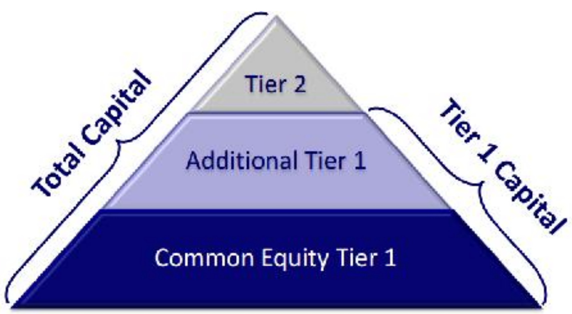
SIMPLIFYING COMPLEXITY

Financial Compass E-Learning Series

Basel III Changes in Financial Compass: Part I



Basel III Compass Changes - Overview

1. Reporting – changes and additions
2. New Accounts – how to customize
3. Risk Weightings – customize by month

Additional Information:

- **Basel III Changes in Financial Compass: Part II**
  Available in Client Area (Learning Center) or support@plansmith.com
- **Capital Management Webinar**
  Two sessions: 12/11/14 & 12/16/14
- **FDIC Presentation (Regulatory details)**
  https://www.fdic.gov/regulations/capital/sessions.html

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Reports with Capital Ratios

- Existing reports revised to show Basel III Capital Ratios:
  - **Income Statement** (with “Include Ratios” = Yes)
  - **Capital Adequacy**
- New report for Basel III Ratio Tracking:
  - **Capital Ratios**

Income Statement Report - Revised

SampleBank
Income Statement
FTE Adjusted

-----Multiple Rows Hidden-----

	*Jun 2014	*Jul 2014	*Aug 2014	*Sep 2014	Oct 2014	Nov 2014	Dec 2014
Selected Financial Ratios							
EOM Assets	352,568	356,907	362,081	353,698	356,748	357,246	357,745
Earning Assets Ratio	92.56	92.29	92.46	92.82	92.53	92.32	92.33
Equity/Asset Ratio	8.24	8.27	8.35	7.42	7.56	7.58	7.61
EOM Equity/EOM Total Deposits	8.28	8.26	8.34	8.94	9.16	9.19	9.23
Loan/Deposit Ratio	50.19	52.18	52.07	64.02	64.93	65.05	65.04
Loans/Assets	50.09	51.91	52.22	53.15	53.73	53.65	53.66
Loan Loss Res/Loans	3.21	3.07	2.97	2.36	2.36	2.35	2.35
Non-Taxable Asset Ratio	0	0	0	0	0	0	0
Demand/Total Deposits	21.34	21.45	21.08	26.07	26.17	26.17	26.17
Time/Total Deposits	35.18	35.01	33.37	40.28	40.73	40.73	40.73
Free Funds Ratio	3.64	4.71	4.49	24.04	23.94	23.77	23.82
Liquidity Ratio	41.11	38.88	39.77	17.94	17.84	17.91	17.98
Tier 1 Leverage Ratio	8.80	8.91	8.97	7.68	7.75	7.84	7.89
Common Equity Tier 1 Capital Ratio	13.05	12.69	12.81	10.76	13.69	13.41	13.16
Tier 1 Capital Ratio	13.05	12.69	12.81	10.76	13.69	13.41	13.16
Total Capital Ratio	14.32	13.95	14.07	12.02	14.95	14.67	14.42
Capital Conservation Buffer	6.32	5.95	6.07	4.02	6.95	6.67	6.42

Capital Adequacy Report - Revised

Asset Accounts	EOM Balance	Risk Based Capital Factor	Risk Weighted Assets
Total Assets	**264,863**		**155,192**
Commitments > 1 year	0	50%	0
Commitments < 1 Year	0	20%	0
Performance or Transaction LCs	1,500	50%	750
Financial Standby LCs	250	100%	250
Quarterly Average Assets	270,078	0%	0
Risk Weighted Assets	156,192	0%	0
50% of HVCRE	250	0%	0
-100% Non Accrl.1-4 Fam.Mort.	(327)	0%	0
Common Equity Tier 1 - base	25,505	0%	0
Pref.Stock	5	0%	0
Pref. Stock Surplus	2,495	0%	0
Tier 2 - base	0	0%	0
Limited ALLL	1,951	0%	0
Non Accrual Loans	250	0%	0
Accruing Loans 90+ Past Due	0	0%	0
CREO	0	0%	0
			1,000
			156,192
	50% of HVCRE		250
	-100% Non Accrl.1-4 Fam.Mort.		(327)
Total Risk Weighted Assets			**156,115**
		Tier 1 Leverage Ratio	**10.37%**
		Common Equity Tier 1 Capital Ratio	**16.34%**
		Tier 1 Capital Ratio	**17.94%**
		Total Capital Ratio	**19.19%**
		Capital Conservation Buffer	**11.19%**

Capital Ratios Report – NEW (Page 1)

SampleBank

Capital Ratios

	*Jun 2014	*Jul 2014	*Aug 2014	*Sep 2014	Oct 2014	Nov 2014
Common Equity Tier 1 - Basic	31.359	31.680	32.125	27.656	27.792	27.918
DTA Adjustment	0	0	0	0	0	0
MSA Threshold Adj	0	0	0	0	0	0
Common Equity Tier 1 Capital	**31.359**	**31.680**	**32.125**	**27.656**	**27.792**	**27.918**
NonQ Capital phased out	0	0	0	0	0	0
Additional Tier 1 Capital	**0**	**0**	**0**	**0**	**0**	**0**
Total Tier 1 Capital	**31,359**	**31,680**	**32,125**	**27,656**	**27,792**	**27,918**
Tier 2 - Base	0	0	0	0	0	0
Limited ALLL	3.036	3.153	3.167	3.228	2.563	2.626
Tier 2 Minority Interest	0	0	0	0	0	0
Tier 2 Capital	**3,036**	**3,153**	**3,167**	**3,228**	**2,563**	**2,626**
Total Capital	**34,395**	**34,833**	**35,292**	**30,884**	**30,355**	**30,544**
Quarterly Average Assets	356.175	355.481	358.146	359.509	359.543	356.907
Adj to Avg Assets	0	0	0	646	-900	-900
Total Assets for the Leverage Ratio	**356,175**	**355,481**	**358,146**	**360,155**	**358,642**	**356,007**
Risk Weighted Assets	242.899	252.240	253.328	253.119	256.018	256.363
HVCRE Adjustment	0	0	0	5.115	-51.000	-46.308
Addl 50% RW for Assets 90+	0	0	0	0	0	0
Total Risk Weighted Assets	**242,899**	**252,240**	**253,328**	**258,234**	**205,018**	**210,056**
Disallowed Reserve	-2.680	-2.506	-2.494	-1.272	-1.937	-1.874
Net Risk Weighted Assets	**240,218**	**249,734**	**250,835**	**256,962**	**203,080**	**208,181**
Tier I Leverage Ratio	**8.80%**	**8.91%**	**8.97%**	**7.68%**	**7.75%**	**7.84%**
Common Equity Tier 1 Capital Ratio	**13.05%**	**12.69%**	**12.81%**	**10.76%**	**13.69%**	**13.41%**
Tier 1 Capital Ratio	**13.05%**	**12.69%**	**12.81%**	**10.76%**	**13.69%**	**13.41%**
Total Capital Ratio	**14.32%**	**13.95%**	**14.07%**	**12.02%**	**14.95%**	**14.67%**
Capital Conservation Buffer	**6.32%**	**5.95%**	**6.07%**	**4.02%**	**6.95%**	**6.67%**

Capital Ratios Report – NEW (Page 2)

SampleBank

Capital Ratios

	*Jun 2014	*Jul 2014	*Aug 2014	*Sep 2014	Oct 2014	Nov 2014
Common Equity Tier 1 Capital Ratio	13.05%	12.69%	12.81%	10.76%	13.69%	13.41%
CET1 less CET1 Minimum plus Buffer	9.05%	8.69%	8.81%	6.76%	9.69%	9.41%
Tier 1 Capital Ratio	13.05%	12.69%	12.81%	10.76%	13.69%	13.41%
Tier 1 less Tier 1 Minimum plus Buffer	7.55%	7.19%	7.31%	5.26%	8.19%	7.91%
Total Capital Ratio	14.32%	13.95%	14.07%	12.02%	14.95%	14.67%
Total Capital less Total Capital Minimum plus Buffer	6.32%	5.95%	6.07%	4.02%	6.95%	6.67%
Capital Conservation Buffer	6.32%	5.95%	6.07%	4.02%	6.95%	6.67%

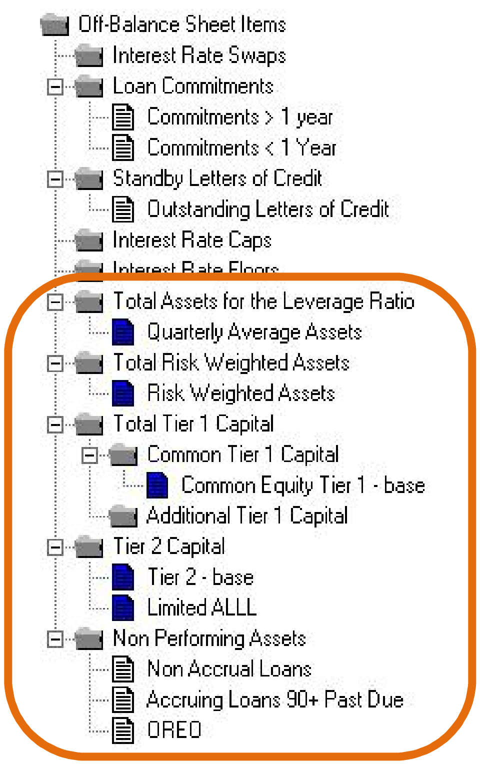
CAPITAL CONSERVATION BUFFER TABLE

	2014	2015	2016	2017	2018	2019
Common Equity Tier 1 plus Capital Conservation Buffer	4.00%	4.50%	5.13%	5.75%	6.38%	7.00%
Minimum Tier 1 Capital plus Capital Conservation Buffer	5.50%	6.00%	6.63%	7.25%	7.88%	8.50%
Minimum Total Capital plus Conservation Buffer	8.00%	8.00%	8.63%	9.25%	9.88%	10.50%

Basel III Compass Changes - Overview

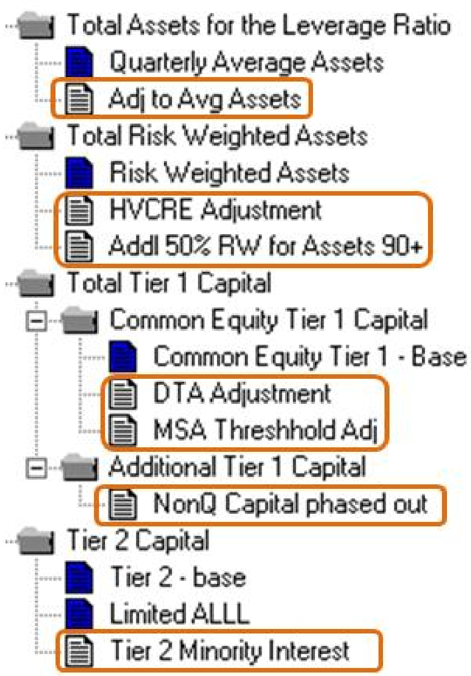
1. Reporting – changes and additions
2. New Accounts – how to customize
3. Risk Weightings – customize by month

New Folders – Chart of Accounts



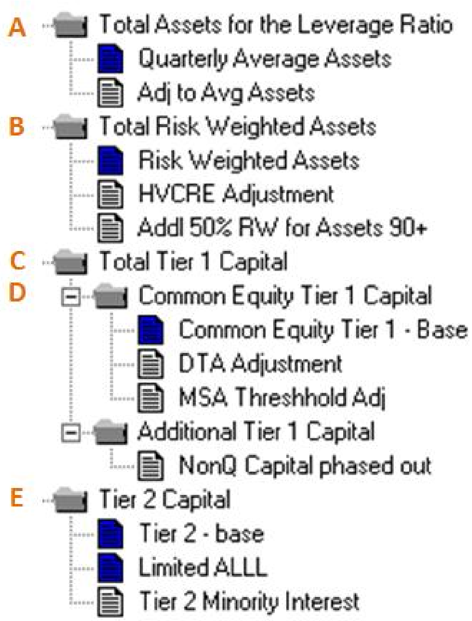
- **The grey folders and the blue accounts noted on the left are *automatically* burst out to all plans opened in the latest version of Compass**
- **Blue account numbers are *automatically calculated* by Compass and cannot be edited**
- **Ratios are calculated using the grey folder sub-totals**

New Folders – Adjustment Accounts



- **EXAMPLES of accounts that <u>can</u> be added to the grey folders to house custom adjustments**
- **No accounts <u>must</u> be added**

Ratio Summary



RATIO SUMMARY:

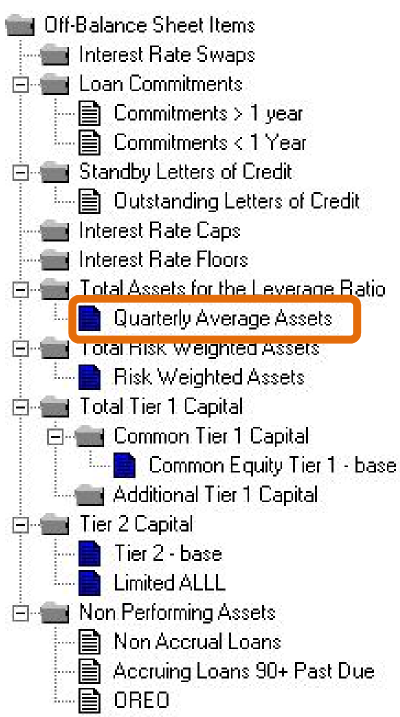
Tier 1 Leverage Ratio = C / A

CET1 Capital Ratio = D / B

Tier 1 Capital Ratio = C / B

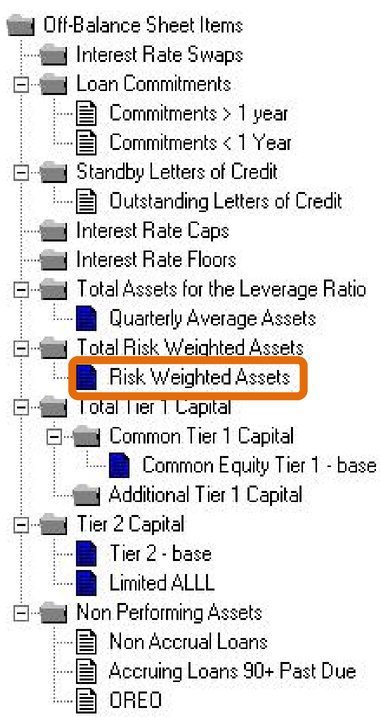
Total Capital Ratio = (C + E) / B

New Categories – Calculated Accounts



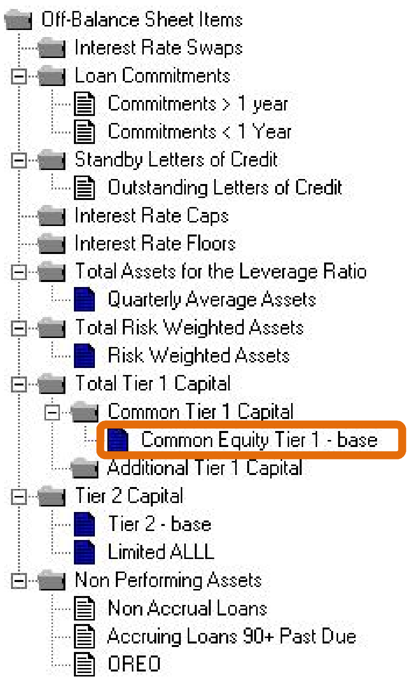
- **Calculated Account**
  = (Last 3 MTD Average Assets) / 3

New Categories – Calculated Accounts



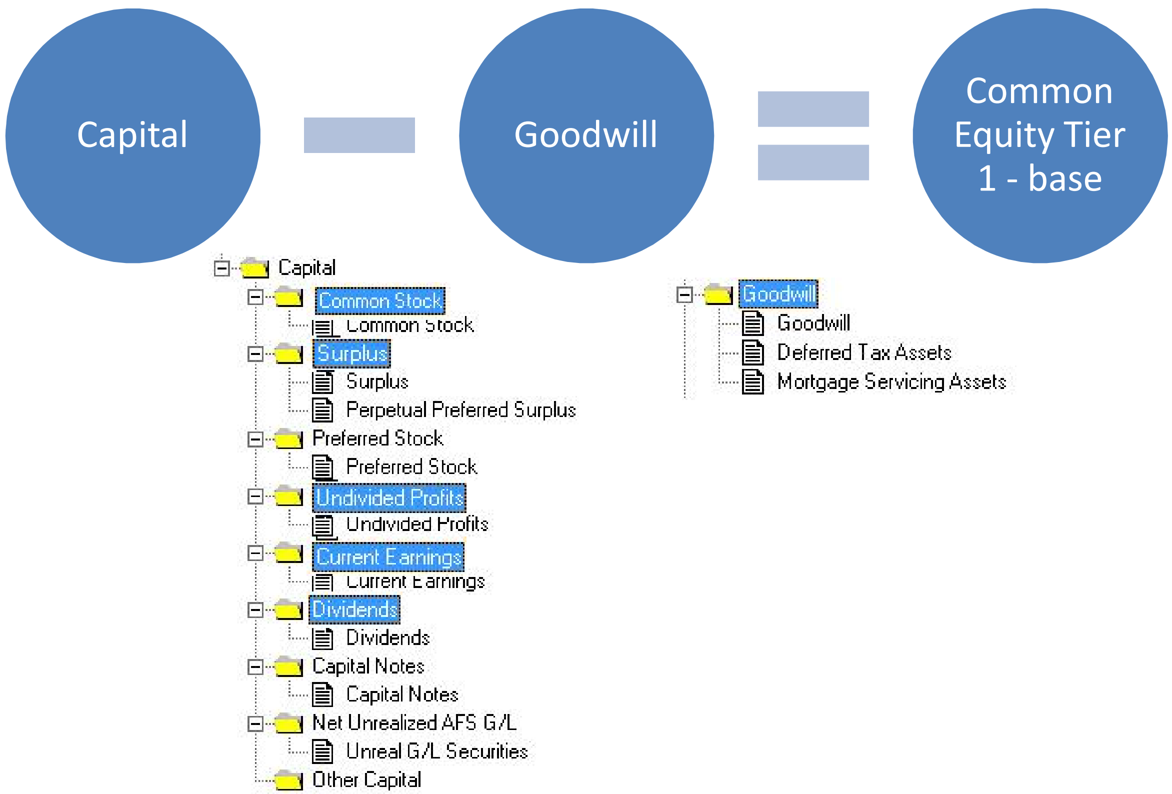
- **Calculated Account**
- **Sum of Risk Weighted Value for each Asset Account**
- **Review *Capital Adequacy* Report for details**

New Categories – Calculated Accounts



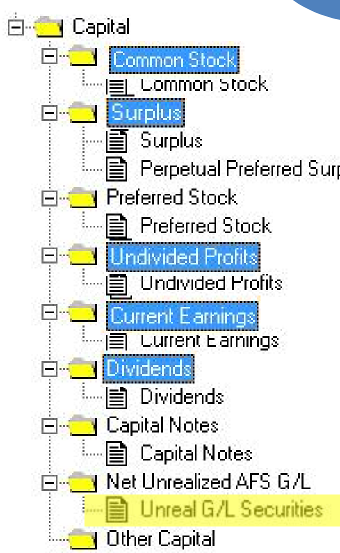
- **Calculated Account**
- **Review *Capital Class* wizard settings for details**

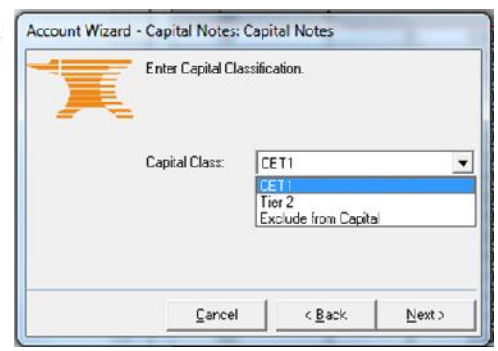
Common Equity Tier 1 - base



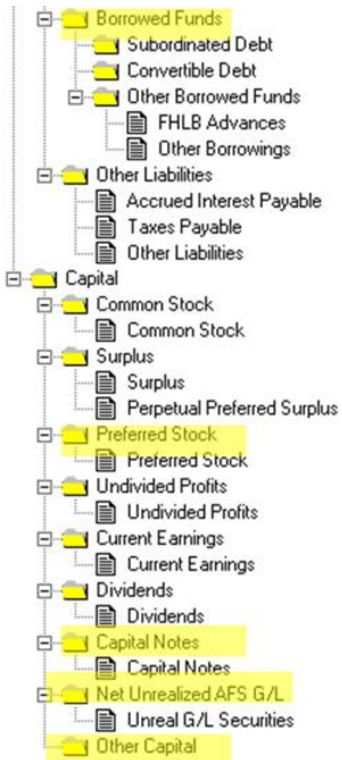
Common Equity Tier 1 - base

Capital − Goodwill = Common Equity Tier 1 - base



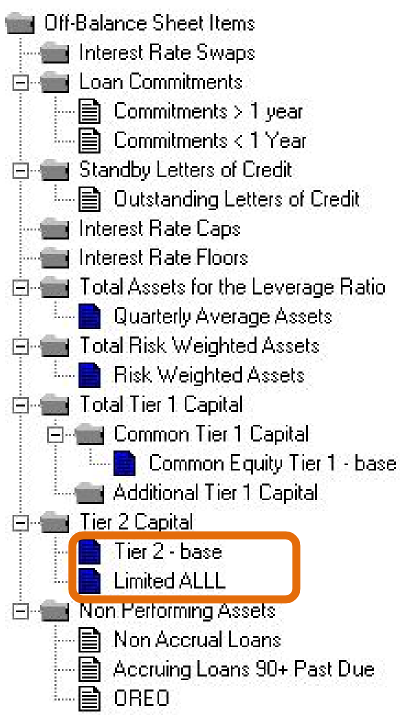


Capital Class Options



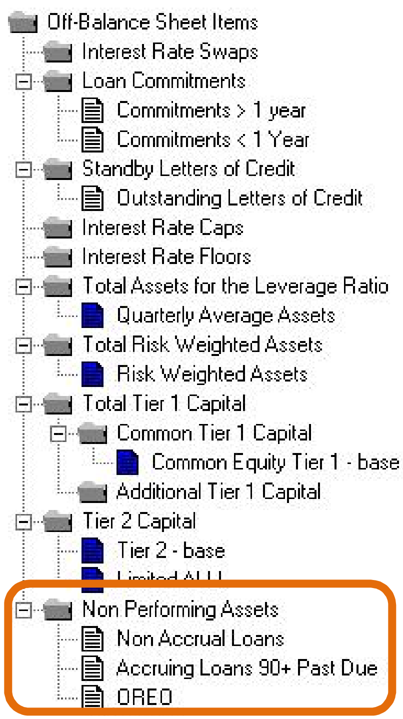
You can choose the Capital Class for all accounts within the highlighted folders

New Categories – Calculated Accounts



- **Calculated Accounts**
- **Tier 2 – review *Capital Class* settings**
- **Limited ALLL – based on lower of ALLL or 1.25% of RWA**

New Categories – Calculated Accounts

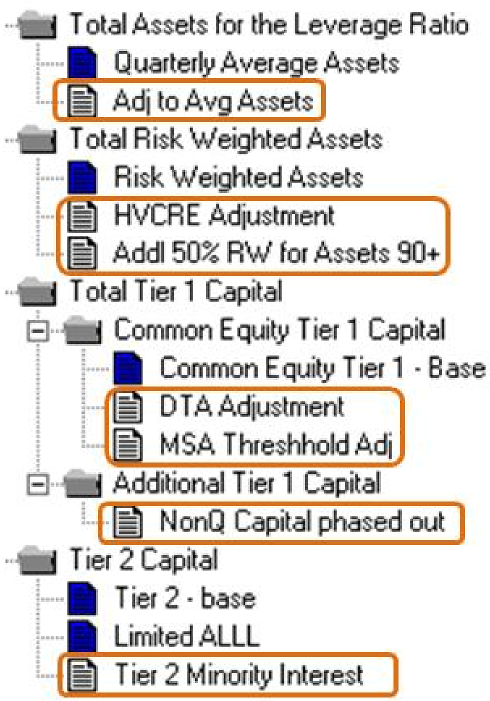


New Accounts Summary

	QUARTERLY AVERAGE ASSETS	RISK-WEIGHTED ASSETS	CET1	TIER 2	LIMITED ALLL
Automatically Calculated?	Yes	Yes	Yes	Yes	Yes
How?	Average of last 3 months	Sum of RW assigned to each Account	Standard Accounts + Capital Class setting	Via Capital Class setting	Lower of ALLL or 1.25% of RWA
Customizable?	Yes	Yes	Yes	Yes	No
Tier 1 Leverage Ratio	Included				
Common Equity Tier 1 Capital Ratio		Included	Included		
Tier 1 Capital Ratio		Included	Included		
Total Capital Ratio		Included	Included	Included	Included
Capital Conservation Buffer		Included	Included	Included	Included

Review the Account Wizard setting for each account in the Capital category to verify that each account is included in the appropriate Capital category

Sample Custom Accounts

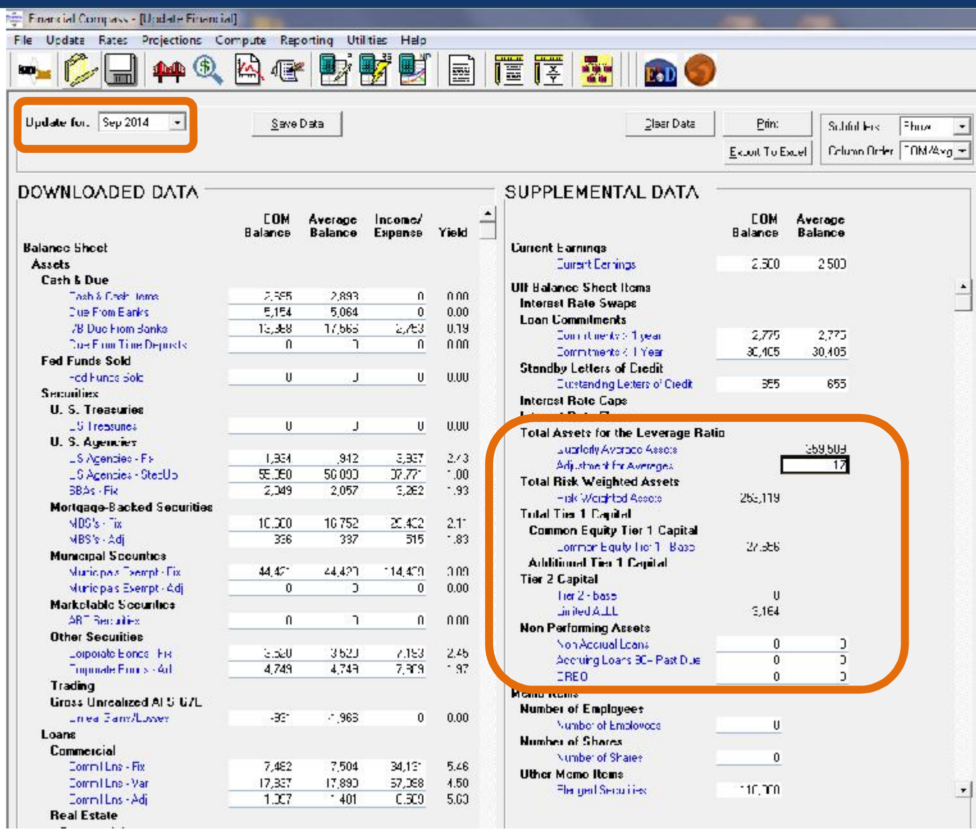


- **EXAMPLES of accounts that <u>can</u> be added to the grey folders to house custom adjustments**
- **No accounts <u>must</u> be added**

Two Reasons to Add Custom Accounts

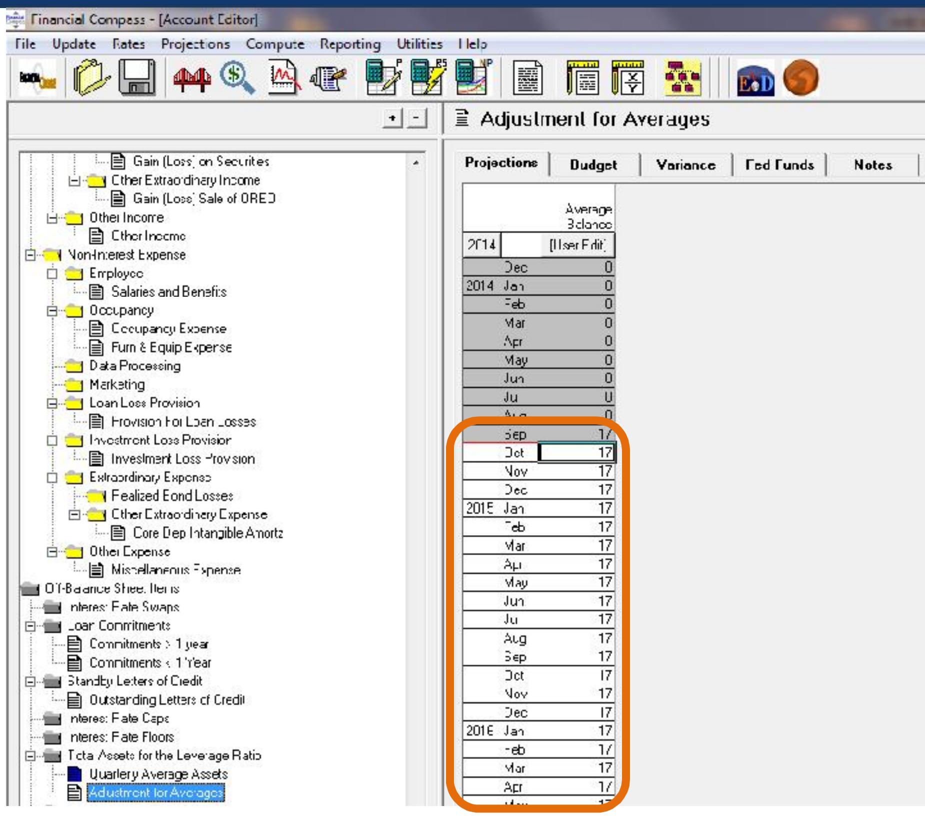
1. Make minor adjustments to tie out to your Call Report
2. Capture additional detail that is not broken out on your General Ledger

Edit History Data – Update Financial



- Same procedure as editing other accounts for history
- Blue folder accounts are <u>not</u> editable

Editing Forecast Data



- Same procedure as editing other accounts for history
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Basel III Compass Changes - Overview

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3. Risk Weightings – customize by month

Custom Risk Weighting

Each Asset account is already assigned a
Risk Weighting – adjust for new Basel III weights only

- New option – customizable by month

Custom Risk Weighting Options

1. Use the Account Wizard to choose a **Custom RBC Factor**

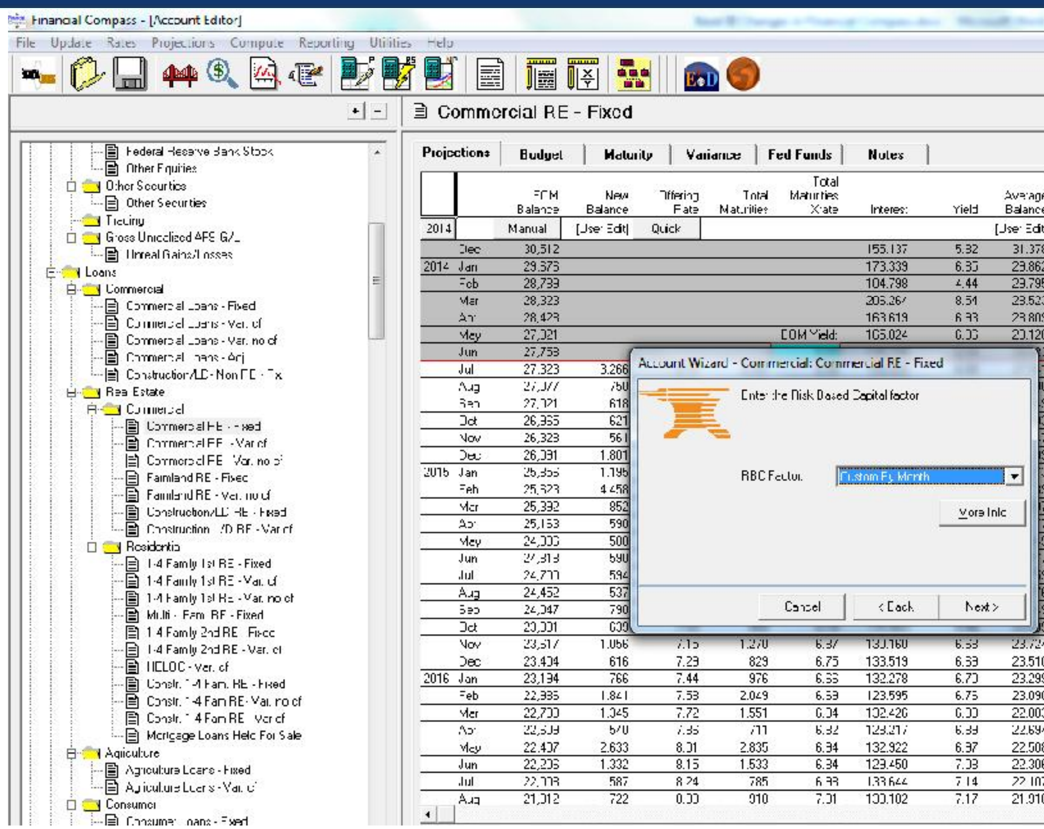
   or

2. Create an **Adjustment Account** under the “Total Risk Weighted Assets” section in the Off-Balance Sheet Items area

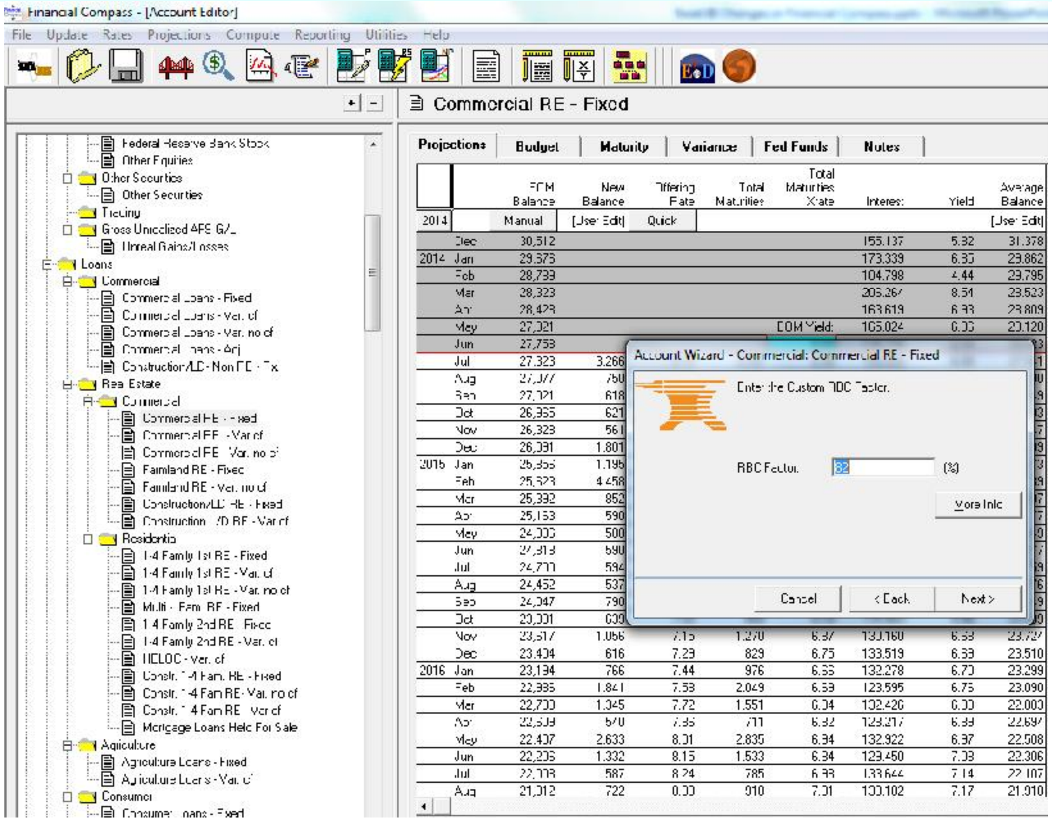
   or

3. Use the Account Wizard and choose **“Custom by Month”** to open the **“RBC Factor”** tab. Input RBC Factors that vary by month

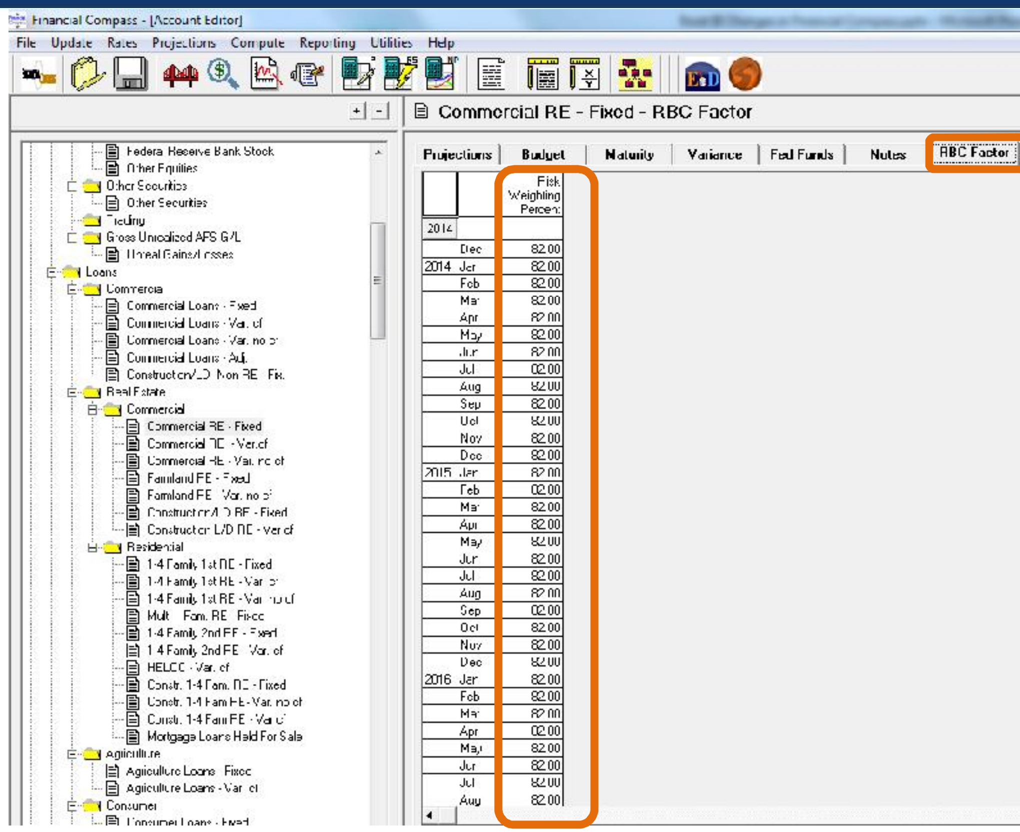
Custom Risk Weighting Options



Custom Risk Weighting Options



Custom Risk Weighting Options



Capital Adequacy Report - Revised

SampleBank
Capital Adequacy
As of the end of September, 2014

Asset Accounts	[illegible] Balance	Risk Based Capital Factor	Risk Weighted Assets
Cash & Cash Items	[illegible]	0%	0
Due From Banks	5,154	20%	[illegible]
MBE's - Fix	6,38[illegible]	20%	3,336
MBES - Adj	[illegible]	20%	[illegible]
Municipals Exempt - Fix	44,421	20%	8,884
[illegible] Funds - Fix	3,[illegible]	100%	3,520
Comm'l Lns - Var	[illegible]	100%	17,837
Comm'l Lns - Adj	[illegible]	100%	[illegible]
Comm'l R/E - Fix	34,734	150%	52,[illegible]
Comm'l R/E - Adj	[illegible]	100%	[illegible]
Ag R/E - Fix	7,421	100%	7,4[illegible]
Ag R/E - Adj	[illegible]	100%	16,7[illegible]
R/E Construction - Fix	[illegible]	100%	10,4[illegible]
Equity Stocks	3,847	100%	3,847
Other Assets	5,993	100%	5,998
Total Assets	**353,699**		**249,689**
Commitments > 1 year	2,775	100%	2,775
Commitments < 1 Year	30,[illegible]05	0%	0
Outstanding Letters of Credit	655	100%	655
			3,430
			253,119
	HVCRE Adjustment		5,115
Total Risk Weighted Assets			**258,234**
Disallowed Reserve			-1,272
Net Risk Weighted Assets			**256,962**
		Tier 1 Leverage Ratio	**7.68%**
		Common Equity Tier 1 Capital Ratio	**10.76%**
		Tier 1 Capital Ratio	**10.76%**
		Total Capital Ratio	**12.02%**
		Capital Conservation Buffer	**4.02%**

- Review Capital Adequacy Report
- Review Risk Weightings for each account
- Review Adjustments Accounts added

(multiple rows are hidden in the example on the left)

Basel III – Recap of Changes

1. Reporting – changes and additions
2. New Accounts – how to customize
3. Risk Weightings – customize by month

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PLANSMITH SIMPLIFYING COMPLEXITY

THANK YOU

IF YOU HAVE QUESTIONS,

PLEASE CALL:

1-800-323-3281

support@plansmith.com