RANK of Financial Ratios Defined by CAMEL

Each financial institution has a one-line analysis of financial ratios and a one-number summary rank. IDC's unique CAMEL analysis utilizes financial ratios that have a significant impact on the quality of the financial institution:

Summary Rank: Superior 200-300, Excellent 165-199, Average 125-164, Below Average 75-124, Lowest Ratios 2-74, Rank of One

Capital risk is determined by Tier I capital as a percent of assets and as a percent of risk-based assets. Tier I & II capital as a percent of risk-based assets (risk-based capital ratios) measure credit and interest rate risk as well as estimate risk in the asset base. IDC uses government standards, as well as, enforcement actions to evaluate well, or less than well, capitalized institutions.

Adequacy of Capital and reserves measures asset quality as the levels of delinquent loans, nonaccrual loans, restructured and foreclosed assets relative to loan loss reserves and Tier I capital.

Margins are the best measurement of management's financial controls. Margins represent the spreads between 1) operating profit and net operating revenues or the operating profit margin, 2) after-tax return on earning assets and cost of funding, and 3) most important, the return on equity compared to estimated cost of equity capital. Stability of profitability measures the variation of the operating profit margin.

Earning returns measure the success of the bank's operating strategy. Ratios of revenue yields from investments, loans, and noninterest income compared to operating costs before interest expense are the major components of the after-tax net operating return on earning assets (ROEA). ROEA is a measure of **operating strategy** as if the institution was wholly funded by equity capital. Earnings from financial leverage (ROFL) measures the level of leverage and after-tax cost of funding compared to the after-tax return on earning assets (ROEA). Leverage returns measure the efficiency of the bank's **financial strategy**.

Liquidity measures (1) balance sheet cash flow as a percent of Tier I capital and (2) loans compared to stable deposits and borrowings plus estimated unused lines of credit at the Federal Home Loan Bank.

Financial ratios, which illustrate IDC's CAMEL, represent the vast majority of the components of the RANK, but not all of the financial ratios used in the RANK process.

Limitations to Use of Financial Ratios and Ranks

Ranks are designed to provide IDC Financial Publishing, Inc.'s opinion as to the relative value of financial ratios, and are subject to limitations in their use. The ranks have no value in forecasting the direction of future trends of financial ratios. While in our opinion the selected ratios provide an ample financial picture for evaluating a thrift, the quality of individual savings institutions can also be influenced by factors not taken into account in this analysis.

The quality of a financial institution is not fixed over time, but tends to undergo change. For this reason, changes in ranks occur, reflecting changes in the individual financial ratios.

The data for calculations and ranks and other information found in this publication was obtained from sources believed to be reliable and accurate; however, neither the publisher nor its employees assume responsibility for the correctness or accuracy of data, calculations of ranks, or liability for their use.

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Glossary for Bank CAMEL Report

C - CAPITAL RATIOS

Tier I Capital % Assets
The Tier I Capital Ratio is provided by bank and bank holding company call reports.
Computations of Tier I Capital Ratios are based on Tier I capital and average assets as filed by banks on FDIC call reports and by bank holding companies on Y-9C reports

Risk Based Capital % Risk-based Assets
The Risk-based Capital Ratio is provided by bank and bank holding company call reports.
Computations of risk-based capital ratios are based on qualifying capital and risk-adjusted assets as filed by banks on FDIC call reports and by bank holding companies on Y-9C reports.

Tier I Capital % Risk-based Assets
The Tier I Risk-based Capital Ratio is provided by bank and bank holding company call reports.
Tier I capital is divided by risk-based assets (as provided by banks and BHCs), and is shown as a percentage.

Rank Caps Based on Capital Categories: IDC caps rankings under the following conditions:

Category	Tier 1 Capital		Total RB		Tier 1 RB	Rank Cap
Well Capitalized	5% or Higher	&	10% or Higher	&	6% or Higher	None
Adequately Capitalized	4% to Less Than 5%	&	8% to Less Than 10%	&	4% to Less than 6%	124
Under Capitalized	3% to Less Than 4%	&	6% to Less Than 8%	&	3% to Less Than 4%	74
Significantly Under Capitalized	Less Than 3%	&	Less Than 6%	&	Less Than 3%	2
Critically Under Capitalized	Less Than 2%					

A - Adequacy of Capital and Loan Loss Reserve to Cover Loan Delinquency

Loan Loss Reserve % Tier I Capital
The loan loss allowance is divided by Tier I capital and is shown as a percentage.

Loans 90 Days Delinquent % Tier I Capital
Loans 90 days past due and accruing less loans guaranteed by U.S. Government or Rebooked "GNMA Loans" repurchased are divided by Tier I capital and is shown as a percentage.

Loans Nonaccrual + REO % Tier I Capital
Loans on nonaccrual, a portion of restructured loans, and other real estate owned less loans and repossessed assets guaranteed by U.S. Government or Rebooked "GNMA Loans" repurchased are divided by Tier I capital and is shown as a percentage.

M - Margins Measure Management

Net Operating Profit After Tax % Equity ROE (1yr)
The net operating profit after-tax (NOPAT) return on equity is the sum of return on earning assets (before funding) and return on financial leverage (ROEA + ROFL).

Cost of Equity COE (1yr)

The measure of a financial institution's cost of capital is the price at which the institution raises additional equity capital. In appraising firms that are not public or subsidiaries of publicly-traded holding companies, IDC uses general risk, demonstrated by the 30-year T-Bond yield and the risk premium for financial equities. The risk premium is 50% of the T-Bond yield adjusted by a risk multiplier for an institution's specific financial risk.

The specific COE for an individual financial institution is determined by asset size, pretax coverage of net loan charge-offs, and loan delinquency risk to capital adjusted for variations in operating profit margins. In order to quantify specific risk, a risk multiplier incorporates the following:

a) Size Risk - The risk multiplier is multiplied by 0.9x for institutions with assets over $1 billion, 1.0x for assets between $500 million and $1 billion, 1.1x for assets $200 million to $500 million, 1.2x for assets $100 to $200 million, and 1.3x for assets less than $100 million.

b) Financial Risk - The risk multiplier is set in a range of 0.8 to 1.2 based on pretax income (adjusted for nonrecurring noninterest income or expense) plus the loan loss provision, together covering net charge-offs.

c) Loan Risk to Capital - Financial institutions with loan delinquency plus nonperforming loans greater than loan loss reserve, all stated as a percent of equity, are evaluated to measure potential loan loss risk to Tier 1 capital. If this risk-adjusted Tier 1 equity ratio is below 5%, the institution is assigned a risk ratio of 2.0. All other institutions with adequate risk-adjusted Tier 1 capital above 5% use a risk ratio of 1.0. Loan Risk is adjusted by the Operating Profit Risk, which is 20% of the 5-year standard deviation of the operating profit margin with a cap of 3.0.

As an example, a large institution with low coverage of net charge-offs coupled with moderate loan delinquency above the loan loss reserve and a risk (SD) in operating profit margin of 3.6 times 20% would compute as follows: (.9 x .8 x (1.0 + (.2 x 3.6))) or (.9x.8x1.7) times equity risk premium of 50% of the long bond yield of 3.0%, on December 31, 2015, equals a risk premium of 1.8% which is then added to the 3.0% yield on bonds to provide an estimate of 4.8% for the cost of equity capital.

A smaller bank with a lower coverage ratio, modest loan delinquency, but larger variations in the operating profit margin of 5.0 would compute as follows: (1.1 x 1.0 x ((1.0 + (.2x5.0))) or 2.2 times 50% of the long bond yield of 3.0%, on December 31, 2015, for a risk premium of 3.3% added to the 3.0% long bond yield for an estimate of 6.3% for the cost of capital.

Net Interest % Earning Assets (1yr)

Interest income from loans and investments less interest expense is divided by average earning assets, as a percentage.

Noninterest Income % Earning Assets (1yr)

Noninterest income from foreign currency or security trading, service charges on deposits, credit card fee income, and income from fiduciary activities provides additional revenue sources to a bank. Unusual, one- time noninterest income greater than 10% of total noninterest income is excluded from noninterest income. Gains and losses on financial assets carried at fair value and bargain purchase income are excluded.

Noninterest Expense % Earning Assets (1yr)

The operating expense measures a bank's operating efficiency, especially in relation to the net adjusted revenues and noninterest income listed above. Noninterest expense includes salaries and employee benefits, expenses of premises and fixed assets, and other noninterest expenses. Unusual, one-time noninterest expense above 10% of total noninterest expense is excluded from noninterest expense.

Operating Profit Margin OPM (1yr)

Net operating revenues less salaries, employee benefits, expenses of premises and fixed assets, and other operating expenses (excluding loan loss provision and losses on the sale of non-loan assets and amortization expense of intangible assets) are divided by net operating revenue, as a percentage. Net operating revenue is defined as interest income from loans and investments less interest expense plus noninterest operating income (excluding gains on the sale of non-loan assets, gains and losses on financial assets carried at fair market value, and bargain purchase income).

OPM Risk Standard Deviation

One standard deviation of the operating profit margin over five years (but not less than five quarters) measures risk or volatility in profit margins. The risk level is also a measure of a bank's complexity.

E - Earnings Return

Return of Net Operating Profit from Operations After Tax % Earning Assets (ROEA)

The interest income from loans and investments plus noninterest income less operating and loan loss expenses (excluding gain or loss on the sale of non-loan assets) less the applicable tax rate amount is divided by average earning assets, as a percentage. Net income for NOPAT ROE adds back the increase in the loan loss expense, but subtracts the difference between charge-offs and recoveries to reflect cash accounting.

Return on Financial Leverage (ROFL) = Spread X Leverage

The second component of ROE is the bank's return on financial leverage (ROFL). It reflects both the degree to which a bank uses debt and deposit funds to finance its operating strategy and the after-tax cost of these debt funds. ROFL is calculated by multiplying the leverage spread by the leverage multiplier.

ROEA less COF AT = Leverage Spread

The leverage spread equals the return on earning assets less the cost of adjusted debt, both after tax. The leverage spread is multiplied by leverage to calculate ROFL.

Leverage Multiplier

The leverage multiplier is defined as the ratio of adjusted debt to adjusted equity. Adjusted debt equals earning assets (which include the loan loss reserve) less equity capital and the loan loss reserve. Adjusted equity equals equity capital plus the loan loss reserve.

L - Liquidity Determines the Ability to Grow

Balance Sheet Cash Flow % Tier I Equity

Balance sheet cash flow measures the profit return on physical assets in computing operating cash flow. Balance sheet cash flow separates cash and equivalents (cash and balances due from depository institutions) from investments and loans when computing financial cash flow. The end result is balance sheet cash flow, which equals operating cash flow less financial cash flow.

Operating cash flow for a financial institution measures the liquidity demand from growth. Operating cash flow equals changes in retained earnings adjusted for changes in goodwill minus the quarterly changes in growth producing assets (property, equipment, other long term assets and other real estate owned). The purpose of operating cash flow is to determine the ability to finance internally the change in growth producing assets.

Financial cash flow isolates the sources and uses of funds, other than the changes in retained earnings, growth producing assets and cash and equivalents. Financial cash flow equals the change in liabilities (excluding retained earnings) less the change in loans and investments and other non-cash and equivalent current assets. Balance sheet cash flow subtracts the financial cash flow from operating cash flow. If a financial institution finances its growth with increases in retained earnings equal to increases in growth producing assets, but the financial cash flow was positive, then the balance sheet cash flow would be negative, reflecting the change in liabilities (excluding retained earnings) is in excess of the change in

loans and investments. An institution with poor loan quality or risky investments experiences asset write-offs or write-downs, and at the same time, deposits are increased or new borrowings incurred to finance the asset base. Balance sheet cash flow recognizes the shortfall and the risk to net capital of the institution.

Percent Annual Growth in Equity Capital

The annual growth of equity capital is the reinvestment rate of retained earnings after dividends plus the change in the loan loss reserve as a percentage of the previous periods equity capital and loan loss reserve. The internal growth rate of equity can indicate sustainable future growth.

Nonperforming Assets % Total Loans

High risk loans and assets, which include loans 90-days past due, nonaccrual and a portion of restructured loans plus other real estate owned, are divided by total loans plus other real estate owned.

Illiquid Loans % Stable Deposits and Borrowings Plus Excess Liquidity

Another measure of liquidity is the match between illiquid loans and stable deposits and borrowings plus available lines of credit at the Federal Home Loan Bank (FHLB).

Illiquid loans are defined as loans and leases (net of unearned income allowance, and reserves for loan losses) less loans and leases held for sale. Stable deposits and borrowings are total domestic deposits less total time deposits greater than $250,000 and other borrowed money with remaining maturity of one year or less plus excess of 80% of loans secured by 1-4 family 1st lien mortgages, 5 or more family mortgages and home equity loans, if greater than FHLB advances. The latter is added to deposits due to the ability to finance 80% of single family first mortgage, 5 or more family mortgages and home equity loans at the FHLB.

Interest-Bearing Liabilities % Earning Assets

The latest quarterly interest-bearing liabilities are divided by earning assets, as a percentage. A high level of liabilities requiring interest relative to earning assets paying interest creates a burden to the bank.