INDEPENDENCE BANK PUBLIC FUND COLLATERAL POSITION

CITY OF WORTHINGTON HILLS	
As of 3/31/2023	
Road Fund	$316,965.15
Money Market	$505,750.65
General Fund	$29,721.76
TOTAL DEPOSITS	$852,437.56
Less: FDIC Insured	-$250,000.00
UNINSURED DEPOSITS	$602,437.56
COLLATERAL - MARKET VALUE	$803,091.80
EXCESS COLLATERAL	$200,654.24

The pledged collateral report for the City of Mockingbird Valley as of March 31, 2023 is provided. Please, note that the Market Value is the Collateral Value for the City, over and above the $250,000 FDIC insurance coverage.

Our Bank Investment managers check each customer's balance weekly and again at the end of each month, adding collateral where needed. We also add collateral any time a customer notifies us of a large deposit that might put their balance over the value of their collateral plus the FDIC insurance. The Market Value of securities is updated monthly.

Kentucky Revised Statute KRS 41.240 is also provided. This statute requires collateralization of Kentucky Public Funds. Independence Bank complies with these requirements for the City of Worthington Hills.

Louis Straub, our Louisville Market President wrote an excellent, easy to understand, article about the recent banking unrest triggered by the Silicon Valley Bank failure. His article is attached for your review. Louis speaks to the strength of Community Banks, such as Independence Bank, that have a diverse array of clientele with a MUCH smaller percent of uninsured deposits. We are proud to be one of the top performing Community Banks in the country, with an excellent capital position and liquidity.

Tracy Reid, Vice President, Treasury Management is available to answer questions regarding FDIC Standard Insurance Maximum Coverage and collateralization of uninsured Public Fund deposits at treid@1776bank.com.

Sec ID / Loc	Ticket	Security Description Line 1 / Security Description Line 2	Safekeeping Agent / Rate	Maturity	Grp	Original Face / Par/Curr Face	S & P / Moody	Priced / Pledged	Book Value / Market Value
PLEDGED TO: cwhil		**CITY OF WORTHINGTON HILLS**							
[redacted]		[redacted] CO KY SD FIN CORP CALL	THE [redacted] BANK			100,000.00		03/28/2023	98,157.62
	204054782	REV	3.25	02/01/2036	400	100,000.00		09/29/2022	96,409.00
		[redacted] CNTY KY SCH DIST FIN	THE [redacted] BANK			500,000.00		03/28/2023	497,210.77
	241007946	BDS 2018	3.625	11/01/2032	400	500,000.00		12/07/2018	504,940.00
		[redacted] CO KY SD FIN CORP REV	THE [redacted] BANK			235,000.00		03/28/2023	232,176.49
	247000441		3	06/01/2039	400	235,000.00		08/08/2019	201,742.80

TOTAL FOR PLEDGE ID cwhil
Pledged: 3 **Orig Face: 835,000.00** **Current Face: 835,000.00** **Market: 803,091.80** **Book: 827,544.88**

41.240 Pledge of collateral required of state depositories -- Qualifications for a reduced pledge -- Eligible securities and other obligations.

(1) (a) Before any bank shall be named as a state depository to receive public funds, it shall either pledge or provide to the State Treasurer collateral having an aggregate current face value or current quoted market value at least equal to the deposits as of the last business day of each quarter in which funds are so deposited or provide to the State Treasurer a surety bond or surety bonds in favor of the State Treasurer in an amount at least equal to the deposits, as of the last business day of each quarter in which funds are deposited; provided, however, that amounts insured by the Federal Deposit Insurance Corporation or the Federal Savings and Loan Insurance Corporation need not be so collateralized. The president or an executive officer of each state depository shall submit to the Treasurer and the State Investment Commission a statement subscribed and sworn to by the president or executive officer showing:

1. The face value or current quoted market value of the securities or other obligations pledged as collateral; and
2. The value of surety bonds provided as of the time such surety bonds are provided as collateral.

The aggregate valuation of all pledged or provided collateral shall be reported to the State Treasurer and State Investment Commission by the state depository within ten (10) days of the close of each quarter after the date of deposit. Such value with respect to pledged collateral other than surety bonds shall be as of the end of the quarter or the preceding business day and, as to surety bonds, the market values shall be obtained from a reputable bond-pricing service. The State Treasurer and Governor may from time to time call for additional collateral to adequately secure the deposits as aggregate face or current market values may require, if the value of collateral is not compliant with state law as of the report date.

(b) No deposit of state funds shall collectively exceed at any time the state depository's sum of capital, reserves, undivided profits and surplus or ten percent (10%) of the total deposits of the state depository, whichever is less. For purposes of this subsection only, the value of the state deposit will be determined as of the end of the last business day of each quarter that funds are deposited.

(2) (a) As an alternative to subsection (1)(a) of this section, a state depository insured by the Federal Deposit Insurance Corporation may either pledge to the State Treasurer, as collateral, securities or other obligations having an aggregate face value or a current quoted market value or provide to the State Treasurer a surety bond or surety bonds in an amount equal to eighty percent (80%) of the value of the state deposit including demand and time accounts, if the state depository is determined by the State Investment Commission to have very strong credit with little or no credit risk at any maturity level and the likelihood of short-term unexpected problems of significance is minimal or

not of a serious or long-term nature. The value of the state deposit will be determined at the end of the business day of deposit and as of the end of business on the last day of each quarter that funds are so deposited.

(b) Valuation of all pledged or provided collateral shall be reported to the State Treasurer and the State Investment Commission within ten (10) days of the close of each quarter after the date of deposit.

(c) State depositories designated as qualified for reduced pledging shall be so recorded in the executive journal.

(d) The State Investment Commission shall determine eligibility for the reduced pledging option based on totally objective and quantifiable measures of financial intermediary performance. The information for such eligibility shall be obtained from publicly available documents. The State Investment Commission shall promulgate the particular criteria of eligibility by regulations issued pursuant to KRS Chapter 13A.

(3) State depositories which do not qualify or do not choose to qualify under subsection (1) or (2) of this section shall not receive state deposits in excess of amounts that are insured by an instrumentality of the United States.

(4) Only the following securities and other obligations may be accepted by the State Treasurer as collateral under this section:

(a) Bonds, notes, letters of credit, or other obligations of or issued or guaranteed by the United States, or those for which the credit of the United States is pledged for the payment of the principal and interest thereof, and any bonds, notes, debentures, letters of credit, or any other obligations issued or guaranteed by any federal governmental agency or instrumentality, presently or in the future established by an Act of Congress, as amended or supplemented from time to time, including, without limitation, the United States government corporations listed in KRS 66.480(1)(c);

(b) Obligations of the Commonwealth of Kentucky including revenue bonds issued by its statutory authorities, commissions, or agencies;

(c) Revenue bonds issued by educational institutions of the Commonwealth of Kentucky as authorized by KRS 162.340 to 162.380;

(d) Obligations of any city of the Commonwealth of Kentucky, or any county, for the payment of principal and interest on which the full faith and credit of the issuing body is pledged;

(e) School improvement bonds issued in accordance with the authority granted under KRS 162.080 to 162.100;

(f) School building revenue bonds issued in accordance with the authority granted under KRS 162.120 to 162.300, provided that the issuance of such bonds is approved by the Kentucky Board of Education;

(g) Surety bonds issued by sureties rated in one (1) of the three (3) highest categories by a nationally recognized rating agency;

(h) Letters of credit issued by federal home loan banks; and

(i) Real property owned by the bank.

Effective: June 29, 2021

History: Amended 2021 Ky. Acts ch. 155, sec. 12, effective June 29, 2021. -- Amended 2014 Ky. Acts ch. 92, sec. 24, effective January 1, 2015. -- Amended 2001 Ky. Acts ch. 112, sec. 3, effective June 21, 2001. -- Amended 1998 Ky. Acts ch. 554, sec. 1, effective July 15, 1998. -- Amended 1996 Ky. Acts ch. 362, sec. 6, effective July 15, 1996. -- Amended 1982 Ky. Acts ch. 382, sec. 3, effective July 15, 1982. -- Amended 1978 Ky. Acts ch. 155, sec. 82, effective June 17, 1978. -- Amended 1972 Ky. Acts ch. 118, sec. 1. -- Amended 1952 Ky. Acts ch. 221, sec. 1, effective June 19, 1952. -- Recodified 1942 Ky. Acts ch. 208, sec. 1, effective October 1, 1942, from Ky. Stat. sec. 4693.

Legislative Research Commission Note (10/5/90). Pursuant to KRS 7.136(1), KRS Chapter 13A has been substituted for the prior reference to KRS Chapter 13 in this statute. The sections in KRS Chapter 13 were repealed by 1984 Ky. Acts ch. 417, § 36 and KRS Chapter 13A was created in that same chapter of the 1984 Ky. Acts.

Silicon Valley Bank vs. Community Banks

Louis R. Straub, II
Louisville Market President Independence Bank

Over the past few days I have been flooded with calls and messages about what happened to Silicon Valley Bank ("SVB"). How will it affect the banking industry and local Louisville banks? People ask me if this is 2008 all over again? Will we see community banks or another National City fail? Is my money safe?

There are a lot of things to unpack here, so I will outline a few major items. SVB is a highly specialized bank catering to a specific industry. It made management mistakes. Depositors panicked and "Twitterverse" fueled the fire. And, regulations changed to allow this bank to get into trouble.

Who is SVB? They are a bank that works with venture capitalists to make loans to high risk technology and crypto currency companies. Their client base is very concentrated to these industries which makes SVB vulnerable when these industries take a down turn (like the recent issues with crypto).

The Louisville Community Banks have a very diverse client base comprised of consumers, small businesses, churches, community organizations and local governments. There is virtually no industry concentration.

From 2019 to 2022, SVB grew from $60B to $212B in deposits. SVB invested those deposits into long term U.S. Government bonds yielding approximately 1.5%. As the interest rate environment increased, it devalued those bonds. Complicating the matter, SVB was without a Chief Risk Officer for the past several months to manage this issue. Also, 97% of SVB's clients had more than $250,000 on deposit, which exceeds FDIC insurance. In normal circumstances, SVB had good liquidity. However, given these factors, SVB was structured that in the event of a run on the bank, it did not have the liquidity to cover depositors' withdrawals.

Louisville Community Banks don't share any of these issues with SVB. Most banks in Louisville experience organic growth of approximately five to ten percent per year. Therefore, they usually have a bond portfolio comprised of various interest rates and maturities of short and long duration. Regarding clients with more than $250,000 on deposit, our local banks don't have a concentration close to SVB.

When news was released last week that SVB had some liquidity structure issues, depositors with funds over $250,000 started to worry they **<u>may</u>** not get access to their money. Some started to withdraw their funds. Then, they went to Twitter to share what they did. Because SVB clients are a tight knit group of "techies", other clients quickly followed suit. This spurred rumors and panic. By the end of the day, $42B was withdrawn. This is the largest single day event of its kind in U.S. banking history.

Several things we learned from this single day event that were different than 2008. Social Media platforms like Twitter did not exist then. The speed of rumors far outpaced the truth or full story. In reality, SVB was working on their liquidity issue and were days away from closing a deal. If depositors did not panic and withdraw their funds, the SVB failure may not have occurred.

Also different from 2008, is the rapid speed we can move money today. In 2008, it could take up to three days to move large amounts of funds. With today's new apps and FinTech advancements, funds can move instantly. Ironically, many of these same social media platforms and FinTech companies got their original financing from SVB.

Finally, let's look at the Congress and regulations. After 2008, regulation was enacted that put banks into different categories. Community Banks with less than $10B in assets, Regional Banks with assets between $10B and $50B and large banks above $50B. Within the large Bank category are the Significantly Important Banking Institutions (known in the industry as "SIFIs"). These are banks like JPMorgan Chase, Wells Fargo and Goldman Sachs, more commonly known as "Too Big to Fail."

Banks in this $50B plus category went through hypothetical stress tests on their financial strength. These tests envision simultaneous scenarios like 20% unemployment, massive loan defaults, a war in Europe and 9.9 earthquake in California. This was to ensure there was never another 2008.

For years SVB and other smaller banks lobbied Congress that it was unfair to treat them like SIFIs. So about four years ago, the rules changed and the Regional Bank threshold was moved to $250B.

Therefore, a bank like SVB could enjoy massive deposit growth and have less regulation on its safety and soundness. It could be argued that if the level never changed, SVB would not have been in this precarious liquidity position.

Additionally, as panic spread through Wall Street last week, since SVP is a Regional Bank, all Regional Banks got painted with the same broad brush.

Now the banking industry is having some issues. What most people don't realize is that most banks don't make a lot of money in rising interest rate environments. A bank's interest margin gets squeezed. Banks have to pay more on deposits, while many of our loans are fixed. So, two years ago, the industry paid zero percent on deposits and made five year loans at five percent. Over the past two years, deposit rates have gone up to three or four percent. Banks have increased loan rate accordingly, but the industry still has a lot of five percent loans on the books. It will take a while for those margins to normalize.

All in all, the banking industry is very strong. The SIFIs are strong, the Community Banks are strong and most Regionals are strong. The U.S. economy and industry needs all three categories of banks. They play different vital roles in the economy as demonstrated by some strong SIFIs in 2008 and the Community Banks in the Pandemic.

The Regional Banks also play a vital role to provide capital to those medium and regional sized companies, including industry specific banks like SVB.

SVB's loss will be felt in the U.S. economy. They played a vital niche to the Tech industry. It will be interesting to observe those ripple effects upon our economy.

It was a shame to observe what occurred over the past few weeks. It hurts all of us in America. But, I have great faith in our country, my industry colleagues and Community Banks. We are strong and we are here to serve you.