



December 27, 2015

Weekly Post: Review 2015

Dear Clients-

I want to thank you for your support of THC in 2015. I valued the opportunity to work with you this year regarding the evaluation of your investments, modeling your deposit accounts, and customized products, -capital/strategic planning, model validation, and back-testing. Thank you also for allowing my team and I to work with your auditors, regulators, the ALCO committee and your Board.

When a Federal bank regulatory agency (OTS) selected THC to design and provide risk reports to regulated banks in 2006, THC's mission was to provide all regulated community banks and mid-size banks access to a state-of-the-art risk ALM management system. A robust ALM system is central to banking and, any bank or credit union should have the right to have access to such a tool, not just the privileged few. This mission upholds a distinctive character of our US banking system.

In 2015, THC continued the process of building-out and enhancing our Risk Officer suite of products and services in an effort to accomplish our mission of providing THC clients with a state-of-the-art risk management system. In addition to providing Risk Officer™ that has broad ALM applications, THC also emphasizes on the use of the ALM analytics to assist in managing your institution. The Weekly Posts are designed to help you meet the regulatory guidelines thus ensuring you can make full use of ALM risk measurements in management, leveraging THC's financial research.

Challenge

Risk Officer™ has broad applications but, how can we use these applications to

- Price credit risk, liquidity risk, options risk and interest rate risk into our loan pricing, setting your deposit account offer rate, and other valuation problems?
- Develop and implement balance sheet strategies, budget/strategic planning, funding and investment strategies?
- Determine the margin of loans and investments, and more generally the business model?

Solution

The Weekly Post has broadly covered topics in four categories, using Risk Officer™ to provide solutions.



- Valuation: using financial models, Institutions can determine the clean option adjusted spreads of loans and investments, such that you can decide on the relative values of balance sheet items. The systematic approach allows you to maximize risk-adjusted yields of assets and minimize the funding costs
- ALM Strategies: describes a systematic approach covering peer group comparison, yield curve strategies, funding strategies, asset sector rotation strategies, and capital/strategic planning.
- Profitability: discusses maximizing risk-adjusted margin and designing optimal business models.
- Risk Management: reporting and managing interest rate risk, liquidity risk, core deposit account risk, funding loan commitments, implied market volatility for a stress test and contingency funding plan.

Review

A summary of the weekly posts based on the applications are presented below for your reference.

Valuation

4 Mar 30-ARM Relative Valuation

Dec 17-Adjustable Rate Mortgages (ARMs) Risk-Adjusted Profitability

Dec 08-An Alternative to Selling Loans to Agencies

Jun 01-Managing a Residential Loan Portfolio

July 21-Core Deposit Account - Beta and Decay

Aug 18-Value Loans based on Loss Rate – Clean OAS and the Recovery Rate

Sep 07-Credit Risk of Residential Mortgage Loans: Pricing and Reporting

Sep 22-Mortgage Serving Right: Valuation and Risk Analysis

Nov 04-Reviewing the Investment Portfolio and keeping loans on the Balance Sheet

ALM Strategies

July 13-Peer Group Comparison

Apr 05-Setting Core Deposit Account Offer Rates

May 11 Sector Rotation

May 19-Liability Strategy

Jun 22-Funding a Growth Plan

Jun 08-Risk-Based Budget Planning

Apr 12-Using the Forward Curve to Determine IRR Exposure

Aug 23-Implementing Risk-Based Budgeting Made Simple

July 28-Simulate NMD Offer Rate Strategies

Oct 20-Setting the Core Deposit Account Offer Rates

Sep 15-Budget Planning: New Challenges and Solutions

Oct 26-Borrowings Modification

Profitability

Mar 23-Risk Adjusted Profitability 3

July 07-Management Executive Summary



May 24-Business Model
Oct 12-Compare Margins of Loans
Nov 10-Balancing Margin and Liquidity/Interest Rate Risks

Risk Management

Apr 26 Liquidity Coverage Ratio
May 01 Risks of Embedded Options
July 01-Sensitivity Analysis of Budget Plans (OCC Questionnaire)
Jun 15-Dynamic Financial Simulations for Your ALM Strategies
Aug 11-Contingency Funding Plan – Quantitative Assessment
Apr 21-Estimating the Likelihood of Rate Scenarios
Aug 04-Dynamic Liquidity Risk Management- Sources and Uses of Funds
Aug 30-EVE Growth Attribution: Recursive Back Testing Analysis
Dec 02-Implementing a Credit Model
Oct 06 Measuring Risk Level – a Market Approach
Nov 17-Growth Plan and the Earnings-at-Risk (EaR) Report
Sep 29-Funding Loan Commitment: Managing Interest Rate and Liquidity Risks
Dec 20-Adjusting Interest Rate Risk Exposure: Prospective and Retrospective Evaluation

Conclusions

The objective of the Weekly Posts is to provide insights into the use of ALM models to enhance earnings and manage risks for your decision-making processes. Furthermore, the weekly posts show regulators and auditors the use of risk management methods in your management processes and that the decision support tool is supported by THC research.

Risk Officer™ with THC research meets regulatory requirements, minimizes your regulatory burden and enables you to enhance your earnings. My team and I welcome your ongoing comments and suggestions regarding the Weekly Posts and look forward to the opportunity to assist you in the coming New Year.

I would like to wish you all a safe, happy and prosperous New Year.

Regards,

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