



# Balance Sheet Considerations

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#BBTF24



PERFORMANCE TRUST  
CAPITAL PARTNERS

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# Balance Sheet Considerations

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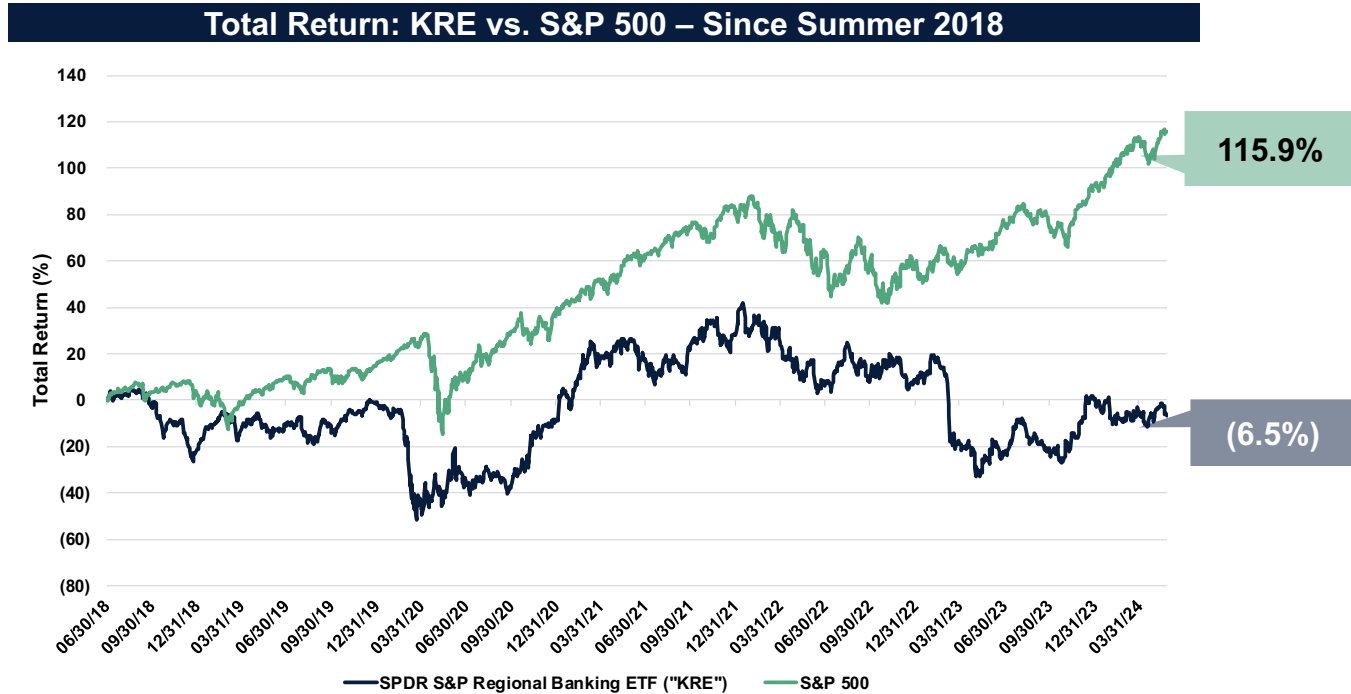
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*Certain assumptions have been made in connection with analysis presented and changes in market conditions or assumptions may have had material impact on results. There is no guarantee any strategy will be successful.*

# How Are We Allocating Capital?



# 6 Long Years – NO Shareholder Value Creation



Source: S&P Capital IQ Pro Note: Market data from 06/30/18 to 05/28/24  
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# What Is Banking?

# What is the Industry-Wide Problem?

- Bank balance sheets = Full of unlike cash flows
- Conventional tools = Full of Unknown Flaws
- Creates blind spots...
- ... which can lead stakeholders to accidentally pursue risk seeking strategy
- Often, with little or no additional reward for the risk-seeking activity

A street scene at sunset with a semi-transparent blue overlay containing text. The background shows a street with buildings, streetlights, and a bright sun in the sky.

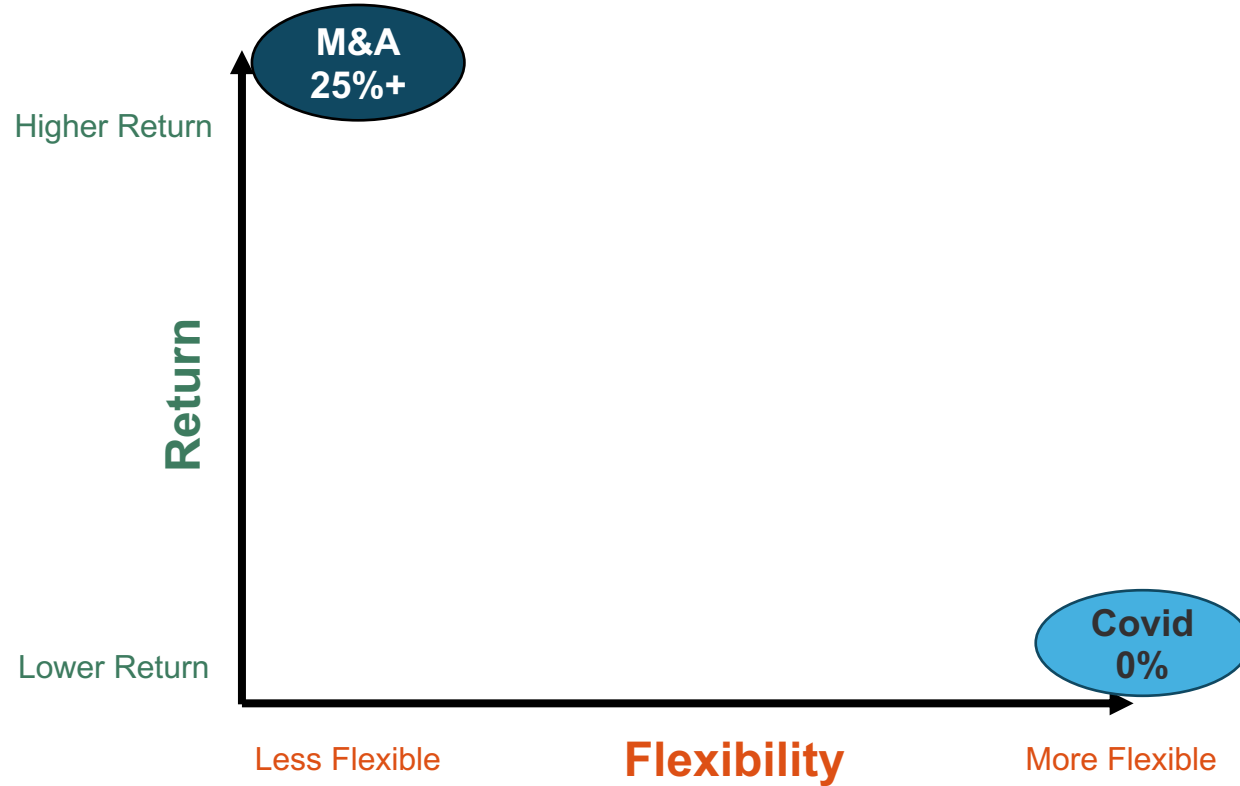
## 5 Principles When Allocating Capital

1. **Hurdle Rate** – *What's the minimum Acceptable Return?*

2. **Flexibility** – *Can you unwind and reallocate in the next year?*

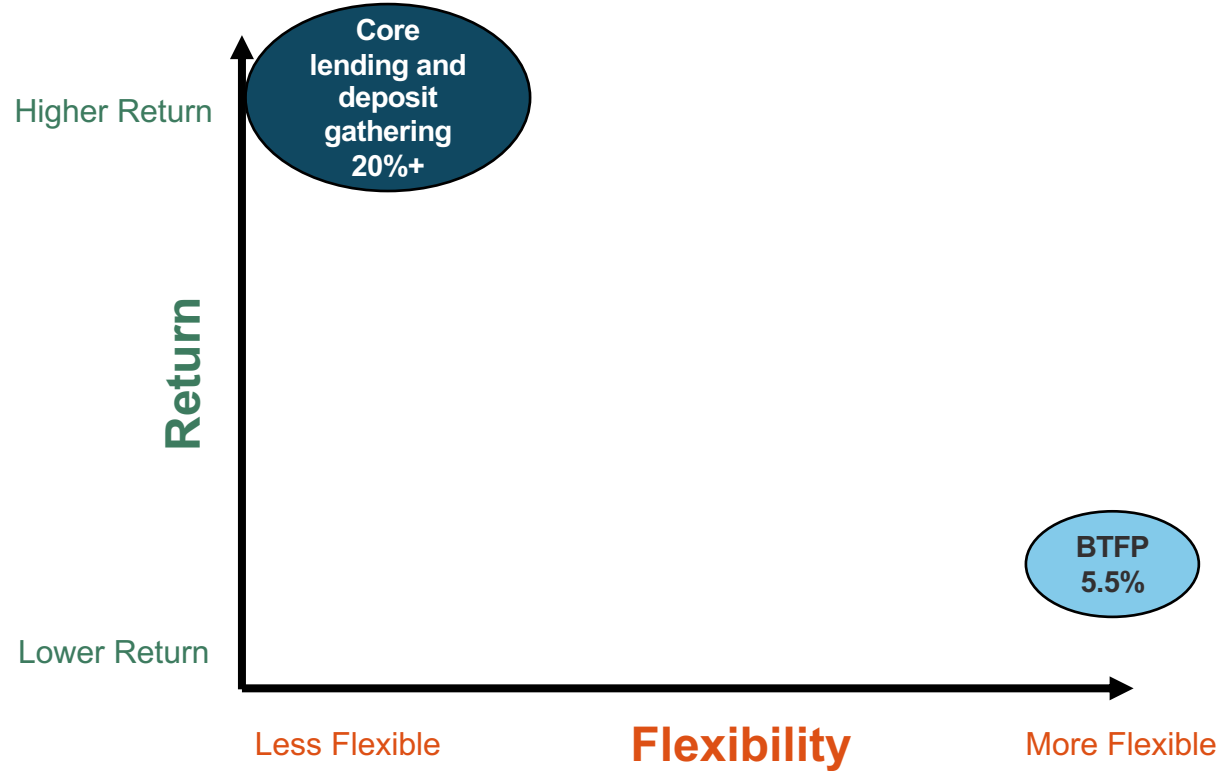
# Capital Allocation Spectrum

*Strategic Flexibility vs Expected Return*



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*Strategic Flexibility vs Expected Return*



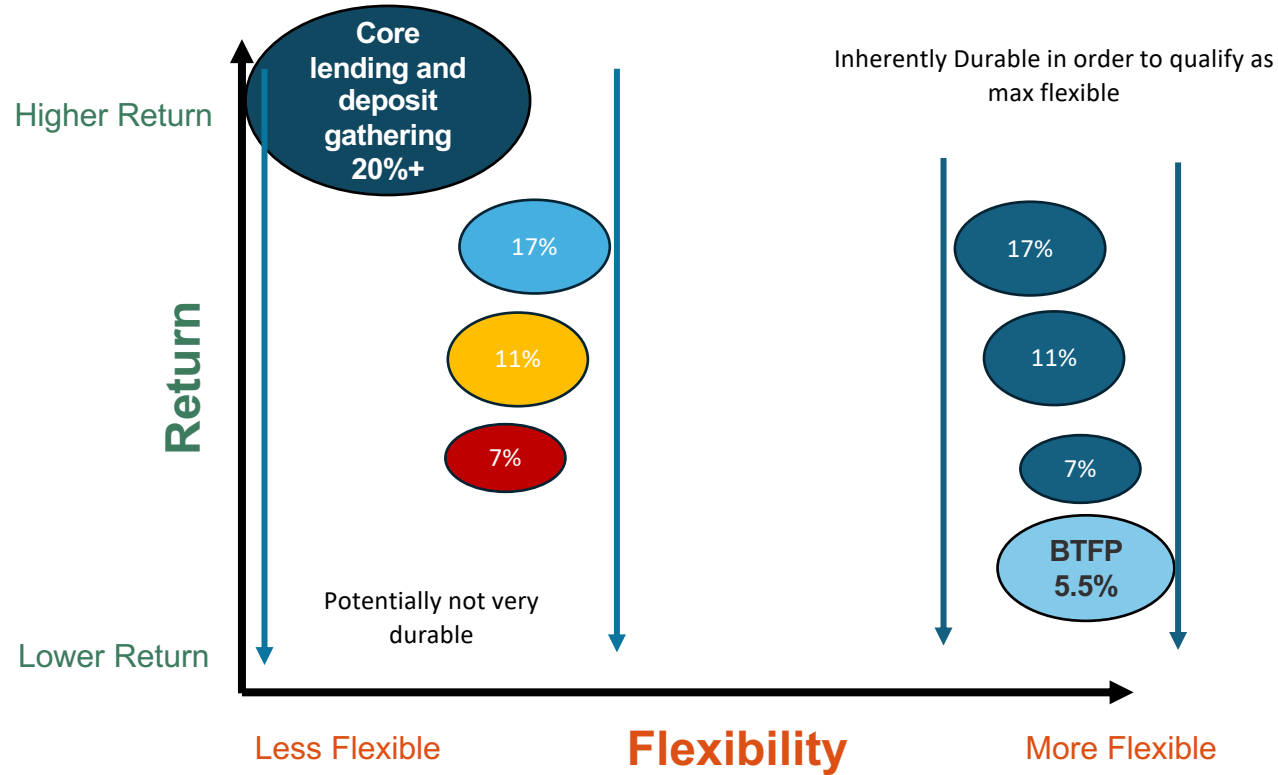
A street scene at sunset with a semi-transparent blue overlay containing text. The background shows a street with buildings, streetlights, and a bright sun low on the horizon. The text is centered on the blue overlay.

## 5 Principles When Allocating Capital

1. **Hurdle Rate** – *What's the minimum Acceptable Return?*
2. **Flexibility** – *Can you unwind and reallocate in the next year?*
3. **Durability** – *Can changes in rates or credit significantly diminish return?*

# Capital Allocation Spectrum

## Strategic Flexibility vs Expected Return



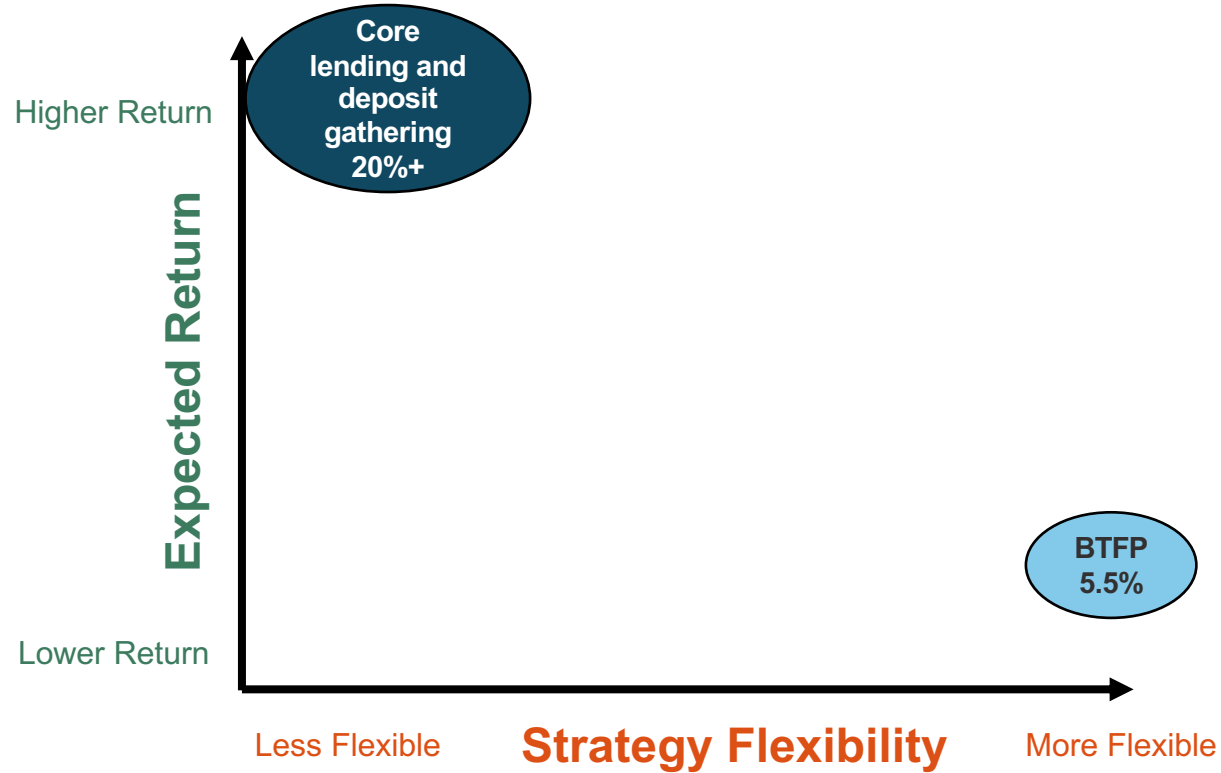
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## 5 Principles When Allocating Capital

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3. **Durability** – *Can changes in rates or credit significantly diminish return?*
4. **Asymmetry** – *Is there upside if rates or credit change?*

# Capital Allocation Spectrum

*Strategic Flexibility vs Expected Return*



Source: Performance Trust Analytics. For Illustrative Purposes Only.

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# Why Were So Many Attracted to the “BTFP Arbitrage”?

December 2023 – January 16, 2024

	-200	-100	Unch	+100	+200
Bank Term Funding Program (BTFP)	Called/Unwind		-4.80%	-4.80%	-4.80%
Cash			+5.35%	+6.35%	+7.35%
<b>Pre-Tax ROE</b>	1.5%	3%	5.5%	15.5%	25.5%

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3. **Durability** – *Can changes in rates or credit significantly diminish return?*
4. **Asymmetry** – *Is there upside if rates or credit change?*
5. **Sustainability** – *How many years will I earn a given return?*

# How Are We Allocating Our Capital?



# Two Additional Considerations

# Marginal Net Overhead Matters

# **Different Capital Allocations Demand Different Amounts of Capital**

# Allocating Capital on the Margin

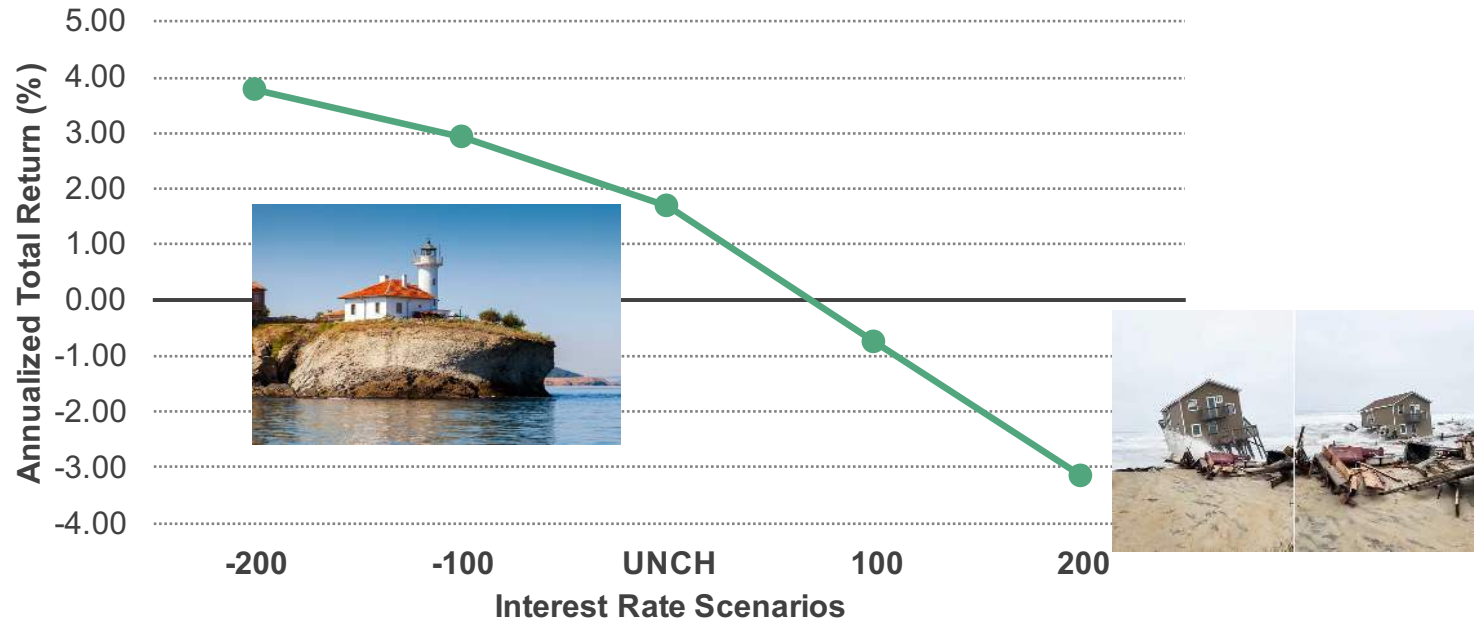
## Choice A - 100%

"Core" CD (70%) "Core"	4.29%
IB Transaction (30%)	2.00%
WAVG Funding	3.60%
5/25 Loan (Rating 3-4)	7.00%
Marginal NIM	3.40%
Net Overhead	1.60%
<b>PTPP ROA</b>	<b>1.80%</b>



# A House Built on Sand?

1-Year Horizon



Sector	-200	-100	Unch	100	200
5yr CRE + 1yr CD	3.77	2.92	1.70	-0.76	-3.16

Source: Performance Trust Analytics

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# An Alternative Allocation of Capital On The Margins

## Choice A

“Core” CD (70%)	4.29%
IB Transaction (30%)	2.00%
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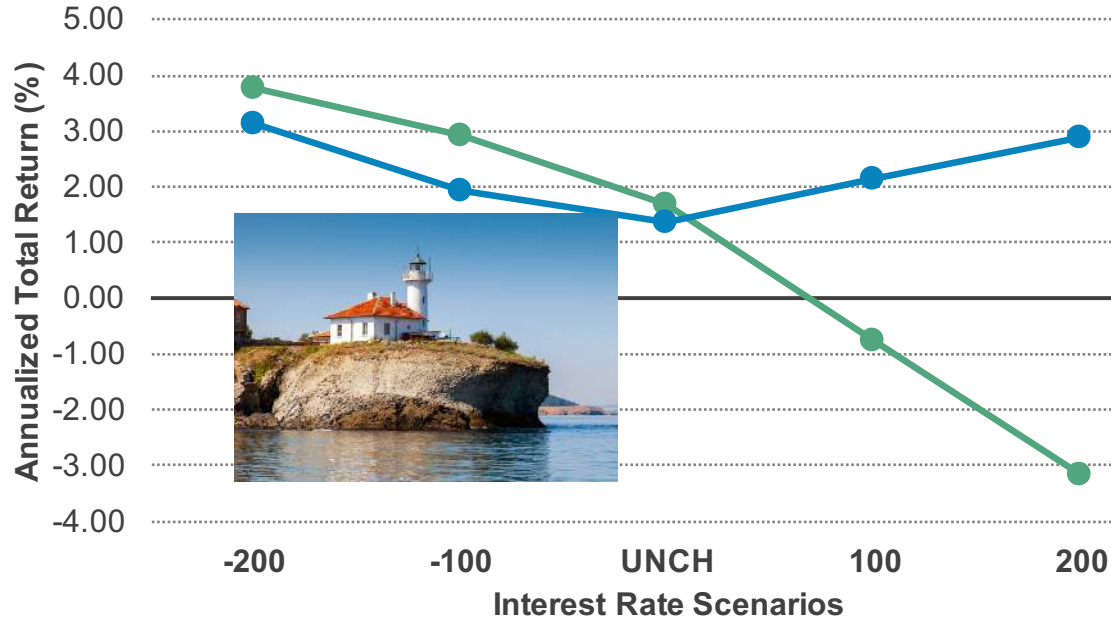
## Choice B – 70% “Non Core”

5NC6m (70%)	4.60%
IB Transaction (30%)	2.00%
WAVG Funding	3.82%
5/25 Loan (Rating 3-4)	7.00%
Marginal NIM	3.18%
Net Overhead	1.60%
<b>PTPP ROA</b>	<b>1.58%</b>

Is this better or is it worse?

# A House On a Rock

1-Year Horizon



Sector	-200	-100	Unch	100	200
5yr CRE + 1yr CD	3.77	2.92	1.70	-0.76	-3.16
5yr CRE + 5NC6m BCD	3.14	1.93	1.37	2.14	2.89

Source: Performance Trust Analytics

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# Another Alternative Choice for Capital Allocation

## “CORE” But not Durable

“Core” CD (70%)	4.29%
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WAVG Funding	3.60%
5/25 Loan (Rating 3-4)	7.00%
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## Durable but Not “CORE”

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## 100% Non Core Liabilities and Assets

5NC6m (100%)	4.60%
WAVG Funding	4.60%
Floating 0% RW Bond	5.85%
<b>Marginal NIM</b>	<b>1.25%</b>
Net Overhead	0.00%
<b>PTPP ROA</b>	<b>1.25%</b>

How much capital must be allocated to each choice?

# Another Alternative Choice for Capital Allocation

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11.5% regulatory capital

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9% regulatory capital

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**15.64%**  
**PTPP ROE**

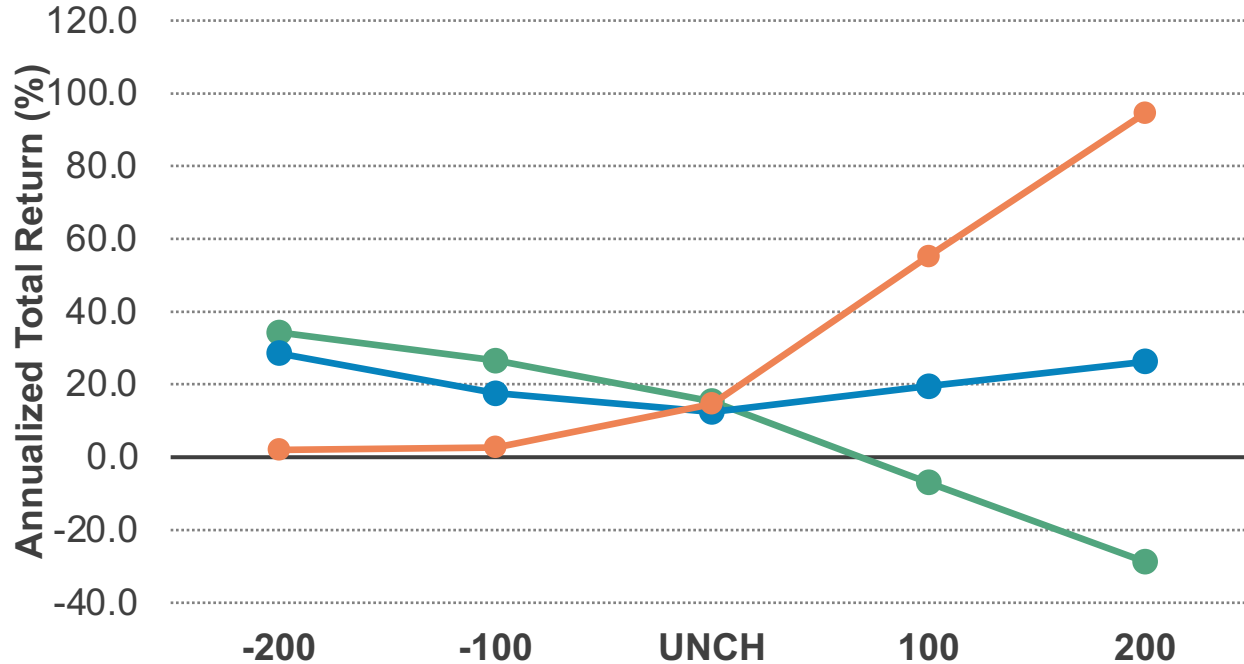
**13.73%**  
**PTPP ROE**

**13.88%**  
**PTPP ROE**

Source: Performance Trust Analytics

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## ROE Shapes- 1 Year Horizon

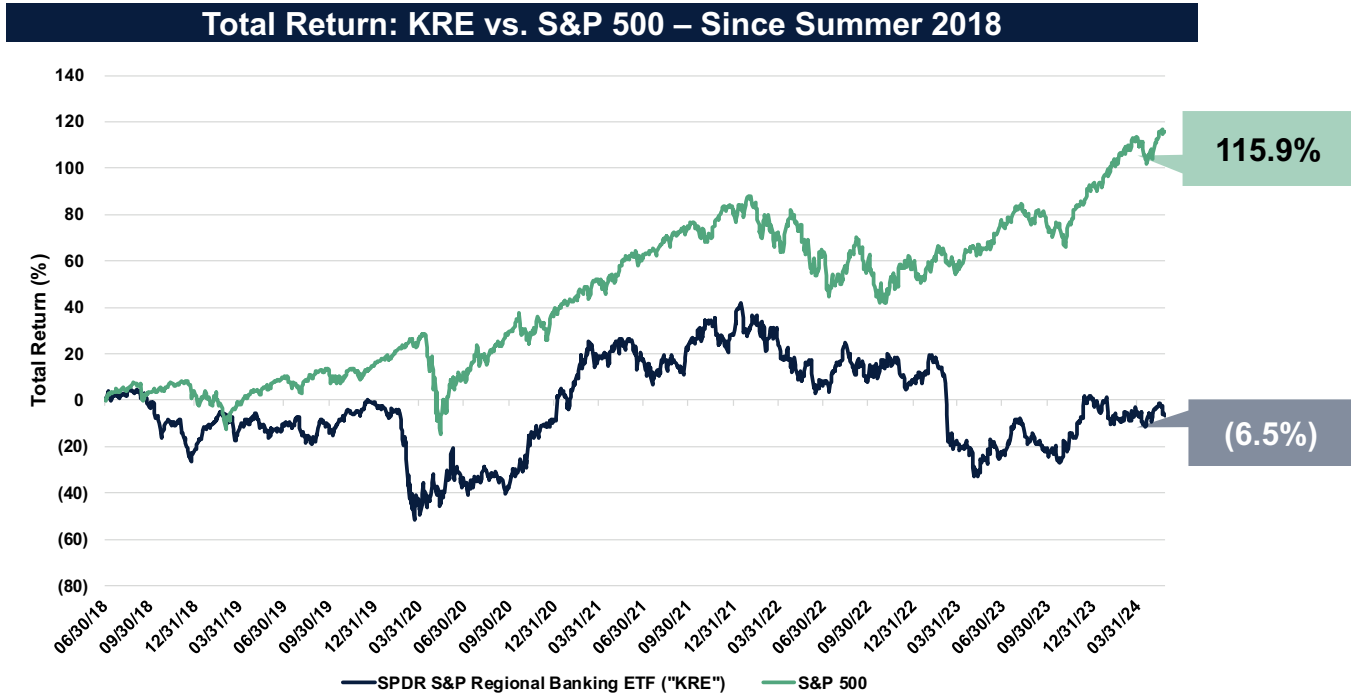


Sector	-200	-100	Unch	100	200
5yr CRE + 1yr CD	34.3	26.5	15.4	-6.9	-28.8
5yr CRE + 5NC6m BCD	28.5	17.6	12.4	19.5	26.2
Purchased Asset + 5NC6m BCD	2.0	2.7	14.6	55.2	94.6

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# The Industry Wide Problem?

- Bank balance sheets = Full of unlike cash flows
- Conventional tools = Full of Unknown Flaws
- Creates blind spots...
- ... which can lead stakeholders to accidentally pursue risk seeking strategy
- Often, with little or no additional reward for the risk-seeking activity

Persistent  
Pervasive  
**Powerful**



# **What Are Your Guiding Principles When Allocating Capital?**

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