Key Risk Indicator
EXECUTIVE SUMMARY REPORT

Ratio Definitions

5/11/2015

KRI EXECUTIVE SUMMARY REPORT

What level of risk is your bank willing to assume in order to reach your strategic objectives?

Analyzing risk within the context of your bank's strategy, financial projections, and performance to peers, is a powerful way to ensure sound, risk-based decision-making. With the **Key Risk Indicators [KRI] Report,** you get an executive overview that adds risk perspective to your 3-year forecast and analyzes your risk against the backdrop of your strategic peers.

Your KRI Report summarizes historical and forward-looking risk trends in Capital, Asset Quality, Earnings, Liquidity, and Sensitivity to Market Risk [CAELS]. Specific risk indictors in the CAELS categories are analyzed by examining your bank's historic, current, and projected performance relative to your guidelines for risk tolerance. This high-level vantage point offers you a view of the interrelationships between key risk factors as you pursue your performance objectives.

Additional tools within BankersGPS, including 'what-if?' scenario analysis, stress testing and capital planning capabilities, can provide further insight into assessing the risk/reward tradeoffs of your bank's strategic initiatives.

RISK LIMIT GUIDELINES

What is your bank's risk tolerance?

The Risk Limit Guidelines feature connects the dots between your bank's strategy, performance objectives, and risk tolerance. Plansmith Risk Defaults (industry analysis), your bank's most recent performance results, and the median results for your Asset Peer Group, are available on the KRI Limits screen as a point of reference. To get the best results, modify the defaults to the lowest and highest levels of risk that *your bank* is willing to undertake for each KRI by entering a value in the 'User Defined' boxes.

Your bank's optimal level of risk for each metric is categorized as 'Low Risk'. Setting the range of risk that exceeds your desired level will categorize a KRI as "High Risk". Any results falling outside of the 'Low' and 'High' risk ranges you set for your bank will be classified as 'Moderate' Risk.

RISK STATUS

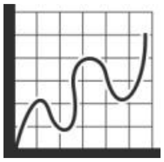
What is your bank's current level of risk?

Risk Status characterizes your bank's level of risk (Low, Moderate, or High) as of the last actual quarter. For the best results, enter your bank's risk limit guidelines on the KRI Limits screen before reviewing your report.

RISK TREND AND RISK OUTLOOK

What direction is your risk headed?

Monitoring trends can act as an early warning signal of emerging risk. The KRI report shows a snapshot of the historical trends and anticipated behavior of each metric. The historical Risk Trend is based on the most recent 3-year period, while the Risk Outlook projects the next 12-quarters. Both analyses define the risk as Decreasing, Increasing, Stable or Fluctuating, and are there to alert you of potential risks that could adversely impact your bank.



CAPITAL

While Basel III rules set minimum standards for capital adequacy, regulators expect management to also consider capital needs relative to their bank's strategy, risk profile, and risk appetite. Using a forward-looking assessment, bankers can use BankersGPS to set and track target levels of capital as they consider future needs arising from growth, earnings, dividends, and related enterprise-wide risks.

RATIO DEFINITIONS

Under Basel III, regulators established minimum acceptable levels of capital using four ratios: Tier 1 Leverage, Common Equity Tier 1 Capital, Tier 1 Capital Ratio, and Total Capital Ratio. Banks that fall below the minimum level in any of these areas are subject to regulatory actions.

TIER 1 LEVERAGE RATIO

This ratio measures the relationship between a bank's Tier 1 Capital and adjusted total assets.

Ratio Definition: Tier 1 Capital divided by average total assets for the leverage ratio

The remaining three regulatory capital ratios measure the amount of capital relative to the risk associated with assets and off-balance sheet items by assigning "risk-weights" to different asset categories:

COMMON EQUITY TIER 1 CAPITAL (CET1)

Common Equity Tier 1 Capital divided by total risk weighted assets

TIER 1 CAPITAL RATIO

Tier 1 Capital divided by total risk weighted assets

TOTAL CAPITAL RATIO

Tier 1 Capital plus Tier 2 Capital, divided by total risk weighted assets

CAPITAL CONSERVATION BUFFER

Effective January 1, 2015, regulators established minimum Capital Conservation Buffer ["buffer"] standards. This buffer is a cushion to absorb exposures from enterprise-wide risks and still keep the bank adequately capitalized under normal and stressed conditions.

In order to avoid limitations on capital distributions, including dividend payments and certain discretionary bonus payments to executive officers, a bank must hold a specific buffer above its minimum risk-based capital requirements. Phase-in of the capital conservation buffer requirements begin January 1, 2016.

Ratio Definition: A bank's capital conservation buffer is the lowest of the following ratios:

- Common Equity Tier 1 Capital Ratio (in percent) minus 4.5 percent; or
- Tier 1 Capital Ratio (in percent) minus 6 percent; or
- Total Capital Ratio (in percent) minus 8 percent

If the bank's CET1, Tier 1 or Total Capital Ratio is less than or equal to its minimum CET1, Tier 1, or Total Capital Ratio, respectively, the bank's capital conservation buffer is zero.

ASSET QUALITY

Monitoring trends in asset quality ratios can reveal a bank's magnitude of risk exposure and its ability to cushion the bank against loan losses. In addition to measuring the quantity of current and projected asset quality risk, stress testing the loan portfolio is a valuable activity to improve risk-based decision-making. The stress-testing capabilities within BankersGPS can help bankers identify key vulnerabilities in the loan portfolio and determine how those vulnerabilities may affect future earnings and capital during periods of stress.

RATIO DEFINITIONS

Noncurrent Loans+OREO/Tier 1 Cap+LLR (Texas Ratio)

This is a commonly used indicator to measure a bank's ability to withstand losses. A low ratio translates to a higher capacity to absorb losses and, therefore, a lower level of risk.

Ratio Definition: Total non-accruing loans and leases, plus non-accruing debt securities and other assets (excluding other repossessed assets), plus OREO, divided by Tier 1 capital plus allowance for loan and lease losses

ALLL/Nonperforming Loans

This measure, commonly known as the coverage ratio, indicates the capacity to absorb potential loan charge-offs without affecting capital. A 1:1 ratio means the loan loss reserve is equal to the amount of nonperforming loans.

Ratio Definition: Allowance for loan and lease losses divided by total non-accruing loans and leases, plus non-accruing debt securities and other assets (excluding other real estate owned and other repossessed assets)

Non Performing Loans/All Loans

This measure is an indication of overall loan portfolio quality. Increasing trends may suggest deteriorating loan quality.

Ratio Definition: Total non-accruing loans and leases, plus non-accruing debt securities and other assets (excluding other real estate owned and other repossessed assets), divided by total loans and leases, including held for sale and nonperforming loans, net of unearned income

Total Loans - % Change

Changes and trends in loan growth, when considered in relation to peers and in conjunction with other loan metrics, can be used as an 'early warning' indicator of risk.

Ratio Definition: Total current loans and leases less previous total loans and leases, divided by previous loans and leases

CRE CONCENTRATION RISK INDICATORS

Regulatory agencies jointly established threshold criterion to identify a bank's exposure to Commercial Real Estate ("CRE") lending concentration risk. Banks that experience rapid growth or who exceed regulatory thresholds are subject to heightened exam scrutiny for appropriate risk practices that manage their CRE concentrations.

Construction, Land Development, Other/Total RBC

Ratio Definition: 1-4 residential construction loans plus other construction loans, divided by Tier 1 Capital plus Tier 2 Capital

Total Commercial RE/Total RBC

Ratio Definition: 1-4 residential construction loans, plus other construction loans, plus Loans secured by multifamily (5 or more) residential properties, plus Loans secured by other nonfarm nonresidential properties, plus Loans to finance CRE, construction, and land development activities, divided by Tier 1 Capital plus Tier 2 Capital

EARNINGS

The viability of a bank's strategic business model depends upon the composition and stability of earnings to remain competitive, support operations, and absorb risk.

RATIO DEFINITIONS

Net Interest Income

Ratio Definition: Net interest income divided by average total assets

Net Overhead

Ratio Definition: Total noninterest expense less total noninterest income, divided by average total assets

Core Earnings

The stability of Core Earnings (income before loan loss provisions, extraordinary items and taxes) reflects the underlying strength of a bank's strategic business model.

Ratio Definition: Total revenue less total noninterest expense, divided by average total assets

Return on Assets

Ratio Definition: Net income (loss) divided by average total assets

LIQUIDITY

Liquidity metrics help determine a bank's ability to generate funds to support operations and fund growth. Key ratios include an assessment of liquid assets, dependence on non-core funding sources, reliance on wholesale funding, and net loans & leases to total assets.

While these metrics are good indicators of liquidity risk, a complete liquidity risk profile also takes into account the impact of external risks and a forward-looking view of sources and uses of funds. Economic conditions, competitive environment, and growth plans can have a material impact on future cash flows. The cash flow modeling capabilities within BankersGPS helps you take into consideration factors like these, along with the availability of primary and secondary sources of funds to estimate the adequacy of future liquidity. Regulators expect banks to model pro forma cash flows and to have a contingency funding plan in place that addresses potential liquidity shortfalls under high impact, low probability stressed events.

RATIO DEFINITIONS

LIQUID ASSETS/TOTAL ASSETS

An analysis of a bank's liquidity position considers the funds available to quickly turn assets into cash in the event of a liquidity crisis. This liquidity cushion is the amount of liquid assets compared to total assets. A higher ratio indicates a greater level of liquid assets available to meet funding needs.

Ratio Definition: Noninterest-bearing balances, currency and coin, and interest-bearing balances due from depository institutions, plus federal funds sold, plus securities purchased under agreements to resell, plus total securities less pledged securities, divided by total assets

NON-CORE FUNDING DEPENDENCE

Measures the degree of longer-term assets funded by non-core funds. Non-core funding sources tend to be more volatile and not as readily available under periods of financial stress. A lower ratio is better, since higher ratios reflect a greater reliance on sources other than core deposits to fund earning assets. A negative ratio means short-term investments exceed the bank's noncore funding sources.

Ratio Definition: Federal funds purchased, plus securities sold under agreements to repurchase, plus total other borrowings, plus brokered deposits of less than $250,000 and certain brokered retirement deposit accounts, plus total time deposits of more than $250,000, plus foreign deposits, less federal funds sold, plus securities purchased under agreements to resell, plus debt securities with a remaining maturing of one year or less, plus cash and due from depository institutions interest-bearing balances, divided by loans and leases held for sale, plus loans and leases, net of unearned income and allowance, plus held to maturity securities, plus available for sale securities, less debt securities with a remaining maturity of one year or less, plus other real estate owned

WHOLESALE FUNDING

Wholesale funds are more vulnerable to market conditions than retail deposits. They carry the risk of becoming unavailable when needed, as wholesale providers can quickly withdraw funding on negative news, exposing the bank to heightened price sensitivity and greater liquidity risk.

Ratio Definition: Fully insured brokered deposits issued in denominations of less than $100K, plus Brokered CDs more than $100K, plus foreign deposits, plus federal funds purchased, plus securities sold under agreements to repurchase, plus total other borrowings, plus subordinated notes and debentures, plus other CDs more than $250K, plus deposits obtained through deposit listing services that are not brokered deposits, divided by total assets

NET LOANS & LEASES/TOTAL ASSETS

Ratio Definition: Loans and leases held for sale, plus loans and leases net of unearned income and allowance, divided by total assets

SENSITIVITY TO MARKET RATES

Regulators expect sound practices for proactively managing Interest Rate Risk from both a near-term earnings perspective and a longer-term equity perspective. This includes thorough analyses of the impact that changing interest rates could have on the bank's financial performance and potential for loss. Rate Shocked Net Interest Margin and Economic Value of Equity, Yield Curve Assessment, and Rate Sensitivity Gap Analysis are integral components of rate risk measures expected by regulators. All of these IRR analyses are part of the BankersGPS simulation modeling system.

Several other ratios can be helpful indicators of interest rate risk when considered in conjunction with measurements described above. This includes a unique Plansmith benchmark, Margin Risk Tolerance Analysis, which places the severity of interest rate risk into context.

RATIO DEFINITIONS

LOANS & SECURITIES >3 YEARS/TOTAL ASSETS

This measure is an indicator of re-pricing risk; a higher ratio indicates a greater portion of assets that cannot be re-priced for a longer period.

Ratio Definition:
All loans and leases with a remaining maturity or next repricing date of over three years, plus Securities issued by the U.S. Treasury, U.S. Government agencies, and states and political subdivisions in the U.S., other non-mortgage debt securities, and mortgage pass-through securities (other than those backed by closed-end first lien 1-4 family residential mortgages) with a remaining maturity or next repricing date of over three years, plus Mortgage pass-through securities backed by closed-end first lien 1-4 family residential mortgages with a remaining maturity or next repricing date of over three years, plus Other mortgage-backed securities (include CMOs, REMICs, and stripped MBS; exclude mortgage pass-through securities) with an expected average life of over three years, divided by Total Assets

RESIDENTIAL REAL ESTATE/TOTAL ASSETS

Ratio Definition: Loans secured by 1-4 family residential properties less nonaccrual loans, divided by Total Assets

MARGIN RISK TOLERANCE (% OF AVERAGE ASSETS)

Margin Risk Tolerance is determined by computing the minimum net interest margin required to meet all expenses, including capital formation and dividends. This ratio tells us how much the bank's net interest margin could change before its capital would fall below the minimum due to insufficient capital formation from earnings. A minimum required capital ratio assumption of 7.00% is used in this calculation. A positive value indicates that the bank has the ability to absorb adverse rate changes in the net interest margin, and a negative value indicates that the capital ratio will decline.

Ratio Definition: Current Margin as a percentage of Average Assets less Required Margin* as a percentage of Average Assets

* Required Margin equals: Earnings required to meet 7% minimum capital ratio and dividend needs less total non-interest income, plus total non-interest expense, plus tax equivalent adjustment, plus loan loss provision, plus taxes, divided by total average assets