# **Evolve 2025: New England Banking Summit**

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For Institutional Use Only

- The attendee will explore relative value opportunities across the fixed income universe
- The attendee will discover hedging perspectives and opportunities within the derivative universe
- The attendee will learn key capital considerations/initiatives that should improve capital ratios and capital management strategies



# **Economic Forecast**



rublish Date. April 2025													Annual Ra	te 2022-2026		
	Q3 2024	Q4 2024	Q1 2025	Q2 2025	Q3 2025	Q4 2025	Q1 2026	Q2 2026	Q3 2026	Q4 2026	<u> </u>	2022	2023	2024	2025	2026
Growth indicators																
GDP, QoQ %	3.1%	2.4%	-0.3%	0.6%	1.8%	2.4%	2.1%	1.8%	2.2%	2.4%		2.5%	2.9%	2.8%	1.4%	2.0%
Consumer Spending, %	3.7%	4.0%	1.8%	1.1%	1.5%	1.8%	2.1%	2.0%	1.8%	2.1%		3.0%	2.5%	2.8%	2.3%	1.9%
Fixed Investment, %	2.1%	-1.1%	7.8%	2.1%	3.6%	4.5%	5.0%	4.5%	4.8%	5.2%		2.7%	2.4%	3.7%	3.2%	4.5%
Housing Starts, k, end of quarter, yr end	1,355	1,526	1,324	1,510	1,520	1,530	1,550	1,600	1,610	1,620		1,340	1,568	1,526	1,530	1,620
Unemployment Rate, %, qtr avg, yr end	4.2%	4.2%	4.1%	4.5%	4.4%	4.4%	4.3%	4.3%	4.2%	4.1%		3.6%	3.8%	4.2%	4.4%	4.1%
Nonfarm Payrolls, k, qtr avg, ann avg	240	323	228	120	110	120	160	175	180	180		326	192	224	145	174
Inflation indicators, YoY%, yr end																
PCE	2.1%	2.6%	2.3%	3.1%	3.5%	3.6%	3.2%	3.2%	2.8%	2.5%		5.3%	2.6%	2.6%	3.6%	2.5%
Core PCE	2.7%	2.9%	2.6%	3.2%	3.3%	3.5%	3.0%	3.1%	2.5%	2.4%		4.6%	2.9%	2.9%	3.5%	2.4%
PPI	2.1%	3.4%	2.7%	3.0%	3.5%	3.7%	3.5%	3.1%	2.9%	2.6%		6.4%	1.1%	3.4%	3.7%	2.6%
Interest rate, %, end of quarter, yr end																
Ŧ	5.00	4.50	4.50	4.25	4.00	4.00	3.75	3.75	3.75	3.75		4.50	5.50	4.50	4.00	3.75
3month USTbills	4.63	4.31	4.30	4.20	3.90	3.95	3.70	3.75	3.75	3.78	' [	4.37	5.34	4.31	3.95	3.78
2yr UST notes	3.64	4.24	3.89	3.95	4.00	4.05	3.90	3.95	4.00	4.05		4.43	4.25	4.24	4.05	4.05
5yr UST notes	3.56	4.38	3.95	4.10	4.15	4.20	4.18	4.15	4.20	4.25		4.01	3.85	4.38	4.20	4.25
10yr UST notes	3.78	4.57	4.21	4.40	4.55	4.60	4.65	4.75	4.80	4.75		3.88	3.88	4.57	4.60	4.75
30yr USTbonds	4.12	4.78	4.57	4.70	4.75	4.80	4.85	4.90	4.95	4.95		3.97	4.03	4.78	4.80	4.95
3mon to 2s spread bps	-99	-7	-41	-25	10	10	20	20	25	27		6	-109	-7	10	27
3mon to 10s spread bps	-85	26	-9	20	65	65	95	100	105	97		-50	-146	26	65	97
2s to 10s spread bps	14	33	32	45	55	55	75	80	80	70		-55	-37	33	55	.70

Publish Date: April 2025

Actual data in red (Source: Bloomberg) | GDP figures shown as annual

change



# Market Dislocation / Relative Value



### Growth in the 1<sup>st</sup> Quarter was Positive, but on the Slow Side

- Total Deposits at Small Commercial Banks (excludes the 25 largest banks) ended the 1<sup>st</sup> quarter at \$5.59Tn – growing by \$33Bn during the period.
- Net Loans grew by \$5.1Bn during the quarter the lowest level of quarterly growth in two years – causing Loans/Deposits to decline to 81.3% after peaking at 83.4% in July '24.
- While the Loans / Deposits ratio declined slightly versus year end, Balance Sheet composition broadly remains similar to previous periods:
  - Borrowings / Liabilities fell to 5.1% in March, the lowest level in roughly 2.5 years.
  - Cash / Assets reached 8.5% in March, an increase of 0.4% versus December '24.
  - Securities / Assets held steady at 18.4%.









	Peer Group (28)
Book Value	489,755
# Securities	250
Average Size	1,467
Yield at Book	3.14
Market Yield	4.82
\$ Gain/Loss	-43,791
% Gain/Loss	-8.2%
Average Life	6.02
Average Life +300bps	7.01
+300 Price Change	-12.9%
Effective Duration	4.24
Effective Convexity	-0.15
AFS / HTM%	83% / 17%
Fixed / Floating	92% / 8%
Total Assets (SNL)	2,772,269
Securities / Assets (SNL)	17.0 %

- The portfolio shown to the left is broadly representative of the "average" bank portfolio in Stifel's portfolio database at the end of March.
- While portfolio yields continue to move higher, they remain nearly 175 basis points below market levels.
- Securities repositioning is still a great option for accelerating low levels of asset turnover, but balance sheet dynamics and the changes in the yield curve mean it's no longer the only game in town.



Sector Allocation Comparison



• Though each strategy has differed in meaningful ways (timing, use of proceeds, composition of sales, size, earnback period, etc.), dozens of institutions have publicly announced loss earnback portfolio repositionings since 4Q'22:

Pretax Loss		Nu	mber of .	Announc	ed Portfo	lio Restr	ucturings	by Quar	ter	
Threshold	4Q'22	1Q'23	2Q'23	3Q'23	4Q'23	1Q'24	2Q'24	3Q'24	4Q'24	1Q'25
Loss >\$1mm	13	33	22	16	45	17	21	21	36	17
Loss >\$5mm	7	16	7	10	28	9	15	14	22	7

- Data is still being released for the 1<sup>st</sup> quarter, but activity appears consistent with previous periods though certain quarters (most commonly 4Qs) clearly see elevated levels of activity.
- Across the entire 201-bank peer set, 105 banks (roughly 52%) have executed at least one loss earnback since 4Q'22 and over half of those (63 banks, or roughly 31%) have executed multiple transactions.
- Two of the 1<sup>st</sup> quarter transactions announced to date<sup>1</sup> were from first-time participants, and thirty-one banks have executed at least three transactions in the past nine quarters (with one bank active every quarter).



# Summary of Securities Portfolio Restructurings in 1Q'25 (1 of 2)

Company	Ticker	Total Assets (\$M) <sup>2</sup>	Intent	Amount Sold (\$M)	% of Total Portfolio <sup>3</sup>	Pre-Tax Loss/Secs Sold (%)	Pre-Tax Loss (\$M)	Use of Proceeds	Spread	Earnback Period	Accompanying Event	Net Interest Margin as of 4Q24	8-K Announce?	Prior Restructure? <sup>4</sup>	1 Day Relative Stock Performance	3 Day Relative Stock Performance	7 Day Relative Stock Performance
amalgamated bank	AMAL	\$8,290	AFS	NA	NA		(\$0.7)					3.61		Yes	(2.81)%	(0.43)%	0.58%
ABB AMERICAN BUSINESS BANK	AMBZ	\$4,174	AFS	NA	NA		(\$0.4)					3.34		Yes	(0.30)%	2.23%	
Bank of Clarke	EFSI	\$1,904	AFS	\$99	81.8%	-13%	(\$12.4)	Securities Reinvestment			Common Equity Raise	3.09	Yes		4.14%	3.89%	2.58%
Bank of the Pacific	PFLC	\$1,218	AFS	\$9	3.0%	-2%	(\$0.2)	Securities Reinvestment	200bps	Estimated < 1yr		4.04		Yes	3.35%	2.02%	(0.01)%
<b>Busey</b> <sup>®</sup>	BUSE	\$11,977	AFS	\$203	7.7%	-8%	(\$15.5)	Securities Reinvestment	350bps	Estimated ~2.2yrs	Merger	3.02		Yes	1.33%	(1.86)%	(1.14)%
CESAPEAKE	CPKF	\$1,602	AFS	\$75	15.0%	-12%	(\$9.4)	Securities Reinvestment		2.5yrs	Sub Debt Issuance	3.73	Yes		1.04%	1.34%	7.13%
customers bank	CUBI	\$22,416	AFS	\$620	20.8%	-8%	(\$51.3)	Loan Reinvestment				3.14		Yes	(1.94)%	0.35%	(0.57)%
CEAStern Bank	EBC	\$24,985	AFS	\$1,300	29.3%	-21%	(\$269.6)	Securities Reinvestment	357bps	Estimated ~5.8yrs		2.96		Yes	(5.46)%	(5.52)%	(5.85)%
ENB Ephrata National Bank	ENBP	\$2,220	AFS	NA	NA		(\$0.3)	Loan Reinvestment				2.98		Yes	0.00%	(4.61)%	(5.77)%
FARMERS NATIONAL BANK	FMNB	\$5,142	AFS	\$24	1.9%	-6%	(\$1.3)	Securities Reinvestment	260bps	2.2yrs		2.75		Yes	2.48%	3.76%	2.87%
Commonwealth, Bank	FCF	\$11,756	0	NA	NA		(\$5.1)				Gain from Visa B Sale	3.56		Yes	0.86%	0.53%	
<b>first</b> first financial bank	FFBC	\$18,340	0	\$165	5.0%	-6%	(\$9.9)			2.3yrs		3.97		Yes	(3.45)%	(2.74)%	(2.94)%
FIRST RELIANCE®	FSRL	\$1,095	AFS	NA	NA		(\$0.2)				Gain on Early Extinguishment of Debt	3.55		Yes	2.09%	5.08%	0.74%
Heritage Financial	HFWA	\$7,125	AFS	\$61	4.1%	-6%	(\$3.9)	Securities and Loan Reinvestment				3.37		Yes	(1.34)%	(1.84)%	(1.75)%
pathward	CASH	\$7,011	AFS	\$58	3.8%	-13%	(\$7.2)					6.93			4.09%	3.74%	3.63%
	PNFP	\$54,173	AFS	\$189	2.3%	-7%	(\$12.5)	Securities Reinvestment		3yrs		3.14		Yes	0.50%	0.18%	(1.20)%
	STBA	\$9,713	AFS	NA	NA		(\$2.3)	Securities Reinvestment				3.77		Yes	(0.61)%	0.98%	(0.99)%
<b>SOUTHSIDE</b> BANK <sup>®</sup>	SBSI	\$8,339	AFS	\$120	4.3%	0%	(\$0.6)	Securities Reinvestment				2.85		Yes	(0.25)%	(2.46)%	

1. Source: S&P Capital IQ Pro and Company Filings

2. Total Assets as of 1Q'25 bank level

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3. Beginning total portfolio data reflects book value as of 4Q'24, bank level

 Looks at losses taken from 4Q/24 through 1Q/25
 Relative Stock Performance represents the difference between the bank's stock price performance from the date of the earning release vs. the change in the KBX
 Fixed Income Capital Markets Regional Banking Index over the same period.

# Summary of Securities Portfolio Restructurings in 1Q'25 (2 of 2)

Company	Ticker	Total Assets (\$M) <sup>2</sup>	Intent	Amount Sold (\$M)	% of Total Portfolio <sup>3</sup>	Pre-Tax Loss/Secs Sold (%)	Pre-Tax Loss (\$M)	Use of Proceeds	Spread	Earnback Period	Accompanying Event	Net Interest Margin as of 4Q24	8-K Announce?	Prior Restructure? <sup>4</sup>	1 Day Relative Stock Performance	3 Day Relative Stock Performance	7 Day Relative Stock Performance
<b>\$</b> SouthState	SSB	\$65,109	AFS	\$1,800	27.4%	-13%	(\$228.8)	Securities Reinvestment	288bps	Estimated ~5.5yrs	Sale Leaseback	3.48	Yes		(1.13)%	0.05%	(0.38)%
<i>Fidelity</i> bank	FDBC	\$2,711	AFS	\$18	3.1%	-5%	(\$0.8)					2.72		Yes	(3.56)%	0.37%	5.00%
∛ tri counties bank	тсвк	\$9,816	AFS	\$30	1.5%	-4%	(\$1.1)				Gain from death benefit	3.76			0.03%	(1.62)%	(2.38)%

- 1. Source: S&P Capital IQ Pro and Company Filings
- 2. Total Assets as of 1Q'25 bank level

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- 3. Beginning total portfolio data reflects book value as of 4Q'24, bank level
- Looks at losses taken from 4Q'24 through 1Q'25
   Relative Stock Performance represents the difference between the bank's stock price performance from the date of the earning release vs. the change in the KBX
   Fixed Income Capital Markets Regional Banking Index over the same period.

# **Relative Value Update**



### **Relative Value Update**

- Spreads widened considerably across sectors as interest rates rose in 2022.
- However, spreads in Corporates, Agency CMBS and Municipals steadily tightened over the following two years.
- Spreads in Agency MBS are off their absolute highs, but haven't fallen below 120 basis points in almost 3 years.
- Excluding a brief move above that level during COVID, MBS spreads hadn't been above 120 basis points since 2014!
- Municipal bonds have cheapened considerably over the past two months, joining MBS as the only other sector where spreads today are wider than they were in December 2022.



	Current	High	Low	Average
Agency MBS	157.3	194.2	60.2	122.2
5 Year Financial Corporate	79.2	136.2	36.2	76.3
Agency CMBS	50.8	91.9	16.1	56.8
30 Year Muni (TEY @ 21%)	81.6	124.1	-28.3	43.1



• A strategy that deploys \$25mm of cash into a mix of Agency MBS/CMO products picks up more than 100 basis points over funding with a base-case effective duration of 2.7.

Securities Sold													
				Current	Book	Market	% Px	Eff	Eff		Book	Avg.	Book
Security Description	Sector	Cpn	Maturity	Par	Price	Price	Δ +300	Dur	Cvx	Speed	YId (Exp)	Life	YTW
Cash	Cash & Other	4.30		\$25,000,000	100.00	100.00	0.0%	0.0	0.0		4.30%	10.0	4.30%
Sell Side Total		4.30		\$25,000,000	100.00	100.00	0.0%	0.0	0.0		4.30%	10.0	4.30%
Securities Purcha	ased												
				Current	Book	Market	% Px	Eff	Eff		Book	Avg.	Book
Security Description	Sector	Cpn	Maturity	Par	Price	Price	Δ +300	Dur	Cvx	Speed	Yld (Exp)	Life	YTW
FR RB5343	20yr Fixed MBS	5.00	05/01/2045	\$5,025,000	99.44	99.44	-14.2%	3.6	-1.1	9cpr	5.10%	6.8	5.10%
FR SD8515	30yr Fixed MBS	5.50	03/01/2055	\$5,040,510	99.38	99.38	-15.6%	3.7	-1.6	9cpr	5.61%	8.5	5.61%
FN BM7712	118 MTR Hybrid ARM	4.69	04/01/2055	\$5,100,000	98.25	98.25	-13.2%	3.7	-0.9	13cpr	5.08%	6.4	5.08%
FHR 5534 CA	Sequential CMO	5.00	03/25/2052	\$5,025,000	99.13	99.13	-12.0%	2.5	-1.4	15cpr	5.25%	3.2	5.25%
FNR 2025-4 FA	Agy Floating CMO (7% Cap)	5.55	07/25/2054	\$4,994,463	100.13	100.13	-5.5%	0.2	-0.3	15cpr	5.58%	5.4	5.58%
Buy Side Total		5.15		\$25,184,973	99.26	99.26	-12.1%	2.7	-1.0		5.32%	6.1	5.32%
Difference		0.85		\$184,973	-0.74	-0.74	-12.1%	2.7	-1.0		1.02%	-3.9	1.02%

- Investing in products with lower coupons and deeper discounts provides greater protection in downward rate shifts, but reduces the amount of yield pickup.
- As dollar price declines, realized yield becomes very sensitive to changes in prepay speeds; where possible, comparing actual speed history to model projections can help avoid surprises.



• Investing the same \$25mm in deep-discount 30Y MBS still picks roughly 90 basis points of yield versus cash, but carries a much higher duration.

Securities Sold													
				Current	Book	Market	% Px	Eff	Eff		Book	Avg.	Book
Security Description	Sector	Cpn	Maturity	Par	Price	Price	Δ +300	Dur	Cvx	Speed	Yld (Exp)	Life	YTW
Cash	Cash & Other	4.30		\$25,000,000	100.00	100.00	0.0%	0.0	0.0		4.30%	10.0	4.30%
Sell Side Total		4.30		\$25,000,000	100.00	100.00	0.0%	0.0	0.0		4.30%	10.0	4.30%
Securities Purcha	ased												
				Current	Book	Market	% Px	Eff	Eff		Book	Avg.	Book
Security Description	Sector	Cpn	Maturity	Par	Price	Price	Δ +300	Dur	Cvx	Speed	Yld (Exp)	Life	YTW
FN FS7527	30yr Fixed MBS	2.00	03/01/2052	\$6,230,050	80.13	80.13	-21.0%	7.0	-0.1	6cpr	5.21%	8.5	5.21%
FN CB2627	30yr Fixed MBS	2.50	01/01/2052	\$5,968,800	83.56	83.56	-20.8%	6.8	-0.3	7cpr	5.14%	8.6	5.14%
FN FM6293	30yr Fixed MBS	3.00	01/01/2051	\$5,800,943	86.38	86.38	<b>-</b> 20.7%	6.5	-0.5	7cpr	5.21%	8.4	5.21%
FN MA4626	30yr Fixed MBS	4.00	06/01/2052	\$5,419,043	92.69	92.69	-18.3%	5.3	-0.8	8cpr	5.19%	8.5	5.19%
FN MA4733	30yr Fixed MBS	4.50	09/01/2052	\$5,234,505	95.38	95.38	-17.0%	4.7	-0.8	8cpr	5.25%	8.6	5.25%
Buy Side Total		3.14		\$28,653,340	87.27	87.27	-19.6%	6.0	-0.5		5.20%	8.5	5.20%
Difference		-1.16		\$3,653,340	-12.73	-12.73	-19.6%	6.0	-0.5		0.90%	-1.5	0.90%

			Boo	ok Yield (I	Exp)					Pr	ojected C	PR			H	3M
Security Description	-300	-200	-100	Base	+100	+200	+300	-300	-200	-100	Base	+100	+200	+300	CPR	Yield
FN FS7527	5.64	5.50	5.38	5.21	4.96	4.76	4.63	8.2	7.6	7.1	6.4	5.3	4.4	3.7	5.0	4.94
FN CB2627	5.55	5.38	5.27	5.14	4.93	4.73	4.61	9.1	8.1	7.5	6.8	5.7	4.6	3.9	7.2	5.23
FN FM6293	5.77	5.39	5.30	5.21	5.05	4.86	4.74	10.7	7.9	7.3	6.7	5.6	4.3	3.3	6.0	5.14
FN MA4626	8.33	5.58	5.24	5.19	5.13	5.04	4.96	39.3	12.9	8.4	7.6	6.8	5.6	4.5	6.0	5.08
FN MA4733	8.18	6.53	5.36	5.25	5.22	5.18	5.13	53.2	30.6	10.4	7.7	7.1	6.1	5.0	6.4	5.20
Buy Side Total	6.70	5.68	5.31	5.20	5.06	4.91	4.81	24.1	13.4	8.1	7.1	6.1	5.0	4.1	6.1	5.12



### Historic Swap Rate vs UST: 2y to 20y Tenors

Data per Bloomberg as of 5.14.25

- Since April 2<sup>nd</sup>, SOFR swap rates relative to UST has widened ~4bps to -9bps across the curve
- Given current market pricing dislocation, pairing interest rate swaps with fixed rate assets priced relative to UST, discount margins available are at historic wides by recent measures



Interest Rate Products

### Historic SOFR Swap Rate Relative to UST

 An array of 7y – 10y ACMBS are shown below, with the impacts of partial term hedging strategies outlined on the right hand side, assuming the assets are carried at the illustrative prices.

Bond									Hedge		Hedged Po	osition					
Description	Price	Cpn	Yield	Avg Life	Eff Dur	Px Chg -100	Px Chg +100	Px Chg +300	Structure	Cpn	Structure	SOFR DM	Fixed Yld	Eff Dur	Px Chg -100	Px Chg +100	Px Chg +300
~7y ACMBS																	
G Ev Eraddia K									2y spot	3.56	FIt to Fx	+0.93	4.49	3.5	3.7%	-3.4%	-9.5%
	100.95	4.68	4.49	6.4	5.4	5.6%	-5.2%	-14.8%	3y spot	3.49	FIt to Fx	+1	4.49	2.7	2.8%	-2.6%	-7.1%
RZ									5.5y spot	3.56	Flt	+0.93		0.7	0.7%	-0.6%	-1.8%
									2y spot	3.55	FIt to Fx	+1.02	4.57	4.1	4.2%	-3.9%	-10.7%
7y/6.4y DUS	99.73	4.47	4.57	7.0	5.9	6.1%	-5.7%	-16.0%	3y spot	3.48	FIt to Fx	+1.09	4.57	3.2	3.3%	-3.0%	-8.3%
									6.4y spot	3.61	Flt	+0.96		0.4	0.4%	-0.4%	-1.0%
~10y ACMBS																	
									2y spot	3.56	Flt to Fx	+1.07	4.64	4.9	5.1%	-4.7%	-12.7%
8.5y Freddle K	101.79	4.90	4.64	8.3	6.8	7.0%	-6.5%	-18.0%	3y spot	3.49	FIt to Fx	+1.14	4.64	4.1	4.2%	-3.9%	-10.4%
R2									7.1y spot	3.64	Flt	+0.98	4.64	0.8	0.9%	-0.8%	-2.1%
									2y spot	3.55	Flt to Fx	+1.27	4.83	5.7	6.0%	-5.4%	-14.5%
10y/9y DUS	100.52	4.82	4.83	9.6	7.6	7.9%	-7.2%	-19.8%	3y spot	3.48	Flt to Fx	+1.34	4.83	4.8	5.1%	-4.5%	-12.1%
									9y spot	3.74	Flt	+1.09		0.2	0.2%	-0.2%	-0.5%
									2y spot	3.55	Flt to Fx	+1.33	4.86	6.2	6.4%	-5.7%	-15.2%
10y/9.5y DUS	98.11	4.55	4.86	10.1	7.9	8.3%	-7.6%	-20.7%	3y spot	3.48	Flt to Fx	+1.4	4.86	5.2	5.5%	-4.8%	-12.8%
									9.5y spot	3.76	Flt	+1.11		0.0	0.0%	0.0%	-0.1%

#### Asset Hedge

- 8.3y fixed rate asset swapped to float with 7.1y pay fixed swap
- While receiving 4.64% fixed asset yield, pay 3.64% fixed for 7.1 years and receive SOFR floating
- Creates a floating yield of SOFR +98bps<sup>4</sup> for 7 years
- Reduces up 300 price risk from -18.0% to -2.1%

Years 0-7.1 Fixed Asset Fixed Yield 4.64% Institution Floating Index Swap Counterparty Swap

- 1. Illustrative asset yields as of 5/6/2025
- 2. Indicative swap levels as of 5/6/2025; may not represent executable levels.
- 3. Price shocks represent an immediate parallel curve shock. Hedged position yields are uncapped/unfloored.
- 4. Hedged position yields and discount margins reflect a weighted average based on book value of the asset and the notional amount of the interest rate swap.
- 5. Investment securities only offered through Stifel Nicolaus & Co ("Stifel")
- Page 16 6. Information presented above regarding interest rate derivatives is considered general and factual. Derivative services provided through Stifel Interest Rate Products, LLC. Please see further disclosures on the last page of this presentation.



- Generic floater investments are contrasted below to creating your own floater through swapping fixed rate ACMBS to floating.
- Creating your own floater by swapping fixed rate Freddie K to floating creates a locked out SOFR + 94bps yield vs generic K floater of SOFR + 67bps that has principal prepayments over life of bond.

Securities Sold														
Security Description	Cpn	Maturity	Current Par	Book Price	Market Price	G/L (\$)	% Px Δ +300	Eff Dur	Speed	Book Yld (Exp)	Avg. Life	Book YTW	Swap Rate	Swap Term
Agy Floating CMO - 6% Cap	5.95	01/20/2055	\$5,000,000	100.50	100.50	\$0	-10.1%	1.2	14cpr	5.90%	5.6	5.90%		
Agy Floating CMO – 6.50% Cap	5.45	03/20/2054	\$5,000,000	99.85	99.85	\$0	-6.8%	0.5	19cpr	5.55%	4.5	5.55%		
Freddie K Floater	5.00	03/25/2029	\$5,000,000	100.50	100.50	\$0	0.2%	0.0		4.97%	3.8	4.97%		
SBA Floater	4.88	05/25/2035	\$5,000,000	99.50	99.50	\$0	-1.2%	0.5	10cpr	4.86%	4.0	4.86%		
	5.32		\$20,000,000	100.09	100.09	\$0	-4.5%	0.5		5.32%	4.5	5.32%		

Securities Purchased														
Security Description	Cpn	Maturity	Current Par	Book Price	Market Price	G/L (\$)	% Px Δ +300	Eff Dur	Speed	Book Ylo (Exp)	<sup>d</sup> Avg. Life	Book YTW	Swap Rate	Swap Term
~8y Freddie K Synthetic Floater	4.35	01/25/2033	\$10,000,000	98.60	98.60		-17.4%	6.5		4.56%	7.7	4.56%		
Hedged Subtotal	5.01		\$10,000,000	98.60	98.60		-0.8%	0.4		5.26%	7.7	5.26%	3.70	6.8
10/ 9.5y DUS Synthetic Floater	4.79	04/01/2035	\$10,000,000	100.50	100.50		-20.9%	8.1	0cpr	4.80%	10.0	4.80%		
Hedged Subtotal	5.33		\$10,000,000	100.50	100.50		-0.3%	0.3		5.36%	10.0	5.36%	3.82	9.3
	5.17		\$20,000,000	99.55	99.55		-0.6%	0.3		5.31%	8.8	5.31%	3.76	8.1

1. Indicative levels using SOFR swap levels as of 5/6/25; may not represent executable levels

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2. Market value sensitivities represent the change from base for an immediate parallel shift in the swap curve.





### For a given underlying fixed rate asset profile and structure:

- Spot starting swaps can allow an institution to create their own floating to fixed rate profiles, swapping the front end or full locked out period to a floating rate.
- Compared to capped CMO floaters, creating your own floater outperforms in up rate scenarios with less price risk sensitivity while having similar yield sensitivity in lower rates.

Securities Sold														
				Book YTW	1					% Mar	ket Price C	Change		
Security Description	-300	-200	-100	Base	+100	+200	+300	-300	-200	-100	Base	+100	+200	+300
Agy Floating CMO - 6% Cap	2.63	3.68	4.79	5.90	5.99	5.99	6.00	0.7%	0.6%	0.5%	0.0%	-2.0%	-5.4%	-10.1%
Agy Floating CMO – 6.50% Cap	2.62	3.60	4.57	5.55	6.56	6.61	6.61	1.0%	0.6%	0.3%	0.0%	-1.1%	-3.2%	-6.8%
Freddie K Floater	1.89	2.92	3.94	4.97	6.01	7.05	8.10	-0.1%	-0.1%	-0.1%	0.0%	0.1%	0.1%	0.2%
SBA Floater	2.16	3.06	3.96	4.86	5.75	6.64	7.54	1.8%	1.1%	0.5%	0.0%	-0.5%	-0.9%	-1.2%
Sell Side Total	2.33	3.31	4.32	5.32	6.08	6.57	7.06	0.9%	0.6%	0.3%	0.0%	-0.8%	-2.3%	-4.5%
Securities Purchased														
				Book YTW	1					% Mar	ket Price C	Change		
Security Description	-300	-200	-100	Base	+100	+200	+300	-300	-200	-100	Base	+100	+200	+300
~8y Freddie K Synthetic Floater	4.56	4.56	4.56	4.56	4.56	4.56	4.56	22.0%	14.1%	6.8%	0.0%	-6.3%	-12.1%	-17.4%
Hedged Subtotal	2.18	3.20	4.23	5.26	6.29	7.33	8.37	1.6%	1.0%	0.4%	0.0%	-0.4%	-0.6%	-0.8%
10/ 9.5y DUS Synthetic Floater	4.80	4.80	4.80	4.80	4.80	4.80	4.80	28.4%	17.9%	8.5%	0.0%	-7.7%	-14.6%	-20.9%
Hedged Subtotal	2.34	3.34	4.35	5.36	6.37	7.39	8.42	1.5%	0.8%	0.3%	0.0%	-0.2%	-0.3%	-0.3%
Buy Side Total	2.26	3.27	4.29	5.31	6.33	7.36	8.39	1.6%	0.9%	0.4%	0.0%	-0.3%	-0.5%	-0.6%

1. Indicative levels using SOFR swap levels as of 5/6/25; may not represent executable levels

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2. Market value sensitivities represent the change from base for an immediate parallel shift in the swap curve.





### **Swapping 30yr MBS to Floating**

- Partial term hedging is also applicable to prepayable fixed rate assets under portfolio layer hedging method.
- The section below shows the standalone 30yr 4.50% MBS yield and market value sensitivity before and after adding multiple hedge "layers" under portfolio layer method.
- Ladder of 2/3/5/7y pay fixed swaps hedging 55% of total investment creates 75bps of positive carry today, increasing level rate yield of underlying 30yr 4.50% MBS from 5.26% to 5.69% and reduces up 300 px risk from -18.5% to -11.7%.

Bond															
Description	Cpn	Yield	Avg Life	Eff Dur	Yield -200	Yield -100	Yield Base	Yield +100	Yield +200	Yield +300	Px Chg -200	Px Chg -100	Px Chg +100	Px Chg +200	Px Chg +300
30yr 4.5 MBS	4.50	5.24	9.8	4.4	6.71	5.32	5.26	5.23	5.19	5.15	7.9%	4.7%	-5.6%	-11.9%	-18.5%
Por	tfolio La	aver Hed	laes			Book	Yield (C	ost of C	arry)			Marke	et Value F	x Risk	
_	% of	Pool	Pay	Fixed				<b>,</b> -	- //					-	
lenor	Curr	Face	Co	upon	-200	-100	Base	+100	+200	+300	-200	-100	+100	+200	+300
2y Swap	15	5%	3	.55	-1.25	-0.25	0.75	1.75	2.75	3.75	-3.9%	-1.9%	1.9%	3.7%	5.4%
3y Swap	18	3%	3	.48	-1.18	-0.18	0.82	1.82	2.82	3.82	-5.8%	-2.8%	2.7%	5.4%	7.9%
5y Swap	12	2%	3	.53	-1.23	-0.23	0.77	1.77	2.77	3.77	-9.5%	-4.6%	4.4%	8.5%	12.4%
7y Swap	10	)%	3	.64	-1.34	-0.34	0.66	1.66	2.66	3.66	-13.1%	-6.3%	5.8%	11.3%	16.3%
Net Hedge	55	5%	3.	55	(1.25)	(0.25)	0.75	1.75	2.75	3.75	-9.3%	-4.5%	4.2%	8.2%	11.9%
Resulting Over	all Hedg	ged Posi	tion												
Description	Cpn	Yield	Avg Life	Eff Dur	Yield -200	Yield -100	Yield Base	Yield +100	Yield +200	Yield +300	Px Chg -200	Px Chg -100	Px Chg +100	Px Chg +200	Px Chg +300
30yr 4.5 MBS	4.50	5.69	9.8	2.8	6.00	5.18	5.69	6.22	6.75	7.28	2.7%	2.2%	-3.2%	-7.3%	-11.7%

Swapped 30yr 4.50% MBS

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1. Indicative levels using SOFR swap levels as of 5/6/25; may not represent executable levels

2. Hedged size and tenors sized to 25cpr prepay speed

3. Market value sensitivities represent the change from base for an immediate parallel shift in the swap curve.

4. Information presented above regarding interest rate derivatives is considered general and factual. Derivative services provided through Stifel Interest Rate Products, LLC. Please see further disclosures on the last page of this presentation.



### Municipal Market Update: Curve Movement

- Tax-exempt municipals sold off 35bps on Monday, April 7. An additional 25bp sell off followed on Tuesday, April 8.
- The former 35bp move was the largest one-day jump in municipal yields since the COVID-19 tumult in March of 2020. The latter 25bp move, while slightly less severe, has only one additional peer: a similar 25bp selloff in June 2022 when a hotter-thanexpected inflation report prompted the FOMC to hike rates by 75bp for the first time in almost 30 years.
- While spreads and ratios have come down from those highs, the current municipal curve remains much higher and dramatically steeper than it was at the beginning of the year.



Tenor



### Municipal Market Update: Ratios and Relative Value



### Municipal Market Update: Fund Outflows



### Swapped Municipal Investment Securities: 0% CoF/ 21% Tax Rate

An array of 4% and 5% PSF municipals with 10 to 25yr finals are shown below, with the impacts of partial term hedging strategies outlined on the right hand side, assuming the assets are carried at the illustrative prices shown Municipal TEY vield assumes 0% CoF and 21% tax rate

Bond										Hedge		Hedged P	osition					
Description	Price	Cpn	Yield	Mat	Avg Life	Eff Dur	Px Chg -100	Px Chg +100	Px Chg +300	Structure	Cpn	Structure	SOFR DM	Fixed Yld	Eff Dur	Px Chg -100	Px Chg +100	Px Chg +300
TX PSF GM																		
										3y spot	3.80	Flt to Fx	+1.03	4.87	5.4	5.9%	-5.9%	-16.7%
13nc9 5%	108.84	5.00	4.87	13.3	9.3	8.4	8.5%	-8.4%	-23.8%	5y spot	3.83	Flt to Fx	+1.01	4.87	4.0	4.3%	-4.5%	-12.6%
										9.3y spot	4.00	Flt	+0.85		1.4	1.2%	-1.8%	-5.7%
										3y spot	3.80	Flt to Fx	+1.13	4.96	5.8	6.2%	-6.3%	-17.6%
14nc9 5%	108.28	5.00	4.96	14.3	9.3	8.8	8.8%	-8.8%	-24.8%	5y spot	3.83	Flt to Fx	+1.1	4.96	4.4	4.6%	-4.8%	-13.5%
										9.3y spot	4.00	Flt	+0.94		1.7	1.5%	-2.2%	-6.6%
										3y spot	3.80	Flt to Fx	+1.14	4.97	5.7	5.9%	-6.4%	-18.2%
15nc8 5%	107.47	5.00	4.97	15.3	8.3	8.7	8.5%	-8.9%	-25.5%	5y spot	3.83	Flt to Fx	+1.11	4.97	4.3	4.3%	-4.9%	-14.1%
										8.3y spot	3.96	Flt	+0.99		2.2	1.8%	-2.8%	-8.6%
										3y spot	3.80	Flt to Fx	+1.6	5.38	8.1	8.0%	-7.7%	-19.7%
16nc9 4%	97.15	4.00	5.38	15.8	15.8	10.7	10.9%	-10.4%	-27.7%	5y spot	3.83	Flt to Fx	+1.57	5.38	6.3	6.2%	-6.0%	-15.2%
										8.8y spot	3.98	Flt	+1.41		3.3	3.1%	-3.4%	-8.2%
										3y spot	3.80	Flt to Fx	+1.73	5.51	8.6	8.4%	-8.0%	-20.4%
17nc9 4%	95.87	4.00	5.51	16.8	16.8	11.1	11.4%	-10.8%	-28.5%	5y spot	3.83	Flt to Fx	+1.70	5.51	6.8	6.6%	-6.3%	-15.8%
										8.8y spot	3.98	Flt	+1.54		3.7	3.5%	-3.6%	-8.8%
										3y spot	3.80	Flt to Fx	+1.88	5.65	9.7	9.4%	-8.8%	-22.0%
19nc8 4%	93.63	4.00	5.65	19.2	19.2	12.0	12.4%	-11.7%	-30.3%	5y spot	3.83	Flt to Fx	+1.85	5.65	7.8	7.5%	-7.1%	-17.3%
										8.2y spot	3.96	Flt	+1.71		5.1	4.8%	-4.7%	-11.0%
										3y spot	3.80	Flt to Fx	+2.03	5.78	10.2	9.7%	-9.0%	-22.2%
22nc7 4%	91.50	4.00	5.78	22.2	22.2	12.3	12.7%	-11.9%	-30.7%	5y spot	3.83	Flt to Fx	+2.00	5.78	8.2	7.8%	-7.2%	-17.4%
										7.2y spot	3.92	Flt	+1.90		6.2	5.8%	-5.5%	-12.8%

Illustrative asset yields as of 5/14/2025 1.

Indicative swap levels as of 5/14/2025; may not represent executable levels. 2.

3. Price shocks represent an immediate parallel curve shock. Hedged position yields are uncapped/unfloored.

4. Hedged position yields and discount margins reflect a weighted average based on book value of the asset and the notional amount of the interest rate swap.

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**Fixed Income** Information presented above regarding interest rate derivatives is considered general and factual. Derivative services provided through Stifel Interest Rate Products Page 23 6. **Capital Markets** LLC. Please see further disclosures on the last page of this presentation.

### Swapped Municipal Investment Securities: 2.00% CoF/ 21% Tax Rate

An array of 4% and 5% PSF municipals with 10 to 25yr finals are shown below, with the impacts of partial term hedging strategies outlined on the right hand side, assuming the assets are carried at the illustrative prices shown
 Municipal TEY yield assumes 2% CoF and 21% tax rate

Bond										Hedge		Hedged P	osition					
Description	Price	Cpn	Yield	Mat	Avg Life	Eff Dur	Px Chg -100	Px Chg +100	Px Chg +300	Structure	Cpn	Structure	SOFR DM	Fixed Yld	Eff Dur	Px Chg -100	Px Chg +100	Px Chg +300
TX PSF GM																		
										3y spot	3.80	Flt to Fx	+0.5	4.34	5.4	5.9%	-5.9%	-16.7%
13nc9 5%	108.84	5.00	4.34	13.3	9.3	8.4	8.5%	-8.4%	-23.8%	5y spot	3.83	Flt to Fx	+0.48	4.34	4.0	4.3%	-4.5%	-12.6%
										9.3y spot	4.00	Flt	+0.32		1.4	1.2%	-1.8%	-5.7%
										3y spot	3.80	Flt to Fx	+0.59	4.43	5.8	6.2%	-6.3%	-17.6%
14nc9 5%	108.28	5.00	4.43	14.3	9.3	8.8	8.8%	-8.8%	-24.8%	5y spot	3.83	Flt to Fx	+0.57	4.43	4.4	4.6%	-4.8%	-13.5%
										9.3y spot	4.00	Flt	+0.41		1.7	1.5%	-2.2%	-6.6%
										3y spot	3.80	FIt to Fx	+0.61	4.44	5.7	5.9%	-6.4%	-18.2%
15nc8 5%	107.47	5.00	4.44	15.3	8.3	8.7	8.5%	-8.9%	-25.5%	5y spot	3.83	FIt to Fx	+0.58	4.44	4.3	4.3%	-4.9%	-14.1%
										8.3y spot	3.96	Flt	+0.46		2.2	1.8%	-2.8%	-8.6%
										3y spot	3.80	Flt to Fx	+1.07	4.85	8.1	8.0%	-7.7%	-19.7%
16nc9 4%	97.15	4.00	4.85	15.8	15.8	10.7	10.9%	-10.4%	-27.7%	5y spot	3.83	Flt to Fx	+1.04	4.85	6.3	6.2%	-6.0%	-15.2%
										8.8y spot	3.98	Flt	+0.88		3.3	3.1%	-3.4%	-8.2%
										3y spot	3.80	Flt to Fx	+1.2	4.98	8.6	8.4%	-8.0%	-20.4%
17nc9 4%	95.87	4.00	4.98	16.8	16.8	11.1	11.4%	-10.8%	-28.5%	5y spot	3.83	FIt to Fx	+1.17	4.98	6.8	6.6%	-6.3%	-15.8%
										8.8y spot	3.98	Flt	+1.01		3.7	3.5%	-3.6%	-8.8%
										3y spot	3.80	Flt to Fx	+1.35	5.11	9.7	9.4%	-8.8%	-22.0%
19nc8 4%	93.63	4.00	5.11	19.2	19.2	12.0	12.4%	-11.7%	-30.3%	5y spot	3.83	FIt to Fx	+1.32	5.11	7.8	7.5%	-7.1%	-17.3%
										8.2y spot	3.96	Flt	+1.18		5.1	4.8%	-4.7%	-11.0%
										3y spot	3.80	Flt to Fx	+1.5	5.25	10.2	9.7%	-9.0%	-22.2%
22nc7 4%	91.50	4.00	5.25	22.2	22.2	12.3	12.7%	-11.9%	-30.7%	5y spot	3.83	Flt to Fx	+1.46	5.25	8.2	7.8%	-7.2%	-17.4%
										7.2y spot	3.92	Flt	+1.37		6.2	5.8%	-5.5%	-12.8%

1. Illustrative asset yields as of 5/14/2025

2. Indicative swap levels as of 5/14/2025; may not represent executable levels.

3. Price shocks represent an immediate parallel curve shock. Hedged position yields are uncapped/unfloored.

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Page 24 6. Information presented above regarding interest rate derivatives is considered general and factual. Derivative services provided through Stifel Interest Rate Products 11FEL Capital Market LLC. Please see further disclosures on the last page of this presentation.

# **Polling Question**



A/L Modeling, Optionality and Other Hedging Considerations



### Larger institutions incorporating dynamic growth and mix shift to inform NII sensitivity

- Simulated NII outcomes for future years given level of rates, shape of curve, and resulting balance sheet growth and composition (which are themselves based on historical correlations and relationships)
- Helps determine inflection points in market environment and backdrop that severely challenges profitability and efficiency
- Indicates where insurance needs to be purchased, when market pricing allows





### **Cap Pricing**

• Pricing on a range of different cap tenors and strike levels are presented in the summary below

#### **Cap Option Pricing Grid**

#### As of 5/9/2025

	Premium (% of	Average Annual									
2y	Notional)	Amort(bps)	Зу	Notional)	Amort(bps)	5y	Notional)	Amort(bps)	7у	Notional)	Amort(bps)
	5/9/2025	5/9/2025		5/9/2025	5/9/2025		5/9/2025	5/9/2025		5/9/2025	5/9/2025
Strike	5/9/2027	5/9/2027	Strike	5/9/2028	5/9/2028	Strike	5/9/2030	5/9/2030	Strike	5/9/2032	5/9/2032
6.05	0.14	7	6.05	0.33	13	6.05	0.93	22	6.05	1.75	30
5.80	0.15	8	5.80	0.36	15	5.80	1.01	25	5.80	1.90	33
5.55	0.17	8	5.55	0.40	17	5.55	1.12	28	5.55	2.08	36
5.30	0.19	9	5.30	0.44	19	5.30	1.24	31	5.30	2.29	40
5.05	0.21	11	5.05	0.50	23	5.05	1.38	36	5.05	2.54	45
4.80	0.25	13	4.80	0.58	28	4.80	1.56	41	4.80	2.83	52
4.55	0.32	16	4.55	0.69	36	4.55	1.78	49	4.55	3.18	59
4.30	0.42	21	4.30	0.85	46	4.30	2.07	58	4.30	3.61	68
4.05	0.58	29	4.05	1.08	58	4.05	2.45	69	4.05	4.14	79

#### Rates Up Market Value Sensitivity (% Chg)

2у	+100	+300	Зу	+100	+300	5y	+100	+300	7y	+100	+300
	5/9/2025	5/9/2025		5/9/2025	5/9/2025		5/9/2025	5/9/2025		5/9/2025	5/9/2025
Strike	5/9/2027	5/9/2027	Strike	5/9/2028	5/9/2028	Strike	5/9/2030	5/9/2030	Strike	5/9/2032	5/9/2032
6.05	0.0	1.2	6.05	0.0	1.8	6.05	0.1	2.9	6.05	0.3	4.0
5.80	0.0	1.6	5.80	0.0	2.2	5.80	0.2	3.5	5.80	0.4	4.7
5.55	0.0	1.9	5.55	0.1	2.7	5.55	0.3	4.1	5.55	0.6	5.5
5.30	0.1	2.3	5.30	0.2	3.2	5.30	0.5	4.8	5.30	0.8	6.4
5.05	0.2	2.7	5.05	0.4	3.7	5.05	0.7	5.5	5.05	1.0	7.2
4.80	0.4	3.1	4.80	0.6	4.2	4.80	1.0	6.3	4.80	1.3	8.1
4.55	0.6	3.4	4.55	0.8	4.7	4.55	1.3	7.0	4.55	1.7	8.9
4.30	0.8	3.8	4.30	1.0	5.2	4.30	1.6	7.6	4.30	2.1	9.7
4.05	1.0	4.1	4.05	1.3	5.6	4.05	1.9	8.2	4.05	2.4	10.5

• Indicative levels as of 5/9/2025; may not represent executable levels.

• NII impact for options-related strategies is comprised of average annual amortization of any option premium

Page 28 • Information presented above regarding interest rate derivatives is considered general and factual. Derivative services provided through Stifel Interest Rate Products, LLC. Please see further disclosures on the last page of this presentation.



### **Floor Pricing**

• Pricing on a range of different floor tenors and strike levels are presented in the summary below

#### **Floor Option Pricing Grid**

#### As of 5/9/2025

	Premium (% of	Average Annual									
2y	Notional)	Amort(bps)	Зу	Notional)	Amort(bps)	4y	Notional)	Amort(bps)	5y	Notional)	Amort(bps)
	5/9/2025	5/9/2025		5/9/2025	5/9/2025		5/9/2025	5/9/2025		5/9/2025	5/9/2025
Strike	5/9/2027	5/9/2027	Strike	5/9/2028	5/9/2028	Strike	5/9/2029	5/9/2029	Strike	5/9/2030	5/9/2030
4.55	2.14	107	4.55	3.57	119	4.55	4.96	124	4.55	6.28	126
4.30	1.75	88	4.30	3.01	100	4.30	4.24	106	4.30	5.41	108
4.05	1.43	71	4.05	2.52	84	4.05	3.60	90	4.05	4.63	93
3.80	1.16	58	3.80	2.10	70	3.80	3.04	76	3.80	3.94	79
3.55	0.94	47	3.55	1.74	58	3.55	2.55	64	3.55	3.34	67
3.30	0.76	38	3.30	1.43	48	3.30	2.13	53	3.30	2.81	56
3.05	0.61	31	3.05	1.18	39	3.05	1.77	44	3.05	2.35	47
2.80	0.50	25	2.80	0.97	32	2.80	1.47	37	2.80	1.97	39
2.55	0.41	20	2.55	0.79	26	2.55	1.22	30	2.55	1.64	33

#### Rates Down Market Value Sensitivity (% Chg)

2у	-100	-300	Зу	-100	-300	4y	-100	-300	5у	-100	-300
	5/9/2025	5/9/2025		5/9/2025	5/9/2025		5/9/2025	5/9/2025		5/9/2025	5/9/2025
Strike	5/9/2027	5/9/2027	Strike	5/9/2028	5/9/2028	Strike	5/9/2029	5/9/2029	Strike	5/9/2030	5/9/2030
4.55	1.7	5.7	4.55	2.4	8.4	4.55	3.2	11.0	4.55	3.8	13.6
4.30	1.6	5.5	4.30	2.3	8.2	4.30	3.0	10.8	4.30	3.7	13.3
4.05	1.5	5.4	4.05	2.1	7.9	4.05	2.8	10.4	4.05	3.4	12.9
3.80	1.3	5.1	3.80	1.9	7.6	3.80	2.5	10.0	3.80	3.1	12.4
3.55	1.1	4.9	3.55	1.7	7.3	3.55	2.2	9.6	3.55	2.7	11.8
3.30	0.9	4.5	3.30	1.4	6.8	3.30	1.9	9.0	3.30	2.4	11.1
3.05	0.7	4.2	3.05	1.2	6.4	3.05	1.6	8.4	3.05	2.1	10.4
2.80	0.5	3.8	2.80	1.0	5.9	2.80	1.4	7.8	2.80	1.8	9.7
2.55	0.4	3.4	2.55	0.8	5.3	2.55	1.1	7.1	2.55	1.5	8.9

• Indicative levels as of 5/9/2025; may not represent executable levels.

• NII impact for options-related strategies is comprised of average annual amortization of any option premium

Page 29 • Information presented above regarding interest rate derivatives is considered general and factual. Derivative services provided through Stifel Interest Rate Products, LLC. Please see further disclosures on the last page of this presentation.



### Strategy 1: Unwind \$100mm Pay Fixed and Recast \$100mm

- The section below reflects marginal NII and EVE impact of unwinding legacy \$100mm pay fixed swap positions at \$891k loss
- Unwinding \$100mm 4.46% wavg. pay fixed swaps and amortizing \$891k loss increases NII \$41k in level rates, recasting into \$50mm 2y & \$50mm 3y pay fixed swap increases NII \$495k in level rates
- Round trip NII increases \$536k in level scenario with slightly accretive EVE impact in rates up

		\$100mr	n Pay Fixe	ed Swap Unw	ind -Fair Va	lue Hedges			\$50mr	n 2y & \$50n Ri	nm <mark>3</mark> y Pay I ecast	ixed Swap	
					Pay Fixed	Notional					Pay Fixed	Notional	
NII					4.46	100,000	NII				3.81	100,000	
Scen	SOFR	Pay Fixed	Rec. SOFR	Loss Ann. Amort	Net %	Net \$ (NII Impact)	Scen	SOFR	Pay Fixed	l Rec. SOFR	Net %	Net \$ (NII Impact)	Marginal NII Impact
+300	7.30	-4.46	7.30	-0.12	-2.96	(2,959)	+300	7.30	-3.81	7.30	3.50	3,495	536
+200	6.30	-4.46	6.30	-0.12	-1.96	(1,959)	+200	6.30	-3.81	6.30	2.50	2,495	536
+100	5.30	-4.46	5.30	-0.12	-0.96	(959)	+100	5.30	-3.81	5.30	1.50	1,495	536
Level	4.30	-4.46	4.30	-0.12	0.04	41	Level	4.30	-3.81	4.30	0.50	495	536
-100	3.30	-4.46	3.30	-0.13	1.03	1,031	-100	3.30	-3.81	3.30	-0.51	(505)	526
-200	2.30	-4.46	2.30	-0.16	2.00	2,000	-200	2.30	-3.81	2.30	-1.51	(1,505)	495
-300	1.30	-4.46	1.30	-0.23	2.93	2,929	-300	1.30	-3.81	1.30	-2.51	(2,505)	424
EVE							EVE						

Scen	SOFR	N Pri	/lkt ice %	Mkt Price \$	Net \$ (EVE Impact)	Scen	SOFR	Mkt Pric %	e Mkt Price \$
+300	7.30	3	3.8	3,786	(4,677)	+300	7.30	6.6	6,641
+200	6.30	-	2.3	2,289	(3,181)	+200	6.30	4.5	4,502
+100	5.30	(	).7	749	(1,640)	+100	5.30	2.3	2,290
Level	4.30	-	0.9	(891)	0	Level	4.30	0.0	0
-100	3.30	-	2.5	(2,469)	1,578	-100	3.30	-2.4	(2,371)
-200	2.30	-	4.2	(4,151)	3,260	-200	2.30	-4.8	(4,827)
-300	1.30	-	5.9	(5 <i>,</i> 885)	4,994	-300	1.30	-7.4	(7,371)

• Indicative levels as of 5/12/2025 per Bloomberg, may not represent executable levels

• Loss amortization per principal balance projections from ZM Financial

Page 30 Information presented above regarding interest rate derivatives is considered general and factual. Derivative services provided through Stifel Interest Rate Products, LLC. Please see further disclosures on the last page of this presentation.



# **Capital Optimization and Allocation**



Sample Bank	Report Period	12/31/2024
oumpro buint	Bank's Minimum (Policy)	8.5000%
	Tier 1 Leverage Ratio	11.2011%
Capital Risk Analyzer	Tier 1 Capital	\$78,368
Tier 1 Leverage Capital Buffer by Risk Category	Total Assets (Leverage Purposes)	\$699,644

		IF USITE					
Risk Categories	Risk Score	Risk Rating <sup>1</sup>	Risk-Weighting <sup>2</sup>	Capital Risk Buffer	Weighted Risk Buffer	Tie	r 1 Capital
Credit Risk	3.00	Moderate	35.00%	2.50%	0.875%	\$	6,122
Interest Rate Risk	3.00	Moderate	15.00%	2.50%	0.375%	\$	2,624
Liquidity Risk	3.00	Moderate	15.00%	2.50%	0.375%	\$	2,624
Operational Risk	3.00	Moderate	15.00%	2.50%	0.375%	\$	2,624
Capital Risk	2.00	Low-Moderate	10.00%	1.00%	0.100%	\$	700
Strategic Risk	2.00	Low-Moderate	10.00%	1.00%	0.100%	\$	700
Total:	2.80		100.00%		2.200%	\$	15,392

Note: Dol	Note: Dollar figures in thousands														
1 - LO	w	2 - L	OW-MOD	3 - 1	NODERATE	4 -	MOD-HIGH		5 - HIGH						
\$	-	\$	2,449	\$	6,122	\$	9,795	\$	12,244						
\$	-	\$	1,049	\$	2,624	\$	4,198	\$	5,247						
\$	-	\$	1,049	\$	2,624	\$	4,198	\$	5,247						
\$	-	\$	1,049	\$	2,624	\$	4,198	\$	5,247						
\$	-	\$	700	\$	1,749	\$	2,799	\$	3,498						
\$	-	\$	700	\$	1,749	\$	2,799	\$	3,498						
\$	-	\$	6,996	\$	17,491	\$	27,986	\$	34,982						

#### Tier 1 Leverage Capital

Regulatory Standard for Tier 1 Leverage Ratio	5.0000%	\$ 34,982
Implied Minimum Target Tier 1 Leverage Ratio per Risk Assessment	7.2000%	\$ 50,374
Bank's Minimum (Policy) Target Range for Tier 1 Leverage Ratio	8.5000%	\$ 59,470
Risk Assessment Buffer: Bank's Minimum (Policy) Less Implied Minimum	1.3000%	\$ 9,095
Bank's Tier 1 Leverage Ratio	11.2011%	\$ 78,368
Risk Assessment Buffer: Tier 1 Leverage Less Implied Minimum	4.0011%	\$ 27,994

Tier 1 Leverage Capital Summary		
Regulatory Standard	5.0000%	\$ 34,982
Buffer: Based on Risk Profile	2.2000%	\$ 15,392
Buffer: Bank's Minimum (Policy) Less Implied Minimum	1.3000%	\$ 9,095
Buffer: Actual Capital above Bank's Minimum (Policy)	2.7011%	\$ 18,898
Actual Stated Tier 1 Leverage Ratio	11.2011%	\$ 78,368



Note 1 -- Composite Risk Rating is based on the Bank's most recent Enterprise Risk Assessment.

COMPOSITE

Note 2 -- Risk-Weighting integrates the Bank's risk appetite and the level of risk associated with each risk category. This risk-weighting may change as market conditions change.



### Tier 1 Leverage & Total Capital Peer Analysis







### Capital Stress Test Tied to Base Case

#### Assumptions:

- 1. Adverse scenario 50% of base case ROAA. Dividend rate at 90%.
- 2. Severe scenario (150%) of ROAA in 2025, 45% of Base Case ROAA in 2026, 75% of Base Case ROAA in 2027. Dividend Rate at 0% due to 2025 loss, at 90% for 2026-27.







Sample Bank	Triggering Risk Levels									Current Value			
Key Risk Categories	Low (1)	Low-N	/lod (2)	Mode	rate (3)	Mod-H	ligh (4)	High (5)	Owner	Q4-2024	Rating	Weight	Score
	1 - 1.79	1.80	- 2.59	2.60	- 3.39	3.40	- 4.19	4.20 - 5.00					
CREDIT RISK		L	н	L	н	L	н						
30-89 Days Past Due (%)	< 0.50	0.50	0.80	0.80	1.20	1.20	1.50	> 1.50	Stifel	0.50	2	10.00%	0.20
Non-Accrual Loans & Leases (%)	< 0.50	0.50	0.80	0.80	1.20	1.20	1.50	> 1.50	Stifel	0.13	1	10.00%	0.10
Non-owner Occupied CRE/RBC (%)	< 150.0	150.0	200.0	200.0	250.0	250.0	300.0	> 300.0	Stifel	119.80	1	10.00%	0.10
Classified Loans / Tier 1 Capital (%)	< 15.00	15.00	20.00	20.00	25.00	25.00	30.00	> 30.00	Bank	26.50	4	10.00%	0.40
												40.00%	0.80
INTEREST RATE RISK													
12 mo EAR +/-100 bps Rate Shock (%)	> -1.0	-1.0	-5.0	-5.0	-10.0	-10.0	-15.0	< -15.0	Bank	-0.21	1	2.50%	0.03
12 mo EAR +/-200 bps Rate Shock (%)	> -5.0	-5.0	-10.0	-10.0	-15.0	-15.0	-20.0	< -20.0	Bank	-0.81	1	2.50%	0.03
12 mo EAR +/-300 bps Rate Shock (%)	> -10.0	-10.0	-15.0	-15.0	-20.0	-20.0	-25.0	< -25.0	Bank	-2.04	1	2.50%	0.03
EVE +/-100 bps Rate Shock (%)	> -5.0	-5.0	-10.0	-10.0	-15.0	-15.0	-20.0	< -20.0	Bank	-2.48	1	2.50%	0.03
EVE +/-200 bps Rate Shock (%)	> -10.0	-10.0	-15.0	-15.0	-20.0	-20.0	-25.0	< -25.0	Bank	-6.13	1	2.50%	0.03
EVE +/-300 bps Rate Shock (%)	> -10.0	-10.0	-16.0	-16.0	-22.0	-22.0	-30.0	< -30.0	Bank	-16.61	3	2.50%	0.08
	_											15.00%	0.20
LIQUIDITY RISK													
Liquidity Ratio (%)	> 30.0	30.0	25.0	25.0	20.0	20.0	15.0	< 15.0	Stifel	17.81	4	3.00%	0.12
Net Loans & Leases / Total Deposits (%)	< 70.0	70.0	80.0	80.0	90.0	90.0	100.0	> 100.0	Stifel	87.73	3	3.00%	0.09
Net Non-core Funding Dependence (%)	< 5.0	5.0	10.0	10.0	15.0	15.0	20.0	> 20.0	Stifel	16.54	4	3.00%	0.12
Total Brokered Deposits (%)	< 5.0	5.0	10.0	10.0	20.0	20.0	30.0	> 30.0	Stifel	1.62	1	3.00%	0.03
Pledged Securities (%)	< 10.0	10.0	25.0	25.0	45.0	45.0	60.0	> 60.0	Stifel	21.82	2	3.00%	0.06
OPERATIONAL RISK												15.00%	0.42
Non-interest Expense (%)	< 1.50	1 50	2 20	2 20	2.80	2.80	3 50	> 3.50	Stifel	2.63	3	5 00%	0.15
Personnel Expense (%)	< 1.00	1.00	1 25	1 25	1 50	1 50	2.00	> 2.00	Stifel	1 70	4	5.00%	0.15
	1.00	1.00	1.25	1.25	1.50	1.50	2.00	2.00	Strict	1.70		10.00%	0.35
CAPITAL RISK												2010070	0.00
Tier 1 Leverage Capital Ratio (%)	> 11.00	11.00	10.00	10.00	8.50	8.50	7.00	< 7.00	Stifel	11.20	1	5.00%	0.05
Total Capital Ratio (%)	> 15.00	15.00	13.50	13.50	12.00	12.00	10.50	< 10.50	Stifel	14.80	2	5.00%	0.10
Tier 1 Risk-Based Capital Ratio (%)	> 12.00	12.00	11.00	11.00	10.00	10.00	8.50	< 8.50	Stifel	13.55	1	0.00%	-
CET 1 Capital Ratio (%)	> 12.00	12.00	10.50	10.50	9.00	9.00	7.00	< 7.00	Stifel	13.55	1	0.00%	-
												10.00%	0.15
STRATEGIC RISK													
Total Assets Growth Rate LTM (%)	< 5.00	5.00	10.00	10.00	15.00	15.00	20.00	> 20.00	Stifel	0.04	1	2.50%	0.03
Return on Average Assets (%)	> 1.50	1.50	1.20	1.20	0.90	0.90	0.60	< 0.60	Stifel	1.32	2	2.50%	0.05
Efficiency Ratio (%)	< 60.00	60.00	70.00	70.00	80.00	80.00	90.00	> 90.00	Stifel	64.19	2	2.50%	0.05
Non-Interest Income/Avg Ttl Assets (%)	> 1.00	1.00	0.75	0.75	0.50	0.50	0.25	< 0.25	Stifel	0.82	2	2.50%	0.05
												10.00%	0.18
												100.00%	2.10



# Contingency Action Plan

Triggering Levels	Description / Actions
Low to Low- Moderate	<ul> <li>Standard operating conditions</li> <li>Senior management oversees the Bank's risk management processes (identify, measure, monitor and control risk) by department and key risk categories.</li> </ul>
Range: <=2.59	
Moderate to Moderate-High	<ul> <li>Elevate BOD involvement</li> <li>Convene monthly risk committee meeting to review elevated risk conditions and mitigating actions</li> <li>Senior management to review and report to the BOD policy, operating or other corrective actions to reduce risk profile</li> </ul>
	<ul> <li>Evaluate the following scenarios:</li> <li>Sale of troubled assets</li> </ul>
Range: 2.6 – 4.19	<ul> <li>Reduce direct operating expenses</li> <li>Bonus suspension/salary freeze or reductions</li> <li>Suspend dividends</li> <li>Balance sheet reductions (i.e. Sale/reduce loan portfolio, sale of securities, deposit reductions, sale of businesses/branches/ assets)</li> <li>Raise new capital (i.e., BHC, capital call, equity markets)</li> <li>Borrowing sources</li> <li>Implement one or more scenarios if deemed prudent</li> </ul>
High Range: >=4.20	<ul> <li>Elevate BOD involvement</li> <li>Suspend dividends</li> <li>Implement one or more capital restoration activities which may include:         <ul> <li>Capital infusion from BHC</li> <li>Sales of branches or other assets</li> <li>Raise new capital from internal or third-party sources</li> </ul> </li> </ul>



### **Excess Capital**

- A leverage strategy of up to ~\$40mm could be supported by reducing the Bank's Tier 1 Leverage Capital Ratio to 10.60%.
- A leverage strategy of up to ~\$222mm could be supported by reducing the Bank's Tier 1 Capital Ratio to 8.5%.

				Tier 1	Excess	Additional Growth
Description	Total RBC	Tier 1 RBC	CET1 RBC	Leverage	Capital	Capacity
Sample Bank 12/ 31/ 24	14.80%	13.55%	13.55%	11.20%		
PolicyLimits	10.00%	8.00%	6.50%	8.50%		
Well Capitalized	10.00%	8.00%	6.50%	5.00%		
UPBRGroup	15.69%	14.58%	14.56%	10.60%		
T1 Leverage Over UPBR Group				0.60%	4,206,000	39,676,755
T1 Leverage Over Policy Limit				2.70%	18,898,000	222,332,471
T1 Leverage Over Reg Min of 5.00% Plus Buffer of 2.20%				4.00%	27,993,000	388,800,444



- Sample Bank is currently well-capitalized and holds capital above its policy limits and compared to peers as defined in the Uniform Bank Performance Report.
- Management would like to evaluate leverage opportunities that deploy a portion of excess capital to enhance profitability and maximize shareholder value.
- A portion of the Bank's excess capital should be maintained for potential acquisitions in the next several years.
- The yield curve has moved back into positive territory and creates an opportunity to pursue wholesale leverage strategies.
- The Bank's interest rate risk position is largely neutral. Leverage strategies should be designed to preserve the current profile.
- Consider the use of callable brokered deposits to fund the leverage to be able to unwind the funding due to material prepayments on the assets.



**Potential Benefits:** 

- Leverage strategies can increase return on equity, earnings per share, and tangible book value over time and under a wide range of scenarios.
- Leverage strategies can help mitigate interest rate risk.
- Leverage requires very little overhead.

Potential Disadvantages:

- Leverage usually, but not always, puts pressure on overall net interest margin percentage.
- It can exaggerate an already unfavorable interest rate risk position.
- The potential for losses on the asset side of the transaction always exists, whether from credit or having to unwind the strategy early in an unfavorable interest rate environment.
- Leverage accompanied with an interest rate mismatch can introduce refunding and reinvestment risk to the balance sheet.
- Leverage can impact an institution's capital ratios from the initial balance sheet growth and potential changes in the market value of investment additions (AOCI).



## Investment Alternatives Matrix (1 of 2)

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Investment Options																
								0-	12mo Yie	ld			Pi	ice Volatil	ity	
Туре	SubSector	Coupon (%)	Price	Duration	Cvx	WAL	-100	-100	Base	+100	+200	-200	-100	+100	+200	+300
Treasury	1yr Tsy	0.00	96.29	0.9	0.0	0.9	4.03	4.03	4.03	4.03	4.03	1.9%	0.9%	-0.9%	-1.8%	-2.7%
Treasury	2yr Tsy	3.75	99.83	1.9	0.0	2.0	3.84	3.84	3.84	3.84	3.84	3.9%	1.9%	-1.9%	-3.7%	-5.5%
Treasury	3yr Tsy	3.75	99.80	2.8	0.1	2.9	3.82	3.82	3.82	3.82	3.82	5.7%	2.8%	-2.7%	-5.3%	-7.9%
Treasury	5yr Tsy	3.88	99.69	4.5	0.2	5.0	3.95	3.95	3.95	3.95	3.95	9.5%	4.6%	-4.4%	-8.5%	-12.5%
Treasury	7yr Tsy	4.00	99.16	6.1	0.4	7.0	4.14	4.14	4.14	4.14	4.14	13.0%	6.3%	-5.9%	-11.3%	-16.4%
Treasury	10yr Tsy	4.63	102.19	7.8	0.7	9.8	4.35	4.35	4.35	4.35	4.35	17.4%	8.3%	-7.5%	-14.4%	-20.7%
Agency Debt	1yr Agency Bullet	3.88	99.67	0.9	0.0	1.0	4.22	4.22	4.22	4.22	4.22	1.9%	0.9%	-0.9%	-1.9%	-2.8%
Agency Debt	2yr Agency Bullet	4.25	100.61	1.6	0.0	1.7	3.88	3.88	3.88	3.88	3.88	3.4%	1.7%	-1.6%	-3.2%	-4.8%
Agency Debt	3yr Agency Bullet	3.63	99.38	2.8	0.1	3.0	3.85	3.85	3.85	3.85	3.85	5.8%	2.9%	-2.8%	-5.4%	-8.0%
Agency Debt	5yr Agency Bullet	4.50	101.95	4.2	0.2	4.7	4.04	4.04	4.04	4.04	4.04	8.8%	4.3%	-4.1%	-8.0%	-11.7%
Agency Debt	10yr Agency Bullet	4.63	100.46	7.3	0.6	8.9	4.56	4.56	4.56	4.56	4.56	16.0%	7.7%	-7.0%	-13.5%	-19.4%
Agency Debt	3yr6mo QCall	4.50	100.08	1.0	-0.7	3.0	4.47	4.47	4.47	4.47	4.47	1.3%	0.7%	-1.3%	-3.2%	-5.3%
Agency Debt	5yr6mo Qcall	4.76	99.85	1.5	-1.0	5.0	4.80	4.80	4.80	4.80	4.80	1.6%	1.1%	-2.0%	-4.8%	-8.1%
Agency Debt	10yr1 Cont	5.35	99.87	3.1	-1.5	10.0	5.37	5.37	5.37	5.37	5.37	3.8%	2.4%	-3.7%	-8.5%	-13.8%
Agency MBS	FNCN 10yr 5.0	5.00	101.09	2.5	-0.6	3.3	4.30	4.44	4.56	4.61	4.63	3.9%	2.2%	-2.7%	-5.7%	-8.9%
Agency MBS	FNCN 10yr 5.5	5.50	101.81	2.3	-0.6	3.0	4.44	4.60	4.74	4.87	4.89	3.7%	2.1%	-2.6%	-5.4%	-8.5%
Agency MBS	FNCI 15yr 4.5	4.50	99.00	3.8	-0.8	5.2	4.89	4.82	4.71	4.69	4.68	5.7%	3.3%	-4.1%	-8.6%	-13.3%
Agency MBS	FNCI 15yr 5.0	5.00	100.36	3.3	-0.9	4.4	4.71	4.77	4.86	4.90	4.91	4.9%	2.9%	-3.7%	-7.9%	-12.4%
Agency MBS	FNCI 15yr 5.5	5.50	101.58	2.9	-1.0	4.0	4.56	4.76	4.98	5.13	5.14	4.2%	2.5%	-3.3%	-7.2%	-11.4%
Agency MBS	FNCI 15yr 6.0	6.00	102.79	2.5	-0.9	3.4	4.36	4.69	4.96	5.30	5.35	3.7%	2.1%	-2.9%	-6.4%	-10.4%
Agency MBS	FNCT 20yr 2.0	2.00	85.02	6.0	0.2	6.2	5.24	5.15	5.00	4.78	4.62	11.6%	6.0%	-6.0%	-11.8%	-17.1%
Agency MBS	FNCT 20yr 5.0	5.00	99.42	3.9	-1.2	6.7	5.19	5.16	5.10	5.09	5.09	5.4%	3.3%	-4.5%	-9.6%	-14.9%
Agency MBS	FNCT 20yr 5.5	5.50	101.28	3.1	-1.4	4.7	4.52	4.82	5.13	5.25	5.26	3.6%	2.4%	-3.7%	-8.1%	-12.9%
Agency MBS	FNCL 30yr 4.5	4.50	94.88	5.7	-0.8	9.5	6.93	5.35	5.27	5.24	5.20	8.2%	5.1%	-6.0%	-12.6%	-19.1%
Agency MBS	FNCL 30yr 5.0	5.00	97.33	4.9	-1.2	8.8	6.65	5.68	5.43	5.40	5.39	6.1%	4.1%	-5.4%	-11.4%	-17.7%
Agency MBS	FNCL 30yr 5.5	5.50	99.35	4.2	-1.6	7.9	5.78	5.68	5.61	5.61	5.60	4.5%	3.3%	-4.8%	-10.5%	-16.4%
Agency MBS	FNCL 30yr 6.0	6.00	101.20	3.3	-2.1	5.8	4.95	5.22	5.71	5.83	5.84	3.7%	2.4%	-4.1%	-9.3%	-15.0%
Agency MBS	FNCL 30yr 6.5	6.50	102.91	2.4	-1.7	3.9	4.38	4.78	5.52	6.02	6.07	2.9%	1.8%	-3.3%	-7.9%	-13.1%
Agency MBS	G2SF 30yr 4.5	4.50	95.10	5.7	-1.0	9.4	6.50	5.29	5.25	5.21	5.16	8.3%	5.1%	-6.1%	-12.7%	-19.2%
Agency MBS	G2SF 30yr 5.0	5.00	97.66	4.7	-1.5	9.0	6.45	5.66	5.38	5.37	5.34	5.9%	3.9%	-5.3%	-11.4%	-17.6%
Agency MBS	G2SF 30yr 5.5	5.50	99.67	3.5	-2.1	8.0	5.60	5.59	5.57	5.57	5.57	3.3%	2.4%	-4.3%	-9.8%	-15.7%
Agency MBS	G2SF 30yr 6.0	6.00	101.16	2.6	-2.3	4.7	4.65	5.12	5.66	5.81	5.83	2.2%	1.6%	-3.5%	-8.1%	-13.4%
Agency CMO	5yr 5.0% PAC x G2SF 6%	5.00	101.19	4.0	-0.2	4.9	4.68	4.69	4.69	4.70	4.72	7.0%	3.8%	-4.1%	-8.2%	-12.6%
Agency CMO	5yr 5.5% PAC x G2SF 6.5%	5.50	101.19	3.0	-0.9	4.6	4.78	4.91	5.18	5.24	5.26	4.7%	2.7%	-3.4%	-7.6%	-12.6%
Agency CMO	5yr 5.0% SEQ x G2SF 6%	5.00	99.36	3.6	-1.5	4.9	5.32	5.24	5.14	5.12	5.12	4.4%	2.8%	-4.3%	-9.4%	-15.2%
Agency CMO	3yr 5.0% SEQ x FNCL 6%	5.00	99.51	2.6	-1.6	2.9	5.26	5.19	5.11	5.09	5.09	2.3%	1.8%	-3.3%	-7.6%	-12.6%
Agency CMO	7yr 5.0% SEQ x G2SF 6%	5.00	99.91	4.0	-1.8	6.7	4.93	4.98	5.02	5.02	5.03	4.3%	3.0%	-4.7%	-10.3%	-16.3%
Agency CMO	12yr 5.5% SEQ x FNCL 6%	5.50	97.86	8.1	-0.8	12.3	6.07	5.92	5.77	5.73	5.72	11.8%	7.2%	-8.4%	-16.9%	-25.0%
Agency CMO	2yr 5.5% SEQ x FNCL 6.5%	5.50	100.72	1.8	-1.4	1.7	4.22	4.49	4.90	5.28	5.31	1.7%	1.1%	-2.5%	-6.2%	-10.7%
Agency CMO	2yr 6.0% SEQ x FNCL 6%	6.00	101.48	1.3	-1.9	2.4	3.21	4.18	5.23	5.58	5.61	0.5%	0.6%	-2.1%	-5.4%	-9.6%
Agency CMO	5.5yr Agcy FLT (SOFR30A+170, 6% cap)	6.00	100.29	1.9	-1.9	5.5	3.96	5.00	6.01	6.03	6.03	1.5%	1.1%	-2.8%	-6.9%	-11.9%
Agency CMO	5.4yr Agcy FLT (SOFR30A+135, 6.5% cap)	5.70	100.02	1.1	-0.9	5.4	3.78	4.76	5.76	6.58	6.58	1.1%	0.8%	-1.7%	-4.9%	-9.3%
Agency CMO	7.5yr Agcy FLT (SOFR30A+130, 7% cap)	5.60	100.40	0.8	-0.6	7.5	3.53	4.59	5.65	6.67	7.03	0.9%	0.5%	-1.1%	-3.5%	-7.2%
Hybrid ARM	5x6mo 58 MTR SOFR30A + 214	4.52	99.60	2.6	-0.8	3.8	4.47	4.58	4.77	4.94	5.09	4.0%	2.3%	-2.8%	-6.0%	-9.5%
Hybrid ARM	7x6mo 82 MTR SOFR30A + 211	5.00	99.83	2.8	-0.9	4.4	4.78	4.88	5.02	5.11	5.21	4.0%	2.4%	-3.2%	-6.7%	-10.6%
Hybrid ARM	7x6mo 60 MTR SOFR30A + 228	5.05	99.73	3.2	-0.9	5.0	4.92	4.98	5.09	5.17	5.25	5.0%	2.8%	-3.5%	-7.5%	-11.6%



### Investment Alternatives Matrix (2 of 2)

			Ir	nvestment	Option	6										
								0.	12mo Yie	ld			Pr	ice Volatil	ity	
Туре	SubSector	Coupon (%)	Price	Duration	Сvх	WAL	-100	-100	Base	+100	+200	-200	-100	+100	+200	+300
Agency CMBS	5yr DUS	4.71	101.54	4.4	0.3	5.0	4.41	4.41	4.41	4.41	4.41	9.4%	4.5%	-4.3%	-8.4%	-12.2%
Agency CMBS	7yr DUS	4.72	100.78	5.8	0.4	6.9	4.65	4.65	4.65	4.65	4.65	12.5%	6.0%	-5.6%	-10.8%	-15.6%
Agency CMBS	10yr DUS	5.24	103.66	7.6	0.7	9.9	4.85	4.85	4.85	4.85	4.85	16.9%	8.0%	-7.3%	-13.9%	-19.8%
Agency CMBS	5yr Freddie K A2	4.79	101.89	3.6	0.2	4.1	4.24	4.24	4.24	4.24	4.24	8.1%	4.0%	-3.7%	-7.3%	-10.7%
Agency CMBS	7yr Freddie K A2	4.55	100.18	5.4	0.3	6.3	4.51	4.51	4.51	4.50	4.50	11.9%	5.7%	-5.6%	-10.7%	-15.4%
Agency CMBS	10yr Freddie K A2	5.00	102.44	6.9	0.6	8.6	4.66	4.66	4.66	4.66	4.66	15.5%	7.4%	-6.9%	-13.2%	-19.0%
Agency CMBS	7yr FRESB A7F	4.12	97.58	4.7	0.3	5.4	4.62	4.62	4.62	4.62	4.62	10.0%	4.9%	-4.6%	-8.9%	-13.0%
Agency CMBS	10yr FRESB A10F	4.18	95.05	6.0	0.5	7.3	5.01	5.01	5.01	5.01	5.01	13.1%	6.3%	-5.8%	-11.2%	-16.2%
Small Business	25yr DCPC (300 WAM)	4.97	99.28	5.8	0.6	8.0	5.11	5.10	5.09	5.08	5.08	10.7%	5.7%	-5.7%	-10.9%	-15.5%
Small Business	SBA FLT Equip. Pool (115 WAM) (PRIM + 0bps)	4.82	107.25	0.4	0.0	4.3	2.98	3.87	4.76	5.64	6.53	0.8%	0.4%	-0.4%	-0.8%	-1.2%
Small Business	SBA FLT Real Est. Pool (297 WAM) (PRIM-255bps	4.95	100.13	0.4	0.1	8.0	2.90	3.84	4.78	5.72	6.66	0.9%	0.4%	-0.3%	-0.6%	-0.9%
CLO	AAA CRE CLO [TSFR3M + 150] 45% CrSup	5.76	100.00	0.1	-0.0	4.0	3.80	4.81	5.83	6.85	7.89	0.1%	0.1%	-0.1%	-0.2%	-0.3%
CLO	AAA Rated CLO [TSFR3M + 134] 35% CrSup	5.60	100.00	0.1	-0.0	5.0	3.69	4.66	5.64	6.62	7.60	0.1%	0.1%	-0.1%	-0.2%	-0.3%
CLO	AA Rated CLO [TSFR3M + 179] 25% CrSup	6.05	100.00	0.1	-0.0	6.0	4.13	5.11	6.10	7.09	8.08	0.2%	0.1%	-0.1%	-0.2%	-0.4%
Non-Agency RMBS	AAA SSNR 15% CrSup Pass Through	6.00	100.00	3.6	-2.2	6.6	5.76	5.84	5.99	6.02	6.02	3.7%	2.5%	-4.4%	-9.9%	-15.7%
Non-Agency RMBS	AAA SSNR 15% CrSup FCF Sequential	6.00	100.58	2.2	-2.5	4.1	4.84	5.11	5.79	5.89	5.91	1.6%	1.2%	-3.2%	-7.7%	-12.8%
Non-Agency CMBS	5.0yr AAA Non-Agcy CMBS 30% CrSup	5.65	98.25	4.2	0.2	4.9	6.08	6.08	6.08	6.08	6.08	8.8%	4.3%	-4.1%	-7.9%	-11.6%
Non-Agency CMBS	10.0yr AAA Non-Agcy CMBS 30% CrSup	5.62	95.25	7.2	0.6	9.7	6.33	6.33	6.33	6.33	6.33	16.0%	7.6%	-7.0%	-13.3%	-19.1%
Municipal	AA GM Muni 10yr	4.00	102.91	5.7	0.2	10.0	4.09	4.09	4.09	4.09	4.09	12.3%	5.9%	-5.5%	-10.7%	-15.6%
Municipal	AA GM Muni 15/10yr	4.00	100.00	7.2	0.2	15.0	4.53	4.53	4.53	4.53	4.53	15.3%	7.4%	-7.0%	-13.5%	-19.5%
Municipal	AA GM Muni 20/10yr	4.00	95.04	8.6	0.3	20.0	5.32	5.32	5.01	5.01	5.01	18.3%	8.9%	-8.2%	-15.9%	-22.8%
Municipal	AA BQ Muni 10yr	4.00	103.33	5.7	0.2	10.0	4.45	4.45	4.45	4.45	4.45	12.3%	5.9%	-5.5%	-10.7%	-15.6%
Municipal	AA BQ Muni 15/10yr	4.00	101.41	7.2	0.2	10.0	4.74	4.74	4.80	4.80	4.80	15.3%	7.4%	-7.0%	-13.5%	-19.5%
Municipal	AA BQ Muni 20/10yr	4.00	96.66	8.5	0.3	20.0	5.49	5.49	5.27	5.27	5.27	18.2%	8.9%	-8.2%	-15.8%	-22.8%
Municipal	AA Taxable Muni 5yr	4.45	100.00	4.4	0.2	5.0	4.45	4.45	4.45	4.45	4.45	9.4%	4.6%	-4.3%	-8.4%	-12.3%
Municipal	AA Taxable Muni 10yr		100.00	7.8	0.7	10.0	5.10	5.10	5.10	5.10	5.10	17.3%	8.2%	-7.5%	-14.3%	-20.5%
Municipal	AA Taxable Muni 15/10yr		100.00	9.2	0.6	15.0	5.71	5.71	5.71	5.71	5.71	19.9%	9.6%	-8.8%	-16.7%	-23.9%
Corporate	A Financial 2Y		100.00	1.9	0.0	2.0	4.40	4.40	4.40	4.40	4.40	3.9%	1.9%	-1.9%	-3.7%	-5.5%
Corporate	A Financial 5Y		100.00	4.4	0.2	5.0	4.67	4.67	4.67	4.67	4.67	9.3%	4.5%	-4.3%	-8.4%	-12.3%
Corporate	Corporate A Financial 7Y		100.00	5.9	0.4	7.0	4.89	4.89	4.89	4.89	4.89	12.7%	6.1%	-5.7%	-11.0%	-16.0%
Corporate	A Financial 10y	5.14	100.00	7.8	0.7	10.0	5.14	5.14	5.14	5.14	5.14	17.2%	8.2%	-7.5%	-14.3%	-20.4%



### • Strategies presented here assume a 1% incremental spread and a 20% risk-weighted investment.

	Beginning	Strate	gy 1	Strate	egy 2	Strate	egy 3	
	Data	Pro Forma	Change	Pro Forma	Change	Pro Forma	Change	
		Leverage to U	PBR - 10.6%	Leverage to	Policy - 8.5%	Leverage to Reg l	Min + Buffer 7.2%	
		\$39.7mm L	.everage	\$222.5mm	Leverage	\$388.5mm	Leverage	
Impact on Earnings								
Net Interest Income	25,728	26,139	411	28,027	2,299	29,740	4,012	
Net Interest Margin	3.80%	3.64%	(0.16%)	3.11%	(0.69%)	2.79%	(1.01%)	
Net Income	10,222	10,633	411	12,521	2,299	14,234	4,012	
ROAA	1.44%	1.42%	(0.02%)	1.34%	(0.10%)	1.30%	(0.14%)	
ROAE	14.03%	14.59%	0.56%	17.18%	3.15%	19.53%	5.50%	
Impact on Capital								
Equity Ratio	9.96%	9.43%	-0.53%	7.58%	-2.38%	6.44%	-3.52%	
Tier 1 Leverage	11.17%	10.57%	-0.60%	8.48%	-2.69%	7.19%	-3.98%	
Tier 1 RBC	13.55%	13.37%	-0.18%	12.58%	-0.97%	11.95%	-1.60%	
CET1 RBC	13.55%	13.37%	-0.18%	12.58%	-0.97%	11.95%	-1.60%	
Total RBC	14.50%	14.30%	-0.20%	13.46%	-1.04%	12.78%	-1.72%	
TCE / TA	9.52%	9.01%	-0.51%	7.23%	-2.29%	6.13%	-3.39%	
CET1 Earnback (Years)		2.7	6	2.6	61	2.4	47	
Tier 1 Lev. Earnback (Years)		10.2	24	8.2	23	6.9	97	
Balance Sheet Components								
Total Assets	709,474	749,186	39,712	931,938	222,464	1,097,964	388,490	
Total Liabilities	638,813	678,525	39,712	861,277	222,464	1,027,303	388,490	
Total Equity	70,661	70,661	-	70,661	-	70,661	-	
Tier 1 Capital	78,368	78,368	-	78,368	-	78,368	-	
Tier 1 Common	78,368	78,368	-	78,368	-	78,368	-	
Total Risk-Based Capital	83,845	83,845	-	83,845	-	83,845	-	
Risk-Weighted Assets	578,354	586,296	7,942	622,865	44,511	656,046	77,692	
Average Assets for Lev Cap	701,665	741,377	39,712	924,129	222,464	1,090,155	388,490	
Wholesale Funding	95,283	134,995	39,712	317,747	222,464	483,773	388,490	
Wholesale Funding / Total Assets	13.43%	18.02%	4.59%	34.10%	20.67%	44.06%	30.63%	



1. Beginning data per S&P Global as of 3/31/25- Bank Level, Assumes 21% Tax Rate

2. Asset Sale pro forma capital ratios assume neutral RWA impact

3. Share Buyback assumes \$50.00 per share purchase price

- The scaling sections below illustrate pro forma capital ratio impact of various leverage amounts, loss from sale of assets and share buyback
- The following slides contrast pro forma earnings and balance sheet for each strategy below

	Ti	er 1 Leverage (%) & TCE Ratio	9 (%)	CET 1 Ratio (%)									
	Leverage Amount	Tier 1 Leverage Ratio (%)	TCE / TA (%)	Leverage Amount	Risk Weight Asset %								
					0%	<b>20</b> %	<b>40</b> %	<b>60</b> %	<b>80</b> %	<b>100</b> %			
	50,000	14.2%	13.0%	50,000	20.4%	20.2%	20.0%	19.8%	19.6%	19.4%			
	100,000	13.7%	12.6%	100,000	20.4%	20.0%	19.6%	19.2%	18.9%	18.6%			
Lovorago	150,000	13.3%	12.2%	150,000	20.4%	19.8%	19.2%	18.7%	18.2%	17.8%			
Leverage	200,000	12.9%	11.8%	200,000	20.4%	19.6%	18.9%	18.2%	17.6%	17.1%			
	300,000	12.1%	11.1%	300,000	20.4%	19.2%	18.2%	17.3%	16.5%	15.8%			
	400,000	11.5%	10.5%	400,000	20.4%	18.9%	17.6%	16.5%	15.5%	14.7%			

		Ti	er 1 Lever	age (%)				CET 1 Ratio (%)							
	Pre-tax Gain / (Loss)		Ś	Sell Notio	nal (\$mm)			Pre-tax Gain / (Loss) Sell Notional (\$mm)							
_	%	25,000	50,000	75,000	100,000	125,000	150,000	%	25,000	50,000	75,000	100,000	125,000	15	
	-5%	14.6%	14.6%	14.5%	14.5%	14.4%	14.3%	-5%	20.3%	20.2%	20.1%	20.0%	19.9%	1	
	-10%	14.6%	14.5%	14.3%	14.2%	14.1%	14.0%	-10%	20.2%	20.0%	19.8%	19.6%	19.4%	1	
	-15%	14.5%	14.3%	14.2%	14.0%	13.8%	13.6%	-15%	20.1%	19.8%	19.5%	19.2%	18.9%	1	
	-20%	14.5%	14.2%	14.0%	13.7%	13.5%	13.3%	-20%	20.0%	19.6%	19.2%	18.8%	18.4%	1	
	-25%	14.4%	14.1%	13.8%	13.5%	13.2%	12.9%	-25%	19.9%	19.4%	18.9%	18.4%	18.0%	1	

			Share Buy	Back		
	Shares Ou	itstanding				
	%	#	Earnings per Share	CET 1 Ratio (%)	Tier 1 Leverage (%)	TCE / TA (%)
	2%	67,489	5.59	20.0%	14.5%	13.3%
Share	4%	134,979	5.67	19.7%	14.3%	13.1%
Buyback	6%	202,468	5.76	19.4%	14.1%	12.9%
	8%	269,957	5.84	19.1%	13.9%	12.7%
	10%	337,447	5.94	18.7%	13.7%	12.5%

Low0.00%Low - Moderate1.00%Moderate2.50%Moderate - High4.00%High5.00%

**Risk Rating** 



**Capital Risk Buffer** 



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Asset

Sale-Leaseback



### Sale-Leaseback Transaction (SLB)

A sale-leaseback opportunity is available for depositories that own branches and other properties (headquarters, operation centers, loan production offices). In this transaction, a third party purchases real estate from the depository and the depository enters into a long-term lease agreement to occupy these branches and/or properties. Stifel has several referral partners that can provide a turnkey sale-leaseback transaction.

- New FASB Lease Accounting Rules (2022) allow a gain to be recognized upon the closing of the transaction as opposed to spreading the gain recognition over the term of the lease.
- The timing of a sale-leaseback transaction is compelling as real estate values remain attractive and capitalization rates are still historically low.
- The one-time gain can also be used to offset the impact of restructuring a securities portfolio and/or loan book in order to accelerate the benefit of rising interest rates.

#### Pros

#### **Relative Value**

• While front end Treasury rates have increased ~450bps over the last 24 months, cap rates have only moved a fraction over same time period.

#### **Capital Creation**

• Gain on properties flow through net income to top of equity stack (CET1, Tier 1 Capital, Risk Based, etc.).

#### **Removes Non-Earning Assets**

 While SLB unlocks gains on balance sheet that provides opportunity for restructuring, SLB turns non-earning assets into earning assets through cash proceeds and creates liquidity and capital for the institution.

### Cons

#### **Lease Commitments**

- Must own real estate assets
- Typically lease structures range from 14 to 17 years, creating a fixed cost
- However, balance sheet restructuring opportunities can offset new non-interest costs that would allow institutions to continue to grow and enhance balance sheet efficiency

#### **Operational Efforts**

• Gathering documentation and legal work on properties, i.e., environmental studies, title work, legal review, etc.



# **Sale-Leaseback Transaction:** Smaller Balance Sheet Summary of Strategies

- The grid to the right shows the pro forma bal sale-lease total \$18
- Enter into . \$2mm ex \$250k an balance s
- Net Incor to after sa below

forma balance sheet impacts sale-leaseback of properties total \$18mm purchase price	s after with a			After Sale-L	easeback	-Offset \$14 -100% S	Imm Gain with - Maximize NII ecurities Reinv	Bond Sales /estment	-Offset \$14	Imm Gain with E - Maximize NII einvest + \$100n	ond Sales nm Delever
• Enter into a long term lease	with		Current Balance Sheet	Pro Forma	Chg	Pro Forma	Chg after Sale Leaseback	Total Change	Pro Forma	Chg after Sale- Leaseback	Total Change
\$2mm expense per year but	remove	Impact on Earnings									
\$250k annual depreciation f	rom	Net Interest Income	116,697	117,642 🔻	945	120,782	3,140	4,085	121,182	3,540	4,485
balance sheet		NIM	3.15%	3.16%	0.01%	3.26%	0.09%	0.10%	3.35%	0.19%	0.20%
		Pre Tax Income	59,384	58,579	(805)	61,719	3,140	2,335	62,119	3,540	2,735
Net Income change from too	lav's h/s	Net Income	46,914	46,278	(636)	48,758	2,480	1,844	49,074	2,796	2,160
to offer cale leaseback break	davia	ROAA	1.19%	1.16%	-0.03%	1.23%	0.07%	0.04%	1.27%	0.10%	0.08%
	aown	ROAE	11.94%	11.46%	-0.48%	12.07%	0.61%	0.13%	12.15%	0.69%	0.21%
below		EPS	3.23	3.19	(0.04)	3.36	0.17	0.13	3.38	0.19	0.15
		Impact on Capital				10.000/	0.070/				0.070/
			17.05%	11.26%	0.21%	10.99%	-0.27%	-0.06%	11.30%	0.04%	0.25%
Interest Income		Tangible Equity Ratio	9.44%	9.67%	0.23%	9.67%	0.00%	0.23%	9.95%	0.28%	0.51%
Yield on Cash (5.25%) (Pre tax)	945 (		9.44%	9.67%	0.23%	9.67%	0.00%	0.23%	9.95%	0.28%	0.51%
Yield on Cash (Post Tax)	747		Current	D	<b>2</b>	Due	<b>F</b>	~	Dur	<b>F</b>	a
Non Interest Expense			Securities	Pro Forma	Cng	Pro	Forma	Cng	Pro	Forma	Cng
	(2,000)	Total Securities Portfolio									
Depresiation Perceved	(2,000)	Portfolio Balance	1,392,535			1,38	83,455	(9,080)	1,2	83,455	(109,080)
	250	Bk Yield	5.22			5	5.50	0.28	Ę	5.54	0.32
Iotal	(1,750)	Securities Sold				19	7,311		19	7,311	
Total Operating Expense (Post Tax)	(1,383)	Bk Yield				3	3.10		3	3.10	
Total Net Income	(636)	Securities Purchased				18	8,231		88	3,231	
	(000)	Bk Yield				5	5.00		Ę	5.00	
		Pretax Gain / (Loss)		14,000		(14	1,000)		(14	4,000)	
		Gain / (Loss)		11,060		(11	.060)		(11	1,060)	

Strategy:

1

#### **Portfolio/Balance Sheet Restructure**

- Total proceeds from sale-leaseback generate \$18MM in cash that is reflected to earn 5.25% over next twelve months (\$950k NII increase before • portfolio restructure)
- Strategies 1 and 2 sell securities from investment portfolio to offset gain generated by sale-leaseback transaction, with strategy 1 reinvesting all bond ٠ sale proceeds back into the securities book and strategy 2 using \$100mm of proceeds to paydown short term funding with 5.40% cost



2

# Public Bank Sale-Leaseback Disclosures

Company	Ticker	Trade Date	Total Assets (\$M)	Region	# of Properties Sold	Pre-Tax Gain (\$M)	Asset Restructure?
FINANCIAL PARTNERS	PNFP	2Q 2023	\$48,894	Southeast	51	92.8	Yes - Sold \$166mm Securities at 9.2mm loss
Atlantic Union Bank	AUB	3Q 2023	\$21,381	Southeast	25	27.9	Yes - Sold \$228mm Securities at 27.7mm loss
SIERRA BANCORP Parent Company for Bank of the Sierra	BSRR	4Q 2023	\$3,553	West	13	15.3	Yes - Sold \$197mm Securities at 24.5mm loss
The Citizens Bank	CIZN	1Q 2024	\$1,471	Southeast	3	4.5	Yes - Sold Securities at 1.6mm loss
PLUMAS BANK	PLBC	1Q 2024	\$1,642	West	9	19.8	Yes - Sold \$115mm Securities at 19.8mm loss
Peoples Bank	FNWD	1Q 2024	\$2,071	Midwest	5	11.8	Yes - Sold \$15mm Securities at 500k loss
FIRST SEACOAST	FSEA	2Q 2024	\$576	Northeast	5	2.5	N/A
<b>Fulton Bank</b>	FULT	2Q 2024	\$31,770	Midwest	40	20.3	Yes - Sold \$356mm Securities at 20.3mm loss
FIRST GUARANTY BANK	FGBI	2Q 2024	\$3,556	Southeast	3	13.2	N/A
📚 First Fed	FNWB	2Q 2024	\$2,220	Northwest	6	7.8	Yes - Sold \$23.2mm Securities at 2.1mm loss
Cib marine BANCSHARES INC	СІВН	2Q 2024	\$820	Midwest	3	4.5	N/A
SouthState	SSB	1Q 2025	\$46,381	Southeast	170	225	Yes- Intentions to Sell Securities in 1Q



# **CRE Optimization**



### What is CRE Ratio Optimization?

- A bank sells pool of loans to outside investor for cash, achieving true sale treatment and removal from balance sheet.
- Investor creates SPV and places purchased loan pool inside SPV.
- Bank would lend SPV majority of notional sold to investor (i.e., seller financing).
- Bank would treat new (senior) loan to SPV as securitization exposure and use SSFA calculation for risk weighting purposes.
   Given targeted equity injection from investor, SSFA would result in 20% risk weight on new loan<sup>1</sup>.

### What is the difference compared to a Credit Risk Transfer?

- Loan sale of individual/pool of loans or a flow program removes assets from balance sheet. If those are CRE loans, this
  improves certain metrics including 300% commercial real estate to total risk based capital ratio. Conversely, for a Credit Risk
  Transfer, the reference pool stays on balance sheet and has no impact on CRE/TRBC ratio.
- CRE Ratio Optimization provides liquidity day one for institution where Credit Risk Transfer provides no balance sheet liquidity (CDS version).
- Selling pool of loans to investors incurs mark to market recognition of loans sold, potentially creating a gain/loss event depending on terms of sale whereas Credit Risk Transfer that has no mark to market event day one.
- The ultimate cost to bank and return to investor prices similarly between CRE Ratio Optimization vs Credit Risk Transfer with CRE Ratio Optimization providing liquidity day one and immediately reducing CRE/TRBC ratio if loan pool sold is CRE.

### **Other Considerations**

- Loans sold can be servicing retained or servicing released.
- In the scenario where bank lends to outside investor to fund purchase, legal lending limits should be considered for loan exposure (mitigated by potentially using multiple SPVs).
- Deferred fees and expenses would be realized at time of sale and CECL allowance would have to be recalculated.



### **CRE Ratio Optimization**

Bank sells pool of CRE loans to outside investor for true sale and deconsolidation treatment. Investor places CRE loan pool in Special Purpose Vehicle (SPV). Bank lends SPV 87.5% of CRE pool market value and treats new C&I loan exposure as securitization, therefore using SSFA for risk weight calculation.



# **CRE Ratio Optimization (CRO): Sample Walkthrough**

Bank sells pool of CRE loans vielding 7 15% to outside investor for cash (assumed 4.50% vield) at gain/loss neutral.

Bank reduces CRE/TRBC ratio to below 300% after CRE loan pool is removed from balance sheet.

Bank lends 87.5% of loan pool market value sold to newly created SPV and elects SSFA for risk weight calculation (assumes loan to SPV falls under securitization exposure).

**Capital Ratio Impact** 

CET1

RWA

**Tier 1 Capital** 

**Total Capital** 

Tier 1 Lev Ratio

CET1 RBC Ratio

Tier 1 RBC Ratio

Total RBC Ratio

**CRE/ TRBC Ratio** 

Earnings Impact (000's)

Net Interest Income

EPS % Chg (Annual)

1.

Net Income

EPS (Annual)

NIM %

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2. Assumes 4.50% Yield on Cash Proceeds from Loan Sale Transaction

3. Assumes Bank treats loan to SPV as securitization exposure and assumes 20% RW through SSFA calculation "HOUSTON – April 7, 2025 – Third Coast Bank, a Texas banking association (the "Bank") and a wholly owned bank subsidiary of Third Coast Bancshares, Inc. (NASDAQ: TCBX) (the "Company," "we" or "our"), today announced that, on April 1, 2025, it originated a \$200 million revolving commercial real estate loan (the "Mortgage Loan") made to one of America's largest private investment firms focused on real estate development. The Mortgage Loan is secured by interests in a portfolio of eleven Residential Master Planned Communities under development located in the Houston, Dallas and Austin metropolitan areas in the State of Texas. EJF Capital LLC ("EJF Capital"), a global alternative asset management firm with approximately \$5.4 billion assets under management as of December 31, 2024, arranged the securitization transaction described below.

Following the origination of the Mortgage Loan on April 1, 2025, the Bank created participation interests in the Mortgage Loan, one of which was sold to EJF CRT 2025-1 Depositor LLC (the "Depositor"), who subsequently sold that participation interest to EJF CRT 2025-1 LLC (the "Issuer"). The Bank retained the participation interests not sold to the Depositor. The Issuer pledged its participation interests, representing the Issuer's *pro rata* economic interest in the Mortgage Loan, to U.S. Bank Trust Company, National Association (the "Indenture Trustee"), pursuant to an Indenture, and issued its Asset-Backed Notes, Series 2025-1, consisting of Class A-1 Notes and Class M-1 Notes. The Issuer sold the Class A-1 Notes to the Bank and certain of the Class M-1 Notes to affiliates of the Depositor on April 1, 2025. EJF Financial Debt Strategies GP LLC (the "Sponsor"), an affiliate of EJF Capital, owns 100% of the equity interests in the Depositor or the Issuer. The Bank is not affiliated with the Sponsor, the Depositor or the Issuer.

It is expected that these transactions will reduce the Bank's risk-weighted assets as calculated under current risk-based capital rules. It is also expected that these transactions will reduce the ratio of loans for construction, land development and other land to the Bank's total capital, a measure used by the Bank's regulators to inform their supervisory approach to possible loan concentration risk. The Company believes these transactions improve the diversity of the Bank's on-balance sheet loan portfolio." Third Coast Bancshares (TCBX) 2Q25 8k



# Mortgage Warehouse Risk Weighting



### Using SPV structure for lower risk weight

- A typical mortgage warehouse facility involves facing a mortgage originator directly, i.e., providing liquidity to unaffiliated mortgage originator through purchasing loans at a discount and selling back to originator at a certain date or extending credit through revolving credit facility and taking mortgage note as collateral.
- Instead of facing the mortgage originator directly, the bank can enter into a repo agreement or revolving credit facility with a special purchase vehicle/entity as the mortgage originator places participation certificate or loan into this newly created SPV/SPE.
- This alternative structure would contain the key economic attributes of a traditional securitization exposure under regulation Q, allowing the bank to potentially reduce the risk weight associated with the loan exposure using the simplified supervisory formula approach (SSFA).<sup>1</sup>





**Credit Support** 

5.00%

4.50%

4.00%

3.50%

3.00%

2.50%

2.00%

1.50%

1.00%

0.50%

0.00%

### Resulting risk weight with scaling level of credit support

- Assuming 0% delinquency, the sections to the right reflect resulting risk weight output under SSFA calculation with scaling levels of credit support.
- Typical mortgage warehouse facility borrows against mortgage note originated with bank lending at a discount to par.
- If the underlying mortgage note is prudently underwritten (i.e., GSE conforming), SSFA would use a 4.0kg input (underlying 50% RW asset).
- If the underlying mortgage note is non GSE conforming (non-qualified mortgage [QM], etc.), SSFA would use an 8.0kg input (underlying 100% RW asset).

### Example

• Repo agreement/credit facility to mortgage originator with prudently underwritten loan as collateral currently using 100% RW

Underlying 50% Risk Weighted Asset (4.0kg)

Kg

4.00

4.00

4.00

4.00

4.00

4.00

4.00

4.00

4.00

4.00

4.00

**Resulting Risk** 

Weight

20.0%

- Bank instead faces SPV/SPE where the mortgage note is held and bank lends 98% of current note face (2% credit support)
- Bank treats loan to SPV/SPE as securitization exposure and elects to use SSFA, reducing risk weight from 100% to 51%

20.4%	11.00%	8.00	26.5%	
26.0%	10.00%	8.00	33.7%	
32.4%	9.00%	8.00	42.8%	
38.7%	8.00%	8.00	54.3%	
44.9%	7.00%	8.00	67.2%	
51.0% 🔪	7.50%	8.00	60.8%	
57.1%	6.00%	8.00	79.8%	
63.1%	5.50%	8.00	86.0%	
69.1%	5.00%	8.00	92.1%	
75.0%	4.00%	8.00	104.2%	
	3.00%	8.00	116.0%	
	2.00%	8.00	127.6%	
	1.00%	8.00	138.9%	
	0.00%	8.00	150.0%	
		\ \		

Credit Support

12.50%

Underlying 100% Risk Weighted Asset (8.0kg)

Kg

8.00

**Resulting Risk** 

Weight

20.0%



- Basel III final ruling describes on- and off- balance sheet securitization as:
  - Transaction in which credit risk of one or more underlying exposures has been transferred to one or more third parties
  - The credit risk associated with the underlying exposures has been separated into at least two tranches reflecting different levels of seniority
  - Performance/risk of securitization exposure must depend on performance of underlying exposures
  - Requires all or substantially all of the underlying exposures to be financial exposures
  - The underlying exposures are not owned by an operating company
- The final rule states certain investments and lending activities can fall under the scope of securitization eligibility and exposure including loans, lines of credits and liquidity facilities provided there is a tranching of credit risk

### **TCBI Q4 Earnings Call**

"We continue to manage capital in a proactive and analytically rigorous manner, with near-term capital availability supported by the **implementation** of enhanced credit structures for a portion of our mortgage warehouse facilities, which could result in a subset of that loan portfolio being eligible for reduced risk-weighting....

We also noted in the remarks the potential from increase -- or for increased regulatory capital from enhanced credit structures for a portion of the mortgage warehouse facilities. **That's not enabled through use of an expensive derivative, but instead adjustments to facility structure** which better reflects what clients are used to with large bank counterparties."

### TCBI 2024 10k

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"Loans held for investment includes legal ownership interests in mortgage loans that the Company purchases from unaffiliated mortgage originators, either directly or through a special purpose entity ("SPE") structure, who are seeking additional liquidity to facilitate their ability to originate loans. In the case of an SPE structure, the unaffiliated mortgage originator is responsible for formation of the SPE and ongoing servicing of the underlying mortgage loans, and thus is the primary beneficiary of the SPE. The mortgage originator has no obligation to offer and the Company has no obligation to purchase these interests.....Because the Company has an actual, legal ownership interest in the underlying residential mortgage loan, these interests are reported as extensions of credit to the originators (or SPEs) that are secured by the mortgage loans as collateral."



3. Information confidential and private, for intended audience only and not meant for distribution

"In December 2024, we sold our \$87.1 million Lending Point portfolio, recognizing net charge-offs and provision for credit losses of \$17.3 million on the sale. We also committed to a plan to sell \$371.7 million of our Greensky consumer loan portfolio and recognized net charge-offs and provision for credit losses of \$33.4 million when these loans were transferred to held for sale. **We expect to provide partial financing on the sale with senior secured loans to a special purpose entity with credit subordination and a 20% risk weighting**." Midland States Bancorp (MSBI) 4Q24 Earnings Release



# **Transferable Energy Tax Credits**



### **Renewable Energy Tax Credits Overview**

#### **Energy Tax Credit Transfer Overview:**

- Under the Inflation Reduction Act (IRA), renewable energy tax credits can be \_ transferred to third party for cash, eliminating complex equity partnerships.
- Renewable energy project developers that receive tax credits are incentivized to transfer their credits to profitable institutions and use cash to fund projects.
- **1 year credits** can be purchased and used simultaneously, with no balance sheet impact.
- Credits are typically sold at a discount with pricing in the low-to-mid 90s. reducing \_ cash tax expense by 5-8%, improving bottom line net income and EPS. Can offset up to 75% of tax liability.
- Risk of recapture, disallowance and change in law are typically mitigated through diligence, tax credit insurance, indemnities and guarantees.

**Energy Tax Credit Transfer Process** 

Satisfy full \$10M tax liability. \$700k of cash savings. EPS





**SIIFEL** | Capital Markets

This is not a use of liquidity! It's just using LESS of the **dollars set aside** to pay federal taxes, while still satisfying the full tax liability.

	How is This Different Than "Traditional Tax Equity" and other Tax Credits?						
	LIHTC, NMTC, Historic Tax Credits	Traditional Tax Equity (Energy)	Transferable Tax Credits (Energy)				
Overview	Public welfare investments, often qualify for CRA. Long-term Investments to monetize credit, highly project dependent	Long-term Investments to monetize credit, highly project dependent – depreciation and losses from project flow through to investor	Tax Credits purchased for cash on quarterly or annual basis – "pay as you go"				
Structure	Complex equity partnership	Complex equity partnership	No partnership – "Cash for Credits"				
Investors	All Banks	Large banks (small banks in fund structure)	Banks & Corporations				
Term	5yr, 7yr, & 10yr terms	6-10yr term	1 yr term				
Funding	All Upfront, before credits flow	All Upfront	Variable depending on transaction				
Risks	Project performance, long term mgmt.	Project performance, long term mgmt.	Diligence, tax credit insurance mitigates				
<b>Return Profile</b>	IRR Range: 5-7% (LIHTC, NMTC) 6-8% (HTC)	IRR Range: 15-20%	IRR: Not calculable				
Constraint	Public welfare <sup>1</sup> (5% of Total Capital)	Tax equity finance <sup>1</sup> (5% of Total Capital)	75% of federal liability				
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### **Risk Mitigation**

# As with any tax planning opportunity, there are certain diligence issues that must be addressed and risk mitigation strategies should be considered where necessary.

- There are three key areas of focus in risk mitigation: Disallowance Risk, Recapture Risk and Change in Law.
- Compliance period of 5 years with a 20% reduction each year.
- These risks are addressed through diligence of the tax credit, diligence of counterparties, and through tax credit insurance and guarantees.

Risk Description		Mitigants
Recapture	Buyers are responsible if the tax credits are recaptured or "clawed back" by the IRS. This can happen if the project stops performing, if the underlying asset is damaged or if the project is sold	<ol> <li>Diligence of counterparties</li> <li>Assuring asset has proper casualty policy</li> <li>Reps and warranties of project owner</li> <li>Tax credit insurance</li> <li>Guarantees</li> </ol>
Disallowance	The IRS determines on audit that the tax credit claimed is greater than allowed. Buyers are responsible if the IRS disallows or reduces the amount of credits associated with a project	<ol> <li>Proper diligence of the project will help determine the correct percentage applied to produce the tax credit amount. Legal counsel and third parties can assist with this diligence</li> <li>Tax credit insurance</li> <li>Guarantees</li> </ol>
Change in Law	The Inflation Reduction Act, which has resulted in a renewable energy boom in the United States, could be changed by the Trump Administration and GOP majority Congress	<ol> <li>Historically, changes to law have been prospective rather than retroactive</li> <li>Commercial terms can be built in to mitigate risk</li> <li>Repeal of the IRA is possible but unlikely; it would require Congressional repeal, yet significant IRA investments and jobs are in "red" states         <ul> <li>18 House Republicans requested Clean Energy Credits to stay<sup>1</sup></li> <li>Executive order to review process, BUT repeal of law requires congress</li> </ul> </li> <li>Tax credit insurance that includes Change in Law coverage</li> </ol>







#### **RBB Bancorp**

The higher level of tax credits was due to LIHTCs representing a higher portion of our pre-tax net income and the addition of new tax credits related mostly to commitments to purchase Federal transferable tax credits made available under the Inflation Reduction Act of 2023. The decrease in the effective tax rate for the first nine months of 2024 was due in part to utilizing a higher level of tax credits.

10-Q 2024/11/08

### WSFS bank Wilmington Savings Fund Society FSB

The effective tax rate was 23.9% in 4Q 2024 compared to 24.7% in 3Q 2024 and 31.6% in 4Q 2023. The decrease in effective tax rate for 4Q 2024 compared to 3Q 2024 was primarily driven by lower state taxes and impacts from renewable energy tax credits. The decrease in effective tax rate when compared to 4Q 2023 is attributable to the surrender of BOLI policies mentioned above. The full-year effective tax rate was 24.1% in 2024 compared to 26.3% in 2023. *Press Release 2025/01/27* 



### Northrim BanCorp Inc

In the fourth quarter of 2024, Northrim recorded \$2.4 million in state and federal income tax expense for an effective tax rate of 17.8%, compared to \$2.8 million, or 24.2% in the third quarter of 2024 and \$1.7 million, or 20.7% in the fourth quarter of 2023. For 2024, Northrim recorded \$10.0 million in state and federal income tax expense in 2024 for an effective tax rate of 21.3%, compared to \$6.2 million, or 19.7% in 2023. The decrease in the tax rate in fourth quarter 2024 as compared to the third quarter of 2024 and the fourth quarter of 2023 is primarily the result of increased tax benefits related to the Company's investment in low-income housing tax credits and the purchase of renewable energy tax credits. *Earnings Release 2024Q4* 

### **1ST SECURITY** FS Bancorp

A \$2.5 million provision for income taxes was recorded during the fourth quarter of 2024, compared to a \$420,000 tax benefit during the third quarter of 2024, as a result of \$28.4 million of energy tax credits purchased in third quarter 2024. *Earnings Release January 21, 2025* 



1 Critical initial buver steps 3 5) 6 **Typically** 10-12 weeks 8

**Education:** Discuss transfer market, types of credits, process, benefits, risks, risk mitigation, tax appetite, timing of purchase.

**Internal Alignment:** Alignment/education across CFO/Treasurer/VP Tax/General Counsel/Board if necessary.

**Retain Outside Counsel:** Counsel experienced in renewable energy transactions highly recommended to diligence and paper the transfer transaction.

**Credit Sourcing/Price Discovery:** Based on tax credit appetite, timing, and risk profile, Stifel will source credits.

**Term Sheet:** Stifel, Buyer and Buyer Counsel review available credits and issue term sheet (or mark up term sheet from Seller).

**Diligence:** Upon execution of term sheet, buyer and seller counsel conduct project and tax credit diligence, finalize transfer terms and conditions, negotiate tax credit insurance.

Close: Deal execution.

**Funding:** Can be coincident with Close, or upon later date such as asset placed in service, or quarterly if purchasing Production Tax Credits.



## Carry Back Strategy for Banks with ~\$3M Annual Tax Appetite

- Transfer credit commercial deals typically start at ~\$7-8M minimum •
- If tax credits in current tax year exceed liability, the IRA mandates a three-year • carry back
- Buyers with smaller annual appetite could thus intentionally buy an "oversized" credit in current year and carry back
- All forms of refund claims accrue 4.5% interest within 30-90 days from filing •
- Benefit: Unlocks multiple years tax savings with a single transaction •



IRS Refund Paths	Description	Details/Considerations
Amended Return: Form 1120-X	An 1120-X is the most common amended return type. A corporation must file this within three years after the date the original return was filed, or within two years from the time the tax was paid, whichever is later.	<ol> <li>The IRS has the authority to examine Form 1120X prior to the issuance of a refund. This may include conducting an audit. The processing time is typically unknown; however, IRS's acceptance of the amended return generally closes the matter unless later found to be erroneous.</li> <li>Thus provides more certainty at end of review but takes longer to receive a refund.</li> </ol>
<b>Quick Refund</b> : Form 1139	Form 1139 is used to apply for a quick refund of taxes due to certain carrybacks, such as net operating losses (NOLs) and tax credits. Will result in refund before examination of actual claim.	<ol> <li>Form 1139 must be filed within one year of the end of the tax year in which the NOL or tax credit arose.</li> <li>The IRS is required to process these 1139s and issue a refund within 90 days of receipt.</li> <li>Refund is considered tentative, and the IRS may later adjust the refund if it finds errors.</li> </ol>
<b>Refund for</b> <b>Overpayment of</b> <b>Estimated Taxes</b> : Form 4466	Form 4466 is filed to receive a refund for overpayment of estimated tax. Transfer credit buyers frequently consider this when they purchase credits late in their tax year and have made significant estimated payments prior to transfer purchase.	<ol> <li>Must be filed by original return due date, not including extensions.</li> <li>The overpayment must be at least 10% of the expected tax liability for the year and must exceed \$500.</li> <li>Facts and circumstances driven regarding year in which tax credits will be claimed, taxpayer's estimated payments made during that year, and original due date of return.</li> <li>Interaction with carryback years would require specific strategy.</li> </ol>
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# 2025 Transfer Investment Tax Credit Opportunity: Residential Solar and Battery Storage

#### Summary of Solar & Battery Storage Opportunity

**Opportunity:** Well established Solar & Battery Storage Company is seeking a buyer for a minimum of \$10mm ITCs to support accessible and sustainable home energy solutions

**About the Company**: The Company offers competitive solar + storage power purchase (PPA) agreements created by an engineering, procurement, and construction (EPC) solar company for EPC solar companies. The PPAs are designed to provide clean, reliable and affordable energy for everyone. Its flagship offering, Virtual Power Plant Power Purchase Agreement (VPA), pairs industry-leading virtual power plant (VPP) technology with a purpose-built PPA to provide a superior and affordable solar-plus-storage solution for customers and contractors

**Protection**: Tax Credit Insurance policy from AIG, paid for by Seller, and which Buyer will have the right to review in advance of binding the policy, covering recapture, tax basis, placed in service, invalidity and reduction, 125% liability limit

Project Overview				
Asset Type:	Solar & Battery Storage			
Credit Type	Section 48 ITC Residential Rooftop Solar Fund			
Tax Credits Available:	Minimum \$10M, and \$250M+ Available			
Price (all-in):	\$0.93			
Location:	Texas, California, Puerto Rico			
Payment Terms:	Monthly tranche determined by Placed in Service			
ITC Adders/Types	Energy Communities & Domestic Content			
Basis Step Up:	22 to 27%			
ITC Policy:	AIG - 125% for 10 Yrs (includes adders)			
Insurance:	Included in Price (paid for by Seller)			
<b>Historic Performance:</b>	In Q42024 company delivered on \$50M+ ITCs			

#### How Does the Technology Work?

**The Company's financing model utilizes VPA™** (virtual power plant power purchase agreement) to create a network between solar and battery storage units with the broader grid in order to monitor, forecast, optimize and trade power.

The VPA<sup>™</sup> (virtual power plant power purchase agreement) was created through a partnership with a global leader in energy transition, to offer a financially viable solar + battery solution.

Under a VPA<sup>™</sup>, two revenue streams are created through the sale of solar energy production to the homeowner and grid services revenue generated through the industry leading batteries. Virtual Power Plant services that both support the existing power grid AND provide 65% of the Company's total revenue.

The Company aims to introduce solar and storage to more customer segments, with competitive rates are made possible by the grid services capabilities available to solar + storage customers through the VPA<sup>™</sup>.



VPA<sup>™</sup> creates a partnership between renewable energy and utilities to provide sustainable clean, reliable, and affordable energy



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