

BankDirector

Breakout 4:
**Hedging Your Balance
Sheet for the Unknown
and Unexpected**

Todd Cuppia

Chatham Financial

Jack Plants

Five Star Bank

Moderated By:

Ben Lewis

Chatham Financial

#A0BA24



Acquire or Be Acquired 2024:

Hedging Your Balance Sheet for the
Unknown and Unexpected

Chatham
FINANCIAL



Five Star Bank

January 29, 2024

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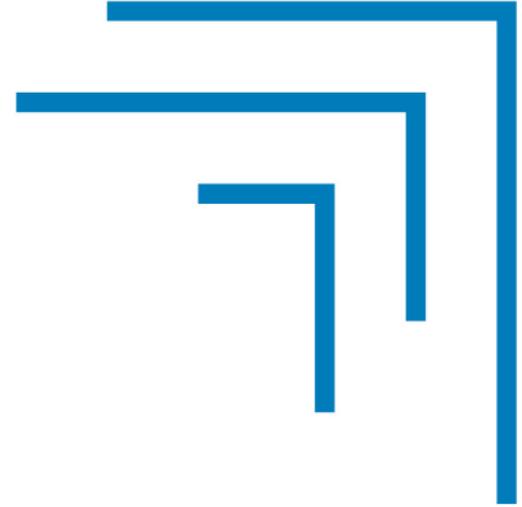
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Today's agenda

- Introductions
- Market update / hedging themes
- Hedging and derivatives at Five Star
- Questions



Today's Panel



Jack Plants serves as Chief Financial Officer and Treasurer at Financial Institutions, Inc. and its subsidiary, Five Star Bank. Mr. Plants most recently served as Senior Vice President and Treasurer of United Bank. Prior to his seven-year tenure at United Bank, he worked in various treasury and credit roles with GE Capital, Patriot National Bank, SL Financial Services and GE Commercial Finance. He started his career with Five Star Bank in 2006.



Todd Cuppia is a Managing Director and leads Chatham's Balance Sheet Risk Management practice for financial institutions. In his current role, Todd advises over 200 financial institutions across the U.S. and Europe on developing and executing strategies to manage complex economic risks. He brings nearly two decades of capital markets and banking experience to help financial institutions implement successful interest rate risk management programs.

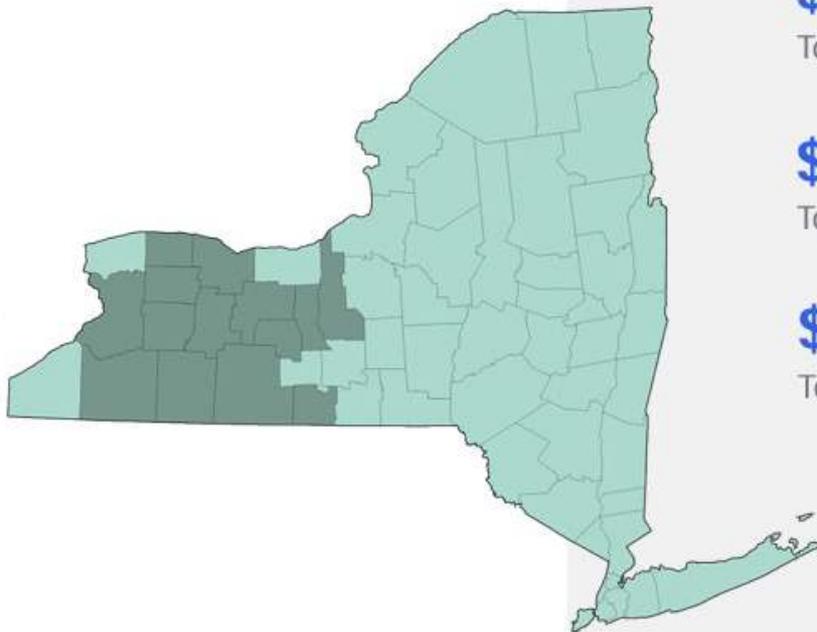


Ben Lewis is a Managing Director and Global Head of Sales for Chatham's Financial Institutions practice. Since joining Chatham, Ben has worked with depositories of all sizes helping them manage interest rate risk through the prudent use of hedging strategies. Prior to his work with financial institutions, Ben worked with private equity firms and REITs to hedge their interest rate and foreign currency risk.

Overview of Financial Institutions, Inc.

NASDAQ: FISI

- **Innovative financial holding company** headquartered in Western New York offering banking, insurance and wealth management services through a network of subsidiaries
 - Five Star Bank
 - SDN Insurance Agency, LLC
 - Courier Capital, LLC
- **Positioned for growth** through key initiatives, including Banking-as-a-Service (BaaS)
- **Financially stable geography**, with 49 banking locations¹ in 14 contiguous Upstate New York counties, as well as commercial loan production offices serving the Mid-Atlantic and Central New York regions
- **Experienced management team** with extensive market knowledge and industry experience
- **Generating consistent, strong operating results**



\$259M

Market cap

\$6.1B

Total assets

\$4.4B

Total loans

\$5.3B

Total deposits

¹ 48 branches and 1 motor branch in Olean, NY

Note: Information on this slide is as of September 30, 2023 unless noted otherwise

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Financial risk management solutions that take your organization further

Chatham Financial delivers financial risk management advisory and technology solutions to organizations across industries and around the world — helping companies maximize value in the capital markets.



\$9 trillion hedged notional
since 1991



3,500+ clients
around the world



200,000+ daily valuations



30,000+ annual
transactions



Eight global offices



700+ employees

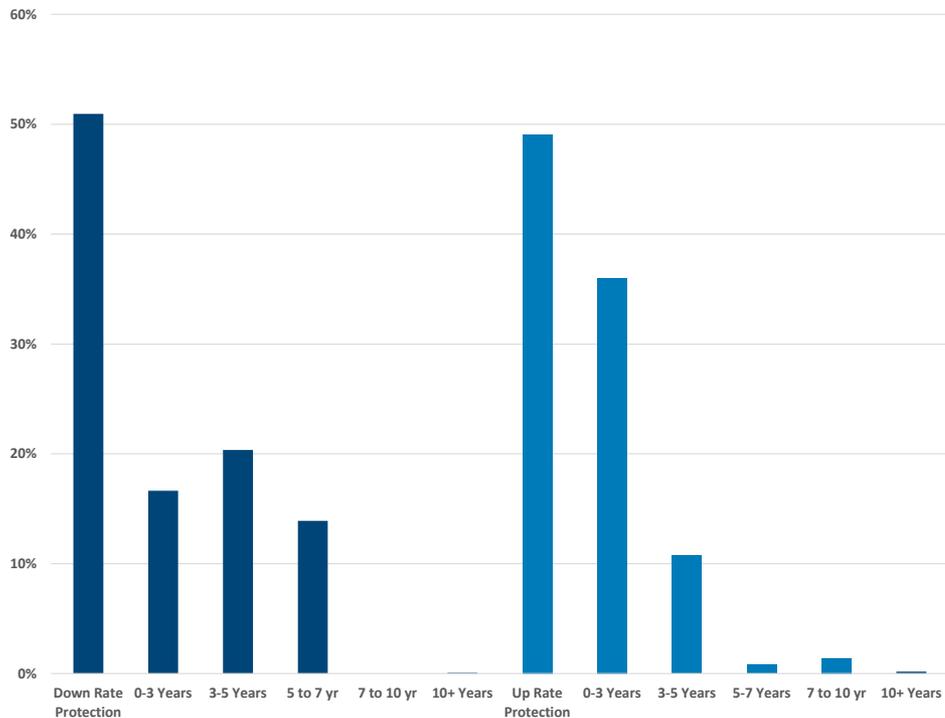
Borrower swaps – Useful tool to win deals and grow fee income

Five Star Bank's customer swap activity			
Year	Asset Size (\$000s)	# of Transactions	Average Txn Volume for FIs \$2B-\$10B
2017	4,069,086	1	17
2018	4,272,439	11	13
2019	4,346,616	26	19
2020	4,875,673	50	10
2021	5,481,889	17	5
2022	5,756,441	20	5
2023(Q3)	6,095,556	16	TBD

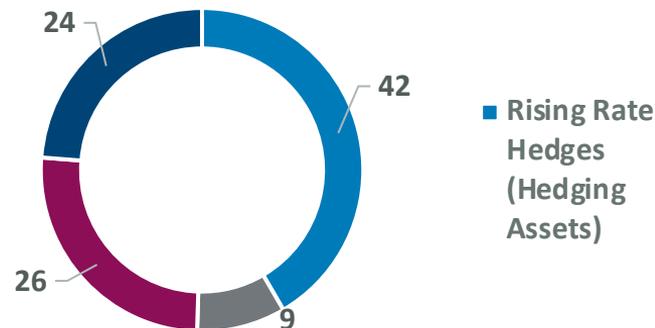
What are we seeing on the balance sheet trading desk

Rate Protection Strategies by Tenor

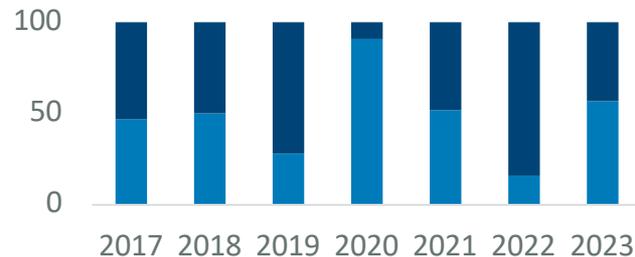
Down Rate vs Up Rate Protection



Balance Persistency is Key



Shifting to Neutral?



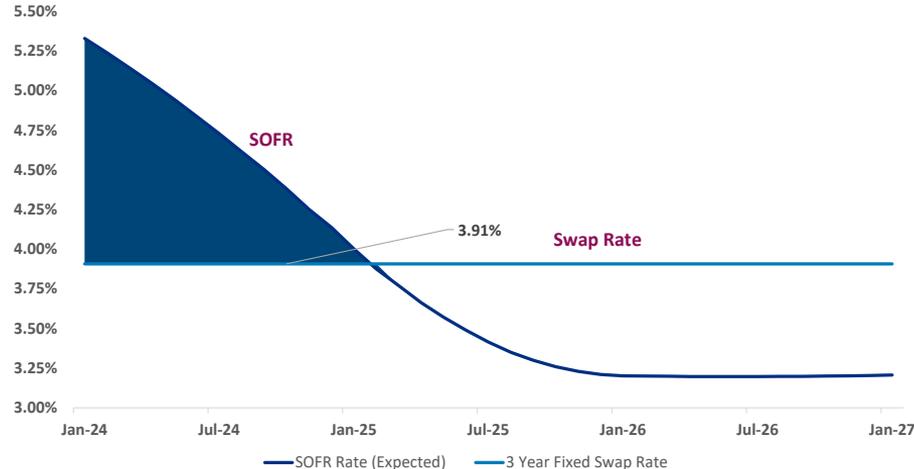
■ Rising Rate Hedges ■ Falling Rate Hedges

Protecting against rising rates – Two lanes on the same road

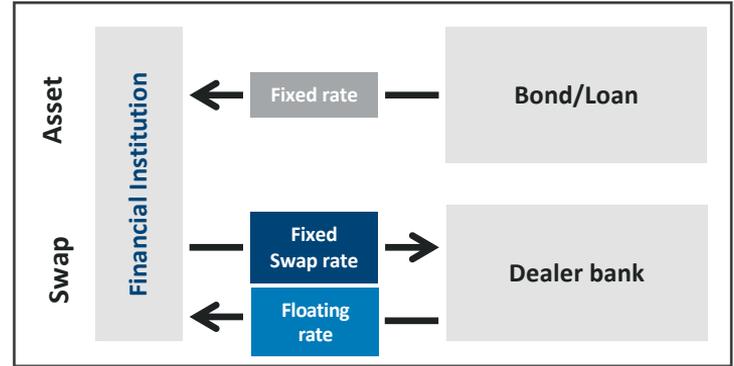
Strategy

- Concerned with rates going up, staying where they are or not going down as quickly as the market expects
- Reduce liability sensitivity and manage net interest margin
- Helps offset the impact of AFS portfolio rising rate risk on TBV, depending on underlying exposure.

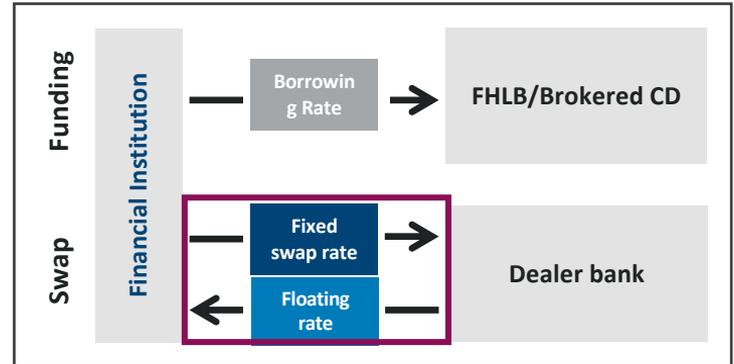
3 Yr pay-fixed swap vs. SOFR



Shorten Duration of Fixed Rate Assets: Fair Value Hedge

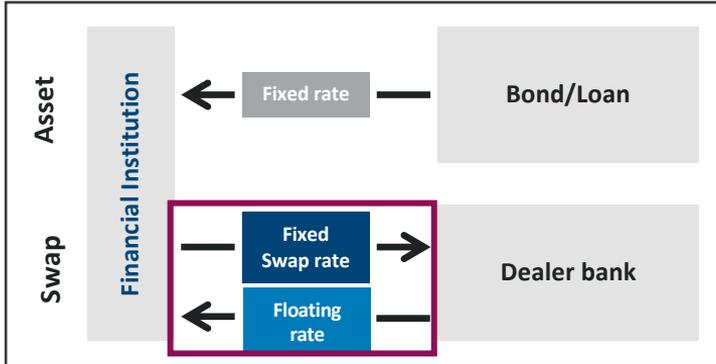


Lengthen Duration of Liabilities: Cashflow Hedge

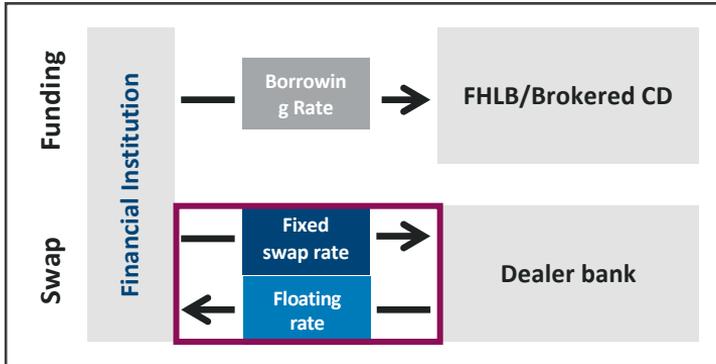


Protecting against rising rates – Two lanes on the same road

Shorten Duration of Fixed Rate Assets: Fair Value Hedge



Lengthen Duration of Liabilities: Cashflow Hedge



Synthetic Floating Rate Security – Yield Analysis

5 year Treasury Yield	3.97%
5 year Swap Rate	3.64%
SOFR Setting (o/n)	5.31%
Synthetic Floating Yield -- SOFR at 8.31%	8.64%
Synthetic Floating Yield -- SOFR at 2.31%	2.64%

Term	All-in swapped cost	Fixed-term Brokered CD	Savings
2 year	4.03%	4.50%	47 bps
3 year	3.73%	4.15%	42 bps
5 year	3.52%	4.05%	53 bps

*Swap pricing and CD pricing as of 1/09/24

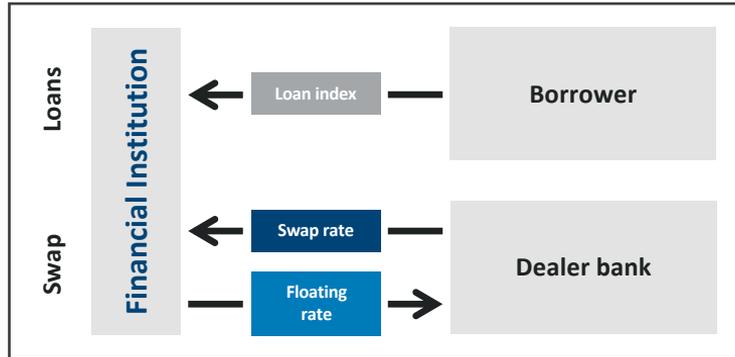
**"All-in" Swapped Cost assumes the basis between the CD rate and SOFR remains constant for the life of the hedge.

Protect against falling short-term rates – floating rate asset hedge

Reduce asset sensitivity, protect loan income from potential falling rates

Strategy

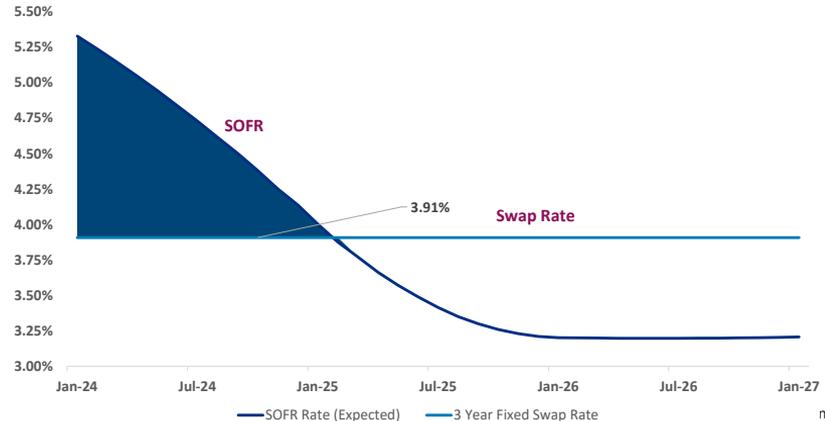
- Concerned with rates coming down after expected increase
- Reduce asset sensitivity to protect future margin
- Cash flow hedge strategy



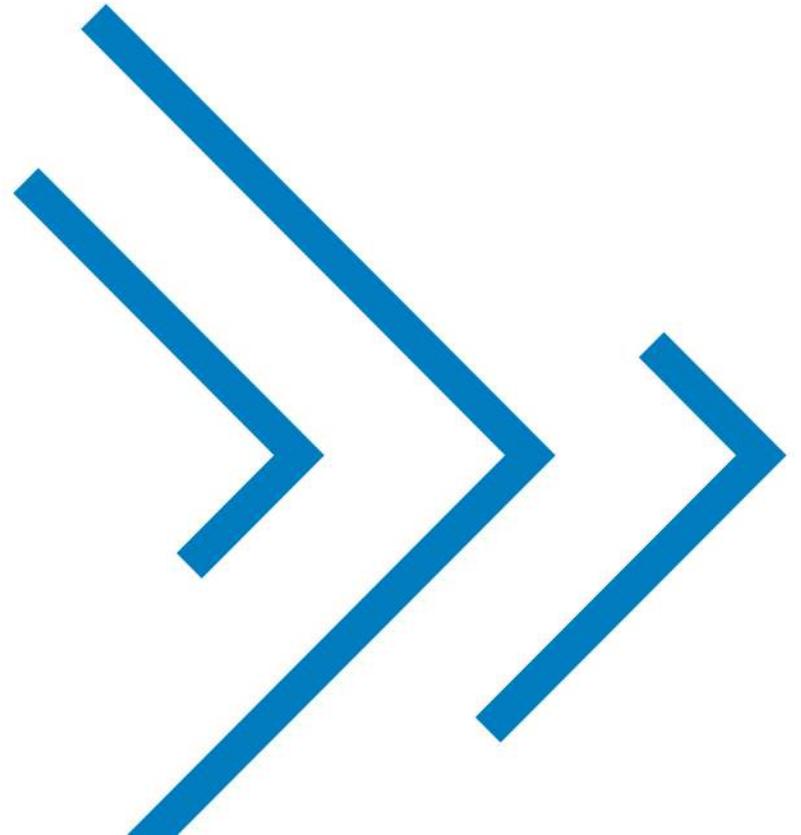
Execution / Accounting

- Identify a pool of floating-rate assets to hedge
- The swap can start today or in the future, allowing the financial institution to customize the risk mitigation to its risk profile
- Hedged exposure must remain outstanding and probable through the life of the hedge
- Loans with embedded caps/floors in loans should be evaluated and factored into the hedge accounting considerations

3 Yr pay-fixed swap vs. SOFR



Questions?



Contact information



Ben Lewis, CFA

Managing Director, Head of Sales
Denver, CO
+1 720 221 3510
blewis@chathamfinancial.com



Todd Cuppia

Managing Director, Balance Sheet Risk Management
Kennett Square, PA
+1 484 731 2761
tcuppia@chathamfinancial.com

BankDirector.

Breakout 4: Hedging Your Balance Sheet for the Unknown and Unexpected

Scan here to fill out
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this session.



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