

The Deposit Dilemma

Interesting and Surprising Trends
and their Strategic Implications

2019

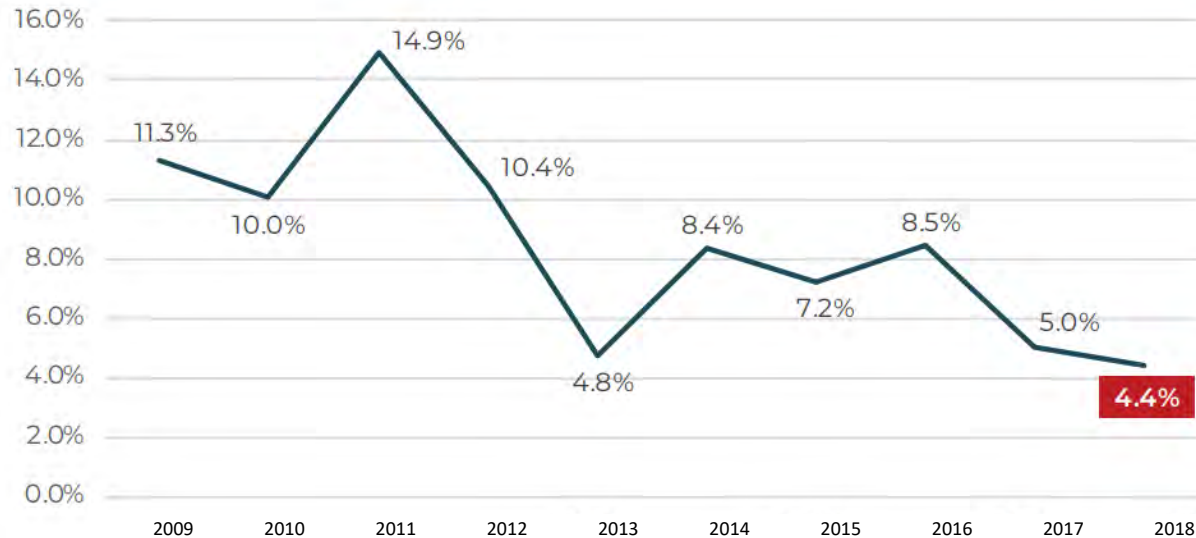
SECTION I

The Deposit Dilemma

Deposit Growth is Quickly Deaccelerating

Total deposits grew at the slowest past since the Great Recession in 2018.

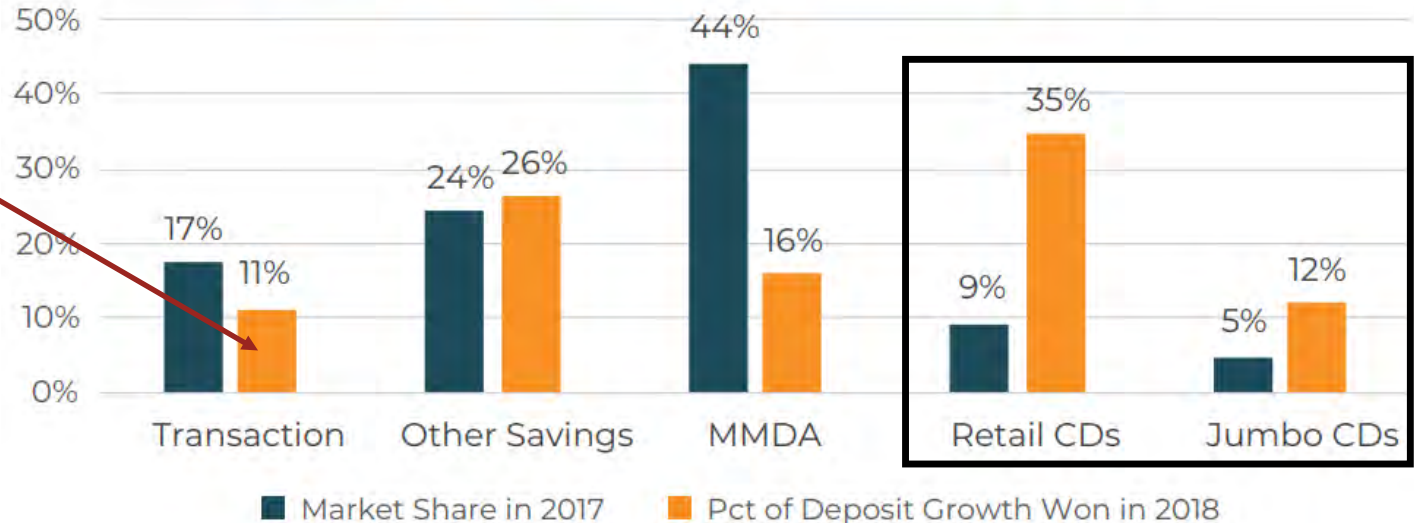
YEAR OVER YEAR DOMESTIC DEPOSIT GROWTH — ALL BANKS IN THE US



Growth in Deposits in 2018 was Not Healthy

The little growth the industry experienced with deposit growth in 2018 was heavily skewed toward CDs.

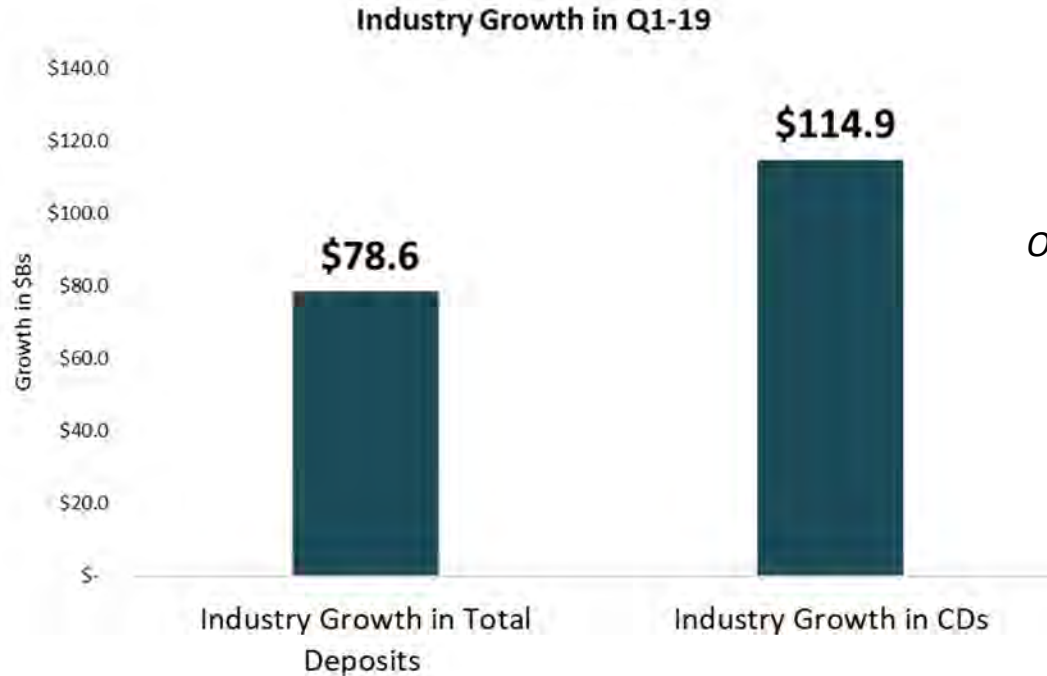
MARKET SHARE ANALYSIS: TOTAL DEPOSITS AT THE END OF 2017 VS PCT OF GROWTH WON IN 2018



98% of transaction
account growth won by
a single institution:

BANK OF AMERICA

Deposit Trends in Q1-19 Are Alarming



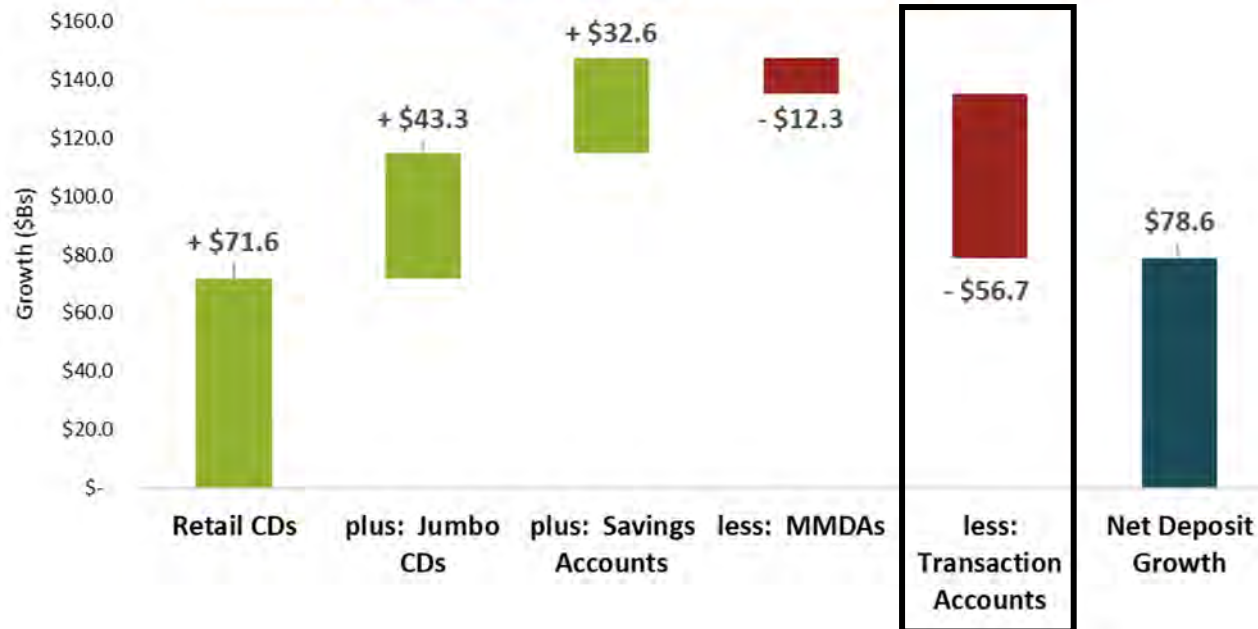
Over 100% of the growth in total deposits was in CDs during the first quarter of 2019.

How is this possible? (see next slide)

Transaction Accounts under Assault 2019 Q1

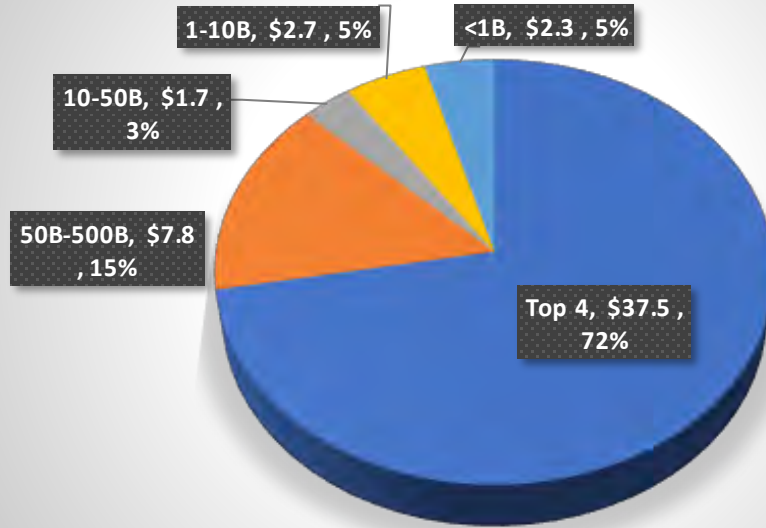
Transaction accounts dramatically decreased during the first quarter, which explains the phenomenon of CD growth representing 100 percent of deposit growth.

Summary of Net Deposit Growth in 1st Quarter of 2019 (\$B)



The Top 4 Banks Dominated Deposit Growth in Q2-2019

Share of Deposit Growth (Q2-19)



Total growth in deposits during the second quarter of 2019 was only \$51B. The Top 4 Banks won the lions share of that growth.

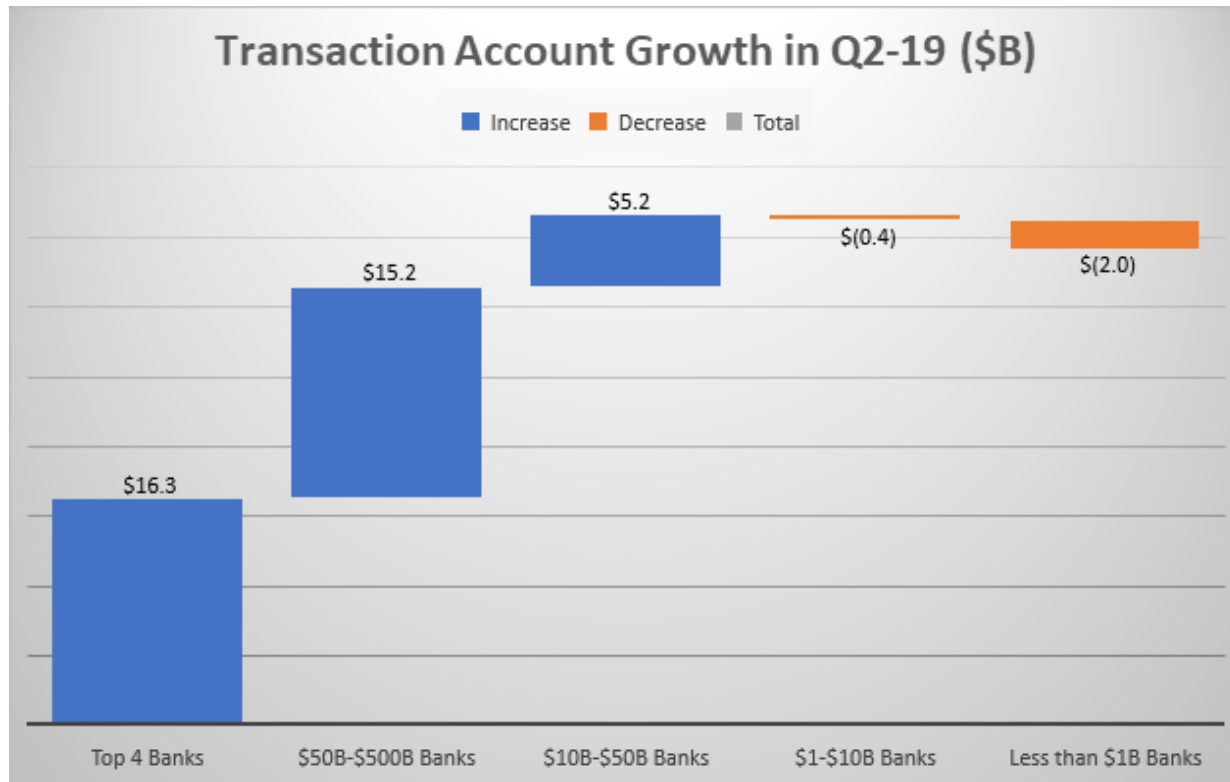
BANK OF AMERICA

CHASE

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WELLS
FARGO

Community Banks Lost Transaction Accounts in Q2-19



Community banks are losing transaction accounts while the larger banks are winning them.

Lay of the Land

Key Takeaways

1. Deposits are becoming a zero-sum game
2. Easy money policies buy banks time, but do not solve the problem
3. This is a strategic issue, not an ALCO one.
4. Banks with high LTD ratios and/or lack core deposits must do something

SECTION III

The Only Practical Solution?

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M&A – A Great Strategy by Default When Organic Growth is a Challenge

When the 'pie is not growing', organic growth is highly inefficient. Strategies to generate deposit growth are not moving the needle for most banks.



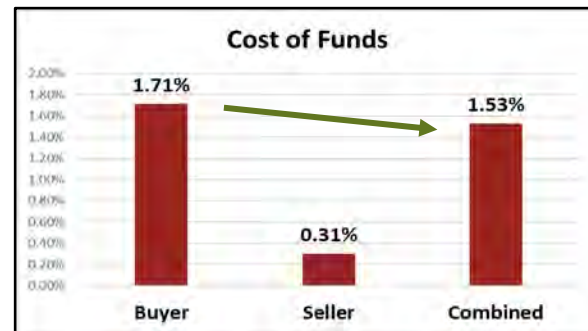
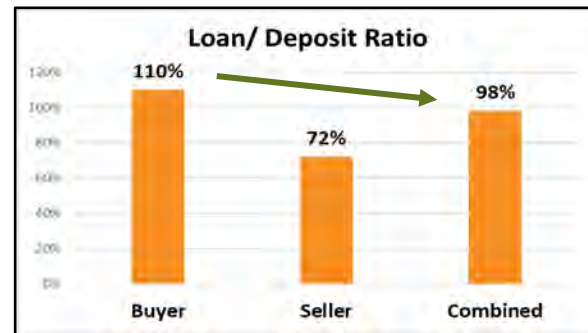
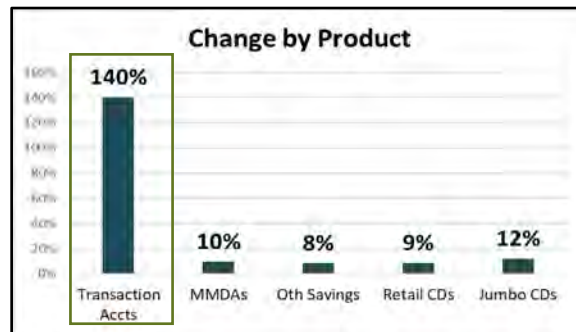
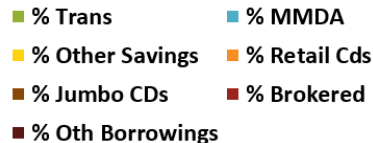
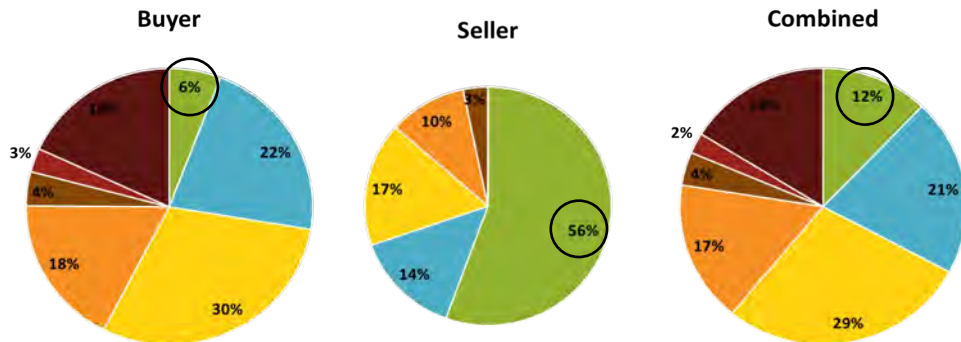
M&A – A Great Strategy by Default When Organic Growth is a Challenge



M&A should be viewed as an alternative growth strategy. The right acquisition is like a helicopter coming in the middle of the night dropping off deposits.

Benefits of M&A

In this example, the buyer is significantly altering its funding profile in a single transaction. This would take many years to replicate with organic strategies in this environment. Existing M&A valuation methods (EPS accretion / TBV dilution) fail miserably to capture this value!



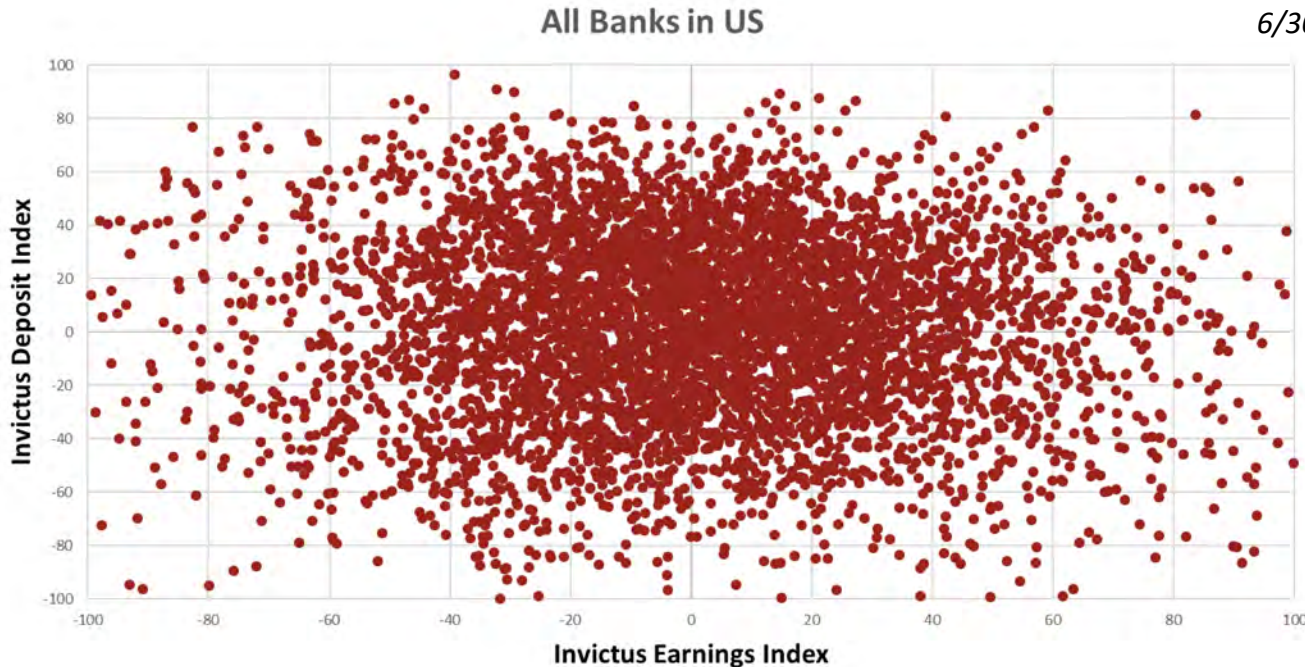
SECTION II

Acquisition Targeting

Deposit / Earnings Index -- All Banks in US

*An analysis of all banks
in the country as of
6/30/19.*

*The higher the
Invictus Deposit
Index, the more
excess liquidity
and the better
the mix of
deposits and cost
of funds.*



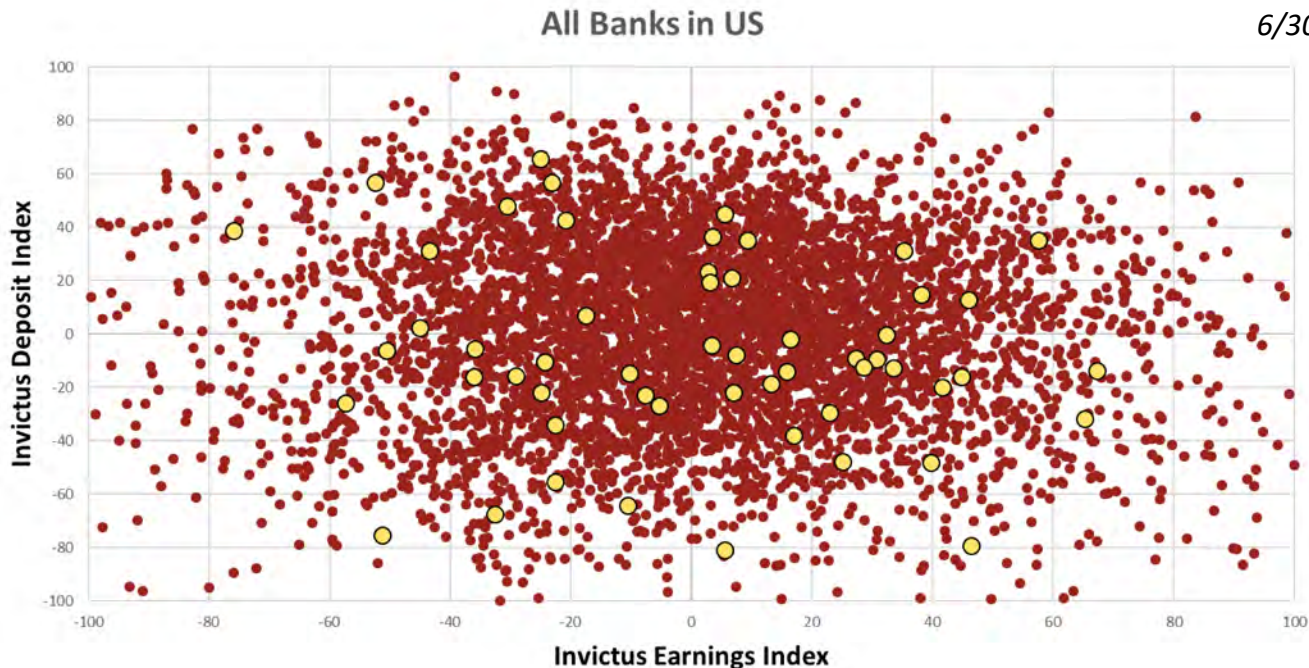
The higher the Invictus Earnings index, the better the quantity AND quality of the Bank's earnings.

Deposit / Earnings Index -- All Banks in US

Conference Attendees

An analysis of all banks in the country as of 6/30/19.

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All Banks in US



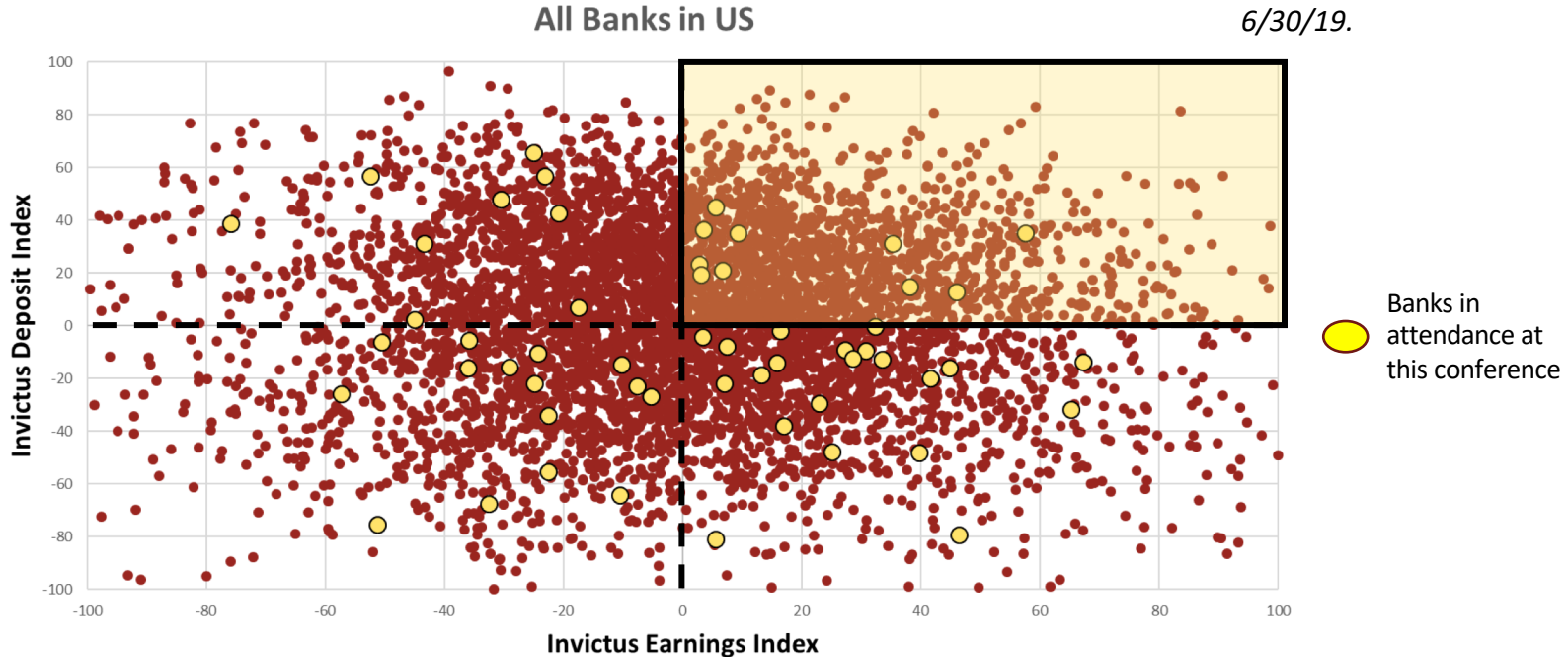
 Banks in attendance at this conference

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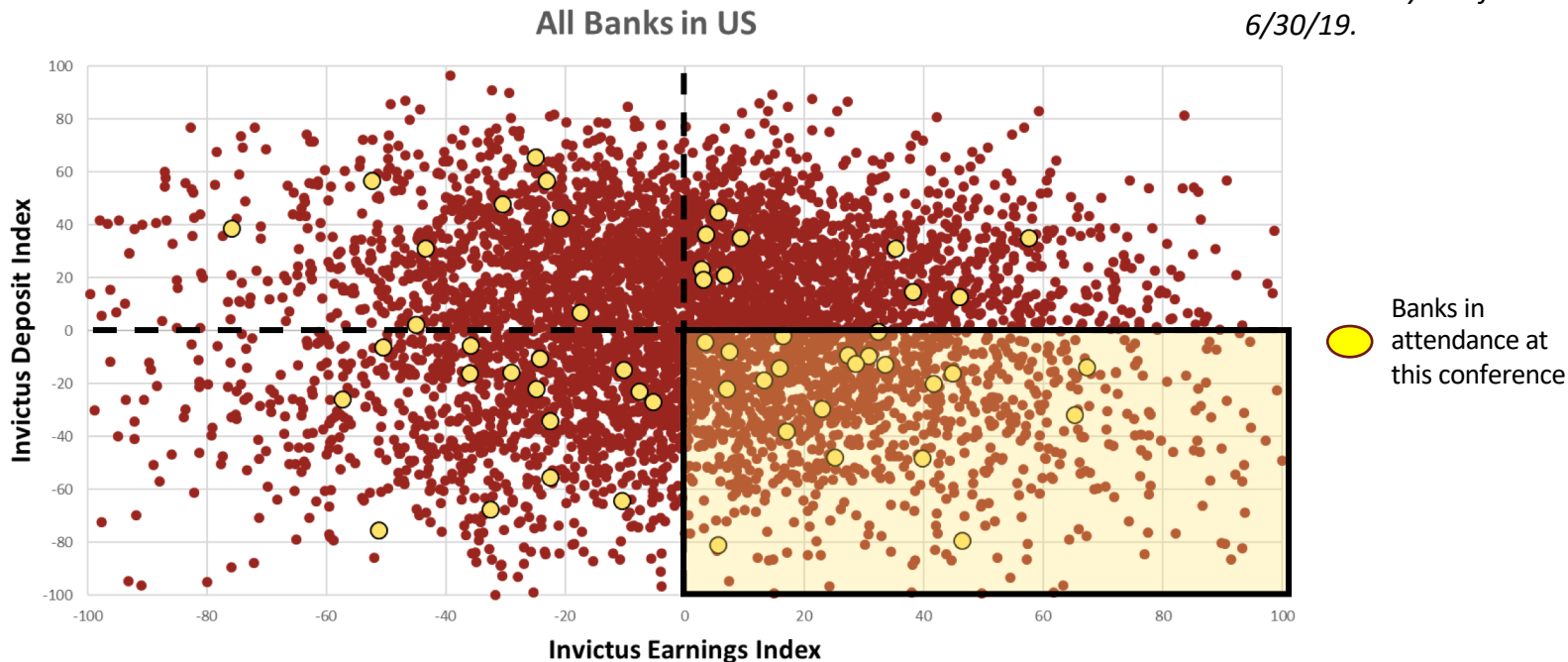


The “Sweet Spot” = Strong quantity and quality of earnings with strong funding base

Deposit / Earnings Index -- All Banks in US

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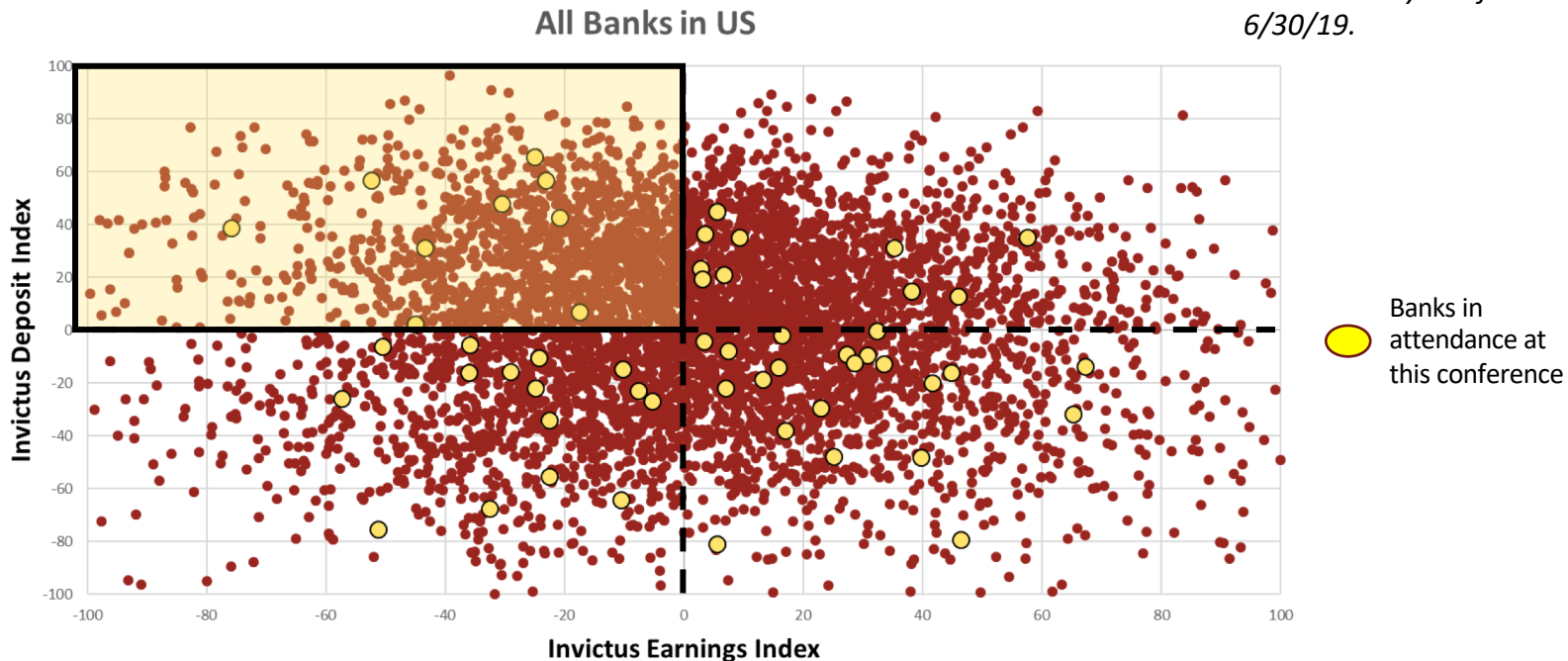


Strong earnings buys time, but will struggle to fund additional growth

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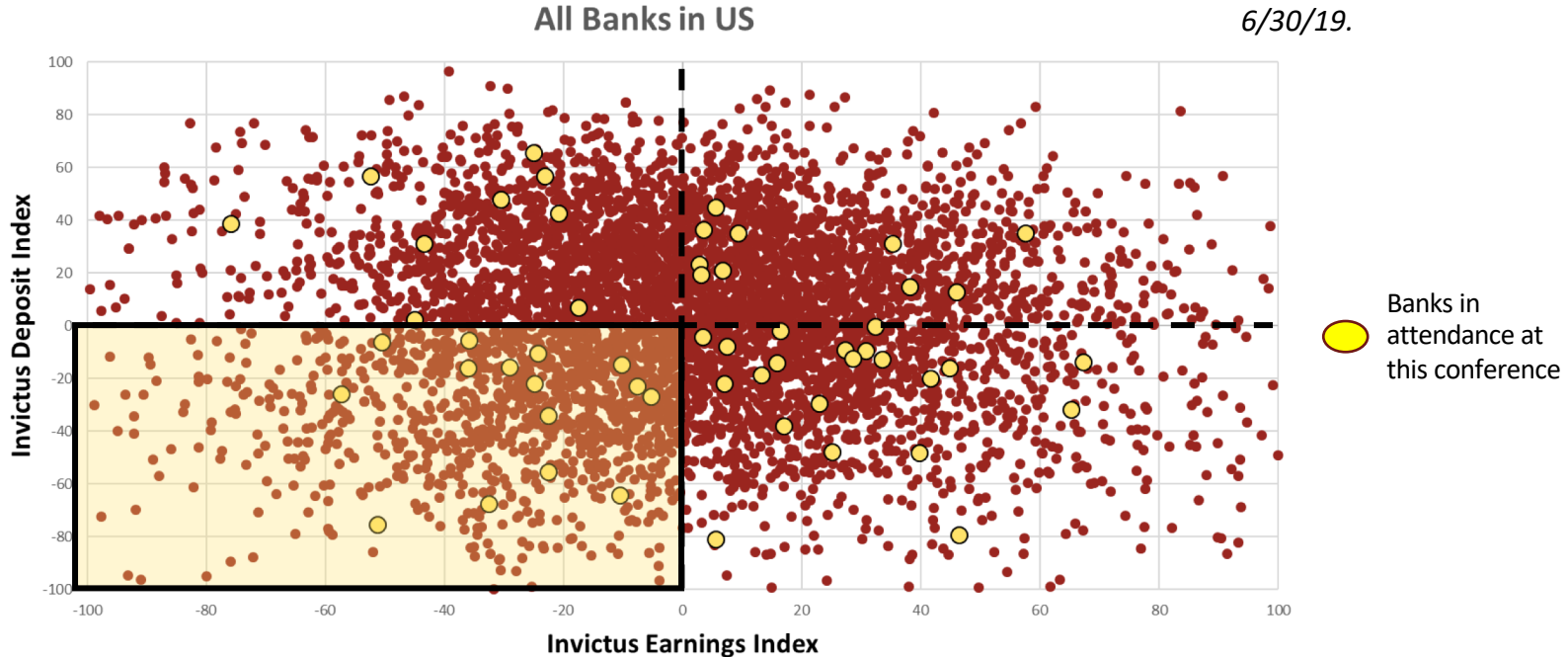


Low earnings with potentially limited growth prospects, but have strong deposits in excess

Deposit / Earnings Index -- All Banks in US

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More vulnerable and lack both growth and profitability prospects, but ripe for cost efficiencies and may have hidden value in their loan portfolio

Deposit / Earnings Index -- All Banks in US

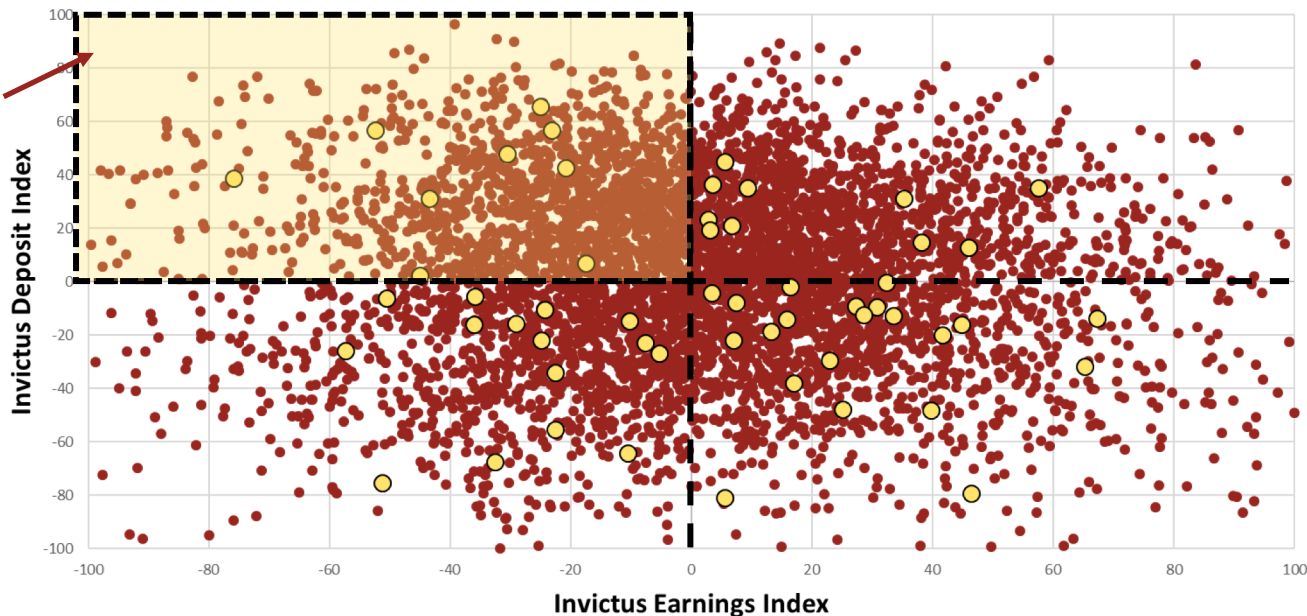
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All Banks in US

The Perfect Hunting Ground.

**These targets
are worth more
to you than the
average buyer if
you need
deposits!*



 Banks in
attendance at
this conference

For those banks in need of deposits (bottom two quadrants), they should be targeting those banks in the top left quadrant using proactive strategies and the proper valuation analytics.

Key Takeaways

1. There will be a new round of winners and losers as interest rates normalize
2. M&A is a very powerful strategy to shore up deposits and grow loans with better risk/reward
3. Effective M&A requires planning; knee-jerk reactions to auctions is both inefficient and risky
4. A proactive approach to M&A ultimately leads to the best transactions
5. Exploit situations where you have a pricing advantage versus the market



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**Please contact George if you are interested in finding
out where your bank is located on this chart.**



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