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Community Bank in Eastern Massachusetts providing their Business Customers with the same range of Products and Services as their Larger, Global, National and Super Regional Competitors

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- William Parent

CEOCFO: ***Mr. Parent, would you tell us the general philosophy of Blue Hills Bank?***
Mr. Parent: Our philosophy is pretty straightforward. We offer a range of products and services that are competitive with any institution of size; whether global, national, super-regional. We do this with a relationship orientation, which really means that we are connected to our customers. We understand who they are and what their needs are, on a much more granular basis than larger institutions are able to do. We are successful because our employees have the experience base from having worked at larger institutions and are looking to be in a banking environment that is much more customer centric.

CEOCFO: ***How does the customer centric environment play out day-to-day?***
Mr. Parent: I think the connectivity within the organization is how it is different. In larger institutions, the degrees of separation between the CEO and the relationship officer is just much greater. I think how this really manifests itself in a tangible way to the customer is because we can be much more responsive to their needs. Those degrees of separation, whether physical or just chain of command aspects, are much more limited where we are. We have loan officers who can walk into the senior lender's office and grab me at the same time and can have an immediate conversation relative to the needs and opportunities of the customer. That is just hard to duplicate at larger institutions because of the sheer size. That is where being a smaller, emerging mid-size company is a benefit when competing against larger institutions.

CEOCFO: ***You have twelve branches and over $2 billion in assets. How do you maintain your easy accessibility so that branches can reach you when needed?***

Mr. Parent: I think it is a cultural aspect. We have a family oriented culture. We are a 145 year-old institution that went through a strategic transformation starting in 2010 when I came onboard. Historically, the bank had a straightforward savings bank model that took local deposits and predominantly sent them to Wall Street and ran an investment portfolio, occasionally making residential loans. Our current vision and mission is a more diversified, next-generation community bank strategy where a consumer or a business prospect can walk into our office and get the same products and service that they get with larger institutions with a relationship orientation. We built that dynamic transformation by taking a good base and we moved it forward with an influx of people with different talents and experiences. It has been accomplished through a hands-on approach from all members of our team so that there is connectivity with all of our employees in explaining the vision that we had and the opportunity to be part of this transformation. This has created a culture that is very open, that has a focus on accessibility to senior members of the team including myself, that most of them have participated in from the start. In 2010, we had about 80 employees and we have 230 today. So how we have transformed the company, and that connectivity, has been a big part because we were selling folks on a vision that had not played out and is still playing out now.

CEOCFO: ***Why was 2010 the year to start?***
Mr. Parent: Coming out of the Great Recession, the prior business model was at risk. This predates me, but the institution took some losses relative to its business model and it stirred the board at that time to reassess the mission. We were a mutual institution at that point and a mutual institution should be the farthest extreme from running an investment book; it should be customer centric and community centric. I give the board a lot of credit. They reassessed the mission and said we should be much more community centric and that means helping to build the economic vitality of the community by lending into that community of which we were doing very little. We had a 24% loan-to-deposit ratio at that point in time. I basically pitched to the board, that is not what a mutual bank should be doing and it is not what any bank should be doing relative to its community, especially if it thinks of itself as a community bank.

CEOCFO: ***How do you breakdown between the personal and commercial areas and would you like to see a change?***
Mr. Parent: If you look at it on a loan portfolio composition basis, we are about 45% home lending, which includes home equity and residential loans, with the remainder commercial; 36% is commercial real estate, 11% is C & I and 6% is construction. We would like to grow in the C & I to a higher portion of the portfolio and have the option to overweight/underweight residential lending during different economic environments. We are in a low-interest-rate environment, so we need balance in our portfolio mix as our commercial portfolio is LIBOR based creating a very short component and we combine/offset that with a longer residential portfolio. As it relates to credit, we want to have diversification between consumer and commercial exposure and then within commercial you want real estate and non-real estate diversification. If we have that kind of diversification, we think that through economic cycles whether they are credit cycles or interest rate cycles, we can create an earnings stream and a risk environment that is going to perform better across the entire cycle versus just a high point of a credit cycle or interest rate cycle.

CEOCFO: ***What is the competitive landscape among community banks?***
Mr. Parent: We are in a great market. Massachusetts and especially eastern Massachusetts has a vibrant and diversified economy. With that, there are many opportunities, but it is extremely competitive. We have a large number of institutions in our marketplace that are mutual. We have a lesser component that are credit unions but there are some large credit unions. When you look at it, it creates a highly competitive marketplace for high quality banking relationships. It is great for the consumer and businesses and I think, most of the time, it is good overall for institutions as it makes us stay focused on what we do and what we do well. There are challenges in a growth environment to make sure you are growing in the right way and you don't stretch too far on credit, structure or price. We are watching that very closely at this point of the cycle. The other thing is the institutions are long dated; we are 145 years old and still not one of the oldest. Because of this, you have well established institutions that are ingrained into communities. They have great annuity value to their brand in their local communities and that creates strong competition for those attempting to build market share.

CEOCFO: ***Are there services you would like to offer?***
Mr. Parent: I believe that everybody in the community bank space would love to have an avenue to offer broader services for consumers. Investment management services that are high quality and valued to the consumer is an area where we are seeing new inroads being made. Historically, there have been investment service firms that have teamed up with banks and offered annuities as a core product. The advent of robo-advisoring is an interesting new product that could make offering investment services more attractive. FinTech companies and money managers are offering these robo-advisory services and this could be an opportunity for banks like us who do not have the scale or the historic business of asset management, wealth management capabilities. Most of the higher valued institutions have a strong component of their revenue base that is fee-based. The capital efficiency and consistent earnings stream is financially attractive versus spread based earnings, especially in a low rate environment. It is just very difficult and expensive to build those from scratch. I think of robo-investing partnerships as a potential opportunity for us and others to be able to provide a full array of products to the consumers, as they have emerging wealth and assets that need to be managed, or put in products outside of the traditional CDs and depository products that a traditional bank has.

CEOCFO: ***Would you tell us about your charitable foundation?***
Mr. Parent: It is one of the things that we are very proud of. When we started to transition the company in 2010, the institution did not have a foundation. We immediately set one up and seeded it with a couple million dollars and then one of the benefits of a conversion from mutual to stock is that the process allows you to take some of the proceeds of that conversion and put it into a foundation to benefit the community. We were able to put in $7 million of stock and cash from our IPO into the foundation. We are proud that in 2014 and 2015, and we are on a similar path for 2016, we will have contributed about one million dollars between the foundation and corporate sponsorship. That covers affordable housing to financial literacy to arts, which is value-added to the communities that we serve and a core part of who we are. We actually created an innovative financial literacy program. We have a young woman who has talents beyond banking including performance on and

off Broadway, who created Ms. Money and the Coins, which is a musical for young children to learn about financial literacy - teaching them about wants and needs. It is very innovative and more than 40,000 kids have seen the performance that she and a couple of cast mates have done. We have gotten great feedback in that it just starts the thought process for young children about financial literacy and I think that is important. We have now moved it up to middle-school kids and we have rolled out a program for financial literacy on the high school side, too. We look at this as an important part of supporting the community and helping students understand the importance of being smart in their financial endeavors.

CEOCFO: ***What about your recent dividends?***
Mr. Parent: There is a restriction on post conversion banks paying dividends through the first anniversary. After passing that marker, we established a $0.02 quarterly cash dividend and then we raised it to $0.03 this year. We look at the dividend as being an important part of our overall capital management and an important part of our relationship with our investors to use a portion of our earnings each year to return to them. We are highly capitalized with a tangible common equity ratio of just under 18%. We think it is appropriate to leverage that capital base to fund organic growth opportunities, which we have been executing, but other components include a stock buy-back program that we have in the market today and a recurring dividend stream to investors. This is something we look forward to as being a part of who we are.

CEOCFO: ***Why pay attention to Blue Hills Bank?***
Mr. Parent: For customers, I think the key component is our highly experienced team. The opportunity is to have a community bank relationship with the same products, services and expertise that you get at a larger institution. We are not asking customers to take a chance on people who have not done it before. These are highly experienced individuals that have worked at multi-national companies, but have chosen to work at this institution because they like the way that we do business. For the investment community, we are an emerging story as a 145-year-old de novo that is going through an enormous repositioning. When we started in 2010, our balance sheet was $900 million in assets of which $200 million were residential loans. Today we are a $2.2 billion bank with $1.7 billion in loans that are well diversified across a strong residential lending capability, a commercial lending platform that covers real estate and C & I with experienced people and a solid branch funding network. We are an emerging story that still is subscale with a team that has a demonstrated growth track record. And our franchise is in a very desirable market. We think that is a compelling story.

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