



## *Executive Summary*

### **Interest Rate Changes:**

- 1) The Fed refrained from any rate hikes during Q3; instead announcing a planned gradual unwinding/shrinking of their balance sheet
- 2) The yield curve flattened 7bp during Q3 narrowing the slope to only 85bp; The 2yr Tsy rose 10bp while the 10yr Tsy edged 3bp higher
- 3) Wholesale funding rates increased; FHLB rates priced in the upcoming expected Dec'17 Fed rate hike
- 4) Broker CD rates shifted; Brkr funding started out priced above FHLB, stabilized consistent w/FHLB, and are now lower by comparison
- 5) Loan rates remained "sticky" from competition; Retail deposit rates began to "creep" higher for new Special MMDA or CDs

### **Assumption Changes:**

- 1) Loan rate assumptions for MultiFam/CRE/Construction/CML were increased 1/8th to average 4.38% for new originations
- 2) Loan prepay speed assumptions were increased this qtr after analysis of EBSB actual experience & market conditions
- 3) Non-maturity Deposit sensitivity betas & decay rates developed Q3'17 from MtvVw study were unchanged for Q4 modeling purposes
- 4) Funding rate assumptions were adjusted higher to reflect newly offered CD Specials (+25bp) & listed Borrowings (+40bp)
- 5) Proforma Business Plan Yr1 Grwth: Loans 7% annlzd led by CRE & Construction; Deposits 7% annlzd led by CD & MMDA Specials

### **Balance Sheet Mix Changes:**

- 1) Q3 Asset size grew ~\$94mil or 12% annlzd; FFs liq was increased to 4.5% of assets; InvPort shrank slightly, remaining ~9.5% of assets
- 2) Q3 Loan grwth pace remained consistently strong at ~13% annlzd led by increased CRE & Construction; Loan/Assets fell to ~82%
- 3) Q3 Retail Deposit grwth re-emerged at strong ~10% annlzd pace led by increased CD Specials & Business Chkg
- 4) Wholesale funding concentration grew from ~13.5% to ~14.5% of assets Q3 led by increased Flipper advances



## Executive Summary

### Risk Analysis:

- 1) Measured IRR remained low/manageable Q3; NII/EVE/ROA sensitivity in compliance w/policy risk limits; Measured exposure reduced Q3
- 2) Lower exposure to rising rates; FFs liq increased significantly; Loan duration fell slightly; Funding sensitivity changes relatively neutral
- 3) Loan contractual cashflow/repricing traits increased Q3; ~13.5% Mthly, ~36% <3yr, & ~62% <5yr
- 4) Retail CD portfolio terms shifted longer; ~\$24mil new 36mth-60mth CDs Q3; CDs <24mth shrank ~\$30mil
- 5) Despite extension of both Retail/Brkr CD terms, grwth in Mthly adj Flipper advances neutralized impact
- 6) Measured Q3 EVE sensitivity fell in all Up rate shock scenarios; Slight increase in Down100bp shock scenario
- 7) Impact from various stress tests relatively consistent w/moderately higher exposure to yield curve, prepay, repricing, & basis risks
- 8) Stress impact trend: Higher Yld curve risk, Lower NMD migration & Loan pricing Basis risk; Asset prepay risk (NII lower, EVE higher)
- 8) Liquidity stress shows adequate balance sheet contractual cashflow to cover 100% Wholesale maturities & 10% Deposit runoff
- 9) "Well Capitalized" ratios continued rising trend Q3; In past year, Tier1% rose ~40bp, Total RBC% rose~20bp

### Earnings Analysis:

- 1) Actual NIM% continued rising trend thru Q3'17 as asset ylds rose higher than funding costs; Actual YTD ROA 0.89% w/security gains
- 2) Projected 0.88% ROA over next year w/preliminary budget grwth over -100bp to +200bp market interest rate range; No security gains
- 3) Projected consistent ROA w/o security gains due to assumed lower Provision & Net Noninterest expenses
- 4) Yr1 Projections: Provision 8bp & Net Overhead 1.59% vs. YTD actuals of 9bp & 1.55% respectively

### Strategy & Recommendation Themes:

- 1) **Implications**: Flattest yld curve in 9yrs w/slope ~60bp (10yrTsy-2yrTsy); Dec'17 Fed rate hike likely; Refer to ADVISOR ALM Strategy
- 2) **Capital**: Discuss timing of potential "push down" of Holding Company cash reserves into bank as capital augmentation
- 3) **Investments**: Munis, SBA, & GNMA ARMs provide good casflow diversification, low risk weight, and avg. 2.50% yield
- 4) **Funding**: FHLB already priced in Dec'17 Fed rate hike into borrowing rates; Brkr CD rates still lagging; ~15bp cheaper for 1-2yr terms

# IRR LIMITS

## POLICY COMPLIANCE

SCENARIO	NII Yr 1	NII Yr 2	\$ EVE	EVE %	ROA Yr1	ROA Yr2
+ 100BP						
+ 200BP						
+ 300BP						
+ 400BP						
- 100BP						

RISK LIMITS				
SHOCK SCENARIO	NII	\$ EVE	EVE %	ROA
+/- 100bp	5%	15%	10%	> 0bp
+/- 200bp	10%	25%	20%	> 0bp
+/- 300bp	15%	40%	30%	> 0bp
+/- 400bp	20%	50%	40%	> 0bp

# BACKTESTING: ACTUAL RESULTS vs. SIMULATION PROJECTIONS

*September 30, 2017*

## INCOME STATEMENT:

FED FUNDS  
LOANS FOR SALE  
INVESTMENTS  
LOANS  
TOTAL INTEREST INCOME  
  
DEPOSITS  
BORROWINGS  
ESOP  
TOTAL INTEREST EXPENSE  
NET INTEREST INCOME

## EXPLANATION:

### PRIOR 3 MTHS

Source: Flat Scenario Jun'17 simulation

Actual Results	Simulation Projections	\$ Variance	%
\$591	\$650	(\$59)	-9.9%
\$0	\$22	(\$22)	-22038%
\$549	\$594	(\$45)	-8.2%
<u>\$46,596</u>	<u>\$44,793</u>	<u>\$1,803</u>	<u>3.9%</u>
\$47,737	\$46,060	\$1,678	3.5%
\$7,857	\$7,520	\$337	4.3%
\$2,059	\$2,145	(\$86)	-4.2%
<u>\$170</u>	<u>\$170</u>	<u>\$0</u>	<u>0.0%</u>
\$10,087	\$9,835	\$251	2.5%
<u>\$37,650</u>	<u>\$36,224</u>	<u>\$1,426</u>	<u>3.8%</u>

1, 2, 4

### PRIOR 12 MTHS

Source: Flat Rate Scenario Sep'16 simulation

Actual Results	Simulation Projections	\$ Variance	%
\$1,860	\$739	\$1,120	60.2%
(\$0)	\$100	(\$100)	277309.9%
\$2,342	\$2,684	(\$341)	-14.6%
<u>\$170,452</u>	<u>\$164,178</u>	<u>\$6,274</u>	<u>3.7%</u>
\$174,654	\$167,701	\$6,953	4.0%
\$28,508	\$26,124	\$2,384	8.4%
<u>\$6,690</u>	<u>\$5,593</u>	<u>\$1,097</u>	<u>16.4%</u>
<u>\$686</u>	<u>\$684</u>	<u>\$2</u>	<u>0.3%</u>
\$35,885	\$32,401	\$3,483	9.7%
<u>\$138,769</u>	<u>\$135,300</u>	<u>\$3,470</u>	<u>2.5%</u>

1, 2, 4, 5, 6

## LEGEND

- 1 Lower actual InvPort grwth vs. forecast led to negative income variance
- 2 Higher actual Loan grwth vs. forecast led to positive income variance
- 3 Lower actual deposit grwth vs. forecast led to negative expense variance

- 4 Higher actual deposit grwth vs. forecast led to positive expense variance.
- 5 Higher actual Borrowings grwth vs. forecast led to positive expense variance.
- 6 Mkt rates up ~75bp past year; however deposit rates have lagged

## BALANCE SHEET/ YIELD

INVESTMENTS

LOANS

DEPOSITS

WHOLESALE

Actual Results	Simulation Projections	Variance
\$67,647	\$69,678	(\$2,031)
3.30%	3.37%	-7 bp
\$4,501,868	\$4,375,273	\$126,595
4.13%	4.16%	-3 bp
\$3,640,205	\$3,630,402	\$9,803
0.89%	0.85%	4 bp
\$814,901	\$690,725	\$124,176
1.35%	1.39%	-4 bp

Actual Results	Simulation Projections	Variance
\$67,647	\$84,458	(\$16,811)
3.30%	3.30%	0 bp
\$4,501,868	\$4,180,863	\$321,006
4.13%	4.12%	1 bp
\$3,640,205	\$3,586,240	\$53,965
0.89%	0.90%	-1 bp
\$814,901	\$478,477	\$336,423
1.35%	1.35%	0 bp



## Glossary: Abbreviations & Acronyms

### Time Related

Adj	Adjustable Rate
annlzd	Annualized
mth(s)	Month(s)
mtly	Monthly
Q1 (Q2, Q3, Q4)	Quarter 1 (2, 3, 4)
qtr(s)	Quarter(s)
qtrly	Quarterly
YE	Year End
YOY	Year-Over-Year
yr(s)	Year(s)
yrly	Yearly
YTD	Year-to-Date

### Balance Sheet Items

ARM	Adjustable Rate Mortgage
CD	Certificate of Deposit
CF	Cashflow
CML	Commercial
CRE	Commercial Real Estate
DDA	Demand Deposit Account
FFs	Fed Funds
FRM	Fixed Rate Mortgage
GNMA	Government National Mortgage Association (MBS Security)
InvPort	Investment Portfolio
MBS	Mortgage Backed Security
MMDA	Money Market Deposit Account (NMD Account)
NMD	Non-Maturity Deposit
NonInt DDA	Non Interest-Bearing DDA
NOW	Negotiable Order of Withdrawal (NMD Account)
Res	Residential
ResMtg	Residential Mortgage
SBA	Small Business Administration

### Ratios / Performance Measures

Beta	Repricing Sensitivity %
CPR %	Constant Prepay Rate
EVE	Economic Value of Equity
IRR	Interest Rate Risk
NI	Net Income
NII	Net Interest Income
NIM%	Net Interest Margin Percent
NonInt Expense	Non Interest Expense
NonInt Expense%	Non Interest Expense Percent
RBC	Risk Based Capital
ROA	Return on Assets
Tier1%	Tier One Capital Ratio
WAL	Weighted Average Life

### Other

~	approximately
ALM	Asset Liability Management
amtz	Amortize
avg	Average
bp	Basis Points
Brkr	Broker
FASB	Financial Accounting Standards Board
Fed	Federal Reserve
FHLB	Federal Home Loan Bank
grwth	Growth
liq	Liquidity
mil	Million
mkt	Market
MSR	Mortgage Servicing Rights
Muni	Municipal
rlzd	Realized
TE	Tax Equivalent
Tsy	Treasury
Twist	Non-parallel yield curve change
w/	with
w/o	without
yld(s)	Yield(s)