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Funding Strategies in 2019

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Tactics vs Strategy

TODAY

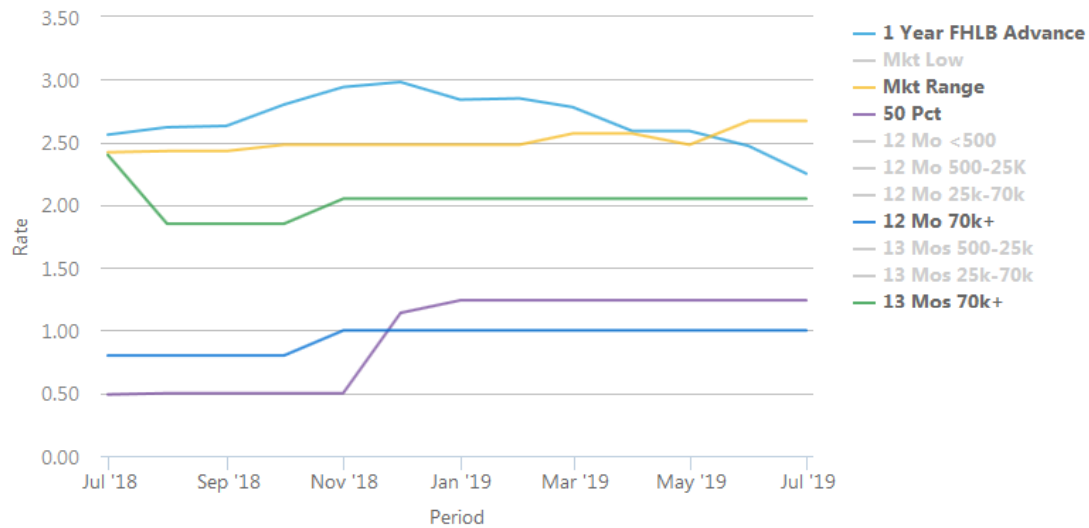
- Current rate environment has retail rates above wholesale rates!
- Average costs are rising, marginal costs are even worse.
- What loan yields will I be funding in 2020?

LONG TERM

- What are my potential sources of deposit growth?
- Non-maturity deposits are more valuable. Are we getting them?
- How do you compete with Big 6 banks and fintechs?

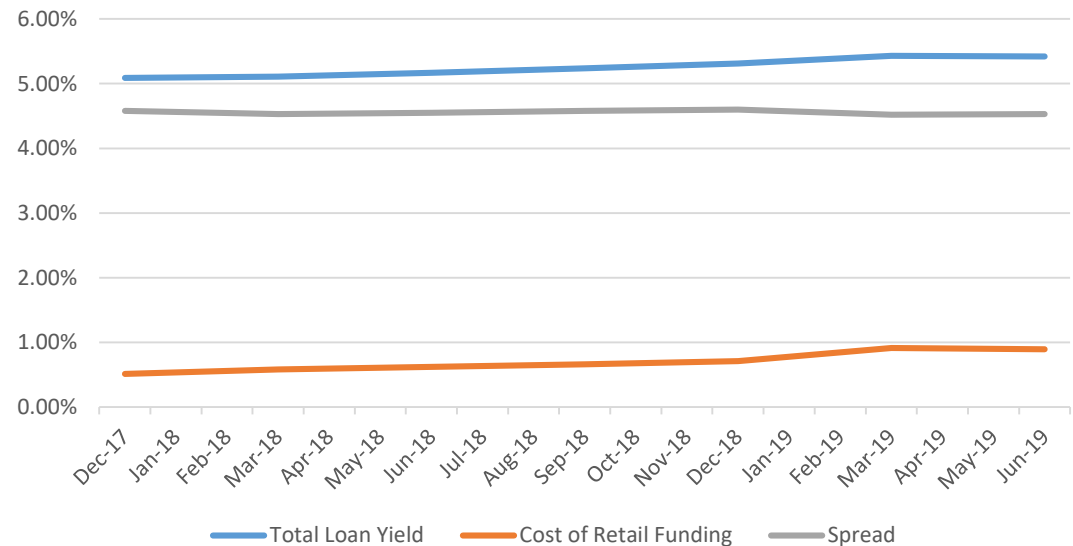
Current Environment

Rate Trends by Sector - 10-15 Month CD



Farin iPrice chart showing wholesale (blue), market top (yellow), market median (purple), and high tier institution rates.

Insured Commercial Banks \$300mm-\$1b



UBPR data showing cost of funds going from 0.51% to 0.90% in past 18 months.

Marginal Cost in CDs

Marginal Cost Analysis

Name: Top of Market Special

Date: 7/31/2019

Rate Env (bp): 0

Summary

| | Balance | Expense | Cost | BnchMk | Spread |
|---------------|---------|---------|--------|--------|---------|
| Strategy 1 | 9,900 | 79 | 0.800% | 2.300% | 1.500% |
| Strategy 2 | 11,500 | 134 | 1.169% | 2.300% | 1.131% |
| Marginal Cost | 1,600 | 55 | 3.450% | 2.300% | -1.150% |

| Current | | | | | Strategy 1 | | | | | Strategy 2 | | | | |
|----------------------|------|--------------|------------|---------|------------|----------------------------------|-------------|--------------|---------|------------|--------------------------------|-------------|--------------|---------|
| | | | | | Notes: | Continue to lose 10% of balances | | | | Notes: | Price special at top of market | | | |
| Accounts | Term | Current Rate | Maturities | Decay % | New Rate | Beta | Retention % | Retention \$ | Expense | New Rate | Beta | Retention % | Retention \$ | Expense |
| | | 0.800% | 11,000 | 0.0% | 0.800% | | | 9,900 | 79 | 1.169% | | | 11,500 | 134 |
| 12 Mo CD - 1K | 12 | 0.400% | 1,000 | | 0.400% | 0.00 | 90.0% | 900 | 4 | 0.400% | 0.00 | 80.0% | 800 | 3 |
| 12 Mo CD - 25k | 12 | 0.600% | 2,000 | | 0.600% | 0.00 | 90.0% | 1,800 | 11 | 0.600% | 0.00 | 80.0% | 1,600 | 10 |
| 12 Mo CD - 100K | 12 | 0.900% | 8,000 | | 0.900% | 0.00 | 90.0% | 7,200 | 65 | 0.900% | 0.00 | 80.0% | 6,400 | 58 |
| 13 Mo Special - 25K | 13 | | | | 0.000% | 1.00 | 0.0% | 0 | | 2.000% | 4.00 | 100.0% | 700 | 14 |
| 13 Mo Special - 150K | 13 | | | | 0.000% | 1.00 | 0.0% | 0 | | 2.500% | 5.00 | 100.0% | 2,000 | 50 |

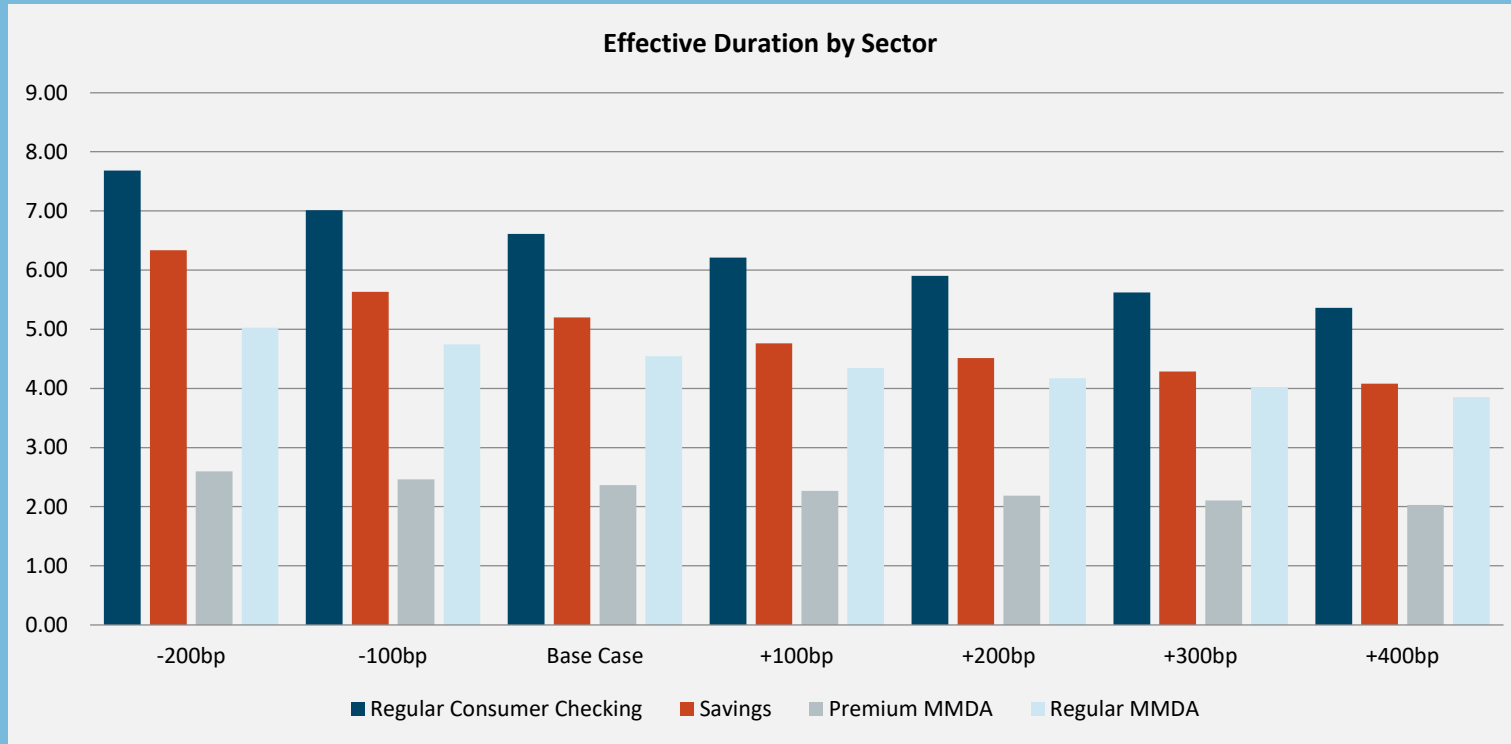
This demonstrates the real cost of pricing a CD special at the top of market to retain/grow balances. In this case if I grow balances by 5% and "only" lose 20% of my current maturing balances to the special, my actual cost is 3.45%

Planning for 2020

1. Review your overall asset growth and capital **PLAN and PRIORITIES**
2. Determine expected **FUNDING NEEDS**
3. Determine expected **ORGANIC** growth by sector.
4. Build **FUNDING STRATEGY** by sector.
5. Then **MONITOR** and **ADJUST** as you go.
6. ACT NOW!



Value of Core Deposits



- The economic value of retail deposits is reflected in your institution EVE measures.
- Effective duration measures the hedging power of deposit categories (higher is better).
- With effective pricing and segmentation, non-maturity categories provide much better cost protection.
- **But, it is more time consuming to attract and grow these balances!**

FUNDING STRATEGY

- Where is deposit growth going to originate from?
Market share / New markets / Acquisition
- How do I retain the existing depositors?
Can I do it at a reasonable cost?
Have I segmented my existing customer base?
- Who are my future depositors?
What product features do I need that maybe I don't have?
What are the demographic trends – how do I find those depositors?
Who am I competing with?

Which Would You Like First?

- Incomes and savings rates are up, highest since 2013 and well above pre-crisis levels. You have access to more liquidity.
- Majority of consumers who use electronic banking still prefer to open an account in person.
 - J.D. Power survey of electronic banking trends in 2018
- Large bank market share growth is not universal.



Other News *

- The 10 largest banks increased share of deposits from 39% to 48% since 2009.
- The Big 6 banks have benefited from improved customer satisfaction among customers **under age 40** in recent years and, in 2019, attain higher satisfaction scores than regional and midsize banks. This demographic gives the Big 6 banks the highest scores for convenience; ATMs; mobile and online banking; innovation; and financial advice. However, the smaller banks recognize the strategic importance of remaining competitive in digital.
- 4% of consumers shifted primary accounts to a new institution – the lowest level since measurement began 10 years ago.
- Customers are staying because of convenience, not trust.

Your challenge – Finding a message while offering top tier convenience and offerings!

* All from J.D. Power 2019 U.S Retail Banking Satisfaction Study.

Thank You

Abrigo provides technology that community financial institutions use to manage risk and drive growth. Our solutions automate key processes – from anti-money laundering to fraud detection to lending and deposit solutions – empowering our customers by addressing their Enterprise Risk Management needs.

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