

**VERIBANC<sup>®</sup>, Inc.**  
*The B.E.S.T. Banking Investment*  
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## **FOREWORD**

Since our beginning in 1981 VERIBANC<sup>®</sup> has never been paid by any institution to rate it. Following our standards of independence and zero tolerance for bias, no Bank, Thrift, or Credit Union is paying us to provide this information. You can be assured you are getting the **B.E.S.T.** rating's and financial information with VERIBANC<sup>®</sup>'s guarantee; there is no potential for conflict of interest.

### **THE B.E.S.T. . . . .**

**Balanced** - our rating system blends predictability of bank failure with bank ratings degradation. This balance provides unmatched performance that has actually tracked the condition of the banking industry.


**Effective** - VERIBANC's ROR (Return On Ratings) is over 99 percent. We are able to detect banking problems with a high degree of reliability.

**Seasoned** - over the past twenty-four years (through the difficult and the good times of the banking industry) our rating system has produced remarkably consistent results.

**Transparent** - we are the only bank rating company that has always published our track record. Because of our transparency, several insurance companies have audited and approved its use for insuring deposits in excess of the FDIC's \$100,000 limit.

Thank you for your interest in the information VERIBANC<sup>®</sup> provides. We hope you find this report useful and as always, your thoughts on any improvements are welcome.

Sincerely,  
VERIBANC<sup>®</sup>, Inc.

  
Michael M. Heller  
President

# VERIBANC<sup>®</sup>, Inc.

## REGULATION F HANDBOOK

### 1. INTRODUCTION

VERIBANC<sup>®</sup>'s Regulation F Compliance Report is intended to provide bank and thrift officers with a self-contained, quarterly summary that is completely responsive to the regulation. The report contains two parts - - a set of explanations issued once (or upon request) and a quarterly data update which lists all of the banks and thrifts specified by the report's user. This handbook is the first part of the report.

Part Two, the quarterly data update, contains all of the call report items specified by the regulation as well as additional items designed to fulfill the regulation's "other appropriate factors" wording. In particular, by using the same algorithms as employed by the FDIC and OTS to determine each institution's capital category, a particularly appropriate mix of liquidity risk, operational risk and contingent liabilities is addressed for each institution listed. Further details are presented in Section Three.

The remainder of the report is organized as follows. Section Two offers an overview of Regulation F. Section Three describes the financial data presented in the quarterly updates. Appendix A contains a specimen board of directors resolution which responds to the "written policies and procedures" required by the regulation. Appendix B provides an overview of relevant FDIC guidance, followed by a copy of the actual regulation. Appendix C presents further background on VERIBANC<sup>®</sup>'s rating system.

### 2. OVERVIEW OF REGULATION F

The objectives of Regulation F are to encourage banks to manage closely their credit and settlement exposure to correspondent banks. In particular, FDIC-insured institutions are expected to:

1. Establish and maintain written policies and procedures that take into account credit and liquidity risks (including operational risks) in selecting correspondents and terminating correspondent relationships
2. Establish "reasonable" exposure policies and limits to correspondents that account for:
  - a. type and maturity of exposure,
  - b. condition of correspondent,
  - c. volatility of exposure,
  - d. degree to which exposure approaches the limits the bank has established.

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## 2. OVERVIEW OF REGULATION F (continued)

3. Conduct periodic reviews of each correspondent's financial condition which include capital, earnings, nonaccrual and past due loans/leases and other factors as appropriate or have Board of Directors review and approve the assessment criteria used by a third party information provider.
4. Perform a Board of Directors review and reapproval (or revision) of the foregoing policies and procedures at least once per year.

The regulation has been phased in as follows:

Through June, 1995	"Prudent" policies must be in place to conform with the regulation and to follow the regulation's directives for recognizing interbank liability risk; specific control procedures to respond to this risk must limit overnight credit exposure to any institution which is undercapitalized to no more than 50 percent of the "lender's" total capital.
After June 19, 1995	Overnight credit exposure to undercapitalized institutions can be no more than 25 percent of the respondent's total capital.

## 3. DESCRIPTION OF REPORT DATA

Overview - The report is based on current quarter call report data for all banks and thrifts specified by the report's user. Total capital of the respondent bank is used to determine the interim allowable credit exposure limit to correspondent institutions. The remainder of the information in the report is from the correspondent institutions' call report.

The respondent bank may also be listed as a "correspondent" so that its data is also included in the report. Also, a respondent bank need not be specified. In such a case, the report column, "Interday Exposure Limit" will always have the entry "not applicable," regardless of the financial condition of the institutions listed in the report.

The individual report items are defined as follows:

### Report Data Page One (of two)<sup>†</sup>

Institution	Distinguishes institutions that file call reports with the FDIC, OCC or Federal Type Reserve Board ("Banks") from those which file with the Office of Thrift Supervision (Savings Associations)
Name, City, State	These columns present the location of the correspondent's call report filing office. In most, but not all cases, it is the organization's main office.

<sup>†</sup> For reports involving more than 25 institutions; pages with the information described in the following section are designated as "a"; e.g., page 1a of 2.

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### 3. DESCRIPTION OF REPORT DATA (continued)

FDIC Certificate Number	The insurance certificate provides a unique identification number, generally unchanged over the past several years, which confirms an institution's identity when name and/or address information is ambiguous.
Assets	Total assets expressed in \$millions, are reported on a fully consolidated basis.
Capital Condition Section	The three principal regulatory capital ratios are computed using the same formulas as employed by the FDIC and OTS. These three measures and VERIBANC <sup>®</sup> 's corresponding Estimate of each institution's Regulatory Capital Classification (ERCC) are keyed directly to provisions called out in several sections of the regulation. The abbreviations in the column entries are: W = well capitalized; A = adequately capitalized; UC = undercapitalized; SU = significantly under-capitalized; CU = critically undercapitalized. These entries are strongly responsive to the capital factor called out in Section 206.3 (b)(2) of the regulation.
Interday Credit Exposure Limit	For correspondent institutions which are less than adequately capitalized, the maximum permitted credit exposure to the respondent bank or thrift is computed. In accordance with the final provisions of the regulations, the amount shown is 25 percent of the respondent institution's total (tier one plus (\$Thousands) tier two plus tier three) capital. For correspondents that are adequately capitalized or well capitalized, the entry "Not Applicable" is used.
VERIBANC <sup>®</sup> Rating	The VERIBANC <sup>®</sup> rating provides a broad and widely recognized measure of an institution's health. The rating incorporates all of the variables required by the regulation [Section 206.3(b)(2)] as appropriate creditworthiness discriminants.
Color Classification	VERIBANC <sup>®</sup> 's color code is a quick-look measure of an institution's condition based on its equity strength and profitability. Three color categories are used – green, yellow and red. The criteria used by VERIBANC <sup>®</sup> to determine the color assigned to an institution are as follows:

**GREEN** The institution's equity is five or more percent of its assets and it was profitable during the most recent reporting period. Of the three color categories, this is the highest based on the criteria described.

**YELLOW** The institution's equity is between three and five percent of its assets or it incurred a net loss during the most recent reporting period. Both of these conditions may apply. If there was a net loss, the loss was not sufficient to

<sup>†</sup> A quarterly loss is considered significant when it exceeds 18.75% of a bank or savings association's equity. If quarterly losses continue to exceed 18.75% of equity, the institution could become insolvent within one year. VERIBANC<sup>®</sup> has no way to know whether or not losses at an institution will continue.

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### 3. DESCRIPTION OF REPORT DATA (CONTINUED)

**YELLOW** erode a significant<sup>†</sup> portion of the institution's equity.  
(con't) The items that result in a yellow classification merit your attention.

**RED** The institution's equity is less than three percent of its assets or it incurred a significant net loss during the most recent reporting period (or both). The item or items that result in a red classification deserve your close attention.

Star In addition to the color code, VERIBANC<sup>®</sup> assigns each institution Three  
Classification Stars (\*\*\*), Two Stars (\*\*), One Star (\*) or No Stars (U). The star rating considers future trends and contingencies not accounted for in the color classification. The criteria used by VERIBANC<sup>®</sup> to determine the number of stars assigned to an institution are as follows:

\*\*\* The institution must meet the following primary conditions: equity that exceeds five percent of assets, equity which exceeds four percent of assets after deducting problem loans, securities and derivatives contracts in excess of its loan loss reserves and positive net income for the indicated reporting quarter. Banks and thrifts must also satisfy all three regulatory capital requirements (see below) and must not have been subject to any serious regulatory sanction. If the institution is a one-bank holding company, neither the holding company nor its member bank has been subject to a recent serious regulatory sanction. In addition, insider lending must not exceed 35 percent of equity. If the bank is owned by a holding company, all of the holding company's banks, taken together as if they were a single bank, must meet the criteria necessary for the group to receive at least a Two Stars rating. An institution may only have two or fewer volatile periods of asset growth/shrinkage over the past ten quarters. Problem investments for banks also include securities being held to maturity that, if sold, would realize less than their cost.

\*\* The institution meets any two of the three primary conditions for the Three Stars category

3. DESCRIPTION OF REPORT DATA (CONTINUED)

\*\* (cont.) and has equity that exceeds its unreserved problem loans, securities and derivatives contracts. If the institution had a net loss during the most recent reporting quarter, the loss was not significant. Banks and thrifts must also satisfy all three regulatory capital requirements (see below) and must not have been subject to any serious regulatory sanction. If the institution is a one-bank holding company, neither the holding company nor its member bank has been subject to a recent serious regulatory sanction. Additionally, if the bank is owned by a holding company, all of the holding company's bank, taken together as if they were a single bank, must meet the criteria necessary for the group to receive at least a Two Stars rating. An institution may only have three volatile periods of asset growth/shrinkage over the past ten quarters. For banks that have held-to-maturity securities investments with a current market value that is less than their cost, that difference must not exceed equity.

\* The institution meets at least one of the primary conditions required for the Three Stars category, reports equity which exceeds three percent of assets and also exceeds unreserved problem loans, securities and derivatives contracts. If the institution had a net loss during the indicated quarter, the loss was not significant. Moreover, banks and thrifts must meet at least two of the three federal capital requirements for tier one (core) capital, total capital and capital as a percentage of risk weighted assets. An institution may receive no higher than a One Star rating if it has been subject to a serious regulatory sanction. A bank or a one-bank holding company may receive no higher than a One Star rating if either the holding company or the bank have been subject to a recent serious regulatory sanction. Moreover, if all of the banks in its holding company, taken together as if they were a single bank, receive a One Star or No Stars rating, the bank may not receive a higher rating than One Star. A One Star rating

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### 3. DESCRIPTION OF REPORT DATA (CONTINUED)

\* (con't) is assigned if an institution has four or more volatile periods of asset growth/shrinkage over the past ten quarters. Also, a bank may receive a One Star rating if, absent other reasons for downrating as stated above, the difference between cost and current market value of its held-to-maturity securities investments exceeds the institution's equity or if all of the banks in its holding company, taken together as if they were a bank, receive a One Star or No Stars rating.

**NO STARS** The institution does not meet the criteria above.

In addition, VERIBANC<sup>®</sup> recognizes banks that meet unusual conditions of safety and soundness. More than 20 criteria are involved in this procedure which reaches beyond the rating system. Such banks are designated as "Blue Ribbon Banks." They are identified with the letter "B" following the rating.

**Liquidity** Liquid assets are expressed as a percentage of total deposits. For banks, liquid assets consist of cash and due, securities held for sale and in trading accounts, repurchase agreements and fixed-rate loans and leases maturing within 12 months. Typically, 75 percent of all banks possess a liquidity value between 40 percent and 85 percent. The median value is usually near 58 percent. For savings associations, the total of liquid assets qualifying according to Office of Thrift Supervision (OTS) regulatory liquidity criteria is used in the numerator of the ratio. The denominator is total deposits. The span of values for 75 percent of OTS-supervised institutions is typically between 5 percent and 25 percent. Median liquidity for savings institutions is usually close to 18 percent.

#### Report Data Page Two (of two)<sup>†</sup>

**Institution Name and the FDIC Certificate Number** These entries identify the row on the second data page (or the "b" pages) of report which connects with the corresponding row on data page one (or the "a" pages).

**Net Income (\$Thousands)** Net income after taxes and extraordinary items is presented on both a quarterly and year-to-date basis. The annualized Return On Assets (ROA) is calculated as four times the current quarter's net income expressed as a percentage of end of quarter assets. These income entries provide multiple responsiveness to the call out in Section 206.3(b)(2) of the regulation that "level of earnings" be considered as an appropriate credit-worthiness factor.

<sup>†</sup>For reports involving more than 25 institutions, pages with the information described in the following section are designated as "b"; e.g., 1b of 2.

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### 3. DESCRIPTION OF REPORT DATA (CONTINUED)

Problem Assets (\$Thousands)	The four principal types of problem assets indicated in the call report are listed. Problem assets are defined as: loans that are 90 days or more past due, loans which have been classified as nonaccrual and renegotiated/restructured credits. The 90 day and nonaccrual categories also include delinquent debt securities and off-balance sheet derivatives contracts, if any. These entries provide more information than the minimum factors called out (continued) in Section 206.3(b)(2) of the regulation which specifies consideration of nonaccrual and past due loans only.
Reserves and Potential Impact of Problem Assets	This section provides specific consideration of possible future impact on capital and liquidity risks that could be caused by loan and foreclosed real estate chargeoffs, as well as by possible difficulties due to long-term holdings of depreciated securities. In particular, institutions with unreserved problem loans amounting to significant fractions of their equity (see "EPL" description below) could face increased borrowing difficulties which, in turn, could lead to liquidity problems.
Loan Loss Reserves (\$Thousands)	For banks, amount listed is the total of loan loss reserves and, if applicable allocated risk transfer reserves. For savings associations, the amount consists of valuation allowances for mortgage and nonmortgage loans and for mortgage backed securities.
<u>EPL</u> (%) Equity	This measure considers all three categories of problem loans but excludes OREO. Collateral value of problem loans (unavailable in the call reports) tends to be offset by exclusion of OREO from the calculation. The "excess" or amount left after subtraction of the loan loss reserve balance is expressed as a percentage of equity.
<u>EPL &amp; OREO</u> (%) Equity	The addition of OREO to the foregoing calculation presents a worst case scenario that considers the effect of charging off all problem loans, and REO without recovery of any collateral value.
<u>HTM Securities Depreciation</u> (%) Equity	Unrecognized losses in securities being Held to Maturity (HTM) are expressed as a percentage of the bank's equity. Large values (more than 10 percent) can indicate unusual sensitivity to future rises in interest rates. Large unrecognized losses in an institution's HTM securities account may also be adverse to its interest rate spread unless its liabilities have depreciated similarly or it employs compensating off-balance sheet hedges. This item is not available for savings associations.
Footnotes	Each data page of the report contains the end date of the applicable fiscal quarter. Also listed is the date on which the Federal Regulators released the call report data used as source information for this report.

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## APPENDIX A

### SPECIMEN BOARD OF DIRECTORS RESOLUTION

The text that follows is intended to be both, compliant with all phases of the regulation and to suggest implementation procedures. However, it is expected that, as further guidance becomes available, and as bank and thrift regulators develop review norms, this draft will evolve. Similarly it is expected that institutions taking advantage of the following text will tailor it to the size and complexity of their own operations.

On this \_\_\_\_\_ day of \_\_\_\_\_, 200\_, the Board of Directors of (name of bank or savings association) resolves to establish the following policies to assure our banks (or savings association) full compliance with all provisions of Federal Reserve Board Regulation F. In addition, the Board directs management to implement the procedures indicated in this resolution and such other procedures as are appropriate to comply both with the spirit of the regulation and its specific provisions.

RESPONSIBILITY - The chief operating officer or his appropriate subordinate shall appoint a specific person ("credit exposure monitoring officer") whose duties and authority will include the activities detailed below.

#### MONITORING ACTIVITY

The total credit exposure of our bank (savings association) to each of our correspondent institutions shall be tracked and tabulated on a daily basis. The tabulation shall be reviewed quarterly and compared with our bank's (savings association) total tier one plus tier two capital ("total capital") as stated in Schedule RC-R of our bank's most recently filed call report. (Savings association's most recently filed Thrift Financial Report.)

1. If the maximum credit exposure to a correspondent during the quarter amounted to less than 25 percent of our bank's (savings association) total capital, action limited to continued quarterly monitoring of exposure is appropriate.
2. If our bank's (savings association) maximum credit exposure to a correspondent during the quarter amounted to more than 25 percent of our bank's (savings association) total capital, determine the volatility of the exposure by computing average exposure and the maximum and minimum exposure which occurred during the quarter. Also determine the greatest dollar amount of daily change in exposure to that correspondent. If the maximum exposure less the minimum exposure exceeds 25 percent of our bank's (savings association) total capital, or the maximum amount of daily exposure change exceeds five percent of our total capital, future monitoring of our exposure to that correspondent will be conducted on a weekly basis.

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## APPENDIX A (continued)

3. If our average credit exposure to the correspondent exceeds 25 percent of total capital, future monitoring of our exposure to that correspondent will also be conducted on a weekly basis.

### SOURCE DATA

The principal source of information to ascertain each of our correspondent bank and thrift's FDIC/OTS capital category is the Regulation F Compliance Report published quarterly by VERIBANC®, Inc., a bank analysis firm located in Woonsocket, RI. Their report also includes the VERIBANC® color and star rating, the principal factors that determine the rating and other key financial data for each correspondent. Another source of suitable data is the call report of each correspondent.

### RESPONSE ACTIVITY AS A RESULT OF MONITORING

1. **EXPOSURE DISCOVERY REPORT** - If, in the course of monitoring, any correspondent institution is found to be undercapitalized, or to possess a VERIBANC® rating of Green, One Star; Green, No Stars; Yellow, One Star; Yellow, No Stars or Red, No Stars, our bank's (savings association) credit exposure, if not already below 25 percent of our bank's (savings association) total capital, shall immediately be reduced so that our exposure does not exceed 25 percent. In such an event, the credit exposure monitoring officer shall report the occurrence to appropriate management personnel accompanied by suitable documentation. Copies of this report shall be provided to our bank's (savings association) Chief Operating Officer and the Chairman of the Board of Directors within one day of such an occurrence. The report shall detail particulars and the action being taken to reduce exposure accordingly.
2. **SEVERE EXPOSURE DISCOVERY REPORT** - If, in the course of monitoring, a correspondent institution is found to be significantly undercapitalized, critically under-capitalized or to possess a VERIBANC® rating of Green, No Stars, Yellow No Stars or Red, No Stars, all of our bank's (savings association) credit exposure to this institution shall be reduced to zero as quickly as is practical. If our bank's (savings association) third party, non-guaranteed, non-collateralized credit exposure to such a correspondent cannot be reduced to less than one percent of our total capital within one week, a timely report to appropriate management personnel with copies to our

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### APPENDIX A (continued)

bank's (savings association) Chief Operating Officer and the Chairman of the Board of Directors shall be provided which details particulars. The Severe Exposure Discovery report shall be issued in addition to the Exposure Discovery Report described in the foregoing paragraph.

3. The action described below shall be taken in the event it is observed that our bank (savings association) has total non-third party guaranteed, non-collateralized credit exposure to a correspondent bank that is:
  - a. in excess of 100 percent of our total capital, or
  - b. in excess of 1.0 percent of our total capital if that correspondent bank is undercapitalized or receives a VERIBANC<sup>®</sup> rating of Green, One Star; Green, No Stars; Yellow, One Star; Yellow, No Stars or Red, No Stars.

EXPOSURE ANALYSIS REPORT - Our bank's (savings association) credit exposure to the correspondent bank or thrift shall be characterized in a report for which the distribution will include both our Chief Operating Officer and the Chairman of the Board. The report shall include the following topics:

- a. a qualitative assessment of the likelihood that the correspondent institution will encounter operating difficulties, particularly difficulties involving financial instruments or obligations involving our bank (savings association); if the institution is already in difficulty, the report will include a description of its problems and a discussion of its prognosis,
- b. a list that specifies amounts involved, by category of instruments or obligations of the correspondent institution which involve our bank (savings association),
- c. a breakdown within each category of instrument or obligation which states appropriate maturity intervals, as applicable,
- d. assessments of liquidity risk and credit risk of the correspondent drawn from the VERIBANC<sup>®</sup> Regulation F Compliance Report and other available information.

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## APPENDIX A (continued)

An Exposure Analysis Report shall be distributed within one week of the onset of the condition that requires its issuance. Follow up Exposure Analysis Reports shall be issued within one week of material adverse changes in any of the categories discussed within an earlier report. Material adverse changes are any new factors or newly recognized factors which could significantly lessen our bank's (savings association) chances of receiving amounts due us, lengthen the interval over which we receive such amounts or reduce the total amount our bank (savings association) ultimately receives from a correspondent.

### SELECTION POLICY FOR CORRESPONDENT INSTITUTIONS

Prior to establishing a correspondent relationship with our bank (savings association), our bank's (savings association's) credit exposure monitoring officer shall document that the candidate institution:

1. is recognized by the appropriate federal chartering authority and record its FDIC certificate number or, if not available, such other unique identification number as is used by its principal regulator or U.S. government agency most active in oversight,
2. possesses a good reputation within the banking community and is not the subject of any ongoing criminal investigations (to the extent readily known),
3. has maintained a well or adequately capitalized condition for at least the past six months,
4. has maintained a VERIBANC<sup>®</sup> rating of Green, Three Stars for at least the past six months.

### NONBANK, NONTHRIFT INSTITUTIONS

In the event that a correspondent or a candidate correspondent institution is of a type for which the analysis information called out in this resolution does not exist, our bank's (savings association) credit exposure monitoring officer shall arrange to acquire initially, and on an ongoing basis, information which represents a suitable proxy to the FDIC's capital category and the VERIBANC<sup>®</sup> rating. That information will include, at a minimum, total assets, equity capital, quarterly and year-to-date net income, amounts of impaired loans, credits, securities or other problem asset quantities that could lessen values indicated on the institution's balance sheet. Also to be included will be any reserves taken against such impaired assets. This proxy information shall be monitored, interpreted and reacted to in the same fashion as has been specified in this resolution for treatment of information about the condition of correspondent banks and thrifts. However, in the event that timely and accurate information ceases to become available for such a nonbank or nonsavings institution, or there is reason to suspect the accuracy of recent information, that institution will be treated in accordance with foregoing provisions for undercapitalized correspondent institutions.

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## APPENDIX A (continued)

### SPECIAL REVIEWS

In addition to the ongoing review of our correspondent institutions described in the foregoing, our entire management team is expected to assist our credit exposure monitoring officer in his or her alertness to unexpected new credit risks. In particular, any occurrence or reports in the media indicating a possibility of hitherto undetected problems or problems to which our bank (savings association) may be reacting inadequately should be brought to our credit exposure monitoring officer's attention. Each such instance should be investigated by the credit exposure monitoring officer who shall then:

1. Document the alleged threat and the action taken if our current exposure to the correspondent exceeds one percent of our bank's (savings association) total capital.
2. If our current exposure to the correspondent exceeds 25 percent of our bank's (savings association) total capital, prepare a timely memorandum which outlines the alleged threat and propose an appropriate response or no response. Copies of the memorandum should be delivered to our bank's (savings association) Chief Operating Officer and the Chairman of the Board.

### EXCEPTIONS

If implementation of any of the policies in this resolution which call for reducing our bank's (savings association) credit exposure to correspondents creates or could create a condition which is adverse to our institution's interests (i.e. makes poor business sense), the credit exposure monitoring officer or other appropriate member of management should document the applicable reasons. In such an instance, a proposed alternate action should be presented in the context of maintaining our bank's (savings association) overall financial, ethical and regulatory interests. This documentation shall be furnished to appropriate management officers of our bank (savings association) who can respond to the concerns raised. Copies shall also be distributed to our Chief Operating Officer and to the Chairman of the Board in a timely fashion.

### ANNUAL REVIEW

This resolution shall be reviewed by the Board of Directors no later than one year from today and revised, replaced or reestablished at that time. Furthermore, prior to the next annual review, each member of the Board of Directors personally shall review:

- a. the criteria that cause a bank to be undercapitalized vs. well capitalized,
- b. the criteria used in VERIBANC<sup>®</sup>'s rating system,

## **VERIBANC<sup>®</sup>, Inc.**

### APPENDIX A (continued)

- c. the recent performance of VERIBANC<sup>®</sup>'s rating system in providing advance warning about institutions that have failed,
- d. the continued timeliness and reliability of VERIBANC<sup>®</sup> data and its rating criteria.

**VERIBANC<sup>®</sup>, Inc.**

APPENDIX B  
OVERVIEW OF FDIC GUIDANCE  
AND  
COPY OF REGULATION F

(As printed in the Federal Register, Vol. 57, No. 244, 12/18/92, p 60086)

# VERIBANC<sup>®</sup>, Inc.

## APPENDIX C

### RECENT BANK FAILURE AND RATING STATISTICS

#### Average Number of Banks in Each Color and Star Classification With Failure Rates Between 1991 and 2009

Color/Stars	Number of Banks (and % of all banks)	Annualized Failure Rate
Green ***	7,488 (79.58)	.0001
Green **	856 (9.09)	.0003
Yellow **	632 (6.72)	.0008
Green *	216 (2.30)	.0019
Yellow *	132 (1.41)	.0094
Green, none	6 (0.07)	.0177
Yellow, none	24 (0.25)	.0507
Red, none	55 (0.58)	.4242

Note that the combinations Yellow\*\*\*, Red\*\*\*, Red\*\* and Red\* are not used.

REGULATION F COMPLIANCE REPORT  
 EXPOSURE OF CORRESPONDENT BANKS AND THRIFTS  
 PREPARED FOR: NEVADA SECURITY BANK, RENO, NV

-----CAPITAL CONDITION-----												
INST. TYPE	NAME OF CORRESPONDENT INSTITUTION	CITY	STATE	FDIC CERTIFICATE NUMBER	ASSETS (\$MILLIONS)	LEVERAGE RATIO (%)	TOTAL CAPITAL RISK RATIO (%)	TIER ONE RISK RATIO (%)	INTERDAY CREDIT EXPOSURE LIMIT (25 PERCENT OF RESPONDENT'S TOTAL CAPITAL - \$000)	ERCC	VERIBANC RATING	LIQUIDITY (%)
BK	SAMPLE	LOS ANGELES	CA	17281	20,895	8.27	14.99	12.19	NOT APPLICABLE	W	Green/***/B	46.85
SA		PLACERVILLE	CA	30953	1,674	9.31	32.01	30.79	NOT APPLICABLE	W	Green/***	N.A.
BK		SAN FRANCISCO	CA	34252	595	8.18	24.57	23.30	NOT APPLICABLE	W	Green/***	67.64
BK		CHARLOTTE	NC	3510	1,518,958	7.47	14.06	10.57	NOT APPLICABLE	W	Green/***	75.24
BK		WINSTON-SALEM	NC	9846	149,199	9.46	15.07	12.60	NOT APPLICABLE	W	Green/***	59.89
SA		OMAHA	NE	32325	4,713	8.05	12.34	11.44	NOT APPLICABLE	W	Green/*	N.A.
BK		LAS VEGAS	NV	57276	476	2.07	4.09	2.79	3,556	SU	Red/None	46.23
BK		LAS VEGAS	NV	33897	2,764	8.05	11.21	9.94	NOT APPLICABLE	W	Yellow/**	43.60
BK		LAS VEGAS	NV	35418	194	3.24	6.62	5.32	2,043	UC	Red/None	60.84
BK		RENO	NV	35202	562	8.48	12.70	10.34	NOT APPLICABLE	W	Green/***	48.86
BK		RENO	NV	34072	455	9.21	14.79	13.53	NOT APPLICABLE	W	Green/***/B	38.88
BK		CINCINNATI	OH	6672	110,026	12.75	16.25	14.24	NOT APPLICABLE	W	Green/***	43.50
BK		HAMILTON	OH	6600	6,596	9.05	17.92	16.45	NOT APPLICABLE	W	Green/***/B	46.09
BK		ROSEBURG	OR	17266	10,823	9.90	15.14	13.88	NOT APPLICABLE	W	Green/***	48.43
BK		SIOUX FALLS	SD	3511	1,073,280	8.82	13.43	10.25	NOT APPLICABLE	W	Green/***	57.17
BK	SALT LAKE CITY	UT	2270	16,989	9.24	12.39	11.12	NOT APPLICABLE	W	Green/***	27.70	

Bank("BK") Reporting Date: 06/30/2010

Federal Regulators' Release Date: 08/30/2010

Savings Association("SA") Reporting Date: 06/30/2010

Federal Regulator Release Date: 08/24/2010

ERCC - Estimated Regulatory Capital Classification (W = Well Capitalized, A = Adequately Capitalized, UC = Undercapitalized, SU = Significantly Undercapitalized, CU = Critically Undercapitalized)

N.A. indicates the item is not available, not applicable or not meaningful.

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REGULATION F COMPLIANCE REPORT  
 EXPOSURE OF CORRESPONDENT BANKS AND THRIFTS  
 PREPARED FOR: NEVADA SECURITY BANK, RENO, NV

NAME OF CORRESPONDENT INSTITUTION	FDIC CERTIFICATE NUMBER	- NET INCOME -		- PROBLEM LOANS, SECURITIES AND OREO -					RESERVES AND POTENTIAL IMPACT OF PROBLEM ASSETS-			
		CURRENT QUARTER (\$000)	YEAR TO DATE (\$000)	ANNUALIZED R.O.A. FOR THE QUARTER (%)	ASSETS 90 DAYS OR MORE PAST DUE (\$000)	NON-ACCRUAL ASSETS (\$000)	RENEGOTIATED RESTRUCTURED AND OTHER PROBLEM ASSETS (\$000)	OREO (\$000)	LOAN LOSS RESERVES (\$000)	EPL TO EQUITY (%)	EPL & OREO TO EQUITY (%)	HTM SECURITIES DEPRECIATION TO EQUITY (%)
S A M P L E	17281	44,407	62,744	0.85	73,333	259,665	10,174	153,292	336,747	0.31	7.76	0.00
	30953	2,601	5,122	0.62	0	2,331	11,379	864	7,776	4.01	4.38	N.A.
	34252	366	705	0.25	0	22,119	0	3,395	6,771	23.79	29.06	0.00
	3510	1,815,779	3,322,583	0.48	26,212,421	31,037,517	5,835,929	3,448,591	25,633,664	12.52	14.55	0.00
	9846	196,503	392,604	0.53	634,160	2,847,095	1,797,967	1,580,465	2,476,733	12.13	19.99	0.00
	32325	4,374	8,504	0.37	3,515	75,659	31,196	9,774	28,302	7.57	15.53	N.A.
	57276	-13,461	-22,841	-11.30	4,388	68,978	2,026	11,145	15,945	358.20	425.36	0.00
	33897	-10,744	-13,744	-1.55	2,441	83,523	41,501	72,144	67,357	20.94	46.07	0.00
	35418	-1,991	-2,343	-4.12	0	12,611	11,488	15,949	6,203	258.50	488.88	0.00
	35202	765	1,112	0.54	3,147	12,230	5,653	13,024	8,501	24.05	49.06	0.00
	34072	1,128	3,424	0.99	0	6,860	101	1,764	5,958	2.38	6.57	0.00
	6672	199,704	247,297	0.73	557,418	2,668,740	1,488,585	453,571	3,690,874	5.18	7.90	0.00
	6600	18,808	31,839	1.14	43,355	79,852	2,475	26,307	58,850	10.43	14.53	0.00
	17266	4,988	12,701	0.18	8,747	167,687	65,525	53,943	113,914	7.57	10.75	0.00
	3511	2,576,000	4,679,000	0.96	31,929,000	22,984,000	6,166,000	4,564,000	20,992,000	21.10	24.75	0.00
	2270	2,117	-47,581	0.05	54,266	643,485	23,776	161,630	404,167	18.03	27.22	0.39

Bank("BK") Reporting Date: 06/30/2010

Federal Regulators' Release Date: 08/30/2010

Savings Association("SA") Reporting Date: 06/30/2010

Federal Regulator Release Date: 08/24/2010

EPL - Excess Problem Loans, securities and contracts - the amount of all acknowledged problem items less the loan loss reserve balance

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