

VERIBANC

Beyond 'CAMELS'

BEYOND 'CAMELS'

What does "Beyond CAMELS" mean. CAMELS is an acronym that stands for:

- C – Capital Adequacy
- A – Asset Quality
- M – Management Risk
- E – Earnings Proficiency
- L – Liquidity Strength
- S – Sensitivity to Market Risk

VERIBANC has developed tests that addresses all of the above areas of banking risk. In addition to these areas we have identified two additional, somewhat subtle areas of risk: Opportunity Risk and Regulatory Risk.

Our quantitative analytics are the broadest, purest, and have stood the longest. No other bank rating firm provides you with this value.

- We have never subscribed to peer analysis for our ratings. This methodology has an inherent deficiency. In bad economic times the top of the peer may look good when in fact they are not.
- We provide our clients with a No Conflict of Interest Guarantee. Since 1981 no bank has ever paid us to rate them. We have never accepted click-through fees (there are no links on our website to banks), or advertising fees from the banks that we rate.
- We have always published our track record. So you can see our history and not just a selected view of the good years.

C – Capital Adequacy: Does the bank have enough equity (or capital) to buttress problem assets (loans, securities, and contracts) as well as any unforeseen events? This is the back stop or safety cushion a bank maintains in the event of either a severe economic downturn or any other event that the bank has not planned for.

A – Asset Quality: Are the bank's assets (loans and securities) underwritten in a conservative or aggressive style? Conservative or aggressive positions can be observed by the amount of problem assets recorded, charged off, and the reserves set aside for estimated losses.

M – Management Risk: Are the federal or state regulators criticizing management for operational, reserving, underwriting, auditing, capital, or regulatory breaches? Federal actions may range from very egregious sanctions (Cease and Desist) to minor infractions (fines against an employee – not the bank).

E – Earnings Proficiency: is the bank making or losing money, or breaking even? Fundamental analysis of any business looks at whether profits or losses are being generated and to what degree.

L – Liquidity Strength: how much of the bank's assets are tied up in long term (greater than a year) assets? Liquidity encompasses both the reach of problem loans as well as the ability to liquidate the securities portfolio.

S – Sensitivity to Market Risk: Are long term investments enhancing income or are they a drag on it? Recognition of long term investment losses will negatively impact capital.



VERIBANC's model goes beyond 'CAMELS' *

Federal banking supervisors review six critical aspect (Capital adequacy, Asset quality, Management quality, Earnings performance, Liquidity risk, and Sensitivity to market risk) of a bank’s operation and condition in their examination rating procedure (the Uniform Interagency Bank Rating System), commonly called the CAMELS rating. The relationship between VERIBANC’s color and star ratings and the “estimated CAMELS” score is tabulated as follows:

Color & Star Ratings	Estimated CAMELS Score†
Green, Three Stars with Blue Ribbon recognition	CAMELS 1
Green, Three Stars without Blue Ribbon recognition	BETWEEN 1 AND 2 (not directly comparable)
Green, Two Stars	CAMELS 2
Yellow, Two Stars	BETWEEN 2 AND 3 (not directly comparable)
Green, One Star Green, No Stars	CAMELS 3
Yellow, One Star Yellow, No Stars	CAMELS 4
Red, No Stars	CAMELS 5

†PLEASE NOTE: Only the government and the institution itself, by law, have access to the “official CAMELS” ratings. Our studies (through 12/31/03) have shown that our “estimated CAMELS” is close. Most other rating services and agencies consider only three, four or five of the six “CAMELS” factors.

* VERIBANC takes all six into account plus we look at Regulatory Risk and Opportunity Risk.



OTHER RATING TRANSLATIONS

From time to time VERIBANC has been asked to provide a grade equivalent rating scale for the various color code and star rating levels. Below please find one such mapping.

VERIBANC Augmented Ratings	VERIBANC Ratings	Annualized Failure Rate per 10,000 banks per year
A+	Only Blue Ribbons	1 in 30 years
A	Green with 3 Stars - not Blue Ribbon	1 in 10,000
B+	Green with 2 Stars	3 in 10,000
B	Yellow with 2 Stars	8 in 10,000
B-	Green with 1 Star	21 in 10,000
C+	Yellow with 1 Star	85 in 10,000
C	Green with No Stars	231 in 10,000
C	Yellow with No Stars	643 in 10,000
C-	Red with No Stars	4,013 in 10,000
D	Failure/Default	