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webinar to begin shortly

Financial Services Group Accounting and Financial Reporting Update



April 3, 2025



2:00 – 3:00 PM EST

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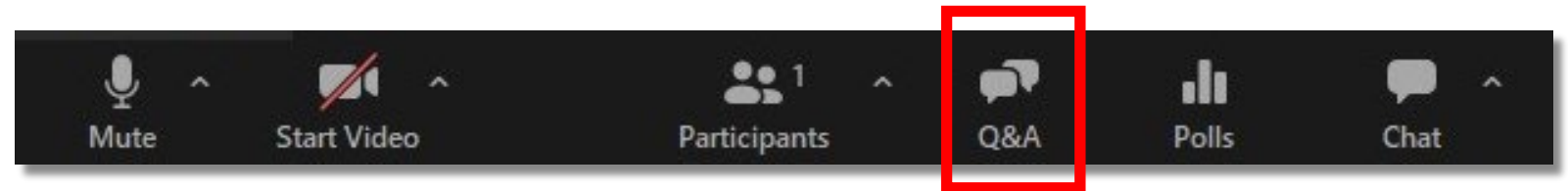
financial services group accounting and financial reporting update

before we begin



questions:

Submit questions via the Q&A box
Questions will be addressed at the end, or via email



cpe requirements:



Stay on for the
duration of the
webinar



Respond to all 4 polling
questions

*For technical difficulties with
polling, please notify us via the
Q&A box in Zoom*



Complete and submit
the survey following
the webinar

today's speakers

Host

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Presenters

Blake Patterson



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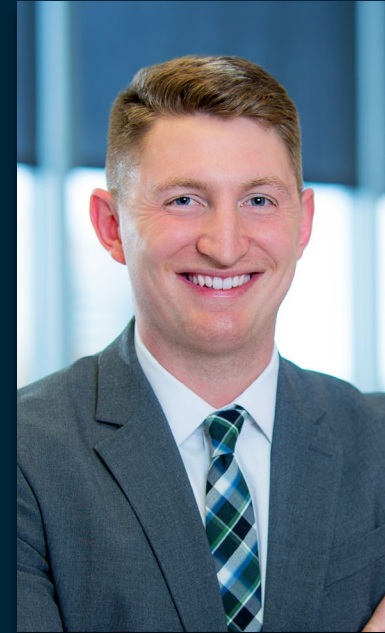
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agenda:

1

Mergers and Acquisitions Trends and Best Practices

2

Exploring Diverse Capital Strategies in 2025

3

Key Things to Consider When Deciding Whether to Sell a Portfolio of Mortgage Servicing Rights



polling question #1

mergers and acquisitions trends and best practices

Blake Patterson, CPA, CAMS

Senior Manager

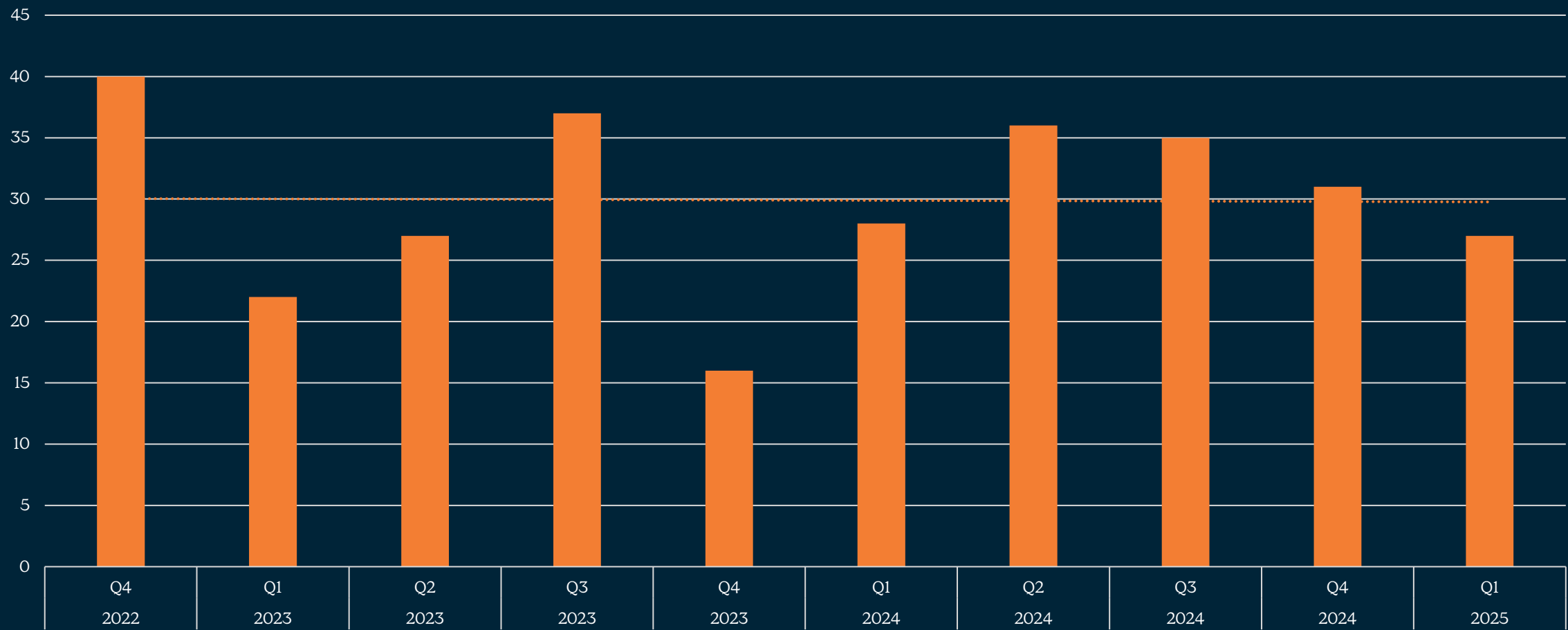
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mergers and acquisitions trends and best practices

- 1 M&A Trends
- 2 M&A Outlook
- 3 M&A Accounting Best Practices

m&a trends

Number of Deals – 10 Quarter Lookback

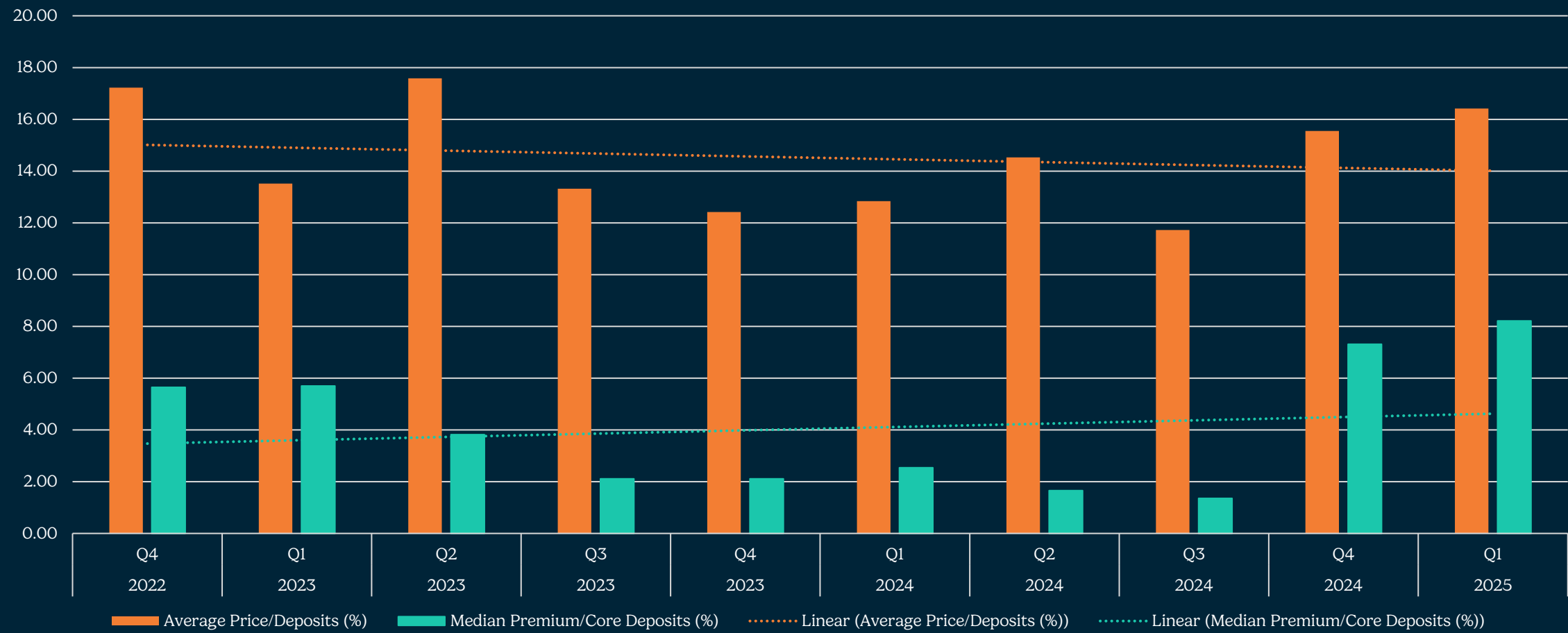


m&a trends



m&a trends

Deal Price / Premium / Deposits



m&a outlook

Financial institutions appear to be cautiously optimistic about the M&A outlook

~43%

of FI executives have indicated they are somewhat or very likely to buy another institution by the end of 2025, up from 35% in 2023*

~55%

of FI's believe that their stock valuation would be attractive enough to acquire an institution that meets their acquisition criteria*

~21%

the amount KBW Nasdaq Bank Index has gone up from Q1 2024 (~50% from Q1 2023)

*Source: BankDirector 2025 Bank M&A Survey

m&a outlook

Positive Factors

- Investor Confidence
- Interest Rates
- Deregulation
- Stock Valuations
- Potential Tax Cuts

Adverse Factors

- Political Landscape
- Inflation
- Geopolitical Risks
- Trade Wars

m&a accounting best practices

- Due diligence
 - PCD Criteria
 - Risk ratings
 - Estimated fair value marks
 - Source data reliability

m&a accounting best practices

- Purchase accounting workbook
 - Deal value calculation
 - Net asset reconciliation
 - Equity pushdown
 - Goodwill reconciliation/walkdown
 - DTA/DTL
 - Supporting schedules for FV marks and adjustments

m&a accounting best practices

- Identify potential accruals
 - FDIC/OCC/FRB assessments
 - Tax return for pre-acquisition YTD
 - Legal
 - Pre close expenses that won't be billed until post close (core expenses, utilities...etc.)
- Identify suspense, in process, and other holding accounts
 - Review reconciliations as soon as possible
- Ensure merger related expenses are captured and evaluated for proper classification and tax impact

m&a accounting best practices

- Allowance for credit losses
 - PCD credit mark
 - Ensure the model utilized to calculate the credit mark is reasonable and supportable
 - Consider the non-PCD credit mark impact to provision expense
 - Impact of acquired portfolio on ACL model
 - New loan segments
 - Impact to qualitative factors
 - Impact on peer group

m&a accounting best practices

- System conversions
 - Ensure reconciliation of the new systems data pre-conversion is effective
 - Control carve outs do not mean the control does not still need to operate
 - Consider SOC report evaluation components of newly acquired entity

m&a accounting best practices

- SOX/FDICIA controls
 - Consider impact on ICFR environment
 - Ensure system conversion controls are considered
 - Discuss control changes with IA, external auditors, and key control owners to align expectations
- Depending on risk and timing consider whether a carve out of the acquired entity's controls is reasonable



polling question #2

exploring diverse capital strategies in 2025

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&

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recent capital raise environment

reasons for capital raises

AI Investment

- Propel profits
- Improve productivity
- Scale operations

Mergers & Acquisitions (M&A)

- Achieve scale
- Expand operations
- Diversify portfolios
- Acquire stable deposits

Diversification of Assets

- Expand into new markets
- Manage risks
- Enhance returns
- Fuel loan growth

Cost Control and Management

- Simplify structures
- Exit noncore markets
- Improve operating leverage

recent capital raise environment

Current State of Capital Raising in the Market

- Regulatory Environment:
 - Basel III Endgame lowers capital requirements, better performance expected.
 - Tiered regulation standards based on bank size.
- Capital Optimization:
 - One alternative of redeeming preferred shares, boosting return on equity.
 - Adapting to increased lending competition from nonbank financial institutions.

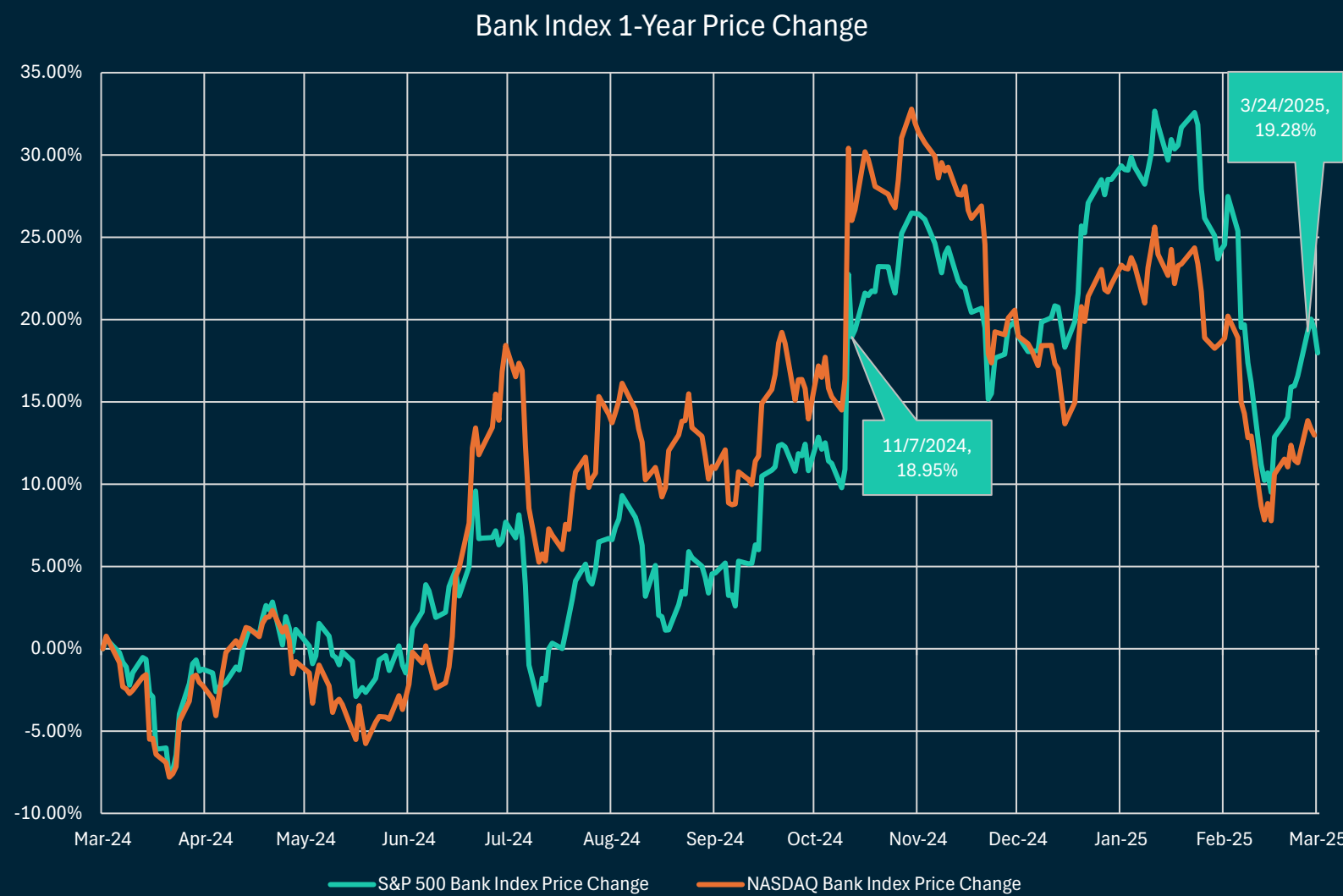
Concrete Examples*

- Citigroup:
 - Simplified structure
 - Exited noncore markets to manage expenses
- Truist:
 - Restructured businesses
 - Consolidated branches
 - Rationalized headcount
- Public Market View: Positive reception to strategic cost management and capital optimization efforts.

Opportunities

- For banks that prepped balance sheets for stricter re-proposed capital requirements, created surplus can be deployed
- Proceeding with care during market highs to avoid market perception of inflated capital raise, resulting in correction
- New normal of tariff uncertainty where late 2024 optimism appears to be replaced with cautious optimism

recent capital raise environment



recent capital raise environment

Key Takeaways

- Offset capital impact of unwinding poor investments to replace with higher paying investments
- Markets may view unwinding unfavorably in short term, yet long-term favorability increases
- Dilution versus Net Gains
- Must have a solid reason (attractive M&A opportunities, increased loan issuances, grow through existing issues)
- M&A Cases (Source: American Banker - Raising capital is painful. Here's why more banks will likely do it. December 30, 2024. Polo Rocha.)

+51%

UMB Financial Corporation (M&A)

+37%

ChoiceOne Financial Services
(M&A)

+29%

Fulton Financial (M&A)

+46%

First Foundation (reduced
multifamily concentration)

planning

CAPITAL

C – Cap Tables and Financials

A – Amount Needed

P – Plan for Proceeds

I – Investor Strategy

T – Time and Resources

A – Advisors

L – Long-term Vision

methods

Debt

- Issue bonds to the public or to institutional investors
- Borrow from financial institution or investors
- Issue subordinated debt
- Issue convertible debt

Equity

- Sell shares of stock to investors
- Attract private equity injections

Other

- Increase retained earnings/reinvest profits
- Restructure securities portfolio and loan portfolio
- Adjust dividends and dividend payouts
- Create or amend dividend reinvestment and stock purchase plans

debt vs equity

	debt	equity
pros	<ul style="list-style-type: none"> • cost of debt is usually lower than the cost of equity • non-dilutive • interest expenses can lower taxes • easy to forecast expenses • less complicated to obtain 	<ul style="list-style-type: none"> • free of debt, comes from retained earnings or selling company ownership for cash • doesn't need to be repaid
cons	<ul style="list-style-type: none"> • has to be repaid • requires interest payments • may require covenants 	<ul style="list-style-type: none"> • higher risk, higher returns expected • dilutive • can be difficult and time consuming to find • unknown impacts on future cash flow
accounting impact	<ul style="list-style-type: none"> • increase in cash • increase in liabilities • costs are amortized over life of loan • classified as current or noncurrent depending on when the obligation will be settled • interest expense • cash inflow from financing • cash outflow for debt repayment 	<ul style="list-style-type: none"> • increase in cash • increase in equity • costs are capitalized and netted against APIC • expenses related to fundraising • cash inflow from financing

noteworthy items

Be aware of:

- Tracking capital raising costs
- Financial statement staleness dates
- Comfort letters
- Type of filing
- Type of filer

tracking capital raising costs

Expenses to be capitalized:

- Underwriter expenses and legal
- Legal expenses associated with capital raise
- Document prep fees (i.e. S-1 filing)
- Registration/filing fees
- Accounting fees related to comfort procedures
- Third party consulting fees related to document preparation (i.e. S-1)

financial statement staleness dates

financial statements	deadline	2025 staleness date
Third quarter 2024 financial statements for initial public offerings, delinquent filers and loss corporations	45 days after fiscal year end	February 14
Third quarter 2024 financial statements for large accelerated filers	60 days after fiscal year end	March 3
Third quarter 2024 financial statements for accelerated filers	75 days after fiscal year end	March 17
Third quarter 2024 financial statements for all other filers	90 days after fiscal year end	March 31
Year end 2024 financial statements for large accelerated filers and accelerated filers	129 days after fiscal year end	May 9
Year end 2024 financial statements for all other filers	134 days after fiscal year end	May 14
First quarter 2025 financial statements for large accelerated filers and accelerated filers	129 days after fiscal first quarter end	August 7
First quarter 2025 financial statements for all other filers	134 days after fiscal first quarter end	August 12
Second quarter 2025 financial statements for large accelerated filers and accelerated filers	129 days after fiscal second quarter end	November 6
Second quarter 2025 financial statements for all other filers	134 days after fiscal second quarter end	November 12

filings

S-1

Initial registration form to register new securities with the SEC

- Filed in anticipation of an IPO
- Requires:
 - Information on the planned use of capital proceeds
 - Details of current business model and competition
 - Brief prospectus of the planned security itself
 - Price methodology
 - Dilution that will occur to other listed securities

When the S-1 transaction is completed and the company is ready to raise capital, a Form S-3 would be filed with the SEC

S-3

To raise capital, a secondary offering after an IPO

- Provides simplified reporting
- Requires:
 - Risk factors
 - Prospectus
 - Exhibits and disclosures

Comfort Letter – a letter provided by an accountant for an underwriter

- Establishes that an underwriter has conducted a reasonable investigation
- All parties should meet to discuss the scope and expected procedures

Multiple exemptions from registration available for small businesses looking to raise capital from investors:

- Rule 506(b) Private Placements
- Rule 506(c) General Solicitation Offerings
- Rule 504 Limited Offerings
- Regulation Crowdfunding Offerings
- Intrastate Offerings
- Regulation A Offerings

Regulation D governs exempt offerings – must file Form D

filers

accelerated filers	large accelerated filers	non-accelerated filers
<ul style="list-style-type: none">• Have a public float of \$75 million or more, but less than \$700 million;• Are not eligible to rely on SRC accommodations based on their revenue; and• Have been a reporting company for at least 12 month and filed at least one annual report pursuant to the Exchange Act.	<ul style="list-style-type: none">• Have a public float of \$700 million or more;• Are not eligible to rely on SRC accommodations based on their revenue; and• Have been a reporting company for at least 12 months and filed at least one annual report pursuant to the Exchange Act.	<ul style="list-style-type: none">• Are companies that are neither accelerated filers nor large accelerated filers• Are typically companies<ul style="list-style-type: none">• With public float of less than \$75 million; or• That are eligible to rely on SRC accommodations based on their revenue.

Reporting Status

- Emerging Growth Companies
 - Total annual gross revenues of less than \$1.235 billion
 - As of December 8, 2011, had not sold common equity securities under a registration statement
 - First 5 fiscal years after completing an IPO unless:
 - Total annual gross revenues are \$1.235 billion or more
 - Has issued more than \$1 billion in non-convertible debt in the past 3 years
 - Becomes a large accelerated filer
- Smaller Reporting Companies
 - Public float of less than \$250 million or
 - Less than \$100 million in annual revenues and no public float or public float of less than \$700 million



polling question #3

key things to consider when deciding whether to sell a portfolio of mortgage servicing rights

Clay Harris, CPA
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why sell your MSR portfolio?

- Balance sheet restructuring
- Maximize available resources
- Immediate cash flows
- Income statement volatility
- Gain & loss potential



current economic outlook on MSR portfolios

There is a direct correlation between interest rate movement and fair value of MSR portfolios

Falling Rate Environment

- Increased refinancing rates
- Faster prepayment speeds
- Decreased retention period
- Declining MSR valuations

Rising Rate Environment

- Slowed refinancing rates
- Slowed prepayment speeds
- Longer retention period
- Increased MSR valuations

accounting guidance for MSR sales



- ASC 860-10-40 (Sale Accounting)
 - Legal isolation
 - Transfer of control
 - No continued involvement
 - Transfer of risk and reward
- ASC 860-50-40 (Transfers of Servicing Assets)
 - Additional criteria

other considerations



associated expenses

document review

legal fees

transfer and deboarding



holdbacks of purchase price



holdback reserves



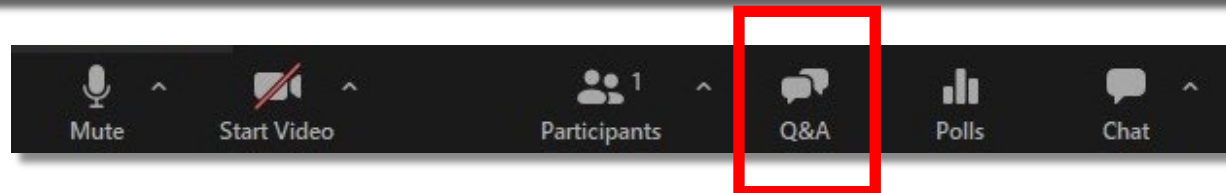
subsequent measurement



polling question #4

q&a

Submit questions via the Q&A box





replay link:



A replay link will be emailed to you in the coming weeks.
A copy of the slides presented today will also be made available at that time.

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thank you