PA Bankers Association

2017 Convention:
MARCO ISLAND

The Banking Landscape in a Post Election Environment: How Quickly Things Change . . . Or Do They?

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GRIFFIN FINANCIAL GROUP LLC
MEMBER FINRA/SIPC

A Busy Year . . . Congratulations to Our Chairman

In a little more than the last year . . .

- His bank closed a strategic acquisition in a new market;
- His bank converted its entire data processing system;
- His bank issued investment grade subordinated debt;
- His bank issued common equity; and . . . . .
- He served as Chairman of the Pennsylvania Bankers Association

Joe Bower
PBA Chairman

Congratulations Joe on a fantastic year as Chairman !

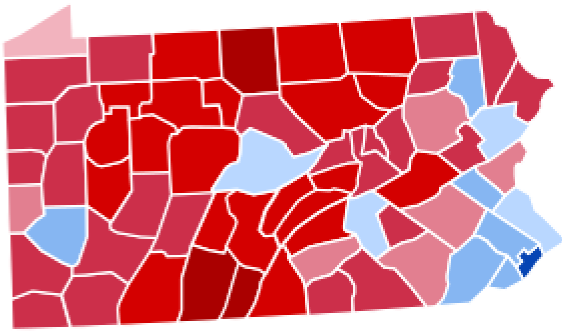
Three Biggest Surprises of the Last Year

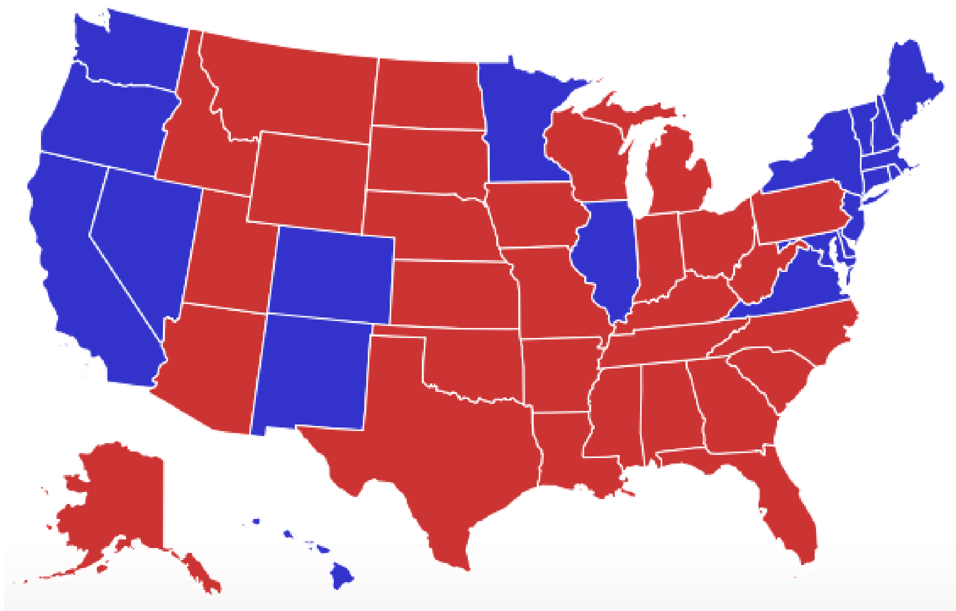
1. <u>Two generational championships . . . in the same year</u> !

Three Biggest Surprises of the Last Year

2. ***<u>Closer to home . . . Penn State, BIG 10 Champions</u>*** ***!***

3. ***For the first time since 1988, Pennsylvania votes Republican and its electoral votes put Donald Trump over the top to victory***





Important Disclaimer

- Nothing in this presentation is intended to:
  - Express a political point of view;
  - Take sides with a political candidate or party;
  - Support or disagree with the policies of the Trump Administration;
  - Project outcomes of all things uncertain.

A Lot Has Changed in the Trump Administration

- Methods of communication
  - Adds to uncertainty, which can be unsettling;
  - However, let’s the public hear unfiltered views directly from the President;
  - Twitter has become a national phenomenon.
- Political vocabulary
  - Cuts through “political correctness”
  - The political equivalent of SEC “plain English” initiative
  - Sometimes necessary to backtrack on unintended consequences

The President has been an extremely successful user of social and digital media

Our Politics Are More Polarizing Than Ever

Themes In The New Administration

Partisanship

Volatility

Growth

UNCERTAINTY

Stimulative
Economic Policy

Likelihood of
progress

Interest Rates

Presentation Outline

- The Current Environment: Where Are We and How Did We Get Here ?
- The Banking Landscape As We Know It
- The Bullish View of the Future
- The Bearish View of the Future
- Summary Observations: What Can We Learn From All This?

An overview of Griffin Financial Group is included in the Appendix.

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The Current Environment:

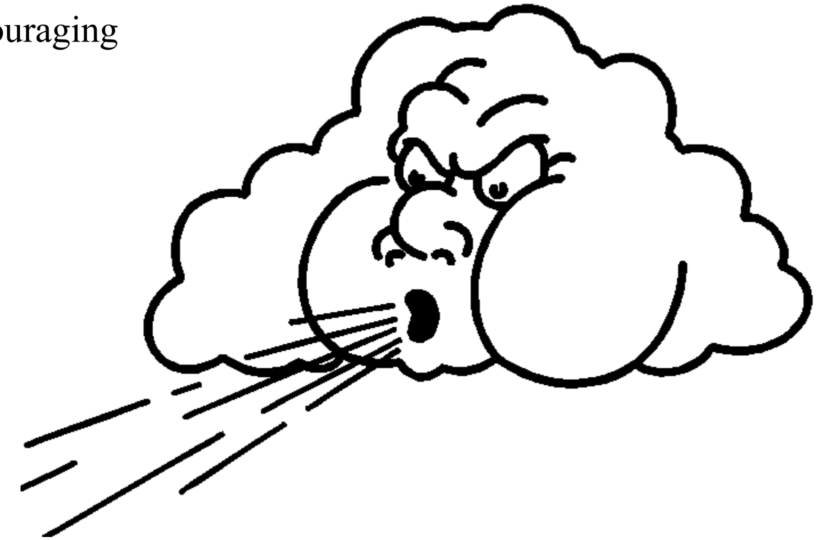
Where Are We and How Did We Get Here?

The 2016 Year in Review . . . Before the Election

- The 10-Year Treasury began the year at 2.25% and dipped to 1.57% (68 bps) by mid February, hitting an all time low of 1.34% amid a "lower for longer" rate environment;
- An unanticipated affirmative Brexit vote by UK surprised the market in June 2016, although that surprise was short lived;
- Markets eventually calmed as the focused turned to the Presidential election, essentially chilling the Fed and any prospects of a rate hike prior to December 2016;
- Rates recovered with the 10-Year Treasury hitting 1.80% just before the election;
- The selection of President Trump was not anticipated, but the "panic" was even shorter-lived than that of Brexit, with the markets shifting from shock to optimism even before trading began the following day;
- The markets needed to unwind the "Hillary trade" and insert the "Trump trade" which resulted in the "Trump Bump" creating a solid demarcation point in market prices and record highs across the board, with the exception of those global companies and industries affected by our anticipated protectionism:
  - …Stocks up, bonds down, the curve steepened and the Fed in play

Where Were We Before the Election?

Reg focus on CRE concentrations encouraging banks to build capital, change pricing



Jamie Dimon just sounded the alarm on auto loans
The JPMorgan Chase CEO says "someone is going to get hurt" as financing for autos has flourished in the U.S.

[How Worried Should Banks Be About Rise in Problem CRE Loans?]

Warnings of Credit Slippage from Big-Bank Chiefs

Troubling Signs on the Horizon for Banks in FDIC Data

The OCC said in its semiannual risk perspective that poor CRE underwriting amid rapid growth of CRE balances is a worry. "Our exams found looser underwriting standards with less-restrictive covenants, extended maturities, longer interest-only periods, limited guarantor requirements and deficient stress-testing practices," Comptroller of the Currency Thomas Curry said during a discussion of the OCC's report.

The Impact of the Presidential Election

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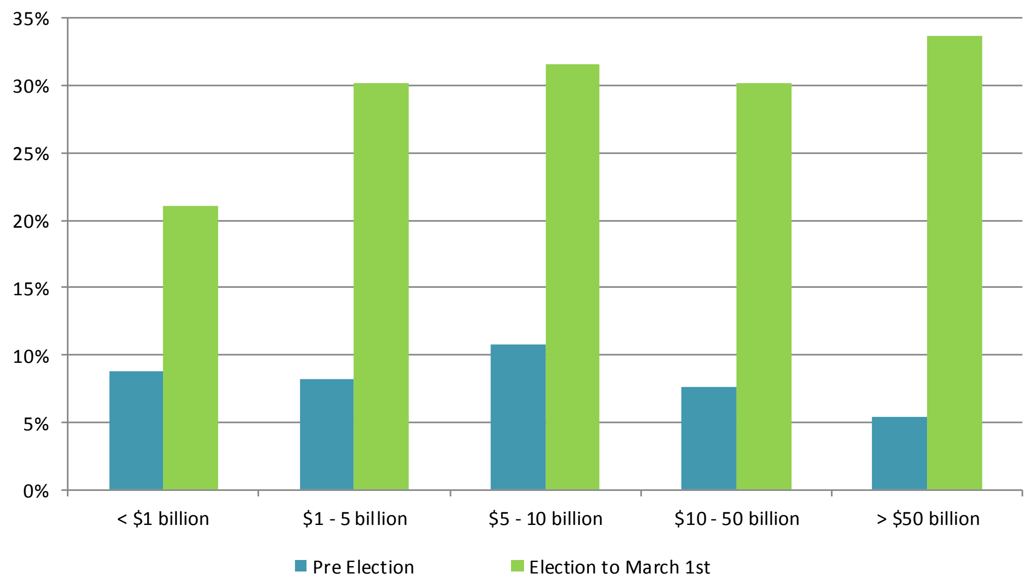
- In ten trading days following the Presidential Election:
  - The DJIA advanced 3.8%,
  - The S&P 500 Index advanced 3.0%,
  - The small cap Russell 2000 advanced 11.7%,
  - NASDAQ Bank Index soared 18.3%, and
  - The 10-Year Treasury rebounded 46 basis points to 2.32%

Price Change (through March 1, peak of election "bump")



Asset Size	Stock Price Change: 2016 thru election	Stock Price Change: Election to March 1st
> $50 billion	5.4%	33.7%
$10 billion - $50 billion	7.6%	30.2%
$5 billion - $10 billion	10.8%	31.5%
$1 billion - $5 billion	8.2%	30.2%
< $1 billion	8.8%	21.0%

Universe includes all banks publicly traded on a national exchange (excludes pink sheets, bulletin board, over the counter). Market data as of 3/1/2017

What Has Substantively Changed?

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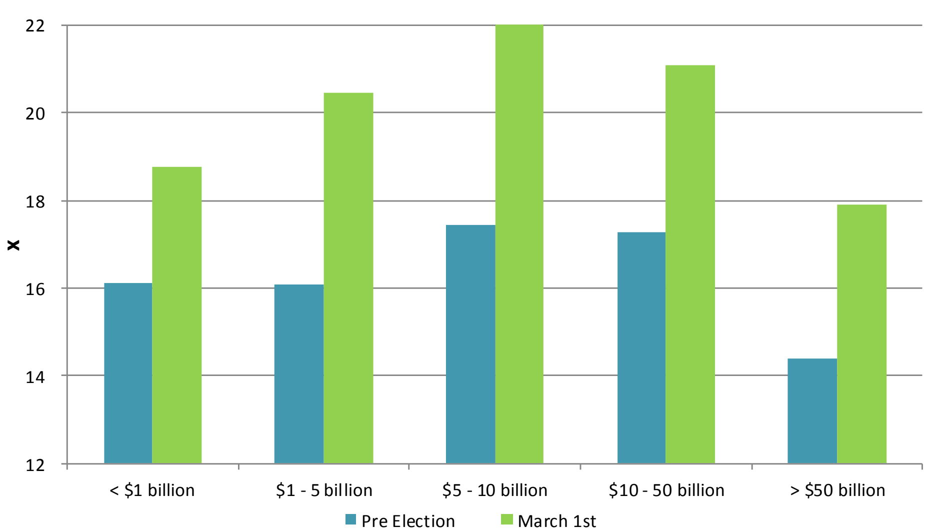
Fundamentals have not changed, therefore multiples have widened significantly

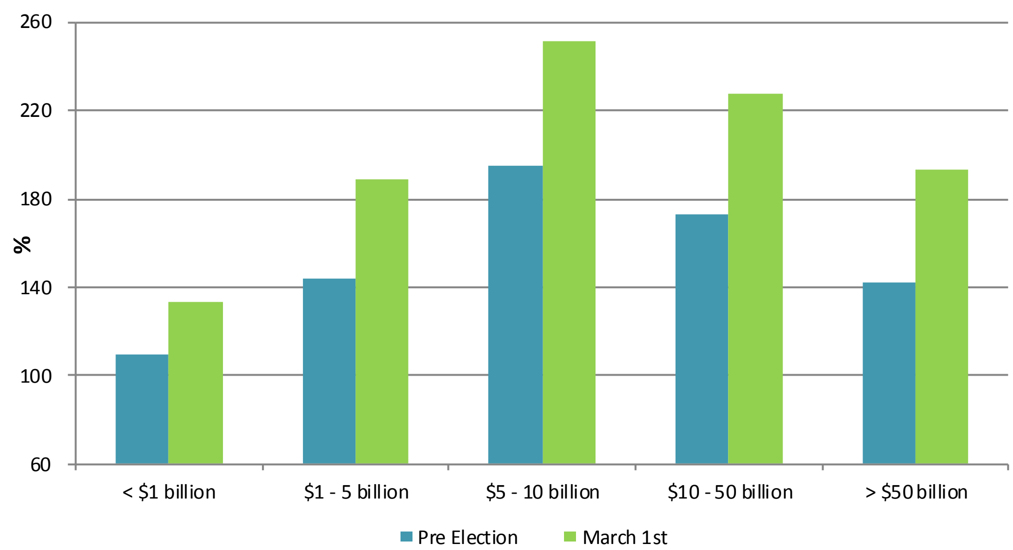
Through March 1, peak of post election bump

Asset Size	Election Day P/TBV	Election Day P/E	March 1st P/TBV	March 1st P/E
> $50 billion	142.1	14.4	193.7	17.9
$10 billion - $50 billion	173.3	17.3	227.7	21.1
$5 billion - $10 billion	195.0	17.4	251.6	22.0
$1 billion - $5 billion	143.6	16.1	188.6	20.5
< $1 billion	109.2	16.1	133.4	18.8

Price / LTM EPS



Price / TBV

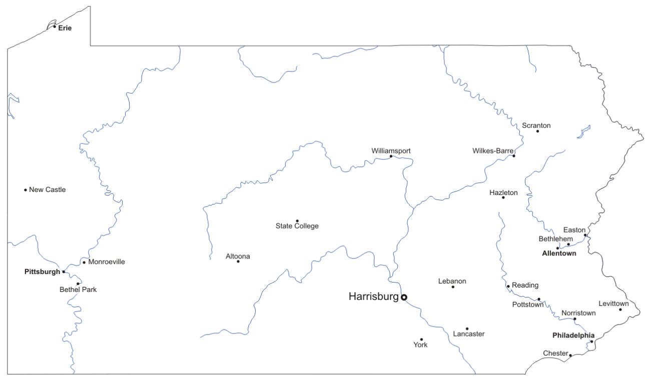


Universe includes all banks publicly traded on a national exchange (excludes pink sheets, bulletin board, over the counter). Market data as of 3/1/2017

Impact on Pennsylvania Banking

Before the election, the five highest valued PA banks (relative to TBV) were trading at:

- 210.5%
- 200.6%
- 195.3%
- 195.0%
- 188.5%



By year end, the five highest valued PA banks (relative to TBV) were trading at:

- 282.1%
- 276.1%
- 251.6%
- 251.6%
- 245.7%

- The median price increase for banks headquartered in Pennsylvania with greater than $1 billion in assets from the election to the end of 2016 was **22.5%**;

- In aggregate, the market capitalization of this group of Pennsylvania banks increased by **$14 billion** during that time;

- The median increase in earnings among this universe from third quarter 2016 to fourth quarter 2016 was **0.6%**.

National Landscape

- For the first time since 2006, the Republicans control the House, Senate, and White House simultaneously;
- Since then, the urgency for policy, regulatory and tax reform, increased for a number of reasons:
  - The US has the highest statutory corporate tax rate among developed nations;
  - GDP growth lags below historical averages;
  - The US manufacturing sector continues to decline;
  - The global tax system appears not to be functioning as forecast;
  - Significant migration of business income into partnerships and other "pass-throughs" has eroded the US tax base;
  - Corporate inversions further erode the tax base and raise questions of fairness.
- Paul Ryan was a driving force behind the development of the House GOP "Blueprint on Tax Reform" released in June 2016;
- The President's campaign tax plan borrowed heavily from the Blueprint's concepts;
- The Affordable Care Act ("ACA") has long been an issue for both the House and Senate GOP;
- Federalism and excessive regulation have also been particularly sensitive issues.

National Economic Outlook Since the Election

Consumer and investor confidence <u>highest</u> since 2007

Stock market at record highs

2016 GDP 1.5%; consensus for 2017 increase to 2.1%; first quarter 2017 of 0.7% weakest 1Q in 3 years

CPI projected to increase from 1.3% in 2016 to 2.5% in 2017

Interest rates UP

General trends FAVORABLE

Corporate earnings UP 9% in 3Q16 and 14% in 4Q 16; 1Q 17 estimated up 14%

Manufacturing production, new manufacturing orders UP

Stronger US dollar

Timing, magnitude and uncertainty around change <u>ENORMOUS</u>

Consumer debt levels at pre-recession highs

Prospects for inflation increasing in 2017

Bond market selling off, although investment grade stronger

Recession odds 0-20% in 2017;

40% by end of 2018

Policy Priorities and the Ability to Move the Needle

- Cornerstones of the campaign that have the most potential for stimulating the economy . . .
  - Tax policy;
    - Coupled with trade policy, tariffs and the border adjustment tax;
    - Part of discussion also includes repatriation of foreign earnings and the tax impact.
  - Regulatory reform;
  - Infrastructure spending.

- . . . have been subsumed by more "political" issues:
  - Limitations on immigration, reduction in H-1B Visa workers and "the Wall;"
  - Repeal and replace or modification of ACA;
  - Supreme Court nominee, Cabinet nominees, and the influence of Russia on the election.

- Fiscal and monetary policy seem to be taking shape, with an interest rate increase in March likely accompanied by multiple additional increases in 2017;

- The proposed federal budget highlights a significant increase in defense spending at the expense of reductions in other government agencies, while entitlement reform, which was a key cornerstone of the Trump campaign (in terms of not compromising existing promises), remains off limits.

Impact on Bank M&A

- **Buyers:**
  - Increased currency value;
  - Expected lower regulatory burden, both ongoing and for transaction approvals;
  - Rising rates and steeper yield curve improving margins – more ability to achieve growth organically;
  - Will stimulus and spending improve GDP and growth to offset some of the negative currents pre-election?
  - Loss of tax deduction on debt used to finance transactions;
  - Impact of rising rates on real estate values and the mortgage business;
  - Will buyers use some of the increase in value of their currency to increase purchase prices for deals?

- **Sellers:**
  - Increased price expectations, currently but also uncertainty as to what tax reform will do for valuations;
  - Better chance to do it alone with higher growth and better interest rate environment;
  - Chance of partners losing interest in favor of lower risk organic growth in a more favorable economy;
  - Uncertainty of underlying valuation of "currency" received in a sale;
  - For family held or closely held sellers, uncertainty as to impact of estate tax and related reform;
  - Will sellers compensate for uncertainty by receiving incrementally higher prices, demanding more cash, demanding a fixed price deal and/or tighter collars, or deciding to wait for clarity as these issues are resolved?

Beginning of Return to Earth for Bank Stock Prices

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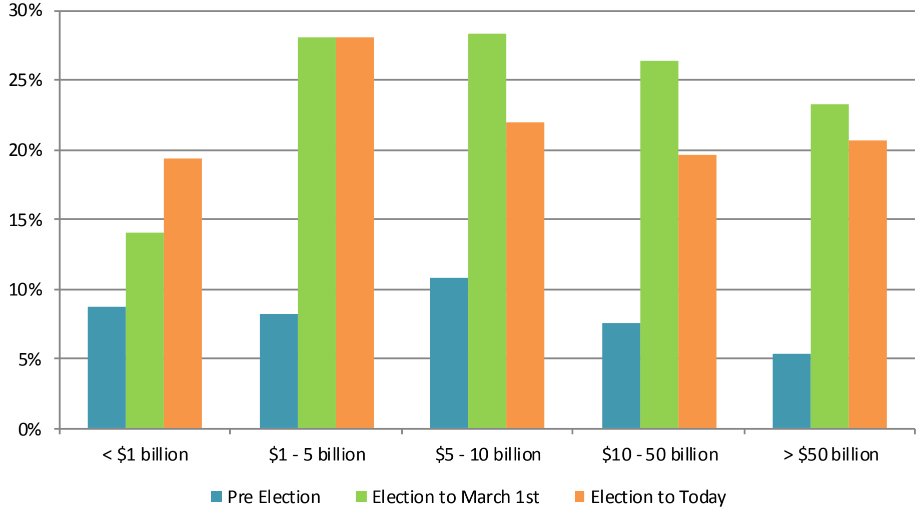
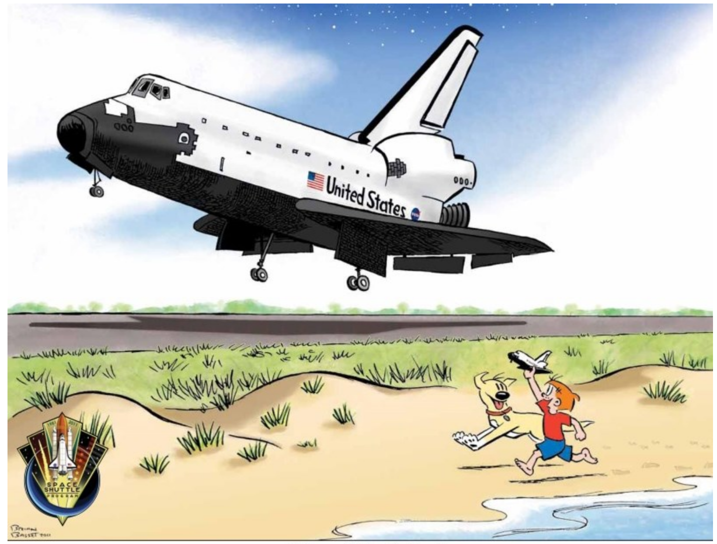
Trump Bump to Trump Slump

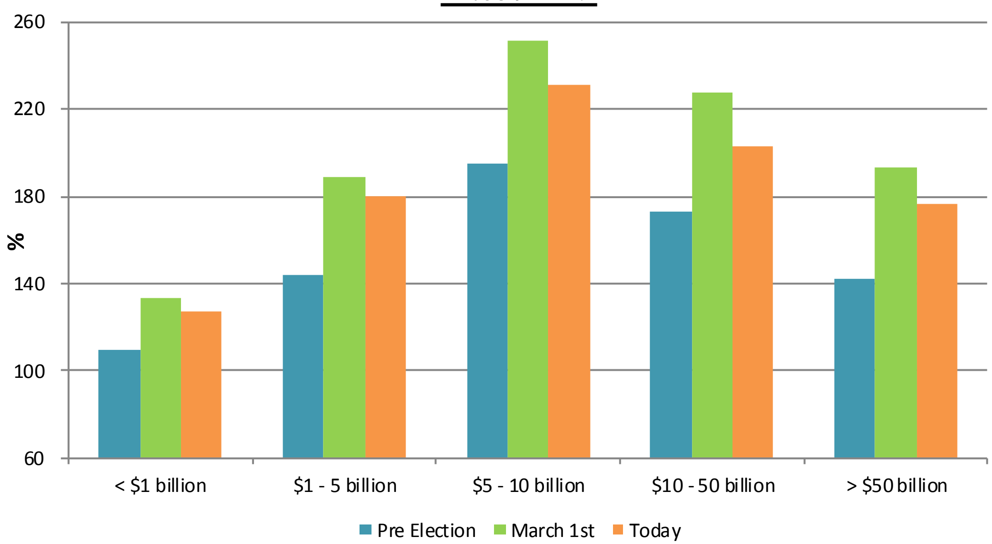
Price Change



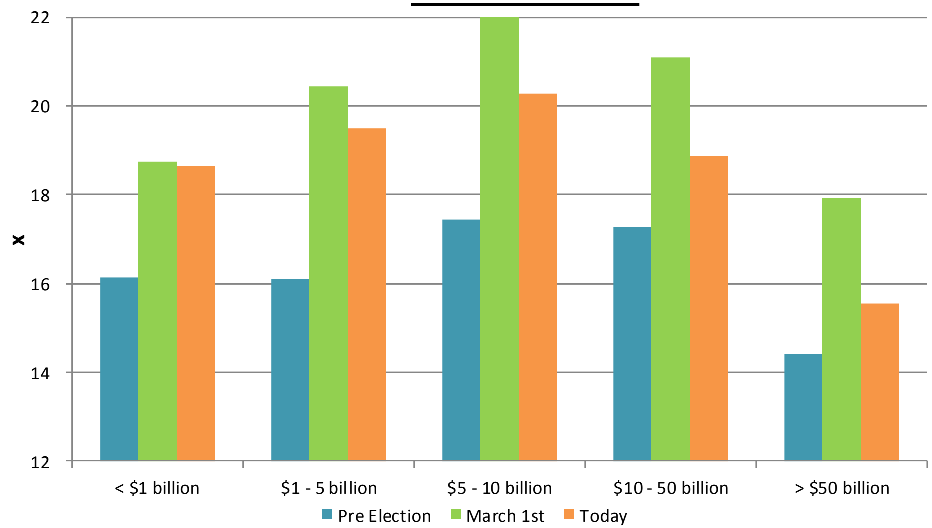


What a Ride it's Been!
by Brian Basset

Price / TBV



Price / LTM EPS



Market Optimism and the Trump Bump

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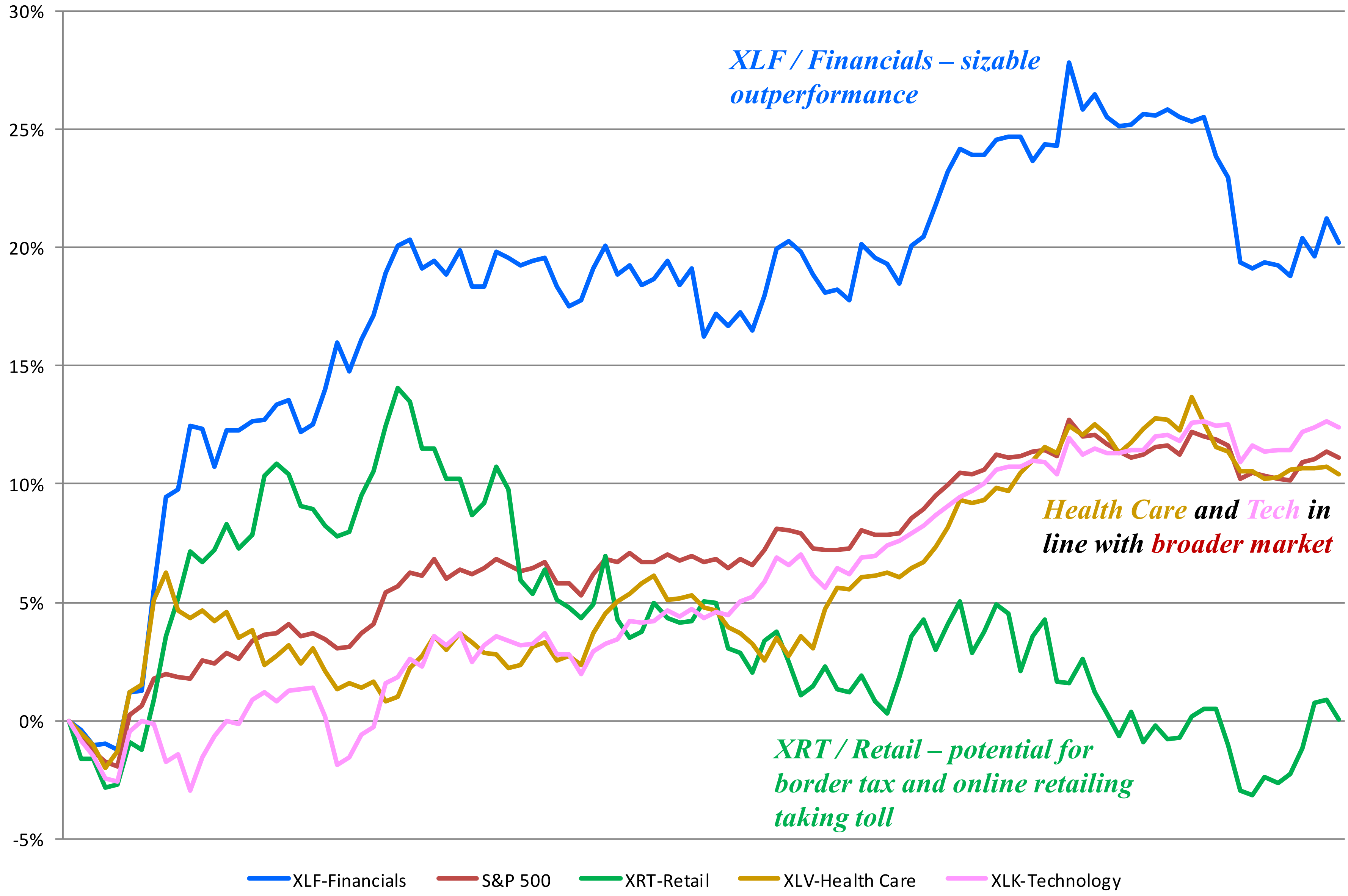
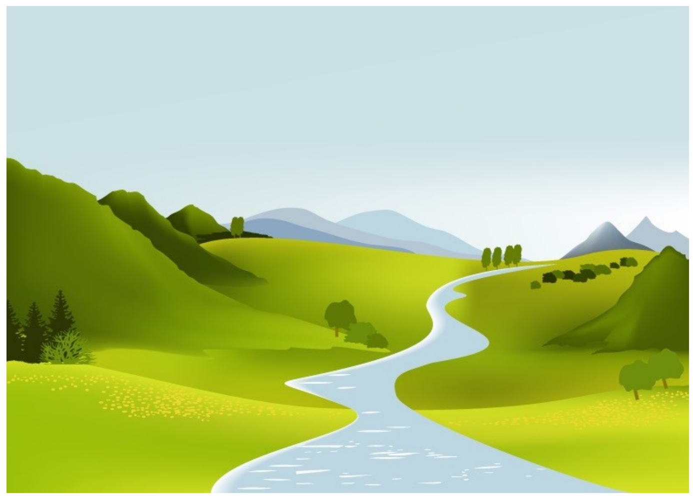
Broader Market ETFs by Sector Since November 1, 2016



Market data as of 3/31/2017

The Banking Landscape As We Know It



The Number of Banks Continue to Shrink

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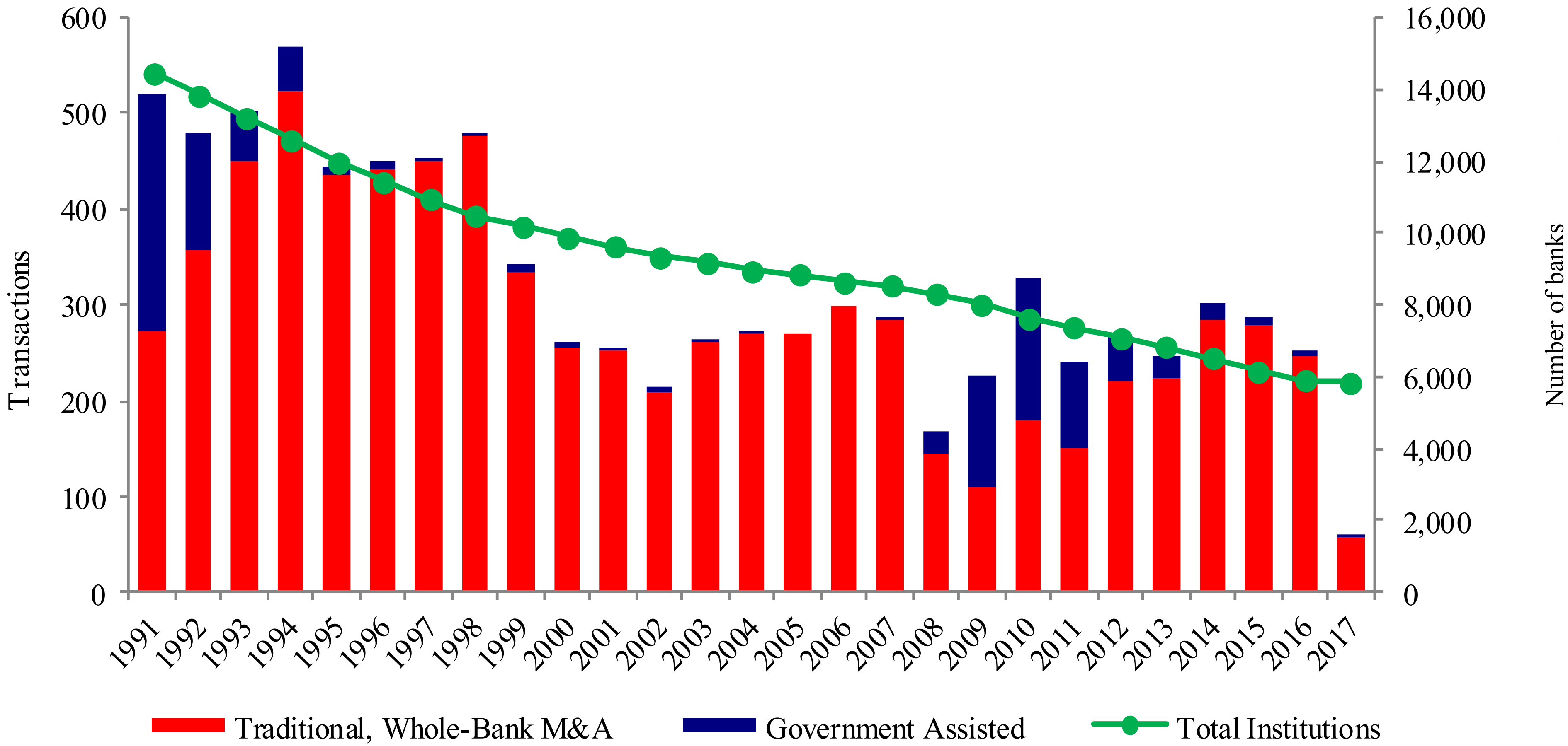
M&A Serves As The Catalyst



The total number of institutions has decreased by 60% since 1991

Source: FDIC Statistics at a Glance as of 3/30/2017

The Big Continue to Get Bigger

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Largest 15 banks nationwide by deposits

1996				2016			
Rank	**Company Name**	**Total Deposits ($)**	**Deposit Market Share (%)**	**Rank**	**Company Name**	**Total Deposits ($)**	**Deposit Market Share (%)**
1	BankAmerica Corp.	119,417,644	3.46%	**1**	Bank of America Corporation (NC)	1,204,485,508	12.01%
2	Chase Manhattan Corp.	105,476,865	3.06%	**2**	Wells Fargo & Company (CA)	1,159,470,156	11.56%
3	NationsBank Corp.	98,438,867	2.85%	**3**	JPMorgan Chase & Co. (NY)	1,155,185,534	11.52%
4	First Union Corp.	89,988,212	2.61%	**4**	Citigroup Inc. (NY)	493,074,000	4.92%
5	Wells Fargo & Co.	84,372,337	2.44%	**5**	U.S. Bancorp (MN)	298,344,516	2.98%
6	Banc One Corp.	69,241,667	2.01%	**6**	PNC Financial Services Group, Inc. (PA)	248,501,083	2.48%
7	Fleet Financial Group	65,897,511	1.91%	**7**	Toronto-Dominion Bank	214,486,461	2.14%
8	Citicorp	55,742,810	1.62%	**8**	Capital One Financial Corporation (VA)	207,791,098	2.07%
9	First Chicago NBD Corp.	51,626,372	1.50%	**9**	BB&T Corporation (NC)	166,995,354	1.67%
10	Norwest Corp.	45,945,374	1.33%	**10**	Bank of New York Mellon Corporation (NY	157,726,385	1.57%
11	PNC Bancorp	44,713,463	1.30%	**11**	SunTrust Banks, Inc. (GA)	155,354,194	1.55%
12	Keycorp	43,402,541	1.26%	**12**	HSBC Holdings Plc	136,077,412	1.36%
13	Barnett Bank	34,643,408	1.00%	**13**	Citizens Financial Group, Inc. (RI)	107,151,770	1.07%
14	National City Corp.	34,559,066	1.00%	**14**	KeyCorp (OH)	105,901,870	1.06%
15	SunTrust Bank	33,137,176	0.96%	**15**	Fifth Third Bancorp (OH)	104,211,456	1.04%
		976,603,313	**28.30%**			**5,914,756,797**	**59.00%**

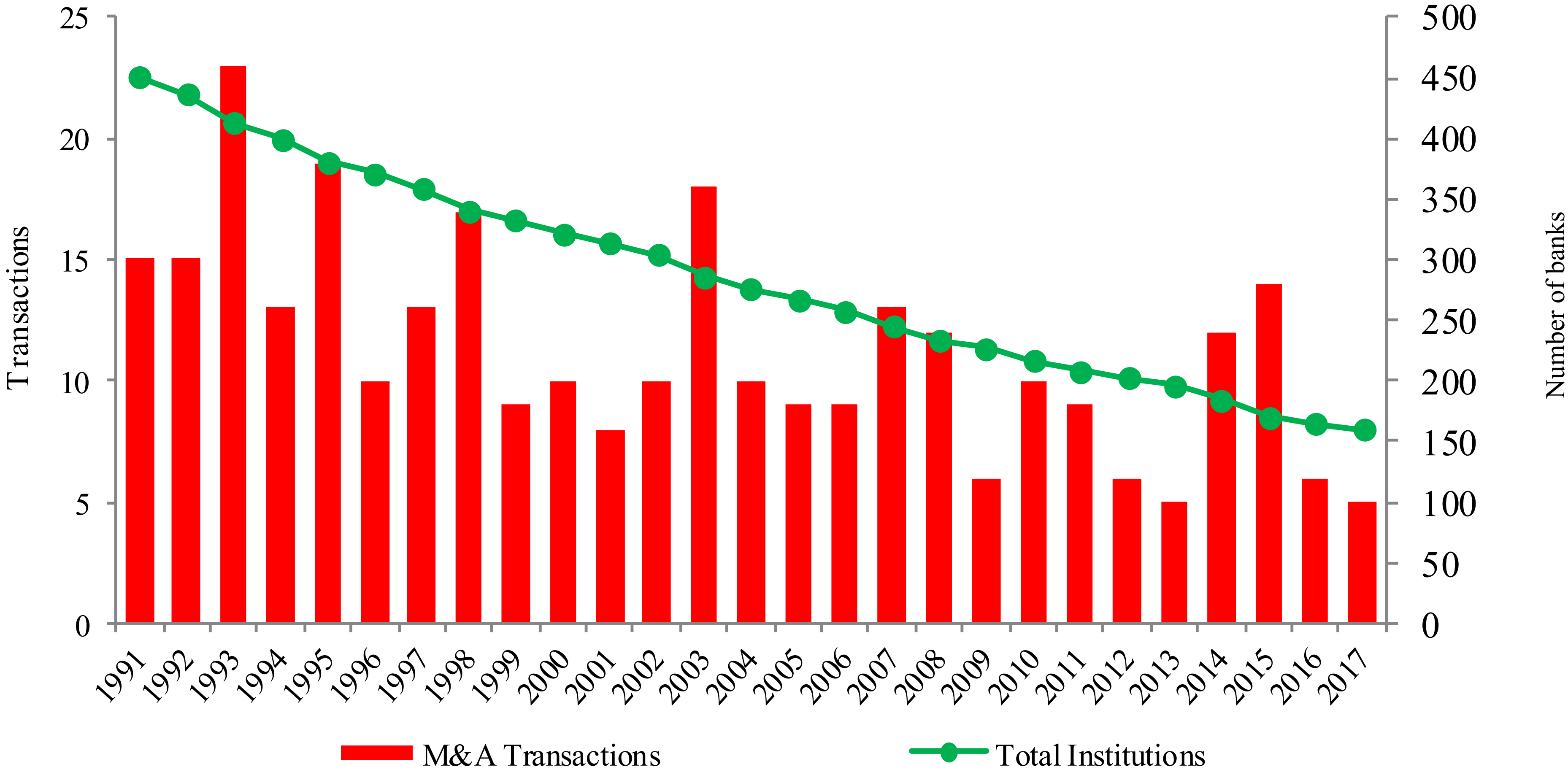
Over half of the deposits in the U.S. today are controlled by the top 15 banks

Source: SNL Financial as of 6/30/2016

Does not include asset management banks; Banks in red no longer exist today.

Same Phenomenon in Pennsylvania

Decrease In Institutions Slightly More Significant



The total number of institutions in PA has decreased by 64% since 1991

Source: SNL as of 4/21/17.

Pennsylvania Even More Concentrated

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Largest 15 banks in Pennsylvania by deposits

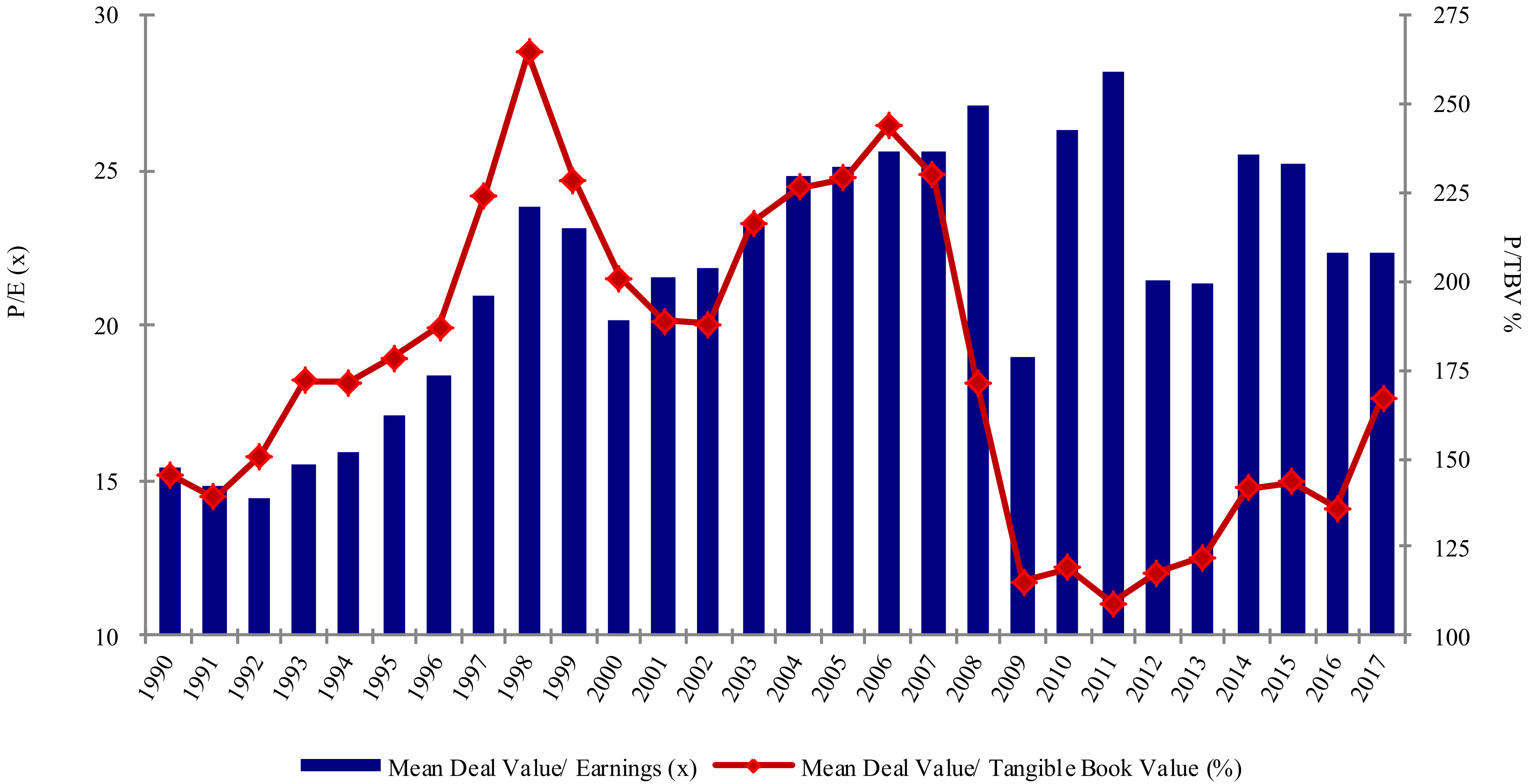
1996				2016			
Rank	**Company Name**	**Total Deposits ($)**	**Deposit Market Share (%)**	**Rank**	**Company Name**	**Total Deposits ($)**	**Deposit Market Share (%)**
1	PNC Financial Services Group, Inc.	25,143,321	15.27%	**1**	PNC Financial Services Group Inc.	85,941,098	23.49%
2	Mellon Financial Corp.	23,821,973	14.47%	**2**	Wells Fargo & Co.	36,802,976	10.06%
3	Core States Financial Corp.	22,956,311	13.94%	**3**	Citizens Financial Group Inc.	28,762,923	7.86%
4	National City Corp.	10,357,797	6.29%	**4**	Bank of New York Mellon Corp.	20,210,134	5.52%
5	First Union Corp.	5,374,160	3.26%	**5**	BB&T Corp.	14,795,845	4.04%
6	Dauphin Deposit Corp.	3,955,636	2.40%	**6**	Toronto-Dominion Bank	13,491,538	3.69%
7	Keystone Financial	3,753,055	2.28%	**7**	F.N.B. Corp.	13,092,577	3.58%
8	Fulton Financial Corp.	2,423,662	1.47%	**8**	Bank of America Corp.	12,480,587	3.41%
9	Summit Bancorp.	2,121,479	1.29%	**9**	Banco Santander SA	11,588,452	3.17%
10	First Commonwealth Financial Corp.	2,064,925	1.25%	**10**	M&T Bank Corp.	11,027,319	3.01%
11	Northwest Bancorp, M.H.C.	1,472,695	0.89%	**11**	Fulton Financial Corp.	8,774,468	2.40%
12	Bt Financial Corp.	1,306,799	0.79%	**12**	First Niagara Financial Group	6,390,136	1.75%
13	Susquehanna Bancshares, Inc.	1,303,472	0.79%	**13**	S&T Bancorp Inc.	5,134,787	1.40%
14	US Bancorp	1,181,081	0.72%	**14**	Customers Bancorp Inc.	4,888,933	1.34%
15	F.N.B. Corp.	1,129,039	0.69%	**15**	First Commonwealth Financial Corp.	4,311,933	1.18%
		108,365,405	**65.80%**			**277,693,706**	**75.90%**

Over 75% of the deposits in PA. today are controlled by the top 15 banks

Source: SNL Financial as of 6/30/2016

Does not include asset management banks; Banks in red no longer exist today. Banks in green are headquartered outside of PA

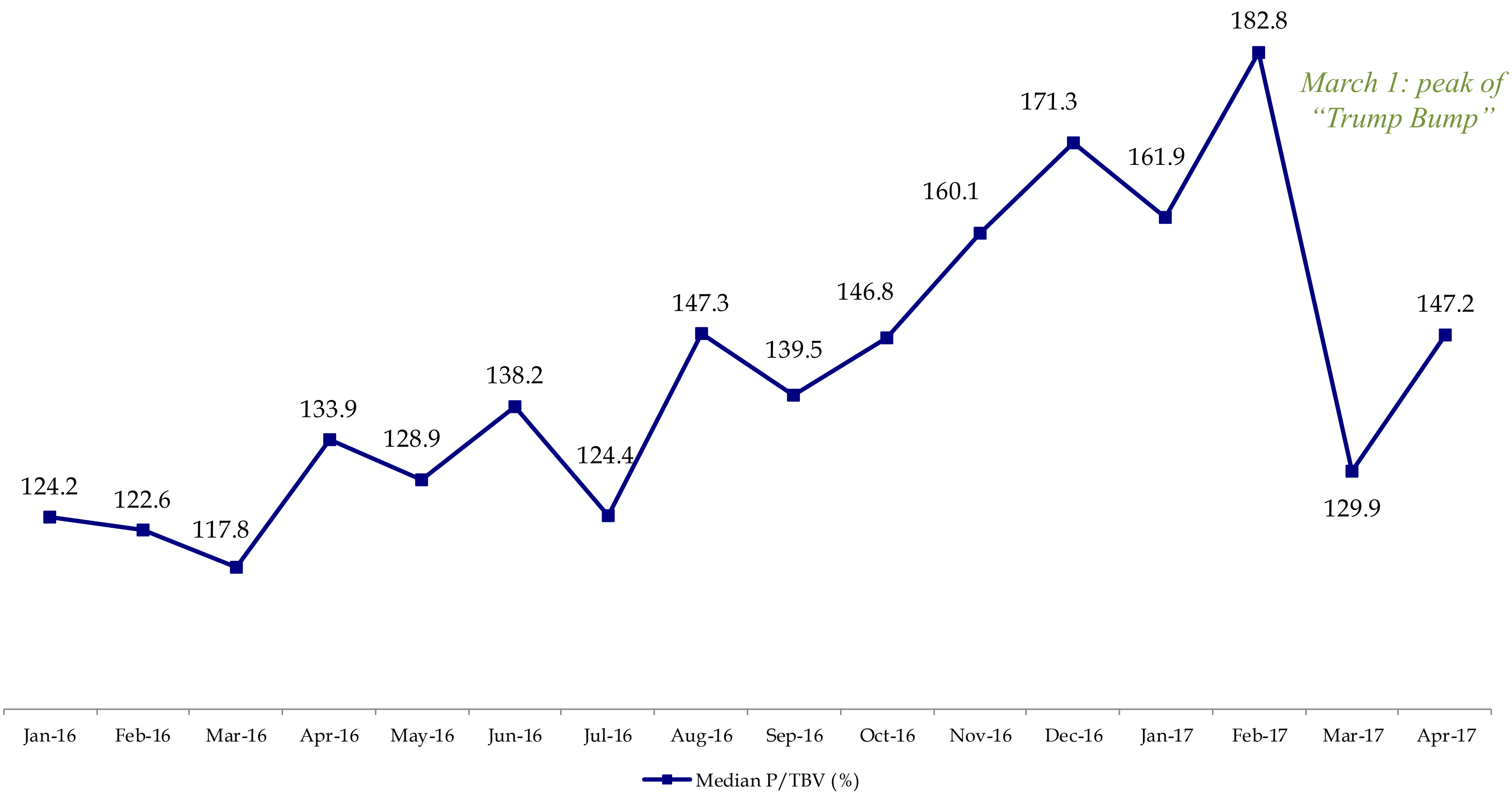
M&A Landscape – Nationwide Bank Transaction Activity



Source: SNL Financial as of 4/21/2017.
Data includes national announced whole bank transactions, including change of control transactions.
2017 national deal value is $10.1 billion (although not all transactions report deal value).

Monthly Price-to-Tangible Book Multiples

All bank transactions nationally



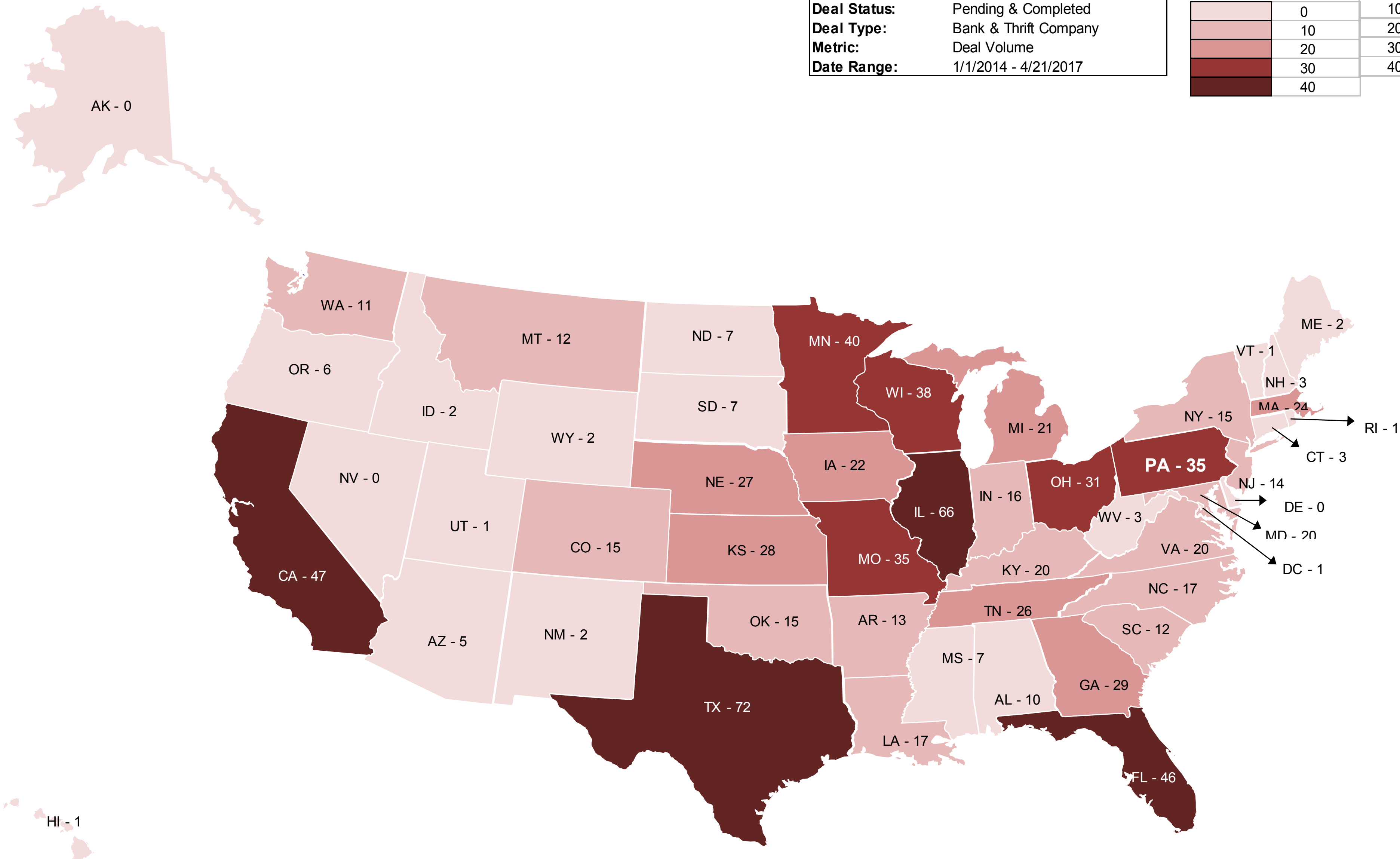
Source: SNL Financial as of 4/21/2017.
Data includes national announced whole bank transactions, including change of control transactions.

M&A Activity by Deal Volume | 2014 – YTD 2017

Data as of April 24, 2017.

Deal Status:	Pending & Completed
Deal Type:	Bank & Thrift Company
Metric:	Deal Volume
Date Range:	1/1/2014 - 4/21/2017

Shades	Lower Limit	Upper Limit
	0	10
	10	20
	20	30
	30	40
	40	



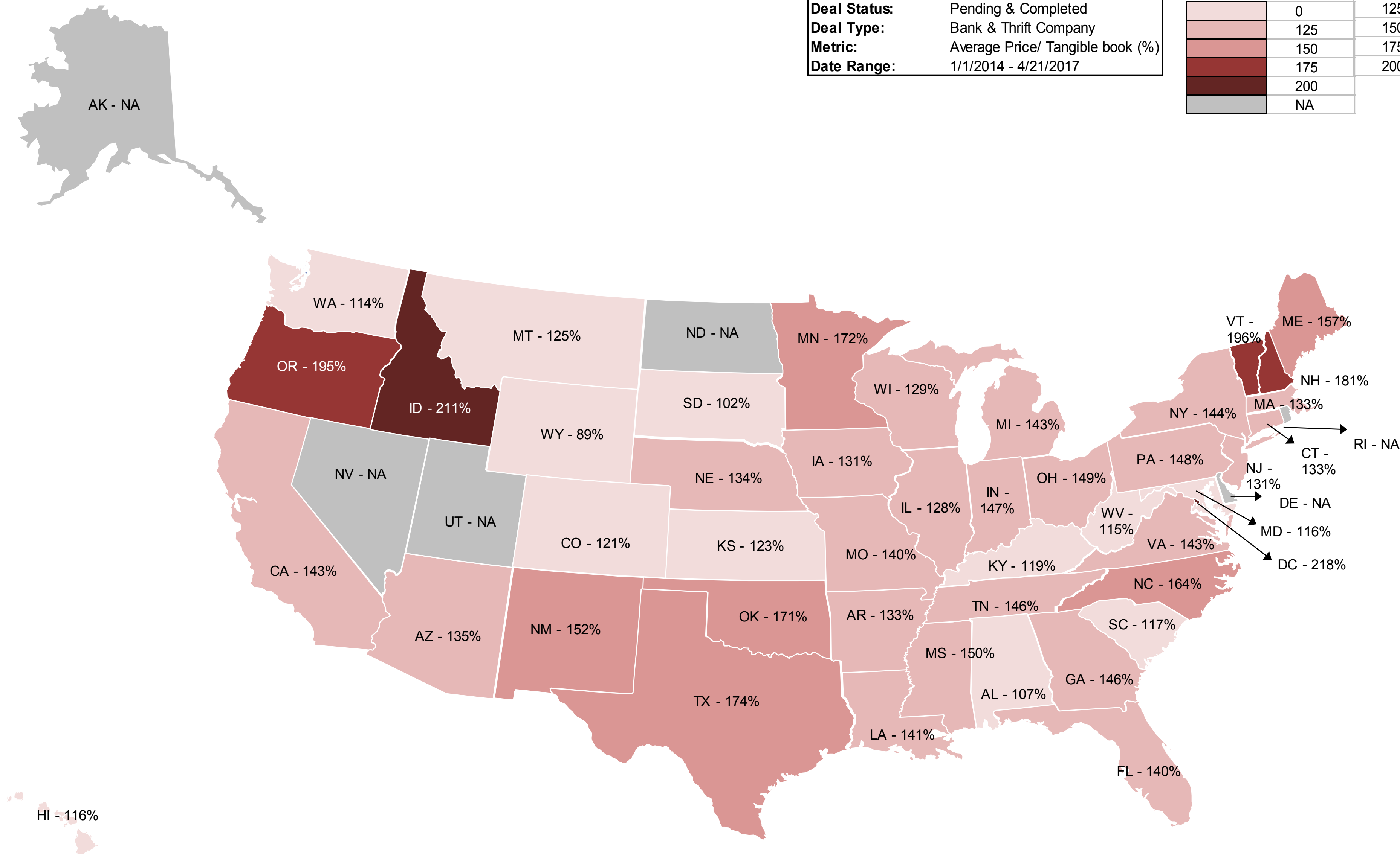
Source: SNL Financial. Includes announced bank and thrift acquisitions from 1/1/2014-4/21/2017. Includes pending, closed and re-capitalizations involving a change in control

M&A Activity by Average P/TBV | 2014 – YTD 2017

Data as of April 24, 2017.

Deal Status:	Pending & Completed
Deal Type:	Bank & Thrift Company
Metric:	Average Price/ Tangible book (%)
Date Range:	1/1/2014 - 4/21/2017

Shades	Lower Limit	Upper Limit
	0	125
	125	150
	150	175
	175	200
	200	
	NA	

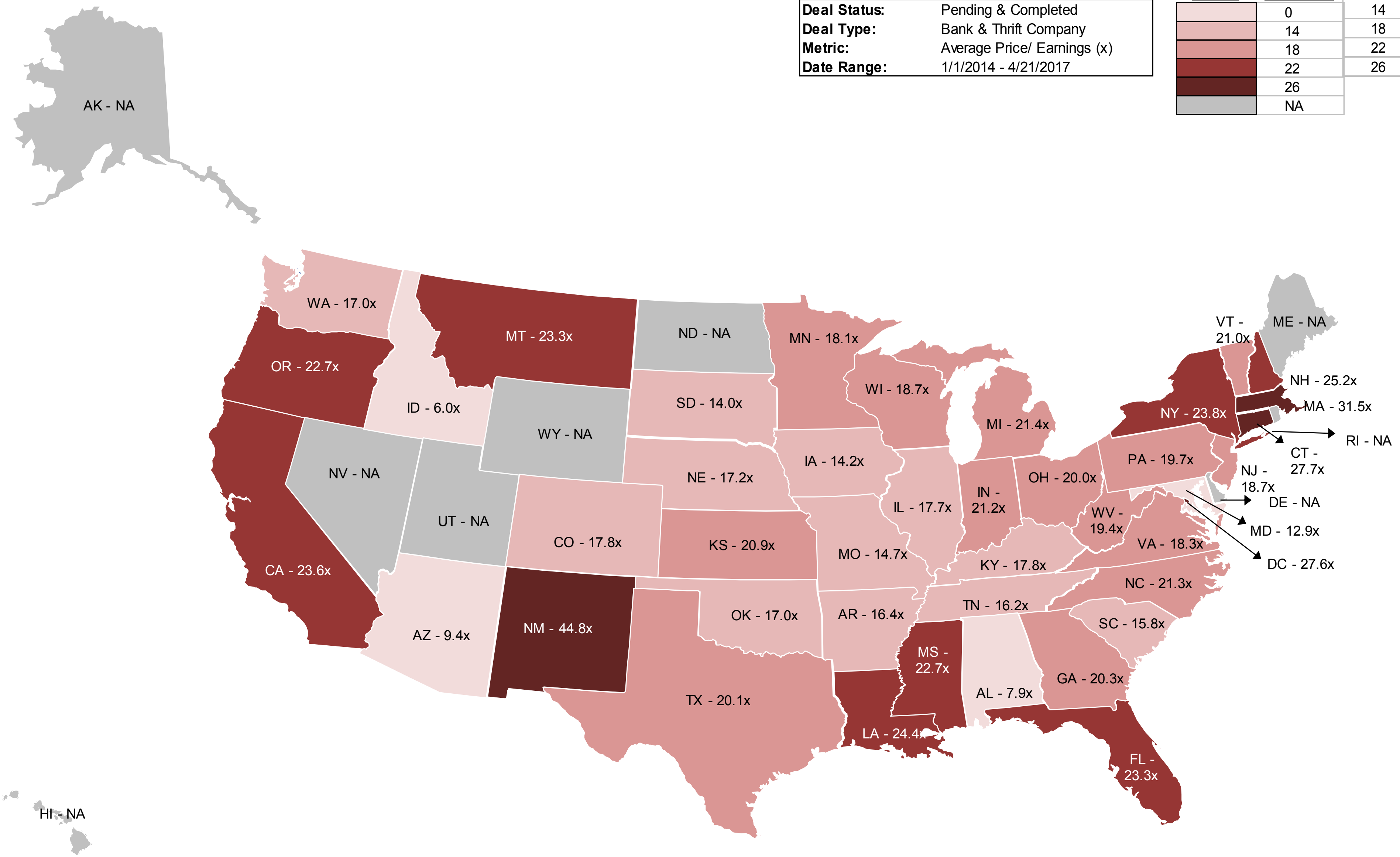


M&A Activity by Average P/E | 2014 – YTD 2017

Data as of April 24, 2017.

Deal Status:	Pending & Completed
Deal Type:	Bank & Thrift Company
Metric:	Average Price/ Earnings (x)
Date Range:	1/1/2014 - 4/21/2017

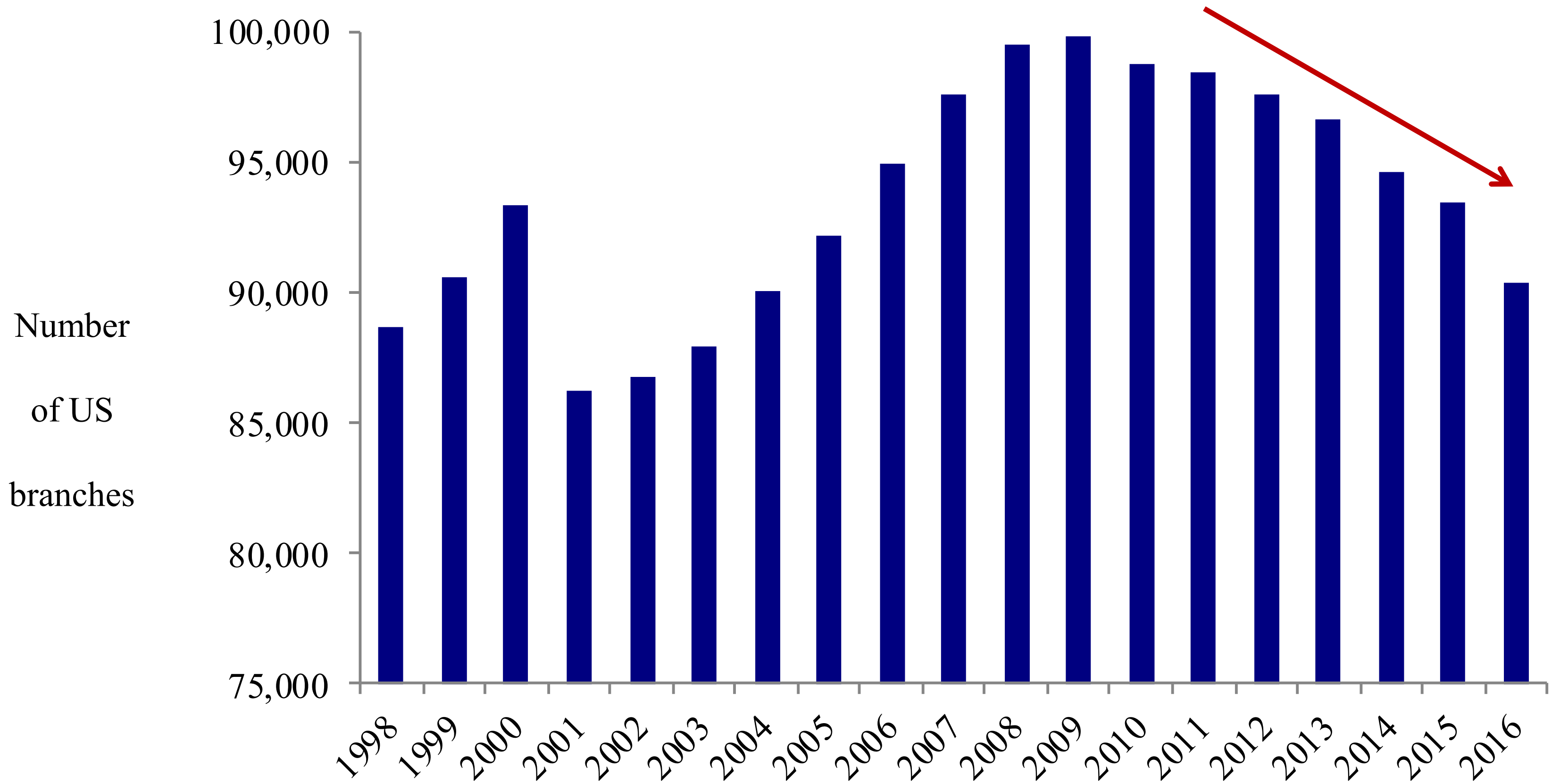
Shades	Lower Limit	Upper Limit
	0	14
	14	18
	18	22
	22	26
	26	
	NA	



Source: SNL Financial. Includes announced bank and thrift acquisitions from 1/1/2014-4/21/2017. Includes pending, closed and re-capitalizations involving a change in control

Service Delivery Channels Remain at the Forefront

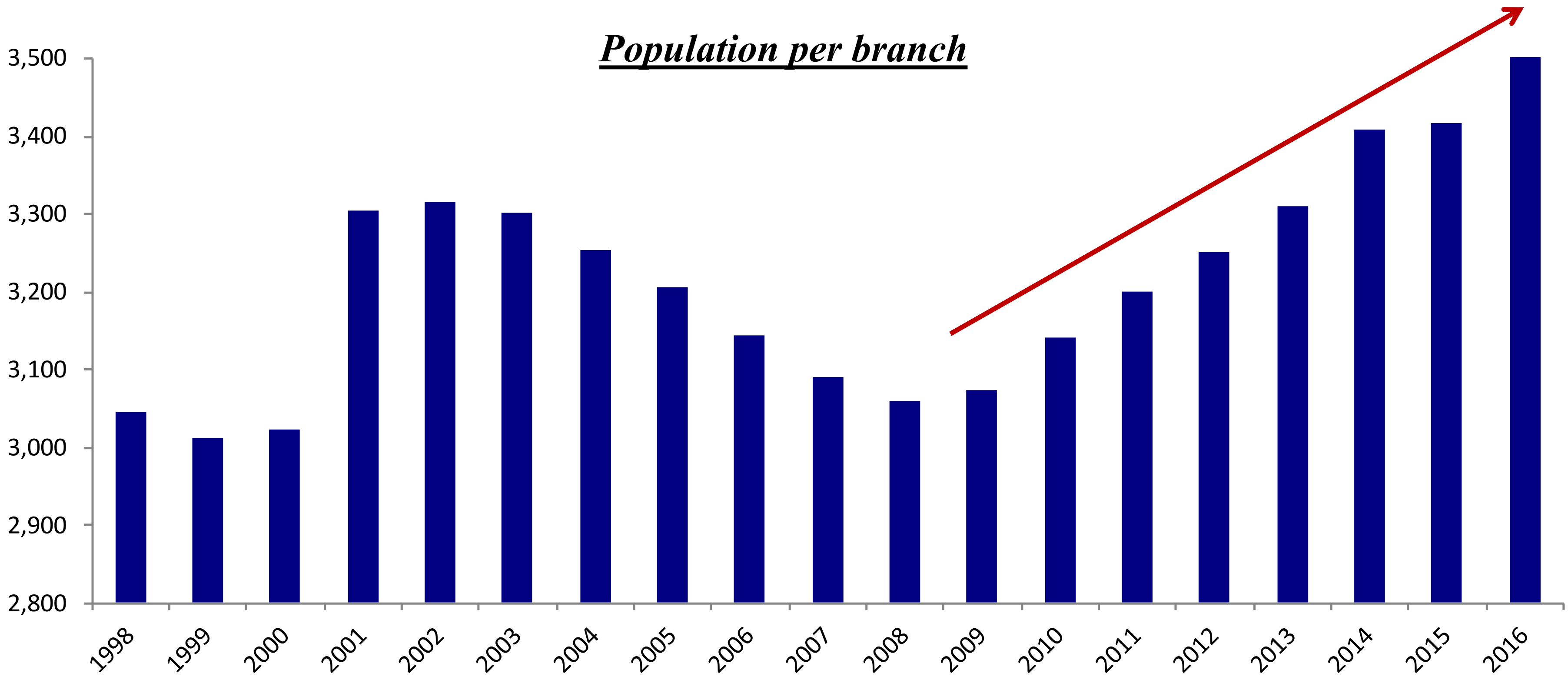
- The primary way in which we interact with our customer is changing...permanently;
- Over the next decade, we will have tens of millions of excess square feet of real estate to shed, retrofit, or reallocate;
- We will be spending hundreds of millions of dollars on anti-fraud measures for mobile and online banking.



Source: SNL U.S. Deposit Market Share Summary Report

Branch Networks are Rationalizing

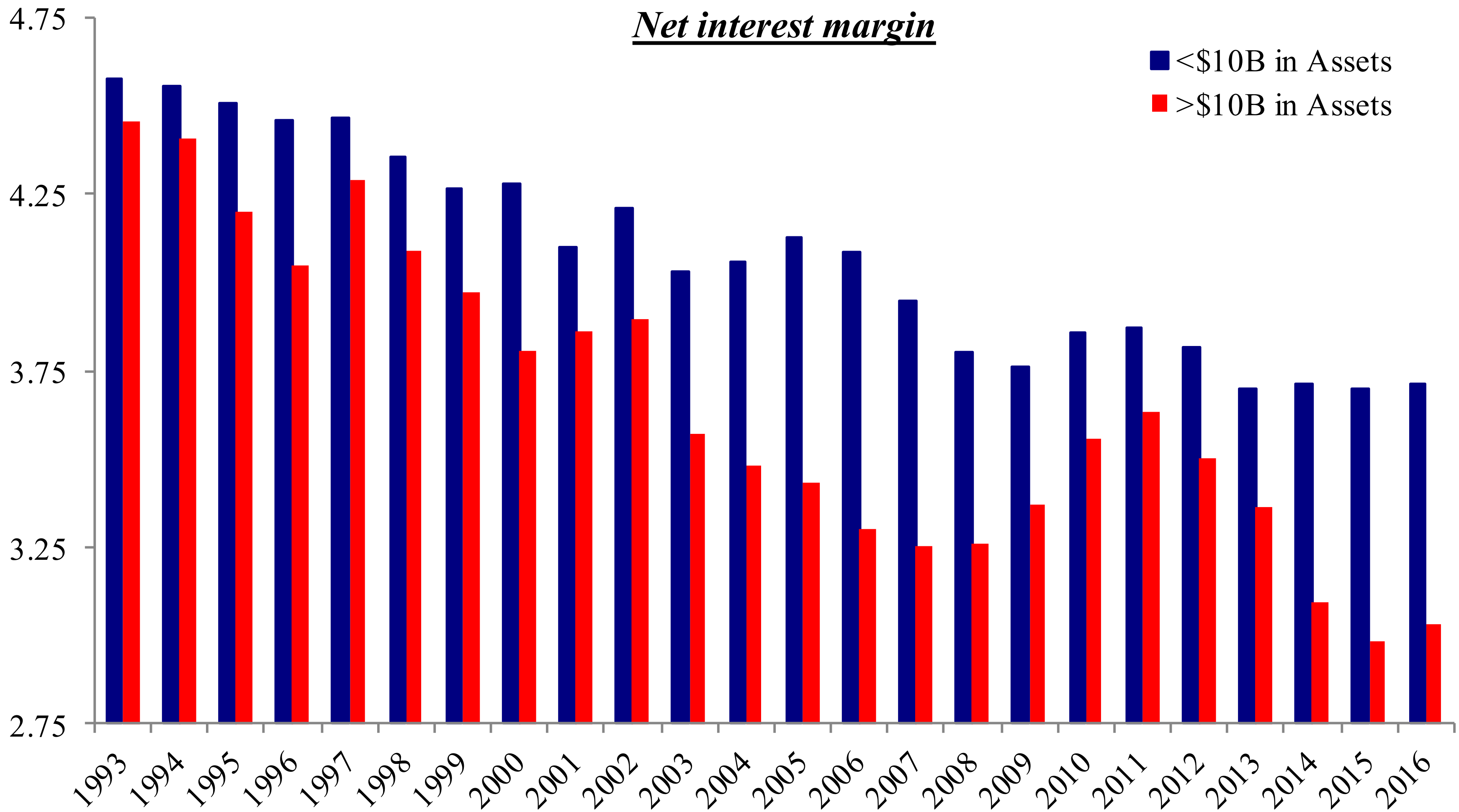
- Banks are taking advantage of mobile and online banking to reduce the cost and infrastructure in their branch networks, particularly the largest institutions, who have been selling branches to smaller community banks



Source: SNL U.S. Deposit Market Share Summary Report

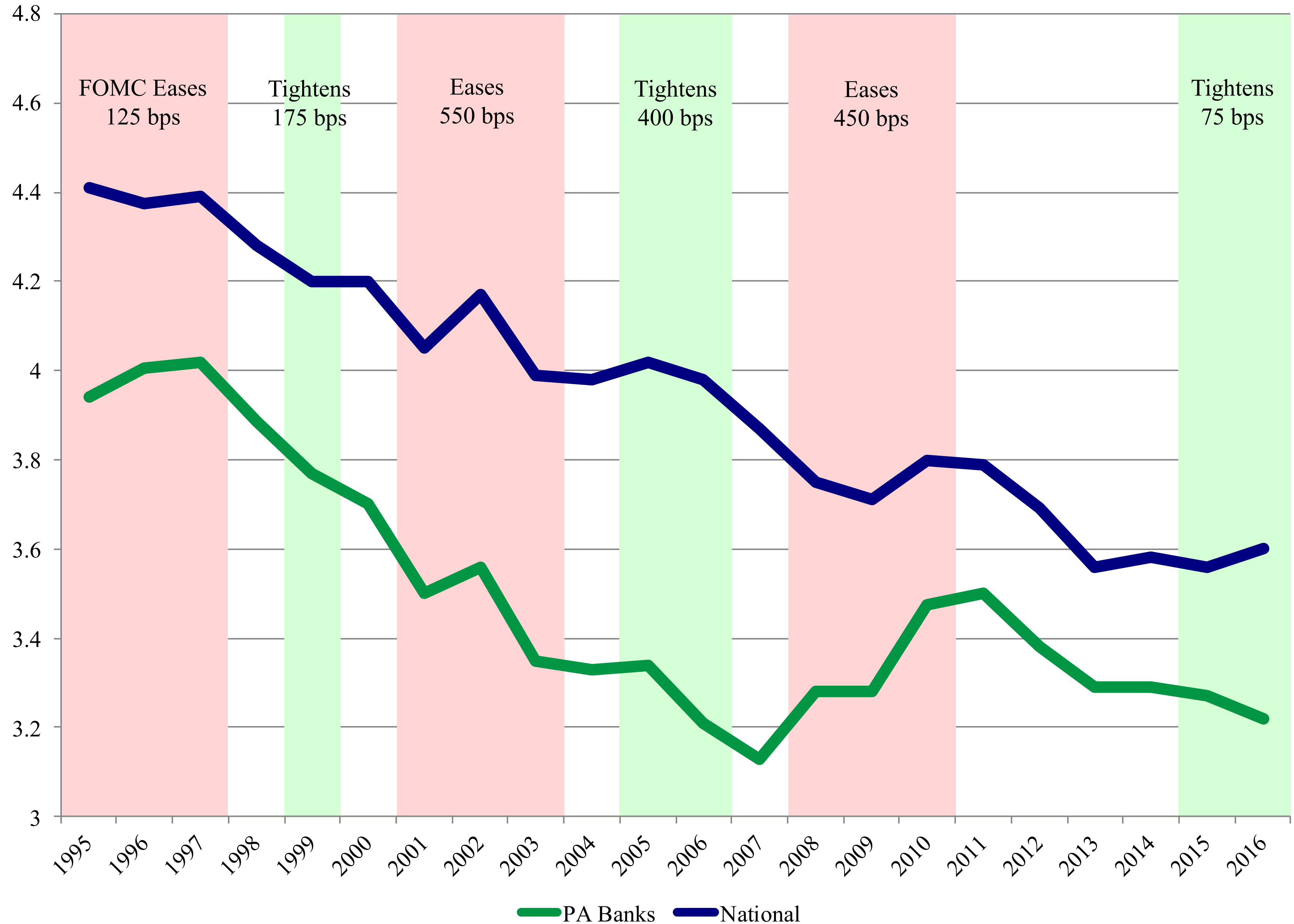
The Elephant in the Room – Spreads Continue to Shrink

- During the surge in the market in the early 2000s, big banks were very aggressive with pricing and structure of new business . . . as we continue to distance ourselves from the Great Recession and the economy continues to improve, it is beginning to happen again.



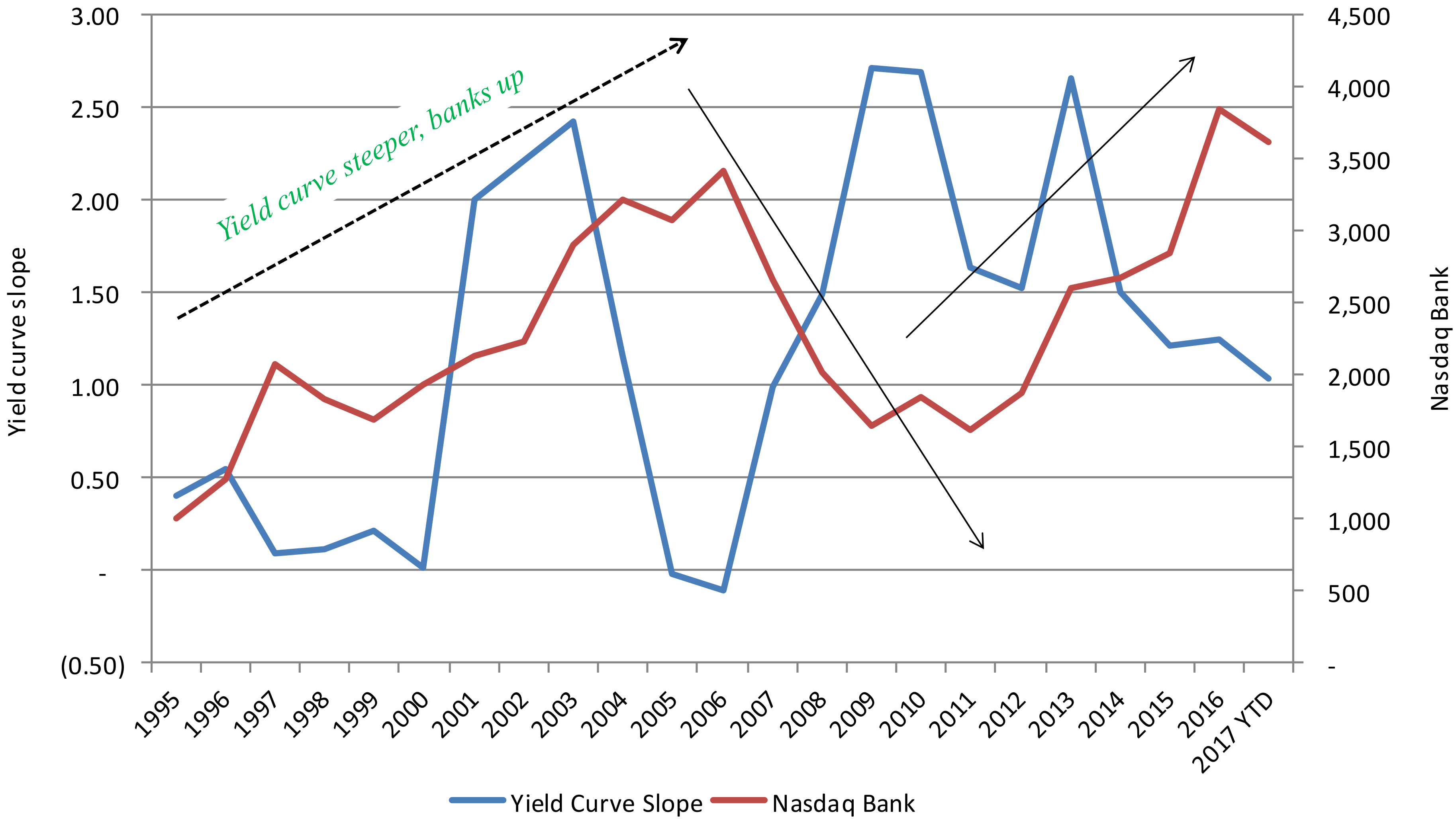
Source: SNL Financial as of 12/31/2016

Interest Rate Policy Has Not Had a Material Impact



Source: SNL Financial 12/31/2016; Median of all banking institutions

Yield Curve Slope More Important Than Rate Increases



Yield curve slope measured as difference between 10-year Treasury and 2-year Treasury

Source: SNL Financial 12/31/2016; Median of all banking institutions

With Lower Spreads . . . Higher Capital Requirements

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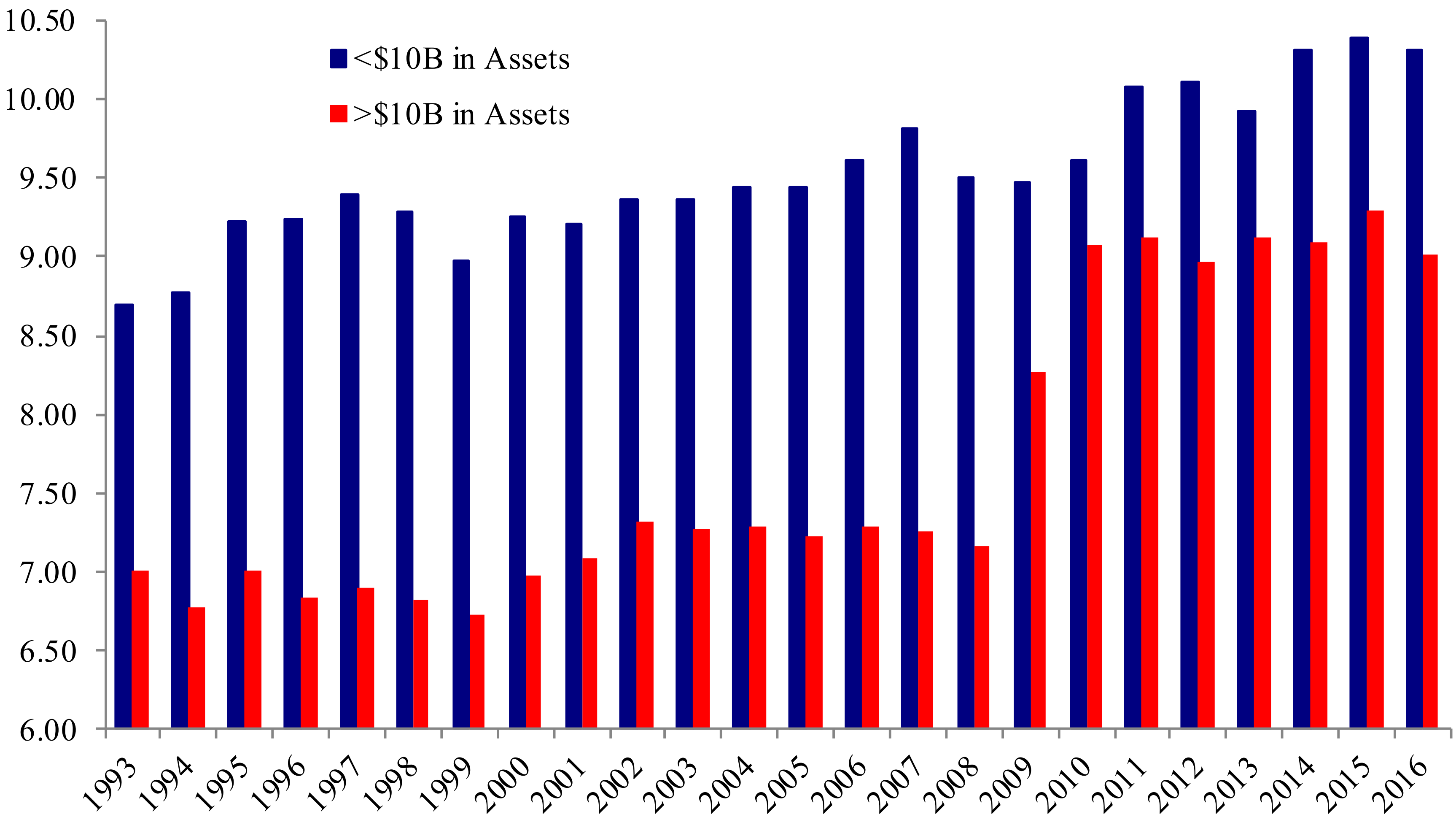
Tangible common equity

- Banks have more capital to deploy, and are doing so at tighter spreads;
- Larger banks used to have more operating leverage than smaller ones, but that has been regulated away.



Source: SNL Financial as of 12/31/2016

The Result . . . Lower Returns on Equity

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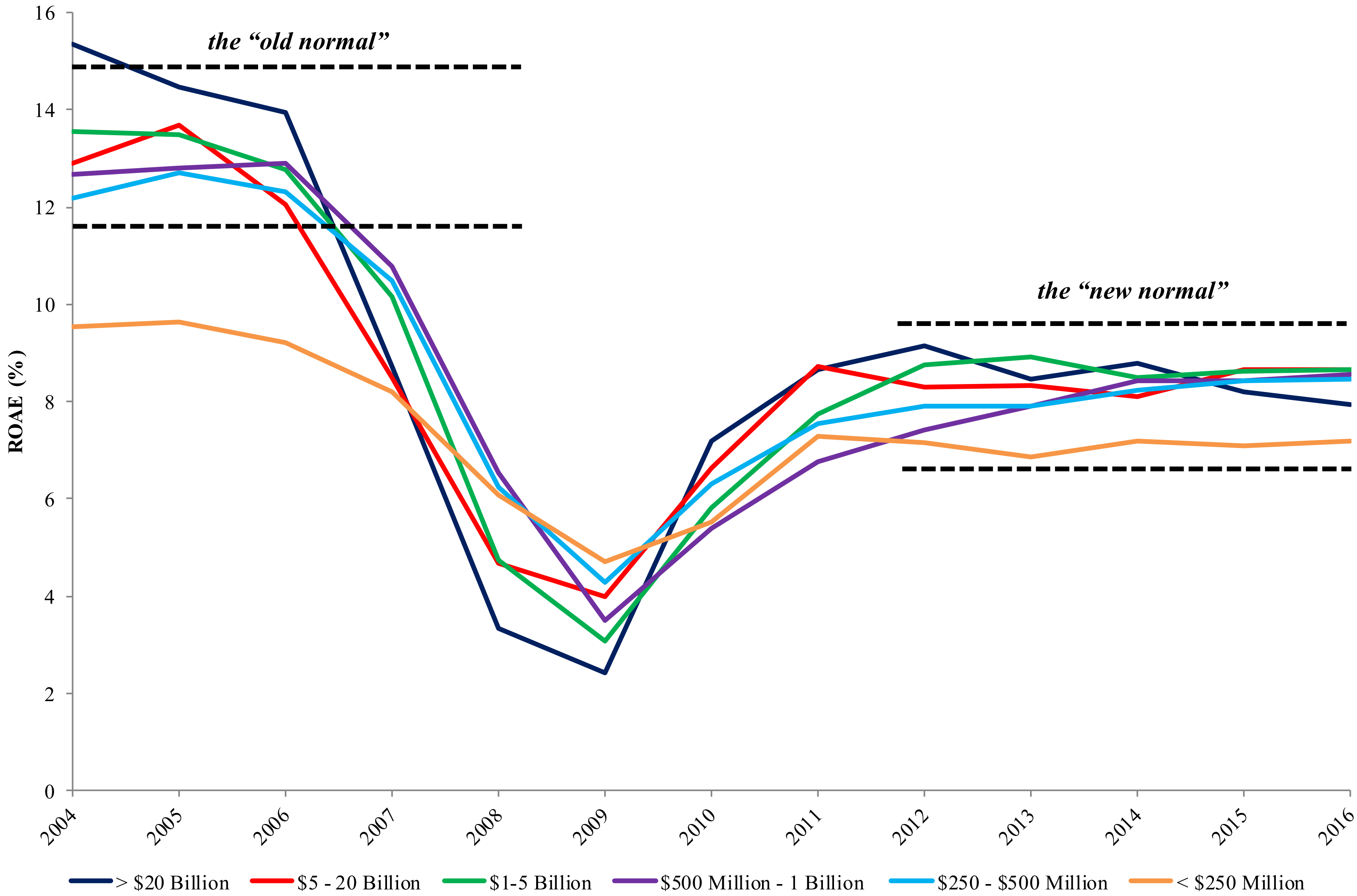
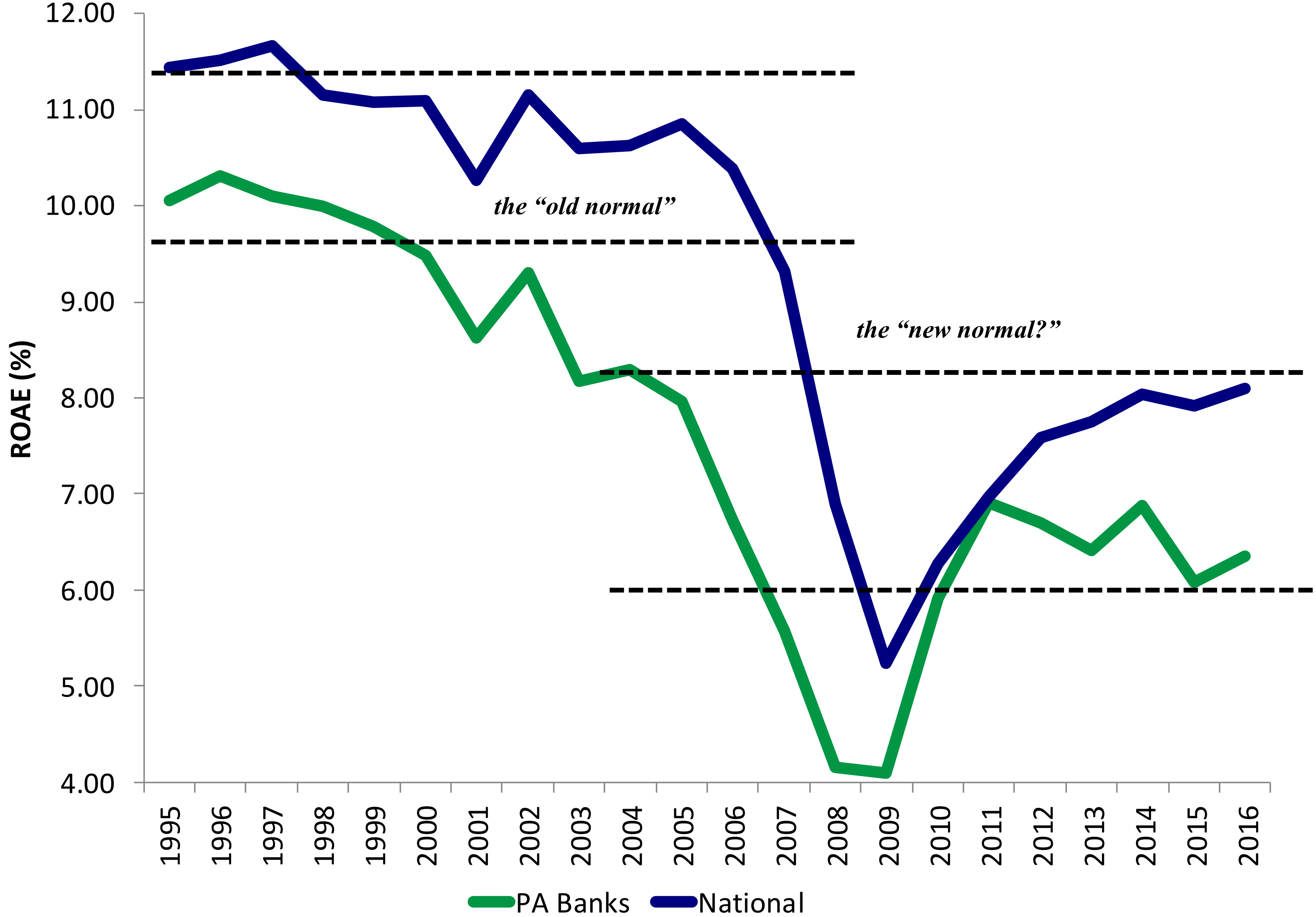


Source: SNL Financial as of 12/31/2016

Closer to Home – Impact on Pennsylvania Banks



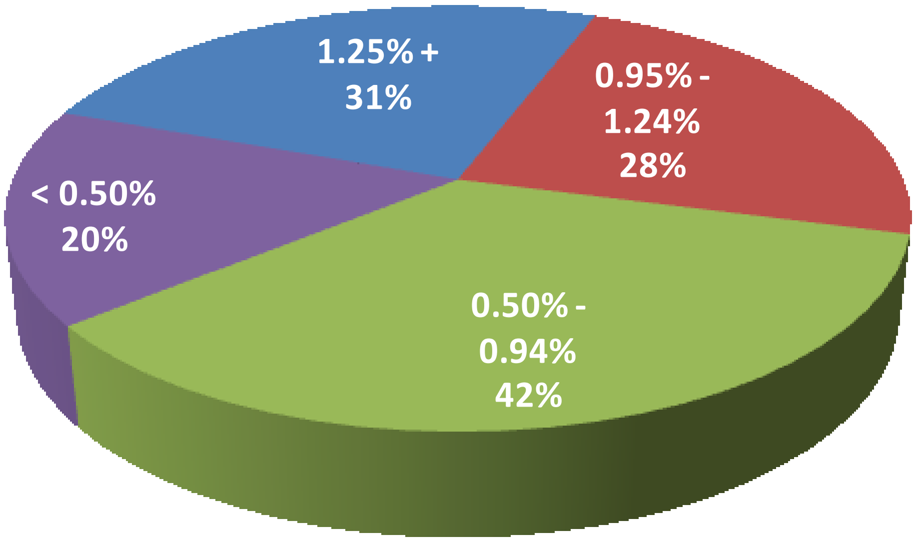
Source: SNL Financial 12/31/2016; Median of all banking institutions

PA and National medians do not contemplate an after-tax return for S-Corps. PA has 2 S-Corps relative to 2,125 S-Corps nationally.

Consistently Harder to Outperform

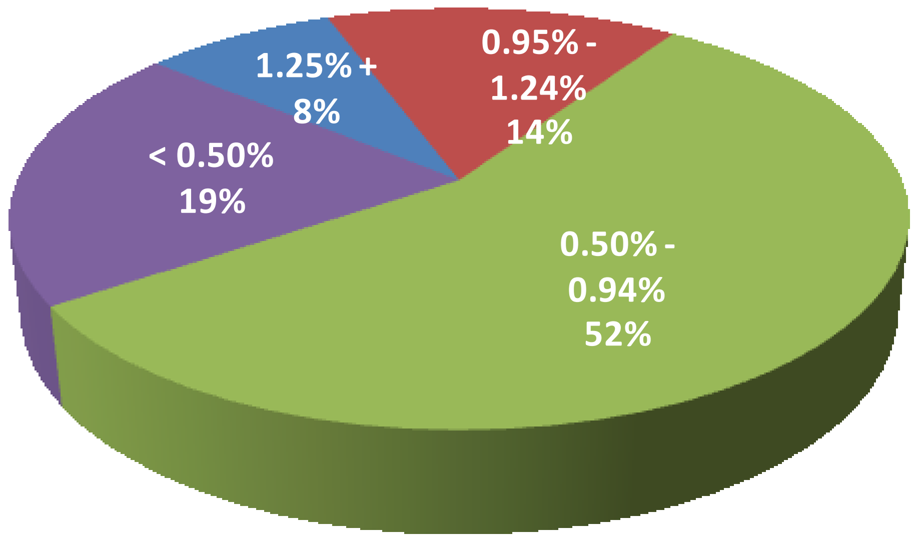
<u>Pennsylvania-based banks by ROA</u>

<u>2001</u>



In 2001, **<u>31</u>%** of banks with assets under $10 billion had a ROA of 1.25% or greater and **<u>59</u>%** had an ROA of at least 0.95%

<u>2016</u>

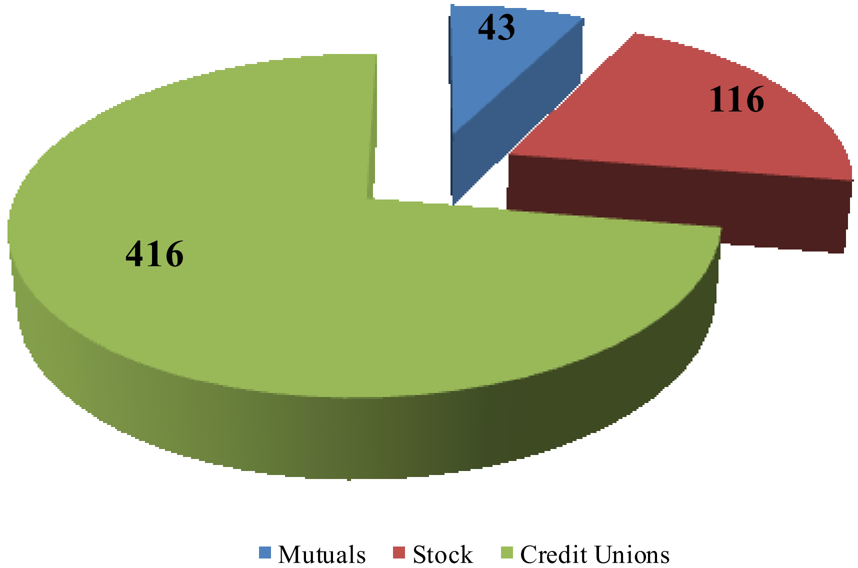


By 2016, only **<u>8</u>%** of banks with assets under $10 billion had a ROA of 1.25% or greater and **<u>22</u>%** had an ROA of at least 0.95% or greater

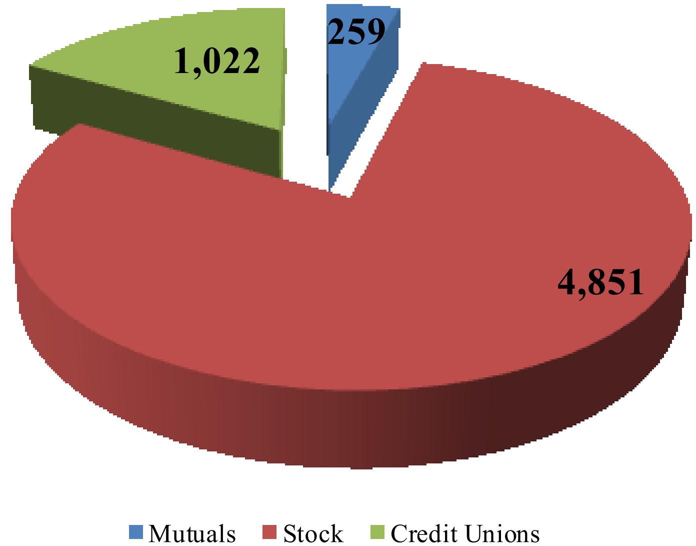
Source: SNL Financial as of 12/31/2016. Includes banks with total assets under $10 billion at each year end

The Pennsylvania Banking Landscape

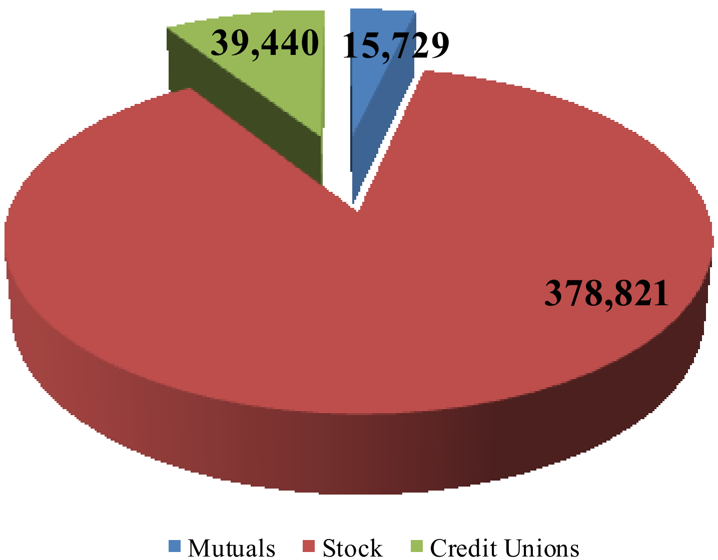
Number of institutions



Number of branches



Amount of Deposits ($M)



While the number of credit unions in Pennsylvania outstrips stock and mutual banks combined, stock institutions have by far the largest number of branches and largest deposit volume.

Source: SNL Financial as of 12/31/2016

The Pennsylvania Banking Landscape

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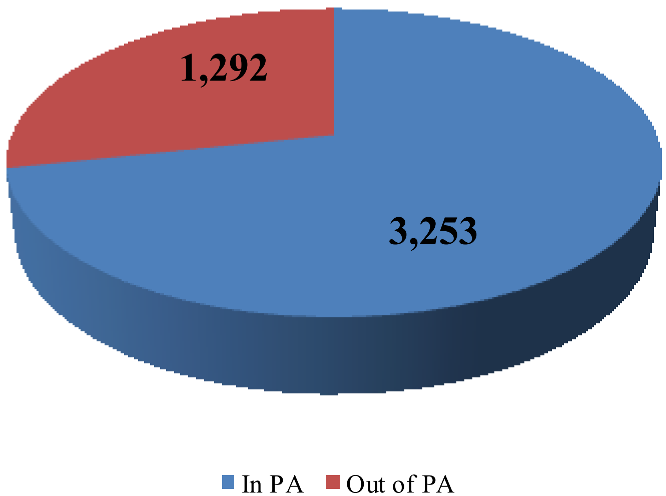
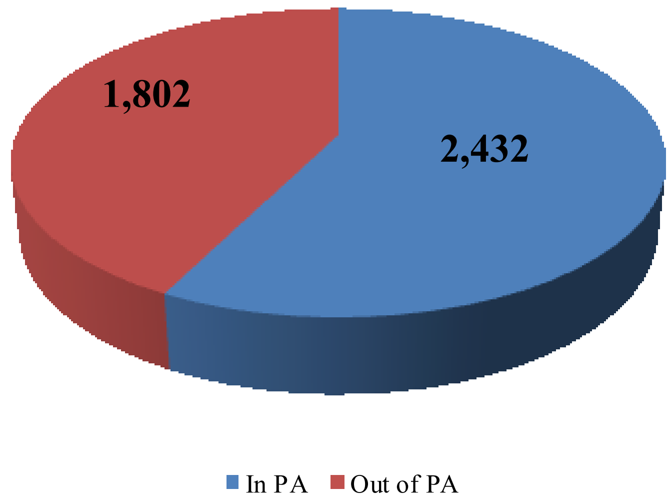
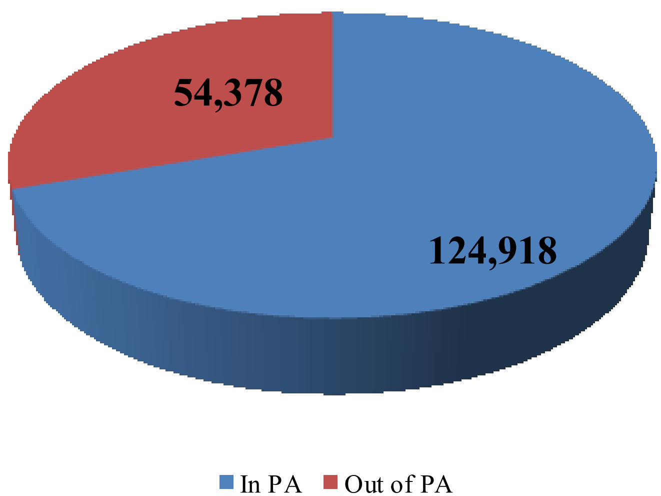
June 2001	June 2016

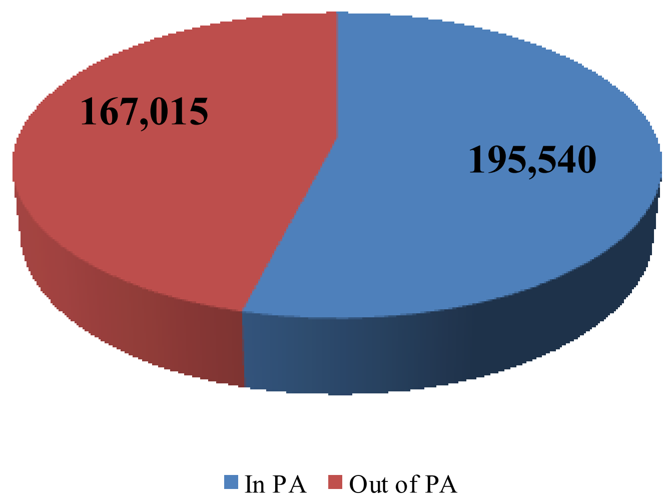
Number of Branches – By Headquarters of Bank





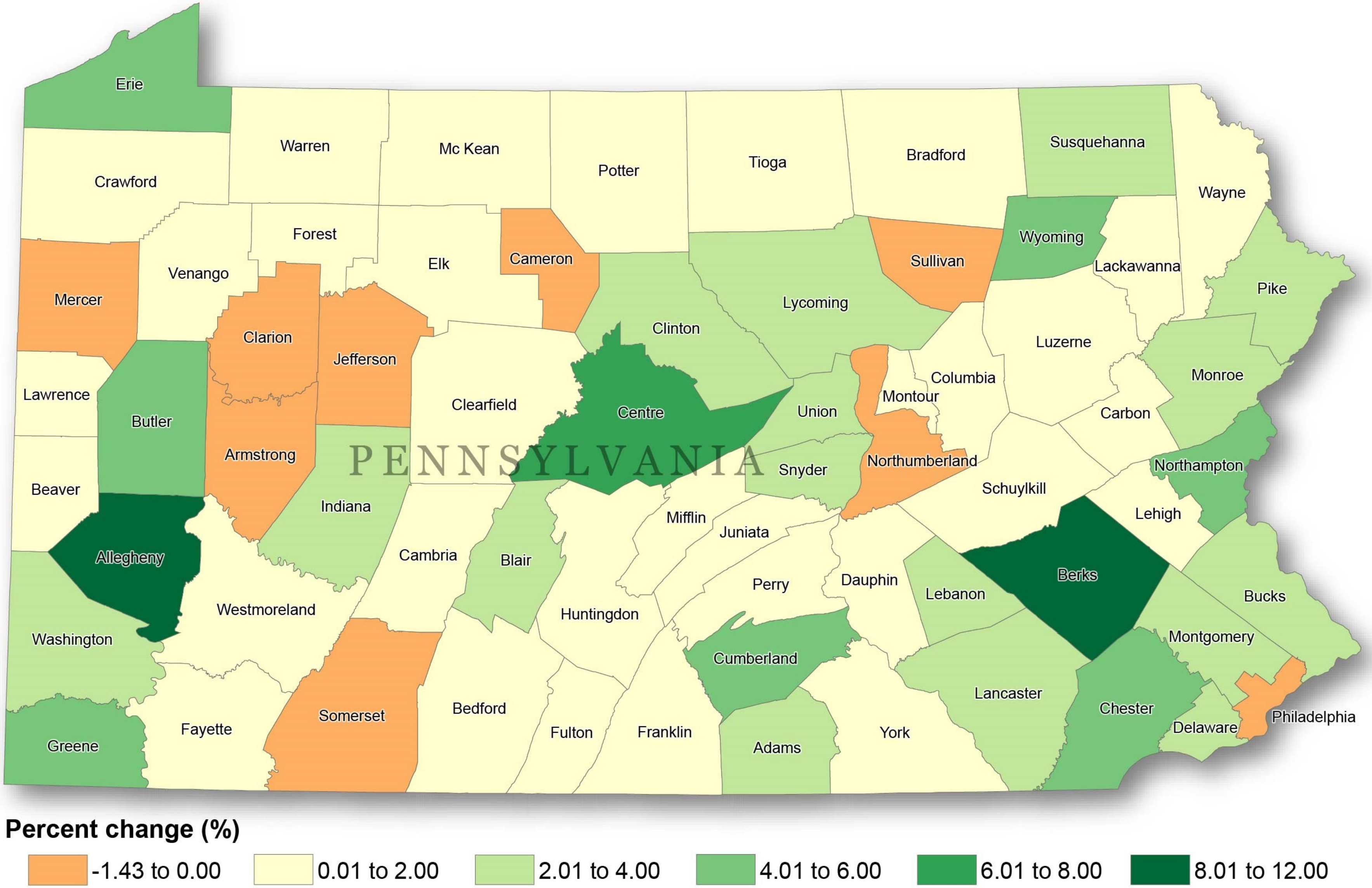
Dollars of Deposits ($000) – By Headquarters of Bank





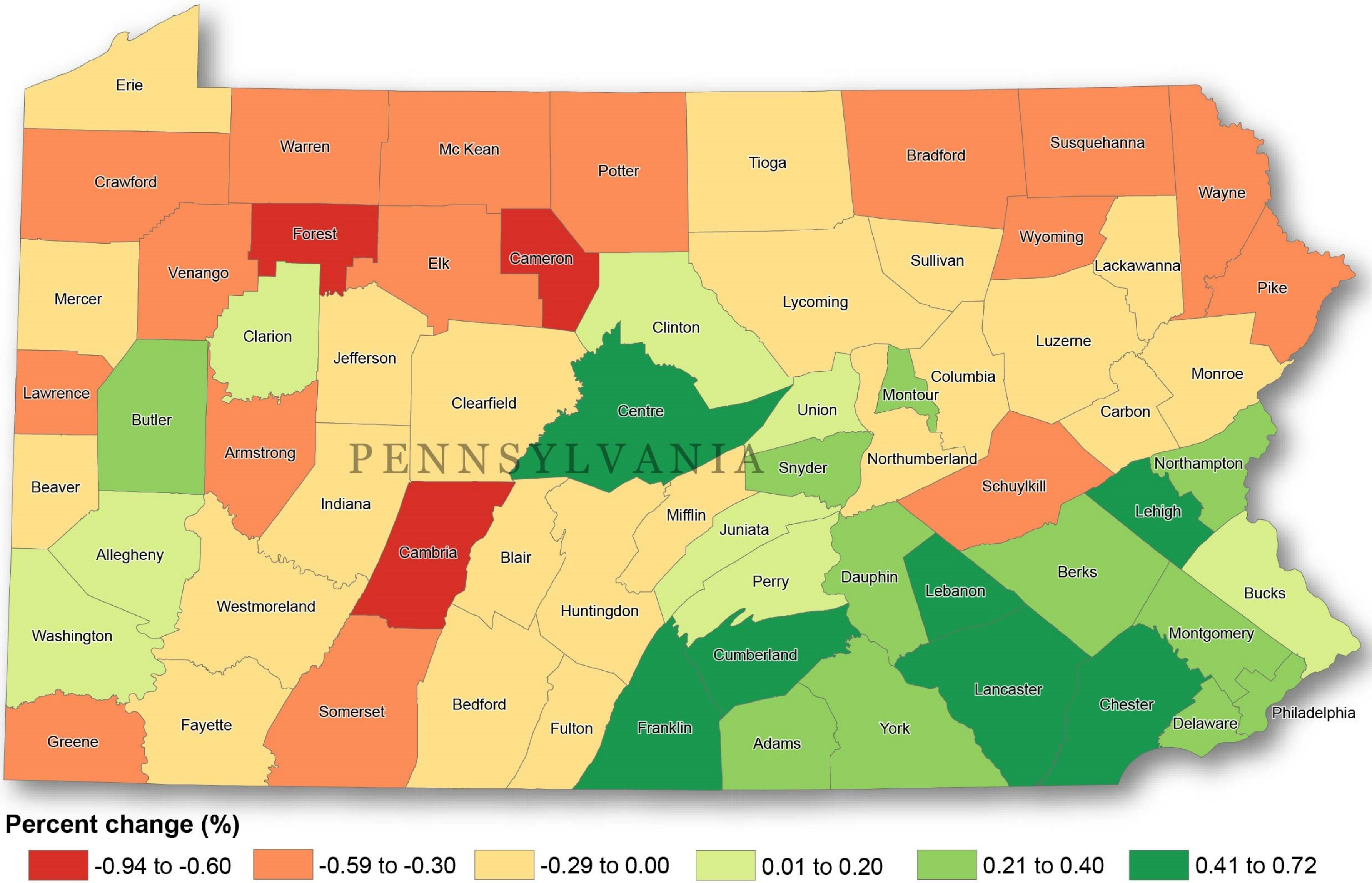
Source: SNL Financial as of 6/30/2016

Deposit Growth (5 Year CAGR)



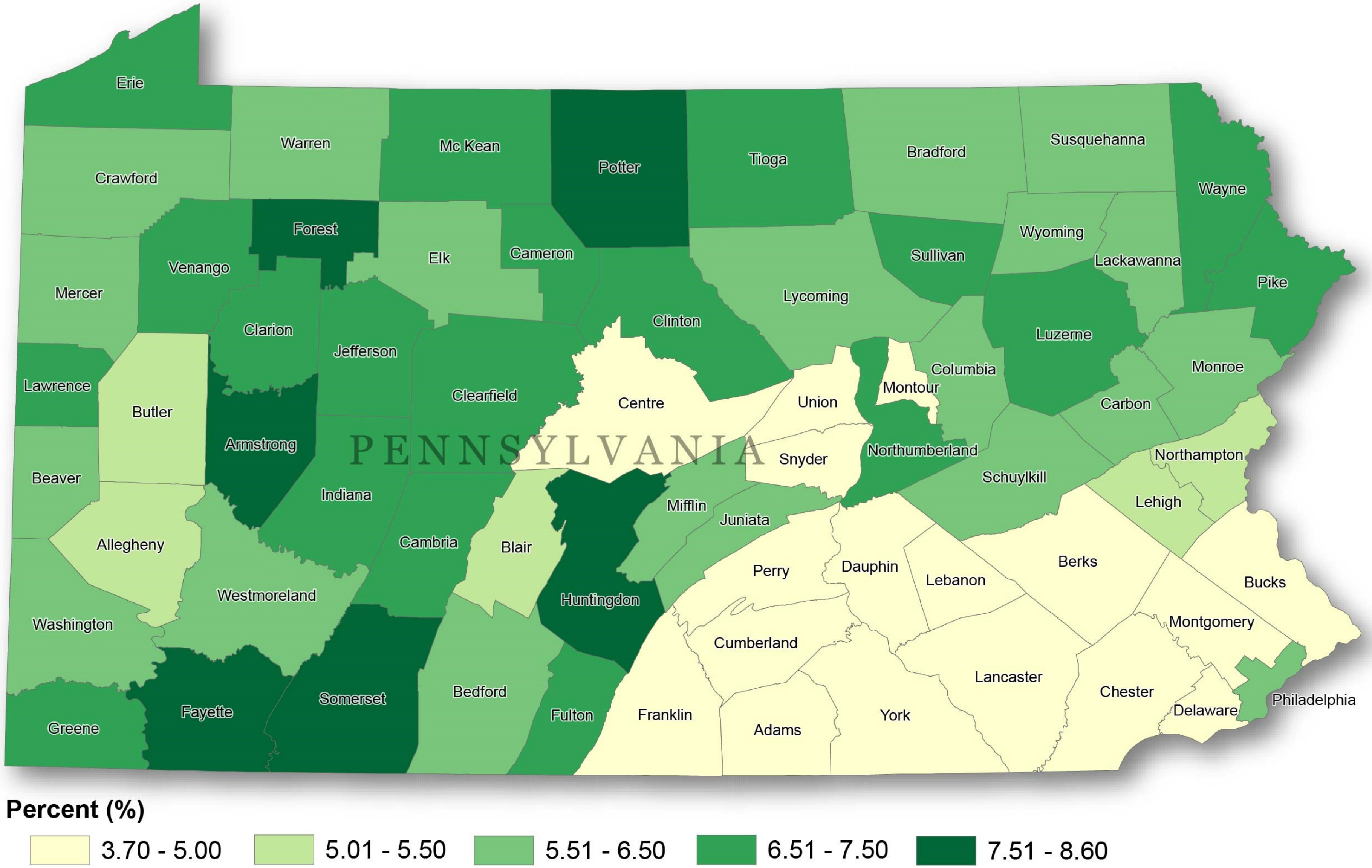
Source: SNL Financial, an offering of S&P Global Market Intelligence

2017 – 2022 Projected Population Growth (CAGR)



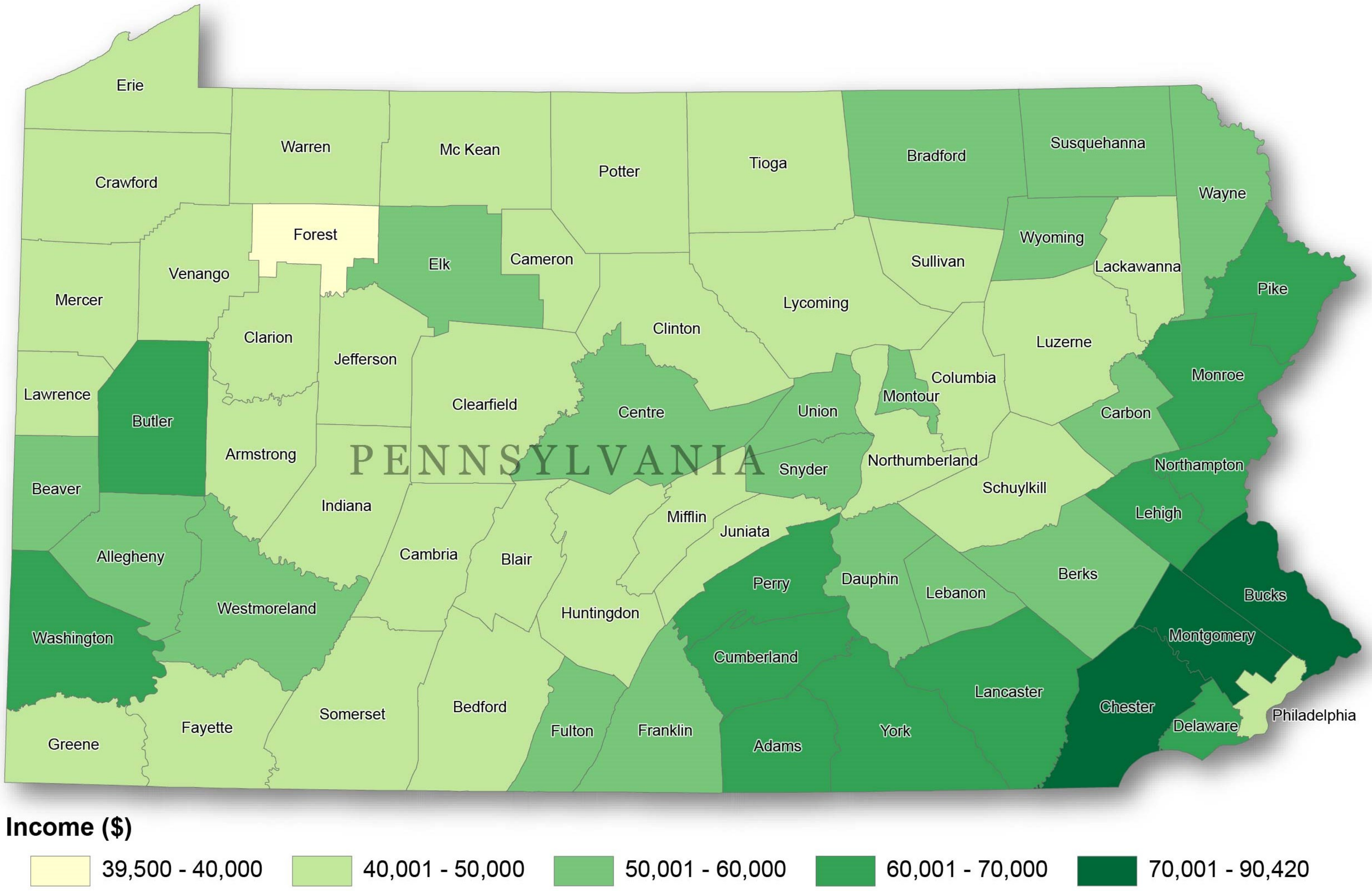
Source: SNL Financial, an offering of S&P Global Market Intelligence

Unemployment Rate



Source: SNL Financial, an offering of S&P Global Market Intelligence

2017 Median Household Income



Source: SNL Financial, an offering of S&P Global Market Intelligence

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The Bullish View of the Future

The Bullish View of the Future

- The bullish thesis that the Trump Bump is for real and sustainable, and that it will mean strong performance and higher valuations for banks is based on all or a combination of the following:
  - Bank stocks have been sluggish during the recovery from the last downturn due to a higher regulatory burden, higher capital ratios, and slower growth – the proposed deregulation of the Trump administration should unlock some of that trapped value;
    - Dodd-Frank reform could free up un-deployed capital which could help valuations;
    - Smaller banks hope to have favorable legislation piggy-backed onto large bank reform.
  - Banks have been taking business from each other for years during the slow growth recovery, and the projected 3-4% GDP should stimulate business activity and generate loan demand;
    - Bringing jobs back to the United States should stimulate the economy generally.
  - A tax cut helps in two ways – lower taxes at the bank level obviously improve earnings, and lower taxes for corporate customers create more opportunity to grow and therefore borrow;
    - Immediate expensing of capital expenditures is a BIG DEAL for bank customers – if you can write off the cost of a new plant, building or major piece of machinery immediately, you are more likely to purchase it, and likely to borrow to do so.
  - Higher interest rates should grow net interest margins, especially if higher deposit costs are slower to follow.

A Key Ingredient

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- **Timing !!!**
  - Many of the Trump campaign promises were made around activity in the first 100 days, or even sooner (first day in office);
  - For the first time since 2006, the GOP controls the House, Senate and White House simultaneously;
  - Expectations for pace of change were huge.

- The two immigration orders both appeared rushed, and the haste to get those out backfired;
- Repeal and replacement of the Affordable Care Act, which itself took considerable structuring, lobbying and sale to get accomplished (despite no Republican support), also appeared rushed, and the replacement ended up getting pulled when it was apparent the vote wasn't there. Subsequently passed by the House, but still a long way to go;
- While not unusual in politics, the level of effort required for such sweeping reform was simplified and taken for granted in campaigning and in the run up to the Inauguration;
- Appearing to have learned somewhat of a lesson, timing for the tax plan and Dodd-Frank reform have begun to slip back to later this year, and even into 2018, and the inter-connectivity of these initiatives is not lost on lawmakers (need for ACA reform to in part fund the tax plan).

Banks Have Historically Underperformed

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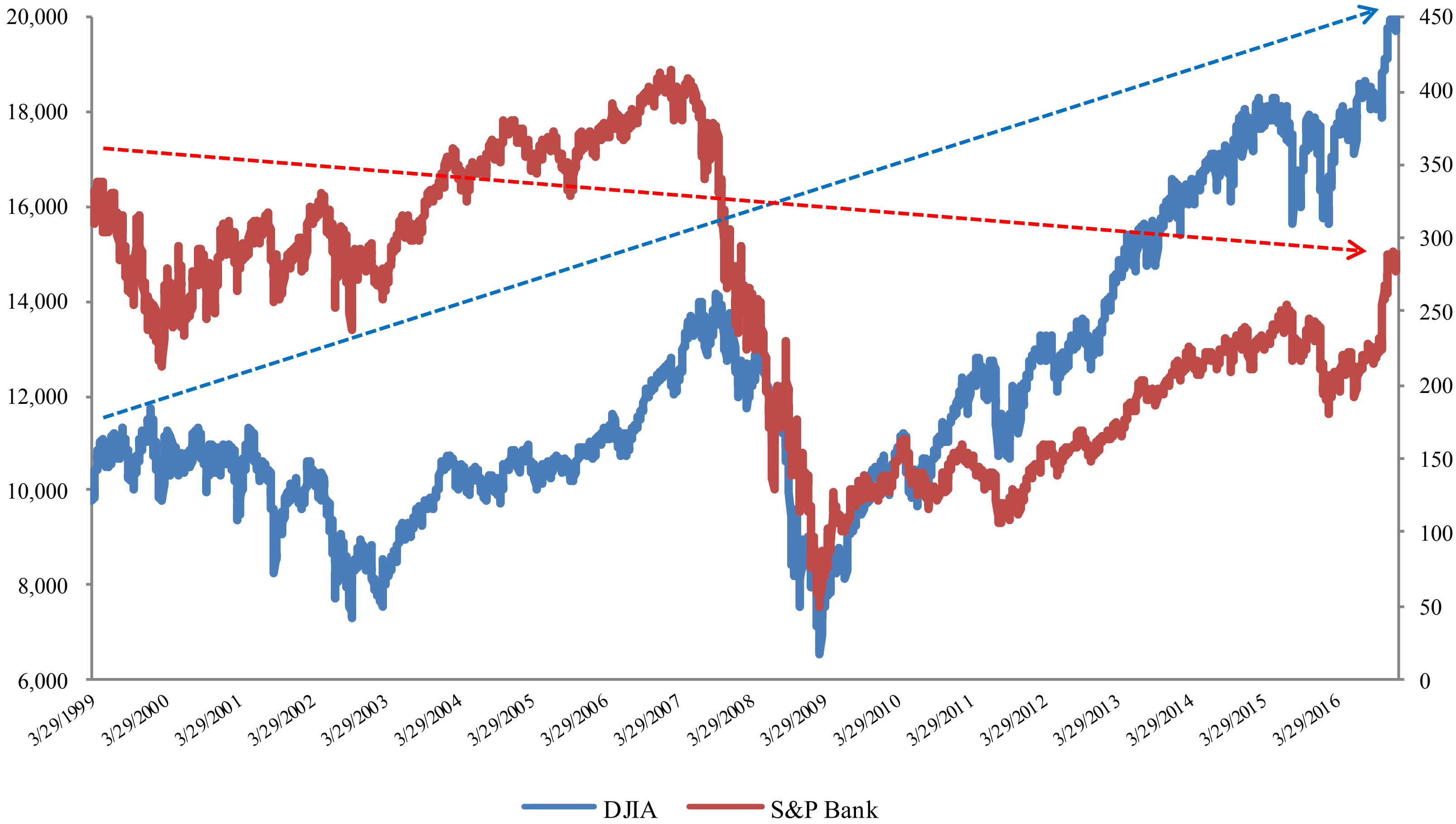
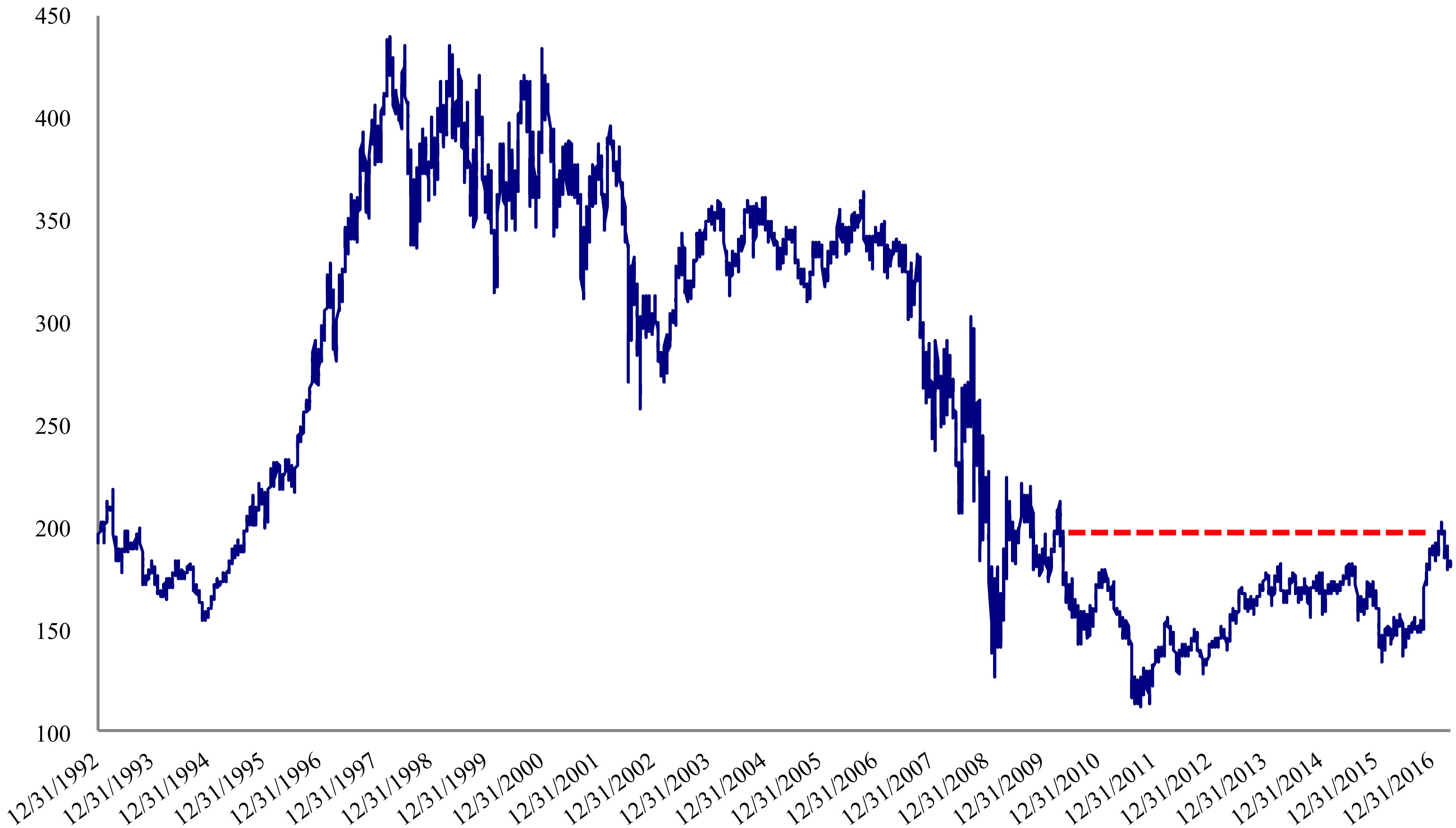


From the date the Dow first crossed 10,000 in 1999 through the date the Dow crossed 20,000 (early 2017), the S&P Bank Index is actually <u>DOWN 9%</u>

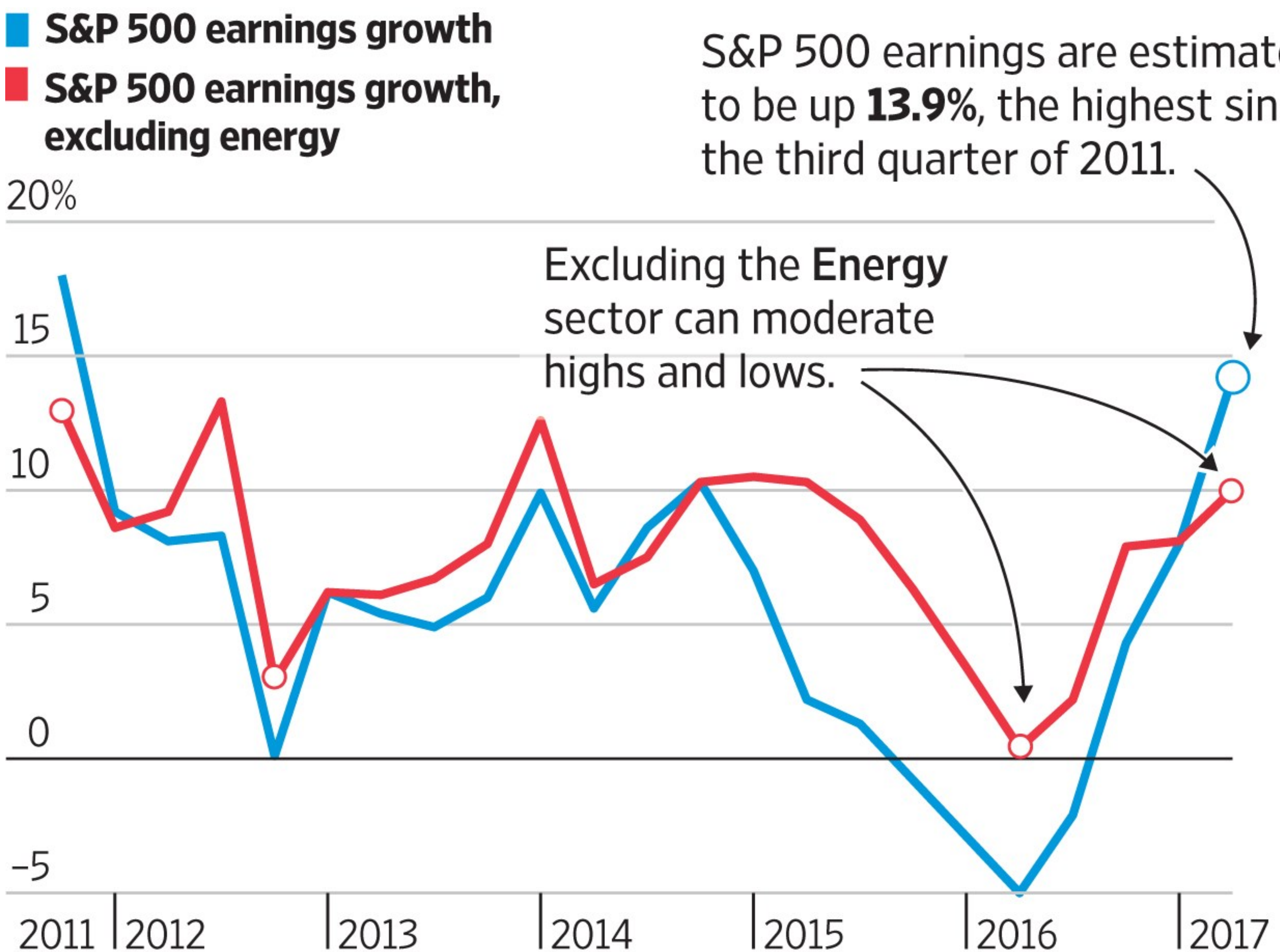
Putting Recent Performance in Historical Perspective

Price / Tangible Book Value of the Nasdaq Bank Index



While bank stocks shot up following the election, on a price-to-tangible book value basis, valuations only returned to pre-crisis levels of 2008, and are still well below historical levels

First Quarter 2017 Earnings Best in Five Years



Source: Wall Street Journal

Formula for Growth and a Robust Economy

Lower corporate tax rates

+

Immediate capital expenditure deduction

+

Reduced regulatory costs and lower regulatory burden

+

Federal Government defense and infrastructure spending

+

Trade and immigration protection

+

Substantial new investment

=

More employment & low individual taxes

=

More employee disposable income

=

More consumer purchases of goods and services

=

3.5% – 4.0% GDP

Potential Tax Law Changes

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As much about the reduction as funding the reduction

- Corporate income tax (including capital gains and direct tax rates) reduced to 15%;
  - Lower tax rates would favorably impact public company M&A and valuations.
- Write-off for tax purposes of capital expenditures in first year (no amortization);
  - Would stimulate expansion, and therefore financing needed to fund expansion.
- Repeal of Alternative Minimum Tax (“AMT”) and ACA taxes;
- Loss of interest deduction (negative for debt financing of M&A);
- Personal income tax rates reduced from 7 brackets to three (maximum rate 35%);
- Top capital gains and dividend rate returned to 20%;
- Elimination of estate tax with capital gains taxed at death and step up;
- Carried interest taxed at ordinary rates;
- “Pass-throughs” taxed at 15% and tied to “reasonable compensation”
- Elimination of various deductions, including deducting state and local taxes for federal purposes;
- Funded in part through one-time tax on repatriated cash from overseas.

Deregulation in the Banking Industry

- A model for Dodd-Frank reform can be found in the Financial CHOICE Act, introduced by Rep. Jeb Hensarling in 2016 (recently advanced out of House Financial Services Committee on May 4). Components of this 600 page pending legislation include:
  - Requiring regulators to tailor regulations to fit an institution's business model and risk profile, thereby reducing compliance costs;
  - Reducing reporting burdens for highly rated and well managed banks, specifically allowing banks with a 10% leverage ratio to opt out of certain Basel III and Dodd Frank provisions;
    - Qualifying Capital Election for larger banks also removes ability of stress testing to limit capital distributions.
  - Raising the threshold for small bank holding company status from $1 billion to $5 billion;
  - Exempting banks less than $1 billion in assets from the reporting and attestation requirements of the Sarbanes-Oxley Act;
  - Increasing the threshold of supervisory authority for the Consumer Financial Protection Bureau ("CFPB") from $10 billion to $50 billion, and changing the organization to a five-person, bipartisan commission renamed the Consumer Financial Opportunity Commission;
  - Loosen certain qualifying criteria from QM status, HOEPA and HMDA reporting requirements;
  - Repeal of the Volcker Rule and Durbin Amendment.

Focus on big bank issues (orderly liquidation, SIFI designation and FSOC authority, etc.)

Summary Impact on Financials

- Federal tax rates
- Regulatory costs
- Un-deployed capital and liquidity
- Loan growth
- Rates (improved margins)
- NIM, ROA and ROE
- Market valuation
- Takeover valuation
- Capital markets access
- Asset quality

- Will small bank reform piggy back big bank initiatives?
- Will rising short-term rates be accompanied by a steeper yield curve? Rising rates not as important as yield curve!
- Will economic stimulus spur loan demand to offset the impact on asset prices and mortgage volume of rising interest rates?
- Can tax policy improve the bottom line of banks but also give bank customers more profitability and confidence on which to leverage?
- Will the $10 billion asset threshold that has been the focus of larger community banks be impacted?
- With higher stock valuations, will buyers be more interested in acquisitions, or will both buyers and sellers find organic growth in a new business-friendly market more attractive?
- Roughly ten years from the last downturn, will banks use the current run-up to monetize their value creation and not have to "ride it out" through another cycle?

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The Bearish View of the Future

The Bearish View of the Future

- An equally large and vocal contingent feels as if the negative undercurrents in the market before the election are still there and market cycles feel like a recession is imminent;
  - The stimulative measures proposed by the Trump Administration, in the view of the bears, won't happen fast enough to offset these issues.

- Every 8-10 years the market has some form of recession or correction, and we are roughly that amount of time into the recovery from the last recession, with the market at record highs;
  - The total return for the S&P 500 has been up for eight straight years – the record is nine years.

- Early in the Trump Administration, while the Federal Reserve has raised short-term interest rates, the long end has not adjusted accordingly, and the yield curve has actually flattened;

- While the "bulls" want to cut back Dodd Frank and de-regulate the industry, there is an increasing call to breakup the big banks in somewhat of a Glass-Steagall fashion;

- The national debt is multiples higher than it was the last time interest rates began to increase, putting a strain on debt service for the government;

- As more and more "baby boomers" approach retirement, demographic challenges are significant – the health care cost, reduction in the workforce, and significant burden of insolvent entitlement programs will weigh on the country for years.

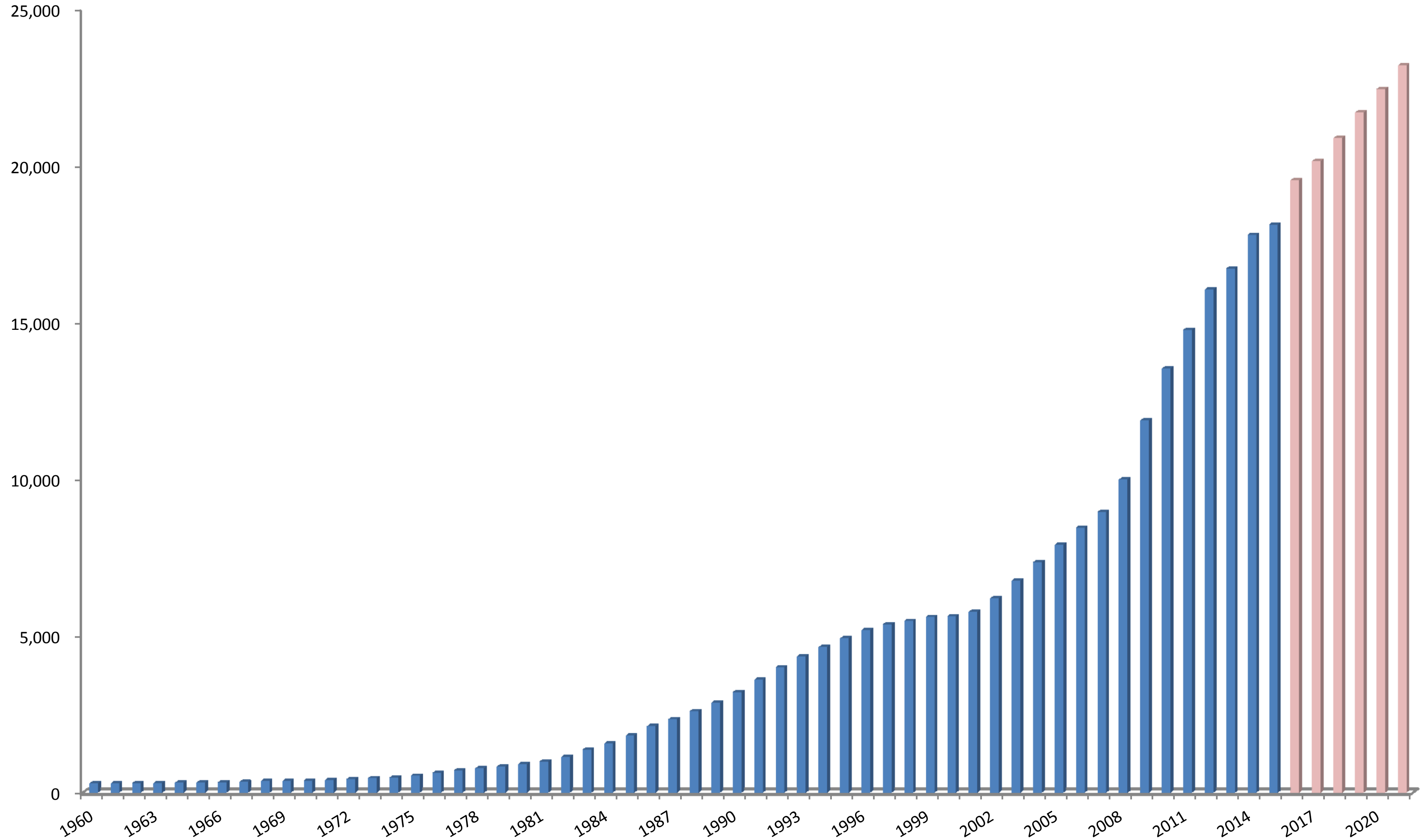
The Bearish View of the Future

- Commercial credit concerns include the following:
  - Commercial real estate concentrations as a percentage of capital were a focus of regulators before the election, and concern over this issue even prompted a number of banks to sell;
  - Commercial real estate loans originated pre-crisis are coming due and have to be refinanced;
  - Certain sectors, initially energy, followed by retail, have come under increased focus.

- Residential and consumer markets are also leveraged, and vulnerable, particularly in a rising rate environment:
  - Rising interest rates will result in a reduction in asset valuations as well as borrowing capacity for home owners, putting a strain on residential lending;
  - Personal debt levels continue to climb, and borrowers are once again taking "cash out" mortgages at increasing frequency, monetizing the inflated values of their homes;
  - Sectors such as auto lending are showing signs of weakness and increased losses.

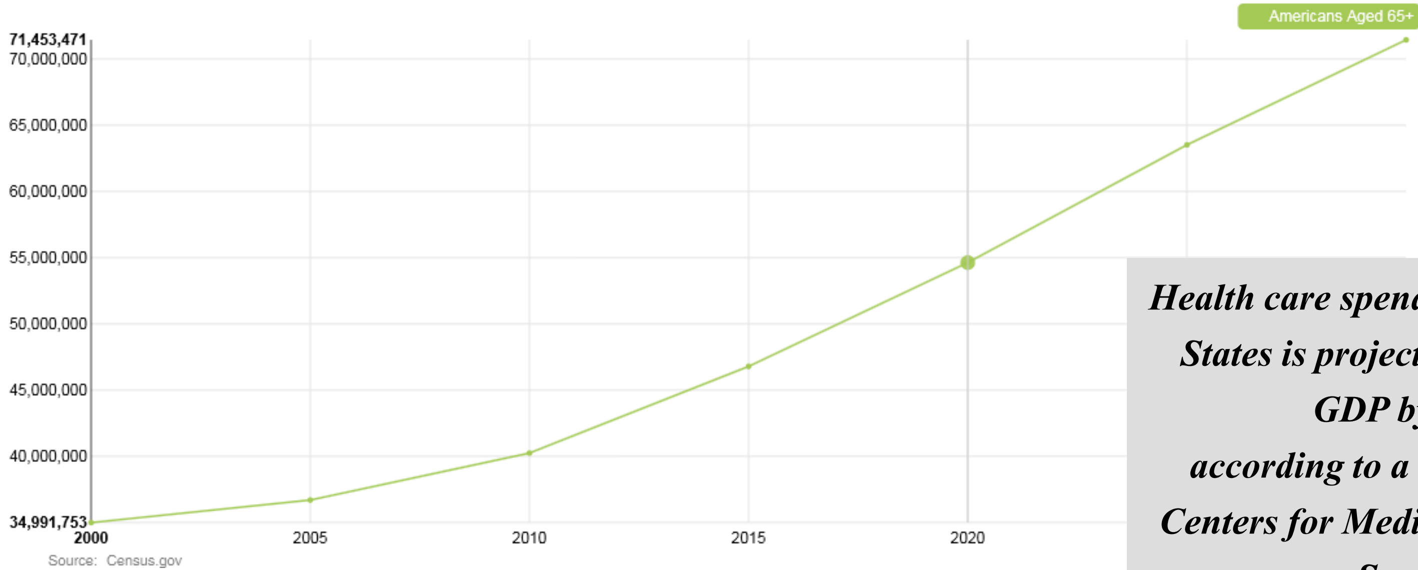
Continued Swelling of Public Debt

Gross public debt ($ billions)



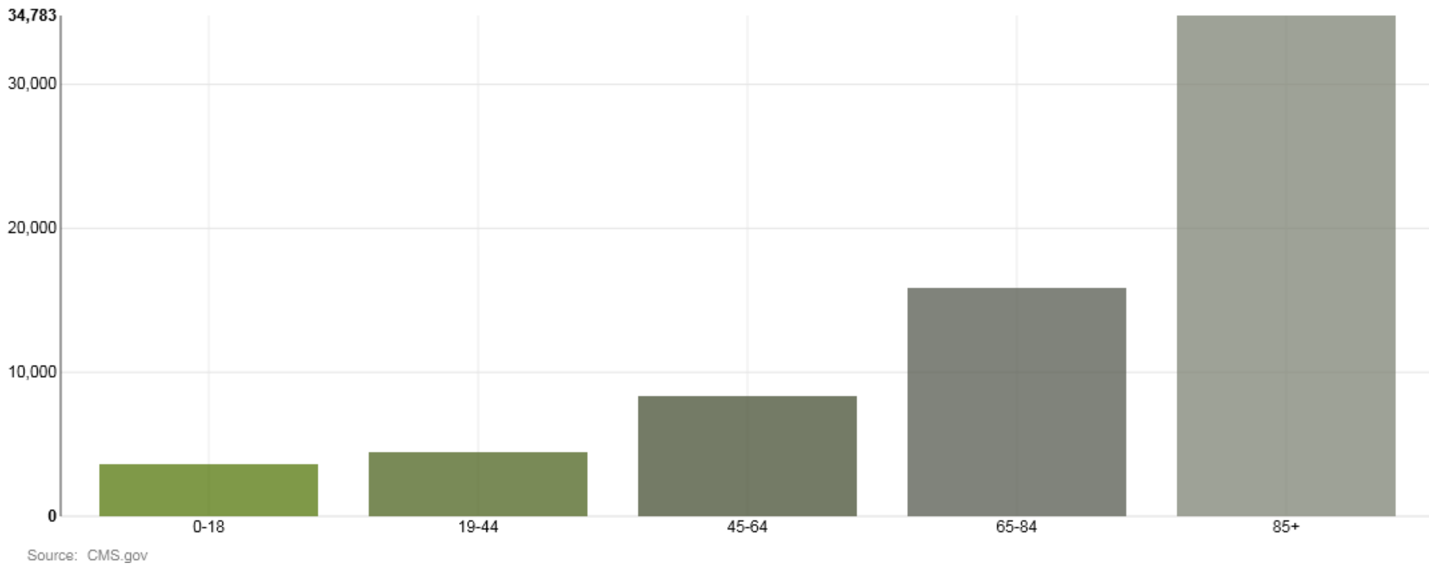
Demographic Challenges

Projected Population Growth for Seniors



Health care spending in the United States is projected to be 20% of GDP by 2025, according to a recent study by Centers for Medicare & Medicaid Services

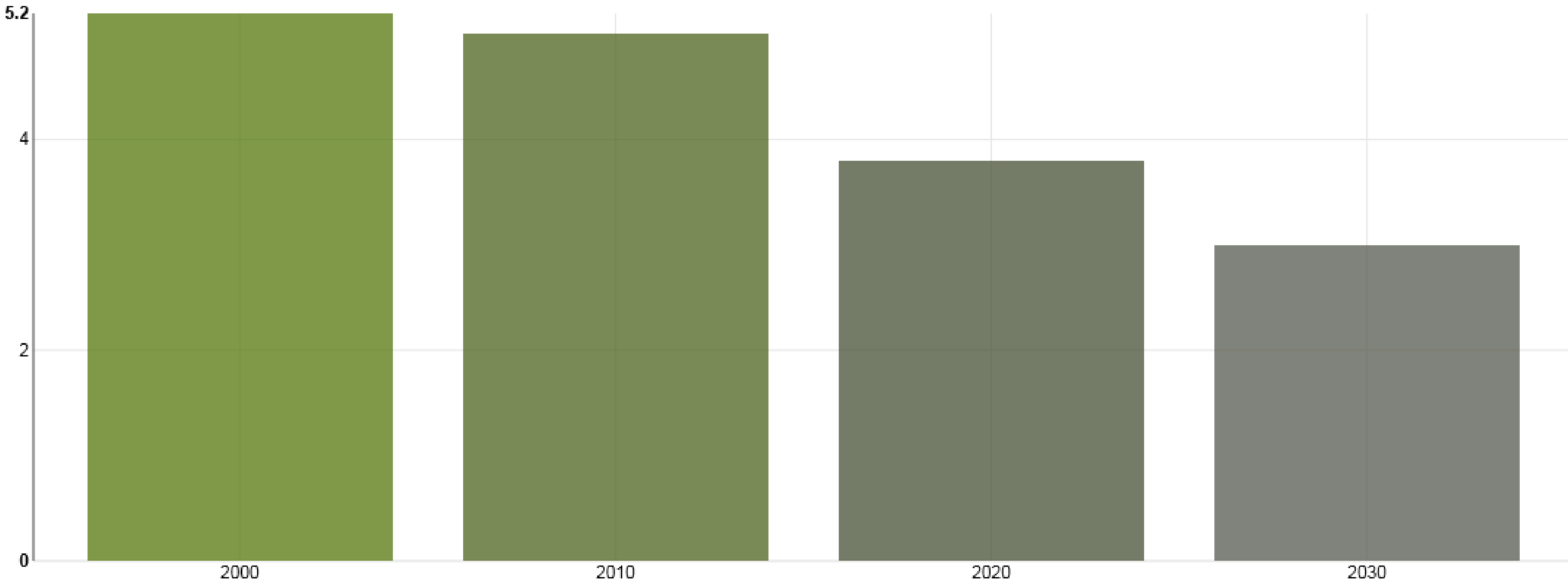
Health Care Spending Per Capita by Age



Demographic Challenges

<u>Number of Working Aged People (16-64) for Every Retirement Aged (65+) Person</u>

Fewer people paying in, more people receiving benefits



Source: Census.gov

In 2000, there were 5.2 working aged citizens for each retired citizen. This will change to 3.0 working aged citizens for each retired citizen by 2030.

Unintended Consequences

Aging population

⇩

Low productivity growth

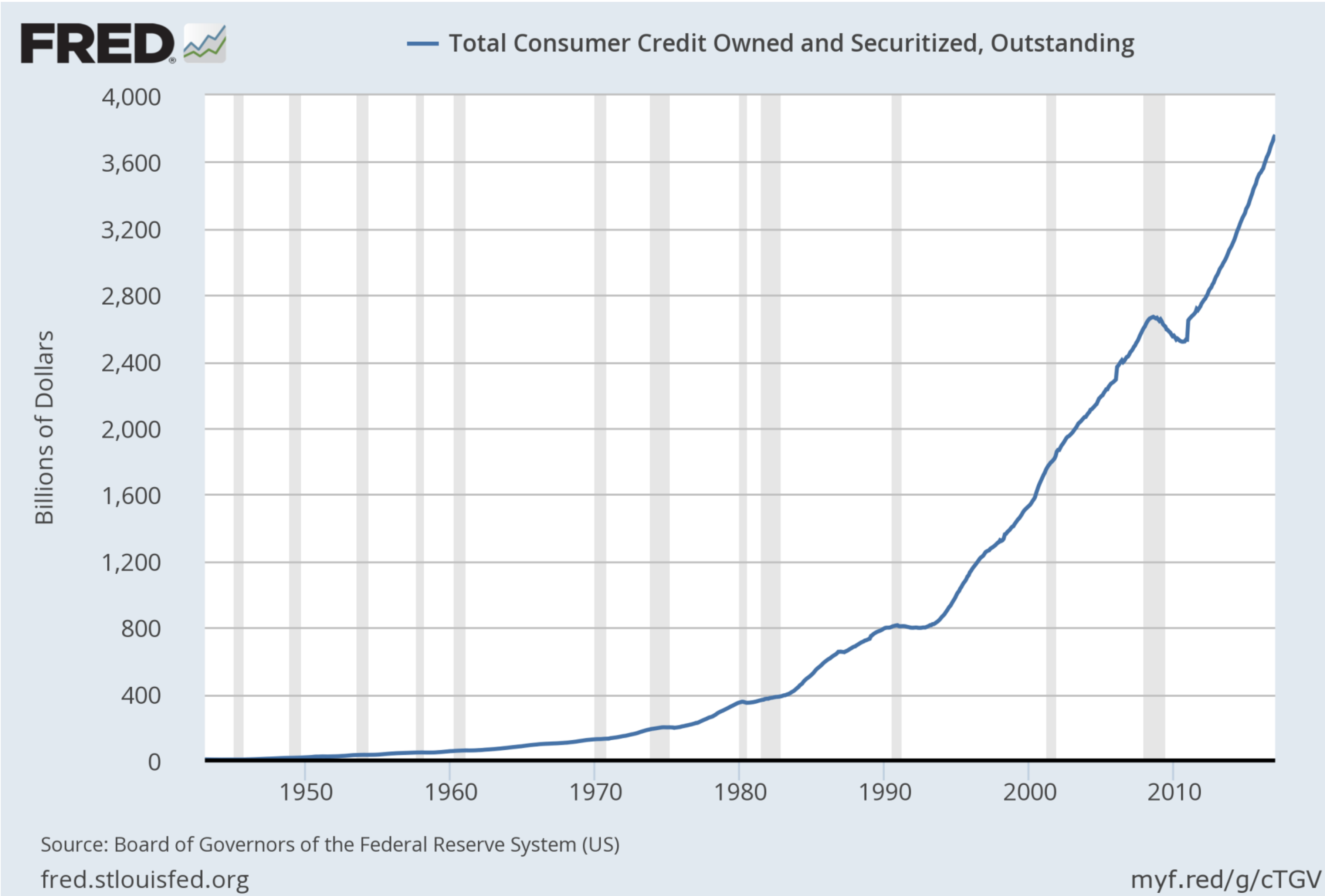
⇩

Reduced consumer spending

⇩ ⇩ ⇩

Loose economic policy (lower rates) intended to stimulate growth and spending had the unintended consequence of increasing consumer debt levels

Consumer Debt Exploding in Zero Rate Environment



Signs of Consumer Weakness

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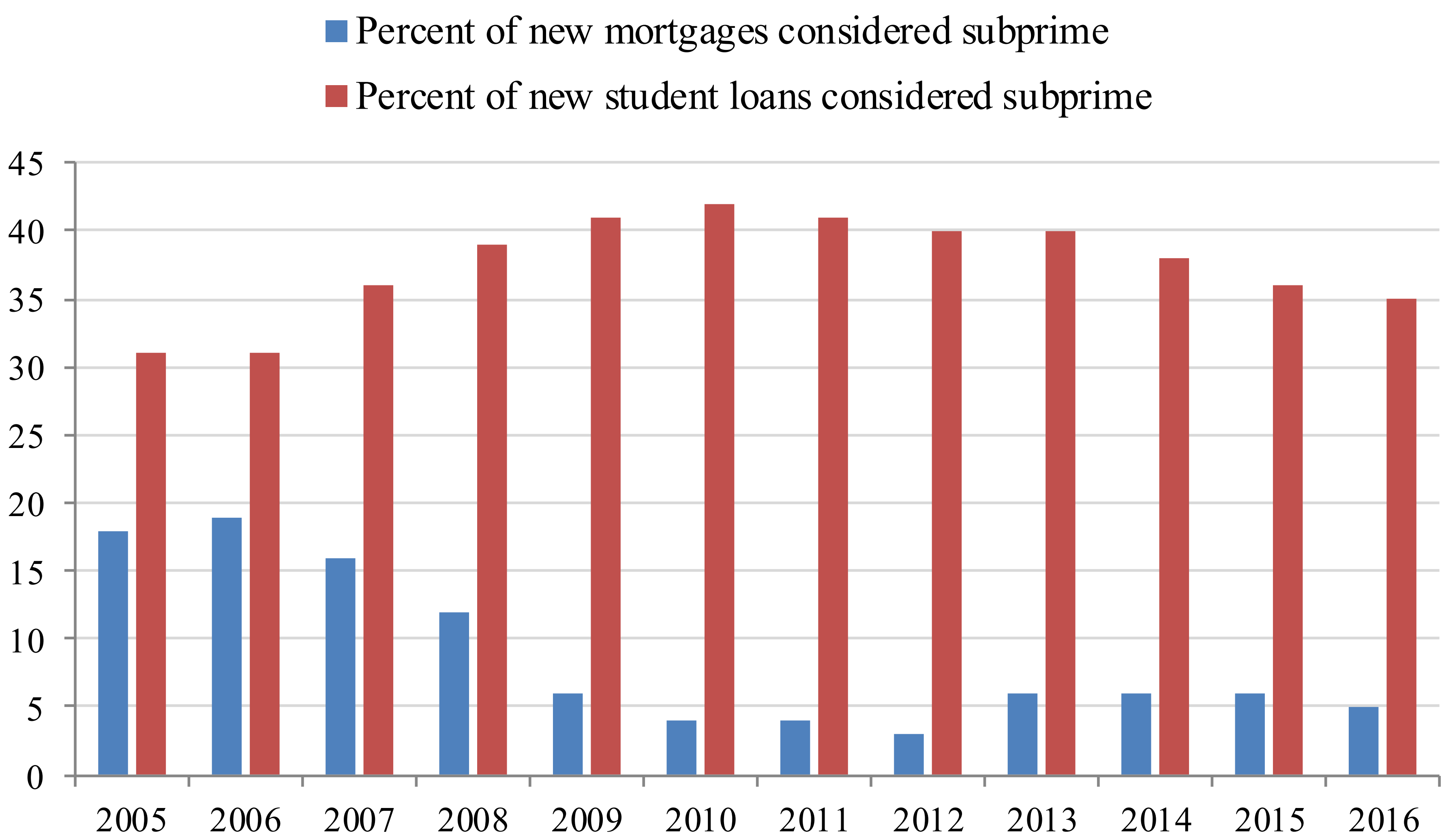
- Currently an eye-popping **$1.4 trillion** in outstanding student loan debt;
  - 44 million borrowers at an average loan outstanding of $30,650;
  - 18%, almost 8 million borrowers, considered in technical default
- According to the New York Federal Reserve, almost 1/3 of 30 year olds who left school between 2006 and 2011 have missed at least one student loan payment;
  - 1/3 of the 44 million borrowers mentioned above have missed 9 straight payments
- "Parent Plus" student loan program from the Department of Education allows for unlimited borrowing (relative to capacity to pay) and requires no income verification or credit score;
  - 40% of loans in this program going to borrowers with subprime credit scores;
  - 8 million people in this program are currently delinquent on over $137 billion.

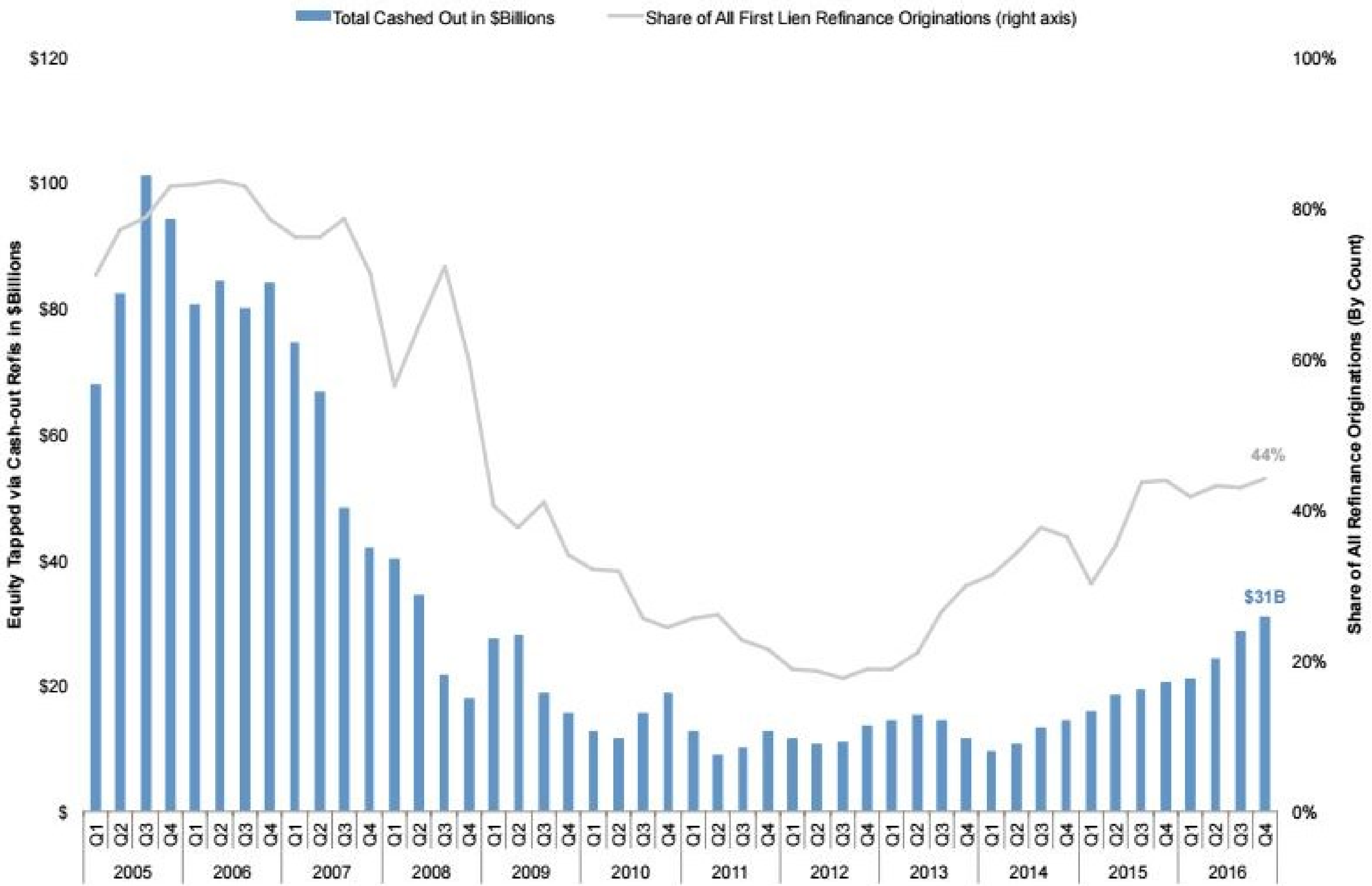
- Capital One, one of the country's major consumer (and subprime) lenders, reported increased delinquencies in the first quarter and increased reserves 30% over 1Q16 to $2 billion;
- Synchrony Financial, a private label credit card issuer, recorded a 21% increase in provision expense from the prior quarter, and like Capital One, is experiencing charge-off rates north of 5%.

Continued Concern with Student Loan Financing



Source: Equifax Inc., Wall Street Journal

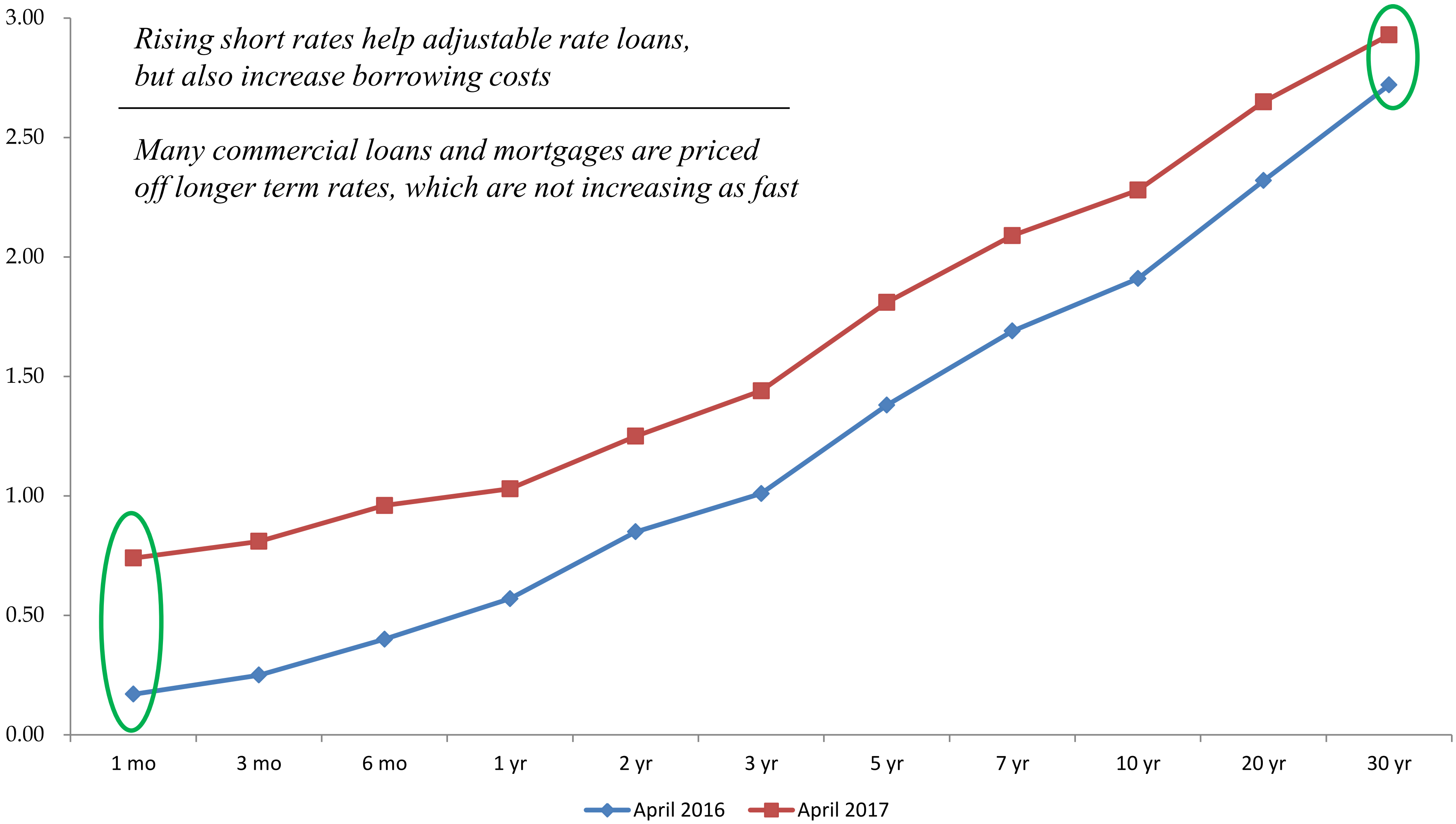
Increase in First Lien Cash-Out Refinances



Source: Black Knight

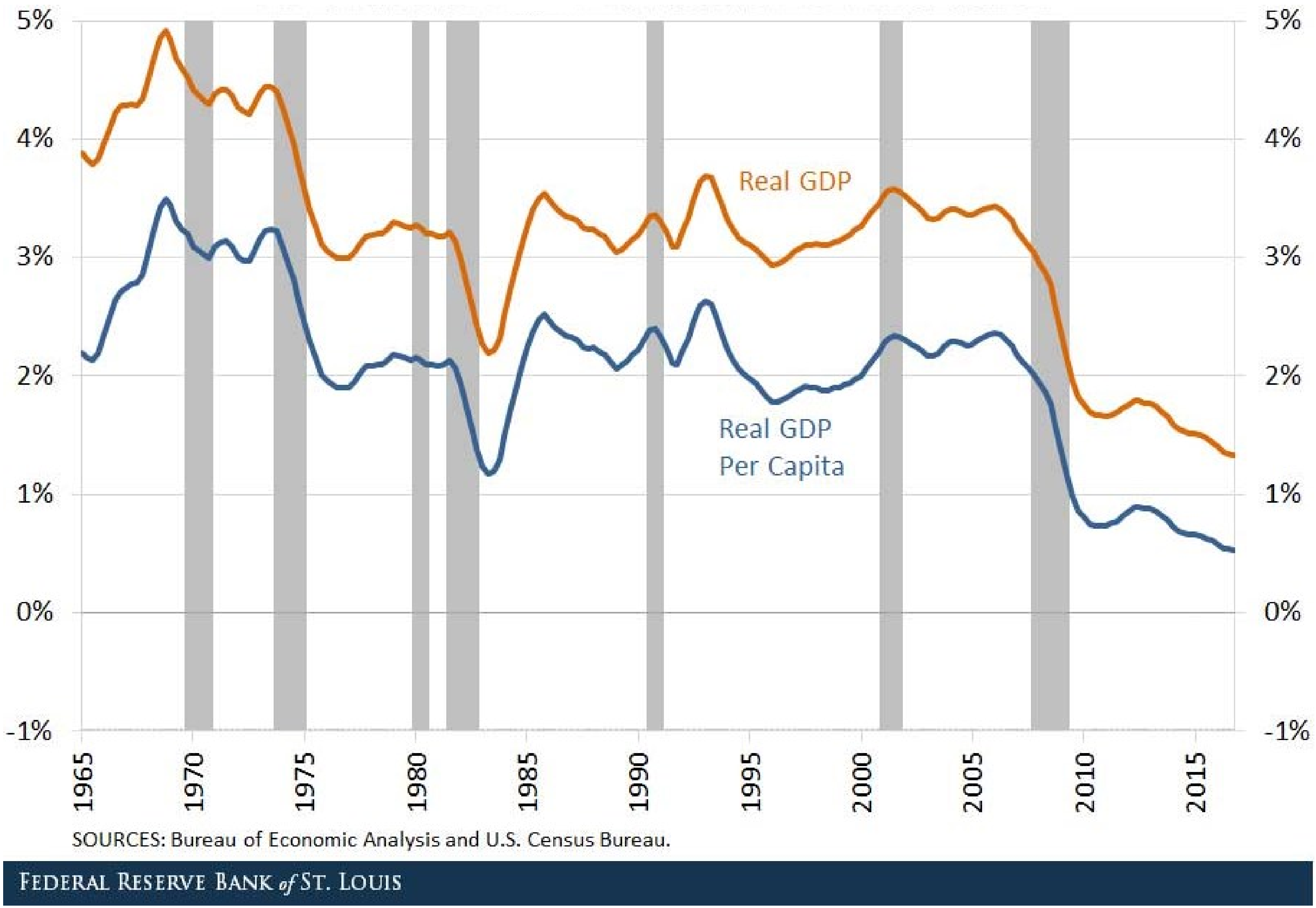
Rising Rates . . . But Flattening Yield Curve

U.S. Treasury rates

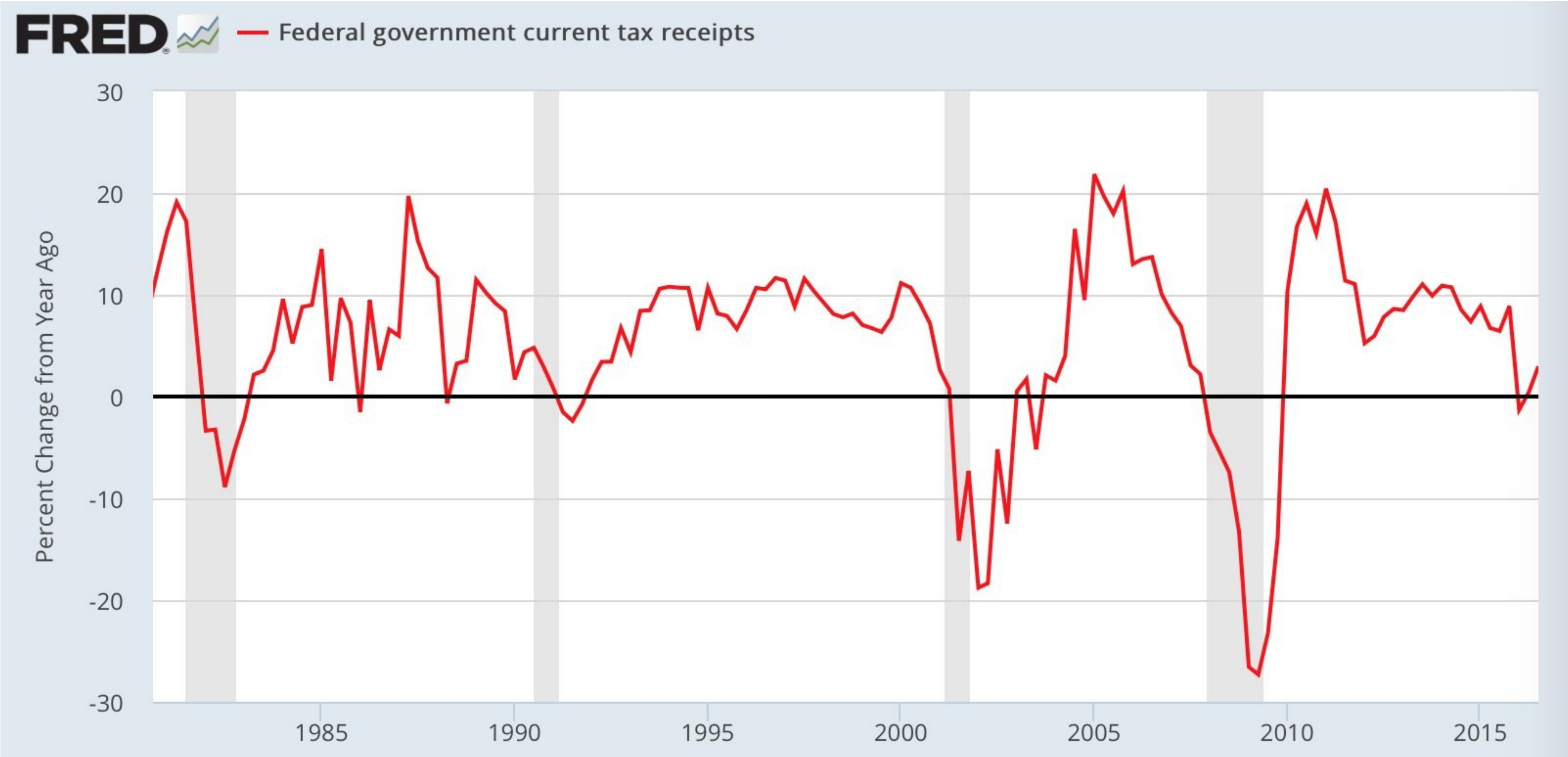


Struggling Economic Growth

10-Year Averages of Annual Growth Rates



Federal Tax Receipts Do Not Paint Growth Picture



Source: Board of Governors of the Federal Reserve System

Growth Without Investment Will Be Difficult

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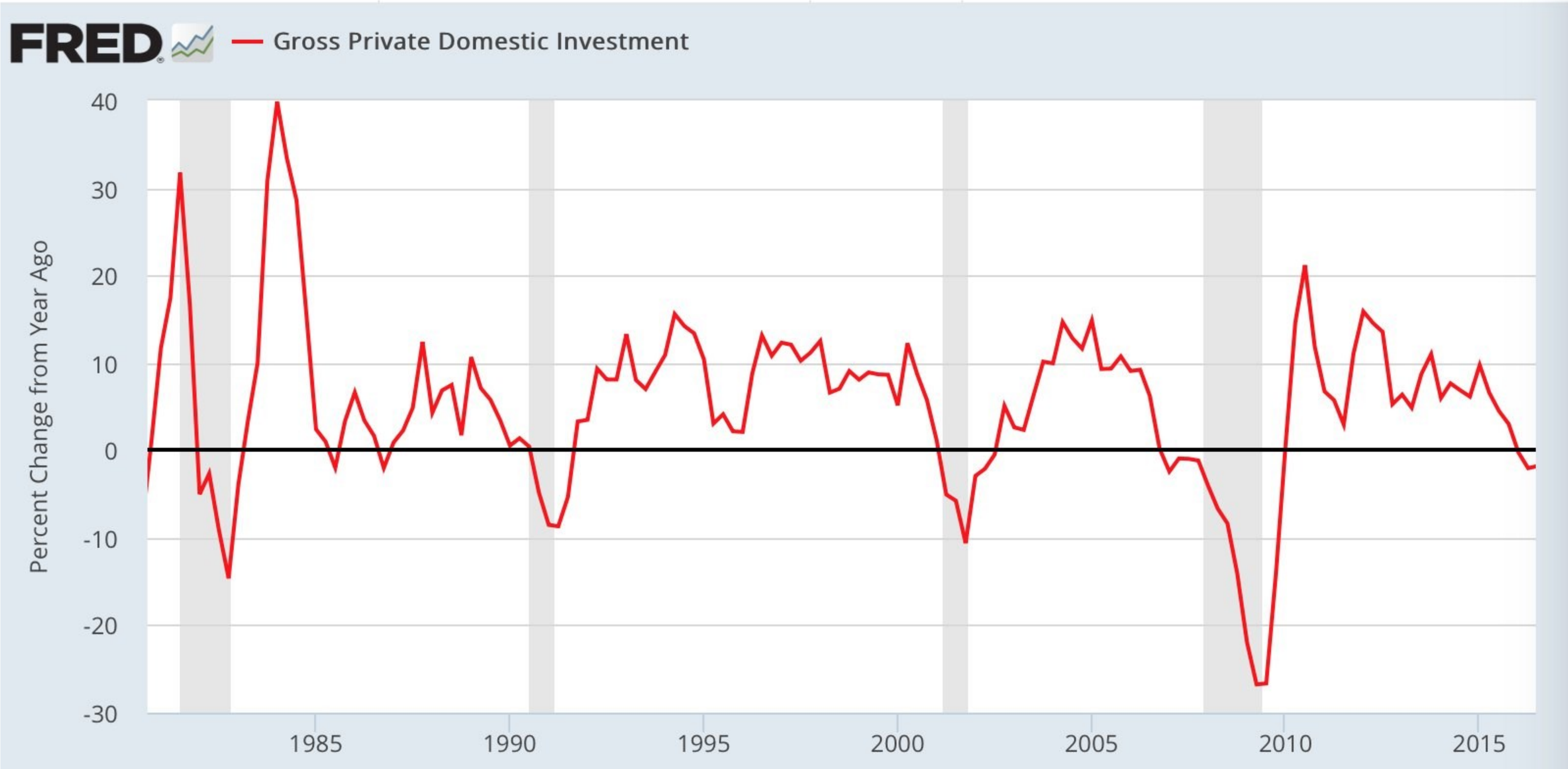

Source: Board of Governors of the Federal Reserve System

Impact of Rising Rates on Commercial Real Estate

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Change in Value For Class A Multifamily Property (%)

	Revenue Growth				
Interest Rates change	0.0%	3.0%	4.0%	5.0%	6.0%
0 bps (Initial estimate)	0.0%	3.1%	4.6%	6.2%	7.7%
50 bps	-5.8%	-3.0%	-1.5%	0.0%	1.4%
75 bps	-8.6%	-5.8%	-4.4%	-2.9%	-1.5%
100 bps	-11.2%	-8.5%	-7.1%	-5.7%	-4.3%
125 bps	-13.7%	-11.0%	-9.7%	-8.3%	-7.0%

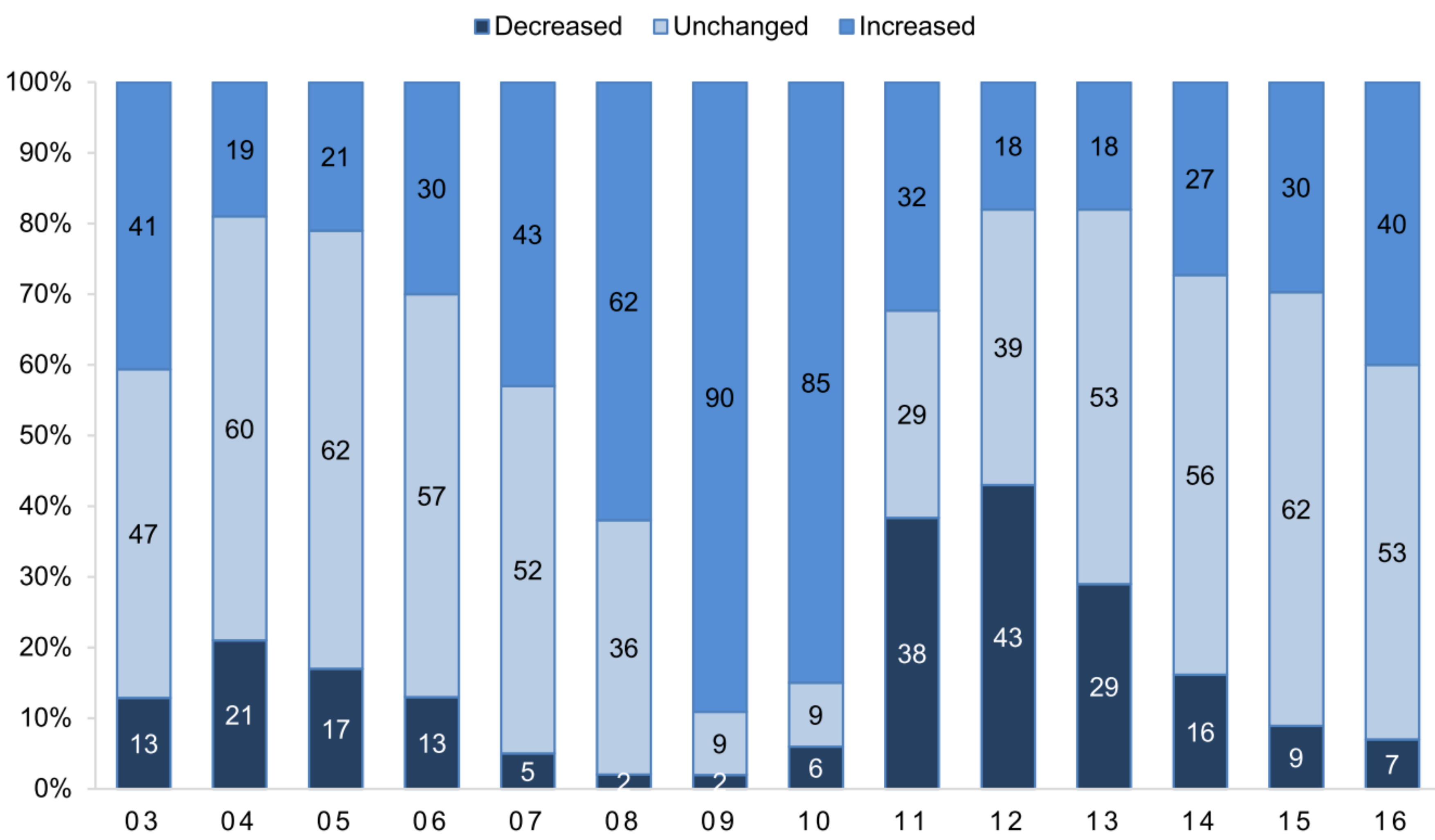
Change in Value For Class B Multifamily Property (%)

	Revenue Growth				
Interest Rates change	0%	3%	4%	5%	6%
0 bps (Initial estimate)	0.0%	4.2%	6.5%	8.7%	11.0%
50 bps	-5.8%	-1.8%	0.3%	2.4%	4.5%
75 bps	-8.6%	-4.7%	-2.6%	-0.6%	1.5%
100 bps	-11.2%	-7.4%	-5.4%	-3.4%	-1.4%
125 bps	-13.7%	-10.0%	-8.1%	-6.1%	-4.2%

SOURCE: YARDI Matrix

Are We at Top of Commercial Credit Cycle?

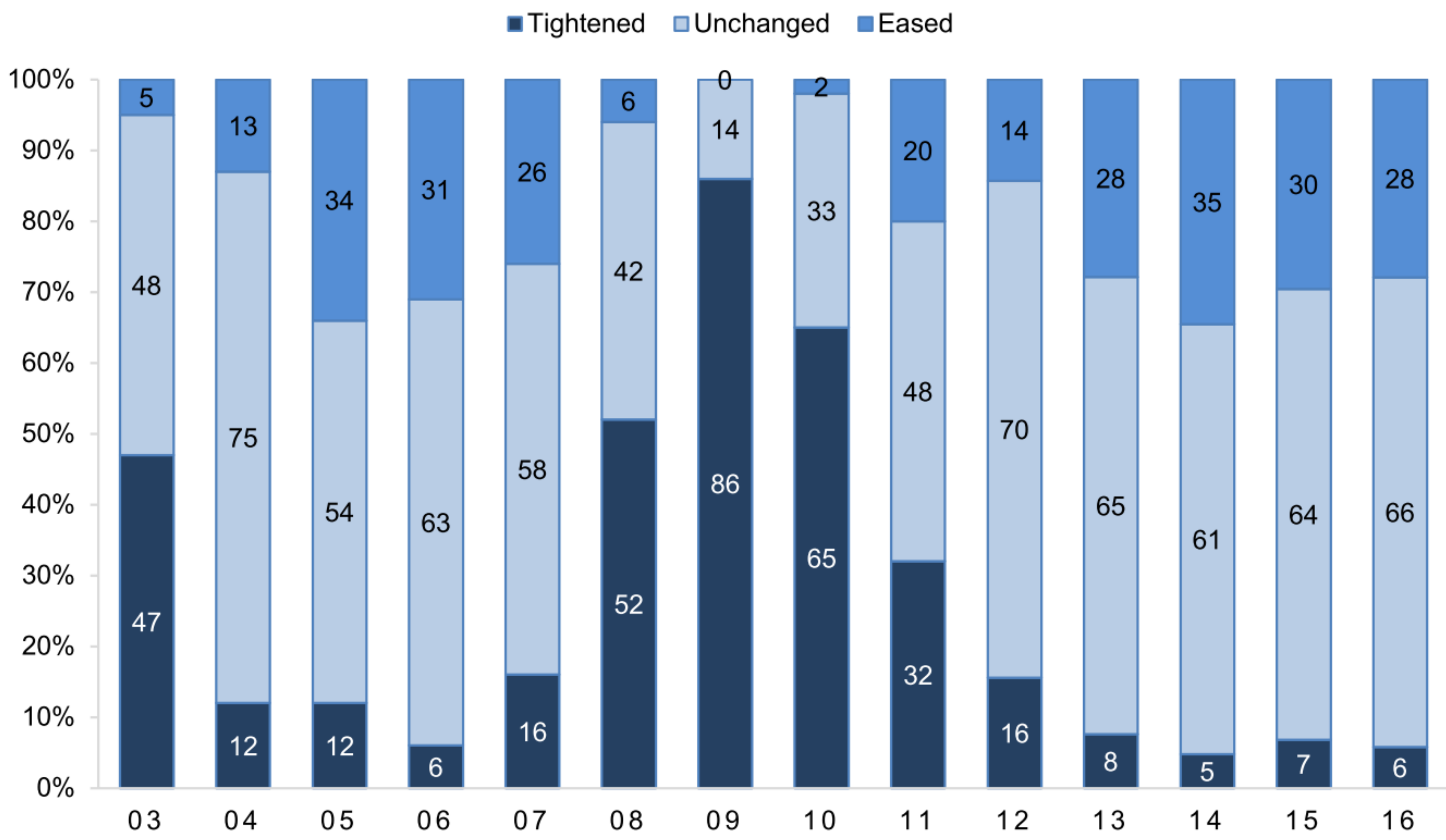
Commercial credit risk – 12 month change in quantity of credit risk



Source: OCC Survey of Credit Underwriting Practices 2016

Are We at Top of Commercial Credit Cycle?

Trends in underwriting practices for commercial credit products



Source: OCC Survey of Credit Underwriting Practices 2016

Converging Factors

- Baby boomers are headed into retirement in massive numbers – more people into entitlement programs while tax revenues go down;
- While the Trump Administration seeks to bring jobs back to the US, automation has eliminated many jobs, and the need for skilled labor that we currently don't have creates a shortage:
  - No place better seen than the protest over the immigration orders;
  - Clearly shrinking number of jobs over time in Pennsylvania.
- Rising interest rates will put pressure on asset values, and squeeze the national budget, as debt levels are astronomically higher than they were the last time interest rates were increasing;
- The 4% GDP that the Trump Administration keeps referencing will take a LONG TIME, if at all, to come to fruition, so the growth needed to offset these negative currents may be too little, too late;
- Community banks can expect very little in the way of regulatory reform, with the greatest hope being attaching small bank initiatives to large bank legislation, which is expected to target the CFPB, OLA (Orderly Liquidation Authority) and other big bank issues;
- Partisanship in Washington (even within the GOP) could keep productive legislation from happening, as was seen with immigration and ACA;
- Timing on stimulative measures is uncertain at best, and the time between enacting legislation and having an impact trickle down to local economies is significant.

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Summary Observations

Summary Observations

- The "Trump Bump" was as much a function of substance (i.e. what could get done) as it was of timing (things getting done SOON) – the reduction in the initial Trump Bump is much more a function of timing slipping than it is of agenda items becoming less likely to get accomplished;

- We are at the end of the current economic cycle and approaching another recessionary environment, the question is whether the stimulative policies of the Trump Administration can have impact soon enough to offset the negative forces that impact asset values, credit and performance;

- The only thing certain about the next few years is uncertainty and volatility:
  - The focus has moved from policy-driven uncertainty ("America First") to international relations, with Russia, Syria, and North Korea at the forefront, and the role of China critical;
  - Although the French election was resolved in an EU-friendly way, and the fate of the European Union is also taking center stage.

- President Trump has reversed course on a number of key issues (NATO, NAFTA, etc.);

- The interconnectivity of these issues and topics is substantial – budget savings from the ACA repeal and replace that did not happen was needed to pay for tax reform, which is thus slowing down a key issue for the market;

- Every stimulative measure has vocal and aggressive opposition, either inside or outside Washington.

Summary Observations

- For banks, the impact of the Trump Administration is LESS about what happens to your bank, and MORE about what happens to your customers;

- Examining loan concentrations in your portfolio can help determine customers (or sectors) that are impacted by pending legislation (health care, retail, agriculture, financial, family owned business);

- All of the following will play a role in the future of your customers and their businesses;
    - Health care reform;
    - Tax reform;
    - Regulatory reform
    - Potential estate tax repeal;
    - Tariffs and trade – border adjustment tax or something related;
    - Immigration and potential lack of suitable hiring candidates.

- There is no certainty that any of the things we discussed today will happen, but anticipating outcomes before they occur will put you ahead of your competition and allow you to anticipate both favorable and unfavorable change.

Buyers: Higher Multiple Doesn't Mean Higher Purchase Price

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Bank buyers nationwide $1 billion - $15 billion with multiple acquisitions since 2005

Buyers who paid the LEAST in P/TBV multiple versus their trading multiple at the time

Highest performing banks pay multiples significantly lower than where they trade

	# of Deals	Avg P / TBV: Multiple Paid in Deal	Avg P / TBV: Buyer Trading Multiple	Disc. to Trading	10-Yr Total Return Vs SNL Bank Index
Buyer 1	6	107	295	(188)	583.9
Buyer 2	2	54	134	(80)	13.5
Buyer 3	10	143	216	(73)	205.9
Buyer 4	3	117	187	(70)	194.0
Buyer 5	2	88	154	(66)	225.4
Buyer 6	3	231	285	(55)	158.6
Buyer 7	6	124	174	(50)	256.6
Buyer 8	2	119	166	(47)	427.1
Buyer 9	6	148	194	(47)	561.7
Buyer 10	2	113	152	(39)	184.2
Buyer 11	2	188	224	(36)	93.5
Buyer 12	4	179	215	(36)	220.7
Buyer 13	2	227	260	(33)	242.3
Buyer 14	7	140	171	(31)	216.5
Buyer 15	2	118	135	(17)	206.9

Banks acquiring other institutions at the most favorable multiples versus their own trading multiples outperformed the SNL Bank Index on a total return basis by anywhere from 13.5% to 583.9% since 2005

Source: SNL Financial. Includes bank and thrifts that announced multiple acquisitions from 1/1/2005-12/31/2016 where the buyer's total assets were between $1 billion and $15 billion and purchase price was disclosed.

Sellers: Currency is a Two-Edged Sword

Highest P/TBV multiples paid 2003-2008 for 100% stock transactions

Effective prices in 2010 and 2013 based on forward buyer price, and impact versus broader market

High multiples largely come from buyers with high valuations

		Announcement		January 1, 2010			January 1, 2013		
Deal	**Date**	**Deal Val.**	**P/TBV**	**Deal Val.**	**P/TBV**	**Change Vs NASDAQ Bank Index**	**Deal Val.**	**P/TBV**	**Change Vs NASDAQ Bank Index**
1	2003	195	**503%**	83	155%	-22%	91	171%	-26%
2	2006	172	**378%**	45	102%	-25%	78	177%	-13%
3	2004	138	**365%**	24	65%	-39%	37	101%	-36%
4	2005	171	**361%**	90	211%	0%	108	252%	3%
5	2006	66	**353%**	37	161%	6%	21	90%	-26%
6	2006	356	**353%**	168	174%	-6%	148	153%	-19%
7	2003	92	**352%**	32	135%	-38%	35	149%	-44%
8	2006	199	**342%**	33	57%	-34%	56	96%	-30%
9	2003	111	**342%**	55	170%	-8%	66	204%	-6%
10	2006	395	**328%**	226	200%	8%	259	230%	10%
11	2003	87	**327%**	32	148%	-25%	44	203%	-19%
12	2005	83	**324%**	46	181%	1%	55	216%	5%
13	2005	621	**322%**	366	193%	7%	420	221%	8%
14	2003	3,375	**319%**	1,819	174%	-19%	2,087	199%	-21%
15	2004	127	**318%**	50	137%	-19%	55	151%	-23%
16	2004	83	**316%**	70	292%	28%	66	276%	16%
17	2005	175	**314%**	104	190%	5%	138	251%	17%
18	2004	588	**298%**	81	42%	-42%	142	74%	-39%
19	2006	10,060	**296%**	1,440	43%	-38%	1,941	58%	-40%
20	2004	344	**289%**	208	230%	5%	183	202%	-10%

Source: SNL Financial. Excludes Wells Fargo and Bank of America. Dollars in millions

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Firm Background and Speaker Biography

Platform of Professional Services Firms

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... Working together to assist our clients in addressing their challenges and opportunities, including those arising from emerging changes in federal policy, law, rule and regulation

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LLC

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- 15 Offices
- 7 States
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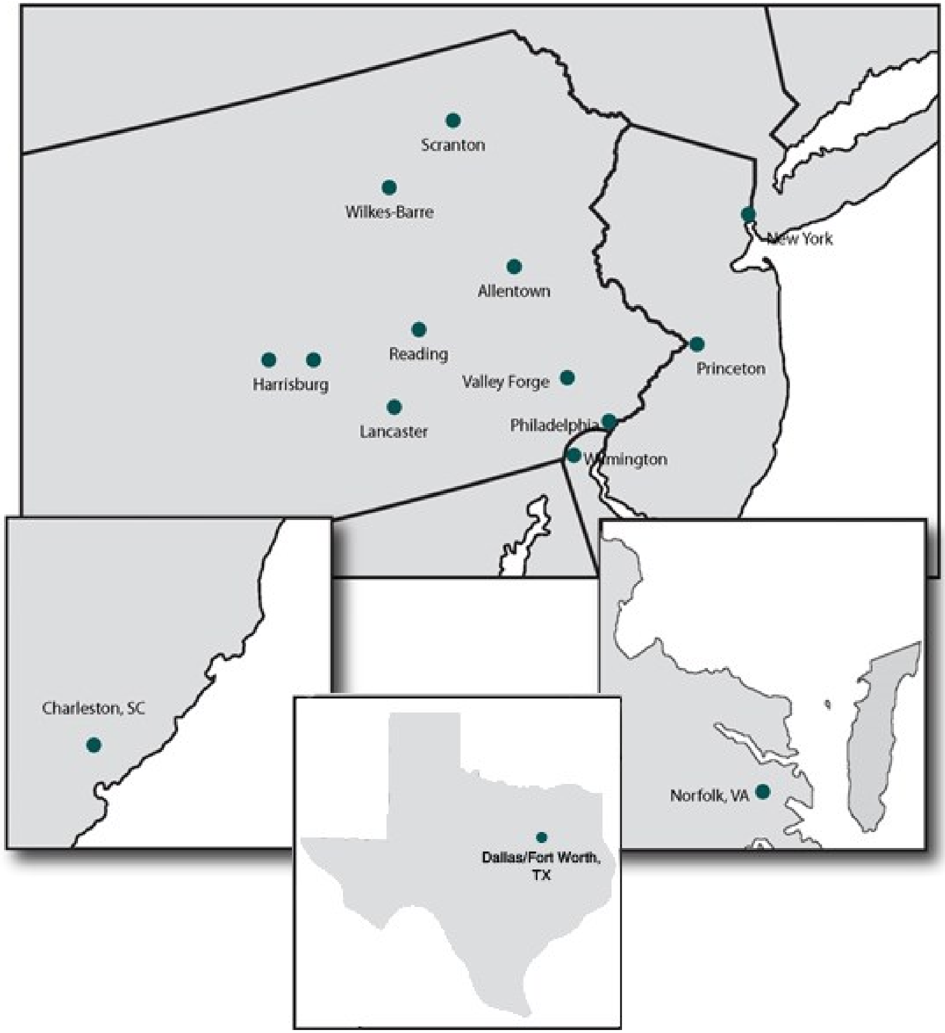
  - Investment bankers
  - Lawyers
  - Accountants
  - Actuaries
  - Economists
  - Former senior executive officers
  - Former corporate finance executives
  - Tax professionals
  - Private Equity Placement Agents
  - Insurance and risk professionals
  - Government Affairs professionals
- Our 200+ multidisciplinary professionals in 7 states enable a national presence



Industry Verticals Within Griffin

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Capital Markets Group

- Public offerings and institutional private placements
- Market making
- Stock buybacks
- Deal and non-deal road shows
- Capital planning and strategic analysis

Commercial, Industrial & Services Group ("CIS")

- Middle market distribution, manufacturing, retail and services companies
- Primarily privately-owned businesses and smaller public companies
  - Family held
  - Partnerships
  - CEO-owned
  - Private equity owned

Financial Institutions: Depository Institutions & Specialty Lending Group

- Banks and thrifts
- Asset managers
- Mortgage banks
- Consumer credit companies
- Commercial finance companies
- Asset Liability management
- Securitization
- Both publicly and privately-owned

Financial Restructuring Group ("FRG")

- Middle market distribution, manufacturing, retail and service companies
- Primarily privately owned businesses
  - Debtors-in-possession
  - Overleveraged balance sheet
  - EBITDA negative
  - Legal/operation challenges
  - Out-of-favor industries

Healthcare Group

- Middle market healthcare companies
  - Healthcare technology
  - Healthcare equipment and supplies
  - Medical laboratory services
  - CROs and CDMOs
  - Pharmaceuticals
  - Biotechnology and medical devices
  - Life science tools and services
- For-profit and non-profit healthcare institutions
  - Hospitals and healthcare centers
  - Physician practices
  - HMOs and healthcare insurers

Financial Institutions: Insurance Group

- Stock insurance companies
- Mutual insurance companies
- Reinsurers
- Captives and risk retention groups
- Service providers and third-party administrators
- Agencies, MGAs & MGUs, and brokers
- Both publicly and privately-owned

Private Equity

- Private equity sponsors
- Hedge fund sponsors
- Asset managers
- Institutional LPs
- Pension funds
- Family Offices
- Direct investment
- Co-investment

Real Estate Finance

- RE Asset Management
- Strategic Planning
- Sale and leaseback structuring
- Debt and equity capital raising
- Joint venture partner search and structuring
- Portfolio restructuring advisory
- Transactional management
- Risk financial models
- Financial and operational review, benchmarking and diagnostics

Why Griffin is Different

Deal Volume and Track Record	Strong Research Capabilities
♦ Over 200 transactions closed by Griffin since founding in 2001 ♦ Over 1,000 transactions closed by Griffin Principals during careers ♦ Broad sector experience	♦ Full-time research professionals ♦ Intensive research, analytical, and modeling capabilities ♦ Access to numerous databases – Bloomberg, Capital IQ, Preqin, SNL, etc.
Financial Accounting and Tax	**Management Perspective**
♦ Former Big Four professionals with in-depth understanding of M&A accounting and tax issues ♦ Hands on experience applying FASB and mark-to-market rules ♦ Extensive due diligence and forensic accounting expertise	♦ Many of our investment bankers are former executive level managers with entrepreneurial skill sets ♦ Enables us to understand your problems and opportunities and strive for creative solutions from your perspective
Depth and Breadth	**Middle Market Focus**
♦ Affiliation with a large professional service organization ♦ Diverse capital markets and M&A experience ♦ Expertise complements and enhances our ability to provide quality and certainty of execution ♦ Fluency in numerous foreign languages, including Portuguese and Mandarin Chinese	♦ Specializing in closely held private and small-cap public companies ♦ Broad experience with industrial and services companies ♦ Particular expertise regarding operating subsidiaries, family-owned and owner-operated businesses, and related issues

Speaker Biography

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Mr. Quad is a Senior Managing Director and Co-Head of the Financial Institutions Group at Griffin Financial, where he is a trusted advisor to management teams and boards of directors of banks largely $10 billion in assets and below in the Northeast and other select geographies. Mr. Quad joined Griffin in August 2012, prior to which he was most recently Managing Director and Head of U.S. Financial Institutions M&A for RBC Capital Markets, where he had been since 2001. Mr. Quad joined RBC following its acquisition of Tucker Anthony Sutro, where he was a Vice President in its Financial Institutions Group.

Mr. Quad has completed buy-side and sell-side acquisitions, common stock, preferred and trust preferred offerings, and generai advisory engagements for clients throughout the northeast United States. Some of the assignments that Mr. Quad has completed include the sale of Lake Sunapee Bank Group to Bar Harbor Bankshares, the purchase of Chicopee Bancorp by Westfield Financial Inc., purchases of Lake National Bank and FC Bank by CNB Financial Corporation, the $50 million issuance of investment grade subordinated debt by CNB Financial Corporation; the sale of Connecticut River Bancorp to Mascoma Mutual Financial Services Corporation, the sale of RBC Bank USA to PNC Financial Corporation, the FDIC-assisted acquisitions of Wakulla Bank and Gulf State Community Bank by Home BancShares, Inc., the merger of Westborough Financial Services, Inc. into Assabet Valley Bancorp, the sale of Capital Crossing Bank to Lehman Brothers; the sale of Community Capital Bank to Carver Bancorp, Inc.; the sale of Mystic Financial, Inc. to Brookline Bancorp; the sale of specialty lender AmeriFee Corporation to Capital One Financial Corporation; the acquisition by Richmond County Financial Corporation of seven branches from FleetBoston Financial Corporation; and the acquisitions of North American Bank Corporation and thirteen branches of Shawmut Bank for Banknorth Group, Inc. while running Bankorth's internal M&A function.

Prior to joining Tucker Anthony Sutro, Mr. Quad was a Vice President in the Financial Institutions Group at Advest, Inc., where he also worked with financial institutions clients. Preceding Advest, Mr. Quad was Vice President and Director of Mergers and Acquisitions for Banknorth Group, Inc., at the time a $2 billion bank holding company headquartered in Burlington, Vermont, where he founded the company's internal M&A function and coordinated the bank's first two acquisitions and an internal restructuring of the company's trust subsidiaries. At Banknorth, Mr. Quad also gained valuable experience in cost accounting and budgeting, asset/liability management, consolidation accounting and SEC and regulatory reporting.

Mr. Quad holds a B.S. in Business Administration from The University of Vermont, magna cum laude, and an M.B.A. from Cornell University, with distinction. Mr. Quad is a Series 7 and Series 63 registered representative.

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