FDIC

Report of Investigation

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BANK OF ANYTOWN

ANYTOWN **ANYCOUNTY** **ANYSTATE**

Regio
n: Any Region

harter:

Investigation Commenced:	11/30/2001	Date of Application:	09/25/2001
Investigation Closed:	02/06/2002	Date Application Accepted:	10/22/2001

FEDERAL DEPOSIT INSURANCE CORPORATION

FDIC 6510/10 (02-2002)

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This Report of Investigation consists of three major sections: Conclusions and Recommendations; Assessment; and Other Information. Investigating examiners should refer to the FDIC Statement of Policy on Applications for Deposit Insurance and Part 303 Subpart B – Deposit Insurance, of the Rules and Regulations for guidance. In considering applications for deposit insurance for a proposed depository institution, the FDIC must evaluate each application in relation to the factors prescribed in section 6 of the FDI Act. In general, the application will receive deposit insurance if all the statutory factors plus the considerations required by the National Historic Preservation Act and the National Environmental Policy Act of 1969 are resolved favorably.

CONCLUSIONS AND RECOMMENDATIONS

ASSESSMENT

OTHER

INVESTIGATION REPORT CONCLUSIONS AND RECOMMENDATIONS

Description of the Transaction

Applicant is a Federally chartered National Association in organization and as such, has no financial history. Proponent *originally* applied to the Office of the Comptroller of the Currency (OCC), its primary regulator, for permission to organize as a National Association on August 23, 2000.

However, due to the volume of substantive deficiencies in the Application, the OCC and Federal Deposit Insurance Corporation, requested additional supporting information during the Fall of 2000. In summation, these deficiencies emanated from the lack of supporting documentation regarding critical business model assumptions including but not limited to, customer acquisition rates as well as, deposit/loan growth composition and volumes. Other material weaknesses included the absence of profitability within the formative stages and independent market research supporting the feasibility of the nontraditional delivery channels proposed {non-branch kiosk}. Weaknesses emanating from the original proposal were never satisfactorily resolved and the Applicant withdrew the proposal on April 16, 2001.

Applicant, after substantive modifications to the business model and management team, resubmitted the proposal on October 9, 2001. The proposal calls for the Applicant to be part of a two-tier holding company structure. The United States (US) based holding company and initial-tier will be Holding Company-2, Incorporated, Anytown, Anystate. It will be a wholly owned subsidiary of Holding Company-1 plc, London, England, the top-tier holding company. Both holding companies are active and fully operational as of the date of application. The Applicant intends to file an application with the Federal Reserve Bank for the formation of a bank holding company.

The Applicant's business model espouses the use of multiple delivery channels (integrated model) to service its customer base including: a traditional retail bank site and supermarket branch network, as well as, a fully transactional web site and customer call center.

Financial History and Condition

The Applicant has provided reasonable support for asset and liability projections. Moreover, the proposed investment in fixed assets is within regulatory guidelines. Organizational expenses, while seemingly excessive, are fully covered by the initial level of capital. While the finding on this statutory factor is ***favorabl**e*, one open supervisory item remains. This pertains to the submission of acceptable agreements covering the two proposed related party transactions. Said related party transactions should ensure that the resulting expenses to the insured institution are on terms prevailing in the market for similar services performed and/or due not result in any economic disadvantage or consequence. Related party transactions are summarized on page 8 of this Report.

Adequacy of the Capital Structure

The Applicant has provided for a strong initial capitalization base. Such capital is commensurate with the inherent risks of the business plan and sufficient for the projected growth of the institution. Year three proforma leverage ratio amounts to 8.82%. While the finding on this factor is ***favorable,*** it is contingent on the execution of the licensing (lease) agreements for the in store branches with Albertsons, Inc.

Future Earnings Prospects

The Applicant's business model suggests that it can attain adequate profitability. This profitability is based viable assumptions, which are comparable to various banking peer groups. The finding on this factor is ***favorable.***

INVESTIGATION REPORT CONCLUSIONS AND RECOMMENDATIONS (Continued)

General Character of Management

The general character of the proposed management team appears fundamentally sound and consistent with a rating of "2" under the Uniform Financial Institutions Rating System. Proposed management's aversion for risk is suggested by the concentration of less risky residential real estate during the formative years. While the finding on this factor is ***favorable***, one open supervisory item remains pending. To date, the Applicant has not submitted any stock benefit plans/agreements on its executive officers or directors. In light of exceptions taken during the prior proposal on the extent of option grants to certain executive officers, appropriate due diligence should be accorded prior to chartering.

Risk to the Fund

The proposal does not appear to present any undue risk to the insurance fund. This determination is based on the business model's strong initial capitalization base, seemingly conservative management team and investment philosophy, as well as, the viable and multi-faceted branch network strategy. The finding on this factor is ***favorable***.

Convenience and Needs of the Community

Given the extent of competition and available market share, the Applicant would not adversely impact competition or the delivery of financial services within the market area. The finding on this factor is ***favorable*.**

Consistency of Corporate Powers

The finding on this factor is ***favorable***.

Recommendation

The Examiner has concluded that all seven statutory factors have been favorably resolved. However, three open supervisory items remain and should be satisfactorily addressed prior to chartering.

Examiner

FINANCIAL HISTORY AND CONDITION

Assess the reasonableness of asset and liability projections, and composition in relation to the proposed market. Assess the financial condition of parent company and its significant subsidiaries, if applicable. Asses the investment in fix assets. The applicant's aggregate direct and indirect fixed asset investment, including lease obligations, must be reasonable in relation to its projected earning capacity, capital, and other pertinent matters of consideration. Proposed fixed asset investments should conform to applicable State law limitations. Assess compliance with security requirements of Part 326 and with the National Historic Preservation Act. Evaluate any financial arrangement or transaction involving the applicant and an insider(s). The transaction should demonstrate that: (1) the proposed transaction is made on substantially the same terms as those prevailing at the time for comparable transactions with non-insiders, and does not involve more than normal risk or present other unfavorable features; and (2) the proposed transaction must be approved in advance by a majority of the incorporators. In addition, full disclosure of any arrangements with an insider must be made to all proposed directors and prospective shareholders. An insider is a person who is proposed to be a director, officer, or incorporator, a shareholder who directly or indirectly controls 10 percent or more of a class of the applicant's outstanding voting stock; or the associates or interest of any such person.

Summary and Findings

Proposed Retail Bank Site and Supermarket Branch Network

Retail Bank Site

Holding Company-2 (USA), the initial-tier holding company, has leased approximately 6,100 square feet of ground floor space in a five story commercial office building located at 2001 Palm Blvd., Anytown, Anystate. This site serves as the headquarters to Holding Company-2 and retail banking location of the proposed institution. It formerly served as a site for another financial institution and thus contains a vault and drop box area. The current building contains a certain amount of unoccupied space to accommodate the Applicant's future growth needs. An option on this additional space has been structured and provided for within the lease. The site is located within Metropolitan, AnyCounty, and on a heavily traveled boulevard adjacent to a major intrastate highway (I-95). The service area within the immediate vicinity, contains numerous commercial office buildings, service establishments, a shopping mall, financial institutions, as well as, nearby residential developments and condominiums.

Lease Agreement - Retail Bank Site

An office building lease was executed between 2001 Partners, L.C. and Holding Company-1 plc, London, England, the top-tier holding company. It contains an initial three-year lease provision, as well as, certain options. The tenant may extend subject lease for two (2) five (5) year periods under the same terms and conditions. In addition, tenant may also exercise an option for an additional 4,800 square feet within the building under similar terms and conditions. Rent is payable monthly and subject to annual increases based on the lesser of 5% or the percentage rise in the Consumer Price Index. The current rent within the lease includes real property taxes based on 1999 estimates. Any subsequent increases in said taxes are based on the tenant's pro rata share. No bankruptcy or dissolution clause was noted. A security deposit of $19,000 was collected.

Supermarket Branch Network

The organizers intend to operate a total of twelve supermarket branches during the first year of operation with Albertsons, Inc. as its host retailer. Eleven of the twelve branches were fully operational units that were closed July 2001 by Wachovia, NA, following its acquisition of Republic Security Bank, Anytown, Anystate. Albertsons will open the last supermarket branch (twelve) in November 2002. The proposed supermarket branch network will have seven locations in two counties, and will be located within heavily populated cities and townships.

Lease Agreement – Supermarket Branches

Albertsons and the Applicant have yet to complete and execute a contract on the twelve store locations proposed. Currently, Albertsons has submitted a proposal to the Applicant for all twelve stores. While no contract exists yet, proposed CEO Hamm has made assurances that Albertsons management has reserved said branches for the Bank and removed them from their branch availability list. All eleven existing banking facilities (one in process of construction) have been vacant since July 2001. Albertsons' legal counsel is presently preparing a License Agreement for execution, which may reportedly include the following terms and conditions.

Each License (lease) term will be for a minimum of five years, and include two five-year options. Initial license fees will be $30,500 annually ($2,541/mo.+ ATM fees of $250/mo) with modest increases for each successive option term. While the branches are essentially complete, any additional remodeling and/or modification related expenses will be borne by Applicant. All personal and real property taxes are the responsibility of the host, Albertsons.

Branch Network Host – Albertson's Inc. (NYSE: ABS)

Albertson's Inc, a national supermarket operator, is one of the world's largest food and drug retailers, with annual revenue of approximately $37 billion. The company is based in Boise, Idaho and operates more than 2,500 retail stores in 36 states. The company has a market capitalization of nearly $13 billion and holds a credit rating[1] for its outstanding senior notes and debentures of BBB+ (investment grade rating).

Recently Albertsons issued a press release (November 29, 2001) reaffirming the company's intent of preserving Anystate as a strategic market. This release was in response to securities analyst reports that the company had weak market share in many Anystate, cities and was potentially planning an exit out of the entire state. Such a decision would have serious repercussions for the Applicant's deposit assumptions considering the supermarket channel's relative importance to customer and deposit acquisition. The press release stated that the company was attempting to increase operating efficiencies by closing under-performing stores but will invest $125 million throughout the state for new store construction and remodeling. The capital expenditure represents a 25% increase over the prior year. Proposed CEO Hamm stated that company officials have not identified any of the eleven supermarket branch locations in subject proposal for closure.

Asset and Deposit Funding Projections

Deposit Growth Considerations – Prevailing Market Share, Competitive Factors & Recent Denovo Activity

Statistics delineating all FDIC insured institutions with offices located in Anycounty-1 and Anycounty-2, Anystate, suggests that there is intense competition for existing market share. Competition comes from three distinct sources; (1) retail branches within the both county's market, (2) Internet divisions of retail banks, and (3) banks/thrifts operating exclusively on the Internet.

As of June 30, 2001, there were a total of 450 banking offices located within Anycounty-1 with aggregate deposits of $22.4 billion, representing a nearly 5% year over year (YOY) deposit increase. For the same period, Anycounty-2 reflected 405 banking offices with aggregate deposits of $23.9 billion, or a 5.5%YOY increase.

The bulk of the market share within both counties is held by the branch offices of larger out of state regional and super-regional holding companies. Despite the extent of competition, the organizers believe that they can differentiate their proposed institution by delivering high quality service via multiple delivery channels. The Applicant will employ marketing strategies professing same and will stimulate growth through the strategic pricing of deposits and efficiency of service.

Denovo Institutions – Traditional

A review of denovo institutions, which have opened in Southeastern Anystate suggests that nearly all have experienced a certain degree of success in attracting funding. This has occurred despite intense competition by local and out of area institutions within those respective markets. Contributing factors to their success include all and/or a combination of the following: (1) favorable state/local economy and area demographics (2) an existing and vast deposit base (3) overall negative consumer perceptions about larger institutions and their inability to provide adequate service and (4) ability of local directors and executive officers to leverage their existing community contacts in order to attract new business.

[1] Standard and Poors Corporation; Bond Guide, December 2001.

The following table depicts the recent experience of certain Denovo institutions within select Anystate markets.

Institution Total Assets – Latest Qtr. Available 9/01- $000	Insured Date Charter Type Business Model	Volume of Total Deposits After Year 1 - $000 **v**. Projections	Volume of Total Deposits After Year 2 - $000 **v**. Projections
Grand Bank Anytown, Anystate $95,313	Feb. 1999 State Traditional Retail	$51,422 *	$65,663
		$18,500	$32,752
Landmark Bank, NA Anytown, Anystate $145,450	Aug. 1998 National Traditional Retail	$20,701 *	$39,930
		$13,800	$26,900
Marine Bank & Trust Anytown, Anystate $65,011	Jul. 1997 State Traditional Retail	$24,149 *	$36,799
		$15,000	$28,000
Independent Community Bank Anytown, Anystate $33,815	Oct. 1998 State Traditional Retail	$13,625 *	$27,153
		$25,000	$35,000
First Peoples Bank Anytown, Anystate $35,352	Apr 1999 State Traditional Retail	$18,110 *	$24,115
		$20,000	$27,500
Gulfstream Business Bank Anytown, Anystate $99,701	May 1999 State Traditional Retail	$33,542 *	$43,747
		$20,152	30,736
Flagler Bank Anytown, Anystate $33,501	Apr. 2000 State Traditional Retail	$10,795 *	$28,503
		$10,330	$18,210
Transcapital Bank Anytown, Anystate $93,097	Jul 1999 State Traditional Retail	$41,228 *	$77,199
		$27,280	$48,430

Projections obtained from respective Reports of Investigation, Summary of Investigation Report, and/or supporting Regional office data when available. * Represents less than twelve months from insured date unless a later opening date is specified.

<u>Deposit Projections & Assumptions</u>

As depicted on page 12 of this Report, the Applicant projects total deposit volumes of $95.1 million, $164.5 million, and $202.8 million, within the first three years, respectively. Additional key assumptions include the following:

- Customer funding will come from the following sources: Branch network 81.5%, 13% Internet, Other (executive officer call program, customer call center, promotional/event kiosks, referrals) 5.5%.

- The distribution channels above project to achieve customer volumes of 9,124, 15,004, and 17,932 during the first three years, respectively. Within this assumption, Applicant further assumes that each customer will have two accounts. This translates to yearly total account volumes of 18,248; 30,004; and 35,864, respectively.

FINANCIAL HISTORY AND CONDITION (Continued)

- In arriving at total deposit volumes, the Applicant estimated that each account would retain an average balance of between $5.2M to $5.6M. The table on the subsequent page summarizes these calculations.

	Year 1	Year 2	Year 3
Deposit Customer Volumes – Cumulative	9,124	15,004	17,932
Account Volumes – Cumulative	18,248	30,008	35,864
@ average Balance of $5,216 Y1, $5,481 Y2, and $5,657 Y3 = Year-end Deposit Volumes	$95.1 MM	$164.4MM	$202.8 MM

With regard to the *Retail Branch* delivery channel, the Applicant assumes that its twelve supermarket branch network and traditional retail office will generate a sustainable deposit base during the formative years. The Applicant argues that eleven of the twelve proposed supermarket branch locations were profitable and viable branches when they were closed just six months ago by Wachovia Bank, following its acquisition of Republic Bank. According to proposed CEO Hamm, Wachovia's decision to close the branches, was driven primarily by philosophical differences and Wachovia's general unfamiliarity over that particular retail distribution channel.

Mr. Hamm stated that the branches are supported by Albertsons' extensive market research. As a matter of necessity and prudent retail practices, Albertsons will assess and enter new store markets only when certain favorable economic and demographic factors prevail. These factors include densely populated areas, traffic patterns, competition, and household income profiles. The favorable outcome of these studies will determine ultimate capital investment and store locations. Mr. Hamm argues that this research is critical to the proposal and a reason why the former branches were successful when owned by Republic Bank. The table below depicts the branch network's one-year history in attracting core funding. Results for December 2000 reflect nearly a 50% rise in funding from the previous period. Applicant projects that it can regenerate at least 65% {$78MM} of the balances existing at year-end 2000 during its formative first year.

Anycounty-2 Stores (7)		**Dec-99**	**Jun-00**	**Sep-00**	**Dec-00**
Total $ Mil.		**54.5**	**58.4**	**62.1**	**67.1**
Average		7.8	8.3	8.9	9.6

Anycounty-1 Stores (4)		**Dec-99**	**Jun-00**	**Sep-00**	**Dec-00**
Total $ Mil.		**25.7**	**41.8**	**47**	**53.1**
Average		6.4	10.5	11.8	13.3

Totals All 11 Branches		80.2	100.2	109.1	120.2
Average/Branch		7.3	9.1	9.9	10.9

In addition to the actual experience of the former branches, in-store branch projections have also been based on studies from two credible market sources, specializing in supermarket branches and alternative delivery systems; National Commerce Bank Services (NCBS), Memphis, TN., and International Banking Technologies (IBT) Norcross, GA. A 2000 NCBS study of 61 financial institutions covering 148 in-store branches resulted in the following average branch (NCBS owned branches) statistics below.

- Total accounts: 1,523
- Total Deposits: $11,906M
- Checking: $1,896M {16% of total – Average Balance (AB) $2,243}
- Savings/MMDA $4,532M {38% of total – AB of $10,739}
- CDs: $5,478M {46% of total – AB $21,317}

IBT, one of the largest retail consulting companies in the industry, has market data on clients ranging in size from, $21 million to $600 billion. It categorizes the performance of supermarket branches into high, median, and low. The Proposal's assumptions on the next page are compared with IBT's *median* supermarket branch performance measures (per branch). Applicant projections are also included for its one main office and traditional retail branch.

Period	IBT Median SM Branch Statistics	Applicant Projections – 12 Supermarket	Applicant Projections – 1 Main Office
Year 1	1,800 new accounts – Total Deposits $6.3MM	1,115 new accounts – TDs $5.8MM	3,346 new accounts – TDs $17.5MM
Year 2	1,440 new accounts – Total Deposits $12.7MM	672 new accounts – TDs $9.5MM	2,016 new accounts – TDs $28.3MM
Year 3	1,200 new accounts – Total Deposits $19.0MM	355 new accounts – TDs $11.8MM	1,066 new accounts – TDs $35.3MM

Actual branch history and empirical data, as well as, market research from both NCBS and IBT lend credence to the subject proposal's supermarket branch assumptions. Remaining branch assumptions for the main office appear reasonable and attainable based on recent denovo experience, relatively modest volume expectations in relation to total deposits, and intangibles such as the proposed CEO's following within the community.

With regard to the ***Internet*** channel, the Applicant projects an account acquisition rate of 7 per day and 12 accounts per day for years 2 and 3. As support for these assumptions, the Applicant stated that since inception, its corporate web site has averaged 184 visitors per day (well over the 31,389 reported during the previous investigation) with over 879 registered parties. It is uncertain as to whether these "hits" are attributable to the interest regarding the Applicant's pending application for Federal deposit insurance or merely concerned investors (which number in the thousands) seeking additional financial information. Notwithstanding, the projections appear plausible considering information provided by Anybank, a pure play denovo internet bank in Anytown, Anystate. According to the bank's chairman, Anybank was recently experiencing traffic of over 2,500 visitors per day and adding an average of 20 deposit accounts per day. During its first year, Anybank was adding an average of 50 accounts daily. Anybank reported recent average account balances of $5M for DDA, $40M for MMDA, and $60M for CDs. It is important to note however, that Anybank has been highly aggressive with respect to deposit pricing during its formative months. Applicant deposit projections for this channel appear reasonable based on existing site traffic and recent competitor experience.

Asset Projections and Assumptions

Applicant's loan projections are largely supported by qualitative factors including the proposed CEO's following in the community given his executive position (Chief Credit Officer) with the former Anybank, Anytown, Anystate. In addition, he reportedly knows a network of real estate and commercial lenders, many of whom were reportedly direct reports while at Anybank. Mr. Hamm stated that he has kept in close contact with several lenders who reportedly hold considerable portfolios of high-quality performing loans and are seeking other employment opportunities.

During the formative stages, the projections call for a conservatively weighted real estate portfolio. Year 1 projections assume a 77% real estate weighting with 58% comprising single family mortgage and home equity loans to prime borrowers. A meaningful portion of the residential portfolio will be purchased via established brokers known to both the proposed CEO and senior lending officer. Mr. Hamm reportedly has vast experience in purchasing mortgage pools with favorable yield and prepayment characteristics. This strategy will be important to the Applicant during the first year given its needs to deploy excess liquidity into higher yielding instruments. Commercial loans will focus on small business and SBA loans. Mr. Hamm stated that these products were successfully delivered and managed by he and the proposed senior lending officer while at Anybank. In light of the proposed CEO's experience and reputation in the market, no exceptions were taken to the loan projections scheduled.

Fixed Assets and Organizational Expenses

Capital Investments

The Applicant's investment in fixed assets is within existing OCC statutory limitations, which permit total fixed asset investment of up to 100% of total capital. The total proposed investment in fixed assets to initial capital is 15%. Two insider or related company transactions were disclosed and noted below.

Total investment in fixed assets at inception is proposed as $4,099M versus actual expenses (as of 11/30/2001) of $1,700M. Approximately 77% {$2,984M} of the net investment pertains to the Applicant's technology platform. This includes computer hardware, software, and associated networks. The remaining 27%{$1,115M} investment pertains to the Applicant's customer call center as well as associated expenses and holdings of furniture and fixtures. Capitalized assets are being depreciated utilizing the straight-line basis over a five-year schedule. The only material capital investment subsequent to opening will be the costs incurred to re-establish the in-store branches estimated at $60M per branch.

Related Party Transactions

Front-End Web Application Design and Deployment

Holding Company-1 plc, London, England (the top-tier holding company; refer to page 14 for organizational structure) will provide the insured bank with the initial front-end web application. This technology service will result in a one-time charge to the proposal of $90M and an additional investment of $20M in year one. A license agreement was not available for review during the Application process. Applicant stated that the service will be commensurate with the prevailing market, observe existing arms-length guidelines for related party transactions, and will be independent of the services provided by the Chief Technology Officer (CTO) Frank Gray.

Dual Employees

Proposed CFO Nigel Newbury and CTO Frank Gray will perform their duties in a dual capacity for both the top-tier holding company in London and the proposed national bank. During the formative years, the CFO and CTO will spend approximately 50% and 90% of their time respectively at the proposed West Palm Beach main office. A service agreement will be executed between the bank and holding company at a salary level commensurate with their roles and the exact time they allocate to the proposal. Currently, salaries allocated to the respective executives to be borne by the proposed institution are $55M per annum. A formal agreement was not yet formalized and/or submitted for review.

Organizational Expenses

The Applicant's organizational expenses are *substantial.* Problems with the original business plan, lack of initial fiscal prudence and length of time are all contributing factors. Since the original application of August 2000, which began during Q4 1999, organizers have withdrawn the Application for Deposit Insurance (April 2001), refilled a new proposal (October 2001) with a notably different business model and delivery modes, replaced various board members and certain key executives and hired new replacements. In the process, the Applicant restructured and incurred costs by reducing staff that was prematurely added by the previous CEO. During the previous application, extensive expenses were incurred for salaries (volume of staff) as well as, legal, professional and advisory fees. These fees have continued to accrue, although at a lesser extent since the arrival of proposed CEO Hamm.

The following table outlines the proposed pre-opening expenses versus actual expense items incurred in connection with the chartering process. The actual expenses from the previous submission are shown for illustrative purposes and to identify any large variances subsequent to that time. The Applicant has included expenses from the original submission inasmuch as previous costs/expenses are directly or indirectly related to the current proposal. The Applicant asserts that errors made previously have resulted in a benefit gained during the current Application.

Expense Category	**Application Projection**	**Actual Expense** 11/30/2001	**Actual Expenses @ Last Proposal – 12/31/2000**
Pre-opening Salaries & Benefits	$1,522M	$1,280M	$677M
Living/Relocation Expenses	$6M	$6M	$6M
Recruitment	$82M	$82M	$82M
Travel/Staff Related Expenses	$65M	$69M	$37M
Occupancy and Office Related	$563M	$473M	$156M
Attorneys & Professional Fees	$982M	$968M	$417M
Tax, Audit, Application, Dep, Other	$680M	$523M	$91M
Total Organizational Expenses	$3,900M	$3,401M	$1,466M

Pre-opening salaries are substantial and equal nearly 38% of total organizational expenses (year-to-date). The high volumes are attributable to the number of staff retained by the organizing group during the organizational phase, including that of certain highly compensated proposed officers. As of year-end 2000, the Applicant had hired and retained twenty employees. While this figure has since been reduced to eleven at year-end 2001, a high-level of expenses was still accruing throughout the first half of 2001 from the original higher staffing table. Since the arrival of proposed CEO Hamm, he has taken a proactive role in reducing these related expenses by releasing unwarranted and/or prematurely hired staff.

Attorneys, professional, and consulting fees are substantial and were highly criticized at the previous Corporation investigation. The criticism involved their excessive levels for the chartering of a denovo bank. It was argued that most of the expenses were discretionary and could have been controlled and managed in a more prudent and cost effective manner.

Included within the expenses are those associated with the Applicant's counsel/advisor. The Applicant retained the firm of Hodson & Hodson (HH), Washington, D.C., for legal and advisory services in connection with the chartering and application process. The engagement letter executed January 6, 2000 provides for an hourly billable rate ranging between $250 - $400. Overall fees for the chartering process were originally estimated by counsel to be between $250,000 and $300,000. In addition to this firm, the Applicant retained and incurred expenses with two other consultants that have since been discontinued under the current proposal. The high rate of legal and professional expenses billed from HH declined considerably after January 2001. Since proposed CEO Hamm's arrival, he has discontinued the previous practice of utilizing HH as regulatory liason during the current Application filing. Mr. Hamm stated that this has saved considerable monies and lowered the expense rate during Q3 and Q4 2001.

In addition to the legal and professional fees billed by HH, the pre-opening expense category includes consultancy fees billed by Holding Company-1 plc, in the amount of $428M. The fees pertain to the time commitment expended by several dual employees (employees of the holding company and proposed bank), which included the current officers (CFO Newbury, CTO Gray), certain software developers, and the former CEO and founder Casey Grant. The consulting fees constituted their salary calculated on a pro-rata basis for the amount of time expended during the organizing process, including application of an overhead component. The calculations were reportedly discussed with Holding Company-1's external auditor who assessed their reasonableness and accompanying tests for transactions with non-affitiliated parties. Documentation regarding this due diligence was not available for review during the Investigation process.

The last pre-opening expense item exhibiting a high variance was the "other" line item. Nearly the entire variance is represented by depreciation expenses associated with the Applicant's technology platform and very conservative prior depreciation schedule of three-years.

A key mitigating factor to the seemingly excessive pre-opening and organizational expenses pertains to the fact that the proposal has successfully raised capital during two separately underwritten offerings (see capital adequacy section on offerings and company structure). The holding company's equity position was recently reported at £19,137,532 or approximately $27.36 million. The proposal calls for an initial capital infusion of $26.9 million. The volume of capital from inception can absorb the high organizational expenses and support the proposed growth of the Applicant. Any actions by Regulatory Authorities to disallow certain organizational expenses above (from the previous submission) will simply result in the holding company having to absorb those costs. Considering the finite resources of the holding company and unlikely prospects of successfully executing a third capital offering, any organizational costs borne by the holding company will likely result in a lower initial capital infusion to the bank. Lower capital at inception would be offset by reduced organizational expenses, thus likely amounting to a wash or little financial impact.

Security Requirements & National Historic Matters

With regards to the proposal's security program, including compliance with Part 326 of the FDIC Rules and Regulations, organizers have committed to fully adhering to all applicable requirements. With regard to the National Historic Preservation Act, the State's Division of Historical Resources, corresponded with the Applicant on June 14, 2000. The department stated that the primary site (main office) would not interfere with any applicable historic sites and/or accompanying statutes. In regards to the retail supermarket branch network, all locations proposed are former branches of a federally insured institution. As such, no historic preservation or environmental impact concerns are anticipated.

Pending the submission of acceptable agreements covering two proposed related party transactions, the overall findings with regard to this factor is FAVORABLE.

FINANCIAL HISTORY AND CONDITION (Continued)

PROJECTED BALANCE SHEET			
	YEAR END BALANCE		
ASSETS	FIRST YEAR	SECOND YEAR	THIRD YEAR
CASH AND NONINTEREST BEARING BALANCES	3,816	5,940	6,893
INTEREST BEARING BALANCES			
SECURITIES – Held-to-maturity			
Available-for-sale	38,280	51,480	34,887
FED FUNDS SOLD AND REPURCHASE AGREEMENTS			
LOANS			
Construction and land development secured by real estate			
Loans secured by farmland			
Loans secured by 1-4 family residential properties	3,893	7,749	8,309
Junior lien loans secured by 1-4 family residential	34,915	44,848	56,463
Loans secured by multifamily (5 or more) residential properties			
Loans secured by non-farm non-residential properties	12,548	35,544	58,226
Credit card and related plans to individuals			
Agricultural loans and other loans to farmers			
Commercial and industrial loans	13,444	25,882	41,457
Loans to individuals for household and personal expenditures			
Other loans	2,075	5,738	11,332
LESS: Unearned income			
Allowance for loan and lease losses	836	1,497	2,197
NET LOANS	66,039	118,264	173,590
PREMISES AND FIXED ASSETS	4,015	3,054	2,202
ALL OTHER ASSETS	2,138	3,329	3,862
TOTAL ASSETS	114,288	182,067	221,434
LIABILITIES			
DEPOSITS			
Demand deposits and noninterest bearing deposits	7,007	12,652	15,463
Interest bearing deposits	49,461	85,363	106,529
Time deposits of less than $100,000	27,098	46,514	56,622
Time deposits of $100,000 or more	11,613	19,935	24,266
TOTAL DEPOSITS	95,179	164,464	202,880
FED FUNDS PURCHASED AND REPURCHASE AGREEMENTS			
BORROWINGS			
OTHER LIABILITIES	638	704	763
TOTAL LIABILITIES	95,817	165,168	203,643
EQUITY CAPITAL			
COMMON STOCK	1	1	1
SURPLUS	26,899	26,899	26,899
UNDIVIDED PROFITS	(8,429)	(10,001)	(9,109)
OTHER EQUITY CAPITAL			
TOTAL EQUITY CAPITAL	18,471	16,899	17,791
TOTAL LIABILTIES AND EQUITY CAPITAL	114,288	182,067	221,434
Tier 1 Leverage Capital Ratio	16.16%	9.28%	8.03%

ADEQUACY OF THE CAPITAL STRUCTURE

Generally, initial capital should be sufficient to provide for the maintenance of an 8 percent Tier 1 capital to assets leverage ratio (as defined in the appropriate capital regulation of the institution's primary Federal regulator) throughout the first three years of operation. The institution must also maintain an adequate allowance for loan and lease losses. Determine if the institution is being established as a wholly owned subsidiary of an eligible holding company (as defined in Part 303, subpart B). Assess the adequacy of proposed capital in light of projected deposits and growth, business plan risk tolerance, and the ability of proponents or parent company to provide additional capital. Special focus depository institutions (such as Internet or credit card banks) should provide projections based on the type of business to be conducted and the potential for growth of that business. All stock of a particular class in the initial offering should be sold at the same price, and have the same voting rights. Proposals which allow insiders to acquire a separate class of stock with greater voting rights or at a price more favorable than the price for other subscribers are not acceptable. Discuss financing arrangements for directors, officers, and 10 percent or more shareholders. Financing arrangements by insiders of more than 75% of the purchase price of the stock subscribed to by one individual or more than 50% of the purchase price of the aggregate stock subscribed by the insiders as a group should be supported to be considered acceptable. Insiders should demonstrate the ability to service the debt without reliance on dividends or other forms of compensation from the applicant.

PROPOSED CAPITAL STRUCTURE

ITEM	COMMON STOCK SHARES	PV	AMOUNT	SURPLUS	RETAINED EARNINGS	TOTAL	THIRDYEAR AVERAGE ASSETS	CAPITAL ASSET RATIO
Minimum Statutory Requirements			0			0		%
Amount Indicated on Application	1,000	1.00	1,000	26,899,000	(9,109,000)	17,791,000	201,602,000	8.82%
Revised Proposal			0			0		%
Recommendation of Examiner	1,000	1.00	1,000	26,899,000	(9,109,000)	17,791,000	201,602,000	8.82%

SALE PRICE PER SHARE OF CAPITAL *(original proposal)*	*(revised proposal)*	FEES OR COMMISSIONS IN CONNECTION WITH SALE OF STOCK
IPO: 2p (£ .02 or 3¢) Secondary IPO: 20p or 30¢ Assumes exchange rate @ £1.00 : $1.50		0.00

Summary and Findings

Initial Capitalization

The top-tier holding company (see ownership structure) has successfully executed two capital offerings totaling £22 million or approximately $35.2 million. The proposal calls for a direct infusion from said holding company.

The organizer's general consensus is that the level of proposed capital will suffice. In the event that additional capital is required, the Applicant has stated that the feasibility of a third public offering (see ownership structure) will be largely contingent upon favorable conditions within the European equity markets. Proposed CEO Hamm suggested a possible listing application to a US stock exchange may be pursued to enhance the likelihood of additional capital sources and share liquidity.

Founding directors are listed as follows: Lance Price (HC Director), Casey Grant (former director/officer), Nigel Newbury (proposed CFO), Stephen Helm (former director/officer), John Wise, Hamilton Trustees Limited.

Top-tier Holding Company – Additional Information on Capital

Shares Authorized: 750,000,000
Shares Outstanding: 350,000,000
Par Value: @ 50p or .75¢; assumes original exchange rate @ £1.00:$1.50
Principal Shareholders:

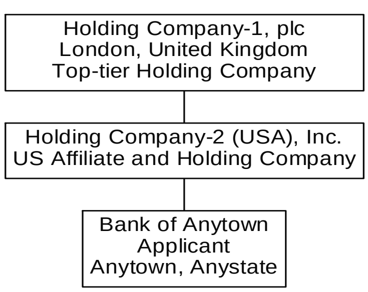
Shareholder	Category	Shares Held	Percent of Outstanding Shares
Casey Grant	Former Director	54,750,000	15.64%
Hamilton Trustees Limited	Institution	36,875,000	10.54%

Casey Grant, *former* proposed CEO of the bank and its holding company, is no longer affiliated with the proposal, other than as its single largest shareholder. Mr. Grant has requested two special board meetings to seek the voluntary dissolution of the holding company. Such proposal was soundly defeated by shareholders with over a 2:1 margin

Hamilton Trustees, Ltd. (10.5% shareholder) is reportedly a passive shareholder (no board or management representation) and trustee to certain trust funds. Hence, the beneficial owner of the shares is a trust, reportedly established to benefit certain charitable organizations. Per Mr. Newbury, no discussions have taken place with the Federal Reserve (as of January 7, 2002) to establish any element of control with respect to such party.

Ownership Structure

As depicted in the chart below, the top-tier holding company, Holding Company-1 plc, is headquartered in London and owns the Applicant via a United States (US) based holding company, Holding Company-2. The top-tier holding company, incorporated November 30, 1999, was established as a Public Limited Corporation (PLC). A PLC retains the status and functionality of a US based corporation and is the proper vehicle should the company wish to tap the country's capital markets. It is a registered entity within the UK, governed by prevailing regulations (Companies Act) including minimum capital requirements. In addition, the liability of its members is *limited* to the amount of shares held. According to proposed CFO Newbury, the top-tier holding company has no other operating subsidiaries besides the US holding company. It was reportedly evaluating other financial opportunities in the United Kingdom (UK) and elsewhere in an effort to establish alternative revenue sources. In this regard, Holding Company-1 plc, had reportedly met with officials of the UK's Financial Services Authority (FSA) with the intent on formally applying to become a UK Depository Institution. No formal applications have been made as of the Application date.



Holding Company-1 plc, is a publicly traded company, which was admitted and listed on the Alternative Investment Market (AIM – tantamount to the NASDAQ small capitalization equity market in the US) of the London Stock Exchange on December 16, 1999. It successfully completed an initial public offering during late 1999, raising £2 million (before associated expenses of £61,928) as well as, a fully underwritten secondary offering in February 2000, which raised an additional £20 million (also before associated expenses of £505,563). Total capital raised in US dollars approximated $35.2 million (before expenses).

Holding Company-1 plc – Financial Position

As of the most recent interim financial report (June 30, 2001), the entity held total assets of £19,581,817 or approximately $27.4 million. Total equity was £19,137,532 with cash representing the bulk at £18,231,943 or $25.5 million. Cash balances are invested within various European correspondents in short term, money market instruments and placements. For the same period above, operating losses after taxes totaled £1,250,942 or $1.7 million; a sharp rise (247%) over prior year losses. Reportedly, then eprime bank (in formation) incurred significant operating costs anticipating the issuance of a National Bank charter, which later failed to materialize. These higher operating costs, which included a high volume of staff were exacerbated by one-time restructuring charges related to personnel and other expense reductions programs. According to Mr. Newbury, the monthly cash "burn rate" or actual costs net of interest income was approximately $112M per month. Given the absence of dividends during the foreseeable period, the holding company will need to continue managing expenses and/or develop other revenue producing avenues to stem operating losses and its accompanying effect on capital.

According to proposed CFO Newbury, the company's stock retains five market makers and is held by over nine institutional investors (mainly mutual funds companies). In December 2001, the company possessed a market capitalization of approximately £8.75 million or approximately $12.3 million, thus representing a steep discount to June 2001's book value.

With a recent share price of 2.5p (£.03 or ¢3.57), the 52 week range consisted of 11.25p (£.11 or ¢16.09) to 2.25p (£.23 or ¢3.21). At this price, the stock was trading nearly 78% off its yearly high. The holding company's low, which it reached in October 2001, was attributable to a combination of the failed charter attempt, as well as, adverse market conditions.

Capital Adequacy Assessment

Proposed Business Model

The proposal calls for launching an integrated model leveraging technology and a traditional physical branch network. These multiple channels include one traditional retail banking office, a network of twelve convenience-driven supermarket branches, a fully transactional website and customer call center. The model attempts to focus on the efficient delivery of banking products with superior customer service. The in-store supermarket branch network will be employed within a large regional supermarket host located in heavily populated and demographically favorable service areas, cities/townships. The proposal also seeks to target the growing Hispanic community within Anycounty-1 and Anycounty-2 and will deliver products and services (Web/phone) in a bilingual format.

Projected Growth and Business Model Risks

Capital levels in light of projected growth and prevailing business model risks appears satisfactory. The business plan's overall risk assessment appears Low to Moderate.

On the asset side of the balance sheet, the proposal seeks considerable loan growth. This loan growth however, appears to be conservatively weighted towards the real estate sector in general and within products secured by primary residences (conventional/prime SFRs and HELs). Refer to the previous comments (page 8) regarding Asset Projections and Assumptions. The proposed loan mix represents a notable reduction in risk versus the previous proposal which was focusing extensively on higher yielding commercial loans. The ability to generate loans during the formative years will be partly facilitated by residential portfolio loan purchases. This is reportedly an area of expertise of the proposed CEO and SLO. Risks in these products will seemingly be limited to the premium paid given the current interest rate environment and accompanying earnings risk (write-down of premium on the asset side) should these underlying assets pre-pay (interest rate risk). The extent of loan volume appears to be coming at the expense of liquidity, which is a little lower than would otherwise characterize a denovo bank (proforma Loan to Deposit Ratios 69%, 72% and 86%, for first three years, respectively). However, given the current interest rate environment and low yields on short term Federal Funds, many institutions are attempting to minimize said holdings in order to achieve a more optimal net interest margin.

With regard to the deposit side of the growth projections, risks have been reduced considerably versus the previous proposal given the adoption of an established and more traditional funding channel. The supermarket branch network proposed in the model has a prior history and reportedly held actual deposit volumes of $120 million as of the year-end 2000[2]. This proven channel along with the main office, transactional website, and business referral prospects of the proposed CEO and select board members should provide reasonable assurances to the proposal's deposit projections.

[2] Raw data from the former Republic supermarket branches were not available for Examiner review. Proposed CEO Hamm stated that internal RSB reports (now property of Wachovia) were proprietary and thus restricted.

Business model risks emanate primarily from the denovo's operating environment. The operating environment is currently faced with a yield curve, which while steep and historically beneficial for financial institutions, contains a very low short-term rate base. The risk, from an asset/liability management and earnings perspective, is that short-term rates remain at historical lows. As such, any additional rate declines (Federal Funds Target Rate and resulting Prime lending rate reductions) may result in a further compression of net interest margins. Short-term rate reductions were recently implied by the 30-Day Federal Funds Futures contracts, which settle in April 2002[3]. Ensuing rate reductions could make net interest income and profitability goals for the denovo more challenging thus increasing the operating losses. Other risks with regard to the operating environment pertain to the current state of the local, state, and national economies. Any prolonged national recession could begin to more negatively impact the State and the bank's proposed service areas. This risk would occur at a time when the bank could be ramping its loan portfolio. Mitigating factors to the economic environment include the apparent strength of the new management team (CEO Hamm, SLO Well and Directors Wart and Marcotte) and the higher concentration on less risky residential mortgage lending.

In the interim, the business model risks also include the current status of the lease or licensing agreements with the retail host, Albertsons. While the organizers contend that the twelve proposed branch locations have been reserved for the denovo bank, firm agreements have yet to be executed. The failure of procuring any or all of these proposed branch locations by the organizers could have a negative impact on the applicant achieving deposit and/or loan projections. While lower growth would result in generally higher capital ratios, it might impact earnings given the sizeable fixed charges and overhead that the Applicant would need to overcome to become profitable.

While the finding on this factor is FAVORABLE, it is contingent on the execution of the licensing (lease) agreements for the in-store branches with Albertsons Inc.

[3] Chicago Board of Trade; January 11, 2002 April Contract settlement price of 98.405.

FUTURE EARNINGS PROSPECTS

Assess the reasonableness of earnings projections and supporting assumptions of the business plan in relation to the economic environment and competition. Projected interest income, expense, non-interest income and expense, and provisions for loan and lease losses should be analyzed and compared to experiences of other new banks in the trade area or in a similar market. When necessary, the examiner should make adjustments to the applicant's projections and discuss the basis for the differences. Incorporators should demonstrate through realistic and supportable estimates that, within a reasonable period (normally three years), the earnings of the proposed institution will be sufficient to provide an adequate profit.

Summary and Findings

The Applicant projected a net operating profit (loss) of ($8,429M), ($1,573M), and $893M for the initial three years of operation, respectively or a cumulative operating loss of ($9,109M). These underlying projections were based on reasonable average earning assets to average assets assumptions (what-if scenario 5) of 89%, 92%, and 94% over the respective periods. Applicant asserts that the average earning asset assumptions are on the conservative range given the proposal's technology platform and lower emphasis on costly traditional retail branches and fixed assets. The Applicant argues that the assigned average earning asset assumptions represent the most conservative scenario possible and that higher earning asset utilization during the formative years are plausible based on peer group data. Any higher utilization may result in improved net interest margins and a higher operating profit in year three.

Margin Analysis

In light of the substantial interest rate volatility during calendar years 2000 (Central Bank tightening of the money supply) and 2001 (aggressive loosening and adding of system liquidity), any meaningful comparative analysis is better served by assessing the net interest income line as opposed to individual yield and cost factors. This facilitates analysis of the proposal's assumptions over varying interest rate environments.

The table below depicts the proposal's estimates for net interest income and non-interest income to average assets during the formative years. Comparisons for reasonableness include an Examiner calculated average of denovo institutions (Banks listed on page 6 of this report) as well as, various peer group and State averages for the period ending September 30, 2001.

Institution	Net Interest Income	Non-Int. Income	AEA/AA
Examiner Denovo Sample -Mean	3.71%	0.79%	93.91%
UBPR Peer Group 9	3.91%	0.74%	94.05
UBPR Peer Group 13	3.99%	0.70%	93.47
UBPR Peer Group 25	3.72%	0.57%	91.72
Mean – All Insured Banks – Anystate.	3.91%	0.83%	92.19%

National Bank Year 1	3.94%	0.38%	89.37%
National Bank Year 2	4.41%	0.54%	92.46%
National Bank Year 3	4.70%	0.55%	93.70%

Notes: Source: Uniform Bank Performance Reports; Peer Group 9=Banks with TA of $100-$300 million within Metropolitan Area; Peer Group 13=Banks with TA of $50-$100 million within Metropolitan Area; Peer Group 25= Banks established within last 3 years<=$50 million. AEA/AA represents Average Earning Assets to Average Assets.

Comparative analysis suggests that the Applicant's Net Interest and Non-Interest Income estimates appear reasonable during the first year of operation. During years 2 and 3, the Applicant's loan mix begins to shift from lower yielding residential and home equity loans (58% year 1 versus 43% and 38% years 2/3) to higher yielding commercial real estate products. While the changes in loan mix are ramped over a two-year period, the rising emphasis on the commercial real estate (19% year 1 mix, 30% and 33% years 2-3) category is accompanied by higher asset yields ranging from 100-125 basis points. This attempts to explain part of the expansion in the subject margins. Proposed CEO Hamm argues that the proposal's ability to underwrite fundamentally sound and higher- yielding commercial real estate loans is heightened by his previous relationships with many of the former lending officers of Anybank, Anytown. Said officers reportedly have established portfolios within the proposed service areas and are seeking other employment opportunities following Anybank's consolidation into Regionalbank.

On the funding side of the balance sheet, two factors emerge which seemingly justify lower cost of funds and consequently wider margins. First, the Applicant proposes to open with $26.9 million in capital or over 2 to 2.5 times the capital typically employed by denovo banks in Southern Anystate. The higher paid-in capital effectively lowers funding costs associated with initial balance sheet activity (loan/bond purchases and origination). Secondly, the proposal would be procuring funding liabilities in a very favorable interest rate environment. This environment characterized by historically low short-term interest rates enables the Applicant to attain a lower *average* cost of funds. This lower cost, coupled with the present steep yield curve, could justify the higher margins.

Of the eight denovos listed on page 6, Grand Bank in its third year of operation achieved a 4.44% net interest income (NII) to average assets ratio. This ratio, which is in the 75th percentile, occurred during an arguably more difficult interest rate environment (negative yield curve during 2H 2000) than the Applicant would likely experience. Nonetheless, the Examiner adjusted year 3 NII to average assets ratio to 4.44% to determine the impact on year three profitability and ensuing capital ratio. Despite the decline in margin, the Applicant would still exhibit profitability and a year 3 capital ratio of 8.56%.

Sensitivity Analysis

The Applicant submitted an analysis of the impact that certain scenarios would have on proforma earnings (Year 3 stress testing). These scenarios, which were part of the base plan, appear to be well formulated and realistic based on current market conditions and inherent risks within the Applicant's operating plan. The scenarios examined include the following:

- *Loan Growth would only amount to 75% of year 3 base forecasts.* Under this scenario, projected net loans would ramp at a slower rate of growth and culminate in 75% of the base plan. In this scenario, net loans and percentage of plan figures would equate to $58 million (88%), $94 million (80%), and $131 million (75%), during the three respective years.

- *Deposit Growth would only equate to 75% of original forecasts.* In this scenario, the Applicant would stress test the outcome of a less than favorable deposit gathering event. With regard to scenario 2, total deposits would amount to $71 million, $124 million, and $152 million, during the respective three years.

- *Failure to attain a lower-cost deposit mix.* Under this event, the Applicant examines the impact of achieving a less than optimal deposit mix or a high concentration of costlier time deposits. Specifically, time deposits would increase to 53% or more throughout the first three years versus original forecasts of 40-41%. This scenario assumes that marketing/pricing strategies would fail to generate the optimal level of generally less costly MMDAs.

- *Interest rate shocks of 100 basis points*. Applicant assumes parallel shifts in rates (upward/downward) and that the bank would be able to adjust rates paid on deposits to reasonably match the change in yield bearing instruments.

Net Income / Sensitivity Analysis $000	Year 3
Scenario One – *Slower Loan Growth*	$751M
Scenario Two – *Lower Deposit Growth*	<$100M
Scenario Three – *Higher Cost Deposit Mix*	$806M
Scenario Four – *Rate Rise 100 bps*	$1,449M
Scenario Four – *Rate Drop 100 bps*	$1,090M

The Applicant projects year 3 profitability in all scenarios tested. The highest risk to the business model is presented by scenario 2, slower deposit growth. Aside from actively managing its cost structure to minimize the probability of losses in year 3, proposed management is reasonably confident that it can attain 75% or more of the deposit forecasts reflected in the plan. Supporting arguments for its claim are (1) General success of denovos in the Southern Anystate market in attracting funding at a reasonable cost, (2) The level of reported public interest in the proposal to establish depository relationships prior to conditional approval. This includes various verbal commitments reportedly made from various organizations in Anytown to the Applicant. Additional deposit referral business (in excess of $10MM for DDA/NOW) has also been alluded by the Applicant's influential Anytown board members (Wart and Marcotte). (3) The success of the supermarket branch network as it existed twelve months ago. Applicant stresses the last factor adds considerable credibility to the deposit forecasts. Despite having been in the Anytown market for less than three years, the investigating Examiner believes that proposed CEO Hamm enjoys a relatively strong reputation in the banking community. This reputation and extent of contacts should greatly assist the Applicant in garnering deposits from both the supermarket network and the retail banking office.

The finding on this factor is <u>FAVORABLE.</u>

FUTURE EARNINGS PROSPECTS (Continued)

ESTIMATED INCOME AND EXPENSES			
	ESTIMATED AMOUNT		
DESCRIPTION	FIRST YEAR	SECOND YEAR	THIRD YEAR
Interest Income			
Real Estate loans	2,542	5,287	8,178
Installment loans	98	332	728
Credit Card loans			
Commercial and all other loans	614	1,611	2,758
Lease financing receivables			
Balances due from depository institutions			
Taxable securities issued by states and political subdivisions			
Tax-exempt securities issued by states and political subdivisions			
U.S. Government and other debt securities	954	2,683	2,556
Other securities			
Federal Funds sold and securities purchased under agreements to resell			
Total Interest Income	4,208	9,913	14,220
Interest Expense			
Transaction accounts (NOW, etc.)	60	175	242
Time Deposits of less than $100,000	448	1,307	1,831
Time Deposits of $100,000 or more	192	560	784
Money Market deposit accounts	432	1,245	1,752
Other savings deposits	33	95	133
Federal Funds purchased and other borrowings			
Total Interest Expense	1,165	3,382	4,742
Net Interest Income (NII)	3,043	6,531	9,478
NII % of Average Earning Assets	3.94%	4.41%	4.70%
Provision for Loan and Lease Losses	836	797	918
Non-interest Income	291	796	1,112
Non-interest Expense			
Salaries and Benefits	7,027	8,103	8,779
Net Occupancy Expenses			
Other Operating expenses:			
Advertising and Marketing			
Professional Services (legal, accounting, etc)			
Computer Services/Data Processing			
Miscellaneous			
Net organization expenses *(1st year only)*	3,900		
Total Non-interest Expense (NIE)	10,927	8,103	8,779
NIE % of Average Assets	14.14%	5.47%	4.35%
Income (Loss) before Income Taxes	(8,429)	(1,573)	893
Income Tax Expense			
Net Income (NI)	(8,429)	(1,573)	893
NI % of Average Assets	(10.91)%	(1.06)%	0.44%
Average Assets	77,277	148,135	201,602

Explain examiner adjustments made to applicant's projections.

FUTURE EARNINGS PROSPECTS (Continued)

ESTIMATED AVERAGE DEPOSITS AND AVERAGE ASSETS						
DESCRIPTION	AVERAGE DURING					
	FIRST YEAR	Yield or Cost	SECOND YEAR	Yield or Cost	THIRD YEAR	Yield or Cost
AVERAGE DEPOSIT AND BORROWINGS						
Transaction Accounts (NOW, etc.)	5,440	1.10%	12,505	1.40%	17,277	1.40%
Time Deposits of less than $100,000	16,133	2.78%	36,806	3.55%	51,565	3.55%
Time Deposits of $100,000 or more	6,914	2.77%	15,774	3.55%	22,100	3.55%
Money Market deposit Accounts	19,040	2.27%	42,930	2.90%	60,396	2.90%
Other Savings deposits	2,274	1.19%	6,353	1.50%	8,898	1.49%
Transaction Accounts (DDA Noninterest)	6,484	%	15,453	%	23,438	%
		%		%		%
Federal Funds Purchase		%		%		%
Total estimated average deposit/ borrowings	**56,285**		**129,821**		**183,674**	

AVERAGE ASSETS						
Real Estate loans	36,401	6.98%	69,626	7.59%	105,254	7.77%
Installment loans	1,372	7.14%	3,894	8.52%	8,508	8.54%
Credit card loans		%		%		%
Commercial and all other loans	8,892	6.92%	19,620	8.21%	33,598	8.20%
Lease financing receivables		%		%		%
Interest-bearing balances due from banks	2,552	%	4,882	%	6,417	%
Taxable securities issued by states and political subdivisions		%		%		%
Tax-exempt securities issued by states and political subdivisions		%		%		%
U.S. Government and other debt securities	22,988	4.15%	44,851	5.98%	43,393	5.89%
Other securities		%		%		%
Federal funds sold and securities purchased under agreements to resell		%		%		%
		%		%		%
		%		%		%
		%		%		%
		%		%		%
Total estimated average earning assets	69,070		136,827		188,911	

Explain examiner adjustments made to applicant's projections.

Note: Cost factors above are as a percentage of Average Interest Bearing Liabilities only.

GENERAL CHARACTER OF THE MANAGEMENT

Proposed management, including the board of directors or trustees, is evaluated against all factors necessary to operate the institution in a safe and sound manner, including the ability to identify, measure, monitor and control the internal and external risks presented by the proposed business plan. Proposed directors and officers should be evaluated on the basis of their financial institution and other business experience, duties and responsibilities in the proposed institution, personal and professional financial responsibility, reputation for honesty and integrity, and familiarity with the economy, financial needs and character of the trade area. Examiners should consider, at a minimum, proposed board oversight and support; management expertise and depth; proposed credit, funds management, interest rate risk and investment guidelines and internal and external audit programs. Comments should provide a forward-looking assessment of an institution's management team, including its operating philosophy and tolerance for risk-taking.

Summary and Findings

Meeting with Organizers

An organizer's meeting was held December 12, 2001 to discuss the application process, as well as, various other safety and soundness matters. Supervisory Examiner Ivie Smart attended on behalf of the Corporation.

Proposed Members of Active Management

<u>Joe Hamm – Chairman/Chief Executive Officer (CEO)</u>

Mr. Hamm's duties will include responsibilities for planning and establishing policy and ensuring all board objectives are executed. In addition, he will supervise senior officers, as well as establish parameters for profitability, business and strategic planning. While Mr. Hamm has not previously served in this capacity of an insured institution, he does possess extensive executive level leadership and credit experience. Previous roles have also included active participation on various board committees notably, strategic planning, executive, loan, and asset/liability management. His commercial credit experience in particular is viewed as a key strength within the organizing group. This experience, along with information obtained from available regulatory sources suggest that he will employ a conservative operating philosophy with regard to risk selection. Actions taken by Mr. Hamm during his brief association with the group appear to confirm this philosophy. During interviews with the undersigned examiner, Mr. Hamm stated he recognized the salient risks with the previous proposal and recommended that the operating plan be materially changed. In addition, he also recognized that HH's role in the regulatory application process should be reallocated to him as CEO. The latter has seemingly made the process more efficient from both a cost and regulatory perspective. Finally, Mr. Hamm eliminated the reliance on outside consultants (other than HH as Counsel) that were frequently employed by the previous CEO and President. He stated that it is his role to formulate a credible strategy, plan, and accompanying assumptions.

<u>Nigel Newbury – Chief Financial Officer (CFO)</u>

Mr. Newbury's proposed duties include supervising all internal management and financial reports, treasury function including asset allocation strategies, producing risk management and profitability reports and budgets, and participating in strategic planning. The position description defines that he will directly supervise the financial controller/treasurer. While Mr. Newbury has not served in this capacity within a commercial or community bank, he does possess a background in accounting and financial management at both a recognized public accounting firm and other large multinational corporations.

<u>Frank Gray – Chief Technology Officer (CTO)</u>

Mr. Gray will have direct oversight over the senior technology officer and development manager. The position's function includes overall responsibility for the design, implementation, and maintenance of all the Applicant's software, computer hardware, and technology infrastructure. Mr. Gray will also identify and recommend solutions to the Applicant's technology needs and problems. In summary, his responsibility is to manage the systems to ensure that efficient customer service is maintained. Mr. Gray appears to possess extensive experience for the proposed position. In the interview, Mr. Gray stated that the senior technology officer (his direct report) would be the US based technology officer, while Mr. Gray executes his other roles at the top-tier holding company in London.

John Well - Chief Lending Officer

Mr. Well's duties will encompass responsibility for loan growth and the preservation of asset quality. Inherent in this role will be the employment of conservative underwriting and risk management systems. His background contains considerable lending, credit administration and operations experience within both commercial and consumer portfolios, which appear compatible with the proposed Application and business model.

Proposed Board Members

The proposed board includes eight members, five of which are designated as non-executive (outside directors). The outside directors have a vast array of experience in banking and finance, law, communications, technology, and criminal investigations. A key improvement in the current management team over the prior proposal includes the addition of directors (either inside in the case of Mr. Hamm, outside with regard to Mr. Lamar) with previous commercial bank executive/board experience.

A second strength includes the addition of directors Wart and Marcotte. Both individuals appear to hold prominent roles in the community and may serve to provide meaningful business referrals for the proposal during the formative stages. Other strengths include Mr. Mason' background and appearances that he will ask the necessary questions from executive management. Based on the organizational minutes and discussion with other proponents, Mr. Mason is among the most vocal individuals on the board. In the interview, Mr. Mason stated that his residence in the Northeast would not preclude him from fulfilling his supervisory duties or attending board/committee meetings.

Proposed Operating Programs

According to information contained in the Application and Mr. Hamm, the Applicant will adopt comprehensive operating guidelines with regard to lending, funds management and interest rate risk, investments, and audit. A pre-opening visitation by the primary regulator should confirm and validate the appropriateness of these policies.

GENERAL CHARACTER OF THE MANAGEMENT (Continued)

List alphabetically, by group, all *Directors, Non-Director Officers, and Others owning 10% or more of total capital.* Indicate the status of each individual listed by checking the appropriate box *(D-Director; O-Officer; S-Shareholder).* Under "Summary and Findings" indicate *(a)* years and reputation in the community; *(b)* director or officer positions held in other banks and the names of such banks; *c)* dominant individuals and the extent, character, and effect of such domination; and *(d)* capabilities of each individual with reference to his duties and responsibilities, and the amount of time devoted to the institution.

NAME AND ADDRESS	AGE	RELATIONSHIP WITH BANK		
	38	☐ **Director** ☒ **Officer** ☐ **10% Shareholder**		
Well, John 13821 Folkstone Circle Anytown, Anystate	LIABILITIES	NET WORTH	SHARES OF STOCK	ANNUAL SALARY
	139,084	116,338	140,500	90,000
	TITLE Proposed Chief Lending Officer			
OTHER BUSINESS AFFILIATIONS OR PROFESSIONS Career Credit and Lending Officer				

Summary and Findings

Mr. Well was born in Middletown, Connecticut and has resided in the area since 1999. He holds an undergraduate degree in economics from Dartmouth, College, Hanover, New Hampshire. Mr. Well has over fourteen years banking experience including senior level positions in lending and credit administration. He reportedly has considerable experience within consumer and commercial loan portfolios, policy formulation, credit scoring and loan pricing strategies, as well as, auditing, operations and retail branch oversight. He has spent nearly his entire banking career working under the tutelage and supervision of proposed CEO Hamm.

Banking Experience

From 1999 until his recent appointment, Mr. Well served as SVP and Senior Credit Officer of Anybank, Anytown, Anystate. In this position, he was responsible for credit quality of the bank's consumer, mortgage, and small business portfolios. Leading a staff of seventeen, Mr. Well established a Small Business Operation which generated monthly loan volume of $5 million. In addition, he managed the credit scoring process for small business and consumer lending including, validation and oversight of system parameters. Prior to that, he served ten years at Anybank, Anytown, Anystate, in several lending and managerial roles including VP and Consumer Credit Manager, Branch Manager, and Regional Consumer Loan Officer. Notable accomplishments included managing the bank's credit scoring system, managing a large loan staff, and successfully generating nearly $100 million in new loans during a three year period.

Interview Comments

Mr. Well became associated with the proposal at the request of Mr. Hamm, whom he reported to while employed at Anybank. He stated that he brings considerable experience with regard to commercial and consumer credit underwriting, portfolio and risk management. He added that these areas have been the cornerstone to his entire banking career. Additionally, Mr. Well stated he also has a perspective in audit and controls given his experience as a staff auditor. He added that he experienced the real estate recession in the Northeast and has an understanding and aversion for speculative transactions. While Mr. Well could not estimate the volume of loan business he would attract during the formative stages, he does know many seasoned lenders who retain established and profitable relationships. He anticipates, as does Mr. Hamm, employing former lenders who are actively seeking other opportunities. Mr. Well stated he was very involved in preparing the loan projections in the proposed business plan. He stated the projections were reasonable based on the proposed development officers and their respective portfolios, as well as, the generating ability of the former supermarket branches. He added that this two pronged approach is also enhanced by his experience in selectively purchasing high-quality consumer mortgage portfolios. Such activity, he said, could be employed to fill budget shortfalls and otherwise more efficiently employ earning assets during the first year. With regard to the former supermarket branches, Mr. Well stated that the eleven branches produced monthly consumer loan volumes ranging from $100M-$500M.

Financial Information and Stock Ownership

As of November 2001, Mr. Well's primary assets consisted of $38M in cash and a personal residence valued at $175M. Liabilities consisted primarily of a $126M mortgage payable. His $5000 investment in the proposal was reportedly purchased with cash.

<table>
<tr><td rowspan="3">NAME AND ADDRESS

Mason, Perry
130 Old Army Road
Anytwon, Anystate</td><td>AGE
62</td><td colspan="3">RELATIONSHIP WITH BANK
☒ **Director** ☐ **Officer** ☐ **10% Shareholder**</td></tr>
<tr><td>LIABILITIES
0</td><td>NET WORTH
3,213,000</td><td>SHARES OF STOCK
25,000</td><td>ANNUAL SALARY
0</td></tr>
<tr><td colspan="4">TITLE
Proposed Director (nonexecutive)</td></tr>
<tr><td colspan="5">OTHER BUSINESS AFFILIATIONS OR PROFESSIONS
Consultant. Retired executive credit officer for counterparty risk and former English trial lawyer.</td></tr>
</table>

Summary and Findings

Mr. Mason was born in Limassol, Cyprus and became a U.S. Citizen in 1989. He also holds citizenship in the United Kingdom. Mr. Mason received a Masters and Bachelor of Arts degrees in Law from Cambridge University, Cambridge, England and subsequently realized his Barrister-at-Law license in 1960. For nearly eight years prior to retiring in 1999, Mr. Mason served as Executive Vice President, Global Trading Credit Group at Anybank, Anytown, Anystate. Responsibilities included management of all counterparty credit exposure for the Derivatives Products Group. Additionally, he supervised and developed risk management systems for the trading group, and served on various committees including, Asset Liability Management, Credit Policy, and Payment Systems Risk. He held similar responsibilities for nearly five years as Managing Director while at Regionalbank, Anystate. Other notable responsibilities include various Vice President level assignments at Anybank, Anystate and London. These duties entailed the development of marketing and credit strategies, lending, and asset management, including trading assets within Europe, Pacific Rim and U.S.

<u>Interview Comments</u>

Mr. Mason became involved with the Applicant as a result of some consulting work he performed for Risk Management, plc, London, England, and its Chairman John Wise. Mr. Wise is also a 1.8% shareholder of Holding Company-1 and serves as a nonexecutive director. Mr. Mason stated that he has experience dealing with complex financial problems and understands how to manage risks. He stated that he would not be able to introduce many deposit or lending relationships given his lack of contacts within the market area. Mr. Mason acknowledged that he has little or no financial stake in the proposal, but views his reputation as a key contribution. In this regard, he would feel inclined to notify the Regulatory Authorities should any material supervisory issues become apparent. Mr. Mason is more enthusiastic and confident about the current proposal versus the previous model. He feels that the deposit base is better quantified given that many of the proposed branches were active and successful less than a year ago. In addition, he feels the proposal now has a more experienced board and executive management team given the addition of Messrs. Hamm (Proposed CEO) and Lamar (Outside Director).

<u>Financial Information and Stock Ownership</u>

As of August 2001, Mr. Mason reports no liabilities and liquid assets (bonds, equity securities and cash) of nearly $2,217M. Other material assets include his residence valued at $550M. According to Mr. Mason, his limited investment ($2,400) in the proposal was purchased with cash.

<table>
<tr><td rowspan="4">NAME AND ADDRESS

Marcotte, Janet
2 McCairn Court
Anytown, Anystate</td><td>AGE
49</td><td colspan="3">RELATIONSHIP WITH BANK
☒ Director ☐ Officer ☐ 10% Shareholder</td></tr>
<tr><td>LIABILITIES
175,740</td><td>NET WORTH
821,946</td><td>SHARES OF STOCK
26,000</td><td>ANNUAL SALARY
0</td></tr>
<tr><td colspan="4">TITLE
Proposed Director (nonexecutive)</td></tr>
<tr></tr>
<tr><td colspan="5">OTHER BUSINESS AFFILIATIONS OR PROFESSIONS
Vice President and General Sales Manager, BellSouth.</td></tr>
</table>

Summary and Findings

Ms. Marcotte was born in Columbus, Ohio and has resided in Anytown for over 40 years. She holds undergraduate and graduate degrees in Business Administration from University of Anystate, Anytown and SouthEastern University, Anytown, Anystate, respectively. She currently holds a senior management level position with BellSouth, a company for which she has been employed with for nearly 30 years in various marketing capacities. In her current capacity, Ms. Marcotte is responsible for BellSouth’s sales and technology operations, a regional business unit accounting for nearly $700 million in total revenues. She does not have any prior commercial/community banking experience.

Interview Comments

Ms. Marcotte became associated with the proposal through her civic relationships with proposed director Wart. She appears active in local community circles and serves on the board of the Anytown Economic Development Council. She stated that her community contacts and professional longevity within the county could assist in providing meaningful business opportunities for the proposal. Given her position with a technology-based company, Ms. Marcotte stated she could provide valuable insight into the needs of the bank’s target market and potential internet users. She has reportedly gained extensive experience in marketing to a comparable demographic segment within her company and knows how to serve customer’s technology needs. Ms. Marcotte stated that proposed President Hamm has crafted a credible business model; integrating a traditional retail site and supermarket branch banking with an internet component, within two high growth Markets.

Financial Information and Stock Ownership

As of December 2000, Ms. Marcotte reports liquid assets (cash and listed securities) of $238M and stock options with a estimated value of $460M. A personal residence valued at $300M represents her other primary asset. Liabilities consist primarily of a $165M mortgage payable. According to Ms. Marcotte, her limited investment ($1,000) in the proposal was purchased with cash.

NAME AND ADDRESS	AGE	RELATIONSHIP WITH BANK		
Hamm, Joe 112 Olympic Circle Anytown, Anystate	47	☒ **Director** ☒ **Officer** ☐ **10% Shareholder**		
	LIABILITIES 415,400	NET WORTH 1,096,600	SHARES OF STOCK 665,000	ANNUAL SALARY 150,000
	TITLE Proposed Chairman, President, and Chief Executive Officer			
OTHER BUSINESS AFFILIATIONS OR PROFESSIONS Career Banker and Senior Lending Officer.				

Summary and Findings

Mr. Hamm was born in Troy, New York and has resided in Anytown for over two years. He attended the Stonier Graduate School of Banking at the University of Delaware and State College, Antyown, Anystate. Mr. Hamm has over twenty-seven years of experience in the banking and financial services industry.

Bank Experience

Prior to joining subject proposal, Mr. Hamm served as Senior Executive Vice President and Chief Credit Officer at Anybank, Anytown, Anystate, a $3.4 billion state member bank, which was recently acquired by Regionalbank. In addition, he served as a member of the bank's Executive Committee, which was designed to establish near term strategic guidance and policy. While employed at Anybank (2-year tenure until acquisition by Regionalbank), he also served as Chairman of the Board of two of Anybank's wholly owned subsidiaries; First Financial, Inc., a national yacht finance company with annual loan volumes of $300MM. Reportedly, the company was the largest originator of yacht loans in the Nation, prior to Mr. Hamm's departure. His second Chairperson role was with Spectrum, a factoring entity generating annual receivable/inventory facilities of $120MM.

Prior to his role at Anybank, he served for eleven years as a Senior Vice President and Chief Corporate Lender and then as Executive Vice President and Chief Credit Officer at Financial Services Corp, Anytown, Anystate, the holding company for AnyNational Bank. While there, Mr. Hamm was responsible for a department of fifty credit and administrative personnel and a $1.4 billion commercial, mortgage, and consumer portfolio. Notable assignments and accomplishments during his eight year tenure was the operation and oversight of special assets and the reduction of non-performing assets from a high of 6.5% to 0.6%. Mr. Hamm also served on various board committees including, Executive, Strategic, Loan, Asset/Liability, and Human Resources. Prior to his EVP/SVP roles he served for five years as a VP and Regional Commercial Loan Officer within the same institution.

Additionally, he has approximately eight years of lending and related experience while employed by MoneyCenterBank, Anytown, Anystate. Mr. Hamm was active in the Anystate Banker's Association for nearly seventeen years and served as a member of the Association's Board of Directors. According to the association's CEO, Mr. Hamm was highly respected by colleagues and active as a Loan Quality instructor at the Anystate School of Banking.

Regulatory History and References

Available information from the Corporation's database suggests that Anybank and AnyNational Bank were fundamentally sound entity's during Mr. Hamm's tenure. Additionally, regulatory information from the Federal Reserve yielded no comments of any supervisory concern regarding his credit background or professional abilities. The undersigned examiner also contacted the State Comptroller's Office. The State's regulatory experience with Mr. Hamm was very favorable.

The undersigned examiner also interviewed the former Chairman and CEO of Anybank during Mr. Hamm's tenure. The former Chairman was very complimentary of Mr. Hamm's leadership skills and credit experience. According to him, Mr. Hamm was hired to ensure that asset quality and risk management systems were preserved during Anybank's growth phase. In this defined role, the former Chairman stated that he did an excellent job at executing and formulating policy.

Interview Comments

Mr. Hamm stated he was disenchanted with Regionalbank's methods of operation after its acquisition of Anybank and sought to pursue other opportunities. The denovo's legal counsel, Hodson & Hodson (HH), contacted Mr. Hamm about becoming an organizer shortly after the former president resigned from the group in April 2000.

Mr. Hamm stated he was skeptical about the prior proposal's business model as well as, the viability of the kiosk as a key delivery channel. His main issue with the kiosk strategy was that it had not been successfully executed within the market place. As a result, Mr. Hamm stated he recommended that the model be changed to incorporate more proven and traditional retail delivery channels. Another key change he recommended was the addition of other board members with strong community ties and/or previous banking experience (proposed director Wart, Marcotte, and Lamar). Mr. Hamm also sought to replace the previous proposed senior lending officer with one he viewed as possessing a stronger skill set and educational background.

Mr. Hamm indicated he has market intelligence over the success of the proposed supermarket branch network, inasmuch as eleven of the twelve branch sites were previous Anybank branch locations. He believes this aspect to be a key strength over the previous proposal. Mr. Hamm stated that despite his less than three years in Anytown, he has a sound foundation within the market area and has developed many contacts, which could lead to lucrative future business for the proposal. Regarding future lending, Mr. Hamm has retained a chief lender (Well) with whom he directly supervised while at AnyNational Bank and Anybank. In addition, other senior lenders have expressed a desire to join the group. Said lenders, according to Mr. Hamm, all would bring seasoned commercial and consumer portfolios generated from the former Anybank.

Financial Information and Stock Ownership

As of August 2001, Mr. Hamm reports a considerable liquid net worth, with $542M in cash and marketable securities. He reflects a personal residence with an assigned valued of $550M and deferred savings plan (401k/IRAs) assets of $420M. Liabilities consist primarily of a mortgage payable of $390M. Mr. Hamm's initial investment of $30M was reportedly purchased with his cash holdings.

<table>
<tr><td rowspan="4">NAME AND ADDRESS
Newbury, Nigel
12 Circus St.
Anytown, Anystate</td><td>AGE
42</td><td colspan="3">RELATIONSHIP WITH BANK
☒ Director ☒ Officer ☐ 10% Shareholder</td></tr>
<tr><td>LIABILITIES</td><td>NET WORTH</td><td>SHARES OF STOCK</td><td>ANNUAL SALARY</td></tr>
<tr><td>177,000</td><td>2,218,000</td><td>7,366,665</td><td>55,000</td></tr>
<tr><td colspan="4">TITLE
Proposed Chief Financial Officer</td></tr>
<tr><td colspan="5">OTHER BUSINESS AFFILIATIONS OR PROFESSIONS
Accountant. Also serves as Financial Director and Director of Holding Company-1, London, England.</td></tr>
</table>

Mr. Newbury was born in Hazelgrove Cheshire, England. He holds citizenship in the United Kingdom and also maintains temporary residency in Anystate. He attended Reading University in England and subsequently became a Chartered Accountant with the firm, Touche Ross, London.

From 1996 until his involvement with Applicant in 2000, Mr. Newbury served as Finance Director with Risk Management Systems, London, England. This firm, whose Chairman and founder John Wise is also an invester and noneceutive director of the Applicant's holding company in London, provides financial trading and risk management systems for financial institutions in Europe. They also provide training and advisory services related to risk management. For nine years prior to 1996, he served as Director and Chief Financial Officer for Knight Financial, Inc., in both London and New York, as well as, associated companies throughout Europe and Asia. In this capacity, he led the company's financial planning and accounting group. Mr. Newbury does not have any prior commercial/community banking experience in the UK or US.

Interview Comments

Mr. Newbury stated he collaborated with proposed CEO Hamm in revising the proposed business plan and accompanying financial projections. Mr. Newbury added that while he lacked direct banking experience, he attained a comprehensive finance and accounting background including financial institution auditing, while employed at Touch Ross. He indicated that he had a strong background in risk management practices and financial controls. As Mr. Newbury was one of the authors of the previous business plan and forecasts, which incorporated dubious assumptions and resulted in the Applicant’s ultimate withdrawal, he was asked to compare and contrast the current proposal. Mr. Newbury stated that the revised business model emphasizes more traditional and proven delivery channels. He is especially pleased that eleven of the twelve proposed supermarket branches were viable deposit and loan production offices of the former Anybank. As such, he is more comfortable with the model’s assumptions and accompanying financial forecasts.

Financial Information and Stock Ownership

As of August 2001, Mr. Newbury reported $22M in cash and $399M related to his equity holdings and warrants in the proposal. Other material assets include his residence in London valued at $1,033M as well as, pension plans and life insurance valued at $940M. Liabilities primarily consist of a mortgage payable with a balance of $163M. Mr. Newbury’s investment in the proposal was reportedly purchased with cash and personal savings.

IV. GENERAL CHARACTER OF THE MANAGEMENT (Continued)

<table>
<tr><td rowspan="4">NAME AND ADDRESS
Gray, Frank
Morlich Lodge
Anytown, Anystate</td><td>AGE
38</td><td colspan="3">RELATIONSHIP WITH BANK
☒ Director ☒ Officer ☐ 10% Shareholder</td></tr>
<tr><td>LIABILITIES
325,000</td><td>NET WORTH
314,000</td><td>SHARES OF STOCK
225,000</td><td>ANNUAL SALARY
55,000</td></tr>
<tr><td colspan="4">TITLE
Proposed Director and Chief Technology Officer</td></tr>
<tr></tr>
<tr><td colspan="5">OTHER BUSINESS AFFILIATIONS OR PROFESSIONS
Information Technology Professional & Software Designer. Also serves as an Officer of Holding Company-1, London, England.</td></tr>
</table>

Mr. Gray was born in Shropshire, England and holds British citizenship and residency. He is a graduate of Loughborough University, United Kingdom (UK) and received a degree in Mathematics and Engineering.

From 1995 up to his involvement in the proporsal (March 2000), Mr. Gray served as the Head of Front Office Technology/Europe for InternationalBank in London. In this role, he coordinated and led the Year 2000 project as well as, the Euro currency conversion. His primary responsibility, while at the institution was the development and implementation of front office trading systems for financial derivatives and fixed income securitites. Prior to this, Mr. Gray worked for nine years on numerous IT and software design projects including remote sensing technology (satalite systems) for end users such as the European Space Agency and Defense Research Agency in the UK.

Interview Comments

Mr. Gray stated his primary emphasis thus far has been on writing the Applicant's technology plan and designing and implementing the technology infrastucture. Mr. Gray stated he has extensive software design and project management experience and successfully recruited other highly talented designers from his previous employer, InternationalBank. He feels the current proposal offers a more viable business model, given its previous success with RSB. He also added that the Board has been strentghened considerably by the additions of former commercial bankers, Messrs. Hamm and Lamar.

Financial Information and Stock Ownership

As of June 2001, Mr. Gray’ reported net worth, was primarily centered in his personal residence, with an assigned value of $547M. Liabilities of $325M consist of a mortgage payable on his residence in the UK. Mr. Gray’ investment in the proposal of $9,900 was purchased with personal savings.

<table>
<tr><td rowspan="4">NAME AND ADDRESS
Lamar, Austin
12770 Jernigan Avenue
Anytown, Anystate</td><td>AGE
59</td><td colspan="3">RELATIONSHIP WITH BANK
☒ Director ☐ Officer ☐ 10% Shareholder</td></tr>
<tr><td>LIABILITIES
290,000</td><td>NET WORTH
7,511,000</td><td>SHARES OF STOCK
110,000</td><td>ANNUAL SALARY
0</td></tr>
<tr><td colspan="4">TITLE
Proposed Director (nonexecutive)</td></tr>
<tr></tr>
<tr><td colspan="5">OTHER BUSINESS AFFILIATIONS OR PROFESSIONS
Retired Banker.</td></tr>
</table>

Summary and Findings

Mr. Lamar was born in LaGrange, Georgia and has resided in Anytown, Anystate for approximately one year. He is a graduate of Auburn University, Auburn, Alabama. Mr. Lamar recently retired from RegionalBank, an NYSE listed entity in Anystate, following its acquisition by ForeignBank. During his twenty-six year tenure at the state member bank, he served in a variety of executive and operational capacities.

Bank Experience

From 1990 to 2000, Mr. Lamar served in various executive roles including, RegionalBank's Vice-Chairman of the Board and Chief Financial Officer. At the time of its acquisition by ForeignBank, RegionalBank was an $11 billion commercial bank, operating in Anystate. Prior to that, Mr. Lamar served (1975-1990) at MidsizeBank, Anytown, Anystate, which was merged into RegionalBank in 1990. While at MidsizeBank, he served as a Director as well as its President and Chief Executive Officer (1988-1990). In addition to his executive officer roles during his tenure at MidsizeBank, Mr. Lamar served as CFO, Controller and Audit Manager.

Regulatory History and References

Available regulatory information (from FRB, State, and OCC) suggests that the institutions were fundamentally sound and operated. Contacts at the Federal Reserve Bank confirmed his executive level experience and had no supervisory concerns to report.

Interview Comments

Mr. Lamar became associated with the proposal through the Applicant's legal counsel, HH, an entity with whom he collaborated with on many issues while at RegionalBank. Mr. Lamar stated that he has considerable experience within finance, asset securitization, as well as, mergers and acquisitions. Regarding the latter, he stated he was involved in the acquisition of some forty or more institutions. He also stated that his institutions had experience with the supermarket branch delivery channel. While employed at RegionalBank, they operated over 20 rural supermarket branches with a moderate degree of success. He conveyed that the branches were profitable but did not enjoy the degree of returns as other parts of the institution. According to Mr. Lamar, the supermarket branches generally achieved $4-5 million in deposits and a loan to deposit ratio of 60% within 2 years of opening. He added that he is compelled by the more favorable demographics within the Anystate market, particularly the existing deposit base and retail branch networks employed by the myriad of institutions. This was an aspect that was far less prevalent in the rural areas of Anystate. Mr. Lamar stated that his residence's distance from the main office would not preclude him from being an active director.

Financial Information and Stock Ownership

Mr. Lamar's personal statement dated August 2001, reflected $80M in cash and $4,266M in marketable securities. Other material assets include residential properties valued at $650M and pension plans valued at $2,806M. Liabilities consist primarily of a mortgage payable of $240M. Mr. Lamar's $5,000 investment in proposal was reportedly made with cash.

NAME AND ADDRESS	AGE	RELATIONSHIP WITH BANK		
Miller, Dennis 5678 Muirfield Village Circle Anytown, Anystate	55	☒ **Director** ☐ **Officer** ☐ **10% Shareholder**		
	LIABILITIES	NET WORTH	SHARES OF STOCK	ANNUAL SALARY
	149,012	293,000	57,850	0
	TITLE Proposed Director (nonexecutive)			
OTHER BUSINESS AFFILIATIONS OR PROFESSIONS Retired Special Agent, Federal Bureau of Investigation (FBI).				

Summary and Findings

Mr. Miller was born in Dearborn, Michigan and has resided in Anystate since 1980. He received his Bachelors degree in Biological Sciences from Michigan Technological University, Houghton, Michigan.

Mr. Miller recently retired from the FBI in Anytown, Anystate. He has extensive experience with investigations involving white-collar crimes including, crimes against financial institutions. Particularly noteworthy is his experience regarding bank fraud, embezzlement, and Internet related financial crimes.

Interview Comments

Mr. Miller became associated with the proposal through Casey Grant's (Joe Hamm's predecessor who resigned during 1H2001) father, who resides in the same residential development. Mr. Miller stated that he has many years of experience investigating and prosecuting white-collar crimes in Anystate, particularly, money laundering, as well as, bank, mail and wire fraud. He is reportedly very knowledgeable of Internet related crimes. With regard to strengths he could bring to the Applicant, Mr. Miller stated he would add depth and experience to the audit committee. As a proposed director of the previous Application, Mr. Miller stated he is more comfortable with the supermarket branch network given it has had a proven record at Anybank.

Financial Information and Stock Ownership

As of September 2001, Mr. Miller's net worth was primarily centered in a deferred savings plan. As of the reporting period, the balance of this other asset (Federal Thrift Savings Plan) was $218M. Other material assets included his residence, with a value of $200M. Liabilities primarily consisted of a mortgage payable on his residence of $130M. Mr. Miller's investment in the proposal of about $5,500 was made with his personal savings.

<table>
<tr><td rowspan="4">NAME AND ADDRESS
Wart, Philip
118 Olympus Circle
Anytown, Anystate</td><td>AGE
46</td><td colspan="3">RELATIONSHIP WITH BANK
☒ Director ☐ Officer ☐ 10% Shareholder</td></tr>
<tr><td>LIABILITIES</td><td>NET WORTH</td><td>SHARES OF STOCK</td><td>ANNUAL SALARY</td></tr>
<tr><td>921,896</td><td>1,661,484</td><td>250,000</td><td>0</td></tr>
<tr><td colspan="4">TITLE
Proposed Director (nonexecutive)</td></tr>
<tr><td colspan="5">OTHER BUSINESS AFFILIATIONS OR PROFESSIONS
Attorney. President and Managing Partner of the law firm, Wart, West, and West, P.A. (WWW).</td></tr>
</table>

Summary and Findings

Mr. Wart was born in Robana, Illinois and has resided in the Anytown area since 1984. He received an undergraduate degree in economics from Dartmouth College, Hanover, New Hampshire, and Juris Doctorate in law from University of Miami, Miami, Florida. Mr. Wart is a practicing attorney, specializing in corporate, real estate, banking, and securities law. Additionally, he is Chairman of the Anytown Development Board, a not for profit organization committed to advancing the county's business, technology, and educational endeavors.

<u>Interview Comments</u>

Mr. Wart became associated with the proposal through Joe Hamm, whom he advised on several lending transactions, while at Anybank. He stated he is an active member in the community and knows many influential business professionals who can serve as potentially lucrative deposit clients during the formative stages. In that regard, he specifically spoke of the New Technical School in Anytown. He anticipates being able to refer the School's operating account, which reportedly retains balances of $10 million.

Mr. Wart stated he has performed legal work for many financial institutions in Anystate. He was active in processing various regulatory applications for Anybank, in Anytown when he served as general counsel. Additionally, he represented Anybank on many real estate transactions. In addition to proposed CEO Hamm, Mr. Wart knows proposed director Marcotte, a fellow member of the Anytown Development Board.

With regard to the business model, Mr. Wart stated it was conceived on sound research and partly on the success of the eleven- branch supermarket network, while employed by Anybank. He cited the favorable deposit market share in AnyCounty-1 and AnyCounty-2, the depth of the Hispanic market, and relatively low cost structure of the supermarket branch vis a vis the traditional bricks and mortar retail branch site.

<u>Financial Information and Stock Ownership</u>

As of August 2001, Mr. Wart reported $163M in cash and marketable securities, as well as, $1,577M in residential and commercial real estate holdings. Other assets include his 43% interest in the law firm, WWW, with an assigned value of $600M. The firm WWW reported revenues of $3 million for the year ending 2000, representing a 54% increase over the previous year. Mr. Wart's liabilities consist primarily of three mortgage payables with an aggregate balance of $914M. He reports no contingent liabilities. According to Mr. Wart, his $10,000 investment in the proposal was made with cash.

Discuss proposed board and management committees and their associated responsibilities. Assess the reasonableness of fees and other expenses associated with the application and organization, including insider involvement. Evaluate the reasonableness of stock benefit plans, including stock options, stock warrants, and other similar stock based compensation plans. The structure of stock benefit plans should encourage the continued involvement of the participants and serve as an incentive for the successful operation of the institution. Assess reasonableness of fidelity coverage. An insured depository institution should maintain sufficient coverage on its active officers and employees to conform with generally accepted industry practices.

Summary and Findings

Board Committee Structure and Fidelity Coverage

The organizers have provided for a usual and customary committee structure to assist in overseeing and managing the bank's operations. No exceptions were noted to these proposals and structures. Organizers stated that sufficient fidelity coverage would be procured and maintained.

Reasonableness of Organizational Expenses

Organizational and pre-opening expenses appear excessive for the formation of a denovo national association and do not reflect favorably on the Applicant.

Most of the responsibility for these high expenses can arguably be attributed to the previous leadership during the prior Application submission (August 2000). Casey Grant, the lead organizer and proposed Chairman/CEO displayed a lack of fiscal discipline during his tenure and was responsible for formulating the previous nontraditional and seemingly higher risk business model. This model was poorly supported and thus required extensive time to procure supporting documentaion and fesibilitiy studies. During this lengthy process, Mr. Grant relied extensively on legal cousel and consultants which added to the expense burden. Finally, Mr. Grant prematurely added a staff of twenty, including highly compensated officers, which impacted pre-chartering costs.

Since the previous management's departure and filing of the new Application, organizational expenses while high, appear to have moderated. Despite the high organizational expenses, management has been successsful, during two separaterly underwritten capital offerings, in forming a substantial amount of capital. It is believed this capital is sufficient to absorb the high costs and provide for the growth of the proposal.

Employment Agreements & Compensation

The Applicant anticipates negotiating employment agreements with several officers. The officers (to date) with corresponding annual salaries are as follows: Chairman/CEO Joe Hamm, $150M; CFO Nigel Newbury[*] $55M; CTO Frank Gray, $55M; CLO John Well, $90M. In addition, Controller Sue Herrera $65M; and Senior Technology Officer Brian Bain $110M will reportedly be under contract. The agreements generally include the following standard terms:

- Employment Term: Generally one year. Continues thereafter unless terminated by either party;
- Other Benefits: Medical, and participation in any existing stock benefit plan.
- Bonus: Sole discretion of Board of Directors
- Termination without Cause: Lump sum payment equal to the present value of the unexpired portion of the employee's term (effectively less than or equal to 1 year). Discount derived using the prevailing Federal funds rate.

<u>Stock Benefit Plan</u>

The Applicant intends to formulate a plan for certain executive officers, directors, and other employees. To date, this plan has not been formalized or submitted for Regulatory review. Organizers have committed to enacting a plan that is consistent with existing regulatory guidelines. Said plan should be scrutinized for reasonableness in light of exceptions taken by the Examiner during the prior

Messrs. Newbury and Gray' respective salaries represent the proposed bank's pro-rata expense only. Additional compensation of $55M for each will be paid by Holding Company-1, London, England. This represents compensation for services performed at the top-tier holding company level. Refer to biographical information for their respective roles.

Application. Exceptions involved excessive option grants to the proposed president, that were nearly 3x the volume of initial shares purchased.

Warrant Holders and Intrinsic Value

Based on the most recent bid of 2.5p (£0.03) per share (or ¢3.75), and existing strike price above of 2p, the intrinsic value of the Mr. Newbury's warrants is less than $50,000. Given the current pricing, this additional form of compensation does not appear unreasonable.

The overall finding on this factor is FAVORABLE, pending receipt of acceptable stock benefit plans.

RISK TO THE FUNDS

As a general matter, the FDIC interprets this factor very broadly, relying on any information available including, but not limited to the applicant's business plan. Assess the proposed institution's business plan. The business plan's goals should be commensurate with the capabilities of its management and the financial commitment of the incorporators. The business plan should demonstrate an ability to achieve a reasonable market share, reasonable earnings prospects, the ability to attract and maintain adequate capital, and demonstrate a responsiveness to community needs. The plan should also demonstrate adequate risk management policies. Business plans that rely on high risk lending, a special purpose market, or significant funding from sources other than core deposits, or that otherwise diverge from conventional bank related financial services require detailed analysis as to the suitability of the proposed activities for an insured institution.

Summary and Findings

The Applicant is proposing to execute a traditional integrated business model with respect to deposit acquisition and funding. Funding will primarily draw on two key delivery channels, a supermarket branch network and traditional retail banking office and to a lesser extent, a fully transactional web-site.

Business Model Strengths

The business model enjoys a strong initial capitalization base, a seemingly conservative management team and investment philosophy, a viable and multi-faceted branch network strategy, and a vast deposit market within its operating environment. These factors comprise the proposal's prevailing strengths.

The most integral change in the proposal versus the prior previous bank model consists primarily of the upgrade in the executive management team and secondly, the adoption of a more fundamentally sound and traditional business model. The new team is led by an executive (CEO Hamm) possessing an extensive commercial banking and lending background. Equally important has been the addition of seemingly strong outside directors, one of whom (Director Lamar) possesses previous executive and director level experience. The remaining new outside directors (Wart and Marcotte) appear to be very influential within various County economic development endeavors. By all accounts, the outside directors may be in a position to influence and stimulate the proposal's funding and business development initiatives. The proposed management's aversion for risk is best manifested in the proforma asset-mix, which is heavily weighted towards residential real estate during the first year of operation. With regard to funding, the business model is seeking to replicate the deposit generating success of the supermarket branch network once operated by Anybank. Its previous success within demographically favorable and densely populated towns and cities adds credence to the model's funding projections.

Business Model Risks

As depicted in the Applicant's sensitivity analysis and stress testing, the model is most vulnerable to a slower rate of deposit growth {Scenario 2} during the formative years. What-if scenarios depict an earnings risk should funding fall below 75% of original projections. A deposit shortfall without any commensurate and effective cost containment plans may adversely impact profitability and the model's ultimate success. In light of funding's importance during the formative stages, any shortfalls may induce management to compete more aggressively on price thereby jeopardizing margins, profitability or risk selection. Executive management's ability to attract funding at a reasonable cost will be critical to the model's success.

The finding on this factor is <u>FAVORABLE.</u>

CONVENIENCE AND NEEDS OF THE COMMUNITY TO BE SERVED

Discuss the proposed institution's primary trade area(s) including location and population. Address economic conditions, primary industries, and major employers. Assess trade area(s) population demographics and the proposed institution's willingness and ability to meet the deposit and credit needs of the community to be served. Assess the competitive dynamics of the market and how the proposed institution will compete for market share.

Summary and Findings

Proposed Service Areas

Per the Applicant, the primary trade areas are contained within AnyCounty-1 and AnyCounty-2, Anystate. A retail branch network encompassing one traditional branch (main office) as well, a supermarket branch network will form the bank's surrounding service areas. During the first year, a total of six branches (five supermarket and one main office) are planned for AnyCounty-1, while seven are envisioned for AnyCounty-2. Given the internet component of this business model, other market areas outside of the proposal could conceivably be pursued.

Community Growth and Demographic Indicators[4] – AnyCounty, Anystate - MSA

Item	2005 *Forecast*	2000	1999	1998
Population (000)	1,247.1	1,131.2	1,106.7	1,084.0
Residential Building Permits	7,637	6,769	6,428	6,387
Mortgage Origination ($Mil)	$6,207	$6,740	$6,946	$8,476
Unemployment Rate	5.1%	4.4%	5.0%	5.6%
Total Employment (000)	560.0	491.4	469.4	457.3
Gross Metro Product $Billion	$45.2	$37.7	$35.2	$33.3
Top Employers & Industries in Trade Area				
Name	**Business Type**	**Employees**		
Columbia Beach Health Care	Medical/Health	4,000		
Intracoastal Health Systems	Management Svc	3,200		
Motorola, Inc	Technology	2,300		
Power and Light	Utility	2,300		
Pratt & Whitney	Mfg./Technology	1,300		

Demographic and Economic Trends – Anytown - MSA

The overall Anytown market remains moderately strong due to the County's higher per capita income and strong job growth, particularly in the services and retail trade sectors. Real Estate markets and favorable adsorption measures (residential housing demand) have been driven by population growth, in-migration from the Southern State Counties, as well as, tourism.

Key short-term risks remain the weak national economy, which has been exacerbated post September 11, 2001. These factors have negatively impacted tourism and its accompanying service industries. In addition, segments of the County, including the Anytown area, have experienced very active new commercial real estate construction activity that has reportedly impacted rental rates for new space. While current vacancy rates of around 14%, are below the 30% prevailing nearly a decade ago, any prolonged recession could make it a more difficult environment for underwriting and funding quality commercial real estate credits. Manufacturing has endured considerable layoffs and remains a weak area for the County. Motorola, State's largest Technology employer, has experienced declining revenue, weakening margins, as well as market share erosion. As a result, substantial layoffs have occurred company wide in addition to its facilities in Anytown.

[4] Source: FDIC Division of Insurance

Community Growth and Demographic Indicators [5] – Anytown, Anystate - MSA

Item	2005 *Forecast*	2000	1999	1998
Population (000)	1,786.9	1,623.0	1,588.7	1,555.2
Residential Building Permits	8,865	9,160	8,574	8,753
Mortgage Origination ($Mil)	$8,227	$9,159	$8,911	$10,453
Unemployment Rate	4.3%	3.7%	4.1%	4.5%
Total Employment (000)	755.4	676.0	652.7	639.5
Gross Metro Product $Billion	$54.8	$46.2	$43.4	$41.3
Top Employers & Industries in Trade Area				
Name	**Business Type**	**Employees**		
North Hospital District	Medical/Health	6,652		
Winn-Dixie, Inc.	Retail/Grocery	6,110		
American Express	Financial Svc.	4,700		
Publix Supermarkets, Inc	Retail/Grocery	4,200		
Motorola, Inc.	Technology	4,000		

Demographic and Economic Trends – Anytown, Anystate - MSA

Economic trends convey strong growth despite a weaker national economy. Growth has been led by the services, wholesale trade, and finance industries.

The residential housing market is particularly active. Tourism and leisure (hotel/cruise ship lines) remains one of the MSA's key economic drivers, However, its outlook has been impacted by the general state of the economy and September 11, 2001 attack on the US. In addition, international trade with Latin American trading partners may decline somewhat considering the adverse market conditions within Argentina, South America's second largest economy. Manufacturing risks are similar to the Anytown MSA in light of Motorola's size and scale within the area. With regard to commercial real estate, vacancy rates within the Broward office market rose significantly during Q2 2001 to 16.3% versus 9.3% for the same period a year ago[6]. Robust new construction activity, an increase in sublease space, weaker demand, and a softer economy appear to be contributing factors. These trends, should they continue, will pose the same lending risks and challenges previously cited.

Competition – Financial Services

The Applicant will encounter intense competition for funding within both market areas. The FDIC's Summary of Deposits Report for June 2001, indicates that the AnyCounty MSAs hold 450 and 405 banking and thrift offices with aggregate deposit shares of $22.3 and $23.9 billion, respectively. A compelling level of the market share (over 70% for both MSAs) is held by the offices of out of state regional and super-regional bank and thrift holding companies.

The Applicant professes that its multiple delivery channels coupled with attractive rates and efficient service will enable it to compete within the proposed PSA/MSA. The organizers also contend that the recent performance of the eleven supermarket branches as well as, contacts from several directors within the community will enhance the proposal's probability for successfully acquiring deposits within these markets.

The finding on this factor is <u>FAVORABLE.</u>

[5] Source: See Supra

[6] Grubb & Ellis Research , Second Quarter 2001; Vacancy Rates Increase as Construction Continues., Page 1.

CONSISTENCY OF CORPORATE POWERS

Discuss trust powers or any other corporate activities contemplated by the applicant, including those covered by Section 24 of the FDI Act. Address any problems with the Articles of Incorporation or the Bylaws.

Summary and Findings

There is nothing to indicate that the proposal's activities would be inconsistent with the purposes of the Federal Deposit Insurance Act.

The finding on this factor is FAVORABLE.

OTHER PERTINENT INFORMATION

If applicable, provide a summary of comments made by bankers and other interested parties. Address problems with stock offering circular. For applicants delivering services over electronic channels (such as the Internet or wireless devices) assess the information systems infrastructure, policies and security.

Summary and Findings

Summary of Banker Comments

<u>Loren Greene, President & CEO</u> – Anybank & Trust, Anytown, Anystate

Mr. Greene stated he knew proposed CEO Hamm by reputation primarily and suggested he was a very conservative banker. He knows about the proposed bank and opined that the discontinuance of the former delivery channels appeared to be a positive development. With regard to the operating environment, Mr. Greene stated that loan demand has picked up considerably in the county since late 2000, particularly in the SBA, commercial and residential real estate sectors. Funding has been relationship driven and continues to exceed expectations. According to Mr. Greene, the failure of Anybank, which retained a branch directly across from his bank and subject proposal, will assist in reducing the cost of funding for area banks. This is the case given Anybank's aggressiveness with regards to deposit pricing.

<u>Rick Savage, Executive Vice President, Lending</u> – Anybank & Trust, Anytown, Anystate

Mr. Savage served as proposed CEO Hamm's colleague while at Anybank in Anytown. As a Senior Lending Officer, he worked closely with Mr. Hamm who retained the title of Chief Credit Officer. Mr. Savage stated that Mr. Hamm had a strong credit and special assets background. In addition, he stated that Mr. Well (proposed Senior Lending Officer) was also a very competent lender and proficient in operational matters. Mr. Savage suggested that Mr. Hamm would need strong officer support in the operational areas of the bank.

<u>James Brown, Chairman & CEO</u> – Anybank, Anytown, Anystate

Anybank is a federally chartered thrift and a second year denovo. It operates a pure internet business model.
Mr. Brown stated that market acceptance over the bank's model had been positive since the bank's inception. However, according to him, the growth rate has been purely a function of pricing. He added that premium pricing across <u>all</u> deposit categories is what attracts the higher net worth Anytown clientele. The institution is currently experiencing a transaction/CD account mix of approximately 34%/66%. His experience has been that technology for this type of business model was costlier than perceived to be in the planning stages.

<u>Doug Jones, SVP/Retail and Alternative Delivery</u> – Anybank, Anytown, Anystate

Prior to its acquisition by RegionalBank, Anybank was an established National bank which operated 32 in-store retail branches throughout Anystate. The in-store branches are hosted within Albertsons Supermarkets.

Mr. Jones stated that Anybank started this program over four years ago. It is expected to be a profit center for the bank but requires loan production to achieve that goal. Not all locations have been successful thus far. He stated that clientele is very sensitive to deposit pricing and primarily drawn to the time deposit products. He estimates time deposit/MMDA mixes of up to 60%/20%. Given the configuration of their in-store facilities, their loan production mainly caters to consumer type products such as auto and HELs. Mr. Jones stated that customer acquisition becomes a delicate balance of pricing, customer traffic, and marketing abilities of the staff. He concluded that customer traffic was very important for the success of the in store branch. Their institution currently performs studies to locate retail stores which achieve average weekly store traffic of 28,000 shoppers.

Technology Platform and Ensuing Security Risks

Overview

The Applicant plans to offer banking services via multiple electronic delivery channels including the Internet, automated telephone, Customer Call Center (telephone, facsimile, secure web message, e-mail, and regular mail), WAP (handheld wireless), and traditional retail branches.

Services that will be offered are customer identification for account opening, bill pay, check printing, fulfillments, electronic funds transfer (EFT), item processing, AS/400 mainframe hosting, ATM and Visa checkcards. Internet banking will allow account review, bill pay, transactions entry, check order, statements, printing statements, on-line applications, and wire transfers. {A schematic rendering of the operational support service is provided on a subsequent page.}

Vendors/Service Providers

Aurum Technologies (MISER III), Orlando, Florida, will provide the CBS (Comprehensive Banking System) software for processing core banking applications, EFT, Visa checkcards, item processing, network services, Internet connection, VRU as well as, interface to De Luxe check printing, and Equifax credit scoring. Aurum Technologies will host and manage the bank's AS/400 server.

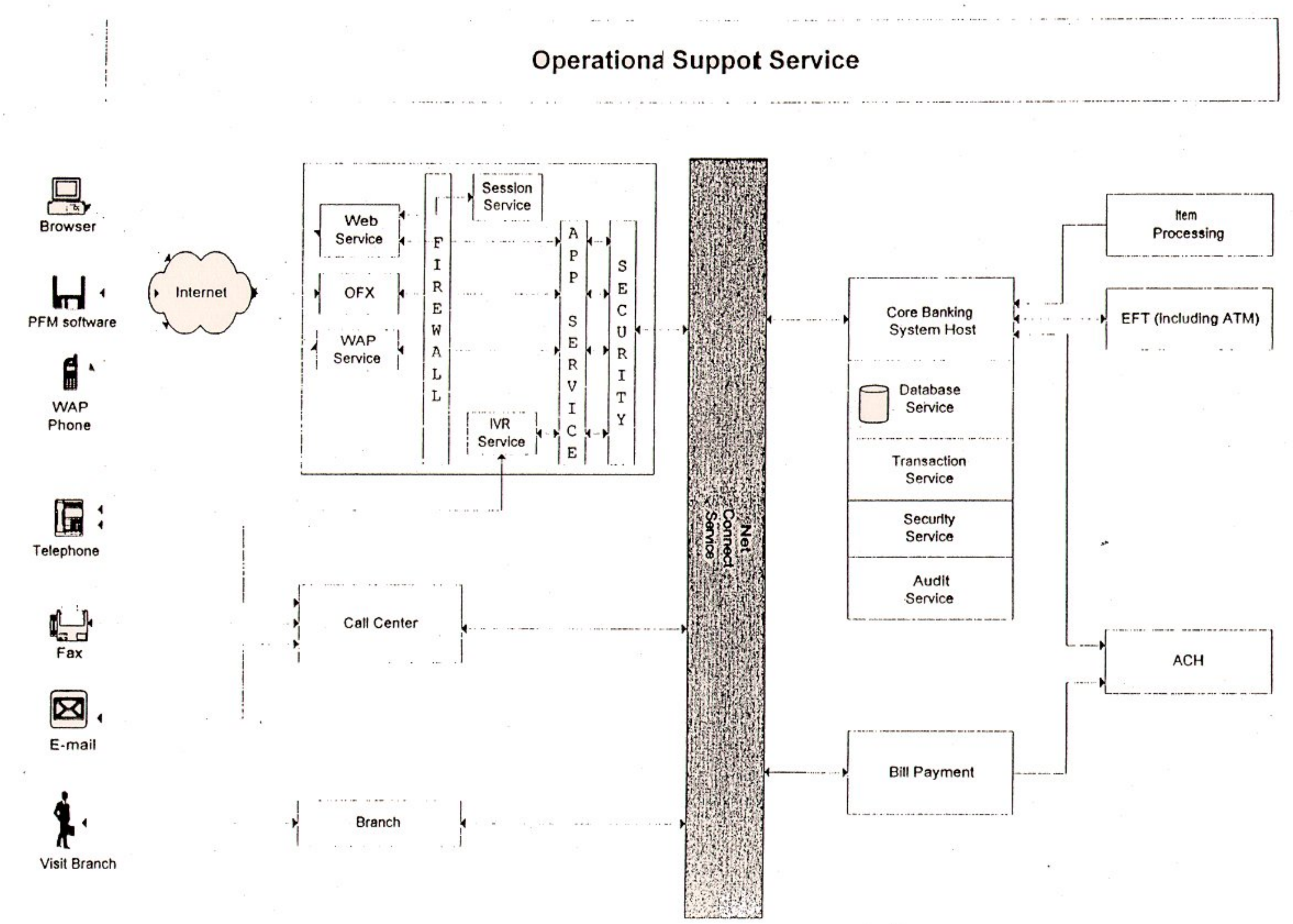
Equifax Credit Services, Inc., Atlanta, Georgia, will provide credit scoring and authentication using Decision Power and eID-Verifier, respectively. Shoreline Business Forms, Inc., Wallingford, Connecticut will provide ATM and Visa check cards. Checkpoint will provide network firewall maintenance. Princeton ecom Corporation, Princeton, New Jersey, will provide bill payments and collections.

Internet access is provided by UUNET through a 1.5 MB T1 line. Fuzion will provide a future second wireless service. There are two local area networks (LANs), located in the London office and in the Anytown office, which are to be joined by a virtual private network (VPN) connection, secured by Checkpoint network firewalls. The web site will be hosted (load balanced) jointly by Applicant and an external provider (Aurum).

According to proposed Senior Technology Officer Brian Bain, the proposed infrastructure retains the sufficient degree of scale and capacity to accommodate forecasted customer account volumes throughout the formative stages.

Facilities

The Applicant has dedicated T1 point-to-point links to Aurum Technologies, Charlotte, NC (hosting center) using redundancy circuits to ensure continuous service at all times. Disaster Recovery is with Sunguard, Philadelphia, Pennsylvania. Telecommunications connectivity was tested and the full system was restored successfully in September 2000. Additionally, the AS400 center in Charlotte is equipped with an emergency system consisting of an uninterrupted power supply (UPS), fire suppression, air conditioning and security access system.



Source: Application for Federal Deposit Insurance

<u>Audit</u>

In addition to monitoring logs; as further delineated within the Security section below, the Applicant will establish a Help Desk to catalogue and report incidents, as well as, follow-up escalation procedures when needed. A third party will be engaged to review all internal products, software and documentation, for compliance with internal standards and ensure that company procedures are implemented.

<u>Security</u>

The ability of the Applicant to provide secure data transmission over its proposed delivery channels will be of paramount importance. Its successful application and accompanying internal controls are believed critical to the success of the Internet as a proposed delivery channel and ultimately, overall customer acceptance.

OTHER PERTINENT INFORMATION (Continued)

In addition to the security measures delineated below, the Applicant is contracting with Aurum, an entity that has attained the requisite SAS 70 certification. This certification, rendered by an independent accounting firm, affirms that a provider's computer systems are being managed and operated in a manner consistent with accepted industry practices.

Security measures proposed for the fully transactional web channel include the following:

Encrypted Transactions

All banking and Internet communications will be encrypted. This will preclude sensitive financial data from being easily read and/or deciphered. Encryption will be accomplished via the use of Secure Sockets Layer Technology. This technology, considered the standard for encryption, is currently utilized by large nationally recognized web browsers. Data transmission from the Applicant's server and Aurum will be encrypted using Data Encryption Standard (DES) encryption, as further described below.

Secure Logon

To preclude the possibility of a third party downloading the Applicant's or a customer's password file, user identification and passwords will be encrypted and stored on a separate database server, not on the Internet or the web server. In addition, password parameters will be structured in a format, which makes the probability of randomly acquiring or guessing said password, extremely low.

Isolated Bank Server

The computer used to provide the Applicant's services would not be directly accessed via the Internet. It will be on a private connection, or intranet, that provides two-way communication between the isolated bank server and Internet server. Consequently, an Internet user will be prevented from accessing the computer that provides the Applicant's services. All banking services will be routed from the Internet server through a firewall. The firewall is a combination of software and hardware devices that specifically defines, controls, and limits access to internal computers from outside computers across a network. The firewall framework means that only authenticated bank customers or administrators may send or receive transactions through it. The firewall will also be immune to penetration from within the network. All messages transmitted or received between the Internet server and the operating server will be encrypted using DES encryption.

This consists of a symmetric key algorithm. Such technology is highly secure as it is not vulnerable to standard ciphertext attacks. Therefore, even if an individual was to route a message to the Applicant's server and through the firewall, the message could not be encrypted in a manner, which would be considered valid by the server. Consequently, the Applicant's server would reject the message.

Authenticated Session Integrity

An authenticated user pertains to any user who signs onto the Applicant's web site with a valid user ID and password. The Applicant's server will be configured to limit exposure to authenticated users who attempt to defraud it. If an authenticated user alters a command (URL), which is sent from the web browser to the server, in any way in an attempt to gain access to another user's account, the Applicant's server immediately detects that the session integrity variables have been violated. Once detected, the Applicant's server will terminate the session and record the unsuccessful attempt in a log so that staff can investigate.

Physical Security & Secure Modem Access

All servers and network computers will reside in secure facilities. Computer operations supporting the Applicant's internet access will also reside in secure back-up facilities. Only employees with a valid access card may enter the physical premises. Access to server systems will require further password authentication. A private line, which is not accessible by or from the public, will connect the Applicant's server with Aurum. A dial-up maintenance port will also permit access to the server. The modem that provides the only access to this port will be specially protected and will only be enabled when necessary.

Service Continuity & Monitoring

The Applicant’s server will be “mirrored” so that any existing software and/or hardware bugs should cause no more than a few minutes of service outage. “Mirroring” means that the Applicant’s server is backed up continuously so that all data is stored in two distinct physical locations. This level of redundancy is necessary to ensure that access to the Applicant’s systems will be reliable. All customer transactions utilizing the Applicant’s server will produce one or more entries within a transactional log. The Applicant will regularly review these logs, along with Aurum, to ascertain whether any unusual transactions have occurred.

INVESTIGATION REPORT SUMMARY

DESIGNATED CORRESPONDENT	
NAME Joe Hamm	TITLE President and CEO
COMPLETE ADDRESS *(Include ZIP code)* 2001 Palm Blvd, Anytown, Anystate	

WORKING HOURS					
HOURS EXPENDED				TRAVEL TIME	
EXAMINERS	INVESTIGATION	REPORT WRITING	TOTAL HOURS	DURING NORMAL WORK HOURS	OUTSIDE NORMAL WORK HOURS
Ivie Smart	45	106	151	3	6
			0		
			0		
			0		
			0		

Examiner Comments

None.