019** | **12/31/2020** | **12/31/2021** | **12/31/2022** | **12/31/2023** | **12/31/2024** |
| Interest on Loans | $ 36,225 | $ 47,787 | $ 50,939 | $ 54,302 | $ 57,890 | $ 61,719 | $ 65,805 |
| Interest on Securities | 4,236 | 5,467 | 5,835 | 6,228 | 6,647 | 7,096 | 7,575 |
| *Cost of Incremental Dividends Paid* | - | *(24)* | *(52)* | *(87)* | *(130)* | *(181)* | *(241)* |
| Interest on Other | - | - | - | - | - | - | - |
| Total Interest Income | 40,461 | 53,231 | 56,722 | 60,443 | 64,408 | 68,634 | 73,139 |
| | | | | | | | |
| **Interest Expense** | | | | | | | |
| Interest on Non-Time Deposits | 2,944 | 3,801 | 4,052 | 4,320 | 4,606 | 4,911 | 5,236 |
| Interest on Time Deposits | 2,558 | 3,303 | 3,521 | 3,753 | 4,002 | 4,266 | 4,549 |
| Interest on Total Deposits | 5,502 | 7,104 | 7,573 | 8,074 | 8,608 | 9,177 | 9,786 |
| Interest on Borrowings | - | - | - | - | - | - | - |
| Interest on Trust Preferred | - | - | - | - | - | - | - |
| Interest on Other Sub Debt | - | - | - | - | - | - | - |
| Interest on Other | - | - | - | - | - | - | - |
| Total Interest Expense | 5,502 | 7,104 | 7,573 | 8,074 | 8,608 | 9,177 | 9,786 |
| | | | | | | | |
| Net Interest Income | 34,959 | 46,127 | 49,149 | 52,369 | 55,801 | 59,457 | 63,354 |
| Provision for Loan Losses | 1,615 | 2,094 | 2,233 | 2,382 | 2,540 | 2,709 | 2,890 |
| Net Interest Income after Provisions | 33,344 | 44,033 | 46,916 | 49,988 | 53,261 | 56,747 | 60,464 |
| | | | | | | | |
| **Noninterest Income** | | | | | | | |
| Total Noninterest Income | 6,989 | 9,148 | 9,732 | 10,394 | 11,080 | 11,812 | 12,593 |
| | | | | | | | |
| **Noninterest Expense** | | | | | | | |
| Other Noninterest Expense | 30,206 | 39,333 | 41,116 | 42,998 | 44,863 | 46,810 | 48,842 |
| *Amortization of CDI* | - | *368* | *368* | *368* | *368* | *368* | *368* |
| *Cost Savings* | - | *(2,421)* | *(2,510)* | *(2,603)* | *(2,699)* | *(2,799)* | *(2,903)* |
| Total Noninterest Expense | 30,206 | 37,280 | 38,974 | 40,763 | 42,532 | 44,379 | 46,307 |
| | | | | | | | |
| Net Income before Taxes | 10,127 | 15,901 | 17,674 | 19,619 | 21,809 | 24,181 | 26,750 |
| Tax Expense | 2,127 | 3,339 | 3,712 | 4,120 | 4,580 | 5,078 | 5,618 |
| **Net Income** | 8,000 | 12,562 | 13,963 | 15,499 | 17,229 | 19,103 | 21,133 |
| | | | | | | | |
| Extraordinary Items | - | - | - | - | - | - | - |
| Net Income Att. to Minority Interest | - | - | - | - | - | - | - |
| Preferred Dividends | - | - | - | - | - | - | - |
| **Net Income Avail. to Common** | 8,000 | 12,562 | 13,963 | 15,499 | 17,229 | 19,103 | 21,133 |
| | | | | | | | |
| **Earnings per Share** | | | | | | | |
| Pro Forma EPS ($) | 0.80 | 0.97 | 1.08 | 1.20 | 1.33 | 1.48 | 1.64 |
| Stand Alone EPS ($) | 0.80 | 0.88 | 0.99 | 1.12 | 1.27 | 1.43 | 1.60 |
| ***Accretion / (Dilution) ($)*** | ***$ -*** | ***$ 0.09*** | ***$ 0.09*** | ***$ 0.08*** | ***$ 0.06*** | ***$ 0.05*** | ***$ 0.03*** |
| ***Accretion / (Dilution) (%)*** | ***0.00%*** | ***10.77%*** | ***8.58%*** | ***6.87%*** | ***5.04%*** | ***3.41%*** | ***1.93%*** |
| | | | | | | | |
| **Profitability Metrics** | | | | | | | |
| **Return on Average Assets (%)** | **0.80** | **0.97** | **0.99** | **1.03** | **1.08** | **1.12** | **1.16** |
| **Return on Average Equity (%)** | **10.00** | **9.69** | **10.00** | **10.42** | **10.88** | **11.36** | **11.84** |
| **Net Interest Margin (%)** | **3.50** | **3.47** | **3.47** | **3.46** | **3.46** | **3.46** | **3.46** |
| **Efficiency Ratio (%)** | **72.0** | **66.8** | **65.6** | **64.4** | **63.0** | **61.8** | **60.5** |
| **Burden Ratio (%)** | **2.32** | **2.18** | **2.08** | **2.03** | **1.97** | **1.91** | **1.86** |
| | | | | | | | |
| **NII / Average Assets (%)** | **0.70** | **0.71** | **0.69** | **0.69** | **0.69** | **0.69** | **0.69** |
| **NIE / Average Assets (%)** | **3.02** | **2.89** | **2.77** | **2.72** | **2.66** | **2.61** | **2.55** |
| | | | | | | | |
| **Dividends** | | | | | | | |
| Common Dividends per Share ($) | - | 0.32 | 0.39 | 0.48 | 0.58 | 0.70 | 0.82 |
| Common Dividends ($000) | - | 4,173 | 5,015 | 6,164 | 7,545 | 9,052 | 10,574 |
| ***Dividend Payout Ratio (%)*** | ***0.00%*** | ***33.22%*** | ***35.92%*** | ***39.77%*** | ***43.79%*** | ***47.39%*** | ***50.03%*** |

# Appendix (Bank Median + Sample Buyer: *Pro Forma*)

Exhibit AY

| Assets | Transaction Close 12/31/2018 | For the year ended, 12/31/2019 | 12/31/2020 | 12/31/2021 | 12/31/2022 | 12/31/2023 | 12/31/2024 |
|---|---|---|---|---|---|---|---|
| Cash and Equivalents | $ 127,500 | $ 139,486 | $ 152,080 | $ 165,392 | $ 179,486 | $ 194,479 | $ 210,422 |
| Investment Securities | 1,440,070 | 1,515,716 | 1,595,405 | 1,679,357 | 1,767,806 | 1,860,998 | 1,959,192 |
| Total Loans | 7,025,580 | 7,393,171 | 7,780,283 | 8,187,972 | 8,617,353 | 9,069,602 | 9,545,960 |
| Loan Loss Reserves | 93,150 | 99,476 | 106,094 | 113,077 | 120,446 | 128,223 | 136,431 |
| Net Loans | 6,932,430 | 7,293,695 | 7,674,189 | 8,074,895 | 8,496,907 | 8,941,379 | 9,409,528 |
| Goodwill | 116,372 | 116,372 | 116,372 | 116,372 | 116,372 | 116,372 | 116,372 |
| Other Intangibles | 14,720 | 13,248 | 11,776 | 10,304 | 8,832 | 7,360 | 5,888 |
| Deferred Tax Asset | (3,091) | (3,091) | (3,091) | (3,091) | (3,091) | (3,091) | (3,091) |
| Other Real Estate Owned | - | - | - | - | - | - | - |
| Other Assets | - | - | - | - | - | - | - |
| **Total Assets** | 8,628,001 | 9,075,425 | 9,546,731 | 10,043,229 | 10,566,312 | 11,117,496 | 11,698,312 |
| **Liabilities** | | | | | | | |
| Non-Time Deposits | 6,256,000 | 6,583,520 | 6,928,446 | 7,291,722 | 7,674,340 | 8,077,352 | 8,501,865 |
| Time Deposits | 1,564,000 | 1,645,880 | 1,732,112 | 1,822,930 | 1,918,585 | 2,019,338 | 2,125,466 |
| Total Deposits | 7,820,000 | 8,229,400 | 8,660,558 | 9,114,652 | 9,592,925 | 10,096,690 | 10,627,332 |
| Borrowings | - | - | - | - | - | - | - |
| Trust Preferred | - | - | - | - | - | - | - |
| Other Sub Debt | - | - | - | - | - | - | - |
| Other Liabilities | - | - | - | - | - | - | - |
| **Total Liabilities** | 7,820,000 | 8,229,400 | 8,660,558 | 9,114,652 | 9,592,925 | 10,096,690 | 10,627,332 |
| **Equity** | | | | | | | |
| Preferred Stock | - | - | - | - | - | - | - |
| Common Stock | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 |
| Common Stock Surplus | 583,001 | 583,001 | 583,001 | 583,001 | 583,001 | 583,001 | 583,001 |
| Retained Earnings | 150,000 | 188,024 | 228,171 | 270,576 | 315,385 | 362,804 | 412,979 |
| Accumulated Other Comp. Income | - | - | - | - | - | - | - |
| Noncontrolling Interests | - | - | - | - | - | - | - |
| **Total Equity** | 808,001 | 846,025 | 886,173 | 928,577 | 973,386 | 1,020,806 | 1,070,980 |
| **Total Liabilities and Equity** | 8,628,001 | 9,075,425 | 9,546,731 | 10,043,229 | 10,566,312 | 11,117,496 | 11,698,312 |
| **Book Value per Share** | | | | | | | |
| Pro Forma TBV per Share ($) | 56.28 | 59.56 | 63.03 | 66.67 | 70.52 | 74.59 | 78.88 |
| Stand Alone TBV per Share ($) | 60.00 | 63.00 | 66.15 | 69.46 | 72.93 | 76.58 | 80.41 |
| ***Accretion / (Dilution) ($)*** | ***$ (3.72)*** | ***$ (3.43)*** | ***$ (3.12)*** | ***$ (2.79)*** | ***$ (2.41)*** | ***$ (1.99)*** | ***$ (1.53)*** |
| ***Accretion / (Dilution) (%)*** | ***(6.20%)*** | ***(5.45%)*** | ***(4.72%)*** | ***(4.01%)*** | ***(3.30%)*** | ***(2.60%)*** | ***(1.90%)*** |
| **Balance Sheet Composition** | | | | | | | |
| **Cash & Securities / Assets (%)** | **18.2** | **18.2** | **18.3** | **18.4** | **18.4** | **18.5** | **18.5** |
| **Loans / Deposits (%)** | **89.8** | **89.8** | **89.8** | **89.8** | **89.8** | **89.8** | **89.8** |
| **Core Deposits / Deposits (%)** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** |
| **Capital Adequacy** | | | | | | | |
| **TE / TA (%)** | **7.97** | **8.01** | **8.05** | **8.09** | **8.12** | **8.16** | **8.20** |
| **TCE / TA (%)** | **7.97** | **8.01** | **8.05** | **8.09** | **8.12** | **8.16** | **8.20** |
| **Tier 1 Leverage Ratio (%)** | **7.97** | **8.02** | **8.07** | **8.11** | **8.16** | **8.20** | **8.24** |
| **Tier 1 Common Ratio (%)** | **9.22** | **9.28** | **9.34** | **9.39** | **9.44** | **9.50** | **9.55** |
| **Tier 1 Capital Ratio (%)** | **9.22** | **9.28** | **9.34** | **9.39** | **9.44** | **9.50** | **9.55** |
| **Total Capital Ratio (%)** | **10.47** | **10.53** | **10.59** | **10.64** | **10.69** | **10.75** | **10.80** |
| **Asset Quality** | | | | | | | |
| **LLR / Loans (%)** | **1.33** | **1.35** | **1.36** | **1.38** | **1.40** | **1.41** | **1.43** |
| **NPLs / Loans (%)** | **1.07** | **1.01** | **0.96** | **0.91** | **0.87** | **0.82** | **0.78** |
| **NPAs / Assets (%)** | **0.87** | **0.83** | **0.78** | **0.75** | **0.71** | **0.67** | **0.64** |
| **Texas Common Ratio (%)** | **9.7** | **9.2** | **8.7** | **8.2** | **7.7** | **7.3** | **6.9** |
| **Classified Asset Ratio (%)** | **14.9** | **14.1** | **13.3** | **12.6** | **11.8** | **11.2** | **10.6** |

# Appendix (Bank Median + Sample Buyer: *Pro Forma*)

Exhibit AZ

| | Buyer YTD | For the year ended, | | | | | |
|---|---|---|---|---|---|---|---|
| **Interest Income** | **12/31/2018** | **12/31/2019** | **12/31/2020** | **12/31/2021** | **12/31/2022** | **12/31/2023** | **12/31/2024** |
| Interest on Loans | $ 262,719 | $ 308,659 | $ 324,854 | $ 341,913 | $ 359,882 | $ 378,811 | $ 398,751 |
| Interest on Securities | 31,766 | 36,947 | 38,889 | 40,935 | 43,090 | 45,360 | 47,752 |
| *Cost of Incremental Dividends Paid* | - | *(172)* | *(362)* | *(572)* | *(805)* | *(1,060)* | *(1,341)* |
| Interest on Other | - | - | - | - | - | - | - |
| Total Interest Income | 294,485 | 345,435 | 363,381 | 382,275 | 402,167 | 423,110 | 445,162 |
| **Interest Expense** | | | | | | | |
| Interest on Non-Time Deposits | 22,080 | 25,679 | 27,024 | 28,440 | 29,932 | 31,503 | 33,158 |
| Interest on Time Deposits | 19,182 | 22,309 | 23,477 | 24,708 | 26,004 | 27,369 | 28,806 |
| Interest on Total Deposits | 41,262 | 47,988 | 50,501 | 53,148 | 55,936 | 58,872 | 61,965 |
| Interest on Borrowings | - | - | - | - | - | - | - |
| Interest on Trust Preferred | - | - | - | - | - | - | - |
| Interest on Other Sub Debt | - | - | - | - | - | - | - |
| Interest on Other | - | - | - | - | - | - | - |
| Total Interest Expense | 41,262 | 47,988 | 50,501 | 53,148 | 55,936 | 58,872 | 61,965 |
| Net Interest Income | 253,223 | 297,447 | 312,881 | 329,127 | 346,231 | 364,238 | 383,198 |
| Provision for Loan Losses | 12,110 | 12,749 | 13,421 | 14,129 | 14,875 | 15,661 | 16,489 |
| Net Interest Income after Provisions | 241,114 | 284,698 | 299,459 | 314,998 | 331,356 | 348,577 | 366,708 |
| **Noninterest Income** | | | | | | | |
| Total Noninterest Income | 67,316 | 76,604 | 80,580 | 84,765 | 89,169 | 93,806 | 98,687 |
| **Noninterest Expense** | | | | | | | |
| Other Noninterest Expense | 232,484 | 269,560 | 280,380 | 291,653 | 303,279 | 315,368 | 327,941 |
| *Amortization of CDI* | - | *1,472* | *1,472* | *1,472* | *1,472* | *1,472* | *1,472* |
| *Cost Savings* | - | *(9,379)* | *(9,825)* | *(10,296)* | *(10,760)* | *(11,244)* | *(11,750)* |
| Total Noninterest Expense | 232,484 | 261,653 | 272,028 | 282,829 | 293,991 | 305,597 | 317,664 |
| Net Income before Taxes | 75,946 | 99,649 | 108,012 | 116,934 | 126,534 | 136,786 | 147,731 |
| Tax Expense | 15,949 | 20,926 | 22,682 | 24,556 | 26,572 | 28,725 | 31,024 |
| **Net Income** | 59,997 | 78,723 | 85,329 | 92,378 | 99,962 | 108,061 | 116,708 |
| Extraordinary Items | - | - | - | - | - | - | - |
| Net Income Att. to Minority Interest | - | - | - | - | - | - | - |
| Preferred Dividends | - | - | - | - | - | - | - |
| **Net Income Avail. to Common** | 59,997 | 78,723 | 85,329 | 92,378 | 99,962 | 108,061 | 116,708 |
| **Earnings per Share** | | | | | | | |
| Pro Forma EPS ($) | 6.00 | 6.55 | 7.09 | 7.68 | 8.31 | 8.98 | 9.70 |
| Stand Alone EPS ($) | 6.00 | 6.38 | 6.91 | 7.46 | 8.06 | 8.69 | 9.36 |
| ***Accretion / (Dilution) ($)*** | ***$ -*** | ***$ 0.16*** | ***$ 0.19*** | ***$ 0.22*** | ***$ 0.25*** | ***$ 0.30*** | ***$ 0.34*** |
| ***Accretion / (Dilution) (%)*** | ***0.00%*** | ***2.53%*** | ***2.72%*** | ***2.91%*** | ***3.15%*** | ***3.41%*** | ***3.66%*** |
| **Profitability Metrics** | | | | | | | |
| **Return on Average Assets (%)** | **0.80** | **0.90** | **0.92** | **0.94** | **0.97** | **1.00** | **1.02** |
| **Return on Average Equity (%)** | **10.00** | **9.65** | **9.85** | **10.18** | **10.51** | **10.84** | **11.16** |
| **Net Interest Margin (%)** | **3.39** | **3.34** | **3.34** | **3.34** | **3.34** | **3.34** | **3.34** |
| **Efficiency Ratio (%)** | **72.5** | **69.6** | **68.8** | **68.0** | **67.2** | **66.4** | **65.6** |
| **Burden Ratio (%)** | **2.20** | **2.13** | **2.06** | **2.02** | **1.99** | **1.95** | **1.92** |
| **NII / Average Assets (%)** | **0.90** | **0.88** | **0.87** | **0.87** | **0.87** | **0.87** | **0.87** |
| **NIE / Average Assets (%)** | **3.10** | **3.01** | **2.92** | **2.89** | **2.85** | **2.82** | **2.78** |
| **Dividends** | | | | | | | |
| Common Dividends per Share ($) | - | 3.38 | 3.76 | 4.15 | 4.59 | 5.04 | 5.53 |
| Common Dividends ($000) | - | 40,699 | 45,182 | 49,973 | 55,153 | 60,642 | 66,533 |
| ***Dividend Payout Ratio (%)*** | ***0.00%*** | ***51.70%*** | ***52.95%*** | ***54.10%*** | ***55.17%*** | ***56.12%*** | ***57.01%*** |

# Appendix (Bank Bottom: *Stand Alone*)

Exhibit BA

| Assets | Transaction Close 12/31/2018 | For the year ended, 12/31/2019 | 12/31/2020 | 12/31/2021 | 12/31/2022 | 12/31/2023 | 12/31/2024 |
|---|---|---|---|---|---|---|---|
| Cash and Equivalents | $ 7,000 | $ 7,036 | $ 7,071 | $ 7,097 | $ 7,146 | $ 7,194 | $ 7,191 |
| Investment Securities | 66,768 | 68,938 | 71,179 | 73,492 | 75,880 | 78,346 | 80,893 |
| Total Loans | 331,200 | 341,136 | 351,370 | 361,911 | 372,769 | 383,952 | 395,470 |
| Loan Loss Reserves | 4,968 | 5,117 | 5,271 | 5,429 | 5,592 | 5,759 | 5,932 |
| Net Loans | 326,232 | 336,019 | 346,100 | 356,483 | 367,177 | 378,192 | 389,538 |
| Goodwill | - | - | - | - | - | - | - |
| Other Intangibles | - | - | - | - | - | - | - |
| Deferred Tax Asset | - | - | - | - | - | - | - |
| Other Real Estate Owned | - | - | - | - | - | - | - |
| Other Assets | - | - | - | - | - | - | - |
| **Total Assets** | 400,000 | 411,993 | 424,349 | 437,071 | 450,204 | 463,733 | 477,621 |
| **Liabilities** | | | | | | | |
| Non-Time Deposits | 294,400 | 303,232 | 312,329 | 321,699 | 331,350 | 341,290 | 351,529 |
| Time Deposits | 73,600 | 75,808 | 78,082 | 80,425 | 82,837 | 85,323 | 87,882 |
| Total Deposits | 368,000 | 379,040 | 390,411 | 402,124 | 414,187 | 426,613 | 439,411 |
| Borrowings | - | - | - | - | - | - | - |
| Trust Preferred | - | - | - | - | - | - | - |
| Other Sub Debt | - | - | - | - | - | - | - |
| Other Liabilities | - | - | - | - | - | - | - |
| **Total Liabilities** | 368,000 | 379,040 | 390,411 | 402,124 | 414,187 | 426,613 | 439,411 |
| **Equity** | | | | | | | |
| Preferred Stock | - | - | - | - | - | - | - |
| Common Stock | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 |
| Common Stock Surplus | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 | 15,000 |
| Retained Earnings | 13,000 | 13,953 | 14,938 | 15,948 | 17,016 | 18,120 | 19,210 |
| Accumulated Other Comp. Income | - | - | - | - | - | - | - |
| Noncontrolling Interests | - | - | - | - | - | - | - |
| **Total Equity** | 32,000 | 32,953 | 33,938 | 34,948 | 36,016 | 37,120 | 38,210 |
| **Total Liabilities and Equity** | 400,000 | 411,993 | 424,349 | 437,071 | 450,204 | 463,733 | 477,621 |
| **Book Value per Share** | | | | | | | |
| **BV per Share ($)** | **3.20** | **3.30** | **3.39** | **3.49** | **3.60** | **3.71** | **3.82** |
| **TBV per Share ($)** | **3.20** | **3.30** | **3.39** | **3.49** | **3.60** | **3.71** | **3.82** |
| **Balance Sheet Composition** | | | | | | | |
| **Cash & Securities / Assets (%)** | **18.4** | **18.4** | **18.4** | **18.4** | **18.4** | **18.4** | **18.4** |
| **Loans / Deposits (%)** | **90.0** | **90.0** | **90.0** | **90.0** | **90.0** | **90.0** | **90.0** |
| **Core Deposits / Deposits (%)** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** |
| **Capital Adequacy** | | | | | | | |
| **Equity / Assets (%)** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** |
| **TE / TA (%)** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** |
| **TCE / TA (%)** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** |
| **Tier 1 Leverage Ratio (%)** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** | **8.00** |
| **Tier 1 Common Ratio (%)** | **9.25** | **9.25** | **9.25** | **9.25** | **9.25** | **9.26** | **9.25** |
| **Tier 1 Capital Ratio (%)** | **9.25** | **9.25** | **9.25** | **9.25** | **9.25** | **9.26** | **9.25** |
| **Total Capital Ratio (%)** | **10.50** | **10.50** | **10.50** | **10.50** | **10.50** | **10.51** | **10.50** |
| **Asset Quality** | | | | | | | |
| **LLR / Loans (%)** | **1.50** | **1.50** | **1.50** | **1.50** | **1.50** | **1.50** | **1.50** |
| **NPLs / Loans (%)** | **1.25** | **1.22** | **1.18** | **1.15** | **1.11** | **1.08** | **1.05** |
| **NPAs / Assets (%)** | **1.04** | **1.01** | **0.98** | **0.95** | **0.92** | **0.89** | **0.87** |
| **Texas Common Ratio (%)** | **11.2** | **10.9** | **10.6** | **10.3** | **10.0** | **9.7** | **9.4** |
| **Classified Asset Ratio (%)** | **16.8** | **16.3** | **15.9** | **15.4** | **15.0** | **14.5** | **14.1** |

# Appendix (Bank Bottom: *Stand Alone*)

Exhibit BB

| | YTD | For the year ended, | | | | | |
|---|---|---|---|---|---|---|---|
| **Interest Income** | **12/31/2018** | **12/31/2019** | **12/31/2020** | **12/31/2021** | **12/31/2022** | **12/31/2023** | **12/31/2024** |
| Interest on Loans | $ 14,163 | $ 14,287 | $ 14,716 | $ 15,157 | $ 15,612 | $ 16,080 | $ 16,563 |
| Interest on Securities | 1,669 | 1,696 | 1,751 | 1,808 | 1,867 | 1,928 | 1,990 |
| Interest on Other | - | - | - | - | - | - | - |
| Total Interest Income | 15,832 | 15,983 | 16,467 | 16,966 | 17,479 | 18,008 | 18,553 |
| **Interest Expense** | | | | | | | |
| Interest on Non-Time Deposits | 1,325 | 1,345 | 1,385 | 1,427 | 1,469 | 1,513 | 1,559 |
| Interest on Time Deposits | 1,251 | 1,270 | 1,308 | 1,347 | 1,388 | 1,429 | 1,472 |
| Interest on Total Deposits | 2,576 | 2,615 | 2,693 | 2,774 | 2,857 | 2,943 | 3,031 |
| Interest on Borrowings | - | - | - | - | - | - | - |
| Interest on Trust Preferred | - | - | - | - | - | - | - |
| Interest on Other Sub Debt | - | - | - | - | - | - | - |
| Interest on Other | - | - | - | - | - | - | - |
| Total Interest Expense | 2,576 | 2,615 | 2,693 | 2,774 | 2,857 | 2,943 | 3,031 |
| Net Interest Income | 13,256 | 13,369 | 13,774 | 14,192 | 14,622 | 15,065 | 15,522 |
| Provision for Loan Losses | 646 | 485 | 500 | 515 | 530 | 546 | 562 |
| Net Interest Income after Provisions | 12,610 | 12,884 | 13,274 | 13,677 | 14,092 | 14,519 | 14,960 |
| **Noninterest Income** | | | | | | | |
| Fiduciary Activities | - | - | - | - | - | - | - |
| Service Charges on Deposits | 743 | 758 | 781 | 804 | 828 | 853 | 879 |
| Net Gain on Sale of Assets | - | - | - | - | - | - | - |
| Net Realized Gain on Secs. | - | - | - | - | - | - | - |
| Other Noninterest Income | 1,657 | 1,690 | 1,741 | 1,793 | 1,847 | 1,902 | 1,959 |
| Total Noninterest Income | 2,400 | 2,448 | 2,522 | 2,597 | 2,675 | 2,755 | 2,838 |
| **Noninterest Expense** | | | | | | | |
| Other Noninterest Expense | 12,174 | 12,257 | 12,349 | 12,447 | 12,556 | 12,627 | 12,707 |
| Amortization of CDI | - | - | - | - | - | - | - |
| Total Noninterest Expense | 12,174 | 12,257 | 12,349 | 12,447 | 12,556 | 12,627 | 12,707 |
| Net Income before Taxes | 2,836 | 3,075 | 3,447 | 3,827 | 4,211 | 4,648 | 5,090 |
| Tax Expense | 595 | 646 | 724 | 804 | 884 | 976 | 1,069 |
| **Net Income** | 2,240 | 2,429 | 2,723 | 3,024 | 3,327 | 3,672 | 4,021 |
| Extraordinary Items | - | - | - | - | - | - | - |
| Net Income Att. to Minority Interest | - | - | - | - | - | - | - |
| Preferred Dividends | - | - | - | - | - | - | - |
| **Net Income Avail. to Common** | 2,240 | 2,429 | 2,723 | 3,024 | 3,327 | 3,672 | 4,021 |
| **Earnings per Share** | | | | | | | |
| Earnings per Share ($) | 0.22 | 0.24 | 0.27 | 0.30 | 0.33 | 0.37 | 0.40 |
| **Profitability Metrics** | | | | | | | |
| **Return on Average Assets (%)** | **0.56** | **0.60** | **0.65** | **0.70** | **0.75** | **0.80** | **0.85** |
| **Return on Average Equity (%)** | **7.00** | **7.48** | **8.14** | **8.78** | **9.38** | **10.04** | **10.68** |
| **Net Interest Margin (%)** | **3.33** | **3.26** | **3.26** | **3.26** | **3.26** | **3.27** | **3.27** |
| **Efficiency Ratio (%)** | **77.8** | **77.5** | **75.8** | **74.1** | **72.6** | **70.9** | **69.2** |
| **Burden Ratio (%)** | **2.44** | **2.42** | **2.35** | **2.29** | **2.23** | **2.16** | **2.10** |
| **NII / Average Assets (%)** | **0.60** | **0.60** | **0.60** | **0.60** | **0.60** | **0.60** | **0.60** |
| **NIE / Average Assets (%)** | **3.04** | **3.02** | **2.95** | **2.89** | **2.83** | **2.76** | **2.70** |
| **Dividends** | | | | | | | |
| Common Dividends per Share ($) | - | 0.15 | 0.17 | 0.20 | 0.23 | 0.26 | 0.29 |
| Common Dividends ($000) | - | 1,476 | 1,739 | 2,013 | 2,258 | 2,568 | 2,932 |
| ***Dividend Payout Ratio (%)*** | ***0.00%*** | ***60.76%*** | ***63.86%*** | ***66.59%*** | ***67.88%*** | ***69.93%*** | ***72.90%*** |

# Appendix (Bank Bottom + Sample Target: *Pro Forma*)

Exhibit BC

| Assets | Transaction Close 12/31/2018 | 12/31/2019 | 12/31/2020 | 12/31/2021 | 12/31/2022 | 12/31/2023 | 12/31/2024 |
|---|---|---|---|---|---|---|---|
| | | For the year ended, | | | | | |
| Cash and Equivalents | $ 11,000 | $ 13,320 | $ 15,567 | $ 17,772 | $ 19,992 | $ 22,148 | $ 24,149 |
| Investment Securities | 108,929 | 113,207 | 117,660 | 122,298 | 127,127 | 132,155 | 137,392 |
| Total Loans | 535,040 | 555,168 | 576,103 | 597,881 | 620,537 | 644,108 | 668,635 |
| Loan Loss Reserves | 4,968 | 5,474 | 5,992 | 6,533 | 7,098 | 7,687 | 8,303 |
| Net Loans | 530,072 | 549,694 | 570,111 | 591,348 | 613,439 | 636,421 | 660,332 |
| Goodwill | 23,893 | 23,893 | 23,893 | 23,893 | 23,893 | 23,893 | 23,893 |
| Other Intangibles | 3,680 | 3,312 | 2,944 | 2,576 | 2,208 | 1,840 | 1,472 |
| Deferred Tax Asset | (773) | (773) | (773) | (773) | (773) | (773) | (773) |
| Other Real Estate Owned | - | - | - | - | - | - | - |
| Other Assets | - | - | - | - | - | - | - |
| **Total Assets** | 676,800 | 702,652 | 729,402 | 757,114 | 785,885 | 815,684 | 846,464 |
| **Liabilities** | | | | | | | |
| Non-Time Deposits | 478,400 | 496,432 | 515,189 | 534,702 | 555,003 | 576,126 | 598,107 |
| Time Deposits | 119,600 | 124,108 | 128,797 | 133,675 | 138,751 | 144,032 | 149,527 |
| Total Deposits | 598,000 | 620,540 | 643,986 | 668,377 | 693,754 | 720,158 | 747,633 |
| Borrowings | - | - | - | - | - | - | - |
| Trust Preferred | - | - | - | - | - | - | - |
| Other Sub Debt | - | - | - | - | - | - | - |
| Other Liabilities | - | - | - | - | - | - | - |
| **Total Liabilities** | 598,000 | 620,540 | 643,986 | 668,377 | 693,754 | 720,158 | 747,633 |
| **Equity** | | | | | | | |
| Preferred Stock | - | - | - | - | - | - | - |
| Common Stock | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 | 4,000 |
| Common Stock Surplus | 61,800 | 61,800 | 61,800 | 61,800 | 61,800 | 61,800 | 61,800 |
| Retained Earnings | 13,000 | 16,312 | 19,616 | 22,937 | 26,332 | 29,727 | 33,031 |
| Accumulated Other Comp. Income | - | - | - | - | - | - | - |
| Noncontrolling Interests | - | - | - | - | - | - | - |
| **Total Equity** | 78,800 | 82,112 | 85,416 | 88,737 | 92,132 | 95,527 | 98,831 |
| **Total Liabilities and Equity** | 676,800 | 702,652 | 729,402 | 757,114 | 785,885 | 815,684 | 846,464 |
| **Book Value per Share** | | | | | | | |
| Pro Forma TBV per Share ($) | 2.61 | 2.80 | 2.99 | 3.17 | 3.37 | 3.56 | 3.74 |
| Stand Alone TBV per Share ($) | 3.20 | 3.30 | 3.39 | 3.49 | 3.60 | 3.71 | 3.82 |
| ***Accretion / (Dilution) ($)*** | ***$ (0.59)*** | ***$ (0.50)*** | ***$ (0.41)*** | ***$ (0.32)*** | ***$ (0.24)*** | ***$ (0.16)*** | ***$ (0.08)*** |
| ***Accretion / (Dilution) (%)*** | ***(18.41%)*** | ***(15.08%)*** | ***(12.03%)*** | ***(9.20%)*** | ***(6.56%)*** | ***(4.18%)*** | ***(2.01%)*** |
| **Balance Sheet Composition** | | | | | | | |
| **Cash & Securities / Assets (%)** | **17.7** | **18.0** | **18.3** | **18.5** | **18.7** | **18.9** | **19.1** |
| **Loans / Deposits (%)** | **89.5** | **89.5** | **89.5** | **89.5** | **89.4** | **89.4** | **89.4** |
| **Core Deposits / Deposits (%)** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** |
| **Capital Adequacy** | | | | | | | |
| **TE / TA (%)** | **7.89** | **8.13** | **8.34** | **8.52** | **8.69** | **8.84** | **8.95** |
| **TCE / TA (%)** | **7.89** | **8.13** | **8.34** | **8.52** | **8.69** | **8.84** | **8.95** |
| **Tier 1 Leverage Ratio (%)** | **7.89** | **8.15** | **8.38** | **8.59** | **8.78** | **8.94** | **9.07** |
| **Tier 1 Common Ratio (%)** | **9.16** | **9.47** | **9.73** | **9.97** | **10.19** | **10.39** | **10.54** |
| **Tier 1 Capital Ratio (%)** | **9.16** | **9.47** | **9.73** | **9.97** | **10.19** | **10.39** | **10.54** |
| **Total Capital Ratio (%)** | **10.05** | **10.41** | **10.73** | **11.02** | **11.29** | **11.53** | **11.73** |
| **Asset Quality** | | | | | | | |
| **LLR / Loans (%)** | **0.93** | **0.99** | **1.04** | **1.09** | **1.14** | **1.19** | **1.24** |
| **NPLs / Loans (%)** | **0.78** | **0.75** | **0.72** | **0.69** | **0.66** | **0.64** | **0.61** |
| **NPAs / Assets (%)** | **0.61** | **0.59** | **0.57** | **0.54** | **0.52** | **0.50** | **0.48** |
| **Texas Common Ratio (%)** | **7.4** | **6.9** | **6.4** | **6.0** | **5.6** | **5.3** | **5.0** |
| **Classified Asset Ratio (%)** | **12.3** | **11.5** | **10.7** | **10.0** | **9.4** | **8.8** | **8.3** |

# Appendix (Bank Bottom + Sample Target: *Pro Forma*)

Exhibit BD

| | Bottom YTD | For the year ended, | | | | | |
|---|---|---|---|---|---|---|---|
| **Interest Income** | **12/31/2018** | **12/31/2019** | **12/31/2020** | **12/31/2021** | **12/31/2022** | **12/31/2023** | **12/31/2024** |
| Interest on Loans | $ 14,163 | $ 23,938 | $ 24,850 | $ 25,798 | $ 26,785 | $ 27,812 | $ 28,881 |
| Interest on Securities | 1,669 | 2,777 | 2,886 | 2,999 | 3,118 | 3,241 | 3,369 |
| *Cost of Incremental Dividends Paid* | *-* | *(35)* | *(77)* | *(126)* | *(180)* | *(242)* | *(312)* |
| Interest on Other | - | - | - | - | - | - | - |
| Total Interest Income | 15,832 | 26,680 | 27,658 | 28,672 | 29,722 | 30,811 | 31,938 |
| **Interest Expense** | | | | | | | |
| Interest on Non-Time Deposits | 1,325 | 2,099 | 2,177 | 2,258 | 2,343 | 2,430 | 2,522 |
| Interest on Time Deposits | 1,251 | 1,925 | 1,996 | 2,070 | 2,146 | 2,226 | 2,309 |
| Interest on Total Deposits | 2,576 | 4,024 | 4,173 | 4,328 | 4,489 | 4,656 | 4,830 |
| Interest on Borrowings | - | - | - | - | - | - | - |
| Interest on Trust Preferred | - | - | - | - | - | - | - |
| Interest on Other Sub Debt | - | - | - | - | - | - | - |
| Interest on Other | - | - | - | - | - | - | - |
| Total Interest Expense | 2,576 | 4,024 | 4,173 | 4,328 | 4,489 | 4,656 | 4,830 |
| Net Interest Income | 13,256 | 22,655 | 23,485 | 24,343 | 25,233 | 26,154 | 27,107 |
| Provision for Loan Losses | 646 | 853 | 885 | 920 | 955 | 993 | 1,031 |
| Net Interest Income after Provisions | 12,610 | 21,803 | 22,599 | 23,424 | 24,278 | 25,162 | 26,076 |
| **Noninterest Income** | | | | | | | |
| Total Noninterest Income | 2,400 | 4,328 | 4,477 | 4,670 | 4,851 | 5,040 | 5,237 |
| **Noninterest Expense** | | | | | | | |
| Other Noninterest Expense | 12,174 | 20,326 | 20,716 | 21,124 | 21,554 | 21,958 | 22,384 |
| *Amortization of CDI* | *-* | *368* | *368* | *368* | *368* | *368* | *368* |
| *Cost Savings* | *-* | *(2,421)* | *(2,510)* | *(2,603)* | *(2,699)* | *(2,799)* | *(2,903)* |
| Total Noninterest Expense | 12,174 | 18,274 | 18,574 | 18,889 | 19,223 | 19,526 | 19,849 |
| Net Income before Taxes | 2,836 | 7,857 | 8,502 | 9,204 | 9,906 | 10,675 | 11,464 |
| Tax Expense | 595 | 1,650 | 1,785 | 1,933 | 2,080 | 2,242 | 2,407 |
| **Net Income** | 2,240 | 6,207 | 6,716 | 7,271 | 7,826 | 8,434 | 9,057 |
| Extraordinary Items | - | - | - | - | - | - | - |
| Net Income Att. to Minority Interest | - | - | - | - | - | - | - |
| Preferred Dividends | - | - | - | - | - | - | - |
| **Net Income Avail. to Common** | 2,240 | 6,207 | 6,716 | 7,271 | 7,826 | 8,434 | 9,057 |
| **Earnings per Share** | | | | | | | |
| Pro Forma EPS ($) | 0.22 | 0.32 | 0.34 | 0.37 | 0.40 | 0.43 | 0.46 |
| Stand Alone EPS ($) | 0.22 | 0.24 | 0.27 | 0.30 | 0.33 | 0.37 | 0.40 |
| ***Accretion / (Dilution) ($)*** | ***$ -*** | ***$ 0.07*** | ***$ 0.07*** | ***$ 0.07*** | ***$ 0.07*** | ***$ 0.06*** | ***$ 0.06*** |
| ***Accretion / (Dilution) (%)*** | ***0.00%*** | ***30.24%*** | ***25.70%*** | ***22.56%*** | ***19.89%*** | ***17.05%*** | ***14.78%*** |
| **Profitability Metrics** | | | | | | | |
| **Return on Average Assets (%)** | **0.56** | **0.90** | **0.94** | **0.98** | **1.01** | **1.05** | **1.09** |
| **Return on Average Equity (%)** | **7.00** | **7.65** | **8.02** | **8.35** | **8.65** | **8.99** | **9.32** |
| **Net Interest Margin (%)** | **3.33** | **3.37** | **3.37** | **3.37** | **3.36** | **3.36** | **3.36** |
| **Efficiency Ratio (%)** | **77.8** | **66.4** | **65.1** | **63.8** | **62.7** | **61.4** | **60.2** |
| **Burden Ratio (%)** | **2.44** | **2.02** | **1.97** | **1.91** | **1.86** | **1.81** | **1.76** |
| **NII / Average Assets (%)** | **0.60** | **0.63** | **0.63** | **0.63** | **0.63** | **0.63** | **0.63** |
| **NIE / Average Assets (%)** | **3.04** | **2.65** | **2.59** | **2.54** | **2.49** | **2.44** | **2.39** |
| **Dividends** | | | | | | | |
| Common Dividends per Share ($) | - | 0.15 | 0.17 | 0.20 | 0.23 | 0.26 | 0.29 |
| Common Dividends ($000) | - | 2,896 | 3,412 | 3,950 | 4,431 | 5,039 | 5,752 |
| ***Dividend Payout Ratio (%)*** | ***0.00%*** | ***46.65%*** | ***50.80%*** | ***54.33%*** | ***56.62%*** | ***59.74%*** | ***63.51%*** |

# Appendix (Bank Bottom + Sample Buyer: *Pro Forma*)

Exhibit BE

| Assets | Transaction Close 12/31/2018 | 12/31/2019 | 12/31/2020 | 12/31/2021 | 12/31/2022 | 12/31/2023 | 12/31/2024 |
|---|---|---|---|---|---|---|---|
| | | For the year ended, | | | | | |
| Cash and Equivalents | $ 119,500 | $ 127,973 | $ 136,741 | $ 145,822 | $ 155,172 | $ 164,860 | $ 174,865 |
| Investment Securities | 1,337,418 | 1,403,121 | 1,472,070 | 1,544,428 | 1,620,363 | 1,700,054 | 1,783,685 |
| Total Loans | 6,536,232 | 6,856,519 | 7,192,625 | 7,545,334 | 7,915,471 | 8,303,901 | 8,711,532 |
| Loan Loss Reserves | 93,150 | 98,094 | 103,269 | 108,697 | 114,391 | 120,363 | 126,628 |
| Net Loans | 6,443,082 | 6,758,425 | 7,089,356 | 7,436,637 | 7,801,080 | 8,183,537 | 8,584,904 |
| Goodwill | 26,581 | 26,581 | 26,581 | 26,581 | 26,581 | 26,581 | 26,581 |
| Other Intangibles | 5,888 | 5,299 | 4,710 | 4,122 | 3,533 | 2,944 | 2,355 |
| Deferred Tax Asset | (1,236) | (1,236) | (1,236) | (1,236) | (1,236) | (1,236) | (1,236) |
| Other Real Estate Owned | - | - | - | - | - | - | - |
| Other Assets | - | - | - | - | - | - | - |
| **Total Assets** | 7,931,232 | 8,320,162 | 8,728,221 | 9,156,353 | 9,605,493 | 10,076,739 | 10,571,153 |
| **Liabilities** | | | | | | | |
| Non-Time Deposits | 5,814,400 | 6,099,232 | 6,398,129 | 6,711,789 | 7,040,944 | 7,386,365 | 7,748,857 |
| Time Deposits | 1,453,600 | 1,524,808 | 1,599,532 | 1,677,947 | 1,760,236 | 1,846,591 | 1,937,214 |
| Total Deposits | 7,268,000 | 7,624,040 | 7,997,661 | 8,389,736 | 8,801,180 | 9,232,956 | 9,686,071 |
| Borrowings | - | - | - | - | - | - | - |
| Trust Preferred | - | - | - | - | - | - | - |
| Other Sub Debt | - | - | - | - | - | - | - |
| Other Liabilities | - | - | - | - | - | - | - |
| **Total Liabilities** | 7,268,000 | 7,624,040 | 7,997,661 | 8,389,736 | 8,801,180 | 9,232,956 | 9,686,071 |
| **Equity** | | | | | | | |
| Preferred Stock | - | - | - | - | - | - | - |
| Common Stock | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 | 75,000 |
| Common Stock Surplus | 438,232 | 438,232 | 438,232 | 438,232 | 438,232 | 438,232 | 438,232 |
| Retained Earnings | 150,000 | 182,890 | 217,328 | 253,384 | 291,080 | 330,551 | 371,849 |
| Accumulated Other Comp. Income | - | - | - | - | - | - | - |
| Noncontrolling Interests | - | - | - | - | - | - | - |
| **Total Equity** | 663,232 | 696,122 | 730,560 | 766,617 | 804,312 | 843,784 | 885,082 |
| **Total Liabilities and Equity** | 7,931,232 | 8,320,162 | 8,728,221 | 9,156,353 | 9,605,493 | 10,076,739 | 10,571,153 |
| **Book Value per Share** | | | | | | | |
| Pro Forma TBV per Share ($) | 59.41 | 62.57 | 65.87 | 69.32 | 72.93 | 76.70 | 80.64 |
| Stand Alone TBV per Share ($) | 60.00 | 63.00 | 66.15 | 69.46 | 72.93 | 76.58 | 80.41 |
| ***Accretion / (Dilution) ($)*** | ***$ (0.59)*** | ***$ (0.43)*** | ***$ (0.28)*** | ***$ (0.14)*** | ***$ (0.00)*** | ***$ 0.12*** | ***$ 0.24*** |
| ***Accretion / (Dilution) (%)*** | ***(0.98%)*** | ***(0.69%)*** | ***(0.43%)*** | ***(0.20%)*** | ***(0.01%)*** | ***0.16%*** | ***0.30%*** |
| **Balance Sheet Composition** | | | | | | | |
| **Cash & Securities / Assets (%)** | **18.4** | **18.4** | **18.4** | **18.5** | **18.5** | **18.5** | **18.5** |
| **Loans / Deposits (%)** | **89.9** | **89.9** | **89.9** | **89.9** | **89.9** | **89.9** | **89.9** |
| **Core Deposits / Deposits (%)** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** | **80.0** |
| **Capital Adequacy** | | | | | | | |
| **TE / TA (%)** | **7.99** | **8.01** | **8.04** | **8.06** | **8.09** | **8.10** | **8.12** |
| **TCE / TA (%)** | **7.99** | **8.01** | **8.04** | **8.06** | **8.09** | **8.10** | **8.12** |
| **Tier 1 Leverage Ratio (%)** | **7.99** | **8.02** | **8.04** | **8.07** | **8.09** | **8.11** | **8.13** |
| **Tier 1 Common Ratio (%)** | **9.24** | **9.27** | **9.31** | **9.33** | **9.36** | **9.38** | **9.40** |
| **Tier 1 Capital Ratio (%)** | **9.24** | **9.27** | **9.31** | **9.33** | **9.36** | **9.38** | **9.40** |
| **Total Capital Ratio (%)** | **10.49** | **10.52** | **10.56** | **10.58** | **10.61** | **10.63** | **10.65** |
| **Asset Quality** | | | | | | | |
| **LLR / Loans (%)** | **1.43** | **1.43** | **1.44** | **1.44** | **1.45** | **1.45** | **1.45** |
| **NPLs / Loans (%)** | **1.15** | **1.09** | **1.04** | **0.99** | **0.95** | **0.90** | **0.86** |
| **NPAs / Assets (%)** | **0.95** | **0.90** | **0.86** | **0.82** | **0.78** | **0.74** | **0.71** |
| **Texas Common Ratio (%)** | **10.4** | **9.8** | **9.3** | **8.9** | **8.4** | **8.0** | **7.6** |
| **Classified Asset Ratio (%)** | **15.7** | **14.9** | **14.2** | **13.5** | **12.8** | **12.2** | **11.6** |

# Appendix (Bank Bottom + Sample Buyer: *Pro Forma*)

Exhibit BF

| | Buyer YTD | For the year ended, | | | | | |
|---|---|---|---|---|---|---|---|
| **Interest Income** | **12/31/2018** | **12/31/2019** | **12/31/2020** | **12/31/2021** | **12/31/2022** | **12/31/2023** | **12/31/2024** |
| Interest on Loans | $ 262,719 | $ 284,810 | $ 298,765 | $ 313,409 | $ 328,776 | $ 344,903 | $ 361,826 |
| Interest on Securities | 31,766 | 34,257 | 35,940 | 37,706 | 39,560 | 41,505 | 43,547 |
| *Cost of Incremental Dividends Paid* | *-* | *(52)* | *(110)* | *(174)* | *(245)* | *(322)* | *(408)* |
| Interest on Other | - | - | - | - | - | - | - |
| Total Interest Income | 294,485 | 319,015 | 334,595 | 350,941 | 368,091 | 386,086 | 404,966 |
| **Interest Expense** | | | | | | | |
| Interest on Non-Time Deposits | 22,080 | 23,977 | 25,149 | 26,378 | 27,669 | 29,023 | 30,444 |
| Interest on Time Deposits | 19,182 | 20,932 | 21,953 | 23,024 | 24,148 | 25,328 | 26,566 |
| Interest on Total Deposits | 41,262 | 44,908 | 47,101 | 49,403 | 51,817 | 54,351 | 57,010 |
| Interest on Borrowings | - | - | - | - | - | - | - |
| Interest on Trust Preferred | - | - | - | - | - | - | - |
| Interest on Other Sub Debt | - | - | - | - | - | - | - |
| Interest on Other | - | - | - | - | - | - | - |
| Total Interest Expense | 41,262 | 44,908 | 47,101 | 49,403 | 51,817 | 54,351 | 57,010 |
| Net Interest Income | 253,223 | 274,107 | 287,494 | 301,539 | 316,274 | 331,735 | 347,956 |
| Provision for Loan Losses | 12,110 | 11,319 | 11,879 | 12,467 | 13,084 | 13,732 | 14,411 |
| Net Interest Income after Provisions | 241,114 | 262,788 | 275,615 | 289,072 | 303,191 | 318,003 | 333,544 |
| **Noninterest Income** | | | | | | | |
| Total Noninterest Income | 67,316 | 71,784 | 75,324 | 79,040 | 82,940 | 87,034 | 91,330 |
| **Noninterest Expense** | | | | | | | |
| Other Noninterest Expense | 232,484 | 250,554 | 259,981 | 269,780 | 279,970 | 290,516 | 301,483 |
| *Amortization of CDI* | *-* | *589* | *589* | *589* | *589* | *589* | *589* |
| *Cost Savings* | *-* | *(3,677)* | *(3,705)* | *(3,734)* | *(3,767)* | *(3,788)* | *(3,812)* |
| Total Noninterest Expense | 232,484 | 247,465 | 256,865 | 266,634 | 276,792 | 287,317 | 298,260 |
| Net Income before Taxes | 75,946 | 87,107 | 94,074 | 101,478 | 109,339 | 117,720 | 126,615 |
| Tax Expense | 15,949 | 18,292 | 19,756 | 21,310 | 22,961 | 24,721 | 26,589 |
| **Net Income** | 59,997 | 68,814 | 74,319 | 80,167 | 86,378 | 92,999 | 100,026 |
| Extraordinary Items | - | - | - | - | - | - | - |
| Net Income Att. to Minority Interest | - | - | - | - | - | - | - |
| Preferred Dividends | - | - | - | - | - | - | - |
| **Net Income Avail. to Common** | 59,997 | 68,814 | 74,319 | 80,167 | 86,378 | 92,999 | 100,026 |
| **Earnings per Share** | | | | | | | |
| Pro Forma EPS ($) | 6.00 | 6.48 | 7.00 | 7.55 | 8.14 | 8.76 | 9.42 |
| Stand Alone EPS ($) | 6.00 | 6.38 | 6.91 | 7.46 | 8.06 | 8.69 | 9.36 |
| ***Accretion / (Dilution) ($)*** | ***$ -*** | ***$ 0.10*** | ***$ 0.09*** | ***$ 0.09*** | ***$ 0.08*** | ***$ 0.07*** | ***$ 0.06*** |
| ***Accretion / (Dilution) (%)*** | ***0.00%*** | ***1.54%*** | ***1.36%*** | ***1.17%*** | ***0.98%*** | ***0.82%*** | ***0.65%*** |
| **Profitability Metrics** | | | | | | | |
| **Return on Average Assets (%)** | **0.80** | **0.87** | **0.87** | **0.90** | **0.92** | **0.95** | **0.97** |
| **Return on Average Equity (%)** | **10.00** | **10.33** | **10.42** | **10.71** | **11.00** | **11.29** | **11.57** |
| **Net Interest Margin (%)** | **3.39** | **3.32** | **3.32** | **3.31** | **3.31** | **3.31** | **3.31** |
| **Efficiency Ratio (%)** | **72.5** | **71.4** | **70.6** | **69.9** | **69.2** | **68.5** | **67.8** |
| **Burden Ratio (%)** | **2.20** | **2.21** | **2.13** | **2.10** | **2.07** | **2.04** | **2.00** |
| **NII / Average Assets (%)** | **0.90** | **0.90** | **0.88** | **0.88** | **0.88** | **0.88** | **0.88** |
| **NIE / Average Assets (%)** | **3.10** | **3.11** | **3.01** | **2.98** | **2.95** | **2.92** | **2.89** |
| **Dividends** | | | | | | | |
| Common Dividends per Share ($) | - | 3.38 | 3.76 | 4.15 | 4.59 | 5.04 | 5.53 |
| Common Dividends ($000) | - | 35,924 | 39,881 | 44,111 | 48,682 | 53,528 | 58,728 |
| ***Dividend Payout Ratio (%)*** | ***0.00%*** | ***52.20%*** | ***53.66%*** | ***55.02%*** | ***56.36%*** | ***57.56%*** | ***58.71%*** |