Asset Allocation Strategies that Work:
Considerations to Support Earnings and Stability

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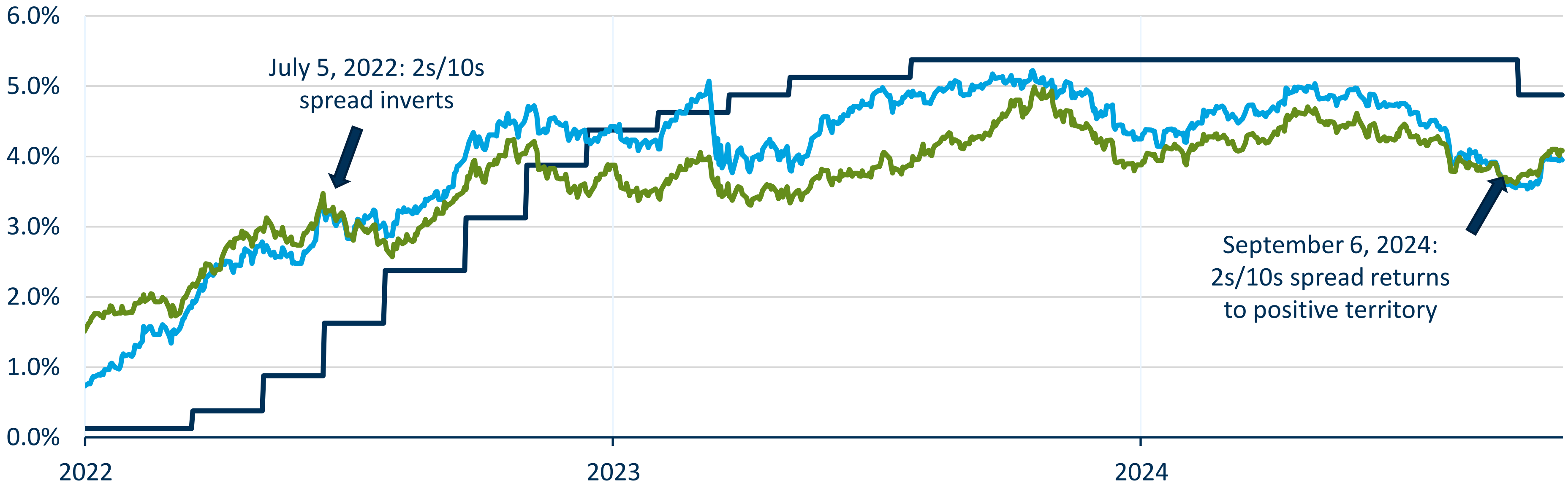
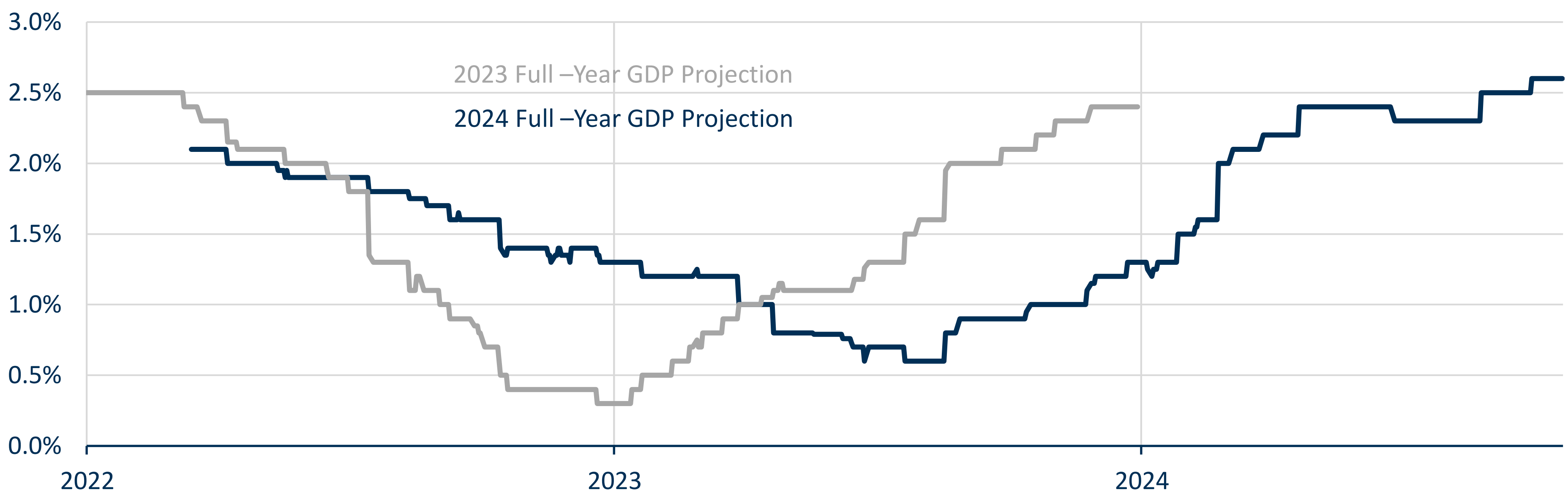
Economic Overview

Optimism for Soft Landing Has Grown as Economy Has, Thus Far, Weathered Higher Rates

U.S. Interest Rates | Rise in Rates Provides Basis for Tightening of Financial Conditions



Full Year GDP Growth Projections | Bloomberg Survey of Economists



Sources: Bloomberg, Bloomberg Eco Forecasts, Stifel

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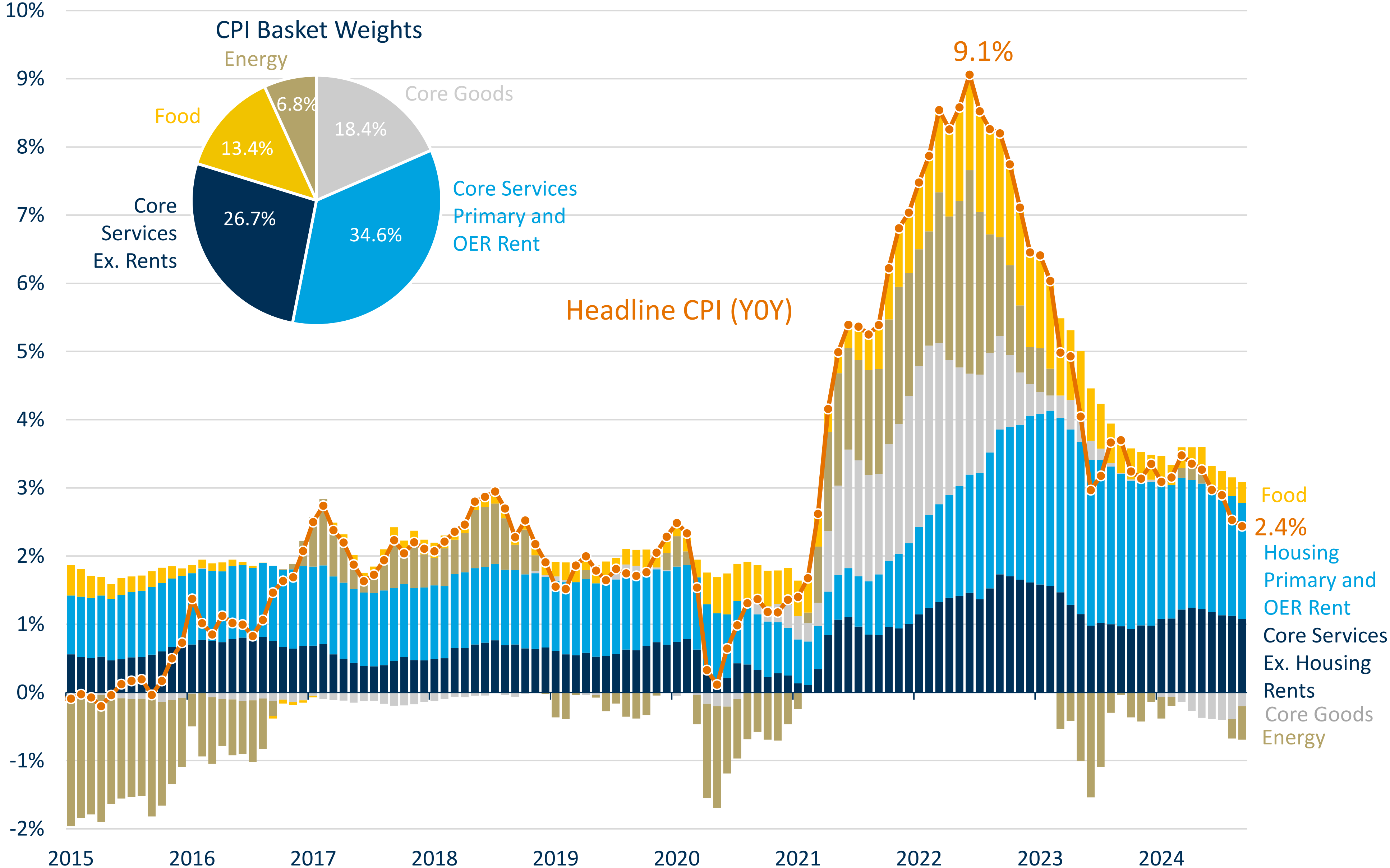
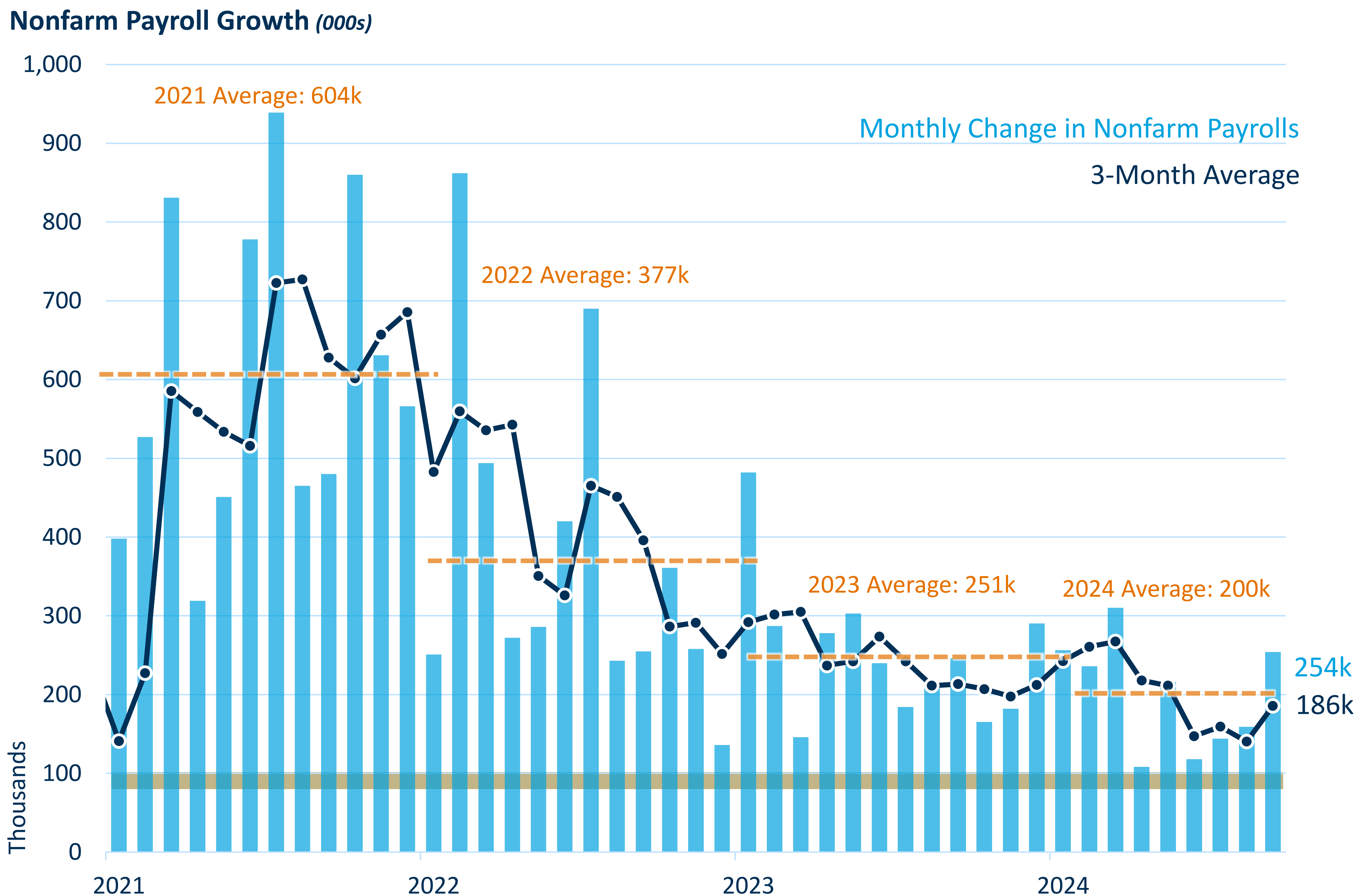
CPI Inflation Declines from Peak But Remains Above Fed's 2-Percent Target

Headline CPI and Contribution to YoY Change by Category



Sources: Bureau of Labor Statistics, Stifel

Pace of Moderation in Job Growth Slows Following 1Q Surge But Remains Solid

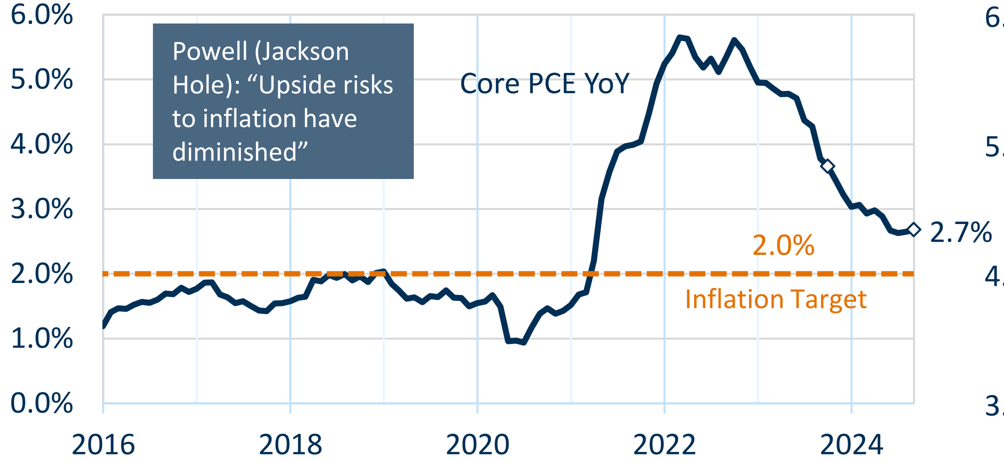


Sources: Bureau of Labor Statistics, Stifel

The Balance of Risks Has Shifted, and Policy Adjustments Are Now Appropriate

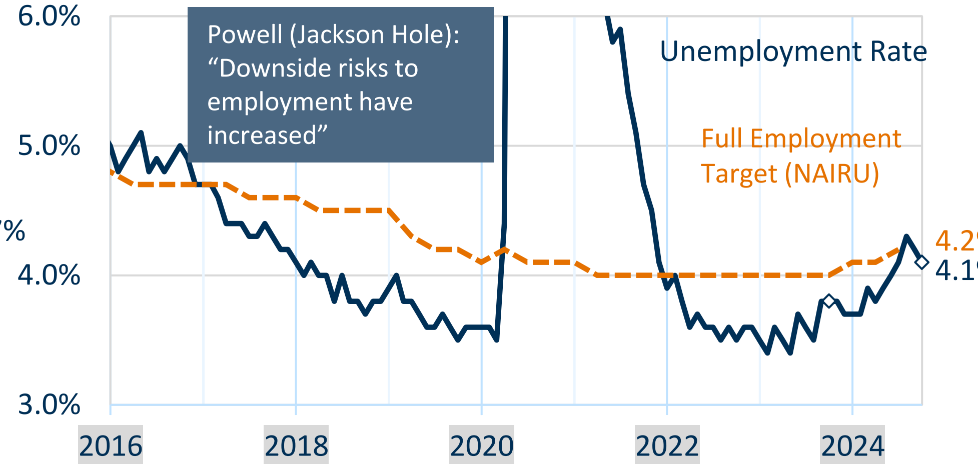
Price Stability Mandate (I-Star)

Powell (Jackson Hole): "Inflation has declined significantly… my confidence has grown that inflation is on a sustainable path back to 2%."



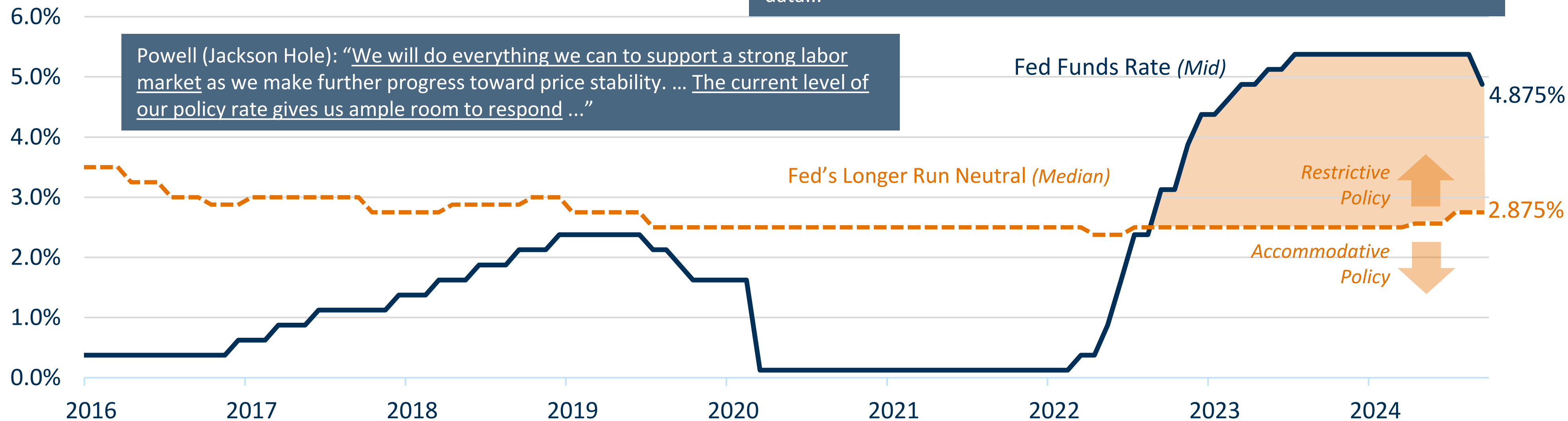
Maximum Employment Mandate (U-Star)

Powell (Jackson Hole): "The labor market has cooled considerably … We do not seek or welcome further cooling in labor market conditions."



Fed Funds Rate and the Neutral Estimate (R-Star)

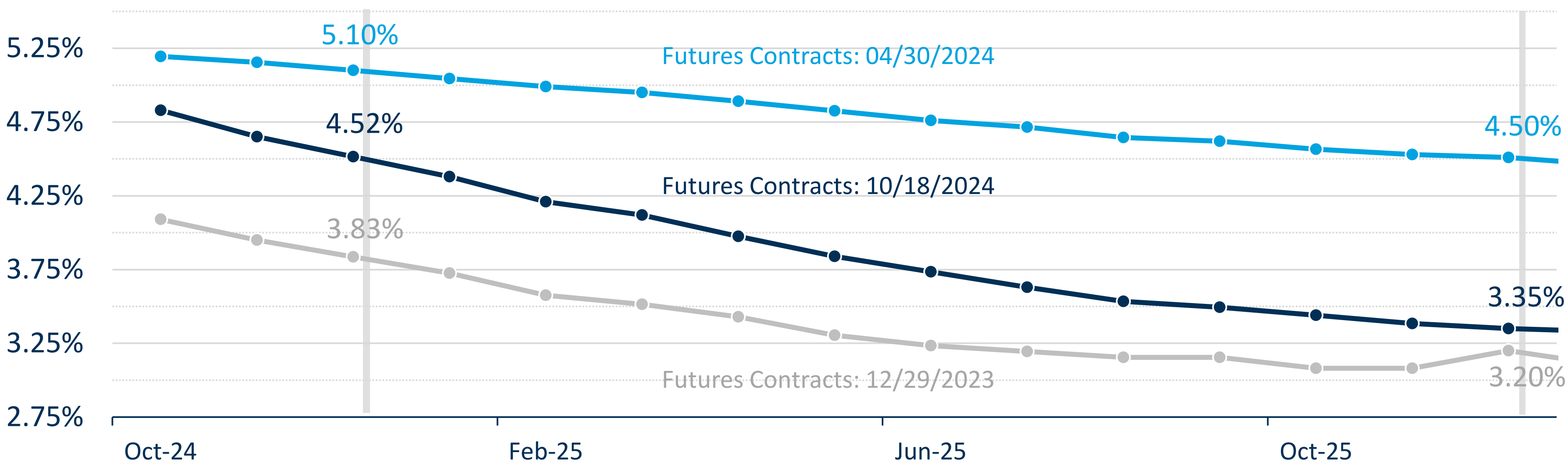
Powell (Jackson Hole): "The time has come for policy to adjust. The direction of travel is clear, and the timing and pace of rate cuts will depend on incoming data…"



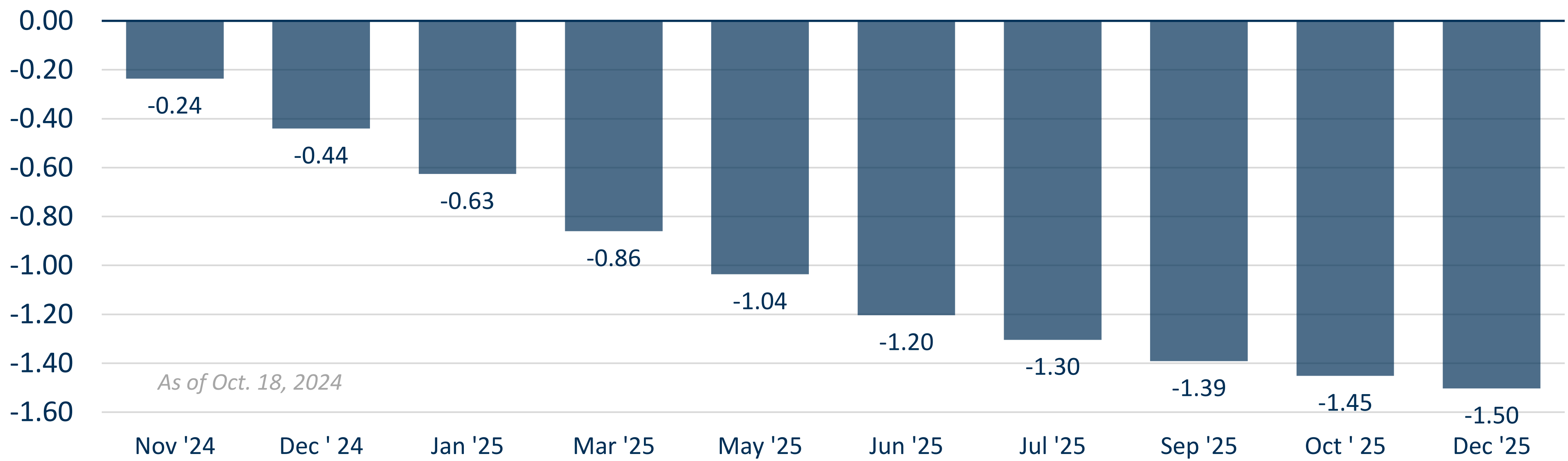
Sources: Bureau of Labor Statistics, Bureau of Economic Analysis, Federal Reserve, Stifel

The Expected Pace of Policy Adjustment

Fed Funds Futures Contracts by Date



Change in Fed Funds Implied by Futures Contracts - by FOMC Meeting Date



Sources: Bloomberg Financial L.P., Stifel

Industry Positioning

Banking Trends Summary – Q2'24

LIQUIDITY: Liquid assets fell slightly in Q2'24, after increasing the prior two quarters. The level of liquid assets has declined over the last two years for community banks (CB) to 16.2% of total assets, which is down from the peak of 27% in December 2021.

SECURITIES: CB securities declined $8.1b (1.5%) QoQ to 19.3% of total assets. Bond reinvestment rates (approx. 4.00% to 6.20%) are significantly higher than current bond portfolio yields (2.87% TEY) (+5 bps QoQ, +22 bps YoY). Unrealized bond losses declined in Q2'24 following an increase in Q1'24. Realized net securities losses increased $777b (752%) QoQ to $8.80b.

DEPOSITS: CB deposits increased 0.2% QoQ and 3.5% YoY. Mix shift continues from NMDs to CDs and borrowings. Managing cost of funds of deposits and borrowings remains a focal point for bank management teams.

LOANS: CB loan growth continues QoQ: $30.9b (1.7% Q2'24) vs. $16.8b (0.9% Q1'24). CB loans increased $111.9b (6.3%) YoY in Q2, but the YoY growth rate slowed from 7.1% in Q1'24.

NIM: CB NIM of 3.30% rose 7 bps QoQ after falling 12 bps in the prior quarter. CB yield on earning assets rose 15 bps in Q2 to 5.52%. CB COF increased 8 bps in Q2 to 222 bps.

EARNINGS: CB earnings rose 1.1% QoQ, but fell 8.2% YoY. ROA and ROE improved QoQ and YoY. CB ROA and ROE is lower than all banks. CB ROA = 0.95%; All Banks ROA = 1.20%. CB ROE= 9.60%; All Banks ROE = 12.26%. 62% of community banks reported a QoQ increase in earnings.

IRR: CB NII is neutral to +/-100bps rate shocks. Many CB IRR profiles have shifted to a liability sensitive position due to changes in the balance sheet and strategies to reduce risk to falling rates. Rates falling more than a bank's current COF results in earnings and economic value declines.

HEDGING / DERIVATIVES: Hedging inquiries and activity for CBs in shorter (1YR to 3YR) pay fixed swaps as banks looked to offset NIM compression and earnings pressures (positive carry in the swap) and hedge IRR positions.

CAPITAL: CB regulatory and book/GAAP capital ratios improved QoQ and YoY. Tier 1 leverage = 10.84% (+9 bps QoQ), Tier 1 RBC = 13.94% (+5 bps QoQ), and CBLR capital = 12.16% (+9 bps QoQ), remaining well above the 9% regulatory minimum. CB book (GAAP) equity capital (includes AOCI AFS unrealized bond MTM) = 9.94% in Q2 (+12bps QoQ). Unrealized bond losses for CBs totaled $54.8b in Q2, down $775.7m (1.4%) QoQ, and down $7.7b (12.3%) YoY.

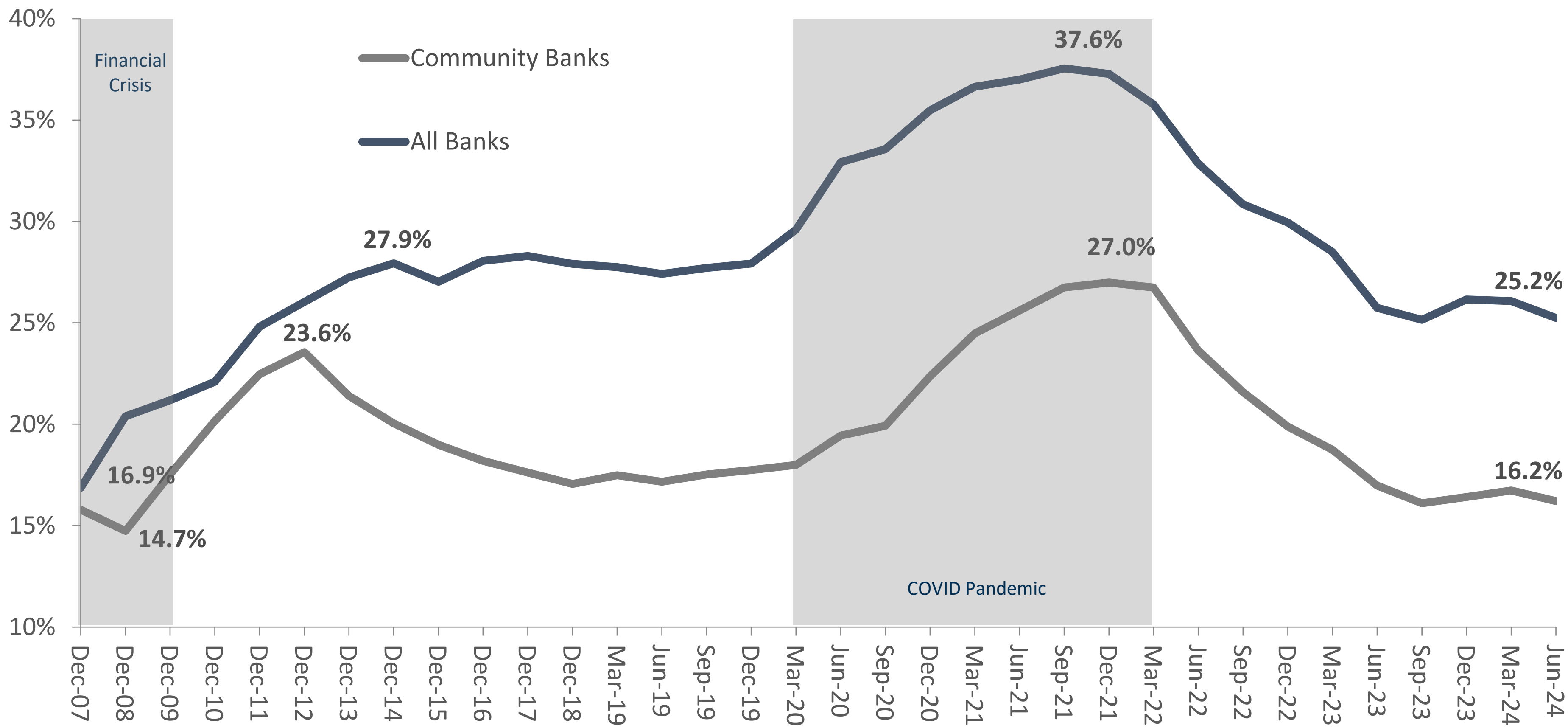
CREDIT: Asset quality metrics remain favorable despite modest deterioration. Delinquencies and net charge-offs remain low, but noncurrent loan balances increased for all loan categories except for consumer and residential mortgage loans in the quarter.

Sources: FDIC Quarterly Banking Profile, Stifel

Liquidity Ratio (Liquid Assets)

Liquidity Falls From 2022 Peak; Lower Liquidity And Rising COF On Deposits Contributing To NIM Pressures

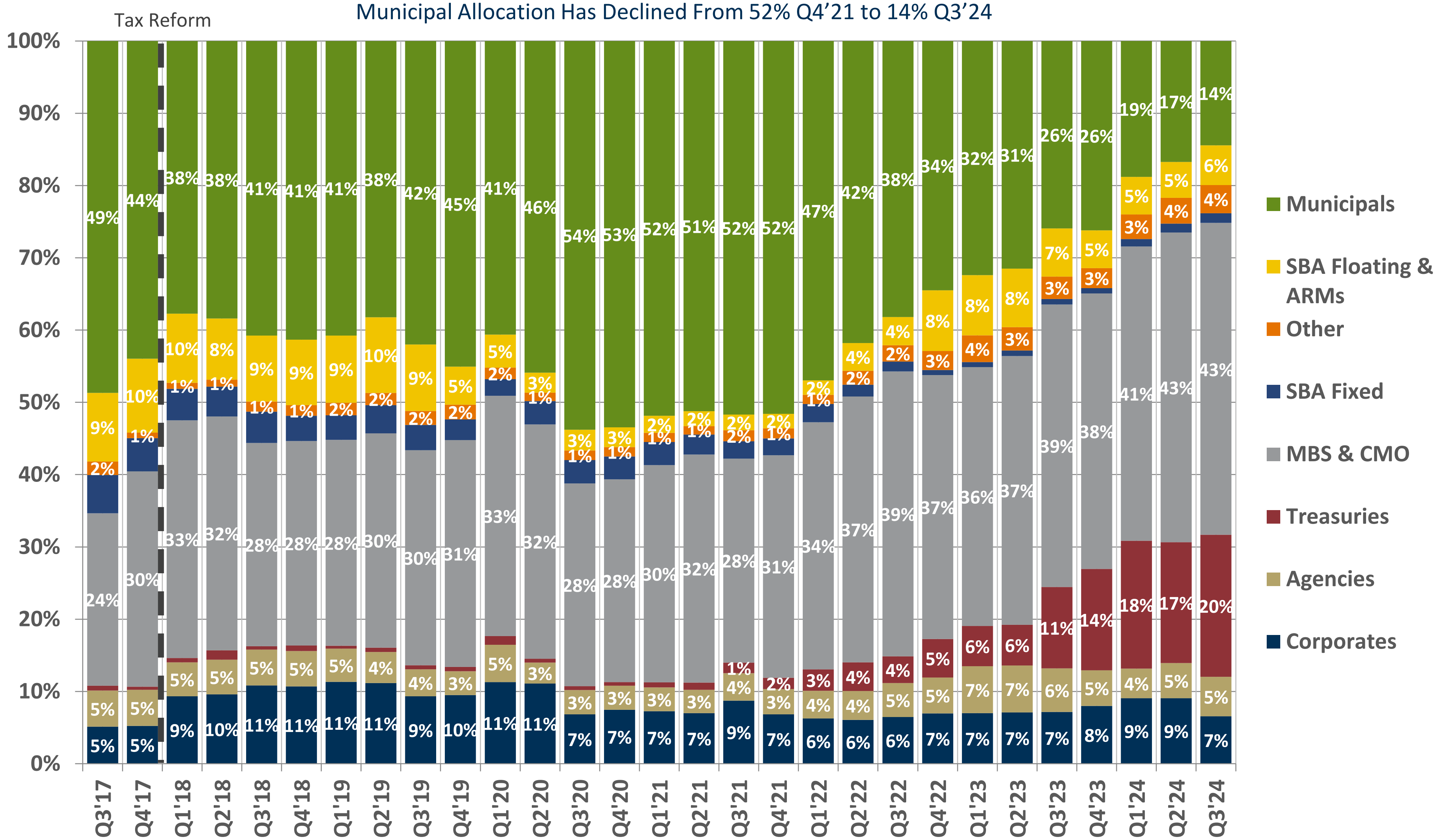
The level of liquid assets has been falling over the last two years, but remains high for all banks at 25.2% of total assets. Community banks have a lower liquidity ratio, which has declined from 27% in December 2021 to 16.2% in June 2024. A liquidity ratio falling below 15% may indicate liquidity pressures and some banks have dropped below 10%, which may trigger regulator focus and management action plans. The SABER / Risk Manager ALM liquid assets ratio average is 18.7% in June 2024.



Source: FDIC
Note: Liquid assets are defined as Cash & Due from + Fed Funds & Repos Sold + Total Securities (AFS and HTM at FV) – Pledged Securities

Bond Accounting Statistics – Top Quartile Sector Allocation

Stifel Bond Accounting – Banks September 2024



Source: Stifel Bond Accounting
1: Quartiles 1-4 based on TEY
2: Historical data source: Legacy Vining Sparks Bond Accounting

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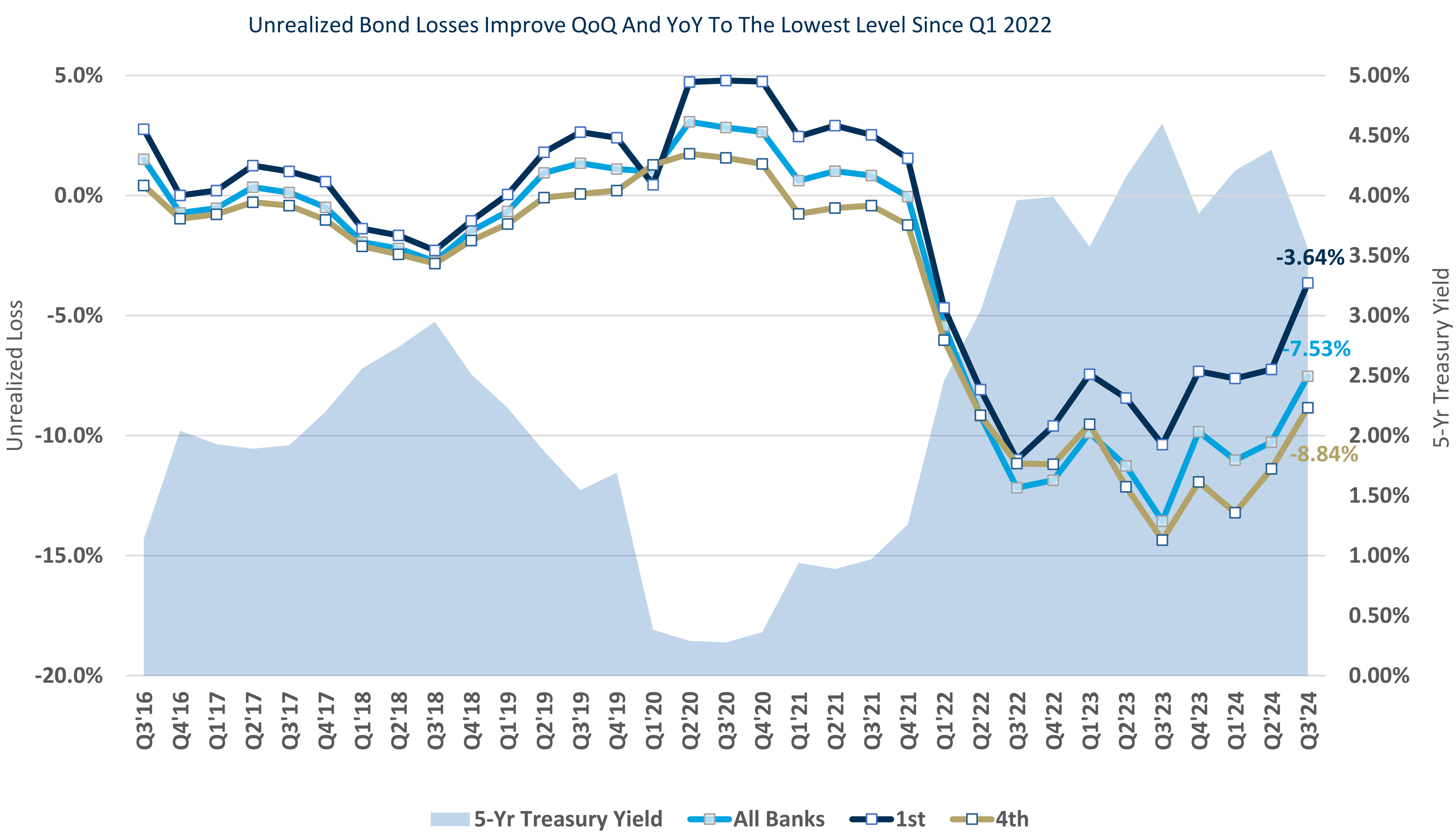
Bond Accounting Statistics – Unrealized Gain / Loss

Stifel Bond Accounting – Banks September 2024



Source: Stifel Bond Accounting
1: Quartiles 1-4 based on TEY
2: Historical data source: Legacy Vining Sparks Bond Accounting

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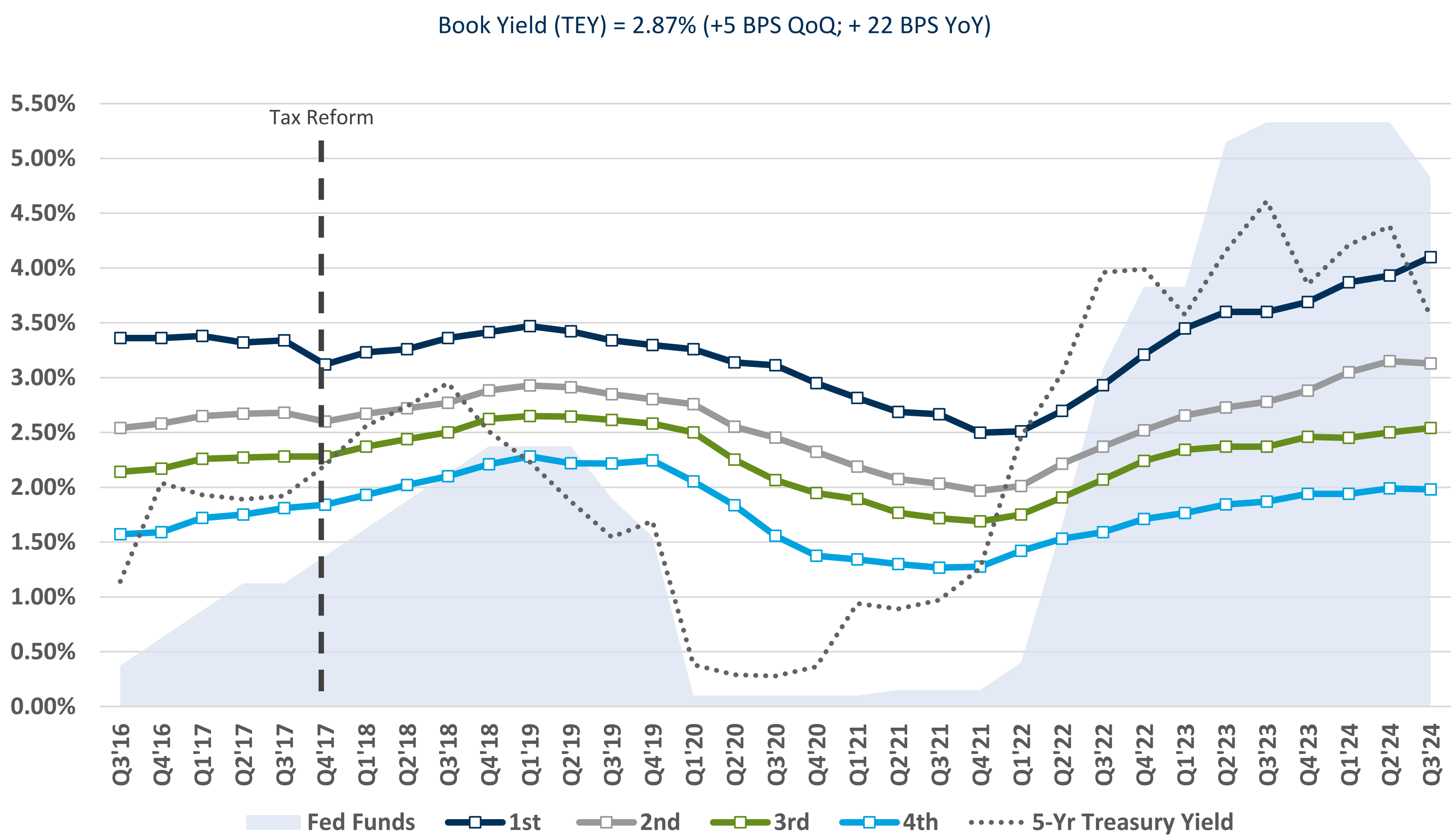
Bond Accounting Statistics – Yields (TEY)

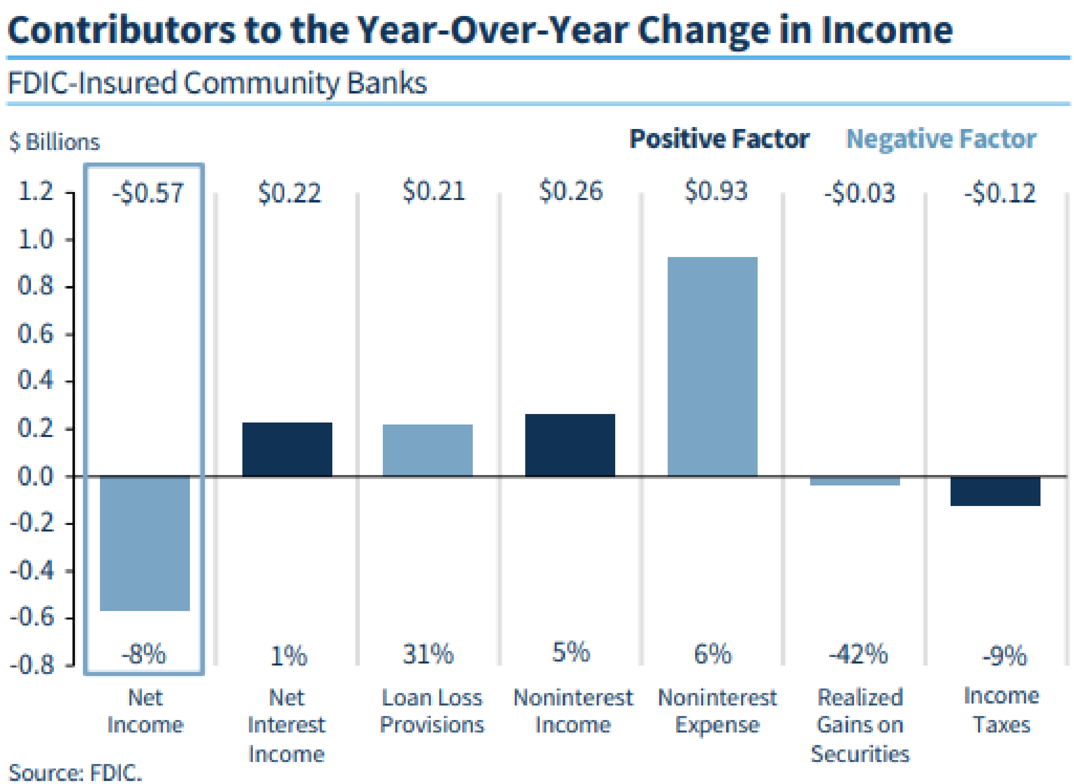
Stifel Bond Accounting – Banks September 2024



Source: Stifel Bond Accounting
1. Quartiles 1-4 based on TEY
2. Historical data source: Legacy Vining Sparks Bond Accounting

Community Bank Earnings Trends – Q2'24

Community Bank (CB) Net Income (NI) -8% YoY Driven By Higher Noninterest Expense (6%), And Higher Loan Loss Provisions (31%) Offset by Higher Net Interest Income (NII) (1%), And Higher Noninterest Income (5%)

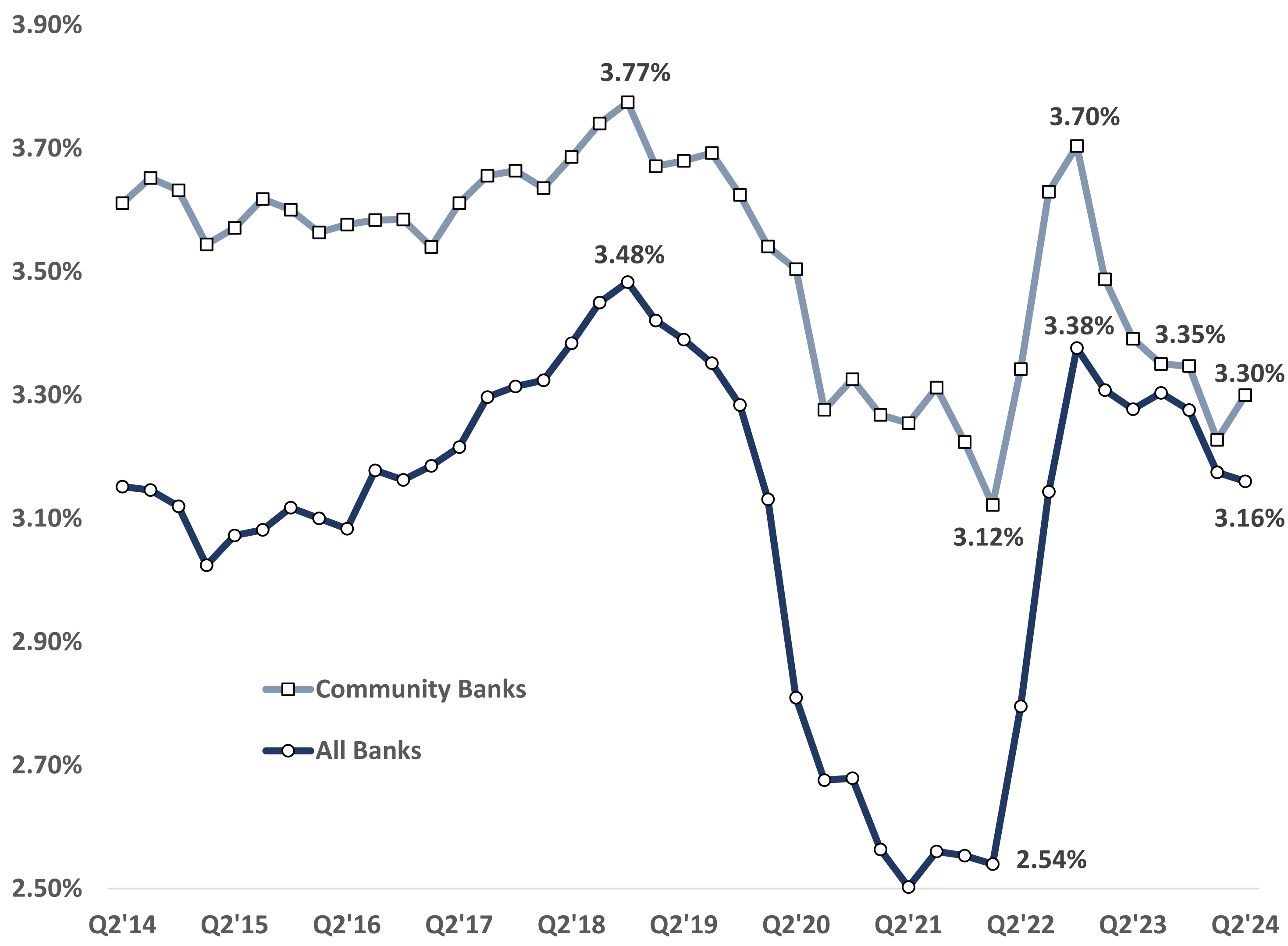


- Net income (NI) increased 1.1% QoQ, but declined 8.2% YoY
- 62% of community banks reported a QoQ increase in NI
- Q2 CB ROA = 0.95%; All Banks ROA = 1.20%
- Q2 CB ROE= 9.60%; All Banks ROE = 12.26%
- Q2 NI increased $72.6m QoQ (1.1%) to $6.4b
- Net interest margin (NIM) rose 7 bps QoQ, but fell 10 bps YoY to 3.30%
- Loan growth of $30.9b QoQ (1.7%) and 6.3% YoY was broad-based across loan categories, but the pace of growth slowed YoY. 75.7% of CBs reported growth in loans in Q2.
- Total deposits Increased 0.2% QoQ And 3.5% YoY. 50.6% of CBs reported growth in deposit in Q2.
- Unrealized losses on securities fell 1.4% QoQ
- Asset quality metrics remained favorable despite modest deterioration

Source: FDIC Quarterly Banking Profile (Community Banks)

Net Interest Margin (NIM)

Community Bank NIM Rose 7 BPS QoQ, But Fell 10 BPS YoY To 3.30%



- CB quarterly NIM of 3.30% rose 7 bps QoQ, but fell 10 bps YoY remaining below the pre-pandemic average of 3.63%.[1]
- CB NIM +18 bps since Q1’22; All Bank NIM +62 bps since Q1’22
- All Bank NIM -1 bp in Q1 to 3.16%
- CB yield on earning assets rose 15 bps in Q2 to 5.52%
- CB COF increased 8 bps in Q2 to 222 bps

Source: FDIC

1. The “pre-pandemic average” refers to the period Q1’15 through Q4’19

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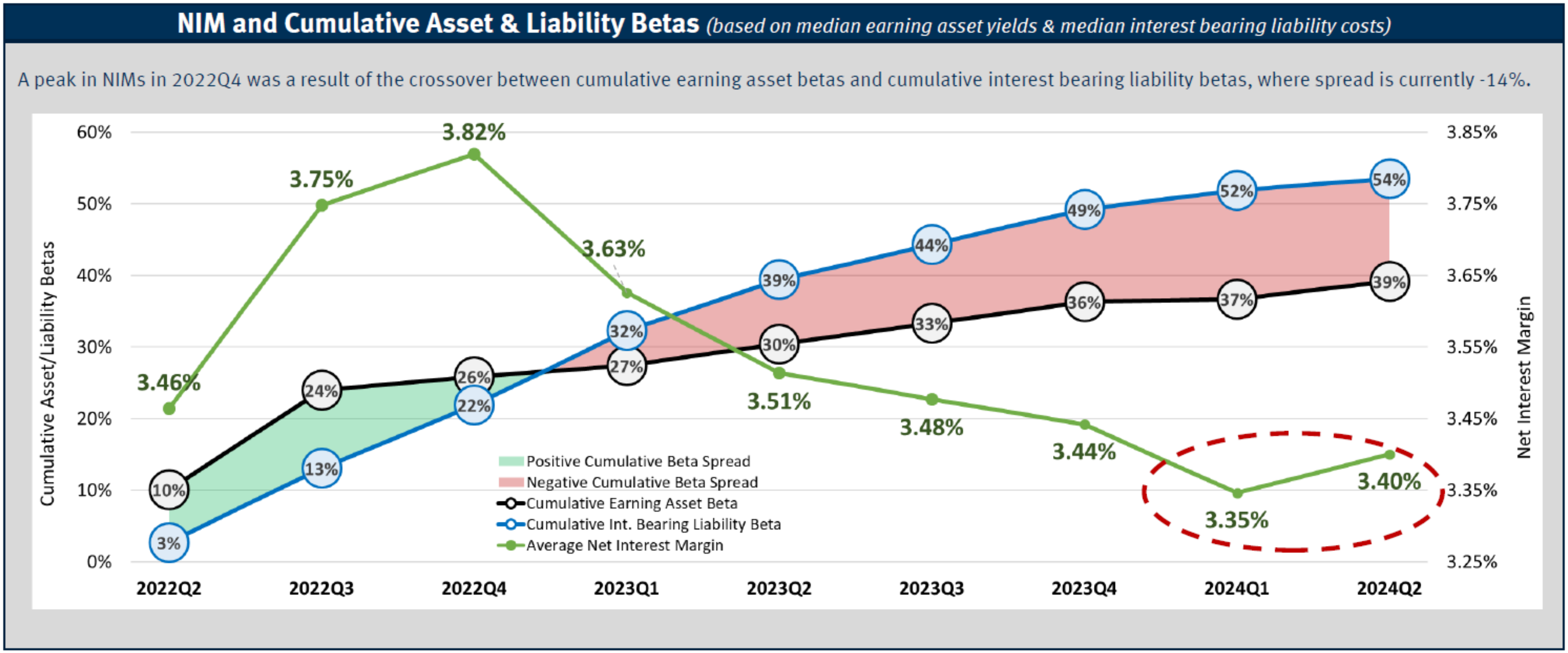
Peer Net Interest Margin & Cumulative Earning Asset/Interest Bearing Liability Betas

The data below represents all banks with total assets between $1Bn and $10bn as of 2024Q2, highlighting cumulative earning asset betas, cumulative interest bearing liability betas, and the Net Interest Margin as of each quarter this cycle



	2022Q2	2022Q3	2022Q4	2023Q1	2023Q2	2023Q3	2023Q4	2024Q1	2024Q2
Fed Funds Rate	**1.21%**	**2.56%**	**4.10%**	**4.65%**	**5.08%**	**5.33%**	**5.33%**	**5.33%**	**5.33%**
Average Earning Asset Yield	3.72%	4.20%	4.65%	4.86%	5.13%	5.36%	5.52%	5.54%	5.67%
Cumulative Earning Asset Beta	**10%**	**24%**	**26%**	**27%**	**30%**	**33%**	**36%**	**37%**	**39%**
Average Interest Bearing Liability Cost	0.38%	0.68%	1.23%	1.83%	2.32%	2.68%	2.94%	3.08%	3.16%
Cumulative Interest Bearing Liability Beta	**3%**	**13%**	**22%**	**32%**	**39%**	**44%**	**49%**	**52%**	**54%**
Spread between Asset & Liability Betas	7%	11%	4%	-5%	-9%	-11%	-13%	-15%	-14%
Average Net Interest Margin	**3.46%**	**3.75%**	**3.82%**	**3.63%**	**3.51%**	**3.48%**	**3.44%**	**3.35%**	**3.40%**

1. Peer group includes all banks $1Bn to $10Bn in Total Assets
2. Data per S&P Global as of 6/30/2024,"Current Cycle" is 2021Q4 through 2024Q2

Historical Asset & Liability Betas: *The Way Down 2004-2007*

The 2004-2007 was particularly challenging as liability betas did not significantly outpace asset betas until 30 months after the first rate cut. Liability betas actually lagged asset betas for the first nine months and were only marginally better than asset betas as cuts were ongoing in months 12 through 24. Liability betas did not reach 50 until 42 months after the initial cut.

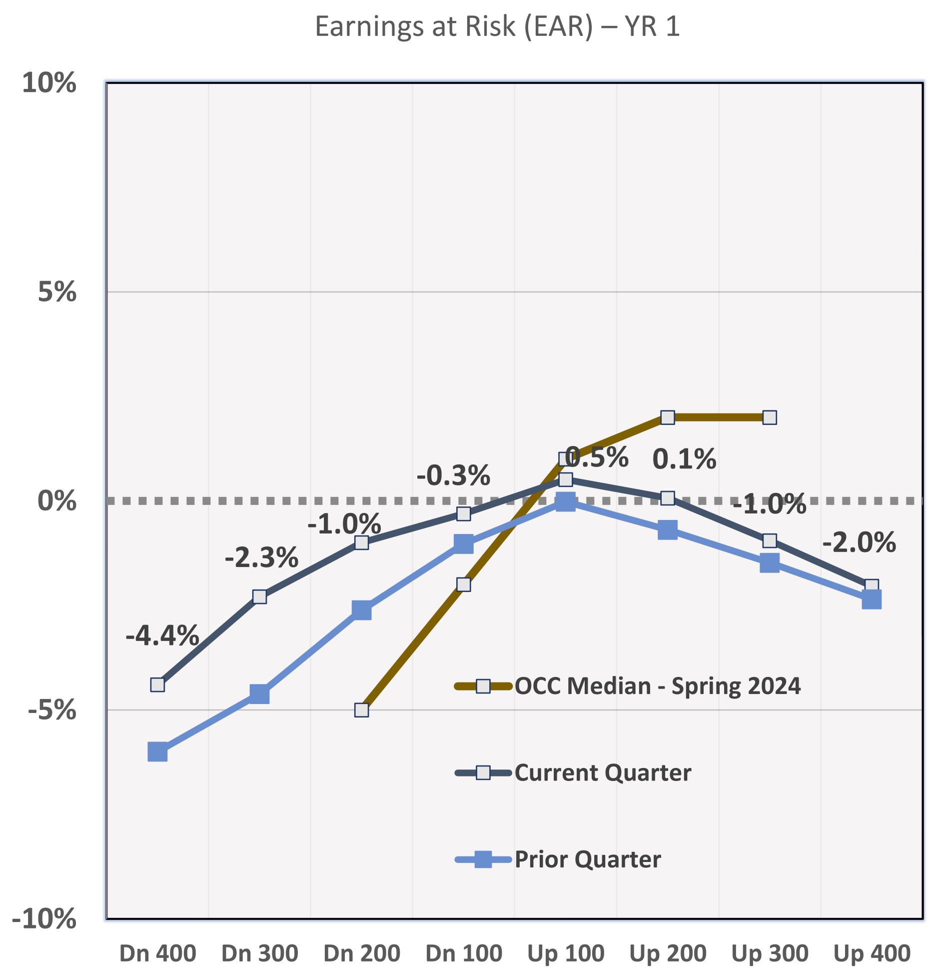
2004-2007 Rate-Cut Cycle Starting June 30, 2007

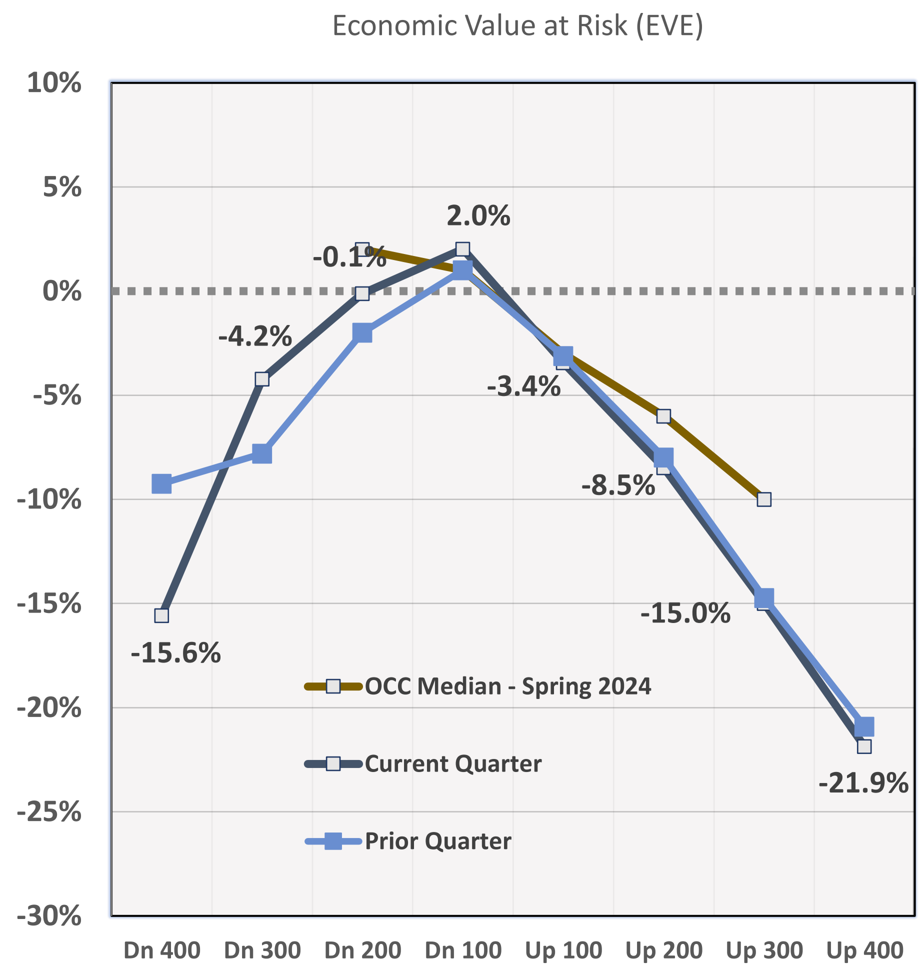
Change in Federal Funds Rate	First Cut (T)	T + 6 Months	T + 9 Months	T + 12 Months	T + 15 Months	T + 18 Months	T + 24 Months	T + 30 Months	T + 36 Months	T + 42 Months
Starting FF Rate	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25	5.25
Ending FF Rate	4.94	4.24	2.61	2.00	1.81	0.16	0.21	0.12	0.18	0.18
Total Δ FF Rate	(0.31)	(1.01)	(2.64)	(3.25)	(3.44)	(5.09)	(5.04)	(5.13)	(5.07)	(5.07)
Marginal Δ FF Rate	(0.31)	(0.70)	(1.63)	(0.61)	(0.19)	(1.65)	**0.05**	(0.09)	**0.06**	**0.00**
Change in Earning Asset Yield										
Starting Earning Asset Yield	7.23	7.23	7.23	7.23	7.23	7.23	7.23	7.23	7.23	7.23
Ending Earning Asset Yield	7.33	7.25	6.64	6.25	6.20	5.98	5.51	5.42	5.22	5.11
Δ Earning Asset Yield	**0.10**	**0.02**	(0.59)	(0.98)	(1.03)	(1.25)	(1.72)	(1.81)	(2.01)	(2.12)
Earning Asset Yield Beta	**-32%**	**-2%**	**22%**	**30%**	**30%**	**25%**	**34%**	**35%**	**40%**	**42%**
Change in Liability Costs										
Starting IBL Cost	3.89	3.89	3.89	3.89	3.89	3.89	3.89	3.89	3.89	3.89
Ending IBL Cost	3.98	3.93	3.43	2.93	2.84	2.64	2.13	1.82	1.54	1.41
Δ IBL Cost	**0.09**	**0.04**	(0.46)	(0.96)	(1.06)	(1.26)	(1.76)	(2.07)	(2.36)	(2.49)
Interest Bearing Liability Beta	**-29%**	**-4%**	**18%**	**30%**	**31%**	**25%**	**35%**	**40%**	**46%**	**49%**
Spread Between Asset & Liability Beta	**3%**	**-2%**	**-5%**	**-1%**	**1%**	**0%**	**1%**	**5%**	**7%**	**7%**
2s-10s Spread										
Starting 2s-10s Spread	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17
Ending 2s-10s Spread	0.60	0.98	1.83	1.35	1.86	1.45	2.42	2.70	2.33	2.70
Total Δ in 2s-10s Spread (Disinversion/Steepening)	**0.44**	**0.81**	**1.66**	**1.19**	**1.70**	**1.28**	**2.26**	**2.54**	**2.16**	**2.53**

1. Peer group includes all banks $1Bn to $10Bn in Total Assets
2. Data per S&P Global at the Bank Level as of 6/30/2024

Interest Rate Risk Profiles: EAR & EVE

- EAR Falling Rate Risk Declines QoQ - EAR Position Fairly Neutral +/- 100 BPS -EVE Rising Rate Risk Unchanged QoQ, Falling Rate Risk Lower QoQ; Down 400 BPS EVE Risk Higher QoQ





Source: SABER and Risk Manager IRR Model Median, OCC
Note: Assumes an immediate and parallel shift in the yield curve using a static balance sheet.

Capital Utilization Strategies

Portfolio and Balance Sheet Strategies

- Optimize the composition of earning assets by deploying excess liquidity **(falling rate protection)**
- Restructure investment portfolio by liquidating lower performing securities and use proceeds to reinvest into other securities or loans in order to enhance future earnings **(loss earnback)**
- Consider taking gains from sales of other assets to offset bond losses **(Visa B, Sale-Leaseback, BOLI restructuring)**
- Leverage excess capital to sustain earnings and maximize returns to shareholders (**prefunding bond cash flows)**
- Assess the current and projected level of capital at risk **(CAR / AOCI-MTM)** to determine capital needed to support planned growth
- Consider adding **derivatives / hedging** to flatten IRR profile and support current earnings (short-pay fixed swap)
- Supplement loan demand with **loan participations** or whole loan purchases
- Consider **wholesale funding** markets if there's a need to replace **BTFP**, deposit runoff or to fund loan demand; brokered CDs or swapped funding may be the least expensive source of wholesale funding
- Analyze and model cash deployment, bond swaps, leverages, borrowings, brokered funding, loan trading, and derivative opportunities using the **Performance Architect**

Comparison of Capital Utilization Strategies

Sample

		Securities Restructure		Share Buyback		BOLI Surrender/Exchange		Leverage	
	Beginning Data	Strategy 1		Strategy 2		Strategy 3		Strategy 4	
		Pro Forma	Change	Pro Forma	Change	Pro Forma	Change	Pro Forma	Change
		$5mm Loss *Maximize Income Pick-Up* *< 3yr Earnback* *Securities Reinvestment*		***Share Repurchase*** *Match EPS accretion* *Assumes 8.4% buyback* *Assumes 1.25x P/TBV*		***$57mm BOLI Restructure*** *$1.15mm Penalties/Fees* *5% BOLI Reinvest* *250bps of Spread Pick-Up*		***$72mm Leverage*** *Funding: 100% FHLB Advances* *Purchases: 100% Loans* *230bps of Spread Pick-Up* *Assumes 50% RW on Loans*	
Impact on Earnings									
Net Interest Income	105,000	106,651	*1,651*	103,351	*(1,649)*	105,000	-	106,656	*1,656*
Net Interest Margin	3.28%	**3.34%**	***0.06%***	**3.26%**	***(0.02%)***	**3.28%**	**-**	**3.26%**	***(0.02%)***
Net Income	32,500	33,922	*1,422*	31,079	*(1,421)*	33,925	*1,425*	33,926	*1,426*
Annual. EPS	1.91	2.00	*0.08*	2.00	*0.08*	2.00	*0.08*	2.00	*0.08*
Earnings Accr. / (Dil.)		*+4.4%*		*+4.4%*		*+4.4%*		*+4.4%*	
ROAA	0.90%	0.94%	*0.04%*	0.87%	*(0.03%)*	0.94%	*0.04%*	0.92%	*0.02%*
ROATCE	10.83%	11.31%	*0.47%*	11.57%	*0.74%*	11.31%	*0.47%*	11.31%	*0.48%*
Pretax Gain / (Loss)		(4,941)		-		(1,150)		-	
After-tax Gain / (Loss)		(4,256)		-		(1,150)		-	
Earnback Period (Years)		2.99		n/a		0.81		n/a	
TBV Earnback (Years)		n/a		2.37		0.81		n/a	
CET1 Earnback (Years)		2.69		n/a		0.81		2.98	
Impact on Capital									
Tier 1 Leverage	10.00%	9.89%	*(0.11%)*	9.18%	*(0.82%)*	9.97%	*(0.03%)*	9.80%	*(0.20%)*
CET1 Risk Based	11.83%	11.69%	*(0.13%)*	10.73%	*(1.09%)*	11.79%	*(0.04%)*	11.68%	*(0.15%)*
Tier 1 Risk Based	12.17%	12.04%	*(0.13%)*	11.08%	*(1.09%)*	12.13%	*(0.04%)*	12.02%	*(0.15%)*
Total Risk Based	13.04%	12.91%	*(0.13%)*	11.95%	*(1.09%)*	13.00%	*(0.04%)*	12.88%	*(0.16%)*
TCE / TA	8.70%	8.70%	*0.00%*	7.86%	*(0.84%)*	8.67%	*(0.03%)*	8.52%	*(0.18%)*

Strategy Pros and Cons

Strategy Description	Pros	Cons
Loss/Earnback	• Ample precedent • Easy to execute quickly • Accretive to NIM and ROATCE (esp. if delevering)	• Creates one-time item in earnings • Earnback may be rate-dependent • Reduces regulatory capital ratios (if reinvesting)
Share Buyback	• Most directly impacts EPS and ROATCE	• Reduces capital ratios without improving Net Income • Not feasible unless publicly traded
BOLI Restructure	• Short earnback • No/minimal impact to capital ratios	• Operationally complex
Leverage	• Accretive to $ earnings	• Compresses Net Interest Margin • Adds to wholesale borrowings • Longer earnback for Risk-Based Capital utilization

Capital Utilization Strategies:

Loss/Earnback Portfolio Repositioning

Portfolio Restructuring: Loss-Earn Back Strategy

Selling securities with book yields below current market yields and reinvesting proceeds into higher-yielding securities and/or loans can create a significant income shift from 2024 to future years.

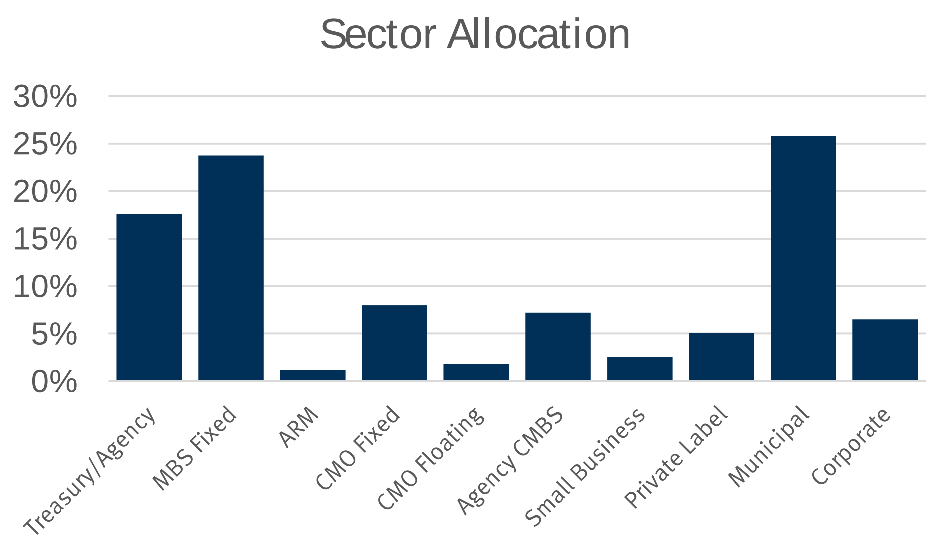
- As an alternative to waiting for securities to mature, it could make sense to sell certain securities at a loss to generate immediate liquidity.
- Replacing 1% to 2% returns in the securities portfolio with 6.5% to 7.5% returns on loans can offset the loss in a relatively short period of time.
- Potential sell candidates include bullet-like structures with relatively low book and market yields, and losses ranging from 3- to 6-points.
- Consider pairing gains with losses to reduce the initial loss and maximize the potential size in order to increase NIM going forward.

Consider the following guidance when evaluating swaps:

- Establish a targeted loss to entertain taking in 2024 to boost future years' income
- Identify potential sell-candidates by targeting positions that may have the following characteristics: low yields, high credit risk, marginal transactional liquidity, and high price volatility
- Identify potential replacement securities and/or loans
- Taking on duration and/or credit risk may help improve the reinvestment yield
- Structure the transaction to compliment the institution's asset/liability posture, liquidity needs, and business plans
- Utilize Stifel's ***Performance Architect*** to calculate the estimated break-even date and increase in horizon income to understand the economic benefit of the proposed transaction
- Swaps should break-even by the average maturity of the securities being sold, otherwise the swap may not be economically feasible (failure to recoup initial loss)

The Average Bank Portfolio Remains Deeply Underwater

	Peer Group (87)
Book Value	267,544
# Securities	263
Average Size	1,240
Yield at Book	3.13
Market Yield	4.98
$ Gain/Loss	-21,524
% Gain/Loss	-8.0%
Average Life	6.04
Average Life +300bps	6.73
+300 Price Change	-11.9%
Effective Duration	4.04
Effective Convexity	0.03
AFS / HTM%	87% / 13%
Fixed / Floating	90% / 10%
Total Assets (SNL)	1,314,205
Securities / Assets (SNL)	19.1 %



- The portfolio shown to the left is broadly representative of the "average" bank portfolio in Stifel's portfolio database at the end of August.
- Though portfolio yields have increased and valuations have improved, most portfolios continue to carry significant mark-to-market losses.
- An flat yield curve and healthy allocation to amortizing products (MBS, ARM, CMO) means that portfolio pricing may take longer to pull back to par than many realize.

Book and Market prices provided as of 8/31/2024

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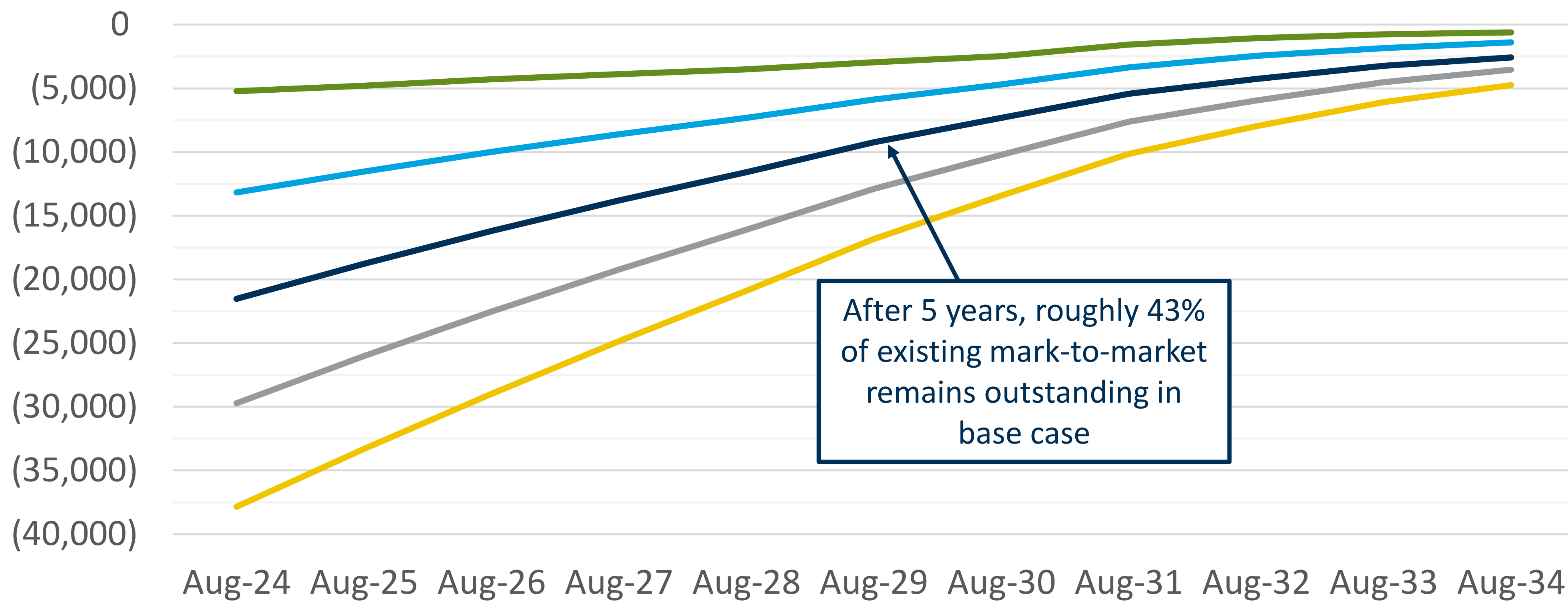
Projected Mark-to-Market



	Aug-24	Aug-25	Aug-26	Aug-27	Aug-28	Aug-29	Aug-30	Aug-31	Aug-32	Aug-33	Aug-34
-200	(5,225)	(4,789)	(4,300)	(3,884)	(3,515)	(2,948)	(2,486)	(1,560)	(1,058)	(763)	(615)
-100	(13,183)	(11,537)	(9,992)	(8,599)	(7,316)	(5,878)	(4,698)	(3,352)	(2,462)	(1,834)	(1,399)
Base	(21,524)	(18,782)	(16,206)	(13,815)	(11,584)	(9,243)	(7,313)	(5,425)	(4,259)	(3,243)	(2,582)
+100	(29,736)	(26,028)	(22,537)	(19,235)	(16,111)	(12,894)	(10,210)	(7,625)	(5,967)	(4,524)	(3,538)
+200	(37,854)	(33,299)	(28,989)	(24,856)	(20,901)	(16,844)	(13,434)	(10,154)	(7,989)	(6,094)	(4,749)

Book and market prices provided as of 8/31/2024
Horizon prices provided by the Yield Book and ZM Financial using constant OAS methodology
Horizon Book Value reflects principal paydowns , but assumes constant Book Price
Projections provided using static interest rate assumption

Loss Earnback Activity Continued in 2Q24

- Though each strategy has differed in meaningful ways (timing, use of proceeds, composition of sales, size, earnback period, etc), dozens of institutions have publicly announced loss earnback portfolio repositionings since 4Q22:

Pretax Loss Threshold	Number of Institutions						
	2022Q4	2023Q1	2023Q2	2023Q3	2023Q4	2024Q1	2024Q2
Loss >$1mm	14	29	22	16	49	17	22
Loss >$5mm	7	11	8	10	31	9	16

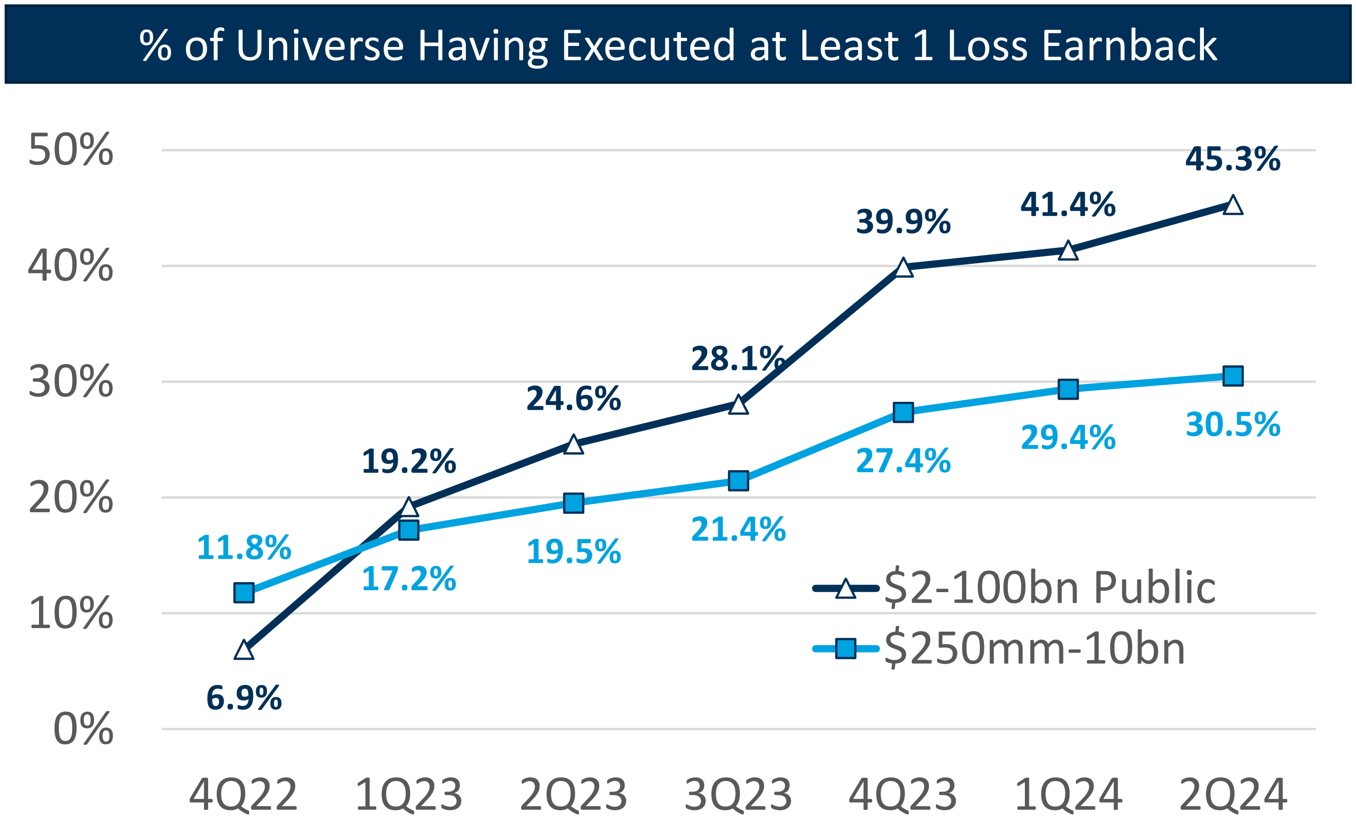
- Loss earnback activity in the 2nd quarter accelerated somewhat versus the 1st quarter, though 4Q23 remains a clear standout regarding the level of activity.

- Across the entire 203-bank peer set, 90 banks (roughly 45%) have executed at least one loss earnback since 4Q22 – and nearly half of those (43 banks, or roughly 21%) have executed multiple transactions.

- Eight of the 2nd-quarter transactions were from first-time participants, and sixteen banks have executed at least three transactions in the past seven quarters (with one bank active every quarter).

Source: Stifel, S&P Global
Includes major exchange-traded public banks with between $2Bn and $100Bn in Total Assets
2023Q1 institution counts exclude situations tied to impairment of subordinated debt holdings

Public Activity versus Private



- Though smaller institutions pursued loss earnback strategies more often in 4Q22, usage has increased slowly ever since.
- In addition, only 11.5% of smaller institutions have executed more than one strategy – roughly half the level of the grouping of larger, publicly traded institutions.

Source: Stifel, S&P Global
Includes banks not traded on a major exchange with Total Assets between $50mm and $10Bn
2024Q2 institution count as of 8/3/2024

STIFEL | Fixed Income Capital Markets

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

Company	Ticker	Total Assets ($M)[2]	Intent	Amount Sold ($M)	% of AFS Portfolio[3]	Pre-Tax Loss/Secs Sold (%)	Pre-Tax Loss ($M)	Use of Proceeds	Spread	Earnback Period	Accompanying Event	8-K Announce?	Prior Restructure?	1 Day Relative Stock Performance	3 Day Relative Stock Performance	7 Day Relative Stock Performance
Bank of Marin	BMRC	$3,767	AFS	$293	54.6%	-10%	($29.1)	Securities and Loan Reinvestment	381bps	3yrs		Yes	Yes	8.25%	8.72%	7.51%
Community West Bancshares	CWBC	$3,476	AFS	$26	4.5%	-8%	($2.0)	Loan Reinvestment				No	Yes	(6.00)%	(8.10)%	(3.83)%
First Commonwealth Bank	FCF	$11,627	AFS	$75	7.3%	-7%	($5.5)	Securities Reinvestment	332bps	Estimated ~2.2yrs	Visa B Sale Gain	No		4.92%	8.30%	6.82%
Northwest Bank	NWBI	$14,386	AFS	$276	25.2%	-14%	($39.0)	Securities Reinvestment & Deleverage	420bps	< 3yrs		No	Yes	3.31%	4.61%	3.53%
Pinnacle Financial Partners	PNFP	$49,367	AFS	$895	20.3%	-8%	($72.1)	Securities Reinvestment	310bps	< 3yrs	Credit Risk Transfer	No	Yes	1.40%	1.73%	2.49%
Regions	RF	$154,052	AFS	$980	3.4%	-5%	($50.0)	Securities Reinvestment	240bps	2.6yrs	Debt Issuance	Yes	Yes	(0.26)%	(1.88)%	(1.78)%
Synovus	SNV	$59,606	AFS	$1,600	16.5%	-16%	($256.7)	Securities Reinvestment	360bps	5yrs	RWA Optimization	No	Yes	(0.48)%	1.81%	2.08%
Trustmark	TRMK	$18,452	AFS	$1,600	94.0%	-11%	($182.8)	Securities Reinvesment	349bps	Estimated ~3.5yrs	Gain from sale of Insurance Sub & Visa B Exchange	No		(0.55)%	0.49%	(0.08)%
QNB	QNBC	$1,761	AFS	$30	6.1%	-5%	($1.4)				Gain from Visa C shares sale	No	Yes	7.28%	3.04%	9.87%
Webster Bank	WBS	$76,838	AFS	$962	11.2%	-5%	($49.9)	Securities Reinvestment	~400bps	< 1.5yrs		No	Yes	(6.89)%	(2.09)%	(0.17)%
First Fed	FNWB	$2,220	AFS	$23	7.1%	-9%	($2.1)	Deleverage	240bps	Estimated ~3.7yrs	Sale Leaseback, BOLI Restructure & Visa B Sale	No		(3.68)%	(3.25)%	2.65%
Heritage Financial Corporation	HFWA	$7,060	AFS	$39	3.9%	-5%	($1.9)	Loan Reinvestment	240bps	~2yrs		No	Yes	2.93%	1.44%	8.46%
HarborOne Bancorp	HONE	$5,787	AFS	$18	6.0%	-6%	($1.0)	Deleverage	269bps	Estimated ~2.2yrs	Sale Leaseback	No		0.53%	(0.33)%	(0.38)%
United Bankshares, Inc.	UBSI	$29,957	AFS	$103	2.8%	-7%	($7.1)				Visa Exchange and Partial Sale of Shares	No	Yes	1.11%	2.13%	3.40%
Colony Bank	CBAN	$3,008	AFS	$9	2.4%	-5%	($0.4)			<2yrs		No	Yes	(1.29)%	7.00%	4.87%

1. Source: S&P Capital IQ Pro and Company Filings
2. Total Assets as of 2Q24, GAAP Templated Financials where available, bank level otherwise
3. Beginning AFS portfolio data reflects fair value as of 1Q24, hold co level where available, bank level otherwise
4. Relative Stock Performance represents the difference between the bank's stock price performance from the date of the earning release v s. the change in the KBX Regional Banking Index over the same period.
5. QNBC sale size may include other principal cash flows from the portfolio in 2Q

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

Company	Ticker	Total Assets ($M)[2]	Intent	Amount Sold ($M)	% of AFS Portfolio[3]	Pre-Tax Loss/Secs Sold (%)	Pre-Tax Loss ($M)	Use of Proceeds	Spread	Earnback Period	Accompanying Event	8-K Announce?	Prior Restructure?	1 Day Relative Stock Performance	3 Day Relative Stock Performance	7 Day Relative Stock Performance
Commerce Bank	CBSH	$30,569	AFS	$1,200	13.1%	-15%	($179.0)	Securities Reinvesment	250bps		Gain from Visa C shares sale	No	Yes	(0.70)%	(2.46)%	(0.97)%
German American	GABC	$6,217	AFS	$375	24.4%	-9%	($34.9)	Securities Reinvesment			Gain from sale of Insurance Sub	No		(0.82)%	(3.55)%	0.99%
Fulton Bank	FULT	$31,770	AFS	$345	13.5%	-6%	($20.4)	Securities Reinvesment			Sale Leaseback	Yes	Yes	(0.18)%	(0.77)%	0.33%
HTLF Bank	HTLF	$18,813	AFS	$108	2.5%	-10%	($10.6)					No	Yes	2.73%	1.62%	4.30%
Prosperity Bank	PB	$39,762	AFS				($9.7)				Gain from Visa C shares sale	No		(0.56)%	(1.20)%	3.26%
Eastern Bank	EBC	$21,044	AFS	$85	2.0%	-9%	($7.6)				One-time early termination payment from depsoit account	No	Yes	1.58%	0.92%	0.68%
SR Bancorp	SRBK	$1,021	AFS	$35		-12%	($4.4)					No		1.11%	7.16%	9.65%
S&T Bancorp	STBA	$9,635	AFS	$49	5.0%	-7%	($3.2)	Securities Reinvesment			Gain from Visa C shares sale	No		3.97%	5.01%	8.77%
amalgamated bank	AMAL	$8,251	AFS				($2.7)					No	Yes	1.06%	2.29%	(0.87)%

1. Source: S&P Capital IQ Pro and Company Filings
2. Total Assets as of 2Q24, GAAP Templated Financials where available, bank level otherwise
3. Beginning AFS portfolio data reflects fair value as of 1Q24, hold co level where available, bank level otherwise
4. Relative Stock Performance represents the difference between the bank's stock price performance from the date of the earning release v s. the change in the KBX Regional Banking Index over the same period.

Summary of Strategies

Sample

- The below strategies aim to improve go forward earnings by maximizing net interest income while taking a one-time loss of various amounts
- The strategies all optimize for the same set of sale candidates; the difference between the strategies is use of proceeds. Sale proceeds assume either reinvestment into representative securities mix yielding 5.00%, and/or pay down short-term funding at an assumed cost of 5.00%

	Beginning Data	Strategy 1 Pro Forma	Strategy 1 Change	Strategy 2 Pro Forma	Strategy 2 Change	Strategy 3 Pro Forma	Strategy 3 Change	Strategy 4 Pro Forma	Strategy 4 Change	Strategy 5 Pro Forma	Strategy 5 Change	Strategy 6 Pro Forma	Strategy 6 Change
		Maximize NII *Earnback < 2yrs* *Proceeds into Securities*		***Maximize NII*** *Earnback <3.0yrs* *Proceeds into Securities*		***Maximize NII*** *Earnback <4.0yrs* *Proceeds into Securities*		***Maximize NII*** *Earnback <2.0yrs* *Proceeds Pay Down CDs*		***Maximize NII*** *Earnback <3.0yrs* *Proceeds Pay Down CDs*		***Maximize NII*** *Earnback <4.0yrs* *Proceeds Pay Down CDs*	
Transaction Detail													
Portfolio Balance	182,817	182,711	*(106)*	181,523	*(1,294)*	180,758	*(2,060)*	177,696	*(5,121)*	162,163	*(20,654)*	154,339	*(28,479)*
Avg Yield	***5.01%***	*5.06%*		*5.34%*		*5.47%*		*5.06%*		*5.38%*		*5.55%*	
Security Sales		5,121		20,654		28,479		5,121		20,654		28,479	
Avg Yield		*3.33%*		*2.11%*		*2.10%*		*3.33%*		*2.11%*		*2.10%*	
Security Purchase		5,015		19,360		26,419		0		-		-	
Avg Yield		*5.00%*		*5.00%*		*5.00%*		*5.00%*		*5.00%*		*5.00%*	
Liability Prepays		-		-		-		5,015		19,360		26,419	
Avg Cost		-		-		-		*5.00%*		*5.00%*		*5.00%*	
Impact on Earnings													
Net Interest Income	51,368	51,448	*80*	51,900	*532*	52,087	*719*	51,448	*80*	51,900	*532*	52,087	*719*
Net Interest Margin	3.51%	**3.51%**	***0.01%***	**3.55%**	***0.04%***	**3.56%**	***0.05%***	**3.53%**	***0.02%***	**3.60%**	***0.09%***	**3.63%**	***0.12%***
Net Income	13,999	14,062	*63*	14,419	*420*	14,567	*568*	14,062	*63*	14,419	*420*	14,567	*568*
ROAA	0.93%	0.94%	*0.00%*	0.96%	*0.03%*	0.97%	*0.04%*	0.94%	*0.01%*	0.97%	*0.04%*	0.99%	*0.06%*
ROAE	10.38%	10.43%	*0.05%*	10.70%	*0.31%*	10.81%	*0.42%*	10.43%	*0.05%*	10.70%	*0.31%*	10.81%	*0.42%*
Pretax Gain / (Loss)		(159)		(1,590)		(2,873)		(159)		(1,590)		(2,873)	
After-tax Gain / (Loss)		(126)		(1,256)		(2,270)		(126)		(1,256)		(2,270)	
Earnback Period (Years)		2.00		2.99		4.00		2.00		2.99		4.00	
Impact on Capital													
Tier 1 Leverage	9.30%	9.29%	*(0.01%)*	9.23%	*(0.07%)*	9.17%	*(0.12%)*	9.32%	*0.02%*	9.34%	*0.04%*	9.32%	*0.02%*
CET1 Risk Based	10.13%	10.13%	*0.00%*	10.06%	*(0.08%)*	10.01%	*(0.13%)*	10.14%	*0.01%*	10.08%	*(0.05%)*	10.04%	*(0.09%)*
Tier 1 Risk Based	10.13%	10.13%	*0.00%*	10.06%	*(0.08%)*	10.01%	*(0.13%)*	10.14%	*0.01%*	10.08%	*(0.05%)*	10.04%	*(0.09%)*
Total Risk Based	11.27%	11.27%	*0.00%*	11.19%	*(0.08%)*	11.14%	*(0.13%)*	11.28%	*0.01%*	11.22%	*(0.05%)*	11.18%	*(0.09%)*
TCE / TA	9.07%	9.07%	*0.00%*	9.07%	*0.00%*	9.07%	*0.00%*	9.10%	*0.03%*	9.18%	*0.11%*	9.22%	*0.15%*

1. Book prices provided by Sample Bank as of 8/31/2024
2. Other beginning data provided by S&P Global as of 6/30/2024 LTM
3. Market prices provided by Stifel's Fixed Income Proprietary Pricing Matrix as of 9/5/2024 and may not represent executable levels
4. Assumed reinvestment into a representative securities mix yielding 5.00%
5. Assumed short term borrowing cost of 5.00%

Putting Gains to Good Use

- In addition to outright loss scenarios, portfolio managers may offset some or all of the losses on security sales using from gains elsewhere on the Balance Sheet:
  - Sale of Visa B shares
  - Sale of loans, real estate or other assets
  - 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)

"Our first quarter results include a $4.1 million gain on the liquidation of our Visa-B shareholdings. The gain offset a $3.8 million loss on the sale of approximately $87 million in securities."

- SBCF 1Q24 earnings release

- Creating offsets provides additional flexibility in either growing the size of the trade or improving economics / reducing earnback.

Capital Utilization Strategies:

Portfolio Growth

With limited liquidity available, how can portfolio managers take advantage of today's yield environment?

Loss/Earnback Portfolio Repositioning	Pre-investing Portfolio Cash Flows
• Sell underwater, low-yielding securities positions at a loss and reinvest proceeds at higher rates • Sacrifices current earnings to benefit future earnings • Often difficult to sell longer positions with reasonable earnbacks	• **Temporarily** grow the balance sheet to add securities (or loans) at current market rates • Pay down funding as portfolio cash flows are received over the next 2-3 years • Benefits future earnings without taking a loss (no earnback math) • Takes advantage of strong capital base and profitability trends • "Leverage strategy with an exit strategy"

Capital Utilization Strategies:

BOLI Restructure

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 – 2Q & 1Q 2024

2Q 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
Equity Bank	EQBK	$5,246	2Q 2024	Surrender	Reinvest into new BOLI policies	$60	48.0%	(1.7)	< 2 Years				

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	LSBK	$718	1Q 2024	Surrender	N/A	$6.5	22.0%	N/A					
Investar	ISTR	$2,787	1Q 2024	Surrender	Reinvest into new General Account BOLI policies	$8.4	14.0%	N/A					
FVCbank	FVCB	$2,300	1Q 2024	Surrender	N/A	$48.0	84.0%	(2.4)				AFS Loss Earnback Trade	
BankUnited	BKU	$35,106	1Q 2024	Surrender	N/A	$32	10.0%	N/A					

Source: S&P Capital IQ Pro and Company Filings
Total Assets as-of quarter BOLI was announced

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)					
FirstCitizensBank	FCNC.A	$213,766	4Q 2022	Surrender	Reinvest into higher yielding assets	$1,200	89%	(55.0)	2yrs				
FIRST HORIZON.	FHN	$82,536	3Q 2023	Surrender	N/A	$214	19%	(24.0)					
JOHN MARSHALL BANK	JMSB	$2,298	3Q 2023	Surrender	Reinvest into higher yielding assets	$21	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	$113	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	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	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	CVBF	$15,903	4Q 2023	Surrender	Higher yielding assets and new General Account BOLI policies	$68	26%	0.0		Yes	Yes		
Financial Institutions, Inc.	FISI	$6,140	4Q 2023	Surrender	Reinvest into new Separate Account BOLI policies	$54	38%	3.6		Yes		AFS Loss Earnback Trade	

Source: S&P Capital IQ Pro and Company Filings
Total Assets as-of quarter BOLI was announced

BOLI Surrender Excerpts from Earnings Calls

"During the quarter, our realized effective tax rate was 28.1%, driven up by onetime BOLI surrender charges of $1.8 million. As Brad alluded to, we repositioned approximately $60 million in BOLI into higher-yielding contracts during the quarter. Realized losses are modeled to be recovered inside of 2 years through the noninterest income and tax lines." – Chris M. Navratil CFO, EQBK

"At the end of the fourth quarter, <u>we executed on a partial restructuring of our bank-owned life insurance or BOLI portfolio</u>. 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. <u>On a net basis, non-interest income was positively impacted by $6.5 million, offsetting the $6.5 million increase in tax expense</u>. 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

Notable Tax Items

- 3Q23 includes $13 million of net tax expense, including two notable tax events
  - $24 million tax liability related to the book value surrender of approximately $214 million of bank owned life insurance (BOLI) policies

EQBK quote per EQBK 2Q 2024 earnings call
CVBF quote per CVBF 4Q 2023 earnings call
FHN 3Q 2023 Earnings Presentation

Capital Creation Strategies:

Sale-Leaseback

Sale-Leaseback Transaction (SLB)

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

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

Pros

Relative Value

- While front end Treasury rates have increased ~550bps over the last 24 months, cap rates have only moved a fraction over same time period.

Capital Creation

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

Removes Non-Earning Assets

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

Cons

Lease Commitments

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

Operational Efforts

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

Public Bank Sale-Leaseback Disclosures

Company	Ticker	Trade Date	Total Assets ($M)	Region	# of Properties Sold	Pre-Tax Gain ($M)	Asset Restructure?
Pinnacle Financial Partners	PNFP	2Q 2023	$48,894	Southeast	51	92.8	Yes - Sold $166mm Securities at 9.2mm loss
Atlantic Union Bank	AUB	3Q 2023	$21,381	Southeast	25	27.9	Yes - Sold $228mm Securities at 27.7mm loss
Sierra Bancorp Parent Company for Bank of the Sierra	BSRR	4Q 2023	$3,553	West	13	15.3	Yes - Sold $197mm Securities at 24.5mm loss
The Citizens Bank	CIZN	1Q 2024	$1,471	Southeast	3	4.5	Yes - Sold Securities at 1.6mm loss
Plumas Bank	PLBC	1Q 2024	$1,642	West	9	19.8	Yes - Sold $115mm Securities at 19.8mm loss
Peoples Bank A Finward Company	FNWD	1Q 2024	$2,071	Midwest	5	11.8	Yes - Sold $15mm Securities at 500k loss
First Seacoast Bank	FSEA	2Q 2024	$576	Northeast	5	2.5	N/A
Fulton Bank	FULT	2Q 2024	$31,770	Midwest	40	20.3	Yes - Sold $356mm Securities at 20.3mm loss
First Guaranty Bank	FGBI	2Q 2024	$3,556	Southeast	3	13.2	N/A
First Fed	FNWB	2Q 2024	$2,220	Northwest	6	7.8	Yes - Sold $23.2mm Securities at 2.1mm loss
cib marine Bancshares Inc	CIBH	2Q 2024	$820	Midwest	3	4.5	N/A

1. Data per company filings and disclosures
2. Total Assets as of 3/31/24

Sale-Leaseback Transaction: Balance Sheet Summary of Strategies

SAMPLE

- The grid to the right shows the pro forma balance sheet impacts after sale-leaseback of properties with a total $55mm purchase price
- Enter into a long term lease with $5mm expense per year but remove $1.2mm annual depreciation from balance sheet
- Net Income change from today's b/s to after sale-leaseback breakdown below

Interest Income	
Yield on Cash (5.25%) (Pre tax)	2,888
Yield on Cash (Post Tax)	**2,281**
Non Interest Expense	
Lease Expense	(5,000)
Depreciation Removed	1,200
Total	(3,800)
Total Operating Expense (Post Tax)	**(3,002)**
Total Net Income	**(721)**

Strategy:				1			2		
		After Sale-Leaseback		-Offset $35mm Gain with Bond Sales -Maximize NII -100% Securities Reinvestment -$0 Deleverage			-Offset $35mm Gain with Bond Sales -Maximize Notional -$100mm Securities Reinvestment -$200mm Deleverage		
	Current Balance Sheet	Pro Forma	Chg	Pro Forma	Chg after Sale-Leaseback	Total Change	Pro Forma	Chg after Sale-Leaseback	Total Change
Impact on Earnings									
Net Interest Income	536,608	539,496	2,888	546,347	6,851	**9,739**	547,147	7,651	**10,539**
NIM	3.35%	3.36%	0.01%	3.40%	0.04%	**0.05%**	3.45%	0.09%	**0.10%**
Pre Tax Income	157,776	156,863	(913)	163,715	6,851	**5,939**	164,515	7,651	**6,739**
Net Income	124,643	123,922	(721)	129,335	5,413	**4,692**	129,967	6,045	**5,324**
ROAA	0.69%	0.69%	-0.01%	0.72%	0.03%	**0.02%**	0.73%	0.04%	**0.03%**
ROAE	5.88%	5.77%	-0.11%	6.03%	0.25%	**0.14%**	6.06%	0.28%	**0.17%**
EPS	1.66	1.65	(0.01)	1.72	0.07	**0.06**	1.73	0.08	**0.07**
Impact on Capital									
Tier 1 Leverage	8.93%	9.05%	0.12%	8.90%	-0.15%	**-0.03%**	9.01%	-0.04%	**0.08%**
CET1 Risk Based	9.44%	9.61%	0.17%	9.41%	-0.20%	**-0.03%**	9.44%	-0.17%	**0.00%**
Tier 1 Risk Based	10.37%	10.54%	0.17%	10.34%	-0.20%	**-0.03%**	10.37%	-0.17%	**0.00%**
Total Risk Based	13.11%	13.27%	0.16%	13.07%	-0.20%	**-0.04%**	13.10%	-0.16%	**0.00%**
Tangible Equity Ratio	7.41%	7.54%	0.13%	7.54%	0.00%	**0.13%**	7.63%	0.09%	**0.22%**
TCE / TA	6.58%	6.72%	0.13%	6.72%	0.00%	**0.13%**	6.80%	0.08%	**0.22%**

	Current Securities	Pro Forma	Chg	Pro Forma (Strategy 1)	Chg (Strategy 1)	Pro Forma (Strategy 2)	Chg (Strategy 2)
AFS Securities Portfolio							
Portfolio Balance	2,565,116			2,533,495	(31,621)	2,333,495	(231,621)
Bk Yield	2.59			2.89	0.30	2.71	0.12
Securities Sold				333,429		333,429	
Bk Yield				2.45		2.45	
Securities Purchased				301,808		101,808	
Bk Yield				5.00		5.00	
Pretax Gain / (Loss)		35,000		(34,998)		(34,998)	
Gain / (Loss)		27,650		(27,649)		(27,649)	

Portfolio/Balance Sheet Restructure

- Total proceeds from sale-leaseback generate $55MM in cash that is reflected to earn 5.25% over next twelve months ($2.9mm NII increase before portfolio restructure)
- Strategies 1 and 2 sell securities from investment portfolio to offset gain generated by sale-leaseback transaction, with strategy 1 reinvesting all bond sale proceeds back into the securities book and strategy 2 using $200mm of proceeds to paydown short term funding with 5.40% cost

1. SAMPLE Institution data
2. Risk Weight of buyside assumes 20% RW for reinvest mix
3. Assumes 21% Tax rate

Sale-Leaseback Transaction: Atlantic Union Bankshares Corporation (AUB) Case Study

On September 20, 2023, Atlantic Union Bank (the "Bank"), a wholly-owned subsidiary of Atlantic Union Bankshares Corporation (the "Company"), entered into and closed on an agreement for the purchase and sale of real property (the "Sale Agreement") with Blue Owl AUB VA Owner LLC (the "Purchaser"), an affiliate of Blue Owl Capital Inc., which provides for the sale to Purchaser of 27 properties owned and operated by the Bank, which consist of 25 branches and a drive thru and parking lot, each adjacent to a sold branch (collectively, the "Properties"), ***for an aggregate cash purchase price of approximately $45.8 million.*** All of the Properties are located in Virginia.

Under the Sale Agreement, the Bank concurrently entered into absolute net lease agreements (the "Lease Agreements") with Purchaser under which the Bank will lease each of the Properties. Each of the Lease Agreements will have an initial term of 17 years with specified renewal options. We will not close any branches or exit any markets as part of the sale-leaseback transaction.

The sale-leaseback transaction resulted in a pre-tax gain of approximately $27.9 million, or $22.0 million after tax, after transaction-related expenses. Aggregate first full year of rent expense under the Lease Agreements will be approximately $3.7 million pre-tax, or $2.9 million after tax, and will be partially offset by the elimination of the annual pre-tax depreciation expense on the buildings of approximately $969,000 and the estimated increase in annual pre-tax interest income of approximately $2.2 million generated by the investment of the transaction's net cash proceeds. The Lease Agreements also include a 1.5% annual rent escalation during the initial term and a 2.0% rent escalation during the renewal terms, if exercised…..

Subsequent to the closing of the sale-leaseback transaction, the Company restructured a portion of its investment portfolio by selling approximately $228.3 million in available for sale securities resulting in a pre-tax net loss of approximately $27.7 million, which will offset the net gain recognized from the sale-leaseback transaction. The Company expects to initially retain the net proceeds from these securities sales in its cash accounts at the Federal Reserve and subsequently reinvest the proceeds back into the investment portfolio. The Company expects the net transaction to be immediately accretive to net income and earnings per share.

Q3 2023 Financial Performance At-a-Glance

Summarized Income Statement

		3Q2023		2Q2023
Net interest income	$	151,941	$	152,084
- Provision for credit losses		4,991		6,069
+ Noninterest income		27,094		24,197
- Noninterest expense		108,508		105,661
- Taxes		11,519		9,310
Net income (GAAP)	**$**	**54,017**	**$**	**55,241**
- Dividends on preferred stock		2,967		2,967
Net income available to common shareholders (GAAP)	**$**	**51,050**	**$**	**52,274**
+ Strategic cost saving initiatives, net of tax		6,851		3,109
+ Merger-related costs, net of tax		1,965		-
- (Loss) gain on sale of securities, net of tax		(21,799)		2
- Gain on sale-leaseback transaction, net of tax		21,883		-
Adjusted operating earnings available to common shareholders (non-GAAP)[1]	**$**	**59,782**	**$**	**55,381**

The one-time gain generated from the sale-leaseback transaction was used to directly and completely offset the $21.8MM loss on the sale a $230MM securities, leaving current period net income unchanged and improving run rate by rotating out of lower yielding securities.

1. Per AUB 2023 9/21/2023 8k

Recent Sale Leaseback and Portfolio Restructure

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

SIERRA BANCORP
Parent Company for Bank of the Sierra

- **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.

Source: BSRR Investor Presentation 1/31/24

Capital Creation Strategies:

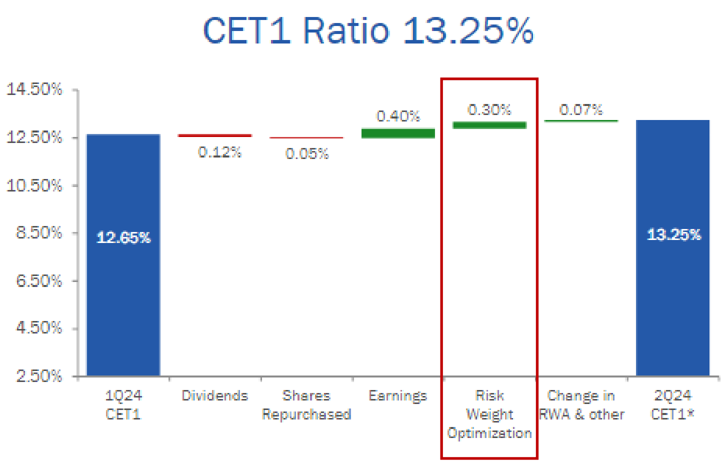
Risk-Weighted Asset Optimization

Risk Weighted Asset Optimization – Public Disclosures

- **Recent public bank disclosures of performing risk weighted asset optimization exercises shown below**

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***."[1] – SNV 1Q24 Earnings Call



Hancock Whitney Corp Q2 '24 10q

"Approximately half of the improvement in the tier 1 and total risk-based capital ratios from March 31, 2024 **is the result of a risk weighted asset optimization analysis associated with certain off-balance sheet commitments for home equity lines of credit**"[2] – HWC 2Q24 10q

Pinnacle Financial Earnings Release Q2 '24

"Additionally, and in accordance with regulatory guidelines, **the firm has implemented enhanced control processes with respect to certain other commercial loans which permits recharacterization of these loans in order to reduce the risk weights assigned to these loans**. As a result, the loans subject to the CDS and the loans where risk ratings were able to be recharacterized now qualify for reduced risk weights pursuant to risk-based capital guidelines."[3] – PNFP 2Q24 Earnings Release

1. Per SNV Q1 Earnings Call
2. Per HWC 2Q 10Q
3. Per PNFP 2Q Earnings Release

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.

1 HELOC Reclass	2 Municipal Loans	3 Prudently Underwritten Residential Mortgage Loans	4 Statutory Multifamily Mortgage	5 Loans/Commitments Held for Investment/Sale
Unfunded single family commitment lines that fall under unconditionally cancelable definition can be assigned a 0% credit conversion factor for risk weighting purposes	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	For first lien 1-4 family residential mortgage loans that meet certain lending and payment criteria can qualify for 50% RW treatment	First lien loans secured by multifamily residential property that meet certain lending and payment criteria can qualify for 50% RW treatment	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

1. Information not exhaustive
2. Information confidential and private, for intended audience only and not meant for distribution

1 HELOC Reclassification

Stifel has worked with hundreds of banks to identify areas for risk weight relief in Unfunded HELOCs

While we typically see banks hold 100% RW, 50% CCF against Unfunded HELOCs, a closer look at the definition of "unconditionally cancelable" suggests that if the HELOC contracts follow Reg Z, that means the lines can technically be canceled, and therefore, capital should not have to be held against them.

"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.
- 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**

Figure 1: Sample HELOC Reclass

	MVB Financial Corp.		
	2016Q2	2016Q3	Change
Total Assets	1,484,962	1,468,595	
Off-Balance Sheet Items (RC-L)			
Unfunded Commitment: 1-4 FamILY (HELOCs)	38,274	38,944	
Derivatives & Off-Balance Sheet Items (RC-R)			
NotAmt:Unused Cmt>1yr Orig Mat	139,848	86,355	
NotAmt: Unused Cmt ABCP Conduits <= 1 Yr Orig Mat	NA	NA	
Not Amt: Unused Cmt ABCP excl Cond<= 1 Yr Orig Mat	126,857	145,804	
NotAmt: Unconditionally Cancelable Commitments	1,218	40,182	38,964
NotAmt: Total Unsettled Transactions	0	0	

	Excludes Reclass	Includes Reclass	Change
Reporting Period of HELOC Reclassification		2016Q3	
Unfunded Commitment: 1-4 FamILY (HELOCs)	38,944	38,944	-
Unconditionally Cancelable Commitments	1,238	40,182	38,944
Common Equity Tier 1 Capital	92,124	92,124	-
Tier 1 Capital	112,582	112,582	-
Total Capital	151,140	151,140	-
Risk Weighted Assets	1,203,642	1,184,170	(19,472)
Common Equity Tier 1 Capital Ratio	7.65%	7.78%	0.13%
Tier 1 Ratio	9.35%	9.51%	0.15%
Total Capital Ratio	12.56%	12.76%	0.21%

Source: S&P Global
Assumes a 100% RW and 50% CCF for HELOC unfunded commitments

2 Municipal Loan Risk Weighting

Do Municipal Loans require a different risk weighting than Municipal Securities?

- 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.

Figure 1: Sample Muni Loan Reclass	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%**

12 CFR § 217.32 - General risk weights.
12 CFR § 217.2 - Definitions.

Prudently Underwritten Residential Mortgage Loans

Prudently Underwritten Residential Mortgage Loans that meet specific criteria can garner a 50% Risk Weight.

"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))."

https://www.fdic.gov/resources/bankers/call-reports/crinst-051/2020/2020-06-051-rc-r-part-2.pdf

Statutory Multifamily Mortgage

Multifamily Loans that are performing for 12 months and meet certain underwriting standards can qualify for 50% Risk Weight.

"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."

https://www.fdic.gov/resources/bankers/call-reports/crinst-051/2020/2020-06-051-rc-r-part-2.pdf

5 Loans That Qualify for Securitization Framework

Loans secured by “financial exposures” and qualify for securitization framework can fall under simplified supervisory formula approach (SSFA) or Gross-Up Approach for RWA treatment, likely reducing current risk weight.

- Basel III final ruling describes on- and off- balance sheet securitization as:
  - Requires all or substantially all of the underlying exposures to be financial exposures
  - 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
- 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, likely reducing current risk weighted asset value for certain loans

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

https://www.govinfo.gov/content/pkg/FR-2013-10-11/html/2013-21653.htm
Per Synovus Financial Corp ($SNV) Q1 Earnings Call

5 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.”

https://www.govinfo.gov/content/pkg/FR-2013-10-11/html/2013-21653.htm

Disclaimer