

Bank Director.
ACQUIRE OR BE ACQUIRED
Exploring Your Growth Options

Capital Planning for Community Banks

February 2, 2016

Presented by:

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CAPITAL PLANNING DEFINED

From OCC Guidance on Capital Planning – OCC 2012-16

- “Capital planning is a dynamic and ongoing process that, in order to be effective, is **forward-looking** in incorporating changes in a bank’s strategic focus, risk tolerance levels, business plans, operating environment, or other factors that materially affect capital adequacy.”
- The most effective capital planning considers both short- and longer-term capital needs and is ***coordinated with a bank’s overall strategy and planning cycles, usually with a forecast horizon of at least two years.***

CAPITAL PLANNING

Additional Regulatory Guidance

- **OCC 2012-16: Guidance for Evaluating Capital Planning and Adequacy (July 2012)**
 - Every bank must have effective process to: (1) assess capital adequacy in relation to overall risks; and (ii) plan for maintaining appropriate capital levels

- **OCC 2012-33: Community Bank Stress Testing**
 - To identify and quantify risk in the loan portfolio and help establish effective strategic and capital planning process

CAPITAL PLANNING

Elements from OCC 2012-16

1. Identifying and Evaluating All Material Risks
2. Setting and Assessing Capital Adequacy Goals that Relate to Risk
3. Maintaining a Strategy to Ensure Capital Adequacy and Contingency Planning
4. Ensuring Integrity in the Internal Capital Planning Process and Capital Adequacy Assessments

Supervisory Review – included in assessment of **C**apital and **M**anagement component ratings

CAPITAL PLAN – ELEMENT #1

Identify and Evaluate All Material Risks

Risk Factor	Inherent Risk	Risk Management	Composite Risk Level	Trend
Credit				
Operational				
Liquidity				
Market				
Reputational				
Strategic				
Legal				

- Start with regulatory risk assessment
- Customize based on bank-specific issues

CAPITAL PLAN – ELEMENT #2

Set and Assess Capital Adequacy Goals that Relate to Risk

- Determine capital needs in relations to risks and strategic direction
- Short-term and long-term
- Higher risk + Growth plans + Acquisitions = Higher Capital Goals
- Concentration levels and limits
- Quality of risk management, internal controls and audit processes
- Quality, sustainability and level of earnings
- Pro forma modeling (at least 2 years)

CAPITAL PLAN – ELEMENT #3

Determine a Strategy to Ensure Capital Adequacy and Contingency Planning

- Internal and external sources of capital
 - Earnings
 - Infusion of capital
- Contingency Planning
 - Deleverage
 - Asset Mix change
 - Asset Sale
 - Raise Capital
 - Sell

CAPITAL PLAN – ELEMENT #4

Ensure Integrity in the Internal Capital Planning Process

- Capital planning must be documented
- Roles/Responsibilities of Board, Management and Audit
- Process for monitoring risk tolerance levels, capital adequacy, including board reporting and contingency plans
- Key planning assumptions and methods must be documented
- Risk exposures and concentrations
- Measures to take in response to changes in conditions
- Stress testing

“A CRISIS IS A TERRIBLE THING TO WASTE”

Quote from noted economist Paul Romer, November 2004, referring to rapidly rising education levels in other countries compared to the U.S.

- Stress testing is an outgrowth of the “Financial Crisis”
- SCAP – Supervisory Capital Assessment Program – April 2009
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- Initially, the largest 19 U.S. banking organizations
- “Stress Testing” has quickly “trickled down” to smaller banks
- Regulators demand strong credit risk management practices
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CAPITAL STRESS TEST

A Necessary Regulatory Process

- No specific method is mandated; wide range of possible acceptable methods
- For most community banks, a “simple, stressed loss-rate analysis based on call report categories may provide an acceptable foundation”
 - historical loss experience during previous stressful periods
 - historical market experience
- Calculate impact to earnings, ALLL and Capital ratios
- Mitigation Strategies: modify loan growth, revise risk tolerances, adjust loan mix, strengthen underwriting criteria

STRESS TEST CASE STUDY

Quantifying the effect of stressed loss rates on reserves, revenue and capital

- Establish internal capital targets to measure against projections
 - ✓ Tier 1 leverage, Tier 1 RBC, Total RBC and CET1 Ratio
- Stress Test Scenarios
 - ✓ Budget
 - ✓ Moderate
 - ✓ More Adverse
 - ✓ Acute Stress – reverse engineered scenario to estimate level of credit losses necessary to breach internal capital targets
- Determination of estimated loss rates
 - ✓ Start with the bank’s “budget”
 - ✓ Historical bank, peer group and state-specific loss rates
 - ✓ Historical loss rates based on trailing 4, 8 and 12 quarters
 - ✓ Don’t forget loss rates during the crisis!
- Baseline (or Budget) core operating earnings
 - ✓ Pre-tax, pre-provision (“PTPP”) income
 - ✓ Impact to PTPP income in “stressed” scenarios

STEP 1: ESTIMATING LOSS RATES

		Net Charge-Offs as a % of Average Loans										Avg. Highest 2 Periods
		2006Y	2007Y	2008Y	2009Y	2010Y	2011Y	2012Y	2013Y	2014Y	2015Y	
Nation	Aggregate	0.39%	0.58%	1.30%	2.47%	2.54%	1.53%	1.08%	0.69%	0.49%	0.43%	2.50%
Ohio	Aggregate	0.36%	0.52%	1.06%	2.42%	2.07%	1.17%	0.83%	0.47%	0.39%	0.29%	2.25%
	25th Pct.	0.06%	0.07%	0.10%	0.15%	0.18%	0.20%	0.16%	0.10%	0.11%	0.07%	0.19%
	Median	0.12%	0.19%	0.23%	0.40%	0.33%	0.39%	0.33%	0.22%	0.19%	0.15%	0.37%
	75th Pct.	0.26%	0.35%	0.58%	0.82%	0.89%	0.86%	0.78%	0.46%	0.36%	0.31%	0.87%
Peer	Aggregate	0.25%	0.30%	0.60%	1.20%	1.10%	0.75%	0.60%	0.35%	0.20%	0.15%	1.15%
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Subject Bank		0.05%	0.10%	0.40%	0.55%	0.75%	0.90%	0.65%	0.30%	0.10%	0.05%	0.83%

Highest two consecutive NCO rates between 2006Y - 2015Y

Note: Peer statistics include all banks in the peer group.

State statistics include only those banks reporting net-charge offs for each reporting period.

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THE “ART” OF ESTIMATING LOSS RATES

- Loan portfolio categories
 - ✓ Stratify portfolio into categories with similar loss characteristics
 - ✓ Call Report categories and sub-categories works for nearly all community banks (Schedule RC-C)
 - ✓ Internal reporting categories and sub-categories
 - ✓ Need for sufficient sample size
- Historical time periods
 - ✓ 4-quarter, 8-quarter versus 12-quarter
 - ✓ Loss rates during the financial crisis to estimate “worst case”
- Loan level stress testing
 - ✓ High risk or “at risk” portfolios - Construction, CRE, etc.
 - ✓ Stress loans based on LTV, DSC, etc. (system reporting limitations)
 - ✓ Select sample
 - ✓ Extrapolate over portfolio
- Subjective adjustments nearly always appropriate and necessary

CASE STUDY: BUDGETED/STRESSED LOSS RATES

	Budget		Moderate		More Adverse		Acute Stress	
	Aggregate 2-Yr. Losses per Mngt.		Peer 25th Percentile		Peer Median		Peer 75th Percentile x 1.25	
<i>Loan Type</i>	<i>Average Annual Est. Loss</i>	<i>Annual Loss Rates</i>	<i>Average Annual Est. Loss</i>	<i>Annual Loss Rates</i>	<i>Average Annual Est. Loss</i>	<i>Annual Loss Rates</i>	<i>Average Annual Est. Loss</i>	<i>Annual Loss Rates</i>
1-4 Construction Loans	\$25	0.25%	\$258	2.65%	\$474	4.98%	\$1,100	12.36%
Other Construction Loans	<u>\$50</u>	<u>0.10%</u>	<u>\$705</u>	<u>1.43%</u>	<u>\$1,725</u>	<u>3.57%</u>	<u>\$5,017</u>	<u>11.15%</u>
Construction & Land Development	\$75	0.13%	\$963	1.63%	\$2,199	3.80%	\$6,117	11.35%
Loans Secured by Farmland	\$0	0.00%	\$125	0.31%	\$452	1.14%	\$1,195	3.08%
Revolving 1-4 Family (HE Lines)	\$75	0.15%	\$125	0.25%	\$315	0.63%	\$740	1.50%
Closed End First Lien 1-4 Family	\$100	0.10%	\$155	0.16%	\$360	0.36%	\$940	0.95%
Closed End Junior Lien 1-4 Family	<u>\$38</u>	<u>0.38%</u>	<u>\$61</u>	<u>0.61%</u>	<u>\$144</u>	<u>1.46%</u>	<u>\$367</u>	<u>3.81%</u>
Total 1-4 Family	\$213	0.13%	\$341	0.21%	\$819	0.51%	\$2,047	1.30%
Multifamily	\$13	0.02%	\$505	0.68%	\$1,100	1.49%	\$2,785	3.86%
Secured by Owner-Occupied CRE	\$25	0.02%	\$360	0.24%	\$990	0.66%	\$2,585	1.75%
Secured by Other CRE Properties	<u>\$25</u>	<u>0.02%</u>	<u>\$690</u>	<u>0.54%</u>	<u>\$1,470</u>	<u>1.17%</u>	<u>\$5,125</u>	<u>4.19%</u>
Nonfarm/Nonresidential Loans	\$0	0.00%	\$1,050	0.38%	\$2,460	0.89%	\$7,710	2.86%
Total Real Estate Loans	\$300	0.05%	\$2,984	0.49%	\$7,030	1.16%	\$19,854	3.35%
Commercial & Industrial	\$135	0.08%	\$625	0.36%	\$1,900	1.10%	\$6,150	3.64%
Credit Card Loans	\$0	0.00%	\$41	1.65%	\$70	2.86%	\$163	6.99%
Other Consumer Loans	<u>\$10</u>	<u>0.14%</u>	<u>\$29</u>	<u>0.42%</u>	<u>\$56</u>	<u>0.81%</u>	<u>\$129</u>	<u>1.87%</u>
Total Consumer Loans	\$10	0.11%	\$70	0.74%	\$126	1.34%	\$292	3.17%
Total Other Loans	\$5	0.17%	\$47	1.59%	\$207	7.42%	\$762	34.03%
Total Loans	\$500	0.06%	\$3,726	0.47%	\$9,263	1.17%	\$27,057	3.50%
Total Estimated 2-Year Losses	\$1,000	0.13%	\$7,451	0.94%	\$18,526	2.34%	\$54,115	7.00%

STEP 2: KEY MODEL INPUTS

Quantifying the effect of stressed loss rates on reserves, revenue and capital

- Estimated credit losses based on preceding analysis
- PTPP Income
 - ✓ Budget scenario is the “baseline” plus 3 stressed scenarios
 - ✓ Adjust PTPP income for reduction in interest income due to NCO’s, increase in loan collection costs and balance sheet deleveraging
- ALLL Level
 - ✓ Beginning ALLL is the same in all scenarios
 - ✓ Projected ALLL increases in stressed scenarios
- Balance Sheet reduction in stressed scenarios
 - ✓ Projected loan balances
 - ✓ Historical practice during financial crisis
 - ✓ Need to consider NCOs and liquidity needs
- Dividends – present level and projected level in stressed scenarios

CASE STUDY: KEY MODEL INPUTS

	Budget	Moderate	More Adverse	Acute Stress
	Aggregate 2-Yr. Losses per Management	Peer 25th Percentile	Peer Median	Peer 75th Percentile x 1.25
Total Estimated 2-Year Losses	\$1,000	\$7,451	\$18,526	\$54,115
Annual Loss Rate	0.06%	0.47%	1.17%	3.50%
Two-Year Loss Rate	0.13%	0.94%	2.34%	7.00%
12/31/2017 Loan Balance	\$950,000	\$906,049	\$857,475	\$671,885
12/31/2017 Tangible Assets	\$1,134,000	\$1,100,500	\$1,067,000	\$933,000
Projected ALLL / Total Loan Ratio	1.50%	1.84%	2.19%	3.14%
ALLL on 12/31/2017 Loan Balance	\$14,250	\$16,694	\$18,736	\$21,095
2-Year PTPP Projection	\$35,000	\$33,362	\$31,579	\$24,795
Bank Dividend Distribution	\$16,000	\$16,000	\$12,000	\$0

CALCULATION OF “RESOURCES TO ABSORB LOSSES”

Subject Bank	Budget	Moderate	More Adverse	Acute Stress
	Aggregate 2-Yr. Losses per Management	Peer 25th Percentile	Peer Median	Peer 75th Percentile x 1.25
Bank's Two-Year PTPP Projection (1)	\$35,000	\$33,362	\$31,579	\$24,795
Plus: Actual 12/31/2015 ALLL	\$12,500	\$12,500	\$12,500	\$12,500
Minus: ALLL on 12/31/2017 Loans	<u>(\$14,250)</u>	<u>(\$16,694)</u>	<u>(\$18,736)</u>	<u>(\$21,095)</u>
Total Resources to Absorb Losses	\$33,250	\$29,168	\$25,343	\$16,200
Minus: Estimated 2-Year Losses	<u>(\$1,000)</u>	<u>(\$7,451)</u>	<u>(\$18,526)</u>	<u>(\$54,115)</u>
Net Resources After Losses	\$32,250	\$21,717	\$6,818	(\$37,915)
Net After-Tax Resources (2)	\$20,963	\$14,116	\$4,431	(\$24,645)
2-Year Dividend Distribution	(\$16,000)	(\$16,000)	(\$12,000)	\$0

(1) PTPP for Budget Scenario is based on projected financial performance as provided by management.

PTPP = Pre-Tax Pre-Provision (net interest income + noninterest income – noninterest expense).

Represents earnings capacity that can be applied to capital or loan losses.

(2) Based on a 35.0% tax rate.

CASE STUDY: PRO FORMA CAPITAL RATIOS

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Bank Dividend Distribution	\$16,000			\$16,000			\$12,000			\$0		
	2015 Well- Capitalized Guidelines	Fully Phased-In Capital Guidelines	Internal Bank Targets	2015 Well- Capitalized Guidelines	Fully Phased-In Capital Guidelines	Internal Bank Targets	2015 Well- Capitalized Guidelines	Fully Phased-In Capital Guidelines	Internal Bank Targets	2015 Well- Capitalized Guidelines	Fully Phased-In Capital Guidelines	Internal Bank Targets
<i>Target Leverage Ratio</i>	5.00%	5.00%	8.00%	5.00%	5.00%	8.00%	5.00%	5.00%	8.00%	5.00%	5.00%	8.00%
Pro Forma Leverage Ratio	9.26%			8.92%			8.66%			8.08%		
Excess/(Deficit)	\$48,263	\$48,263	\$14,243	\$43,091	\$43,091	\$10,076	\$39,081	\$39,081	\$7,071	\$28,705	\$28,705	\$715
<i>Target Tier 1 Risk-Based Ratio</i>	8.00%	8.50%	10.00%	8.00%	8.50%	10.00%	8.00%	8.50%	10.00%	8.00%	8.50%	10.00%
Pro Forma Tier 1 Risk-Based Ratio	11.57%			11.14%			10.83%			10.10%		
Excess/(Deficit)	\$32,387	\$27,851	\$14,243	\$27,684	\$23,282	\$10,076	\$24,143	\$19,875	\$7,071	\$15,643	\$11,911	\$715
<i>Target Total Risk-Based Ratio</i>	10.00%	10.50%	12.00%	10.00%	10.50%	12.00%	10.00%	10.50%	12.00%	10.00%	10.50%	12.00%
Pro Forma Total Risk-Based Ratio	12.82%			12.39%			12.08%			11.35%		
Excess/(Deficit)	\$25,583	\$21,047	\$7,439	\$21,081	\$16,679	\$3,473	\$17,741	\$13,473	\$669	\$10,045	\$6,313	(\$4,883)
<i>Target CET1 Risk-Based</i>	6.50%	7.00%	8.50%	6.50%	7.00%	8.50%	6.50%	7.00%	8.50%	6.50%	7.00%	8.50%
Pro Forma CET1 Risk-Based	11.57%			11.14%			10.83%			10.10%		
Excess/(Deficit)	\$45,995	\$41,459	\$27,851	\$40,890	\$36,488	\$23,282	\$36,947	\$32,679	\$19,875	\$26,839	\$23,107	\$11,911

**Fully phased-in capital guidelines include a capital conservation buffer which increases in each annual period to 2.5% in 2019.

AUSTIN ASSOCIATES OVERVIEW

Consulting and Investment Bankers to Community Banks

- Community bank advisors for more than 40 years
- Specialized services through multiple practice areas

Investment Banking

Strategic Consulting

Financial Management

Technology Solutions

- Owners are consultants/managers
- Over 200 bank/thrift clients in 2015 from 28 states
- Nationally-ranked leader in community bank M&A for 4 decades

PRESENTERS

Managing Directors of Investment Banking

Craig Mancinotti

- Joined the firm in 1982 and co-manages the firm's Investment Banking and Strategic Consulting divisions.
- Served as an instructor at the Stonier Graduate School of Banking and the Bank Administration Institute School.
- Served for 10 years as a director of a \$400 million Midwest community bank.
- Annual speaker at *Bank Directors' "Acquire or Be Acquired"* conferences.
- Licensed rep of IBS (a registered broker dealer) and holds Series 63 and 79 (Investment Banking) licenses.



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 - ✓ Select sample
 - ✓ Extrapolate over portfolio
- Subjective adjustments nearly always appropriate and necessary

CASE STUDY: BUDGETED/STRESSED LOSS RATES

Loan Type	Budget		Moderate		More Adverse		Acute Stress	
	Aggregate 2-Yr. Losses per Mngt.		Peer 25th Percentile		Peer Median		Peer 75th Percentile x 1.25	
	Average Annual Est. Loss	Annual Loss Rates	Average Annual Est. Loss	Annual Loss Rates	Average Annual Est. Loss	Annual Loss Rates	Average Annual Est. Loss	Annual Loss Rates
1-4 Construction Loans	\$25	0.25%	\$258	2.65%	\$474	4.98%	\$1,100	12.36%
Other Construction Loans	<u>\$50</u>	<u>0.10%</u>	<u>\$705</u>	<u>1.43%</u>	<u>\$1,725</u>	<u>3.57%</u>	<u>\$5,017</u>	<u>11.15%</u>
Construction & Land Development	\$75	0.13%	\$963	1.63%	\$2,199	3.80%	\$6,117	11.35%
Loans Secured by Farmland	\$0	0.00%	\$125	0.31%	\$452	1.14%	\$1,195	3.08%
Revolving 1-4 Family (HE Lines)	\$75	0.15%	\$125	0.25%	\$315	0.63%	\$740	1.50%
Closed End First Lien 1-4 Family	\$100	0.10%	\$155	0.16%	\$360	0.36%	\$940	0.95%
Closed End Junior Lien 1-4 Family	<u>\$38</u>	<u>0.38%</u>	<u>\$61</u>	<u>0.61%</u>	<u>\$144</u>	<u>1.46%</u>	<u>\$367</u>	<u>3.81%</u>
Total 1-4 Family	\$213	0.13%	\$341	0.21%	\$819	0.51%	\$2,047	1.30%
Multifamily	\$13	0.02%	\$505	0.68%	\$1,100	1.49%	\$2,785	3.86%
Secured by Owner-Occupied CRE	\$25	0.02%	\$360	0.24%	\$990	0.66%	\$2,585	1.75%
Secured by Other CRE Properties	<u>\$25</u>	<u>0.02%</u>	<u>\$690</u>	<u>0.54%</u>	<u>\$1,470</u>	<u>1.17%</u>	<u>\$5,125</u>	<u>4.19%</u>
Nonfarm/Nonresidential Loans	\$0	0.00%	\$1,050	0.38%	\$2,460	0.89%	\$7,710	2.86%
Total Real Estate Loans	\$300	0.05%	\$2,984	0.49%	\$7,030	1.16%	\$19,854	3.35%
Commercial & Industrial	\$135	0.08%	\$625	0.36%	\$1,900	1.10%	\$6,150	3.64%
Credit Card Loans	\$0	0.00%	\$41	1.65%	\$70	2.86%	\$163	6.99%
Other Consumer Loans	<u>\$10</u>	<u>0.14%</u>	<u>\$29</u>	<u>0.42%</u>	<u>\$56</u>	<u>0.81%</u>	<u>\$129</u>	<u>1.87%</u>
Total Consumer Loans	\$10	0.11%	\$70	0.74%	\$126	1.34%	\$292	3.17%
Total Other Loans	\$5	0.17%	\$47	1.59%	\$207	7.42%	\$762	34.03%
Total Loans	\$500	0.06%	\$3,726	0.47%	\$9,263	1.17%	\$27,057	3.50%
Total Estimated 2-Year Losses	\$1,000	0.13%	\$7,451	0.94%	\$18,526	2.34%	\$54,115	7.00%

STEP 2: KEY MODEL INPUTS

Quantifying the effect of stressed loss rates on reserves, revenue and capital

- Estimated credit losses based on preceding analysis
- PTPP Income
 - ✓ Budget scenario is the “baseline” plus 3 stressed scenarios
 - ✓ Adjust PTPP income for reduction in interest income due to NCO’s, increase in loan collection costs and balance sheet deleveraging
- ALLL Level
 - ✓ Beginning ALLL is the same in all scenarios
 - ✓ Projected ALLL increases in stressed scenarios
- Balance Sheet reduction in stressed scenarios
 - ✓ Projected loan balances
 - ✓ Historical practice during financial crisis
 - ✓ Need to consider NCOs and liquidity needs
- Dividends – present level and projected level in stressed scenarios

CASE STUDY: KEY MODEL INPUTS

	Budget	Moderate	More Adverse	Acute Stress
	Aggregate 2-Yr. Losses per Management	Peer 25th Percentile	Peer Median	Peer 75th Percentile x 1.25
Total Estimated 2-Year Losses	\$1,000	\$7,451	\$18,526	\$54,115
Annual Loss Rate	0.06%	0.47%	1.17%	3.50%
Two-Year Loss Rate	0.13%	0.94%	2.34%	7.00%
12/31/2017 Loan Balance	\$950,000	\$906,049	\$857,475	\$671,885
12/31/2017 Tangible Assets	\$1,134,000	\$1,100,500	\$1,067,000	\$933,000
Projected ALLL / Total Loan Ratio	1.50%	1.84%	2.19%	3.14%
ALLL on 12/31/2017 Loan Balance	\$14,250	\$16,694	\$18,736	\$21,095
2-Year PTPP Projection	\$35,000	\$33,362	\$31,579	\$24,795
Bank Dividend Distribution	\$16,000	\$16,000	\$12,000	\$0

CALCULATION OF “RESOURCES TO ABSORB LOSSES”

Subject Bank	Budget	Moderate	More Adverse	Acute Stress
	Aggregate 2-Yr. Losses per Management	Peer 25th Percentile	Peer Median	Peer 75th Percentile x 1.25
Bank's Two-Year PTPP Projection (1)	\$35,000	\$33,362	\$31,579	\$24,795
Plus: Actual 12/31/2015 ALLL	\$12,500	\$12,500	\$12,500	\$12,500
Minus: ALLL on 12/31/2017 Loans	<u>(\$14,250)</u>	<u>(\$16,694)</u>	<u>(\$18,736)</u>	<u>(\$21,095)</u>
Total Resources to Absorb Losses	\$33,250	\$29,168	\$25,343	\$16,200
Minus: Estimated 2-Year Losses	<u>(\$1,000)</u>	<u>(\$7,451)</u>	<u>(\$18,526)</u>	<u>(\$54,115)</u>
Net Resources After Losses	\$32,250	\$21,717	\$6,818	(\$37,915)
Net After-Tax Resources (2)	\$20,963	\$14,116	\$4,431	(\$24,645)
2-Year Dividend Distribution	(\$16,000)	(\$16,000)	(\$12,000)	\$0

(1) PTPP for Budget Scenario is based on projected financial performance as provided by management.

PTPP = Pre-Tax Pre-Provision (net interest income + noninterest income – noninterest expense).

Represents earnings capacity that can be applied to capital or loan losses.

(2) Based on a 35.0% tax rate.

CASE STUDY: PRO FORMA CAPITAL RATIOS

	Budget			Moderate			More Adverse			Acute Stress		
Total Estimated 2-Year Losses	\$1,000			\$7,451			\$18,526			\$54,115		
Annual Loss Rate	0.06%			0.47%			1.17%			3.50%		
12/31/2017 Loan Balance	\$950,000			\$906,049			\$857,475			\$671,885		
Projected ALLL / Total Loan Ratio	1.50%			1.84%			2.19%			3.14%		
ALLL on 12/31/2017 Loan Balance	\$14,250			\$16,694			\$18,736			\$21,095		
2-Year PTPP Projection	\$35,000			\$33,362			\$31,579			\$24,795		
Bank Dividend Distribution	\$16,000			\$16,000			\$12,000			\$0		
	2015 Well- Capitalized Guidelines	Fully Phased-In Capital Guidelines	Internal Bank Targets	2015 Well- Capitalized Guidelines	Fully Phased-In Capital Guidelines	Internal Bank Targets	2015 Well- Capitalized Guidelines	Fully Phased-In Capital Guidelines	Internal Bank Targets	2015 Well- Capitalized Guidelines	Fully Phased-In Capital Guidelines	Internal Bank Targets
<i>Target Leverage Ratio</i>	5.00%	5.00%	8.00%	5.00%	5.00%	8.00%	5.00%	5.00%	8.00%	5.00%	5.00%	8.00%
Pro Forma Leverage Ratio	9.26%			8.92%			8.66%			8.08%		
Excess/(Deficit)	\$48,263	\$48,263	\$14,243	\$43,091	\$43,091	\$10,076	\$39,081	\$39,081	\$7,071	\$28,705	\$28,705	\$715
<i>Target Tier 1 Risk-Based Ratio</i>	8.00%	8.50%	10.00%	8.00%	8.50%	10.00%	8.00%	8.50%	10.00%	8.00%	8.50%	10.00%
Pro Forma Tier 1 Risk-Based Ratio	11.57%			11.14%			10.83%			10.10%		
Excess/(Deficit)	\$32,387	\$27,851	\$14,243	\$27,684	\$23,282	\$10,076	\$24,143	\$19,875	\$7,071	\$15,643	\$11,911	\$715
<i>Target Total Risk-Based Ratio</i>	10.00%	10.50%	12.00%	10.00%	10.50%	12.00%	10.00%	10.50%	12.00%	10.00%	10.50%	12.00%
Pro Forma Total Risk-Based Ratio	12.82%			12.39%			12.08%			11.35%		
Excess/(Deficit)	\$25,583	\$21,047	\$7,439	\$21,081	\$16,679	\$3,473	\$17,741	\$13,473	\$669	\$10,045	\$6,313	(\$4,883)
<i>Target CET1 Risk-Based</i>	6.50%	7.00%	8.50%	6.50%	7.00%	8.50%	6.50%	7.00%	8.50%	6.50%	7.00%	8.50%
Pro Forma CET1 Risk-Based	11.57%			11.14%			10.83%			10.10%		
Excess/(Deficit)	\$45,995	\$41,459	\$27,851	\$40,890	\$36,488	\$23,282	\$36,947	\$32,679	\$19,875	\$26,839	\$23,107	\$11,911

**Fully phased-in capital guidelines include a capital conservation buffer which increases in each annual period to 2.5% in 2019.

AUSTIN ASSOCIATES OVERVIEW

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- Community bank advisors for more than 40 years
- Specialized services through multiple practice areas

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Managing Directors of Investment Banking

Craig Mancinotti

- Joined the firm in 1982 and co-manages the firm's Investment Banking and Strategic Consulting divisions.
- Served as an instructor at the Stonier Graduate School of Banking and the Bank Administration Institute School.
- Served for 10 years as a director of a \$400 million Midwest community bank.
- Annual speaker at *Bank Directors' "Acquire or Be Acquired"* conferences.
- Licensed rep of IBS (a registered broker dealer) and holds Series 63 and 79 (Investment Banking) licenses.



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