ELCO Management Company, LLC

January 30, 2015

Financial Services - Separately Managed Account Program (SMAP)
December 2014 Update

We started the separately managed account bank program over five years ago. The program primarily seeks to capitalize on the anticipated consolidation (due to Dodd Frank regulations) in community banks and thrifts with some focus too on banks that could benefit from low cost energy resulting in a rise in economic activity in these regions. We believe we are in the early stages of the two game changers for this sector. In addition, the anticipated increase in interest rates could add a boost to operating earnings.

On December 2, 2014, Anton Schutz, Founding Member of Mendon Capital Advisors, and Paul Elliot, CFA, Founding Member of ELCO Management Co., LLC , made a presentation to investors at The Harmonie Club in NYC and provided an upbeat outlook for the Financial Services Separately Managed Account Program (SMAP). The following are highlights from the presentation:

- The SMAP has achieved approximately a 15% compounded return net of fees since inception five years ago.
- The thesis of the fund remains; access to low cost energy will provide economic stimulus in certain regions of the country providing opportunities for smaller regional banks.
- This cheap energy results from the shale revolution is attracting major industry back to the US and is providing a strong boost to the economy which, in turn, is a tailwind for banks (manufacturing renaissance).
- The inventory of opportunities to realize outsized returns remain robust. The current portfolio has positions in banks in regions benefitting from the economic boost provided by low cost energy and the expected continuing consolidation in the industry.
- Smaller, stronger banks will benefit from the continued consolidation trend. Banks under $2 billion market cap are most attractive targets, and $2-$10 billion banks are the most likely acquirers due to advantages provided by regulatory loopholes. Over the past three years there have been over 600 regional bank consolidations. Scale, given the increase in bank regulations, is critical.
- With over 7,000 banks in the US, Mr. Schutz believes the M&A trend will result in only 3,000 to 4,000 remaining independent. The record year for bank M&A is 1998 when 500 transactions took place. He expects 300 to 500 mergers to take place per year over the next several years.
- The SMAP is expected to also benefit from the IPO market, which he anticipates to remain active.

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