



**BANK ANALYTICAL REPORT**

**First State Bank of Kiowa Kansas**

**Kiowa, KS**

**Star Rating: \*\*\*\*\***

**Derived from Financial Data Reported as of March 31, 2010**

**[www.bauerfinancial.com](http://www.bauerfinancial.com)**

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Compiled from financial data as reported to federal regulators. Although the financial data obtained from these sources is consistently reliable, the accuracy and completeness of the data cannot be guaranteed by BauerFinancial Inc.

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## Introduction

The financial data used to prepare this report, unless otherwise noted, was compiled from data reported to the Federal Reserve Board (FRB) and distributed by the U.S. Department of Commerce. Although the information obtained from these sources is consistently reliable, the accuracy and completeness of this data cannot be guaranteed by BauerFinancial Inc.

In fact, an astute investor would agree, and experience has shown, that marginally performing institutions sometimes give themselves the benefit of the doubt when filing their reports. Our historical data helps us detect these variances.

## STAR RATING SYSTEM

BauerFinancial's star ratings classify each institution based upon a complex formula which factors in relevant data including, but not limited to: current capital levels, proposed regulations, profitability, historical trends, loan delinquencies, repossessed assets, reserves, regulatory compliance and asset quality. Negative trends are projected forward to compensate for the lag time in the data. We employ conservative measures when assigning these ratings and consequently our analysis may often be lower than those supplied by other analysts or the institutions themselves. Nearly twenty-five years of experience has shown this to be a prudent course of action. As a general guideline, however, the following groupings were used:

**\*\*\*\*\*** :Superior. These institutions are on BauerFinancial's Recommended Report.

**\*\*\*\*** :Excellent. These institutions are also on BauerFinancial's Recommended Report.

**\*\*\*1/2** :Good.

**\*\*\*** :Adequate.

**\*\*** :Problematic.

**\*** :Troubled.

**ZERO** :Our lowest rating.

**RSLVD** :Institutions that have been resolved or liquidated since the reporting date.

**S.U.** :Start-up bank. Institutions that are too new to rate.

Institutions with three or more stars meet all current regulatory capital requirements.

## PEER GROUPS

**Group 1-** Institutions with Domestic & Foreign Offices

**Group 2-** Domestic Offices only – Assets \$1 billion and up

**Group 3-** \$500 – 999 million

**Group 4-** \$300 – 499 million

**Group 5-** \$200 – 299 million

**Group 6-** \$100 – 199 million

**Group 7-** \$50 – 99 million

**Group 8-** \$25 – 49 million

**Group 9-** \$0 – 24 million

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**A. ABBREVIATED FINANCIAL STATEMENTS**

**Balance Sheet: (\$ millions)**

**Assets:**

Cash & Due From Banks	2.561
Securities & Fed Funds Sold	14.069
Loans (net)	29.709
Real Estate Owned	0.000
Premises & Fixed Assets	0.260
Investments in Subsidiaries	0.000
Intangible Assets	0.000
Other Assets	1.131
	<u>1.131</u>
<b>Total Assets:</b>	<b>\$47.730</b>

**Liabilities & Owner's Equity:**

Non-Interest Bearing Deposits	6.930
Interest Bearing Deposits	32.709
Fed Funds Purch. & Repos	0.000
Subordinated Debt	0.000
Other Borrowed Money	2.302
Other Liabilities	0.596
Limited-Life Preferred Stock	0.000
	<u>0.000</u>
<b>Total Liabilities:</b>	<b>\$42.537</b>
Minority Interest in Consolidated Subsidiaries	0.000

**Owner's Equity**

Preferred Stock	0.000
Common Stock & Surplus	1.200
Retained Earnings	3.912
Net Unrealized Gain/Loss A.F.S. Securities	0.081
	<u>0.081</u>
<b>Total Equity:</b>	<b>5.193</b>
<b>Total Liabilities and Equity:</b>	<b>\$47.730</b>

**Income Statement (\$ millions)  
For the Calendar Year-to-date Ended March 31, 2010**

Interest Income:	0.573
Interest Expense:	0.136
	<u>0.136</u>
<b>Net Interest Income:</b>	<b>0.437</b>
(plus) Non-Interest Income	0.029
(plus) Gains (losses Securities Transactions)	0.000
(minus) Non-Interest Expense	0.264
(minus) Provisions	0.000
(minus) Tax Provision (per Call Report)	0.055
	<u>0.000</u>
<b>(plus) Other Income (Expense)</b>	<b>0.000</b>
<b>Net Income:</b>	<b>\$0.147</b>

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- B. CAPITAL ADEQUACY.** Current regulatory capital requirements include a tangible capital ratio (also known as the leverage capital ratio)  $\geq 4\%$  and a risk-based capital ratio  $\geq 8\%$ .

The risk-based capital ratio requirement of 8%, also includes a limitation that at least 4% of the 8% must be tier 1 capital (stock equity and retained earnings). We recommend that you avoid institutions that do not meet the regulatory requirements described above (rated two-star or below).

	<u>Bank</u>	<u>Peer Group</u>
Leverage Capital Ratio:	11.09%	11.71%
Tier 1 Risk-based Capital Ratio:	13.28%	18.12%
Total Risk-based Capital Ratio:	14.27%	19.21%
Regulatory Capital Classification:	WELL-CAPITALIZED	

- C. ASSET QUALITY.** The quality of an institution's assets is determined by two factors: what specifically is the asset and how does it relate to the entire portfolio. Asset quality can be the difference between survival and insolvency during periods of poor economic conditions. Please see page 2 for the Peer Group definitions.

An institution's capital adequacy can be greatly affected by repossessed assets and losses in the loan portfolio. Repossessed assets are recorded at their net realizable value (market value) or the loan balance, whichever is less. Realistically, however, there is great flexibility in the determination of "market value" and losses are often not recognized until the sale of the asset. Since we have no way of evaluating the collateral, a worst case judgment of a recovery rate of 50% is recommended. "Other Real Estate Owned" is included in this calculation.

Repossessed Assets/Net Worth:	0.0%
Nonaccrual Loans & Other Loans Past Due Over 89 Days/Net Worth:	0.0%
Nonperforming Assets/Net Worth + Reserves:	0.0%

The following five ratios describe the nonperforming assets and reserves in the bank's portfolio:

	<u>Bank</u>	<u>Peer Group</u>
Nonperforming Assets/Total Assets:	0.0%	1.91%
Delinquent Loans/Total Loans:	0.0%	2.27%
Repossessed Assets/Total Assets:	0.0%	0.58%
Net Year-to-Date Chargeoffs/Total Loans:	0.0%	0.12%
Loan Loss Reserve/Total Loans:	1.27%	1.66%

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- C. **ASSET QUALITY, Continued.** Generally speaking, the more risky loans in a bank's portfolio are construction, commercial real estate, and foreign loans. Local economic conditions cause regional variances. Individuals or businesses interested in obtaining a loan or line of credit should check that the bank is actively engaged in that type of lending. Undercapitalized banks may be required to limit their lending activity due to an effort to shrink their asset size (thus increasing their capital ratios).

	<u>Bank</u>	<u>Peer Group</u>
Construction & Land Development/Total Loans:	0.0%	4.19%
Secured by Farmland/Total Loans:	26.16%	12.45%
Secured by 1-4 Family Residences/Total Loans:	8.27%	26.72%
Commercial Real Estate/Total Loans:	6.43%	16.64%
Commercial & Industrial Loans/Total Loans:	56.19%	29.82%
Loans to Individuals/Total Loans:	2.93%	9.23%
Loans to Foreign Governments/Total Loans:	0.0%	0.0%
Other Loans/Total Loans:	0.02%	0.96%

Loans to executive officers, principal shareholders and their related parties (with or without collateral) are not unusual in the banking industry. However, excessive lending to insiders can lead to the downfall of a bank if the loans are not subject to the same arm's length underwriting standards as similar loans to other customers.

Loans to Insiders/Total Loans:	0.02%
Loans to Insiders/Total Net Worth:	0.1%

Intangible assets are acquired by various transactions in which the purchase price exceeds the book value. For example, a bank may buy a branch of another bank for more than its book value; the premium paid would be an intangible asset to the purchaser known as "goodwill". The leverage capital ratio on page 4 excludes most intangible assets.

Intangible Assets/Net Worth:	0.0%
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Investments in unconsolidated subsidiaries and related companies can be a drain on a bank's net worth. If the book value of the subsidiary declines, so does that of the bank.

Investments in Subsidiaries/Net Worth:	0.0%
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- D. LIQUIDITY.** Liquidity is the sum of marketable securities (at market value), Fed Funds sold, securities purchased under agreement to resell, and balances due from other banks – less deposits with account balances  $\geq$  \$100,000, interest bearing deposits in foreign offices, and borrowed money as a percent of total assets. A negative percentage indicates that the bank might be unable to meet major deposit withdrawals should they occur. (Ratio applies to banks only; the data required to calculate this ratio is not available for savings and loans.)

	<u>Bank</u>	<u>Peer Group</u>
Liquidity Ratio:	14.61%	7.59%

Each bank must make a decision in weighing investment risks against potential profitability. Generally, the loan portfolio is the most profitable asset of a bank; it is also one of the least liquid. The higher the Loans-to-Deposits ratio, the less able the bank is to meet large withdrawal requests without incurring additional debt.

	<u>Bank</u>	<u>Peer Group</u>
Loans to Deposits:	75.91%	69.04%

- E. GROWTH.** As a general rule, growth in a bank is considered normal and desirable. If the growth accelerates to a point where it becomes unmanageable, however, it can lead to a situation of capital inadequacy and/or unprofitability. Asset shrinkage could indicate a cutback in lending.

% Change in Assets (year):	16.59%
% Change in Equity (year):	5.83%

If an institution has to buy high-cost deposits in order to facilitate its growth, it may have to pay a higher rate for the funds than can be obtained on the asset side, thus negatively impacting earnings. Brokered deposits are a very expensive way to fund growth.

Brokered Deposits/Total Deposits:	0.0%
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- F. PROFITABILITY.** Standard measures of profitability are Return on Assets and Return on Equity which reflect the percentage of each that has been earned during the current period. The ratios facilitate comparisons between institutions and time periods, as the same dollar figure of net income may be good or bad, depending on the balance sheet of the institution. A higher return is good for shareholders but an annual return on assets over 1.3% could indicate relatively high rates on loans or other services. Borrowers should consider price comparisons with other healthy banks.

Current quarter's profit:	\$0.147 million
Year-to-date profit:	\$0.147 million
Year ended 12/31/09	\$0.525 million
Year ended 12/31/08	\$0.496 million

	<u>Bank</u>	<u>Peer Group</u>
Annualized Return on Assets:	1.28%	0.55%
Annualized Return on Equity:	11.47%	4.51%