SANDLER
O'NEILL+
PARTNERS

October 7, 2019

9th Inning Clean Up

Five Key Changes Emerge As Regulatory Relief Rules Are Finalized

- CBLR maintained at 9.0% on Tier 1 Capital NOT Tangible Equity
- Basel III Simplification timing accelerated to January 1 from April 1, 2020 permitting investment of up to 25% of CET1 in MSAs, DTAs and UFIs
- CECL adoption date delayed for smaller companies (SRCs) until January 1, 2023
- Final Volcker Rule amended to clarify size of institutions covered, included activities and improving compliance requirements
- New deposit rate cap formula proposed

Thomas W. Killian, Principal	Weison Ding, Director
(212) 466-7709	*(212) 466-8005*
tkillian@sandleroneill.com	*wding@sandleroneill.com*

This is the latest in a series of reports[1] on the evolving regulatory, legislative and accounting environment for the banking industry. The financial crisis of 2008 precipitated a robust regulatory and legislative response with Basel III and the Dodd Frank Act. The election of 2016 brought a "response to the response" with the U.S. Treasury's Core Principals Report, the Basel III Simplification, and Economic Growth, Regulatory Relief and Consumer Protection Act (EGRRCPA or S.2155). The accounting industry's response to the financial crisis began with the implementation in 2019 of changes in lease accounting (ASC 842) and with Current Expected Credit Loss (CECL) beginning in 2020. This note highlights five key changes that have emerged in the regulatory relief process for Advanced and Non-Advanced Approaches Bank and the implications for capital planning and liquidity strategy.

We are nearing the 9th inning clean up of legislation, regulation and accounting rules implemented after the financial crisis in 2008. The numerator of the Community Bank Leverage Ratio (CBLR) has been recast as tier 1 capital rather than tangible equity but the 9% requirement remains the same. The start date of the Basel III simplification rule change has been moved up to January 1, 2020 from April 1, to allow investment of up to 25% of Common Equity Tier 1 Capital (CET1) in mortgage servicing assets (MSAs), Deferred Tax Assets (DTAs), and Unconsolidated Financial Institutions (UFIs).

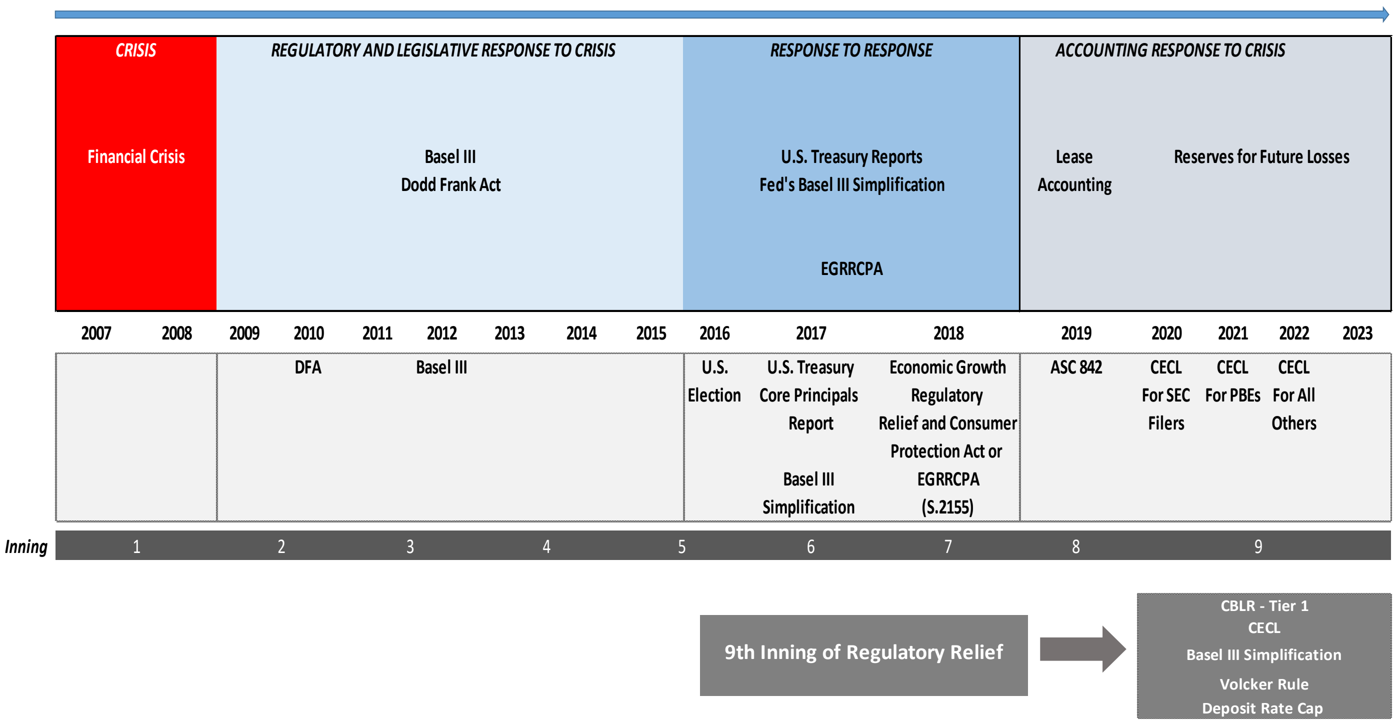
The Current Expected Credit Loss (CECL) accounting standard adoption date has been delayed to January 1, 2023 for Smaller Reporting Companies (SRCs) and private companies. Changes to the final Volcker Rule clarify the size of institutions and activities covered and provide guidance on compliance requirements. While not part of the EGRRCPA legislation, a new deposit rate cap formula has been proposed for less than well capitalized banks to enhance access to deposit funding. This will become increasingly more important when we face an economic slowdown.

[1] For related Sandler O'Neill reports please see: Changes to Small BHC Policy Statement dated April 20, 2015, Liquidity Rules Now the Binding Constraint for Large Banks dated July 6, 2016, Simplification of Basel III Capital Rules dated October 10, 2017, The Pendulum Swings dated March 20, 2018, Bank Regulation Resizing dated May 29, 2018, Regulatory Simplification / Accounting Complication dated January 7, 2019, and Basel III Simplification Finalized as Expected dated June 18, 2019, found at http://www.sandleroneill.com/resource-center-strategy-reports-capital.htm.

Overall, as highlighted below in Chart A, we view these five changes as the final inning clean up of legislative, regulatory and accounting requirements that provide regulatory relief for community and regional banks but hold larger banks to a higher standard of accountability with a revised Volcker Rule.

Chart A

Timeline of Financial Crisis and Regulatory, Legislative, and Accounting Response



Summary of Key Changes and Implications for Strategy

As summarized below in Chart B, these five changes derive from legislation, regulation and accounting requirements ranging from EGRRCPA, the Basel III Simplification, FASB accounting ASU No 2016-13 and part 337.6 of the FDIC Rules and Regulations for interest rate cap considerations. The institutions impacted vary from non-advanced approaches banks, community banks with less than $10 billion in assets, banks with high levels of trading assets and liabilities, smaller reporting companies, and insured depository institutions that are less than well capitalized. We will discuss the details of each change in subsequent sections of this report and focus on the implications for capital planning and strategy.

Chart B

Summary of Key Changes and Implications for Strategy

Change	Legislation, Regulation or Accounting	Description	Institutions Impacted	Implications
CBLR	EGRRCPA Section 201	Numerator changed from tangible equity to tier 1 capital Denominator changed from tangible assets to average assets	Community Banks with < $10 billion in assets	Tier 1 calculation consistent with Basel III TPS regains importance as source of tier 1 Does not grant request to lower ratio to 8% Does not address loss of ALLL counting towards capital Does not increase number of qualifying banks
BIII	Basel III Simplification	Implementation date moved up from April 1 to January 1, 2020	Non-advanced Approaches Banks	Avoids potential limitation on use of DTA caused if 25% DTA investment not allowed until April 2020
CECL	ASU No 2016-13	Implementation date moved back from January 1, 2021 for PBEs and January 1, 2022 for all Others to January 1, 2023 for Smaller Reporting Companies and all others	Smaller Reporting Companies (SRC) and Private Companies	Delay from 2021 to 2023 potentially attractive for SRCs and private companies but may limit growth and expansion opportunties to stay below SRC limitations
Volcker Rule	EGRRCPA Section 20	Redefined banking entities subject to Section 13 restrictions Amended proprietary trading restrictions Revised proprietary trading exclusions Improved compliance reporting	Excludes Community Banks with < $10 B in assets Applies to banks with limited, moderate and significant TAL	Clarifies institutions with Significant TAL (>$20 B), Moderate TAL (>= $1 B but < $20 B) and Limited TAL (<$1 B) Financial instruments held > 60 days not TAL Presumption of compliance with retained records CEO attestation only required for Significant TAL
Deposit Rate Cap	NPR for Interest Rate Cap Restrictions under Part 337.6 of the FDIC Rules and Regulations	Amends methodology for calculating the national rate and national rate cap for less than well capitalized banks to the higher of the 95th % of weighted avg national rate or national rate plus 75 BP Amends methodology for calculating the local rate cap by allowing up to 90% of highest rate paid locally	Applies to insured depository institutions that are less than well capitalized	Provides more funding flexbility for banks below well capitalized Will likely become much more important if we face a recession Could potentially be triggered if banks face significant charges from implementation of CECL

CBLR (EGRRCPA Section 201)

In response to numerous letters and extensive commentary from the Independent Community Bankers of America (ICBA) and other industry groups, on September 17, 2019, the agencies elected to make a number of changes to the CBLR.[2] The most significant are the adoption of the existing definition of tier 1 capital rather than tangible equity for the numerator of the CBLR ratio along with using average total assets (less all deductions from the numerator of tier 1 capital) rather than average tangible assets in the denominator. By using tier 1 capital rather than tangible equity for the numerator, grandfathered trust preferred securities and minority interest capital issued by bank subsidiaries count as tier 1 capital up to their current limits. Other changes

[2] Final Rule. Regulatory Capital Rule: Capital Simplification for Qualifying Community Banking Organizations. Department of Treasury - Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation. September 17, 2019.

include the removal of the qualifying criteria for mortgage servicing assets and deferred tax assets (arising from temporary differences); the removal of PCA proxy levels, and allowing a two-quarter grace period to be considered well capitalized if any electing banking organization's CBLR ratio falls below 9% but remains above 8%.

Only non-advanced approaches banking organizations that meet the following criteria qualify to adopt the CBLR: (i) a leverage ratio greater than 9%, (ii) total consolidated assets of less than $10 billion, (iii) total off-balance sheet exposures (excluding derivatives other than sold credit derivatives and unconditionally cancellable commitments) of 25% or less of total consolidated assets, and (iv) total trading assets and trading liabilities of 5% or less of consolidated assets.

Chart C

CBLR Qualification Based on Final Rule Changes

Non Advanced Approaches Banking Organizations	No. of Institutions	CBLR Eligible*	>9.0% CBLR
Insured Depositories < $3B	**5046** *100%*	**4813** *95%*	**4202** *83%*
Insured Depositories ≥ $3B & < $10B	**184** *100%*	**152** *83%*	**120** *65%*
All Institutions < $10B	**5230** *100%*	**4965** *95%*	**4322** *83%*

**Off balance sheet exposure of 25% or less, Trading assets + Trading liabilities of 5% or less*

Source: S&P global Market Intelligence as of June 30, 2019 bank level depository institutions

As shown above in Chart C, 95% of the total institutions with less than $10 billion in bank level assets would qualify to consider using the CBLR but only 83% would meet the 9% or higher CBLR requirement. For banks with total assets of $3 billion but less than $10 bilion, approximately 83% would be eligible to use the CBLR but only 65% would meet the 9% requirement. There is very little difference in qualification for the CBLR whether using tangible equity or tier 1 capital. But using the existing tier 1 definition for the numerator will help avoid confusion and duplication of PCA thresholds. In addition, changing the definition of the CBLR to tier 1 capital makes it simpler and easier to implement and facilitates movement back and forth between CBLR and Basel III. But this begs the question about whether this change will make the CBLR more attractive relative to the small BHC policy statement or Basel III. The lack of benefit for allowance for loan losses at a time when CECL may require a significant increase in that allowance means community banks that adopt the CBLR will have significant loss absorbing capacity in reserves that are required but don't benefit their capital ratios. This was an important motivation for many of the comment letters, including Sandler O'Neill's comment letter submitted on January 22, 2019, to the agencies advocating for the lower required CBLR of 8% rather than 9%.[3]

An interesting and important nuance of the final CBLR rule is that qualifying community banking institutions would not be required to calculate tier 2 capital or make any deductions from tier 2 capital as a result of investment in unconsolidated financial institutions (UFIs). Simply stated, under the current corresponding deduction approach rules, a banking organization is required to take deductions from the same component of capital for which the underlying instrument would qualify if it was used by the banking organization. If the banking organization does not have a sufficient amount of a specific form of regulatory capital against which to make the deduction, the shortfall must be deducted from the next highest form of capital (i.e., more subordinated capital). Since under the final CBLR rule the banking organization does not have a total capital requirement, an adopting banking organization would not be required to calculate tier 2 capital or make any deductions that would have been taken from tier 2 capital. A banking organization that elects to use the CBLR would only be required to make a deduction from its CET1 capital or tier 1 capital if the sum of its investment in the UFI exceeds the threshold for deduction and is in a form that qualifies as CET1 or tier 1 capital. The agencies believe there are very few banks that have significant investments in tier 2 capital instruments that approach the 25% of CET1 threshold level for deduction and will continue to monitor such investments and address as needed on a case-by-case basis.

[3] http://www.sandleroneill.com/Collateral/Documents/English-US/Fed%20comment%20letter%20on%20CBLR_01_22_19_FINAL.pdf

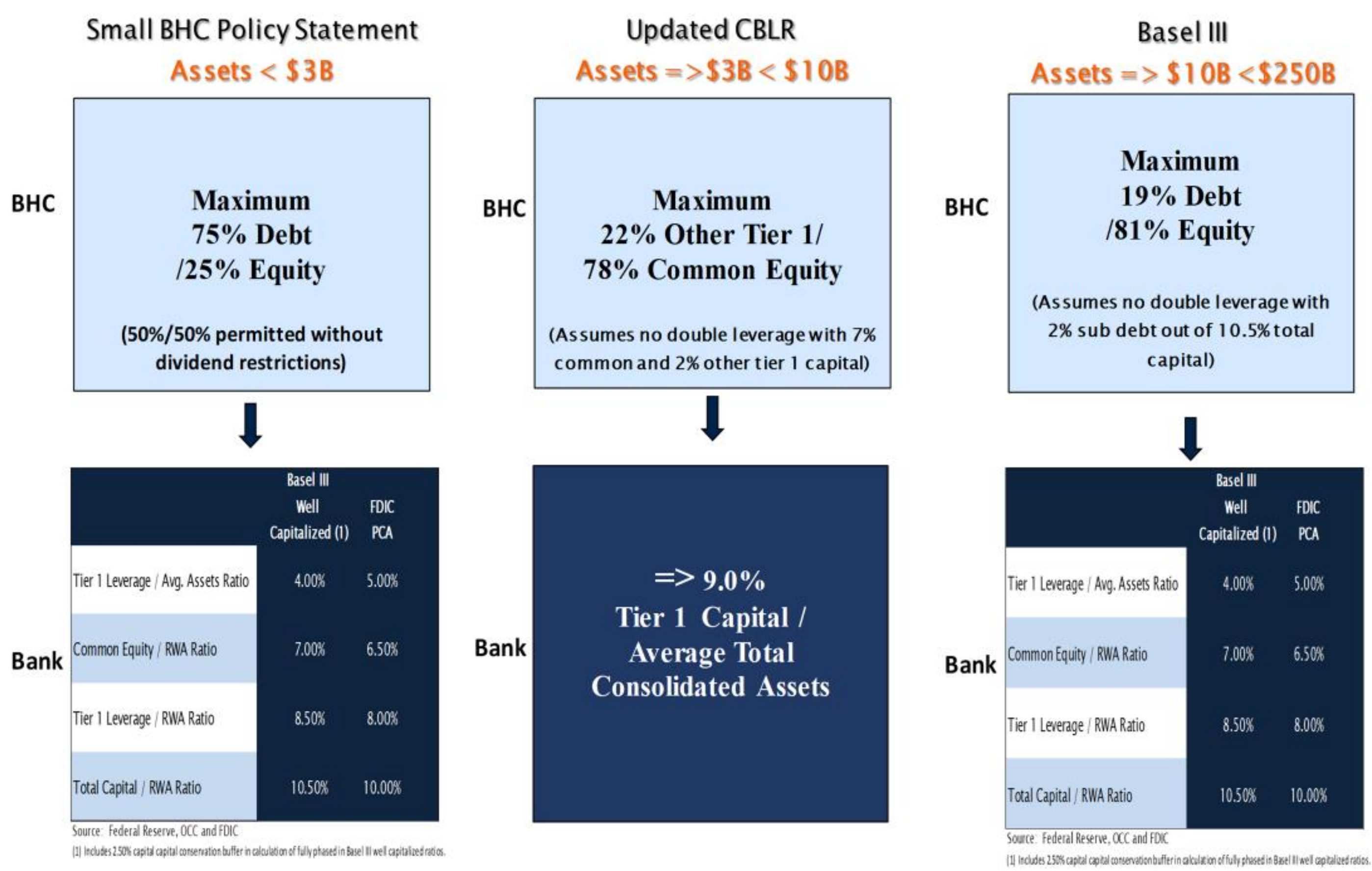
Basel III Simplification

On May 28, 2019, the agencies issued a Final Rule[4] on proposed simplifications of the Basel III capital rules applicable only to non-advanced approaches banks[5]. This simplification final rule increased permitted investment in mortgage servicing assets (MSAs), capital securities issued by unconsolidated financial institutions (UFIs), and temporary difference deferred tax assets (DTAs) from 10% to 25% of CET1. The final rule allowed minority interest for up to 10% of consolidated regulatory capital. The agencies also permitted repurchases of CET1 instruments without prior regulatory approval.[6] The rule changes affecting MSAs, DTAs, UFIs, and minority interest capital were scheduled to go into effect on April 1, 2020. However, on September 17, 2019, the agencies noted that they would allow earlier adoption of those rules on January 1, 2020. The required adoption of CECL on January 1, 2020 no doubt created some concerns about timing differences for temporary difference DTAs where 25% investment in DTAs would be permitted as of April 1, 2020 as opposed to only 10% on January 1, 2020. By moving up the implementation date to January 1, 2019, for all rule changes affecting MSAs, DTAs, UFIs, and minority interest capital, the agencies avoided this confusion.

A revised summary of the capital regimes available to community banks is highlighted below in Chart D.

Chart D

Updated Choices For Community Bank BHC and Bank Capital Requirements and Limitations



4 Final Rule. Regulatory Capital Rule: Simplifications to the Capital Rule Pursuant to the Economic Growth and Regulatory Paper Reduction Act of 1996.

5 Advanced approaches banks have consolidated assets equal to $250 billion or more or foreign exposure of $10 billion or more or are subsidiaries of a bank holding company or savings and loan holding company that uses the advanced approaches methodology to calculate risk-weighted assets. There are currently 13 advanced approaches banking organizations in the U.S. including JPMorgan Chase & Co., Bank of America Corporation, Citigroup Inc., Wells Fargo & Company, Goldman Sachs Group, Inc., Morgan Stanley, State Street Corporation, Bank of New York Mellon Corporation, Northern Trust Corporation, U.S. Bancorp, PNC Financial Services Group, Inc., American Express Company, and Capital One Financial Corporation.

6 As a technical correction, effective October 1, 2019, prior approval for CET1 repurchases or redemptions is only required if the Board-regulated institution is subject to a separate legal requirement or agreement to obtain prior regulatory approval.

Note that for ease of presentation, the above diagram shows banks with total assets less than $3 billion using Basel III at the bank level. Qualifying banks could also use the CBLR at the bank level. Similarly, qualifying banks with total assets of $3 billion or more but less than $10 billion may use either the CBLR or Basel III at the BHC level and either of those two capital regimes at the bank level.

At the bank holding company level, the Small BHC Policy Statement allows qualifying BHCs with less than $3 billion in assets to have much more debt at the holding company with a maximum of 75% debt and 25% equity. No dividends can be paid by the bank, however, until leverage returns to 1:1 or 50%. The small BHC would have the flexibility to use either Basel III or the CBLR as the capital framework at the bank level and would have to comply with those well-capitalized requirements at the bank level. **This could present some very attractive opportunities for small BHCs to borrow at the BHC level and downstream proceeds to the bank as equity** by adopting the CBLR at the bank level and avoiding Basel III restrictions, deductions and higher risk weighting. All BHCs and banks with $10 billion or more in assets but less than $250 billion generally must use the standardized approach for Basel III. These banks are permitted to have 19% debt in the BHC total capital structure but are required to maintain at least 81% equity (i.e. 8.5% tier 1/10.50% total capital). The CBLR will require at least 9% tier 1 capital of which at least 7% must be common equity allowing up to 2% alternative tier 1 capital consisting of grandfathered trust preferred, minority interest or non-cumulative perpetual preferred stock.

Overall, with material changes to the CBLR and the Basel III Simplification noted above, the selection of optimal capital regime for community banks warrants further reconsideration. While the small BHC Policy statement is unchanged, the Basel III Simplification clearly enhances the attractiveness of the Basel III framework with the increase from 10% to 25% of CET1 for investments in MSAs, DTAs and UFIs and the clarification that minority interest may account for up to 10% of consolidated capital. The ability to use grandfathered trust preferred securities and minority interest capital subject to the allowable percentages as tier 1 capital may change the attractiveness of the CBLR for some community banks. While the nuance of not deducting excess investment in tier 2 capital as a result of investment in UFIs may provide some benefit, we expect few if any banks will select the CBLR for this reason. For more details on the benefits and considerations of the three capital frameworks available for community banks please refer to ***Appendix A.***

CECL

Due to concerns about the lack of sufficient loan loss reserves to cover realized losses during the 2008 financial crisis, the Financial Accounting Standards Board (FASB) launched a multi-year effort to revise the accounting for credit losses under U.S. Generally Accepted Accounting Principles (GAAP). FASB introduced Accounting Standards Update (ASU) No 2016-13 with Current Expected Credit Losses methodology (CECL) to replace the incurred loss methodology for financial assets measured at amortized cost, to replace Purchased Credit-Impaired assets (PCI) with Purchased Credit Deteriorated assets (PCD) and to modify the treatment for credit losses on Available-For-sale (AFS) debt securities.

CECL requires U.S. banking institutions to estimate lifetime losses on all loan and lease exposures and recognize those losses beginning in 2020 for SEC filers, 2021 for Public Business Entities (PBEs), and 2022 for all others. After much push back by banking industry groups and Congress and concerns that smaller banks do not have sufficient data nor ability to clearly estimate future losses, the FASB and the SEC have proposed to delay the adoption of CECL for Smaller Reporting Companies (SRCs) and other private entities until January 1, 2023. While this delay is certainly welcomed by those companies that benefit, it only represents a temporary deferral to eventual adoption of this framework.

Smaller reporting companies are defined by the SEC as registrants with a public float[7] of less than $250 million (primary qualification) or registrants with annual revenues[8] of less than $100 million and either no public float or public float of less than $700 million (secondary qualification). Based on June 30, 2019 financial information and July 17, 2019 stock prices, of the

7 Public float is computed by multiplying the aggregate number of shares of voting and non-voting common equity held by non-affiliates by the price at which the common equity was last sold. Federal Register/Vol. 83, No 132/Tuesday, July 10, 2018/Rules and Regulations. Page 31994.

8 Annual revenues are as of the most recently completed fiscal year for which audited statements are available. For banking institutions total revenues is equal to net interest income plus non-interest income. Federal Register/Vol. 83, No 132/Tuesday, July 10, 2018/Rules and Regulations. Page 31994.

approximately 388 public banking institutions, roughly 170 would qualify based on public float of less than $250 million and another 14 would qualify based on less than $100 million in annual revenues.

As such, 184 out of 388 public banking institutions (47%) would qualify as SRCs that can delay the adoption of CECL until January 1, 2023. But many of these SRCs have limited room to increase public float and stay below $250 million. As shown below in Chart E, 20 of the 170 that qualified as SRCs based on public float have less than $50 million in capacity to grow public float.

Chart E

Public Banking Institutions That Qualify as SRCs Based on Public Float < $250 MM

	Institution Name	Ticker	Total Revenue	Exchange	% Public Float	Market Cap	Public Float	Primary Qualification*	Public Float Capacity
150	LCNB Corp.	LCNB	59	NASDAQ	88.09	228.3	201.2	Y	48.8
151	Timberland Bancorp, Inc.	TSBK	52	NASDAQ	87.03	233.3	203.0	Y	47.0
152	Western New England Bancorp, Inc.	WNEB	69	NASDAQ	82.15	248.8	204.4	Y	45.6
153	FS Bancorp, Inc.	FSBW	79	NASDAQ	93.01	226.6	210.8	Y	39.2
154	Central Valley Community Bancorp	CVCY	73	NASDAQ	79.58	267.5	212.8	Y	37.2
155	Southern First Bancshares, Inc.	SFST	70	NASDAQ	84.57	254.2	215.0	Y	35.0
156	Howard Bancorp, Inc.	HBMD	84	NASDAQ	77.61	282.3	219.1	Y	30.9
157	BayCom Corp	BCML	59	NASDAQ	89.46	246.6	220.6	Y	29.4
158	Spirit of Texas Bancshares, Inc.	STXB	58	NASDAQ	85.62	258.6	221.4	Y	28.6
159	RBB Bancorp	RBB	91	NASDAQ	59.45	377.4	224.4	Y	25.6
160	Republic First Bancorp, Inc.	FRBK	96	NASDAQ	73.51	308.9	227.1	Y	22.9
161	Reliant Bancorp, Inc.	RBNC	63	NASDAQ	89.18	256.7	229.0	Y	21.0
162	Home Bancorp, Inc.	HBCP	105	NASDAQ	73.18	314.9	230.5	Y	19.5
163	Northrim BanCorp, Inc.	NRIM	93	NASDAQ	98.38	236.8	232.9	Y	17.1
164	Capital City Bank Group, Inc.	CCBG	144	NASDAQ	64.02	366.2	234.4	Y	15.6
165	SmartFinancial, Inc.	SMBK	83	NASDAQ	89.70	263.8	236.6	Y	13.4
166	HarborOne Bancorp, Inc. (MHC)	HONE	138	NASDAQ	42.56	560.0	238.4	Y	11.6
167	Guaranty Bancshares, Inc.	GNTY	84	NASDAQ	70.43	344.9	242.9	Y	7.1
168	Enterprise Bancorp, Inc.	EBTC	121	NASDAQ	72.45	339.0	245.6	Y	4.4
169	Ames National Corporation	ATLO	50	NASDAQ	98.36	253.3	249.2	Y	0.8
170	ACNB Corporation	ACNB	73	NASDAQ	95.66	260.8	249.5	Y	0.5

Source: ($, Millions) S&P Global Markets and Sandler O'Neill. Market data as of July 17, 2019

Alternatively, as shown below in Chart F, 14 of the banking institutions have public float that exceeded $250 million but qualified based on less than $100 million in revenues and less than $700 million in public float. Many of these banking institutions have limited capacity to grow revenues and stay below the $100 million cap.

Chart F

Public Banking Institutions That Qualify as SRCs Based on Annual Revenues < $100 MM

	Institution Name	Ticker	Total Revenue	Exchange	Public Float	Primary Qualification*	Secondary Qualification**	Revenue Capacity
171	PCSB Financial Corporation	PCSB	44	NASDAQ	299.7	N	Y	55.8
172	National Bankshares, Inc.	NKSH	46	NASDAQ	268.3	N	Y	54.1
173	First Bancorp, Inc.	FNLC	63	NASDAQ	252.5	N	Y	37.2
174	Hingham Institution for Savings	HIFS	64	NASDAQ	272.8	N	Y	36.0
175	Citizens & Northern Corporation	CZNC	66	NASDAQ	297.9	N	Y	33.7
176	West Bancorporation, Inc.	WTBA	70	NASDAQ	305.7	N	Y	30.2
177	Business First Bancshares, Inc.	BFST	70	NASDAQ	294.7	N	Y	30.0
178	American National Bankshares Inc.	AMNB	72	NASDAQ	290.3	N	Y	27.6
179	Bank First Corporation	BFC	75	NASDAQ	333.6	N	Y	25.4
180	Macatawa Bank Corporation	MCBC	77	NASDAQ	260.7	N	Y	22.9
181	Civista Bancshares, Inc.	CIVB	84	NASDAQ	325.3	N	Y	15.8
182	Peoples Financial Services Corp.	PFIS	85	NASDAQ	307.7	N	Y	15.0
183	Atlantic Capital Bancshares, Inc.	ACBI	87	NASDAQ	422.2	N	Y	13.5
184	Summit Financial Group, Inc.	SMMF	87	NASDAQ	265.8	N	Y	12.8

Source: ($, Millions) S&P Global Markets and Sandler O'Neill. Market data as of July 17, 2019

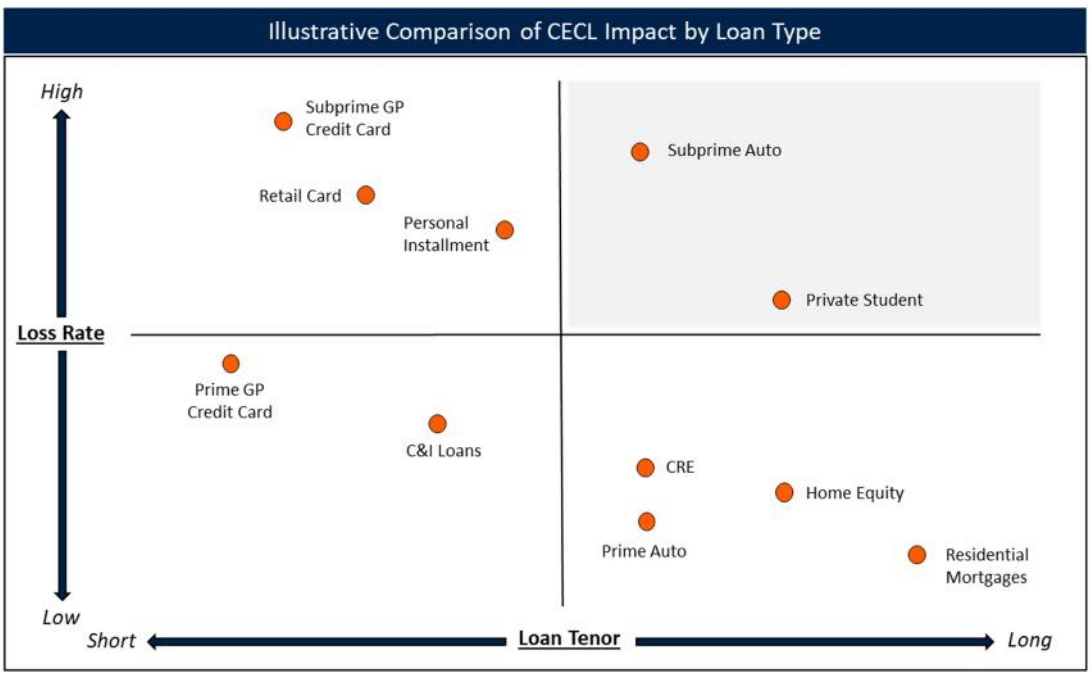
While the SRCs theoretically have until 2023 to prepare to adopt CECL, those that are approaching the public float or total revenue thresholds should be prepared for CECL and factor in these SRC thresholds when considering M&A and growth plans.

However well intentioned these accounting changes may have been as they were developed from 2008 to 2016, many bankers would argue that the complexity of implementation is overkill for banking safety and soundness due to the higher level of capital and liquidity already required by DFA and Basel III. At the beginning of the relevant fiscal year of adoption, the banking organization will record a one-time adjustment to its credit loss allowance for the difference between the amount of credit loss allowed under the incurred loss approach and the amount of expected lifetime losses required under CECL.

These changes will reduce retained earnings, increase DTAs, and increase Allowance for Credit Losses (ACL). With the final NPR on CECL announced on December 21, 2018, the regulators introduced a new regulatory accounting term -- Adjusted Allowances for Credit Losses (AACL). This only applies to those losses that have been charged against earnings or retained earnings. AACL would include expected losses on loans, held-to-maturity debt, net investment in leases, and off-balance sheet exposures. It would not include credit loss allowances related to AFS securities or PCD assets. **AACL amounts above 1.25% of risk-weighted assets (standardized approach) represent "stranded reserves" not permitted to be included in tier 2 capital**.[9]

We are just now starting to see public disclosure of the estimated impact by larger SEC reporting companies. In an August 27, 2019 report, Sandler O'Neill Equity Research reported that for most banks, 20 to 40% is a reasonable benchmark for the increase in allowance due to CECL.[10] Of course, this will vary significantly based on the type of loan, maturity, and credit quality. Most banks have historically maintained 12 to 18 months of expected loan losses in allowance for loan losses. To the extent that the average life of a loan is longer than that timeframe and loss rates are higher, the CECL reserve could be much higher. Chart G below illustrates the point where higher risk and longer duration assets such as student loans, commercial real estate mortgages, residential mortgages, and sub-prime auto or consumer loans could have a much higher CECL charge.

Chart G



Source: Fitch Ratings

Recognizing that this one-time charge to retained earnings and increase in DTAs would negatively impact bank regulatory capital ratios, the regulatory agencies agreed to allow banking organizations the option to amortize the CECL provision over three years beginning in the quarter of initial CECL adoption. This deferral election must be concurrent with CECL adoption and would only apply to regulatory reporting.

9 Department of Treasury Office of the Comptroller of the Currency, Federal Reserve System, Federal Deposit Insurance Corporation. Regulatory Capital Rule: Implementation and Transition of the Current Expected Credit Losses Methodology for Allowances and Related Adjustments to the Regulatory Capital Rule and Conforming Amendments to Other Regulations. December 21, 2018. Pages 14-15.

10 Sandler O'Neill Research. Industry Note. Preparing for CECL: A review of Management Comments about Expected Impacts. August 27, 2019. Page 2.

The GAAP reduction to retained earnings must be recognized in the year of CECL adoption. For regulatory reporting purposes, this three-year amortization of the loss will increase retained earnings and average consolidated assets, decrease temporary difference DTAs, and decrease the accumulated credit loss thereby complicating financial reporting for community and large banks. Note that any transitional amounts of an acquired banking organization that has elected deferral will not be eligible for inclusion in the calculation of regulatory capital ratios for the resulting pro forma banking organization. **This "M&A penalty" must be factored into the analysis of business combinations for banking organizations following the adoption of CECL**.[11]

Aside from this M&A penalty that must be considered, there is a **double counting of credit reserves** related to the purchase of performing loans (classified as non-credit impaired loans under current accounting rules or non-purchase credit deteriorated loans - non-PCD loans under CECL). Simply stated, under current accounting standards, performing loans are fair valued with the net value carried over to the buyer's balance sheet. No additional credit reserves are required. This practice tended to understate the reserve coverage of acquired performing loans and made it difficult for analysts to compare reserve coverage of loans for active acquirers with banks that had not grown through acquisition.

With the implementation of CECL, **performing loans will be fair valued but additional reserves will be added for the loans such that the reserve coverage for the performing loans is generally consistent with similar loans on the buyer's balance sheet**. In contrast, loans with credit impairment or deterioration referred to as purchase credit deteriorated (PCD) loans would have a fair value discount applied to the loans but the loan balance and buyer's allowance would be grossed up for the amount of fair value related to the credit discounts. This double counting or extra credit reserves for performing loans (non-PCD loans) provides an incentive for buyers to classify more loans as PCD or sell such loans prior to transaction closing to monetize the fair value marks.

The impact of this double counting was most recently evidenced by Sandy Springs Bancorp Inc.'s September 24th announcement of its $460.7 million purchase of Revere Bank. This transaction is expected to close in 2020 thereby subjecting Sandy Springs to CECL. Sandy Springs estimated that it would have recognized a fair value discount of about $20 million under current accounting rules, but will record $45 million under CECL. Of this amount, the majority of the difference ($17 million) is the increase in allowance for the acquired non-PCD loans. The higher initial CECL charge will increase tangible book value dilution but accelerate EPS accretion, as future charges for provisions should be decreased. We are still in the early stages of assessing disclosure of the CECL impact on M&A transactions and investors and analysts will have to get comfortable with comparing pre-CECL deal metrics with post-CECL deal metrics.

Volcker Rule

On August 20, 2019, the agencies proposed final revisions to the restrictions on proprietary trading and investment in and relationships with hedge funds and private equity funds that will become effective January 1, 2020 with a compliance date of January 1, 2021. Section 203 of EGRRCPA passed by Congress in May 2018, specifically excluded community banks with less than $10 billion in assets and total trading assets and liabilities not more than 5% of total consolidated assets from compliance with the Volcker rule. Banking institutions with $10 billion or more in assets remain subject to this framework. The Volcker Rule generally prohibits proprietary trading and banking entities from acquiring or retaining an interest in a covered fund. A notice of proposed rulemaking in July 2018 clarified activities that were prohibited under the Volcker Rule and improved compliance.

The August 2019 final rule changes to the Volcker Rule confirmed three categories of banking entities for compliance: firms with significant trading assets and liabilities (TAL) equal to or exceeding $20 billion in TAL, firms with moderate TAL of at least $1 billion but less than $20 billion in TAL, and firms with less than $ 1 billion in TAL. **The Volcker Rule changes simplified the determination of proprietary trading by replacing the accounting prong with a short-term intent prong and confirming that financial instruments held for more than 60 days will not be considered TAL**. Other changes include the revision to proprietary trading exclusions to allow a broader range of instruments to manage liquidity, hedges of MSRs and purchases of financial instruments not considered TAL, and allow trading to support reasonably expected near term demand within pre-established

[11] Department of Treasury Office of the Comptroller of the Currency, Federal Reserve System, Federal Deposit Insurance Corporation. Regulatory Capital Rule: Implementation and Transition of the Current Expected Credit Losses Methodology for Allowances and Related Adjustments to the Regulatory Capital Rule and Conforming Amendments to Other Regulations. December 21, 2018. Pages 25-26.

limits with maintenance of records rather than affirmative reporting of breaches. Volcker Rule compliance will be simplified with CEO attestation only required by firms with significant TAL through filings on a quarterly basis.

These changes will hopefully shift the focus of the Volcker Rule regulation and compliance cost to those institutions that have significant levels of trading activity. Simpler management of positions will be possible using the short-term intent prong and the rebuttable presumption that financial instruments held for more than 60 days are not considered trading assets and liabilities. Enhanced liquidity instruments, hedging strategies, and market making activities will facilitate greater market liquidity.

Deposit Rate Cap

On August 20, 2019, the FDIC issued a Notice of Proposed Rulemaking (NPR) and on September 4, 2019, this NPR was included in the Federal Register[12] to amend the deposit rate cap formula for less than well-capitalized banks to enhance access to deposit funding. This follows the December 2018 Advanced Notice of Proposed Rulemaking (ANPR) to get input on the FDIC's deposit and interest rate regulations in light of changes in technology, business models, the economic environment, and products. The FDIC noted that since July 2015, market conditions have changed so much that the national rate plus 75 basis points produces a rate that is well below the top rates paid from deposit listing services.

Setting the national rate cap at too low a level could make it very difficult for less than well capitalized banks to raise deposit funding and create an unintentional liquidity crisis at such banks. This is not currently a threat to the U.S. banking system with only about 20 insured depository institutions that are not well capitalized representing $9.3 billion in total deposits out of $13.4 trillion in total deposits (less than a .1% of total deposits). The well capitalized status is measured at the bank level and based on 10% total risk-based capital, 6.0% tier 1 risk-based capital, and 5% leverage ratio.

The new national rate would be the weighted average of rates paid by all insured depository institutions on a given deposit product for which data are available. The weights are based on the institution's market share of total domestic deposits rather than an institution's number of branches. The FDIC would calculate an average rate per institution per deposit product. The national rate for a specific deposit product would be calculated by multiplying each bank's rate by its amount of domestic deposits, summing those values and then dividing by the total amount of domestic deposits held by the institution.

The national rate cap would be set at the higher of (i) the rate offered at the 95th percentile of rates weighted by domestic deposit share or (2) the proposed national rate plus 75 basis points. This would allow banks subject to interest rate cap restrictions to compete with all but the top 5% of rates offered, weighted by domestic deposit market share. Alternatively, the national rate plus 75 basis points is consistent with historical practice of determining a proxy for a rate that is significantly higher than the prevailing national rate.

Because some institutions still compete for particular deposit products within their local market areas, the FDIC will continue to provide a local rate cap framework. The less than well capitalized bank must provide evidence of rates offered by any bank or credit union that is accepting deposits at a physical branch in the local market that are in excess of the national market rate cap. If sufficient evidence is provided, then the FDIC would allow the less than well capitalized institution to offer 90% of the competing institution's rate on the particular deposit product.

Based on a deposit rate survey conducted as of May 30, 2019, the FDIC estimated that the new proposed national rate cap resulted in rates that were over 100 basis points higher for 12 month, 24 month, 36 month, 48 month and 60 month CDs relative to the current national rate cap. For off-tenor maturity deposits, the institution would be required to use the rate offered on the next lowest on-tenor maturity for the same product.

---

[12] Federal Register/ Vol. 84. No. 171/Wednesday, September 4, 2019/ Proposed Rules pages 46470 - 46495

Summary

We are now approaching what we consider to be the 9th inning of legislative, regulatory, and accounting changes intended to facilitate recovery from the 2008 financial crisis. The shift in the numerator of the CBLR to tier 1 capital from tangible equity does not materially change the number of CBLR qualifying community banks but it would benefit those banks with grandfathered trust preferred securities and potentially encourage the issuance of preferred stock or minority interest capital. Moving up the Basel III Simplification start date to January 1, 2020, avoids a potential mismatch in timing between the CECL implementation date of January 1 for SEC filers and the original start date for the increase in permitted DTAs to 25% of CET1 of April 1st. Delaying the adoption of CECL until January 1, 2023 for SRCs will benefit 47% of the public banks that qualify as SRCs. But that qualification could be short lived if the banking institution's public float or total revenues increase significantly and exceed the SRC parameters. For those banks that adopt CECL, the M&A penalty and double counting of reserves will complicate disclosure and comparability relative to non-CECL adopting banks. Over time, Investors and analysts will adjust for the changes in deal metrics for CECL adopting banks with potentially higher tangible book value dilution earn back periods but higher EPS accretion. The final Volcker Rule changes appropriately relieve community banks from proprietary investment and trading compliance, focus most enforcement on those institutions with TAL greater than $20 billion, and will help rekindle more market making and liquidity activities by larger U.S. banks. While there are currently very few banks that are less than well capitalized, the revision to the national deposit rate and cap formula and local rate cap formula will enhance access to deposit funding particularly for CDs with a maturity of one year or more. This focus by the FDIC on access to funding for less than well capitalized banks will hopefully help avoid liquidity pressures that could result in unnecessary bank failures during the next economic downturn.

So with regulatory reform from the financial crisis largely complete and the FDIC doing advance planning to avoid potential liquidity pressures and forestall future unnecessary bank failures, the next ballgame for regulatory reform could well be GSE reform with the recapitalization and release from conservatorship of FNMA and FHLMC with the attendant benefits and considerations……….

Appendix A

Benefits and Considerations of the Three Capital Frameworks Available for Community Banks

1) Basel III with Simplification

All insured depository institutions operating in the U.S. are currently subject to the Basel III capital rules finalized in October 2013 and fully phased-in effective January 1, 2019 (for non-advanced approaches banks). The numerator of all the Basel III ratios is subject to 13 regulatory adjustments to CET1. The Basel III Simplification effective January 1, 2020 will increase permitted investment in DTAs, MSAs, and UFIs to 25% of adjusted CET1. Any amounts above these limits are deducted from CET1.

Overall, the Basel III capital framework offers several benefits but carries many considerations that will affect the desirability of this capital framework for community banks with total assets less than $10 billion. As highlighted below, Basel III offers a lower risk weighting for lower risk assets. The framework is well understood by investors and regulators. In addition, it has limited restrictions on off-balance sheet activities, it provides flexibility to include subordinated debt and preferred stock in total capital, has no limits on amounts of SEC-registered debt or equity that can be issued, and potentially allows the use of synthetic securitization strategies to lower risk weighted assets.

However, the higher risk weighting for High Volatility Commercial Real Estate (HVCRE) loans and other activities along with potentially higher administrative costs may make Basel III less attractive to certain community banks.

Basel III Benefits and Considerations

Benefits	Considerations
o No transition based on asset size o Potentially lower weighted average cost of capital with use of tier 2 subordinated debt o Reduced risk weighting on lower risk assets o Well understood by the market and regulators o Already in compliance so no changes to staff needed o Limited use of debt lowers default risk o No restrictions on amt. of SEC-registered debt or equity o No limitations on significant off-BS activities through non-bank subs	o Subject to Basel III capital deductions at 25% of CET1 (With BIII Simplification) for investment in DTAs, MSAs and UFIs o Subject to Basel III adverse risk weighting on certain types of loans and activities o Higher risk weighting for HVCRE lending o Higher administrative cost to track and report Basel III requirements

2) The Small Bank Holding Company Policy Statement

The Federal Reserve Board initially implemented the Policy Statement in 1986. Since then, the qualifications and ongoing requirements of the Policy Statement have not changed other than (i) an increase in asset size from less than $150 million in 1986 to less than $1 billion in 2015 and then to $3 billion under EGRRCP and (ii) the inclusion of savings and loan holding companies. A summary of the benefits and considerations to a community bank holding company with less than $3 billion in assets is provided below. While this capital regime allows for substantially more debt and lower after-tax cost of capital, it additionally comes with a maximum size limit of $3 billion in assets, limitations on non-bank and off balance sheet activities, as well as dividend restrictions above 1:1 leverage.

Small BHC Policy Statement Benefits and Considerations

Benefits	Considerations
o Lowest ATX cost than preferred or common o Long term window for debt repayment o No regulatory filing requirement for senior debt o Debt can be used to faciliate financing for M&A	o Maximum permitted asset size ($3 Billion) o Ability to replace debt with common or preferred stock when reach $3 billion in assets o No significant non-bank activities [(1)] o No significant off-BS activities through non-bank subs [(1)] o No material amt of SEC-registered debt or equity (ex. TPS) [(2)] o BHC debt must be repaid within 25 years o Max debt-to-equity ratio of 3.0 (75% debt) o Debt < .30:1 (25% debt) or less within 12 years o Each subs bank well capitalized under Basel III rules o No dividends until the D/E ratio reduced to 1.0:1 or less o Potentially exposes the bank to default risk during periods of financial distress

[(1)] The determination of whether a BHC engages in significant non-bank activities will continue to depend on a consideration of the size of the activities, and the condition of the BHC and the subsidiary depository institution.

[(2)] Determinations of materiality are made by the Fed on a case-by-case basis based on: the number and type of classes and series of stock issued; the holding company's market capitalization; the number of outstanding shares; the average trading volume; the holding company's history of issuing equity and debt securities, including whether the entity has issued any other securities that are not registered with the SEC (e.g., privately-placed securities); the nature and distribution of ownership; whether the securities are listed on a national exchange; whether the holding company qualifies as a "smaller reporting company" pursuant to the SEC's regulations and related interpretations; and the amount, type, and terms of any debt instruments issued by the entity.

The Federal Reserve will make a case-by-case determination on the qualifications of a BHC to use the Policy Statement. Those institutions that have off-balance sheet activities conducted through a non-bank subsidiary or have issued SEC-registered debt or equity (excluding TPS) should check with their regulators to ensure they will qualify. The Federal Reserve clearly recognizes that ". . . a high level of debt at the parent holding company impairs the ability of a bank holding company to provide financial assistance to its subsidiary bank(s) and, in some cases; the servicing requirements on such debt may be a significant drain on the resources of the bank(s).

Nevertheless, the Board has recognized that the transfer of ownership of small banks often requires the use of acquisition debt. The Board, therefore, has permitted the formation and expansion of small bank holding companies with debt levels higher than would be permitted for larger holding companies." [13]

3) Community Bank Leverage Ratio (CBLR)

With a focus on offering well-capitalized community banks a simple capital framework, the community bank leverage ratio was originally proposed as part of EGRRCPA consisting of 9% tangible equity/tangible assets for banks and BHCs with less than $10 billion in assets. The final rule revised the numerator of the CBLR ratio to tier 1 capital rather than tangible equity along with using average total assets (less all deductions from the numerator of tier 1 capital) rather than average tangible assets in the denominator. By using tier 1 capital rather than tangible equity for the numerator, grandfathered trust preferred securities and minority interest capital issued by bank subsidiaries could count as tier 1 capital up to their current limits. Other changes include the removal of the qualifying criteria for mortgage servicing assets and deferred tax assets (arising from temporary differences); the removal of PCA proxy levels, and allowing a two-quarter grace period to be considered well capitalized if any electing banking organization's CBLR ratio falls below 9% but remains above 8%.

Only non-advanced approaches banking organizations that meet the following criteria qualify to adopt the CBLR: (i) a leverage ratio greater than 9%, (ii) total consolidated assets of less than $10 billion, (iii) total off-balance sheet exposures (excluding derivatives other than sold credit derivatives and unconditionally cancellable commitments) of 25% or less of total consolidated assets, and (iv) total trading assets and trading liabilities of 5% or less of consolidated assets.

[13] Federal Register. Vol 80, No. 72/ Wednesday, April 15, 2015. Page 20154.

If the bank or BHC maintains capital in excess of the CBLR of 9.0%, it would be deemed to comply with the leverage and risk-based capital requirements of Basel III and the bank would be considered well capitalized under the prompt corrective action regime (assuming an acceptable risk profile). As such, the community bank could "opt out" of other Basel III requirements and not be required to report risk-based capital ratios or the tier 2 ratio.

Community Bank Leverage Ratio Benefits and Considerations

Benefits	Considerations
o 9% capital ratio lower than 10.5% required for Basel III o Tier 1 qualifying non-cumulative preferred permitted as source of CBLR capital o Tier 1 qualifying TPS can be utilized to meet the 9% Tier 1 requirement o Qualifying minority interest can be utilized to meet the 9% Tier 1 capital requirement o May be able to reduce administrative costs due to simpler regulatory filing and process o Tier 1 capital regime consistent with Basel III and easy to explain to investors, customers and employees o Not subject to Basel III adverse risk weightings for certain lending and other activities o Limited restrictions on activities o Not subject to Basel III capital penalties o Not subject to Basel III adverse risk weightings	o Maximum permitted asset size ($10 billion) and must be prepared to meet Basel III requirements when > $10 B o 9% minimum Tier 1 / Average Assets is above 8.5% Tier 1/RWA o Higher ATX cost of capital than debt with no tax benefit o No benefit in tier 2 capital for allowance of credit losses o Off-balance sheet exposures limited to 25% of total assets o No benefit for lower risk weighting on single family loans and low LTV loans o Ability to meet Basel III requirements when reach $10 billion in assets

Appendix B

Selected Glossary of Key Terms (*)

AACL – Adjusted Allowance for Credit Losses. New term introduced by the regulatory agencies in the final rulemaking NPR on December 21, 2018 for the implementation of CECL. AACL includes only those allowances that have been charged against earnings and retained earnings. AACL amounts would be eligible for inclusion in tier 2 capital for up to 1.25% of risk-weighted assets for banks subject to the standardized approach. AACL includes credit allowances for loans, HTM debt securities, net investment in leases, and off-balance sheet exposures (not insurance) but does not include credit loss allowances related to AFS debt securities and purchased credit deteriorated assets (PCD).

Advanced Approaches Banks – Banks with consolidated assets of $250 billion or more or consolidated on-balance sheet foreign exposures of $10 billion or more. However, pursuant to the new definition of Category I, II, III and IV banking organizations in the EGRRCPA NPR, a bank could be required to use the Advanced Approaches methodology if classified as a Category I or II bank regardless of size.

ACL – Allowance for Credit Losses. Term introduced by FASB in ASU 2016-12 and applies to both financial assets and AFS debt securities. Represents an estimate of the expected credit losses on financial assets measured at amortized cost, using relevant information about past events, including historical credit loss experience on financial assets with similar risk characteristics, current conditions, and reasonable and supportable forecasts that affect the collectability of the remaining cash flows over the contractual term of the financial assets. Difference between current reserve and expected future losses recognized in the period of adoption for GAAP purposes but may be amortized for three years for regulatory capital and accounting purposes.

Basel III Simplification – On September 27, 2017, the Board, OCC, and FDIC issued a NPR regarding several proposed simplifications of the Basel III capital rules issued in 2013. The NPR proposed lowering the risk weighting from 150% on HVCRE loans to 135% on loans classified as HVADC but changed the definition to include more loans as HVADC. The NPR proposed to increase the step one cap on permitted investment in MSAs, DTAs, and UFIs from 10% of CET1 capital to 25% and eliminate the step 2 cap of 15%. The NPR also proposed to allow minority interest to be included for up to 10% of the parent banking organization's CET1, tier 1 or total capital. On May 28th, the Basel III simplification was finalized with a start date of April 1, 2020 for the investment in MSAs, DTAs, and UFIs and the 10% minority interest allowance.

Community Bank Leverage Ratio (CBLR) – Qualifying community banking organizations with 9% or more tangible equity/tangible to be well capitalized. (see definition of qualifying community banking organization).

Deferred Tax Assets (DTAs) – Temporary difference DTAs are recognized in one period for financial reporting period but another period for tax purposes. Banking organizations may not be able to fully realize temporary difference DTAs under adverse financial conditions since the ability to realize the temporary difference DTA is dependent on future income. Under the Basel III simplification, non-advanced approaches banks will be permitted to have investment of up to 25% of CET1 capital in temporary difference DTAs.

CET1 – Common equity tier 1 capital as defined in the Basel III final capital rules.

EGRRCPA – Economic Growth, Regulatory Relief, and Consumer Protection Act as more fully described herein.

GSIB – Global Systemically Important Bank as determined by the Financial Stability Board and updated yearly. The eight firms currently identified as U.S. GSIBs are Bank of America Corporation, The Bank of New York Mellon Corporation, Citigroup, Inc., Goldman Sachs Group, Inc., JP Morgan Chase & Co., Morgan Stanley, State Street Corporation, and Wells Fargo & Company. Source: http://www.fsb.org/wp-content/uploads/2016-list-of-global-systemically-important-banks-G-SIBs.pdf.

Mortgage Servicing Assets (MSAs) – Contractual agreement where the right or rights to service an existing single family mortgage are sold by the original lender to another party that specializes in the functions or servicing mortgages. Calculated in accordance with the reporting instructions to Schedules RC-M of the Call Report or HC-M of Form FR Y-9C. Under the Basel III simplification, non-advanced approaches banks will be permitted to have investments of up to 25% of CET1 capital in MSAs.

Non-cumulative Preferred Stock – CBLR allows non-cumulative preferred stock to be included as tier 1 capital as consistent with current Basel III requirements.

Off-Balance Sheet Exposures – For CBLR purposes, the total off balance sheet exposure would be calculated as the sum of the notional amounts of: the unused portions on loan commitments (excluding unconditionally cancellable commitments); self-liquidating trade-related contingent items and transaction-related contingent items; sold credit protection in the form of guarantees and credit derivatives; credit enhancing representations and warranties; off balance sheet securitization exposures; letters of credit; forward agreements that are not derivatives contracts; and securities lending and borrowing transactions. Note that the calculation of off balance sheet exposures for the CBLR does not require that off-balance sheet exposure be converted to on-balance sheet equivalents and assigned the appropriate risk weight. For risk classification (I, II, III, IV) purposes, off-balance sheet exposures is one of the four new risk metrics proposed by regulators as part of the EGRRCPA rework of stress testing, liquidity, and enhanced prudential standards management. This metric applies to holding companies with more than $100 billion in assets and defines total exposure (from FR Y-15) minus total consolidated assets (from FR Y-9C). Total exposure includes a banking organization's on-balance sheet assets plus certain off-balance sheet exposures including derivatives exposures, repo-style transactions, and other off-balance sheet exposures.

PBE – For purposes of compliance with CECL, a PBE represents a public business entity that is not a SEC filer but would include: (i) an entity that has issued securities that are traded, listed or quoted on an over-the-counter market, and (ii) an entity that has issued one or more securities that are not subject to contractual restrictions on transfer and is required by law, contract or regulation to prepare U.S. GAAP financial statements (including footnotes) and make them publicly available periodically.

Prompt Corrective Action (PCA) – Bank level capital ratios required to maintain well capitalized, adequately capitalized, undercapitalized, significantly undercapitalized, or critically undercapitalized status. With the new CBLR, the regulatory agencies have proposed that the CBLR ratios will conform with existing PCA categories.

Qualifying Community Bank (for CBLR) – Community banking organizations with 9.0% or more of CBLR tangible equity and that meet the following criteria: (i) less than $10 billion of total consolidated assets, (ii) total off-balance sheet exposures of less than 25% of total consolidated assets, (iii) total trading assets and liabilities less than 5% of total consolidated assets, (iv) mortgage servicing assets (MSAs) less than 25% of CBLR tangible equity, (v) temporary difference DTAs of less than 25% of CBLR tangible equity, and (vi) not subject to any written agreement, order or capital directive.

RWA – Risk weighted assets that comprise the denominator in the risk weighted assets ratio applicable to Basel III.

S.2155 – See EGRRCPA

SEC filer – For purposes of compliance with CECL, an SEC filer is an entity that is required to file its financial statements with the SEC under the federal securities laws or, for an insured depository institution, the appropriate federal banking agency under section 12(i) of the Securities Exchange Act of 1934.

Smaller Reporting Company – defined by the SEC as registrants with a public float of less than $250 million (primary qualification) or registrants with annual revenues of less than $100 million and either no public float or public float of less than $700 million (secondary qualification).

Total Trading Assets – For CBLR purposes, a qualifying community bank is required to have 5% or less of trading assets and liabilities. This indicator is calculated as the sum of exposures in schedules RC of the Call Report or HC of the Form FR Y-9C. This ratio consists of the total trading assets and liabilities dividends by total consolidated assets.

UFIs – Unconsolidated Financial Institutions. Under the Basel III simplification, non-advanced approaches banks will be permitted to have investment of up to 25% of CET1 capital in UFIs.

(*) This is intended to provide a brief summary of the key terms mentioned in this report. For a complete list of key source documents please refer to the footnotes throughout this document.

Thomas W. Killian *is a Principal in the Investment Banking Group of Sandler O'Neill + Partners, L.P. His 40-year career in commercial and investment banking includes seven years of commercial banking experience with NationsBank, structuring and arranging leveraged finance transactions; two years with Salomon Brothers, transacting capital markets and advisory assignments for a variety of major corporations; five years with J.P. Morgan, managing financial advisory and capital raising activities for banks and thrifts in the Western region of the United States; and 26 years with Sandler O'Neill, advising banks, thrifts, and insurance companies on a variety of capital markets, strategic advisory and M&A assignments. Mr. Killian holds a Bachelor of Science from the University of North Carolina at Chapel Hill, where he was a John Motley Morehead Merit Scholar, and a Masters in Business Administration from Northwestern University's J.L. Kellogg Graduate School of Management.*

General Information and Disclaimers

This report has been prepared and issued by Sandler O'Neill + Partners, L.P., a registered broker-dealer and a member of the Financial Industry Regulatory Authority, Inc. The information contained in this report (except information regarding Sandler O'Neill and its affiliates) was obtained from various sources that we believe to be reliable, but we do not guarantee its accuracy or completeness. Additional information is available upon request. The information and opinions contained in this report speak only as of the date of this report and are subject to change without notice. Contact information for Sandler O'Neill and the author of this report is available at www.sandleroneill.com.

This report has been prepared and circulated for general information only and presents the author's views of general market and economic conditions and specific industries and/or sectors. This report is not intended to and does not provide a recommendation with respect to any security. This report does not take into account the financial position or particular needs or investment objectives of any individual or entity. The investment strategies, if any, discussed in this report may not be suitable for all investors. Investors must make their own determinations of the appropriateness of an investment strategy and an investment in any particular securities based upon the legal, tax and accounting considerations applicable to such investors and their own investment objective. Investors are cautioned that statements regarding future prospects may not be realized and that past performance is not necessarily indicative of future performance.

This report does not constitute an offer, or a solicitation of an offer, to buy or sell any securities or other financial instruments, including any securities mentioned in this report. Nothing in this report constitutes or should be construed to be accounting, tax, investment or legal advice.