

Sheshunoff
CONSULTING + SOLUTIONS



HUB



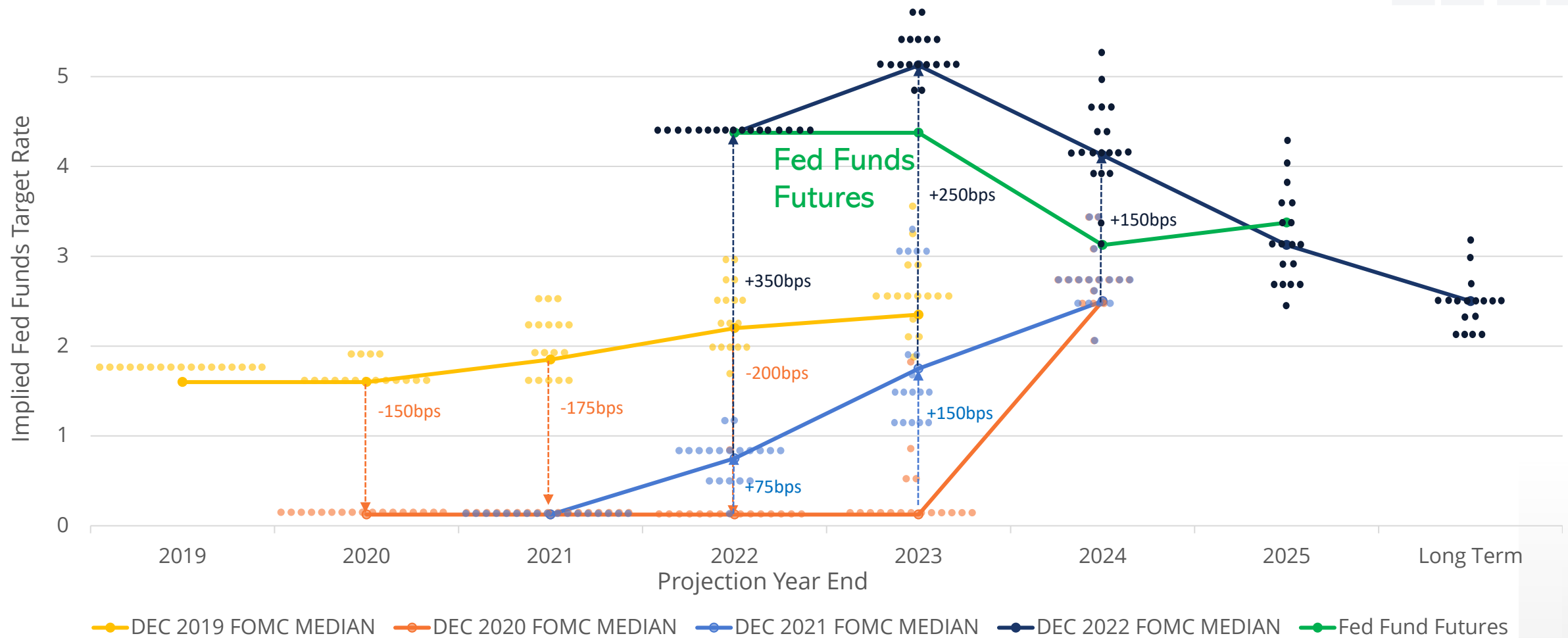
TAYLOR
ADVISORS

Balance Sheet Optimization: Driving Profitability

KEY HOW-TO... TAKEAWAYS FROM TODAY'S PRESENTATION

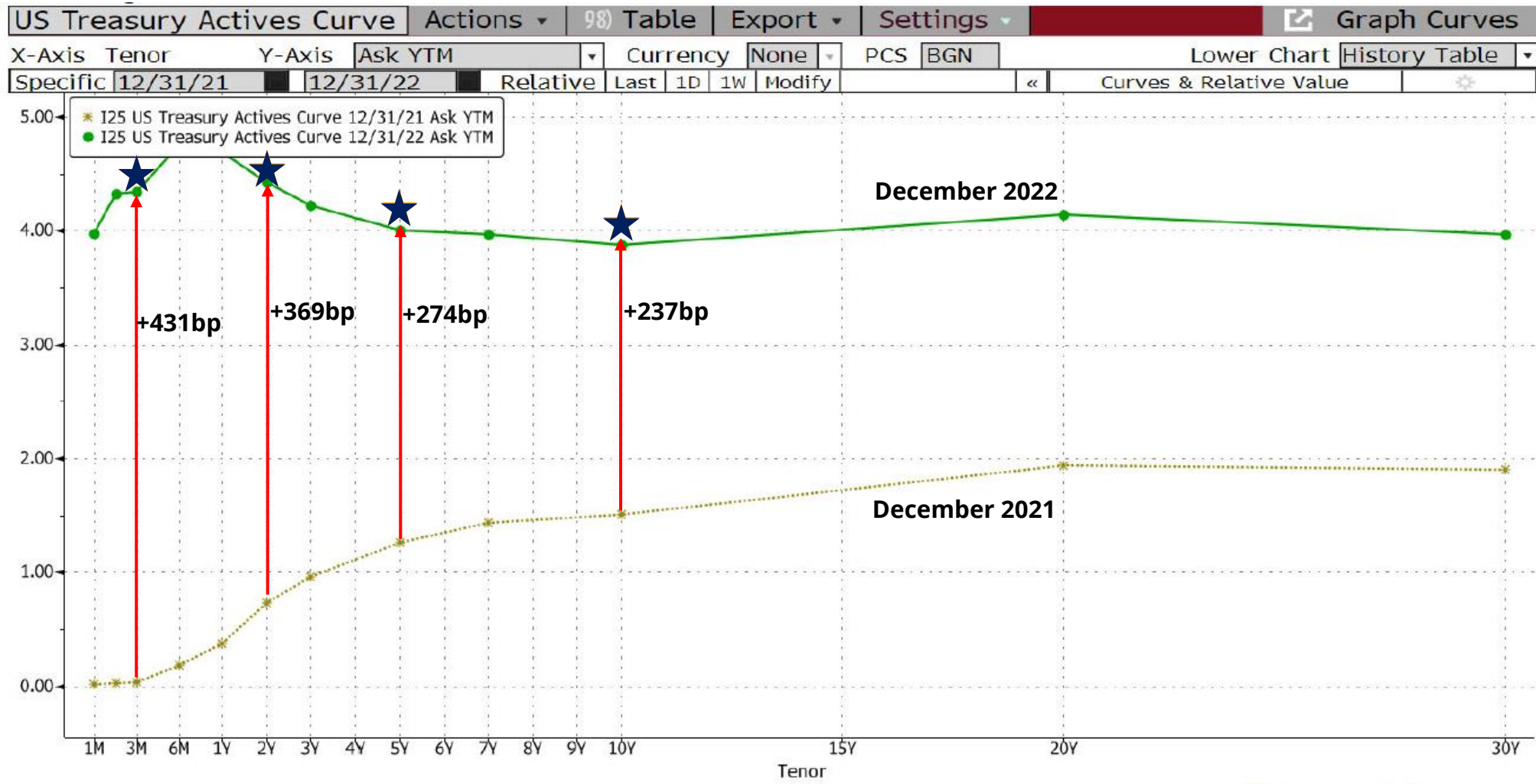
- Why ALCO/Balance Management is important to overall **profitability**
- Discuss why strategy formation is **not a one-size fits all** approach
- How can we **dissect our Net Interest Margin** and get better? See Performance SNAPSHOT
- How can we **Reimage “Old School” ALCO** to drive better and/different strategies

FED DOT PLOT & IMPLIED FED FUNDS TARGET RATE



Source: Bloomberg

TREASURY RATES



Curve Id	1M	3M	2Y	5Y	10Y	20Y	30Y
1) I25 12/31/22	3.976	4.343	4.426	4.004	3.875	4.144	3.963
12) I25 12/31/21	0.015	0.030	0.732	1.263	1.510	1.933	1.903
13) I25 (12/31/22-12/31/21)	396.1	431.2	369.4	274.1	236.5	221.0	206.0

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.*

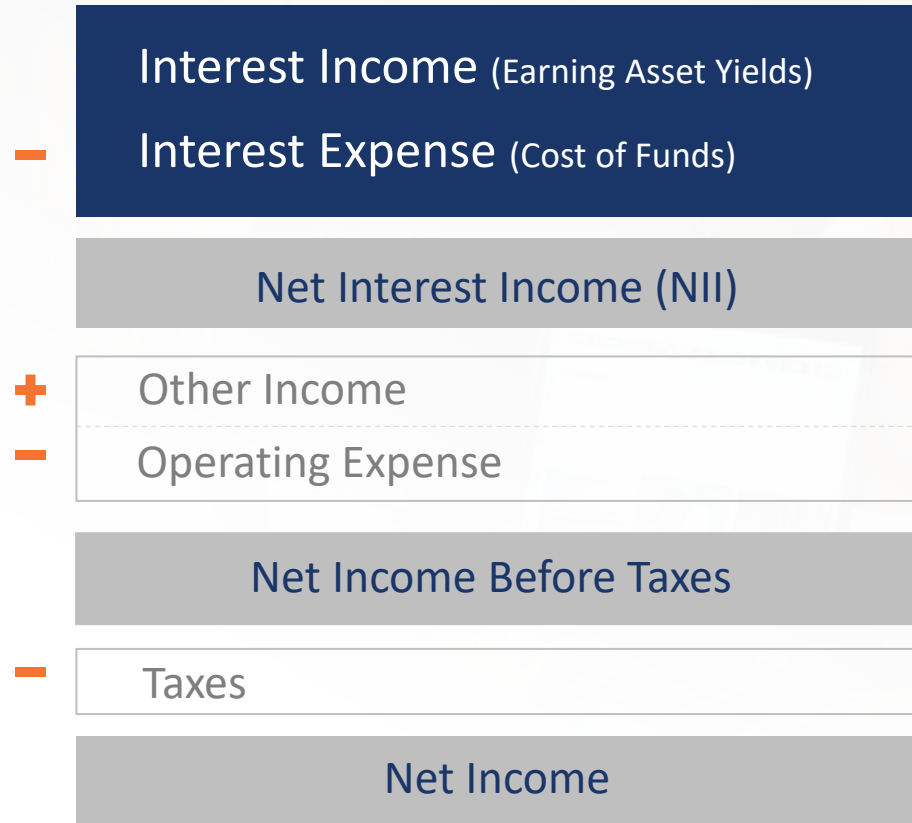


➤ **NII Pressure** Outweighs New Expense Cuts; Trimming Estimates
- *Associated Banc-Corp*



➤ **NII Pressure** Tough to Outrun; Lowering Estimates
- *PacWest Bancorp*

BASIC INCOME STATEMENT



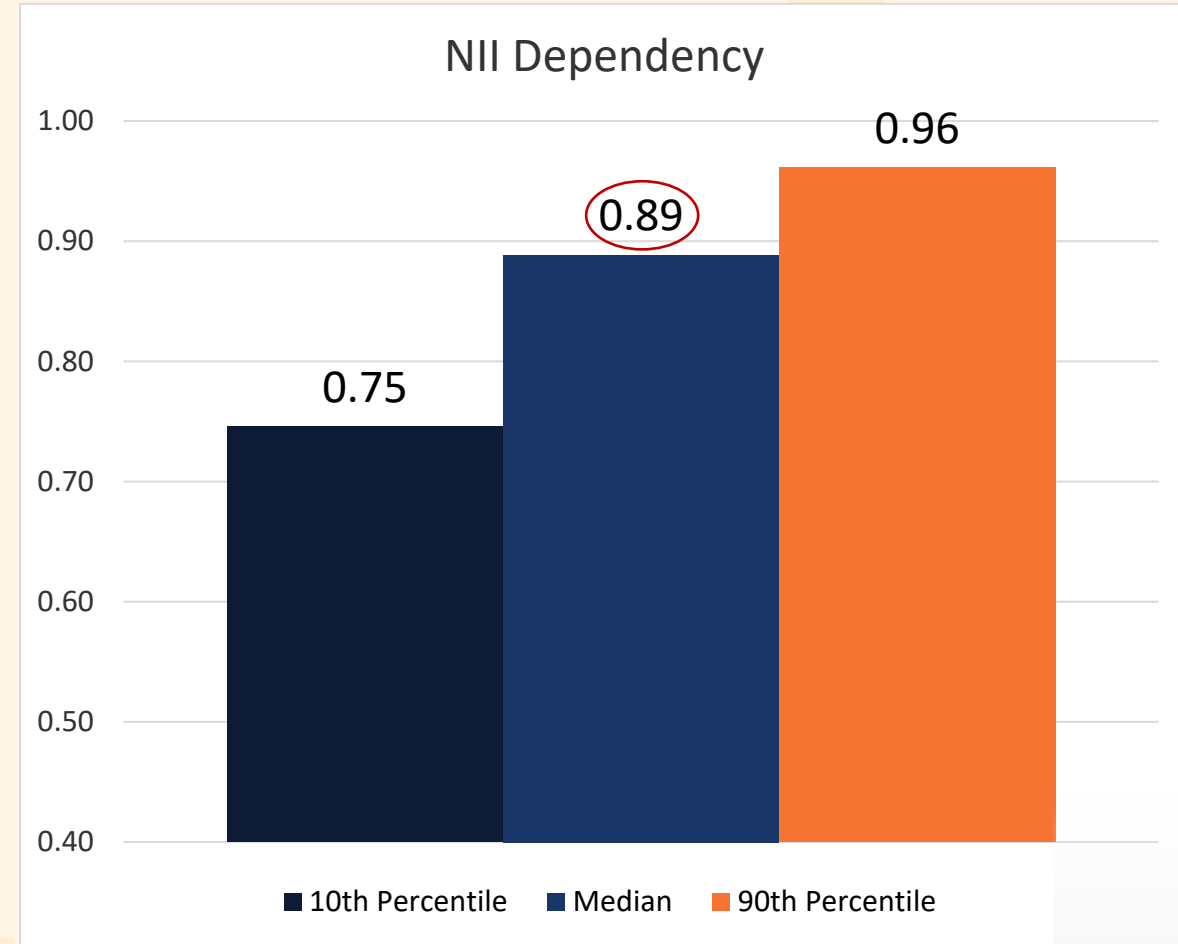
Balance Sheet Management: Primary Focus

ROE vs. ROA Focus

NII DEPENDENCY AMONG ALL BANKS NATIONALLY

Net Interest
Income (NII)

Net Interest
Income (NII) + Non-Interest
Income

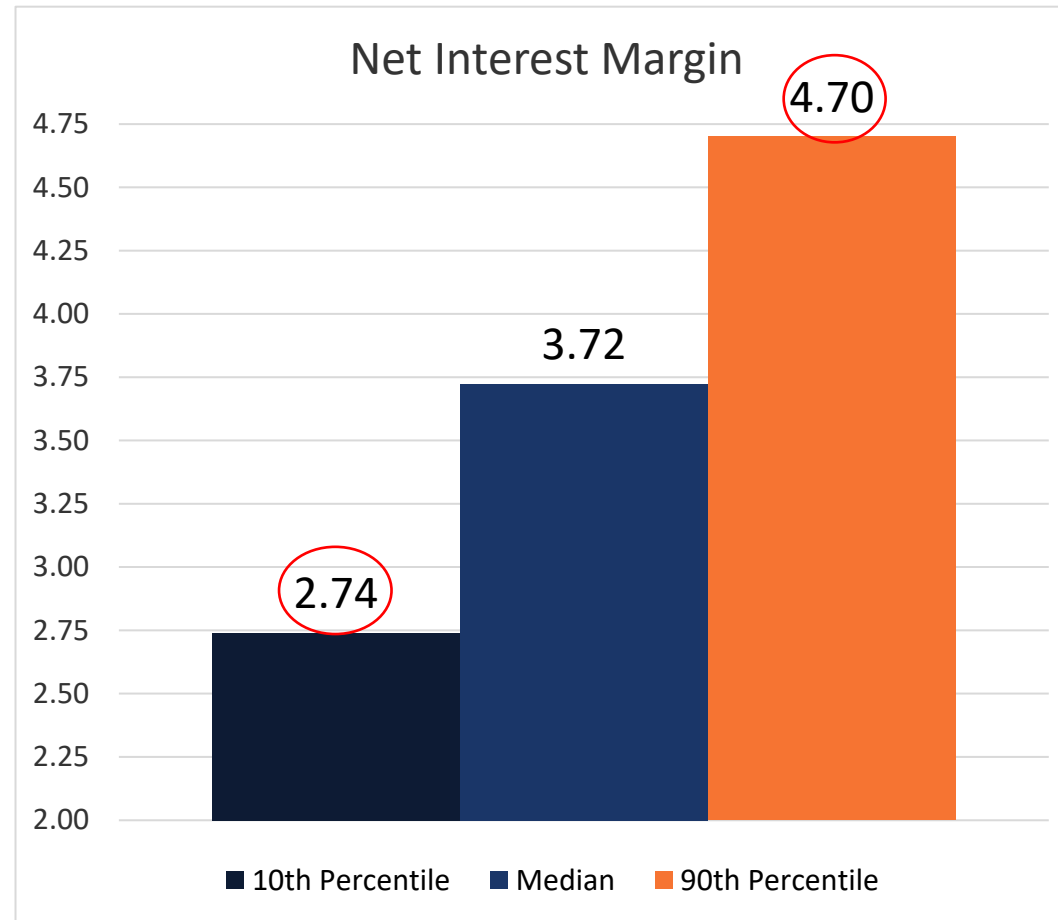


Source: S&P Global Market Intelligence,
Data for all Banks Nationally <\$15B as of 12/31/22



The more net interest income
dependent your institution, the more
NIM will drive earnings

NET INTEREST MARGIN AMONG ALL BANKS NATIONALLY

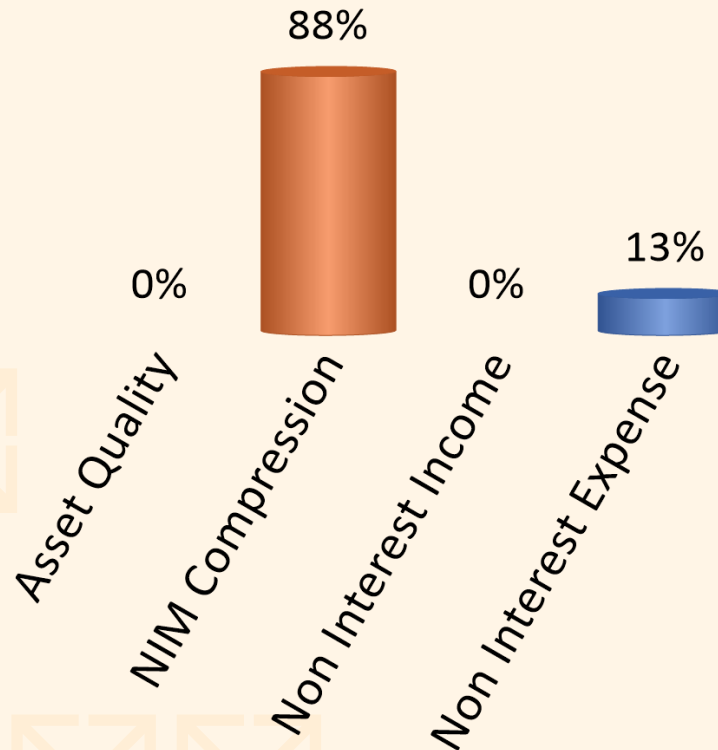


Source: S&P Global Market Intelligence,
Data for all banks Nationally <\$15B as of 12/31/22

The more net interest income dependent your institution, the more NIM will drive earnings

WHAT IS YOUR BIGGEST CONCERN REGARDING YOUR BANK'S PROFITABILITY?

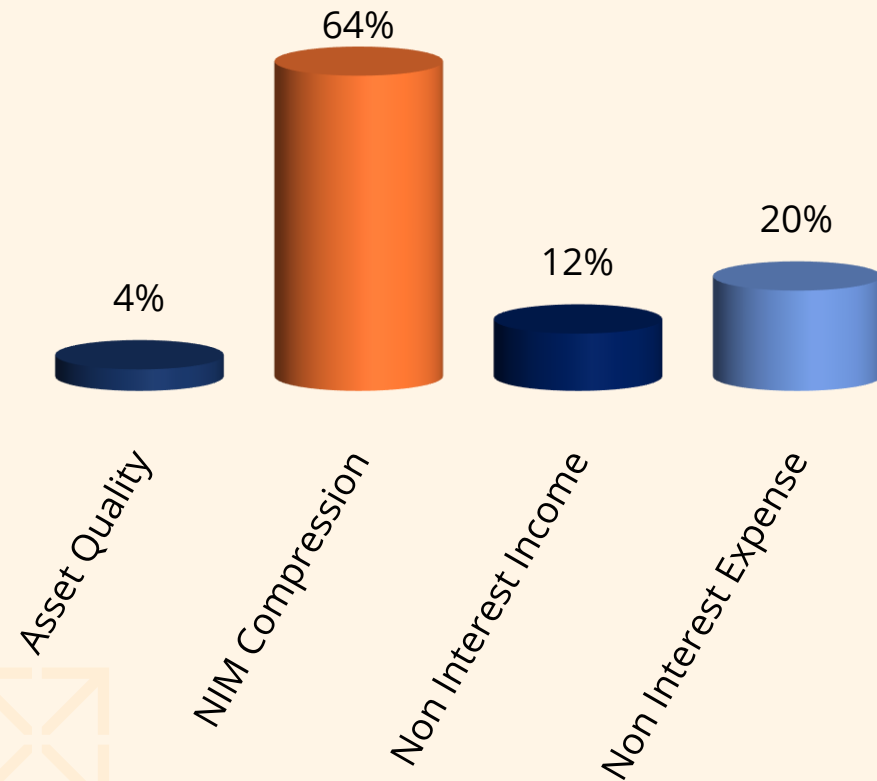
- A. Asset Quality
- B. NIM Compression
- C. Non Interest Income
- D. Non Interest Expense



PRE-MEETING SURVEY 3/8/23:

WHAT IS YOUR BIGGEST CONCERN REGARDING YOUR BANK'S PROFITABILITY?

- A. Asset Quality
- B. NIM Compression
- C. Non Interest Income
- D. Non Interest Expense



PERFORMANCE SNAPSHOT REQUEST

Info.tayloradvisor.com/snapshot

The Taylor Advisors Performance Snapshot is an in depth report on your institution's margin, yield, and costs in comparison to UBPR and State Peer Averages.

As you'll see, the graph on the top right shows performance data about the institution (red) and compares it to other institutions in its UBPR peer group and its home state (green).

The Net Interest Margin Dissection to the left shows the numbers that correspond to the graph and also ranks the institution versus its peer group, approximating the UBPR report. Below that is additional balance sheet information about the institution.

Performance and Balance Sheet Snapshot - 2022Q4
Sample Savings Bank (\$5B)

Performance Rankings

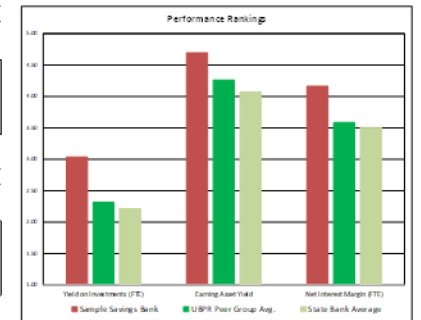
Sample Savings Bank versus UBPR Peer Group				
	Metric	Sample Savings Bank	UBPR Peer Group Average	Percentile Rank
Net Interest Margin	Yield on Investments (FTE)	3.03	2.32	83%
	Yield on Total Loans	5.18	5.19	49%
Dissection	Earning Asset Yield	4.69	4.26	74%
	Interest Expense to Avg. Earning Assets	0.53	0.65	45%
	Net Interest Margin (FTE)	4.16	3.58	85%
	Net Interest Income Dependency Ratio	0.77	0.87	14%

Sample Savings Bank versus State Banks				
	Metric	Sample Savings Bank	State Bank Average	Percentile Rank
Net Interest Margin	Yield on Investments (FTE)	3.03	2.21	84%
	Yield on Total Loans	5.18	4.84	72%
Dissection	Earning Asset Yield	4.69	4.07	84%
	Interest Expense to Avg. Earning Assets	0.53	0.56	54%
	Net Interest Margin (FTE)	4.16	3.50	86%
	Net Interest Income Dependency Ratio	0.77	0.88	12%

Earning Asset Mix and Balance Sheet Positions

Earning Asset Mix		
Asset Size (\$000)	3,533,305	
Net Loans (\$000)	2,518,839	71%
Security Portfolio (\$000)	613,553	17%
Cash and FFS (\$000)	41,099	1%

Investment Portfolio		
Municipals (% of Portfolio)	31,7248	52%
MBS (% of Portfolio)	234,666	38%
CMO (% of Portfolio)	2,459	0%
Agencies (% of Portfolio)	25,943	4%
Other Securities (% of Portfolio)	33,237	5%



Liquidity and Funding	
Pledged Securities (% of Portfolio)	35%
Liquidity Ratio	15%
FHIB Advances and Brokered CDs (\$000)	488,695
Cost of Funds (% of Average Liabilities)	0.48%

Capital	
Tier 1 Capital	337,866
Tier-1 Leverage Ratio (%)	10.30
Total Risk-Based Capital	366,377
Total Risk-Based Capital Ratio (%)	13.36
Municipals (% of Total RBC)	87%

WHAT IS YOUR INSTITUTION'S

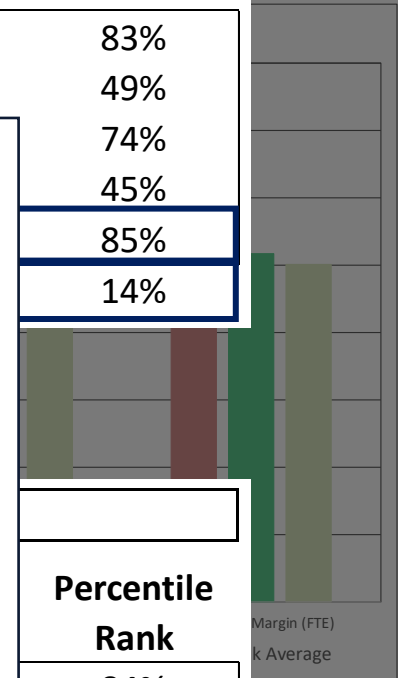
NET INTEREST INCOME
DEPENDENCY?

NET INTEREST MARGIN?



Sample Savings Bank versus UBPR Peer Group

Metric		Sample Savings Bank	UBPR Peer Group Average	Percentile Rank
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	Yield on Total Loans	5.18	5.19	49%
Net Interest Margin Dissection	Earning Asset Yield			74%
	Interest Expense to Avg. Earning Assets			45%
Net Interest Margin Dissection	Net Interest Margin (FTE)			85%
	Net Interest Income Dependency Ratio			14%
<p>What's the Range of Net Interest Margin?</p> <p>90th Percentile is 4.58%</p> <p>10th Percentile is 3.10%</p> <p>Range of 1.48%</p>				
<p><i>Source: S&P Global Market Intelligence, Data for all Sheshunoff Spring 2023 Attendees as of 12/31/22</i></p>				
Net Interest Margin Dissection	Yield on Investments (FTE)			84%
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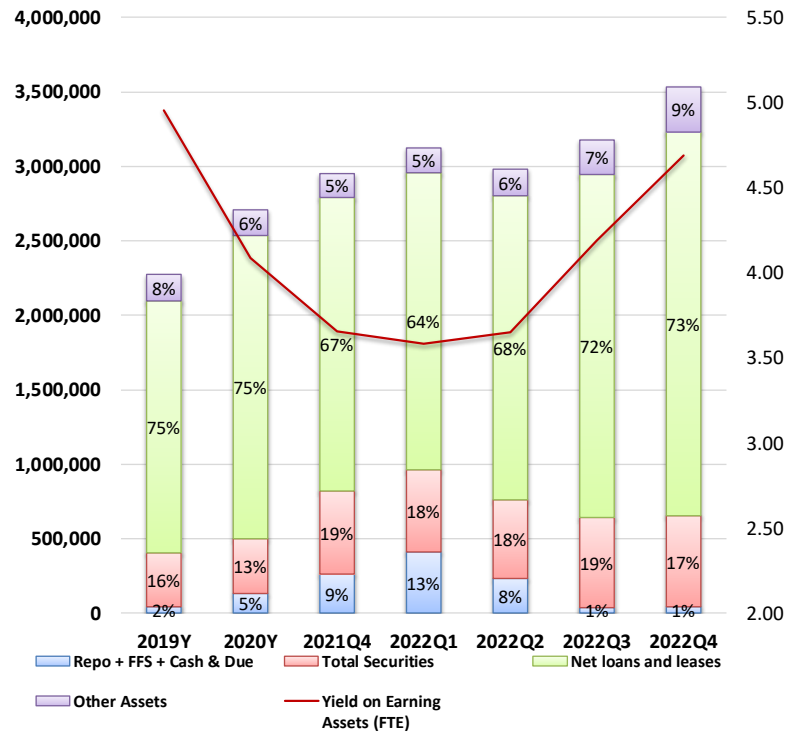


MBS (% of Portfolio)	234,666	38%	Tier-1 Leverage Ratio (%)	10.30
CMO (% of Portfolio)	2,459	0%	Total Risk Based Capital	366,377
Agencies (% of Portfolio)	25,943	4%	Total Risk-Based Capital Ratio (%)	13.36
Other Securities (% of Portfolio)	33,237	5%	Municipals (% of Total RBC)	87%

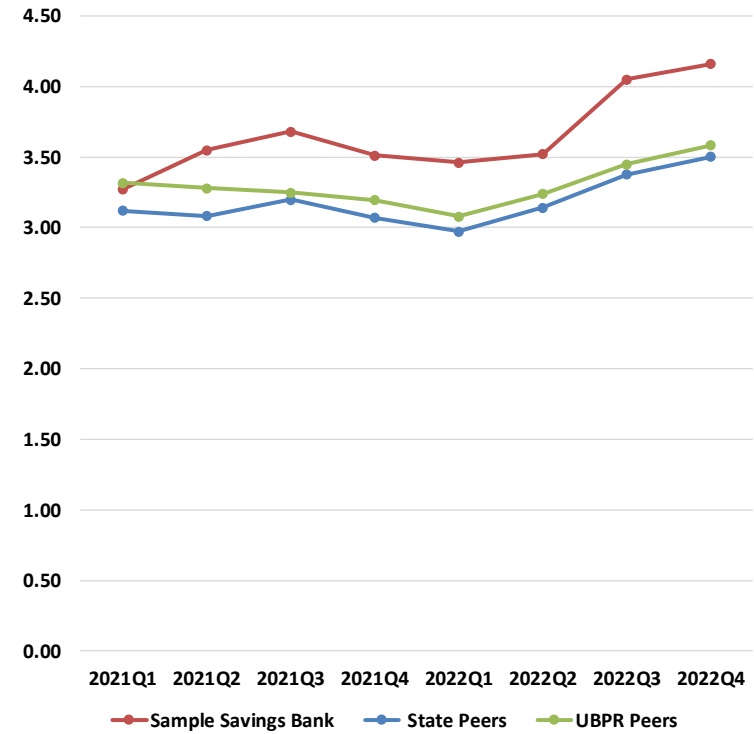
Historical Performance

Historical Performance

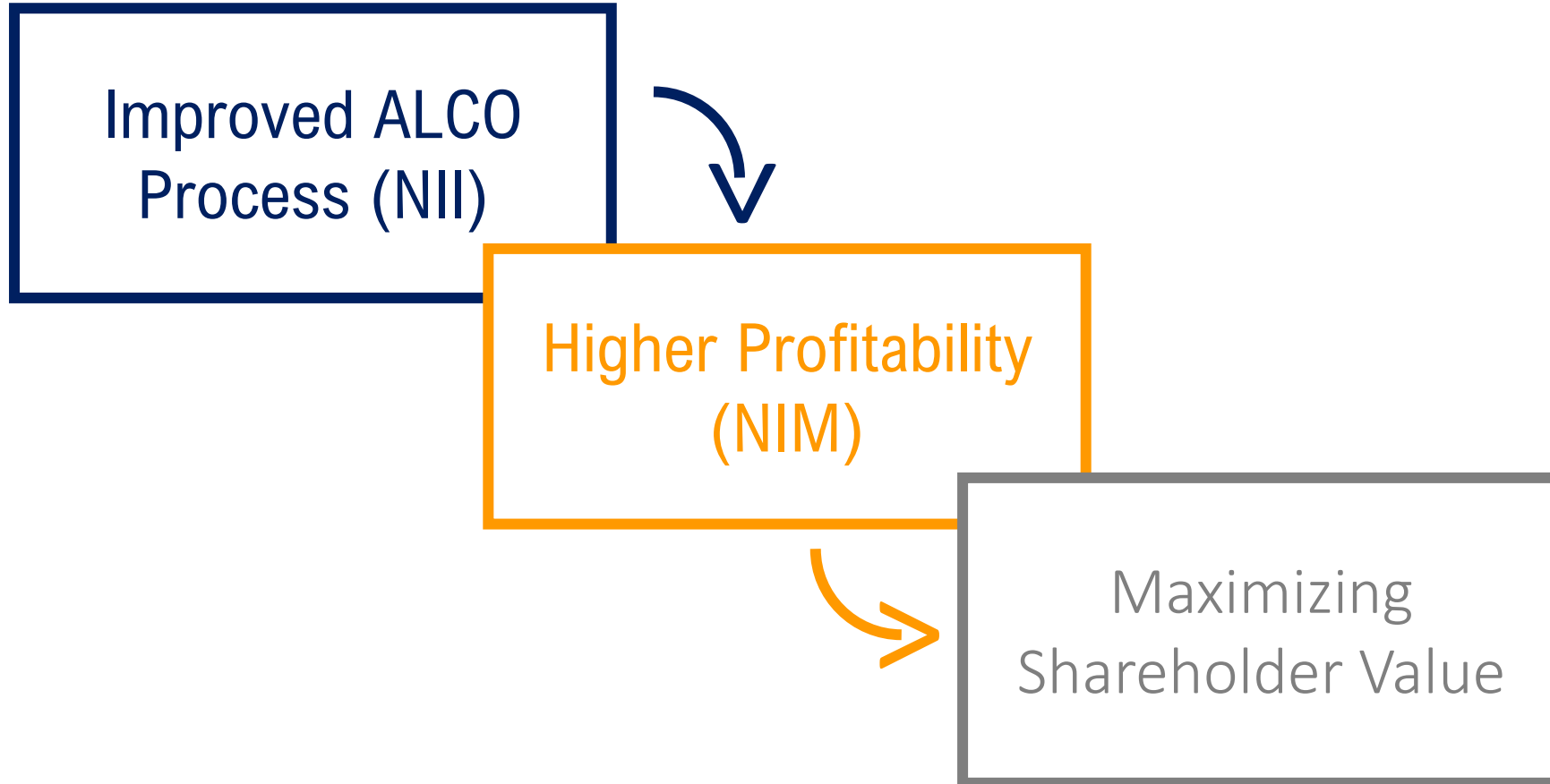
Balance Sheet Trend



Net Interest Margin - FTE



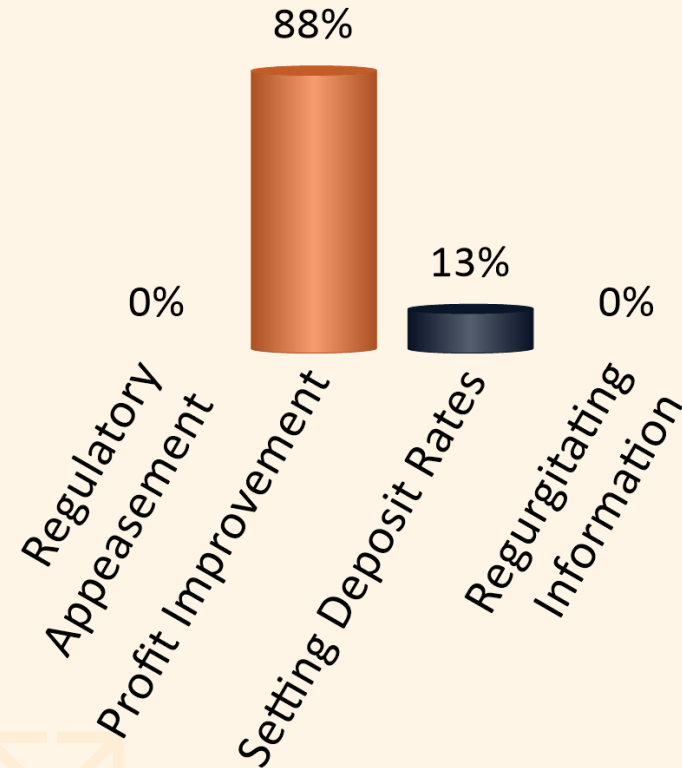
BENEFITS OF A STRONG ALCO PROCESS



↗ 1970's	↗ 1980's	↗ 1990's	↗ 1990's-2000	↗ 2000's	↗ Current & Future
<p>1st IRR Model Created 1977</p> <p>Rate Sensitive Assets To Rate Sensitive Liabilities (GAP Analysis)</p> <p>Earning At Risk</p> <p>Interest Rate Risk</p>	<p>1st CMO Created 1983</p> <p>Rate Sensitive Assets To Rate Sensitive Liabilities (GAP Analysis)</p> <p>Earning At Risk</p>	<p>S&L Banking Crisis 1986-1995</p> <p>Rate Sensitive Assets To Rate Sensitive Liabilities (GAP Analysis)</p> <p>Earning At Risk</p> <p>Economic Value Of Equity</p>	<p>Dot-Com Bubble & Collapse 1997-2000</p> <p>Less Focus On GAP Analysis</p> <p>Earning At Risk</p> <p>Interest Income Stress Testing Economic Value Of Equity</p> <p>Industry Default Loan & Deposit Assumptions</p>	<p>Subprime Mortgage Crisis 2007-2009</p> <p>Less Focus On GAP Analysis</p> <p>Earning At Risk</p> <p>Interest Income Stress Testing Economic Value Of Equity</p> <p>Bank Specific Loan & Deposit Assumptions</p>	<p>COVID-19 2019-Present</p> <p>GAP Analysis Dropped</p> <p>Earning At Risk</p> <p>Interest Income Stress Testing Economic Value Of Equity</p> <p>Bank Specific Loan & Deposit Assumptions</p> <p>Bank Specific Loan & Deposit Assumptions</p> <p>Stressed ALM Assumptions</p>
	<p>Investments</p> <p>Investments</p>	<p>Investments</p> <p>Market Value Shocks</p>	<p>Investments</p> <p>Market Value Shocks</p> <p>Cash Flow Shocks</p>	<p>Investments</p> <p>Market Value Shocks</p> <p>Cash Flow Shocks</p> <p>Independent Municipal Credit Analysis</p>	<p>Investments</p> <p>Market Value Shocks</p> <p>Cash Flow Shocks</p> <p>Independent Municipal Credit Analysis</p>
		<p>Liquidity Assessment</p> <p>Liquidity</p>	<p>Liquidity Assessment</p> <p>Liquidity Stress Testing</p>	<p>Liquidity Assessment</p> <p>Liquidity Stress Testing</p> <p>Contingency Funding Plans</p>	<p>Liquidity Assessment</p> <p>Liquidity Stress Testing</p> <p>Contingency Funding Plans</p>
			<p>Capital Adequacy Assessment</p> <p>Capital</p>	<p>Capital Adequacy Assessment</p> <p>Asset Quality Trends</p> <p>Capital Plan</p>	<p>Capital Adequacy Assessment</p> <p>Asset Quality Trends</p> <p>Capital Plan</p> <p>Capital Stress Testing</p>

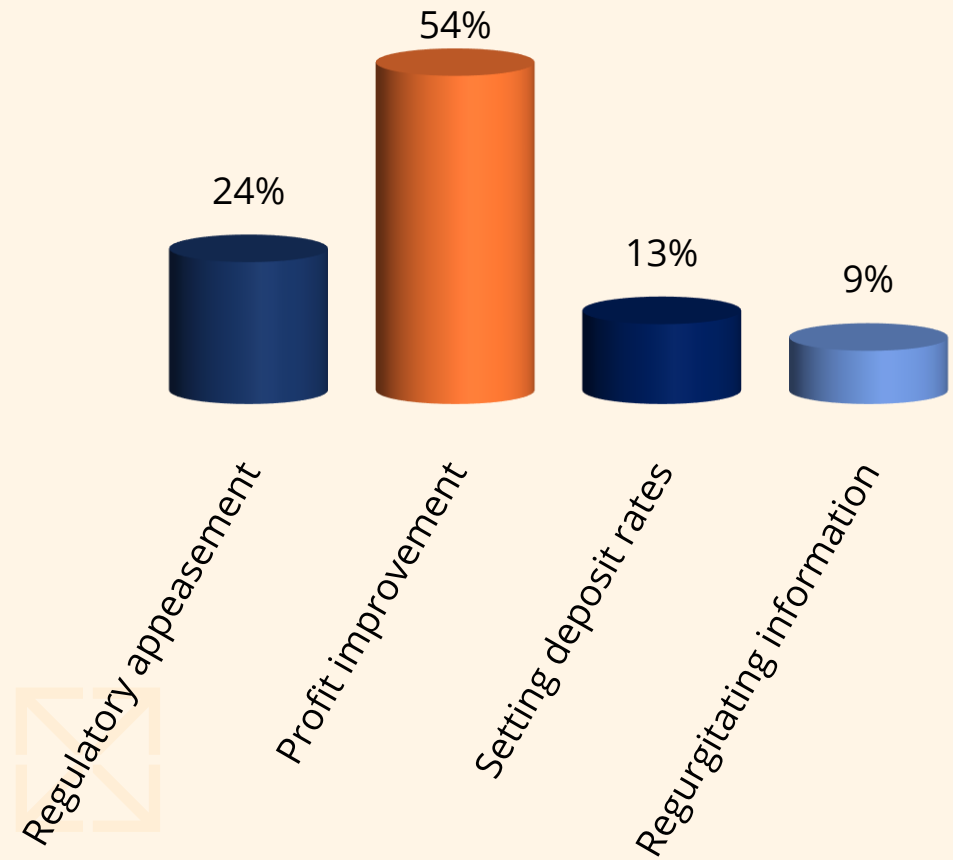
WHAT IS THE PRIMARY OBJECTIVE OF YOUR ALCO MEETING?

- A. Regulatory Appeasement
- B. Profit Improvement
- C. Setting Deposit Rates
- D. Regurgitating Information



PRE-MEETING SURVEY 3/8/23: WHAT IS THE PRIMARY OBJECTIVE OF YOUR ALCO MEETING?

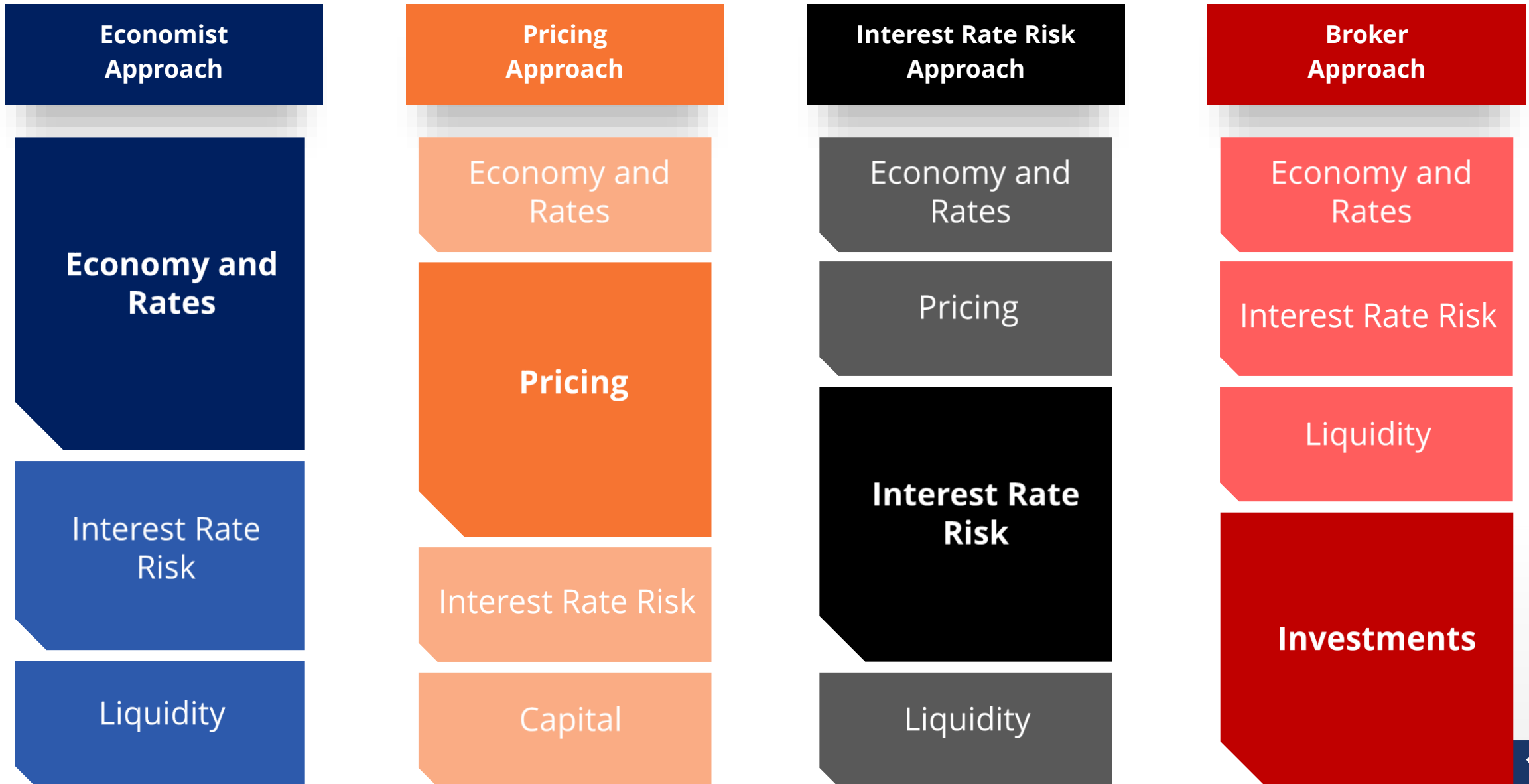
- A. Regulatory Appeasement
- B. Profit Improvement
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WHAT ARE COMMON APPROACHES TO THE ALCO PROCESS?

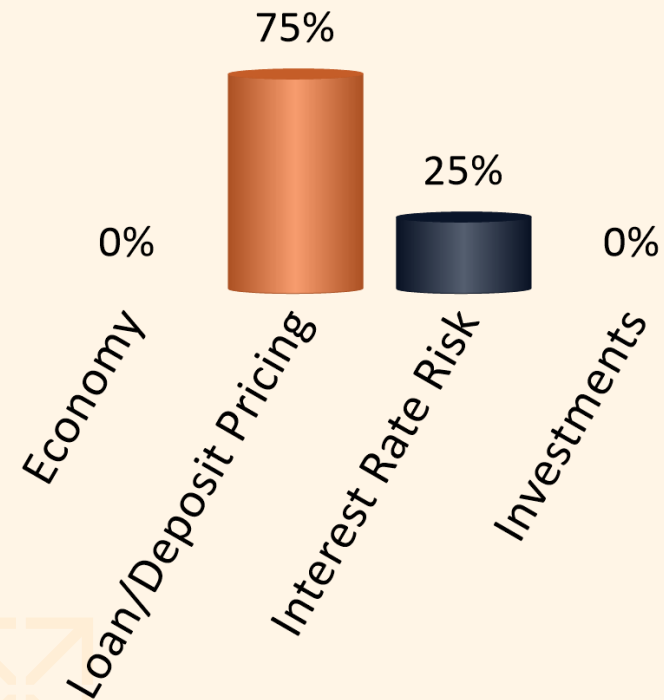


APPROACHES TO ALCO



WHICH AREA IN YOUR ALCO MEETINGS DO YOU OVERWEIGHT?

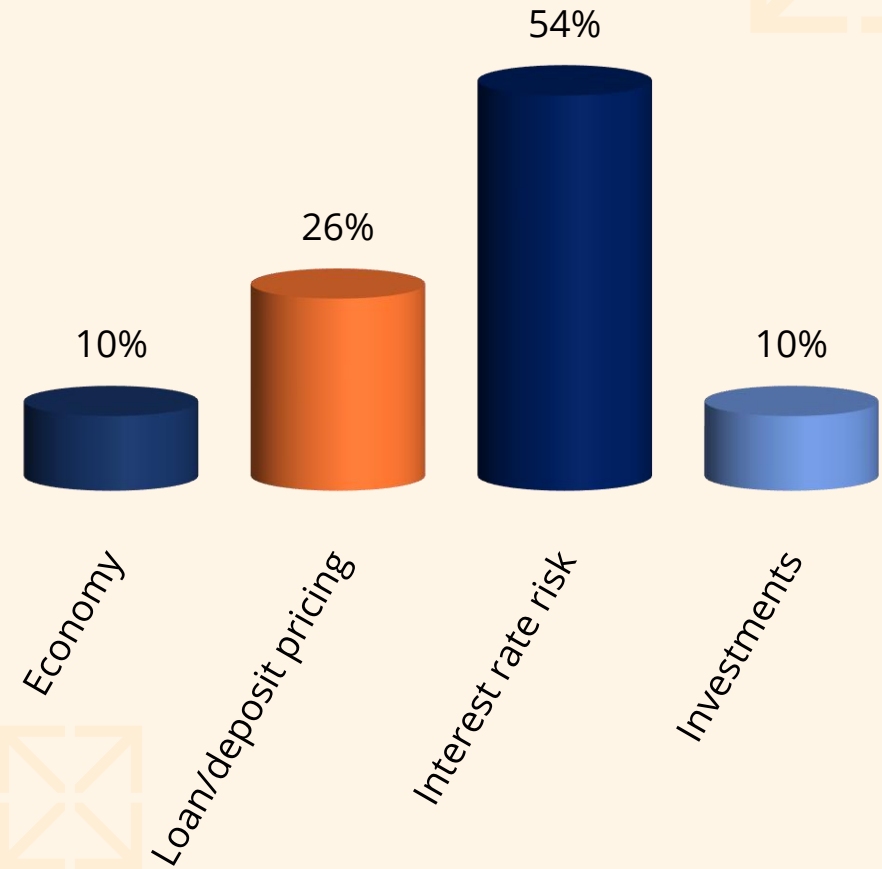
- A. Economy
- B. Loan/Deposit Pricing
- C. Interest Rate Risk
- D. Investments



PRE-MEETING SURVEY 3/8/23:

WHICH AREA IN YOUR ALCO MEETINGS DO YOU OVERWEIGHT?

- A. Economy
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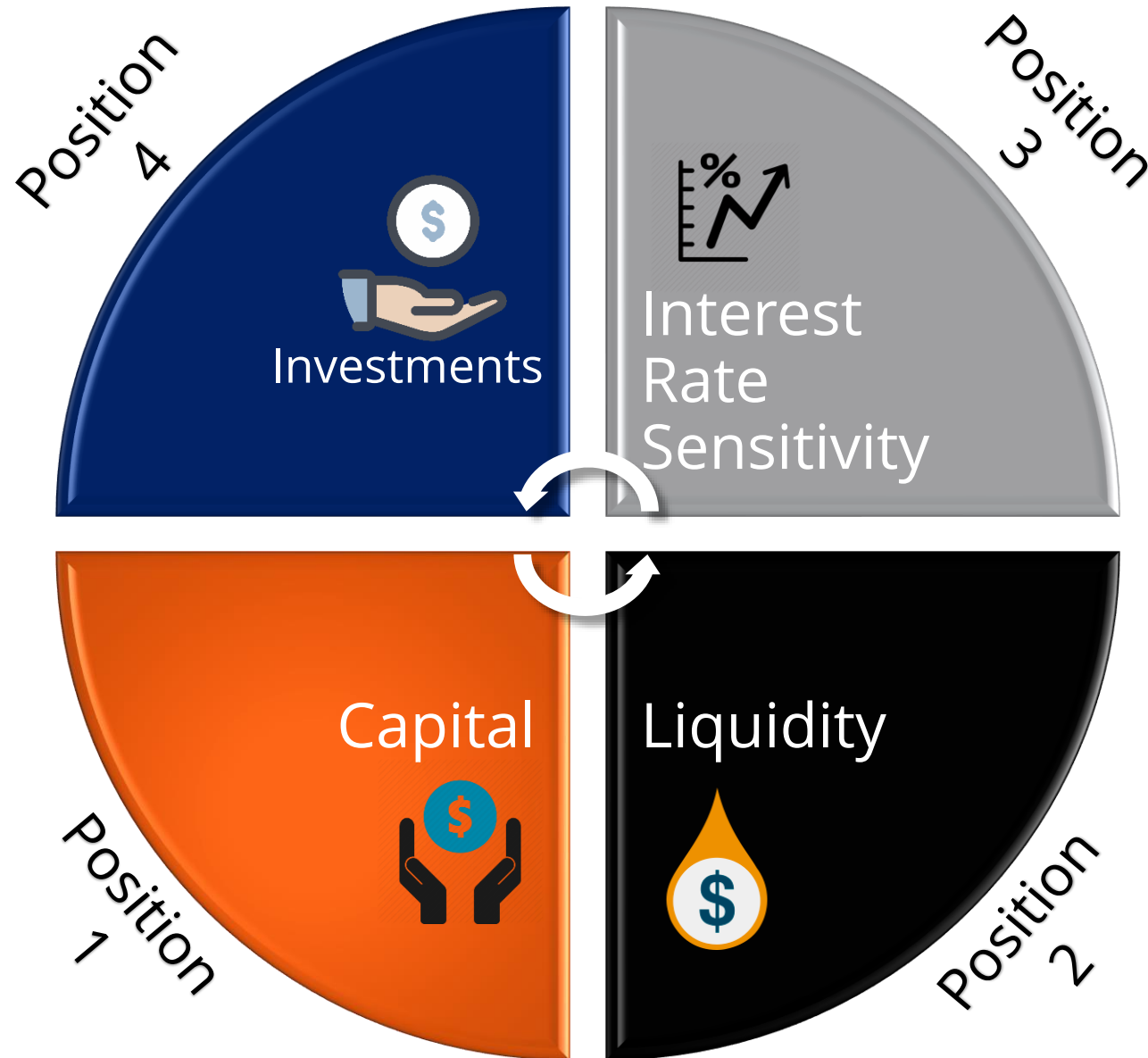


WHAT SHOULD AN ALCO PROCESS AND PACKET LOOK LIKE?



Position Assessment

ALCO BEST PRACTICES



HOW ARE FINANCIAL INSTITUTIONS DIFFERENT?

	Institution 1	Institution 2	Institution 3
Balance Sheet Mix			
Cash	10%	5%	0%
Investments	30%	50%	20%
Loans	60%	45%	80%
Loan Mix			
1-4 Family	80%	20%	35%
Commercial	10%	40%	45%
Consumer	10%	40%	20%
Fixed	90%	20%	50%
Float	10%	80%	50%
Loan Marketplace	Flat	Flat	Strong Growth
Liquidity Position			
FHLB Borrowing Capacity	High	Moderate	None
Core Deposit Stability	Stable	Stable	Volatile
Pledging Requirements	High	None	None
Interest Rate Risk Position			
Asset/Liability Sensitivity	Liability	Asset	Neutral

OBJECTIVES AND STRATEGIES



IMPORTANT LOAN PRICING CONSIDERATIONS

Prepayment Penalties: Value of Call Protection in Non-Consumer Loans, a Quantification in the Bond Market

Non-Call Bullet Structure

Date	Issuer/Headline	Coupon	Maturity	Spread	Curr	Outst	Book Mgr	Note
101) 2/9	FREDDIE MAC	5.500	02/28/28		USD	30	JOINT LEADS	5-NC6MO INC
102) 2/8	FED FARM CREDIT	3.875	02/14/28		USD	110	JOINT LEADS	5-NC
103) 2/8	FED HOME LN BANK	4.700	02/14/28		USD	50	CITI-sole	5-NC2 BERM
104) 2/8	FED HOME LN BANK	5.000	02/09/28		USD	40	FHN-sole	5-NC1.5 INC
105) 2/7	FARMER MAC	3.850	02/14/28		USD	25	MS-sole	5-NC INC
106) 2/7	FREDDIE MAC	5.100	02/28/28		USD	30	WFS-sole	5-NC1 1X INC
107) 2/7	FED HOME LN BANK	5.300	02/09/28		USD	25	FHN,MS	5-NC1 BERM
108) 2/6	FED HOME LN BANK	5.300	02/09/28		USD	75	STFL-sole	5-NC1 BERINC

Call Option @ Year 2

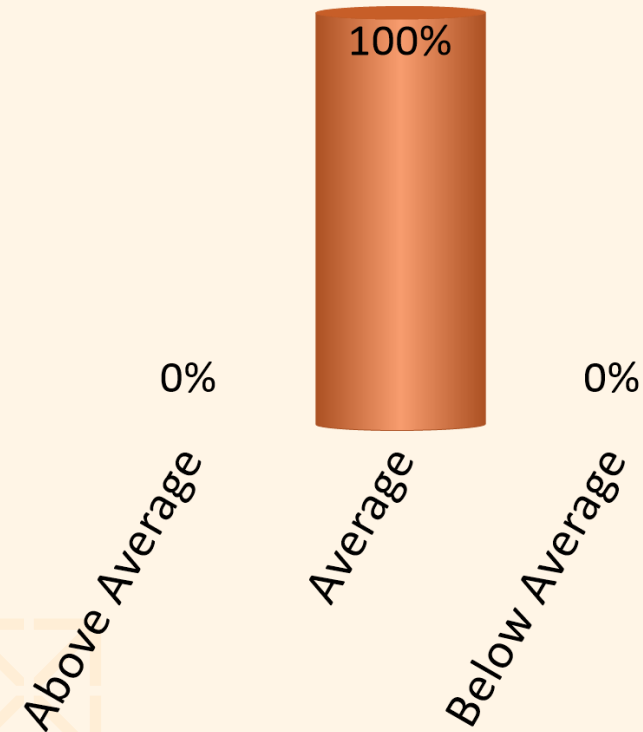
~80bp Yield Differential for Bullet vs Callable, both 5 Year Maturities

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

A. Above Average

B. Average

C. Below Average



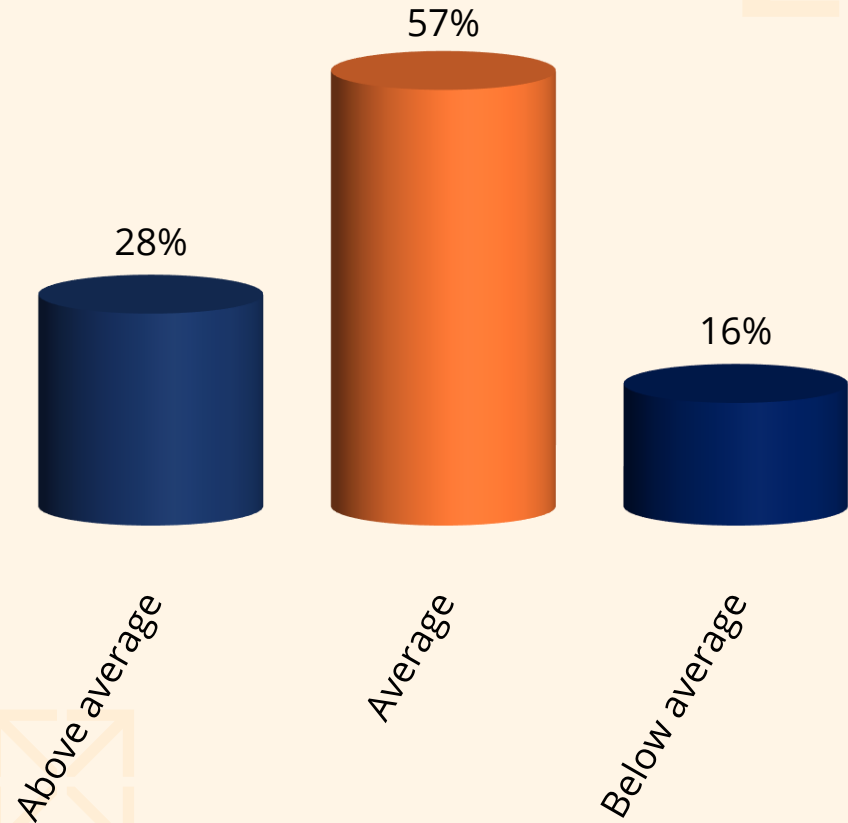
PRE-MEETING SURVEY 3/8/23:

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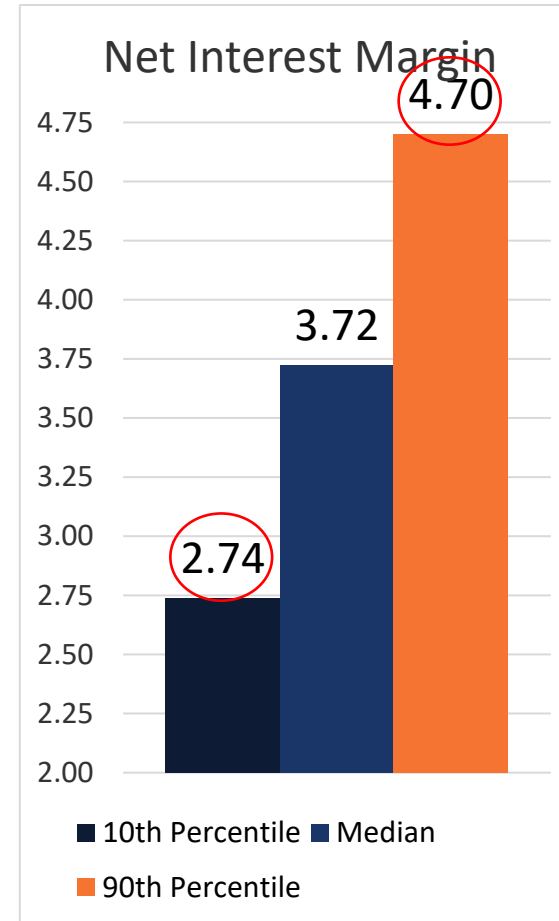
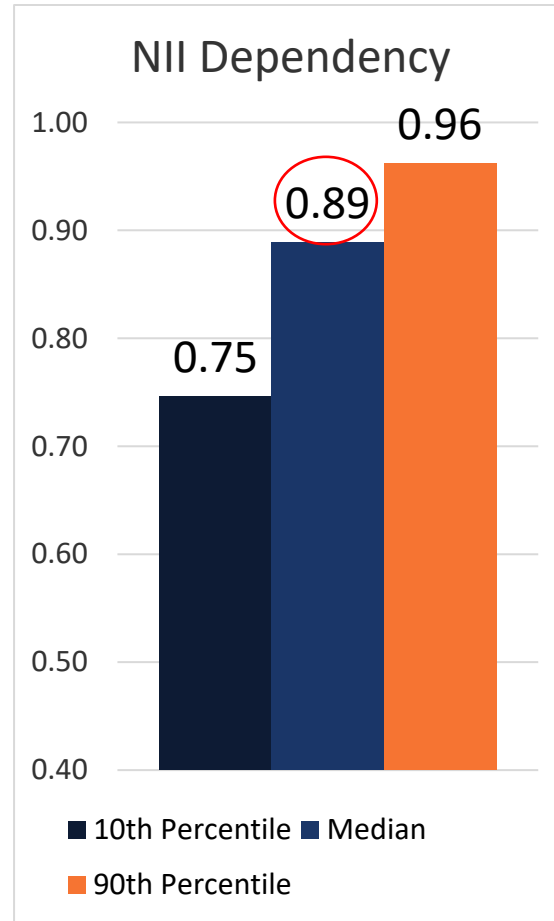
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NII DEPENDENCY AND NIM AMONG ALL BANKS NATIONALLY



Source: S&P Global Market Intelligence,
Data for all banks Nationally <\$15B as of 12/31/22

The more net interest income dependent your institution, the more NIM will drive earnings

ONE YEAR NIM DOLLAR IMPACT

Earning Asset Size (in \$000)	Net Interest Income Change in thousands of dollars (due to Yield change in basis points)					
	5	10	15	20	25	30
25,000	13	25	38	50	63	75
50,000	25	50	75	100	125	150
100,000	50	100	150	200	250	300
250,000	125	250	375	500	625	750
500,000	250	500	750	1,000	1,250	1,500
1,000,000	500	1,000	1,500	2,000	2,500	3,000

ALCO BEST PRACTICES

- Study the Past
- Monitor the Present
- Prepare for the Future



STUDY THE PAST



BLAST
FROM
THE PAST

- Where were we?
 - Trend Analysis
 - Historical Ratios
 - Peer Comparison
 - Balance Sheet Mix
 - Rate Movements
 - Spread Changes
- Reflect
 - What did we do right?
 - What did we do wrong?
 - Were our strategies effective?
 - How did environment change?

MONITOR THE PRESENT



- Where are we?
 - Position Assessment
 - Net Interest Margin Dissection
 - Competition Analysis
 - Word-Problem Approach
 - Re-focus on Objectives

- Reflect
 - Loan Demand vs. Deposit Growth
 - Rate Climate
 - Current Profitability (or not!)
 - Resources: Loan/Deposit Officers

PREPARE FOR THE FUTURE



- Where *could we go*?
 - Accountability
 - Review Minutes: Action Items, Strategies
 - Tactical Forecasting
 - Loans vs. Deposit Projection
 - Liquidity Flows
 - Stress Testing
 - Capital: Credit Deterioration
 - Interest Rate Risk: Higher/Different Betas
 - Liquidity: Reduced Access to Funding
 - Securities: Cash Flow Volatility, Duration
 - Strategic Forecasting

BALANCE SHEET MANAGEMENT - CAPITAL



- Formation
- Adequacy
- Planning
- Stress Testing
- Contingency Plan

STUDY THE PAST

Loan Sector	Loans Concentration Expressed as a % of Total Capital														
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Construction & Land	103%	88%	62%	55%	40%	38%	42%	36%	45%	53%	51%	54%	63%	69%	50%
Mortgages															
1st Lien	153%	144%	140%	137%	121%	137%	129%	124%	110%	119%	124%	128%	140%	154%	152%
2nd Lien	9%	9%	9%	7%	7%	7%	7%	6%	5%	4%	6%	7%	8%	8%	8%
Home Equity	15%	14%	12%	13%	12%	12%	11%	13%	15%	23%	14%	18%	15%	24%	23%
Multi Family	17%	17%	19%	16%	15%	18%	19%	8%	13%	21%	18%	19%	21%	20%	21%
Commercial Real Estate															
Owner Occupied	99%	99%	102%	102%	94%	109%	92%	87%	83%	96%	99%	102%	107%	115%	110%
Non-owner Occupied	75%	78%	67%	86%	117%	117%	104%	112%	113%	144%	159%	164%	175%	181%	180%
Commercial & Industrial	82%	79%	42%	44%	44%	52%	52%	72%	67%	73%	69%	71%	67%	73%	70%
Farm Land	20%	26%	21%	21%	18%	17%	16%	15%	15%	21%	19%	18%	24%	21%	20%
Agriculture Production	4%	3%	2%	2%	2%	3%	2%	4%	4%	3%	2%	3%	4%	4%	5%
Consumer	30%	28%	26%	25%	22%	22%	21%	22%	20%	20%	21%	21%	20%	21%	21%
Total Loans	621%	600%	515%	523%	508%	545%	511%	521%	517%	603%	608%	618%	643%	655%	651%

Performance and Balance Sheet Snapshot - 2022Q4
Sample Savings Bank (SSB)

Performance Rankings

Sample

	Metric
Net Interest Margin Dissection	Yield on Investments (FTE)
	Yield on Total Loans
	Earning Asset Yield
	Interest Expense to Avg. Earning
	Net Interest Margin (FTE)

Net Interest Income Dep

Metric

Net Interest Margin Dissection	Yield on Investments (FTE)
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Net Interest Income Dep

Earning Asset Mix and

Asset Size (\$000)
Net Loans (\$000)
Security Portfolio (\$000)
Cash and FFS (\$000)

Investment Portfolio		
Municipals (% of Portfolio)	317,248	52%
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Capital

Tier 1 Capital	337,866
Tier-1 Leverage Ratio (%)	10.30
Total Risk Based Capital	366,377
Total Risk-Based Capital Ratio (%)	13.36
Municipals (% of Total RBC)	87%

What's the Range of Capital Ratios?

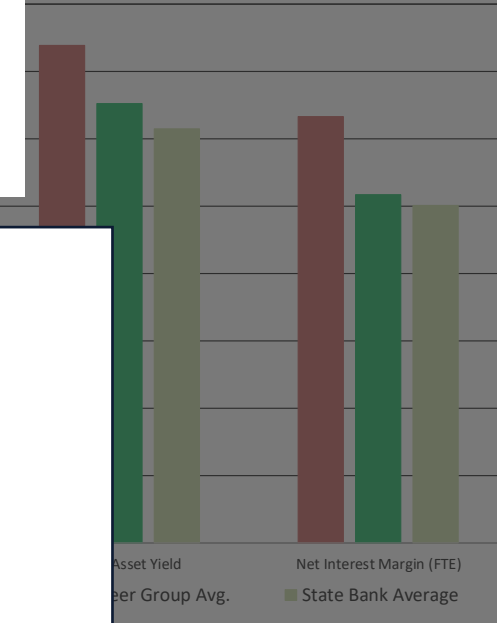
90th Percentile is 11.50%

10th Percentile is 8.22%

Range of 3.28%

Source: S&P Global Market Intelligence,
Data for all Sheshunoff Spring 2023 Attendees as of 12/31/22

Performance Rankings



Cost of Funds (% of Average Liabilities) 0.48%

Capital	
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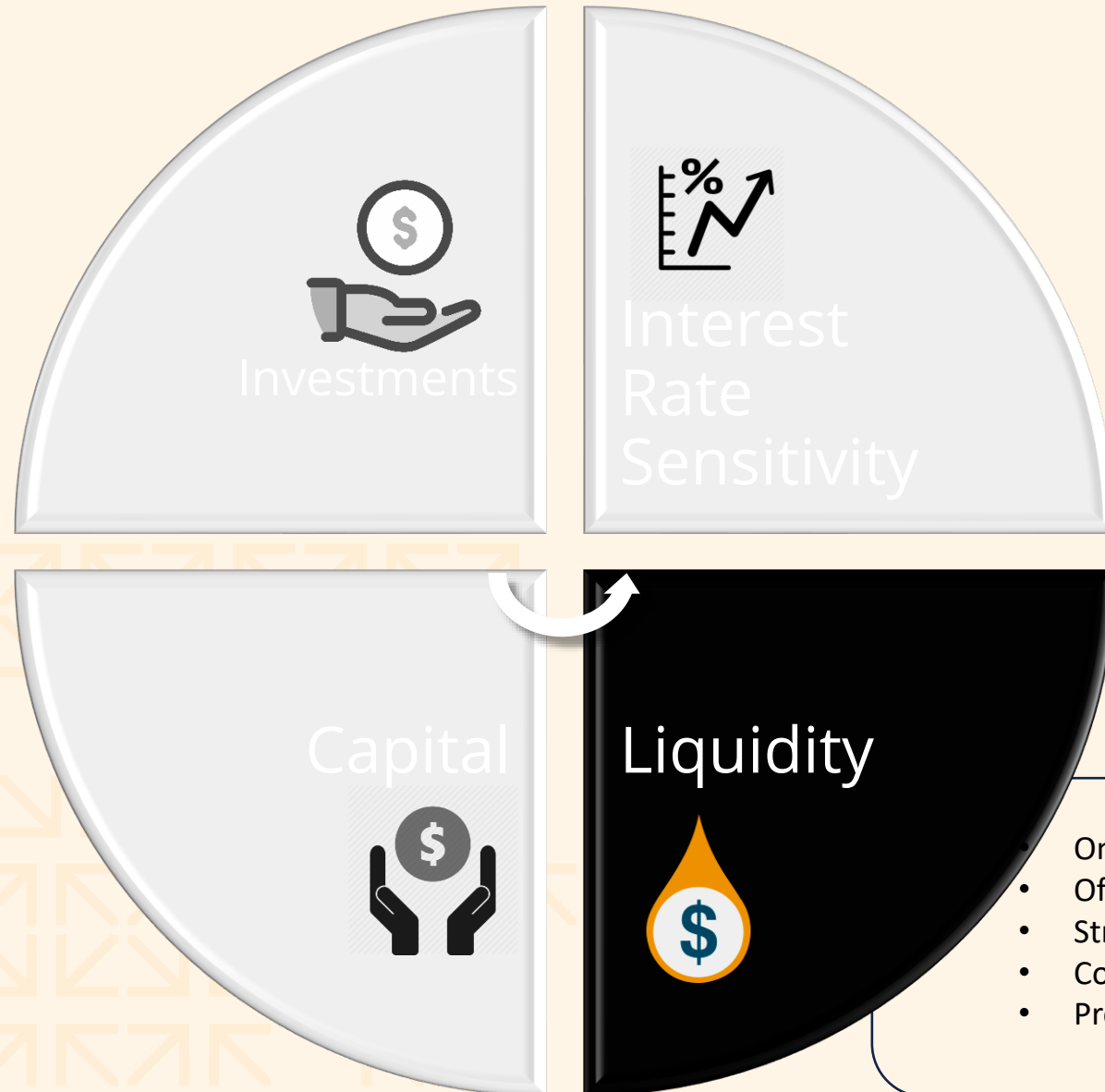
PREPARE FOR THE FUTURE

CAPITAL STRESS TEST

- **How would your institution react if...**
 - Loan concentrations in high risk sectors exceed guidelines
 - Asset quality deteriorates to historically stressful levels
 - Charge-offs increase
 - Dividends become restricted
 - Retained earnings fall (or become negative!)
 - Capital levels decline, leading to regulatory criticism

- **What tools do you have at your institution?**
 - Quantify and discuss capital adequacy
 - Growth Stress Testing
 - Credit Stress Testing
 - Comparison versus a historically stressful period (and higher)
 - Measuring the impact of credit loss on capital
 - Scenario Analysis – mild and major recession

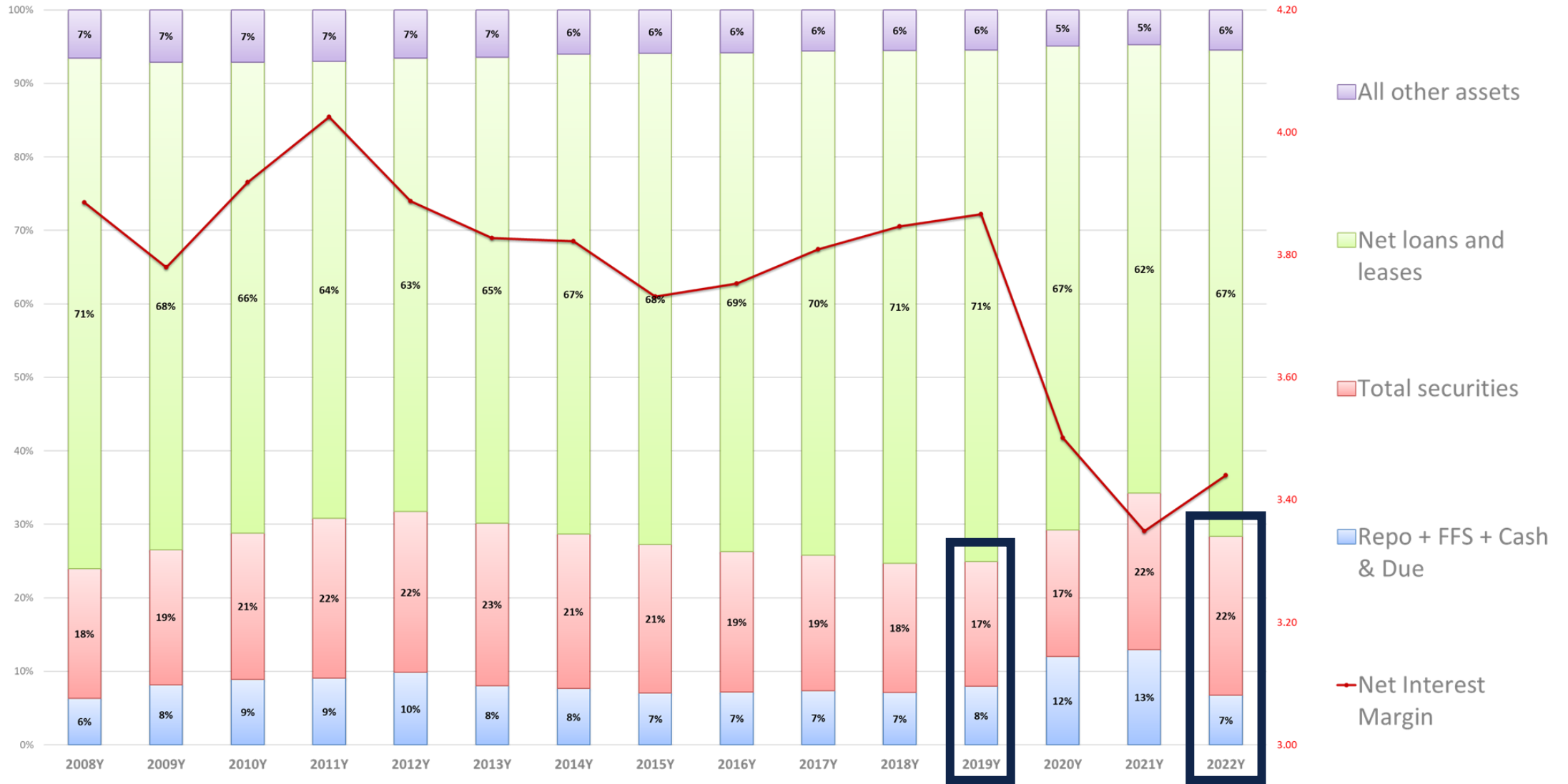
BALANCE SHEET MANAGEMENT - LIQUIDITY



- On Balance Sheet
- Off Balance Sheet
- Stressed Liquidity
- Contingency Funding
- Profit Center

STUDY THE PAST

ASSET MIX TREND



Source: S&P Global Market Intelligence,
Data for all banks Nationally <\$10B as of 12/31/22

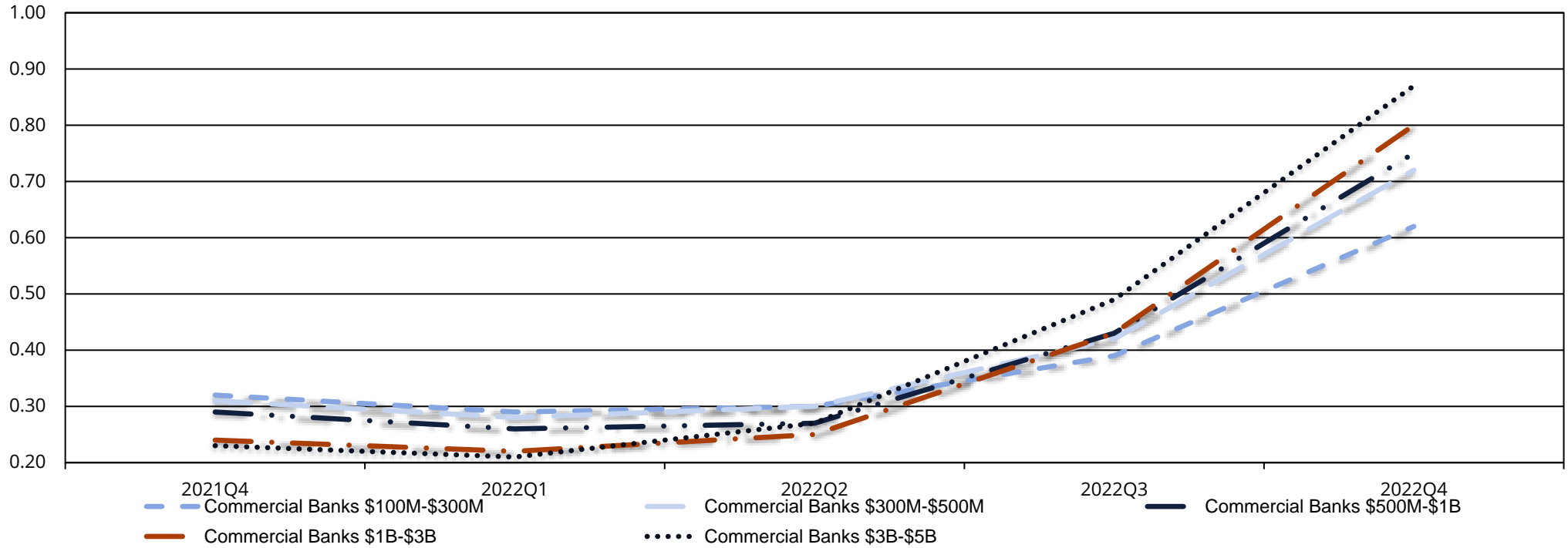
PRE-MEETING SURVEY:

PLEASE CHOOSE THREE AREAS THAT ARE MOST IMPORTANT FOR DISCUSSION DURING THE HIGH PERFORMANCE IDEA EXCHANGE

Answer Choices	Responses
Non-Interest Income and Expense Opportunities	53.73%
➔ Enhanced Pricing Strategies	47.76%
Competitive Innovation	41.79%
➔ Investment Portfolio and Liquidity Management	41.79%
Business Development Approaches	35.82%
Fintech Opportunities (Vendors/Alliances)	20.90%
Employee and Board Engagement	19.40%
Risk / Legal / Regulatory	17.91%
Lending Portfolio Management	11.94%
Other (please identify)	10.45%

STUDY THE PAST

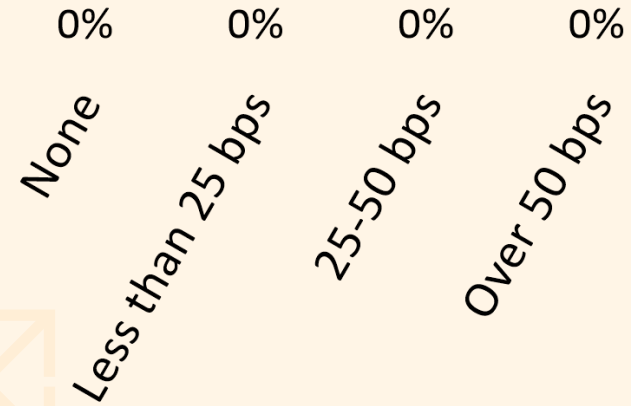
HISTORICAL COST OF FUNDS TREND



Asset Size	21Q4	22Q1	22Q2	22Q3	22Q4	YOY Change
\$100M-\$300M	0.32	0.29	0.30	0.39	0.62	+0.30
\$300M-\$500M	0.31	0.28	0.30	0.42	0.72	+0.41
\$500M-\$1B	0.29	0.26	0.27	0.43	0.75	+0.46
\$1B-\$3B	0.24	0.22	0.25	0.43	0.80	+0.56
\$3B-\$5B	0.23	0.21	0.27	0.49	0.87	+0.64

HOW MUCH DO YOU ANTICIPATE OVERALL DEPOSIT RATES AT YOUR BANK INCREASING IN THE NEXT 12 MONTHS?

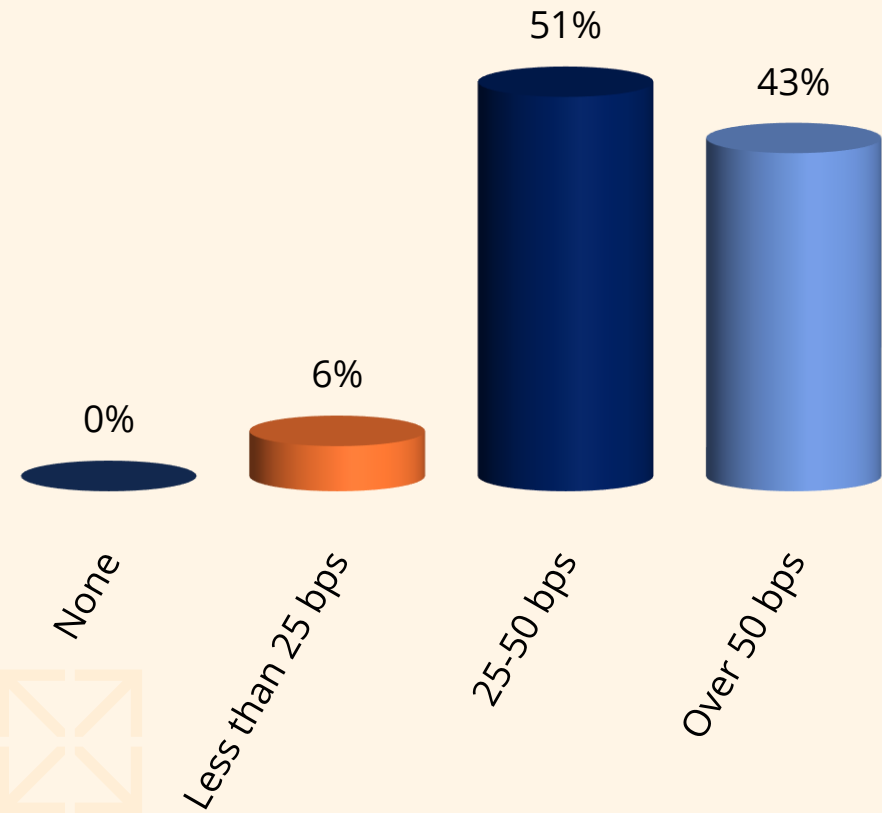
- A. None
- B. Less than 25 bps
- C. 25-50 bps
- D. Over 50 bps



PRE-MEETING SURVEY 3/8/23:

HOW MUCH DO YOU ANTICIPATE OVERALL DEPOSIT RATES AT YOUR BANK INCREASING IN THE NEXT 12 MONTHS?

- A. None
- B. Less than 25 bps
- C. 25-50 bps
- D. Over 50 bps



Performance and Balance Sheet Snapshot - 2022Q4

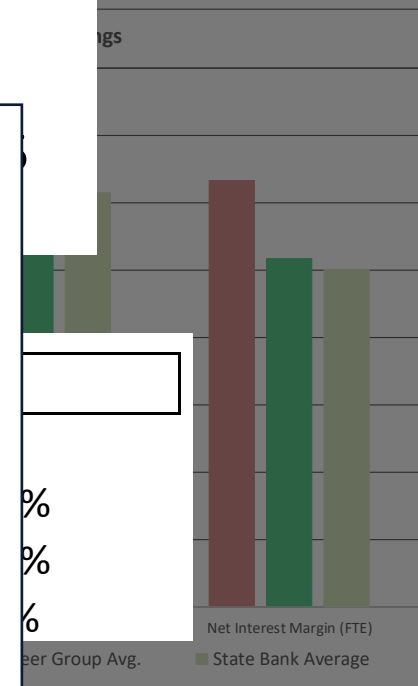
Liquidity and Funding

Pledged Securities (% of Portfolio) 35%
Liquidity Ratio 15%

What's the Range of Liquidity Ratios?

10th Percentile is 9.0%
90th Percentile is 33.4%
Range of 24.4%

Source: S&P Global Market Intelligence,
Data for all Sheshunoff Spring 2023 Attendees as of 12/31/22



Earning Asset Mix and Balance Sheet Positions

Earning Asset Mix		
Asset Size (\$000)	3,533,305	
Net Loans (\$000)	2,518,839	71%
Security Portfolio (\$000)	613,553	17%
Cash and FFS (\$000)	41,099	1%

Investment Portfolio		
Municipals (% of Portfolio)	317,248	52%
MBS (% of Portfolio)	234,666	38%
CMO (% of Portfolio)	2,459	0%
Agencies (% of Portfolio)	25,943	4%
Other Securities (% of Portfolio)	33,237	5%

Liquidity and Funding	
Pledged Securities (% of Portfolio)	35%
Liquidity Ratio	15%
FHLB Advances and Brokered CDs (\$000)	488,695
Cost of Funds (% of Average Liabilities)	0.48%

Capital	
Tier 1 Capital	337,866
Tier-1 Leverage Ratio (%)	10.30
Total Risk Based Capital	366,377
Total Risk-Based Capital Ratio (%)	13.36
Municipals (% of Total RBC)	87%

- **How would your institution react if...**
 - FHLB Capacity was significantly reduced
 - Wholesale Deposit lines were shut off
 - Deposit run-off exceeded historical norms
 - The institution became subject to deposit rate caps

- **What tools do you have at your institution?**
 - Quantify and monitor liquidity position
 - Contingency Funding Plan: How would you cure a shortfall?
 - Early Warning Indicators
 - Prevent liquidity crisis before being subject to restrictions

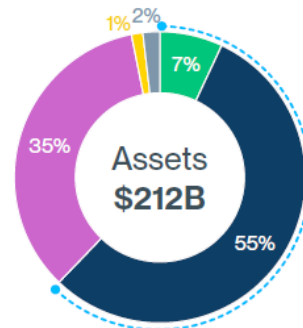
SILICON VALLEY BANK LIQUIDITY MANAGEMENT

Ample liquidity + flexibility to manage liquidity position

High-quality, liquid balance sheet

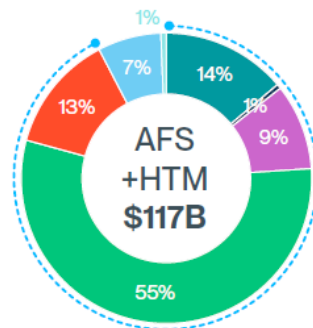
62% of assets in cash and fixed income securities

- Cash
- Fixed Income Securities
- Net Loans
- Non-marketable Securities
- Other



92% of fixed income portfolio in U.S. Treasuries and securities issued by government-sponsored enterprises

- U.S. Treasury Securities
- Agency Debenture
- Agency CMOs – Fixed Rate
- Agency RMBS
- Agency CMBS
- Municipal Bonds
- Corporate Bonds



Levers to support liquidity

Securities cashflows

~ \$2-3B
estimated securities paydowns/quarter

Targeting Fed cash at **4-6%** of total deposits (**\$7-11B**)*

Flexible on- vs. off-balance sheet liquidity solutions and deposit pricing strategies

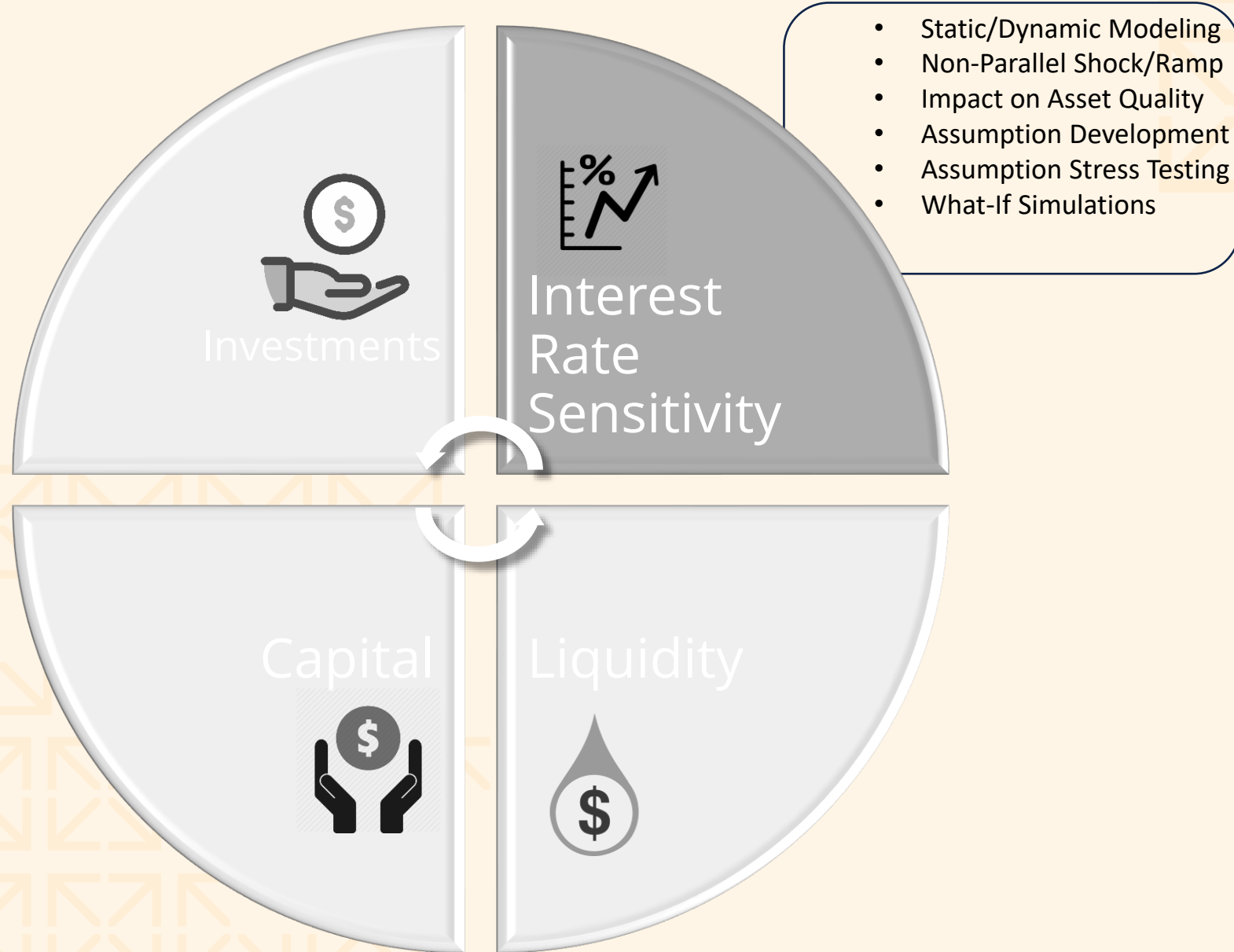
\$79B
Off-balance sheet sweep and repo client funds (OBS balances that can be shifted on-balance sheet to support deposits)

~ 70%
Modeled interest-bearing deposit beta

Remaining borrowing capacity

\$69B
(FHLB, Repo, FRB and Fed Funds lines)

BALANCE SHEET MANAGEMENT – INTEREST RATE RISK

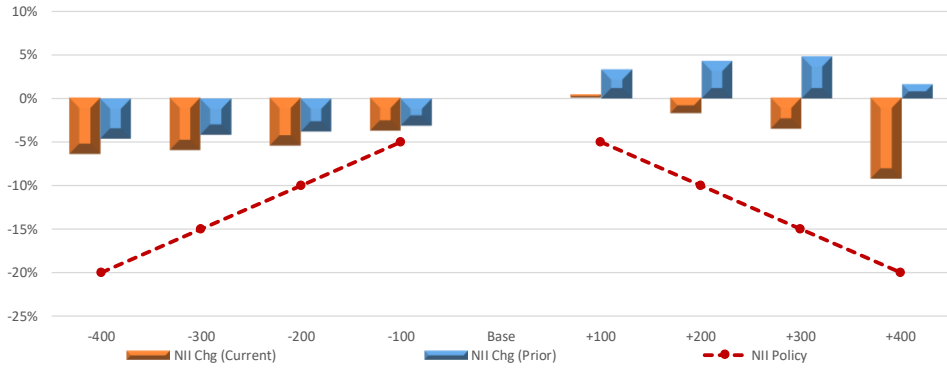


STUDY THE PAST

Risk Scorecard								
12/31/2021								
	Policy Guideline	Dec-21	W/in Guideline (Y/N)	Oct-21	Jul-21	May-21	Feb-21	Nov-20
Interest Rate Risk								
Net Interest Income at Risk (1 Yr):	NII Max. Change							
Shocked up 400 bpts	-16%	14.32%	Yes	15.99%	14.11%	18.46%	22.31%	22.45%
Shocked up 300 bpts	-12%	11.33%	Yes	12.57%	11.07%	14.42%	17.60%	17.61%
Shocked up 200 bpts	-8%	8.02%	Yes	9.01%	7.90%	10.00%	12.07%	12.06%
Shocked up 100 bpts	-4%	4.24%	Yes	4.60%	4.09%	4.93%	6.12%	6.07%
Shocked down 100 bpts	-4%	-1.42%	Yes	-1.23%	-1.26%	-1.40%	-1.26%	-1.10%
Shocked down 200 bpts	-8%	-2.03%	Yes	-1.79%	-1.77%	-1.95%	-1.97%	-1.90%
Shocked down 300 bpts	-12%	-2.49%	Yes	-2.13%	-2.12%	-2.29%	-2.37%	-2.46%
Shocked down 400 bpts	-16%	-2.57%	Yes	-2.24%	-2.17%	-2.37%	-2.50%	-2.57%
Net Interest Income at Risk (2 Yr):	NII Max Change							
Shocked up 400 bpts	-32%	16.72%	Yes	18.34%	17.19%	21.91%	25.76%	25.72%
Shocked up 300 bpts	-24%	13.52%	Yes	14.61%	13.78%	17.49%	20.55%	20.51%
Shocked up 200 bpts	-16%	9.57%	Yes	10.65%	9.88%	12.21%	14.25%	14.25%
Shocked up 100 bpts	-8%	5.03%	Yes	5.38%	5.17%	6.12%	7.26%	7.26%
Shocked down 100 bpts	-8%	-1.84%	Yes	-1.61%	-1.48%	-1.61%	-1.32%	-1.32%
Shocked down 200 bpts	-16%	-2.67%	Yes	-2.33%	-2.19%	-2.35%	-2.42%	-2.42%
Shocked down 300 bpts	-24%	-3.36%	Yes	-2.89%	-2.81%	-2.93%	-3.23%	-3.23%
Shocked down 400 bpts	-32%	-3.47%	Yes	-3.07%	-2.88%	-3.07%	-3.39%	-3.39%
Economic Value of Equity:								
	EVE Max. Change							
Shocked up 400 bpts	-25%	2.71%	Yes	7.05%	7.73%	18.81%	24.40%	30.09%
Shocked up 300 bpts	-20%	4.74%	Yes	7.77%	9.18%	13.93%	20.78%	22.29%
Shocked up 200 bpts	-15%	5.97%	Yes	7.94%	6.03%	11.33%	16.03%	17.00%
Shocked up 100 bpts	-10%	4.27%	Yes	4.62%	3.02%	5.65%	8.18%	9.05%
Shocked down 100 bpts	-10%	-15.95%	No	-17.25%	-15.04%	-18.61%	-13.38%	-9.74%
Shocked down 200 bpts	-15%	-25.45%	No	-19.14%	-14.54%	-18.12%	-12.84%	-9.24%
Shocked down 300 bpts	-20%	-25.05%	No	-18.70%	-14.02%	-17.62%	-12.32%	-8.66%
Shocked down 400 bpts	-25%	-24.93%	Yes	-18.59%	-13.89%	-17.50%	-12.19%	-8.53%

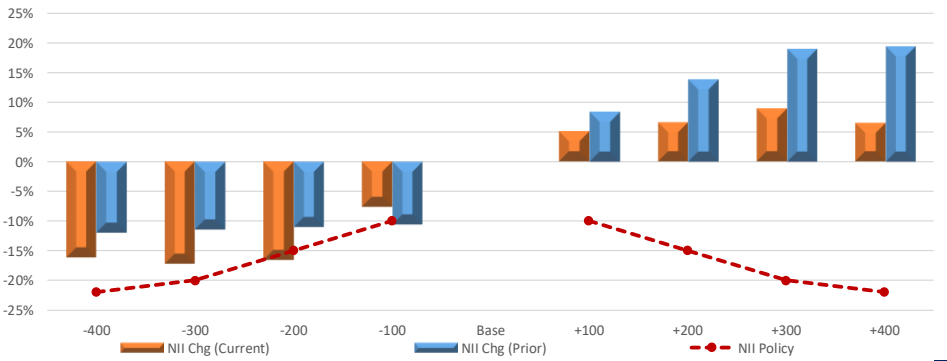
MONITOR THE PRESENT

Net Interest Income Year 1



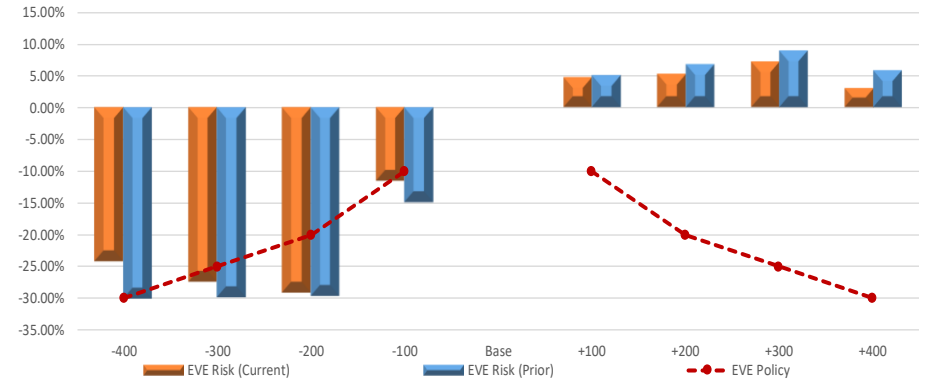
	-400	-300	-200	-100	Base	+100	+200	+300	+400
NII (Current)	21,759	21,852	21,969	22,363	\$ 23,219	23,307	22,815	22,402	21,108
NII (Prior)	22,208	22,302	22,384	22,529	\$ 23,245	23,994	24,223	24,344	23,618
NII Chg (Current)	-6.29%	-5.89%	-5.38%	-3.69%		0.38%	-1.74%	-3.52%	-9.09%
NII 1 YR Policy	-20.00%	-15.00%	-10.00%	-5.00%		-5.00%	-10.00%	-15.00%	-20.00%
NII Chg (Prior)	-4.46%	-4.06%	-3.71%	-3.08%		3.22%	4.21%	4.73%	1.60%

Net Interest Income Year 2



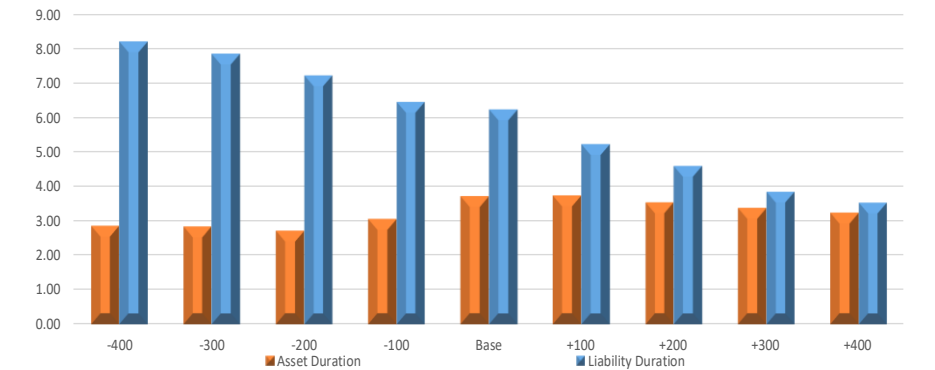
	-400	-300	-200	-100	Base	+100	+200	+300	+400
NII (Current)	19,707	19,472	19,608	21,712	\$ 23,512	24,708	25,061	25,606	25,028
NII (Prior)	20,496	20,604	20,702	20,801	\$ 23,248	25,194	26,457	27,644	27,750
NII Chg (Current)	-16.18%	-17.18%	-16.60%	-7.65%		5.09%	6.59%	8.91%	6.45%
NII 2 YR Policy	-22.00%	-20.00%	-15.00%	-10.00%		-10.00%	-15.00%	-20.00%	-22.00%
NII Chg (Prior)	-11.84%	-11.37%	-10.95%	-10.53%		8.37%	13.80%	18.91%	19.36%

Economic Value of Equity



	-400	-300	-200	-100	Base	+100	+200	+300	+400
EVE (Current)	104,384	99,883	97,561	121,668	\$ 137,463	144,001	144,675	147,292	141,592
EVE (Prior)	97,505	97,771	97,966	118,298	\$ 138,912	145,851	148,351	151,267	147,019
EVE Risk (Current)	-24.06%	-27.34%	-29.03%	-11.49%		4.76%	5.25%	7.15%	3.00%
EVE Policy	-30.00%	-25.00%	-20.00%	-10.00%		-10.00%	-20.00%	-25.00%	-30.00%
EVE Risk (Prior)	-29.81%	-29.62%	-29.48%	-14.84%		5.00%	6.80%	8.89%	5.84%

Asset/ Liability Duration



	-400	-300	-200	-100	Base	+100	+200	+300	+400
Asset Duration	2.82	2.80	2.67	3.02	3.66	3.68	3.49	3.32	3.18
Liability Duration	8.20	7.85	7.21	6.45	6.24	5.22	4.60	3.83	3.52

PREPARE FOR THE FUTURE INTEREST RATE RISK STRESS TEST

Stress Testing of Critical Assumptions

Net Interest Income Year 1

Scenario*	-400	-300	-200	-100	Level	+100	+200	+300	+400
Static Forecast	-4.2%	-4.2%	-4.2%	-2.8%		1.4%	4.8%	10.3%	16.6%
50% Prepay	-3.4%	-3.4%	-3.5%	-2.4%	0.0%	1.2%	4.4%	9.7%	15.8%
150% Prepay	-5.0%	-4.9%	-4.9%	-3.2%	0.0%	1.6%	5.2%	10.8%	17.3%
.8x Deposit Beta	-4.2%	-4.3%	-4.3%	-3.0%	0.0%	1.7%	5.3%	11.1%	17.6%
1.2x Deposit Beta	-4.2%	-4.2%	-4.2%	-2.7%	0.0%	1.1%	4.3%	9.6%	15.7%
ALCO Policy	-24%	-18%	-12%	-6%		-6%	-12%	-18%	-24%

Net Interest Income Year 2

Scenario	-400	-300	-200	-100	Level	+100	+200	+300	+400
Static Forecast	-8.6%	-8.6%	-8.5%	-5.7%		3.6%	9.4%	17.6%	26.7%
50% Prepay	-7.1%	-7.1%	-7.1%	-4.8%	0.0%	3.1%	8.6%	16.4%	25.1%
150% Prepay	-9.8%	-9.8%	-9.7%	-6.4%	0.0%	4.0%	10.1%	18.6%	28.0%
.8x Deposit Beta	-8.6%	-8.7%	-8.6%	-5.8%	0.0%	3.8%	9.8%	18.2%	27.5%
1.2x Deposit Beta	-8.6%	-8.6%	-8.4%	-5.5%	0.0%	3.4%	9.0%	17.0%	25.8%
ALCO Policy	-29%	-23%	-17%	-11%		-11%	-17%	-23%	-29%

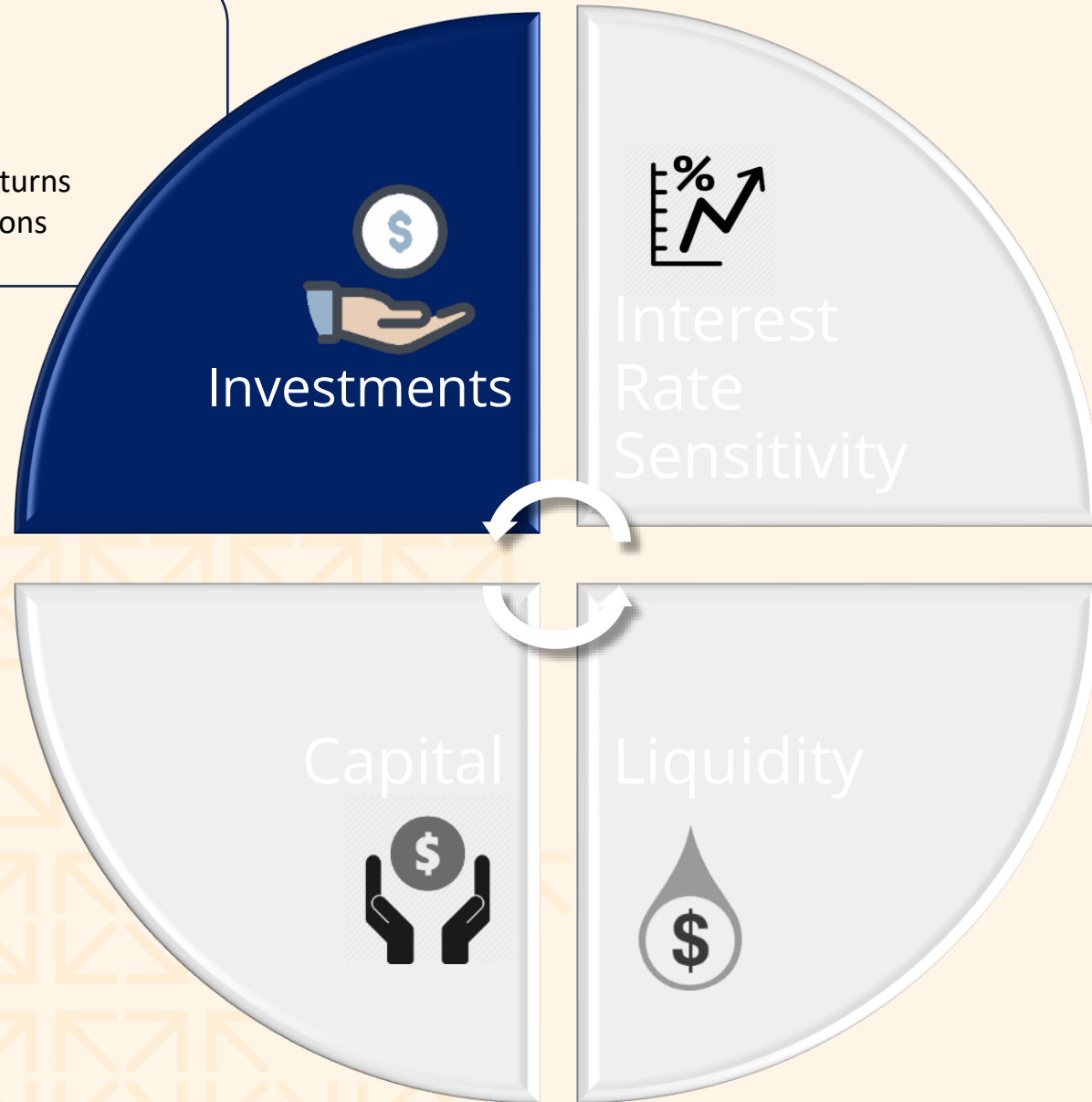
Economic Value of Equity

Scenario	-400	-300	-200	-100	Level	+100	+200	+300	+400
Static Forecast	-23.4%	-23.3%	-10.9%	-2.6%		-1.5%	-3.6%	-5.5%	-7.0%
50% Prepay	-13.5%	-13.5%	-3.2%	0.3%	0.0%	-3.1%	-5.9%	-8.3%	-10.3%
150% Prepay	-28.0%	-28.0%	-15.2%	-4.5%	0.0%	-0.4%	-1.7%	-3.1%	-4.2%
.8x Deposit Beta	-22.8%	-22.9%	-10.7%	-2.8%	0.0%	-1.3%	-3.1%	-4.7%	-6.1%
1.2x Deposit Beta	-22.8%	-22.8%	-10.6%	-2.4%	0.0%	-1.8%	-4.0%	-6.1%	-7.8%
25% Decay Term	-7.9%	-7.9%	-3.3%	0.9%	0.0%	-4.0%	-8.2%	-12.0%	-15.2%
ALCO Policy	-35%	-30%	-25%	-15%		-15%	-25%	-30%	-35%

Source: Stifel Analytics
Interest Rate Risk Model

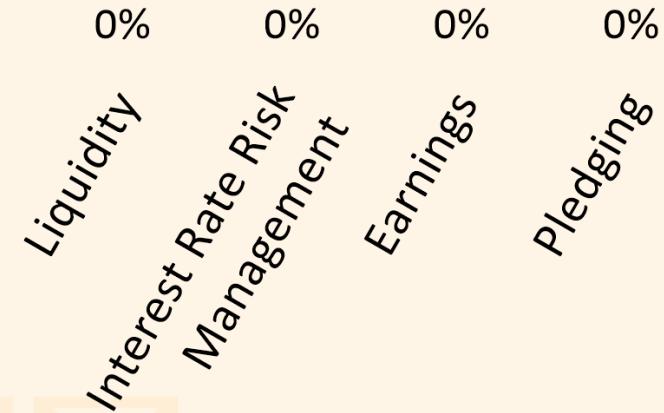
BALANCE SHEET MANAGEMENT – INVESTMENTS

- Liquidity Risk
- Price Risk
- Credit Risk
- Impairment
- Risk Adjusted Returns
- ALM Considerations



WHAT IS THE PRIMARY OBJECTIVE OF YOUR INVESTMENT PORTFOLIO?

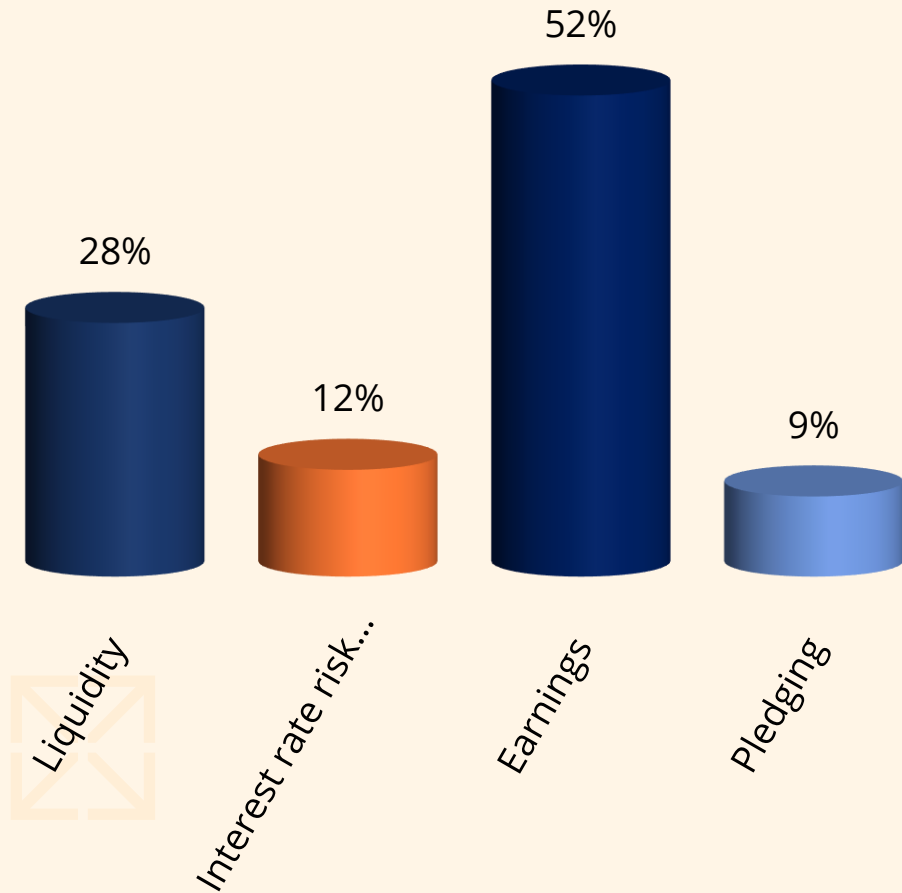
- A. Liquidity
- B. Interest Rate Risk Management
- C. Earnings
- D. Pledging



PRE-MEETING SURVEY 3/8/23:

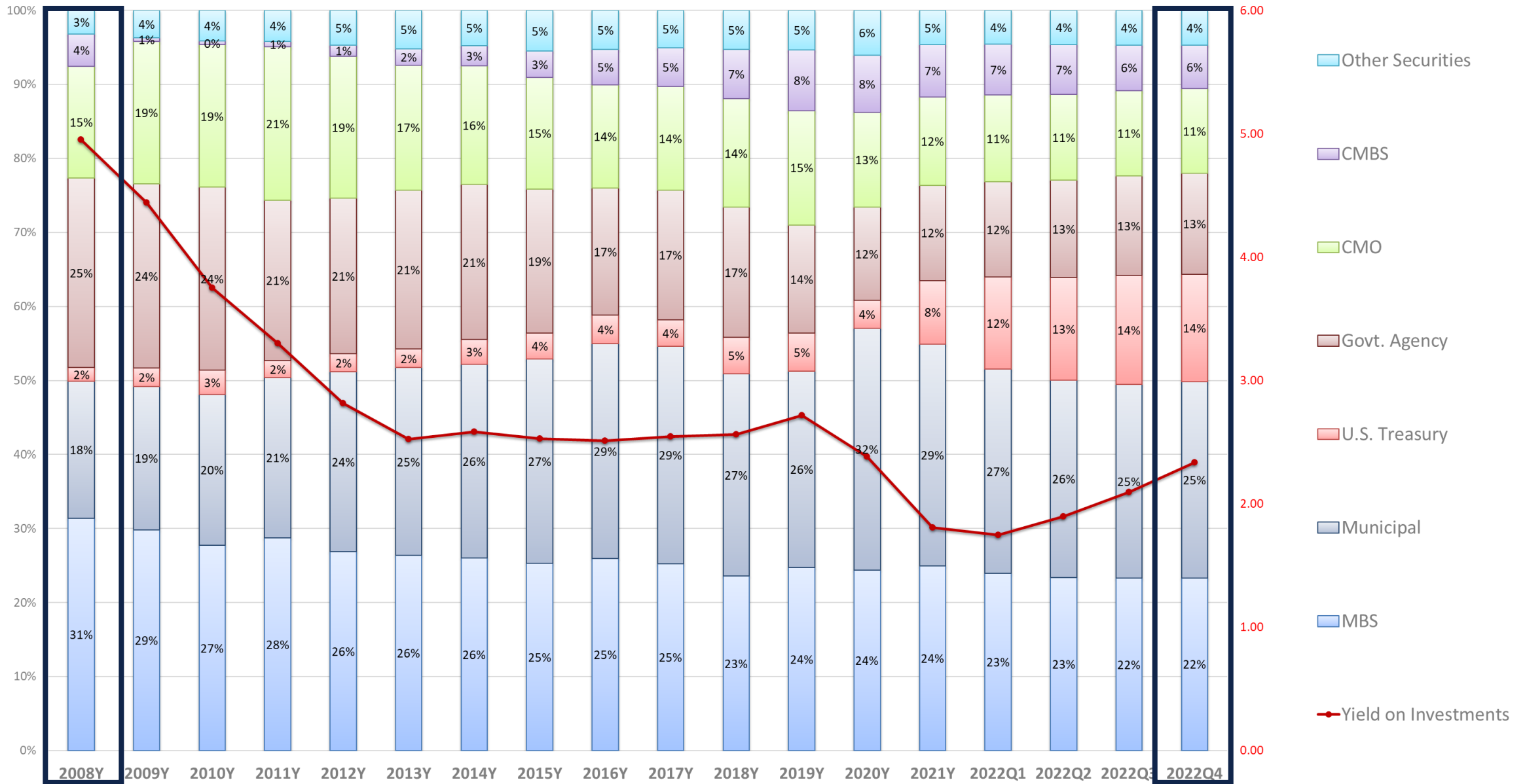
WHAT IS THE PRIMARY OBJECTIVE OF YOUR INVESTMENT PORTFOLIO?

- A. Liquidity
- B. Interest Rate Risk Management
- C. Earnings
- D. Pledging



STUDY THE PAST

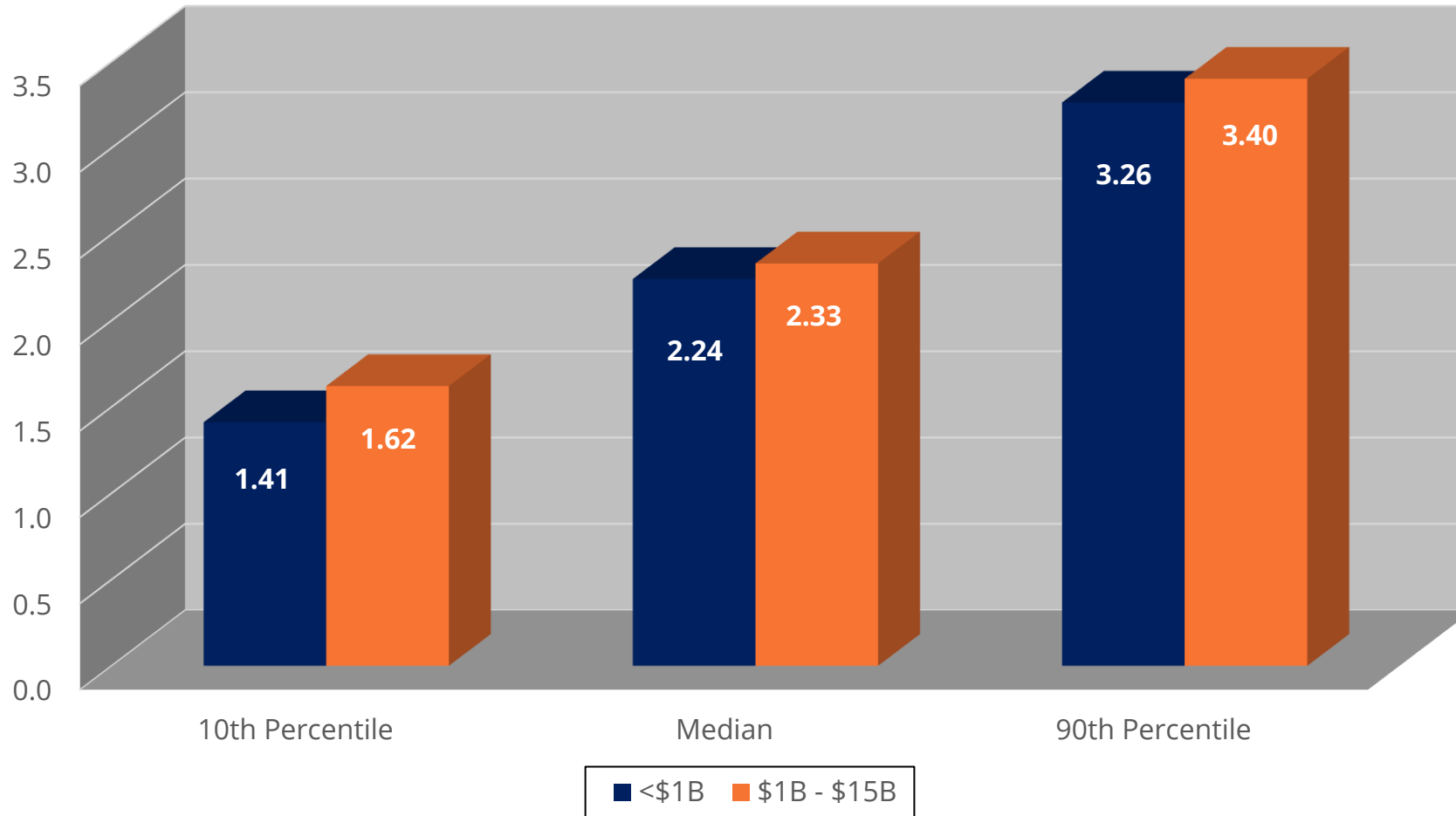
SECURITY MIX TREND



Source: S&P Global Market Intelligence, Data for all U.S. Commercial Banks <\$10B as of 12/31/22

MONITOR THE PRESENT

INVESTMENT YIELD STATISTICS



Source: S&P Global Market Intelligence,
Data for all Banks Nationally <\$15B as of 12/31/22

PREPARE FOR THE FUTURE INVESTMENT MANAGEMENT BEST PRACTICES



Strategy

- Independent expert advice on portfolio strategies with regular review
- Whole-Institution perspective approach to portfolio positioning



Investment Mix

- Diversification among investment sectors, risk/reward & relative value analysis
- Expanded range of permissible investment products



Security Selection

- Market knowledge and expertise helps optimal security selection
- Monitor policy compliance with security purchases



Trade Execution

- Poor trade execution can impact investment returns
- Fiduciary vs. Broker

TAYLOR ADVISORS EBRIEF – ASSESSING YOUR INVESTMENT PROCESS

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

Poor Trade Execution: Lower Liquidity

056832AM Muni 99 Disclaimer 94 Export 97 Settings Trade History

Issuer BAINBRIDGE GA COMB UTILITY REV CUSIP 056832AM0
 Series
 Coupon 4.000 Maturity 12/01/37 Issued 12/28/21 State GA
 Range: 02/01/22 - 07/21/22 Trade Size All Sizes

1) Bond 2) Series 3) Issuer

View Price Spread: Convention YTW YTM

Trade Aggregate			Price			Dealer to Client Volume(M)			D-D
Days	Volume (M)*	Trds	High	Low	Avg	Dlr Buy	Dlr Sell	Net	Vol(M)
2	5,440	12	99.500	96.512	97.645	1,360	1,360	0	2,720

Charts

	Date	Vol(M)*	Trds	High	Low	Avg	Dlr Buy	Dlr Sell	Net	Vol(M)
101)	06/23/22	1,000	1	99.500	99.500	99.500	0	1,000	-1,000	0
102)	06/16/22	4,440	11	98.750	96.512	97.476	1,360	360	1,000	2,720

*Volumes of MM+ are considered 5MM until the actual volume is disclosed.
 Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 4565 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2022 Bloomberg Finance L.P.
 SN 455022 EDT GMT-4:00 G657-3659-171 21-Jul-2022 16:08:21

Transaction Details

99.500 Client Px
 - 96.512 Broker Px
 = **2.988 Excessively High Mark-Up**

x 1,000,000 PAR
\$29,880 Broker Commission

x 10 million PAR
\$298,800 Broker Commission

Missing Out on Exclusive Opportunities

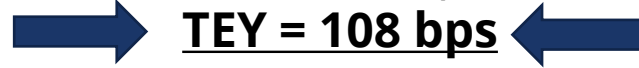
Sample Bank Purchased

YTC = 2.85%
(3.60% TEY)

Difference
YTW = 85 bps
TEY = 108 bps

TA Client Purchase

YTC = 3.70%
(4.68% TEY)



25476FNT Muni	99) Disclaimer	94) Export	97) Settings	Trade History
Issuer	DIST OF COLUMBIA			CUSIP 25476FNT1
Series	SER C			State DC
Coupon	5.000	Maturity	06/01/38	Issued 10/23/14
Range:	12/30/19	06/17/20	Trade Size	All Sizes

1) Bond	2) Series	3) Issuer							
View	Price	Spread: <input checked="" type="radio"/> Convention <input type="radio"/> YTW <input type="radio"/> YTM							
Trade Aggregate		Price			Dealer to Client Volume(M)			D+D	
Days	Volume (M)*	Trds	High	Low	Avg	Dlr Buy	Dlr Sell	Net	Vol(M)
18	3,575	60	116.676	107.673	113.418	920	920	0	1,735

	Date	Vol(M)*	Trds	Price			Dealer to Client Volume(M)			D+D
				High	Low	Avg	Dlr Buy	Dlr Sell	Net	Vol(M)
101)	05/29/20	200	4	115.950	114.703	115.216	0	100	-100	100
102)	05/26/20	50	1	113.800	113.800	113.800	50	0	50	0
103)	05/22/20	100	2	114.060	114.060	114.060	50	0	50	50
104)	04/13/20	20	2	112.233	111.833	112.033	10	10	0	0
105)	03/24/20	1,000	4	108.412	107.673	107.889	250	250	0	500
106)	03/18/20	30	3	110.698	110.448	110.615	0	10	-10	20
107)	03/17/20	450	8	112.000	110.959	111.490	0	250	-250	200
108)	03/16/20	500	2	109.000	108.877	108.939	250	0	250	250
109)	03/13/20	265	5	113.396	111.396	111.797	0	105	-105	160

*Volumes of MM+ are considered 5MM until the actual volume is disclosed.
Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 4565 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2020 Bloomberg Finance L.P.
 SN 455022 EDT GMT-4:00 H451-2816-1 17-Jun-2020 16:13:07

Moody's: Aaa (Underlying)
S&P: AA+

98322QHS Muni	99) Disclaimer	94) Export	97) Settings	Trade History
Issuer	WYOMING ST CMNTY DEV AUTH HSG			CUSIP 98322QHS9
Series	SER 3			State WY
Coupon	3.700	Maturity	06/01/39	Issued 02/05/15
Range:	03/09/20	08/26/20	Trade Size	All Sizes

1) Bond	2) Series	3) Issuer							
View	Price	Spread: <input checked="" type="radio"/> Convention <input type="radio"/> YTW <input type="radio"/> YTM							
Trade Aggregate		Price			Dealer to Client Volume(M)			D+D	
Days	Volume (M)*	Trds	High	Low	Avg	Dlr Buy	Dlr Sell	Net	Vol(M)
6	16,280	16	105.033	99.000	102.099	4,070	4,090	-20	8,120

	Date	Vol(M)*	Trds	Price			Dealer to Client Volume(M)			D+D
				High	Low	Avg	Dlr Buy	Dlr Sell	Net	Vol(M)
101)	07/15/20	270	3	105.000	103.695	104.172	0	90	-90	180
102)	06/18/20	90	1	105.033	105.033	105.033	90	0	90	0
103)	04/14/20	40	2	104.625	103.625	104.125	0	20	-20	20
104)	03/24/20	15,760	4	100.000	99.000	99.485	3,940	3,940	0	7,880
105)	03/13/20	60	3	101.485	101.235	101.368	20	20	0	20
106)	03/09/20	60	3	102.009	101.809	101.916	20	20	0	20

*Volumes of MM+ are considered 5MM until the actual volume is disclosed.
Australia 61 2 9777 8600 Brazil 5511 2395 9000 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 4565 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000 Copyright 2021 Bloomberg Finance L.P.
 SN 480842 EST GMT-5:00 H970-1045-0 26-Jan-2021 16:46:17

Moody's: Aa1 (Underlying)
S&P: AA+

WHAT IS YOUR INSTITUTION'S
PORTFOLIO YIELD?

INVESTMENT MIX?



Performance and Balance Sheet Snapshot - 2021Q4
Sample Savings Bank (SSB)

Performance

Sample Savings Bank versus UBPR Peer Group

		Metric	Sample Savings Bank	UBPR Peer Group Average	Percentile Rank
Net Interest Margin Dissection	Yield on Investments (FTE)	Yield on Investments (FTE)	3.81	1.78	98%
	Yield on Total Loans	Yield on Total Loans	4.39	4.69	33%
	Earning Asset Yield	Earning Asset Yield	4.23	3.49	88%
	Interest Expense to Avg. Earning Assets	Interest Expense to Avg. Earning Assets	0.40	0.22	89%
	Net Interest Margin (FTE)	Net Interest Margin (FTE)	3.82	3.26	84%
	Net Interest Income Dependency Ratio	Net Interest Income Dependency Ratio	0.46	0.81	2%

Metric	Sample Savings Bank	State Bank Average	Percentile Rank
Yield on Investments (FTE)	3.81	2.03	97%

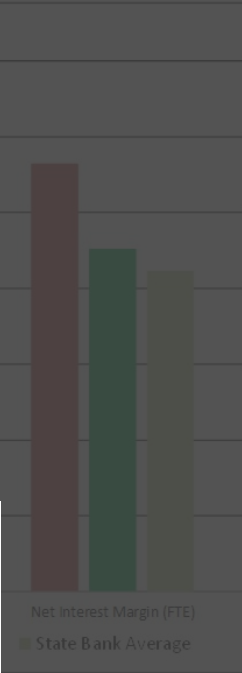
Earning Asset Mix and Balance Sheet Positions

Earning Asset Mix

Asset Size (\$000)	1,758,936	
Net Loans (\$000)	1,303,874	74%
Security Portfolio (\$000)	220,927	13%
Cash and FFS (\$000)	36,991	2%
Cash and FFS (\$000)	36,991	2%

Investment Portfolio		
Municipals (% of Portfolio)	194,909	88%
MBS (% of Portfolio)	23,158	10%
CMO (% of Portfolio)	2,016	1%
Agencies (% of Portfolio)	120	0%
Other Securities (% of Portfolio)	724	0%

Capital	
Tier 1 Capital	172,150
Tier-1 Leverage Ratio (%)	10.28
Total Risk Based Capital	186,930
Total Risk-Based Capital Ratio (%)	13.25
Municipals (% of Total RBC)	104%



A PROVEN INVESTMENT PROCESS LEADS TO HIGHER RETURNS OVER LONG PERIODS OF TIME

Taylor Advisors Performance

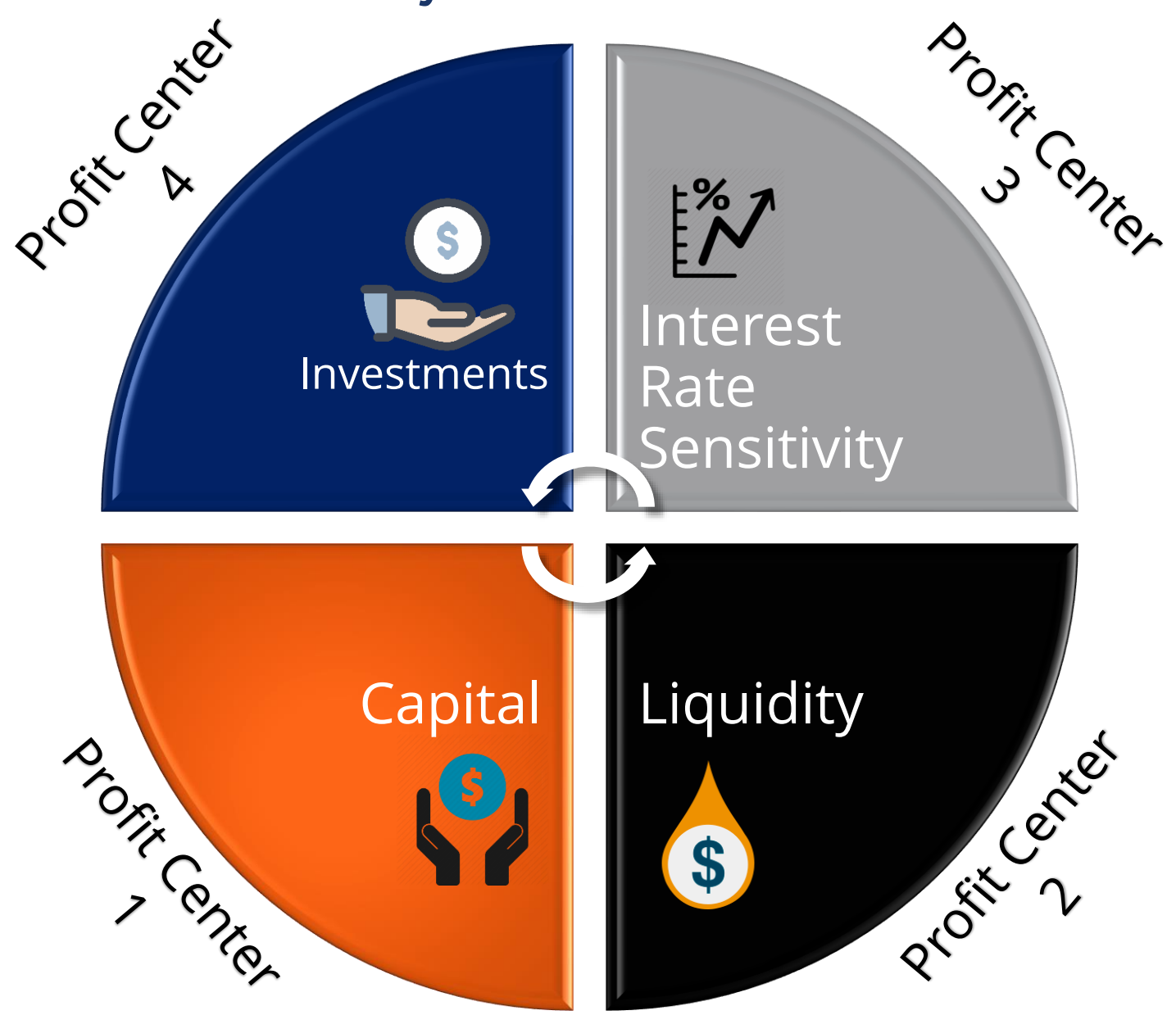
Yield on Investment Securities (Fully Taxable Equivalent)

Municipal Advisory Clients

Investment Yield Performance Municipal Advisory Clients
--

Time Period	New Clients	Tenured Clients	Non-Clients	Taylor Advisors Outperformance (Tenured Clients)
MRQ	2.21	2.65	2.24	+0.41
T12M	1.84	2.42	1.99	+0.43
2021	1.62	2.24	1.74	+0.50
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

Key Profit Centers



OBJECTIVES AND STRATEGIES



YOU EXPECT YOUR BANK'S NET INTEREST MARGIN:

A. To continue to expand with additional hikes

0%

B. Has likely plateaued and could compress this year

0%

C. Has already started to compress

0%

To continue to expand with additional hikes

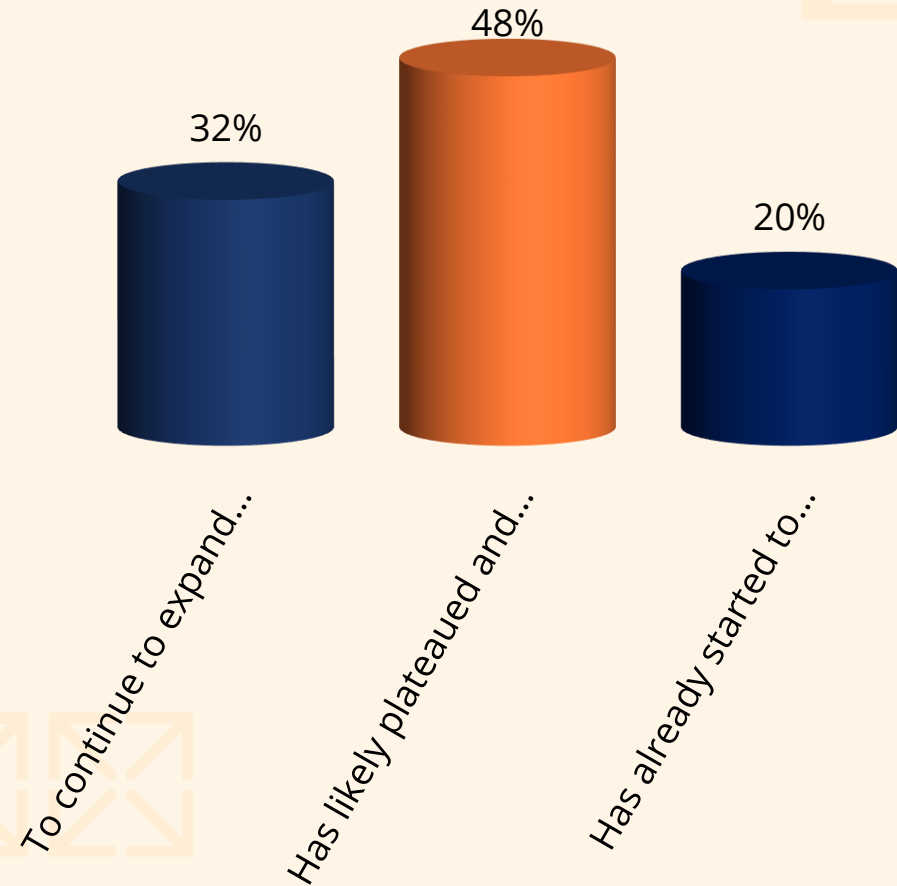
Has likely plateaued and could compress this year

Has already started to compress

PRE-MEETING SURVEY 3/8/23:

YOU EXPECT YOUR BANK'S NET INTEREST MARGIN:

- A. To continue to expand with additional hikes
- B. Has likely plateaued and could compress this year
- C. Has already started to compress



ONE YEAR NIM DOLLAR IMPACT

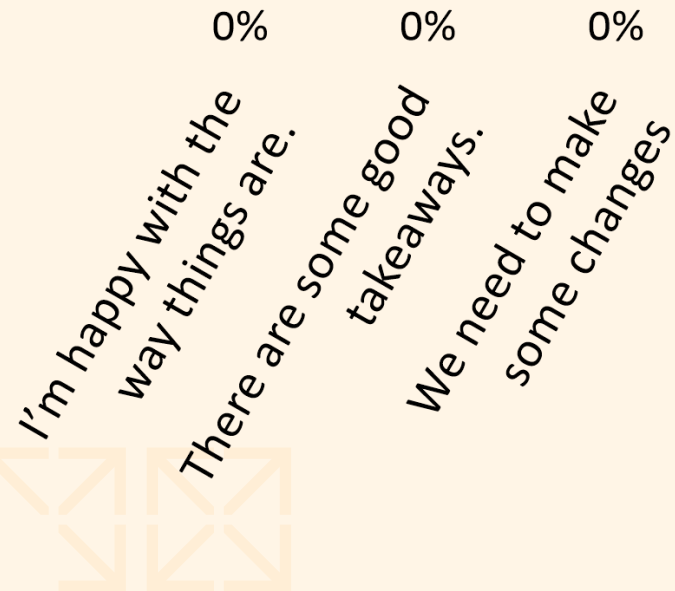
Earning Asset Size (in \$000)	Net Interest Income Change in thousands of dollars (due to Yield change in basis points)					
	5	10	15	20	25	30
25,000	13	25	38	50	63	75
50,000	25	50	75	100	125	150
100,000	50	100	150	200	250	300
250,000	125	250	375	500	625	750
500,000	250	500	750	1,000	1,250	1,500
1,000,000	500	1,000	1,500	2,000	2,500	3,000

WHAT DO YOU THINK ABOUT REIMAGINING YOUR ALCO PROCESS?

A. I'm happy with the way things are.

B. There are some good takeaways.

C. We need to make some changes





Thank You!



Todd Taylor, CPA, CFA

E-mail: todd.taylor@hubinternational.com

Website: www.TaylorAdvisor.com

Phone: 502-412-2524

