

CECL Reserving and Credit Benchmarking Study

THIRD-QUARTER 2021



COVID-19's adverse impact on loan performance and 2020 Coronavirus Aid, Relief, and Economic Security (CARES) Act financial reporting and disclosure relief arrived simultaneous to the implementation of the controversial Current Expected Credit Losses (CECL) accounting standard for loan-loss reserving. Analysis and comparisons would have been difficult under any circumstances. However, the interplay of all three factors has made analyzing bank loan performance and reserving levels even more difficult over the last two years.

In a continuing effort to provide financial statement preparers and users more insightful information to benchmark activity better across a representative cross-section of banks (given asset size, geographic location, and business mix), Berkeley Research Group's (BRG) Financial Institution Advisory practice created the quarterly *CECL Reserving and Credit Benchmarking Study*. The study compares allowance levels, charge-offs, nonperforming loans (based on CARES Act classification/reporting relief), and other key credit metrics across multiple predominately domestic US banking institutions.

This sixth study in our series continues to analyze eleven representative banks that appeared in our first five studies.¹ These banks have total assets as of September 30, 2021, ranging from \$30 billion to \$554 billion (and a \$173 billion median).

Key observations from this third-quarter study include:

- ✓ Loan allowance coverage ratios continued to fall during 3Q 2021 (7 basis points (bp) on average) when compared to 2Q 2021, but still are on average 21 bp higher than pre-pandemic levels.
- ✓ Total allowance coverage ratios continue to vary widely, with a difference of almost four times the lowest and highest bank in our survey.
- ✓ Commercial loans are trending downward, with a 129 bp average decrease compared with the previous quarter, but still exceed year-end 2019 levels by 720 bp² due to COVID Paycheck Protection Program (PPP) lending.
- ✓ Seven of eleven banks released provisions during 3Q 2021, and three reported no change in provisions. This compares to five and two, respectively, in the prior quarter.
- ✓ Nonperforming loans decreased by 2 bp during the quarter, from 57 bp to 55 bp. The low balance dropped slightly less than in the previous quarter (1 bp compared to 4 bp), while the high balance increased by 1 bp from 2Q 2021 to 3Q 2021.
- ✓ Charge-off ratios continue to be benign, with a 5 bp quarterly reduction on the average ratio noted (the same as the 5 bp reduction reported in 2Q 2021). In addition, the narrowing of the spread among the institutions noted in the previous reporting continues this quarter.
- ✓ While eleven of the twelve original benchmarked banks disclosed some level of COVID deferral data from 2Q 2020 to 4Q 2020, only five banks reported in 3Q 2021. For this quarter, the percent of deferrals ranged from 10 bp to 36 bp, with an average of 21 bp. This is down from a range of 4.25% to 16.11%, with an average of 7.41%, in 2Q 2020.

¹ As of June 9, 2021, TCF Bank finalized its merger with Huntington Bank. The combined entity was assessed starting in the 2Q 2021 review under Huntington Bank, but prior quarters' data still break out and include the two entities separately. For more information on the merger, see: <https://www.huntington.com/tcf-bank>.

² Excludes South State and Huntington for 4Q 2019 due to South State's acquisition of CenterState Bank as of June 7, 2020, and Huntington's merger with TCF Bank as of June 9, 2021.

Detailed Data Comparisons

Coverage Ratios as of September 30, 2021

| | Low | Median | Average | High |
|--|-------|--------|---------|-------|
| Loan Allowance to Loan Portfolio | 0.52% | 1.50% | 1.41% | 1.91% |
| Total Allowance <i>(including for off-balance commitments)</i> | 0.54% | 1.46% | 1.49% | 2.07% |
| Commercial Allowance Coverage Ratio | 0.99% | 1.69% | 1.55% | 2.58% |
| Consumer Allowance Coverage Ratio | 0.21% | 1.11% | 1.20% | 1.91% |

Increase in Total Allowance Coverage Ratios³

| | Low | Median | Average | High |
|---|---------------|---------------|---------------|---------------|
| Loan Allowance - 3Q '21 to 2Q '21 | 0.01% | -0.04% | -0.07% | -0.08% |
| Loan Allowance - 3Q '21 to 1Q '21 | -0.01% | -0.07% | -0.21% | -0.36% |
| Loan Allowance - 3Q '21 to 4Q '20 | -0.05% | -0.11% | -0.29% | -0.35% |
| Loan Allowance - 3Q '21 to 3Q '20 | -0.06% | -0.18% | -0.32% | -0.47% |
| Total Allowance - 3Q '21 to 2Q '21 | 0.01% | -0.14% | -0.07% | -0.10% |
| Total Allowance - 3Q '21 to 1Q '21 | -0.01% | -0.27% | -0.23% | -0.48% |
| Total Allowance - 3Q '21 to 4Q '20 | -0.05% | -0.35% | -0.36% | -0.39% |
| Total Allowance - 3Q '21 to 3Q '20 | -0.06% | -0.43% | -0.39% | -0.52% |

Change in Commercial Loan Portfolio

| | Low | Median | Average | High |
|--|---------|--------|---------|--------|
| Increase in Total Commercial Loans - 3Q '21 to 2Q '21 | -5.25% | -1.62% | -1.29% | 3.17% |
| Increase in Total Commercial Loans - 3Q '21 to 1Q '21* | -13.16% | -3.34% | -3.75% | 3.62% |
| Increase in Total Commercial Loans - 3Q '21 to 4Q '20* | -12.67% | -3.68% | -4.17% | 7.32% |
| Increase in Total Commercial Loans - 3Q '21 to 3Q '20* | -16.08% | -6.75% | -5.15% | 14.47% |

*Excludes Huntington and PNC due to the acquisitions of TCF and BBVA, respectively, as the purchase accounting has inflated the commercial loan balances starting in 2Q 2021 versus prior periods.

Nonperforming Loan Statistics⁴

| | Low | Median | Average | High |
|--|--------------|--------------|--------------|--------------|
| Commercial and Industrial Loans | 0.02% | 0.54% | 0.53% | 1.28% |
| Commercial Real Estate Loans* | 0.06% | 0.32% | 0.45% | 1.01% |
| Equipment Lease Financing | 0.06% | 0.18% | 0.58% | 1.71% |
| Consumer Loans | 0.03% | 0.67% | 0.66% | 1.65% |
| OREO and Foreclosed Assets | 0.00% | 0.01% | 0.01% | 0.03% |
| Total Nonperforming (as of September 30, 2021) | 0.10% | 0.57% | 0.55% | 0.97% |
| Allowance for Loan and Leases to Total Nonperforming Loans (as of September 30, 2021) | 151% | 268% | 336% | 796% |
| Change in nonperformers - 3Q '21 to 2Q '21 | -0.01% | -0.04% | -0.02% | 0.01% |
| Change in nonperformers - 3Q '21 to 1Q '21 | -0.05% | -0.10% | -0.06% | 0.05% |
| Change in nonperformers - 3Q '21 to 4Q '20 | -0.06% | -0.12% | -0.08% | 0.00% |
| Change in nonperformers - 3Q '21 to 3Q '20 | -0.06% | -0.17% | -0.13% | -0.08% |

³ Represents the actual change in the low-, median-, average-, and high-coverage ratio from one period to the other [therefore, 2.00% in 2Q to 1.50% in 3Q = 0.50% decrease]. Some individual banks may have larger or smaller movements than that noted above.

⁴ Change in nonperformers represents the actual change in the coverage ratio from one period to the other [therefore, 1.50% in 2Q to 2.00% in 3Q = 0.50% increase] for the low, median, average, and high categories. Some individual banks may have larger or smaller movements than that noted above.

Net Quarterly Charge-Off Metrics⁵

| | Low | Median | Average | High |
|---|---------------|--------------|--------------|--------------|
| Commercial Charge-Offs to Avg Loans <i>(annualized)</i> | -0.03% | 0.03% | 0.11% | 0.45% |
| Consumer Charge-Offs to Avg Loans <i>(annualized)</i> | 0.00% | 0.08% | 0.16% | 0.40% |
| Total Net Charge-Offs to Avg Loans <i>(annualized)</i> | -0.01% | 0.10% | 0.12% | 0.33% |
| Number of Quarters of Charge-Offs in Allowance* | 20 | 54 | 60 | 103 |
| Change in Charge-off % - 3Q '21 to 2Q '21 | 0.01% | 0.01% | -0.05% | -0.15% |
| Change in Charge-off % - 3Q '21 to 1Q '21 | -0.01% | -0.15% | -0.13% | -0.19% |
| Change in Charge-off % - 3Q '21 to 4Q '20 | -0.02% | -0.33% | -0.23% | -0.28% |
| Change in Charge-off % - 3Q '21 to 3Q '20 | -0.02% | -0.25% | -0.27% | -0.95% |

*Excludes First Republic, South State, and Zions, which have outlier balances due to large recoveries.

Change in Provision for Credit Losses

| | Banks Releasing | Zero Provision | Banks Adding |
|---------|-----------------|----------------|--------------|
| 3Q '21* | 7 | 3 | 1 |
| 2Q '21* | 5 | 2 | 4 |
| 1Q '21 | 8 | 1 | 3 |
| 4Q '20 | 3 | 1 | 8 |
| 3Q '20 | 1 | 0 | 11 |

*Excludes TCF due to its merger with Huntington in June 2021.

Analysis of Provision Change *(for the quarter-ended September 30, 2021)*

| | Low | Median | Average | High |
|--|-------|--------|---------|--------|
| Percentage of Prior QE Allowance Released | 1.59% | 3.18% | 5.05% | 10.20% |
| Percentage of Prior QE Allowance Increased | 5.15% | 5.15% | 5.15% | 5.15% |

Methodology

All amounts were obtained from publicly available information contained on the banks' websites, including:

- ✓ Security and Exchange Commission Forms 10-Q and 10-K
- ✓ Press releases
- ✓ Earnings presentations
- ✓ Supplemental quarterly financial data

Benchmarked Banks

| | | |
|---------------|------------------|--------------|
| ✓ PNC | ✓ South State | ✓ Huntington |
| ✓ Citizens | ✓ Prosperity | ✓ Key |
| ✓ Fifth-Third | ✓ First Republic | ✓ Frost |
| ✓ Sterling | ✓ Zions | |

Underlying data with respective sourcing is available from BRG upon request and includes breakouts by portfolio category where presented.

⁵ Change in charge-off percentage represents the actual change in the charge-off ratio from one period to the other (therefore, 0.10% in 2Q to 0.15% in 3Q = 0.05% increase) for the low, median, average, and high categories. Some individual banks may have larger or smaller movements than that noted above.

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