

Opportunities in Crisis:

Managing unique accounting and reporting challenges in government-assisted transactions

December 2009



A publication of the PricewaterhouseCoopers' Financial Research Institute (FSI)

PRICEWATERHOUSECOOPERS 

Table of contents

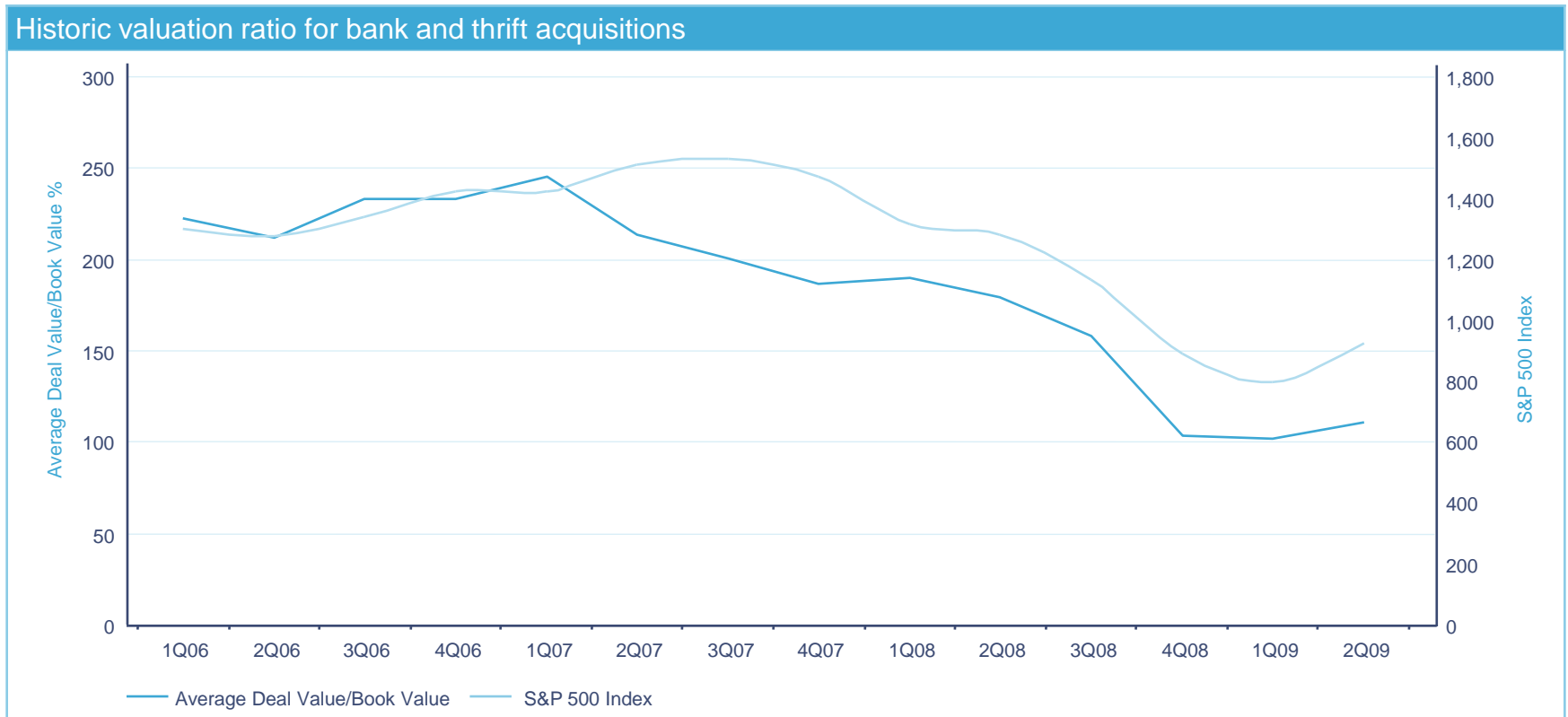
Section		Page
1	Point of view	3
2	Current situation: The US banking market	15
3	A framework for response	30
4	How PwC can help	43
Appendix A	Select qualifications	53

Section 1 – Point of view

Point of view

A once-in-a-generation opportunity in the US market

Occurring at historically low valuations, the majority of the acquisitions currently taking place in the banking industry are distressed or government-assisted transactions. Under these circumstances, deals must close quickly, minimizing the time available to perform due diligence.



Source: SNL and Factiva

PricewaterhouseCoopers

4

Opportunities in Crisis:
Managing unique accounting and reporting challenges in government-assisted transactions

Point of view

Today's market offers strategic opportunities for growth and expansion

The financial crisis has, in our view, provided one of the most strategic opportunities in recent history for healthy financial institutions to grow and expand in the US marketplace. We believe that these institutions should strongly consider how these opportunities can benefit their businesses.

The US has traditionally had one of the most difficult banking markets to penetrate, making it difficult for banks to create a profitable business model. Over the last several decades, established players have continued to grow their businesses to the point where the largest four financial institutions control 36 percent of US banking assets and have reached regulatory and other constraints that will limit further acquisitions in the current environment. At the same time, the Federal Deposit Insurance Corporation (FDIC) has identified over 400 troubled institutions with \$299.8 billion in assets. Many of these institutions will eventually be seized and sold by the FDIC with loss-sharing agreements between the government and the buyer. These agreements provide protection for buyers of commercial assets of 80 percent of potential loan losses from the acquired assets up to a stated threshold, and then 95 percent of assets thereafter.¹

Given this situation, we believe that a number of the existing regional and community banks, along with foreign institutions, have a “once-in-a-generation” opportunity over the next 12 to 18 months to establish a foothold and/or significantly grow their US market footprint at attractive prices with minimal risk. These opportunities, in our view, should be approached in a manner that differs from normal M&A and/or organic growth strategies.

¹ FDIC

Point of view

Failed bank acquisitions present new opportunities and unique integration issues

Understanding the unique integration challenges and planning accordingly are essential to a successful integration.

- Through involvement with several major failed bank integrations in 2008-2009, we have observed unique characteristics of these deals that complicate standard acquisition activities and procedures. Failed bank acquisitions differ from other acquisitions in several notable ways:
 - Deal timelines are condensed and are not planned to close at a month-end
 - Loss-sharing arrangements drive changes to existing operations
 - Acquisition and loss-share accounting generate the need to manage four distinct accounting bases
- These challenges can place considerable strain on the ability of the acquiring bank to successfully integrate the acquired bank. In particular, the acquiring bank will likely face issues in:
 - Performing valuations, cash flow modeling, and loan performance analysis
 - Building new processes to support SOP 03-3, FAS 141R, and tax reporting
 - Accessing accurate and timely data
 - Generating external reporting
 - Locating and accessing specialized skills and tools necessary to drive the initial integration steps

Point of view

Challenges: Condensed deal timelines

Condensed deal timelines and mid-cycle acquisitions are standard for failed bank deals and can complicate integration activities. Acquiring banks should be prepared to make adjustments for irregular timing.

- Based on our experience, banks have between seven and 14 days from the time they receive an information package to the date bids are due. This significantly compresses the due diligence window.
- Under usual conditions, most banks have an existing integration playbook that allows for a planning window in advance of the transaction close followed by a structured integration. Deals generally close at the end of a quarter, which provides ample time for purchase accounting. Banks should develop a new playbook that accounts for mid-month transactions that close without a planning window.
- Major tasks impacted by these compressed timelines include:
 - Completing deal due diligence
 - Completing purchase accounting
 - Obtaining data necessary to value assets and report losses
 - Integrating new fair value accounting processes by quarter-end
- Accounting and data quality issues that are not addressed during the initial integration period can become more complex and time-consuming to resolve as time passes.

Number of bank failures by closing date



Source: FDIC

PricewaterhouseCoopers

Point of view

Challenges: Loss-sharing agreements

The FDIC has entered into loss-sharing agreements with many acquiring banks. Acquiring banks should be prepared to develop new operational processes to gather and record loan portfolio details and activity, as well as modify existing processes to meet agreement requirements.

- The FDIC uses two forms of loss sharing. The first is for commercial assets, and the other form is for residential mortgages. Loss-sharing agreements typically require an organization to build new processes for:
 - Identifying and segregating covered assets
 - Tracking expenses and fees at an individual asset level
 - Segregating allowable and non-allowable expenses
 - Calculating losses in accordance with the loss-share agreement
 - Managing detailed documentation of credit decisions and actions including loan modifications
 - Producing certifications of losses and recoveries, usually monthly, for single family and quarterly for commercial properties
 - Providing detailed loan activity and static loan data via data packages
 - Determining tax basis in assets subject to loss sharing
 - Determining applicability of Day-One deferred tax gain pursuant to the regulations under IRC Sec. 597
 - Supporting regular audits by internal and external auditors as well as agency examiners
 - Managing a history of claimed losses and tracking recoveries over an extended period
- Approximately 59 percent of all failed bank acquisitions from January 1, 2009, to September 30, 2009, included loss-sharing agreements (based on press release data).¹

¹ FDIC and PwC Analysis

Point of view

Challenges: New accounting requirements

FAS 141R become effective in periods after December 15, 2008; this, combined with the first-time implementation of SOP 03-3 for many institutions, are driving the need for new accounting processes. These new accounting processes have wide-ranging impact on operations, from credit risk management to loan servicing.

- According to FAS 141R, all acquired assets and liabilities should now be recorded at fair value. Subsequent to the initial purchase accounting, organizations have several choices as to how to treat their assets, and how to accrete any discounts over time. SOP 03-3 requires organizations to implement specific methods for recognizing the discount over time as well as new external reporting measures for acquired impaired assets. Loss-sharing transactions also require organizations to develop entirely new processes to meet GAAP and tax requirements.
- Depending on accounting elections, many organizations will have to implement new processes for:
 - Loan accounting (book and tax)
 - Calculating loan-loss reserves
 - Management reporting
 - Tax reporting related to application of IRC Sec. 597
 - External reporting
 - Profitability and margin analysis
 - Financial close procedures
 - Regulatory reporting

Point of view

Impact on processes: Performing valuations, cash flow modeling, and loan performance analysis

While many banks have previous experience in implementing cash flow models to determine the fair value of loan portfolios, these models may not support all acquired asset classes or provide the information necessary to support ongoing accounting and tax requirements.

- Valuing assets is not new for banks. However, the timeframes for completion of valuation activities combined with accounting requirements can require banks to significantly enhance their toolkits and may require the acquisition of additional personnel.
- Many organizations choose to rely on external parties to provide market data to support bidding processes. The valuation approaches used in the bid process generally do not support the level of detail required to support accounting requirements because Day-Two models must support a much more detailed analysis of the causality of changes in value. Organizations have a very short timeframe in which to build or enhance models that generate the future expected cash flows by loan or by loan pool.

Point of view

Building accounting and tax operations to include FAS 141R, SOP 03-3, and loss sharing

New loan accounting processes need to be constructed, which will impact credit risk management, loss mitigation, and loan servicing processes.

- SOP 03-3 requires implementation of a completely new basis of accounting with changes to how interest income is recognized and how incoming payments of principal and interest are applied. Organizations must implement new operational procedures to manage this new basis, which requires building processes to manage the acquisition, reconciliation, and transformation of loan transactions.
- Managing the new accounting basis also has a ripple effect in other areas of the bank. Under FAS 141R and SOP 03-3, acquired loans are recorded with a discount that takes into account future credit losses. Traditional accounting processes for provisioning for loan losses and recording charge-offs must be changed for many, if not all, acquired loans. Accounting differences will also have an effect on loan workout strategies, and loan servicing procedures may have to be altered to meet accounting requirements.
- Tax purchase price may differ from the price under FAS 141R accounting. Allocation of tax purchase price under IRC Sec. 597 will likely result in material book/tax differences.
- Component 1 and Component 2 will need to be considered if classification to goodwill is recognized under FAS 141R.
- Tax accounting for SOP 03-3 loans will need to be considered concurrently to determine tax liability and process optimization and related data requirements. Alternate tax accounting methods should be considered, but these methods may affect DTA balances which can impact regulatory capital.
- Tax-saving strategies need to be identified as well as any federal/state differences that may exist depending on footprint.

Acquiring banks will have to manage through significant changes driven internally by systems and process conversions.

- To complicate the matter of building a completely new accounting process, acquiring banks will also have to manage through a series of changes as acquired bank processes are modified to the target operating model and systems are converted. Each conversion and process change must be carefully planned to ensure the changes will be properly accounted for in the overlay SOP 03-3 accounting processes.

Point of view

Operational challenges associated with SOP 03-3

The overlay of SOP 03-3 accounting drives the need for a detailed understanding of procedures that may not be adequately documented or understood by acquired bank personnel.

- Historical bases of loan accounting will be left intact to support loss recognition and reporting to the customer in accordance with contractual provisions. Under SOP 03-3 and FAS 141R, initial fair value and Day-Two accounting processes will need to be overlaid on these existing processes. This requires a detailed understanding of when and how the following occur and impact the new accounting and tax processes: existing procedures surrounding charge-offs, transition to real estate owned (REO), troubled debt restructuring (TDR), funds disbursements, and interest accrual.
- To gain an appropriate understanding, it may be necessary to interview a large number of acquired bank staff. These issues can significantly increase integration costs as well as place a significant burden on key acquiring bank accounting and operations personnel.

Identifying and correcting reconciling items are significant challenges.

- Acquiring banks must consider that smaller and less sophisticated organizations may not reconcile their books on a daily basis, and may have monthly and quarterly close processes that take longer than those of the acquiring bank. Time-consuming reconciliation and remediation processes slow down the generation of accurate cash flow forecasting and roll-forward of SOP 03-3 loan balances.
- If opening and period-end balance inaccuracies are not detected and corrected early, they can cause substantial amounts of re-work in later accounting periods. The late detection of balance inaccuracies can also result in errors and/or delays in external reporting.

Point of view

Accessing accurate and timely data

A significant amount of information is necessary to support the accounting requirements in failed bank acquisitions.

- Acquiring banks are required to quickly understand the acquired bank's organization, processes, and information systems to produce financial results. As previously mentioned, failed banking transactions do not provide sufficient time to perform these procedures as a part of the normal due-diligence process.
- Information not regularly used to service and manage a loan portfolio, but critical to effective valuation of the loan portfolio under SOP 03-3, may be available only in formats that have to be cleansed and heavily manipulated. Information sourced from manual processes and spreadsheets may have low levels of data integrity because there are limited input controls as well as structural controls around the data.
- To add to the complexity, most acquiring organizations will convert acquired bank systems, and each conversion will require planning, design, testing, and the implementation of new accounting operations. Depending on the size and complexity of the acquired organization, data acquisition and transformation processes may have to be modified multiple times to account for various conversions. Each conversion will need to be tested, and a full reconciliation of results must be performed to ensure continued data integrity.

Point of view

Performing accurate corporate reporting and disclosure

Failed bank transactions involving credit-impaired assets and/or loss-sharing agreements generally require organizations to quickly build new reporting procedures and consolidation processes.

- SOP 03-3 requires new disclosures including the accretable yield roll-forward, which many organizations may not have readily enabled via their ledger and reporting systems. Credit analysis and reporting processes will have to take into account the different treatments and exposures associated with SOP 03-3 and covered assets when forecasting losses. Management may also choose to report covered assets separately to investors in order to provide more transparency related to credit exposure.
- Another significant challenge is the election of a pooled asset approach to SOP 03-3, which will impact some regulatory reporting requirements. Under pool accounting, a group of assets is accounted for as a single unit and the individual assets no longer have discrete balances. This becomes a challenge when subsets of pools must be reported differently for delinquency, maturity, and call report line items. Reporting processes will have to be adapted to manage through this challenge.

Management and corporate analysts will have to develop new tools for measuring and forecasting business results.

- Management reporting will have to take into account new income recognition, loss provisioning, accrual status reporting, and asset pooling which may affect the following:
 - Margin forecasts
 - Credit loss and NPA forecasts
 - Profit and loss analysis
 - Accountability measures for underlying asset performance

Section 2 – Current situation: The US banking market

Current situation: The US banking market

Today's landscape of the banking industry

Distressed banks	Market capitalization for the banking sector has fallen more than 27 percent since 2006, evaporating nearly \$458 billion in shareholder value. Nonperforming loans continue to rise at an accelerated pace during 2009, largely due to rising impairments in commercial real estate and mortgage loans. Despite large provisioning and charge-offs in 2008 and early 2009, additional reserves may be needed to continue to match rising delinquencies and nonperforming loans.
Weak asset generation	The continued focus by banks on improving the credit quality of existing loan portfolios, coupled with the need to preserve capital and liquidity, has significantly impacted loan origination volumes in 2009. This will likely continue to be an issue until liquidity improves and credit-related weaknesses can be resolved.
Capital raising and preservation	Banks have preserved existing capital by slashing dividends and issuing new common stock and debt, diluting earnings per share (EPS) and existing shareholdings. Alternatives to issuing additional stock include divesting non-strategic businesses to free capital for core businesses.
Steep yield curve	Short-term yields have been near zero since the end of 2008 and long-term yields are rising. As a result, the yield curve continues to steepen, a positive for banks that borrow short-term and lend long-term.
Stress test results	Results were released for the 19 institutions selected for stress testing: 10 were deemed to need additional capital totaling \$74.6 billion, and each issued capital plans. As of the end of June 2009, 32 banks, including the 10 mentioned above, repaid TARP funds totaling \$70.1 billion.

Current situation: The US banking market

Today's landscape of the banking industry

TALF and PPIP programs

The Term Asset-Backed Securities Loan Facility (TALF) aims to generate up to \$1 trillion in consumer and small-business loans by making nonrecourse loans available for use in purchasing newly issued AAA-rated ABS. In May, the Federal Reserve (Fed) expanded the TALF program to include certain commercial mortgage-backed securities. The Public-Private Investment Program (PPIP) was also recently unveiled, providing up to \$100 billion in TARP funds to match with private funds to buy up to \$1 trillion in toxic assets.

Proposed regulatory modifications

After testing the waters for a radical overhaul of the regulatory system, the Obama administration proposed a more modest plan in which the Fed regulates financial companies. However, the final version may vary significantly, and will likely have a significant impact on bank capital levels and consumer protection rights.

Current situation: The US banking market

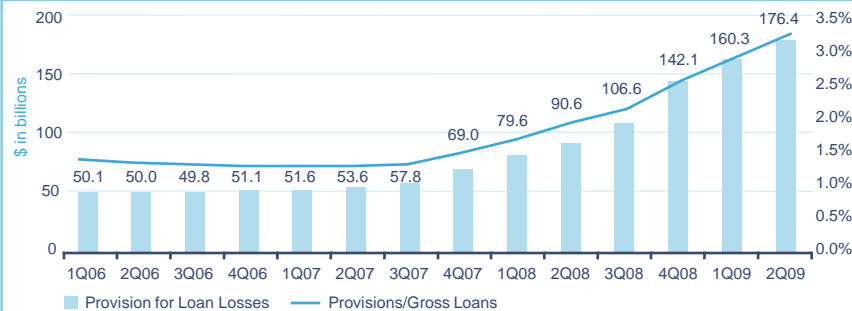
The recent economic turmoil has been a drag on bank profitability

The cumulative effects of the economic recession, a contraction in credit markets, and the deterioration of asset values have resulted in significant losses for US banks.

- Rising nonperforming loans have forced banks to increase their net charge-offs and loss provisioning to boost reserves. However, the depth of the problems with nonperforming assets remains unclear.
- Banks have increased their provisions in both absolute terms and as a percentage of average loans resulting in a sharp decline in bank profits. However, loan loss reserves are still low relative to NPLs (117 percent in 1Q09 and 103 percent in 2Q09), indicating that further provisioning may be necessary.
- Return on average assets has been falling since the onset of the financial turmoil, dropping from 1.31 percent in 1Q06 to 0.27 percent in 2Q09 for banks and thrifts.
- Thrifts, which have large exposure to mortgage lending, were impacted to an even great extent early in the credit cycle.
- These losses have been eroding banks' and thrifts' capital bases, forcing them to issue new capital to boost equity levels and improve their liquidity positions.

Provision for loan losses – Public banks and thrifts

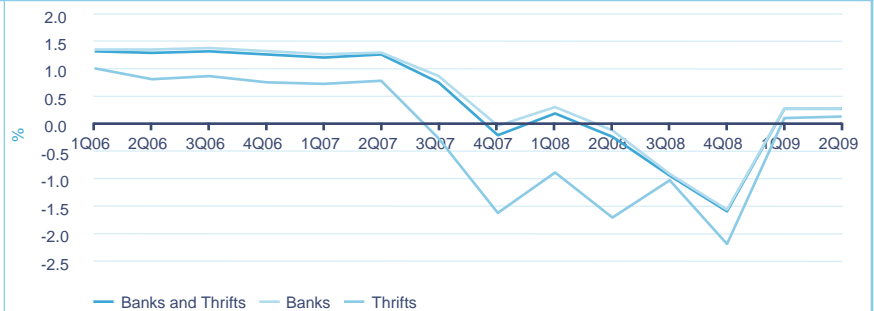
1Q06 to 2Q09



Source: SNL "Public Banks/Thrifts listed at NYSE, NYSE Amex, NASDAQ at June 30 2009"

Return on average assets – Public banks and thrifts

1Q06 to 2Q09



Source: SNL "Public Banks/Thrifts listed at NYSE, NYSE Amex, NASDAQ at June 30, 2009"

Current situation: The US banking market

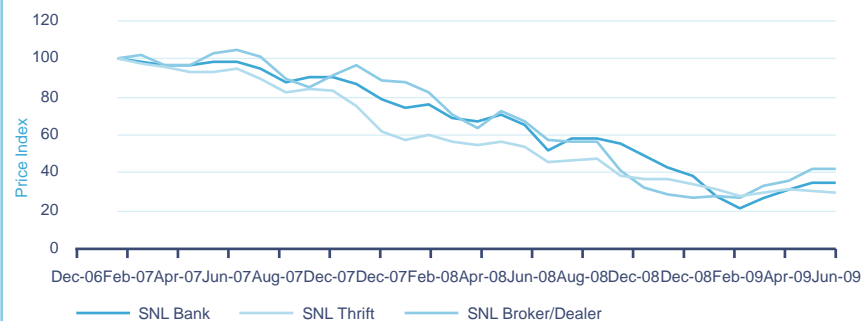
Share prices across the banking sector have plummeted

Across the banking sector, share prices have been falling, bringing market capitalization into freefall since 2006. This represents the evaporation of \$458 billion of shareholder value (which excludes institutions that failed or were acquired making the true decline even larger).

- Share prices across the banking sector have been impacted by the recent financial crisis, falling to levels not seen since the 1990s.
- At the end of June 2009, banks, as represented by the SNL Bank Index, lost 65 percent of their value since 2006. Thrifts lost 70 percent, and broker/dealers lost 58 percent over the same period.
- The Bank Index performance was much worse than the S&P 500, which lost 35 percent during this period.
- The dramatic decline in share prices has severely impacted market capitalization. For banks, thrifts, and broker/dealers combined, market cap fell from \$1.67 trillion at year-end 2006 to \$1.21 trillion in early October 2009.
- The largest decline was for banks, which lost \$435.1 billion (32 percent) of their market cap since 2006.
- Thrifts, in comparison, lost \$13.3 billion (22 percent) of their market cap over the same period.

SNL bank, thrift and broker/dealer indices

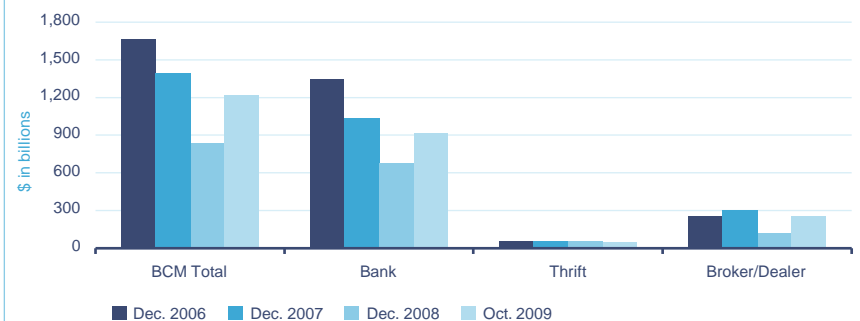
January 2006 to June 2009



Source: SNL

Market capitalization – Public institutions

December 2006 to October 2009



Source: SNL “Public Banks/Thrifts listed at NYSE, NYSE Amex, NASDAQ as of Oct 9, 2009

Current situation: The US banking market

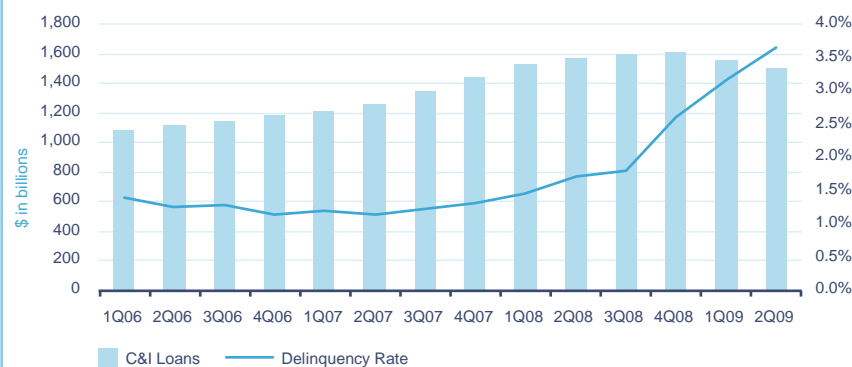
Commercial lending delinquencies are rising

Commercial real estate delinquencies are on the rise and have reached a 15-year high. These rates have been known to rise as high as 12 percent at peak in a recessionary trough. Overall commercial lending grew modestly during 2008, with a recession-consistent decline since 3Q08.

- US bank-held commercial and industrial (C&I) lending comprises about 21.2 percent of the aggregate bank loan portfolios.
- C&I lending rose as delinquencies fell following the last recession. C&I loans reached a plateau in 2008 as delinquencies again became a serious concern.
- Delinquencies rose to 3.7 percent of outstanding loans in 2Q09 for C&I lending.
- Commercial real estate lending continues the 2008 trend of rising delinquencies, which have risen to 7.7 percent.
- Commercial real estate is especially cyclical, as it depends on the resilience of the consumer economy. The financial crisis of 2007–2009, together with the leveraged nature of collateralized lending, contributed to particularly poor performance in 2009.

Commercial & industrial loans and delinquency rates

1Q06 to 2Q09



Source: Federal Reserve

Commercial real estate loans and delinquency rates

1Q06 to 2Q09



Source: Federal Reserve

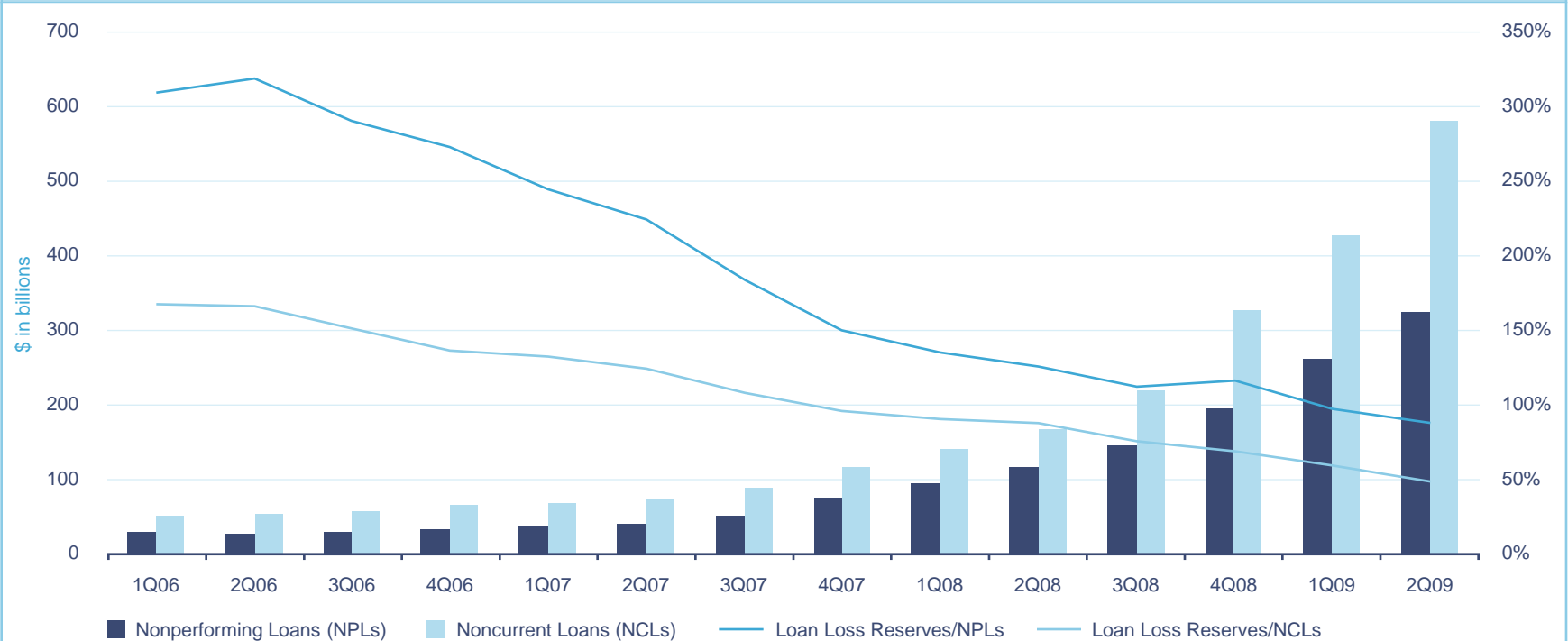
Current situation: The US banking market

Loan loss allowances do not appear to have kept pace with the increase in non-accrual loans

Loan loss reserves have not risen as quickly as nonperforming loans (NPLs). Large loan loss provisioning during 2008 has massively impacted profitability and capital levels, but was required given the sharp deterioration in asset quality. However, reserve coverage ratios have declined since 2006 as the rate of growth in NPLs has outpaced provisions.

Loan loss reserve to nonperforming loans & noncurrent loans

1Q06 to 2Q09



Source: SNL

Current situation: The US banking market

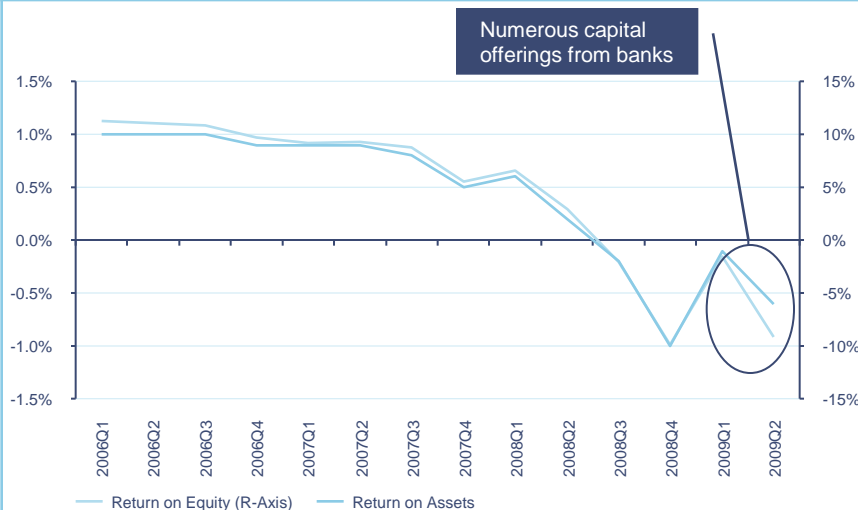
Signs of recovery

Despite a significant decline since 2007, the performance of certain banks has started to show signs of recovery.

- The declining ROA and ROE trend, driven by mounting credit losses since 2007, continues to deteriorate despite a slight improvement in Q1 2009. It is apparent that losses on problem assets may continue to increase in the near future.
- Net interest margins at smaller institutions have been more volatile than those for larger institutions. Sharper declines and subsequent recoveries are observable during the past quarters' buckled yield curves. The overall trend is upward as banks have finally started to benefit from the steepening yield curve.

Average return on equity vs. Average return on assets

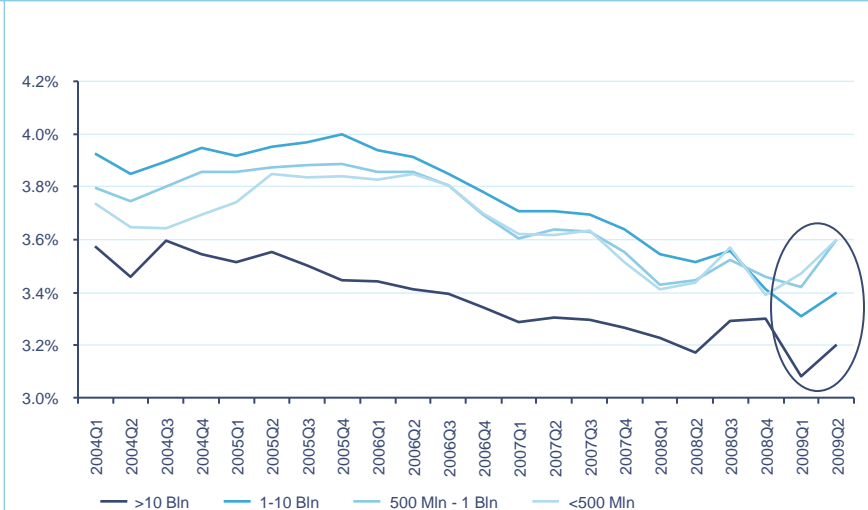
1Q 2006 – 2Q 2009



Source: SNL

Net interest margin by asset size

1Q 2006 – 2Q 2009



Source: SNL

Current situation: The US banking market

Despite significant capital-raising efforts, over 120 banks have failed since the start of 2008

While the number of failures is low compared to the savings-and-loan crisis of the 1980s, the associated assets of these failed banks is much higher in the current cycle.

Top 20 failed banks by asset size (\$ billions)					
No.	Bank	Date of Failure	Asset Size (\$ billions)	No. of Branches	Est. Cost to FDIC (\$ billions)
1	Washington Mutual	9/25/2008	307.0	2239	-
2	IndyMac Bank	7/11/2008	32.0	33	8.9
3	Colonial Bank	8/14/2009	25.0	346	2.8
4	Guaranty Bank	8/21/2009	13.0	162	3
5	BankUnited FSB	5/21/2009	13.1	85	4.9
6	United Commercial Bank	11/6/2009	12.8	63	1.4
7	Downey Savings and Loan	11/21/2008	12.8	175	1.4
8	California National Bank	10/30/2009	7.8	68	#
9	Corus Bank, NA	9/11/2009	7.0	11	1.7
10	Franklin Bank, SSB	11/7/2009	5.1	46	1.6
11	Park National Bank	10/30/2009	4.7	30	#
12	Silverton Bank	5/1/2009	4.1	6	1.3
13	PFF Bank & Trust	11/21/2008	3.7	38	0.7
14	San Diego National Bank	10/30/2009	3.6	29	#
15	First National Bank of Nevada	7/25/2008	3.4	25	0.9
16	Irwin Union Bank and Trust Co.	9/18/2009	2.7	23	0.4
17	Pacific National Bank	10/30/2009	2.3	18	#
18	ANB Financial	5/9/2008	2.1	9	0.2
19	Silver State Bank	9/5/2008	2.0	N/A	0.6
20	Georgian Bank	9/25/2009	2.0	5	0.9
Total			466.2		30.7

Source: SNL & FDIC

Part of a deal which included nine banks total, with an estimated cost to the FDIC of \$2.5 billion

- Institutions have been raising debt and equity in the market to sustain capital and boost liquidity. In 2008, banks raised nearly \$440 billion from capital markets, including TARP funds, and over \$160 billion through Q3 2009.
- The current financial crisis is the most severe in generations due to the magnitude and effects across several financial services sectors. It has affected large institutions and small institutions alike.
- Washington Mutual, Bear Stearns, Lehman Brothers, and Wachovia all failed or were forced into being acquired. Citigroup has reached out for government support on three occasions, the last of which exchanged preferred securities for up to a 36 percent stake in the company's common stock.
- The number of failures is still low compared to the past, as more failures occurred in each year between 1981 and 1993 than in 2008. However, the FDIC is following over 400 problem banks.

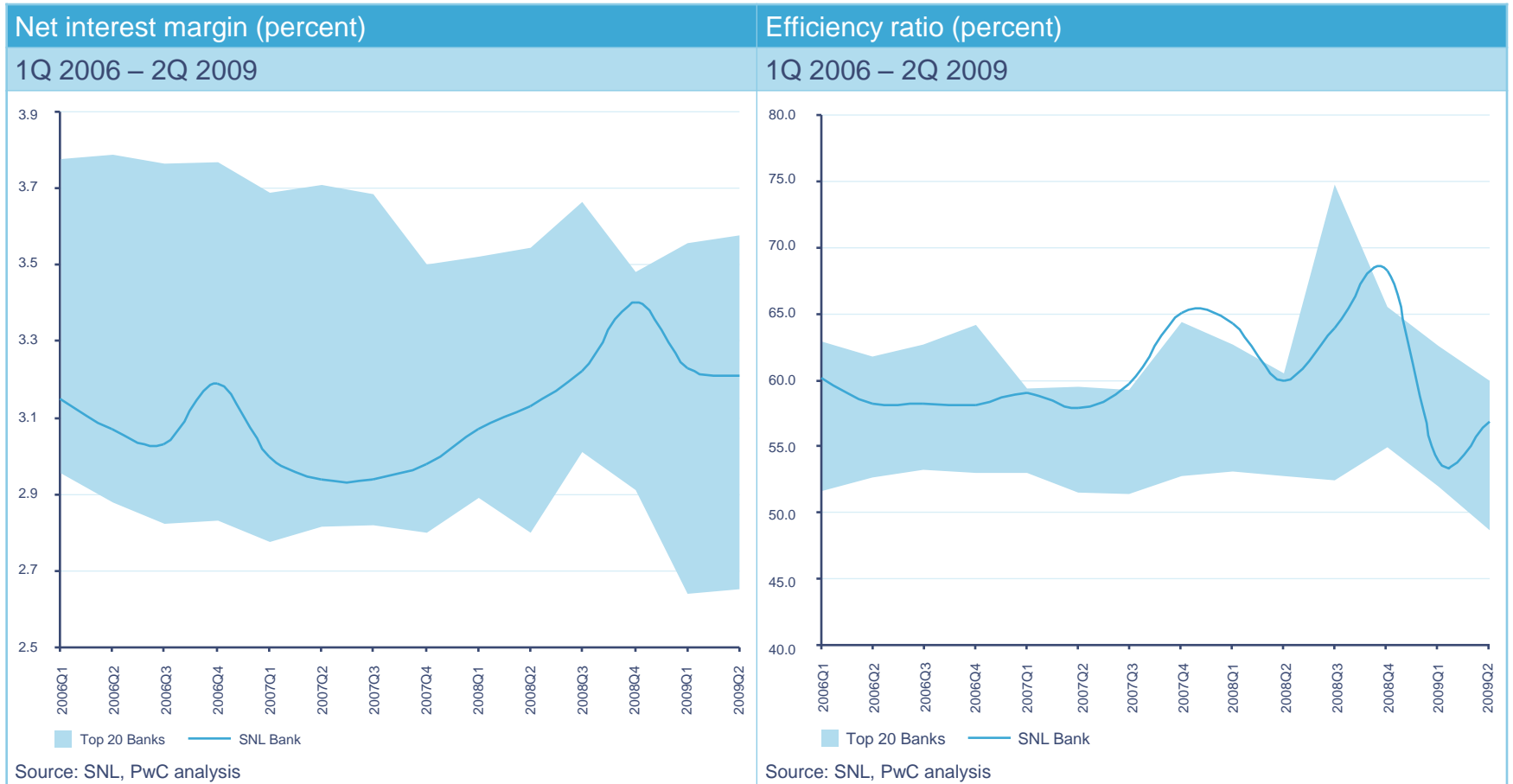
Current situation: The US banking market

Banking industry outlook

<p>Risk of bank failures continues</p>	<p>The second quarter of 2009 marked signs of economic stabilization; however, banks continue to experience problems related to nonperforming loans and other assets. While large institutions have been able to raise capital and repay TARP funds, there is an elevated risk of smaller institutions failing.</p>
<p>Less diversified banks are in a weaker position</p>	<p>Conditions have created a difficult business environment for many smaller and less-diversified banks. These conditions are easing as of 2Q09; much of the improvement can be attributed to the Fed's liquidity and capital injections.</p>
<p>Regulatory enforcement continues to evolve</p>	<p>The regulatory overhaul will be a significant industry focus in the coming months. After testing the waters for a radical overhaul of the regulatory system, the Obama administration proposed a more modest plan where the Fed regulates all financial companies that pose systemic risk. However, the final version may vary significantly from the current plan.</p>
<p>Banks will remain focused on fixing current problems</p>	<p>Cost-cutting efforts continue to be instituted via headcount cuts and other rationalizations. Banks that are still very much "on the brink" are simply scrambling to survive. Most managerial activities are focused on emergency funding strategies and bolstering performing business/segments to prop up struggling segments.</p>

Current situation: The US banking market

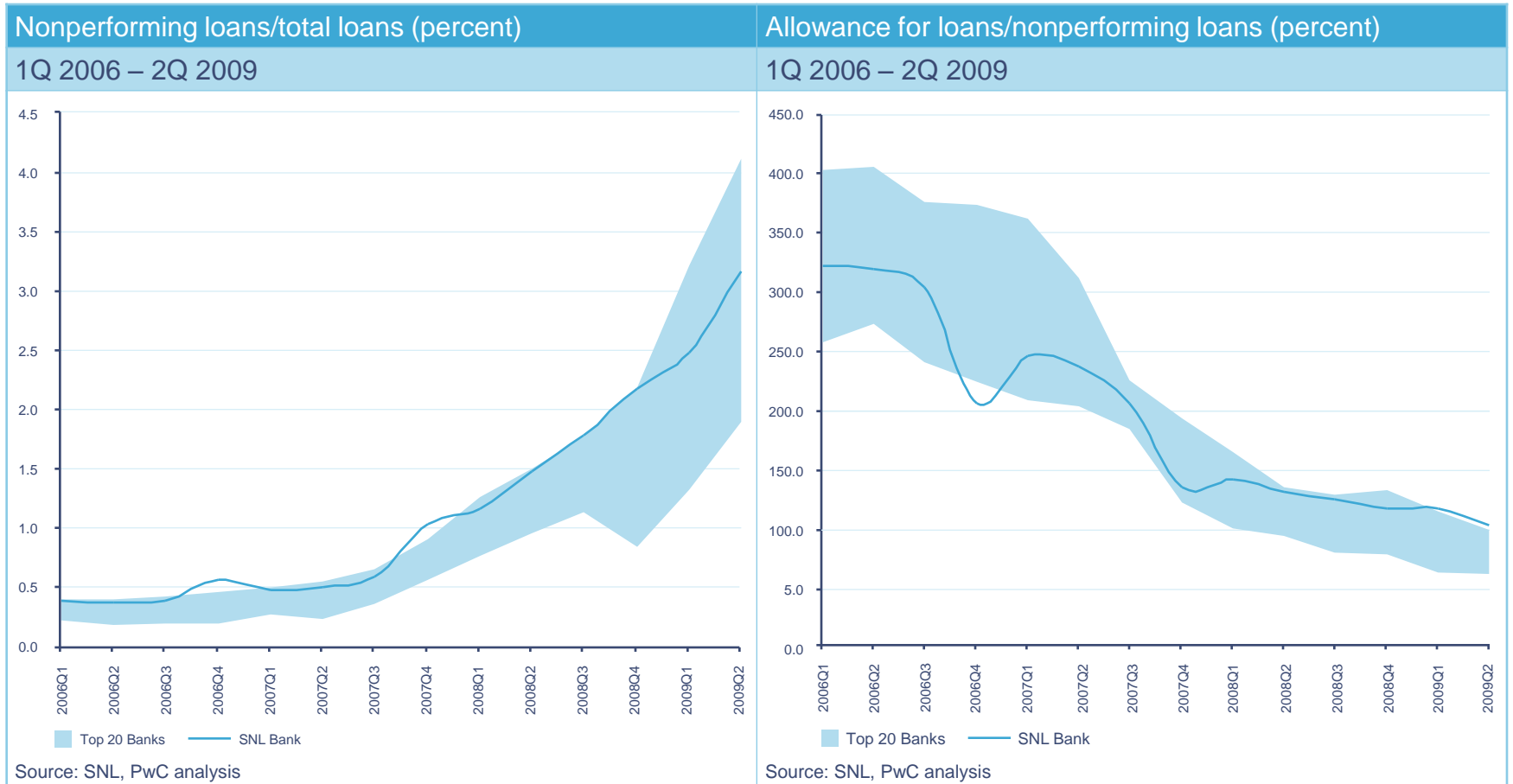
Profitability – Top 20 banks versus average of all public banks



Note: SNL Bank represents the average of all public banks in the US. Top 20 banks represent the largest 20 public banks in the US, for which complete data was available for each period analyzed above.

Current situation: The US banking market

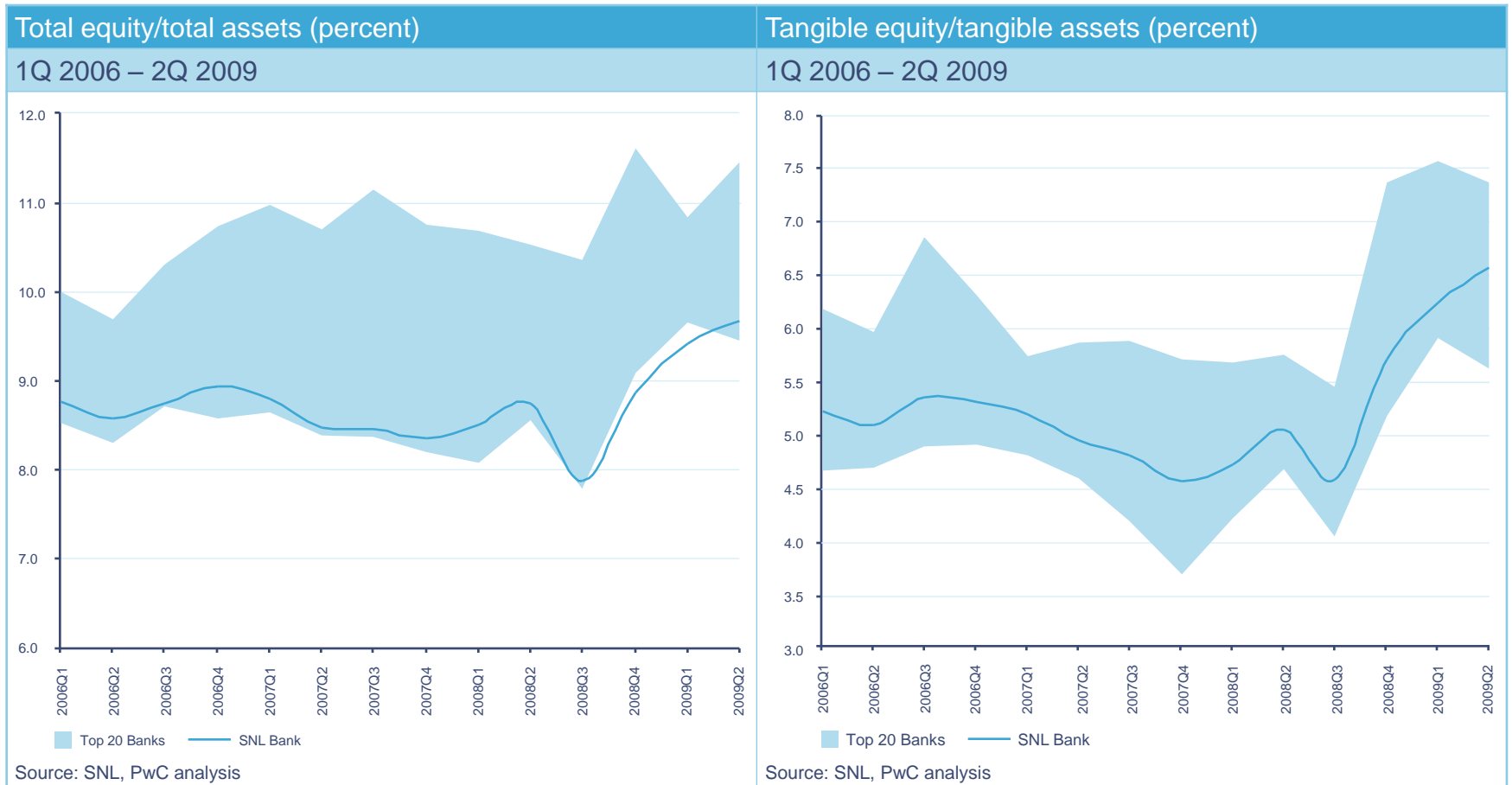
Asset quality – Top 20 banks versus average of all public banks



Note: SNL Bank represents the average of all public banks in the US. Top 20 banks represent the largest 20 public banks in the US, for which complete data was available for each period analyzed above.

Current situation: The US banking market

Capital – Top 20 banks versus average of all public banks



Note: SNL Bank represents the average of all public banks in the US. Top 20 banks represent the largest 20 public banks in the US, for which complete data was available for each period analyzed above.

Current situation: The US banking market

Banking M&A outlook

The banking environment is evolving

- The key questions banks are asking include:
 - Am I a target or an acquirer?
 - What is my long-term strategy?
 - Am I ready to execute a deal?
- The regulatory landscape is emerging as a clear driver of change, but what changes are in store for banks going forward, and will they help US banks compete in the global marketplace?
- Future success will have its roots in many of the decisions being made today, including:
 - Should I expand now or wait until the economy starts to recover?
 - If I do expand, how do I create value in the long term?

The financial crisis has created unique buying opportunities and risks

- While a number of consolidations have taken place among the larger banks over the last year, consolidation activities will shift to thousands of smaller banks throughout the country as solvency and capital adequacy concerns have impacted a much wider group of institutions than in past crises, and market valuation of banks has plummeted.

Private equity “club deals” and FDIC guarantees are likely to continue

- Private equity firms may become significant players in upcoming consolidations as there is significant interest in bank assets. We expect that the trend-setting “club deals” completed during the first half of 2009 will become more commonplace.
- Guarantees and loss-sharing agreements, while likely to continue, will bring additional risk and reporting requirements to the acquiring banks.

Current situation: The US banking market

Banking M&A outlook

Investors will need an enhanced skill set if they hope to capitalize on the current deal market

- The industry upheaval presents unique opportunities for both healthier banks and non-traditional investors. Many investors are looking to execute multiple acquisitions simultaneously, placing a premium on the ability of these firms to plan for and execute integration activities. Additional internal and external resources will be needed to successfully integrate multiple acquired entities.

Hastily planned/executed transactions may create considerable risks

- Many issues in banking today have roots in poorly and/or hastily executed acquisitions of the past, with insufficient focus on meaningful integration and achievement of deal synergies. In most successful acquisitions, integration planning typically occurs during the strategy and diligence phases.

Section 3 – A framework for response

A framework for response

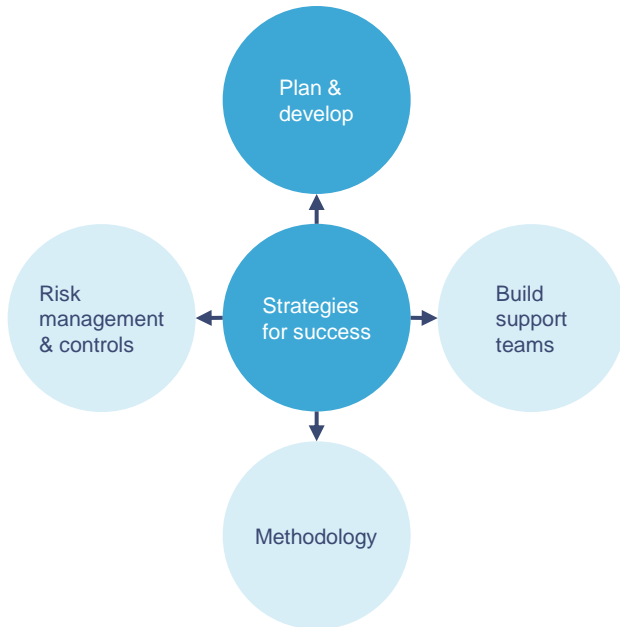
Overview

Through involvement on several of the largest failed and troubled bank acquisitions, we have developed the following key strategies for success:



A framework for response

Developing an effective integration plan and program management process

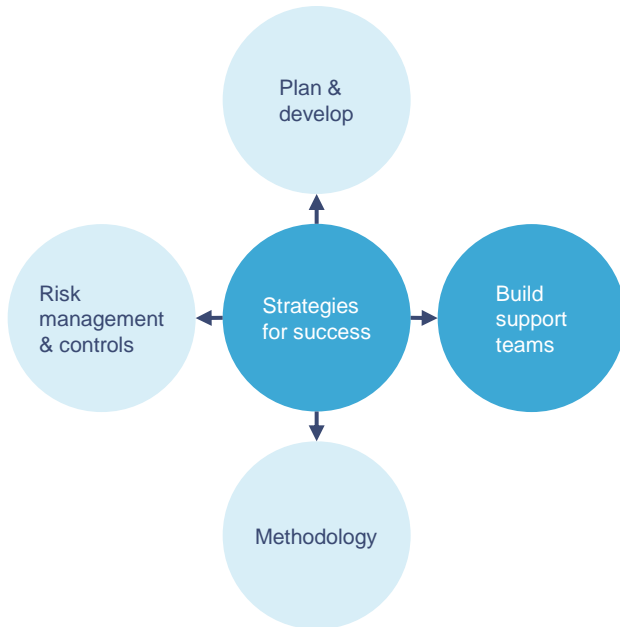


Even banks with significant past acquisition experience may need to build a new playbook to accommodate the accounting and operational challenges associated with failed bank acquisitions.

- An effective plan will help the team understand not only the key tasks, but also the dependencies between tasks.
- Components of the playbook include an approach outline, supporting policies, tools and methodologies, a project plan template, and lessons learned from previous acquisitions.
- Strong program management is critical to the successful and timely integration of SOP 03-3, FAS 141R, and loss sharing into a functional operational accounting process. The program management function should be capable of acquiring information necessary to create plans quickly and disseminate tasks back to multiple teams. The program management function should also be able to react quickly to issues and update plans and priorities as necessary to adapt.

A framework for response

Bringing together the right team

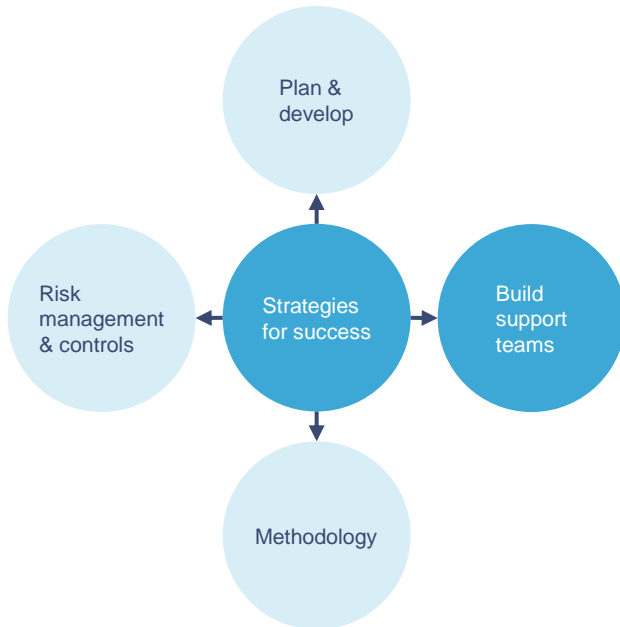


Coordinating the complex interdependencies between data acquisition, valuation, accounting, credit, and loan operations requires individuals with diverse expertise and knowledge.

- The integration team will need deep technical expertise in finance, accounting, operations, data architecture, loan servicing, and credit administration, as well as change and program management. The ideal project leader has experience across the spectrum including past integration experience.
- The areas of the business that need to be involved in the process are:
 - Accounting
 - Corporate development
 - Tax
 - Credit risk
 - Technology
 - Operations
 - Other
 - Valuation and financial modeling
 - Model risk management
 - Acquired bank senior management

A framework for response

Bringing together the right team

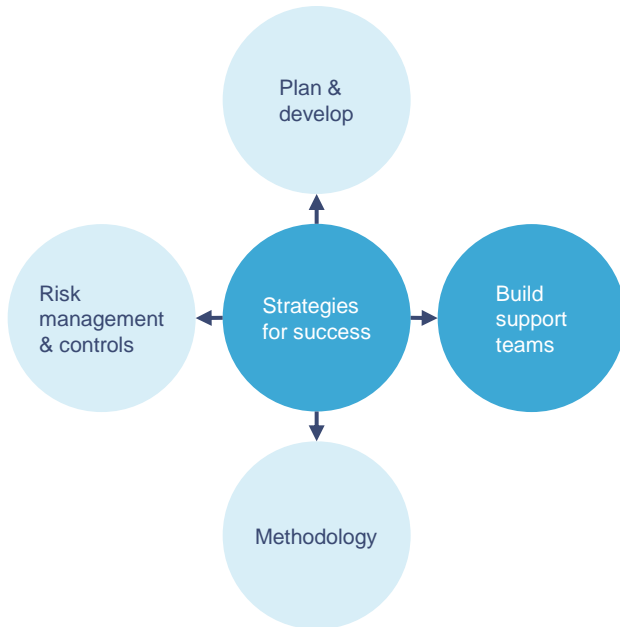


It is critical to engage the right resources early on because it is necessary to quickly make decisions that have a significant financial impact on the company.

- Most senior personnel will designate someone with direct reporting authority to act as their delegate and engage them where significant decisions are necessary. Senior management of the acquired institution (or acquiring bank personnel assigned as replacements) should be expected to be engaged directly as their role will be to manage and lead change necessary to support the program.
- Assigning ownership for new operational processes created by the failed bank acquisition will speed up integration and reduce integration costs. With the cross-functional nature of these processes, ownership is not obvious, and responsible managers need to be empowered to focus on acquiring the appropriate staff to support these new operational processes. Ultimate process ownership also facilitates the assignment of the key decisions within the integration process.

A framework for response

Bringing together the right team

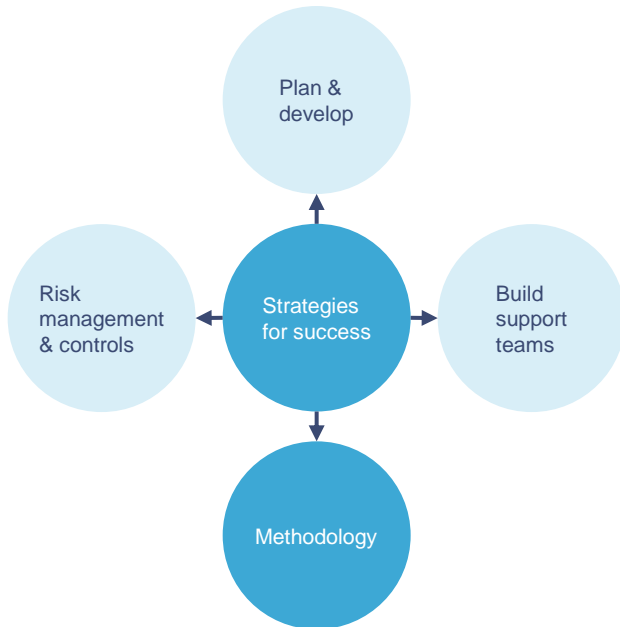


Successful integration teams also have the ability to scale up and down quickly depending on the pace and complexity of the integration.

- Many resources are necessary at the outset to analyze the acquired bank's systems, books, processes, and data as well as support the design and implementation of operational processes. The team may scale down as interim operations stabilize, but staff levels will likely remain above what would be expected during steady-state operations. As conversions are completed and long-term operational changes are implemented, required resource levels will drop to long-term levels. Without acquiring resources dedicated to integrations or back-filling borrowed resources, multiple acquisitions can create rollercoaster staff requirements which can impact management's ability to perform business-as-usual.

A framework for response

Methodology and people-driven approach to technology and data

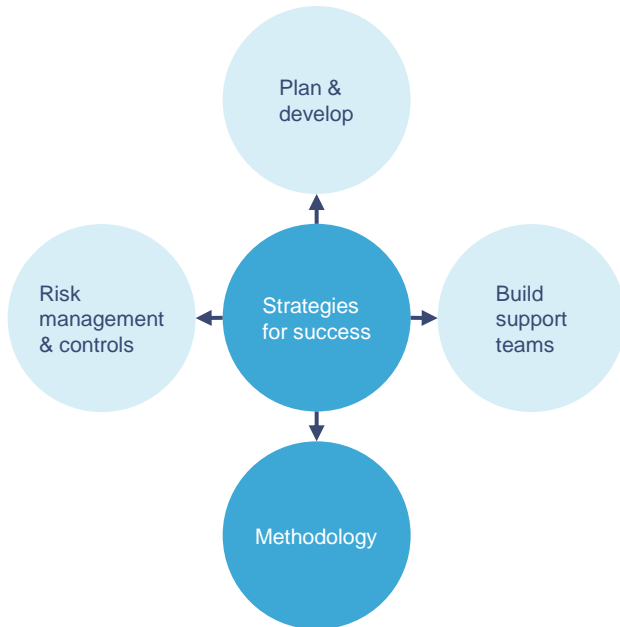


Acquiring organizations can address data acquisition and quality challenges through the design and implementation of highly flexible tools and supporting technology.

- A data acquisition methodology that includes a complete inventory of desired source data, quality analysis processes, and inventory tracking is critical for early integration activities. The first few days to weeks of an integration are highly focused on the acquisition of high-quality data.

A framework for response

Methodology and people-driven approach to technology and data

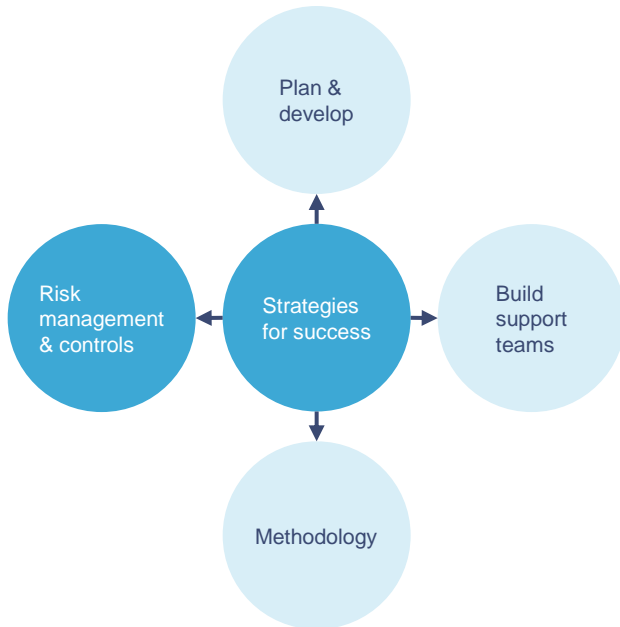


Establishing facilities to store and consolidate clean acquired information and making it available in a variety of views can reduce integration costs and risks.

- A small focused team can act as a single information aggregation point for a large number of consumers. To make this strategy successful, focus should be on building a team of data analysts supported by traditional data warehousing tools, rather than building a data warehouse. Organizations with the right analysts, robust data acquisition protocols, and well structured spreadsheets have been more successful at producing reliable financial results than those with expensive data warehouse solutions.
- Solutions built quickly to meet the data needs of the integration generally require significant manual effort to maintain. Data interfaces may be implemented as extract files sent via email, and validation processes may require regular manual intervention on frequently occurring exceptions. Part of the technology program should include a phased migration approach toward a more highly controlled and automated environment. During the interim operations phase, reports, analysis, and calculations done on a regular basis should be documented via formal specifications that serve as the basis for the development or customization of a long-term solution.

A framework for response

Risk management and controls



Given the volume and complexity of the accounting work that is completed in a typical failed bank acquisition, it is important that acquiring banks address risk areas through proper controls.

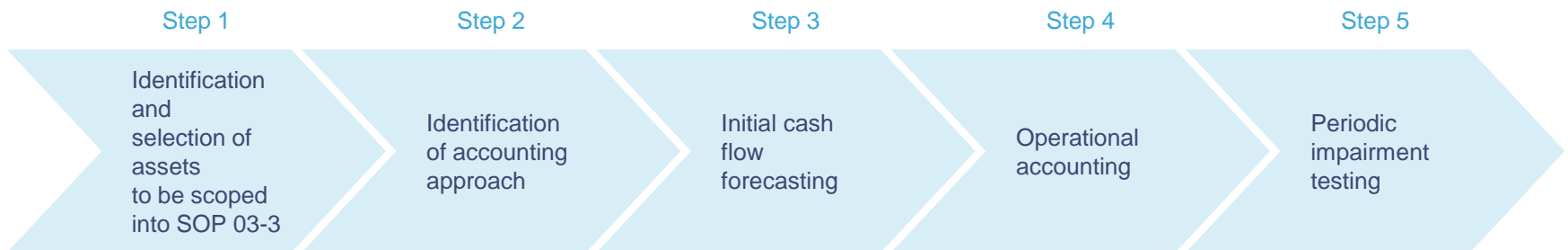
- Control over the flow of information between processing steps as well as the validation of financial forecasting processes are critical to success.
- Given the number of hand-offs of information between source systems, controls must be in place to validate data received from downstream processes. Implementing a robust set of reconciliation controls with secondary review can be an effective mechanism.
- Models can also pose significant risk of material financial misstatement. Minor calculation or logic errors in cash flow models can result in significant result variances. All models should be evaluated via formal validation processes that test actual versus expected results. Model logic should be reviewed and approved by individuals with appropriate expertise.

A framework for response

Focus on accounting and operational challenges – Overview

Although SOP 03-3 became effective in 2003, many organizations have not had to apply the standard, due to lack of acquisition of impaired assets, or because they acquired minimally impaired assets that have been easily dealt with using manual processes.

- Failed banks, in general, have large volumes of loans which would fall under SOP 03-3 when acquired. Therefore, they are subject to the process, reporting, and data acquisition challenges identified previously. This section provides a brief overview of the activities associated with establishing and operating SOP 03-3 accounting processes.



A framework for response

Focus on accounting and operational challenges – Steps 1 and 2

Step 1 – Identification and selection of assets to be scoped into SOP 03-3

- Acquiring organizations need to determine which assets are credit impaired as defined within SOP 03-3. Acquiring institutions' accounting policies should clearly outline what should be considered in identifying credit-impaired loans, and specific selection criteria should be defined at the onset of each acquisition. Acquiring institutions will need to set up a mechanism to tag assets considered credit impaired and maintain an asset's identification as SOP 03-3. Poor data quality can result in the improper scoping of loans into SOP 03-3 accounting, which can require significant remediation if detected in future accounting periods.

Step 2 – Identification of accounting approach

- Once loans considered subject to SOP 03-3 accounting have been identified and tagged, the organization must also determine which method of accounting for the loans will be applied.
- Loans with similar risk characteristics can be grouped into pools which can reduce operational complexity. Pool-based approaches are typically utilized with large volumes of homogenous loans such as single-family residence loans. To ensure proper accounting, a loan must remain associated with its SOP 03-3 pool until it meets criterion for exiting the pool (e.g., liquidation, short sale, reversion to REO).
- Alternatively, loans can be accounted for on an individual basis. Individual accounting is typically used with larger commercial and construction loans. Individual accounting may be slightly less complex on a go-forward basis, but can be operationally challenging due to the manual nature of forecasting future flows on a loan-by-loan basis.

A framework for response

Focus on accounting and operational challenges – Steps 3 and 4

Step 3 – Day One: Initial cash flow forecast

- Scoping of loans and selection of loan accounting methodology should be completed before cash flow forecasts are developed. While loans are originally valued during due diligence, methods utilized may not be appropriate to meet the cash flow forecast requirements of SOP 03-3 accounting because they likely do not provide sufficient detail of expected future cash flows. Additionally, the forecast methodology should be designed with either the individual or pool method of accounting in mind. Cash flow forecasts are necessary to generate the starting book value as well as to establish accretable and non-accretable yields and the accretion rate. These initial cash flow forecasts will have to be compared with actual results and leveraged to determine additional impairment. As such, models cannot simply be designed to produce a price/value result only.
- Data quality, timing, and availability can be significant challenges embedded in this step. The level of effort to develop these models should not be underestimated, because these detailed cash flow forecasts will have to take into account information from account loan origination and service processing in order to achieve reliable expected cash flows.

Step 4 – Day Two: Book value roll forward

- Once initial values, accretable yield, non-accretable discount, and accretion rates have been established, an acquiring institution must establish an operational process for identifying cashflow for all SOP 03-3 assets, grouping as necessary and rolling forward balances each period to determine the updated net book value of the SOP 03-3 classified assets. Normal loan accounting transactions, such as interest accrual as well as charge-offs and provisioning, will have to be modified or appropriate adjusting transactions will have to be recorded.
- This step requires a detailed understanding of the procedures and timing of the acquired bank's loan servicing and accounting practices. Acquired bank accounting has to be fully reconciled and completed for the period and relevant data fed into the acquirer's SOP 03-3 accounting processes. If these processes are not completed on a timely basis, acquiring institutions will not be able to meet their close schedules.

A framework for response

Focus on accounting and operational challenges – Step 5

Step 5 – Day Two: Periodic impairment testing

- SOP 03-3 requires management to periodically evaluate acquired loans and determine if previous estimates of cash flow have changed and make appropriate adjustments. Acquiring institutions will have to develop procedures for gathering and validating updated economic assumptions and loan performance forecasts, actual loan portfolio performance, updated collateral and borrower data, and updated and reconciled loan balance information.
- Once all appropriate data has been acquired and validated, management must update forecasts such that adjustments to accretable yield, non-accretable discount, and accretion rates can be made and provisions can be booked as necessary.
- Building appropriate governance and approval processes can be a challenge, because forecasts may need input as well as validation from multiple functions within the bank. These activities can require several operational staff with strong valuation, modeling, programming, and finance skills.

Section 4 – How PwC can help

How PwC can help

Experience

Industry experience – PwC has provided professional services as advisors or auditors to 80 percent of failed or troubled bank acquisition over \$5 billion since 2008. PwC has several hundred accountants, tax professionals, and consultants with experience in troubled and failed bank acquisition and management.

Expertise

Our team brings a full range of expertise, from consumer and commercial lending operations, to credit risk management, technical accounting, and tax. Our professionals are leading the industry with respect to the complex operational and accounting challenges associated with a failed bank acquisition.

Thought leadership

PwC takes great pride in our cutting-edge thought leadership in the consumer and commercial lending space. We have published numerous whitepapers on complex accounting, credit, valuation, and operations issues, and have frequently spoken at major industry conferences on these topics.

Methodology/tools

PwC has an industry-leading playbook designed specifically around the complex accounting, operations, and reporting issues associated with a failed bank acquisition. This playbook has been developed and refined through execution and review of over 10 deals we have been involved with since 2008.

How PwC can help

PwC financial services team

PwC has been a leading firm in establishing a dedicated mergers and acquisitions (M&A) group that specializes exclusively in financial services transactions. Supported by PwC’s Banking and Capital Markets practice, we believe our credentials are unmatched.

Extensive experience	We have built the accounting and operational processes for over six banks with a total acquired asset base of more than \$65 billion. Additionally, we have advised clients on three of the four largest US banking transactions since 2008.
Industry focus	Our seasoned team of specialists brings deep industry expertise and uncovers key deal issues, risks, and opportunities in the banking sector.
Deep commercial and consumer lending experience	Our team includes tax, human resources, regulatory, information technology and operations, strategy, valuation, and accounting advisory specialists focused on the consumer and commercial lending lines of business at top US banks.
Tailored, integrated approach	We tailor our approach and deliverables to your integration needs (e.g. supporting your existing team where needed or leading the overall effort). Our teams apply an integrated approach to every deal, sharing knowledge, minimizing duplication and producing a combined deliverable that reflects the key deal issues.
A single point of contact	Our dedicated financial services team provides a single point of contact that can quickly mobilize the appropriate resources to assist you with your transaction needs.
Global presence	We have a financial services presence in over 25 countries, which can add significant value to foreign registrants looking to take advantage of the unique opportunity in the US market.
Solution based approach	Organizations have many choices with respect to addressing the credit, accounting, and operations issues created by failed bank transactions. Our approach is designed to provide a tailored approach to address these issues in a sustainable fashion for your organization.



A tailored approach that begins by listening and understanding your transaction needs, and provides you with the right balance of industry, transaction, and functional expertise on each of your deals.

How PwC can help

PwC Consulting

As business integrators, we look across the entire organization – focusing on strategy, structure, people, process and technology – to help our clients improve business processes, transform organizations, and implement technologies needed to run the business.

Client needs	Issues we help clients address
Manage risk and regulation	<ul style="list-style-type: none"> • Building a risk resilient organization • Managing ERP investment and project execution risk • Safeguarding the currency of business; keeping sensitive data out of the wrong hands • Ensuring capital project governance and accountability • Assessing and mitigating corruption risk in your global business operations
Build effective organizations	<ul style="list-style-type: none"> • Establishing effective strategic sourcing and procurement • Realizing competitive advantage through effective sales operations inventory planning • Transforming the close and consolidation process to work for rather than against you
Reduce costs	<ul style="list-style-type: none"> • Driving efficiency through shared services • Redesigning finance to realize efficiency and competitive advantage • Taking control of cost through effective spend management and cash forecasting practices
Leverage talent	<ul style="list-style-type: none"> • Defining and implementing an effective HR organization • Rethinking pivotal talent
Innovate and grow profitably	<ul style="list-style-type: none"> • Reshaping the IT function into a source of innovation • Transforming business information to drive insight and fact-based decision making • Evaluating acquisition and divestiture strategies to position for the future • Realizing deal synergy and value • Developing sustainability programs that add value



How PwC can help

Due diligence

PwC's approach

- Obtain and review the entire FDIC information package
- Support and review the asset and liability valuation exercises
- Review credit information as available in the information package
- Help clients understand the unique interplay of accounting between SOP 03-3, FAS 141R, and loss sharing, so that valuations can appropriately incorporate these elements
- Help clients develop reasonable estimates of the operational, technology, and credit administration impacts and costs associated with the new accounting driven by failed bank transactions

Value

- All acquirers who have not executed an FDIC acquisition can benefit significantly from our previous experience in working through the subsequent accounting and operational challenges associated with these deals
- Our cross functional team with expertise in valuation, technology, operations, accounting, credit risk, and regulatory brings significant knowledge and experience that helps reduce the risk of the unknown in the rapid due diligence period

How PwC can help

Valuation

PwC's approach

- Work closely with acquiring bank finance, accounting, and credit personnel to develop a model based on a reasonable set of market and internally observable economic assumptions
- Leverage a modeling toolset specifically designed to support these types of transactions to either significantly accelerate the enhancement of internal models or provide management with our existing valuation models
- Gather and validate relevant economic data necessary to support key model assumptions
- Provide detailed specifications related to data input and work with management to address key data quality issues as necessary
- Highlight the key output requirements from any valuation exercises necessary to support Day-One and Day-Two accounting requirements
- Test all model results through a sensitivity analysis and back-testing
- Create operational processes necessary to support the periodic run of valuation models including designing processes to support the attribution of changes in value to credit- and non-credit-related changes in value

Value

- Our valuation approach has been specifically designed and tested for failed bank transactions and the unique accounting requirements created by these types of deals
- Our highly flexible toolkits, which have been utilized to support over six different transactions with a wide variety of asset classes, significantly reduce delivery time of initial values required to support Day-One and Day-Two accounting entries

How PwC can help Accounting

PwC's approach

- Focus from Day One on helping the bank acquire and establish processes for maintaining clean data necessary to support ongoing accounting
- Evaluate and resolve high-risk areas around accounting records including charge-offs, real estate owned, short sales, and loans serviced by others
- Work with key accounting policy, operations, and credit risk stakeholders to drive rapid adoption of an accounting methodology that fits the transparency, financial, risk, and operational objectives of the bank
- Build new operations through the execution of one or more period-end close cycles to address the relatively short timeframes
- Transfer knowledge to bank personnel to assist with the stabilization of new operational processes

Value

- Acquiring organizations can significantly reduce the timeframe and costs associated with a failed bank acquisition
- PwC's perspectives on the various business models constructed to support the accounting for a failed bank transaction can help organizations rapidly evaluate alternatives and settle on an accounting business model that works for the organization
- Our team can help reduce the risk associated with building new operations within the very compressed timeframes typical with these types of deals

How PwC can help Operations

PwC's approach

- Analyze acquired bank operations to determine the level of change necessary to support the accounting and FDIC reporting requirements associated with a failed bank transaction
- Design new operating procedures and help with the selection of new asset servicers and/or technology platforms necessary to support these new procedures
- Design and build enhancements to credit supervisory processes necessary to comply with the requirements of acquiring bank policies as well as additional contractual covenants established in loss-sharing arrangements
- Design and build operational processes to consolidate the necessary data to support loss-sharing certificate reporting

Value

- Leveraging deep commercial and consumer loan operations expertise, our team can quickly put in place the changes necessary to reduce operational complexity
- Our team can help identify viable solutions to address operational gaps resulting in data quality and availability challenges
- Our team has learned through several previous transactions the areas that need to be assessed and potentially remediated quickly
- We have developed certificate reporting processes for over 15 independent loss-sharing contracts

How PwC can help

Data and technology

PwC's approach

- Analyze the acquired bank's technology portfolio and work in conjunction with the accounting and operations teams to quickly develop a comprehensive data map
- Develop processes to assess the quality of information necessary to support ongoing accounting and operational requirements
- Design short-term data acquisition, cleansing, storage, and dissemination processes necessary to support the numerous teams looking for data to support analysis, reporting, and accounting activities
- Work with management to define a medium- to long-term technology strategy to support acquired loan accounting and reporting requirements

Value

- Using our complete inventory of all the data necessary to support a failed bank acquisition, we can quickly establish systems of record as well as procedures for the acquisition and dissemination of this information, significantly reducing the effort of multiple acquiring bank teams
- PwC's tools, designed to be rapidly deployed during an acquisition, allow for the automation of many of the common repetitive activities in these types of transactions
- PwC's approach is technology agnostic; we are 100 percent focused on finding the right solution for you, not selling you our specific solution
- For clients with limited investment in the technologies necessary to support the accounting and reporting requirements associated with these deals, our toolset can, and has been, assembled into a software solution to support long-term sustainable business operations

How PwC can help

For further information, please contact:

John Garvey Leader of the US FS Advisory Practice	(646) 471-2422 john.garvey@us.pwc.com
Eric Mercer FS Advisory Partner	(612) 596-6307 eric.i.mercer@us.pwc.com
Joshua Carter FS Advisory Director	(312) 298-2352 joshua.carter@us.pwc.com
Richard Bennett FS Assurance Partner	(703) 918-3461 rick.bennett@us.pwc.com
Jay Harris FS Assurance Partner	(704) 344-7885 jay.w.harris@us.pwc.com
Ken Busey FS Tax Partner	(202) 414-1402 ken.w.busey@us.pwc.com
Brian Hydrick FS Tax Partner	(704) 344-4162 brian.m.hydrick@us.pwc.com

Appendix A – Select qualifications

Select qualifications

A top-ten regional bank that acquired multiple banks in receivership from the FDIC

Issues	The bank had a robust integration playbook, but did not have previous experience with this volume of impaired loans or with FDIC loss sharing. To support the integration of these acquired banks and planned acquisitions of one or two additional banks per quarter, the bank requested PwC's assistance in developing its finance integration business model, including its organization, process, and technology.
Approach	<p>PwC designed a two-phase program. The first phase addressed the bank's immediate need to finalize its 10K and associated regulatory disclosures. Key achievements in the first phase included:</p> <ul style="list-style-type: none">• Developed custom loan cash flow forecasting models for single-family and commercial assets. These models generated detailed expected cash flow forecasts as well as estimated losses that were used as the basis of value of the indemnification asset• Designed processes and external reports to support SOP 03-3 accounting including accretion calculations, balance roll-forwards, and supporting adjustments to the ongoing undiscounted amortized cost loan accounting• Established a robust loan data acquisition process necessary to support ongoing SOP 03-3 accounting as well as longer-term loss calculations required under the loss-sharing provisions <p>The second phase addressed the bank's longer-term need for a robust solution for other failed bank integrations. Key enhancements during the second phase included:</p> <ul style="list-style-type: none">• Improved the reporting generated by the single-family cash flow models to attribute changes in expected cash flows to credit and interest rate-related changes• Created a survey-based commercial credit analysis process designed to gather loan performance expectations from loan officers for use in a centralized cash flow forecasting model for commercial SOP 03-3 impairment analysis• Implemented operational processes to support the generation of FDIC loss certificates• Built a data warehouse and reporting tool to support monthly and quarterly reporting• Updated data acquisition and accounting processes through five systems conversions• Defined the organizational model and staffing required to support future integrations as well as ongoing SOP 03-3 accounting and FDIC reporting requirements• Developed a robust integration playbook including a consolidated integration toolkit and lessons learned
Benefits	As a result of our work, our client successfully stabilized a highly complex accounting operation in just over six months. By the end of the first reporting period, over a six-month time period, we streamlined the operation from 30 to two people. Additionally, we helped our client file and receive payment on claims of over \$100 million in losses.

Select qualifications

A top-ten national banking organization that acquired a top-ten regional banking organization

Issues	<p>The client acquired a top-ten regional banking organization that was failing due to rapid credit deterioration, asset write-downs, and liquidity and capital shortfalls. The organization acquired over \$100 billion in impaired single-family residential mortgage loans which had to be accounted for under SOP 03-3. With a quick turnaround required for financial reporting purposes, the company navigated through interpreting the accounting requirements, implementing a back-office infrastructure, and developing a reporting framework. The company developed an interim solution that supported the Day-One operational, management, and financial reporting needs. The process has evolved into a more systematic, sustainable, and financially sound process with an appropriately designed control structure.</p>
Approach	<p>In an audit role, we worked with management as it navigated the accounting and reporting complexities associated with purchasing credit-impaired loan portfolios. Additionally, we provided recommendations to improve the implementation of the acquisition.</p> <p>PwC's focus included improving the following areas:</p> <ul style="list-style-type: none">• Engagement of senior management in the governance process including policies and procedures, risk management, reviews and approvals, and documentation of key judgments• Models that supported the Day-One asset valuation (including credit losses, prepayments, and discounted cash flows), ongoing cash flow and impairment assessment, and income recognition processes. Model reviews focused on data validation, model execution, and model output reviews, including model validation programs and documentation• Performance analysis and management reporting, with a focus on the analysis of cash flow performance, credit quality, prepayments, interest income, and stress scenarios• Financial and regulatory reporting including opportunities to enhance reporting surrounding purchasing credit-impaired loans to capture additional information relevant to stakeholders
Benefits	<p>As a result of our work, the client was able to quickly establish a credit-impaired purchase accounting and reporting process, which continues to evolve. This process supports management's communication of portfolio performance to investors in a clear and understandable fashion.</p>

Select qualifications

A top-ten regional bank that acquired multiple banks from the FDIC under a loss-sharing agreement

Issues	<p>The bank acquired multiple banks in receivership from the FDIC under the terms of a newly implemented loss-sharing agreement. One of the banks had a sizable commercial portfolio with significant credit deterioration. Adding to the complexity, the commercial loans were housed on four different systems, with key pieces of information such as charge-offs, performing status, and REO write-downs being stored on separate schedules. The client solicited PwC's help to identify points of clarification on the loss-sharing agreement, compile the applicable loan data, implement an ongoing process for creating the certificate on a quarterly basis, and train permanent staff.</p>
Approach	<p>The FDIC loss-sharing work stream enabled the client to meet its immediate need to file a quarterly loss-share certificate and longer-term need to have an ongoing process for creating the certificate on a quarterly basis.</p> <p>To complete the loss-sharing certificates, PwC began by gaining an understanding of the commercial loss-sharing agreement and identifying points of clarification. Because the FDIC was renewing the loss-sharing program after a more than 20-year hiatus, there were several points of clarification; some of these points drove the FDIC to modify both the loss-sharing agreement and the loss-sharing certificate, including the accompanying data files. Following that, we were able to leverage the knowledge of the SOP 03-3 team and the structures of the technology team to obtain the necessary data from the disparate commercial systems, perform the necessary computations, and prepare the certificate and accompanying data files.</p> <p>Subsequently, we focused on developing a usable process for the client to create the commercial loss-sharing certificate on an ongoing basis. As the data was being converted to the client's systems, PwC worked with the client and PwC technology teams to provide requirements for an automated data feed that would greatly expedite the process of obtaining the data. In addition, PwC worked with the special assets group, accounts payable, corporate accounting, and credit administration to assist these teams in evaluating their processes and making recommendations where necessary to modify processes to support or facilitate the loss-sharing certificate process.</p>
Benefits	<p>As a result of our work, the client has processes and a trained team in place to complete the quarterly commercial loss-sharing certificates throughout the loss-sharing period. In addition, through PwC's work directly filing for the first and second quarterly certificates, the client received reimbursement in excess of \$125 million.</p>

Select qualifications

Asset guarantee for major financial institution

Issues	A G20 government provided an insurance guarantee against principal loss on a group of troubled assets at a major institution. The term sheet for the agreement was developed quickly, but there was a need to translate this term sheet into a long-term workable agreement and to execute upon that agreement. PwC designed and developed the governance structure, committee charters, definition of roles and responsibilities, reporting protocols, and details to be used in the oversight of a multi-billion dollar portfolio and described in an agreement with US government parties. Additionally, we developed the reporting protocol for the formal/informal interaction between the parties.
Approach	<p>PwC provided advice to the government agencies in the following areas:</p> <ul style="list-style-type: none">• Construction of various aspects of the agreement• Asset analysis and valuation• Development of governance structures, policies, and procedures• Asset demarcation and management reporting• Accounting considerations• Executive compensation• Program management <p>The approach leveraged PwC's deep subject matter capabilities in the areas listed above combined with defined frameworks and knowledge of leading practices to create innovative solutions in these areas.</p>
Benefits	PwC assisted the government entities and the financial institution in reaching a balanced agreement that enabled both to achieve the objective of stabilizing the financial institution while allowing the bank the operational flexibility it needed to effectively manage the assets. Since the agreement was put in place, PwC has played an important role in allowing the government to exercise its continuing oversight in the asset demarcation, reporting, and governance processes.

Select qualifications

A top-ten foreign bank that acquired a bank in receivership from the FDIC

Issues	A top-ten non-US bank has been driving to expand its footprint through acquisition. The bank was well-positioned for its US subsidiary to acquire a failed bank, with its risk-averse culture and having avoided the brunt of the financial crisis by taking deposits only and making conventional loans. The FDIC award of the failed institution (a US bank) to our client was accompanied by complex accounting, operational, FDIC reporting, and technology issues and the steps required in the integration of the failed bank's assets.
Approach	<p>PwC immediately responded with a highly qualified engagement team with hands-on experience with similar types of transactions. This was essential for the immediate critical needs of our client such as:</p> <ul style="list-style-type: none">• Developing a plan and engaging the team• Addressing the complex accounting issues• Capturing, updating, posting, and reporting historical data• Forecasting and fair-value estimation of acquired loan assets• Developing and documenting the accounting process for SOP 03-3, FAS 141R, IFRS and loss-share accounting• Expediting payment losses from the FDIC• Technical tax issues relating to an FDIC acquisition <p>The team focused on key issues as flawless and immediate execution to help position our client for future failed bank acquisitions from the FDIC. These issues were:</p> <ul style="list-style-type: none">• FDIC-assisted transactions require a new integration playbook.• Creating a well defined and appropriately documented process to manage multiple bases of accounting for acquired loans which will facilitate our client's year-end financial audit. By leveraging our experience can help our client navigate the pitfalls and challenges associated with establishing and sustaining multiple bases of accounting required by FDIC loss-sharing, SOP 03-3, FAS 141(R), and IFRS.• Implementing a loss-sharing reporting process to accelerate the collection of cash from the FDIC.
Benefits	As a result of our work, our client is benefiting from minimized integration burdens, costs, and disruptions. PwC's assistance in building a framework and a playbook is helping accelerate and adding rigor to the integration process. In addition, our client is focusing on critical business processes impacting revenue, cost management, risk management and regulatory compliance.

pwc.com

© 2009 PricewaterhouseCoopers LLP. All rights reserved. "PricewaterhouseCoopers" refers to PricewaterhouseCoopers LLP, a Delaware limited liability partnership, or, as the context requires, the PricewaterhouseCoopers global network or other member firms of the network, each of which is a separate and independent legal entity. This document is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.