Invest:

Miami 2016

An in-depth review of the key issues facing Miami-Dade's economy featuring the exclusive insights of prominent industry leaders

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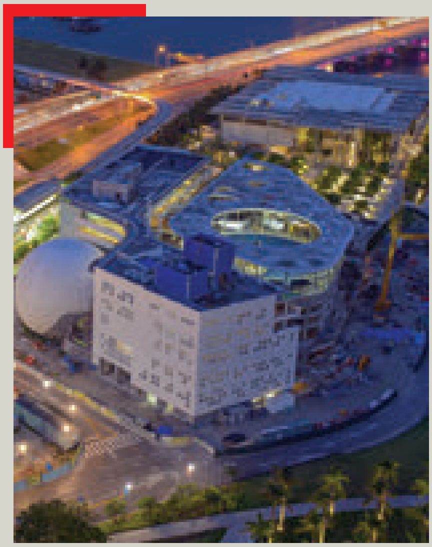

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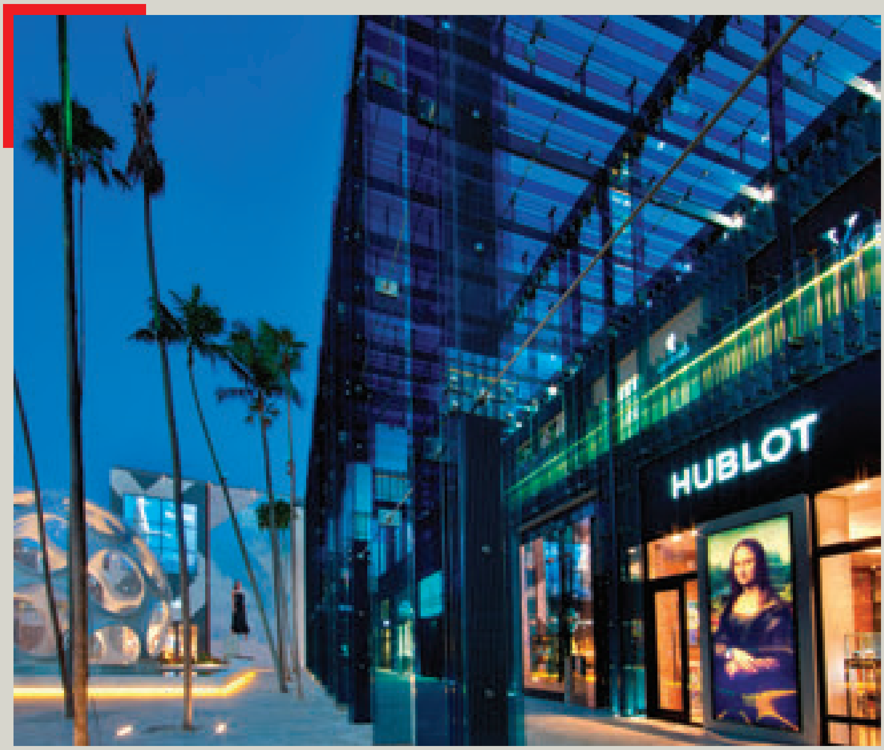

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Banking:

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Growing strong:

Commercial lending remains a key driver for Miami-Dade's banking sector, while consolidation trends continue to shape the landscape

Overall, the Miami-Dade banking sector saw positive growth trends in 2015. Performance indicators among community and regional banks have been mostly favorable, while nontraditional financial institutions, like private equity (PE) firms, investment banks and hedge funds, continue to expand. The competitive landscape has remained unchanged with no chartering of new banks. Meanwhile, growth drivers are mixed, with commercial lending growing quickly while small-to-medium enterprise (SME) lending grows at a measured pace. The Florida homeowner insurance market continues to improve from the disruptions of a decade ago. Regulatory, market and criminal risk trends provide some headwind, as well as some opportunities, to banks, nontraditional financial institutions and Miami-Dade's general economy.

State performance indicators

According to the South Florida Business Journal, aggregate deposits held by Florida banks increased throughout 2015, with $132 billion in the second quarter growing to $135 billion in the third quarter. Deposit growth indicates healthier banks, as reflected in the Problem List from the Federal Deposit Insurance Corporation (FDIC), on which the number of problematic Florida banks has shrunk from 228 to 203 in the third quarter, continuing a seven-year-long slide.

Linked with growth in aggregate bank deposits is growth in lending and profits. In 2015, Florida banks grew loans at more than twice the average percentage growth of other U.S. financial institutions. In the third quarter, Florida banks grew loans by almost $4 billion, or 2.58 percent, according to the FDIC. This indicates that appetite for credit among large investors and regular consumers in Florida and Miami-Dade is healthier than the U.S. average. Though this growth is lower than the second quarter rate of 2.9 percent, bank profits also increased, reaching $382 million in the third quarter, up $35 million from the second quarter's $347 million.

No new charters

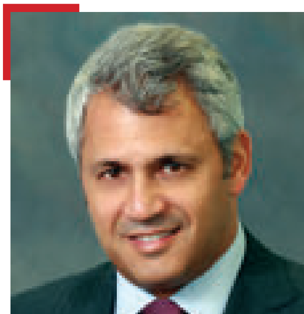
Recent conditions in South Florida's banking sector are such that no parties or entities have been incentivized to charter new banks. The last chartered South Florida de novo bank—not including new banks chartered to purchase failed banks—was organized in 2009: the Fort Lauderdale-based Broward Bank of Commerce. This entity no longer exists since an Arkansas-based bank acquired it in late 2014. The absence of new chartering starkly contrasts with previous years, when 72 charters were issued from 2000 to 2009. Meanwhile, during the fourth quarter of 2015, Capital Bank moved its' headquarters from Coral Gables to North Carolina. Local jobs at the bank will remain, with no major change in overall employee numbers. The post-recession regulatory climate is partly responsible for the absence of new chartering in South Florida. Regulators require that a de novo charter have $8 million minimum capital, up from $2 million. Other factors that discouraged new charters include the now eight-year-long, low-interest-rate environment—which cuts long-term banking profits for all banks, especially affecting small community banks—high operating costs and expensive compliance burdens imposed by the federal government in the wake of the crisis.

Regulatory impacts

As federal authorities continue enacting numerous bank regulations, Miami-Dade banks, together with the entire banking industry, continue to face changing market conditions. For instance, a rule within the Dodd-Frank Wall Street Reform and Consumer Protection Act—the Volcker Rule—was recently implemented. The Volcker Rule, which all U.S. banks should have implemented by July 1, 2015, was enforced later that same month, five years after its inception. The rule bans banks and their affiliates from engaging as principal in proprietary investing and trading in investment funds for short term profits, greatly effecting the profitability of this activity.

For the Miami-Dade international banks routinely undertaking transactions with foreign financial institutions, there was much uncertainty as to how the rule would apply to foreign transactions. Although the final December 2013 rules clarified the ban's scope, the application of the ban to fund investments with foreign banks as fund investors was broader than anticipated. In response, banks are identifying permissible and impermissible investments as well as divestiture strategies to comply with the rule. Only time will tell how this will affect Miami-Dade banks, but compliance could remove current sources of bank financing, making it harder for foreign banks to see Miami-Dade as a destination for investments via bank-owned investment funds.

The Volcker Rule is one example of the regulatory uncertainty Miami-Dade banks faced in 2015. Traditional banking was once the linchpin of the area's finance industry but more disclosure and other regulations dissuade foreign clients from opening accounts. "When it comes to regulations, the medicine has, in some cases, become worse than the disease," David Schwartz, president and CEO of the Florida International Bank-



Jorge **Salas**

President & CEO,

Banesco USA

As Miami's banking sector has grown significantly in recent years, it has become highly competitive. Competition is particularly strong for community banks; today, there are approximately half as many such banks in this market as there were 10 years ago, partially due to the cost of complying with new regulations. But this story is not the same for all banks.

Banesco USA, a community bank based in Coral Gables, is thriving. Why? Banesco USA is part of Banesco Financial Group, which has a presence in over 15 countries and manages over $100 billion in assets. It therefore offers the best of both worlds: the financial strength and expertise of a large corporation and superior personalized service.

Despite South Florida's promising growth, the banking industry faces challenges, particularly in the real estate sector. The strengthening of the U.S. dollar is already affecting Miami's condo market, given that at least 70 percent of sales are made to foreign nationals whose currencies devalued (against the U.S. dollar) in the latter half of 2015. Most of these countries are South American.

One of Miami's greatest assets is its highly international character. This ensures diversification: when certain global markets are struggling, money will still flow into South Florida from other regions. Miami-Dade is seeing an influx of capital from New York and other northeastern U.S. cities, as well as Canada and many European countries, like Spain. (Such is the growth in Spanish investments that the affluent village of Key Biscayne has been nicknamed Key Bis-Spain.)

A good example of this internationalization is the influx of Venezuelans fleeing economic and political instability. The impact of this migration is felt in the rapidly growing South Florida cities of Weston and Doral, which have high numbers of Venezuelan residents and businesses. The Venezuelans coming here are young, educated and driven to succeed. They greatly appreciate their new homes and are here for the long haul. In about 10 years' time, they will be what many Cuban-Americans are today—Miami's political and business leaders.

ers Association (FIBA), tells Invest: Miami. "Anti-Money Laundering and Terrorist Financing regulations have placed undue burdens on banks in terms of cost and regulatory risk. This has led to 'de-risking' and the unintended consequences of account closures, reduced finance of trade and blocking of remittances relied upon by families in poorer countries."

Carlos Fernandez-Guzman, CEO of Pacific National Bank, describes the impact of regulations on the local banking sector by highlighting the change in his bank's clientele. In 1990, approximately 85 percent of Pacific National Bank's clients were from overseas. Now, foreigners comprise one-third of his bank's customers. Further underlining the impact of regulations, from 2013 to 2015, three large foreign banks retreated from Miami-Dade: the Royal Bank of Canada, Lloyds of London and BNP Paribas. However, as these and other Miami-Dade banks withdraw from international finance due to regulatory burdens, new players are filling the gap.

Commercial lending growth

Among the activities shaping Miami-Dade's banking sector in 2015 are commercial and SME lending, as well as the continuing influx of PE firms and other nontraditional lenders, which are impacting traditional banks.

Commercial lending grew in 2015 and in preceding years. According to a study published in early 2015 by BridgeInvest, a Miami-based private mortgage lender, the volume of South Florida commercial mortgages grew robustly, from \$3.5 billion in 2009 to almost \$11.4 billion in 2014. Miami-Dade County accounted for the majority of this commercial lending growth, seeing 57 percent of the volume in South Florida as of 2014. Miami-Dade's growth was also quite pronounced during the period, with a year-over-year increase of 42 percent. This makes growth in Palm Beach and Broward counties during the same period pale by comparison, with an increase of 13 percent in the former and a decline of 26 percent in the latter.

The study scrutinized seven commercial mortgage categories: retail, industrial, hotel, office, multi-family, land and construction and others. Mortgages for land and construction projects represented the highest volume at \$10.1 billion, or 23 percent of South Florida's total. Retail projects represented the second highest volume at \$9.4 billion, while multi-family projects represented the third-highest volume at \$7.1 billion.

PE firms are becoming important sources of money in this recent run-up in South Florida commercial mortgage volume. As Alex Horn, managing partner at BridgeInvest, tells the South Florida Business Journal, "We're seeing more and more [mortgages] in the private space and more and more of our competition is coming from

Israel **Velasco**
Florida Region Executive,
Popular Community Bank

One of our goals at Popular Community Bank is to maximize profitability while using fewer resources. To accomplish this goal, we are focusing intently on markets where we know we have the greatest competitive advantage. In 2014, Popular Community underwent a major restructuring, selling off its operations in California, Chicago and Orlando, leaving those in New York, South Florida and Puerto Rico. While we continue to function and present ourselves as a community bank, we have the benefit of a large, deep-pocketed parent company, Popular Inc. We access the extensive resources of our parent company to streamline and enhance our operations, particularly in the area of compliance. In this sense, we like to think of ourselves as a "super community bank."

Looking forward, the sectors that will drive the growth of the local banking industry are those of commercial and industrial real estate, aviation and import/export. Following a "hub-and-spoke" model, our South Florida growth strategy will rely on the acquisition of branches, rather than opening new ones. Given today's regulatory climate, it is difficult for new bank charters to be awarded. Along with growth in the sector, there will also be continued consolidation. More regional and so-called "big banks" will enter the market, and community banks will have a hard time remaining afloat, given the soaring costs of compliance.

Despite these challenging constraints, there will continue to be a place for community banks in this market. While larger banks have the advantage of more assets and technology, this does not mean they are necessarily more competitive when it comes to providing a high level of care and paying close attention to customer service. Despite the trends towards increased mobile banking and electronic transactions, at the end of the day, banking culture, especially in South Florida, is still very much "high touch"—that is, clients like to see and know who their banker is and we can provide that.

equity players that are starting to compete in the debt space." Proof of the expanding PE firm presence is growth of mortgages they've originated; private lending grew from 11.1 percent in 2012 to 13.3 percent in 2014.

Competition is also increasing with commercial mortgage volume. Horn says, "We're seeing an unprecedented amount of competition…both in the private and institutional lending space." Such heightened competition among mortgage lenders may lead to lower rates and more risk appetite for leverage to attract clients. This, in turn, may lead Miami-Dade banks to extend higher-risk loans in the short- to medium-term future to compete with the new PE players in the commercial lending market.

SME lending, however, has not grown as robustly as commercial lending in recent years. Though Florida has more than 2 million businesses, the third-largest number of any state, the main challenge when establishing a Florida-based small business is finding adequate financing. A mid-2015 study from Miami-based professional services firm K.H. Thomas Associates concludes that most South Florida banks are falling behind on SME lending compared to banks in the state and the U.S.

The study analyzed U.S. Small Business Administration (SBA) data on loans extended by Florida banks in 2014. To uncover the best and worst SME lenders, the study ranked banks according to an ideal SBA loan-to-deposit ratio of close to 1 percent. Florida banks came far lower than the benchmark, with their average ratio at 0.22 percent. Among the top 10 ranked banks, only five banks with deposits of at least $500 million had ratios above the benchmark. Banesco USA was the only South Florida bank in the top 10 group, coming in at number six with a ratio of 0.8 percent. Four banks from other parts of Florida rounded out state representation among the top 10.

Another metric demonstrating Florida's modest SME lending growth is the state's share of loans disbursed nationally. According to the South Florida Business Journal, approximately $19.2 billion of approved loans were disbursed to U.S. SMEs through the SBA 7(a) Loan Program, the SBA's premier lending vehicle for established SMEs and startups. Florida represented $1 billion of these disbursals, the third highest by state in 2014. However, according to the study, even this $1 billion likely underserved Florida SMEs by almost 30 percent. Much needs to be done to improve SME lending in Florida, as SMEs are a crucial part of the state economy, employing 3 million workers.

Despite such modest growth, SME lending continues to be vital to business seen by Miami-Dade banks. Some local banks are addressing this demand from SME entrepreneurs through innovative programs. As Continental National Bank Chairman Jacqueline Dascal Chariff tells Invest: Miami, "Helping small and medium-sized businesses has been at the very core of our institution from day one. The bedrock for [Continental] has been to build our community by helping these individuals achieve their goals and ambitions through financial assistance and guidance."

In seeking to do more for SME entrepreneurs beyond simply offering loans, Continental has begun educational and consulting outreach efforts. "Recently we launched our GROW initiative, a program that seeks to educate entrepreneurs with training modules designed to help them manage, build and grow their respective enterprises more effectively. This grassroots model will serve as a catalyst in creating the business leaders of tomorrow," Chariff says. Considering that Miami is among the top three MSAs with the most entrepreneurial activity, such SME lending initiatives will remain crucial to the health of the local SME sector.

Community banks

The top banks in Miami-Dade have had a good year overall. Performance indicators have been disparate but mostly positive for community banks and regional banks, while national and international banks have played a significant role in SME lending.

Mirroring the aggregate loan growth, community banks have seen strong loan growth in 2015. Eight South Florida banks, each of which held total assets between $500 million and $999 million, saw collective loans grow from $94.9 million in the second quarter to $114 million in the third quarter. The top bank by assets, Banesco USA, saw loans increase by more than $18.8 million during that period while the smaller Apollo Bank, with roughly half the assets of Banesco USA, saw the most pronounced loan growth at $44.8 million.

Community banks have been profitable overall, but there are some long-term weaknesses. The South Florida community bank with the highest profits in the third quarter was Biscayne Bank at $2.01 million while U.S. Century Bank's third-quarter profits were $903,000. However, among the eight banks profiled, their collective noncurrent loan ratio, a metric of long-term bank health, is at 1.51 percent for the third quarter, a ratio greater than the South Florida regional average of 1.07 percent as of June 30, 2015. This indicates average loan quality is lower among top community banks than among other classes of South Florida banks.

Regional banks have also seen aggregate profits grow from the second to the third quarter. Eleven South Florida banks with more than $1 billion in assets saw profits grow from $130.5 million to $189 million. BankUnited, with assets of $22.44 billion, saw the highest third-quarter profits with $104 million in net income. Florida Community Bank, which is less than a third the size of BankUnited by assets, reported the second highest third-quarter profits at $21.4 million.

In terms of loan growth from the second to the third quarter, regional banks didn't do as well as community banks, but the quality of their loans is better. These top banks saw aggregate loan growth shrink from $2.86 billion to $2.24 billion during that period, according to the South Florida Business Journal. However, their collective noncurrent loan ratio stood at 0.93 percent in the third quarter, lower than the South Florida regional average of 1.07 percent. This indicates loans carried by the top regional banks are on average healthier than those of the top community banks.

National and international banks in Miami-Dade play a significant role in the banking sector as they dominated a subclass of SME financing: SBA 7(a) loans. According to the South Florida Business Journal, from October 1, 2014, to March 31, 2015, SunTrust Bank led the way in SBA 7(a) lending, extending $55.1 million. During that same period, Wells Fargo, a global banking giant, came in second, having approved 152 loans totaling $39.9 million. No South Florida banks broke into the top 10 among SBA 7(a) lenders. As earlier analyzed, SME lending has grown modestly in South Florida, so national and international banks are filling a crucial need in the Miami-Dade lending market.

Property insurance

Though Florida experiences more than its fair share of natural disasters, the state's homeowner insurance market is remarkably healthy as of 2015. This is the conclusion drawn by William Standler, executive director of the Florida Property & Casualty Association.

As Standler discusses in the South Florida Business Journal, this positive situation is a marked contrast to the health of the homeowner insurance market 10 years ago when powerful hurricane landfalls in quick succession forced many private Florida insurers to leave the state. Nonrenewal notices from long-standing insurers that quickly downsized were sent to Florida homeowners,

Teresa **Foxx**

Director & General Manager – Barclays Bank Miami

"Most of the businesses that want to increase their activity in Latin American and the Caribbean choose to be based here in South Florida. Accordingly, Miami is positioned as a gateway for international trade and presents tremendous opportunities for the financial services sector, as well as the FIBA member banks."

leaving millions of suddenly vulnerable people to search for affordable property coverage. To prevent billions of dollars of property liability from falling on the shoulders of ordinary citizens—thereby triggering a large economic contraction the next time a destructive hurricane made landfall—the state government, working with private insurers, set up the Citizens Property Insurance Corporation (CPIC). CPIC helped fill the insurance gap, providing private insurers the time to amass the proper licenses, reinsurance, capital and management to re-enter Florida. As of 2015, CPIC only represents less than 9 percent of the direct written premiums (DWPs) in Florida, with Florida private insurers more than able to underwrite 72 percent of DWPs.

Regulatory agencies also found the market in good shape in 2015. The Florida Office of Insurance Regulation (OIR) undertakes catastrophe stress tests to gauge the homeowner insurance market's resilience in case a powerful hurricane makes landfall. Of the 112 insurers that OIR tested in the 2015 Annual Reinsurance Data Call, including 67 Florida insurers, all reported satisfactory surplus, capital and reinsurance to cover policyholder claims in a scenario in which a once-in-a-century storm hits.

> "Eleven South Florida banks with more than $1 billion in assets saw profits grow from $130.5 million to $189 million."

The improving homeowner insurance market, which is crucial for the Florida housing and real estate industries to run smoothly, has allowed some private Florida insurers to grow, with CPIC retaining the top spot. The South Florida Business Journal ranked the largest South Florida property and casualty insurers for 2015 by the volume of Florida homeowners' direct premiums these scrutinized entities held in 2014. At number one is CPIC with $795 million in 2014 premium volume. Two of the top five companies—Universal Property & Casualty Insurance at number two and Federated National Holdings Company at number four—are based in South Florida. Among the top 25, the only one new entrant is Auto Club Insurance Company.

Sector challenges

Miami-Dade banks and financial institutions faced numerous challenges in 2015. The effects of regulatory impacts have been far-reaching for the county's international banking sector. In response, investment banks, PE firms and hedge funds are filling the gap by serving the financial needs of foreign clients as international banks withdraw due to regulatory burdens. One study done by the Newlink Group, a public relations company, tallied more than 150 nontraditional financial institutions and investment funds conducting business in Miami-Dade.

Financial managers are also expanding to fill the gap left by departing international banks. Ian McCluskey, a vice president at the Newlink Group, tells the Miami Herald that he estimates South Florida is home to roughly $300 billion in private wealth that is actively managed, the highest amount of investment activity McCluskey has ever seen. Higher regulatory risk faced by international banks in recent years has therefore had an unintended consequence: accelerating the growth of Miami-Dade's nontraditional financial institutions, which tend to be less regulated than traditional banks.

However, this robust growth of nontraditional financial institutions will contend with one major market challenge that has long characterized Miami-Dade: the shallow pool of local human capital from which financial firms can draw. While the situation has greatly improved in recent years, the market must continue to battle the perception problem, as well as continue to cultivate strategies that address this problem in the long term. As Apollo Bank Chairman and CEO Eddy Arriola tells Invest: Miami, "Miami is not a city where you can poach talent from other firms. Your talent strategy needs to be to develop and retain. Invest in your own people and create a workplace they will love."

Financial crime

South Florida banks also have a higher crime risk profile than other comparable Florida banks. On average, South Florida banks registered more Suspicious Activity Reports (SARs) than banks doing business in other parts of Florida, according to a study by Miami-based accounting firm Kaufman Rossin Group. This study also highlighted that close to 10 percent of South Florida banks registered 50 SARs or more per month. No banks in North and Central Florida registered as many per month. The higher rate of SARs indicates that South Florida banks are more accustomed to expecting and spotting suspicious account activity, which may be a consequence of the higher prevalence of suspicious activity in South Florida. This suspicious activity, in turn, is driven by the nature of the South Florida banking sector, which engages in far more international transactions and is home to larger and more complex banking institutions. By having banks register mandatory reports like SARs and keeping federal and state authorities informed of potential criminal activity, this criminal risk can be minimized.

Some Miami-Dade banks have also become victims of fraud crimes in 2015. In October 2015, BankUnited disclosed that a fraud committed against one of its borrowers impacted the bank's noncurrent loan ratio. The Florida-based borrower had a long-established relationship with BankUnited, having taken out $44 million of commercial credit. The borrower was defrauded by one of its customers, which led BankUnited to convert that $44-million loan to nonperforming status in the third quarter. This caused a sudden 51-percent increase in BankUnited's noncurrent loan portfolio from the second quarter of 2015, driving its noncurrent loan ratio from 0.31 percent in the third quarter of 2014 to 0.67 percent in the third quarter of 2015. The post-fraud noncurrent loan ratio, however, still kept BankUnited below the average 1.07-percent noncurrent loan ratio for all South Florida banks.

Looking ahead

The overall positive growth trends of the Miami-Dade banking sector in 2015 are likely to continue into the medium term. Given the recent local economic climate, favorable performance indicators among community and regional banks are likely to continue. The expansion of PE firms, investment banks and hedge funds will be fueled by the fast growth of commercial lending as more international banks, burdened by new regulations, leave the Miami-Dade financial market. Factors such as high regulatory burdens and a low-interest-rate environment will continue to discourage the chartering of new banks. Meanwhile, crucial growth drivers such SME lending will continue to grow moderately, but there are indications that national and global banks will fill the financing gap. Barring unpredictable natural disasters hitting the state, the Florida homeowner insurance market should continue improving. Market risks, especially as they pertain to the planned rise in interest rates by the Federal Reserve Bank in December 2015, as well as regulatory and criminal risk trends, are likely to provide headwinds and opportunities for banks, nontraditional financial institutions and Miami-Dade's economy.

Billion-Plus South Florida Banks

Bank	Assets Q4 (Billion $ U.S.)	Loans Q4 (Billion $ U.S.)	2015 income (Million & U.S.)	Net income Q4 (Million $ U.S.)	Deposits Q4 (Billion $ U.S.)
BankUnited	23.78	16.51	256.03	58.15	17.05
Mercantil Commercebank	8.15	55.46	20.63	38.11	6.56
Capital Bank	7.45	55.77	60.65	16.75	5.96
Florida Community Bank	7.16	51.64	52.13	27.18	5.44
City National Bank of Florida	6.48	40.39	47.38	11.44	4.48
Sabadell United Bank	5.27	36.77	34.93	12.17	4.07
Ocean Bank	3.29	24.65	20.35	23.65	2.79
TotalBank	2.76	19.23	15.84	41.04	1.95
Stonegate Bank	2.38	18.39	25.16	72.64	2.03
BAC Florida Bank	1.77	13.71	12.70	30.24	1.42

Source: *South Florida Business Journal*

Foreigners' bank

How Miami's thriving international population creates lucrative opportunities for the banking sector

Antonio **Cassio Segura**
President & CEO – Banco do Brasil Americas

What encouraged Banco do Brasil, the largest bank in Brazil, to establish a presence in Miami?
Miami is an international gateway that welcomes foreigners who are both short-term tourists and long-term visitors. Given their different interests, this is a perfect opportunity for Banco do Brasil Americas, which seeks to provide comprehensive international banking solutions for foreigners, not simply people living in Brazil. The average foreigner stays in South Florida an average of three months a year. During their stay, they need full access to a variety of banking services. We provide valuable assistance to these foreigners by offering credit cards, checking accounts, auto loans, mortgages and investment options in their preferred languages: English, Portuguese or Spanish.

How has the perception of Miami evolved within the Brazilian business and investment community?
Brazilians love Miami. They see the city as an ideal second-home destination because it is very similar to the environment they are used to back home in Brazil. It has the same good weather, beautiful beaches, high-quality restaurants and amazing nightlife that they can find at home, as well as good infrastructure, good schools and security, both in terms of physical safety and safety of assets. Increasingly, Brazilians are buying businesses and commercial property as well.

For those Brazilian investors seeking business opportunities in Miami, what are their preferences and what interests them in terms of property?
There are two kinds of Brazilian investors we are seeing in South Florida. One type is looking to buy commercial property to lease later. These investors want income in U.S. dollars and are looking forward to further diversifing their investments. They don't simply want to put their "eggs" (money) in different "baskets" (types of investments). They also want to put these "baskets" into different "wagons"—in other words, they want to invest outside of Brazil. These investors are buying stores like CVS and Walgreens, as well as strip malls and shopping centers. The second type of investors have already achieved great success in Brazil and want to further their reach to Miami. Because they want to expand on their assets in Brazil, they are opening affiliates or branches of their existing companies or institutions—especially clinics and schools—in Miami. However, these groups share similar goals for their activity in Miami in that they want to continue succeeding in the market for the long-term. From where the international market stands, it is clear that the investment flows going from Brazil to Miami and back is an irreversible trend. There is no going back. ■

Unique specialties

How banks are strategizing to cater to middle-market clients

Margaret **Callihan**
President & CEO – SunTrust Bank South Florida

What types of businesses are expanding the types of services that South Florida banks offer in the area?
South Florida is comprised of many different businesses and at SunTrust, we focus on delivering our purpose of Lighting the Way to Financial Well-Being to meet all of their unique needs. In this year's SunTrust Business Pulse Survey, we found that four out of five businesses across the U.S. are preparing for growth. They are planning to stimulate growth primarily by introducing new products or services and some anticipate M&A. We are seeing that trend not only nationally but in South Florida as well.

The entrepreneurial climate in South Florida has nurtured a variety of industries from multinational companies to local businesses. Some of the industries include information technology, life sciences, health care and trade and logistics due to our strategic location for serving the Americas. Moreover, businesses of every size are looking for access to capital and new and innovative exit strategies. As the financial needs in our community have become more complex and specific, specialized services have become more necessary than ever before in the market. Consequently, SunTrust has deployed a robust specialty strategy.

How does having investment-banking services accessible to the middle market impact South Florida?
The economy has changed significantly in recent years, becoming more global and less tied to specific markets. Today, a company headquartered in Miami can do business all over the world without ever having to open additional locations, giving business owners the ability to continue building and growing from Miami. In time, owners may seek to expand their business through acquisitions, sell their business or have a need to raise capital to undertake an expansion of facilities. Much of the business growth in our region can be found in the middle market. Our team of bankers has the ability to leverage the full suite of the investment banking capabilities of SunTrust Robinson Humphrey to better serve these needs when local companies decide it's the right time to make those moves.

How has the influx of foreign investors and high-net-worth individuals into Miami-Dade County positively affected the economy in terms of local wealth?
What's exciting is that so much of the wealth we see today is being generated locally, which is different from the historical trend of wealth being retired here. We also continue to benefit from foreign direct investment, as well as organic growth from local business and additional investments into new industries. All of these factors are contributing to the economy's diversification. It bodes well for the health of a local economy.

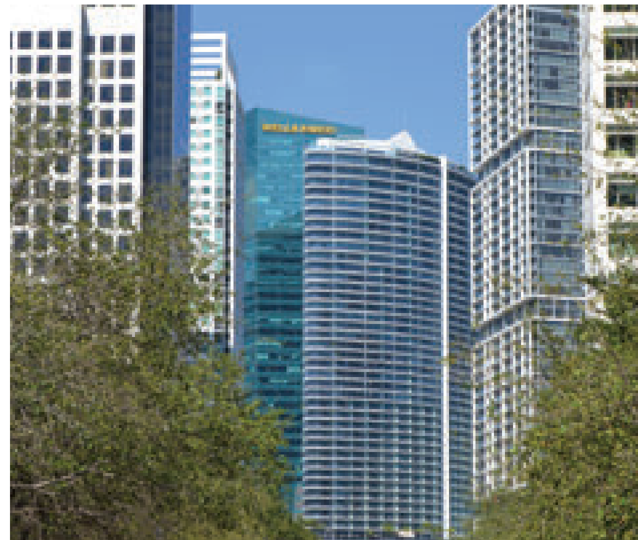
More consolidation:

M&A trends will shape Miami-Dade's competitive banking landscape in years to come

As the post-recession economy continues to strengthen, banks are merging to better serve customers and increase the number of services they offer. This trend has been notable throughout South Florida, reflective of the national trend noted in a BankDirector survey on mergers and acquisitions (M&A), which uncovered driving factors prevalent in 2015 in major U.S. markets. The survey inquired about the current attitudes and challenges regarding M&A among 260 CEOs, chairmen, independent directors and senior executives from U.S. banks, ranging from small community banks with assets of $250 million to banks with more than $10 billion in assets. Close to half of these national respondents reported that their bank conducted an acquisition since the financial crisis of 2008, with 23 percent of all respondents disclosing that they had made an acquisition in 2015 alone. This is a marked upward trend from 11 percent of respondents stating that they made an acquisition in 2014 and 9 percent stating that they made an acquisition between 2011 and 2013.

For banks in the U.S. South, which includes Miami-Dade banks, the number of respondents disclosing they had made an acquisition in 2015 was lower than the national average, at 18 percent. For 2014, the percentage stood at 14 percent, higher than the national average, and for the period between 2011 and 2013, it stood at 9 percent, equal to the national average. The survey reflected this growing confidence in the market, with 62 percent of national respondents disclosing that the 2015 environment was more favorable for bank M&A transactions. Meanwhile, 59 percent of respondents in the U.S. South responded with similar confidence about the 2015 climate, a higher percentage than was found among bankers in the U.S. Northeast and the West. The South also had the lowest percentage of respondents stating that the 2015 environment was less favorable for M&A deals, with only 5 percent saying this, well below the averages for other regions.

Of the national respondents who stated that the current environment was favorable to M&A activity, 77 percent reported that more banks wanted to sell in 2015, with 47 percent stating that target banks had improved credit quality. Other favorable factors mentioned included higher stock valuations, a stronger economy and the fact that potential purchasing banks had more capital to undertake target acquisitions. A good number of respondents were also eyeing the possibility of expanding their banks through M&A and not through organic growth, with fully 67 percent believing that their banks needed to expand considerably due to current marketplace pressures.



By the end of September 2015, the number of South Florida banks shrank from 59 to 53.

Despite these positive factors that stimulate activity in the banking M&A market, there are also some negative factors that dampen enthusiasm. According to the BankDirector survey, 46 percent of national respondents disclosed that they were beginning to see deterioration in bank loan underwriting standards that could lead to credit quality issues in the future. Such credit quality issues have been among the most frequently cited obstacles that prevent banks from finalizing acquisitions. However, when compared to other parts of the U.S., this concern is less pronounced in banks in the South, where only 40 percent of respondents believed underwriting standards were loosening, in comparison to 58 percent in the Midwest and 57 percent in the West.

Within Miami-Dade, one particular trend that continues to shape the industry is the shrinking number of community banks due to consolidation. According to the South Florida Business Journal, by the end of September 2015, the number of South Florida banks shrank from 59 to 53. Further consolidation was expected in the near term, with one acquisition already closed and two banks already having signed acquisition agreements since October 1.

Perhaps the most important M&A activity in the sector concerned the acquisition of Miami-based City National Bank of Florida by the Banco de Credito e Inversiones (BCI), based in Chile. This acquisition is the largest undertaken of a U.S. bank by a Chilean entity. The acquisition falls within the aforementioned trend of community banks consolidating with larger entities endowed with greater resources and deeper pockets. The bank will remain focused on and based in Miami-Dade, with its Miami board making bank-related decisions.

BCI, which has had a Miami-Dade presence through a branch office that catered exclusively to Chilean nationals and companies, had long wanted to expand its South Florida footprint. Florida is attractive because, as BCI CEO Eugenio Von Chrismar noted the acquisition provides BCI a way to expand in a market larger than Chile's, whose relatively small economy has inhibited BCI's plans for greater growth.

When City National came up as a potential target, the BCI board found it too good a deal to pass up. BCI valued the acquisition so much that it undertook a substantial and drawn-out reconfiguring of its holding structure to pass muster with regulators at the Federal Reserve. As City National Bank President and CEO Jorge Gonzalez tells Invest: Miami, the investment BCI was willing to make in the acquisition reflects the promise they see in the South Florida market. City National Bank's strong growth in the past two years enabled the deal's financials to be favorable to the bank and its owners, with the purchased price closing in October 2015 at $946.5 million, $65 million more than the $882.2 million agreed upon at the time of signing in May 2013.

There were other acquisitions of note in 2015. Brickell Bank signed an acquisition agreement in May 2015 that put its fair market value at $10 million. A Venezuelan group of investors and bankers purchase the bank at 22 percent lower than its book value, indicating the entity was underpriced at the time of signing. Two Homestead-based community banks—Community Bank of Florida and 1st National Bank of South Florida—also signed acquisition agreements with CenterState Banks as purchaser. These two upcoming acquisitions will continue CenterState's expansion in South Florida, with the institution having previously purchased the Palm Beach Gardens-based SouthBank for $1.96 million. ■

Growth drivers

How banking services are evolving to accommodate a more diversified market

Ernie **Diaz**
Florida Regional President – TD Bank

What does it mean to be a Canadian bank operating in the Florida market?
TD Bank has seen tremendous growth throughout South Florida and it caters to the entire market, not simply internationals. We are seeing growth in all product lines, in particular commercial, small business, health sector and real estate lending, as well as our in-store distribution. The fact that there is such an influx of Canadians in this market gives TD Bank a competitive advantage, as the brand is familiar amongst that demographic, who have been active here for many years. While they initially flocked to South Florida because of the favorable climate and quality of life, they are now seeing this market as advantageous for conducting business.

How have regulations impacted the local banking sector?
Banks have been greatly affected by the current regulatory environment, especially in the realm of international transactions. Regulations have particularly impacted the way we finance foreign trade. This means that Small Business Administration (SBA) loans and export-import programs become even more critical, especially for a market like Miami that relies so heavily on trade. What we are seeing is that as traditional financing options have stalled, private equity and finance firms are filling the gap in financing some of this trade.

What have been the drivers of growth for commercial lending in the past year?
Florida has become an increasingly important market within the U.S. The state's population growth has outpaced New York's. The state has seen healthy growth in manufacturing, wholesaling and services, as well as the number of startups. In South Florida, we are seeing high volumes of foreign investment. Real estate has rebounded. We are seeing more capital expenditures. Companies are starting to come back into the black.

As a banking executive and the incoming chair of The Beacon Council, how do you view the development of Greater Miami's business community?
This is an exciting time in Miami-Dade's development. There are high concentrations of financial and human capital. This factor, in addition to the fact that there are relatively low barriers to entry in this market, creates an inviting environment for new immigrants and businesses. We've proven we can recruit talent to this market—the question is how do we retain this talent. The Beacon Council has been actively cultivating mentorships and linking educational institutions and the private sector. These efforts are building a foundation for long-term growth. ■

Bridging gaps

How operating in the middle space between big and small banks is a sound strategy

Jorge **Gonzalez**
President & CEO – City National Bank

City National Bank was recently acquired by a large Chilean company. How does this event fit within other trends in South Florida's banking sector?
What happened with City National is unique. Not many community banks in South Florida are foreign-owned. We will continue to see a separation in the marketplace between the large banks and the smaller ones. Any organization that can fill that middle space, where you still have scale and technology, a good product offering and qualified bankers, but can conduct business in a small bank, "high-touch" way, is well-positioned. This is the niche that City National—which benefits from having a $40-billion parent company—occupies. From a broader standpoint, consolidation will continue to take place, in part because of the impact of regulations; in order to absorb the expenses related to providing proper oversight of a financial institution, you need more size. But the overall metrics in the industry—the costs of retaining talent and technology—also serve as contributing factors.

While consolidation is happening nationally, what developments set Greater Miami's financial sector apart?
Miami is unique in that it has attracted capital from all over the world. One trend we are seeing is the entry of hedge funds and private equity firms in this market. This generates growth and brings greater liquidity to the marketplace, but also creates more competition. Much of the capital coming in, however, does not directly compete with traditional commercial banks. Non-banking financial institutions offer a different profile of investment than is needed in the marketplace. They complement what banks do and contribute to the maturation of this market.

What are some of the other indicators of the maturation of the South Florida market?
From a financial services standpoint, many banks here have already been through an economic cycle or two. These institutions have matured simply because they have been in existence and are seasoned, and the same can be said for local management teams. While Miami is relatively young compared to most major metro markets, this city has much more global visibility today than ever before. This means that even if we see a momentary pullback in values, either the capital is already here, or those who control it are already acquainted with this market and its offerings and will step in much sooner to deploy it. We are seeing capital coming from different markets—Europe, Asia, South America and even Mexico. It signals another stage of development when global investors feel there is enough opportunity and financial sophistication to warrant continued and large-scale investments. This is another indication of further development, progress and confidence in the overall marketplace.

Under management:

As more wealth enters South Florida, new opportunities arise in the market's thriving wealth management industry

The Miami-Dade wealth management industry continued to be in a state of transition in 2015, as fundamental changes were starting to be felt in the market. As Oti Roberts, managing director at Deutsche Bank, tells Invest: Miami, "Miami is undergoing a cultural and economic renaissance. From a wealth management proposition, this presents huge opportunities as folks move to the area who need advice not only on managing their personal wealth but also on raising capital for their business. While it is widely known that Miami attracts high-net-worth individuals, it is equally important to note that these individuals are highly entrepreneurial."

Among the key trends identified at the October 2015 Florida International Bankers Association (FIBA) Wealth Management Forum as likely to impact the industry were the growth of the millennial consumer segment and the emergence of new technologies. According to Patricia Soldano, a consultant from GenSpring Family Offices speaking at the conference, there are now more millennials than baby boomers alive, while the wealth management industry remains uncertain on how to best advise millennials and cultivate relationships early in the financial life cycles of millennials. This need to relate to the younger generation brings to the fore a major long-term weakness in the wealth management industry: the lack of younger financial advisors. According to John Ward, a managing director at Pershing LLC, there has been a national shortage of approximately 25,000 financial advisors since the financial crisis. Getting financial advisor numbers up to pre-2008 levels will require changes in the provision of wealth management advice, catering and adopting to newer technological paradigms with which millennials are comfortable. This is a major medium-term challenge facing Miami-Dade wealth management firms.

Another driver of change has been technology. Newer startups employing disruptive technologies are more attractive to millennials and are challenging the hold of established firms. An example of disruptive technology is the robo-advisor, a computer program that provides automated investment services similar to what financial advisors furnish. The appeal of robo-advisors to millennials stems from lower fees, though millennials still want to retain personal interaction with traditional financial advisors. As reported by Forbes, a recent survey by Salesforce.com uncovered trends in the millennial market, with 81 percent of surveyed millennials admitting they "wanted their advisor to either manage their money completely independently or collaboratively with them." As many as 47 percent of millennials also disclosed they get face-to-face interactions with financial advisors, on par with 46 percent of baby boomers.

Miami's wealth management industry is changing to adapt to new technology and the needs of millennial consumers.

Despite these disruptive developments, strong fundamentals in the Miami market will ensure continued growth in wealth management. This is due in part to the market's thriving international commerce, friendly tax climate and new opportunities presented by stringent banking regulations. As Michael Corcelli, chief investment officer of Alexander Alternative Capital and founder and chairman of the Florida Alternative Investment Association, tells Invest: Miami, "Florida is fast becoming an integral part of the savvy businessperson's investment strategy. As Dodd Frank regulations have crippled traditional banks, the market has seen an influx of asset managers coming in and stepping up to service the financial needs of the market. ■

Keeping pace

How banks are evolving to meet the needs of small businesses

Joe **Atkinson**

South Florida Region President – Wells Fargo

How have the needs of South Florida small businesses evolved in recent years?

The studies we conducted in 2015 showed that small business owners are looking to make investments into their businesses, including owning their buildings. In addition, interest rates on five-year loans under the SBA 7(a) program have become fixed, so more small businesses are taking advantage of the program. As a result of these trends, small business owners are becoming more intentional about learning how to borrow money and manage credit. Wells Fargo is adding more bankers and opening new branches in Miami-Dade to respond to the needs of all of its customers, particularly in growth areas like Doral, as well as helping small business owners develop sound strategy, like building effective business plans through wellsfargoworks.com, a website designed for small business owners.

Miami-Dade is market dominated by small and medium enterprises (SMEs). What progress has been made to expand access to credit to these entities?

New models of lending are being created to suit the needs of SMEs. We have teams of experts who are familiar with the needs of particular industries and this understanding allows us to accept more types of borrowers. For example, we found that private medical practices need credit for certain types of medical equipment, which cost a certain amount. We subsequently created a lending model to help these practices based on our knowledge of their anticipated needs. We have also noticed that some SMEs are seeking to consolidate or acquire other businesses, and we are facilitating these needs as well.

One growing segment in Miami-Dade is tech startups. As with all startup businesses that are not traditional recipients of bank loans, banks still have a responsibility to help these businesses. Banks need to take an active role in serving startups by offering financial services, like facilitating cash flow and credit management.

What are some of the key challenges South Florida's banking sector faces?

One challenge is addressing fraud, which, although is a global challenge, we see a high incidence of in Miami-Dade. Today, we are seeing more instances of click jacking, or the use of social media to mislead people into giving up their bank account information. In these schemes, people click on a link promising to deposit checks into their accounts and end up compromising their accounts. Banks have to pay close attention to how fraudsters are using technology and develop ways to counteract it, as well as invest in educating its customers of these dangers.

Terra

Our mission is to create better. To continue pushing beyond what has gone before. To build a company whose purpose is to help transform neighborhoods and the way we live through considered, intelligent and unexpected design.
– David Martin, President & Pedro Martin, CEO

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