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for

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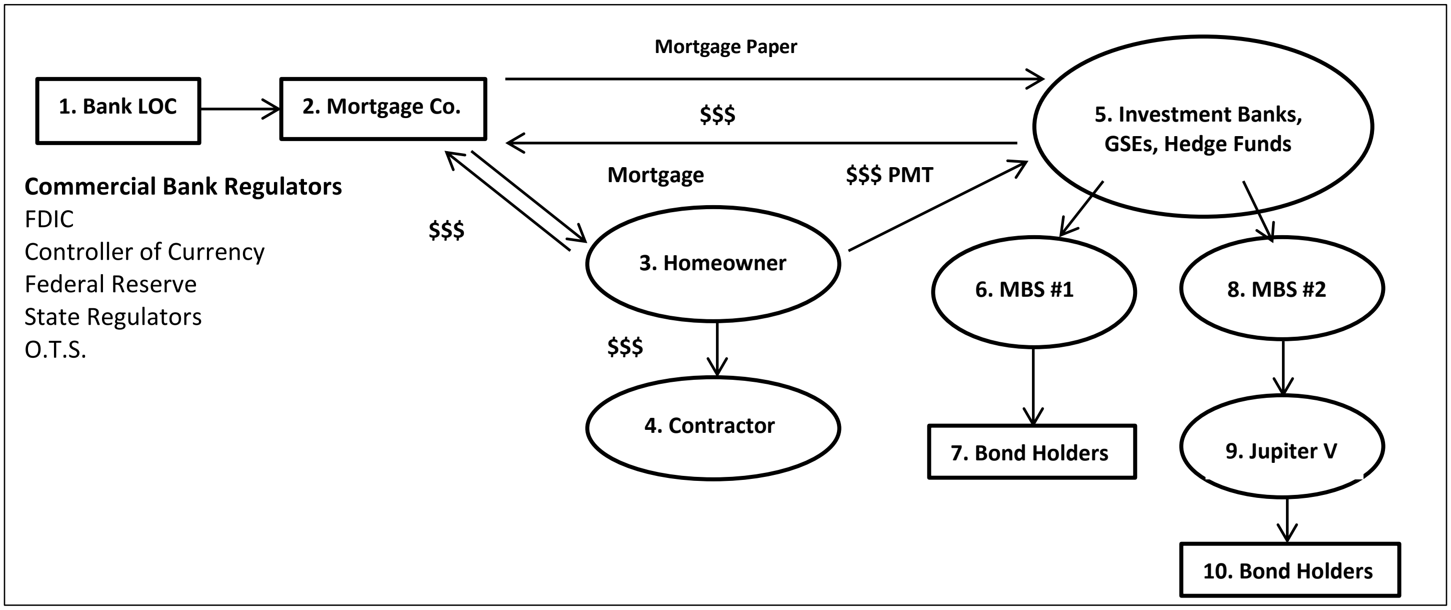
THE FINANCIAL CRISIS



MAJOR FACTORS OF THE FINANCIAL CRISIS

1. Off Shore Money Flows to USA - looking for yield and/or safety (money glut)
2. Clinton initiative - everyone should have home ownership
3. Greenspan - cheap money- to keep economy moving
4. Investment Banks (Wall Street) - chasing a flat yield curve
5. Product driven Investment Banks - young geeks' derivative formulas to increase margins
6. Media hypes over built and down markets: Las Vegas, Phoenix, Florida, and Southern California
7. Rating agencies - lack of diligence and dependence on out dated models
8. GSEs and I-Banks create ready secondary markets to purchase and securitize "mortgage paper"
9. Shoddy regulation of Investment Banks/NO regulation for Mortgage Companies
10. Big Profits created by leverage and inflation
11. Mark-to-no market - Enron response - Destroys Bank Capital
12. Short selling (no uptick rule)
13. Government lets Lehman Brothers Fail - Sends systemic shock waves throughout world
14. Oil Prices drop
15. AIG Liquidity (Credit Default Swaps)

FINANCIAL CRISIS: MARKETS

2001-2007 Institutional investors seek higher yields (in FLAT yield *curve* arena)

Demand Collateral Debt Obligations (CDO's)
AAA-AA ratings given to an MBS Bond Market
Investment Bankers leverage at 30 to 1 and produce more products
Hedge funds emerge / private equity funds emerge - Lots of money seeking higher yields.
June 2007, more defaults as housing prices continue to drop

1. Unregulated mortgage companies make poor loans based on housing prices rising, low equity, no income checks, low doc/no doc.

2. Over built housing markets in Miami, Las Vegas, etc. Home prices drop (Big Supply) and become worth less than their mortgages. Defaults begin. Media hypes these markets as sub-prime problems.

3. Q-1 2007: Dow starts down and CDO's lose value, rating agencies wake up, everyone begins to have liquidity problems as foreign money begins to leave and consumers slow spending and begin to withdraw funds from banks. Money market funds lose $ 200 billion.

4. June/July/Aug/Sept: Rating agencies go on rampage and rate collateral and mortgages down.

   Stressed companies can't sell stock or bonds... Bear Sterns and GSE' show stress and bonds are re-rated. Government begins bail out- Bear Sterns, AIG, and they ask Investment Banks to deleverage. Lehman Brothers goes bankrupt.

5. Q-3: JP-Morgan buys WAMU- FDIC brokered. It is realized that foreign countries have lots of US MBS bonds and begin large sell-offs. Liquidity gets worse- nobody can borrow- all asset classes shut down.

6. Government begins $700 billion bailout - considers buying bad mortgage in Resolution Trust Company (RTC) Bad Bank Format - but forced $350 billion capital injection on banks.

7. Q-4: Commercial Bank (herd) goes into defense mode due to liquidity problems and credit slows. The press begins intense reporting on economy. The economy constricts - unemployment rises - fear quotient rises.

Capital Markets Instruments:

Asset Classes

Common Stock	Commercial Paper
Preferred Stock	Guaranteed Loans
Money Market Funds	Bank CD's (insured)
Bonds – Municipal	
Bonds – Corporate	
Trust Preferred	
Repos	
Treasury Bills	

Key Statistics

World	57T
US GNP	14T
US Congressional Debt Ceiling	11.3T
Total Credit Default Swaps	62T
Fannie/Freddie Mortgages	5T
Commercial Banks Leveraged	12/1
Investment Banks Leveraged	30/1

INVESTMENT BANK TIMELINE: 2008-09

1	Jan-08	**Merrill Lynch posts a loss of $7.8 billion for 2007** $51 billion of subprime losses. Bank of America took over in a $50 billion stock transaction.
2	Feb/Mar 08	**Bear Sterns is brought By JP Morgan Chase for $240 million** Bear Sterns is Big losses on a sub-prime debt and a crisis of confidence in leadership made it Wall Street's first major victim. With help from the Fed, JPMorgan bought it, first for $2, then $10 a share.
3	April-08	**Citigroup reveals another $12 billion in subprime losses, bringing its total to $40 billion** Citi began the year having to raise billions from Abu Dhabi and Singapore, then lost Wachovia to Wells Fargo and had to get a huge government bailout: $45 billion, plus a deal to back-stop $300 billion in toxic assets.
4	July/Sept-08	**Lehman Brothers filed Chapter 11 bankruptcy** Massive subprime and real estate losses compounded by arrogant happy-talk management. In Sept, amid the bailout frenzy, the government let Lehman go, leading to the largest bankruptcy in U.S. history.
5	Sept/Oct-08	**AIG taken over by U.S. government with $85 billion loan** Insuring debt was like insuring cars - $440 billion in credit default. In September, it was nationalized with an $85 billion loan. By October, this bottomless pit needed another $37 billion, then another $40 billion.
6	Sept/Oct-08	**Goldman Sachs restructures as a bank holding company** Warren Buffett pumped in $5 billion after it submitted to Fed regulation a commercial bank. In December, it reported its first loss ever.
7	Sept/Nov-08	**JPMorgan Chase acquires WaMu for $2 billion** Swallowed two whole banks in one year. In March it got Bear Stearns and its $1 billion building on the cheap. In September, it snagged savings-and-loan giant WaMu for $2 billion just before WaMu failed.
8	Sept/Nov-08	**Bank of New York Million is named custodian of bailout funds** World's largest asset management firm was hired by Treasury to oversee the purchase of all those toxic assets the $700 billion bailout was going to buy. Turns out it did not buy them after all. So what's the big contract for?
9	December-09	**Morgan Stanley posts $2 billion 4th-quarter loss** Chinese cash infusion in late '07 couldn't cushion big trading and subprime losses. Like Goldman, it became a commercial bank, then sold 20 percent of itself to a Japanese bank. Ended '08 with a $2 billion loss.

BANK FAILURE HISTORY

RECENT RECESSIONS

1972 – 11 Months: oil boycott and tripling of oil prices

1980 – 1 Month: 15% inflation and 21.5% prime rate

1990 – 7 Months: Gulf War and doubling of oil prices

2001 – 3 Months: bursting of stock market bubble (NASDAQ: – 75%)

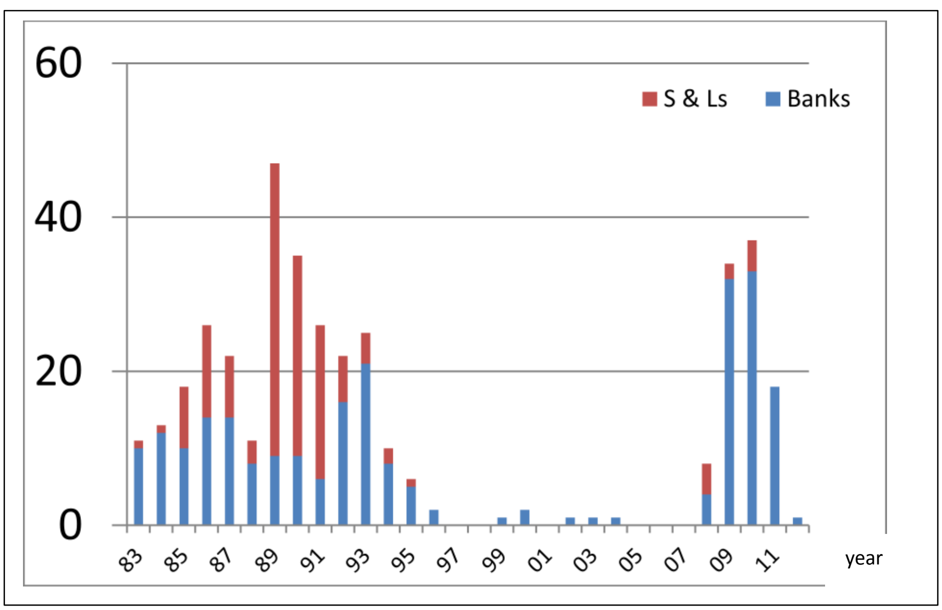
2007 – 12 Months: oil price doubles and credit crisis

BAILOUT PASS ALONG

Banks that have received large amounts of money owed to them by AIG for insurance they purchased to protect themselves for bond defaults.

Goldman Sachs	12.9 B	Bank of America	5.2 B
Societe Generale	11.9 B	UBS	5.0 B
Deutsche Bank	11.8 B	BNP Paribas	4.9 B
Barclays	8.5 B	HSBC	3.5 B
Merrill Lynch	6.8 B	Dresdner Bank	2.6 B

12TH DISTRICT BANK FAILURES DOWN SHARPLY



Year	Bank Failures	
1980	10	
1981	9	
1982	34	
1983	50	
1984	83	
1985	139	
1986	162	
1987	217	
1988	232	2292
1989	531	
1990	381	
1991	268	
1992	179	
1993	50	
1994	15	
1995	8	
1996	6	
1997	1	
1998	3	
1999	8	
2000	7	
2001	4	
2002	11	
2003	3	
2004	4	
2005	0	
2006	0	
2007	3	
2008	25	
2009	53	
2010	156	377
2011	92	
2012	51	

BANK RATIOS

1) ROE = NI/Capital: to increase ROE, must either lower capital or increase net profits.
2) ROA = NI/Assets: to increase ROA, must either lower assets or increase net profits.
3) Equity Multiplier = Assets/Capital: a higher equity multiplier indicates higher financial leverage, which means the company is relying more on debt to finance its assets.
4) Capital Ratio = Capital/Assets: to increase capital ratio, must either lower assets or increase equity. Can be used as the inverse to the equity multiplier (i.e. ROA X EM = ROE or ROA/CR = ROE).
5) Loan/Deposit Ratio= Loans/Deposits: higher the ratio, the more the bank is relying on borrowed funds, which are generally more costly than most types of deposits.
6) Efficiency Ratio = Non-Interest Expense/(Total Revenue - Interest Expense): ideal for this number to be as small as possible . . . smaller the number, the less being spent on expenses such as marketing, salaries, branch expenses, etc.
7) Net Interest Margin = Interest Income - Interest Expense/Earning Assets: measures the difference between interest income generated and interest paid to depositors relative to the earning assets.

ROE CHEAT SHEET

ROE	=	ROA	X	EM (A/C)	C/A
10%	=	1.0	X	10	10%
10%	=	1.25	X	8	12.5%
10%	=	1.5	X	6.6	15%
10%	=	1.75	X	5.7	17.5%
10%	=	2.0	X	5	20%
15%	=	1.0	X	15	6.6%
15%	=	1.25	X	12	8.3%
15%	=	1.5	X	10	10%
15%	=	1.75	X	8.6	11.7%
15%	=	2.0	X	7.5	13.3%
20%	=	1.0	X	20	5%
20%	=	1.25	X	16	6.25%
20%	=	1.5	X	13.3	7.5%
20%	=	1.75	X	11.4	8.75%
20%	=	2.0	X	10	10%
25%	=	1.0	X	25	4%
25%	=	1.25	X	20	5%
25%	=	1.5	X	16.6	6%
25%	=	1.75	X	14.3	7%
25%	=	2.0	X	12.5	8%

RISK CATEGORIES

Credit Risk from a debtor's failure to meet the terms of any contract with the bank or otherwise fail to perform as agreed.	**Interest Rate Risk** from movements in interest rates.	**Liquidity Risk** from a bank's inability to meet it's obligations when they come due, without incurring unacceptable losses.
Price Risk from changes in the value of portfolios of financial instruments.	**Foreign Exchange Risk** from movement of foreign exchange rates.	**Transaction Risk** from problems with service or product delivery.
Compliance Risk from violations or non-conformance with laws, rules, regulations, prescribed practices or ethical standards.	**Strategic Risk** from adverse business decisions or improper implementation of those decisions.	**Reputation Risk** from negative public opinion.

MEGA TRENDS IN BANKING

1. Return to focus on the basics – deposits and lending
2. Reregulation and increased compliance costs
3. Consolidation
4. Focus on C & I lending – return to "5 C's"
5. Mandated higher capital and liquidity ratios
6. Less concentrations
7. Reduced margins – efficiency ratio
8. Upgraded residential lending standards
9. Technology upgrades and increased standardization
10. Increased senior management communications/oversight regarding systems, loan review – in-bank systemic risk management
11. Demographic Economic Factors: Baby Boomers need for wealth management and transition expertise

LEADERSHIP

- List the three types of leadership:

  a.
  b.
  c.

- Define Leadership:

- Define Management:

- List the rules of personal/interpersonal leadership:

  a.
  b.
  c.
  d.
  e.
  f.
  g.
  h.
  i.
  j.

- Create a personal value proposition:

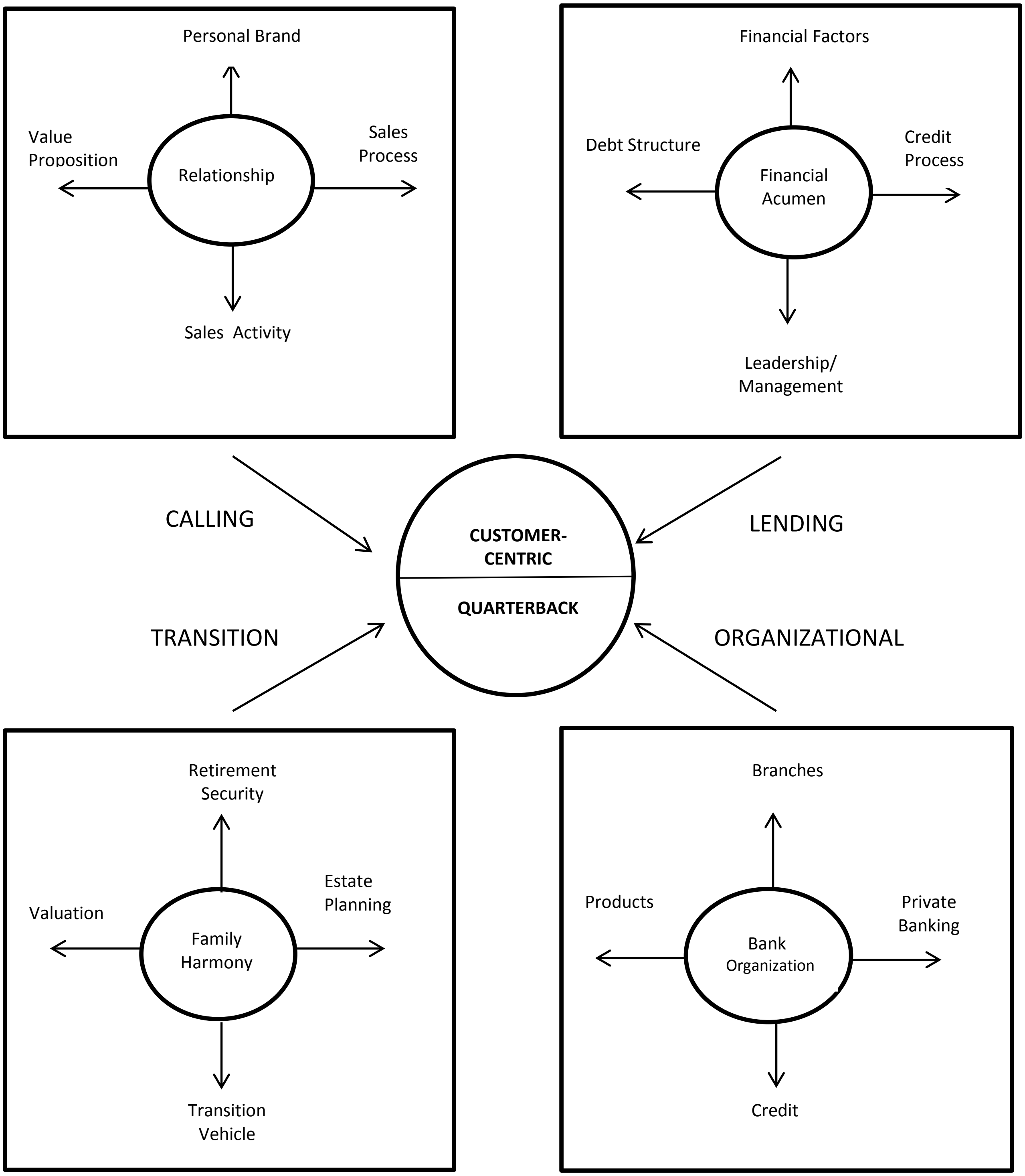
- What are the four elements of time management?

  a.
  b.
  c.
  d.

- List driving forces in the United States:

  a.
  b.
  c.
  d.
  e.
  f.

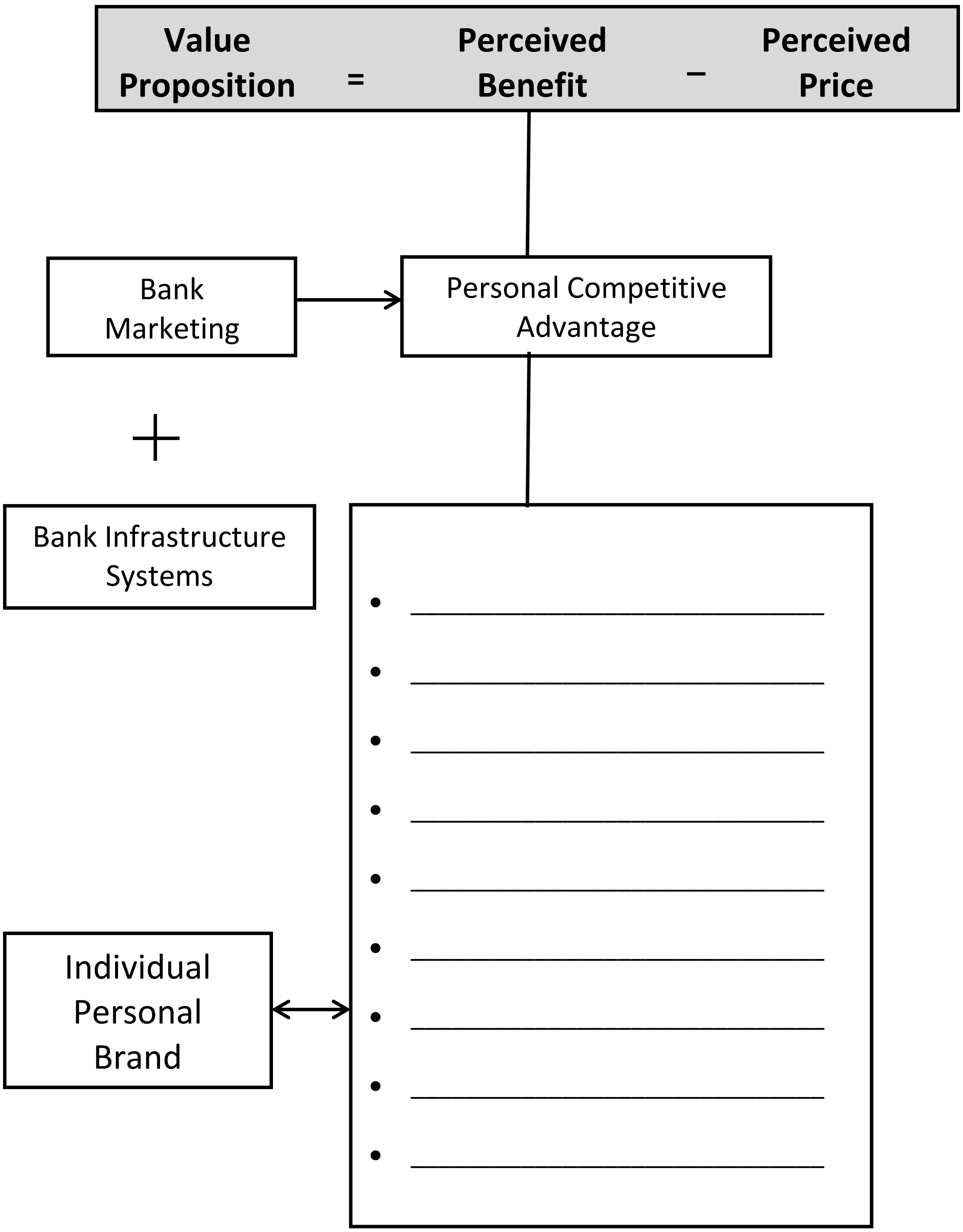
THE HOLISTIC BANKER



GENERATIONAL CHARACTERISTICS

		Traditionalists (Age 65 to 95)	Baby Boomers (Age 45 to 65)	Gen X (Age 25 to 45)	Gen Y (Age 5 to 25)
1	**Outlook:**	Practical	Optimistic	Skeptical	Hopeful
2	**Work Ethic:**	Dedicated	Drive	Balanced	Determined
3	**View of Authority:**	Respectful	Love/Hate	Unimpressed	Polite
4	**Relationships:**	Personal Sacrifice	Personal Gratification	Reluctant to Commit	Inclusive
5	**Dislikes:**	Vulgarity	Political Correctness	Hype	Getting Up & Moving
6	**Teen Pregnancy:**	Did Not Happen	Hid Out & Had Baby	Decision to Have or Not to Have	Takes Baby to School
7	**Effort:**	Concentrated	Worked for Money	Me First	Participation vs. Achievement
8	**Believes In:**	Institutions	People in the Institution	Self	Multi-Tasking, High Expectations
9	**Defining Moment:**	Hiroshima	Kennedy Assassination	Space Shuttle Challenger Explosion	September 11th
10	**Technology:**	Cars, Radios	Television	Computer	Internet
11	**Music:**	Swing, Bennie Goodman, Bob Hope	Elvis, Beach Boys	Alternative Rock, Cobain	Rap, Snoop Dog
12	**Defining Times:**	Depression, WWII, Korean	Vietnam, First College Grad	Downsizing, Divorce	Internet, Oprah, Co-Ed
13	**Leadership:**	Hierarchy	Consensus	Competence	Pulling Together
14	**Employee View:**	Loyal, Lifetime Career	Question Where They Are Going: Career vs. Job	Anti-Corporate, Needs Many Skills, Change Directions	Wants It All Now, Will Juggle Many Lines of Work
15	**Rewarded by:**	A Job Well Done	Money, Title, Recognition	Freedom	Work That Has Meaning
16	**Motivated by:**	Fear	Duty, Advancement	Personal Fulfillment, Time Off, Telecommuting	Instant Feedback
17	**How To Manage:**	Rewards, Job Security	Needs Advancement	Frequently Checks Their Map, Personal Feedback	Inclusive
18	**Reasons To Stay on the Job:**	Loyalty to Clients, Benefits	Make Money, Make A Difference	Autonomy & Good Schedule	Good Many Varied Experience
19	**Training:**	Hard Way, OJT	Train Employee Too Much & They Will Leave	The More They Learn, The More They Stay	Continuous Learning Is A Way Of Life
20	**Retirement:**	Rewards, Job Security	Retool	Renew	Recycle
21	**Destination, Career Goals:**	Building Legacy	Building Stellar Career	Building Portable Career/RDD	Build Parallel Careers
22	**Feedback:**	No News Is Good News, Carries Stigma	Once a Year - Document, Puts You Behind	Every Day, Absolutely Necessary	Email It, Part Of The Routine

VALUE PROPOSITION



SALES MANAGEMENT QUESTIONS

1. Give three reasons banks are having trouble building sales cultures:
    a.

    b.

    c.

2. _______________ % of small business owners (SBOs) are never called on by banks.

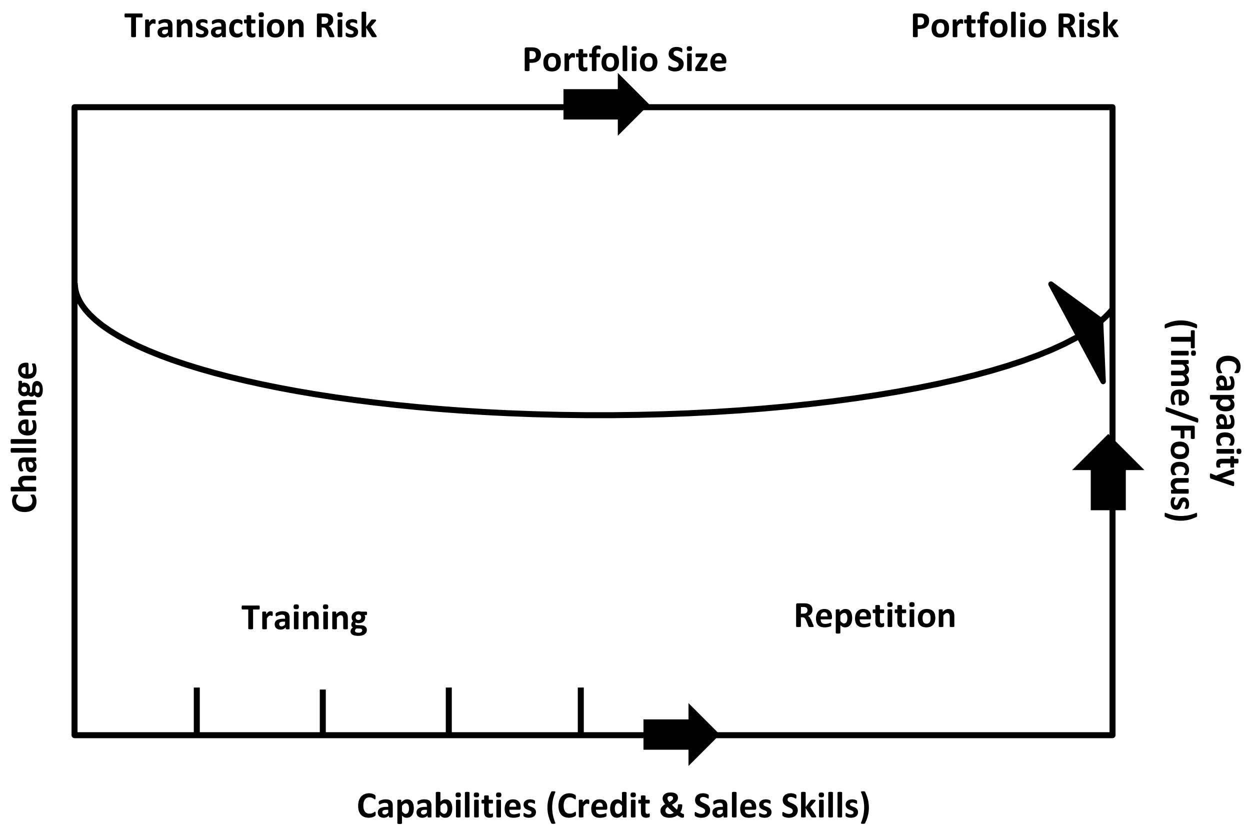
3. _______________ % of SBOs are never called on by their own bank.

4. What is the most vulnerable time in the SBO/bank relationship?

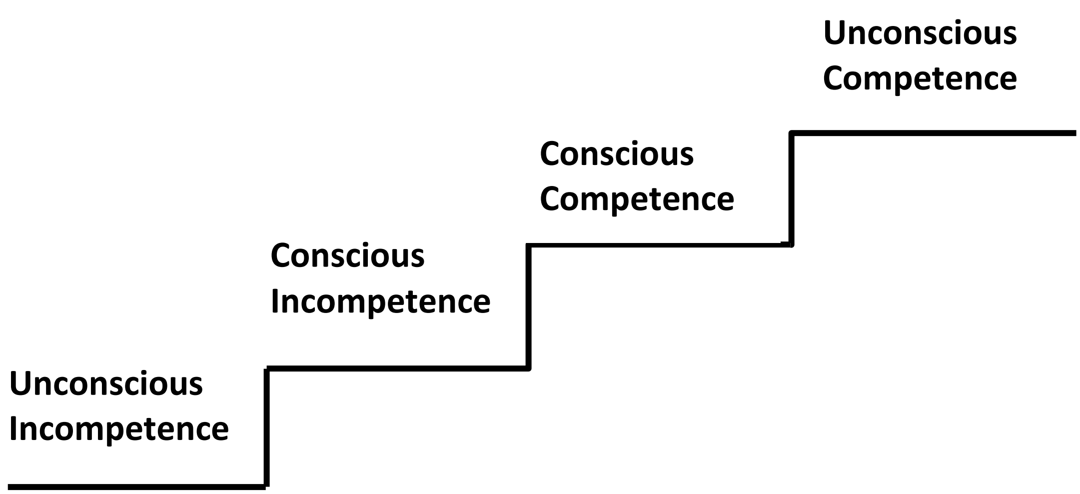
BALANCE SHEET METRICS

Strategic Component	2011	2012
	(Omit 000s)	
1. Total Assets	603,624	542,346
2. Average Assets	579,953	546,490
3. Earning Assets	532,413	475,467
4. Cash, Dep. In Banks, Securities	205,274	160,035
5. Total Loans (net)	354,271	340,217
6. Total Deposits	502,035	471,591
7. Tier 1 Capital (Tangible Equity)	47,137	50,674
8. Interest Income	24,369	20,714
9. Interest Expense	(3,510)	(2,145)
10. Net Interest Income	20,859	18,569
11. Non-Interest Income	2,927	3,681
12. Provision for Loan Loss	(12,500)	(2,376)
13. Non-Interest Expense	(17,018)	(16,780)
14. Net Income	(5,732)	3,094
15. Non-accrual Loans	26,351	22,518
16. Gross Charge-offs	9,718	1,768
17. Allowance for Loan Losses (All)	7,404	7,281
18. Total Employees	142	145
19. Total Customer Households	20,115	20,077
20. Products per Bus Customer	3.85	2.89
21. Camel Rating	3.00	3.00

BUSINESS BANKING GROWTH PROCESS



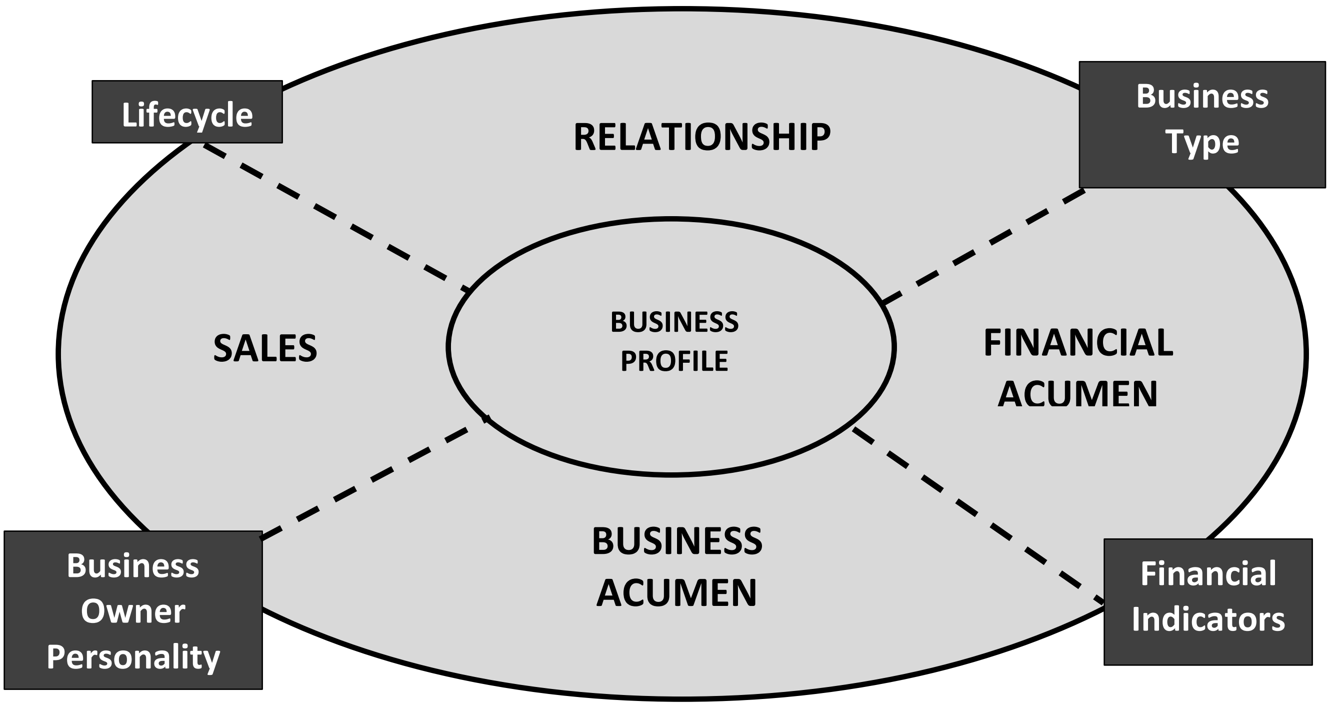
Will	**Skill**	**Refill**



DIRECTOR RATIOS

LIQUIDITY RATIOS	Formula	Calculations	FSB	Peer Group
1. Quick	Cash + Deposits + Securities / Total Assets	______ =	______	______
2. Loan/Deposit	Total Loans / Total Deposits	______ =	______	______
3. Deposits/ Assets	Total Deposits / Total Assets	______ =	______	______
CAPITAL RATIO				
4. Capital Ratio	Tier 1 Capital / Total Assets	______ =	______	______
PROFITABILITY RATIOS				
5. Net Interest Margin	Int. Income - Int. Expense / Earning Assets	______ =	%	%
6. Return on Assets (ROA)	Net Income / Total Assets	______ =	%	%
7. Non-Interest Income	Non-Interest Income / Total Assets	______ =	%	%
8. Efficiency Ratio	Non-Interest Expense / Net Int Inc. + Non-Int Inc.	______ =	%	%
9. Assets/Employee	Total Assets / Total Employees	______ =	______	______
ASSET QUALITY RATIOS				
10. Non-Accrual (Texas Ratio)	Non-Accrual Loans / Tier 1 Cap + All	______ =	%	%
11. Gross Charge Offs	Gross Charge Offs / Total Loans (Net)	______ =	%	%

BUSINESS BANKING RELATIONSHIP LENDING



SELLING STYLE PROFILE

TRADITIONAL SELLING	RELATIONSHIP SELLING
“ME” Oriented	“WE” Oriented
Persuasion	Communication
Showmanship	Interviewing
Aggressiveness	Questioning
Thick Skin	Cooperation
Competitiveness	Sensitivity
Killer Instinct	Helping Instinct
Selling Is A Contest	Selling Is A Service
Selling Is Persuading	Selling Is Helping
Customers Must Be Sold	Customers Love To Buy
The Close Is #1	The Follow-Thru Is #1
Great Sellers Are Manipulators	Great Sellers Truly Care
It Works – *Once!*	It Works – *Again & Again!*

DEALING WITH PERSONALITIES

Dealing with **ANALYTICS:**

- Be systematic, exact, organized and prepared and have data for them.
- List advantages, disadvantages of the proposal.
- Give analytic time to verify words and actions.
- Provide solid, tangible, factual evidence.
- Follow up in writing to verify the discussion.
- Do not rush the decision-making process.

ANALYTICS are:
Conservative
Exacting
Objective
Black and white
Logical
Time tested

Dealing with **DRIVERS:**

- Dominance respects dominance – stand your ground. Be self-confident.
- Be precise, efficient, time-disciplined and well organized.
- Give recognition to their ideas, not to them personally.
- Keep relationship business-like. Do not attempt to develop a personal relationship unless customer wants it.
- If you disagree, argue facts toe-to-toe; however, do not over-dominate.

DRIVERS are:
Results oriented
Performance oriented
Professional
Relentless
Incisive
Impacters

Dealing with **AMIABLES:**

- Build a strong, sincere relationship.
- Be interested in customer as a person and listen.
- Take away from office for coffee, lunch, etc.
- Offer personal assurance of support.
- Do not overstate guarantees.
- If you disagree, do not debate facts and logic; discuss personal feelings and opinions.

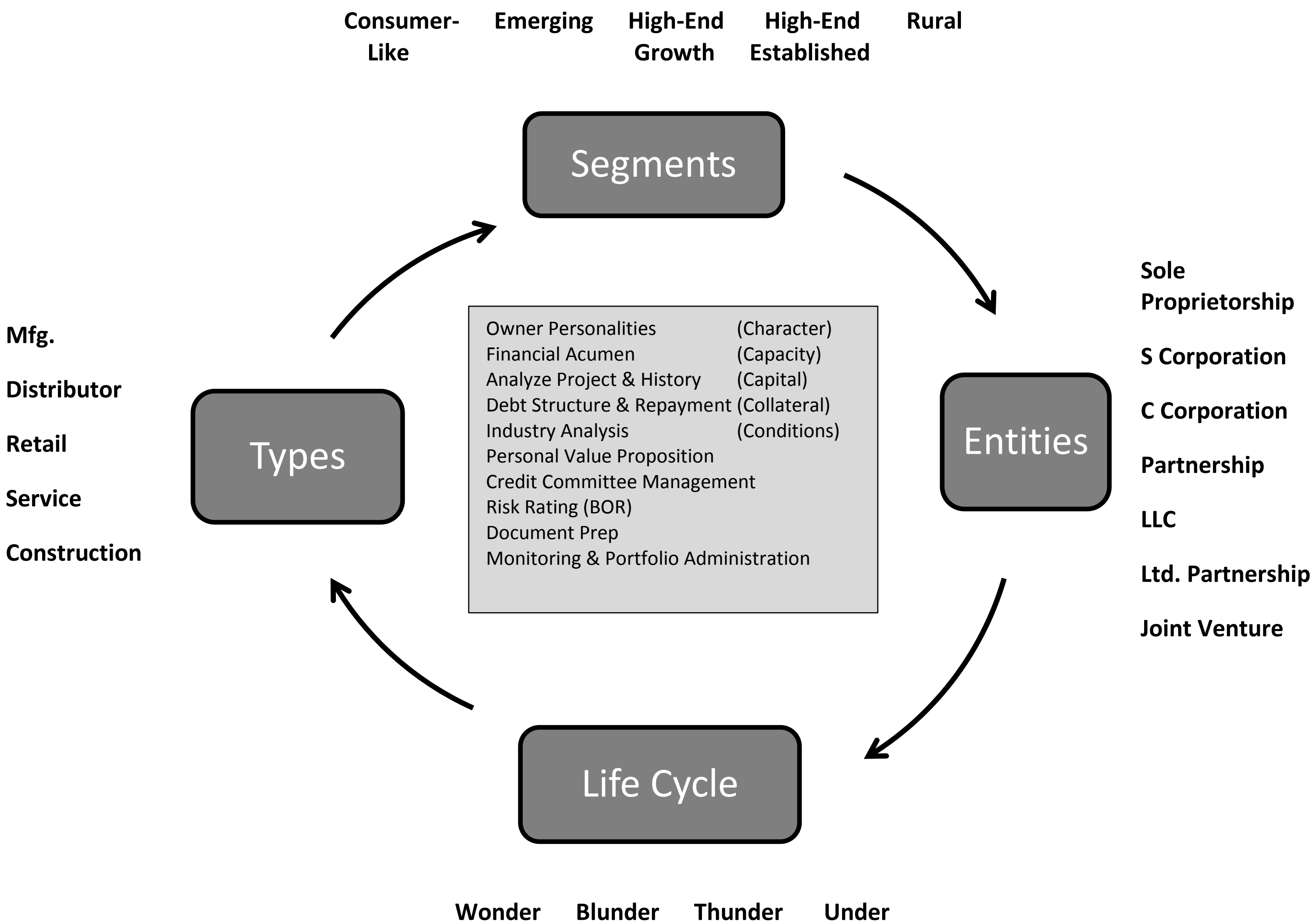
AMIABLES are:
Loyal
Team players
Prudent
Dependable
Comfortable
Supportive

Dealing with **EXPRESSIVES:**

- Give them center stage.
- Summarize in writing to verify agreed upon discussion.
- Use referrals from important people and companies. Drop names.
- Be entertaining and fast-moving.
- Talk about opinions, ideas and dreams.

EXPRESSIVES are:
Creative
Innovative
Revolutionary
Dynamic
Dramatic
Achievers

COMPONENTS OF BUSINESS BANKING



SUCCESS PRINCIPLES

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DISCUSSION QUESTIONS

1. What is the US GNP? $_________________ US Government Debt? $__________________
2. In the USA, what is the current total amount of Government, Corporate, Financial, & Consumer debt? $__________________trillion
3. $__________________billion of deposits were withdrawn in 10 days from WAMU.
   $__________________billion of wealth was lost in 1929.
4. What was the total commitment of rescue funds from the Fed, FDIC, Treasury, and FHA?
   $___________________trillion
5. In the USA & Canada there are 335 million people. What percentage of them are millionaires excluding their primary residences? _______________ %
6. The USA has what percentage of the world's population? _______________ %
   The USA has what percentage of the world's wealth? _________________ %
7. Ten percent of the taxpayers made over $92,000 and paid ______________ % of the total taxes?
8. In 1965, the DOW was __________________. In 1982, the DOW was ________________.
9. There are +/- 7,500 banks in the USA. Wells Fargo, Bank of America, Citibank, and JP Morgan Chase have _____________ % of all banking assets?
10. What is a credit default swap? ____
    What is a Mortgage Back Security (MBS)? ____

EXTRA CREDIT:

11. What is the birthrate of Western Europe (per family)? _________________
12. Number of Baby Boomers alive ___________ vs. Gen X _____________ in 2009?
13. What are the three ways the Fed controls the money supply (monetary policy)?
    a.
    b.
    c.
14. How much Microsoft could you buy for $1 trillion dollars? ______________%
15. What percentage of millionaires accumulated their wealth through business ownership?
    _____________%
16. What is the capital ratio (C/A) of your bank? ________________________ %