



# Annual CFO, Investments and Operational Risk Conference

## "Balancing the Risks"

### Perspectives of Portfolio Management

Joel A. Comer

Principal

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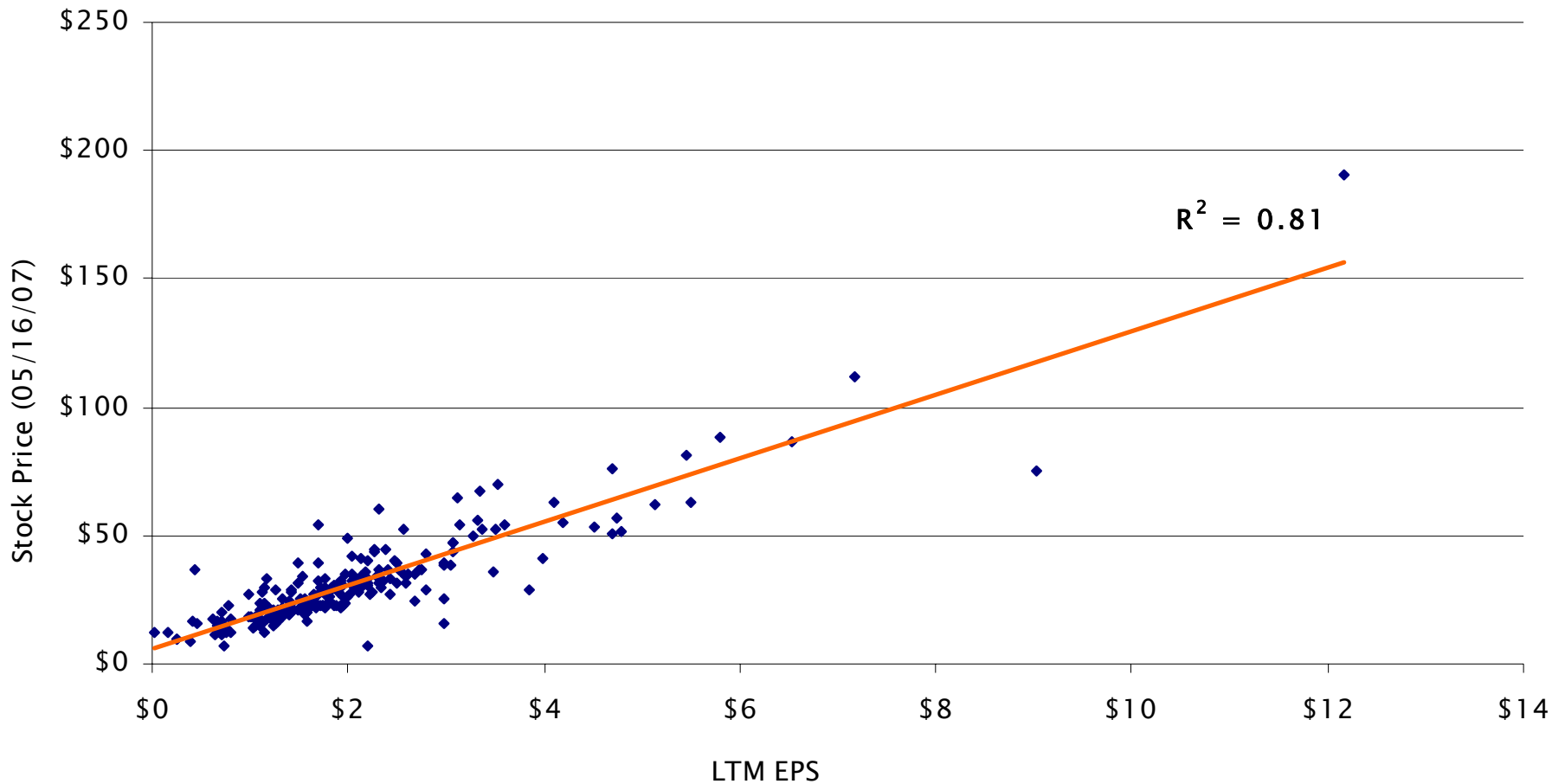
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- I. Building Shareholder Value
  - A. Growth Rate of Various Portfolios
  - B. Capital Management
  - C. Balance Sheet Funding
  - D. Cashflows within the Balance Sheet
  - E. Management of Optionality
  - F. Management of Credit Risk

Building a balance sheet that delivers **RECURRING**  
and **CONSISTENT EARNINGS** growth.

# What Drives Valuation?

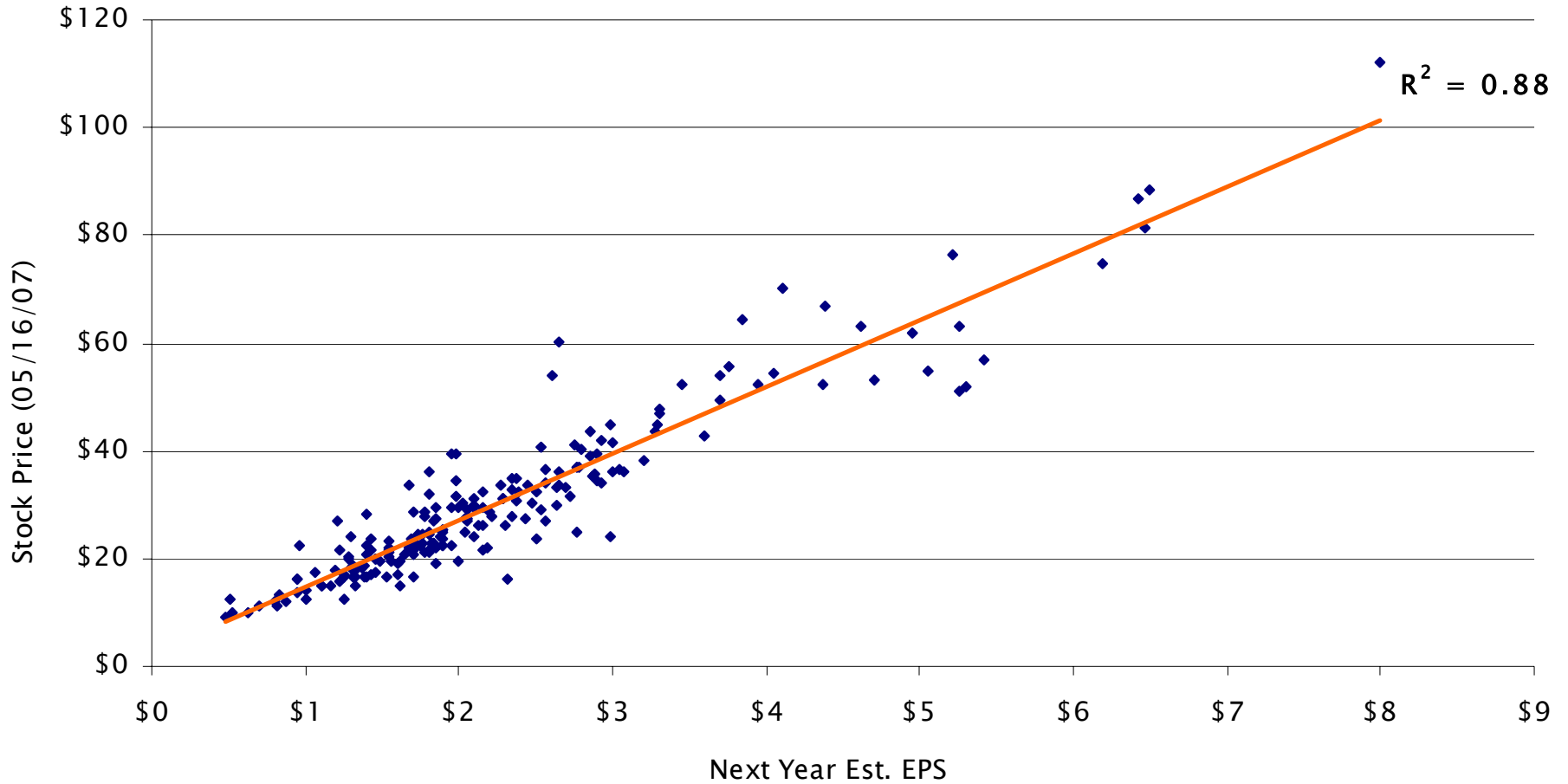
Price Vs. LTM EPS (YTD MRQ 2006)  
Nationwide Commercial Banks > \$1 Bil. in Assets (excludes merger targets)



Source: SNL

# What Drives Valuation?

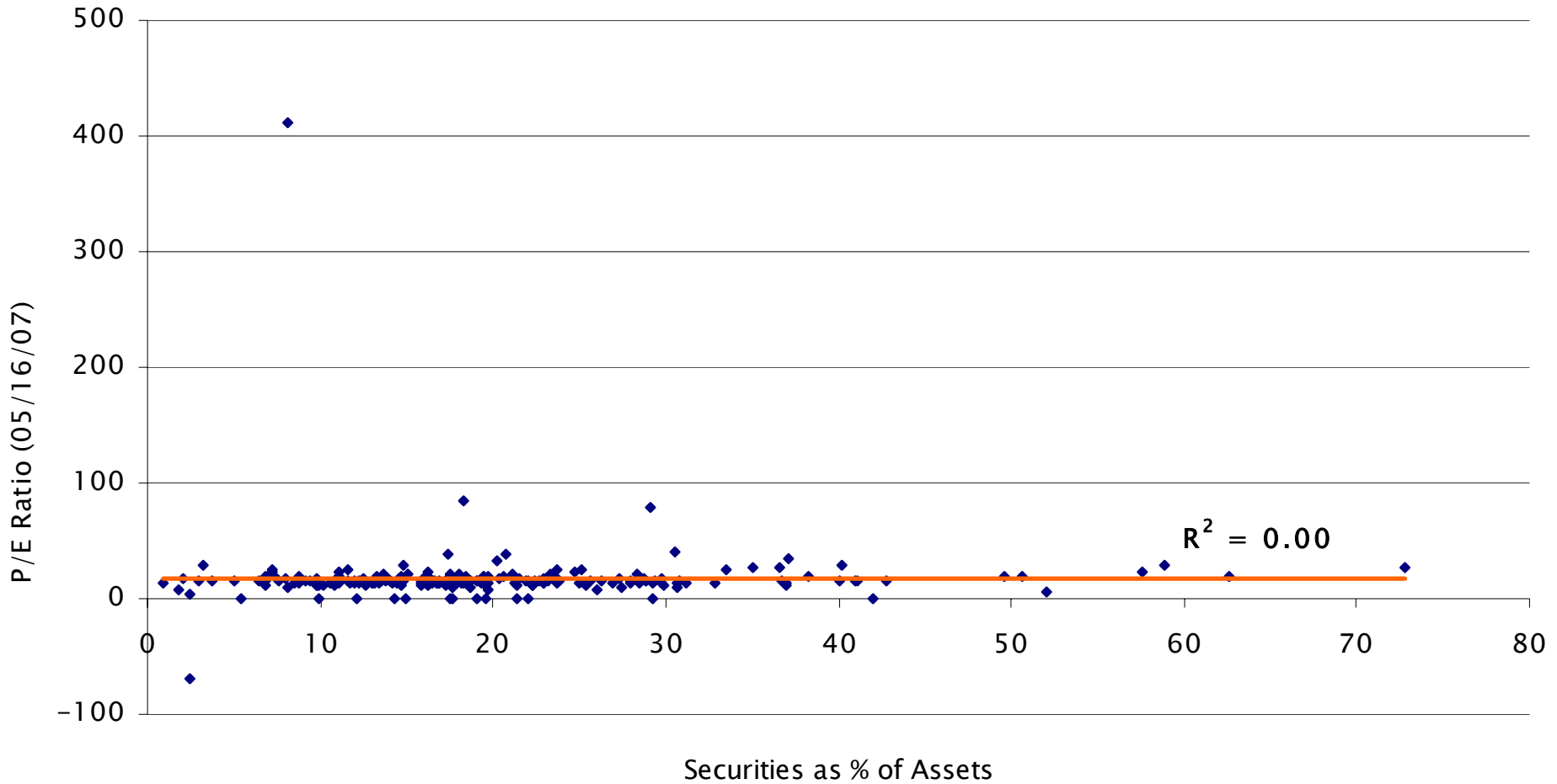
**Price Vs. Median Next Year EPS Estimate**  
Nationwide Commercial Banks > \$1 Bil. in Assets (excludes merger targets)



Source: SNL

# What Drives Valuation?

**P/E Ratio Vs. Securities as % of Assets (MRQ)**  
Nationwide Commercial Banks > \$1 Bil. in Assets (excludes merger targets)



Source: SNL

- I. Investment strategies for financial institutions incorporate more than fixed income securities.
  - A. We are given capital to manage. How we choose to deploy that capital is, by default, the “investment strategy” for the company.
  - B. When considering the investment strategy, a bank cannot simply focus on the asset side of the equation. It must also take into account the funding available to make the asset decision.

# The Right Bond? Does It Exist?

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- I. Is there one “right” fixed income investment?
- II. Considerations
  - A. Cashflow needs
  - B. Interest rate bias
    - i. Call Protection
    - ii. Extension Risk
  - C. Diversification
  - D. Bank’s Investment Policy
- III. Flexibility to change with the bank’s changing structure as well as market movements

## I. Asset Growth

- YE 2003 Average Assets = \$378MM
- YE 2006 Average Assets = \$563MM

## II. Securities portfolio as a percentage of assets has decreased

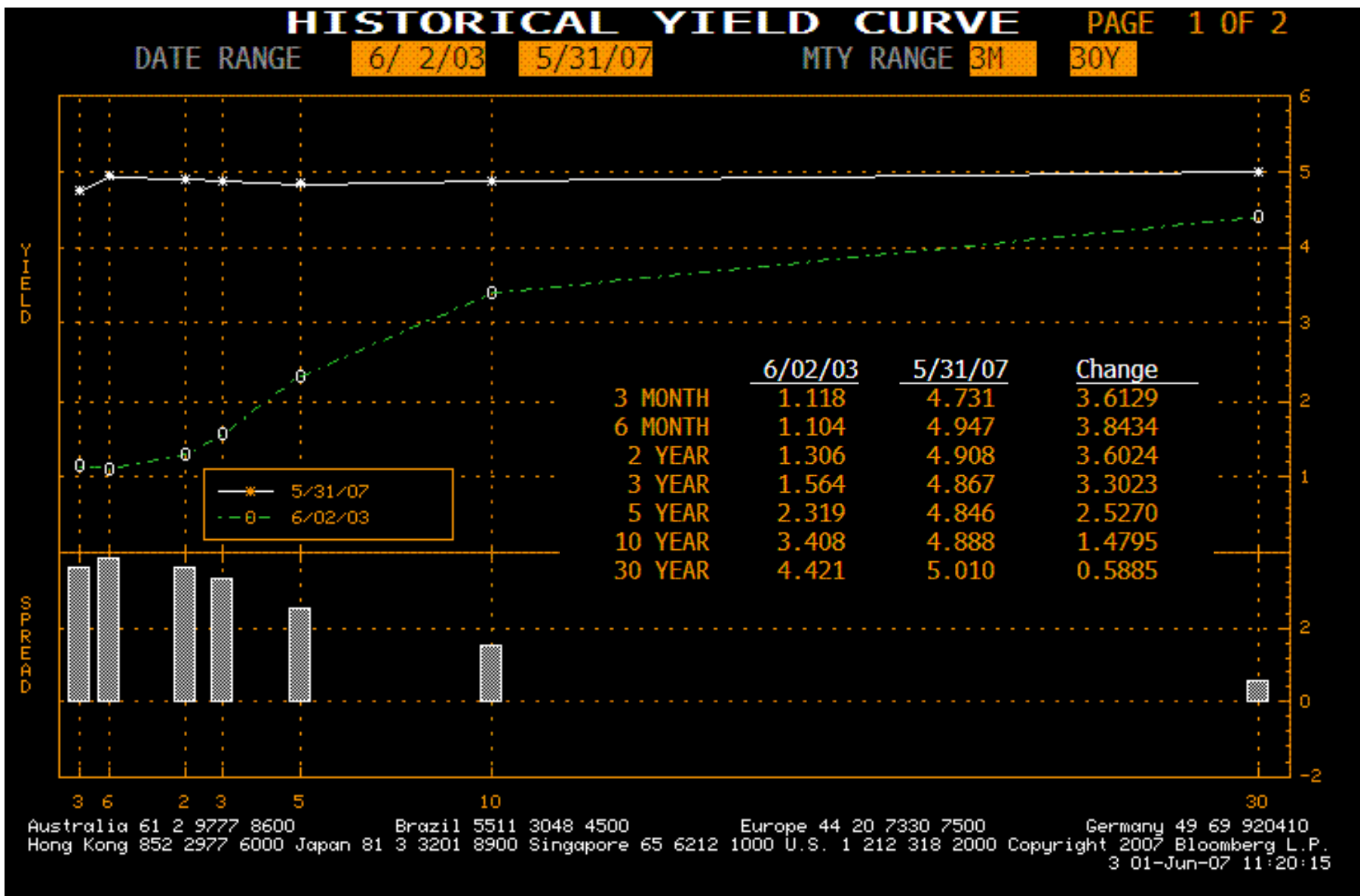
- YE 2003 Average Total Securities/Total Assets = 15.93% (\$76MM)
- YE 2006 Average Total Securities/Total Assets = 12.07% (\$78MM)

## III. Loan portfolio as a percentage of assets has increased

- YE 2003 Average Total Loans & Leases/Total Assets = 66.08% (\$254MM)
- YE 2006 Average Total Loans & Leases/Total Assets = 75.08% (\$428MM)

Source: SNL

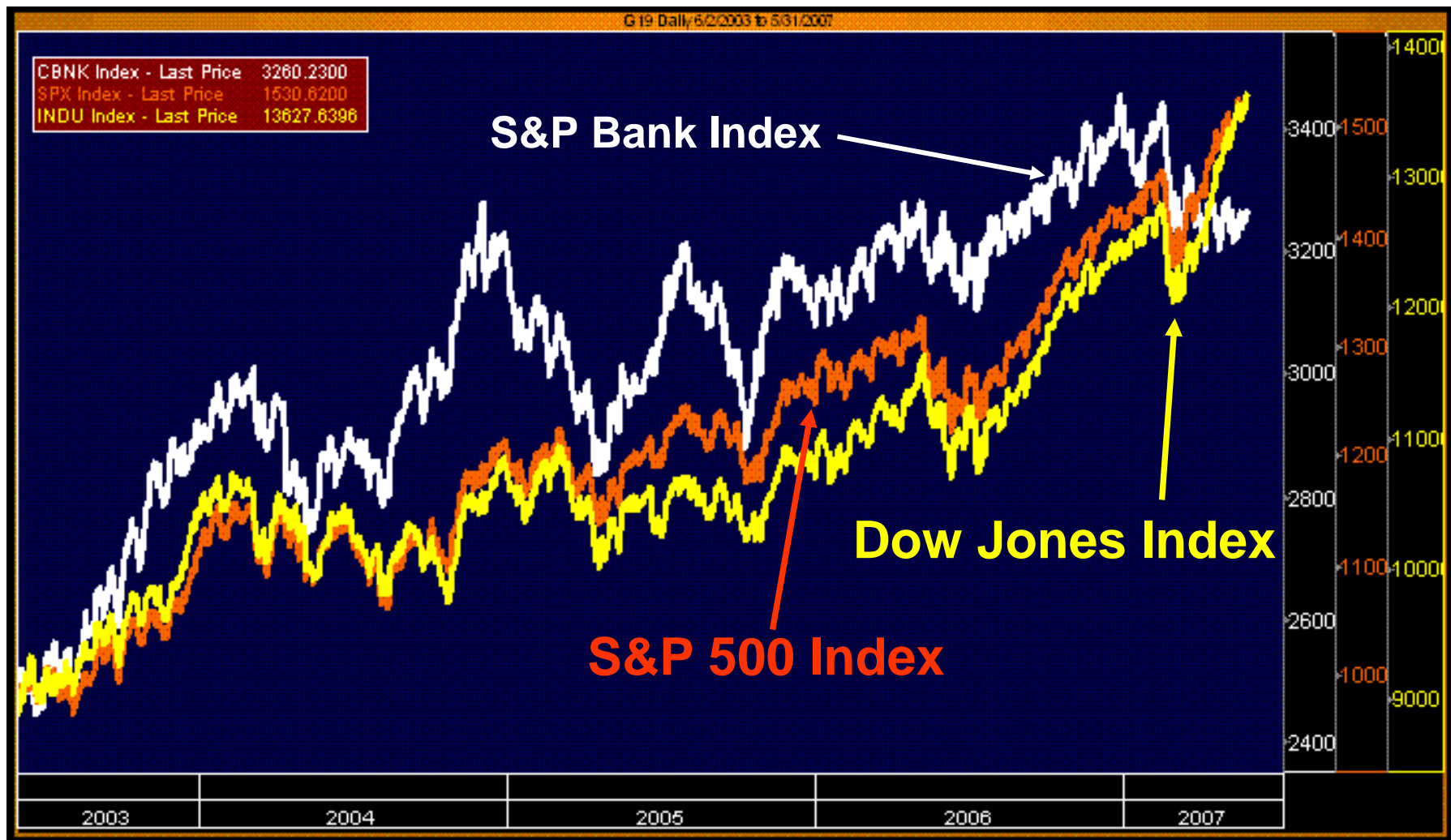
# The Markets Over the Last Four Years – The Yield Curve



Source: Bloomberg



# The Markets Over the Last Four Years – Equity Indices



Source: Bloomberg

## I. Where are we now?

- ALM model
- Comparable Group Analysis
  - Peer
  - High Performing

## II. What are we trying to Achieve?

- Proprietary Macro model (Earnings Model)

## III. Getting it Done

- Proprietary Micro model (Leverage Model)

## IV. Post Strategy Profile

- What do we look like now?
- Unintended results?



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