

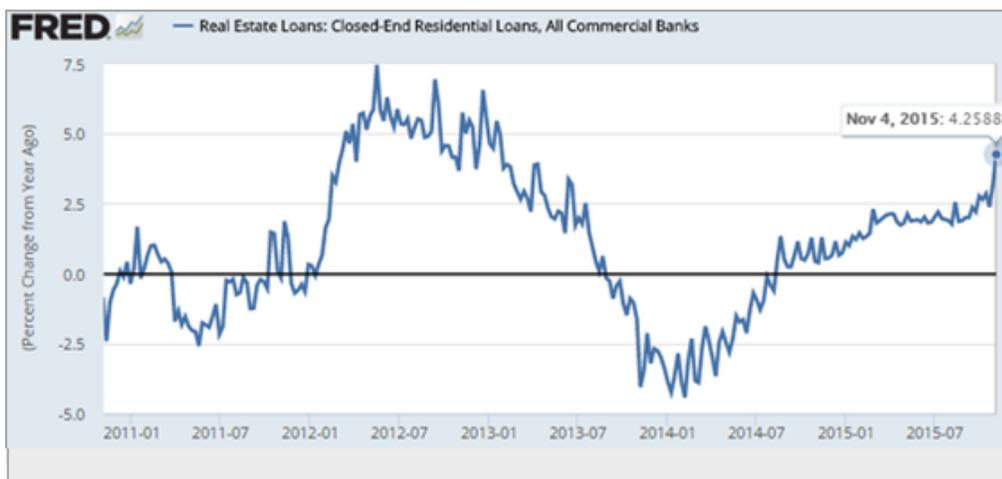


November 17, 2015

Weekly Post: **Growth Plan and the Earnings-at-Risk (EaR) Report**

Dear Clients-

The long awaited significant growth in loan production seems to have arrived. The St Louis Fed's Federal Reserve Economic Data (FRED) shows that the outstanding real estate loans have recently increased sharply. The trend is depicted in the figure below. I have also noticed that many of our clients are experiencing loan growth.



However, regulatory guidance on the Earnings-at-Risk (EaR) suggests using “flat growth,” where the model assumes that the balance sheet remains constant without any growth.

Challenge

Just a few years back, when the EaR report became a requirement, many THC clients considered the flat growth assumption sufficiently realistic due to the economy. However, this may not be the case today. You can estimate your projected earnings in the base case and in the regulatory interest rate shocks scenarios more accurately with your growth plan.

- Should EaR and other interest rate risk reports assume growth of the balance sheet?
- How can I generate the EaR and related reports with a growth plan?

Solution

Regulatory guidance expects the institutions to use EaR report to manage the balance sheet and not for regulatory purposes only. The institution's interest rate risk exposure is monitored relative to those policy limits approved by the Board. While these policy limits should be institutional specific, depending on your specific business model, the OCC survey below gives the median of a sample.



Rate Shocks	-100 bpt	+100 bpt	+200 bpt	+300 bpt	+400 bpt
NII% change	-8%	-8%	-10%	-15%	-20%

The median EaR policy limits indicate the typical percentage change limits of the net interest income of the base case under a range of interest rate shocks. Of course, these policy limits are only useful if your growth plan is incorporated in the EaR report. You may consider using your growth plan assumption in place of the flat growth assumption in your EaR and other reports, subject to the regulator’s approval.

The solution is to generate the reports yourself to have better control of the process.

Note that the Economic Value of Equity (EVE) report measures the risk on the balance sheet as of the evaluation date. The growth plan does not affect the results of this report.

Numerical Example

You can generate the EaR and other reports using flat growth assumption and your growth plan in *Risk Officer*. In my previous Weekly Post, I have described how you may use Financial Simulation to do your budgeting and generate the related risk reports.

You should also consider generating your quarterly or monthly reports. By generating your own reports, as opposed to THC providing you the reports, you can validate your input data, adjust your growth plan iteratively. Furthermore, regulatory requirements often go beyond measuring EaR and EVE. More reports have to be generated and analyzed. We need to have a better control over the reporting process.

The steps to generate your reports are quite straightforward. In the Generate Report section, you will see



1 Upload Data ?

File list		Current cycle data file	Previous cycle data file	Validation Result
Investment:	<input type="text"/>	Browse... 201509	201506	
FTPML:	<input type="text"/>	Browse... 201509	201506	view
FTPCCD:	<input type="text"/>	Browse... 201509	201506	view
Commercial Loan:	<input type="text"/>	Browse... 201509	201506	view
FTPSTAV:	<input type="text"/>	Browse... 201509	201506	view
FTPDDA:	<input type="text"/>	Browse... 201509	201506	view
Borrowing file:	<input type="text"/>	Browse... 201509	201506	
Other Borrowing:	<input type="text"/>	Browse... 201509	201506	
Others:	<input type="text"/>	Browse... 201509	201506	
CALL Report:	<input type="text"/>	Browse... 201509	201506	
UBPR:	<input type="text"/>	Browse... 201509	201506	
Budgeting input file:	<input type="text"/>	Browse... 201509	201506	

[Upload Data File](#)

[ETL Data Validation](#) [View Result](#) [Check PATHfile](#)

The first column lists the files that each institution has been providing THC. These files are specific to each institution. Instructions in preparing each file are provided on the screen. Current cycle and previous cycle reports are provide for your reference. You only have to edit the files and upload your files from your local drive to generate the reports.

Conclusion

You can control the reporting process by validating the input data and generate your selected reports. In Risk Officer, this process is simple and THC will be happy to assist you in the process.

Please do not hesitate to contact THC to assist you in generating your reports and growth assumptions.

Regards,

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