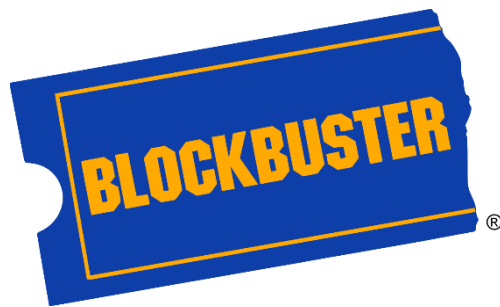


# SHAREHOLDER SUCCESSION - IS THIS THE WAY OUT OF CONSOLIDATION?

# COMMUNITY BANKING – THE IMPORTANCE OF CAPITAL ALTERNATIVES STAYING RELEVANT AND VIABLE



## ABOUT STONECASTLE PARTNERS

# About StoneCastle

- 🔍 StoneCastle is a direct investor in community banks. It most often invests in noncumulative preferred stock or subordinated debt which is then often placed in the subsidiary bank in the form of common equity.



# About StoneCastle

- An investment company focused on investing in community banks that are the cornerstones of their communities
- Conducted IPO on November 7, 2013 and traded on the NASDAQ Global Select Market under the ticker: BANX
- Long-term, passive non-control investor that understand the needs of community banks and views portfolio companies as partners rather than “targets”
- Seeking capital investment opportunities in healthy, well-run community banks

# About StoneCastle

- Q StoneCastle Cash Management enables banks to access stable cash from corporate and public sector professionals who might otherwise keep it in large money center banks or money funds.
- Q With over 550 banks across all 50 states, the StoneCastle's Deposit Network is the largest, fastest growing non-reciprocal bank network in our industry.

# About StoneCastle

- Q Together with their affiliates, they currently manage over \$10.2 billion in assets and their principals have collectively provided more than \$5.5 billion of capital to over 430 community banks in the U.S.
- Q Widely recognized as a leader in the community banking sector, they enjoy strong affiliations with banking professionals, and regulatory and government agencies as well as direct relationships with an expanding network of more than 725 banks throughout the U.S.



## \$250 MILLION INVESTED IN COMMUNITY BANKS ON OCTOBER 15TH

- StoneCastle Investment Management, LLC closed a pooled subordinated debt transaction on October 15<sup>th</sup> 2015
- Community Funding CLO, Ltd.:
  - Invested a total of \$250 million in 35 community banks (or their holding companies)
  - Has borrowers in 24 states from coast to coast
  - Made investments in banks ranging from \$1 million to \$12.5 million
  - Invested in small and large community banks alike (total assets from \$82 million to \$2.6 billion)



Logos represent a subset of a certain transaction. The entities chosen for their recognizability and not the specific terms or performance of the transaction. It is not known whether these entities approve or disapprove of StoneCastle or any of its affiliates. All logos, names and trademarks are property of their respective owners.

Community banks constitute  
96% percent of all banks

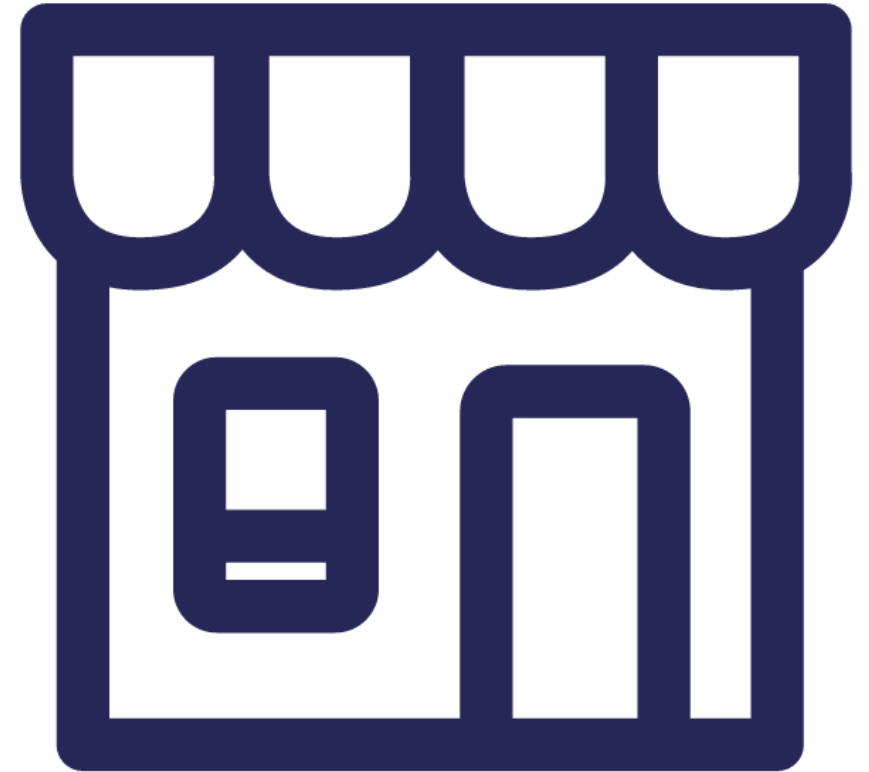


Source: Independent Community Bankers of America

# 100 years

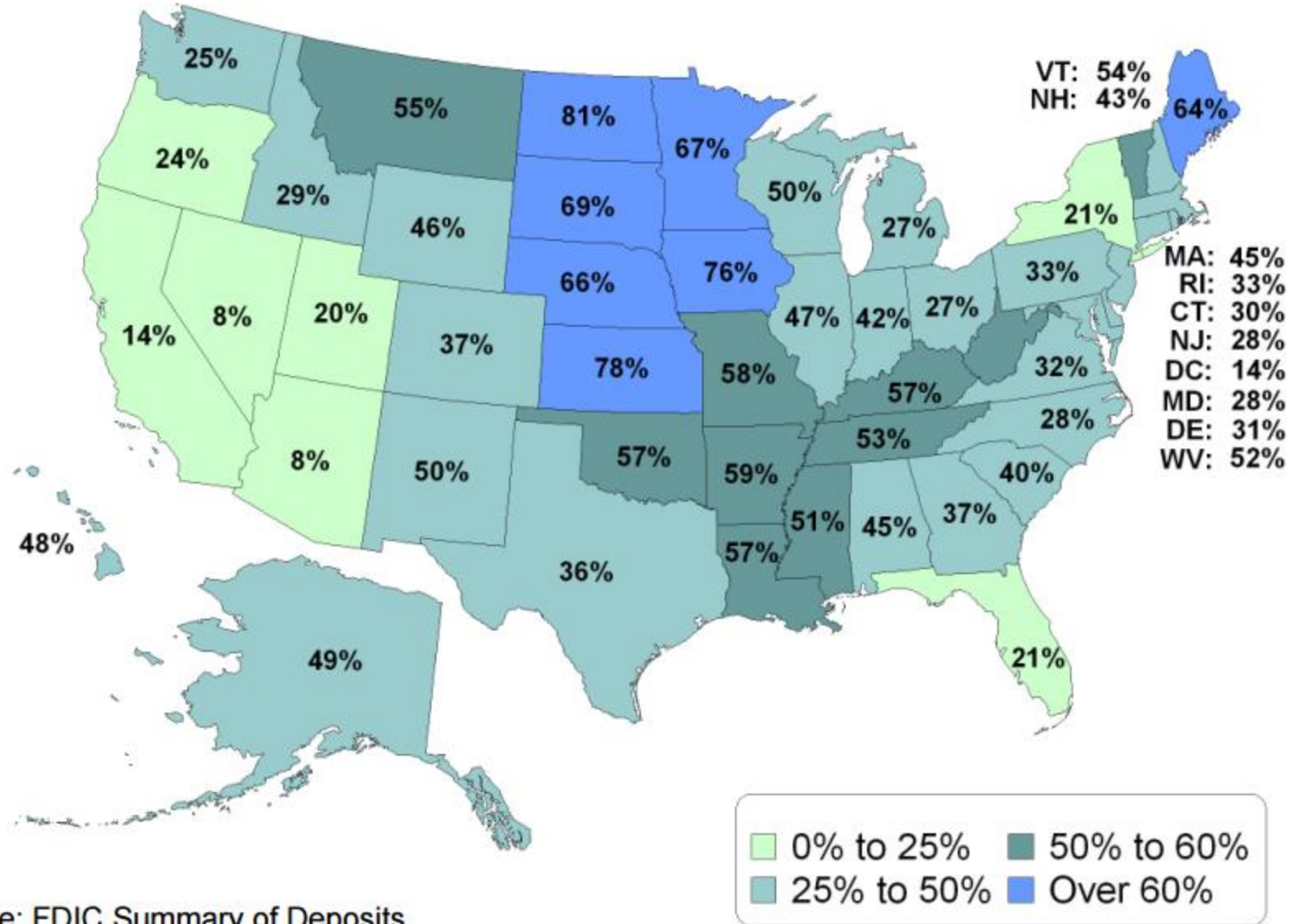
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More than 2,500 community banks in the United States are more than 100 years old.



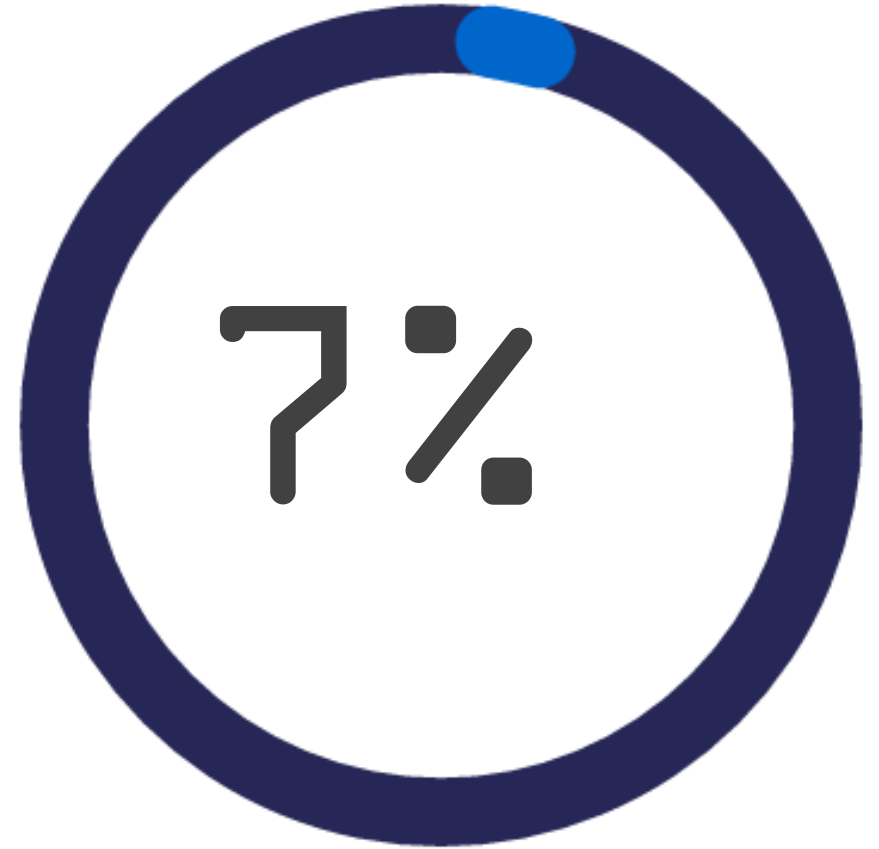
Source: ICBA

## Community Bank Share of All Branches Operating Within State as of 2Q 2010.



Source: FDIC Summary of Deposits

Only 7% of community banks are publicly traded



Source: Bank Exchange

# < 1 in 10

community banks in the nation are SEC reporting, listed on some market exchange or trading its shares over the counter



Source: Banking Exchange

# THE ISSUE: AGING POPULATION OF STOCKHOLDERS

- Q The current industry consolidation rate of 4% per year
- Q One in five bank CEOs can expect to have their tenure cut short over the next five years, whether the cause is a merger or termination for a bank's lagging performance.
- Q In this environment, banks need to prove that they are earning enough – **engaged shareholders are part of the solution**

Source: American Banker



Researchers at the Federal Reserve Bank of St. Louis highlighted some of the distinguishing characteristics of “thriving” community banks:

- Q “conservative lending principles”
- Q emphasis on interpersonal relationships,
- Q **high involvement of shareholders in the banks’ operations**
- Q well-designed credit administration and underwriting policies.

Source: Harvard Kennedy School for Business and Government

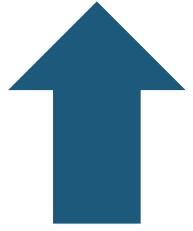
## Problems with unengaged shareholders:

- Q Shareholders are critical to the health of an organization
- Q Engaged shareholders bring valuable opinions and an essential “voice” to the organization
- Q Engaged shareholders create an atmosphere of accountability for the board — and create long-term shareholder value

Source: The Atlantic

**For community banks to thrive, it is necessary to determine how aging shareholders or the next generation who may not be interested in the banking business are going to be cashed out and new shareholders are going to be attracted.**

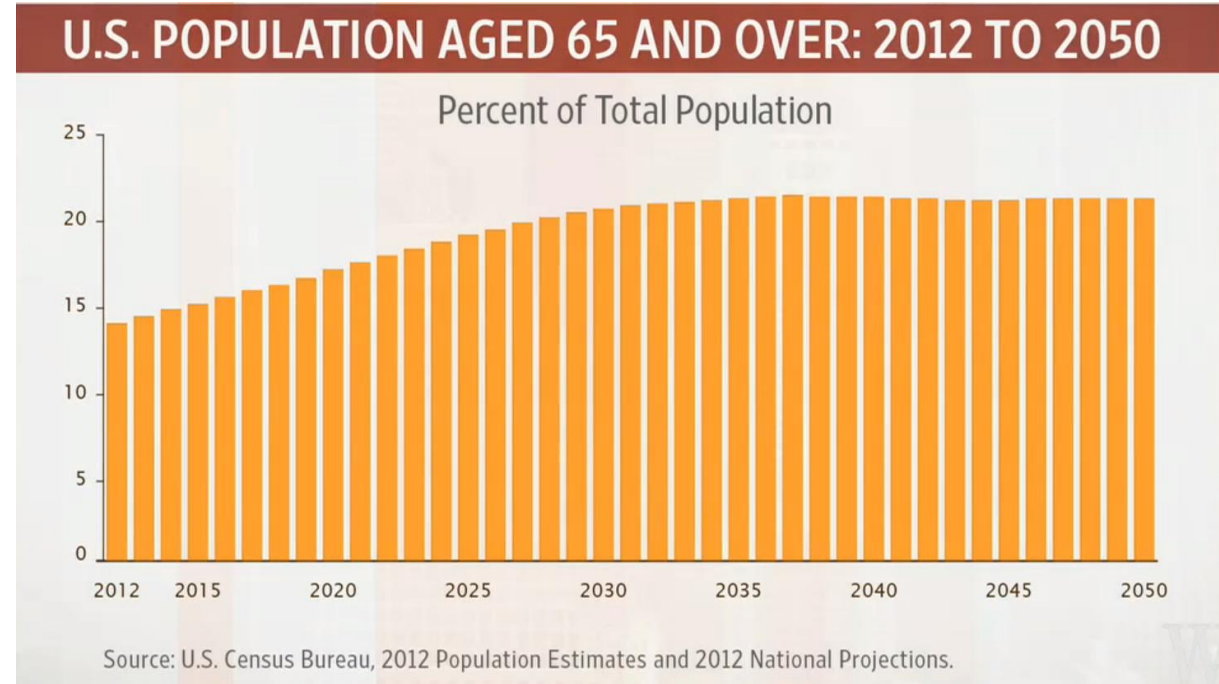
Source: Kennedy Sutherland



40.6

million

The population of Americans 65-years-of-age or older will grow to 83.7 million by 2050, almost double from the 43.1 million in 2012



Source: Wall Street Journal

65+ in

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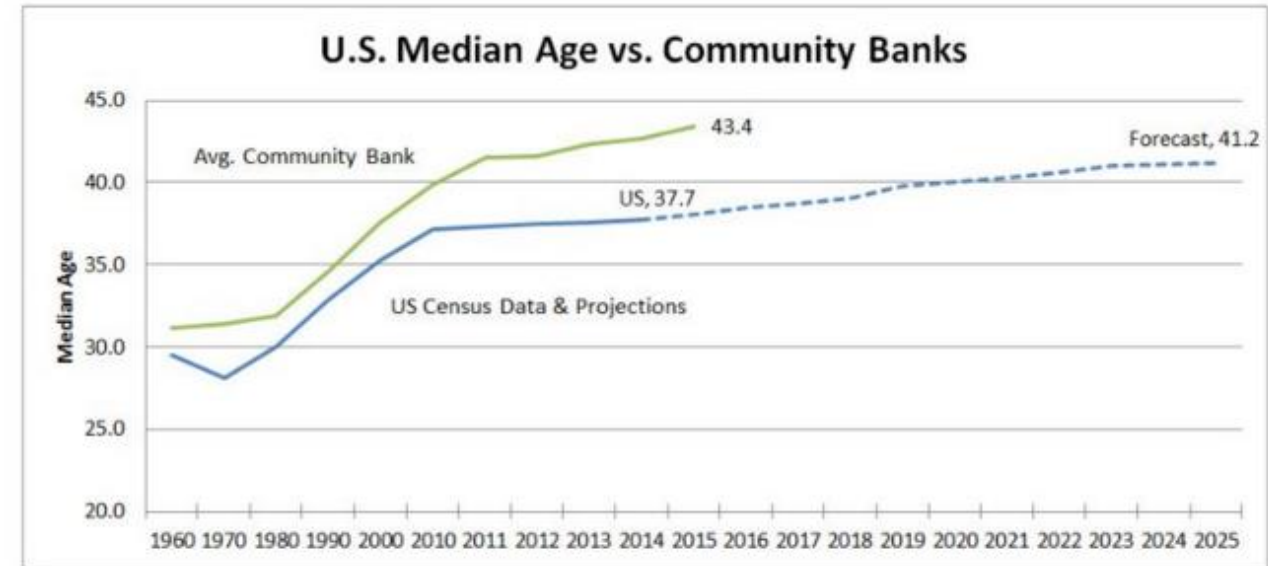
2030

All of the **Baby Boomers** will be  
over age 65 in 2030



Source: CNBC

- Q The community bank customer base is aging faster than the US general population.
- Q Same goes for community bank shareholders



Source: Banking Exchange

# 14.5%

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Percentage of Persons 65 years and older in the state of New York

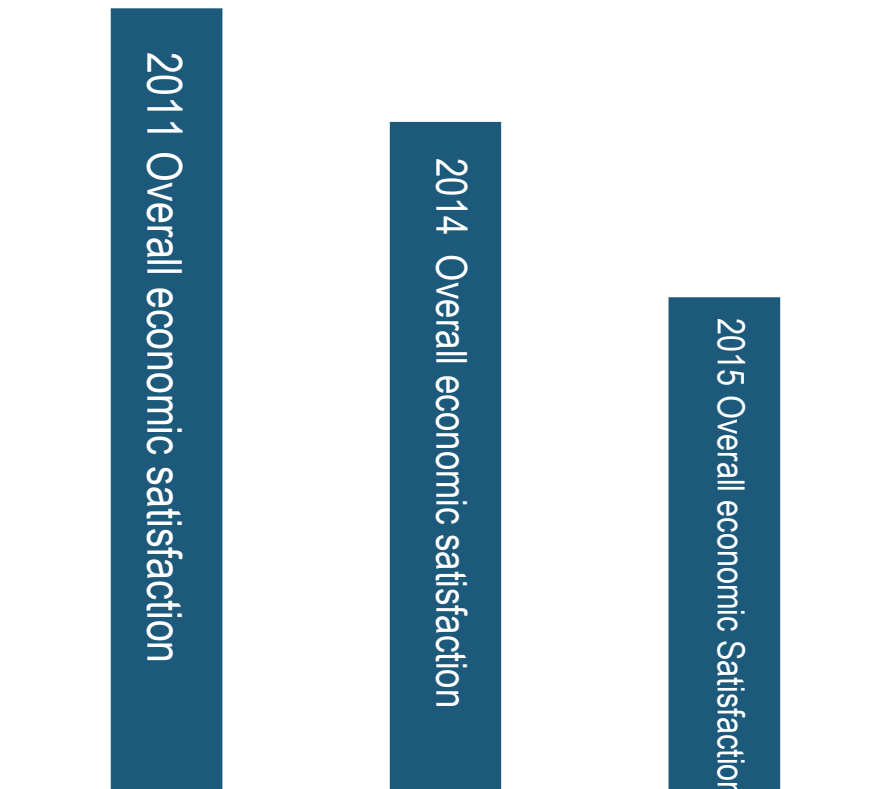


Source: [www.census.gov](http://www.census.gov)

# Boomers are reporting less overall economic satisfaction

🔍 Overall economic satisfaction among **Baby Boomers** now stands at 48 percent, down sharply from 65 percent in 2014 and 76 percent in 2011.

Overall Economic Satisfaction among Boomers



Source: CNBC



Aging shareholder bases have a need for:

- Q Liquidity
- Q Dividends
- Q Exit



# THE ISSUE: REGULATORY ENVIRONMENT

# Issues Stemming from the Regulatory Environment

- 🔍 Current Expected Credit Loss standard (CECL)
- 🔍 Basel III
- 🔍 The Dodd-Frank Act

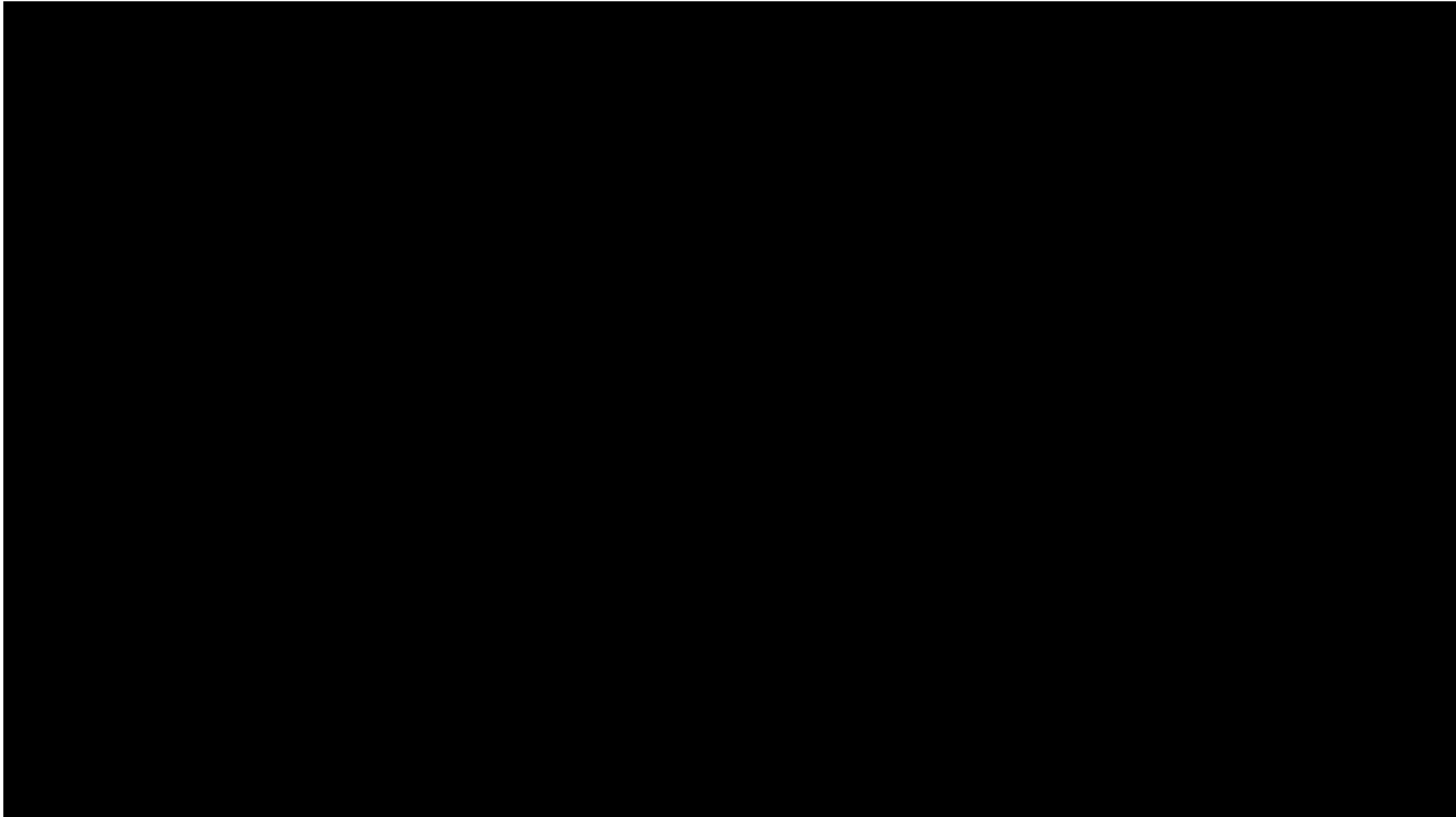


Source: American Banker

# Issues Stemming from the Regulatory Environment

- Q Compliance costs have gone up in the wake of Dodd-Frank
- Q The median number of compliance personnel has increased from one to two
- Q Regulations have affected the way community banks interact with their customers

Source: George Mason University

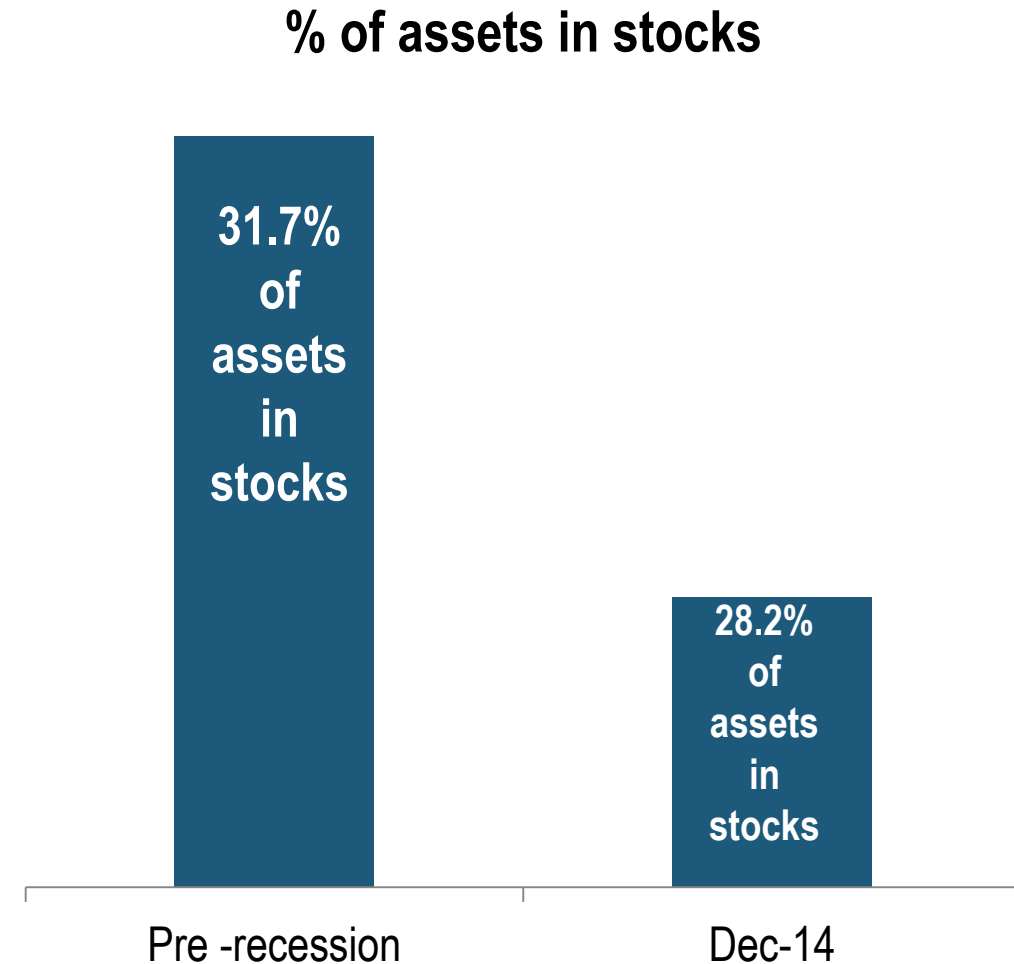


# THE SOLUTIONS

**Even the publicly traded shares of community banks tend to be less liquid than the shares of non-community banks.**

Source: FDIC

Q Before the recession, the average household had 31.7% of assets in stocks; as of December 2014 that figure was 28.2%



Source: American Banker



## Attracting new, younger stakeholders:

- 🔍 The number of affluent households — those with investable assets of \$1 million or more — has doubled to nearly 6 million since the end of the recession



Source: American Banker

# Attracting new, younger shareholders

- 🔍 Liquidity attracts new shareholders – the ability to redeem their shares if they wish to



# THE NEED FOR CAPITAL AND ALTERNATIVES THEREFOR

# Community banks seeking capital for:

- 🔍 Organic Growth
- 🔍 Acquisitions
- 🔍 Share Repurchases



# Organic Growth

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- Q Funding loan growth and securities purchases.
- Q Expanding presence outwards in an adjacent territory.
- Q Establishing a new operating group: specialized lending unit, trust company, insurance.

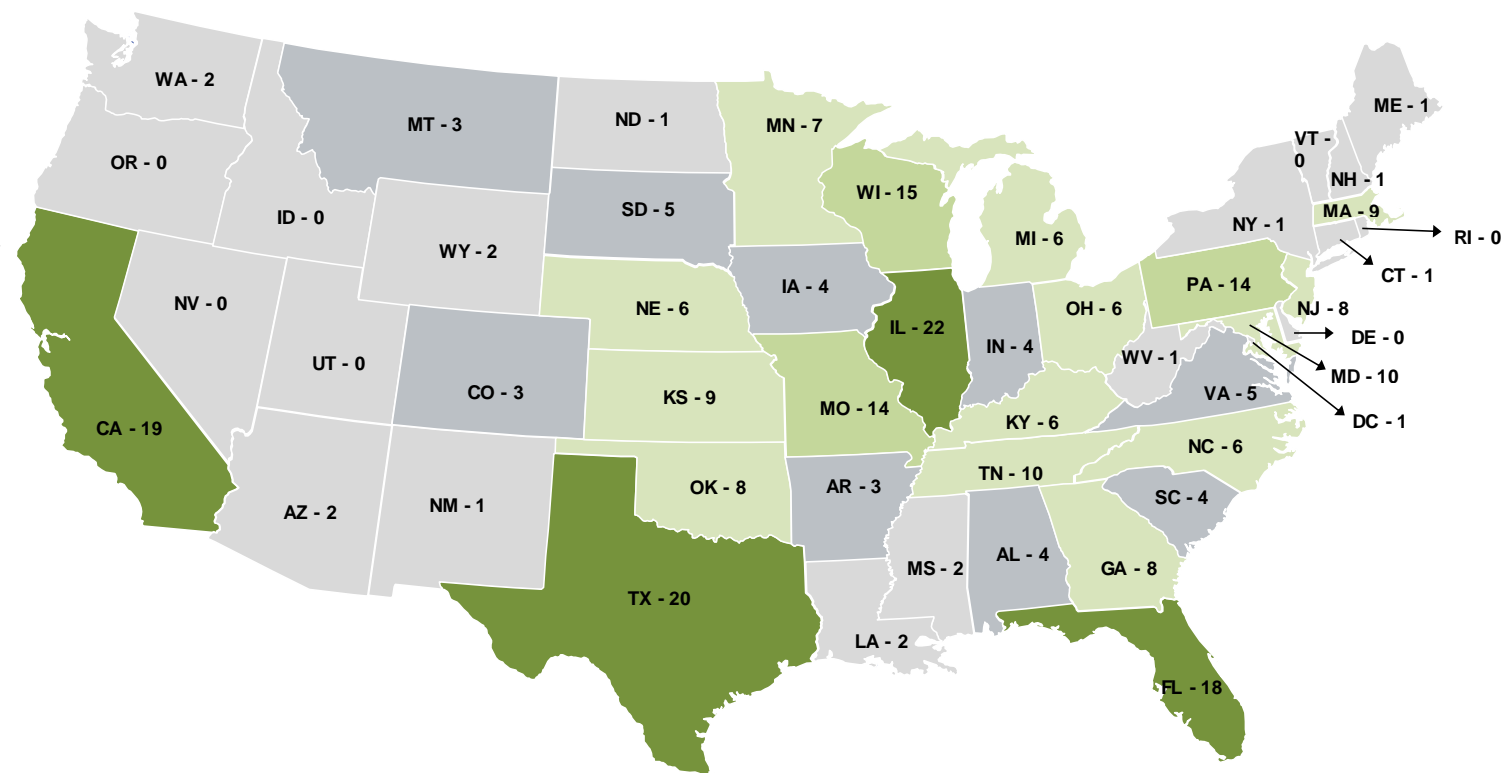
# Acquisitions

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- Q Acquiring another institution (whole bank), buying bank branches, purchasing an operating unit of another institution or portfolio asset purchase.

## RECENT M&A DEALS BY STATE - <\$10 BILLION IN ASSETS

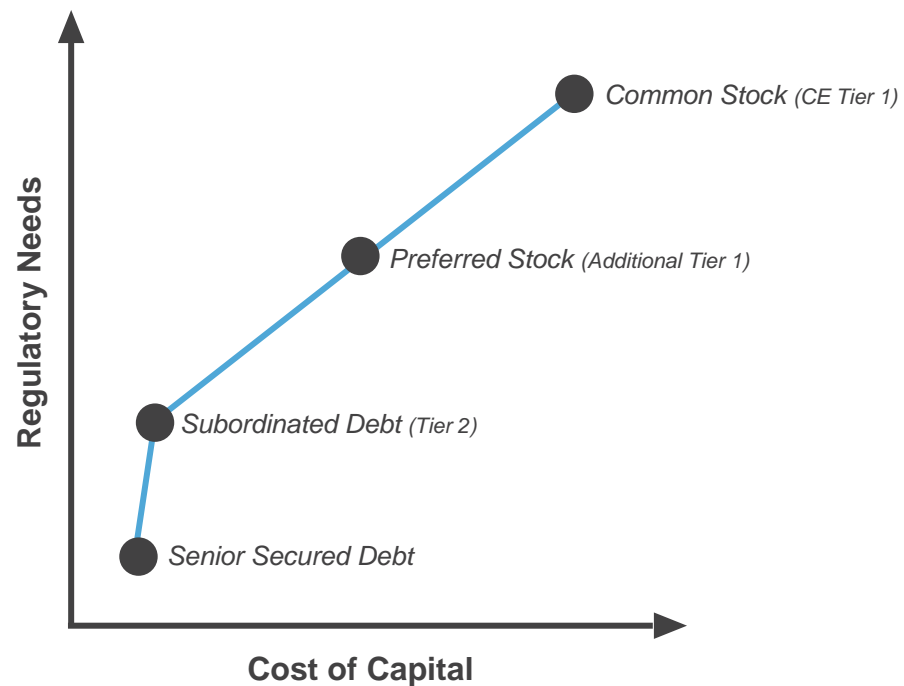
- Significant volumes in Texas, California, Illinois and Florida



Source: SNL Financial

## ACQUISITION FUNDING: DECIDING ON THE MIX

- If a capital raise is required, how do we decide what instrument to use and how much?
- The key inputs are: (i) what are the regulatory needs and (ii) what is the cost of capital for each type of instrument





# Share

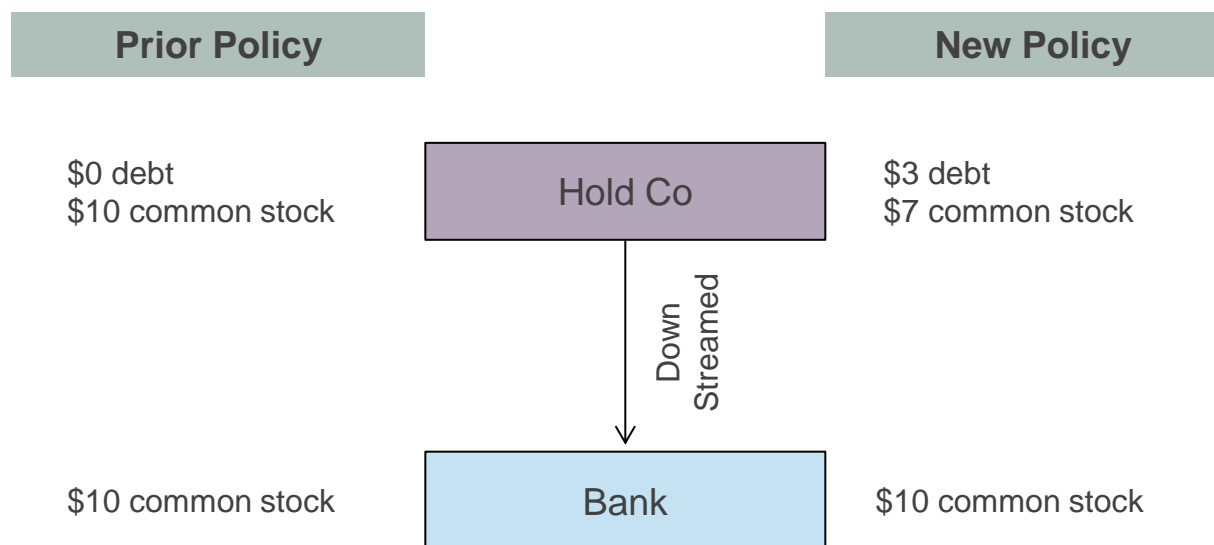
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# Repurchases

- Q Building a more efficient equity capital structure with preferred stock while meeting shareholder demands for liquidity.
- Q Proactively offering a share repurchase solution can drive shareholder value.

## POSITIVE CHANGE IN REGULATORY POLICY FOR SMALL BANKS

- December 18, 2014: Public Law 113-250 was enacted
- This has raised the asset threshold on the Small Bank Holding Company Policy Statement from \$500 million to \$1 billion in 2015
- This means more holding companies are no longer subject to risk-based capital requirements and can utilize additional debt at the holding company



## NEW POLICY PROVIDES OPPORTUNITY TO ENHANCE SHAREHOLDER VALUE

	No Debt	More Debt	
<b>Bank Level</b>			
Total Assets	\$100	\$100	} Aside from the ability to downstream additional capital to a subsidiary bank as common equity, policy provides no material change to the bank level
Common Stock	\$10	\$10	
ROAA	0.80%	0.80%	
Net Income	\$0.80	\$0.80	
<b>Hold Co</b>			
Subordinated Debt (6.99%)	\$0	\$3	} Debt becomes an increased component of the capital structure
Common Stock	\$10	\$7	
Income from Bank	\$0.80	\$0.80	} Despite lower net income due to debt service, earnings are spread over significantly smaller equity base, increasing ROE
Debt Expense	\$0.00	(\$0.14)	
Net Income	\$0.80	\$0.66	
<b>ROAE</b>	<b>8.0%</b>	<b>9.4%</b>	

# The Four Benefits of Utilizing Subordinated Debt for Shareholder Repurchase

- Q A more satisfied shareholder base, now offering new liquidity alternatives
- Q Any shareholder who takes advantage of the opportunity satisfies a liquidity need
- Q To the degree of which shareholders take advantage of it, those that remain tend to often have increased returns
- Q Increased return equals increased stock value

## ABOUT PREMIER CONSULTING

# About Premier Consulting

- 🔍 Based in Tulsa, Okla., Premier Consulting Partners is a financial services firm with a team-based commitment and a consultative approach.
- 🔍 In addition to its other lines of business, Premier focuses on providing customized, bank capital advisory services.
- 🔍 It has been engaged to assist StoneCastle Financial Corp. in identifying community bank and state association opportunities throughout the United States.

# Questions:

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