The Importance of Developing a Capital and Contingency Plan

Presented By:
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Young & Associates, Inc.

Presenter: Gary J. Young
CEO and Senior Consultant

Gary J. Young is Chief Executive Officer of Young & Associates, Inc. In his 38 years in bank consulting and 49 years in the banking industry, he has assisted hundreds of community banks from coast-to-coast with improving shareholder value and profit, establishing effective strategic plans, assisting banks through regulatory concerns, as well as budgeting, asset/liability management, expansion planning, and mergers and acquisitions. He remains a student of the industry and is a popular speaker with bankers for his practical and valuable insight. He has conducted seminars throughout the United States and in Europe.

Gary participated in the purchase of the National Bank of St. Anne, and is a member of that bank’s board of directors. In addition, he was the co-founder of Capital Market Securities, Inc., which assists community banks with mergers and acquisitions, and manages a bank investment fund.
Regulatory Position

- OCC – Bulletin 2012-16
  - Every Bank – Regardless of Size
    - Assess Capital in Relation to Risk
    - Plan to Maintain Appropriate Capital

- FDIC
  - Maintain Capital Commensurate with
    - Extent of Risk
    - Management’s Ability to
      - Measure Risk
      - Monitor Risk
      - Control Risk
Determination of Capital Adequacy

Capital Adequacy is Based on Bank Risk

- Capital Adequacy is Different from Capital Goal
  - Below Capital Adequacy – Implement Contingency
  - Below Goal – Contingency Not Necessary
- Each Bank Different – Capital Different Based on Risk
- It is Now Your Responsibility to Determine Capital Adequacy
  - Assess Capital Adequacy in Relation to Overall Risk
  - Plan for Maintaining Appropriate Capital
    - Planning
    - Contingency

Capital Adequacy is Based on Bank Risk (continued)

- Regulators Will
  - Determine if Bank has a Sound and Effective Planning Process
  - Bank Must Plan to Take Measures to Ensure Capital Adequacy
- Hard to Disagree – but Devil is in Implementation and Regulator Interpretation
Determination of Capital Adequacy

Why the Change
- The Great Recession was the Teacher
- Insufficient Capital to Withstand Stress

Determination of Capital Adequacy

Capital Planning Integrated with Strategic Planning
- Identify Risks
- Improve Understanding of Overall Risk
- Set Risk Tolerance Levels
- Assess Strategic Choices
- Vulnerabilities and Impact on Capital
Capital Planning Integrated with Strategic Planning

- Integration – A Holistic Approach
- Risk Management
- Strategic Planning
- Liquidity Planning
- Capital Planning
- Not Static but Future-Looking

Determination of Capital Adequacy

Risk Identification and Evaluation

- High Level of Concentrations
- Funding Asset Growth with Volatile Liabilities
- Increased Investments in New Financial Instruments
- Rapid Rate of Growth – especially if not pared with
  - Staffing Levels
  - Systems, and
  - Controls
Risk Identification and Evaluation (continued)

- Entering New Lines of Business without Well-Defined Strategies
- Appropriate Risk Controls
- Capital Needed to Support
- Liberal Underwriting Standards
- Negative Trends in Delinquencies or Classified Loans

Establish Capital Related to Risk

- Regularly Not Once a Year
- Risk Changes – Capital Adequacy Changes with Risk
- Determine the Future Risk Based on Strategic Plan
- Stress Testing
Establish Capital Related to Risk (continued)

- Consider the Following
  - Concentration levels and limits
  - Quality of risk management, internal control, and audit processes
  - Quality, sustainability, and level of earnings

Determination of Capital Adequacy

Establish Capital Related to Risk (continued)

- Consider the Following
  - Quality, composition, and sources of capital
  - Quality of assets and credit administration practices
  - Allowance adequacy
  - Balance-sheet structure, liquidity needs, and interest rate risk
Establish Capital Related to Risk (continued)

- Consider the Following (continued)
  
  - Strategic objectives of the institution, including whether the bank effectively assesses and controls risks when executing new products and services—Still critical for de novo institutions
  
  - Historical and planned growth

Establish Capital Related to Risk (continued)

- Consider the Following
  
  - Mergers and acquisitions
  
  - Special situations that could cause capital impairment or future losses
  
  - Form of ownership and access to capital
Establish Capital Related to Risk (continued)

- Consider the Following
  - Dividend practices
  - A holding company’s ability to serve as a source of strength and to contribute capital to the bank

Determination of Capital Adequacy

Establish Capital Related to Risk (continued)

- A holding company’s reliance on dividend payments from the bank to service debt or other obligations
- Effect of affiliates
- Supervisory requirements for corrective action or associated with enforcement actions
Establishment of Risk

- RISK IS NOT INHERENTLY BAD
  - Information
  - Report of Examination
  - Audit Reports
    - Compliance
    - Loan Review
    - Internal Audit
    - IRR – 3rd Party Assessment
  - Peer Comparison
  - Strategic Plan

Risk Worksheet

- Concentration Levels and Limits
  - Regulatory Guidance
  - Peer Analysis

- Quality of Risk Management
  - Report of Examination
  - Audit Reports – Stated Weaknesses
  - Compliance Increasing – Increase in Regulatory Changes
Risk Worksheet

- Quality, Composition, and Sources of Earnings
  - Report of Examination
  - Peer Data
  - Strategic Plan
  - One-Time Increase or Decrease in Earnings
    - Sale of Loans – Secondary Market

Risk Worksheet

- Quality, Composition, and Sources of Capital
  - Strategic Plan
  - Projected Dividends
  - Projected Capital
  - Need for Dividends
    - Debt Payoff
    - S Election – Shareholder Payment of Taxes
  - Holding Company
    - Cash Available
    - Line of Credit
Risk Worksheet

- Quality of Assets and Credit Administration
  - Peer Data
    - 30-89 Day
    - 90+
  - Non-Accrual
  - OREO
  - Bank Direction
- Loan Review for Credit Administration

Risk Worksheet

- Allowance Adequacy
- Report of Examination
- Loan Review
  - If not, consider 3rd party assessment
- Peer Analysis
  - Relationship between
    - Non-performing loans
    - ALLL
Risk Worksheet

- Balance-Sheet Structure, Liquidity Needs, and Interest Rate Risk
  - Report of Examination
  - Liquidity Guidance
    - Liquidity Projections
    - Liquidity Contingency

Risk Worksheet

- Balance-Sheet Structure, Liquidity Needs, and Interest Rate Risk – con’t
  - IRR
    - Report of Examination
    - IRR Reports
      - Within Policy Guidelines
    - 3rd Party Assessment
    - Non-Maturity Deposits
    - Lengthening of Assets
### Analysis of Potential Loss of Transaction Accounts

**Young National Bank**

<table>
<thead>
<tr>
<th></th>
<th>Jun-16</th>
<th>Jun-07</th>
<th>Current if Split</th>
</tr>
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<tbody>
<tr>
<td><strong>Non-Maturity Deposits</strong></td>
<td>$260,161</td>
<td>$130,699</td>
<td>$204,361</td>
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<tr>
<td>Demand Deposits</td>
<td>$94,785</td>
<td>$45,090</td>
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<tr>
<td>NOW Accounts</td>
<td>$35,701</td>
<td>$27,518</td>
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<tr>
<td>Money Market</td>
<td>$61,375</td>
<td>$22,395</td>
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<tr>
<td>Other Savings</td>
<td>$68,300</td>
<td>$35,696</td>
<td></td>
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<tr>
<td><strong>Non-Transaction Accounts</strong></td>
<td><strong>$163,568</strong></td>
<td><strong>$140,297</strong></td>
<td><strong>$219,368</strong></td>
</tr>
<tr>
<td>Time Deposits Below Ins</td>
<td>$129,128</td>
<td>$92,072</td>
<td></td>
</tr>
<tr>
<td>Time Deposits Above Ins</td>
<td>$34,440</td>
<td>$48,225</td>
<td></td>
</tr>
<tr>
<td><strong>Total Deposits</strong></td>
<td><strong>$423,729</strong></td>
<td><strong>$270,996</strong></td>
<td><strong>$423,729</strong></td>
</tr>
</tbody>
</table>

- **Potential $ Loss in Transaction Accounts**: $55,800
- **Potential % Loss in Transaction Accounts**: 21.4%
- **Total Assets**: $471,588
- **Potential Loss % Assets**: 11.8%

### Potential $ Loss in Transaction Accounts

- Average per Year over 6 Years: $9,300
- Potential Additional Cost of Certificates - Estimated: 1.5%

$ * Month Income *

<table>
<thead>
<tr>
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<th>Projected</th>
</tr>
</thead>
<tbody>
<tr>
<td>% next 12 Month Income *</td>
<td>$3,993</td>
</tr>
</tbody>
</table>

- Potential Additional Cost Year 1: $92 2.3%
- Potential Additional Cost Year 2: $184 4.6%
- Potential Additional Cost Year 3: $276 6.9%
- Potential Additional Cost Year 4: $368 9.2%
- Potential Additional Cost Year 5: $460 11.5%
- Potential Additional Cost Year 6: $552 13.8%
- Potential Additional Cost Year 7: $644 16.1%
### Young National Bank
### Asset Repricing Analysis

<table>
<thead>
<tr>
<th></th>
<th>Bank</th>
<th>Peer</th>
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<tbody>
<tr>
<td></td>
<td>Over 5-15</td>
<td>Over 3 Years</td>
</tr>
<tr>
<td>2007</td>
<td>0.6%</td>
<td>1.8%</td>
</tr>
<tr>
<td>2008</td>
<td>1.0%</td>
<td>3.8%</td>
</tr>
<tr>
<td>2009</td>
<td>0.1%</td>
<td>3.8%</td>
</tr>
<tr>
<td>2010</td>
<td>1.8%</td>
<td>6.5%</td>
</tr>
<tr>
<td>2011</td>
<td>2.2%</td>
<td>7.8%</td>
</tr>
<tr>
<td>2012</td>
<td>2.7%</td>
<td>8.4%</td>
</tr>
<tr>
<td>2013</td>
<td>2.7%</td>
<td>12.0%</td>
</tr>
<tr>
<td>2014</td>
<td>2.8%</td>
<td>11.7%</td>
</tr>
<tr>
<td>2015</td>
<td>3.2%</td>
<td>12.0%</td>
</tr>
<tr>
<td>Jun-16</td>
<td>3.2%</td>
<td>12.1%</td>
</tr>
</tbody>
</table>

### Risk Worksheet

- **Strategic Objectives and control of risk with new products and services**
  - Strategic Plan
    - Expansion
    - Technology – Mobile Banking
    - Other Products
    - New Investments, etc.
- Add benefit, but also add risk
Risk Worksheet

- Economic Environment
  - Local & National Economy
  - Similar to Qualitative Factors in ALLL
- Historical and Planned Growth
  - Deposits and Loans
    - Historical
    - Projected from Strategic Plan
- Special Situations that Could Impair Capital
  - Legal
  - CRA, etc.

Risk Worksheet

- Form of Ownership and Access to Capital
  - S Election
    - Added Risk – Adding Shareholders may jeopardize S Election
  - Mutual
    - Added Risk – No Additional Shareholder Capital
- Cash at Holding Company
  - Third-Party
  - Shareholders
- Ability to Sell Stock
Risk Worksheet

- Dividend Practices
- Strategic Plan
  - Projected Direction of Capital Ratios
  - Future Capital Relative to
    - Capital Adequacy
    - Capital Goals
- Debt Obligation
- S-Election

Risk Worksheet

- Supervisory Requirements
  - Consent, Memorandum, Board Resolution
  - CRA
Determination of Capital Adequacy

Contingency Planning

- If Plans Were Perfect – No Need for Contingency
- WE KNOW SOMETIMES UNKNOWN FACTORS GET IN THE WAY
- Build Capital During Good Times – Bernanke Factor
- Contingency Involves
  - Adding Capital
  - Preserving Capital

Contingency Planning (continued)

- Additional Capital - MUST BE REALISTIC
  - Downstream cash from holding company
  - Capital raise from existing shareholders
  - Capital raise from new shareholders
  - Additional holding company debt
  - Sale of the bank
**Contingency Planning (continued)**

- Preserving Capital – MUST BE REALISTIC
  - Reducing assets from the base case
    - $1 million in assets = +$80,000 in capital at 8% capital adequacy
  - Asset diversification (impacts risk-based capital)
  - All profitability enhancement measures
  - Dividend reduction if applicable
  - Branch sale if applicable

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**Determination of Capital Adequacy**

**Contingency Planning (continued)**

- Mutuals – A Special Word
  - Capital Raising is not an Option – This Adds Risk
  - Consider Holding Additional Capital to Mitigate That Risk
Determination of Capital Adequacy

**Capital Planning Process**
- Board to Set Risk Parameters
- Review Process Annually
- Determination of Risk Is Ongoing

**Capital Added for Risk**
- Young & Associates approach
  - Added Capital to = Regulatory Consent Based on that Bank’s Risk

<table>
<thead>
<tr>
<th>Young National Bank - Consent</th>
<th>Capital Adequacy Calculation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Leverage</strong></td>
<td><strong>Total RBC</strong></td>
</tr>
<tr>
<td>Minimum</td>
<td>5.00%</td>
</tr>
<tr>
<td>Conservation Buffer</td>
<td>1.25%</td>
</tr>
<tr>
<td>Credit</td>
<td>1.50%</td>
</tr>
<tr>
<td>IRR</td>
<td>0.12%</td>
</tr>
<tr>
<td>Liquidity</td>
<td>0.30%</td>
</tr>
<tr>
<td>Operational</td>
<td>0.30%</td>
</tr>
<tr>
<td>Price</td>
<td>0.10%</td>
</tr>
<tr>
<td>Compliance</td>
<td>0.10%</td>
</tr>
<tr>
<td>Strategic</td>
<td>0.15%</td>
</tr>
<tr>
<td>Reputation</td>
<td>0.15%</td>
</tr>
<tr>
<td><strong>Total Tier-1 Leverage</strong></td>
<td><strong>8.97%</strong></td>
</tr>
</tbody>
</table>
**Determination of Capital Adequacy**

**Young National Bank - Consent**

**Capital Adequacy Calculation**

<table>
<thead>
<tr>
<th>Leverage</th>
<th>Total RBC</th>
<th>Risk &amp; Direction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum</td>
<td>5.00%</td>
<td>10.00%</td>
</tr>
<tr>
<td>Conservation Buffer</td>
<td>1.25%</td>
<td>0.25%</td>
</tr>
<tr>
<td>Credit</td>
<td>1.50%</td>
<td>0.75%</td>
</tr>
<tr>
<td>IRR</td>
<td>0.12%</td>
<td>0.08%</td>
</tr>
<tr>
<td>Liquidity</td>
<td>0.30%</td>
<td>0.16%</td>
</tr>
<tr>
<td>Operational</td>
<td>0.30%</td>
<td>0.15%</td>
</tr>
<tr>
<td>Price</td>
<td>0.10%</td>
<td>0.07%</td>
</tr>
<tr>
<td>Compliance</td>
<td>0.10%</td>
<td>0.07%</td>
</tr>
<tr>
<td>Strategic</td>
<td>0.15%</td>
<td>0.08%</td>
</tr>
<tr>
<td>Reputation</td>
<td>0.15%</td>
<td>0.08%</td>
</tr>
<tr>
<td><strong>Total Tier-1 Leverage</strong></td>
<td><strong>8.97%</strong></td>
<td><strong>11.69%</strong></td>
</tr>
</tbody>
</table>

**Determination of Capital Adequacy**

**An Example Capital Adequacy Determination**

**Community Bank**

**Capital Adequacy Calculation**

<table>
<thead>
<tr>
<th>Leverage</th>
<th>Total RBC</th>
<th>Risk &amp; Direction</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum</td>
<td>5.00%</td>
<td>10.00%</td>
</tr>
<tr>
<td>Conservation Buffer</td>
<td>1.25%</td>
<td>0.25%</td>
</tr>
<tr>
<td>Credit</td>
<td>0.50%</td>
<td>0.35%</td>
</tr>
<tr>
<td>IRR</td>
<td>0.12%</td>
<td>0.08%</td>
</tr>
<tr>
<td>Liquidity</td>
<td>0.12%</td>
<td>0.08%</td>
</tr>
<tr>
<td>Operational</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Price</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Compliance</td>
<td>0.10%</td>
<td>0.07%</td>
</tr>
<tr>
<td>Strategic</td>
<td>0.00%</td>
<td>0.00%</td>
</tr>
<tr>
<td>Increasing</td>
<td>0.03%</td>
<td>0.01%</td>
</tr>
<tr>
<td><strong>Total Tier-1 Leverage</strong></td>
<td><strong>7.12%</strong></td>
<td><strong>10.84%</strong></td>
</tr>
</tbody>
</table>
Determination of Capital Adequacy

An Example Capital Adequacy Determination (continued)

- Capital Adequacy is Not Capital Goal or Target
  - Capital Goal or Target Usually Higher
  - Capital Adequacy Implementation of Contingency
    - Below Capital Adequacy
    - Projected to Fall Below Capital Adequacy
- Do You Want to Implement Capital Contingency if Below Capital Goal or Target?

Relationship Between Capital & Value

Relationship Between ROA/ROE/PE and Value

<table>
<thead>
<tr>
<th>Equity/</th>
<th>Book</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>Asset</td>
<td>ROE</td>
</tr>
<tr>
<td>1.20%</td>
<td>6.0%</td>
<td>20.0%</td>
</tr>
<tr>
<td>1.20%</td>
<td>8.0%</td>
<td>15.0%</td>
</tr>
<tr>
<td>1.20%</td>
<td>10.0%</td>
<td>12.0%</td>
</tr>
<tr>
<td>1.20%</td>
<td>12.0%</td>
<td>10.0%</td>
</tr>
</tbody>
</table>
Relationship Between Capital & Value

- Assumptions
  - 7.5% Tier-1 Leverage for Capital Adequacy
  - 10.0% Tier-1 Leverage Actual
- Why, when it negatively impacts value
  - Less regulatory scrutiny
  - As insurance against negative events
  - Opportunity – purchase of branch or bank
  - Build for buyout of shareholders

Regulators & Capital

- Community Bank must Increase Capital – **NOT TRUE**
  - Following are slightly altered
  - $150 Million Bank – Midwest Community Bank
  - 7.10% Tier-1 Leverage Ratio
  - 0.70% ALLL/Loans
  - Composite CAMELS 2
  - No Negative Comments Regarding These Issues
Considerations for Increasing Value

- Stock Repurchase
  - Shareholders who sell WIN
  - Shareholders who hold WIN
- Increase Dividends
  - To Shareholders
  - To Holding Company – Independence
- Additional Asset Growth

Current Position

- No Current Standards
- Regulators Unsure
- BE PROACTIVE
  - Implement Before
  - Regulatory Demand
### Young National Bank

#### Estimated Loan Portfolio Stress Losses

<table>
<thead>
<tr>
<th>Loans secured by type of real estate</th>
<th>Jun-16 Amount</th>
<th>2-Year Loss Stress %</th>
<th>2-Year Loss Potential</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Construction and development</td>
<td>$18,917</td>
<td>20%</td>
<td>$3,783</td>
</tr>
<tr>
<td>b. Farmland</td>
<td>$13,736</td>
<td>8%</td>
<td>$1,099</td>
</tr>
<tr>
<td>c. 1-4 family real estate</td>
<td>$92,520</td>
<td>4%</td>
<td>$3,701</td>
</tr>
<tr>
<td>d. Multifamily housing</td>
<td>$9,312</td>
<td>16%</td>
<td>$1,490</td>
</tr>
<tr>
<td>e. Nonfarm nonresidential property</td>
<td>$62,069</td>
<td>8%</td>
<td>$4,966</td>
</tr>
<tr>
<td>Agricultural production and farmer loans</td>
<td>$2,272</td>
<td>6%</td>
<td>$136</td>
</tr>
<tr>
<td>Commercial and industrial</td>
<td>$52,860</td>
<td>14%</td>
<td>$7,400</td>
</tr>
<tr>
<td>Consumer loans</td>
<td>$6,222</td>
<td>4%</td>
<td>$249</td>
</tr>
<tr>
<td>All other loans</td>
<td>$284</td>
<td>4%</td>
<td>$11</td>
</tr>
<tr>
<td><strong>Total Loss Potential</strong></td>
<td></td>
<td></td>
<td><strong>$22,835</strong></td>
</tr>
</tbody>
</table>

#### Previous Two Year Actual and Pro Forma Stress Period

<table>
<thead>
<tr>
<th></th>
<th>Previous Two Year Actual</th>
<th>Pro Forma Stress Period</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-provision gross income</td>
<td>$9,296</td>
<td>$7,437</td>
</tr>
<tr>
<td>Less provision to cover 2-year losses</td>
<td>$0</td>
<td>$22,835</td>
</tr>
<tr>
<td>Less provision to maintain ALLL</td>
<td>$0</td>
<td>$9,408</td>
</tr>
<tr>
<td>Income tax</td>
<td>$3,029</td>
<td>-$8,434</td>
</tr>
<tr>
<td><strong>Net income</strong></td>
<td><strong>$6,267</strong></td>
<td><strong>-$16,372</strong></td>
</tr>
</tbody>
</table>

Tier-1 Capital $44,932 $44,932

Net change from stress -$16,372

Adjusted tier-1 capital **$28,560**

Quarterly average assets $451,701 $428,866

Tier-1 Leverage Ratio 9.95% 6.66%
Calculation for Provision to Maintain ALLL

Current Gross Loans $258,193
Loss Potential $22,835
Gross Loans after Loss Potential $235,357
Current ALLL 0.97%
Additional ALLL Projection 4.03%
New ALLL Projection after Stress 5.00%
ALLL Amount after Stress $11,768
Current ALLL $2,360
Additional ALLL Needed after Stress $9,408

FDIC

Community State Bank
Estimated Loan Portfolio Stress Losses

<table>
<thead>
<tr>
<th></th>
<th>2-Year Loss Stress</th>
<th>2-Year Loss Stress</th>
<th>2-Year Loss Potential</th>
<th>2-Year Loss Potential</th>
</tr>
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<tbody>
<tr>
<td></td>
<td>Moderate</td>
<td>Severe</td>
<td>Moderate</td>
<td>Severe</td>
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<tr>
<td>Construction &amp;</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Development</td>
<td>$18,917</td>
<td>14.0%</td>
<td>$2,648</td>
<td>$4,729</td>
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<tr>
<td>Commercial Real</td>
<td>$85,117</td>
<td>2.5%</td>
<td>$2,128</td>
<td>$4,256</td>
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<tr>
<td>Estate</td>
<td>$92,520</td>
<td>2.9%</td>
<td>$2,683</td>
<td>$6,014</td>
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<tr>
<td>Residential Mortgage</td>
<td>$61,639</td>
<td>5.0%</td>
<td>$3,082</td>
<td>$6,164</td>
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<tr>
<td>Other Loans</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td></td>
<td>Total Loss Potential</td>
<td>$10,541</td>
<td>$21,163</td>
<td></td>
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<tr>
<td></td>
<td>Pre- provision gross income</td>
<td></td>
<td>Pro Forma Stress</td>
<td></td>
</tr>
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</tr>
<tr>
<td></td>
<td></td>
<td>Actual</td>
<td>Moderate</td>
<td>Severe</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$9,296</td>
<td>$8,366</td>
<td>$7,437</td>
</tr>
<tr>
<td>Less provision to cover 2-year losses</td>
<td>$0</td>
<td></td>
<td>$10,541</td>
<td>$21,163</td>
</tr>
<tr>
<td>Less provision to maintain ALLL</td>
<td>$0</td>
<td></td>
<td>$3,212</td>
<td>$1,788</td>
</tr>
<tr>
<td>Income tax</td>
<td>$3,029</td>
<td></td>
<td>-$1,832</td>
<td>-$5,275</td>
</tr>
<tr>
<td>Net income</td>
<td>$6,267</td>
<td></td>
<td>-$2,330</td>
<td>-$10,239</td>
</tr>
<tr>
<td>Tier-1 Capital</td>
<td>$44,932</td>
<td></td>
<td>$44,932</td>
<td>$44,932</td>
</tr>
<tr>
<td>Net change from stress</td>
<td>-$3,555</td>
<td></td>
<td>-$14,932</td>
<td></td>
</tr>
<tr>
<td>Adjusted tier-1 capital</td>
<td>$41,377</td>
<td></td>
<td>$30,000</td>
<td></td>
</tr>
<tr>
<td>Quarterly average assets</td>
<td>$451,701</td>
<td></td>
<td>$441,160</td>
<td>$430,538</td>
</tr>
<tr>
<td>Tier-1 Leverage Ratio</td>
<td>9.95%</td>
<td></td>
<td>9.38%</td>
<td>6.97%</td>
</tr>
</tbody>
</table>

**Calculation for Provision to Maintain ALLL**

|                                | Current Gross Loans | $258,193       | Loss Potential | $10,541       | Gross Loans after Loss Potential | $247,651       | Current ALLL | 0.97%       | Additional ALLL Projection | 1.28%       | New ALLL Projection after Stress | 2.25%       | ALLL Amount after Stress | **$5,572**  | Current ALLL | $2,360       | Additional ALLL Needed after Stress | $1,355       | $1,788       |
|--------------------------------|---------------------|----------------|----------------|----------------|----------------------------------|----------------|--------------|-------------|----------------------------------|-------------|----------------------------------|-------------|----------------|----------------|----------------------------------|-------------|--------------|


Thank You for Attending!

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