Navigating the Rapid Shift in Interest Rates

Saltmarsh BankTalk 2022

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See Page 40 for Important Disclaimers & Disclosures

RAYMOND JAMES

Presenters

Chris Choate
Managing Director
Investment Banking

Chris Choate has 30 years of experience in advising financial institutions. He joined Raymond James in December 2004 and is involved in new business development, relationship management and investment banking transaction execution. His expertise in the financial institutions arena includes mergers and acquisitions, capital formation, strategic planning and other financial advisory services. Mr. Choate received a Bachelor of Science degree from the University of Virginia.

Chris Kornatowski
Managing Director
Asset/Liability Consulting

Chris Kornatowski joined Raymond James in 2011 as an interest rate risk derivatives specialist and now heads the Asset/Liability Consulting group, coordinating the firm’s technological, consulting and strategy support related to client balance sheet risk. He has worked in the interest rate risk management field for over 20 years as a strategist and advisor to financial institution, municipal and corporate clients. Prior to joining Raymond James, Chris served as an independent advisor, served as Managing Director of Derivative Products at SunTrust Robinson Humphrey Capital Markets, and began his career at Barnett Banks, Inc. in the Business Investment & Hedging Services department.

Brian Nestor
Managing Director
Investment Banking

Brian Nestor has over 20 years of combined experience in investment banking and corporate law. Mr. Nestor first joined Raymond James in 2005 in the Financial Services Investment Banking Group. Mr. Nestor is active in mergers and acquisitions and public and private offerings of depository institutions. Mr. Nestor received his MBA degree, magna cum laude, from the University of Notre Dame Mendoza College of Business, a JD degree from the Notre Dame Law School and a bachelor’s degree in finance from Florida State University.

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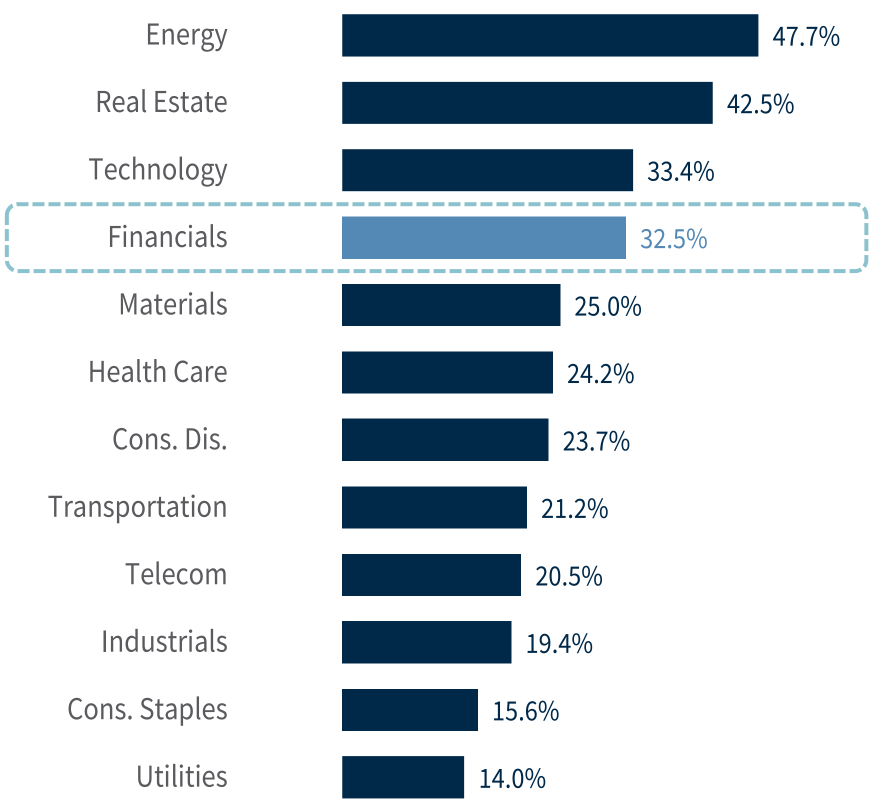
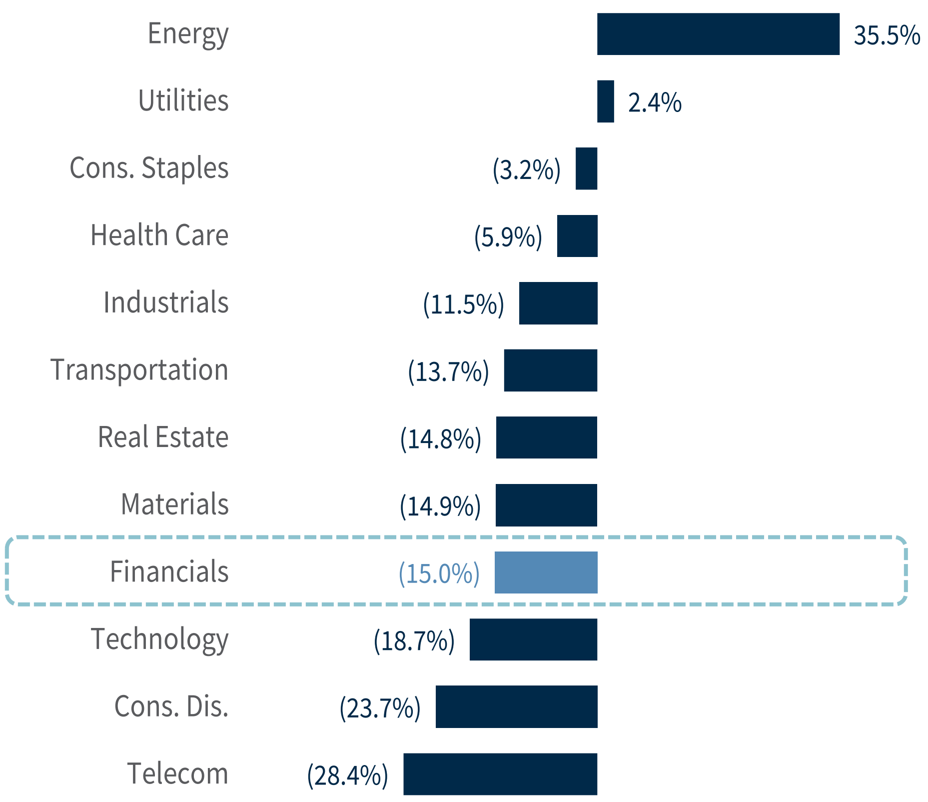
Industry Trends & Fundamentals

Sector gained momentum in 2021

2021 sector performance

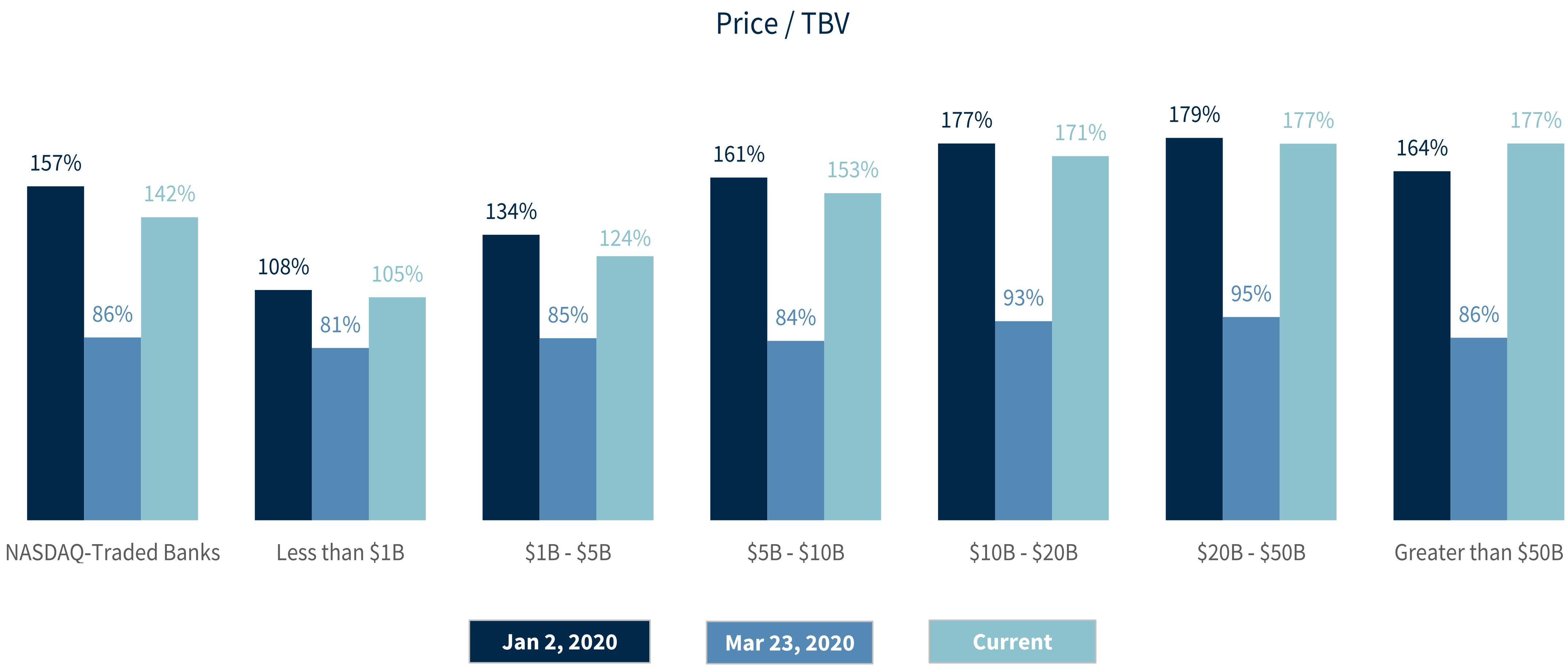


2022 YTD sector performance



Note: Market data as of July 29, 2022
Source: Factset

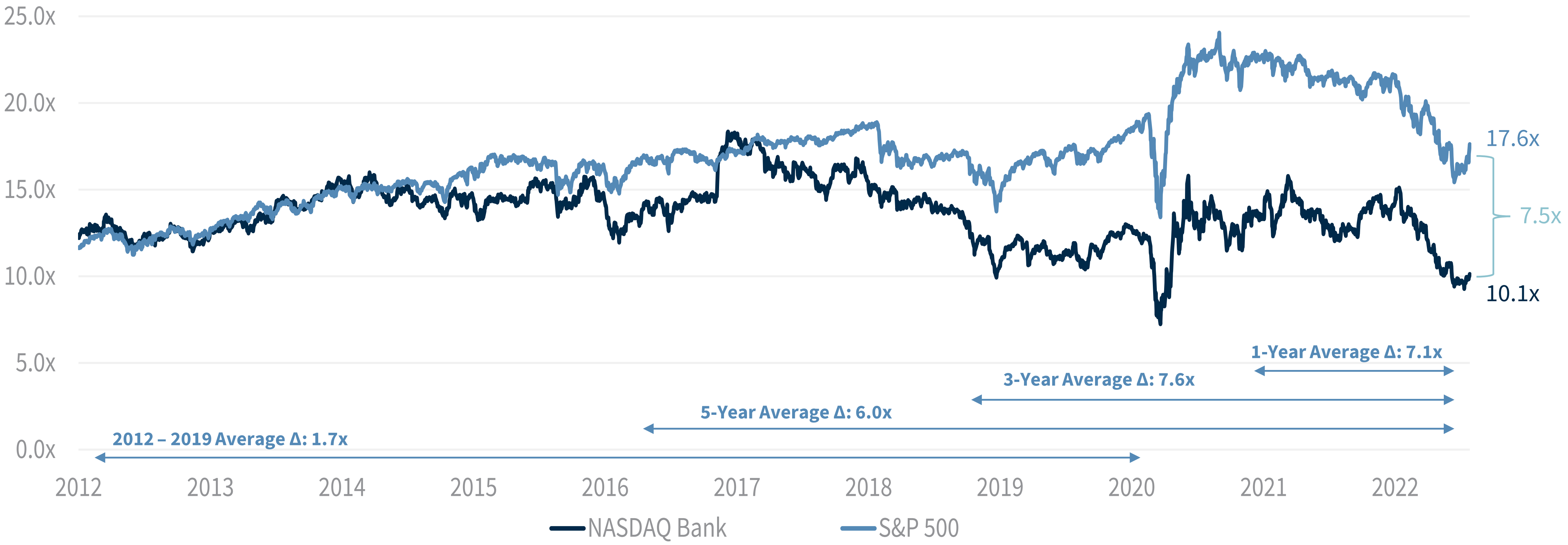
Valuations have bounced off bottoms



Note: Market data as of July 29, 2022; excludes merger targets
Source: S&P Capital IQ Pro

Still room to run relative to the broader market

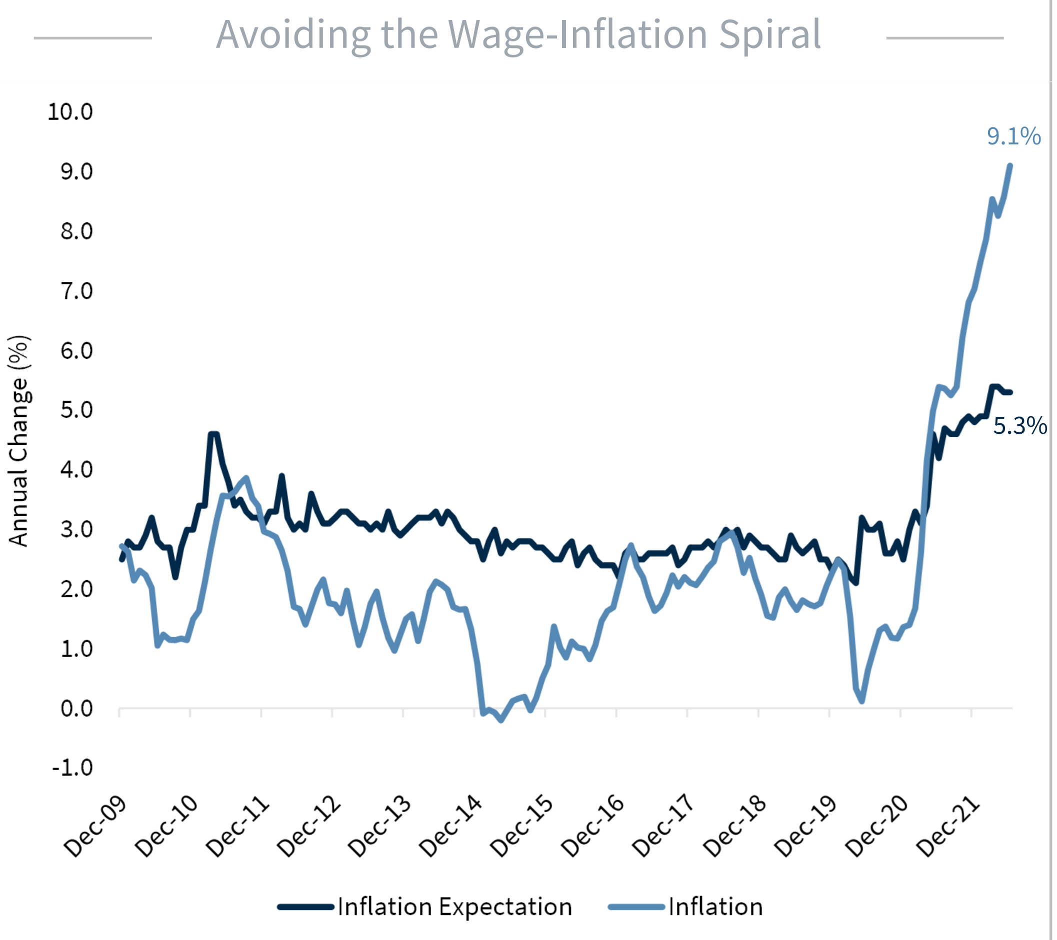
Consensus forward (NTM) earnings multiples since 2012



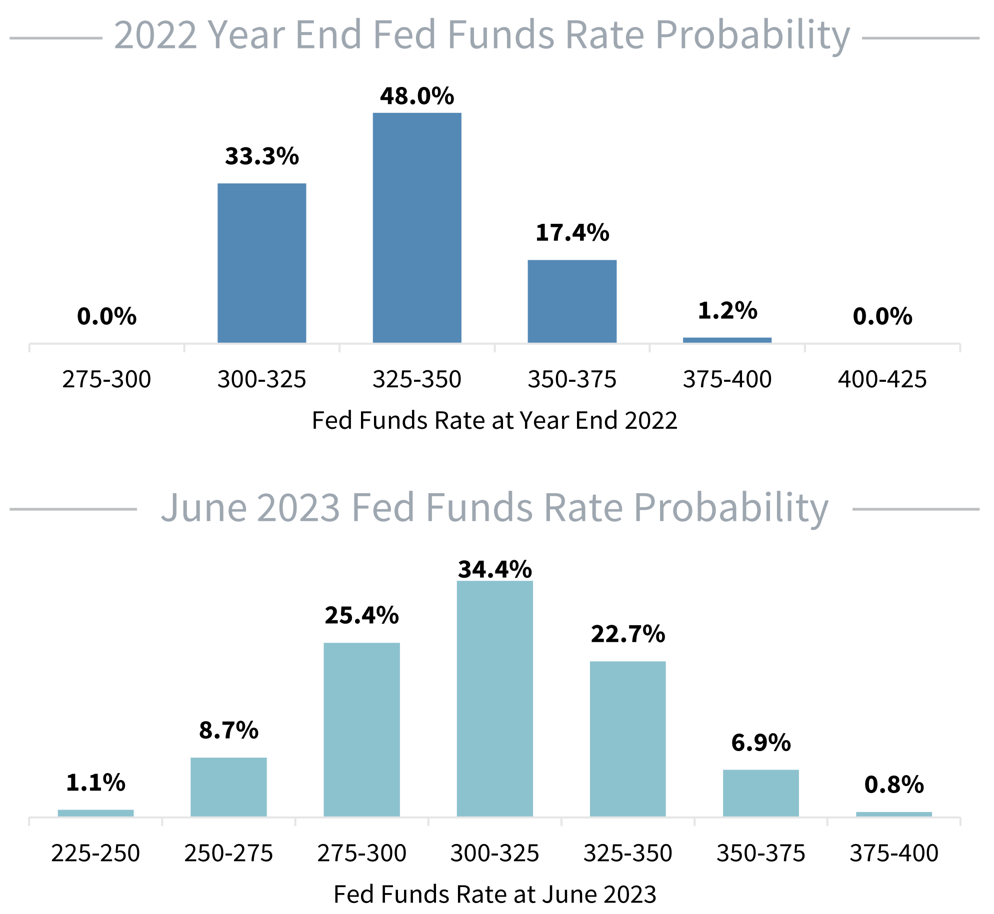
Note: Market data as of July 29, 2022
Source: Factset

Multiple rate hikes still likely

Tempering Expectations



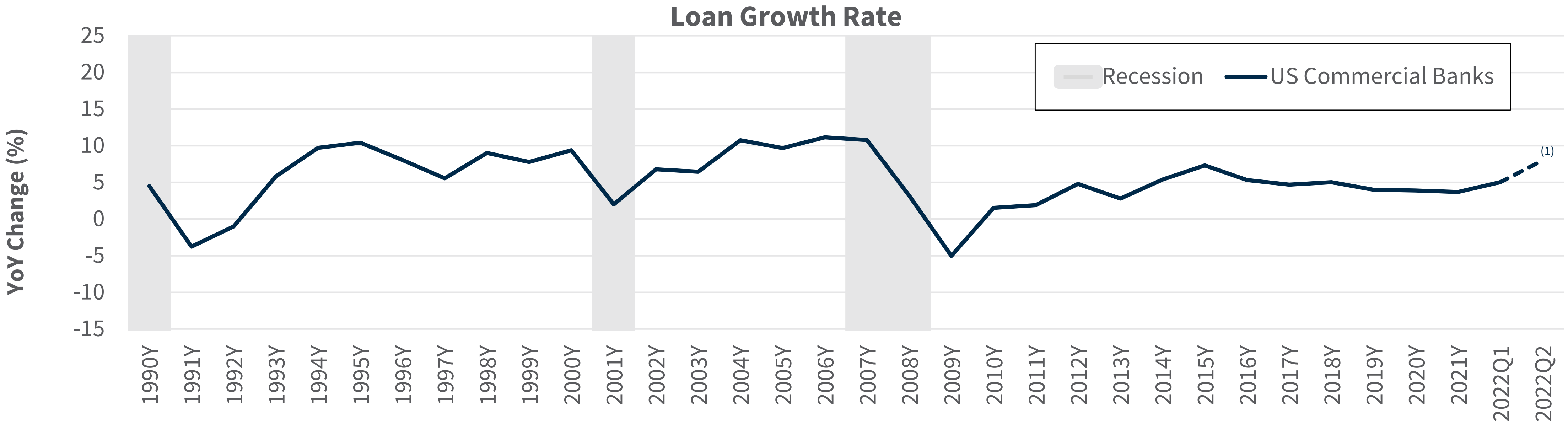
The Fed's Response



Source: U.S. Bureau of Labor Statistics; CME Group, Federal Reserve Bank of St. Louis; data as of July 29, 2022

Optimism on loan growth acceleration persisting for now

While inflation continues to march higher and political/economical concerns are rising, management teams remain positive



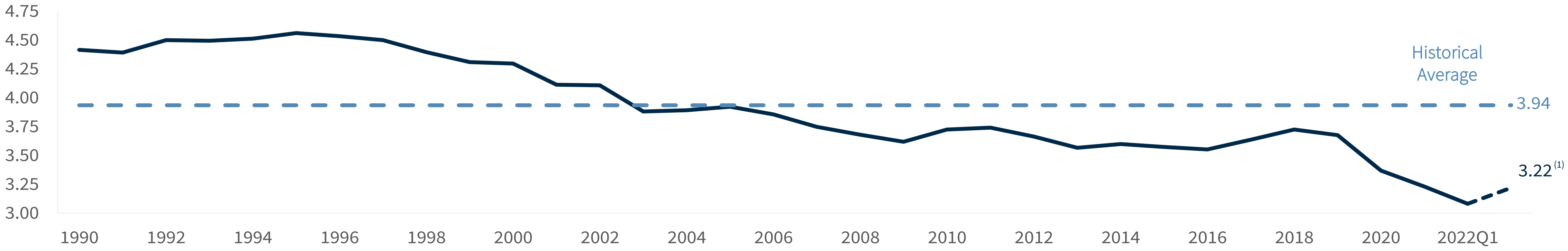
(1) Estimated 2Q22 based on available information of reported results as of July 29, 2022
Source: Raymond James Research and S&P Capital IQ Pro

NIM expansion in the second quarter

Rate hikes and strong loan growth are providing NIM expansion

10y/2y Spread (%)

Net Interest Margin (%)



(1) Estimated 2Q22 based on available information of reported results as of July 29, 2022
Note: Net interest margin shown for public banks with assets less than $10 billion; market data as of July 29, 2022
Source: S&P Capital IQ Pro

Deposit betas

Looking forward, deposit betas will be closely watched given the anticipation of continued Fed action through year-end

Deposit Betas – Current Cycle vs. Prior Cycles

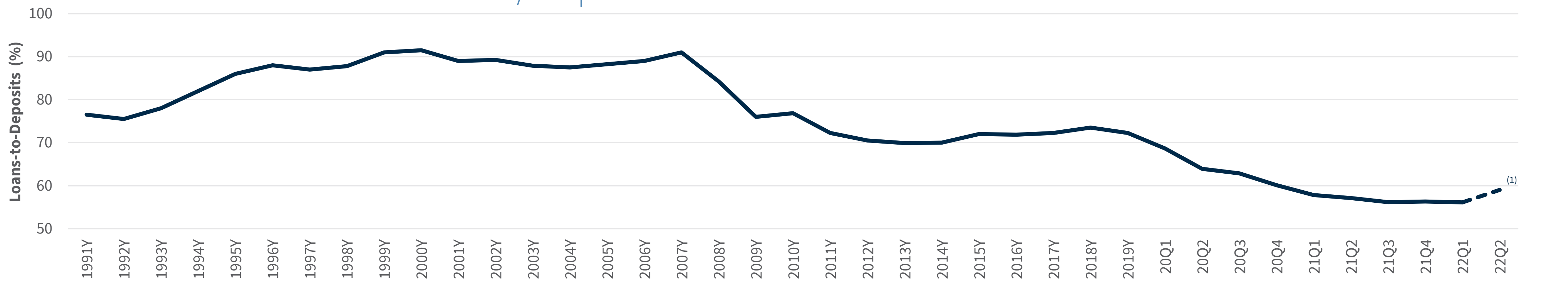
	Change in Fed Funds Rate	Average	Median	Min	Max
4Q93 - 2Q95 Cycle	3.00%	25%	25%	3%	57%
1Q99 - 4Q00 Cycle	1.75%	43%	39%	-22%	209%
1Q04 - 2Q07 Cycle	4.25%	40%	39%	-16%	67%
3Q15 - 2Q19 Cycle	2.25%	25%	25%	-6%	64%
2Q21 - current Cycle	1.50%	1%	0%	-10%	26%

Source: S&P Global; Exchange-traded banks only; excludes banks that completed an acquisition in 2Q22; Change in Fed Funds rate through 6/30/22

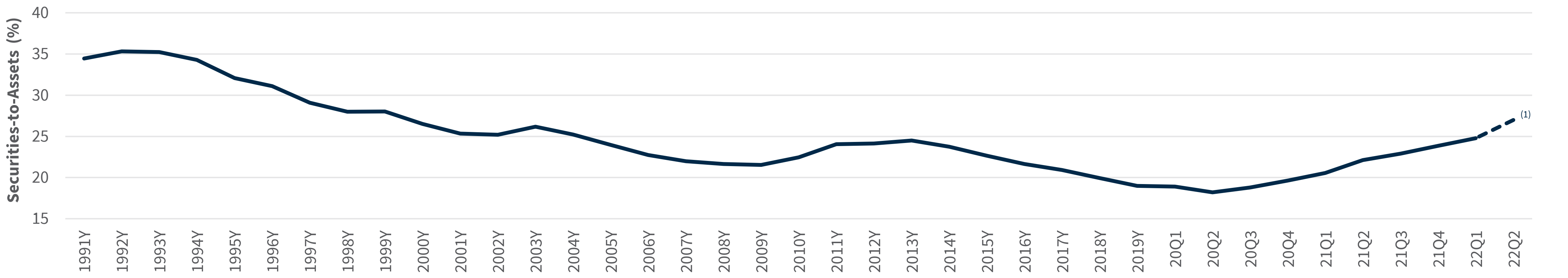
Balance sheet shifts

2Q22 has been the first quarter with deposit outflows and declines in securities investment portfolios

Loans / Deposits Ratio – U.S. Commercial Banks



Securities / Assets Ratio – U.S. Commercial Banks

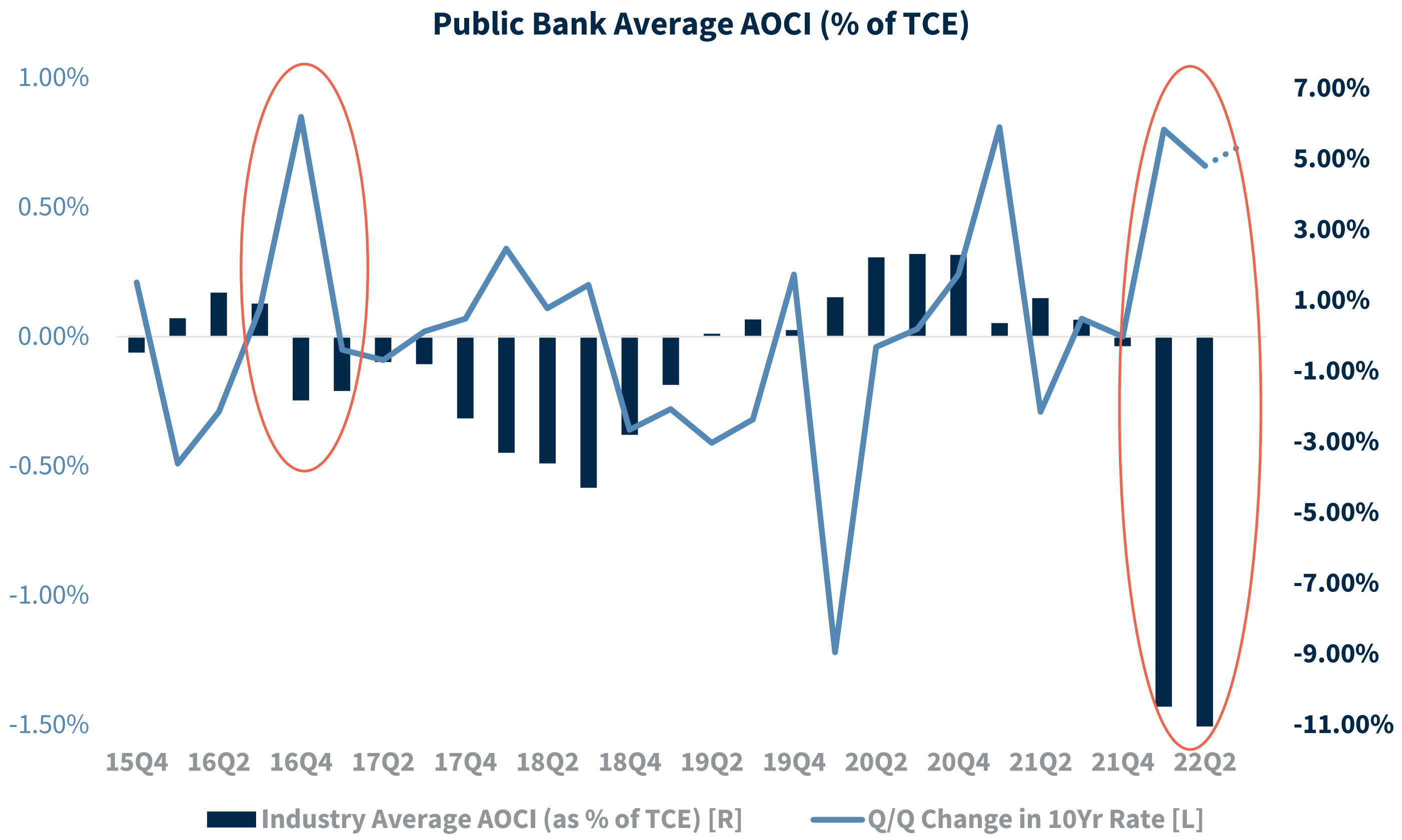


(1) Estimated 2Q22 based on available information of reported results as of July 29, 2022
Source: S&P Capital IQ Pro

AOCI marks impact on TCE

Many banks are seeing significant AOCI impacts from marking-to-market AFS securities, weighing on TCE ratio

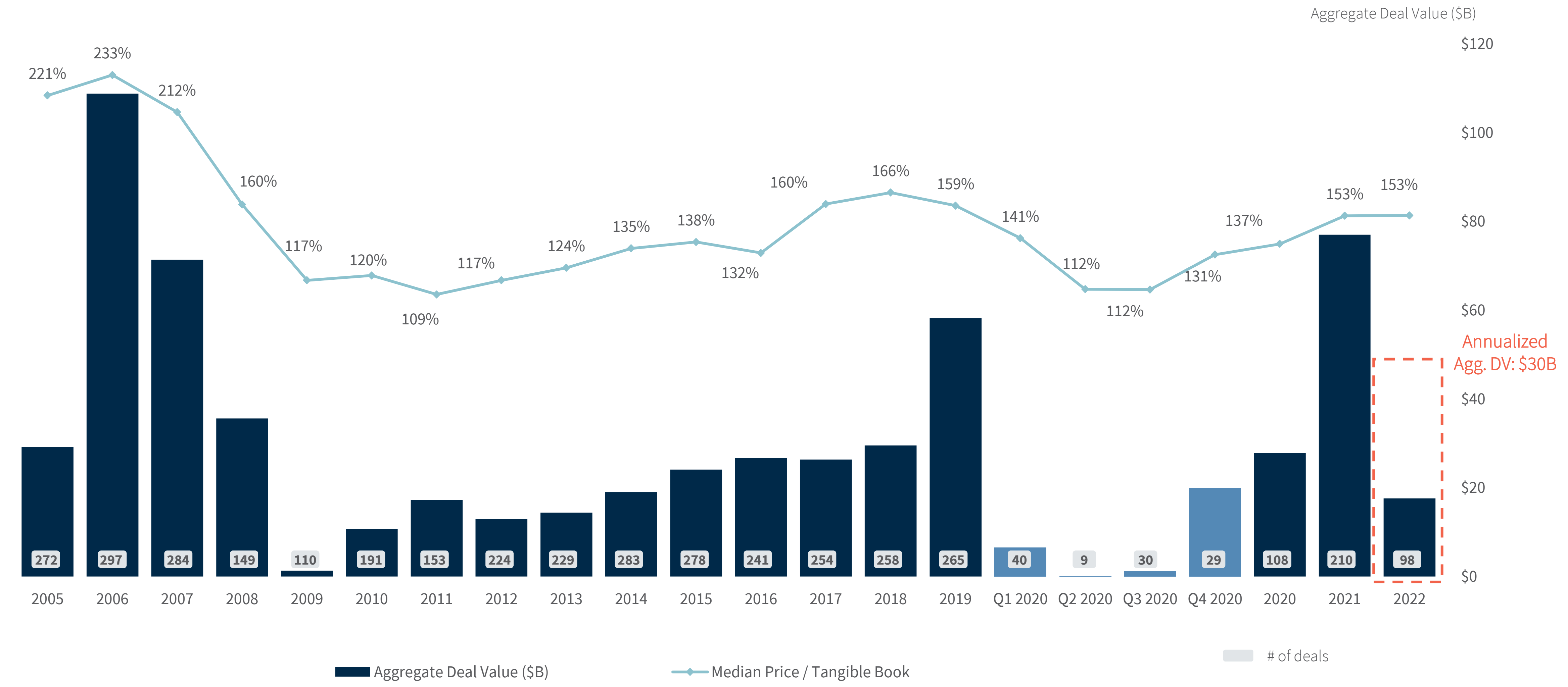
As rates rise, bond prices go down and for banks that hold securities balances (available for sale, AFS), this can lead to negative equity adjustments through AOCI in periods of rising interest rates



(1) Estimated 2Q22 AOCI (% of TCE) based on available information of reported results as of July 29, 2022
Source: Factset Research Systems & S&P Capital IQ Pro

M&A Update

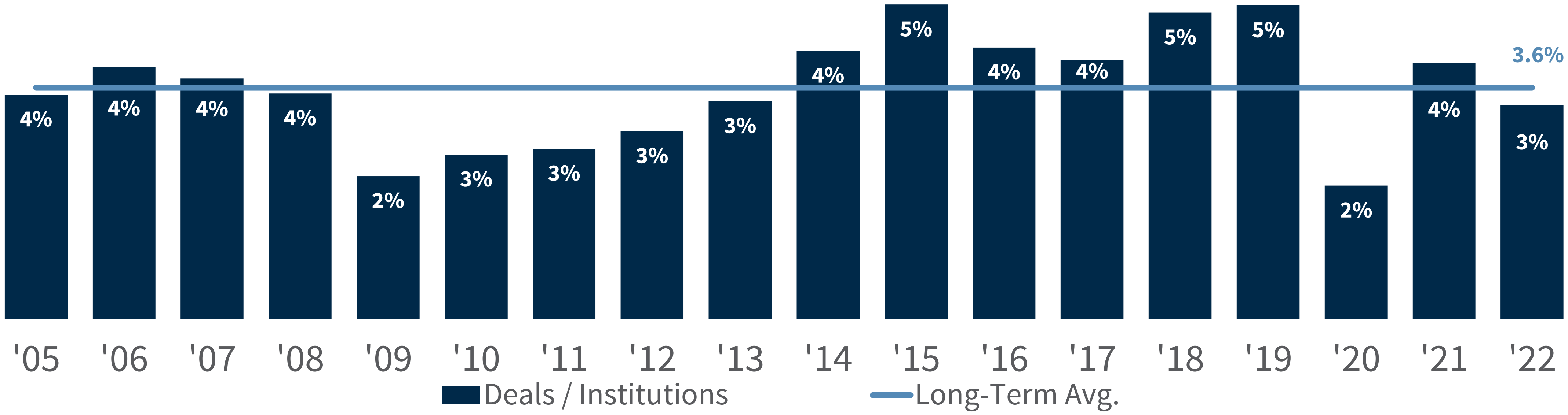
M&A activity rebounded from COVID, but currently stalled



Note: Includes all U.S. depository M&A deals; excludes terminated deals; data as of July 29, 2022
Source: S&P Capital IQ Pro

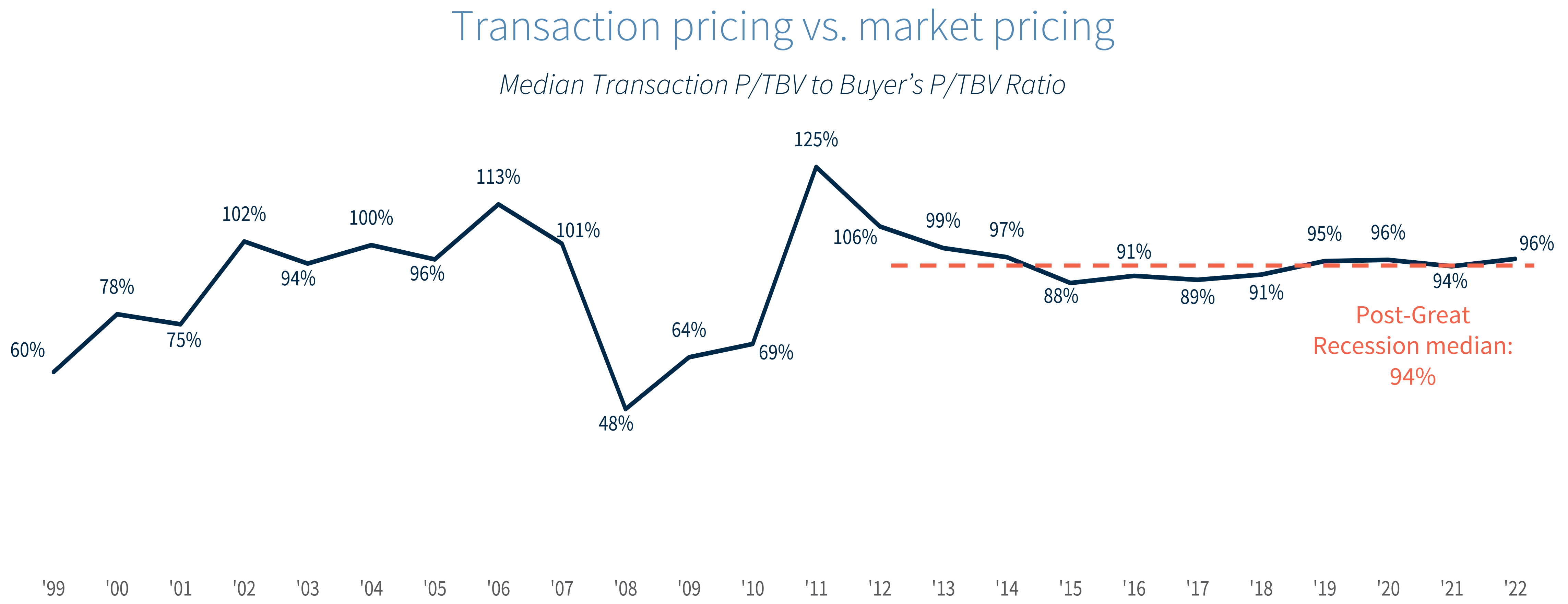
Consolidation continues to be a major industry theme

Activity levels are expected to improve as the public valuation framework has become highly conductive to M&A



Note: 2022 data shows annualized figures; includes all U.S. depository M&A deals ; excludes terminated deals; data as of July 29, 2022
Source: S&P Capital IQ Pro

Post-crisis pricing tightly correlated with the market



Note: Includes all transactions with disclosed deal value greater than $100 million; data as of July 29, 2022
Source: S&P Capital IQ Pro

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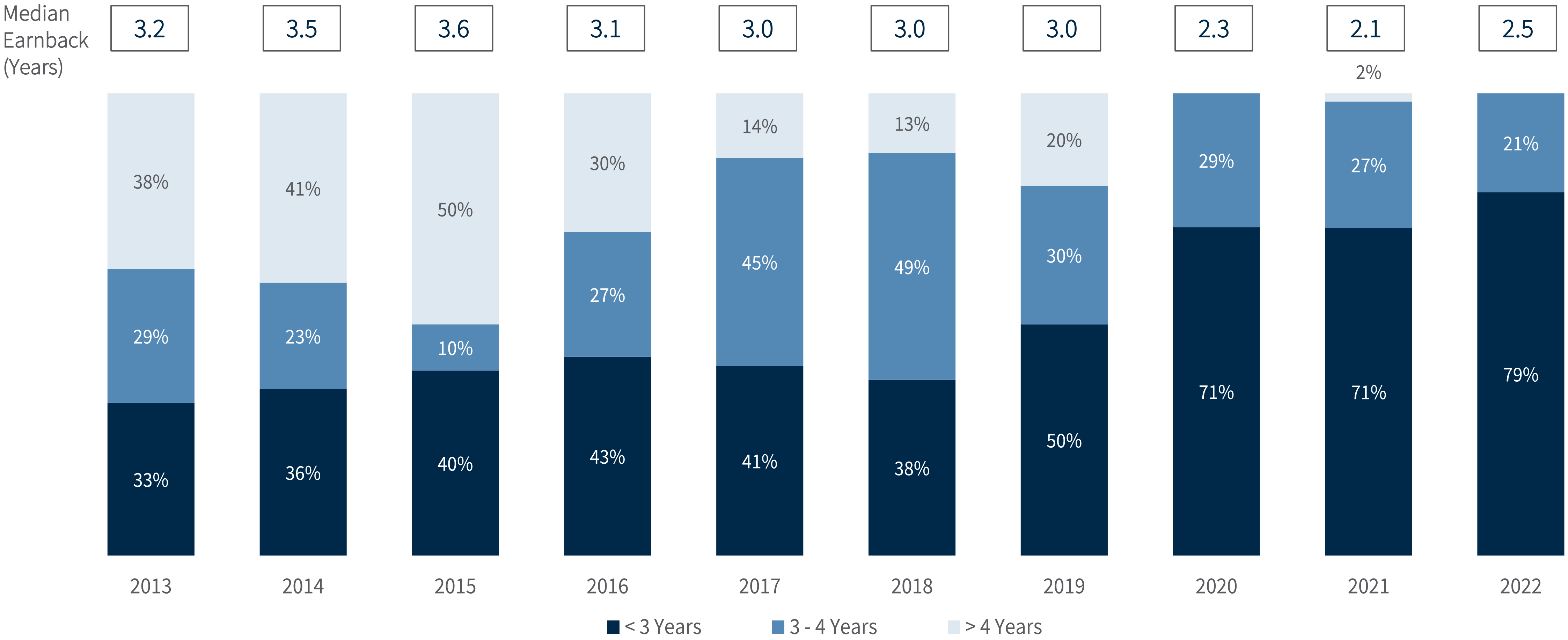
Buyers are maintaining discipline – *defending TBV*

Buyers remain focused on earnback – fewer 3+ year transactions



Note: Includes transactions with announced deal values greater than $100 million where buyer was publicly-traded and disclosed TBVPS earnback period; data as of July 29, 2022
Source: S&P Capital IQ Pro

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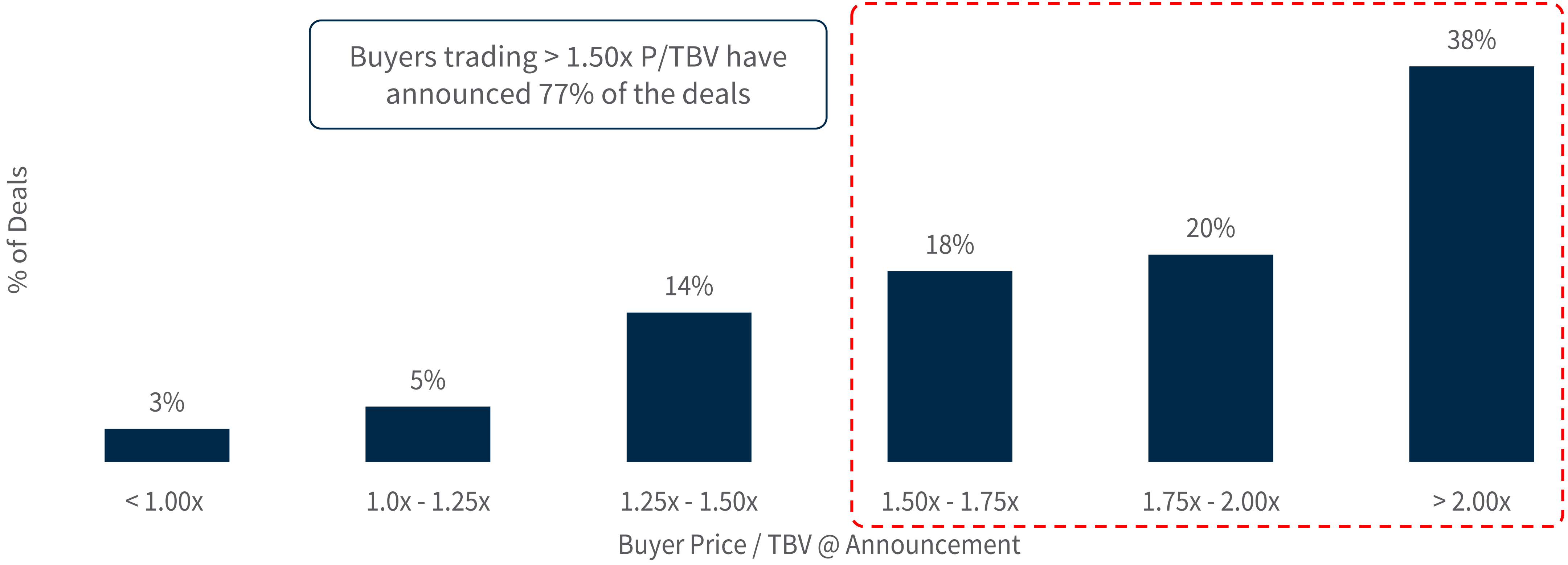
Strong currencies often prevail

Nationwide M&A transactions since 2016 with deal value greater than $50 million



Note: Includes nationwide bank M&A transactions since 2016 where deal value is greater than $50 million and the buyer is a public acquirer; percentages may not sum to 100% due to rounding; data as of July 29, 2022
Source: S&P Capital IQ Pro

Interest Rates Shift | Case Study

Interest Rates Impact on Buyer / Seller Stand Alone

($M, except per share data)	Buyer		Seller	
Pricing Information	**2021Y**	**2022Q2**	**2021Y**	**2022Q2**
Stock Price	$15.00	$15.00	$5.00	$5.00
Shares Outstanding	100	100	100	100
Price / TBVPS	196%	217%	122%	169%
Price / TBVPS (exl. AOCI)	200%	182%	125%	115%
Price / NTM EPS		15.0x		10.0x
Standalone Assumptions				
AOCI deterioration in 1H22		**-10.0%**		**-15.0%**
Loan & Deposits Growth		**5.0%**		**5.0%**
Balance Sheet	**2021Y**	**2022Q2**	**2021Y**	**2022Q2**
Securities AFS	1,500	1,350	1,000	850
Securities HTM	150	150	100	100
Other Assets	8,350	8,550	3,900	4,065
Total Assets	**$ 10,000**	**$ 10,050**	**$ 5,000**	**$ 5,015**
Total Liabilities	**$ 8,485**	**$ 8,635**	**$ 4,440**	**$ 4,580**
Common Equity	900	900	300	300
Retained Earnings	600	650	250	275
AOCI	15	(135)	10	(140)
Total Equity	**$ 1,515**	**$ 1,415**	**$ 560**	**$ 435**
Total Liabilities & Equity	**$ 10,000**	**$ 10,050**	**$ 5,000**	**$ 5,015**
TCE Ratio	**8.3%**	**7.4%**	**8.5%**	**6.1%**
TCE Ratio (excl. AOCI)	**8.1%**	**8.8%**	**8.2%**	**8.9%**

Interest Rates Impact on Pro Forma Analysis

Interest Rate Mark Assumptions
- Purchase price: $6.00 / 100% Stock Consideration
- Securities Mark-Down: 7.5% on Securities AFS | Amortized SL over 7 yrs
- Loan Interest Rate Mark-Down: 1.50% on Loans | Amortized SL over 4 yrs
- AOCI amortization SL over 7yrs

Key Financial Results: GAAP Accounting

22.5%
2023 Accretion to EPS

-12.3%
Dilution to TBVPS at Close

3.5 years
TBV Earnback

5.6%
TCE Ratio

Key Financial Results: Excluding AOCI & Rate Marks

13.9%
2023 Accretion to EPS

-4.6%
Dilution to TBVPS at Close

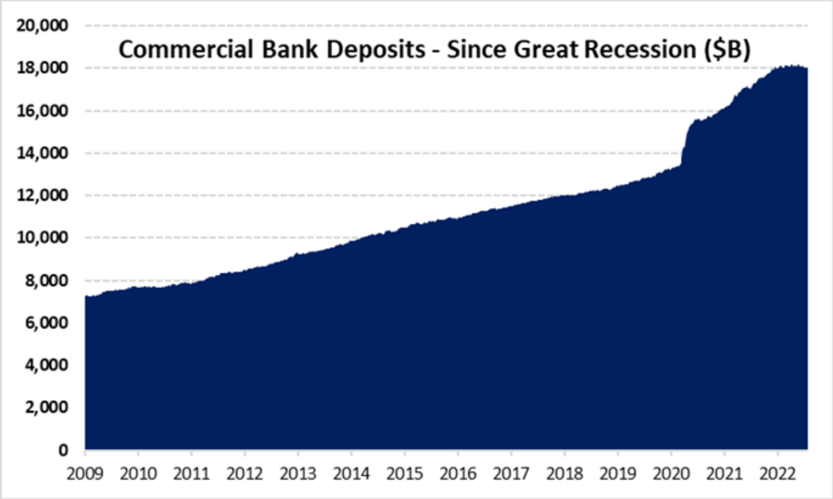
2.3 years
TBV Earnback

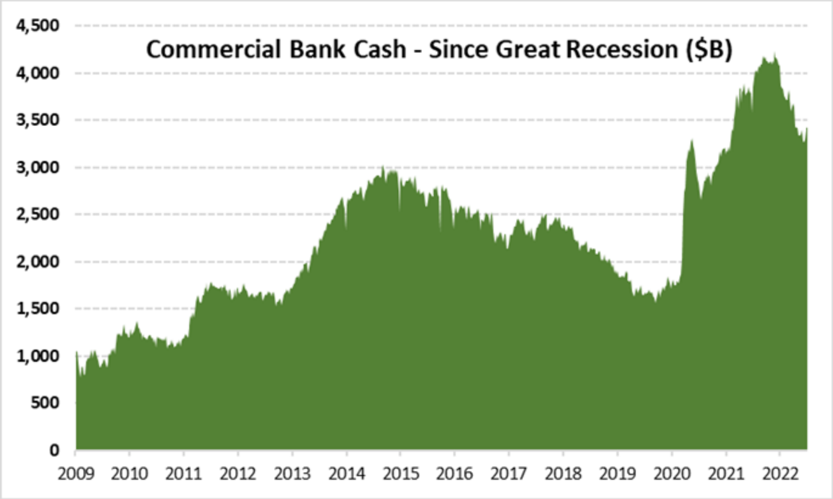
6.5%
TCE Ratio

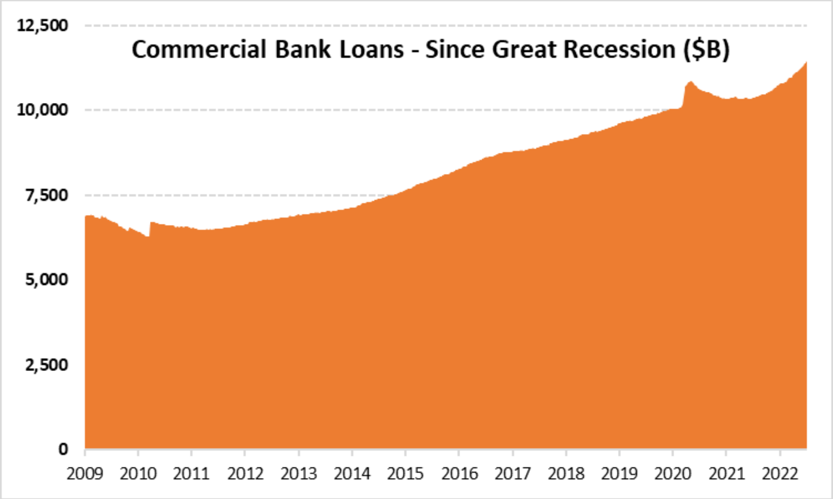
Balance Sheet Trends

Bank Balance Sheets Beginning to "Normalize"?

- $5T pandemic-driven deposit surge has leveled off
- 1/3 of industry's $2.4T cash accumulation has been drawn down
- Organic loan growth has returned after PPP spike has run its course



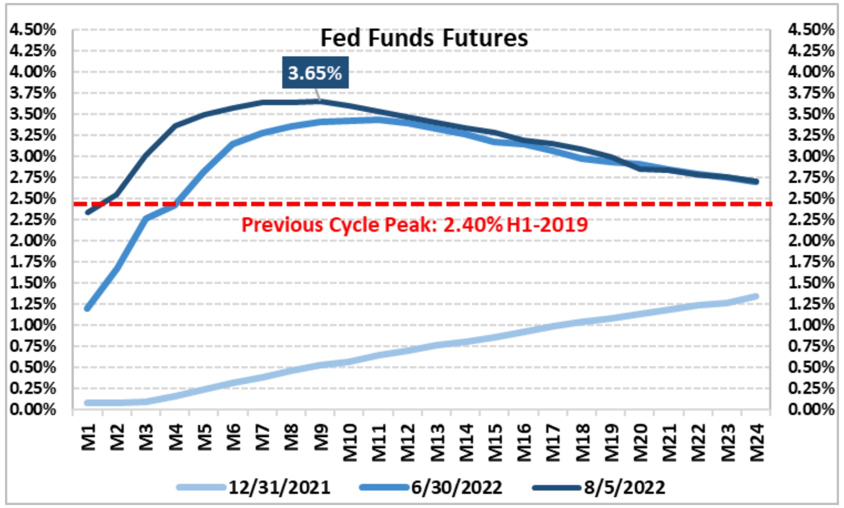


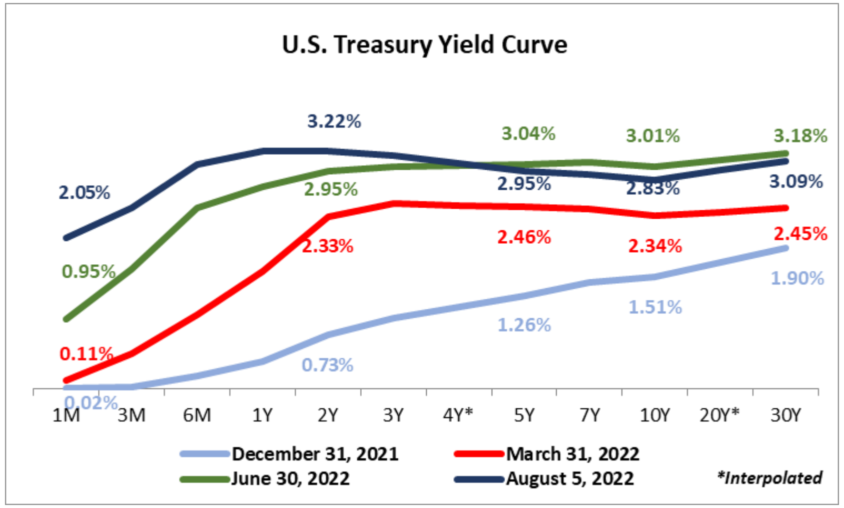


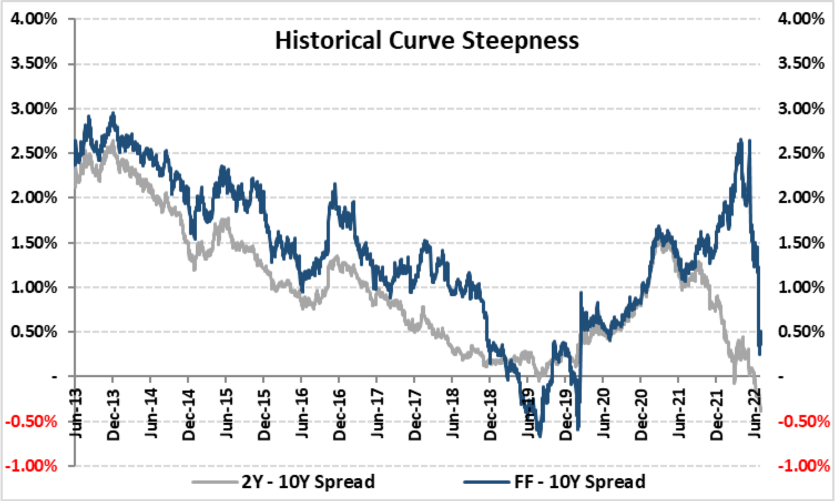
Source: Federal Reserve Bank of St. Louis "FRED"

Nothing Normal About Rate Environment

- Peak Fed Funds rate of 3.65% projected in April 2023 (On June 14, peak was projected at 4.05%)
- U.S. Treasury Curve has exhibited "Bear Flattening" this year
- 10Y Treasury plummeted almost 100 BPs from June peak (3.48%) to August trough (2.58%); 2.86% yield as of Aug 5
- Treasury Yield Curve inversion predictive of oncoming recession







Source: Bloomberg

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Asset/Liability Sensitivity: RJ ALM Clients

- Asset sensitivity peaked and investment average (including IB balances) life bottomed out in quarter ended 12/31/2020
- 66% of RJ clients remain asset sensitive re: Net Interest Income (Static Balance Sheet)
- Year 2 NII asset sensitivity should be monitored vis a vis recession risk / reversal of current rate cycle

	Y1 NII – Avg % Chg from Base +300 Basis Point Shock	Y2 NII – Avg % Chg from Base +300 Basis Point Shock	EVE (NEV) – Avg % Chg from Base +300 Basis Point Shock	Weighted Average Life Investment Assets (Years)
12/31/2019	5.23%	12.94%	-1.64%	2.77
3/31/2020	6.25%	14.98%	1.96%	2.59
6/30/2020	7.14%	16.73%	7.40%	2.41
9/30/2020	8.32%	19.09%	8.10%	2.64
12/31/2020	28.65%	31.99%	14.12%	1.47
3/31/2021	11.63%	21.81%	4.58%	3.47
6/30/21	10.07%	27.44%	1.26%	3.43
9/30/21	9.64%	19.52%	-0.29%	3.64
12/31/21	9.10%	18.81%	-1.33%	3.78
3/31/22	6.73%	15.26%	-3.60%	4.99
6/30/22	3.83%	12.06%	-5.45%	5.75

Source: Raymond James ALM Services Subscribers (Asset Size Range 40MM – 8B)

Asset/Liability Sensitivity: OCC IR Statistics Report

- The OCC has begun publishing a periodic ***Interest Rate Risk Statistics Report*** wherein IRR (ALM) results, assumptions, and policies are reported for community-based financial institutions.

Earnings at Risk Results (Net Interest Income)

Table 1a: All Banks – Earnings at Risk: 12-Month, Net Interest Income, Parallel Shocks					
Scenario	Largest loss	25th percentile	Median	75th percentile	Largest gain
–100	–13%	–5%	–3%	–1%	7%
+100	–5%	1%	4%	7%	42%
+200	–10%	2%	7%	14%	80%
+300	–16%	2%	10%	21%	99%
+400	–23%	0%	11%	25%	115%

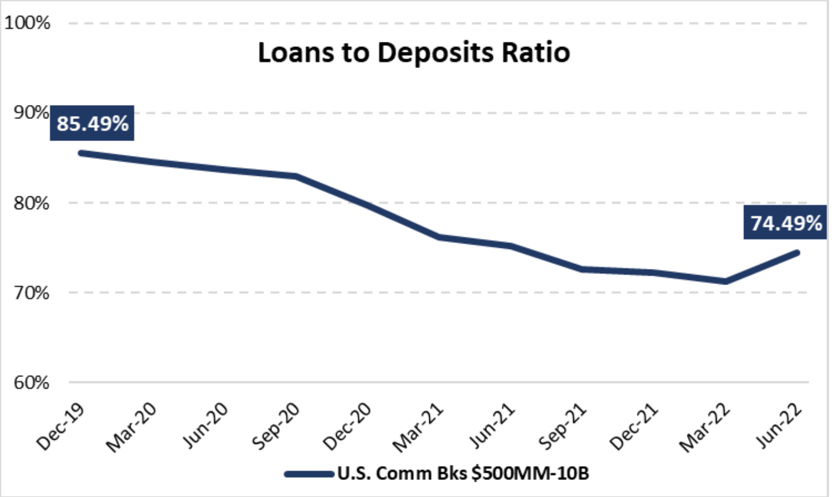
Economic Value at Risk Results (EVE)

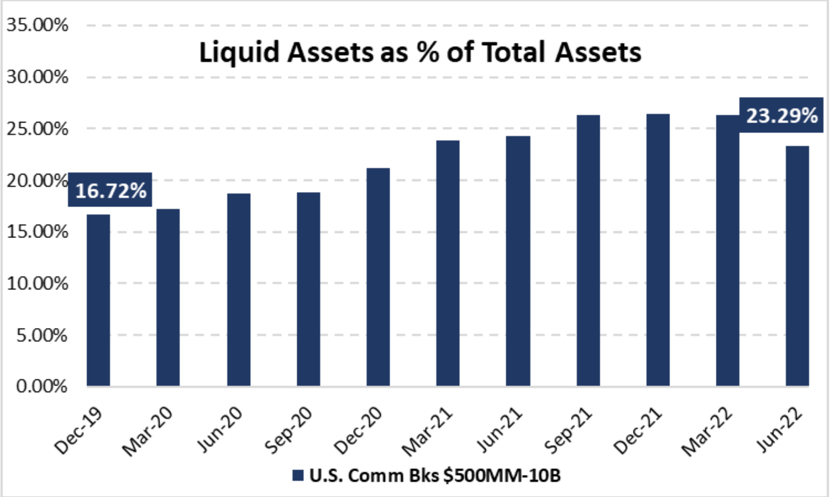
Table 1b: All Banks – Economic Value of Equity, Parallel Shocks					
Scenario	Largest loss	25th percentile	Median	75th percentile	Largest gain
–100	–45%	–11%	–1%	5%	21%
+100	–13%	–2%	2%	9%	33%
+200	–28%	–6%	2%	14%	56%
+300	–43%	–11%	2%	18%	76%
+400	–61%	–17%	1%	22%	93%

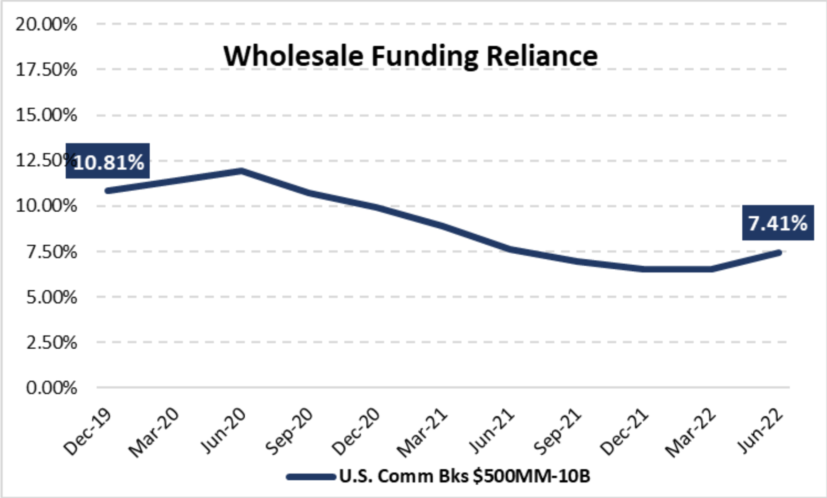
Source: OCC Interest Rate Risk Statistics Report Spring 2022

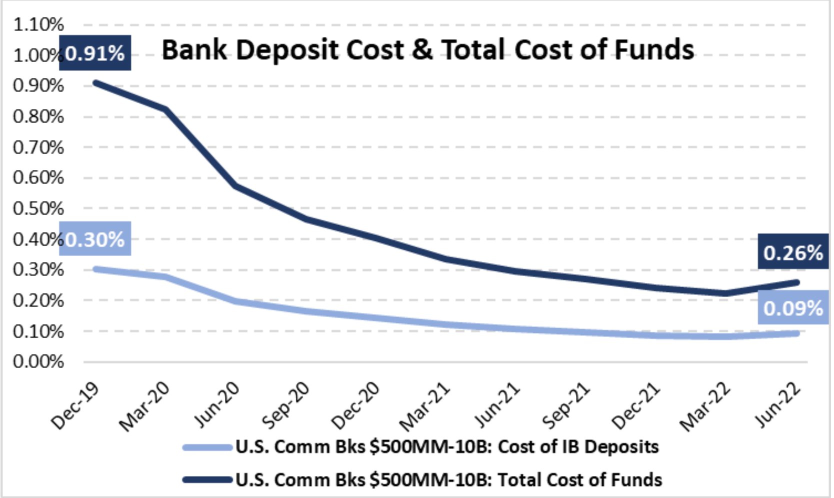
Industry Liquidity & Funding Demand

- Historically low LTD ratios, strong liquidity, and contingency funding capacity have resulted in only slight increase in industry funding costs ***(so far!)***







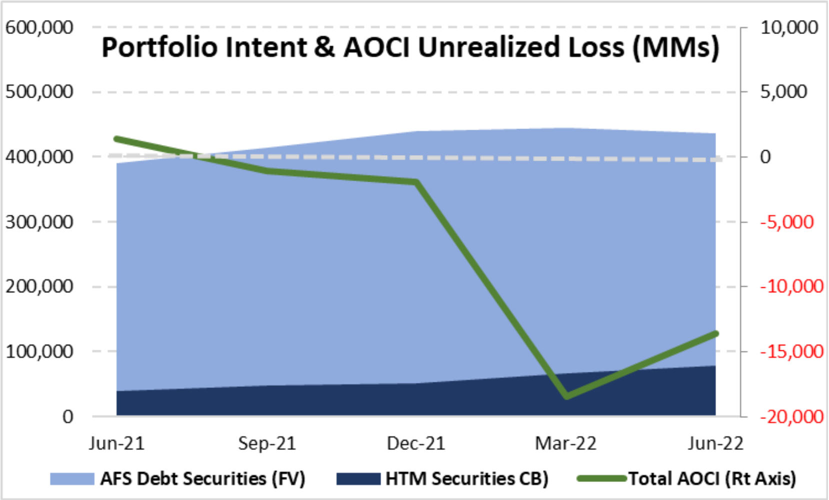


Source: S&P Capital IQ Pro

Unrealized AFS Portfolio Losses

Case Study

- $880MM Asset Commercial Bank
- $282MM Portfolio Par (100% AFS)
- 5.98 Year Average Life / 3.93 Effective Duration
- -$20.7MM (-7.1%) Unrealized Loss as of 6/30



Portfolio Summary

Sector	Coupon	Maturity	Par (000s)	Port %	Book Price	Book Yield	Market Price	Market Yield	Gain/(Loss) $ (000s)	Gain/(Loss) %	WAL	Effective Dur	Effective Cvx	AFS %
Fixed MBS (27)	2.20	19.0 yrs	24,542	8.7	103.36	1.59	91.61	3.70	-2,884.7	-11.4	6.66	5.12	-0.19	100
Floating MBS (1)	2.09	19.6 yrs	26	0.0	104.20	3.72	101.72	4.31	-0.6	-2.4	4.80	1.61	-0.13	100
CMO (13)	2.00	44.3 yrs	6,647	2.4	104.37	1.32	99.83	3.09	-301.9	-4.4	3.51	1.35	-0.05	100
Municipal (73)	4.00	16.1 yrs	84,243	29.9	109.25	2.98	100.20	4.27	-7,620.7	-8.3	9.80	6.73	-0.32	100
Corporate (13)	2.51	3.8 yrs	16,000	5.7	100.08	2.50	94.86	4.22	-835.9	-5.2	3.76	2.81	0.06	100
Other (120)	2.57	18.3 yrs	150,251	53.3	101.23	2.47	95.20	4.55	-9,068.2	-6.0	3.91	2.32	0.06	100
Total (247)	2.95	17.5 yrs	281,709	100.0	103.82	2.53	96.47	4.34	-20,712.1	-7.1	5.98	3.93	-0.08	100

***** “Other” includes Fixed SBA, Floating SBA, CMBS, ABS***

- Critical for Management and Board to understand the relationship between ***unrealized losses, income, capital and time***

Note: Portfolio Intent & AOCI Unrealized Loss for U.S. Comm Banks $500MM - $10B
Source: S&P Capital IQ Pro

Unrealized Portfolio Losses Are Temporary

- Barring payment default, bonds are redeemed at par on the maturity date (or earlier, in the event of a call exercise)
- Thus, the book price and market price of a bond – ***and the overall value of a static portfolio*** – will "converge" to par over time
- Assuming flat interest rates ("Base Case"), the unrealized -$20.7MM loss in the example dissipates at an annual rate of over 20% of the remaining loss
- Further analysis can be performed to project the "convergence" rate in various rate scenarios

Unrealized Gain/(Loss) Remaining

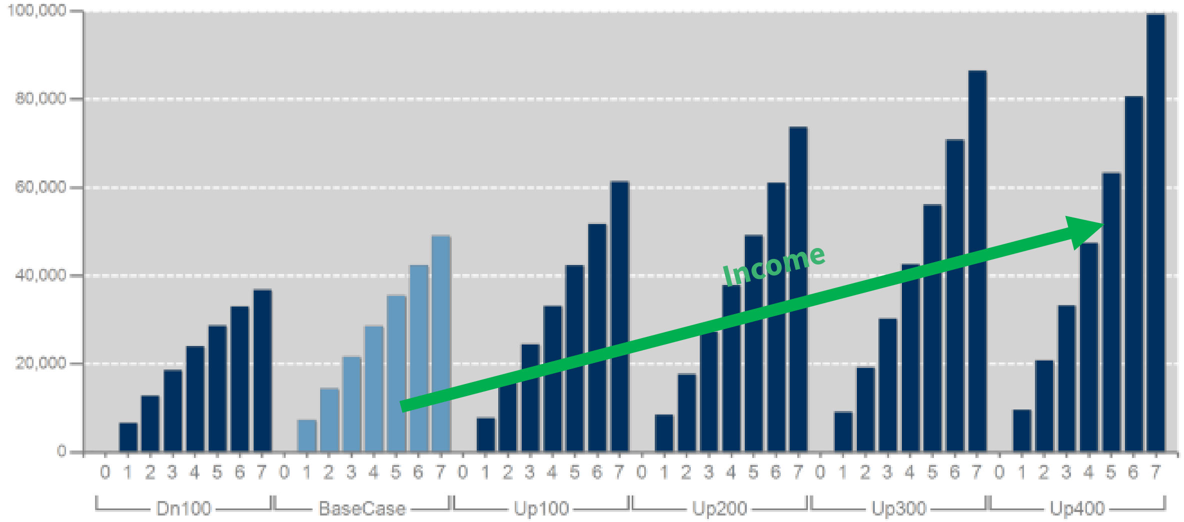
	Dn100		BaseCase		Up100	
YEAR	G/L ($)	G/L (%)	G/L ($)	G/L (%)	G/L ($)	G/L (%)
0	(10,253,930)	-3.51%	(20,712,079)	-7.08%	(31,606,258)	-10.81%
1	(7,476,449)	-2.56%	(16,323,908)	-5.58%	(25,769,585)	-8.81%
2	(5,332,426)	-1.82%	(12,664,851)	-4.33%	(20,767,066)	-7.10%
3	(3,629,414)	-1.24%	(9,544,415)	-3.26%	(16,397,868)	-5.61%
4	(2,473,339)	-0.85%	(7,152,455)	-2.45%	(12,895,371)	-4.41%
5	(1,744,585)	-0.60%	(5,445,481)	-1.86%	(10,280,248)	-3.51%

Portfolio Income is Permanent

pCR™

- Portfolio Income is a significant contributor to many banks' Interest Income (~20% for the Case Study institution)…
- … and is a source of ***permanent*** Capital
- Despite accruing unrealized **(temporary)** losses with rising rates, most portfolios produce incremental **(permanent)** income as rates move higher

Cumulative Income ($)



	Dn100		BaseCase		Up100	
YEAR	Income ($)	Income (%)	Income ($)	Income (%)	Income ($)	Income (%)
1	6,595,506	2.26%	7,253,347	2.48%	7,872,467	2.69%
2	12,784,286	2.16%	14,439,369	2.44%	16,031,574	2.70%
3	18,620,873	2.08%	21,587,710	2.40%	24,476,335	2.72%
4	23,950,338	1.99%	28,624,367	2.36%	33,228,762	2.73%
5	28,685,002	1.89%	35,515,455	2.32%	42,342,517	2.74%

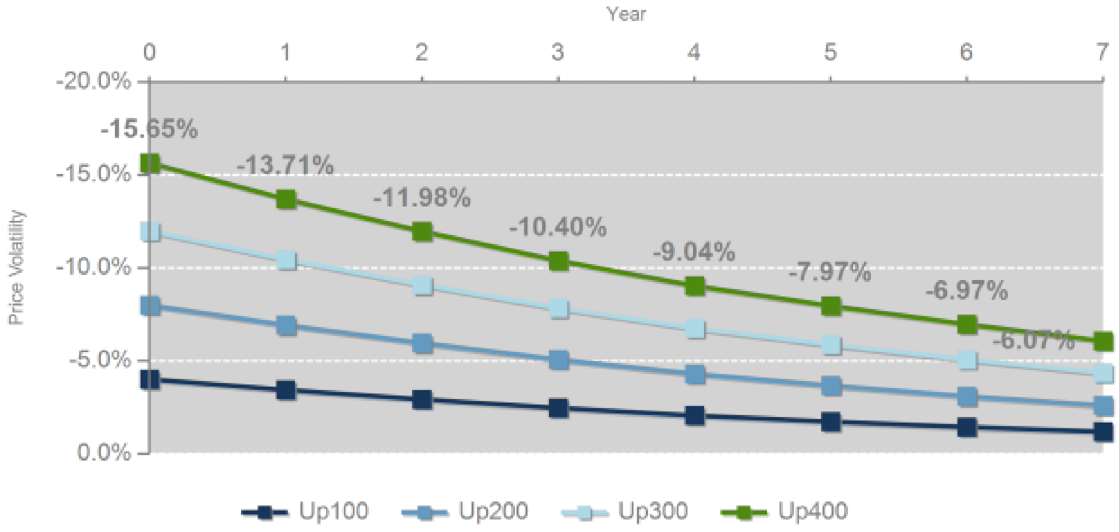
Price Volatility Dissipates Over Time

- The ***potential for future losses*** on a security or a static portfolio of securities ("price volatility") also dissipates over time

- Assuming an (incremental) interest rate shock of +300 BPs, the example portfolio has price volatility equal to -11.99% --- *slightly less than the equivalent price volatility of a 5Y Treasury security*

- One year from now, price volatility for the +300 BPs shock scenario declines to -10.47% … and so on

Price Volatility Remaining



YEAR	Dn200	Dn100	BaseCase	Up100	Up200	Up300	Up400
0	7.56%	3.85%	0.00%	-4.01%	-8.00%	-11.99%	-15.65%
1	6.23%	3.22%	0.00%	-3.44%	-6.93%	-10.47%	-13.71%
2	5.05%	2.65%	0.00%	-2.93%	-5.96%	-9.10%	-11.98%
3	3.98%	2.12%	0.00%	-2.47%	-5.08%	-7.85%	-10.40%
4	3.07%	1.67%	0.00%	-2.06%	-4.30%	-6.76%	-9.04%
5	2.37%	1.32%	0.00%	-1.73%	-3.68%	-5.88%	-7.97%

The Complete Picture

- Analyzing the combined impact of par convergence (dissipation of losses) along with projected cumulative income provides a more complete view of the relationship between ***unrealized losses, income, and time***

- Assuming flat interest rates ("Base Case"), the example portfolio produces Year 1 Income of $7.2MM and unrealized loss reduction of $4.4MM… ***$11.6MM total.***

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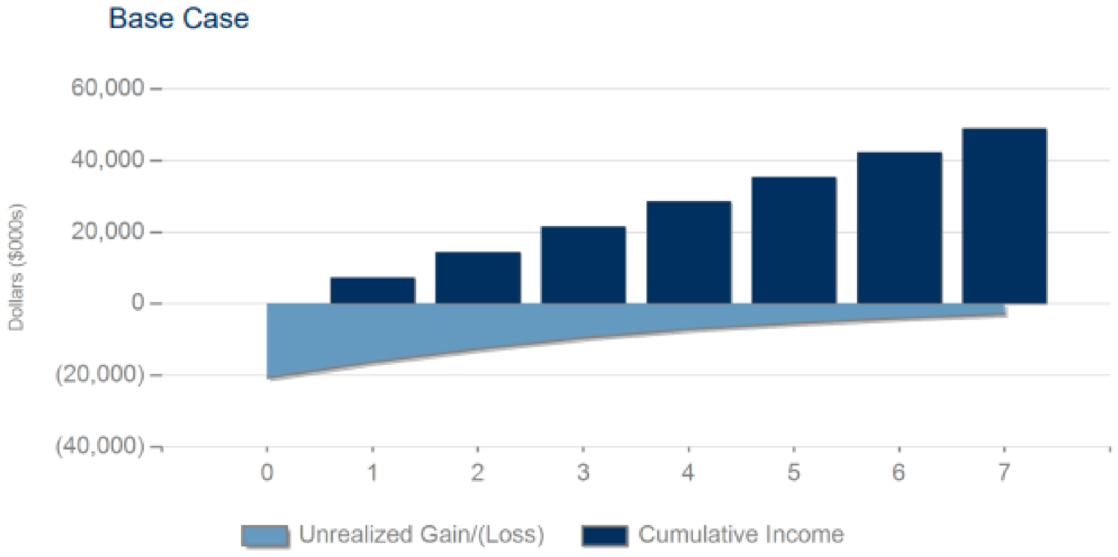
Income vs. Unrealized Gain/(Loss)



	Dn100		BaseCase		Up100	
YEAR	Income	G/L ($)	Income	G/L ($)	Income	G/L ($)
0	0	(10,253,930)	0	(20,712,079)	0	(31,606,258)
1	6,595,506	(7,476,449)	7,253,347	(16,323,908)	7,872,467	(25,769,585)
2	12,784,286	(5,332,426)	14,439,369	(12,664,851)	16,031,574	(20,767,066)
3	18,620,873	(3,629,414)	21,587,710	(9,544,415)	24,476,335	(16,397,868)
4	23,950,338	(2,473,339)	28,624,367	(7,152,455)	33,228,762	(12,895,371)
5	28,685,002	(1,744,585)	35,515,455	(5,445,481)	42,342,517	(10,280,248)

Unrealized AFS Loss – Impact on GAAP Capital

- Most community banks have elected the Basel III opt-out which excludes AFS unrealized gain/loss for regulatory capital… *however economic (GAAP) capital is still impacted*
- -$20.7MM Unrealized AFS Loss results in after-tax AOCI Impact of -$15.3MM for the Bank in the example
- Current Unrealized AFS Loss is already reflected in current Equity Capital of **71.52MM** and Common Equity / Assets of **8.10%**
- Further rate increases would continue to negatively impact the AFS market-to-market and AOCI…
- …*but the impact of additional AFS losses cannot be viewed in isolation*

(000s)

	-200 BP	-100 BP	Base	+100 BP	+200 BP	+300 BP	+400 BP
Common Equity (Current)			**71,520**				
Capital Impact from AOCI Valuations							
Market Value of AFS Investments	292,040	281,961	**271,515**	260,632	249,799	238,953	229,021
Net AFS $ ▲ from Base (26% Tax)	**15,160**	**7,715**		**(8,038)**	**(16,039)**	**(24,050)**	**(31,386)**
Scenario Capital	**86,681**	**79,236**	**71,520**	**63,483**	**55,481**	**47,470**	**40,134**
Scenario Capital ▲ from Current	**15,160**	**7,715**	**-**	**(8,038)**	**(16,039)**	**(24,050)**	**(31,386)**
Average Total Assets	883,369	883,369	**883,369**	883,369	883,369	883,369	883,369
Less: Goodwill & Intangibles	-	-	**-**	-	-	-	-
Tangible Assets	883,369	883,369	**883,369**	883,369	883,369	883,369	883,369
Scenario Capital Measures (Year 1)							
GAAP Capital Ratio	**9.81%**	**8.97%**	**8.10%**	**7.19%**	**6.28%**	**5.37%**	**4.54%**
Tangible Common Equity Ratio	**9.81%**	**8.97%**	**8.10%**	**7.19%**	**6.28%**	**5.37%**	**4.54%**

Unrealized AFS Loss – Impact on GAAP Capital

- For proper context, other interest rate sensitive components of Capital need to be incorporated into the analysis
- In the case study, flat rates (Base Case) and a static balance sheet are projected to produce $18.9MM of ***permanent*** earnings over a 1-year horizon (assumes current NIM of 3.17%)
- The case study bank also has a ~$60MM hedge on variable rate funding
- As rates rise, certain hedging instruments – ***Cash Flow Hedges*** - accrue unrealized gains to partially offset unrealized losses in AFS

(000s)

	-200 BP	-100 BP	Base	+100 BP	+200 BP	+300 BP	+400 BP
Common Equity (Current)			**71,520**				
Impact from AOCI Valuations (TEMPORARY)							
Market Value of AFS Investments	292,040	281,961	**271,515**	260,632	249,799	238,953	229,021
Net AFS $ ▲ from Base (26% Tax)	**15,160**	**7,715**		**(8,038)**	**(16,039)**	**(24,050)**	**(31,386)**
Market Value of Cash Flow Hedge	(1,680)	449	**2,478**	4,411	6,253	8,009	9,685
Net CF Hedge $ ▲ from Base (26% Tax)	**(3,071)**	**(1,498)**		**1,428**	**2,788**	**4,086**	**5,323**
Impact from Projected Earnings (Year 1) (PERMANENT)							
Projected Net Income	17,364	18,370	**18,909**	17,757	16,964	15,870	14,621
Less: Projected Dividends	-	-	**-**	-	-	-	-
Projected Retained Earnings	**17,364**	**18,370**	**18,909**	**17,757**	**16,964**	**15,870**	**14,621**
Scenario Capital (Year 1)	**100,974**	**96,107**	**90,429**	**82,668**	**75,233**	**67,426**	**60,079**
Scenario Capital ▲ from Current	**29,453**	**24,587**	**18,909**	**11,147**	**3,713**	**(4,095)**	**(11,442)**
Average Total Assets	883,369	883,369	**883,369**	883,369	883,369	883,369	883,369
Less: Goodwill & Intangibles	-	-	**-**	-	-	-	-
Tangible Assets	883,369	883,369	**883,369**	883,369	883,369	883,369	883,369
Scenario Capital Measures (Year 1)							
GAAP Capital Ratio	**11.43%**	**10.88%**	**10.24%**	**9.36%**	**8.52%**	**7.63%**	**6.80%**
Tangible Common Equity Ratio	**11.43%**	**10.88%**	**10.24%**	**9.36%**	**8.52%**	**7.63%**	**6.80%**

AFS to HTM Transfer: A Potentially Costly Strategy

- AFS securities transferred to HTM status will avoid the impact of ***future*** market value changes on Equity (AOCI)…
- …However, there are several disadvantages to this strategy which may argue for another approach

Disadvantages	Alternatives
Unrealized losses to date remain in AOCI	Transfer only the most illiquid bonds (non-rated, hard to price)
Ability to realize loss recovery / gains is forfeited	Adapt portfolio strategy to manage duration / price risk
Ability to sell HTM bonds is impaired	Create watch list for sale of “worst offenders”
Liquidity and portfolio strategy becomes limited	Employ derivatives to hedge individual securities or pools
Sale of HTM bonds will inhibit future use of HTM intent	Schedule professional portfolio review for best approach

- Institutions considering this strategy should review FASB ASC 320-10-35-10 and consult with their accountants

Strategy Themes

Loans

- Hedge longer term commercial loans (5 years+) in order to meet borrower demand while managing rate risk
- Embed interest rate floors in new variable rate loans; prepayment penalties in new fixed rate loans

Bond Portfolio

- Layer in shorter duration bond positions to reduce overall portfolio price volatility; ***OR***
- Layer in longer duration bond positions to lock-in rate increases, improve overall portfolio yield, and hedge recession risk
- Add positive convexity via bullet or prepay-protected structures: Treasuries, Agency bullets, Agency CMBS
- Exploit credit spread widening to enhance portfolio yield: High grade corporates, taxable/tax-free municipals

Funding

- Targeted rate specials: Need to understand local competitive market *as well as internet market*
- Consider wholesale funding vs. across the board deposit rate increases to fill funding shortfalls
- Embed call options (bank option) in Brokered CD issuances

Derivatives

- Fixed-to-Float swaps on fixed rate mortgage, MBS, municipal bond pools
- Hedge program (Fixed-to-Float swap or Back-to-Back swap) for newly originated commercial loans
- Hedge variable rate or rolling, short-term wholesale funding to achieve most attractive cost of term funding

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