Are Community Banks Going the Way of the Dinosaurs?

RBC Capital Markets, LLC
Gerard Cassidy (Analyst & Managing Director)
(207) 780-1554
gerard.cassidy@rbccm.com

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This report is priced as of market close November 4, 2011 ET unless otherwise noted.
All values in U.S. dollars unless otherwise noted.
For Required Conflicts Disclosures, please see page 27.
Total Commercial Banks and Branches

Number of Commercial Banks vs. Number of Branches

Source: FDIC
Data as of December 31, 2010

Gerard Cassidy – (207) 780-1554 – gerard.cassidy@rbccm.com
New England Consolidation

New England Banks and Branches 1966 - 2010

New England Banks & Branches 1966 - 2010

Source: FDIC

Branches

Institutions


1,000 1,200 1,400 1,600 1,800 2,000 2,200 2,400 2,600 2,800 3,000 3,200 3,400 3,600 3,800 4,000 4,200 4,400 4,600

0 50 100 150 200 250 300 350 400 450

Green: Branches
Blue: Institutions
New England Consolidation

New England Banks State Breakout 1966 - 2010

New England Banks 1966 - 2010

Source: FDIC
New England Consolidation

New England Branch State Breakout 1966 - 2010

New England Branches 1966 - 2010

Source: FDIC
Savings Institutions

New England Savings Institutions and Branches 1992 - 2011


Source: FDIC

Source: FDIC


Source: FDIC
Loans

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

Source: SNL Financial, LC
New England Community Banks & Thrifts vs. Top 20 Commercial Banks

Median Deposits

Deposits New England <$8B ($000s)

Deposits Top 20 Banks ($000s)

Source: SNL Financial, LC

New England < $8B
Top 20 Banks
New England Community Banks & Thrifts vs. Top 20 Commercial Banks

ROAA

Source: SNL Financial, LC
New England Community Banks & Thrifts vs. Top 20 Commercial Banks

ROAE

Median ROAE

Source: SNL Financial, LC
Note: Top 20 is ROACE
New England Community Banks & Thrifts vs. Top 20 Commercial Banks

### Median NPA+90PD/Loans + OREO

- **New England < $8B**
- **Top 20 Banks**

Source: SNL Financial, LC
New England Community Banks & Thrifts vs. Top 20 Commercial Banks

Net Charge-Offs/Average Loans

Median Net Charge-Offs/Average Loans

Source: SNL Financial, LC

New England < $8B  Top 20 Banks
New England Community Banks & Thrifts vs. Top 20 Commercial Banks

Net Interest Margin

Median Net Interest Margin

Source: SNL Financial, LC
New England Community Banks & Thrifts vs. Top 20 Commercial Banks

Efficiency Ratio

Median Efficiency Ratio

Source: SNL Financial, LC

- **New England < $8B**
- **Top 20 Banks**
Regulation

Agencies and Powers

Strengthened but not simplified

Financial Stability Oversight Council
- Identify risks to the financial stability of the U.S. from activities of large, interconnected financial companies. Authority to gather information from financial institutions. Make recommendations to the Fed and other primary financial regulatory agencies regarding heightened prudential standards.

Office of the Comptroller of the Currency
- Focus on safety and soundness, primary regulator of national banks and federal savings associations. Examination authority. Examines loan portfolio, liquidity, internal controls, risk management, audit, compliance, foreign branches.

Federal Reserve
- Focus on safety and soundness, supervisory role for bank holding companies, monetary policy, payment systems. Supervisor for systemically important financial institutions and their subsidiaries. Establishes heightened prudential standards on its own and based on Council recommendations. Examination authority.

Office of Financial Research
- Office within Treasury, which may collect data from financial institutions on behalf of Council. No examination authority.

FDIC
- Focus on protecting deposits through insurance fund, safety and soundness, manage bank receiverships. Examination authority. Orderly liquidation of systemically important financial institutions.

Bureau of Consumer Financial Protection
- Focus on protecting consumers in the financial products and services markets. Authority to write rules, examine institutions and enforcement. No prudential mandate.

This chart assumes these activities are conducted in a systemically important bank holding company (SIBHC).

1 The Council, through Office of Financial Research, may request reports from systemically important SIBHCs.
2 FDIC may conduct exams of systemically important SIBHCs for purposes of implementing its authority for orderly liquidations, but may not examine those in generally sound conditions.
3 The Dodd-Frank Act expanded the FDIC’s authority when liquidating a financial institutions (including the bank holding company, not just entities that house FDIC-insured deposits).

Source: JPMorgan Chase investor presentation at 9/14/10 Barclays conference
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

Median Net Interest Income/Total Revenue

Source: SNL Financial, LC
Loan Composition


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
Industry Outlook Based on Historical Top 50 - Return on Average Assets

Source: SNL Financial, LC and RBC Capital Markets
Profitability

Top 50 Banks – Return on Average Common Equity

Industry Outlook Based on Historical Top 50 - Return on Average Common Equity

Source: SNL Financial, LC and RBC Capital Markets
Conversion Trends

Mutual Conversions in New England

- 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 he 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%
Required Disclosures

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