

Memorandum on findings

BANK OF ENGLAND

123 SOUTH MAIN STREET
ENGLAND, Arkansas 72046

STAR RATING: 5 ★★★★★

Predictive Indicator neutral

As of September 30, 2010

Federal Reserve System Identifier 244149

INTRODUCTION

U.S. commercial banks are chartered under either federal or state jurisdiction for the purposes of accepting funds for deposit and extending loans to either individual or business borrowers. Banks are subject to credit, interest rate, and operational risk, and, because of both their public purpose and their importance to the nation's economy, banks are the object of intense regulatory scrutiny.

The Bankrate proprietary commercial bank rating model analyzes capitalization, asset quality, earnings, and liquidity and produces composite and component "Star" ratings that can be used as a measure of the rated entity's financial safety and soundness. Additionally, early warning components of the model highlight operating characteristics of immediate concern and recommended follow-up actions. "The analyses are not adjusted for TARP funding and those institutions receiving funds may receive ratings that would differ were the TARP funds adjusted out of the analyses. You can check whether or not this institution has received TARP funding and whether or not they have paid it back at <http://bailout.propublica.org/main/list/index>."

INSTITUTIONAL HIGHLIGHTS

Institution Name	BANK OF ENGLAND
Report Date	September 30, 2010
Report Period	9 months
Star Composite Rating, Percentile Rank	5 /93.96
Predictive Indicator	neutral
Earnings Rating, Percentile Rank	5 /94.01
Asset Quality Rating, Percentile Rank	5 /86.06
Capital Rating, Percentile Rank	4 /63.98
Liquidity Rating, Percentile Rank	4 /77.50
Institution Asset Size	212.7020 million
Deposits	185.0490 million
Loans	127.9160 million
Equity	21.2870 million
Net Profit/Loss	3.0130 million

Component star rating: 5 ★★★★★

Component highlights earnings highlights

Bank profitability is critical to building capital, establishing adequate loss reserves, and providing dividends to shareholders.

Key Earnings information and ratios:	Ratio (%)	Assessment
Return on Equity	19.82	Very Healthy
Net Interest Margin	5.57	Strong
Level of Non-interest Income (1)	13.05	Solid
Overhead (1)	13.77	Significantly Higher Than Average

(1) = As a percentage of average assets

Note: All ratios are based on the latest four quarters of income and expense

Component star rating: 5 ★★★★★

Asset quality highlights

Asset quality is a major determinant of the viability of any banking institution. Poor asset quality will have a very direct impact upon the other components and bank regulators invest substantial amounts of time and resources in gauging the quality of a bank's loans and investments.

Key Asset Quality information and ratios:	Ratio (%)	Assessment
Nonperforming Asset Ratio (2)	10.65	Relatively Low
Loss Reserve Coverage (3)	169.98	Much Better Than Normal
Loan Yield	7.90	Conservative
Asset Growth Rate	7.80	Normal

(2) = Nonperforming Assets/Equity plus Loss Reserves (3) = Loan Loss Reserves/Nonperforming Loans

Component star rating: 4 ★★★★★

Capital highlights

Bank capitalization stands as a protection against loss for bank customers, creditors, shareholders, and the Federal Deposit Insurance Corporation (FDIC). Regulators place a high degree of importance upon assessments of capitalization and assign regulatory benchmarks as determinants of capital adequacy.

Key measures of Capital Adequacy:	Ratio (%)	Assessment
Net Worth to Total Assets	10.01	Approximates Peer Norm
Regulatory Capital Ratio	13.67	Substantially Exceeded Requirement

Component star rating: 4 ★★★★★

Liquidity highlights

Liquidity provides funding for normal bank operations and represents a reserve for unanticipated disintermediation. Liquidity can be both an asset and a liability concept.

Key measures of Liquidity:	Ratio (%)	Assessment
Balance Sheet Liquidity	9.83	Below Normal
Purchased Liabilities	29.45	Somewhat Greater Than Average Dependence

Early warning highlights

Early warning indicators identify areas of potential concern, which may lead to financial deterioration and thus, require inquiry or in-depth investigation. For this bank we have noted:

Overhead

Farm Loans

Purchased Liabilities

Institution Commentary

OVERVIEW of Institution

Organized in 1898, BANK OF ENGLAND is a state chartered commercial bank, which, as of September 30, 2010, reported \$212.7020 million in total assets. At that date, loans and deposits held by the bank amounted to \$127.9160 million and \$185.0490 million, respectively. The bank's September 30, 2010 equity base of \$21.2870 million produced an Equity/Assets ratio of 10.01%, as of that date.

COMPOSITE SUMMARY

Bankrate believes that, as of September 30, 2010, this bank exhibited a superior condition, characterized by very solid overall, sustainable profitability, a very high measure of asset quality, strong capitalization and seemingly ample liquidity.

EARNINGS ANALYSIS

For the twelve months ended September 30, 2010, the bank recorded net income of \$3.8790 million. The bank experienced a return on average assets (ROA) of 1.93% over the latest four quarters. Year earlier twelve month results amounted to a net profit of \$2.4840 million, or a 1.37% ROA over the most recent four quarters at that time. An ROA of at least 1.0% is deemed satisfactory in accordance with banking industry standards, and the industry's ROA for the first nine months of 2010 was approximately 0.54%. We have

concluded that for the four quarters ending September 30, , the bank achieved a very healthy return on equity. We deem net interest margin to have been strong. Noninterest income was solid. We also observed overhead ratios that were significantly higher than average, and the composition of overhead should be thoroughly analyzed. Importantly, net interest margins, noninterest income components, and overhead expense levels represent operating factors that combine to impact overall operating results. We have also noted that the bank's profitability improvement between the first nine months of 2009 and the first nine months of 2010 well exceeded the banking industry peer comparison.

ASSET QUALITY ANALYSIS

The bank revealed, as previously stated, a very high measure of asset quality. Our conclusion with respect to asset quality incorporates our analysis of data depicting regional economic conditions as well as our computations of a relatively low September 30, 2010 nonperforming asset ratio, much better than normal reserve coverage for nonperforming loans, and apparently acceptable quality, or no greater than average, holdings of commercial real estate and construction loans, two categories that can intensify credit risk.

Other asset categories, such as farm and consumer loans, which may carry more than usual default potential, should not have a substantial negative impact upon future results.

Farm loan exposure does warrant information regarding crop and livestock conditions as well as analyses of category performance and loss reserve adequacy.

Loan yield can measure financial reward versus credit risk. Excessive loan yield may be an indicator of existing or future problems. Our loan review indicates that the bank has assumed a seemingly prudent position between credit risk and financial reward.

CAPITAL ANALYSIS

For the one year period ended September 30, 2010, the bank reported a strong rate of rate of growth in equity capital. Balance sheet structural changes, through the one year period of time ended September 30, 2010, have highly improved the bank's capital position. Our analytical methodology does take into account the quantity, quality, and durability of net worth, and, as set forth above, we have determined, based upon our series of tests, that the bank demonstrates strong capitalization. We have calculated the bank's September 30, 2010 Total Risk-Based Capital position, a computation used by industry regulators, and have concluded that this bank substantially exceeded the requirement, set by regulation, for this test.

LIQUIDITY ANALYSIS

As of September 30, 2010, the bank displayed Below Normal balance sheet liquidity and a Somewhat Greater Than Average Dependence upon wholesale, or non-core liabilities, which include all borrowings, such as Federal Home Loan Bank Advances, and CD's greater than \$100,000. Accordingly, an inquiry into funds acquisition strategies should be undertaken.

Accounting principles require some securities to be categorized as "Available-for-Sale." Changes in market value of these securities are reflected through the GAAP (Generally Accepted Accounting Principles) net worth of the institution. Based upon the bank's present balance sheet, changes in the value of the current level of securities reported as "Available-for-Sale" might not have a substantial impact upon future net worth of the bank.

INSTITUTION SUMMARY

This bank has been rated superior.

Positive factors that impacted that rating follow:

- Earnings
- Asset Quality

As noted previously, early warning indicators, possibly requiring specific investigation include:

- Overhead
- Farm Loans
- Purchased Liabilities

PREDICTIVE INDICATOR

As stated, we have determined a composite Star rating for this bank of 5 ★★★★★, indicative of a superior financial condition. At times, financial conditions of banks change rapidly and significantly. Hence, our Safe & Sound Star ratings should not be deemed predictive of likely future ratings. However, in view of early warning indicators set forth within this report, in combination with the institution's financial data, we believe that the Star rating for this institution is unlikely to change within the ensuing twelve month period.

Read more: [Bankrate.com Safe & Sound \(tm\) Bank, Thrift and Credit Union rating feature http://www.bankrate.com/rates/safe-sound/memorandums-memos.aspx?fedid=244149#ixzz1GlgAVajn](http://www.bankrate.com/rates/safe-sound/memorandums-memos.aspx?fedid=244149#ixzz1GlgAVajn)