

BANK CAPITAL & TODAY'S MARKETS

"CAPITAL STRATEGIES & INVESTOR EXPECTATIONS"

ANNUAL DIRECTORS CONFERENCE

***WESTERN INDEPENDENT BANKERS ASSOCIATION
&
AMERICAN ASSOCIATION OF BANK DIRECTORS***

***NOVEMBER 2008
SAN FRANCISCO***

PANEL MEMBERS

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

Charles was named Chairman of the AABD in 2007. His 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. For the past 18 years he has served as Chairman of Chartwell Capital Ltd., serving as an advisor to both commercial banks and institutional investors; including advice on capital infusions into 'troubled' financial institutions. In addition, Charles also has over 18 years experience serving as a bank board member.

- ***Jeff Wishner: Keefe, Bruyette & Woods***

Jeff is a Managing Director in the San Francisco office of Keefe, Bruyette and Woods. Jeff has over 15 years of experience advising West Coast banks, thrifts and financial institutions on mergers and acquisitions and capital raising transactions. Over that time period, Jeff has been involved in over 70 M&A transactions with over \$70 billion in transaction value and over 70 capital raising transactions with over \$5 billion of capital raised. Jeff started his investment banking career at Montgomery Securities in 1991 after graduating from UC Berkeley. In 1996, Jeff earned an MBA from Harvard Business School and rejoined Montgomery Securities. Following his Montgomery years, Jeff joined Putnam Lovell Securities in 2000 and KBW in 2002.

- ***Ken Puglisi: Sandler O'Neill Asset Management (SOAM Ventures, LLC)***

Ken's career on Wall Street and in the Commercial Banking industry spans 39 years. Prior to joining SOAM Ventures he was a principal of Sandler O'Neill from 1997 through 2005 and established the firm's Equity Research Department. Ken was previously Director of Bank Research at The Chicago Corporation and SVP in the Equity Research Department of Keefe, Bruyette and Woods.

OUR PANEL'S OBJECTIVE

1 > VIEW FROM THE BOARDROOM

2 > TODAY'S CAPITAL ALTERNATIVES

3 > INVESTOR EXPECTATIONS

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"**

CASCADING EVENTS & REGULATORY ACTION

- ***ASSET QUALITY DETERIORATION***
- ***FAIR VALUE WRITE DOWNS***
- ***EARNINGS DISAPPEAR***
- ***REGULATORY MOU OR C&D***
- ***RISK BASED FDIC PREMIUM***
- ***LIMITATION ON GROWTH***
- ***BROKER CDS SUSPENDED***
- ***LIMITATION ON BANK DIVIDENDS TO HC***
- ***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!

> REDUCE ASSETS <

ONLY "GOOD" ASSETS ARE MARKETABLE

SENDING GOOD CUSTOMERS TO COMPETITORS?

> BRANCH SALES <

PREMIUM & ASSET REDUCTION ADDS TO CAPITAL

REDUCE 'CORE' FUNDING?

> NEW CAPITAL <

REGULATORS REQUIRE 'EQUITY' CAPITAL

EXCESSIVE SHAREHOLDER DILUTION?

NEXT

CAPITAL MARKETS TODAY

JEFF WISHNER

KEEFE BRUYETTE & WOODS

INVESTOR EXPECTATIONS

KEN PUGLISI

SANDLER O'NEIL ASSET MANAGEMENT