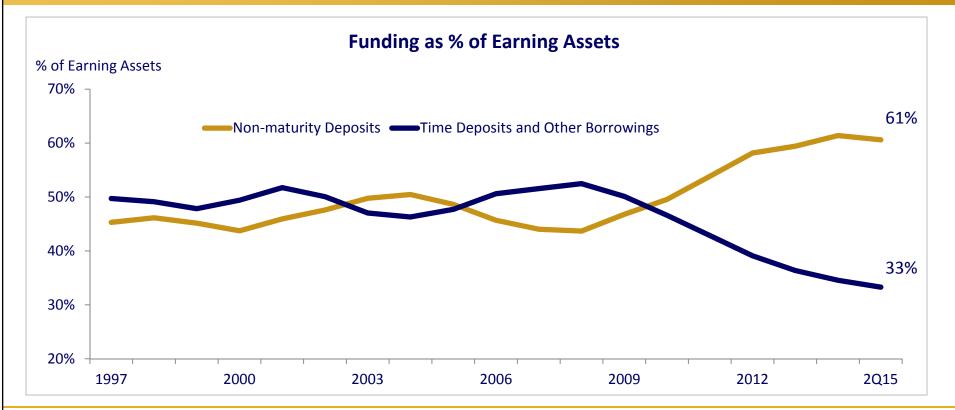


Interest Rate Risk

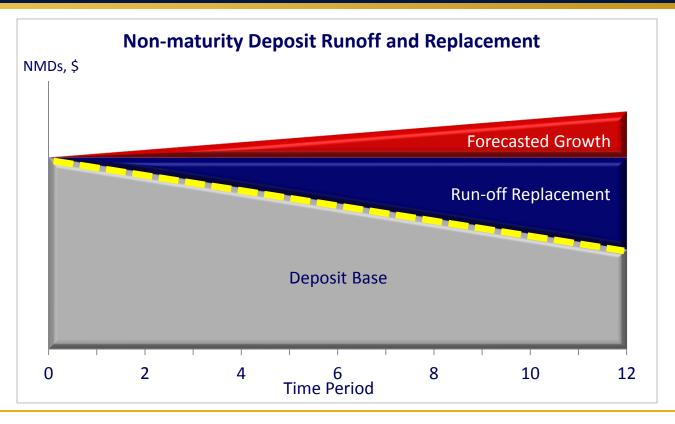
V. Deposit Assumptions

Non-maturity Deposit Assumptions are Critical



Source: Call Reports & TFRs, based on median figures of all insured institutions under \$1B in assets. Unless otherwise noted, figures illustrated are based on year-end data.

Modeling Non-maturity Deposits

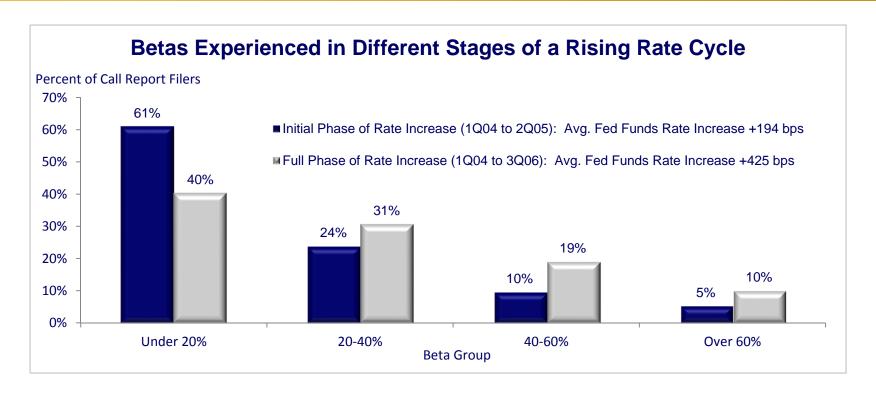


Deposit Price Sensitivity (Beta)

Measures deposit rate changes relative to market rate changes

 Betas can differ depending on the current level of rates, as well as the direction and magnitude of rate changes modeled

Betas May Vary Based on Magnitude of Rate Changes

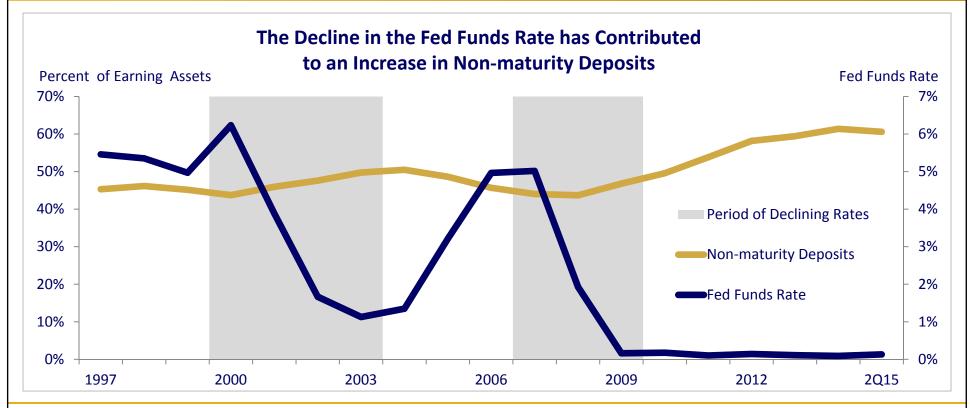


Source: Call Reports. Estimates based on analysis of all insured Call Report filers from 1Q04 through 3Q06. Based on Savings and MMDA accounts only.

Consider and Adjust for Qualitative Factors

- Flight to quality / yield differentials (surge deposits)
- Consumer behavior (parked funds)
- Non-deposit alternatives for cash
- Diminished impact of early withdrawal penalties
- Changing technology, demographics, competition, etc.

Surge Deposits & Parked Funds



Source: Federal Reserve Board / FDIC.
Based on median figures of all banks under \$1B in assets.

Sensitivity Analysis is Integral to IRR Management

Scenario	20% Beta		35% Beta	
	Net Interest Income	Percent Change	Net Interest Income	Percent Change
Up 300 bps	\$85	-15%	\$75	-25%
Base Case	\$100	-	\$100	-

- Focus on verifying the most influential assumptions
- Identify where key assumptions break down or IRR is exacerbated

Note: Dollar figures in thousands

Developing Weighted Average Life & Decay Rate Assumptions

- Track individual account openings & closings
 - Insufficient because changes in dollar volume are not addressed
- Track balances at product / account level
 - Determine level of non-rate sensitive vs. rate sensitive balances
 - Decay Rate = Run-off ÷ Total Deposits
 - Determine decay rates and average life
- Adjust for Qualitative Factors

Decay Rate Example

Scenario	PV of Deposits at 20% Decay Rate	PV of Deposits at 50% Decay Rate
Up 300 bps	\$83	\$93
Base Case	\$89	\$96
Down 100 bps	\$90	\$97

- Reflects the impact of deposit decay rates and average life assumptions on EVE results
- Illustrates a sensitivity analysis of a critical assumption
- Is the NMD deposit premium reasonable given customer behavior and deposit lives?

Notes: Book Value = \$100. Beta in Up 300 bps scenario: 25%. Beta used in Down 100 bps scenario: 75%. Dollar figures in thousands.

Summary

- Interest rate risk measurement relies heavily on deposit assumptions
 - Beta
 - Weighted Average Life / Decay Rates
- Analyze historical data and adjust for qualitative factors to support assumptions
- Perform sensitivity analyses