



Bankers **GPS**

*The thinking banker's guide to the future*

Epecially Prepared For :  
**Any Town Bank**  
Any City, AS

From Information reported by the bank in the Mar2010 Call Report

The calculations and methodologies contained in this model have been certified valid  
for the measurement of bank interest rate risk  
by TruCode Systems

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**Risk**

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# Any Town Bank, Any City, AS

## Introduction

The purpose of this analysis is to give community bankers an economical tool with which to determine rate risk and prepare for interest rate risk examinations. It combines the bank's financial history and its most recent call report with popular rate risk measurement techniques to produce a reasonable estimate of both interest margin and equity risks. With this report the user can easily understand, communicate and prepare for the impact of rate changes with minimal costs, staff and time.

## Risk Analysis Methods

The system provides several methods for measuring interest rate risk. Risk to the net interest margin is measured using the Rate Sensitivity Gap Analysis to show cash flow and repricing information, and then margin simulation to quantify the actual income risk. While net interest margin risk is a short term (12 month) measure, longer term risks to the bank's performance can be seen by computing Economic Value of the bank's Equity (EVE). The EVE is actually the liquidation value at various interest levels and is gaining popularity as a required component in complete rate risk examination.

## Plansmith's Risk Tolerance

Risk is always present in the balance sheet; however, the severity of risk has meaning only when placed in context. In order to understand the severity of the present, we must understand the bank's ability to absorb losses, its Rate Risk Tolerance. Plansmith's Risk Tolerance Analysis is the benchmark against which risk can be determined to be acceptable or excessive. Risk Tolerance also provides insights into the components of performance that can reduce pressure on the net interest margin when few alternatives exist. This unique analysis aids understanding by bringing a new dimension to the interest rate risk equation.

## Rate Risk Strategy Development

The report provides traditional risk measurements along with a new techniques to help control rate risk, called Asset-Liability Strategy Bubbles. In one chart, all of the components of risk are brought together visually to depict the risk to both Net Interest Margin and EVE, as well as the underlying causes. This view allows the reader to quickly and easily comprehend the scope of the problem, as well as the solution with its Risk/Reward Trade-Off.

## The Data Source

The analyses are developed using call report history from the FedFis BankAnalyst system, a powerful call report database. The system examines data covering up to 20 quarters within the context of a full rate cycle giving greater validity to the results. Call report data provides several benefits: 1) no additional staff time is required to prepare and load data, 2) historical performance statistics with which to discern the bank's behavioral characteristics. 3) The ability to test the model accuracy against known historical results, or backchecking. Back-checking is not yet available in other interest rate risk measurement systems.

## Understanding and Communicating Risk

Rate risk analysis can be complex, and often the real challenge lies in the explanation of risk to boards, staff and examiners. Systems that present several pages of detailed schedules obscure the issues rather than clarify them and inhibit strategy development. To overcome these problems, this report reduces the analyses to easily read charts and graphs supported by explanations. Our goal is to improve both understanding and communication of the risks and the strategies for dealing with those risks. Understanding and communicating risk is at the heart of the concerns of the banking regulators.

## A Word About Accuracy

Finally, the reader should recognize that while the data used in the analyses are limited to the call report detail, the results are within a usable range of accuracy for an uncomplicated community bank. Risk measurement itself is an imprecise science and all measurements are estimates at best. The purpose of this report is to provide a reasonable assessment of interest rate risk with a minimal investment of both time and expense. Regardless of the time and money invested, no method guarantees consistently accurate results. This report employs the 90/10 rule, i.e., it provides 90% of the answers with only 10% of the effort and cost. In a situation where, due to size or complexity, the bank requires a more detailed analysis, Plansmith's Compass system can provide that additional capability. Compass is a complete bank simulator that allows greater accuracy with more assumptions in dealing with complexity. Compass generates cash flow from the bank's accounting systems for greater accuracy in analysis and forecasting. For assistance with this product or to learn more about Compass call Plansmith at 800-323-3281.

# Any Town Bank, Any City, AS

## Executive Summary

### Bank's Statistics from the Mar2010 Call Report

		Quarter	YTD
<b>Asset Size :</b>	163,621	<b>Return on Avg Assets:</b>	0.42%
<b>Earning Assets :</b>	156,747	<b>Int. Margin / Earn Assets :</b>	4.01%
<b>Tier 1 Equity Capital :</b>	17,135	<b>Loans Loss Prov/ Avg Assets :</b>	0.98%
<b>Tier 1 Equity Ratio :</b>	10.47%	<b>Assets growth Rate :</b>	-0.84%

#### Net Interest Margin Risk Summary

The bank will experience a loss in Net Interest Income if rates ramp DOWN in next year. The magnitudes and severity of potential loss for a 100bp change in rate under projected rate conditions are:

	(\$000)	Bp
Simulated 100 bp decreases	-205	-12
Margin Risk Tolerance	620	39
<b>Margin Risk Cushion</b>	<b>415</b>	<b>27</b>

#### Other NIM Rate Risk Indicators

Cumulative 12 month Gap	26,539
Time Weighted 12 month Gap	12,173
12 month RSA / RSL	1.43

#### Income Risk Management

If the management believes the rates will move DOWN, then income risk can be mitigated by reducing the timing mismatch between repricing assets and liabilities. The severity of risk is seen in the Risk Cushion. In this case the bank could absorb loss in the margin and meet its capital requirement and dividends.

#### Equity Risk Summary

##### Current Position

Mark to Market Assets (MMA)	164,138
Market Value of Equity (MVE)	18,114
Equity Ratio (MVE / MMA)	11.04%

##### Minimum Position

Mark to Market Assets (MMA)	161,512
Min Equity Ratio Assumption (MER)	7.00%
Min MV of Equity (MMA * MER)	11,306

##### Risk benchmark Position

Mark to Mkt Assets at 100bp Rise	161,512
MV of Equity at 100bp Rate Rise	17,359
Equity ratio at 100bp Rise	10.75%

##### Available Cushion or (Shortfall)

MV of Equity at 100bp Rate Rise	17,359
Min Market Value of Equity (MMVE)	11,306
<b>Equity Risk Cushion</b>	<b>6,054</b>

### Equity Risk Management

The Economic Value of Equity is a function of the duration difference between the asset and liabilities. The risk in this case is that rates will RISE and cause the bank's equity value to fall. The rate of decline for the equity value is -4% for each 100bp of immediate rate RISE. This decline should be compared to the bank's rate risk policy for acceptability. The severity of the potential loss is measured by the Equity Risk Cushion which tells that the bank is in a position to absorb a loss and maintain minimum equity ratio.

#### Performance Forecast

Blue Chip Financial Avg Rate Change Forecast	42bp	Projected Asset Growth Rate	1.00%
Proj Int Margin (% of Earn Assets) from Rate Shock	3.94%	Projected Ending Assets	165,257
Projected Interest Margin (% of Total Assets)	3.81%	Projected Ending Tier 1 Equity	17,752
Projected Net Overhead (% of Total Assets)	2.18%	Projected Tier 1 Equity Ratio	10.74%
Projected Loan Loss Provision (% of Total Assets)	0.98%	Projected Return on Tier 1 Equity	3.89%

**Projected Return on Assets 0.40 %**

## Any Town Bank, Any City, AS

### Balance Sheet

(000 omitted)

Assets	Mar 2009	Jun 2009	Sep 2009	Dec 2009	Mar 2010
Cash and nonint bearing deposits	2,877	1,684	1,808	1,359	1,775
Interest bearing deposits	4,186	2,002	5,630	9,433	12,256
U.S. Treasury Securities	0	0	0	0	0
U.S. Gov't Agencies & Corp Oblig.	12,859	9,897	6,671	9,165	7,555
State and Political Subdivisions	21,351	21,660	22,323	20,961	20,267
Total Mortgage Backed Securities	1,758	1,563	1,466	1,374	1,276
Other Equities and Mutual Funds	0	0	0	0	0
Other Debt Securities	0	0	0	0	0
<b>Total Securities</b>	<b>35,968</b>	<b>33,120</b>	<b>30,460</b>	<b>31,500</b>	<b>29,098</b>
Fed Funds Sold + Rev Repurch. Agrmts	0	0	0	0	0
Loans Secured by Real Estate	108,080	111,289	111,082	108,907	107,702
Commercial & Industrial Loans	6,338	6,111	6,515	6,354	6,559
Consumer Loans	778	759	724	573	482
Leases	266	234	223	0	0
All Other Loans	1,596	1,583	1,566	1,794	749
Unearned Discount	-98	-102	-113	-104	-99
<b>Total Loans (net of U/D)</b>	<b>116,960</b>	<b>119,874</b>	<b>119,997</b>	<b>117,524</b>	<b>115,393</b>
Loan Loss Reserve	-2,443	-2,743	-2,904	-2,513	-2,912
Fixed & Other Assets	4,518	4,966	4,960	7,702	8,011
<b>Total Assets</b>	<b>162,066</b>	<b>158,903</b>	<b>159,951</b>	<b>165,005</b>	<b>163,621</b>
<b>Liabilities</b>					
Checking (Non-Interest Bearing)	19,985	20,167	18,849	19,391	20,322
Checking (Interest Bearing)	16,715	13,977	15,657	15,495	14,541
MMDA	39,656	41,996	43,279	48,367	48,124
Savings	6,402	6,561	6,187	6,411	6,791
Certificates of Deposit < \$100000	20,834	20,969	20,907	20,312	20,673
Certificates of Deposit > \$100000	33,460	29,844	29,297	30,029	28,498
<b>Total Deposits</b>	<b>137,052</b>	<b>133,514</b>	<b>134,176</b>	<b>140,005</b>	<b>138,949</b>
Fed Funds Purch + Repurch Agrmnts	0	0	0	0	0
Other Borrowed Funds	7,153	7,155	7,149	6,260	6,146
<b>Total Borrowings</b>	<b>7,153</b>	<b>7,155</b>	<b>7,149</b>	<b>6,260</b>	<b>6,146</b>
All Other Liabilities	986	1,224	1,193	1,139	927
<b>Total Equity Capital</b>	<b>16,875</b>	<b>17,010</b>	<b>17,433</b>	<b>17,601</b>	<b>17,599</b>
<b>Total Liabilities + Equity Capital</b>	<b>162,066</b>	<b>158,903</b>	<b>159,951</b>	<b>165,005</b>	<b>163,621</b>

## Any Town Bank, Any City, AS

### Selected Average Balances

(000 omitted)

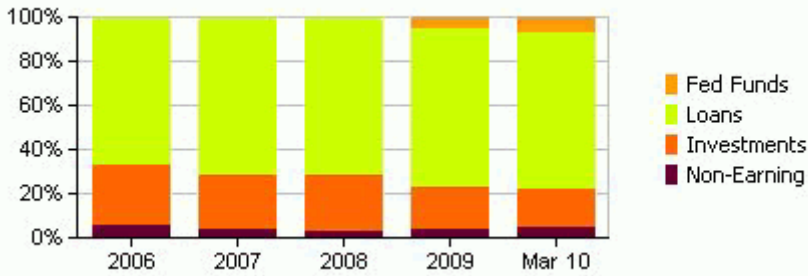
Earning Assets	Mar 2009	Jun 2009	Sep 2009	Dec 2009	Mar 2010
Interest Bearing Deposits in Other Banks	2,682	2,729	4,259	6,300	8,471
Total Securities	37,012	33,844	30,181	28,980	29,814
Fed Funds Sold + Rev Repurch. Agrmts	0	0	0	0	0
Loans Secured by Real Estate	104,209	109,987	111,521	110,879	108,817
Commercial & Industrial Loans	6,520	6,450	6,278	6,419	6,494
Consumer Loans	740	744	709	679	586
Total Loans (net of U/D)	113,221	116,730	120,066	119,377	116,740
Total Leases	0	0	0	0	0
<b>Earning Assets</b>	<b>152,915</b>	<b>153,303</b>	<b>154,506</b>	<b>154,657</b>	<b>155,025</b>
<b>Interest Bearing Liabilities</b>					
Checking (Interest Bearing)	16,194	14,263	14,617	15,282	14,906
MMDA and Savings	47,340	48,776	49,136	50,987	54,352
Certificates of Deposit < \$100000	28,676	27,739	27,251	29,600	30,052
Certificates of Deposit > \$100000	24,621	24,481	23,498	21,011	20,094
Int. Bearing Deposits in Foreign Offices	0	0	0	0	0
Total Deposits	116,831	115,259	114,502	116,880	119,404
Fed Funds Purch + Repurch Agrmnts	42	22	43	43	44
Other Borrowings	7,610	6,866	7,134	6,502	6,150
<b>Interest Bearing Liabilities</b>	<b>124,483</b>	<b>122,147</b>	<b>121,679</b>	<b>123,425</b>	<b>125,598</b>

*Banks with less than 25 million in assets don't report loan detail.  
Therefore their averages on specific loan categories will be zero*

# Any Town Bank, Any City, AS

## Balance Sheet Mix Analysis

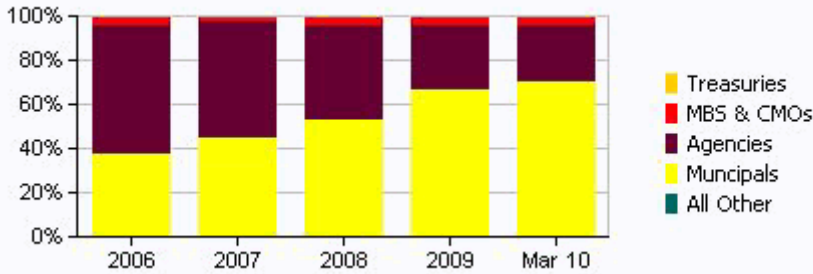
### Asset Mix



**As on Mar 10**

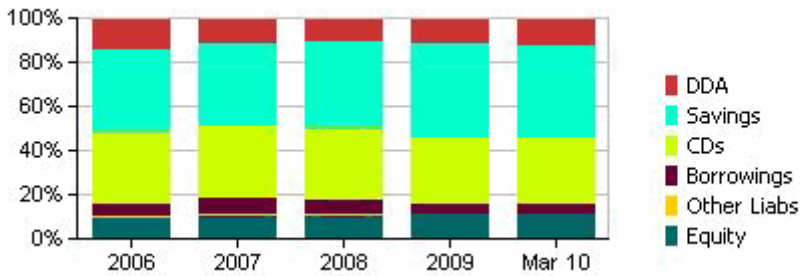
Description	Millions
<b>Total Assets</b>	
FFS, Repos and Bank CD	12,256
Loans	115,393
Investments	29,098
Non-Earning	6,874
	<b>163,621</b>

### Securities Portfolio Mix



<b>Securities</b>	
U.S. Treasuries	0
MBS & CMOs	1,276
U.S. Govt Agencies	7,555
Municipals	20,267
All Other Securities	0
	<b>29,098</b>

### Liabilities & Equity



<b>Liabilities &amp; Equity</b>	
Demand Deposits	20,322
Int Bear Chkg MMDA & S	69,456
CDs	49,171
Borrowings	6,146
Other Liabilities	927
Equity Capital	17,599
	<b>163,621</b>

## Any Town Bank, Any City, AS

### Income Statement

(000 omitted)

Interest Income	Mar 2009	Jun 2009	Sep 2009	Dec 2009	Mar 2010
Int on bal due from dep. institutions	1	2	2	4	5
Int on FFS and Reverse Repos	0	0	0	0	0
Inc on Investment Securities	479	386	335	318	313
Int & Fees on Loans	1,652	1,724	1,658	1,645	1,584
Int & Fees on Leases	0	0	0	0	0
Income on trading accounts	0	0	0	0	0
Other Interest Income	0	0	0	0	0
<b>Interest Income Total</b>	<b>2,132</b>	<b>2,112</b>	<b>1,995</b>	<b>1,967</b>	<b>1,902</b>
Int exp on Checking	25	18	15	17	14
Int exp on MMDA & Savings	178	166	154	150	141
CDs< \$100000	184	164	148	137	124
CDs > \$100000	211	177	159	132	104
Total Int Exp on Deposits	598	525	476	436	383
Int Exp on Borrowed Funds	69	61	65	55	50
<b>Int Expense Total</b>	<b>667</b>	<b>586</b>	<b>541</b>	<b>491</b>	<b>433</b>
<b>Net Interest Inc before Provision</b>	<b>1,465</b>	<b>1,526</b>	<b>1,454</b>	<b>1,476</b>	<b>1,469</b>
Provision for loan and lease losses	200	300	600	535	400
<b>Net Int Inc After Loan Loss Prov</b>	<b>1,265</b>	<b>1,226</b>	<b>854</b>	<b>941</b>	<b>1,069</b>
Trust Income	0	0	0	0	0
Service charges on deposit accounts	83	81	83	76	76
Other noninterest Income	27	55	33	34	64
<b>Noninterest Income Total</b>	<b>110</b>	<b>136</b>	<b>116</b>	<b>110</b>	<b>140</b>
Salaries and employee expenses	564	526	552	526	558
Premises and fixed asset expenses	97	89	88	93	99
Other noninterest expense	309	399	303	419	364
<b>Noninterest expense Total</b>	<b>970</b>	<b>1,014</b>	<b>943</b>	<b>1,038</b>	<b>1,021</b>
Realized Gains(Losses) on sec Total	0	2	3	0	0
Income taxes	85	67	-52	-117	15
Extraordinary items net of tax	0	0	0	0	0
<b>Net income(loss)</b>	<b>320</b>	<b>283</b>	<b>82</b>	<b>130</b>	<b>173</b>

## Any Town Bank, Any City, AS

### Yields and Costs

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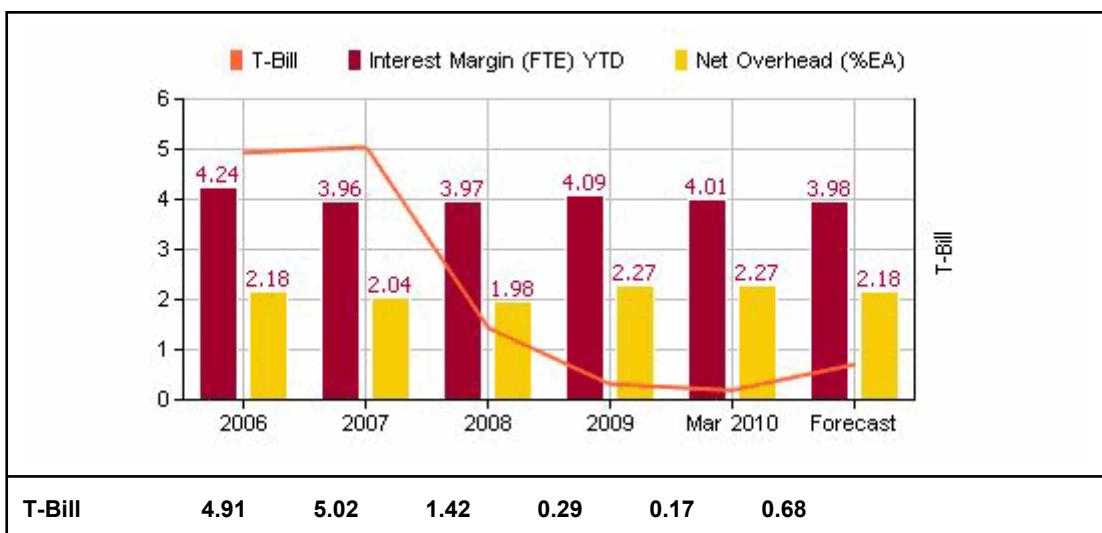
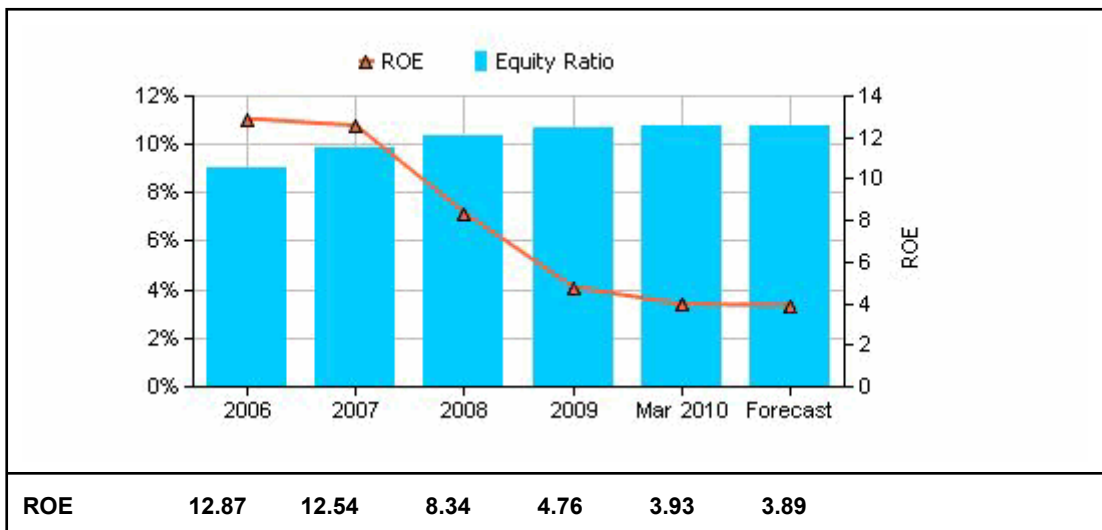
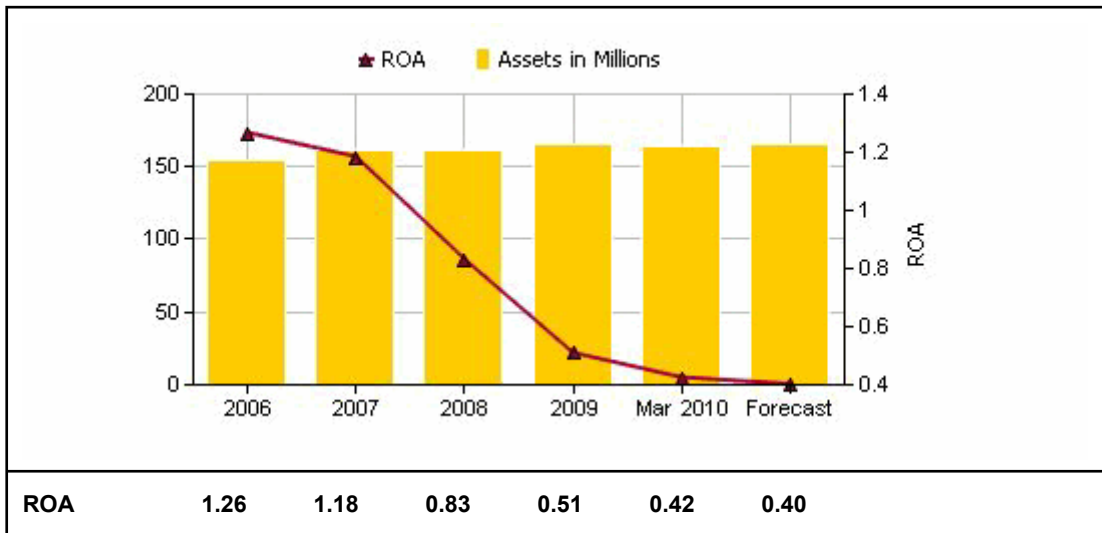
Earning Assets	Mar 2009	Jun 2009	Sep 2009	Dec 2009	Mar 2010
Interest Bearing Deposits	0.15	0.29	0.19	0.25	0.24
U.S. Treasury & Agencies	7.43	5.96	6.33	6.06	4.82
Yield on All Securities (FTE)	6.42	5.94	5.98	5.98	5.65
Fed Funds Sold + Rev Repurch. Agrmts	0.00	0.00	0.00	0.00	0.00
Loans Secured by Real Estate	5.87	5.82	5.53	5.47	5.40
Commercial & Industrial Loans	5.64	5.71	5.48	6.11	5.73
Consumer Loans	5.95	5.91	5.08	5.89	5.46
<b>Total Loans (net of U/D)</b>	<b>5.84</b>	<b>5.91</b>	<b>5.52</b>	<b>5.51</b>	<b>5.43</b>
Total Leases	0.00	0.00	0.00	0.00	0.00
<b>Yield on All Earning Assets</b>	<b>5.58</b>	<b>5.51</b>	<b>5.16</b>	<b>5.09</b>	<b>4.91</b>
Interest Bearing Liabilities					
Checking (Int Bearing)	0.62	0.50	0.41	0.44	0.38
MMDA and Savings	1.50	1.36	1.25	1.18	1.04
Certificates of Deposit < \$100000	2.57	2.36	2.17	1.85	1.65
Certificates of Deposit > \$100000	3.43	2.89	2.71	2.51	2.07
<b>Total Deposits</b>	<b>2.05</b>	<b>1.82</b>	<b>1.66</b>	<b>1.49</b>	<b>1.28</b>
Fed Funds Purch + Repurch Agrmnts	0.00	0.00	0.00	0.00	0.00
Rate on Other Borrowings	3.63	3.55	3.64	3.38	3.25
<b>Rate on Interest Bearing Liabilities</b>	<b>2.14</b>	<b>1.92</b>	<b>1.78</b>	<b>1.59</b>	<b>1.38</b>
<b>Spread</b>	<b>3.43</b>	<b>3.59</b>	<b>3.39</b>	<b>3.50</b>	<b>3.53</b>

*Banks with less than 25 million in assets don't report loan detail.*

*Therefore their yields on specific loan categories will be zero*

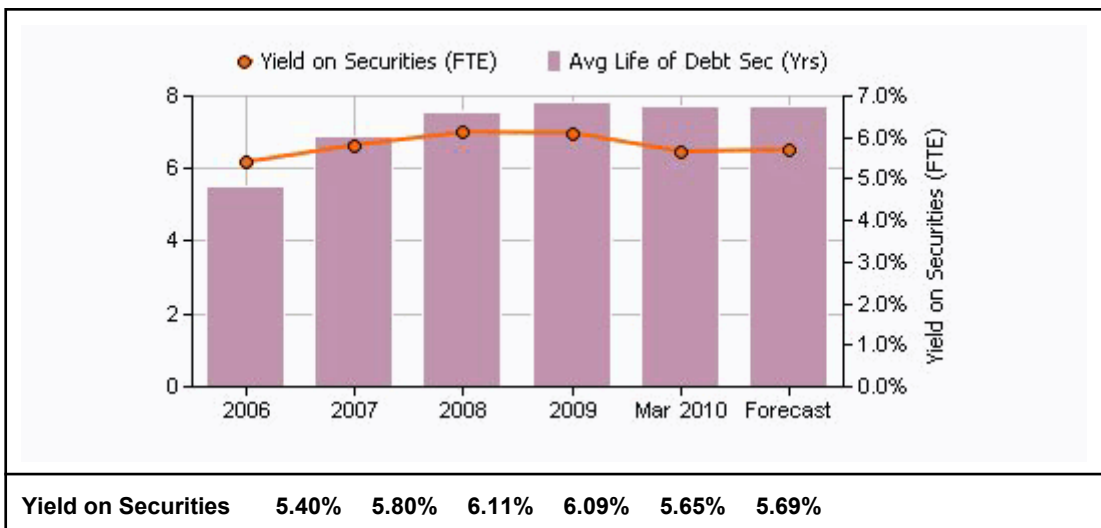
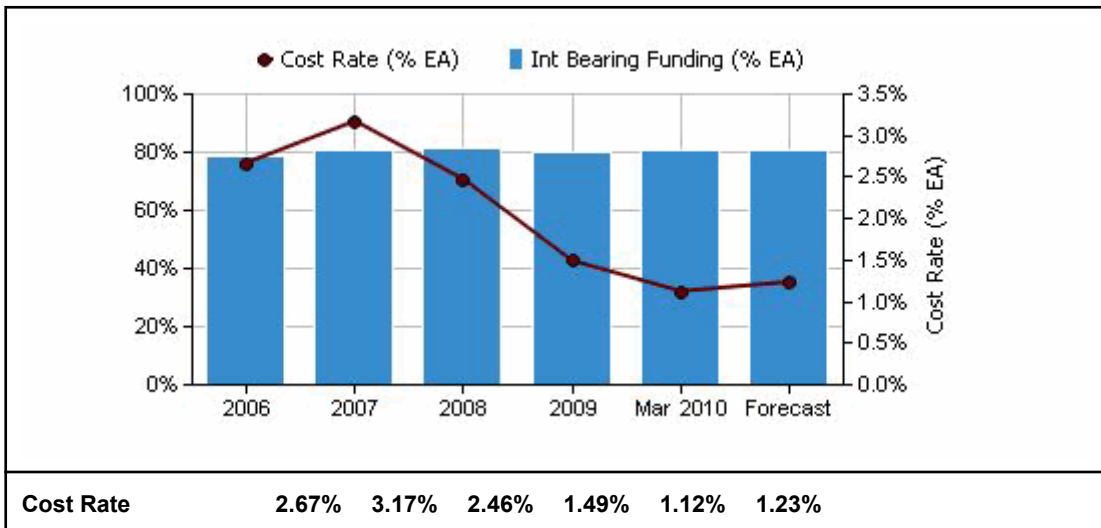
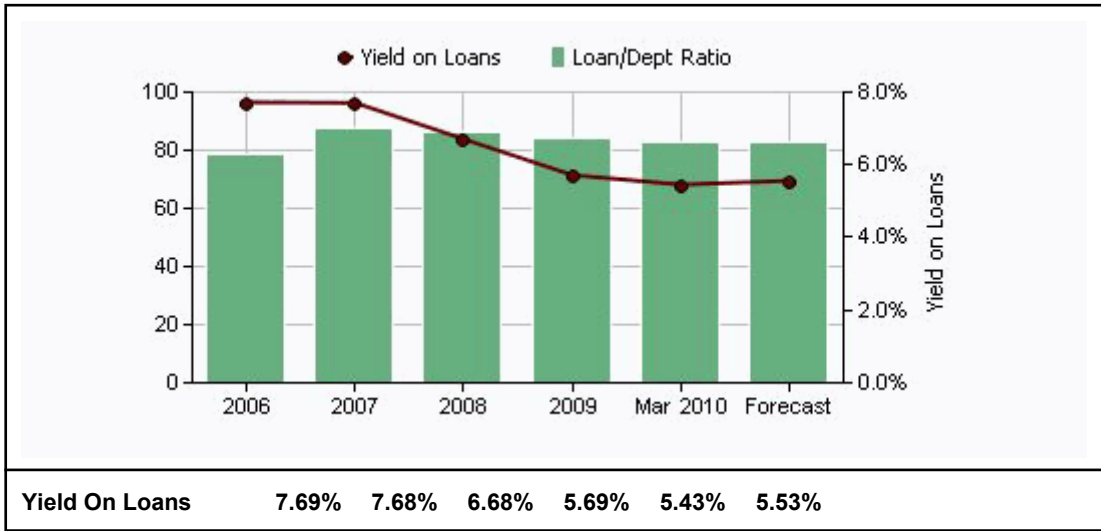
## Any Town Bank, Any City, AS

### Performance History



## Any Town Bank, Any City, AS

### Performance History (Cont'd)



## What to Expect

In the following pages, the program will transform the bank's call report data into a credible interest rate risk analysis. This is a multi-step process that is outlined below.

### Step 1: Risk Tolerance

The first requirement is to determine the benchmark against which to measure, the severity of the risk the analysis will measure. This benchmark is the bank's minimum required interest income. The ability to absorb income loss and maintain adequate equity is called Risk Tolerance.

### Step 2: Data Conversion and Gap

While call report data is a rich source of information, it must be modified for risk measurement to be accurate and credible. This is a three step process.

- a. Determine the rate sensitivity of the non-maturing balances, their beta factors. The beta factors will be used as the repricing speeds in the Gap report and in Rate Shock Simulations.
- b. Convert loan maturities to cash flows by amortizing their cash flows and applying current prepayment speeds.
- c. Estimate the volume of floating rate loans to perform an accurate simulation of income as rates change.

Finally, the user has access to all the defaults used and calculations, made and can adjust these values to reflect management's own analysis.

### Step 3: Rate Shock Simulation of Income

The Program performs a full simulation of each balance sheet category under various rate change conditions and calculates the net interest income change for each. A convenient chart shows the impact of rate change over various rate changes and relates the Net Interest Income ratio (% of Earning Assets) to the bank's required Net Interest Margin developed in Risk Tolerance. This is very helpful when presenting risk issues to the board.

### Step 4: Economic Value of Equity Risk

The Economic Value of Equity (EVE) is the mark-to-market, or liquidation, value of the assets less the liabilities. Mark-to-Market value is calculated using the discounted cash flow method for all balance sheet items. The difference between the assets and liabilities at each rate level is the bank's equity on a mark-to-market basis. Critical measurements include both the current EVE and the rate of change of equity as rates change. A convenient chart illustrates the changing nature of this value as compared to the bank's minimum Equity Ratio. It is important to note that the regulatory maximum decline in equity is 30% over a 200bp rate change, 15% downward slope. The actual value is shown under the chart on page 17.

The results of all these analyses have been summarized in the Executive Summary (Page 2).

### Risk Management Strategy

The report provides a simple device to help explain and manage risk. By charting the duration of assets and liabilities and their yields against the Yield Curve, we can separate the components of the interest margin into the asset benefit, the liability benefit and that portion of the margin due to risk taking.

### Performance Projections

Using the results of the Net Interest Margin simulation, combined with using a credible rate forecast over the next year, and operating overhead projections, the program presents a performance forecast for the next four quarters.

## Any Town Bank, Any City, AS

### Margin Risk Tolerance

To provide meaning to rate risk measurements we must set benchmarks against which the sensitivity of risk can be evaluated. The severity of a potential loss depends upon how much the bank can afford to lose and maintain adequate capital. The ability to absorb the losses and still maintain adequate capital is called Risk Tolerance. Risk can be classified as either short-term or long-term. Short-term risk impacts margin earnings in the near term. The Economic Value of the bank's Equity (EVE) reflects the long-term risk to earnings. Margin Risk Tolerance is determined by computing the minimum net interest margin required to meet all expenses, including capital formation and dividends. The Tier 1 Equity Risk Tolerance is simply the difference between the minimum acceptable capital ratio and the bank's capital ratio. This value provides a measurement of the bank's ability to lose capital and still maintain its minimum capital ratio. A minimum capital ratio of 7.00% will be used in our calculations. The Tier 1 Equity Risk Tolerance is determined by subtracting the minimum capital ratio from its capital ratio. The Tier 1 Equity Risk Tolerance for Any Town Bank, Any City, AS is 3.47% .

#### Calculation of Required Minimum Margin

(000 omitted)

Assets	Current Qtr	Growth Rate	Proj. End	Average	Projected Amount	% Earn Assets	% Avg Assets
Total Assets	163,621	1.0%	165,257	164,439			
Earning Assets	156,747	1.0%	158,314	157,531			
Tier 1 Equity Capital	17,135		17,135	17,135	0	0.00	0.00
Tier 1 Equity/Asset Ratio	10.47%		10.37%				
Dividends (assumed equal to last 4 qtrs)					50	0.03	0.03
<b>Earning required to meet capital and dividend needs</b>					<b>50</b>	<b>0.03</b>	<b>0.03</b>
Non-Interest Income (% of Avg Assets averaged from last 4 qtrs)					(510)	(0.32)	(0.31)
Non-Interest Expense (% of Avg Assets averaged from last 4 qtrs)					4,090	2.60	2.49
Tax Equivalent Adjustment (current quarter)					346	0.22	0.21
Loan Loss Provision (most recent quarter extended)					1,612	1.03	0.98
Estimated Taxes (Effective Rate=8% applied to Required Income)					5	0.00	0.00
<b>Total Other Expenses Supported by Interest Margin</b>					<b>5,543</b>	<b>3.52</b>	<b>3.37</b>
<b>MINIMUM REQUIRED INTEREST MARGIN (FTE)</b>					<b>5,593</b>	<b>3.56</b>	<b>3.40</b>

#### Calculation of Risk Tolerance

	Amount	%EA	%AA
Current Margin under flat rates applied to new Avg Assets	6,213	3.94	3.78
Required Net Interest Margin (FTE) over next 12 months	5,593	3.55	3.40
<b>Risk Tolerance (Maximum Allowable Net Interest Margin Change)</b>	<b>620</b>	<b>0.39</b>	<b>0.38</b>

The significance of Risk Tolerance is to show how much the net interest margin could change before the bank's capital would fall below the minimum, due to insufficient capital formation from earnings. A positive value indicates the bank has the ability to absorb adverse rate changes in the net interest margin. However, a negative risk tolerance indicates the capital ratio will decline even without rate change.

## Any Town Bank, Any City, AS

### Factors Impacting Risk Tolerance

The Rate Risk Tolerance calculation addresses asset-liability management in a holistic manner. It recognizes that net interest margin and margin risk are not independent of other aspects of the bank's financial issues. No part of the bank's financial statement stands alone. Focus should be on the bottom line rather than margin or overhead alone. Risk tolerance can explain why some banks can operate with a narrow margin and continue to generate substantial returns for their shareholders, while others achieve large margins and yet bring only 50 basis points to the bottom line. Banks can relieve pressure on the margin by taking steps to reduce those components of risk tolerance that cause the minimum margin to increase. By the same token, banks with an adequate risk tolerance position could find, for reasons other than rate change, their risk tolerance evaporates. This is due, of course, to changes in the components of the bank's risk tolerance such as loan losses or increasing operating expenses.

The following analysis identifies changes in each component of the minimum margin calculation that could cause the risk tolerance to drop to zero, raising the minimum required margin. For banks with a negative risk tolerance, the analysis will indicate the actions necessary to raise the minimum margin to the current margin, i.e.; bring risk tolerance to zero.

Note: The following actions are calculated as a single factor effect. Each change is considered to be the only change taking place. However, in reality changes take place across several components and this information is offered only as a guide.

Component	Individual Risks
<b>Capital Formation</b>	If The Capital Formation requirement increased by \$620, then Risk Tolerance would fall to zero, and the bank's required earnings (Capital Formation + Dividends) would have to be at least \$ 670.
<b>Dividend Payout</b>	If the Dividend Payout increased by \$620, or 1240%, this would raise the Minimum Margin and cause the Risk Tolerance to fall to zero.
<b>Earning Asset Yield</b>	The yield on earning assets could fall 85bp by next year before the margin would equal the Minimum Margin and wipe out the bank's Risk Tolerance.
<b>Loan Yield</b>	Loan Yield would have to fall 107bp to bring the Risk Tolerance to zero.
<b>Investment Yield</b>	If this yield dropped 426bp over the next year, Risk Tolerance would decline.
<b>Cost of Funds</b>	The rate on deposits would have to increase by 99bp over the next year before the margin would fall to the minimum allowable and wipe out the bank's Risk Tolerance.
<b>Net Interest Margin</b>	Economic rates would have to change by -301bp to cause margin to fall to the minimum, depleting the bank's Risk Tolerance by 39bp and bringing it to zero (see Rate Shock).
<b>Non-Interest Income</b>	If Non-Interest Income fell by \$509, or 100%, the net overhead would rise and reduce the bank's Risk Tolerance.
<b>Overhead Expense</b>	If Overhead Expenses, such as Salaries, Occupancy and Other Expenses, rose by \$620, or 15%, this would raise the Minimum Margin and reduce Risk Tolerance to zero.
<b>Loan Loss Provision</b>	Loan Losses would have to increase by \$620, or 38 %, to wipe out the Risk Tolerance because of raising the Minimum Margin requirement.

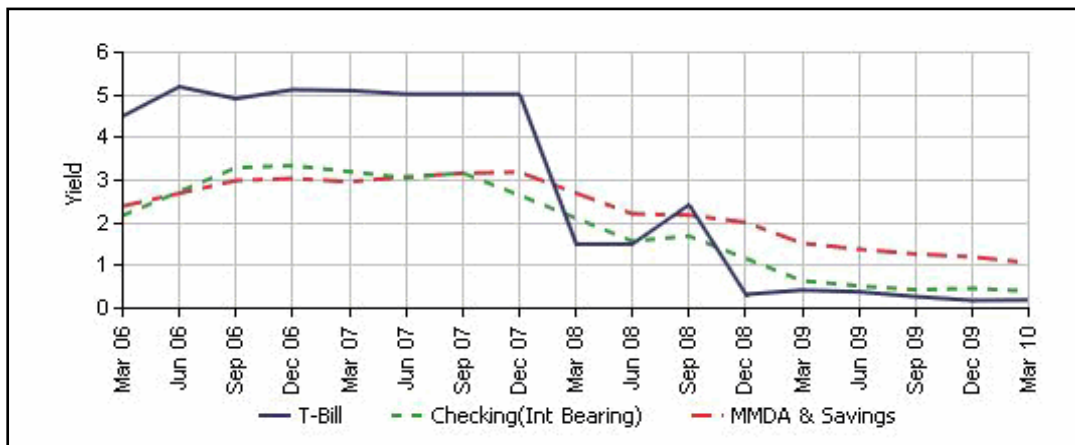
The events outlined above are risks to the bank's current risk position and must be considered as worst case scenarios. In reality events can, and do, occur simultaneously, Improvements or reductions in performance are dependent upon a combination of events This list is intended as a means by which to evaluate possibilities.

## Rate Sensitivity of Non-Maturing Balances

Non-maturing balances are categories that have no contractual or stated maturities. They include Savings accounts, Money Market Demand accounts and Checking (Interest Bearing) accounts. It is a challenge in the rate risk analysis to determine the impact of the non-maturing balances on the net interest margin as the interest rate changes. Because these balances do not "mature" it is difficult to know how they will reprice as rates change. It is possible to glean some understanding by reviewing the bank's pricing history, on these categories, relative to interest rate changes. Using the interest rate history from Plansmith's FIRE database spanning up to 20 quarters of data, we can derive the relationship between interest rate changes and the offerings rate themselves. The analysis will use the T- Bill rate as an indicator of rate changes.

There are two important relationships. To perform Rate Change Simulations, we need to know how the bank moves its offering rates as interest rates rise and fall. The Gap analysis uses beta factors to spread balances to reflect repricing speed. While these rates are changed at the discretion of the bank, there is a relationship between them and the general rate environment. Below is a graph showing a comparison of the Checking ( Interest Bearing ), MMDAs, Savings rates and the T-Bill rate over time.

**Non-Maturing Accounts vs T-Bill**



## Calculation of Deposit Pricing Behaviour

Rate simulations use the relationship between economic rates and the offering rates paid on these balances for modeling. The program develops the equations that express these relationships relative to the quarterly changes in the T-Bill rate. This provides the relative speed of change for these accounts as seen in the chart. As the T-Bill rate fell, the bank changed its rate faster than when the T-Bill rate rose. These analyses are possible because our call report data allows us to examine these relationships over long periods of time to determine the impact of pricing behaviour of the non-maturing balances on the Net Interest Margin of Any Town Bank, Any City, AS.

Because Gap Analysis is based strictly on balances, we must translate the relationship between interest rate changes and the offering rate change into volumes. The relationship between interest rate and offering rate change is called a Beta Factor. In Gap Analysis, the Beta is the percentage of the account balance that is placed in the short term bucket of the report. This mitigates the impact of large rate swings on the bank's offering rate, and more closely reflects reality. For example, a beta of 20% means 20% of the balance will be placed in the Floating bucket. Gap Beta below is the average of the rising and falling betas. The rising and falling betas are used in the Rate Change Simulation.

Category	Gap Beta	Relative Rate Change Speeds Compare to 6 mon. T-Bill	
		Falling Rates	Rising Rates
Checking (Interest Bearing)	36%	28%	43%
MMDA & Savings	27%	23%	31%

## Assumption Changes

While the program has analyzed the apparent relationship between the T-Bill rate movement and the bank's offering rate on these accounts, the reader is encouraged to give some thought to the results and use the Assumptions/Gap area to change the values if necessary. Keep in mind that increasing the speed factor will increase the rate change. Since the Gap Beta is the average of the two, changes in the speed will impact the distribution of these balances in the Gap report and the risk.

## Any Town Bank, Any City, AS

### Rate Sensitivity Gap

The first requirement is to adjust the call report amortizing accounts to cash flow. These include the MBS & CMO as well as the Loan accounts. Shown below are the balance as they come out of the call report.

	1-3 mth.	3-12 mth.	1-3 Years	3-5 Years	5-15 Years	>15 Years	Total
Govt Agen & Muni Sec	-	436	2,625	2,602	3,747	17,547	27,822
MBS & CMO Maturities	-	-	-	420	-	824	1,276
Loan Maturities as Reported	-	15,356	14,917	37,196	29,795	6,978	104,481

Following amortization, prepayment speeds are applied. Finally, the Floating Rate Loans are estimated by subtracting the averages maturity from Loans Repricing < 3 months. The results of these adjustments can be seen in the Rate Sensitivity Gap report table below.

The Non- Maturing Deposits are distributed using the Beta Factors calculated on the previous page. The Beta reflects the bank's propensity to adjust offering rates as interest rates change. These Betas should be reviewed and adjusted in the Assumption / Gap section of the program. CD maturities are taken from the call report. The user is advised to review these adjustments and make adjustments using the Assumptions in the menu.

### Rate Sensitivity Gap Report

As of Mar 2010

Time Buckets	Floating	1-3 mth.	3-12 mth.	1-3 Years	3-5 Years	5-15 Years	>15 Years	Total
FFS & Repos	-	-	-	-	-	-	-	-
Int. Brngs Deps in Bnks	-	-	12,256	-	-	-	-	12,256
Gov, Agn & Mun Sec.	-	4,154	2,269	2,249	3,238	15,165	748	27,823
MBS & CMO Maturities Adjust	-	119	362	281	124	381	9	1,276
Total Debt Securities	-	4,273	2,631	2,530	3,362	15,546	757	29,099
Loan Mats Adjusted	18,235	18,175	32,827	25,408	6,801	2,966	69	104,481
<b>Total Earning Assets</b>	<b>18,235</b>	<b>22,448</b>	<b>47,714</b>	<b>27,938</b>	<b>10,163</b>	<b>18,512</b>	<b>826</b>	<b>145,836</b>
Checking (Int Bearing)	5,235	-	-	9,306	-	-	-	14,541
MMDA & Savings	14,827	-	-	40,088	-	-	-	54,915
Total Savings Deposits	20,062	-	-	49,394	-	-	-	69,456
CDs < \$100000	-	6,765	9,422	3,718	768	-	-	20,673
CDs > \$100000	-	8,346	12,617	7,111	424	-	-	28,498
Total Time Deposits	-	15,111	22,039	10,829	1,192	-	-	49,171
Other Borrowings	-	-	4,646	1,500	-	-	-	6,146
FFP and Repos	-	-	-	-	-	-	-	-
Total Borrowed Funds	-	-	4,646	1,500	-	-	-	6,146
<b>Total Int Bearing Liabs</b>	<b>20,062</b>	<b>15,111</b>	<b>26,685</b>	<b>61,723</b>	<b>1,192</b>	<b>-</b>	<b>-</b>	<b>124,773</b>
R.S. Gap	(1,827)	7,337	21,029	(33,785)	8,971	18,512	826	21,063

### Risk Indicators from Gap Anal

Cumulative GAP	(1,827)	5,510	26,539					
Cumulative RSA/ RSL	0.91	1.16	1.43					
Time-Weighted 12 mth. Gap			12,173					

## Any Town Bank, Any City, AS

### Net Interest Margin Simulations

The gap analysis provides the basis for more detailed analysis in the simulation model. Also, gap results are popular rate risk indicators. However, to truly evaluate the impact of rate change on income, simulation is the best technique because variables are changed for the various rate conditions. Each category's interest change is calculated as rates ramp up and down. In addition, the repayment speeds and repricing speeds are changed.

Rate Shock is a method for stress testing the Net Interest Margin (NIM) over the next four quarters under several rate change levels. These levels span our 50bp increments up and down from the current interest rates. In order to simulate activity, maturing balances are replaced with the new balances at the new rate level, and repricing balances are adjusted to the new rate shock level. The interest is recalculated for each level along with the new average yield. NIM is then calculated and a margin risk profile is developed. The results of these calculations can be seen in the chart below.

Rate Change	Immediate	-200bp	-150bp	-100bp	-50bp	Current	+50bp	+100bp	+150bp	+200bp
<b>Int. Income</b>										
FFS, Repos & Bank CD		18	18	18	18	29	52	75	98	121
Loans		5,304	5,544	5,785	6,031	6,266	6,490	6,705	6,920	7,132
Securities (Tax Eqv.)		1,552	1,575	1,598	1,621	1,644	1,667	1,689	1,712	1,734
<b>Total Interest Income</b>		<b>6,874</b>	<b>7,138</b>	<b>7,401</b>	<b>7,671</b>	<b>7,939</b>	<b>8,209</b>	<b>8,470</b>	<b>8,730</b>	<b>8,987</b>
<b>Int. Expense</b>										
Deposits		953	1,091	1,242	1,400	1,557	1,748	1,938	2,129	2,319
Fed Funds & Borrowing		165	174	182	191	200	208	217	226	235
Other Int. Brgs. Bals										
<b>Total Costs of Funds</b>		<b>1,118</b>	<b>1,265</b>	<b>1,424</b>	<b>1,591</b>	<b>1,757</b>	<b>1,956</b>	<b>2,155</b>	<b>2,355</b>	<b>2,554</b>
<b>Net Interest Income</b>		<b>5,756</b>	<b>5,873</b>	<b>5,977</b>	<b>6,080</b>	<b>6,182</b>	<b>6,253</b>	<b>6,315</b>	<b>6,375</b>	<b>6,433</b>
Actual Dollar Risk		(426)	(309)	(205)	(102)		71	133	193	251
Percent of Risk		(6.89)%	(4.99)%	(3.31)%	(1.65)%		1.15 %	2.15 %	3.13 %	4.06 %
Percent of Avg. Assets		(0.26)%	(0.19)%	(0.12)%	(0.06)%		0.04 %	0.08 %	0.12 %	0.15 %

When the Interest Income is translated into Net Interest Margin as a % of current Earning Assets, we can compare the simulated margins over rate changes to the bank's minimum required margin found in Risk Tolerance.

#### Rate Shocked Margin vs Minimum Margin



**Back-Checking results: Average Error over past four years = +/-13 bp**

**Net Interest Margin Simulations (Cont'd)**

**How much do rates have to change before the bank's margin will rise to its minimum?**

Note that if the upward slope of the margin continues, it would intersect the bank's minimum margin requirement at a -301 rate change. In other words, rates would have to change by this amount before the bank's margin would fall fall minimum and reduce its Rate Risk Tolerance to a point where further rate changes would cause its capital ratio to decline.

**Using the Rate Shock graph to predict margin**

In the performance projections (page 19) section of this report, we will combine this chart with a professional rate forecast to project the bank's overall margin for the next four (4) quarters. Using the Weighted Average Rate change, based on the bank's balance sheet structure and the forecast yield curve, we find the rate change on the Shock Level axis (X-axis). Then, refer up to the Rate Shocked Margin line to find the projected margin as a percent of Average Earning Assets. The reader will note a difference between the margin value derived here and the value reported on the Performance Projections page. The reason for this is that the analysis is based upon Average Earning Assets while the Performance Projections value is based on Total Average Assets which allows us to compute the bank's projected ROA.

**Back-Checking and Model Validation for Rate Shock**

In order to validate the efficiency of using the results of the Ramped Rate Shock method, the program performs a back-check against known margin changes and known rate changes. Using identical calculations, a rate shock is computed for all historical periods (up to 4 years back) and the margin is predicted using known rate conditions. The predicted Net Interest Margin change is compared to the actual Net Interest Margin change and the error is determined. The absolute value of all these errors are averaged to create the Average Margin of Error reported on the previous page.

Back-Checking indicates whether or not a technique is applicable to this situation. If the Average Margin of Error is large, i.e., greater than 10% of the total margin, then there could be several possibilities. One is that the assumptions are incorrect and should be reviewed more closely. Another is that management has historically intervened, as it should, to alter conditions where the predicted value no longer had relevance to the conditions. After all, a simulation for an entire year is a very long time period and conditions can change. A clue to the volatility of the actual Net Interest Margin can be seen graphically at the bottom of Page 15. If the Net Interest Margin changes drastically from year to year, this could be a contributing factor relative to a high Margin of Error. Margin volatility could also indicate management intervention that altered the original assumptions used to develop the analysis.

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### Rate Shocked Economic Value of Equity

Economic Value of Equity (EVE) is a measure of long term interest rate risk. EVE is the difference between the market values of the assets and the liabilities. Actually it is the liquidation value of the bank. In this analysis the program calculates the discounted cash flow (market value) of each category on the balance sheet under each of 9 rate conditions.

The percent of change in MVE is called the Duration of Equity and is a measure of the volatility of value and, therefore, risk. Duration is the percent change in value for each 100bp change in rate and has the dimensions of time, months or years. Each year equals a 1% change in market value for 100bp change in rates. Because duration has the dimensions of time, longer duration equals greater risk.

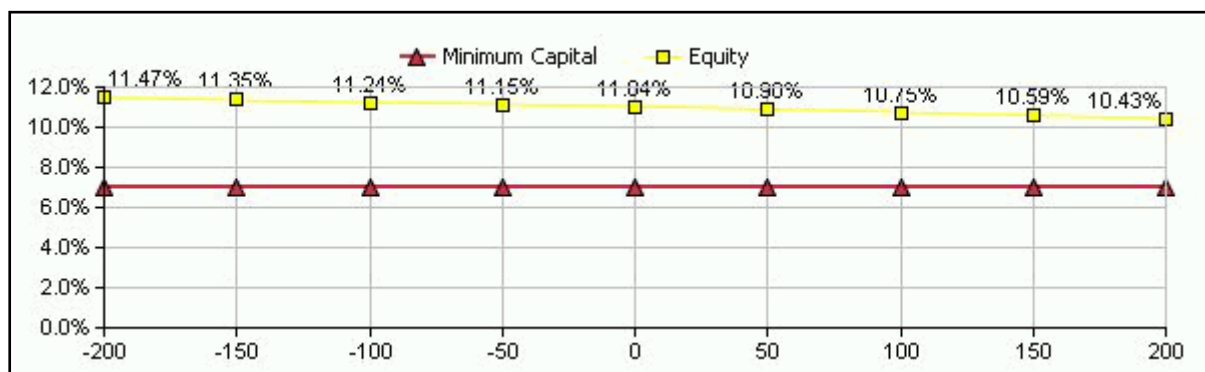
MVE calculations require good cash flows as well as some knowledge of embedded options for reasonable accuracy. Because the system is calculating cash flows, it is possible to estimate the maturity and prepayments at all rate levels in order to approximate durations. The market values for the major categories at various rate change levels are calculated using their durations. Loan Market values are computed using discounted cash flows and current market rates. The Fair Value of Securities is taken from the call report.

Rate Shocks	Fair Values								
	-200bp	-150bp	-100bp	-50bp	Current	+50bp	+100bp	+150bp	+200bp
FFS & Other	12,405	12,367	12,330	12,293	12,256	12,219	12,182	12,145	12,107
Loans	117,918	117,393	116,877	116,413	115,910	115,368	114,802	114,234	113,664
Loan Loss Reserve	(2,912)	(2,912)	(2,912)	(2,912)	(2,912)	(2,912)	(2,912)	(2,912)	(2,912)
Securities (Fair Value)	31,972	31,253	30,535	29,817	29,098	28,377	27,655	26,932	26,210
Non-Earning Assets	9,786	9,786	9,786	9,786	9,786	9,786	9,786	9,786	9,786
<b>Assets (MV)</b>	<b>169,168</b>	<b>167,888</b>	<b>166,616</b>	<b>165,398</b>	<b>164,138</b>	<b>162,838</b>	<b>161,512</b>	<b>160,185</b>	<b>158,855</b>
Sav & Int Bearing Chkg	71,927	71,310	70,692	70,074	69,456	68,838	68,220	67,602	66,985
CDs	49,754	49,608	49,463	49,318	49,172	49,027	48,882	48,736	48,591
FFP and Repos	0	0	0	0	0	0	0	0	0
Non-Int Bearing Chkg	20,898	20,754	20,610	20,466	20,322	20,178	20,034	19,890	19,746
Other Borrowings	6,259	6,230	6,202	6,174	6,146	6,118	6,090	6,062	6,033
Non - Paying Liabs	927	927	927	927	927	927	927	927	927
<b>Liabilities (MV)</b>	<b>149,765</b>	<b>148,829</b>	<b>147,894</b>	<b>146,959</b>	<b>146,023</b>	<b>145,088</b>	<b>144,153</b>	<b>143,218</b>	<b>142,282</b>
<b>MV Equity</b>	<b>19,404</b>	<b>19,058</b>	<b>18,722</b>	<b>18,439</b>	<b>18,114</b>	<b>17,750</b>	<b>17,359</b>	<b>16,968</b>	<b>16,572</b>
<b>MVE Risk (% Change)</b>	<b>7.1 %</b>	<b>5.2 %</b>	<b>3.4 %</b>	<b>1.8 %</b>		<b>(2.0)%</b>	<b>(4.2)%</b>	<b>(6.3)%</b>	<b>(8.5)%</b>

Regulatory Guidelines: Maximum change of 10% for 100bp, 20% for 200bp, 40% for 400bp rate change.

*(Adjustments have been made to account for Goodwill and Intangibles)*

#### Market Value of Equity as a Percentage of Market Value of Assets



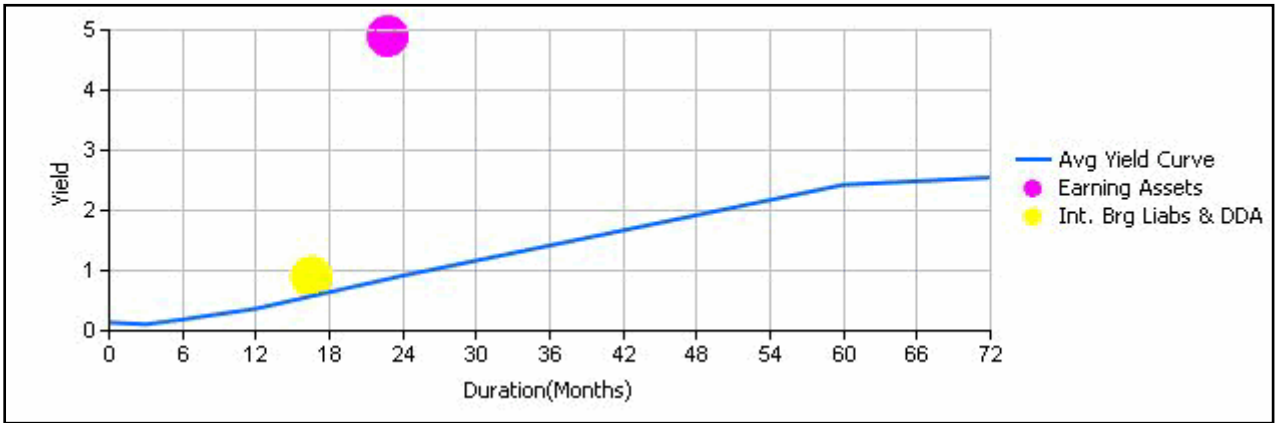
More accurate results on the securities can be obtained from the Bank's broker. The user is encouraged to review all of the assumptions for bond maturities, the securities, durations, loan prepayments and maturity of Borrowings. The bank's Equity Risk that provides a long term perspective on earnings due to rate change.

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## Rate Risk Management Strategy

Risk is present when there is a repricing term mismatch between assets and liabilities. If the volume and the term of these opposing balances were equal and priced off of the same indexes, theoretically there would be no interest rate risk. The reality however, is that there is a mismatch. Gap is one technique for measuring this mismatch, Plansmith's Risk Management Bubbles is another. The Bubbles method is like a visual Gap report however, there are 3 differences. 1) Bubbles are easier to understand, 2) bubbles account for the entire term of the bank's position, and 3) by including the current Yield Curve the risk management strategy is more apparent.

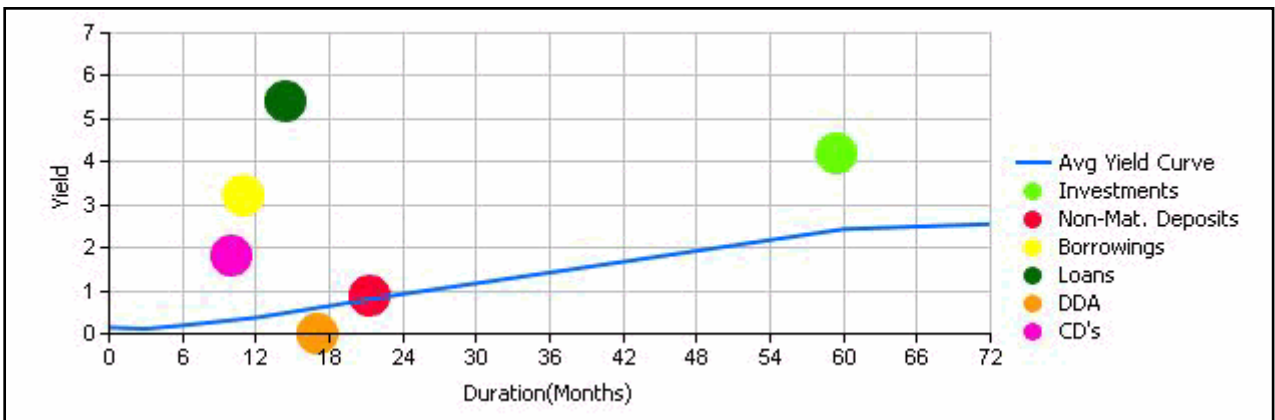
There are also 3 elements in the Bubbles method :1) The term and yield of assets, 2) the term and cost of liabilities, and 3) the Yield Curve. Now we can quantify the components of the margin; the Asset Benefit (the vertical distance from the Asset Bubble to the Yield Curve), the Deposit Benefit ( the distance from the Liability Bubble to the Yield Curve), and the Basis Risk Component ( the vertical distance in the Yield Curve between Asset and Liability Bubbles). Dividing the Basis Risk Component (basis points) by the Duration Mismatch (months) quantifies the Risk / Reward Trade- Off.



### Important Values

	<u>Yield</u>	<u>Duration</u>	<u>Components of Margin</u>	
Earning Assets	4.91	23	Asset Benefit	4.07
Interest Bearing Liabilities and DDA	0.89	16	Deposit Benefit	(0.34)
Margin	4.01	6	Mismatch Risk Component	0.29

Dividing the Risk Component by Margin Duration, gives us the Risk / Reward Trade- Off of 4.60 bp per month. This means that for each month the margin duration increases (risk), margin (reward) will change by the slope of the Yield Curve. This assumes the asset or liability yields maintain their spread to the Yield Curve as they move. To help identify adjustment opportunities the chart below shows the components of assets and liabilities .



## Any Town Bank, Any City, AS

### Performance Forecasts

This performance forecast combines the Blue Chip Financial Forecasts' interest rate projections with the Rate Shock Simulation. Since the margin has been computed for various rate changes, we need only apply the rate forecast from Blue Chip. The first step is to determine the overall rate change based on the distribution of the assets and liabilities along the Yield Curve and Prime Rate. Next, the weighting factors are determined as the percentage of assets and liabilities influenced by these rates. From this, the Weighted Average Rate Change is computed to be used in the Simulation.

#### Blue Chip Interest Rate Forecast

	Proj. 1 QTR	Proj. 2 QTR	Proj. 3 QTR	Proj. 4 QTR	Proj. Avg 4 QTRs	Current Quarter	Weighting Factors	Rate Change
FED Funds (QA)	0.20	0.20	0.50	0.90	0.45	0.12	0%	33bp
3 mo TBILL (QA)	0.20	0.30	0.60	1.00	0.53	0.09	26%	44bp
6 mo TBILL (QA)	0.30	0.40	0.80	1.20	0.68	0.17	8%	51bp
1 yr CMT (QA)	0.50	0.70	1.00	1.40	0.90	0.35	11%	55bp
2 yr CMT (QA)	1.10	1.30	1.70	2.00	1.53	0.90	18%	63bp
Prime (QA)	3.20	3.30	3.60	4.00	3.53	3.25	39%	28bp
<b>Weighted Average Rate Change =</b>								<b>42bp</b>

Projected rate change of 42 bp results in a 4 bp change in Net Interest Margin. Projected 12 month Net Interest Margin 3.98% (EA) or 3.81% of Total Assets.

#### Projected Income Statement (% of Total Average Assets)

	Trailing 4 Qtrs.	Current Quarter	Projected 4 Qtrs.	Proj. P & L (\$000)
Interest Margin (FTE)	3.90%	3.81%	3.81%	6,265
Loan Loss Provision	1.14%	0.98%	0.98%	1,612
Net Interest Margin	2.76%	2.83%	2.83%	4,654
Non Interest Income	0.31%	0.34%	0.31%	510
Non Interest Expense	2.49%	2.50%	2.49%	4,095
Net Overhead	2.18%	2.16%	2.18%	3,585
Pre - Tax Income	0.58%	0.67%	0.65%	1,069
Sec G/L, Ext Items	0.00%	0.00%	0.00%	0
FTE Adjustment	-0.23%	-0.21%	-0.21%	(345)
Estimated Income Taxes	0.05%	-0.04%	-0.04%	(66)
Return on Average Assets	0.41%	0.42%	0.40%	658

#### Assets, Earnings & Capital Forecast

(000) omitted	Current Quarter	Growth Rate	Projected over next 4 Qtrs
Total Assets	163,621	1.0%	165,257
Earning Assets	156,747	1.0%	158,314
Annualized Earnings	687	-2.9%	667
Projected Dividends			50
Tier 1 Equity Capital	17,135	3.6%	17,752
Tier 1 Equity Capital Ratio	10.47 %		10.74%
Return on Tier 1 Equity	4.01 %		3.89%

## Any Town Bank, Any City, AS

### Risk Tolerance Assumptions

	Default	User Defined
Minimum Capital Ratio	7.00	%
Total Asset Growth Rate	1.00	%
Projected Dividends	50	(000's)
Projected Non- Interest Income	510	(000's)
Projected Non - Interest Expense	4,090	(000's)
Projected Loan Loss Provision	1,612	(000's)
Estimated Effective Tax Rate	8.70	%
" S " Corp	No	

Note: All Default Assumption values are estimated from the bank's historical and current data or from outside sources. It is the responsibility of the user to determine the usability of these assumptions and make changes appropriate to their bank and market conditions.

## Any Town Bank, Any City, AS

### Loan Assumptions

	Default	User Defined		
Market Rate for Loans used as Discount Rate	4.94	%		
Loans Floating	18,235	(000's)		
Floating Loans At Floor	0	(000's)		
Weighted Average Floor	0.00	%		
	1-3 mth	3-12 mth	1-3 year	3-5 year
Volume of ARMs				(000's)
Ceiling on ARMs				%
Floor on ARMs				%

#### Loan Prepayment Percentages (CPR) at various Rate Levels

Level	-200	-150	-100	-50	0	+50	+100	+150	+200
OTS Values	32.00	32.00	32.00	26.50	21.00	17.00	13.00	11.50	10.00
Adjusted									

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## Any Town Bank, Any City, AS

### Log File of individual Amortizations and Prepayments

Revolving Loans to Total Loans Percentage = 8.58

#### REAL ESTATE LOANS

Rate used to Amortize = 5.40

Amortization	Immed.	1-3 mon	3-12 mon	1-3 yrs	3-5 yrs	5-15 yrs	> 15 yrs
1-3 mth = 573	54						
Amortization		573					
3-12 mth = 1,112	104						
Amortization		440	672				
1-3 Yr = 3,031	284						
Amortization		361	1,113	1,556			
3-5 Yr = 3,245	305						
Amortization		183	564	1,620	878		
5-15 Yr = 1,295	122						
Amortization		25	76	218	243	734	
>15 Yr =							
Amortization							
<b>Total RE Loans</b>	<b>869</b>	<b>1,582</b>	<b>2,425</b>	<b>3,394</b>	<b>1,121</b>	<b>734</b>	

Balances in periods >12 months are prepaid into 1-3 mon and 3-12 mon time periods

Pre Payment Rate = 0.21

After Prepay		1,858	3,252	2,681	885	580	
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#### ALL OTHER LOANS

Rate used to Amortize & Compare to Limits = 5.77

Amortization	Immed.	1-3 mon	3-12 mon	1-3 yrs	3-5 yrs	5-15 yrs	> 15 yrs
1-3 mth = 13,465	1,263						
Distribute Floating	9,290	4,175					
3-12 mth = 12,525	1,175						
Amortization		4,956	7,569				
1-3 Yr = 30,973	2,907						
Amortization		3,680	11,362	15,932			
3-5 Yr = 23,992	2,252						
Amortization		1,343	4,147	11,977	6,526		
5-15 Yr = 5,083	477						
Amortization		95	292	844	947	2,905	
>15 Yr = 239							
Amortization		2	5	14	16	115	87
<b>Total Other Loans</b>	<b>17,366</b>	<b>14,250</b>	<b>23,376</b>	<b>28,768</b>	<b>7,489</b>	<b>3,020</b>	<b>87</b>

Balances in periods >12 months are prepaid into 1-3 mon and 3-12 mon time periods

Pre Payment Rate = 0.21

After Prepay		16,317	29,576	22,726	5,916	2,386	69
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#### FLOATING RATE LOANS

Floating Loans are calculated as any amount in Other Loans 1-3 which exceed one third of the amount in Other Loans 3-12 mon before amortization.

This amount is Floating and is subtracted from 1-3 mon Other Loans.  $(13465) - (12525/3) = 9290$

In addition, Revolving Loans are added to Floating Loans by taking the Percentage of Revolving Loans to Total Loans out of all cashflows less than 15 years.

<b>Total Loans</b>	<b>18,235</b>	<b>18,175</b>	<b>32,827</b>	<b>25,408</b>	<b>6,801</b>	<b>2,966</b>	<b>69</b>
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## Any Town Bank, Any City, AS

### Securities Assumptions

	Default	User Defined
Maturity of Interest Brng Deps in Other Banks	6	mth
Reverse Repo maturity	6	mth
Repurchase Agreements maturity	6	mth
US Agencies Callable Spread	50	bp
US Agencies Callable Percentage	50.00	%
Dividend on Equity Securities	0	(000's)

Adjust Gap Report	Immediate	1-3 mth	3-12 mth	1-3 year	3-5 year	5-15 year	> 15 year
Int. Brngs Deps in Other Banks Calc			12,256				
Int. Brngs Deps in Other Banks Adj.							
Gov't, Agen & Munis Calc		4,154	2,269	2,249	3,238	15,165	748
Gov't, Agen & Munis Adj.							
Other Borrow Calc			4,646	1,500			
Other Borrow Adjusted							
Rate Shock Increments 50 bp							

#### Duration and Market Value of Securities at different Rate Shock Levels

Level	-200	-150	-100	-50	0	+50	+100	+150	+200
Default Duration (in months)	59	59	59	59	59	59	60	60	60
Default Market Value	31,972	31,253	30,535	29,817	29,098	28,377	27,655	26,932	26,210
User Defined Market Value									

Note: All Default Assumption values are estimated from the bank's historical and current data or from outside sources. It is the responsibility of the user to determine the usability of these assumptions and make changes appropriate to their bank and market conditions.

## Any Town Bank, Any City, AS

### Deposit Assumptions

	Rising Rates	Adjusted	Falling Rates	Adjusted
Beta for Checking ( Interest Bearing)	43.00		28.00	%
Beta for MMDA and Savings	31.00		23.00	%
Beta for CDs	71.00		71.00	%

	User Defined
MMDA Before Reclassifying	(000's)
Savings Before Reclassifying	(000's)
DDA Before Reclassifying	(000's)
Interest Bearing Checking Before Reclassifying	(000's)

	Calculated	Adjusted
Decay term for Non-Interest Bearing Checking balances	33	Month(s)
Decay term for Interest Bearing Checking balances	33	Month(s)
Decay term for MMDA and Savings balances	44	Month(s)
1-3 month CD renewal term at maturity	6	Month(s)
Market Rate for CDs used as Discount Rate	1.89	%

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## Any Town Bank, Any City, AS

### Glossary of Terms

Term	Definition
Average 12 Month Gap	The time-weighted average gap over the next four quarters. In the calculation, each incremental gap is weighted based on the remaining time left until the end of the year.
Average Term	The time-weighted average maturity or repricing of assets and liabilities.
Average Error	To validate the behavior characteristics of a model, the identical model is constructed for historical balance sheets and predicted results are compared to the actual historical results.
Beta Adjustment	The percentage of total outstandings for a non-maturing balance sheet category, derived from the correlation between offering rate changes and interest rate changes. These balances will be placed in the floating bucket of the Gap report. The remaining balances are to be placed outside the gap window in the 1-3 year time bucket. These categories are; in Int Bear Chkg, Svgs, & MMDAs.
Capital Risk Tolerance	The reduction in bank equity that would cause the equity to fall to the minimum required ratio-to-assets. It is computed as the current capital minus the minimum capital required.
Cumulative Gap	The sum of the periodic rate sensitivity gaps over the next 12 months.
Dollars at Risk	The actual income loss in dollars due to rate change from the current level. It is computed by subtracting the net interest income, at each Rate Shock level, from the current or zero change level. Only potential losses are reported.
Duration	The percent change in market value (price) of a financial instrument for every 100bp change in interest rates. Duration is usually expressed in months. Divide the Duration in months by 12 to convert to a percentage.
Economic Value of Equity (EVE)	This is the difference between market value of assets and market value of liabilities. This is the bank's liquidation value if assets were sold and liabilities paid off.
Floating	A time bucket in the Gap report indicating immediately repricable and floating rate balances. In the Rate Shock analysis, rates on these balances will change as rates change.
Fully Tax Equivalent (FTE)	This is the adjustment to yield and margin that accounts for the non-taxable or partial taxability of some investments and loans.
Margin Risk Tolerance	The difference between the bank's current net interest margin and its minimum required margin needed to meet all expenditures, including dividends and capital formation (if needed).
Market Rate	This is the current competitive rate on new loans within the bank's trade area. The market rate is used as the discounting rate in the market value calculation.
Market Value	Current market values of the interest bearing balance sheet categories are calculated using the discounted cash method are supplied in the call report.
Minimum Margin	This is the net interest margin needed to meet all expenditures as well as dividends and capital formation if needed. If the net interest margin falls below the minimum, then capital formation, and ultimately the capital ratio, will fall.
Rate Sensitivity Gap	The difference between repricing or maturing assets and liabilities in a given time period.
Rate Speed Change Adjustment	Rate change speed for Non-maturing balances analyzed from historical data to calibrate their change relative to interest rate changes. This typically has the effect of lengthening the average repricing life of these balances.
Rate Shock	A technique that simulates ramping rate changes over the next twelve months, and the investment of maturity cash flows and repricing of both earning assets and interest bearing liabilities. The results show the behavior of the bank's interest margin as rates move up and down.
Risk Cushion	The difference between the risk adjusted margin for a 100bp rate change, or the risk adjusted capital for a 100bp rate change, and the current margin or capital.