Ball State Business Roundtable

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Welcome

Steve Smith, Roundtable Chair
Midwest Metal Products Co., Inc.
Debt Limit Debate of the ’80s:
An Entirely Different Discussion

Source: OMB, BEA, JP Morgan Private Bank
Introductions

Dagney Faulk, PhD
Ball State University
The Banking Environment Today: From the Inside

David Heeter
MutualFirst Financial, Inc./MutualBank
The Banking Environment Today—From the Inside

BSU Business Roundtable
August 24, 2011
David Heeter
President & CEO
MutualBank

MutualFirst Financial, Inc.
Forward Looking Statement

This presentation contains statements which constitute forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may appear in a number of places in this presentation and include statements regarding the intent, belief, outlook, estimate or expectations of the company, its directors or its officers primarily with respect to future events and the future financial performance of the company, including but not limited to preliminary estimated ProForma combined financial information. Readers of this presentation are cautioned that any such forward looking statements are not guarantees of future events or performance and involve risk and uncertainties, and that actual results may differ materially from those in the forward looking statements as a result of various factors. These factors include, but are not limited to, the possibility that the expected cost savings, synergies and other financial benefits from the MFB acquisition might not be realized within the anticipated time frames and costs or difficulties relating to integration matters might be greater than expected changes in interest rates; the loss of deposits and loan demand to competitors; substantial changes in financial markets; changes in real estate values and the real estate market; or regulatory changes.

The Company does not undertake - and specifically disclaims any obligation - to publicly release the result of any revisions which may be made to any forward-looking statements to reflect events or circumstances after the date of such statements or to reflect the occurrence of anticipated or unanticipated events.

MutualFirst Financial, Inc.
Impact of Financial Crisis on Banking

1. Fundamental Confidence Blow
2. Revenue Generation Weakened
3. Regulatory Scrutiny
4. Regulatory Unknown
1. CONFIDENCE BLOW

Bank Failures—Why do Banks Fail?

Lack of Liquidity—Inability to Meet Cash Flow Obligations

Bad Assets--

Investments

Loans
1. CONFIDENCE BLOW

What Really Happened?

- Economy Came to Screeching Halt
  Increased Unemployment
  Housing Market Bubble
- Collateralized Mortgage Obligations (CMO’s)
  Underlying Value Not There
- Asset Values
  Investment Collateral Values
  Loan Collateral Values
1. CONFIDENCE BLOW

Impact to Banks:

– Collateral Dependant Loans (LTV)
– Increased Delinquency
– Borrowers Willingness to Pay
– Loan Portfolio Value
– Investment Portfolio Value
– Investment Credit Risk
– Stressed Capital
1. CONFIDENCE BLOW

Capital is King:

- Troubled Asset Relief Plan *(TARP)*
- Capital Purchase Plan *(CPP)*
- 5% Dividend
- Plus Warrants
Why Do Banks Fail?

“They simply don’t have enough capital to offset the depressed value of their assets and the cash flow to satisfy their creditors—depositors and funding sources.”

Heet
2. REVENUE GENERATION

• Loan Demand Softens in Bad Economic Times
• Non-Interest Income Weakened
  – Investment Fees
  – Loan Fees/Activity Fees
  – Mortgage Banking Fees
• Rise in Expenses
  – Provision for Loan Loss
  – Credit Costs
  – Expertise Needed
2. REVENUE GENERATION

Credit Costs:

- Lost Interest Income
- Collection Costs (People and Services)
- Expertise
- Loss of Collateral Value
Non-Performing Assets/Assets

*Peer = SNL microcap bank & thrift index
Net Charge Offs/Loans

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<th>Quarter</th>
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*Peer = SNL microcap bank & thrift index
3. REGULATORY SCRUTINY

• Loan Underwriting
  – Policy/Practice
• Loan Management
  – Servicing
  – Collection
  – Loan Grading
• Compliance
  – TIS, TIL, BSA, AML, CIP, Reg CC, Flood, Etc.
3. REGULATORY SCRUTINY

Capital Adequacy
Asset Quality
Management
Earnings
Liquidity
Sensitivity to Interest Rates
4. REGULATORY UNKNOWN

- Dodd-Frank
  - 235 New Regulations
  - 3 Separate Agencies Writing Regulations
  - Years to Write and Implement
- CFPB (Consumer Financial Protection Bureau)
  - Unlimited Budget
  - No Oversight
What does the future hold?
Thank You
Thank you