

# REGX<sup>3</sup> RISK SENTINEL | EXECUTIVE ALCO BOARD DOSSIER

Institution: Keystone Community Bank • FDIC Certificate: #24819 • Date: October 5, 2026 • Supervisory Authority: FDIC / OCC / Federal Reserve

|                           |                                       |                                     |                     |
|---------------------------|---------------------------------------|-------------------------------------|---------------------|
| Reporting Period:         | 2026-Q3 / Q4 Interagency Cycle        | Tier 1 Capital:                     | \$18,000,000        |
| Total Committed Exposure: | \$121,500,000                         | Total Risk-Based Capital:           | \$21,500,000        |
| Funded Outstandings:      | \$97,200,000 (80.0% Util)             | Allowance for Credit Losses (CECL): | \$2,450,000         |
| Supervisory Framework:    | OCC 2006-46 / Basel III A-IRB / DFAST | Single-Name Legal Lending Limit:    | \$2,700,000 (15.0%) |

## 1. Portfolio Composition & Basel II/III Capital Arbitrage

As of the current reporting cycle, total portfolio outstandings stand at **\$97.2M** against committed exposures of **\$121.5M** across 8 core commercial facilities. Under Basel III Advanced Internal Ratings-Based (A-IRB) modeling, allocated credit economic capital stands at **\$12.9M** versus **\$11.1M** under standard standardized 8.0% regulatory floors, representing a **-\$1.8M Capital Arbitrage Deficit**.

|                                       |                             |                              |                      |
|---------------------------------------|-----------------------------|------------------------------|----------------------|
| Standardized Basel Capital (8% Floor) | \$11,100,000                | Baseline Tier 1 Capital      | \$18,000,000         |
| A-IRB Economic Capital Requirement    | \$12,900,000                | Tier 1 Capital Ratio         | 12.80% (Well-Cap)    |
| Capital Arbitrage Surplus / (Deficit) | -\$1,800,000 (Deficit)      | Weighted Average Risk Rating | 4.88 (Moderate Pass) |
| Portfolio Economic Profit Tiers       | 4 Value Creators   0 Hurdle | Modeling Methodology         | 3.68% / 37.1%        |

## 2. OCC 2006-46 Interagency CRE Concentration Review

Under the interagency guidance on Concentrations in Commercial Real Estate Lending (OCC Bulletin 2006-46 / FDIC FIL-104-2006), {bank\_name} triggers both supervisory criteria requiring enhanced board surveillance:

- **Construction & Land Development:** Total exposure is **184.2%** of total risk-based capital (Supervisory Threshold: **100.0%** • Breached by +84.2%).
- **Total Commercial Real Estate:** Total exposure is **342.5%** of total risk-based capital (Supervisory Threshold: **300.0%** • Breached by +42.5%).

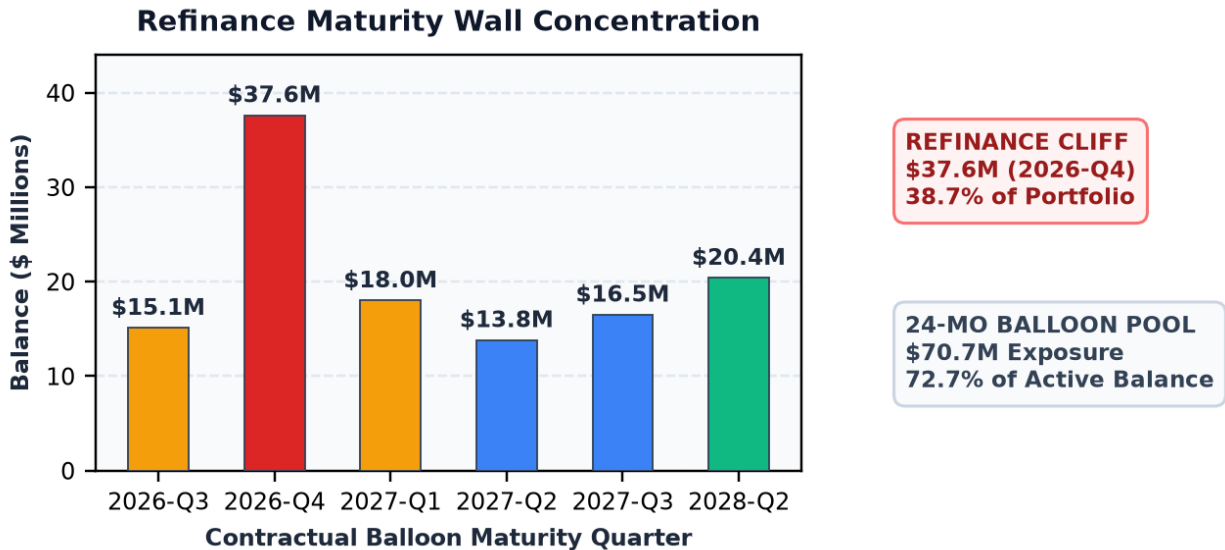
**Supervisory Action Mandate:** Management must maintain formal portfolio stress testing, heightened submarket sensitivity analysis, and elevated board reporting on the construction and hospitality tranches.

## 3. Single-Name Exposure & Legal Lending Limit (LLL) Review

The bank's legal lending limit is **\$2.70M** (15% of Tier 1 Capital). Under the internal risk policy house limit, two facilities require explicit syndication participation or capital earmarks: **Ironwood Towers LLC** (\$32.0M committed / \$28.5M outstanding) and **Highland Ridge Homes** (\$25.0M committed / \$18.0M outstanding). Both exceed house hold targets and require quarterly collateral reappraisals.

#### 4. Refinance Maturity Wall & CRE Liquidity Cliff

Over the next 24 months, **\$70.7M (72.7%)** of the bank's active balance faces contractual balloon maturity. The primary liquidity wall occurs in **2026-Q4**, where **\$37.6M** matures simultaneously across office and residential development loans. Given prevailing interest rate spreads, these borrowers face a weighted debt service coverage ratio (DSCR) degradation of -28 bps upon refinancing.



#### 5. FFIEC Call Report & UBPR Peer Benchmark Audit

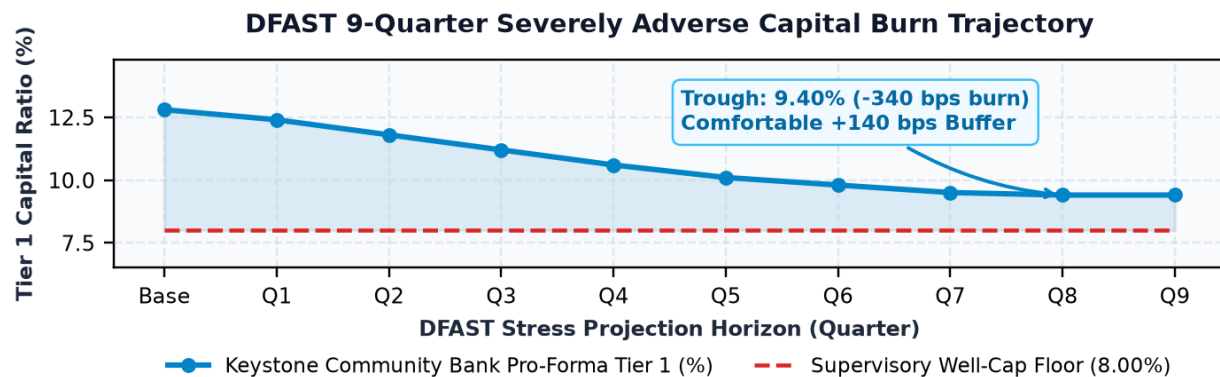
Benchmarked against Uniform Bank Performance Report (UBPR) Peer Cohort 4 (\$1B–\$10B Asset Class Community Banks):

- **Construction Concentration:** 184.2% vs. Peer Median of 58.4% (**93rd Percentile** — Supervisory Watch).
- **Total CRE Concentration:** 342.5% vs. Peer Median of 228.1% (**86th Percentile** — Elevated).
- **Non-Accrual & Criticized Assets to Tier 1:** 18.2% vs. Peer Median of 7.4% (**89th Percentile**).

#### 6. Macro Scenario Stress Testing (DFAST-Lite 9-Quarter Horizon)

Under the supervisory **Severely Adverse** shock scenario (simulating severe recession, 10.0% peak unemployment, 40% commercial property valuation decline):

- **Cumulative Net Charge-Offs (NCO):** \$7.42M (7.63% of portfolio).
- **Allowance Provision Spike:** \$5.85M pre-tax credit loss absorption.
- **Tier 1 Capital Depletion:** Depletes from **12.80%** to **9.40%** (-340 bps burn).
- **Supervisory Adequacy Finding:** **WELL-CAPITALIZED**. The bank maintains a comfortable +140 bps buffer over the supervisory 8.00% Well-Capitalized threshold at the trough.



7. Credit Rating Migration & Transition Momentum Audit

A 4-quarter historical Markov transition matrix audit reveals downward migration momentum:

- **Rolling 4-Quarter Upgrade:Downgrade Ratio: 0.42x** (\$4.2M Upgrades vs. \$10.1M Downgrades).
- **Criticized Inflow Velocity: 142 bps** annual migration into OAEM (CRR 5/6) and Substandard (CRR 7).
- **Rating Stability: 78.4%** on-diagonal retention. Momentum directives require credit mitigation on CRR 6 watch credits.

8. Special Assets Workout & Collateral Recovery (ART) Audit

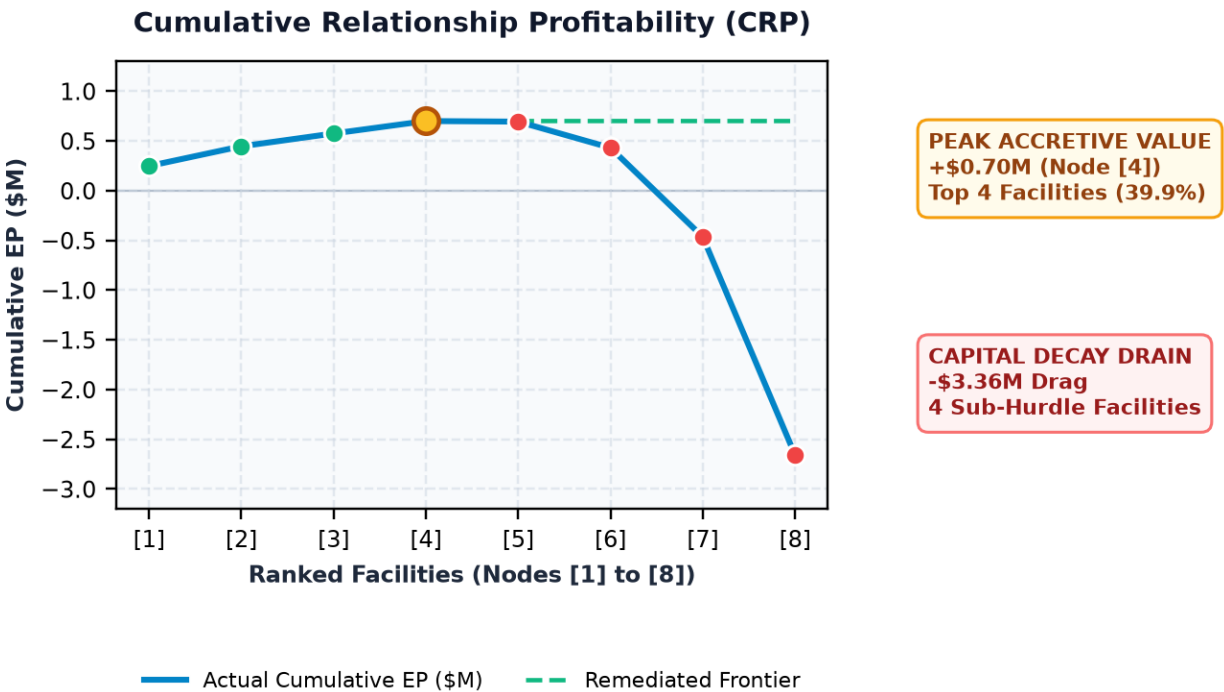
The Accelerated Recovery Taskforce (ART) maintains active oversight on **\$45.6M** across 3 classified and criticized relationships:

- **Expected Net Realizable Recovery: \$38.4M** (84.2% net recovery rate across discounted cash flows).
- **CECL Specific Reserve Required: \$3.85M** (82.5% specific reserve coverage).
- **Workout Directives:** Pursuing note sale execution on Metro Hotel Partners (CRR 8) and A/B note bifurcation on Ironwood Towers.

9. Cumulative Relationship Profitability (CRP) & Pre-Origination Remediation

Activity-Based Costing and economic profit analysis across Keystone Community Bank's facilities demonstrates severe relationship cross-subsidization:

- **Peak Accretive Value: +\$699,240** generated by the top 4 value creators (Apex Logistics, BioHealth, etc.).
- **Value Creation Footprint: 39.9%** of commitments generate 100% of the positive economic profit.
- **Capital Decay Drain: -\$3,361,040** destroyed by 4 sub-hurdle facilities, resulting in a net portfolio EP of **-\$2,661,800**.
- **Remediation Mandate:** Below-hurdle facilities must be cured using Deal Desk covenant remediation (+Spread bps, compensating DDA deposits, or monthly TM fee commitments) upon renewal.



10. Institutional ICAAP Capital Adequacy Attestation & Governance Sign-Off

**Supervisory Statement of Compliance:** This document constitutes the formal quarterly Capital Adequacy and ALCO Review for {bank\_name} (FDIC Cert #{fdic\_cert}). The internal capital adequacy assessment process (ICAAP) conforms to FDIC Part 325, OCC Bulletin 2006-46, and Federal Reserve SR 15-18 guidelines. Based on the forward-looking DFAST macro stress test results, management and the undersigned committee chairs attest that current risk-based capital is adequate to support all current credit commitments, concentration profiles, and near-term liquidity cliffs.

Chief Risk Officer (CRO) & ALCO Member

Date: October 5, 2026

Chief Credit Officer (CCO) & Credit Committee Chair

Date: October 5, 2026

Chairman, Asset-Liability Committee (ALCO)

Date: October 5, 2026

President & Chief Executive Officer (CEO)

Date: October 5, 2026

**Regulatory Repository Stamp:** REGX3-ALCO-24819-2026Q4-DFAST-APPROVED • SHA-256 Vector Cryptographic Seal Active