

Financial
Performance

Regulatory
Compliance



◆ *Risk Management Strategy & Solutions* ◆

ALM Strategies for Unprecedented Times

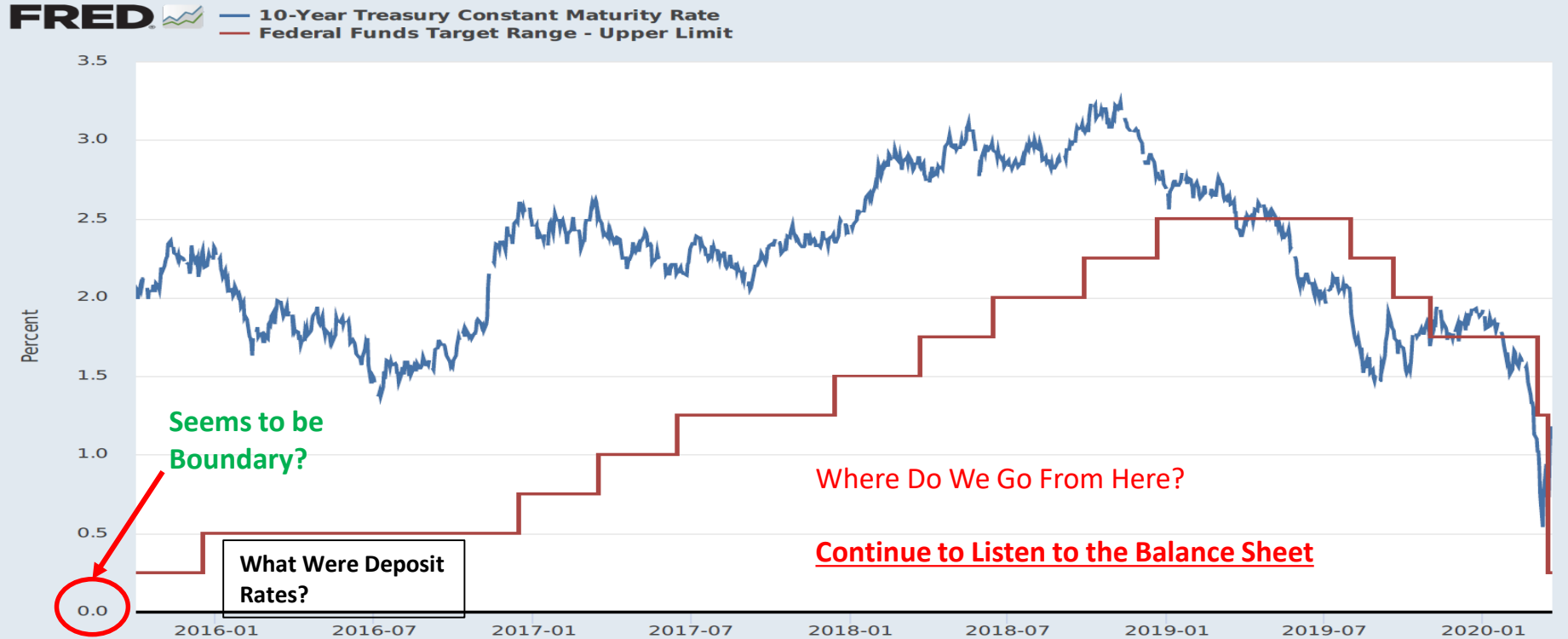
May 21, 2020

Frank L. Farone, Managing Director
Joseph C. Kennerson, Managing Director

- ◆ Low Rates, Economic Uncertainty, Shrinking Margins & No End in Sight
- ◆ Quantifying Earnings Shortfall Ahead-Identifying Strategies to Offset
- ◆ Important Considerations for Strategy Development:
 - Liquidity Position-Step #1
 - Deposit Strategies
 - Wholesale Funding
 - Investment Strategies & Interest Rate Risk
 - Credit Risk/Capital Management
 - Derivatives

The Journey: Bond Market Flashing Trouble Ahead

Pre-Pandemic Bond & Stock Markets at Odds...both not right!



Source: Board of Governors of the Federal Reserve System (US)

fred.stlouisfed.org

5 Year Treasury Rate Crashes-A Critical Banking Yield Point



◆ Net Interest Margin

- Asset Yields
- Loan Volume
- Deposit & funding Costs

◆ Liquidity

- Contingency Liquidity
- Pre-emptive Actions
- Near Term Forbearance Impact?
- PPP Lending

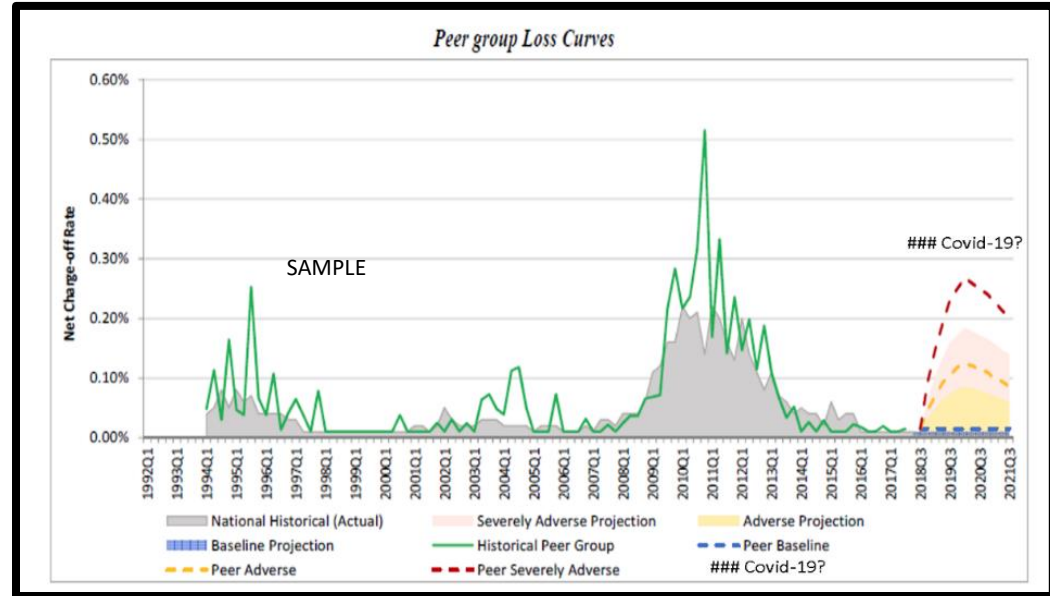
◆ Credit

- What Could Happen if...?
- ALLL?

◆ Capital

◆ Interest Rate Risk

- Low(er?) Rate Impact

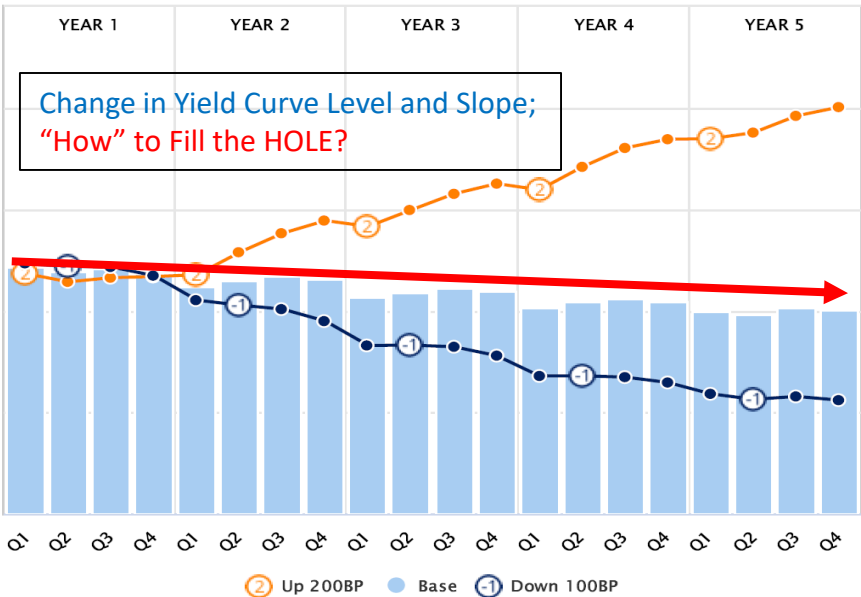


QUANTIFYING EARNINGS SHORTFALL AHEAD- IDENTIFYING STRATEGIES TO OFFSET

(FLASHBACK 2019 & NOW WHAT TO DO)

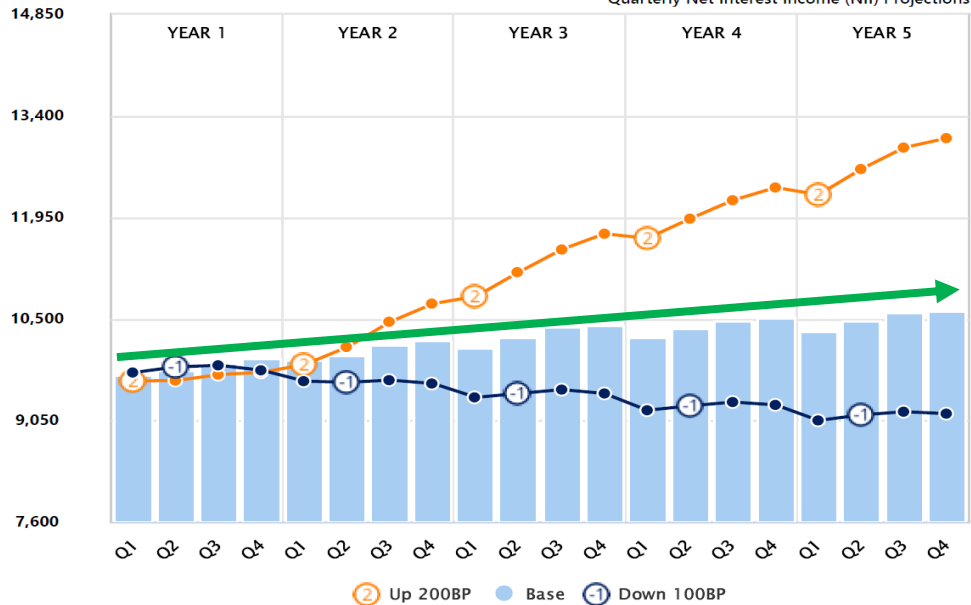
Base Simulation as of 12/31/2019

Quarterly Net Interest Income (NII) Projections



Base Simulation as of 12/31/2018

Quarterly Net Interest Income (NII) Projections



NII RESULTS

	Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5
UP 200BP	43,913	45,754	48,137	50,568	52,704	5,240	4,629	2,940	2,413	1,760	38,673	41,125	45,198	48,155	50,944
BASE	44,352	43,746	43,049	42,482	42,044	5,063	3,513	1,896	884	53	39,289	40,233	41,153	41,598	41,991
DOWN 100BP	44,447	42,115	39,866	38,175	37,056	5,295	3,708	2,127	1,138	556	39,152	38,407	37,739	37,037	36,500
DIFFERENCE															

HISTORICAL BALANCE SHEET COMPARISON

	3/31/2020			3/31/2020 vs. 12/31/2019					3/31/2020 vs. 3/31/2019					
	Balance	Rate	% of Assets	Balance	Rate	% of Assets	Balance Δ	Rate Δ	Balance	Rate	% of Assets	Balance Δ	Rate Δ	Assets Δ
Investments	1,047,312	2.37%	34%	799,179	2.91%	28%	248,133	-0.53%	959,007	3.27%	32%	88,305	-0.89%	2%
Loans	1,869,958	4.13%	60%	1,859,590	4.30%	65%	10,368	-0.17%	1,843,992	4.42%	62%	25,966	-0.29%	-2%
Other Assets	186,023	0.00%	6%	182,372	0.00%	6%	-3,652	0.00%	180,896	0.00%	6%	5,128	0.00%	0%
Total Assets	3,103,293	3.29%	100%	2,841,141	3.63%	100%	262,152	-0.34%	2,983,895	3.78%	100%	119,398	-0.49%	0%
Non Maturity Deposits	2,106,299	0.28%	68%	1,982,639	0.43%	70%	123,659	-0.15%	1,986,838	0.55%	67%	119,461	-0.27%	1%
Time Deposits	393,439	1.60%	13%	410,614	1.70%	14%	-17,175	-0.10%	385,589	1.65%	13%	7,850	-0.05%	0%
Borrowings	225,000	0.63%	7%	75,000	2.00%	3%	150,000	1.38%	230,000	2.07%	8%	-5,000	-1.44%	0%
Other Liabilities	22,280	0.00%	1%	19,359	0.00%	1%	2,920	0.00%	28,746	0.00%	1%	-6,466	0.00%	0%
Equity	356,275	0.00%	11%	353,528	0.00%	12%	2,747	0.00%	352,722	0.00%	12%	3,553	0.00%	0%
Total Liabilities & Equity	3,103,293	0.44%	100%	2,841,141	0.60%	100%	262,152	-0.16%	2,983,895	0.74%	100%	119,397	-0.30%	0%
Balance Sheet Spread		2.85%			3.04%			-0.18%		3.05%			-0.19%	

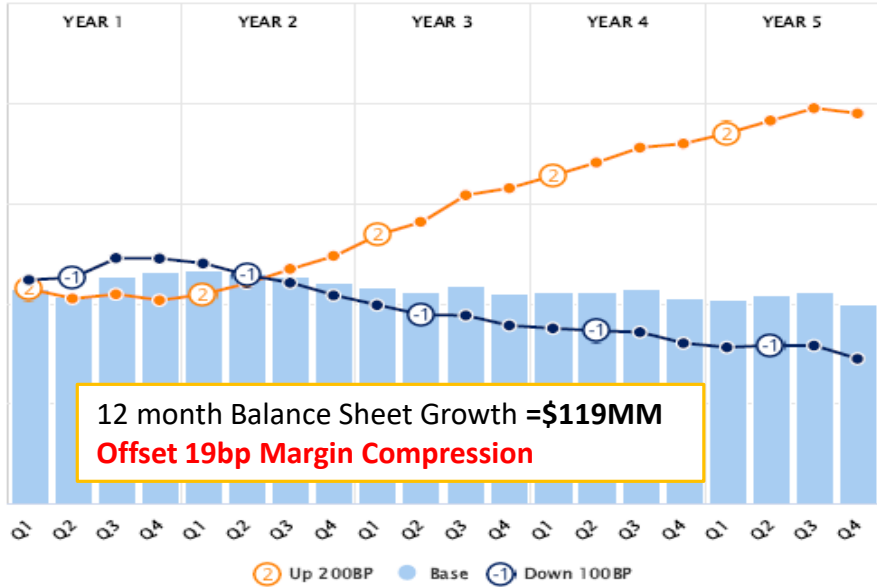
Net Interest Income Sensitivity

	3/31/2020			3/31/2020 vs. 12/31/2019				3/31/2020 vs. 3/31/2019			
	NII	% Δ from Yr 1 Base		NII	% Δ from Yr 1 Base	NII Δ	EAR Δ	NII	% Δ from Yr 1 Base	NII Δ	EAR Δ
Year 1 NII Projections											
UP 200BP	85,617	-1.3%		82,603	-2.2%	3,014	0.8%	85,309	-0.8%	309	-0.5%
BASE	86,764			84,419		2,345		86,026		739	
DOWN 100BP	88,166	1.6%		83,976	-0.5%	4,190	2.1%	86,088	0.1%	2,078	1.5%
Year 2 NII Projections											
UP 200BP	87,504	0.9%		83,760	-0.8%	3,744	1.6%	86,804	0.9%	699	-0.1%
BASE	87,478	0.8%		84,433	0.0%	3,045	0.8%	86,606	0.7%	872	0.1%
DOWN 100BP	87,155	0.5%		80,200	-5.0%	6,955	5.4%	84,358	-1.9%	2,797	2.4%
2 Year Cumulative NII Projections											
UP 200BP	173,121	-0.6%		166,363	-1.5%	6,758	0.8%	172,113	-0.3%	1,008	-0.3%
BASE	174,242			168,853		5,389		172,632		1,610	
DOWN 100BP	175,321	0.6%		164,176	-2.8%	11,145	3.4%	170,446	-1.3%	4,875	1.9%

Growth Year Over Year "Filled the Hole"

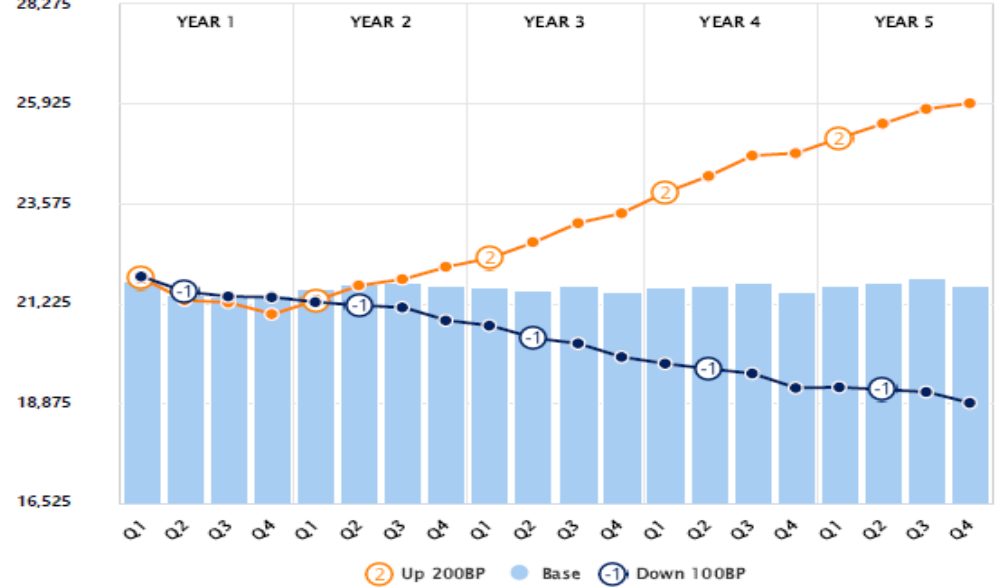
Base Simulation as of 03/31/2020

Quarterly Net Interest Income (NII) Projections



Base Simulation as of 03/31/2019

Quarterly Net Interest Income (NII) Projections



NII RESULTS

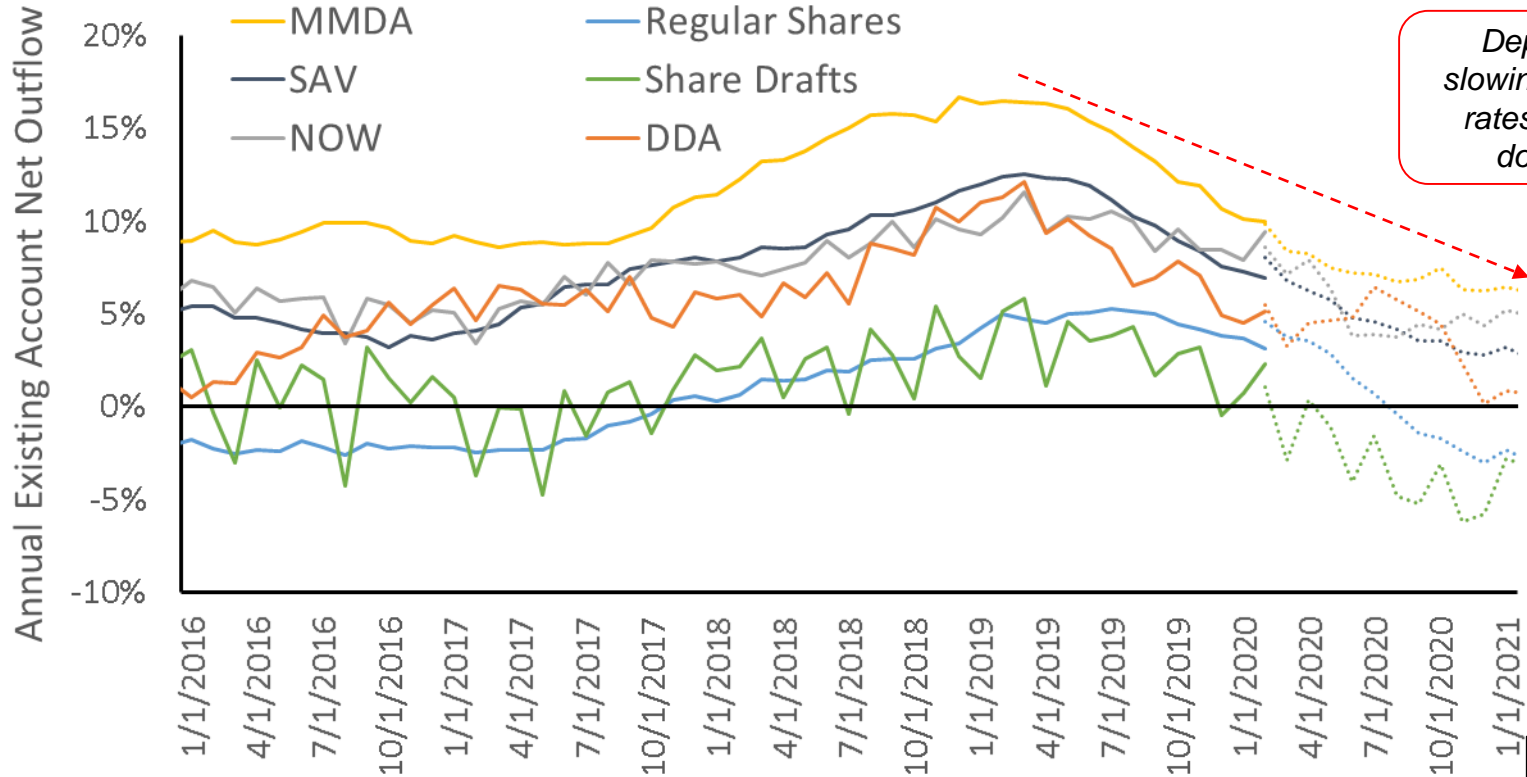
	Y1	Y2	Y3	Y4	Y5
UP 200BP	85,617	87,504	93,685	98,646	102,278
BASE	86,764	87,478	86,272	85,962	85,515
DOWN 100BP	88,166	87,155	83,761	82,026	80,550

	Y1	Y2	Y3	Y4	Y5
	309	699	2,276	1,130	-34
	739	872	-48	-496	-1,345
	2,078	2,797	2,437	3,759	4,118

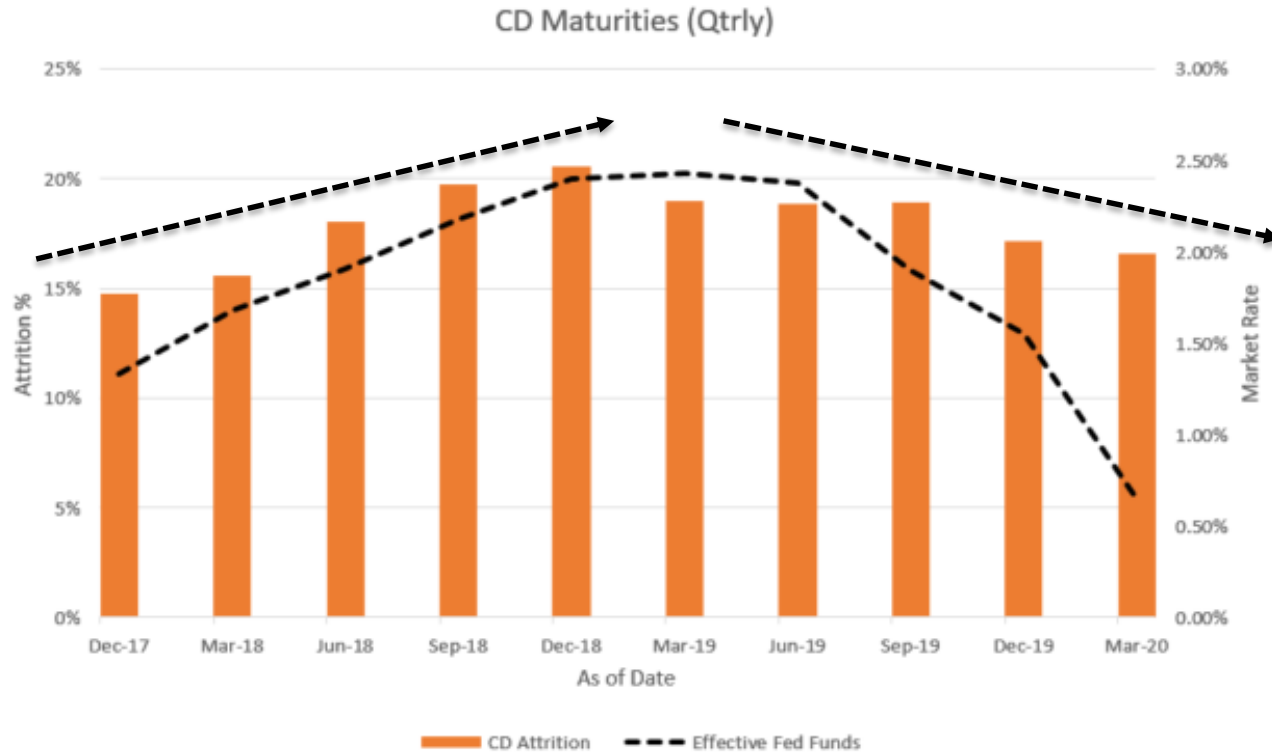
DIFFERENCE

	Y1	Y2	Y3	Y4	Y5
	85,309	86,804	91,409	97,516	102,312
	86,026	86,606	86,320	86,458	86,860
	86,088	84,358	81,323	78,268	76,432

THOUGHTS ON DEPOSITS

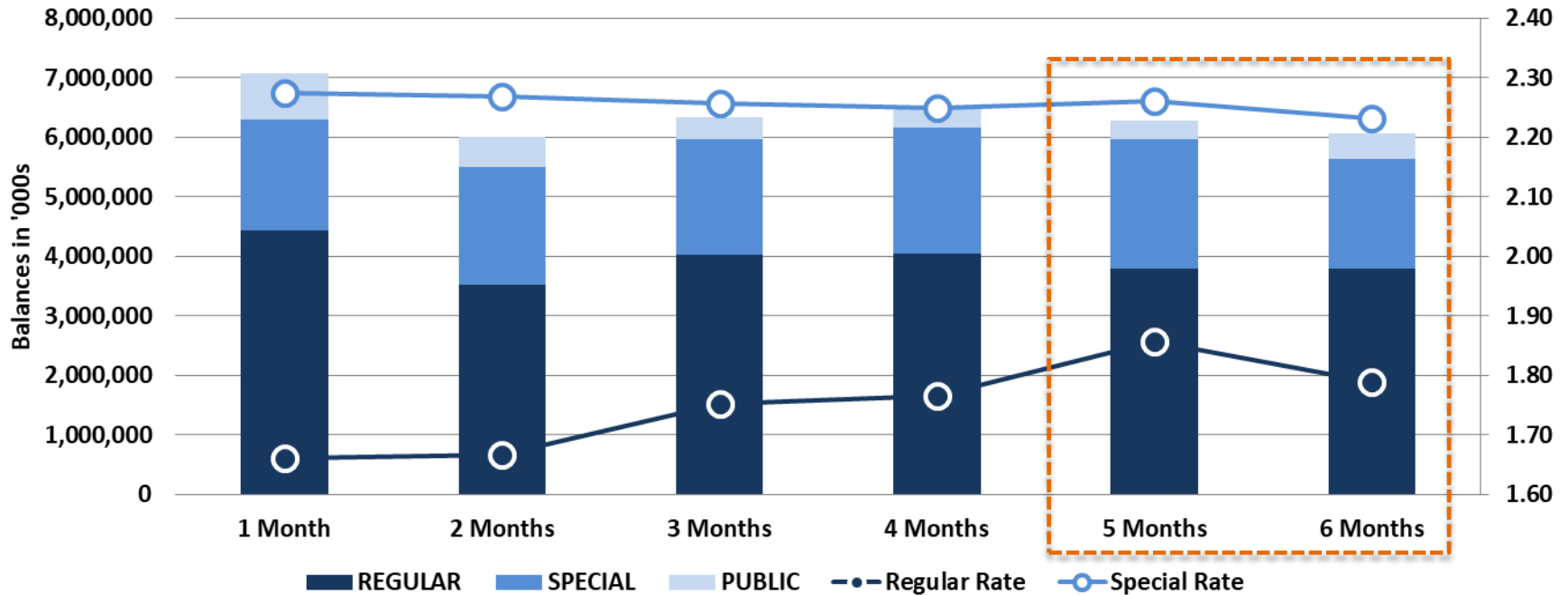


Deposit outflow slowing materially as rates have moved downwards...



Source: Deposits360®

Time Deposit Maturities



Source: Deposits360®

CDs Maturing 90 days

BALANCE: \$52,014

CURRENT RATE: 1.25%

RATE DECREASE

		0.25%	0.50%	0.75%
RUNOFF PROTECTED	15.00%	2.67%	4.08%	5.50%
	30.00%	1.83%	2.42%	3.00%
	45.00%	1.56%	1.86%	2.17%

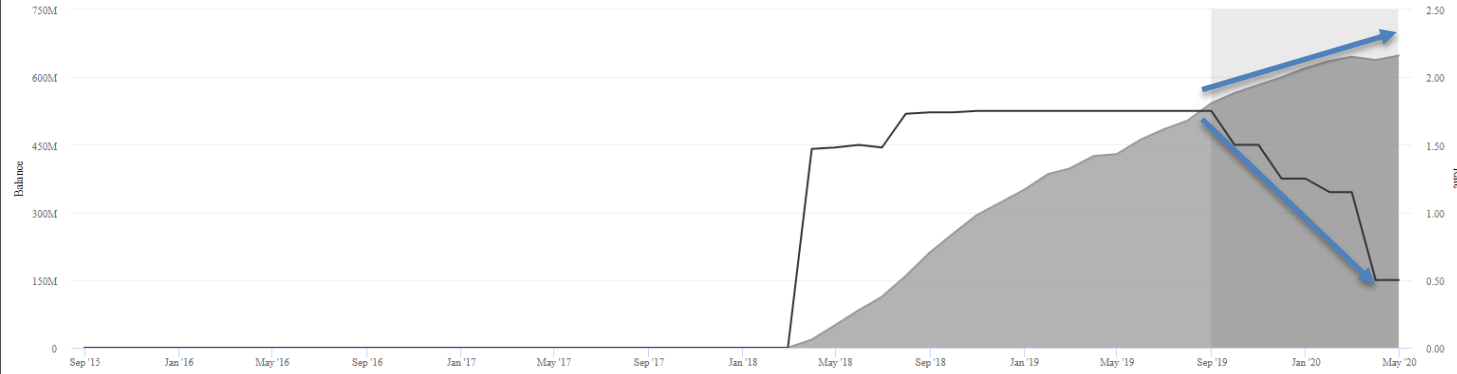
Annualized NII Impact (000s)

\$130

\$260

\$390

Deposit Migration



08/31/2019 - 04/30/2020

Calculate



	Balance(1,000s)	Rate	# Rel.
Starting Balance	542,118k	1.75	4,436
INFLOW			
New Relationship	42,038k	0.50	355
Existing +	141,673k	1.05	2,830
SHIFTS			
DDA	1,780k	0.00	854
NOW	2,174k	0.02	1,503
SAV	6,012k	0.03	489
MMDA	19,674k	0.06	723
TD	-938k	0.59	158
OUTFLOW			
Existing -	-96,753k	1.75	1,813
Closed Relationship	-9,805k	1.75	68
Ending Balance	647,972k	0.50	5,258

Source: Deposits360®

- ◆ Wholesale Funding
- ◆ Investments
- ◆ Lending
- ◆ Derivatives

◆ Discuss Options in the Current Market – Risk/Return of Different Sectors

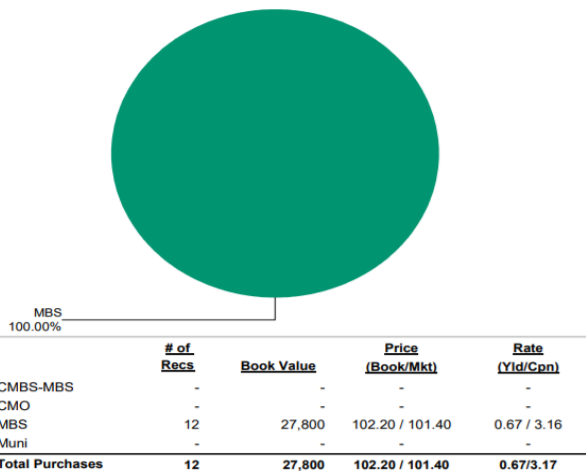
☐ **Potential Unrealized Loss If/When Rates Rise...have discussion now**

◆ What is Goal if Investing Today?

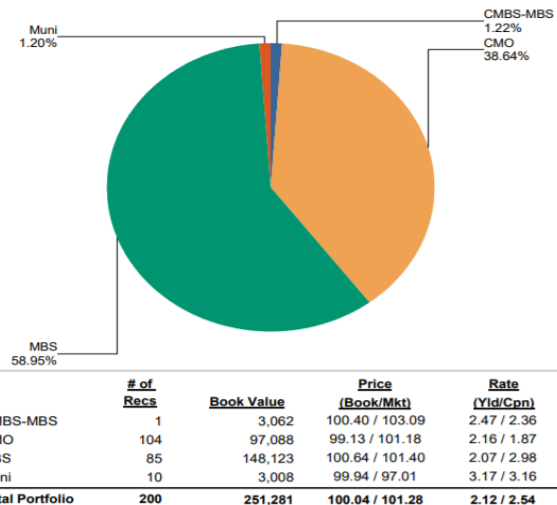
☐ Credit, interest rate and liquidity risk

☐ Influence of the Federal Reserve buying securities in the open market

Investment Purchases: 12/31/2019-3/31/2020

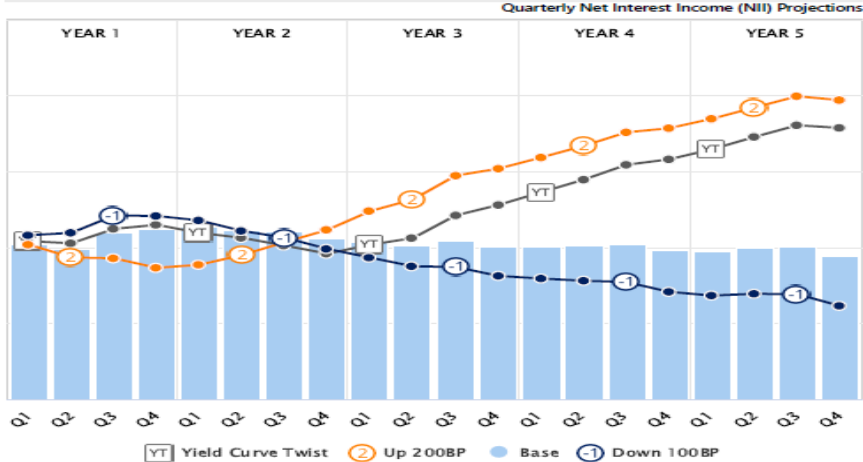


Total Portfolio

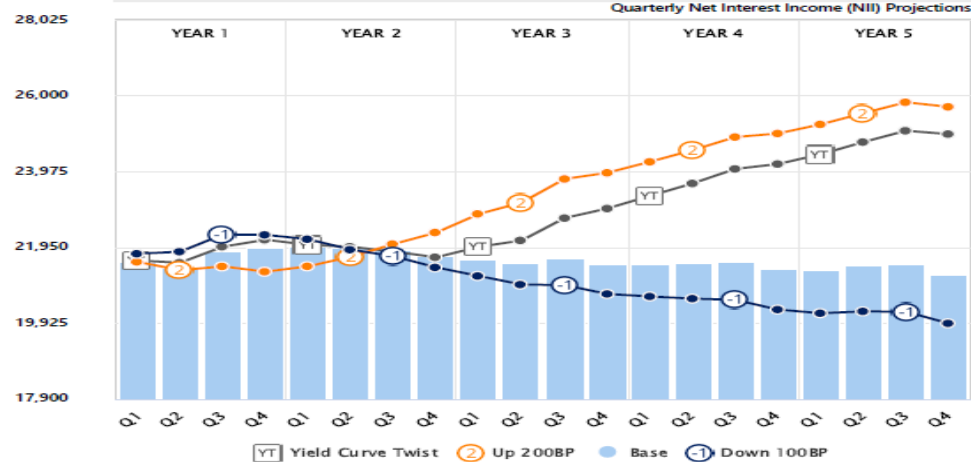


\$100MM MJM Jumbo Purchase @\$101 (compare to Loans)

\$100MM Cash Extension (30Y GNMA MJM Bonds)



Base Simulation as of 03/31/2020



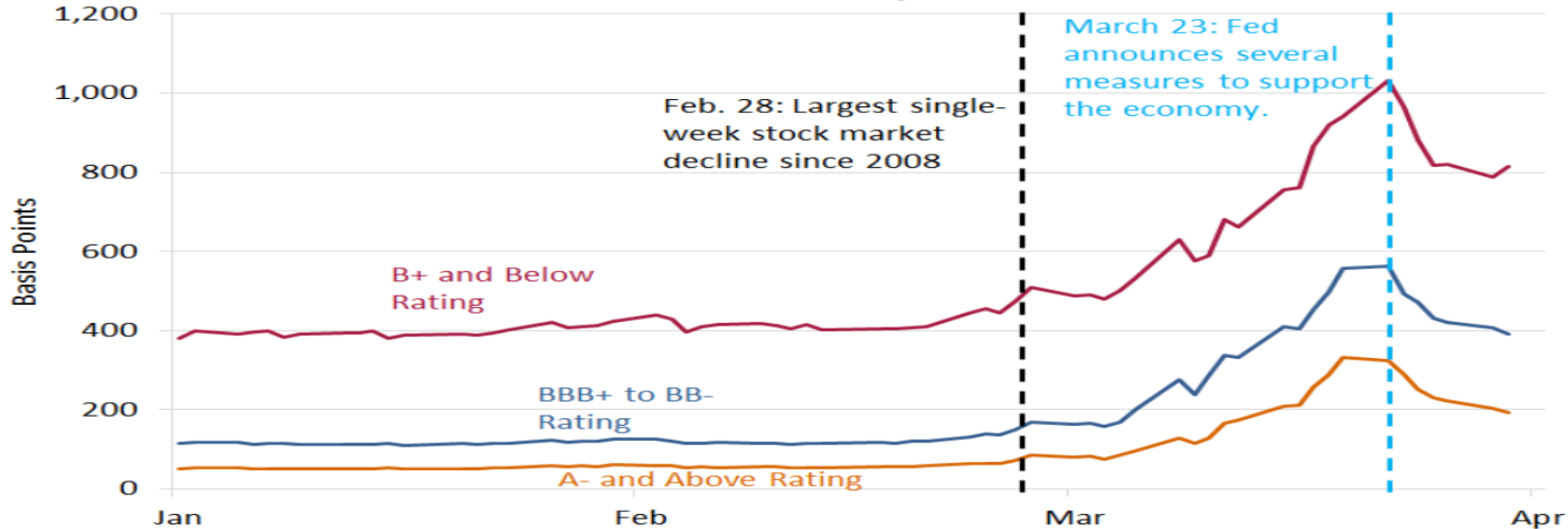
NII RESULTS

	Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5	Y1	Y2	Y3	Y4	Y5
YIELD CURVE TWIST	89,145	88,291	90,079	95,614	99,801	1,912	813	287	436	585	87,233	87,479	89,793	95,178	99,217
UP 200BP	86,738	87,713	94,043	99,146	102,920	1,121	209	357	500	643	85,617	87,504	93,685	98,646	102,278
BASE	88,723	89,437	88,231	87,920	87,474	1,959	1,959	1,959	1,958	1,959	86,764	87,478	86,272	85,962	85,515
DOWN 100BP	90,174	89,148	85,706	83,933	82,429	2,008	1,993	1,946	1,907	1,879	88,166	87,155	83,761	82,026	80,550
						DIFFERENCE									

YR 2 % CHANGE FROM YR 1 BASE

	POLICY	Y1	POLICY	Y2	Y1	Y2	POLICY	Y1	POLICY	Y2
YIELD CURVE TWIST	-10.0%	0.5%	-0.5%	-0.1%	-1.3%	-10.0%	0.5%	0.8%		
UP 200BP	-10.0%	-2.2%	-1.1%	-0.9%	-2.0%	-10.0%	-1.3%	0.9%		
BASE			0.8%		0.0%			0.8%		
DOWN 100BP	-10.0%	1.6%	0.5%	0.0%	0.0%	-10.0%	1.6%	0.5%		
					DIFFERENCE					

Median Credit Spreads



NOTES: For the credit spread, the authors combined bond prices from TRACE (FINRA) with bond-level information from Mergent FISD and applied methodology from the 2012 paper "Credit Spreads and Business Cycle Fluctuations" by economists Simon Gilchrist and Egon Zakrajsek.

SOURCES: TRACE (FINRA), Mergent FISD and authors' calculations.

2/1/2020

BofA BBB US Corporate Index OAS vs. 1 Month LIBOR Swap Rates

Term	Swap Rate	BBB Credit Spread	Hypothetical Rate
3 Year	1.22%	1.40%	2.62%
5 Year	1.21%	1.40%	2.61%
7 Year	1.25%	1.40%	2.65%
10 Year	1.34%	1.40%	2.74%

4/30/2020

Term	Swap Rate	BBB Credit Spread	Hypothetical Rate
3 Year	0.23%	2.80%	3.03%
5 Year	0.31%	2.80%	3.11%
7 Year	0.42%	2.80%	3.22%
10 Year	0.54%	2.80%	3.34%

What is your perception on how loan pricing has moved?

Financial Institutions Group - Market Update

Friday, May 15, 2020

Chatham
FINANCIAL

90 Day History - 5 Year Swap (1m LIBOR)



Index Rates		Treasury Rates		Fed Funds Swap Rates	
Term	Rate	Term	Rate	Term	Rate
1m LIBOR	0.172%	3 Month Bill	0.10%	1 Year	0.03%
3m LIBOR	0.381%	6 Month Bill	0.13%	2 Year	0.00%
6m LIBOR	0.659%	2 Year Note	0.15%	3 Year	0.01%
12m LIBOR	0.755%	3 Year Note	0.18%	4 Year	0.04%
Prime	3.250%	5 Year Note	0.31%	5 Year	0.09%
Eff. Fed Funds	0.050%	10 Year Note	0.64%	7 Year	0.21%
SOFR Rate	0.050%	30 Year Bond	1.33%	10 Year	0.36%

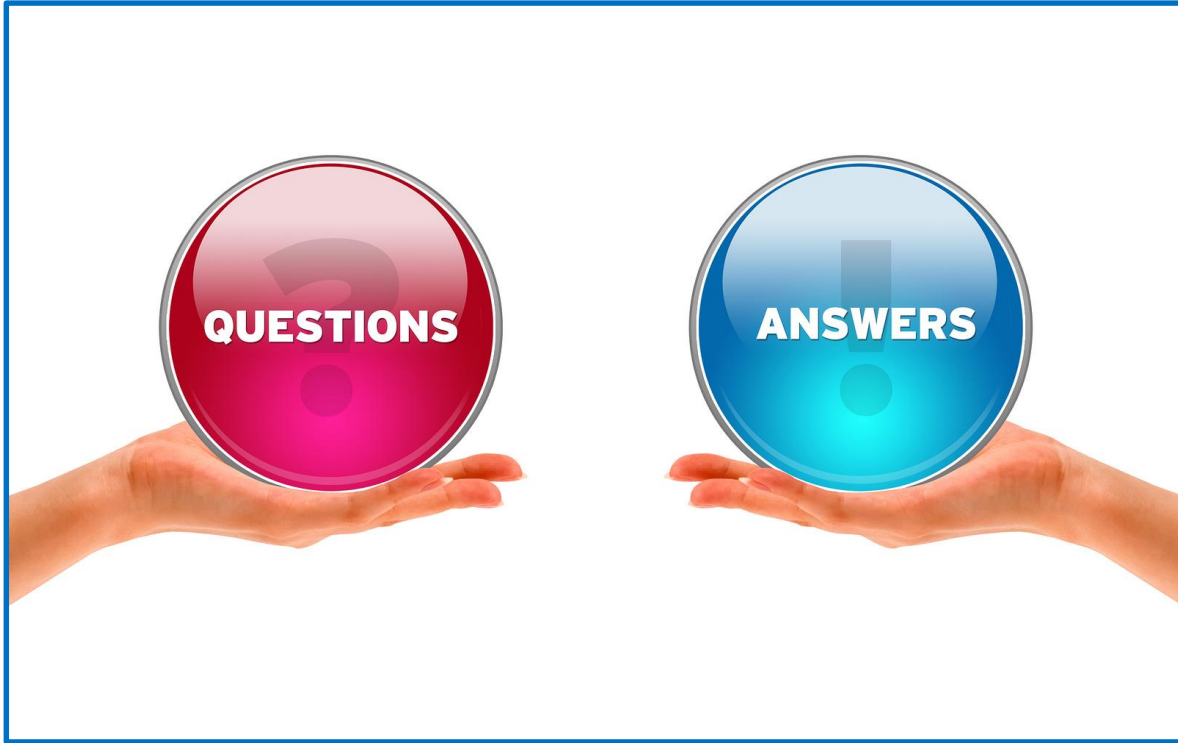
1m LIBOR Swap Rates		Amortization Period				
Term	Bullet	10	15	20	25	30
1	0.16%	0.16%	0.16%	0.16%	0.16%	0.16%
2	0.14%	0.14%	0.14%	0.14%	0.14%	0.14%
3	0.15%	0.15%	0.15%	0.15%	0.15%	0.15%
4	0.19%	0.19%	0.19%	0.19%	0.19%	0.19%
5	0.25%	0.23%	0.24%	0.25%	0.25%	0.25%
7	0.38%	0.32%	0.35%	0.36%	0.36%	0.37%
10	0.53%	0.36%	0.46%	0.49%	0.50%	0.51%
11	0.56%		0.48%	0.52%	0.53%	0.54%
12	0.59%		0.49%	0.54%	0.56%	0.57%
13	0.62%		0.50%	0.56%	0.58%	0.59%
14	0.64%		0.50%	0.57%	0.60%	0.61%
15	0.66%		0.50%	0.58%	0.61%	0.63%
20	0.73%			0.58%	0.65%	0.68%
25	0.74%				0.64%	0.68%
30	0.75%					0.67%

3m LIBOR Swap Rates		Amortization Period				
Term	Bullet	10	15	20	25	30
1	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%
2	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
3	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
4	0.28%	0.28%	0.28%	0.28%	0.28%	0.28%
5	0.34%	0.32%	0.33%	0.34%	0.34%	0.34%
7	0.46%	0.41%	0.43%	0.45%	0.45%	0.45%
10	0.61%	0.45%	0.54%	0.57%	0.59%	0.59%
11	0.65%		0.56%	0.60%	0.62%	0.63%
12	0.68%		0.58%	0.62%	0.64%	0.65%
13	0.70%		0.59%	0.64%	0.66%	0.68%
14	0.73%		0.59%	0.66%	0.68%	0.70%
15	0.74%		0.58%	0.62%	0.70%	0.71%
20	0.81%			0.67%	0.74%	0.76%
25	0.83%				0.72%	0.77%
30	0.84%					0.76%

PRIME Swap Rates		Amortization Period				
Term	Bullet	10	15	20	25	30
1	3.23%	3.23%	3.23%	3.23%	3.23%	3.23%
2	3.19%	3.19%	3.19%	3.19%	3.19%	3.19%
3	3.18%	3.18%	3.18%	3.18%	3.18%	3.18%
4	3.20%	3.20%	3.20%	3.20%	3.20%	3.20%
5	3.25%	3.24%	3.24%	3.24%	3.25%	3.25%
7	3.34%	3.30%	3.32%	3.33%	3.34%	3.34%
10	3.46%	3.33%	3.41%	3.43%	3.44%	3.45%
11	3.49%		3.43%	3.46%	3.47%	3.48%
12	3.52%		3.44%	3.48%	3.49%	3.50%
13	3.54%		3.45%	3.49%	3.51%	3.52%
14	3.56%		3.45%	3.50%	3.53%	3.54%
15	3.58%		3.44%	3.51%	3.54%	3.55%
20	3.63%			3.51%	3.57%	3.59%
25	3.65%				3.56%	3.60%
30	3.65%					3.59%



Set the Right Tone @ ALCO



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