



STRENGTHENING FINANCIAL INSTITUTIONS

Accounting for Bank Acquisitions

Released April 2026 (Version 4)

Introduction

Banks historically accounted for mergers and acquisitions under the pooling of interest method. The accounting was relatively straightforward and was accomplished by combining the book values of the two entities. Beginning in 2009, Financial Accounting Standards Board (“FASB”) required bank mergers and acquisitions to be recorded at fair value, making the accounting much more difficult.

Since the purchase accounting rules became effective, we have worked on over 600 merger and acquisition transactions of all sizes, including organizations as small as \$2M and as large as over \$10B in total assets. We have provided advice on numerous types of transactions including cash/stock deals, mergers of mutual entities, and FDIC-assisted transactions. This white paper is designed to share what we have learned along the way and to address the most common questions we encounter. We hope you find it useful.

We begin with accounting requirements on Day One – the opening journal entries. Next, we discuss the rules for Day Two – the ongoing accounting. Finally, we discuss assessing the goodwill for potential impairment.

KEY TAKEAWAY

FASB requires that all bank mergers and acquisitions be recorded at fair value. This white paper discusses the accounting requirements for both day one and ongoing accounting.

CLIENT-FOCUSED SOLUTIONS

Since 2003, Wilary Winn has provided independent, objective, fee-based advice to financial institutions and now serves more than 600 clients across the country.

Our main service lines include:

- > ASSET LIABILITY MANAGEMENT (ALM)
- > CURRENT EXPECTED CREDIT LOSS (CECL)
- > MERGERS & ACQUISITIONS (M&A)
- > VALUATION OF LOAN SERVICING
- > FAIR VALUE DETERMINATIONS

Bank Purchase Accounting

FASB ASC 805 *Business Combinations* requires banks to use purchase accounting and to record the transaction at fair value. As of the acquisition date, an acquirer must record the assets, liabilities and equity of the institution it is acquiring at fair value. The valuation must also include potential intangible assets such as the core deposit intangible. The fair value estimates must be made in accordance with the requirements of FASB ASC 820 *Fair Value Measurements and Disclosures*. Please refer to Appendix A for a comparison of the “old” rules to the “new” rules.

Wilary Winn notes that the business combination accounting rules can apply to a transaction that is not a full acquisition, including branch acquisitions, purchase and assumption agreements, etc.

Determining whether a financial institution has acquired a business or has consummated an asset purchase is a critical first step because:

- Goodwill is recognized in a business combination, but not in an asset acquisition;
- Acquisition costs are generally expensed as incurred by the buyer in a business combination, while the same costs are considered part of the acquisition cost in an asset acquisition; and
- Assets acquired and liabilities assumed in a business combination are measured at fair value, while assets acquired and liabilities assumed in an asset acquisition are measured by allocating the total cost of the net assets based on the fair values of the individual assets acquired and liabilities assumed.

Day One Accounting

The first step a bank should take upon acquiring the assets of another financial institution is to determine whether it has acquired a business. We note that under FASB ASC 805, a business combination occurs when an acquirer obtains control of a business through a transaction or other event. A “business” includes inputs and processes that are at least capable of producing outputs. However, a business need not include all of the inputs or processes that the seller used in operating the business if market participants are capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs and processes.¹

When a financial institution enters into a transaction to combine with another entire institution, the result is clearly a business combination. Wilary Winn believes that the acquisition of a bank branch also meets the definition of a business combination because the branch has inputs, processes, and can produce outputs. On the other hand, an acquisition of a loan portfolio would not meet the definition of a business. Determining whether sufficient inputs and processes have been acquired can require considerable judgment and we encourage acquirers to discuss the accounting implications of an acquisition with their external accountants and primary regulators.

¹ FASB ASC 805-10-55-5

Once it has determined that it has entered into a business combination, the acquiring bank must undertake several steps to ensure it has the information it needs to properly record the transaction.

It must determine the:

- Fair value of the consideration transferred;
- Fair value of the acquired bank's financial assets and liabilities;
- Fair value of the acquired bank's non-financial assets and liabilities;
- Fair value of any intangible assets – the most common being the core deposit intangible;
- Value of the trade name; and
- Amount of goodwill/bargain purchase gain resulting from the transaction.

FAIR VALUE OF THE CONSIDERATION TRANSFERRED

Valuation experts generally use differing methods to determine fair value. Wilary Winn employs three basic methods to determine the fair value of the consideration provided to the seller: discounted cash flow (“DCF”), guideline transaction (“GT”), and guideline public company (“GPC”). The DCF method is an income approach, whereas the GT and GPC methods are market approaches.

Discounted Cash Flow Method

The DCF method determines the value of a business or business ownership interest using one or more methods that convert anticipated benefits into a present single amount. The application of the DCF method establishes value by methods that discount or capitalize earnings and/or cash flow, by a discount or capitalization rate that reflects market rate of return expectations, market conditions, and the relative risk of the investment. To determine the estimated value of the entity using a DCF approach, business appraisers generally first estimate the organization's probable future cash flows. They then discount the cash flows back to the valuation date at an appropriate discount rate. However, Wilary Winn believes that the use of future cash flows is not a reliable indicator of value for financial institutions because items like capital expenditures, working capital, and debt are not clearly defined. As a result, to ensure comparability, we base our analysis on future earnings.

To determine the estimated value of the entity using a DCF method, Wilary Winn estimates future earnings by developing ten-year pro-forma balance sheets and income statements using a fundamental analysis. We then develop an estimate for the entity's lifetime earnings – “the residual” using a Gordon growth model. We discount the resulting estimated cash flows back to the valuation date at a discount rate determined through use of a Capital Asset Pricing Model (“CAPM”) approach. See below for an example.

ABC Bank										
Projected Statement of Income and Expense										
For the Period Ending	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	Year 8	Year 9	Year 10
Total Interest Income	17,931,936	19,143,504	21,099,703	23,626,459	26,660,572	30,285,701	34,482,237	39,233,998	44,477,558	47,307,430
Total Interest Expense	2,492,177	2,867,982	3,699,755	4,958,089	6,604,773	8,483,830	10,373,253	12,139,335	14,158,850	15,413,230
Net Interest Income	15,439,758	16,275,523	17,399,948	18,668,370	20,055,799	21,801,871	24,108,985	27,094,662	30,318,708	31,894,200
Total Non-interest Income	1,629,292	1,757,800	1,847,978	1,941,708	2,038,671	2,140,611	2,249,884	2,367,107	2,492,647	2,569,727
Total Non-Interest Expense	11,692,749	12,229,988	13,071,307	13,976,219	14,949,741	15,997,294	17,124,739	18,338,412	19,645,164	21,052,405
Net Operating Income	5,376,301	5,803,335	6,176,619	6,633,859	7,144,729	7,945,188	9,234,130	11,123,357	13,166,190	13,411,522
Realized Gain on Securities	605	605	605	605	605	605	605	605	605	605
Provision for Loan and Lease Losses	214,212	794,770	1,058,011	1,313,039	1,464,006	1,603,131	1,665,311	1,803,027	1,931,822	1,879,366
Pretax net Income	5,162,694	5,009,170	5,119,213	5,321,425	5,681,329	6,342,662	7,569,424	9,320,935	11,234,973	11,532,761
Income Taxes	1,090,151	1,057,733	1,080,970	1,123,669	1,199,666	1,339,312	1,598,355	1,968,202	2,372,369	2,435,250
Net Income (Loss)	4,072,543	3,951,437	4,038,243	4,197,757	4,481,663	5,003,350	5,971,070	7,352,733	8,862,604	9,097,511
										Year 10 Earnings Cap
										97,965,691

Year 10 Earnings Cap	NPV @ 12.20%	Book Equity	Price-to-Book
97,965,691	61,528,952	40,227,581	1.53

Market Approaches

In addition to the DCF method, we utilize two market approaches – Guideline Transaction (“GT”) and Guideline Public Company (“GPC”). Under the GT method, we obtain deal results and financial information for recent bank acquisitions of similar size, similar profitability, and in similar geographic areas to banks we are valuing. To obtain our estimate of value, we use the median price to tangible book value from our pool of deal results. An example of our GT method is shown below.

Buyer Name / Target Name	Transaction Date	Assets	Equity / Assets	Loans / Deposits	NPA / Assets	*LTM ROAA	*LTM Efficiency Ratio	Deal Value / Tangible Book
Acquirer Bank 1/Target Bank 1	10/31/2017	436,886	7.79%	65.93%	6.15%	1.25	60.93	165.24
Acquirer Bank 2/Target Bank 2	1/1/2018	429,309	3.82%	59.65%	5.27%	0.48	69.45	184.53
Acquirer Bank 3/Target Bank 3	6/19/2017	353,066	9.92%	96.36%	0.65%	1.16	56.01	147.70
Acquirer Bank 4/Target Bank 4	8/14/2017	413,700	9.11%	87.44%	1.85%	0.85	67.91	178.58
Acquirer Bank 5/Target Bank 5	7/31/2017	459,416	9.86%	80.86%	2.79%	1.06	78.11	195.14
Acquirer Bank 6/Target Bank 6	3/5/2018	434,797	10.88%	69.65%	1.41%	0.69	28.30	155.65
Median		432,053	9.49%	75.26%	2.32%	0.96	64.42	171.91
ABC Bank								
ABC Bank Financial Ratios		420,317	9.90%	95.20%	2.12%	1.02	78.94	
Multiple (minimum of zero)						1.07	0.77	0.92
ABC Bank Adjusted Price to Book Value								158.39
*Most recent Last Twelve Month period before deal announcement date								

Under the GPC method, we obtain recent financial information on publicly traded community banks of similar size, similar profitability, and in similar geographic areas to the banks we are valuing. To obtain our estimate of value, we use the median price to tangible book value from our pool of community banks. We then adjust for the premium a market participant would pay for majority control of the entity. An example of our GPC method is shown below.

Company Name	State	Total Assets (in thousands)	5 Yr Average ROAA	5 Yr Average Growth	March 31, 2018		December 31, 2017	
					P/E Ratio - Trailing 4 Quarters	Price to Book Value	P/E Ratio - Trailing 4 Quarters	Price to Book Value
Bank 1	WI	1,215,281	1.15	5.00	12.33	1.49	13.26	1.60
Bank 2	WI	597,089	0.12	6.42	NM	0.44	NM	0.54
Bank 3	WI	909,557	1.09	7.88	11.54	1.15	10.71	1.14
Bank 4	OH	637,202	0.91	1.77	10.78	1.15	11.14	1.20
Bank 5	IN	591,979	1.13	3.11	13.39	1.54	10.95	1.20
Bank 6	OH	1,009,068	1.02	3.04	12.03	1.07	12.01	1.08
Bank 7	IL	1,092,000	0.82	5.34	8.38	0.89	8.62	0.88
Bank 8	OH	760,770	1.04	8.60	8.89	1.08	8.77	1.06
Bank 9	IN	1,055,616	0.91	2.20	11.16	1.04	11.85	1.10
Bank 10	OH	732,882	0.97	2.18	9.26	1.00	9.56	1.05
Bank 11	WI	1,244,035	0.96	16.36	15.86	1.74	12.37	1.42
Bank 12	WI	765,167	0.90	2.89	9.04	1.06	9.16	1.07
		837,362	0.96	4.06	11.16	1.07	10.95	1.09
Average Market Control Premium						1.30		
Price to Book Value adjusted for Control Premium						1.40		
Abc Bank								
Abc Bank Weighted Average ROAA or Growth			1.15	4.62				
Multiple			1.19	1.14	1.16			
Abc Bank Adjusted Price to Book Value						1.63		

Finally, we reconcile the valuation estimates derived under the three methods and determine the overall fair value of the acquired bank. We note that we weight the DCF method the highest, as we believe this method is most representative of the bank's current financial position and potential future earnings.

	Base Value	Weighting	Weighted Value
Overall Value of Abc Bank - Income Projected	61,528,952	50%	30,764,476
Overall Value of Abc Bank - Guideline Transaction	63,715,410	25%	15,928,853
Overall Value of Abc Bank - Market Valuation	65,373,193	25%	16,343,298
Overall Value of Abc Bank - Total Wtd Avg		100%	63,036,627
Book Value of Equity			40,227,581
Overall Price to Book Value			1.57

Our overall valuation results serve as a market comparison when the acquirer is paying cash. However, when a bank is acquiring another financial institution using its own stock, the valuation approaches are integral to properly accounting for the transaction.

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

The financial assets and liabilities consist primarily of loans, investments, deposits, and debt. Accrued interest receivable, accounts receivable, accrued interest payable and accounts payable are also considered to be financial assets or liabilities.

Investments

Investments generally consist of certificates of deposits (“CDs”) and “vanilla” bonds. To determine the value of a CD, Wilary Winn discounts the expected cash flows using an estimated market interest rate over its expected remaining life. We can generally identify a price for the bonds using Bloomberg or another pricing service. We occasionally encounter illiquid securities, which we value using a discounted cash flows approach.

Wilary Winn notes there are benefits to having the acquiring institution’s bond accounting service value the investments. In this instance, we perform a reasonability check to ensure the investments are appropriately priced.

Accounts Receivable and Payable

Wilary Winn generally values the short-term accruals, accounts receivable and accounts payable at book value, because we believe the present value effect is immaterial.

Deposits

The fair value of the deposit accounts is dependent on whether they are time or non-time deposits. The non-time deposits are recorded at book value. The value of the non-time deposits is reflected in the “core deposit intangible.” The valuation of intangible assets is discussed in the Intangible Assets section later in this paper.

Wilary Winn estimates the value of time deposits in a manner similar to the one we use for certificate of deposit investments.

Debt

Wilary Winn generally values two differing types of bank debt: Federal Home Loan Bank (“FHLB”) advances and subordinated debt. We use a discounted cash flow approach to value any outstanding debt.

Loans

Wilary Winn believes that determining the fair value of the loans is one of the most complex undertakings under the purchase accounting rules. The marketplace for seasoned loans is not active. As a result, valuation experts generally value the loans using a discounted cash flow analysis.

Two approaches are permissible under GAAP². One approach is to discount the contractual cash flows at an “all in” estimated market discount rate, which by its nature includes a credit spread. The other approach is to develop a “best estimate of expected cash flows” and discount the amounts back to the valuation date at an appropriate discount rate. We employ the second method.

We estimate the fair value of the loan portfolio by performing a discounted cash flow analysis using a proprietary valuation model. The valuation is performed at the loan level on real estate and commercial loans and at the cohort level for all other loan types, and is based on the objective attributes of the loans in the portfolio (e.g., the rate of interest on the loan, the original term of the loan, the current term of the loan, etc.) and current statistical performance variables used in the marketplace. Our analysis is based on the contractually specified amounts of principal and interest to be received, modified by our estimates of prepayment, default and loss severity to be experienced prospectively. Our prepayment, default and loss severity assumptions are applied at the loan or cohort level based on the characteristics of the loan (type of loan – CRE vs. C&I, risk ranking – pass vs. substandard, etc.).

We derive our expected prepayments using a conditional repayment rate (CRR), which is the annual amount of expected voluntary payoffs as a percentage of the principal amount outstanding at the beginning of the year. We model our defaults using a conditional default rate (CDR), which is the annual amount of expected defaults as a percentage of the principal amount outstanding at the beginning of the year. Finally, our loss severity is equal to the liquidated principal balance minus any recovered amount divided by the principal balance. The combination of the CDR and loss severity derives our future lifetime loss assumptions.

For larger loans such as those collateralized by commercial real estate, we rely on our client’s estimates of expected credit losses or reserve percentages – especially loans with lower credit quality. In our experience, banks typically review these loans in detail as part of their credit risk management, and we rely on loss estimates from such reviews for our estimates.

We develop a “best estimate of expected cash flows” for all loans and use a buildup method to develop our discount rate. We begin with an appropriate risk-free rate based on the term of the loan (adjusted for amortization, voluntary, and involuntary prepayments), and add a spread for uncertainty, liquidity, and increased costs to service for loans with lower FICO scores, high-risk rankings (watch list, substandard, etc.), or delinquent loans. Because we are using expected cash flows net of credit losses, our discount rates for loans do not include a credit spread. Wilary Winn believes including the credit spread in the discount rate would be “double counting.”

The book value of the loans is thus adjusted for an interest rate differential (discount rate adjustment) and an estimate of expected credit losses (credit loss discount).

Due to the estimated fair value of the loans, including the estimated credit losses, the allowance for credit losses is recorded at zero on day one.

² FASB ASC 820-10-55-4

See the adjustments to loans in the example loan summary attached as Appendix C – the interest rate discount – \$1,586,077 in total and the credit loss discounts – \$826,981 in total. See the Day Two accounting section of this white paper for more details.

Prepaid Expenses

The treatment of prepaid expenses can be complex. One should consider whether the prepaid item would have benefit to market participants. For example, a multi-year prepaid contract that cannot be used after the acquisition would have no “fair value” and would be recorded at zero in the Day One journal entry.

Accrued Liabilities

Wilary Winn recognizes that prior to the change in the accounting rules, many acquiring organizations had the acquired bank accrue the costs of the acquisition on its financial statements prior to the acquisition so the expenses would not flow through the income statement of the combined entity. This is another significant change to the rules.

In general, the costs of the acquisition and any restructuring costs should flow through the income statement of the acquiring bank³.

The theory is that if the party that receives the primary benefit is the acquirer or the combined entity, the cost should run through its income statement. In our experience, the types of costs that can be accrued as part of the acquisition are quite limited. An example would be a compensation arrangement that was in place before the acquisition was contemplated, and that just happens to be triggered as a result of the acquisition. The required payout can be accrued on the acquired bank’s financial statements as of the acquisition date. By way of contrast, a payout negotiated as part of the acquisition should run through the income statement of the acquiring bank.

The acquiring bank should also ensure that the acquired bank has properly accrued its expenses. In other words, the organization should ensure that the acquired bank does not have any unrecorded liabilities.

FAIR VALUE OF NON-FINANCIAL ASSETS AND LIABILITIES

The most significant non-financial assets are generally land and buildings. We generally require our clients to obtain commercial real estate appraisals if these assets are material.

Real estate leases are another item that must be evaluated in an acquisition. If the lease price is less than the market rate, then an asset should be recorded. On the other hand, if the lease price is over the market rate, a liability should be recorded. We calculate these items by discounting the difference in cash flows back over the remainder of the lease term to the valuation date at the acquired bank’s estimated cost of capital.

³ FASB ASC 805-10-25-23

INTANGIBLE ASSETS

The value of intangible assets should be recorded as well in the Day One journal entry.

Recognition of an intangible asset requires that the asset be separable or have a contractual or legal benefit.

The most common intangible assets in a bank acquisition are:

- Mortgage servicing rights
- Core deposit intangible
- Customer relationships
- Value of the acquired bank's trade name
- Goodwill

Mortgage Servicing Rights

Mortgage servicing rights are the rights to service a loan that has been sold into the secondary market in exchange for a fee. The market for bulk sales of mortgage servicing rights is quite limited. As a result, the value of mortgage servicing rights is generally determined via a discounted cash flow analysis. The most sensitive input in the valuation is the assumption regarding the rate at which the loans will prepay.

Core Deposit Intangible

The premise underlying the core deposit intangible asset is that a rational buyer would be willing to pay a premium to obtain a group of core deposit accounts that are less expensive than the buyer's marginal cost of funds. Wilary Winn believes the core deposit intangible benefit depends on the type of account. For example, share draft accounts have very different economics and behavior than high-rate money market shares. To calculate the estimated fair value of the core deposit intangible, we first segment the accounts by type. Next, we estimate the likely decay, average life, and terminal economic life. The rate paid on the deposit, the non-interest income generated, and the non-interest expense incurred also affect the value of the core deposit intangible. Wilary Winn estimates the value of the core deposit intangible through a discounted cash flow analysis.

Customer Relationships

Wilary Winn believes that the value of the customer relationships is imbedded in the purchase price of the institution. We believe it would be quite difficult to separately determine the value of customer relationships in terms of the ability to cross-sell loans or deposits at lower cost, or higher rates of penetration, and therefore, have generally not seen such items recorded.

Acquired Bank's Trade Name

A trade name can have value based on how widely it is recognized. If the brand is well known and the acquiring bank intends to continue to utilize it, the trade name has value. Trade names can also have a defensive value. That is, it can have value even though the acquiring bank plans to retire the name. For example, imagine the value to Pepsi of having the rights to the Coca-Cola brand name.

Goodwill Or Bargain Purchase

On Day One, the acquiring bank records the fair value of the assets acquired and liabilities assumed and the fair value of any intangible assets.

The amount required to balance the Day One journal entry is Goodwill or a Bargain Purchase. Wilary Winn believes an acquisition will generally result in goodwill, as opposed to a bargain purchase gain.

In fact, GAAP requires the acquiring bank to “double check” its work before recording a bargain purchase⁴.

If the acquiring bank is privately held, it can elect to account for the resulting goodwill in one of two ways. The bank can amortize the goodwill straight-line over a period not to exceed 10 years. Otherwise, it can elect not to amortize the goodwill and instead assess it for impairment. The assessment must be made at least annually. Publicly traded banks must use the impairment assessment method.

In our experience with acquisitions involving bank holding companies, we typically see the acquired goodwill recorded at the level of the transaction. For example, if the bank holding companies merge and the consideration transferred is at the bank holding company level, we would generally see the goodwill recorded on the bank holding company's balance sheet. However, we note that entities can elect to apply pushdown accounting to its reporting entities subsequent to the acquisition in accordance with FASB ASC 805-50-15-10.

INCOME TAXES

The discussion regarding income taxes which follows is a brief summary of information contained in RSM's “A Guide to Business Combinations – Third Edition June 2016.” We thank them for allowing us to reference it in this white paper and encourage those who want more detail to consult the RSM guide or contact your tax practitioner.

For income tax purposes, business combinations are considered taxable or nontaxable. Asset acquisitions are taxable to seller. Nontaxable transactions take two forms. A transaction could be nontaxable because the financial institution is an S Corporation or, in the case of C Corporation, the buyer purchases stock – a “stock acquisition.” A stock acquisition can be turned into a taxable event if

⁴ FASB ASC 805-30-25-4

the buyer and seller elect to treat it as such under Section 338 of the U.S. Income Tax Code – a “338 Election.”

The required accounting for income taxes in a business combination is set forth in FASB ASC 805-740, which differs from the fair value determinations we have discussed thus far. The first difference is that deferred tax assets and liabilities are measured on an undiscounted basis. In addition, to be recognized, the deferred tax asset must be more than 50 percent likely of being realized.

Taxable transactions will have few temporary differences between book and tax as the basis for most assets and liabilities will be the same. Nontaxable transactions often result in several temporary differences. The tax bases of the assets and liabilities of the target will be the same post-acquisition as they were prior to the acquisition (carryover basis), while the book values will be based on fair value.

See Appendix B1 & B2 for an example comparing the fair value of the balance sheets of a subsidiary bank and the bank holding company to the book values at the acquisition date. Additionally, the goodwill and bargain purchase calculation is included on these appendices. Appendix D shows how to record the acquisition on Day One, including the accounts used to adjust book value to fair value at the bank and bank holding company level.

Wilary Winn further notes that GAAP allows the acquiring bank to true up the Day One journal entry for up to 12 months after the acquisition date to reflect new information that would have affected the valuation amounts had they been known⁵.

We note that the “new” information is relative to the acquisition date only. The adjustment is designed to reflect information that existed as of the valuation date that was not known at the time. It is not intended to reflect changes in facts and circumstances as of the valuation date. Instead, it is designed to reflect a clarification of facts that existed as of the valuation date. For example, if a loan at the valuation date was a modified loan and was not disclosed as such, an adjustment would be appropriate. On the other hand, if the acquired bank obtained an appraisal for a branch location at the acquisition and due to changes in market conditions, the value of the branch was less 11 months later, an adjustment would not be appropriate.

Day Two Accounting

Many find the day one accounting to be relatively complex. The ongoing accounting for the recorded premiums and discounts is also quite complex. The following is a quick summary for the items other than loans, followed by a detailed description of the required ongoing accounting for the acquired loans.

The premiums or discounts for the investments acquired are amortized or accreted into income over the estimated life of the investment as an adjustment to interest income. Premiums reduce interest income, whereas discounts have the opposite effect.

⁵ FASB ASC 805-10-25-13

The premiums or discounts on the acquired debt and time deposits are amortized or accreted into expense over the estimated life of the liability as an adjustment to interest expense. Premiums reduce interest expense, whereas discounts increase interest expense.

Mortgage servicing rights acquired in the acquisition are generally amortized on a level-yield basis over the estimated life of the loans. The amortization is recorded as a reduction to servicing income. We note that mortgage servicing rights can also be measured and reported on an ongoing basis at fair value, with the change in fair value running through the income statement. This fair value accounting is generally used by large institutions, which have generally hedged the portfolio against interest rate risk.

The core deposit intangible is amortized on a level-yield over the estimated lives of the non-time deposits. The expense should be recorded as a reduction to non-interest income.

The fair value of the fixed assets acquired becomes the basis for depreciation. The fixed assets should be depreciated over their estimated remaining lives, which can be longer or shorter than the term used to calculate depreciation before the acquisition.

The most complex ongoing accounting relates to the acquired loans.

NON-PCD ASSETS AND PURCHASED FINANCIAL ASSETS WITH CREDIT DETERIORATION

The Current Expected Credit Losses (“CECL”) standard (FASB ASC 326) requires the acquirer in a business combination to estimate lifetime expected credit losses on all acquired financial assets. Historically, this created two separate accounting frameworks, purchased credit deteriorated (“PCD”) and non-PCD, each with different implications for the day one measurement of acquired loans, as described below.

PCD Assets: These assets have experienced “more-than-insignificant” deterioration in credit quality since origination based on an assessment by the acquirer as of the acquisition date. Under the PCD model, the acquirer records an allowance for credit losses (“ACL”) related to the PCD assets and also records an offsetting entry as an addition to the purchase price of these assets. In other words, the initial amortized cost basis that would be recorded for PCD assets is equal to the sum of the purchase price and the ACL. This method is typically referred to as the gross-up approach. Furthermore, any remaining purchase discount or premium that is not credit-related is accreted or amortized to interest income over the life of the assets.

Non-PCD Assets: These acquired assets do not meet the PCD criteria and are accounted for in a manner consistent with originated financial assets. Specifically, the acquirer must provision for these assets on Day 1 as a charge to credit loss expense. Additionally, the institution would record the amortized cost basis of these assets at the purchase price paid for them. Thereafter, any purchase discount or premium is accreted or amortized to interest income over the life of the assets. As a result of the Day 1 charge to credit loss expense and lack of a step-up in basis for expected credit losses, many industry participants describe this accounting as the “Day 1 double count.”

Please see an example below highlighting the difference in day one impact between PCD and non-PCD assets.

Non-PCD Loans		PCD Loans	
Total Loans	15,000,000	Total Loans	15,000,000
Less: Discount Rate Adjustment	(400,000)	Less: Discount Rate Adjustment	(400,000)
Less: Credit Adjustment	(100,000)	Less: Credit Adjustment	(100,000)
		Plus: Allowance for Credit Losses	100,000
Net Balance	14,500,000	Net Balance	14,600,000
ACL %	0.7%	ACL %	0.7%
Allowance for Credit Losses	(100,000)	Allowance for Credit Losses	(100,000)
Net Balance including ACL	14,400,000	Net Balance including ACL	14,500,000

Non-PCD loans result in double counting of the credit adjustment and a provision expense for CECL. PCD loans result in no double count and no day one provision expense.

Stakeholders expressed that the dual approach is operationally complex, inconsistent, and unintuitive. Investors, preparers, and other stakeholders have advocated for a uniform treatment of all acquired financial assets. In particular, they indicated that they preferred the gross-up approach applied to non-PCD assets, citing improved comparability, reduced complexity, and alignment with economic substance.

On November 12, 2025, the FASB issued ASU 2025-08, delivering long-awaited reform to the CECL standard. This update establishes a single accounting model for acquired loans. Under the updated guidance, all loans acquired in a business combination, except for credit cards, are classified as purchased seasoned loans (“PSLs”) and accounted for using the gross-up approach previously applied only to PCD loans. Accordingly, the initial amortized cost basis of PSLs equals the purchase price plus the initial ACL recorded at acquisition. The non-credit discount or premium is subsequently accreted or amortized to interest income over the expected life of the loans.

PURCHASED SEASONED LOANS

Key provisions relating to FASB’s recent update are highlighted below.

Objective: The FASB retained the current accounting for PCD assets but revised the ASU to improve the accounting for non-PCD assets that did not fall under the PCD scope. As a result, the current PCD accounting model is unchanged.

Scope: All acquired loans except for credit cards will be classified as PSLs and be subject to PCD framework.

Seasoning: All loans, except for credit cards, would be considered seasoned and fall under the scope of the new standard if they are acquired through a business combination. In an instance where a pool of loans is purchased via an asset acquisition, the acquirer must then perform a seasoning test to determine whether the acquired loans would qualify to be accounted for under the gross-up approach. This seasoning test classifies loans purchased 90+ days after origination and where the buyer was not involved in the origination as PSLs.

Disclosure, Transition, and Effective Date: The ASU's guidance is effective for annual reporting periods beginning after December 15, 2026, including interim reporting periods, and entities must apply it prospectively. Entities may early adopt the guidance "in an interim or annual reporting period in which financial statements have not yet been issued or made available for issuance." An entity that adopts the amendments in an interim reporting period may apply them "as of the beginning of that interim reporting period or the beginning of the annual reporting period that includes that interim reporting period."

In summary, the specifics for PSLs are as follows:

- At acquisition, a financial institution will estimate and record an allowance for credit loss, which is then added to the purchase price.
- Favorable and unfavorable changes in expected credit-related cash flows will run through the allowance and credit loss expense.
- Non-credit premium or discount will be accounted for based on the effective yield after the gross-up for the allowance.

PURCHASED SEASONED LOANS - EXAMPLE

The example shown below illustrates the accounting for PSLs under CECL. The financial institution purchased a loan with a principal balance of \$100,000 for \$77,500. It set the initial reserve for expected credit losses at \$15,000. It also recorded a purchase discount of \$7,500, which it will amortize on a level-yield basis.

The contractual P&I payment is \$1,887 per month. The stated interest rate on the loan is 5%.

At the end of month two, the financial institution reevaluates the loan and determines that the loan is riskier than it thought. It records a \$5,000 increase in the credit reserve based on its new estimate of the amount of principal it will receive.

In month three, it agrees to extend the maturity date of the loan because it believes the extension will aid the borrower and will result in the receipt of \$11,500 in additional principal over the life of the loan. Therefore, it reduces the credit reserve by \$11,500. The contractual P&I is modified to \$1,045 per month. In addition, it lowers the amount of discount accreted from \$251 to \$128, reflecting the lengthening of the maturity date from 5 years to 10 years.

In month 4, the borrower informs the financial institution that it has a firm offer on the property and intends to repay the loan with the proceeds in full. The financial institution believes there no longer is a credit risk on the loan and relieves the remaining ACL amount of \$8,500 to provision expense.

In month 5, the borrower repays the loan in full. The remaining discount is released into income.

The monthly journal entries are shown below along with a table summarizing the results.

MONTH 1	DEBIT	CREDIT
1) Loan	100,000	
Purchase Discount		7,500
Allowance for Loan Losses		15,000
Cash		77,500
<i>Record Purchase</i>		
MONTH 2		
1) Cash	1,887	
Interest Income		417
Loan		1,470
<i>Record Payment Received</i>		
2) Purchase Discount	251	
Interest Income		251
<i>Amortize Discount</i>		
3) Provision Expense	5,000	
Allowance for Loan Losses		5,000
<i>Revise Credit Loss Estimate</i>		
MONTH 3		
1) Cash	1,045	
Interest Income		411
Loan		635
<i>Record Payment Received</i>		
2) Purchase Discount	128	
Interest Income		128
<i>Amortize Discount</i>		
3) Allowance for Loan Losses	11,500	
Provision Expense		11,500
<i>Revise Credit Loss Estimate</i>		
MONTH 4		
1) Cash	1,045	
Interest Income		408
Loan		637
<i>Record Payment Received</i>		
2) Purchase Discount	127	
Interest Income		127
<i>Amortize Discount</i>		

3) Allowance for Loan Losses	8,500	
Provision Expense		8,500
<i>Revise Credit Loss Estimate</i>		

MONTH 5

1) Cash	97,663	
Interest Income		405
Loan		97,258
<i>Record Payment Received</i>		
2) Purchase Discount	6,993	
Interest Income		6,993
<i>Release discount</i>		

The ASU directly addresses one of the industry’s most significant CECL pain points: non-PCD loans required a Day 1 provision despite the fair value determination already reflecting expected losses. The result was an unintuitive double count of the credit mark. By expanding gross-up accounting to PSLs, ASU 2025-08 represents a significant improvement to purchase loan accounting since the CECL standard’s introduction, as it simplifies purchase accounting, improves comparability, and better reflects economic reality.

Finally, we note that examples of templates used to amortize/accrete the fair value adjustments for all the accounts, including the loan adjustments, are attached as Appendix E.

Accounting For Goodwill

If the acquiring bank is privately held, it can elect to account for the resulting goodwill in one of two ways. The bank can amortize the goodwill straight-line over a period not to exceed 10 years.

Wilary Winn cautions that in order to use this method, the bank must make an irrevocable accounting election. The election affects the existing goodwill, as well as any additional goodwill acquired in the future⁶.

Otherwise, it can elect not to amortize the goodwill and instead assess it for impairment. The assessment must be made at least annually. Publicly traded banks must use the impairment assessment method.

The process begins by determining the entity to be assessed. In our experience with acquisitions involving bank holding companies, we typically see the acquired goodwill recorded at the level of the transaction. For example, if the bank holding companies merge and the consideration transferred is at the bank holding company level, we would generally see the goodwill recorded on the bank holding company’s balance sheet. However, we note that entities can elect to apply pushdown accounting to its reporting entities subsequent to the acquisition in accordance with FASB ASC 805-50-15-10.

⁶ FASB ASC 350-20-35-62

Perhaps counter-intuitively, the goodwill test is nearly always performed at the combined entity level instead of at the level of the acquired bank. The test would be performed at the acquired bank level only if it were deemed to be a separate operating segment or a component of a separate operating segment. An entity must have all the following characteristics to be deemed a separate operating segment⁷:

- It engages in business activities from which it may earn revenue and incur expenses;
- Its *discrete financial information is available*; and
- Its operating results are *regularly reviewed* by the chief operating decision maker (“CODM”) to make decisions about *resources to be allocated* to the segment and assess its performance.

Wilary Winn believes most acquired banks would not be considered a separate operating segment. However, one example would be if a bank holding company acquired a bank, pushed the goodwill down to the bank, and did not merge the bank with its other subsidiary banks. In this case, the target bank, not the combined bank holding company, would be the reporting unit for goodwill impairment testing.

The assessment for goodwill impairment can be qualitative or quantitative.

QUALITATIVE TESTING

A bank may assess qualitative factors to determine whether it is more likely than not (that is, a likelihood of more than 50 percent) that the fair value of the reporting unit is less than its carrying amount, including goodwill. In evaluating whether to perform the qualitative test, the guidance requires an entity to assess relevant events and circumstances. Examples of such events and circumstances include the following⁸:

- *Macroeconomic conditions*, such as deterioration in general economic conditions, limitations on accessing capital, fluctuations in foreign exchange rates, or other developments in equity and credit markets.
- *Industry and market considerations*, such as a deterioration in the environment in which an entity operates, an increased competitive environment, a decline (both absolute and relative to its peers) in market-dependent multiples or metrics, a change in the market for an entity's products or services, or a regulatory or political development.
- *Cost factors*, such as increases in raw materials, labor, or other costs, that have a negative effect on earnings.
- *Overall financial performance*, such as negative or declining cash flows or a decline in actual or planned revenue or earnings.

⁷ FASB ASC 280-10-50-1

⁸ FASB ASC 350-20-35-3C

- *Other relevant entity-specific events*, such as changes in management, key personnel, strategy, or customers; contemplation of bankruptcy; or litigation.
- *Events affecting a reporting unit*, such as a change in the carrying amount of its net assets, a more-likely-than-not expectation of selling or disposing all, or a portion of, a reporting unit, the testing for recoverability of a significant asset group within a reporting unit, or recognition of a goodwill impairment loss in the financial statements of a subsidiary that is a component of a reporting unit.

QUANTITATIVE TESTING

If, after assessing the totality of events or circumstances described in the paragraphs above, a bank determines that it is more likely than not that the fair value of a reporting unit is less than its carrying amount, then the bank must perform a quantitative goodwill impairment test.

The quantitative test (previously called “Step One”) determines whether the fair value of the combined entity exceeds its book value using the income and market approaches described at the beginning of this white paper. If the fair value of the combined entity exceeds the book value, the goodwill is not impaired⁹. If the fair value of the combined entity does not exceed book value, entities will record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value.

Wilary Winn notes that the FASB issued guidance in January 2017 that eliminates the requirement to calculate the implied fair value of goodwill (e.g., Step Two of the previous goodwill impairment test) to measure a goodwill impairment charge. Entities will rather record an impairment charge based on the excess of a reporting unit’s carrying amount over its fair value (e.g., based on today’s Step One). The revised standard did not change the guidance on completing Step One of the goodwill impairment test. Additionally, an entity can still perform the current qualitative goodwill impairment test prior to determining whether to proceed to Step One.

Conclusion

While the initial and ongoing required accounting can be complex, Wilary Winn does not believe that the rules should deter transactions that otherwise make sense. We have worked with our clients, their external auditors, and the regulators to ensure our clients have the information and knowledge they need to successfully undertake these transactions. We hope you have found this white paper to be informative and useful.

⁹ FASB ASC 350-20-35-4

Appendix A



Issue	Previous Requirement	New Requirement
Definition of a Business	Business had to have inputs, processes, and outputs	Business does not have to outputs thus expanded scope
Combination of mutual entities	Pooling of Interests	Purchase accounting
Allowance for credit losses	Recorded at appropriate amount - book value if correct	Recorded at zero - fair value includes reduction related to credit losses
Assets acquired and liabilities assumed	Recorded at book value	Recorded at estimated fair value
Restructuring Costs - involuntary severance, contract termination, etc	Generally recognized as a liability in connection with the merger	Generally an expense to the combined institution
Adjustments to fair value estimates within one year measurement period	Recognized prospectively	Make changes retroactive to the acquisition
Non-contractual asset or liability contingencies	Account for under FAS 5- probable and measurable	Record if "more likely than not"
Assets that acquirer does not intend to sue	Generally assigned limited or no value	Recorded at fair value - highest and best use
Bargain Purchase	Extraordinary when fair value of assets (after reduction of certain long term assets to zero) exceeded consideration given	Bargain purchase if fair value of assets assumed exceeds fair value of liabilities assumed and consideration given
Goodwill	Amortized	Subject to annual impairment testing



ABC Bank
Assets & Liabilities as of date

	Balance	Coupon	Market Pricing	Remaining Term in Months	Estimated Fair Value %	Estimated Fair Value \$	Difference
ASSETS							
Cash and Noninterest-bearing Deposits	1,016,593				100.0%	1,016,593	-
Interest-bearing Deposits	30,424,981				100.0%	30,424,981	-
Held-to-Maturity Securities	-				-	-	-
Available-for-Sale Securities	14,448,288				96.5%	13,938,913	(509,375)
Available-for-Sale Securities - Miscellaneous Variance	21,928				100.0%	21,928	-
Available-for-Sale Securities - Premium	88,097				0.0%	-	(88,097)
Available-for-Sale Securities - Discount	(82,385)				0.0%	-	82,385
Equity Securities with Readily Determinable Fair Values not HFT	72,655				100.0%	72,655	-
Unrealized Gain / (Loss) on Available-for-Sale Securities	-				-	-	-
Fed Funds Sold	-				-	-	-
Reverse Repurchase Agreements	-				-	-	-
Loans and Leases Held for Sale	-				-	-	-
Loans and Leases	95,447,245				97.5%	93,034,188	(2,413,057)
Loans and Leases - Overdrafts	26,789				100.0%	26,789	-
Loans and Leases - Loss Allowance	(775,335)				0.0%	-	775,335
Trading Assets	-				-	-	-
Bank Premises	1,285,582				278.8%	3,584,000	2,298,418
Other Fixed Assets	299,286				161.3%	482,607	183,321
Other Real Estate Owned	-				-	-	-
Investments in Unconsolidated Subsidiaries and Associated Companies	-				-	-	-
Direct and Indirect Investments in Real Estate Ventures	-				-	-	-
Mortgage Servicing Rights	-				-	-	-
Goodwill	-				-	-	-
Other Intangible Assets	-				-	-	-
Other Assets	3,569,549				99.5%	3,549,929	(19,621)
Total Assets	145,843,274				100.2%	146,152,582	309,308
LIABILITIES							
Demand Deposits	33,882,608				100.0%	33,882,608	-
Non-Core Demand Deposits	30,135,867				100.0%	30,135,867	-
All Now & ATS Accounts	13,830,994				100.0%	13,830,994	-
Money Market Deposit Accounts	12,058,725				100.0%	12,058,725	-
Other Savings Deposits	22,605,333				100.0%	22,605,333	-
Certificate of Deposit Accounts	20,300,197	3.7%	3.8%	8.7	99.9%	20,289,416	(10,781)
IRA Certificates	-				-	-	-
Brokered Deposits	-				-	-	-
Fed Funds Purchased	-				-	-	-
Repurchase Agreements	-				-	-	-
Trading Liabilities	-				-	-	-
Other Borrowed Money	-				-	-	-
Subordinated Notes and Debentures	-				-	-	-
Other Liabilities	1,095,848				100.0%	1,095,848	-
Total Liabilities	133,909,571				100.0%	133,898,790	(10,781)
EQUITY	11,933,702					12,253,792	320,089



ABC Bank Holding Company
Assets & Liabilities as of date

	Balance	Coupon	Market Pricing	Remaining Term in Months	Estimated Fair Value %	Estimated Fair Value \$	Difference
ASSETS							
Cash	19,195				100.0%	19,195	-
Dividend Receivable	157				100.0%	157	-
Interest Receivable	9,279				100.0%	9,279	-
Note Receivable	640,000				100.0%	640,000	-
Goodwill	172,523				0.0%	-	(172,523)
Equity Investment	62,000				100.0%	62,000	-
Other Investments	50,000				100.0%	50,000	-
ABC Bank	145,843,274				100.2%	146,152,582	309,308
ABC Bank FAS 115	(422,532)				0.0%	-	422,532
Total Assets	146,373,896				100.4%	146,933,213	559,317
LIABILITIES							
Interest Payable	5,215				100.0%	5,215	-
Trust Preferred Securities	2,062,000				93.8%	1,933,506	(128,494)
Deferred Tax	886				0.0%	-	(886)
ABC Bank	133,909,571				100.0%	133,898,790	(10,781)
Total Liabilities	135,977,672				99.9%	135,837,511	(140,161)
EQUITY	10,396,224					11,095,702	699,478
						Purchase Price	19,404,494
						Fair Value of Assets Acquired	146,933,213
						Fair Value of Liabilities Acquired	(135,837,511)
						Value of Core Deposits	3,768,351
						Goodwill (Bargain Purchase)	4,540,442

Appendix C



ABC Bank
Loan Valuation as of date

	Principal Balance	# of Loans	60+ DQ%	WAC	Lifetime WAC	Age	WAM	Avg Life	CPR %	CRR %	CDR %	Severity%	Future Loss %	Risk-Free Discount Rate	Discount Spread	Discount Rate	Fair Value %	Fair Value \$	Difference	Undiscounted Principal Losses	Discount Rate Difference
Firsts - Closed-end loans secured by 1-4 family residential	34,734,708	235	0.1%	5.8%	5.8%	34	39	2.4	15.1%	14.3%	0.8%	14.8%	0.32%	6.4%	0.1%	6.5%	98.4%	34,166,377	(568,331)	(111,019)	(457,313)
Juniors - Closed-end loans secured by 1-4 family residential	3,659,860	57	0.0%	5.9%	5.9%	31	40	2.2	17.8%	17.2%	0.7%	29.1%	0.44%	7.6%	0.7%	8.3%	95.0%	3,478,691	(181,169)	(16,188)	(164,981)
Revolving, open-end loans secured by 1-4 family residential	1,397,925	51	0.0%	8.0%	7.6%	52	31	2.0	15.9%	15.1%	0.8%	28.1%	0.50%	6.9%	0.8%	7.7%	99.0%	1,384,101	(13,824)	(6,959)	(6,865)
1-4 family residential construction loans	2,972,824	7	0.0%	6.3%	6.3%	11	29	1.3	7.8%	6.0%	1.8%	52.2%	1.46%	6.6%	0.8%	7.4%	97.3%	2,891,396	(81,429)	(43,500)	(37,929)
Other construction loans	764,393	2	0.0%	6.8%	6.7%	12	42	1.3	8.6%	6.0%	2.6%	53.3%	1.97%	6.6%	0.8%	7.4%	97.3%	743,461	(20,932)	(15,085)	(5,847)
Secured by farmland	9,861,495	59	0.0%	5.8%	5.8%	53	44	2.3	7.4%	5.7%	1.6%	29.3%	1.13%	6.4%	0.8%	7.2%	96.0%	9,467,302	(394,192)	(110,972)	(283,220)
Secured by multifamily (5 or more) residential	1,243,678	7	0.0%	4.3%	4.3%	51	21	1.6	7.8%	6.0%	1.8%	38.5%	1.10%	6.4%	0.8%	7.1%	94.8%	1,178,449	(65,229)	(13,687)	(51,542)
Other - Secured by nonfarm nonresidential	8,302,712	40	0.0%	5.7%	5.7%	46	34	2.0	7.8%	6.0%	1.8%	52.2%	1.98%	6.3%	0.9%	7.1%	95.3%	7,914,844	(387,868)	(164,050)	(223,818)
Loans to finance agricultural production and other loans to farmers	13,285,784	176	0.0%	6.2%	6.4%	12	19	1.1	7.4%	5.9%	1.5%	29.3%	0.63%	5.2%	2.1%	7.3%	98.2%	13,046,576	(239,208)	(83,298)	(155,910)
Commercial and Industrial Loans	15,169,176	215	0.0%	6.5%	6.5%	29	26	1.4	7.8%	6.0%	1.8%	51.0%	1.45%	6.0%	1.4%	7.4%	97.6%	14,807,952	(361,224)	(220,216)	(141,007)
Obligations of states and political subdivisions in the U.S	81,748	1	0.0%	3.3%	3.2%	152	24	0.7	7.8%	6.0%	1.8%	51.0%	0.64%	5.1%	0.8%	5.9%	97.5%	79,726	(2,021)	(524)	(1,498)
Automobile loans	2,578,484	211	0.0%	7.6%	7.6%	15	44	1.5	19.5%	18.1%	1.4%	35.0%	0.71%	7.9%	0.5%	8.4%	98.1%	2,528,795	(49,688)	(18,319)	(31,370)
Other consumer loans	1,394,460	199	0.4%	7.7%	7.7%	12	38	2.0	15.4%	13.8%	1.6%	65.0%	1.66%	8.3%	0.5%	8.8%	96.6%	1,346,517	(47,943)	(23,166)	(24,777)
Total	95,447,245	1,260	0.0%	6.0%	6.1%	32	34	1.9	11.3%	10.0%	1.3%	33.4%	0.87%	6.3%	0.8%	7.1%	97.5%	93,034,188	(2,413,057)	(826,981)	(1,586,077)

* The LTV shown here on loans in the second lien position is the combined loan to value.

For definitions of column headers, please see Appendix F

Appendix D1



ABC Bank
Journal Entries to Adjust Acquired's Book Value (GAAP)

	Debit	Credit	Net Summary	Future Lifetime Impact on Income
<u>Purchase Price (Consideration Given)</u>	-	20,562,584	(20,562,584)	
<u>Investments</u>				
Available-for-Sale Securities	-	509,375		509,375 Increase in Interest Income
Available-for-Sale Securities - Premium	-	88,097		
Available-for-Sale Securities - Discount	82,385	-	(515,088)	
<u>Loans</u>				
Allowance for Credit Losses				
Firsts - Closed-end loans secured by 1-4 family residential	-	111,019		
Juniors - Closed-end loans secured by 1-4 family residential	-	16,188		
Revolving, open-end loans secured by 1-4 family residential	-	6,959		
1-4 family residential construction loans	-	43,500		
Other construction loans	-	15,085		
Secured by farmland	-	110,972		
Secured by multifamily (5 or more) residential	-	13,687		
Other - Secured by nonfarm nonresidential	-	164,050		
Loans to finance agricultural production and other loans to farmers	-	83,298		
Commercial and Industrial Loans	-	220,216		
Obligations of states and political subdivisions in the U.S	-	524		
Automobile loans	-	18,319		
Other consumer loans	-	23,166	(826,981)	
Accrutable / Amortizable Adjustment				
Firsts - Closed-end loans secured by 1-4 family residential	-	457,313		
Juniors - Closed-end loans secured by 1-4 family residential	-	164,981		
Revolving, open-end loans secured by 1-4 family residential	-	6,865		
1-4 family residential construction loans	-	37,929		
Other construction loans	-	5,847		
Secured by farmland	-	283,220		
Secured by multifamily (5 or more) residential	-	51,542		
Other - Secured by nonfarm nonresidential	-	223,818		
Loans to finance agricultural production and other loans to farmers	-	155,910		
Commercial and Industrial Loans	-	141,007		
Obligations of states and political subdivisions in the U.S	-	1,498		
Automobile loans	-	31,370		
Other consumer loans	-	24,777	(1,586,077)	1,586,077 Increase in Interest Income
Loans and Leases - Loss Allowance	775,335	-	775,335	
<u>Fixed Assets</u>				
Bank Premises	2,298,418	-		
Other Fixed Assets	183,321	-	2,481,739	
<u>Other Assets</u>				
Other Assets	-	19,621		
Core Deposit Intangible	3,768,351	-	3,748,730	(3,768,351) Decrease in Non-Interest Income
<u>Deposits</u>				
Certificate of Deposit Accounts	10,781	-	10,781	(10,781) Increase in Interest Expense
<u>Equity</u>				
Equity (removal of existing equity accounts)	11,933,702	-		
Goodwill	4,540,442	-	16,474,144	
	23,592,734	23,592,734	0	(1,683,680) Net Future Income Impact

Appendix D2



ABC Bank Holding Company
Journal Entries to Adjust Acquired's Book Value (GAAP)

	Debit	Credit	Net Summary	Future Lifetime Impact on Income
<u>Purchase Price (Consideration Given)</u>	1,158,090	-	1,158,090	
<u>Investments</u>				
Investment in ABC Bank FAS 115	422,532	-	422,532	
<u>Other Assets</u>				
Pre-Acquisition Goodwill	-	172,523	(172,523)	
<u>Liabilities</u>				
Deferred Tax Liability	886	-		
Trust Preferred Securities	128,494	-	129,380	(128,494) Increase in Interest Expense
<u>Equity</u>				
Equity (removal of existing equity accounts)	-	1,537,479	(1,537,479)	
	1,710,002	1,710,002	-	(128,494) Net Future Income Impact

Appendix E



ABC Bank
 ASC 805 Fair Value Amortization Schedule
 Sum of Years' Digits/Straight Line Methods
 Income Summary

Month	Total Loans	Available-for-Sale Securities	Income	Core Deposit Intangible	Certificate of Deposit Accounts	Trust Preferred Securities	Expense	Net
0								
1	143,904.50	16,700.82	160,605.32	123,552.48	1,197.90	1,107.71	125,858.09	34,747.23
2	129,240.93	16,422.48	145,663.40	121,493.27	1,197.90	1,107.71	123,798.88	21,864.52
3	115,838.01	16,144.13	131,982.14	119,434.07	1,197.90	1,107.71	121,739.67	10,242.46
4	105,154.49	15,865.78	121,020.27	117,374.86	1,197.90	1,107.71	119,680.47	1,339.80
5	95,166.34	15,587.44	110,753.78	115,315.65	1,197.90	1,107.71	117,621.26	(6,867.48)
6	86,559.39	15,309.09	101,868.48	113,256.44	1,197.90	1,107.71	115,562.05	(13,693.57)
7	78,905.56	15,030.74	93,936.31	111,197.23	1,197.90	1,107.71	113,502.84	(19,566.54)
8	71,736.03	14,752.39	86,488.42	109,138.03	1,197.90	1,107.71	111,443.63	(24,955.21)
9	65,483.41	14,474.05	79,957.46	107,078.82	1,197.90	1,107.71	109,384.43	(29,426.96)
10	59,672.65	14,195.70	73,868.35	105,019.61	-	1,107.71	106,127.32	(32,258.97)
11	54,895.85	13,917.35	68,813.21	102,960.40	-	1,107.71	104,068.11	(35,254.90)
12	50,375.03	13,639.01	64,014.03	100,901.19	-	1,107.71	102,008.90	(37,994.87)
13	46,346.35	13,360.66	59,707.01	98,841.99	-	1,107.71	99,949.69	(40,242.68)
14	42,563.88	13,082.31	55,646.19	96,782.78	-	1,107.71	97,890.49	(42,244.30)
15	38,886.13	12,803.97	51,690.10	94,723.57	-	1,107.71	95,831.28	(44,141.18)
16	35,410.36	12,525.62	47,935.98	92,664.36	-	1,107.71	93,772.07	(45,836.09)
17	32,042.70	12,247.27	44,289.97	90,605.15	-	1,107.71	91,712.86	(47,422.89)
18	28,874.90	11,968.92	40,843.82	88,545.95	-	1,107.71	89,653.65	(48,809.83)
19	25,850.19	11,690.58	37,540.77	86,486.74	-	1,107.71	87,594.45	(50,053.67)
20	23,484.91	11,412.23	34,897.14	84,427.53	-	1,107.71	85,535.24	(51,165.10)
21	21,431.09	11,133.89	32,564.97	82,368.32	-	1,107.71	83,476.03	(52,101.05)
22	19,388.08	10,855.54	30,243.61	80,309.11	-	1,107.71	81,416.82	(51,173.21)
23	17,615.42	10,577.19	28,192.61	78,249.91	-	1,107.71	79,357.61	(51,165.00)
24	16,188.41	10,298.84	26,487.26	76,190.70	-	1,107.71	77,298.40	(50,811.15)
25	15,061.78	10,020.49	25,082.27	74,131.49	-	1,107.71	75,239.20	(50,156.93)
26	14,053.82	9,742.15	23,795.97	72,072.28	-	1,107.71	73,179.99	(49,384.02)
27	13,127.65	9,463.80	22,591.45	70,013.07	-	1,107.71	71,120.78	(48,529.33)
28	12,248.51	9,185.45	21,433.96	67,953.87	-	1,107.71	69,061.57	(47,627.61)
29	11,368.47	8,907.11	20,276.58	65,894.66	-	1,107.71	67,002.36	(46,726.79)
30	10,489.36	8,628.76	19,118.12	63,835.45	-	1,107.71	64,943.16	(45,825.04)
31	9,681.53	8,350.41	18,031.94	61,776.24	-	1,107.71	62,883.95	(44,852.01)
32	8,903.04	8,072.07	16,975.11	59,717.03	-	1,107.71	60,824.74	(43,849.63)
33	8,132.52	7,793.72	15,926.64	57,657.83	-	1,107.71	58,765.53	(42,838.99)
34	7,367.55	7,515.37	14,885.02	55,598.62	-	1,107.71	56,706.32	(41,823.31)
35	6,651.34	7,237.02	13,888.37	53,539.41	-	1,107.71	54,647.12	(40,758.75)
36	5,956.93	6,958.68	12,915.60	51,480.20	-	1,107.71	52,587.91	(39,672.30)
37	5,331.74	6,680.33	12,012.07	49,420.99	-	1,107.71	50,528.70	(38,516.63)
38	4,754.21	6,401.98	11,156.19	47,361.79	-	1,107.71	48,469.49	(37,313.30)
39	4,181.50	6,123.64	10,305.14	45,302.58	-	1,107.71	46,410.28	(36,105.15)
40	3,616.51	5,845.29	9,461.80	43,243.37	-	1,107.71	44,351.07	(34,899.28)
41	3,206.30	5,566.94	8,773.24	41,184.16	-	1,107.71	42,291.87	(33,518.62)
42	2,803.68	5,288.59	8,092.27	39,124.95	-	1,107.71	40,232.66	(32,140.39)
43	2,542.87	5,010.25	7,553.12	37,065.74	-	1,107.71	38,173.45	(30,620.33)
44	2,292.60	4,731.90	7,024.50	35,006.54	-	1,107.71	36,114.24	(29,089.75)
45	2,052.70	4,453.55	6,506.25	32,947.33	-	1,107.71	34,055.04	(27,548.78)
46	1,827.98	4,175.21	6,002.29	30,888.12	-	1,107.71	31,995.83	(25,993.54)
47	1,652.77	3,896.86	5,549.63	28,828.91	-	1,107.71	29,936.62	(24,386.99)
48	1,546.91	3,618.51	5,165.42	26,769.70	-	1,107.71	27,877.41	(22,711.99)
49	1,442.46	3,340.16	4,782.63	24,710.50	-	1,107.71	25,818.20	(21,035.58)
50	1,341.08	3,061.82	4,402.90	22,651.29	-	1,107.71	23,759.00	(19,356.10)
51	1,260.39	2,783.47	4,043.86	20,592.08	-	1,107.71	21,699.79	(17,655.93)
52	1,183.95	2,505.12	3,689.08	18,532.87	-	1,107.71	19,640.58	(15,951.50)
53	1,107.52	2,226.78	3,334.29	16,473.66	-	1,107.71	17,581.37	(14,247.08)
54	1,034.98	1,948.43	2,983.41	14,414.46	-	1,107.71	15,522.16	(12,538.75)
55	962.44	1,670.08	2,632.52	12,355.25	-	1,107.71	13,462.96	(10,830.43)
56	892.27	1,391.74	2,284.01	10,296.04	-	1,107.71	11,403.75	(9,119.74)
57	822.10	1,113.39	1,935.49	8,236.83	-	1,107.71	9,344.54	(7,409.05)
58	753.53	835.04	1,586.97	6,177.62	-	1,107.71	7,285.33	(5,698.36)
59	681.76	556.69	1,238.45	4,118.42	-	1,107.71	5,226.12	(3,987.67)
60	615.58	278.35	893.92	2,059.21	-	1,107.71	3,166.92	(2,272.99)
61	549.40	-	549.40	-	-	1,107.71	1,107.71	(558.31)
62	529.72	-	529.72	-	-	1,107.71	1,107.71	(577.99)
63	510.05	-	510.05	-	-	1,107.71	1,107.71	(597.66)
64	495.18	-	495.18	-	-	1,107.71	1,107.71	(612.52)
65	480.32	-	480.32	-	-	1,107.71	1,107.71	(627.39)
66	465.45	-	465.45	-	-	1,107.71	1,107.71	(642.25)
67	450.59	-	450.59	-	-	1,107.71	1,107.71	(657.12)
68	435.72	-	435.72	-	-	1,107.71	1,107.71	(671.98)
69	420.86	-	420.86	-	-	1,107.71	1,107.71	(686.85)
70	405.99	-	405.99	-	-	1,107.71	1,107.71	(701.71)
71	391.13	-	391.13	-	-	1,107.71	1,107.71	(716.58)
72	376.26	-	376.26	-	-	1,107.71	1,107.71	(731.44)
73	361.40	-	361.40	-	-	1,107.71	1,107.71	(746.31)
74	346.53	-	346.53	-	-	1,107.71	1,107.71	(761.17)
75	331.67	-	331.67	-	-	1,107.71	1,107.71	(776.04)
76	316.80	-	316.80	-	-	1,107.71	1,107.71	(790.90)
77	301.94	-	301.94	-	-	1,107.71	1,107.71	(805.77)
78	287.07	-	287.07	-	-	1,107.71	1,107.71	(820.63)
79	272.21	-	272.21	-	-	1,107.71	1,107.71	(835.50)
80	257.35	-	257.35	-	-	1,107.71	1,107.71	(850.36)
81	242.48	-	242.48	-	-	1,107.71	1,107.71	(865.23)
82	227.62	-	227.62	-	-	1,107.71	1,107.71	(880.09)
83	212.75	-	212.75	-	-	1,107.71	1,107.71	(894.96)
84	197.89	-	197.89	-	-	1,107.71	1,107.71	(909.82)
85	183.02	-	183.02	-	-	1,107.71	1,107.71	(924.69)
86	168.16	-	168.16	-	-	1,107.71	1,107.71	(939.55)
87	153.29	-	153.29	-	-	1,107.71	1,107.71	(954.42)
88	138.43	-	138.43	-	-	1,107.71	1,107.71	(969.28)
89	123.56	-	123.56	-	-	1,107.71	1,107.71	(984.15)
90	108.70	-	108.70	-	-	1,107.71	1,107.71	(999.01)
91	93.83	-	93.83	-	-	1,107.71	1,107.71	(1,013.87)
92	78.97	-	78.97	-	-	1,107.71	1,107.71	(1,028.74)
93	64.10	-	64.10	-	-	1,107.71	1,107.71	(1,043.60)
94	49.24	-	49.24	-	-	1,107.71	1,107.71	(1,058.47)
95	34.37	-	34.37	-	-	1,107.71	1,107.71	(1,073.33)
96	25.78	-	25.78	-	-	1,107.71	1,107.71	(1,088.19)
97	17.19	-	17.19	-	-	1,107.71	1,107.71	(1,090.52)
98	8.59	-	8.59	-	-	1,107.71	1,107.71	(1,099.11)
99	-	-	-	-	-	1,107.71	1,107.71	(1,107.71)
100	-	-	-	-	-	1,107.71	1,107.71	(1,107.71)
101	-	-	-	-	-	1,107.71	1,107.71	(1,107.71)
102	-	-	-	-	-	1,107.71	1,107.71	(1,107.71)
103	-	-	-	-	-	1,107.71	1,107.71	(1,107.71)
104	-	-	-	-	-	1,107.71	1,107.71	(1,107.71)
105	-	-	-	-	-	1,107.71	1,107.71	(1,107.71)
106	-	-	-	-	-	1,107.71	1,107.71	(1,107.71)
107	-	-	-	-	-	1,107.71	1,107.71	(1,107.71)
108	-	-	-	-	-	1,107.71	1,107.71	(1,107.71)
109	-	-	-	-	-	1,107.71	1,107.71	(1,107.71)
110	-	-	-	-	-	1,107.71	1,107.71	(1,107.71)
111	-	-	-	-	-	1,107.71	1,107.71	(1,107.71)
112	-	-	-	-	-	1,107.71	1,107.71	(1,107.71)
113	-	-	-	-	-	1,107.71	1,107.71	(1,107.71)
114	-	-	-	-	-	1,107.71	1,107.71	(1,107.71)
115	-	-	-	-	-	1,107.71	1,107.71	(1,107.71)
116	-	-	-	-	-	1,107.71	1,107.71	(1,107.71)
1,586,076.54	509,375.14	2,095,451.68	3,768,350.73	10,781.10	128,494.03	3,907,625.86	(1,812,174.17)	



Fair Value Loan Valuation Definitions

Principal Balance:	Outstanding principal balance on the loan as of the valuation date.
# of Loans:	Count of loans
WAC:	Weighted Average Coupon. The contractual rate of interest on the loan.
Age:	Number of months elapsed since the loan was originated.
WAM:	Weighted Average Maturity. Number of months remaining until the loan is due on the contractual loan payment schedule.
Avg Life:	The average number of years that the Principal Balance will remain outstanding. This calculated amount indicates how many years it will take to repay half of the outstanding Principal Balance. This calculation is dependent on the loan's scheduled amortization and our CPR% assumption.
CPR %:	Conditional Prepayment Rate. Annual % of expected voluntary and involuntary payoffs (defaults). $CRR\% + CDR\% = CPR\%$. CPR% compares to the PSA (Public Securities Association) standard prepayment speed and PSA of 100% equates to a 6% CPR% in month 30 and beyond. CPR% is also similar to an annualized SMM (Single Monthly Mortality) rate. A CPR% of 10% roughly indicates that 10% of the starting Principal Balance will be paid off by the end of a one year time period.
CRR %:	Conditional Repayment Rate. Annual amount of expected voluntary payoffs as a percentage of the principal amount outstanding at the beginning of the year.
CDR %:	Conditional Default Rate. Annual amount of expected defaults as a percentage of the principal amount outstanding at the beginning of the year.
Severity %:	Loss Severity expected on a loan that does go into default. This is equal to the liquidated Principal Balance minus any recovered amount divided by the Principal Balance. Severity % is the inverse of a recovery rate.
Future Loss %:	Future expected net cumulative losses expressed as a % of current Principal Balance.

Appendix F

Discount Rate:	Rate used to present value the expected gross cashflows back to the valuation date. The rate on used on the top two FICO score buckets (>719) are the observable current market rates. For FICO scores that are below 720, we have used a build-up methodology. Please see the report for more details on this methodology.
Fair Value %:	Fair Value dollar amount expressed as a percent of the current Principal Balance.
Fair Value \$:	Present value of the expected future cashflows. Expected future gross cashflows are dependent on the contractual terms of the loan (interest rate, term), our repayment assumptions (CRR %), our default assumption (CDR %), and our loss Severity % assumptions. For accounting purposes, the gross cash flows are considered to be a single best estimate assumption. The gross cashflows are discounted using the Discount Rate.
Difference:	Fair Value \$ minus Principal Balance. This difference is broken out further into a Credit Only Difference and a Discount Rate Difference.
Undiscounted Principal Losses:	The Fair Value Difference that arises only from our credit assumptions (CDR % and Severity %). This number is the total expected lifetime nominal losses on the loans. To estimate an annualized loss amount, take this Undiscounted Principal Losses amount divided by the Avg Life.
Discount Rate Difference:	The Fair Value Difference that arises from our Discount Rate assumption. This amount is derived by calculating the present value of the gross cash flows of the loans at our Discount Rate as compared to the WAC.