



2008 Annual Development Banking Conference
November 6-7, 2008

Mergers, Acquisitions & Valuation
8:30 am – 10:00 am

Moderator: George Surgeon
Chief Financial Officer, ShoreBank Corporation, IL

Panelists: Anita Robinson
President & CEO, Mission Community Bank, CA

Dan Floyd
Principal, Investment Banking, Keefe, Bruyette & Woods, Inc.

Bill Wilhelm
Executive, Crowe Chizek

November 7, 2008 www.ncif.org

Confidential Presentation Materials for:



Banking Industry Update

November 6 & 7, 2008



KEEFE, BRUYETTE & WOODS
Daniel D. Floyd, *Principal*

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Overview of Current Banking Environment



KEEFE, BRUYETTE & WOODS

Current Market Update

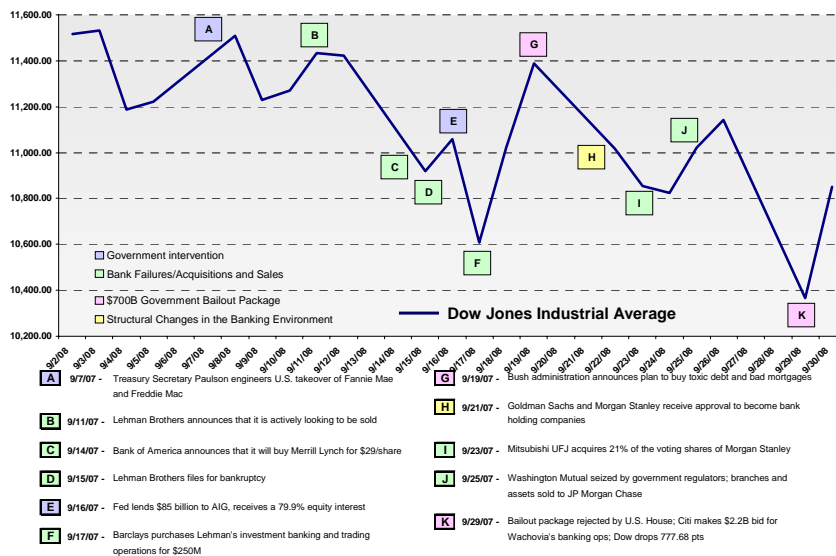
- ❑ **Massive Writedowns and Credit Losses Across the Financial Industry**
 - World's largest financial companies have reported at least \$591B in writedowns and credit losses since the beginning of last year (Bloomberg as of 9/29/08)
- ❑ **Federal Reserve's Aggressive Rate Reductions from 2Q07 through 2Q08**
 - From August 2007 through May 2008, the Federal Reserve reduced the federal funds rate by 375 bps from 5.25% to 1.50% and the discount rate by 450 bps from 6.25% to 1.75%
 - Most recent 50 bps cut comes on October 8th between FOMC meetings, in conjunction with emergency cuts by the European Central Bank and the Bank of England
- ❑ **Credit Crunch Resulting in Turmoil for Financial Institutions**
 - Collapse of Bear Stearns and subsequent sale to JP Morgan
 - Failure of IndyMac (32.3B in assets), second largest thrift failure in U.S. history
 - GSEs placed under conservatorship
 - Lehman Brothers filing for bankruptcy on 9/15/08
 - Bank of America's acquisition of Merrill Lynch
 - Bailout of AIG by the Treasury
 - Goldman Sachs and Morgan Stanley file to become bank holding companies
 - Mitsubishi Financial acquires 21% ownership interest in Morgan Stanley
 - \$700B bank bailout
 - Washington Mutual failure; Government assisted purchase by JP Morgan
 - Citi backs down, Wells Fargo to acquire Wachovia
- ❑ **Money Center Banks Have Received Unprecedented Capital Infusions in Various Forms**

	Citigroup	Merrill Lynch	UBS	Bank of America	WAMU	Morgan Stanley	JP Morgan	National City
Writedowns and Losses	\$68.1B	\$58.1B	\$44.2B	\$27.4B	\$45.6B	\$15.7B	\$20.5B	\$6.3B
Capital Raised in Response*	\$74.0B	\$29.9B	\$31.4B	\$55.7B	\$12.1B	\$24.6B	\$44.7B	\$8.9B
Excess (Insufficient) Capital Raised	\$5.9B	(\$28.2B)	(\$12.8B)	\$28.3B	(\$33.5B)	\$8.9B	\$24.2B	\$2.6B

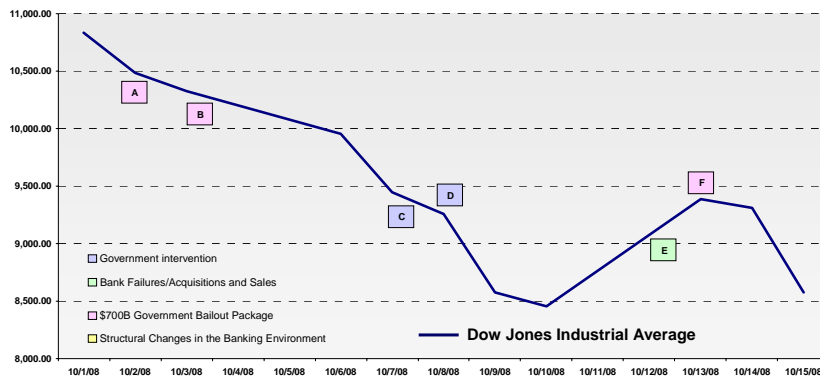
Source: Bloomberg LP as of 10/23/08. * TARP capital included.



September Timeline - The Fallout of a Financial Crisis



October Timeline - The Fallout of a Financial Crisis

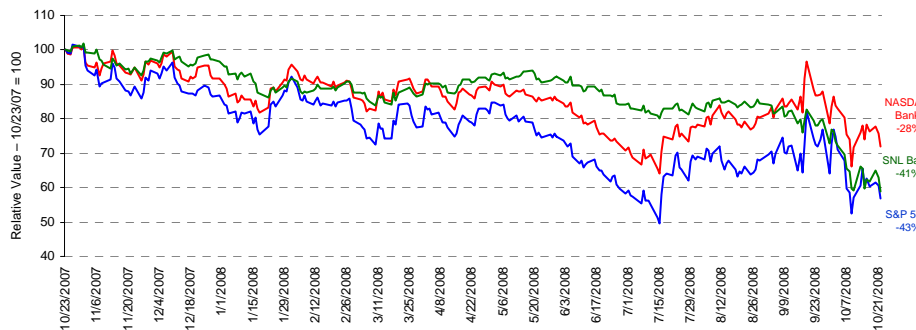


- A** 10/2/08 - U.S. Senate approves bailout plan, 74-25
- B** 10/3/08 - U.S. House approves bailout package, 263-171; Wells Fargo announces intent to purchase all of Wachovia for \$15.1B
- C** 10/7/08 - Fed will buy commercial paper directly from eligible issuers in an attempt to provide liquidity to term funding markets
- D** 10/8/08 - Fed lends directly to U.S. companies for the first time since the Great Depression; Coordinated global interest rate cut
- E** 10/12/08 - Federal Reserve approves Wells Fargo's purchase of Wachovia Bank
- F** 10/13/08 - As part of the Troubled Asset Relief Program (TARP), government will inject \$250 billion of equity into financial institutions



Relative 1 Yr Price Performance

Indices vs. Company Price Performance



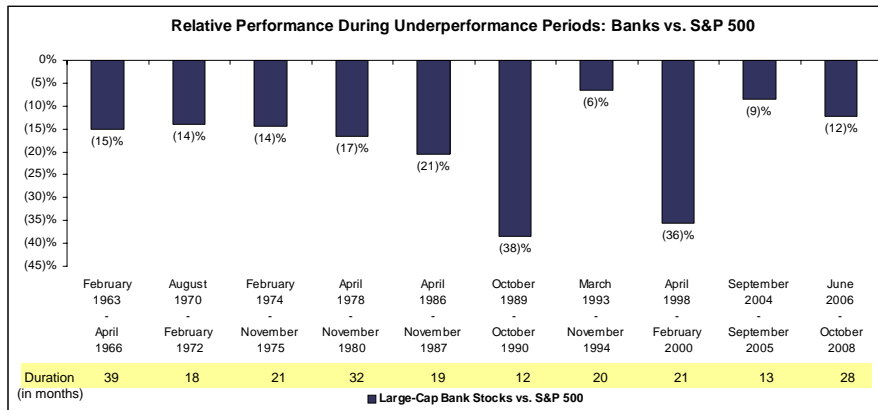
Fed Fund Rate Cuts	
Rate	Out (bp)
9/18/07	50
10/31/07	25
12/11/07	25
1/22/08	75
1/30/08	50
3/18/08	75
4/30/08	25
10/8/08	50
	375

- Beginning in early September 2007, Fed Funds rate target has fallen 325 basis points from 5.25% to a current rate of 2.00%
- Bank stocks have underperformed the S&P 500 each of the last 4 years
- Early 2007 economic indicators begin to show weakening in US economy, including housing market



Source: SNL Financial.

Underperformance Cycles

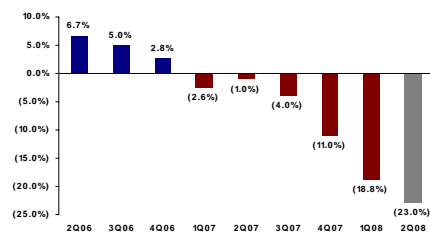


Source: KBW Research.

Bank Earnings Growth Trends

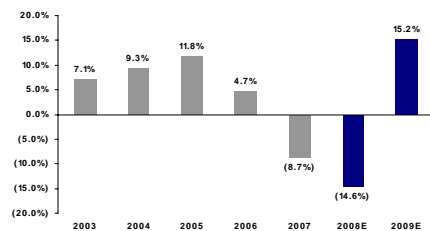
Year-Over-Year Earnings Growth by Quarter (%)

- Second quarter earnings trends for financials were expected to be the worst sector of the S&P
- Bank earnings do not appear to be at trough levels as the rate of decline continues to increase



Annual Earnings Growth (%)

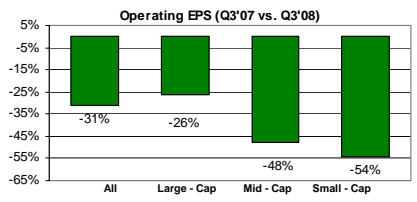
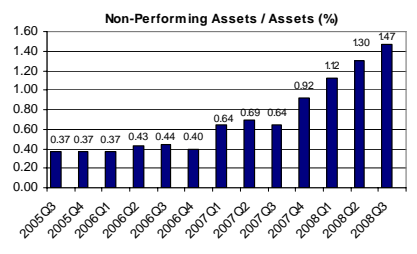
- Prior to the reporting of second quarter earnings, analysts' EPS estimates implied year-over-year earnings declines will lessen in the second half of 2008 before rebounding in 2009
- This forecast could prove to be too optimistic if the economy tips into a deep recession, driving losses in additional asset classes
- Ahead of second quarter earnings, KBW analysts' EPS estimates were 5-6% below consensus for 2008 and 2009



Source: KBW Research
Note: Based on mid and small cap banks and thrifts covered by KBW Research

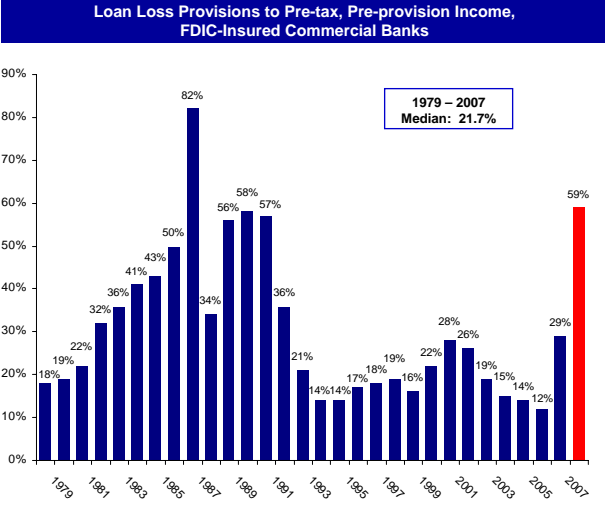
3rd Quarter Highlights

- ❑ Rapid credit deterioration
 - NPAs / Assets increased 67 bps year over year and 17 bps quarter over quarter to 1.47% on a median basis
 - Reserves / Loans increased 20 bps year over year and 5 bps quarter over quarter to a median 1.46%
- ❑ Margins may have finally bottomed
 - The median NIM stayed flat quarter over quarter, remaining at 3.30%
- ❑ Profitability continues to decline
 - ROA declined 51 bps annually to 0.61% on a median basis
- ❑ Loan growth remains healthy despite slowing economy
 - Average loans grew by a median of 7% but deposit growth slowed to 5% on an annualized basis
- ❑ Fewer misses due to lower expectations
 - 49% of banks under KBW coverage have beat their consensus estimates thus far



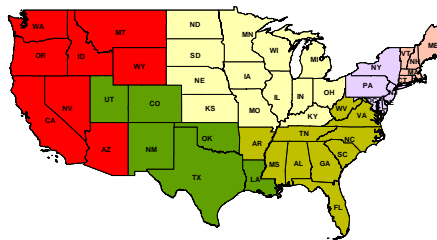
Normalized Credit

- Provisions between 2004 and 2006 were at historic lows
- In 2007 and 2008 YTD, provisions increased substantially, and we expect this to be a continuing trend

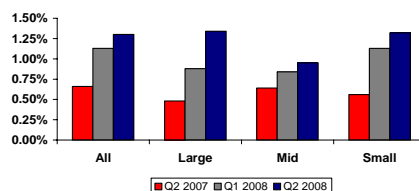


Snapshot: Credit Quality Deteriorating

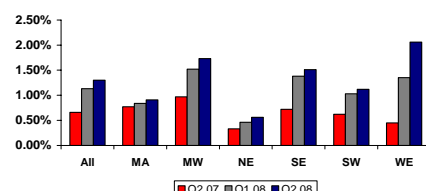
- Increasing NPAs across market caps and regions has led to increased provisioning expense and lower earnings



NPAs / Assets by Mkt Cap



NPAs / Assets by Region



Source: KBW Research. Note: Large Cap = Mkt Cap > \$8B, Mid Cap = Mkt Cap > \$1.5B, Small = Mkt Cap < \$1.5B

Recent Dividend Trends – Nationwide Banks & Thrifts

Announced Dividend Reductions & Suspensions Since January 1, 2008

Dividend Reductions				Dividend Suspensions			
Company	Announce Date	Announce Amount (\$/share)	% Change	Company	Announce Date	Announce Amount	% Change
Allegis Bank Corporation	9/23/08	\$0.01	61.0%	Quarterm Federal Bancshares, Inc.	9/23/08	\$0.18	(84%)
Atlantic Coast Federal Corporation (MHC)*	9/25/08	\$0.11	62.7%	Macatawa Bank Corporation	9/23/08	\$1.08	(81%)
Banner Corporation	9/23/08	\$0.05	42.3%	Temecula Valley Bancorp, Inc.	9/26/08	\$0.20	(75%)
West Coast Bancorp	9/23/08	\$0.01	61.7%	United Security Bancshares	9/25/08	\$0.13	(31%)
Park Bancorp, Inc.*	9/19/08	\$0.09	61.2%	Bank of Granite Corporation	9/23/08	\$0.13	(65%)
Comerica Incorporated	9/18/08	\$0.33	72.2%	First State Financial Corporation	9/17/08	\$0.08	(50%)
Heritage Financial Corporation	9/18/08	\$0.14	62.4%	Santander BancCorp*	9/17/08	\$0.05	(33%)
RiverView Bancorp, Inc.*	9/17/08	\$0.05	61.8%	Molwest Banc Holdings, Inc.	9/16/08	\$0.11	(50%)
Amicus Bancorp	9/16/08	\$0.05	61.7%	Community Financial Corporation	9/12/08	\$0.07	(64%)
Synovus Financial Corp.*	9/10/08	\$0.06	60.8%	Hannu Financial Corporation*	8/28/08	\$0.03	(65%)
LFB Bancorp, Inc.	9/03/08	\$0.09	52.0%	United Community Banks, Inc.	8/28/08	\$0.10	(97%)
North Central Bancshares, Inc.	8/29/08	\$0.01	53.0%	PAB Bankshares, Inc.*	8/28/08	\$0.10	(50%)
MB Financial Corp.	8/28/08	\$0.09	52.0%	Abigail Adams National Bancorp, Inc.	8/22/08	\$0.13	(50%)
Popular, Inc.	8/26/08	\$0.08	52.1%	Security Bank Corporation*	8/20/08	\$0.04	(40%)
Indiana Community Bancorp	8/26/08	\$0.12	52.7%	BankUnited Financial Corporation	8/08/08	\$0.01	(50%)
Cadence Financial Corporation	8/21/08	\$0.05	52.0%	Citizens First Bancorp, Inc.	8/08/08	\$0.09	(94%)
Seacoast Banking Corporation of Florida	8/19/08	\$0.01	52.0%	Harrington West Financial Group, Inc.*	7/28/08	\$0.07	(50%)
Habesha Bank Bancorp	8/16/08	\$0.05	54.0%	Community West Bancshares	7/25/08	\$0.06	(67%)
Capital Bancorp Ltd*	8/05/08	\$0.05	42.4%	First State Bancorporation	7/23/08	\$0.09	(71%)
Central Pacific Financial Corp.	7/31/08	\$0.10	42.4%	First Horizon National Corporation*	7/15/08	\$0.19	(50%)
Newbridge Bancorp	7/31/08	\$0.05	52.1%	WNB Corp.*	7/11/08	\$0.11	(33%)
Provident Financial Holdings, Inc.*	7/31/08	\$0.05	42.4%	CCF Holding Company*	7/07/08	\$0.05	(86%)
State Bancorp, Inc.	7/29/08	\$0.10	42.9%	TBB Financial Corp.	6/25/08	\$0.06	(92%)
PVF Capital Corp.	7/25/08	\$0.01	32.5%	Team Financial, Inc.	6/24/08	\$0.08	(50%)
Dowrey Financial Corp.	7/23/08	\$0.01	42.1%	Taylor Capital Group, Inc.	6/18/08	\$0.10	(90%)
Anchor Bancorp Wisconsin, Inc.	7/22/08	\$0.10	42.1%	Tower Financial Corporation	6/06/08	\$0.04	(44%)
Boston Private Financial Holdings, Inc.*	7/22/08	\$0.01	42.3%	Vineyard National Bancorp	5/10/08	\$0.08	(74%)
First Place Financial Corp.	7/22/08	\$0.09	42.3%	CapitalSouth Bancorp	4/30/08	\$0.07	(87%)
Regions Financial Corporation	7/22/08	\$0.10	41.7%	Comerica Bancshares, Inc.	4/29/08	\$0.25	(90%)
Wachovia Corporation*	7/22/08	\$0.05	41.4%	AmericanWest Bancorporation	4/24/08	\$0.04	(50%)
Cascade Bancorp	7/21/08	\$0.01	42.9%	Heritage Oaks Bancorp	4/24/08	\$0.08	(80%)
KeyCorp	7/19/08	\$0.19	51.5%	Citizens Republic Bancorp, Inc.	4/17/08	\$0.29	(50%)
Fidelity Southern Corporation	7/17/08	\$0.01	41.7%	Capital Corp of West	4/16/08	\$0.11	(50%)
Camco Financial Corporation	7/16/08	\$0.08	32.8%	Imperial Capital Bancorp, Inc.	3/20/08	\$0.16	(50%)
Merchants Bank Corporation*	7/15/08	\$0.04	40.8%	Beverly Hills Bancorp, Inc.	3/17/08	\$0.13	(50%)
Meridian Bancorp, Inc.	7/08/08	\$0.12	40.8%	Irwin Financial Corporation	3/03/08	\$0.12	(50%)
Columbia Bancorp	7/07/08	\$0.01	32.7%	Flagstar Bancorp, Inc.	2/19/08	\$0.06	(87%)
Community Valley Bancorp	6/27/08	\$0.04	39.4%	Sunwest Bancorp, Inc.	1/22/08	\$0.06	(50%)
Independent Bank Corporation*	6/24/08	\$0.01	31.8%				
Pioneer Financial Corporation*	6/18/08	\$0.06	31.8%				
Techee Corporation	6/19/08	\$0.04	12.4%				
Fifth Third Bancorp	6/18/08	\$0.15	31.8%				
FNB Bancorp	6/18/08	\$0.10	32.0%				
First Citizens Banc Corp.	6/17/08	\$0.20	31.8%				
Community Central Bank Corporation	6/21/08	\$0.22	21.8%				
South Financial Group, Inc.	6/09/08	\$0.01	22.0%				
AMCORE Financial, Inc.	6/08/08	\$0.05	20.6%				
Primerica Bank	4/24/08	\$0.10	12.2%				
Colonial BancGroup, Inc.*	4/21/08	\$0.10	11.6%				
National City Corporation*	4/21/08	\$0.01	10.2%				
Crescent Banking Company	4/17/08	\$0.04	20.7%				
Provident Bancshares Corporation*	4/16/08	\$0.11	11.6%				
Heritage Bancshares Incorporated	4/15/08	\$0.13	11.5%				
TrustCo Bank Corp NY	2/19/08	\$0.11	11.2%				
Citigroup, Inc.	1/15/08	\$0.32	10.7%				



Source: SNL Financial. Includes banks and thrifts listed on the NYSE, AMEX and NASDAQ. Chart includes companies based in the U.S. or U.S. territories.

55 Dividend Reductions

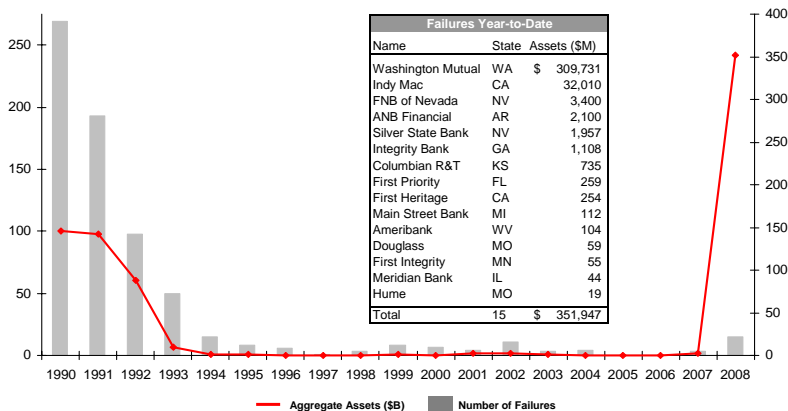
61% Average Dividend Reduction

41 Dividend Suspensions

Historical Bank & Thrift Failures

➤ Bank and thrift failures remain well below those levels seen in the early 1990s, though they are on the rise, with year-to-date failures already exceeding all of 2007

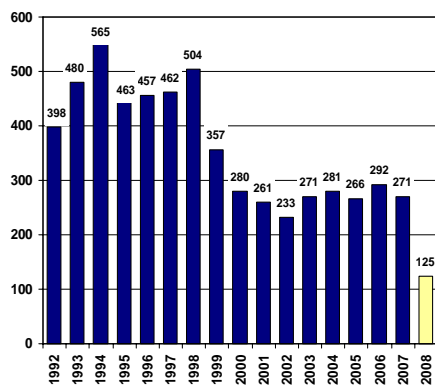
Bank & Thrift Failures since 1990



Source: FDIC.

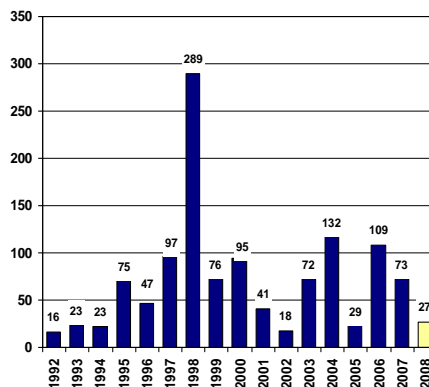
Nationwide Bank & Thrift M&A Trends

Number of Transactions in Period



- ❑ Terminated transactions are on the rise:
 - 2007: 13 terminated transactions
 - 2008 YTD: 30 terminated transactions

Aggregate Deal Value of Transactions (\$ Billions)



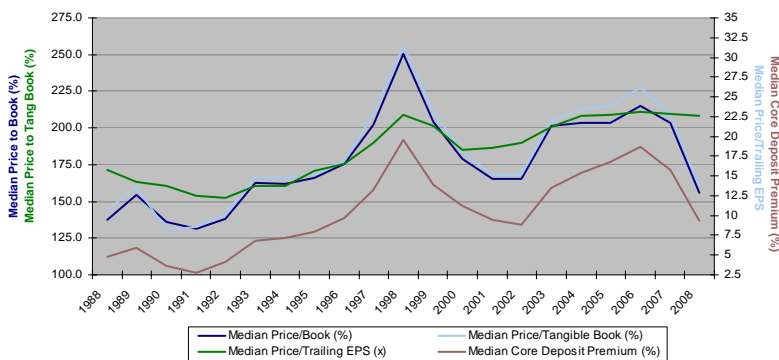
- ❑ 3 deals comprise more than 86% of the deal value in 2008:
 - Bank of America / Countrywide Financial Corporation (\$4.1 billion)
 - Mitsubishi UFJ Finl Grp Inc/ UnionBanCal Corp. (\$3.8 billion)
 - Wells Fargo & Co. / Wachovia Corp. (\$15.1 billion)



Source: SNL Financial. Data as of 10/10/2008.

Historical Acquisition Multiples

Acquisition Multiples for All Deals



Year	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
Median Price/Book (%)	137.7	154.6	136.1	131.4	137.8	162.9	161.9	165.9	175.9	202.4	250.4	203.9	179.1	165.6	165.6	201.4	203.3	203.6	215.1	203.7	155.7
Median Price/Tangible Book (%)	144.5	159.9	130.8	132.5	140.6	166.4	166.3	169.1	177.9	209.5	255.8	211.1	183.9	167.9	167.9	204.8	213.0	215.3	227.3	203.1	160.6
Median Price/Trailing EPS (x)	15.8	14.3	13.8	12.5	12.2	13.8	13.7	15.7	16.6	19.2	22.7	21.3	18.3	18.6	19.2	21.2	22.6	22.7	23.1	22.8	22.6
Median Core Deposit Premium (%)	4.8	5.9	3.7	2.8	4.1	6.8	7.2	8.0	9.7	13.2	19.6	13.9	11.2	9.4	8.8	13.5	15.4	16.8	18.7	15.8	9.3
1 Month Market Premium (%)	51.3	49.7	44.7	44.8	51.6	36.8	30.3	30.6	31.1	31.3	28.2	37.9	36.6	42.3	40.7	29.2	28.1	34.7	28.6	35.3	47.6
Average Deal Value (\$M)	140.5	67.2	21.7	88.0	46.2	57.2	46.4	158.9	123.4	235.3	675.6	218.1	399.0	172.6	87.7	325.9	547.1	128.3	436.4	308.0	294.9



Source: KBW Research, SNL DataSource. Data as of 10/10/08.

Current M&A Environment

- ❑ Buyer universe has shrunk; seller universe has fewer options
- ❑ Market conditions have negatively impacted M&A multiples and activity
 - Depressed currencies
 - Higher financing costs
 - Capital preservation
 - Asset quality issues
 - Wait and see approach
- ❑ Seller expectations will have to be substantially less than prior years' levels
- ❑ Mark-to-market accounting causing pause to M&A
 - Giant bid-to-ask spreads on MBS and loan portfolios
 - Resulting marks are preventing consolidation
- ❑ Merger of equals discussions heating up
- ❑ For willing buyers, this is a window of opportunity
 - But, buyers beware!
 - Better to overpay for a good bank than to underpay for a bad bank



Current Bank Capital Markets & TARP Overview



KEEFE, BRUYETTE & WOODS

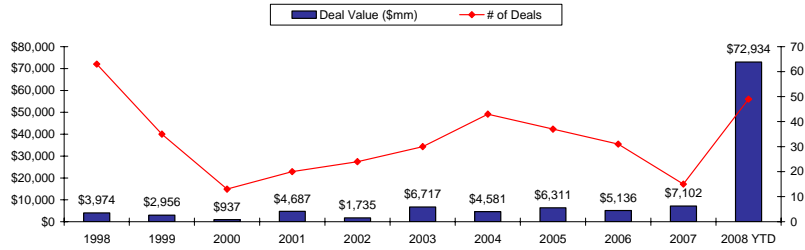


Capital Markets Overview

- Deterioration in bank credit quality
- Raising equity to replenish capital base
- Larger capital raises have come at a sizeable discount, at the expense of significant dilution
- Many banking institutions still need capital including certain that have already issued
- Bank Equity and Debt Capital Markets are Crowded
- TARP INFLUENCE IS A GAME CHANGER



Historical Bank Offering Activity Levels

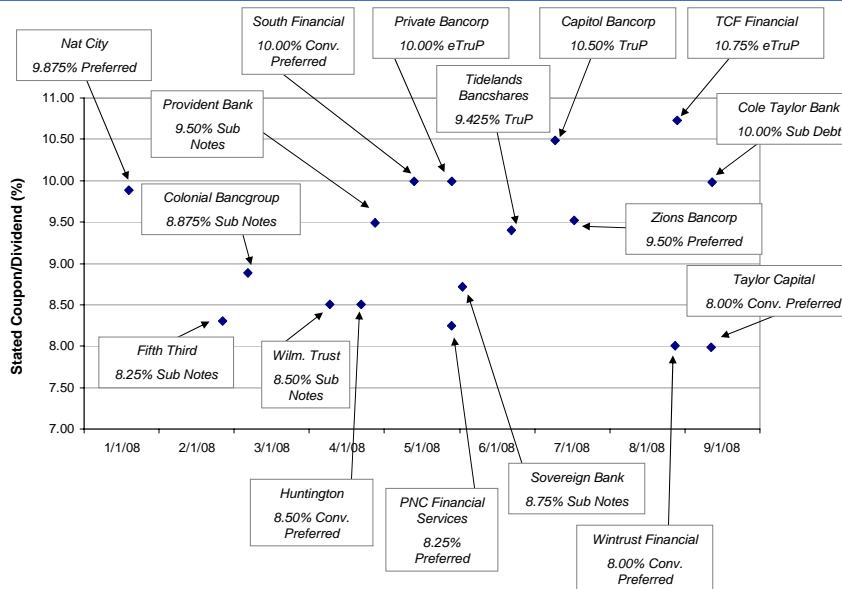


Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008
IPO	37 \$2,036.2	14 \$213.8	6 \$234.8	1 \$6.0	5 \$124.9	5 \$421.4	9 \$558.6	9 \$385.0	5 \$190.7	2 \$77.6	0 \$0.0
FO	24 \$1,758.6	18 \$2,277.1	5 \$283.0	14 \$1,841.0	14 \$755.2	19 \$2,488.1	27 \$1,930.4	26 \$1,426.1	24 \$1,445.3	5 \$315.7	28 \$41,091.7
CONV	2 \$179.4	3 \$465.0	2 \$419.5	5 \$2,840.4	5 \$855.0	6 \$3,807.5	7 \$2,092.2	2 \$4,500.0	2 \$3,500.0	8 \$6,708.3	21 \$31,842.0
Total	63 \$3,974.2	35 \$2,955.9	13 \$937.3	20 \$4,687.3	24 \$1,735.1	30 \$6,717.0	43 \$4,581.2	37 \$6,311.1	31 \$5,136.0	15 \$7,101.6	49 \$72,933.7



Source: Dealogic. US and Puerto Rican bank IPO, follow-on, 144A, PIPE and Convertible offerings since 1998. As of October 13, 2008.

Fixed Income Capital Raise Snapshot: 2008 YTD



Summary of Recent Recapitalizations & Pricing Discounts

- Recent public common equity offerings have been priced at a discount in the 5 - 20% range
- Discounts are being driven by equity investors seeking 15 - 25% holding period IRRs for financing these recaps

Company Name	Current Price	Ticker	Date	Capital Raise Information						Stock Performance				
				Equity Raised (\$mm)	Common %	Common Price to Market (%)	Discount (%)	Investor Group Ownership ⁽¹⁾ (%)	Coupon Conversion Rate (%)	Preferred Premium ⁽²⁾ (%)	Stock Return Since Ann. (%)	BKK (%)	Common (%)	Investor Return (%)
Private Raise														
Washington Mutual, Inc.	NA	WM	4/8/08	\$ 7,200	21.4%	\$8.75	33%	48.2%	14.00%	(33%)	NA	(36%)	NA	NA
National City Corporation	2.75	NCC	4/21/08	7,000	9.0%	5.00	40%	68.8%	14.00%	(40%)	(67%)	(35%)	(45%)	(45%)
Quinary Financial Group Inc.	2.69	GFG	5/27/08	325	11.9%	5.17	5%	62.7%	14.00%	(9%)	(50%)	(30%)	(49%)	(48%)
Taylor Capital Group, Inc.	10.51	TAYC	7/29/08	60	0.0%	na	na	34.3%	8.00%	26%	32%	(22%)	na	5%
Average					10.6%			26%	12.50%	(13%)	(28%)	(31%)	(46%)	(29%)
Public Raise														
Wachovia Corporation	5.71	WB	4/14/08	8,050	43.5%	24.00	14%	13.0%	7.50%	12%	(79%)	(32%)	(76%)	(82%)
Huntington Bancshares Incorporated	9.18	HBAN	4/15/08	500	0.0%	na	na	10.3%	8.50%	28%	(1%)	(30%)	na	(23%)
Colonial BancGroup, Inc.	7.11	CNB	4/21/08	350	100.0%	8.00	19%	21.7%	na	na	(28%)	(35%)	(11%)	na
First Horizon National Corporation	11.20	FHN	4/28/08	600	100.0%	10.00	7%	32.1%	na	na	4%	(36%)	12%	na
East West Bancorp, Inc.	13.91	EWBC	4/23/08	200	0.0%	na	na	17.0%	8.00%	23%	11%	(32%)	na	(10%)
South Financial Group, Inc.	5.19	TSFG	5/2/08	250	0.0%	na	na	34.6%	10.00%	0%	(20%)	(38%)	na	(20%)
Sovereign Bancorp, Inc.	2.57	SOV	5/12/08	1,438	100.0%	8.00	(2%)	27.1%	na	na	(67%)	(34%)	(68%)	na
UCBH Holdings, Inc.	4.64	UCBH	6/4/08	135	0.0%	na	na	22.4%	8.50%	7%	17%	(26%)	na	9%
Private Bancorp, Inc.	36.30	PVTB	6/4/08	136	100.0%	34.00	6%	12.4%	na	na	9%	(22%)	7%	na
Citizens Republic Bancorp, Inc.	2.78	CRBC	6/5/08	200	39.8%	4.00	23%	39.8%	na	(23%)	(46%)	(26%)	(31%)	(31%)
Webster Financial Corporation	17.85	WBS	6/5/08	225	0.0%	na	na	13.6%	8.50%	6%	(30%)	(26%)	na	(34%)
KeyCorp	10.75	KEY	6/12/08	1,650	60.6%	11.75	25%	24.7%	7.75%	(10%)	(32%)	(19%)	(9%)	(24%)
Fifth Third Bancorp	11.81	FITB	6/18/08	1,000	0.0%	na	na	14.0%	8.50%	(9%)	(7%)	(18%)	na	2%
Boston Private Financial Holdings, Inc.	8.12	BPFH	7/22/08	171	56.1%	6.00	8%	47.0%	na	(16%)	24%	(14%)	39%	47%
Average					42.9%			13%	8.41%	2%	(18%)	(25%)	(18%)	(16%)
Combined Average					35.7%			16%	9.77%	(2%)	(20%)	(28%)	(23%)	(19%)

Source: Public filings, SNL Financial and KBW estimates. Note: Share performance as of October 23, 2008. (1) Assumes all convertible preferred securities are converted. (2) Conversion price of preferred stock over the company's common stock pricing if available, otherwise over company's price one day prior to the announcement of the capital raise.
 Note: Yellow highlight indicates KBW involved in transaction.

Capital Purchase Program (CPP) of Troubled Assets Relief Program (TARP)

- Relatively Inexpensive**
 - Below market, least expensive Tier 1 capital available
- Use of Proceeds**
 - Offensive bias towards loan growth and acquisitions of weaker banks; defensive attributes secondary
- Stigma**
 - Who qualifies? If you do not raise it, why not? Did you not qualify?
- Redemption Overhang**
 - At some point in the future investors/ analysts will anticipate a dilutive offering to refinance TARP senior preferred
- Constraints**
 - Warrants, dividends, buybacks, executive compensation

Government Bail-out Plan: Positives and Concerns

Positives

- ❑ \$250 billion injected into system with \$125 billion committed to the 8 or 9 largest institutions
- ❑ Lion's share of the industry has access to a sufficient amount of relatively cheap capital
 - Prior concerns of unavailability of capital
- ❑ Fear of massive dilution dissipates and is more quantifiable
- ❑ Unlimited Deposit Insurance on all NIB DDA accounts reduces deposit run risk
- ❑ Greater capital positions increases chances for M&A
- ❑ With capital in place, the market is free to value normalized earnings in the future
- ❑ The TARP program has \$450 billion left if needed

Concerns

- ❑ The KRX (Keefe Regional Banking Index) valuation is not cheap
 - The KRX is not cheap in historical terms, trading at 1.7x tangible book and 12x First Call consensus 2009 EPS estimates
 - Capital raised under the TARP program would reduce 2009 EPS for the banks and increase the 2009E P/E
- ❑ Fundamental outlook unchanged
 - Research expects only 18% of banks will post positive operating EPS growth in 2008Q3, while 25% are expected to post operating net income losses
 - Concerns over OTTI charges, higher credit costs, regulatory pressure to build reserves and concerns that residential and construction malaise will spread to C&I and Commercial RE categories still exist
- ❑ In the long run, the move could be negative for the industry
 - High regulatory oversight costs and higher capital requirements could permanently weigh on ROE and mean lower returns



Overview: TARP Capital Purchase Program

Terms: Senior Preferred Securities

- ❑ **Type:**
 - Perpetual preferred stock (Tier 1 qualifying)
- ❑ **Size:**
 - Minimum subscription amount is 1% of risk-weighted assets
 - Maximum subscription amount is the lesser of \$25 billion or 3% of risk-weighted assets
- ❑ **Liquidation Preference:**
 - Equal to most senior preferred shares at time of investment
 - Senior to common and subordinated preferred
- ❑ **Dividend:**
 - 5.00% for first five years, 9.00% thereafter
 - Cumulative except for issuers which are not subsidiaries of holding companies
 - Payable quarterly in arrears on the 15th of February, May, August and November
- ❑ **Redemption:**
 - May not be redeemed for three years *except* with proceeds from a "Qualified Equity Offering" of common or perpetual preferred stock in the amount of at least 25% of the original issue price
 - Occurs at 100% of issue price plus accrued dividends
 - Subject to approval of primary bank regulator
- ❑ **Restrictions on Dividends:**
 - No dividends may be declared or paid on any securities subordinate or equal to Senior Preferred unless current in dividend payments to UST
 - Until third anniversary, UST consent is required for increasing the issuer's common stock dividend
- ❑ **Restrictions on Share Repurchases:**
 - Treasury must consent to buybacks except for repurchases of the Senior preferred or buybacks used in connections with benefit plans
- ❑ **Voting Rights:**
 - Non-voting, other than class voting rights to preserve Senior Preferred rights
 - Right to elect two directors if dividends are not paid in full for any six dividend periods (consecutive or not) – Note: Terminates when full dividends have been paid for four consecutive periods
- ❑ **Transferability:**
 - No restrictions on transfer
 - Issuer must file a shelf and grant the UST piggyback registration rights
 - Issues must use reasonable efforts to list the Senior Preferred on a national securities exchange and – if requested – facilitate issuance of depository receipts
- ❑ **Deadline: November 14, 2008**



Overview: TARP Capital Purchase Program (Cont'd)

Terms: Required Warrants

- **Size:**
 - Aggregate value equal to 15% of the amount of Sr. Preferred issued
- **Term:**
 - 10-years
- **Underlying Shares:**
 - Underlying shares calculated using 20-trading day trailing average stock price as of issuance date
 - Upon Qualified Equity Offerings prior to December 31, 2009 where 100% of the issue price is raised, underlying shares are reduced by 50%
- **Exercise Price:**
 - initial exercise price set to 20-trading day trailing average stock price as of issuance date
 - Reduced every six months 15% (up to 45%) until any necessary shareholder approvals are received
 - UST can exercise using 20-day trailing average price
- **Voting Rights:**
 - None upon exercise of warrants
- **Exercisability / Transferability:**
 - Immediately exercisable, in whole or in part
 - No contractual restrictions on transfer
 - UST may only transfer or exercise an aggregate of one-half of the warrants prior to the earlier of a "Qualified Equity Offering" or December 31, 2009
 - Same shelf / piggyback / exchange listing provisions as for Sr. Preferred
- **Substitution:**
 - Warrants can be exchanged for senior term debt or another security if:
 - The issuer is no longer listed or traded on a national exchange or if necessary shareholder approvals are not received within 18 months



Overview: TARP Capital Purchase Program (Cont'd)

Conditions: Executive Compensation

- **As a condition to closing, the issuer must have terminated all benefit plans, arrangements and agreements to the extent necessary to be in compliance with UST requirements**
 - Issuer and affected Senior Executive Offers must provide the UST with a waiver releasing the UST from any claims arising from these new regulations
- **UST requirements, as articulated to-date, will involve the following:**
 - Ensuring that incentive compensation for senior executives does not encourage unnecessary and excessive risks that threaten the value of the financial institution
 - Required claw-back of any bonus or incentive compensation paid to a senior executive based on statements of earnings, gains, or other criteria that are later proven to be materially inaccurate
 - Prohibition on the financial institution from making any golden parachute payment to a senior executive based on the Internal Revenue Code provision
 - Agreement not to deduct for tax purposes executive compensation in excess of \$500,000 for each senior executive



Temporary Liquidity Guarantee Program

Eligible Institutions

- Eligible institutions include:
 - FDIC-insured depository institutions
 - U.S. bank holding companies
 - U.S. financial holding companies
 - U.S. savings and loan companies

Senior Unsecured Debt Guarantee

- 100% guarantee on newly - issued senior unsecured debt issued on or before June 30, 2009
 - The amount of debt covered may not exceed 125% of debt outstanding as of September 30, 2008 scheduled to mature before June 30, 2009
 - The guarantee lasts three years, until June 30, 2012
- 75 basis points multiplied by the amount of insured debt

Non-Interest Deposit Guarantee

- 100% guarantee on non-interest-bearing transaction deposit accounts until December 21, 2009
 - 10 basis point surcharge on accounts not covered by current \$250,000 existing deposit insurance limit



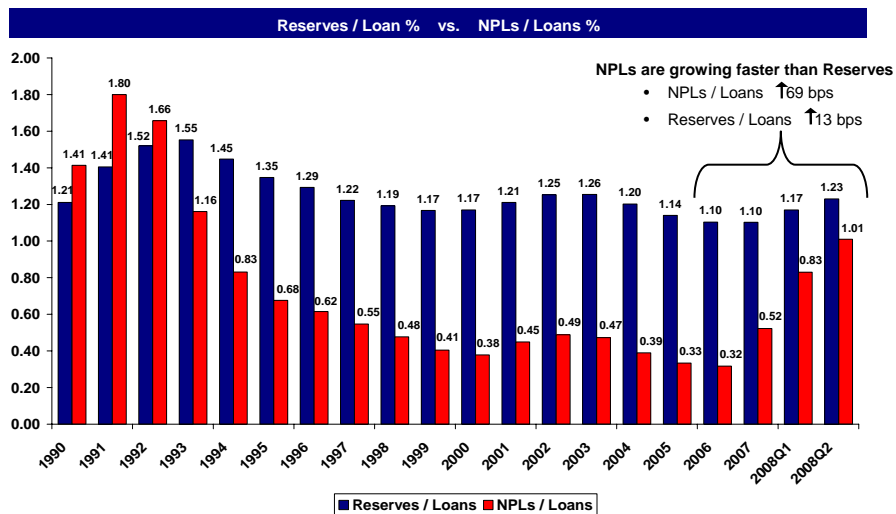
Additional Issues



KEEFE, BRUYETTE & WOODS

Loan Loss Reserve Levels

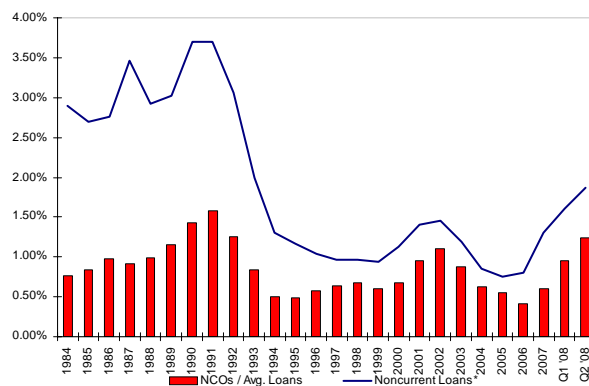
Includes all publicly traded banks & thrifts



Source: SNL Financial

Historical Asset Quality Trends

Historical Asset Quality Ratios
(Includes all FDIC Insured Commercial Banks)



Source: FDIC. * Noncurrent loans ratio equals nonaccrual loans plus 90 days past due loans.

Capital Planning is Key

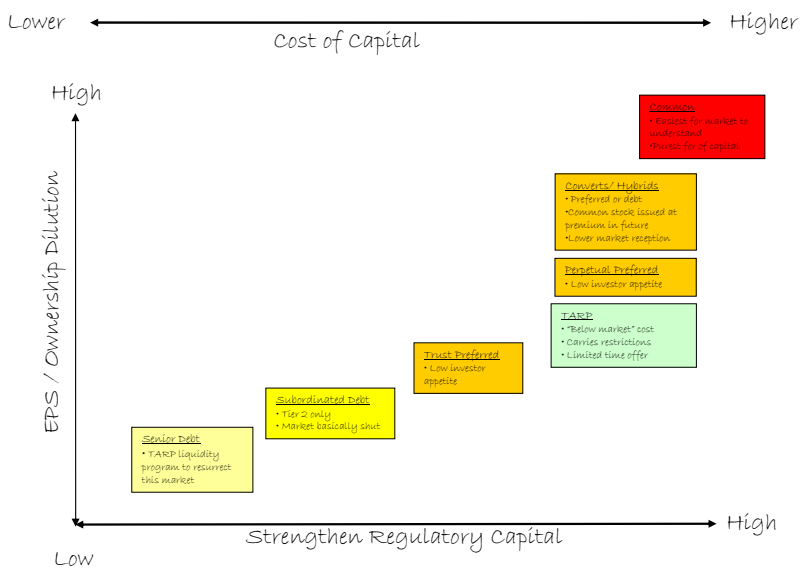
Ensure more than sufficient capital levels to:

- Operate and manage bank successfully
- Profitably grow
- Protect against unforeseen losses
- Position bank for opportunistic growth
- Maintain Strong Regulatory Relationships

Protect and Enhance Shareholder Value



Capital Instrument Overview



Regulators Are Focusing on Implications For Urban Banks

July 2008 meeting with CEO's of urban banks, the OTS, FDIC and OCC provided three key messages from the regulators:

- 1) Economic climate indicates that more banks will fail. Minority banks should be vigilant on key regulatory metrics (capital, compliance, safety and soundness)
- 2) Supportive of initiatives that would help to preserve the unique contribution of minority banks
- 3) Provided guidance on how to access existing and new programs:
 - a. Meeting safety and soundness examinations
 - b. Access to Community Development Financial Institution (CDFI) grants
 - c. How to bid for failed banks



Overarching message is that the regulatory authorities are very receptive to, and will be supportive of, creative solutions for the urban banking market

Challenges faced by Minority Banks

Challenges include...

- Dual financial system for the affluent and the poor. The few mainstream banks and financial institutions focus predominantly on the affluent
- Financial players for the poor (pay-day lenders, check cashers) focus on current return vs. assisting working / poor families to build financial literacy and assets
- Though minority banks have local credibility and goal alignment, none have reached scale of operations to be consistently effective
- Regulatory, credit and cost pressures are impacting the capacity to stay in business – several banks have failed and have been taken out “quietly” by the FDIC
- Founders and CEOs of many minority banks are at or beyond retirement age with no clear succession plans

Opportunities Going Forward

- Add "fill in" branches in certain markets
- Target socially motivated depositors
- Create consumer finance provider to meet liquidity needs of the "unbanked" (provide check cashing, short term/small dollar loans, loadable debit cards)
- Marry liquidity products with financial literacy and incentives to move to mainstream financial products and make better liquidity choices



Appendix



KEEFE, BRUYETTE & WOODS

15 FDIC Bank Closures so Far in 2008

Failed Institution	State	Date Failed	Assuming Institution	Target at Time of Assumption		Deposits Assumed (\$000)	Premium on Deposits (\$000)	Premium/Deposits (%)	Assets Sold (\$000)	Premium on Assets Sold (\$100)
				Total Assets (\$000)	Total Deposits (\$000)					
Douglas National Bank	MO	1/25/2008	Liberty Bank and Trust Company (Liberty Financial Services, Inc.)	58,600	53,800	53,800	NA	NA	55,700	(6100)
Hume Bank	MO	3/7/2008	Security Bank (Bates County Bancshares, Inc.)	18,682	13,566	12,500	533	4.26	2,700	NA
ANB Financial NA	AR	5/9/2008	Pulaski Bank & Trust, Co. (BERA BANK Corporation)	2,100,000	1,800,000	212,900	2,152	1.01	235,900	NA
First Integrity Bank, NA	MN	5/30/2008	First International Bank and Trust (Watford City Bancshares, Inc.)	54,700	50,300	50,300	2,030	4.04	35,800	2,030
IndyMac Bank, F.S.B.	CA	7/11/2008	IndyMac Federal Bank, F.S.B. ⁽¹⁾	32,010,000	19,060,000	19,060,000	NA	NA	NA	NA
First National Bank of Nevada	NV	7/25/2008	Mutual of Omaha Bank (Mutual of Omaha Insurance Co.)	3,400,000	3,000,000	2,846,337	125,523	4.41	NA	NA
First Heritage Bank, NA	CA	7/25/2008	Mutual of Omaha Bank (Mutual of Omaha Insurance Co.)	254,000	233,000	217,434	9,589	4.41	NA	NA
First Priority Bank	FL	8/1/2008	SunTrust Banks Inc. SunTrust Bank	258,600	227,000	214,000	0	0.00	42,000	NA
The Columbian Bank and Trust	KS	8/22/2008	Citizens Bank and Trust	752,000	622,000	308,000	3,465	1.13	85,500	NA
Integrity Bank	GA	8/29/2008	Regions Bank (Regions Financial Corp.)	1,100,000	974,000	974,000	9,857	1.01	34,400	NA
Silver State Bank	NV	9/5/2008	Nevada State Bank (Zions Bancorp)	2,000,000	1,700,000	980,000	12,740	1.30	NA	NA
Ameribank, Inc. ⁽²⁾	WV	9/19/2008	Pioneer Community Bank, Inc. The Citizens Savings Bank	104,000	100,900	100,900	NA	2.00 1.14	NA NA	NA NA
Washington Mutual	WA	9/25/2008	JP Morgan Chase & Co.	309,730,000	181,923,000	181,923,000	15,410	8.47	NA	NA
Meridian Bank	IL	10/10/2008	National Bank (Country Bancorp, Incorporated)	39,000	36,900	36,900	0	0.00	7,600	NA
Main Street Bank	MI	10/10/2008	Monroe Bank & Trust (MBT Financial Corp.)	98,000	86,000	86,000	860	1.00	16,900	NA

Source: SNL Financial and FDIC.gov.

(1) IndyMac Federal Reserve Bank, F.S.B. remains under FDIC control. To date, an assuming institution has not been named.

(2) Two different banks assumed all deposits. The actual dollar amounts they assumed was not available.



The FDIC Pre - Bidding Process

- | Stage 1 | Stage 2 | Stage 3 |
|--|---|---|
| <ul style="list-style-type: none"> ❑ Approach FDIC and become approved buyer <ul style="list-style-type: none"> ▪ Confirm capital resources / access ▪ Determines size tier for available opportunities ▪ Establish standardized confidential agreement ❑ FDIC markets troubled bank and contacts pre-approved buyers to gauge interest <ul style="list-style-type: none"> ▪ Email invitation to electronic data site with limited access information "Teaser" | <ul style="list-style-type: none"> ❑ Review Executive Summary / Teaser packages including overview of liabilities to be assumed and assets to be acquired ❑ Buyer confirms interest and grants full access to data site with financial, regulatory & legal information. Information available via virtual data-room is updated on daily / hourly basis ❑ Potential bidders have open access to and communication with the FDIC staff. Limited to no access to employees and management | <ul style="list-style-type: none"> ❑ If loans are not sold, loans retained by FDIC, temporarily serviced by new acquiror and later auctioned ❑ Potential bidders submit bid form(s) ❑ Bidders are allowed to submit multiple bid forms: e.g. an insured bid, a partial bid, linked, or non-linked, etc. ❑ Bidders must : <ul style="list-style-type: none"> ▪ Apply for Regulatory approval ▪ Secure sufficient capital ❑ The purchase agreements are non-negotiable but subject to change due to bidders requests & questions, daily market conditions, and mere novelty of the process itself |

7 to 21 Days (depends on size & severity of situation)



SAMPLE FDIC Post - Bidding Process

THURSDAY

- ❑ Bids submitted on Wednesday are negotiated and FDIC notifies the winning bidder

FRIDAY

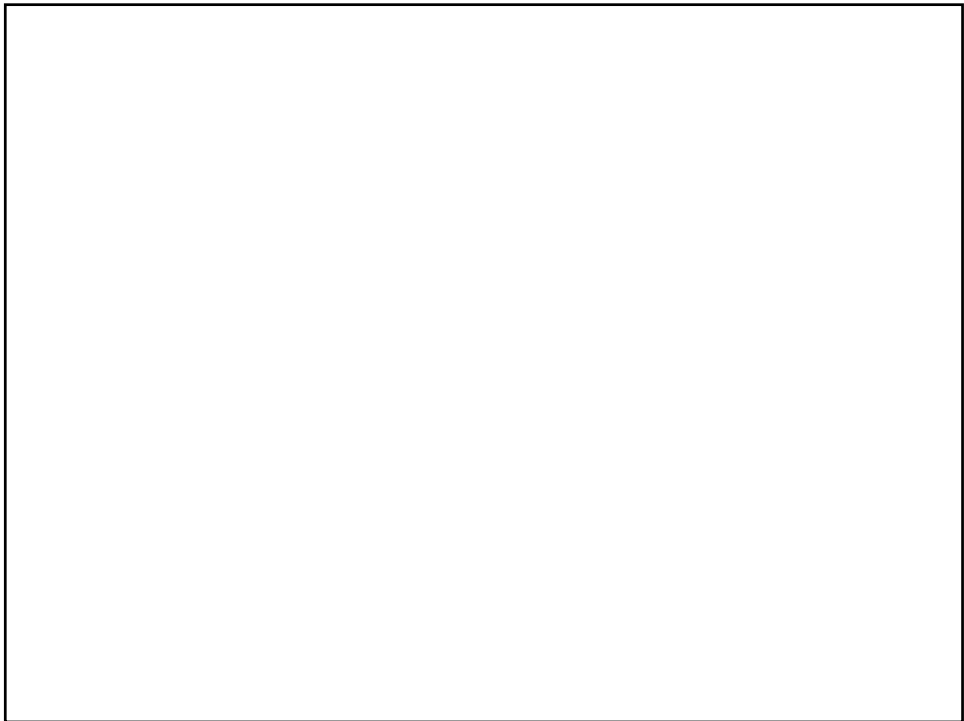
- ❑ Primary regulator closes the bank and appoints FDIC as a Receiver
- ❑ Transaction closes and buyer must have capital in place
- ❑ The winning bidder must be prepared to reopen the institution on the next business day following the institution's closing date.

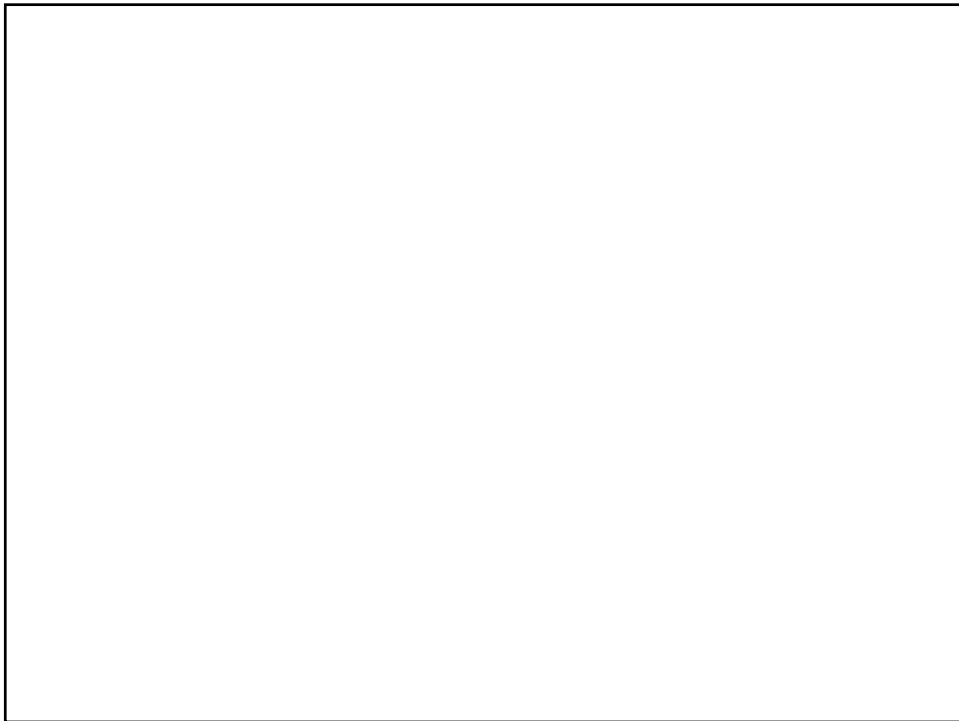
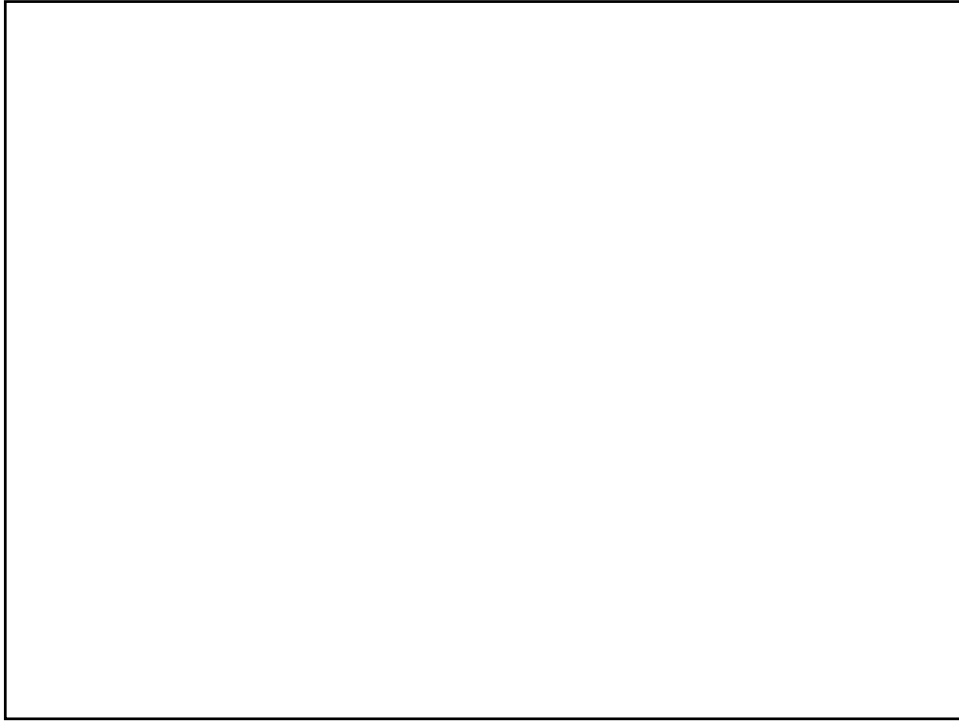
WEEKEND

- ❑ FDIC works with the Bidder on getting the logistics switched from the 'old' company to a 'new' company
- ❑ Contracts and leases are void and re-negotiable
- ❑ Employees are either rehired or dismissed by acquiror/FDIC

MONDAY

- ❑ Bank reopens all branches with new temporary signs
- ❑ Representatives from buyer at each location
- ❑ 30 - 180 day transaction period:
 - System conversion
 - Certain assets can be put-back to FDIC
 - Legal liability remains with FDIC





The Brave New World for Acquisition and Fair Value Accounting

Bill Wilhelm
Executive
Crowe Horwath LLP



The Brave New World for Acquisition and Fair Value Accounting

- Introduction to FAS 141 (R)
- Refresher on the "acquisition (formerly "purchase") method" of accounting
- What's different with FAS 141 (R)? - In summary
- What's most important to Financial Institutions
- Key planning considerations

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FAS 141 (R)- Introduction

- Applies to acquisitions of control of a business
- Effective for deals consummated in fiscal years beginning after December 15, 2008 (i.e. 2009 for calendar year companies)
- Completely replaces FAS 141 originally effective in 2001

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FAS 141 (R)- Introduction

- Primarily motivated to converge US GAAP and international accounting standards, IFRS, for business combination and noncontrolling interest accounting

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FAS 160- Highlights

- FAS 160 dealing with accounting for noncontrolling interests (formerly minority interests) is like a sister to FAS 141(R)
- Non controlling interests when consolidated with the parent are now included with equity instead of “mezzanine” equity or liabilities

FAS 160- Highlights (continued)

- Recognize gain or loss on former non controlling interest when control is gained and FAS 141 (R) is applied for the transaction
 - E.g. – A 20% ownership investment has a book value of \$2,000, and through the acquisition of a controlling interest that 20% interest is now worth \$2,500, the \$500 increase would be a gain reported through the income statement
- Effective at same time as FAS 141 (R)

FAS 157- Highlights

- Also a sister to FAS 141 (R) because it provides guidance on determining fair value
- Defines and specifies the use of information from “principal” or “most advantageous” markets (generally applies to financial instruments and not M&A transactions)

FAS 157- Highlights (continued)

- Requires an analysis of “market participants” in the valuation
- Must adhere to “highest and best use” principles and ignore intended use by the acquirer
- Specifies use of an estimated “exit value” and not necessarily the “transaction value”

FAS 157- Highlights (continued)

- For non financial assets it is effective in 2009 which coincides with FAS 141 (R)

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Acquisition Method of Accounting- A Refresher

Acquisition Method of Accounting

- Overall purchase consideration recorded at Fair value
 - Cash paid
 - Fair value of securities issued
 - Fair value of contingent purchase price
- Most all assets and liabilities are stated at Fair Value
- Goodwill is the residual amount

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Assets and Liabilities to Record

- Tangible categories follow the typical GAAP balance sheet
 - Cash, receivables, loans, inventories, securities, fixed assets, deposits, accruals, etc
- Intangible assets (most often not on the balance sheet) are recognized separately from goodwill only if they meet one of two tests
 - They arise from contractual or other legal rights- the “contractual/ legal” test
 - Or, if they are “separable”- capable of being sold, transferred, licensed, rented or exchanged- the “separability” test

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Typical Intangible Recognized by Financial Institutions

- Deposit Customer Relationships
- Wealth Management Customer Relationships
- Non-competition Agreements
- Insurance Customer Relationships

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Post Acquisition Accounting Issues

- Amortization of mark to market adjustments
 - Loan premiums or discounts to interest income
 - Fixed asset write-ups to depreciation
 - Customer relationship intangibles are amortized to expense

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Post Acquisition Accounting Issues

- Impairment testing
 - Finite life intangibles- Amortize, consider remaining useful life annually and test for impairment as needed
 - Indefinite life intangibles (excluding goodwill)- Do not amortize but evaluate for continued indefinite status and test for impairment at least annually
 - Goodwill- Do not amortize and test for impairment at least annually

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What's Different Under FAS 141 (R)



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What's Different Under FAS 141 (R)?

Item	New Accounting	Current Accounting
Transaction costs of the acquirer	Expense as incurred	Part of deal cost; normally added to goodwill
Adjustments made to fair values within one year measurement period	Revise comparative financial statements as if changes were made as of the acquisition date	Normal practice is to record adjustments prospectively
Contingent consideration (contractual contingencies)	Part of acquisition consideration at fair value	Normally recorded as a post combination adjustment upon resolution of contingency

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What's Different Under FAS 141 (R)? (continued)

Item	New Accounting	Current Accounting
Assets that an acquirer does not intend to use	Fair value in accordance with FAS 157 reflecting the assets highest and best use.	Normally assigned no value or reduced value reflecting limited period of intended use
Restructuring costs of acquirer	Record as post combination expenses since this is a transaction separate from the acquisition	Normally recorded as a liability in the acquisition provided conditions under EITF Issue 95-3 are met
Valuation allowances for assets adjusted to fair value	Assets are stated at fair value with no separate valuation allowance	Normally stated at present value less a credit allowance

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What's Different Under FAS 141 (R)? (continued)

Item	New Accounting	Current Accounting
Mutual entities	Use acquisition method by measuring fair value of acquired entity equity interests	Under old APB 16 (Pooling or purchase method)
Non contractual asset or liability contingencies	Fair value at acquisition date if it is "more likely than not" that contingency will give rise to an asset or liability	Follow GAAP under FAS 5 where recording requires the event to be both probable and measurable.
Indemnification assets	Record at same amount as related contingent liability (subject to estimated collectibility and any contractual limitations)	Accounting not uniform

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What's Different Under FAS 141 (R)? (continued)

Item	New Accounting	Current Accounting
In-process research and development	Initially record at fair value then amortize upon completion or expense if later abandoned	Determine fair value then immediately charge to expense as of acquisition date
Step acquisitions	Record 100% of fair value once control is obtained; record gain or loss on preexisting equity interests	Record fair value of incremental interest acquired only.
Assets acquired and liabilities assumed	Record 100% of fair value once control is obtained (even if less than 100% acquired)	Only controlling interest's ownership portion is recorded at fair value

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What's Different Under FAS 141 (R)? (continued)

Item	New Accounting	Current Accounting
Goodwill	Apportion to the controlling and noncontrolling interests	Allocate to the controlling interest only
Bargain purchase	Record gain in operating income when fair value of assets acquired exceeds consideration given plus fair value of previously held equity interests and fair value of noncontrolling interests	Record extraordinary gain when fair value of assets (after reduction of certain long term assets to zero) exceeds consideration given

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What's Different Under FAS 141 (R)? (continued)

Item	New Accounting	Current Accounting
Measurement date of acquirer equity securities issued	Fair value at acquisition (consummation) date	Normally a few days before and after terms are agreed to and announced
Adjustments made to acquired deferred tax assets and uncertain tax positions	Adjustments during the one year allocation period generally affect goodwill; after measurement period record to tax expense	Normally affect goodwill whether adjustments occur during allocation period or not

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Key Issues for Financial Institutions

- **Contingent consideration- earn-outs, etc**
 - Example: Institution purchases an insurance agency. The seller is partially compensated based on revenue over the next 3 years.
 - Must record at fair value initially
 - If recorded as a liability, re-measurements of fair value after the allocation period are recorded in the income statement
 - If recorded as equity, no re-measurements are required

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Key Issues for Financial Institutions

- **Assets that an acquirer does not intend to use**
 - Trade name that most “market participants” would use is valued under assumptions consistent with those expected to be used by market participants (i.e. highest and best use)
 - An immediate abandonment of the name may trigger impairment on “day 2”
 - Overlapping branches- Value based on “highest and best use” of “market participants” not necessarily at disposal value

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Key Issues for Financial Institutions

- Transactions separate from “exchange” are accounted for under other relevant GAAP
 - Example- Employment contracts for target executives
 - Is the contract in substance for past or future service?
 - Is contract “old and cold” or newly negotiated?

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Key Issues for Financial Institutions

- No more carryover of ALLL
 - Current deals generally carryover FAS 5 portion
 - FAS 114 portion accounted for under SOP 03-03 which is still required under FAS 141 R

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Key Issues for Financial Institutions

- **SOP 03-03 Applies to which loans?**
- **Three criteria must be met:**
 1. Evidence of credit deterioration - 'something' had to have happened on specific loans
 2. Completed transfer in accordance with FAS 140 – so originated loans are out
 3. Buyer doesn't expect to collect all contractual cash flows

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Key Issues for Financial Institutions

- | | |
|--|---|
| <ul style="list-style-type: none"> • Originated Loans • Loans receivable • (Principal) • recorded @ contractual cash flows • - ALLL (since origination) • = Net loans | <ul style="list-style-type: none"> • Purchased Loans • (Under SOP 03-03) • Loans receivable • (Principal & AIR) • recorded @ expected cash flows • ALLL (since purchase) • =Net loans |
|--|---|

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Key Issues for Financial Institutions

- **SOP 03-03 Accounting**
- Initial carrying value is present value of expected P&I payments
- Determine accretable and non-accretable difference
 - Accretable is sum of expected P&I payments minus initial carrying amount
 - Non-accretable difference is difference between expected total payments and contractual total payments

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What deal planning considerations are most important?



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Deal Planning Considerations

- Increase due diligence on loan quality since sellers ALLL will not carryover
- Determine early on which loans should be accounted for under SOP 03-03
- Analyze ancillary deal arrangements (severance, IT conversions, stock options) to determine whether they are part of the deal or separate transactions

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Deal Planning Considerations

- Determine early on if there will be contingencies that need to be valued in the deal and their impact on pricing and accounting
- Evaluate options for assets that will not be used in the combined organization
- Use contingent pricing for hard to value assets if feasible

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Questions



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About Crowe Horwath LLP

- Crowe Horwath LLP is one of the top ten accounting firms in the United States, with 1,600 people in twenty offices serving clients from coast to coast. Crowe is unique in that it provides all the resources of a national firm, with a commitment to excellence, staff continuity, and timely response to the business concerns of mid-size businesses
- **Crowe's strategic goal is to "deliver value with values":**
 - Value to our clients through delivery of excellent service such that our clients are highly satisfied, extremely loyal and willing to recommend our firm to others.
 - Value to our people through development of the highest quality people who are strongly committed and engaged in making a difference and achieving their maximum potential.
 - Value to our profession and to the public trust with the highest reputation for quality and objectivity in the business communities and localities in which we are part.

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Speaker

- **Bill Wilhelm** is an executive with a practice emphasis on business valuation and an industry focus in financial institutions. He frequently consults with clients on expansion through mergers and acquisition and other business planning and forecasting. Bill is a 1970 graduate of Indiana University in Bloomington with a B.S. in Accounting. He is a CPA and an ABV. Bill practices out of the firms Oak Brook, Illinois and Indianapolis offices. Bill is a frequent speaker on acquisition accounting and valuation issues.