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THE VERIBANC SHORT FORM REPORT

This report describes several tests of the financial strength of a bank, thrift institution or credit union. The outcome of two of these tests is a color - GREEN, YELLOW or RED. Green is the most favorable result; Red is the least favorable. Additional criteria are used to assign three stars, two stars, one star or no stars to an institution. Three stars are most preferred. No stars are least preferred.

Of course, tests such as these can provide only an overview of an institution's financial condition. A Green, three-stars rating does not necessarily guarantee that the institution is healthy, nor does a Red, no-stars rating mean that it will fail. However, these tests utilize key measures employed by the federal banking agencies to evaluate the safety of financial institutions. More details are presented below.

THE EQUITY TEST

A financial institution such as a bank, a thrift institution such as a savings and loan association (S&L) or a credit union does business by lending money that it has borrowed from its depositors. Thus, its business is <u>controlling</u> investments of other people's funds. In addition, it <u>uses</u> (and, of course, controls) money and other items of value which belong to the institution's owners. This portion is called <u>equity</u>. The total of its own equity and investments which really belong to others, i.e., all that an institution controls, is called <u>assets</u>. Your institution(s)' equity, assets, and the percentage of assets which is equity are given on the data page(s) of the report.

It is both good business practice and a federal requirement for financial institutions to "have a stake" in the monies they control, namely, that a certain percentage of their assets must consist of equity. In fact, if the equity of an institution drops to zero or less, it is referred to as "insolvent". For this reason, equity is often referred to as a financial cushion. It allows an institution to withstand money-losing situations without having to go out of business. The VERIBANC equity test places an institution in one of three categories:

1) If the equity is 5% of assets or higher, an institution is ordinarily assigned the Green classification .

2) If the equity is between 3% and 5% of assets, it is ordinarily assigned the classification Yellow.

3) If the equity is less than 3% of assets, the color Red is assigned.

For institutions, which are losing money, the color can also be affected by the Income Test described as follows:

THE INCOME TEST

Even though earning money is the purpose of any business, profitability can sometimes be elusive. Banking, like any other endeavor, can encounter difficulties that cause an institution to lose money. One way of measuring the seriousness of losses is to pose the question, "How much of the institution's remaining equity does the most recent loss represent?" For the institution(s) included in this report, this question is answered on the data page(s). The VERIBANC income test considers results in three possible ranges:

1) If the institution had no net loss (i.e., is operating profitably), it is ordinarily classified GREEN.

2) If the institution had a modest net loss, it is ordinarily classified YELLOW.

3) If the loss rate was significant[†], the color RED is assigned.

THE VERIBANC COLOR CLASSIFICATION SYSTEM[*]

The color classification blends the results of both the Equity and Income Tests as follows:

GREEN The institution's equity exceeds five percent of its assets and it had positive net income 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 erode a significant portion of the institution's equity. The items, which 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 items, which result in a red classification, deserve your close attention.

† A quarterly loss is considered significant when it exceeds 18.75 percent of a bank, S&L or credit union's equity. If a bank, S&L or credit union's loss continues to exceed 18.75 percent of its equity every quarter, the institution could become insolvent within one year. Of course, VERIBANC has no way of knowing whether or not losses at an institution will continue.

HOW THE COLOR CLASSIFICATION CRITERIA RELATE TO THOSE USED BY THE FEDERAL BANK REGULATORY AUTHORITIES AND FINANCIAL ANALYSTS

Banks and thrift institutions are required by law to meet a variety of capital measures. When these measures decline below certain norms, the Office of the Controller of the Currency ("OCC"), the Federal Reserve Board ("FRB"), the Federal Deposit Insurance Corporation ("FDIC") or the Office of Thrift Supervision ("OTS") initiate remedial measures and the bank is subject to additional monitoring. One norm used in the financial industry is whether or not an institution's equity is at least 5 percent or more of assets. If an institution's equity does not meet specified minimums, regulatory authorities usually take corrective action in the form of compliance orders.

PROBLEM LOANS

The color classification discussed in the previous section indicates the institution's actual financial condition as of the reporting date. To help determine the possible future trend of an institution's health, VERIBANC provides information about the amount of money that it has lent or invested in securities for which repayment is late or in doubt. Many institutions maintain loan loss reserves to provide a first line of defense against borrowers who default on their loans and securities investments that go sour. The amount of problem loans, problem securities and securities-type contracts, in excess of an institution's loan loss reserve, measures the degree its equity could suffer as a result of future loan losses. Since they do not directly impact equity or earnings, <u>problem loans, securities and contracts do not affect an institution's color classification</u>. However, these items are incorporated into VERIBANC's star rating as described below.

THE VERIBANC STAR RATING SYSTEM

In addition to the color code, VERIBANC classifies each institution with three stars (***), two stars (**), one star (*) or no stars (None). The star rating considers future trends and contingencies not accounted for in the color classification. The star rating also incorporates problem assets (along with equity strength and profitability) as a measure of an institution's future prospects. The criteria used by VERIBANC to determine the number of stars assigned to an institution are as follows:

*** The institution must meet the following primary conditions: equity which exceeds five percent of assets, equity which exceeds four percent of assets after deducting for problem loans, securities and securities-type contracts in excess of loan loss reserves and positive net income of the most recent reporting period. Banks and thrifts must also satisfy all three regulatory capital requirements (see below) and must not have any recent, serious regulatory sanctions against them. In addition, insider lending at an institution must not exceed 35 percent of equity. If the bank is

*** (cont.) 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. For banks and credit unions, problem investments also include investments that, if sold, would realize less than their cost plus specific investment reserves.

** The institution must meets any two of the three primary conditions for the three stars category and has equity which exceeds its unreserved problem loans, securities and securities-type contracts. If the institution had a net loss during the most recent reporting period, the loss was not significant. Banks and thrifts must also satisfy all three federal capital requirements (see below) and must not have any recent serious regulatory sanctions against them. Additionally, 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. For banks and credit unions, that have investments with a current market value that is less than their cost, that difference must not exceed equity plus specific investment reserves.

* The institution meets at least one of the primary conditions for the three stars category, reports equity which exceeds three percent of assets and also exceeds unreserved problem loans, securities and securities-type contracts. If the institution had a net loss during the most recent reporting period, the loss was not significant. Moreover, if the institution is a bank or a thrift, it meets at least two of the three federal capital requirements for tier one (core) capital and total capital as a percentage of risk weighted assets and tier one capital as a percentage of average assets. A bank may also receive no higher than a one star rating if it has been subject to a serious regulatory sanction, or if all of the banks in its holding company, taken together as if they were a single bank, receive a one star or a no star rating. Also, a bank or credit union may receive a one star rating if, absent other reasons for downrating as stated above, the difference between the cost and current market value of its investments exceeds the institution's equity plus specific investment reserves.

NO STARS The institution does not meet the criteria above.

DATA THAT VERIBANC USES

All federally-insured commercial banks, S&Ls, savings banks and credit unions, by law, must make certain financial records available to federal bank regulatory agencies such as the OCC, FRB, FDIC, OTS and the National Credit Union Administration ("NCUA"). The data must be provided to these agencies at specified intervals, usually quarterly. VERIBANC, Inc. has taken the portions of this information which are released to the public periodically by such agencies and has assembled a database that considers every financial institution operating under federal deposit insurance. This includes approximately 20,000 depository institutions.

KEY TO THE INFORMATION PROVIDED ON THE DATA PAGE(S)

In addition to the name, type of institution and its location, the following information is presented:

Federal Agency which supplied this Data:

Provides the name of the regulatory authority which assembled the information contained in this report using submissions provided by the institution.

Income Reporting Period:

Most financial institutions report their income quarterly.

Assets and Equity Reporting Date:

Indicates the last day of the financial accounting period this report addresses.

Report Preparation Date:

The day the data page is printed at VERIBANC, Inc.

Data Release Date:

The day VERIBANC received the latest updated information from the applicable federal regulatory agency.

Portion of Equity Lost for the Quarter:

For institutions, which had a net loss during the most recent reporting period, that loss is stated as a percentage of the institution's equity. For institutions which had positive net income during the most recent reporting period, "Profitable" is printed. For institutions with equity less than zero, the notation "Insolvent" is used.

Total Assets:

The total amount of assets controlled by the institution.

Equity:

The dollar amount of the institution's equity.

Equity/Assets Ratio:

The portion of the institution's assets that it owns (expressed as a percentage).

Net Income for the Quarter:

The institution's earnings or losses during the reporting period.

Current Quarter Color and Star Rating:

Each institution's classification according to the color and star ratings tests previously described.

Previous Quarter Color and Star Rating:

The color and star ratings assigned to the institution for its previous reporting period.

Problem Loans:

The total amount of the institution's past due and problem loans, as well as any delinquent securities or derivatives contracts, is given in the footnote description of special factors. The potential impact on equity, should these instruments deteriorate to the point of the institution having to give up on collecting them, is also provided (taking into account any loan loss reserves that may apply).

Other Data:

Certain other information is provided at the bottom of the data page, including the star rating assigned to an institution. Other messages may describe why an institution is given a red or yellow designation. Also, if VERIBANC is aware that an institution has been taken over by federal regulators and it is continuing to operate under government control, a message to this effect is presented. For banks and S&Ls, an additional message is printed indicating how well the institution is capitalized according to regulatory standards.

A commercial bank or state savings bank in the Green, three-stars category may also meet certain other stringent financial criteria. In these cases, VERIBANC designates the institution as a (somewhat rare) Blue Ribbon Bank*. When this classification applies, a special message is provided, indicating that the bank meets very high standards.

ADDITIONAL IMPORTANT INFORMATION

The Short Form Report also presents graphs and a table. This supplemental information allows you to compare your bank, thrift or credit union's color code, star rating, equity/assets percentage and profitability with other similar institutions in the United States.

The information herein is based on extracts from the data released by applicable federal regulatory agencies. Among the criteria used by these agencies in assessing the financial condition of the banks, thrifts or credit unions which they regulate, is the ratio of an institution's capital to its assets. When the data submitted to the regulatory agencies suggest the possibility of marginal performance, the agencies also consider whether or not the institution is operating at a loss and the quality of its loan portfolio. If a loss is indicated, or the institution has large amounts of loans which are delinquent or are

* Blue Ribbon Report is a registered trademark of VERIBANC, Inc.

unlikely to be repaid, the regulatory agencies often estimate the impact of these factors on the institution's continued solvency. This report provides you with information relevant to these and other criteria.

For simplicity, VERIBANC also uses the term "equity" in reference to thrifts and credit unions. Other words that are often used in this context are "net worth" and "capital." These distinctions are not significant within the scope of this report.

VERIBANC does not give, and this report should not be construed as, a warranty, an opinion or advice by VERIBANC or the applicable federal regulatory agency as to the financial condition of the institution(s) about which you have inquired. The federal regulatory agencies consider criteria in addition to those set forth in this report in assessing the financial viability of the institutions which they oversee. The data with respect to some of these additional criteria are not released to the public as a matter of course, and VERIBANC has not considered and does not report on such data. You should be aware that these additional criteria might be important in evaluating the financial condition of an institution.

However, the information set forth in the data page(s) does provide an insight of an institution's operations. The report is intended only as an overview and should not be considered or relied upon as presenting the complete picture of an institution's financial condition. VERIBANC possesses extensive additional financial data and reports for all commercial banks, thrifts and credit unions which are federally-insured. VERIBANC also maintains and can create data files that involve sorting by a wide range of financial, geographical and other criteria. If you believe that additional information is necessary, VERIBANC invites you to write for a quotation on your additional data needs. **We also encourage you to speak to your banker about any concerns you may have.**

VERIBANC invites you to recheck the ratings of your banks, thrifts, and credit unions when the next set of data is released by the government regulatory agencies. The approximate dates when new information is expected to replace VERIBANC's current data on banks, savings banks, thrifts and credit unions are:

First Quarter (ending March 31) data are usually released by June 15,
Second Quarter (ending June 30) data are usually released by September 15,
Third Quarter (ending September 30) data are usually released by December 15,
Fourth Quarter (ending December 31) data are usually released by March 15.

VERIBANC HOPES YOU FIND THIS REPORT USEFUL
AND WELCOMES YOUR COMMENTS