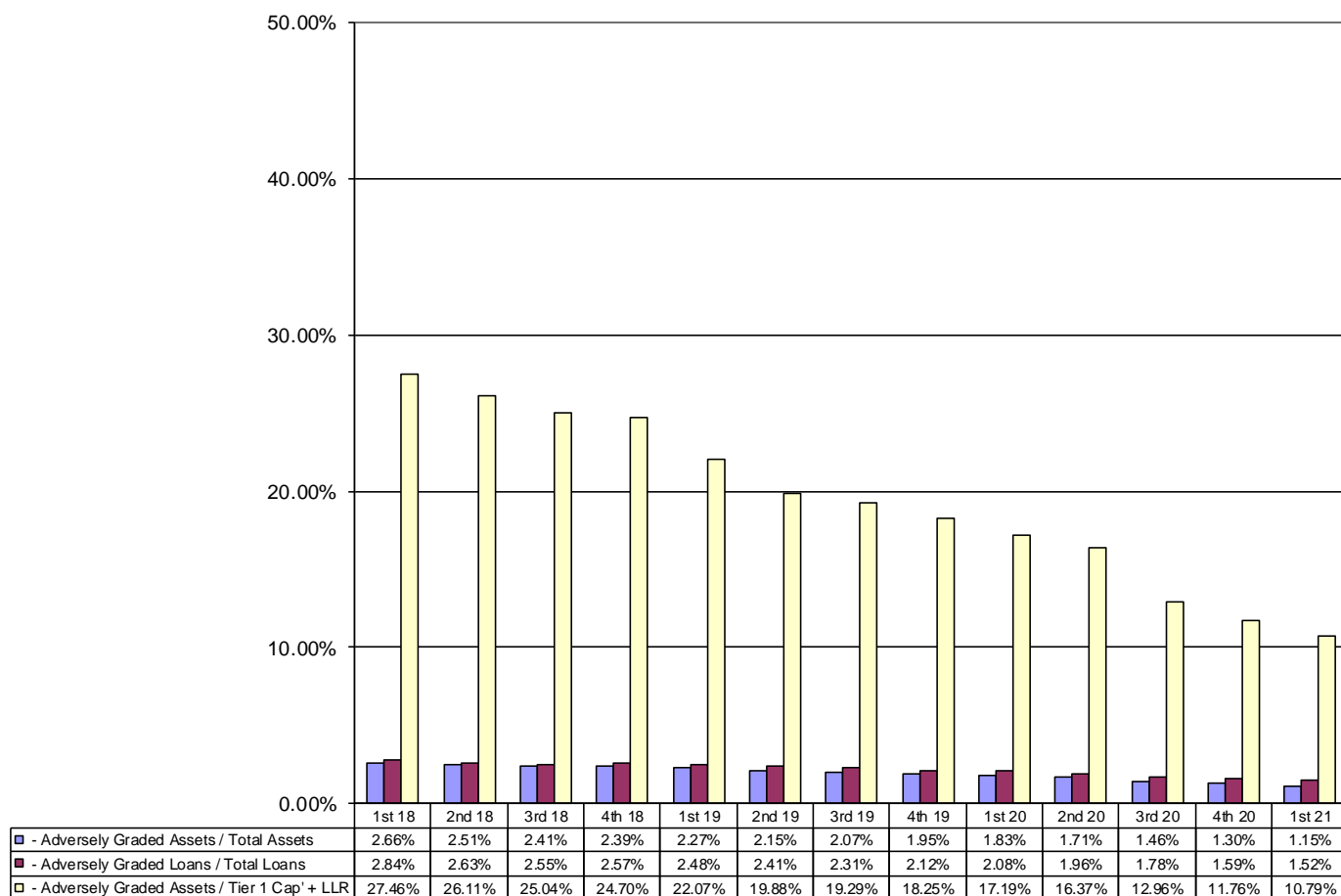


Asset Quality Update – Q1 2021 Edition

Trends in Asset Quality – Average Levels

Based on Steve H. Powell & Company client data, during the First Quarter 2021, the average level of adversely graded assets decreased as a percentage of total assets and capital. The average level of adversely graded loans decreased as a percentage of total loans. Problem assets averaged 1.15% of total assets and 10.79% of tier-one capital plus loan loss reserve as compared to 1.30% of total assets and 11.76% of tier-one capital plus loan loss reserve while problem loans averaged 1.59% of total loans as compared to 1.59% of total loans during the Fourth Quarter 2020.

**TRENDS IN ASSET QUALITY  
AVERAGE LEVEL OF ADVERSELY GRADED ASSETS**

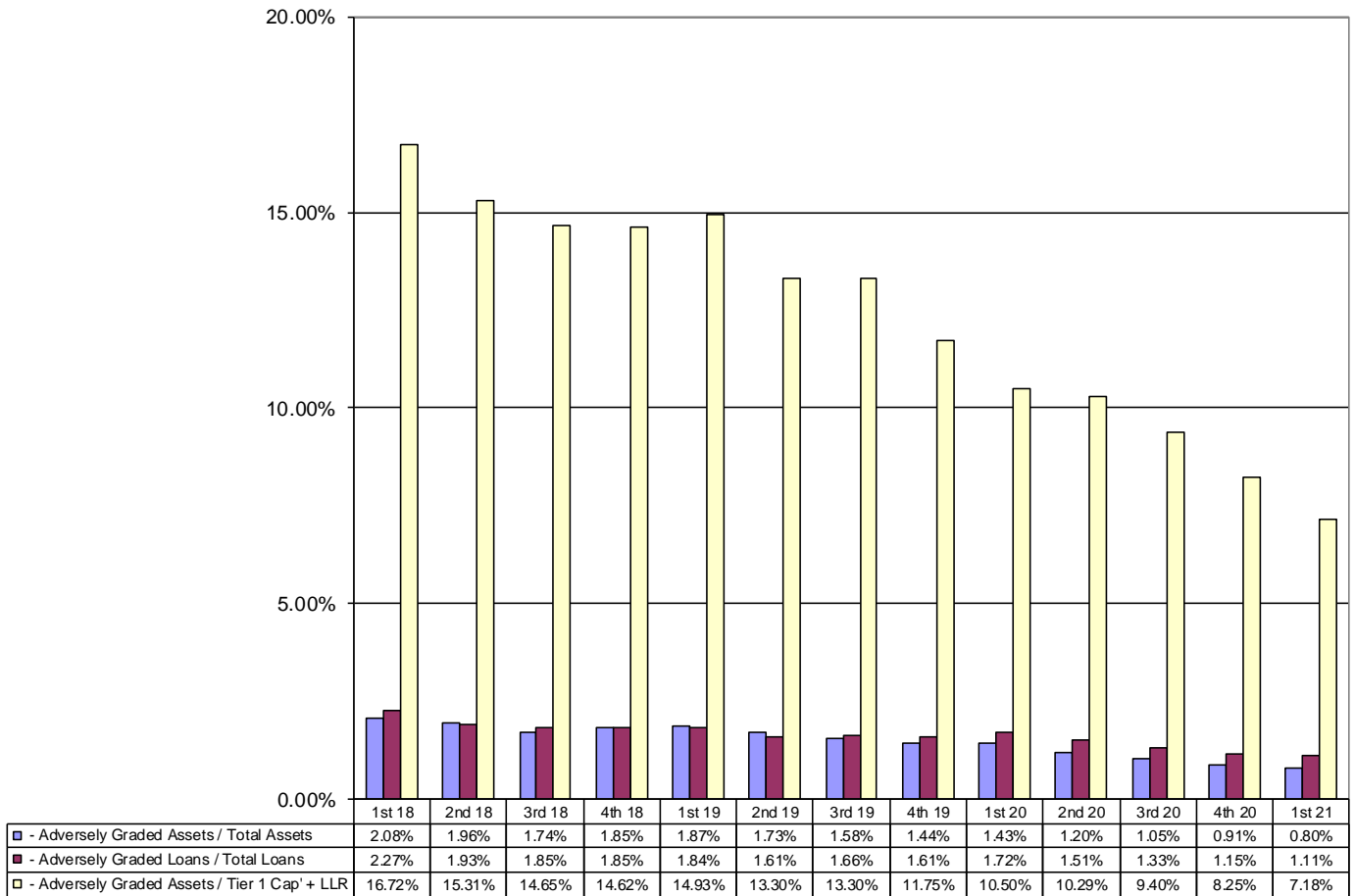


Steve H. Powell & Company was founded in August of 1993 by former banker and regulator, Steve H. Powell. With the goal of providing unparalleled asset quality monitoring and regulatory compliance services, the company's clientele base has grown and now exceeds 100 different financial institutions. We 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 Q1 2021 has decreased to 7.18% of tier-one capital plus loan loss reserve as compared to 8.25% during Q4 2020. Note the downward trend as overall asset quality continues to improve.

**TRENDS IN ASSET QUALITY  
MEDIAN LEVEL OF ADVERSELY GRADED ASSETS**



Historical Comparisons

During Q1 2021, increases in problem assets, as measured by adversely graded assets divided by tier-one capital plus loan loss reserve, were noted in approximately 15% of our clients. This quarter’s increase compares to:

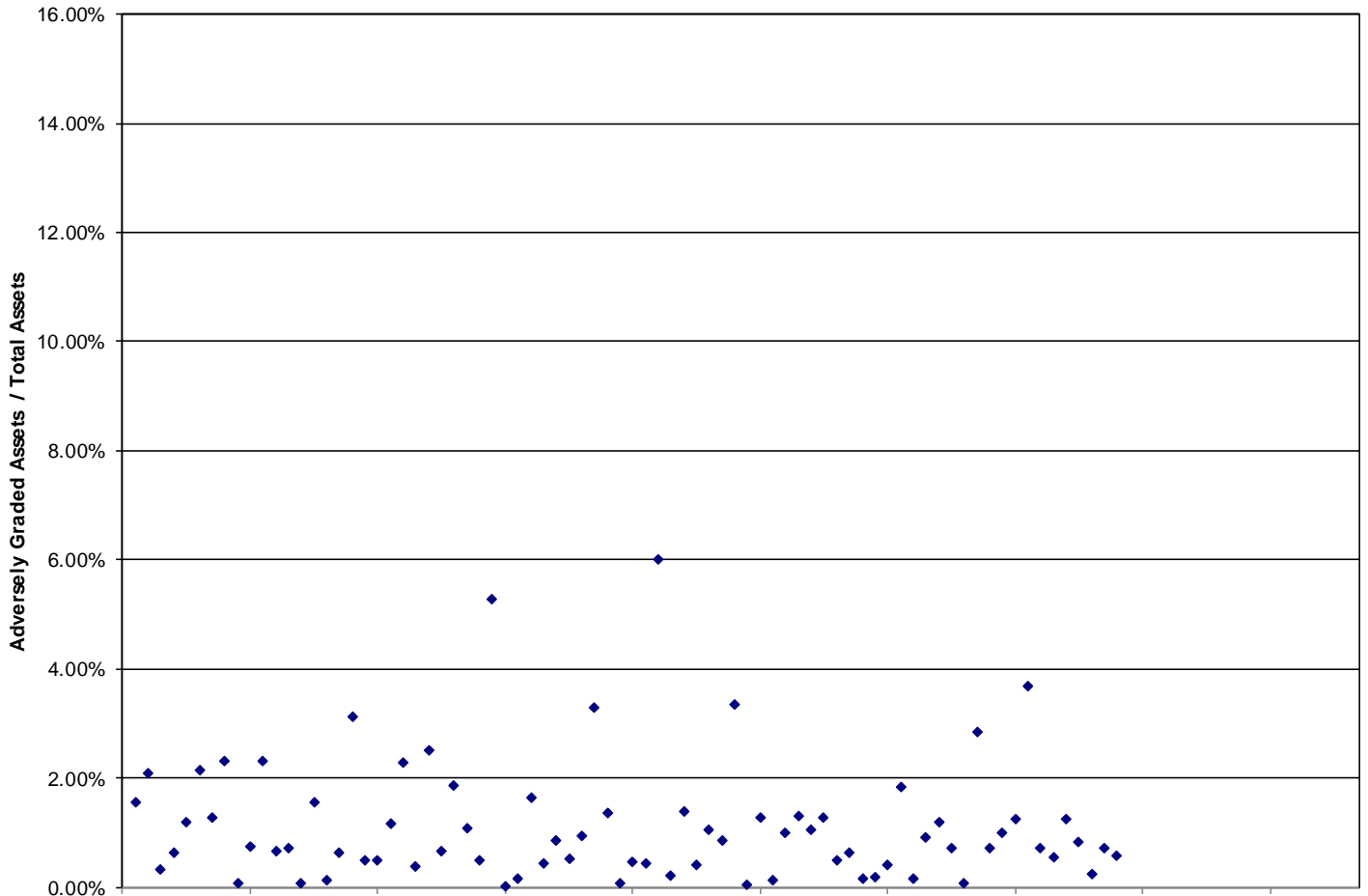
- 9% during the Fourth Quarter 2020
- 10% during the Third Quarter 2020
- 21% during the Second Quarter 2020
- 23% during the First Quarter 2020
- 13% during the Fourth Quarter 2019

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.



Dispersion of Problem Assets – as a Percentage of Total Assets

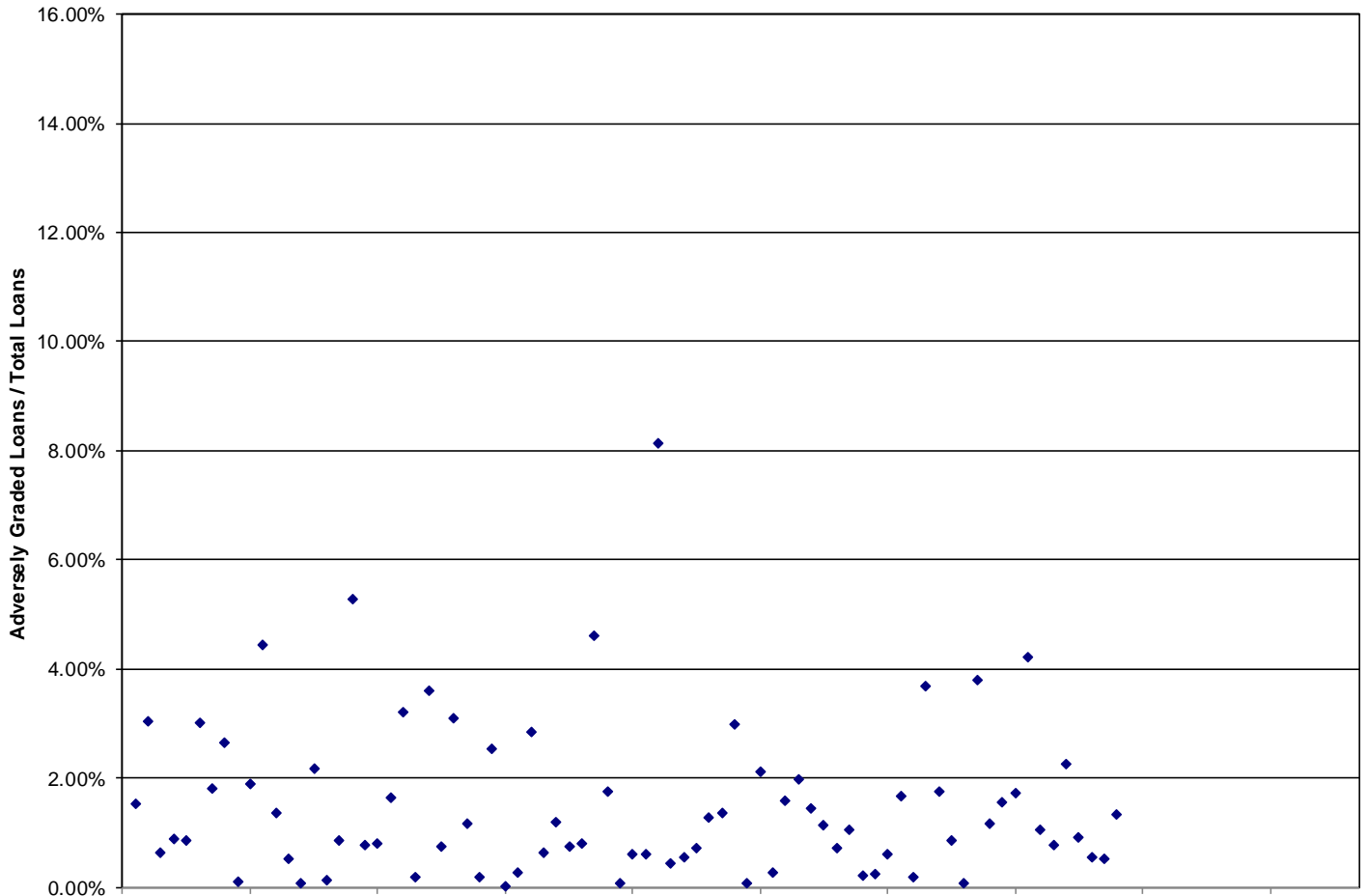
TRENDS IN ASSET QUALITY



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

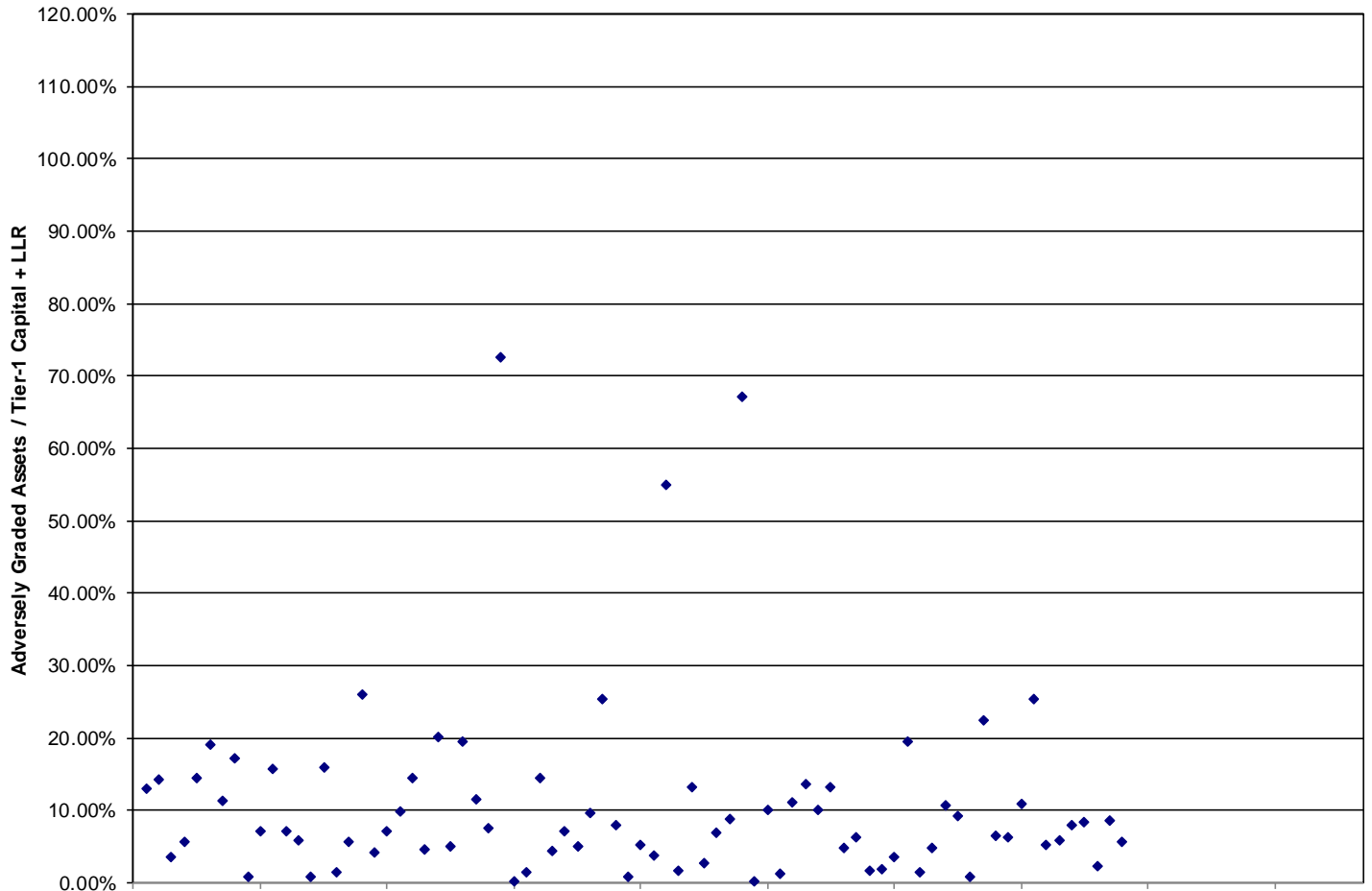
TRENDS IN ASSET QUALITY



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

TRENDS IN ASSET QUALITY



Historical Comparisons

Our sample group includes two (2) clients with problem assets exceeding 60% of tier-one capital plus loan loss reserve. This number compares to:

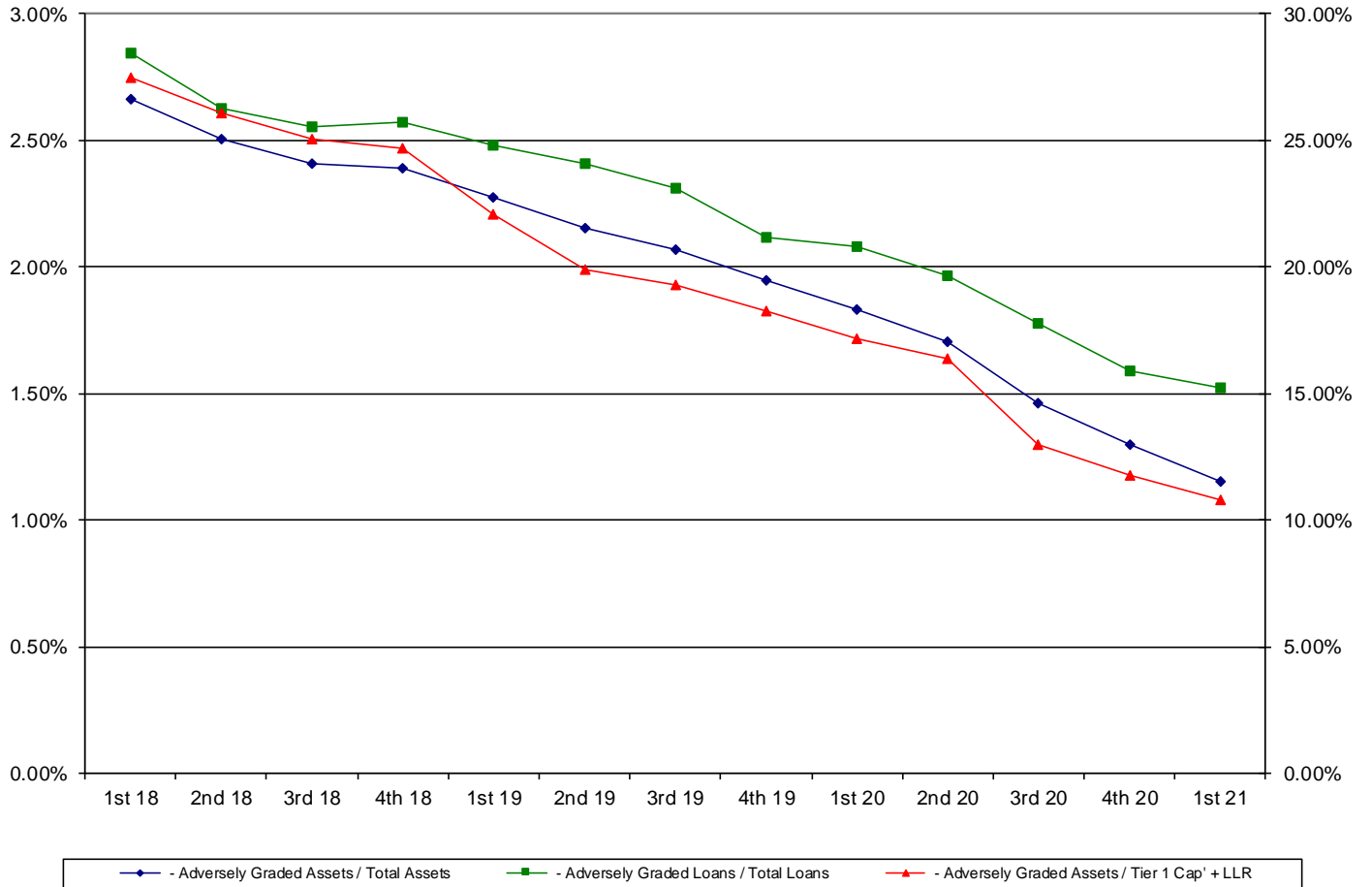
- Two (2) during the Fourth Quarter 2020
- One (1) during the Third Quarter 2020
- Three (3) during the Second Quarter 2020

No clients 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:

- One (1) during the Fourth Quarter 2020
- One (1) during the Third Quarter 2020
- Two (2) during the Second Quarter 2020

Problem Asset Trend Analysis

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**



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

An analysis was performed in which six 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 excluded data points, problem assets (or loans when compared to total loans) averaged 1.20% of total assets, 1.56% of total loans, and 9.98% of tier-one capital plus loan loss reserve. First Quarter 2021 modified data compares to the following Fourth Quarter 2020 modified average data set:

- 1.20% of total assets
- 1.56% of total loans, and
- 9.98% 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 2019 SNC review was published during January 2020. The definition of a SNC was amended during January 2018. Historically, SNCs had been any credit facility  $\geq$  \$20 million with three or more participants. Per the January 2019 definition SNCs are now a facility  $\geq$  \$100 million with more than three participants.

For reference:

The 2020 SNC population totaled \$5.1 trillion in commitments. Total commitments increased by \$242 billion, or 5%, from the third quarter of 2019 to the third quarter of 2020; based on a sample with a continued focus on bank-identified leveraged loans.

The 2019 SNC population totaled \$4.8 trillion in commitments. Total commitments increased by \$396 billion, or 8.9%, from the third quarter of 2018 to the third quarter of 2019; based on a sample with a continued focus on bank-identified leveraged loans.

Classified assets totaled \$365.9 billion in 2020, compared to \$204.1 billion in 2019. Special mention loans currently total \$263.9 billion as compared to \$131.2 billion in 2019.

Year	Special Mention	Substandard	Doubtful	Loss	Total Classified	Total Committed	Total Outstanding	Adverse	Watch
2017	\$ 131.7	\$ 245.1	\$ 24.2	\$ 16.6	\$ 285.9	\$ 4,304.0	\$ 2,149.0	6.60%	3.10%
2018	\$ 112.4	\$ 173.9	\$ 5.1	\$ 3.4	\$ 182.5	\$ 4,435.0	\$ 216.0	4.10%	2.50%
2019	\$ 131.2	\$ 186.3	\$ 10.3	\$ 7.5	\$ 204.1	\$ 4,830.0	\$ 2,359.0	4.20%	2.70%
2020	\$ 263.9	\$ 314.8	\$ 30.4	\$ 20.6	\$ 365.9	\$ 5,072.0	\$ 2,620.0	7.20%	5.20%

SHPCO average classified loans to total loans total 1.59% at YE 2020 as compared to 2.12% for YE 2019. SHPCO median classified loans to total loans total 1.15% at YE 2020 as compared to 1.61% for YE 2019. Classified SNCs to the total portfolio currently total 7.2% as compared to 4.2% last year.



Market disruptions attributable to COVID-19 have driven the decline in asset quality. The industries within the SNC portfolio with the highest classifications include oil & gas, entertainment & recreation, and transportation services. Again, risks were heightened within leveraged loan transactions.

While the comparison is overly simplified, it would appear as based on this year’s review, as well as those in historical SHPCO assessments, 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.

Exhibit 1: Overall Credit Facilities and Commitment Trends

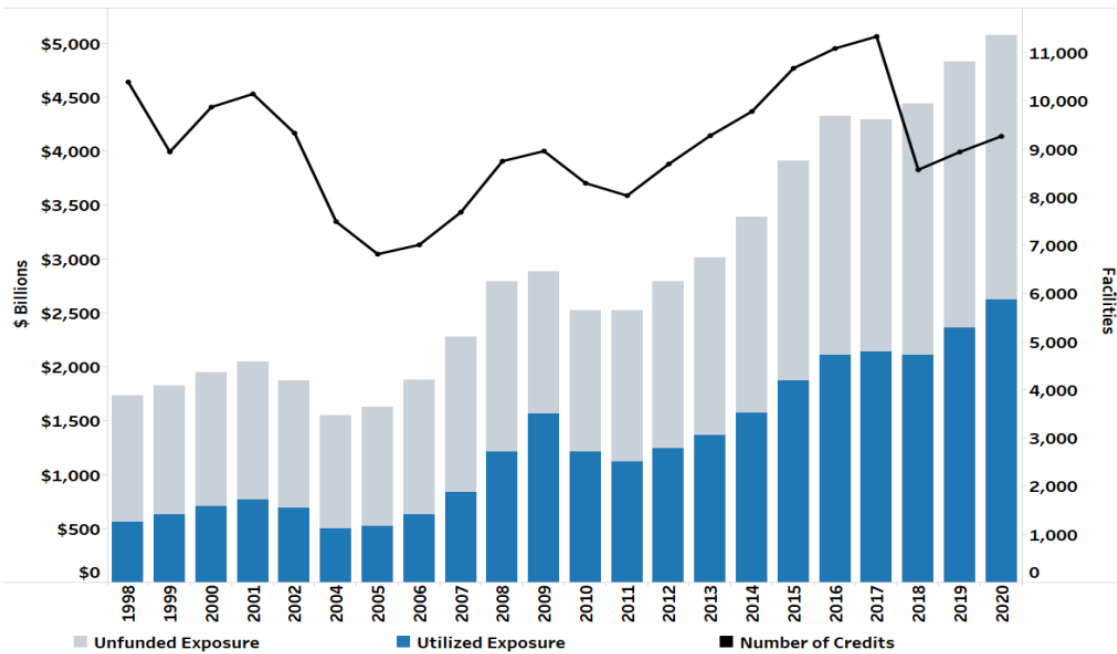


Exhibit 3: Overall Special Mention Plus Classified Volume and Percentage Trends

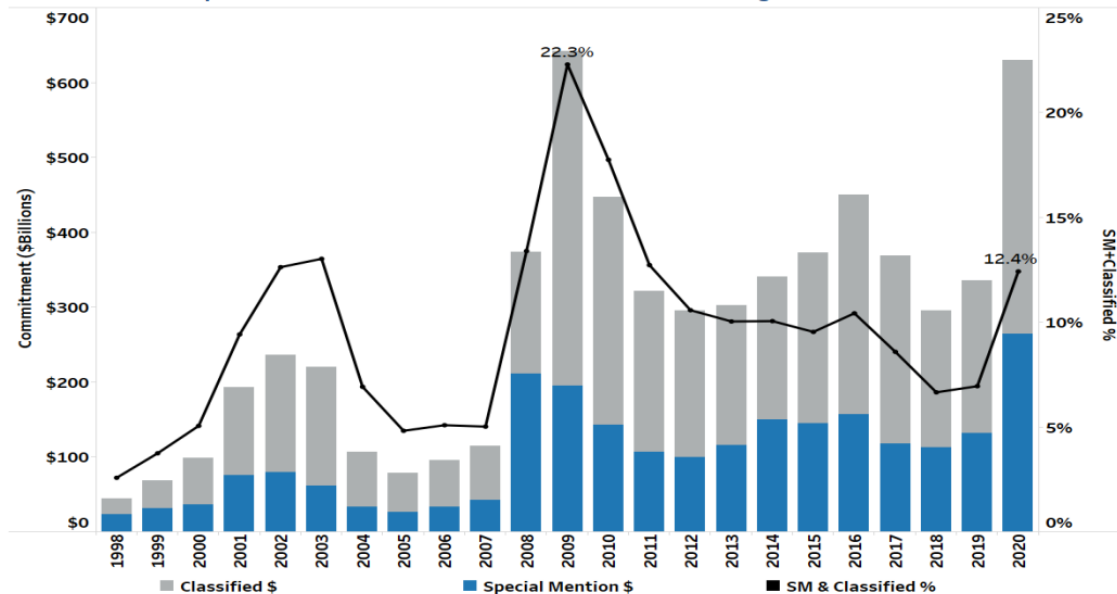
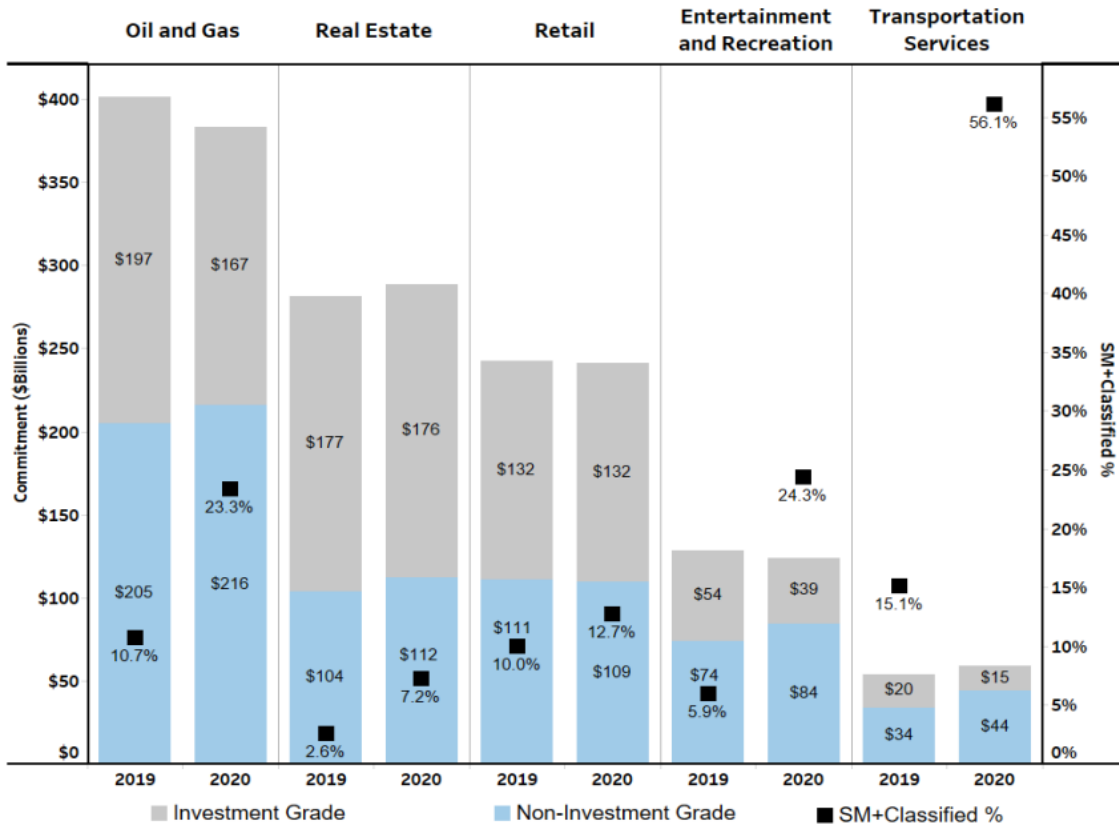


Exhibit 7: Risk Composition and Trend within COVID-19 Impacted Industries



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

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