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August 12, 2016

Mr. Ashton Joseph Ryan Jr.
Chairman, President, and CEO
First NBC Bank Holding Company (NASDAQ: FNBC)
210 Baronne Street
New Orleans, LA 70112

Dear Mr. Ryan:

As you may recall, we met for approximately thirty minutes at your office in New Orleans on May 27th. You were gracious enough to give us an overview of the impressive history of First NBC Holding Company ("FNBC"). Approximately a month and a half prior to our meeting, our flagship fund had purchased approximately $8 million face value of your publicly registered 5.75% subordinated debt instruments due 2025 for approximately 74.25% of face value plus accrued interest. At the time of purchase, we believed that our discounted purchase price reflected an overly bearish assessment of FNBC's prospects and that once you finalized the accounting restatement, the market would come to its senses.

As time passed and financial statements continued to be delayed, we became a little bit worried. But as you know, our subordinated debt lies at the top of the holding company's capital stack (above the approximately $40 million of Small Business Lending Fund ("SBLF") preferred stock and the approximately 19 million shares of common stock), and this fact gave us a decent amount of solace. We have owned debt of companies in the past that have been subject to accounting restatements and we realize that sometimes the uncertainty associated with that process causes the market to overreact. Your bank is large and is decently profitable, with not a lot of nonperforming assets, and a hefty amount of tangible book value. As you can imagine, these are things that calm a debt investor's nerves.

But your bank is different than any other bank we have ever looked at. Your net deferred tax asset ("DTA") as a percentage of tangible common equity is 66%, which is approximately two times larger than any other publicly traded bank holding company in the country. In other words, your net deferred tax asset comprises more than 50% of your parent-level tangible common equity, and we think that number is going to get larger and larger over time even if you don't do another tax project. This means understanding the tax credit business is critical to understanding the ability of FNBC to survive. We don't think any research analyst who covers your stock truly understands this tax business; its accounting treatment; its regulatory treatment; or its economic value. We've outlined all of our questions below, but the single biggest issue we have is the following: once the vast majority of your DTA phases out of regulatory capital under Basel III in 2018, we see your Common Equity Tier 1 ("CET1") ratio being completely wiped out using assumptions that we think are fairly generous. No one that we've spoken to seems to be worried about this. Do you agree with our math, and that you'll need to raise at least $300 million in new common equity in two years in order to be well-capitalized? If so, are you going to raise the capital? If not, why do you disagree? The following chart displays the 20 U.S.-based public bank holding companies with over $1 billion of assets with the largest deferred tax assets as a percentage of their CET1. First NBC has by far the highest ratio (84%) of the 366 publicly traded banks identified.

U.S.-based Public Bank Holding Companies with $1+ billion of Assets - Sorted by Largest Ratio of Net Deferred Tax Asset to CET1 ($ mm)

Company	Net DTA/CET1	Net DTA/Total Assets	Net DTA/Total Mkt Cap	Net DTA/TCE	Net Deferred Tax Asset	Total Assets	Tang Comm Eq	Tang Comm Eq less DTA	CET1	Mkt Cap
First NBC Bank Holding Company[(1)]	**84.3%**	4.9%	79.1%	66.1%	238	4,862	360	122	282	300
Old Second Bancorp, Inc.	**37.8%**	2.7%	25.5%	34.4%	58	2,160	168	110	153	226
Xenith Bankshares, Inc.	**35.9%**	4.4%	19.1%	31.0%	91	2,040	293	202	252	475
Reliance Bancshares, Inc.	**35.9%**	2.6%	28.2%	29.9%	32	1,238	108	76	90	115
Popular, Inc.	**32.3%**	3.5%	33.5%	28.2%	1,275	36,147	4,515	3,240	3,953	3,809
Flagstar Bancorp, Inc.	**30.8%**	2.4%	21.4%	25.1%	335	13,724	1,332	997	1,086	1,560
First National Community Bancorp, Inc.	**30.6%**	2.1%	25.5%	24.4%	23	1,088	95	72	76	91
Citigroup Inc.	**27.5%**	2.6%	35.2%	25.4%	46,739	1,800,967	183,849	137,110	169,924	132,863
Atlantic Capital Bancshares, Inc.	**25.4%**	2.1%	15.5%	21.4%	58	2,808	272	214	230	376
OFG Bancorp	**24.0%**	2.1%	30.2%	21.8%	143	6,713	657	514	596	473
United Community Banks, Inc.	**22.8%**	1.8%	12.9%	20.4%	180	9,784	883	703	791	1,400
Cascade Bancorp	**21.7%**	1.7%	11.2%	19.7%	49	2,967	250	201	226	437
Talmer Bancorp, Inc.	**20.8%**	2.1%	9.8%	19.3%	146	6,912	754	608	699	1,492
First United Corporation	**20.4%**	1.5%	32.5%	25.4%	20	1,325	80	60	100	63
First BanCorp.	**20.3%**	2.4%	32.7%	18.5%	308	12,714	1,663	1,355	1,516	940
Seacoast Banking Corporation of Florida	**19.0%**	1.4%	10.1%	17.9%	62	4,381	345	283	325	611
C&F Financial Corporation	**17.9%**	1.4%	13.0%	17.0%	20	1,405	118	98	112	153
Synovus Financial Corp.	**17.8%**	1.6%	12.0%	16.6%	464	29,171	2,798	2,334	2,609	3,855
HomeTrust Bancshares, Inc.	**17.7%**	2.0%	16.3%	16.5%	56	2,760	338	283	314	341
Century Bancorp, Inc.	**16.7%**	1.0%	16.6%	18.2%	41	4,190	224	184	244	245

Source: Latest available consolidated bank holding company regulatory financials

Note: This analysis surveyed 366 publicly traded bank holding companies of asset sizes greater than $1 billion. The 20 institutions with the highest ratios of net deferred tax asset to CET1 are presented.

(1) Some of the financial information presented for First NBC Bank Holding Company is an estimate for 6/30/2016 using combination of 6/30/2016 bank subsidiary and 3/31/2016 bank holding company call reports. Common equity of Parent calculated based on the Bank's 6/16 call report and all deductions and asset levels are those used by the Bank. Deductions based on temporary DTA assume that the net temporary DTA is $121.204 (i.e. net DTA less DTA associated with AOCI less NOL/carryforward DTA of $102.911) and are not adjusted to reflect the approximately $10.8 million deduction for temporary DTA included in the bank-level calculations. As such, the calculation of the Parent's regulatory capital may not be accurate and may need to be updated to reflect actual numbers. Additionally, other than investment in equity of bank subsidiary, this analysis assumes that the parent company's assets and liabilities other than its investment in equity of its bank subsidiary are unchanged from 3/31/2016. Not incorporating intercompany eliminations

After you filed your 2Q16 call report with the FDIC that included an approximately $99 million negative restatement shown in Schedule RI-A, we began shorting FNBC's common stock. The short position began initially as a hedge to our subordinated debt long position since the illiquidity of the debt position made it hard to sell after bad news came out. As we did more and more work, however, we grew our short position, and, in full disclosure, the market value of our short position now significantly exceeds the cost value of the

subordinated debt instrument, which we still own. This means that on an aggregate basis, we are net short FNBC and will probably make money if your stock goes down and probably lose money if the stock goes up.

But there are two things we want to make clear. First, although it's true that if your bank failed, we'd make money, that's definitely not what we want (for both moral and business reasons). We think we'll make the most possible money on this trade by profiting on both sides of our position – if you raise much-needed capital and restore a healthy cushion of safety to the bank. Second, shorting stocks is not something we typically do, and we find it to be an inherently scary thing to do. We've been in business for over 5 years, and we've only shorted stocks on two occasions (including this one). The first time we did it was a hedge to a long position. As described above, even this FNBC short position started as a hedge to our long subordinated debt position – but it is has now grown into our first ever net short position in a name.

Your tax credit business is complicated, and the lack of restated SEC financials makes an analysis here far from simple. We don't profess to have all the answers and none of us are accountants or lawyers (or, for that matter, have graduate degrees). But while our views could be wrong, we do have a lot of questions, and we do think these are the right questions. We've hired two reputable accounting firms that have good bank and tax credit practices to help us understand your financial statements, and their feedback has only amplified our concerns. If you think we're barking up the wrong tree, we'd like you to respond and set the record straight.

We're making this letter public because we frankly don't know how else to get answers to these questions. Although it was nice to meet you in person, the meeting was short and extremely high-level. You don't hold investor conference calls, so we can't just dial into a call and ask you our questions. It also appears that research analysts that cover your stock are unable to get you on the phone very easily. A recent report by a sell-side analyst that has your stock rated "Outperform" stated that "we believe that a more periodic/timely and detailed discussions with investors and analysts alike would be a good start." And our discussions with analysts – some very smart ones – have led us to the conclusion that they truly do not understand your tax business and particularly how it relates to Basel III regulatory capital. In short, we are in an uncomfortable position of being long your debt and significantly short your stock, and we'd like a response from you, which we believe is more likely to come if this letter is public. We also don't want to receive selective or nonpublic information – to the extent you are willing to provide us with answers to our numerous questions, we think it's appropriate that the public receive the benefit of that information as well and at the same time.

Lastly, it is our genuine hope that instead of viewing this letter as an attack on your business, which I can assure you it is not, you view it as a substantive thought piece that raises questions that all of your investors probably have, or should have, and provides an opportunity for you to respond accordingly. We're short your stock and directionally negative on your business's prospects with the limited information that we currently have today, but if you prove that our concerns are unfounded, we'll have no problem admitting our error, covering our short, and going back to clipping coupons on the subordinated debt that we own.

We've tried to frame our questions in a form that follows a logical process, instead of ordering them from "most important" to "least important" (i.e. answering a less important question may be helpful in subsequently attempting to answer a more important question). But to be clear, we think the most important question we'd want you to focus on is #10.

Without further ado:

1) <u>How does the tax credit business work and how do you account for it?</u>

We'll take our best shot at a simple answer that necessarily oversimplifies, but hopefully by not too much. If we are wrong, we encourage FNBC to correct us.

As we see it, FNBC runs this tax credit business in two ways, with the first being larger than the second. FNBC invests in investment funds where a third party is the general partner (and to a more limited extent, where it itself owns and consolidates the fund) and may invest through loans, equity, or a combination of both. These funds will then invest in one of three types of projects (New Market, Low-Income Housing, or Historic Rehabilitation) and while the terms of all of these types of projects are different, they follow the same general idea. Essentially, FNBC, as a lender, expects to get paid back on its loan, but FNBC as an equity investor is playing for a different prize. It realizes upfront that its equity investment is going to be ultimately worth zero over the life of the project in terms of "how much cash am I going to get back" (and this will be reflected in regular and expected impairments of the asset until it basically melts to zero), and any upside will contractually go to the developer. But FNBC is okay with that arrangement because as long as these projects are done properly, they are government-approved to throw off tax credits that flow through to FNBC, gushing through the income statement as negative tax expense (i.e. profit) and increasing the DTA asset on the balance sheet. Basically, FNBC accepts that once it invests $1 of cash equity in a tax credit project, it's not going to ever see that dollar, but it's going to make more than $1 in tax credits. And $1 in tax credit generated from a tax credit entity equals $1 of earnings flowing through the income statement, and increases the DTA by $1, which in turn increases book value by $1. Those tax credits last for, usually, up to 20 years and, if all goes well, FNBC never needs to cut a check to the IRS.

How do the economics work? It seemed that the best hint at an answer lies in the footnote on page 27 of the 3Q15 10-Q (which we know is going to be restated, so everything in it needs to be taken with a grain of salt). In that footnote, the $172.3 million figure corresponds to the line item "Investment in Tax Credit Entities" on the balance sheet, which in turn roughly (but not perfectly) appears to correspond to the line item on the bank-level call report entitled "Direct and Indirect Investments in Real Estate Ventures." You can see in this footnote that FNBC has invested approximately $172 million in net equity in deconsolidated tax credit entities (the investment funds described above) but that this is after deducting historical impairment of the line item and loans provided, and so the total cash invested is really $342 million, with $128 million being loans and $214 million being equity. As you can see in the right-most column

in that same footnote, on account of these investments, FNBC expects to generate total future value tax credits of $246 million. Fitting this into the simplified paradigm above, FNBC basically understands that its equity investment of $214 million will eventually be impaired to zero but that it will generate $246 million of tax credits, generating a "profit" of $32 million, and a "profit margin" of 15%. Basically, FNBC is trading $1 of cash today for $1.15 of tax savings in the future.

Please keep in mind that later on in question #6, "So what is the DTA going to look like 2 years from now – in 2Q18?," we'll plan on applying this profit margin to the approximately $180 million of investments in these tax credit entities that we think exists as of 2Q16 (in line "Direct and Indirect Investments in Real Estate Ventures" of the call report) in order to roll forward what the balance sheet will look like in 2Q18, when the Basel III regulatory capital rules fully phase in. In other words, this line will go to zero, but the DTA line will go up by 115% of this line, resulting in a 15% "profit margin."

2) **How does FNBC monetize its tax credits balance?**

Obviously, an asset only has value if it can eventually turn into real, hard cash. And the present value of an asset is that future cash discounted back at some rate that compensates an investor for the risk. And we know that $1 of tax credits can save $1 in future taxes owed to the IRS. So the value of a tax credit today is equal to the present value of FNBC's tax credits, which is equal to the discounted future value of FNBC's tax credits, which is equal to the amount of taxes that FNBC saves on future dates, discounted back. As you know, FNBC has a ton of tax credits on its balance sheet (and that number is only going to get bigger in the next few years even if FNBC completely ceases its tax business, as discussed above), so it's pretty obvious that FNBC can't just use all of the credits in one year. How long will it take FNBC to use them, and will it even be able to use them all? These credits, after all, expire worthless if they aren't used within a specified period of time, so it seems that how much FNBC earns on a pre-tax basis – once you strip out the tax credit business entirely – is the key to solving this puzzle. It seems to us that this is the place to start, and that's why it is one of our next questions.

3) **Why does it matter how much FNBC can make? Can't they just sell these tax credits to a company like Apple or Amazon who can use them all in one year and will probably pay FNBC close to carrying value for the tax credits since they can use it all within a year?**

We'd love to hear what FNBC has to say about this, but after speaking to a couple of smart accountants, we think the answer is, "FNBC can't sell the vast majority of its tax credits – it has to generate income to use them – and the ones they could sell would sell would likely fetch a significant discount." What we've heard is that once the vast majority of tax credits are "earned" and flow through the income statement and into the DTA line item, they are basically attached to FNBC and can't, for the most part, be sold.

The caveat is that the future tax credits that haven't yet been earned and are embedded in the call report line item, "Direct and Indirect Investments in Real Estate Ventures" ($180.1 million at 6/30/2016), could possibly be sold in certain situations to an acquirer that could then absorb the tax credits, but probably at a big discount. The reason there would be a discount is that any buyer would have to do significant diligence and invariably face a lot of uncertainty as to whether these investments were done correctly. If not, the tax credits could be lost entirely. Probably more importantly, those tax credits are flowing rapidly into the DTA line, and so the current line item, "Direct and Indirect Investments in Real Estate Ventures," which may have some sale value, is going to transform into essentially non-saleable tax credits very soon.

4) **Even if FNBC can't sell its tax credits to an Apple or Amazon, can't FNBC just sell itself to a big bank that would then be able to use the tax credits? In other words, why wouldn't a big $10 billion bank with excess capital come along and snatch up FNBC at a discount to stated book value and then use the deferred tax asset?**

Surprisingly, and we'd really like to hear FNBC's response to this question which we think is very important, we think that the answer is that if a big bank came along and bought FNBC, thus giving rise to a "change of control," the tax credits would be severely limited under Section 382 of the tax code. While talking about esoteric sections of the tax code is admittedly above our pay grade, we have asked this question and gotten the same answer from multiple tax accountants.

Let's run through a hypothetical example because the calculation isn't that straightforward. Let's say that FNBC, by mid-2018, has a DTA equal to $436 million before applying a valuation allowance and $65 million with a valuation allowance, which is what we forecast below (later on in this letter). Then let's say that a big bank came along and paid $300 million for 100% of FNBC's stock. There would be a "change of control" for tax purposes. At that point, the amount of pre-tax income that could be offset by DTA's of FNBC would generally be limited to $300 million multiplied by the long-term tax exempt rate, approximately 2% today, which equals $6 million. Assuming a 35% federal tax rate, the amount of DTA that could be used to offset such taxes would be limited to approximately $2 million in a given year. In this hypothetical example, only $40 million of DTA of the original DTA could be used over the next 20 years.

Mr. Ryan, this is a question that we would seek your guidance on. Based on the above, it appears that the approximately $238 million DTA that is on the books as of 2Q16, and which based on our analysis below will likely swell to an estimated $436 million before applying a valuation allowance by 2Q18, would be severely impaired to a fraction of that value if another bank came along and bought FNBC. Given that the 2Q18 DTA is greater than tangible book value, it appears to us that a sale of the company is not an option. Why would an acquirer do that deal?

Without the "take out" option, which most regional bank investors care deeply about, the value of the DTA seems to be inextricably linked to FNBC's ability to use the DTAs, which is at the end of the day based on what FNBC as an institution can earn on a standalone basis.

5) **Since the value of the tax credits seems to be tied to FNBC's ability to make money pre-tax, what is the "normalized" pre-tax earnings of FNBC?**

If we're right with respect to question #4, FNBC can't really sell the $238 million of net deferred tax asset on the books today (they are essentially attached to the company), and selling the unearned tax credits of $180 million (that are embedded in the call report line item "Direct and Indirect Investments in Real Estate Ventures") at close to carrying value seems unlikely.

So, bottom line: it seems to us that the tax credit business is only worth a lot if FNBC can make a bunch of money on a pre-tax basis and avoid paying a bunch of taxes – ideally sooner than later so that the discounted present value of that tax savings is high. Based on our estimation, it appears FNBC would need to generate pre-tax earnings of approximately $1.25 billion over the next 15 to 20 years to fully utilize its future net deferred tax asset ($436 million future DTA at a 35% tax rate).

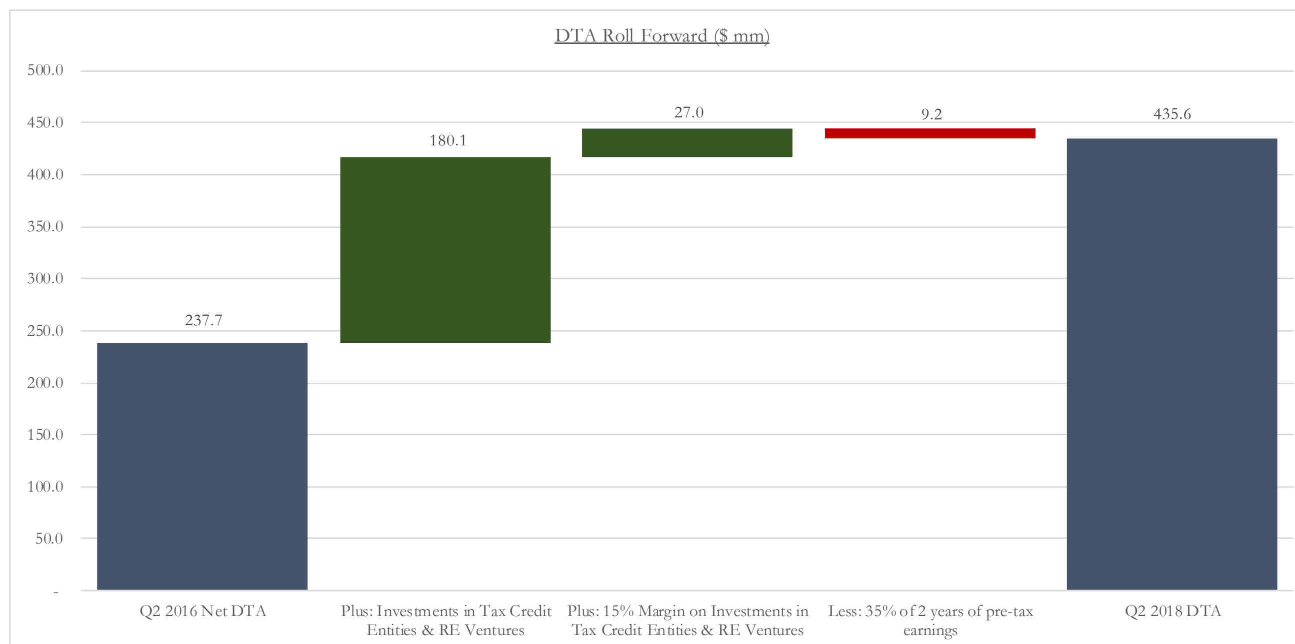
But based on our analysis, which is demonstrated on the chart on the next page, we just don't see it. To take the "tax business" out of the income statement, we have focused on the "above the line" figures but also stripped out the amortization expense associated with the investment in tax credit entities from prior call reports. When we do that, and then strip out provisions and gains/sales (which we assume are "one time" in nature), we find that FNBC made pre-provision, pre-tax income of approximately $35 million in 2015. We realize that FNBC had an elevated level of provisions in that year, and we don't want to unnecessarily penalize it for that. Consequently, we looked at the last 5 years average (post financial crisis) to gauge what a "normalized" provision rate would be for FNBC, and we arrived at approximately 60 bps of average loans. I want to note that this does not take into account the recent 2Q16 call report restatements which appear to us (although we cannot be certain) to include a $20 million increase in loan loss allowance and approximately $60 million, which we think is associated with a charge-off of the ethanol receivable (more on that later). If we include that, the "normalized provision" expense would be substantially higher. **Bottom line: the normalized, post-provision, pre-tax income was approximately $16 million in 2015 and $13 million after adjusting for go-forward interest expense on recently issued subordinated debt.**

Normalized Pre-Tax Net Income	2011	2012	2013	2014	2015
FNBC Net Income	19.7	29.5	40.9	55.6	57.4
Less Net Income Tax Benefit	(5.1)	(7.6)	(19.8)	(27.0)	(62.0)
Less Gain on Sale of State Tax Credits	-	(0.6)	(2.8)	(2.3)	(2.6)
Plus Imp/Amort of Inv In RE/Tax Credit Entities	2.9	4.8	8.6	14.1	13.8
Equals Pre-Tax Net Income	17.5	26.1	27.0	40.4	6.6
Plus Realized Loss on Securities	(0.5)	(4.3)	(0.3)	(0.1)	0.9
Minus Net Gain on Sale of Loans and Leases	(0.8)	(0.6)	(0.8)	(0.6)	(0.1)
Minus Net Loss on Sale of OREO	1.2	0.0	(0.9)	0.3	0.3
Minus Net Loss on Sale of Other Assets	0.1	(0.2)	0.0	0.0	1.0
Plus Goodwill Impairment Losses	-	-	-	-	-
Plus Losses on Other Intangible Assets	-	0.2	0.2	0.6	0.4
Equals Adjusted Pre-Tax Post-Provision Net Income	17.6	21.2	25.3	40.5	9.1
Plus Reported Provisions	8.0	11.0	9.8	12.0	25.8
Adjusted Pre-Provision, Pre-Tax Net Income	25.6	32.3	35.1	52.5	34.9
Minus Normalized Provisions	(8.0)	(10.3)	(13.1)	(16.2)	(19.1)
Equals Normalized, Adjusted Post-Provision, Pre-Tax Net Income	17.6	22.0	22.0	36.3	15.8
Average Loan Balance	1,377	1,781	2,262	2,808	3,300
Actual Provisions as % of Average Loan Balance	0.6%	0.6%	0.4%	0.4%	0.8%
Normalized Provisions as % of Average Loan Balance	0.6%	0.6%	0.6%	0.6%	0.6%
Normalized, Adjusted Post-Provision, Pre-Tax Net Income	17.6	22.0	22.0	36.3	15.8
Plus 2015 Stub Int Expense on Sub Debt	-	-	-	-	0.9
Less Annual Int Expense on Sub Debt assuming debt had been in place	(3.5)	(3.5)	(3.5)	(3.5)	(3.5)
Equals Normalized Pre-Tax Income	14.2	18.5	18.5	32.8	13.2

6) <u>So what is the DTA going to look like 2 years from now – in 2Q18?</u>

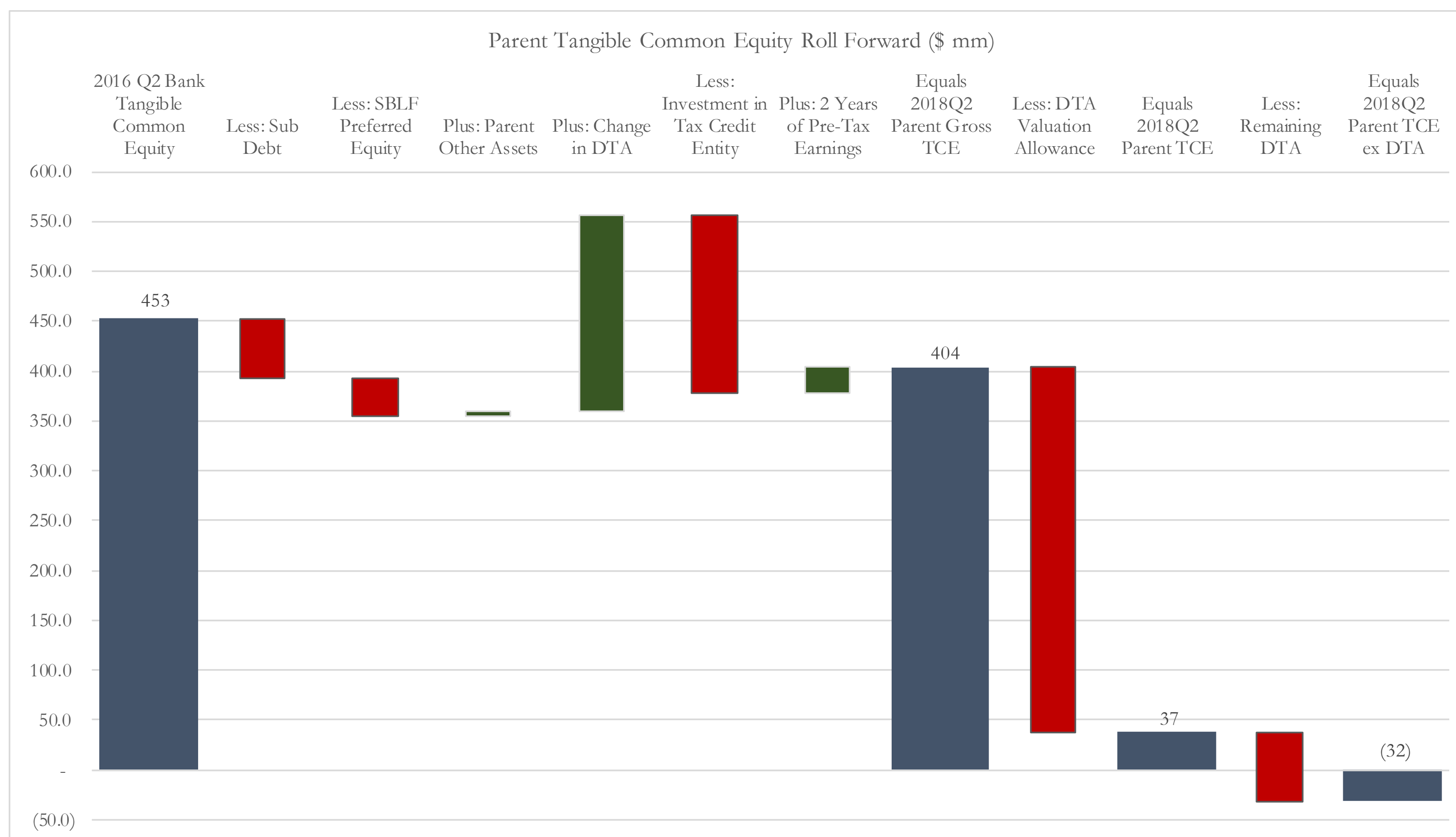
This is not an easy thing to project, but we took our best shot at it in the chart below. In it, we assume that (1) the current DTA on the 2Q16 call report is correct; (2) the approximately $180 million of investment in tax credit entities "goes to zero" and tax credits of

the same amount are earned by the company, thus increasing DTA; (3) a profit margin of 15% (which we estimated in question #1 based on the 3Q15 10Q) is also earned by the company, thus increasing DTA; and (4) the DTA is decreased by 35% of 2 years of the $13 million annual normalized pre-tax earnings number derived in question #5. When all is said and done, and although these calculations are highly imprecise and based on some very rough assumptions, it appears to us that the DTA in 2Q18 will be approximately $436 million, which is 83% higher than it stands as of 2Q16.



7) What is FNBC's tangible common equity going to look like in 2Q18?

Again, this is a rough calculation, but based on the numbers we've estimated / derived in the previous questions, we can bridge to this figure. We're basing this off of the 2Q16 bank-level call report, and we don't have the benefit of the parent company report of the audited financials (which we believe will be available on Monday). The bottom line: in 2Q2018, our "roll forward model" shows parent tangible equity of $404 million including the DTA, $37 million if we assume there is a DTA allowance, which is explained and derived in a question #8 below; and negative $32 million if the DTA is excluded entirely. We'd certainly like FNBC's input as to whether we are looking at this correctly.



8) Will FNBC need to take a valuation allowance on its DTA for GAAP purposes, and if so, how much? Also, GAAP is interesting, but as an investor, I'd rather know what the actual economic value of the DTA is based on FNBC's ability to use it – what is it?

In the chart below, we've tried to bridge to both of these answers. Based on an estimated 15 year weighted average life (a bit of a guess, but it seems like it couldn't really be more than 20 years since that seems to be the outside end of when a tax credit can be used), and using our "normalized pre-tax income" estimate as a mid-case, we determined that only between $43 million and $96 million of the DTA is useable with a base case of $69 million versus an estimated pre-valuation allowance DTA of $436 million in 2Q18. The difference between the base case DTA capacity and pre-valuation allowance DTA is $366 million – which is the amount of DTA which

won't be useable. Obviously these figures change if we are wrong about what the expected pre-tax earnings will be. From speaking with accountants, we assume that an allowance will need to be taken (which will hit the GAAP statements) if it's likely that a substantial amount of the DTA can't be utilized. This is what we are seeing, and we'd ask FNBC's views on this matter. If we are correct, the GAAP carrying value would be reduced by $366 million, which is why the tangible common book value estimated in 2Q18 in question #7 is only $37 million.

As far as the economic value of the DTA, we thought a simple "back-of-the-envelope" approach would be best. We took the future value of the DTA, assumed it was used over the next 15 years (a guess for average life of tax credits in force), and then discounted it back by 10% (in the low case), 8% (in the medium case), and 6% (in the high case). From this, we derived a present value of the DTA of $24 million, $45 million, and $73 million, respectively.

What is the DTA Worth?

	Low Case (- $5mm)	Base Case	High Case (+ $5mm)
Pre-Tax Income	8.2	13.2	18.2
Taxes @ 35% rate	2.9	4.6	6.4
Number of Years DTA available	15	15	15
Maximum DTA Capacity	43.1	69.3	95.6
Projected DTA in 2018Q2	439.1	435.6	432.1
DTA Valuation Allowance	396.0	366.2	336.5
DTA Used Over Period	43.1	69.3	95.6
Discount rate	10.0%	8.0%	6.0%
NPV of DTA	**24.4**	**45.4**	**73.1**

9) That's great that you've calculated an economic book value per share for the DTA, but I only care about economic book value of FNBC in aggregate; can you tie this together?

We've tried to do that in the bridge below. In question #7, we attempted to derive our ex-DTA tangible common equity of FNBC. To do this, we added the economic value of the DTA mid-case as derived in question #8, and we arrived at an economic tangible book value of $14 million. Dividing this by the total amount of shares outstanding yields $0.71 per share in economic book value versus a stock price today of $15.75 per share. Obviously this is an output based on a whole lot of variables and assumptions, so we'd like FNBC to clarify if we're wrong and the best way to get to the right answer.

Economic Book Value

6/30/2018 ex-DTA TCE		(31.9)
Plus Economic Value of DTA in Base Case		45.4
6/30/2018 Economic Tangible Book Value		13.5
Number of Shares Outstanding		19.1
Economic Tangible Book Value per share	$	0.71

10) Maybe the most important question – will the company need to raise capital, and how much?

All of the work we've done in trying to answer the prior questions can help us bridge to an answer here. But before we show you our bridge chart, we'd like to take you through the Basel III calculations for the capital ratios that matter.

First, let's focus on what's referred to as Common Equity Tier 1, or CET1. We are not regulatory experts, but believe that under the Basel III guidelines, which were implemented in January 2015, financial institutions are required to deduct from their regulatory capital:

- 100% of all deferred tax assets (net of related valuation allowances and deferred tax liabilities) associated with net operating losses and tax credit carryforwards; and
- 100% of their deferred tax assets arising from timing differences that could not be realized through net operating loss carrybacks (net of related valuation allowances and deferred tax liabilities) in excess of 10% of their adjusted CET1.

We understand that the deduction of DTAs from regulatory capital is being phased-in through 2018 as follows:

DTAs from Net Operating Loss/Carryforwards			**Temporary DTAs**	
Year	Deduction from CET1	Deduction from Tier 1	Year	Deduction from CET1
2015	40%	60%	2015	40%
2016	60%	40%	2016	60%
2017	80%	20%	2017	80%
2018	100%	0%	2018	100%

Consequently, effective January 1, 2018, financial institutions *must* deduct from CET1 100% of all net DTAs arising from net operating losses and tax credit carryforwards and 100% of all net DTAs arising from timing differences that exceed 10% of adjusted CET1.

Based on what we've read and the few conversations we've had with accountants, the phase-in of the Basel III deductions will have a large and negative impact on FNBC's capital ratios, both at the bank level and at the holding company. Even assuming that no new tax credit business is pursued, and no other events cause FNBC's capital levels to drop, we believe that the simple phase-in of Basel III will cause FNBC's CET1 capital ratio to drop dramatically and will leave FNBC undercapitalized under the current "prompt corrective action" thresholds at 2018. This is true based simply on the Basel III phase-in. If you roll FNBC's tangible common equity forward like we did in question #7, FNBC's CET1 will plummet, and put FNBC in the prompt corrective action threshold's "critically undercapitalized" category. This analysis is obviously based on a fair amount of assumptions and rough math, and we would appreciate your input and knowing whether we're looking at the question wrong, or if our understanding of the regulatory regime is wrong.

Regardless, as a general matter, we understand that Basel III requires FNBC to be in the "well-capitalized" category of the prompt corrective action thresholds, which requires a CET1 capital ratio of 6.5% or more; a Tier 1 capital ratio of 8.0% or more; and a total capital ratio of 10% or more. We believe, based on our projections set forth above, that FNBC will not be able to hit those capital ratios without raising a significant amount of additional common equity.

Specifically, we believe that FNBC will need to raise no less than $280 million in common equity in order to achieve a CET1 capital ratio of 6.5%.

FNBC would need to raise even more – approximately $310 million – to achieve the required 8% Tier 1 capital ratio needed to be considered well-capitalized. This is true even accounting for FNBC's $37.9 million of SBLF preferred stock which we believe counts as Tier 1 capital under Basel III.

Finally, FNBC would need a total capital ratio of not less than 10%. Based on what we've been told, we understand that FNBC can count its $60 million in subordinated debt and its $37.9 million of SBLF preferred stock towards this capital ratio. However, even including those two capital instruments, we believe that FNBC would need to raise at least $330 million in common equity to achieve a well-capitalized total capital ratio.

The table below includes a bridge to each of the amounts we discussed above.

Capital Deficiency

Projected 2018Q2 TCE ex-DTA	(31.9)
Projected Allowed Temporary DTA	33.7
Equals Projected 2018Q2 CET1	1.9
Capital Needed for a 6.5% CET1 Ratio	285.3
Less Projected 2018Q2 CET1	(1.9)
Equals Projected Capital Hole	283.5
Capital Needed for 8% Tier 1 Ratio	351.2
Less Projected 2018Q2 CET1	(1.9)
Less SBLF Pfd. Equity	(37.9)
Equals Projected Capital Hole	311.4
Capital Needed for 10% Total Capital Ratio	439.0
Less Projected 2018Q2 CET1	(1.9)
Less SBLF Pfd. Equity	(37.9)
Less Subordinated Debt	(60.0)
Equals Projected Capital Hole	339.2

Bottom line: we think FNBC needs to raise at least $300 million in common equity. And keep this in mind – this is *needed* capital. It is not capital that can be used to grow the company, but capital that must be raised to keep the company at capital levels that are needed to be considered well capitalized under Basel III, i.e. achieve a CET1 capital ratio of at least 6.5%; a Tier 1 capital ratio of at least 8%; and a total capital ratio of at least 10%.

11) If the amount of capital derived in question #10 is raised, at what price will it be raised?

The way we'll try to answer this question is to assume that the answer we tried to derive in question #10 – that at least $300 million of capital needs to be raised – will only be raised if new money investors are willing to hand it over. And we've run a few assumptions to establish whether they'd be willing to do so. We assume that they would only hand it over if their pro forma investment allowed them to come in at a multiple of pre-tax earnings of 8x, 10x, 12x, or 14x. We think that the great thing about FNBC is that it will never have to pay taxes again (or certainly for at least the next 15-20 years), and so pre-tax business earnings will be treated by investors as economically equivalent to post-tax earnings. The problem with this analysis is that if pre-tax earnings are $13 million (which is our estimate and derivation from question #5), even if the new money investors received 99.9% of the Company, a $300 million investment would imply a 23x pre-tax earnings multiple, which clearly would not be attractive to new investors. That obviously creates a challenge, since $300 million appears to be the regulatory hole. So instead of calculating what price per share a new money investor would need

to come in at in order to achieve a pro forma multiple of 10x pre-tax earnings of $13 million (which is infeasible), it's probably more useful to make the following statement: For $300 million to be raised at $3 per share (a number we're picking out of thin air) and 10x pre-tax earnings, new money investors would have to believe that pro forma annual pre-tax earnings could be $36 million. If you look at our "normalized pre-tax earnings" chart in question #5, you'll see that it is higher than peak normalized earnings over the past 5 years (which occurred in 2014) and more than double 2015's normalized pre-tax earnings. We simply don't see this in the cards, but would certainly like to understand if FNBC sees a bridge to that level of earnings that we do not.

In the next table, we do the same, except we instead assume that new money will come in not at a price/earnings ratio but instead at a pro forma price-to-"economic book value" ratio (using the economic book value in 2Q18 as derived in question #9) of 0.9x, 1x, 1.1x, and 1.2x. Using this methodology, we calculate the price per share that new money would enter at to achieve this metric.

Please note that on 8/12/2016 at approximately 2pm EST, this letter was amended to incorporate the table below, which mistakenly was not previously included.

	Price / Economic TBV			
New Capital	**0.90x**	**1.00x**	**1.10x**	**1.20x**
$ 300.0	na	$ 0.71	$ 2.35	$ 3.99
$ 325.0	na	$ 0.71	$ 2.48	$ 4.25
$ 350.0	na	$ 0.71	$ 2.61	$ 4.52

12) If you have to raise a large amount of capital (such as $300 million), which would obviously be heavily dilutive, can you do it without impairing the DTA?

For the same reason that we question your ability to sell FNBC to a large bank and not impair the DTA for the purchaser (as we explained in question #4), we worry that a sizeable capital raise will create the same "change of control issues." We assume that some type of raise that does not result in a change of control is possible, but we would ask you to explain how this would work.

Also, if you simply disagree that a "change of control" would limit the DTA, we would ask you to elaborate as this is simply something we have heard in our discussions with accountants.

13) In the above assumptions, we assume your book has no "bombs" in it, despite your incredible loan growth rate over the last several years, which is obviously impressive as it was primarily organic, but which scares us a lot. Is this a fair assumption given such examples as the ~$70 million Spanish ethanol receivable (that is now potentially worthless, and

discussed more in question #14 below) and the sizeable exposure to the oil and gas exploration company (where the pipeline broke)? Also, what do your sub-par deposits mean for future earnings as compared to other banks (as rates rise, what happens to your deposits)?

In the first chart below, we demonstrate your incredible organic loan growth, but growing fast can lead to scary risks and occasional carelessness. And we'd like you to let the public know if there are other scary exposures that exist in the portfolio.

In the second chart below, we show your cost of deposits relative to a set of over 500 comparably sized U.S.-based commercial banks. It appears that FNBC Bank's cost of interest-bearing deposits is over three times the average and median for this set of comparables. Please let us know how you think these deposits hold up (in terms of costs) in the years that come, particularly if interest rates rise.

$1bn - $10bn Asset Sized Banks	Cost of Int-bearing Deposits (%) for the LTM period June 30, 2016
Count	551
Average	0.47%
Median	0.43%
First NBC Bank	**1.43%**

Source: SNL Financial

14) In 2006, the FDIC, Federal Reserve, and OCC issued joint guidance stating the following:

> **"As part of their ongoing supervisory monitoring processes, the Agencies will use certain criteria to identify institutions that are potentially exposed to significant CRE concentration risk. An institution that has experienced rapid growth in CRE lending, has notable exposure to a specific type of CRE, or is approaching or exceeds the following supervisory criteria may be identified for further supervisory analysis of the level and nature of its CRE concentration risk:**
>
> **(1) Total reported loans for construction, land development, and other land represent 100 percent of more of the institution's total capital; or**

(2) **Total commercial real estate loans as defined in this Guidance represent 300 percent or more of the institution's commercial real estate loan portfolio has increased by 50 percent or more during the prior 36 months."**

What does this mean and what does FNBC plan to do about the fact that it seems to be breach of BOTH of the above ratios (which is an "or" test)?

We realize that you cannot comment on how regulators are looking at your bank, and we don't want to ask you that sensitive information, but based on our math, FNBC breaches BOTH of the tests above (keep in mind that the test is an "or" test) as of 2Q16 (which we derive based on the 2Q call report). Please let us know if you agree with our calculation.

We also attempted to screen for other similarly-situated banks that have breached these two criteria and determined that of the 5,642 U.S.-based commercial banks and savings banks surveyed, 131 institutions (approximately 2.3%) had both (1) a ratio of construction, land development, and other land greater than 100 percent of the institution's total capital and (2)(i) total commercial real estate loans of greater than 300 percent of the institution's total capital, and (ii) a greater than 50 percent increase in the outstanding balance of the institution's commercial real estate loan portfolio during the prior 36 months. This group of 131 institutions is sorted by institutions with the largest ratio of net deferred tax asset to total risk-based capital. Only the 20 banks with the highest such ratio are presented.

We lack the knowledge and experience to make a proper assessment of the implications of this dual breach, but it appears to us that this furthers the need to raise capital (above and beyond the reasons that appear to us to exist as shown in our attempted answers to the prior questions). Do you agree?

Note: On 8/16/2016 at approximately 5pm EST, this letter was updated to reflect the following:

In the table below, we based our calculations in part on footnote 6 of "Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices," (referenced below as the "CRE Guidance"), which can be found on page 74584 of the "Federal Register / Vol. 71, No. 238/Tuesday, Dec 12, 2006 / Notices" ("Federal Register"). The link to the document is as follows: "http://www.occ.treas.gov/news-issuances/federal-register/71fr74580.pdf". Footnote 6, which references the phrase "Total commercial real estate loans as defined in the Guidance" states: "[6] For commercial banks, this total is reported in the Call Report FFIEC 031 and 041 schedule RC– C items 1a, 1d, 1e, and Memorandum Item #3."

However, the main body of the CRE Guidance also states "Secondly, if loans for construction, land development, and other land and loans secured by multifamily and nonfarm nonresidential property (excluding loans secured by owner-occupied properties) were 300 percent or more of total capital, the institution would also be considered to have a CRE concentration and should employ heightened risk management practices." Although footnote 6 does not speak to loans secured by owner-occupied properties, it is therefore possible that the calculation in footnote 6 should exclude loans secured by owner-occupied properties. If such an exclusion is incorporated, the total list of U.S.-based commercial banks and savings banks with both (1) a ratio of construction, land development, and other land greater than 100 percent of the institution's total capital and (2)(i) total commercial real estate loans of greater than 300 percent of the institution's total capital, and (ii) a greater than 50 percent increase in the outstanding balance of the institution's commercial real estate loan portfolio during the prior 36 months would be 79 rather than 131, and both lists would include First NBC Bank. Additionally, excluding loans secured by owner-occupied properties from the calculation used in the table below causes First NBC Bank's (1) ratio of total reported loans for construction, land development, and other land as a percentage of the institution's total capital to be unchanged at 109%; (2)(i) the ratio of total commercial real estate loans as a percentage of the institution's total capital to become 353% from 476%, and (ii) the change in the outstanding balance of the institution's commercial real estate loan portfolio during the prior 36 months to become 117% from 88%.

U.S. Banks with High Commercial Real Estate Concentrations Sorted by Highest Ratio of DTA to Total Capital ($ mm)

Company Name	State	Assets (Bank)	CRE / Total Capital (%)[1]	CRE Growth Over Past 36 Months[1]	C&D / Total Capital (%)[1]	DTA / Total Capital	DTA / Assets
First NBC Bank	LA	4,853,863	476%	88%	109%	57.4%	4.9%
Pioneer Bank, SSB	TX	1,173,693	361%	324%	122%	43.2%	3.8%
First National Community Bank	GA	146,837	328%	88%	109%	31.8%	3.5%
Piedmont Bank	GA	503,964	581%	54%	175%	22.1%	2.1%
Sierra Vista Bank	CA	157,259	495%	85%	109%	17.8%	1.9%
Brand Banking Company	GA	2,379,081	330%	56%	134%	11.4%	1.1%
Centennial Bank & Trust	CO	909,697	431%	813%	154%	11.1%	1.0%
Georgia Heritage Bank	GA	74,490	479%	75%	158%	10.0%	0.9%
Yadkin Bank	NC	7,452,883	448%	355%	103%	9.7%	0.9%
Park Sterling Bank	NC	3,166,050	410%	86%	120%	9.0%	1.0%
Bank of Newington	GA	104,864	368%	87%	213%	8.9%	0.8%
Finwise Bank	UT	42,778	313%	130%	105%	8.6%	1.1%
Northwest Bank	ID	495,418	372%	126%	121%	7.6%	1.0%
Aquesta Bank	NC	333,421	488%	102%	131%	6.9%	0.6%
First Florida Integrity Bank	FL	1,261,167	461%	94%	106%	6.6%	0.6%
Centennial Bank	AR	9,555,022	472%	169%	116%	6.5%	0.6%
AccessBank Texas	TX	277,554	410%	194%	110%	6.3%	0.7%
Texan Bank, National Association	TX	205,965	585%	174%	112%	6.1%	0.6%
First Choice Bank	CA	827,471	442%	192%	114%	5.7%	0.7%
EagleBank	MD	6,352,998	505%	107%	116%	5.7%	0.6%

(1) In December 2006, The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation issued "The Joint Guidance on Concentrations in Commercial Real Estate Lending, Sound Risk Management Practices ("CRE Guidance")." The CRE Guidance refers to certain criteria for assessing CRE concentration risk, namely whether (1) Total reported loans for construction, land development, and other land represent 100 percent or more of the institution's total capital; or (2)(i) Total commercial real estate loans represent 300 percent or more of the institution's total capital, and (ii) the outstanding balance of the institution's commercial real estate loan portfolio has increased by 50 percent or more during the prior 36 months. In this analysis, the components of these "tests" - total commercial real estate loans, total construction, land development and other land loans and total capital - are calculated in accordance with the guidelines set forth in the CRE Guidance.

Source: Latest available bank regulatory financials from FFIEC call reports.

15) **We find your lack of public disclosure on certain items unnerving and frustrating (for example – we don't see the Basel III DTA phase-in calculation in any risk factors in the subordinated debt prospectus or the 10K, or a risk factor that you may need to take a substantial DTA allowance, etc.). But there are some affirmative disclosures you've made that worry us even more – for example your disclosure about the Spanish ethanol receivable. Are we wrong in assuming that the statement you made creates trust issues going forward?**

We won't take a shot at "answering" this question, but we'll give you a background of why we are asking it. I want to very clear: we could be wrong in suggesting that you haven't been altogether forthright, but I think there is some basis for this feeling. Is it a gut feeling? To some extent. Is it a feeling rooted in a little bit of fact? We think it is. Could we be wrong? Absolutely. Again, we encourage you to prove us wrong.

Let me elaborate. You released an 8-K on February 11, 2016, and in it you described a nonperforming ethanol receivable owed by a U.S. subsidiary of a Spanish ethanol company. You wrote the following: "Based on the Company's assessment of the strength of the ethanol industry and the historical earnings performance of the ethanol company and the receivables seller, the Company believes that both the ethanol company and the receivables seller are capable of repaying the full amount of the receivable balance over time. In addition, the parent corporation of the ethanol company is evaluating certain restructuring options that would permit a more prompt repayment of the receivable. As a result of the foregoing, management does not expect that the Company will incur any loss on its investment in short-term receivables related to the past due receivables discussed above."

From our perspective, these are pretty strong statements – and the credit is, or at least was, a large one (approximately $69 million) on FNBC's balance sheet. When we bought the subordinated debt, we took these statements at face value (no pun intended). But as our practice specializes in purchasing stressed and distressed debt (and typically not going long or short common stock), we are always looking at insolvencies. We had heard that there was a large Spanish ethanol company – Abengoa SA – that filed for protection under Spanish insolvency and in turn also has many U.S. subsidiaries that are in Chapter 11 bankruptcy. At first, we didn't know (and we still don't definitively know) if this was the Spanish company you were referring to in your 8-K since you did not name the company itself, but it seemed possible. So we tried to find out. Several days ago we were rummaging through the proof of claims register of one of the U.S. subsidiaries of Abengoa SA – an entity named Abengoa Bioenergy Company LLC – which also happens to be in Chapter 11 – and we stumbled across a proof of claim filed by "The Receivables Exchange" located in New Orleans. Your 8-K also said the following: "The receivables from the ethanol company were purchased through the Receivables Exchange, a national exchange established to allow vendors to sell their customers' receivables to third party investors." These receivables appear to match up with your description, and while we cannot be certain, it appears from these public documents that Murex LLC – a private company that says on its website that it "creates customer and supplier value by buying, selling, and moving petroleum and renewable products through an optimal logistics

network" – is the seller. Our suspicions seemed to be confirmed when we found FNBC's filed notice of appearance in Abengoa Bioenergy Company LLC's bankruptcy.

I want to make clear that while our research makes us think that Abengoa is the Spanish ethanol company and Murex LLC is the seller of the receivable to FNBC, we can't be sure and could be wrong.

What concerns us is your 8-K statement quoted above. When we read this 8-K, we had interpreted your words to mean that the obligor and/or its parent could repay this receivable and that it was really just a question of when they would do it, not if (which we took from your statements, "the parent corporation of the ethanol company is evaluating certain restructuring options that would permit a more prompt repayment of the receivable" and "the Company believes that both the ethanol company and the receivable seller are capable of repaying the full amount of the receivable balance over time.") From reading your statement, it almost seemed to us that the Spanish parent was making efforts to figure out how to repay you early so that you wouldn't have to wait.

But if Abengoa is really the Spanish company in question, then we question your statement. Maybe we're wrong – and we're not experts in Spanish insolvency – but a quick reading of the U.S.-translated plan of reorganization doesn't appear to contemplate a full repayment of the receivable, or any debt for that matter. And a quick skim through the docket of the U.S. obligor contemplates a sale of the entity's assets, which would be spread over a multi-billion dollar claims pool. It seems that there are billions of dollars of bonds that are guaranteed by the same entity that issued this receivable. We pulled up one of the bonds listed on the U.S. entity's schedules and indeed it seemed to indicate that it was guaranteed by this entity – 8.875% bonds appear to be guaranteed by Abengoa Bioenergy Co. LLC.

So unless we are wrong – and admittedly we haven't spent a lot of time analyzing this Spanish insolvency – and you have presumably spoken to the company and are fully engaged in the restructuring process – we don't see why your receivables will get a higher recovery than the bonds from the Abengoa entities (although we realize you may receive a recovery from the seller, Murex). The bonds seem to have a lot of guarantees (from multiple U.S. subs, including the obligor of the receivables, and the parent) and all of this paper (including, I would imagine, the receivables FNBC owns) is unsecured.

"Where do these bonds trade," one may ask. One can find this out on TRACE – which provides publicly available bond trading info. On August 11, more than $1 million face value of these bonds traded at a price of 8.25% of face value. And when you filed your 8-K on February 11, 2016, these bonds had a history of trading at very distressed levels. For example, on January 11, more than $1 million traded at 16.5% of face value. A week earlier, more than $1 million traded at 15% of face value.

So let's step back for a second. Could we be wrong that the company you refer to as the receivables obligor is Abengoa? Yes. Could we be wrong that Abengoa's bonds are guaranteed by the obligor of your receivables and should therefore be worth more than your

receivables as a percentage of face value? Yes. Could we also be wrong that given that the bond we mention above trades at around 8% of face value, and, even before you issued your 8-K, traded at less than 20% of face value, that, if this is in fact the company that owes you money, you shouldn't have thought or represented that the Spanish parent and its bankrupt sub could pay you par? Yes. To all of these things we could be wrong. But, and we say this with the highest respect – it causes us to worry, and we would ask you to set the record straight so that when you make statements about other exposures you have, we and other investors can trust you.

16) **Is there a risk that the bank-level regulators are going to prevent you from upstreaming dividends to the parent company, and if so, how are you going to keep servicing the subordinated debt that we own? What about the SBLF preferred? We assume that you are going to suspend those 9% dividends since they are non-cumulative (and we would agree with that decision).**

FNBC has $60 million of parent company subordinated debt (of which we own $8 million) and has approximately $40 million of non-cumulative SBLF preferred stock. We don't have your updated holding company regulatory balance sheet (which I believe you are late in filing), but your last one indicated that you only have two million dollars of cash at the parent. Obviously the parent's biggest asset is its ownership in its wholly owned bank subsidiary – a subsidiary that is obviously flush with cash (as all banks are). But the debt is at the parent and based on rough calculations, the $60 million accrues almost $3.5 million a year and has a semi-annual interest payment in about a week for about half that amount. Does the parent have enough cash to make that payment and are you confident that going forward, the regulators will allow the bank to upstream enough cash to make ongoing payments? As a subordinated debt holder, it's obviously very important to us to receive regular interest payments.

With respect to FNBC's SBLF non-cumulative preferred stock, we would urge you to suspend all dividends. Although doing so is likely to give the Treasury a seat on the board of FNBC (which I believe the FNBC documents provide for in the event that dividends are suspended for several quarters), we think conserving cash is key, especially since the preferred is non-cumulative. While it's a 9% dividend, not paying it doesn't cause it to accrue. We believe that non-payment will put a stopper on common equity dividends, but since FNBC doesn't pay common dividends anyway, we can't imagine why that would be a concern and would obviously be more than outweighed by the ability to save cash, even if doing so gave the Treasury a seat at the board table. We'd like to know your thoughts on this matter, and most importantly the ability and willingness to service our subordinated debt.

In Conclusion

The above is our highly imperfect, and very rough, attempt to piece together limited public information to formulate answers to some of the most pressing questions that we have. Keep in mind, we are working with SEC filings that are outdated and being restated, a recent call report that lacks explanatory footnotes, and we are lacking an updated parent company regulatory filing (which I believe

that you're late in filing) so we're making some assumptions about parent company debt (the sub debt and SBLF preferred) to build out a consolidated picture. But last week – after you came out with your call report – we concluded that we probably have more than enough information to take a stab at the numbers, and when we did this, we got scared and thus began shorting your stock. While we realize that we could be wrong, we think it's worth making the effort. No one knows more about this business than you – certainly not us – and we look forward to your response (which we hope and expect that you will make public as we do not want to receive selective, private or nonpublic information).

We also understand that you applied for, and received, permission to file your 10-K for 2015 on this coming Monday (August 15th) in order to avoid de-listing. Once you make this filing, we will spend some time absorbing it, as I'm sure it will be lengthy and complicated. I assume the filing, as well as any response you provide to this letter (which I hope you do), will answer many of our questions and allow us to formulate stronger views. Thereafter, we will likely follow up with a detailed presentation outlining our updated views. We look forward to reviewing your 10-K on Monday and receiving a response to our letter.

Sincerely,

HoldCo Asset Management

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