



Get clarity on what's ahead

Crowe 2020 Financial Services Conference

DATA-DRIVEN INSIGHTS
ON LOAN REVIEW, CECL
AND MORE

SMART DECISIONS. LASTING VALUE.™



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AGENDA

Tom Grottke	What the data says about high performing banks
Giulio Camerini	Loan review data in the current credit environment
Chad Kellar	Credit360 data - impact of current credit environment and CECL

What the data say about
high performing banks



INDUSTRY DATA AND ANALYSIS

Crowe tracks and studies the performance of banks and the banking industry. In early 2020, we started tracking High Performing Banks (HPB) initially defined as banks with ROAE in the 75th quartile of their peers in any given reporting period.

Study began with five years ended 12-31-19 (full year operating data 2015-2019 adding each quarter).

Our focus is on:

- Stock Banks in the 48 contiguous states with assets between \$1b and \$15b
- Further segmented to traditional full service banks – lots of branches, high loan/asset ratio, and high deposit/asset ratio
- Sliced along asset sizes: \$1-3b, \$2-\$4b, \$3-\$5b, \$4-\$6b, \$5-\$8b, \$7-\$10b, \$10-\$12b, \$10-\$15b, and \$12-\$15b
- Separated mutual charters into their own peer group

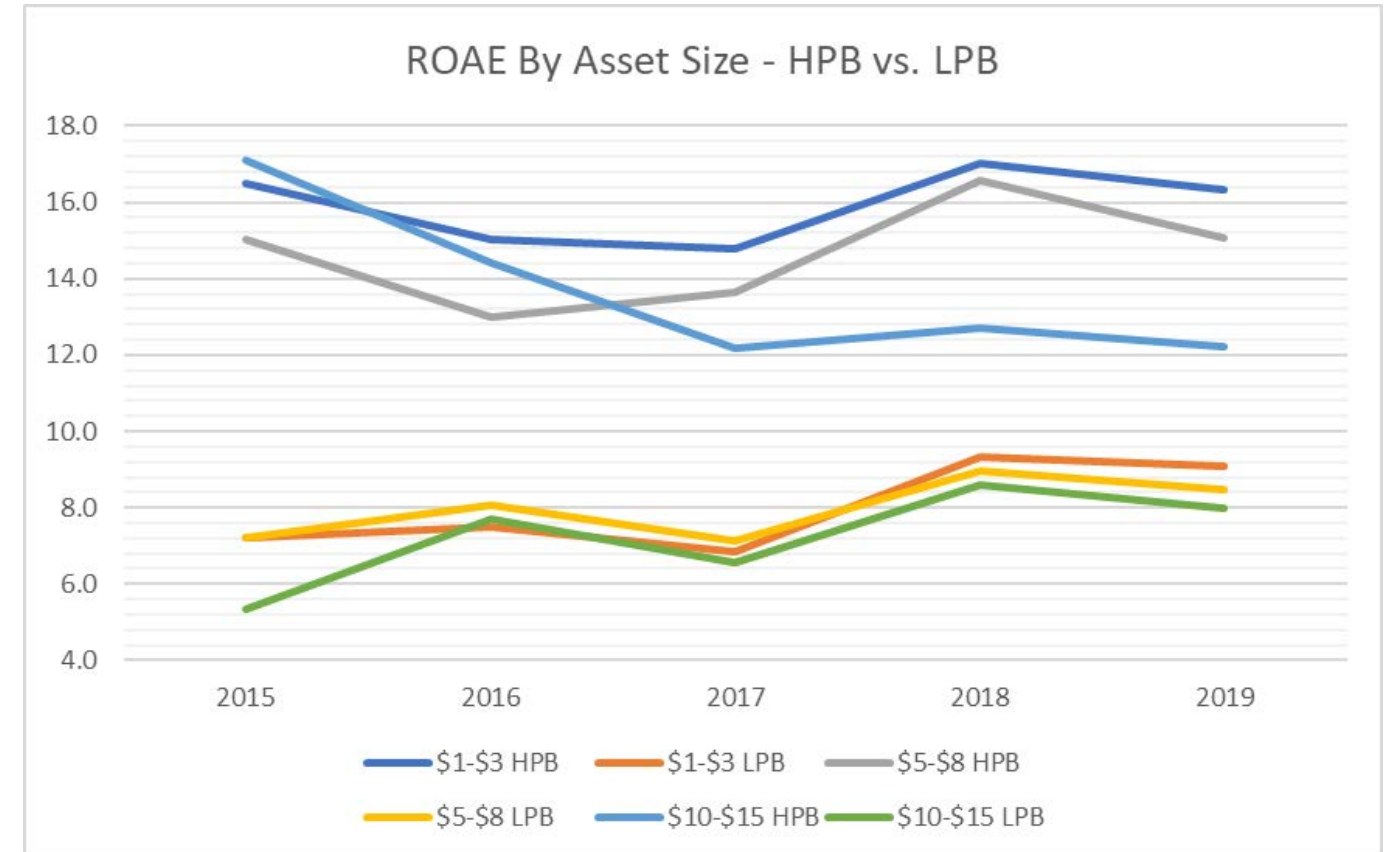
Today, focus on three asset segment (peer groups) from above population of banks...

INDUSTRY DATA AND ANALYSIS

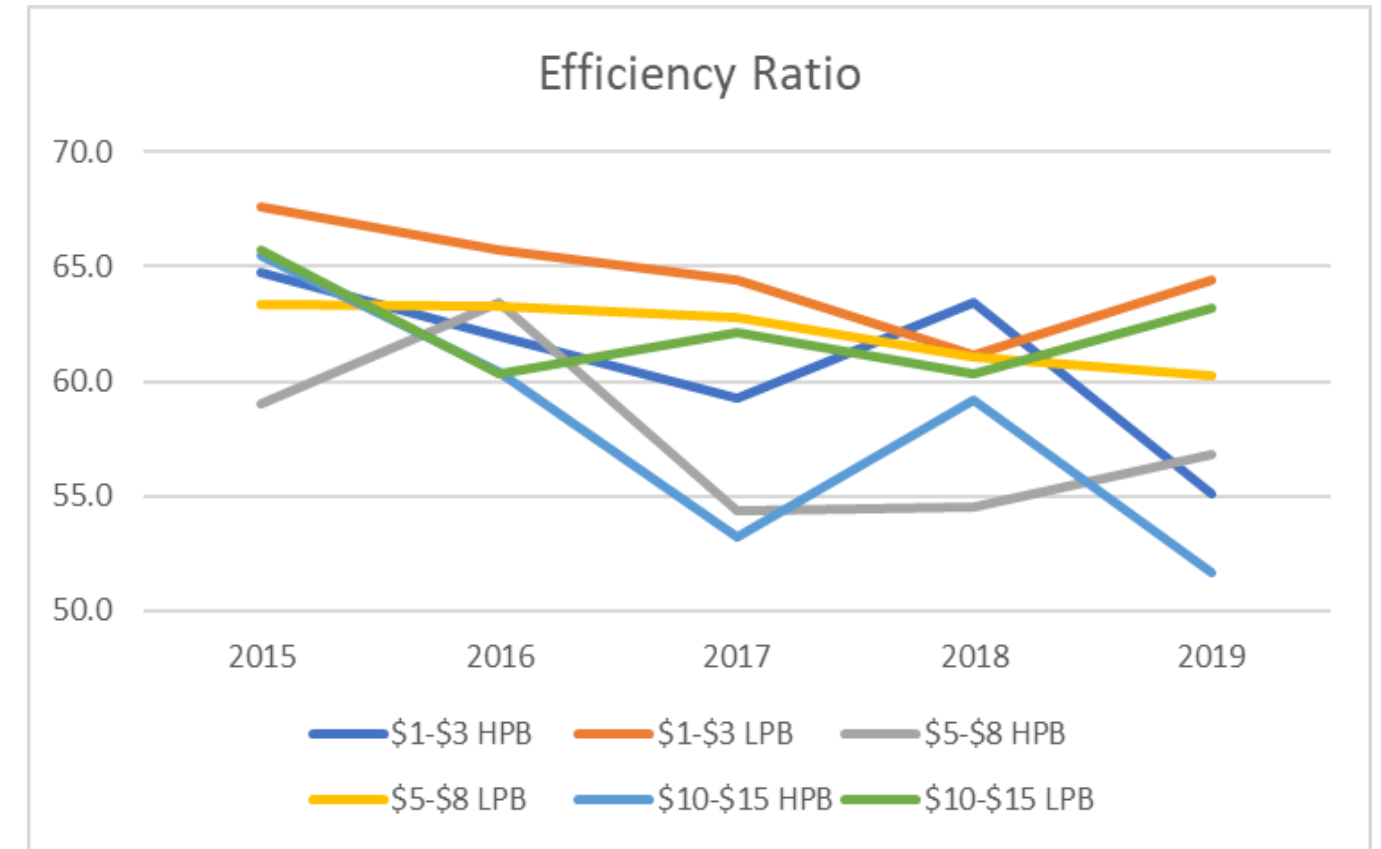
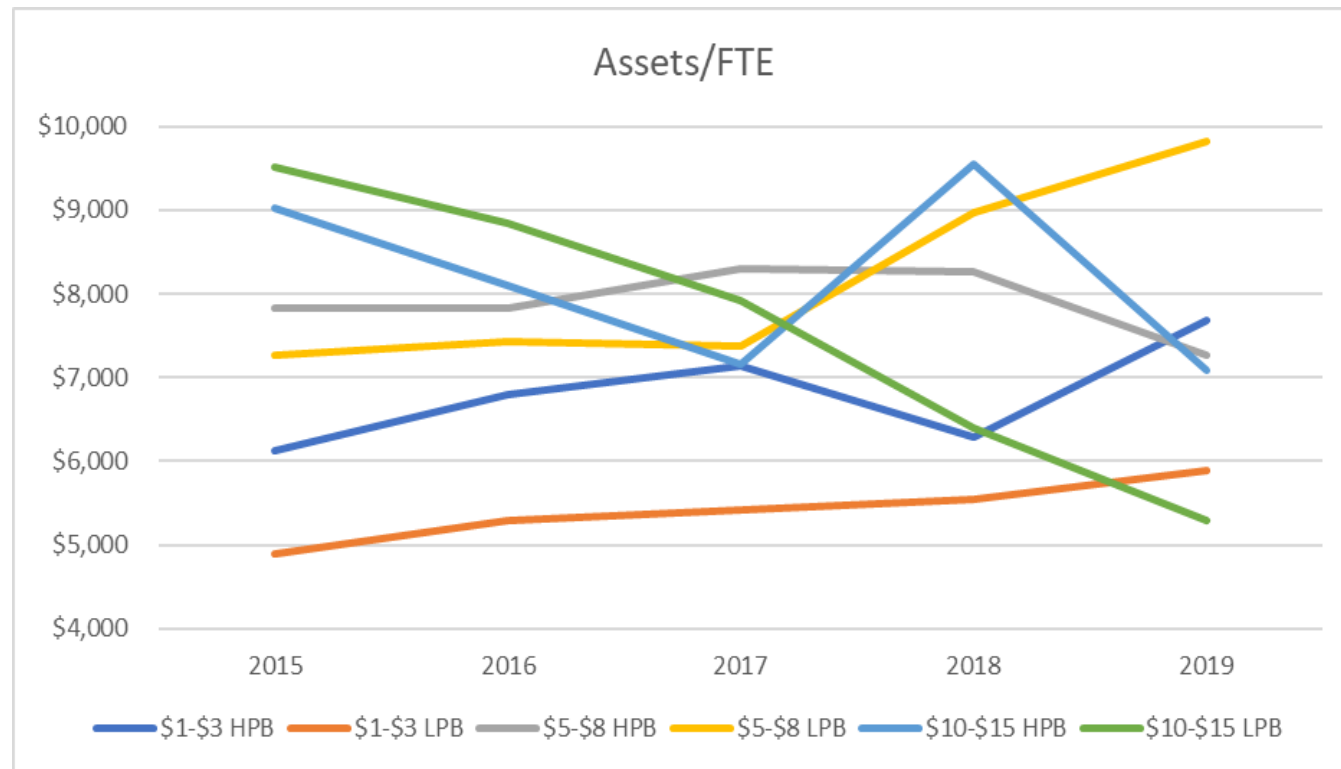
Crowe HPB data at 12-31-19 includes:

<u>Peer Group</u>	<u>Total Banks</u>		<u>HPB</u>	<u>LPB</u>
\$1 to \$3b	360	91	180	
\$5 to \$8b	50	13	25	
\$10 to \$15b	18	5	9	

- HPB – High Performing Banks (Median of 75th to 100th percentile in ROAE in segment)
- LPB – Low Performing Banks (Median of 0 to 50th percentile in ROAE in segment)

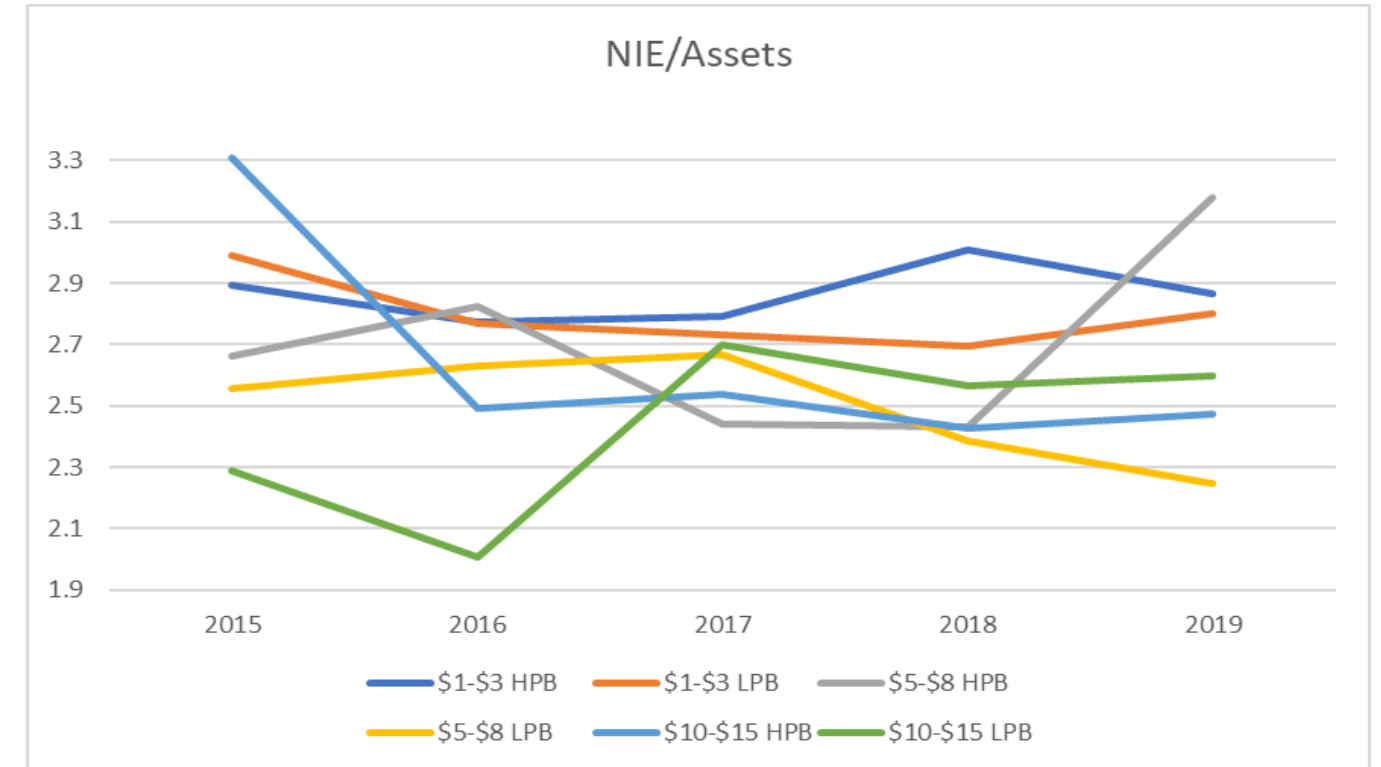
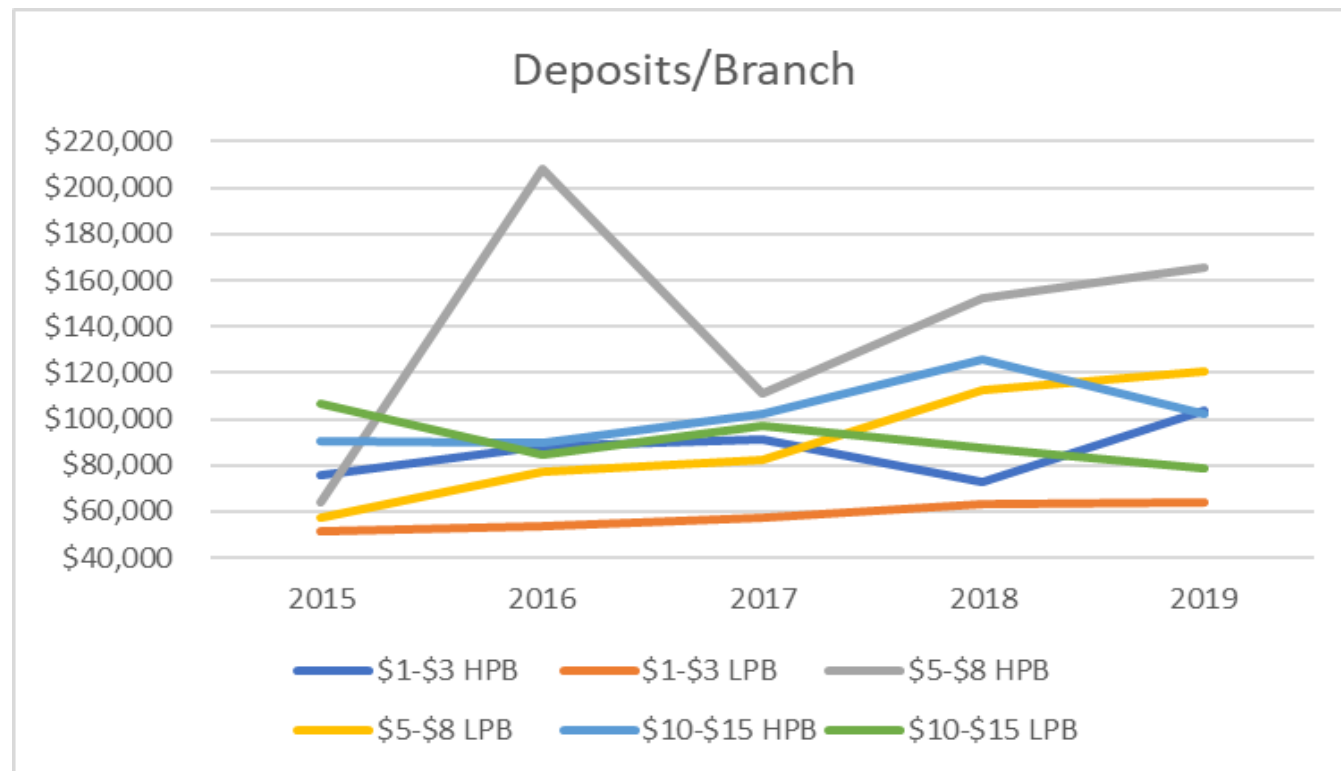


Efficiency ratio is trending favorably for both HPB and LPB segments over five years



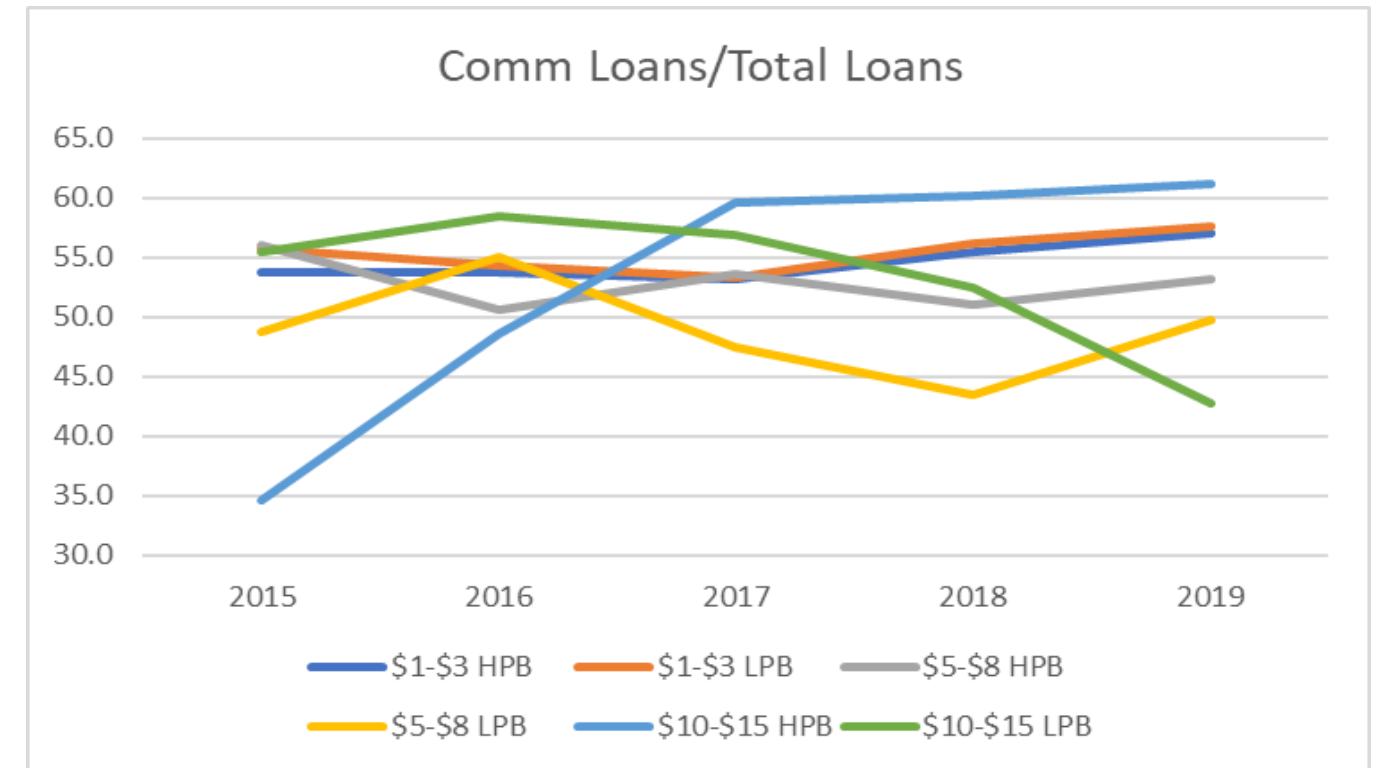
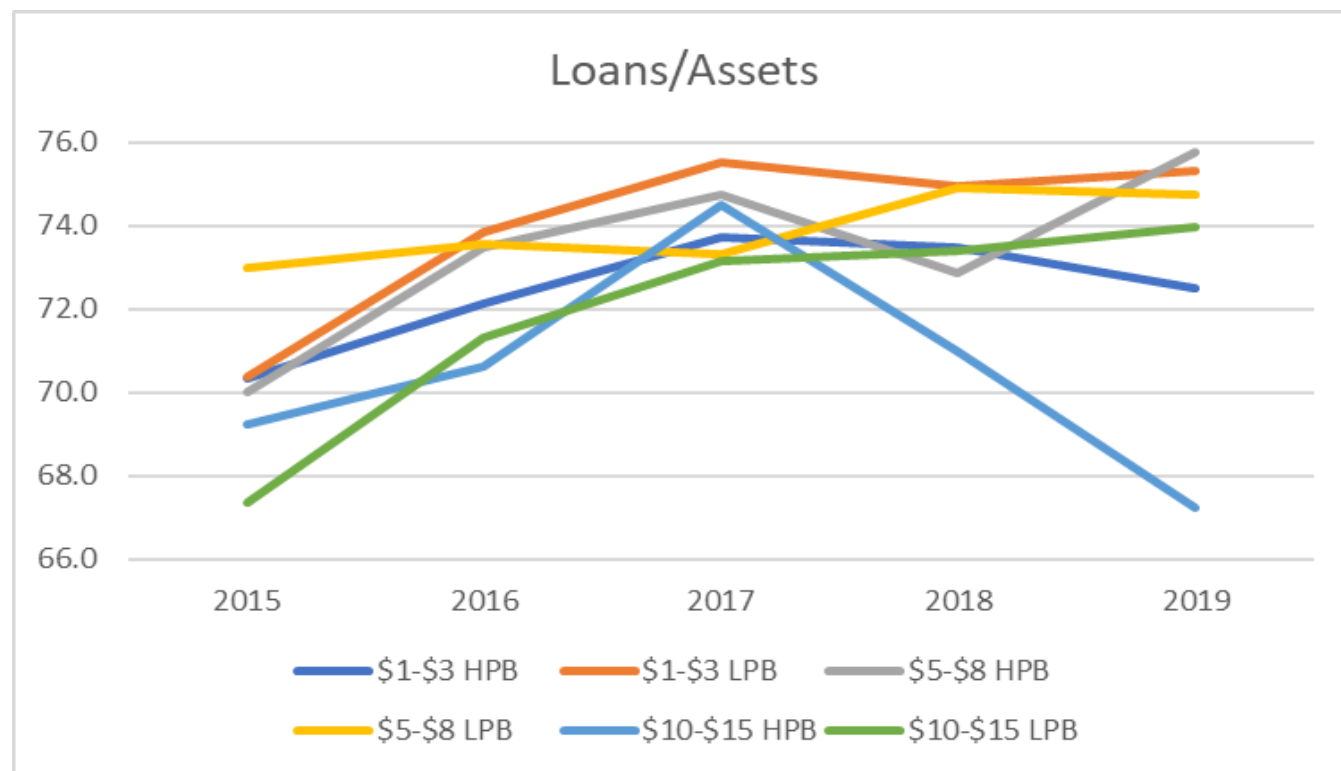
No meaningful trends in Assets/FTE, and some contrarian trends - except our largest LPB segment shows a serious problem

Overhead ratio is another example
of no significant differences
between HPB and LPB over five
years (except LPB over \$10b)



Deposits per branch have been
growing modestly in all segments,
and in each peer segment, HPB have
more dep/branch

We can clearly see industry again trending to increase commercial loans to total loans, and here we see some LPB lagging their HPB peers



Increasing loan composition of total assets trends up, for all except largest HPB peer group which trended down

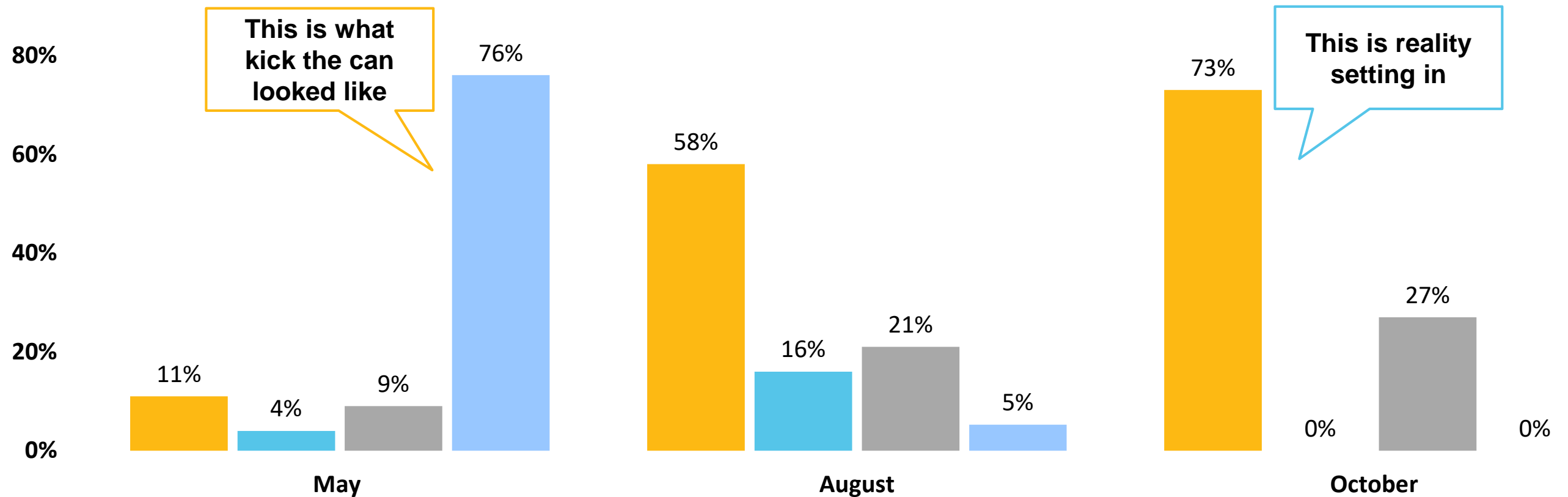
What data collected from loan reviews is telling us about banks' responses to current credit environment



HOW DOWNGRADE APPROACH HAS CHANGED DURING COVID

■ Changes to Modified & NonModified
 ■ Changes to Modified / Deferred Only
 ■ Changes Based on PreCovid Weakness Only
 ■ Not Making Changes on Covid Impacted

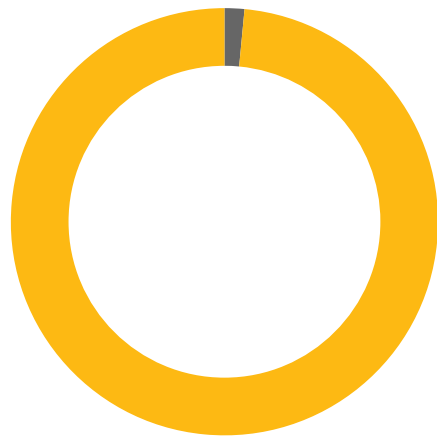
100%



2019 GRADE CHANGE ACTIVITIES COMPARED TO TODAY

1.5%

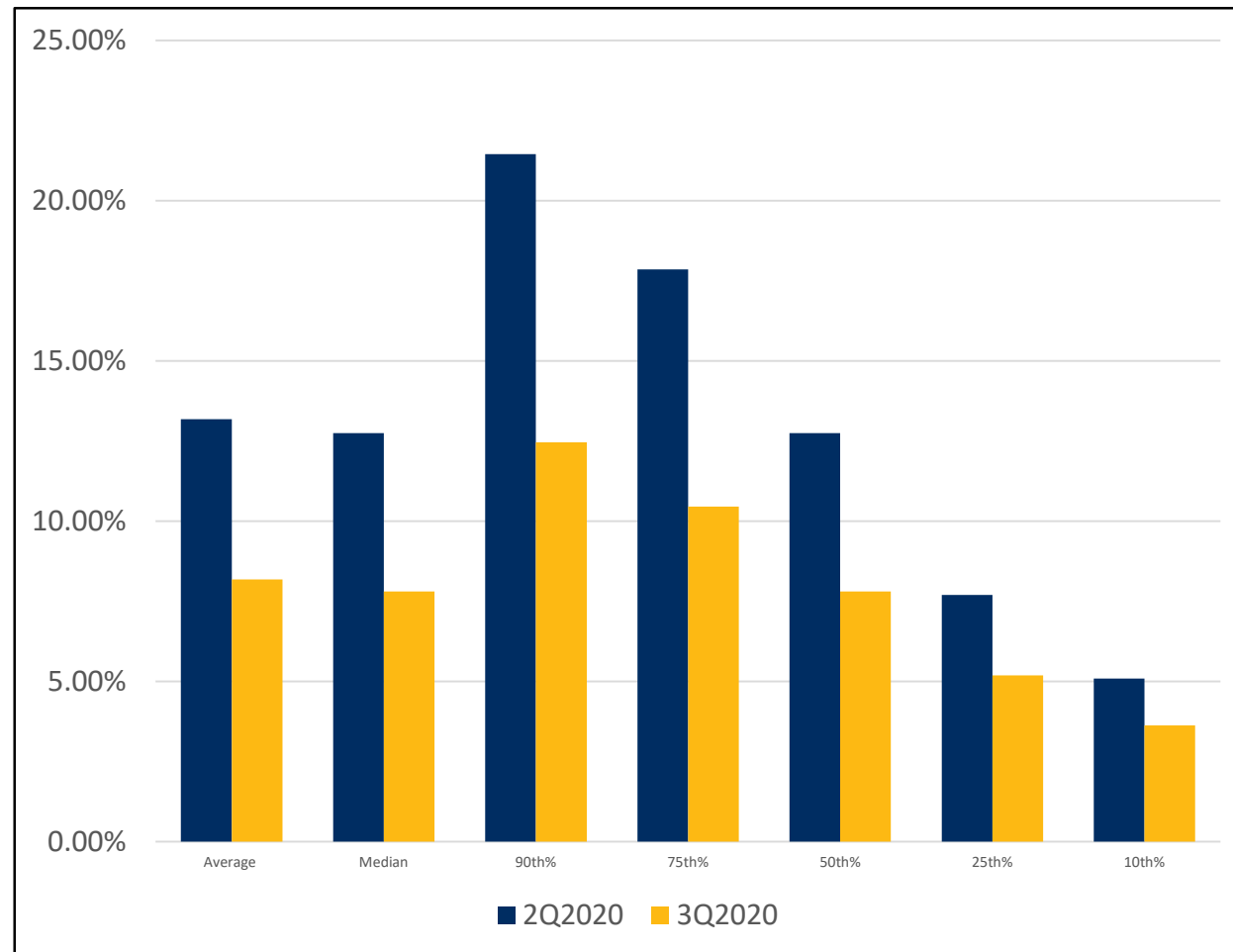
Percentage Changes to
Special Mention or
Substandard in 2019



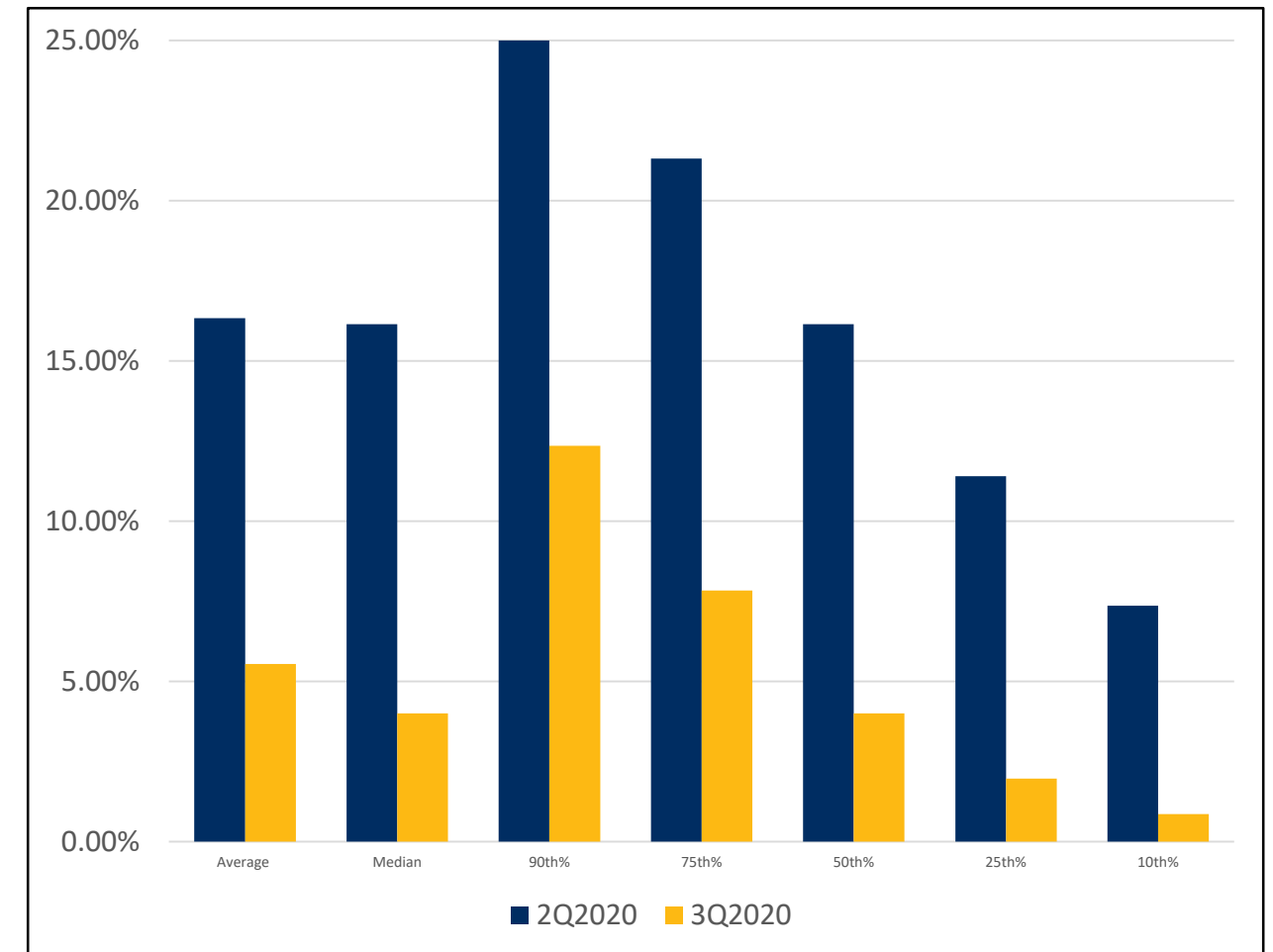
- With prior slide in mind – changes are up in 2020
- Accelerated from June 2020 through end of 2020
- Largest increases for those with high hospitality concentration
- Those with higher instance of multiple deferrals also have higher percentage
- Number of double notch changes has increased
- Pass to other pass recommendations on the rise as well

LOAN MODIFICATIONS - % OF PORTFOLIO

CECL Adopters



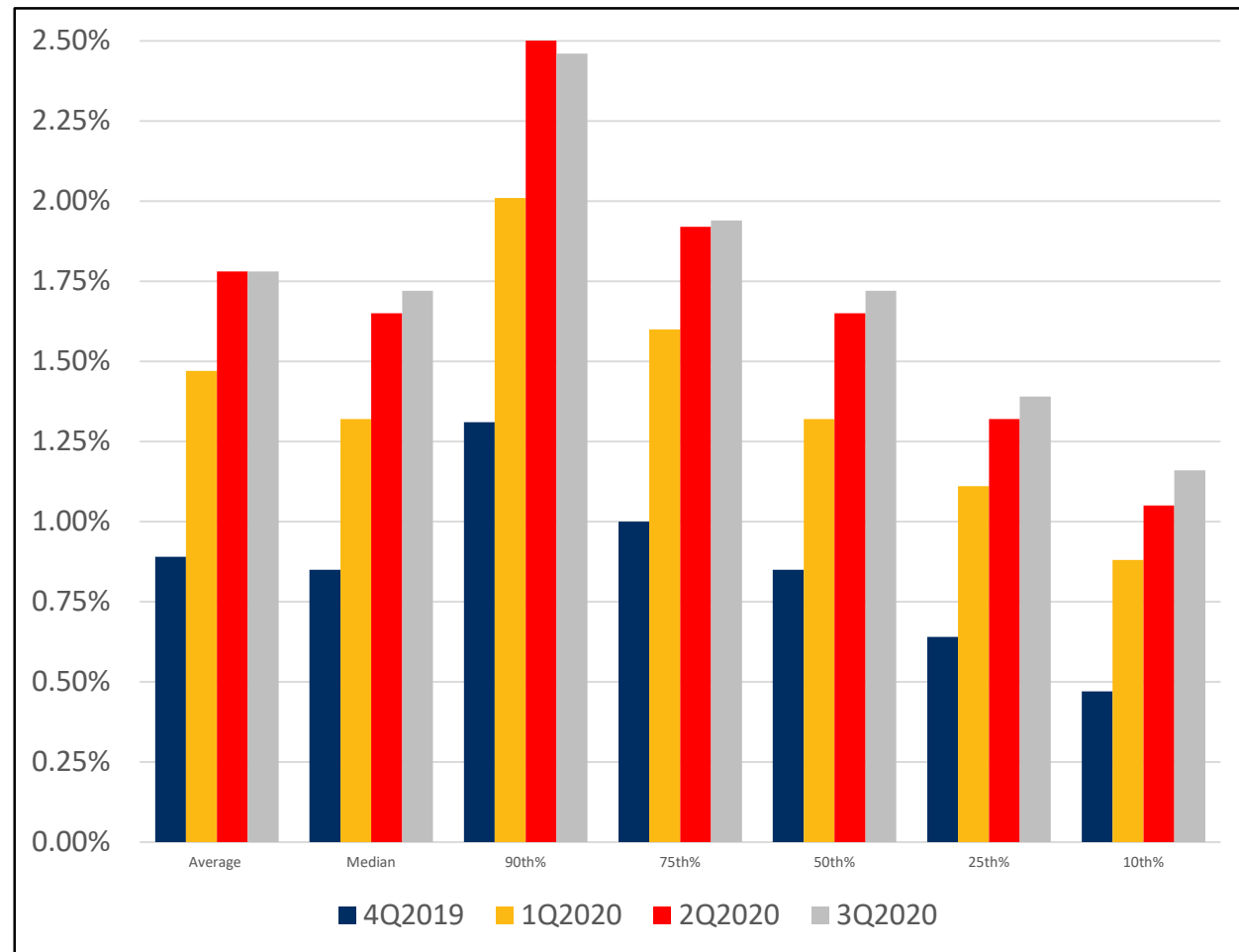
Non-CECL



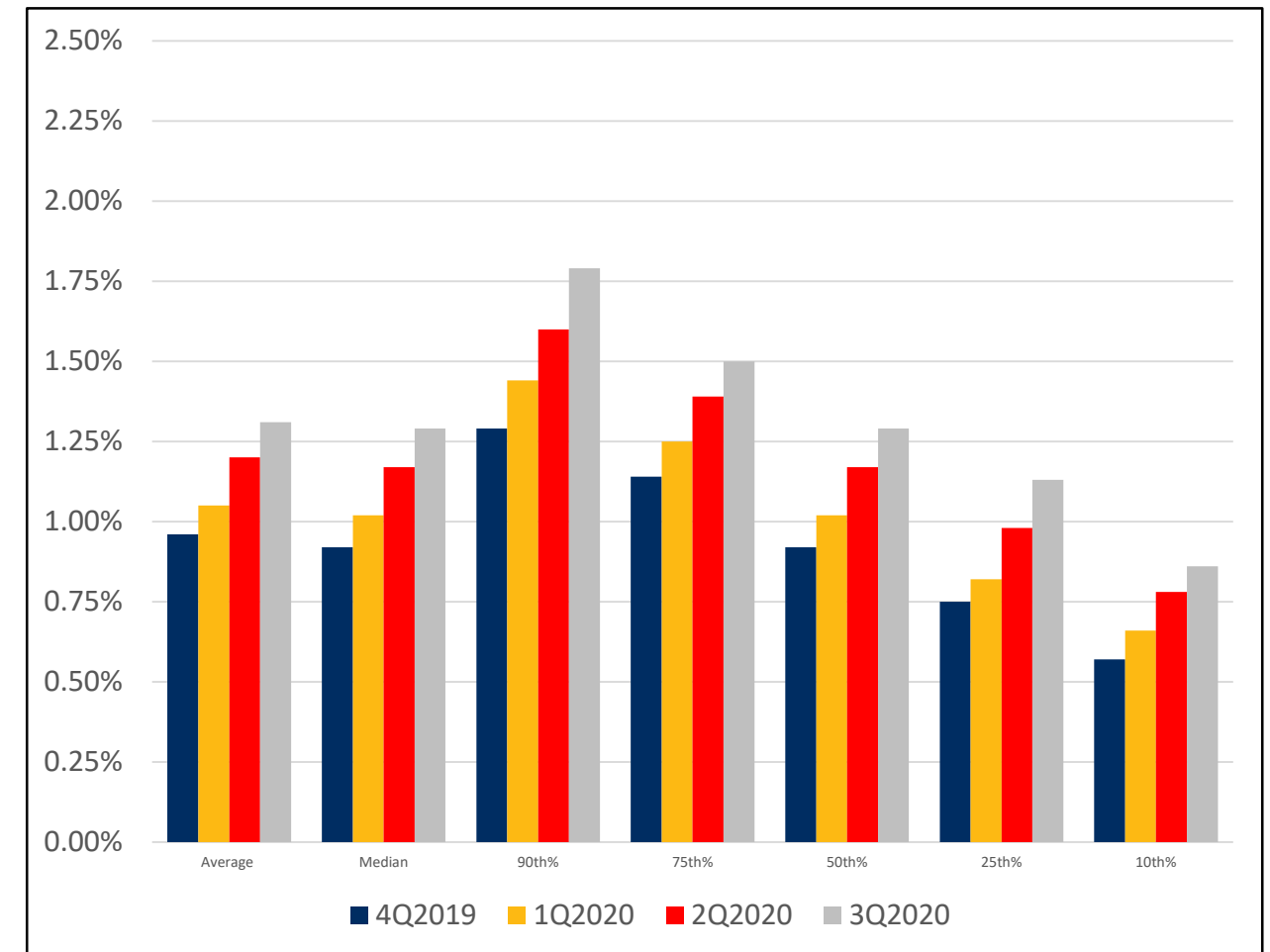
SEC Registrant Data filed. Accumulated through November 6, 2020.

ALLL (ACL) / TOTAL LOANS

CECL Adopters



Non-CECL



SEC Registrant Data filed. Accumulated through November 6, 2020.

DATA HAS TURNED LOAN REVIEW INTO MORE THAN AN AUDIT EFFORT

Example: At start of pandemic some loan review departments were aggregating data

Other were seeing through different “ratings” institutions put in place – High, medium, low impact

Data has allowed for scope and results to be more precise

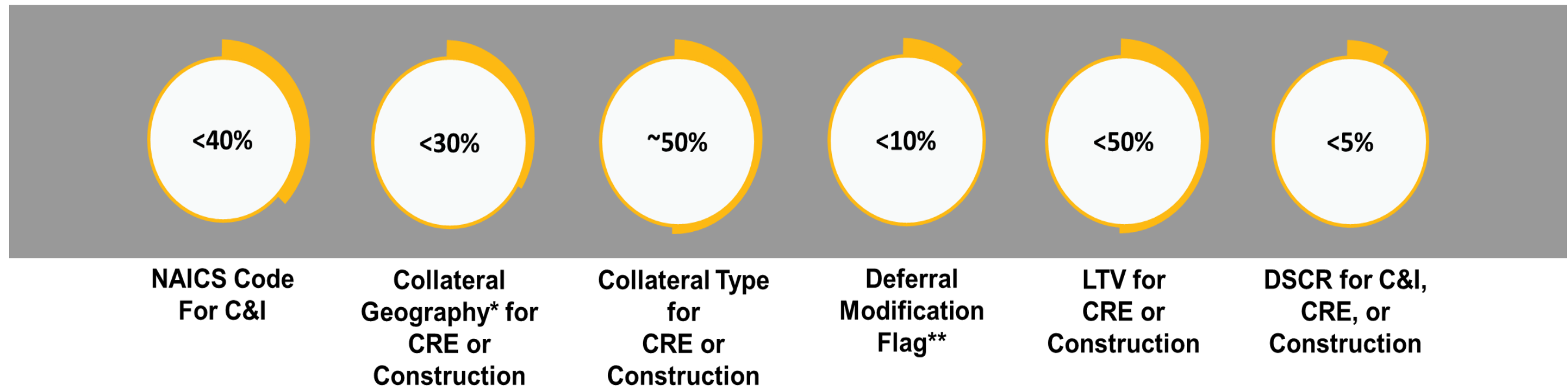
- Vintage cuts: grade, market, loan officer, rate, etc.
- DSCRs, DTI's and LTVs
- Debt yield cuts
- Reporting back with unique items management may not be providing
- Data anomalies discovered with visual analytics
- Peer comparisons
- Software's huge role in loan review

What Credit360 is telling
us about portfolio trends
and CECL implementation



INCOMPLETE DATASETS

Based upon a survey of data available in ACL systems that we've tested – over 45 million loans – here's what we observed how often banks have the following loaded in their ACL system loan data:



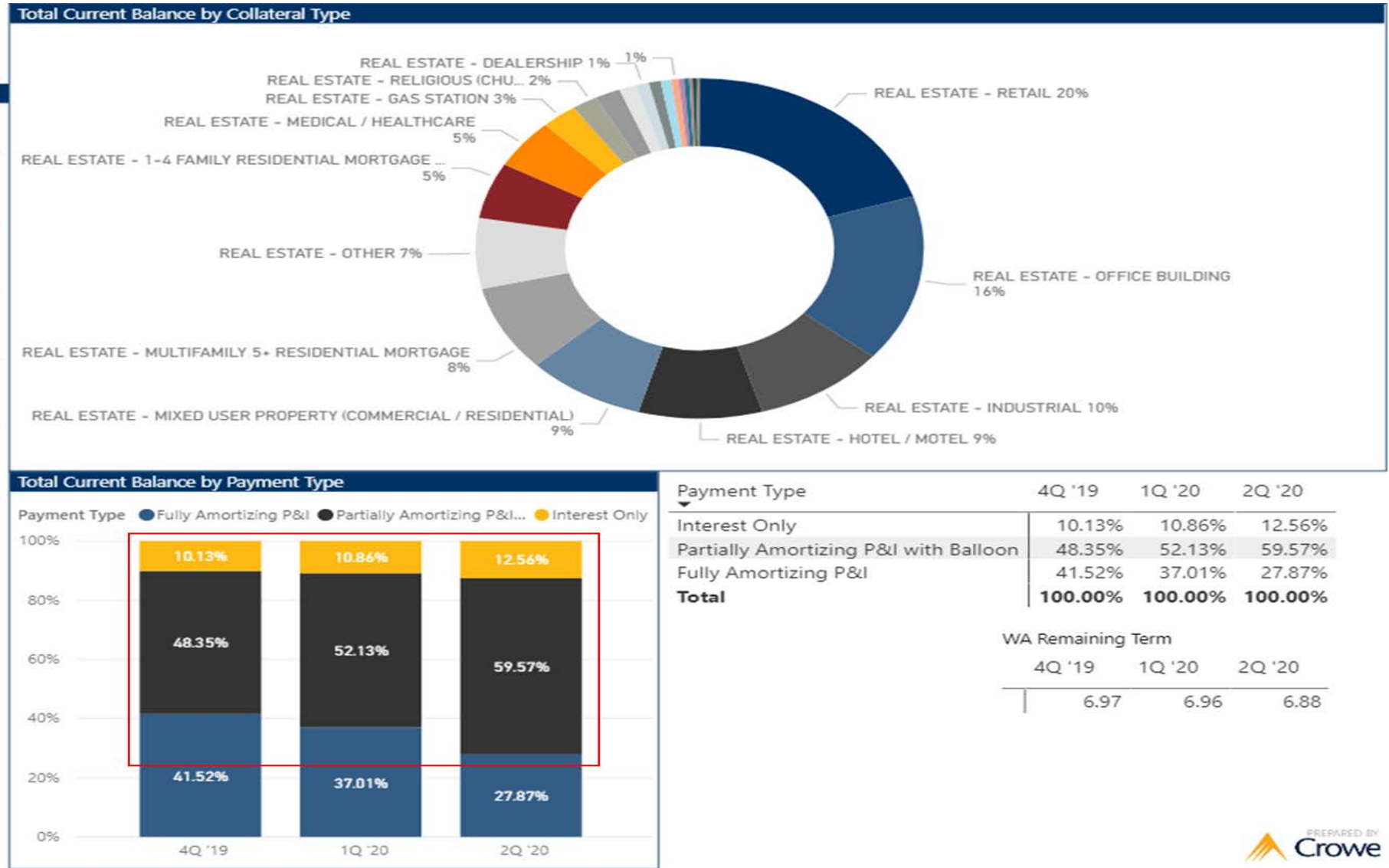
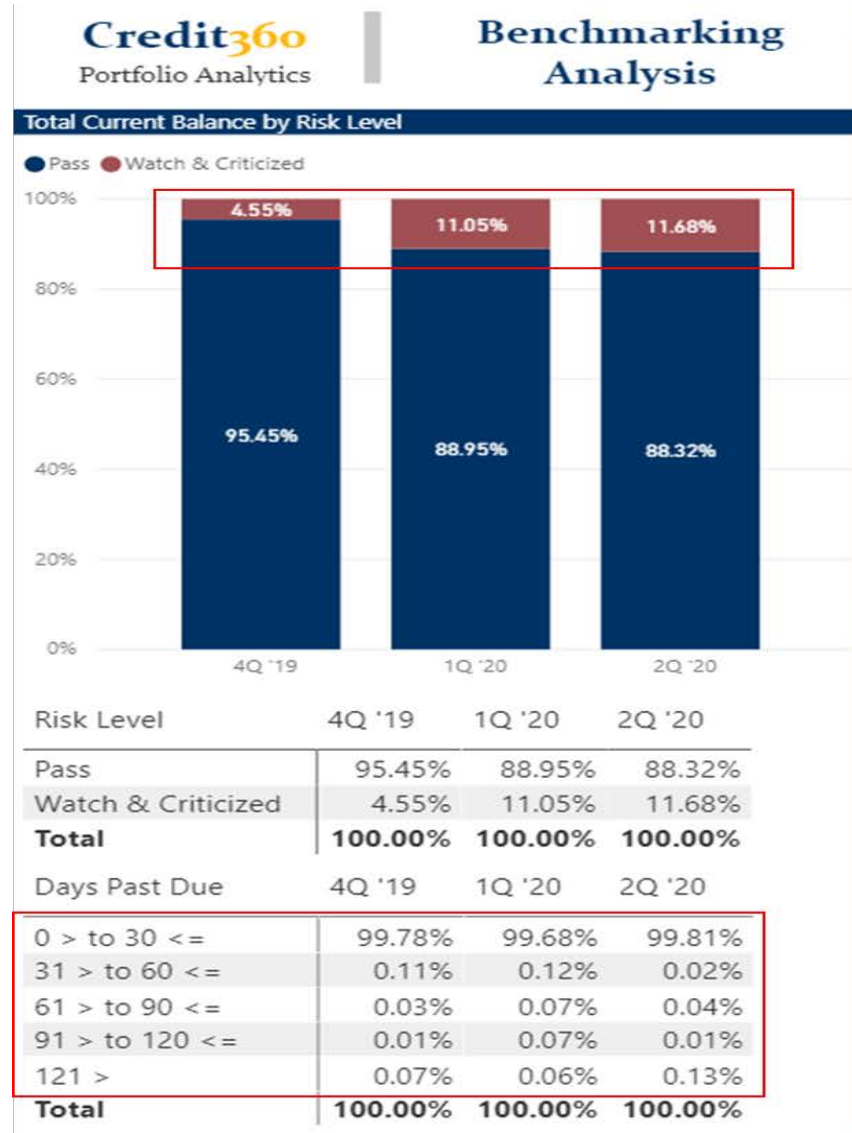
Key points:

1. Useful for portfolio triage, monitoring risk, allowance segments, q-factors, pivot off macro cohorts in the future
2. Often manually assembled for analysis - Start with governance process to collect the information with integrity and get the data in one place.
Are you able to effectively analyze and report on data in real time?

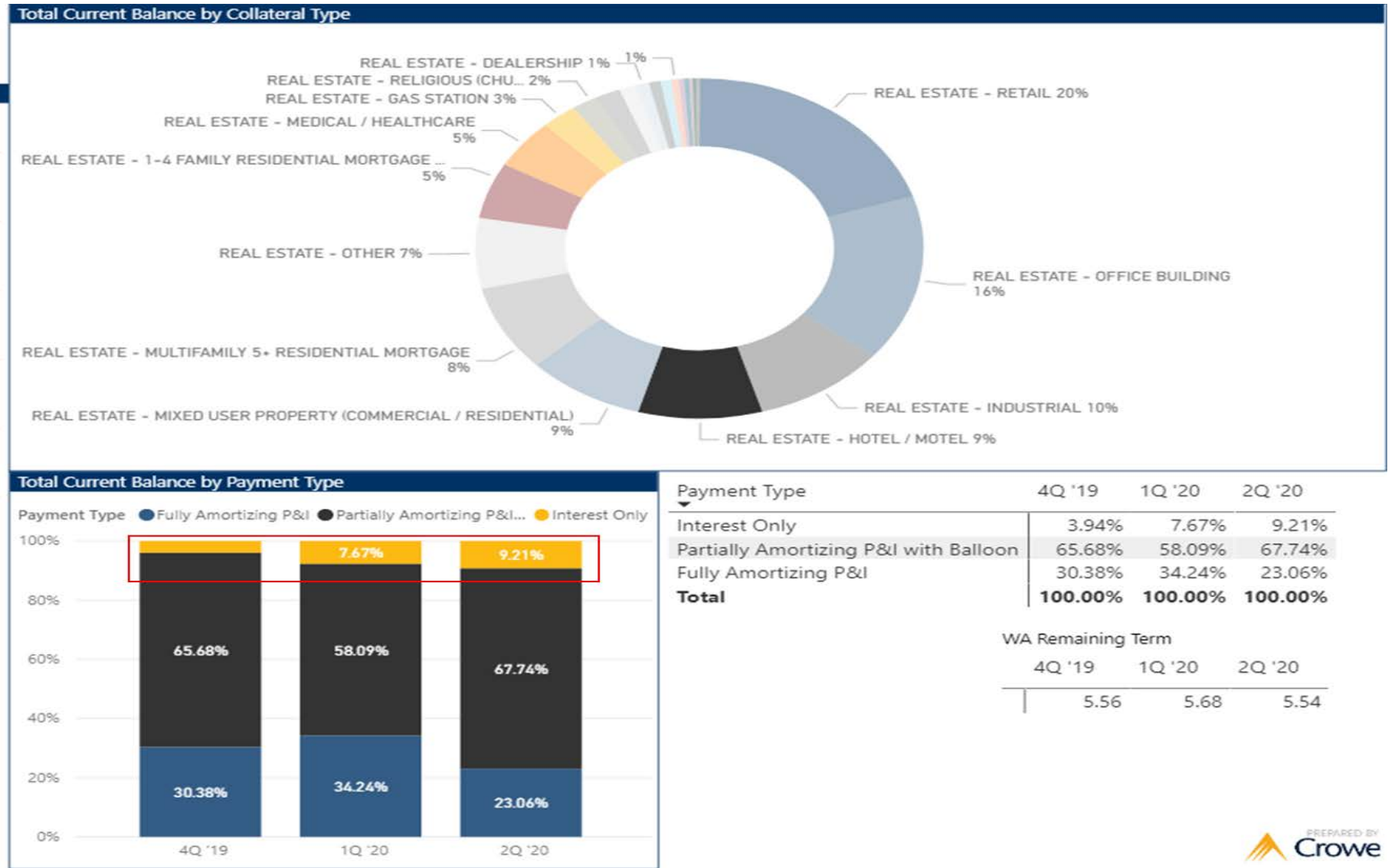
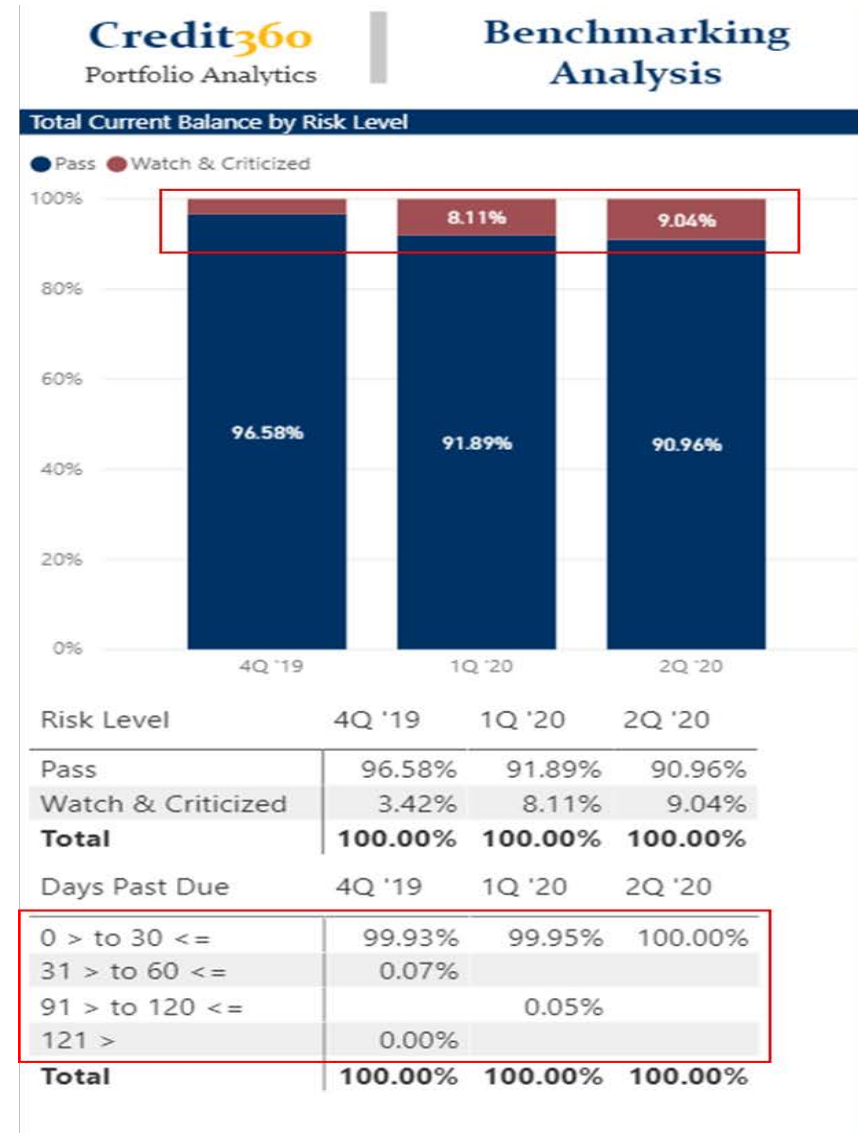
*~30% state, ~10% city, <20% zip, ~5% MSA

**deferral modification flag is an approximate statistic based on anecdotal observations

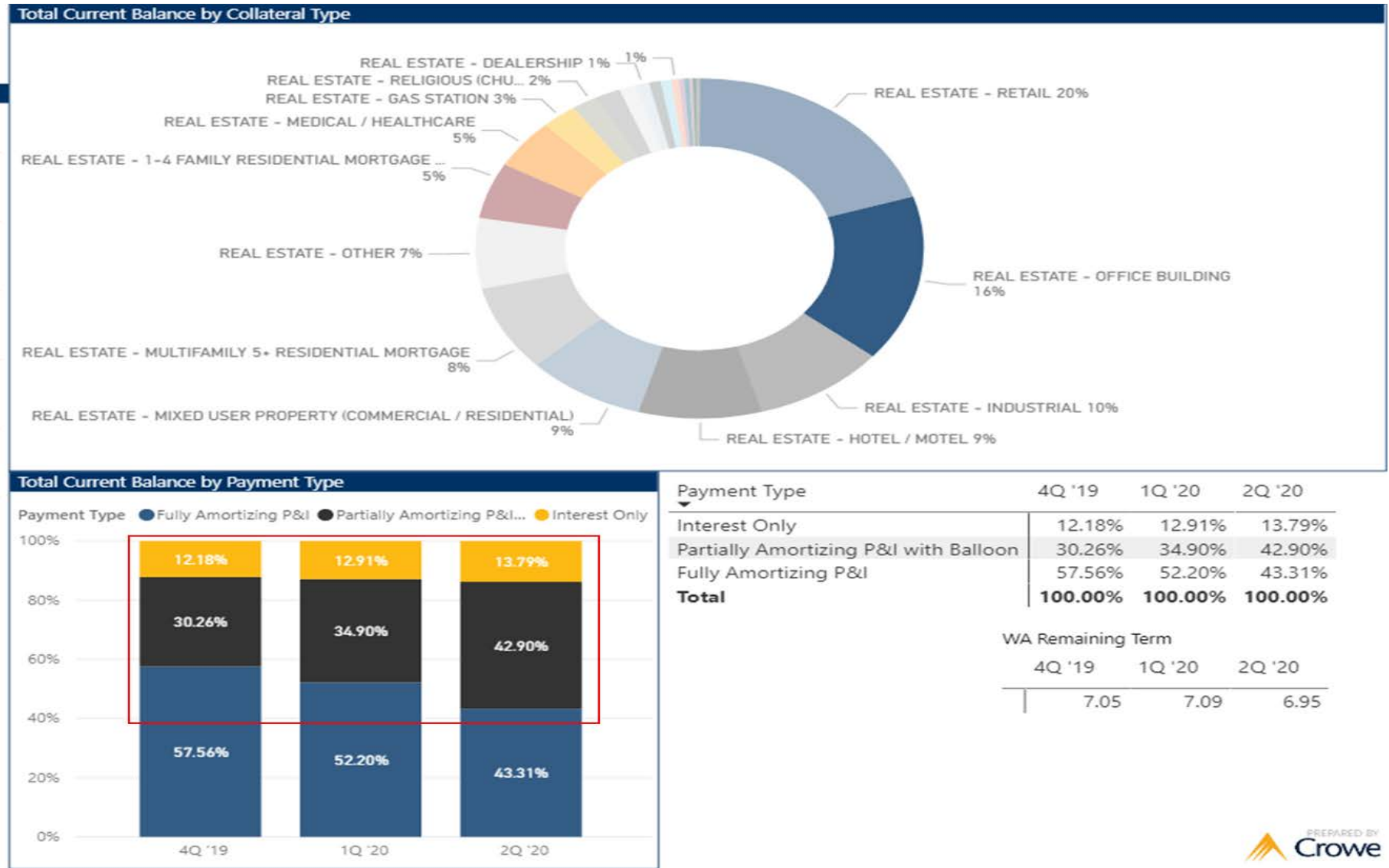
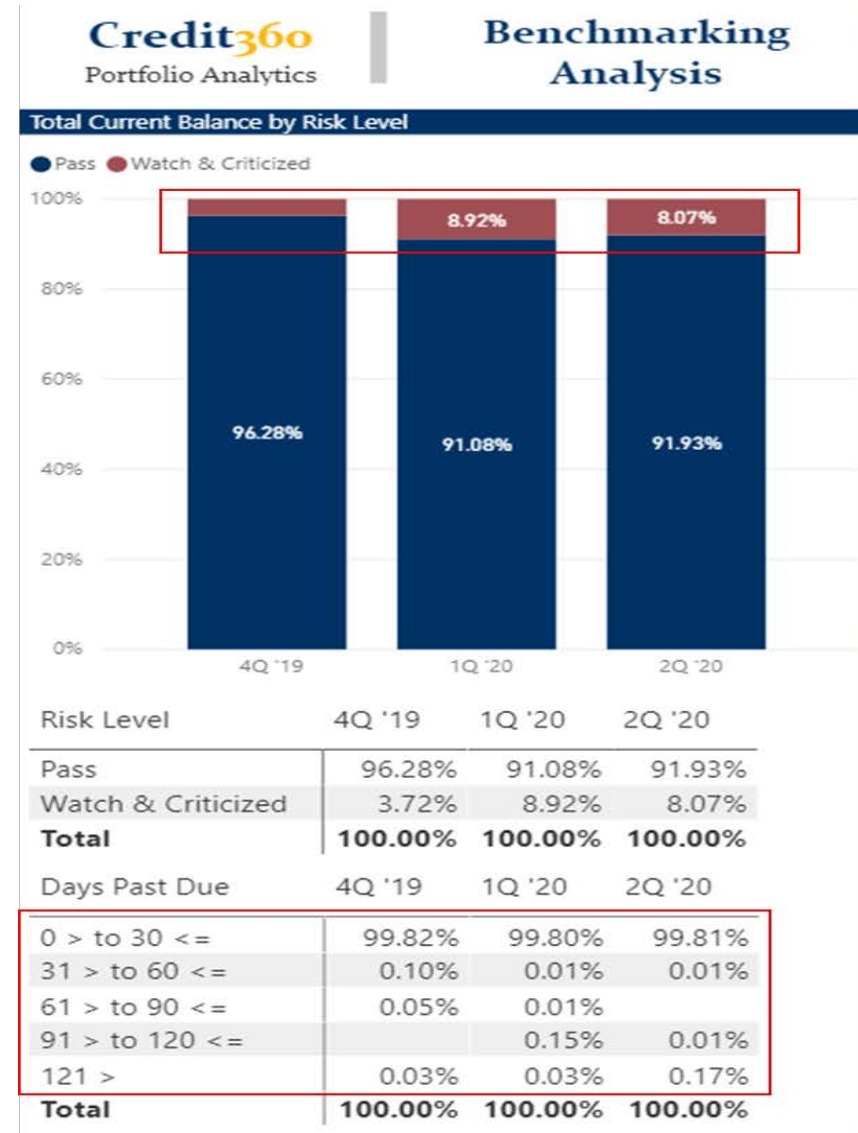
BENCHMARK TRENDS - CRE



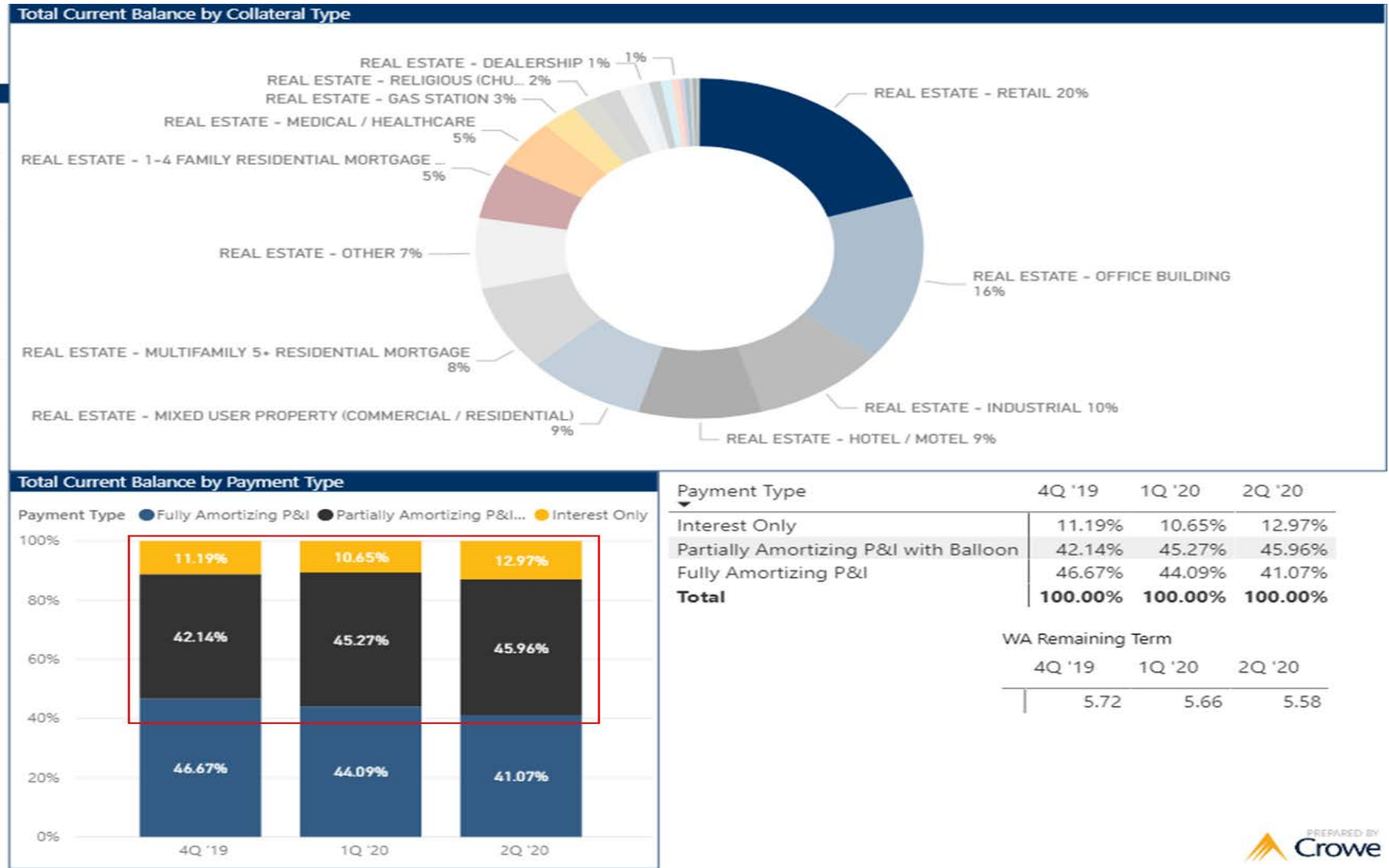
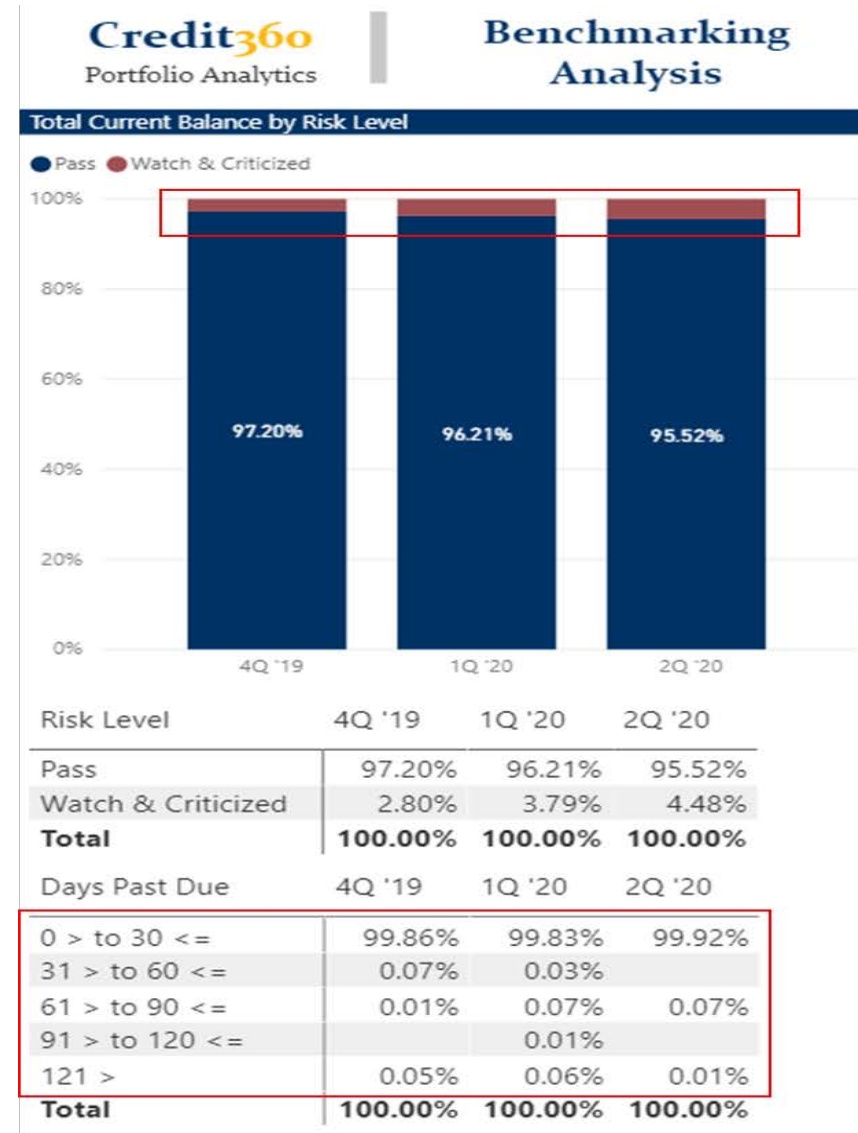
BENCHMARK TRENDS - HOTELS



BENCHMARK TRENDS – OFFICE



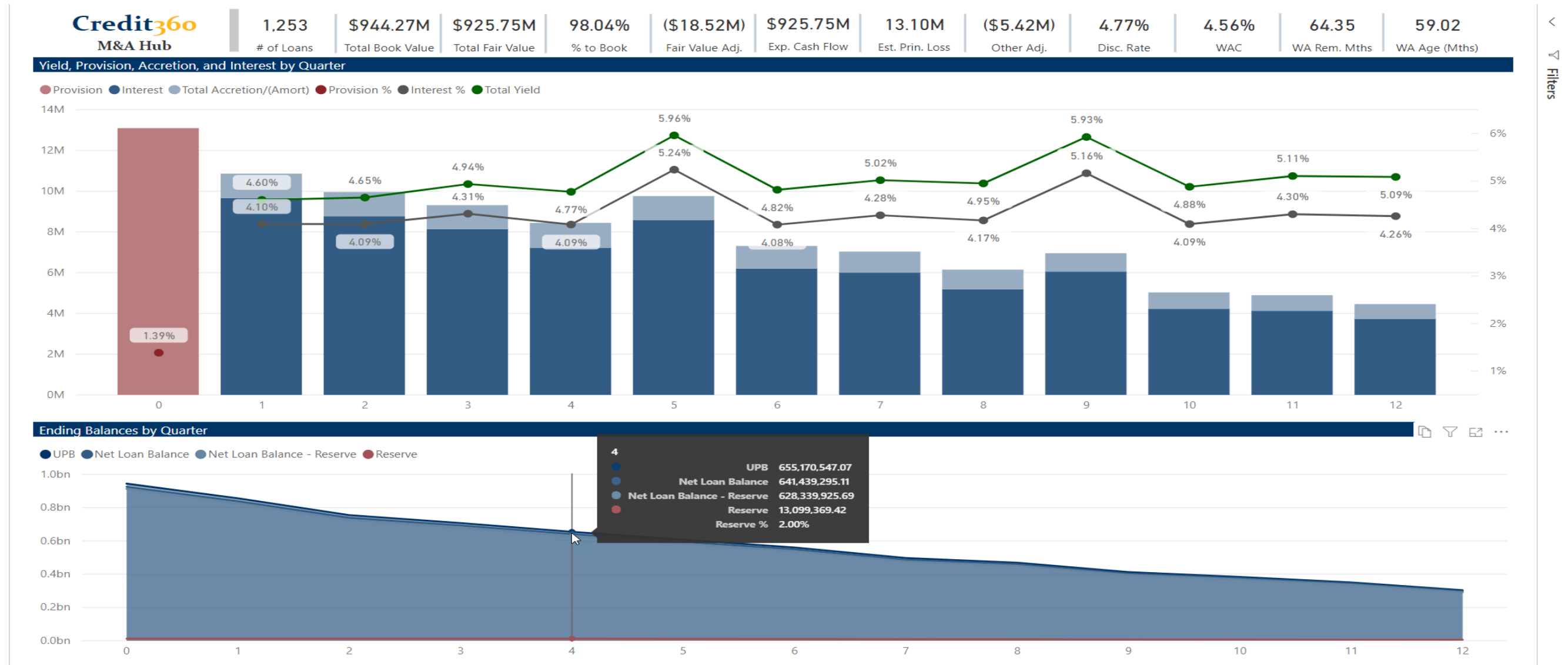
BENCHMARK TRENDS - RETAIL



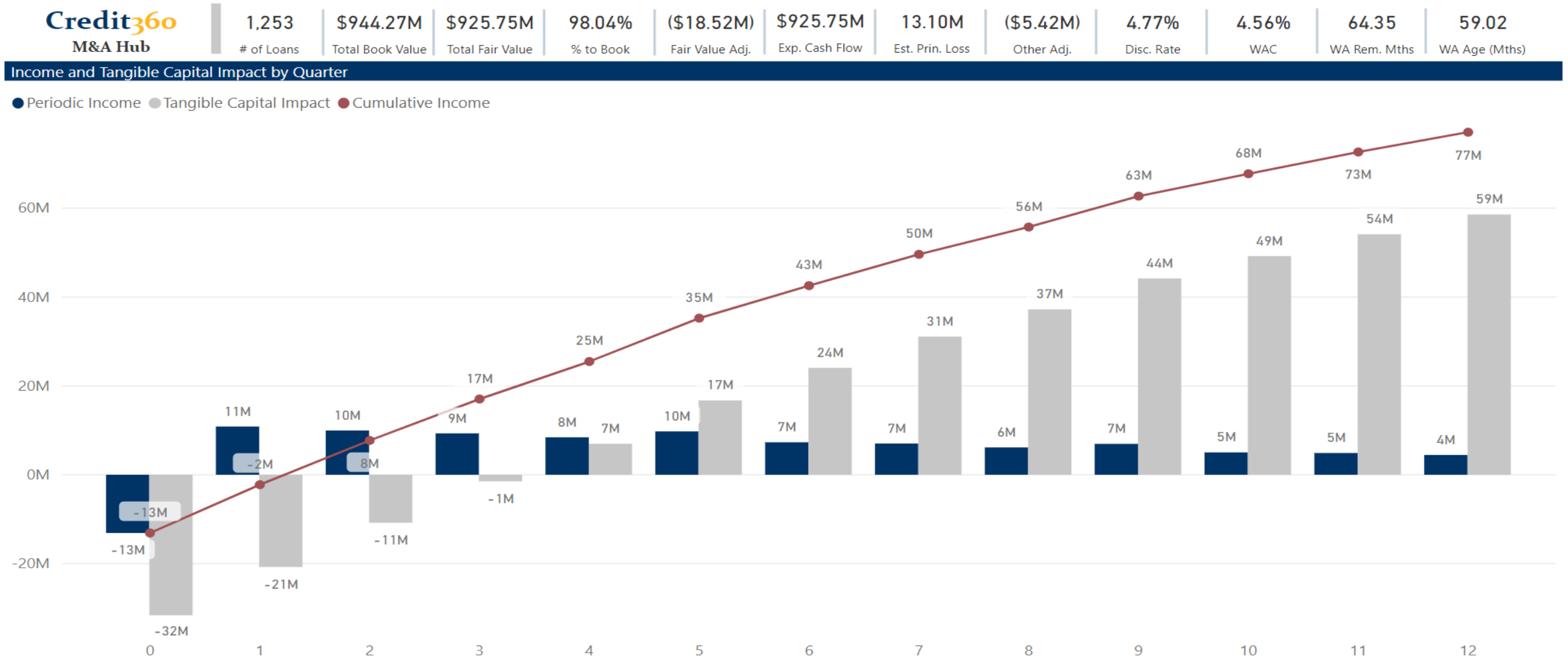
M&A IN 2020: RECENT TRANSACTIONS

Recent Transaction	Non-PCD FV Mark	Non-PCD ACL	PCD ACL	PCD% of Loans	Non-PCD + OBS ACL
A	-2.18%	1.50%	4.90%	18%	1.67%
B	-1.00%	1.08%	4.87%	31%	1.18%
C	-0.74%	1.06%	4.30%	21%	1.06%
D	0.16%	3.06%	3.63%	41%	3.67%
E	-2.15%	0.82%	3.94%	24%	0.90%
Average	-1.18%	1.51%	4.33%	27%	1.57%

HOW WILL TRANSACTION IMPACT YIELD AND CECL PROVISION?



AT WHAT POINT WILL YOU EARN BACK DAY 1 CAPITAL IMPACT?



WILL YOU EARN BACK DAY 1 CECL PROVISION THROUGH ACCRETION?

Credit360
M&A Hub

1,253

of Loans

\$944.27M

Total Book Value

\$925.75M

Total Fair Value

98.04%

% to Book

(\$18.52M)

Fair Value Adj.

\$925.75M

Exp. Cash Flow

13.10M

Est. Prin. Loss

(\$5.42M)

Other Adj.

4.77%

Disc. Rate

4.56%

WAC

64.35

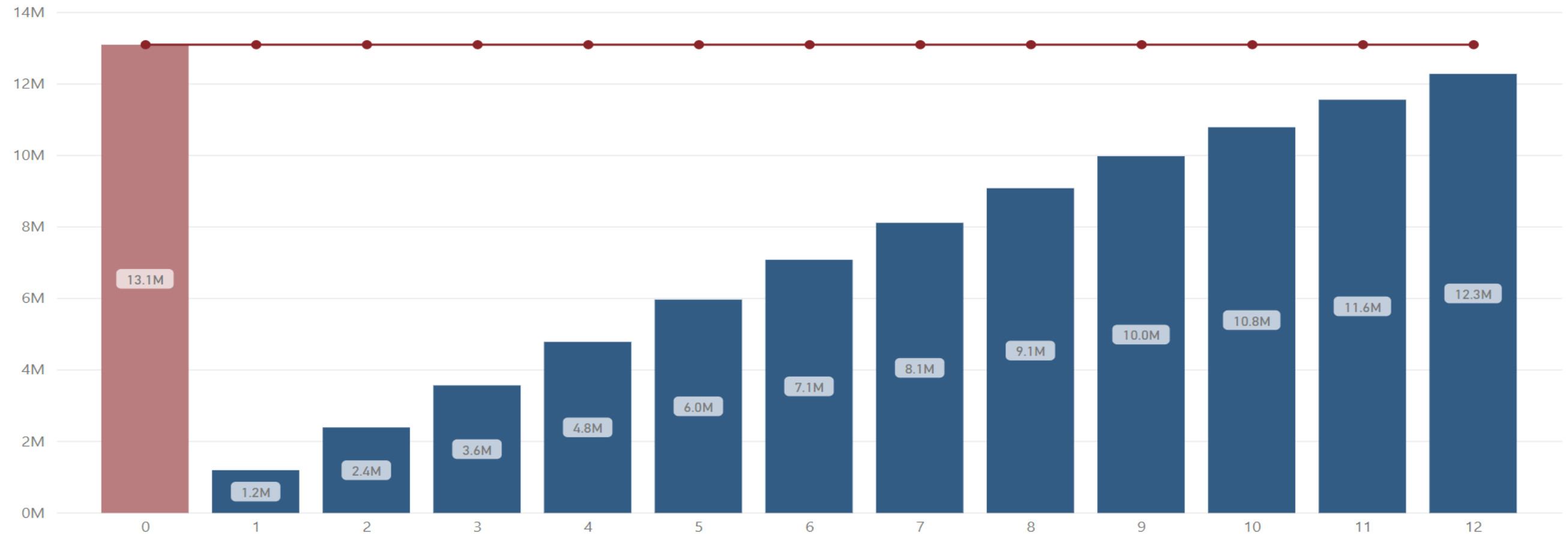
WA Rem. Mths

59.02

WA Age (Mths)

Initial Provision vs. Cumulative Accretion

● Provision ● Cumulative Accretion/(Amort) ● Cumulative Provision



QUESTIONS AND RESPONSES



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