Bank Regulatory Law

Course 2032

Patrick Long

May 23

Handout in Class

2019 Session
Discussion Materials Prepared For:

AT LOUISIANA STATE UNIVERSITY

Preparing for and Executing a Bank Transaction

May 23, 2019

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2019 State of the Industry

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- Risks Are Growing
- Challengers Are Rising
  - Large Banks
  - Digital Banking & Fin Tech
- Bank Mergers Are Coming
- The Shareholder Base Is Changing
The Financial Sector Is the Largest in the World

S&P Global 1200

Financials 16.2%

Information Technology 16.1%

Healthcare 12.5%

Source: KBW Research, S&P Dow Jones Indices; Data as of 4/22/19
Since 1990, U.S. Bank Asset Distribution Has Concentrated

**Distribution of Banks by Asset Size**

- **1990 (15,158 banks):**
  - < $100 M: 10,576
  - $100 M - $1 B: 3,967
  - $1 B - $10 B: 3,369
  - $10 B - $250 B: 60
  - > $250 B: 9

- **2018 Q4 (5,406 banks):**
  - < $100 M: 1,335
  - $100 M - $1 B: 635
  - $1 B - $10 B: 555
  - $10 B - $250 B: 129
  - > $250 B: 0

**Share of Industry Assets by Asset Size (%)**

- **1990**
  - < $100 M: 9.1%
  - $100 M - $1 B: 22.0%
  - $1 B - $10 B: 35.3%
  - $10 B - $250 B: 33.6%
  - > $250 B: 0.0%

- **2018 Q4**
  - < $100 M: 0.4%
  - $100 M - $1 B: 6.3%
  - $1 B - $10 B: 9.6%
  - $10 B - $250 B: 34.2%
  - > $250 B: 49.5%

Source: FDIC
Big Banks Building Share

- The top 4 banks control nearly half the market
- The war for retail banking has been won by the largest banks in the U.S.

Deposit Market Share Over Time ($T)

Top 4 Banks (1)  Everybody Else

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Deposits ($T)</th>
<th>Deposit Market Share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1992</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>1993</td>
<td>90%</td>
<td>90%</td>
</tr>
<tr>
<td>1994</td>
<td>29%</td>
<td>29%</td>
</tr>
<tr>
<td>2006</td>
<td>71%</td>
<td>71%</td>
</tr>
<tr>
<td>2008</td>
<td>61%</td>
<td>61%</td>
</tr>
<tr>
<td>2018</td>
<td>39%</td>
<td>39%</td>
</tr>
</tbody>
</table>

Source: FDIC
(1) Top 4 banks as of 12/31/18 are JPM, BAC, WFC and C
Back to the Future: Banking Edition

Night Club or Bank Branch?

Barwa Bank (Doha, Qatar)

Cafe or Bank Branch?

Jyske Bank (Copenhagen, Denmark)

Mobile Devices: The Banks of the Future

What are Future Scale Economies?

Largest Banks are Adding New Depositors Without Adding Branches

Measures of Large Bank Market Share (JPM, BAC, WFC)

Source: Wall Street Journal
Note: Data for large banks reflects JPM, BAC and WFC
What are Future Scale Economies?

Retail Deposit Growth Footprint by Bank Type

- Perceived convenience of larger banks has left many Regionals competing on price
- Branch share no longer drives efficient deposit growth for Community, Regional and Superregional banks

<table>
<thead>
<tr>
<th>Deposit Growth</th>
<th>National</th>
<th>Superregional</th>
<th>Regional</th>
<th>Community</th>
<th>Direct</th>
</tr>
</thead>
<tbody>
<tr>
<td>5-yr CAGR (2012 - 2017)</td>
<td>8.2%</td>
<td>4.1%</td>
<td>4.4%</td>
<td>3.8%</td>
<td>13.4%</td>
</tr>
<tr>
<td>Share of Deposit Growth</td>
<td>40%</td>
<td>20%</td>
<td>10%</td>
<td>17%</td>
<td>14%</td>
</tr>
<tr>
<td># of Branches</td>
<td>15,325 (18%)</td>
<td>22,052 (26%)</td>
<td>15,009 (18%)</td>
<td>31,036 (37%)</td>
<td>NA</td>
</tr>
<tr>
<td>Share of Deposit Growth / Share of Branches</td>
<td>2.26</td>
<td>0.64</td>
<td>0.43</td>
<td>0.48</td>
<td>NA</td>
</tr>
</tbody>
</table>

Source: FDIC, Novantas BranchScape database and analysis
Note: Retail deposits represent data cleaned of repositories, non-retail deposits and controls for other data anomalies; National banks include Chase, Bank of America and Wells Fargo; Superregionals include banks with assets between $50B-$500B; Regionals between $10B-$50B; Community <$10B; Direct Banks Includes Ally, AMEX, Barclays, Discover, EverBank, E-Trade, GECB, and Synchrony
Scale is Working

**MRQ ROA by Asset Size**

<table>
<thead>
<tr>
<th>Asset Size</th>
<th>MRQ ROA (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$0.25B</td>
<td>0.56%</td>
</tr>
<tr>
<td>$0.25B - $0.5B</td>
<td>0.56%</td>
</tr>
<tr>
<td>$0.5B - $1.0B</td>
<td>0.88%</td>
</tr>
<tr>
<td>$1.0B - $2.5B</td>
<td>1.09%</td>
</tr>
<tr>
<td>$2.5B - $5.0B</td>
<td>1.25%</td>
</tr>
<tr>
<td>$5.0B - $10.0B</td>
<td>1.20%</td>
</tr>
<tr>
<td>$10.0B - $25.0B</td>
<td>1.30%</td>
</tr>
</tbody>
</table>

**MRQ ROATCE by Asset Size**

<table>
<thead>
<tr>
<th>Asset Size</th>
<th>MRQ ROATCE (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$0.25B</td>
<td>3.1%</td>
</tr>
<tr>
<td>$0.25B - $0.5B</td>
<td>3.9%</td>
</tr>
<tr>
<td>$0.5B - $1.0B</td>
<td>10.1%</td>
</tr>
<tr>
<td>$1.0B - $2.5B</td>
<td>11.4%</td>
</tr>
<tr>
<td>$2.5B - $5.0B</td>
<td>13.5%</td>
</tr>
<tr>
<td>$5.0B - $10.0B</td>
<td>13.8%</td>
</tr>
<tr>
<td>$10.0B - $25.0B</td>
<td>15.3%</td>
</tr>
</tbody>
</table>

**Price / Tangible Book Value by Asset Size**

<table>
<thead>
<tr>
<th>Asset Size</th>
<th>Price / Tangible Book Value (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$0.25B</td>
<td>94%</td>
</tr>
<tr>
<td>$0.25B - $0.5B</td>
<td>108%</td>
</tr>
<tr>
<td>$0.5B - $1.0B</td>
<td>130%</td>
</tr>
<tr>
<td>$1.0B - $2.5B</td>
<td>136%</td>
</tr>
<tr>
<td>$2.5B - $5.0B</td>
<td>160%</td>
</tr>
<tr>
<td>$5.0B - $10.0B</td>
<td>184%</td>
</tr>
<tr>
<td>$10.0B - $25.0B</td>
<td>184%</td>
</tr>
</tbody>
</table>

Source: S&P Global Market Intelligence
Financial data as of or for the three months ended 12/31/18; market data as of 4/22/19; excludes merger targets
It Has Been a Bumpy Ride

Recent Stock Performance

BKV / KR: Up, Down, Up, Down

June 23rd: Brexit
- Uncertainty
- Lower for Longer Rates
- Global Growth

Healthcare reform falls, puts tax reform in doubt

March 15th: ETF Peak

February 11th: Market Low
- Energy
- Recession Fears
- Lower for Longer Rates
- China

November 8th: Presidential Election
- Positive Expectations
- New Fiscal & Monetary Policy
- Less Regulation

Corporate tax reform is ultimately successful

2nd Half of 2018
- Negative estimate revisions
- Macro & trade concerns
- Increased volatility

Source: S&P Global Market Intelligence; Market data as of 4/22/18
Note: The KBW Nasdaq Regional Banking Index (KRX) is a modified market capitalization weighted index designed to track the performance of U.S. regional banks or thrifts that are publicly traded in the U.S. The KBW Nasdaq Bank Index (BKV) is a modified market capitalization weighted index designed to track the performance of leading banks and thrifts that are publicly traded in the U.S. The Index includes banking stocks representing large U.S. national money centers, regional banks and thrift institutions.
Valuations are "Crisis Like"

Bank Stock Consensus Forward (NTM) Earnings Multiples in the Past 15 Years

% of Days when Index Traded above the Respective Forward (NTM) Earnings Multiple in the Past 15 Years

<table>
<thead>
<tr>
<th>Multiple</th>
<th>8.0x</th>
<th>9.0x</th>
<th>10.0x</th>
<th>11.0x</th>
<th>12.0x</th>
<th>13.0x</th>
<th>14.0x</th>
<th>15.0x</th>
<th>16.0x</th>
<th>17.0x</th>
<th>18.0x</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>KRX</strong></td>
<td>100%</td>
<td>100%</td>
<td>99.8%</td>
<td>99.1%</td>
<td>95.2%</td>
<td>91.1%</td>
<td>79.9%</td>
<td>56.3%</td>
<td>26.8%</td>
<td>14.8%</td>
<td>9.7%</td>
</tr>
</tbody>
</table>

Sources: S&P Global Market Intelligence, FactSet; Market data as of 4/22/19
But the Fundamentals Are Strong

<table>
<thead>
<tr>
<th>Pre-Crisis</th>
<th>Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ROAA (%)</strong></td>
<td></td>
</tr>
<tr>
<td><strong>Historical Average: 1.12%</strong></td>
<td></td>
</tr>
<tr>
<td>1.0%</td>
<td>1.23%</td>
</tr>
<tr>
<td>1.0%</td>
<td>1.28%</td>
</tr>
<tr>
<td>0.9%</td>
<td>1.28%</td>
</tr>
<tr>
<td>0.8%</td>
<td>1.28%</td>
</tr>
</tbody>
</table>

| 2004 | 2017A |
| 2005 | 2018A |
| 2006 | 2019E |
| 2007 | 2020E |

| **ROTCE (%)** |          |
| **Historical Average: 14.6%** |          |
| 13.2% | 11.7% |
| 13.5% | 13.8% |
| 12.6% | 14.8% |
| 10.7% | 14.3% |

| 2004 | 2017A |
| 2005 | 2018A |
| 2006 | 2019E |
| 2007 | 2020E |

Source: KBW Research, S&P Global Market Intelligence
Note: Includes banks in the U.S. under KBW Research coverage
Note: "Historical Average" defined as average of the medians for SMID performance metrics between 1990 and 2007
Shifting Investor Sentiment

**Former Catalysts**
- Tax Reform
- Accelerating Growth
- Regulatory Recalibration
- Net Interest Margin Improvement

**New Worries**
- Peak Profitability
- Deposit Competition
- Late Credit Cycle
- Non-Bank Competition
- Higher Rates & Flat Yield Curve
- Earnings Estimates Too High

= **Passive ETF Selling**
Banks Have Seen Regulatory Relief Under the Current Administration...

Obama Administration – 2009-2016

2016 Key Regulators

- Janet Yellen – former Economics professor at UC Berkeley
  - Chairwoman of the Federal Reserve
- Daniel Tarullo – former law professor at Georgetown and Harvard
  - Top Bank Supervision Regulator and Chairman of the FFIEC
- Thomas Curry – former regulator
  - Comptroller of the Currency
- Martin Gruenberg – former Senior Counsel to Paul Sarbanes (D-MD)
  - Chairman of the FDIC
- Mary Jo White – former US Attorney (New York Southern District)
  - Chairwoman of the SEC
- Richard Cordray – former Attorney General of Ohio
  - Director of the CFPB

Regulatory Legacy

- Durbin Amendment
- DFAST
- $50bn SIFI Designation
- CCAR Stress Testing
- CFPB
- Volcker Rule

Trump Administration: 2017-?

Current Update: Business-Friendly Appointments

- Jerome Powell (November 2017) – former partner at Carlyle
  - Confirmed as Fed Chairman
- Randal Quarles (October 2017) – former partner at Carlyle
  - Confirmed as Vice Chairman of Supervision
- Joseph Otting (November 2017) – former president of OneWest
  - Confirmed as Comptroller of the Currency
- Jelena McWilliams (November 2017) – EVP at Fifth Third
  - Nominated to become FDIC Chairman
- Jay Clayton (May 2017) – former co-head of S&C corporate practice
  - Chairman of the SEC
- Mick Mulvaney (November 2017) – former congressman (R-SC)
  - Acting Director of the CFPB

Potential Regulatory Relief

- Crapo Bill Passed
- DFAST Relief: Removal of submission and public disclosure
- CCAR Relief
- Durbin / Volcker may be revisited
- CFPB Funding Reduced
- $250bn SIFI Threshold
CFPB
- CFPB, a historically active regulator has issued no enforcement actions since November 21, 2017 - when M. Mulvaney was appointed Director.
- Director Mulvaney has committed the agency to more restrained issuance of civil investigative demands
  - "...Simply put, the days of aggressively 'pushing the envelope' of the law in the name of the 'mission' are over" – CFPB Director M. Mulvaney
- For comparison purposes, under former Director Richard Cordray, the CFPB issued 2-4 enforcement actions per month, on average

SEC
- Fines issued by the SEC have slowed meaningfully over the last 6 months to the lowest levels in more than a decade
  - From October 2017 – March 2018 the SEC issued fines totaling $103 million, a steep decline from $1.45 billion in the prior year period

<table>
<thead>
<tr>
<th>Penalties against Wall Street companies slide under Clayton's SEC</th>
<th>Number of actions</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chair(s)</td>
<td>Year</td>
</tr>
<tr>
<td>Christopher Cox</td>
<td>2007</td>
</tr>
<tr>
<td>2008</td>
<td>319.0</td>
</tr>
<tr>
<td>2009</td>
<td>775.0</td>
</tr>
<tr>
<td>Mary Schapiro</td>
<td>2010</td>
</tr>
<tr>
<td>2011</td>
<td>366.4</td>
</tr>
<tr>
<td>Mary Schapiro/Elisse Walter*</td>
<td>2012</td>
</tr>
<tr>
<td>Elisse Walter</td>
<td>2013</td>
</tr>
<tr>
<td>Mary Jo White</td>
<td>2014</td>
</tr>
<tr>
<td>2015</td>
<td>271.6</td>
</tr>
<tr>
<td>2016</td>
<td>271.6</td>
</tr>
<tr>
<td>Mary Jo White/Michael Pierson*</td>
<td>2017</td>
</tr>
<tr>
<td>Jay Clayton</td>
<td>2018</td>
</tr>
</tbody>
</table>

As of March 30, 2018,
## Consolidation Drivers

<table>
<thead>
<tr>
<th>Motivations</th>
<th>Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Management and Board age and fatigue</td>
<td>✓ Possible constraints:</td>
</tr>
<tr>
<td>✓ Revenue headwinds for the industry</td>
<td>✓ Valuation</td>
</tr>
<tr>
<td>✓ Core funding base</td>
<td>✓ Purchase accounting</td>
</tr>
<tr>
<td>✓ Slow / low growth economic environment</td>
<td>✓ Regulatory response</td>
</tr>
<tr>
<td>✓ Regulatory / compliance requirements</td>
<td>✓ Lack of buyers</td>
</tr>
<tr>
<td>✓ Legacy asset quality problems</td>
<td>✓ Management roles</td>
</tr>
<tr>
<td>✓ Unnatural events</td>
<td>✓ Cultural fit and social issues</td>
</tr>
</tbody>
</table>
30 Years of Bank Consolidation

1985: Interstate Banking Act
1985 Act authorizes states to self-regulate interstate banking

1994: Riegle-Neal Interstate Banking and Branching Act
1994 Act officially removes restrictions on acquiring banks across state lines on a federal level

[Graph showing the number of new charters, failed banks, mergers, and total number of institutions from 1985 to 2015.

Source: FDIC; data as of 12/31/18
Note: Mergers includes government assisted transactions]
Bank Consolidation at an All-Time Clip

Industry Consolidation Per Year (% of Total Banks Acquired)

Historical Median: 3.2%

Source: S&P Global Market Intelligence
Note: Includes all announced deals since 1/1/90
Increasing Volume of Larger Transactions

Transactions with Announced Deal Value Since 2012

<table>
<thead>
<tr>
<th>Year</th>
<th>Deals &lt; $50mm</th>
<th>Deals $50mm – $100mm</th>
<th>Deals $100mm – $500mm</th>
<th>Deals &gt; $500mm</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>76%</td>
<td>13%</td>
<td>6%</td>
<td>4%</td>
</tr>
<tr>
<td>2013</td>
<td>70%</td>
<td>12%</td>
<td>15%</td>
<td>3%</td>
</tr>
<tr>
<td>2014</td>
<td>60%</td>
<td>16%</td>
<td>22%</td>
<td>3%</td>
</tr>
<tr>
<td>2015</td>
<td>61%</td>
<td>18%</td>
<td>17%</td>
<td>4%</td>
</tr>
<tr>
<td>2016</td>
<td>64%</td>
<td>13%</td>
<td>17%</td>
<td>6%</td>
</tr>
<tr>
<td>2017</td>
<td>50%</td>
<td>19%</td>
<td>22%</td>
<td>8%</td>
</tr>
<tr>
<td>2018</td>
<td>47%</td>
<td>21%</td>
<td>23%</td>
<td>9%</td>
</tr>
<tr>
<td>2019</td>
<td>36%</td>
<td>29%</td>
<td>25%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Source: S&P Global Market Intelligence; Data as of 4/22/19
Note: Includes deals with reported deal values; excludes deals without a disclosed value
Today's Merger Math is (Generally) Yielding Quality Results

• Premiums are in line
  – To market
  – To book and earnings

• Assumptions appear logical

• Outputs are consistent...

• ...and reasonably impactful
Lower Market Premiums Today Relative to Prior Periods

One-Day Market Premiums Post Announcement (%)

- 2004 - 2007: 35%
- 2010 - 2016: 35%
- 2017 - 2019: 23%

Source: S&P Global Market Intelligence; Includes all announced and completed US Bank & Thrift M&A transactions for the selected time periods
Data as of 4/22/18
Pricing Discipline in Today’s M&A Enviroment

The “Pay-to-Trade” Ratio illustrates how much a buyer pays for a target as a percent of the buyer’s standalone tangible book multiple

- 80% of all recent transactions\(^{(1)}\) had a pay-to-trade ratio at or below 110%

**Ratio Calculation**

\[
\frac{\text{Purchase Price per Share}}{\text{Target Tangible Book Value per Share}}
\]

**Trends in Recent Transactions\(^{(1)}\)**

- 70% <100%
- 20% 100%-110%
- 10% >110%

\(^{(1)}\) Recent transactions include all deals announced since 12/31/2014 with a major exchange traded buyer and publicly disclosed Purchase Price / Target Tangible Book Value at announcement
Pay-to-Trade Ratio Has Opportunity in Small Cap

Trading Price / TBV Multiples Stratified by Market Capitalization

Micro / Small Cap

Small / Mid Cap

Large Cap

M&A Opportunity

1.10x
1.31x
1.52x
1.55x
1.90x
1.77x
1.80x

< $100 mm
$100mm - $250mm
$250mm - $500mm
$500mm - $1bn
$1bn - $2bn
$2bn - $10bn
> $10bn

Source: S&P Global Market Intelligence; Market data as of 4/22/19
Tangible Book Value Earnback Matters

Percentage of Deals Since 2013 Based on Respective Earnback Period

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>3.2</td>
<td>3.5</td>
<td>3.6</td>
<td>3.1</td>
<td>3.0</td>
<td>3.0</td>
<td>3.0</td>
</tr>
</tbody>
</table>

- 2013: 38% < 3 Years, 33% 3 - 4 Years, 29% > 4 Years
- 2014: 41% < 3 Years, 36% 3 - 4 Years, 23% > 4 Years
- 2015: 50% < 3 Years, 40% 3 - 4 Years, 10% > 4 Years
- 2016: 30% < 3 Years, 43% 3 - 4 Years, 27% > 4 Years
- 2017: 14% < 3 Years, 41% 3 - 4 Years, 45% > 4 Years
- 2018: 13% < 3 Years, 38% 3 - 4 Years, 49% > 4 Years
- 2019: 25% < 3 Years, 75% 3 - 4 Years

Source: S&P Global Market Intelligence and Company SEC filings; Data as of 4/22/16
Note: Includes transactions since 1/1/13 with deal values greater than $100 million and disclosed earnback periods.
Market Reaction Summary

Relative Underperformance for Transactions Over $250 Million Since 2015

Percentage of Deals That Have Had a Material Relative Underperformance (Greater than 2.5%) (1)

<table>
<thead>
<tr>
<th>Year</th>
<th>Transactions</th>
<th>Underperformed</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>2015Y</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td>23.1%</td>
<td>76.9%</td>
</tr>
<tr>
<td>2016Y</td>
<td></td>
<td>33.3%</td>
<td>66.7%</td>
</tr>
<tr>
<td>2017Y</td>
<td></td>
<td>47.6%</td>
<td>52.4%</td>
</tr>
<tr>
<td>2018Y</td>
<td></td>
<td>40.0%</td>
<td>60.0%</td>
</tr>
</tbody>
</table>

Source: S&P Global Market Intelligence
Note: Includes nationwide transactions since the 2016 with deal value greater than $250 million
(1) 1-Week market performance, relative to the KRX
How Do You Make a Bank Deal Work?

- Well-structured
- Strategic Merit
- Well Priced
- Logical Assumptions
- Accretive to EPS
- Short Earnback
- Lack of Noise

Shareholder Value?
The Acquisition Process

1. Develop M&A Strategy
2. Deal Team
3. Target Identification
4. Calling Effort
5. Due Diligence
6. Build the Merger Model
7. Definitive Agreement
8. Announcement to Close
9. Integration
1. Develop M&A Strategy
M&A Strategy

- Identify the goals of the strategy

- Establish financial and non-financial parameters

- Assess the ability to execute from various perspectives:
  - People (employees and customer retention)
  - Financial
  - Information Technology
Example of Financial Parameters

- While times and targets have changed, general themes remain the same

**BB&T Investment Criteria**

- Cash Basis EPS (accretive by year 2)
- GAAP EPS (accretive by year 4)
- Internal rate of return (15% or better)
- Cash Basis ROE (accretive by year 3)
- Cash Basis ROA (accretive by year 3)
- Tangible book value per share (accretive by year 5)
- Must not cause combined leverage capital ratio to go below 7%

Criteria are listed in order of importance. There are sometimes trade-offs among criteria.

**UBSH - ANCX – Oct. 2018**

<table>
<thead>
<tr>
<th>Financial Impact</th>
<th>UBSH Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>EPS Impact</td>
<td>Immediate earnings accretion</td>
</tr>
<tr>
<td>Tangible Book Value Earnback</td>
<td>&lt; 3 years</td>
</tr>
<tr>
<td>IRR</td>
<td>&gt;18%</td>
</tr>
</tbody>
</table>
What Matters to a Seller?

**Asking the Right Questions**

- **Price**
  - Who can offer the highest price? Will there be future price appreciation?

- **Acquirer**
  - Is the buyer well-perceived by sell-side analysts?
  - Does the pro forma company have strong performance and capital metrics?

- **Liquidity**
  - Does the buyer have a liquid currency?

- **Board / Management Representation**
  - Will there be board / management representation in the combined company?

- **Consideration**
  - What is the consideration mix (stock / cash)? Will the deal be tax-free?

- **Employees**
  - How will our employees be treated? Will there be severance packages?

- **Double Dip Potential**
  - Is there potential to benefit from multiple "take-out" premiums from a subsequent acquisition of our buyer?
### What Matters to a Buyer?

<table>
<thead>
<tr>
<th>Category</th>
<th>Question</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Location, Location</strong></td>
<td>Is the geography attractive?</td>
</tr>
<tr>
<td><strong>Financial</strong></td>
<td>Material EPS accretion? Manageable TBV earnback? Strong pro forma capital?</td>
</tr>
<tr>
<td><strong>Core Bank Attributes</strong></td>
<td>How attractive is the mix of loans and deposits?</td>
</tr>
<tr>
<td><strong>Size Matters</strong></td>
<td>Will this acquisition “move the needle”?</td>
</tr>
<tr>
<td><strong>Credit Management</strong></td>
<td>How aggressive has credit management been?</td>
</tr>
<tr>
<td><strong>Management</strong></td>
<td>Is the bank perceived to be healthy and well-managed?</td>
</tr>
<tr>
<td><strong>Product &amp; Service Line Diversification</strong></td>
<td>Are there any unique business lines or products offered?</td>
</tr>
</tbody>
</table>
The Deal Team

Board of Directors

Management  Investment Bankers  Diligence Team  Legal Team  Accountants
Target Identification

- Buyers weigh and prioritize opportunities based on a number of different factors:
  - Demographics
  - Market Overlap
  - Funding
  - HHI Divestitures
  - Size
  - CEO and Board Age
  - Core Profitability
  - Culture
  - Management
  - Age of Bank
  - Asset Quality
  - Process Type
Target Universe is Shrinking

Number of Banks Headquartered in the United States by Year

Source: FDIC
Note: Includes all banks headquartered in the United States during given year
Today's Buyers are Seeking Larger, More Impactful Targets

Median Target Assets / Pro-Forma Assets (%)

Historical Median: 12.4%

Source: S&P Global Market Intelligence
Note: Includes all announced deals since 1/1/90
Geographic Strategy Matters

FNB – YDKN (Skipped Virginia!)

- YDKN (99)
- FNB (330)

Branch Overlap
- 1-Mile: 0%
- 5-Mile: 0%

1 Week FNB Stock Performance

- Absolute: 9.3%
- Relative: 8.8%

UBSH – ANCX (Natural Extension)

- ANCX (15)
- UBSH (141)

Branch Overlap
- 1-Mile: 13%
- 5-Mile: 15%

1 Week UBSH Stock Performance

- Absolute: 0.1%
- Relative: 0.6%

Source: S&P Global Market Intelligence
Pricing data as of 1/25/19; Relative price performance relative to KRX
The KBW Regional Bank Index (KRX) is a composition of 50 regionally diversified mid & small-cap banking institutions in the U.S. and is calculated using an equal-weighted method
CEO Age Drives M&A

Pre-Cycle: '06 – '07

- % of Selling CEOs Over 60: 31%
- % of Selling CEOs Under 60: 69%

Post-Cycle: '16 – '18

- % of Selling CEOs Over 60: 30%
- % of Selling CEOs Under 60: 70%

Source: S&P Global Market Intelligence
Overview of Target Identification: (Example Buyer – UBSH)

- KBW analyzed select targets headquartered in Virginia with assets under $5.0 billion based on the following 6 factors:
  - Asset Size
  - Demographics (Median Household Income Growth)
  - CEO Age
  - Market Overlap (Branches Within 1 Mile)
  - Core profitability (ROAA)
  - Funding Cost (Cost of Deposits)

![Map of Virginia with Bank Locations]

- **Bank A**
  - HQ: McLean, VA
  - Assets: $2.7bn

- **Bank B**
  - HQ: Warrenton, VA
  - Assets: $0.7bn

- **Bank C**
  - HQ: Richmond, VA
  - Assets: $1.4bn

- **Bank D**
  - HQ: Blacksburg, VA
  - Assets: $1.3bn

- **Bank E**
  - HQ: Hampton, VA
  - Assets: $1.0bn

- **Bank F**
  - HQ: Danville, VA
  - Assets: $2.4bn
# Selecting an Attractive Target: (Example Buyer -- UBSH)

<table>
<thead>
<tr>
<th>Key Factors:</th>
<th>Bank A</th>
<th>Bank B</th>
<th>Bank C</th>
<th>Bank D</th>
<th>Bank E</th>
<th>Bank F</th>
</tr>
</thead>
<tbody>
<tr>
<td>Assets (&gt; $1bn)</td>
<td>✔️</td>
<td>✗</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>Assets ($mm)</td>
<td>$2,701</td>
<td>$731</td>
<td>$1,393</td>
<td>$1,256</td>
<td>$1,038</td>
<td>$2,422</td>
</tr>
<tr>
<td>Demographics</td>
<td>✗</td>
<td>✔️</td>
<td>✗</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>HHI Growth (%)</td>
<td>7.0%</td>
<td>9.0%</td>
<td>7.0%</td>
<td>8.0%</td>
<td>8.1%</td>
<td>8.2%</td>
</tr>
<tr>
<td>CEO Age (&gt;60)</td>
<td>✔️</td>
<td>✗</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✗</td>
</tr>
<tr>
<td>Age</td>
<td>63</td>
<td>52</td>
<td>61</td>
<td>66</td>
<td>81</td>
<td>58</td>
</tr>
<tr>
<td>Branch Overlap</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>1-Mile Overlap (%)</td>
<td>37%</td>
<td>18%</td>
<td>27%</td>
<td>44%</td>
<td>33%</td>
<td>26%</td>
</tr>
<tr>
<td>Profitability (&gt;1% ROAA)</td>
<td>✔️</td>
<td>✗</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
<td>✔️</td>
</tr>
<tr>
<td>LTM ROAA (%)</td>
<td>1.25%</td>
<td>0.92%</td>
<td>1.01%</td>
<td>1.29%</td>
<td>0.48%</td>
<td>1.24%</td>
</tr>
<tr>
<td>Cost of Deposits (&lt;0.50%)</td>
<td>✗</td>
<td>✔️</td>
<td>✗</td>
<td>✔️</td>
<td>✔️</td>
<td>✗</td>
</tr>
<tr>
<td>LTM Cost of Deposits (%)</td>
<td>0.93%</td>
<td>0.43%</td>
<td>0.91%</td>
<td>0.47%</td>
<td>0.43%</td>
<td>0.60%</td>
</tr>
<tr>
<td>Overall Score</td>
<td>4 / 6</td>
<td>3 / 6</td>
<td>4 / 6</td>
<td>6 / 6</td>
<td>5 / 6</td>
<td>4 / 6</td>
</tr>
</tbody>
</table>

Source: S&P Global Market Intelligence
Data as of or for the three months ended 12/31/18
Includes select banks headquartered in Virginia with total assets between $1 billion and $3 billion
Demographic comparison based on UBSH's standalone projected HHI growth of 7.3%

Not necessarily the worst target!
Not necessarily the best target!
Calling Effort

- Auctions are becoming less popular and producing fewer buyers

- Court the targets

- Having a relationship makes a difference
Negotiated Processes are on the Rise

Transaction Process Split (%)

<table>
<thead>
<tr>
<th>Year</th>
<th>Negotiated</th>
<th>Auctioned</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>12.5%</td>
<td>87.5%</td>
</tr>
<tr>
<td>2018</td>
<td>46.7%</td>
<td>53.3%</td>
</tr>
</tbody>
</table>

Source: S&P Global Market Intelligence
Note: Includes all nationwide public transactions with deal values greater than $50 million, where the background of the merger was disclosed.
Longer Process Duration

Process Duration (Days)

- Duration of Strategic Review
- Duration of Auction Process

Pre-Cycle: '06-'07
- 3 Months
- 81 Days

Post-Cycle: '17-'19
- Up to 1-2 Years

Strategic Options
- Buy
- Sell
- Status Quo
- Loan Sale
- Capital Raise
- Branch Divestiture
- De Novo Expansion
- Expense Management

Source: S&P Global Market Intelligence, company filings and KBW Corporate Finance
Note: Includes transactions in which KBW was an advisor
Note: Date reflects medians
Proposed Timeline: Negotiated vs. Auction Process

Duration = 3 Months

**Negotiated**
- Off-Site + On-Site Due Diligence
- Submit LOI + Continue Diligence
- Negotiate Definitive Agreement + Announce Deal

Month 1: Investment Bank Prepares Marketing Materials
Month 2: Reach Out To Buyers + Negotiate NDAs
Month 3: Off-Site Due Diligence + LOI #1
Month 4: On-Site Due Diligence + LOI #2
Month 5: Continued Due Diligence + Select Buyer
Month 6: Negotiate Definitive Agreement + Announce Deal

Duration = 6 Months
Due Diligence

- Due diligence is never complete

- Process continues up until closing

- Initial diligence measured in weeks, not days
Buyer Due Diligence is More Robust

Pre-Cycle: '06 – '07

- Two days on-site
- 50 page Confidential Information Memorandum

```
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8. Marketing ............................................................... 16
9. Real Estate .............................................................. 16
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12. Environmental ......................................................... 16
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```

Post-Cycle: '17 – '19

- Up to four weeks
- Third party balance sheet / loan reviews
- 10,000 page virtual data room

"Project 24"

September 2007

KEEFE, BRUYETTE & WOODS, INC.
6. Build the Merger Model
Merger Model Explained

- Use due diligence to true up modeling assumptions:
  - Target earnings and balance sheet projections
  - Cost savings
  - Merger expenses
  - Loan credit & rate mark
  - Other purchase accounting adjustments (fixed assets, securities, deposits, etc.)

- Then comes the valuation work
  - Purchase price
  - Consideration mix
  - Financing cost
  - Roll over or cash out common share equivalents

- Conservatism and more detail historically have paid off

- What financial metrics do investors want in a deal?
What Matters to the Market?

- EPS Accretion
- Capital Ratios
- IRR
- TBV Earnback
- Cost Savings
Then vs. Now Financial Impact / Assumptions

Pre-Cycle

**Wachovia Buys Golden West – 2006**

<table>
<thead>
<tr>
<th>Transaction summary</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consideration</strong></td>
</tr>
<tr>
<td>$25.5 billion, $81.07 per share</td>
</tr>
<tr>
<td>77% in stock and 23% in cash</td>
</tr>
<tr>
<td><strong>Dividend Policy</strong></td>
</tr>
<tr>
<td>Current WB quarterly dividend of $0.51 per share</td>
</tr>
<tr>
<td><strong>Estimated Divestitures</strong></td>
</tr>
<tr>
<td>Minimal divestitures expected</td>
</tr>
<tr>
<td><strong>Timing</strong></td>
</tr>
<tr>
<td>Expected closing 4Q06</td>
</tr>
<tr>
<td><strong>Approvals</strong></td>
</tr>
<tr>
<td>Approval by both companies' shareholders and normal regulatory approvals</td>
</tr>
<tr>
<td><strong>Board Composition</strong></td>
</tr>
<tr>
<td>2 additional directors from Golden West</td>
</tr>
<tr>
<td><strong>Due Diligence</strong></td>
</tr>
<tr>
<td>Completed on both sides</td>
</tr>
<tr>
<td><strong>Other</strong></td>
</tr>
<tr>
<td>Co-CEOs and one other director of Golden West agreed to vote their Golden West shares in favor of Merger; breakup fee of $995 million payable under certain circumstances</td>
</tr>
</tbody>
</table>

*Based on Wachovia's closing stock price of $90.20 on May 6, 2006.

Fifth Third Buys MB Financial – 2018

<table>
<thead>
<tr>
<th>Transaction highlights and assumptions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Consideration &amp; pricing</strong></td>
</tr>
<tr>
<td>$54.20 of total consideration per MB Financial share (60% stock / 10% cash)</td>
</tr>
<tr>
<td>1.450 FITB shares and $5.54 of cash per MBFI share</td>
</tr>
<tr>
<td>Total consideration of $4.78BN</td>
</tr>
<tr>
<td>9.8x P / 2019E EPS with fully phased-in cost savings, 10.4x P / 2019E EPS excluding cost savings</td>
</tr>
<tr>
<td>2.7x P / TBV</td>
</tr>
<tr>
<td><strong>Key Assumptions</strong></td>
</tr>
<tr>
<td>Cost savings equal to 45% of MB Financial's non-interest expense base or ~$255MM pre-tax on a fully phased-in basis</td>
</tr>
<tr>
<td>Restructuring costs of ~$300MM after-tax</td>
</tr>
<tr>
<td>Estimated gross credit mark of ~$236MM (~1.7% of current gross loans)</td>
</tr>
<tr>
<td>CDI of 1.60% amortized over 10 years</td>
</tr>
<tr>
<td>Revenue synergies identified but not included in financial model</td>
</tr>
<tr>
<td><strong>Compelling strategic &amp; financial opportunity</strong></td>
</tr>
<tr>
<td>Opportunity for significant shareholder value creation</td>
</tr>
<tr>
<td>Accretive to ROA and ROTCE by ~12 bps &amp; ~200 bps, respectively, and reduces efficiency ratio by ~400 bps through improved operating leverage</td>
</tr>
<tr>
<td>Operating EPS accretion of ~2% in 2018 and nearly 7% in 2020</td>
</tr>
<tr>
<td>IR of ~18.5%</td>
</tr>
<tr>
<td>TEVPS dilution of $1.43 or 7.7% with a crossover earnback of 8.8 years</td>
</tr>
</tbody>
</table>

*Valuer data based on closing price as of May 19, 2018 and key studies/tracks. Based on sum of parts ratio. Note: Financial impacts and earnings estimates are for informational purposes only and are based on KBW's internal estimates.

Source: S&P Global Market Intelligence
7. Definitive Agreement
Definitive Agreement

- Agreement on principal business terms

- Understanding of key nonfinancial issues

- Memorialized in a definitive merger agreement
Merger Agreement Overview

1. Definitions of Key Terms
2. Merger Overview
3. Representations and Warranties of the Target
4. Representations and Warranties of the Buyer
5. Conduct of Business Pending the Merger
6. Conditions to the Merger
7. Termination Information
8. Announcement to Close
Overview of Post-Announcement Events

Publicly Announce Transaction (press release and investor presentation)

Analyst and investor conference call

File Definitive Agreement in 8K (usually within 5 business days of announcement)

File joint proxy statement and prospectus agreement (S-4)

File merger application with regulators

Re-file amended joint proxy and prospectus

Shareholder vote to approve merger

Regulators approve merger

Close transaction
The Closing Process is Returning to Pre-Crisis Lengths

Number of Days Between Transaction Announcement and Completion

Source: S&P Global Market Intelligence
Includes all transactions nationwide announced and completed in the respective periods with a major exchange traded buyer and deal and a deal value over $100 million
Note: Pre-cycle includes 2000 – 2007
9. Integration
Integration

- Integration team is critical
  - Ability to adapt and improve
  - Retain key employees

- What's the rush?
  - Slower is often better

- Wachovia/Wells Fargo merger
  - Announcement date: 10/3/08
  - Signage change completion: 10/15/11
Case Study: CenterState / National Commerce
Pro Forma Footprint and Highlights

Acquisition Highlights: CenterState Bank Corporation – National Commerce Corporation

**Buyer:** CenterState

- **Ticker:** Nasdaq: CSFL
- **Headquarters:** Winter Haven, FL
- **Assets:** $12.3

**Seller:** National Commerce Corporation

- **Ticker:** Nasdaq: NCOM
- **Headquarters:** Birmingham, AL
- **Assets:** $4.2

**Pro forma Highlights**

- **Assets:** $16.7
- **Loans:** 11.7
- **Deposits:** 12.9
- **Market Cap:** 3.2
- **Branches:** 161

Dollars in billions
Source: S&P Global Market Intelligence
Data as of 12/31/18
## 19 Year Relationship of our Management Teams

<table>
<thead>
<tr>
<th>Year</th>
<th>Events</th>
</tr>
</thead>
<tbody>
<tr>
<td>1999</td>
<td>CenterState Bank forms as a de novo (CSFL) and selects Alabama National Bank (ALAB) as its correspondent bank partner</td>
</tr>
<tr>
<td>2000-2007</td>
<td>ALAB grows to $8.5 billion in assets organically and through over 20 whole bank acquisitions in Florida and Georgia</td>
</tr>
<tr>
<td></td>
<td>CSFL listed on Nasdaq and grows to $1.2 billion in assets</td>
</tr>
<tr>
<td></td>
<td>Relationship of management teams builds through multiple strategic and cultural discussions</td>
</tr>
<tr>
<td></td>
<td>Based on long-term relationships, ALAB facilitates the transition of the following teams to CSFL:</td>
</tr>
<tr>
<td></td>
<td>- Correspondent Banking Division in Birmingham</td>
</tr>
<tr>
<td></td>
<td>- Prepaid Card Division</td>
</tr>
<tr>
<td></td>
<td>- Wealth Management Division</td>
</tr>
<tr>
<td></td>
<td>- Vero Beach Team - including current CSFL Chief Credit Officer Dan Bockhorst and former ALAB Director Griffin Greene</td>
</tr>
<tr>
<td></td>
<td>In 2015, NCOM completes an initial public offering and begins acquiring community banks in Florida and Georgia</td>
</tr>
<tr>
<td></td>
<td>NCOM selects CSFL as their correspondent partner and executive relationships continue to grow</td>
</tr>
<tr>
<td></td>
<td>CSFL completes 14 acquisitions in Florida</td>
</tr>
<tr>
<td>2018</td>
<td>Both CSFL and NCOM acquire banks in Atlanta, GA</td>
</tr>
<tr>
<td></td>
<td>CSFL and NCOM propose merger to become a $16 billion, premier Southeast franchise</td>
</tr>
</tbody>
</table>
## Transaction Assumptions

<table>
<thead>
<tr>
<th>Category</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Deal Value</strong></td>
<td>- Deal value of $851.5 million; 5.1% market premium; 206% of TBV</td>
</tr>
</tbody>
</table>
| **Earnings**           | - Consensus EPS estimates for both CSFL and NCOM through 2020  
                        - Grown 8% thereafter                                                                                                                  |
| **Purchase Accounting Marks** | - Loan credit mark of ($19.4) million  
                        - Loan rate mark of ($7.3) million  
                        - Gross mark to OREO: ($0.3) million  
                        - Other marks: ($1.9) million                                               |
| **Cost Savings**       | - 25.0% cost savings fully phased-in (33% in 2019, 100% thereafter)                                                                       |
| **Core Deposit Intangibles** | - 2.0% of Core Deposits  
                        - Amortized using 200% double-declining method over 10 years                                                                    |
| **Merger Charges**     | - 47.8 million after-tax (52% for Buyer, 48% for Seller)                                                                                        |
| **Expected Close**     | - Q1 '19                                                                                                                                   |
### Summary of Purchase Accounting Adjustments

<table>
<thead>
<tr>
<th>Intangibles Calculation</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fully Diluted Deal Value</td>
<td>$862.1</td>
</tr>
<tr>
<td>NCOM Tangible Equity @ Close</td>
<td>$450.3</td>
</tr>
<tr>
<td>After-tax Merger Charges (Seller)</td>
<td>(22.9)</td>
</tr>
</tbody>
</table>

#### Pre-tax FMV Adjustments:
- Loan Credit Mark: ($19.4)
- Loan Rate Mark: (7.3)
- Allowance for Loan Losses: 18.5
- OREO: (0.2)
- Other Marks: (1.8)
- Core Deposit Intangible: 58.3

**Total Pre-tax FMV Adjustments:** 48.0

#### Pre-tax FMV Adjustments:
- Net FMV Adjustment: 48.0
- Deferred Tax Asset/(Liability): (10.1)

**After-Tax FMV Adjustments:** 37.9

### Fair Value of Net Assets Acquired
- 465.3
- Goodwill: 396.8

**Total Intangibles Created in Transaction:** $455.0

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Dollars in millions
Projected earnings based on consensus FactSet EPS estimates.
Accretion analysis is the hypothetical impact given the assumptions on page 72, per KBW.
Pro Forma Book Value Impact

Note: Accretion analysis is the hypothetical impact given the assumptions on page 72, per KBW
Market Reaction

1-Day Post Announcement – CSFL vs. Median of Biggest Buyers of 2018

Source: S&P Global Market Intelligence

(1) Biggest buyers of 2018 include banks that announced deals greater than $500mm in transaction value
(2) Relative to the KBW Nasdaq Regional Bank Index
<table>
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<tr>
<th>Market Criteria</th>
<th>CSFL – NCOM Deal</th>
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<td>1. Well Priced Transaction</td>
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<td>2. Financially Attractive</td>
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<td>3. Conservative Assumptions</td>
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<td>4. Management Relationship</td>
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<td>5. Retention of Key Management</td>
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<td>6. Geographic Connectivity</td>
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<td>7. Overall Strategic Transaction</td>
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