2016 SEIFRIED & BREW TOP 15TH PERCENTILE BANK RELEASE

Hello everyone. Thank you for joining us once again at Seifried & Brew's weekly briefing. I am Jamie Sumner, Chief Analyst here at Seifried & Brew. For this week's webcast we want to go over our release last week of the ***Top 15th percentile banks***. What we do every year is we rank all institutions across the United States less than $30 billion in assets and we give them a risk and reward score. It's with a model that we have developed that takes into consideration both the reward side of the equation as well as that risk side. We put them together and get a composite score.

So overall what we like to see are banks that are withinside the top 15th percentile [Slide 2]. So these are banks which we would say have optimally balanced their ***risk and reward profile***. When we go through the list of institutions [Slide 3] and we start to look at the averages of those banks that are in the top 15th percentile versus those banks that are outside of it, we begin to see an interesting layout here.

You can see the average ***risk score*** of the banks in the top 15th percentile (which would be about 860 banks), you can see the risk score is 34.98. So this is on a graduated scale, with 100 being the riskiest in our model and 0 being the least risky, or no risk. Obviously there are no institutions at the Zero mark. But when we look at it, their risk profile is showing a 34.98, whereas banks in general across the United States, excluding the top 15th percentile, are at a 42. So we can say that these institutions that have met the criteria to be inside the top 15th percentile are taking overall less risk withinside of their balance sheet.

Then we look at the ***reward score***, and with banks inside the top 15th percentile, their reward score is around 69, compared to banks that are not in the top 15th percentile and their risk score on average is a 42. So the profile here for institutions in the top 15th percentile are those banks that take maybe a moderate level of risk in here, but are garnering a higher level of return.

When we look at it in terms of ***ROA and ROE*** [Slide 4], we can see here that on average banks that do not file under subchapter S, their average ROA for 2016 was 1.38%, compared to the average non-top 15th percentile bank where their average was 0.62%. So you have a much broader and much higher level of return on assets. We look at the sub S banks, they are at a 2.07%, versus the national benchmark of 1.09%. So you can see those institutions that are inside of our top 15th percentile are garnering, on average, a much higher level of return on average assets.

Now we split out the banks in ***Subchapter S*** and ***Non-subchapter S*** because of the overall tax advantage. With inside of that top 15th percentile, about 41% of the banks are Subchapter S. Banks outside of the top 15th percentile are about 35%. So we have a good weighting to the overall numbers here [Slide 6]. But when we look at the makeup of performance we can see that the top 15th percentile, their net interest margin is a 4.01%, versus the national benchmark at a 3.70%. So the top 15th percentile have a higher level of net interest margin.

But the biggest variance here would be with inside of their ***net overhead***. The net overhead for the top 15th percentile on average is 1.58, compared to the average for the national benchmark at a 2.32. You can see that is where the biggest difference lies, and that's the differentiator between top 15th percentile and non-top 15th percentile beyond the net interest margin. The Top 15 percentile just operates at a much higher level of efficiency in here. [Slide 7] And we can see that when we look at the components of that net overhead. If you recall net overhead is the difference between non-interest expense and non-interest income. You can see banks that are operating inside the top 15th percentile range have on average a non-interest expense of 2.86 compared to 3.09 for those banks outside of that top 15th percentile. Also, if you look at the non-interest income, banks inside the top

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15th percentile, they garner a high level of non-interest income, and on average it's 1.28 compared to 0.77 for the national benchmark. However we want to look at this and make sure we aren't skewing anything. So if you look at the median numbers for the non-interest income, you can see for the top 15th percentile, it is significantly below where we see the average at 61 basis points. However at 61 basis points they are still higher than the overall non 15th percentile bank at 0.53 [Slide 8].

So within this, *we can see that banks that are inside the top 15th percentile have a level of risk that is around moderate around the lower end of that risk score, however they are garnering a higher level of return by way of a slightly higher net interest margin, but even more importantly, a higher level of efficiency because of a lower net overhead*.

If you want to look at the complete list of the top 15th percentile you can visit our website at www.sb15th.com and at the bottom there is a link to look at the entire listing of that 860+ banks that have made it onto our top 15th peer group. Have a great week everyone we look forward to seeing you back next week when we look at the release of the first quarter GDP for 2017. Have a great week.

Materials set forth above are based on transcripts/slides presented from the Seifried & Brew Briefing transmitted on the above date. For further reference please click on *http://seifriedbrew.com/briefings.html*

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