The Family Tree Raising families up.

Finance, Facilities and Technology Committee

January 8, 2021
Chris Johnson, Treasurer

Finance Committee Goal: **To make The Family Tree a strong and viable organization.**

AGENDA

I.	Welcome/Mission Moment	– C. Johnson & P. Cronin
II.	Approval of October 2020 minutes	– Chris Johnson
III.	Finance Statements 12/20	–Phil Saracino
IV.	Investment Committee Report	-Phil Saracino
	Portfolio Report November 2020	
V.	Building/IT/Audit Updates	-Phil Saracino
VI.	Announcements	– Pat Cronin

.

IMPORTANT DATES:

- **Board Meeting: Tuesday, January 19, 2021; 5:30pm Via Zoom**

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Raising families up.

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Finance and Facilities Committee
Board of Directors
October 6, 2020 MINUTES

The meeting was called to order & began at 8:00 a.m. Via Zoom

MEMBERS PRESENT: Chris Johnson, Taylor Marino, Michaela Kefi, Andrew Michael, Linda Robeson, Paul Cooper, Anne Bannon, Dennis Graul, Adrian Johnson.

GUEST(S) PRESENT: Karen Hoffman from K.L. Hoffman & Co. P.C.

STAFF PRESENT: Pat Cronin, Mary Francioli, Philip Saracino, Stacey Brown

AGENDA OVERVIEW:

1. Welcome
2. FY 20 Draft Audit presentation
3. Approving of May 2020 Minutes
4. Financial Reports
   - YTD Operating Results- Sept 30, 2020
   - Statement of Financial Position Sept 30, 2020
   - Cash position – Sept 30, 2020
   - Portfolio Review @ 8/31/20
5. Building Updates
6. Announcements

RECORDER:

Philip Saracino

Philip Saracino

ITEM #1 – WELCOME
SUMMARY OF DISCUSSION: Chris and Pat welcomed the committee and Pat gave a quick summary of the pivot and transition of program services during the pandemic.

ITEM #2 – FY 20 AUDIT DRAFT PRESENTED BY K.L. Hoffman & Co. P.C.

SUMMARY OF DISCUSSION:

The FY 20 standard audit presentation began with the reviewing of the auditor's reports. In summary, the auditors gave our financial statements a clean or unmodified opinion. They then highlighted some of the major variances from FY 19. The biggest shift was the decrease to Contributions Receivable as donors paid down a good portion of their 3year pledge. Also, the PPP loan is reflected as a liability although we fully expect this to be forgiven. Overall, the organization experienced a small loss on operations ($30,000) after you strip out the effect of timing of donor designations.

The organization's financial position remains on very solid footing and it maintains ample cash reserves for operations for the coming year. For the year, program expenses equaled 76% while admin was 13% and Fund raising 11% of total expenditures.

The auditors also reviewed the notes to the financials. No management letter will be issued. As a result of TFT receiving over $750,000 in Federal Grant funds a new more invasive audit was completed for FY 20 (Uniform Guidance). Since the government has not finalized the reporting requirements, it was not presented today but all fieldwork in preparation for it has been completed. To date no compliance or internal control issues have been reported. As soon as it is completed it will be shared with the committee.

The committee approved the FY 20 audit as presented.

ITEM # 3 - APPROVAL OF MAY 2020 MINUTES
SUMMARY OF DISCUSSION: The committee approved minutes from the May 2020 meeting.

ITEM # 4 - FINANCE REPORT.
SUMMARY OF DISCUSSION: The following items were discussed:

YTD Performance and FY 20 projections: At September 30, the organization experienced a $336,000 operating loss. However, when we add back $155,000 of restricted funds that can be released the remaining loss is not unusual for the first quarter of the fiscal year. Our revenues tend to be seasonalized towards the 4th quarter of the fiscal year.

The committee then reviewed a Statement of Financial Position that outlines the organization's Assets and Liabilities through 9/30/20. It shows the continued strength of the organization's finances. The organization had almost $5.7 million dollars in current assets versus only $903,000 in current liabilities. As a result of unexpected cash inflows (UHC Foundation 95K) the organization also remains liquid with 144 days in operating cash at the end of the quarter and furthermore do not anticipate any cash flow issues for the coming fiscal year.

The committee also reviewed the Investment Portfolio's balances, allocations and performance through 8/31/20. FYTD the entire portfolio is up 5.9%. However, at the CYTD, 1Yr, 3 YR and 5 YR time periods the portfolio's performance is underperforming a passively managed portfolio that mimics out Investment policy target. The portfolio's value was almost $3.2 at the end of August.

ITEM #5 – Building Update
SUMMARY OF DISCUSSION: In late summer, the Management Team began the process of preparing the building for a return to work. A plexiglass shield was installed at the front desk. Hand sanitizer units were ordered for installation outside of elevator doors. Due to public schools not returning as expected we will continue in the remote environment for the foreseeable future.

ITEM #6 – Announcements

SUMMARY OF DISCUSSION: Mary gave a brief overview of the Lace Up event occurring in October.

Unaudited

The Family Tree
Operating Results - General Fund
6 Months Ended, Dec 2020

Dec-20 YTD	Dec 2019 YTD	Variance YTD $	Variance YTD %		Annual Projection	Approved FY 21 Annual Budget	Variance Projected Vs. Budgeted $	Variance Projected Vs. Budgeted %
660,858	691,812	(30,954)	-4.47%	Government Grants	1,429,858	1,408,764	21,094	1.50%
257,334	82,450	174,884	212.11%	Foundation Grants	447,334	425,000	22,334	5.26%
150,759	204,000	(53,241)	-26.10%	Contributions	850,759	875,000	(24,241)	-2.77%
55,771	46,679	9,092	19.48%	Fund Raisers (Net)	830,000	830,000	(0)	0.00%
23,199	59,050	(35,851)	-60.71%	Program Fees	77,199	113,000	(35,801)	-31.68%
50,000	26,000	24,000	92.31%	Endowment Revenue	50,000	45,000	5,000	11.11%
				Program Reserves	0	33,636	(33,636)	
1,197,921	**1,109,991**	**87,929**	**7.92%**	***Total Revenue***	**3,685,150**	**3,730,400**	**(45,250)**	**-1.21%**
1,308,768	1,213,433	95,335	7.86%	Salaries	2,658,768	2,550,349	108,419	4.25%
201,348	199,768	1,579	0.79%	Benefits	430,848	440,340	(9,492)	-2.16%
136,942	125,385	11,557	9.22%	Professional Fees	186,942	187,344	(402)	-0.21%
31,171	1,841	29,330	1593.46%	Staff Training	32,171	25,000	7,171	28.68%
7,425	10,100	(2,675)	-26.49%	Volunteer Stipends	15,425	25,000	(9,575)	-38.30%
183	16,593	(16,411)	-98.90%	Volunteer Training/Spt./Recog	2,183	10,000	(7,818)	-78.18%
1,710	29,090	(27,380)	-94.12%	Travel	9,210	35,000	(25,790)	-73.69%
7,646	10,396	(2,750)	-26.45%	Participant Supplies	20,146	35,000	(14,854)	-42.44%
9,274	13,836	(4,562)	-32.97%	Supplies	22,274	33,000	(10,726)	-32.50%
17,492	23,234	(5,742)	-24.71%	Communication	33,492	34,282	(790)	-2.30%
50,240	118,988	(68,748)	-57.78%	Equipment Rental/Maint.	101,240	112,278	(11,038)	-9.83%
3,434	5,291	(1,857)	-35.11%	Marketing/Public Relations	18,434	20,000	(1,566)	-7.83%
6,779	22,840	(16,061)	-70.32%	Printing	21,779	36,000	(14,221)	-39.50%
16,389	44,537	(28,148)	-63.20%	Occupancy	45,889	99,286	(53,397)	-53.78%
17,378	25,497	(8,119)	-31.84%	Insurance	33,378	36,000	(2,622)	-7.28%
2,581	5,561	(2,980)	-53.59%	Dues/Subscriptions	10,081	20,000	(9,919)	-49.60%
1,092	1,167	(75)	-6.39%	Delivery	2,592	2,500	92	3.68%
12,989	15,783	(2,794)	-17.70%	Miscellaneous	25,989	29,021	(3,032)	-10.45%
1,832,840	**1,883,340**	(50,500)	-2.68%	Operating Expense	**3,670,840**	**3,730,400**	**(59,560)**	**-1.60%**
(634,919)	**(773,349)**	**138,429**	**-17.90%**	***Net Operating Income (Loss)***	**14,310**	**0**	**14,310**	

Dec-20 YTD	Dec 2019 YTD	
52	232	***Gain (Loss) On sale of Gifted Stock***
8,528	14,570	***Investment Income***
47,000	48,000	***Depreciation Expense***
(673,444)	**(806,547)**	***Net Income/(Loss)***
309,500	**412,219**	Net effect of Restricted Funds

Restricted Funds	**Amt Restricted**	**Est Release**
FY 21 Contribution Pledge	221,000	110,500
FY 21 Event Pledge	353,000	176,500
FY 21 Abell Foundation	15,000	7,500
FY 21 Blaustein Foundation	25,000	12,500
FY 21 Myers Foundation	5,000	2,500
Net Restriction	619,000	309,500

Summary of Operating Results
6 Months Ended December 2020

Revenues:

Government Grants:

Government Grant revenue year-to-date is $661,000 and is 4% behind where we were last year at this point. This is chiefly the result of unfilled nursing positions, minimal non payroll spending due to COVID and timing. Despite the under-spending we expect to meet the budget by modifying the grant to line items where we are spending. All grant positions for the Family Connects program are now filled.

Foundation Revenue:

Foundation Grant revenue year-to-date revenue is $257,000. It is well ahead of last year's pace at the end of December. This is chiefly due to receipt of a grant from the United Health Care foundation of $95,000 to support our Family Education efforts in the counties and $50,000 from the Bauer Foundation.

Contributions:

Contributions year-to-date are $151,000 which is behind last year's revenue by $53,000. These revenue numbers are not unusual for non-pledge years and last year's revenue included a $25,000 gift from the Rothschild Foundation. We expect this number to increase but postal service has been extremely slow of late.

Fund Raisers Net:

Net Fund-Raising revenue year-to-date is $56,000 and $9,000 ahead of last year's pace. Here, the year over year variance is driven by support for the Lace Up event. We expect to reach budget numbers by year end.

Program Fees:

Program fees year-to-date are $23,000 which represents an 61 % decrease from prior year. The decrease is driven by the Pandemic's effect on the number of Day Care facilities in operation that avail themselves of resource center trainings. We also reduced prices of BCCCRC trainings to help struggling providers. We've also shifted gears on the stem program charging a $100 flat fee to all participants forgoing any insurance billing.

Endowment Revenue:

Endowment Revenue that is distributable from the Weinberg Fund for FY 20 is $50,000. The Investment Committee decided to take the distribution in September and as stipulated in the FY 21 budget will be used to support operations.

Program Reserve:

Based on current predictions, it looks as though we will not need to utilize any of the Program Reserve this year.

Expenses:

Salaries:
Salary expense to date is $1,309,000 and compared to a year ago is 8% higher. This year over year increase is attributable to increases in staffing as a result of the increase in funding for the Maryland Family Connect Program. We expect this line to be over budget at year end

Benefits:
Benefit expense year-to-date is $201,000 and compared to a year ago is 1% higher. The increase is reflective of more staff.

Professional Fees:
Professional Fees expense to date is $137,000 and is $12,000 higher than last year at the end of December. This increase is mainly attributable to higher research and audit costs We project to spend the lion's share of this line item by fiscal year end. The research costs related to the Family Connects program will end in January 2021.

Staff Training:
Training costs include the Renewal of the ACE licensing and training for the Maryland Family Connects Program.

Equipment Rental/Maintenance:
Equipment Rental/Maintenance expense to date is $50,000 and is $69,000 less than the same time last year mainly due to the timing of expenditures related to software licensing purchases for both the Penelope and Cloud based Raisers Edge Systems in FY 20.

Occupancy:
Occupancy expense to date is $16,000 and is $28,000 lower than the same time last year mainly due to lower utility usage and janitorial costs.

Liabilities note:
As of December, the organization’s liabilities consist mainly of funds received under the PPP program (that we fully expect to be forgiven) and deferred FICA costs. The deferred FICA ($108,000) will need to be paid back over the next two Calendar Years and fully paid by 12/31/22.

The Family Tree Raising families up.

Statement of Financial Position as of December 31, 2020

ASSETS	
Current Assets	
Cash	1,231,893
Accounts Receivable S/T	975,147
Other Current Assets	
Investments - Morgan Stanley	2,957,420
Membership Interest Vance LLC	300,000
Prepaid Expense	41,068
Total Other Current Assets	3,298,487
Total Current Assets	5,505,527
Total Fixed Assets (Net of Depreciation)	1,383,190
TOTAL ASSETS	6,888,717
LIABILITIES & NET ASSETS	
Liabilities	
Current Liabilities	
Accounts Payable	59,693
Payroll Withholdings	105,703
Salaries Payable	240,938
SBA PPP Loan	530,937
Total Current Liabilities	937,271
Total Liabilities	937,271
Net Assets	
Donor Designated Endowment	1,003,173
Donor Designated	524,750
Donor Undesignated	4,423,523
Total Net Assets	5,951,446
TOTAL LIABILITIES & NET ASSETS	6,888,717

Cash/Investment Balances
as of Dec, 2020

		July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	March	April	May	June
Operating Cash (including MMA at MS)	FY 2019	1,437,435	1,385,162	1,238,580	1,244,936	1,176,130	1,080,558	1,311,239	1,524,936	1,268,849	1,349,151	1,496,890	1,287,945
Operating Cash (including MMA at MS)	FY 2020	1,107,673	862,036	798,115	890,694	858,371	933,389	901,225	1,017,677	986,651	1,673,807	1,636,790	1,458,348
Operating Cash (including MMA at MS)	FY 2021	1,576,832	1,642,537	1,469,656	1,489,315	1,577,667	1,381,209						
Building	FY 2019	106,541	102,474	102,474	102,474	102,474	102,474	97,934	97,934	89,279	81,804	81,804	76,084
Building	FY 2020	68,324	68,324	93,324	92,159	92,159	92,159	92,159	92,159	92,159	87,987	87,987	87,987
Building	FY 2021	87,987	87,987	83,815	83,815	83,815	83,815						
Next Generation	FY 2019	1,790,557	1,819,009	1,818,951	1,697,253	1,701,697	1,559,453	1,688,270	1,731,873	1,715,800	1,746,638	1,724,822	1,763,535
Next Generation	FY 2020	1,761,557	1,755,946	1,772,657	1,796,376	1,826,100	1,865,755	1,857,690	1,754,019	1,577,687	1,695,100	1,654,523	1,772,223
Next Generation (FMV 12/31/20)	FY 2021	1,837,786	1,885,671	1,856,331	1,834,115	1,984,241	2,054,320						
Weinberg Endowment	FY 2019	1,104,618	1,121,636	1,070,345	1,000,265	1,004,161	923,458	998,634	1,024,200	1,017,574	1,036,841	1,022,523	1,045,900
Weinberg Endowmwnt	FY 2020	1,044,776	1,039,356	999,917	1,012,811	1,028,349	1,051,412	1,044,373	989,963	892,080	957,512	935,742	1,002,539
Weinberg Endowmwnt (FMV 12/31/20) Draw in 9/20	FY 2021	1,040,813	1,067,090	1,001,740	991,900	1,070,554	1,105,738						
Total	FY 2019	4,439,151	4,428,281	4,230,350	4,044,928	3,984,461	3,665,943	4,096,077	4,378,943	4,091,502	4,214,434	4,326,039	4,173,464
Total	FY 2020	3,982,330	3,725,662	3,664,013	3,792,040	3,804,979	3,942,715	3,895,447	3,853,818	3,548,577	4,414,406	4,315,042	4,321,097
Total	FY 2020	4,543,418	4,683,285	4,411,542	4,399,145	4,716,277	4,625,082						
Days of Operating Cash @ month End FY 19		165	159	142	143	135	124	151	175	146	155	172	148
Days of Operating Cash @ month End FY 20		102	79	74	82	79	86	83	94	91	154	151	134
Days of Operating Cash @ month End FY 21		154	161	144	146	154	135						
Days of operating Cash rolling six months avg		130	141	150	148	149	149						

Denotes Highest value over 3 year timeframe

Denotes Lowest Value over 3 Year timeframe

Citi Research

Equities

22 December 2020 │ 18 pages

Diversified Banks

North America │ United States

M&T Bank Corp (MTB)

■ Estimate Change

Notes from Mgmt Meetings – Really Nice Progress on Tech & Confidence In NYC CRE Credit Quality

- We hosted meetings with Rene Jones (CEO), Darren King (CFO), Bob Bojdak (Chief Credit Officer), Rich Gold (COO), Mike Wisler (CIO), Peter D'Arcy (Head of CRE), Gino Martocci (Head of Commercial Banking) and Kevin J. Pearson (Vice Chairman).

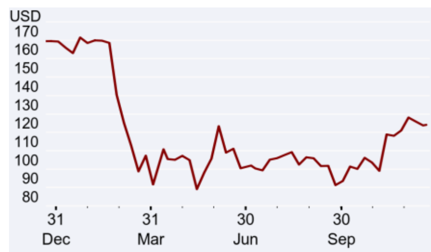
- **While M&T's generally been viewed as underinvested in tech, they've made good progress** — One investor concern has been that MTB is underinvested in tech; however, mgmt. detailed the substantial progress over the last 3 years and their vastly improved product suite (e.g. treasury mgmt system using Bottomline Technologies, commercial origination with nCino, and upgraded their digital onboarding). We witnessed the improvement in the retail app as we did a mobile mystery shop in 2017 in which MTB scored amongst the worst. Recently, we opened a checking account and the UI was completely re-vamped and could open digitally. We looked at job postings which confirmed key themes including a shift to agile development software. M&T believes they've closed the gap on capabilities/ features and in a short time period with a much lower budget by enhancing their talent pool and FinTechs partnerships.

- **We discussed credit quality in detail, including NYC CRE** —The Fed's recent stress test revealed less than favorable loss estimates for MTB's CRE book; however, our discussions helped bridge the gap as the Fed's forecast likely doesn't capture MTB's stronger underwriting standards. Mgmt emphasized the importance of their model (not broker driven) and committee review process, low LTVs (43%) and client selection with longstanding relationships with strong liquidity resources. They feel and we would agree they are well reserved and expect to outperform relative to peers

- **Estimate Changes** — We refreshed numbers for 4Q, and updated our mortgage forecast, industry deposits, and share buybacks resulting in minor estimate changes

Neutral	**2**
Price (22 Dec 20 16:00)	US$121.14
Target price	US$131.00
Expected share price return	8.1%
Expected dividend yield	3.6%
Expected total return	**11.8%**
Market Cap	US$15,541M

Price Performance
(RIC: MTB.N, BB: MTB US)



EPS (US$)	Q1	Q2	Q3	Q4	FY	FC Cons	VA Cons
2019A	3.35A	3.34A	3.47A	3.60A	13.76A	13.75A	14.06A
2020E	**1.93A**	**1.74A**	**2.75A**	**3.35E**	**9.77E**	**9.38E**	**9.72E**
Previous	1.93A	1.74A	2.75A	3.24E	9.66E	na	na
2021E	**3.34E**	**3.21E**	**3.02E**	**2.94E**	**12.50E**	**10.30E**	**10.52E**
Previous	3.26E	3.21E	3.00E	2.91E	12.40E	na	na
2022E	**na**	**na**	**na**	**na**	**10.50E**	**11.40E**	**11.12E**
Previous	na	na	na	na	10.55E	na	na

Source: Company Reports and dataCentral, Citi Research. FC Cons: First Call Consensus. VA Cons: Visible Alpha Consensus.
Click here for Visible Alpha consensus data

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Fiscal year end 31-Dec	2018	2019	2020E	2021E	2022E
Valuation Ratios					
P/E (x)	9.5	8.8	12.4	9.7	11.5
P/BV (x)	1.2	1.1	1.1	1.0	1.0
P/TBV (x)	1.7	1.6	1.6	1.5	1.4
Dividend yield (%)	2.9	3.4	3.6	3.6	3.6
Per Share Data (US$)					
EPS adjusted	12.73	13.76	9.77	12.50	10.50
Book value per share (BV)	102.68	110.78	113.53	120.61	127.05
Tangible book value per share	69.28	75.44	77.65	82.89	87.76
Dividend per share	3.55	4.10	4.40	4.40	4.40
Profit & Loss (US$m)					
Net interest income	4,094	4,153	3,889	3,932	3,526
Fees and commissions	1,839	2,006	2,037	2,007	2,022
Non-recurring fee revenue	17	56	12	20	20
Total revenue	**5,950**	**6,215**	**5,937**	**5,959**	**5,568**
Total operating expenses	-3,133	-3,341	-3,345	-3,362	-3,403
Non-recurring expenses	-155	-128	-20	0	0
FTE adjustment	-22	-23	-17	-16	-16
Pre-tax preprovision profits	**2,640**	**2,723**	**2,555**	**2,581**	**2,150**
Loan loss provision	-132	-176	-811	-415	-410
Pre-tax profit	**2,508**	**2,547**	**1,744**	**2,165**	**1,739**
Tax	-590	-618	-413	-525	-410
Extraord./Min. Int./Pref. Div.	-82	-79	-74	-75	-75
Attributable profit	**1,836**	**1,850**	**1,258**	**1,565**	**1,255**
Growth Rates (%)					
EPS adjusted	46.4	8.1	-29.0	27.9	-16.0
Pre-tax preprovision profits	5.9	3.1	-6.2	1.0	-16.7
Avg. loan growth	-1.6	2.4	8.0	0.7	0.0
Balance Sheet (US$m)					
Avg interest earning assets	106,706	107,816	122,117	135,502	142,272
Customer loans	88,466	90,923	99,249	95,454	98,210
Total assets	**120,097**	**119,873**	**145,501**	**157,093**	**161,109**
Total customer deposits	109,308	112,461	133,659	150,631	159,723
Preferred Equity	1,232	1,250	1,250	1,250	1,250
Tangible Common Equity	9,598	9,852	9,963	10,100	10,258
Profitability/Solvency Ratios (%)					
Credit Quality					
Net charge off ratio	0.15	0.16	0.22	0.41	0.44
Loan loss provision / Loans	0.2	0.2	0.8	0.4	0.4
Reserve for loan losses / Loans	1.2	1.2	1.8	1.9	1.8
Reserve for loan losses / NPLs	83.7	67.3	110.0	107.6	107.0
Capital Ratios					
Tier 1 common ratio (Basel 3)	10.1	9.7	10.1	10.0	9.7
Tangible equity / Assets ratio	8.3	8.5	7.1	6.6	6.6
Profitability					
Return on tangible equity	18.9	19.1	12.5	15.1	12.2
Return on equity	12.7	12.8	8.7	10.6	8.4
Net interest margin	3.84	3.85	3.18	2.90	2.48
Loan to deposit ratio (LDR)	80.9	80.8	74.3	63.4	61.5
Fee income / Revenues	31.2	33.2	34.5	34.0	36.7
Efficiency ratio	52.8	54.2	56.5	56.6	61.3

Powered by: dataCentral

Technology

There has been a notion amongst investors that MTB is underinvested in tech. At our meeting, management spoke about the considerable progress they have made and feel that their capabilities are on now on par with peers.

Management is confident that they have caught up with a product set that is competitive with peers including a new commercial loan origination as well as a Treasury Management platform

- **MTB has rolled out its new commercial loan origination platform with their partnership with nCino** —MTB has developed improvements with their agile team to begin optimizing nCino, which they wouldn't have had the ability to do 4 years ago. They wouldn't have been able to make changes before and would have been reliant on nCino's updates, but now they have a much better experience and can make the product more functional.

- **The success of PPP was further evidence of the success of MTB's tech improvements** — With the rollout of PPP, MTB partnered with a Fintech to build a portal which allowed MTB to process 30k loans in contrast to some other large banks that initially struggled with the program. MTB had the ability to mobilize in contrast to smaller banks that didn't have the scale. MTB was out of the blocks faster as they noted they were the only bank that connected automatically with the SBA; which they then shared with 7-8 other banks.

- **Treasury management was an offering they were underinvested in and now feel their product is comparable to rivals** — MTB has invested in a Treasury Management system with Bottomline Technologies. They have spent ~$35 mil over the last 2 years purchasing and integrating Bottomline—leaving MTB to believe that their product is comparable to products of peers with all the same functionality. Now the software is integrated and they are transitioning clients in waves. The ease of use and user interface is much improved (one sign-on vs. their prior platform that could have required users to sign on 5 different times). With the new product and functionality, they will not be afraid to charge for it, which will unlock additional revenues (something they will execute on in 2021).

  – **From our work on tech, we would think that the gating factor on an off-the-shelf product could be the interoperability with other data** — Larger banks would argue that their investments in tech allow them to offer a more customized solution. While MTB was able to leverage a SaaS product, the trade-off might be that they are more dependent on a third party and that the solution may not be as customized. In addition, while the front end might be modern, one pushback would be the more advanced players are likely able to originate real-time-payments. Further, the key would be to have seamless products across the commercial bank which may be more difficult to do with a third-party product.

The key question in the meetings with management was how they were able to close the gap over such a short period of time, with a budget far less than the levels of larger banks. The way that management describes their tech progress can be bucketed across three major themes including 1) culture, 2) talent and 3) focus on customer needs and experience—all of which have shifted over the last several years.

- **There is an emphasis on hiring internal tech talent with different skillsets that changes how they build** — They hired Chief Information Office, Mike Wisler from Capital One and he has spearheaded change within the organization. They are making the move to no longer use outside resources, which is a fundamental shift. In the past, MTB has been highly reliant on third parties, but now 85% of tech talent is in-house with a goal to hire 400 modern technologists.

- **…which has led to a fundamental change in the way they build and speed to market…** — Over the last 3 years, MTB has begun the shift away from a mainframe culture, which has improved their ability to innovate. MTB previously invested in annual cycles with waterfall deliveries that would run longer and end up with less features, but now they have flipped how to work software and now use sprints focused on speed and quality of capabilities. Management is focused on systems designed in such a way that fintechs want to partner with the bank and plug and play. Management noted that it is easier to close the gap today as tools are democratized. For instance, on the ground in Baltimore, MTB will compete with the larger banks (BAC, WFC, JPM) and head-to-head their digital array may be further along; that said, the incremental difference is not moving market share and MTB competes very well in that market.

- **…with a focus on the customer experience including the user interface as well as taking friction out of their internal processes** —The speed with which they can deploy critical capabilities has vastly improved. They hired Chris Kay to the Head of Consumer Banking, and he formerly sat at the Head of Innovation at Humana, so Chris now sits on top of talent and is focused on reshaping the customer experiencing and delivering changes faster. Five years ago, they didn't have engineers working at MTB and now they have agile teams and they are focused on moving faster. They are narrowing in on the moments that matter and designing end-to-end. They are also removing parts of the process that don't add value and addressing items that are friction to the customers, a risk point for MTB, and/or not designed properly/costly. As an example, they had an 'old rule' in place that a 16-year old could have an account but couldn't get a debit card—which they have since changed as the rule was outdated and they are in the process of removing old rituals and rules that cause customer friction.

  – **For instance, the time to open a customer account has improved significantly** — MTB has focused on digital and mobile account openings and now this friendly customer interface allows account opening in minutes and akin to the speed of their peers. There are still accounts that require some work (e.g., joint checking) but this reflects MTB's change in mindset in which they are willing to roll out a Minimal Viable Product (MVP) to get to market and make constant improvements to it over time which speeds up the time to get products out. It's MTBs view that it's very hard to create a systemic advantage on digital as the relationship and personal touch matters so much. If a competitor adopts a new twist to an existing digital offering, MTB has the ability to copy quickly as the capabilities are there and Fintech partnerships can help.

  – **…. which is in stark contrast to our customer experience in 2017** — We performed a Mobile "mystery shop" in 2017 in which we opened checking accounts on our mobile phones for our entire bank universe. The customer experience at MTB was among the worst of our banks, and we were not able to complete the opening digitally, we were instructed to walk into a branch to finish the process. We performed this same exercise last week with the results substantially improved. The application and interface have been revamped; it is user friendly and simple and the overall process much improved—reflecting the company's investments in this area over the last several years to get consumer capabilities up to speed with peers.

- **Seeing retail progress in Baltimore as they reshape the banking process** – In Maryland, MTB put a pilot in place to change its processes. They had been losing share in retail accounts to peers i (e.g. BAC) amidst their BSA/AML issues prior to 2017). In 2017, they gained share, they were neutral in 2018/19 and now they gained share. They were previously losing 2% in retail accounts, operating accounts and checking. This year, they are growing business banking 4% and 1.5% growth in checking accounts which is above-average growth in Maryland. They empowered the team to look at friction and compete and sell. They then interviewed clients, and delivered solutions and did it quickly. At the top of the house, it's hard to see but they are moving up in a competitive way on scores. In addition, time to open up accounts is much improved. All these efforts are making a significant difference.

One of the ways in which we evaluated tech progress amongst our banks is by reviewing job postings; this gave us another glimpse into tech priorities at MTB which is consistent with our conversations with management — In our review of MTB's job postings, its clear that they have transitioned to agile teams for software development. From job postings, we didn't see clear evidence of a broad-based initiative to rework existing applications with microservices (which would be one indication of legacy apps being reworked to be cloud enabled). Instead, it appears that MTB is pursuing a strategy to replace legacy apps and we see this evidenced with their use of Bottomline Technologies (Treasury mgmt.) and nCino (commercial loan originations). In terms of hardware, it's our sense that MTB is using a pre-cloud infrastructure that is likely leveraging virtualized servers. When it comes to cloud, the job postings suggest more of an emphasis on data storage/compute and back-up/recovery operations. MTB runs two data center facilities which is a very lean footprint. Mgmt. views the current data center footprint as very scalable and it seems less likely that they would look to eliminate physical datacenters anytime soon.

- **While the user experience has been a focal point, the legacy systems remains** … — MTB is still running on legacy systems although this is not dissimilar from other banks. One important distinction is that MTB is running on one version of Hogan, so much simpler, versus some banks that may have multiple versions of Hogan.

- **…with management relying on APIs to provide the functionality that they need** — MTB is not ripping out core apps to build additional functionality. It is building connections into the core. For instance, on digital account opening, the digital capabilities are an overlay on the existing Hogan system. The big commercial products (Treasury management and commercial loan originations) are behind them, and now consumer and wealth are left, although management noted that there is nothing big left on the docket.

Credit Outlook

Management was very constructive on credit quality and expect to outperform relative to peers this cycle…

- **Mgmt. expressed a high degree of confidence in the overall credit quality of the portfolio and believe it will be less severe than the GFC** — Historically, investors have viewed MTB as being amongst the most disciplined on credit underwriting, but this cycle, there have been credit fears, particularly in NYC commercial real estate portfolio. We spoke with Bob Bojdak, Chief Risk Officer and Peter Darcy, Head of the NYC Real Estate portfolio, to gain deeper insight into their portfolios. Overall, they feel very comfortable with their exposure to NYC CRE (given client selection and underwriting) and also expect consumer to perform well, as they underwrite in the super prime space and housing prices has been strong in their markets. In their view, they are adequately reserved and would expect to outperform relative to peers. They believe this credit cycle will be less severe than the GFC, where they posted charge offs in the range of 75-105bps…we note that current consensus is also falling in this range for 2021. Additionally, they believe they will outperform relative to peers in this credit cycle.

  – **…And believe the credit risk lies outside in the non-bank space given a dispersion in credit underwriting** — In 2009, management noted there wasn't a dispersion of underwriting of the industries that were hit. However, they feel there is a wider dispersion of underwriting standards coming from non-bank entities. They feel a lot of the credit risk this cycle lies outside the regulated entities.

- **Credit outcomes have narrowed and believe reserve releases are a real possibility** — Back in April / May, there were a lot of unknowns on credit, and they felt that the reserve build was appropriate. Today, they have a more comfortable view of the economy and have a better understanding of their borrower and those that may be challenged next year. They also noted that there is a lot of liquidity in the system and their client base tends to have a lot of resources available as they are typically generational wealth families. For instance, they noted that one client (lend ~$225mil) has ~$50mil of liquidity and is paying out of pocket. They also noted that a number of clients pivoted and found ways to make money, and are healthier than expected. Considering this, management think reserves releases are a possibility.

- **That said, Retail and Hotel subsectors of CRE, small business, and restaurants could be under some stress** — MTB feels the stress will be in the Retail and Hotel subsectors of CRE. They expect to see some nonaccruals in hospitality and think retail as an asset class will be challenged. In Retail, they are seeing deeper reset of rents which they think is more permanent as it was ongoing beforehand and was accelerated by the pandemic. They pointed out they expect some unique credits in NYC CRE but the stress will likely be elsewhere. They also think small businesses that didn't have a much access to liquidity could be more constrained, as well as restaurants (already struggling leading into the pandemic) particularly ones in urban areas that cannot operate or have capacity restrictions.

…And, feel very comfortable with exposure to NYC CRE and the book will weather the storm…

- **Management doesn't expect the NYC CRE book to manifest itself into the losses in headline news, but cited unique issues** — They expect stress particularly in Retail and Hotel sub-sectors. In New York City, this makes up less than 2% of the portfolio. With that said, NYC CRE may have some unique credits. Interestingly, they do not expect to see losses materializing there first (vs. other parts of book).

- **NYC CRE book is conservatively underwritten and client selection will be a key differentiator** — In NYC, credits are more conservatively underwritten than the rest of the book. They note that the NYC CRE book has stronger credit metrics and carries lower LTVs than the typical borrower. For example, the LTV in the NYC CRE book is ~43% vs 48% for the overall book. MTB also emphasized that 95% of their lending comes direct from long established relationships versus a broker-driven model. They believe this allows for a better client selection. They focus on developing deeper relationships with clients vs. growing a book business with large exposures that are untested. When they start out a relationship, it is acutely managed and progresses from there as the relationship develops. They believe this results in a better risk profile and has led to outperformance relative to peers.

  - **NYC mortgage committee has been a big factor in credit outperformance through cycles** — Management believes the outperformance in NYC CRE book has been helped by the NYC mortgage committee which is made up of external partners that review the applications and have deep expertise in the market.

…And discussed the disconnect between the Fed and M&T's view

- **Management doesn't believe the regulators are giving them full credit when assessing their CRE risk in context of their underwriting standards, client selection and historical results** — On Friday, the Fed put out the results of the second round of stress testing which shows that their degree of stress has increased 250bps with the December results. The principal driver of the increase is the Fed's assessment of loan losses at 10.1% versus the prior results in June of 5.5% given their large concentration in CRE (with CRE loss rates increasing to 16.3% from 6.2%). It appears the Fed is not taking into account their historical results and stronger underwriting standards / client selection which they believe will result in outperformance relative to peers. Rather, the Fed is looking a taking a more broad-based approach on the asset class as a whole and geographies (e.g., NYC) in determining their stressed losses. In some respects, they are likely being negatively impacted by other banks having historically worse results in CRE and weaker underwriting standards. They note they have been in these markets for a long time, and expect to outperform peers on CRE credit.

Net Interest Revenue Outlook

- **Underlying net interest margin has about bottomed out and net interest revenue could start growing a year from now** — MTB's view is that the underlying NIM is near the bottom. They noted that the core benchmark yields have not moved much and there is a little more room for deposits to come down. The impact from hedges (as the swaps roll off next year) will be a drag, but this drag is equivalent in size to the drag on NIM from excess liquidity on the balance sheet. While NIM may be close to stabilizing, we would note from an NII standpoint there will likely still be some pressure but management expects the decline is going to slow and expect growth (vs 4Q annualized) one year from now. In terms of loan growth, GDP is a good target longer term.

- **There are offsets to NII headwinds, such as extending duration** — There are some ways for the industry to offset the headwinds – some examples being extending duration or the GNMA buyout program. They would want to leg into higher rates, and would need another 50bps before they started replacing the securities book.

- **And they tend to pick up share in tougher times** — MTB grows faster than peers in tougher times as competitors pull back and their clients need access to capital. They mentioned, that excluding PPP, relative to their peers they are outgrowing in C&I loans. This could continue to be a trend in 4Q/ near term.

- **Generally not as much widening of spreads as last recessions on the commercial side; seeing stability in C&I spreads although seeing spreads widen CRE**— A typical customer will be a long-standing relationship, MTB doesn't extrapolate rents and there is ~35% equity in the deal (sometimes more). A CRE deal that was 275bps over with a 0% floor index in February is now 325-350bps over with a 50-70bps floor today; and there has been consistency since April. In times of stress, MTB sees peer banks step back in bad times, but MTB keeps its powder dry and serves its customers. There is a perception of risk and MTB will extract spread for that—which has been the case on the CRE side. On the C&I side, this has been less the case with rarely seeing floors getting in deals (certainly in leveraged lending, but they don't do much there). They will get a spread in the range of 175-200bps as banks deploy into C&I given CRE fears, so the competitive dynamics could see some tightening of spreads there.

- **Returns on indirect auto and rec-fi have significantly increased** — They have seen attractive spreads in consumer as many are getting out of the business. They noted that 2-3 years ago, indirect auto was being priced at 8-9% which was basically meeting the needs of dealers, but today they see returns closer to 18-19% ROE which is 10 points in excess of the cost of capital. Importantly, five years from now, that will be their balance sheet (takes a while to filter through). Rec-fi is another area where returns have moved up from 14% to 20-25%, and emphasized this is a unique niche and is not anything near-prime or subprime.

  – **Seeing more competition in rec-fi which could lead to some tightening** — When MTB got into RV lending there wasn't a lot of competition so they were able to set the standards. However, others are beginning to enter the market, so they expect to start seeing some more pressure on returns due to increased competition. They have been very diligent in sticking to conservative underwriting and 'not chasing paper because of credit'. For context, RV's are towable not the whole RV bus (avg. towable loan size: $38k which compares to an avg car loan is $28k). RecFi is comprised of roughly 80% RVs and 20% boats (avg. loan duration: 174 mos/14.5 yrs).

M&A Commentary

- **Conversations on bank M&A are starting to increase and expect industry consolidation over time** — MTB noted that there have been more discussions with bank boards on M&A. MTB said they always focusing on growing their franchise to withstand cycles and remain independent, suggesting they are more likely to be a buyer than seller. Longer term, they do expect there to be more deals over time as consolidation makes more sense given that the banking industry does not need 6K institutions. Tech could be a differentiator but also succession planning & inability to attract top talent (particularly at smaller banks) will drive possible M&A deals in the future.

- **They are looking for a strong deposit base and operating model, and don't necessarily have a preference for non-bank vs traditional bank M&A** — Management noted they do not have a preference for bank vs non-bank acquisitions. Rather, they have a preference for a bank with a good operating model and set of customers. They noted that the core value of bank is the deposit base, and believe the checking accounts to be even more valuable today with ~90% retention rates. The unit economics and cost advantage have become more intriguing.

  – **Wealth and trust are an important and they have been successful in attracting teams** — The trust and institutional client services also remains important to them and has grown over the last 5 years. This could be another area where they would be interested either through non-bank acquisition or attracting teams (rather than buying an entity).

- **They are open to smaller deals if able to be done quickly and offer a good deposit franchise** — MTB mentioned they are not looking to become a national franchise right now. Their appetite is to leverage their current business model and lead with that for any deal. They would be open to smaller deals if they know the deposit franchise, geography makes sense, and it can be done relatively quickly.

- **The IRR is their primarily deal metric** — Management noted that cash on cash returns are the most important factor they look at when evaluating a deal and the ability for management to improve underlying returns of the acquired franchise. This is a very disciplined management team, and while the results of an IRR are highly sensitive to the underlying assumptions….management looks hard at the historical track record of the expense saves and revenue synergies as well as cost of integration, to determine whether a deal makes financial sense.

Other Tidbits

- **MTB runs the franchise with an owner mindset; they have built a durable franchise with better returns** – The early days of very high inside ownership has molded the culture within MTB. They manage the business for through-the-cycle returns, as the cycle turning is inevitable. They have built the franchise to survive a low interest rate environment as rates have been low for a long time. They make decisions to ensure that they are financially strong and more viable than the average bank—and their consistency has yielded tremendous results over the years. They are focused on returns in excess of their cost of capital which has been an important differentiator over time.

- **The conversion of HCBK from a thrift to a commercial bank receives higher marks on the commercial side and average progress on the consumer side** — We discussed MTB's success with converting the HCBK franchise. When we asked management to grade themselves, they gave themselves an A-minus on the commercial side and a C grading on the consumer side. The success on the consumer side was impaired a bit because they didn't have the critical mass that they would want to have in a dense market with a lot of competition, and so they don't have the market share to stand out. That said, they have a ground game in NJ which is a benefit. The other good news is that that the business banking side has been a success. They took the time and effort and invested in the franchise; methodically moved in leadership, calling officers and business banking RMs. They have done well in business banking, learned a lot in a large market and trying some of the strategies out in Philly now.

M&T Bank Corp

Company description

M&T Bank Corporation (MTB) is a regional bank holding company headquartered in Buffalo, NY, which operates more than 750 branches primarily in upstate New York, Maryland, Pennsylvania, Delaware, Connecticut, Virginia, West Virginia, and the District of Columbia. As of December 31, 2019, M&T had consolidated assets of approximately $120 billion. M&T offers a variety of commercial banking, trust, and investment services to their customers. The bank also offers deposit and loan products to consumers.

Investment strategy

We rate the shares of MTB Neutral (2). We view MTB as a well-managed franchise with relatively low credit risk given a clean balance sheet. However, we remain neutral on the stock given potential downside risk if the rate outlook deteriorates since they are one of the more asset sensitive names in the group and have less expense flexibility than peers to offset NII headwinds.

Valuation

Our $131 target price for M&T is derived from our discounted residual income model, which incorporates our three-year forward earnings projection, a seven-year fade period, and a steady-state terminal value at year 10. The key inputs to the model assume ~9.0% cost of equity, including a risk-free rate of 1.0%, an equity risk premium of 6.7% and a beta of 1.20, and also incorporate a modified long-term ROTE estimate of 13.0%. We assume a perpetual growth rate of about 3.0%.

Risks

Key risks to M&T are macroeconomic risks including a sharp slowdown globally, credit risk if there is an extended slowdown of the US economy in response to the coronavirus outbreak or financial risks. If economic growth is meaningfully below our expectations, volumes may be lower than we expect and credit costs, including potential commercial losses, may be higher.

Company-specific positive risks:

Acquisitions: Historically, acquisitions have been a significant driver of M&T's growth. So, one positive risk for M&T is if the company is able to redeploy its excess capital in a large well-priced acquisition, which would significantly enhance its earnings power and stock price.

Company-specific negative risks:

Commercial Real Estate: M&T has above-average concentration in commercial real estate loans relative to its regional banking peers, including exposure in New York City. While we believe MTB was generally an above-average underwriter and so far non-homebuilder-related CRE has failed to produce outsized losses, we view this concentration as a key risk for the stock.

If the impact on the company from any of these factors proves to be greater/less than we anticipate, it could prevent the stock from achieving our target price or could cause our target price to be materially outperformed.

Appendix A-1

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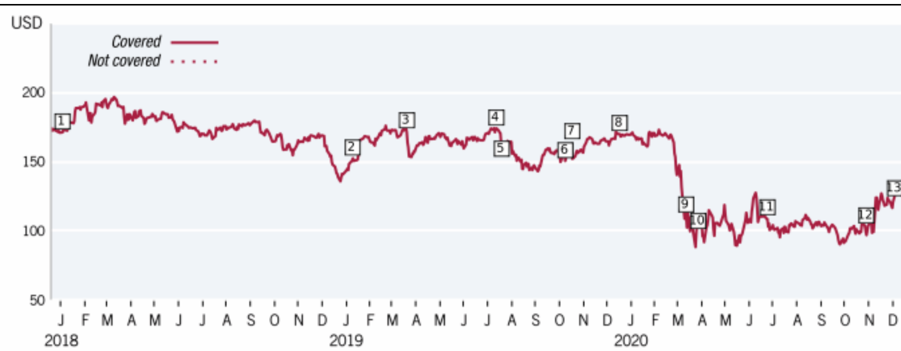
The research analysts primarily responsible for the preparation and content of this research report are either (i) designated by "AC" in the author block or (ii) listed in bold alongside content which is attributable to that analyst. If multiple AC analysts are designated in the author block, each analyst is certifying with respect to the entire research report other than (a) content attributable to another AC certifying analyst listed in bold alongside the content and (b) views expressed solely with respect to a specific issuer which are attributable to another AC certifying analyst identified in the price charts or rating history tables for that issuer shown below. Each of these analysts certify, with respect to the sections of the report for which they are responsible: (1) that the views expressed therein accurately reflect their personal views about each issuer and security referenced and were prepared in an independent manner, including with respect to Citigroup Global Markets Inc. and its affiliates; and (2) no part of the research analyst's compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by that research analyst in this report.

IMPORTANT DISCLOSURES

M&T Bank Corp (MTB)

Ratings and Target Price History
Fundamental Research

Analyst: Keith Horowitz, CFA



	Date	Rating	Target Price	Closing Price
1	02-Jan-18 06:49:47	2	*175.00	171.19
2	09-Jan-19 07:03:03	2	*162.00	152.35
3	19-Mar-19 02:39:11	2	*172.00	171.35
4	11-Jul-19 20:51:55	*3	*163.00	173.77
5	18-Jul-19 21:37:22	3	*155.00	162.76
6	08-Oct-19 06:43:17	*2	155.00	150.50
7	17-Oct-19 21:37:39	2	*150.00	152.11
8	16-Dec-19 05:00:00	2	*170.00	170.03
9	11-Mar-20 15:07:01	*2H	*140.00	111.18
10	26-Mar-20 23:18:28	2H	*130.00	110.71
11	22-Jun-20 06:45:03	2H	*125.00	108.51
12	26-Oct-20 00:40:37	2H	*120.00	103.27
13	02-Dec-20 06:43:27	*2	*131.00	123.01

*Indicates Change

Rating/target price changes above reflect Eastern Time

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	12 Month Rating			*Catalyst Watch*		
Data current as of 30 Sep 2020	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
Citi Research Global Fundamental Coverage	55%	34%	11%	22%	68%	9%
% of companies in each rating category that are investment banking clients	65%	62%	59%	68%	62%	68%

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The Family Tree
Portfolio Net Worth & Performance Summary
As of 11/30/20

	Balance	Balance		Performance Summary *				Dividends & Cap Gains	
	11/30/2019	11/30/2020		Month	Fiscal YTD	Basis		Month	Fiscal YTD
Morgan Stanley Money Market Fund	$ 200,058	$ 228,962						$ 3	$ 16
Next Generation Fund:	$ -								
Morgan Stanley	$ 1,826,100	$ 1,984,241		8.2%	11.9%	19.2%		585	$ 6,065
	$ -	$ -							
Total Next Generation:	$ 1,826,100	$ 1,984,241		8.2%	11.9%	19.2%		585	6,065
	$ -								
Weinberg Fund:	$ -								
Morgan Stanley	$ 1,028,349	$ 1,070,554		7.9%	11.7%	23.7%		378	$ 3,413
	$ -	$ -						-	
Total Weinberg:	$ 1,028,349	$ 1,070,554		7.9%	11.7%	23.7%		378	3,413
TOTAL BALANCES	$ 3,054,507	$ 3,283,757		7.5%	11.0%	20.7%		$ 966	$ 9,494

Weinberg Endowment Draw 9/20 $50,000

*After netting for Fund Transfers, additions and Drawdowns but inclusive of Dividends and CG

Percent of Balance Active vs Passive	**Active**	**Passive**
Next Generation	50%	50%
Weinberg	55%	45%
Total	52%	48%

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Portfolio Performance & Advisor Fees @ 11/30/20	CYTD	1 Year	3 Year	5 Year
Advisor Fees	$ 17,539	$ 17,539	$ 59,869	$ 103,375
TFT Performance	6.5%	8.8%	6.2%	8.3%
TFT Performance (With Fees added back)	7.1%	9.4%	6.9%	9.2%
Performance of the Blended Index in IP	7.7%	9.7%	7.8%	9.0%

Portfolio Allocations (Weinberg)	Value $	Percent
Equity	$ 753,644	70%
Fixed	$ 316,910	30%
Total	$ 1,070,554	100%
Portfolio Allocations Next Generation		
Equity	$ 1,470,018	74%
Fixed	$ 514,223	26%
Total	$ 1,984,241	100%
Portfolio Allocations Combined		
Equity	$ 2,223,662	73%
Fixed	$ 831,133	27%
Total	$ 3,054,795	100%