



Strategic Balance Sheet Management in 2020 and Beyond

FHLBank Atlanta Welcome and Overview

June 24, 2020



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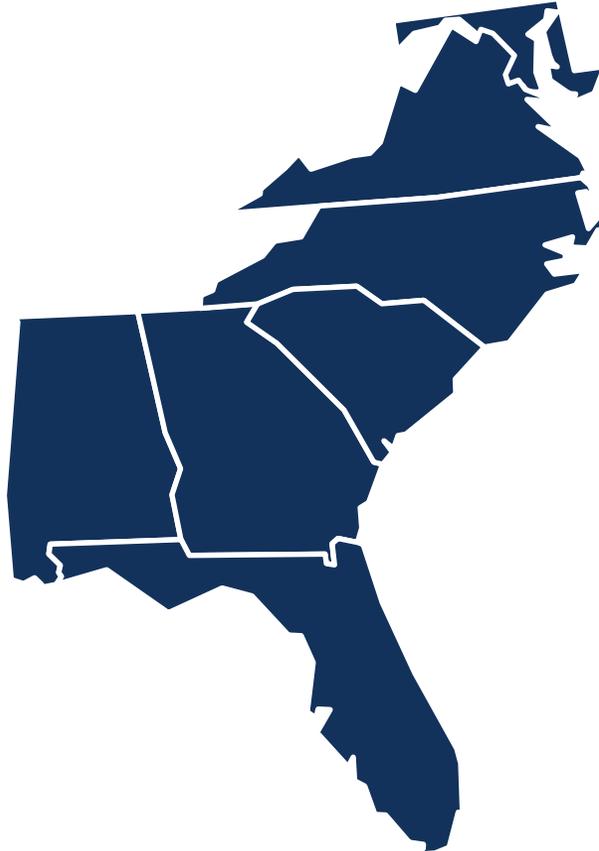
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- FHLBank Atlanta Overview
 - Financial Update
 - Products and Services
 - Advances vs. Brokered Deposits
 - Community Investment Program (CIP) and Economic Development Program (EDP)
- Darling Consulting Group
 - Balance Sheet Management Strategies for Unprecedented Times

FHLBank Atlanta Overview

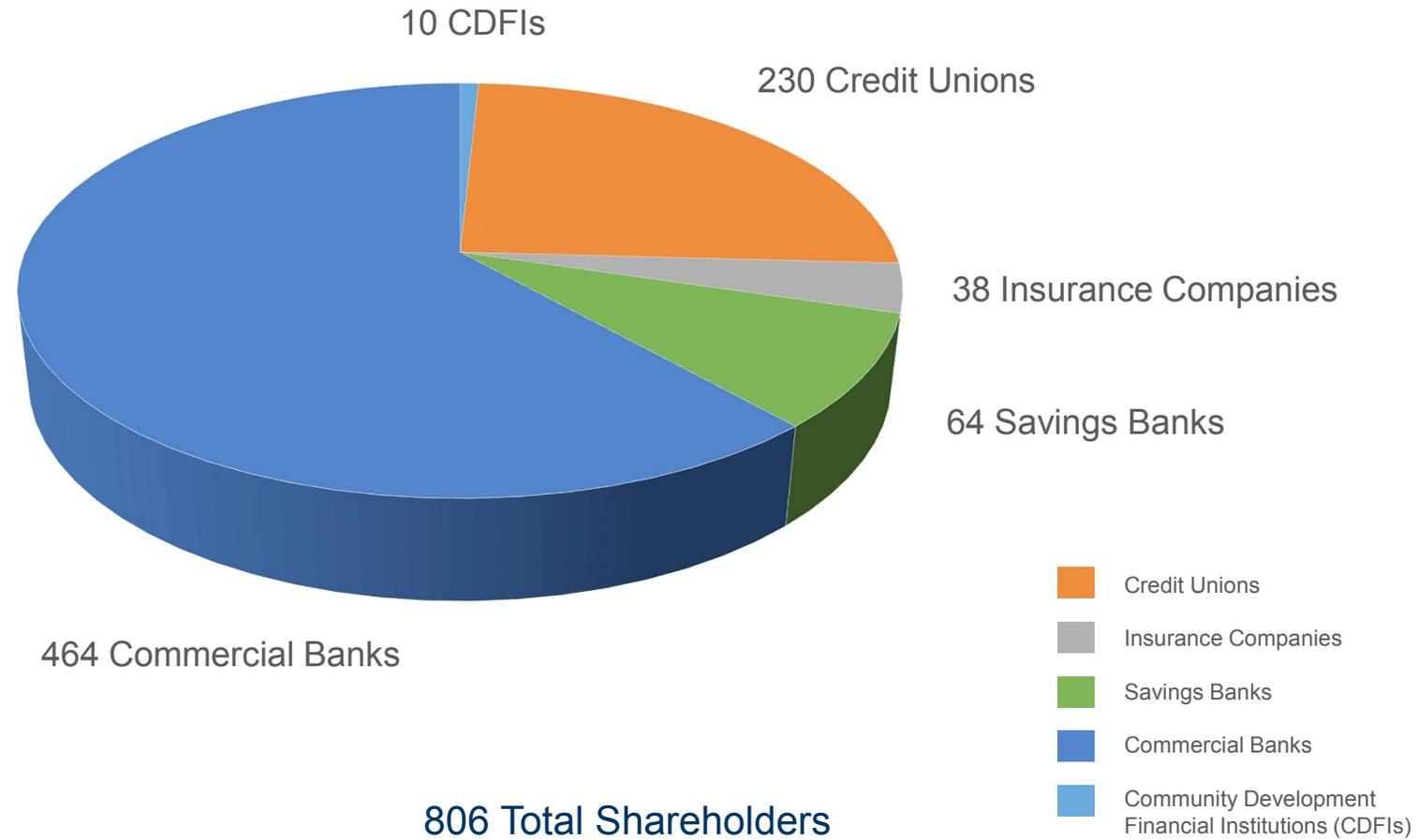
- Financial Update
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- Advances vs. Brokered Deposits
- CIP and EDP



- **Total Assets: \$189.4 billion**
- **Total Advances (loans): \$137 billion**
- **First Quarter Net Income: \$108 million**
- **Retained Earnings: \$2.2 billion**
- **First Quarter 2020 Dividend: 5.53%**
- **Total Membership: 806 institutions**

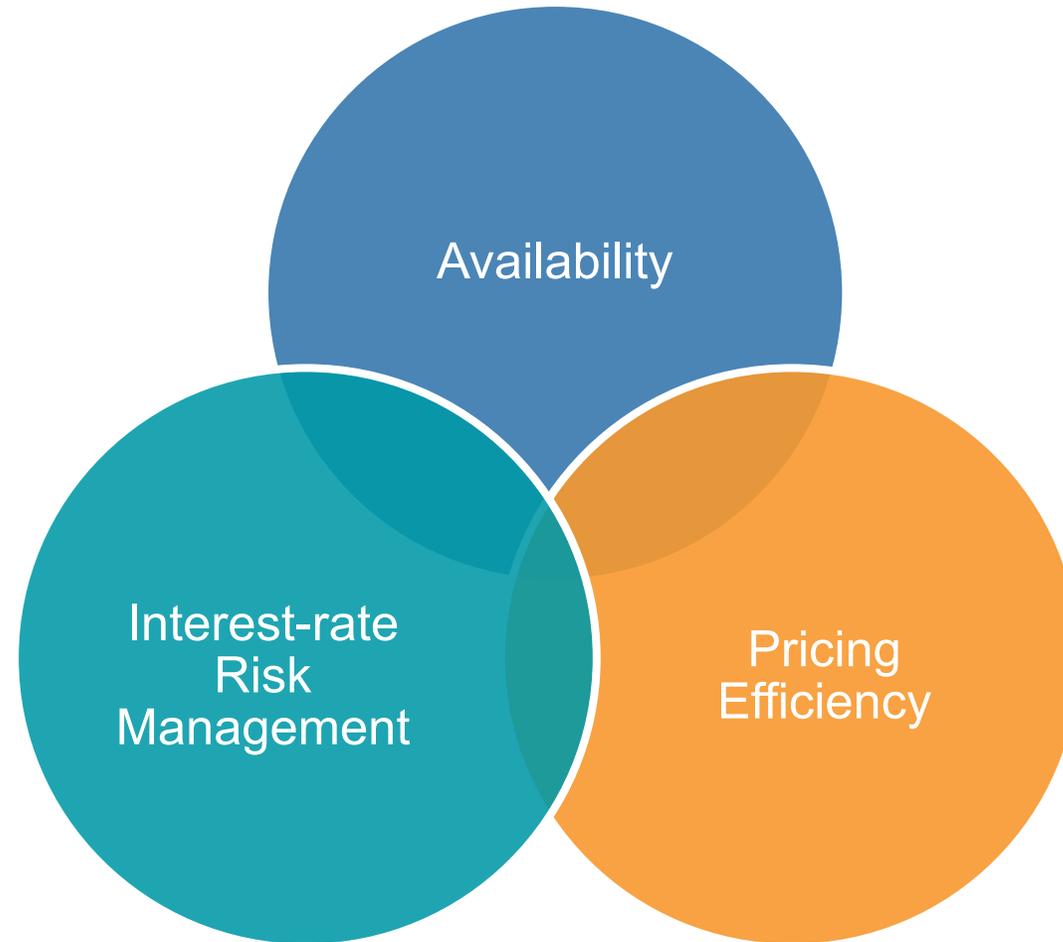
FHLBank Atlanta Shareholders

As of March 31, 2020



FHLBank Atlanta Overview

- Financial Update
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Total Funding Solution

- **Caps and Floors:** Leveraged; Forward Starting; Corridor
- **Cancelable:** Callable/Puttable; Lockout; Periodicity
- **Expandable:** Increase advance size at current rate

Fixed

Floating

**Floating-
to-Fixed**

**Forward
Starting**

- Amortizing balances also available
- Symmetrical prepayment options

FHLBank Atlanta Overview

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	Advances	Brokered CD's
Dividend	✓	
Ease of Use	✓	
Customizable	✓	
Ability to Modify	✓	

FHLBank Atlanta Overview

- Financial Update
- Products and Services
- Advances vs. Brokered Deposits
- CIP and EDP

CIP and EDP Details



Product	Description	Shareholder Benefits	Interest Rate	Key Requirements
Community Investment Program	<ul style="list-style-type: none"> Advances to shareholders to assist low- and moderate-income families that seek affordable housing opportunities Must be used for: <ul style="list-style-type: none"> purchase, construction, and rehabilitation; or refinancing of housing related projects or activities that benefit families with an income at or below 115 percent of area median income 	<ul style="list-style-type: none"> Reduces funding costs Supports a broad range of housing projects Stimulates local housing sector 	<ul style="list-style-type: none"> Discounted interest rate is based on the Bank's cost of funds, plus the administrative costs of the advance 	<ul style="list-style-type: none"> Subject to Bank's credit and collateral requirements Prepayment fees may apply
Economic Development Program	<ul style="list-style-type: none"> Advances to shareholders to assist with community economic development activities such as: <ul style="list-style-type: none"> entities eligible for the SBA's Paycheck Protection Program- NEW! business start-ups projects that create or maintain jobs redevelopment of federal disaster areas infrastructure improvement other economic development activities 	<ul style="list-style-type: none"> Reduces funding costs Supports small business and microenterprise lending Stimulates local commercial, industrial, and manufacturing sectors 	<ul style="list-style-type: none"> Discounted interest rate is based on the Bank's cost of funds, plus the administrative costs of the advance 	<ul style="list-style-type: none"> Advances subject to the Bank's credit and collateral requirements Prepayment fees may apply

Thank You



Financial
Performance

Regulatory
Compliance



◆ Risk Management Strategy & Solutions ◆

Balance Sheet Management Strategies for Unprecedented Times



June 24, 2020

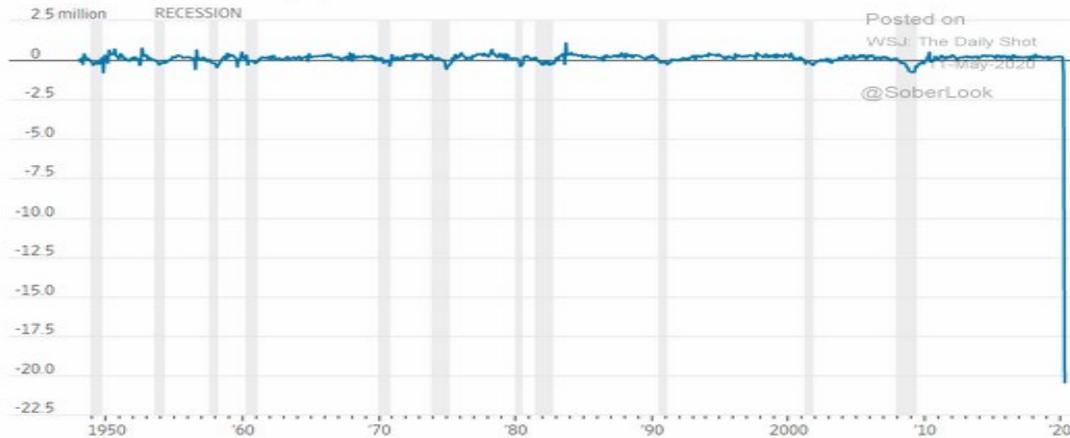
Frank L. Farone, Managing Director

ffarone@darlingconsulting.com

- ❖ COVID-19 Pandemic: A Game Changer
- ❖ Balance Sheet Management Strategies...
for the Current Environment
- ❖ Better Information Leads to Better Decision Making:
Creating a High Performing ALCO

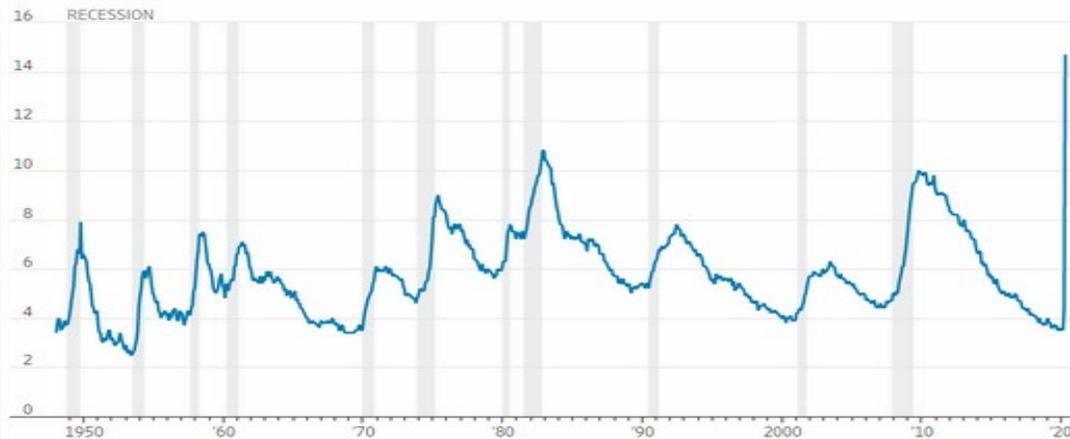


Monthly change in nonfarm payrolls



Note: Seasonally adjusted. Figures for March and April 2020 are preliminary.
Source: Labor Department

Unemployment rate



Note: Seasonally adjusted.
Source: Labor Department

Firm	2Q2020 GDP estimate
Bloomberg Economics	-9.0%
TSLombard	-17.7%
Wells Fargo	-22.3%
Cornerstone Macro	-25.0%
JPMorgan	-25.0%
UBS	-25.5%
IHS Economics	-26.5%
Bank of America Merrill Lynch	-30.0%
Oxford Economics	-32.0%
Deutsche Bank	-33.0%
Strategas	-33.3%
Credit Suisse	-33.5%
Goldman Sachs	-34.0%
Barclays	-35.0%
Morgan Stanley	-37.9%
Capital Economics	-40.0%
Evercore ISI	-50.0%

Source: Charles Schwab

- Credit**
- Timeframe
 - Impact

Covid-19 - Unknowns

- Shock to the system
- No end date
- Fed / Government
 - "All-In"

◆ Net Interest Margin

- Asset Yields
- Loan Volume
- Deposit Costs

◆ Liquidity

- Elevated...for how long?
- PPP, Stimulus, Forbearance ...Impact?
- Contingency Liquidity

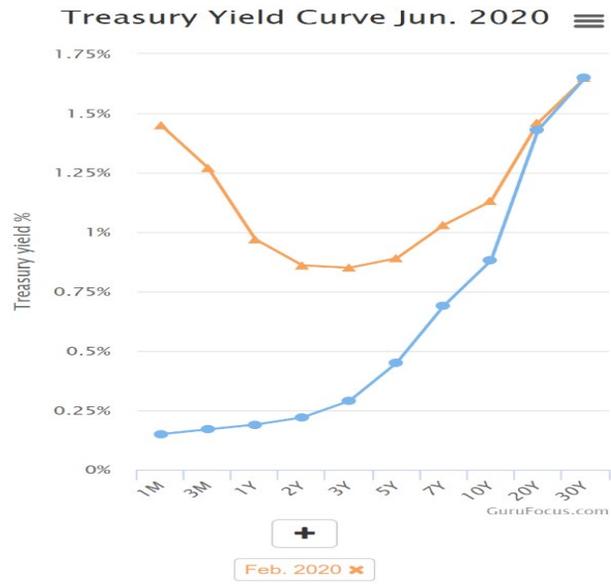
◆ Credit

- What Could Happen if...?

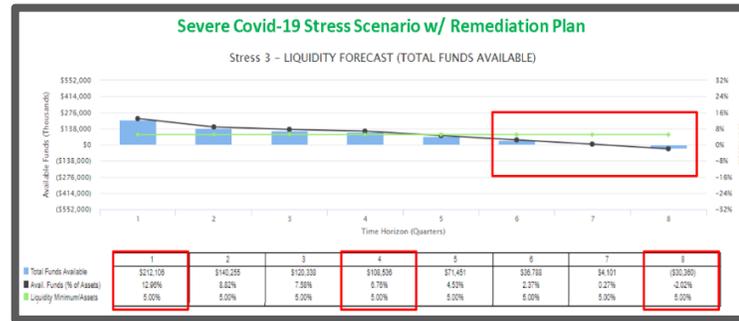
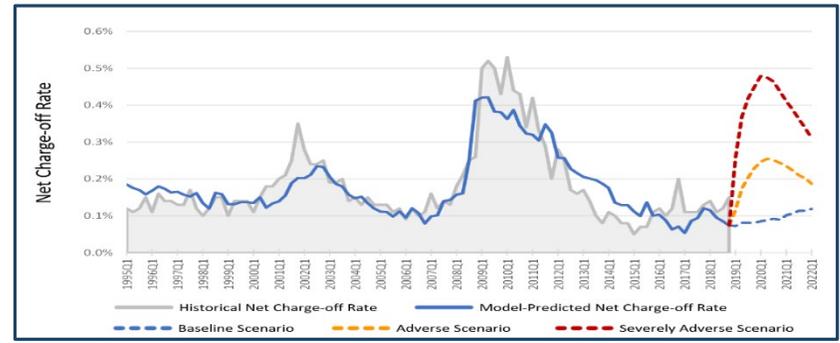
◆ Capital

◆ Interest Rate Risk

- Low(er?) Rate Impact
- What if Liability Sensitive?



Trending Downward Pre-Virus





Three Important Precursors To Successful Strategy Development

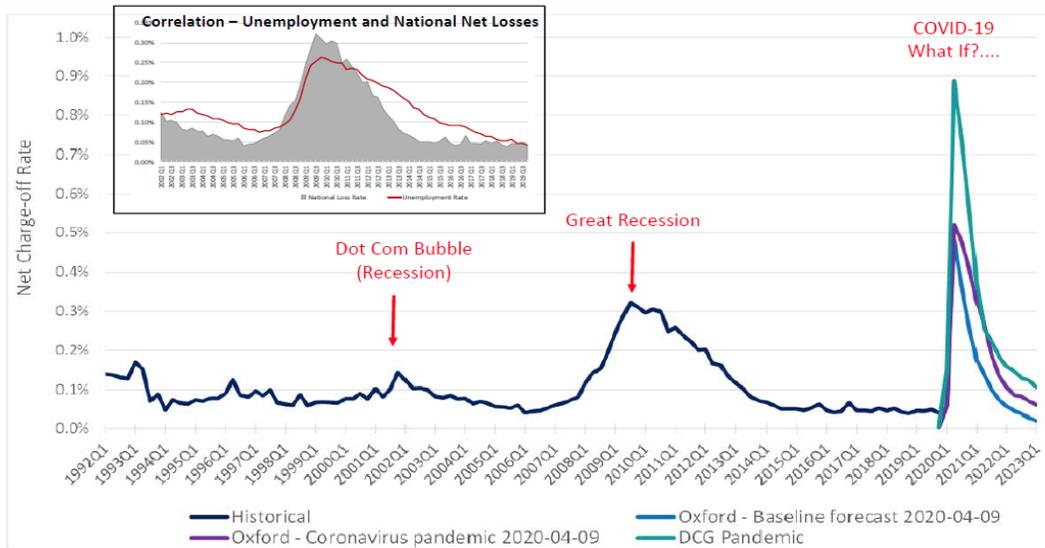
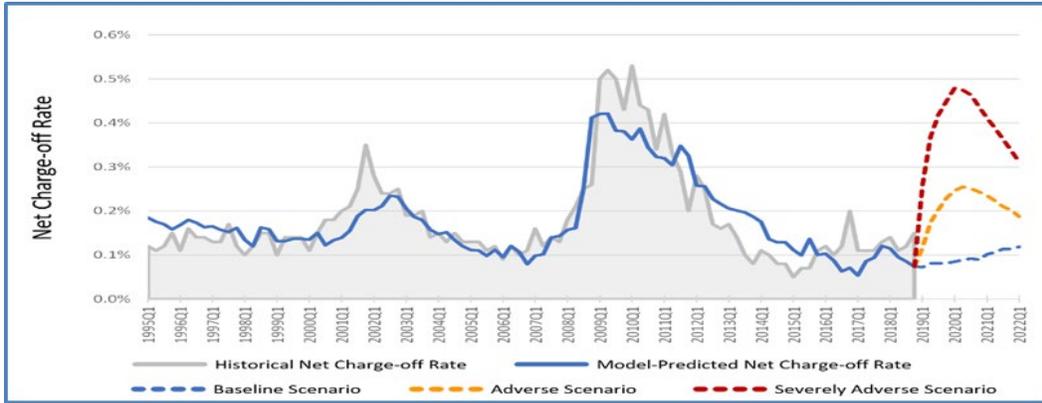
- 1) “Outcome Bands” for NII/NI ... Quantify “the Hole”
- 2) “COVID” Credit Stress Test / Capital Plan
- 3) “COVID” Liquidity Stress Testing

Three Important Precursors To Successful Strategy Development

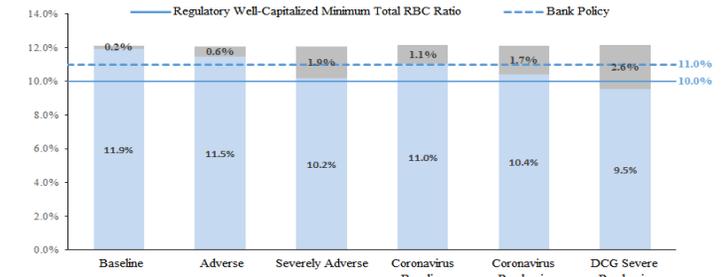
- 1) “Outcome Bands” for NII/NI ... Quantify “the Hole”
 - ◆ Reality check
 - Baseline ALCO no growth trend
 - Recast budget/plan
 - Potential impact of credit costs / reserves
 - ◆ How does it feel? What moves the needle?
 - ◆ Frame discussion for deposit/funding, loan and investment strategies

Three Important Precursors To Successful Strategy Development

- 2) “COVID” Credit Stress Test / Capital Plan
 - ◆ Don’t assume “next time” will be the same
 - ◆ Realistic stress testing is important
 - Macro-economic variables highly correlated
 - Turning up CECL/ALLL “dials” not the same
 - ◆ Importance for capital management
 - Dividend and stock repurchase strategies
 - Sub-debt issuance consideration
 - Establishing acceptable growth/leverage

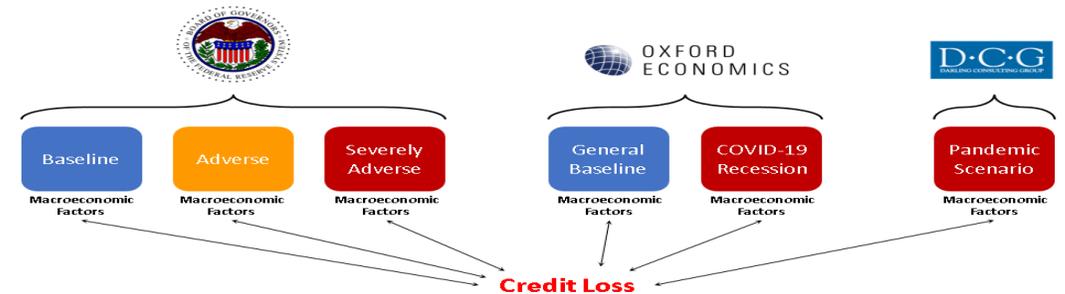


Source: DCG Credit Stress Test Tool



	Baseline	Adverse	Severely Adverse	Coronavirus Baseline	Coronavirus Pandemic	DCG Severe Pandemic
Actual Total Risk-Based Capital Ratio	12.1%	12.1%	12.1%	12.1%	12.1%	12.1%
Expected Loss After-Tax (% assets)	0.2%	0.6%	1.9%	1.1%	1.7%	2.6%
Ratio After Loss	11.9%	11.5%	10.2%	11.0%	10.4%	9.5%
Policy Buffer (over 11%)	0.9%	0.5%	(0.8%)	0.0%	(0.6%)	(1.5%)
Regulatory Buffer (over 10%)	1.9%	1.5%	0.2%	1.0%	0.4%	(0.5%)

Note: Tax adjusted using assumed 21% tax rate.



Three Important Precursors To Successful Strategy Development

- 3) “COVID” Liquidity Stress Testing
 - ◆ Current elevated liquidity is very different “this time”
 - ◆ Liquidity stress wears many hats
 - Bank-specific financial condition
 - Regulatory restrictions
 - Funding market disruptions
 - ◆ Anatomy of a liquidity crisis...for your Institution

Sources of Cash	Scenario 1 Cumulative			Scenario 2 Cumulative			Scenario 3 Cumulative		
	3 Month	6 Month	Factor	3 Month	6 Month	Factor	3 Month	6 Month	Factor
Contractual Principal & Maturities/Resets	52,986	89,886	100%	47,892	81,260	90%	42,798	72,634	81%
Investments	4,088	7,253	100%	3,884	6,890	95%	3,679	6,528	90%
Loans	48,898	82,633	100%	44,008	74,370	90%	39,118	66,106	80%
Prepayments	68,062	135,350	100%	61,506	122,457	90%	54,950	109,564	81%
Investments	5,008	12,843	100%	4,758	12,201	95%	4,507	11,559	90%
Loans	63,054	122,507	100%	56,749	110,256	90%	50,443	98,006	80%
SBA/PPP Reimbursements	0	120,000		0	100,000		0	75,000	
Deposit Growth	90,000	27,500		90,000	27,500		90,000	27,500	
Total Sources of Cash	211,048	372,736		199,398	331,217		187,748	284,698	
Uses of Cash									
SBA/PPP Originations	150,000	150,000		150,000	150,000		150,000	150,000	
Other Loan Production/Organizations	129,452	230,140		109,507	197,124		89,561	164,112	
Line Draws (Unfunded / % Additional Draws)	0	0		4,001	16,003		8,002	32,006	
Investment Purchases	16,200	29,700		15,390	28,215		14,580	26,730	
Deposit Runoff	0	0		18,492	37,441		41,785	86,883	
Wholesale Non-Renewals	15,012	15,012		15,012	15,012		15,012	15,012	
Total Uses of Cash	310,664	424,852		312,402	443,795		318,939	474,743	
Cumulative Net Cash Surplus/(Deficit)	(99,616)	(52,116)		(113,004)	(112,578)		(131,191)	(190,044)	
Total Surplus/(Deficit) including Funds Available	523,653	571,153		510,265	510,691		492,078	433,225	
Funding Relief Options	Line	Used	Available						
Cash/Equivalents			670						
Available Tier 1 Securities Collateral			129,673						
Available Corp/Muni/Other Securities			26,169						
FHLB Loan Collateral	478,376	135,014	343,362						
Brokered Deposits	96,882	29,417	67,465						
FRB	31,930	0	31,930						
All Other Wholesale	24,000	0	24,000						
Total Funds Available			623,269						

Unnecessarily Restrictive Liquidity Policies & Philosophies *ARE NOT* a Desired State in Times of Uncertainty....

- ◆ Now is when your Institution needs liquidity
Management FLEXIBILITY, NOT RIGIDITY
- ◆ Revisit Liquidity Philosophies & Metrics
- ◆ Revisit Policies & Limits

Lending Strategy Discussion Items - Commercial

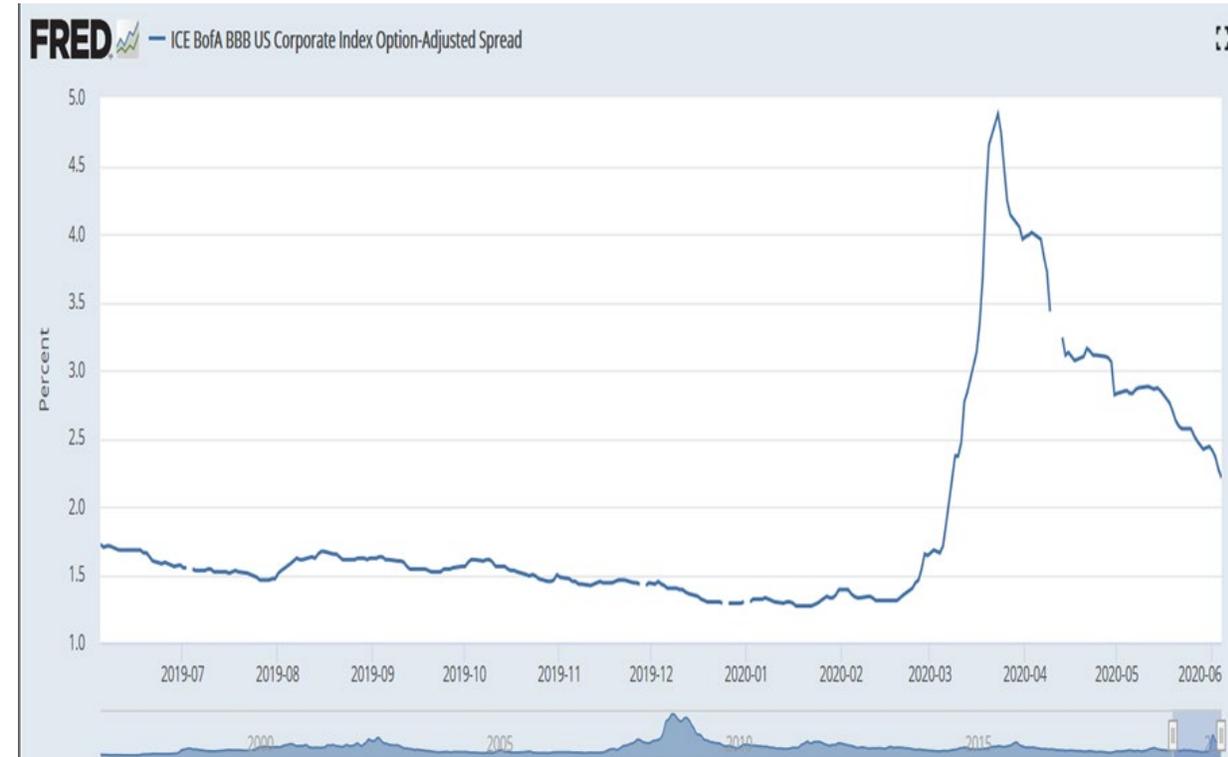


LOCAL MATTER\$

Lending Strategy Discussion Items - Commercial



Lending Strategy Discussion Items - Commercial



Lending Strategy Discussion Items - Commercial

- ◆ Floors (& spreads)
- ◆ Prepayment penalties
- ◆ Loan documentation & covenants
- ◆ Collateral values
- ◆ Deferrals/forbearance
- ◆ Role of Derivatives
- ◆ Pricing strategy & Pricing models
- ◆ Etc...



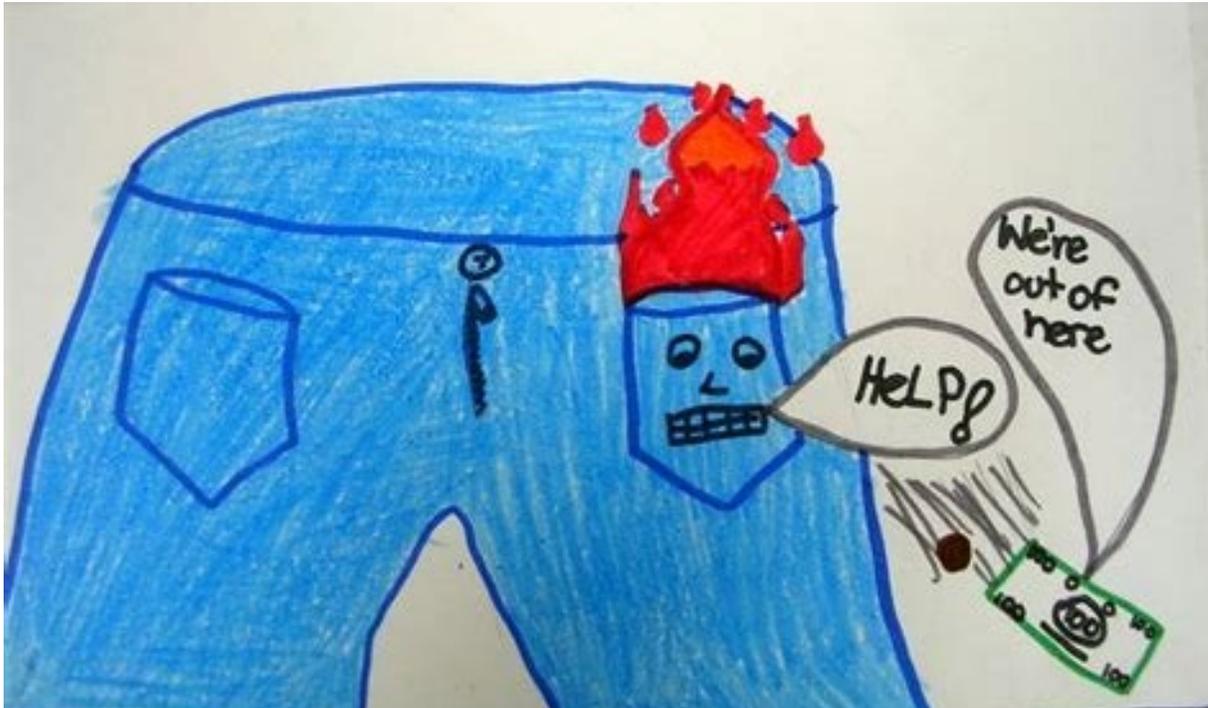
Lending Strategy Discussion Items - Commercial



Lending Strategy Discussion Items - Residential



Investment Strategy Discussion Items



Investment Strategy Discussion Items

- ◆ What required to move the needle?
- ◆ Prioritize investment objectives & “tie-breakers”
- ◆ No free lunch...DO YOUR HOMEWORK
 - Credit risk
 - Option risk (& premium risk)
 - Duration (price risk)
- ◆ Level set discussions re: unrealized losses
- ◆ What about unrealized gains...



No 'one size fits all' model

Deposit Strategy Discussion Items



Deposit Strategy Discussion Items

- ◆ Why buy securities before fully test deposit resiliency?
- ◆ Revisit balance tiers
- ◆ CDs: “flatten the line”
- ◆ Revisit public fund strategies
- ◆ Miscellaneous

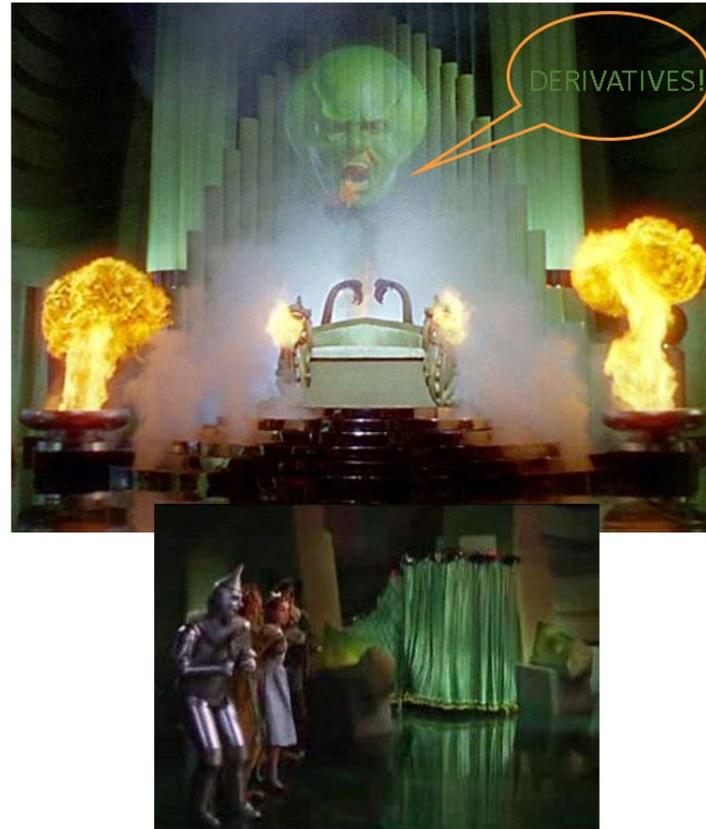
Wholesale Funding Strategy Discussion Items



Wholesale Funding Strategy Discussion Items

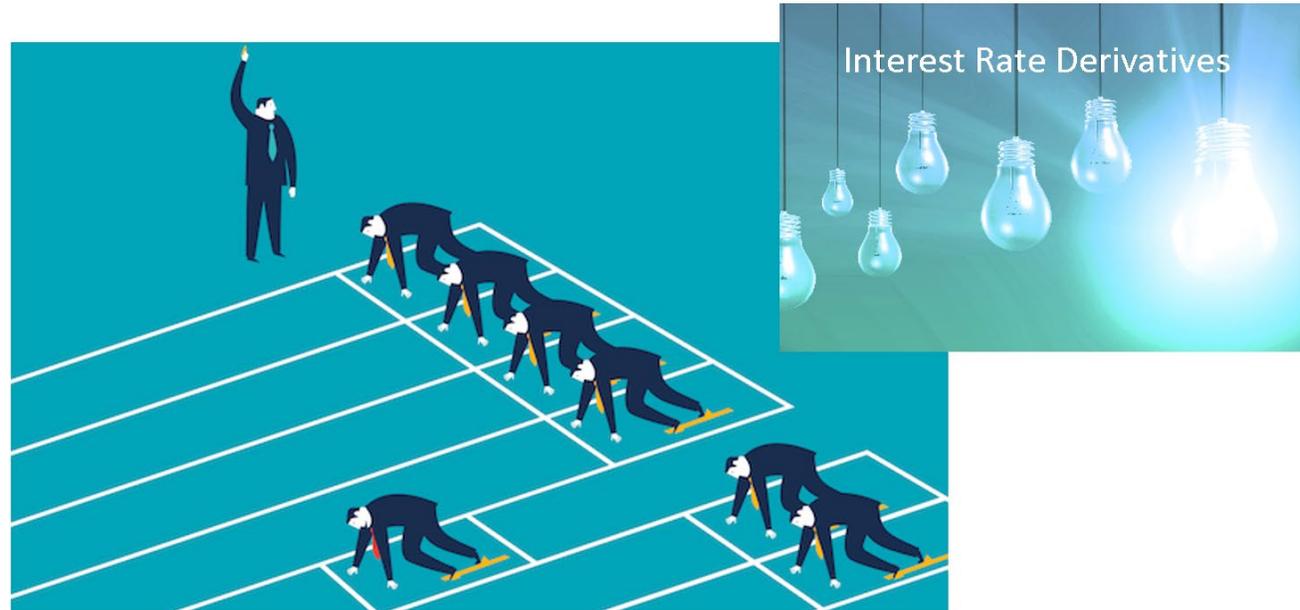
- ◆ FHLBank Atlanta the least cost of funding period!
- ◆ Fed primary credit facility...not a stigma “today”
- ◆ If considering cash market term extensions...
 - Callable structures where member has option
 - Compare to role of derivatives
- ◆ Collateral management issues
 - FHLBank Atlanta Letters of Credit
 - Reciprocal deposit structures
- ◆ Miscellaneous

Role of Derivatives Discussion Items



Role of Derivatives Discussion Items

...Can Create Competitive Advantage



...& Provide Important Flexibility

Friday, June 12, 2020

FINANCIAL

90 Day History - 5 Year Swap (1m LIBOR)



Index Rates		Treasury Rates		Fed Funds Swap Rates	
Term	Rate	Term	Rate	Term	Rate
1m LIBOR	0.195%	3 Month Bill	0.15%	1 Year	0.06%
3m LIBOR	0.321%	6 Month Bill	0.18%	2 Year	0.02%
6m LIBOR	0.432%	2 Year Note	0.19%	3 Year	0.03%
12m LIBOR	0.593%	3 Year Note	0.22%	4 Year	0.07%
Prime	3.250%	5 Year Note	0.33%	5 Year	0.13%
Eff. Fed Funds	0.080%	10 Year Note	0.70%	7 Year	0.27%
SOFR Rate	0.080%	30 Year Bond	1.46%	10 Year	0.44%

1m LIBOR Swap Rates						
Term	Bullet	Amortization Period				
		10	15	20	25	30
1	0.19%	0.19%	0.19%	0.19%	0.19%	0.19%
2	0.17%	0.17%	0.17%	0.17%	0.17%	0.17%
3	0.18%	0.18%	0.18%	0.18%	0.18%	0.18%
4	0.22%	0.22%	0.22%	0.22%	0.22%	0.22%
5	0.29%	0.27%	0.28%	0.28%	0.28%	0.28%
7	0.43%	0.36%	0.40%	0.41%	0.42%	0.42%
10	0.60%	0.41%	0.52%	0.56%	0.57%	0.58%

3m LIBOR Swap Rates						
Term	Bullet	Amortization Period				
		10	15	20	25	30
1	0.30%	0.30%	0.30%	0.30%	0.30%	0.30%
2	0.26%	0.26%	0.26%	0.26%	0.26%	0.26%
3	0.27%	0.27%	0.27%	0.27%	0.27%	0.27%
4	0.31%	0.30%	0.31%	0.31%	0.31%	0.31%
5	0.37%	0.35%	0.36%	0.36%	0.37%	0.37%
7	0.52%	0.45%	0.48%	0.50%	0.50%	0.51%
10	0.69%	0.50%	0.61%	0.64%	0.66%	0.67%

PRIME Swap Rates						
Term	Bullet	Amortization Period				
		10	15	20	25	30
1	3.24%	3.24%	3.24%	3.24%	3.24%	3.24%
2	3.21%	3.21%	3.21%	3.21%	3.21%	3.21%
3	3.21%	3.21%	3.21%	3.21%	3.21%	3.21%
4	3.24%	3.24%	3.24%	3.24%	3.24%	3.24%
5	3.30%	3.28%	3.29%	3.29%	3.29%	3.29%
7	3.43%	3.37%	3.40%	3.41%	3.42%	3.42%
10	3.56%	3.41%	3.50%	3.53%	3.54%	3.55%

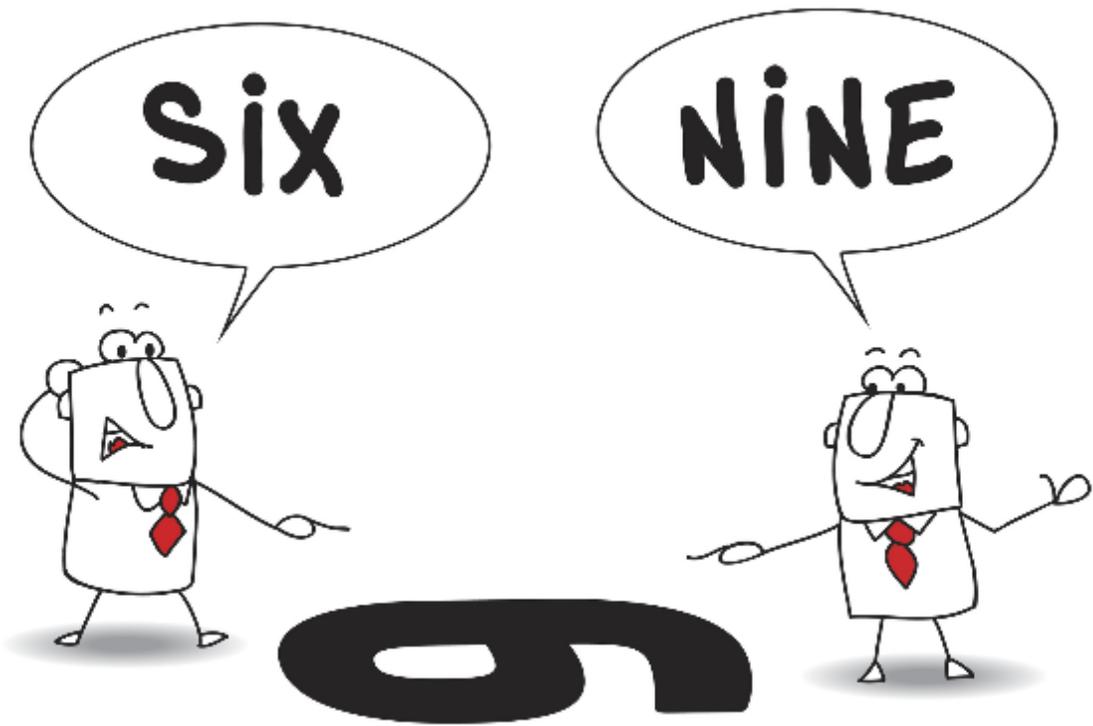
Some Thoughts on Interest Rate Risk Management In the Current Environment



The Living Balance Sheet



Importance of Creating PERSPECTIVE...



All Roads...Lead to ALCO



