

Deposit Dilemma

How to Solve the Problem using M&A

2020

Today's Agenda

- I. The Deposit Dilemma
- II. Industry Assessment
- III. The Only Practical Solution?

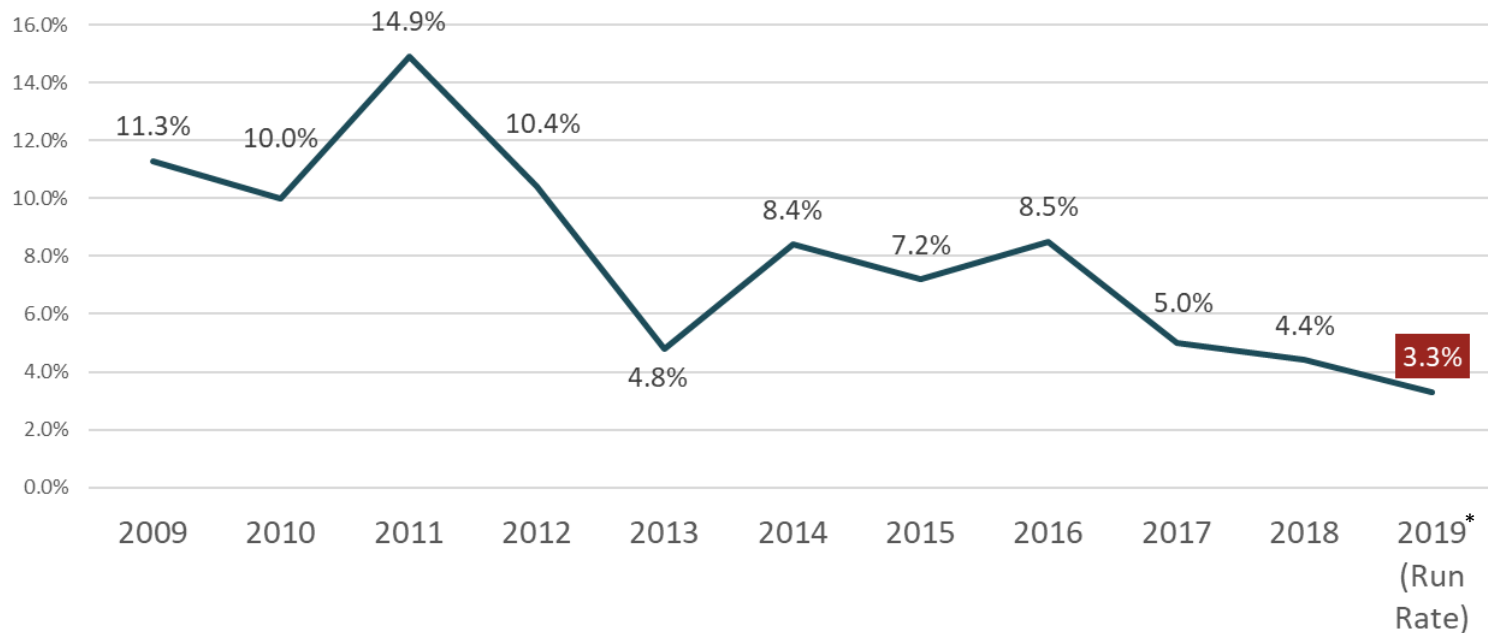
SECTION I

The Deposit Dilemma

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Deposit Growth is Quickly Deaccelerating

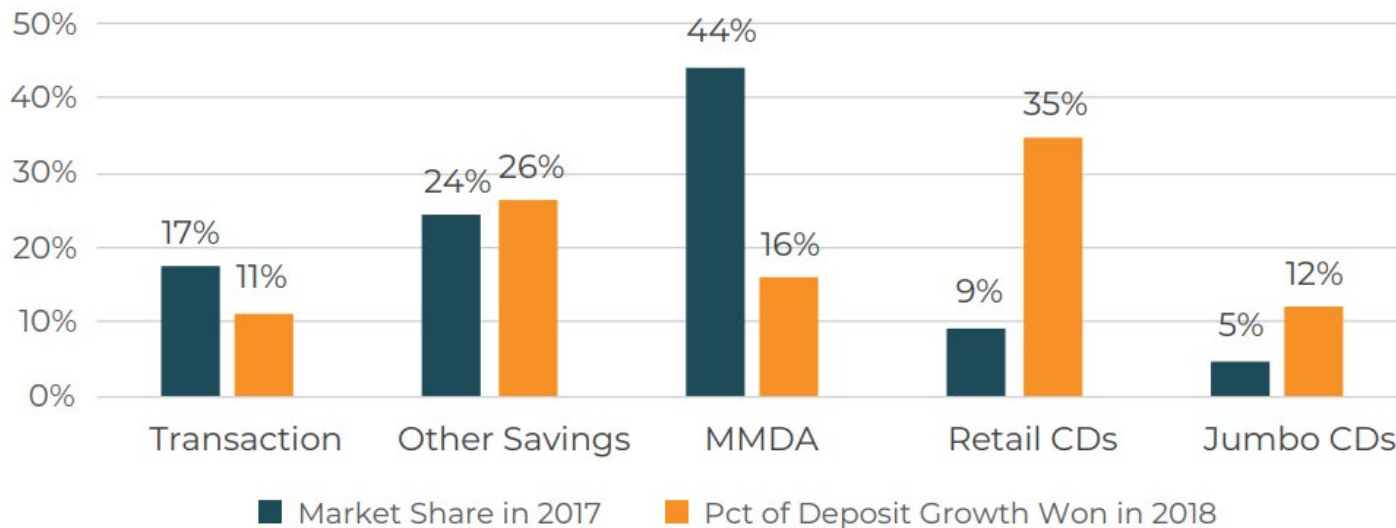
YEAR OVER YEAR DOMESTIC DEPOSIT GROWTH - ALL BANKS IN THE US



* Through first three quarters.

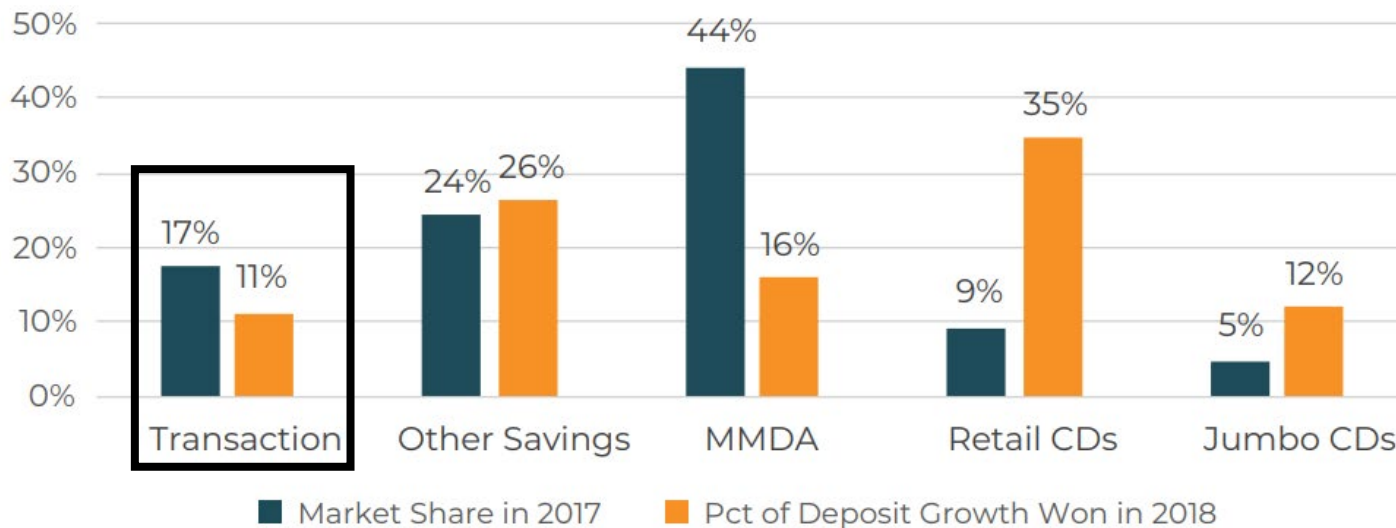
Growth in Deposits in 2018 was Not Healthy

MARKET SHARE ANALYSIS: TOTAL DEPOSITS AT THE END OF 2017 VS PCT OF GROWTH WON IN 2018



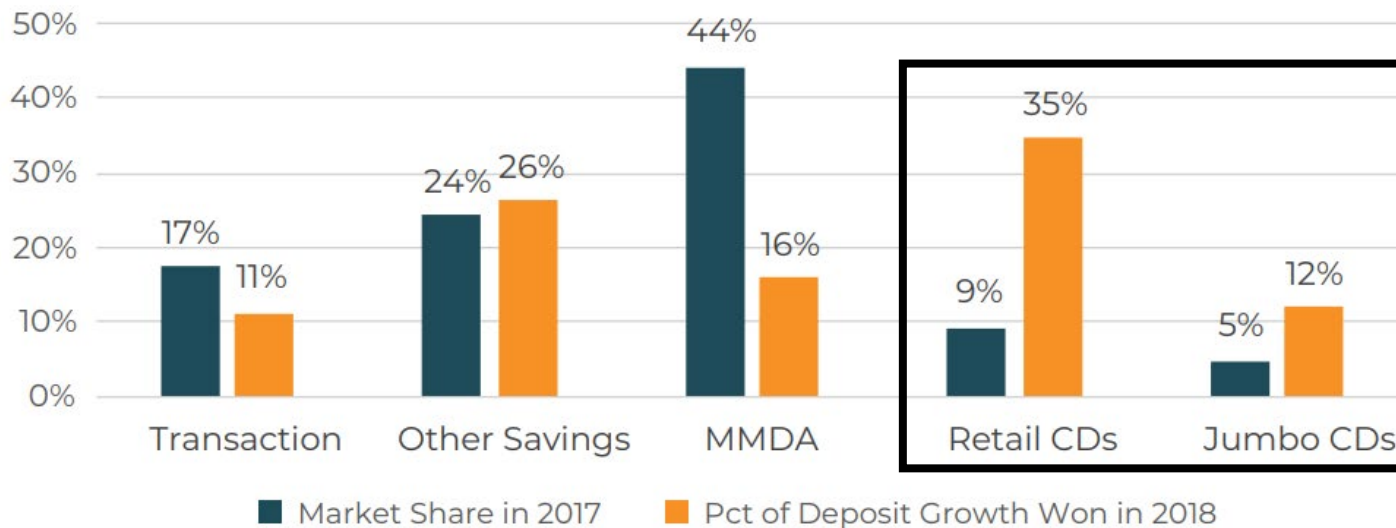
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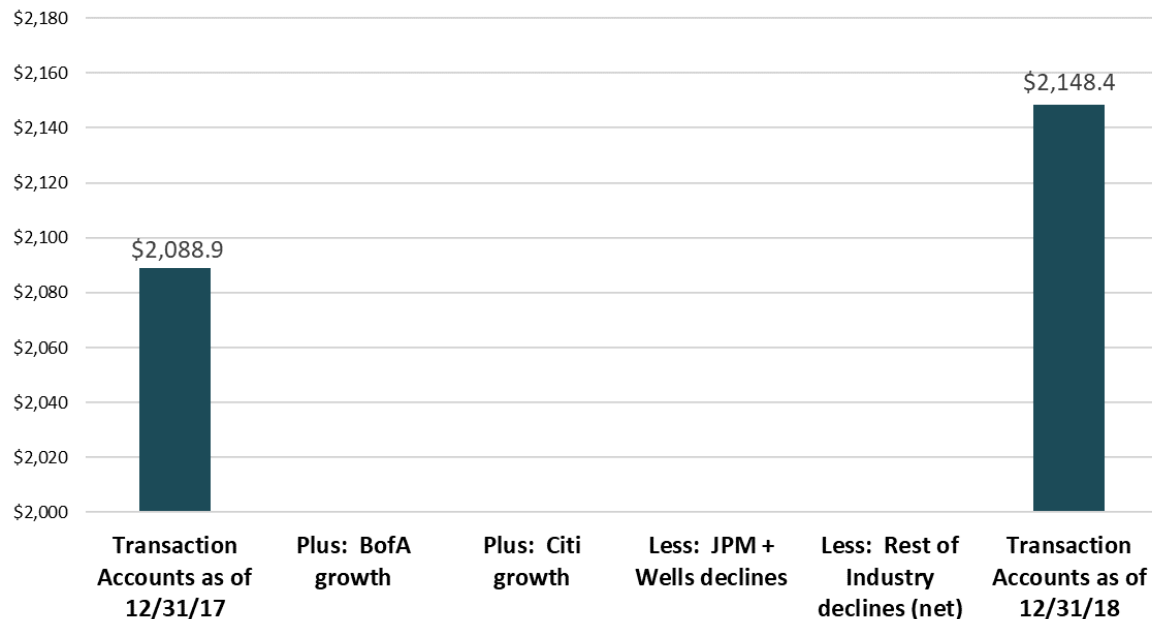
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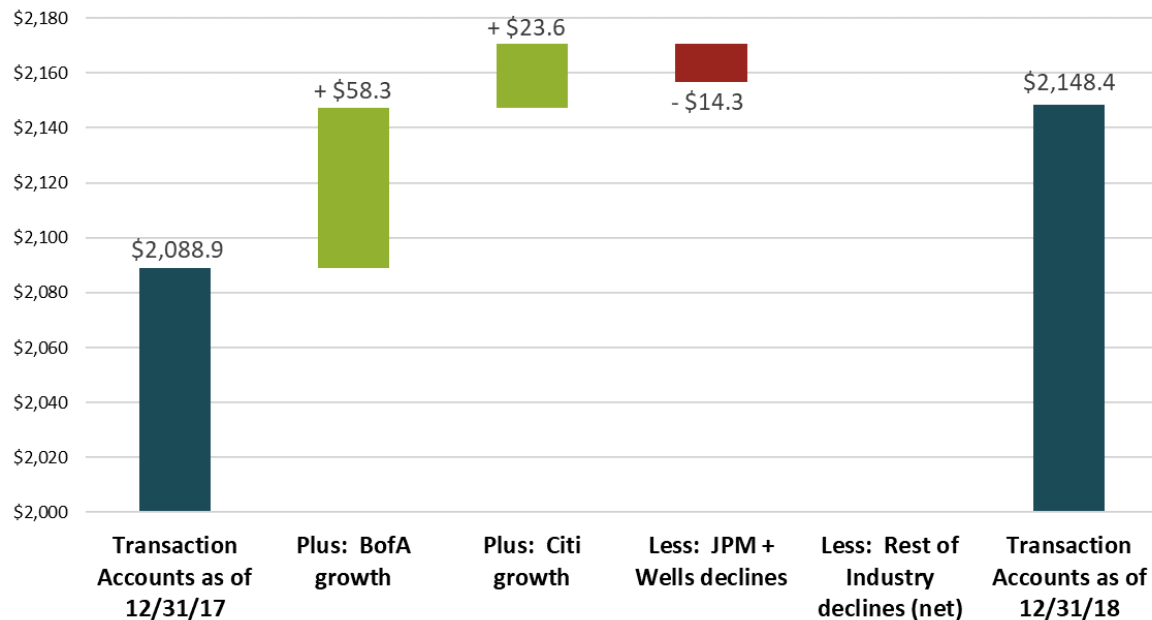
Transaction Accounts under Assault

Net Changes in Transaction Account Balances in 2018 (\$B)



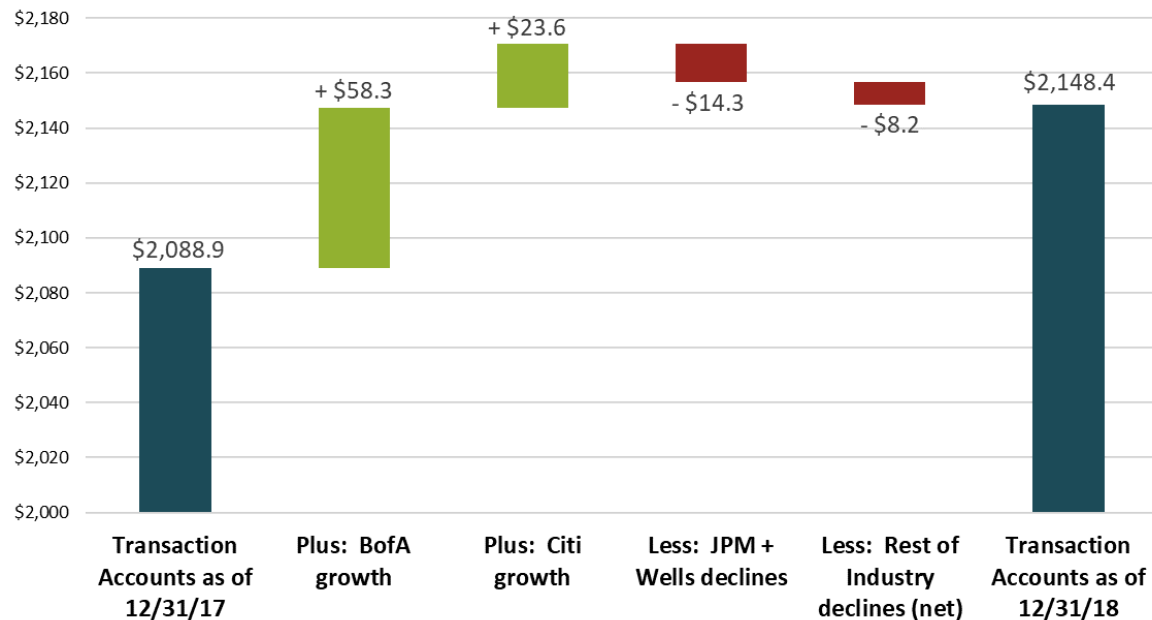
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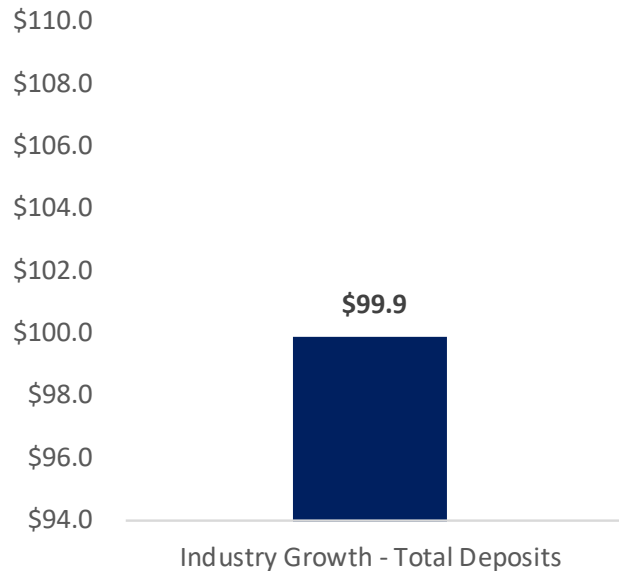
Transaction Accounts under Assault

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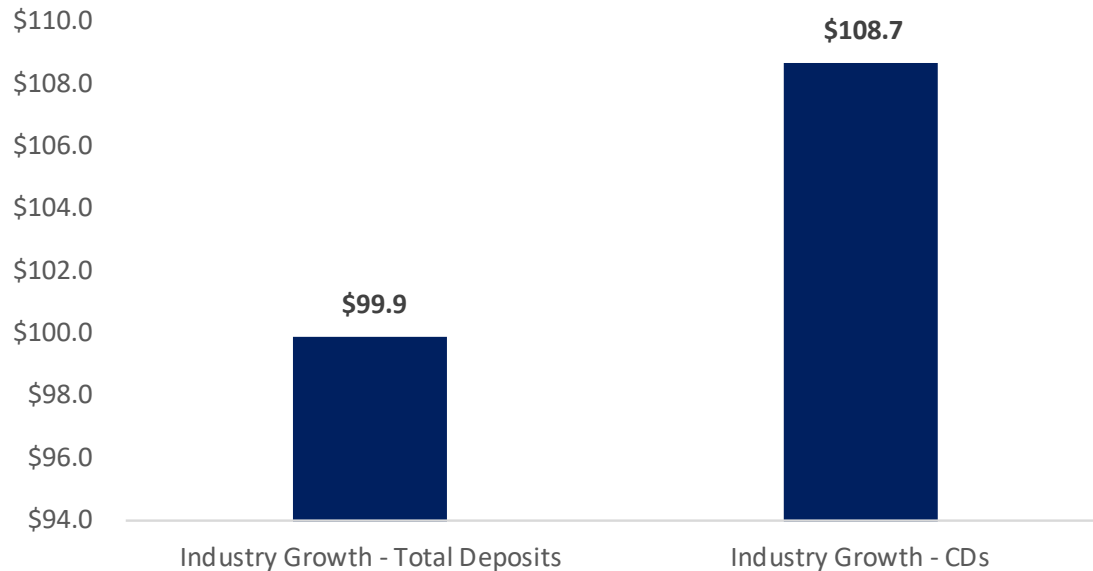
Deposit Trends – First Half of 2019

Industry Growth: 1H-2019 (\$B)



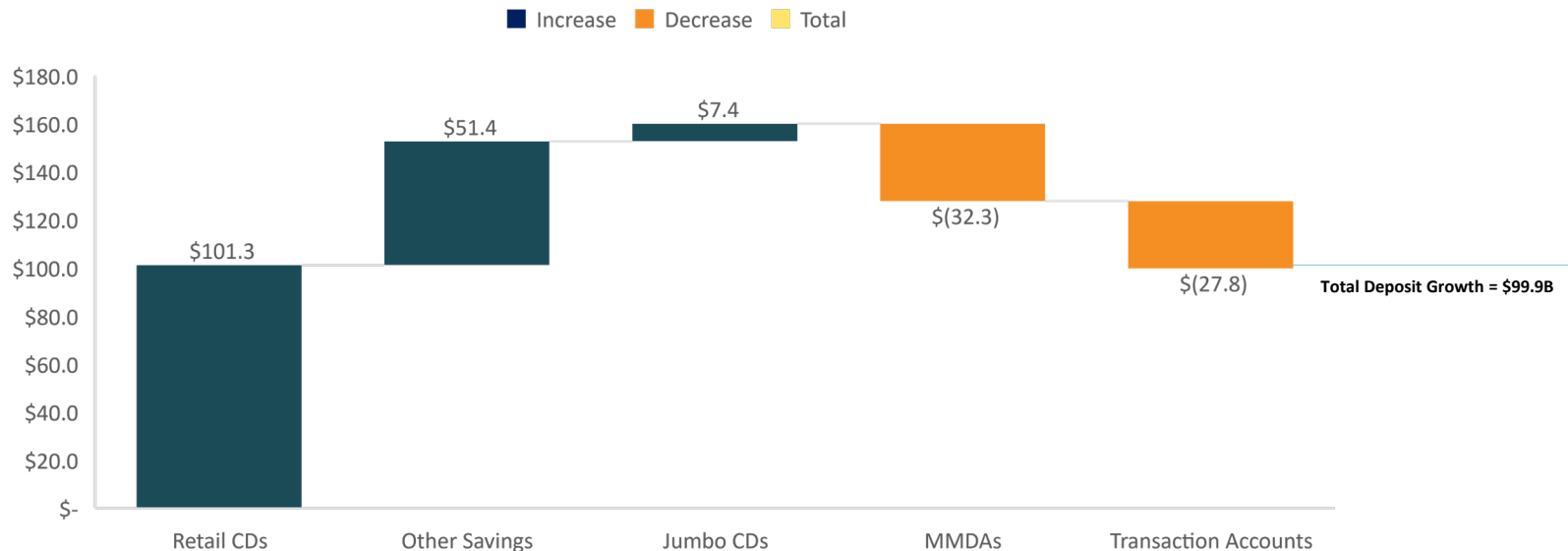
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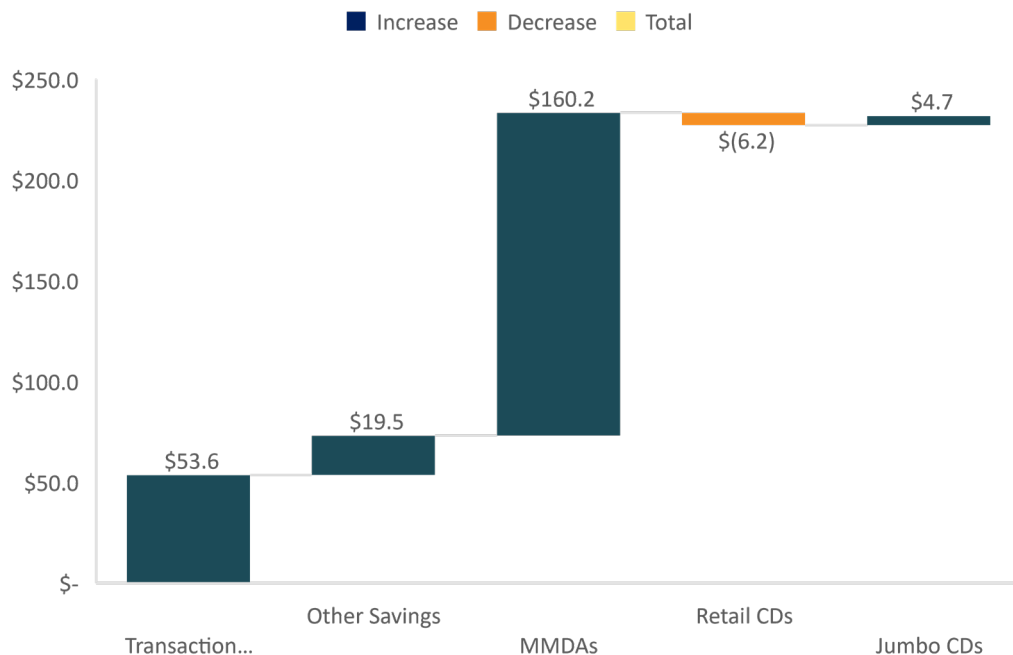
Deposit Trends – First Half of 2019

Deposit Growth Composition by Product (\$B): 1H-2019



Signs of Life in the Third Quarter?

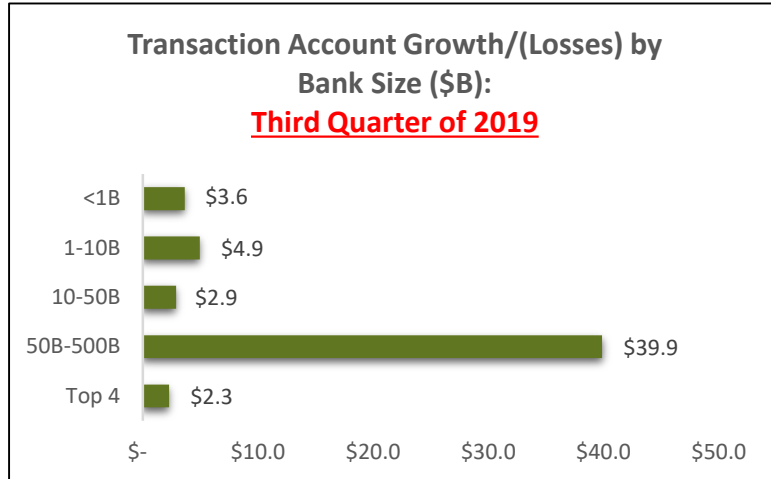
Industry Deposit Growth in Q3-19: \$232B



- 2nd best quarter of deposit growth since 2017
- Strong growth in transaction accounts
- MMDA growth was 69% of total growth
- Retail CDs and Savings accounts underperformed relative to 2018

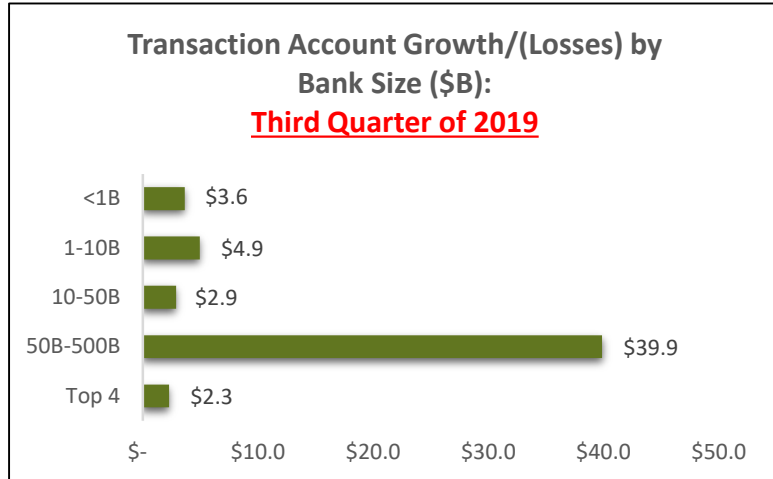
Transaction Account Growth in the Third Quarter

Banks of all sizes grew transaction accounts...

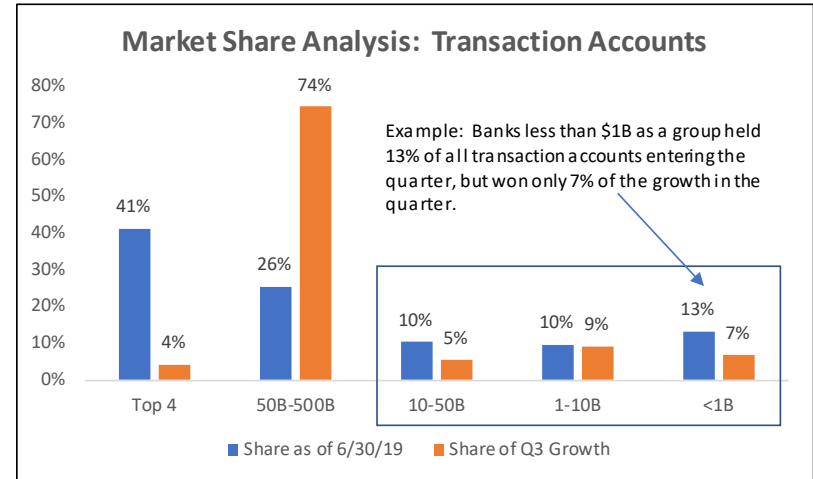


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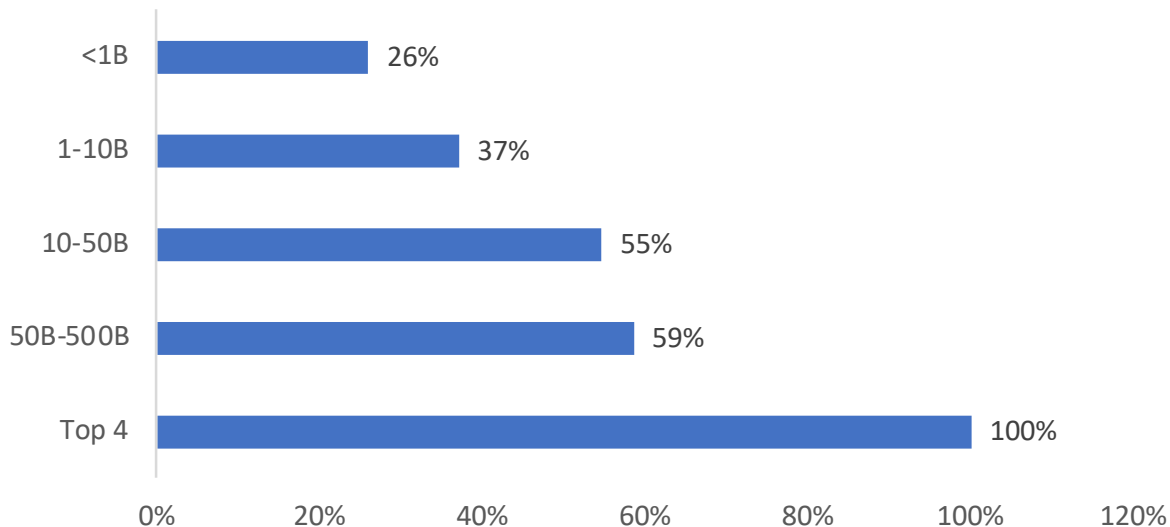


but Community Banks failed to win their fair share.

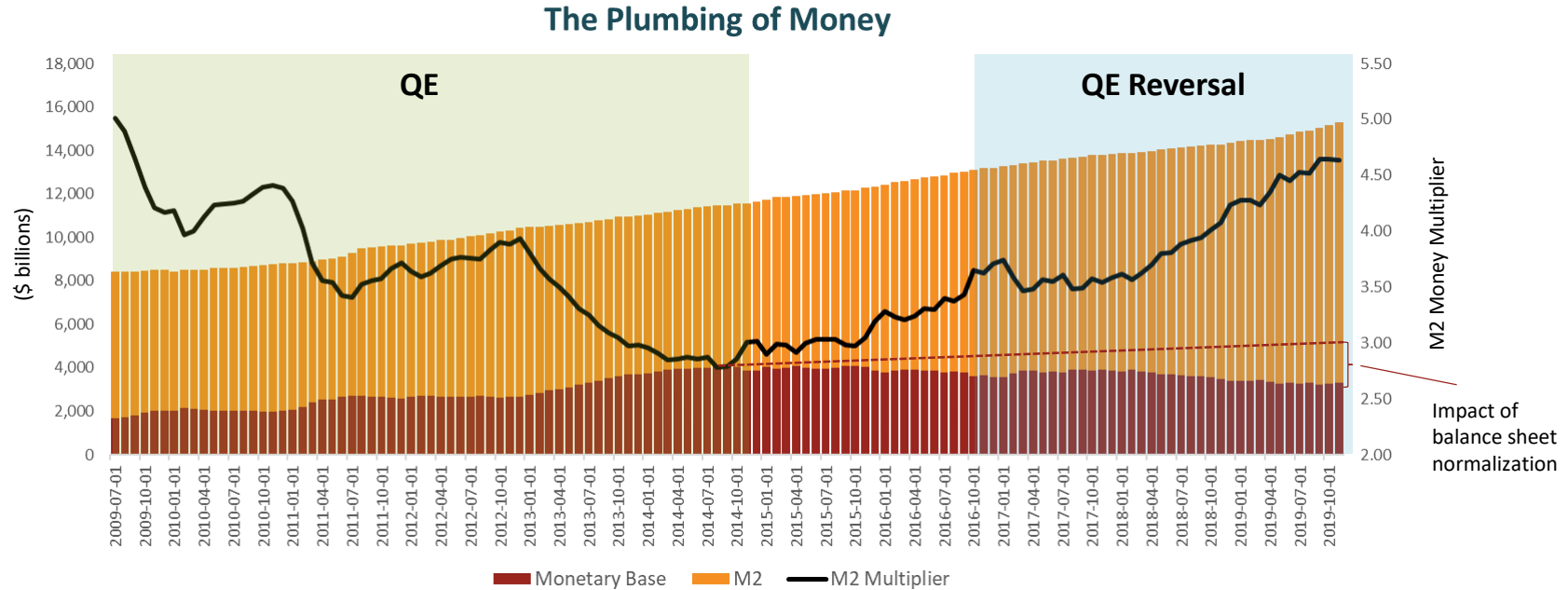


Cost of Funds Trend in Q3: Community Banks going the Wrong Way

Percentage of Banks whose CoF Improved
(Decreased) in Q3-19



Where will the Next Driver of Bank Deposit Growth come from?





Lay of the Land **Key Takeaways**



Lay of the Land

Key Takeaways

1. The pie isn't growing very much anymore



Lay of the Land

Key Takeaways

1. The pie isn't growing very much anymore
2. Size matters

Lay of the Land

Key Takeaways

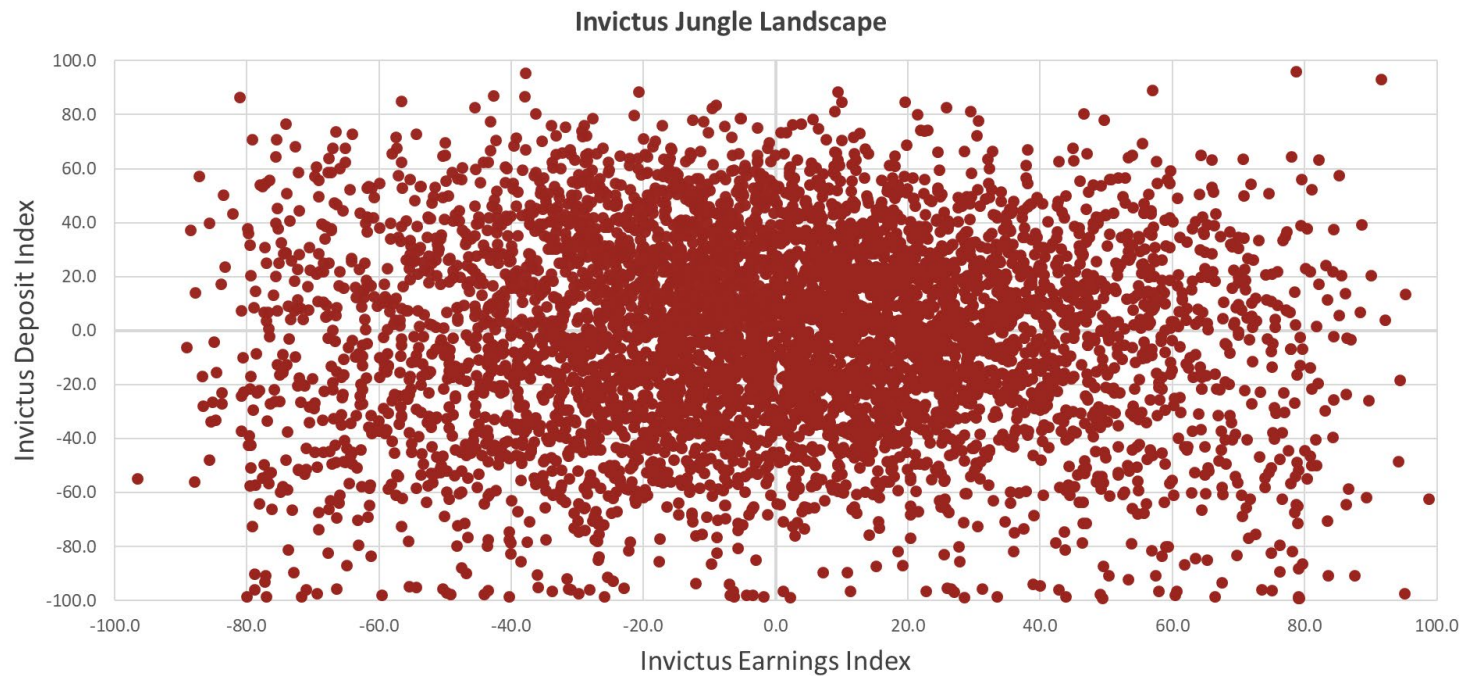
1. The pie isn't growing very much anymore
2. Size matters
3. This is a strategic issue, not an ALCO one

SECTION II

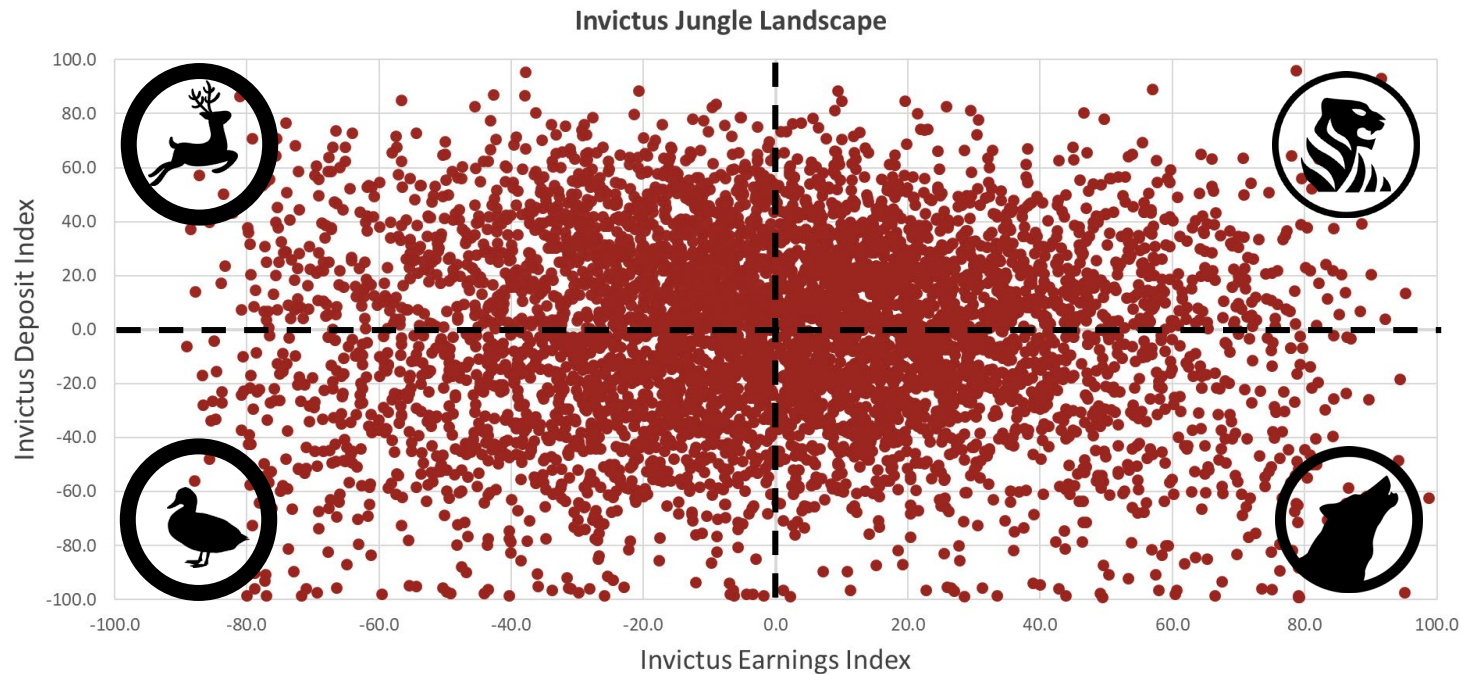
Industry Assessment

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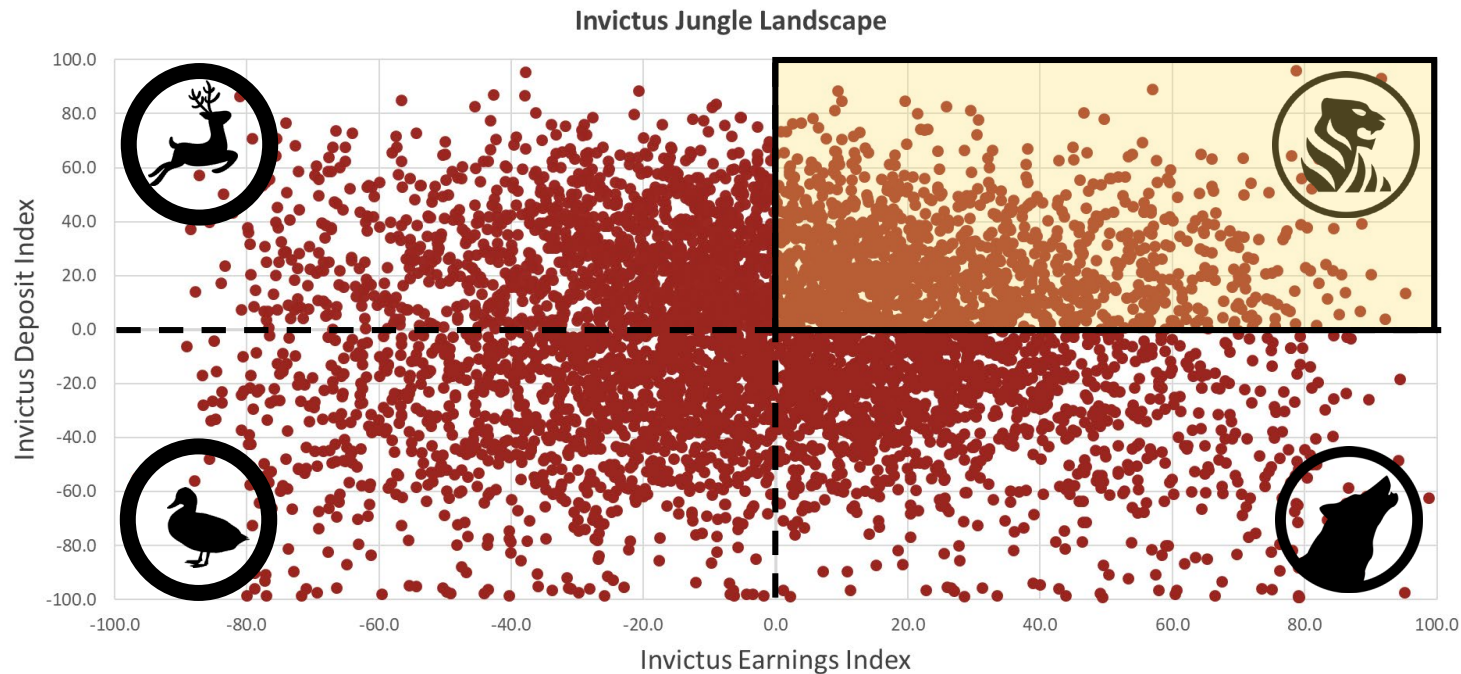
Deposit / Earnings Index -- All Banks in US



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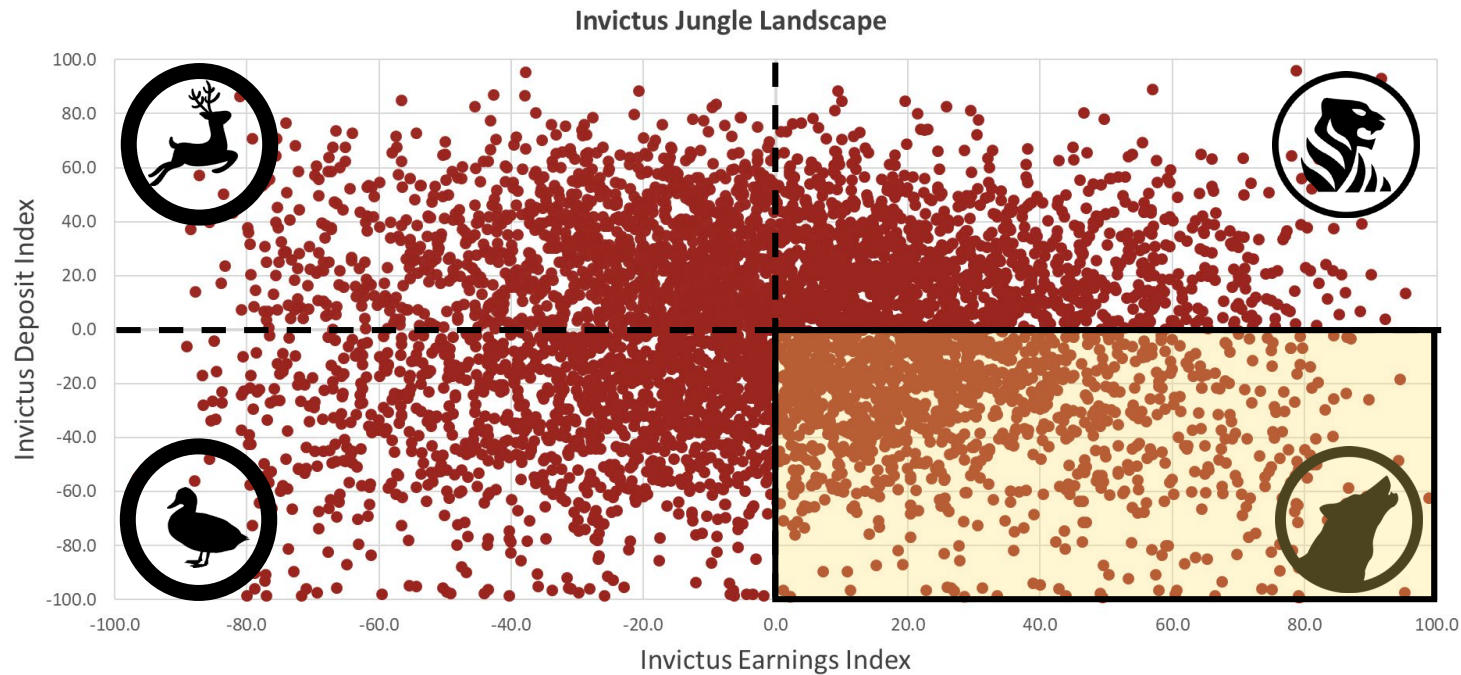


Deposit / Earnings Index -- All Banks in US



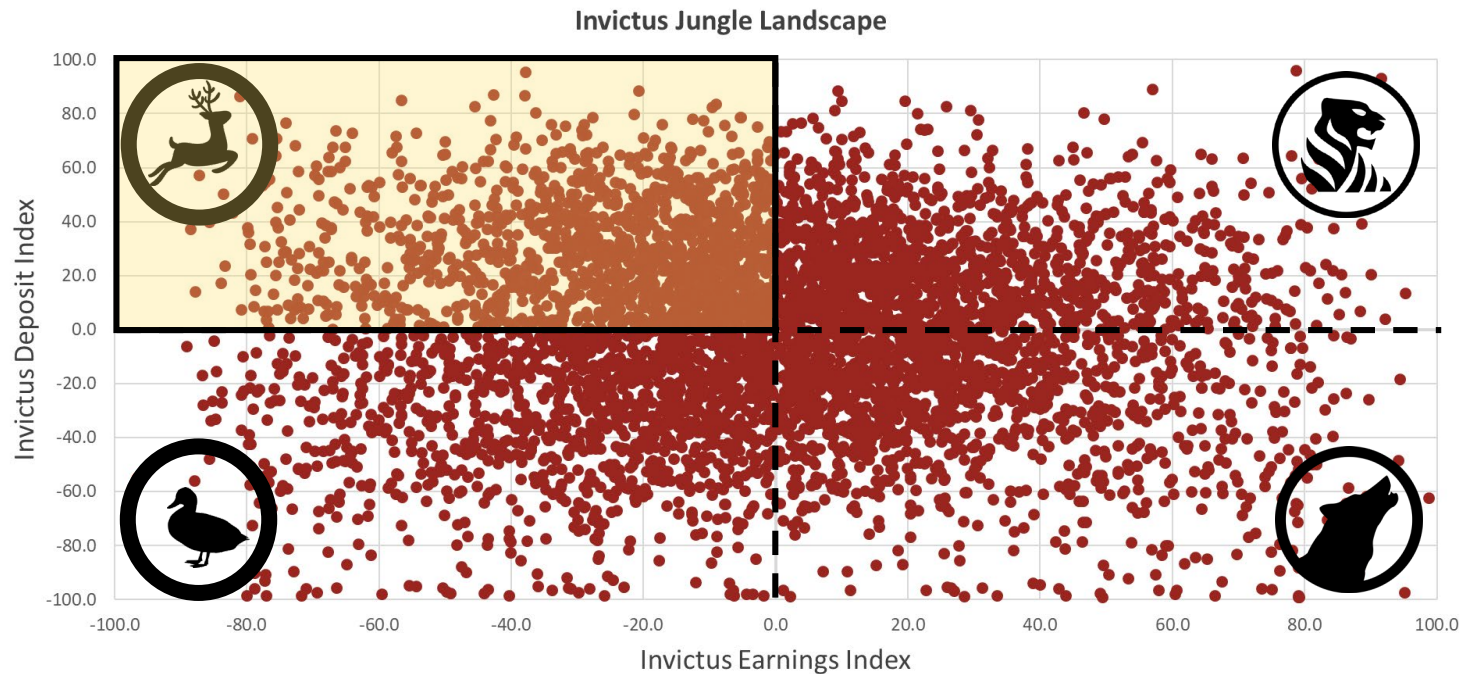
The “Sweet Spot” = Strong quantity and quality of earnings with strong funding base

Deposit / Earnings Index -- All Banks in US

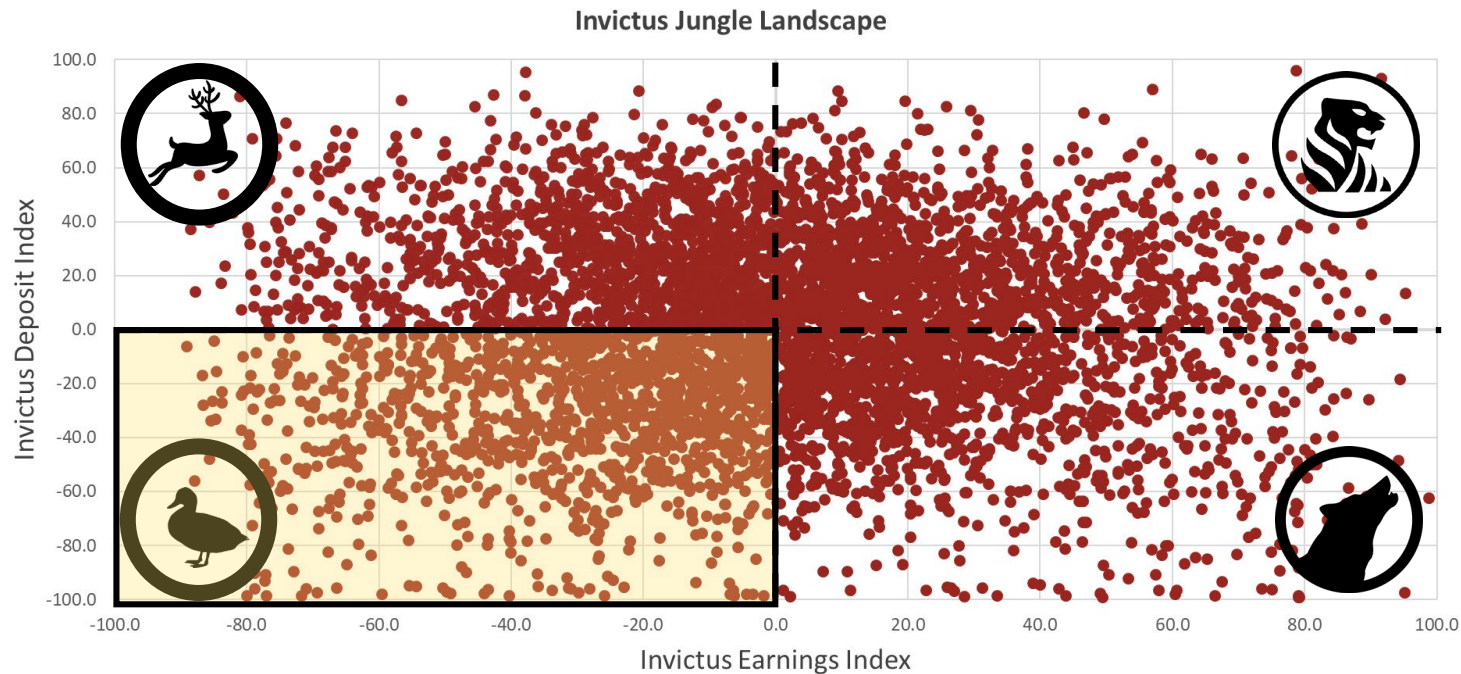


Strong earnings buys time, but will struggle to fund additional growth

Deposit / Earnings Index -- All Banks in US



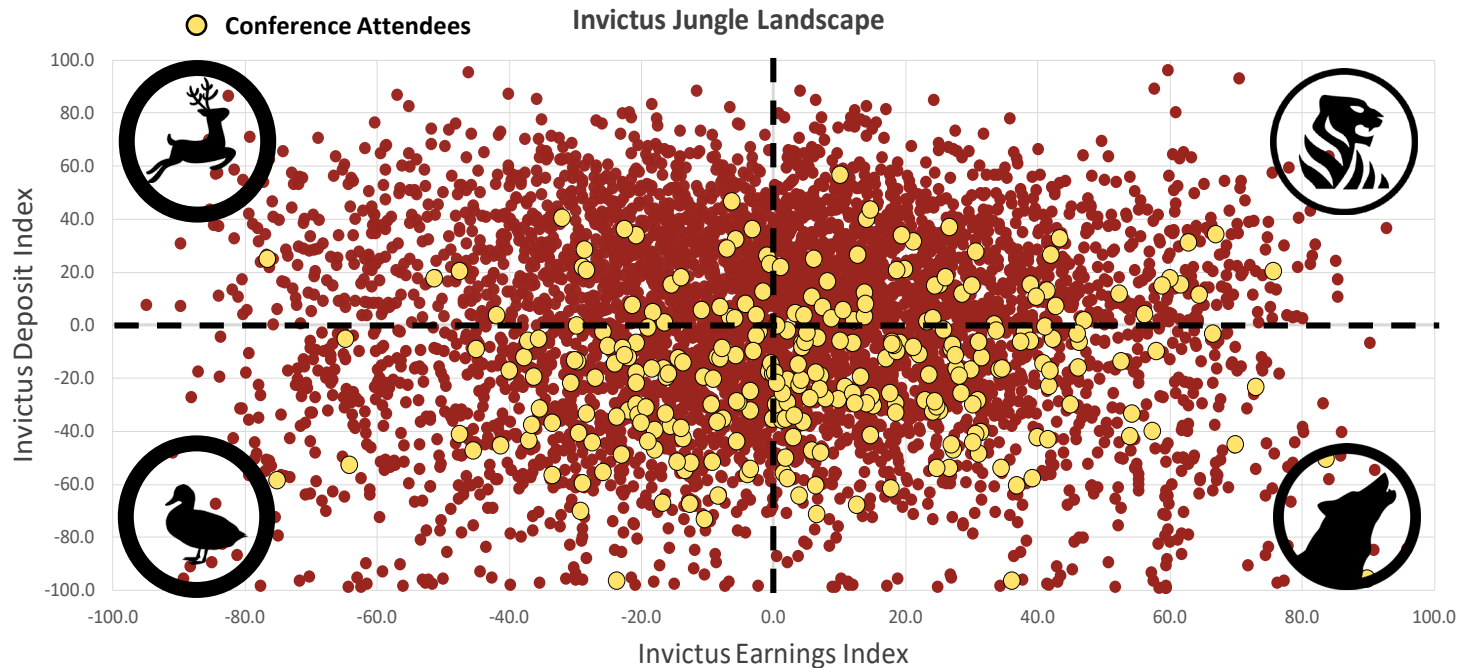
Deposit / Earnings Index -- All Banks in US



More vulnerable and lack both growth and profitability prospects

Deposit / Earnings Index -- All Banks in US

Conference Attendees

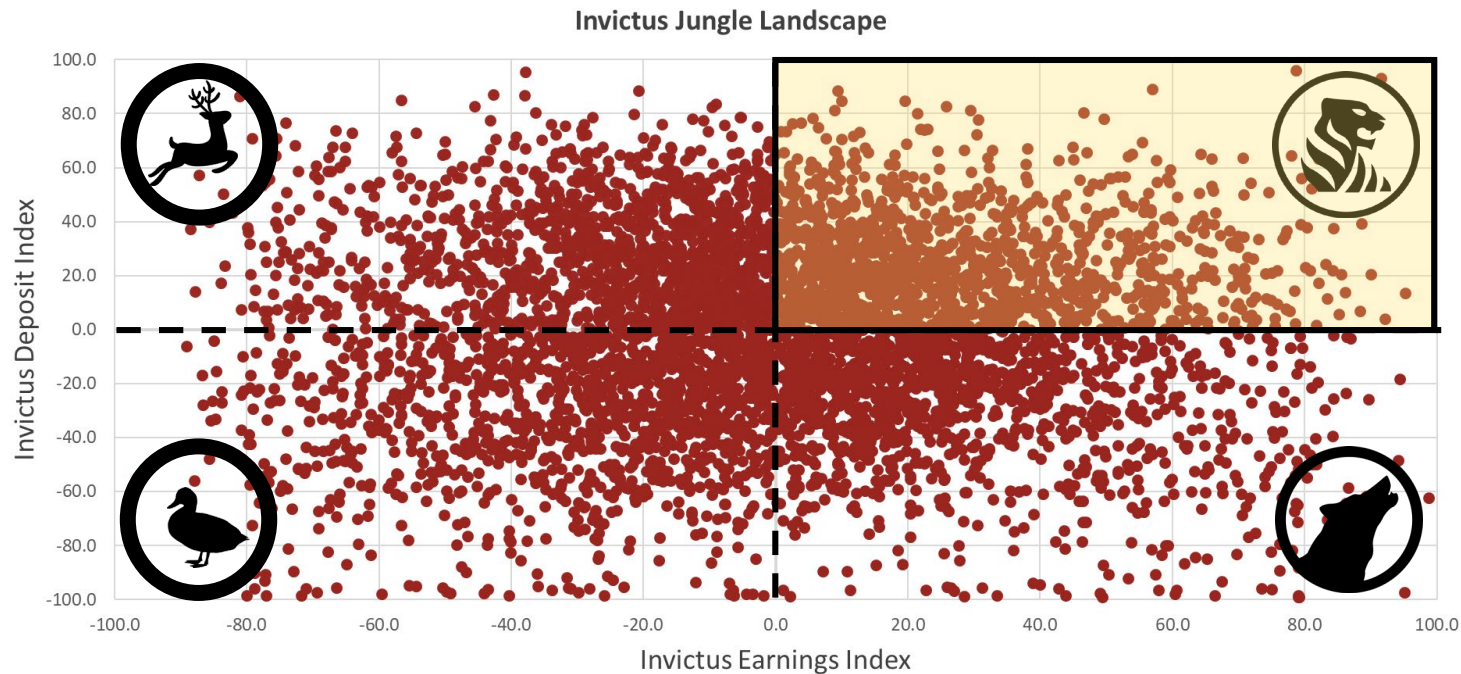


Deposit / Earnings Index -- All Banks in US

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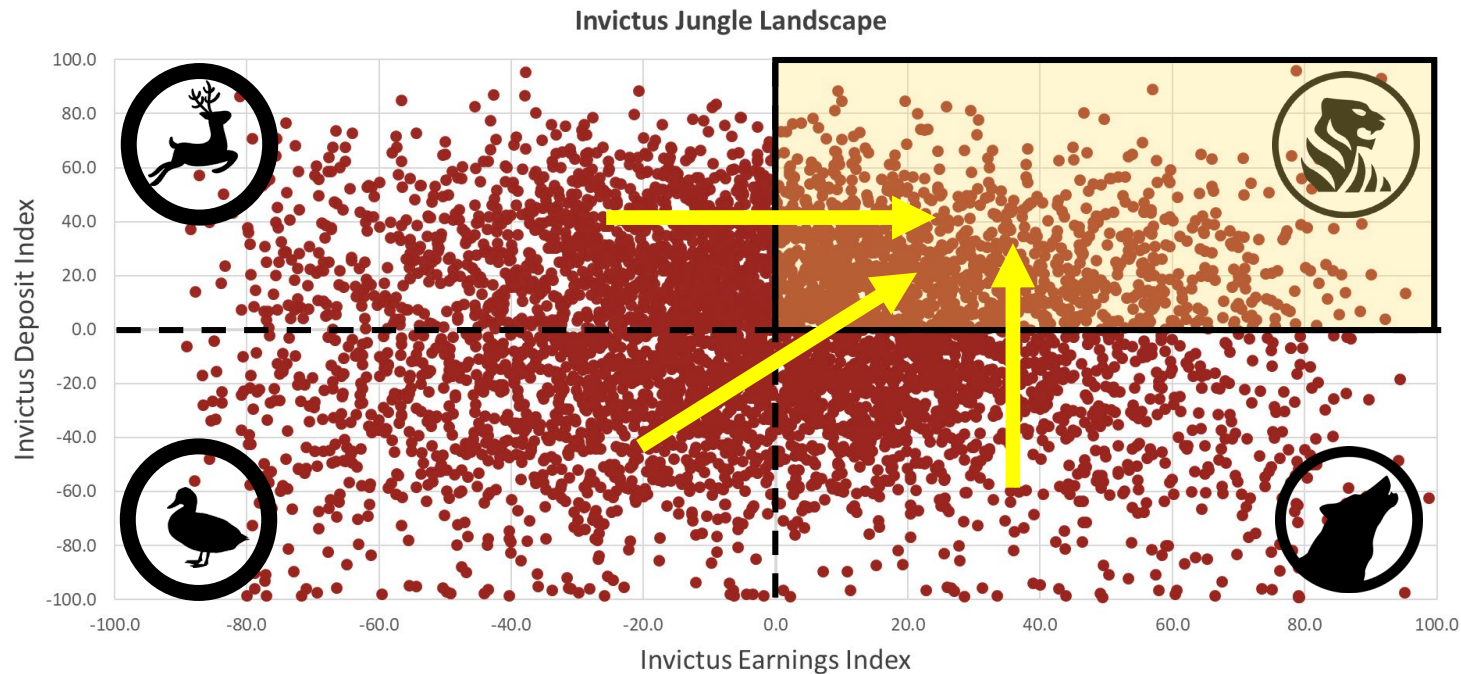


Deposit / Earnings Index -- All Banks in US



The “Sweet Spot” = Strong quantity and quality of earnings with strong funding base

Deposit / Earnings Index -- All Banks in US



SECTION III

The Only Practical Solution?

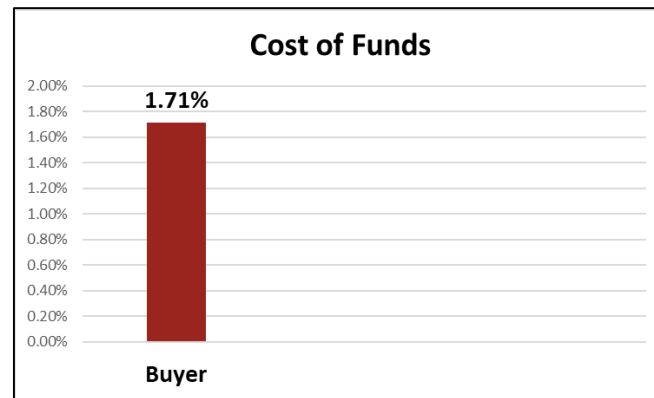
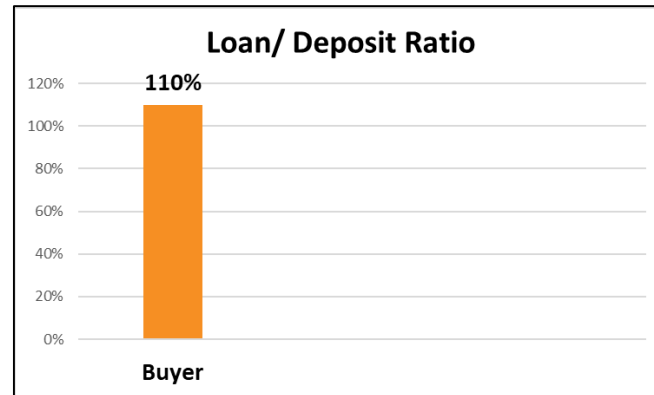
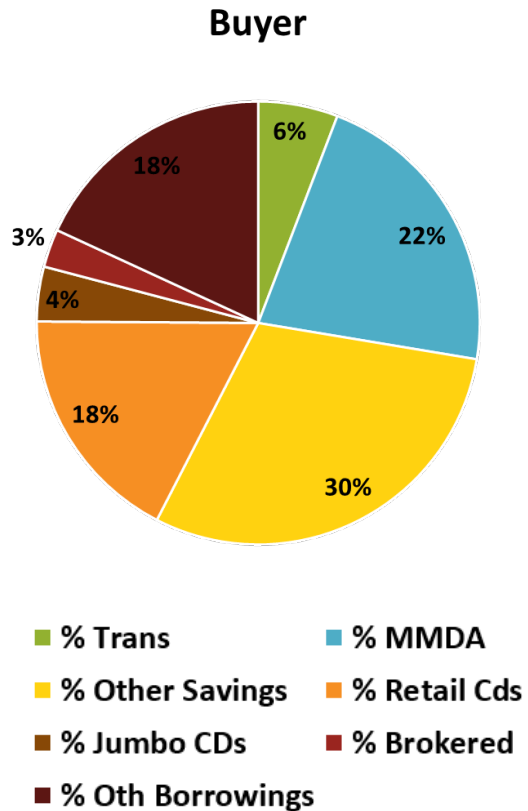


Organic Growth in the
Normalization Period



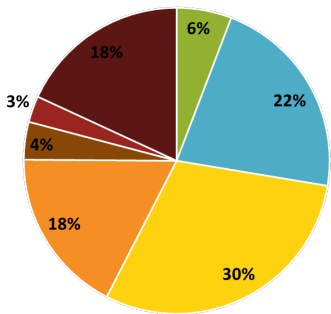
M&A as a Growth Strategy

Benefits of M&A

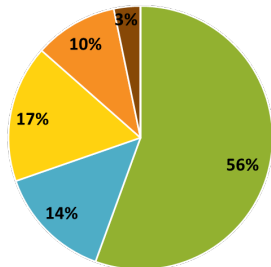


Benefits of M&A

Buyer



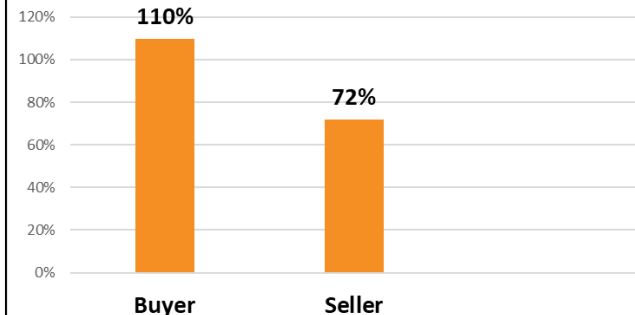
Seller



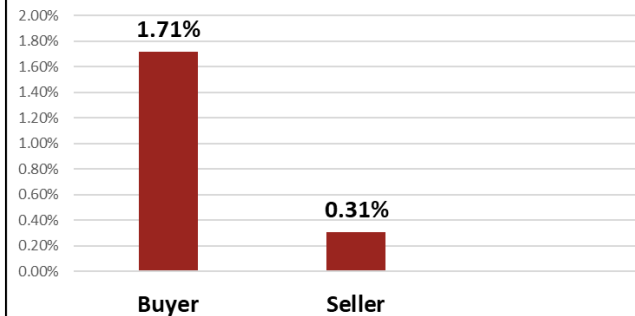
Change by Product



Loan/ Deposit Ratio



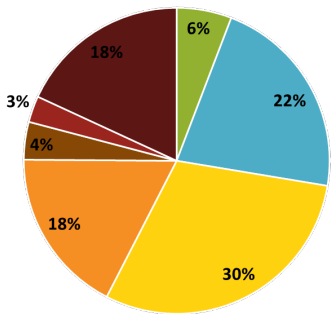
Cost of Funds



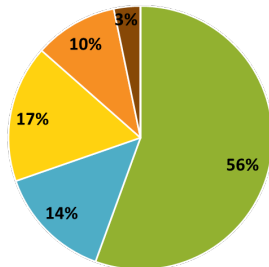
- % Trans
- % Other Savings
- % Jumbo CDs
- % Oth Borrowings
- % MMDA
- % Retail CDs
- % Brokered

Benefits of M&A

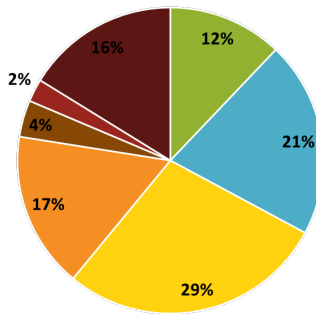
Buyer



Seller



Combined

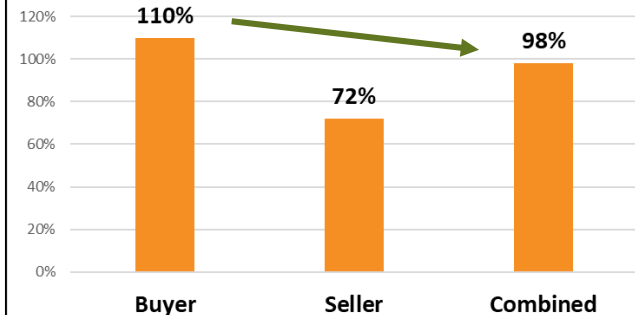


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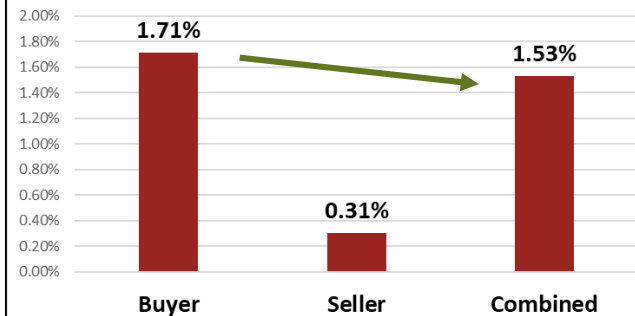


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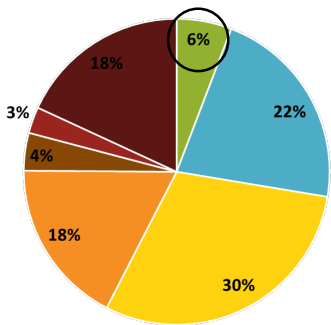


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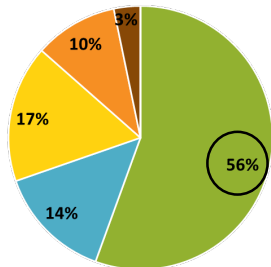


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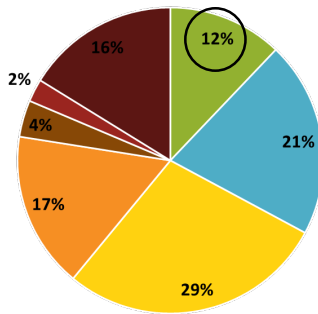
Buyer



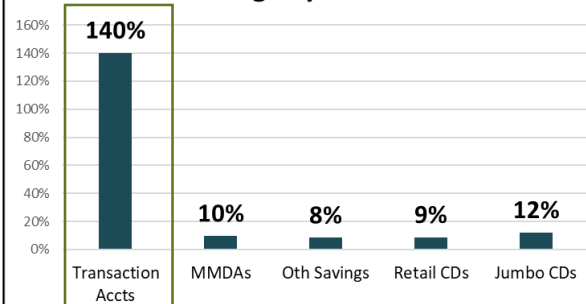
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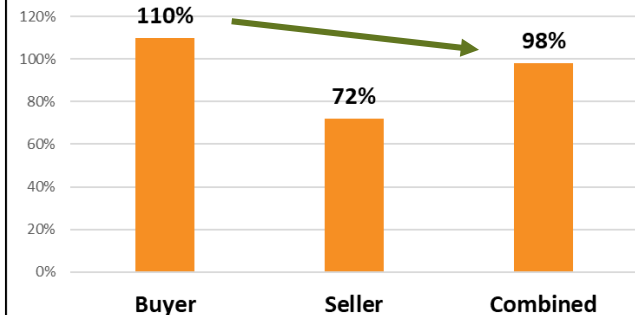
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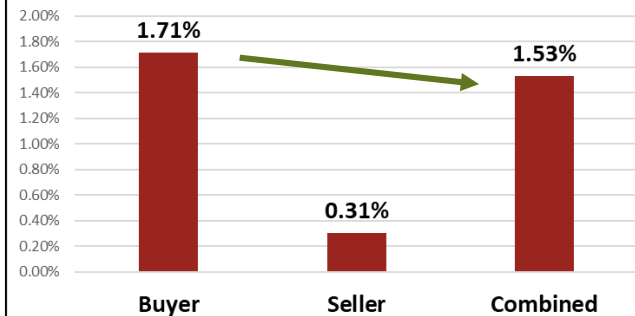
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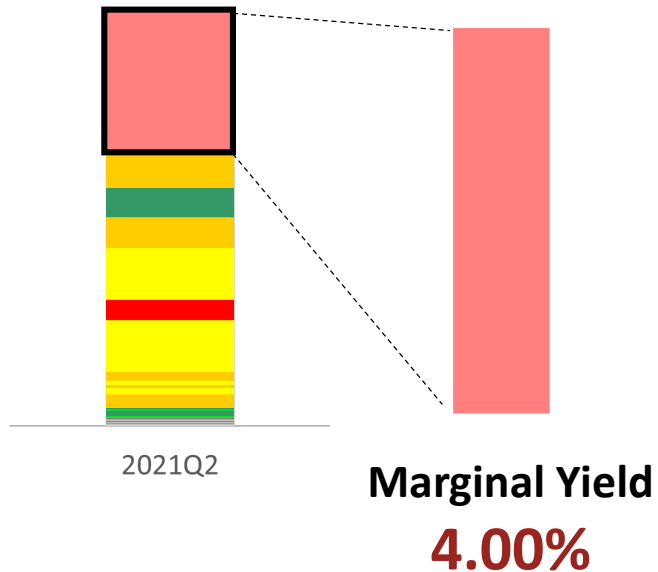
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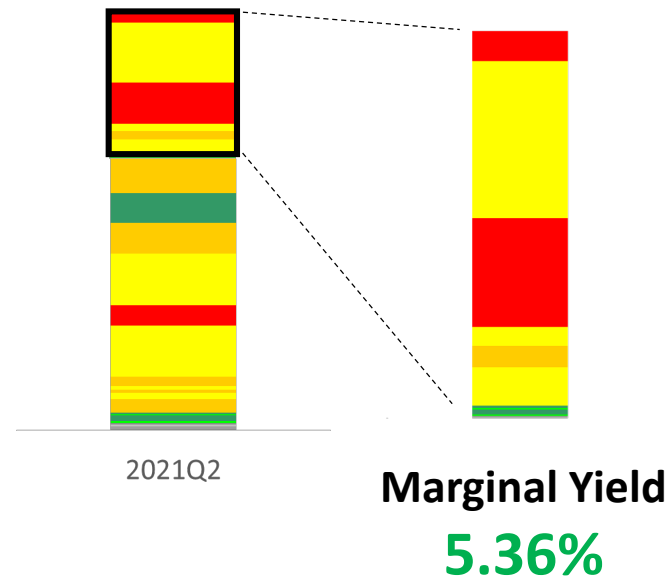
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Benefits of M&A

Pro Forma Total Loans
*Organic Growth
Scenario*



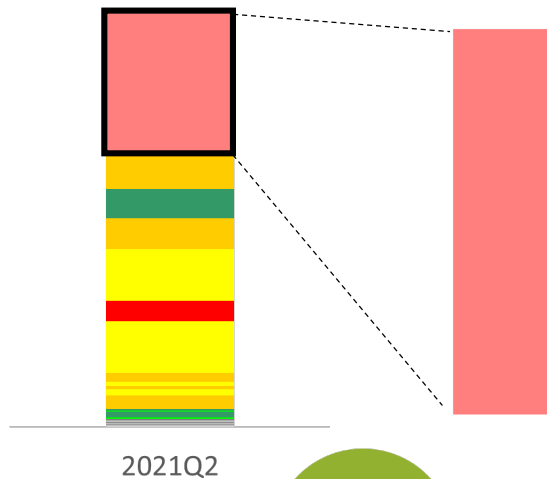
Pro Forma Total Loans
*Acquisition
Scenario*



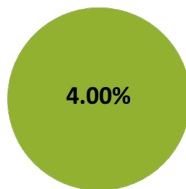
"Time Machine"

Benefits of M&A

Pro Forma Total Loans
Organic Growth
Scenario

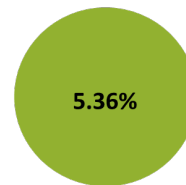


Marginal NIM:
1) Yield



■ Marginal Yield

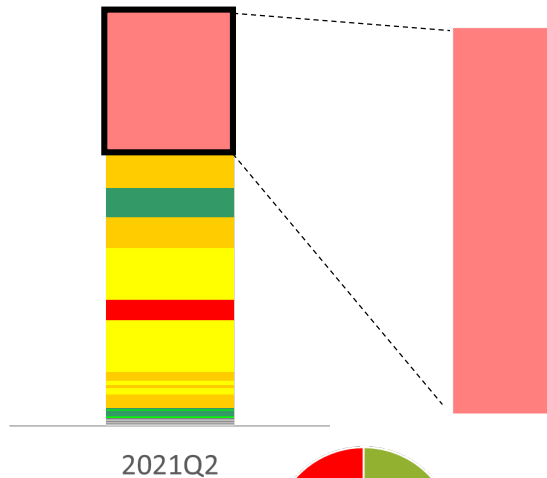
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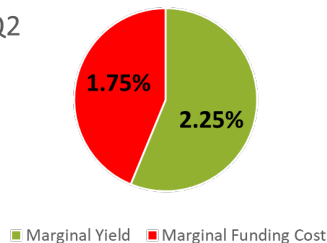
■ Marginal Yield

Benefits of M&A

Pro Forma Total Loans
Organic Growth Scenario



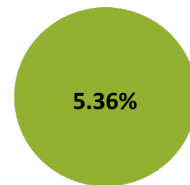
Marginal NIM:
1) Yield
2) Cost of Funds



Pro Forma Total Loans
Acquisition Scenario

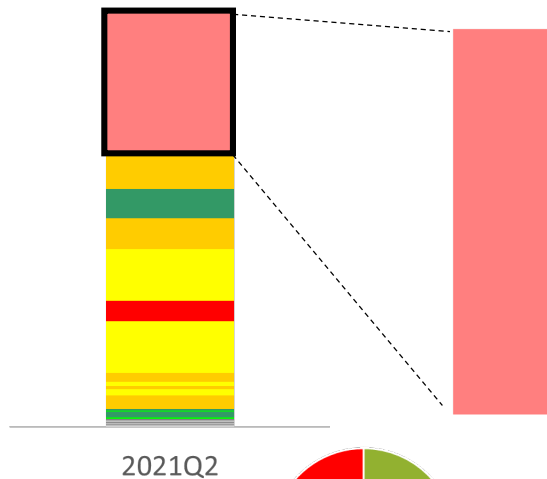


"Time Machine"

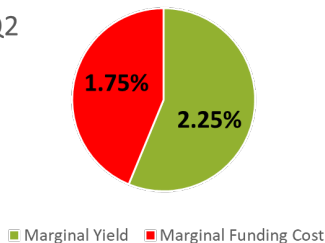


Benefits of M&A

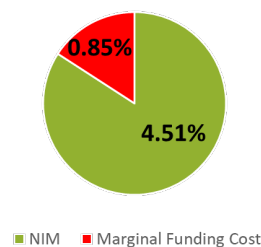
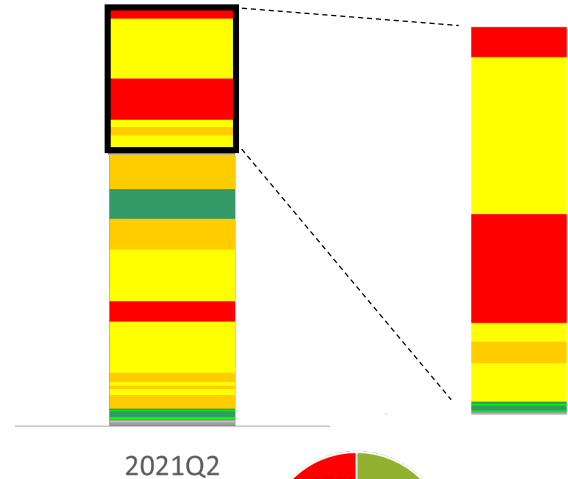
Pro Forma Total Loans
Organic Growth Scenario



Marginal NIM:
1) Yield
2) Cost of Funds

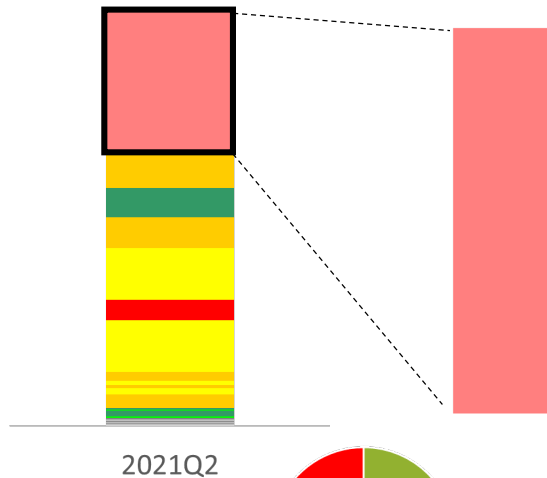


Pro Forma Total Loans
Acquisition Scenario

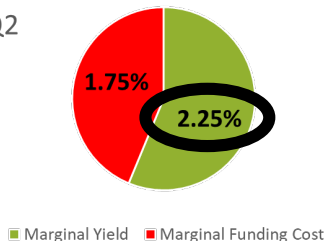


Benefits of M&A

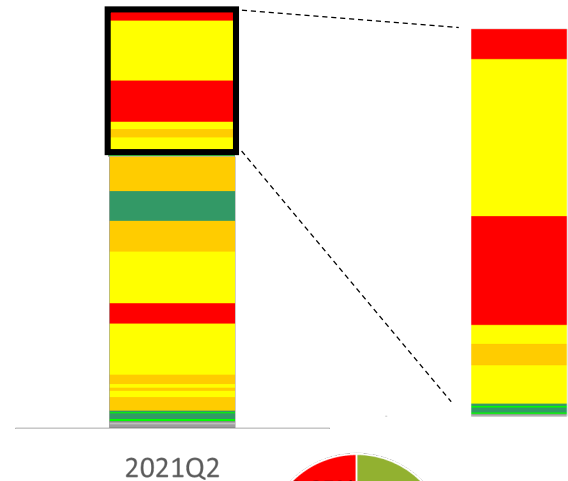
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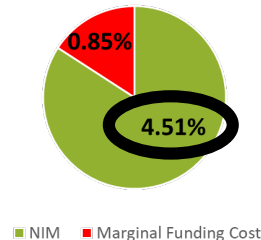
Marginal NIM:
1) Yield
2) Cost of Funds



Pro Forma Total Loans
Acquisition Scenario



"Time Machine"



The acquisition has double the profitability

Targets Ranked by Price Ceiling

Target	Tot Assets (\$M)	Distance	Initial Price Ceiling
Delta	389	96	2.6x
Alpha	172	97	2.5x
Kilo	278	112	2.4x
Charlie	375	69	2.3x
Juliett	352	47	2.1x
Foxtrot	167	33	2.0x
Echo	364	114	2.0x
Beta	286	80	1.9x
India	173	70	1.9x
Golf	365	20	1.8x
Hotel	400	117	1.4x

Targets Ranked by Price Ceiling

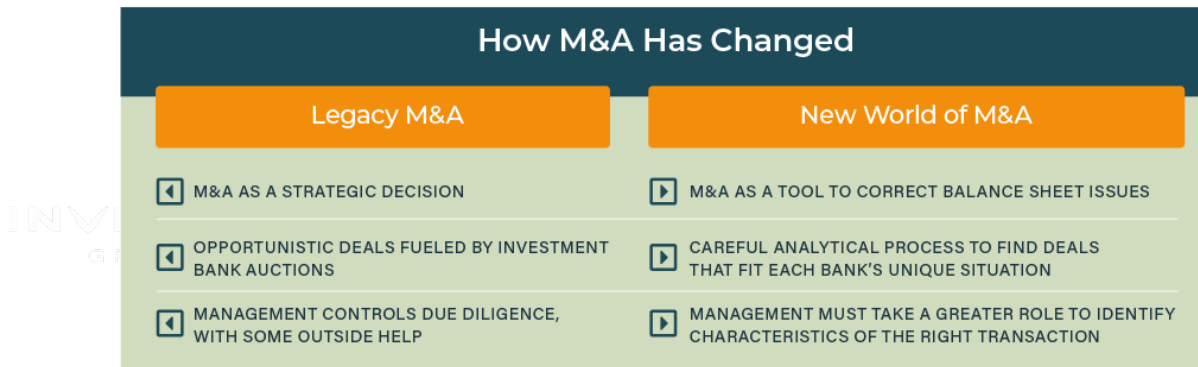
Target	Tot Assets (\$M)	Distance	Initial Price Ceiling	Est Mkt Price
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Echo	364	114	2.0x	2.0x
Beta	286	80	1.9x	1.8x
India	173	70	1.9x	1.8x
Golf	365	20	1.8x	1.7x
Hotel	400	117	1.4x	1.6x

Targets Ranked by Price Ceiling

Target	Tot Assets (\$M)	Distance	Initial Price Ceiling	Est Mkt Price	Competitive Advantage
Delta	389	96	2.6x	2.0x	0.5x
Alpha	172	97	2.5x	1.8x	0.6x
Kilo	278	112	2.4x	2.0x	0.3x
Charlie	375	69	2.3x	2.1x	0.2x
Juliett	352	47	2.1x	2.0x	0.1x
Foxtrot	167	33	2.0x	1.8x	0.2x
Echo	364	114	2.0x	2.0x	0.0x
Beta	286	80	1.9x	1.8x	0.1x
India	173	70	1.9x	1.8x	0.1x
Golf	365	20	1.8x	1.7x	0.1x
Hotel	400	117	1.4x	1.6x	-0.3x

Key Takeaways

1. When the pie stops growing, “buying” becomes more attractive than “building” by default.
2. M&A is a tool to repair balance sheet deficiencies; its not just about “EPS and earnback”.
3. Effective M&A in a new world requires a new approach and analytical tool kit.



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