



## VBA Annual Convention 2021

VIRGINIA BANKERS  
ASSOCIATION

### You Can't Predict, But You Can Prepare Getting Ready for 2022

STRICTLY PRIVATE & CONFIDENTIAL

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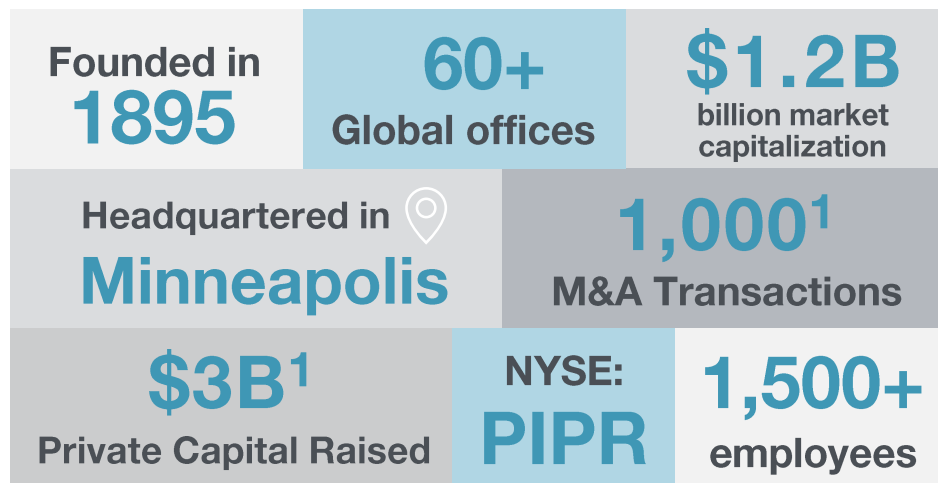
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# Who we are: firm overview

We are a Diversified, Well-Established Franchise with Sector Expertise and a Broad Product Offering

## Who We Are



## Deep Sector Expertise<sup>1</sup>



**Financial Services**  
427 Deals



**Energy**  
292 Deals



**Consumer**  
159 Deals



**Healthcare**  
233 Deals

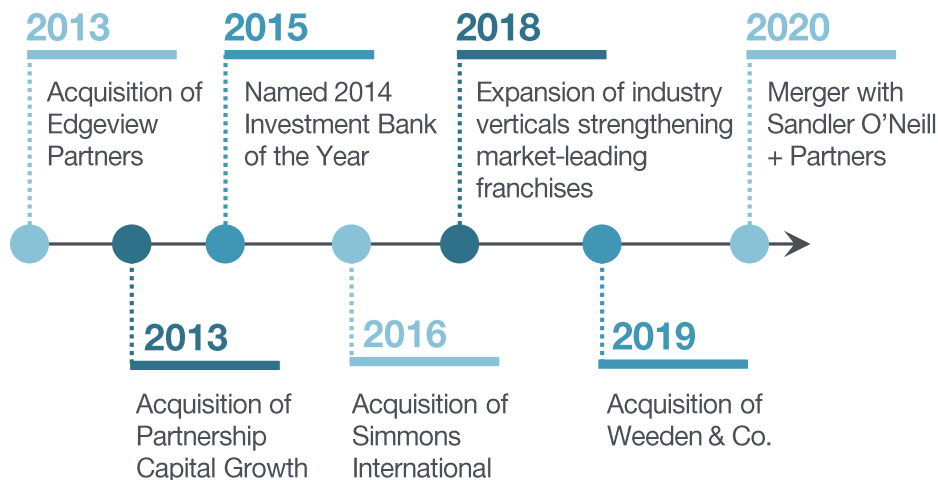


**Technology**  
64 Deals



**Diversified Industrials**  
126 Deals

## Longstanding History with Global Presence



## Comprehensive Product and Service Capabilities

<b>Advisory</b>	<b>M&amp;A Advisory</b>	<ul style="list-style-type: none"> <li>Top-ranked middle market M&amp;A advisor</li> <li>Industry-focused M&amp;A</li> </ul>	<ul style="list-style-type: none"> <li>Advised more than 1,000 M&amp;A transactions worth more than \$295B</li> </ul>
	<b>Restructuring &amp; Special Situations</b>	<ul style="list-style-type: none"> <li>Leading advisor to financially stressed businesses, creditor constituencies, investors</li> </ul>	<ul style="list-style-type: none"> <li>Ch 11, out-of-court workouts, asset sales, reorgs, exchange / tender offers, acquisitions</li> </ul>
<b>Capital Markets</b>	<b>Equity Securities</b>	<ul style="list-style-type: none"> <li>Leading underwriter</li> <li>Leading aftermarket trading support</li> </ul>	<ul style="list-style-type: none"> <li>Focused and dedicated research coverage</li> </ul>
	<b>Debt Securities</b>	<ul style="list-style-type: none"> <li>Product expertise across entire leveraged capital spectrum</li> </ul>	<ul style="list-style-type: none"> <li>Powerful distribution capabilities</li> <li>Public &amp; private transaction execution</li> </ul>
	<b>Private Placements</b>	<ul style="list-style-type: none"> <li>Leading industry expertise and products knowledge</li> </ul>	<ul style="list-style-type: none"> <li>Extensive relationships with private equity and venture firms</li> </ul>

1) Completed advisory deals since 2015 - Reflects combined Piper Jaffray and Sandler O'Neill data  
 2) Advisory statistic reflect data for the past 5 years  
 3) Noted as a leading underwriter for middle market and SMID-cap companies

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# Piper Sandler Financial Strategies

## WHO IS PIPER SANDLER FINANCIAL STRATEGIES?

- 25 professionals located across the U.S. with an average of 10+ years experience in the financial industry
- Expertise in Financial Institutions, Money Managers, and Public Entities
- Collaborative with Piper Sandler Investment Banking, Fixed Income Trading, and Capital Markets



## Investment Portfolio Analytics & Strategy

- Specialists dedicated to developing customized recommendations
- Portfolio cash flow and interest rate shock analyses
- “What If” analysis and swap strategies
- Economic & relative value ideas

## Portfolio and Balance Sheet Advisory Services

- Asset/liability analysis and strategy recommendations
- Balance sheet interest rate risk profile & analysis
- Liquidity contingency planning
- Deposit analysis & funding management
- Proprietary balance sheet modeling

## Trade Documentation and Ongoing Regulatory Surveillance

- Pre-purchase i-Snapshots (multi-sector)
- Municipal post-trade credit surveillance (MSR)
- Proprietary municipal credit scoring
- Security interest rate risk analysis

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# Current themes in the financial industry

## Liquidity

- It is still here
- Strategically measure
- Margin pressure
- M&A impact?

## Yield Curve

- Steepness came and went, will it come back?
- What are we rooting for?
- 2/10s vs FF/5s
- OCI/HTM

## Capital

- Debt markets remain robust
- Spreads still tight
- Off market transactions / know your underwriter

## M&A and Valuation

- Deals have started
- Larger banks have better multiples
- MOE type deals
- Tech & scale

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# M&A Overview

# Virginia Bank M&A Transactions

## Virginia M&A Transactions Since 2014


Piper Sandler has worked on a combined deal value of \$4.9B, out of a total deal value of \$5.3B; **93% market share by deal value**

Acquiror	St	Target	St	Announce. Date	Transaction Information					Seller Information					
					Deal Value (\$M)	Price		Core Deposit Premium (%)	1-Day Market Premium (%)	Total Assets (\$M)	TCE/TA (%)	LTM ROAA (%)	LTM ROAE (%)	Effic. Ratio (%)	NPA/Assets (%)
						LTM Earnings (x)	TBV (%)								
United Bankshares Inc.	WV	Cardinal Financial Corp.	VA	08/18/16	929.4	19.5	223	20.2	1.5	4,197.2	9.7	1.20	11.28	57.7	0.01
Union Bkshs Corp	VA	Xenith Bankshares Inc.	VA	05/22/17	688.6	10.3	156	11.4	10.4	3,198.6	13.9	2.14	15.30	68.5	1.82
Union Bkshs Corp	VA	Access National Corp.	VA	10/05/18	618.0	22.3	243	19.1	8.8	2,920.6	9.1	0.95	6.51	59.8	0.25
Sandy Spring Bancorp Inc.	MD	WashingtonFirst Bankshares Inc	VA	05/16/17	499.8	26.4	261	25.4	29.1	2,059.0	9.0	0.99	9.60	62.4	0.37
Blue Ridge Bankshares Inc.	VA	FVCBankcorp Inc.	VA	07/14/21	306.9	16.9	151	8.5	20.5	1,884.5	9.9	0.97	9.32	53.1	0.47
United Bankshares Inc.	WV	Community Bankers Trust Corp	VA	06/03/21	304.7	14.2	168	11.7	41.9	1,698.8	10.2	1.28	12.45	56.8	0.71
Access National Corp.	VA	Middleburg Financial Corp.	VA	10/24/16	263.9	32.5	201	15.2	28.4	1,335.0	9.4	0.59	6.14	71.1	1.76
TowneBank	VA	Monarch Financial Hldgs	VA	12/17/15	220.6	17.4	192	13.4	52.7	1,121.6	10.3	1.19	11.67	83.4	0.39
Eagle Bancorp Inc	MD	Virginia Heritage Bank	VA	06/09/14	183.5	18.1	206	21.2	33.9	917.4	9.3	1.08	10.11	60.9	0.30
Southern National Bncp of VA	VA	Eastern Virginia Bankshares	VA	12/13/16	180.9	21.9	135	9.6	2.8	1,314.9	7.4	0.65	6.37	76.7	1.59
Hampton Roads Bankshares Inc.	VA	Xenith Bankshares Inc.	VA	02/10/16	105.4	25.3	117	2.8	16.9	1,039.5	8.5	0.42	4.02	71.8	1.41
BNC Bancorp	NC	Valley Financial Corp.	VA	11/17/14	102.6	15.9	173	7.8	54.0	857.3	6.7	0.75	11.79	65.2	2.09
Blue Ridge Bankshares Inc.	VA	Bay Banks of Virginia Inc.	VA	08/13/20	97.3	NM	81	NM	21.4	1,238.2	9.6	(0.37)	(3.43)	67.6	1.38
American National Bankshares	VA	HomeTown Bankshares Corp.	VA	10/01/18	96.0	24.2	179	10.9	20.8	558.7	9.4	0.71	7.56	72.8	1.51
First Community Bankshares Inc	VA	Highlands Bankshares Inc.	VA	09/11/19	93.2	25.0	155	7.3	22.5	611.7	8.7	0.62	6.50	75.0	2.61
Park Sterling Corporation	NC	First Capital Bancorp Inc.	VA	10/01/15	69.1	16.7	130	4.4	11.9	623.3	8.6	0.78	9.35	66.8	0.52
Virginia National Bkshs Corp.	VA	Fauquier Bankshares Inc.	VA	10/01/20	62.2	10.1	85	NM	8.1	840.3	8.6	0.79	8.85	70.9	1.31
Delmar Bancorp	MD	Virginia Partners Bank	VA	12/13/18	54.7	NM	134	6.5	(2.2)	420.1	9.8	0.32	3.23	78.6	0.01
Southern BancShares (NC)	NC	Heritage Bankshares Inc.	VA	10/21/15	48.6	27.3	144	5.1	27.6	340.9	9.8	0.56	4.63	71.9	0.27
Blue Ridge Bankshares Inc.	VA	Virginia Community Bankshares	VA	05/14/19	44.6	22.6	182	9.7	59.4	250.6	9.8	0.81	8.02	78.5	1.07
First Citizens BancShares Inc.	NC	Cordia Bancorp Inc.	VA	05/20/16	37.9	NM	131	5.9	33.4	347.8	7.7	(0.60)	(7.44)	104.3	1.06
First National Corp.	VA	Bank of Fincastle	VA	02/18/21	31.6	19.3	104	0.7	23.5	256.3	11.8	0.68	5.75	77.6	1.36
Bay Banks of Virginia Inc.	VA	Virginia BanCorp Inc.	VA	11/03/16	31.6	13.3	90	NM	-	323.6	11.0	0.79	7.39	72.5	1.81
American National Bankshares	VA	MainStreet BankShares Inc	VA	08/25/14	24.1	27.6	97	NM	30.1	166.3	14.9	0.53	3.74	73.0	2.38
Pinnacle Bankshares Corp.	VA	Virginia Bank Bankshares Inc.	VA	01/21/20	23.6	11.6	96	NM	12.0	217.0	11.3	0.95	8.35	71.6	0.19
First US Bancshares Inc	AL	Peoples Bank	VA	04/17/18	23.4	11.1	162	10.0	-	155.2	9.3	1.46	15.86	52.2	0.06
Summit Financial Group Inc.	WV	Highland County Bankshares Inc	VA	02/29/16	21.8	30.1	138	6.0	-	126.7	11.7	0.59	5.16	75.0	1.92
C&F Financial Corp.	VA	Peoples Bankshares Inc.	VA	08/13/19	21.5	NM	137	4.4	94.3	194.0	8.1	(0.45)	(5.85)	76.0	2.96
Bank of McKenney	VA	CCB Bankshares Inc.	VA	06/28/17	19.0	24.6	99	NM	28.4	216.1	8.9	0.37	3.94	79.9	0.84
Blue Ridge Bankshares Inc.	VA	River Bancorp Inc.	VA	03/31/16	12.3	8.8	108	1.5	-	111.9	9.8	1.25	13.88	81.8	1.97
CSBH LLC	NY	New Horizon Bank NA	VA	01/27/20	11.6	32.0	126	4.9	-	87.7	10.5	0.42	4.07	84.9	0.45
Xenith Bankshares Inc.	VA	Colonial Virginia Bank	VA	03/21/14	9.6	17.7	79	NM	31.4	114.9	10.6	0.47	4.51	79.2	6.32
Eastern Virginia Bankshares	VA	Virginia Company Bank	VA	05/29/14	9.5	NM	119	1.8	105.3	133.5	6.0	(0.11)	(1.11)	100.1	1.02
Old Point Financial Corp.	VA	Citizens National Bank	VA	10/30/17	8.0	10.3	101	0.2	24.4	50.0	15.8	1.64	10.49	95.7	0.66
High					929.4	32.5	261	25.4	105.3	4,197.2	15.8	2.14	15.86	104.3	6.32
Low					8.0	8.8	79	0.2	(2.2)	50.0	6.0	(0.60)	(7.44)	52.2	0.01
Mean					154.6	19.7	144	9.1	29.4	880.3	9.8	0.72	6.71	73.3	1.26
Median					58.5	19.3	136	7.8	24.4	489.4	9.6	0.73	6.95	72.6	1.07

Note: Sorted by deal value; Grey shading indicates Piper Sandler involvement; Excludes transactions with undisclosed deal value  
Source: S&P Global Market Intelligence

# Virginia Banks & Thrifts

## 57 Public and Private Banks & Thrifts

Under \$500M		\$500M - \$1.0B		\$1.0B - \$3.0B		Over \$3.0B 	
21 Banks		17 Banks		10 Banks		9 Banks	
Company	Assets (\$M)	Company	Assets (\$M)	Company	Assets (\$M)	Company	Assets (\$M)
Trustar Bank	\$ 416	Chain Bridge Bank, National Association	\$ 991	First Bancorp Inc., Lebanon	\$ 2,516	Capital One Financial Corporation	\$ 423,420
Powell Valley National Bank	\$ 413	Benchmark Bankshares, Inc.	\$ 978	C&F Financial Corporation	\$ 2,169	Atlantic Union Bankshares Corporation	\$ 19,989
Select Bank	\$ 369	Pinnacle Bankshares Corporation	\$ 933	John Marshall Bancorp, Inc.	\$ 2,066	TowneBank	\$ 15,804
Legacy Bank	\$ 340	Virginia National Bankshares Corporation	\$ 918	MainStreet Bancshares, Inc.	\$ 1,708	Blue Ridge Bankshares / FVCBankcorp	\$ 4,740
First Sentinel Bank	\$ 319	Bank of the James Financial Group, Inc.	\$ 908	National Bankshares, Inc.	\$ 1,662	Carter Bankshares, Inc.	\$ 4,121
Oak View National Bank	\$ 300	Parkway Acquisition Corp.	\$ 907	First National Corporation	\$ 1,308	Burke & Herbert Bank & Trust Company	\$ 3,505
Pioneer Bankshares, Inc.	\$ 286	The Freedom Bank of Virginia	\$ 837	Chesapeake Financial Shares, Inc.	\$ 1,293	Primis Financial Corp.	\$ 3,395
The Farmers Bank of Appomattox	\$ 285	Old Dominion National Bank	\$ 828	Old Point Financial Corporation	\$ 1,275	American National Bankshares Inc.	\$ 3,202
VCC Bank	\$ 233	New Peoples Bankshares, Inc.	\$ 810	Eagle Financial Services, Inc.	\$ 1,219	First Community Bankshares, Inc.	\$ 3,129
CornerStone Bank, National Association	\$ 183	Village Bank and Trust Financial Corp.	\$ 718	F & M Bank Corp.	\$ 1,105		
Highlands Community Bank	\$ 182	Bank of Southside Virginia Corporation, The	\$ 649				
The Bank of Charlotte County	\$ 172	Bank of Botetourt	\$ 645				
Lee Bank and Trust Company	\$ 171	Farmers Bankshares, Inc.	\$ 591				
Farmers and Miners Bank	\$ 162	Touchstone Bankshares Inc.	\$ 564				
Community Bankers' Bank	\$ 154	TruPoint Bank	\$ 531				
Frontier Community Bank	\$ 143	Citizens Bancorp of Virginia, Inc.	\$ 527				
New Horizon Bank, National Association	\$ 126	The Bank of Marion	\$ 525				
Miners Exchange Bank	\$ 93						
Movement Bank	\$ 87						
Farmers & Merchants Bank of Craig County	\$ 77						
The Blue Grass Valley Bank	\$ 55						

Note: Grey shading indicates publicly-traded bank; financial data as of most recent available quarter; excludes mutuals and announced merger targets; Blue Ridge Bankshares / FVCBankcorp and First National Corporation assets are pro forma for pending M&A; Financial data not pro forma for pending M&A unless otherwise stated  
Source: S&P Global Market Intelligence

# MOEs in Virginia Continue to be Popular

Piper Sandler has advised on a combined deal value of \$985M, out of a total deal value of \$1,017M; **97% market share by deal value**  
Piper Sandler has worked on 7 deals, out of a total 8 deals; **88% market share by deal count**

Sorted by Announcement Date

Acquiror	St	Target	St	Announce. Date	Transaction Information						Acquiror Total Assets (\$M)	Seller Information					
					Deal Value (\$M)	LTM EPS (x)	Price/Est. EPS (x)	TBV (%)	Core Dep. Prem. (%)	1-Day Market Prem. (%)		Total Assets (\$M)	TCE/TA (%)	LTM ROAA (%)	LTM ROAE (%)	Effic. Ratio (%)	NPAs/Assets (%)
Blue Ridge Bankshares Inc.	VA	FVCBankcorp Inc.	VA	07/14/21	306.9	16.9	15.0	151	8.5	20.5	3,167	1,885	9.9	0.97	9.32	53.1	0.47
Virginia National Bkshs Corp.	VA	Fauquier Bankshares Inc.	VA	10/01/20	62.2	10.1	–	85	NM	8.1	821	840	8.6	0.79	8.85	70.9	1.31
Blue Ridge Bankshares Inc.	VA	Bay Banks of Virginia Inc.	VA	08/13/20	97.3	NM	18.1	81	NM	21.4	1,586	1,238	9.6	(0.37)	(3.43)	67.6	1.38
Delmar Bancorp	MD	Virginia Partners Bank	VA	12/13/18	54.7	NM	–	134	6.5	(2.2)	738	420	9.8	0.32	3.23	78.6	0.01
Bank of McKenney	VA	CCB Bankshares Inc.	VA	06/28/17	19.0	24.6	–	99	NM	28.4	231	216	8.9	0.37	3.94	79.9	0.84
Southern National Bncp of VA	VA	Eastern Virginia Bankshares	VA	12/13/16	180.9	21.9	22.7	135	9.6	2.8	1,135	1,315	7.4	0.65	6.37	76.7	1.59
Bay Banks of Virginia Inc.	VA	Virginia BanCorp Inc.	VA	11/03/16	31.6	13.3	–	90	NM	–	468	324	11.0	0.79	7.39	72.5	1.81
Access National Corp.	VA	Middleburg Financial Corp.	VA	10/24/16	263.9	32.5	–	201	15.2	28.4	1,363	1,335	9.4	0.59	6.14	71.1	1.76
				High	306.9	32.5	22.7	201	15.2	28.4	3,167	1,885	11.0	0.97	9.32	79.9	1.81
				Low	19.0	10.1	15.0	81	6.5	(2.2)	231	216	7.4	(0.37)	(3.43)	53.1	0.01
				Mean	127.1	19.9	18.6	122	9.9	15.4	1,189	947	9.3	0.51	5.23	71.3	1.15
				Median	79.7	19.4	18.1	116	9.0	20.5	978	1,039	9.5	0.62	6.26	71.8	1.34

Note: Merger of Equal Transactions since January 1, 2016; Grey shading indicated Piper Sandler involvement; Excludes transactions with undisclosed deal value; Bank-level data shown where consolidated data unavailable  
Source: S&P Global Market Intelligence



# A Leader in Bank & Thrift M&A

## Top 20 Financial Advisors: 2015 – 2021 YTD

### By Deal Count (#)

Advisor Name	Rank (#)	Deal Count (#)
<b>PIPER   SANDLER</b>	<b>1</b>	<b>348</b>
Keefe, Bruyette & Woods	2	235
Hovde Group, LLC	3	111
Janney Montgomery Scott LLC	4	102
Raymond James & Associates, Inc.	5	92
D.A. Davidson & Co.	6	88
Performance Trust Capital Partners, LLC	7	82
Stephens Inc.	7	82
ProBank Austin	8	70
Boenning & Scattergood, Inc.	9	60
Capital Corporation, LLC	10	47
Olsen Palmer LLC	10	47
Sheshunoff & Co. Investment Banking LP	11	38
Vining-Sparks IBG, L.P.	12	31
J.P. Morgan Securities LLC	13	26
FinPro, Inc.	14	25
RP Financial, LC.	14	25
DD&F Consulting Group	15	22
Commerce Street Capital, LLC	16	21
Oak Ridge Financial Services Group, Inc.	17	20

### By Deal Value (\$B)

Advisor Name	Rank (#)	Deal Value (\$B)
<b>PIPER   SANDLER</b>	<b>1</b>	<b>\$101.9</b>
Keefe, Bruyette & Woods	2	\$89.6
J.P. Morgan Securities LLC	3	\$61.6
Goldman Sachs & Co. LLC	4	\$61.1
RBC Capital Markets, LLC	5	\$36.1
Citigroup Global Markets Inc.	6	\$30.1
Evercore Inc.	7	\$21.9
Morgan Stanley	8	\$21.7
BofA Securities, Inc.	9	\$20.5
Lazard Freres & Co. LLC	10	\$15.3
Raymond James & Associates, Inc.	11	\$15.3
Stephens Inc.	12	\$14.6
D.A. Davidson & Co.	13	\$9.0
Janney Montgomery Scott LLC	14	\$8.0
UBS Investment Bank	15	\$6.6
Hovde Group, LLC	16	\$6.5
Performance Trust Capital Partners, LLC	17	\$5.6
Boenning & Scattergood, Inc.	18	\$5.0
Jefferies LLC	19	\$3.6
Perkins Advisors, LLC	20	\$3.6

Note: Includes all U.S. bank & thrift transactions announced since 2015; Rankings exclude terminated transactions and self-advisory roles  
 Source: S&P Global Market Intelligence – Data as of August 31, 2021

# Fauquier Bankshares, Inc. (NASDAQ: FBSS) has Agreed to Combine in a Merger of Equals with Virginia National Bankshares Corporation (OTCQX: VABK)

## Transaction Overview

- Virginia National Bankshares Corporation and Fauquier Bankshares, Inc. have decided to combine in a merger of equals all-stock transaction valued at approximately \$63 million
- Establishes a strong presence across Northern and Central Virginia
- Ownership split is expected to be ~51% VABK / ~49% FBSS
- Creates the 15<sup>th</sup> largest Virginia bank with \$1.6B in assets and over \$1.0 billion in Trust AUM
- The operations will be headquartered in Charlottesville and will operate as Virginia National
- Glenn W. Rust will continue to serve as President and CEO of Virginia National
- Marc J. Bogan, CEO of Fauquier, will become President and CEO of Virginia National Bank and successor to Mr. Rust

**\$63.4 Million**

**TFB**

*has agreed to combine in a merger of equals with*

**VIRGINIA NATIONAL**

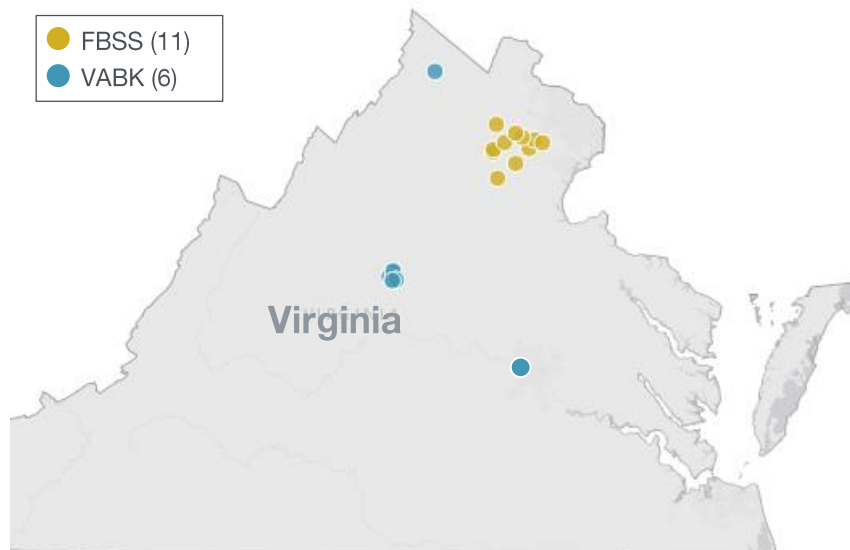
*Piper Sandler acted as Financial Advisor to Fauquier Bankshares, Inc. in this transaction*

October 2020

## Transaction Metrics

Deal Value <sup>1</sup>	\$63.4M
Consideration	100% Stock
Exchange Ratio	0.6750x
Market Premium <sup>1</sup>	11.3%
Price / LTM EPS <sup>1</sup>	9.5x
Price / TBV <sup>1</sup>	89%
EPS Accretion:	25%+ to VABK and FBSS
Cost Savings	18% of combined
Pro Forma Ownership	VABK: 51% FBSS: 49%

## Pro Forma Branch Map



## Financial Highlights

(\$M)	FBSS	VABK
Total Assets	\$825.6	\$799.6
Net Loans	\$616.3	\$627.5
Total Deposits	\$705.8	\$714.2
Total Equity	\$71.1	\$79.1
LTM ROAA	0.90%	0.96%
LTM ROAE	9.75%	8.86%

<sup>1)</sup> Based on VABK's 20-trading day average closing price of \$24.75 as of 09/25/20  
 Note: Pricing data as of September 25, 2020; Financial data as of June 30, 2020  
 Source: Company filings; S&P Global Market Intelligence

# Case Study: FVCBankcorp, Inc. (NASDAQ: FVCB) Has Agreed to Merge with Blue Ridge Bankshares, Inc. (NYSEAM: BRBS)

## Transaction Highlights

- Enhanced scale to drive increased growth and profitability
- Strong, affluent, growing markets of operation including Virginia, Maryland and North Carolina
- Increased specialty business lines, including mortgage, SBA, government contracting and FinTech partnerships
- Top-tier metrics with meaningful capital generation and flexibility
- Creation of a stronger franchise with greater scarcity value

## Governance

Board	8 / 8
Executive Chairman	FVCB
CEO	BRBS
President	FVCB
CFO	FVCB
Brand	TBD
Ownership	52.5% BRBS

**\$307 Million**

**FVCBankcorp, Inc.**

*has agreed to merge with*

**BLUE RIDGE  
BANKSHARES INC.**

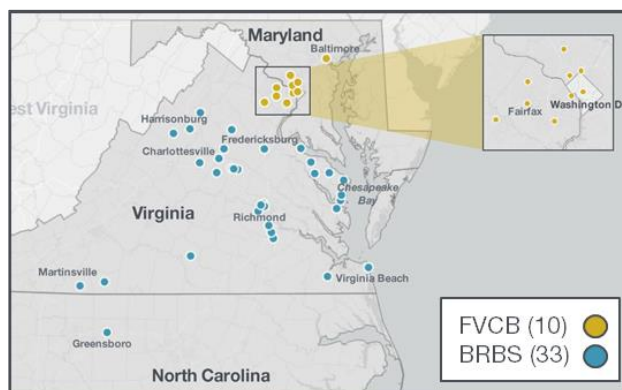
*Piper Sandler acted as a Financial Advisor to FVCBankcorp, Inc.*

July 2021

## Summary of Transaction Metrics

Aggregate Deal Value	\$306.6M
Consideration	100% Stock
Fixed Exchange Ratio	1.1492x
BRBS 2022E EPS Accretion <sup>1</sup>	16.2%
FVCB 2022E EPS Accretion <sup>1</sup>	19.8%
TBV Dilution / Earnback	5.7% / 2.1 Years

## Pro Forma Branch Map



**Combined company will be headquartered in Fairfax, VA**

**Transformational Partnership in Key VA Markets**

## Financial Highlights

(\$M)	BRBS	FVCB
Total Assets, ex PPP	\$2,570	\$1,721
Gross Loans, ex PPP	\$1,829	\$1,283
Total Deposits	\$2,140	\$1,595
Total Equity	\$240	\$195
Tier 1 Leverage Ratio <sup>2</sup>	10.69%	11.65%
MRQ ROAA	0.68%	1.19%
MRQ ROAE	8.69%	11.53%

1) Assumes fully phased-in cost savings in FY2022

2) Represents bank-level data

Note: Pricing data as of July 13, 2021; Financial data as of March 31, 2021

Source: Company filings; S&P Global Market Intelligence

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# **Yield Curve and Liquidity**

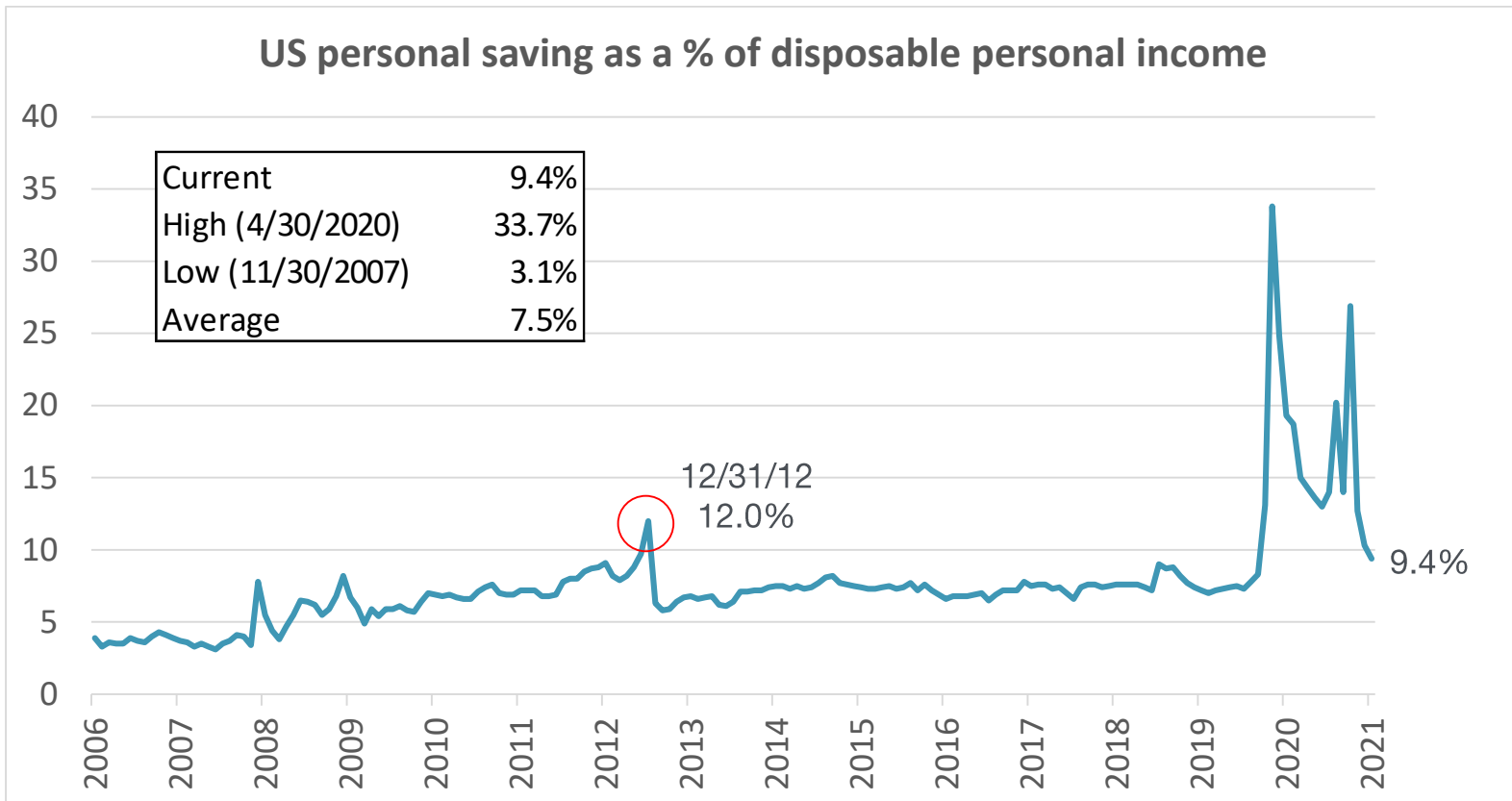
## What is the market giving us?

### Yield Curve Reactions

Index	6/30/20	9/30/20	12/31/20	3/31/21	6/30/21	9/3/21
Fed Funds Target	0.25%	0.25%	0.25%	0.25%	0.25%	0.25%
2 Year Treasury	0.15%	0.13%	0.16%	0.16%	0.25%	0.20%
5 Year Treasury	0.29%	0.30%	0.39%	0.94%	0.89%	0.79%
7 Year Treasury	0.49%	0.47%	0.64%	1.42%	1.24%	1.09%
10 Year Treasury	0.66%	0.71%	0.88%	1.74%	1.47%	1.32%
2-10Yr Treasury Spread	0.51%	0.58%	0.72%	1.58%	1.22%	1.12%
FFT-5Yr Treasury Spread	0.04%	0.05%	0.14%	0.69%	0.64%	0.54%

# Market liquidity and US personal saving

Recent Trends for U.S. Public Banks							
Balance Sheet & Liquidity	2013Y	2014Y	2015Y	Q3'20	Q4'20	Q1'21	Q2'21
Cash / Assets	5.4%	5.2%	5.0%	7.5%	9.2%	10.30%	10.29%
Securities / Assets	19.6%	18.6%	17.4%	13.6%	14.1%	14.5%	15.8%
Loans / Deposits	82.2%	84.4%	86.7%	87.7%	83.4%	80.5%	79.1%



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## Bond market trends

- **Investing excess liquidity**
  - With better clarity on liquidity profile, explore asset allocation opportunities
  - Emphasis on flexibility for when loan demand returns
  - Munis, bank sub debt, agency MBS, agency Multifamily
  - Some HTM use (large portfolios, long duration, sensitivity to TCE volatility)
- **Given short-end and long-end flatness, investors targeting middle of the curve...**
  - ...despite desire to stay as short as possible (no yield)
- **Prepayment speeds (and premiums) on watch** given declining mortgage rates (again)  
Stimulus flowing into state and local pockets upgrades muni sector
- **Limited incentive to sell** - immense liquidity

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# **Subordinated Debt Overview**



# Piper Sandler's Dominant Share of Bank Subordinated Debt Markets

Manager of Choice Driven by Optimized Distribution, Structuring and Marketing

\$30.6B Market Covering 520+ Issuers and 627 Offerings Since 2014

	Piper Sandler Transactions	Non-Piper Sandler Transactions
Investment Banks	PIPER   SANDLER	20+ Competitors
Issuances	298	329
Gross Proceeds	\$17.5B	\$13.1B
Market Share <sup>1</sup>	57%	43%

1) Market share is calculated as a percentage of total transaction value

Note: Deal count includes \$1000 par subordinated debt offerings for Community Banks; Community Banks defined as banks or bank holding companies with less than \$45 billion in assets; Excludes transactions less than \$5 million in offering size - Data as of August 31, 2021

Source: S&P Global Market Intelligence, Bloomberg, Piper Sandler Syndicate Desk

# U.S. Bank Subordinated Debt Issuances

## YTD Nationwide Subordinated Debt Issuances with Piper Sandler Involvement

Piper Sandler has worked on a combined deal value of \$2.9B, out of a total deal value of \$5.4B; **54% market share by deal value and more than all its competitors combined**

Ticker	Issue Date	Deal Size (\$M)	Issuer	Type	Fixed Rate	Floating Rate	Maturity	Structure / Call Features	Offering Type	Ratings					Orig. Spread to UST (bps)	Assets (\$B)	Mkt. Cap. (\$M)	
										Mdy's	S&P	Fitch	Kroll	EJ				Other
WAL	06/03/21	\$600.0	Western Alliance Bancorporation	HC - Sub.	3.000% to 06/26;	3m SOFR + 2.250%	06/15/31	10NC5 @ 100%	SEC Registered	Baa2	-	-	BBB+	BBB+	-	10T + 137.0	\$43.4	\$10,531.7
PACW	04/27/21	\$400.0	Pacific Western Bank	Bank - Sub.	3.250% to 05/26;	3m SOFR + 2.520%	05/01/31	10NC5 @ 100%	3(a)(2) Exempt	-	-	-	BBB+	-	-	10T + 163.0	\$32.9	\$5,160.8
VLY	05/25/21	\$300.0	Valley National Bancorp	HC - Sub.	3.000% to 06/26;	3m SOFR + 2.360%	06/15/31	10NC5 @ 100%	SEC Registered	-	BBB-	-	BBB	-	DBRS: BBBH	10T + 144.0	\$41.2	\$5,617.4
-	06/08/21	\$200.0	American AgCredit, ACA	HC - Sub.	3.375% to 06/31;	3m SOFR + 2.120%	06/15/36	15NC10 @ 100%	144A	-	BBB	-	-	-	-	10T + 185.0	\$15.1	-
-	08/10/21	\$150.0	NexBank Capital, Inc.	HC - Sub.	4.000% to 08/26;	3m SOFR + 3.390%	08/15/31	10NC5 @ 100%	Reg. D	-	-	-	-	BBB+	-	-10T + 273.0	\$9.1	-
PFBC	06/10/21	\$150.0	Preferred Bank	Bank - Sub.	3.375% to 06/26;	3m SOFR + 2.780%	06/15/31	10NC5 @ 100%	3(a)(2) Exempt	-	-	-	BBB+	-	-	10T + 192.0	\$5.4	\$998.0
-	05/12/21	\$150.0	Compeer Financial	HC - Sub.	3.375% to 06/31;	3m SOFR + 1.965%	06/01/36	15NC10 @ 100%	144A	-	BBB	-	-	-	-	-10T + 169.0	\$24.9	-
HAFC	08/18/21	\$110.0	Hanmi Financial Corporation	HC - Sub.	3.750% to 09/26;	3m SOFR + 3.100%	09/01/31	10NC5 @ 100%	SEC Registered	-	-	-	BBB-	-	-	10T + 248.0	\$6.6	\$568.8
TBK	08/26/21	\$70.0	Triumph Bancorp, Inc.	HC - Sub.	3.500% to 09/26;	3m SOFR + 2.860%	09/01/31	10NC5 @ 100%	Reg. D w. RR	-	-	-	-	A-	-	-10T + 224.0	\$6.0	\$2,021.4
INBK	08/16/21	\$60.0	First Internet Bancorp	HC - Sub.	3.750% to 09/26;	3m SOFR + 3.110%	09/01/31	10NC5 @ 100%	Reg. D w. RR	-	-	-	-	A-	-	-10T + 245.1	\$4.2	\$310.4
-	06/24/21	\$55.0	Frontier Bancshares, Inc.	HC - Sub.	3.250% to 06/26;	3m SOFR + 2.600%	06/30/31	10NC5 @ 100%	Reg. D	-	-	-	-	BBB+	-	-10T + 175.7	\$1.8	-
-	05/12/21	\$50.0	Compeer Financial	HC - Sub.	2.750% to 06/26;	3m SOFR + 2.030%	06/01/31	10NC5 @ 100%	144A	-	BBB	-	-	-	-	10T + 106.5	\$24.9	-
-	04/30/21	\$45.0	Narragansett Financial Corp.	HC - Sub.	3.875% to 04/26;	3m SOFR + 3.190%	04/30/31	10NC5 @ 100%	Reg. D	-	-	-	-	BBB	-	-10T + 231.5	\$2.1	-
FNWB	03/25/21	\$40.0	First Northwest Bancorp	HC - Sub.	3.750% to 03/26;	3m SOFR + 3.000%	03/30/31	10NC5 @ 100%	Reg. D w. RR	-	-	-	BBB-	-	-	-10T + 202.0	\$1.7	\$178.7
CALB	08/17/21	\$35.0	California BanCorp.	HC - Sub.	3.500% to 09/26;	3m SOFR + 2.860%	09/01/31	10NC5 @ 100%	Reg. D w. RR	-	-	-	-	BBB	-	-10T + 220.1	\$1.9	\$147.4
-	03/19/21	\$35.0	Fidelity Federal Bancorp <sup>1</sup>	HC - Sub.	4.500% to 03/26;	3m SOFR + 3.840%	03/30/31	10NC5 @ 100%	Reg. D	-	-	-	-	A-	-	-10T + 298.0	\$1.4	-
-	03/11/21	\$35.0	Olney Bancshares of Texas, Inc.	HC - Sub.	4.000% to 03/26;	3m SOFR + 3.320%	03/15/31	10NC5 @ 100%	Reg. D	-	-	-	-	BBB+	-	-10T + 244.0	\$3.5	-
BWB	07/08/21	\$30.0	Bridgewater Bancshares, Inc.	HC - Sub.	3.250% to 07/26;	3m SOFR + 2.520%	07/15/31	10NC5 @ 100%	Reg. D w. RR	-	-	-	BBB-	-	-	-10T + 178.0	\$3.1	\$444.4
-	06/29/21	\$30.0	Treynor Bancshares, Inc. <sup>2</sup>	HC - Sub.	5.000% to 06/26;	3m SOFR + 4.270%	06/30/31	10NC5 @ 100%	Reg. D	-	-	-	-	-	-	-10T + 356.0	\$0.4	-
ISBA	06/02/21	\$30.0	Isabella Bank Corporation	HC - Sub.	3.250% to 06/26;	3m SOFR + 2.560%	06/15/31	10NC5 @ 100%	Reg. D w. RR	-	-	-	-	A-	-	-10T + 162.3	\$2.0	\$184.6
-	02/02/21	\$30.0	MB Bancorp, Inc.	HC - Sub.	3.500% to 02/26;	3m SOFR + 3.195%	02/15/31	10NC5 @ 100%	Reg. D	-	-	-	-	BBB+	-	-10T + 246.9	\$2.2	-
-	01/20/21	\$30.0	National Bancorp Holdings, Inc.	HC - Sub.	5.375% to 01/26;	3m SOFR + 4.980%	01/30/31	10NC5 @ 100%	Reg. D	-	-	-	-	A-	-	-10T + 425.0	\$1.5	-
-	06/07/21	\$25.0	Midwest BankCentre, Inc.	HC - Sub.	3.625% to 06/26;	3m SOFR + 2.950%	06/30/31	10NC5 @ 100%	Reg. D	-	-	-	-	BBB	-	-10T + 201.6	\$2.3	-
CZNC	05/19/21	\$25.0	Citizens & Northern Corporation	HC - Sub.	3.250% to 06/26;	3m SOFR + 2.590%	06/01/31	10NC5 @ 100%	Reg. D w. RR	-	-	-	BBB-	-	-	-10T + 163.0	\$2.3	\$395.1
-	02/11/21	\$25.0	Pinnacle Financial Corporation	HC - Sub.	3.500% to 02/26;	3m SOFR + 3.130%	02/15/31	10NC5 @ 100%	Reg. D	-	-	-	-	BBB+	-	-10T + 236.3	\$1.6	-
-	07/30/21	\$20.0	Regent Capital Corporation	HC - Sub.	4.000% to 07/26;	3m SOFR + 3.420%	07/30/31	10NC5 @ 100%	Reg. D	-	-	-	-	-	-	-10T + 272.0	\$0.9	-
-	07/22/21	\$20.0	Legends Financial Holdings, Inc.	HC - Sub.	3.500% to 07/26;	3m SOFR + 2.840%	07/30/31	10NC5 @ 100%	Reg. D	-	-	-	-	-	-	-10T + 213.4	\$0.6	-
-	07/08/21	\$20.0	New Hampshire Mutual Bancorp	HC - Sub.	3.250% to 07/26;	3m SOFR + 2.510%	07/15/31	10NC5 @ 100%	Reg. D	-	-	-	-	-	-	-10T + 178.0	\$2.9	-
-	05/26/21	\$20.0	Life Design Holding Company	HC - Sub.	3.750% to 06/26;	3m SOFR + 3.060%	06/01/31	10NC5 @ 100%	Reg. D	-	-	-	-	-	-	-10T + 211.1	\$1.1	-
-	04/19/21	\$20.0	FSB Financial Services, Inc.	HC - Sub.	3.500% to 04/26;	3m SOFR + 2.760%	04/30/31	10NC5 @ 100%	Reg. D	-	-	-	-	-	-	-10T + 183.8	\$1.3	-
FISB	06/17/21	\$15.0	1st Capital Bancorp	HC - Sub.	4.000% to 06/26;	3m SOFR + 3.390%	06/30/31	10NC5 @ 100%	Reg. D	-	-	-	-	-	-	-10T + 251.0	\$0.9	\$85.2
NACB	05/11/21	\$14.0	National Capital Bancorp, Inc.	HC - Sub.	3.750% to 05/26;	3m SOFR + 3.050%	05/15/31	10NC5 @ 100%	Reg. D	-	-	-	-	-	-	-10T + 212.8	\$0.6	\$51.7
MSBC	04/07/21	\$12.0	Mission Bancorp	HC - Sub.	3.750% to 04/26;	3m SOFR + 2.980%	04/15/31	10NC5 @ 100%	Reg. D	-	-	-	-	-	-	-10T + 204.0	\$1.3	\$106.9
-	08/17/21	\$10.0	Fidelity Federal Bancorp <sup>1</sup>	HC - Sub.	4.500% to 03/26;	3m SOFR + 3.840%	03/30/31	10NC5 @ 100%	Reg. D	-	-	-	-	A-	-	-10T + 298.0	\$1.4	-
-	06/07/21	\$10.0	Midwest BankCentre, Inc.	HC - Sub.	4.000% to 06/31;	3m SOFR + 2.670%	06/30/36	15NC10 @ 100%	Reg. D	-	-	-	-	BBB	-	-10T + 239.1	\$2.3	-
-	04/12/21	\$10.0	Tulsa Valley Bancshares Corporation	HC - Sub.	5.000% to 04/26;	3m SOFR + 4.210%	04/15/31	10NC5 @ 100%	Reg. D	-	-	-	-	-	-	-10T + 328.0	\$0.8	-
-	03/11/21	\$10.0	Lead Financial Group, Inc. <sup>3</sup>	HC - Sub.	7.000% to 10/25;	3m SOFR + 6.810%	10/30/30	10NC5 @ 100%	Reg. D	-	-	-	-	-	-	-10T + 547.0	\$0.5	-
-	05/10/21	\$7.5	Fortune Financial Corporation	HC - Sub.	4.500% to 05/26;	3m SOFR + 3.770%	05/15/31	10NC5 @ 100%	Reg. D	-	-	-	-	-	-	-10T + 288.0	\$0.3	-
CDAB	06/17/21	\$5.0	Coeur d'Alene Bancorp, Inc.*	HC - Sub.	4.500% to 06/26;	3m SOFR + 3.890%	06/30/31	10NC5 @ 100%	Reg. D	-	-	-	-	-	-	-10T + 300.9	\$0.2	\$22.5

\* Piper Sandler acted as a Financial Advisor

1) Fidelity Federal Bancorp - Reopened on 8/17/21 for \$10.0mm at 100.0%. Total Issuance \$45.0mm

2) Treynor Bancshares, Inc. - Reopened on 7/8/21 for \$5.0mm at 100.0%. Total Issuance \$30.0mm

3) Lead Financial Group, Inc. - Reopened on 3/11/21 for \$10.0mm at 100.0%. Total Issuance \$30.0mm

Note: Sorted by deal value; Deal count includes \$1000 par subordinated debt offerings for Community Banks; Excludes transactions less than \$5 million in offering size

Source: S&P Global Market Intelligence, Bloomberg, Piper Sandler Syndicate Desk

# Virginia Bank Subordinated Debt Issuances

## Virginia Subordinated Debt Issuances Since 2015

PSC Book-Running Manager / Financial Advisor

Piper Sandler has worked on a combined deal value of \$661M, out of a total deal value of \$802M; **82% market share by deal value**

Ticker	Issue Date	Deal Size (\$M)	Issuer	Type	Fixed Rate	Floating Rate	Maturity	Structure / Call Features	Offering Type	Orig. Spread		Assets (\$B)	Mkt. Cap. (\$M)	
										Kroll	EJ			
TOWN	07/12/17	\$250.0	TowneBank	Bank - Sub.	4.500% to 07/22;	3mL + 2.550%	07/30/27	10NC5 @ 100%	3(a)(2) Exempt	BBB+	-	10T + 217.7	\$9.7	\$1,920.9
UBSH	11/30/16	\$150.0	Union Bankshares Corporation	HC - Sub.	5.000% to 12/21;	3mL + 3.175%	12/15/26	10NC5 @ 100%	SEC Registered	BBB	-	~10T + 262.4	\$8.3	\$1,472.3
SONA	08/20/20	\$60.0	Southern National Bancorp of Virginia, Inc.	HC - Sub.	5.400% to 09/25;	3m SOFR + 5.310%	09/01/30	10NC5 @ 100%	SEC Registered	BBB-	-	10T + 475.0	\$3.1	\$210.1
OPOF	07/14/21	\$30.0	Old Point Financial Corp.	HC - Sub.	3.500% to 07/26;	3m SOFR + 2.860%	07/15/31	10NC5 @ 100%	Reg. D	-	-	~10T + 215.2	\$1.3	\$125.2
MNSB	04/06/21	\$30.0	Mainstreet Bancshares Inc.	HC - Sub.	3.750% to 04/26;	3m SOFR + 3.020%	04/15/31	10NC5 @ 100%	Reg. D	-	-	~10T + 209.4	\$1.6	\$158.9
SONA	01/20/17	\$27.0	Southern National Bancorp	HC - Sub.	5.875% to 01/22;	3mL + 3.950%	01/20/27	10NC5 @ 100%	Reg. D	BBB-	-	~10T + 340.7	\$1.1	\$197.9
BAYK	10/07/19	\$25.0	Bay Banks of Virginia, Inc.	HC - Sub.	5.625% to 10/24;	3m SOFR + 4.335%	10/15/29	10NC5 @ 100%	Reg. D	-	BBB+	~10T + 393.8	\$1.1	\$109.7
-	07/06/17	\$25.0	John Marshall Bancorp, Inc.	HC - Sub.	5.750% to 07/22;	3mL + 3.880%	07/15/27	10NC5 @ 100%	Reg. D	BBB-	-	~10T + 354.7	\$1.1	\$212.4
FVCB	06/20/16	\$25.0	FVCBankcorp, Inc.	HC - Sub.	6.000% to 06/21;	3mL + 4.870%	06/30/26	10NC5 @ 100%	Reg. D	-	-	~10T + 431.2	\$0.7	\$124.2
WFBI	09/29/15	\$25.0	WashingtonFirst Bancshares, Inc.	HC - Sub.	6.000% to 10/20;	3mL + 4.570%	10/15/25	10NC5 @ 100%	Reg. D w. RR	BBB-	-	~10T + 395.0	\$1.5	\$164.8
CPKF	06/15/21	\$20.0	Chesapeake Financial Shares, Inc.	HC - Sub.	3.250% to 06/26;	3m SOFR + 2.600%	06/15/31	10NC5 @ 100%	Reg. D	-	-	~10T + 175.7	\$1.2	\$128.7
FVCB	10/13/20	\$20.0	FVCBankcorp, Inc.	HC - Sub.	4.875% to 10/25;	3m SOFR + 4.710%	10/15/30	10NC5 @ 100%	Reg. D	-	-	~10T + 409.0	\$1.8	\$147.9
CFFI	09/29/20	\$20.0	C&F Financial Corporation*	HC - Sub.	4.875% to 09/25;	3m SOFR + 4.755%	09/30/30	10NC5 @ 100%	Reg. D	-	-	~10T + 422.5	\$2.0	\$106.5
EVBS	04/22/15	\$20.0	Eastern Virginia Bankshares, Inc.	HC - Sub.	6.500% to 05/20;	3mL + 5.020%	05/01/25	10NC5 @ 100%	Reg. D w. RR	BBB-	-	~5T + 518.0	\$1.2	\$78.8
BRBS	05/28/20	\$15.0	Blue Ridge Bankshares, Inc.*	HC - Sub.	6.000% to 06/25;	3m SOFR + 5.870%	06/01/30	10NC5 @ 100%	Reg. D	-	-	~10T + 530.8	\$1.0	\$82.6
BRBS	11/20/15	\$10.0	Blue Ridge Bankshares, Inc.	HC - Sub.	6.750% to 12/20;	3mL + 5.128%	12/01/25	10NC5 @ 100%	Reg. D	-	-	~10T + 448.0	\$0.3	\$23.8
XBKS	06/19/15	\$8.5	Xenith Bancshares	HC - Sub.	6.750%	-	06/26/25	10NC5 @ 100%	Reg. D	-	-	-	\$1.0	\$79.9
PPBN	09/18/20	\$8.0	Pinnacle Bankshares Corp.	HC - Sub.	5.250% to 09/25;	3m SOFR + 5.130%	09/30/30	10NC5 @ 100%	Reg. D	-	-	~10T + 455.0	\$0.6	\$30.1
TSBA	08/11/20	\$8.0	Touchstone Bankshares, Inc.	HC - Sub.	6.000% to 08/25;	3m SOFR + 5.960%	08/15/30	10NC5 @ 100%	Reg. D	-	-	~10T + 536.0	\$0.5	\$29.4
HMTA	12/18/15	\$7.5	HomeTown Bankshares Corporation	HC - Sub.	6.750% to 12/20;	3mL + 5.150%	12/30/25	10NC5 @ 100%	Reg. D	-	-	~10T + 452.0	\$0.5	\$29.0
-	07/29/20	\$7.0	F & M Bank Corp.	HC - Sub.	6.000% to 07/25;	3m SOFR + 5.930%	07/31/30	10NC5 @ 100%	Reg. D	-	-	~10T + 542.0	\$1.0	-
VBFC	03/21/18	\$5.7	Village Bank & Trust Financial Corp.	HC - Sub.	6.500% to 03/23;	3mL + 3.730%	03/31/28	10NC5 @ 100%	Reg. D	-	-	~10T + 361.6	\$0.5	\$47.0
-	07/29/20	\$5.0	F & M Bank Corp.	HC - Sub.	5.750%	-	07/31/27	7NC2	Reg. D	-	-	~7T + 532.1	\$1.0	-

\* Piper Sandler acted as a Financial Advisor

Note: Sorted by deal value; Deal count includes \$1000 par subordinated debt offerings for Community Banks; Excludes transactions less than \$5 million in offering size

Source: S&P Global Market Intelligence, Bloomberg, Piper Sandler Syndicate Desk

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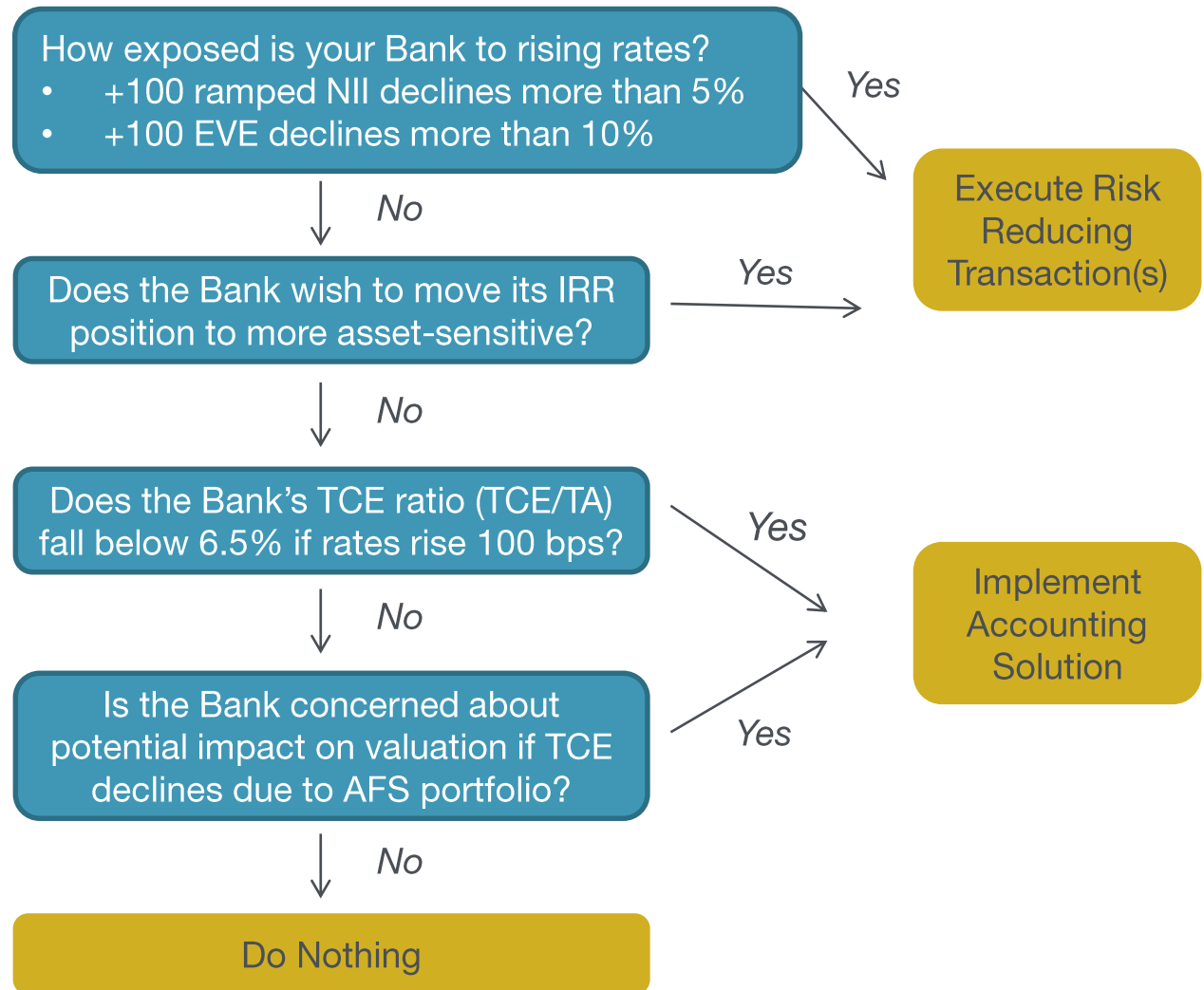
# Hedging Overview

# AFS and unrealized losses

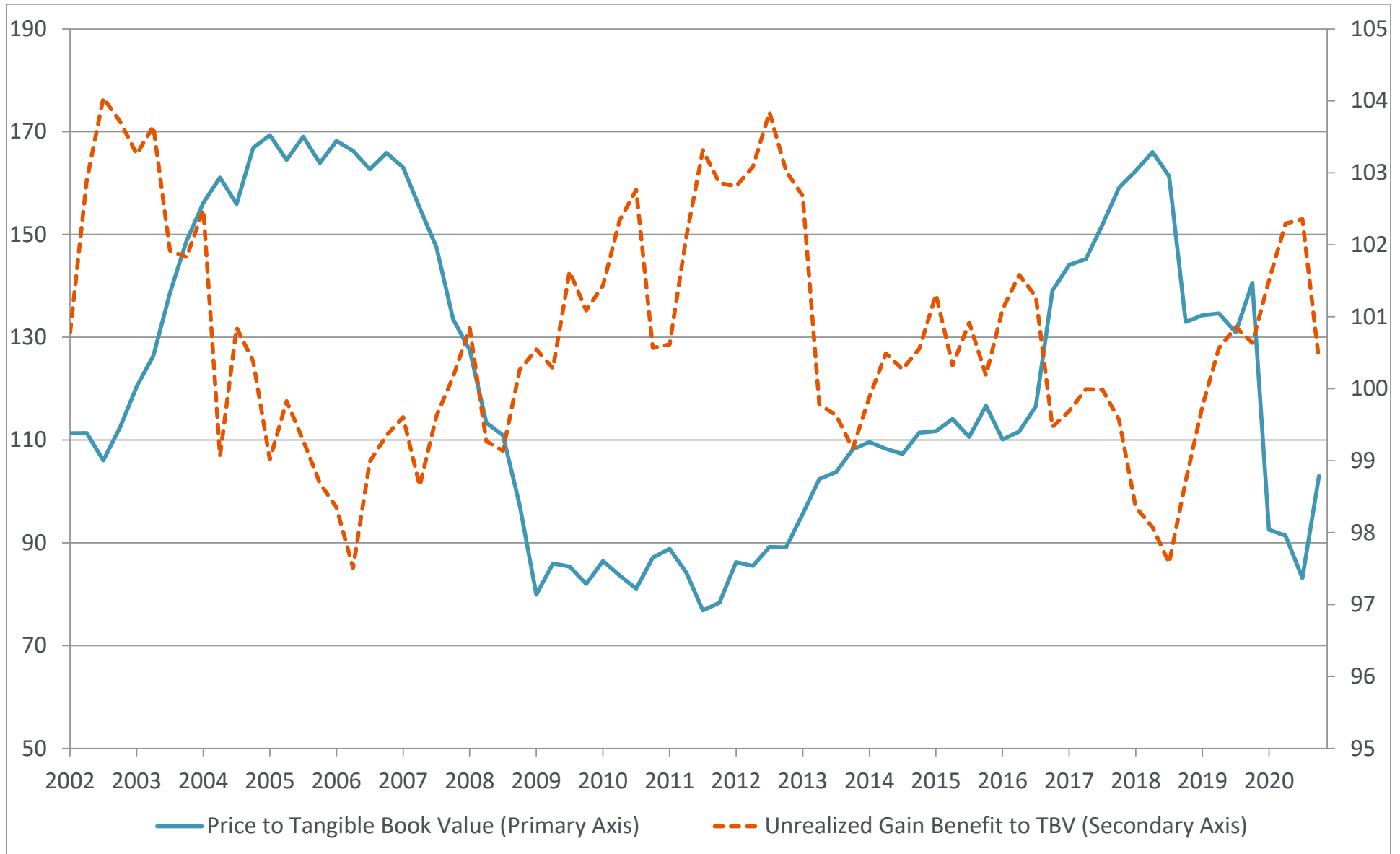
## Key considerations:

- Sensitivity to TCE & TBV
- Liquidity profile (and various measurements)
- Realized vs. unrealized mark-to-market
- Accounting vs. economic solutions
- Bond valuation vs. bank valuation, etc.

## Decision tree on rate protection



# AFS/HTM OCI Protection Debate: Bank Valuation vs. Bond Valuation



Source: S&P Global Market Intelligence.  
Includes public banks \$1bn to \$10bn in assets (median metrics)

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## Popular Hedging Strategies

- **Combine pay-fixed swap with short-term funding for rate protection**
  - Saves roughly 15-20bps over a term borrowing
- **Swap floating loans to fixed for yield pick-up**
  - Enhances earnings by nearly 80bps today
- **Swap fixed rate bonds to floating to prepare for rising rates**
  - Sacrifices some yield for floating rate exposure and TCE protection
- **Hedge Future Debt Issuance**
  - Lock in current rates while protecting TBV against rising rates

## Case Study: Cash Deploy and Receive-Fixed Swaps

### Case Study

- \$1B asset financial institution
- Asset sensitive (parallel shift only)
- Exposed to short end of the curve
- Excess liquidity

Deploy \$50M of excess cash yielding 0.10% into a mix of securities yielding 1.58%

- 80% 20yr 2.0% MBS
- 20% non-agency CMBS

Swap \$75M of floating-rate loans to fixed for 7 years

- Pick up 80bps of additional yield vs. 1ML +200

	Base	Pro Forma Strategy
Cash / Assets (%)	10%	5%
Securities / Assets (%)	15%	20%
NIM	3.00%	+0.13%
Flat Net Interest Income	\$30.0M	+\$1,342
-100 Net Interest Income	\$28.5M (5.0%)	+\$1,247
+100 Net Interest Income	\$31.5M +5.0%	+\$132



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# Commercially-Oriented Banks Can Benefit From a Customer Loan Swap Program

## Why now?

- Offer customers the long tenor, fixed rate loan they desire at a lower synthetic fixed rate
- Many commercial borrowers now expect a derivative offering
- Differentiate your product offering with custom structures such as cancelable features and longer tenor deals

## A client derivative hedging program can help enforce loan pricing discipline:

- *Front-end*: discourages bankers from pre-committing/promising fixed rates before loan closing date
- *Back-end*: helps with breakage termination enforcement/not waiving prepay penalties or setting low/no penalties on fixed rate loans that ignore bank funding losses

## Generate meaningful income, even on a small subset of loans

- Non-interest fee income opportunity / diversifies revenue streams
- Enhance investor/analyst perceptions of the Bank with increased fee income

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# Risk Considerations of Hedging with Derivatives

While derivative transactions hedging future liabilities have many benefits, they also require the Management and Board of Directors to carefully review the associated risks and considerations.

## SOME OF THE RISK FACTORS MANAGEMENT AND THE BOARD SHOULD CONSIDER INCLUDE:

### Market risk

- Risk that market moves in the opposite direction of the hedge leading to “buyer’s remorse” and a net cost to the hedge over its life

### Counterparty risk

- Risk that counterparty defaults and derivative’s value must be written off
- Risk that counterparty margin posted does not cover market value
- Chance of counterparty default may put hedge accounting treatment in jeopardy

### Accounting risk

- If hedge accounting is jeopardized through some misalignment between the hedge and the hedged item, the derivative market value of the hedge may be forced to flow through earnings and regulatory capital

### Regulatory risk

- Policies and procedures for monitoring initial and ongoing risk most scrutinized
- Minimal risk when derivative strategy is used for hedging and not speculative use

### Liquidity Risk

- Management must evaluate the effect an interest rate derivative strategy may have on liquidity calculations when collateral calls and periodic hedge payments are considered

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## Key Takeaways

- The M&A landscape has evolved
- Know what part of the yield curve matters to your institution
- Prepare for lingering liquidity
- Debt: understand why issuance and investing is strong
- Small moves in rates should lead to execution – don't wait for the parallel shifts
- Don't put your interest rate risk concerns on your customers
- Understand why derivative use is up
- Do NOT root for your hedge!

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# Appendix

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## Scott Hildenbrand



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**Scott Hildenbrand** is a managing director and the head of the financial strategies group at Piper Sandler. Hildenbrand also runs Piper Sandler Hedging Services, LLC, which is registered as a swap introducing broker with the Commodity Futures Trading Commission and is a member of the National Futures Association.

Previously, Hildenbrand was a principal and chief balance sheet strategist of Sandler O'Neill + Partners, L.P. He headed the balance sheet analysis and strategy group, working with financial institutions on balance sheet strategy development, which includes interest rate risk management, investment portfolio strategy, retail and wholesale funding management, capital planning, budgeting, and stress testing. Hildenbrand also worked closely with the firm's investment banking group to identify and develop strategic opportunities for clients involved in mergers and acquisitions.

Hildenbrand previously worked in Sandler O'Neill's interest rate products group, focusing on developing and implementing structured wholesale funding strategies for financial institutions. He spent his first four years at the firm in the asset/liability management group. Prior to joining Sandler O'Neill in 2004, Hildenbrand worked as a financial analyst in asset/liability management at Tower Federal Credit Union in Maryland.

In 2021 Hildenbrand was elected to the Financial Managers Society board of directors. Additionally, he serves as treasurer on the board of directors for Liam's Room, a non-profit organization that focuses on pediatric palliative care, a specialized approach to medical care for children with serious illnesses.

Hildenbrand holds a Master of Business Administration degree in finance from Loyola College in Maryland and a bachelor's degree with a concentration in accounting and finance from Gettysburg College. He is a frequent speaker at industry conferences and seminars.

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## Avi J. Barak

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Avi J. Barak is a managing director within financial services investment banking at Piper Sandler.

Barak advises the boards and senior management of financial institutions on strategic matters including capital raising, mergers & acquisitions, balance sheet restructurings & optimizations, and asset/liability management. He also works with institutional clients, including private equity firms, hedge funds and money managers in both evaluating and executing equity and debt investments in financial institutions. Barak has worked on dozens of capital raises and mergers, ranging in value from the single-digit millions, to nearly one billion. Barak represents clients of all sizes in the financial services space.

Previously, he was a managing director in the investment banking group of Sandler O'Neill + Partners, which he joined in 2003. Prior to joining the investment banking group, Barak served as a managing director in equity research, focused on regional and community banks and the banking industry. In 2006, Barak was recognized by [Forbes.com/StarMine](http://Forbes.com/StarMine) as the #2 stock picker for the commercial banks industry. From 2007 through 2009, Barak was the winner of the SNL Dartboard Challenge, the only three-time winner since the inception of the contest. As an analyst, Barak spoke at various bank industry conferences, and was routinely quoted in the business news media including *The Wall Street Journal*, *The American Banker*, and *SNL Financial*.

Barak began his career in the equity research department of Prudential Securities, where he focused on regional banks and the banking industry.

Barak graduated from Cornell University with a double major in economics and psychology.

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