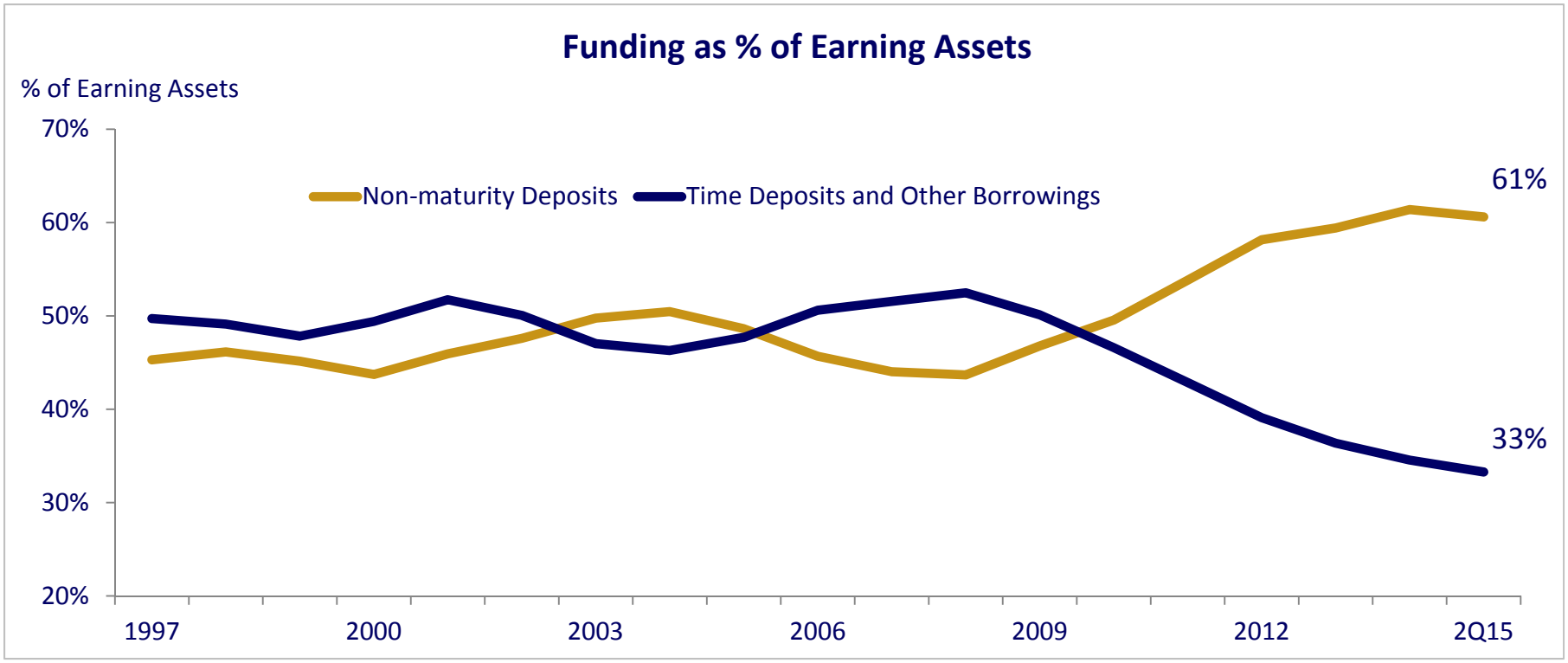
FDIC

FEDERAL DEPOSIT INSURANCE CORPORATION

Interest Rate Risk

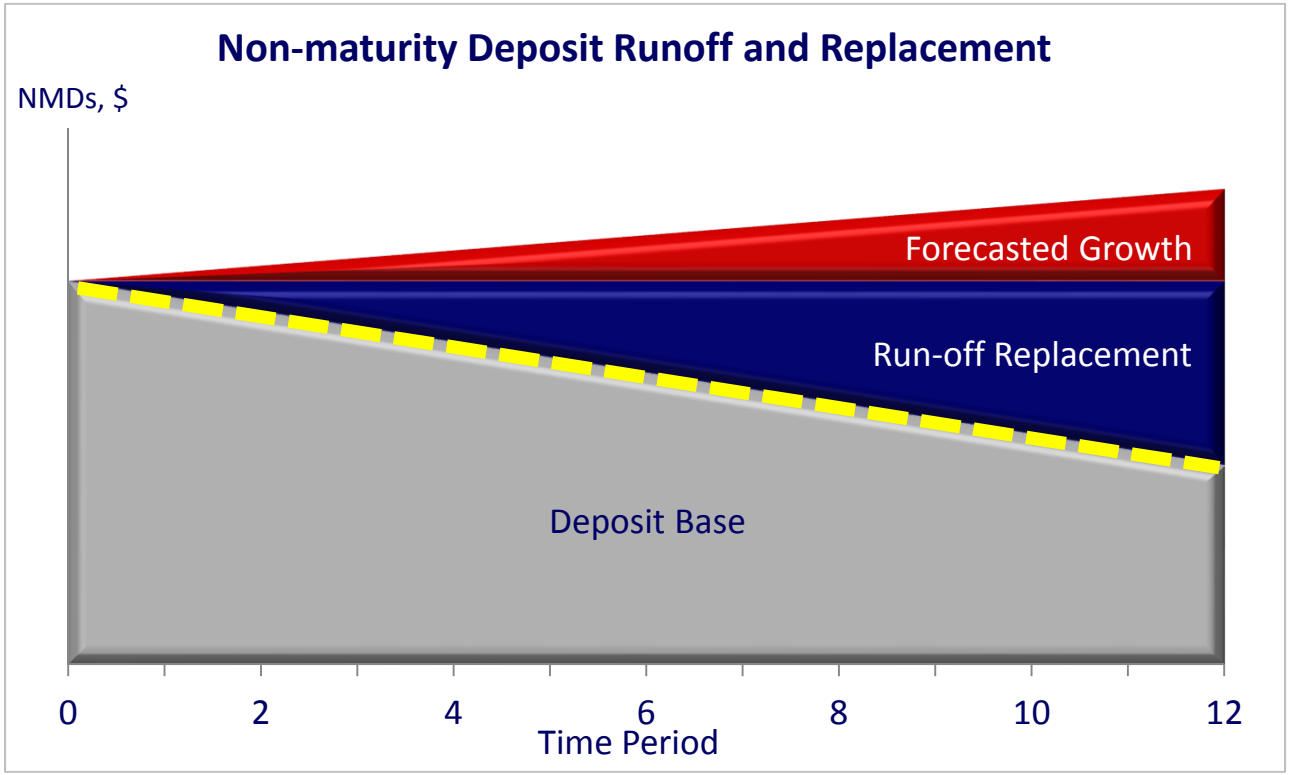
V. Deposit Assumptions

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.

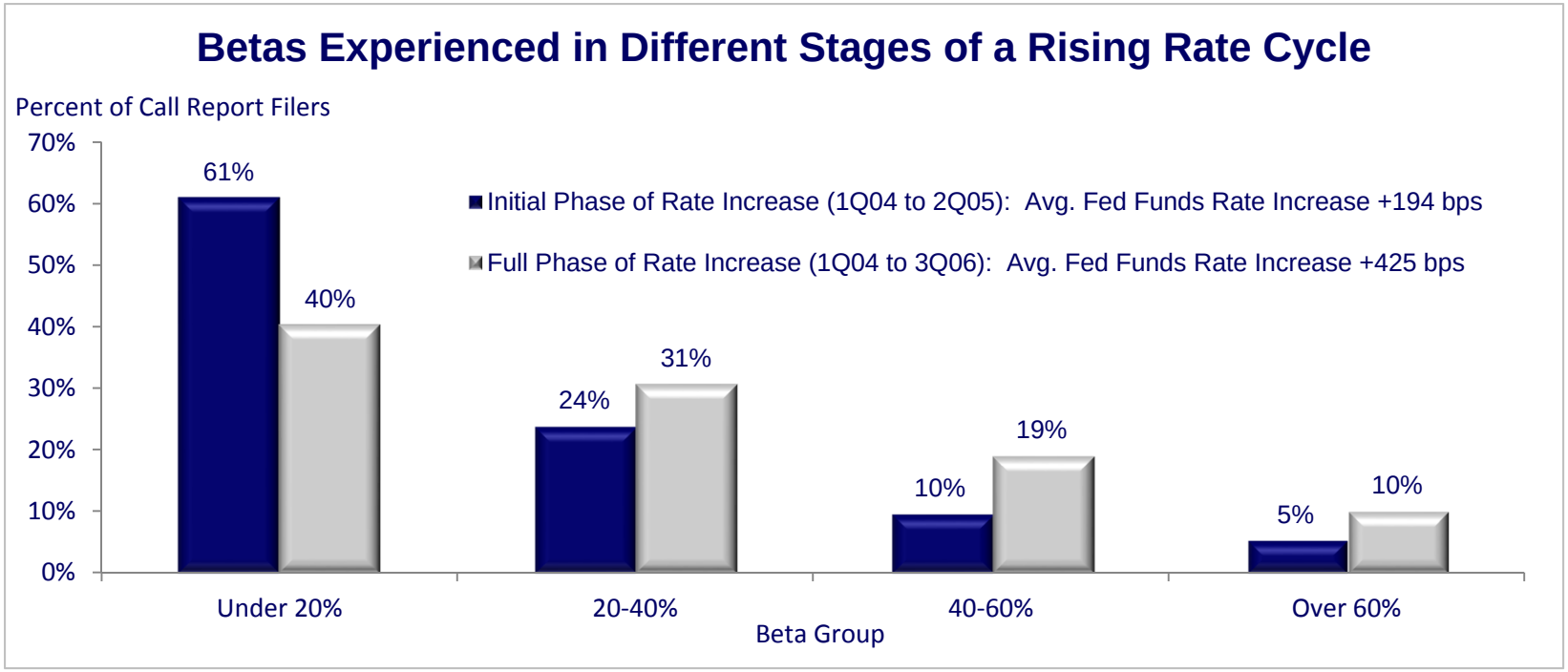
Modeling Non-maturity Deposits



Deposit Price Sensitivity (Beta)

- **Measures deposit rate changes relative to market rate changes**
- **Beta =** $\dfrac{\text{Change in Product Rate}}{\text{Change in Market Rate}} = \dfrac{40 \text{ bps}}{100 \text{ bps}} = 40\%$
- **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

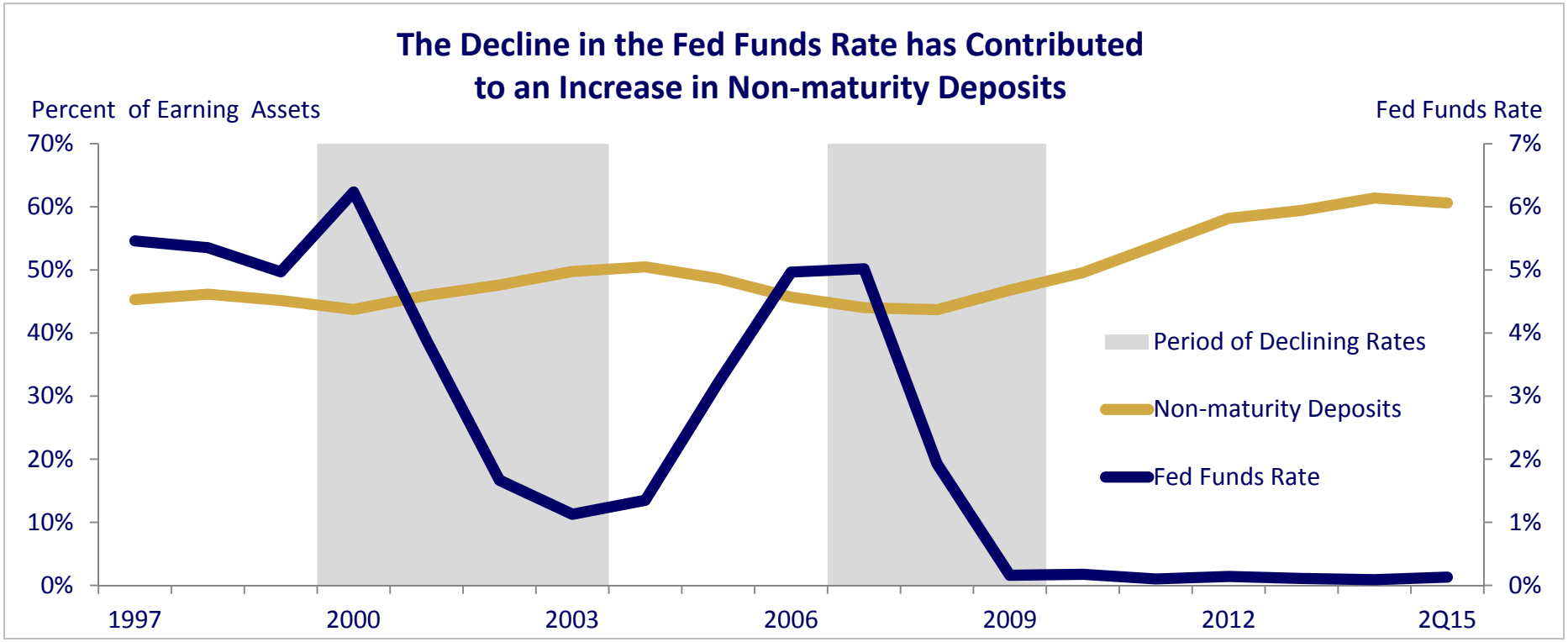


Source: Call Reports. Estimates based on analysis of all insured Call Report filers from 1Q04 through 3Q06. Based on Savings and MMDA accounts only.

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**