

*Investments
Asset / Liability
Risk Management*



Balance Sheet Opportunities And Challenges

The Citizens Bank
September 2021

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Taylor Advisors Providing Education to the Industry



Publications



Bond Price Volatility: Keep Calm and “Carry” On – Apr. 2020



Balance Sheet Opportunities: Create a Path to Outperformance – Dec. 2020



Assessing Balance Sheet Opportunities and Risks – July 2020



Gaining Confidence Through Stress-testing and Planning – May 2020



Loan Pricing: Avoiding Costly Mistakes – Feb. 2020



Funding Costs Still on the Rise: Betas Hit the Accelerator – Aug. 2019



Rate Caps and hidden Liquidity Risk – July 2019



Investment Guide for a Flat Yield Curve – Feb. 2019

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Balance Sheet Op

December 3rd, 2020

How important is net int

Anticipating the next s
become increasingly c
positions are growing w
and many institutions ar

It is also important to re
exercise. Beyond the ris
can give your institution
and to stay ahead of pe
sheet position discuss

Performance and Balance Sheet Snapshot - 2021Q2

The Citizens Bank
124 East Main Street Olanta, SC 29114

Performance Rankings

The Citizens Bank versus UBPR Peer Group*

	Metric	The Citizens Bank	UBPR Peer Group Average**	Percentile Rank
Net Interest Margin Dissection	Yield on Investments (FTE)	1.74	1.85	43%
	Yield on Total Loans	4.84	5.05	42%
	Earning Asset Yield (FTE)	3.09	3.74	15%
	Interest Expense to Avg. Earning Assets	0.12	0.33	11%
	Net Interest Margin (FTE)	2.97	3.39	24%
	Return on Average Assets	0.83	1.17	22%
	Net Interest Income Dependency Ratio	0.77	0.83	26%

The Citizens Bank versus South Carolina Banks

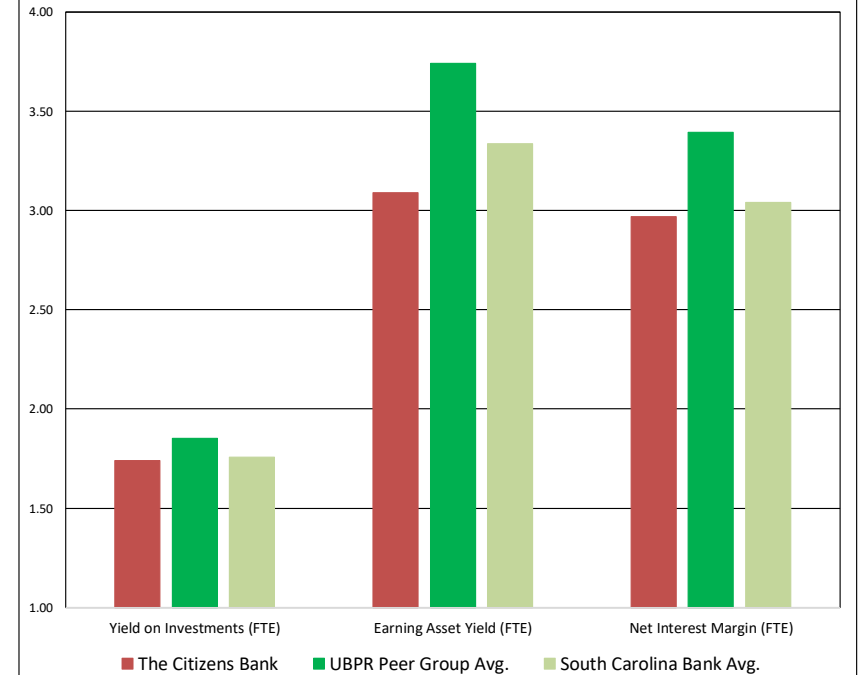
	Metric	The Citizens Bank	South Carolina Bank Average	Percentile Rank
Net Interest Margin Dissection	Yield on Investments (FTE)	1.74	1.76	48%
	Yield on Total Loans	4.84	5.02	48%
	Earning Asset Yield (FTE)	3.09	3.34	33%
	Interest Expense to Avg. Earning Assets	0.12	0.27	24%
	Net Interest Margin (FTE)	2.97	3.04	40%
	Return on Average Assets	0.83	0.87	44%
	Net Interest Income Dependency Ratio	0.77	0.82	26%



Strategize Prosperity

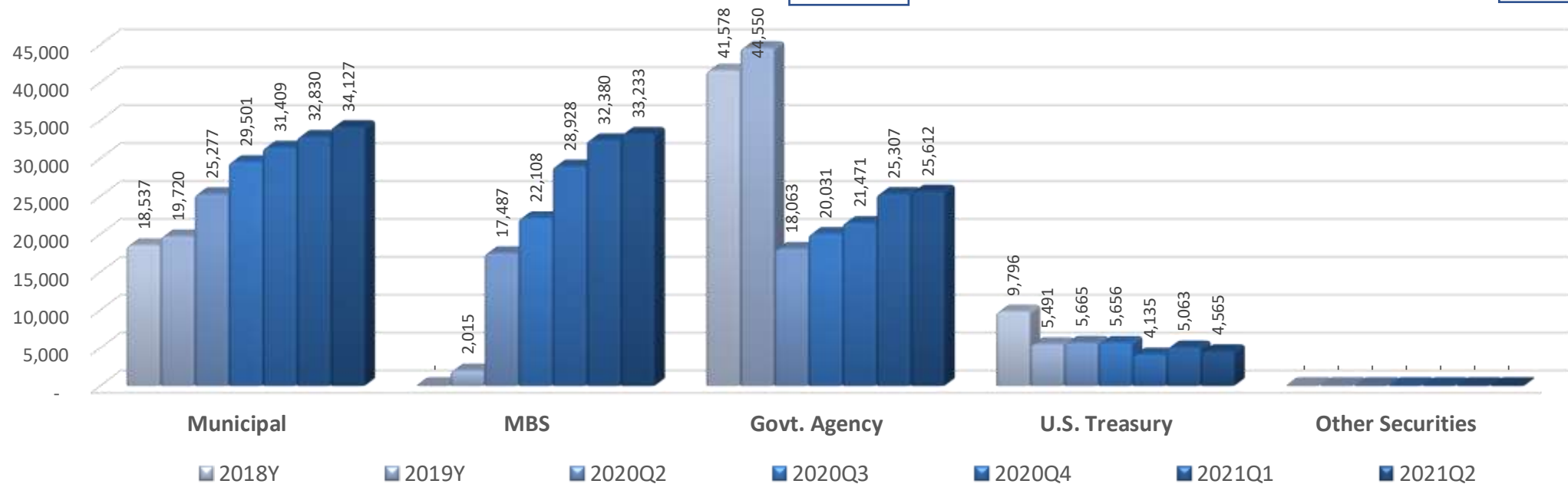
700 N. Hurstbourne Parkway
Louisville, KY 40222
www.tayloradvisor.com

Performance Rankings



Securities Mix Analysis

	2018Y	2019Y	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2
Municipal	18,537	19,720	25,277	29,501	31,409	32,830	34,127
MBS	-	2,015	17,487	22,108	28,928	32,380	33,233
Govt. Agency	41,578	44,550	18,063	20,031	21,471	25,307	25,612
U.S. Treasury	9,796	5,491	5,665	5,656	4,135	5,063	4,565
Other Securities	-	-	-	-	-	-	-
CMO	-	-	-	-	-	-	-
CMBS	-	-	-	-	-	-	-
Equity	-	-	-	-	-	-	-
Total Securities (Fair Value)	69,911	71,776	66,492	77,296	85,943	95,580	97,537
Life Insurance Assets	8,958	9,087	9,160	9,195	9,369	9,629	9,687



Challenges Managing a Bank's Investment Portfolio

- Low or Average Portfolio Yield
 - Probably means the investment strategy needs adjustments
 - Suboptimal investment mix & lack of relative value analysis
 - Sector concentrations in poor risk/reward securities & underperforming peers
 - Lack of ongoing investment portfolio performance measurement

- Philosophy
 - Ignoring investment management from a whole bank (asset/liability) perspective
 - Too much reliance on the broker/dealer community for advice
 - Right-sizing the investment portfolio for your balance sheet (size, mix, length, etc.)
 - Product selection, sector concentration, lack of diversification

- Strategies
 - No independent investment discussions or 3rd party analysis and interpretation
 - Reactive decision making in response to broker solicitations
 - Not changing the portfolio as the balance sheet changes in mix, IRR, and liquidity constraints (always buying the same bonds)
 - Not fully optimizing investment focused tax minimization strategies

- Operationally
 - Distraction from your primary responsibility of running the bank
 - Difficulty with investment portfolio monitoring (risks, tools, and policy) – effective risk management
 - Dated Investment Policy

- Expertise
 - Executives may lack either time, technology, or expertise in investment management
 - Implementing a succession plan for investment management. Utilizing a 3rd party in advance to assist in education and strategy development can help when transferring duties.
 - Little to no board oversight/education relating to investments (Annual investment training to management/board)

UBPR – Investment Yield for The Citizens Bank



FDIC Certificate # 15932
OCC Charter # 0
Public Report

FRB District/ID_RSSD 5 / 898627
County: FLORENCE

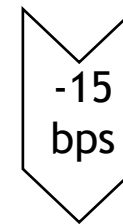
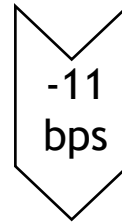
CITIZENS BANK, THE; OLANTA, SC
One Quarter Annualized Income Analysis--Page 12

Income Statement 1-Qtr-Ann
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Earnings and Profitability
Yield on or Cost of:
Total Investment Securities (TE)

6/30/2021			6/30/2020		
BANK	PG 5	PCT	BANK	PG 5	PCT
1.74	1.85	44	2.32	2.47	40

35% Munis



(above/below peer)

FDIC Certificate # 21247
OCC Charter # 0
Public Report

FRB District/ID_RSSD 8 / 263243
County: GRAVES

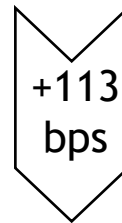
FIRST KENTUCKY BANK, INC.; MAYFIELD, KY
One Quarter Annualized Income Analysis--Page 12

Income Statement 1-Qtr-Ann
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Earnings and Profitability
Yield on or Cost of:
Total Investment Securities (TE)

6/30/2021			6/30/2020		
BANK	PG 5	PCT	BANK	PG 5	PCT
2.98	1.85	92	2.97	2.47	82

32% Munis



(above/below peer)

Source: UBPR

Assessing Your Investment Process and Portfolio Performance: Broker vs. Advisor Approach

10/28/2020 | 8 MIN READ

Investment portfolios and overnight cash positions have grown significantly at many financial institutions due to a recent surge in deposits and slower portfolio loan demand. With record low interest rates, carrying excess cash on the balance sheet has been costly. These factors are forcing executive teams to re-focus on the investment portfolio to help relieve net interest margin pressure from declining earning asset yields.

In general, financial institutions have two options for managing the investment portfolio. We will refer to these as the Broker and the Advisor approach.

The Broker Approach

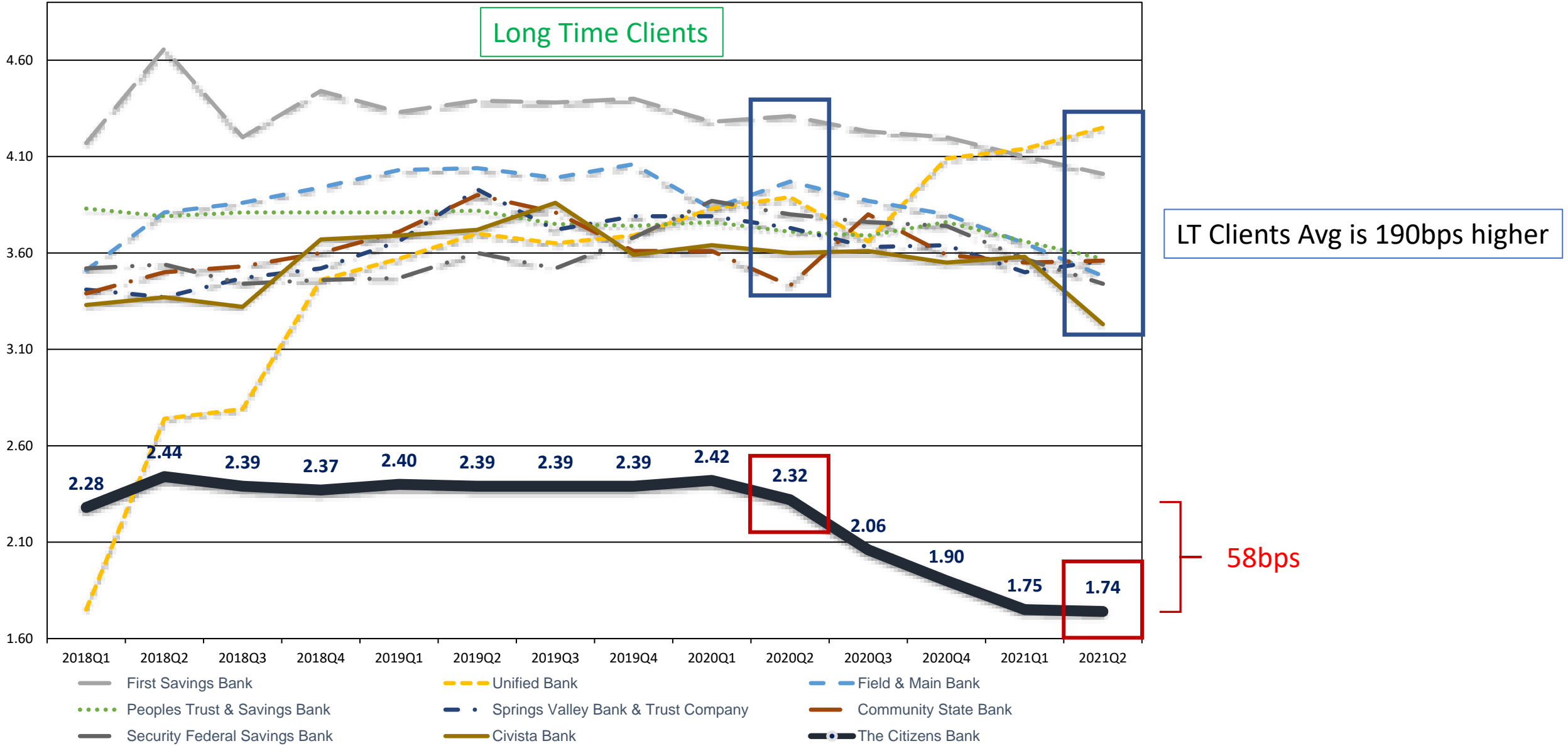
An institution's financial executive (CFO, President, Portfolio Manager, etc.) has the option of working directly with a variety of brokers/brokerage firms to make investments for the portfolio. Usually, brokers will present different products for consideration often via...

[Read Full Article](#)

If you are considering a change from a broker approach to an advisor approach or switching advisors, below we discuss seven benefits and/or best practices of working with an investment advisor to improve portfolio and balance sheet performance:

1. Investment Management from a Whole Balance Sheet Perspective
2. Accountability & Transparency
3. Strategy and Relative Value Analysis
4. **Exclusive Product Access**
5. Staying in Control
6. **Reducing Transaction Costs and Improving Execution**
7. Redirected Productivity

Comparative Peer Investment Yield Trend Analysis



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Taylor Advisors – Performance for Advisory Clients

Taylor Advisors Performance

Yield on Investment Securities (Fully Taxable Equivalent)

Municipal Advisory Clients



Investment Yield Performance Municipal Advisory Clients
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Time Period	New Clients	Tenured Clients	Non-Clients	Taylor Advisors Outperformance (Tenured Clients)
MRQ	1.61	2.54	1.76	+0.78
2020	2.26	2.93	2.27	+0.66
2019	2.55	3.28	2.61	+0.67
2018	2.79	3.10	2.46	+0.64
2017	2.57	3.41	2.41	+1.00
2016	2.63	3.44	2.35	+1.09

Citizens Bank's Q2 Investment Yield is 1.74%.

TA Tenured Clients Q2 median is 2.54%, 80bps higher than Citizens Bank.



One Year Investment Yield Dollar Impact

Bps in
1st 12M



Average

Bps
Behind



Median

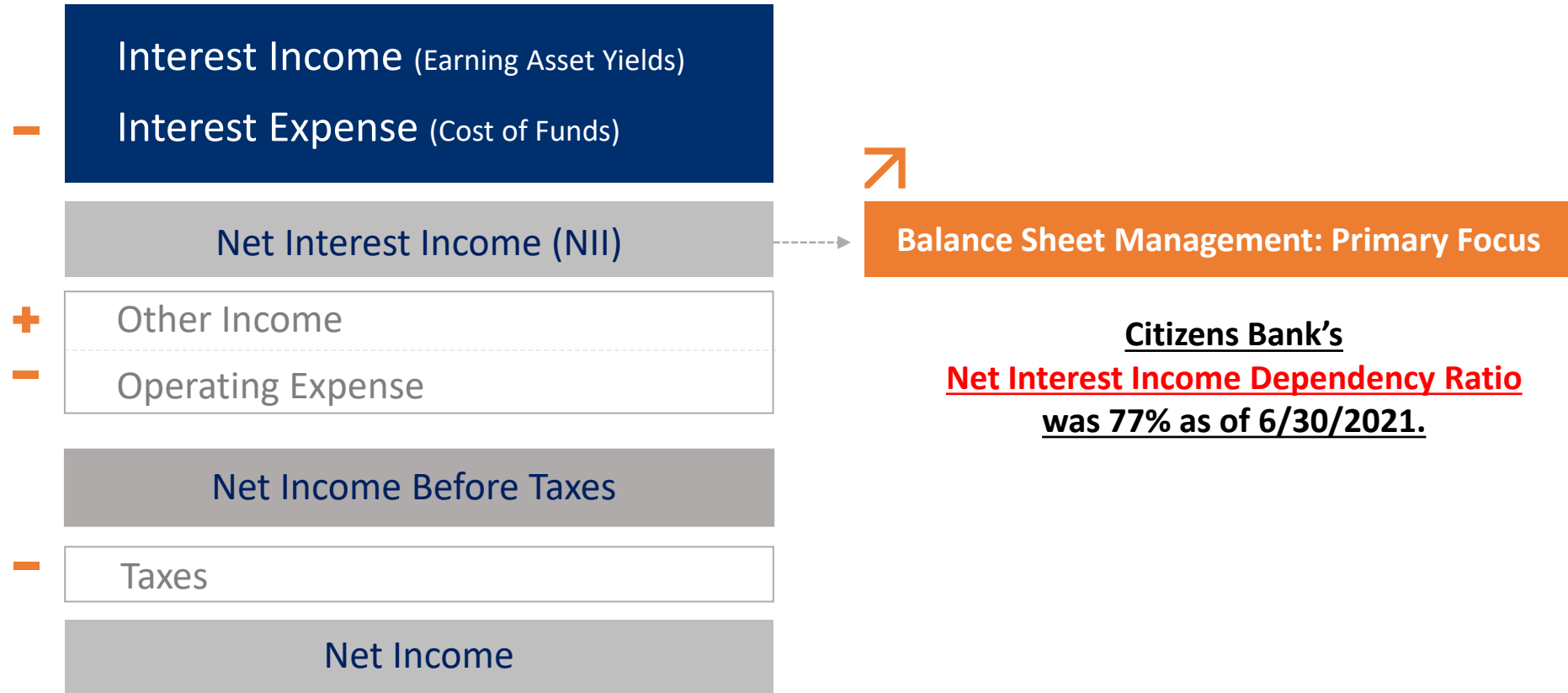
(in \$000)	Investment Income Change in thousands of dollars (due to Yield change in basis points)					
	10	23	25	50	75	80
Investments	10	23	25	50	75	80
80,000	80	184	200	400	600	640
100,000	100	230	250	500	750	800
120,000	120	276	300	600	900	960
Cash	30	50	75	100	125	150
110,000	330	550	825	1,100	1,375	1,650
120,000	360	600	900	1,200	1,500	1,800
130,000	390	650	975	1,300	1,625	1,950

Equity Research Headlines



- M&A Strategy Is Working to Maintain ROA Despite **Rate Challenges**
- *The First Bancshares, Inc.*
- A Good Quarter, but Further **NIM Pressure** Remains a Headwind
- *Capstar Financial Holdings, Inc.*
- Strong Fees Offset **NIM Contraction** for a Beat as Dividend Increased: 1st Look
- *Bank of Hawaii Corp.*
- **NIM Slip** Drives EPS Miss, First Look
- *Southside Bancshares, Inc.*
- **NII Pressure** Outweighs New Expense Cuts; Trimming Estimates
- *Associated Banc-Corp*
- **NII Pressure** Tough to Outrun; Lowering Estimates
- *PacWest Bancorp*

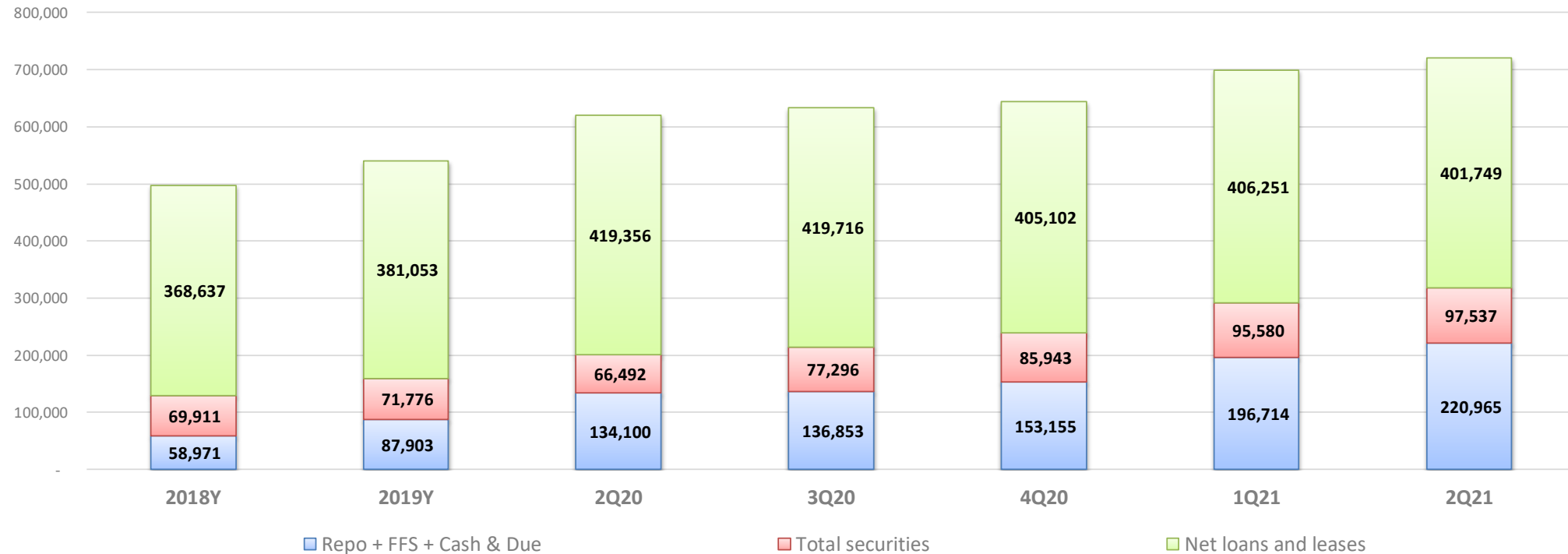
Basic Income Statement



Balance Sheet Mix Analysis

	2018Y	2019Y	2020Q2	2020Q3	2020Q4	2021Q1	2021Q2
Cash & due from depository institutions	58,971	87,903	134,100	136,853	153,155	196,714	220,965
Federal funds sold and Repos	-	-	-	-	-	-	-
Total securities	69,911	71,776	66,492	77,296	85,943	95,580	97,537
Net loans and leases	368,637	381,053	419,356	419,716	405,102	406,251	401,749
Bank premises and fixed assets	16,572	16,162	16,226	17,505	16,962	16,469	17,741
Intangibles	5,948	5,496	5,394	5,343	5,627	5,576	5,357
All other assets	14,496	14,799	14,800	15,039	14,931	14,199	14,645
Total assets	534,535	577,189	656,368	671,752	681,720	734,789	757,994

537 PPP Loans
\$19,825 Balance



Challenges Managing a Bank's Balance Sheet

- Philosophy
 - Lack of Balance Sheet Strategies – creative ideas to improve profitability and/or manage risk
 - Reactive Decision Making Process (Need to continue to be proactive)

- Earnings and NIM
 - Low Earning Asset Yields – mix, selection, pricing
 - High Cost of Funds – accelerating funding costs and/or deposit pricing frustrations

- Interest Rate Risk
 - Lacking confidence in the tools to measure, monitor, and control interest rate risk
 - Little to no documentation of various parts of the ALM process (i.e. assumptions).
 - Regulators are critical of the ALCO process or IRR measurement tool

- Capital
 - Understanding capital's impact on Interest Rate Risk, liquidity, and returns
 - Capital management and monitoring process needs enhancement, including stress testing and dynamic forecasting
 - Lack of comprehensive policy/plan including capital contingency planning

- Liquidity
 - Difficulty with liquidity assessment, management, and monitoring risks, tools, policy, and strategies.
 - Contingent liquidity planning MUST include scenario stress-testing with triggers (a.k.a., Dynamic Cash Flow Testing).

- Education/Training
 - Needing a succession plan for ALCO/balance sheet management
 - Executives may lack either time, technology, or expertise in balance sheet management
 - Little to no board oversight/education relating to asset liability management (training to executive management/board)
 - No independent analysis of the balance sheet, liquidity or investment portfolio

UBPR – Net Interest Margin for The Citizens Bank



FDIC Certificate # 15932
OCC Charter # 0
Public Report

FRB District/ID_RSSD 5 / 898627
County: FLORENCE

CITIZENS BANK, THE; OLANTA, SC
One Quarter Annualized Income Analysis--Page 12

Income Statement 1-Qtr-Ann
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Earnings and Profitability Margin Analysis:	6/30/2021			6/30/2020		
	BANK	PG 5	PCT	BANK	PG 5	PCT
Int Inc (TE) to Avg Earn Assets	3.09	3.74	15	3.75	4.26	21
Int Expense to Avg Earn Assets	0.12	0.33	11	0.29	0.62	14
Net Int Inc-TE to Avg Earn Assets	2.97	3.39	24	3.46	3.62	41

-42
bps

-16
bps

(above/below peer)

FDIC Certificate # 14735
OCC Charter # 0
Public Report

FRB District/ID_RSSD 8 / 837149
County: HICKMAN

FIRST COMMUNITY BANK OF THE HEARTLAND, INC.; CLINTON, KY
One Quarter Annualized Income Analysis--Page 12

Income Statement 1-Qtr-Ann
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Earnings and Profitability Margin Analysis:	6/30/2021			6/30/2020		
	BANK	PG 5	PCT	BANK	PG 7	PCT
Int Inc (TE) to Avg Earn Assets	4.69	3.74	91	5.67	4.44	94
Int Expense to Avg Earn Assets	0.37	0.33	60	0.79	0.60	74
Net Int Inc-TE to Avg Earn Assets	4.32	3.39	92	4.89	3.82	92

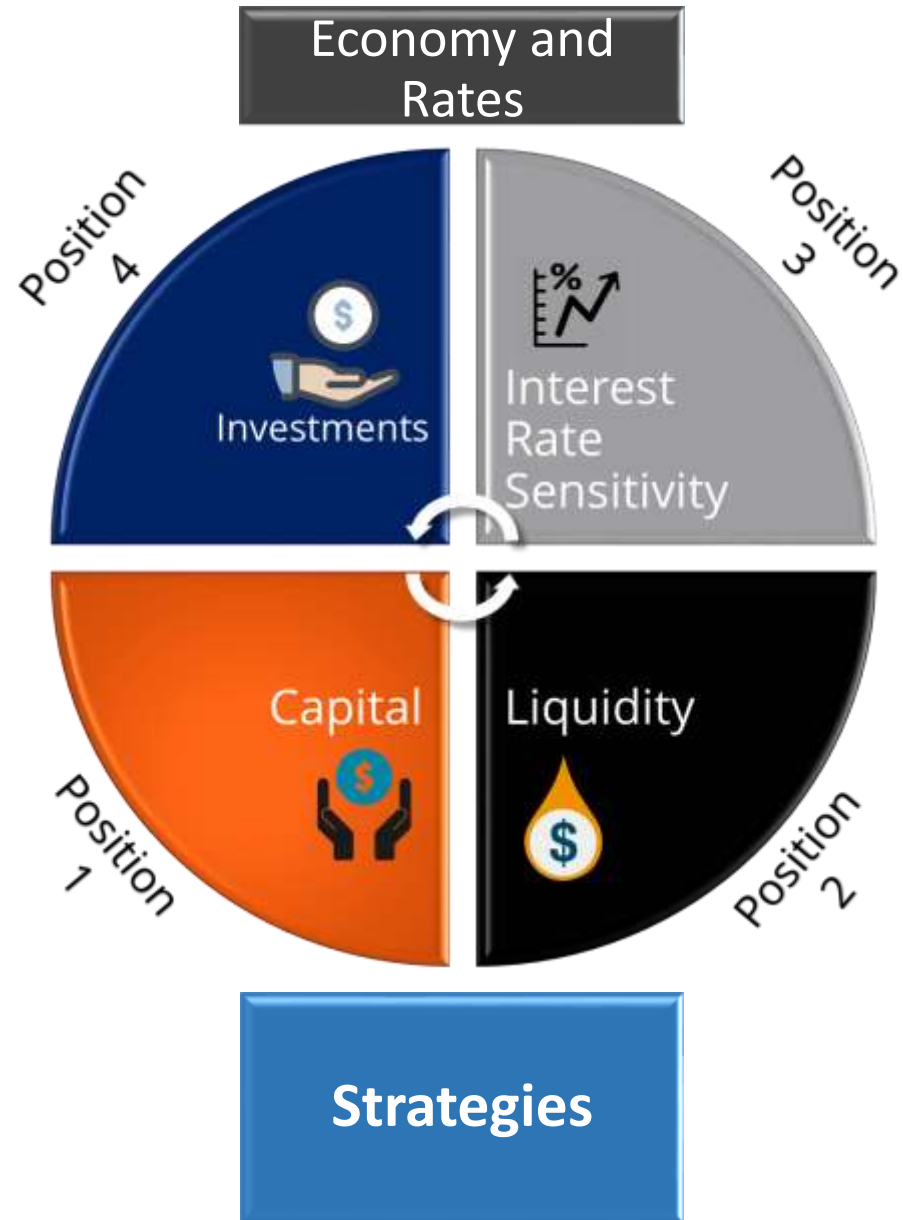
+93
bps

+107
bps

(above/below peer)

Source: UBPR

ALCO Best Practices

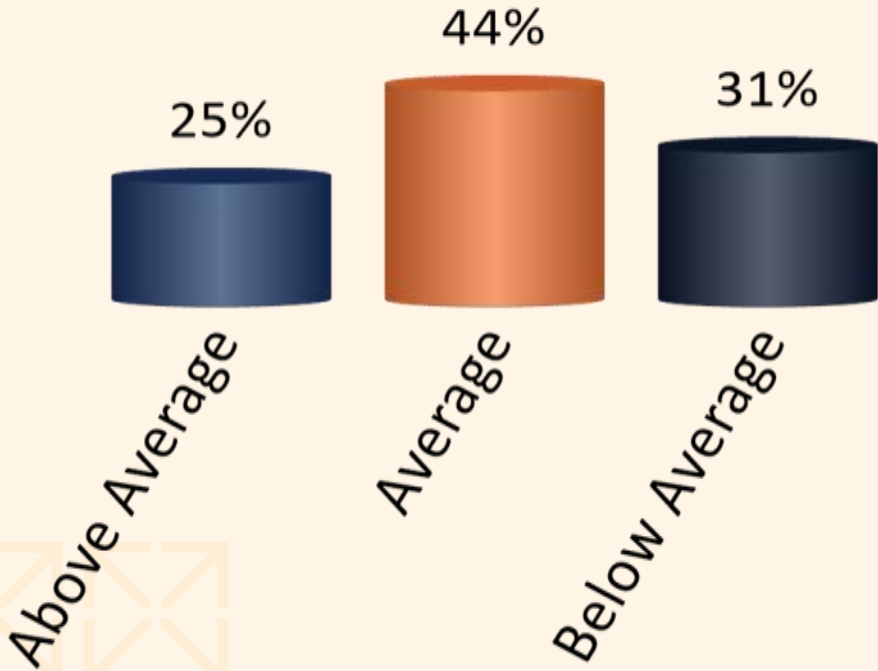


Balance Sheet Strategies

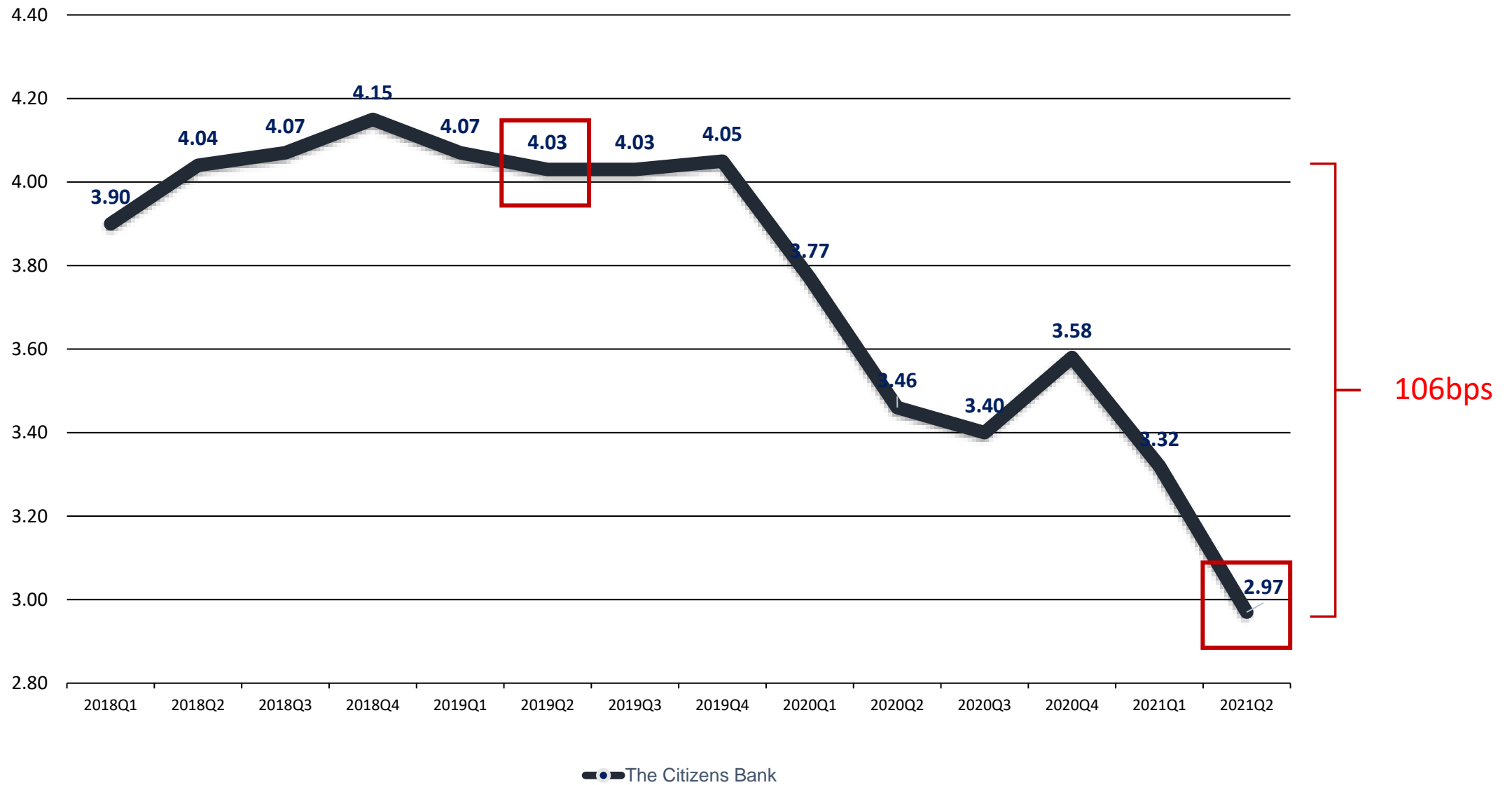


HOW WOULD YOU RATE YOUR ALCO PROCESS WHEN IT COMES TO DRIVING PROFITABILITY AND STRATEGIES? - FHLB CINCINNATI

- A. Above Average
- B. Average
- C. Below Average



Comparative Peer Net Interest Margin Trend Analysis



HOW MUCH COULD YOU IMPROVE THE MARGIN IN BASIS POINT THROUGH AN ENHANCED PROCESS/STRATEGIES?

Typical New Client After First 12 Months

Strategize Prosperity

While banks have fared better than many other businesses through the pandemic, the industry is still fraught with challenges. Margin compression is a constant challenge, especially in the current economic and rate climate. Increasing margin without increasing risk has always been a challenge as well. We have helped over 100 of your counterparts successfully navigate these waters.

Our Typical Client:

- Is a community or regional bank with assets between \$200M and \$1B and a healthy ROA and ROE compared to industry peers
- **Improves their net interest margin by 16 basis points after the first year of our partnership and/or**
- **Improves the yield on their investment portfolio by 23 basis points after the first year of our partnership**
- Started with a high level of skepticism (appropriate for bankers who are and should be risk-averse)

Taylor Advisors – Net Interest Margin Performance

Taylor Advisors Performance
Net Interest Margin - Fully Taxable Equivalent



Net Interest Margin Performance Balance Sheet Management Clients

Time Period	New Clients	Tenured Clients	Non-Clients	Taylor Advisors Outperformance (Tenured Clients)
MRQ	3.07	3.43	3.28	+0.15
2020	3.61	3.62	3.49	+0.13
2019	3.76	3.84	3.78	+0.06
2018	3.69	3.90	3.80	+0.10
2017	3.96	3.96	3.76	+0.20
2016	3.80	3.86	3.70	+0.16

The Citizens Bank’s Q2 Net Interest Margin is 2.97%.

TA Tenured Clients Q2 Median is 3.43%, 46 bps higher than The Citizens Bank.



One Year NIM Dollar Impact

Bps in
1st 12M

Average

Bps
Behind

Median

Bps
Decline

Earning Asset Size (in \$000)	Net Interest Income Change in thousands of dollars (due to Yield change in basis points)					
	10	16	46	50	75	106
675,000	675	1,080	3,105	3,375	5,063	7,155
700,000	700	1,120	3,220	3,500	5,250	7,420
725,000	725	1,160	3,335	3,625	5,438	7,685
750,000	750	1,200	3,450	3,750	5,625	7,950
775,000	775	1,240	3,565	3,875	5,813	8,215
800,000	800	1,280	3,680	4,000	6,000	8,480

BALANCE SHEET MANAGEMENT



Where you're always First

THE BANK:

Taylor Advisors began working with First Savings Bank (Clarksville, IN) in the 1st quarter of 2004.

THE CHALLENGE:

First Savings Bank needed assistance in the areas of balance sheet management and investment advisory.

THE SOLUTION:

Since the start of the engagement, Taylor Advisors has been providing advice in the areas of capital, liquidity, funding, interest rate risk, investments, deposit and loan pricing. First Savings Bank and its subsidiaries have also been utilizing Taylor Advisors for investment advisory services. Goals were established regarding the credit quality of investments, duration of the portfolio, maximum allocation for various sectors of the fixed income market, and procedures for security execution.



AT A GLANCE:

- \$1.87 Billion - Assets as of 2020
- 3.58% - Net Interest Margin (FTE) as of 2020
- 4.26% - Investment yield (FTE) as of 2020
- 97th Percentile – Investment yield rank among peers as of 2020
- 652% - Stock price increase (unadjusted) from IPO on October 6, 2008 – February 16th, 2021

Taylor Advisors Services



**ALCO Workshop/
Formal ALCO**

- (1-6) • Net Interest Margin Improvement
- (1-6) • Balance Sheet Strategies to Improve Profit and Manage Risk
- (2) • Capital Stress Tests: Growth and Credit
- (4-6) • Detailed review of Interest Rate Risk Reports
- (3,4) • Liquidity Analysis Worksheet & Contingency Funding Scenarios
- (1-6) • Meeting Minutes Documenting Balance Sheet Strategies

**Investment
Advisory**

- (2,3,6) • Portfolio Yield Improvement
- (3,6) • Investment Securities & Products
- (1-6) • Investment Strategies for Whole Institution
- (2,3,6) • Investment Policy Review and Policy Compliance Report
- (3,6) • Security Execution of Client-Approved Strategies (Cusip-level)
- (3,6) • Complete Purchase Analysis/Documentation