

DAY 4 - THURSDAY

What should ALCO really do?

- Maximize Net Interest Income
- Minimize Interest Rate Risk
- Assets and Liability planning linkage
 - Products, Pricing, Promotion
- Manage Liquidity
- Manage Capital
- Drive Shareholder Value

Third Bank Monthly ALCO Meeting

- Competing Interests?:
 - CEO – grow shareholder value, earnings, vision
 - CFO – financial stability, IRR, liquidity, investments
 - CLO/Lending – loan growth, pricing and structure
 - Deposit/Retail – grow, marketable products
- Who else should attend?
 - Board members, marketing, LOB leaders, audit, controller, consultants, risk, etc.

Building Buy-in Across the Bank

- Why have line of business leadership attend?
 - Lending
 - Deposit gathering
 - Other lines of business impacted
- Why have marketing attend?
- Why have risk management attend?

Primary components of our ALCO Meeting

- Current Position
- Marketplace and Economic Direction
- Forecasts
- What actions do we take?
 - To improve NII and MVE
 - To limit existing risk
 - Related to new products and services

Third Bank Monthly ALCO Meeting

- Committee Members:
 - Facilitator/Economic Update
 - CEO – Group 1 volunteer
 - CLO/Lending – Group 2 volunteer
 - Deposit/Retail – Group 3 volunteer
 - CFO – Group 4 volunteer

TB ALCO Scenario

- The economy has been picking up yet with competition winning quality new loan customers and balances is tough. Your competition has been using low interest rates, looser credit standards and long-term fixed rate financing in order to grow their loan portfolios. TB has seen growth slow considerably in their loan portfolio while at the same time their net interest margin has been declining, reducing net interest income, net income and earnings per share. **The Board of Directors has directed management to grow earnings per share and net income, which can only be accomplished by growing the overall balance sheet with a focus on loans or higher yielding securities.**
- TB is asset sensitive with more assets repricing faster in the next year than liabilities – but liability sensitive beyond one year which would expose the bank to potentially reduced earnings when interest rates begin rising. The Federal Reserve has signaled short-term rates will continue to grow over the next 12-24 months. How does ALCO accomplish this and keep TB independent.

Third Bank ALCO Agenda

- Historical and Trend Information
 - Current Financial Positions
 - Loan Portfolio
 - Deposit Portfolio
 - Investment Portfolio
 - Funding/Liquidity Position
 - Capital Position
 - Net Interest Margin History and Trend
 - Liquidity and Capital Stress Testing Results
 - Current Interest Rate Risk Position
 - Gap Analysis
 - Modeling Results
- Economic and Interest Rate Forecast
- Lending **Decisions/Recommendations**
 - Forecast net growth goals and pipeline
 - Rate/Loan Pricing targets
 - Actions to meet goals
- Deposit **Decisions/Recommendations**
 - Forecast net growth goals
 - Rates/Funds pricing
 - Actions to meet goals
- Treasury/Investment **Decisions/Recommendations**
 - Investment Maturities and Calls
 - Investment Actions
 - Wholesale funding Actions
 - Capital Actions
 - Hedging Activities

I. Historical - Financial Reports

- Net Interest Margin trends
 - Declining due to deposit costs rising, competitive loan pressure reducing ability to improve yields
- Gap Analysis
 - More liabilities reprice in 90 days, 1 year, 3 year range
 - Assets (loans and investment portfolio) reprice faster beginning 5 yrs
- Simulation Analysis Results
 - Rates rise 100 bp
 - Net Interest Income drops 5% or \$1.8 million
 - Economic value equity (EVE) drops
 - Rates decline 100 bp
 - Net Interest Income rises 2% or \$0.7 million
 - Economic value equity (EVE) rises

I. Historical and Trend Information

	For Quarters Ending			
	12/31/21	9/30/21	6/30/21	3/31/21
Assets				
Cash Items	49.695	49.616	49.108	46.083
Fed Funds Sold	8.911	55.247	103.423	104.537
Securities	24.687	24.751	24.793	34.823
Loans (Net)	680.210	646.999	628.500	591.517
Business	223.808	199.523	185.278	175.458
Real Estate	323.338	318.948	320.786	304.970
Consumer	139.934	135.063	128.785	117.064
Other	0	0	0	0
Loan Loss Reserve	-6.871	-6.535	-6.348	-5.975
Premises	15.504	15.492	15.484	15.479
Other Assets	40.048	40.397	41.369	39.980
Total Assets	819.054	832.502	862.677	832.420
Liabilities and Equity				
Total Deposits	719.843	734.188	763.936	734.556
Checking Accounts	233.925	227.735	215.481	200.037
Savings Accounts	246.924	270.451	304.883	291.049
Time Accounts	238.994	236.002	243.572	243.469
Certificates of Deposit	0	0	0	0
Borrowed Funds	0	0	0	0
Repurchase Agreements	0	0	0	0
Fed Funds Purchased	0	0	0	0
FHLB Borrowing	0	0	0	0
Other Liabilities	33.748	34.405	35.828	34.314
Capital Notes	0	0	0	0
Owners Equity	65.463	63.908	62.913	63.550
Total Liab & Equity	819.054	832.502	862.677	832.420
Ratios (%)				
Net Liquid Assets / Assets	1.09	6.64	11.99	13.76
Loans / Deposits	94.49	88.12	82.27	80.53
Non-Performing Loans / Loans	.61	.64	.67	.80
Charge-offs / Average Loans	.28	.36	.55	.64
Earning Asset / Total Assets	87.15	87.33	87.72	87.80
Core Deposits / Total Assets	87.89	88.19	88.55	88.24
Int Bear Liab / Total Assets	79.24	79.65	80.28	79.59
Borrowed Funds / Total Assets	0	0	0	0
Fed Funds Purch / Tot Capital	0	0	0	0
Owners Equity / Total Assets	7.99	7.68	7.29	7.63

Income Statement

	FOR QUARTERS ENDING			
	12/31/21	9/30/21	6/30/21	3/31/21
Interest Income	12.644	11.820	11.116	10.305
Loans	11.899	10.688	9.980	9.367
Business	4.346	3.411	2.952	2.633
Real Estate	5.119	5.020	4.942	4.789
Consumer	2.434	2.257	2.086	1.945
Other	0	0	0	0
Securities: Taxable Income	.106	.106	.106	.190
Securities: Tax-exempt Income	.141	.141	.141	.141
Federal Funds Sold	.498	.885	.889	.608
Interest Expense	4.239	4.328	4.595	4.583
Checking Accounts	.135	.128	.121	.112
Savings Accounts	1.144	1.201	1.366	1.320
Time Accounts	2.960	2.999	3.109	3.151
Certificates of Deposit	0	0	0	0
Borrowed Funds	0	0	0	0
FHLB Borrowing	0	0	0	0
Capital Notes	0	0	0	0
Net Interest on Swaps	0	0	0	0
Net Interest Income	8.405	7.492	6.520	5.723
Service Charges & Other Income	2.686	2.585	2.416	1.952
Loan Loss Provision	.791	.753	1.210	.727
Operating Expenses	7.478	7.497	7.818	7.054
Salaries and Benefits	5.419	5.467	5.804	5.035
Advertising - Promotion	.050	.050	.050	.100
Occupancy & Other Op. Expenses	2.009	1.980	1.965	1.919
Operating Earnings	2.823	1.828	-.092	-.107
Gains/Losses on Asset Sales	.284	.047	0	.719
Income Taxes	1.073	.630	-.077	.176
Net Income	2.033	1.245	-.015	.435
Earnings Per Share	.687	.420	-.005	.147
Interest Income/Earning Assets	7.02	6.37	5.98	5.70
Interest Expense/Int-bear Liab Spread	2.59	2.56	2.71	2.80
Net Interest Inc/Earning Assets	4.43	3.82	3.27	2.90
Net Interest Inc/Total Assets	4.67	4.04	3.51	3.17
Operating Expense/Total Assets	4.07	3.54	3.08	2.78
Operating Expense/Total Assets	3.62	3.54	3.69	3.43
Net Non-Int Exp/Total Assets	2.32	2.32	2.55	2.48
Operating Earning/Total Assets	1.37	.86	-.04	-.05
Net Income/Total Assets	.99	.59	-.01	.21
Net Income/Owners Equity	12.43	7.79	-.09	2.74

Deposits and Borrowings

- DDA \$233,925,000
- Savings/MMDA \$246,924,000
- CDs \$238,994,000
- Total Deposits \$719,843,000
- Borrowings 0

FRC (<\$1mm)	Rate
1 Mo	2.36
3 Mo	2.31
6 Mo	2.19
12 Mo	1.95
18 Mo	1.88
2 Yr	1.83
3 Yr	1.96
5 Yr	2.04
7 Yr	2.29
10 Yr	2.56

Act/360; Same Day Settle Available, Monthly Payments;
Non-symmetrical Prepay.

- What is our CD maturity schedule?
- What is deposit growth by type and price?
- What is new deposit growth costing?
- Where is the growth occurring?
- What are market rates for deposits?
- What are results from past deposit campaigns?

Managing Liquidity

	Beginning Balance	Deposits			Accrued Interest	Net Service Charges and Fees	Ending Balance
		New	Matured	With- drawals			
Business Checking	71.094	2.915		2.936		.251	70.823
Individual Checking	156.641	15.545		8.371	.135	.846	163.102
Individual Savings	270.451	10.303		34.875	1.144	.099	246.924
Time Accounts							
Variable Rate	15.920	0	4.605	0	.163		11.478
Fixed Rate	220.082	14.507	9.869	0	2.797		227.517
Total	734.188	43.270	14.475	46.182	4.239	1.197	719.843

=== Time Accounts Maturities ===

	Next Quarter	Quarter Two	Quarter Three	Quarter Four	Over 1 Year	Total
Variable Rate	0	0	0	0	11.5	11.5
Fixed Rate	33.2	32.3	19.9	28.5	113.7	227.5
Total	33.2	32.3	19.9	28.5	125.1	239.0

Investments

• U.S. Treasury Bonds	\$10,000,000	\$9,687,000
• Municipal Bonds	<u>\$15,000,000</u>	<u>\$13,927,000</u>
• Total Investments (book)	\$25,000,000	
• Market Value		\$23,614,000
• Gain (loss) portfolio		(1,386,000)

- What is maturing or being called?
- Do we need the funds to meet other demands or should we reinvest?
- What are our investment options in the market?
- Are we meeting our pledging needs?
- Are there gains to be harvested or losses to reposition?

Treasury Management

Source	Current Quarter					Prior Quarter			Matured
	Decision Amount	Available Amount	Available Rate (%)	Current Maturing	Current Balance	Decision Amount	Avail. Amount	Avail. Rate (%)	
Fed Funds Borrwd			6.13	0				4.83	0
Repos		10	5.75	0		0	10	4.63	0
CDs				0					0
1 Quarter		58	6.46		0	0	57	5.27	
2 Quarter		43	6.33		0	0	43	5.43	
3 Quarter		14	6.26		0	0	14	5.54	
4 Quarter		29	6.22			0	29	5.62	
			Maturity						Maturity Decision
FHLB Borrowing		130		0	0	0	119		0

Capital Notes and Common Stock

Decision Amount	Issue				Prior Quarter	
		3 - 5 Million	6 - 10 Million	12 - 16 Million	Decision Amount	Price or Rate
	Capital Notes Interest Rate	6.19	6.18	6.20	0	
	Common Stock Price Per Share	19.14	19.25	19.30	0	

Dividends and Forecast Earnings

Dividends per Share:

 .14

Earnings per Share, Forecast:

(Current Quarter: .69) -----
 .45

Treasury Management

	Beginning Balance	First Day Activity	Funds for Quarter		Ending Balance
			Provided	Used	
Securities (Book Value)	25.0	0			25.0
Loans (Net)	647.0	-8.9		42.1	680.2
Other Assets	105.5		.3		105.2
Repos	0	0			0
Corporate CDs	0	0			0
FHLB Borrowing	0	0			0
Customer Deposits	734.2			14.3	719.8
Other Liabilities	34.4			.7	33.7
Capital Notes	0	0			0
Owner's Equity	63.9	0	1.6		65.5
Net Position:	-55.0	-8.9	1.8	57.1	-8.6
Funds Positions					
Fed Funds Sold	55.2	63.7			8.9
Fed Funds Borrowed	0	0			0

Liquidity

• Fed Funds Sold	\$8,911,000	
• FHLB Borrowings	\$ 0	
• Fed Funds Purchased		\$ 0
• Investment Securities Maturing	0	
• Loan Funding Needs (+/-)		40,000,000
• Other Liquidity Needs		14,300,000

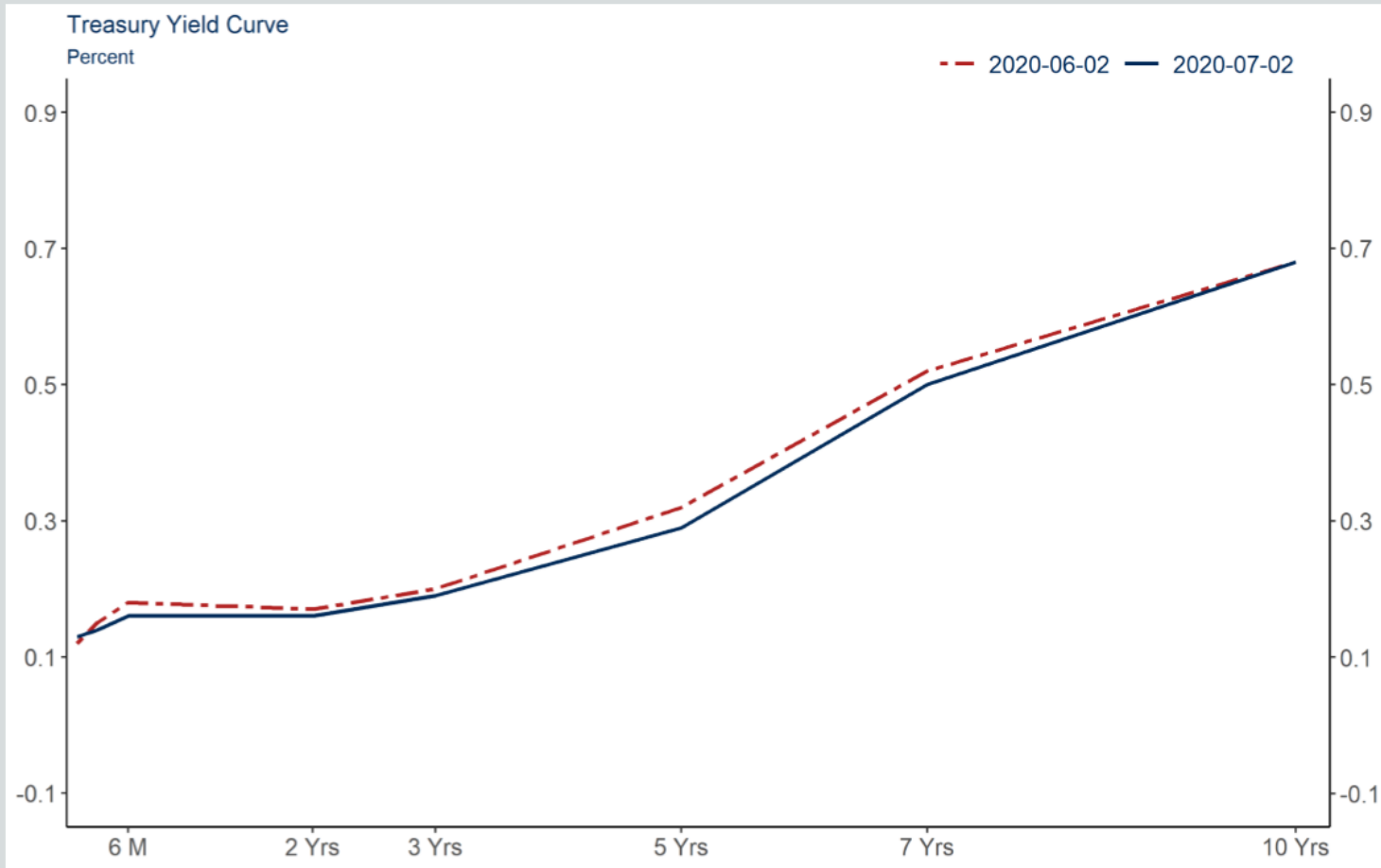
- What is our current liquidity position?
- What is our availability for asset-based liquidity:
 - Investment Portfolio AFS, can we sell without large losses, or pick up gains
- What is our availability for liability based liquidity:
 - Fed Funds Lines
 - FHLB Borrowing Capacity
 - CDARS

II. Economic Briefing

- Monetary Policy Expectations
- Yield Curve, Economic & rate forecast
- Yield curve strategies
 - Yield Curve and the FOMC
 - Flat/inverted curve – falling rates
 - Steep – rising rates
- Our local forecast

Current Yield Curve – 7/2/20

Treasury Yield Curve



CEO Comments

III. Loan Decisions

- Forecast net growth goals and pipeline
 - Desire to grow by \$_____ million net in one year
 - Scheduled maturities of \$_____ million
 - We need to actually book \$_____ million / \$680 million
- Marketplace demands
- Rate/Loan Pricing targets – direction for team
- Actions to meet goals
 - Products, Pricing, Marketing, Markets: loan specials?
 - People and Incentives: Hiring, replacing, incenting?
 - IRR: borrow long to support additional IR term risk?
 - Changes credit policy, risk appetite and tolerance?

IV. Deposit & Funding Decisions

- Forecast net growth goals
 - Need to support loan growth goals of \$_____ million
 - Need to maintain liquidity position of \$_____ million
 - Need to do at lowest possible cost
- Marketplace for deposits and funding
- Rates/Funds pricing - direction
- Actions to meet goals
 - Can we offer longer-term or stepped up CD products?
 - Products, Pricing, Marketing : changes needed
 - People: Retail/Treasury sales/incentives?
 - Technology: Any changes needed to attract/retain depositors?

V. Treasury Management Decisions

- Existing stress on liquidity and capital
- Investment Purchases and Sales
- Wholesale funding actions
- Capital Activity (raise capital, dividend policy)
- Actions to meet goals
 - What changes should we make to balance sheet to reduce exposure to interest rate risk? Hedging, rebalance?
 - What investment actions do we take?
 - Any need for wholesale/match funding?
 - Will asset growth trigger capital needs?, actions?
 - Will rising rates trigger capital loss from investments?

ALCO MEETING

- Take Aways / Feedback