



Hovde

Financial Institutions
Monthly Overview

Capital Markets
Economic Data Review
M&A Statistics

December 2009

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December 2009 - Hovde Monthly Overview

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About Hovde

The Hovde Organization is an investment banking, asset management and private equity firm focused exclusively on the financial services sector. Founded in 1987 and possessing a distinguished industry heritage, Hovde draws from many years of experience and the comprehensive financial services expertise of our team members to develop innovative and value-added solutions for our clients. Hovde has regional offices in major areas of the United States and services the needs of financial services institutions, institutional investors, and private clients both domestically and internationally.

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"I hold it, that a little rebellion now and then is a good thing, and as necessary in the political world as storms in the physical."

-Thomas Jefferson

Although over 225 years have passed since the American Revolution, the above words still ring true on many levels. While we always felt that swift, yet thoughtfully constructed, government actions were needed in order to avert another Great Depression, it has become painfully clear that the unprecedented government stimulus injected into the financial system was put in place to benefit the largest financial institutions and Wall Street—the same entities who are the main culprits for creating the worst financial crisis in 80 years. As such, **we believe that enough is enough and that the time has come for the banking industry—namely the regional and community banks—to rise up and have their collective voices heard so that policymakers and regulators will once and for all address the two-tiered system which they have created: there are the Wall Street investment banks and a few other large financial behemoths...and then there is everyone else.**

While Washington has been obsessed with propping up and bailing out the large financial institutions and Wall Street, it has, in turn, created unfair advantages for these select institutions which jeopardizes the health of the overall banking industry and places U.S. taxpayers in a very precarious position, as they will likely be left holding the bag for the unmitigated risks taken by these large firms. As we begin a new year and embark on the third year of the ongoing financial crisis, we felt that it would be appropriate to briefly review some of the liquidity programs implemented by the government which have benefited the large institutions at the expense of the rest of the banking industry, discuss the "too big to fail" issue and what is being done to address it, touch on the implosion of the securitization market and how this is affecting regional and community bank balance sheets, and conclude with what non-traditional banking methods Wall Street and other large financial institutions have been turning to in order to produce their outsized profits.

To begin, as we have already opined in detail about the various programs and initiatives enacted by policymakers and regulators in prior publications over the last two years—namely, our *March 2008 Monthly Overview* and *September/October 2008 Monthly Overview*—we would like to just quickly recap some of the most egregious actions taken to date illustrating how perverse the relationship between Washington and Wall Street has become. First, in December 2007, the Federal Reserve announced the creation of the \$900 billion Term Auction Facility (TAF), which auctions funds to depository institutions from the discount window against a wide and questionable variety of collateral. Next, in March 2008, the Federal Reserve bailed out Bear Stearns by providing a commitment to backstop the losses on \$29 billion of Bear's most toxic securities in order to entice J.P. Morgan (which only had to back \$1 billion worth of assets) to acquire the failing investment bank. Additionally, the Federal Reserve allowed J.P. Morgan to raise its acquisition price from \$2 to \$10 a share in an effort to appease disgruntled Bear Stearns equity shareholders, who, in all reality, should not have received even one penny per share. Then, amidst the debacle of the Bear Stearns bailout, the Federal Reserve established the Term Securities Lending Facility (TSLF—providing investment banks up to \$200 billion of direct access to borrow from the federal coffers at extremely low rates) and the Primary Dealer Credit Facility (PDCF—an approximately \$50 billion overnight lending facility available to investment banks at the primary discount rate, currently 0.50%). However, the most brazen example of how deeply the ties run between Wall Street and Washington took place in October 2008, as the Treasury and Federal Reserve orchestrated the largest financial bailout since the Great Depression—the Troubled Asset Relief Program (TARP). In its haste to save the large financial institutions, the government supposedly "forced" nine of the largest U.S. banks to sell equity stakes for approximately \$125 billion at an outrageously low cost of capital as part of its Capital Purchase Program (CPP). Of course, included among those nine entities were the lone remaining large investment banks of Goldman Sachs and Morgan Stanley, which were granted bank holding company status overnight—deeply disturbing in its own right—shortly before the deployment of TARP capital.

In sum, in conjunction with the Federal Reserve's now-ended \$300 billion Treasuries purchase program and the \$1.25 trillion mortgage-backed securities (MBS) program—the quantitative easing policies announced in mid-March 2009—the numerous government programs designed to benefit the larger investment banks and financial institutions have resulted in the central bank's balance sheet ballooning from \$840 billion in September 2008 to over \$2.2 trillion today. Despite being the very entities that have been disintermediating the banking industry over the last 30 years and were at the center of causing the subprime mortgage and credit crisis, in one fell swoop, the larger financial institutions—namely, the investment banks—were given direct access to the Federal Reserve's balance sheet with very few strings attached. Essentially, they were provided with all of the benefits of the commercial banks while not having to bear the same regulatory oversight, regulatory costs, or the strict regulatory examinations as the rest of the banking industry. As we discussed in the fall of 2008, it must be galling for any commercial banker to see that the investment banks were provided this access, when it is the commercial banking industry that has to carry 10% of its non-interest bearing demand deposits with the Federal Reserve and is, thus, the ultimate provider of the Federal Reserve's balance sheet. Furthermore, it is also worth noting that, in addition to the laundry list of Federal Reserve and Treasury programs subsidized by taxpayer funds, the FDIC created the Temporary Liquidity Guarantee Program (TLGP) which backs newly-issued unsecured debt of banks through the end of 2012. Given that it is only the large banks which can bear the funding costs required to issue debt in the secondary market, policymakers, yet again, chose to put the interests of the larger institutions ahead of the rest of the banking industry. As such, this program enabled larger banks to reduce their debt funding costs and thereby improve their net interest margins (NIMs)—in fact, it is estimated that the eight largest issuers of corporate debt were able to cut their interest costs by approximately \$2.2 billion in the second quarter of 2009 alone.

Next, although demand for many of these initiatives has waned over the last year, enough liquidity has already been provided via these taxpayer subsidized programs in order to keep “zombie” banks and financial institutions alive due to the fear of another Lehman Brothers-type of failure. In doing so, the government has created a “too big to fail” environment in which many of the large and already broken entities that should have failed or at least been broken up into smaller pieces are, instead, being kept afloat at the expense of the rest of the banking industry. This environment has now provided the larger institutions with a permanent cost advantage going forward, as investors will know that these entities are now deemed “too big to fail.” As such, investors are now willing to provide cheaper sources of debt and perhaps even cheaper sources of equity than they otherwise would have in a normal market environment—particularly, in light of the deterioration in credit quality in many of these banks' balance sheets. Consequently, Washington has now built a perverse incentive structure by which the large financial institutions can take unmitigated risks in order to churn outsized profits and pay out tens of billions in bonuses in the good times, all the while knowing that they will be rescued and propped up by the government in the bad times. With this precedent now set, how can the rest of the banking industry expect to compete on such an unlevel playing field when the largest players can operate under the assumption that no matter what type of risks they take and how poorly they are managed, the government will be there to bail them out should the tide turn against them? As we have noted in the past, if a regional or community bank or thrift were to require a bailout by the federal government—which over 1,300 did in the late 1980s and early 1990s—the shareholders would be left with nothing and the executives would immediately be removed from their positions and potentially prosecuted. Further, how is it fair that the larger banks were able to take down their tangible capital ratios to as low as 1% and leverage themselves by 40 times when, if a community bank's tangible capital level were to fall to below 6%, the regulators would move in and implement strict regulatory measures?

As such, **if smaller regional and community banks can be taken over by the FDIC each Friday as a result of mismanagement and excessive risk taking, it should be no different for the larger banks which the government has been protecting during the course of this financial crisis.** It is for these reasons that the **regional and community banks should push for legislation which will actually break up those institutions deemed “too big to fail” and not support the current proposal which was passed by the House in December.** Buried in this almost 1,300 page bill is language which provides the Treasury with the ability to authorize Federal Reserve banks to **provide up to a \$4 trillion backstop in order to prevent large financial institutions from failing—essentially providing an unlimited guarantee to protect Wall Street while further skewing the competitive landscape of the banking industry.** Despite all of the political bandstanding by policymakers ahead of the vote in the House that this legislation would level the banking playing field between the larger and smaller banks, the “too big to fail” notion is simply not thoroughly addressed. In fact, for how often this term was used by politicians and regulators in their pledges to overhaul the financial regulatory system, “too big to fail” is not even mentioned *once* in the entire bill.

Further, although the details are still being ironed out in Congress, it is apparent that additional parts of the proposed legislation are still not nearly stringent enough as they pertain to the regulation of certain practices of large Wall Street institutions—namely, the derivatives markets. It is astounding that over a year after the entire global financial system was on the verge of collapse and the government had to provide \$173 billion to AIG—which was principally due to the risk associated with the collapse of the derivatives market—that Washington has not been able to propose or pass any meaningful restrictions for a market that only a few large Wall Street financial firms benefit from and which still remains a ticking time bomb for the entire financial system. Therefore, we would also urge smaller institutions to push for these ancillary regulations to be enhanced as part of the overall financial reform legislation.

Now, while we do not mean to only poke holes in this legislation, we did just want to emphasize that while new financial reform is sorely needed, it has to be constructed around more stringent provisions as it pertains to the Wall Street investment banks and large financial institutions. That being said, there are some aspects of this legislation which are headed in the right direction, including: creating new mechanisms to oversee the financial system and providing more tools for the government to move quicker to seize control of the biggest financial institutions; addressing management issues; and, wiping out equity shareholders at the larger institutions. Other meaningful provisions proposed include an audit of the Federal Reserve as well as stronger and, in some cases, new federal supervision of the largest nonbanking financial firms that previously were not regulated.

Unfortunately, it is not just the multitude of government programs or the set of double standards which have created an unlevel playing field blatantly favoring the behemoth financial institutions that has made it more difficult for regional and community banks to compete with their larger counterparts. As a result of the gross negligence of the investment banks in the securitization market during this past decade—specifically, from 2002 through 2007—the valuations of many of the securitized assets which regional and community banks hold on their balance sheets have been decimated. These securities have now become a heavy burden on the economy, middle America’s pension accounts, and the banking industry’s ability to operate efficiently, as they have taken severe losses on many of their assets due to the large Wall Street investment banks having used the securitization market as their dumping ground to pass off the toxic credit risk in their pursuit of outsized fees. It is because of this practice by which Wall Street overinflates asset prices and, then, passes off the risk exposure—in this case, securities tied to the real estate market—that the rest of the banking industry now has to endure significant credit losses in their loan portfolios. Many of the complex asset-backed securities (ABS) that the Wall Street investment banks marketed as

“safe” investments were, in all reality, junk. Furthermore, the dangers of the underlying toxic assets packaged into these securities were, at the time, unbeknownst to many buyers, since the credit agencies doling out the high ratings were just as culpable in the marketing of these securities as they were essentially being paid to rate these ABS with AAA and AA grades. Now, this is not to excuse the fact that a good amount of banks were caught up in the craze of the ABS market and did not heed the old adage of “buyer beware” when it came to these securities. However, the majority of the blame for the implosion of this market still falls squarely on Wall Street’s shoulders. What is even more troubling is that, while several of these Wall Street investment banks were creating, marketing, and selling these toxic securities to investors, they were concurrently shorting these assets at the expense of banks such as yours, pension funds, and the average American’s investment and retirement accounts. If anyone else other than these large investment banks—namely Goldman Sachs—engaged in this practice, they would have likely been immediately prosecuted by the regulatory agencies. In fact, Goldman Sachs recently released an email to certain clients all but admitting that they partook in such practices—please click [here](#) to read a recent *New York Times* article as it pertains to this topic.

Lastly, as has been the case over the past two decades, whenever one of their cash cows cannot be milked any longer, Wall Street conveniently lines up several more to take its place. A prime example is that, although the shadow banking system has all but collapsed, the large Wall Street financial institutions have been able to replace much of these profits via speculating with their proprietary capital in the equity and debt markets, commodities speculation, flash and high-frequency trading, and their continuing dominance in derivatives trading—hardly your traditional banking revenue streams. It is amazing to witness all of the resources that have been committed and the actions that have been undertaken over the last two years in order to protect a few “banks” that operate like giant hedge funds—such as Goldman Sachs—which provide

no economic benefit to the average American. Although the regulations currently being considered would provide greater regulation of the overall financial system, we do not feel that the proposed regulations as they pertain to the aforementioned practices are nearly stringent enough. As such, **we would encourage regional and community bankers to speak with their respective trade groups in order to have Congress address the issues of commodities speculation, flash trading and high-frequency trading, and derivatives trading in a more thorough and expedited manner.** Unfortunately, we fear that, if regulators and policymakers do not move quicker to finally address the shortcomings in the oversight of these markets—particularly, the approximately *\$25 trillion* derivatives market—the systemic dangers already embedded in the financial system could prove to be very pronounced in the not-so-distant future.

To conclude, we find it extremely troubling that the traditional banking industry now has to play by a different set of rules and regulations while Wall Street and the larger financial institutions are in a class all by themselves. Simply put, these double standards must continue to be unbelievably frustrating and extremely aggravating for the rest of the banking industry. This is particularly true for those banks that were prudent risk takers and responsible managers, who should otherwise have been in an optimal position to take advantage of the carnage of the credit crisis by competing for deposits but are now, instead, at a competitive disadvantage. We believe that the rest of the banking industry has already had to bear a disproportionate amount of the regulatory and financial burdens associated with being a traditional commercial bank, while the larger financial institutions and Wall Street “banks”—which, in all reality, are nothing more than giant hedge funds—use their influence over Washington to keep the regulatory playing field tilted heavily in their favor. **Again, if you have not done so already, we would urge regional and community bankers to contact their respective Representatives and Senators to voice their protest over this two-tiered system which Washington and Wall Street have created.**

Federal Reserve Aggregate Bank Data

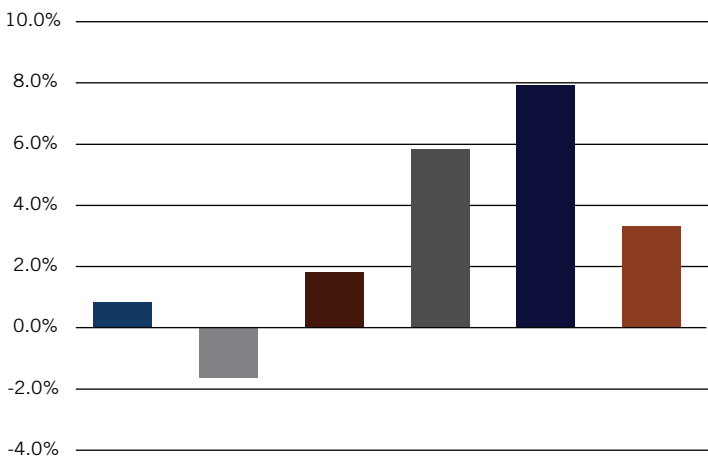
| | 11/2008 | 3/2009 | 4/2009 | 5/2009 | 6/2009 | 7/2009 | 8/2009 | 9/2009 | 10/2009 | 11/2009 | MoM | YoY |
|---|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|--------------|--------------|
| ASSETS | | | | | | | | | | | | |
| Securities | | | | | | | | | | | | |
| Secs in Bank Credit | 2,167 | 2,166 | 2,184 | 2,210 | 2,259 | 2,280 | 2,315 | 2,320 | 2,312 | 2,309 | -0.2% | 6.6% |
| Treasury & Agency | 1,253 | 1,273 | 1,262 | 1,266 | 1,300 | 1,324 | 1,361 | 1,384 | 1,380 | 1,381 | 0.1% | 10.3% |
| Other | 914 | 893 | 922 | 944 | 958 | 956 | 954 | 936 | 932 | 928 | -0.5% | 1.5% |
| Loans and Leases | | | | | | | | | | | | |
| C&I | 1,637 | 1,563 | 1,544 | 1,527 | 1,504 | 1,489 | 1,452 | 1,412 | 1,378 | 1,367 | -0.8% | -16.5% |
| Real Estate | 3,820 | 3,828 | 3,834 | 3,882 | 3,868 | 3,840 | 3,820 | 3,776 | 3,749 | 3,819 | 1.9% | 0.0% |
| Consumer | 858 | 874 | 863 | 863 | 860 | 850 | 847 | 849 | 847 | 842 | -0.5% | -1.8% |
| Other | 924 | 866 | 845 | 876 | 860 | 801 | 758 | 759 | 744 | 763 | 2.6% | -17.4% |
| Other Assets | 1,145 | 1,163 | 1,127 | 1,143 | 1,173 | 1,140 | 1,112 | 1,107 | 1,113 | 1,117 | 0.3% | -2.5% |
| Total Assets | 12,107 | 12,085 | 12,054 | 12,151 | 12,024 | 11,869 | 11,807 | 11,773 | 11,799 | 11,769 | -0.3% | -2.8% |
| LIABILITIES | | | | | | | | | | | | |
| Deposits | | | | | | | | | | | | |
| Large Time | 1,903 | 1,815 | 1,840 | 1,870 | 1,885 | 1,907 | 1,908 | 1,883 | 1,886 | 1,880 | -0.3% | -1.2% |
| Other | 5,217 | 5,486 | 5,482 | 5,589 | 5,644 | 5,611 | 5,647 | 5,712 | 5,754 | 5,802 | 0.8% | 11.2% |
| Borrowings | 2,597 | 2,440 | 2,407 | 2,420 | 2,361 | 2,246 | 2,156 | 2,047 | 2,002 | 1,959 | -2.2% | -24.6% |
| Other Liabilities | 437 | 442 | 429 | 437 | 464 | 452 | 413 | 415 | 395 | 406 | 2.9% | -7.0% |
| Total Liabilities | 11,015 | 10,814 | 10,813 | 10,887 | 10,809 | 10,639 | 10,556 | 10,537 | 10,545 | 10,529 | -0.2% | -4.4% |
| Residual (assets less liabilities) | 1,092 | 1,271 | 1,242 | 1,264 | 1,215 | 1,231 | 1,251 | 1,236 | 1,254 | 1,240 | -1.1% | 13.6% |

all values in \$ billions

SOURCE: Federal Reserve Documents

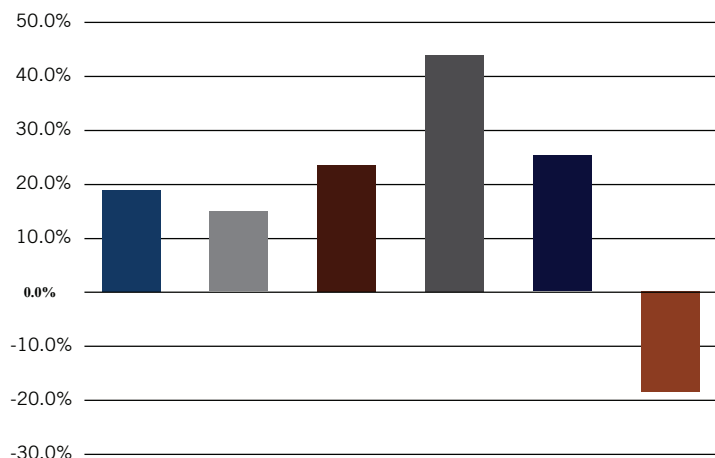
Major Market Index Performance

December 2009



SOURCE: Bloomberg, LLC

Last Twelve Months



SOURCE: Bloomberg, LLC

- Dow Jones
- S&P Financial
- S&P 500
- NASDAQ
- Russell 2000
- NASDAQ Bank

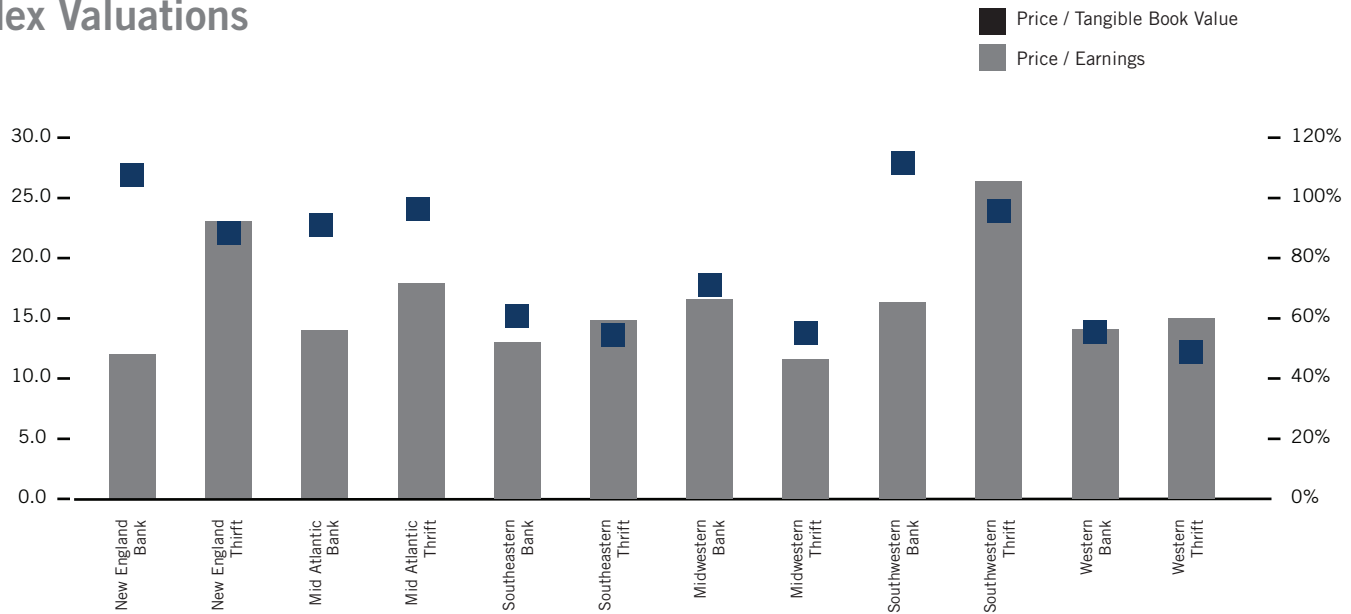
| | 1/2009 | 2/2009 | 3/2009 | 4/2009 | 5/2009 | 6/2009 | 7/2009 | 8/2009 | 9/2009 | 10/2009 | 11/2009 | 12/2009 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|---------|---------|
| Dow Jones | -8.8% | -11.7% | 7.7% | 7.3% | 4.1% | -0.6% | 8.6% | 3.5% | 2.3% | 0.0% | 6.5% | 0.8% |
| S&P Financial | -26.5% | -18.4% | 17.7% | 22.2% | 13.1% | -2.2% | 8.8% | 12.9% | 1.9% | -6.0% | 4.2% | -1.6% |
| S&P 500 | -8.6% | -11.0% | 8.5% | 9.4% | 5.3% | 0.0% | 7.4% | 3.4% | 3.6% | -2.0% | 5.7% | 1.8% |
| NASDAQ | -6.4% | -6.7% | 10.9% | 12.3% | 3.3% | 3.4% | 7.8% | 1.5% | 5.6% | -3.6% | 4.9% | 5.8% |
| Russell 2000 | -11.2% | -12.3% | 8.7% | 15.3% | 2.9% | 1.3% | 9.5% | 2.8% | 5.6% | -6.9% | 3.0% | 7.9% |
| NASDAQ Bank | -21.8% | -11.9% | 8.1% | 5.1% | 1.7% | -4.1% | 8.4% | 0.6% | 0.2% | -6.9% | 1.5% | 3.3% |

SOURCE: Bloomberg, LLC

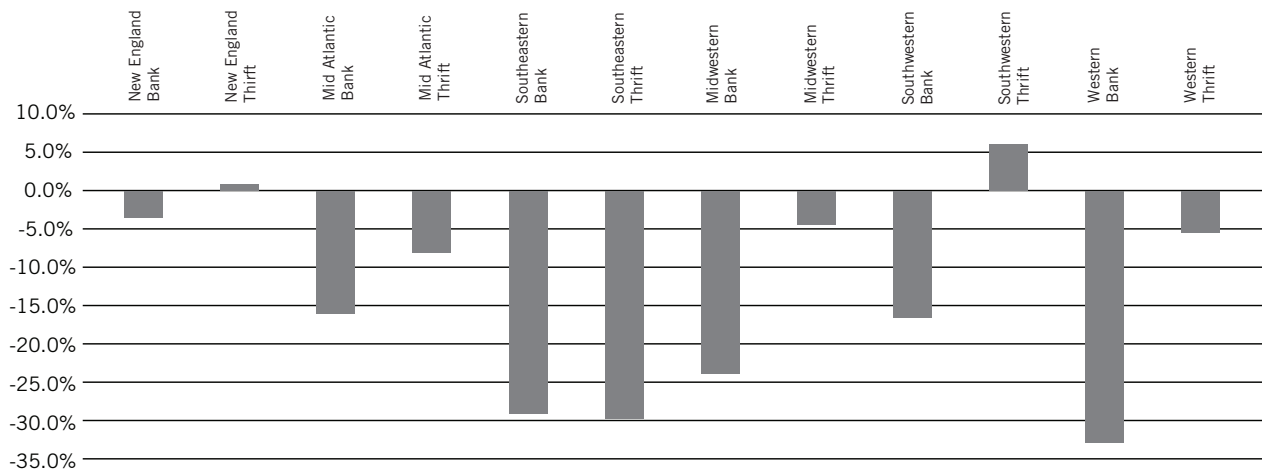
Bank and Thrift Index Valuations

| | | Price / Earnings | | Price / Book Value | | Price / TBV | | Price Performance | | | Component Companies |
|---------------------|--------|------------------|--------|--------------------|--------|--------------|--------|-------------------|--------|--------|---------------------|
| | | Weighted Avg | Median | Weighted Avg | Median | Weighted Avg | Median | 1 Mo | YTD | 12 Mo | |
| New England | Bank | 11.6 | 12.0 | 104% | 93% | 149% | 108% | 1.1% | -3.3% | -3.3% | 20 |
| | Thrift | 27.6 | 23.0 | 89% | 81% | 113% | 88% | 0.5% | 0.9% | 0.9% | 22 |
| Mid Atlantic | Bank | 9.7 | 14.0 | 97% | 86% | 169% | 91% | 0.5% | -15.7% | -15.7% | 88 |
| | Thrift | 19.2 | 17.8 | 115% | 90% | 154% | 98% | 0.4% | -7.9% | -7.9% | 54 |
| Southeastern | Bank | 7.9 | 13.0 | 72% | 52% | 107% | 61% | -0.6% | -29.0% | -29.0% | 117 |
| | Thrift | 4.2 | 14.8 | 60% | 40% | 66% | 55% | 2.2% | -29.8% | -29.8% | 11 |
| Midwestern | Bank | 14.0 | 16.5 | 126% | 58% | 167% | 72% | 5.7% | -23.4% | -23.4% | 86 |
| | Thrift | 16.0 | 11.6 | 132% | 53% | 131% | 56% | -2.7% | -4.2% | -10.8% | 43 |
| Southwestern | Bank | 10.0 | 16.4 | 123% | 103% | 173% | 112% | 2.8% | -16.2% | -16.2% | 20 |
| | Thrift | 21.5 | 26.4 | 151% | 93% | 154% | 95% | 3.1% | 6.0% | 6.0% | 7 |
| Western | Bank | 7.3 | 14.1 | 87% | 49% | 118% | 55% | 2.6% | -32.1% | -32.1% | 64 |
| | Thrift | 14.6 | 15.0 | 75% | 45% | 81% | 47% | -4.9% | -5.3% | -5.3% | 12 |

Index Valuations



YTD Price Performance



Economic Data Points - December 2009

| Date | Event | Period | Survey | Actual | Prior | Revised | Date | Event | Period | Survey | Actual | Prior | Revised |
|-------|------------------------------|--------|-----------|-----------|-----------|----------|-------|----------------------------|--------|--------|---------|--------|---------|
| 12/1 | ISM Manufacturing | NOV | 55 | 53.6 | 55.7 | -- | 12/11 | U. of Michigan Confidence | DEC P | 68.8 | 73.4 | 67.4 | -- |
| 12/1 | ISM Prices Paid | NOV | 65 | 55 | 65 | -- | 12/11 | Business Inventories | OCT | -0.20% | 0.20% | -0.40% | -0.50% |
| 12/1 | Construction Spending MoM | OCT | -0.50% | 0.00% | 0.80% | -1.60% | 12/15 | Producer Price Index (MoM) | NOV | 0.80% | 1.80% | 0.30% | -- |
| 12/1 | Pending Home Sales MoM | OCT | -1.00% | 3.70% | 6.10% | 6.00% | 12/15 | PPI Ex Food & Energy (MoM) | NOV | 0.20% | 0.50% | -0.60% | -- |
| 12/1 | Pending Home Sales YoY | OCT | -- | 28.60% | 19.80% | -- | 12/15 | Producer Price Index (YoY) | NOV | 1.80% | 2.40% | -1.90% | -- |
| 12/1 | Total Vehicle Sales | NOV | 10.50M | 10.92M | 10.45M | -- | 12/15 | PPI Ex Food & Energy (YoY) | NOV | 0.90% | 1.20% | 0.70% | -- |
| 12/1 | Domestic Vehicle Sales | NOV | 7.80M | 8.36M | 7.94M | -- | 12/15 | Empire Manufacturing | DEC | 24 | 2.55 | 23.51 | -- |
| 12/2 | MBA Mortgage Applications | 27-Nov | -- | 2.10% | -4.50% | -- | 12/15 | Industrial Production | NOV | 0.50% | 0.80% | 0.10% | 0.00% |
| 12/2 | Challenger Job Cuts YoY | NOV | -- | -72.30% | -50.70% | -- | 12/15 | Capacity Utilization | NOV | 71.10% | 71.30% | 70.70% | 70.60% |
| 12/2 | ADP Employment Change | NOV | -150K | -169K | -203K | -195K | 12/15 | NAHB Housing Market Index | DEC | 18 | 16 | 17 | -- |
| 12/2 | Fed's Beige Book | 2-Dec | | | | | 12/16 | MBA Mortgage Applications | 11-Dec | -- | 0.30% | 8.50% | -- |
| 12/3 | Nonfarm Productivity | 3Q F | 8.50% | 8.10% | 9.50% | -- | 12/16 | Consumer Price Index (MoM) | NOV | 0.40% | 0.40% | 0.30% | -- |
| 12/3 | Unit Labor Costs | 3Q F | -4.10% | -2.50% | -5.20% | -- | 12/16 | CPI Ex Food & Energy (MoM) | NOV | 0.10% | 0.00% | 0.20% | -- |
| 12/3 | Initial Jobless Claims | 28-Nov | 480K | 457K | 466K | 462K | 12/16 | Consumer Price Index (YoY) | NOV | 1.80% | 1.80% | -0.20% | -- |
| 12/3 | Continuing Claims | 21-Nov | 5400K | 5465K | 5423K | 5437K | 12/16 | CPI Ex Food & Energy (YoY) | NOV | 1.80% | 1.70% | 1.70% | -- |
| 12/3 | ICSC Chain Store Sales YoY | NOV | -- | -0.30% | 2.10% | -- | 12/16 | Housing Starts | NOV | 574K | 574K | 529K | 527K |
| 12/3 | ISM Non-Manf. Composite | NOV | 51.5 | 48.7 | 50.6 | -- | 12/16 | Building Permits | NOV | 570K | 584K | 552K | 551K |
| 12/4 | Change in Nonfarm Payrolls | NOV | -125K | -11K | -190K | -111K | 12/16 | FOMC Rate Decision | 16-Dec | 0.25% | 0.25% | 0.25% | -- |
| 12/4 | Unemployment Rate | NOV | 10.20% | 10.00% | 10.20% | -- | 12/17 | Initial Jobless Claims | 12-Dec | 465K | 480K | 474K | 473K |
| 12/4 | Change in Manuf. Payrolls | NOV | -45K | -41K | -61K | -51K | 12/17 | Continuing Claims | 5-Dec | 5170K | 5186K | 5157K | 5181K |
| 12/4 | Average Hourly Earnings MoM | NOV | 0.20% | 0.10% | 0.30% | -- | 12/22 | GDP QoQ (Annualized) | 3Q T | 2.80% | 2.20% | 2.80% | -- |
| 12/4 | Average Hourly Earnings YoY | NOV | 2.30% | 2.20% | 2.40% | 2.50% | 12/22 | Personal Consumption | 3Q T | 2.90% | 2.80% | 2.90% | -- |
| 12/4 | Average Weekly Hours | NOV | 33.1 | 33.2 | 33 | -- | 12/22 | Existing Home Sales | NOV | 6.25M | 6.54M | 6.10M | 6.09M |
| 12/4 | Factory Orders | OCT | 0.00% | 0.60% | 0.90% | 1.60% | 12/22 | Existing Home Sales MoM | NOV | 2.50% | 7.40% | 10.10% | 9.90% |
| 12/7 | Consumer Credit | OCT | -\$9.4B | -\$3.5B | -\$14.8B | -\$8.8B | 12/23 | Personal Income | NOV | 0.50% | 0.40% | 0.20% | 0.30% |
| 12/8 | NFIB Small Business Optimism | NOV | -- | 88.3 | 89.1 | -- | 12/23 | Personal Spending | NOV | 0.70% | 0.50% | 0.70% | 0.60% |
| 12/9 | MBA Mortgage Applications | 4-Dec | -- | 8.50% | 2.10% | -- | 12/23 | U. of Michigan Confidence | DEC F | 73.8 | 72.5 | 73.4 | -- |
| 12/9 | Wholesale Inventories | OCT | -0.50% | 0.30% | -0.90% | -0.80% | 12/23 | New Home Sales | NOV | 438K | 355K | 430K | 400K |
| 12/10 | Trade Balance | OCT | -\$36.8B | -\$32.9B | -\$36.5B | -\$35.7B | 12/23 | New Home Sales MoM | NOV | 1.70% | -11.30% | 6.20% | 1.80% |
| 12/10 | Initial Jobless Claims | 5-Dec | 455K | 474K | 457K | -- | 12/24 | Durable Goods Orders | NOV | 0.50% | 0.20% | -0.60% | -- |
| 12/10 | Continuing Claims | 28-Nov | 5450K | 5157K | 5465K | 5460K | 12/24 | Durables Ex Transportation | NOV | 1.10% | 2.00% | -1.30% | -0.70% |
| 12/10 | Monthly Budget Statement | NOV | -\$131.6B | -\$120.3B | -\$125.2B | -- | 12/24 | Initial Jobless Claims | 19-Dec | 470K | 452K | 480K | -- |
| 12/11 | Import Price Index (MoM) | NOV | 1.20% | 1.70% | 0.70% | 0.80% | 12/24 | Continuing Claims | 12-Dec | 5170K | 5076K | 5186K | 5203K |
| 12/11 | Import Price Index (YoY) | NOV | 2.90% | 3.70% | -5.70% | -5.60% | 12/29 | S&P/CS Composite-20 YoY | OCT | -7.20% | -7.28% | -9.36% | -9.27% |
| 12/11 | Advance Retail Sales | NOV | 0.60% | 1.30% | 1.40% | 1.10% | 12/29 | Consumer Confidence | DEC | 53 | 52.9 | 49.5 | 50.6 |
| 12/11 | Retail Sales Less Autos | NOV | 0.40% | 1.20% | 0.20% | 0.00% | 12/31 | Initial Jobless Claims | 26-Dec | 460K | 432K | 452K | 454K |
| 12/11 | Retail Sales Ex Auto & Gas | NOV | 0.20% | 0.60% | 0.30% | 0.10% | 12/31 | Continuing Claims | 19-Dec | 5100K | 4981K | 5076K | 5038K |

SOURCE: Bloomberg, LLC

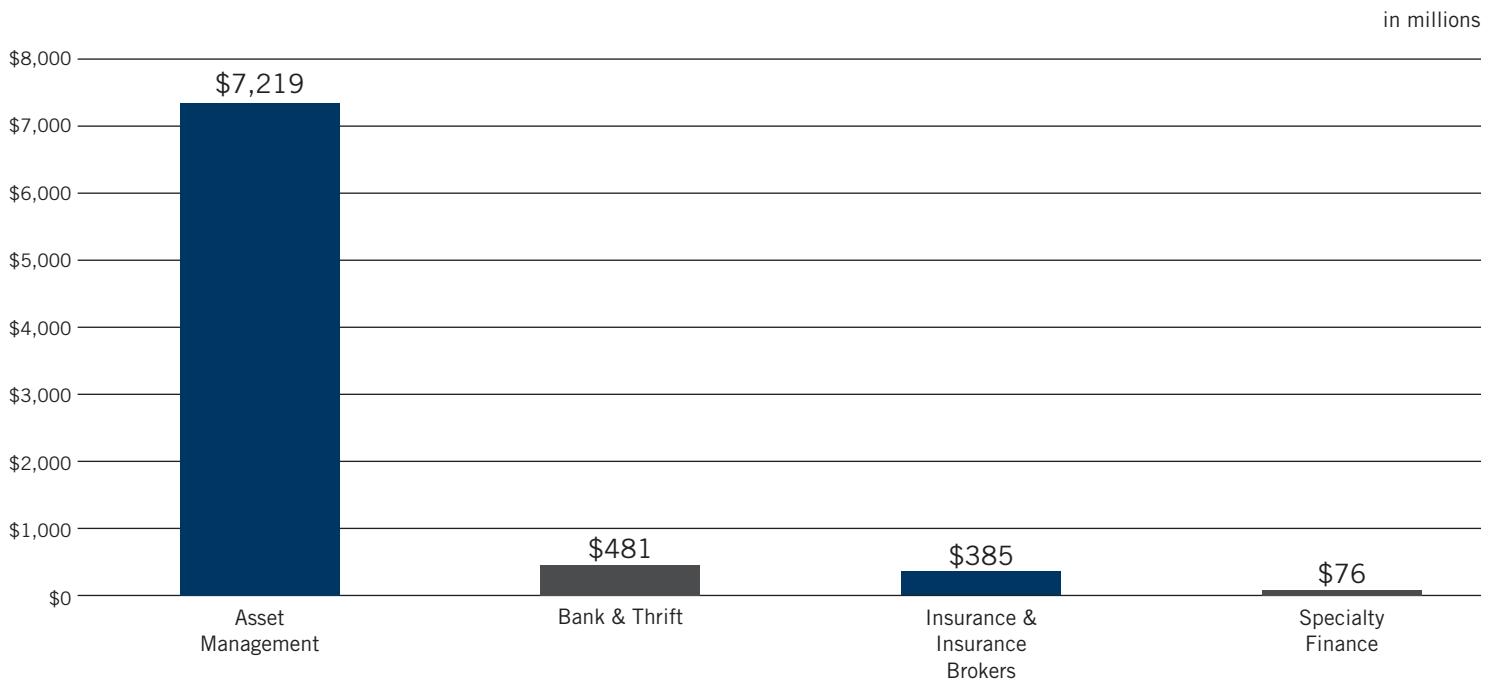
Economic Data Points - January 2010

| Date | Event | Period | Survey | Actual | Prior | Revised | Date | Event | Period | Survey | Actual | Prior | Revised |
|------|------------------------------|--------|----------|----------|----------|----------|------|--------------------------------|--------|--------|--------|---------|---------|
| 1/4 | ISM Manufacturing | DEC | 54.3 | 55.9 | 53.6 | -- | 1/20 | Producer Price Index (MoM) | DEC | 0.00% | -- | 1.80% | -- |
| 1/4 | ISM Prices Paid | DEC | 57.2 | 61.5 | 55 | -- | 1/20 | PPI Ex Food & Energy (MoM) | DEC | 0.10% | -- | 0.50% | -- |
| 1/4 | Construction Spending MoM | NOV | -0.50% | -0.60% | 0.00% | -0.50% | 1/20 | Producer Price Index (YoY) | DEC | 4.60% | -- | 2.40% | -- |
| 1/5 | Factory Orders | NOV | 0.50% | 1.10% | 0.60% | 0.80% | 1/20 | PPI Ex Food & Energy (YoY) | DEC | 1.00% | -- | 1.20% | -- |
| 1/5 | Pending Home Sales MoM | NOV | -2.00% | -16.00% | 3.70% | 3.90% | 1/20 | Housing Starts | DEC | 575K | -- | 574K | -- |
| 1/5 | Pending Home Sales YoY | NOV | 31.00% | 19.30% | 28.60% | 28.70% | 1/20 | Building Permits | DEC | 580K | -- | 584K | 589K |
| 1/5 | Total Vehicle Sales | DEC | 11.00M | 11.23M | 10.92M | -- | 1/21 | Initial Jobless Claims | 16-Jan | 440K | -- | 444K | -- |
| 1/5 | Domestic Vehicle Sales | DEC | 8.36M | 8.63M | 8.36M | -- | 1/21 | Continuing Claims | 9-Jan | -- | -- | 4596K | -- |
| 1/6 | MBA Mortgage Applications | 1-Jan | 0.10% | 0.50% | -22.80% | -- | 1/21 | RPX Composite 28dy YoY | NOV | -- | -- | -7.46% | -- |
| 1/7 | Initial Jobless Claims | 2-Jan | 440K | 434K | 432K | 433K | 1/21 | RPX Composite 28dy Index | 19-Nov | -- | -- | 193.43 | -- |
| 1/7 | Continuing Claims | 26-Dec | 4962K | 4802K | 4981K | -- | 1/21 | Philadelphia Fed. | JAN | 18 | -- | 20.4 | -- |
| 1/7 | ICSC Chain Store Sales YoY | DEC | -- | 2.80% | -0.30% | -0.20% | 1/21 | Leading Indicators | DEC | 0.70% | -- | 0.90% | -- |
| 1/8 | Change in Nonfarm Payrolls | DEC | OK | -85K | -11K | 4K | 1/25 | Existing Home Sales | DEC | 6.25M | -- | 6.54M | -- |
| 1/8 | Unemployment Rate | DEC | 10.00% | 10.00% | 10.00% | -- | 1/25 | Existing Home Sales MoM | DEC | -9.80% | -- | 7.40% | -- |
| 1/8 | Wholesale Inventories | NOV | -0.30% | 1.50% | 0.30% | 0.60% | 1/25 | Dallas Fed Manf. Activity | JAN | -- | -- | 3.80% | -- |
| 1/8 | Consumer Credit | NOV | -\$5.0B | -\$17.5B | -\$3.5B | -\$4.2B | 1/26 | S&P/CaseShiller Home Price Ind | NOV | -- | -- | 146.58 | -- |
| 1/12 | NFIB Small Business Optimism | DEC | -- | 88 | 88.3 | -- | 1/26 | S&P/CS Composite-20 YoY | NOV | -- | -- | -7.28% | -- |
| 1/12 | Trade Balance | NOV | -\$34.6B | -\$36.4B | -\$32.9B | -\$33.2B | 1/26 | S&P/CS 20 City MoM% SA | NOV | -- | -- | -- | -- |
| 1/13 | MBA Mortgage Applications | 8-Jan | -- | 14.30% | 0.50% | -- | 1/26 | Consumer Confidence | JAN | 53.5 | -- | 52.9 | -- |
| 1/14 | Advance Retail Sales | DEC | 0.50% | -0.30% | 1.30% | 1.80% | 1/26 | House Price Index MoM | NOV | -- | -- | 0.60% | -- |
| 1/14 | Retail Sales Less Autos | DEC | 0.30% | -0.20% | 1.20% | 1.90% | 1/26 | Richmond Fed Manufact. Index | JAN | -- | -- | -4 | -- |
| 1/14 | Retail Sales Ex Auto & Gas | DEC | 0.20% | -0.30% | 0.60% | 1.00% | 1/27 | MBA Mortgage Applications | 22-Jan | -- | -- | -- | -- |
| 1/14 | Initial Jobless Claims | 9-Jan | 437K | 444K | 434K | 433K | 1/27 | New Home Sales | DEC | 374K | -- | 355K | -- |
| 1/14 | Continuing Claims | 2-Jan | 4750K | 4596K | 4802K | 4807K | 1/27 | New Home Sales MoM | DEC | 5.40% | -- | -11.30% | -- |
| 1/14 | Business Inventories | NOV | 0.30% | 0.40% | 0.20% | 0.40% | 1/27 | FOMC Rate Decision | 27-Jan | 0.25% | -- | 0.25% | -- |
| 1/15 | Consumer Price Index (MoM) | DEC | 0.20% | 0.10% | 0.40% | -- | 1/28 | Chicago Fed Nat Activity Index | DEC | -- | -- | -0.32 | -- |
| 1/15 | CPI Ex Food & Energy (MoM) | DEC | 0.10% | 0.10% | 0.00% | -- | 1/28 | Durable Goods Orders | DEC | 1.60% | -- | 0.20% | -- |
| 1/15 | Consumer Price Index (YoY) | DEC | 2.80% | 2.70% | 1.80% | -- | 1/28 | Durables Ex Transportation | DEC | 0.20% | -- | 2.00% | -- |
| 1/15 | CPI Ex Food & Energy (YoY) | DEC | 1.80% | 1.80% | 1.70% | -- | 1/28 | Initial Jobless Claims | 23-Jan | -- | -- | -- | -- |
| 1/15 | Empire Manufacturing | JAN | 12 | 15.92 | 2.55 | 4.5 | 1/28 | Continuing Claims | 16-Jan | -- | -- | -- | -- |
| 1/15 | Industrial Production | DEC | 0.60% | 0.60% | 0.80% | 0.60% | 1/29 | GDP QoQ (Annualized) | 4Q A | 4.20% | -- | 2.20% | -- |
| 1/15 | Capacity Utilization | DEC | 71.80% | 72.00% | 71.30% | 71.50% | 1/29 | Personal Consumption | 4Q A | -- | -- | 2.80% | -- |
| 1/15 | U. of Michigan Confidence | JAN P | 74 | 72.8 | 72.5 | -- | 1/29 | GDP Price Index | 4Q A | 1.40% | -- | 0.40% | -- |
| 1/19 | Net Long-term TIC Flows | NOV | \$30.0B | -- | \$20.7B | -- | 1/29 | Core PCE QoQ | 4Q A | -- | -- | 1.20% | -- |
| 1/19 | Total Net TIC Flows | NOV | -- | -- | -\$13.9B | -- | 1/29 | Chicago Purchasing Manager | JAN | -- | -- | 60 | 58.7 |
| 1/19 | NAHB Housing Market Index | JAN | 17 | -- | 16 | -- | 1/29 | U. of Michigan Confidence | JAN F | -- | -- | 72.8 | -- |
| 1/20 | MBA Mortgage Applications | 15-Jan | -- | -- | 14.30% | -- | 1/29 | NAPM-Milwaukee | JAN | -- | -- | 52 | -- |

SOURCE: Bloomberg, LLC

M&A Transaction Update

Announced Transactions - December 2009



SOURCE: SNL Financial, Bloomberg, Factiva

Deal Count - December 2009

| | |
|----------------------------------|----|
| Insurance & Insurance Brokerage | 19 |
| Asset Management & Broker/Dealer | 17 |
| Bank & Thrift | 8 |
| Specialty Finance | 8 |

SOURCE: SNL Financial, Bloomberg, Factiva

Deal Count - 2009 YTD

| | |
|----------------------------------|-----|
| Insurance & Insurance Brokerage | 175 |
| Asset Management & Broker/Dealer | 109 |
| Bank & Thrift | 101 |
| Specialty Finance | 55 |

SOURCE: SNL Financial, Bloomberg, Factiva

Top Financial Advisors in Bank and Thrift Transactions

Last Five Years, Sell-Side Advisory Transactions

| Rank | Firm | # of Deals |
|----------|--|------------|
| 1 | Sandler, O'Neill & Partners, L.P | 96 |
| 2 | Keefe, Bruyette & Woods, Inc. | 88 |
| 3 | Hovde Financial | 76 |
| 4 | Howe Barnes Hoefer & Arnett, Inc. | 51 |
| 5 | Stifel, Nicolaus & Company, Inc. | 40 |
| 6 | Sheshunoff & Co. Investment Banking LP | 23 |
| 7 | Morgan Keegan & Company, Inc. | 18 |
| 8 | Austin Associates, LLC. | 17 |
| 9 | Carson Medin Company | 16 |
| 10 | Professional Bank Services Inc. | 15 |

SOURCE: SNL Financial (data from 12/31/2004-12/31/2009)

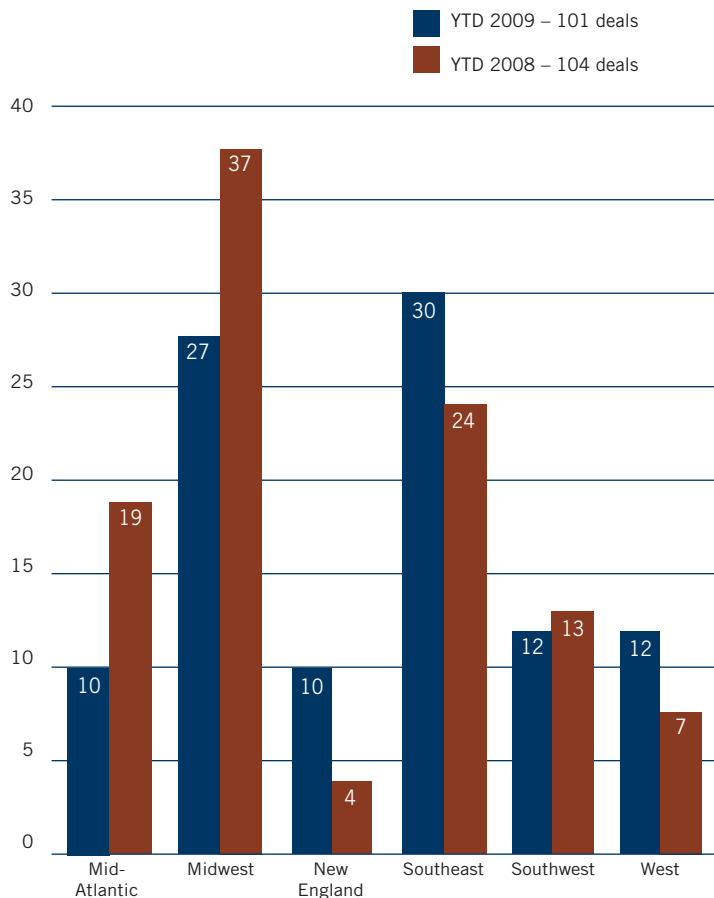
Bank & Thrift Transactions - December 2009

| Buyer | Buyer State | Target | Buyer State | Announced | DV (\$MM) | P/LTM Ern | P/TBV (%) | Core Deposit Premium (%) |
|-----------------------------|-------------|----------------------------------|-------------|-----------|-----------|-----------|-----------|--------------------------|
| Badger Capital, LLC | IL | Anchor Bancorp Wisconsin Inc. | WI | 12/1/09 | 400.0 | NA | NA | NA |
| Family Bancorp Inc. | TX | Medina Bankshares, Incorporated | TX | 12/3/09 | NA | NA | NA | NA |
| S.B.C.P. Bancorp, Inc. | WI | Black Earth State Bank | WI | 12/10/09 | NA | NA | NA | NA |
| Management group | | Ohio Commerce Bank | OH | 12/15/09 | 6.2 | NM | 140.28 | 9.01 |
| PNBK Holdings LLC | | Patriot National Bancorp, Inc. | CT | 12/16/09 | NA | NM | 58.82 | -6.38 |
| Cherry Hills Founders Group | CO | Mountain View Bank of Commerce | CO | 12/17/09 | NA | NA | NA | NA |
| Tower Bancorp, Inc. | PA | First Chester County Corporation | PA | 12/27/09 | 64.8 | NM | 90.16 | -1.04 |
| Horizon Bancorp | IN | Am Tru Inc. | IN | 12/29/09 | 9.6 | NM | 151.52 | 3.68 |

SOURCE: SNL Financial

Bank & Thrift Transactions

by Region



SOURCE: SNL Financial

Deal Pricing by Region - 2009 YTD

| Region | Deal Value (MM) | Price/TBV (%) | P/ LTM Ern (x) | P/ Core Dep Prem (%) |
|--------------|-----------------|---------------|----------------|----------------------|
| Mid-Atlantic | \$461 | 0.0 | 17.2 | -2.0 |
| Midwest | \$588 | 105.5 | 16.6 | 0.6 |
| New England | \$156 | 115.4 | NA | -0.8 |
| Southeast | \$511 | 101.8 | 19.8 | 3.7 |
| Southwest | \$50 | 142.0 | 17.9 | 4.9 |
| West | \$105 | 109.7 | 18.3 | 4.9 |
| Total | \$1,871 | 96.4 | 17.8 | 1.9 |

SOURCE: SNL Financial

Deal Pricing by Quarter

| Quarter | Deal Value (MM) | Price/TBV (%) | P/ LTM Ern (x) | P/ Core Dep Prem (%) |
|---------|-----------------|---------------|----------------|----------------------|
| 2Q2007 | \$30,841 | 229.3 | 26.5 | 16.4 |
| 3Q2007 | \$9,324 | 215.3 | 26.2 | 17.9 |
| 4Q2007 | \$11,660 | 197.6 | 23.5 | 11.9 |
| 1Q2008 | \$5,093 | 190.3 | 26.9 | 12.4 |
| 2Q2008 | \$1,855 | 197.3 | 30.1 | 8.4 |
| 3Q2008 | \$27,195 | 149.9 | 25.9 | 9.0 |
| 4Q2008 | \$1,680 | 123.0 | 32.6 | 2.1 |
| 1Q2009 | \$278 | 93.0 | 18.8 | -1.9 |
| 2Q2009 | \$398 | 99.6 | 17.5 | 3.6 |
| 3Q2009 | \$452 | 103.8 | 14.0 | 2.7 |
| 4Q2009 | \$743 | 126.0 | NA | 3.2 |

SOURCE: SNL Financial

Insurance and Insurance Brokerage Transactions - December 2009

| Buyer | Target | Announced | DV (\$MM) |
|---|--|-----------|-----------|
| Wells Fargo & Company | ILeader, LLC | 12/1/09 | NA |
| Wells Fargo & Company | Orca Bay Benefits, LLC. | 12/1/09 | NA |
| Lawson-Hawks Insurance Associates, Inc. | J6 Insurance Services, Inc. | 12/4/09 | NA |
| Aon Corporation | Allied North America | 12/7/09 | NA |
| Hub International Limited | Associated Insurance Managers, Ltd. | 12/8/09 | NA |
| Overture Acquisition Corporation | JNL Bermuda, LLC | 12/10/09 | 120 |
| Aon Corporation | FCC Global Insurance Services | 12/15/09 | NA |
| United Insurance Group | Mexico Agency business | 12/15/09 | NA |
| Marsh & McLennan Companies, Inc. | HSBC Insurance Brokers Limited | 12/18/09 | 217.7 |
| Marsh & McLennan Companies, Inc. | NIA Group LLC | 12/21/09 | NA |
| TRC Stevenson | Merritt & McKenzie, Inc. | 12/21/09 | NA |
| Capacity Group, Inc. | EJA & Associates, Inc. | 12/28/09 | NA |
| Management group | NB&T Insurance Agency, Inc. | 12/29/09 | NA |
| PacificSource Health Plans | Clear One Health Plans, Inc. | 12/30/09 | 46.9 |
| Hub International Limited | Wescom Insurance Services, LLC | 12/31/09 | NA |
| Impac Mortgage Holdings, Inc. | Title Insurance Agency & Escrow Operations | 12/31/09 | NA |
| Northeast Delta Dental | Combined Services, LLC | 12/31/09 | NA |
| TowneBank | Taylor Johnson Group | 12/31/09 | NA |
| Brown & Brown, Inc. | Alamo Insurance Group, Inc. | 12/31/09 | NA |

SOURCE: Factiva, AM Best

Asset Management/Broker-Dealer Transactions - December 2009

| Buyer | Target | Announced | DV (\$MM) |
|---|---|-----------|-----------|
| AI Frank Asset Management Inc | Innealta Portfolio Advisors, LLC | 12/1/09 | NA |
| State Street Corporation | Mourant International Finance Administration | 12/1/09 | NA |
| UMB Financial Corporation | American National Bank's Corporate Trust Business | 12/1/09 | NA |
| BKF Capital Group, Inc. | Catalyst Financial, LLC | 12/2/09 | 0.1 |
| Saxo Bank A/S | E*TRADE Local Nordic Business | 12/3/09 | NA |
| Societe Generale SA | Metropolitan West Asset Management LLC | 12/4/09 | NA |
| Western & Southern Mutual Holding Company | Sena Group | 12/7/09 | NA |
| JHS Capital Holdings | Pointe Capital, Inc. | 12/11/09 | NA |
| Affiliated Managers Group, Inc. | Highbury Financial Inc. | 12/12/09 | 113.6 |
| FBR Capital Markets Corporation | AFBA 5Star Funds Operations | 12/14/09 | NA |
| Imperial Capital Group Holdings, LLC | Mercanti Investment banking assets | 12/14/09 | NA |
| Bicknell Family Holding Co., LLC | Guilford Capital Management LLC | 12/15/09 | NA |
| Bicknell Family Holding Company, LLC | Palmer Square Capital Management, LLC | 12/15/09 | NA |
| Wells Fargo & Company | Prudential Retail Brokerage Business | 12/15/09 | 4,500.0 |
| Undisclosed Buyer | E*TRADE Local German Business | 12/16/09 | NA |
| Piper Jaffray Companies | Advisory Research Holdings, Inc. | 12/20/09 | 218.0 |
| State Street Corporation | Intesa Securities Services Business | 12/21/09 | 2,498.4 |
| Advisor Software, Inc. | Advisor Partners, LLC | 12/22/09 | NA |
| Management Group | Miller/Russell & Associates, Inc. | 12/23/09 | 2.7 |

SOURCE: Factiva, Bloomberg

Specialty Finance Transactions - December 2009

| Buyer | Target | Announced | DV (\$MM) |
|--|---|-----------|-----------|
| Anchor Funding Services, Inc. | Aurora Service Assets of Purchase Order Finance & A/R Factoring | 12/4/09 | 3.2 |
| First McMinville Corporation | Kensington Financial Group, LLC | 12/6/09 | NA |
| Bibby Line Group Limited | FreightCheck LLC | 12/11/09 | NA |
| Embrace Home Loans, Inc. | Mason Dixon Funding, Inc. | 12/18/09 | NA |
| Elliott Management Corp. | Premier Asset Management Company | 12/21/09 | 37.5 |
| NewBridge Bancorp | Bradford Mortgage Company LLC | 12/21/09 | NA |
| Harel Insurance Investments & Financial Services Ltd | EMI Mortgage Business | 12/23/09 | 35.5 |
| Alerus Financial Corporation | Residential Mortgage Group Inc. | 12/31/09 | NA |

SOURCE: Factiva, Bloomberg, Reuters