

THE WALL STREET TRANSCRIPT

Connecting Market Leaders with Investors

Sun Bancorp, Inc. (SNBC)



THOMAS X. GEISEL is President and Chief Executive Officer of Sun Bancorp, Inc., and Sun National Bank. He joined Sun in January 2008 and brings more than 20 years of financial services experience to his position. His background is well diversified and includes experience in investment banking, private equity investing, commercial banking and executive management. Before joining Sun, Mr. Geisel held several positions with KeyCorp. He joined Key in July 1999 in New York City, where he served as Managing Director of investment banking for the East and West regions of KeyBanc Capital Markets, formerly McDonald Investments' Key Business Advisory Services division. In 2002, he was promoted to President of Key's Capital Region New York District, and subsequently, to Regional Executive for commercial banking. From 2005 to 2007, he served as President for KeyBank's Northeast region, which was made

up of eight districts across New York, New England and Florida, with assets of about \$20 billion and revenue exceeding \$550 million. Mr. Geisel's other experience includes representing the U.S. Department of Justice in various capacities domestically and as a Diplomat in Latin America and the Caribbean. In 2011, he was named by *NJBiz* as one of New Jersey's "50 Most Powerful People in Banking."

SECTOR — BANKING

TWST: Would you begin with a brief historical sketch of the company and a picture of its operations at the present time?

Mr. Geisel: We began with one office in Medford, N.J., in 1985, and through organic growth and small acquisitions over the last 25 years, we've grown to about 65 locations around the state. We are conservatively managed, focused on disciplined growth and local decision-making. For five years in a row, Sun Bancorp was recognized by *Forbes Magazine* as one of America's most trustworthy companies. We do business in 21 of the 21 counties in New Jersey, so we're truly a statewide bank, and we have the second-largest commercial bank actually headquartered in the state. Our teams focus on providing both ideas and solutions to individuals, small business and commercial customers across the state. We are a full-service retail and commercial bank.

We have two key products at this point in time. One is a product called C4 Business Banking, which is basically a suite of business banking services designed to give small business owners access to loan and deposit products as well as cash management and production services solutions. This allows these business owners to invest in their businesses and increase their competitive advantage, and we are advisers to 200-plus small business clients. We established this product earlier in the

year because we saw there was a void in the market for not just lending to small businesses, but really comprehensive solutions for those small businesses. The second key product, which we're in the latter stages of developing on the retail side is a checking account that will be "better than free." As you know, many banks are moving away from free checking, so we're going to be offering something that's better than free. We will be rolling that out sometime after the first of the year.

TWST: Would you tell us about the area Sun serves and the economic realities around New Jersey?

Mr. Geisel: The competitive landscape in New Jersey is a pretty tough one. Customers have choices. They can bank with the big national banks or a variety of local community banks. Our competitive advantage in the market is that we offer the best of both worlds. We have the experience, knowledge, products and services of the big banks, and we combine that with local relationships, market knowledge and the accessibility of a community bank. We have bankers all over the state who understand the individual nuances and specific needs of their towns and regions. Our approach is sophisticated with comprehensive solutions that we deliver more efficiently and effectively to our client base, because we know the markets that they work and live in, and we make most of the decisions in those markets. In essence we believe our competitive advantage makes us a more effective partner.

TWST: What's your outlook for the industry there and for the company in particular?

Mr. Geisel: Obviously, the banking industry is going to continue to be challenged, not only by the regulatory environment but by a struggling economy, for certainly next year and probably into 2013. We're certainly affected by regulatory changes and the lingering impact of the recession, but we're definitely confident of our strategy, the team we have executing it and the customer relationships in our markets.

Outside factors definitely influence the decisions we make, but we've got a mantra in the company: "Control what you can control, and influence what you can't control." We believe that focusing on the things that we can control allow us to have a greater impact in the communities we serve and with our customers.

TWST: Have you spent a lot of time working on Sun's expenses and costs given the tough times?

Mr. Geisel: We certainly have. For us, it's about being as efficient as we possibly can, and certainly efficiencies come in a lot of different ways. We've done some very significant process and program reviews, looking at everything from how we staff to how we process transactions, including the technology that we use. It has helped us pretty significantly reduce our noninterest expenses, and it's not just a one-time initiative. It's really the ongoing cost of doing business and our philosophy of doing business.

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TWST: Sun recently returned to profitability in the third quarter, and you've said, "We're making the progress we hoped to make and are on plan." Would you speak in more detail about what that means now and as you look ahead?

Mr. Geisel: We've continued our efforts to strengthen the company and position it for growth. We are definitely committed to our corporate strategy, focusing on execution, and really making meaningful, and sometimes tough, decisions to improve our credit profile, build our balance sheet and reinforce our capital position.

Last quarter, our commitment was evident on the earnings line. We achieved earnings of \$0.03 per diluted share and net income of \$2.7 million for the third quarter. So we continue to have a strong capital base, our net interest margin has stayed on an upward trend and is stable, and we've reduced our noninterest expenses. Our underlying credit trends continue to show improvement, and our overall loan portfolio and loan production is growing.

Across the organization, priorities remain to strengthen the balance sheet, preserve our capital position and grow through diversifying our revenue sources. We are certainly not satisfied with where we are right now. We're encouraged by our progress. We know we still have a lot of work to do, but we are optimistic about the future.

TWST: Would you provide us with a brief snapshot of the bank's financial situation?

Mr. Geisel: As I said, last quarter was our return to profitability putting \$0.03 a share of earnings to the bottom line. We don't give

guidance. We certainly plan for those profitability trends to continue through into next year. We plan for our asset-quality metrics to continue to get better as we continue to generate profits, and obviously, as our capital position continues to get stronger.

TWST: Please tell us about the company's investor relations philosophy. At one time, you said that SNBC was the "best-kept banking secret in NJ." Do you believe the investment community understands what Sun has to offer?

Mr. Geisel: When I joined the company in 2008, Sun's leadership team put a three-year strategic plan in place that would focus on ways to strengthen and grow the company. That meant a stronger capital structure and a restructure of the board, management and the businesses we were in. Now, while the economy has put us behind where we would have otherwise been, we are still focused on executing our plan and are encouraged about the progress we have made. The focus has been on profitable growth through increased margin, loan spreads and lowering our cost of funds.

We also focused on diversifying our revenue stream through specialty niche businesses like health care and asset-based lending as well as cash management. We also began a franchise optimization plan through the sale, closure or consolidation of a dozen branches as well as a focus to reduce noninterest expense. We have done all of that and continue with those focuses.

Those investors that have taken the time to listen to us and follow us, understand that this is a very different company than it was three, or even two, years ago. However, some investors still think this is a family-owned South Jersey bank, when in fact, our largest shareholder is a fund controlled by Wilbur Ross, and almost half of our loans are in North Jersey. We also have attracted two new 9.9% institutional holders — Siguler Guff/Anchorage Capital — one 4.9% holder and numerous other professional investors new to Sun. We have been able to achieve this by getting out and telling the story through both a private equity process and public offering that we did when we changed the capital structure, and as we continuously do at investor conferences. We have been fortunate to have ongoing interest and support of the investment community and believe this demonstrates the value that investors see in our strategy and the opportunity for future success.

TWST: You've been outspoken in the local media about growing Sun into a truly statewide bank through organic methods, and then, potential acquisitions. Would you bring us up to speed on the company's longer-term philosophy and how acquisitions and partnerships fit into that?

Mr. Geisel: As I said, we do business in 21 out of 21 counties in New Jersey, and every county is very different, so let me talk a little bit about the state for a minute. If you look at our franchise, we have strong density and market share in South Jersey. We want to grow our presence in the central and northern parts of the state, to augment the strong market share density we have in South Jersey.

So there are two ways to do that. One is with retail growth, by adding more branches or through commercial growth. We've chosen to lead with commercial growth in northern New Jersey and follow with retail growth. So we're truly a statewide bank. We just don't have as many physical retail locations as we'd like completely across the state. Our plan is to create density across our entire footprint.

Now, we've talked about mergers and acquisitions. We don't comment specifically on merger and acquisition plans, but generally in considering what banks might fit for us, the most important is the culture. When I talk about culture, it's really mindset and core values, but we would also look at what we both do well, and where can we create savings and efficiencies. We would also look at what uniqueness each company brings to the partnership in terms of people, processes or products. We would look at enhancing or creating market share, but in the end, the people and the cultures are what are really going to drive the equation.

Now, we have a definitive market, and we are breaking it down on a county-by-county basis across the state. To give you an example, if you look in New Jersey, there are approximately 100 banks in New Jersey with less than \$2 billion in assets. So we certainly believe that there are consolidation opportunities across the state, and with our uniqueness and our positioning — being a bank, again, that's doing business in 21 of the 21 counties — we should be in a position to be able to look at any acquisitions that arise across the state.

TWST: You've also said that the biggest challenge the bank faces is the regulatory environment. Would you take us through the strategies and ways Sun is dealing with that issue?

Mr. Geisel: As you know, the regulatory environment has been and continues to be challenging. We're fortunate that with our experienced team and the size of our bank, when we know what the adjustments need to be made, we can make them. But it has been unpredictable. Planning for the unknown is almost impossible, so what we do is we gather as much information as we possibly can on what may come about, we make changes based on that information, and we really focus on controlling what we can control and then moving forward. We don't try to anticipate what changes are going to be made in the market, because as you know the regulatory environment seems to ebb and flow here as we've seen over the last couple of years.

TWST: Would you comment on Sun's current stock price? It recently touched a 52-week low.

Mr. Geisel: When you talk about stock prices, you really need to take a look at the overall market dynamics and the financial services sector. Stocks in this sector trade as a group now. Good news in Europe, stocks go up, right? Bad news on possible new taxes, stocks go down. So

you can pretty much tell what the financials are going to do before the market even opens every day. So as we look at it, it is really not individual accomplishments driving the sector, and with our philosophy of focusing on controlling what we can control — the blocking and tackling, breaking back into the black, and stringing together some profitable quarters, our stock will, over time, create the value. There is no doubt that when our stock trades at 70% to 80% of tangible book, we don't feel that it fully reflects the opportunistic value.

TWST: Looking ahead, what may be some year-by-year milestones or indicators investors could be watching for if they are keeping an eye on SNBC?

Mr. Geisel: We don't give guidance, but I would say look at our trends. Look at the profitable quarters, look at our asset-quality metrics, and look at the loan production and where that production is coming from. Look at core deposit growth and also our ability to execute on what we say we will as we reshape the franchise.

TWST: What would be the two or three best reasons for a long-term investor to look closely at SNBC?

Mr. Geisel: There are a couple of things. This first one is our laser-like focus on our corporate strategy to strengthen and grow. Number two, our unique platform, a one-of-a-kind position in the New Jersey market doing business in 21 of the 21 counties, and bringing the best of both worlds to our customer base. And lastly, I think we have demonstrated that we are at a point where all of the individual strategies we have been working on and executing on are meshing together to create a cohesive and profitable company. That's demonstrated by the new people that we've attracted to the company, the diversified revenue streams, better margins, stronger asset quality and return to profitability.

TWST: Anything else you wanted to cover?

Mr. Geisel: No, I think you got a probably pretty good feel for us.

TWST: Thank you. (MJW)

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