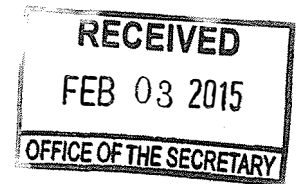


UNITED STATES OF AMERICA  
Before the  
SECURITIES AND EXCHANGE COMMISSION



In the Matter of

THOMAS A. NEELY, JR.

Respondent.

Admin. Pro. File No. 3-15945

**RESPONDENT THOMAS A. NEELY, JR.'S  
DISCLOSURES REGARDING EXPERT WITNESS RICHARD K. YOWELL**

Pursuant to the Court's January 7, 2015 Order, Respondent Thomas A. Neely, Jr. hereby files the expert report of Richard K. Yowell and makes the following disclosures related thereto:

(1) **Final Expert Report**

Mr. Yowell's report entitled "The Materiality of Contested Decisions Regarding the Classification of Troubled Loans in Regions Bank" is attached hereto.

(2) **Name and Address of Expert**

Richard K. Yowell  
RK Yowell & Associates, LLC

██████████  
██████████ ██████████

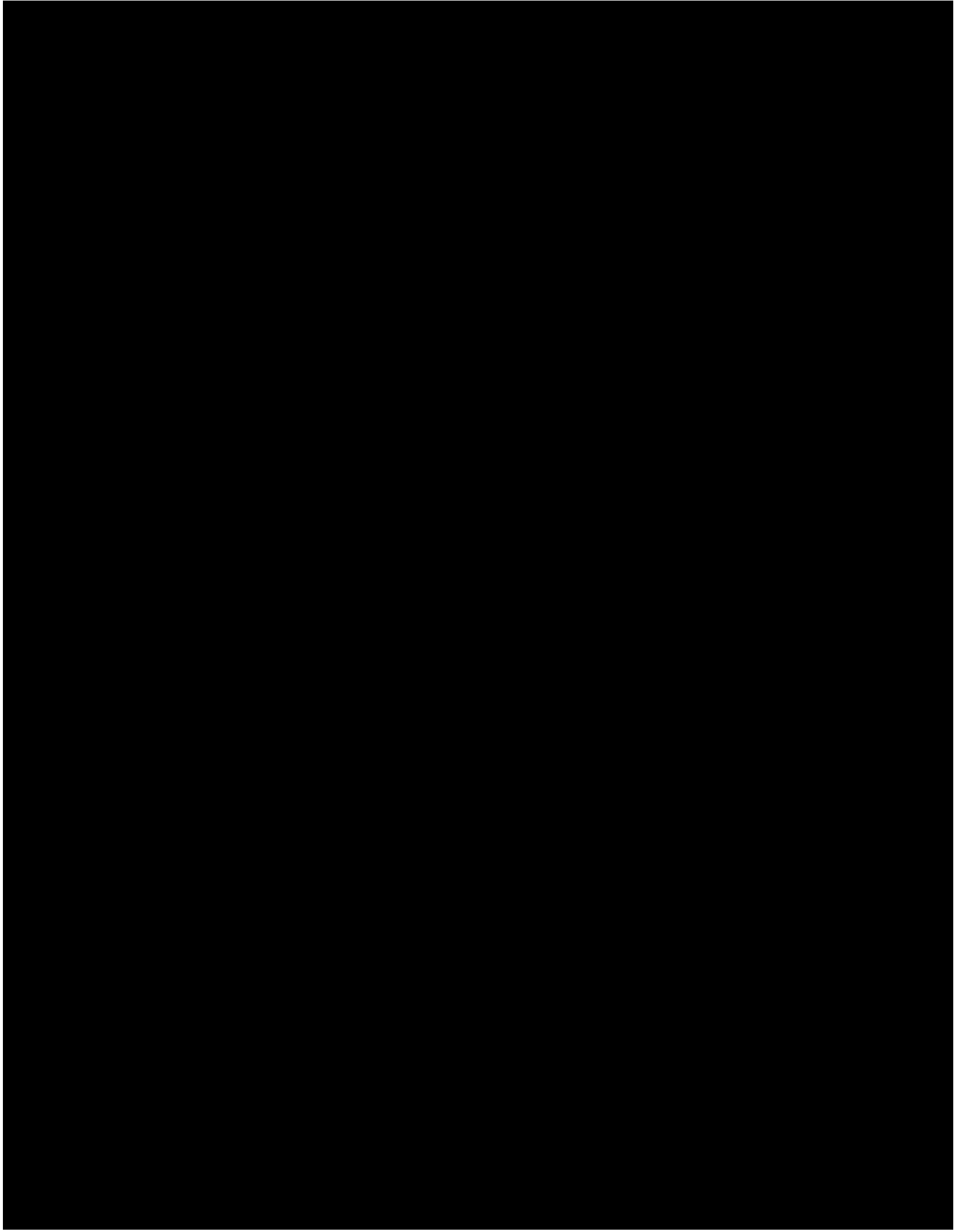
(3) **Statement of Qualifications**

Mr. Yowell's "Professional Experience" is attached as Appendix D to his report.

(4) **Prior Expert Testimony**

Mr. Yowell has not previously testified as an expert witness.





---

**THE MATERIALITY OF  
CONTESTED DECISIONS  
REGARDING THE  
CLASSIFICATION OF  
TROUBLED LOANS IN  
REGIONS BANK**

An Analysis and Opinion by

**Richard K. Yowell**

Managing Principal  
RKYowell & Associates, LLC

February 2, 2015

---

---

---

## Assignment

The Securities Exchange Commission (SEC) has issued an Order Instituting Cease –And-Desist proceedings against Thomas A. Neely, Jr., formerly an officer with Regions Bank (the Bank). Certain accounting decisions by Mr. Neely which allegedly affected the first quarter performance data disseminated by the Bank at the end of March 2009 have been called into question.

It is alleged that Mr. Neely wrongfully removed approximately \$168 million in loans from the list of those to be placed on non-accrual. The impact alleged in the SEC Order document was as follows:

“Had Regions classified the relevant loans on non-accrual status in accordance with its policies, it would have prompted a determination that the identified loans were impaired in accordance with GAAP. That determination would have resulted in Regions recording a higher allowance for loan and lease losses.” (Page 4, Paragraph 16, Emphasis is mine)

“As a result of failing to properly account for the Loans in accordance with GAAP, for the quarter ended March 31, 2009, Regions’ income before income taxes was overstated by \$16 million, its net income applicable to common shareholders was overstated by approximately \$11 million, and its earnings per common share was overstated by approximately \$.02 per share.” (Page 6, Paragraph 29)

“As a result of the conduct described above, Neely acted through Regions to make material misrepresentations in the Public Filings, and as a result, Neely violated Sections 20(b) and 10(b) of the Exchange Act and rule 10b-5 thereunder.” (Page 7, Paragraph 36, Emphasis is mine)

I was asked to review the calculation of the Bank’s Allowance for Loan and Lease Losses (ALLL) and Net Interest Income at the end of the first quarter of 2009 to determine whether the difference between what was actually recorded as the Bank’s quarterly operating results and what would have been recorded if the subject loans had been placed on non-accrual was a “material” difference.

The definition of “material” seems to vary. As a general “rule of thumb”, it has been my experience that errors or misstatements that do not impact the final result by as much as 15% are not considered material.

The SEC, however, eschews the use of rules of thumb, suggesting in one example a potential benchmark of not as much as 5%. Following that suggestion are several paragraphs that go on to assert that in the final analysis, it depends on the situation. <sup>1</sup>

The course I have taken in this assignment is to quantify the various values and calculate their impact, leaving a determination of their materiality to the end.

---

<sup>1</sup> SEC Staff Accounting Bulletin No. 99, August 12, 1999.  
Topic 1, Item M (1) Assessing Materiality,

---

## Summary Opinion

Given the turbulence of the time when these issues arose, and given the Bank's additional ALLL allocation for "Imprecision and Industry Stress" in the amount of \$155 million, it is my opinion that had all the loans in question been placed on non-accrual before March 31, 2009, there was adequate "cushion" in the ALLL so that the impact on the Bank's reported operating results would not have been material. Said another way, the alleged actions of Mr. Neely did not, in my opinion, result in a material misstatement of the Bank's operating results at March 31, 2009.

## Methodology

The methodology for the assignment included the following steps:

1. Confirming the Bank's operating results for the first quarter of 2009
  - a. An operating statement for the first quarter of 2009 was not found in the provided materials
  - b. Earnings used for the analysis were those shown on the Bank's quarterly Call Report and reflected on the publicly available Uniform Bank Performance Report (UBPR). (See Appendix A)
2. Reviewing the Bank's policy and processes for recognizing and accounting for problem loans, and for calculating the ALLL
3. Reconstructing the ALLL calculation for March 31, 2009, and
4. Constructing an analysis of the loans in question, comparing their actual allocations in the March 31, 2009, ALLL calculation with what those allocations would likely have been if those loans had been placed on non-accrual.

---

## Results of Analysis

1. The Bank's Operating Results for the Quarter Ending March 31, 2009
  - a. The SEC, in its Order document, does not identify the operating results they used in their calculation of materiality.
  - b. The operating results used in this analysis were those shown in the Uniform Bank Performance Report, the Income Statement Page of which is attached as Appendix A.
  - c. The Statement of Condition, which verifies the ALLL, is attached as Appendix B.
2. Reconstruction of the ALLL calculation for March 31, 2009
  - a. The reconstruction is attached as Appendix C.
  - b. The amount shown as ALLL agrees with the result of the reconstructed calculation.
3. Comparative Analysis of the Fourteen Loans
  - a. The Potential Reduction of Interest Income:
    - i. The fourteen borrowers<sup>2</sup>, their balances at March 31, 2009, and the amount of interest that had been booked for each in the preceding quarter (and would have to be reversed if they were declared non-accruing) are shown in the following table:

Borrower	Balance at 3/31/2009	Accrued Interest at 3/31/2009
Designers Choice Cabinetry	2,588,814	21,126
Eighteen Investments, Inc.	5,858,439	65,656
First West Cutler Gardens, LLC	10,928,452	95,387
Glove Factory Holdings, LLC	24,733,624	143,198
Jones & Jones Investments, LLC	1,799,870	16,327
Kicklighter Custom Homes, Inc.	2,566,718	9,479
McCar Development Corp, ET	9,403,323	182,958
Oak Ridge Land Co. LLC	15,723,602	4,308
Resorts Construction, LLC	21,154,720	258,161
Richland Investments, LLC	41,852,606	729,711
River Glen, LLC	3,836,162	38,713
Seahaven Finance, LLC	6,801,133	20,760
Waters Edge One, LLC	15,523,561	157,850
Wilval, LLC	5,248,171	55,762
	168,019,195	1,799,396

---

<sup>2</sup> Originally the list was said to contain 15 borrowers. One borrower, Paramount Saturn, had been pulled from the list on March 20, 2009, but was subsequently placed on non-accrual on March 27, 2009, because certain events had not occurred. For that reason, Paramount Saturn is not included in this analysis and has been omitted from the list.

---

## Results of Analysis, Continued

- ii. The impact on the Bank's Net Operating Income of backing out all of the interest accrued for the preceding quarter is shown here:

Potential Reduction in Earnings from Interest Reversal	1,799,396
Tax Effect at 35%	<u>(629,789)</u>
Net After Tax Reduction in Earnings	1,169,607
Reported Net Income per UBPR	113,641,000
Potential Reduction	1,169,607
Percent Change in Net Income	1.03%

- iii. With an impact of 1%, the reversal of accrued interest on the fourteen loans clearly would not have had a material effect on operating results.

- b. The Potential Increase in the ALLL, Scenario 1:

- i. In the table on the next page, the allocation made for each of the loans in the Bank's ALLL is shown, followed by the amount that would have been necessary for each at the average allocation made for non-accruals (21.39%)<sup>3</sup>, if they had been placed on non-accrual. The last column shows the difference, or the amount by which the reclassification to non-accrual would have impacted the required ALLL balance.

---

<sup>3</sup> Each loan on non-accrual is subjected to a detailed risk analysis to determine the proper amount of "specific reserve" to be set aside for that loan. Without such a risk analysis, it is impossible to determine precisely what the reserves would have been. The average reserve rate for all non-accrual loans in the Bank at the time is used to approximate the reserves for each of these loans, had they been declared non-accrual.



## Results of Analysis, Continued

Borrower	Actual Allowance on 3/31/2009	Specific Allocation if Declared Non-Accrual	Difference
Designers Choice Cabinetry	323,602	553,747	230,145
Eighteen Investments, Inc.	732,305	1,253,120	520,815
First West Cutler Gardens, LLC	1,366,056	2,337,596	971,540
Glove Factory Holdings, LLC	3,091,703	5,290,522	2,198,819
Jones & Jones Investments, LLC	224,984	384,992	NA
Kicklighter Custom Homes, Inc.	320,840	549,021	228,181
McCar Development Corp, ET	1,175,415	2,011,371	835,956
Oak Ridge Land Co. LLC	1,965,450	3,363,278	1,397,828
Resorts Construction, LLC	2,644,340	4,524,995	1,880,655
Richland Investments, LLC	5,231,576	8,952,272	3,720,696
River Glen, LLC	479,520	820,555	341,035
Seahaven Finance, LLC	850,142	1,454,762	604,620
Waters Edge One, LLC	1,940,445	3,320,490	1,380,045
Wilval, LLC	656,021	1,122,584	466,563
	21,002,399	35,939,306	14,776,899

- ii. This table indicates that if all these loans were declared non-accrual, the impact to the ALLL would have been approximately \$15 million. But because of the turbulence of the economy at the time, the board of Regions had elected to create an additional allocation in the amount of \$155 million in the reserve to cover "Imprecision and Stressed Industries".
- iii. That reserve could have easily absorbed this \$15 million in additional requirement, making its final effect on the required ALLL immaterial, with no impact on the final operating results.

---

## Results of Analysis, Continued

- c. The Potential Increase in the ALLL, Scenario 2:
- i. If, despite the apparent adequacy of the contingency reserve, the board had decided to increase the ALLL by the entire \$15 million, the impact on earnings would have been as follows:

Reported Net Income per UBPR		113,641,000
Reduction in NII from Interest Reversal	(1,799,396)	
Additional Provision	<u>(14,776,898)</u>	
Total Reduction in Pre-Tax Earnings	(16,576,294)	
Tax Effect at 35%	<u>5,801,703</u>	
Net After Tax Reduction in Earnings		(10,774,591)
Net Income after Interest Reversal and Additional Provision		<u>102,866,409</u>
Percent Change in Net Income		9.48%

- ii. Against a standard of 15%, the reduction in earnings that likely would have occurred under this scenario would clearly not have been material.

---

## Conclusions

Based on the information provided, I conclude that:

1. The ALLL would have been adequate to absorb the increased allocations for the loans in question
2. The impact of the reversed interest would be less than 1% of net operating income, and
3. The combined impact of moving the loans to non-accrual would have had a less-than-material effect on the Bank's reported operating results.

My opinion is apparently shared by the accounting firm of Ernst & Young. In 2010 the firm issued an Investigation Memo in which they outlined their consideration of the alleged activities and their potential impact on the accuracy of the Bank's financial statements. They provided a detailed narrative of the steps the Bank had taken in response to the allegations involving the 2009 issues that are the subject of the SEC Order. The following observation was cited:

"Based on our discussions with S&C (another contractor hired by the Bank's audit department), they note that one individual, Tom Neely, may have aggressively challenged certain Special Assets Department officers related to non-accrual decisions. However, based on their representations...they note no material impact to the financial statements as a result of this potential aggressive behavior."

Ernst & Young concluded that there were weaknesses in the processes and controls, but in summary they said the following:

"In response to the subpoenas received by Regions in July 2010, we adjusted our audit procedures to determine whether the prior and/or current year financial statements were free from material misstatement. Through our testing, we conclude that nothing has come to our attention that causes us to believe that current year (*i.e.*, 2010) or prior year (*i.e.* 2009) were materially misstated."

Their conclusion was as follows:

"Based on procedures performed, we conclude, based on information as of the date of this letter, the matter does not have the potential for more than a clearly inconsequential effect on Regions financial statements nor does it cause us to question the integrity of current management."

It is, therefore, my opinion that the financial statements of March 31, 2009, had no material misstatements in them as a result of the actions in question.

---

## Consultant Credentials

Richard K. Yowell holds a Bachelor of Science degree in Finance from the McIntire School of Commerce at the University of Virginia. He has been in the banking and finance industry for more than 50 years.

During the first 25 years of his career, he was the CEO of two banks in troubled situations. Both banks required re-building and managing the lending side of the bank. Mr. Yowell received hands-on experience in quantifying and managing trouble loan portfolios and in leading banks to comply with and recover from regulatory orders and supervision.

In the mid-1980's, Mr. Yowell moved from bank management into financial institution consulting. He built a practice for his employer at the time in assisting troubled institutions under supervisory agreements, leading seven such engagements personally. Since that time, he has managed consulting projects in top tier banks in Australia, South Africa, the United Kingdom and other countries. His work has included reviews of problem asset management, loan loss reserve adequacy, and loan administration practices.

Within the last five years, Mr. Yowell has focused on domestic banks under supervisory agreements and has assisted four banks in identifying and resolving problem loans and in meeting the terms of their agreements.

He is a member of the faculty of the Risk Management Association and regularly teaches classes to bankers in identifying and managing problem assets.

A more detailed summary of Mr. Yowell's professional experience is attached as Appendix D.

---

## APPENDICES

# Appendix A

# Regions Bank Income Statement

	FRB District/ID_RSSD 6 / 233031		REGIONS BANK		BIRMINGHAM, AL		Income Statement S	
	County: JEFFERSON		Income Statement \$--Page 2				10/20/2014- 10:55	
	3/31/2009	3/31/2008	12/31/2008	12/31/2007	12/31/2006	Percent Change		
						1 Year		
FDIC Certificate # 12368								
OCC Charter # 0								
Public Report								
Interest and Fees on Loans	1,064,149	1,491,611	5,417,726	6,853,761	4,829,219		-28.66	
Income From Lease Financing	49,749	46,588	168,964	164,594	80,653		6.79	
Tax-Exempt	9,076	8,167	31,566	24,943	18,265		11.13	
Estimated Tax Benefit	4,238	3,925	0	11,270	7,161		7.96	
Income on Loans & Leases (TE)	1,118,136	1,542,124	5,586,690	7,029,625	4,917,033		-27.49	
US Treas & Agency (Excl MBS)	19,669	33,914	115,458	179,710	151,515		-42	
Mortgage Backed Securities	197,847	139,560	608,170	568,424	392,663		41.76	
Estimated Tax Benefit	2,870	3,372	0	14,960	8,401		-14.87	
All Other Securities	18,780	21,143	86,402	90,288	43,120		-11.18	
Tax-Exempt Securities Income	6,148	7,016	31,352	33,110	21,428		-12.37	
Investment Interest Income (TE)	239,166	197,989	810,030	853,382	595,699		20.8	
Interest on Due From Banks	2,929	347	7,958	2,308	1,664		744.09	
Int on Fed Funds Sold & Resales	329	1,690	4,434	9,092	4,916		-80.53	
Trading Account Income	34	3,262	3,949	6,665	2,866		-98.96	
Other Interest Income	8,124	12,345	44,330	42,743	33,348		-34.19	
Total Interest Income (TE)	1,368,719	1,757,758	6,457,391	7,943,816	5,555,527		-22.13	
Int on Deposits in Foreign Off	3,352	56,045	129,073	391,833	256,681		-94.02	
Interest on Time Dep Over \$100M	114,209	144,265	501,372	611,641	420,527		-20.83	
Interest on All Other Deposits	250,821	316,105	1,130,125	1,704,281	1,042,743		-20.65	
Int on Fed Funds Purch & Repos	2,091	39,806	102,387	290,649	174,495		-94.75	
Int Trad Liab & Oth Borrowings	132,670	115,270	500,686	272,237	178,664		15.1	
Int on Sub Notes & Debentures	17,718	24,848	108,711	103,830	33,732		-28.69	
Total Interest Expense	520,861	696,339	2,472,354	3,374,471	2,106,842		-25.2	
Net Interest Income (TE)	847,858	1,061,419	3,985,037	4,569,345	3,448,685		-20.12	
Non-Interest Income	766,634	480,756	1,685,359	1,782,046	1,175,683		59.46	
Adjusted Operating Income (TE)	1,614,492	1,542,175	5,670,396	6,351,391	4,624,368		4.69	
Non-Interest Expense	784,584	875,109	9,484,648	3,627,162	2,514,928		-10.34	
Provision: Loan & Lease Losses	425,000	181,000	2,057,000	555,000	174,488		134.81	
Pretax Operating Income (TE)	404,908	486,066	-5,871,252	2,169,229	1,934,952		-16.7	
Realized G/L Hid-to-Maturity Sec	0	0	0	0	0		N/A	
Realized G/L Avail-for Sale Sec	53,008	91,640	91,533	-6,187	7,664		-42.16	
Pretax Net Operating Inc (TE)	457,916	577,706	-5,779,719	2,163,042	1,942,616		-20.74	
Applicable Income Taxes	325,704	188,158	-271,328	719,243	599,058		73.1	
Current Tax Equiv Adjustment	7,109	7,298	0	26,231	15,563		-2.59	
Other Tax Equiv Adjustments	0	0	0	0	0		N/A	
Applicable Income Taxes (TE)	332,813	195,456	-271,328	745,474	614,621		70.28	
Net Operating Income	125,103	382,250	-5,508,391	1,417,568	1,327,995		-67.27	
Net Extraordinary Items	0	-42	-11,461	-142,068	0		100	
Net Inc Noncontrolling Minority Interests	11,462	N/A	N/A	N/A	N/A		N/A	
Net Income	113,641	382,208	-5,519,852	1,275,500	1,327,995		-70.27	
Cash Dividends Declared	0	150,000	725,000	2,250,000	900,000		-100	
Retained Earnings	113,641	232,208	-6,244,852	-974,500	427,995		-51.06	
Memo: Net International Income	0	0	0	0	198,517		N/A	

Source: UBPR

# Appendix B

# Regions Bank Balance Sheet

FDIC Certificate # 12368 OCC Charter # 0 Public Report	FRB District/D_RSSD 6 / 233031 County: JEFFERSON	REGIONS BANK Balance Sheet 5--Page 4	BIRMINGHAM, AL	Balance Sheet 5 *****	Percent Change 1 Quarter 1 Year	
	3/31/2009	3/31/2008	12/31/2008	12/31/2007	12/31/2006	
<b>Assets:</b>						
Real Estate Loans	65,330,755	64,381,139	64,634,614	64,138,473	67,695,329	1.08 1.48
Commercial Loans	16,004,967	16,085,364	16,998,318	16,399,804	16,114,920	-5.84 -0.5
Individual Loans	4,547,136	6,008,283	5,179,537	5,893,063	6,373,792	-12.21 -24.32
Agricultural Loans	367,605	440,729	430,008	368,020	454,717	-14.52 -16.27
Other LN&S in Domestic Offices	5,999,532	5,037,740	5,978,200	4,131,319	3,820,351	0.36 19.09
LN&S in Foreign Offices	5,407,680	5,460,897	5,511,158	5,362,006	5,107,424	-1.88 -0.97
Loans Held for Sale	1,961,107	839,433	1,283,864	803,150	4,996,406	52.75 133.62
Loans Not Held for Sale	95,694,642	96,570,096	97,446,072	95,483,521	94,551,883	-1.8 -0.91
LN&S Allowance	1,861,090	1,376,486	1,826,149	1,321,244	1,055,953	1.91 35.21
Net Loans & Leases	95,794,659	96,033,043	96,903,787	94,965,427	98,492,336	-1.14 -0.25
U.S. Treasury & Agency Securities	17,269,062	13,190,148	14,935,891	13,018,907	14,435,540	15.62 30.92
Municipal Securities	615,925	740,900	752,355	713,001	787,743	-18.13 -16.87
Foreign Debt Securities	3,225	4,730	1,425	5,694	6,286	126.32 -31.82
All Other Securities	2,064,133	2,885,044	2,110,480	2,790,129	2,699,394	-2.2 -28.45
Interest-Bearing Bank Balances	2,281,539	47,850	7,532,038	31,705	55,818	-69.71 4668.11
Federal Funds Sold & Resales	25,031	267,650	429,252	435,175	150,331	-94.18 -90.65
Trading Account Assets	793,117	1,764,119	866,306	627,615	319,655	-8.45 -55.04
Total Investments	23,052,032	18,900,441	26,628,420	17,622,226	18,454,767	-13.43 21.97
Total Earning Assets	118,846,691	114,933,484	123,532,207	112,587,653	116,947,103	-3.79 3.4
Nonint Cash & Due From Banks	2,442,109	3,105,582	2,680,108	3,708,503	3,521,757	-8.88 -21.36
Premises, Fix Assts, Cap Leases	2,719,013	2,619,374	2,695,734	2,570,016	2,344,773	0.86 3.8
Other Real Estate Owned	284,702	173,811	233,515	114,824	75,722	21.92 63.8
Dir & Indir Inv RE Ventures	0	0	0	0	104,523	N/A N/A
Inv in Unconsolidated Subs	0	0	0	0	1,612	N/A N/A
Acceptances & Oth Assets	12,707,099	18,933,345	12,942,441	18,068,767	15,672,458	-1.82 -32.89
Total Assets	136,999,614	139,765,596	142,084,005	137,049,763	138,667,948	-3.58 -1.98
Average Assets During Quarter	139,295,193	137,283,881	144,174,315	134,295,097	116,049,994	-3.38 1.47
<b>Liabilities:</b>						
Demand Deposits	4,481,865	6,979,597	4,848,408	7,306,431	7,712,471	-7.56 -35.79
All Now & ATS Accounts	1,972,232	3,657,856	1,890,491	3,924,902	2,999,142	4.32 -46.08
Money Market Deposit Accounts	48,379,289	42,102,973	46,340,714	42,145,196	42,019,452	4.4 14.91
Other savings Deposits	3,970,273	3,794,038	3,664,724	3,646,748	8,231,655	8.34 4.65
Time Deps At Or Below Insurance Limit	20,040,111	16,581,138	19,754,657	16,549,365	18,379,030	1.39 20.86
Less: Fully Insured Brokered Deposits	120,724	0	40,236	0	190,000	200.04 N/A
Core Deposits	78,723,046	73,115,602	76,468,758	73,572,642	78,551,750	2.95 7.67
Fully Insured Brokered Deposits	120,724	0	40,236	0	190,000	200.04 N/A
Time Deps Above Insurance Limit	13,393,365	12,934,438	12,714,077	12,801,873	13,946,589	5.34 3.55
Deposits in Foreign Offices	5,884,732	5,246,579	6,702,935	10,741,594	9,228,328	-12.21 12.16
Total Deposits	98,121,867	91,296,619	95,926,007	97,116,108	101,916,668	2.29 7.48
Federal Funds Purch & Resale	2,128,609	6,547,890	2,714,893	7,267,858	6,491,628	-21.6 -67.49
Fed Home Loan Bor Mat < 1 Year	5,501,009	280,326	3,636,079	100,000	751,284	51.29 1862.36
Fed Home Loan Bor Mat > 1 Year	3,418,384	5,079,224	5,960,990	3,782,215	2,224,267	-42.65 -32.7
Oth Borrowing Mat < 1 Year	5,041,189	8,836,103	10,807,098	2,237,330	1,657,468	-53.35 -42.95
Oth Borrowing Mat > 1 Year	3,937,356	2,009,490	4,417,089	1,126,833	383,683	-10.86 95.91
Acceptances & Other Liabilities	1,954,452	2,776,761	1,856,266	2,227,587	1,721,921	5.29 -29.61
Total Liabilities (Incl Mortg)	120,102,866	116,826,413	125,318,422	113,857,931	115,146,919	-4.16 2.8
Subordinated Notes & Debentures	2,276,263	1,457,124	2,270,515	2,052,284	1,518,373	0.25 56.22
Total Bank Capital & Min Int	14,620,485	21,482,059	14,495,068	21,139,548	22,002,656	0.87 -31.94
Total Liabilities & Capital	136,999,614	139,765,596	142,084,005	137,049,763	138,667,948	-3.58 -1.98
<b>Memoranda:</b>						
Officers, Shareholder Loans (N)	7	6	6	6	6	
Officers, Shareholder Loans (S)	413,750	493,134	444,304	568,832	558,875	-6.88 -16.1
Held-to-Maturity Securities	20,491	24,719	22,145	25,496	24,456	-7.47 -17.1
Available-for-Sale Securities	19,931,854	16,796,103	17,778,006	16,502,235	17,904,507	12.12 18.67
All Brokered Deposits	120,724	2,552,983	110,236	2,791,386	1,170,033	9.51 -95.27

Source: UBPR

# Appendix C

## Reconstruction of Required ALLL

	Allocation	Q1 2009 Balances	Q1 2009 Allocation
<b>COMMERCIAL LOANS</b>			
<b>Commercial &amp; Industrial</b>			
Pass Rated Loans	0.75%	16,295,306	122,215
Regions Business Capital New York (Pass rated)	2.50%	300,137	7,503
Dealer Floor Plans - Pass Rated	0.70%	641,207	4,488
FASB 114 Impairment Allocations	Specific	99,936	28,723
FAS 5 Specific - Leases	Specific	2,553	1,782
OLEM	4.00%	582,924	23,317
Sub-Standard, Non FASB 114	12.50%	922,144	115,268
Doubtful, Non FASB 114	60.00%	8,675	5,205
Loss, Non FASB 114	100.00%	15	15
<b>Total C&amp;I</b>		<b>18,852,897</b>	<b>308,517</b>
<b>Commercial Real Estate</b>			
Pass Rated Loans, Land, SFR, Condo	4.00%	3,440,124	137,605
Pass Rated Loans, Commercial	0.50%	16,134,989	80,675
FASB 114 Impairment Allocations	Specific	753,040	153,553
OLEM	4.00%	2,598,898	103,956
Sub-Standard, Non FASB 114	12.50%	2,973,265	371,658
Doubtful, Non FASB 114	60.00%	11,449	6,869
Loss, Non FASB 114	100.00%	2	2
<b>Total CRE</b>		<b>25,911,767</b>	<b>854,318</b>
<b>TOTAL COMMERCIAL LOANS</b>		<b>44,764,664</b>	<b>1,162,835</b>
<b>Business and Community Banking</b>			
Pass Rated Loans - C&I	1.70%	2,922,692	49,686
Pass Rated Loans - OORE	0.35%	6,860,586	24,012
Pass Rated Loans - NOO, Land, SFR	1.80%	941,933	16,955
Pass Rated Loans - NOO, OtherComm'l	0.35%	2,691,262	9,419
Flex Lines (Pass Rated)	6.25%	633,310	39,582
FASB 114 Impairment Allocations	Specific	968	389
OLEM	5.00%	214,410	10,721
Sub-Standard, Non FASB 114	15.00%	387,076	58,061
Doubtful, Non FASB 114	50.00%	1,337	669
Loss, Non FASB 114	100.00%	327	327
<b>Total Business &amp; Community Banking</b>		<b>14,653,901</b>	<b>209,820</b>
<b>CONSUMER LOANS</b>			
Residential 1st Mortgage	0.39%	14,769,946	57,603
FAS 114 Pool Mortgage TDR	0.78%	734,919	5,732
Mortgages - Long Term Investment		100,964	6,228
Equifirst	9.50%	72,222	6,861
Dealer Indirect	0.69%	3,464,371	23,904
Equity Lending Uninsured	1.40%	15,468,494	216,559
Equity Lending Insured	0.00%	554,885	-
Total Revolving	1.85%	248,394	4,595
Direct	0.80%	782,982	6,264
Overdrafts		70,740	5,500
Education Loans	0.01%	-	-
<b>TOTAL CONSUMER LOANS</b>		<b>36,267,917</b>	<b>333,246</b>
<b>TOTAL PRODUCT ALLOCATION</b>		<b>95,686,482</b>	<b>1,705,902</b>
<b>ALLOCATION FOR</b>			
Imprecision & Industry Stress	8.34%		155,188
<b>TOTAL ALLOWANCE FOR LOAN AND LEASE LOSSES</b>		<b>95,686,482</b>	<b>1,861,090</b>
<b>BINDING UNFUNDED COMMITMENTS</b>			
Commercial Unfunded Commitments		15,622,565	9,374
CRE Unfunded Commitments		9,587,889	11,950
Home Equity Unfunded Commitments - Uninsured		11,568,492	16,198
Home Equity Unfunded Commitments - Insured		120,494	-
<b>TOTAL BINDING UNFUNDED COMMITMENTS</b>		<b>36,899,440</b>	<b>37,522</b>
<b>STANDBY LETTERS OF CREDIT</b>			
Pass Rated Commercial LC's		3,765,377	2,824
Pass Rated CRE LC's		3,562,920	4,275
OLEM		207,641	8,306
Substandard		152,987	19,123
Doubtful		2,456	1,473
Loss		8	8
<b>TOTAL BINDING UNFUNDED COMMITMENTS</b>		<b>7,691,389</b>	<b>36,009</b>
<b>TOTAL RESERVE FOR UNFUNDED CREDIT COMMITMENTS</b>			<b>73,531</b>
<b>TOTAL ALLOWANCE FOR CREDIT LOSSES</b>			<b>1,934,621</b>



---

## Appendix D

### Professional Experience of Richard K. Yowell

#### CAREER SUMMARY

Skilled community bank CEO with over 50 years of proven expertise in hands-on management as well as consulting in the financial services industry, particularly in problem banks. More than 30 years' experience in managing bank consulting projects and more than 20 years in community bank management.

Managed consulting projects in top tier banks both within the U.S. and globally, interfacing routinely with CEO's and Boards of Directors. Key accomplishments in:

- Credit Risk Management
- Loan Operations Improvement
- Business Process Reengineering
- Problem Asset Resolution
- Responses to Regulatory Orders
- Commercial and Retail Strategy

#### EXPERIENCE

##### RK YOWELL & ASSOCIATES, LLC

2008 - Present

##### *Managing Director*

Providing consulting assistance with:

- Regulatory Order Compliance
- Credit Risk Management
- Credit and Lender Training
- Problem Asset Resolution
- Operating Cost Control
- Banking Process Improvement

Led, as hands-on CEO, the recovery of a Texas community bank from a consent order.

- Developed a strategic plan and budget.
- Led the board of directors to develop loan policies.
- Quantified and managed problem loans.
- Documented and tracked collateral value impairments.
- Refined ALLL calculation.
- Developed capacity for measuring borrower global cash flow.
- Reduced classified assets from 68% of capital to 19%.
- Identified staffing weaknesses and developed remediation plans.

Served the Texas Department of Banking as the supervisor for a community bank under a cease and desist order.

- Managed the establishment of sound business practices in the identification of problem loans.
- Guided the development of strategies for managing and collecting each problem loan.
- Guided and participated in a detailed loan review to identify all potentially substandard loans and determine the proper level for the allowance for loan losses.
- Led the board through a strategic planning process and developed a three-year plan.
- Prepared budgets to match the three-year plan.
- Developed a management information package for the board that:
  - Focuses on what the directors really need to know, and
  - Measures progress against stated goals instead of history.
- Directed the development of detailed position descriptions throughout the bank to assist in the realignment of functions and skill levels for expediency and efficiency.
- Assisted the board in evaluating an offer for the purchase of the bank and provided advice during the negotiations.

Developed a management plan for a \$400 million US community bank complying with a cease and desist order.

- Performed FDIC-mandated management assessment
- Drafted a management succession plan
- Drafted charters for all board committees.

Assisted the FDIC in evaluating, managing and disposing of the problem loans of a failed community bank.

- Worked the collections, restoring numerous past due loans to performing status.
- Evaluated performing and non-performing assets using discounted cash flows.
- Negotiated with borrowers for moving the loans to other lenders.
- Negotiated with FDIC officials for the acceptance of discounted payoff amounts.

Member of the RMA faculty for the delivery of classes in Detecting Problem Loans, Problem Loan Workouts and Building Small Business Loan Relationships.

Delivered training in small business lending to branch locations nationwide for major West Coast Bank.

Taught an advanced credit analysis course to commercial lenders in major banks in Malaysia and United Arab Emirates.

---

## Appendix D, Continued

<b>CARREKER CORPORATION, Dallas, Texas</b> <i>(Now part of Fiserv)</i>	1999 - 2008
<i>Revenue Enhancement Group</i> <i>Managing Principal</i> First project manager specializing in overseas, extended engagements. Managed extended revenue enhancement projects employing 8 to 12 consultants in: <ul style="list-style-type: none"><li>• Second largest South African bank</li><li>• Top-tier Australian bank</li><li>• Two top-tier British banks</li><li>• Major Southeastern US bank.</li></ul>	
<b>A.T. KEARNEY, INC., Dallas, Texas</b>	1990 - 1999
<i>Financial Institutions Group</i> <i>Senior Manager</i> Managed banking process reengineering projects internationally	1996 - 1999
<i>EDS Management Consulting Services</i> <i>Manager</i> <i>(EDS Management Consulting Services was merged into A.T. Kearney in 1996.)</i> Managed whole bank process reengineering projects, directly supervising 5 to 7 other consultants.	1993 - 1996
<i>BEI Golembe, Inc.</i> <i>Vice President 1990 – 1992, Promoted to Senior Vice President in 1992</i> <i>(BEI Golembe, Inc. was acquired by EDS Management Consulting Services in 1993.)</i> Supervised numerous problem loan management engagements for troubled institutions under supervisory agreements. Developed management assessments and management plans for clients under supervisory agreements.	1990 - 1993
<b>IMAGINETICS CONSULTING, Boulder, Colorado</b> <i>Owner</i> Provided “part-time chief financial officer” services to small, startup businesses.	1988 - 1990

### MANAGEMENT EXPERIENCE

<b>WILAND SERVICES, INC., Boulder, Colorado</b> <i>Chief Financial Officer</i>	1985 - 1988
<b>FIRST NATIONAL BANK, Columbus, Indiana</b> <i>President and CEO</i>	1981 - 1985
<b>AMERICAN BANKERS ASSOCIATION, Washington, D.C.</b> <i>Director of Community Bankers Division</i>	1980 - 1981
<b>SECOND NATIONAL BANK, Culpeper, Virginia</b> <i>President and CEO</i>	1972 - 1980
<b>WACHOVIA BANK &amp; TRUST COMPANY, Burlington, North Carolina</b> Trained in retail banking, commercial credit, commercial lending and marketing. Managed small business portfolio.	1966 - 1972

### EDUCATION

BS (Finance)  
McIntire School of Commerce  
University of Virginia, Charlottesville, Virginia

Graduate work at:  
University of Virginia School of Law  
American University, Washington, DC  
University of Colorado Business School, Boulder, Colorado