Looking Out Into 2025: Navigating a Shifting Economic and Banking Environment

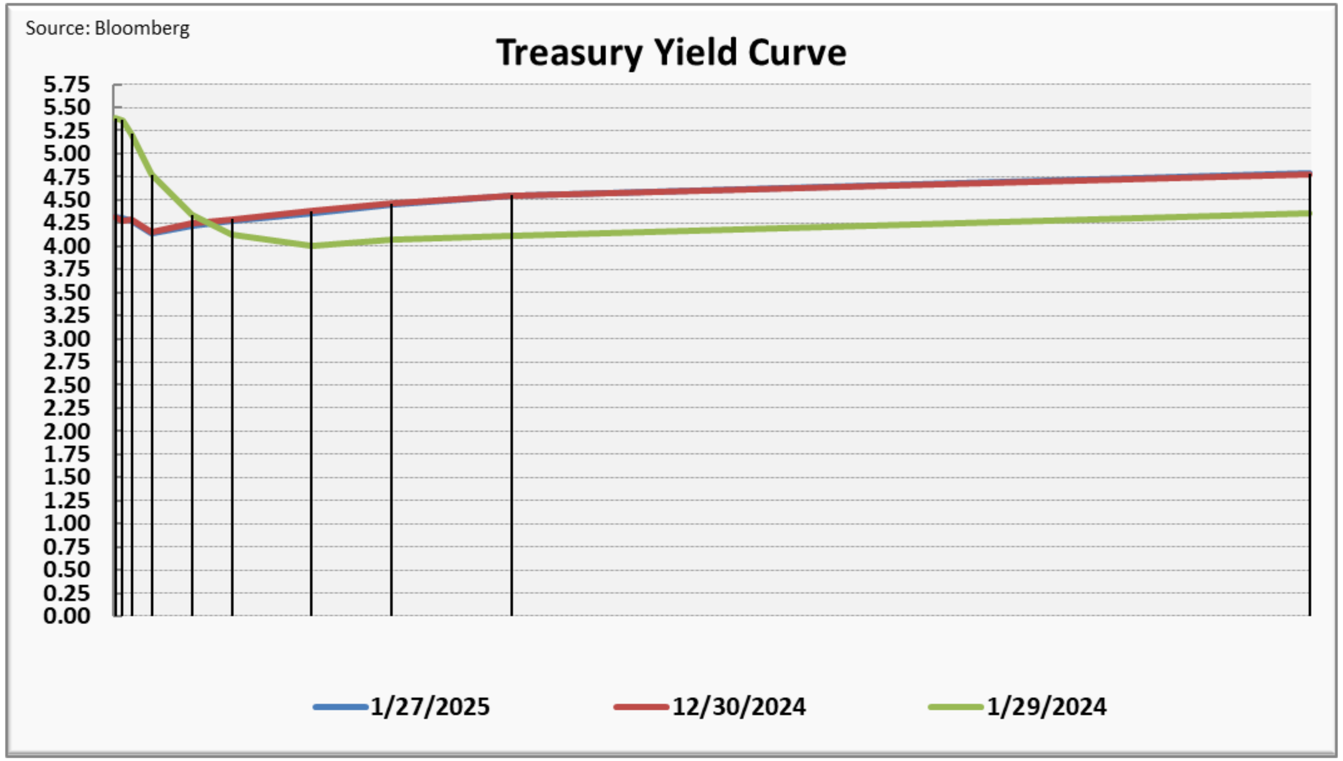
EPG, INCORPORATED

DAVID THOMAS, PRESIDENT

Agenda

- Backdrop: Economic environment in context of the Maine banking industry
- EPG Interest Rate Forecast: Implications for balance sheet management
- What are the most pressing challenges for Northeast banks?
- Is my balance sheet aligned to meet my priorities and address my challenges?
- Lending in the current environment
- Important topics of regulatory focus
- Key elements of successful liquidity management
- How do I assess my liquidity position, and when should I consider changes?
- Important trends to follow in the coming months

Treasury Yield Curve Comparison



Treasury Yields			
	1/27/2025	12/30/2024	1/29/2024
1 Month	4.32	4.31	5.38
3 Month	4.30	4.27	5.36
6 Month	4.27	4.29	5.21
1 Year	4.14	4.15	4.77
2 Year	4.22	4.25	4.34
3 Year	4.27	4.29	4.13
5 Year	4.36	4.38	4.01
7 Year	4.45	4.46	4.07
10 Year	4.55	4.55	4.11
30 Year	4.79	4.77	4.35

An Interest Rate Outlook: Balance Sheet Management

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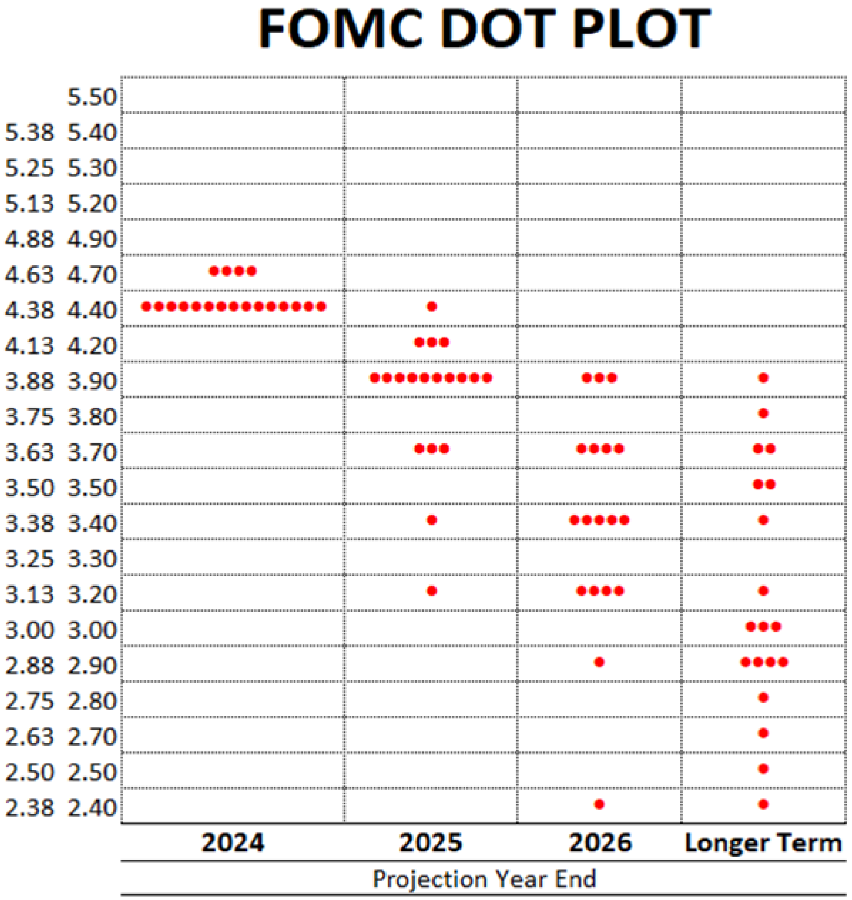
MARKET RATE	Actual (%) 12/31/2024	Projected (%) 12/31/2025	Yr1 Δ	Projected (%) 12/31/2026	Yr2 Δ
FedFunds	4.50	3.75	-0.75	3.75	0.00
Prime	7.50	6.75	-0.75	6.75	0.00
3mthTsy	4.31	3.65	-0.66	3.75	0.10
6mthTsy	4.27	3.60	-0.67	3.75	0.15
1yrTsy	4.14	3.60	-0.54	3.80	0.20
2yrTsy	4.24	3.65	-0.59	3.85	0.20
3yrTsy	4.27	3.65	-0.62	3.90	0.25
5yrTsy	4.38	3.70	-0.68	3.95	0.25
10yrTsy	4.57	3.75	-0.82	4.00	0.25
30yrTsy	4.78	3.85	-0.93	4.10	0.25

RATE OUTLOOK DESCRIPTION:

This represents EPG's current view of interest rates.
Depending on the actual timing of the ALM meeting, the forecast may be altered and/or updated.
For the most accurate current rate outlook, please call EPG, Inc. at (781) 235-2666.

December Dot Plot Projects Fewer Cuts in 2025



Inflation Still Above 2% Target Prior to Tariff Impacts

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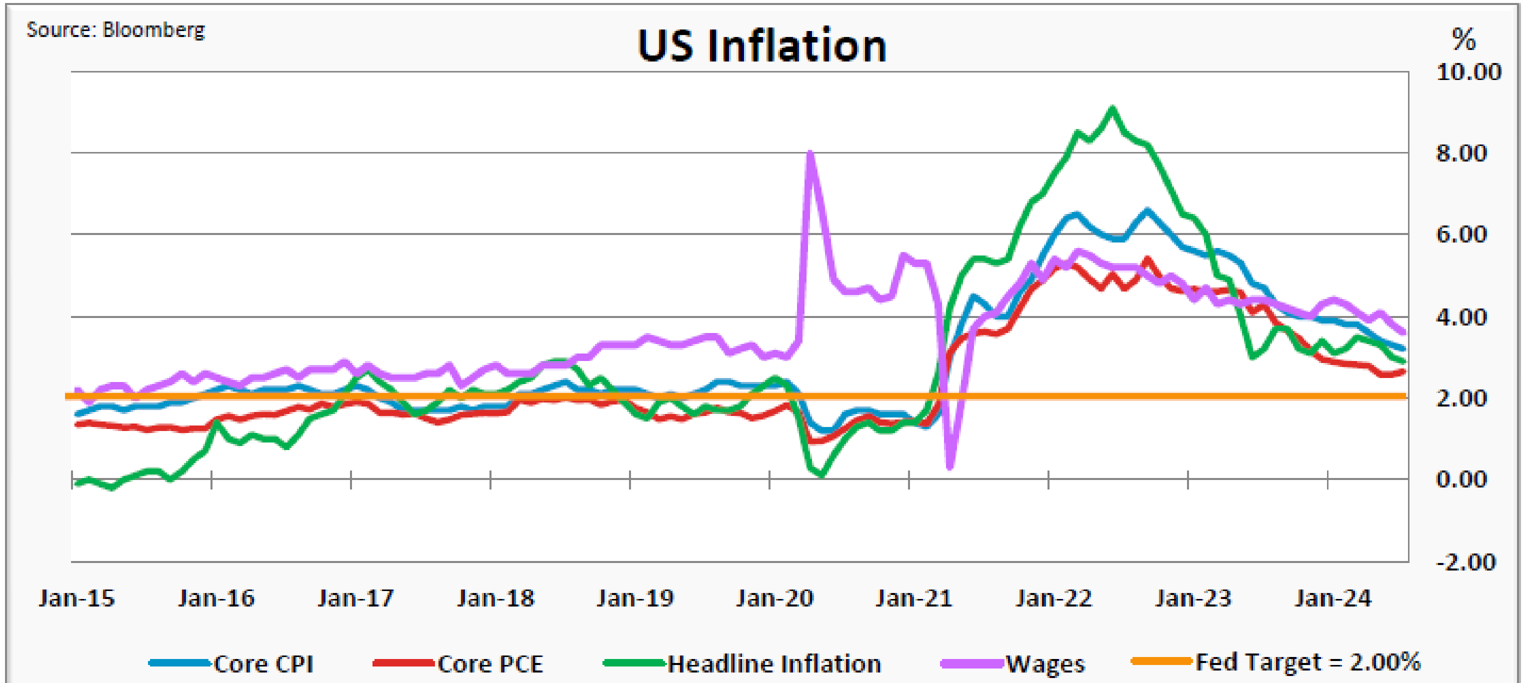
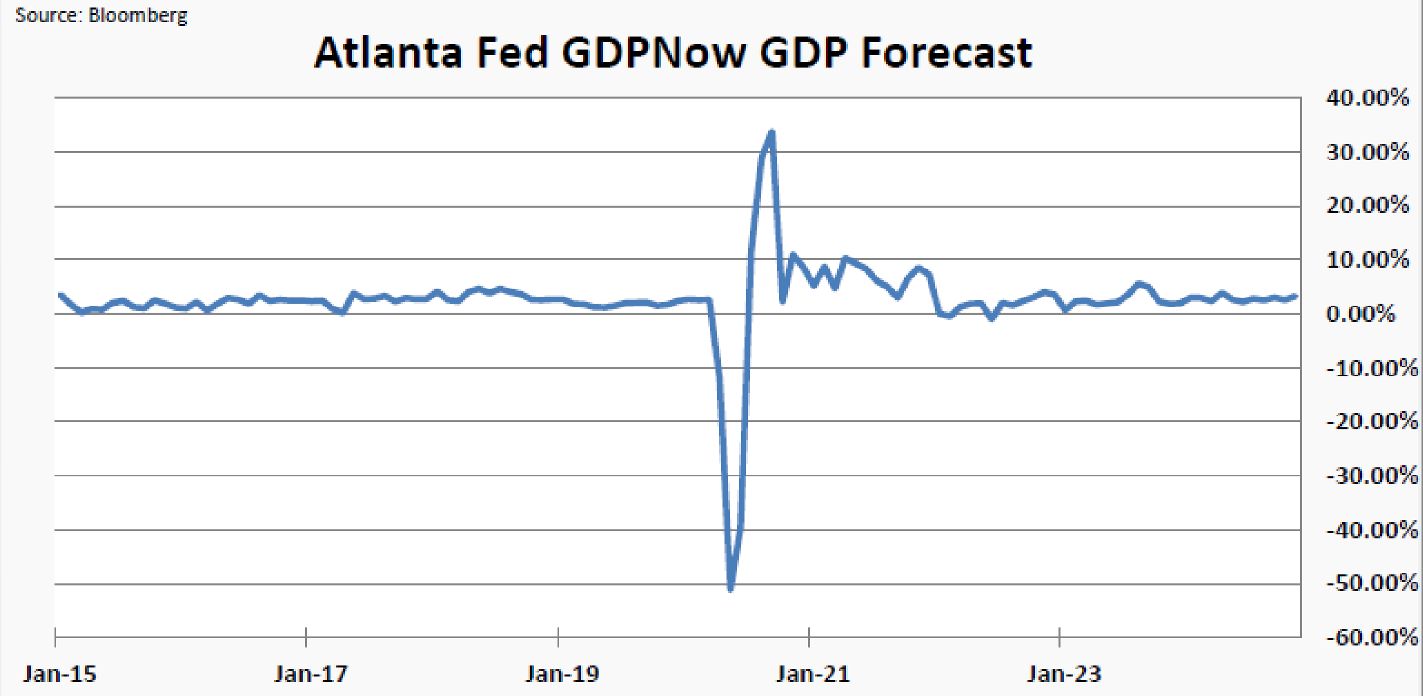


	Latest	Maximum		Minimum		Average	2024 Avg.
Core CPI (Dec'24)	3.20	6.60	Sep-22	0.60	Oct-10	2.47	3.44
Core PCE (Nov'24)	2.80	5.42	Sep-22	0.93	Dec-10	2.09	2.74
Headline (Dec'24)	2.90	9.10	Jun-22	-2.10	Jul-09	2.51	2.96
Wage Growth (Dec'24)	3.90	8.00	Apr-20	0.30	Apr-21	3.06	3.99

December 2024: Core CPI down to 3.2% from 3.3%; Headline Inflation up to 2.9% from 2.7%.

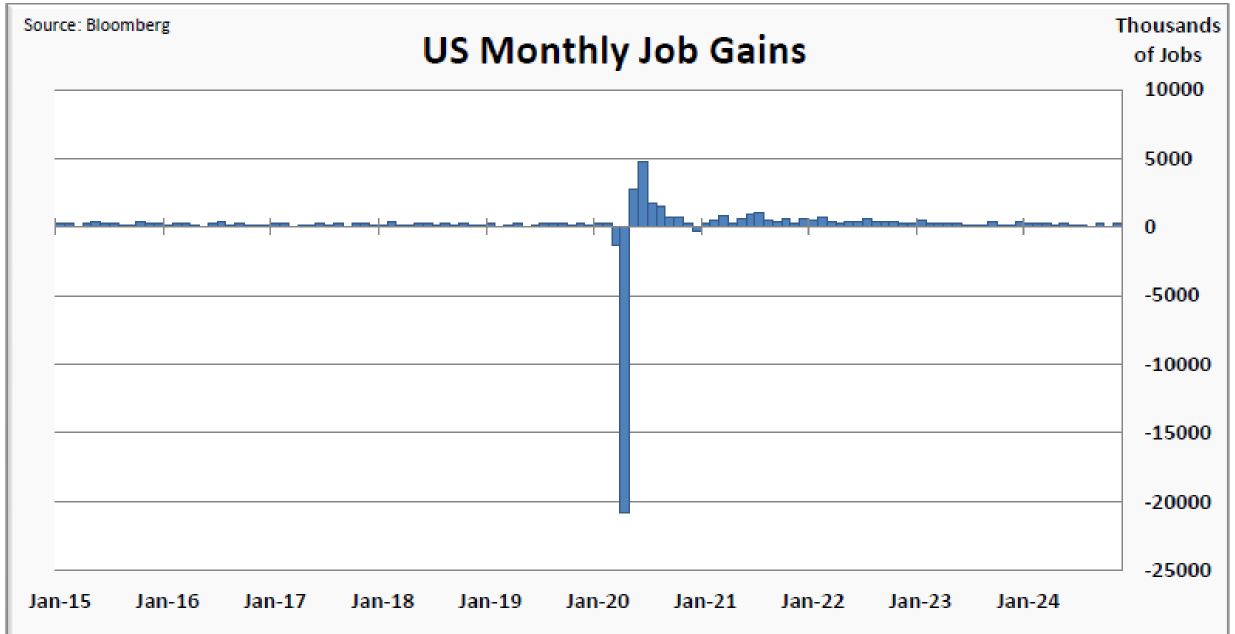
GDP Growth Forecasts Still Above Longer-Term Average



	Latest	1-Year Average	Y/Y Change
GDP Forecast (Jan'25)	2.99%	2.87%	-0.05%

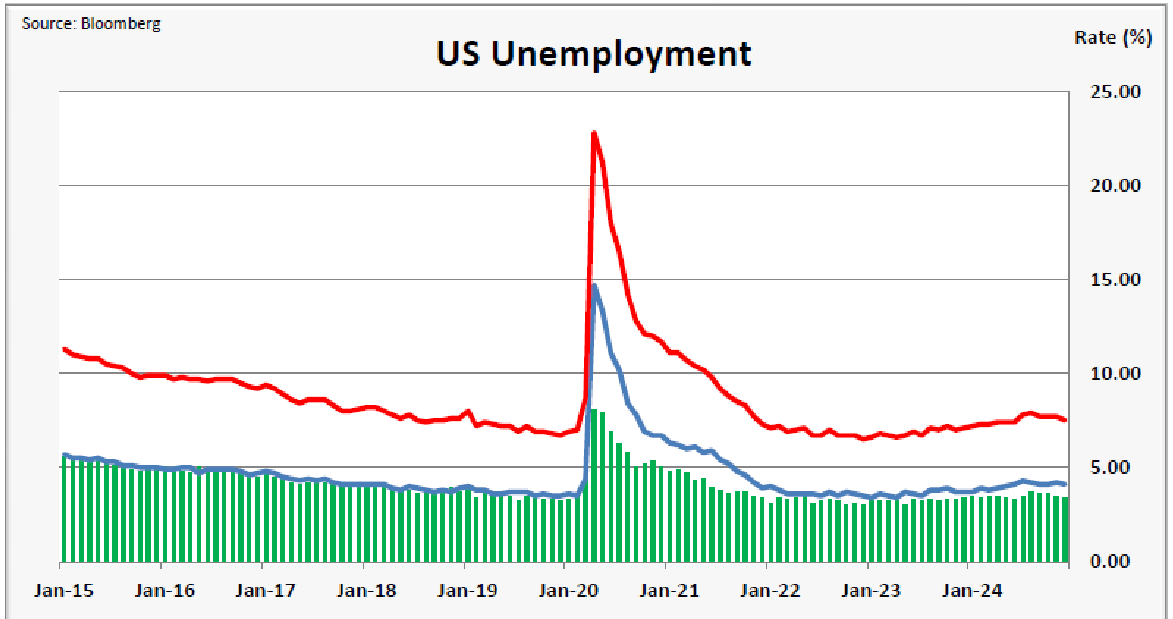
Atlanta Fed GDP Forecast now at 2.99%.

Labor Market Slowing, But Still Expanding



	Latest	Maximum	Minimum	Mthly Avg.	2024 Avg
Job Gains	256	4781	-20787	102	185
Date	Dec-24	Jun-20	Apr-20		

256k new jobs created in December, sharply outperforming expectations of 153k.



	Latest (Dec-24)	Maximum		Minimum		Average
U3 Unemployment	4.10	14.70	Apr-20	3.40	Feb-20	5.93
U6 Unemployment	7.50	22.80	Apr-20	6.50	Dec-19	10.90

Dec'24: the U3 rate decreased 0.1% to 4.1%; The U6 rate decreased 0.2% to 7.5%.

Wage Growth Still Ahead of Inflation, Fueling Consumer Spending

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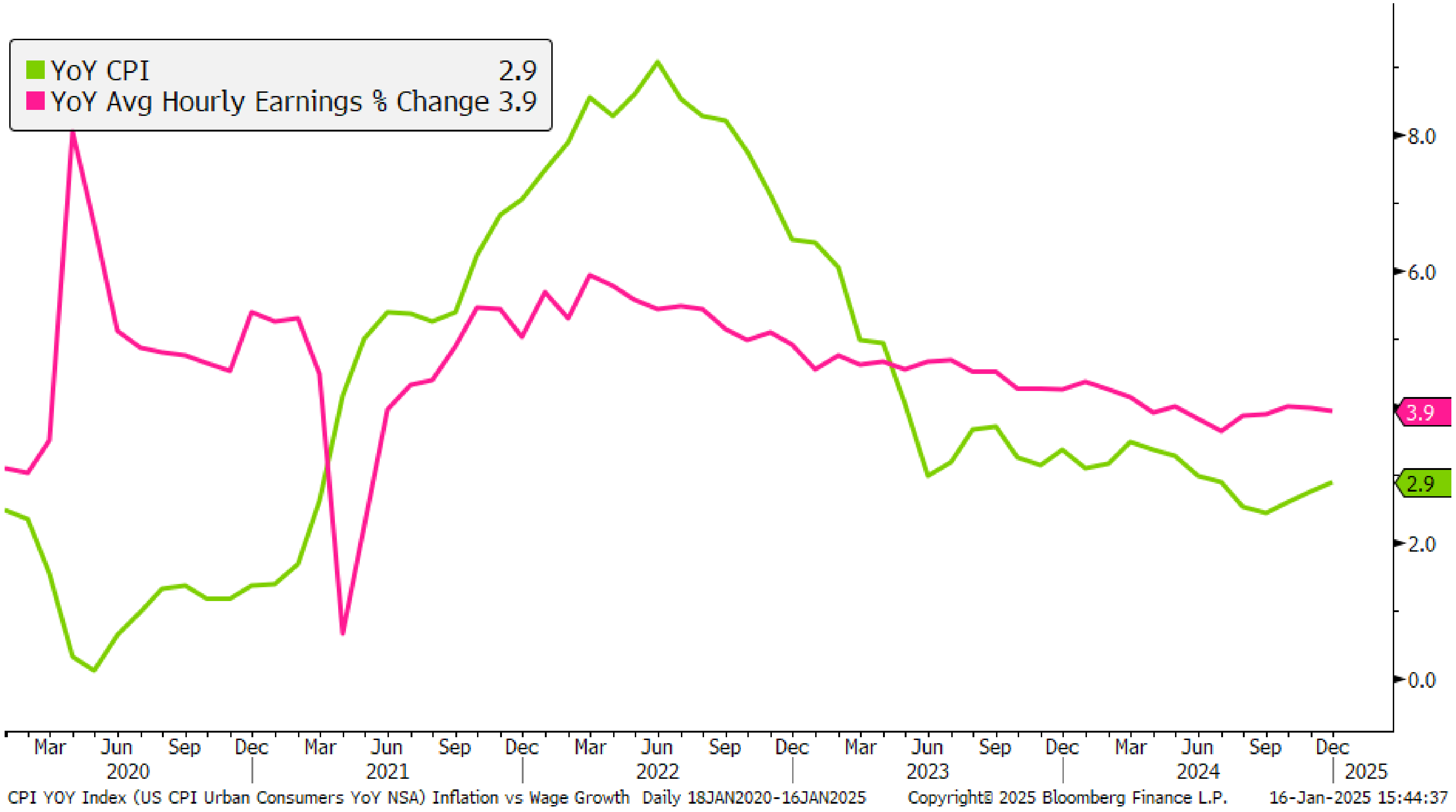
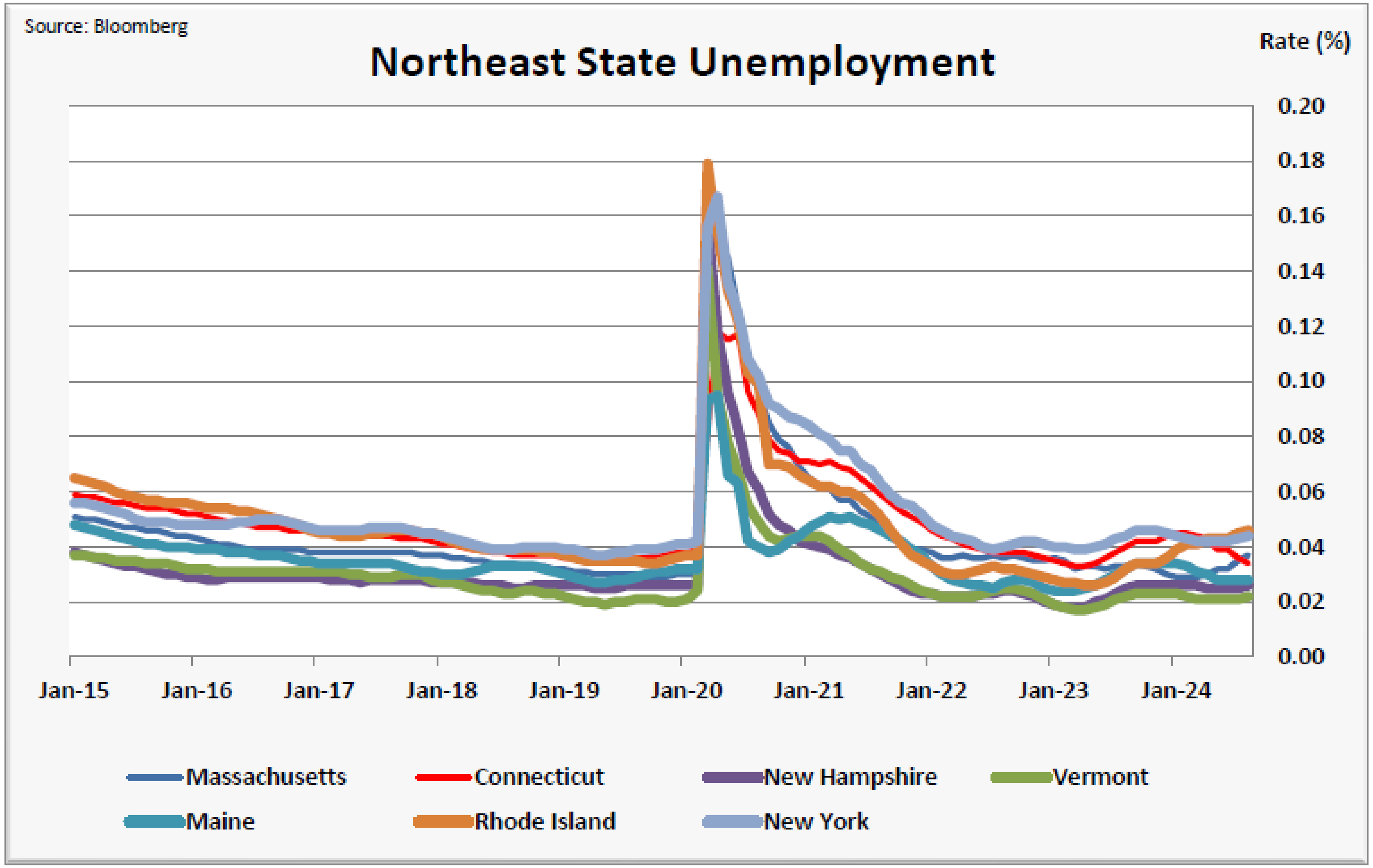


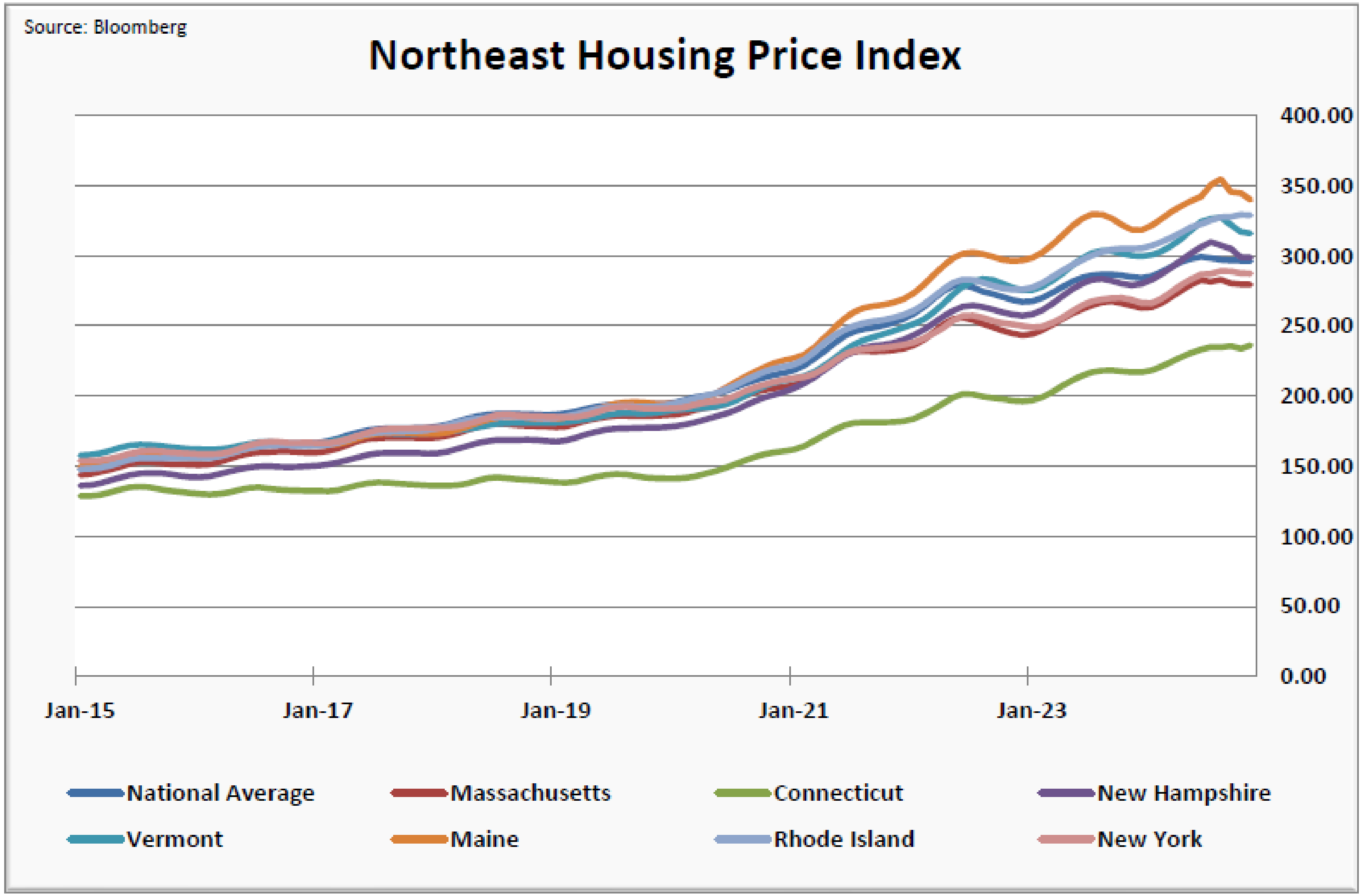
Source: Bloomberg LP

Northeast Labor Market



	Latest (Nov-24)	Q/Q Change	Y/Y Change	1 Yr. Average
Massachusetts	4.00%	0.30%	0.80%	3.33%
Connecticut	3.00%	-0.40%	-1.20%	3.84%
New Hampshire	2.50%	-0.10%	-0.10%	2.54%
Vermont	2.40%	0.20%	0.10%	2.20%
Maine	3.10%	0.30%	-0.30%	3.02%
Rhode Island	4.60%	0.00%	1.20%	4.29%
New York	4.40%	0.00%	-0.20%	4.33%

Northeast Housing Prices Continue to Trend Upward



What are the most pressing challenges for Community Banks?

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- Liquidity Management
- Loan growth in likely environment
- Net interest margin management
- Performance Metrics
  - Which of these can I control, and which can I not?
  - How do I accomplish these?

Is my balance sheet aligned to meet my priorities and address my challenges?

- More than just the asset and liability mix: must look deeper
  - Product structure
  - Retail market knowledge
  - Brand clarity

Lending in the Current Environment

Anticipated loan demand looking into 2025

Competitive advantage?

Lending "best practices"

- Structure
- Rate
- Credit Dynamics

Topics of Regulatory Focus

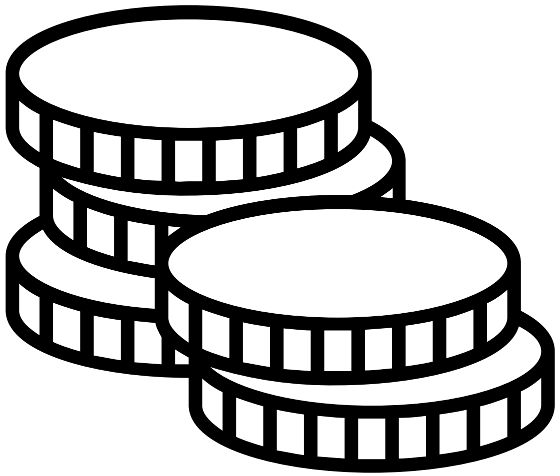
- Capital
- Liquidity
- Credit Risk
- Interest Rate Risk

Discussion Points for Liquidity Management

Effective corporate governance consisting of oversight by the BOD and active involvement by management in an institution's control of liquidity risk.	Appropriate strategies, policies, procedures, and limits used to manage and mitigate liquidity risk.	Comprehensive liquidity-risk measurement and monitoring systems.	Active management of intraday liquidity and collateral.
An appropriately diverse mix of existing and potential future funding sources.	Adequate levels of liquid marketable securities free of legal, regulatory, or operational impediments that can be used to meet liquidity needs in stressful situations.	Comprehensive contingency funding plans (CFPs) that sufficiently address potential adverse liquidity events and emergency cash flow requirements.	Internal controls and internal audit processes sufficient to determine the adequacy of the institution's liquidity-risk management process.

Factors to Assess Adequacy of a Bank's Liquidity Position

- Historical funding requirements
- Current liquidity position
- Anticipated future funding needs
- Sources of funds
- Options for reducing funding needs or attracting additional funds
- Current and anticipated asset quality
- Current and future earnings capacity
- Current and planned capital position



Important Trends to Follow in the Coming Months

Questions?

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