

Breakout V: Protect Earnings and Capital Using Derivatives

#A0BA23

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Protect Earnings and Capital Using Derivatives

Panelist discussion:

Rex Copeland, Senior VP, CFO | Great Southern Bank
Todd Cuppia, Managing Director | Chatham Financial
Moderated by **Dave Sweeney** | Chatham Financial

Scan QR code for a custom analysis specific for your bank

Chatham will provide a custom analysis on the fee income potential of customer swaps specifically for your bank.



Today's panel



Rex
Copeland



David J.
Sweeney



Todd
Cuppia



Financial risk management solutions that take your company further

Chatham
FINANCIAL



3,000+
clients



\$1 trillion
annual notional



600+
global employees



29,000+
annual transactions

Chatham is the largest, independent financial risk management firm serving clients across industries, sizes, and capital markets needs

Financial Institutions

Optimize your balance sheet, compete for loans, and grow your business.

Your industry, inside and out

Whether we're helping facilitate a borrower-facing swap program, offering strategic advice on balance sheet risk management, or helping you deal with Dodd-Frank and other regulatory obligations — we've got the knowledge and the know-how to help you make the right move.

With you, today and tomorrow

We work with all types of institutions, from community banks and credit unions to larger regional banks. This wide range of experience means that we not only know how to meet your needs right now —but we can also continue to support your organization as it evolves.

Flexing to fit your needs

At Chatham, we don't offer one-size-fits-all answers. Instead, we implement integrated solutions, tailoring our focus on advisory and technology in order to meet the needs and goals of your financial institution now and into the future.

Solutions:

Balance sheet hedging

Loan level hedging

Hedge accounting

Derivatives compliance

ISDA advisory

Commodities

FX advisory and reporting

ChathamDirect technology



GREAT SOUTHERN BANCORP, INC.

(\$ in millions)

At or for the
Nine Months
Ended
Sept. 30, 2022

Balance Sheet

Total Assets	\$5,676
Total Loans	\$4,497
Total Deposits	\$4,739
Tangible Common Equity	\$500

Profitability

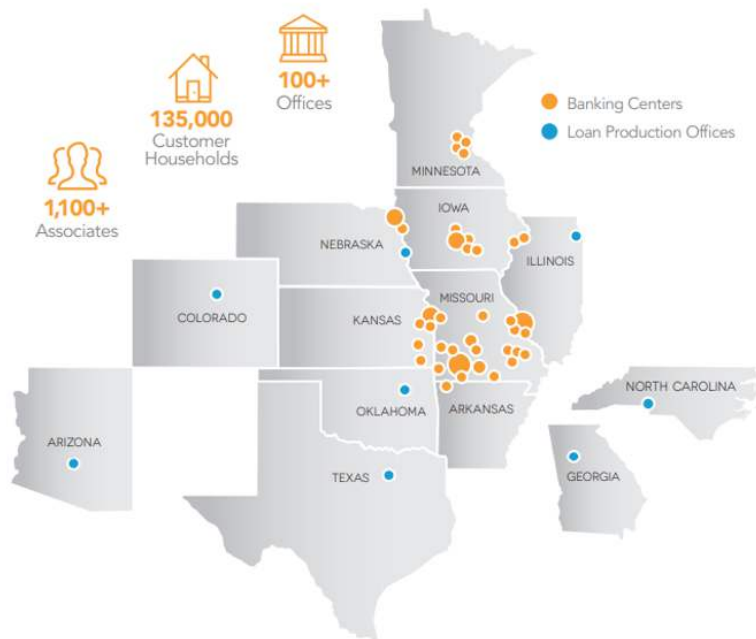
ROAA	1.30%
Net Interest Margin	3.73%
Efficiency Ratio	57.75%

Capital

TCE / TA	8.83%
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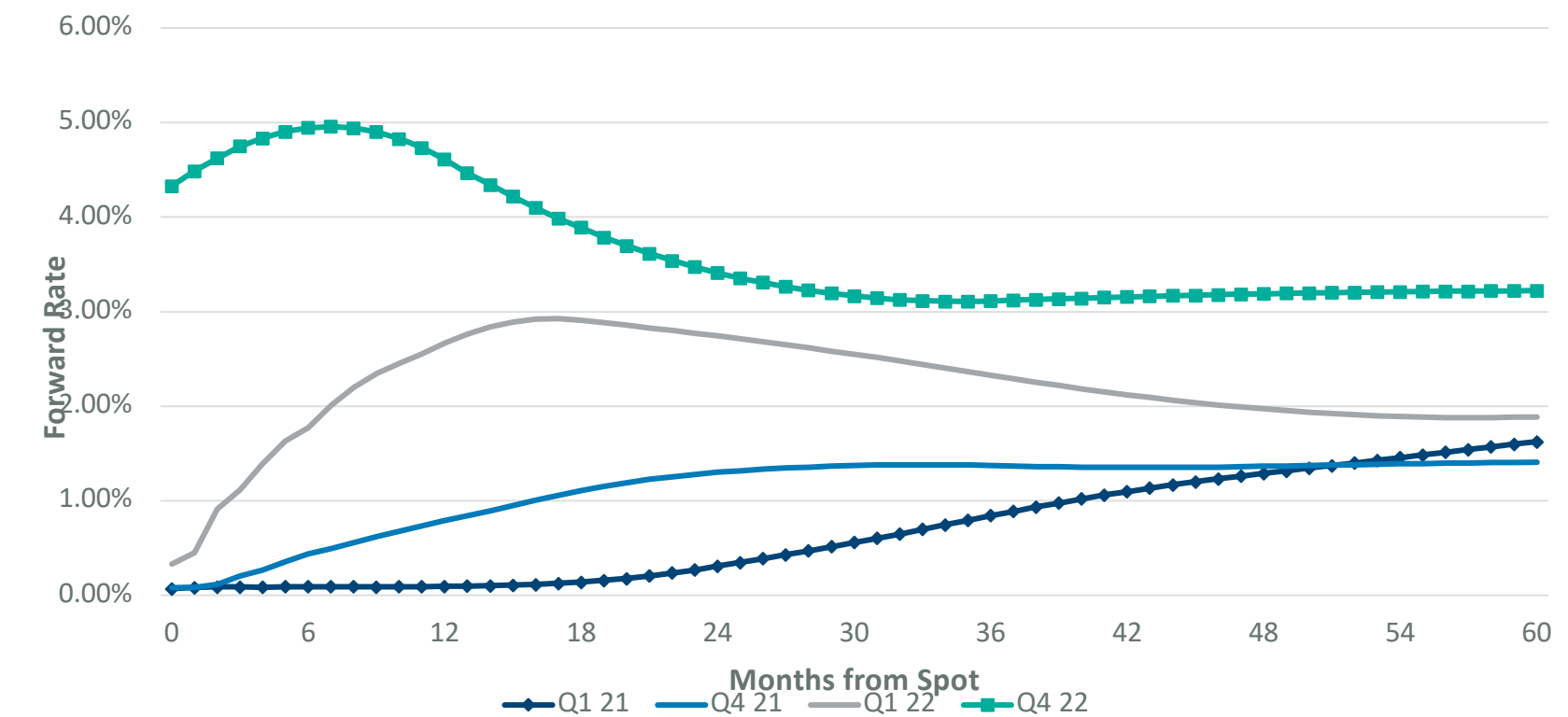
Asset Quality

Allowance For Loan Losses / Loans	1.38%
Annualized NCOs / Avg. Loans	0.00%
Gross NPAs / Assets	0.06%
NPLs / Loans	0.07%



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Dramatic change in forward rate expectations

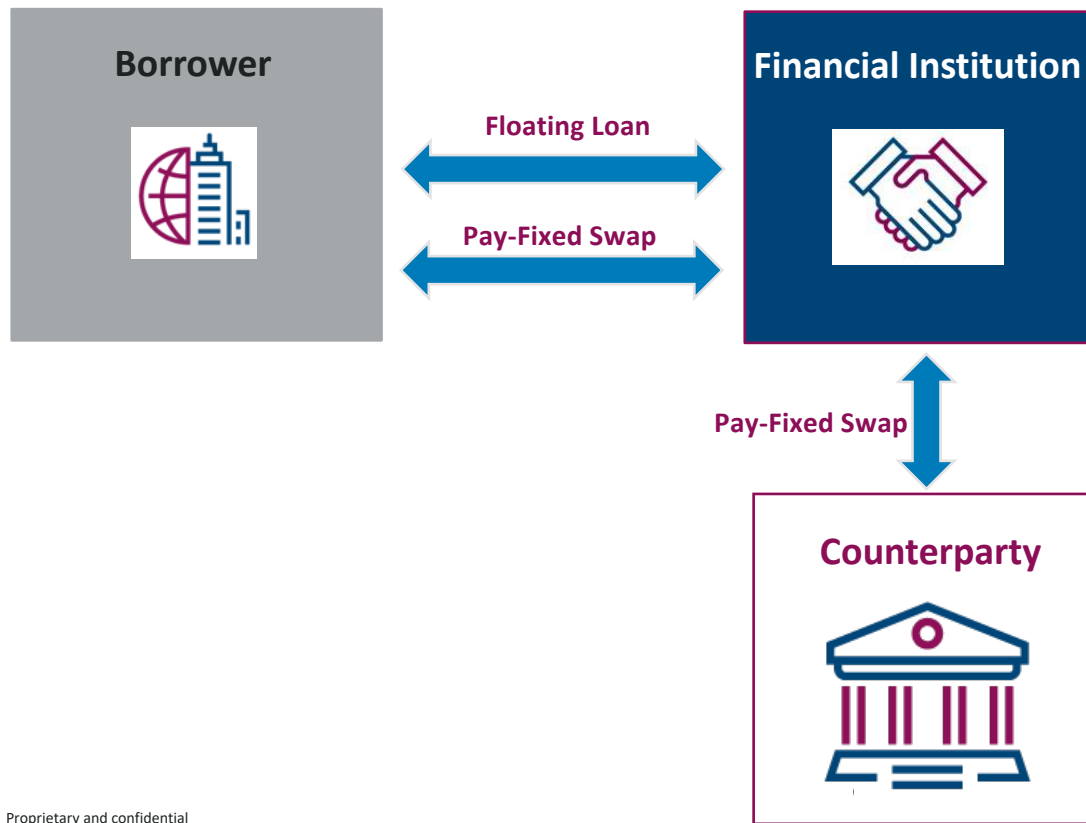


Three ways to offer fixed-rate loans to the customer and floating-rate exposure to the bank

Alternative	Chatham solution
Back-to-Back Swaps	RateManager
Hedging Loans – Individually	Fixed Advantage
Hedging Loans – AFS Securities	Balance Sheet Risk Management – Portfolio Layer Method hedging

Borrower swaps

Win-win for bank and borrower



- Fund a floating-rate loan
- Execute a pay-fixed swap with the borrower at loan closing and simultaneously execute an identical swap with a dealer
- Recognize fee income in the current period
- Win-win: Bank achieves floating rate exposure on their asset while the borrower has a fixed rate exposure on their loan
- Creates access to swaps for balance sheet risk management

What is your interest rate risk position?

- Critical to determining the appropriate hedge solution is lining up the bank's interest rate view and interest rate risk position.

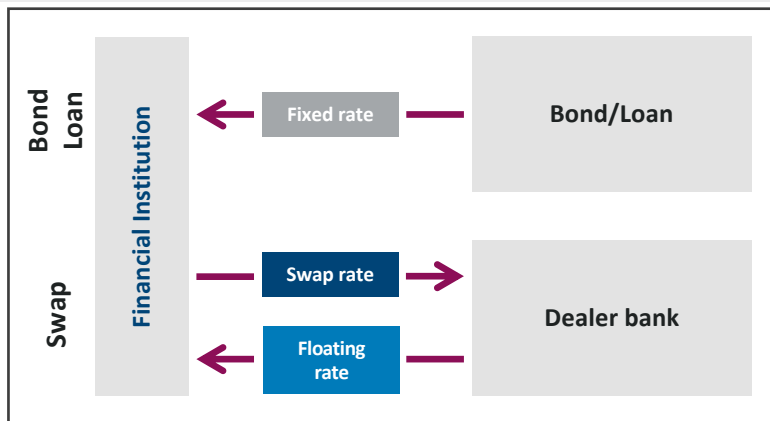
Goal:	Instrument:	Hedged item:	OCI Impact:	Portfolio Layer Method:
Protect against rising interest rates	Pay-fixed interest rate swap	AFS Securities	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	Pay-fixed interest rate swap, cap, collar	Short-term Liabilities (deposits, FHLB advances, Brokered CD)	<input checked="" type="checkbox"/>	
	Pay-fixed interest rate swap	Fixed Rate Loan Portfolios	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Protect against falling interest rates, increase current income	Receive-fixed interest rate swap, floor, collar	Floating rate Loans, Long-term fixed-rate liabilities	<input checked="" type="checkbox"/>	

Balance Sheet Risk Management / Up-rates exposure

Manage duration of assets and AOCI risks

Strategy

- Manage the balance between current income and future price sensitivity
- Fair value hedge strategy
- Helps offset the impact of AFS portfolio rising rate risk on TBV

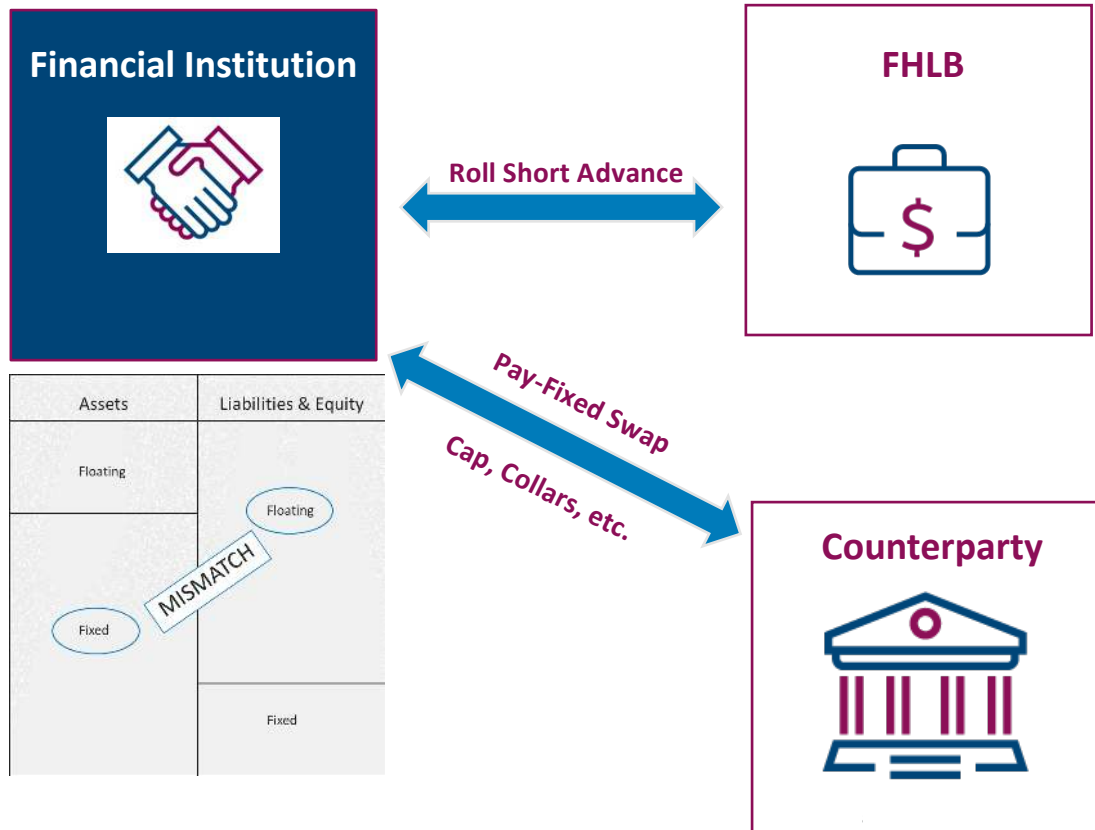


Considerations

- Assets with stable and predictable cash flows are the easiest to work with
 - Agency CMBS
 - Long duration municipals with long call lock out or bullet maturities
 - Treasuries
 - Residential Mortgages
- Managing a portfolio vs managing the exposure of single purchases (flexibility vs. efficiency)
- Assets can still be pledged as collateral for liquidity purposes

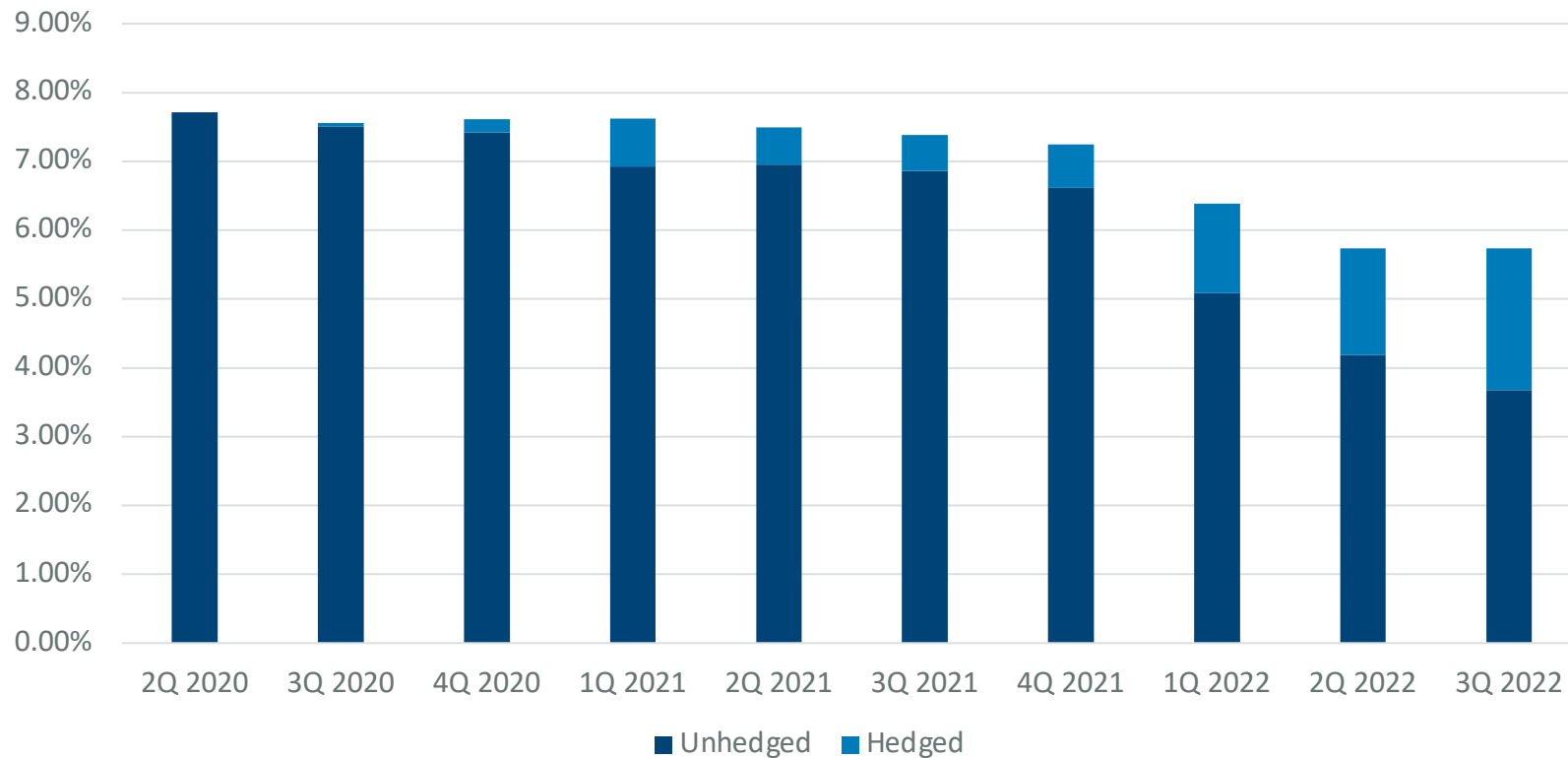
Balance Sheet Risk Management / Up-rates exposure

Manage duration of liabilities and AOCI risks



- Swap can be paired with existing funding to extend duration of liabilities
- Hedge of rolling funding saves premium for term liquidity
 - Estimated savings of 25-50 bps per annum depending on maturity and market factors
- Swap designated as a cash flow hedge; widely-used application
- Bilateral prepayment allows gain to be recognized in up-rates scenario

Case study: Tangible Equity Ratio – Hedged vs. Unhedged comparison



Balance Sheet Risk Management / Down-rates exposure

Managing duration of floating rate loans

Financial Institution



Assets	Liabilities & Equity
Floating	Floating
Fixed	Fixed

MISMATCH

Receive-Fixed Swap
Floors, Collars, etc.

Counterparty



- Receive-fixed / pay floating swap can be used as synthetic leverage
- Derivatives are more capital efficient than on-balance sheet wholesale leverage transactions
- Flexibility to “pick your spot” on the curve and the payment profile of the hedge
- Designated as a cash flow hedge; widely-used application

Questions for the panel?



Rex
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