

Balance Sheets: Maximizing Benefits and Minimizing Risks for Financial Institutions

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Learning Objectives

- Explore market and peer results to find trends for asset yields, funding costs and NIM.
- Examine peer activity to find analogous challenges and corresponding B/S optimization strategies.
- Discuss capital optimization efforts and lessons recently learned.
- Contrast alternative interest rate risk management strategies to determine appropriateness and relative value.

Peer Analysis

Balance Sheet and Earnings Trends – Conference Attendees vs. Peers

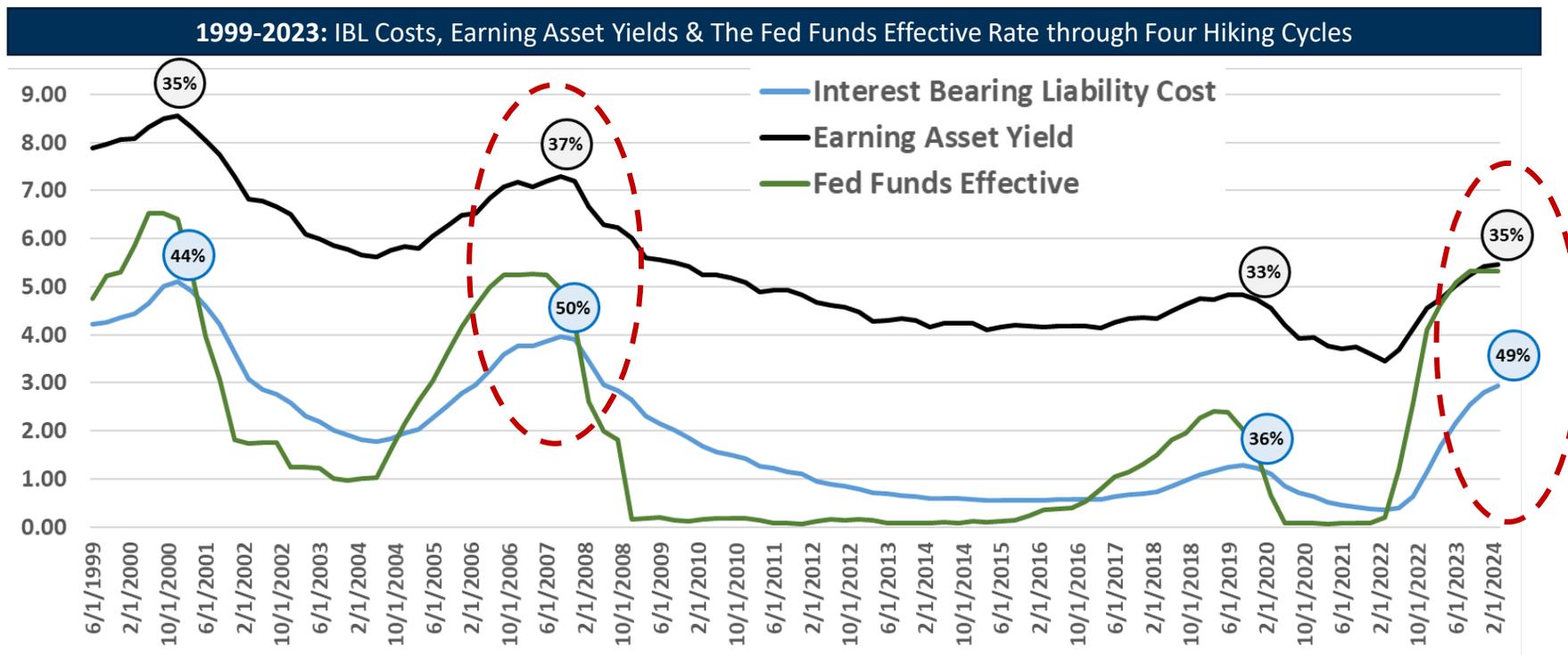
Group	Quarter	Cash / Assets	Borrowings / Liabilities	Loans / Deposits	Yield on Loans	Securities / Assets	Yield on Securities	HTM %	AFS %
Banks: \$100mm to \$10bn	2023Q1	5.27%	2.40%	76.29%	5.30%	21.78%	2.21%	0.0%	100.0%
	2023Q2	4.82%	3.69%	78.71%	5.60%	20.86%	2.26%	0.0%	100.0%
	2023Q3	4.89%	3.81%	79.85%	5.84%	19.93%	2.30%	0.0%	100.0%
	2023Q4	5.04%	4.01%	80.76%	6.01%	19.90%	2.39%	0.0%	100.0%
	2024Q1	5.63%	3.54%	80.31%	6.09%	19.18%	2.45%	0.0%	100.0%
Berry Dunn Attendees	2023Q1	3.27%	7.57%	94.00%	4.59%	15.20%	2.32%	2.0%	98.0%
	2023Q2	3.51%	10.28%	97.09%	4.76%	14.39%	2.34%	2.0%	98.0%
	2023Q3	3.47%	9.87%	97.23%	4.95%	13.68%	2.35%	2.1%	97.9%
	2023Q4	3.40%	10.89%	98.95%	5.10%	14.03%	2.47%	2.1%	97.9%
	2024Q1	3.28%	11.41%	99.32%	5.11%	13.72%	2.52%	2.1%	97.9%

Group	Quarter	Net Interest Margin	Efficiency Ratio	ROAA	ROAE	Cost of Funds	Cost of Int-bearing Deposits (%)	Nonint-bear Dep/ Deposits (%)
Banks: \$100mm to \$10bn	2023Q1	3.40%	63.74%	1.06%	11.99%	0.99%	1.23%	24.33%
	2023Q2	3.34%	65.19%	1.01%	11.47%	1.35%	1.67%	23.94%
	2023Q3	3.31%	65.59%	0.97%	11.38%	1.66%	2.01%	23.34%
	2023Q4	3.29%	67.53%	0.90%	10.00%	1.88%	2.30%	22.78%
	2024Q1	3.21%	67.74%	0.89%	9.84%	2.02%	2.46%	21.81%
Berry Dunn Attendees	2023Q1	3.20%	75.27%	0.71%	7.64%	1.03%	1.10%	21.84%
	2023Q2	3.01%	78.31%	0.65%	6.82%	1.41%	1.51%	21.32%
	2023Q3	2.95%	79.25%	0.50%	5.81%	1.66%	1.79%	21.05%
	2023Q4	2.94%	78.01%	0.54%	5.62%	1.86%	1.99%	19.84%
	2024Q1	2.81%	83.31%	0.63%	6.27%	2.00%	2.15%	19.21%

Group	Quarter	Leverage Ratio	Tier 1 Common Capital (CET1)	Tier 1 Capital	Total Capital	TCE/TA
Banks: \$100mm to \$10bn	2023Q1	10.25%	13.95%	13.97%	15.07%	8.70%
	2023Q2	10.37%	13.92%	13.94%	15.07%	8.65%
	2023Q3	10.46%	13.91%	13.94%	15.01%	8.50%
	2023Q4	10.42%	13.82%	13.83%	14.93%	8.92%
	2024Q1	10.40%	13.91%	13.92%	14.99%	8.96%
Berry Dunn Attendees	2023Q1	10.81%	14.23%	14.23%	15.32%	9.32%
	2023Q2	10.76%	14.17%	14.17%	15.24%	9.19%
	2023Q3	10.69%	14.19%	14.19%	15.24%	8.82%
	2023Q4	10.73%	14.18%	14.18%	15.24%	9.37%
	2024Q1	10.80%	14.21%	14.21%	15.23%	9.32%

Historical Asset & Liability Betas: *Where Do We Go From Here?*

- The chart below illustrates the relationship between Interest-Bearing Liability Costs (blue), Earning Asset Betas (black) and the Fed Funds Effective Rate (green). Below are the cumulative betas for each of the last four hiking cycles for banks \$500M to \$10B in Total Assets.



Change in Federal Funds Rate	1999-2000	2004-2007	2016-2019	2022-2024Q1
Starting FF Rate	4.76	1.03	0.40	0.08
Ending FF Rate	6.52	5.25	2.38	5.33
Δ FF Rate	1.76	4.22	1.98	5.25

Change in Liability Costs	1999-2000	2004-2007	2016-2019	2022-2024Q1
Starting IBL Cost	4.23	1.78	0.58	0.38
Ending IBL Cost	5.00	3.87	1.29	2.94
Δ IBL Cost	0.77	2.10	0.70	2.56
Interest Bearing Liability Beta	44%	50%	36%	49%

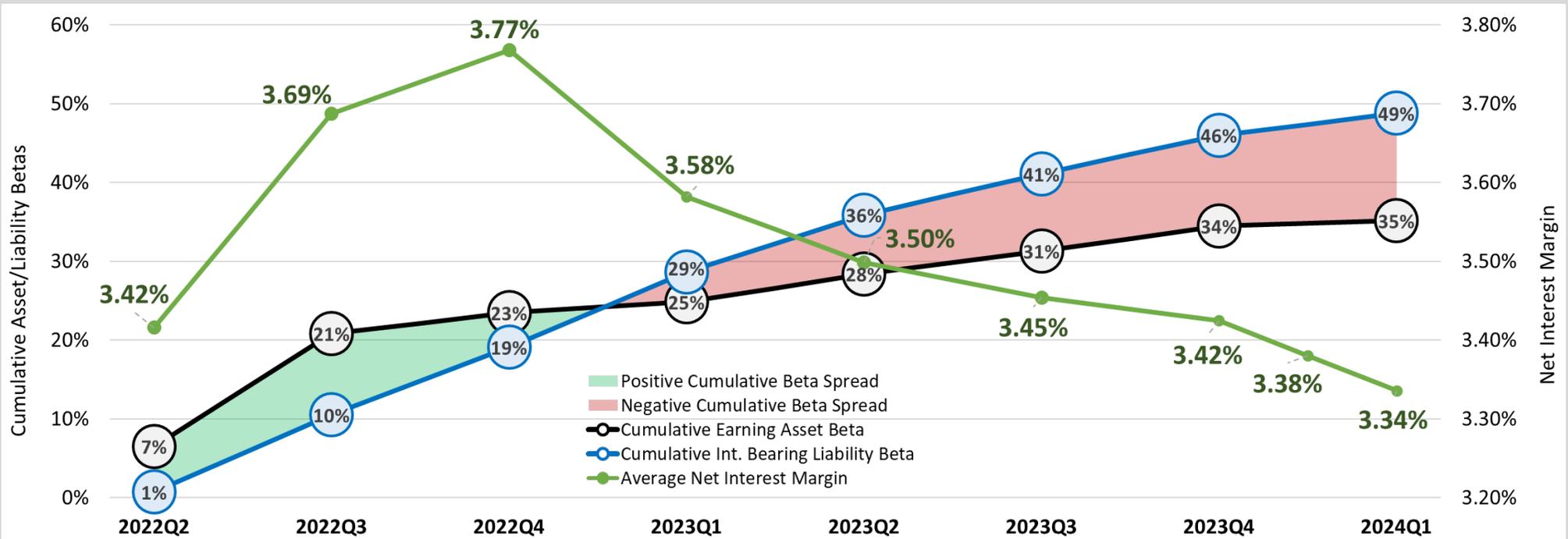
Change in Earning Asset Yield	1999-2000	2004-2007	2016-2019	2022-2024Q1
Starting Earning Asset Yield	7.88	5.62	4.19	3.61
Ending Earning Asset Yield	8.49	7.20	4.84	5.46
Δ Earning Asset Yield	0.61	1.58	0.65	1.84
Earning Asset Yield Beta	35%	37%	33%	35%

Peer Net Interest Margin & Cumulative Earning Asset/Interest Bearing Liability Betas

The data below represents all commercial banks with total assets between \$500M and \$10bn, highlighting cumulative earning asset betas, cumulative interest bearing liability betas, and the Net Interest Margin as of each quarter this cycle.

NIM and Cumulative Asset & Liability Betas (based on median earning asset yields & median interest bearing liability costs)

A peak in NIMs as of 2022Q4 is a result of the crossover between cumulative earning asset betas and cumulative interest bearing liability betas, where spread is currently -14%.



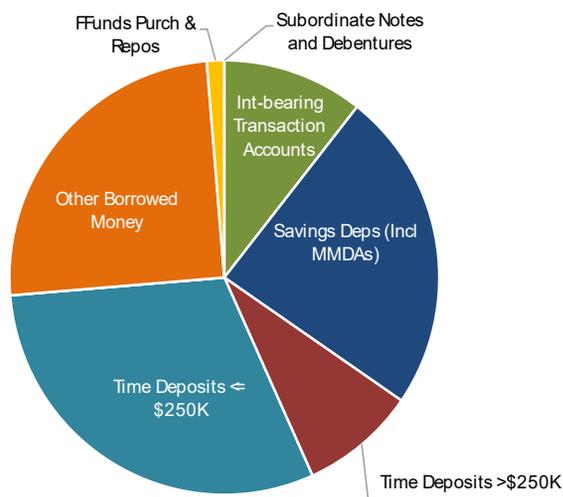
	2022Q2	2022Q3	2022Q4	2023Q1	2023Q2	2023Q3	2023Q4	2024Q1
Fed Funds Rate	1.21%	2.56%	4.10%	4.65%	5.08%	5.33%	5.33%	5.33%
Average Earning Asset Yield	3.69%	4.13%	4.55%	4.75%	5.03%	5.25%	5.42%	5.46%
Cumulative Earning Asset Beta	7%	21%	23%	25%	28%	31%	34%	35%
Average Interest Bearing Liability Cost	0.39%	0.64%	1.15%	1.69%	2.18%	2.54%	2.80%	2.94%
Cumulative Interest Bearing Liability Beta	1%	10%	19%	29%	36%	41%	46%	49%
Spread between Asset & Liability Betas	6%	10%	4%	-4%	-8%	-10%	-12%	-14%
Average Net Interest Margin	3.42%	3.69%	3.77%	3.58%	3.50%	3.45%	3.42%	3.34%

Cost of Funds Breakdown

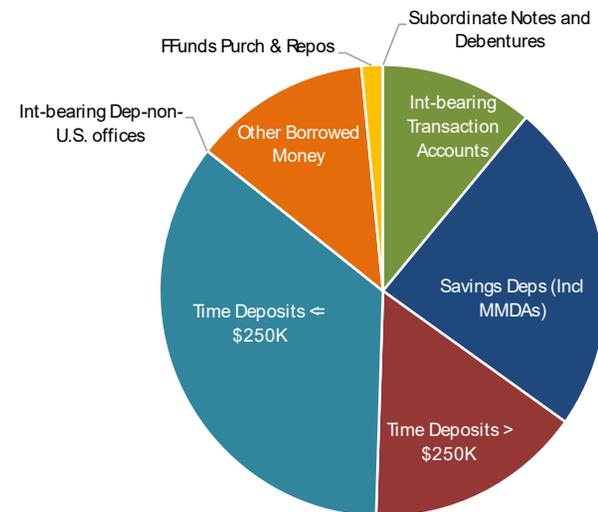
The below tables and charts break down the cost of funds components for Berry Dunn bank attendees versus a set of peers

Cost of Funds Summary		Int-bearing Transaction Accounts	Savings Deps (Incl MMDAs)	Time Deposits > \$250K	Time Deposits ≤ \$250K	Int-bearing Dep-non-U.S. offices	Other Borrowed Money	FFunds Purch & Repos	Subordinate Notes and Debentures	Noninterest-bearing	Total Cost of Funds
Cost Breakdown (%)	Berry Dunn Attendees	1.16%	1.44%	4.09%	3.78%	0.00%	5.11%	2.47%	0.00%	0.00%	2.00%
	All Banks: \$100mm to \$10bn	1.40%	1.70%	4.12%	3.78%	1.42%	5.57%	4.58%	5.83%	0.00%	2.08%
	<i>Difference</i>	<i>-0.24%</i>	<i>-0.25%</i>	<i>-0.02%</i>	<i>0.01%</i>	<i>-1.42%</i>	<i>-0.46%</i>	<i>-2.11%</i>	<i>-5.83%</i>	<i>0.00%</i>	<i>-0.08%</i>
% of Total Avg IB Liab + Avg NIB Dep	Berry Dunn Attendees	18%	33%	4%	16%	0%	10%	1%	0%	17%	100%
	All Banks: \$100mm to \$10bn	16%	29%	8%	19%	0%	5%	1%	0%	22%	100%
	<i>Difference</i>	<i>2%</i>	<i>4%</i>	<i>-4%</i>	<i>-3%</i>	<i>-0%</i>	<i>5%</i>	<i>0%</i>	<i>-0%</i>	<i>-4%</i>	<i>0%</i>
Bps of Cost of Funds Contribution	Berry Dunn Attendees	0.21%	0.48%	0.17%	0.61%	0.00%	0.50%	0.03%	0.00%	0.00%	2.00%
	All Banks: \$100mm to \$10bn	0.23%	0.49%	0.33%	0.73%	0.00%	0.27%	0.03%	0.00%	0.00%	2.08%
	<i>Difference</i>	<i>-0.02%</i>	<i>-0.01%</i>	<i>-0.15%</i>	<i>-0.12%</i>	<i>-0.00%</i>	<i>0.23%</i>	<i>-0.01%</i>	<i>-0.00%</i>	<i>0.00%</i>	<i>-0.08%</i>
% of Cost of Funds	Berry Dunn Attendees	11%	24%	9%	30%	0%	25%	1%	0%	0%	100%
	All Banks: \$100mm to \$10bn	11%	24%	16%	35%	0%	13%	2%	0%	0%	100%
	<i>Difference</i>	<i>-0%</i>	<i>0%</i>	<i>-7%</i>	<i>-5%</i>	<i>-0%</i>	<i>12%</i>	<i>-0%</i>	<i>-0%</i>	<i>0%</i>	<i>0%</i>

Berry Dunn Attendees Cost of Funds Composition



All Banks: \$100mm to \$10bn Cost of Funds Composition



Usage of Capital

Modeling Alternative Uses of Capital: Performance Metrics

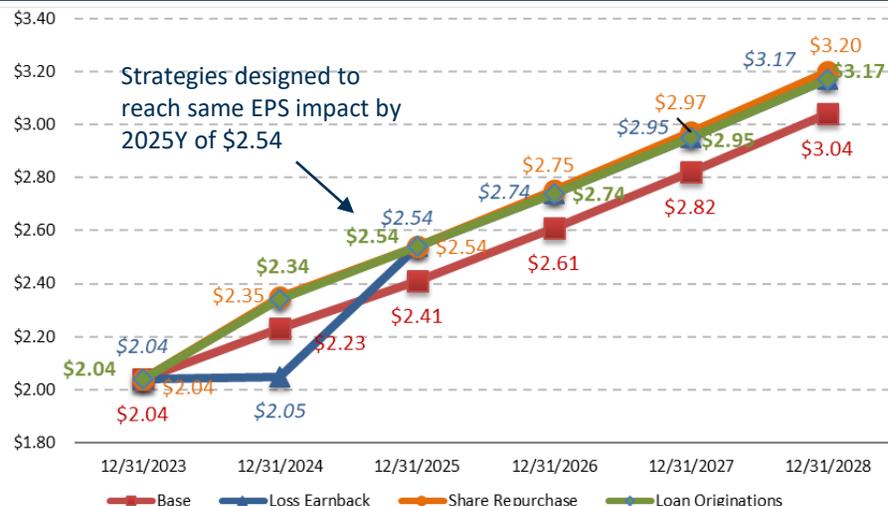
- **Question:** How can we compare the loss earnback to other uses of capital?
- Using our Balance Sheet & Earnings Projection model, we explore three strategies of capital utilization on a Sample Bank Base Case:
 - Sample Bank has \$2Bn Total Assets, 20% Securities/Assets, 76% Loans/Deposits, Leverage Ratio 10%, TCE/TA 8.6%, Total Risk Based Capital 13%. Loan and Deposit growth of 5% annually from 2024-2028.

Performance Metrics

- The **“Base Case”** shows performance metrics improving steadily over the next five years in a static rate environment.
- 1) In addition to the Base Case, the **“Loss Earnback”** explores a \$60mm security sale in 2024Q1 at an 8% loss, 50% of proceeds used to pay down high cost funding at -2.50% spread, 50% of proceeds used to originate loans at a 4.50% spread over securities sold.
 - *Result: EPS hit in 2024, increase over Base Case of \$0.13 by 2025. Accretive to TBVPS immediately*
 - 2) In addition to the Base Case, the **“Share Repurchase”** explores a 6% share buyback in 2024Q1 to match 2025Y EPS from loss earnback.
 - *Result: Immediately accretive to EPS, Decline in TBVPS earned back in 4yrs*
 - 3) In addition to the Base Case, the **“Loan Originations”** explores a \$80mm original strategy funded with borrowings at an assumed spread of 2.50% in 2024Q1 to match 2025Y EPS from loss earnback.
 - *Result: Immediately accretive to EPS, Immediately accretive to TBVPS*

Key Takeaway: With all strategies equally accretive to EPS, the loss earnback stands out as most accretive to TBVPS.

Earnings per Share (EPS)



Tangible Book Value per Share (TBVPS)



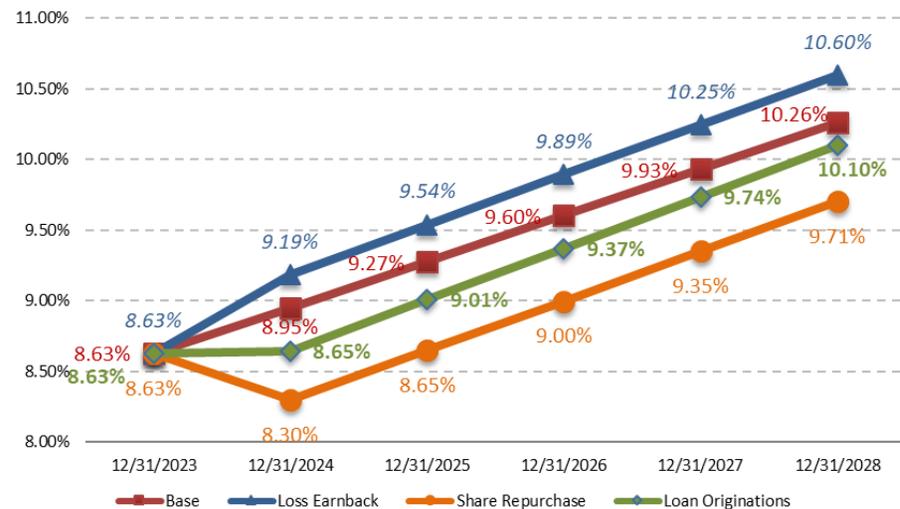
Modeling Alternative Uses of Capital: Capital Impacts

Capital Impact

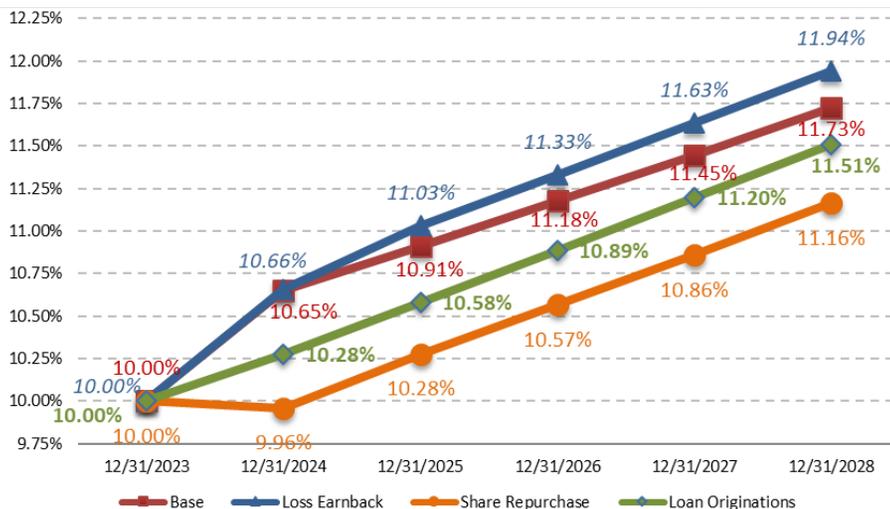
- The **“Base Case”** shows capital growing steadily over the next five years in a static rate environment.
- The **“Loss Earnback”** shows immediate improvement to TCE/TA as the loss is already included. Leverage Ratio is maintained in Year 1 due to the deleverage, and improves going forward due to the improved earnings. Total Risk Based Capital ratio is diluted due to the one-time loss and 100% Risk Weight loans made as 50% of use of proceeds, but is earned back in 5 years.
 - The **“Share Repurchase”** is most dilutive to all capital ratios, as equity is reduced by \$15mm when shares are repurchased.
 - The **“Loan Originations”** also dilutes all capital ratios, as the balance sheet increased by \$80mm and loans are made with 100% Risk Weight.

Key Takeaway: Loss Earnback is the most efficient use of capital as the only strategy to immediately improve or quickly earn it back.

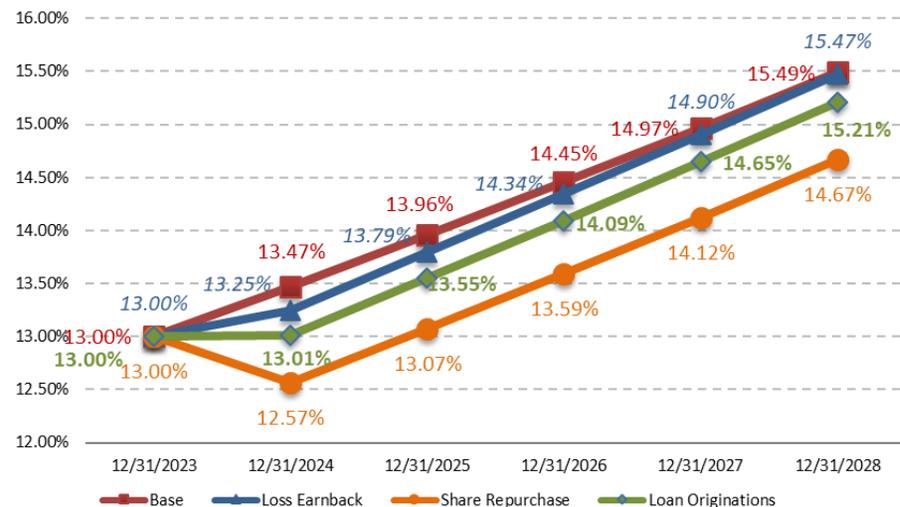
TCE/TA



Leverage



Total Risk Based Capital

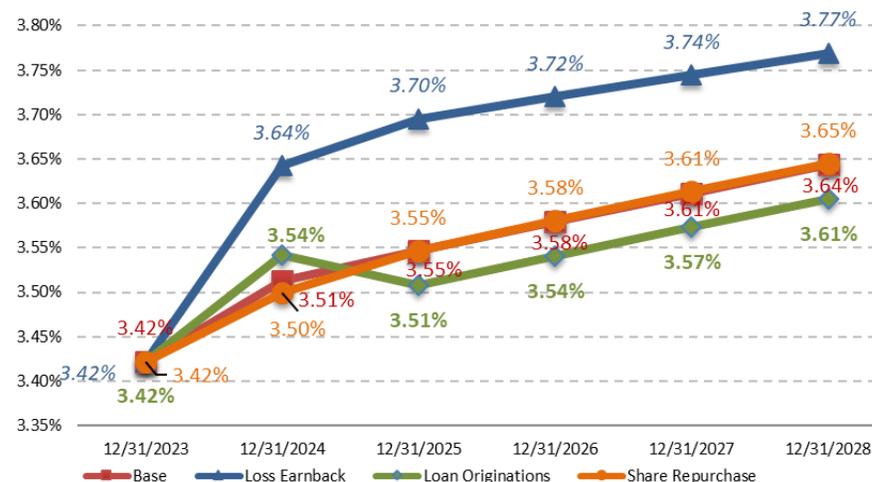


Modeling Alternative Uses of Capital: Earnings Metrics

Earnings Metrics

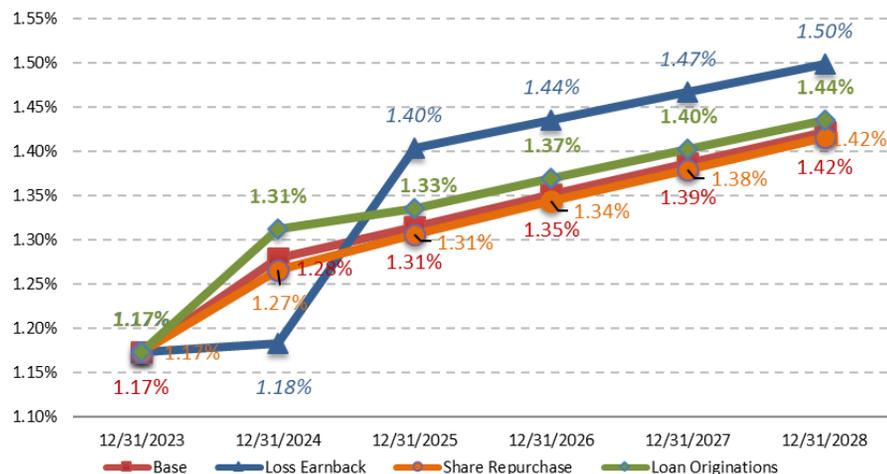
- The “**Base Case**” shows earnings improving steadily over the next five years in a static rate environment.
- The “**Loss Earnback**” shows a significant “pop” to Net Interest Margin, given a portion of security sale proceeds are used to delever the balance sheet, and run rate is improved on the overall strategy. ROAA and ROATCE also improve after an initial decline in year 1.
 - The “**Share Repurchase**” is neutral to Net Interest Margin and ROAA, but has an outsized improvement to ROATCE as equity (denominator) is reduced in share repurchase.
 - The “**Loan Originations**” initially improves the margin given timing of the originations, but ultimately dilutes the NIM due to \$80mm growth at a 2.50% spread. Both ROAA and ROATCE improve as a result of the strategy.

Net Interest Margin (NIM)

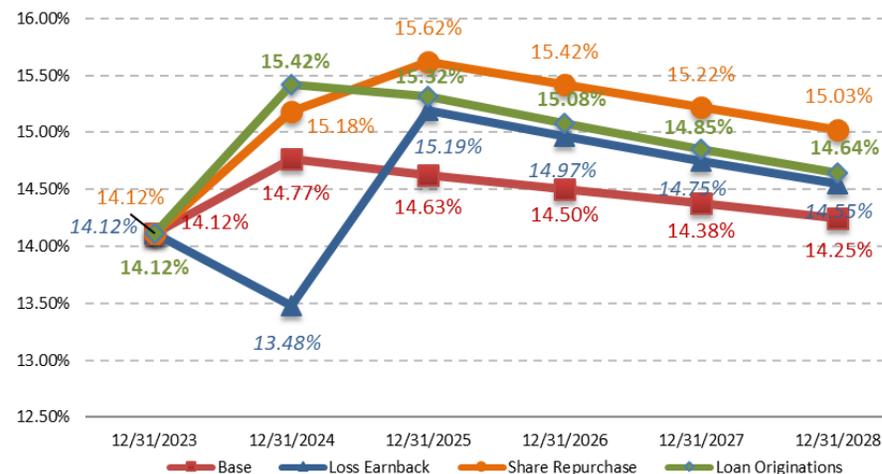


Key Takeaway: Loss Earnback overall provides the most positive impact to go-forward run rate, exhibited in both NIM and ROAA

Return on Average Assets (ROAA)



Return on Average Tangible Common Equity (ROATCE)

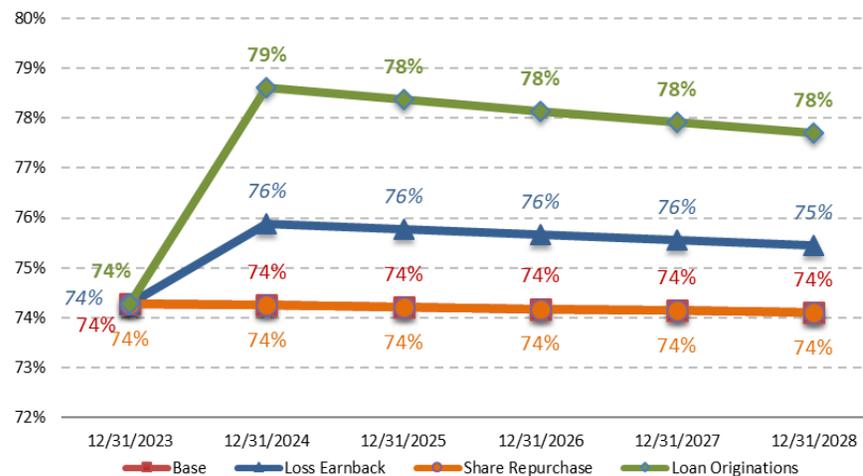


Modeling Alternative Uses of Capital: Liquidity Metrics

Liquidity Metrics

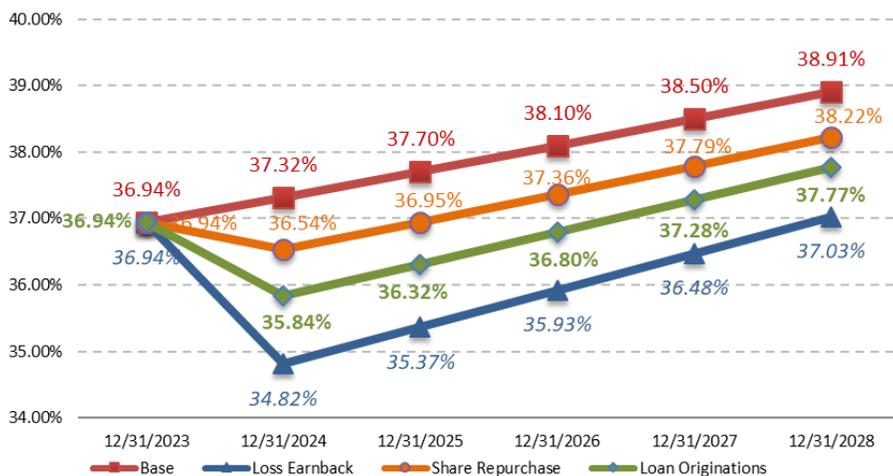
- The **“Base Case”** shows steadily maintained healthy liquidity metrics over the next five years in a static rate environment.
- 1) The **“Loss Earnback”** shows a slight increase to Loans/Deposits, slight decrease in borrowings, but a slight decrease to the liquidity ratio due to the sale of securities.
- 2) The **“Share Repurchase”** has no impact on Loans/Deposits or Borrowings/Assets, and only slightly reduces liquidity given use of cash.
- 3) The **“Loan Originations”** increase both Loans/Deposits and Borrowings/Assets ratios, and dilutes the Liquidity Ratio given the increase in balance sheet.

Loan/Deposit

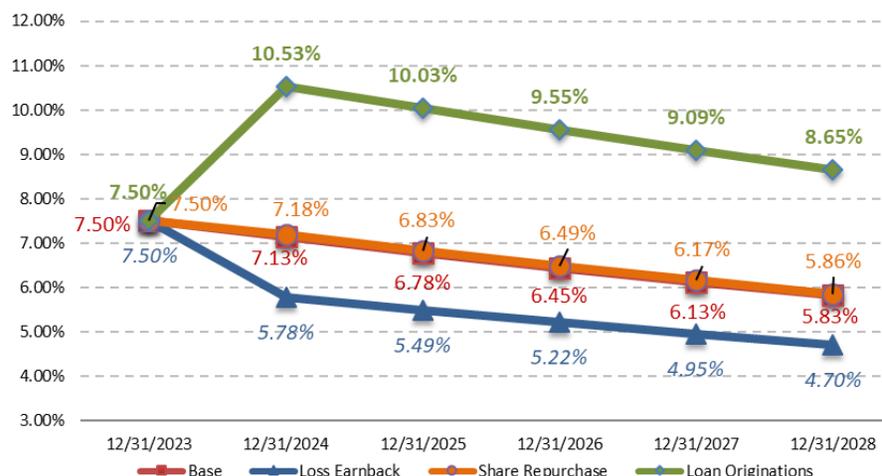


Key Takeaway: Loss Earnback removes high cost borrowings without negatively impacting key liquidity metrics

Liquidity Ratio (Cash + Securities /Liabilities)



Borrowings/Assets Ratio



(1) Assumes 25.0% Effective Tax Rate
 (2) Loans assume 100% Risk Weight
 (3) Price/Tangible Book is 1.4x for Sample Bank

Modeling Alternative Uses of Capital: Key Takeaways

Performance Metrics: While all strategies are equally accretive to EPS, the “**Loss Earnback**” stands out as the most accretive to TBVPS, as the losses are already embedded in Tangible Book. The “**Loan Originations**” strategy is a close second. Note that the “**Share Repurchase**” strategy becomes more attractive as Price/TBV approaches 1.0x.

Capital Metrics: The “**Loss Earnback**” is the only strategy that utilizes capital and earns it back in the time frame shown. All other strategies are dilutive to capital and do not reach an earnback point within the 5 year time horizon.

Earnings Metrics: The only strategy that provides a real boost to the Net Interest Margin is the “**Loss Earnback**”; a partial deleverage helps to provide a significant impact to the NIM. ROAA and ROAE decline in Year 1 due to the one-time 8% loss on sale of securities, but bounce back to be accretive by Year 2. The largest improvement to ROAE is the “**Share Repurchase**” due to the reduction in equity.

Liquidity Metrics: All strategies reduce the liquidity ratio, and either maintain or increase Loan/Deposit ratio. Borrowings are reduced in a partial deleverage from the “**Loss Earnback**”, but increase in the “**Loan Originations**” strategy.

In their most recent earnings call, the management team at Regions Bank was asked about how they think of a securities portfolio restructuring versus alternative uses of capital:

*So we've been analyzing that for quite some time. The shape of the curve matters a lot. We've seen rates come down quite a bit. For a bit of time, it had steepened nicely, and that makes the math on that work out a little better. **The payback periods are a little over 2 years today, and we would think about that in the context of our use of capital for growth in the business or share repurchase and its contribution to EPS and/or the tangible book value.***

And so we think about those uses of capital, the way we think about all the uses of capital across the range of alternatives. And so we'll continue to look at that. It is -- I would say, it is something that we do think makes financial sense. But where the market is, where rates are, and the shape of the curve has a lot of influence on that. - M. Deron Smithy, Executive VP & Treasurer

State of the Industry

Backdrop for Banking Following 1Q24 Earnings Season

Capital is building, NIM appears to be stabilizing, and systemic credit/liquidity concerns are easing.

- TCE for publicly traded small to mid-cap size community banks has increased +44 basis points on a median basis from 1Q23 to 1Q24¹.
- For that same cohort, bank level CET1 has increased +38 basis points and Tier 1 leverage +23 basis points on median basis from 1Q23 to 1Q24².
- There are signs of NIM bottoming in the low 3% area, with a median change of -40bps YoY but only -5bps QoQ¹.
- Despite concerns over certain segments within CRE post-NYCB, credit charges have remained low, with net charge-offs at a median 0.05% level with a median change of +1bp YoY and non-performing assets at a median 0.48% level with a median change of +8bps YoY¹.
- Systemic concerns easing:

Dissipating Systemic Credit Fears Improve Investor Appetite¹

Stable credit results in 1Q24 and commentary thus far have begun to alleviate systemic fears, resulting in the valuation gap narrowing recently. The largest rebound has been seen in the KRX outperforming the S&P500 by 4.6%, while the SRBs and G-SIBs outperformed by 4.3% and 4.6%, respectively.

Quick Comment on Deposit Flows²

H.8 Data – As the deposit narrative continues to unfold, we’re encouraged that balances appear stabilized, with the focus largely shifting back to funding costs vs. absolute deposit balances. Domestic deposits have now fully recovered March losses (to \$16.1T from a low of \$15.8T), with potentially more relief on the way as the market prices in rate cuts through 2H24. That said, we still anticipate a competitive deposit environment, with KBW pointing to just 3% annualized growth in 2024.

1. Absence of Negative Credit Surprises Helped SMID-Cap Banks Outperform SPX: KBW 1Q24 Bank Earnings Wrap-up, KBW Equity Research, 5/3/24
2. Source: S&P Capital IQ, Stifel
3. The KBW Bank Brief — Credit Relief This Quarter Drives Bank Stock Outperformance, KBW Equity Research, 4/28/24

Regional Bank Strategy Overview/Applicability

Strategies Highlighted by Regional Banks in Recent Earnings Reports/Presentations

- Hedging and loss/earnback strategies featured as capital and liquidity management

Institution	1Q24 CET1	Notable 1Q24 Strategies	Size/Detail of Strategy	Clear applicability to SMID/private banks?
 Citizens (\$220bn in Assets)	10.6%	1. Share repurchase	\$300mm	Yes/No
		2. Hedge duration of securities portfolio	\$1.7bn	Yes
		3. Senior debt issuance and auto collateralized issuance	\$1.25bn and \$1bn	No
 FIFTH THIRD BANK \$215bn in Assets	10.4%	1. HTM transfer	23% of AFS, \$12.6bn	Yes
		2. Portfolio reinvestment	\$600-800mm/quarter	Yes
		3. Issued fixed-to-floating debt	\$1bn, 8nc7 structure	No
 Huntington \$194bn in Assets	10.2%	1. Forward starting receive fixed swaps	\$3.5bn, start date around maturity of shorter AFS hedges	Limited
		2. Securities reinvestment	\$3.2bn, reinvesting securities cash flows into short duration HQLA	Yes
		3. Issued fixed rate senior notes and asset-backed notes	\$1.25bn and \$1.5bn	No

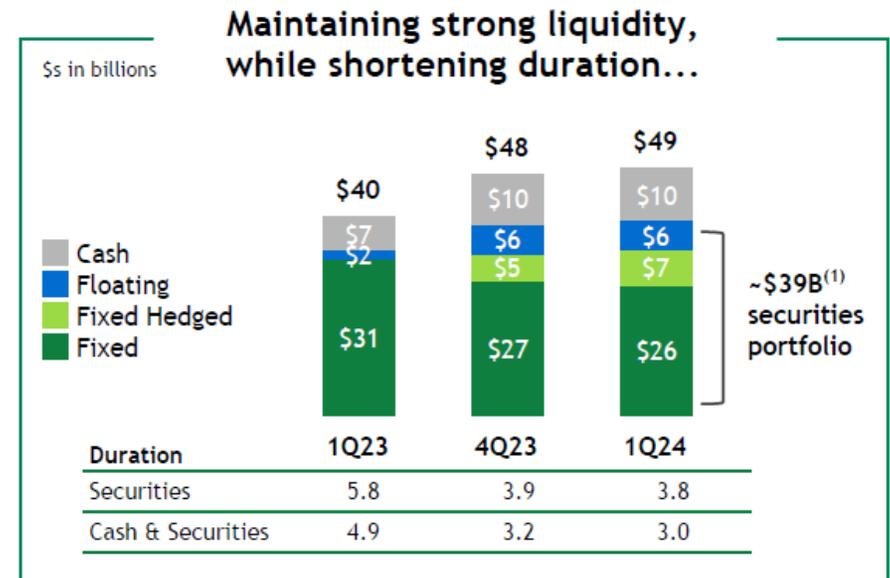
Excerpts from Citizens Financial Group (CFG; \$220bn in Assets), 1Q24 Earnings Transcript and Investor Presentation

John F. Woods, Vice Chairman & CFO

“I would say on the securities side, I'd say there's a couple of objectives being addressed, and it's the interplay between capital and liquidity and interest reserve management. So what we did over the last couple of quarters is we've added \$7 billion of pay-fixed swaps that has paid off quite nicely because of our view that rates were likely to be down, whatever, however many cuts we thought they were at the beginning of the year, 5, 6, 7 cuts, we thought that was probably a little overcooked. And so we put on those pay fixed swaps in part related to that.

But in part related to the multiyear objective to reduce the duration of the securities book given how it will likely be treated from a capital standpoint. And so both of those objectives came into play when we shortened the duration of the securities book, which right now is about 3.8 years. We're likely to continue to shorten the duration book of that securities book over time and get down to something closer to 3 or thereabouts. And so that's really the driver there.”

Investment portfolio management



Investment portfolio strategy

- Maintain strong liquidity profile
 - 120% LCR under Category I Bank rules at 3/31/24
- Continuing actions to reduce portfolio duration and protect capital from rate-related volatility
 - Increased pay-fixed swap portfolio by ~\$1.7 billion during the quarter
 - Outstanding pay-fixed swaps of ~\$7.0 billion at 3/31/24; WA pay rate of ~3.8% with WA life of ~5.8 years

Regional Bank Strategy Overview/Applicability (continued)

Strategies Highlighted by Regional Banks in Recent Earnings Reports/Presentations

- Loss/breakeven featured as an outright use of capital or in conjunction with one-time gains or CET1 increases

Institution	1Q24 CET1	Notable 1Q24 Strategies	Size/Detail of Strategy	Clear applicability to SMID/private banks?
 M&T Bank \$215bn in Assets	11.1%	1. Securities reinvestment/cash deployment	\$1.1bn, avoiding negative convexity (focus on UST/CMBS/low convexity MBS)	Yes
		2. Pause share repurchase to build capital		Yes/No
 REGIONS \$155bn in Assets	10.3%	1. Share repurchase	\$102mm	Yes/No
		2. Securities loss/earnback transaction	\$1.3bn (\$50mm pre-tax loss, 2.1y breakeven)	Yes
 SYNOVUS \$59.8bn in Assets	10.4%	1. RWA optimization of certain loan portfolios	\$2-2.4bn reduction in RWA, +40 to +50bps CET1	Yes
		2. Securities loss/earnback transaction	\$1.6bn, \$275mm loss, reinvested into other HQLA at 5 year earnback	Yes
 TRUIST  \$535bn	10.1%	1. Sale of insurance subsidiary ("TIH")	\$10.1b sale, \$4.1bn after-tax gain, +9.4bn to CET1	No
		2. Securities loss/earnback transaction in conjunction with sale of TIH	\$27.7bn sale, \$5.1bn after-tax loss, reinvestment of proceeds (TIH and securities) into cash and short duration securities	Yes

Loss/Earnback as a Use of Capital

Broad Application, from Large Regional Banks to Small Community Banks



Excerpts from Regions Financial Corporation's (RF; \$155bn in Assets) 1Q24 Earnings Transcript and Investor Presentation

David Jackson Turner, Senior EVP & CFO

"Yes. So we consistently challenge ourselves on what's the **best use of our capital that we generate**. Obviously, we're at a robust 10.3% common equity Tier 1. We think we're close enough to be in striking distance on whatever the regime changes with regards to capital. And again, with loan growth being muted in the industry, we want to pay a fair dividend. So we're generating capital that needs to be put to work. **We either buy the shares back or we do things like securities repositioning.**

We did the \$50 million in the first quarter. We'll continue to look for opportunities. I would say that proof is not as close to the ground as it was because we want to keep our payback less than 3 years and frankly closer to 2.5 if we can get it. **Our payback in this last trade was about 2.1. And so we think that was a great use of capital for us.** And so we'll look to do that, but we're not committing to it."



Drivers of NII and NIM

- NII -\$47M, or -3.8% QoQ; NIM -5bps to 3.55%
- Elevated long-term interest rates increase new production fixed-rate asset yields
 - Sold \$1.3B Govt/Agency securities at \$50mm pre-tax loss; reinvested proceeds at higher market yields (+1.9%; ~2.1yr payback) and extended portfolio duration 0.15yrs
- Slowing deposit remixing and pricing normalization
 - 1Q deposit cost = 1.56%
 - 1Q interest-bearing deposit cost = 2.31% (**stable deposit cost Feb. to Mar.**; 43% cycle-to-date interest-bearing beta)
- In 1Q24 \$3B of forward starting swaps entered active period; targeted notional level achieved

NII Range and Assumptions for 2024⁽³⁾

- NII and NIM to bottom in 2Q, with declines from deposit cost normalization offset by asset turnover at elevated rate levels
 - 2Q24 NII expected to be flat to down 2% vs 1Q24
 - 2024 NII expected to be \$4.7-\$4.8B
- 2024 NIM expected to be ~3.50%; 2Q NIM below 3.50% reflecting higher cash liquidity on balance sheet (no NII impact)
- Assumes rising rate interest-bearing deposit beta peaks in the ~mid-40s; falling rate beta ~mid-30s in 2024

Loss/Earnback as a Use of Capital

Offset to Excess Risk Based Capital Generated through RWA Optimization



Excerpt from Synovus Financial Corp.'s (SNV: \$59.8bn in Assets) 5/6/24 8-K

“On May 6, 2024, Synovus substantially completed a risk weighted asset (“RWA”) optimization analysis of certain of its loan portfolios to determine eligibility for reduced risk weighting. This analysis included such segments as securitization finance, multi-family mortgage, government lending, and residential mortgage. Based on this analysis, Synovus now expects an incremental reduction in RWA in the second quarter of 2024 of approximately \$2.0 to \$2.4 billion which will result in a marginal increase in its common equity tier 1 (“CET1”) ratio of approximately 40 to 50 basis points. Absent the planned actions noted below, Synovus would expect its CET1 ratio to exceed the previously announced targeted range of 10.0% to 10.5%.

The increase in capital ratios resulting from this RWA optimization provides flexibility for incremental capital deployment and as such, Synovus expects, subject to market conditions, to reposition a portion of its \$11 billion securities portfolio throughout the month of May.”

2Q24 Mid-Quarter Update

	Commentary	Impacts/ Considerations
RWA Optimization	<ul style="list-style-type: none">• Largely complete, with anticipated reduction of \$2.0B - \$2.4B of RWA• Anticipate capital deployment into securities repositioning in May	<ul style="list-style-type: none">• Inclusive of deployment, expect to operate at upper end of 10.0% - 10.5% CET1 range• Anticipate ~\$275MM pre-tax securities loss with a ~5 year earn back

Community Bank Strategy Overview/Applicability

Strategies Highlighted by Community Banks in Recent Earnings Reports/Presentations

- Capital strategies and repositioning opportunities available to community banks at all sizes

Institution	1Q24 CET1	Notable 1Q24 Strategies	Size/Detail of Strategy	Clear applicability to SMID/private banks?
 FirstBank \$12.5bn in Assets	12.6%	1. Securities loss/earnback transaction	\$208mm/ \$16.2mm loss with 3.8% spread pickup	Yes
		2. Share repurchase	\$4.8mm	Yes/ No
		3. Unwound fair value hedges	\$200mm	Yes
 SIERRA BANCORP Parent Company for Bank of the Sierra \$3.6bn in Assets	12.6%	1. Completed sale-leaseback transaction	\$20mm purchase price/ \$14.3mm gain	Yes
		2. Securities portfolio restructure and delever/reinvest	\$250mm aggregate bond sale, ~\$200mm used to delever and ~\$50mm used to fund loan growth	Yes
 INVESTAR Brilliant Banking \$2.8bn in Assets	11.8%	1. BOLI surrender and redeploy	\$8.4mm	Yes
		2. Repurchased outstanding subordinated debt	\$1mm	Yes
		3. Share repurchase	\$170k	Yes/No

Excerpts from Bank of Sierra's (BSRR; \$3.7bn in Assets), January 2024 Investor Presentation:

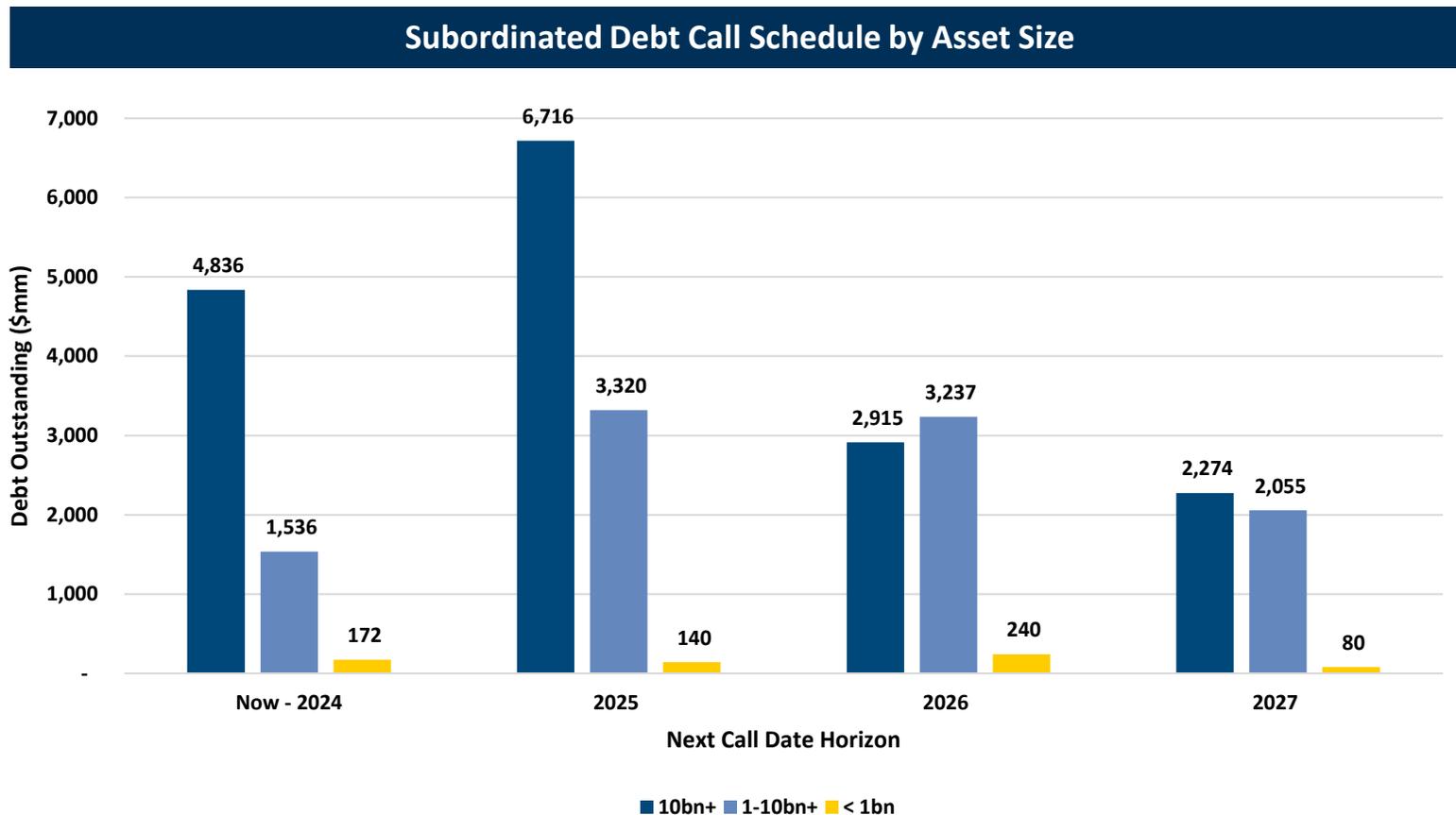
Strategic Branch Sale/Leaseback followed by a Securities Strategy to Improve Future Earnings

-  Entered into contract to sell 13 branches in two tranches on December 21, 2023.
-  First tranche closed in December 2023 at a gain of \$15.3 million.
-  Second tranche expected to close in the first quarter of 2024.
-  In early January 2024, sold \$196.7 million of bonds in a securities strategy at a \$14.5 million loss.
-  Bonds sold had a weighted average book yield of 2.61%.
-  The \$14.5 million securities loss was recognized in 2023 due to management's intention at year end to sell such bonds in January 2024.
-  Proceeds from bond sale were used to pay down short-term borrowings at an average rate of 5.52%.
-  The two transactions are expected to improve tangible capital ratio, Earnings Per Share, Net Interest Margin and Return on Average Assets.

Subordinated Debt Market

Upcoming Resets Add to Wall of Funding Maturities

- The graph below breaks down next call date horizon for outstanding subordinated debt for banks over 2024 through 2027 under different asset sizes.



1. For deal sizes \$25mm+

2. List not exhaustive

3. Information presented above regarding interest rate derivatives is considered general and factual. Please see further disclosures on the last page of this presentation.

Public Bank Loss Earnback Activity

Executive Summary: Public Bank Loss Earnback Strategies

The below table summarizes key metrics from loss earnback transactions executed by 28 public banks in 1Q24:

	Total Assets (\$000) ²	Amount Sold (\$000)	Pre-tax Loss (\$000)	% of AFS Portfolio ³	Pre-tax Loss/Secs Sold (%)	TRBC as of 4Q23 (%)	Leverage Ratio as of 4Q23 (%)	Net Interest Margin as of 4Q23 (%)
Maximum	153,946,000	1,300,000	-50,000	69.1%	-0.8%	53.59	31.67	4.59
Minimum	278,402	6,300	-194	3.0%	-17.2%	10.75	7.78	2.38
Median	5,051,836	71,000	-3,600	6.4%	-5.1%	13.70	9.72	3.34
Average	15,513,559	172,419	-9,384	12.5%	-6.1%	15.27	10.58	3.32

- Of the 28 institutions that executed the loss earnback in 1Q24, over 50% of them have executed a prior loss earnback at some point over the last 6 quarters.
- 10 institutions had an accompanying gain generating event occur, including the sale of MSRs, the sale of Visa B shares and the sale leaseback transaction.
- 20 institutions reported that some portion of proceeds were used to reinvest back into higher yielding assets and 7 institutions reported that some portion of proceeds were used to pay down borrowings.

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

2. Total Assets as of 1Q24, bank level

3. Beginning AFS portfolio data reflects fair value as of 4Q23, bank level. TCE Ratio and TRBC Ratio as of 4Q23, bank level

Summary of Securities Portfolio Restructurings in 1Q24 (1 of 2)

Company	Ticker	Total Assets (\$M) ²	Amount Sold (\$M)	% of AFS Portfolio ³	Pre-tax Loss/Secs Sold (%)	Pre-tax Loss (\$M)	Use of Proceeds	Spread	Earnback Period	Accompanying Event	TRBC as of 4Q23	Leverage Ratio as of 4Q23	Net Interest Margin as of 4Q23	8-K Announce?	Prior Restructure?
 IST SECURITY BANK	FSBW	\$2,970	\$52	17.8%	-15%	(\$8.0)	Securities Reinvestment			Sale of MSRs	13.37	10.39	4.35	No	
 amalgamated bank	AMAL	\$8,147	\$76	5.1%	-4%	(\$2.8)	Securities and Loan Reinvestment				14.94	8.50	3.46	No	Yes
 SIERRA BANCORP <small>Parent Company for Bank of the Sierra</small>	BSRR	\$3,550	\$250	24.5%	-1%	(\$2.8)	Deleverage and Loan Reinvestment			Sale Leaseback	NA	11.29	3.30	No	Yes
 BANNER BANK	BANR	\$15,521	\$71	3.0%	-7%	(\$4.9)	Deleverage and Loan Reinvestment		2.5yrs		13.70	10.46	3.85	No	Yes
 Berkshire Bank	BHLB	\$12,141	\$362	34.9%	-14%	(\$49.9)	Deleverage			Sale of Branches	13.29	9.61	FALSE	No	Yes
 BOK FINANCIAL	BOKF	\$49,948	\$783	6.4%	-6%	(\$45.2)			2yrs	Visa B Exchange (expected gain)	12.30	8.86	2.60	No	Yes
 Busey	BUSE	\$11,856	\$108	5.2%	-6%	(\$6.8)	Cash and Reinvest			Sale of MSRs	16.45	11.19	2.78	No	
 CATALYST BANK	CLST	\$278	\$43	69.1%	-12%	(\$5.2)	Reinvest and Deleverage				53.59	31.67	3.24	No	
 FARMERS NATIONAL BANK	FMNB	\$5,067	\$44	3.4%	-5%	(\$2.1)	Securities Reinvestment	200 bps	2.5yrs		12.13	8.07	2.82	No	
 FIRST first financial bank	FFBC	\$17,525	\$228	7.5%	-2%	(\$5.2)	Securities Reinvestment	278 bps	Implied ~10 months		13.69	10.24	4.24	No	
 FIRST STATE BANK	CYVF	\$773	\$28	18.2%	-9%	(\$2.4)	Securities and Loan Reinvestment			Visa B Shares Sale	16.39	11.61	3.52	No	
 First Bank	FBK	\$12,533	\$208	14.1%	-8%	(\$16.2)	Securities Reinvestment	380 bps	Implied ~2 years		14.25	11.06	3.46	No	Yes
 HBT Financial	HBT	\$5,037	\$67	8.8%	-5%	(\$3.4)	Deleverage				14.92	10.96	4.00	No	Yes
 Heritage Financial CORPORATION	HFWA	\$7,087	\$144	12.7%	-7%	(\$10.0)	Securities Reinvestment and Cash		Implied ~2.2 years		13.79	9.75	3.36	No	Yes

1. Source: S&P Capital IQ Pro and Company Filings
2. Total Assets as of 1Q24, bank level
3. Beginning AFS portfolio data reflects fair value as of 4Q23, bank level. TCE Ratio and TRBC Ratio as of 4Q23, bank level
4. Prior restructure looks at loss taken within last 6 quarters

Summary of Securities Portfolio Restructurings in 1Q24 (2 of 2)

Company	Ticker	Total Assets (\$M) ²	Amount Sold (\$M)	% of AFS Portfolio ³	Pre-tax Loss/Secs Sold (%)	Pre-tax Loss (\$M)	Use of Proceeds	Spread	Earnback Period	Accompanying Event	TRBC as of 4Q23	Leverage Ratio as of 4Q23	Net Interest Margin as of 4Q23	8-K Announce?	Prior Restructure?
 INDEPENDENT BANK	IBCP	\$5,227	\$28	4.1%	-1%	(\$0.3)			Less than 1 year		12.46	8.80	3.27	No	
 LCNB National Bank	LCNB	\$2,280	\$10	3.5%	-2%	(\$0.2)					10.75	8.05	2.82	No	
 Peoples Bank A FINWARD COMPANY	FNWD	\$2,073	\$15	4.1%	-4%	(\$0.5)	Deleverage		Less than 2 years		11.36	7.78	2.52	No	
 PSB HOLDINGS, INC.	PSBQ	\$1,418	\$6	3.8%	-8%	(\$0.5)	Reinvestment				13.72	9.26	2.93	No	Yes
 PLUMAS BANK	PLBC	\$1,640	\$115	23.5%	-17%	(\$19.8)	Securities Reinvestment	301 bps		Sale Leaseback	16.92	10.80	4.59	No	
 REGIONS	RF	\$153,946	\$1,300	4.5%	-4%	(\$50.0)	Securities Reinvestment	190 bps	2.1yrs		12.74	9.44	3.70	No	
 RIVER BANK & TRUST	RVRF	\$3,369	\$34	5.4%	-4%	(\$1.4)					12.79	8.65	2.75	No	Yes
 Riverview BANK	RVSB	\$1,519	\$46	23.5%	-6%	(\$2.7)	Deleverage				16.67	10.54	2.65	No	
 Seacoast BANKING CORPORATION OF FLORIDA	SBCF	\$14,822	\$87	4.7%	-4%	(\$3.8)	Securities Reinvestment	245 bps	1.9yrs	Visa B Shares Sale	14.82	10.32	3.34	No	Yes
 SOUTHERN BANK	SMBC	\$4,596	\$18	4.4%	-4%	(\$0.8)	Securities Reinvestment	276 bps	Less than 2 years		12.28	9.45	3.28	No	Yes
 The Citizens Bank	CIZN	\$1,472	NA	NA	NA	(\$1.6)	Reinvestment			Sale Leaseback	14.55	8.64	2.38	No	Yes
 UNITED BANCORP	UBCP	\$830	\$25	10.3%	-1%	(\$0.2)	Securities Reinvestment	123 bps	8 months		13.93	9.65	3.59	No	
 VERITEX COMMUNITY BANK	VBTX	\$12,663	\$120	11.1%	-5%	(\$6.3)	Securities Reinvestment	313 bps	Implied ~1.7yrs		12.90	11.43	3.42	No	Yes
 WebsterBank	WBS	\$76,091	\$388	4.3%	-3%	(\$9.8)	Securities Reinvestment			Sale of MSRs	13.47	9.69	3.39	No	Yes

Bank Owned Life Insurance (BOLI) Restructuring

Accompanying Strategic Transactions : Bank Owned Life Insurance (BOLI) Restructuring

Bank Owned Life Insurance (BOLI) can be restructured through a surrender or exchange. Although this does not generate a GAAP gain/loss, the resulting tax implications and the redeployment of additional capital at higher rates can improve the economics of a securities repositioning.

1. BOLI restructuring including 1035 Exchange or surrender

- BOLI policies can also be surrendered and reinvested into new, higher yielding BOLI.
- Policies on active employees can also be exchanged into a new BOLI product via an IRS Section 1035 exchange. Unlike the surrender, the exchange itself is tax free, but BOLI policies generally have 1035 exchange fees, and generally 1035 exchanges may only be executed on active employees/individuals. Exchange is generally preferential when dealing with older policies.
- Depending on the BOLI policies surrendered/exchanged and the new policies selected, the risk weight on BOLI can be reduced from 100% to 20%.

2. BOLI surrender paired against a bond restructuring for a tax benefit

- Existing BOLI can be surrendered for its full cash value with “inside buildup” (cash surrender value less cost basis) taxed as ordinary income plus a 10% MEC tax penalty.
- In addition to generating higher income by rotating out of low yielding BOLI into higher yielding securities, the tax liability generated on the BOLI surrender can be offset by the tax deduction from selling bonds at a loss.

Summary of BOLI Restructurings – Public Banks – 1Q 2024

Company	Ticker	Total Assets (\$M) ²	Trade Date	Surrender/ Exchange	Use of Proceeds	Policy Amount (\$M)	% of All BOLI	After-tax Gain/ (Loss) (\$M)	Stated Earnback Period	Enhancement ?	Additional BOLI Purchase?	Accompanying Event	Combined Earnback
 First Fed	FNWB	\$2,240	1Q 2024	Surrender	N/A	\$6	15.0%	N/A					
 Lake Shore Savings <small>Putting People First.</small>	LSBK	\$718	1Q 2024	Surrender	N/A	\$6.5	22.0%	N/A					
 INVESTAR <small>Brilliant Banking</small>	ISTR	\$2,787	1Q 2024	Surrender	Reinvest into new General Account BOLI policies	\$8.4	14.0%	N/A					
 BankUnited	BKU	\$35,106	1Q 2024	Surrender	N/A	\$32	10.0%	N/A					

Summary of BOLI Restructurings – Public Banks – Past Quarters

Company	Ticker	Total Assets (\$M) ²	Trade Date	Surrender/Exchange	Use of Proceeds	Policy Amount (\$M)	% of All BOLI	After-tax Gain/ (Loss) (\$M)	Stated Earnback Period	Enhancement?	Additional BOLI Purchase?	Accompanying Event	Combined Earnback
 United Community	UCBI	\$26,875	4Q 2022	Surrender	Reinvest into higher yielding assets	\$34	11%	(1.8)					
 First Citizens Bank	FCNC.A	\$213,766	4Q 2022	Surrender	Reinvest into higher yielding assets	\$1,200	89%	(55.0)	2yrs				
 JOHN MARSHALL BANK	JMSB	\$2,298	3Q 2023	Surrender	Reinvest into higher yielding assets	\$21.4	100%	(1.1)				AFS Loss Earnback Trade	
 Midland States Bank	MSBI	\$7,975	3Q 2023	Surrender	Reinvest into new General Account BOLI policies	\$51	34%	2.1		Yes (Reversed)	Yes	AFS Loss Earnback Trade	6 months
 HORIZON BANK	HBNC	\$7,959	4Q 2023	Combination	Reinvest into higher yielding assets	\$112.8	76%	(8.6)				AFS Loss Earnback Trade	
 Pinnacle Financial Partners	PNFP	\$47,960	4Q 2023	Combination	Reinvest into new General Account BOLI policies	\$740	83%	(16.3)					
 AMERANT	AMTB	\$9,346	4Q 2023	Combination	Reinvest into new General Account BOLI policies			(4.6)	2yrs	Yes		Loan Sale	
 C&N	CZNC	\$2,484	4Q 2023	Surrender	Reinvest into new General BOLI policies	\$14.3	45%	1.2		Yes	Yes	AFS Loss Earnback Trade	< 1yr
 kearnybank	KRNY	\$7,974	4Q 2023	Combination	Reinvest into new General Account BOLI policies	\$103.4	35%	(1.4)		Yes (Reversed)			
 WSFS bank	WSFS	\$20,040	4Q 2023	Surrender	Higher yielding assets or Delever	\$65	64%	(7.0)					
 CITIZENS BUSINESS BANK A Financial Services Company	CVBF	\$15,903	4Q 2023	Surrender	Higher yielding assets and new General Account BOLI policies	\$68	26%	0		Yes	Yes		
 Financial Institutions, Inc.	FISI	\$6,140	4Q 2023	Surrender	Reinvest into new Separate Account BOLI policies	\$53.9	38%	3.6		Yes		AFS Loss Earnback Trade	

“At the end of the fourth quarter, we executed on a partial restructuring of our bank-owned life insurance or BOLI portfolio. We surrendered \$68 million of policies, which resulted in a \$4.5 million market value write-down of the cash surrender value of these policies and approximately \$6.5 million in additional tax expense. The purchase of \$109 million of new BOLI policies at the end of December included an increase of cash surrender value of approximately \$10 million. On a net basis, non-interest income was positively impacted by \$6.5 million, offsetting the \$6.5 million increase in tax expense. The new policies will have an initial crediting rate that is approximately 300 basis points higher than the policies we surrendered.” – Allen Nicholson CFO, CVBF

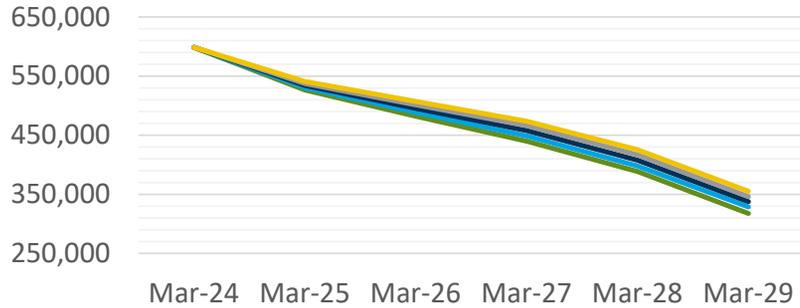
Portfolio Management

Portfolio Strategy Recommendations

- **With an inverted yield curve, we recommend the Loss/Earnback trade** – implemented by realizing losses in low book yielding securities (i.e., $\leq 2.5\%$) and reinvesting proceeds into higher yielding bonds (~5-6%).
- **Buy Floaters** as part of a barbell – Floaters are generally the highest-yielding bonds in the Agency MBS market.
 - With a current yield pick of 100bps, 7% Cap CMO floaters can absorb four rate-cuts before resetting below 15yr MBS, while SBA 7(a) pools are a government-guaranteed form of floater without cap risk.
 - As the timeline for rate-cuts and the dis-inversion moves further out the calendar, the yield advantage of floaters versus fixed-rate alternatives will last longer.
- **Buy 6% Front Sequentials off 30yr 6s** – Now priced with low premiums, 6% front sequentials pick ~30bps vs. 5.5% front SEQs and ~40bps vs. 15yr 5.5s.
- **Move Up-in-Coupon** – Years of quantitative easing by the Fed distorted valuations in the MBS market, particularly for lower coupon 30yr & 15yr pass-throughs; spreads are wider, yields are higher, durations are shorter up the coupon stack.
- **Buy 7yr/6m Hybrids** – Current coupon 7yr hybrids offer a higher coupon, lower price, and pick yield, OAS and total rate of return when compared to new production current coupon 15yr MBS.
- **Find cheap sources of prepayment protection** – products like SBAPs and SBICs trade cheap to Agency CMBS, but are less rate-sensitive than MBS securities in rates-down scenarios.
- **MBS vs. Corporates** – Since Jan '23, the FNMA 30-year Current Coupon spread widened by a net change of 15bps, whereas the 7yr A-rated corporate bond spread tightened by 28bps.
 - The 43bps widening in favor of MBS suggests that convexity offers a more compelling relative value than credit.

Low Levels of Asset Turnover Create Continued Profitability Challenges

Horizon Par Value



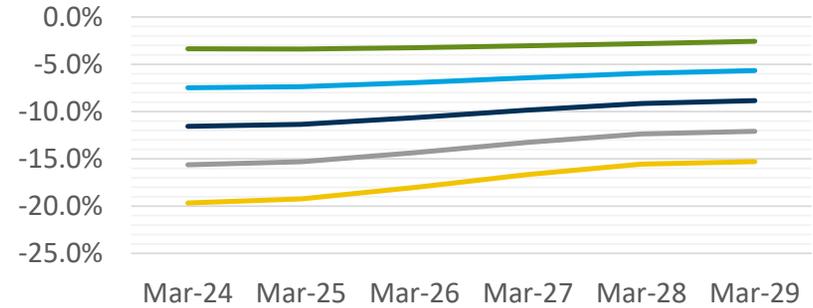
	Mar-24	Mar-25	Mar-26	Mar-27	Mar-28	Mar-29
-200	598,700	526,515	482,059	440,034	388,573	317,581
-100	598,700	530,505	488,825	448,805	397,953	328,746
Base	598,700	534,274	495,511	457,945	407,774	337,529
+100	598,700	537,491	501,493	466,052	416,928	346,063
+200	598,700	540,944	507,319	473,598	425,570	355,126

Projected 24M principal paydowns are ~17% of portfolio balance in the Base-case...



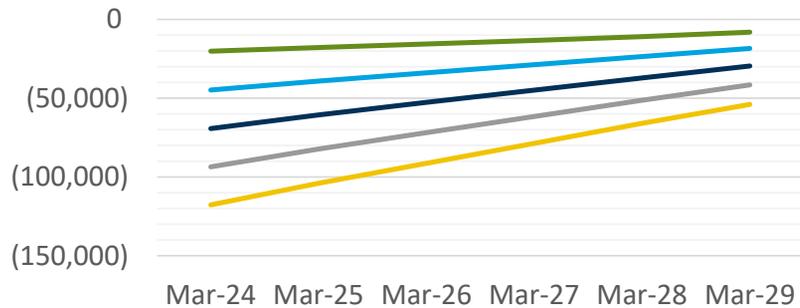
...and remain below 20% of portfolio balance in a -100 shock scenario

Horizon Gain/Loss (%)



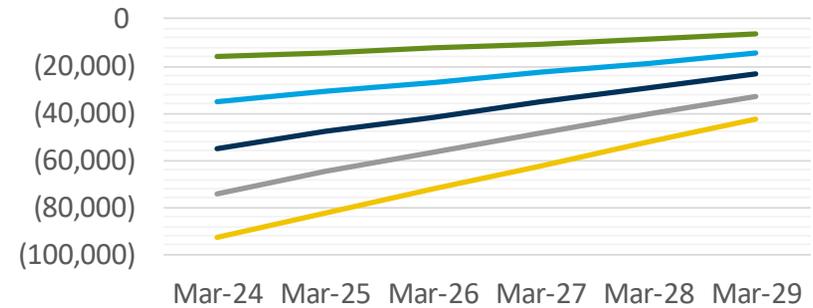
	Mar-24	Mar-25	Mar-26	Mar-27	Mar-28	Mar-29
-200	-3.4%	-3.4%	-3.2%	-3.0%	-2.8%	-2.6%
-100	-7.5%	-7.4%	-6.9%	-6.4%	-6.0%	-5.7%
Base	-11.6%	-11.3%	-10.6%	-9.8%	-9.1%	-8.8%
+100	-15.6%	-15.3%	-14.4%	-13.3%	-12.4%	-12.1%
+200	-19.7%	-19.2%	-18.0%	-16.7%	-15.6%	-15.3%

Horizon Gain/Loss (\$)



	Mar-24	Mar-25	Mar-26	Mar-27	Mar-28	Mar-29
-200	(20,135)	(17,835)	(15,613)	(13,321)	(10,900)	(8,086)
-100	(44,799)	(39,111)	(33,886)	(28,772)	(23,598)	(18,445)
Base	(69,241)	(60,583)	(52,669)	(44,901)	(37,106)	(29,604)
+100	(93,562)	(82,236)	(71,880)	(61,625)	(51,331)	(41,520)
+200	(117,731)	(104,007)	(91,322)	(78,691)	(65,958)	(53,921)

Horizon After-tax Mark-to-Market (\$)



	Mar-24	Mar-25	Mar-26	Mar-27	Mar-28	Mar-29
-200	(15,907)	(14,090)	(12,334)	(10,523)	(8,611)	(6,388)
-100	(35,391)	(30,898)	(26,770)	(22,730)	(18,642)	(14,571)
Base	(54,700)	(47,860)	(41,609)	(35,472)	(29,314)	(23,387)
+100	(73,914)	(64,966)	(56,785)	(48,684)	(40,552)	(32,801)
+200	(93,008)	(82,165)	(72,145)	(62,166)	(52,107)	(42,598)

1. Dollar values shown in thousands
2. Book and Market prices provided as of 3/31/2024
3. Horizon Book Value reflects principal paydowns, but assumes constant Book Price
4. Horizon price provided by the Yield Book and ZM Financial using constant OAS methodology
5. Projections provided using static curve assumption and a 21% tax rate

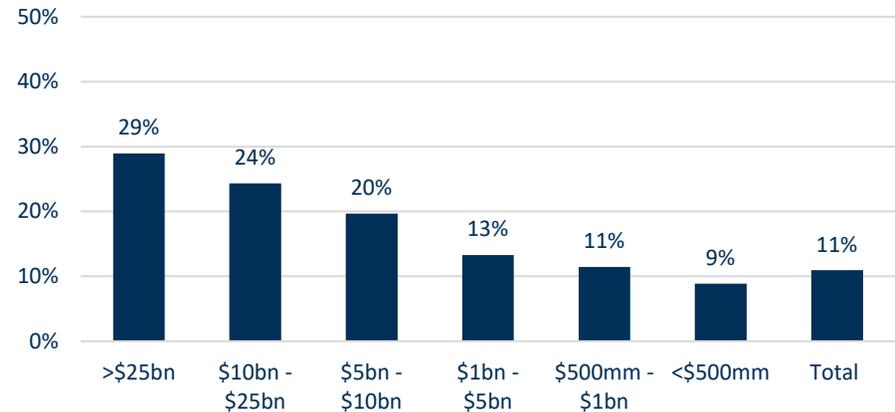
Realized Securities Losses

The number of institutions reporting realized securities losses continues to be prevalent

First Quarter 2024

Asset Range	# of Institutions	# Reporting Bond Losses	% Reporting Bond Losses	Q1'24 Realized Bond Losses (Billions)
>\$25bn	83	24	29%	(\$0.78)
\$10bn - \$25bn	74	18	24%	(\$0.31)
\$5bn - \$10bn	122	24	20%	(\$0.33)
\$1bn - \$5bn	744	99	13%	(\$0.09)
\$500mm - \$1bn	769	88	11%	(\$0.02)
<\$500mm	2,776	247	9%	(\$0.03)
	4,568	500	11%	(\$1.56)

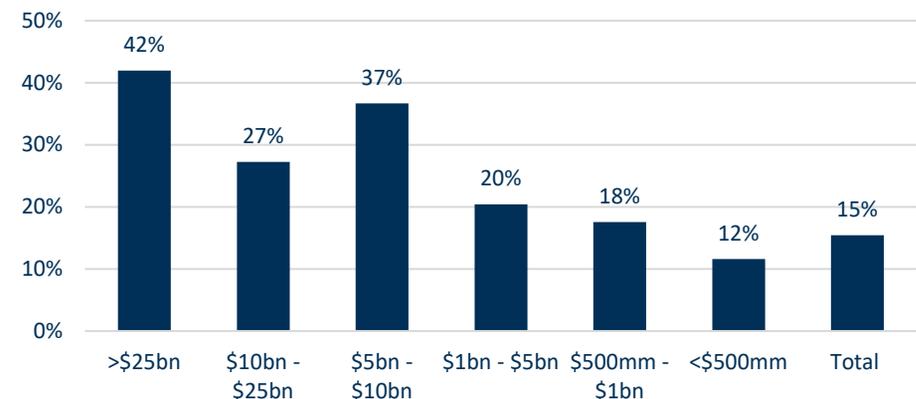
% Reporting Net Realized Bond Losses



Fourth Quarter 2023

Asset Range	# of Institutions	# Reporting Bond Losses	% Reporting Bond Losses	Q4'23 Realized Bond Losses (Billions)
>\$25bn	81	34	42%	(\$2.80)
\$10bn - \$25bn	77	21	27%	(\$0.62)
\$5bn - \$10bn	120	44	37%	(\$0.34)
\$1bn - \$5bn	711	145	20%	(\$0.27)
\$500mm - \$1bn	780	137	18%	(\$0.10)
<\$500mm	2,818	327	12%	(\$0.11)
	4,587	708	15%	(\$4.25)

% Reporting Net Realized Bond Losses

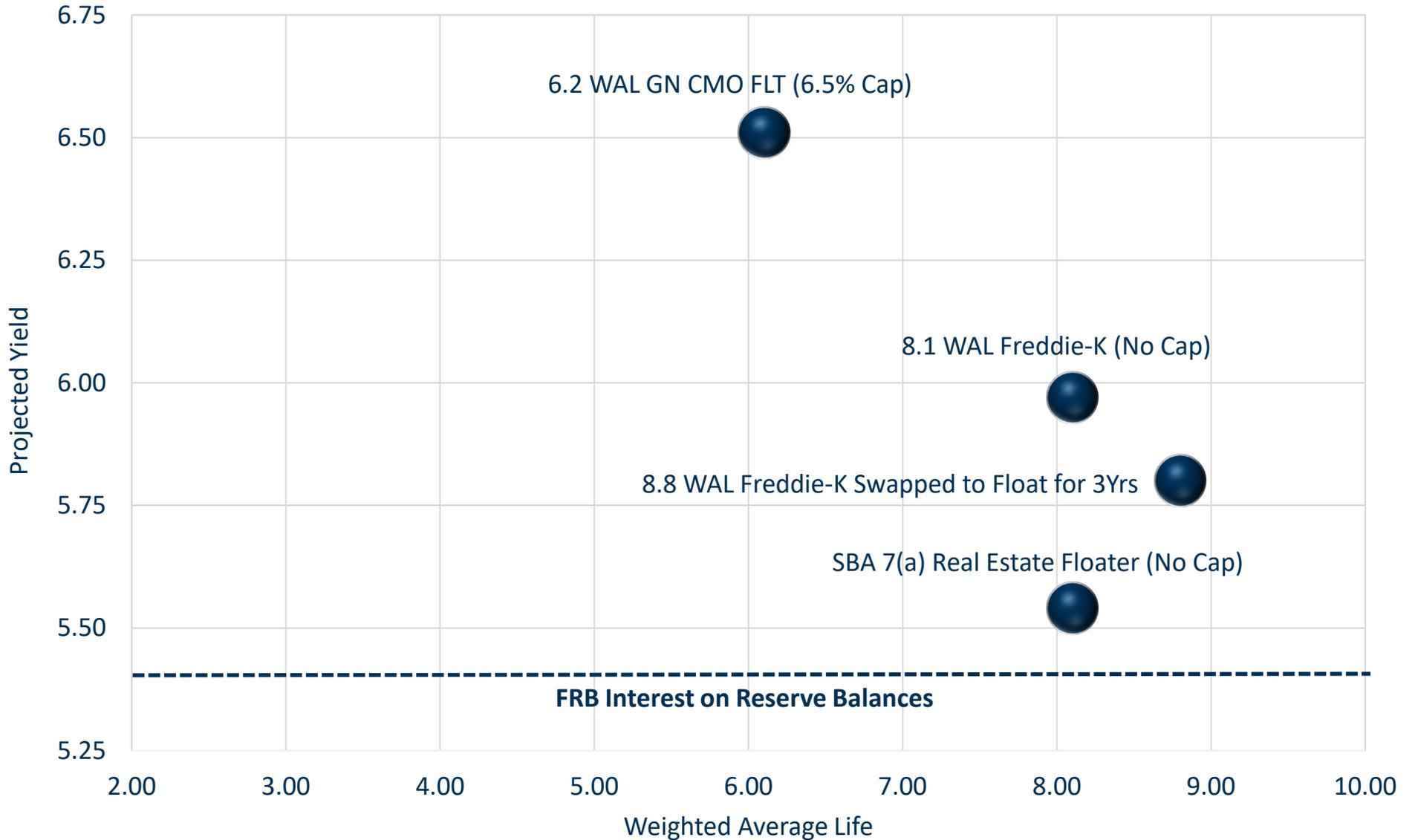


Loss/Earnbacks

- A portfolio restructure can be an efficient use of capital versus other alternatives (i.e., stock buybacks).
- Utilize locked-out cash flow structures for reinvestment to ensure the initial loss is recouped.
- Consider utilizing one-time gains to offset the expense of a portfolio restructure:
 - Sale of Visa B shares
 - Sale of loans, real estate or other assets (Sale-Leaseback)
 - One-time gains (Employee Retention Credit, recoveries on non-performing assets)
 - Gains on interest rate hedges and/or symmetrical FHLB advances
 - BOLI policy payouts
 - Repurchase of outstanding debt instruments (where permitted by regulators)
- Begin to have conversations with BOD if certain profitability targets are tied to incentive compensation.
- The absence of a portfolio restructure can put a bank into a competitive disadvantage with peers.

Floating Rate Landscape

Consider Floaters as Cash Substitutes or as Part of a Barbell Strategy



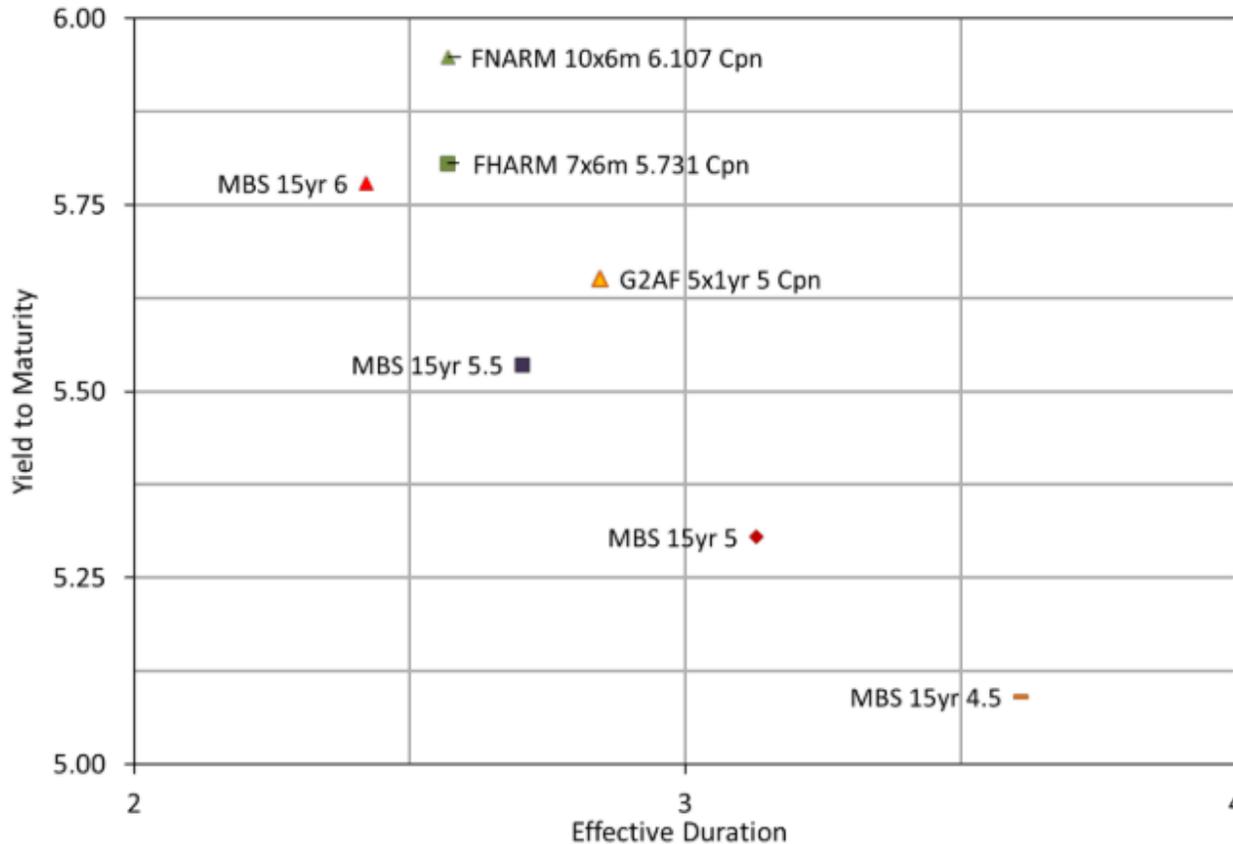
Relative Value: Front Sequential CMOs

	Yield					Price Volatility			WAL	I Spread	OAS
	Price	-100	Base	+100	+300	-100	+100	+300			
5.5% SEQ x FNCL 5.5%	99.85	5.46	5.50	5.51	5.52	1.6	(2.5)	(9.4)	4.2	87	7
6.0% SEQ x FNCL 6%	100.64	5.55	5.81	5.84	5.87	1.4	(2.5)	(9.8)	4.7	122	22
FNCL 15yr 5.0 (178 WAM)	99.19	5.19	5.16	5.16	5.15	2.6	(3.3)	(11.3)	5.6	59	(4)
FNCL 15yr 5.5 (178 WAM)	100.34	5.31	5.39	5.41	5.42	2.2	(3.0)	(10.4)	5.2	82	8

- The supply of 10yr and 15yr pass-throughs has declined significantly in the post refi-wave environment.
- Combined new issuance of 10yr and 15yr pass-throughs from Fannie, Freddie, Ginnie and the SBA has declined 97% from a peak of \$49bn in April 2022 to \$1.3bn in February 2024.
- In contrast, CMO issuance backed by Fannie, Freddie and Ginnie 30yr fixed rate collateral is averaging \$12bn per month, so the supply of short CMOs is \$6-9bn per month assuming the front sequential is 50-75% of the collateral.
- **Depositories continue to use front sequentials to replicate the cashflow profiles for 10yr and 15yr pass-throughs.**
- **6% Front Sequentials off 30yr 6s are priced at a modest premium and pick 31bps vs. 5.5% front SEQs and 42bps vs. 15yr 5.5s.**

Hybrids Trounce 15Y MBS Across the Spectrum of Up & Down Scenarios

Hybrid ARM: Yield (YTM)/Duration Landscape

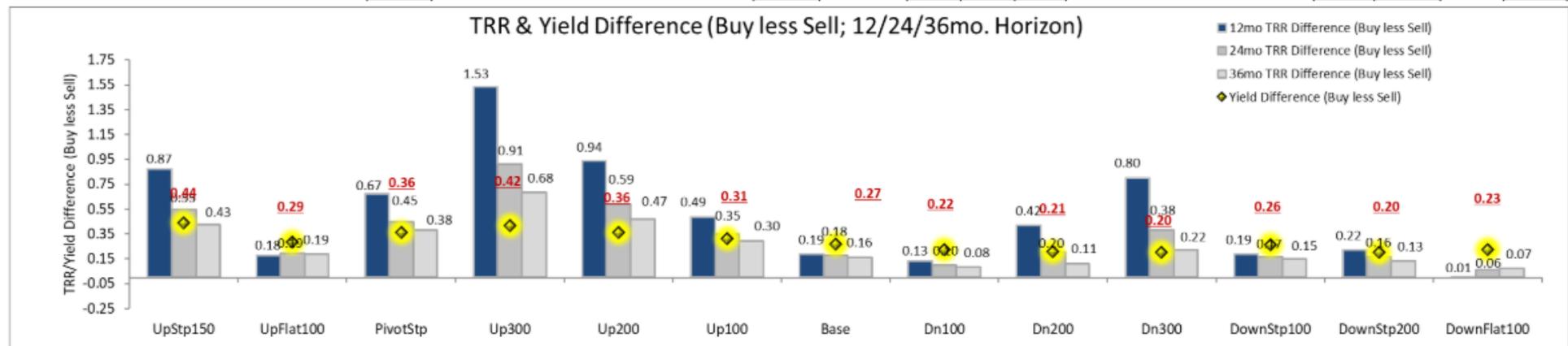


- 75% of hybrid origination has been concentrated in 7y/6m structures over the past three months.
- Current coupon 7yr hybrids offer a higher coupon, lower price, and pick yield, OAS & total rate of return (TRR) when compared to new production current coupon 15yr MBS.
- Despite 24 consecutive months of net negative issuance of 15yr MBS, the 15yr current coupon spread remains wider than the 5 year and 10 year historical average.
- The shrinking supply and the return of demand from depositories could drive spreads tighter, creating an opportunity in 15yr MBS & its surrogates, like hybrids.

Relative Value: 7y/6m Freddie Hybrid SOFR +219 5/1/5 Caps

- 7y/6m hybrid ARM with an initial fixed rate coupon of 5.73% and a semi-annual reset floating-rate tail with a net margin of SOFR30A +219 & 5/1/5 caps
- The hybrid is 8/32 cheaper in dollar price, picks 27bps YTM, 22bps I-spread, 33bps OAS and 19ps TRR (12mo) in the base case.
- The hybrid picks yield and TRR in all parallel and non-parallel scenarios including the dis-inversion scenarios.**
- Similar results can be found in the GNMA 5% 5y/1y and FNMA 6.11% 10y/6m hybrids (i.e., pick yield, OAS and TRR).

Pool #	Security Description	Cpn	WAC	Age	WAM	Pricing Spread	I-Sprd (YldBk)	Mkt Price	Mkt YTM	12mo WAL	12mo TRR	Proj 1YCPR	Proj LTCPR	Zvol TOAS	Opt Cost	UST OAS	Eff Dura	Eff Cnvx	Px Vol Up300
Buy	FH 841740 FHARM 7x6m	5.73	6.40	3	358	99/z/15CPB	107	99.477	5.81	4.4	5.88	8.1	19.2	103.4	54.3	49.1	2.57	-0.64	-9.5
Sell	FR SB8304 MBS 15yr 5.5 179 WAM	5.50	6.37	1	179	+4.5/32s vs DW 5.5	85	99.750	5.54	5.3	5.69	7.6	9.8	78.9	62.7	16.2	2.70	-0.80	-10.6
<i>difference</i>		0.23	0.03	2	179		22	-0.273	0.27	-0.9	0.19	0.5	9.3	24.5	-8.4	32.9	-0.13	0.16	1.2



Yield Curve Twist Scenarios:

UpStp150: 3mo +0; 2yr +100; 5yr +125; 10yr +150

UpFlat100: 3mo +100; 2yr +100; 5yr +75; 10yr +50

PivotStp: 3mo -100; 2yr +0; 5yr +75; 10yr +100

DownStp100: 3mo -100; 2yr -50; 5yr -50; 10yr -25

DownStp200: 3mo -200; 2yr -100; 5yr -100; 10yr -50

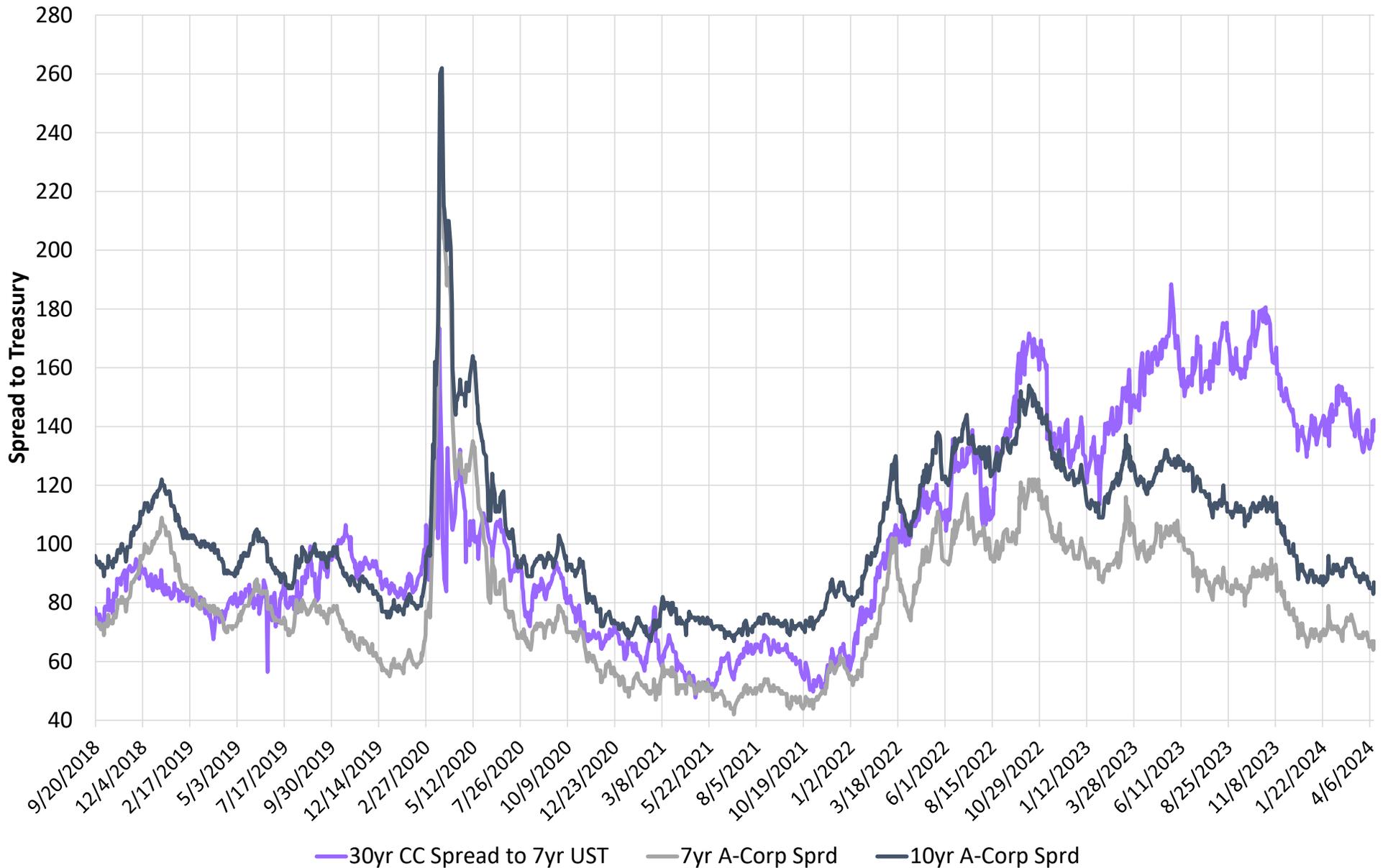
DownFlat100: 3mo -50; 2yr -62.5; 5yr -62.5; 10yr -100

* Total Return Scenarios are ramped to a 12, 24 & 36 month horizon and assume constant-OAS horizon pricing to a 12, 24 & 36 month horizon; P&I payments are reinvested at 1 month UST Yields.

** Analysis performed on Yield Book using Version 23.1 of the Prepayment Model

MBS Remain Cheap versus Corporates Even After Recent Tightening of Spreads

30-Year Current Coupon Mortgage Spread vs A-Rated Corps



Weekly Spread Snapshot

Spreads on Tax-Exempt Municipals Remain Low Due to Strong Retail Bid (Good Sell Candidates)

Agency Bullets (Spread)	Current	YTD	1 Year Average	3 Year Average	5 Year Average
2 Year Bullet	2	3	6	6	5
5 Year Bullet	5	4	8	7	8
10 Year Bullet	30	32	43	38	33
Agency Callables (Spread)	Current	YTD	1 Year Average	3 Year Average	5 Year Average
2 Year NC 1 Year	41	48	53	41	30
5 Year NC 1 Year	110	114	130	96	72
10 Year NC 1 Year	144	154	177	146	115
15 Year NC 1 Year	148	157	178	162	131
5 Year NC 2 Year	78	73	85	62	47
10 Year NC 2 Year	112	107	137	116	92
15 Year NC 2 Year	109	109	139	133	109
Corporates (Spread)	Current	YTD	1 Year Average	3 Year Average	5 Year Average
2 Year 'A' Rated	28	37	42	37	37
5 Year 'A' Rated	51	59	70	67	64
10 Year 'A' Rated	83	89	104	105	100
15 Year 'A' Rated	95	102	118	124	119
Municipals (TEY Spread*)	Current	YTD	1 Year Average	3 Year Average	5 Year Average
5 Year Municipal	-75	-70	-45	-26	-7
10 Year Municipal	-67	-57	-23	12	25
15 Year Municipal	4	19	46	64	68

1. Sources: Yield Book, Bloomberg, Stifel (5/3/2024)
2. *TEY on tax-frees @ 21% tax rate BQ @ 20% TEFRA, 2.00% COF

Weekly Spread Snapshot

Spreads on Mortgage Related Product are Compelling Compared to Alternatives

Taxable Municipals (Spread)	Current	YTD	1 Year Average	3 Year Average	5 Year Average
5 Year Municipal (Taxable)	31	44	56	52	53
10 Year Municipal (Taxable)	47	61	77	79	80
15 Year Municipal (Taxable)	59	72	84	90	93
Mortgages (Spread to Avg Life)	Current	YTD	1 Year Average	3 Year Average	5 Year Average
Current Coupon 15yr	88	81	89	64	62
Current Coupon 30yr	145	138	147	117	105
CMOs (Spread to Avg Life)	Current	YTD	1 Year Average	3 Year Average	5 Year Average
2 Year PAC	100	67	67	50	50
5 Year PAC	125	113	130	93	88
10 Year PAC	140	137	146	108	103
2 Year Sequential	105	76	73	53	52
5 Year Sequential	120	114	133	98	95
10 Year Sequential	140	144	153	113	107
Agency CMBS (Spread)	Current	YTD	1 Year Average	3 Year Average	5 Year Average
20/25 Year DCPC	71	84	93	67	62
5 Year Freddie-K	34	35	40	28	30
7 Year Freddie-K	39	41	49	37	35
10 Year Freddie-K	41	47	57	47	44
7/6.5 Year DUS	37	47	56	41	39
10/9.5 Year DUS	46	47	64	53	50

RWA Optimization

Potential Risk Weighted Asset Reduction Considerations

- The following slides and summary grid below highlight multiple risk based capital optimization considerations institutions may have available.
- Each of following considerations are intended to serve as a reminder and update for what peers have implemented over the past few years to reduce risk weighted assets and thereby improve risk based capital ratios.

HELOC Reclass	Municipal Loans	Prudently Underwritten Residential Mortgage Loans	Statutory Multifamily Mortgage	Loans/Commitments Held for Investment/Sale
<p>Unfunded single family commitment lines that fall under unconditionally cancelable definition can be assigned a 0% credit conversion factor for risk weighting purposes</p>	<p>Loans made to municipalities or other public sector entities (PSEs) can carry 20% or 50% risk weighting vs where some institutions might be classifying exposure as 100% RW</p>	<p>For first lien 1-4 family residential mortgage loans that meet certain lending and payment criteria can qualify for 50% RW treatment</p>	<p>First lien loans secured by multifamily residential property that meet certain lending and payment criteria can qualify for 50% RW treatment</p>	<p>Loans/commitments secured by “financial exposures” that qualify for securitization framework can fall under simplified supervisory formula approach (SSFA) or Gross-Up Approach for RWA treatment</p>

HELOC Reclass

Case Study: Unfunded Commitments = Unconditionally Cancellable Commitments

- The following institutions are classifying their HELOC and Credit Card unfunded commitment balances as unconditionally cancellable and assigning a 0% credit conversion factor for risk weighting purposes.
- (HELOC Unfunded Commitments + Credit Card Unfunded Commitments = Unconditionally Cancellable Commitments)

	Webster Bank, N.A.	TowneBank	BancFirst	Bank Independent
	2023Q4	2023Q4	2023Q4	2023Q4
Total Assets	74,875,514	16,835,042	10,473,539	2,672,561
Off-Balance Sheet Items				
Unused Cmt:1-4 Fam Rev Lines	1,952,215	847,443	100,900	91,928
Unused Cmt: Unused Consumer CC Lines	0	0	0	0
Unused Cmt: Other Unused CC Lines	0	0	0	0
Unused Commitments: Credit Card Lines	0	0	0	0
Unused Cmt: 1-4 Construction Ln	44,965	757,038	133,220	40,613
Unused Cmt: Com RE, Land & Other	1,668,369	1,044,730	698,695	188,968
Unused Cmt:Sec Comm RE	1,713,334	1,801,768	831,915	229,581
Unused Cmt:Not Sec Comm RE	42,660	0	0	0
Unused Cmt:Tot Comm RE Lnes	1,755,994	1,801,768	831,915	229,581
Unused Cmt:Secs Underwriting	0	0	0	0
Unused Cmt: Comm & Ind Lns	7,868,330	1,559,986	922,725	151,922
Unused Cmt: Loans to Finl Instn	279,349	80,844	18,526	0
Unused Cmt: All Other	220,709	213,064	264,265	31,051
Unused Commitments: Other Commitments	8,368,388	1,853,894	1,205,516	182,973
	0	0	0	0
Derivatives & Off-Balance Sheet Items	0	0	0	0
NotAmt:Unused Cmt>1yr Orig Mat	7,248,760	1,167,452	1,803,104	252,072
NotAmt: Unused Cmt ABCP Conduits <= 1 Yr Orig Mat	NA	NA	NA	NA
Not Amt: Unused Cmt ABCP excl Cond<= 1 Yr Orig Mat	2,875,621	2,488,209	234,323	160,482
NotAmt: Unconditionally Cancelable Commitments	1,952,215	847,443	100,900	91,928
NotAmt: Total Unsettled Transactions	0	0	0	0

Reclassification of Unfunded Commitments – Case Study

- Stifel has assisted the following institutions with reclassifying their single family unfunded commitments as unconditionally cancellable and assigning a 0% credit conversion factor for risk-weighting purposes, reducing RWA and improving capital ratios:

	MVB Financial Corp.			WSFS Financial Corporation			Shore United Bank		
	2016Q2	2016Q3	Change	2017Q3	2017Q4	Change	2018Q2	2018Q3	Change
Total Assets	1,484,962	1,468,595		6,875,344	6,999,540		1,434,580	1,456,728	
Off-Balance Sheet Items (RC-L)									
Unfunded Commitment: 1-4 FAMILY (HELOCs)	38,274	38,944		411,931	246,791		49,214	48,493	
Derivatives & Off-Balance Sheet Items (RC-R)									
NotAmt:Unused Cmt>1yr Orig Mat	139,848	86,355		1,458,196	1,001,184		106,068	64,750	
NotAmt: Unused Cmt ABCP Conduits <= 1 Yr Orig Mat	NA	NA		NA	NA		NA	NA	
Not Amt: Unused Cmt ABCP excl Cond<= 1 Yr Orig Mat	126,857	145,804		0	0		72,610	60,771	
NotAmt: Unconditionally Cancelable Commitments	1,218	40,182	38,964	0	246,791	246,791	3,666	48,381	44,715
NotAmt: Total Unsettled Transactions	0	0		0	0		0	0	
	Excludes Reclass	Includes Reclass	Change	Excludes Reclass	Includes Reclass	Change	Excludes Reclass	Includes Reclass	Change
Reporting Period of HELOC Reclassification	2016Q3			2017Q4			2018Q3		
Unfunded Commitment: 1-4 FAMILY (HELOCs)	38,944	38,944	-	246,791	246,791	-	48,493	48,493	-
Unconditionally Cancelable Commitments	1,238	40,182	38,944	0	246,791	246,791	3,666	48,381	44,715
Common Equity Tier 1 Capital	92,124	92,124	-	552,982	552,982	-	136,955	136,955	-
Tier 1 Capital	112,582	112,582	-	617,944	617,944	-	136,955	136,955	-
Total Capital	151,140	151,140	-	659,375	659,375	-	147,584	147,584	-
Risk Weighted Assets	1,203,642	1,184,170	(19,472)	5,900,830	5,777,434	(123,396)	1,185,462	1,161,215	(24,247)
Common Equity Tier 1 Capital Ratio	7.65%	7.78%	0.13%	9.37%	9.57%	0.20%	11.55%	11.79%	0.24%
Tier 1 Ratio	9.35%	9.51%	0.15%	10.47%	10.70%	0.22%	11.55%	11.79%	0.24%
Total Capital Ratio	12.56%	12.76%	0.21%	11.17%	11.41%	0.24%	12.45%	12.71%	0.26%

- Source: SNL Financial
- Assumes a 100% RW and 50% CCF for HELOC unfunded commitments
- Information confidential and private, for intended audience only and not meant for distribution

Why is Standard HELOC Disclosure Language Unconditionally Cancellable?

POSSIBLE ACTIONS. Under this Plan, we have the following rights:

Termination and Acceleration. We can terminate the Plan and require you to pay us the entire outstanding balance in one payment, and charge you certain fees, if any of the following happens:

- (a) You commit fraud or make a material misrepresentation at any time in connection with the Plan. This can include, for example, a false statement about your income, assets, liabilities, or any other aspect of your financial condition.
- (b) You do not meet the repayment terms of the Plan.
- (c) Your action or inaction adversely affects the collateral for the Plan or our rights in the collateral. This can include, for example, failure to maintain required insurance, waste or destructive use of the dwelling, failure to pay taxes, death of all persons liable on the account, transfer of title or sale of the dwelling, creation of a senior lien on the dwelling without our permission, foreclosure by the holder of another lien or the use of funds or the dwelling for prohibited purposes.

Suspension or Reduction. In addition to any other rights we may have, we can suspend additional extensions of credit or reduce your credit limit during any period in which any of the following are in effect:

- (a) The value of your dwelling declines significantly below the dwelling's appraised value for purposes of the Plan. This includes, for example, a decline such that the initial difference between the credit limit and the available equity is reduced by fifty percent and may include a smaller decline depending on the individual circumstances.
- (b) We reasonably believe that you will be unable to fulfill your payment obligations under the Plan due to a material change in your financial circumstances.
- (c) You are in default under any material obligation of the Plan. We consider all of your obligations to be material. Categories of material obligations include, but are not limited to, the events described above under Termination and Acceleration, obligations to pay fees and charges, obligations and limitations on the receipt of credit advances, obligations concerning maintenance or use of the dwelling or proceeds, obligations to pay and perform the terms of any other deed of trust, mortgage or lease of the dwelling, obligations to notify us and to provide documents or information to us (such as updated financial information), obligations to comply with applicable laws (such as zoning restrictions).
- (d) We are precluded by government action from imposing the annual percentage rate provided for under the Plan.
- (e) The priority of our security interest is adversely affected by government action to the extent that the value of the security interest is less than 120 percent of the credit limit.
- (f) We have been notified by governmental authority that continued advances may constitute an unsafe and unsound business practice.
- (g) The maximum annual percentage rate under the Plan is reached.

Change in Terms. We may make changes to the terms of the Plan if you agree to the change in writing at that time, if the change will unequivocally benefit you throughout the remainder of the Plan, or if the change is insignificant (such as changes relating to our data processing systems).

Credit Conversion Factors on HELOC Unfunded Commitments

Call Report definition of “unconditionally cancellable”

- The definition of “unconditionally cancellable” as it pertains to assigning credit conversion factors (CCFs) on unfunded commitments has certain caveats for consumer products written into the RC-R call report instructions:

“In the case of consumer home equity or mortgage lines of credit secured by liens on 1-4 family residential properties, a bank is deemed able to unconditionally cancel the commitment if, at its option, it can prohibit additional extensions of credit, reduce the credit line, and terminate the commitment **to the full extent permitted by relevant federal law.**”

Regulatory clarity provided:

- This excerpt “to the full extent permitted by relevant federal law” is a reference to the situations permitted by Reg Z that one can cancel a HELOC
- Our FDIC contacts responded to our requests for clarity as follows:

“Generally speaking, if the HELOC contract follows Reg Z, *and does not add any additional conditions*, that is goes beyond the extent permitted by Federal or applicable State law (basically, bank-directed additional conditions), then it would fall in line with the definition of unconditionally cancellable.”

- As a result, one would achieve the HELOC definition of unconditionally cancellable and can apply a CCF of 0% to these contracts assuming the contracts have the Reg Z language

Reg Z Language: Limitations on Home Equity Plans

(f) Limitations on home equity plans. No creditor may, by contract or otherwise:

(1) Change the annual percentage rate unless:

- (i) Such change is based on an index that is not under the creditor's control; and
- (ii) Such index is available to the general public.

(2) Terminate a plan and demand repayment of the entire outstanding balance in advance of the original term (except for reverse mortgage transactions that are subject to paragraph (f)(4) of this section) unless:

- (i) There is fraud or material misrepresentation by the consumer in connection with the plan;**
- (ii) The consumer fails to meet the repayment terms of the agreement for any outstanding balance;**
- (iii) Any action or inaction by the consumer adversely affects the creditor's security for the plan, or any right of the creditor in such security; or**
- (iv) Federal law dealing with credit extended by a depository institution to its executive officers specifically requires that as a condition of the plan the credit shall become due and payable on demand, provided that the creditor includes such a provision in the initial agreement.

(3) Change any term, except that a creditor may:

- (i) Provide in the initial agreement that it may prohibit additional extensions of credit or reduce the credit limit during any period in which the maximum annual percentage rate is reached.** A creditor also may provide in the initial agreement that specified changes will occur if a specified event takes place (for example, that the annual percentage rate will increase a specified amount if the consumer leaves the creditor's employment).

Reg Z Language: Limitations on Home Equity Plans

(3) Change any term, except that a creditor may:

(ii) Change the index and margin used under the plan if the original index is no longer available, the new index has an historical movement substantially similar to that of the original index, and the new index and margin would have resulted in an annual percentage rate substantially similar to the rate in effect at the time the original index became unavailable.

(iii) Make a specified change if the consumer specifically agrees to it in writing at that time.

(iv) Make a change that will unequivocally benefit the consumer throughout the remainder of the plan.

(v) Make an insignificant change to terms.

(vi) Prohibit additional extensions of credit or reduce the credit limit applicable to an agreement during any period in which:

(A) The value of the dwelling that secures the plan declines significantly below the dwelling's appraised value for purposes of the plan;

(B) The creditor reasonably believes that the consumer will be unable to fulfill the repayment obligations under the plan because of a material change in the consumer's financial circumstances;

(C) The consumer is in default of any material obligation under the agreement;

(D) The creditor is precluded by government action from imposing the annual percentage rate provided for in the agreement;

(E) The priority of the creditor's security interest is adversely affected by government action to the extent that the value of the security interest is less than 120 percent of the credit line; or

(F) The creditor is notified by its regulatory agency that continued advances constitute an unsafe and unsound practice.

Municipal Loan Risk Weighting

Municipal Loan Risk Weighting

- 12 CFR § 217.32 bifurcates the risk weighting on municipal obligations into two categories, general obligations at 20% risk weight, and revenues obligations at 50% risk weight.

(i) A Board-regulated institution must assign a **20 percent risk weight to a general obligation exposure** to a PSE that is organized under the laws of the United States or any state or political subdivision thereof.

(ii) A Board-regulated institution must assign a **50 percent risk weight to a revenue obligation exposure** to a PSE that is organized under the laws of the United States or any state or political subdivision thereof.

- 12 CFR § 217.2 further defines “general obligation” and “revenue obligation” as follows”

General obligation means a **bond or similar obligation** that is backed by the full faith and credit of a public sector entity (PSE).

Revenue obligation means a **bond or similar obligation** that is an obligation of a PSE, but which the PSE is committed to repay with revenues from the specific project financed rather than general tax funds.

- The wording in this section of the regulation is important, as it makes no distinction between municipal securities and municipal loans. Instead, bonds and “similar obligation[s]” both receive the same treatment: either 20% or 50%. Notably, the revenue/general obligation distinction is made separate from the use of funds of the obligation, it is contingent solely on the source of payment and not the form of function of the obligation.
- Using this logic, some institutions have classified, or are recently reclassifying, their municipal loans from 100% to either 20% or 50%. The reduction in risk weighted assets is essentially free capital, similar to the HELOC reclassification.
- Utilizing sample data, this could result in an immediate improvement in RBC ratios:

	State & Political Loans	State & Political Loans RWA	Δ in RWA	Total Risk Weighted Assets	Tier 1 Capital	Tier 1 Common Capital Ratio	Δ in RBC Ratio
100% Risk Weight	\$800,828	\$800,828	\$0	\$22,530,325	\$2,721,018	12.08%	
50% Risk Weight	\$800,828	\$400,414	(\$400,414)	\$22,129,911	\$2,721,018	12.30%	↑ 0.22%
20% Risk Weight	\$800,828	\$160,166	(\$640,662)	\$21,889,663	\$2,721,018	12.43%	↑ 0.35%

(1) 12 CFR § 217.32 - General risk weights.

(2) 12 CFR § 217.2 - Definitions.

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

Prudently Underwritten Residential Mortgage Loans

Prudently Underwritten Residential Mortgage Loans

“In column H—50% risk weight, include the carrying value of loans held for investment (HFI) secured by 1-4 family residential properties included in Schedule RC-C, Part I, item 1.c.(1) (only include qualifying first mortgage loans); qualifying loans from Schedule RC-C, Part I, items 1.c.(2)(a) and 1.d; and those loans that meet the definition of a residential mortgage exposure and qualify for 50 percent risk weight under §.32(g) of the regulatory capital rules. For residential mortgage exposures,

- The loans must be prudently underwritten
- Be fully secured by first liens on 1-4 family residential properties (regardless of the original and outstanding amount of the loan) or multifamily residential properties (with an original and outstanding amount of \$1 million or less)
- A property is owner-occupied or rented
- Not 90 days or more past due or in nonaccrual status
- And have not been restructured or modified (unless modified or restructured solely pursuant to the U.S. Treasury’s Home Affordable Mortgage Program (HAMP)).”

Prudently Underwritten Residential Mortgage Loans

Prudently underwritten standards include:

- LTV < 80% if fixed interest rate and < 75% if floating interest rate
- Value of loan-to-value for acquiring a property is based on lower of cost or appraisal (or if appropriate, evaluated); otherwise, the loan-to-value ratio generally would be based on current appraisal
- All appraisals must be made in a manner consistent with the Federal banking agencies' real estate appraisal regulations and guidelines and with the bank's own appraisal guidelines

In addition, prudently underwritten real estate loans should reflect all relevant credit factors, including:

- The capacity of the borrower, or income from the underlying property, to adequately service the debt
- The value of the mortgaged property
- The overall creditworthiness of the borrower
- The level of equity invested in the property
- Any secondary sources of repayment
- Any additional collateral or credit enhancements (such as guarantees, mortgage insurance or takeout commitments)
- The lending policies should reflect the level of risk that is acceptable to the board of directors and provide clear and measurable underwriting standards that enable the institution's lending staff to evaluate these credit factors

1. List not exhaustive, see 2nd link below for full list
2. <https://www.occ.treas.gov/news-issuances/news-releases/2009/nr-ia-2009-140a.pdf>
3. <https://www.ecfr.gov/current/title-12/chapter-III/subchapter-B/part-365>
4. Information confidential and private, for intended audience only and not meant for distribution

Statutory Multifamily Mortgage

Statutory Multifamily Mortgage

“In column H—50% risk weight, include the carrying value of loans HFI secured by 1-4 family residential properties included in Schedule RC-C, Part I, item 1.c.(1) (only include qualifying first mortgage loans); qualifying loans from Schedule RC-C, Part I, items 1.c.(2)(a) and 1.d; and those loans that meet the definition of a residential mortgage exposure and qualify for 50 percent risk weight under §.32(g) of the regulatory capital rules..... **Also include loans HFI that meet the definition of statutory multifamily mortgage in §.2 of the regulatory capital rules.** Also include the portion of any loan HFI which meets the definition of residential mortgage exposure reported in Schedule RC, item 4.b, that is secured by collateral or has a guarantee that qualifies for the 50 percent risk weight. The loan is made in accordance with prudent underwriting standards”

“**11b Statutory multifamily mortgage** means a loan secured by a multifamily residential property that meets the requirements under Section 618(b)(1) of the Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991, and that meets the following criteria:

- (1) The loan is made in accordance with prudent underwriting standards;
- (2) The principal amount of the loan at origination does not exceed 80 percent of the value of the property (or 75 percent of the value of the property if the loan is based on an interest rate that changes over the term of the loan) where the value of the property is the lower of the acquisition cost of the property or the appraised (or, if appropriate, evaluated) value of the property;
- (3) All principal and interest payments on the loan must have been made on a timely basis in accordance with the terms of the loan for at least one year prior to applying a 50 percent risk weight to the loan, or in the case where an existing owner is refinancing a loan on the property, all principal and interest payments on the loan being refinanced must have been made on a timely basis in accordance with the terms of the loan for at least one year prior to applying a 50 percent risk weight to the loan;
- (4) Amortization of principal and interest on the loan must occur over a period of not more than 30 years and the minimum original maturity for repayment of principal must not be less than 7 years;
- (5) Annual net operating income (before making any payment on the loan) generated by the property securing the loan during its most recent fiscal year must not be less than 120 percent of the loan's current annual debt service (or 115 percent of current annual debt service if the loan is based on an interest rate that changes over the term of the loan) or, in the case of a cooperative or other not-for-profit housing project, the property must generate sufficient cash flow to provide comparable protection to the institution; and
- (6) The loan is not more than 90 days past due, or on nonaccrual.”

Statutory Multifamily Mortgage (cont...)

“A loan that meets the requirements of Section 618(b)(1) of the Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991 is a loan:

- (i) Secured by a first lien on a residence consisting of more than 4 dwelling units;
- (ii) Under which
 - (i) The rate of interest does not change over the term of the loan, (b) the principal obligation does not exceed 80 percent of the appraised value of the property, and (c) the ratio of annual net operating income generated by the property (before payment of any debt service on the loan) to annual debt service on the loan is not less than 120 percent; or
 - (ii) The rate of interest changes over the term of the loan, (b) the principal obligation does not exceed 75 percent of the appraised value of the property, and (c) the ratio of annual net operating income generated by the property (before payment of any debt service on the loan) to annual debt service on the loan is not less than 115 percent;
- (iii) Under which
 - (i) Amortization of principal and interest occurs over a period of not more than 30 years;
 - (ii) The minimum maturity for repayment of principal is not less than 7 years; and
 - (iii) Timely payment of all principal and interest, in accordance with the terms of the loan, occurs for a period of not less than 1 year; and
 - (iv) That meets any other underwriting characteristics that the appropriate Federal banking agency may establish, consistent with the purposes of the minimum acceptable capital requirements to maintain the safety and soundness of financial institutions.”
- (iv) That meets any other underwriting characteristics that the appropriate Federal banking agency may establish, consistent with the purposes of the minimum acceptable capital requirements to maintain the safety and soundness of financial institutions.

Loans Held for Investment

Loans Held for Investment/Sale – Securitization Scope

- 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 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
- For on- and off-balance sheet loans held for investment/sale and meet securitization exposure criteria (i.e., backed by financial exposure as source collateral/repayment), institutions can apply simplified supervisory formula approach (SSFA) or gross-up approach for calculating risk weighted asset classification, therefore, potentially reducing current risk weighted asset value for certain loans (see Synovus earnings call transcript reference in 2nd section below)

Final Capital Rule

“Both the designation of exposures as securitization exposures....and the calculation of risk-based capital requirements for securitization exposures under the final rule are guided by the economic substance of a transaction rather than its legal form. Provided there is tranching of credit risk, securitization exposures could include, among other things, ABS and MBS, **loans, lines of credit, liquidity facilities, financial standby letters of credit, credit derivatives and guarantees, loan servicing assets, servicer cash advance facilities, reserve accounts, credit-enhancing representations and warranties, and credit-enhancing interest-only strips**”¹

Synovus Earnings Call Transcript Q1 '24

“But the effort we're talking about today is around certain loan categories that could be eligible to have reduced risk weightings, including mortgage, government lending, securitization exposures and multifamily term loans. ***The largest impact of this effort is coming from loans that qualify for a reduced RWA treatment within our lender finance portfolio. But in order to achieve that risk weighting, down to 20% in many cases relative to the 100% risk weighting we have today. We have to perform proper analysis and documentation in light of the regulatory capital requirements under the simplified supervisory formula approach.***”² – SNV 1Q24 Earnings Call

Securitization Eligibility – Financial Exposure

- For securitization exposure, Basel III requires “all or substantially all of the underlying exposures to be financial exposures”
- Additionally, the final rule states the securitization framework does not apply to tranching credit exposures to operating companies defined as “companies that are established to conduct business with clients with the intention of earning a profit in their own right and generally produce goods or provide services beyond the business of investing, reinvesting, holding, or trading in financial assets”
 - Loans made to special purpose vehicles (SPVs) or non-operating companies as defined by the final rule where source of repayment/collateral is financial exposure i.e., lease residuals, entertainment royalties, certain receivables etc. could be eligible under securitization scope

Final Capital Rule

“The agencies believe that requiring all or substantially all of the underlying exposures of a securitization to be financial exposures creates an important boundary between the general credit risk framework and the securitization framework.... The securitization framework is not designed, however, to apply to tranching credit exposures to commercial or industrial companies or nonfinancial assets or to amounts deducted from capital under section 22 of the final rule. Accordingly, a specialized loan to finance the construction or acquisition of large-scale projects (for example, airports or power plants), objects (for example, ships, aircraft, or satellites), or commodities (for example, reserves, inventories, precious metals, oil, or natural gas) **generally would not be a securitization exposure because the assets backing the loan typically are nonfinancial assets (the facility, object, or commodity being financed).”**

Final Capital Rule

“Consistent with the proposal, under the final rule, an operating company does not fall under the definition of a traditional securitization (even if substantially all of its assets are financial exposures). Operating companies generally refer to companies that are established to conduct business with clients with the intention of earning a profit in their own right and generally produce goods or provide services beyond the business of investing, reinvesting, holding, or trading in financial assets. **However, investment firms that generally do not produce goods or provide services beyond the business of investing, reinvesting, holding, or trading in financial assets, would not be operating companies under the final rule and would not qualify for this general exclusion from the definition of traditional securitization.....**Commenters also requested that the agencies provide exclusions for certain products provided to investment firms, such as extensions of short-term credit that support day-to-day investment-related activities. **The agencies believe that exposures that meet the definition of traditional securitization, regardless of product type or maturity, would fall under the securitization framework. Accordingly, the agencies have not provided for any such exemptions under the final rule.177”**

Traditional Securitization: Basel III Definition

Traditional securitization means a transaction in which:

1. "All or a portion of the credit risk of one or more underlying exposures is transferred to one or more third parties other than through the use of credit derivatives or guarantees;
2. The credit risk associated with the underlying exposures has been separated into at least two tranches reflecting different levels of seniority;
3. Performance of the securitization exposures depends upon the performance of the underlying exposures;
4. All or substantially all of the underlying exposures are financial exposures (such as loans, commitments, credit derivatives, guarantees, receivables, asset-backed securities, mortgage-backed securities, other debt securities, or equity securities);
5. The underlying exposures are not owned by an operating company;
6. The underlying exposures are not owned by a small business investment company defined in section 302 of the Small Business Investment Act;
7. The underlying exposures are not owned by a firm an investment in which qualifies as a community development investment under section 24(Eleventh) of the National Bank Act;
8. The [AGENCY] may determine that a transaction in which the underlying exposures are owned by an investment firm that exercises substantially unfettered control over the size and composition of its assets, liabilities, and off-balance sheet exposures is not a traditional securitization based on the transaction's leverage, risk profile, or economic substance;
9. The [AGENCY] may deem a transaction that meets the definition of a traditional securitization, notwithstanding paragraph (5), (6), or (7) of this definition, to be a traditional securitization based on the transaction's leverage, risk profile, or economic substance; and
10. The transaction is not: (i) An investment fund; (ii) A collective investment fund (as defined in [12 CFR 9.18 (national bank) and 12 CFR 151.40 (Federal saving association) (OCC); 12 CFR 208.34 (Board)]); (iii) An employee benefit plan (as defined in paragraphs (3) and (32) of section 3 of ERISA), a "governmental plan" (as defined in 29 U.S.C. 1002(32)) that complies with the tax deferral qualification requirements provided in the Internal Revenue Code, or any similar employee benefit plan established under the laws of a foreign jurisdiction; (iv) A synthetic exposure to the capital of a financial institution to the extent deducted from capital under Sec. --.22; or(v) Registered with the SEC under the Investment Company Act of 1940 (15 U.S.C. 80a-1) or foreign equivalents thereof."

Assessment of Securitization Framework

- For eligible securitization exposure, the final rule stated the line between “securitization exposures and non-securitization exposures may be difficult to identify in some circumstances”
- However, the rule also stated that the agencies will “consider the economic substance, leverage, and risk profile of a transaction to ensure that an appropriate risk-based capital treatment is applied”

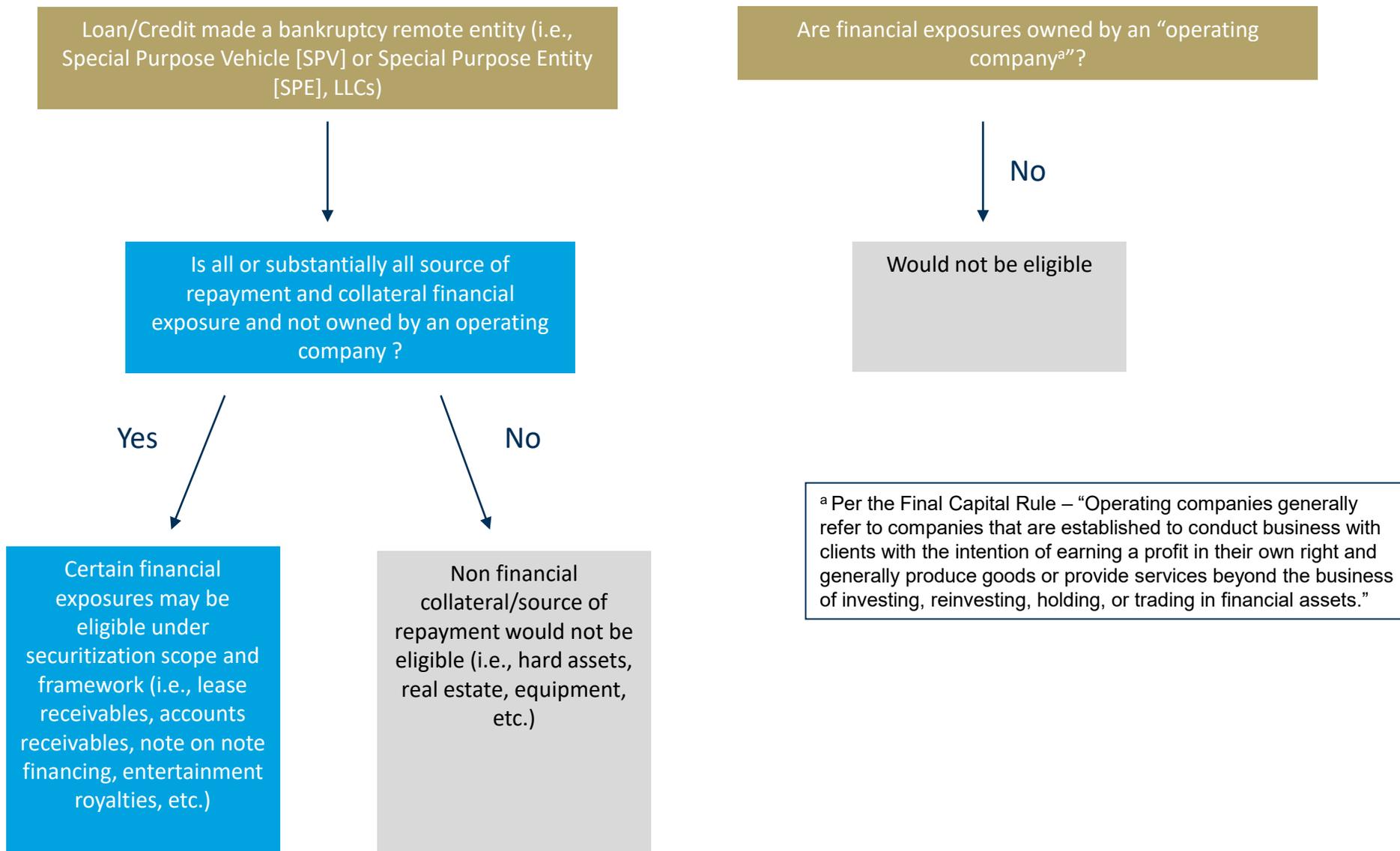
Final Capital Rule

“This supervisory exclusion gives the primary Federal supervisor discretion to distinguish structured finance transactions, to which the securitization framework is designed to apply, from those of flexible investment firms, such as certain hedge funds and private equity funds. Only investment firms that can easily change the size and composition of their capital structure, as well as the size and composition of their assets and off-balance sheet exposures, are eligible for the exclusion from the definition of traditional securitization under this provision. The agencies do not consider managed collateralized debt obligation vehicles, structured investment vehicles, and similar structures, which allow considerable management discretion regarding asset composition but are subject to substantial restrictions regarding capital structure, to have substantially unfettered control. Thus, such transactions meet the definition of traditional securitization under the final rule.

The line between securitization exposures and non-securitization exposures may be difficult to identify in some circumstances. In addition to the supervisory exclusion from the definition of traditional securitization described above, the primary Federal supervisor may expand the scope of the securitization framework to include other transactions if doing so is justified by the economics of the transaction. **Similar to the analysis for excluding an investment firm from treatment as a traditional securitization, the agencies will consider the economic substance, leverage, and risk profile of a transaction to ensure that an appropriate risk-based capital treatment is applied.** The agencies will consider a number of factors when assessing the economic substance of a transaction including, for example, the amount of equity in the structure, overall leverage (whether on- or off-balance sheet), whether redemption rights attach to the equity investor, and the ability of the junior tranches to absorb losses without interrupting contractual payments to more senior tranches.”

Securitization: Potential Eligible Loan/Credit Exposure

Potential Eligible Under Securitization Scope



- <https://www.govinfo.gov/content/pkg/FR-2013-10-11/html/2013-21653.htm>
- Language and details provided above are general and factual for informational purposes only
- List not exhaustive, information confidential and private, for intended audience only and not meant for distribution

Simplified Supervisory Formula Approach (SSFA): Example

- **Calculating Risk Weight for Securitization Exposures:** For securitization exposures, institutions can elect to use simplified supervisory formula approach (SSFA) or if not subject to market risk rule, the gross-up approach for calculating risk weighted asset amount
- Each approach's risk based capital requirement is subject to a minimum of calculated risk weight or 20%
- Note: once an approach is elected to use, institution is not allowed to switch/change approach methods for similar exposures (i.e., securitization exposures)

SSFA Calculation:

$$\left[\left(\frac{K_A - A}{D - A} \right) \cdot 1,250 \text{ percent} \right] + \left[\left(\frac{D - K_A}{D - A} \right) \cdot 1,250 \text{ percent} \cdot K_{SSFA} \right]$$

$$K_{SSFA} = \frac{e^{a \cdot u} - e^{a \cdot l}}{a(u - l)}$$

$$K_A = (1 - W) \cdot K_G + (0.5 \cdot W)$$

$$a = -\frac{1}{p \cdot K_A}$$

$$u = D - K_A$$

$$l = \max(A - K_A, 0)$$

$e = 2.71828$, the base of the natural logarithms.

Key Definitions:

Attachment Point (Parameter A): represents the threshold at which credit losses will first be allocated to the exposure

Detachment Point (Parameter D): represents the threshold at which credit losses of principal allocation to the exposure would result in total loss of principal

Potential Risk Weighted Asset Reduction:

For underlying financial exposures with loans with 0% 90 day+ past due, assets in bankruptcy, in foreclosure process etc.;

100% risk weighted exposures would need 12.5% minimum first loss protection

50% risk weighted exposures would need 5% minimum first loss protection

For resulting 20% risk weight for underlying financial exposure

Loans Held for Investment/Sale – Securitization Exposure Example

Risk-weighted assets for securitization exposures

The following table presents securitization exposures and their applicable risk weighting as of December 31, 2023. There were no amounts of exposures past due and impaired as of December 31, 2023, and no losses were incurred on the exposures during the quarter ended December 31, 2023.

Table 8-1
Total Securitizations by Risk Weight Category
December 31, 2023

(Dollars in millions)	Exposure Amount	RWA	RWA %	RWA Method
Exposure type:				
LHFI	\$ 8,550	\$ 2,013	24 %	SSFA
Unfunded commitment related to LHFI	6,697	1,444	22	SSFA
Securities AFS:				
Securitization ⁽¹⁾	3,710	742	20	SSFA
Other off-balance sheet amount ⁽²⁾	1	13	1250	1250 %
Other	7	1	14	SSFA
Total securitization	\$ 18,965	\$ 4,213		

(1) Includes accrued interest.

(2) For off-balance sheet exposures that use the 1,250% risk-weight, the exposure amount equals the maximum exposure to loss.

The following table presents securitization exposures and underlying collateral type as of December 31, 2023.

Table 8-2
Securitizations by Collateral Type
December 31, 2023

(Dollars in millions)	Securitization Amount			RWA
	On-Balance Sheet	Off-Balance Sheet	Total	
Collateral type:				
Trade receivables	\$ 1,304	\$ 1,108	\$ 2,412	\$ 483
Commercial and Industrial	2,969	3,745	6,714	1,493
Consumer Loans	2,730	1,265	3,995	1,048
Residential Mortgages	3,698	—	3,698	740
Other	1,566	580	2,146	449
Total	\$ 12,267	\$ 6,698	\$ 18,965	\$ 4,213

- The illustration to the right highlights Truist Financial Corporation disclosures regarding the use of the simplified supervisory formula approach (SSFA) for a portion of its loans held for investment (LHFI)
- Collateral type breakdown towards the bottom right indicate Truist’s classification of a portion of their trade receivables, C&I, consumer loans and residential mortgages at low 20% risk weight under SSFA

Risk Weighted Asset Relief: Flexibility of “RWA Optimization”

“On May 6, 2024, Synovus substantially completed a risk weighted asset (“RWA”) optimization analysis of certain of its loan portfolios to determine eligibility for reduced risk weighting. This analysis included such segments as securitization finance, multi-family mortgage, government lending, and residential mortgage.

Based on this analysis, Synovus now expects an incremental reduction in RWA in the second quarter of 2024 of approximately \$2.0 to \$2.4 billion **which will result in a marginal increase in its common equity tier 1 (“CET1”) ratio of approximately 40 to 50 basis points.**

Absent the planned actions noted below, Synovus would expect its CET1 ratio to exceed the previously announced targeted range of 10.0% to 10.5%.”

2Q24 Mid-Quarter Update

	Commentary	Impacts/ Considerations
RWA Optimization	<ul style="list-style-type: none"> Largely complete, with anticipated reduction of \$2.0B - \$2.4B of RWA Anticipate capital deployment into securities repositioning in May 	<ul style="list-style-type: none"> Inclusive of deployment, expect to operate at upper end of 10.0% - 10.5% CET1 range Anticipate ~\$275MM pre-tax securities loss with a ~5 year earn back

“The increase in capital ratios resulting from this RWA optimization provides flexibility for incremental capital deployment and as such, Synovus expects, subject to market conditions, to reposition a portion of its \$11 billion securities portfolio throughout the month of May.

As part of this exercise, Synovus anticipates selling available-for-sale securities with a book value of approximately \$1.6 billion, resulting in a pre-tax loss of approximately \$275 million, with funds redeployed into other high quality liquid assets. Synovus expects this transaction to positively impact its future net interest income and net interest margin profile, with an estimated earn back period of approximately five years.

After the foregoing anticipated securities repositioning, **Synovus will continue to operate at the upper end of its targeted range of a 10.0% to 10.5% CET1 ratio.”**

Funding Alternatives

ST. LOUIS, March 14, 2024 (GLOBE NEWSWIRE) -- Stifel Financial Corp. (NYSE: SF) today announced it has signed a definitive agreement to acquire Finance 500, Inc. ("Finance 500") and CB Resource, Inc. ("CBR")....

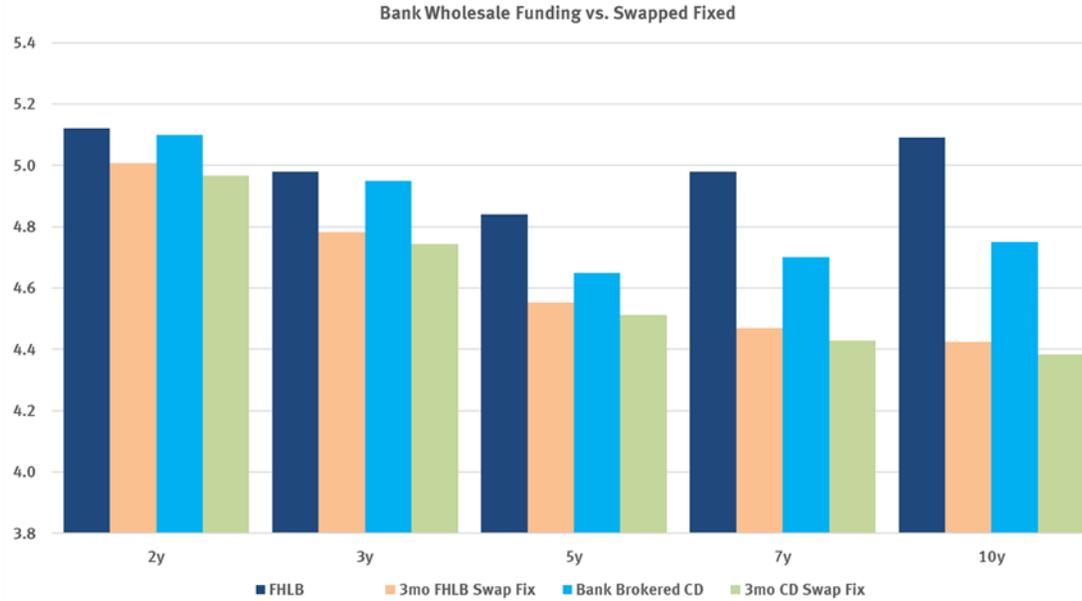
The Irvine-based companies, which operate as strategic partners under common ownership, are market leaders in the underwriting and issuance of certificates of deposits, having assisted more than 1,200 depository institutions in raising over \$200 billion to support near and long-term funding needs. CBR offers an advanced technology-enabled platform to deliver enterprise risk management, strategic planning, capital planning, and interactive performance-based analytics for community banks nationwide.

"We are always looking for opportunities to enhance our offering and better serve our clients," said Brant McDuffie, Global Co-Head of Stifel Fixed Income Capital Markets. "The addition of Finance 500 and CBR provides Stifel a technology-driven platform that will ensure our existing brokered CD funding business, our institutional CD investment offerings, and our community bank balance sheet risk management practice, are scalable and sustainable for the future. We all share the same client-driven approach and expect the Finance 500 and CBR teams to seamlessly integrate into our platform."

"Finance 500 and CBR, with our 40 years of experience, joined forces to deliver industry-leading CD funding, trading, ERM, planning, and performance-based analytics on a scalable platform," stated Jeff Rigsby, Chairman and CEO of both companies. "We couldn't be more excited to join Stifel's solutions and growth-driven team. Our clients will benefit from Stifel's market presence, financial strength, and access to the firm's comprehensive suite of products and services."

Wholesale Funding Menu/Optimization

As you consider the need for fixed rate funding, consider combining swaps with short-term wholesale funding to create the lowest fixed rate cost. This strategy typically saves 15bps to 30bps versus borrowing term funding directly.



Tenor	FHLB Advance	1mo FHLB Swap Fix	3mo FHLB Swap Fix	Bank Brokered CD	3mo CD Swap Fix	Bank Callable Brokered CD
O/N	5.67					
1m	5.54			5.45		
3m	5.54			5.50		
6m	5.48			5.35		
2y	5.12	5.00	5.01	5.10	4.97	5.35
3y	4.98	4.78	4.78	4.95	4.74	5.35
5y	4.84	4.55	4.55	4.65	4.51	5.35
7y	4.98	4.46	4.47	4.70	4.43	5.40
10y	5.09	4.42	4.42	4.75	4.38	5.40

- Information presented above regarding interest rate derivatives is considered general and factual. Please see further disclosures on the last page of this presentation.
- FHLB Advance rates –FHLB regular advances as of 4/29/24, CD levels per Stifel CD Desk 4/29/24, Indicative swap levels using SOFR swap levels as of 4/29/24; may not represent executable levels.
- Hedged effective funding cost assumes constant funding spread between FHLB and SOFR across various funding structures.

Creating Low Cost Fixed Rate Funding – Example Transaction

Details:

1. Bank borrows 3m brokered CD -5.50% (borrow quarterly at market rate)
2. Bank pays fixed on 3-year swap -4.57%
3. Bank receives compounded SOFR floating on swap +5.33% (3-month Term SOFR used as proxy)

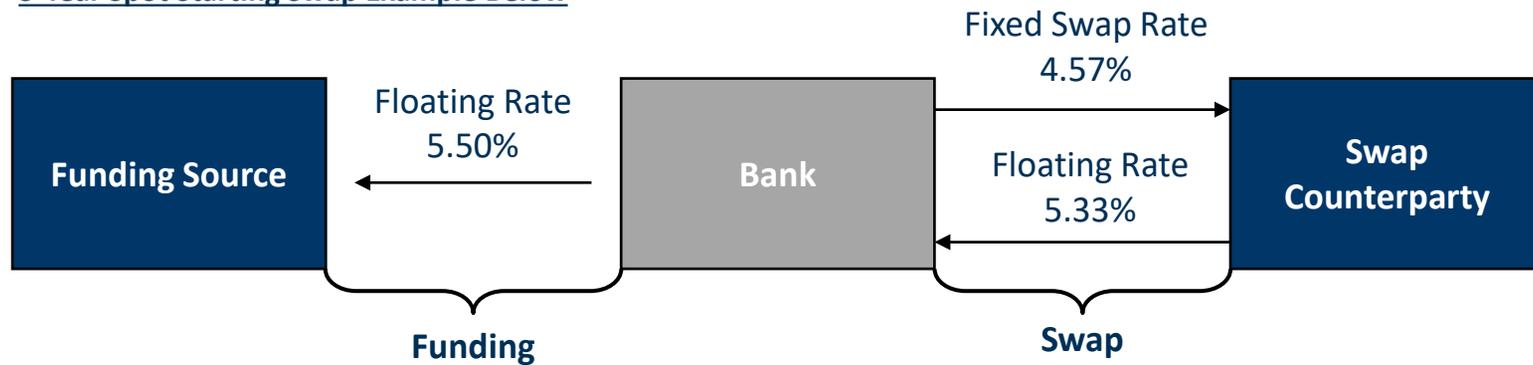
Effective Funding Cost -4.74%*

* The all-in fixed funding cost will equal the fixed rate on the interest rate swap +/- the spread difference between SOFR and the borrowing costs.

Short Term Fixed Rate Rollover Swapped to Fixed

Tenor	Funding			Swap		Compare to:	
	3m Fixed Bank Brokered CD	3m Term SOFR (Proxy)	Funding Spread	Fixed Swap Rate	Effective Funding Cost	Bank Brokered CD Term	Difference
2y	5.50	5.33	0.17	4.79	4.97	5.10	-0.13
3y	5.50	5.33	0.17	4.57	4.74	4.95	-0.21
5y	5.50	5.33	0.17	4.34	4.51	4.65	-0.14
7y	5.50	5.33	0.17	4.26	4.43	4.70	-0.27
10y	5.50	5.33	0.17	4.21	4.38	4.75	-0.37

3-Year Spot Starting Swap Example Below



- Indicative levels using SOFR swap levels as of 4/29/24; may not represent executable levels
- Bank brokered CD rates as of 4/29/24
- Information presented above regarding interest rate derivatives is considered general and factual. Please see further disclosures on the last page of this presentation.

Hedge Repricing Risk of Upcoming Debt Maturities

- Assume an institution has an existing FHLB advance maturing on 10/25/24 and looking to hedge their repricing risk.
- While today the swap rate for an immediate starting 3 year swap is 4.66, a 3 year swap starting in 6 months on 10/25/24 is 4.45.

	Spot and Fwd Starting Swap Pricing				
	Tenor	Spot	in 3mo	in 6mo	in 9mo
Pay Fixed Swaps	2y	4.87	4.73	4.59	4.48
	3y	4.66	4.55	4.45	4.35
	5y	4.42	4.35	4.29	4.23
	7y	4.33	4.28	4.23	4.19
	10y	4.27	4.23	4.20	4.17

Short Term Fixed Rate Rollover Swapped to Fixed

Funding				Spot Starting Swap		Forward Starting Swap	
Tenor	3m Fixed FHLB	3m Term SOFR (Proxy)	Funding Spread	Swap Rate	Effective Funding Cost	Swap Rate	Effective Funding Cost
2y	5.52	5.33	0.19	4.87	5.07	4.59	4.78
3y	5.52	5.33	0.19	4.66	4.85	4.45	4.64
5y	5.52	5.33	0.19	4.42	4.61	4.29	4.48
7y	5.52	5.33	0.19	4.33	4.52	4.23	4.42
10y	5.52	5.33	0.19	4.27	4.46	4.20	4.39

- A bank can lock in a 4.64 fixed funding cost today (see details regarding funding spread and all-in effective funding cost in the box below) for the amount of the existing debt that will need to be rolled over.

Hedged funding strategy of forecasted cash flows

- Relative certainty about the timing and amount of debt issuance is required. At the start date of the swap, overnight (or short term fixed, 1 to 3 month) fixed rate funding is issued.
- The overnight rate paid to FHLB is netted against the receive SOFR rate (leaving only a funding spread for the amount that FHLB charges overnight above the SOFR rate).

- Indicative levels as of 4/26/24, using SOFR OIS conventions, may not represent executable levels
- FHLB Regular rate as of 4/26/24, and hedged effective funding cost assumes constant funding spread between short term FHLB and equivalent term SOFR
- Information presented above regarding interest rate derivatives is considered general and factual. Please see further disclosures on the last page of this presentation.

Derivative Strategies

Optimizing Investment Portfolio Purchases

Strategy Overview

- Partial term fair value hedging allows a financial institution to create floating-rate or floating-to-fixed rate exposures by pairing an underlying fixed rate security with an interest rate swap. This strategy captures the spread, without the full benchmark interest rate risk, associated with longer duration securities. This strategy is applicable to new purchases/ reinvest options for security portfolio restructures/ or legacy positions to reduce market value sensitivity.

Discount Margins

- One could swap full call protection period to floating for fixed rate Agency CMBS product for example, or only swap the front end to floating, creating a compelling yield over SOFR during the hedge period and as the swap rolls off, the institution is left with lower fixed yield on back end.

Structure and Availability

- The SOFR interest rate swap presented on the following slide is using daily compounded SOFR in arrears, floating daily capturing real time index movements, whereas certain floating rate products like K-deal floaters, which reference 30d average SOFR or a backward looking average, create a delayed response to index movements.
- In terms of availability, the ability to create floating rate exposure by swapping fixed rate securities to floating also opens up greater access to product.

Asset/Liability Management Thoughts

- Swapping the front end portion to float allows the institution to remain asset sensitive during the hedge period while adding duration to the balance sheet in event rates decrease in later years.

In other words, buy the bonds you like regardless of the rate structure. Create the rate structure you need using interest rate swaps and options.

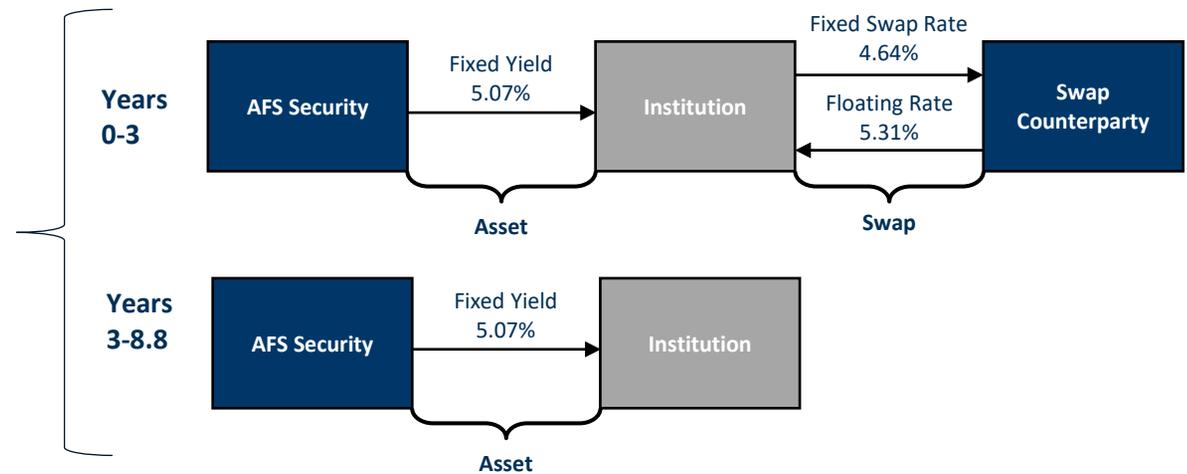
Example: Swapped Freddie K Grid

- Institutions are creating their own floating rate asset profiles by swapping either only the first 2 or 3 years to float or swapping the full locked out period for ACMBS.

Bond										Hedge		Hedged Position								
Description	Orig	Price	Cpn	Yield	Avg Life	Eff Dur	Px Chg -1	Px Chg +1	Px Chg +3	Structure	Cpn	Structure	Year 1 SOFR DM	Avg Swap Life DM	Bond Yield - Pay Fixed Rate	Fixed Yld	Eff Dur	Net Px Chg -1	Net Px Chg +1	Net Px Chg +3
FHMS K-155 A2	102,000,000	94.25	4.25	5.07	8.8	7.8	7.7%	-7.0%	-19.3%	2y spot	4.87	Flt to Fx	+0.23	+0.23	+0.2	5.07	5.8	5.7%	-5.1%	-13.8%
										3y spot	4.64	Flt to Fx	+0.47	+0.46	+0.43	5.07	4.8	4.8%	-4.2%	-11.3%
										8.2y spot	4.25	Flt	+0.88	+0.85	+0.82		0.3	0.4%	-0.3%	-0.7%

Freddie K Hedge

- 8.8y Freddie K swapped to float with 8y pay fixed swap
- While receiving 5.07% fixed yield on the bond, pay 4.64% fixed for 3y and receive SOFR floating (currently 5.31%)
- Creates a floating yield of SOFR +47bps⁴ for 3y (until pay fixed swap rolls off)
- Reduces up 300 price risk from -19.3% to -11.3%



- Indicative swap levels as of 5/1/2024; may not represent executable levels.
- Illustrative Bonds above per Stifel Desk as of 5/1/2024; may not represent executable levels.
- Price shocks represent an immediate parallel curve shock. Hedged position yields are uncapped/unfloored.
- 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.
- Information presented above regarding interest rate derivatives is considered general and factual. Please see further disclosures on the last page of this presentation.

Swapped Freddie K Grid

- The menu below reflects swapping fixed Freddie K A2 to floating with various pay fixed swap structures.
- The left side of grid represents underlying un hedged fixed rate bond data.
- The middle section adds pay fixed swap structures ranging from 2y, 3y and full lock out period swapped to floating
- Finally, the right section shows the resulting hedged position's floating rate yield and price sensitivity after swapping the underlying fixed rate bond to float with different swap structures.

Bond										Hedge		Hedged Position								
Description	Orig	Price	Cpn	Yield	Avg Life	Eff Dur	Px Chg -1	Px Chg +1	Px Chg +3	Structure	Cpn	Structure	Year 1 SOFR DM	Avg Swap Life DM	Bond Yield - Pay Fixed Rate	Fixed Yld	Eff Dur	Net Px Chg -1	Net Px Chg +1	Net Px Chg +3
FHMS K098 A2	13,175,000	88.24	2.43	5.01	5.2	5.4	4.9%	-4.6%	-13.0%	2y spot	4.87	Flt to Fx	+0.2	+0.19	+0.14	5.01	3.0	2.8%	-2.6%	-7.1%
										3y spot	4.64	Flt to Fx	+0.46	+0.43	+0.37	5.01	2.0	1.8%	-1.6%	-4.4%
										4.7y spot	4.43	Flt	+0.7	+0.64	+0.58		0.2	0.2%	-0.2%	-0.4%
FHMS K-154 A2	104,900,000	95.02	4.35	5.07	8.7	7.4	7.3%	-6.7%	-18.4%	2y spot	4.87	Flt to Fx	+0.23	+0.23	+0.21	5.07	5.4	5.4%	-4.8%	-12.9%
										3y spot	4.64	Flt to Fx	+0.47	+0.46	+0.43	5.07	4.4	4.4%	-3.9%	-10.4%
										7.3y spot	4.28	Flt	+0.85	+0.82	+0.79		0.7	0.7%	-0.6%	-1.5%
FHMS K-155 A2	102,000,000	94.25	4.25	5.07	8.8	7.8	7.7%	-7.0%	-19.3%	2y spot	4.87	Flt to Fx	+0.23	+0.23	+0.2	5.07	5.8	5.7%	-5.1%	-13.8%
										3y spot	4.64	Flt to Fx	+0.47	+0.46	+0.43	5.07	4.8	4.8%	-4.2%	-11.3%
										8.2y spot	4.25	Flt	+0.88	+0.85	+0.82		0.3	0.4%	-0.3%	-0.7%
FHMS K-157 A2	13,743,000	94.00	4.20	5.05	8.9	8.2	8.1%	-7.4%	-20.1%	2y spot	4.87	Flt to Fx	+0.21	+0.21	+0.19	5.05	6.2	6.1%	-5.5%	-14.5%
										3y spot	4.64	Flt to Fx	+0.45	+0.45	+0.41	5.05	5.2	5.2%	-4.6%	-12.1%
										7.2y spot	4.28	Flt	+0.83	+0.8	+0.77		1.6	1.6%	-1.4%	-3.3%
FHMS K-158 A2	14,306,037	92.85	4.05	5.05	9.1	7.8	7.5%	-6.9%	-18.9%	2y spot	4.87	Flt to Fx	+0.21	+0.21	+0.18	5.05	5.6	5.5%	-5.0%	-13.3%
										3y spot	4.64	Flt to Fx	+0.46	+0.45	+0.41	5.05	4.7	4.6%	-4.1%	-10.8%
										8.7y spot	4.24	Flt	+0.89	+0.84	+0.8		-0.3	-0.3%	0.2%	0.7%

1. Indicative swap levels as of 5/1/2024; may not represent executable levels.
2. Illustrative Bonds above per Stifel Desk as of 5/1/2024; may not represent executable levels.
3. Price shocks represent an immediate parallel curve shock. Hedged position yields are uncapped/unfloored.
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Rates Down Protection

Hedge Overview

- The chart to the right reflects the bank's current NII sensitivity (blue checkered line) in immediate parallel rate shock scenarios, indicating a slight asymmetrical asset sensitive profile.
- The solid lines in the chart represent pro forma NII sensitivity after overlaying various rates down hedging strategies to reduce asset sensitivity.

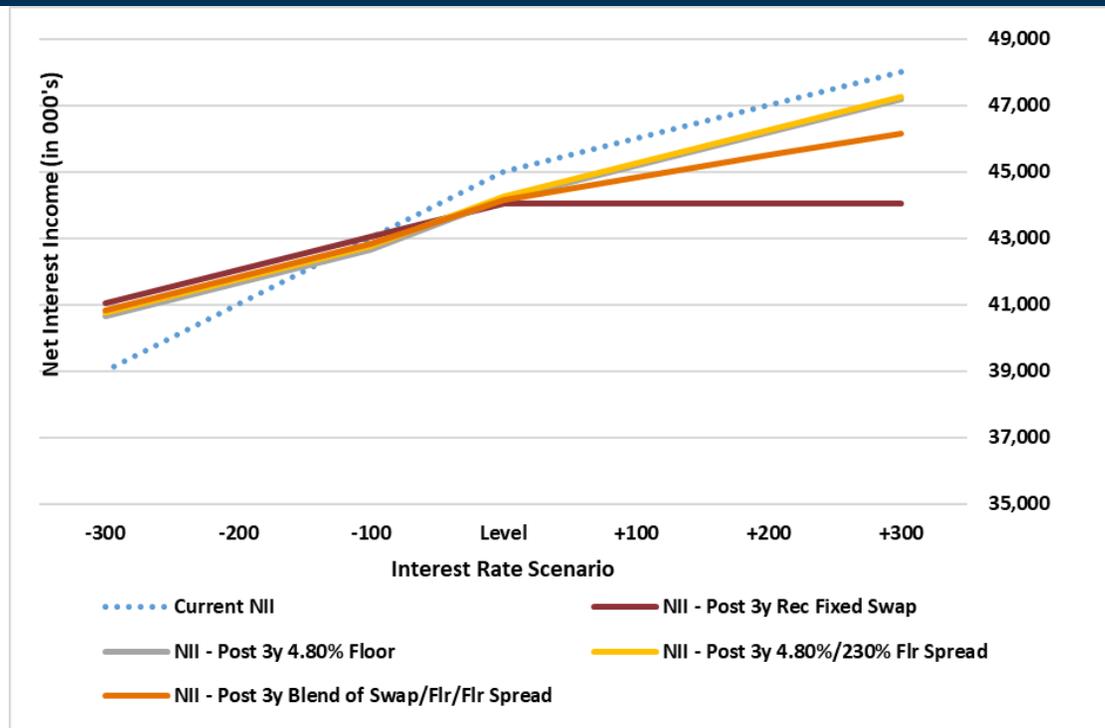
Hedge Objective

- Reduce asset sensitivity in a down rate environment at optimal cost and breakeven, while maintaining upside to higher rate environment.

Hedge Structure Type Payoff

- Receive fixed swap reduces asset sensitivity with a symmetrical payoff profile, offsetting the current profile of the bank today.
- Outright floors and floor spreads create a more asymmetrical payoff profile where the institution maintains asset sensitivity in a rising rate environment but also protects margin in falling rate environments.

Current and Pro Forma NII Sensitivity



Hedge Structure Payoff Profile (Per 100mm Notional)

Scen	SOFR	3y Rec. Fixed Swap	3y Outright 4.80% Floor	3y 4.80%/2.30% Flr Spread	3y Hedge Blend
+300	8.31	-3,946	-822	-729	(1,832)
+200	7.31	-2,946	-822	-729	(1,499)
+100	6.31	-1,946	-822	-729	(1,166)
Level	5.31	-946	-822	-729	(832)
-100	4.31	54	-332	-239	(172)
-200	3.31	1,054	668	761	828
-300	2.31	2,054	1,668	1,761	1,828
-400	1.31	3,054	2,668	1,771	2,498

*Each Structure Assumes \$100mm Notional

3y Spot Starting Rates Down Protection Summary

- The grid below expands on the payoff grid from previous slide for net payoffs in bps and in dollars assuming \$100mm.
- 3y receive fixed swap: Receive 4.36% fixed and pay SOFR floating (currently 5.31%) over the life of the hedge
- 3y 4.80% strike floor: Pay 2.47% upfront premium on notional (\$2.465mm), amortize annually over life of hedge
- 3y 4.80%/2.30% strike floor spread: Pay 2.19% upfront premium on notional (\$2.2mm), amortize annually over life of hedge

NII		3y Rec. Fixed Swap				3y Outright Floor				3y Floor Spread			
		Rec Fixed	Notional	Premium	Long	4.80	Notional	Premium	Long	4.80	Notional		
Scen	SOFR	4.36	100,000	2.47		4.80	100,000	2.19	Short	2.30	100,000		
		Rec. Fixed	Pay SOFR	Net %	3y Rec. Fixed Swap	Avg Ann. Amort.	Payoff	Net %	3y Outright Floor	Avg Ann. Amort.	Payoff	Net %	3y 4.80%/2.30 % Flr
+300	8.31	4.36	-8.31	-3.95	-3,946	-0.82	0.00	-0.82	-822	-0.73	0.00	-0.73	-729
+200	7.31	4.36	-7.31	-2.95	-2,946	-0.82	0.00	-0.82	-822	-0.73	0.00	-0.73	-729
+100	6.31	4.36	-6.31	-1.95	-1,946	-0.82	0.00	-0.82	-822	-0.73	0.00	-0.73	-729
Level	5.31	4.36	-5.31	-0.95	-946	-0.82	0.00	-0.82	-822	-0.73	0.00	-0.73	-729
-100	4.31	4.36	-4.31	0.05	54	-0.82	0.49	-0.33	-332	-0.73	0.49	-0.24	-239
-200	3.31	4.36	-3.31	1.05	1,054	-0.82	1.49	0.67	668	-0.73	1.49	0.76	761
-300	2.31	4.36	-2.31	2.05	2,054	-0.82	2.49	1.67	1,668	-0.73	2.49	1.76	1,761
-400	1.31	4.36	-1.31	3.05	3,054	-0.82	3.49	2.67	2,668	-0.73	2.50	1.77	1,771
Scen	SOFR	Mkt Price %	Mkt Price \$			Mkt Price %	Mkt Price \$			Mkt Price %	Mkt Price \$		
+300	8.31	(7.7)	-7,705			(2.0)	-2,034			(1.8)	-1,772		
+200	7.31	(5.2)	-5,234			(1.8)	-1,759			(1.5)	-1,525		
+100	6.31	(2.7)	-2,669			(1.2)	-1,153			(1.0)	-986		
Level	5.31	0.0	0			0.0	0			0.0	0		
-100	4.31	2.8	2,763			2.0	2,023			1.6	1,621		
-200	3.31	5.6	5,639			4.7	4,671			3.4	3,416		
-300	2.31	8.6	8,629			7.5	7,548			4.7	4,721		

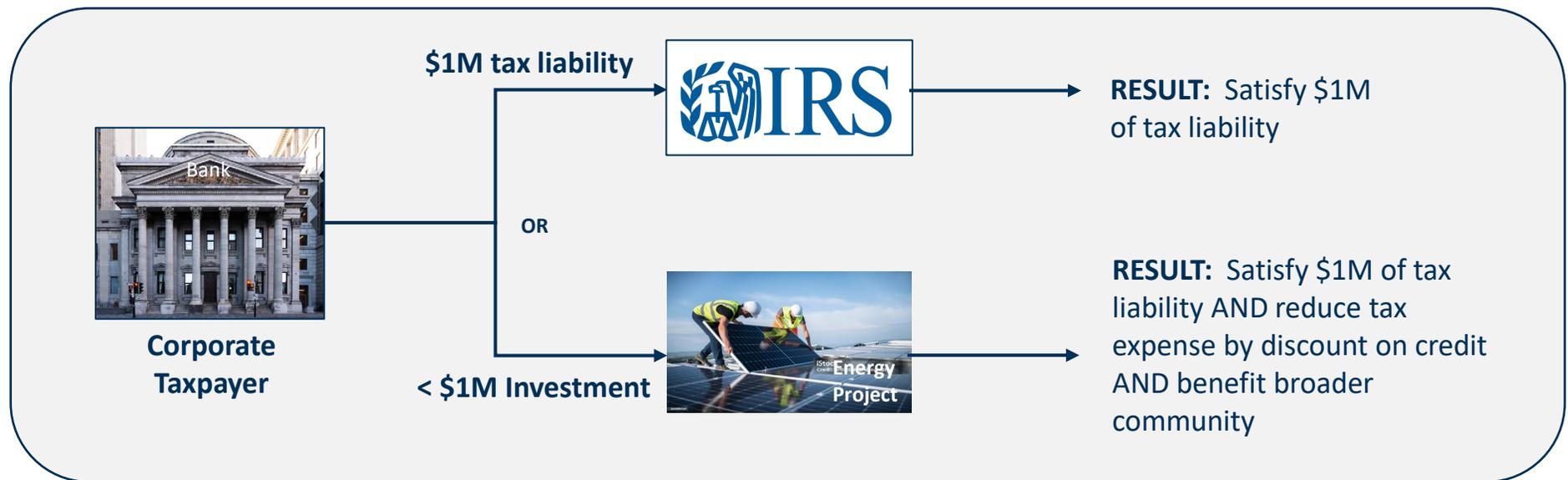
- Indicative levels as of 5/6/24, using SOFR OIS conventions; may not represent executable levels
- NII impact for options-related strategies is comprised of average annual amortization of any option premium, net of any payments for a given scenario
- Information presented above regarding interest rate derivatives is considered general and factual. Please see further disclosures on the last page of this presentation.

Tax Credits

Tax Credit Overview

What is a Tax Credit?

- Since the 1970's, the government has created programs that reward certain community development projects that benefit the public good. One such "reward" comes in the form of the **subsidization of a project through the allocation of Tax Credits**. In an effort to receive private capital to get a project off the ground, the developer is incentivized to sell the tax credit to an investor.
- A tax credit is the amount of money which a taxpayer may be permitted to subtract, dollar for dollar, from the income taxes they owe. Banks will typically buy tax credits at a discount, i.e., they will pay less than \$1 for every \$1 worth of tax credits. For this reason, tax credits can be thought of as an asset with a yield.



What Kinds of Tax Credits do Banks Buy?

- 1) Low Income Housing Tax Credits (LIHTC) – acquisition/development/rehabilitation of affordable rental housing
- 2) Historic Tax Credits (HTC) – rehabilitation of historic buildings
- 3) New Markets Tax Credits (NMTC) – economic development in low-income communities
- 4) Energy Investment Tax Credits (ITCs, PTCs) – wind, solar and other renewable energy projects

Tax Credit One-Pager: Federal Tax Credit Programs & Characteristics

The four main types of tax credits are Low Income Housing, New Markets, Historics, and Energy, as shown in the grid below:

	Low Income Housing Tax Credits (LIHTC)	New Markets Tax Credits (NMTC)	Historic Tax Credits (HTC)	Transferable Renewable Energy Tax Credits (ITC)
Description	<ul style="list-style-type: none"> Program that incentivizes private investment into the creation, rehabilitation and preservation of affordable housing 	<ul style="list-style-type: none"> Program that incentivizes private investment into the support of community and economic development 	<ul style="list-style-type: none"> Program that incentivizes private investment into the rehabilitation and reuse of historic buildings 	<ul style="list-style-type: none"> Program that incentivizes private investment into the expansion of renewable energy
Typical Returns ⁽¹⁾	<ul style="list-style-type: none"> After-tax IRRs are typically in the 5.75% to 7.25% range; yields highly dependent on CRA competition in a particular geography 	<ul style="list-style-type: none"> After-tax IRRs are typically in the 5.50% to 6.50% range; yields highly dependent on CRA competition in a particular geography 	<ul style="list-style-type: none"> After-tax IRRs are highly varied and range from 6.00% to 10.00%; yields dependent on developer, location and proposed use 	<ul style="list-style-type: none"> Typically quoted as a price, from \$0.92 to \$0.95 per dollar of credit (5% to 8% ROI); driven by demand, structure and project type
CRA Credit	<ul style="list-style-type: none"> YES – qualifies for CRA credit 	<ul style="list-style-type: none"> YES – qualifies for CRA credit 	<ul style="list-style-type: none"> MAYBE – can qualify for CRA credit if certain criteria are met (ex. In NMTC census) 	<ul style="list-style-type: none"> NOT LIKELY – some projects may qualify, but not likely
Timing of Credits	<ul style="list-style-type: none"> 10 year stream of credits 15 year compliance period 	<ul style="list-style-type: none"> 7 year stream of credits 7 year compliance period 	<ul style="list-style-type: none"> 5 year stream of credits 5 year compliance period 	<ul style="list-style-type: none"> 1 year credit 5 year compliance period
Accounting	Proportional Amortization	Proportional Amortization	Proportional Amortization	Proportional Amortization
Risks & Mitigants	Recapture of credits can occur if project does not lease minimum low income rental units to income qualified tenants. Recapture is rare ⁽²⁾ , and only units out of compliance are at risk	Recapture of credits if CDE ceases to be a CDFI Fund-certified CDE, “substantially all” of the QEI proceeds are no longer continuously invested in QLICs, or the CDE redeems the equity investment. A foreclosed project would need to be redeployed within 12 months in order to prevent recapture	Recapture of credits can occur if historic elements are changed, the building is sold, or a foreclosure occurs. SNDAs and other guarantees serve as mitigants to prevent recapture. Recapture is not retroactive; each year 20% rolls off and is no longer subject to recapture	Recapture of credits can be mitigated through insurance wrap or guarantees from seller. The insurance wrap typically costs between \$0.01 and \$0.03 and would be part of the overall price to the investor

(1) Returns may vary and are meant to be representative of return profile of each type of tax credit

(2) The most recent Cohn Reznick Affordable Housing Credit Study (attached) outlines risk of foreclosure (main type of disposition that would trigger recapture of credits), stating that “remarkably few housing tax credit properties have fallen victim to foreclosure throughout the program’s history. The respondents to CohnReznick’s survey report a 0.50% cumulative foreclosure rate, with no new foreclosure reported in 2021 or 2022

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