

ALM, Liquidity & Funding Strategies for the Current Environment



March 31, 2026

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Presenters



Andrew Paolillo

Vice President, Director of Member Lending
& Strategies



Caroline Casavant

Senior Financial Strategist



Tyler Buckeridge

Sales & Strategies Specialist

Overview

- Managing Through Interest-Rate Volatility
- Managing Prepayment Exposure Across Loans and Deposits
- Value & Opportunity in Floating-Rate & Puttable Funding

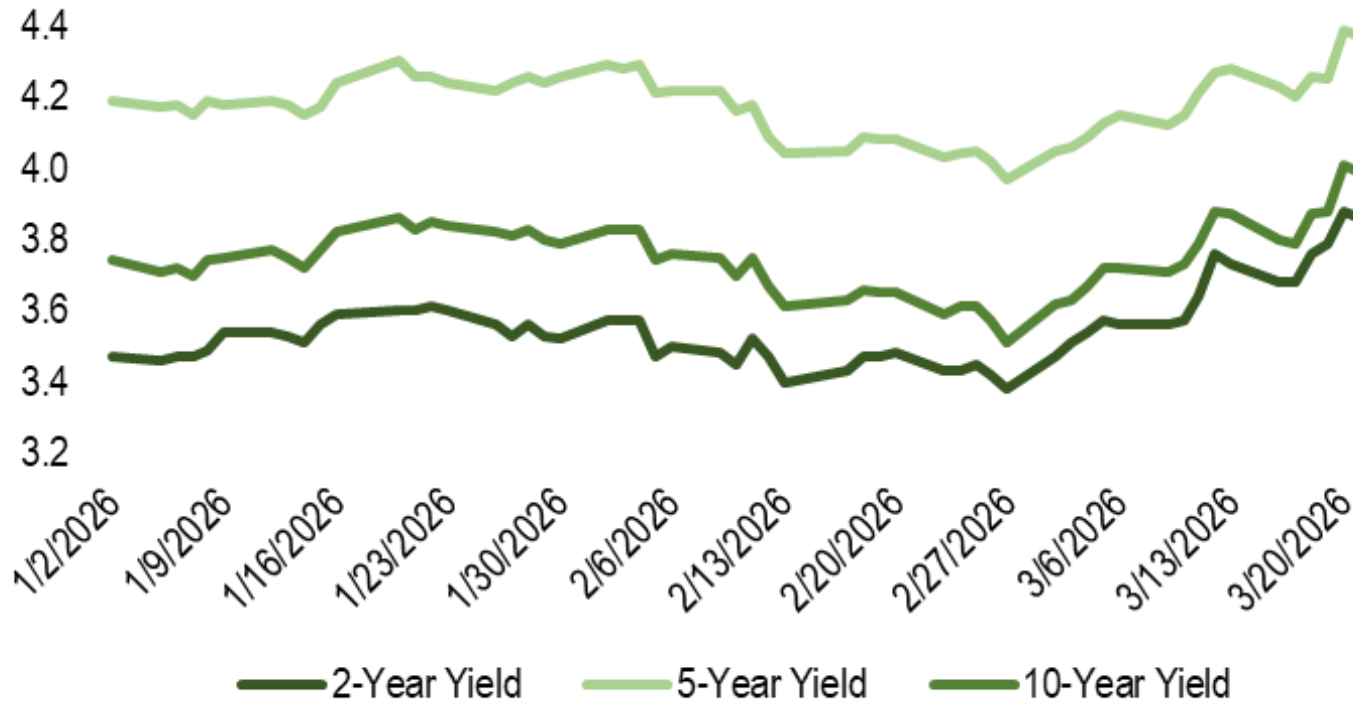
Managing Through Interest-Rate Volatility



Interest Rates Have Moved Up Rapidly

Since the beginning of Operation Epic Fury in Iran, Treasury rates have moved up across the curve.

2-, 5-, and 10-Year Treasury Yields (%)

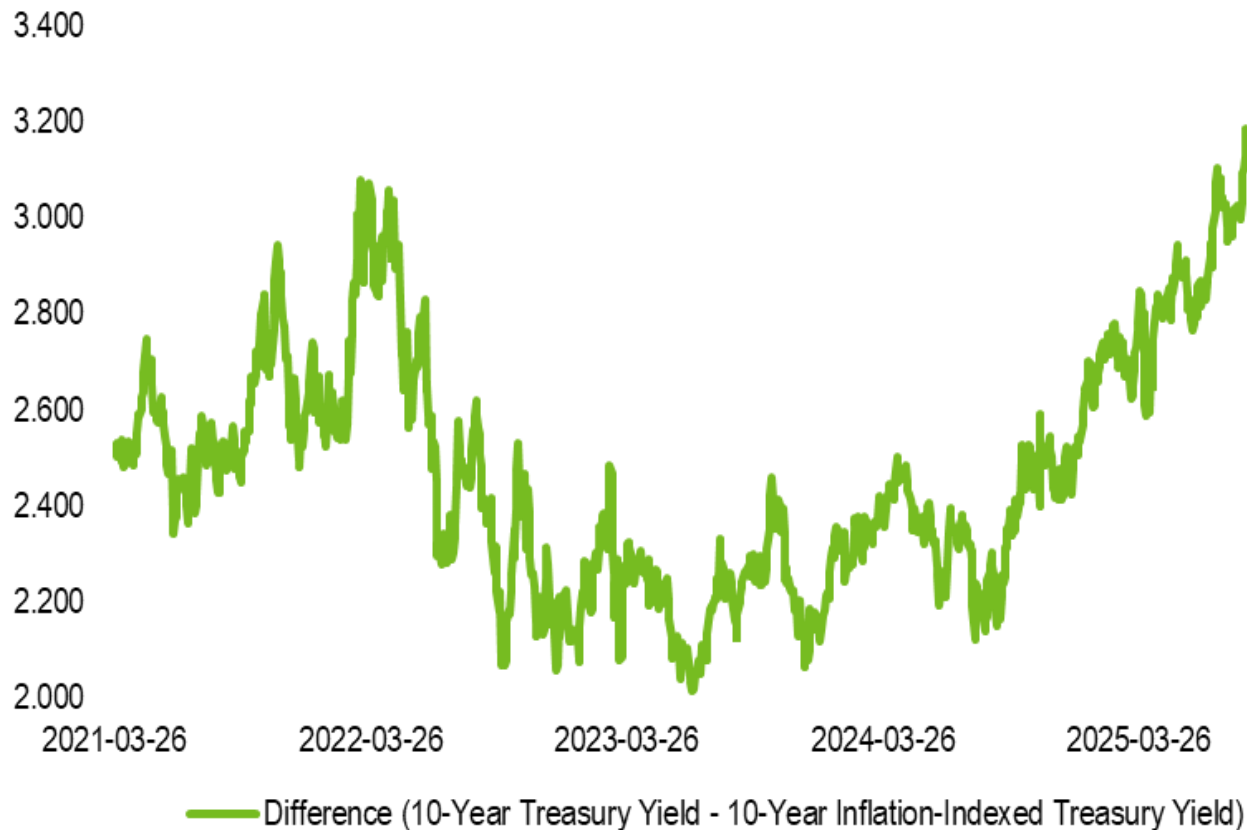


Source: Federal Reserve Bank of St. Louis, U.S. Treasury, FHLBank Boston

TIPS-Implied Inflation Expectations Are Also Higher

TIPS (Treasury Inflation Protected Securities) have outperformed nominal Treasury securities, meaning that market-based measures of inflation have moved higher.

Market-Implied Longer-Run Inflation Expectations (%)

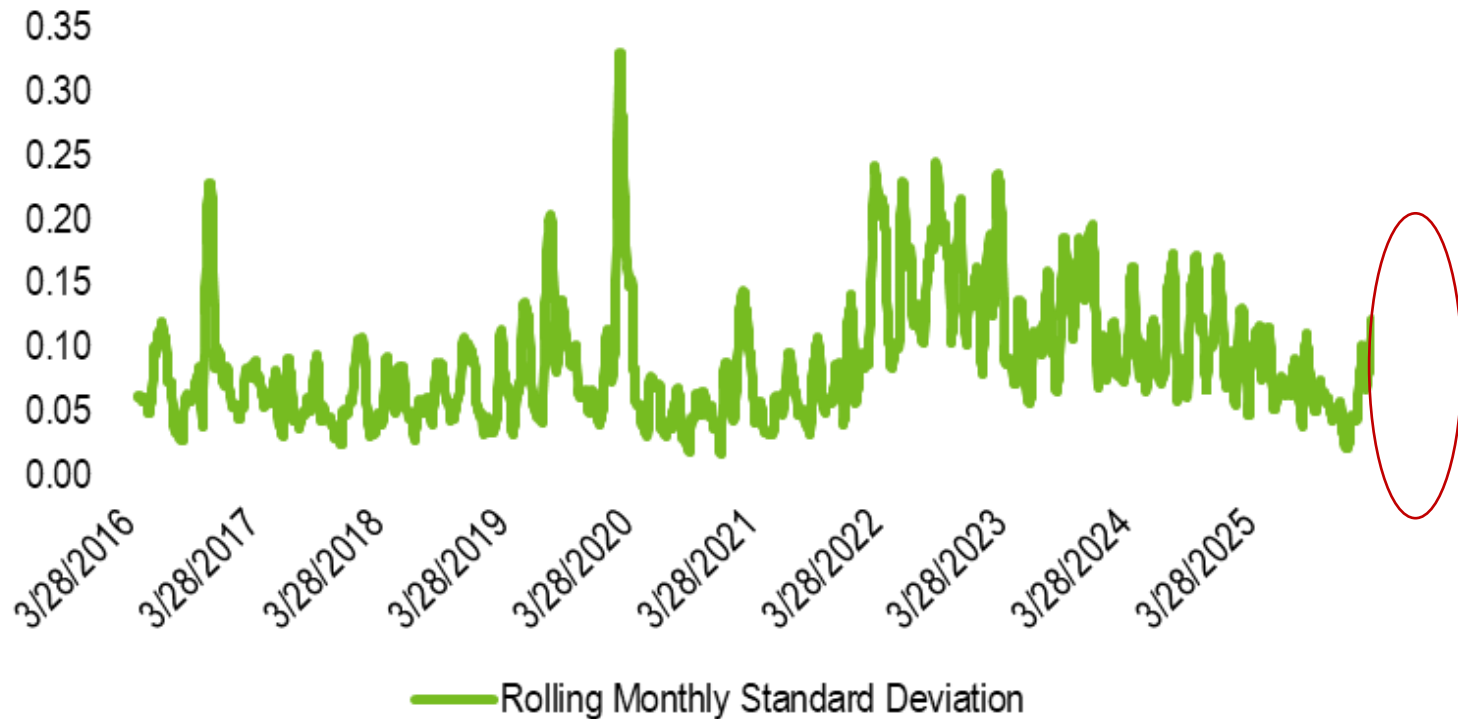


Source: Federal Reserve Bank of St. Louis, U.S. Treasury, FHLBank Boston

Interest-Rate Volatility Has Increased

Although interest-rate volatility remains below elevated levels observed when rates were higher, interest-rate volatility has increased sharply in the past few weeks.

10-Year Treasury Realized Volatility



Source: Federal Reserve Bank of St. Louis, U.S. Treasury, FHLBank Boston

Why Should You Care About Interest-Rate Volatility?

Far from being an economic curiosity, the level of interest-rate volatility has material implications for the management of your balance sheet.

- Expected liability repricing (inability to pass on expected cuts)
- Potential faster repricing of liabilities than assets
- Changes to expected cash flows
- Options repricing, especially for mortgages, which are negatively convex, can affect cash flows and ROA
- More expensive to hedge option-embedded instruments, given wider distribution of outcomes for rates
- Drag on ROA from the need to hold more liquidity

If Interest-Rate Volatility Increases, Who Benefits?

The source of the interest-rate volatility matters, but typically institutions engaged in trading activities and those with material exposure to floating rates will outperform.

- Depositories with floating-rate loan exposure (especially C&I)
- Depositories with minimal fixed-rate mortgage exposure
- Depositories with short repricing lags, which therefore can take advantage of higher rates on asset side
- Depositories with inelastic core deposits (i.e. transactional operating accounts)
- Shorter-duration, higher-turnover lenders
- Depositories that hedge cash flows, rather than duration alone

If Interest-Rate Volatility Increases, Who is Vulnerable?

The source of the increased volatility matters. Typically, institutions with fixed-rate exposure, and especially mortgage exposure are the most vulnerable to underperforming.

- Longer-duration lenders
- Mortgage-heavy lenders (especially fixed-rate residential mortgages, long-dated CRE)
- Depositories with elastic liabilities, where the institution depends heavily on money-market-like structures, brokered deposits
- Depositories that hedge duration only, rather than cash flows

How Can You Manage Interest-Rate Risk through Volatility?

FHLBank Boston advances can help you course adjust if rates are evolving differently than you planned in 2026.

- Increase Floating-Rate Exposure:
 - On liability side, FHLBank Boston floating-rate advances
 - On asset side, consider floating-rate loans
 - Reduce issuance of fixed-rate loans or price them higher
- Hedge cash flows, not just duration:
 - Consider modeling around cash flows, which are less volatile than duration alone and match with FHLBank Boston advances
- Use option-embedded liabilities and assets to curtail duration risk:
 - When volatility increases, tail risks also increase. Use FHLBank Boston option-embedded advances to tailor risk.

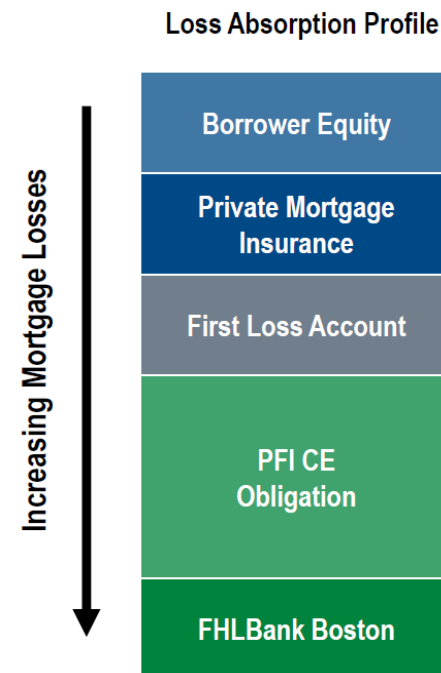
How Can You Manage Mortgage Risk through Volatility?

The Mortgage Partnership Finance® Program allows Participating Financial Institutions (PFIs) to tailor convexity risk and moderate exposure to mortgages in periods of elevated volatility.

MPF 35 and Credit Risk Sharing

PFI incurs credit enhancement (CE) obligation on sold loans in the form of a second loss position behind FHLBank Boston's first loss position

- The first loss account (FLA) is 35 bps of unpaid principal balance
- The CE Obligation of the pool builds as loans are delivered, based on the loan level risk profile as determined by the S&P LEVELS® model



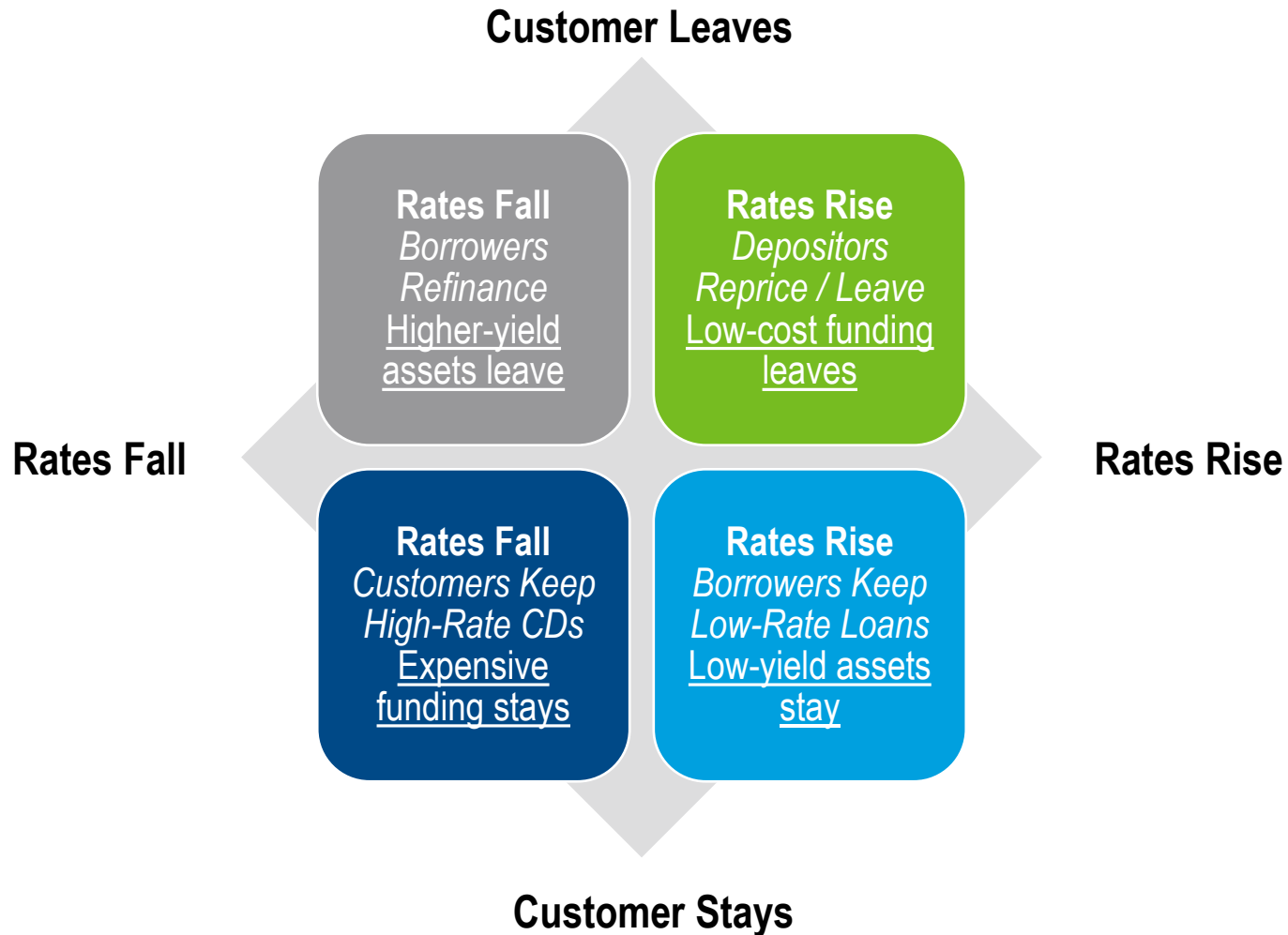
"Mortgage Partnership Finance," and "MPF," are registered trademarks of the Federal Home Loan Bank of Chicago.

Managing Prepayment Exposure Across Loans and Deposits



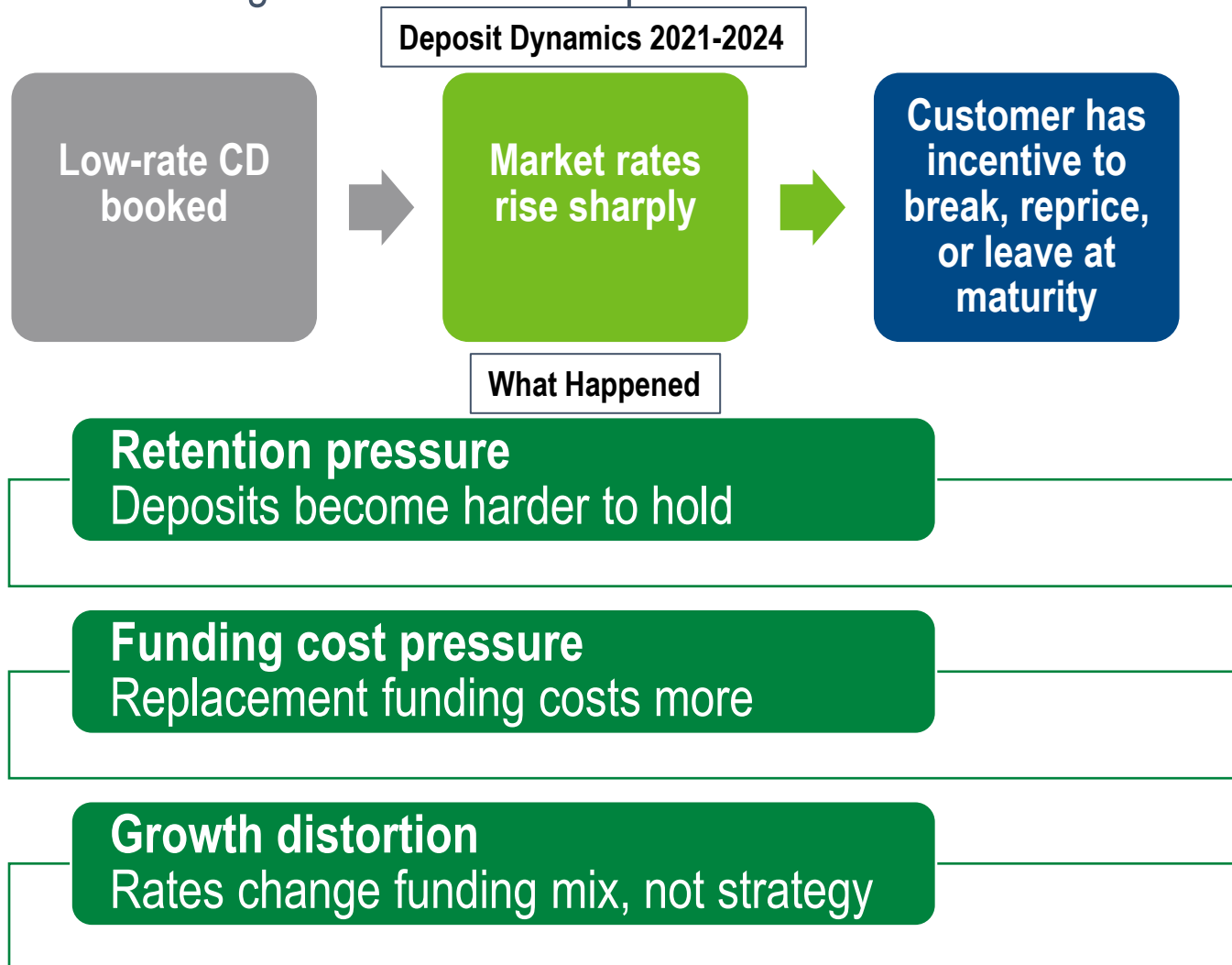
The Hidden Option on Your Balance Sheet

When customers can react to rates faster than you can, they capture option value which can distort asset mix, funding mix, and NIM.



What Happened to CDs When Rates Moved Higher

Static or weak early withdrawal penalties can leave institutions exposed when customers have a strong incentive to move up rate.

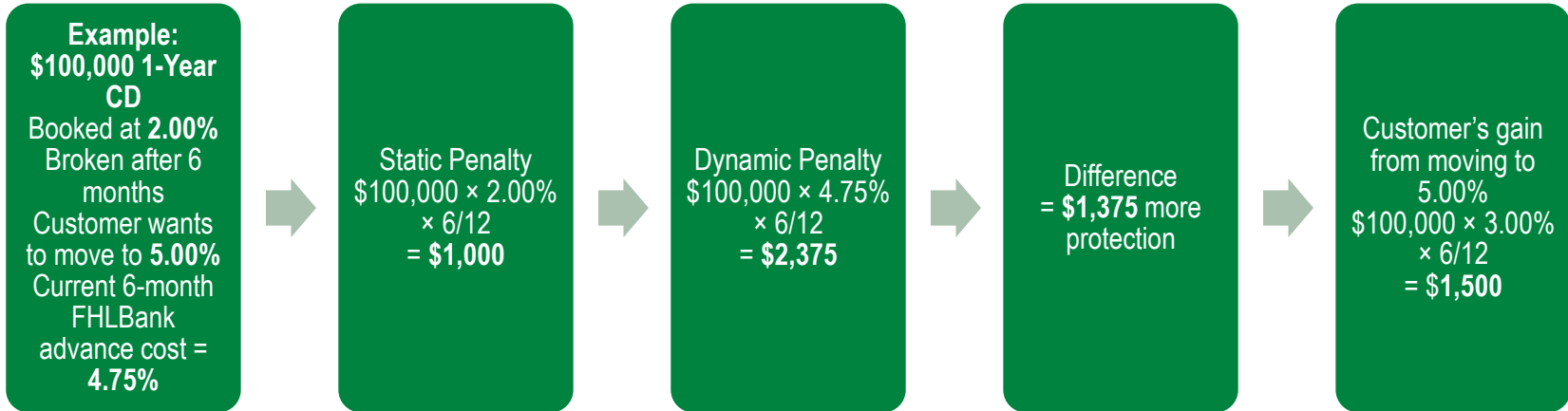


Not All Prepayment Penalties Protect You Equally

A simple penalty may be familiar, but a replacement-cost penalty can better reflect the institution's real economics when rates move.

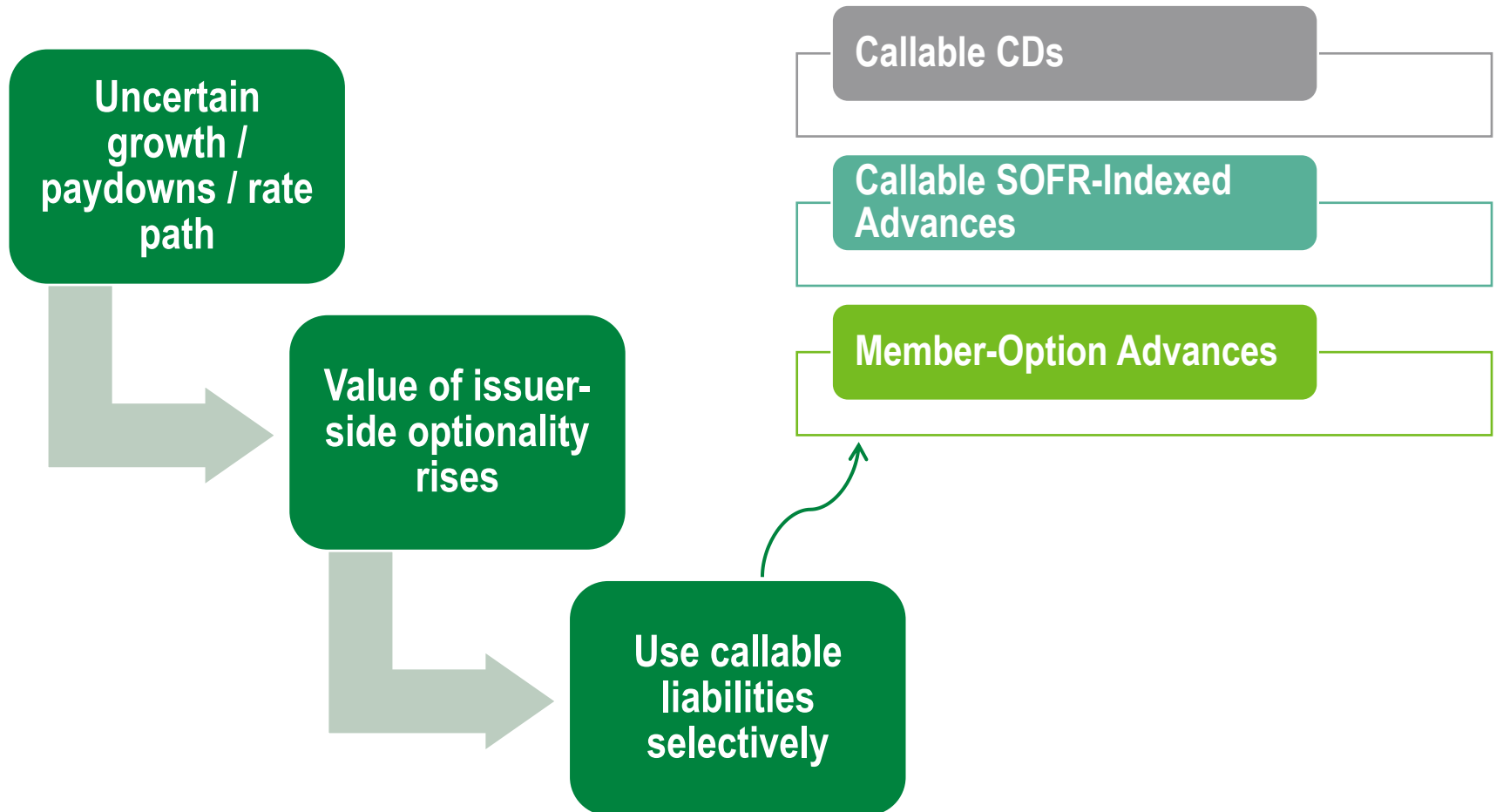
Static Penalty
 6 months interest at contract rate
Easy to explain
May undercharge when rates rise

Dynamic Penalty
 Greater of:
 6 months interest
 or
 replacement cost of same
 remaining term FHLBank advance



Reclaiming Optionality on the Liability Side

Callable CDs and callable advances can give the institution flexibility when growth, paydowns, and the path of rates are uncertain.



Make Funding Behavior More Intentional

Better liability-side design can reduce rate-path distortion and make funding outcomes more reflective of management intent.

Rate-driven liability behavior

- CDs leave when better rates appear
- Funding mix changes with rate shocks
- Margin depends on customer timing

Strategy-driven liability management

- Penalties reflect replacement cost
- Callable structures preserve flexibility
- Funding mix better reflects management intent

The Asset Side Has the Same Problem

Fixed-rate commercial and CRE loans can give borrowers valuable timing options when rates move, and weak prepay design can distort earning-asset mix just as weak deposit design can distort funding mix.

Rates Fall

- Borrowers refinance or prepay
- Higher-yielding assets leave

Rates Rise

- Borrowers stay in below-market loans
- Low-yield assets remain on the books

Common Commercial Loan Prepay Structures

For most regional banks and credit unions, the practical question is usually step-down versus yield-maintenance-style protection.

Step-Down

- Penalty declines over time
- Simple and easy to explain
- More borrower flexibility
- Protection weakens as the loan seasons

Yield Maintenance / Make-Whole

- Penalty tied more closely to reinvestment economics
- Stronger spread protection
- More economically precise
- Can be harder to explain or negotiate

Defeasance

- Loan is replaced with substitute collateral rather than simply prepaid
- Very strong protection
- More operationally complex
- Most structured of the three

Prepay Structure Can Shape the Right Funding Solution

The same five-year balloon loan may call for very different funding depending on how protected the asset is.

Sample Loan
 \$5MM fixed-rate CRE or C&I loan
 5-year balloon
 6.25% coupon

If Step-Down

Expected life may be shorter
Advance fit:
 shorter **Classic**,
Member-Option, or
laddered Classics

If Yield Maintenance

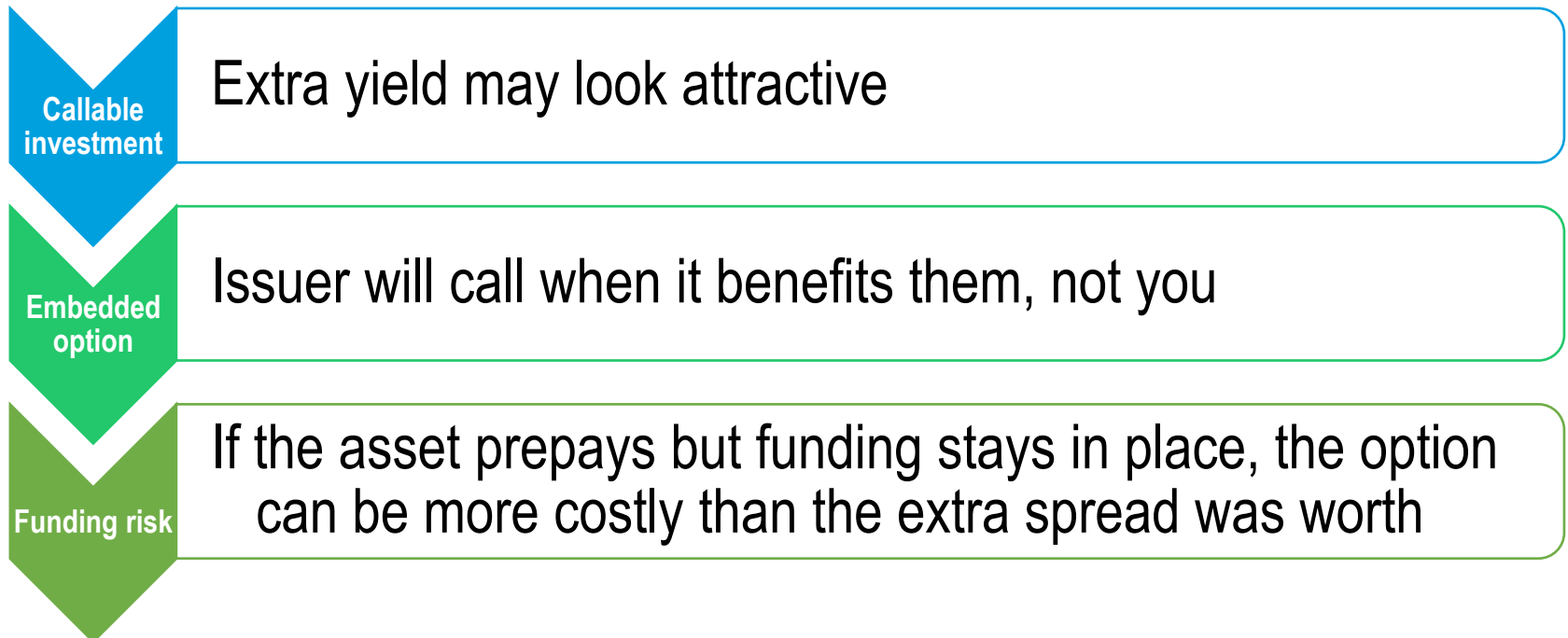
Expected life may be closer to full term
Advance fit: 5-year Classic or
Amortizing Advance

If Replacement Economics Improve

Runoff may be beneficial
Advance fit:
Member-Option or
Callable SOFR-Indexed Advance

If You Buy Optionality, Fund It Accordingly

Callable investments may offer extra spread, but if you buy them, funding should reflect likely call behavior so the asset can run off without leaving costly funding behind

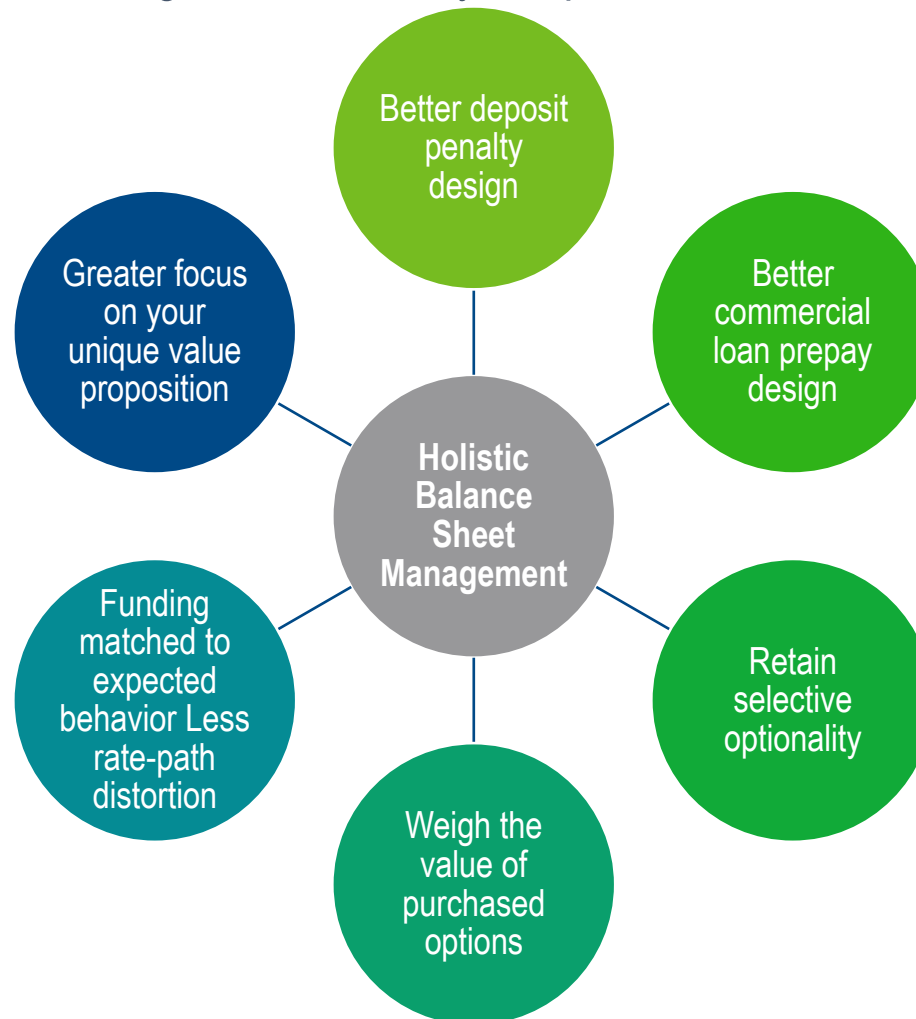


Better funding approach

- Use shorter Classics, a ladder, Member-Option, or Callable SOFR-Indexed funding to reduce the risk of being left with excess funding

Holistic Balance Sheet Management

Set better customer prepays, retain selective flexibility for yourself, and reduce how much growth, mix, and margin are driven by the path of rates.

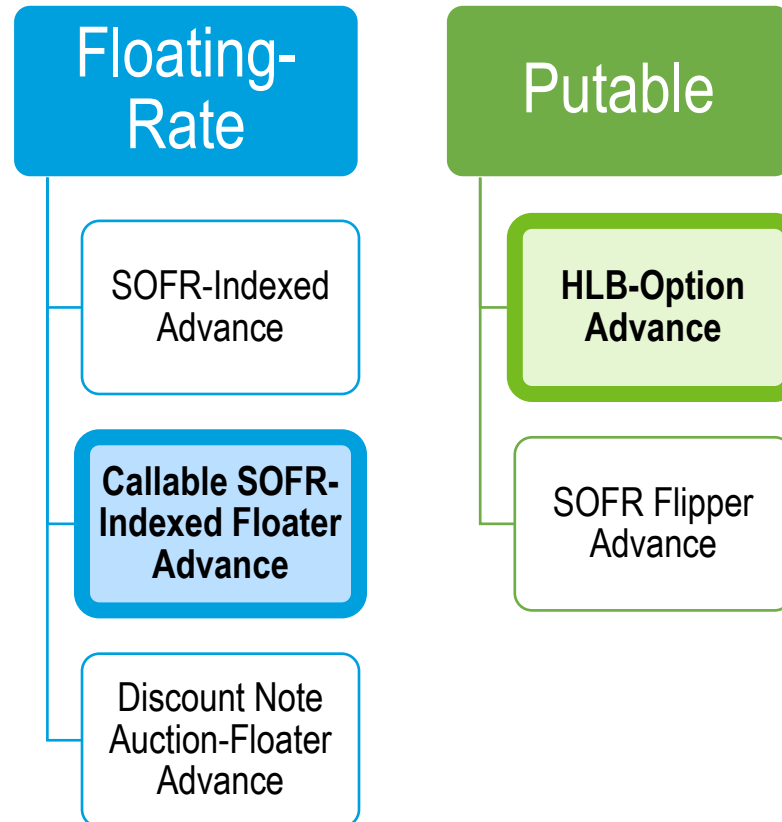


Value and Opportunity in Floating-Rate & Puttable Funding



Different Solutions for Different Environments

Floating-rate and putable advances can have different use cases (funding investments and/or loans, complementing deposits) depending on the macro and industry-level backdrop.



Questions & Considerations

When do they have relative appeal?

What does historical activity show?

What is the impact of yield curve slope?

Where's the opportunity now (and looking forward)?

When Does Floating-Rate Funding Have Relative Appeal?

As recent history has shown, a) market expectations for future rates b) liquidity needs and c) interest-rate risk profiles can vary widely.

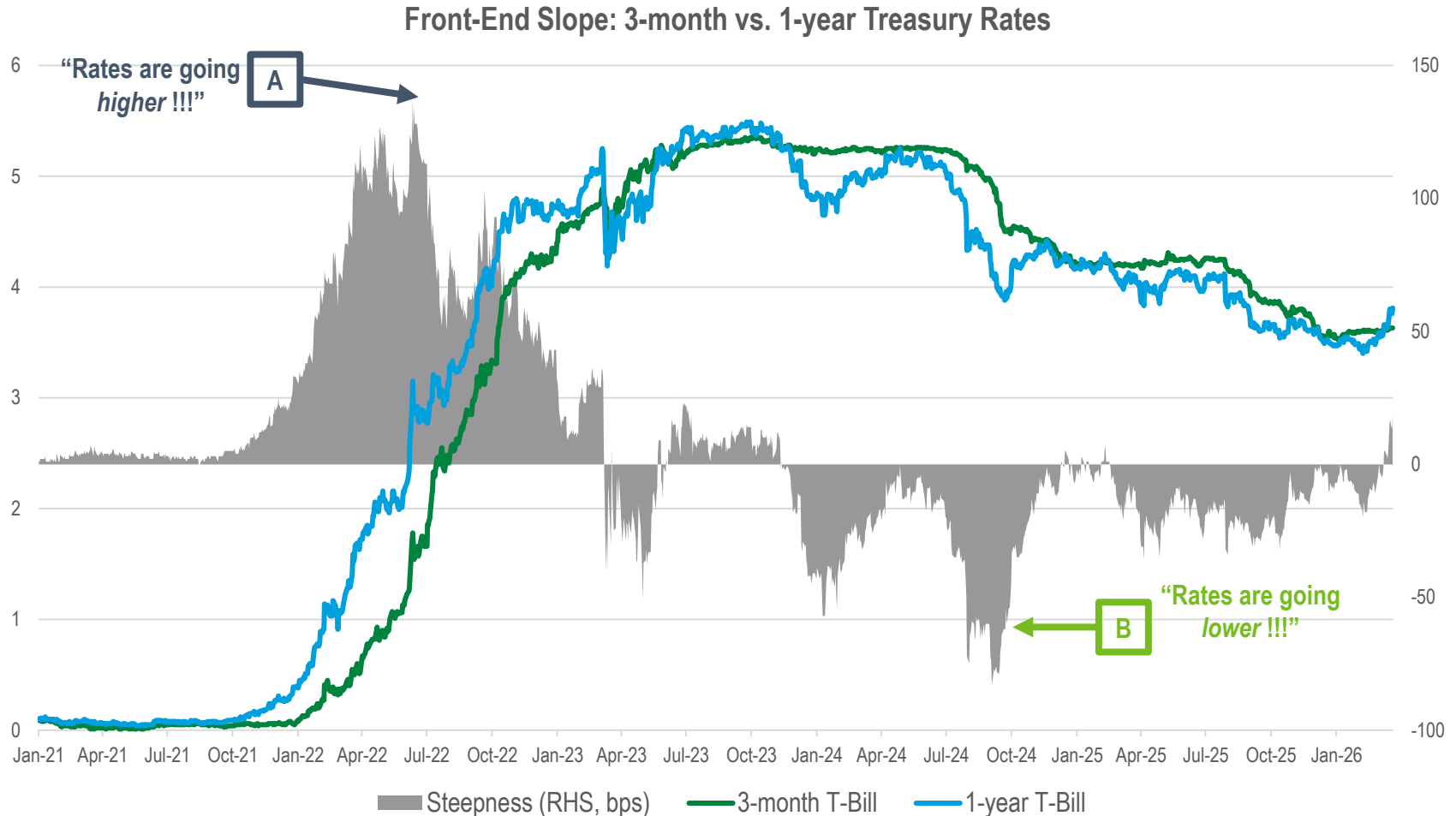
The market is NOT expecting substantially lower short-term rates

There is liquidity management benefit in extending maturities

The interest-rate risk profile, and core loan and deposit growth assumptions, have exposure in down-rate scenarios

How Does Yield Curve Slope Impact Floaters?

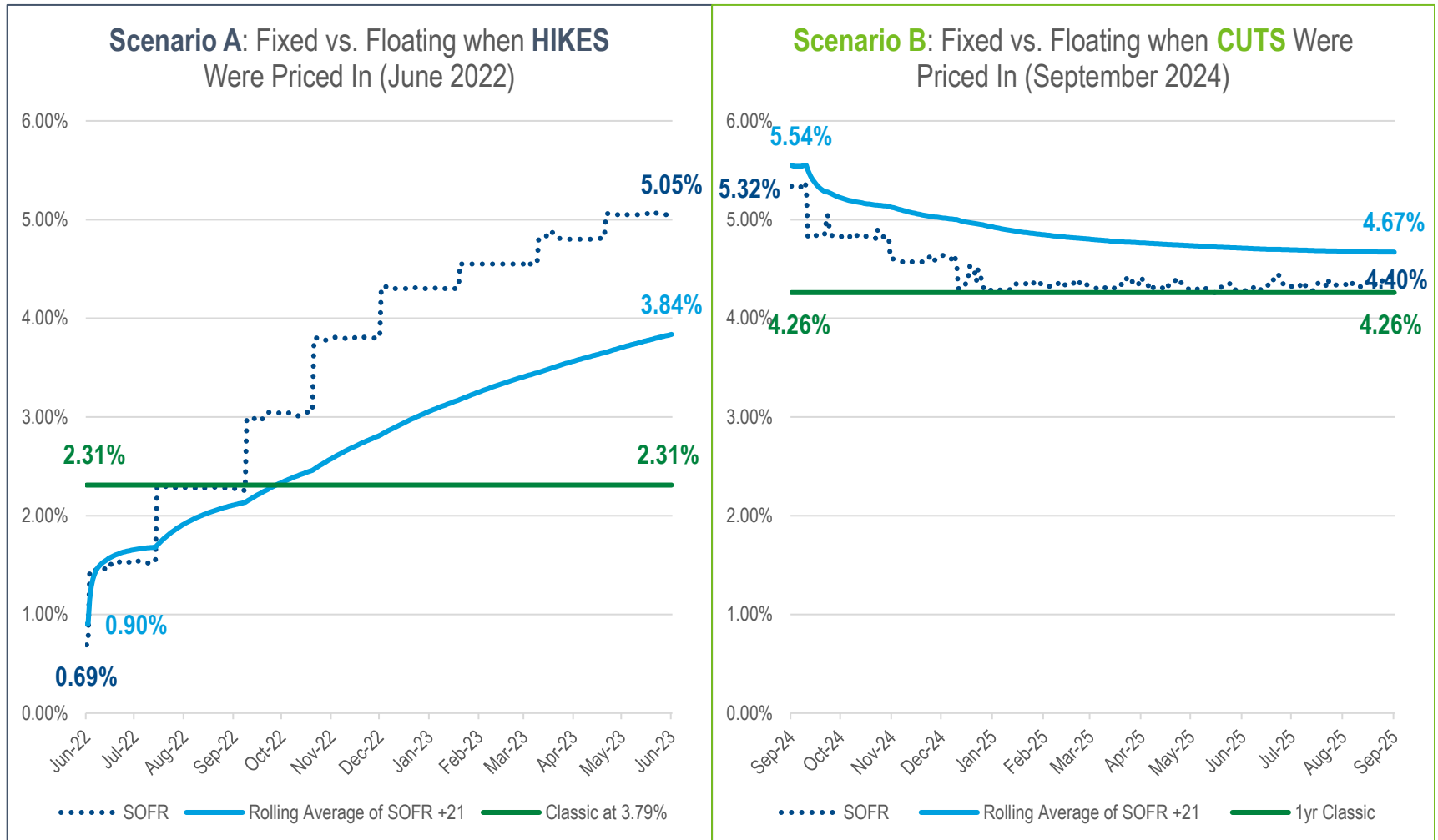
When what's priced into the yield curve shifts dramatically, opportunity often presents itself going in the other direction.



Source: Federal Reserve Bank of St. Louis, U.S. Treasury, FHLBank Boston

Historical Lookback: Floaters

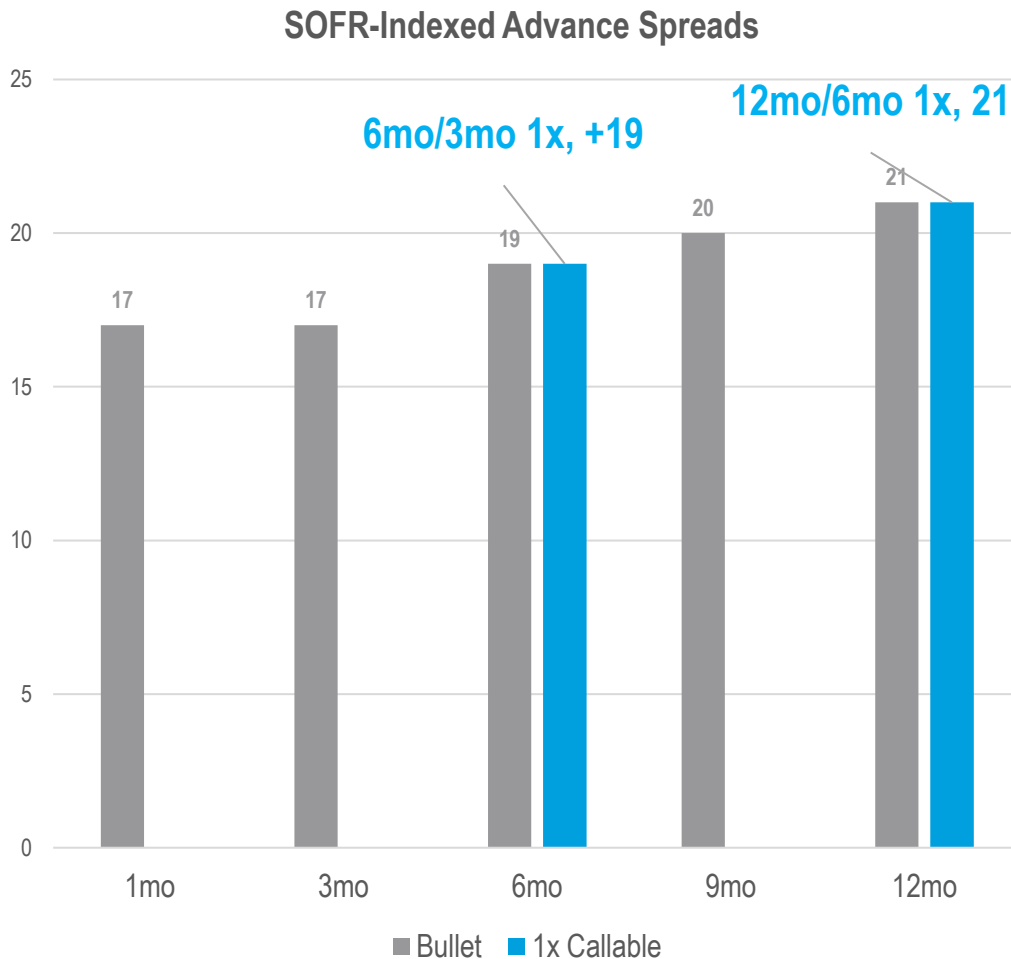
As recent history has shown, a) market expectations for future rates b) liquidity needs and c) interest-rate risk profiles can vary widely.



Source: Federal Reserve Bank of New York, FHLBank Boston

Where's the Opportunity in Floaters?

With no near-term cuts priced into the yield curve, floaters are cheaper on day one, a bonus on top of the liquidity, prepay interest-rate risk mitigation benefits.



100% beta

Term liquidity with overnight duration

Flexibility to reduce funding needs efficiently

Source: FHLBank Boston

When Does Putable Funding Have Relative Appeal?

As recent history has shown, a) market expectations for future rates b) liquidity needs and c) interest-rate risk profiles can vary widely.

The yield curve is flat or inverted

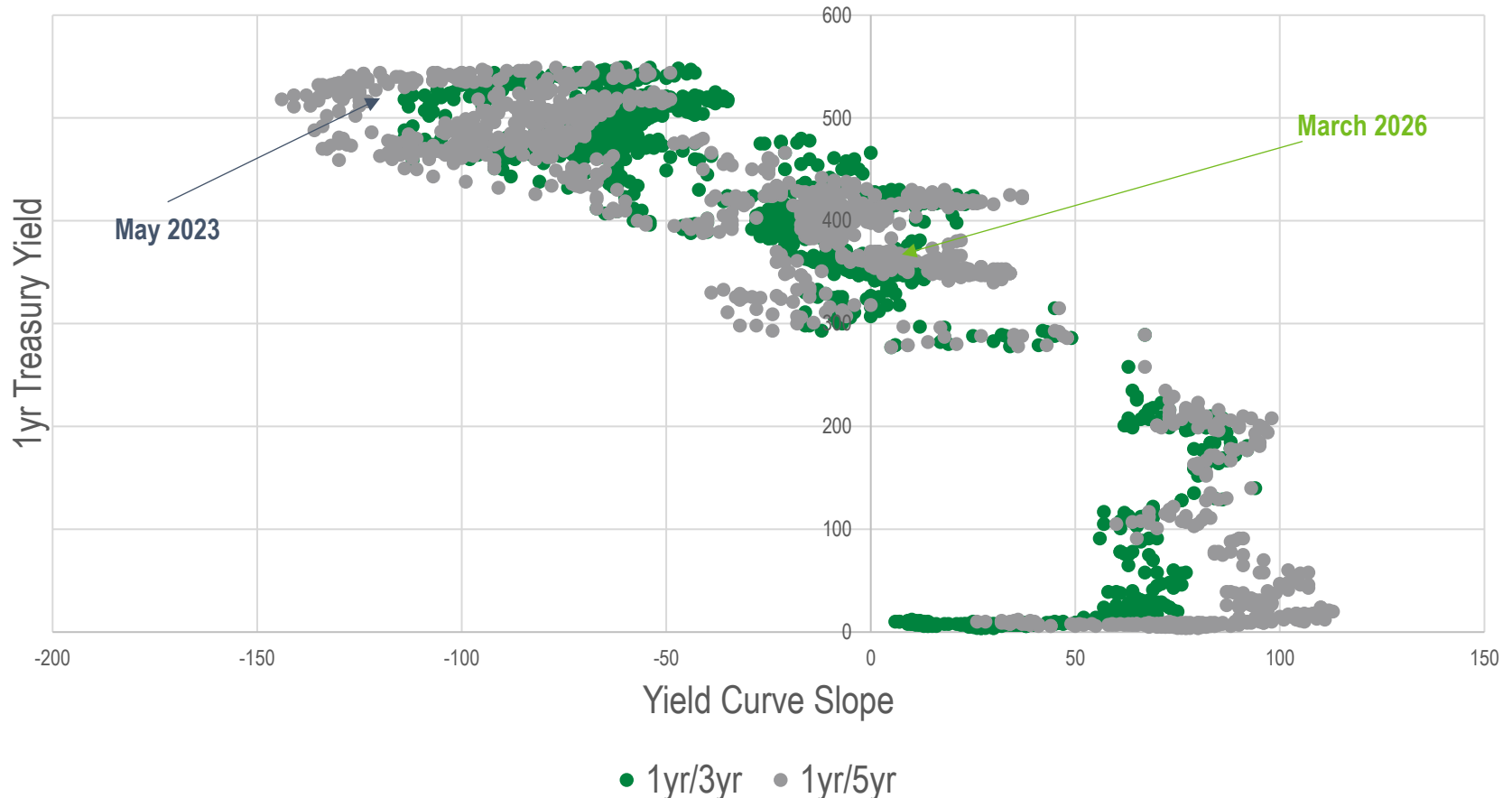
Interest rate volatility is high

Margins are under pressure

How Does Yield Curve Level & Slope Impact Putables?

Yield curve inversion creates more room for putable pricing to get below the marginal short-term alternative.

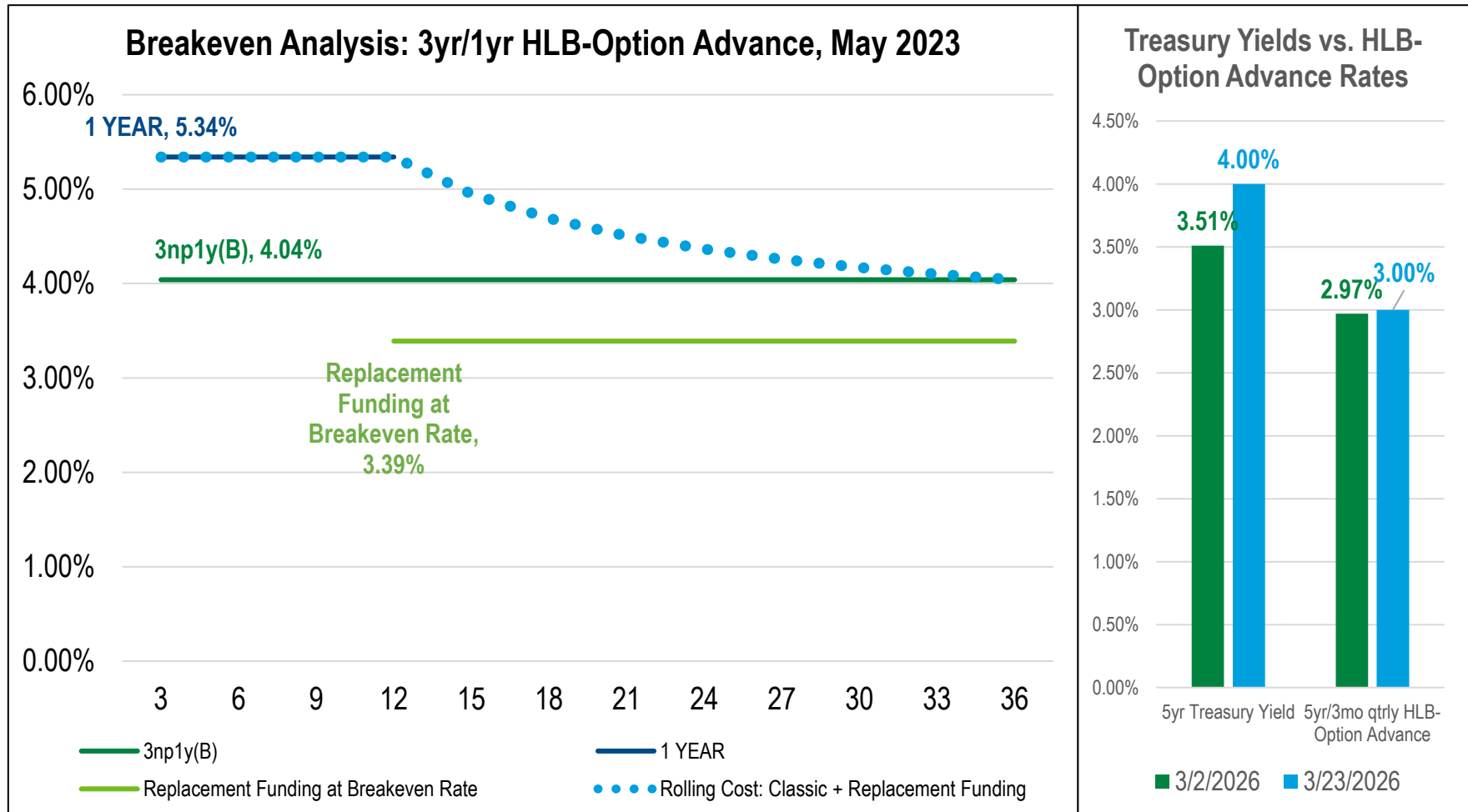
1-year Treasury Yields & Steepness (vs. 3yr & 5yr)



Source: Federal Reserve Bank of St. Louis. U.S. Treasury, FHLBank Boston

Historical Lookback: Putables

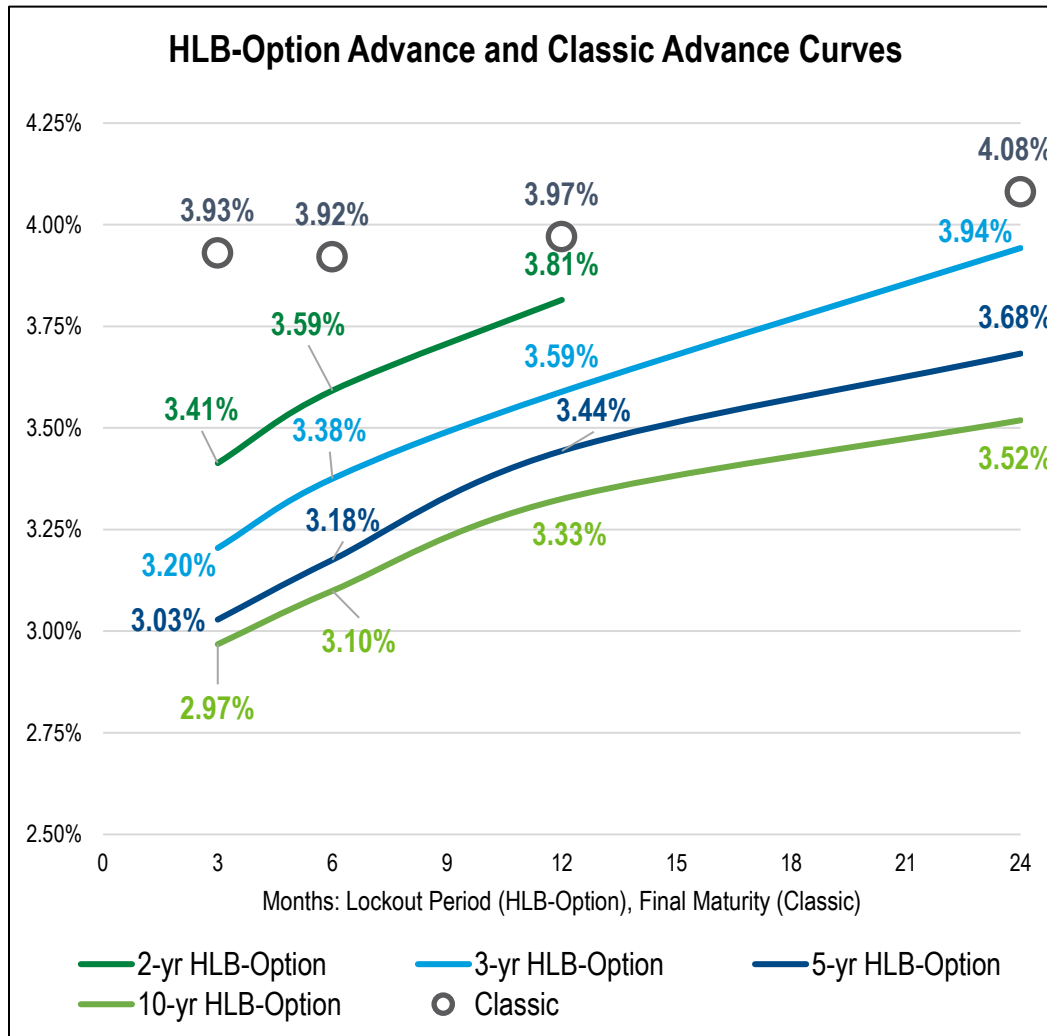
Initial savings vs. matched lockout Classic create a cushion for rates to move lower and having the advance extend. Also, don't forget about interest-rate volatility impact!



Source: Federal Reserve Bank of St. Louis, U.S. Treasury, FHLBank Boston

Where's the Opportunity in Putables?

Through the ebbs and flows of yield curve level, slope and volatility.



Paired with investment leverage strategies

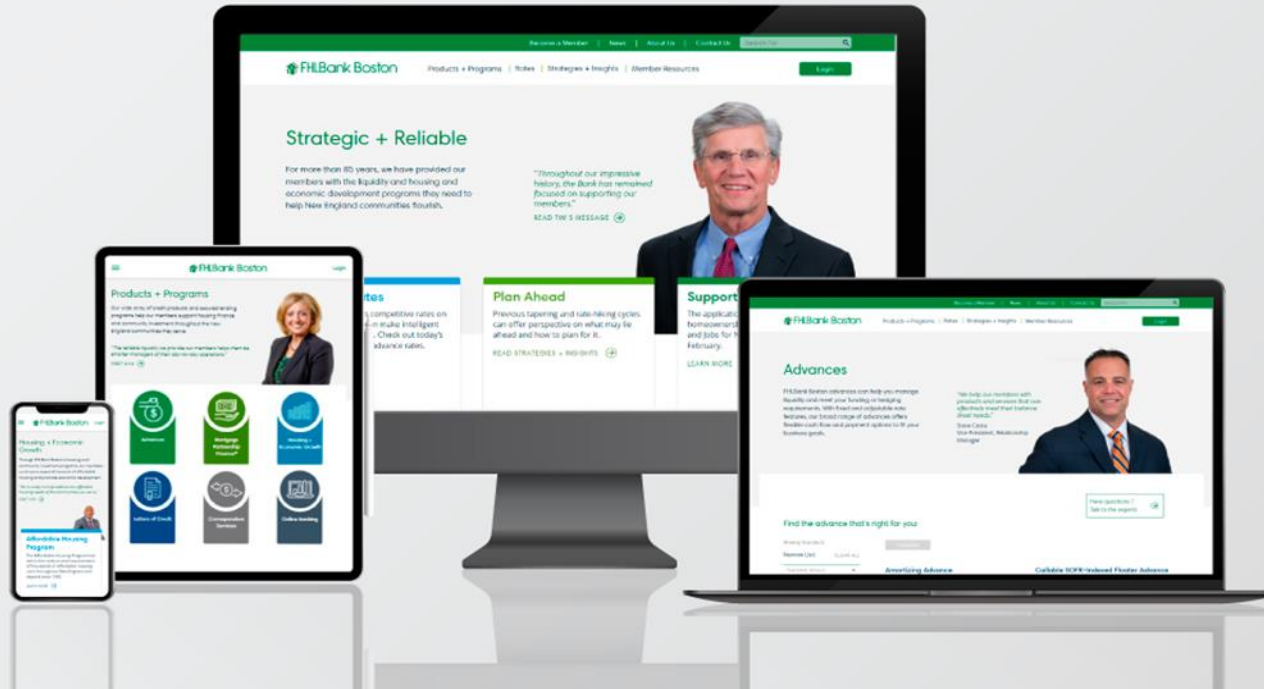
Incremental savings on the front end still attainable

Opportunistic on the long end into rallies

Source: FHLBank Boston

Questions?





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Thank You



Andrew Paolillo

Andrew.Paolillo@fhlbboston.com

617-292-9644



Caroline Casavant

Caroline.Casavant@fhlbboston.com

617-292-9735



Tyler Buckeridge

Tyler.Buckeridge@fhlbboston.com

617-292-9766

