M E M O R A N D U M

To: Subscribers to *Asset/Liability Management Computer-Based Training*

From: Sheshunoff Information Services

Subject: Highlights

We appreciate the opportunity to serve your training needs. Enclosed is your 05.1 update to *Asset/Liability Management Computer-Based Training*. Some of the topics being updated include the following:

Uncertain cash flows. Uncertain cash flows — both in timing and amount — present significant challenges to managing interest rate and liquidity risks. Get some fresh perspective on how to approach the known and unknown elements of cash flow with new exhibit materials and explanations in Module 1 - Course B, Defining and Quantifying Interest Rate Risk.

Software models. See the fully updated, at-a-glance review of current ALM software vendors and models in Module 3 - Course D, Selecting and Installing AL Models.

EAR and valuation components. EAR? EVE? Which option can be used to most accurately measure the effects of interest rate risk? We expand the discussion using a new illustration of how the various valuation "pieces" fit together. The conclusion to draw about these different options thus becomes clear. See "Summary of Included and Excluded Elements" in Module 3 - Course F, Interest Rate Risk Measurement Summary. Further additions in this chapter present a puzzling phenomenon — credit quality changes and their effect on EVE.

Using VaR to set loss limits. If your bank is using VaR for this purpose, you might want to rethink that practice. Find out why it's not a good idea in a new section, "Using VaR for Limits," Module 4 - Course A, ALM Policies, Management Structure, and Risk Limits.

Self knowledge. ALCOs have to understand what rate scenarios put their bank at greatest risk. Failing to consider scenarios that incorporate twist risk and spread changes can have serious consequences. This update adds a new section, "Use Multidimensional Scenarios," to Module 4 - Course B, ALM Decision Making, Implementation, and Oversight.

Premium amortization risk. How often have you heard that diversification is key to risk management? It's still true. This update explains how to control premium amortization risk that can accompany MBS holdings, expanding Tactic 7 in our strategies for using investment securities to reduce interest rate risk. See Module 5 - Course B , Rate Risk and Investment Portfolio Management.

IRR measurement and management as a dynamic process. Prudent risk management includes forecasting multiple rate scenarios, using more than one approach to measure exposure, and involving all the right parties within your institution. Who they are, what they do, and how the pieces work together are nicely illustrated in a new exhibit and accompanying text in the section, "Focus on the Big Picture," in Module 6 - Course C , Perspectives.

If you have comments or questions or would like information on an additional Sheshunoff product, please contact client services at 1-800-456-2340 or visit our Web site at www.sheshunoff.com.