

Are Community Banks Going the Way of the Dinosaurs?

RBC Capital Markets, LLC

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November 8, 2011

This report is priced as of market close November 4, 2011 ET unless otherwise noted.

All values in U.S. dollars unless otherwise noted.

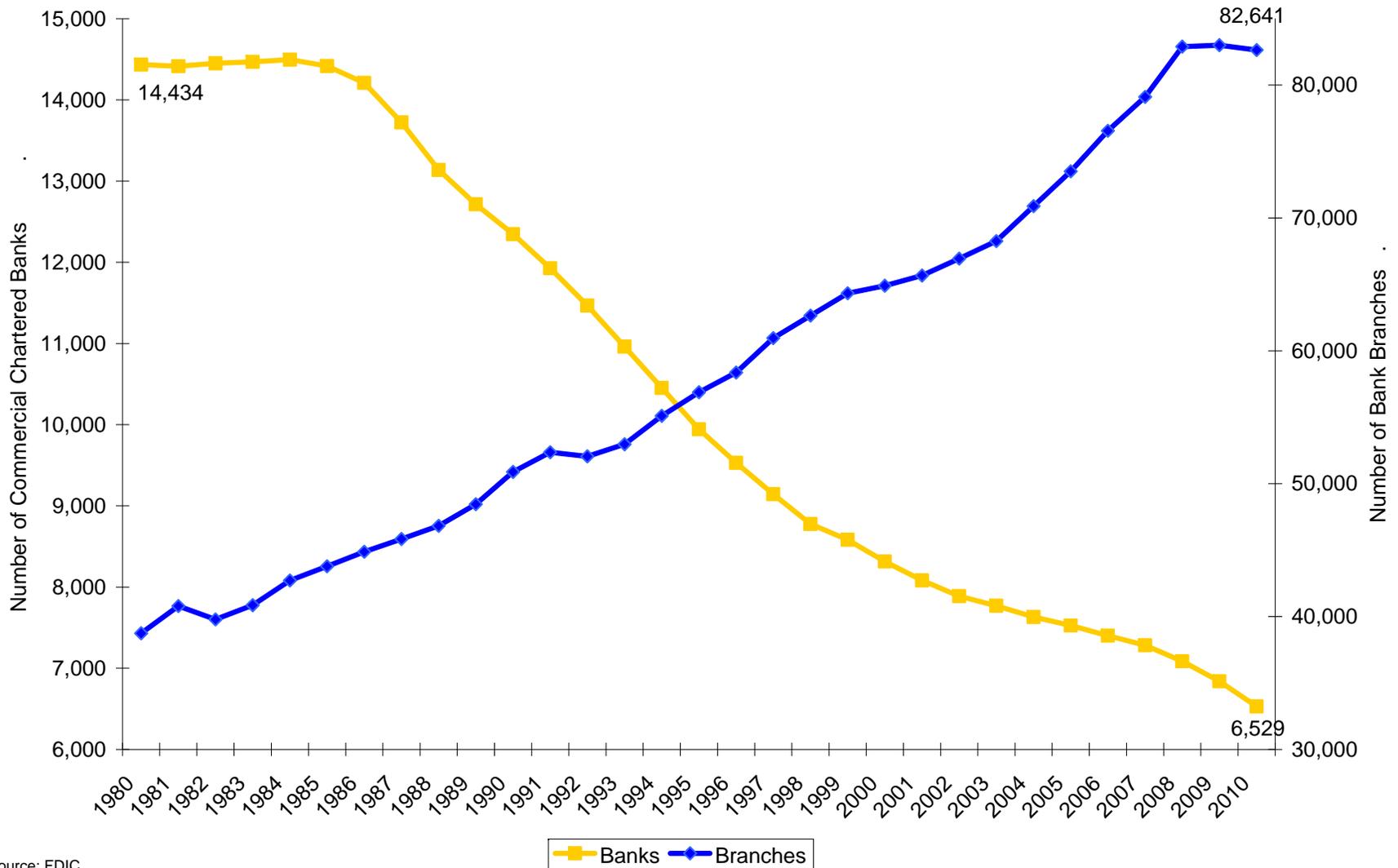
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Total Commercial Banks and Branches

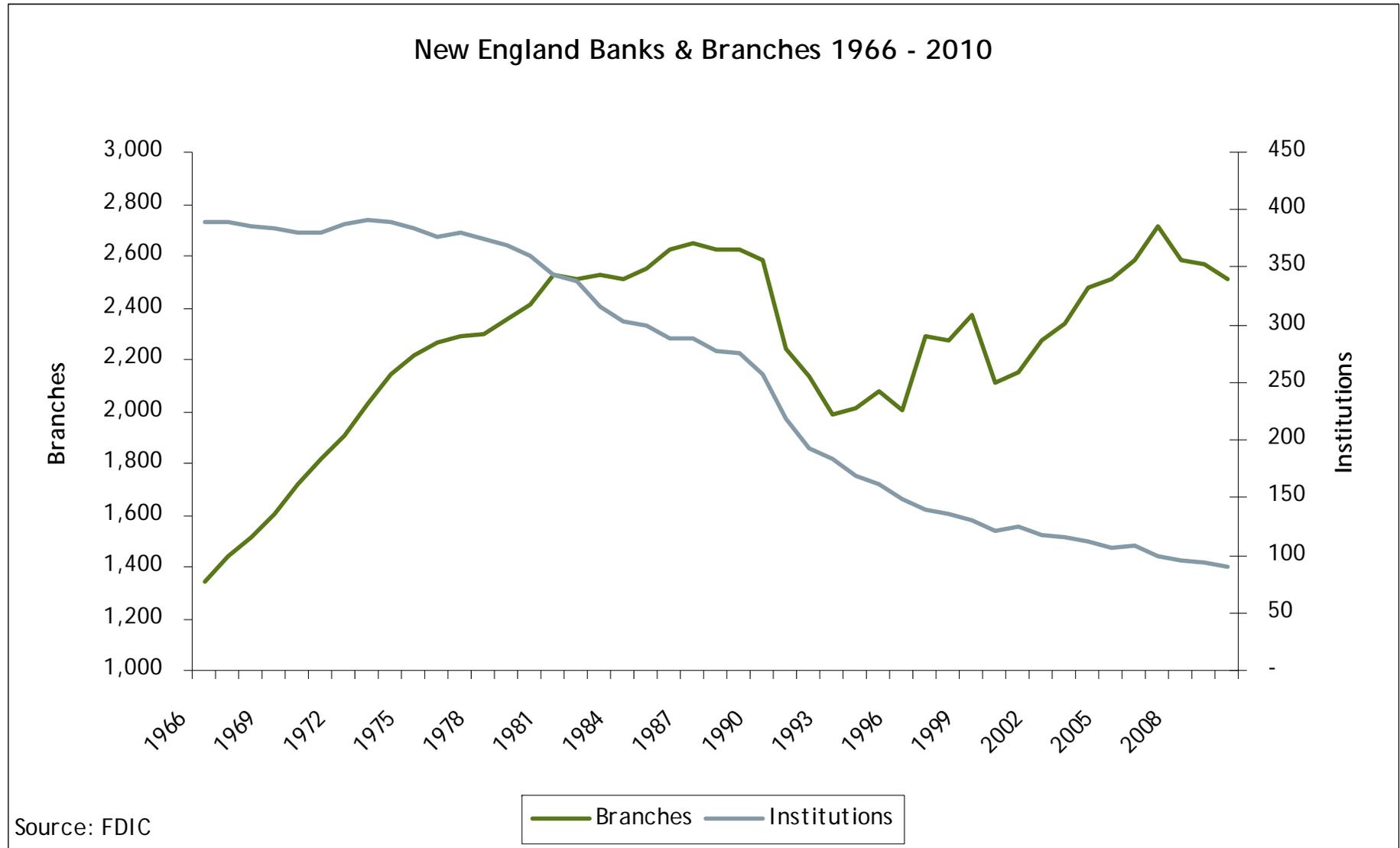
Number of Commercial Banks vs. Number of Branches



Source: FDIC
Data as of December 31, 2010

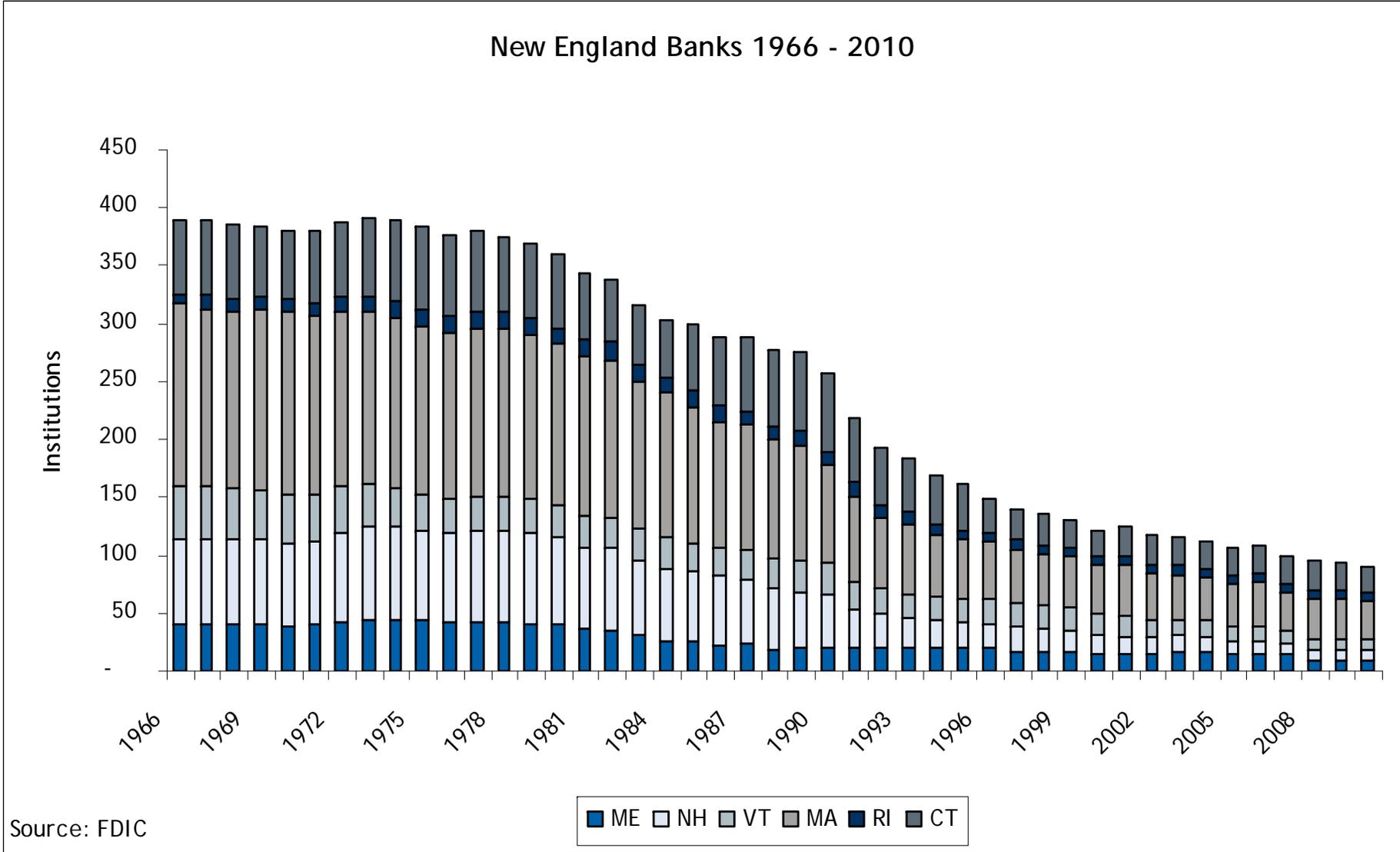
New England Consolidation

New England Banks and Branches 1966 - 2010



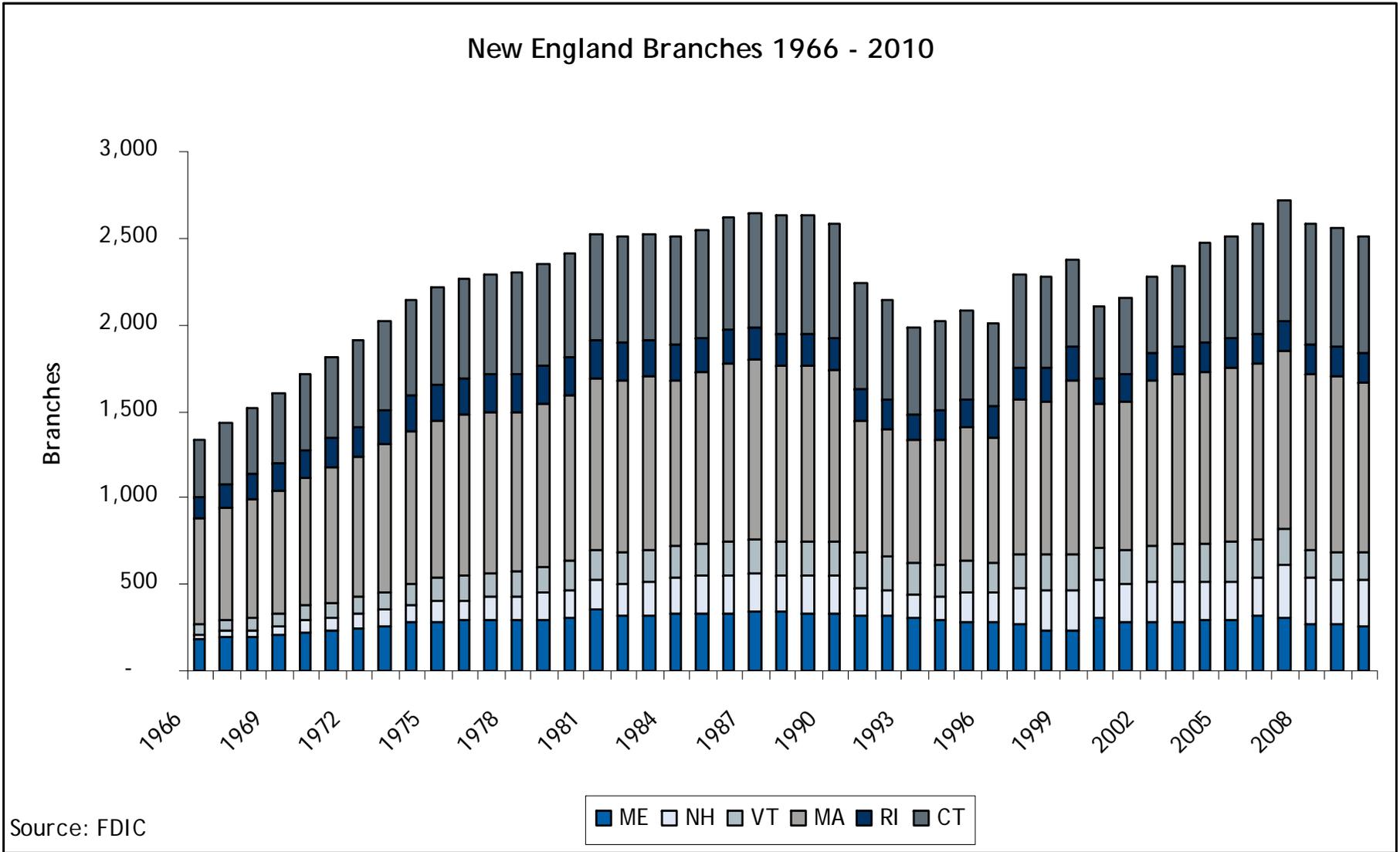
New England Consolidation

New England Banks State Breakout 1966 - 2010



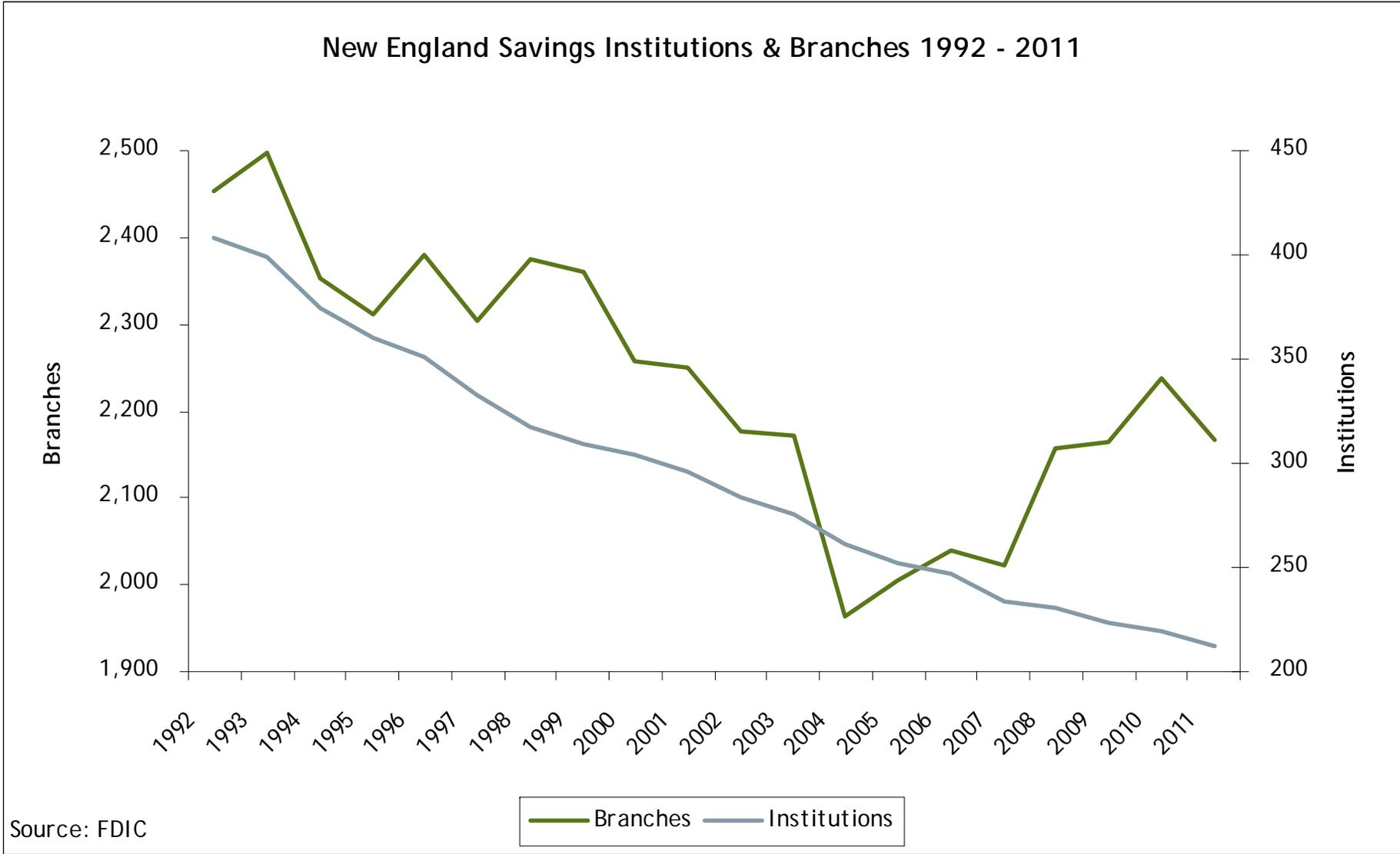
New England Consolidation

New England Branch State Breakout 1966 - 2010



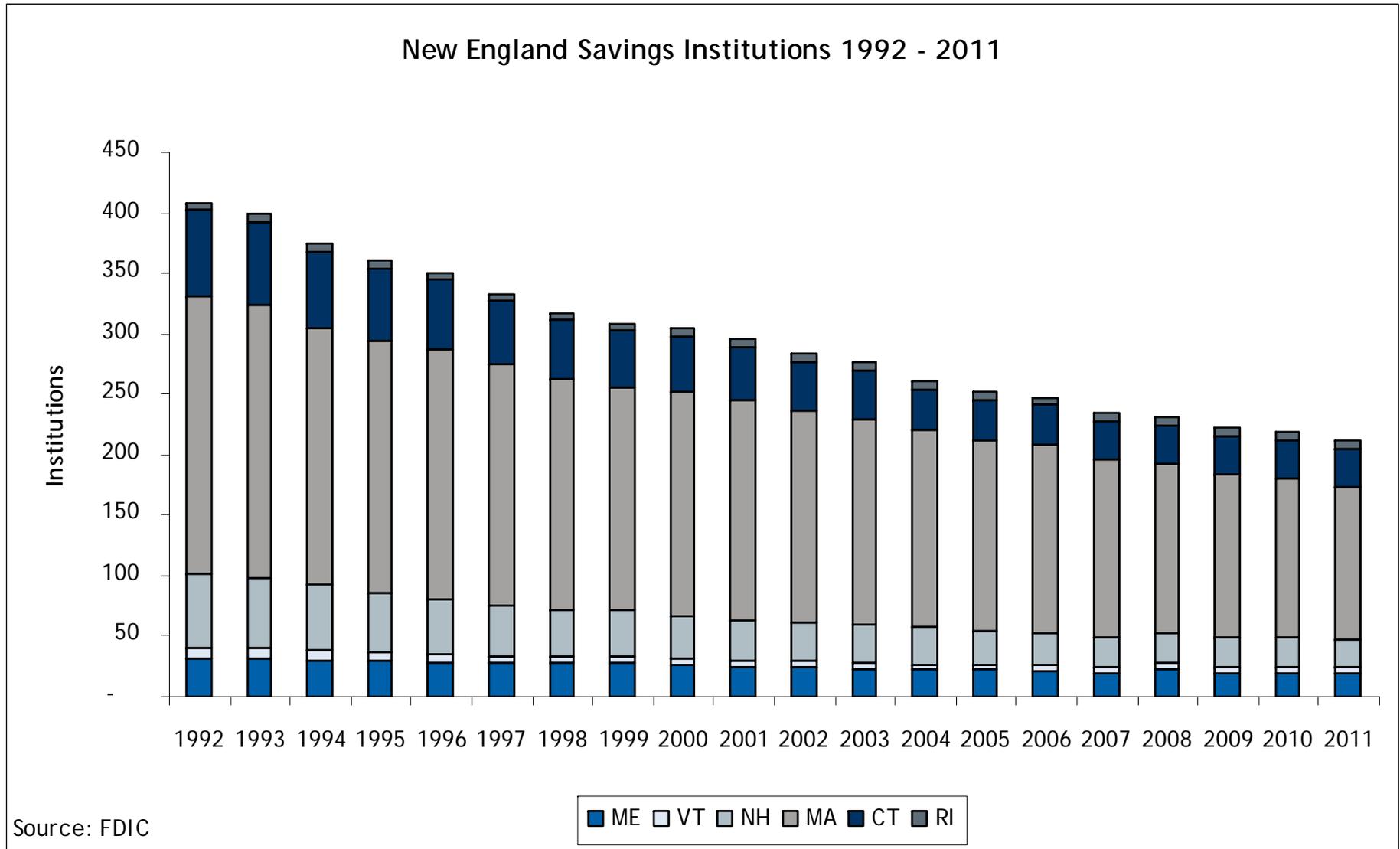
Savings Institutions

New England Savings Institutions and Branches 1992 - 2011



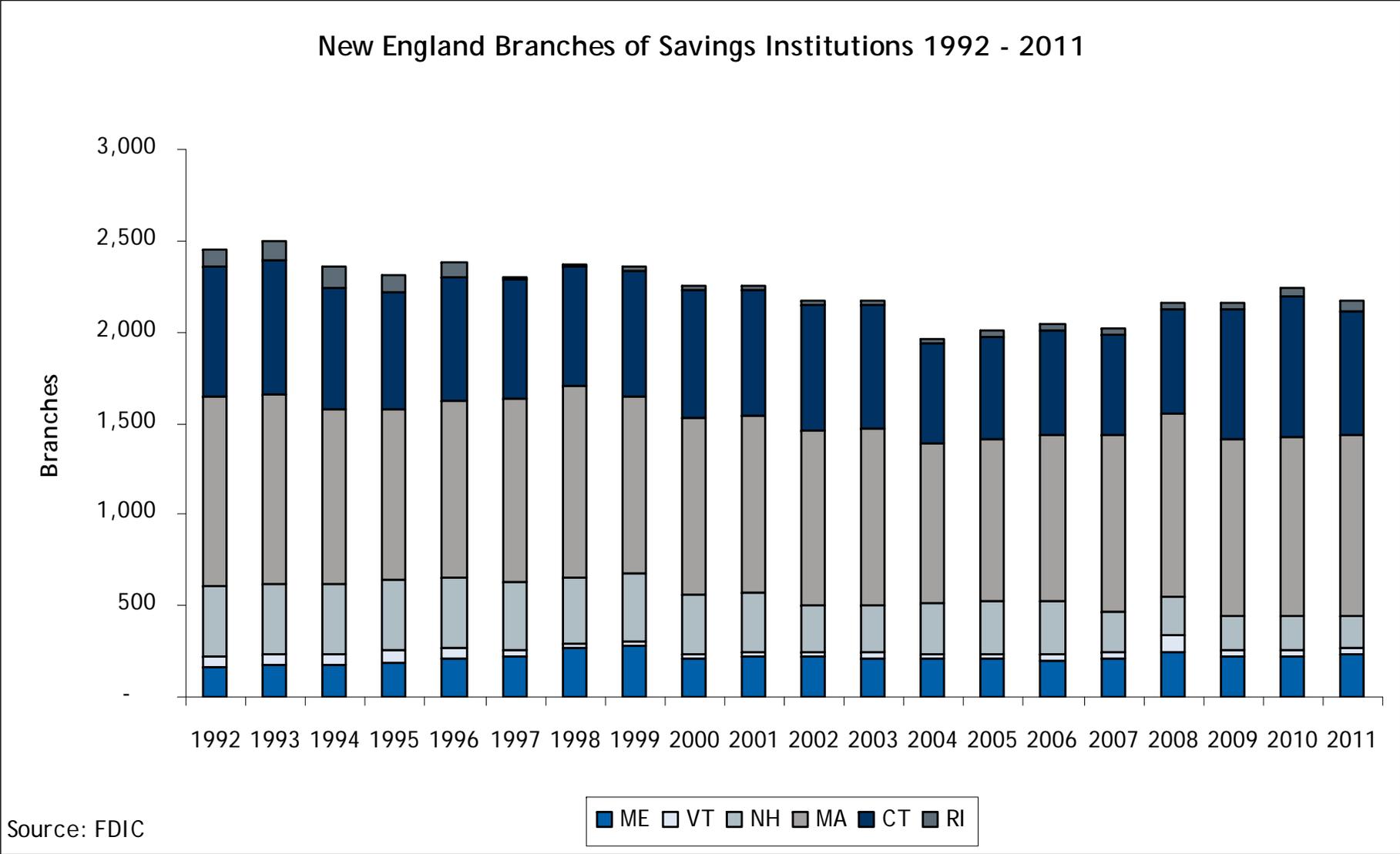
Savings Institutions

New England Savings Institutions State Breakout 1992 – 2011



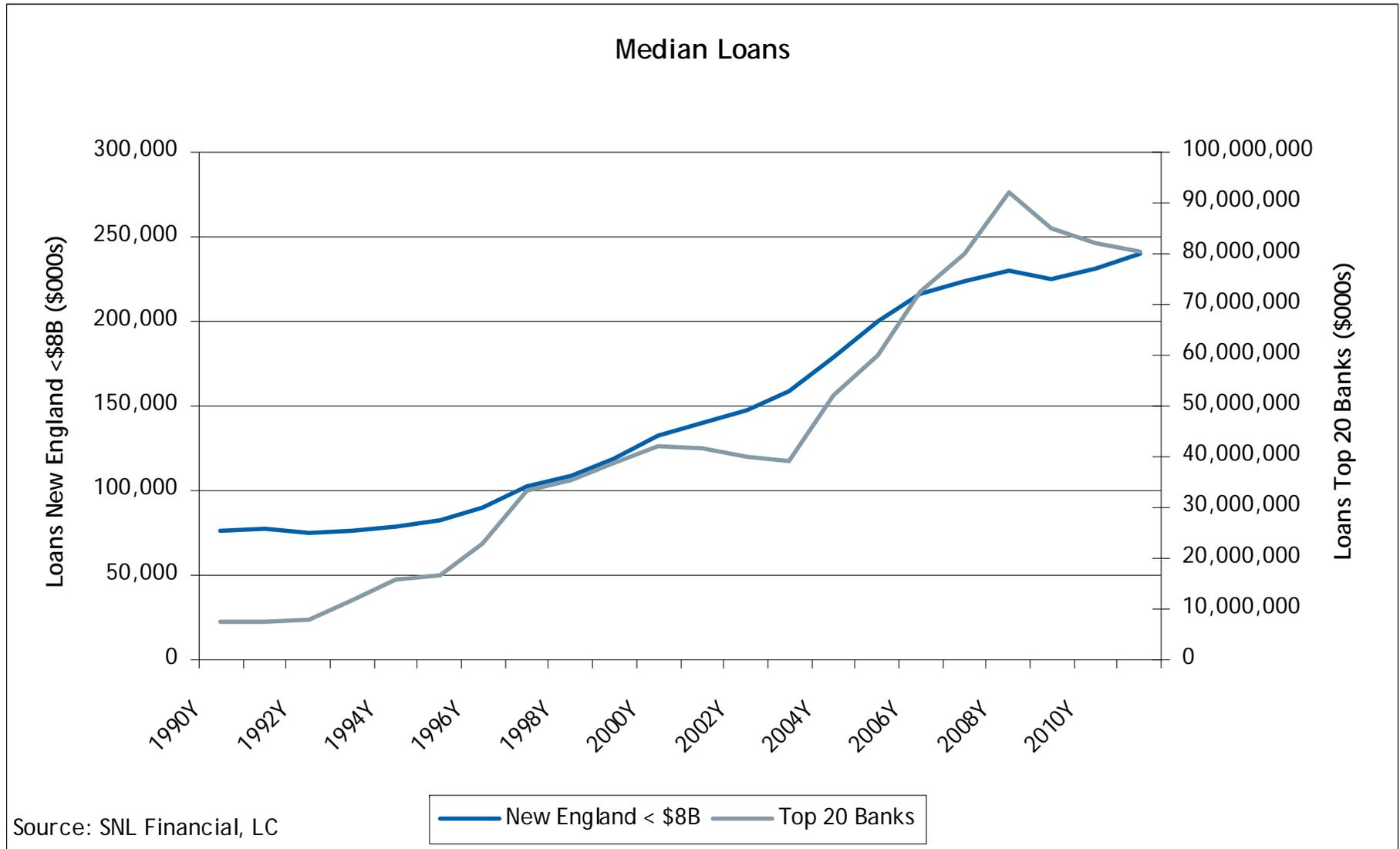
Savings Institutions

New England Savings Institutions Branch State Breakout 1992 – 2011



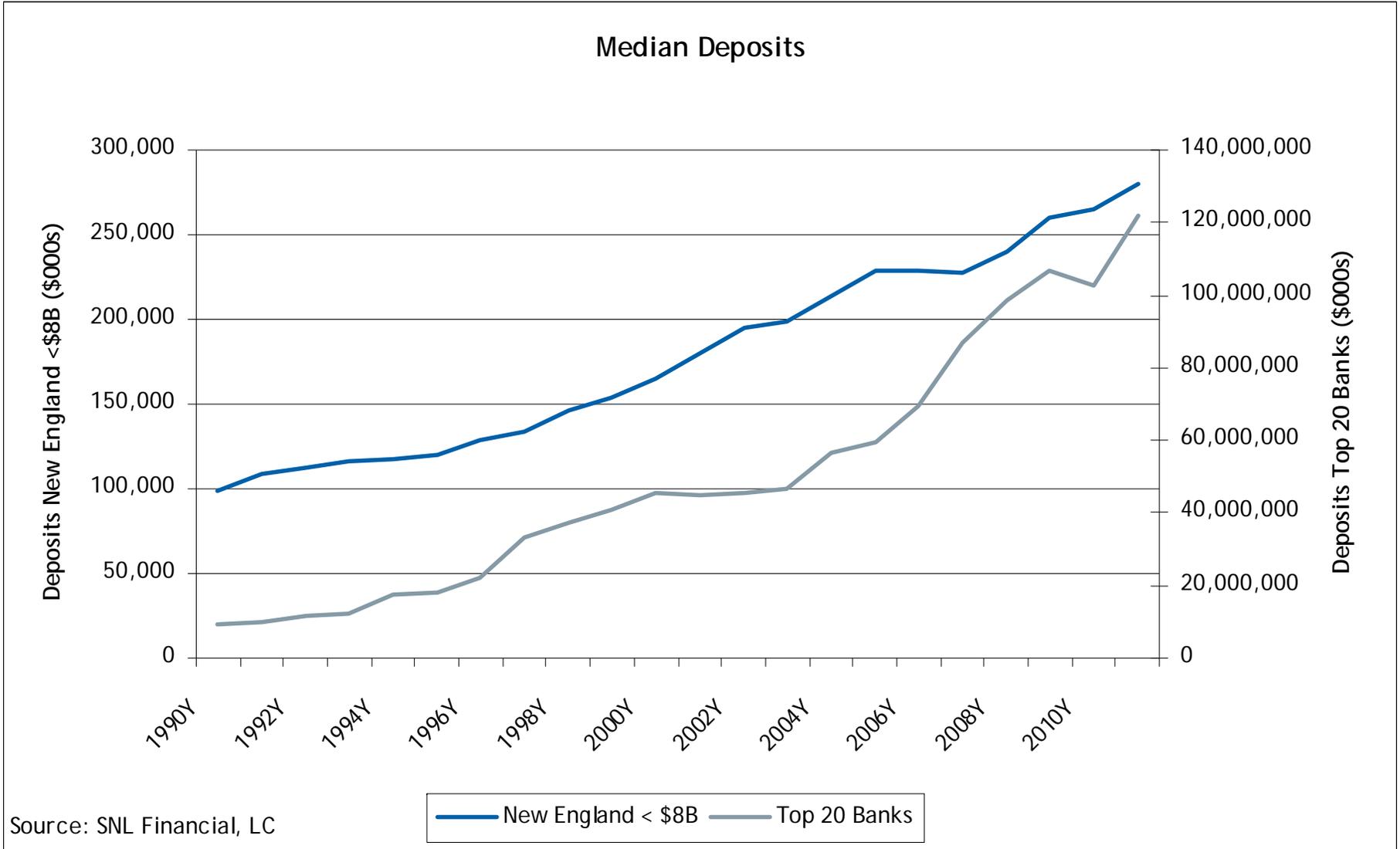
New England Community Banks & Thrifts vs. Top 20 Commercial Banks

Loans



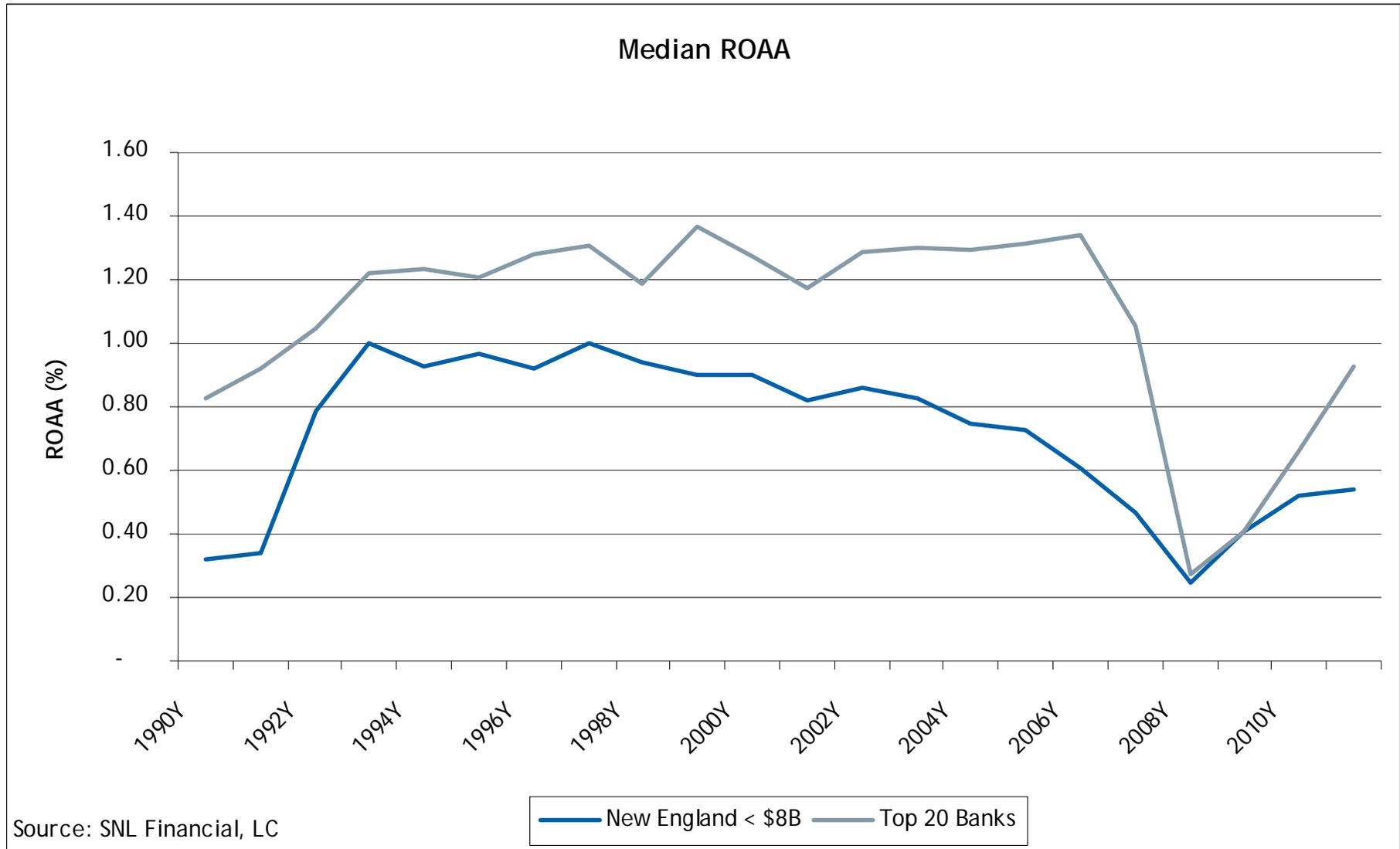
New England Community Banks & Thrifts vs. Top 20 Commercial Banks

Deposits



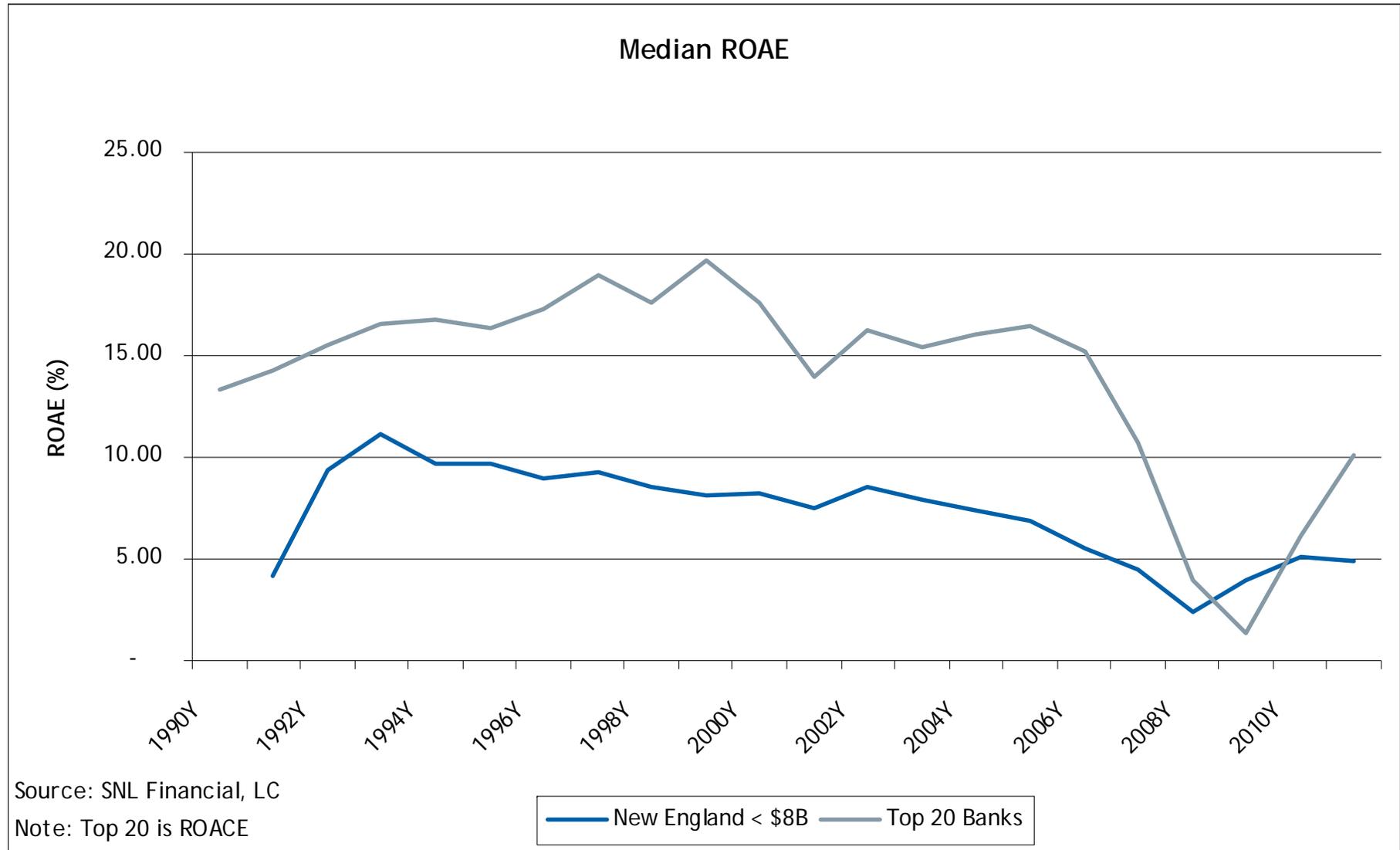
New England Community Banks & Thrifts vs. Top 20 Commercial Banks

ROAA



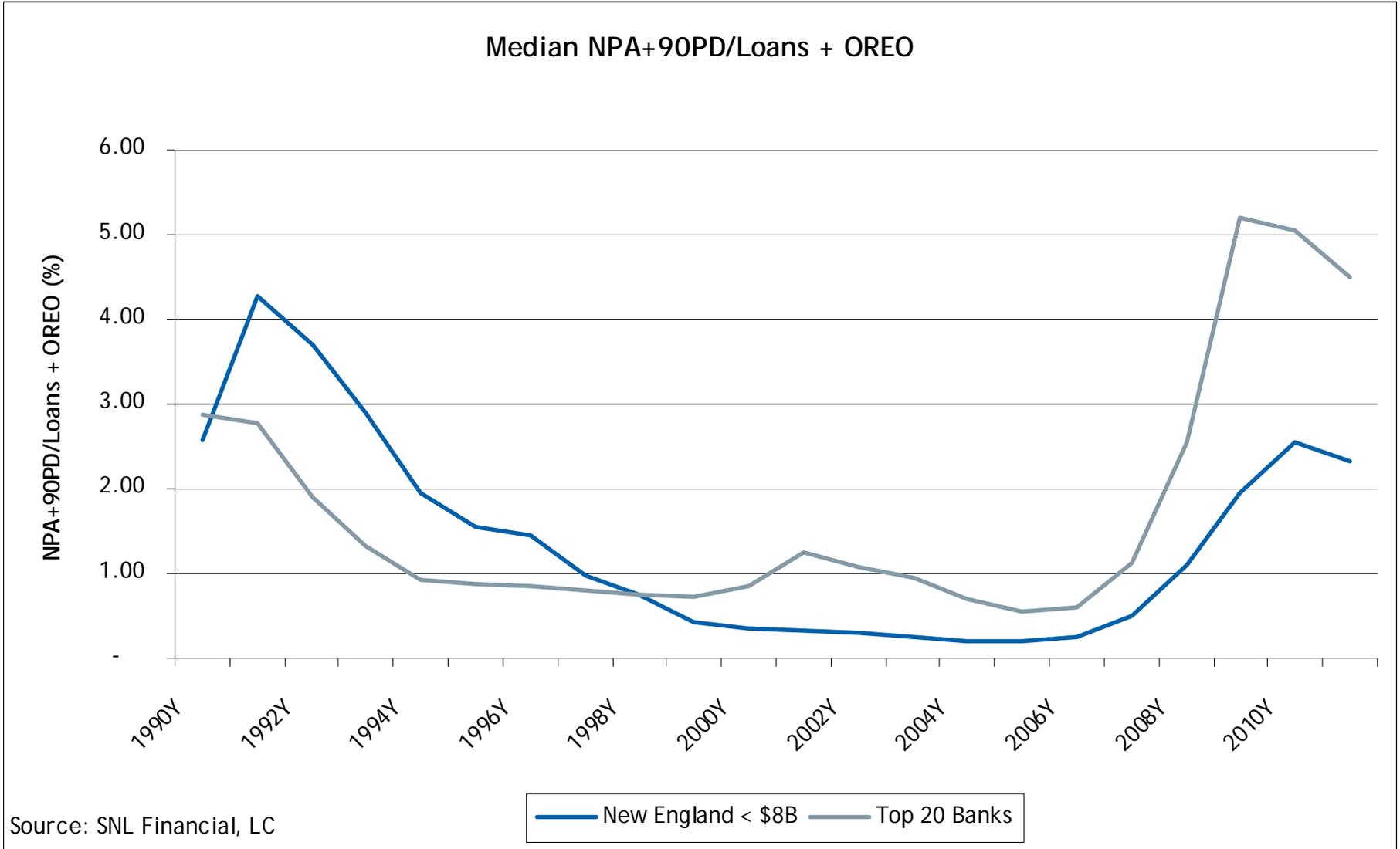
New England Community Banks & Thrifts vs. Top 20 Commercial Banks

ROAE



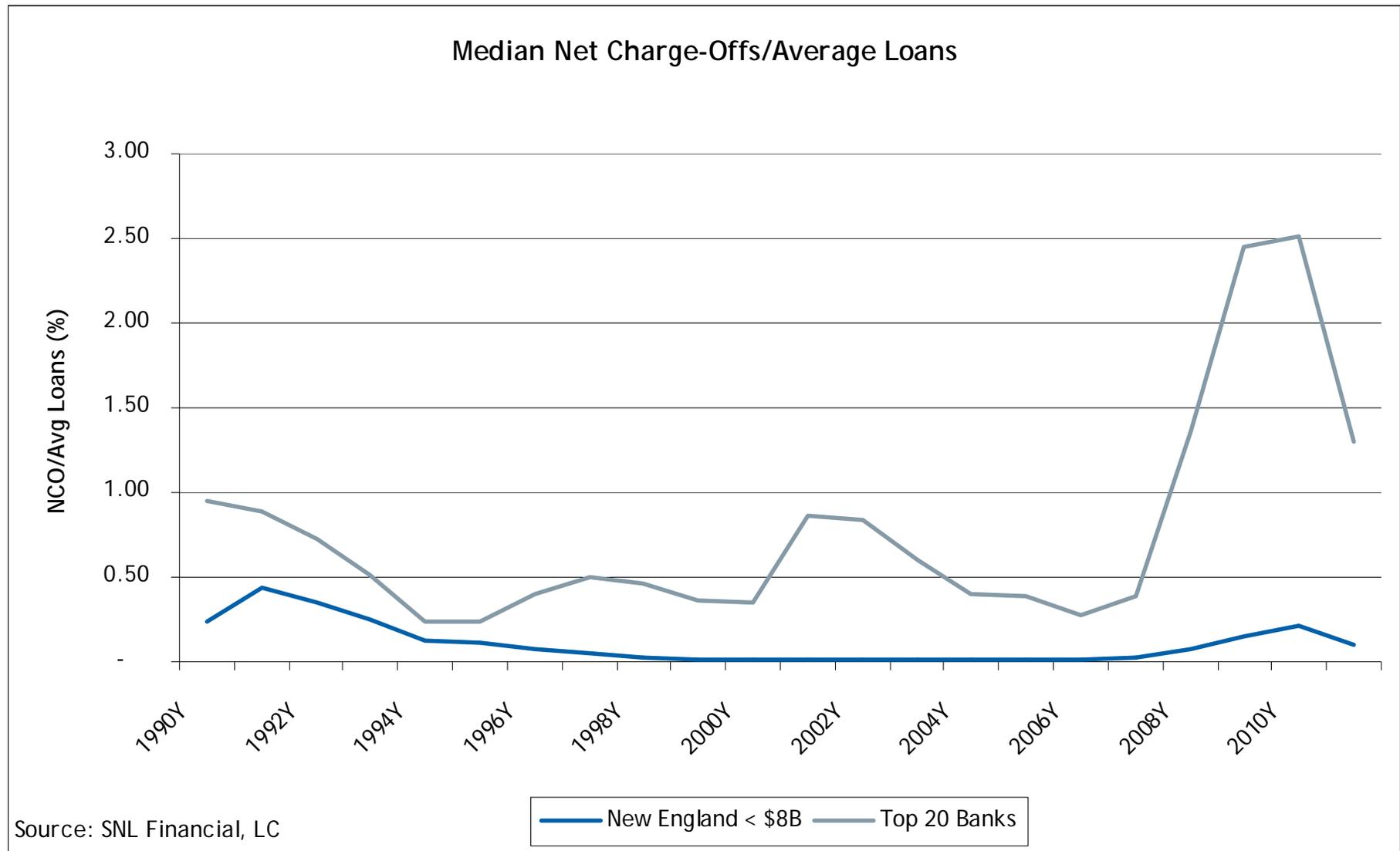
New England Community Banks & Thrifts vs. Top 20 Commercial Banks

NPA+90PD/Loans+OREO



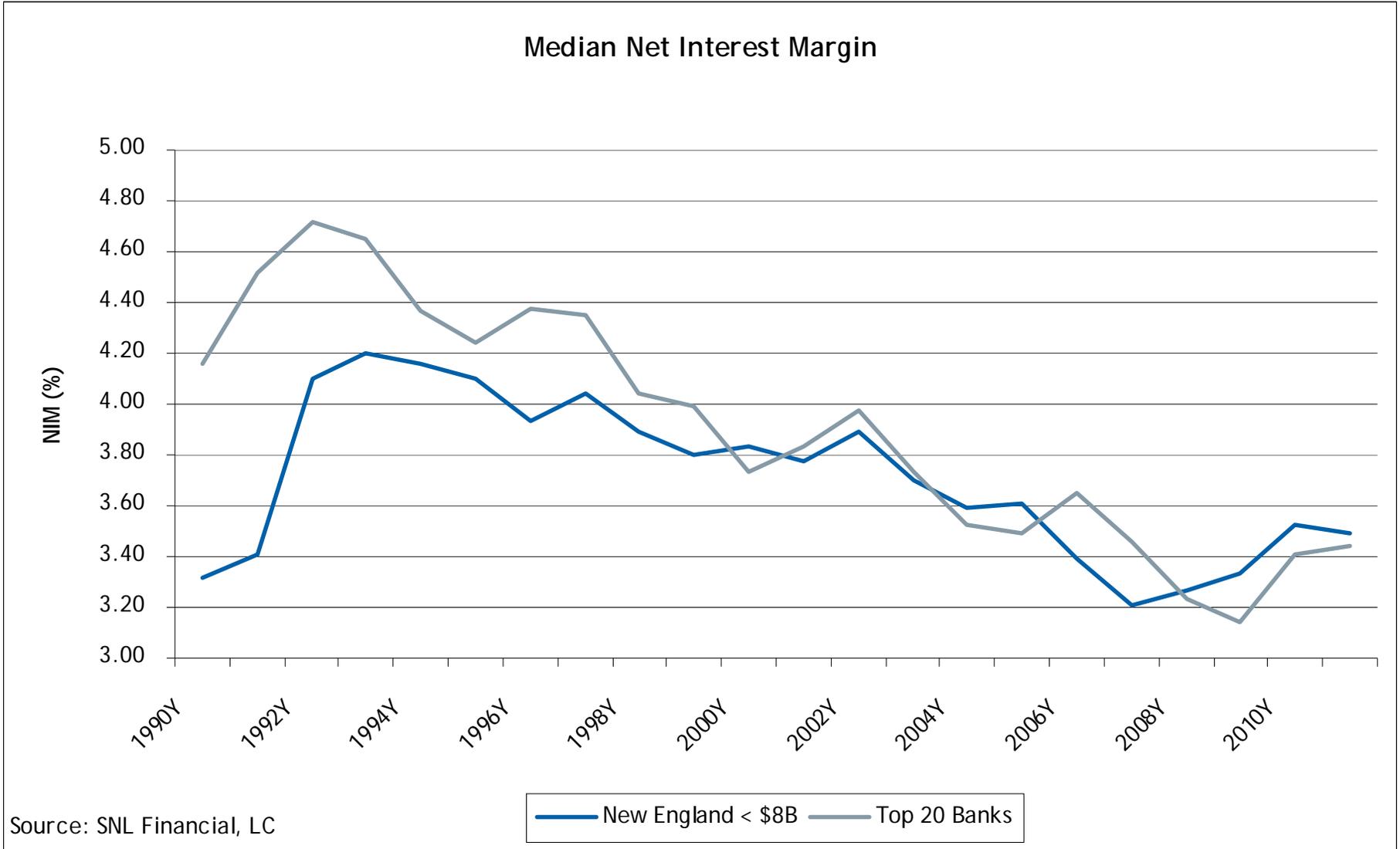
New England Community Banks & Thrifts vs. Top 20 Commercial Banks

Net Charge-Offs/Average Loans



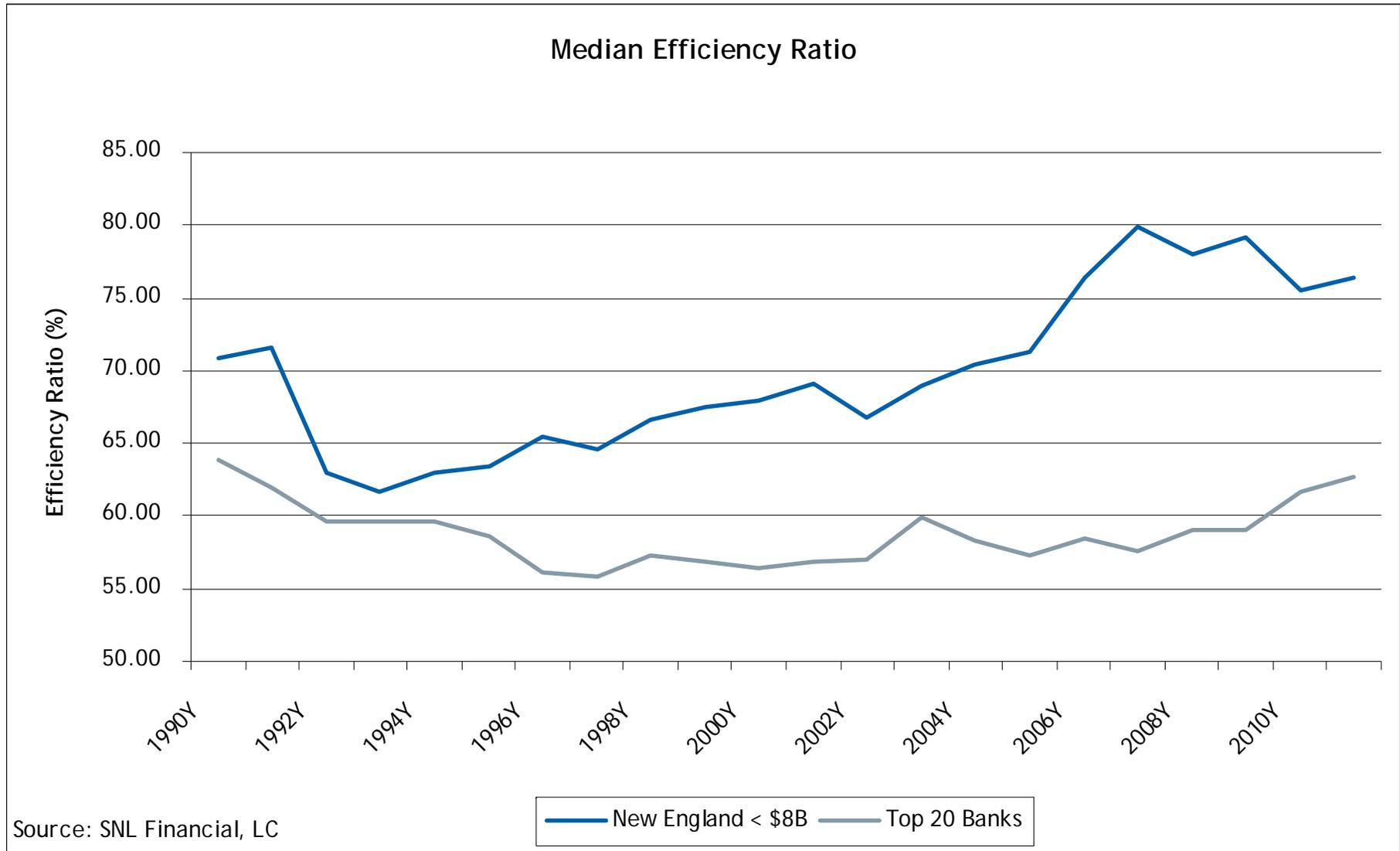
New England Community Banks & Thrifts vs. Top 20 Commercial Banks

Net Interest Margin



New England Community Banks & Thrifts vs. Top 20 Commercial Banks

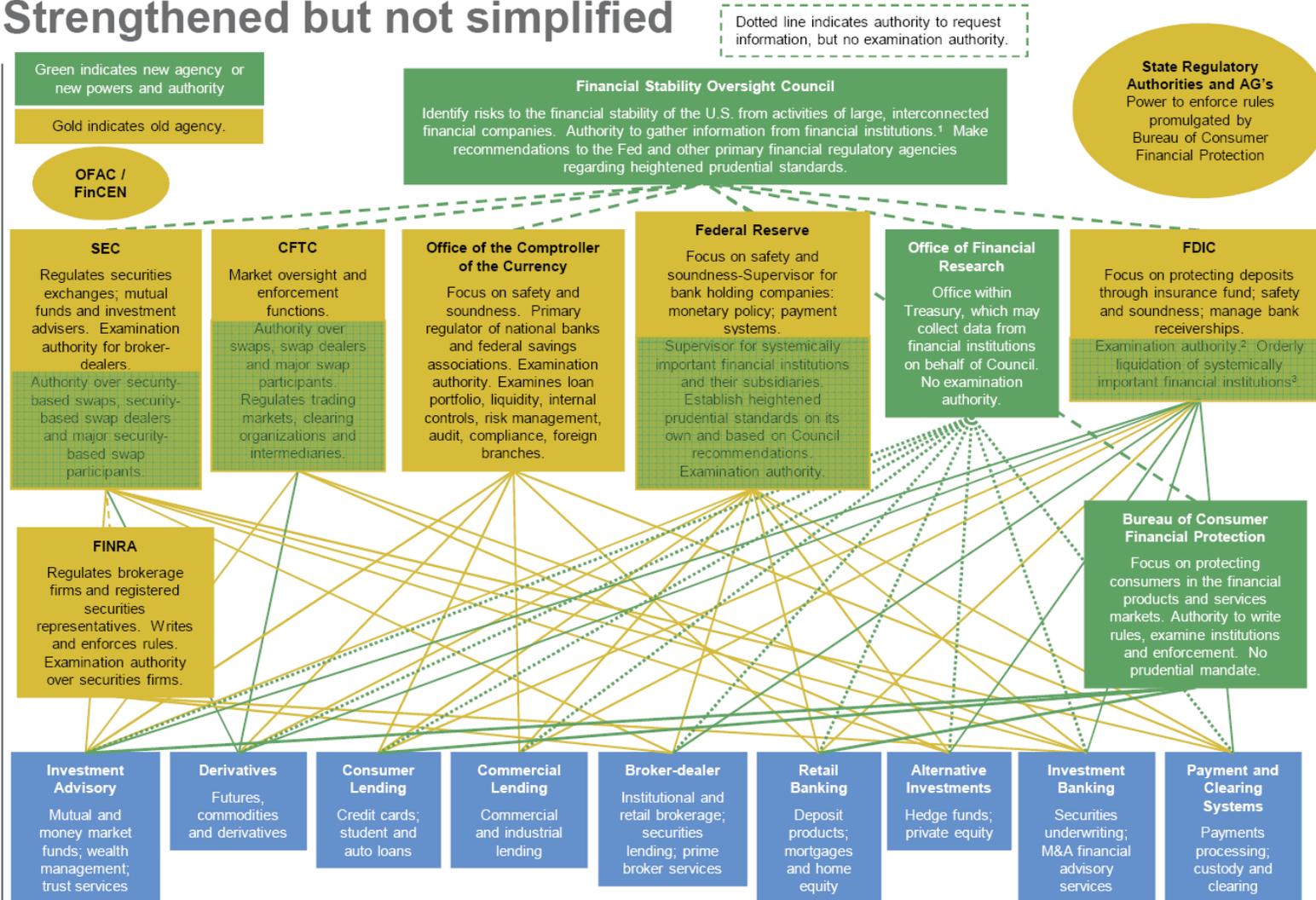
Efficiency Ratio



Regulation

Agencies and Powers

Strengthened but not simplified



This chart assumes these activities are conducted in a systemically important bank holding company (BHC)
¹ The Council, through Office of Financial Research, may request reports from systemically important BHCs
² FDIC may conduct exams of systemically important BHCs for purposes of implementing its authority for orderly liquidations, but may not examine those in generally sound condition
³ The Dodd-Frank Act expanded the FDIC's authority when liquidating a financial institution to include the bank holding company, not just entities that house FDIC-insured deposits



Strategies to Lower the Efficiency Ratio

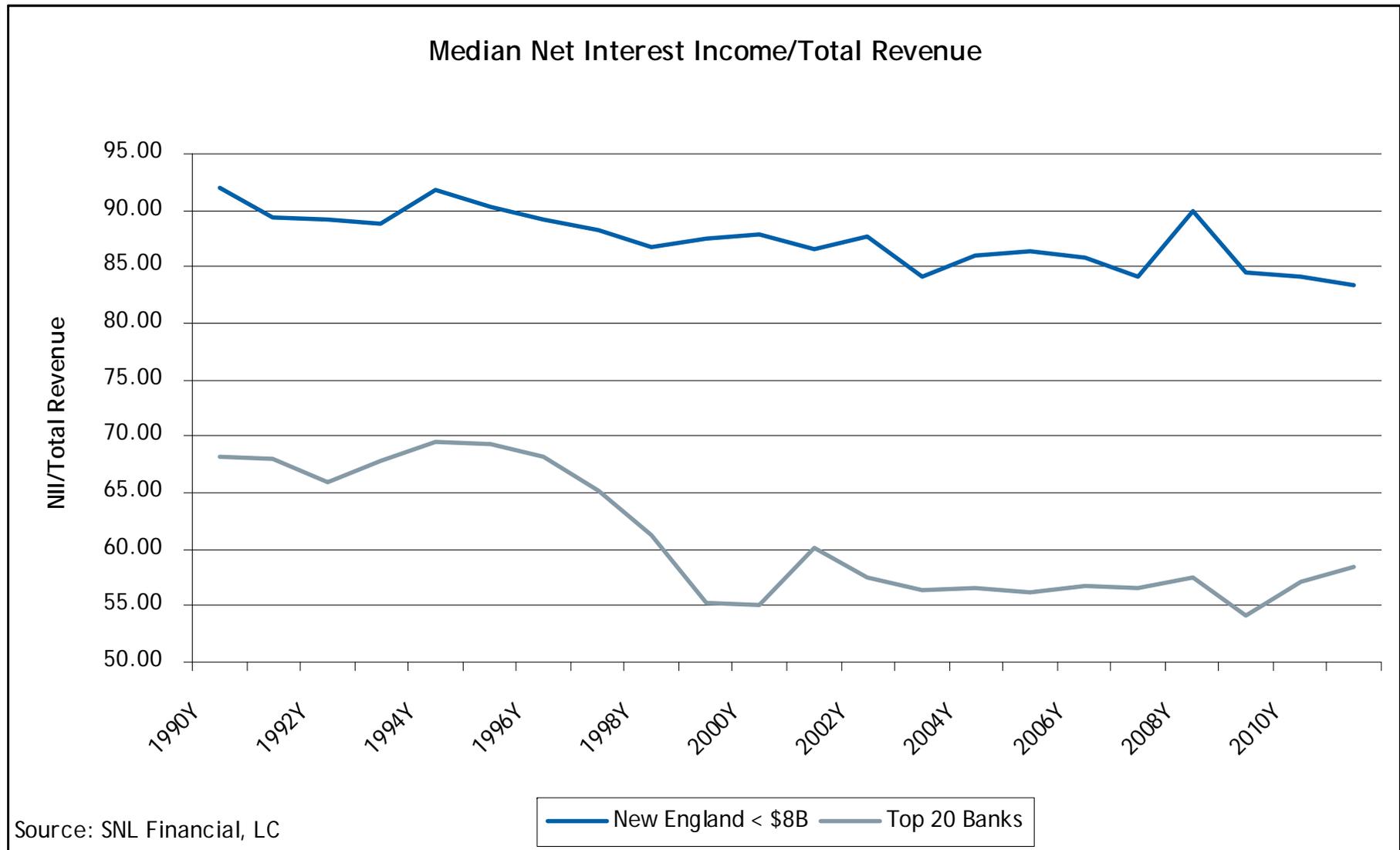
- Lower Operating Costs
 - Branch Optimization
 - Increased Use of Technology
 - Cut Layers of Management

- Increase Net Interest Revenues
 - Loan Mix Change
 - Turning Back High Cost Deposits
 - Increase Yields in Bond Portfolio with High Grade Corporate Bonds

- Increase Fee Revenues
 - Foreign ATM Fees
 - Re-pricing of Deposit Products
 - Increase Loan Fees

New England Community Banks & Thrifts vs. Top 20 Commercial Banks

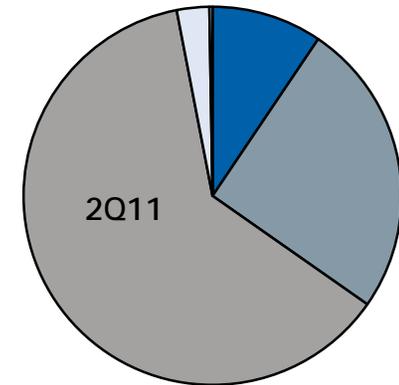
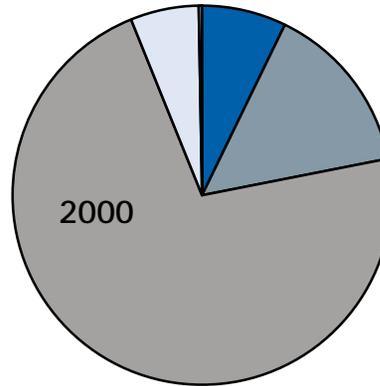
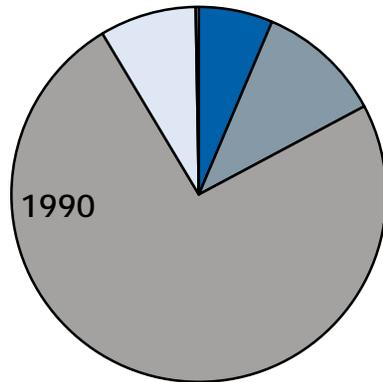
Net Interest Income/Total Revenue



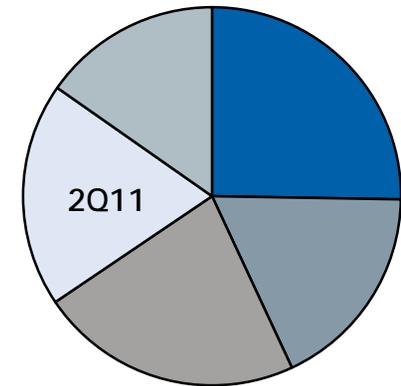
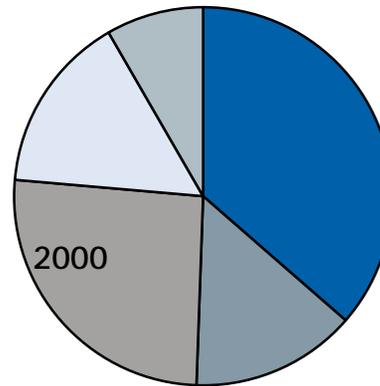
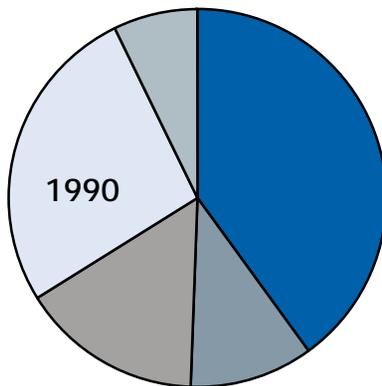
Loan Composition

C&I, CRE, Residential Mortgage, Consumer, and Other: 1990, 2000, 2011 MRQ

New England < \$8B



Top 20 Banks



Source: SNL Financial, LC

Strategies to Generate Loan Growth

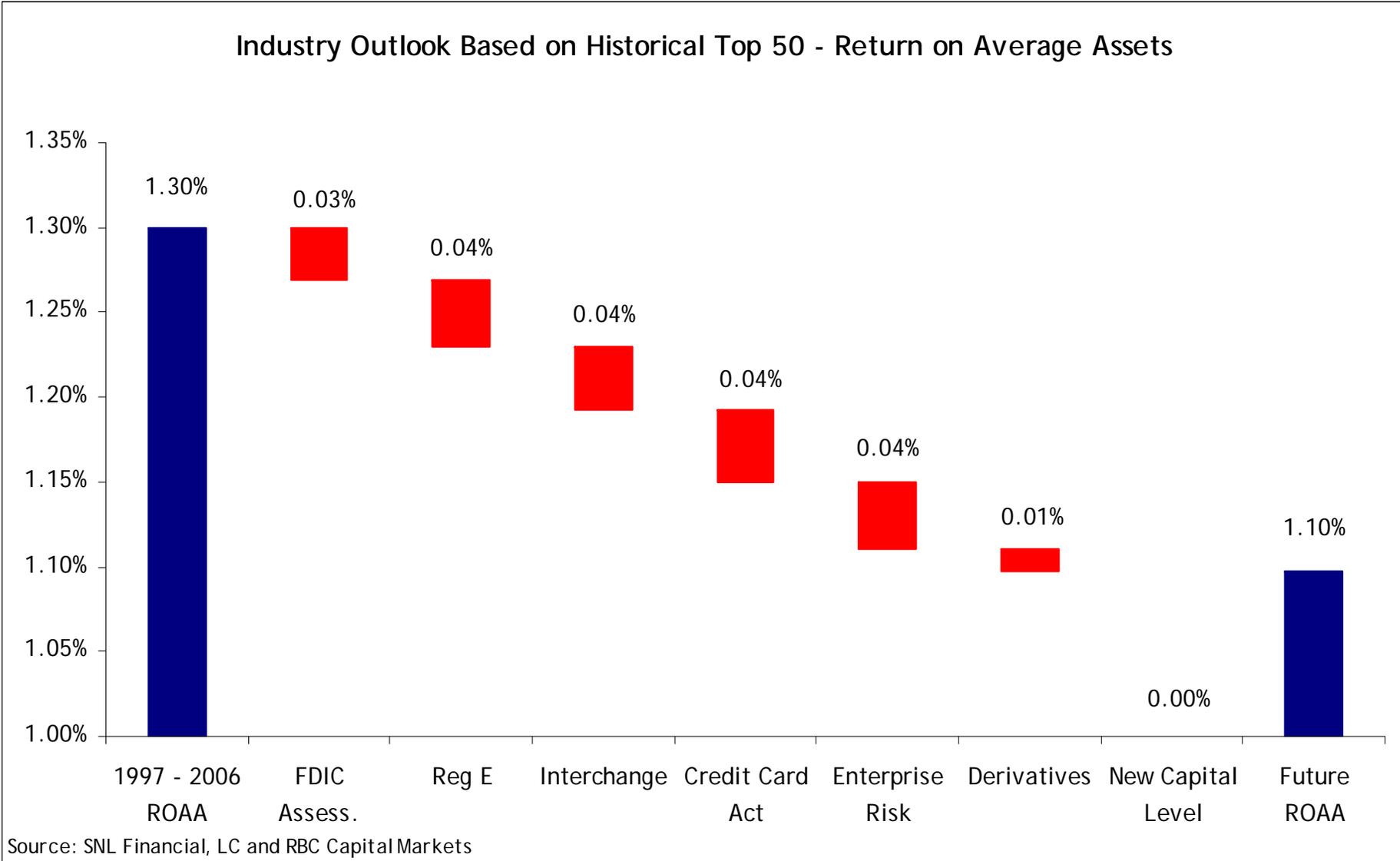
- ❑ Develop Commercial and Industrial Lending Capabilities
 - ❑ Hire Seasoned Commercial Lenders
 - ❑ Pay for Performance
 - ❑ Commercial Deposits Linked to Loans

- ❑ Enhance Commercial Real Estate Presence
 - ❑ Target Niche Commercial Real Estate Mortgage Markets
 - ❑ Selective Construction Lending

- ❑ Residential Mortgage
 - ❑ Jumbo Mortgages
 - ❑ Non-Conforming Mortgages

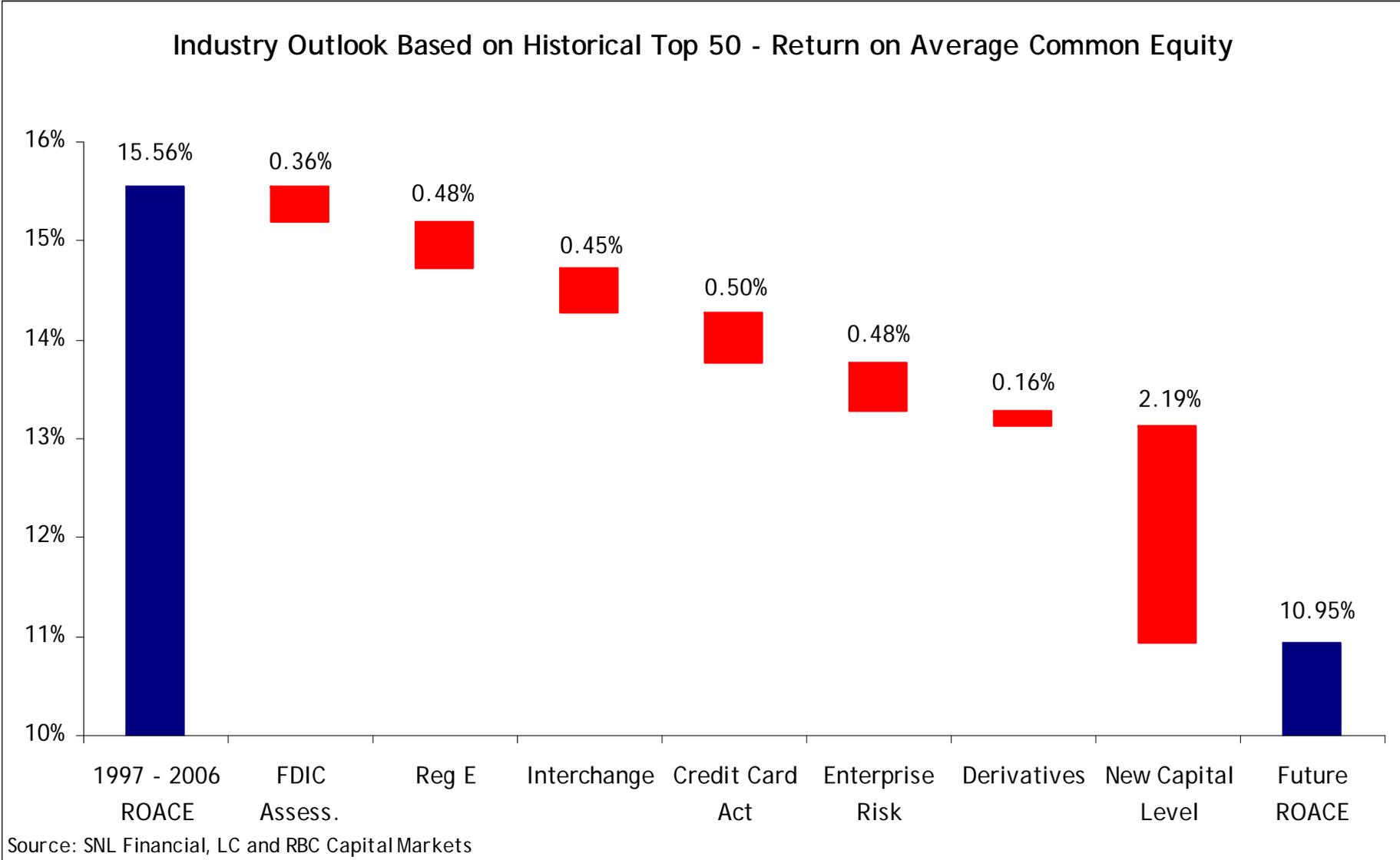
Profitability

Top 50 Banks – Return on Average Assets



Profitability

Top 50 Banks – Return on Average Common Equity



Conversion Trends

Mutual Conversions in New England

Standard conversion trends			
Year	Conversions	Median pro forma price/book (%)	Median IPO pop (%)
1999	18	64.0	8.1
2000	11	54.0	10.0
2001	10	58.5	20.8
2002	6	68.7	22.8
2003	6	70.7	37.5
2004	3	80.3	13.2
2005	5	76.9	20.0
2006	2	78.2	36.3
2007	8	79.8	13.9
2008	4	71.4	-0.3
2009	3	48.1	0.0
2010	12	55.0	0.0
Aggregate	88	64.4	13.2

Source: SNL Financial

MHC conversion trends			
Year	Conversions	Median fully converted price/book (%)	Median IPO pop (%)
1999	9	57.7	1.3
2000	4	44.3	2.5
2001	3	60.1	33.4
2002	4	65.0	26.2
2003	2	79.0	62.9
2004	17	87.9	20.0
2005	17	84.4	4.8
2006	12	79.4	10.0
2007	11	83.0	0.0
2008	5	63.7	0.0
2009	1	53.9	1.0
2010	0	NA	NA
Aggregate	85	79.4	8.0

Source: SNL Financial

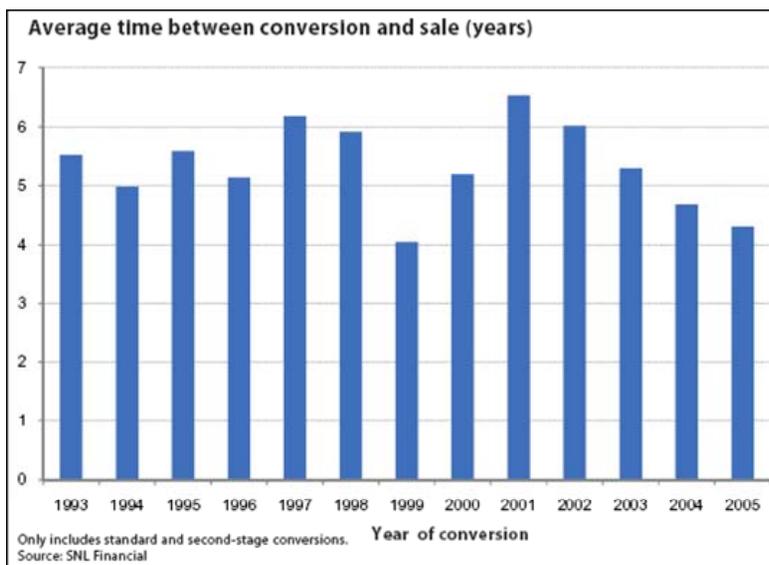
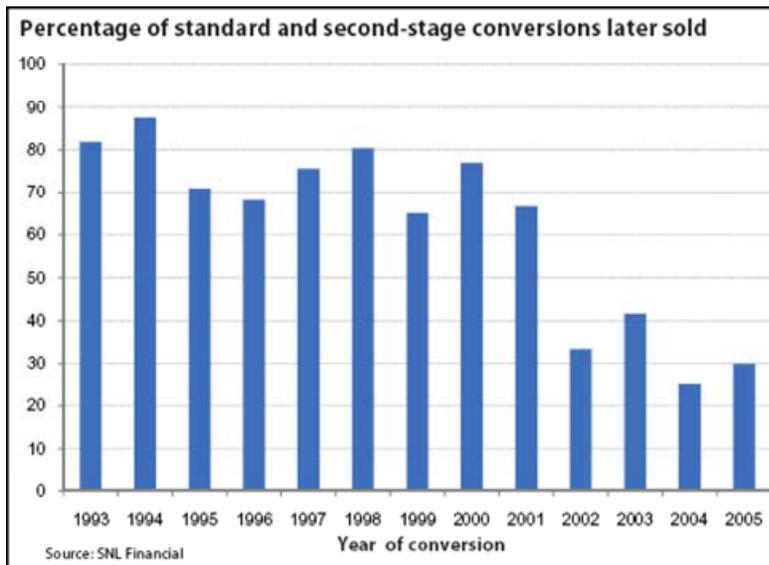
Second-stage conversion trends			
Year	Conversions	Median pro forma price/book (%)	Median IPO pop (%)
1999	2	74.4	-0.3
2000	3	76.8	6.7
2001	2	81.2	22.8
2002	3	95.4	9.5
2003	6	96.4	12.4
2004	5	111.5	0.0
2005	5	106.3	1.6
2006	4	99.3	1.3
2007	7	102.5	0.0
2008	1	61.8	10.4
2009	2	76.0	10.5
2010	12	70.6	2.8
Aggregate	52	91.8	3.1

Source: SNL Financial

- ❑ Approximately 15% of all conversions from 1999-2011 have been in New England
- ❑ 20 mutual thrift conversions (12 standard, 1 MHC, 7 second-stage) YTD 2011, representing one of the most active years in recent memory
- ❑ 1995 was the peak for mutual conversions, with 95 total
- ❑ Median pro-forma fully converted price/book differs for each type of conversion, but as detailed in the charts above has historically ranged from 65% to 95% on average

Conversion Trends

Implications – Both as a Seller and a Buyer



As a seller:

- Upon conversion to full stock ownership, thrifts must typically wait three years before they are eligible to be acquired
- Historically, approximately 70% of conversions have eventually merged into other institutions as an efficient way for both management and investors to capitalize on increased value of equity

As a buyer:

- With the additional capital from a conversion, many stock-ownership thrifts go on the offensive in an effort to leverage new equity with accretive acquisitions
- Post-second stage conversion can lead to dividend declaration and stock buybacks

Notes:

- In 2006 and 2007, there were 21 total standard/second-stage conversions, two of which (Abington & North Penn) have sold as of November 2011.
- In 2008, there were 5 standard/second-stage conversions, one of which (Danvers) has sold as of November 2011.

Are Community Banks Going the Way of the Dinosaurs? No, but...

- ❑ Lower profitability should be expected for the industry
 - ❑ ROA – 1.00-1.10%
 - ❑ ROE – 10-11%
- ❑ Credit will be stronger
 - ❑ NPA ratio 1.80-2.25%
 - ❑ NCO ratio – 0.50-0.70%
- ❑ Capital and Dividends will likely be higher
 - ❑ Tier 1 Common Ratio 8.0-9.0%
 - ❑ Dividend payout ratio 30-35%
- ❑ The best-managed banks will focus on costs
 - ❑ Efficiency Ratio 55-60%

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			Count	Percent
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Required Disclosures

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