Georgia Banking Update

January 2017

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GEORGIA BANKS AT A GLANCE

229 BANKS IN GEORGIA

ASSET-SIZE DIVERSITY
Georgia-Based Banks

60,000 EMPLOYED

STATEWIDE GEORGIA BANK PERFORMANCE

EARNINGS INCREASE THROUGH SEPT. 2016 FROM SEPT. 2015

LOANS GROWING

DEPOSITS AT RECORD HIGHS

COMMUNITY BANKS SHINE
180 Georgia Banks FDIC Classified as Community Banks in Q3 2016

20% REVENUE GROWTH
10% LOAN GROWTH
7% DEPOSIT GROWTH

Financial data from third quarter 2016 information from FDIC
Bank count as of Jan. 5, FDIC and S&P Global Market Intelligence
The Evolving Georgia Bank Landscape

Georgia remains a well-banked state, with the most state-based banks in the Southeast. There is significant choice and access to banking for families and businesses. Competition is robust in terms of rates, terms, products and services. Georgia historically has had a large number of banks, and still does. However, the national trend toward consolidation traditional merger and acquisition activity continue to shift the industry landscape.

### State-Based Banks

<table>
<thead>
<tr>
<th>State</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Georgia</td>
<td>181</td>
</tr>
<tr>
<td>Kentucky</td>
<td>164</td>
</tr>
<tr>
<td>Tennessee</td>
<td>157</td>
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<tr>
<td>Florida</td>
<td>149</td>
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<tr>
<td>Louisiana</td>
<td>130</td>
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<tr>
<td>Alabama</td>
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<td>Arkansas</td>
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<td>Virginia</td>
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<td>Mississippi</td>
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<tr>
<td>North Carolina</td>
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<tr>
<td>Maryland</td>
<td>54</td>
</tr>
<tr>
<td>South Carolina</td>
<td>56</td>
</tr>
<tr>
<td>West Virginia</td>
<td>58</td>
</tr>
</tbody>
</table>

### 2016-17 Georgia Bank Mergers and Acquisitions

<table>
<thead>
<tr>
<th>Buyer / Seller</th>
<th>Buyer State</th>
<th>Seller State</th>
<th>Announced</th>
<th>Completed</th>
</tr>
</thead>
<tbody>
<tr>
<td>South State Corporation / Southeastern Bank Financial Corporation</td>
<td>SC</td>
<td>GA</td>
<td>6/17/2016</td>
<td>1/3/2017</td>
</tr>
<tr>
<td>South State Bank / Georgia Bank &amp; Trust</td>
<td></td>
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<tr>
<td>National Commerce Corporation / Private Bancshares, Inc.</td>
<td>AL</td>
<td>GA</td>
<td>8/31/2016</td>
<td>1/1/2017</td>
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<tr>
<td>National Commerce Bank / Private Bank of Buckhead</td>
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<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Bank Financial Corporation / S Bankshares Inc.</td>
<td>GA</td>
<td>GA</td>
<td>5/19/2016</td>
<td>12/31/2016</td>
</tr>
<tr>
<td>State Bank &amp; Trust Company / S Bank</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>State Bank &amp; Trust Company / National Bank of Georgia</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pinnacle Bank / Independence Bank of Georgia</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bainbridge Bancshares, Inc. / Citizens Bank</td>
<td>GA</td>
<td>GA</td>
<td>6/21/2016</td>
<td>10/14/2016</td>
</tr>
<tr>
<td>First National Bank of Decatur County / Citizens Bank, Cairo</td>
<td></td>
<td></td>
<td></td>
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</tbody>
</table>
Economic Environment Summary

The Fundamentals Remain Solid

- Year-over-year job growth statewide is outpacing the national average through November, and the state’s labor participation rate climbed to 62.7 percent in November, its highest point in more than three years.
- Georgia is the 8th most populous state, with 10 million people; top-10 growth expected through 2020
- Housing is still relatively affordable, especially compared to other regions in the country
- Business relocations remain good
- Ports, rail, air and highway transportation infrastructure are general advantages as ongoing challenges are being addressed by state leadership
- Georgia has become a leader in the financial services technology sector, and the agribusiness, healthcare and education sectors are economic development strengths
- Competition for high-quality borrowers is strong, with attractive rates and terms for borrowers

2017 Legislative and Regulatory Issues

GBA Regulatory and Legislative Priorities

- To promote the general welfare and usefulness of banking and the preservation of a sound banking system.
- Support policy and regulatory actions that enable lending and foster job creation.
- Remove excessive regulation and other barriers to serving families, businesses and our hometowns.
- Advocate for regulatory structures that are tailored to varied bank business models and risk profiles.
- Advocate for continued charter choice and a level playing field with nonbank financial services providers.

2017 Georgia General Assembly Preview

The 2017 Session of the Georgia General Assembly began Jan 9. GBA is represented by our Senior Vice President for Government Relations, Elizabeth Chandler, 404.420.2027, President and CEO, Joe Brannen, 404.420.2026, and our Government Relations Consultant Steve Bridges, 404.420.2037, throughout the session. Contact any of them with questions about legislation, information about your legislator’s stance on a particular issue or to request any other information related to the Georgia General Assembly.

The Department of Banking and Finance Annual Housekeeping Bill

This bill will include important provisions that the GBA Code Review Task Force recommended as the culmination of their three-year project to update Georgia’s banking laws. Of note, the bill includes a streamlined calculation for legal lending limits, the ability of the Department to directly examine third party service providers, gives state charted institutions the ability to conduct business on Sundays to give them parity with national banks, adds the option of providing minors electronic access to accounts, streamlines the Department’s subpoena process, authorizes pay-by-phone fees, expands the circumstances for board member removal by the financial institution and modernizes the process for the issuance of subordinated debt. We expect this bill to be introduced early in the Session by Rep. Bruce Williamson (R-Monroe).
Modernizing Georgia Business Judgment Rule
Enhancing the liability protection for board members in their decision-making process will be a priority for both GBA and the general business community. In the vast majority of states, the business judgment rule protects both the decision-making process and the actual decisions of directors made in good faith from any second guessing by courts and juries. The only exceptions are where the directors are guilty of gross negligence, fraud or bad faith. In *FDIC v. Loudermilk*, however, the Georgia Supreme Court held that directors of Georgia banks and corporations could be liable for *ordinary negligence* committed in the decision-making process. By allowing ordinary negligence claims to be brought against directors of Georgia banks and corporations, the Court has severely undercut the business judgment rule. The question of whether a bank or corporation has engaged in an appropriate decision-making process is now subject to second guessing by courts and juries – precisely the result that the business judgment rule was designed to eliminate.

There are very strong policy reasons for keeping the decision-making process of directors beyond the review of the courts and juries except in cases of gross negligence, fraud or bad faith. First, banking regulators demand that bank directors be directly involved in certain critical bank decisions to ensure proper oversight. Second, if bank directors fear liability in making those decisions, they may act in a highly risk-averse manner that does not benefit the communities and shareholders. Third, it is essential to good corporate governance that banks and other corporations be able to attract experienced and capable independent directors. The risk of being held liable for ordinary negligence in the board decision-making process is a powerful deterrent to board service. Making these proposed changes is also in line with Georgia’s multiple year standing as the number one state in which to do business.

Other anticipated issues the banking industry can expect:
- Rewrite of Georgia’s power of attorney statute
- Revisions to Georgia’s trust code
- Possible creation of lottery or prize-linked savings accounts
- Reintroduction of the Georgia Firearms Nondiscrimination Act
- Fee collection requirement for wire transfers
- Pet care when a home is foreclosed
- Disposal of abandoned mobile homes.

National Legislative Update
There are a host of national legislative issues we’re tracking and supporting. The major regulatory relief bills that we followed, monitored or supported in the last Congress that did not make it to the President’s desk are no longer active pieces of legislation, but are likely to be reintroduced in some form in the near future.

U.S. Sen. David Perdue is a member of the U.S. Senate Financial Services Committee, and Reps. David Scott (D-GA13) and Barry Loudermilk (R-GA11) are members of the U.S. House Financial Services Committee. We’ll work with them and the entire Georgia delegation to support legislation related to the following priorities:

**Sensible regulation.** Oversee banks in a way that promotes growth and innovation, while avoiding arbitrary and capricious penalties and providing robust exam review and appeal channels. Update rules to reflect changes in technology. Restore balance to the regulatory process, including Consumer Financial Protection Bureau reform and a focus on promoting both economic growth and safety and soundness.

**Tailored regulation and arbitrary thresholds.** Tailor regulation to correspond to a bank’s business model and risk, eliminate artificial and arbitrary regulatory asset thresholds, and pursue a more balanced supervisory process that eliminates drag on bankers’ ability to employ capital to support economic growth.

**Mortgage rules.** Reform mortgage regulations that have raised costs and prevented banks from flexibly
serving their customers without enhancing consumer protections or safety and soundness. Most crucially, deeming loans held in portfolio as Qualified Mortgages will expand safe and responsible access to credit.

**Housing finance reform.** Constrain the role of the federal government—and potential taxpayer liability—in housing finance to a well-defined, explicit and fully priced guarantee of loans made by private lenders. Ensure equitable access to such programs by lenders of all sizes and from all communities.

**Flood insurance.** Help homeowners protect themselves by providing more incentives to participate in the National Flood Insurance Program and encouraging development of a strong private flood insurance market.

**Level playing fields.** Reduce economic distortions by providing more charter flexibility and capital options for thrift institutions, including mutual banks, and protecting S-Corp banks from arbitrary disadvantages due to the Basel III capital and other rules.

**Small business growth.** Fuel lending to job-creating businesses through both increased funding for key SBA loan programs and eliminate regulations that artificially dictate business lending decisions. Tax reform. Reduce rates to drive growth while simplifying the complex tax code—plus eliminating poorly targeted subsidies to massive credit unions and Farm Credit lenders that no longer pursue their missions.

**Student debt.** Change the tax treatment of student debt repayments to help unburden those who have invested in their own potential.

**Fintech and nonbank competitors.** Facilitate partnerships of banks and technology firms, ensure customers are protected through consistent and effective oversight of all providers and encourage innovations by providing a regulatory “greenhouse” for testing new products before roll-out.

**Data breaches.** Ensure that all parties share accountability for protecting customer information and notifying the public after a breach, with the responsible party bearing the costs of their failure to protect customers.

**Cybersecurity.** Expand collaborative public-private efforts to fight cyber threats through information-sharing and self-reporting of cyber risks without fear of regulatory sanctions or reputation risk.

**Rural growth.** Pursue pro-growth policies to help farmers manage debt burdens and pricing challenges, fight deposit flight through encouraging access to longer-term stable funding sources, and address the shortage of qualified appraisers in rural areas that hinders real estate transactions.

**Interchange.** Restore market pricing on debit interchange fees so that consumers can once again enjoy more flexibility in the products and services that banks offer.

**AML/BSA.** Limit the burdens of Bank Secrecy Act compliance and reporting—especially new requirements that place undue burdens on customers—and eliminate potential sanctions for banking legal businesses.

**Small-dollar credit.** Preserve banks’ ability to serve customers with small-dollar loans and overdraft protection.
Georgia Banks in Our Communities

Georgia banks and bankers are cornerstones of their communities. They provide financial support, guidance and expertise to local government, economic development, educational and other civic entities. They teach financial literacy to kids and adults and support the arts, charities, community festivals, sports and other activities. Bankers volunteer hundreds of thousands of hours for community service projects each year. Here are just some of the major initiatives Georgia bankers support in our communities.

Georgia Peanut Bank Week is in the fall of each year. During the week, banks promote the state’s official crop and emphasize the economic, dietary and cultural importance of the state’s peanut industry.

An ongoing public awareness and education campaign to protect older Americans from Financial Fraud. The campaign features four comprehensive modules: Identifying and Avoiding Scams, Protecting Your Assets by Preventing Identity Theft, Choosing a Financial Caregiver, and Acting as a Responsible Financial Caregiver.

Every April bankers from around the state join a nationwide campaign to teach children good money habits. Bankers visit schools and community groups with specialized, grade-appropriate lesson plans, worksheets, games and other learning materials.

National get Smart about Credit day is always in October, but a number of Georgia banks participate in this campaign throughout the year. Through school and community presentations, volunteer bankers work with young people to raise awareness about the importance of using credit wisely.