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With a Strong Capital Position, HeritageBank of the South, is One of the Few Banks in Georgia Positioned for Acquisitions When New Bank Regulations Create the Environment

**Financial
Regional – Mid-Atlantic Banks
(HBOS-NASDAQ)**

**Heritage Financial Group, Inc.
(the corporation)
HeritageBank of the South
(the bank)
721 North Westover Boulevard
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Phone: 229-420-0000**



**O. Leonard Dorminey
President, CEO and Director**

BIO:

Mr. Dorminey is President and Chief Executive Officer of Heritage Financial Group, the mid-tier holding company for Heritage Bank of the South. He has served as Chief Executive Officer of HeritageBank of the South since 2003. From 2001 to 2003, he served as Executive Vice President of HeritageBank of the South, responsible for the Commercial Lending Division. From 1999 to 2001, Mr. Dorminey was President and Chief Executive Officer of First National Bank of South Georgia. Prior to 1999,

he worked for nine years at SunTrust Bank of South Georgia as the Albany Division Manager responsible for retail, commercial and private banking functions in the Albany market.

Company Profile:

Heritage Financial Group, Inc. is the holding company for HeritageBank of the South, a community-oriented bank serving primarily South Georgia and North Central Florida through 23 full-service branch locations and 11 mortgage offices. As of September 30, 2011, the Company reported total assets of approximately \$1.1 billion and total stockholders' equity of approximately \$124 million. For more information about the Company, visit HeritageBank of the South on the Web at www.eheritagebank.com and see Investor Relations under About Us.

**Interview conducted by:
Bud Wayne, Editorial Executive**

CEOCFO: Mr. Dorminey, you have been CEO of Heritage Financial since 2003, will you give us a brief history of the bank and its original focus?

Mr. Dorminey: We have a very interesting background history. Our company started as a federal credit union, AGE, in 1955 to support the Marine Corp Logistics Base located in Albany, Georgia. Our company operated as a traditional credit union for a number of years and in the early 90's acquired several other credit unions in the community who served other big manufactures.

In 2001, we converted to a savings bank, HeritageBank of the South, and formed a mutual holding company, Heritage Financial Group. Prior to

going public, the first order of business was to get the infrastructure of the company in line with that of a bank. We moved over a large number of experienced commercial bankers who understood commercial lending, commercial banking and operations. From 2001 to 2005, we focused on making sure the bank and its infrastructure were on solid ground. In June 2005, HeritageBank of the South held its first public offering. We sold 30% of the company, raising about \$33 million, which we invested back into growing our existing base. We really did not start our acquisition move until December 2009. We did a couple acquisitions in 2009 and another in 2010. In Nov. 2010, we sold the remaining stock of the company, raising nearly \$60 million. This capital raise has allowed us to continue our expansion into new markets.

CEOCFO: Over the last couple of years, there have been some upheavals in the banking environment, government regulations, and the housing and economic crisis; have there been any changes in the vision for Heritage Financial because of this?

Mr. Dorminey: Our practices have remained the same. In fact, I am proud to say from 2001, our vision is the same, which is to operate a sound bank based upon sound banking principles. This includes offering products and services to our customers with sound underwriting guidelines. As we raised capital and made acquisitions, I think our very sound and solid credit culture allowed us to maintain a clean credit portfolio. Our non-performing assets are under 2%. We have the capital, but we are very judicious and

methodical in the deployment of those funds. The economic climate has given us many opportunities to explore either FDIC assisted transactions, open bank transactions, and/or branch purchases from banks. We have looked at a large number of deals, but we have only done a few. We have been very thoughtful and very analytical in the type of deals we want to do, always being mindful of what will benefit our shareholders in the long term.

CEOCFO: Will your growth strategy be through acquisitions or organic growth?

Mr. Dorminey: In 2001, the bank was a little over \$300 million. Today, we are about \$1.1 billion. Some of this growth was organic but most of that growth has come through acquisitions. We feel like there will still be a number of acquisition opportunities that will come our way in the next twelve to twenty-four months. Many banks have held on through these rough times and have been able to maintain. However, as this economy continues to struggle, more banks will see their capital levels diminish due to having to reappraise property, which continues to devalue resulting in the write down of loans. Therefore, we feel like there will still be a number of banks in our markets that may be attainable acquisitions.

There are only a few banks in Georgia that we know of that are really doing acquisitions, so we feel very fortunate to have good credit quality and to be in this position.

Moving past the FDIC assisted transactions, the regulatory changes may force other banks to eventually consider selling. I think it is going to take a while for the full impact of recent regulatory changes to be realized by the banking community, especially smaller community banks. Even well run small banks are going to find it harder to continue to do business with shrinking revenue streams. Legislation like Dodd-Frank and Durbin will definitely bring another round of bank acquisition opportunities. This will be

an opportunity for mid size companies like Heritage to acquire additional locations in our footprint.

CEOCFO: What areas are you in, what businesses are staying and what about foreclosures?

Mr. Dorminey: Our markets are South Georgia and North Florida with exception of Ocala, which is central Florida. The Ocala market was hit hard. Fortunately, for us, we did not enter that market until late 2006. Beyond Ocala, our other markets are stable. They did not experience the extreme appreciation and growth, like coastal Florida and Atlanta. Because of that, these markets have not seen the fast decline in value either. I would characterize our markets as having moderate growth. We are no different from the rest of the country, in the sense that we have businesses who are struggling because of the

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slow economy. However, we are in better shape than those markets that experienced such high growth and swift decline in property values, in many cases 50% to 60%. We are just not seeing that, so it is a double-edged sword from that perspective.

CEOCFO: How do you break down between consumer and commercial customers; are you more of a business bank today?

Mr. Dorminey: With our credit union history, we initially started out with a very large customer base. In 2001, we had about 45,000 customers. Some of that base has eroded part because as a credit union you give away many services. We knew in order to be a viable bank and provide our shareholders the returns they expect, we had to price more like a commercial bank. Therefore, we have gradually moved to more of a commercial bank

model. We have seen our consumer loan demand drop drastically as more customers are using captive finance companies to finance new cars and due to the slow down in home equity loans as property values decline. Our current mix is approximately 75% commercial and 25% consumer. We still have a good consumer base for deposits and we do get some consumer loans, home equity loans, a few car loans. But, the bulk of our business and focus is on commercial banking, either C&I (commercial and industrial) lending, small business, commercial real estate, and owner occupied where customers need to expand their business building in some limited investment property.

CEOCEO: Why do customers choose Heritage Bank of the South?

Mr. Dorminey: First, we have taken the approach in all of our markets that we really try to go hire what we characterize as "A" players in the market. They are experienced bankers who have been in the business for a number of years and understand the markets they serve, have good credit skills and a strong background in commercial banking. They typically have a good following and can carry and maintain a large portfolio. It allows our managements and commercial lenders to operate in more of a consultative role versus being "order takers". This is a value added benefit for our customers.

Secondly, we continue to support the communities we serve. We expect our employees to be a part of the communities they work and live in and invest with their time. We support them and their efforts, whether it is with volunteer support or charitable donations. We think that being good stewards and good citizens in the communities we serve is a good investment for the long-term.

Third, is our strength and security. The recent collapse of the financial market has created a more mindful consumer. I believe they appreciate that HeritageBank of the South maintains very good banking principles

and capital ratios. We stick to our banking principles, underwrite loans properly and price based on what we think we need to do regardless of what our competition may be doing. This has served us well. Irrational underwriting and unrealistic pricing of products contributed greatly to the problems in the banking industry today. We simply to stick to our underwriting guidelines and do not deviate.

CEOCFO: Sounds like you made a wise choice!

Mr. Dorminey: We have. Fortunately, it has paid off for us.

CEOCFO: Are you more of a traditional bank, loaning locally and taking in locally and loaning out locally?

Mr. Dorminey: We are. Frankly, loan participations were another pitfall for many banks in Georgia. We have done due diligence on a number of good, solid banks, but in order to grow the only thing they could do was loan participations because their markets were not growing. Many of these banks were participating in out of market projects in Atlanta or the gulf coast. These banks chose to buy participations out of their market and out of their underwriting expertise in many cases. During our due diligence, we found their core banking was solid but the loan participations are what killed them. As a rule, we do not do out of market participations. We will do some if we know the customers and if the company is in our market. Typically, we try to gather deposits locally and deploy those deposits through loans in the communities we serve.

CEOCFO: What about remote capture deposit, as well as customer enhancements and services; are you involved with those things?

Mr. Dorminey: We are. Today customers want to be able to touch their bank instantly and as a bank, you need to provide the means to do so. We have been investing in business banking for a few years now; we have remote capture and other treasury management products. With Heritage focused on C&I lending, we feel there are some additional treasury management opportunities. These automated services are sometimes hard

for businesses to grasp the benefit. However, once we show the convenience and ease of remote deposits or payroll direct deposits they see the benefit. Instead of trying to develop new products, we are trying to fine-tune what we have, especially in regards to our checking products. It is common to go into a bank and they will offer ten different checking accounts. We were no different. We had seven or eight different checking accounts that had little niches involved with those various accounts. We are working to develop three or four superior personal checking accounts. This will better serve our customers and our retail sales engine.

CEOCFO: Where does Heritage Financial stand in the new banking environment and finding new ways to generate revenues?

Mr. Dorminey: Today, the buzz is how to operate in the new norm. Frankly, we are seeing opportunities in several arenas. For example, the revenue generation side. Obviously, Dodd-Frank and Durbin are going to take income away. We must figure out how to generate revenue in a market where there is very little loan growth. Fortunately, for us we have expanded through FDIC assisted transactions, open bank, branch purchases and de novo. In our new markets, we have found some commercial banks that have high market shares but because of credit problems, customers are finding it hard to do business. We have seen a significant number of good customers willing to move from their current bank because of this situation. These loan opportunities are not new customers or new business in the sense of generating new loans for the community, but they are new loans for our bank and they are good customers.

The other thing we plan to focus on is generating new business by doing a better job of tackling of our existing customer base. That involves looking at every relationship and doing a better job of moving a customer's entire banking relationship over to HeritageBank to increase our share of wallet.

Lastly, there is a new normal at least for the near term. We do not expect a lot of growth besides what I just described. For new growth, we are going to have to be aggressive on the sales side and be very attentive to expense control. It is going to be a combination of those two things. It cannot just be growth and it cannot just be expense cuts. We are fortunate to have the capital, but we still have to be cognizant of expenses so that is going to be our next challenge. As we grow to our goal of \$1.5 billion, we are going to have to look at our operating expenses and try to find ways to cut back without diminishing our ability to serve our customers.

CEOCFO: What is the financial picture for Heritage Financial today?

Mr. Dorminey: We are in great shape. We are going to be profitable for this year, but not as profitable as we would like to be due to one-time acquisition costs and increased compliance cost. We will continue to grow and we will continue to focus on making this a very profitable organization.

CEOCFO: In closing are you focused on attracting investors to your stock and what would you say to potential investors considering Heritage Financial?

Mr. Dorminey: We did a road show with this last capital raise. We traveled to New York, Chicago, Boston, so we do have a high number of institutional investors. They wanted to know why would somebody want to invest in Heritage Financial and the answer is that we are well positioned to grow. We are in the position to grow strategically that offers a long-term value to our stockholders. We have a disciplined approach to acquisitions and a disciplined management team. The last two things I would mention are that while we have grown we continue to exhibit excellent credit quality. To have NPA's (non-performing assets) under 2% in today's environment, validates some of the statements I made about an experienced management team who understands banking, what it takes to operate and be profitable in this new norm.



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