

## MEMORANDUM

To: Our Valued Customers  
From: Sheshunoff Information Services  
Subject: *Interest Rate Risk Management*

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Because of today's regulatory environment and the need to allocate cost and revenues to different responsibility areas, there are a multitude of issues faced by banks in interest rate risk (IRR) management. Among those many issues is assuming excessive interest rate risk which could threaten a financial institution's earnings and its capital base which raise concerns for bank supervisors. Although banks have made significant efforts to improve their procedures for IRR management, bank supervisors, including the federal agencies, have been expanding their knowledge and oversight of IRR management techniques. *Interest Rate Risk Management* addresses all of the various manifestations and requirements of rate risk management including how to analyze, manage and measure interest rate risk. The enclosed new materials provide you with the latest information on interest rate risk. This edition of *Interest Rate Risk Management* covers:

- **Using Models and Managing Model Risk, Chapter 10** includes eight new sources of model risk.
- **Hedging with Off-Balance Sheet Derivative Instruments, Chapter 15** has new information on the advantages and disadvantages of using derivative hedge instruments; the most up-to-date statistics describing bank holdings of derivatives; and new material on transaction and compliance risks.
- The **Glossary** has been updated with several new terms and definitions to help you understand the various terminology used in today's IRR world.

If you have questions or comments, or if you would like information about other products, visit our Web site at [www.sheshunoff.com](http://www.sheshunoff.com), or call us at 1-800-456-2340.

### FILING INSTRUCTIONS

- Remove old title page through page xlii. Insert 8/07 title page through page xlii.

#### Tab: Difficult Volumes

- Remove old pages 10-i through 10-18. Insert updated pages 10-i through 10-18b.

#### Tab: IRR Management Tactics

- Remove old Chapter 15, pages 15-i through 15-102. Insert updated Chapter 15, pages 15-i through 15-106.

#### Tab: IRR in Context

- Remove old pages G-25 through G-72. Insert updated pages G-25 through G-74.

