



# Quarterly Investor Update

Third Quarter Fiscal Year 2019

# Forward-Looking Statements

The Company and MetaBank may from time to time make written or oral “forward-looking statements,” including statements contained in this press release, the Company’s filings with the Securities and Exchange Commission (“SEC”), the Company’s reports to stockholders, and in other communications by the Company and MetaBank, which are made in good faith by the Company pursuant to the “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995.

You can identify forward-looking statements by words such as “may,” “hope,” “will,” “should,” “expect,” “plan,” “anticipate,” “intend,” “believe,” “estimate,” “predict,” “potential,” “continue,” “could,” “future,” or the negative of those terms, or other words of similar meaning or similar expressions. You should carefully read statements that contain these words because they discuss our future expectations or state other “forward-looking” information. These forward-looking statements are based on information currently available to us and assumptions about future events, and include statements with respect to the Company’s beliefs, expectations, estimates, and intentions, which are subject to significant risks and uncertainties, and are subject to change based on various factors, some of which are beyond the Company’s control. Such risks, uncertainties and other factors may cause our actual growth, results of operations, financial condition, cash flows, performance and business prospects and opportunities to differ materially from those expressed in, or implied by, these forward-looking statements. Such statements address, among others, the following subjects: future operating results; customer retention; loan and other product demand; important components of the Company’s statements of financial condition and operations; growth and expansion; new products and services, such as those offered by MetaBank or the Company’s Payments divisions (which include Meta Payment Systems, Refund Advantage, EPS Financial and Specialty Consumer Services); credit quality and adequacy of reserves; technology; and the Company’s employees. The following factors, among others, could cause the Company’s financial performance and results of operations to differ materially from the expectations, estimates, and intentions expressed in such forward-looking statements: maintaining our executive management team; the expected growth opportunities, beneficial synergies and/or operating efficiencies from the Crestmark acquisition may not be fully realized or may take longer to realize than expected; customer losses and business disruption related to the Crestmark acquisition; unanticipated or unknown losses and liabilities may be incurred by the Company following the Crestmark acquisition; the costs, risks and effects on the Company of the ongoing federal investigation and bankruptcy proceedings involving DC Solar Solutions, Inc., DC Solar Distribution, Inc., and their affiliates, including the potential financial impact of those matters on the net book value of Company assets leased to DC Solar Distribution and the Company’s ability to recognize certain investment tax credits associated with such assets, and the results of the Company’s review of its due diligence processes with respect to the Company’s alternative energy assets; factors relating to the Company’s share repurchase program; actual changes in interest rates and the Fed Funds rate; additional changes in tax laws; the strength of the United States’ economy, in general, and the strength of the local economies in which the Company conducts operations; risks relating to the recent U.S. government shutdown, including any adverse impact on our ability to originate or sell SBA/USDA loans and any delay by the Internal Revenue Service in processing taxpayer refunds, thereby increasing the cost to us of our refund advance loans; the effects of, and changes in, trade, monetary, and fiscal policies and laws, including interest rate policies of the Board of Governors of the Federal Reserve System (the “Federal Reserve”), as well as efforts of the United States Congress and the United States Treasury in conjunction with bank regulatory agencies to stimulate the economy and protect the financial system; inflation, market, and monetary fluctuations; the timely and efficient development of, and acceptance of, new products and services offered by the Company or its strategic partners, as well as risks (including reputational and litigation) attendant thereto, and the perceived overall value of these products and services by users; the risks of dealing with or utilizing third parties, including, in connection with the Company’s refund advance business, the risk of reduced volume of refund advance loans as a result of reduced customer demand for or acceptance of usage of Meta’s strategic partners’ refund advance products; any actions which may be initiated by our regulators in the future; the impact of changes in financial services laws and regulations, including, but not limited to, laws and regulations relating to the tax refund industry and the insurance premium finance industry; our relationship with our primary regulators, the Office of the Comptroller of the Currency and the Federal Reserve, as well as the Federal Deposit Insurance Corporation, which insures MetaBank’s deposit accounts up to applicable limits; technological changes, including, but not limited to, the protection of electronic files or databases; acquisitions; litigation risk, in general, including, but not limited to, those risks involving MetaBank’s divisions; the growth of the Company’s business, as well as expenses related thereto; continued maintenance by MetaBank of its status as a well-capitalized institution, particularly in light of our growing deposit base, a portion of which has been characterized as “brokered;” changes in consumer spending and saving habits; and the success of the Company at maintaining its high quality asset level and managing and collecting assets of borrowers in default should problem assets increase.

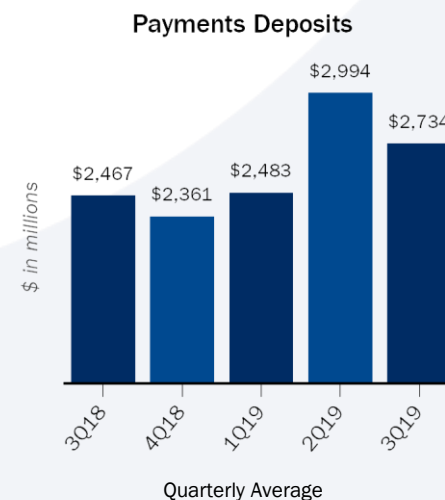
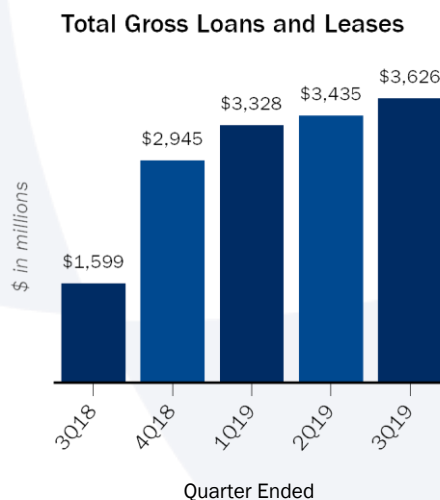
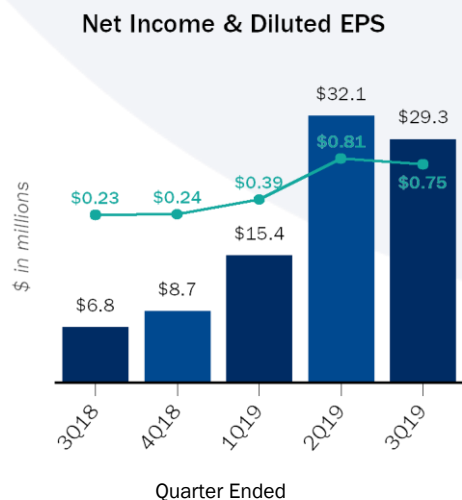
The foregoing list of factors is not exclusive. We caution you not to place undue reliance on these forward-looking statements. The forward-looking statements included herein speak only as of the date of this investor update. All subsequent written and oral forward-looking statements attributable to us or any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this cautionary note. Additional discussions of factors affecting the Company’s business and prospects are reflected under the caption “Risk Factors” and in other sections of the Company’s Annual Report on Form 10-K for the Company’s fiscal year ended September 30, 2018 and in other filings made with the SEC. The Company expressly disclaims any intent or obligation to update any forward-looking statements, whether written or oral, that may be made from time to time by or on behalf of the Company or its subsidiaries, whether as a result of new information, changed circumstances or future events or for any other reason.



# Financial Highlights

Third Quarter Ended June 30, 2019

- Net income of \$29.3 million, or \$0.75 per diluted share, for the quarter.
- Net interest margin ("NIM") increased to 5.07% for the fiscal 2019 third quarter, up 213 basis points from the fiscal 2018 third quarter.
  - Net purchase accounting accretion contributed 25 basis points for the fiscal 2019 third quarter.
- Total gross loans and leases increased by \$2.03 billion, or 127%, compared to June 30, 2018, and \$190.9 million, or 5.6%, compared to the linked-quarter.
- Average payments deposits grew 10.8% compared to the prior fiscal year third quarter average.
- Repurchased 1,574,734 shares under the stock repurchase program at an average price of \$27.31 per share.

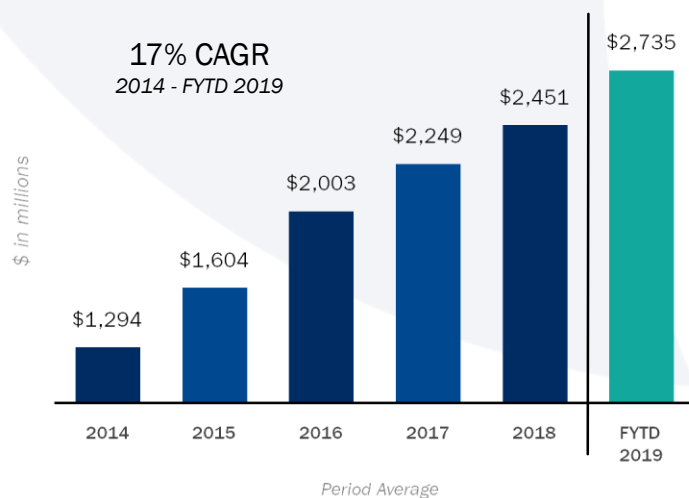


# Ongoing Balance Sheet Remix Provides Powerful Commercial Finance Growth Opportunities

Selected Quarterly Average	Earning Asset Mix <sup>1</sup>			Yields June 2019	Aspirational Earning Asset Mix
	June 2018	September 2018	June 2019		
Commercial Finance	8%	23%	34%	10.01%	>55%
Consumer & Warehouse Finance	5%	6%	11%	7.96%	<15%
Community Bank	27%	23%	22%	4.63%	<15%
Investments	58%	46%	31%	3.09%	<20%

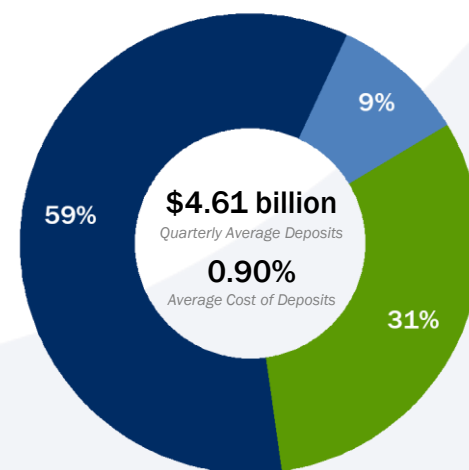
<sup>1</sup> Quarterly average, excludes Tax Services Loans and Cash & Fed Funds Sold

## Strong Growth in Average Payments Deposits



## Quarterly Average Deposit Mix by Segment

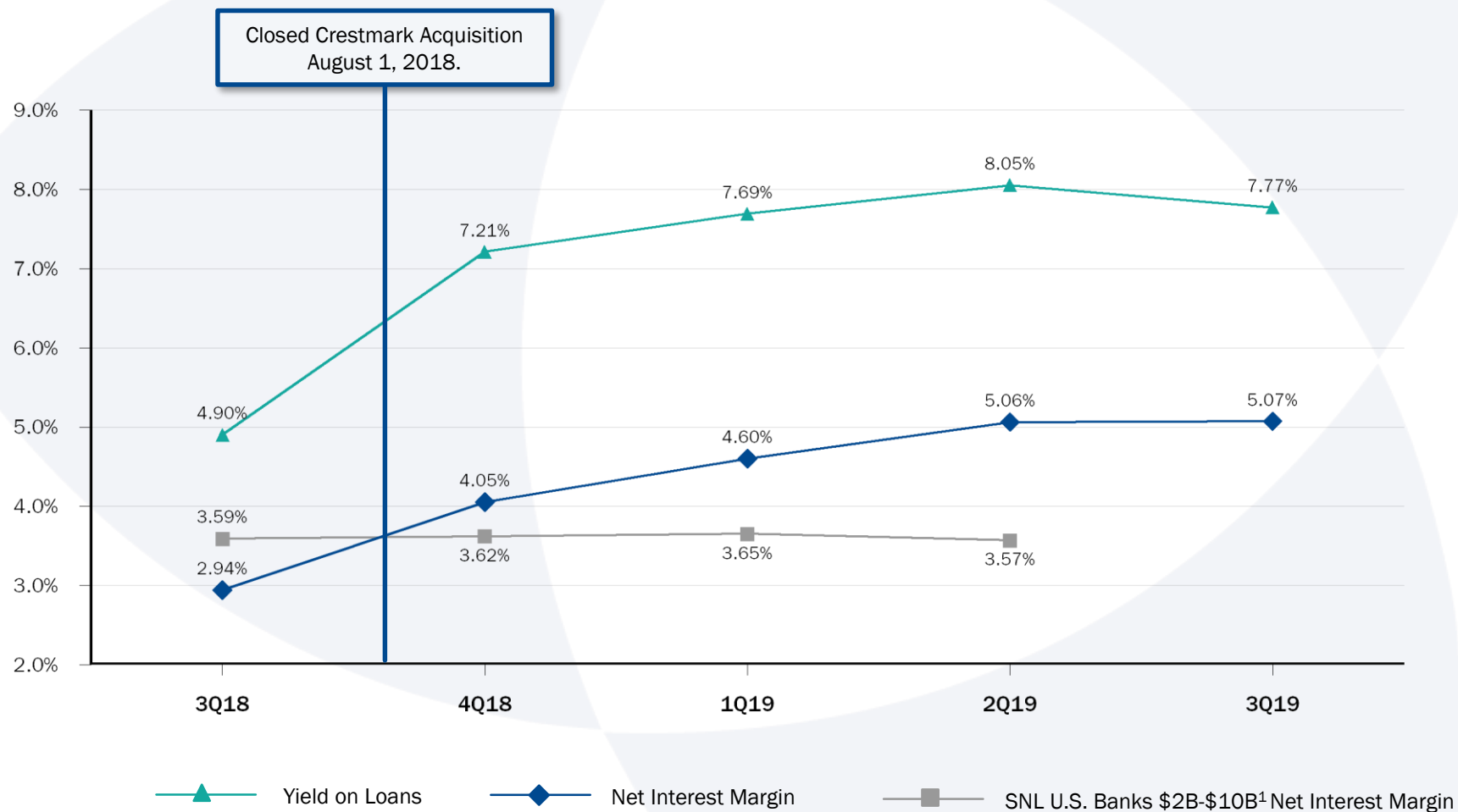
Third Quarter Fiscal 2019



■ Payments ■ Banking ■ Corporate



# Rising Loan Yields and More Compelling Asset Mix Driving Differentiated NIM Expansion

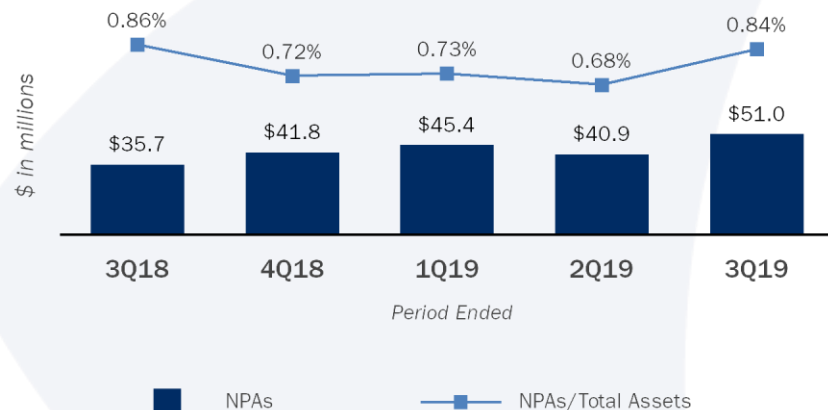


<sup>1</sup> SNL U.S. Bank \$2-10B; includes all Banks in SNL's coverage universe with \$2B to \$10B in Assets. Q3 2019 (June 30) SNL data not yet available.

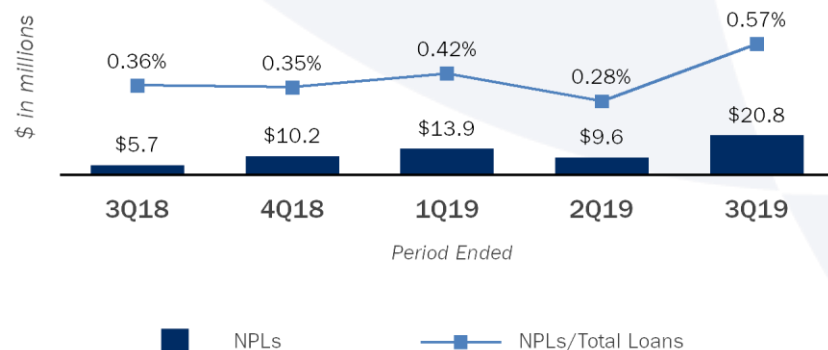


# Disciplined Credit Culture Drives Strong Asset Quality

## Nonperforming Assets ("NPAs")

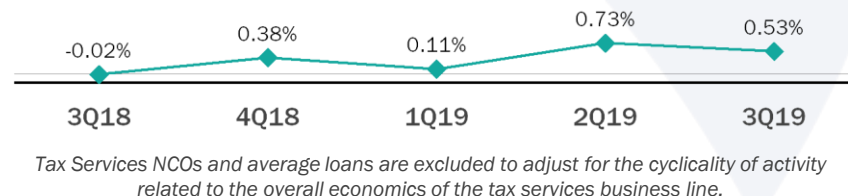


## Nonperforming Loans ("NPLs")



## Adjusted Annualized Net Charge-Offs / Adjusted Quarterly Average Loans & Leases<sup>1</sup>

*Excludes Tax Services NCOs and Related Seasonal Average Loans*



- Allowance for loan and lease losses was \$43.5 million at June 30, 2019, compared to \$22.0 million at June 30, 2018
  - Primarily driven by increases in allowance related to growth in the commercial finance portfolio, tax services, consumer lending, and community banking
- The fair value credit mark for the acquired Crestmark loans and leases totaled \$6.8 million at June 30, 2019
- Net charge-offs ("NCOs") were \$14.3 million for the quarter-ended June 30, 2019
  - Tax Services NCOs were \$9.6 million in the third quarter of fiscal 2019, compared to \$10.5 million in the third quarter of fiscal 2018

<sup>1</sup> Non-GAAP measures, see appendix for reconciliations.



# Diversified Loan Growth

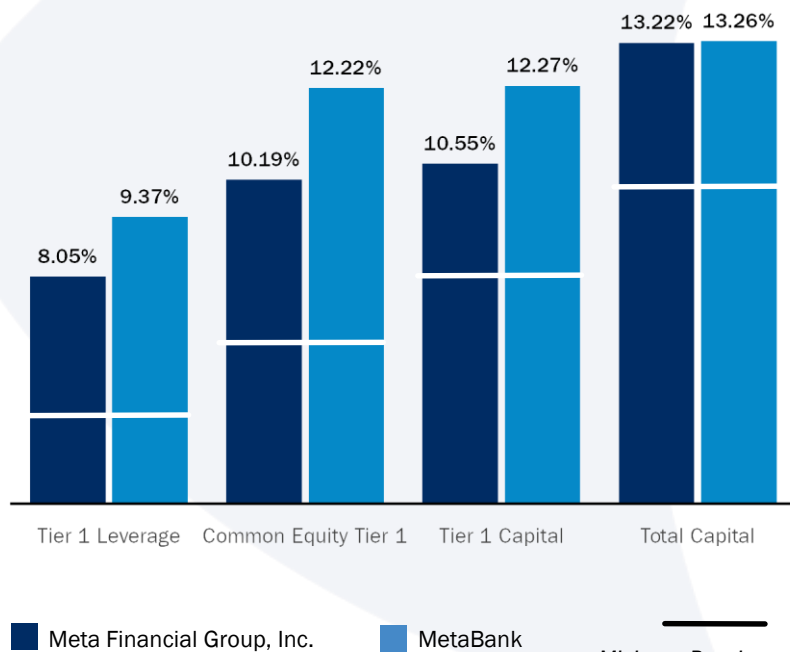
		At the Quarter Ended			3Q19 % Change From	
		June 30, 2018	March 31, 2019	June 30, 2019	2Q19	3Q18
(\$ in thousands)		3Q18	2Q19	3Q19		
National Lending	<b>Commercial Finance</b>	<b>315,021</b>	<b>1,665,891</b>	<b>1,835,850</b>	<b>10.2%</b>	<b>482.8%</b>
	Asset based lending	—	572,210	615,309	7.5%	NM
	Factoring	—	287,955	320,344	11.2%	NM
	Lease financing	—	321,414	341,957	6.4%	NM
	Insurance premium finance	303,603	307,875	358,772	16.5%	18.2%
	SBA/USDA	—	77,481	99,791	28.8%	NM
	Other commercial finance	11,418	98,956	99,677	0.7%	773.0%
	<b>Consumer Finance</b>	<b>220,927</b>	<b>310,441</b>	<b>320,266</b>	<b>3.2%</b>	<b>45.0%</b>
	Consumer Credit Programs	26,583	139,617	155,539	11.4%	485.1%
	Other consumer finance	194,344	170,824	164,727	(3.6)%	(15.2)%
	<b>Tax Services</b>	<b>14,281</b>	<b>84,824</b>	<b>24,410</b>	<b>(71.2)%</b>	<b>70.9%</b>
	<b>Warehouse Finance</b>	<b>—</b>	<b>186,697</b>	<b>250,003</b>	<b>33.9%</b>	<b>NM</b>
	<b>Community Banking</b>	<b>1,048,946</b>	<b>1,187,163</b>	<b>1,195,434</b>	<b>0.7%</b>	<b>14.0%</b>
	Commercial Real Estate & Op.	751,146	869,917	877,412	0.9%	16.8%
	1-4 Family Real Estate & Other	237,704	257,079	256,853	(0.1)%	8.1%
	Agricultural loans	60,096	60,167	61,169	1.7%	1.8%
<b>Total National Lending</b>		<b>550,229</b>	<b>2,247,853</b>	<b>2,430,529</b>	<b>8.1%</b>	<b>341.7%</b>
<b>Total Community Banking</b>		<b>1,048,946</b>	<b>1,187,163</b>	<b>1,195,434</b>	<b>0.7%</b>	<b>14.0%</b>
<b>Total Gross Loans &amp; Leases</b>		<b>1,599,175</b>	<b>3,435,016</b>	<b>3,625,963</b>	<b>5.6%</b>	<b>126.7%</b>



# Regulatory Capital as of June 30, 2019

Strong capital remains above "well-capitalized"

## Regulatory Capital Ratios



Minimum Requirement to be Well-Capitalized under Prompt Corrective Action (PCA) Provisions

## Capital Deployment Priorities

1. Growth initiatives
2. Share repurchases<sup>1</sup>
3. Dividend payout

<sup>1</sup>The Company's Board of Directors authorized a share repurchase program to repurchase up to 2,000,000 shares of outstanding Company common stock from May 1, 2019 - September 30, 2021.

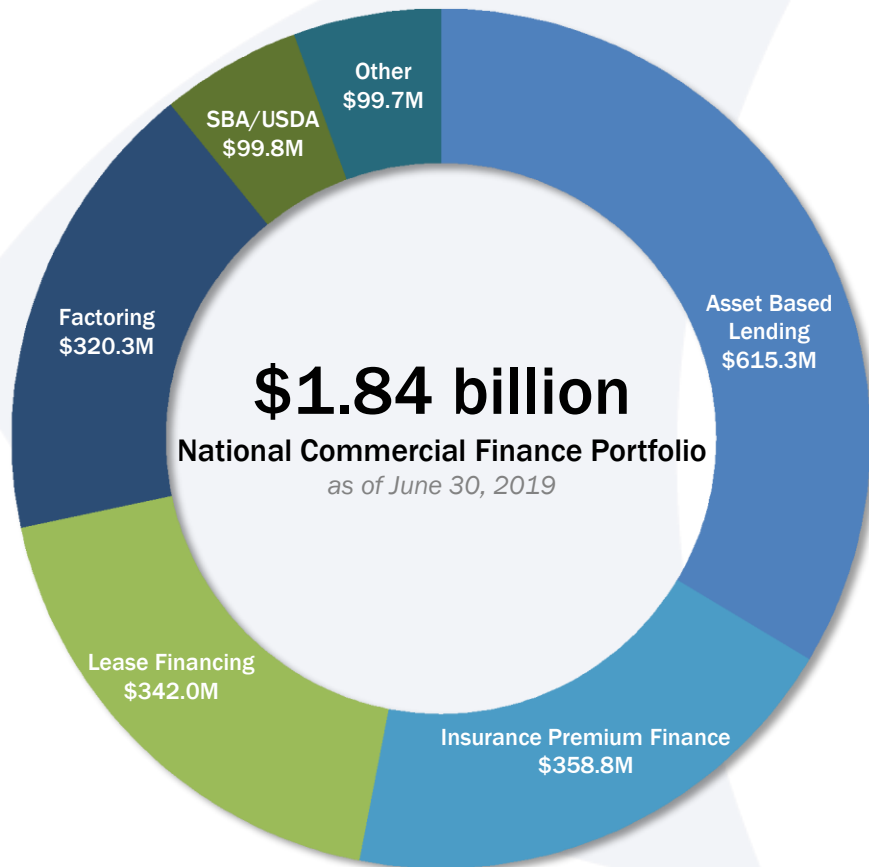




## **Commercial Finance**



# Commercial Finance Growth Engine



See Appendix, slide 20, for an overview of the underlying credit philosophy for the Company's commercial finance portfolio

**Asset Based Lending.** Provide asset-based loans secured by assets such as inventory, accounts receivable, machinery & equipment, work-in-process and other assets.

**Lease Financing.** Provide flexible leasing solutions for technology, capital equipment and select transportation assets like tractors, trailers and construction equipment.

**Insurance Premium Finance.** Provide short-term, primarily collateralized financing to facilitate the commercial customers' purchase of insurance for various forms of risk.

**Factoring.** Provide factoring services where clients provide detailed inventory, accounts receivable, and work-in-process reports for lending arrangements.

**SBA/USDA.** Originate loans through programs partially guaranteed by the SBA or USDA.

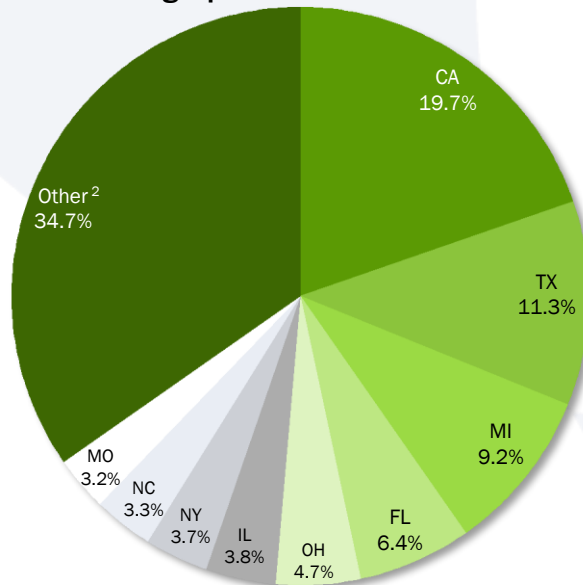
**Other Commercial Finance.** Includes healthcare receivables loan portfolio primarily comprised of loans to individuals for medical services received. Majority of these loans are guaranteed by the hospital. Also includes providing other lending solutions to commercial finance customers.



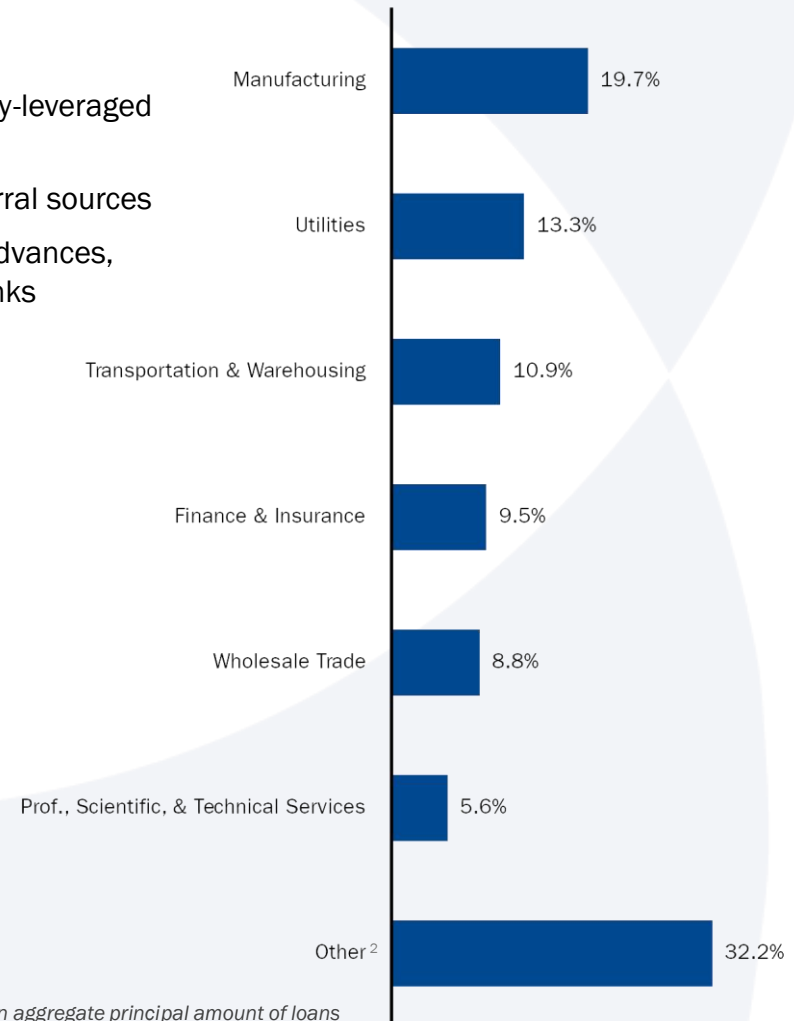
# Experienced Management Team Offers Consultative Approach to Targeted Commercial Finance Clients on Nationwide Basis

- Seasoned management team
  - Average tenure at Crestmark of 13 years
  - Average of over 25 years of banking or specialty finance experience
- Well-known to turnaround specialists, lawyers and CPAs for assisting highly-leveraged companies with low liquidity and cash needs
- Active involvement in trade associations and cooperatives to develop referral sources
- Competition includes independent factoring companies, merchant cash advances, finance companies, equipment leasing companies and middle-market banks

**Commercial Finance  
Geographic Concentrations<sup>1</sup>**



**Commercial Finance  
Industry Concentrations<sup>1</sup>**



<sup>1</sup> Excludes joint ventures and commercial insurance premium finance portfolios; percentages calculated based on aggregate principal amount of loans

<sup>2</sup> Other represents any concentration that makes up less than 5% of a given industry and less than 3% for a geographic concentration



# Strategy Update



# Company Targeted Focus Areas

## Meta Financial Group®

Incorporated in 1993, is the holding company for its full-service banking subsidiary, MetaBank.

## MetaBank

Founded in 1954, MetaBank has grown to operate in several different financial sectors, including: payments, commercial finance, tax services, community banking and consumer lending.

### Payments

Strategic, tailored solutions to facilitate money movement, enabling payments providers to grow their businesses and build more profitable customer relationships by creating, delivering and sponsoring payment solutions

### Commercial Lending

Provide customized national business capital solutions for small-and medium-sized businesses with innovative financial solutions to niche markets; also provide traditional banking services within local branch footprint

### Consumer Lending

Focused on strategic relationships to build greater cross-sell opportunities, particularly with our market-leading payments relationships



# Differentiated Approach to Driving Shareholder Value

1

2

3

KEY INITIATIVES	Increase Percentage of Funding from Core Deposits	Optimize Interest-Earning Asset Mix	Improve Operating Efficiencies
STRATEGY	<p>Leverage payments division growth opportunities</p> <p>Explore and develop new niche deposit opportunities</p>	<p>Replace lower-yielding loans and securities with higher-yielding loans</p> <p>Expand net interest margin with focus on commercial finance line of business</p>	<p>Improve efficiency ratio from current level</p> <p>Pause on material mergers and acquisitions</p>
FOCUS	<p>Gain greater share of deposits from existing strategic relationships</p> <p>Develop additional products and services to deepen relationships</p> <p>Add new strategic relationships</p>	<p>Limit balance sheet exposure of consumer credit products to less than 15% of earning assets</p> <p>Limit consumer lending relationships to those with a high potential for strategic cross-selling opportunities</p>	<p>Expense discipline by improving collaboration and productivity between business lines</p> <p>Concentrated focus on optimization and utilization of existing business platforms</p>
PROGRESS	Maintained funding from core deposits at 60% of average total deposits in the fiscal third quarter	Sold lower-yielding securities and replaced with higher-yielding loans in the fiscal third quarter in an effort toward optimizing earning asset mix	Positive operating leverage in the fiscal third quarter to drive efficiency ratio to more optimal levels over time



# Long-Term Value Drivers

## Differentiated Model

- Target niche commercial and consumer industries to provide opportunities for growth

## Low-Cost Funding Advantage

- National payments business drives low-cost deposits
- Re-focus on increasing percentage of funding from core deposits

## Scalable Lending Platforms

- Crestmark acquisition provides scalable commercial finance platform, leveraged to optimize earning asset mix

## Cross-Selling Opportunities

- Cross-selling expected to further enhance efficiencies with lower cost of customer acquisition, utilizing current product distribution channels

## Positioning in a shifting rate environment

- Balance sheet well-positioned for a flat rate environment with emphasis of growing low-cost deposits and replacing lower-yielding assets with higher-yielding assets.

## Aspirational Target Qualitative Metrics

- ROA > 2.0%
- Efficiency ratio < 65%



# Appendix





# Quarterly Income Statement

(\$ in millions, except per share data)	3Q18	2Q19	3Q19	3Q19 Change From			
				2Q19		3Q18	
				\$	%	\$	%
Net Interest Income	28.4	71.4	67.0	(4.4)	(6)%	38.6	136%
Card & Deposit Fee Income	23.9	25.1	21.9	(3.3)	(13)%	(2.1)	(9)%
Refund Transfer Product Fee Income	7.4	31.6	6.7	(24.9)	(79)%	(0.7)	(9)%
Tax Advance Fee Income	—	33.0	—	(33.0)	NM	0.1	NM
Rental Income	—	9.9	9.4	(0.5)	(5)%	9.4	NM
Gain/(Loss) on Sale of Loans and Leases	—	1.1	1.9	0.8	76%	1.9	NM
Other Income	2.0	4.3	3.9	(0.4)	(9)%	1.9	97%
<b>Total Revenue</b>	<b>\$ 61.6</b>	<b>\$ 176.4</b>	<b>\$ 110.8</b>	<b>\$ (65.6)</b>	<b>(37)%</b>	<b>\$ 49.1</b>	<b>80%</b>
Compensation and Benefits	24.4	49.2	35.2	(14.0)	(28)%	10.7	44%
Card Processing Expense	7.1	7.0	4.6	(2.4)	(34)%	(2.5)	(35)%
Tax Product Expense	1.7	9.4	0.7	(8.7)	(93)%	(1.0)	(57)%
Intangible Amortization	1.7	5.6	4.4	(1.2)	(22)%	2.7	163%
Operating Lease Equipment Depreciation	—	4.5	6.0	1.5	34%	6.0	NM
All Other Expense	14.2	34.6	21.6	(13.1)	(38)%	7.4	52%
<b>Total Expense</b>	<b>\$ 49.1</b>	<b>\$ 110.3</b>	<b>\$ 72.5</b>	<b>\$ (37.8)</b>	<b>(34)%</b>	<b>\$ 23.4</b>	<b>48%</b>
Provision for Loan and Lease Loss	5.3	33.3	9.1	(24.2)	(73)%	3.8	71%
<b>Net Income Before Taxes</b>	<b>7.3</b>	<b>32.8</b>	<b>29.2</b>	<b>(3.6)</b>	<b>(11)%</b>	<b>21.9</b>	<b>301%</b>
Income Tax Expense (Benefit)	0.5	(0.4)	(1.2)	(0.8)	193%	(1.6)	(343)%
<b>Net Income before non-controlling interest</b>	<b>6.8</b>	<b>33.2</b>	<b>30.3</b>	<b>(2.9)</b>	<b>(9)%</b>	<b>23.5</b>	<b>346%</b>
Net Income attributable to non-controlling interest	—	1.1	1.0	—	(3)%	1.0	NM
<b>Net Income attributable to parent</b>	<b>\$ 6.8</b>	<b>\$ 32.1</b>	<b>\$ 29.3</b>	<b>\$ (2.8)</b>	<b>(9)%</b>	<b>\$ 22.5</b>	<b>331%</b>
<b>Earnings Per Share, Diluted</b>	<b>\$ 0.23</b>	<b>\$ 0.81</b>	<b>\$ 0.75</b>	<b>\$ (0.06)</b>	<b>(7)%</b>	<b>\$ 0.52</b>	<b>226%</b>
Average Diluted Shares	29,218,980	39,496,832	38,977,690	(519,142)	(1)%	9,758,710	33%



# Average Balance Sheet

Fiscal Quarter Average - for the quarter ended (\$ in millions)	Jun 30, 2018	Sep 30, 2018	Dec 31, 2018	Mar 31, 2019	Jun 30, 2019	3Q19 Change From			
	3Q18	4Q18	1Q19	2Q19	3Q19	2Q19		3Q18	
						\$	%	\$	%
Cash and fed funds sold	57	61	45	281	80	(201)	(71)%	23	40%
Total Investments	2,253	2,201	2,028	1,728	1,620	(108)	(6)%	(633)	(28)%
Commercial finance <sup>1</sup>	300	1,091	1,562	1,650	1,776	126	8%	1,476	493%
Consumer finance <sup>2</sup>	209	245	291	327	365	38	12%	156	75%
Tax services loans	22	13	11	369	45	(324)	(88)%	23	103%
Warehouse finance	—	57	100	182	224	42	23%	224	NM
Total National Lending Loans & Leases	531	1,407	1,964	2,529	2,409	(120)	(5)%	1,878	354%
Total Community Banking Loans	1,030	1,076	1,156	1,181	1,190	9	1%	160	16%
Other assets	369	635	788	1,068	820	(248)	(23)%	451	122%
<b>Total Assets</b>	<b>\$ 4,240</b>	<b>\$ 5,380</b>	<b>\$ 5,981</b>	<b>\$ 6,788</b>	<b>\$ 6,119</b>	<b>(669)</b>	<b>(10)%</b>	<b>1,879</b>	<b>44%</b>
Noninterest-bearing deposits	2,466	2,375	2,489	2,953	2,710	(243)	(8)%	245	10%
Interest-bearing deposits (core)	265	411	416	411	379	(32)	(8)%	114	43%
Wholesale deposits	454	1,328	1,698	2,283	1,522	(761)	(33)%	1,068	235%
Total borrowings	512	467	497	217	532	315	145%	21	4%
Other liabilities	99	146	129	130	149	19	15%	50	51%
<b>Total Liabilities</b>	<b>\$ 3,795</b>	<b>\$ 4,727</b>	<b>\$ 5,229</b>	<b>\$ 5,994</b>	<b>\$ 5,292</b>	<b>(702)</b>	<b>(12)%</b>	<b>1,497</b>	<b>39%</b>
Shareholder's equity	445	653	752	794	827	33	4%	382	86%
<b>Liabilities and Equity</b>	<b>\$ 4,240</b>	<b>\$ 5,380</b>	<b>\$ 5,981</b>	<b>\$ 6,788</b>	<b>\$ 6,119</b>	<b>(669)</b>	<b>(10)%</b>	<b>1,879</b>	<b>44%</b>

<sup>1</sup> Commercial finance includes loans from the AFS/IBEX and Crestmark Divisions, and healthcare receivables

<sup>2</sup> Consumer finance includes the Company's purchased student loan portfolios and loans generated from its national consumer lending business



# Non-GAAP Reconciliation

## Adjusted Efficiency Ratio and Adjusted Operating Leverage

(\$ in thousands)	For the last twelve months ended				
	Jun 30, 2018	Sep 30, 2018	Dec 31, 2018	Mar 31, 2019	Jun 30, 2019
Noninterest Expense - GAAP	215,338	228,232	258,485	300,242	323,657
Less: Rental Equipment Depreciation Expense	—	5,386	13,151	17,636	23,665
Adjusted Noninterest Expense	\$ 215,338	\$ 222,846	\$ 245,334	\$ 282,606	\$ 299,992
Net Interest Income	106,500	130,549	164,625	208,570	247,127
Noninterest Income	189,745	184,525	193,008	200,614	211,179
Total Revenue: GAAP	296,245	315,074	357,633	409,184	458,306
Add: Rental Equipment Depreciation Expense	—	(5,386)	(13,151)	(17,636)	(23,665)
Add: Solar Investment Tax Credits	—	4,532	14,100	18,743	26,377
Adjusted Total Revenue	\$ 296,245	\$ 314,220	\$ 358,582	\$ 410,291	\$ 461,018
Efficiency Ratio, LTM	72.69%	72.44%	72.28%	73.38%	70.62%
Adjusted Efficiency Ratio <sup>1</sup> , LTM	72.69%	70.92%	68.42%	68.88%	65.07%
Operating Leverage, LTM	(3.22)%	4.37%	2.03%	(3.10)%	4.40%
Adjusted Operating Leverage <sup>2</sup> , LTM	(3.22)%	6.75%	8.73%	5.75%	16.31%

## Adjusted Annualized NCOs and Adjusted Average Loans and Leases

(\$ in thousands)	For the quarter ended				
	Jun 30, 2018	Sep 30, 2018	Dec 31, 2018	Mar 31, 2019	Jun 30, 2019
Net Charge-offs	10,443	13,616	848	5,936	14,279
Less: Tax services net charge-offs	10,506	11,264	(50)	(83)	9,592
Adjusted Net Charge-offs	\$ (63)	\$ 2,352	\$ 898	\$ 6,019	\$ 4,687
Quarterly Average Loans and Leases	1,560,897	2,482,888	3,120,374	3,709,820	3,599,138
Less: Quarterly Average Tax Services Loans	22,268	13,210	11,009	369,331	45,142
Adjusted Quarterly Loans and Leases	\$ 1,538,629	\$ 2,469,678	\$ 3,109,365	\$ 3,340,489	\$ 3,553,996
Annualized NCOs/Average Loans and Leases	2.68%	2.18%	0.11%	0.65%	1.59%
Adjusted Annualized NCOs/Adjusted Average Loans and Leases <sup>3</sup>	(0.02)%	0.38%	0.11%	0.73%	0.53%

<sup>1</sup> Adjusted Efficiency Ratio is a non-GAAP measure that Management believes is useful to demonstrate the income benefit of the Company's solar lease originations and related investment tax credits as a source of Company revenue, as well as the net activity related to operating leases.

<sup>2</sup> Operating leverage calculated as the year-over-year percentage change in revenue, less the year-over-year percentage change in non-interest expense, on a rolling twelve-month basis.

<sup>3</sup> Tax Services NCOs and average loans are excluded to adjust for the cyclicity of activity related to the overall economics of the Company's tax services business line.



# Risk Management in Commercial Finance

Underlying credit philosophy is fundamentally collateral-based lending with underwriting and monitoring focused on the risk management and administrative controls of the collateral borrowing base. Loans are underwritten to ensure that the Bank can recover the full loan exposure from the collateral in the event of a default or liquidation scenario.

- **Asset-Based Lending ("ABL") and Factoring** - The Bank adjusts the advance rate, loan size and credit terms primarily based on an assessment of the collateral and the cash flow of the borrower. Typical advance rates of A/R are 70%-85% of eligible collateral. Advance rates for inventory are typically in the range of 40%-50%.
  - *For most clients, through dominion of funds, all client funds are received through a Bank-controlled lockbox arrangement, whereby cash is applied directly to pay down the revolving loan balance, often on a daily basis. ABL products are "demand" products, and the Bank is under no obligation to make future advances. The Bank conducts regular client site visits in order to conduct field examinations of books, records and to substantiate collateral values.*
- **Insurance Premium Finance** loans are collateralized by unearned insurance premiums, typically under 9- or 10-month terms.

Candidates for lease financing and longer-term asset financing are analyzed similar to traditional bank underwriting methods where cash flow, liquidity, balance sheet strength and, to a lesser extent, collateral quality are the focus.

- **Direct financing leases** are underwritten with and without residual exposure. For leases with residual exposure, the Bank estimates the residual value of the asset at the time of financing based on the cost of the asset, the term of the lease, the effective lease rate and the expected value of the leased asset at the end of the financing term. Finance leases without residuals are structured so that the Bank does not have financial asset value exposure at end of lease as the lessor retains the rights to the residual value. The Bank may structure leases with a large first payment that serves as an effective down payment to mitigate counterparty risk.
- **The Small Business Administration (the "SBA")** guarantees 75% of a 7(a) loan, and this portion can be sold for a premium with funds then available for redeployment by the Bank. Completed submission packages with full underwriting are provided to the SBA for pre-approval. **The USDA loan program**, primarily utilized for alternative energy sector, leverages expertise in these industries where the Bank has generated significant tax credits, with guarantees up to 80% and other terms often more attractive than the SBA program.

