Steve H. Powell & Company

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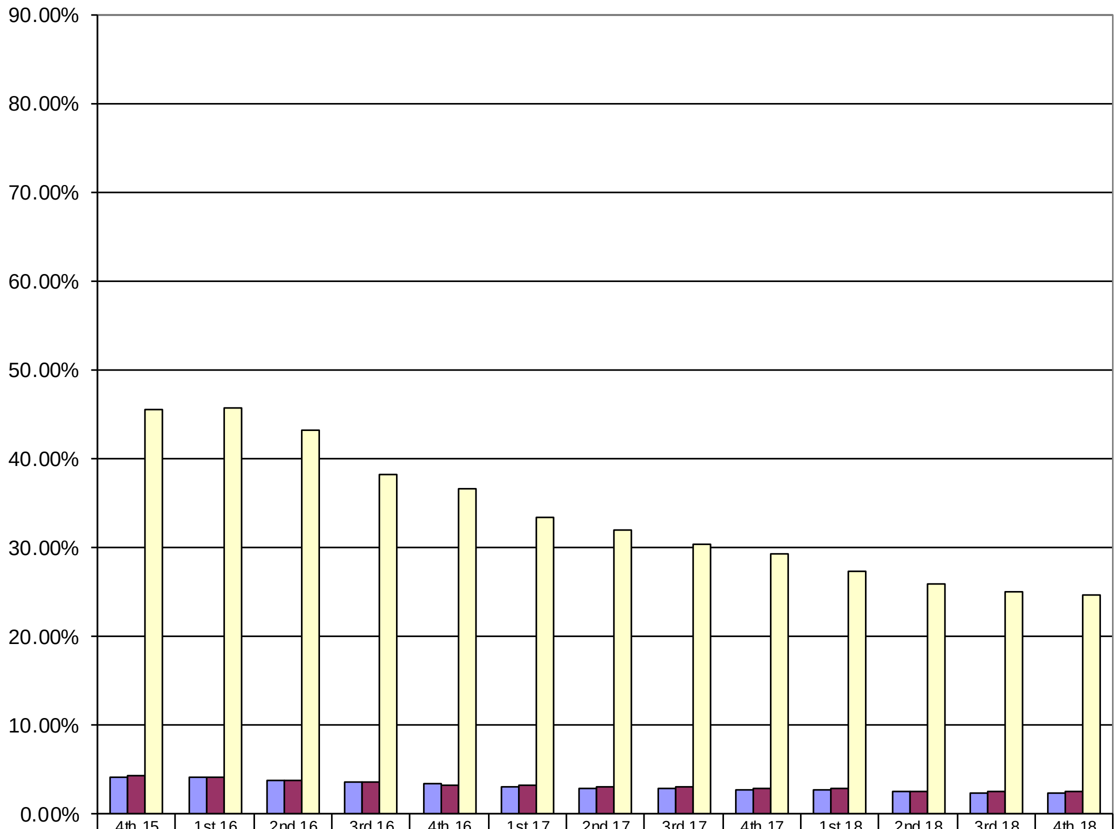
Asset Quality Update – Q4 2018 Edition

Trends in Asset Quality – Average Levels

Based on Steve H. Powell & Company client data, during the Fourth Quarter 2018, the average level of adversely graded assets decreased as a percentage of total assets and capital. The average level of adversely graded loans increased as a percentage of total loans. Problem assets averaged 2.39% of total assets and 24.72% of tier-one capital plus loan loss reserve as compared to 2.41% of total assets and 25.04% of tier-one capital plus loan loss reserve while problem loans averaged 2.56% of total loans as compared to 2.55% of total loans during the Third Quarter 2018.

TRENDS IN ASSET QUALITY
AVERAGE LEVEL OF ADVERSELY GRADED ASSETS

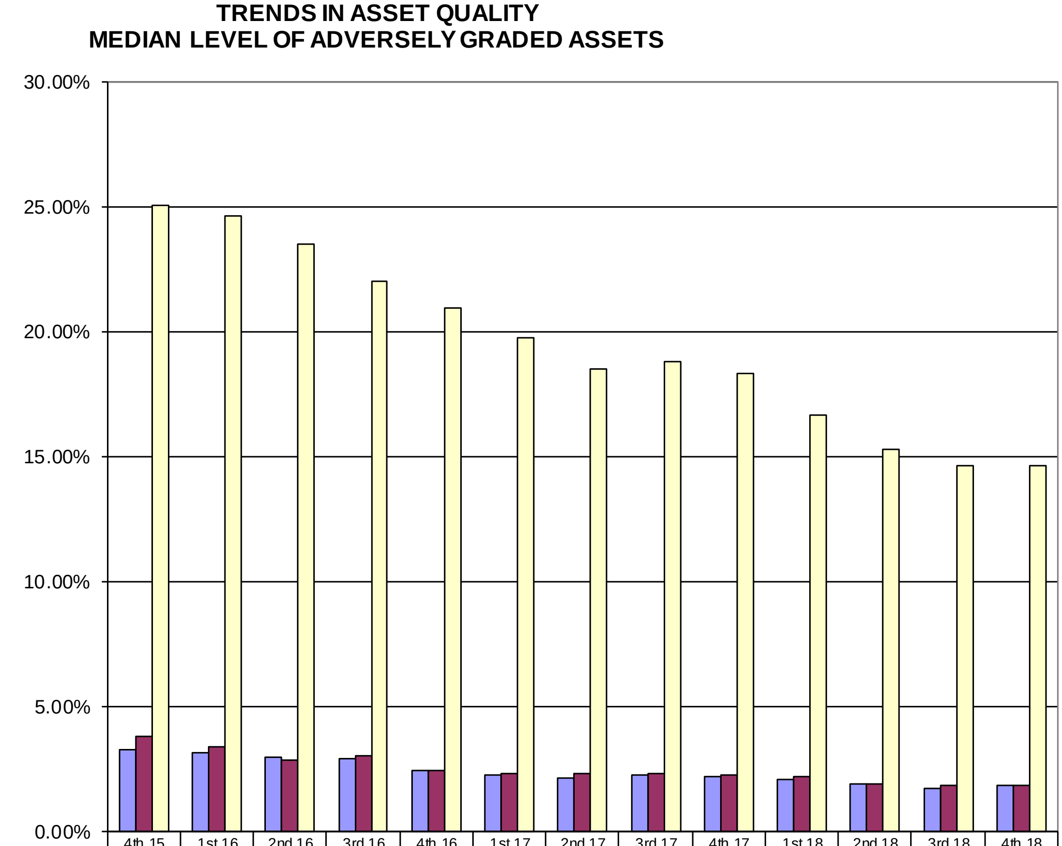


	4th 15	1st 16	2nd 16	3rd 16	4th 16	1st 17	2nd 17	3rd 17	4th 17	1st 18	2nd 18	3rd 18	4th 18
- Adversely Graded Assets / Total Assets	4.22%	4.09%	3.78%	3.57%	3.36%	3.12%	2.97%	2.90%	2.77%	2.65%	2.49%	2.41%	2.39%
- Adversely Graded Loans / Total Loans	4.28%	4.06%	3.74%	3.55%	3.27%	3.23%	3.10%	3.09%	2.90%	2.82%	2.61%	2.55%	2.56%
- Adversely Graded Assets / Tier 1 Cap' + LLR	45.46%	45.62%	43.28%	38.23%	36.65%	33.39%	31.99%	30.45%	29.26%	27.27%	25.92%	25.04%	24.72%

Steve H. Powell & Company was founded in August of 1993 by former banker and regulator, Steve H. Powell. With the goal of providing unparalleled asset quality monitoring and regulatory compliance services, the company's clientele base has grown and now exceeds 100 different financial institutions. We also provide our clients with bank charter consulting, due diligence support, regulatory applications, financial analysis, and strategic planning. The staff of Steve H. Powell & Company is comprised of former bankers & regulators who understand the complexities of today's regulatory environment. The unique skill sets possessed by our specialists are derived from extensive review experience in institutions of various sizes and charter types.

Trends in Asset Quality – Median Levels

The median level of problem assets as of Q4 2018 decreased to 14.62% of tier-one capital plus loan loss reserve as compared to 14.65% during Q3 2018. Note the downward trend as overall asset quality continues to improve.



	4th 15	1st 16	2nd 16	3rd 16	4th 16	1st 17	2nd 17	3rd 17	4th 17	1st 18	2nd 18	3rd 18	4th 18
- Adversely Graded Assets / Total Assets	3.28%	3.14%	2.96%	2.91%	2.47%	2.28%	2.15%	2.27%	2.22%	2.08%	1.90%	1.74%	1.85%
- Adversely Graded Loans / Total Loans	3.79%	3.37%	2.84%	3.03%	2.42%	2.34%	2.35%	2.30%	2.27%	2.22%	1.93%	1.85%	1.84%
- Adversely Graded Assets / Tier 1 Cap' + LLR	25.06%	24.60%	23.51%	22.03%	20.91%	19.77%	18.48%	18.81%	18.34%	16.68%	15.31%	14.65%	14.62%

Historical Comparisons

During Q4 2018, increases in problem assets, as measured by adversely graded assets divided by tier-one capital plus loan loss reserve, were noted in approximately 10% of our clients. This quarter's increase compares to:

- 16% during the Third Quarter 2018
- 20% during the Second Quarter 2018
- 15% during the First Quarter 2018
- 21% during the Fourth Quarter 2017
- 13% during the Third Quarter 2017
- 18% during the Second Quarter 2017

A higher level of volatility in the percentage of increases may be expected as overall asset quality stabilizes; however, increases may indicate a rise in portfolio risk.

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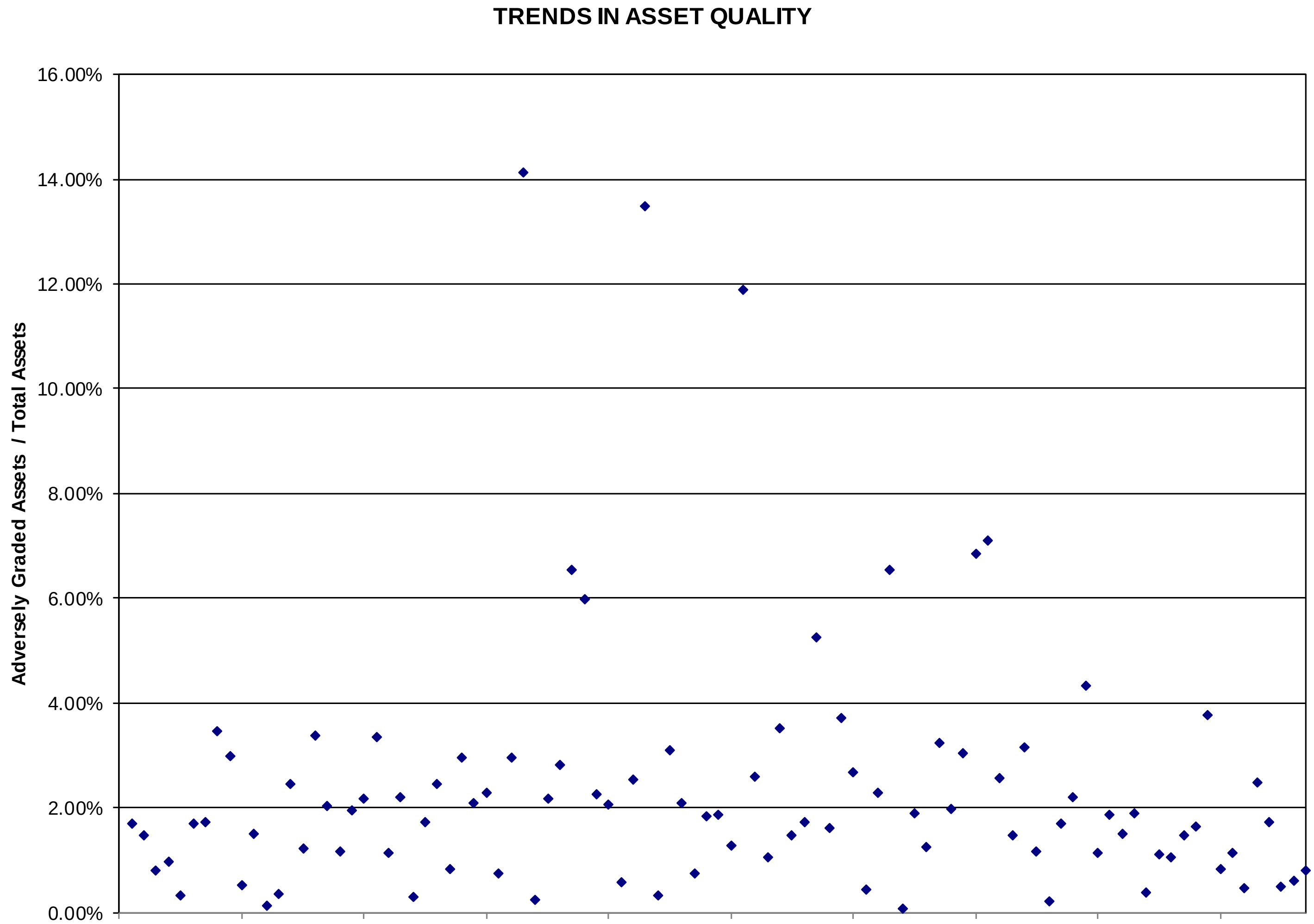
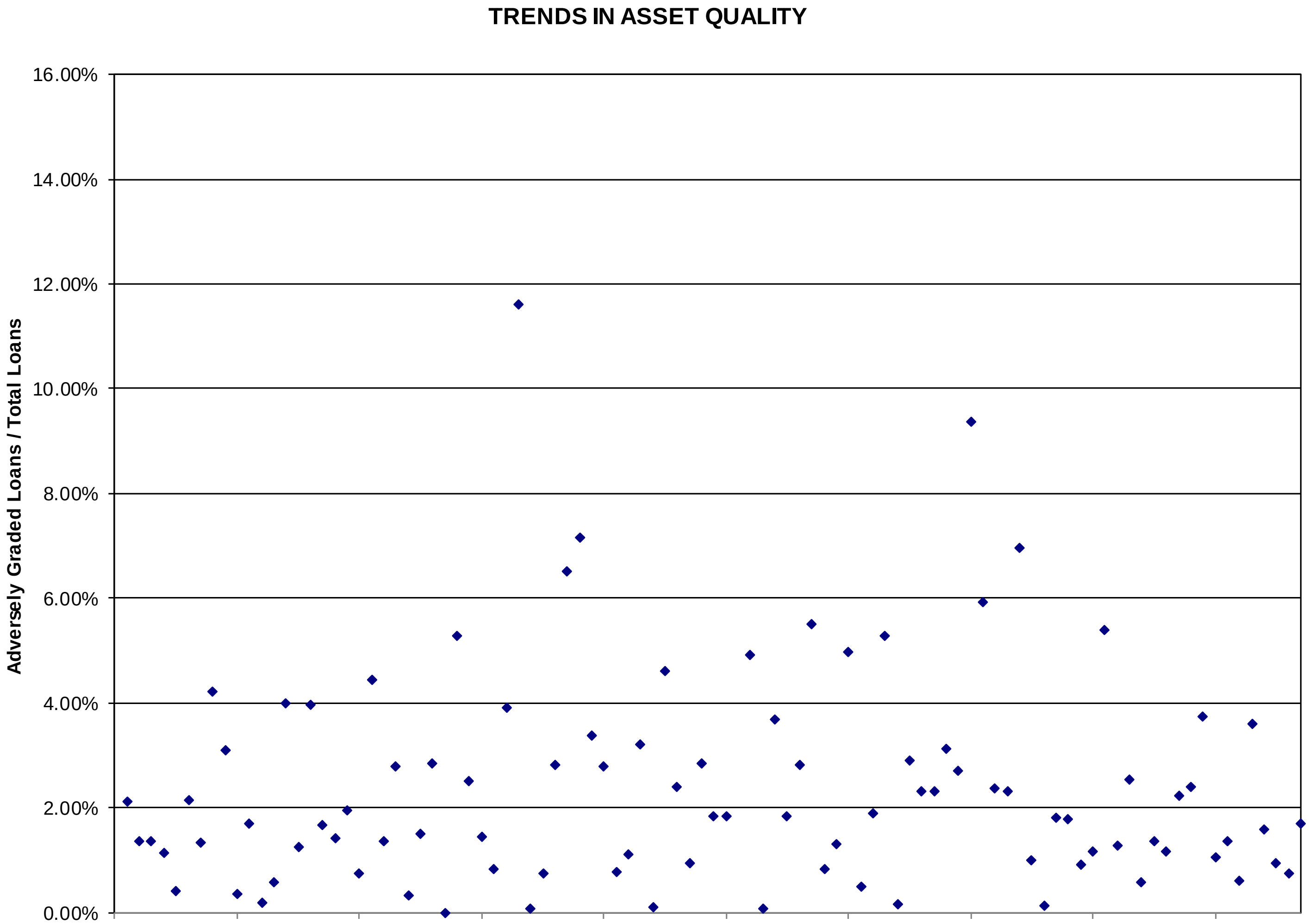
Dispersion of Problem Assets – as a Percentage of Total Assets



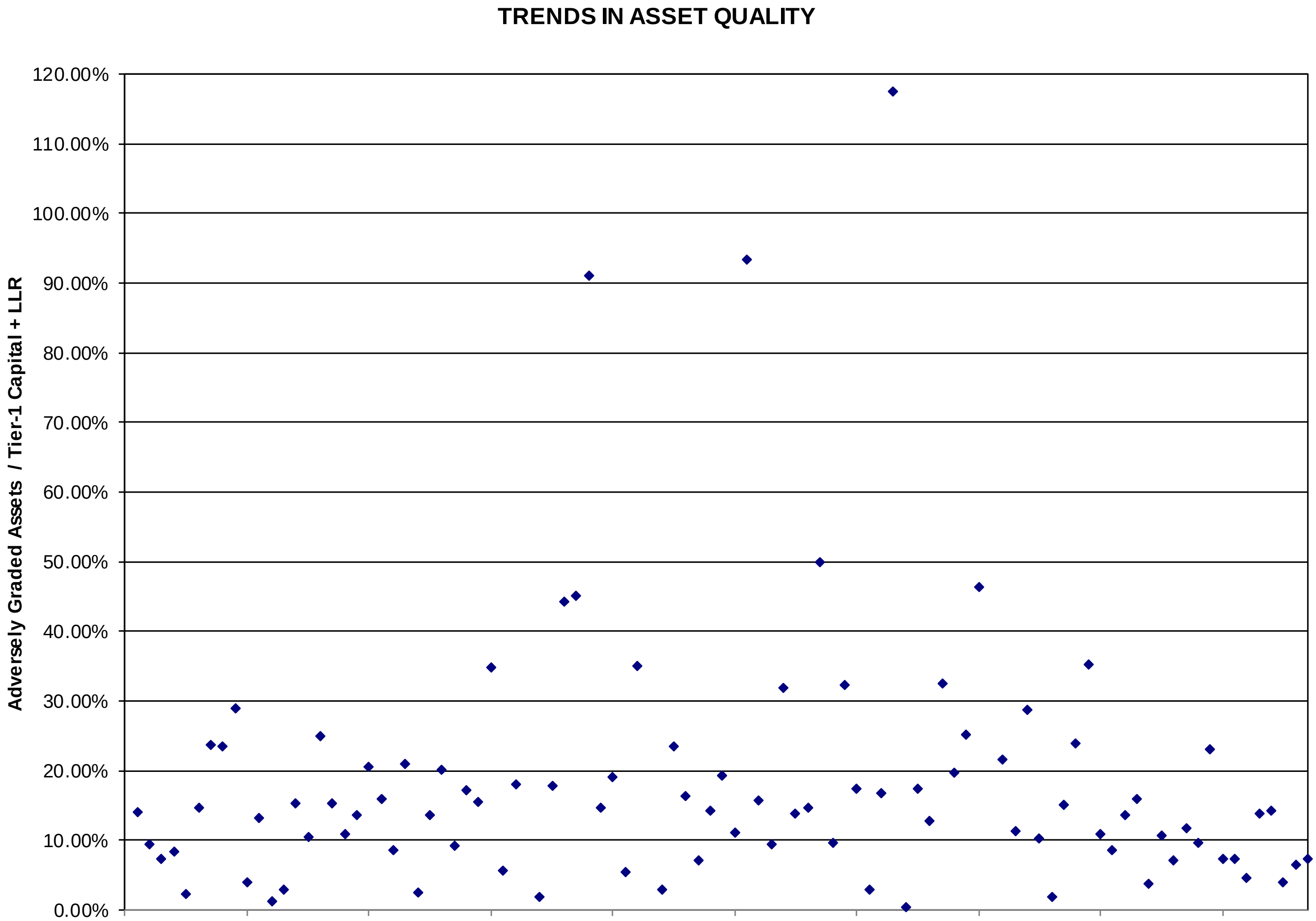
The above graph shows the dispersion of problem assets as a percentage of total assets. A traditional benchmark for significant asset quality concern is adversely graded assets that exceed 10% of total assets.

Dispersion of Problem Loans – as a Percentage of Total Loans



A traditional benchmark for significant asset quality concern is adversely graded loans that exceed 10% of total loans.

Dispersion of Problem Assets – as a Percentage of Tier-One Capital & Reserves



Note that three data points exceeding 120% are not included in the graph above for aesthetic reasons.

Historical Comparisons

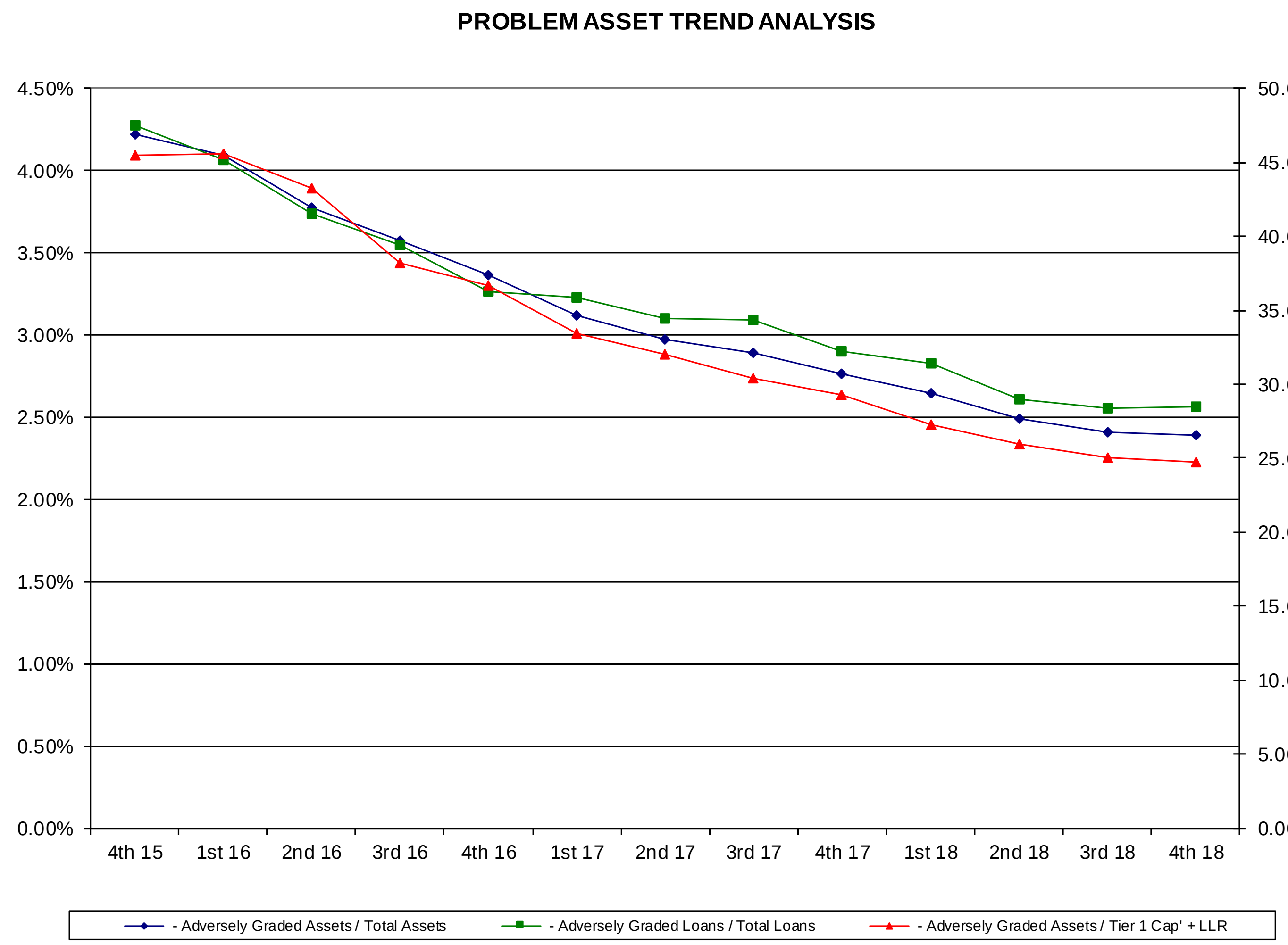
Our sample group includes six (6) banks with problem assets exceeding 60% of tier-one capital plus loan loss reserve. This number compares to:

- Six (6) during the Third Quarter 2018
- Seven (7) during the Second Quarter 2018
- Eight (8) during the First Quarter 2018

Six (6) banks now exceed 80% of tier-one capital plus loan loss reserve – a level normally associated with some form of formal regulatory action – as compared to:

- Five (5) during the Third Quarter 2018
- Five (5) during the Second Quarter 2018
- Five (5) during the First Quarter 2018

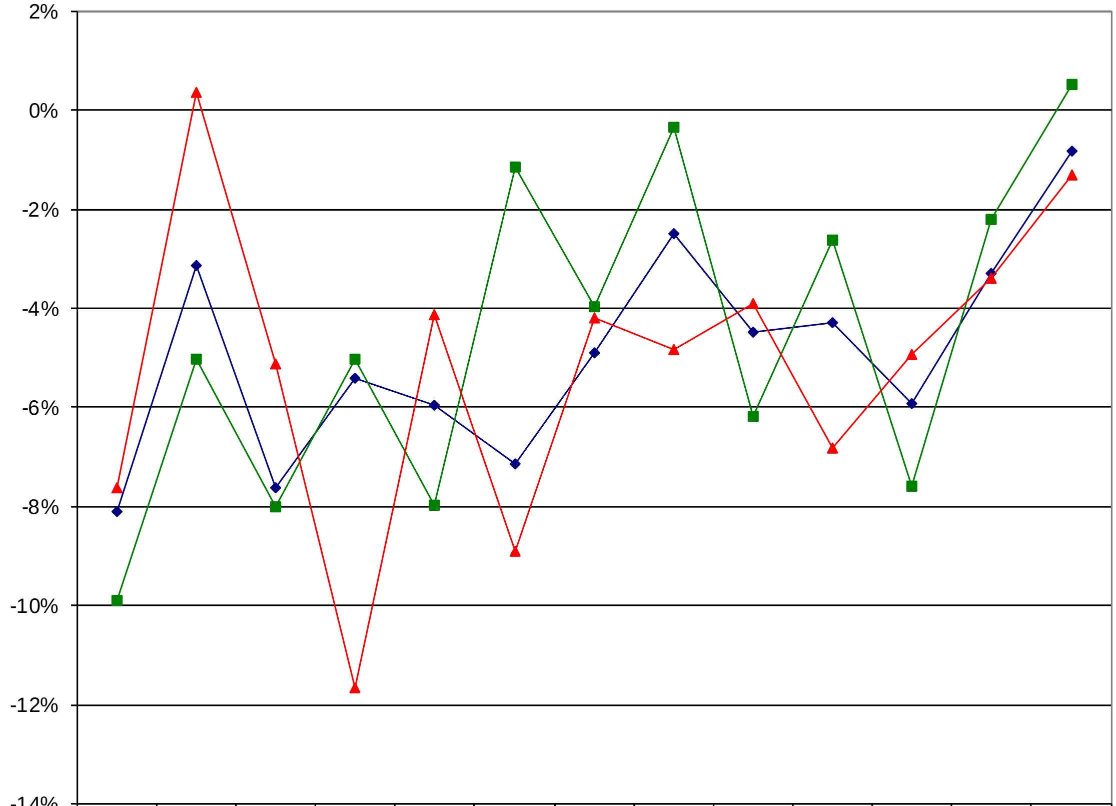
Problem Asset Trend Analysis



The above graph again shows the trend in asset quality over the past three years as measured by adversely graded assets to total assets, adversely graded loans to total loans, and adversely graded assets to tier-one capital plus LLR.

Problem Asset Comparative Change Analysis

COMPARATIVE % CHANGE IN ADVERSELY CLASSIFIED ASSETS
Comparative to Assets, Loans and Tier One Capital + LLR



	4th 15	1st 16	2nd 16	3rd 16	4th 16	1st 17	2nd 17	3rd 17	4th 17	1st 18	2nd 18	3rd 18	4th 18
% Change in ACA/TA	-8.10%	-3.13%	-7.62%	-5.40%	-5.94%	-7.14%	-4.89%	-2.48%	-4.47%	-4.28%	-5.93%	-3.30%	-0.82%
% Change in ACL/TL	-9.90%	-5.04%	-8.02%	-5.01%	-7.99%	-1.13%	-3.98%	-0.35%	-6.19%	-2.61%	-7.60%	-2.21%	0.54%
% Change in ACA/Tier 1 Cap' + LLR	-7.63%	0.35%	-5.13%	-11.66%	-4.12%	-8.90%	-4.19%	-4.83%	-3.90%	-6.81%	-4.93%	-3.39%	-1.29%

The above graph shows the pace of asset quality deterioration or improvement. The calculation is based on the percent change of problem asset levels from one quarter to the next. The graph indicates a favorable trend in asset quality ratios. Please note any data points below 0% indicate improvement in asset quality.

Modified Peer Data Analysis

We again performed an analysis in which a total of six outlier data points were excluded – the three lowest and the three highest data points, as based on classifications as a percentage of tier-one capital plus loan loss reserve.

With the outlier data points excluded, problem assets (or loans when compared to total loans) averaged 2.15% of total assets, 2.50% of total loans, and 18.89% of tier-one capital plus loan loss reserve. Fourth Quarter 2018 modified data compares to the following Third Quarter 2018 modified average data set:

- 2.18% of total assets
- 2.49% of total loans, and
- 19.38 of tier-one capital plus loan loss reserve

Shared National Credits

Annually, when the Shared National Credit Review is published by Federal Regulators, we compare the average & median loan classifications within the SHPCO client group to adverse classification within the SNC program. The 2018 SNC review was published during January 2019. Of note, the definition of a SNC was amended during January 2018. Historically, SNCs had been any credit facility ≥ $20 million with three or more participants. Per the January 2019 definition SNCS are now a facility ≥ $100 million with more than three participants.

Total SNC commitments were $4.4 trillion as of the 2018 review and had increased by 3%, but the total number of credit facilities declined by 24% and the number of borrowers declined by 23%. Overall, the loan quality within the SNC portfolio improved – as chiefly driven by an improvement within the gas & oil industry.

For reference: the 2018 SNC portfolio included 8,571 credits as compared to 11,300 during 2017. 2018 SNC commitments totaled $4.4 trillion with $2.1 trillion in outstanding balances as compared to 2017's $4.3 trillion in commitments and $2.1 trillion in outstanding balances.

Classified assets totaled $182.4 billion at the 2018 review as compared to $285.9 billion in 2017 with special mention loans currently totaling $112 billion as compared to 2017's $132 billion. Included in the adverse ratings are:

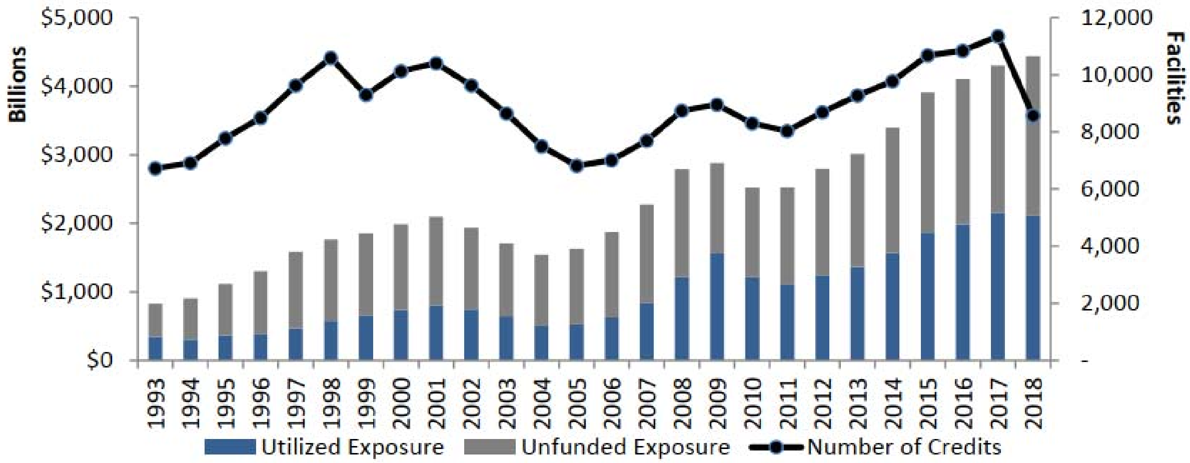
2018	($Billions)	2017
$173.90	Substandard	$245.10
$5.10	Doubtful	$24.20
$3.40	Loss	$16.60
	% of Classified	
95.29%	Substandard	85.73%
2.79%	Doubtful	8.46%
1.86%	Loss	5.81%

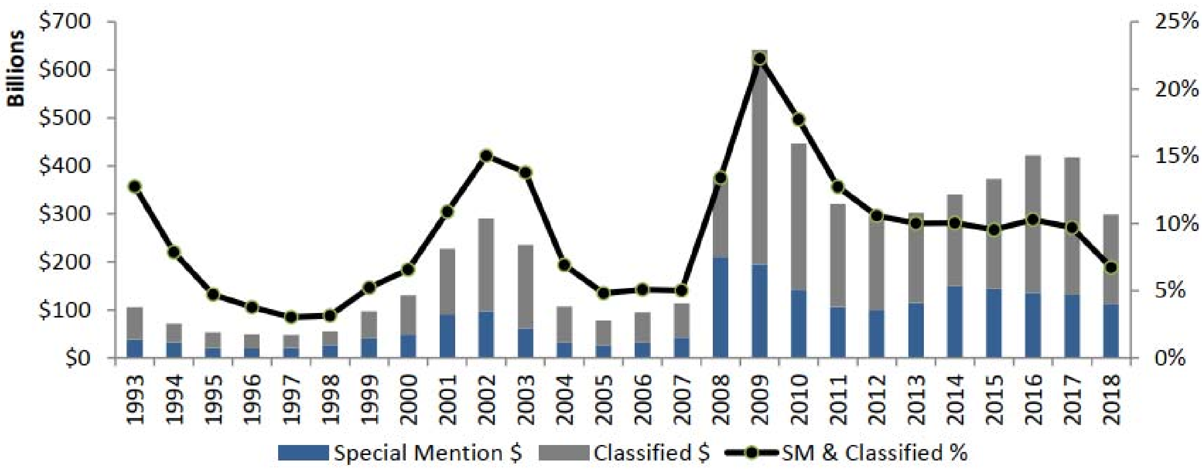
- SHPCO average classified loans to total loans currently total 2.56% as compared to 2.90% during Q4 2017.
- SHPCO median classified loans to total loans currently total 1.84% as compared to 2.27% during Q4 2017.
- Classified SNCs to the total portfolio currently total 4.1% as compared to 6.6% last year.

The industries within the SNC portfolio with the highest classifications include Services (6.4%), Commodities (5.5%) and Distribution (4.8%).

While the comparison is simplified & crude, it would appear as based on average and median volume of classified loans, the 'average community bank' loan portfolio within the Powell & Co. client base contains a lower volume of classified loans as compared to the SNC portfolio.

	2017 Commitments ($Billions)	2018 Commitments ($Billions)	2018 vs. 2017 ($Billions)	2018 vs. 2017 (%)
SNC Portfolio Commitments	$4,303.7	$4,434.5	$130.8	3.0%
SNC Portfolio Outstanding	$2,149.4	$2,106.0	($43.4)	(2.0%)
SNC Portfolio Borrowers	6,902	5,314	(1,588)	(23.0%)
SM and Classified Commitments	$417.6	$294.9	($122.7)	(29.4%)
SM Commitments	$131.7	$112.4	($19.3)	(14.6%)
Classified Commitments	$285.9	$182.5	($103.4)	(36.2%)
Non-Accrual Commitments	$58.0	$35.8	($22.2)	(38.2%)





For more information about Steve H. Powell & Company, please visit us on the web at www.shpco.net.

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