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BANK M&A: THE COMING WAVE

SunTrust Robinson Humphrey Unconference

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I. Introduction

- The Dodd-Frank Act – A catalyst
  - Revenue effects
  - Cost effects
  - Psychological effects
- Dodd-Frank Regulations
  - More than 3,500 Federal Register pages of rules and rule proposals so far
  - 62% of the 387 rules required have not been proposed yet
  - 21 Rules finished

I. Introduction (cont'd)

- Industry Demographics

Commercial Banks	6,529
Savings Institutions	1,128
Total FDIC-insured institutions	7,657

Institutions down 1,176 (13.3%) from 12/31/2005

- The Industry by Size of Bank

Asset Size	No. of Institutions	% of Total
≤ $100 mil.	2,622	34.2%
$100 mil. - $1 bil.	4,368	57.0
$1 bil. - $10 bil.	560	7.3
≥ $10 bil.	107	1.4

I. Introduction (cont'd)

- For 2010, the industry had:
  - ROA 0.66
  - ROE 5.99
  - 197 mergers
  - 157 failed banks
  - 11 new charters

I. Introduction (cont'd)

- Estimated 2,700 and 4,000 regulatory enforcement actions against banks and their holding companies

- 884 problem banks (CAMELS 4 or 5) with $390 billion of assets, compared to 252 with $159 billion of assets at December 31, 2008

- Institutions with TARP and deferred trust preferred dividends

- Aging shareholder bases

II. Why M&A Should Increase

- Dodd-Frank as a catalyst
  - ➢ Revenue restrictions - Volcker Rule and Durbin Amendment
  - ➢ Capital – The Collins Amendment (DFA § 171) and Basel III
  - ➢ Basel III and Interagency Liquidity Requirements
  - ➢ FDIC insurance costs and assessments based on assets *less* tangible equity
  - ➢ Incentive Compensation
  - ○ SEC's say on pay rules, including golden parachutes
  - ○ SEC's proxy access rules
  - ➢ Heightened compliance and other costs
  - ➢ Uncertain, but far reaching, scope of the CFPB
  - ➢ Annual Federal Reserve stress test for BHCs and financial companies with $10 billion or more in assets

II. Why M&A Should Increase (cont'd)

- An increasing imperative to improve returns through revenue growth and cost savings
- Banks that have limited options
- Regulatory enforcement actions
- Limited or no dividends under Federal Reserve SR 09-4 or CCAR
- Little or no ability to expand organically or by acquisition
- Deferrals or omitted distributions on trust preferred securities and preferred stock
- Banks in geographic markets that are under economic stress, are overbanked and have poor prospects
- The need for geographic and product diversification consistent with the Dodd-Frank Act
- Regulatory pressures to rely more on credit spread products
- Management and board fatigue
- Inability to access the capital markets

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II. Why M&A Should Increase (cont'd)

- Recapitalized banks where the PE and other investors seek a liquidity event
- Divestitures
  - Branches
  - Lines of businesses
    - Proprietary trading
    - Hedge funds
    - PE funds
    - Wealth management due to conflicts with investment banking
    - Other non-core businesses and locations

III. Impediments to Consolidation

- Low stock prices
- Unrealistic seller price expectations
- Balance sheet risks, especially credit risks
- Uncertainty
  - Economic
  - Fiscal
  - Regulation
- Unfilled regulatory positions (OCC, FDIC, etc.)
- Regulatory staff workloads
  - Consolidated entity must be in “safe and sound condition” at merger closing

III. Impediments to Consolidation (cont'd)

- Dodd-Frank Act
  - New regulation
  - Heightened consumer compliance
  - Systemic risk must be considered by regulators in merger
  - Interest
  - Collins Amendment and Capital
  - Limits on Change of Control of nonbank banks
  - Annual Stress Tests for $10 billion and larger banks
  - "Well capitalized" and "well managed" now required for interstate acquisitions as opposed to "adequately capitalized and managed"
  - Applications to Federal Reserve required for any acquisitions of $10 billion of assets or more, and Hart-Scott-Rodino Act filings

III. Impediments to Consolidation (cont'd)

- New BHC Act, Section 14 Concentration Limits – not to exceed 10% of the aggregate consolidated liabilities of all financial companies at the end of the preceding fiscal year
  - ➢ Fed to adopt rules after FSOC study
  - Regulatory caution
  - ➢ reviews to document the record fully
  - ➢ any issues in other subsidiaries or affiliates are likely to impede an expansion application
  - ➢ heightened consumer compliance issues
  - ➢ timing (six months may not be enough to complete a transaction
  - ➢ extended timing compounds market risk
  - Holding companies contemplating expansion are required by the Federal Reserve to hold capital well above the minimums needed to be "well-capitalized"

IV. Types of Transactions

A. TARP Conversion or Repayment

- Examples
  - TIB Financial Corp. / North American Financial Holdings Inc.
  - Hampton Roads Bancshares, Inc. / Carlyle Group, Anchorage Capital Group and CapGen Financial
  - Pacific Capital Bancorp. / Ford Financial Fund
  - Sterling Financial Corporation / Thomas H. Lee Partners and Warburg Pincus
  - Central Pacific Financial Corporation / Carlyle Group and Anchorage Capital Group

IV. Types of Transactions (cont'd)

B. New Management
   - SKBHC Holdings LLC / Starbucks Bancshares, Inc.
   - Northeast Bancorp / FNB Formation LLC
   - Brand Banking Company

C. Direct Investment in Bank Subsidiary
   - First State Bank, Taos, New Mexico

D. Bankruptcy
   - SKBHC Holdings LLC / America West Bancorp
   - Nexity Financial Corp.
   - CIB Marine
   - Advanta
   - CIT
   - MidSouth Bancorp / Jefferson Bank and Outsource Holdings, Inc.

IV. Types of Transactions (cont'd)

E. Bank liquidations
   - Bank of Currituck

F. Buyouts
   - Management
     - First Republic Bank / ColFin FRB Investor, LLC, General Atlantic, LLC, and other private equity, institutional and management investors
     - Purchases of Divisions or Subsidiaries
       - First Republic Bank
       - Spinoffs, including sponsored spinoffs such as M&I/Metavante, are expected in the future
       - Cross-guaranty protection
   - Purchases from other principal shareholders
     - PE exits must be consistent with Federal Reserve Policy

IV. Types of Transactions (cont'd)

G. Failed Bank Acquisitions

- Capitalization of existing banks, including "contingent capital", to buy failed institutions from the FDIC, as receiver (East West Bancorp / United Commercial Bank; various others)
- Blind pools and "shelf charters"
  - Bond Street Holdings LLC
  - NBH Holdings Corp.
  - North American Financial Holdings, Inc.
  - Blue Ridge Holdings, Inc.
- Other new companies formed to purchase failed banks
  - OneWest
  - BankUnited

IV. Types of Transactions (cont'd)

H. Growth

- Inflatable charters (Flowers National Bank, Cainesville, Missouri)
- Roll-ups (GrandPoint Capital, State Bank & Trust)
- Organic growth (EverBank Financial Corp. / Sageview Partners LP, New Mountain Partners III, L.P. and TPG Funds; Private Bancorp / GTCR)
- Branch purchases (NBH Holdings / Bank Midwest, Ovation Holdings, Inc. / National Bank of Southwest Florida)

• Concurrent private / public capital raises

- (Seacoast / CapGen Financial)

IV. Types of Transactions (cont'd)

- Initial Buyouts (First Republic, Flowers National Bank)
- Failed bank acquisitions (BankUnited, OneWest)
- Distressed debt transactions (Intervest / Varde / First City)
- Roll-ups (State Bank & Trust Company, Grandpoint)
- Offensive transactions (Everbank, NBH Holdings)
- Private Equity Exits
  - IPO (First Republic Bank, BankUnited and EverBank IPOs)
  - Sale in a M&A transaction

V. Recapitalized Banks – Buyers or Sellers

- Many banks that have been recapitalized have enforcement actions and CAMELS ratings that will delay them from becoming buyers
- Fixing is first priority
- Sales of non-performing and underperforming assets are usual
- “Shrink to Grow”
- Improving regulatory confidence
- Going public – currency for acquisitions and a return to investors
- Others may seek to sell to realize their return

VI. Markets and Targets

- Best demographics = more risk?
- Less risky, less growth markets
- Complementary balance sheets and management
- Management exits
  - Approach to people
  - Building talent
- Lines of businesses and competitive strengths
- Growth through branding or electronics – What is convenience today?