

CU BANK SHARES

Town North Bank

+ PUTTING POWERFUL CARD SERVICES
IN YOUR HANDS

 **TNB**
Card Services
EMPOWERING YOUR MISSION



+ WHO WE ARE



history

- + For over 30 years, TNB Card Services has provided credit unions with a unique combination of payment services expertise, member friendly service, and true partnership unmatched in the industry
- + TNB Card Services, a division of Town North Bank, has a one-of-a-kind heritage in the credit union movement

+ WHO WE ARE

an industry first

Town North Bank is an independent bank, wholly-owned by credit unions and their members

Opened in 1972 and purchased by credit unions in 1975 as a way to gain entry into the credit card industry

Today it is a one-branch bank focused on commercial real estate lending

+ TNB Card Services was formed in 1976 to create a way for credit unions to gain access to the credit card market

+ WHO WE ARE

the TNB model is unique

- + The only bank with credit union CEOs on the board of directors
- + TNB focuses not on quarterly stockholder goals but on longer term benefits for credit unions and its members
- + We provide a unique card issuing solution to credit unions looking for a credit union-owned partner with over 100 credit unions participating
- + We assist nearly 500 credit unions with their card portfolios nationwide totaling 1.5 million cards and 1.1 million accounts

+ WHO WE ARE

partnership

TNB Card Services seeks credit unions that are passionate about growing their card portfolio

- + Our approach is to be a strategic partner
- + Build a high-performing asset
- + Minimize risk
- + Strengthen member satisfaction
- + Enhance your brand image

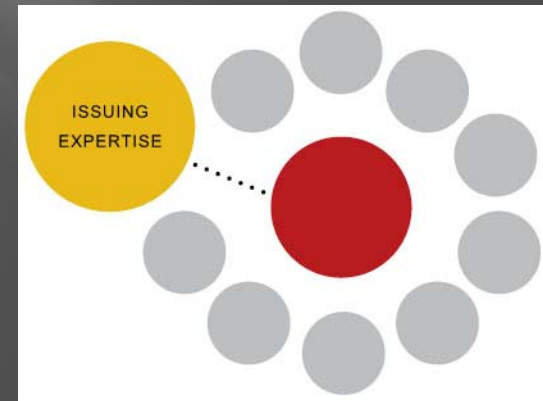
+ PARTNERSHIP

issuing expertise

TNB Card Services provides a credit union issuing solution.

We bring our proven results and issuing expertise to help credit unions monitor their card portfolio.

- + Portfolio purchasing
- + Portfolio management
- + Portfolio consulting services
 - Collection services
 - Credit risk analysis
 - Database marketing
 - Rewards programs
 - Risk-based pricing



TNB Objectives

- ▣ Provide quality service to its:
 - ▣ Card Services Clients
 - ▣ Client and Bank Cardholders
 - ▣ Bank Customers

- ▣ Maximize Shareholder Return; Management's responsibility to:
 - ▣ Maintain adequate risk controls
 - ▣ Operate within regulatory guidelines
 - ▣ Maximize the use of shareholder's capital

Resistance to Transition

- Every thing is fine, why do we need to change?
- We haven't done this before, there is too much risk.
- What will the regulators say; can we really do this?

Transition Results

- Credit Union regulators no longer ask why the credit unions own the bank. TNB is their highest yielding asset.
- TNB regulators no longer caution TNB on its plans. There is confidence that TNB's risk controls mitigate risk associated with new ventures.
- TNB's board places significant reliance on TNB management.

Current Capital Composition

(Dollars in Thousands)

<u>Capital Generated from Earnings</u>		<u>ROI</u>
1975 to 1994	\$ 9,402	6.75% Managed ROA
1995 to 1997	4,156	8.50% Transition to new strategies
1998 to 2007	<u>45,558</u>	10.90% Managed ROE
	59,116	<i>10.90% vs. 6.75% = \$17.3 Million</i>
<u>Capital Investment</u>		
2004	12,000	Initial Capitization of TNB Nevada
2007	<u>40,000</u>	Nevada Portolio Acquisitions
	<u>52,000</u>	
Total Capital	<u><u>\$ 111,116</u></u>	

Remaining Capital Commitment \$20,000 brought into bank March 2008

US Banks With Leverage Ratios < 6.50%

<u>Leverage Ratio</u>	<u># of Banks</u>
<5.50%	4
5.50 - 6.00%	9
6.00 - 6.50% +	35
Total Banks < 6.50%	48

TNB Manages the balance sheet to its leverage ratio.

**Peer analysis is more of “what every one else does”
rather than “managing your own destiny”**

Leverage and Risk Capital

		<u>Leverage</u>	<u>Risk Capital</u>	
	<u>Risk</u>		<u>Tier I</u>	<u>Tier II</u>
Loans				
Commercial	100%	100	100	100
Commitments	100%		10	10
Mortgages	50%	100	50	50
Securities	20%	100	20	20
Total assets		300	180	180
Capital	<u>Requirement</u>			
Equity	7.25%	22	22	22
Allowance	0.75%			1.5
Total Capital		22	22	23
Ratio		7.25%	12.08%	12.92%
Adequate Capital Limits		4.00%	4.00%	8.00%
Excess Capital		10	15	9

Efficient Allocation of Capital mitigates reduced ROA
for low risk assets; results in acceptable ROE

Blue Ocean Companies

If this is such a good idea, why isn't someone already doing it?
What did these companies do when this question was asked ?

Microsoft

Wal-Mart

Starbucks

Southwest Airlines

Fed Ex

Citi Bank Created CD's

Merrill Lynch created Mortgage Backed Securities

51 Credit Unions Acquired Town North Bank (1975)

These companies used innovation. They made their competition irrelevant and created new markets.

CAPITAL FORMATION

C U Bank Shares

Ownership Limits

Ownership Limits

9.90% Voting

5.00% Non-Voting

14.90%

If any 1 board member exceeds 5% voting, there must be 2 above 5% voting.

Can own up to 25% voting and non-voting; however cannot be a board member and must report as a bank holding company

Can own trust preferred so long as $< 5\%$ of assets

Shareholder Required Asset Levels

CUB's Rate of Return 11%

	Stock Price	Ownership Mix/Shareholder Assets			
		< 6.00%	7.50%	9.90%	14.90%
2007	13.10	113	142	187	281
2008	14.54	171	214	282	425
2009	16.14	190	237	313	472
2010	17.91	211	263	348	523
2011	19.88	234	292	386	581
2012	22.07	260	325	428	645
2013	24.50	288	360	476	716
2014	27.19	320	400	528	795
2015	30.18	355	444	586	882
2016	33.51	394	493	650	979
	# Shareholders	32	7		

Current Shareholder Mix

(\$ in Thousands)

Shareholder Composition

	<u>Shareholders</u>	<u>Board Members</u>	<u>Investment Ranges</u>	
			<u>Smallest</u>	<u>Largest</u>
> \$1 Billion	3	1	\$ 2,227	\$ 6,899
\$500 Million to \$1 Billion	3	2	\$ 909	\$ 3,923
\$250 to \$500 Million	3	3	\$ 2,227	\$ 6,899
\$100 to \$250 Million	13	8	\$ 108	\$ 6,724
< \$100 Million	16	1	\$ 22	\$ 2,231
Total	38	15		

Investment Limits: 5% of Assets

5% of Credit Unions Assets

9.9% of CUBs Voting Stock

5.0% of CUBs Non-Voting Stock

Non Voting stock limited to 49% of total Capital Structure

Capital Capacity

Investor Groups

Board and Current Shareholders > \$100MM (16)

Additional Shareholders (5)

Non-participating Shareholders (5)

Potential Shareholders (10)

Total Capacity (36)

All Credit Unions > \$100MM

Capacity		
Common	Trust Pfd	Total
\$ 197,442	\$ 128,645	\$ 326,087
167,426	225,219	225,219
48,264	53,949	53,949
109,707	109,707	109,707
<u>\$ 522,839</u>	<u>\$ 517,520</u>	<u>\$ 714,962</u>

\$60 Million PPM

Shareholders were given the option to:

Sell shares to other board members @ a premium: 15%

Exchange current shares, voting & non-voting for non-voting at an exchange rate of: 20 for 23 – 15% premium.

Combination of sell to board members & exchange voting for non voting – 15% premium.

The above options made a shareholder ineligible to be a board member

\$60 Million PPM

Shareholders required to have existing voting stock position; if the shareholder has only non-voting stock, the shareholder is not eligible to invest.

CUB's board will send notice of capital calls & the investor must fund within 30 days. Capital calls are funded pro rata the investors' voting stock position @ the time of the capital call.

\$60 Million PPM

Shares are sold at at book values as of prior month end for each capital call

- Two year subscription agreement
- Right to amend at six month intervals
- Capital calls at board authorization

Historical Credit Assessment

	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>	Change In Mix	Average
<u>Credit Risk Mix</u>									
Loans w/Credit Risk	37%	38%	38%	38%	38%	38%	41%	3%	38%
Earning Assets w/o Risk	54%	54%	56%	55%	54%	55%	53%	-2%	55%
Non Earning Assets	8%	7%	6%	7%	7%	8%	7%	-1%	7%
Assets w/o Credit Risk	63%	62%	62%	62%	62%	62%	59%	-3%	62%
<u>Net Charge Offs</u>									
Commercial	0.18%	0.08%	0.06%	0.03%	0.15%	0.79%	0.00%	-1%	0.19%
Consumer	0.21%	0.36%	0.03%	0.14%	0.44%	0.27%	0.78%	1%	0.32%
Credit Card	N/A	N/A	0.58%	3.37%	3.94%	3.03%	2.56%	0%	2.69%
Net Charge Offs	0.19%	0.15%	0.12%	0.92%	1.63%	1.84%	1.17%	-1%	0.86%
Non Performing Loans	0.02%	0.00%	0.03%	0.08%	0.01%	0.02%	0.02%	0%	0.03%

Active Risk Management *Securities*

GRAB

CurrencyGP

At 9:00 Op 3.5990 Hi 3.6460 Lo 3.5645 Prev 3.5905

US\$w5 CMPN CURRENCY

Hide

GP - Line Chart

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Range 01/02/06 - 12/31/07 Upper Market Price Mov. Avgs Currency US

Period Daily

Events



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000
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Active Risk Management *Funding*

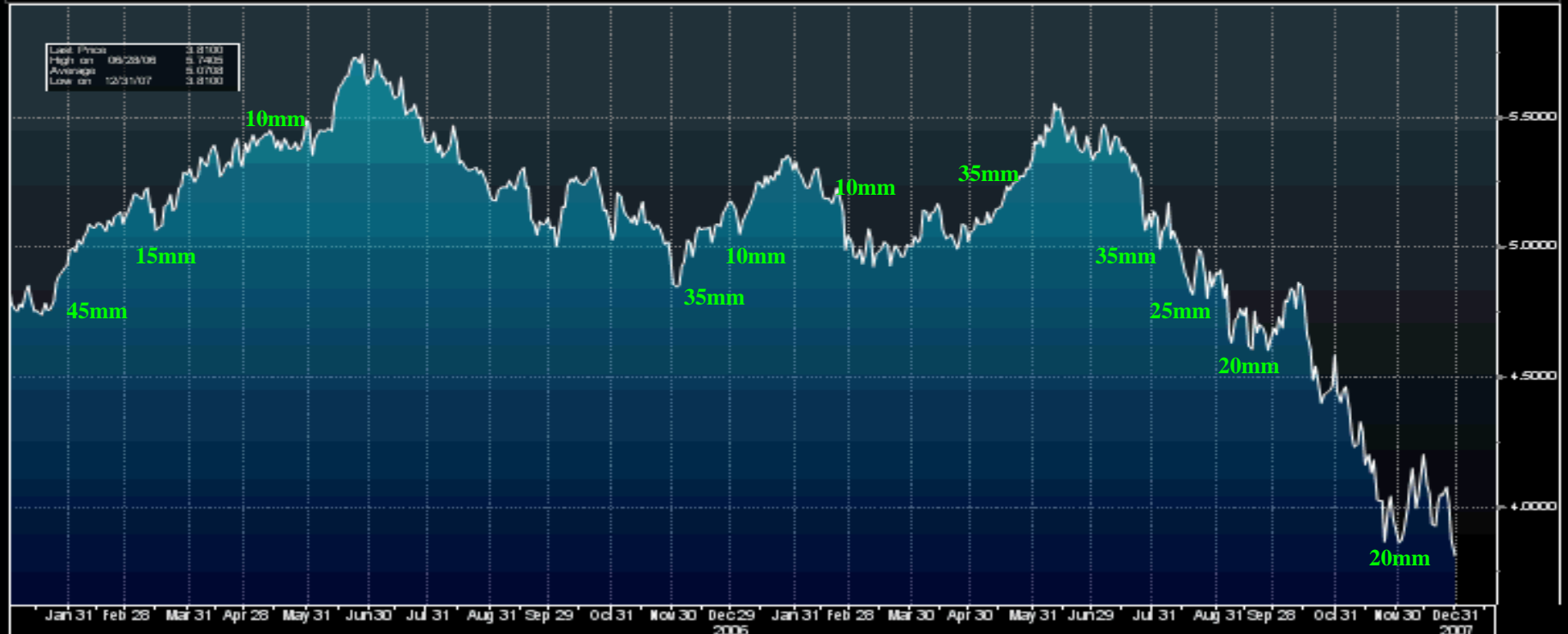
GRAB

CurrencyGP

At 9:15 Op 2.7750 Hi 2.8230 Lo 2.7250 Prev 2.7780

USSW2 CMPN CURRENCY Hide GP - Line Chart Page 1/13

Range 01/02/06 - 12/31/07 Upper Market Price Mov. Avgs Currency US
 Period Daily Events



Australia 61 2 9777 8600 Brazil 5511 3048 4500 Europe 44 20 7330 7500 Germany 49 69 9204 1210 Hong Kong 852 2977 6000
 Japan 81 3 3201 8900 Singapore 65 6212 1000 U.S. 1 212 318 2000
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Funding Distribution

Commercial and Real Estate Core Lending

Core Deposits and Brokered CD's

Mortgage Warehousing

FHLB short term advances

Investments/Leverage

FHLB Advances and Repo's (Short and Long Term)

Funding Distribution

Card Services

- TNB Nevada; Credit Card Portfolio Management
 - Brokered CD's
- Credit and Debit Card Processing; off balance sheet fee based

Securities Stratified

Bk Yield	Bk Value	Avg Life
<3.5%	5.43%	3.13
<4%	5.43%	5.99
<4.5%	5.43%	8.69
<5%	10.54%	8.05
<5.5%	9.71%	6.36
<6%	19.20%	7.93
<6.5%	16.23%	5.72
<7%	14.27%	5.53
<7.5%	3.19%	5.12
<8%	5.15%	8.17
>8%	5.41%	7.50

Advances Stratified

Rate	Book Value	Average Maturity
< 3.5%	1%	0.25
3.5% - 4.5%	15%	3.08
4.5% - 5.5%	63%	1.95
5.5% - 6.5%	18%	0.29
6.5% - 7.5%	3%	4.48

The Bottom Line

Securities	100
Other Assets	200
<hr/> Total Assets	<hr/> 300

Liabilities	279
Capital	21
<hr/> Total L & C	<hr/> 300

Net Income 2.1

Tier 1 Leverage	7.00%
<hr/> ROE	<hr/> 10%

Securities Yield Improvement	0.50%
Additional Income	0.5

<hr/> ROE	<hr/> 12.38%
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<hr/> ROE Improvement	<hr/> 2.38%
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**A 50bp yield improvement on
1/3 of your balance sheet will
increase ROE (B/T) 2.38%**

ROE (A/T) improvement 1.57%

Required Capital for TNB Nevada

Capital Tier I Leverage (Dollars in Thousands)

	<u>TNB Nevada</u>	<u>% of Total Loans</u>
Credit Card Loans	100,000	100%
PCCR	15,000	15%
Total Assets	115,000	
Sub Prime Excess Threshold	(567)	1%
PCCR Excess Threshold	(10,048)	10%
Total Adjusted Assets	104,386	104%
Equity Needed for PCCR and Sub Prime	10,614	11%
Remaining Equity for Tier I Leverage	9,196	9%
Total Shareholder's Equity	19,810	20%
Tier I Leverage	8.00%	

PCCR and SubPrime Treatment

Additional Equity is needed for PCCR and SubPrime that is in Excess of 25% of Total Shareholders Equity

15% ROE = \$3MM Income
ROA = 2.58%

Capital Allocation

	12/31/2006		12/31/2007	
Bank Division	<u>Assets</u> (millions)	<u>MIX</u> (%)	<u>Assets</u> (millions)	<u>MIX</u> (%)
Loans	255	29	354	26
Investments	350	40	491	36
Mortgage Warehouse	75	9	124	9
Card Services				
Credit/Debit	49	6	52	4
TNB Nevada	<u>145</u>	<u>17</u>	<u>327</u>	<u>24</u>
Earning Assets	874	100	1348	100

Earnings: ROA vs. ROE

Scenario Comparisons: Stand Alone

	A/Tax ROA		ROE
	Nevada	= Securities	
PCCR @17%	0.97%	0.37%	6.17%
Equity Ratio 21.1%	1.32%	0.50%	8.33%
LOB 15.8%	1.65%	0.63%	10.42%
	1.98%	0.75%	12.50%

PCCR @ 18%	1.01%	0.37%	6.17%
Equity Ratio 21.9%	1.37%	0.50%	8.33%
LOB 16.4%	1.71%	0.63%	10.42%
	2.05%	0.75%	12.50%

PCCR @ 19%	1.05%	0.37%	6.17%
Equity Ratio 22.7%	1.42%	0.50%	8.33%
LOB 17.0%	1.77%	0.63%	10.42%
	2.13%	0.75%	12.50%

Securities
Equity Ratio 6.0%

Line of Business Profitability

<u>Line of Business</u>	<u>ROE</u>	Mix		
		Earnings	Assets	Capital
Core Banking	8.65%	20%	25%	21%
Investments	9.07%	13%	40%	28%
Mtg Whse	22.18%	12%	6%	4%
Nevada	7.16%	27%	25%	44%
Card Processing	70.07%	28%	4%	3%
Total	10.77%	100%	100%	100%

Notes:

ROE is 10 years; 3 yrs. for Mtg Whse & Nevada

Putting It All Together

EOP Aug-07

TNB Nevada

TNB Dallas

TNB Consolidated

Total Assets

326,925

1,019,119

1,345,444

Equity

60,106

51,010

111,116

Ratios

Equity

18.39%

5.01%

8.26%

Tier I

9.72%

7.59%

9.65%

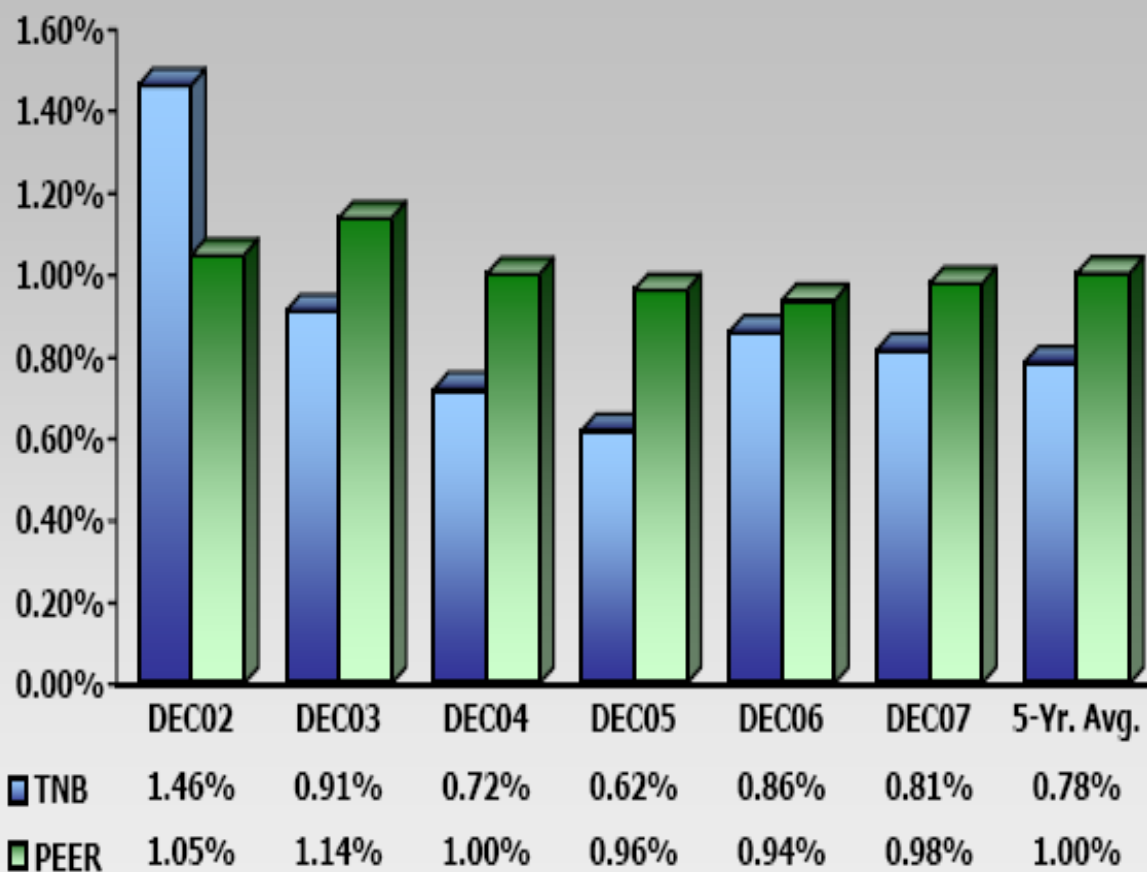
Tier II

10.99%

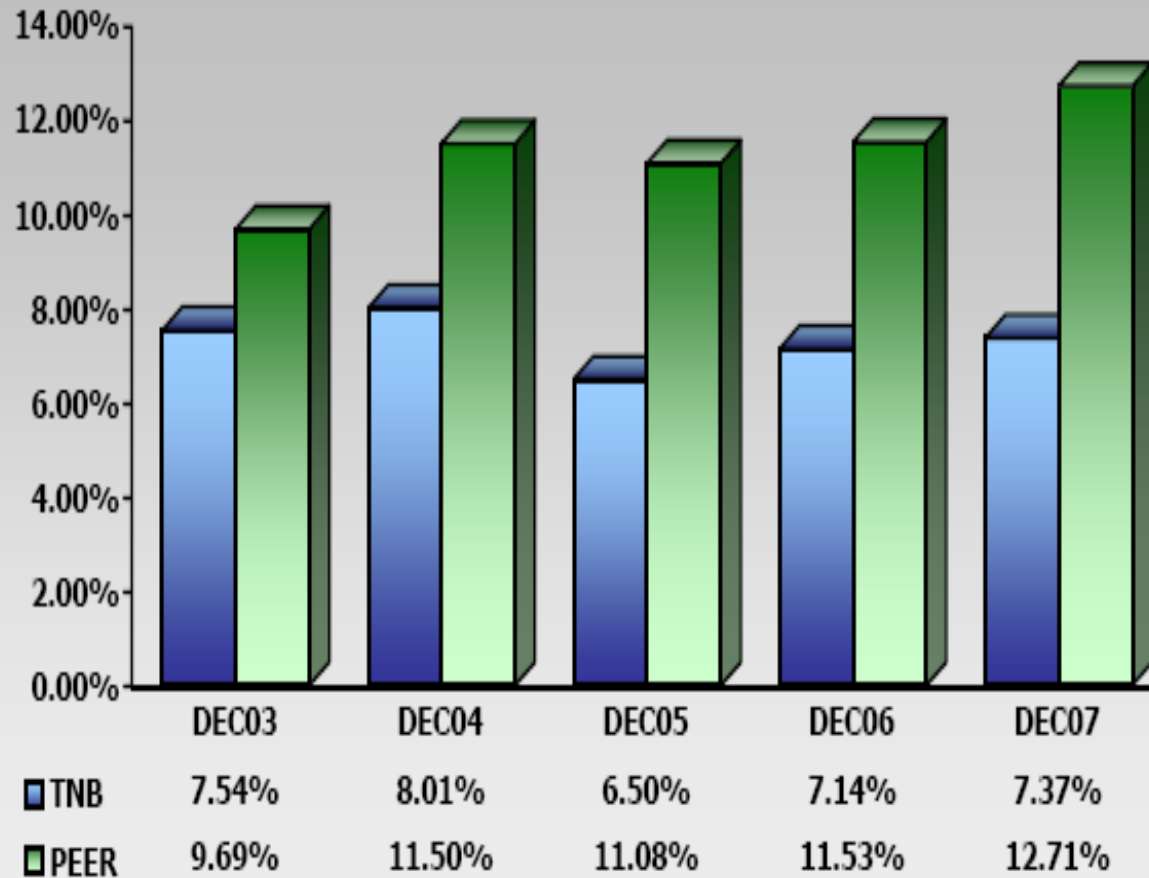
7.95%

10.76%

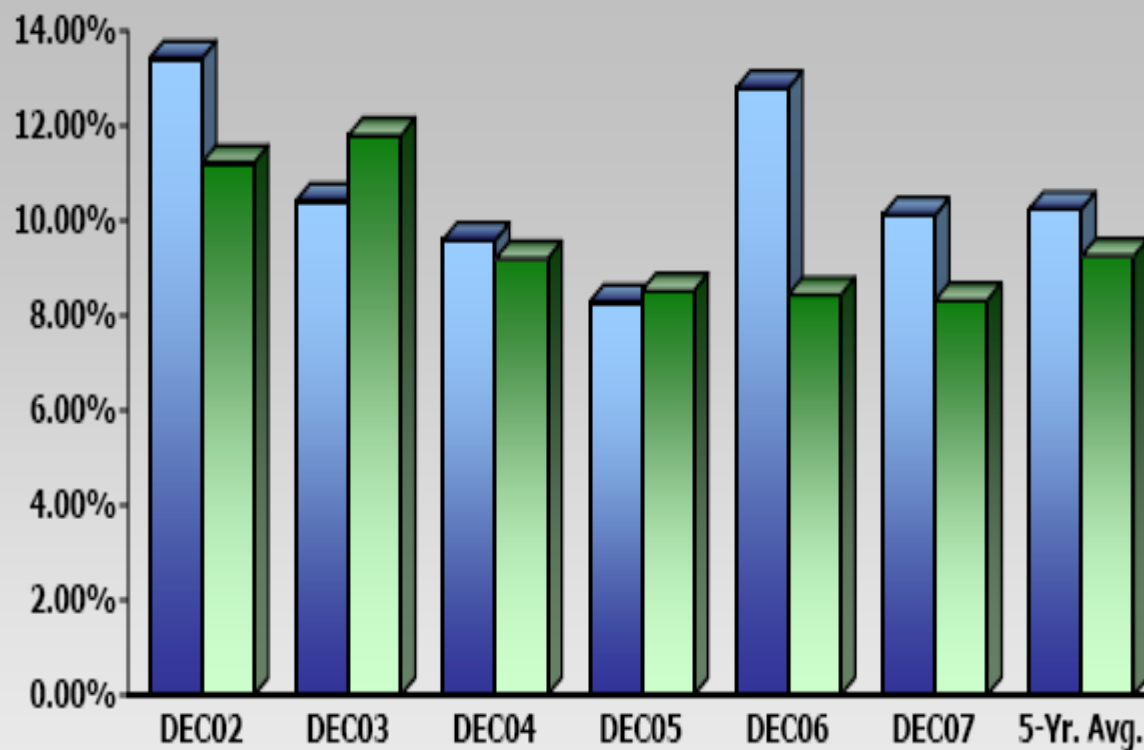
Comparative Return on Average Assets



Comparative Equity/Assets



Comparative Return on Average Equity Capital



■ TNB

■ PEER

13.41%

10.41%

9.57%

8.27%

12.77%

10.09%

10.22%

11.20%

11.78%

9.18%

8.50%

8.42%

8.30%

9.24%

TRUST PREFERRED DISCUSSION

Trust Preferred

Trust Preferred Parameters

25% of Total Capital Counts as Tier I Capital

Excess of 25% Counts as Tier II Capital

Trust Preferred Converts to Higher Returns:

	Mix	ROI
	25%	13.3%
Equity @ 11% Return	33%	14.4%
	40%	15.7%

Trust Preferred assumed @ 6%

			<u>ROI</u>
Projected Equity Dec 2008	\$ 140,000	33%	14.4%
Earnings-2 1/2 years	30,000		
Trust Preferred	70,000		
Projected Equity Dec 2010	<u>\$ 240,000</u>	29%	13.9%

Capital Formation Initiatives

Recent Initiatives	<u>Year</u>	(\$Millions)	
		<u>Current Assets</u>	<u>ROE</u>
TNB Nevada	2002	\$ 330	15%+
Mortgage Warehouse	2003	\$ 159	20%+

Near Term Initiatives

Interim Construction	2007	\$ 44	20%+
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Long Range Initiatives

Increase Agent Portfolio Acquisitions/Generate Cross Selling Opportunities

Leverage Mortgage Warehouse & Interim Construction
into Mortgage Origination

Capital Utilization Projects

- ▣ Public Funds Advisory Services:
 - Credit Unions' entry to public funds management
 - Liquidity Management
 - Bid Process
 - Public Funds are savings of > 30 basis points vs. Wholesale funding. ROE = > 16%

Reasons Credit Unions Invest

- ▣ Highest earning investment in the credit union's portfolio.
- ▣ Diversification of credit union investments.
- ▣ Well established stable investment.

Proven Strategies

- ▣ The success of strategies implemented at TNB gained the trust and confidence of our Shareholders.
- ▣ TNB executed a \$60mm private equity, (Dec. 2006) offering with \$35mm in oversubscriptions
- ▣ This was one of the largest private offerings for a privately held bank in Texas history