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*Confidential*

Possible Unionization of the Banking Industry

**The Employee Free Choice Act and  
the Threat to Bank Valuations**



## What is EFCA

- ◆ EFCA, or the Employee Free Choice Act, is a bill pending in Congress that will permit unions to organize a bank without a secret ballot
- ◆ EFCA would let employees join a union simply by signing a card or petition
  - Union is automatically certified as a bargaining unit if a majority of employees sign a card expressing a desire for a union
- ◆ This would permit unionization campaigns to be done surreptitiously, without the ability of management to communicate with and educate employees
- ◆ Once a majority of employees sign a card or petition, a bank is obligated to bargain with the union as representatives of the entire workforce, even those employees who did not support the union
- ◆ If no contract is reached in 120 days, a ***contract is imposed through binding arbitration***
  - A third party arbitrator will prescribe a bank's salary structure, benefits and work rules
  - All negotiating leverage is lost at this point

## Likelihood of passage

- ◆ *The Obama administration strongly supports EFCA passage **this year***
- ◆ Number one priority of unions
  - Unions supported President Obama with contributions totaling \$85 million
  - Total union spending for Democratic candidates in the 2008 election was \$450 million
- ◆ Passage in the Democratically controlled House is certain
- ◆ Senate passage is likely

# Unionization in the Banking Industry

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- ◆ Less than 12 banks in the country are currently unionized
  - Two are in Pennsylvania
    - AmeriServ Financial in Johnstown
    - Commercial Bank in Latrobe
- ◆ Service Employees International Union has publicly stated that *the financial services industry* and the healthcare industry are its prime targets

**CNN** INTERNATIONAL.com December 8, 2008

**Citing bailout, union wants to organize bank workers**

**Employer** Law Report December 10, 2008

**SEIU Plans to Target Banking Industry--Points To Federal Bailouts**

**TRIANGLE BUSINESS JOURNAL** January 28, 2009

**SEIU: BofA should oust CEO Lewis**



*The Union Cudgel*

*March 12, 2009*

**The New York Times**

*Let's Dance, Biden Tells Labor*

*March 5, 2009*



*President Tells Unions Organizing Act Will Pass*

*March 4, 2009*



*Big Promise: Obama Tells Unions That The Employee Free Choice Act Will Pass This Year*

*March 4, 2009*

## Direct Costs

- ◆ Direct costs of unionization are reflected in increased headcount and increased salary and benefits (principally healthcare and pension) expense per FTE
- ◆ One unionized bank estimates that combined salary and benefits expense are about 7% to 8.5% higher than peer companies
  - Or about 3.5% to 4.5% of total non-interest income
  - Or about \$80,000 to \$85,000 per branch
  - Union-imposed work rules which impact on body count (cost) and productivity (income)
    - Staffing, “bidding” and “bumping”
  - Increased executive time on labor matters
  - Increased HR and legal expense
  - Decrease in net income
  - Decrease in capital over time
  - Decrease in market valuation
- ◆ According to the National Bureau of Economic Research, unionization affects the equity value of an organization by *at least* \$40,000 per organized worker (January 9, 2009)

# The Cost to Banks

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## **Indirect Costs – Benefit Plans**

- ◆ Possible need to administer parallel benefit plans for union and non-union work force
- ◆ “Holy Grail” for unions are defined benefit pension plans
  - Expect strong push for defined benefit plans, especially to force banks to join union multi-employer plans that are under-funded
- ◆ Benefits for part-time workers likely to be required
  - For example, benefits to part-time tellers (even less than half time) and summer help

## **Indirect Costs – Work Rules**

- ◆ Contract will impose work rules
- ◆ Examples include:
  - Minimum number of guaranteed hours for part-time employees
  - Inability to shift staff to cover peak traffic or summer vacations
  - Seniority rules govern job assignments
  - Inability of non-union employees to perform certain tasks
  - Restrictions on scheduling overtime and rules about who gets overtime

# The Cost to Banks

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## Bidding and Bumping

- ◆ Seniority rules govern all aspects of employment
- ◆ Posted jobs are “bid” by employees and usually awarded based upon seniority
  - Real example: Senior “Sour Sally” becomes a branch CSR and loan volume decreases at the branch
- ◆ Bumping: in the event of work force reductions, higher-paid senior workers “bump” junior workers to retain their jobs
  - Example: branch consolidations inevitably result in highest paid workers being retained

## HR and Legal

- ◆ Union contracts establish a complex union grievance and arbitration process
- ◆ Expect to add at least one FTE (or more, a lot more, depending upon the size of your bank) to your HR staff to deal with union matters
- ◆ Significantly higher annual legal expense (\$50K to \$100K) to handle grievances and arbitrations
  - In contract negotiation years (generally every 3 years or less) this will at least double

## Changed Relationship

- ◆ *Management-employer-employee relationship is permanently altered by the existence of a union contract*
- ◆ *Employees tend to believe they work for the union and not for management*
- ◆ Decisions tend to be made based on the effect on the union contract and position in future negotiations rather than on the effect on the business as a whole
- ◆ Specter of work stoppage, the ultimate union club, alters decision-making
  - What will your bank do if there is a work stoppage?
  - Not like manufacturers who can manufacture goods and build inventory for sale in anticipation of a stoppage

## Effect on Valuation

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- ◆ Decreased net income and increased efficiency ratio leads to decreased valuation
- ◆ P/E multiple of union banks are lower as well
- ◆ Union banks are not perceived as likely merger partners
  - Takeover premium is eliminated from stock price
  - Investors stay away from the stock – decreasing float and impacting price
- ◆ Of the two union banks in Pennsylvania, only one – AmeriServ Financial, Inc. – is widely held by the investing public
- ◆ Information on AmeriServ compared to its peers is set forth on the following pages and confirms that its valuation is materially lower than its peers, despite stronger capital, better asset quality and good earnings

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# AmeriServ Has Better Asset Quality and is Better Reserved than its Peers



Company Name	Total Assets (\$000)	Asset Quality				
		NPLs/Loans (%) LTM	NCOs/Loans (%) LTM	NPAs + 90/Assets (%) MRQ	Loans 30-89 PD/Loans (%) MRQ	Reserves/NPAs + 90 (%) MRQ
1 First National Community Bancorp	1,314,000	1.81	0.31	1.64	1.53	30.55
2 Citizens & Northern Corporation	1,281,637	1.03	0.26	0.73	1.44	89.72
3 VIST Financial Corp.	1,224,864	1.24	0.46	0.93	0.47	71.31
4 Royal Bancshares of Pennsylvania	1,172,486	11.62	0.74	6.94	1.84	36.35
5 Bryn Mawr Bank Corporation	1,151,346	0.59	0.40	0.50	0.21	177.92
6 Orrstown Financial Services, Inc.	1,051,783	0.02	0.03	0.55	1.48	118.38
7 CNB Financial Corporation	1,016,494	0.57	0.20	0.49	0.67	157.43
8 First Chester County Corporation	1,002,196	0.38	0.05	0.36	0.98	239.12
9 Republic First Bancorp, Inc.	966,004	2.21	0.96	2.68	0.39	31.22
10 ACNB Corporation	936,698	1.83	0.09	1.38	0.47	74.28
11 Franklin Financial Services Corp	884,585	0.50	0.10	0.50	0.62	172.51
<b>ASRV Peer Mean</b>	<b>1,091,099</b>	<b>1.98</b>	<b>0.33</b>	<b>1.52</b>	<b>0.92</b>	<b>108.98</b>
<b>ASRV Peer Median</b>	<b>1,051,783</b>	<b>1.03</b>	<b>0.26</b>	<b>0.73</b>	<b>0.67</b>	<b>89.72</b>
<b>AmeriServ Financial, Inc.</b>	<b>966,929</b>	<b>0.53</b>	<b>0.20</b>	<b>0.47</b>	<b>0.42</b>	<b>194.88</b>

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# It Also Has Much Better Tangible Common Equity and Regulatory Capital than its Peers



Company Name	Capital Adequacy			
	Tang. Comm.	Leverage	Tier 1	Total
	Eqty./ Tang.			
	Assets	(%) MRQ	(%) MRQ	Ratio
	(%) MRQ	(%) MRQ	(%) MRQ	(%) MRQ
1 First National Community Bancorp	6.91	9.10	10.91	11.62
2 Citizens & Northern Corporation	8.61	10.24	14.97	15.00
3 VIST Financial Corp.	4.68	7.15	9.73	10.68
4 Royal Bancshares of Pennsylvania	9.97	12.56	14.73	16.00
5 Bryn Mawr Bank Corporation	7.19	8.03	8.81	11.29
6 Orrstown Financial Services, Inc.	8.10	8.40	10.27	11.12
7 CNB Financial Corporation	5.12	8.40	10.88	12.09
8 First Chester County Corporation	6.72	8.66	10.04	11.10
9 Republic First Bancorp, Inc.	8.25	11.22	12.32	13.29
10 ACNB Corporation	8.36	8.26	12.04	13.29
11 Franklin Financial Services Corp	7.68	8.24	10.39	11.52
<b>ASRV Peer Mean</b>	<b>7.42</b>	<b>9.11</b>	<b>11.37</b>	<b>12.45</b>
<b>ASRV Peer Median</b>	<b>7.68</b>	<b>8.40</b>	<b>10.88</b>	<b>11.62</b>
<b>AmeriServ Financial, Inc.</b>	<b>8.25</b>	<b>12.15</b>	<b>12.40</b>	<b>13.65</b>

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# It Also Has Good Net Interest Margin and Noninterest Income Compared to its Peers



		Performance					
		Net Interest Margin (%) LTM	Net Interest Income/Op. Rev. (%) LTM	Yield on Int. Earning Assets (%) LTM	Cost of Deposits (%) LTM	Noninterest Income/Op. Rev. (%) LTM	Efficiency Ratio (%) LTM
Company Name							
1	First National Community Bancorp	3.29	86.76	7.22	2.48	13.2	54.58
2	Citizens & Northern Corporation	3.65	77.76	6.62	2.46	22.2	59.23
3	VIST Financial Corp.	3.31	65.64	6.17	2.67	34.4	78.77
4	Royal Bancshares of Pennsylvania	3.36	85.03	7.12	3.72	15.0	62.66
5	Bryn Mawr Bank Corporation	3.84	63.61	5.98	2.01	36.4	65.71
6	Orrstown Financial Services, Inc.	3.86	68.40	6.49	2.29	31.6	56.36
7	CNB Financial Corporation	4.22	93.63	7.32	1.89	6.4	73.42
8	First Chester County Corporation	3.52	75.04	6.68	1.55	25.0	75.69
9	Republic First Bancorp, Inc.	3.28	92.43	6.10	2.92	7.6	76.57
10	ACNB Corporation	3.18	72.95	5.65	2.14	27.1	66.60
11	Franklin Financial Services Corp	3.99	76.50	6.86	2.00	23.5	56.99
<b>ASRV Peer Mean</b>		<b>3.59</b>	<b>77.98</b>	<b>6.56</b>	<b>2.38</b>	<b>22.0</b>	<b>66.05</b>
<b>ASRV Peer Median</b>		<b>3.52</b>	<b>76.50</b>	<b>6.62</b>	<b>2.29</b>	<b>23.5</b>	<b>65.71</b>
<b>AmeriServ Financial, Inc.</b>		<b>3.62</b>	<b>64.18</b>	<b>5.95</b>	<b>2.26</b>	<b>35.8</b>	<b>76.65</b>

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# Yet Its Market Valuation In Terms Of Price/EPS, Price/TBV and Premium/Deposits is Materially Lower than its Peers



Company Name	Ticker	02/18/09 Closing Price (\$)	Market Cap (\$mil)	Average Daily Volume	Valuation				
					Price/ LTMEPS (x)	Price/ Tangible Book (%)	Premium/ Deposits (%)		
1	First National Community Bancorp	FNCB	10.75	171.5	1,534	11.32	178.2	(7.68)	
2	Citizens & Northern Corporation	CZNC	16.65	148.9	13,967	14.87	136.3	NA	
3	VIST Financial Corp.	VIST	8.35	47.6	3,015	NM	88.2	3.11	
4	Royal Bancshares of Pennsylvania	RBPAA	3.01	59.3	27,261	NM	34.1	(6.14)	
5	Bryn Mawr Bank Corporation	BMTC	15.78	135.6	13,805	14.61	165.2	(7.82)	
6	Orrstown Financial Services, Inc.	ORRF	25.50	163.9	1,288	13.14	208.9	4.97	
7	CNB Financial Corporation	CCNE	9.59	82.3	1,713	15.72	159.9	7.99	
8	First Chester County Corporation	FCEC	6.90	43.1	1,559	6.11	53.2	2.43	
9	Republic First Bancorp, Inc.	FRBK	6.75	71.8	27,101	NM	90.0	(3.19)	
10	ACNB Corporation	ACNB	9.50	56.9	2,258	7.98	74.1	(1.08)	
11	Franklin Financial Services Corp	FRAF	16.90	64.5	1,257	6.38	96.4	(3.82)	
<b>ASRV SEC Registrant Peer Mean</b>				<b>95.0</b>	<b>8,614</b>	<b>11.27</b>	<b>116.8</b>	<b>(1.12)</b>	
<b>ASRV SEC Registrant Peer Median</b>				<b>71.8</b>	<b>2,258</b>	<b>12.23</b>	<b>96.4</b>	<b>(2.14)</b>	
<b>AmeriServ Financial, Inc.</b>			<b>ASRV</b>	<b>1.84</b>	<b>38.88</b>	<b>23,423</b>	<b>7.36</b>	<b>49.16</b>	<b>(7.68)</b>

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- ◆ EFCA will most probably pass with or without amendments. It is likely to pass in some form in 2009
- ◆ Under EFCA as presently proposed and absent amendment, once a majority of employees sign a card or petition the game is substantially over – resistance is near futile
  - Unionized banks face:
    - Materially higher operating costs and declines in net income
    - Significantly more complex HR and workplace issues which impact productivity and revenue, as well as cost
    - The potential for substantially lower valuations
    - A challenging time in US banking history
- ◆ Unionization threat is real – the bigger the bank, the more real the threat in the short term
- ◆ Union avoidance efforts were successful in over 50% of past unionization efforts where elections were required
  - That is why unions want EFCA – they lose elections!
  - With no elections and binding arbitration they believe they can win – they are right
- ◆ Union avoidance strategies will adapt to EFCA over time
  - Will require banks to be proactive rather than reactive

## Plan and Act Now

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- ◆ Become informed
- ◆ Lobby
- ◆ Plan
  - Waiting until EFCA passes may be too late
- ◆ Be proactive – consider beginning to sensitize supervisors and managers now
- ◆ Call your Griffin contact if you have any questions on the economics

- ◆ Griffin is affiliated with Stevens & Lee, an AmLaw 200 law firm. Stevens & Lee's platform includes a broad and deep team of experienced labor lawyers who have actively practiced and specialized in union avoidance for more than 30 years – collectively for more than 100 years
- ◆ They have represented clients in how to be union-free in more than 1,000 cases
- ◆ Their success rate is greater than 95%
- ◆ They have been recognized as one of the most active law firms in union representation cases before the NLRB regional offices
- ◆ They know banks and have worked with banks, both large and small
- ◆ They work with unionized banks
- ◆ They advise and develop strategies on how banks can remain union-free
- ◆ They develop effective training, education and campaign strategies
- ◆ Through our combined platform we can provide you and your board with a holistic view of the financial and legal consequences of unionization and how to avoid it

## How We Can Help

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- ◆ They develop election campaign strategies
- ◆ They train your supervisors and managers in the Do's and Don't's
- ◆ They train your supervisors and managers in how to educate employees why they are better off without a union
- ◆ They do it effectively and efficiently because they understand banks
- ◆ They get to know your executives, your managers, your supervisors
- ◆ They identify and understand your issues, strengths and vulnerabilities
- ◆ They jointly develop strategies with you to emphasize your strengths and minimize vulnerabilities
- ◆ They develop an effective communications network and materials so employees will understand that a union will not benefit them



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