



*Building our bank one quality relationship at a time*

September 21, 2011

Dear Liberty Shareholder:

It has been less than five months since our last communication, but due to the significance of the issues the banking industry in general, and Liberty Bank, N.A. (the "Bank") specifically, are dealing with, I feel it appropriate to give you an updated status report.

The year 2011 has been an extremely busy year for the Bank and our customers. The economy continues to be spotty with some customers experiencing their best year ever while others are struggling with lackluster sales and earnings. Your bank continues to perform in accordance with its business plan. For the fourth consecutive quarter, earnings continue to perform on budget. I would like to give you a brief report on the progress of the following:

- Annual Shareholder Meeting
- Private Placement
- Definitive Agreement
- Formal Agreement with the Office of the Comptroller of the Currency (OCC)
- New and expanded Commercial Lending Team members
- Conversion of our data processing platform to Jack Henry and Associates

### **Annual Shareholder Meeting**

The Annual Meeting of Shareholders will be held at 9:00 a.m. on October 25<sup>th</sup> at Corporate College East. After the conclusion of the business portion of the meeting, management will provide a review of the year's performance and a look at what is planned for the future. I expect that 2012 will provide for continued opportunity to build our Bank one quality relationship at a time.

### **Private Placement**

Capital continues to be one of the top priorities in banking. On July 31<sup>st</sup> the Bank closed out its Private Placement offering after raising a total of \$4.74 million of additional equity through the sale of common stock. This is the third time in eight years the Bank has conducted a successful Private Placement. The equity raise was conducted in two phases. The first phase was concluded on June 30<sup>th</sup> and totaled \$3.488 million.

This additional equity allowed the Bank to meet its commitment with the OCC to increase its capital levels to the levels agreed to in the January 2011 Formal Agreement. The ratio of tier 1 capital to average assets at June 30, 2011 increased to 10.54% while the ratio for total risk-based capital increased to 13.68%. The stock was offered at \$25 per share. The second phase, offered at the same price, was completed on July 31, 2011 bringing the total raised to \$4.74 million. The ratio for tier 1 capital to average assets improved to 14.22%.

As was stated in my previous letter to shareholders, a “private investor,” under the same terms and conditions as all other investors, committed to a substantial investment in the Private Placement. The results of that investment are that the “private investor,” comprised of two individuals, now owns 9.8% of the Bank’s stock.

### **Definitive Agreement**

Under a previously executed letter of intent, the “private investor” intends to invest \$10 million in capital into the Bank. The Bank continues to work with the “private investor” to convert the letter of intent into a Definitive Agreement between the parties. Under the terms of the letter of intent, the “private investor” after contributing \$10 million in capital in exchange for common stock would have an option that could result in the “private investor” owning controlling interest in the Bank. The Definitive Agreement is subject to regulatory approval. The “private investor” is hoping to receive regulatory approval by the end of the calendar year. I will keep you advised of the progress of the regulatory approval process and the completion of the Definitive Agreement.

### **Formal Agreement with the OCC**

The Bank continues to work through the remaining issues that the OCC delineated in the Formal Agreement. At this writing, the Bank believes it has thoroughly addressed all items in the Formal Agreement. Presently, the OCC is performing an examination of the Bank. The culmination of the examination will determine what items, if any, remain to be addressed for the removal of the Formal Agreement.

### **Commercial Lending Team**

The primary business of the Bank continues to be the pursuit of commercial banking relationships. A key ingredient in that pursuit is the quality of the commercial loan officers representing the Bank. They are the key to our efforts in obtaining and retaining prosperous, high quality business customers. The Bank now employs a team of 6 commercial loan officers. The group averages over 24 years of bank experience and each possesses the experience and know-how to not only properly analyze the loans but to work with the businesses for best practices. Our new Team Leader for Commercial Lending is Senior VP Christopher J. Smerglia. With over 30 years as a commercial lender, Chris brings a wealth of experience in all types of lending. His in-depth understanding of SBA programs is a perfect fit for the entrepreneurial customers we pursue. See the enclosed press release for more information about the individuals recently added to our team and visit our website at [www.libertybankna.com](http://www.libertybankna.com) for more detail.

**Conversion to Jack Henry and Associates**

During Labor Day weekend, the Bank converted its core data processing to Jack Henry and Associates, Inc., a nationally recognized provider of financial data services. During the conversion, many Bank employees worked around the clock to ensure a safe and accurate transfer of customer data to the new system. I am happy to report the conversion was a success. As can be expected, there are some issues to deal with, however, the new system allows us to give better service at a higher level. Please call us with any questions or comments and visit our website to receive an update on the conversion.

Liberty Bank Means Business.

Thanks for your continued support.

Sincerely,

LIBERTY BANK, N.A.

A handwritten signature in black ink that reads "William A. Valerian". The signature is written in a cursive, flowing style.

William A. Valerian,  
Chairman and CEO

*attachment: Press Release, 09/16/2011*

## PRESS RELEASE

September 16, 2011

### **Liberty Bank, N.A. Announces Expansion of Commercial Lending Team**

Cleveland, OH – (September 16, 2011) Liberty Bank, N.A. announced today the hiring of three new commercial lenders who bring 65 plus years of experience to the Bank’s already seasoned commercial lending team. Liberty Bank specializes in providing business loans of up to \$5 million.

“These appointments demonstrate our ongoing commitment as *‘The Bank for Businesses’* in northern Ohio,” said Liberty Bank CEO Bill Valerian. “We partner with our customers. They value the investment Liberty makes in understanding their individual businesses and appreciate having access to our decision makers.”

Christopher J. Smerglia is now Senior Vice President and Commercial Lending Team Leader. His responsibilities include serving commercial lending customers, directing commercial lending sales activities and supervising the business development functions of commercial loan officers. Smerglia’s 30 plus years of banking experience includes credit underwriting, commercial lending, portfolio management, and business development. He most recently was executive vice president and chief lending officer at a local community bank. He is a graduate of John Carroll University.

Jamie Brotherton is now Senior Vice President / Senior Lender. She has over fifteen years of commercial banking experience. She specializes in partnering with small businesses to provide them with commercial banking services and SBA loans. She most recently was a senior commercial lender at a local community bank. Ms. Brotherton is a graduate of John Carroll University with further graduate studies at Robert Morris College in taxation.

Richard “Buzz” Parkin is now Vice President Commercial Lending. Mr. Parkin brings an entrepreneurial background and 20 years of banking experience. His background includes roles with the Comptroller of the Currency, national and local banks. Most recently he was Vice President Commercial Loan Officer at a local community bank. Mr. Parkin is a graduate of the University of Denver (B.A. and M.B.A.) and the University of Michigan Graduate School of Bank Management.

“The core of business lending is in the strength of its commercial loan officers,” said Valerian. “We are focused on maintaining excellent levels of capital, providing superior customer service and building our bank one quality relationship at a time.”

Twenty year old Liberty Bank, N.A. is a privately-held, full-service community bank with assets of \$218 million. With offices in Beachwood, Solon and Twinsburg, Ohio, the Bank emphasizes business banking and, serves individual consumers and businesses that have sales of up to \$50 million.