



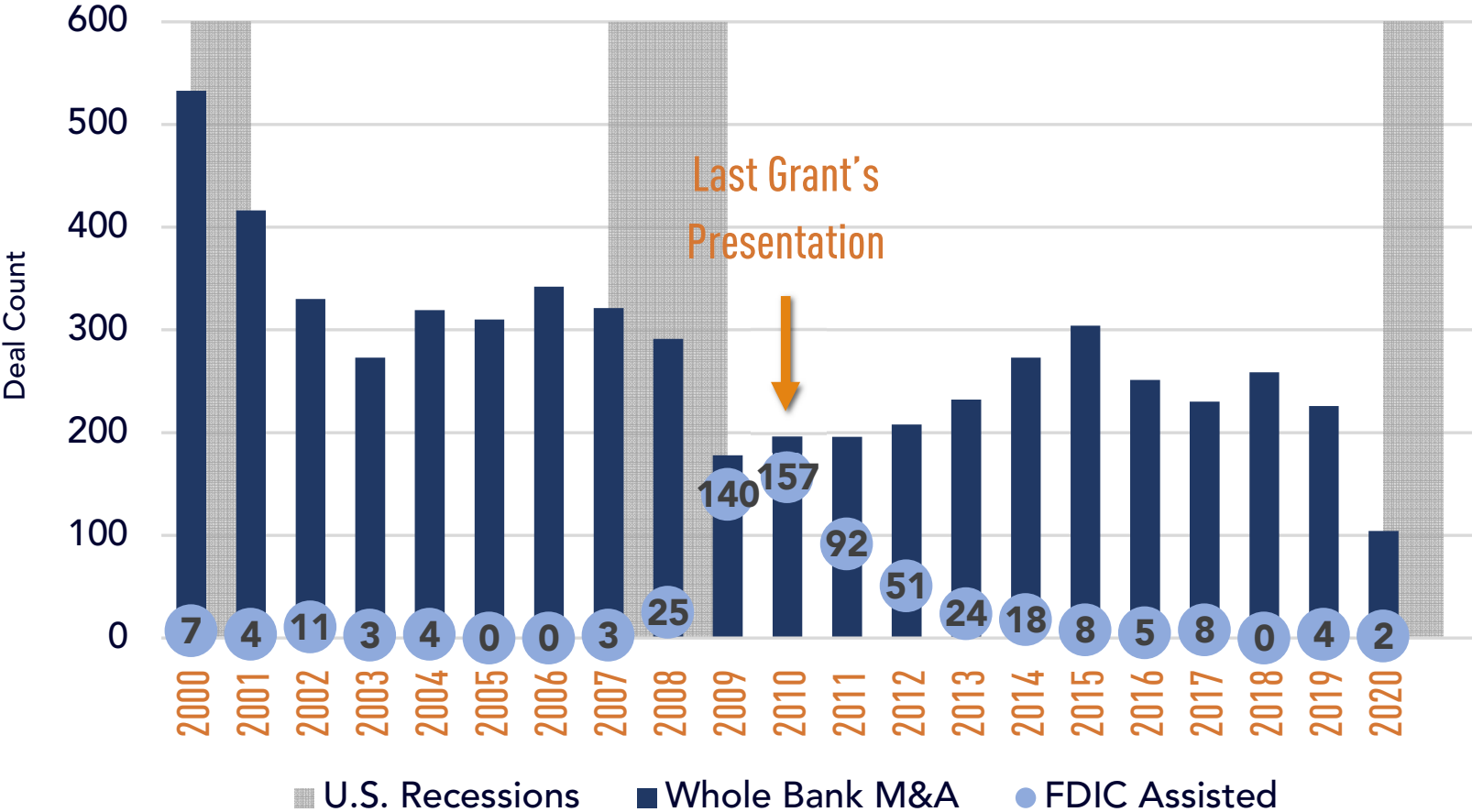
WHAT EVER HAPPENED TO BANK FAILURES?

GRANT'S FALL 2020 CONFERENCE

SY JACOBS

JACOBS ASSET MANAGEMENT

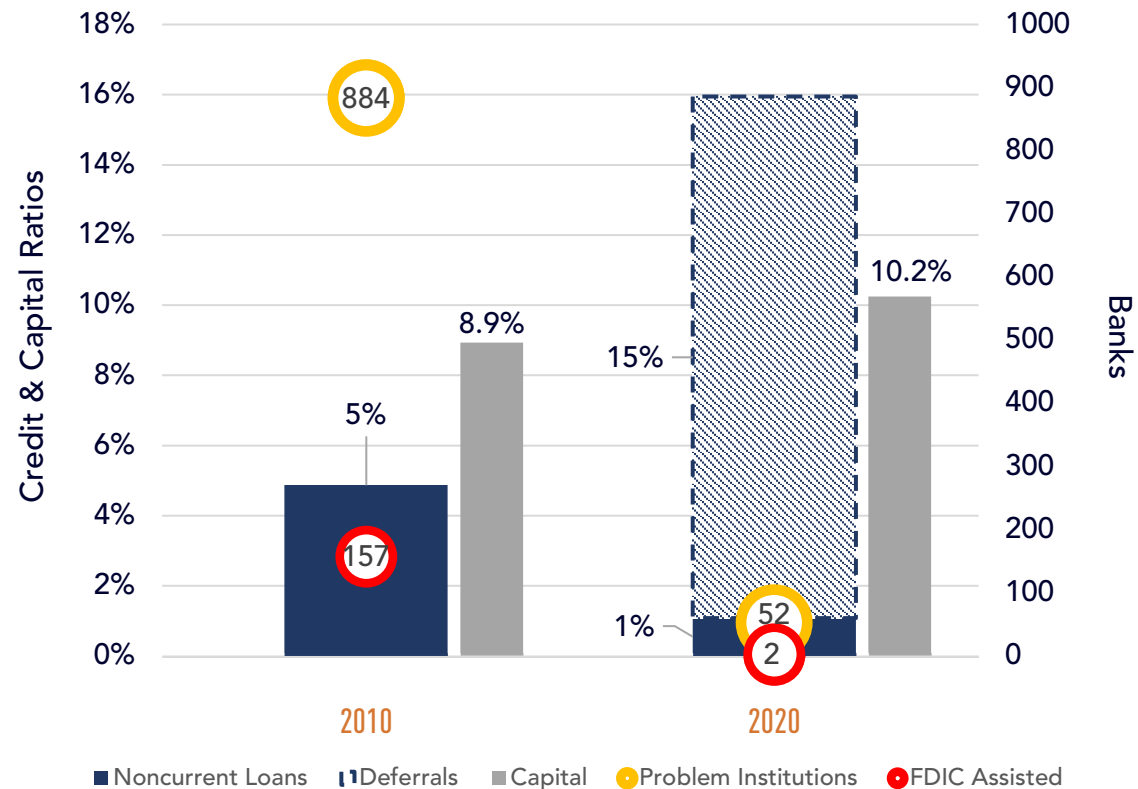
BANK M&A SINCE 2000



FEW BANK FAILURES AMID COVID-INDUCED RECESSION

- Suspended animation for last 7 months
- Banks better capitalized today
- Coupled with:
 - Massive government stimulus, including Paycheck Protection Program (PPP)
 - Extend and pretend – deferrals admissible without NPL recognition under CARES Act
 - Federal Reserve’s zero interest rate policy

BANK STATS: 2010 TO PRESENT

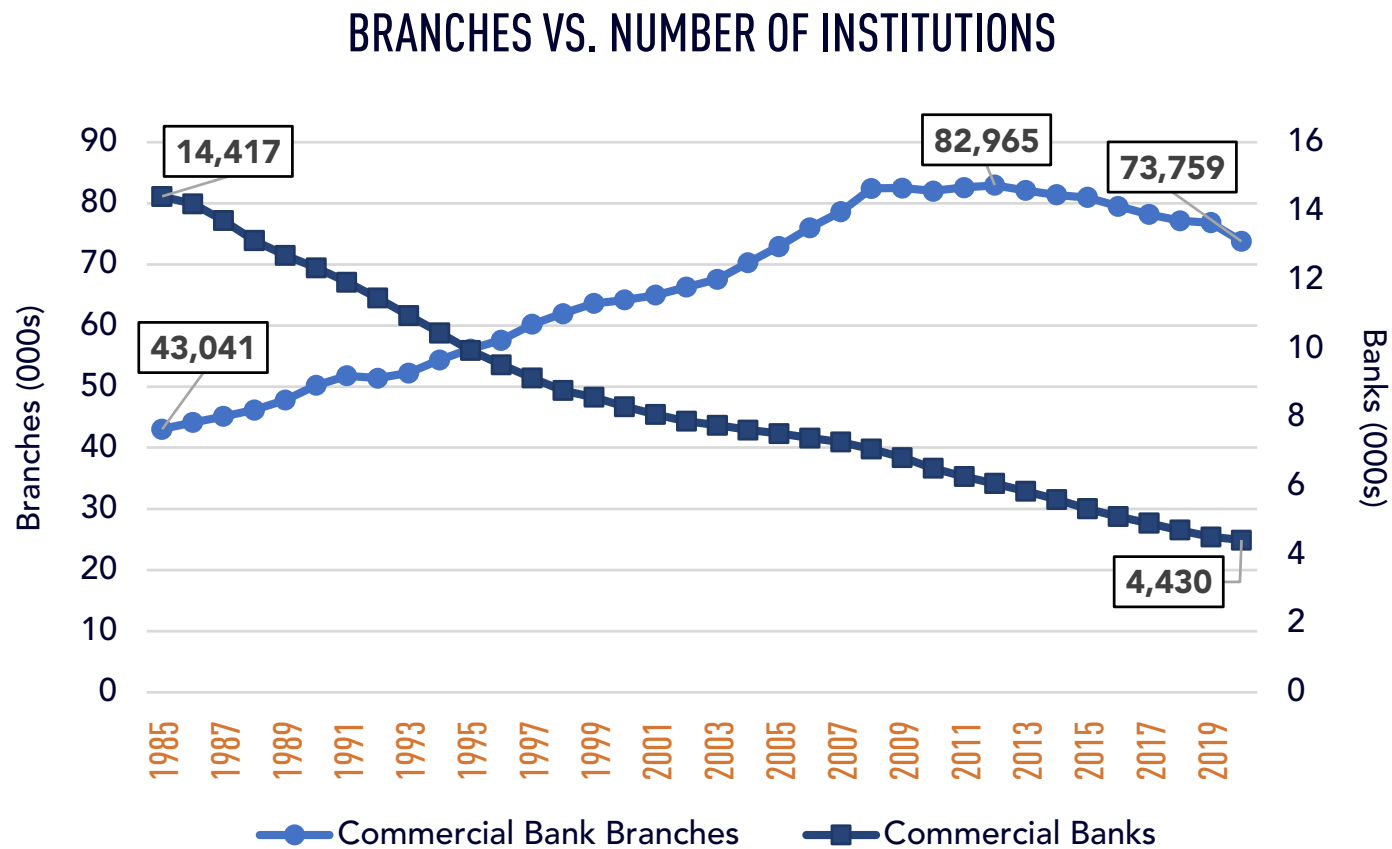


CONSOLIDATION IS NOW ABOUT RELEVANCE

- Community banks face an existential threat from nimble fintechs and money center banks
 - Client expectations around user experience / functionality increasing, particularly post-COVID
 - Innovators are automating back-office functions to deliver better service at a lower cost
 - Physical proximity, previously a competitive advantage, becoming less relevant every day
 - Loans and deposits increasingly sourced through alternative channels that require robust technology interfaces
- As these challenges become more pronounced, community banks will realize that they lack the economic and human capital to compete as standalone entities
 - Historically community banks triaged technology spend, focusing on essential issues like cyber risk but neglecting innovation
- We believe the next wave of consolidation will focus on accelerating branch closings – not just to save money but also to bolster vital technology spending
 - M&A provides a small window of opportunity for wholesale changes to technology (such as systems conversions and implementations) that banks rarely otherwise have

BRANCH CLOSURES WILL FUND VITAL TECHNOLOGY SPEND

- U.S. remains over-banked despite two-thirds of the industry consolidating since 1985
- Branch count only recently started declining, but isn't keeping pace with plunge in foot traffic



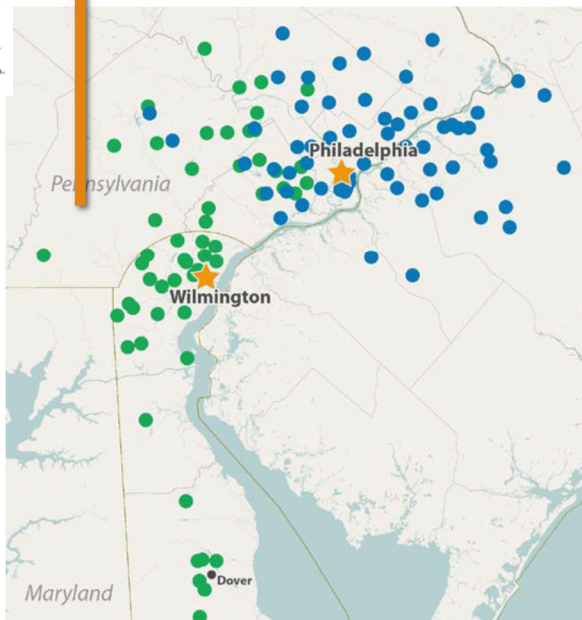
WSFS IS TAKING A PAGE OUT OF THIS PLAYBOOK

Delivery Transformation

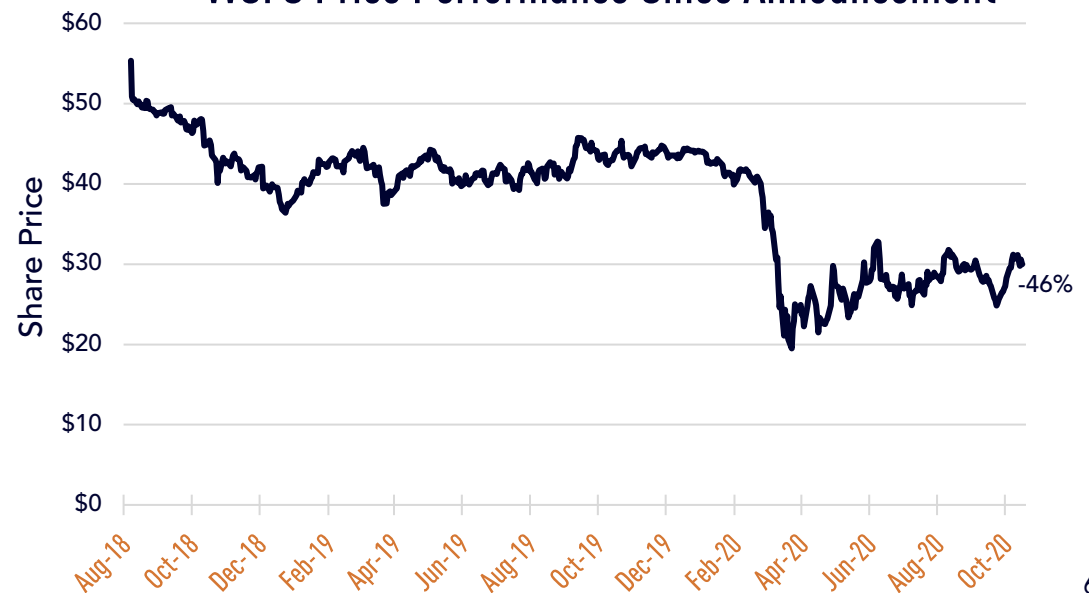


Opportunity for Delivery Transformation

- The combined platform creates an ideal opportunity to evaluate the expanded branch network and scale investment into complementary digital capabilities with the objective of developing a top-tier, highly competitive omni-channel delivery platform
- Incremental investment of \$32 million over the next 5 years into digital delivery initiatives targeted across four major areas, representing ~3x WSFS' non-routine annual technology expenses
- Investment funded from ~50% of the savings from consolidating ~25% of the combined branch network

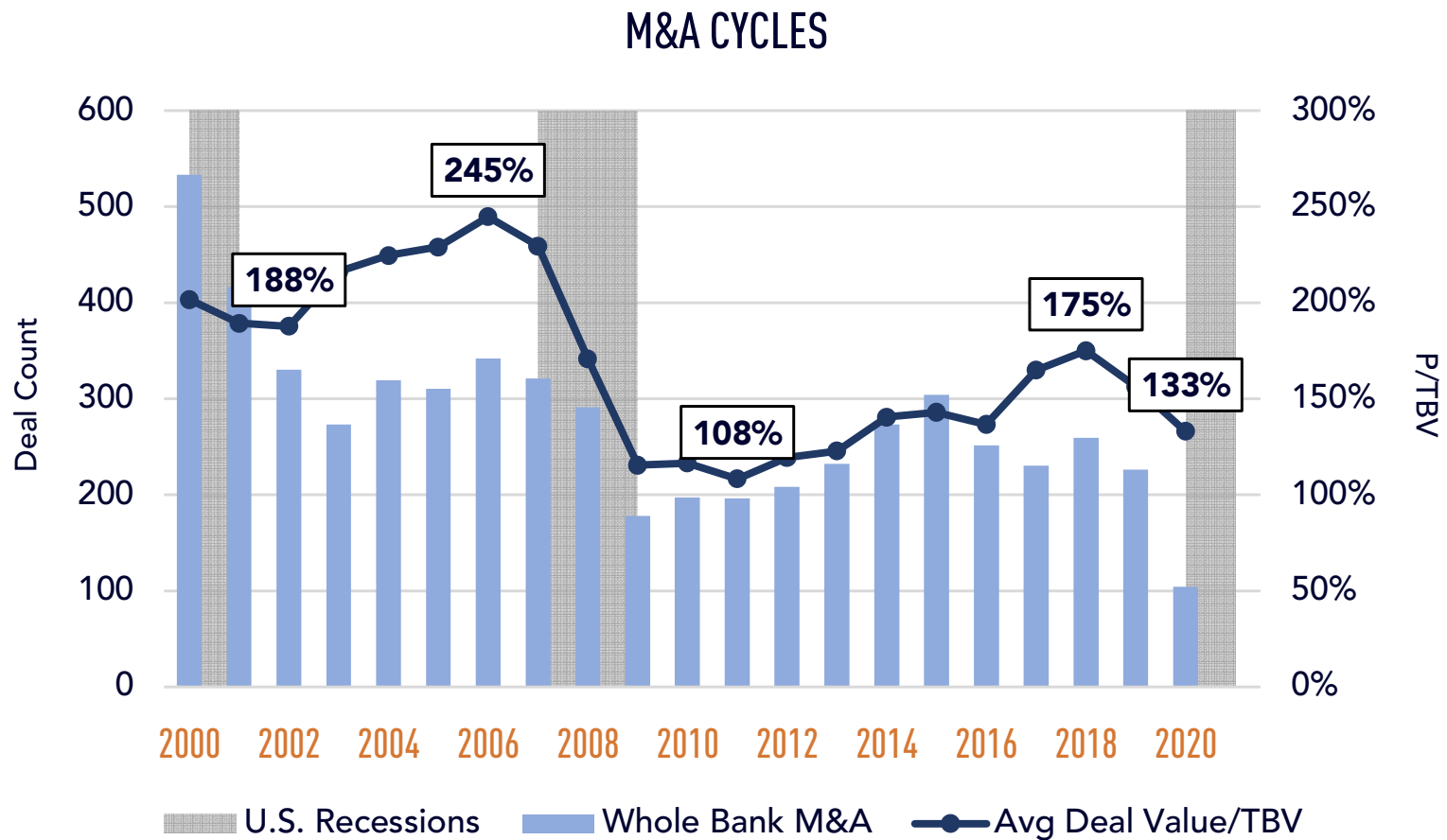


WSFS Price Performance Since Announcement



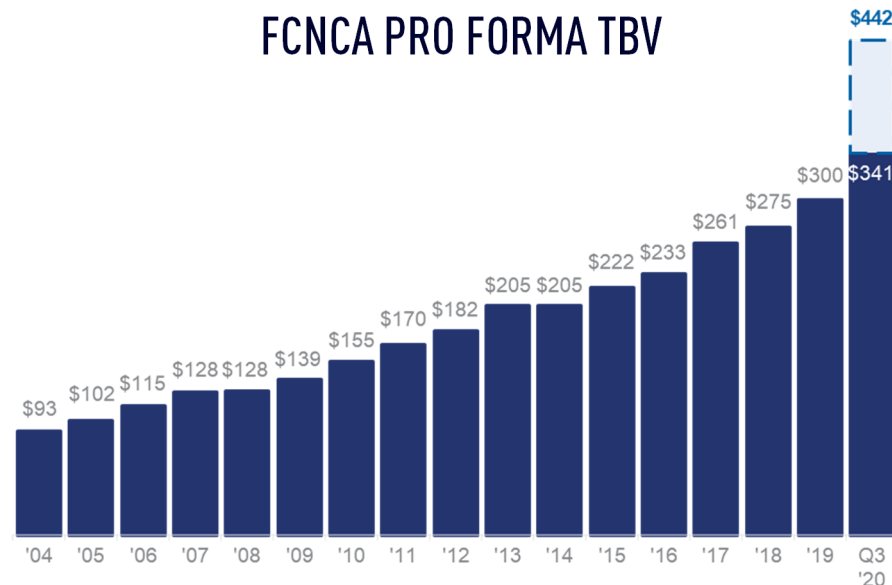
M&A WILL ACCELERATE, BUT LOOK DIFFERENT

- The metrics for evaluating “good” M&A could evolve – from mostly financial (tangible book value earn-back/earnings accretion) to a qualitative assessment of whether long-term viability is enhanced
 - Sellers will significantly outnumber buyers, which will impact prices paid
 - Opportunity for banks with robust technology to become acquirors of choice



HERE'S HOW DIFFERENT – THE NEW “FDIC OPPORTUNITY”

- On October 16, FirstCitizens BancShares (FCNCA) announced it will acquire CIT Group for 44% of tangible book value per share (TBV)
 - The deal is projected to be **more than 50% accretive to EPS and ~30% accretive to TBV**
 - FCNCA will book a **bargain purchase gain >\$2 billion**, reminiscent of early FDIC transactions
 - Market applauded transaction, with **FCNCA's share price +11% the day of announcement**
- FCNCA was one of the most prolific FDIC acquirors in the last cycle, completing 11 transactions between 2009 and 2017. At the low price paid, this deal looks similar, but offers a strong franchise
- CIT provides a branch-lite, national digital bank platform with market leadership in specialized lending verticals including equipment finance, rail and factoring
- Returns will be enhanced with FCNCA's extremely low-cost funding and cost synergies



PUERTO RICO: A UNIQUE, CONSOLIDATED BANKING LANDSCAPE

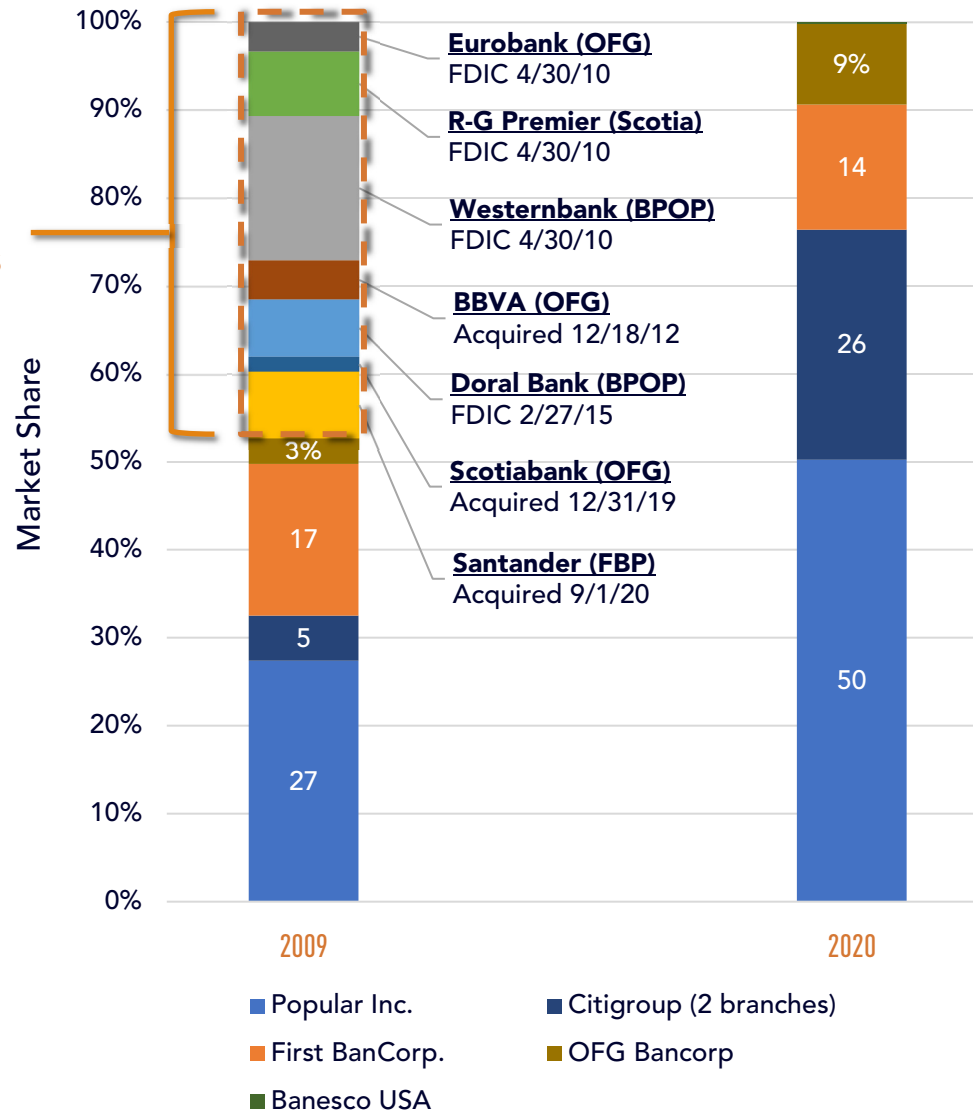
- Election winner
- Pharmaceutical / medical device onshoring
- Favorable tax climate
- How to play it

FINANCIAL DARWINISM AT WORK

- In the last decade, the 3 PR-based banks increased market share from 48% to 74%

PR DEPOSIT MARKET SHARE SHIFT

47% of market
changed hands

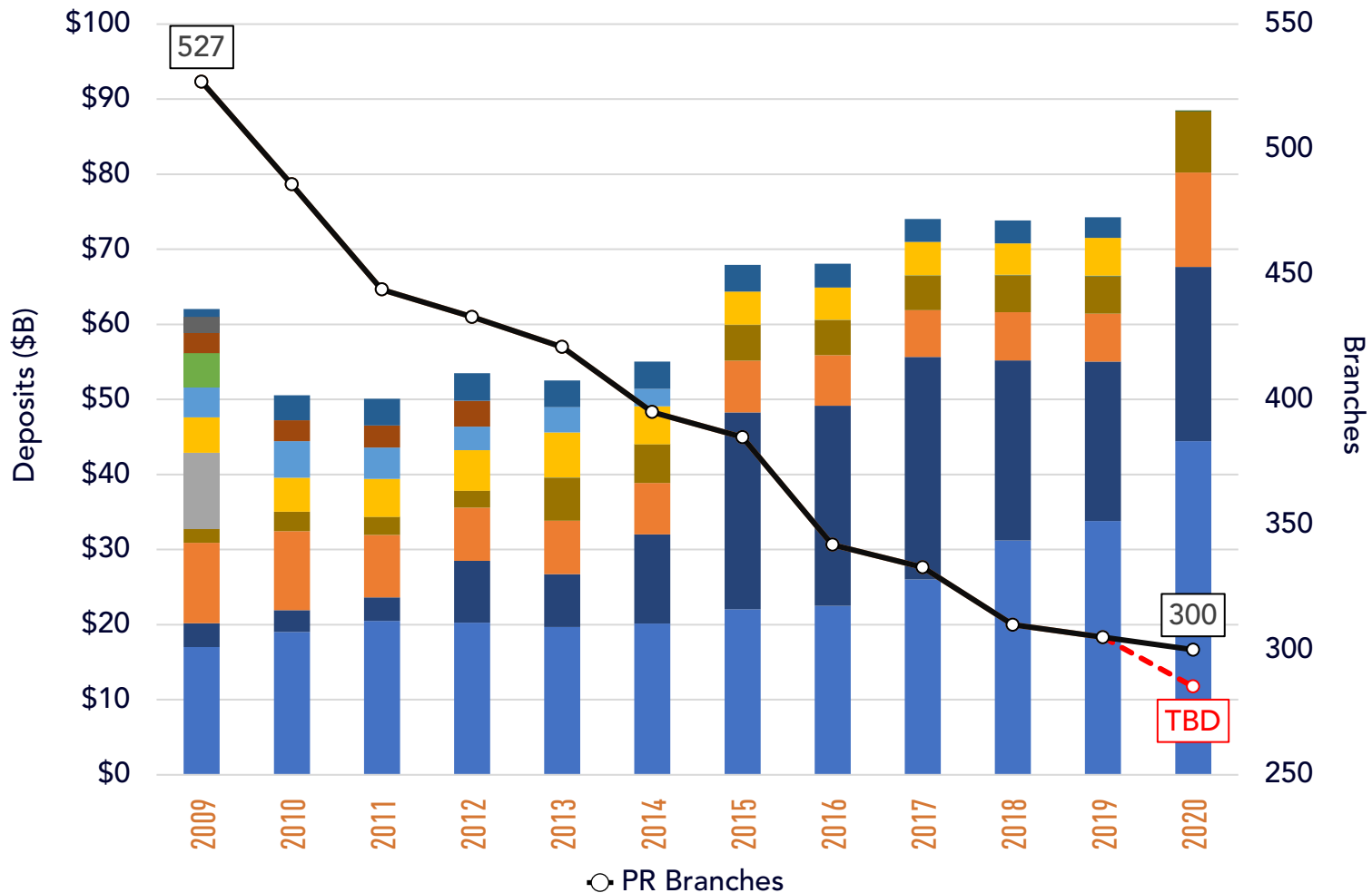


BRANCH COUNT HAS DECLINED DRAMATICALLY

- Branches declined by more than 40%

- Hurricane Maria drove adoption of branchless banking before COVID-19
- Will continue given the recent Scotiabank (2019) and Santander (2020) acquisitions
- Market is significantly more consolidated than the mainland U.S.

PR BRANCHES VS. DEPOSITS



POLITICAL TIDE IS SHIFTING IN FAVOR OF PR

- PR appears to be a winner regardless of the outcome in November



Joe Biden ✓
@JoeBiden



I believe that every American deserves a fair shot to get ahead and a government that treats them equally. But that hasn't been the case for the people of Puerto Rico. Today, I'm releasing my new plan to change that:



VS

The Biden-Harris Plan For Recovery, Renewal and Respect for Puerto Rico | Joe Bi...
Joe Biden believes that Puerto Rico, and the more than 3 million American citizens who call it home, deserve to be treated with dignity and respect. Whether you liv...
joebiden.com

2:00 PM · Sep 15, 2020 · TweetDeck



Donald J. Trump ✓

September 18 · 🌐



Today, I announced two of the LARGEST grants in history to Puerto Rico to rebuild its electrical grid system and education system. My Administration will be awarding \$13 BILLION through FEMA – the largest obligations of funding ever awarded. Obama killed the pharmaceutical manufacturing business in Puerto Rico. We are bringing it back from China and other faraway lands.

PHARMACEUTICAL / MEDICAL DEVICE ONSHORING

- Section 936 passed by Congress in 1976: exempted companies from paying corp taxes on PR profits
 - Pfizer, Bristol-Myers Squibb, Merck, Mylan, Eli Lilly, Amgen among companies that setup
- Congress began to phase out Section 936 in 1996 and was it fully wiped out by 2006
- Still, an estimated 11 of the 20 top pharma companies/drugs manufactured on the island
- Also home to over 70 medical device manufacturing plants
- Sector accounts for 30% of PR GDP, 50% of manufacturing and 30% of manufacturing jobs
 - Hourly earnings are 65-80% of U.S. average



Peter Navarro
@RealPNavarro

@RADMBrown, @EPA, @DFCgov, and key representatives from Trump Administration are in Puerto Rico to bring pharmaceutical manufacturing BACK to the US. China FIRED, Puerto Rico HIRED!



FAVORABLE TAX CLIMATE

- Tax haven while maintaining U.S. citizenship
- U.S. Tax Code exempts PR sourced income from federal tax
- Acts 20 and 22 passed in 2012 to lure wealthy individuals and service providing companies
- Act 20: Allows corporations that move and export services from the island to pay 4% rate
- Act 22: New residents receive 100% exemption on personal income from capital gains, interest and dividends
 - Must reside in PR for at least 183 days of the year
- Benefits more compelling if Federal tax rates were to increase



THE PLAY: PUERTO RICO BANK STOCKS

- Survivors of a 15-year recession
- Hurricane Maria in September 2017 prepared them for COVID-19 better than mainland peers
- Beneficiaries of consolidation
- Still overcapitalized
- Discounted valuations

INSTITUTION NAME



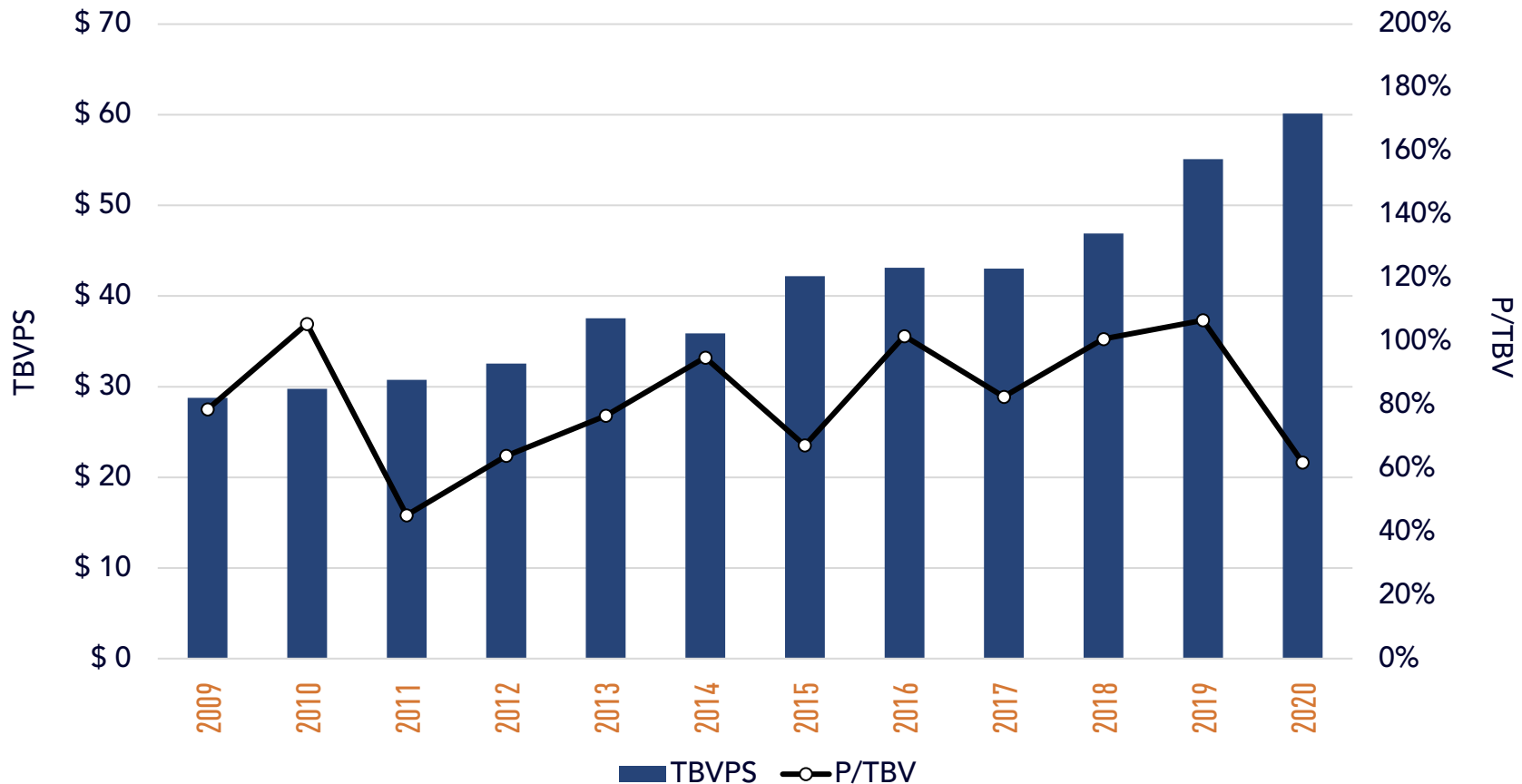
TICKER	BPOP	FBP*	OFG
MARKET CAP (\$B)	\$ 3.3	\$ 1.3	\$ 0.7
PRICE / TBV	65%	66%	89%
PRICE / '21 EPS	8.1x	7.2x	7.9x
ASSETS (\$B)	\$ 62.8	\$ 19.6	\$ 9.9
PR MARKET SHARE	50%	14%	9%
CET1 CAPITAL RATIO	15.7%	15.3%	12.0%

*Pro forma 9/1/2020 Santander acquisition
Market data as of 10/16/2020

BPOP: CHEAP & COMPOUNDING BOOK VALUE

- Bank has approximately doubled in size to \$63B in assets
 - Acquired: Westernbank (2010), Doral Bank (2015), Wells Fargo PR auto loan portfolio (2018), Santander credit card portfolio (2019)
- Share count has declined 18% since 2010 as a result of share buybacks

TANGIBLE BOOK VALUE PER SHARE GROWTH



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