



## Our methodology.

Highline Ratings (formerly Sheshunoff Ratings):  
the first commonly used bank rating scale  
in the industry, dating back to 1985.

Highline Ratings are computed for all US Banks, S&Ls, Credit Unions and Holding Companies, using quarterly data obtained from government regulatory agencies. Highline Financial calculates 3 ratings:

- National – Compares all institutions of like types to all others in the nation
- Regional – Compares all institutions of like types to all others in a certain region
- Asset Size Peer Group – Compares all institution of like types to others based on their asset size

The Highline Rating should be used to estimate an institution's health and potential for failure and should not be used as a credit rating.

The Highline Rating is a starting point for analysis in determining the health of an institution but does not incorporate a direct evaluation of the management of an institution. The Highline Rating is not intended to be a judgment on an institution's current quarter performance but instead uses both current and historical data in evaluating an institution's health and potential for failure.

Other factors in determining the health of an institution should be considered in order to fully analyze an institution's current financial management including:

- Capability of management
- Regional economic strength
- Bank holding company policy and strength
- Exceptions made in conjunction with regulators
- Nonperforming assets other than loans
- Other income streams (possibly intermittent) such as gains from the sale of securities or fixed assets

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## Highline Rating Scale

The Highline Rating is based on a scale from 0 - 99 with 0 being the lowest and 99 being the highest. Ratings are distributed on a bell curve with the large majority of institutions falling somewhere in the middle. Depending on the health of the industry, the bell curve can shift towards either end of the spectrum. Closer to 99 means the industry is doing well.

### Ratios Used in Rating Calculations

Ratios used to compute ratings differ, based on the type of institution.

#### **BANKS**

Capital Adequacy	Core Cap-Loss on AFS Securities/Adjusted Total Assets
Asset Quality	Adjusted Nonperforming Loans & OREO/Total Loans & OREO
Earnings	Operating Profit / Average Assets
Liquidity	Liquid Assets / Total Liabilities

#### **SAVINGS & LOANS**

Capital Adequacy	Core Cap-Loss on AFS Securities/Adjusted Total Assets
Asset Quality	Nonperforming Loans & OREO/Total Loans & OREO
Earnings	Net Operating Income After COF / Average Assets
Liquidity	Liquid Assets / Total Liabilities

#### **CREDIT UNIONS**

Capital Adequacy	Core Cap-Unrealized Loss on Securities/Adjusted Total Assets
Asset Quality	Nonperforming Assets including OREO/Total Loans & OREO
Earnings	Operating Profit / Average Assets
Liquidity	Liquid Assets / Total Liabilities

#### **HOLDING COMPANIES**

Capital Adequacy	Core Cap-Loss on AFS Securities / Adjusted Total Assets
Asset Quality	Nonperforming Loans & OREO / Total Loans & OREO
Earnings	Operating Profit / Average Assets
Liquidity	Liquid Assets / Total Liabilities

The specific ratios were chosen through a study that determined the best combination of ratios to predict failure. The study was conducted on 50 high performance institutions and 50 failed institutions in both 1988 and 1991. The specific years were chosen due to the high failure rate at the time. Additionally, 50 ratios were chosen and data for the 200 institutions and 50 ratios was imported into a statistics software package used for normal and step-wise regression.

The study determined that the 4 ratios at their derived weights, in combination, were the best predictors of failed institutions. Ratios are analyzed periodically to ensure relevance.

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## Highline Rating Scale, continued

### Calculation

Each institution's ratios are weighted using statistically derived betas to arrive at a raw score. For an average institution the approximate weightings, which indicate the relative importance of each ratio used in the rating system, are as follows:

Capital Adequacy	30%
Asset Quality	35%
Earnings	25%
Liquidity	10%

For each institution, data is pulled for each of the four ratios for the current quarter and the previous four year-ends. The ratio value is then multiplied by its corresponding weight for each of the five time periods (current quarter and the four previous year-ends).

Raw scores are then placed on an industry representative curve (normal distribution) to arrive at each institution's rating. This process ensures that each institution's rating reflects its true condition. Healthy institutions are not penalized with a low rating simply because other institutions have higher numbers.

The weights are summed for each time period to derive a raw score. Each institution will have 5 raw scores, one for each time period. A single mean and standard deviation are calculated using the raw scores for all institutions and all time periods based on the specific group for each rating (National, Regional and Asset Size). Raw Scores > 7 and < -3.5 are excluded. For each institution, the distance of the current quarter's raw score from the mean is calculated with the following formula:  $(\text{raw score} - \text{mean}) / \text{standard deviation}$ .

Using our Lookup Table, the distance from the mean is converted into a score for each institution.

## Highline Rating Distributions

To understand the relative distribution of ratings among all institutions in the database, Highline Financial's tool-set includes National, Regional and Peer Overview Charts. These charts show the percentile rank for each range of bank ratings.

### Financial Basis

Ratings are computed using financial information reported to the following federal regulatory agencies:

<b>Institution</b>	<b>Federal Agency Report</b>	<b>Report</b>
Banks	Federal Deposit Insurance Corp. (FDIC)	Call Report
S&Ls	Office of Thrift Supervision (OTS)	Thrift Financial Report
Credit Unions	National Credit Union Association (NCUA)	Call Report
Holding Companies	Federal Reserve Board (FRB)	Y-9 Report

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## Asset Size Peer Groups

### BANKS

Total Assets > than \$10 billion  
 \$5 billion to \$9.9 billion  
 \$1 billion to \$4.9 billion  
 \$500 million to \$999 million  
 \$300 million to \$499 million  
 \$100 million to \$299 million  
 \$50 million to \$99 million  
 \$25 million to \$49 million  
 \$10 million to \$24 million  
 \$0 to \$9 million  
 Chartered in last 3 years and assets less than \$150 million

### SAVINGS & LOANS

Total Assets > than \$5 billion  
 \$1 billion to \$4.9 billion  
 \$500 million to \$999 million  
 \$300 million to \$499 million  
 \$100 million to \$299 million  
 \$50 million to \$99 million  
 \$25 million to \$49 million  
 \$0 to \$24 million

### CREDIT UNIONS

Total Assets > than \$500 million  
 \$300 million to \$499 million  
 \$100 million to \$299 million  
 \$50 million to \$99 million  
 \$20 million to \$49 million  
 \$10 million to \$19 million  
 \$2 million to \$9 million  
 \$0 million to \$1.9 million

### HOLDING COMPANIES

Total Assets > than \$10 billion  
 \$5 billion to \$9.9 billion  
 \$1 billion to \$4.9 billion  
 \$500 million to \$999 million  
 \$300 million to \$499 million  
 \$150 million to \$299 million  
 \$0 to \$150 million

## Regional Breakouts

### BANKS

Midwest: IL, IN, MI, OH, WV, WI  
 Northcentral: IA, KS, MN, MO, NE, ND, SD  
 Northeast: CT, ME, MA, NH, NJ, NY, PA, RI, VT  
 Southeast: AL, DE, DC, FL, GA, KY, MD, MS, NC, SC, TN, VA  
 Southwest: AR, LA, NM, OK, TX  
 West: AK, AZ, CA, CO, HI, ID, MT, NV, OR, UT, WA, WY

### SAVINGS & LOANS

Midwest: AR, IA, KS, LA, MN, MS, MO, NE, OK, TN, TX, WI  
 Northeast: CT, DE, ME, MA, NH, NJ, NY, OH, PA, RI, VT, WV  
 Southern: AL, DC, FL, GA, IL, IN, KY, MD, MI, NC, PR, SC, VA, VI  
 West: AK, AZ, CA, CO, GU, HI, ID, MT, NV, NM, ND, OR, SD, UT, WA, WY

### CREDIT UNIONS

Albany: CT, ME, MA, MI, NH, NY, RI, VT  
 Capital: DE, DC, MD, NJ, PA, VA, WV  
 Atlanta: AL, FL, GA, IN, KY, MS, NC, OH, PR, SC, TN, VI  
 Austin: AR, IL, IA, KS, LA, MN, MO, NE, ND, OK, SD, TX, WI  
 Tempe: AK, AZ, CA, CO, GU, HI, ID, MT, NV, NM, OR, UT, WA, WY

### HOLDING COMPANIES

Midwest: IL, IN, MI, OH, WV, WI  
 Northcentral: IA, KS, MN, MO, NE, ND, SD  
 Northeast: CT, ME, MA, NH, NJ, NY, PA, RI, VT  
 Southeast: AL, DE, DC, FL, GA, KY, MD, MS, NC, SC, TN, VA  
 Southwest: AR, LA, NM, OK, TX  
 West: AK, AZ, CA, CO, HI, ID, MT, NV, OR, UT, WA, WY

