

BANK CAPITAL & TODAY'S MARKETS

"CAPITAL STRATEGIES & INVESTOR EXPECTATIONS"

COMMUNITY BANK DIRECTORS CONFERENCE

***THE BANK CEO NETWORK
&
AMERICAN ASSOCIATION OF BANK DIRECTORS***

***MARCH 2009
NASHVILLE, TENNESSEE***

AMERICAN ASSOCIATION OF BANK DIRECTORS



FOUNDED IN 1989, AABD IS THE NATIONAL NON-PROFIT DEVOTED TO SERVING THE INFORMATION, EDUCATIONAL AND ADVOCACY NEEDS OF INDIVIDUAL BANK AND SAVINGS INSTITUTION DIRECTORS.

OUTSIDE DIRECTORS MAKE UP 95% OF AABD MEMBERSHIP

INSTITUTE FOR BANK DIRECTOR EDUCATION

IBDE IS A CLEARINGHOUSE FOR BANK DIRECTOR EDUCATION.

IBDE PROVIDES CREDIT FOR IN-HOUSE EDUCATION

American Association of Bank Directors

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PANEL MEMBERS

- ***David Baris: Executive Director, American Association of Bank Directors***

David serves as the Executive Director of the AABD. The AABD provides bank directors with the resources with which to serve their institutions effectively and in a manner that will minimize risk of personal liability, and represents their interests before federal and state legislative bodies, banking supervisory agencies and judicial bodies.

He is the managing partner of the Bethesda, Maryland and Washington, D.C. offices of Kennedy & Baris, L.L.P. (www.kennedybaris.com) Before forming the firm in 1987, Mr. Baris served as Regional Counsel to the Comptroller of the Currency, Counsel to the Government Operations Committee, U.S. House of Representatives, and Counsel to Akin, Gump, Strauss, Hauer & Feld. David was a director of Mutual of Omaha Insurance Company and United of Omaha Life Insurance Company, a Fortune 500 company, from 2000 to 2004, serving on their Executive, Audit and Investment Committees.

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- ***Charles J Thayer: Chairman, American Association of Bank Directors***

Charles was named Chairman of the AABD in 2007. For the past 18 years he has served as Chairman of Chartwell Capital Ltd. (www.ChartwellCapital.com), serving as an advisor to both commercial banks and institutional investors; including advice on capital infusions into 'troubled' financial institutions. His previous banking experience spans 20 years including 12 years as EVP Finance at a \$5 billion regional bank and a \$40 billion 'super-regional'. In this capacity he arranged capital investments from institutional investors in the US, Europe and Japan. In addition, Charles also has over 18 years experience serving as a bank board member.

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OUR PANEL'S OBJECTIVE

1 > VIEW FROM THE BOARDROOM

2 > TODAY'S CAPITAL ALTERNATIVES

3 > TODAY'S MARKET CONDITIONS

BOARD MEMBERS & REGULATORY FOCUS

***C > CAPITAL
A > ASSET QUALITY
M > MANAGEMENT
E > EARNINGS
L > LIQUIDITY
S > SENSITIVITY***

WHEN THINGS GO WRONG REGULATORS FOCUS ON YOUR BOARD!

> CAPITAL IS KEY TO MARKET CONFIDENCE <

> LIQUIDITY IS KEY TO SURVIVAL <

NEED TO ANTICIPATE CAPITAL & LIQUIDITY REQUIREMENTS

NOT JUST "BEST CASE" – ALSO "WORST CASE" FORECAST

BOARDS ARE ENTITLED TO RELY ON ADVICE OF "EXPERTS"

***CPA FIRM & LAW FIRM
INVESTMENT BANKERS
OTHER INDEPENDENT ADVISORS***

CAPITAL STRATEGIES HAVE CHANGED

IN THE PAST > LEVERAGE WAS "KING"

"GOAL WAS TO UTILIZE EXCESS CAPITAL"

AT THE HOLDING COMPANY LEVEL

ACQUISITIONS & SHARE REPURCHASE PROGRAMS

FUNDED WITH: > TRUST PREFERRED

> HOLDING COMPANY DEBT

RESULT: > INCREASED ASSETS & GOODWILL

> REDUCED TANGIBLE CAPITAL RATIOS

> INCREASED DEBT SERVICE REQUIREMENTS

AT THE BANK LEVEL

LOANS FUNDED WITH NON-CORE DEPOSITS

LOANS & SECURITIES FUNDED WITH FHLB ADVANCES

LIMITED ASSET LIQUIDITY

TODAY'S 'CAPITAL CRISIS'

- ***DRAMATIC INCREASE IN PROBLEM LOANS***

*FASB & SEC > LOWER LOAN LOSS RESERVE RATIOS
REMEMBER? SEC & EXCESS RESERVES (SUNTRUST)
HISTORICAL VIEW > NOT PROSPECTIVE
SIGNIFICANT LOSS PROVISIONS NOW REQUIRED*

- ***RISK OF OTHER ASSET WRITE DOWNS***

FAIR VALUE or "FAIL" VALUE?

- > INVESTMENT/BOLI WRITE DOWNS (OTTI)*
- > GOODWILL IMPAIRMENT (OTTI)*
- > NEGATIVE RETAINED EARNINGS?*
- > INABILITY TO PAY DIVIDENDS?*

- ***HIGHER LEVERAGE AT HOLDING COMPANY***

- ***LOWER TANGIBLE CAPITAL AT BANK***

- ***LESS 'CUSHION' TO ABSORB LOSSES***

- ***TODAY > CAPITAL IS "KING"***

REGULATORY ACTION & CASCADING EVENTS

- ***ASSET QUALITY DETERIORATION***
- ***FAIR VALUE WRITE DOWNS***
- ***EARNINGS DISAPPEAR***
- ***“PROMPT CORRECTIVE ACTION”***
- ***REGULATORY MOU OR C&D***
- ***RISK BASED FDIC PREMIUM***
- ***LIMITATION ON GROWTH***
- ***LIQUIDITY: BROKER CDS SUSPENDED***
- ***LIMITATION ON BANK DIVIDENDS TO HC***
- ***LIQUIDITY: INABILITY TO SERVICE HC DEBT***
- ***INDEPENDENT MANAGEMENT ASSESSMENT?***
- ***REGULATORY CAPITAL PLAN (HC & BANK)***

HOLDING COMPANY CAPITAL

SOURCE OF STRENGTH OR ACHILLES HEEL?

- ***PRIORITY > LIQUIDITY (CASH FLOW)***
- ***DEBT (BANK STOCK AS COLLATERAL?)***
- ***TRUST PREFERRED (DEFERRAL?)***
- ***SHAREHOLDER DIVIDENDS (PAYOUT RATIO)?***
- ***AUTHORIZED CAPITALIZATION (SHARES?)***
- ***BOARD AUTHORITY?***
- ***SHAREHOLDER APPROVAL?***

SUB S BANKS: DIVIDENDS FOR TAX PAYMENTS?

BOOK LOSS: FAIR VALUE (OTTI) & LLR PROVISION (NOT TAX)

BOOK LOSS = REGULATORY DIVIDEND RESTRICTIONS?

TAXABLE INCOME TO SHAREHOLDERS!

STRATEGIES TO ENHANCE CAPITAL RATIOS

REGULATORY REQUIREMENTS CAN BE COUNTER PRODUCTIVE!

> NEW CAPITAL <

***REGULATORS REQUIRE 'EQUITY' CAPITAL
EXCESSIVE SHAREHOLDER DILUTION?***

> REDUCE ASSETS <

***ONLY "GOOD" ASSETS ARE MARKETABLE
SENDING GOOD CUSTOMERS TO COMPETITORS?***

> BRANCH SALES <

***PREMIUM & ASSET REDUCTION ADDS TO CAPITAL
REDUCE 'CORE' FUNDING?***

SOURCES OF NEW REGULATORY CAPITAL

- ***COMMON EQUITY***
- ***PREFERRED SHARES***
- ***TRUST PREFERRED***
- ***HOLDING COMPANY DEBT***
- ***BANK LEVEL ALTERNATIVES***

BRANCH TRANSACTIONS

IF > YOUR INSTITUTION SELLS:

- ***\$100 MILLION OF DEPOSITS***
- ***\$90 MILLION OF LOANS***
- ***\$5 MILLION OF FACILITIES***
- ***\$5 MILLION (5%) DEPOSIT PREMIUM***

THEN > YOUR BANK'S CAPITAL BENEFIT

- ***ASSET REDUCTION = \$10 MILLION BENEFIT***
- ***DEPOSIT PREMIUM = \$5 MILLION (PRE TAX)***
= \$3 MILLION AFTER TAX

TRANSACTION = \$13 MILLION CAPITAL RATIO BENEFIT

TODAY'S MARKET CONDITIONS

CAPITAL RAISES ARE ALMOST IMPOSSIBLE EVEN FOR HEALTHY INSTITUTIONS

SNL Financial: 2008 Summary: (Banks) faced an incredibly unfavorable market filled with irate investors, particularly new private equity money in the sector that had been burned badly by earlier recapitalizations.

RELUCTANCE TO PARTICIPATE IN TARP-CPP ETC

"What we hear time and time again from the investors' standpoint, and even the issuers' standpoint, is a reluctance to get involved with a government program, for fear of retribution...and that there's some sort of clawback [on profits]," said Greg Peters, head of fixed income and economics research at Morgan Stanley.

TODAY'S MARKET CONDITIONS

CBS 60 MINUTES

MARCH 15, 2009

***BEN BERNANKE, CHAIRMAN
FEDERAL RESERVE SYSTEM***

When asked what the first signs of recovery will be:

***"Well, I think that one sign would be that a large bank
is successful in raising private equity.***

***Right now, all the private money is sitting on the sidelines saying,
'We don't know what these banks are worth.
We don't know that they're stable.'***

And they're not willing to put their money into the banks."

WHO WILL BUY WHAT YOU OFFER?

- ***CURRENT SHAREHOLDERS & DIRECTORS?***
- ***MEMBERS OF YOUR COMMUNITY?***
- ***INVESTORS OUTSIDE YOUR COMMUNITY?***
- ***PRIVATE EQUITY & HEDGE FUNDS?***
- ***TREASURY? TARP-CPP? CAP? NEW?***

***BANK BOARDS NEED TO PUT THEMSELVES
IN THE SHOES OF THE INVESTOR TO
DETERMINE WHAT IS POSSIBLE!***

CONCLUSION

“PRIVATE MONEY IS SITTING ON THE SIDELINES”

FED CHAIRMAN BERNANKE (MARCH 15, 2009)

HOWEVER

ALL FINANCIAL INSTITUTIONS

***INCLUDING THOSE THAT ARE WELL CAPITALIZED TODAY
AND FOR THE FORESEEABLE FUTURE***

NEED A CAPITAL PLANNING PROCESS

&

WRITTEN CAPITAL PLAN IN PLACE

TODAY CAPITAL IS “KING”