

Maryland Financial Bank Advisory Board Meeting

November 4, 2010

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Agenda

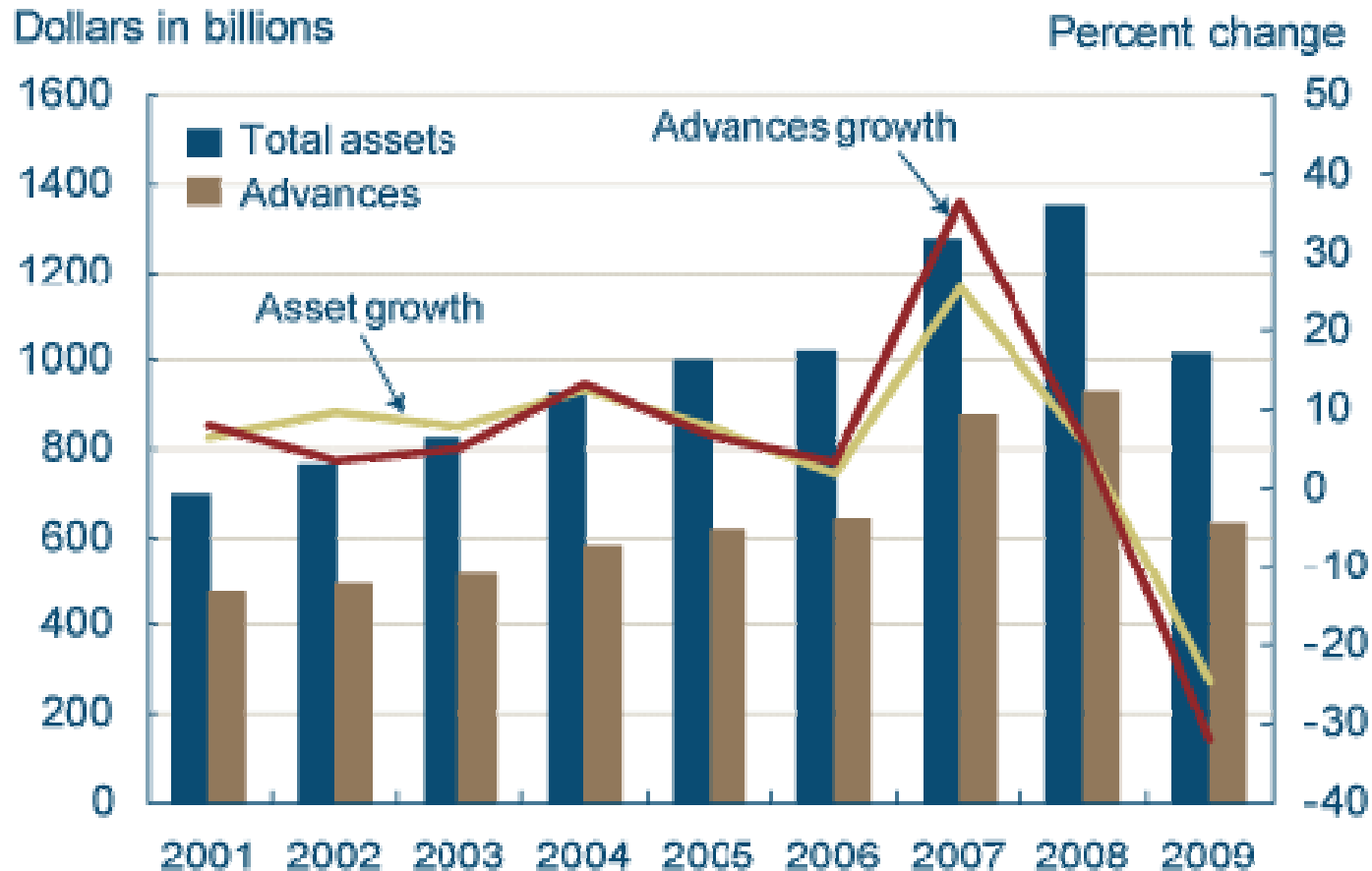


- Update on the FHLBank Atlanta
 - Past
 - Present and Beyond
- Membership Trends – State of Community Banking in the FHLBank Atlanta footprint
- Interest Rate Risk Management
 - Addressing Regulators Concerns
 - Liability Strategies in the Current Environment

FHLBank System Assets and Advances

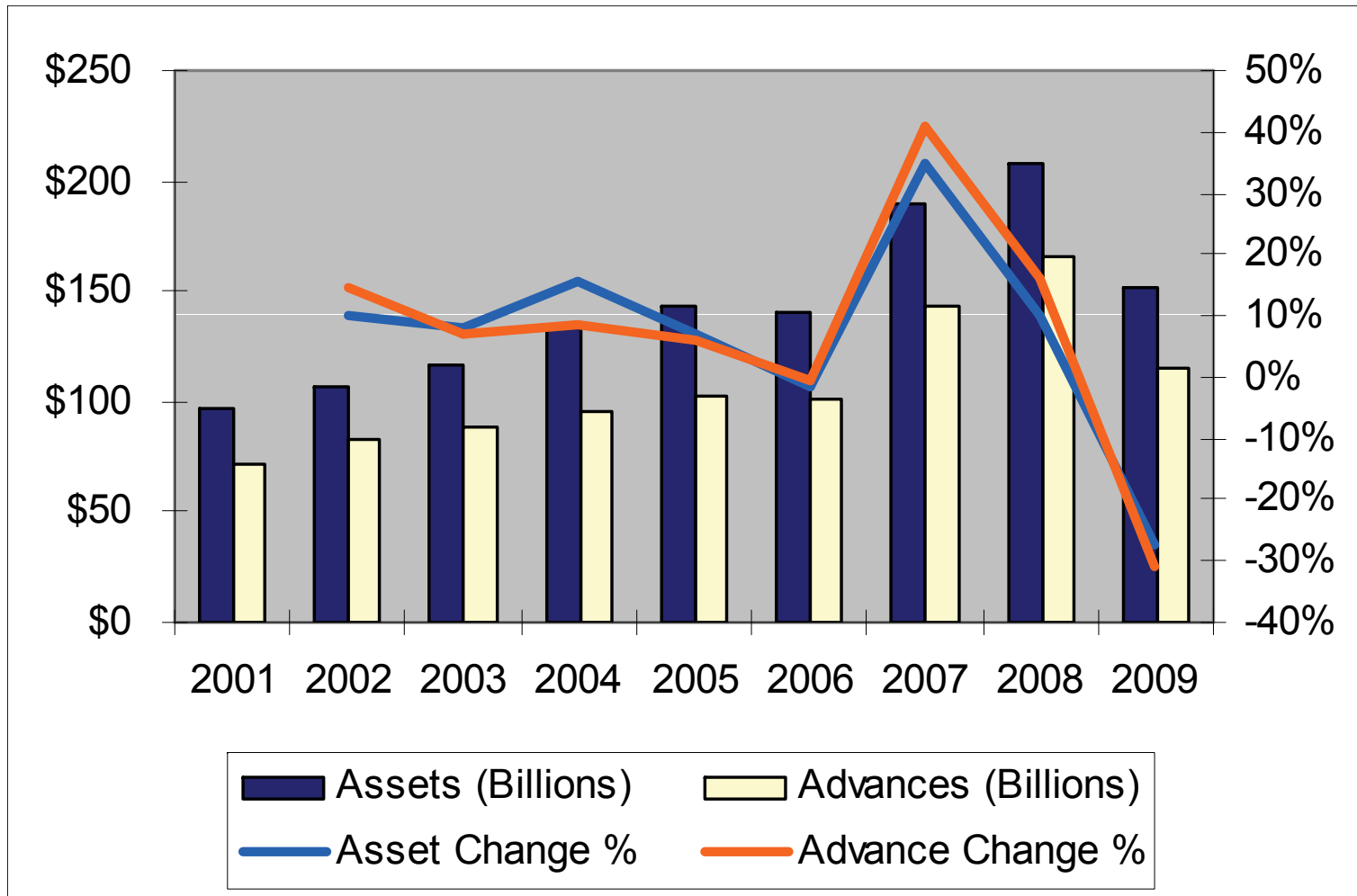


Federal Home Loan Bank: Assets and Advances



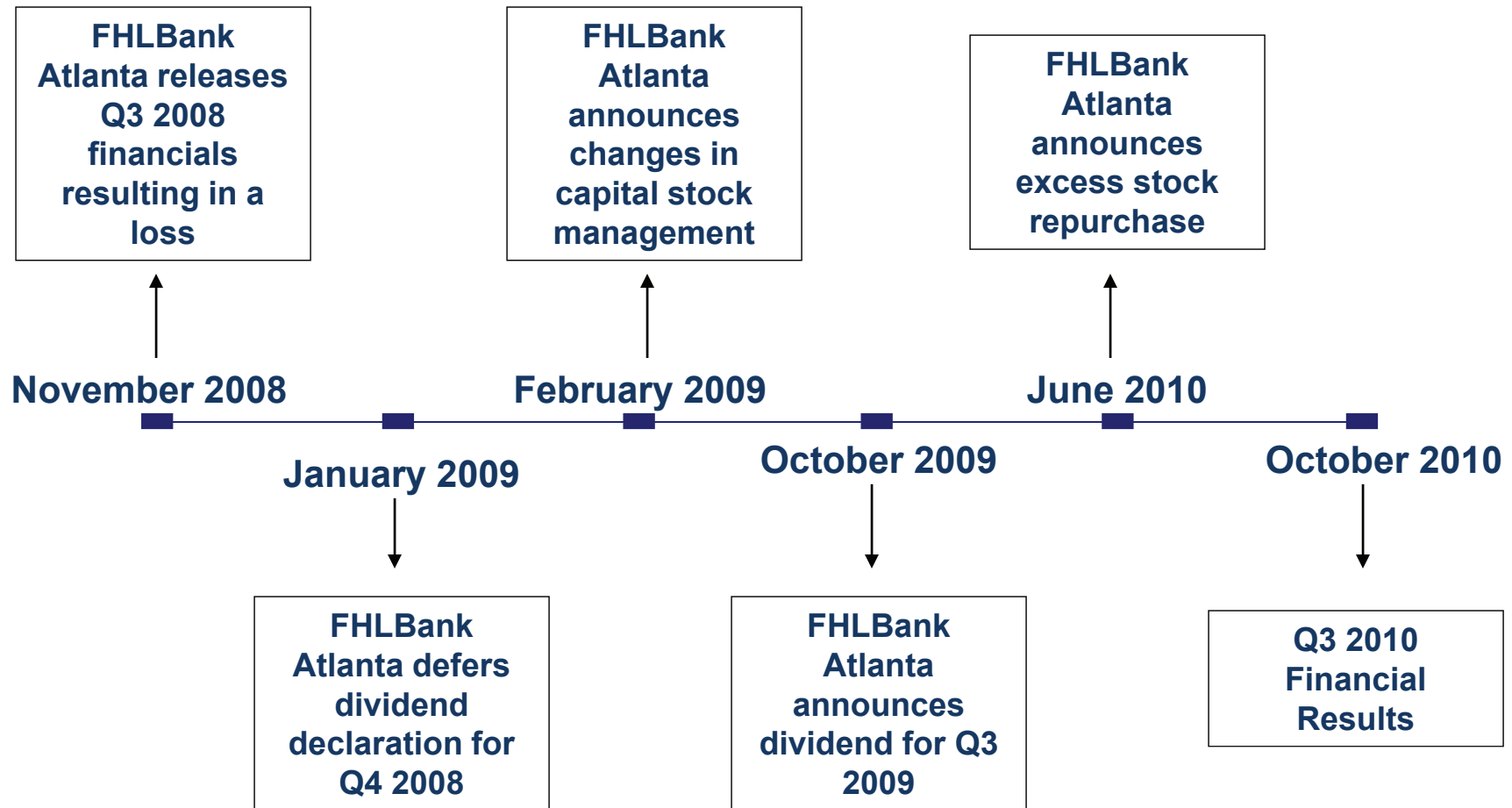
Source: "Federal Home Loan Bank System Annual Reports," 2000-2009.

FHLBank Atlanta Assets and Advances



Source: "Federal Home Loan Bank System Annual Reports," 2001-2009

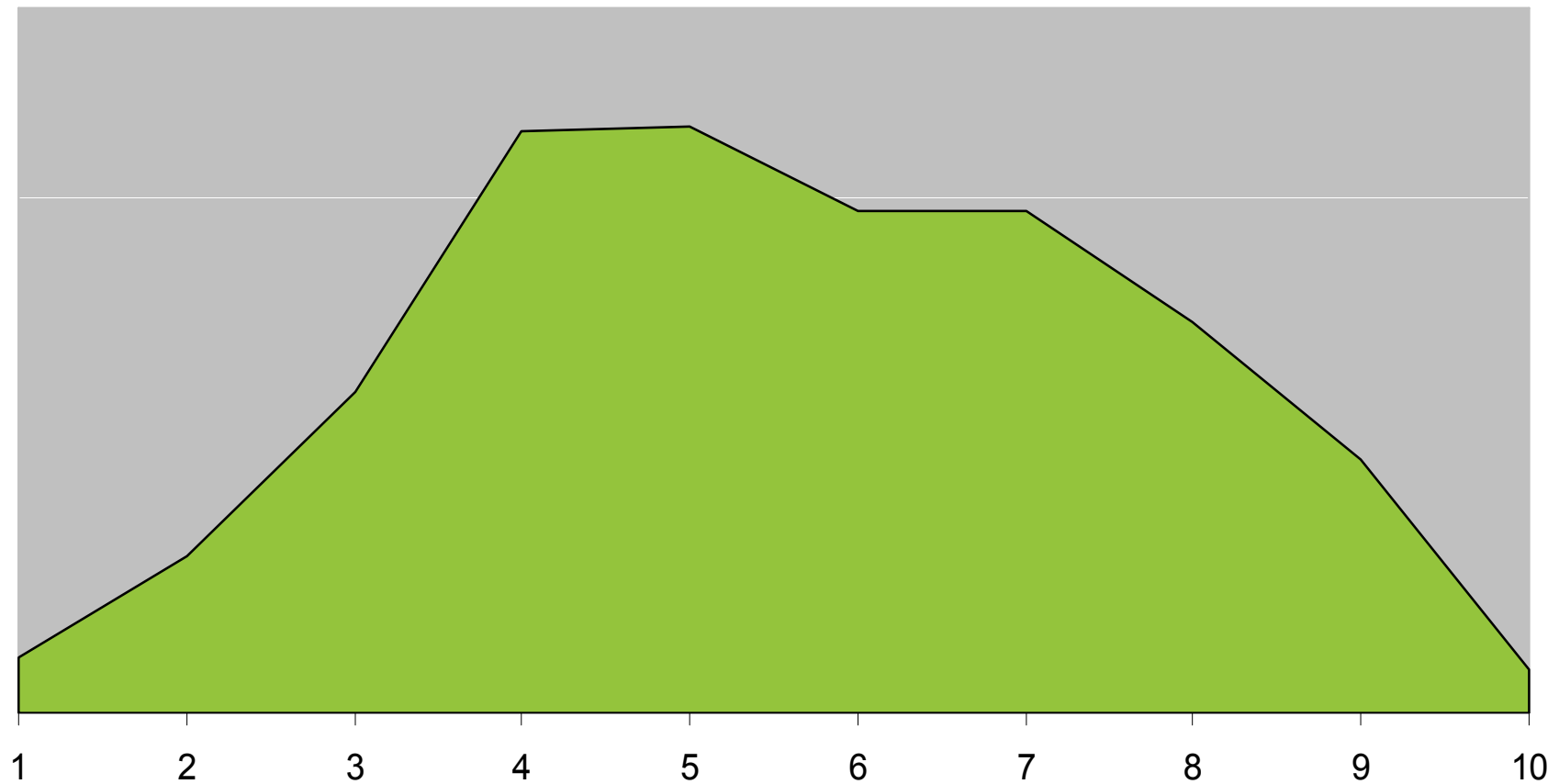
Timeline of Financial Milestones 2008-2010



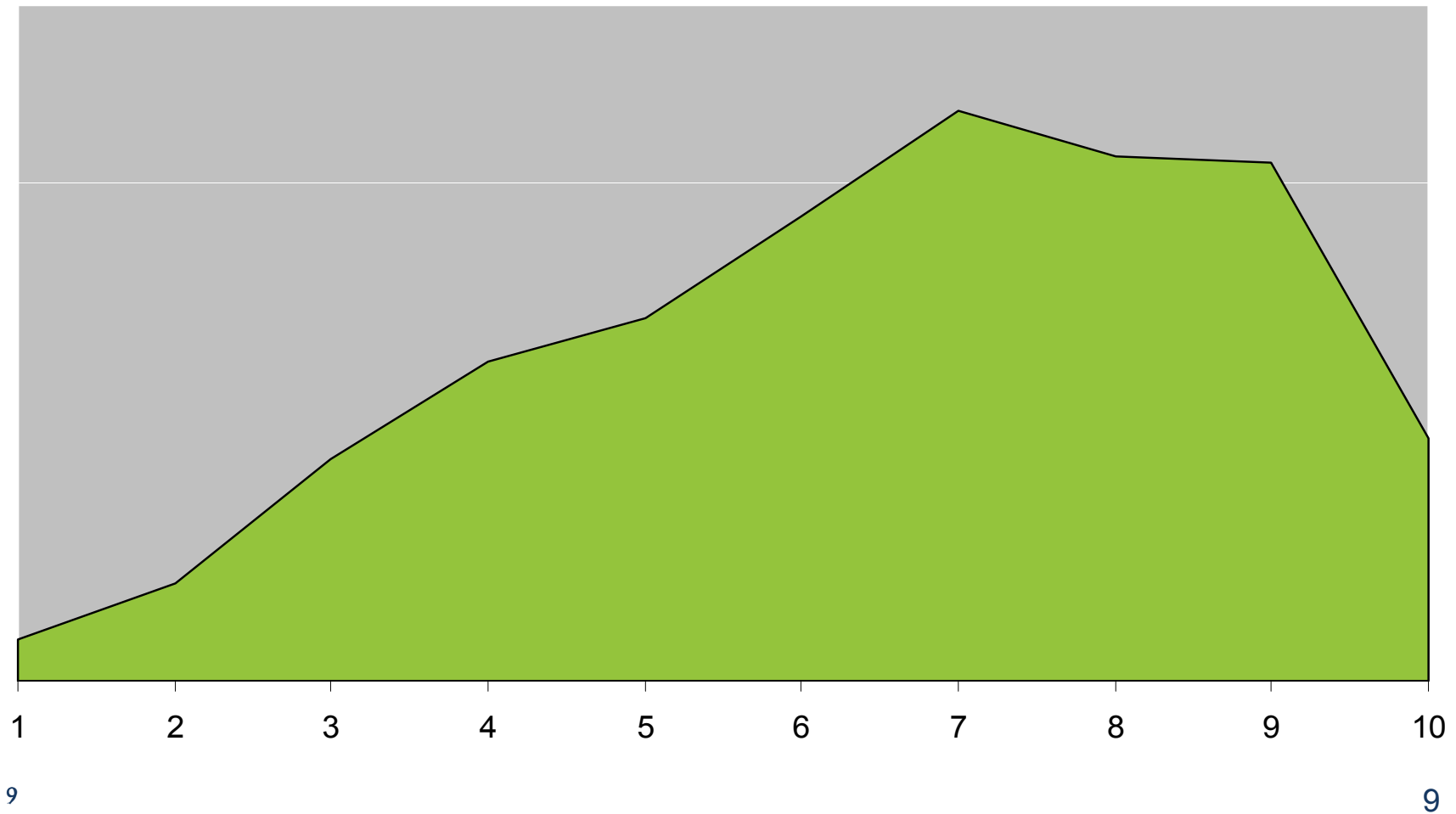
► Credit Risk Rating Model

- Model assigns a rating from 1 through 10 (with 1 being the healthiest rating)
 - Based upon increasing probability of default
 - Credit Analysts will review credit ratings each quarter
 - Utilizes 6 key factors
 - Slow Loans: 30+ and non-accruals / total assets
 - Core Capital: core capital / average total assets
 - ROA: 2 quarters net income / total assets
 - Liquidity: government & agencies / total assets
 - Risky Loans: non-residential loans / total assets
 - Asset Concentration: construction, CRE and C&I loans / total assets

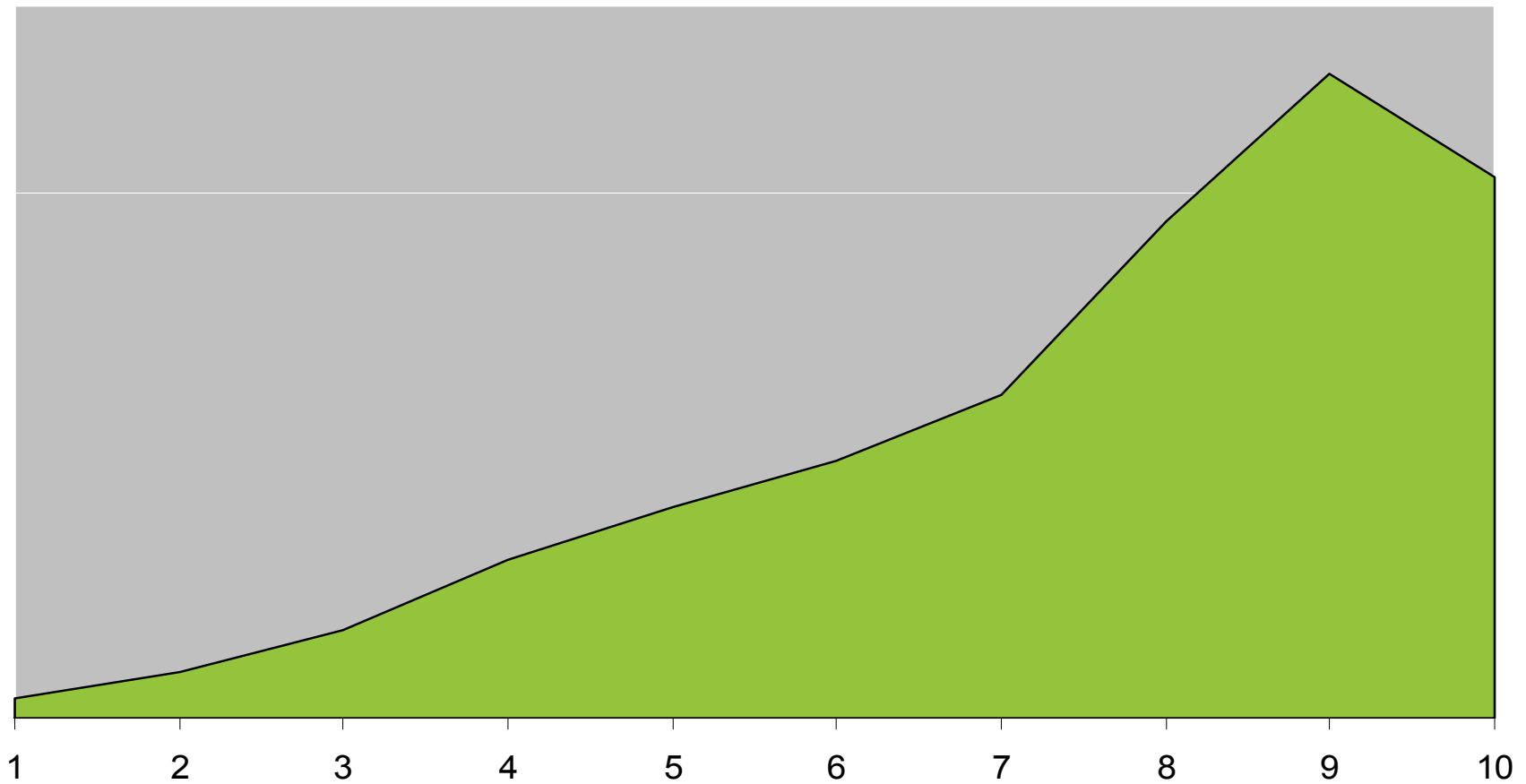
► 12/31/07 Credit Score Distributions



► 12/31/08 Credit Score Distributions



▶ 12/31/09 Credit Score Distributions



Strategic Liability Management

“Failure to maintain an adequate liquidity risk management process will be considered an unsafe and unsound practice.”

Liquidity Defined:

“A financial institution’s capacity to meet its cash and collateral obligations at reasonable cost.”

Liquidity Risk:

“Funding mismatches, market constraints on the ability to convert assets into cash or in accessing sources of funds, and contingent liquidity events.”

Interagency Policy Statement on Funding and Liquidity Risk Management, Federal Reserve Board of Governors, March 2010

Managing by Traditional Means

- Purchase liquid securities
- Wholesale Funding Options
 - Brokered
 - FHLB Advances
 - Correspondent lines
 - Repo's
- Core Deposits
 - Mind the franchise
 - Marginal cost considerations

- “In the current environment of historically low short-term interest rates, it is important for institutions to have robust processes for measuring and, where necessary, mitigating their exposure to potential increases in interest rates.”
- “Institutions are expected to have sound risk management practices in place to measure, monitor, and control IRR exposures.”

Joint Regulatory Advisory on Interest Rate Risk Management, January 6, 2010

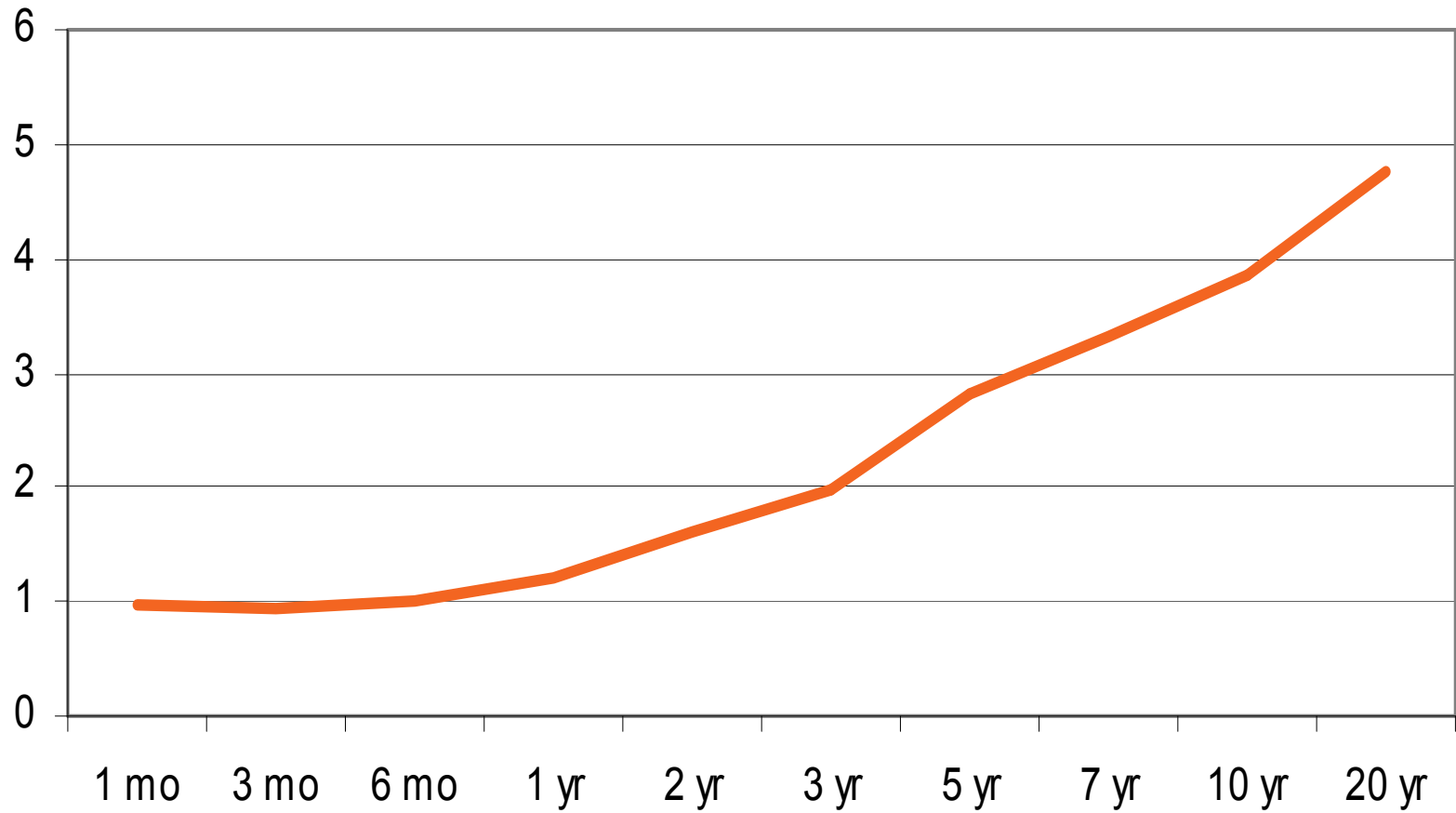
- Assets
- Liabilities
- Derivatives

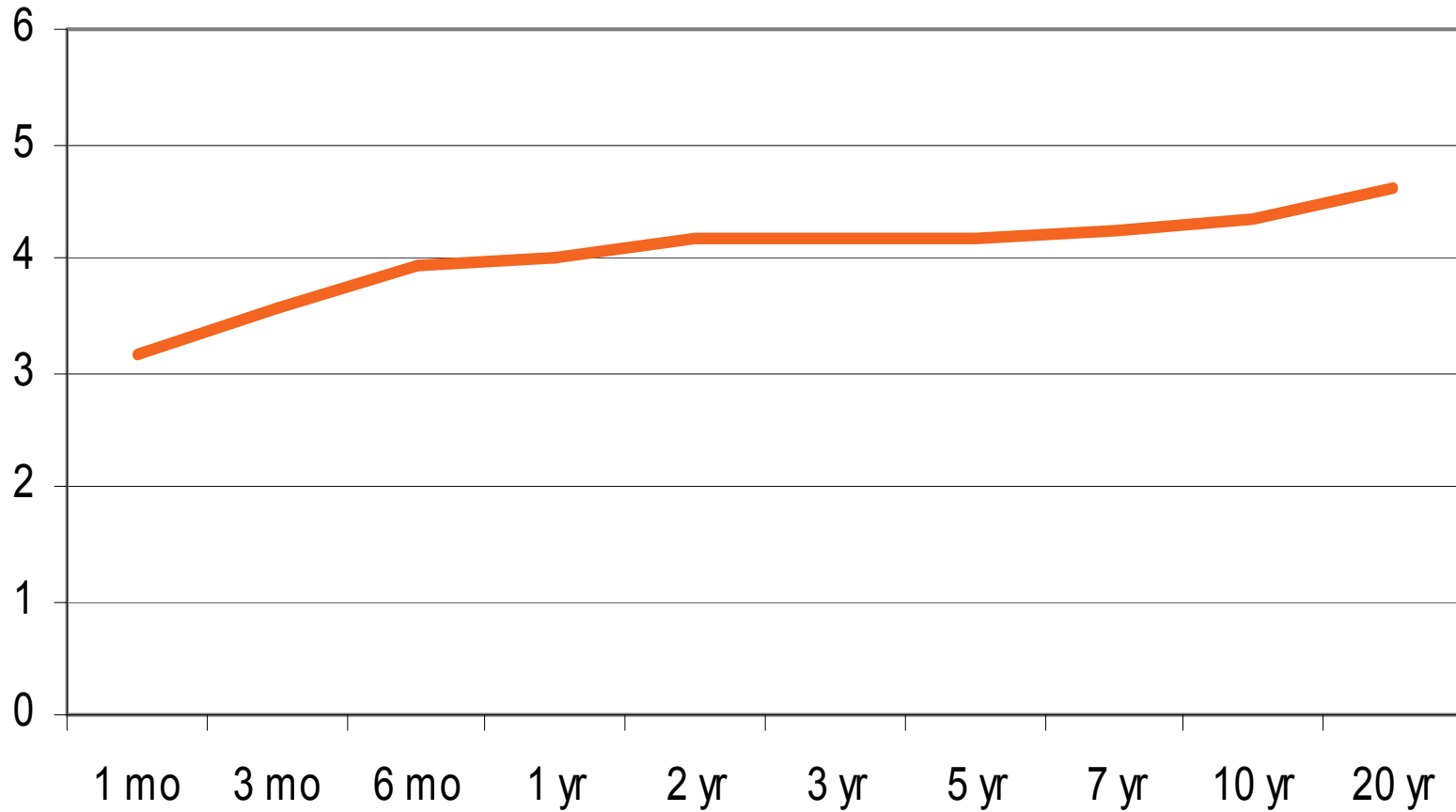
“In this challenging environment, funding longer-term assets with shorter-term liabilities can generate earnings, but also poses risks to an institution’s capital and earnings.”

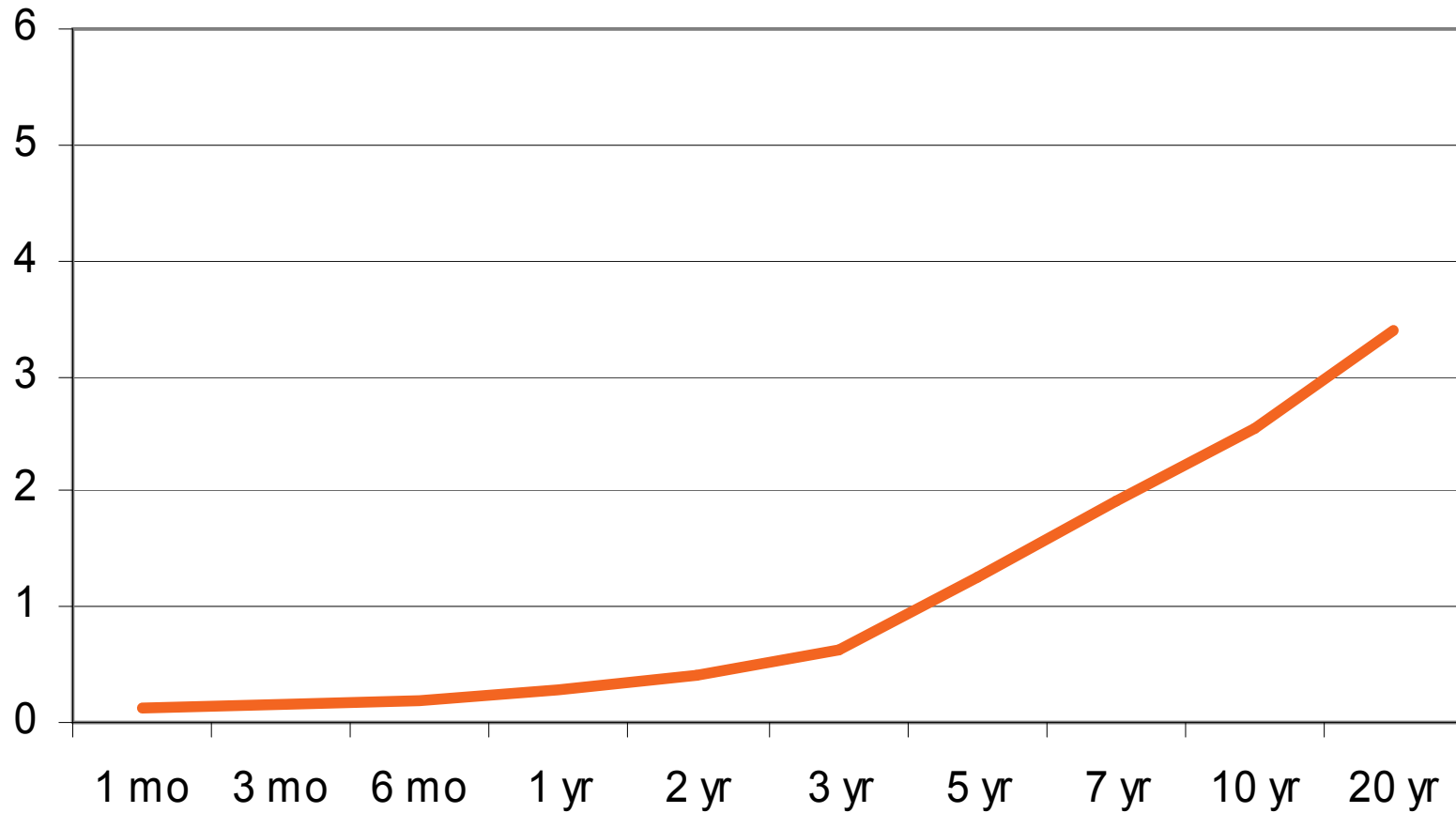
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Heightened Interest Rate Risk

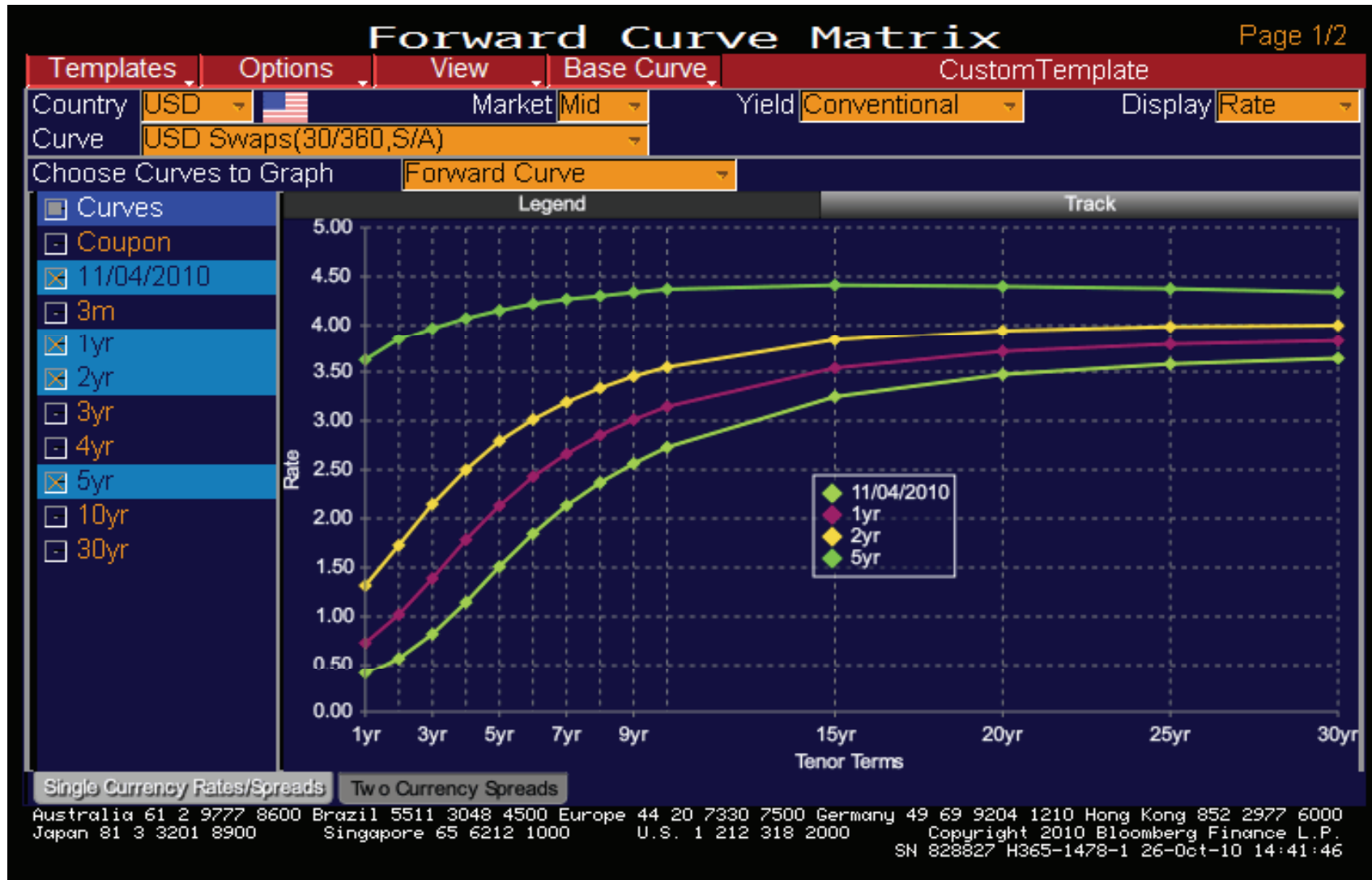
- Shorter duration liabilities
 - Volatile liabilities
- Longer duration assets
 - In-the-money loan floors
- Basis risk
- Current earnings pressure







Market Overview - Forward Curve



- Duration extension
- FRC Hybrid
 - Symmetrical prepay
 - Ladder
- Structure for additional protection
- Pay now or pay later
- Strategic non-core funding
 - Document?

- Term Retail Funding
 - Protect Franchise Value
 - Limited ability to extend
- Brokered Market
 - Increased Flexibility
 - Eliminates “cannibalization risks”
- FRC Hybrid
 - Availability of term
 - Restructure

- Pros
 - Can result in lower interest rate
 - Liability is extended in favorable rate environment
 - Avoids immediate income hit (with applicable accounting treatment)
- Cons
 - “Locks in” the negative NPV

Restructure Example

- \$10MM, 4.5% rate advance with (\$700M) NPV
- This equals 700 bp
- New 5-year advance
- $700/5 = 140\text{bp/year}$
- Current 5 year rate = 1.57%
- New advance rate = 2.97%

Enhanced Protection

- ARC with Cap
- FRC Hybrid with Cap
 - Corridor
 - Levered
 - Forward starting

3 Month LIBOR Cap Indications



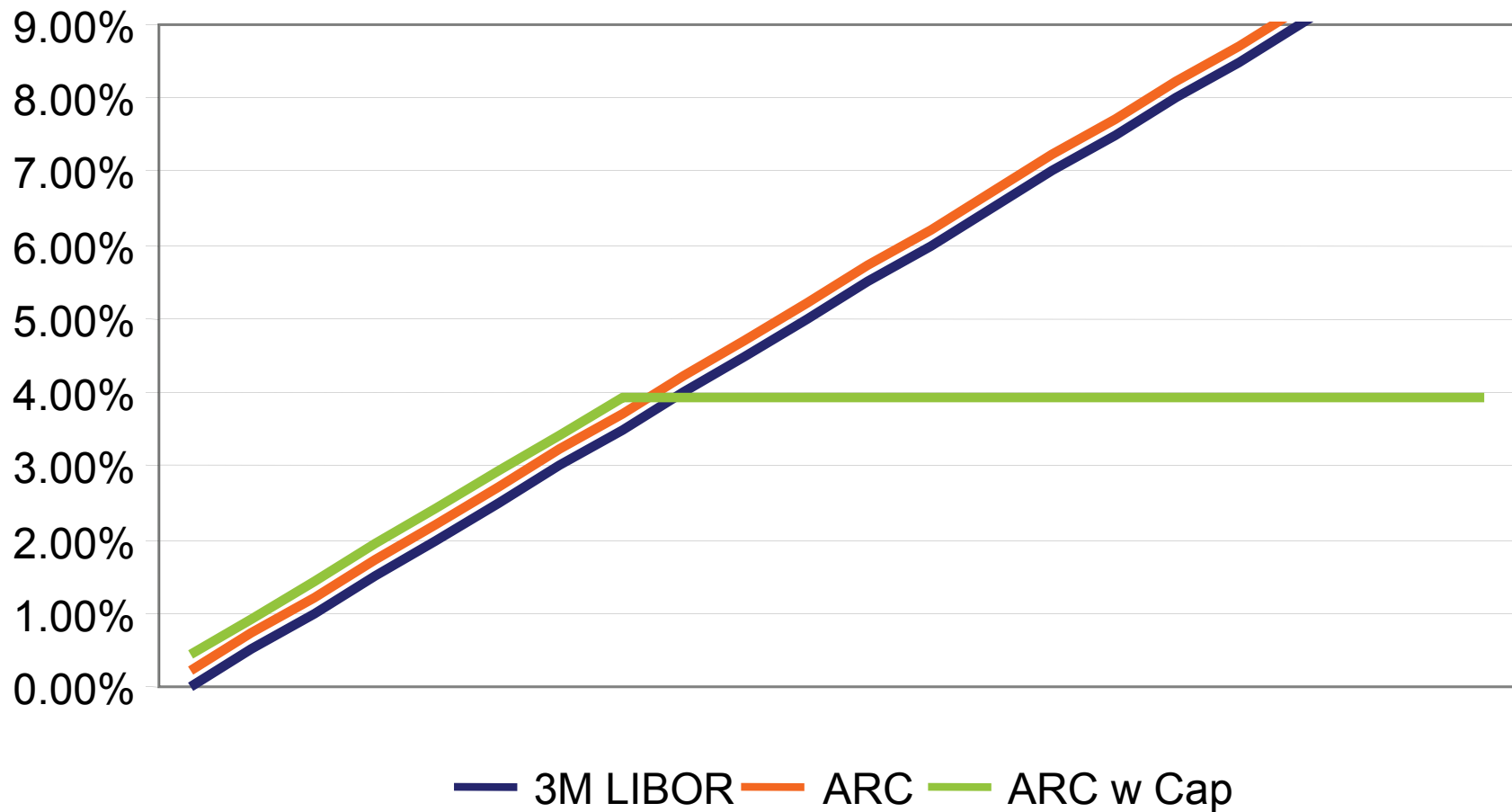
3 Month Libor Caps							
	1 yr	2 yr	3 yr	4 yr	5 yr	7 yr	10 yr
Strike	Running	Running	Running	Running	Running	Running	Running
2.00%	3.0	5.5	13.8	26.0	43.9	84.0	129.0
2.50%	2.9	4.2	10.7	19.9	33.9	67.3	106.9
3.00%	2.8	3.3	8.5	15.7	26.7	53.9	88.0
3.50%	2.6	2.7	7.0	12.7	21.4	43.4	72.3
4.00%	2.5	2.3	5.9	10.6	17.5	35.3	59.5
4.50%	2.4	1.9	5.1	8.9	14.6	29.1	49.4
5.00%	2.2	1.7	4.4	7.7	12.4	24.4	41.4
5.50%	2.1	1.5	3.9	6.7	10.7	20.7	35.3
6.00%	2.0	1.3	3.5	5.9	9.4	18.0	30.5
6.50%	1.9	1.2	3.1	5.3	8.3	15.8	26.7
7.00%	1.7	1.0	2.8	4.8	7.5	14.0	23.7
7.50%	1.6	0.9	2.6	4.3	6.8	12.6	21.4
Advance Rates	0.32	0.53	0.85	1.21	1.57	2.34	3.10

ARC with Cap

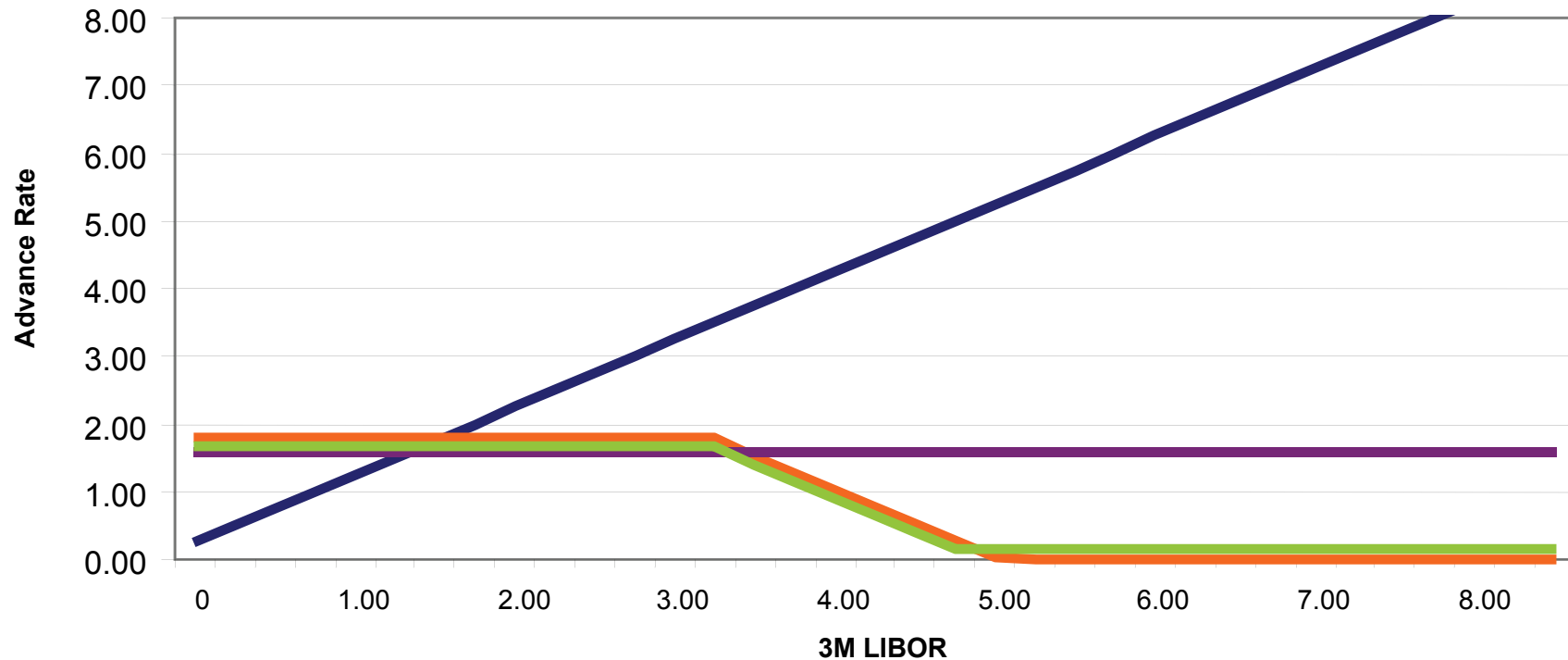
3-month LIBOR	.29%
5yr ARC2 Advance	.22%
Cost of Cap	<u>.21%</u>
Cost of Advance	.72%

Term	5 Years
Strike Index	3-Month LIBOR
Strike Rate	3.50%
Annual Cost	21 bps

ARC with Cap



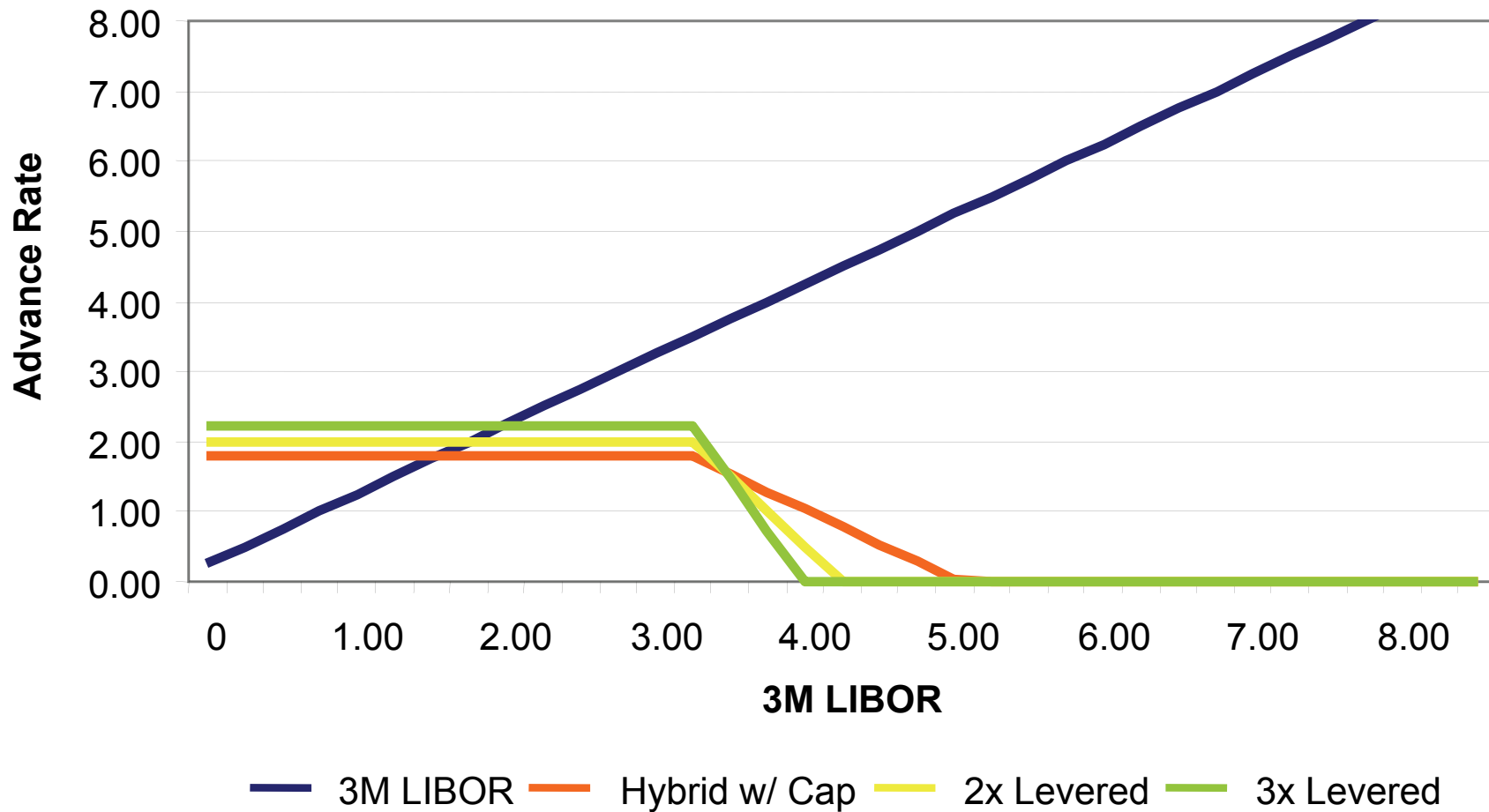
FRC Hybrid with Cap



— 3M LIBOR
 — Hybrid w/ Cap
 — FRC Hybrid
 — Cap Corridor

5 year Hybrid	1.57%
3.50% Cap	<u>.21%</u>
Advance Cost	1.78%
(Less 5% Cap)	<u>-.12%</u>
Corridor Cost	1.66%

FRC Hybrid with Levered Caps





Questions?

Sales and Trading