Banking Industry Update

Saltmarsh BankTalk 2023

Intended for Institutional Clients Only
See Page 37 for Important Disclaimers & Disclosures

RAYMOND JAMES

Presenters

Chris Choate

Managing Director, Financial Services Investment Banking

Experience

Ryan, Beck & Co. LLC

BB&T Scott & Stringfellow

Education

University of Virginia

30+ years experience

Brian Nestor

Managing Director, Financial Services Investment Banking

Experience

K&S King & Spalding

WHITEFORD

Education

Florida State University 1851

ND

20+ years experience

Table of contents

RAYMOND JAMES

State of the Banking Market

US Banking structure since the advent of Interstate Banking

1990's
- Riegle-Neal ('94) kicks off the decade to create first nationwide banks
- Glass Stegall replaced by Gramm-Leach-Bliley Act ('99) allowing greater consolidation of financial institutions

NationsBank | Bank of America
WELLS FARGO | NORWEST
First Bank Chicago | BANK ONE
The Travelers | CITICORP

Early 2000's
- Pre-GFC combinations continue forming basis of TBTF banks
- Next tier superregionals formed
- De novo wave flourishes as opportunities arise from first wave of consolidation

CHASE | BANK ONE
REGIONS | AMSOUTH
BBVA | Compass

223 De novos chartered in 2000
(peak of early 2000's)

2008-2009
- GFC deals solidify winners & losers amongst global SIFIs

PNC | National City
JPMorganChase | Washington Mutual
WELLS FARGO | WACHOVIA
Bank of America | Merrill Lynch

2010's
- Dodd-Frank ('10) associated regulatory response places large cap M&A largely on hold
- Small banks capitalize on large bank challenges leading to outperformance & valuation "sweet spot"

2019
SunTrust
BB&T

2008-2018
Small cap banks outperform large caps by ~15%

2020-2022
- COVID response (e.g. PPP, etc) led to socialization of credit and an early wave of "sweet spot- banks" looking for scale to achieve synergies

2021
DIME
Bridge Bancorp, Inc.

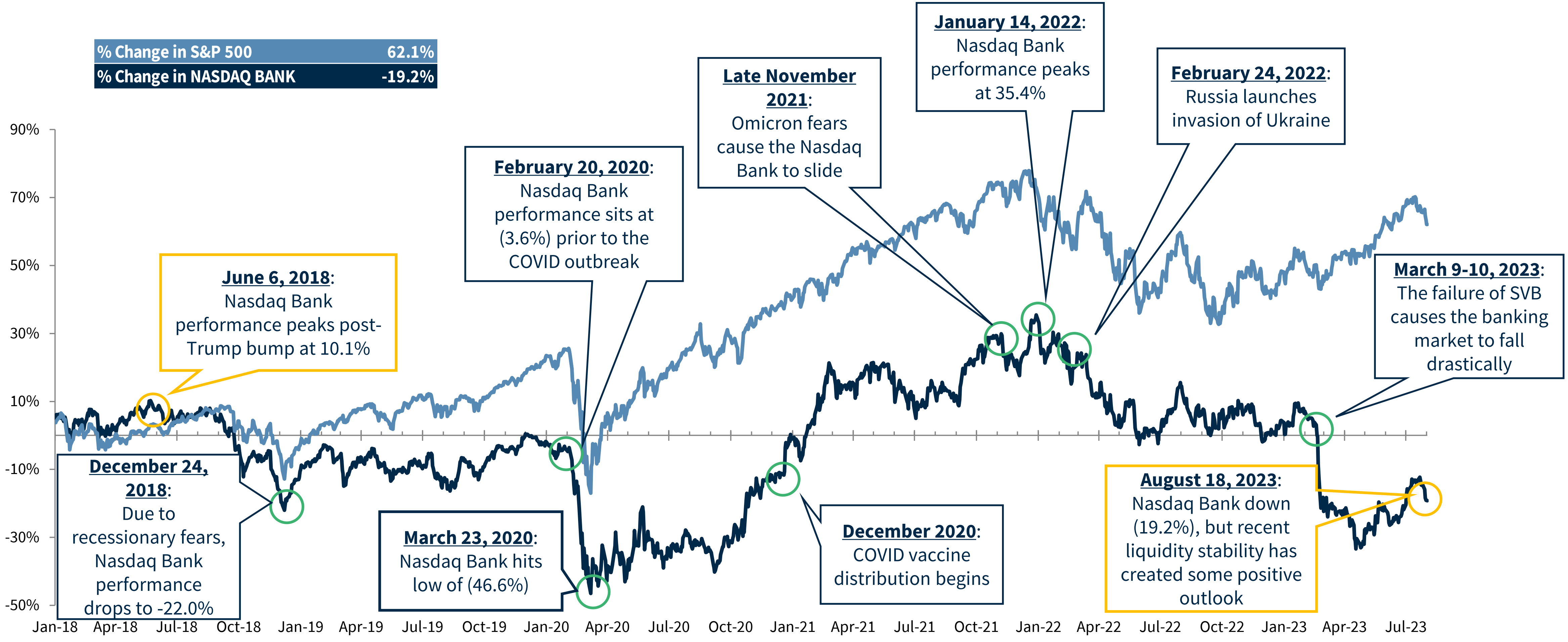
2022
Allegiance Bancshares, Inc.
CBTX, Inc.

2023
- Rapid rise in interest rates & corresponding deposit volatility leads to panic amongst smaller banks especially those with unique attributes

svb
First Republic Bank
Signature Bank
Silvergate

What's next?
- Disappearance of "sweet spot", need for scale & challenges to funding models is likely to create significant merger wave
- Reset to $100B for community/ smaller regional banks (new "super community banks")
- Emergence of $250B class of banks creating a band of 10-15 super regional banks

NASDAQ Bank — 81% underperformance since the start of 2018

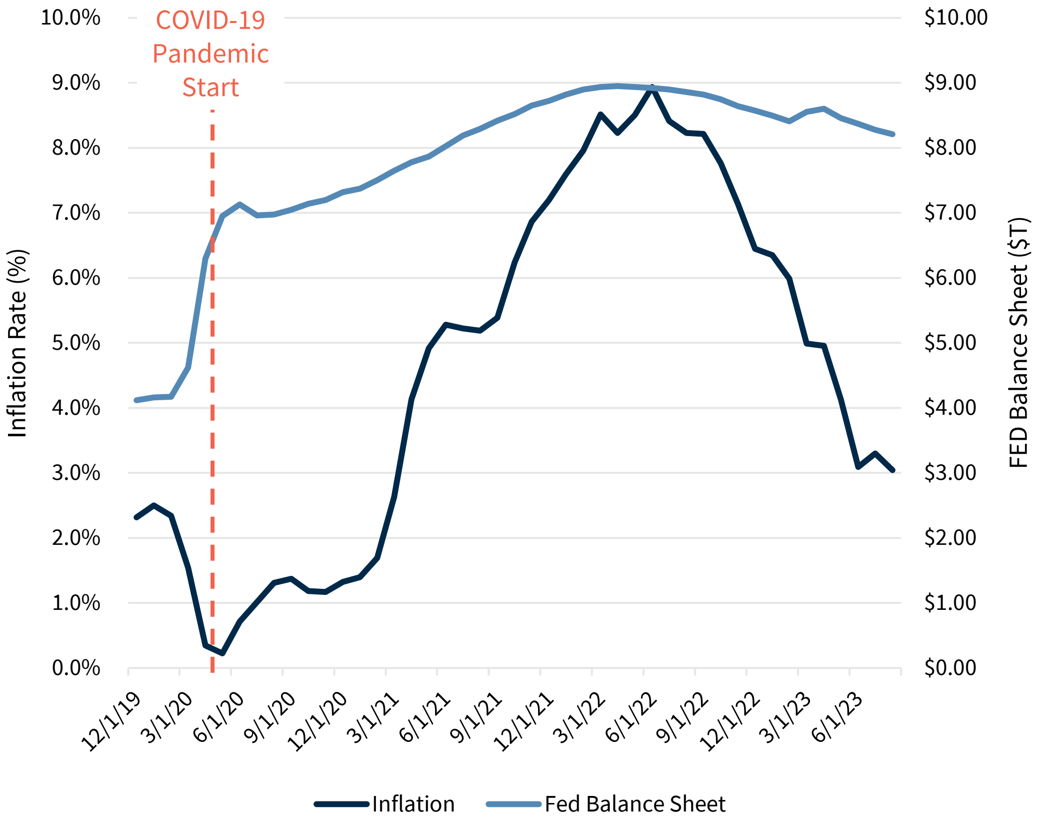


Note: Market data as of August 18, 2023
Source: S&P Capital IQ Pro

2023 liquidity crisis | How it started

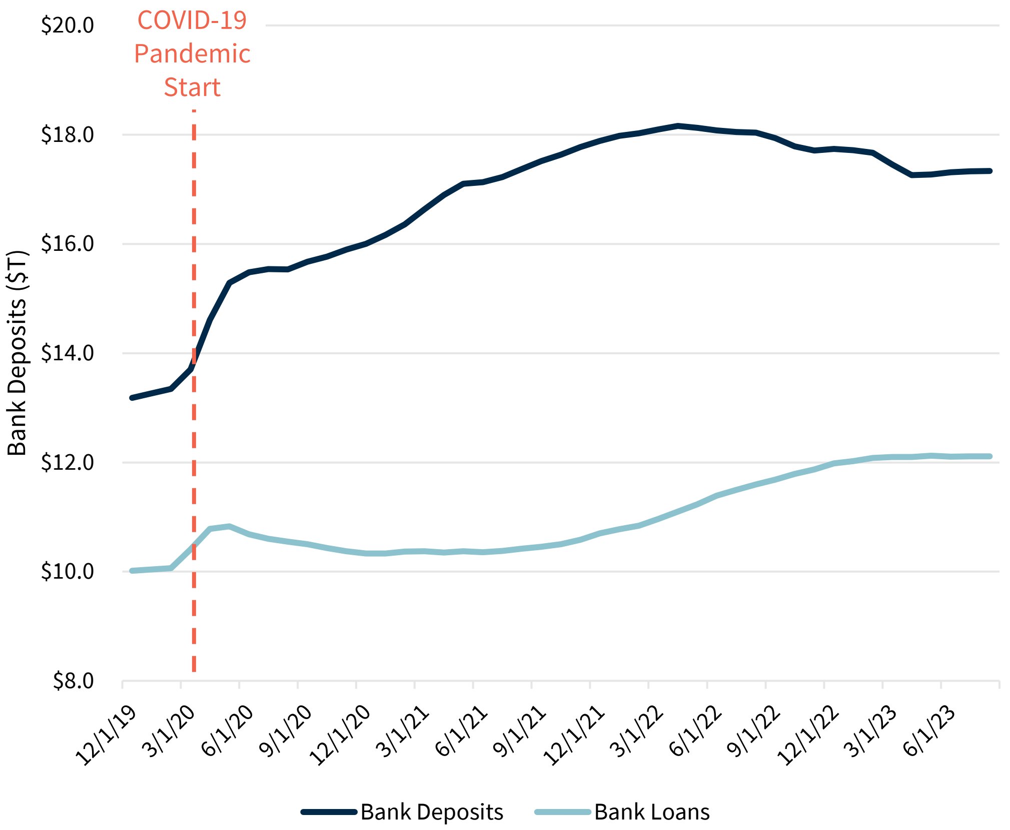
Response to COVID-19 Pandemic

Federal reserve pours $5+ trillion on the economy to ease the impacts caused by COVID-related shutdowns, causing inflation to spike



Impact to Bank Balance Sheets

As deposit growth soared while loan growth remained relatively flat, banks invested a large portion of their balance sheets into securities

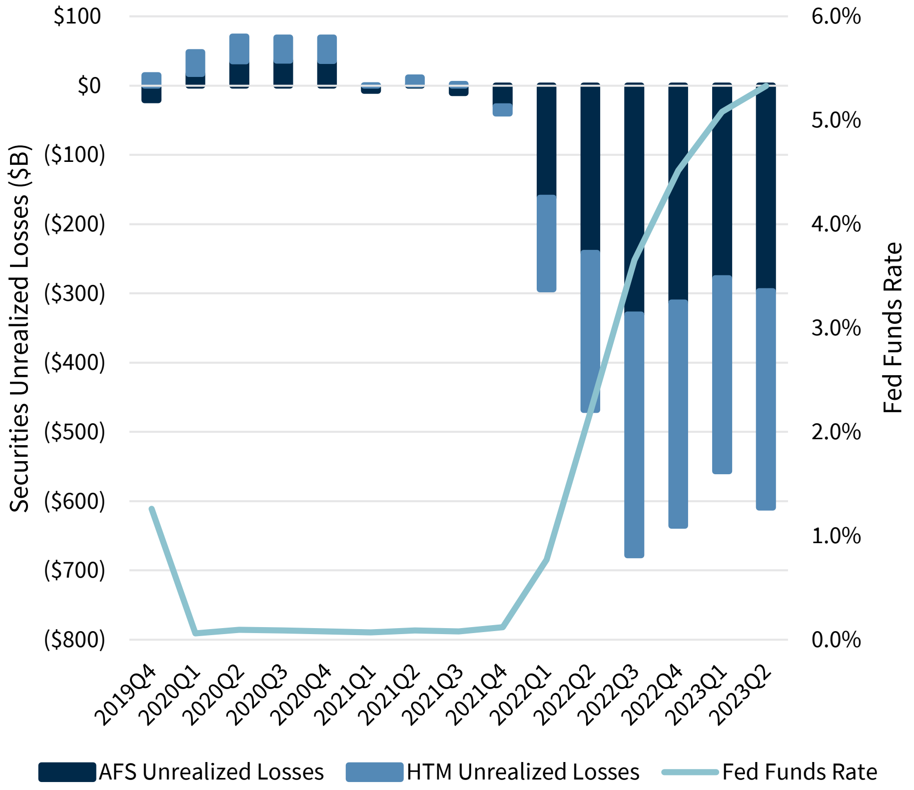


Note: Monthly data as of August 10, 2023
Source: Federal Reserve Bank of St. Louis

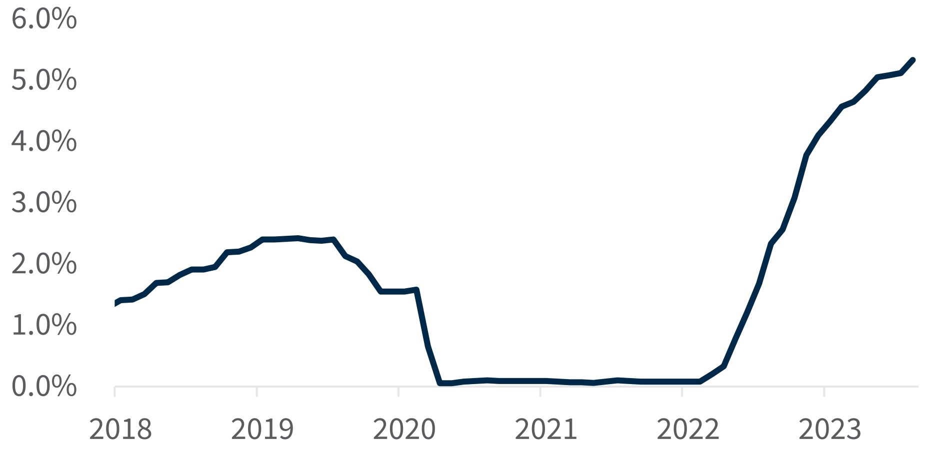
Government response | Inflation

Rates ↑ Prices ↓

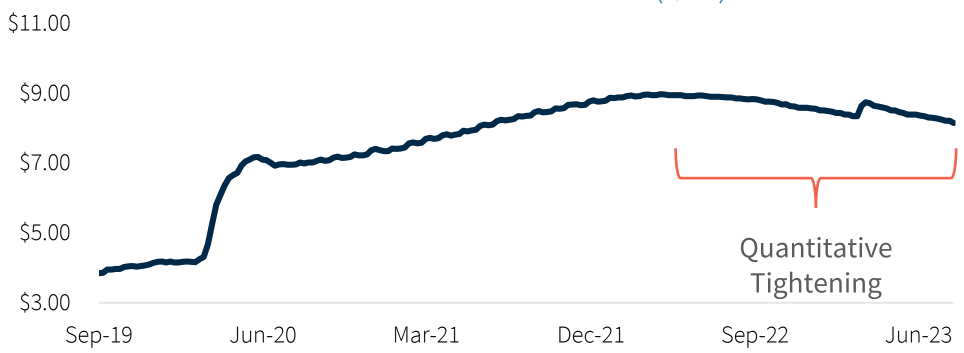
As the FED raised rates at a historically rapid pace, bank's securities portfolios were saddled with ***unrealized*** losses(1)



Federal Funds Rate(2)



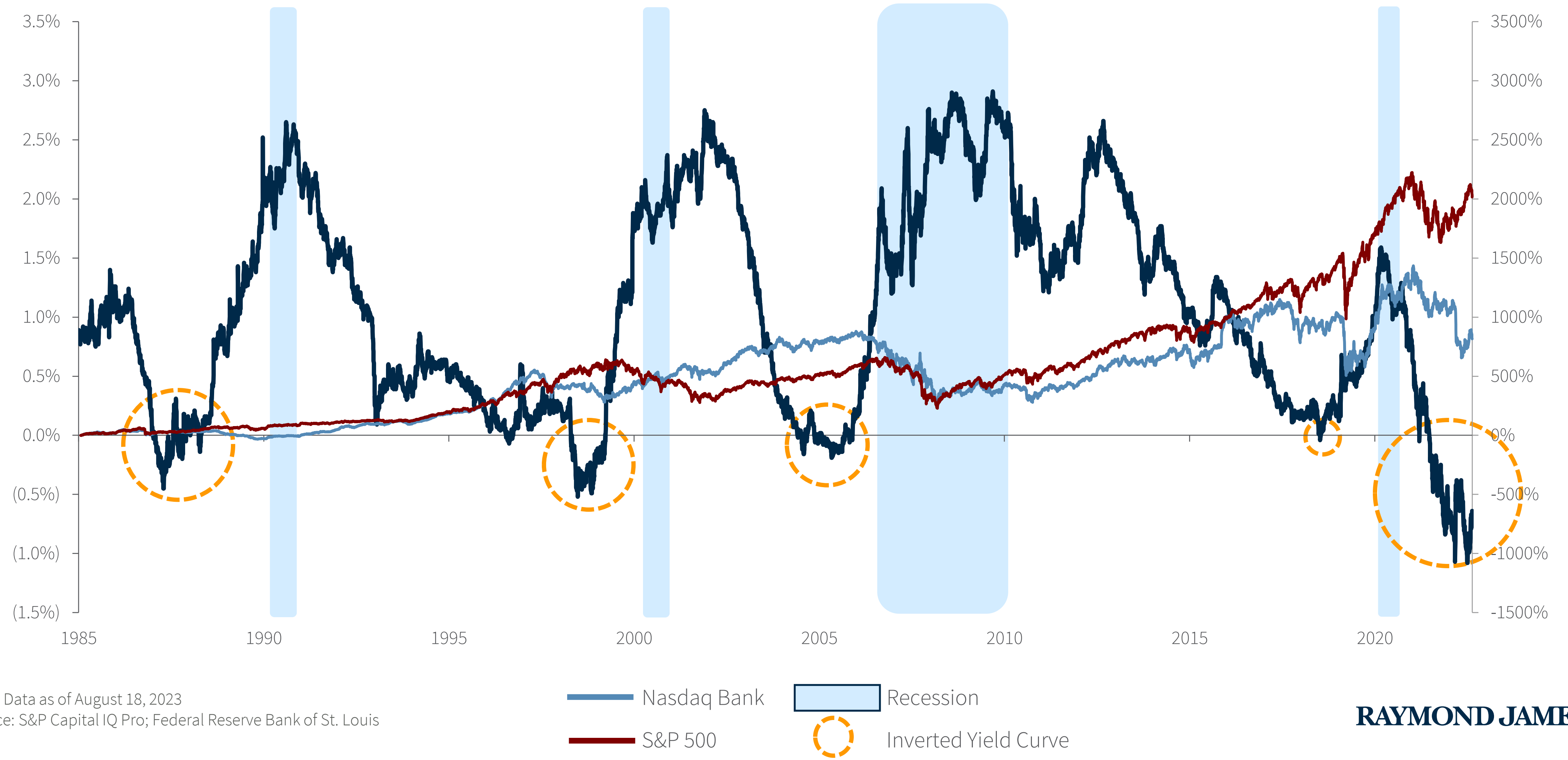
FED Balance Sheet ($T)(3)



(1) Unrealized loss data includes all US banks (public and private) that file a Call Report; shown at the bank-level
(2) Monthly data as of August 1, 2023
(3) Weekly data as of August 16, 2023
Source: S&P Capital IQ Pro; Federal Reserve Bank of St. Louis

Spread analysis vs. Nasdaq Bank and S&P 500

2-10 year spread

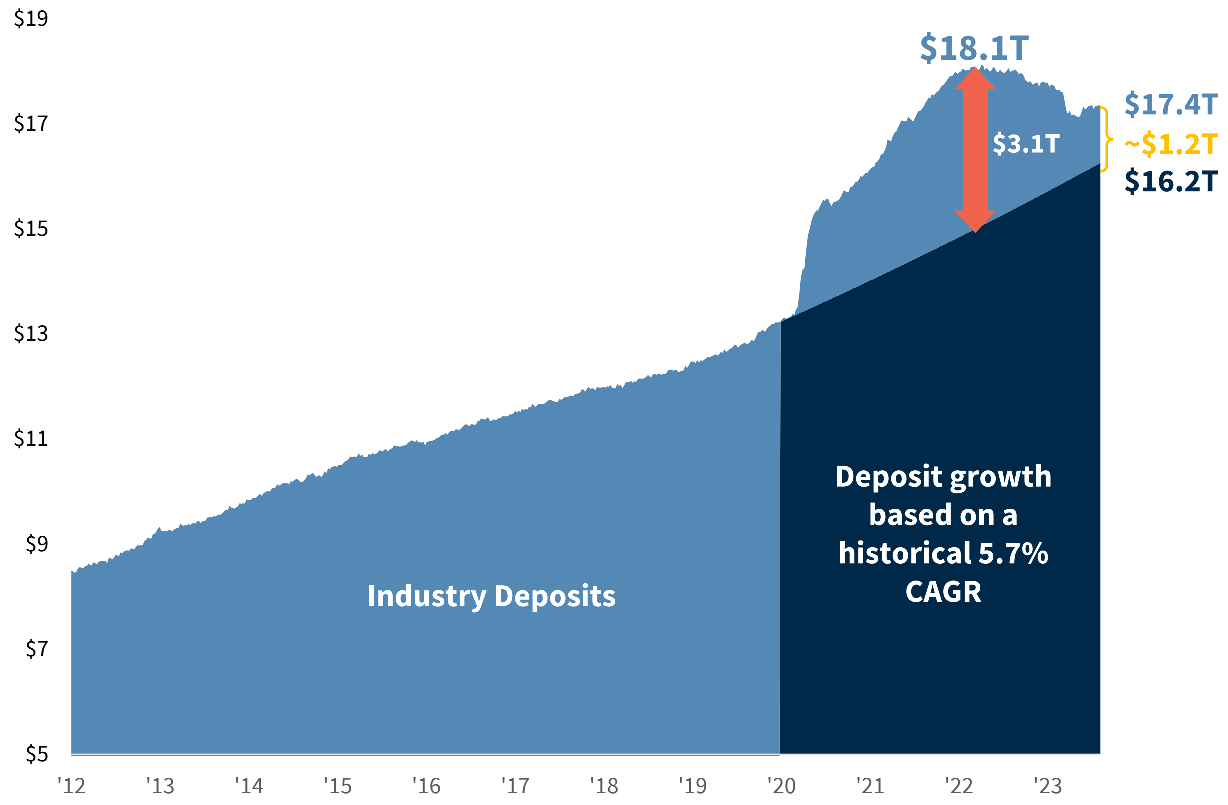


Note: Data as of August 18, 2023
Source: S&P Capital IQ Pro; Federal Reserve Bank of St. Louis

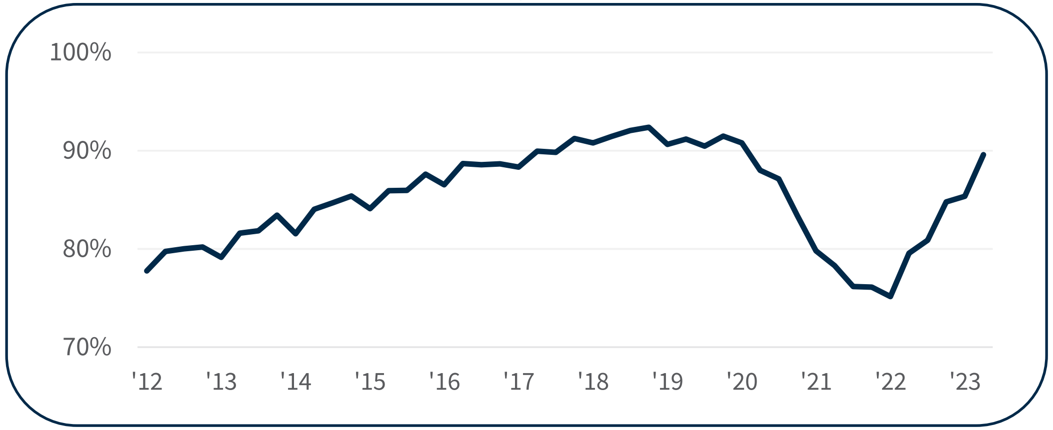
RAYMOND JAMES

Backdrop | Liquidity is being squeezed

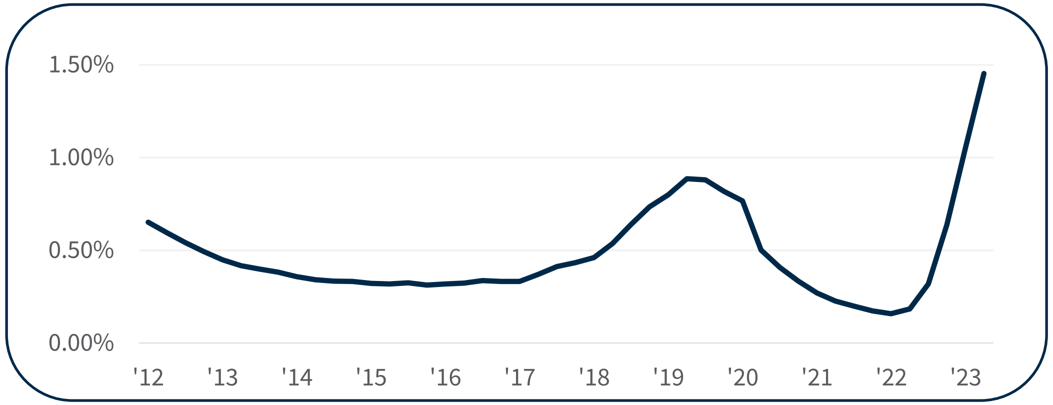
Deposits at commercial banks and thrifts ($ trillions)(1)



Loans / deposits (%)(2)



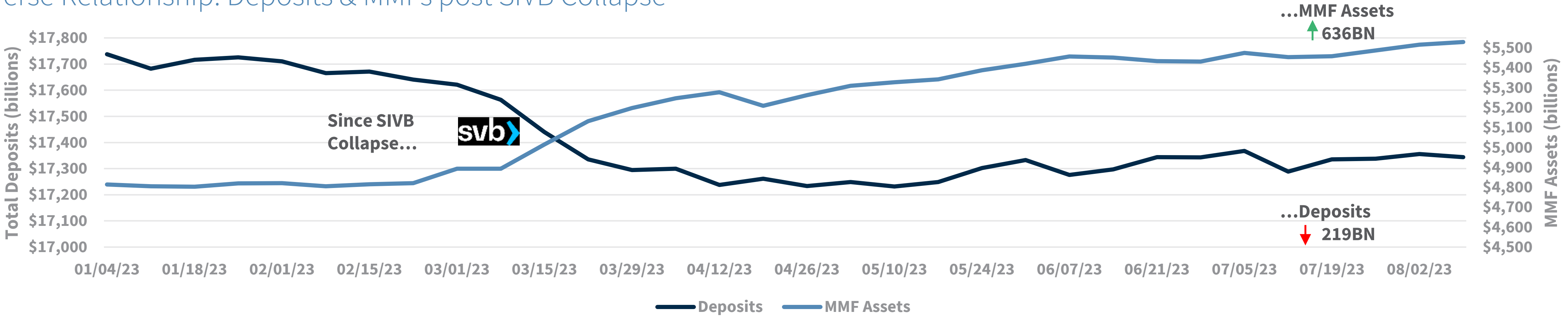
Interest cost of total deposits (%)(2)



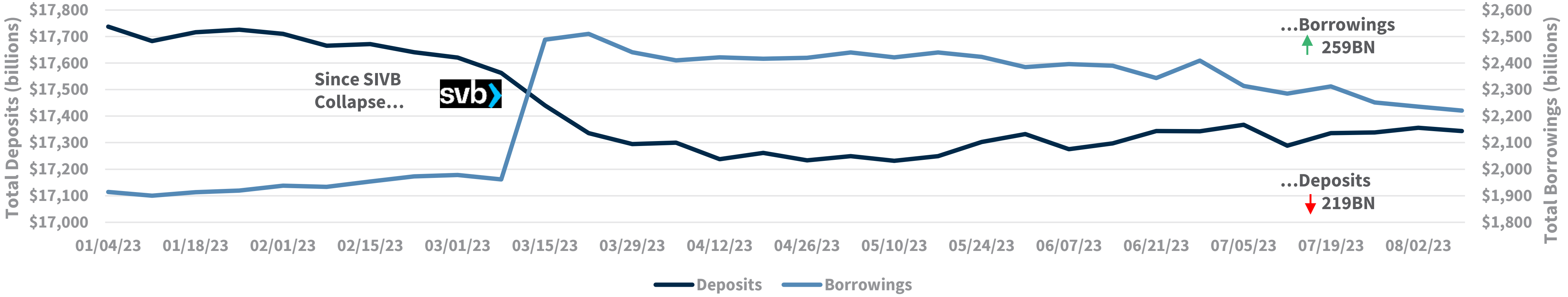
(1) Weekly deposit data as of August 9, 2023
(2) Median quarterly values of nationwide public banks with $1B - $50B in assets
Source: S&P Capital IQ Pro; Board of Governors of the Federal Reserve System (US)

Backdrop | Deposit outflow

Inverse Relationship: Deposits & MMFs post SIVB Collapse



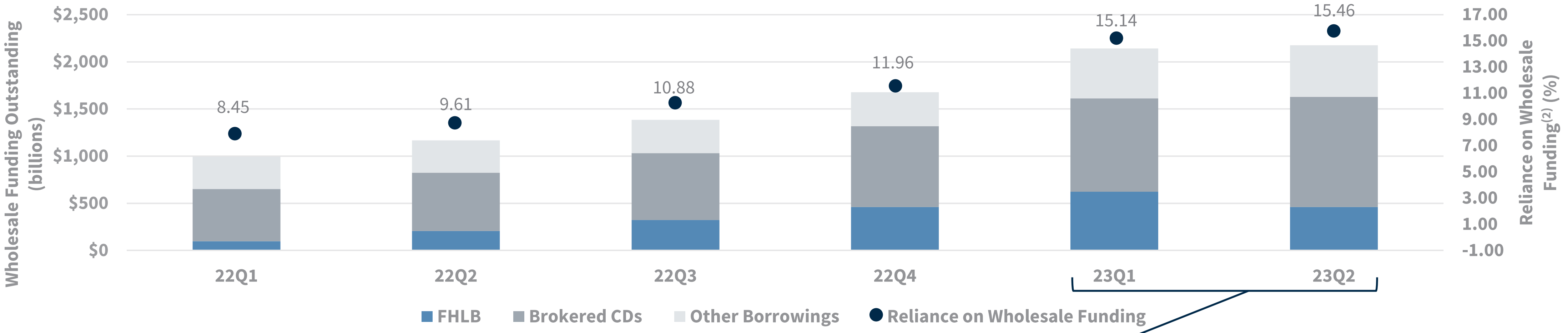
Inverse Relationship: Banks turn to Wholesale Funding



Note: All commercial banks, seasonally adjusted; weekly data as of August 9, 2023
Source: Fed H.8 Data; ICI Investment Company Institute

Backdrop | Wholesale funding

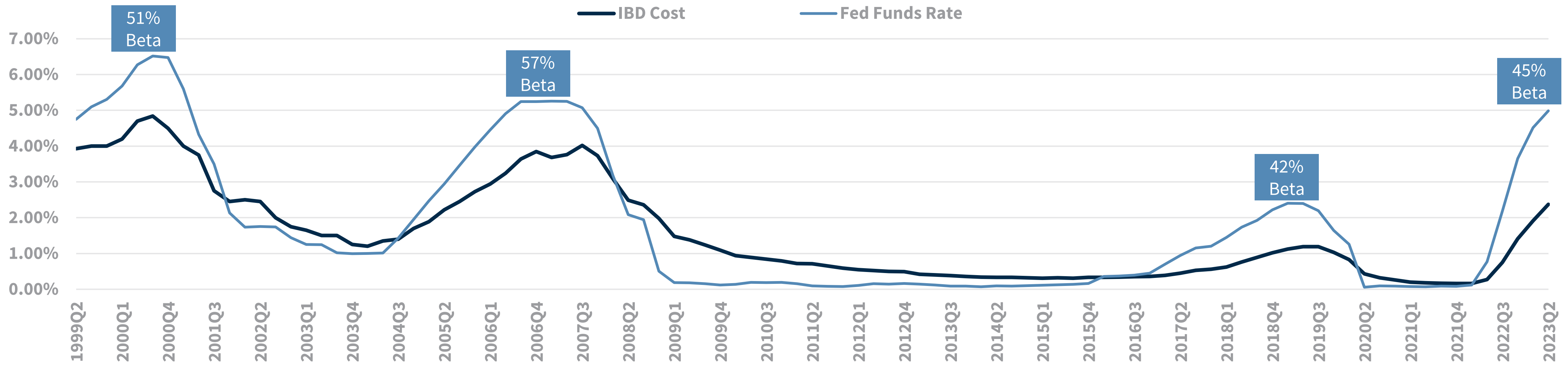
Wholesale funding channels have been tapped in order to fill the gap given deposit outflows and to create on balance sheet liquidity



	QoQ Increase ($)	QoQ Increase (%)	2023Q1 Cost (3/31/23)	2023Q2 Cost (6/30/23)	Current Cost (8/18/23)
Other Borrowings	16	3.09%	4.85%	5.50%	5.45%
Brokered CDs[1]	178	18.01%	4.75%	5.13%	5.35%
FHLB	-162	-25.97%	4.88%	5.56%	5.49%

Note: Industry data sums balances for all commercial banks as of June 30, 2023
(1) FRED 3-Month Rates and Yields: Certificates of Deposit for the United States
(2) Reliance on Wholesale Funding defined as [(Total borrowings) + (Brokered Deposits)] / [(Total borrowings) + (Total Deposits)]. This ratio depicts the portion of a bank's total funds that are from wholesale sources
Source: S&P Capital IQ Pro; FHLB Boston; Bank Term Funding Program

Backdrop | Deposit betas



	1999-2000	2004-2007	2016-2019	2022-Q22023	What if… 55% Beta?
Starting IBD Cost	3.93	1.35	0.35	0.16	0.16
Ending IBD Cost	4.84	3.76	1.19	2.37	2.89
Change in IBD Cost	**0.91**	**2.41**	**0.84**	**2.21**	**2.73**
Starting FF Rate	4.75	1.01	0.39	0.12	0.12
Ending FF Rate	6.52	5.25	2.40	4.99	5.08
Change in FF Rate	**1.77**	**4.24**	2.00	4.87	**4.96**
Deposit Beta	**51.4%**	**56.8%**	**41.9%**	**45.4%**	**55.0%**

A 55% Deposit Beta in the current cycle would imply that the IBD Cost increases an additional 52bps

Note: Industry data sums balances for all commercial banks as of June 30, 2023
Source: S&P Capital IQ Pro; Federal Reserve Bank of St. Louis

FED proposes new bank capital standards for banks greater than $100B in assets

Internal modeling being replaced with standardized risk weighting

Introduce operational risk using firms' historical operational losses

Capital levels adjusted for losses/gains on AFS securities

Introduce long-term debt bail to recapitalize the bank in resolution by issuing loss-absorbing debt

Stress tests should be stressful and continue to evolve and improve risk capture

Expect strengthened LCR requirements and closer scrutiny of degree and duration of interest rate risk

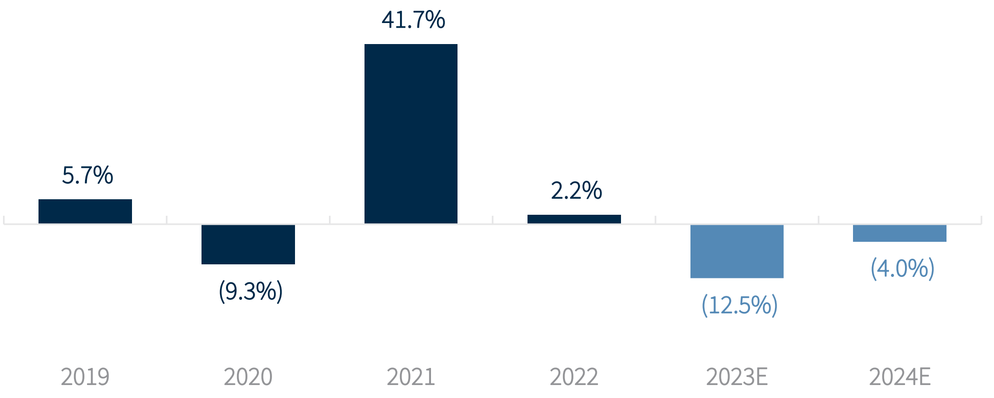
IMPACT

The average CET1 balance could increase 16.6% while the CET1 ratio could increase 1.8% on average between 2022-2024

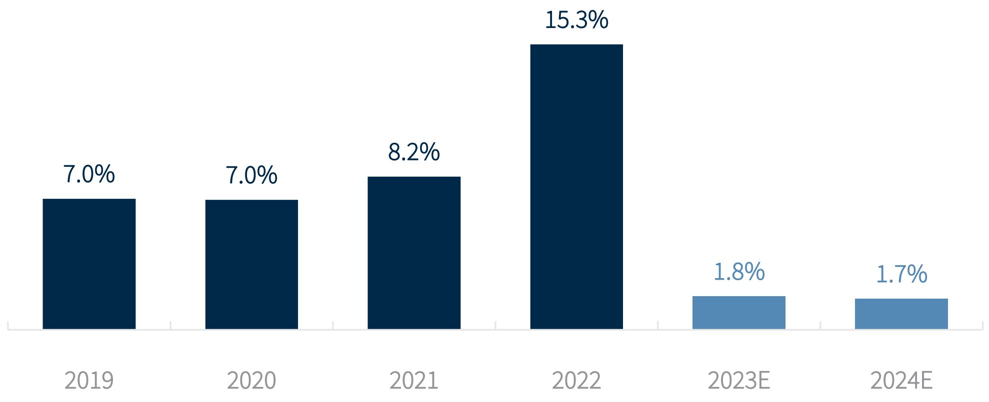
Source: Raymond James Equity Research

Earnings under pressure with NIMs peaking

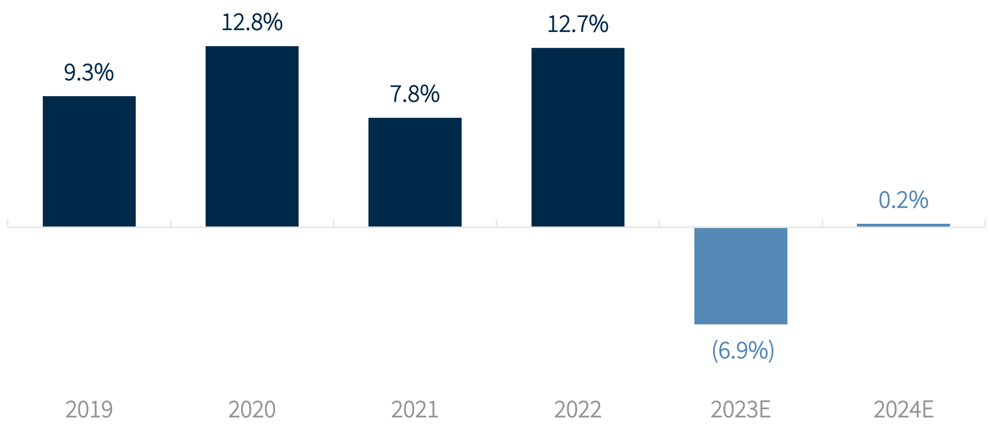
EPS growth (%)



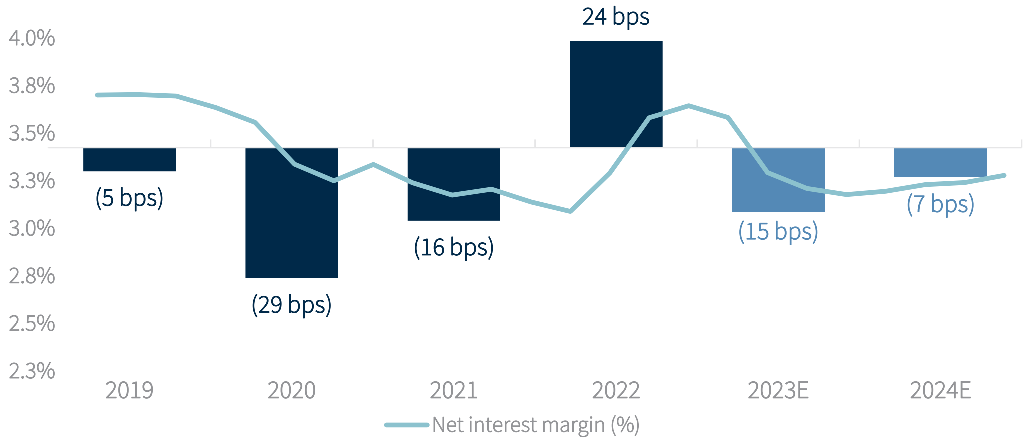
Net interest income growth (%)



Pre-provision net revenue growth (%)



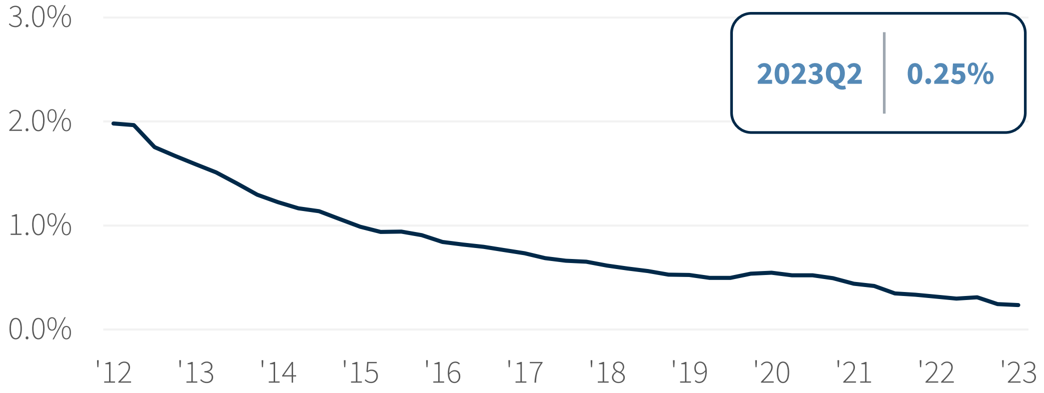
NIM change (bps)



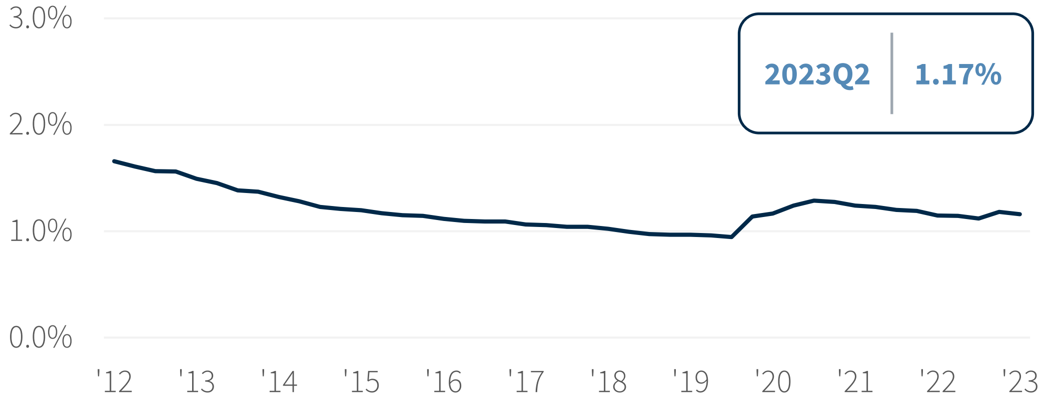
Note: Data represents median values for nationwide public banks with $1B - $50B in assets
Source: S&P Capital IQ Pro

Credit remains benign, although NCOs expected to tick up

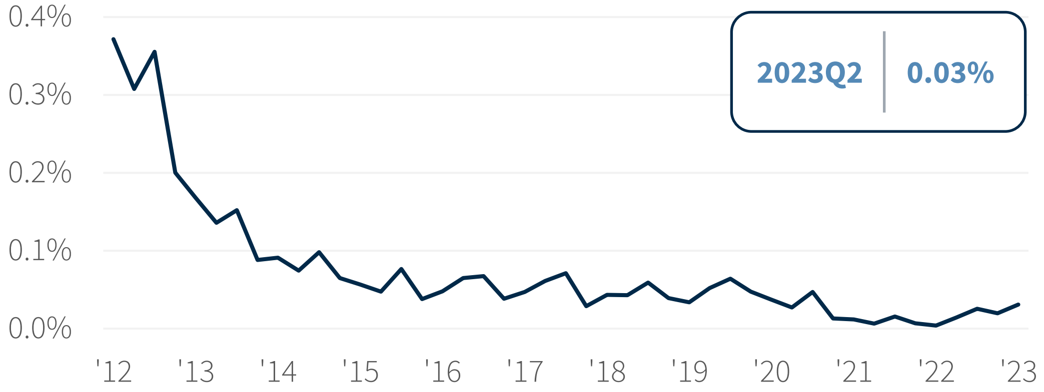
NPA / assets ratio



LLR / loans ratio



NCO / avg. loans ratio



2023E and 2024E NCO / avg. loans ratio

2023YE

0.08%

2024YE

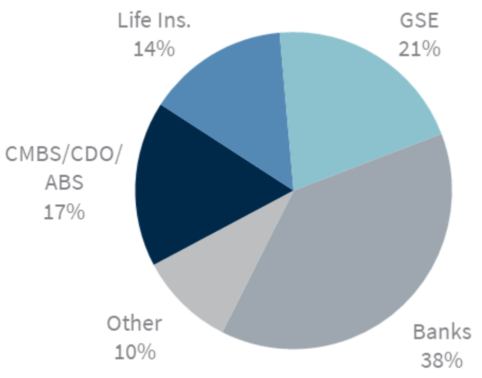
0.17%

Note: Data represents median values for nationwide public banks with $1B - $50B in assets
Source: S&P Capital IQ Pro

Investors turn focus to CRE, and office in particular

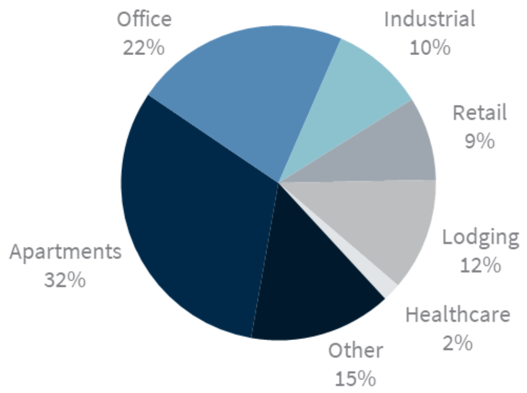
Credit quality deterioration is anticipated as **$1.4T** of CRE is expected to mature over the next **two years**

$4.5T total CRE debt by source



Banks	$1,711B
CMBS, CDO or ABS	757B
Life Insurance Companies	646B
GSE	921B
Other	438B
Total	$4,473B

$1.4T 2023 – 2024 CRE debt maturities by type



Apartments	$440B
Office	306B
Industrial	133B
Retail	119B
Lodging	161B
Healthcare	26B
Other	203B
Total	$1,388B

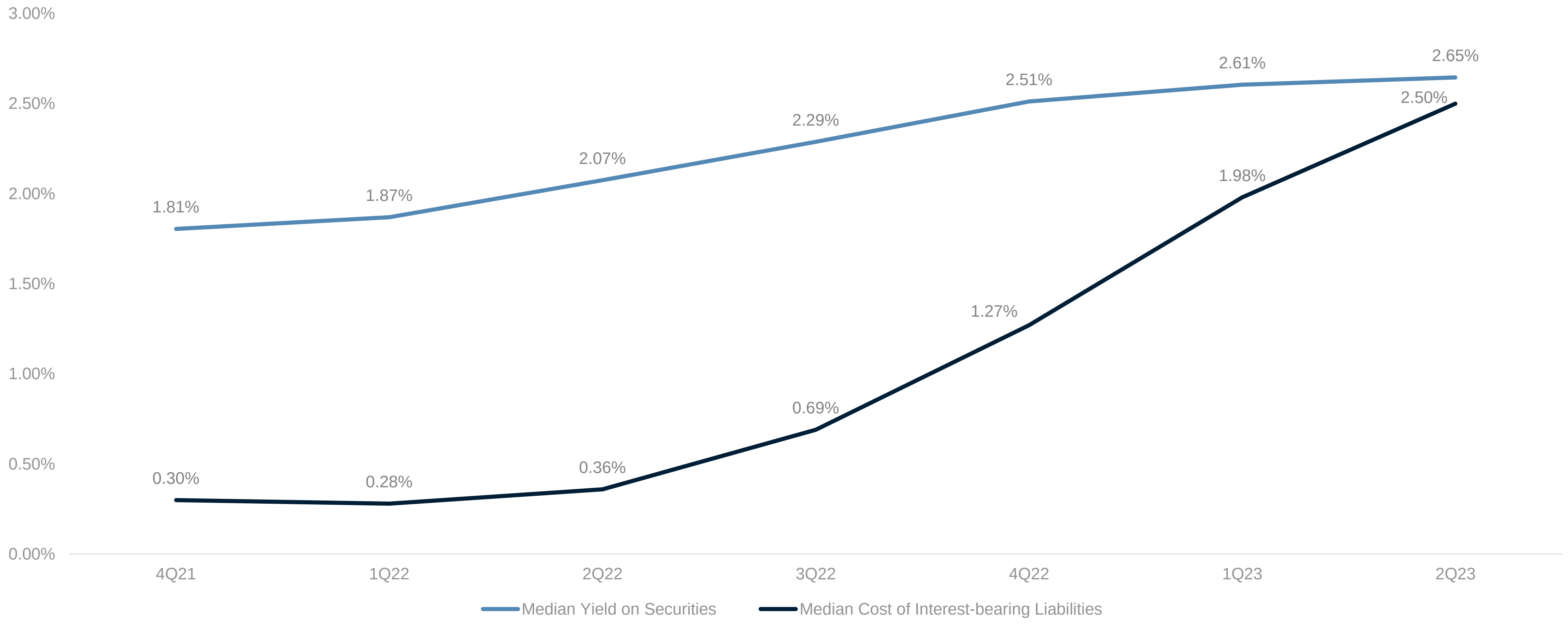
U.S. office vacancy rate

Q1 2003 – Q1 2023

Source: S&P Capital IQ Pro; CoStar; Mortgage Bankers Association; Raymond James Equity Research

Growing negative carry suggests more balance sheet restructuring

Change in security yield vs. change in interest-bearing liabilities cost



Source: Raymond James Equity Research

Consensus EPS percentage changes

2024E EPS vs. 2023E EPS growth (decline)

Percentage change of consensus estimates for 2024 vs 2023 as of August 18, 2023

	<$10B in total assets	$10B - $20B in total assets	$20B - $50B in total assets	>$50B in total assets
Percentage EPS Growth (Decline)	▼ (2.1%)	▼ (3.1%)	▼ (2.6%)	▼ (2.3%)

2024E EPS consensus revisions

Percentage change of consensus estimates between January 1, 2023 and August 18, 2023

	<$10B in total assets	$10B - $20B in total assets	$20B - $50B in total assets	>$50B in total assets
EPS Revision Percentage	▼ (22.4%)	▼ (24.2%)	▼ (19.4%)	▼ (21.2%)

Note: Data includes all public banks that have reported 2Q23 results and have research estimates
Source: S&P Capital IQ Pro; FactSet

Banks in favor

Key characteristics of banks currently “in favor”

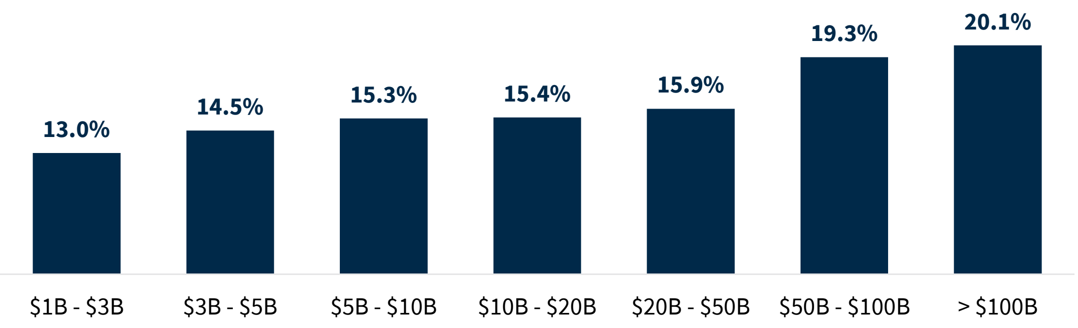
- Lower uninsured deposits
- Higher consumer deposit mix
- More rural deposit base
- High cash balances and strong capital post-HTM marks
- Strong markets with low loan growth guidance
- Higher loan loss reserves / loss absorption capacity
- Lower CRE / C&D concentrations
- Manageable dividend payout ratios and lower share repurchases
- Lower loan / deposit ratio and funding risk with a lower concentration in loans and deposits overall

Despite near-term industry key characteristics, size and scale continue to be the “constant” driver of value

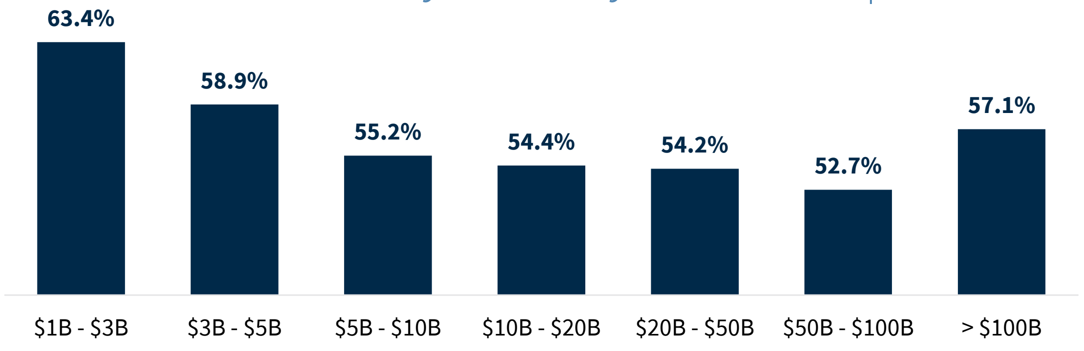
Bank Valuation Environment

Size and scale drive value

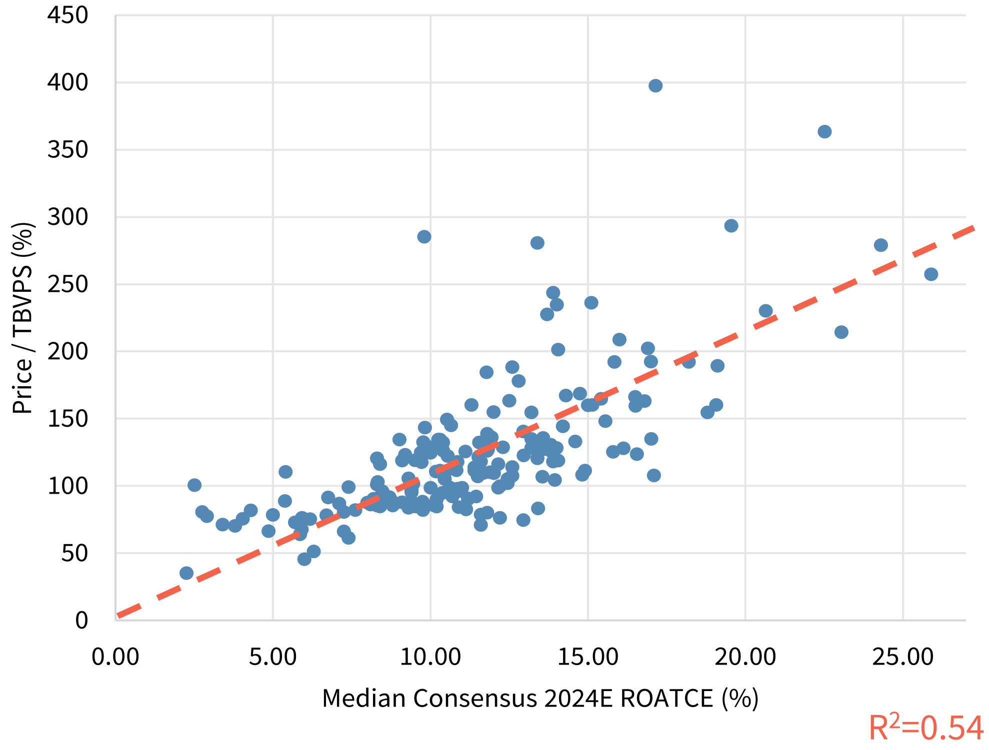
Median ROATCE by Asset Size | LTM(1)



Median Efficiency Ratio by Asset Size | LTM(1)

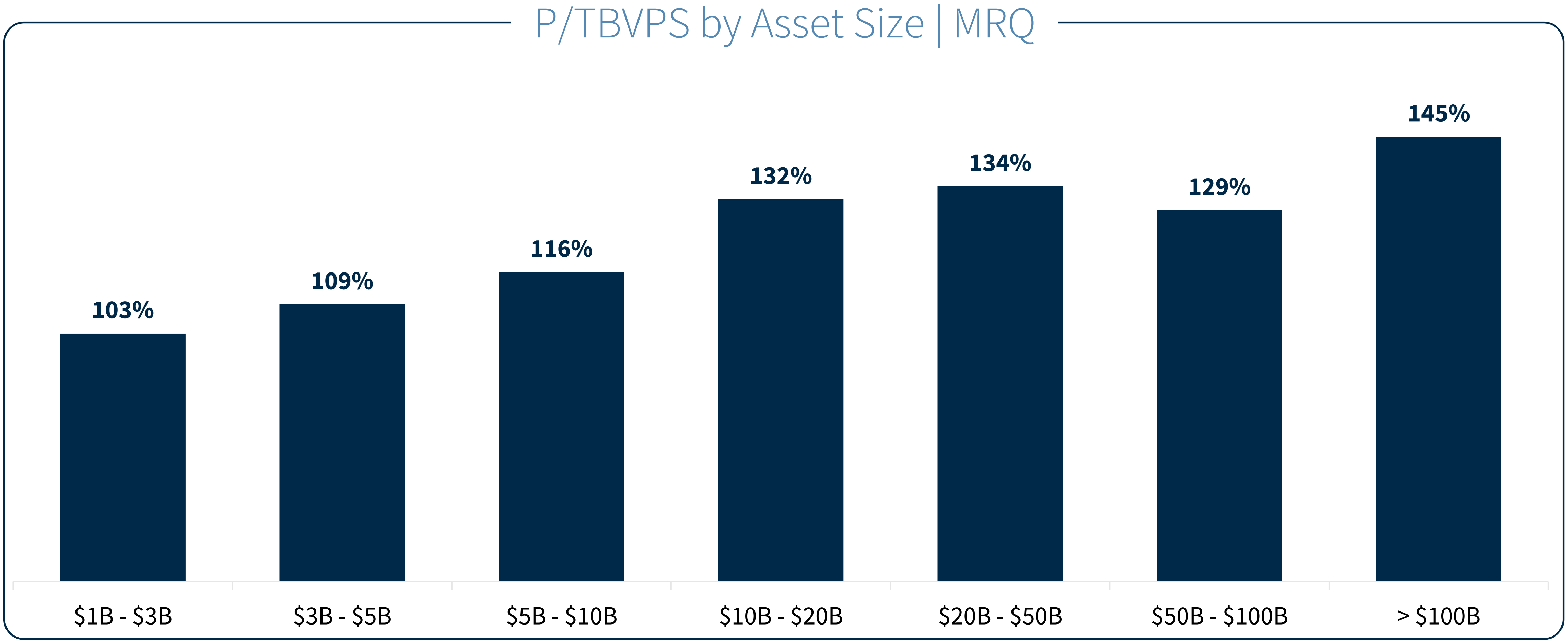


Valuation and Forward ROATCE Correlation(2)



Note: Market data as of August 18, 2023; financial data as of June 30, 2023
(1) Includes nationwide major exchange-traded banks
(2) Includes all public US banks $1B to $20B
Source: S&P Capital IQ Pro; FactSet

Size leads to a premium valuation



Note: Market data as of August 18, 2023; financial data as of June 30, 2023; includes nationwide major exchange-traded banks
Source: S&P Capital IQ Pro; FactSet

The capital markets are at a stand still

Short-term inactivity likely to continue with limited exceptions

YoY Issuance Trends

Common Equity:[1]	~(85.9%)
Sub Debt:[2]	~(99.6%)
Preferred:[3]	~(98.4%)

Banking sector investor sentiment

Generalists

Weak sentiment has deteriorated even further with fallout from recent bank failures

Increasingly underweight the bank sector and likely will not return until visibility into credit cycle becomes more clear

Bank dedicated investors

More optimistic on sector given attractive valuations and potential for a softer landing

Increasingly cautious on street EPS estimates with buyside estimates well-below current EPS forecasts

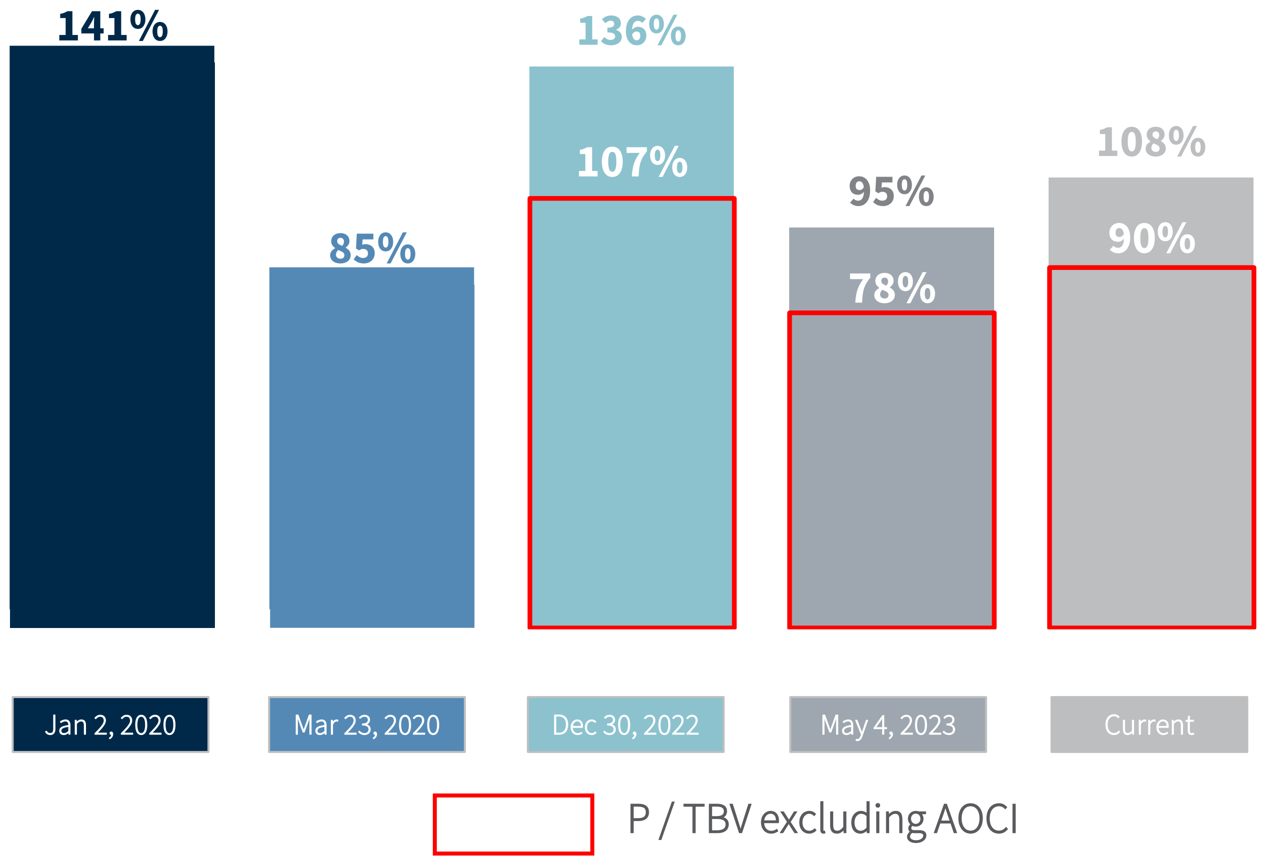
Current focus is on structural profitability and credit performance

Note: Compares the change in bank underwriting & advisory gross offering amounts between 2023 YTD (Annualized) versus the average of 2021 & 2022 levels
(1) Includes equity issuances announced by U.S. banks less than $50B in MRQ total assets, excludes mutual conversions
(2) Includes subordinated debt issuances announced by U.S. banks less than $50B in MRQ total assets
(3) Incudes preferred equity issuances announced by U.S. banks less than $50B in MRQ total assets
Source: S&P Capital IQ Pro

P/TBV valuations approached COVID lows when excluding AOCI

Larger institutions with deposit bases deemed volatile have seen the biggest pullback

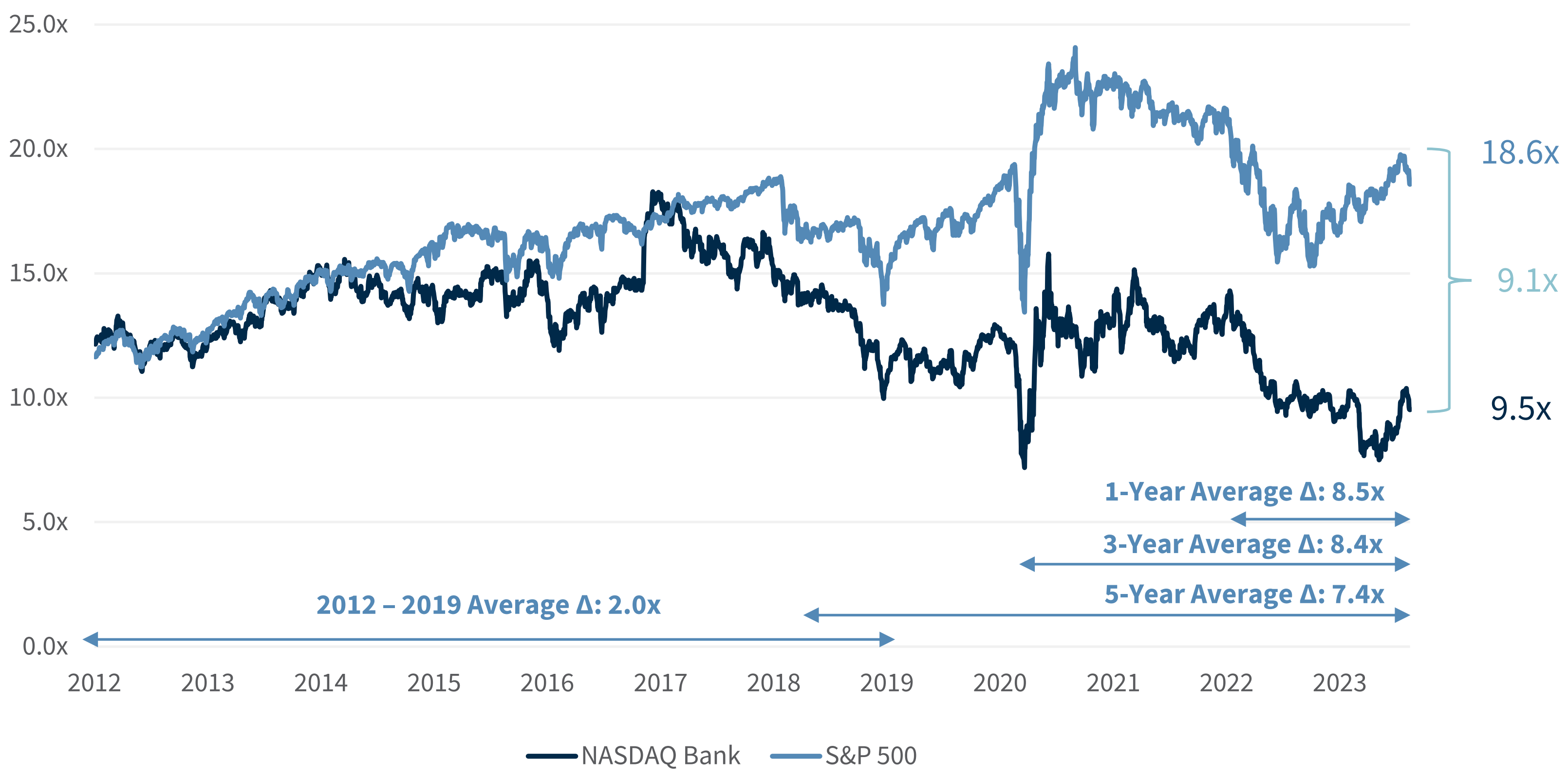
P/TBV valuations for public banks and thrifts with total assets between $1B - $10B



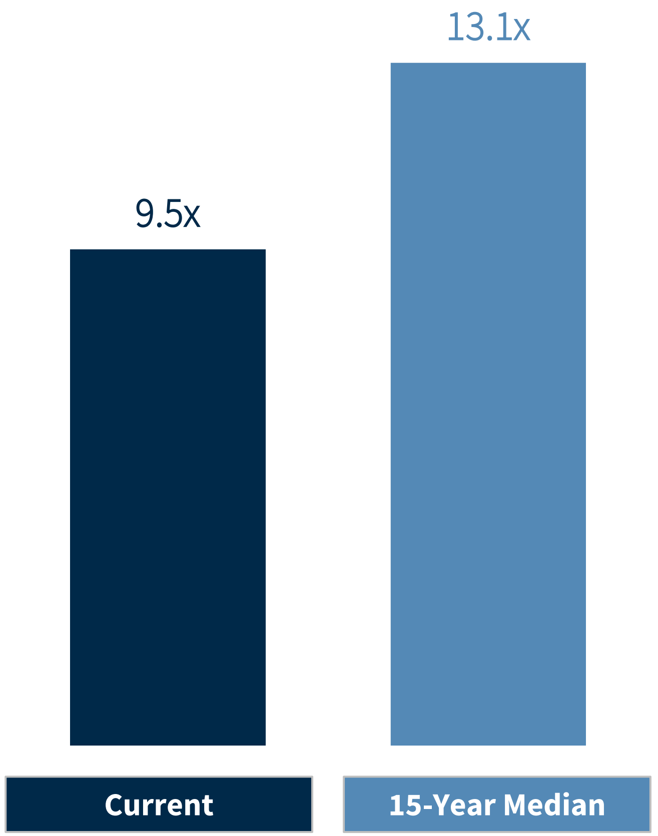
Note: Market data as of August 18, 2023; excludes merger targets
Source: S&P Capital IQ Pro

Bank valuation discount to the market widening

Consensus forward (NTM) earnings multiples since 2012



NASDAQ Bank P / NTM E



Note: Market data as of August 18, 2023
Source: FactSet

How much are current bank valuations pricing in recessionary credit losses?

Methodology

- TBV dilution occurs exclusively through net charge-offs
- Assumes normalized P/TBV as of YE 2019 (excl. AOCI)
- Commensurate level of NCOs required to dilute TBVPS such that current trading price would equate to the pre-pandemic trading multiple

Takeaways

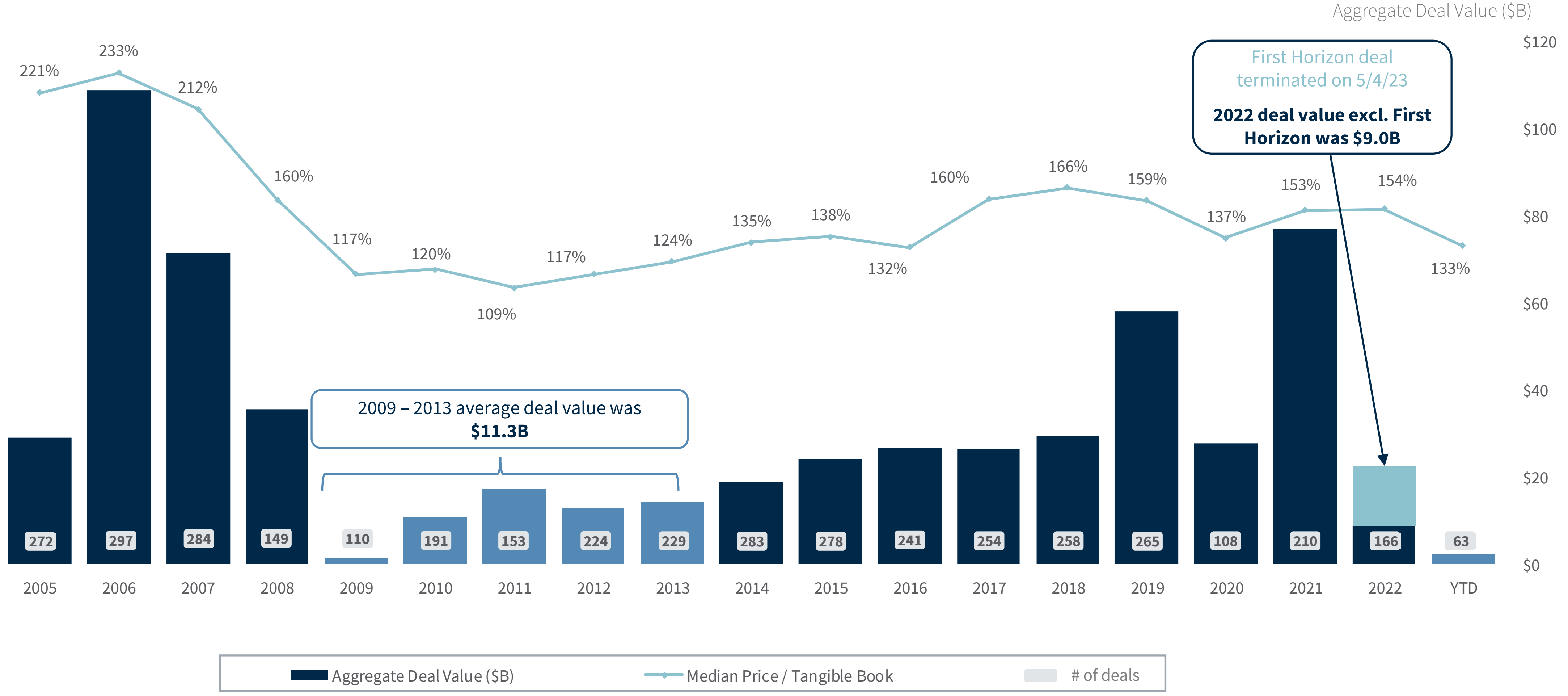
- Assuming all else equal, current multiples assume recessionary-level losses (much higher than current consensus estimates)
- Unlikely for all these losses to materialize and reach the magnitude of the Great Financial Crisis as banks have improved underwriting standards and strengthened balance sheets

	Price / TBV (excl. AOCI)		Implied NCOs Based on Valuation		Mean Consensus Estimates		Δ Implied vs. Estimated NCO Ratio (%)
	2019 YE (%)	Current (%)	Aggregate NCOs ($M)	NCO Ratio (%)	Cumulative '23-'24E NCOs ($M)	Cummulative NCO Ratio (%)	
RJ Research Coverage Median	172%	105%	$343	1.71%	$30	0.14%	1.57%

Note: Data as of August 18, 2023
Source: Raymond James Equity Research

M&A Overview

After strong post-COVID rebound, activity slowing since 2022



Note: Data as of August 18, 2023; includes all U.S. depository M&A deals; excludes terminated deals
Source: S&P Capital IQ Pro

M&A at a standstill

YTD M&A Activity(1)

4	11	48	4	1
M&A Deals Over $100mm in Deal Value	M&A Deals Under $100mm in Deal Value	M&A Deals with Undisclosed Deal Value	Government Assisted Deals	Terminated Deals

M&A Activity Since 2022(3)

Southeast	41 deals	173% DV / TBV	107% Pay-to-Trade
Nationwide	229 deals	152% DV / TBV	98% Pay-to-Trade

Recent M&A Activity(2)

- Glacier Bancorp – Wheatland Bank
- Banc of California – PacWest Bancorp
- Atlantic Union Bankshares – American National Bankshares Inc.
- MC Bank – Heritage NOLA Bancorp, Inc.
- Piedmont Federal Savings Bank – Wake Forest Federal
- LCNB Corp. – Cincinnati Federal
- Bank 34 – Commerce Bank of AZ
- CrossFirst Bank – Canyon Community Bank
- First Columbia Bank & Trust Co. – Muncy Bank & Trust Company
- First Mid – Blackhawk Bank
- Main Street Bank – Wayne Savings Community Bank
- LINKBANCORP – Partners Bancorp

Major Government Assisted Deals

NYCB ← Signature Bank

	NYCB	Signature Bank
Assets	$90B	$38B
Loans	$69B	$13B
Deposits	$59B	$34B

First Citizens BancShares ← SVB

	First Citizens BancShares	SVB
Assets	$109B	$110B
Loans	$71B	$72B
Deposits	$89B	$56B

JPMorgan Chase & Co. ← First Republic ("It's a privilege to serve you")

	JPMorgan Chase & Co.	First Republic
Assets	$3.74T	$233B
Loans	$1.11T	$173B
Deposits	$2.38T	$92B

(1) M&A activity includes all U.S. depository M&A in 2023
(2) Includes all U.S. depository M&A deals with announced deal value in 2023
(3) Includes all Southeast and Nationwide deals since January 1, 2022; excludes terminated transactions
Source: S&P Capital IQ Pro

Interest rates impact on standalone financials

($M, except per share data)		
Pricing Information	**2023Q2**	**2023Q2**
Stock Price	$24.00	$8.00
Shares Outstanding (M)	50	22
Price / TBVPS	157%	120%
Price / TBVPS (exl. AOCI)	145%	102%
Price / NTM EPS	12.0x	8.8x
Standalone Assumptions	**2023Q2**	**2023Q2**
YTD Securities Mark Down	**-2.5%**	**-5.0%**
Securities Duration (years)	**5.0**	**7.0**
ROAA	**1.00%**	**1.00%**
Balance Sheet	**2023Q2**	**2023Q2**
Securities AFS	1,463	285
Securities HTM	150	30
Other Assets	8,563	1,710
Total Assets	**$ 10,176**	**$ 2,025**
Total Liabilities	**$ 8,673**	**$ 1,733**
Common Equity	900	260
Retained Earnings	670	58
AOCI	(68)	(26)
Total Equity	**$ 1,503**	**$ 292**
Total Liabilities & Equity	**$ 10,176**	**$ 2,025**
TCE Ratio	**8.1%**	**7.8%**
TCE Ratio (excl. AOCI)	**8.8%**	**9.2%**
TBVPS	**$15.25**	**$6.68**
TBVPS (excl. AOCI)	**$16.60**	**$7.86**
AOCI / TCE	**-8.9%**	**-17.7%**
AFS Securities / TA	**15.5%**	**15.2%**

Securities portfolios at below market rates with longer duration will negatively impact capital and equity value creation

Interest rates impact on M&A

Under current environment, interest rate related merger adjustments can create higher dilution to book and higher accretion to EPS

High Level Merger Assumptions		**Amrt | SL**
Purchase Price	$10.00	
Cost Savings	30%	
Stock Consderation	100%	
HTM Securities Mark	-20.0%	7.0 yrs
Loan Interest Rate Mark	-5.0%	4.0 yrs
Time Deposit Mark	-2.5%	2.0 yrs

Transaction Multiples	
Price / TBVPS	150%
Price / TBVPS (excl. AOCI)	127%
Price / NTM EPS	10.9x
Price / NTM EPS + CS	7.5x
Market Premium	25%
Core Deposit Premium	5.6%

Key Financial Results: GAAP Accounting

22.6%
NTM Accretion to EPS

-10.4%
Dilution to TBVPS at Close

2.9 years
TBV Earnback

7.2%
TCE Ratio

Key Financial Results: Excluding AOCI & Rate Marks

9.6%
NTM Accretion to EPS

1.4%
Accretion to TBVPS at Close

Accretive
TBV Earnback

8.8%
TCE Ratio

Current M&A themes

Buyer Selectivity

First Mover Advantage

Macro Signals to Watch

Achieving Scale

Premium Valuation

Additional Observations

M&A volume will likely continue to be muted in Q3 2023 and Q4 2023

Stability within the public markets and interest rate environment will be key drivers for renewed M&A activity

Industry headwinds will weigh on smaller banks, driving consolidation as a means of achieving scale and stronger performance

When the M&A markets do return, those who are "ready to act" will achieve the highest valuations

M&A regulatory outlook

Is bank M&A heading back to normal?

Biden Administration officials signal openness to consolidation

Hsu, Yellen, and Barr have signaled an **increasing open-mindedness towards bank consolidation** within the Biden Administration

DOJ to revisit role in merger reviews

The DOJ will revisit their bank merger guidelines to incorporate a **much wider range of competitive factors** in order to address “modern market realities”. This will likely focus on impacts to customer segments, customer choice, and increased coordination

Opposition from key figures?

Senator Warren and progressive groups have come out in **strong opposition to potential increases in bank consolidation**

Source: Raymond James Equity Research

Buyer price outperformance post Great Recession

Overview of analysis

- Dataset includes all whole bank and FDIC assisted bank transactions announced between 1/1/2008 – 12/31/2012 with public buyers
- Each buyer's price performance is compared to the NASDAQ bank index over the following time period:
  - ***Start date:*** 7 days before the announce date of their first announced transaction
  - ***End date***: 3 months after the close of their final transaction

Subset	Number of institutions	Buyer price performance vs. NASDAQ Bank (avg.)
All buyers	**233**	**5.1%**
Buyers that completed:		
2 or more acquisitions	**106**	**15.4%**
2 acquisitions	54	13.4%
3 acquisitions	17	14.2%
4 acquisitions	16	11.8%
5 acquisitions	7	27.6%
6 or more acquisitions	12	22.7%

Source: S&P Capital IQ Pro; FactSet

Many reasons over time to do nothing

Note: S&P 500 return from March 1, 2009 to August 18, 2023
Source: S&P Capital IQ Pro

Disclaimer

The information contained herein is solely intended to suggest/discuss potentially applicable financing applications and is not intended to be a specific buy/sell recommendation, nor is it an official confirmation of terms. Any terms discussed herein are preliminary until confirmed in a definitive written agreement.

The analysis or information presented herein is based upon hypothetical projections and/or past performance that have certain limitations. No representation is made that it is accurate or complete or that any results indicated will be achieved. In no way is past performance indicative of future results. Changes to any prices, levels, or assumptions contained herein may have a material impact on results. Any estimates or assumptions contained herein represent our best judgment as of the date indicated and are subject to change without notice. Examples are merely representative and are not meant to be all-inclusive.

Investors, borrowers, or other market participants should not rely upon this information in making their investment/financing decisions. The information set forth herein was gathered from sources which we believe, but do not guarantee, to be accurate.

The fact that a specific swap, security, or trade idea referred to herein does not mean RJ Capital Services, Inc. or Raymond James & Associates, Inc. has, or will, be able to execute all or a portion of this trade. Neither the information, nor any options expressed, constitute a solicitation by us for purposes of sale or purchase of any securities or commodities. RJ Capital Services, Inc. or Raymond James & Associates, Inc. or its affiliates may have either a long or short position in, and may buy or sell for its own account or the accounts of others, these securities and derivative instruments.

You should consider certain economic risks (and other legal, tax, and accounting consequences) prior to entering into any type of transaction with RJ Capital Services, Inc. or Raymond James & Associates, Inc. It is imperative that any prospective client perform its own research and due diligence, independent of us or our affiliates, to determine suitability of the proposed transaction with respect to the aforementioned potential economic risks and legal, tax, and accounting consequences. Acceptance of this presentation and/or analyses constitutes your acknowledgement that the potential exists for there to be certain legal, tax, and accounting risks associated with any transaction involving RJ Capital Services, Inc. or Raymond James & Associates, Inc., that RJ Capital Services, Inc. or Raymond James & Associates, Inc. cannot be relied upon to provide legal, tax, or accounting advice, and that you should, in your best interests, seek out independent and qualified legal, tax, and accounting advice from outside sources.

This presentation may include logos or other words or devices that may be registered trademarks of their respective owners and/or have copyright licenses. Such use is solely for purposes of convenience in referring to the trademark/copyright owners and their products/services.

Raymond James & Associates, Inc. is a wholly-owned subsidiary of Raymond James Financial, Inc. and affiliated broker-dealers utilizing the trade name Raymond James.