

Breakout III:
**Community Bank
Debt Issuance: The
Credit Markets'
Updated View**

#AOBA23

Van Hesser
KBRA



Community Bank Debt Issuance: The Credit Markets' Updated View

Acquired or Be Acquired Conference 2023

Van Hesser
Senior Managing Director and Chief Strategist
January 2023

The following presentation is being provided to you on a confidential basis and may only be shared internally on a need-to-know basis and may not be otherwise disclosed to anyone outside your organization without the written permission of KBRA.

This Time is Different...

“The four most dangerous words in investing are ‘this time is different.’”

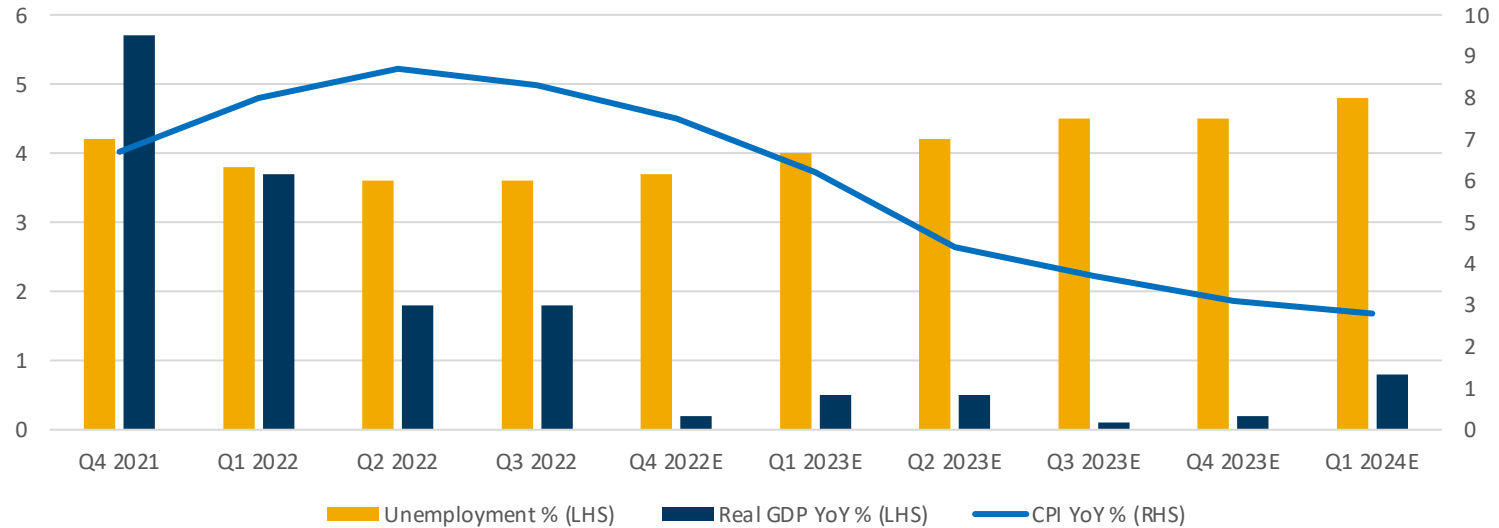
- *Sir John Templeton*

Epic Distortions	Three Shocks and a Correction
Everything rally— Stocks, bonds, real estate	Risk is repriced, Volatility surges
<ul style="list-style-type: none">Historically low interest ratesSurge in consumer income, savings, net worth; rapid recovery in jobsSurge in corp. earnings, marginsSuper low default rates	<ul style="list-style-type: none">Inflation—40-year highRussia’s war—Supply shockChina’s repositioning, lockdowns—Demand shock, supply shockCentral bank policy errors heighten recession risk



The Cost of Bringing Inflation Under Control

GDP vs Unemployment vs CPI



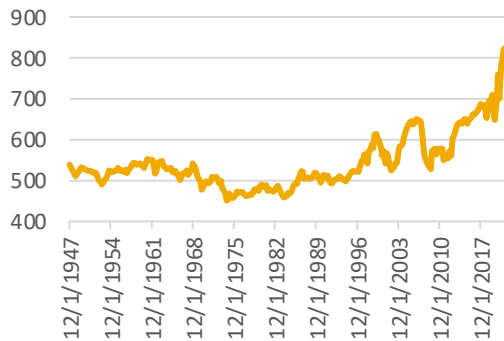
Source: Bloomberg, using consensus data



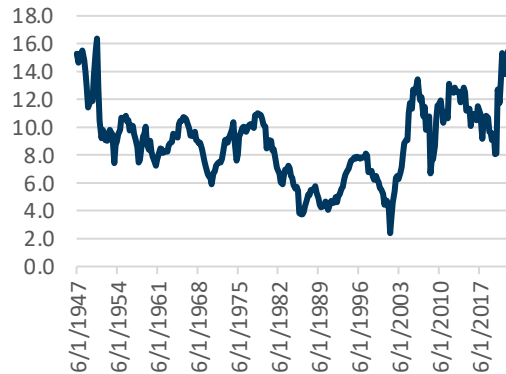
Strong Starting Point

Consumers: A Lot of Cushion

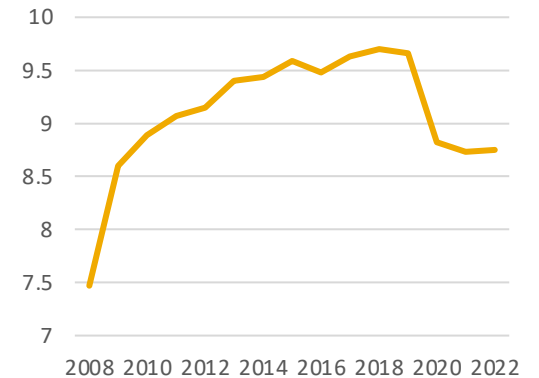
Household NW % Disp Inc



Businesses: Margins Best Since 1950



U.S. Bank Core Capital: Materially Better



Source: US Consensus Bureau, BEA, KBRA Financial Intelligence



Recession Contours

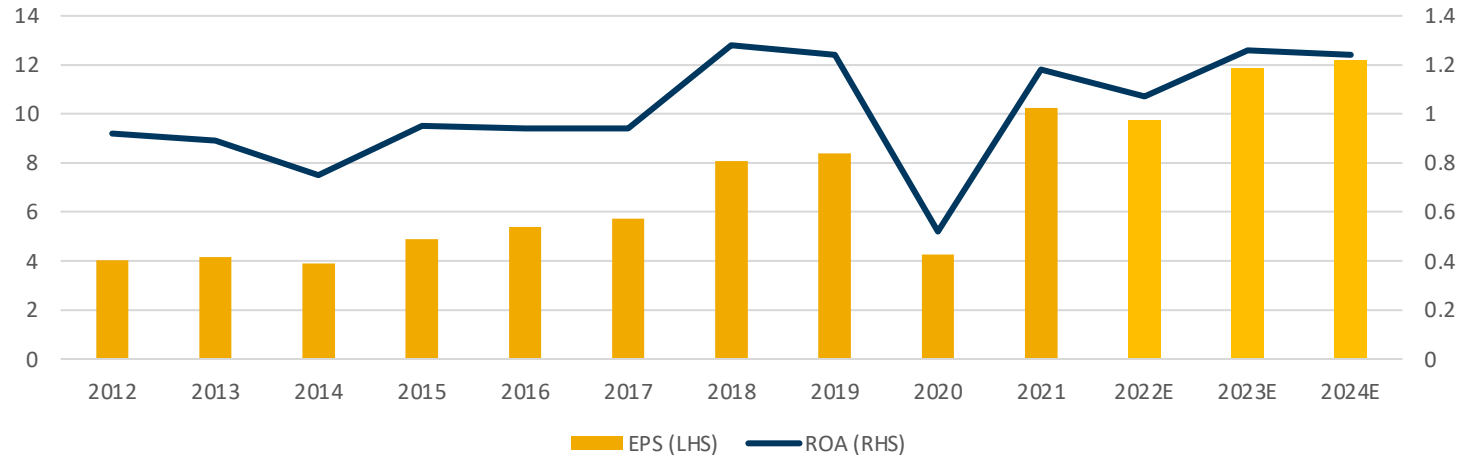
- Unique: Well-Telegraphed
- Problem is well defined, Solution is well defined
- Financial system is sound
- Consumers, businesses well positioned to withstand downturn



- US:
- Terminal rate ~ 5%
 - Unemployment 5% not 10%
 - Earnings decline 10-20% not > 40%
 - HY default rate peak 6% not 12%
 - Duration: 10 months not 20

Banking Sector View: Modest Impact from Rising Loan Losses

Recession? What Recession???
KBW Regional Banking Index vs. ROA



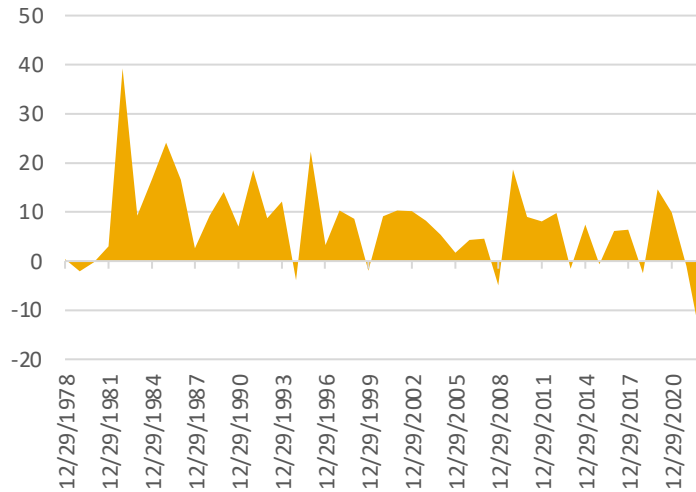
Source: N.B. EPS 2012-2022E Earnings before extra items; 2023#-24E Earnings as forecast



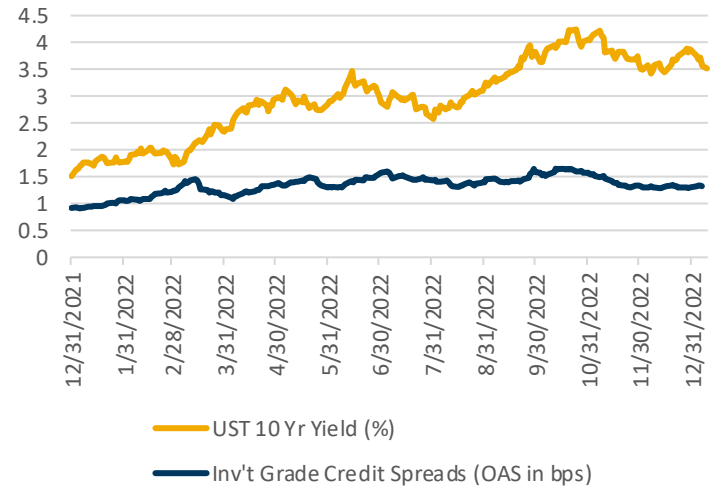
Bond Market: “The Worst in History,” But Not So Bad

2022’s Losses Mostly Related to Move in Rates, Credit Spreads Less Worrisome

IG Total Return (%)...



...Driven Largely by Increase in Rates



Bond Market: Entering a New Paradigm

Credit Story (Durability of Cash Flows) Matters Again

- Cost of capital normalizing
 - Poorly positioned business models don't work
 - Inappropriate capital structures don't work
- Harder to raise capital, harder to generate an acceptable return
 - Higher interest rates
 - Slower growth
 - Technological disruption
 - ESG sensitivities, costs
 - Heightened geopolitical uncertainty, costs
- Return of capitalism's creative destruction
- Expose/flush out zombies

Community Banks' Story Positions Well Against the New Paradigm

Risk/Reward Relationship of Well-Run Institutions Stands Up to Scrutiny

- Core deposit funding
- Focused business model
- Well diversified risks
- Attractive returns through the cycle without reaching
- ESG-Friendly

KBRA's Differentiated Approach to Rating Financial Institutions

■ Experienced analysts

- Senior team members average 25 years industry experience including buy side, sell side and rating agency experience

■ Holistic Viewpoints to Ratings

- A review of financial metrics and trends is merely the starting point for our rating assessments; qualitative factors, market strategy, risk management, liquidity management, and operating environment are essential elements in our rating determinations

■ Forward Looking

- We are informed by the past, but are not held hostage to it; in other words, we believe that institutions, and institutional oversight (management, boards, investors) evolve and learn from the past rather than the assumption that they are condemned to repeat it

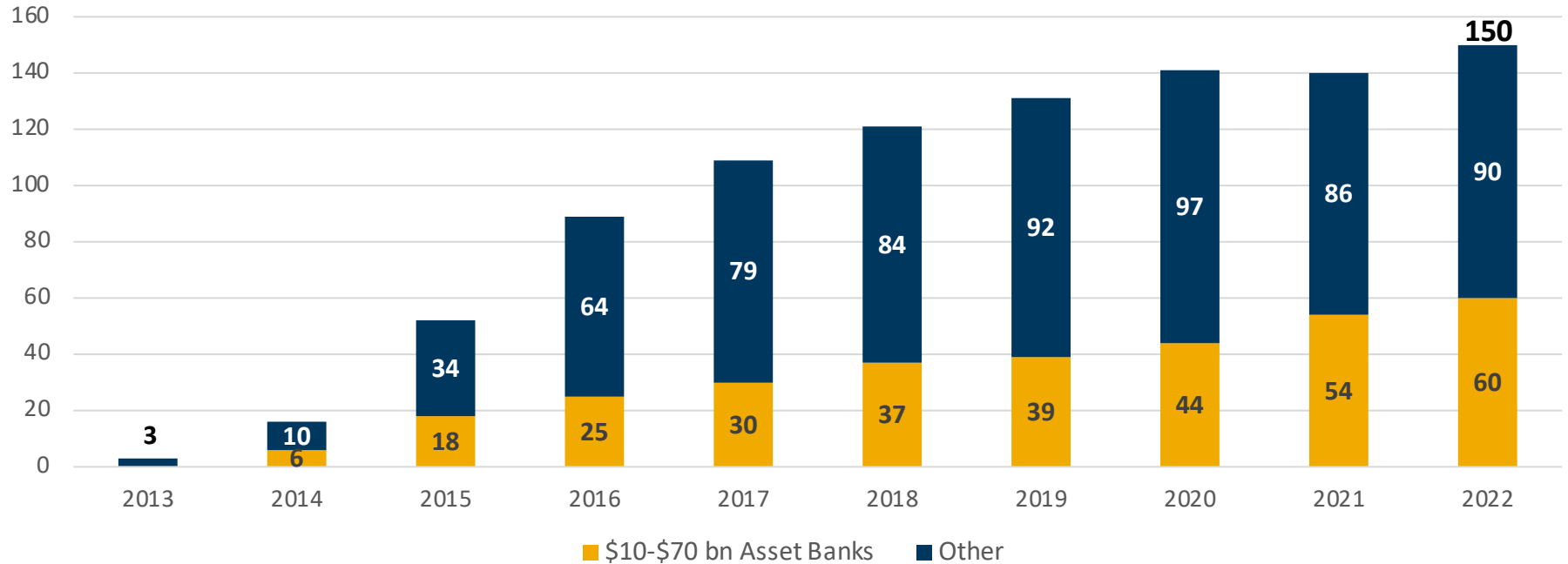
■ Specialists in complex, esoteric transactions

- We have built expertise in rating complex transactions that do not fit neatly into traditional rating agency boxes



KBRA Bank Ratings: Resonating With The Market

A Distinct Credit Rating Agency Alternative



Select KBRA Rated Community and Regional Bank Debt Issuance

Issuer	Assets (\$ Bn)	Level	Issue Date	Deal Size (\$ Mn)	Type	Fixed Cpn (%)	Floating 3M SOFR +	KBRA Rating
Univest Financial Corp.	6.9	HC Sub	11/7/2022	50	10NC5	7.250	3.098	BBB
Pathward Financial	6.7	HC Sub	9/23/2022	20	10NC5	6.625	3.140	BBB
Valley National	54.4	HC Sub	9/20/2022	150	10NC5	6.250	2.780	BBB
Flushing Financial	8.3	HC Sub	8/19/2022	65	10NC5	6.000	3.130	BBB-
QCR Holdings	7.4	HC Sub	8/18/2022	45	10NC5	5.500	2.790	BBB-
Bankwell	2.4	HC Sub	8/12/2022	34	10NC5	6.000	3.260	BBB-
Berkshire Hills	12.1	HC Sub	6/28/2022	100	10NC5	5.500	2.490	BBB-

Source: Company reports, KBRA



KBRA Team



Van Hesser
Chief Strategist

Van Hesser is Chief Strategist at Kroll Bond Rating Agency (KBRA) and previously served as a Senior Managing Director in the Financial Institutions and Corporates groups, where he leveraged over 30 years of experience as an investor, sell-side research analyst, investment banker, and regulator. During his professional career, Van was named to Institutional Investor Magazine's All-America Fixed Income Research Team rankings 10 times across three categories, and has served as an expert witness in important industry litigation. Prior to joining KBRA, Van was a managing director in the Financial Institutions Group at Wells Fargo Principal Investments. Previously, he worked at HSBC Securities for 10 years, most recently serving as global head of Credit Research and before that as a senior corporate bond research analyst covering U.S. banks, brokers, and specialty finance companies. He also served on HSBC's six-person Global Research Management Committee. Van also held senior sell-side corporate bond research roles covering financial institutions at Credit Suisse First Boston and Goldman Sachs, as well as a corporate finance position in Salomon Brothers' Financial Institutions Group. Van started his career as a bank examiner at the Federal Reserve Bank of New York. Van earned a B.S. from Fordham University and an MBA from Yale University.

KBRA Team



Joe Scott

Senior Managing Director, Financial Institutions

Joe Scott is a Senior Managing Director and leads the Financial Institutions Group at Kroll Bond Rating Agency (KBRA). Joe joined KBRA in 2015 and has over 30 years of financial industry experience, including ratings and research coverage of domestic and international banks, broker-dealers, alternative asset managers, and other financial services firms. Prior to joining KBRA, Joe worked at Fitch Ratings, Thomson Financial BankWatch, CoreStates Financial Corporation (now Wells Fargo), and Bank of Lancaster County. Within the banking sector, Joe has covered a full range of banking institutions, from community banks to major U.S. and international banks. In addition, Joe's career experience includes speaking at industry conferences and interacting with bank executives, institutional investors, risk managers, and the financial press. Joe earned a B.S. degree from Penn State University.



Ian Jaffe

Managing Director, Financial Institutions

Ian Jaffe is a Managing Director in the Financial Institutions Group at Kroll Bond Rating Agency. Ian brings 30 years of experience analyzing financial institutions, including four years at Fitch Ratings, followed by 16 years as a sell-side fixed income credit analyst at Bear Stearns & Co., J.P. Morgan Chase, and most recently, RBC Capital Markets. During his tenure on the sell-side, Ian was selected by Institutional Investor magazine six times—on two occasions under two different categories—to its All-America Fixed Income Research Team list. Ian received his B.A. from Franklin & Marshall College and an MBA from Fordham University.

KBRA Team



Shannon Servaes

Managing Director, Financial Institutions

Shannon Servaes is a Managing Director in the Financial Institutions Group at Kroll Bond Rating Agency (KBRA). Prior to joining KBRA, Shannon held a variety of investment management roles over the past 20 years, focusing on portfolio management, credit trading, and served as head of research at both a large institutional money manager and a life insurance company. Shannon began his career at the FDIC, where he examined financial institutions across the U.S. and served as an instructor for a joint FDIC/Federal Reserve Board bank analysis school in Washington D.C. Shannon earned an MBA from the Kellogg Graduate School of Management Northwestern University and holds the CPA designation and is a CFA charterholder.

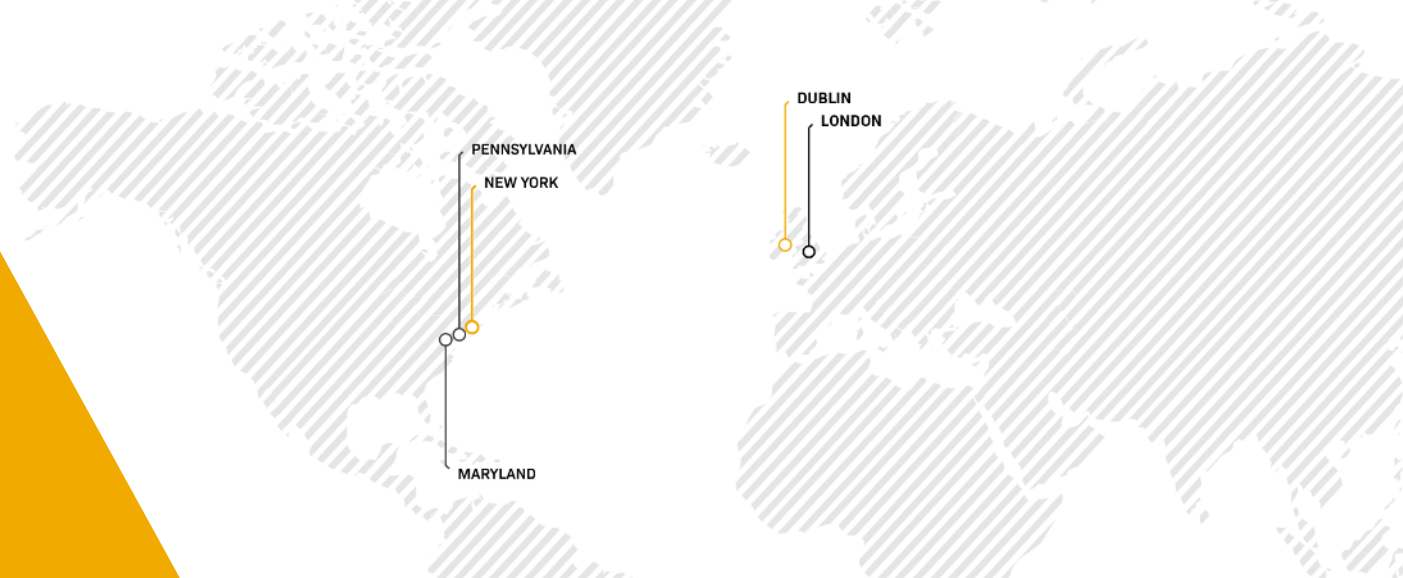


Brian Ropp

Managing Director, Financial Institutions

Brian Ropp is a Managing Director in KBRA's Financial Institutions Group. Brian joined the company in 2020 and has over 20 years of financial institutions experience, including as the CFO of a community bank in Maryland, a buy-side fixed income credit analyst at T. Rowe Price, and an international treasury analyst at York International. As CFO, he led the bank's conversion to a bank holding company, inaugural subordinated debt issuance, and transition to trading on the OTC Pink market. At T. Rowe Price, Brian analyzed U.S. regional and trust banks, Canadian banks, and credit card companies during the global financial crisis. Brian holds an MBA from the University of Chicago and a B.S. from Mount St. Mary's University. He also holds a CPA designation in the state of Maryland. In addition, he is president of the Rotary Club of Frederick, and he has served on the boards of the Maryland School for the Blind and the Weinberg Center for the Arts.

Register for Access at [KBRA.com](https://www.kbra.com)



© Copyright 2023, Kroll Bond Rating Agency, LLC and/or its affiliates and licensors (together, “KBRA”). All rights reserved. All information contained herein is proprietary to KBRA and is protected by copyright and other intellectual property law, and none of such information may be copied or otherwise reproduced, further transmitted, redistributed, repackaged or resold, in whole or in part, by any person, without KBRA’s prior express written consent. Information, including any ratings, is licensed by KBRA under these conditions. Misappropriation or misuse of KBRA information may cause serious damage to KBRA for which money damages may not constitute a sufficient remedy; KBRA shall have the right to obtain an injunction or other equitable relief in addition to any other remedies. The statements contained herein are based solely upon the opinions of KBRA and the data and information available to the authors at the time of publication. All information contained herein is obtained by KBRA from sources believed by it to be accurate and reliable; however, all information, including any ratings, is provided “AS IS”. No warranty, express or implied, as to the accuracy, timeliness, completeness, merchantability, or fitness for any particular purpose of any rating or other opinion or information is given or made by KBRA. Under no circumstances shall KBRA have any liability resulting from the use of any such information, including without limitation, for any indirect, special, consequential, incidental or compensatory damages whatsoever (including without limitation, loss of profits, revenue or goodwill), even if KBRA is advised of the possibility of such damages. The credit ratings, if any, and analysis constituting part of the information contained herein are, and must be construed solely as, statements of opinion and not statements of fact or recommendations to purchase, sell or hold any securities. KBRA receives compensation for its rating activities from issuers, insurers, guarantors and/or underwriters of debt securities for assigning ratings and from subscribers to its website. Please read KBRA’s full disclaimers and terms of use at www.kbra.com.

Kroll Bond Rating Agency, LLC is not affiliated with Kroll, Inc., Kroll Associates, Inc., Kroll OnTrack, Inc. or their affiliated businesses.