Balance Sheet Analysis and Strategy Group (BSAS)

Services Overview
Balance Sheet Strategy Group

HOLISTIC APPROACH TO BALANCE SHEET MANAGEMENT
• Address each situation individually, using our comprehensive modeling capabilities of assets, liabilities, and interest rate derivatives to advise on the appropriate plan

ADVISORY CULTURE
• Clients gain the collective insight and experience of 30+ years of analyzing bank balance sheets.

OUR APPROACH IS OUR BIGGEST STRENGTH
• No bank is “one size fits all” – custom solutions to help clients build franchise value
• Assessment of options within the context of overall balance sheet and strategic direction of the institution – focusing on earnings, interest rate risk, liquidity, and capital

EXPERTISE
• Deep understanding of full array of balance sheet management and risk mitigation strategies available
• Asset / liability modeling and budget planning
• Interpreting pending regulatory changes
• Strategic opportunities in mergers, acquisitions, and capital raises

COLLABORATION WITH MANAGEMENT
• Open dialogue – leverage institutional strengths and minimize risks, determining which balance sheet efficiencies, if any, can be improved
• Annual strategic planning summits and quarterly balance sheet reviews, as well as ALCO and Board education

EXPOSURE TO INDUSTRY
• National exposure to a broad array of institutions in competitive environment: Deep insight into industry trends and emerging topics
• 20+ industry conferences and regional banking associations and forums over the past year
• Published in trade journals and magazines
Focusing on building core franchise value, we take a holistic approach to balancing earnings, interest rate risk management, liquidity and capital planning.

**Capital**
- Sufficient capital to meet customer needs
- Yield curve impact on tangible book value
- Efficient capital structure

**Earnings**
- Maximize returns to shareholders
- Ability to generate capital via earnings to fund growth

**Balance Sheet Management**

**Liquidity**
- Capacity to create cash and meet customer needs
- Tradeoff between wide varieties of options

**Interest Rate Risk**
- Balance sheet sensitivity to changes in rates?
- Do ALCO results reflect reality? Comfortable with assumptions?
OptPLUS: Balance Sheet Strategy Model

All of our industry-leading expertise thrown into one powerful model that is both interactive and unique to each client’s balance sheet.

- Evaluate strategies, based on institution’s goals, constraints, and policies:
  - Wholesale Restructurings
  - Balance Sheet Hedges
  - Investing Excess Cash
  - Loan-Level Hedges

- Scenario comparison: pre- and post- strategy impact helps find the optimal strategy

- Flexible across potential opportunities facing the institution, including balance sheet mix optimization, capital planning, M&A integration

- Model outputs help management teams and board members summarize options, discuss internally, and document due diligence
Interest Rate Risk Modeling

- Our interest rate risk modeling process aims to accurately incorporate all of the features which drive cash flow, repricing and interest rate risk.

- Our advisory services regarding ALM extend beyond modeling, to helping institutions run their ALCO process in a more efficient manner.

- We help provide guidance in developing assumptions by sharing industry/regulatory best practices.

- We present our results and discuss the drivers of the bank’s interest rate and liquidity risk, along with our suggested strategies to mitigate that risk.

SHORT-TERM RISK

- Net Interest Income simulation for each of the next two years under different rate scenarios.
- Calculates the impact to Net Interest Income, given a change in interest rates.

LONG-TERM RISK

- Economic Value of Equity (EVE) : Market Value of Assets less Market Value of Liabilities under different rate scenarios.
- Captures interest rate risk from all future periods.
- Calculates the change to EVE, given a change in interest rates.

Management Reporting: While our quarterly asset/liability reports are used to meet regulatory requirements, our presentations provide a forum for meaningful discussion about the institution’s risk profile. We aim to enhance discussions, through years of modeling and strategic planning expertise.
Our clients are not Investment Portfolios.
Our clients are Financial Institutions.

Our investment management approach begins with our understanding of the institution’s asset and liability cash flow characteristics, interest rate sensitivities, and overall balance sheet risks, and combines that with our Fixed Income culture and expertise – the team and its capabilities are results of 30 years of analyzing bank balance sheets.

**PROVIDE LIQUIDITY FOR THE INSTITUTION:**
- Generate cash via bond sales or pledge for funds
- Cash flows serve as a liquidity source over time

**MANAGE INTEREST RATE RISK:**
- Overall balance sheet interest rate risk profile should drive the composition of the investment portfolio
- Is it “conservative” to rely on changes in rates to dramatically drive earnings?

**GENERATE ADDITIONAL INCOME**
- Fill earnings void during weak lending environments
- Tax-efficient income

**MANAGE CAPITAL LEVELS**
- Can help serve as a buffer for excess funds when loan balances are low
- Manage risk-adjusted capital levels

*Risk/Reward trade-off between the investment portfolio objectives is dynamic and subject to change as overall balance sheet initiatives evolve.*

*Maintaining a nimble and flexible investment portfolio is a key priority.*
Derivative Path Partnership

Derivative Path, Inc.

- An industry-leading solution to assist financial institutions and commercial end users in executing and managing their over-the-counter interest rate derivative transactions
- State of the art derivative trading platform, DerivativeEDGE, provides front-to-back derivatives origination and execution capabilities
- With over 100 years of combined experience in derivative sales and trading, our clients benefit from our best-in-class execution approach
- Complete regulatory and compliance support, ensuring the bank is acting within the necessary Dodd-Frank protocols and keeping up-to-date with all regulatory changes

EXPERTISE

- Sales team comprised of derivative industry veterans who have worked for some of the world’s largest capital market firms
- Industry-leading technology expertise, headed by the former Head of Technology at Wells Fargo
- Top-of-the-line compliance support to ensure adherence with Dodd-Frank regulatory frameworks

ADVISORY

- Last-mile services beginning with program setup to trade inception to derivatives portfolio management
- Ongoing derivatives education for all bank personnel
- Assistance with borrower presentations of hedge transactions
- Review and execution of all legal documentation and transactions to make sure of fair terms and pricing
- Hedge accounting assistance

DerivativeEDGE™

- Real-time market data
- Multi-product pricing (swaps, swaptions, cancelable swaps, and more), risk, analytics, CVA, and PFE
- Track and fulfill Dodd-Frank pre-trade compliance requirements with ease
- Resets, MTM statements, and other reports can either be automatically generated or run effortlessly
- Cost-effective and continually improving to support client needs

Derivative Path: A full service derivatives execution and technology firm. Our partnership provides complete hedging offering to the bank client.
Balance Sheet Analysis and Strategy Services Offered

**Quarterly ALCO Modeling**
- NII and EVE Analyses
- Liquidity Analysis and Stress Testing
- Strategic Analysis
- Key Assumption Stress Test (Beta, Decay, Prepayment Projections)
- Back-testing Support
- Non-parallel Yield Curve Modeling (Flat, Steep, Inverted)
- Model Risk Management Support

**OptPLUS Balance Sheet Strategy Model**
- Evaluate strategies, based on institution’s goals and policies:
  - Wholesale Restructurings
  - Balance Sheet Hedges
  - Balance Sheet Growth
  - Investing Excess Cash
  - Loan-Level Hedges
  - New Capital
- Scenario comparison: pre- and post-strategy impact

**Investment Portfolio Strategy**
- Portfolio Analysis and Monitoring
  - Credit monitoring
  - Proprietary Municipal Credit Scoring
  - Maturity and call alerts
- Purchase & Sale Recommendations
- Pre-purchase Analysis
- Month-End Pricing
- Trade Execution
- Bond Accounting
- Financial Modeling
- Formal Board and ALCO Education

**Derivative Path Partnership**
- Complete hedging offering to financial institutions
- OTC Interest Rate Derivatives Management
- Complete Legal and Compliance Support
- DerivativeEDGE: Cloud-based Trading Platform
- Sales and Execution Services

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*Working with financial institutions every day, we appreciate the importance of having a sound strategic plan in place to help meet your institutions’ goals. Our team provides a comprehensive solution, integrating all our services, expertise, and industry knowledge to customize our approach to help clients build franchise value.*

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**Balance Sheet Analysis and Strategy Group**
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