July 26, 1984

Office of the Comptroller of the Currency
Federal Deposit Insurance Corporation
Federal Reserve Board

PERMANENT ASSISTANCE PROGRAM FOR CONTINENTAL ILLINOIS NATIONAL BANK AND TRUST COMPANY CHICAGO, ILLINOIS

COMPREHENSIVE STATEMENT

On May 17, 1984, the Federal Deposit Insurance Corporation, the Federal Reserve Board and the Comptroller of the Currency announced an interim financial assistance package for the Continental Illinois National Bank and Trust Company. The program was designed to alleviate the liquidity pressures facing the bank in order to provide the time needed to resolve the bank's problems in an orderly and permanent way and to avoid general instability in the financial system.

Since the announcement the agencies have conducted an examination of the bank and have held extensive discussions with prospective merger partners and potential investors. A number of proposals from various sources have been reviewed.

After careful evaluation of all of the alternatives, the agencies have decided that the best solution is to provide sufficient permanent capital and other direct assistance to enable the bank to restore its position as a viable, self-financing entity. Factors considered in reaching this determination included the cost to the FDIC, competitive consequences and the banking needs of the public.

I. THE FINANCIAL ASSISTANCE PROGRAM

A. Loan Purchase. The bank has a substantial volume of troubled loans. The first major element in the financial assistance program involves removing most of those loans from the bank.

The loans in question have a face value of over $5.1 billion and a May 31, 1984, book value of approximately $4.5 billion, based on earlier chargeoffs by the bank of over $600 million in face value.

The FDIC will purchase these loans in two installments. Loans with a May 31, 1984, book value of $3.0 billion (face value of over $3.6 billion) will be purchased by the FDIC upon implementation of the program at a price of $2.0 billion with the bank absorbing a $1.0 billion chargeoff. The bank will have a three-year period to select other loans outstanding on May 31, 1984, with a book value of $1.5 billion and sell them to the FDIC for $1.5 billion.

The FDIC will pay the $3.5 billion purchase price for the loans by agreeing to repay an equal amount in bank borrowings from the Federal Reserve Bank of Chicago. The Federal Reserve borrowings assumed by the FDIC will bear interest at 25 basis points above the three-month Treasury-bill rate, established at the beginning of each quarter. The FDIC will repay the Federal Reserve borrowings by making quarterly remittances of its collections, less expenses, on the troubled loans. If there is a shortfall at the end of five years, the FDIC will make up the deficiency from its own funds.

The troubled loans will be managed for the FDIC by the bank under a servicing contract. The FDIC will have the right to terminate the servicing arrangement, in whole or in part, at any time. The bank may terminate the servicing arrangement upon six-months' notice to the FDIC.

B. Capital Infusion. Assuming an immediate transfer of $4.5 billion in book value loans and the $1.0 billion chargeoff in connection with the transfer, the bank would have total assets approximating $30.0 billion, equity exceeding $800 million and a reserve for loan losses approximating $325 million. To replenish the $1.0 billion chargeoff, the FDIC will acquire $1.0

billion in preferred stock in the bank's parent, Continental Illinois Corporation, which must be downstreamed to the bank in the form of equity. Thus, the bank's regulatory capital, which includes reserves, will approximate $2.2 billion, or over 7.0 percent of assets.

The $1.0 billion capital infusion by the FDIC will be divided into two permanent, nonvoting preferred stock issues. The first issue, in the amount of $720 million, will be convertible into 160 million newly authorized shares of common stock (based upon the average closing price of $4.50 per share from July 10, 1984, through July 16, 1984). This issue will pay no dividends except to the extent dividends are paid on the common stock, in which event the preferred issue will be entitled to dividends equivalent to that which would be paid on 160 million shares of common stock. The second issue, in the amount of $280 million, will be an adjustable-rate, cumulative preferred stock, callable at the option of Continental Illinois. The dividend on the issue will be determined by the highest of three Treasury rates as published by the Federal Reserve. During the first three years, Continental Illinois will have the option to pay this dividend in additional adjustable-rate preferred stock or cash.

C. Shareholder Dilution. Under the $720 million convertible preferred stock issue, the FDIC will have the right to convert into 160 million shares, or approximately 80 percent, of Continental Illinois Corporation's common stock. The remaining approximately 40 million shares owned by the current shareholders will be transferred to a newly formed corporation. The new corporation will be owned entirely by the current shareholders. At the end of five years, an estimate will be made of the losses, if any, incurred by the FDIC in connection with its purchase of loans and assumption of Federal

Reserve debt under paragraph A above. The estimate of losses will be made by three referees, one appointed by the FDIC, one by the new corporation and a third appointed by the other two referees.

If the FDIC suffers any loss under the loan purchase arrangement, including carrying costs and expenses of collection, those losses will be compensated for by granting the FDIC the option to acquire common stock in Continental Illinois Corporation held by the new corporation. The transfer of common stock will be done on the basis of its approximate book value of $20 per share (i.e., the $800 million in shareholder equity at May 31, 1984, after taking into account the $1.0 billion loan chargeoff, divided by 40 million shares). For example, if the FDIC's losses are estimated at $800 million at the end of the five-year period, the FDIC will have a perpetual option to acquire, at $0.00001 per share, all of the 40 million shares of Continental Illinois Corporation common stock held by the new corporation. After this option is acquired by the FDIC, the new corporation could be dissolved and the remaining shares of common stock it holds in Continental Illinois Corporation, if there are any, distributed to its shareholders. If the FDIC does not suffer any losses under the loan purchase arrangement (disregarding any profit or loss from its interests in the preferred and common stock), all remaining loans and other assets acquired under the loan purchase arrangement will be returned to the bank. The new corporation will not be permitted to pay any dividends until after a final settlement is made with the FDIC. Any dividends received by the new corporation on its approximate 40 million share investment in Continental Illinois Corporation will be available to cover potential FDIC losses under the loan purchase arrangement.

D. Rights Offering. The current shareholders will be issued a transferable right to acquire, on a pro rata basis, approximately 40 million shares of Continental Illinois Corporation at the benchmark market price of $4.50 per share if exercised within 60 days of the effective date of the transaction, or $6.00 per share if exercised during the subsequent 22 months. If all of the rights are exercised at $6.00 per share, they will raise an additional $240 million in equity for Continental Illinois Corporation, which must be downstreamed to the bank, and will represent 16-2/3 percent of 240 million authorized shares. The rights and the shares they represent will not be subject to the "make-whole" arrangement described in paragraph C above.

E. Necessary Approvals. The transactions described above have been approved, without dissent, by the boards of the bank and Continental Illinois Corporation. They are also subject to approval by majority vote of the shareholders, which will be promptly sought.

F. Interim Financial Aid Program. Pending approval by the shareholders and consummation of the permanent aid package, the interim $2.0 billion subordinated loan to the bank from the FDIC and a group of banks remains in place. Upon consummation of the permanent transaction, this loan will be repaid. Further, the assurance given by the FDIC on May 17, 1984, that "all depositors and other general creditors of the bank will be fully protected and service to the bank's customers will not be interrupted" remains in full force and effect until this permanent aid package is consummated. If the Continental Illinois shareholders should reject the permanent aid transaction, it is intended that the current federal financial assistance will be withdrawn, which would result in the Comptroller of the Currency declaring the bank insolvent from a liquidity standpoint. In this event, a newly chartered successor bank would be immediately and adequately recapitalized by the FDIC with liquidity support from the Federal Reserve. Depositors and all other general creditors of the bank would be fully protected against any loss of principal or interest or any delay in funds availability. However, the current shareholders of Continental Illinois would no longer be involved in the ongoing bank.

G. Continuing Liquidity Support. As part of the interim financial aid program, the Federal Reserve stated that it was prepared, in accordance with customary arrangements, to meet any extraordinary liquidity requirements of the bank pending more permanent arrangements. In light of the FDIC's commitment of capital resources to the bank, the Federal Reserve will continue its lending assurance for the period during which FDIC capital is supplied to the bank. The $5.5 billion funding facility provided by a group of major U.S. banks will remain in place.

H. Cost to the FDIC. The FDIC's total cash outlay after consummation of the permanent financial assistance program will be $1.0 billion, $500 million less than under the interim aid program. The ultimate gain or loss to the FDIC of the permanent assistance package depends on the price it receives when it sells its stock interest in Continental Illinois Corporation and on any losses it incurs under the loan purchase arrangement. At this time, it is not possible to make an accurate forecast of any eventual gains or losses. It is hoped an estimate will be available during 1985, which estimate will be revised from time to time as conditions warrant.

I. Legal Claims. All claims against present and former officers, directors, employees and agents of the bank, as well as bonding companies, accounting firms and the like, arising out of any act or omission that occurred prior to consummation of the permanent aid transaction will be assigned to the FDIC. Any recoveries on these claims will be credited to the collections made under the loan purchase arrangement.

J. Condition of the Bank. Upon consummation of the permanent aid transaction, the bank will be strongly capitalized and virtually free of nonperforming loans. If, for any reason, the permanent financial assistance package proves to be insufficient, the FDIC will commit additional capital or other forms of assistance as may be required.

II. MANAGEMENT CHANGES

As part of the program to rehabilitate Continental Illinois, the boards of directors of the bank and its parent have named two new executive officers. John E. Swearingen, 65, has been named Chairman of the Board and Chief Executive Officer of Continental Illinois Corporation, and William S. Ogden, 56, has been named Chairman of the Board and Chief Executive Officer of Continental Illinois National Bank. Both individuals will serve on both boards of directors.

Mr. Swearingen, widely acclaimed throughout international business circles, recently retired as Chief Executive Officer of the Standard Oil Company (Indiana), headquartered in Chicago. In addition to his extensive background in the energy business, where a significant amount of Continental

Illinois loans reside, he is a director of The Chase Manhattan Bank (a position he will resign).

Mr. Ogden is a highly respected and experienced banker, having spent 31 years at The Chase Manhattan Bank. He retired last year from his position as Vice Chairman of the Board of Directors and Chief Financial Officer and has since been involved in entrepreneurial ventures.

In addition to Messrs. Swearingen and Ogden (see accompanying biographical material), a new President and Chief Operating Officer of the bank is expected to be named.

David G. Taylor and Edward S. Bottum, currently Chairman and President of Continental Illinois, have resigned these positions and their directorships, effective August 13, 1984, and each will serve as Vice Chairman of the bank until completion of the permanent management structure. Both individuals were instrumental in stabilizing the bank during the past two months and in arranging the permanent assistance program. Their change in status in no way reflects on their capabilities. Rather, it reflects the judgment that a change in leadership and direction is desirable under the circumstances.

In connection with the interim assistance package from the FDIC, all members of the Continental Illinois boards were requested to tender undated resignations. The boards will be substantially restructured as soon as practicable.

III. FUTURE BUSINESS PLANS

The agencies believe the permanent assistance package will create a viable, independent bank positioned to continue providing the full range of services to its customers, particularly those throughout the midwest. Initially, the bank and its parent will continue the program currently underway to reduce the overall asset size of the organization, with special emphasis on divesting some foreign operations and less profitable activities. Reducing the bank's reliance on volatile funding sources and monitoring loan quality will clearly have a high priority.

The FDIC will not interfere with or control the bank's day-to-day operations. The agreements give the FDIC certain basic protections as a major investor, such as the right to object to the continued service of any board member, safeguards against dilution of the FDIC's shares and the right to veto any merger or reorganization. However, the FDIC will not control the hiring or compensation of officers, lending or investment policies or other normal business decisions.

As soon as practicable, the FDIC intends to dispose of its stock interest in Continental Illinois. This could be accomplished through a sale to a private investor group, to one or more banking organizations or to the public in an underwritten offering.