First Republic Bank Bid Evaluation Briefing

Federal Deposit Insurance Corporation (FDIC)
LCT Requirement and Methodology

The FDI Act requires that the FDIC choose the least costly resolution option (12 U.S.C. § 1823(c)(4)):

- Bids are evaluated against other bids and the cost of liquidation.
- Equitable bid evaluation process.
- Bids are acceptable if the cost can be calculated.

Inputs into the least cost test analysis generally include:

- Failing bank general ledger, or other source for balance sheet information, as of the bid evaluation date.
- Uninsured deposit estimate, typically using deposit downloads from the bank or its servicers.
- Asset valuation review (AVR), conducted by third party valuation advisor using loan data and loan file sampling from the bank or its servicers (time permitting). Securities priced using market data.
- Estimation of receivership expenses, produced using model based on historical receivership data (less assets in receivership results in lower expenses).
- Bid parameters, including asset discount and deposit premium.
- Costs resulting from transaction / P&A terms, e.g. seller financing or loss share.
Summary of Best and Final Offer (BAFO) Bids

- JP Morgan bid
  - Approximately $211 billion in assets were passed to JP Morgan (inclusion of $105.5 billion SFR loan portfolio largest difference vs. other bids).
  - Approximately $23 billion in assets were retained in receivership – primarily cash and bank-owned life insurance.
  - Asset discount of $24.9 billion, plus $5.1 billion discount applied to securities.
  - $50 billion seller financing (purchase money note received by FDIC).
  - Single family and commercial loss share agreement.

- Alternative 1 bid
  - Approximately $87 billion in assets would be passed to acquirer – primarily cash, commercial, commercial real estate, and consumer loans.
  - Approximately $148 billion in assets would be retained in receivership – primarily SFR portfolio, securities, and bank-owned life insurance.
  - Asset discount of $15.5 billion.
  - $25 billion seller financing (purchase money note received by FDIC).
  - Contingent liquidity facility of $15 billion.
  - Commercial loss share agreement.
  - Equity appreciation right of $500 million.

- Alternative 2 bid
  - Approximately $70 billion in assets would be passed to acquirer – primarily commercial, commercial real estate, and consumer loans.
  - Approximately $165 billion in assets would be retained in receivership – primarily SFR portfolio, securities, cash, and bank-owned life insurance.
  - Asset discount of $16.7 billion.
  - Contingent liquidity facility of approximately $75 billion.
  - Commercial loss share agreement.

- Alternative 3 bid
  - Approximately $69 billion in assets would be passed to acquirer – primarily commercial, commercial real estate, and consumer loans.
  - Approximately $166 billion in assets would be retained in receivership – primarily SFR portfolio, securities, cash, and bank-owned life insurance.
  - Asset discount of $13.1 billion.
  - $36 billion seller financing (purchase money note received by FDIC).
  - Contingent liquidity facility of $50 billion.
  - Commercial loss share agreement.
  - Equity appreciation right of $300 million.
LCT Analysis of BAFO Bids – Standard Methodology

- Differential between JPMorgan bid and three alternative bids driven by estimated losses on $105 billion single family residential (SFR) loan portfolio not included in the alternatives.
- Standard practice is to apply liquidation loss rates for retained assets, provided by third party valuation advisor using loan data and file sampling.
- In order to maintain their post-acquisition capital levels, significant additional asset discount would have been required by alternative bidders to include the SFR portfolio in their bid perimeter.

Additional Financial Advisor Analysis Applied to Retained SFR Portfolio

- Considered hypothetical recovery method for retained SFR portfolio in alternative bids in order to evaluate a possible best case scenario for those bids.
- Assumed FDIC could securitize the SFR portfolio left behind in receivership and used a GNMA discount rate to estimate possible recoveries. Note: underlying reference rate has since increased significantly, which would have meaningfully increased losses relative to estimates.
- Methodology estimated reduced costs of approximately $18 billion for each of the alternative bids, but financial advisor specified that it was subject to “unquantified market and execution risk.”
- Analysis produced by financial advisor included other variances, though these were less significant (e.g., did not include receivership expenses, which are derived from FDIC historical experience).
- Financial advisor concluded that using this alternative methodology the JPMorgan bid would be least costly compared to liquidation and compared to other bids.

<table>
<thead>
<tr>
<th>$ in billions</th>
<th>Liquidation</th>
<th>JPMC Bid</th>
<th>Alternative 1</th>
<th>Alternative 2</th>
<th>Alternative 3</th>
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<tbody>
<tr>
<td>FDIC loss</td>
<td>(16.2)</td>
<td>(13.6)</td>
<td>(33.3)</td>
<td>(34.2)</td>
<td>(34.6)</td>
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<tr>
<td>(standard methodology)</td>
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<td>Hypothetical improved recovery on retained assets (fin. advisor alternative)</td>
<td>-</td>
<td>-</td>
<td>18.0</td>
<td>18.0</td>
<td>17.9</td>
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<tr>
<td>FDIC loss (fin. advisor alternative)</td>
<td>(16.2)</td>
<td>(13.6)</td>
<td>(15.4)</td>
<td>(16.2)</td>
<td>(16.7)</td>
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