

Solutions for M&A Accounting

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July 23, 2014



Welcome

- Today's webinar is being recorded and a link to the recording will be sent to you in the next 24 – 48 hours.
- Please enter your questions for our speakers into the Chat Box. Select All Panelists when submitting your question.
- For more information or to request a proposal, please contact your Fiserv Client Partner or Account Manager.

Primatics - Solutions for M&A Accounting

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Agenda

- Market Perspective:
 - Regulatory Landscape
 - Top Challenges for M&A Accounting
 - M&A Accounting Solution:
- Evolv Solution Overview
 - Evolv Demo
- Primatics Service Offering
- Q&A



Market Perspective

Changing Landscape

1. Greater regulatory scrutiny -- acquisition approvals delayed or denied:
 - a. Banks must demonstrate they have the appropriate processes and tools
 - b. If prior acquisitions not integrated well, future deals won't get approved

2. Banks must create efficiencies with each acquisition:
 - a. Pressure on margins has lead to push for significant cost savings
 - b. Especially important for high growth 'aggregator' banks

M&A Accounting is Complex

Accounting for Originated Loans

- Original basis (Day One) set at borrower balance +/- deferred fees
- Basis of accounting at the loan level
- Either accrue at full amount or don't accrue at all (accrual vs. non-accrual)
- Amortization schedule is based on contractual terms and doesn't change
- Reserve at pool level based on incurred losses
- Income Recognition and Reserving a de-coupled
- Feeds traditional disclosures and regulatory reports

Accounting for Acquired PCI Loans

- Original basis (Day One) set at fair value
- Basis of accounting at either loan level OR pool level
- Accrue the portion expected as collectible, don't accrue what is not expected (hybrid)
- Amortization schedule is based on expected terms and changes quarterly
- Reserve at either loan or pool level based on life of loan losses
- Income Recognition and Reserving are highly integrated
- New set of disclosures and sections of regulatory reports

Top 5 Challenges of M&A Accounting

1

Data

2

Credit Loss Estimation

3

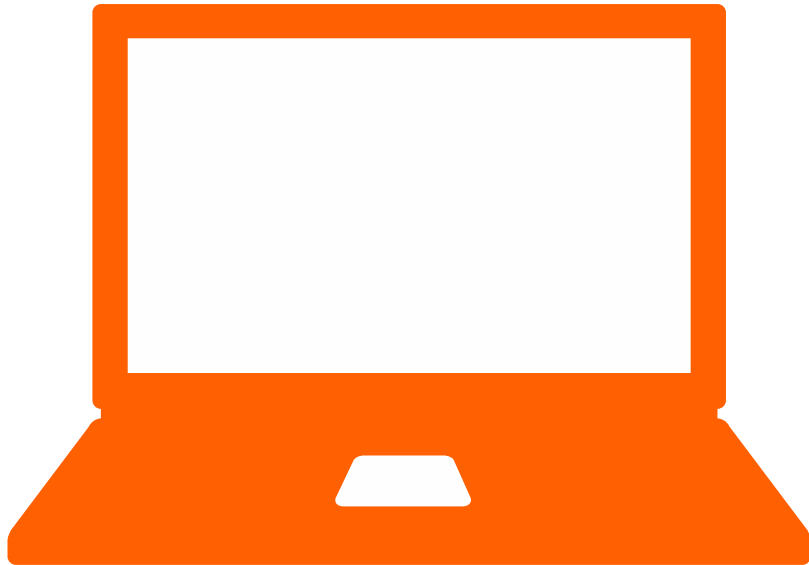
Accounting Automation

4

Reporting

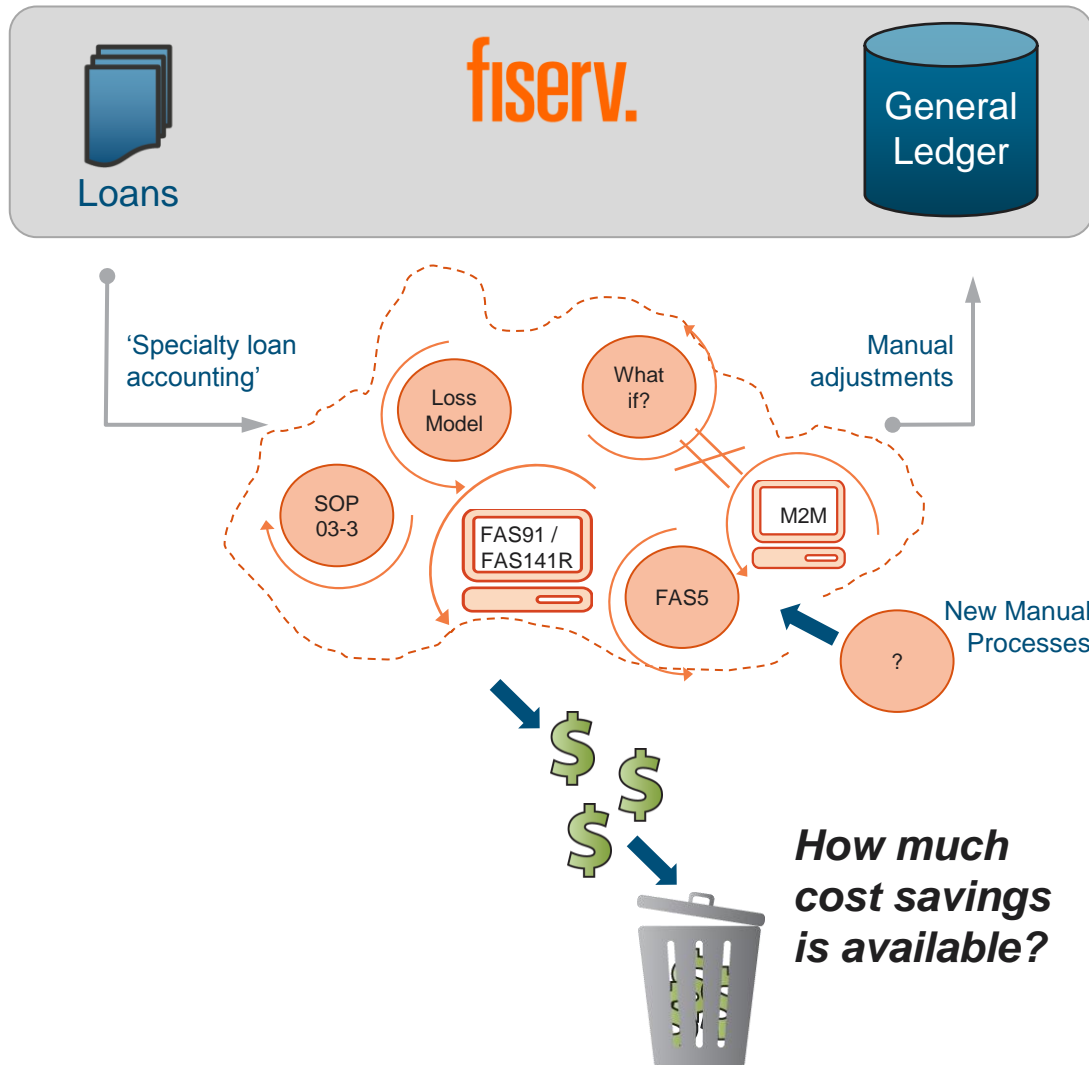
5

Controls



Evolv Solution Overview & Demonstration

Manual Accounting Process



1. Inefficient
2. Significant Control Risks
3. Reconciliation Nightmares
4. Different Views from Top Executives
5. Not Scalable
6. Not Adaptable to Future Change

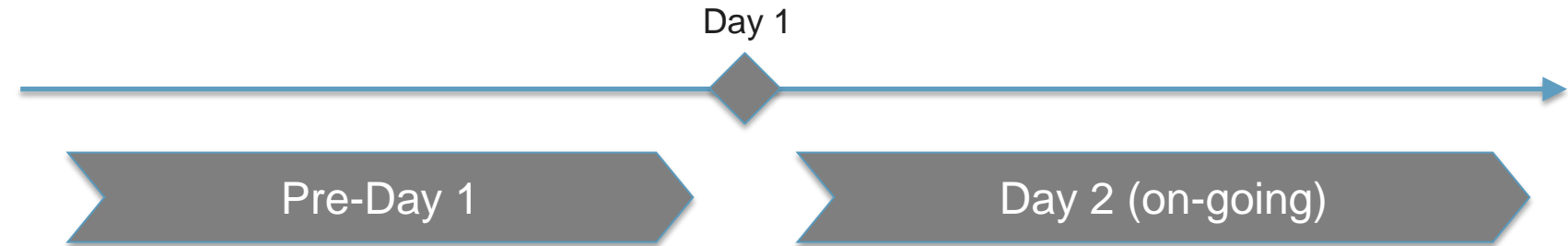
Automated Accounting Process



- SaaS solution used by ~60 banks, and 11 of top 25 in US
- Evolv processes ~\$600b in loans monthly
- Primatics updates Evolv as regulations change

1. **No More Spreadsheets**
2. **Efficiency = Cost Savings**
3. **People Analyzing Instead of Processing**
4. **Defensible Compliance**
5. **Preparedness for Future Change**

Acquisition Timeline



Decisions

1. Accounting Designation
2. Pooling Methodology
3. Day 1 Fair Value Methodology
4. Day 2 Cash Flow Re-estimation
5. Chart-of-Accounts Strategy
6. Accounting Policy
7. Organizational Strategy

- Day 1 Fair Value
- Day 1 SEC Disclosures

Day 2 Deliverables

1. Accounting Entries
2. Re-estimated Cash Flows
3. Reporting:
 - Day 2 SEC Disclosures
 - Regulatory Reporting
4. Analytics:
 - Attribution Analysis
 - Drill Down
 - Trending



Primatics Service Offering

Turn-key Acquisition Accounting Service

Subscription to Primatics' Evolv Acquisition Accounting Service includes:

- ✓ Data interface with Fiserv to consume data required for accounting, valuation and reporting
- ✓ Day 1 loan valuation to generate fair values and cash flows (contractual / expected)
- ✓ Day 2 cash flow re-estimations on PCI loans to support impairment testing
- ✓ Day 2 monthly accounting results, including journal entries, disclosures, reporting
- ✓ Evolv User Interface to review controls, reports and analysis of results
- ✓ Ongoing Customer Support program
- ✓ Controls framework to govern the end-to-end solution

Controls Framework

A market-proven controls framework is a part of the end-to-end solution:

1. Controls framework is SOX compliant with audit documentation
2. Inclusion in annual SSAE16 review
3. Access to a Primatics Controller who provides advanced technical and accounting support
4. SaaS solution includes IT infrastructure and updates for regulatory changes



Why Primatics?

Evolv Solves for the Top 5 Challenges of M&A Accounting



**Interface
with Fiserv**

**Credit Loss
Estimation**

**Automated
Reporting &
Disclosures**

**Accounting
Compliance**

**Controlled Process
(no spreadsheets!)**



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