

Dear Hometown Bank Customer,

As you have likely seen in the news, on Friday, March 10, 2023, Silicon Valley Bank (SVB) collapsed and became the second largest bank failure in the U.S. and the largest bank failure since 2008. Then on Sunday, March 12, 2023, Signature Bank was closed by the New York State Department of Financial Services, which appointed the Federal Deposit Insurance Corporation (FDIC) as receiver. These events have led to some concerns regarding the strength of the banking system in our country and in our communities. First and foremost, these two banks are very different from Hometown Bank. The customers at SVB were primarily tech companies and venture capitalists while Signature Bank was heavily involved in the cryptocurrency market. Hometown Bank's customers are primarily individuals and local small and medium sized businesses. Hometown Bank has tried to make decisions for the future and weigh the effects those decisions will have on the customers of the bank. Sometimes, larger banks lose focus and don't consider that the best decision for today may not be the best decision for the future.

SVB was opened in 1983 and catered to primarily the tech industry and venture capitalists. The Bank experienced exceptional growth over the last several years, growing to be the 16th largest bank in the country. Based upon media reports and public information, it appears that as SVB grew and generated substantial deposits. It began purchasing securities and increasing the size of its securities portfolio by approximately \$90 billion from December 31, 2019, to December 31, 2022. These securities included relatively long-term bonds, largely comprised of fixed-rate securities, including U.S. Treasury and Mortgage-Backed Securities. Due to the low interest rate environment at the time of purchase, these fixed-rate securities were going to provide SVB a relatively low yield until maturity; however, SVB chose to make the purchases because its variable-rate liquid funds were providing a near zero yield. SVB chose to focus on short-term performance.

In an attempt to slow the economy and reduce inflation, the Federal Reserve began aggressively raising interest rates. As these rates increased, the value of fixed-rate securities declined substantially (including those of SVB). As of December 31, 2022, SVB's securities portfolio had unrealized losses of \$17.7 billion, which was approximately 97% of its total capital. Although obviously undesirable, unrealized losses may not create a problem as long as a bank does not choose to sell the bonds or is not forced to sell the bonds to meet liquidity needs. Liquidity is essential to a bank's operations as liquid funds enable banks to provide loans, purchase investments and, in the case of SVB, fund deposit withdrawals.

On March 8, 2023, to improve its liquidity position, SVB sold \$21 billion in bonds and took a loss of \$1.8 billion. The bonds were only yielding an average of 1.79% and SVB was starting to look like an underperformer relative to its peer banks. At the same time, SVB then tried to raise \$2.25 billion in new shares which started to spread concerns with investors. SVB's stock fell dramatically and by Friday, March 10, stock trading was temporarily halted. In addition to the drop in stock value, depositors attempted to withdraw more than \$40 billion in deposits. SVB did not have adequate liquidity to support the outflow of deposits and the regulators were forced to step in.

More questionable management decisions continued to be uncovered following the days of the collapse. Just hours before the FDIC stepped in and took control of the Bank, the Bank paid out bonuses to its employees in recognition of the Bank's performance in 2022. There was also questionable timing

of the sale of large amounts of SVB stock by the CEO and CFO of the Bank just two weeks prior to the Bank's collapse.

With all this being said, we want to reassure you that Hometown Bank remains a well-capitalized and well positioned bank and is here to serve you, our customers. We are committed to being a strong financial institution that contributes to our local communities. Hometown Bank holds no funds, investments, or borrowing facilities with either Silicon Valley Bank or Signature Bank. Our Bank has continued to grow over the last 16 years through strong, conservative management using organic, internal growth. Hometown Bank has a broad customer base with no concentrations in any one industry and serves a wide array of customers including consumer, commercial, agricultural, and municipal entities.

Our management and staff are here to answer any questions or concerns that you may have, including, understanding how FDIC Insurance works. Below are some helpful tools and links to help understand and calculate FDIC Insurance.

- [Understanding Deposit Insurance.](#)
- [FDIC Deposit Insurance FAQs.](#)
- [FDIC Calculators.](#)

As a community bank, we take pride in our relationship-based business model focused on building long-term trust with our customers. We wish to thank all of you for your continued support in making Hometown Bank of Pennsylvania not just any bank, but a Bank for the Community!

Sincerely,

Hometown Bank of Pennsylvania

Management and Directors