CEO's Perspective on Bank Risk

By

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My task this morning is to talk to you about risk, to give you a CEO's perspective. That in itself is risky…

I am not much different than many of you so I undertake this task with a good deal of concern knowing that you too, as CEO's, deal with risk every day and, with both regulators and academics here, it is a bit presumptuous of me to think that I have insights that have not already occurred to you and, in fact, many of my insights are echoes of what you heard yesterday from CRO's and Eugene Ludwig.

I must confess also, that when first called and asked to do this, I thought one of my "friends" was pulling a joke on me as I had had some pretty aggressive conversations with our regulators over the years about their view of risk and suggested solutions versus ours. When I realized the invitation was real I tried to figure out why me? Then it dawned on me that I have probably experienced every failure that a banker/CEO could. They were asking me because of my <u>failures</u> more than because of my successes or my intellectual understanding of these topics.

So understanding that context I have tried to prepare something that gives you a view of what we have learned from our failures and what we do to try to mitigate risk. It is from this CEO's view and I hope it is helpful.

As I begin, it is probably worthwhile to know a little bit more about us. We are a 4.5 billion dollar bank holding company that traces its roots back to 1863 in South Bend, Indiana. In 1931 Vincent Bendix founder of the Bendix Corporation and Ernest Morris founder of the Associates Investment Company put together two banking companies in the midst of the depression to serve our market. Later we became a subsidiary of Associates and then Gulf and Western. In 1971 I joined my father-in-law in a public transaction in buying the bank back from Gulf and Western.

FBT Bancorp then was created with $9 million in equity and $9 million in long-term debt with a capital ratio of just over 4%. Since then we have grown our business across northern Indiana and southwestern Michigan pretty much de novo and today have over 75 branches in the traditional community bank, 7 wealth management offices responsible for about $3 billion of customer money and 7 insurance offices offering the full line of insurance products and services in the same footprint, and 23 locations across the country specializing in financing heavy duty trucks, corporate or personal aircraft; automobiles for the rental car industry; environmental equipment for waste management companies; construction equipment for contractors , bridge and road builders, and some mining and forestry; step vans; and funeral cars. We do business throughout the United States, a little in Canada, and Latin and South America and have completed transactions in Europe, the Middle East and Asia.

We have significant longevity among our Executive, Senior and Middle Management Teams with the average length of service to the bank by those on our Policy Committee being close to 24 years and their years on that Committee being close to 15.

We have experienced every kind of failure you can imagine: we've had credit problems multiple times… in the early 80's in the midst of the rust belt melt down, bowing to the encouragement and backing (later pulled) of our state we tried to help the economic development of our community by entering into a set of transactions that eventually failed. During the same period we invested in and supported a company in the personal computer space only to be sued later for lender liability by the founders who actually had been physically fighting each other in the parking lot and elsewhere over company issues but then reunited to sue us. In that case I was sued personally for $300 million. A sobering 40th birthday present. Of course, after they used up our money in the bankrupt estate trying to mine a deep pocket the suit went away.

In spite of these failures we performed well with an ROE in the low to mid teens and we were featured for a number of years in KBW's honor role of high-performing banks for long-term superior performance. Then at the close of 90's we were required to restate our earnings … a sin for a public company and we felt an inappropriate and bad reflection on us. We were required to restate our earnings upward by only 2 cents over 6 quarters on a base of $2.75 because the accounting firm, using its modeling for securitizations and gain on sale accounting, determined we were too aggressively reserving for future losses imbedded in our portfolios in the aircraft and auto rental businesses since we hadn't experienced any noticeable losses to date.

A side bar is that we went through a number of iterations of our "to be reported" earnings based on a series of models developed by the then accounting firm that I refused to certify to because they did not make sense to me no matter what their models said. We continued to argue and finally they developed a model whose numbers we accepted while still believing it too aggressive, and then we were required to pay in excess of $100 thousand dollars to buy and use it. We junked it a couple of years later.

Later, following 9-11, we repossessed 83 aircraft and hundreds of automobiles from our rental car clients and recognized almost $65 million in losses over a few years. It turns out that our conservative approach to assessing imbedded and systemic risks was appropriate even if not allowed by the accounting firm.

During these years we also experienced client fraud, employee fraud and a significant systems breech by a highly sophisticated hacker. While not high in direct dollar losses, in this latter case we spent over $1 million on consulting and legal fees.

In the middle of a core systems conversion we inadvertently violated the BSA/AML regulations when we allowed international elementary and high school students access to an ATM at their school for small dollar amounts. Similarly, we later experienced a breakdown in our SBA procedures.

Perhaps the greatest failure of all, and the one that usually sets you up for others: is we had allowed human hubris to creep into the company. Even though I jawboned against it, it had happened. Real risk management requires an honest discussion and review and even stronger controls on your most successful people.

One lesson that is apparent and one I live by is that no matter how well educated you are, or smart, or experienced; no matter how much you know, you can and will be wrong. It is what you don't know, or can't know that will kill you, or at the very least maim you.

Now some people consider us to be very successful. We avoided the sub-prime crises and the commercial real estate melt down and even though we operate in one of the more negatively impacted parts of the country our credit problems have been manageable. According to Bank Director Magazine we were the 8th best performing bank among those over $3 billion in size in the country last year. We have strong capital, strong reserves, and an ok but now growing again earnings base. Our non-performing and special attention loans have either crested or greatly slowed in their increase. At the close of 2009 we reported earnings of $25.5 million, had provided a little over $33 million to our loan and lease loss reserves and experienced losses in excess of $22 million. We ended the year with a reserve of $88.2 million giving us a ratio of 2.85% to net lease and loans outstanding. At the consolidated holding company level, without TARP, our Tier 1 capital ratio is 13.18%, our common equity to asset ratio is 10.25%, and our tangible common equity ratio is about 8.5%.

So why are we successful and with all the risks that we have encountered what have we learned?

First and most importantly, we know we don't actually KNOW what the future is or what the results of all our actions are going to be. We can estimate outcomes and consequences but we cannot know them. We know that the one real constant is that we will be wrong, so we plan accordingly and develop the business to reduce or mitigate risk! It is important to develop a healthy skepticism, to be suspicious, and a little bit cynical. We must be constantly asking what and how have we protected ourselves from attack or failure.

Now I start with an advantage here, I am a Murphy and have lived with Murphy's Law my whole life: if there are people involved, if something can go wrong, it will, so plan accordingly!

Also, an important influence on the way I approach my responsibilities is that I am a "son-in-law" and took this job to help my mother-in-law… for six months, 33 years ago. Pretty much everything I have is invested in 1st Source and my mother-in-law, my wife and her siblings and their spouses have put their trust in me. I am always running scared. And on top of that, I have six children who are very independent and willing to be critical, I would say to a fault, of how I lead.

Since the time I joined the bank I have always believed and reinforced that credit is the Achilles Heal of banking and I have been wary of concentrations and real estate. In most every decade I've been alive I can point to major degradations in value in real estate in some or many parts of the country that led to bank failures. So I limit and discourage non-owner occupied real estate and commercial development financing, no matter how attractive or lucrative.

I have fervently believed in diversification of industries and markets and have understood that in the long run banks can be nothing more than a reflection of the markets they serve, so spread the risk.

Furthermore there are ebbs and flows to every industry and every market. And everyone believes that just a little more money and a little more time will fix a problem. They don't!

So first we have a set of principles which guide us:

- We are responsible to and for our clients.
- All our relationships with clients, colleagues, directors, communities and regulators should be open and honest and for the long term.
- We believe in straight talk with each of these and, for our clients, sound advice keeping their best interests in mind.
- We try to teach our colleagues that each one leaves a legacy at 1st Source, each one has an impact in the short term and in the long term.
- At 1st Source it is about purpose and service, it is not about money. For the most part, we don't pay to sell product. We pay to listen and find solutions to customer problems; we pay for long term relationships, not for transactions.
- Our bedrock value is integrity which used to be assumed but is now stated so there are no questions about its priority. This is followed by teamwork, outstanding client service, quality in everything we do, and community leadership.

We reinforce these even at the Board level. In fact I have reminded some of our Board members on a number of occasions that their primary responsibility in a Bank is to protect the depositors not argue for the borrowers, and this is especially true when they are sitting in a credit committee meeting.

Credit is always, first and foremost, our largest risk so we have a fairly rigorous credit process and policies and procedures designed to help us respond to opportunities and protect us in both the short and long term. While we do have individual lending authorities they are relatively low and we rely on a committee process and independent credit analysts and underwriters to assist in the process.

We have an aggressive independent loan review department which not only grades credits, reviews documentation, and assesses judgment but also undertakes major process reviews to ensure we are adhering to our policies and procedures and to identify weaknesses that may be developing in our organization.

An important part of this is the way we compensate our customer service officers involved in the delivery of credit. Those in our traditional community banks are incented based on a set of relationship objectives which start with deposits and additional transaction, insurance, or investment management services and loan growth with substantial penalties for deteriorating credit quality. Furthermore, for most of these officers 1/3rd of their incentive payment is in company book value stock subject to forfeiture over the ensuing five years based on the continued performance of the company. That stock, for the most part, must be retained until they retire from their career at 1st Source. I'll speak more about this philosophy later.

Suffice it to say that they become long term owners of the company and we hope, over time, have come to appreciate the importance of teamwork, pristine credit quality, rigorous cost control, and exceptional customer service. Through their actions they impact the real growth in the value of the company, its book value, impacted by the earnings retained and the dividend paid out to them and the other shareholders.

More recently, some have come to better understand the risks in concentrations and especially in clumping risks and even related credit risks. All of our markets are in some way fossil fuel dependant. That is a problem. We sit in the center of the durable goods manufacturing region of the country and have a high concentration of basic industries, auto and appliance manufacturing and assembly, and other transportation related businesses.

To mitigate some of our risk we have had a cap on the amount we are willing to lend to anyone client. While our legal lending limit based on regulatory capital is $92 million, we operate with a house limit of $25 million reserved for rated or specially approved credits and generally $20 million for the rest. We do not believe that the loan and lease loss reserve or preferred securities should be used in any way to calculate our house lending limits. All of this forces us to spread the risk among more clients.

Similarly, we have specific concentration limits as a percent of capital (common equity capital) for certain of our lines of business and are as granular as stating the percentage for a class, such as aircraft dealers and operators (meaning those who rely strictly on the aircraft for the production of income verses those who use it as a tool in their business), and rotor users. More recently we have learned that we need to cross reference our specialty loans to our other portfolios and look at the industries in which such customers work and their cross influenced sensitivities in the economy.

I guess to sum it up here, it is important to be hard and honest about the relationships among risks and understand that your goals for building a risk controlled portfolio may not be congruent with the goals of the people building that portfolio and you need to align your incentives and have hard and fast rules about what you can and will do with credit. And they have to be aggressively applied and then monitored by independent parties. This is even more important when looking at delinquencies and the development of non-performing assets. We have a hard rule of 90 days and out! No payment for 90 days and the business credit becomes nonperforming, period!

The next category of major risk for us is always interest rates, funding, and liquidity. This includes financial market risk. We tend to think of them together as they are so interlinked. Since we have a series of national niche businesses and since we have tended to operate with higher loan to deposit ratios we have always believed it was better to operate with a shorter term investment portfolio even if it meant giving up yield. Similarly, for the same reasons, we have not believed it appropriate to build and keep a large portfolio of mortgages either produced by us or our wholesale clients through our mortgage banking operation. Early on, to fund our national businesses, we developed an internet CD capability and then used some brokered deposit sources which were almost always cheaper than our local markets. However we realized how seductive this wholesale funding could become and how it could lull us into a level of complacency so we have put limits on what we would accept or use and we have rigorous discussions about this in our ALCO meetings. By policy we hold brokered CD's to less than 10% of our assets and by practice internet deposits to about 5% of deposits. We never want to rely too heavily on wholesale funding as markets are fickle and act in unison.

Liquidity is more assured with relationship deposits so we focus our efforts there and if we use wholesale funding it is usually for longer term deposits laddered over time so no one period of time has greater risk for us.

We are also wary of interest rate risk and the convexity imbedded in our loan and investment portfolios. Since liquidity is always our first concern we keep our investment portfolio with a relatively short duration. The duration of our specialty finance businesses, for the most part, range between one and seven years but cluster in the three to four year time frame.

We know we cannot predict rates and we have found that our customers always do what is in their best interests so their actions either lengthen or shorten our duration usually in just the opposite direction of what we would want. Therefore we try to balance our risk by what we are willing to do rather than use some broad hedging strategy. Besides, using a hedging strategy normally requires us to be more involved with investment bankers and we have learned not to rely on them or trust them too much. Their interests are transactional and usually not in our best interests but theirs.

The next major category of risk for us is operational and includes the incursions of outside hackers either into our systems or our customers' systems. In this area we are just always running scared. Having suffered a major breech where our outside providers and supposed protectors failed, we have worked to become much more sophisticated about the risks lurking here and have hardened our systems from inside as well as from outside. We have a team which focuses on this and we employ specialists to help us from time to time. Of course, we are also concerned about traditional operational failures and track, report, and remediate downtime, communication breakdowns, and system failures.

More recently, a higher area of risk for us has become regulatory; it is just the problem of staying current with all the new promulgations coming from Washington in consumer, operations, credit, interest rate risk, and other areas of regulatory concern. Trying to keep our people up to date and compliant has become a daunting challenge. Clearly this has called for an enterprise wide response with a full overhaul of our structure and oversight. We are also concerned about the mixed signals we receive and the varying interpretations given by different agencies, examiners, and so called experts. For a number of years now, our outside risk assessor has identified this area as a major one for us.

Lastly, accounting, finance, planning, control and reporting are areas of concern but are more easily managed due to the historical disciplines in these areas. Having said that, accounting numbers are almost becoming worthless for managing the business day to day as there are so many obtuse protocols and interpretations that the numbers do not give you insight into what is really happening with the business nor give you a clear indication of its trends. We are having to be much more diligent about developing management reporting that is simpler and direct which focuses the responsible parties on those things they can impact without regard to how the accounting might play out. We want true economic impact, not accounting impact, and they are very different.

We are a bit old fashioned and believe if you've spent the money it is gone and if you haven't collected it, it isn't truly yours yet. I like to think in terms of blue dollars and green dollars. Blue dollars are what the accountants report. Green dollars are what we can really use to invest, to buy, to pay. We manage by green dollars!

Now, the risk that transcends all the others, that is present in all the others, and the one that must be fought the most is human hubris. It is believing your own press clippings, it is kidding yourself that you know the future, it is making big bets because you know you are right, it is believing you are better than everyone else, it is believing the pundits who say that the world is different this time and the historical rules of economics no longer apply. And of course, this can become most prevalent among your best colleagues who have made the fewest mistakes. They can develop an unhealthy arrogance that in the long run will hurt you and hurt them.

Honest assessment is critical here. For the CEO, building a team that trusts each other and listens to opposing viewpoints and LEARNS is critical. Understanding and knowing your own limitations is essential.

Most of my life I have had this recurring dream that I will wake up and discover that everyone has learned that I have no idea what I am doing; worse, I wake up and realize that I have no idea of what I am doing. So I run scared, I listen (but none-the-less argue) to opposing points of view, I read all I can and I do things in small amounts for short periods just to protect me from my own likely mistakes.

Sure I am confident in my abilities, I am confident in my colleagues, I believe in our process and controls but I do not want to become complacent, too dependent, or take them for granted.

Now I have talked about these risks in a fairly granular way. Let me try to pull them together and discuss how we deal with them in a more systematic and global way.

While we do take an enterprise view of these risks and have organized our structure and oversight from the Board level on down, we start with a few principles and beliefs:

- Do what is right not what is expedient.
- Do not do what you do not understand.
- If you have to take some risk do it in small amounts for short periods of time.
- No matter what, forget popularity and accolades, success comes from being real and building real value for the long term.
- Be wary of consultants and those selling you things and be wary of investment bankers suggesting creative financial engineering.
- Life is about legacy and your reputation will live well beyond you, make sure it is substantive and real.

Now, the management of enterprise risk we believe starts with incentives. It is fair base pay and incentives, whether they be recognition or financial. We want people to act individually but as part of a team. We want them to be owners for the long term and to understand how their actions either add value or detract from it.

Our senior executives, midline managers, and customer service officers participate in a set of incentive programs that are designed to treat them as partners in the operation and building of the company for the long term, reward them partially for their short-term performance and for the long term tie them together as partners and make them owners for life, who like me, end up with a substantial part of their own net worth tied up in the company.

In most cases those in senior or upper and middle management are given the opportunity to earn a bonus based on their performance against a set of objectives set for that plan year that can range from 8.5% to 75% of the midpoint of their salary range (consider that a partnership level) in a combination of short and long term remuneration.

The short term, usually 50% is paid in cash at that time and the balance which is subject to forfeiture for five years is paid in book value stock of the company. They get it immediately, can vote it, and earn dividends on it but can lose it if we do not perform at some predetermined level set by the Board's Executive Compensation Committee for the following five years. They then own the stock until retirement at which time they can sell it back to the company or hold it and let it continue to grow for the ensuing five years. We do provide moderate liquidity of 50% of the non forfeitable amount after seven years for education or housing.

This is designed to make them owners in the company and ties them into the one resulting financial value they can impact… the book value of the company. They get the buildup in that value over time from the retention of earnings and they get the dividends. And their long term value is not at the risk of the vicissitudes of the market place just the culmination of their collective actions. Their interests are tied to those of our long term shareholders and if, for some reason, we were to sell, their stock is convertible into market value stock upon the occasion of that event.

So, as owners' for the long term they should care about credit losses, they should be concerned about interest rate risk and convexity of portfolios, they should become aware of the impact of high operating costs, and they should appreciate the value of long term, broad and deep customer relationships. They do understand they are part of a team and everyone either contributes to or subtracts from the value available to the team. Awareness and management of risk become even more important for each participant as it affects long term value.

Even our sales people and our investment managers are tied into the same program but receive a higher percentage of cash. The higher up in the organization the more the stock component. Also, to keep people focused on the long term there is an additional award available based on the achievement of our five year goals which is then earned over the ensuing ten years so long as one remains with the company.

Over the years we have sparingly and carefully used stock options and restricted stock to recognize superior performance and will continue to do so. Most are restricted for five to ten years and then their sale into the market by the recipient requires ownership for three more years after an award vests. We want to build owners, not traders.

Everything is about shared ownership, teamwork, and building long-term value. As you can imagine, over the last few years many of us in management have lost quite a bit in value due to not achieving our longer term goals because of the economy and decisions we've made. In spite of performing much better than most of our industry we forfeited our longer term awards and have lost their value. But so also have our shareholders lost value. We have gained and lost together as we should! So we have an alignment of our shareholders' interests and the management team's: a long term partnership with real value, real risk, and true ownership.

We have also had to take a much more enterprise wide look at the way we are structured from a risk point of view. Our Risk Management Committee is chaired by our CFO and is staffed by our Chief Operating officer, our Chief Compliance Officer and General Counsel, our Accounting, Control, Financial Analysis, and Risk Management Officers, with our Chief Auditor as a non-voting member who oversees risk management for the company.

It's focus is on Credit, Market, Liquidity, Legal and Compliance, Reputation, and Operations Risks. All of our business and service units report to it and it generates our quarterly risk interview questionnaire and prepares our quarterly risk management summary. It also manages our quarterly Senior Management sub certifications and our annual Assessment of Internal Controls.

All of the business units participate in this and I attend the sub certification meetings, review the risk management reports, meet quarterly with the assessment team and our outside independent assessor and then conduct an in-depth review of internal controls and year end risk ratings, meeting with each business unit head and the risk assessors. The Risk Management Committee is in dialogue with our Special Task Forces on risk such as CD Fraud, Pandemic Flu, and Disaster Recovery; Our Fair Lending and Compliance Committees; our Information Security Committee; our Information Technology Steering Committee; our Asset Liability Committee and our Credit Policy Committee.

They report their findings to our Bank Policy Committee of Senior Officers and to our Boards' of Directors who also receive the quarterly outside Consultants Risk Report, the Management Risk Assessment Dashboard and the Quarterly Risk Management Summary. There is a pretty robust and pro-active management of risk, yet we still run scared.

As you can imagine much of the formality of these systems has been encouraged or required by regulators. In many cases their suggestions have been very helpful, certainly at the macro level. While we believe them to always be well meaning a few regulatory comments have led us on expensive wild goose chases or caused us to argue more than we would have liked.

Sometimes, when we have been told that we ought to do something that might be considered a best practice they can't or won't point us to anyone doing it. And when we go talk to peers across the country to find out how they are handling the same issue, they often tell us they are not being asked to do the same thing and can't understand why we are. Obviously this is frustrating. That is why conferences like this, where we share, are so important, and I want to thank the Federal Reserve Bank of Chicago and DePaul University for sponsoring it.

Over the years we have found a recurring trend in the literature and from so called risk experts that concerns us and we believe creates a false sense of security. Of course there is an ebb and flow to this but there are definite trends. It seems that at one point the answer to many problems was to have everyone report to the CEO, then it was creating new and numerous Seniors or Chiefs: chief credit officer, chief information officer, chief compliance officer, chief systems officer, chief people person, etc., etc. Of course, you know what happens when you have too many chiefs, no one works substantively anymore!

All kidding aside trying to elevate every position in the bank to Senior status as Chief something mutes the importance of focus and the hierarchy of risks in the organization.

There has also been a recent trend to having more and more information sent directly to the Board and having more and more people report directly to the Board. And there have been suggestions to having both internal reviewing parties and "independent" reviewing parties looking at everything done in the bank.

For everyone there is getting to be information and reporting overload. This is a concern not only in the bank but in society. There is so much data and so much information that people are not able to cope with it and begin to treat it all with the same level of importance causing a lack of focus and a loss of hierarchical importance. I worry about this a lot with our Board. The more we give them the less they can focus. None of us can know it all and we shouldn't try. To effectively carry out our responsibilities it is important to focus on the major risks at the highest levels, not all risks. And it is important to assess whether or not there are processes in place to understand and mitigate risk at all levels.

So what is it we are supposed to be doing as CEO's ?

First we need to make sure our colleagues really understand their responsibility and their role in the organization.

- We have to reinforce their practice of their responsibilities,
- We need to ensure that there are policies and procedures in place that clearly and simply identify the risks we are willing to take and what is to be done by whom to mitigate them.
- We need, more than anything else, to build a culture of substance based on strong and stated values such as integrity, honesty, and forthrightness.

In my case it is to convince my partners:

1) That we do not know the future and cannot predict it; we can and will be wrong, so plan and execute accordingly.
2) That we must recognize, weigh, and mitigate risk in everything we do.
3) That data and information do not in and of themselves give you knowledge and knowledge does not necessarily give you judgment or discernment.
4) That common sense and personal and corporate integrity should be foundational, they must underlie everything we do.
5) That if we are not really sure of what we are doing, do little bits of it for short periods of time and truly try to learn from our experience.
6) That in banking it is not appropriate to operate out of your comfort zone. That is speculating.
7) That we hire partners, colleagues, who are basic and simple in their view of values, who exhibit honesty and integrity; we build a structure that clearly assigns responsibility and accountability; we create policies and procedures that guide them in their day to day activities; and we train them to understand their role, their responsibilities and the risks the bank undertakes.
8) That we be wary of consultants who have all the answers; regulatory prescriptions and form are not the answer, a healthy risk averse culture is.
9) That we realize every regulator thinks the risk they are reviewing is the most important, this is natural; unfortunately, some can prosecute a view

beyond virtue and actually cause a vice. Recognize that they are sometimes are reacting with an accusatory agenda promulgated by legislators and academics, and it is not their fault… they are doing their job.

It is important to enter into constructive dialogue with regulators and consultants all the while remembering that PhD's who pushed modeling as the answer to managing risk helped set up the environment for our present capital market and securitization problems; people caring about meeting the needs of the underserved, while well meaning, helped create the environment that led to the housing collapse; people concerned about the manipulation of earnings and an academically appropriate reflection of costs led to the reduction of loan loss reserves across the industry; and people wanting to make sure that shareholder interests and management were directly aligned insisting on stock based compensation tied to earnings and growth created an environment for enormous excess.

Virtue to an extreme can be a vice. While I'd like to blame all these people, I can't; nor should you. In the end we CEO's are responsible for how we operate and relying on good hard common sense is still among the best advice I can give you.

It is important for us as CEO's to be involved, to question, to not be attracted to fads, to understand and create a culture of risk mitigation. It is to look ahead and anticipate the problems on the horizon with a healthy skepticism of the pundits and forecasters. All markets move toward their mean and we all know that if something is too good to be true it probably is too good to be true. We must act that way and we must hold people accountable.

I am today concerned about the enormous strains that will be placed on us and our systems from the use of more technology. Hackers are creative and well financed and have learned to assess people's social habits to exploit weaknesses in our systems. Young people are naive and really don't care about risk. They use systems without regard to their risk or impact. Carl talked a little bit about this in an indirect way in his opening remarks. As we move to mobile banking and more on-line wireless systems we will be taxed and threatened. Also, we have a Congress which wants to remove all responsibility, all consequences of any actions, from the consumer. They want us to play protector, social worker, policeman, terror investigator, and Big Brother.

How do we prepare for this world and how do we mitigate these risks? I don't know; but I lie awake at night worrying about them…. and our economy and interest rates, ….and regulation ….and trying to think of ways to address them… and I suspect you do as well.

I do not know what the future holds, but I can assure you it will be exciting and interesting.