



Hovde

Financial Institutions
Monthly Overview

Capital Markets
Economic Data Review
M&A Statistics

May 2010

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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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“It was the best of times, it was the worst of times...”
—Charles Dickens, from *“A Tale of Two Cities”* (1859)

This dichotomy holds true for many things in life—including first quarter bank earnings, in that the worse an institution’s fundamentals were, then the better its stock performed. Although this has often been the case over the past year, as investors have looked past fundamentals and climbed over one another to invest in bank stocks regardless of the condition of their balance sheets all in the name of “normalized” earnings power, the response to first quarter earnings took the “risk trade” to all new heights. Nowhere was this voracious risk appetite more apparent than among a dozen or so community banks whose stock prices skyrocketed when they “returned to profitability” due simply to reserve releases (which would not ordinarily be a cause for criticism except for the fact that the banks that were most likely to under-provide were the ones with the highest nonperformers and the lowest reserves). Furthermore, investors were all too willing to hew to the siren’s song about turning the proverbial corner, all the while forgetting that first quarter results tend to be propped up both by stronger trading revenues and seasonally better credit metrics. However, as we will discuss, credit quality and core earnings power actually continued to erode, particularly at smaller institutions.

Before we get started, it is worth pointing out that many of the underlying trends normally observed in the banking industry were obfuscated this quarter by the implementation of accounting rules SFAS 166/167, which forced (mostly larger) financial institutions to bring back onto their balance sheets large volumes of loans previously securitized and/or housed in certain off-balance sheet vehicles. This accounting change proved to impact industry earnings in a variety of ways and, as such, we refer to it throughout this piece but would encourage readers to examine its implications more closely on their own.

From 10,000 feet, it would appear that banks and thrifts rebounded sharply in the first quarter as the industry reported earnings of \$24.7 billion (before preferred dividends) versus \$336 million in the fourth quarter of 2009. However, once again, there were a handful of drivers that might call into question the quality and sustainability of that sequential improvement. For starters, there was Citigroup’s \$10 billion in costs in the fourth quarter to sever some ties with the

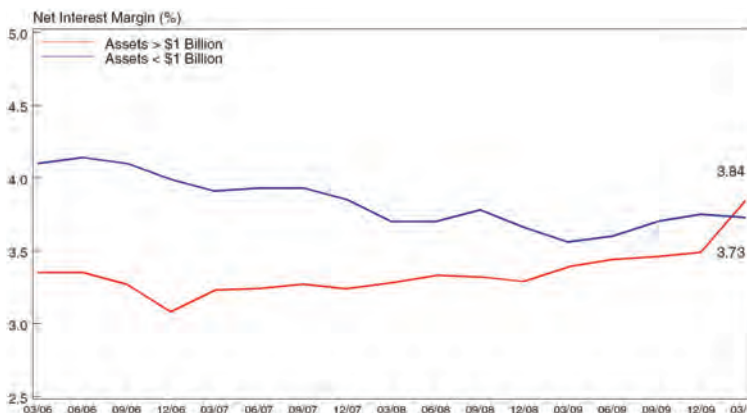
government, which, after taxes, accounted for about one-quarter of the sequential increase in earnings. In addition, three banks—JP Morgan Chase, Bank of America, and Wells Fargo—posted a combined \$2.75 billion in “fair value” write-ups, largely on assets that were foisted upon them during the great government-driven consolidation of too-big-to-fail entities in late 2008. But, far and away, the biggest driver this quarter was trading revenue (not counting the spread component of trading activities), which jumped to \$26.8 billion from \$6.3 billion in the prior quarter. Not surprisingly, the behemoth Wall Street investment banks, which are, in all reality, more like giant hedge funds rather than banks—Goldman Sachs, Morgan Stanley, Citigroup, JP Morgan, and Bank of America (mainly through its Merrill Lynch subsidiary)—accounted for 94% of the industry’s trading gains, and, as a result, generated more than \$16 billion in earnings, or nearly two-thirds of the industry’s total net income. Therefore, when stripping out this “Gang of Five” and the Wells Fargo reversals of Wachovia’s write-downs, earnings for more traditional banks and thrifts were closer to \$7.2 billion for the quarter—still a vast improvement from the fourth quarter, but nowhere near the profitability levels that were cited in the press or by the “perma-bulls” on the sell-side.

Conversely, other revenue streams did not fare as well from the preceding quarter. For instance, investment banking underwriting and advisory fees were lower by nearly 20% sequentially and venture capital revenues were off by just over 30%. Further, the more traditional sources of banking revenue also sagged sequentially—service charges on deposit accounts were off by 8%; fees from fiduciary activities were lower by 3%; and, revenues from the sales and securitizations of residential mortgages fell by 20%. In addition, loan servicing fees fell by more than 40% (this latter category was negatively impacted at least in part by the aforementioned accounting changes, but was offset by an increase in net interest income (NII)). While the first quarter is typically a seasonally weak period for traditional banking revenues, particularly relative to the fourth quarter’s strength in cards and asset management, it is worth noting that these four bread-and-butter sources of bank earnings, *combined*, generated less in revenues for the industry than trading alone this quarter.

In fact, very few non-trading businesses seemed to hold their own during the first quarter and those that did are a small portion of the revenue pie. Commissions from the sales of insurance and annuities rose by 4%, while securities brokerage revenues were up about 6.5%. Ironically, ATM transaction and credit/debit interchange fees that were disclosed in the industry’s regulatory filings (note: not all banks and thrifts report these fees) were up 10% sequentially—at a time when Congress is looking to reduce the amount banks can charge for either service. Sadly, however, all of these businesses combined account for only 5% to 7% of the industry’s revenues.

Fortunately, NII was up sharply. However, this was entirely due to the aforementioned SFAS 166/167 accounting changes, which drove up both earning assets and net interest margins (NIMs). According to FDIC data, the average NIM jumped to a seven-year high of 3.83% from 3.53% in the fourth quarter. However, this was primarily due to the impact of the accounting changes, as more high-yielding assets came back onto bank balance sheets which were funded by wholesale borrowings, allowing for a sizable increase in average spreads at current short rates. Furthermore, most of that NIM improvement occurred at only a handful of large credit card companies (including three of the “Gang” members we mentioned above). In fact, only 41% of FDIC-insured institutions reported higher NIMs quarter-over-quarter, compared to 55% exhibiting NIM increases from the third to fourth quarter of 2009. Consequently, as shown below, NIMs jumped at larger institutions in the first quarter while contracting modestly at smaller banks.

**Quarterly Net Interest Margins, Annualized
2006-2010**



Source: FDIC

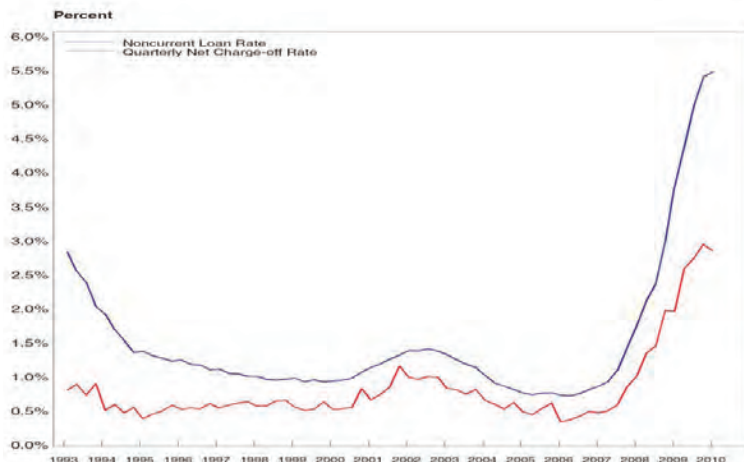
As for acquiring assets, although loans officially grew by 3.2% on an aggregate basis sequentially, this “growth” was also driven by the implementation of SFAS 166/167. After backing out the volume of loans “repatriated” during the first quarter, we estimate that total loans actually decreased by 1.9%—an annualized rate of decline of 7.6% and the seventh straight quarter of loan contraction. As has been the case since the beginning of this recession, banks continue to remain leery of lending to consumers for a variety of reasons which we have cited before, including a 9.7% unemployment rate and the fact that one in seven mortgages is either in foreclosure or in arrears by at least one payment.

And while many CEOs were touting a stabilization in commercial credit line utilization on their first-quarter earnings conference calls, most are still telling us offline that draw-downs are simply not yet occurring. Moreover, the Federal Reserve estimates that total loans declined another 1% through the first seven weeks of the second quarter, including a 1.1% decrease in commercial and industrial (C&I) loans. To the extent there is any loan activity taking place, we are also hearing that pricing and credit terms are becoming aggressive again because of the sheer number of banks trying to court the relatively few creditworthy borrowers.

As it pertains to the all important question of the credit quality of the banks’ existing loans, one would think things became appreciably better this quarter, based on the amount of provisions they set aside for future loan losses (which we discuss in greater detail further below). However, contrary to what most market pundits and commentators are attempting to spin, credit quality has only continued to worsen. Despite the relatively steady flow of loan write-offs, “noncurrent” loans (which by the FDIC’s definition are loans past due at least 90 days or on nonaccrual status) marched to another new high for the 26 years for which the FDIC has been collecting this data, hitting a stunning \$409.3 billion, or 5.46% of all loans. Again, as we have discussed in the past, what is even more disturbing is that these figures do not include troubled debt restructurings (TDRs), mortgage modifications, foreclosed properties (i.e., other real estate owned (OREO), or “early-stage” delinquencies. By our count, if we were to add up all of the buckets of loans that for one reason or another would be problematic to a bank

credit officer, we would be talking about a figure north of 7.75% of all loans industry wide.

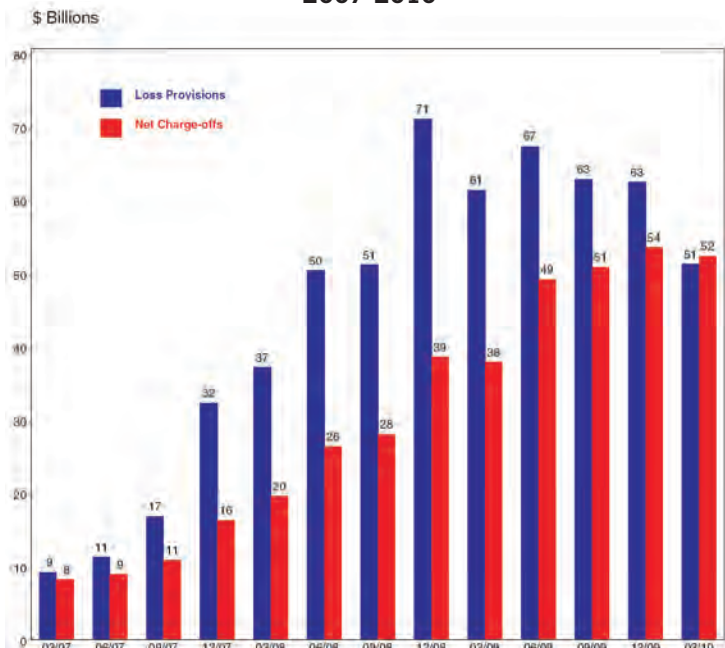
Noncurrent Loan and Quarterly Net Charge Off Rates 1993-2010



Source: FDIC

As shown below, loan loss provisions at FDIC-insured institutions dropped sharply in the first quarter, even though net charge-offs (NCOs) remained elevated at roughly \$50 billion for the fourth consecutive quarter. In fact, it was the first time since the cycle began that banks, as a whole, underprovided vis-à-vis loan losses. However, once again, there was a disparity between the haves and have-nots: only 27% of banks actually underprovided (including every one of the “Gang of Five”), while 67% continued building reserves.

Quarterly Net Charge-Offs vs. Loan Loss Provisions 2007-2010



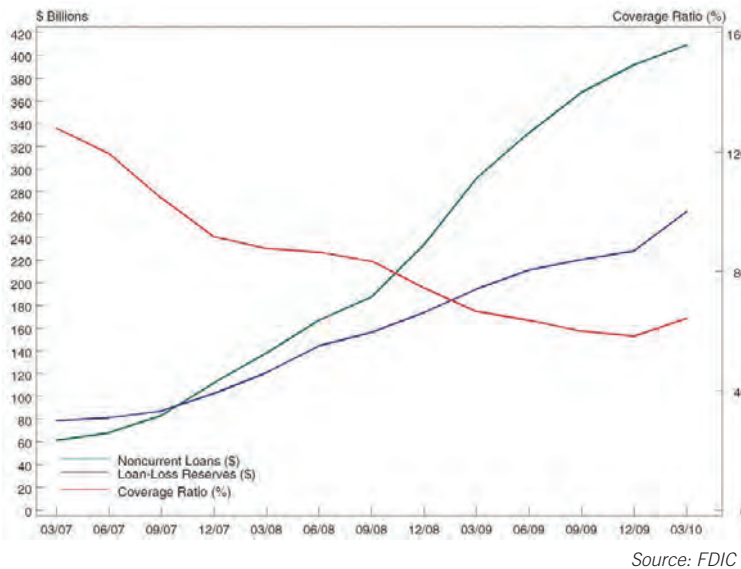
Source: FDIC

What was perhaps the most interesting provision trend in the first quarter, however, was the frequency with which we saw banks with the worst credit quality releasing reserves in order to “return to profitability” or to at least make their reported loss appear less disastrous. For instance, while one might ordinarily expect under-provisions to occur only at banks with strong reserve positions, 564 of the companies that did so during the first quarter ranked in the lowest quartile in the banking industry in terms of their reserve coverage of nonperforming loans. Of this amount, 165 were magically profitable for the quarter, often putting out press releases about their dramatic turnaround. And, indeed, many were rewarded with massive spikes in their stock prices the day of their earnings release and perhaps a few days thereafter. However, over time, those stocks gave back those gains as investors caught on to the sleight of hand and came to the realization that, for many of the banks employing this kind of deceit, it was a last gasp of desperation.

The under-provisions were also interesting from the perspective that neither loan losses nor problem loans decreased in any meaningful way. For instance, while the NCO ratio for all FDIC-insured institutions did retreat slightly to 2.84% in the first quarter from its recent post Great Depression-high of 2.89% in the prior quarter (as shown in the chart earlier in this credit quality section), much of that decline was attributable either to the seasonal decline in card losses or to the huge volume of previously-securitized assets brought back onto balance sheets that ballooned the denominator.

Fortunately, the accounting changes this quarter also meant that aggregate loan loss reserves increased by 15.1% in the first quarter despite the under-provisions. Unfortunately, this jump was because SFAS 166/167 required the affected institutions to convert the equity capital directly into loan reserves. Nonetheless, the conversion translated into the first increase in the average ratio of reserves to noncurrent loans and leases in 16 quarters, from 58.3% to 64.2%. However, it is again worth noting that only four banks—Citigroup, JP Morgan, Bank of America, and Capital One—accounted for 97% of the reserves created by the implementation of the accounting change.

**Reserve Coverage Ratio
2007-2010**



Turning briefly back to the topic of loan restructurings, one of the serious impediments still facing the banking industry and the economy as a whole is the distressed commercial real estate market and the loans backed by these properties. With commercial property values down by 25% on a year-over-year basis according to Moody's and national office vacancy rates hovering around 17% according to CB Richard Ellis, the growing volume of troubled commercial real estate loans held on many banks' balance sheets will only further weigh on their core earnings power. What investors and market observers may not be fully aware of is that more lenders have increasingly been engaging in a so-called "extend and pretend" practice by which banks renegotiate troubled loans and delay taking inevitable losses on debt that is backed by struggling commercial properties (for a recent Bloomberg article on this topic, please click [here](#)). According to Real Capital Analytics, lenders and commercial property owners restructured \$10.5 billion of troubled debt

during the first quarter—almost five times the amount from a year earlier—which represented nearly half of newly troubled and foreclosed commercial properties. As the foreclosure process can often prove to be more costly than restructuring a loan, banks have been granting longer extensions—anywhere from two years to seven years, versus 30 to 60 days in 2009. And, the reason the banks have been willing to rework and extend commercial property loans is because they are betting on a rebound in this market. So, if one believes that the commercial real estate market will make a rapid comeback in the next few years, then lenders stand to realize a steady revenue stream once again. However, if one, on the other hand, foresees this market either continuing to remain at these distressed levels or worsening—as we do—then, with an estimated \$1.4 trillion in commercial mortgages maturing through 2014 (according to Deloitte Real Estate Services), there remains plenty of risk for the banks engaging in this practice, as there will come a point when they will no longer be able to delay recognizing these losses.

With that in mind, we can now take a closer look at the trend in nonperforming assets and 90-day delinquencies (NPAs+90s)—excluding those covered by loss-sharing agreements with the government—which are being understated this cycle by the liberal use of the recently relaxed rules for TDRs. Yet, despite the growing propensity to restructure large underwater commercial property loans, NPAs+90s still increased by 6% during the first quarter, despite an 11% increase in TDRs. We should also point out that the growth in TDRs is net of those loans that were restructured before October and have managed to make six consecutive payments under the new relaxed terms, thereby allowing the bank to return them to performing status (even though history suggests many will only re-default in the not-too-distant future).

	2010Q1	2009Q4	% Chg
NPA+90s (excl TDRs)	458,885,647	432,291,663	6.2%
Gtd By US Gov't	<u>-66,981,013</u>	<u>-62,688,149</u>	6.8%
Net NPA+90s	391,904,634	369,603,514	6.0%
% of Loans	5.24%	5.10%	
30-89s	144,243,126	139,639,158	3.3%
Gtd By US Gov't	<u>-11,762,858</u>	<u>-10,728,103</u>	9.6%
Net 30-89s	132,480,268	128,911,055	2.8%
% of Loans	1.78%	1.79%	
Modified RFMs	41,388,066	36,820,072	12.4%
Other TDRs	<u>22,608,861</u>	<u>20,910,996</u>	8.1%
TDRs + Mods	63,996,927	57,731,068	10.9%
% of Loans	0.86%	0.80%	
Charge-offs	56,887,788	58,492,093	-2.7%
Recoveries	<u>4,563,656</u>	<u>3,890,792</u>	17.3%
NCOs	52,324,132	54,601,301	-4.2%
Est'd NCO%	2.82%	3.03%	
LLR%	3.44%	3.06%	15.9%
Reserve Cov'g of NPA+90s (excl TDRs)	65%	60%	
Reserve Cov'g of All Problem Loans	43%	40%	

Source: FDIC call reports and OTS TFRs

In addition, early-stage delinquencies (i.e., those past due 30-89 days) increased by 2.8%. Underneath the increase, however, was an expected improvement across most consumer loan categories, which we typically see in the first quarter of the year, as the seasonal impact of tax refunds enable consumers to catch up on late payments. As a result, four important consumer segments experienced meaningful declines in 30-89-day delinquencies, as residential first mortgages (RFMs) fell 3.8%, second liens fell by nearly 15%, home equity lines/loans (HELOCs) fell 6.2%, and auto and student loans fell by 12.5%.

	2010Q1	2009Q4	% Chg	% Delinq
HELOC NPL+90s	11,367,851	12,045,004	-5.6%	
HELOC 30-89s	<u>8,153,379</u>	<u>8,694,883</u>	-6.2%	
	19,521,230	20,739,887	-5.9%	3.0%
2nd Lien NPL+90s	6,312,779	6,265,508	0.8%	
2nd Lien 30-89s	<u>3,926,402</u>	<u>4,611,606</u>	-14.9%	
	10,239,181	10,877,114	-5.9%	6.0%
RFM NPL+90s	185,594,615	172,324,925	7.7%	
RFM 30-89s	<u>54,106,717</u>	<u>56,255,434</u>	-3.8%	
	239,701,332	228,580,359	4.9%	14.0%
Card NPL+90s	21,321,800	13,658,144	56.1%	
Card 30-89s	<u>17,878,442</u>	<u>11,020,235</u>	62.2%	
	39,200,242	24,678,379	58.8%	5.8%
Auto/Student/Personal NPL+90s	9,973,066	9,657,914	3.3%	
Auto/Student/Personal 30-89s	<u>13,758,449</u>	<u>15,715,400</u>	-12.5%	
	23,731,515	25,373,314	-6.5%	3.4%

Source: FDIC call reports and OTS TFRs

However, the commercial side paints a different story, as total construction delinquencies increased by 1.3%, which now leaves a stunning 24.2% of these loans in some stage of delinquency (not counting those that have already been charged off, restructured, or taken into OREO). Further, there were large increases in troubled commercial real estate loans, as multifamily delinquencies increased by 14.4% and delinquent owner-occupied commercial mortgages jumped by over 16%. We suspect that the breakage in commercial real estate portfolios would have actually been even worse had there not been such a wave of restructuring in this space as we discussed earlier in this piece.

	2010Q1	2009Q4	% Chg	% Delinq
Construc'n NPA+90s	87,128,905	86,104,659	1.2%	
Construc'n 30-89s	<u>11,731,558</u>	<u>11,474,759</u>	2.2%	
	98,860,463	97,579,418	1.3%	24.2%
Multifam NPA+90s	12,509,108	10,824,028	15.6%	
Multifam 30-89s	<u>2,752,465</u>	<u>2,516,151</u>	9.4%	
	15,261,573	13,340,179	14.4%	7.1%
Income Property NPL+90s	28,192,161	26,464,323	6.5%	
Income Property 30-89s	<u>9,711,901</u>	<u>8,067,752</u>	20.4%	
	37,904,062	34,532,075	9.8%	6.6%
Owner-Occ'd NPL+90s	17,271,437	14,751,045	17.1%	
Owner-Occ'd 30-89s	<u>5,939,992</u>	<u>5,226,755</u>	13.6%	
	23,211,429	19,977,800	16.2%	4.4%
C&I NPL+90s	36,915,212	41,815,762	-11.7%	
C&I 30-89s	<u>11,106,422</u>	<u>11,444,316</u>	-3.0%	
	48,021,634	53,260,078	-9.8%	4.0%

Source: FDIC call reports and OTS TFRs

In sum, on a net-net basis, as we cited earlier, credit quality continues to deteriorate for the banking industry, yet investors continued to trip over one another to inject capital into what were primarily the most fundamentally broken banks. Although it is difficult to say just how long it will take for the banks to burn through their new capital, the faster the “burn rate” the sooner they will be forced to raise capital again—only further diluting shareholders on an earnings per share (EPS) basis.

Looking forward, in addition to further loan portfolio contraction, dwindling fee revenue opportunities, and continued credit deterioration throughout 2010 further hampering core earnings power, a looming headwind for bank earnings beginning in 2011 is the expiration of the FDIC's Transaction Account Guarantee Program (TAGP)—which insures non-interest-bearing deposit accounts above \$250,000 (i.e., commercial deposits)—even though the FDIC recently extended the program for six more months until the end of this year. Although the FDIC left the door open to extend TAGP yet again through the end of 2011,

when it announced its latest extension on April 13th, if we were to assume it will expire this December, the removal of the unlimited cap on deposit insurance for commercial accounts is likely to result in a significant outflow of commercial deposits, thus increase funding costs for many banks.

In addition, myriad clauses of the financial reform work-in-progress will—if passed into law—likely eat away at various bank and broker profit centers, the full implications of which will not really be understood for some time. On top of that, new capital and liquidity requirements currently being debated globally suggest still lower return on equities (ROEs) in the future. And, other means for padding earnings and/or capital, such as the use of hybrids or “window dressing,” have come under scrutiny and could go the way of supervisory goodwill. On the other hand, FASB's proposal to transition to a mark-to-market accounting regime would inject vast amounts of subjectivity into both earnings and capital. So, needless to say, the rollercoaster ride for banks is likely to continue.

However, turning to the more immediate term as we are a few weeks away from the beginning of second quarter bank earnings, we expect the disparity between the haves and have-nots to continue within the banking industry, whereby the larger banks—particularly the Gang of Five—continue to post outsized earnings due to their trading and capital market activities, while the smaller banking universe sees its core earnings power continue to erode and its credit trends further deteriorate. While we do recognize and are glad to see some stabilization in select pockets of loan delinquencies, we do not foresee this trend to be applicable across the board. Further, as the residential and commercial

real estate markets continue to face significant headwinds, the employment picture remains on shaky footing, and, as the government stimulus continues to fade thereby increasing the risk of another leg down in the economy, only the most conservative and prudently managed banks will make it through to the other side. For the rest of the banking industry, the “best of times” that banks may have felt during the unwarranted run-ups in their stocks may quickly revert back to the “worst of times,” as investors finally realize that many banks still remain fundamentally broken.

Federal Reserve Aggregate Bank Data

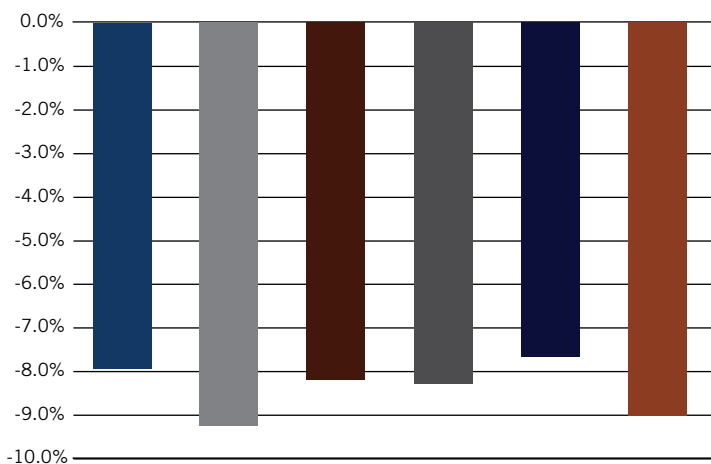
	4/2009	8/2009	9/2009	10/2009	11/2009	12/2009	1/2010	2/2010	3/2010	4/2010	MoM	YoY
ASSETS												
Securities												
Secs in Bank Credit	2,184	2,315	2,320	2,312	2,309	2,347	2,340	2,329	2,332	2,330	-0.1%	6.7%
Treasury & Agency	1,262	1,361	1,384	1,380	1,381	1,426	1,427	1,431	1,453	1,500	3.3%	18.9%
Other	922	954	936	932	928	921	912	897	879	830	-5.5%	-10.0%
Loans and Leases												
C&I	1,544	1,452	1,412	1,378	1,367	1,343	1,318	1,304	1,276	1,264	-0.9%	-18.2%
Real Estate	3,834	3,820	3,776	3,749	3,819	3,809	3,777	3,727	3,707	3,713	0.2%	-3.2%
Consumer	863	847	849	847	842	832	817	812	902	1,178	30.6%	36.5%
Other	845	758	759	744	763	755	752	744	762	777	2.0%	-8.0%
Other Assets	1,127	1,112	1,107	1,113	1,117	1,152	1,182	1,205	1,257	1,240	-1.3%	10.0%
Total Assets	12,054	11,807	11,773	11,799	11,769	11,681	11,639	11,727	11,723	11,869	1.2%	-1.5%
LIABILITIES												
Deposits												
Large Time	1,840	1,908	1,883	1,886	1,880	1,892	1,866	1,854	1,852	1,800	-2.8%	-2.2%
Other	5,482	5,647	5,712	5,754	5,802	5,792	5,785	5,826	5,842	5,867	0.4%	7.0%
Borrowings	2,407	2,156	2,047	2,002	1,959	1,917	1,888	1,860	1,861	1,898	2.0%	-21.1%
Other Liabilities	429	413	415	395	406	417	399	397	422	434	2.8%	1.1%
Total Liabilities	10,813	10,556	10,537	10,545	10,529	10,418	10,366	10,407	10,310	10,445	1.3%	-3.4%
Residual (assets less liabilities)	1,242	1,251	1,236	1,254	1,240	1,264	1,273	1,320	1,414	1,425	0.8%	14.7%

all values in \$ billions

SOURCE: Federal Reserve Documents

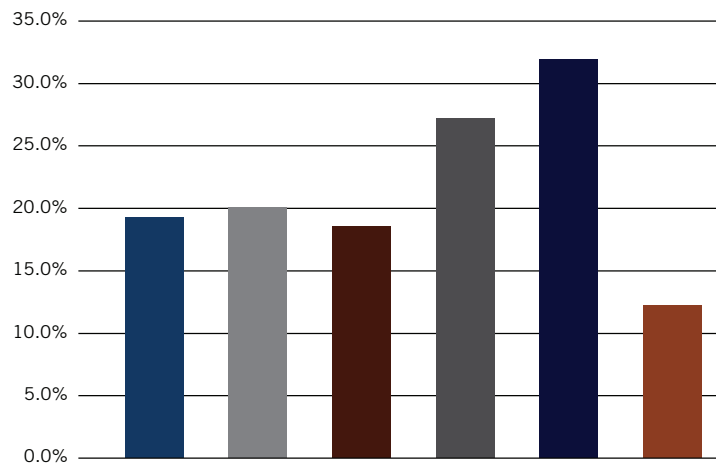
Major Market Index Performance

May 2010



SOURCE: Bloomberg, LLC

Last Twelve Months



SOURCE: Bloomberg, LLC

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

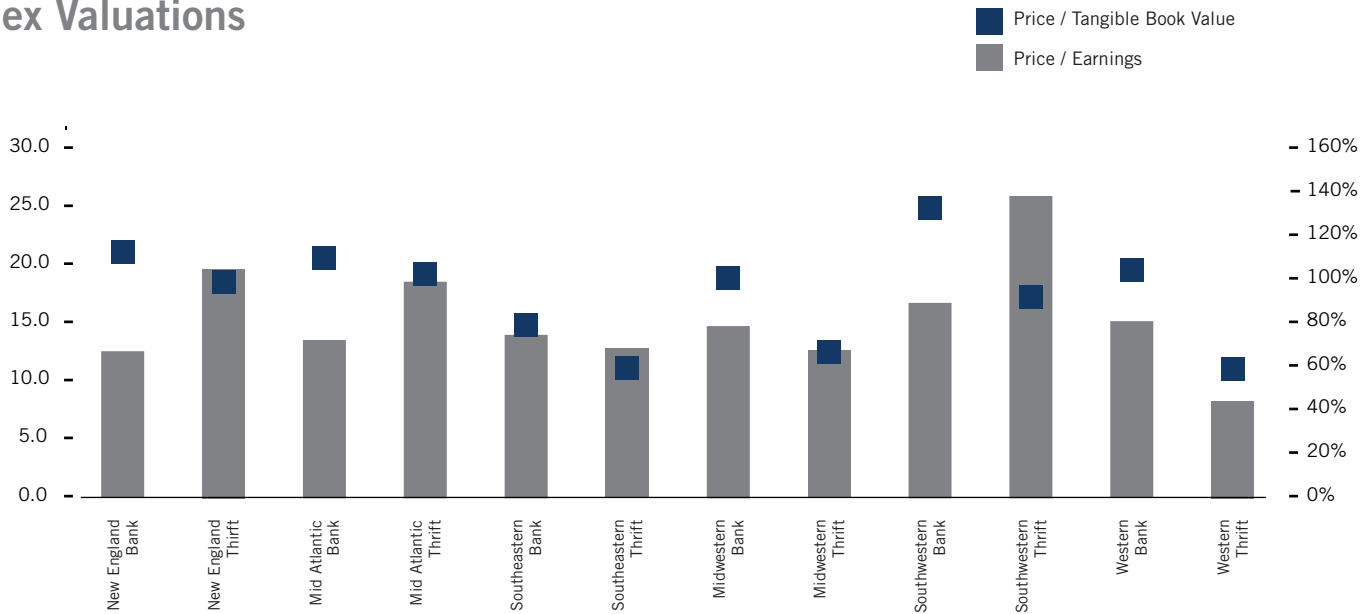
	6/2009	7/2009	8/2009	9/2009	10/2009	11/2009	12/2009	1/2010	2/2010	3/2010	4/2010	5/2010
Dow Jones	-0.6%	8.6%	3.5%	2.3%	0.0%	6.5%	0.8%	-3.5%	2.6%	5.1%	1.4%	-7.9%
S&P Financial	-2.2%	8.8%	12.9%	1.9%	-6.0%	4.2%	-1.6%	-1.5%	3.4%	8.8%	1.3%	-9.2%
S&P 500	0.0%	7.4%	3.4%	3.6%	-2.0%	5.7%	1.8%	-3.7%	2.9%	5.9%	1.5%	-8.2%
NASDAQ	3.4%	7.8%	1.5%	5.6%	-3.6%	4.9%	5.8%	-5.4%	4.2%	7.1%	2.6%	-8.3%
Russell 2000	1.3%	9.5%	2.8%	5.6%	-6.9%	3.0%	7.9%	-3.7%	4.4%	8.0%	5.6%	-7.7%
NASDAQ Bank	-4.1%	8.4%	0.6%	0.2%	-6.9%	1.5%	3.3%	4.6%	1.7%	6.4%	6.4%	-9.0%

SOURCE: Bloomberg, LLC

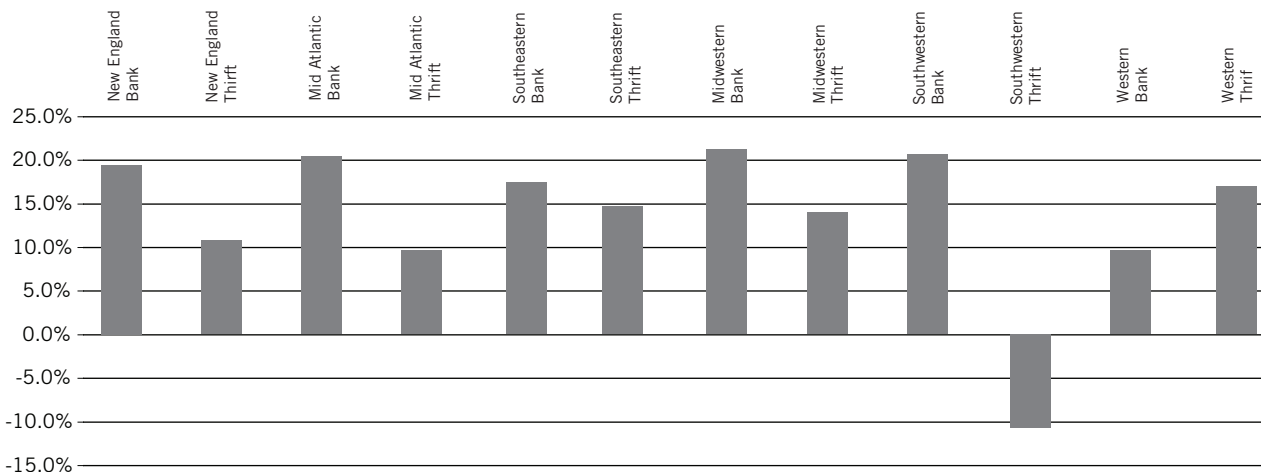
Bank and Thrift Index Valuations

		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	10.5	12.6	107%	108%	133%	115%	-4.7%	19.4%	16.4%	20
	Thrift	14.1	19.8	90%	87%	113%	97%	-3.2%	10.8%	5.2%	22
Mid Atlantic	Bank	13.1	13.7	102%	95%	162%	110%	-7.1%	20.4%	4.0%	88
	Thrift	17.5	18.9	117%	96%	148%	104%	-4.8%	9.5%	5.7%	54
Southeastern	Bank	12.0	14.3	84%	67%	126%	76%	-11.7%	17.4%	-3.7%	117
	Thrift	13.9	13.5	88%	61%	94%	61%	-10.6%	14.6%	-8.2%	11
Midwestern	Bank	13.1	14.9	135%	82%	175%	101%	-8.6%	21.2%	4.6%	86
	Thrift	18.0	12.6	134%	65%	135%	69%	-4.7%	14.0%	-5.2%	43
Southwestern	Bank	10.2	16.2	135%	118%	181%	135%	-9.6%	20.5%	14.4%	20
	Thrift	20.7	26.0	149%	88%	151%	90%	-8.3%	-10.8%	-13.2%	7
Western	Bank	10.5	15.0	100%	84%	132%	105%	-10.4%	9.6%	-1.3%	64
	Thrift	9.8	8.0	81%	55%	90%	58%	-8.9%	16.9%	4.3%	12

Index Valuations



YTD Price Performance



Economic Data Points - May 2010

Date	Event	Period	Survey	Actual	Prior	Revised	Date	Event	Period	Survey	Actual	Prior	Revised
5/3	Personal Income	MAR	0.30%	0.30%	0.00%	0.10%	5/14	Capacity Utilization	APR	73.80%	73.70%	73.20%	73.10%
5/3	Personal Spending	MAR	0.60%	0.60%	0.30%	0.50%	5/14	U. of Michigan Confidence	MAY P	73.5	73.3	72.2	--
5/3	PCE Core (MoM)	MAR	0.10%	0.10%	0.00%	--	5/14	Business Inventories	MAR	0.40%	0.40%	0.50%	--
5/3	PCE Core (YoY)	MAR	1.30%	1.30%	1.30%	--	5/17	Empire Manufacturing	MAY	30	19.11	31.86	--
5/3	ISM Manufacturing	APR	60	60.4	59.6	--	5/17	NAHB Housing Market Index	MAY	20	22	19	--
5/3	Construction Spending MoM	MAR	-0.50%	0.20%	-1.30%	-2.10%	5/18	Producer Price Index (MoM)	APR	0.10%	-0.10%	0.70%	--
5/3	Domestic Vehicle Sales	APR	8.80M	8.78M	9.05M	--	5/18	PPI Ex Food & Energy (MoM)	APR	0.10%	0.20%	0.10%	--
5/3	Total Vehicle Sales	APR	11.40M	11.21M	11.77M	--	5/18	Producer Price Index (YoY)	APR	5.60%	5.50%	6.00%	--
5/4	Factory Orders	MAR	0.00%	1.30%	0.60%	1.30%	5/18	PPI Ex Food & Energy (YoY)	APR	0.90%	1.00%	0.90%	--
5/4	Pending Home Sales MoM	MAR	5.00%	5.30%	8.20%	8.30%	5/18	Housing Starts	APR	650K	672K	626K	635K
5/4	Pending Home Sales YoY	MAR	19.50%	23.50%	17.30%	17.40%	5/18	Housing Starts MoM	APR	3.80%	5.80%	1.60%	5.00%
5/5	MBA Mortgage Applications	30-Apr	--	4.00%	-2.90%	--	5/18	Building Permits	APR	680K	606K	685K	--
5/5	Challenger Job Cuts YoY	APR	--	-71.10%	-55.00%	--	5/18	Building Permits MoM	APR	0.00%	-11.50%	7.50%	5.40%
5/5	ADP Employment Change	APR	30K	32K	-23K	19K	5/19	MBA Mortgage Applications	14-May	--	-1.50%	3.90%	--
5/5	ISM Non-Manf. Composite	APR	56	55.4	55.4	--	5/19	Consumer Price Index (MoM)	APR	0.10%	-0.10%	0.10%	--
5/6	Nonfarm Productivity	1Q P	2.60%	3.60%	6.90%	6.30%	5/19	CPI Ex Food & Energy (MoM)	APR	0.10%	0.00%	0.00%	--
5/6	Unit Labor Costs	1Q P	-0.70%	-1.60%	-5.90%	-5.60%	5/19	Consumer Price Index (YoY)	APR	2.40%	2.20%	2.30%	--
5/6	Initial Jobless Claims	1-May	440K	444K	448K	451K	5/19	CPI Ex Food & Energy (YoY)	APR	1.00%	0.90%	1.10%	--
5/6	Continuing Claims	24-Apr	4610K	4594K	4645K	4653K	5/20	Initial Jobless Claims	15-May	440K	471K	444K	446K
5/7	Unemployment Rate	APR	9.70%	9.90%	9.70%	--	5/20	Continuing Claims	8-May	4605K	4625K	4627K	4659K
5/7	Change in Nonfarm Payrolls	APR	190K	290K	162K	208K	5/24	Existing Home Sales	APR	5.62M	5.77M	5.35M	5.36M
5/7	Change in Private Payrolls	APR	100K	231K	123K	158K	5/24	Existing Home Sales MoM	APR	5.10%	7.60%	6.80%	7.00%
5/7	Change in Manufact. Payrolls	APR	20K	44K	17K	19K	5/25	S&P/CS Composite-20 YoY	MAR	2.50%	2.35%	0.64%	0.66%
5/7	Avg Hourly Earning MOM All Emp	APR	0.10%	0.00%	-0.10%	0.00%	5/25	S&P/CS 20 City MoM% SA	MAR	-0.30%	-0.05%	-0.10%	-0.14%
5/7	Avg Hourly Earning YOY All Emp	APR	1.80%	1.60%	1.80%	1.80%	5/25	Consumer Confidence	MAY	58.5	63.3	57.9	57.7
5/7	Avg Weekly Hours All Employees	APR	34.1	34.1	34	--	5/26	MBA Mortgage Applications	21-May	--	11.30%	-1.50%	--
5/7	Consumer Credit	MAR	-\$3.7B	\$2.0B	-\$11.5B	-\$7.7B	5/26	Durable Goods Orders	APR	1.30%	2.90%	-1.30%	0.10%
5/11	NFIB Small Business Optimism	APR	87.1	90.6	86.8	--	5/26	Durables Ex Transportation	APR	0.50%	-1.00%	2.80%	4.90%
5/11	Wholesale Inventories	MAR	0.50%	0.40%	0.60%	--	5/26	New Home Sales	APR	425K	504K	411K	439K
5/12	MBA Mortgage Applications	7-May	--	3.90%	4.00%	--	5/26	New Home Sales MoM	APR	3.40%	14.80%	26.90%	29.90%
5/12	Trade Balance	MAR	-\$40.5B	-\$40.4B	-\$39.7B	-\$40.1B	5/27	GDP QoQ (Annualized)	1Q S	3.40%	3.00%	3.20%	--
5/13	Initial Jobless Claims	8-May	440K	444K	444K	446K	5/27	Personal Consumption	1Q S	3.80%	3.50%	3.60%	--
5/13	Continuing Claims	1-May	4590K	4627K	4594K	4627K	5/27	Initial Jobless Claims	22-May	455K	460K	471K	474K
5/14	Advance Retail Sales	APR	0.20%	0.40%	1.60%	2.10%	5/27	Continuing Claims	15-May	4613K	4607K	4625K	4656K
5/14	Retail Sales Less Autos	APR	0.40%	0.40%	0.60%	1.20%	5/28	Personal Income	APR	0.40%	0.40%	0.30%	0.40%
5/14	Retail Sales Ex Auto & Gas	APR	0.30%	0.40%	0.70%	1.30%	5/28	Personal Spending	APR	0.30%	0.00%	0.60%	--
5/14	Industrial Production	APR	0.70%	0.80%	0.10%	0.20%	5/28	U. of Michigan Confidence	MAY F	73.3	73.6	73.3	--

SOURCE: Bloomberg, LLC

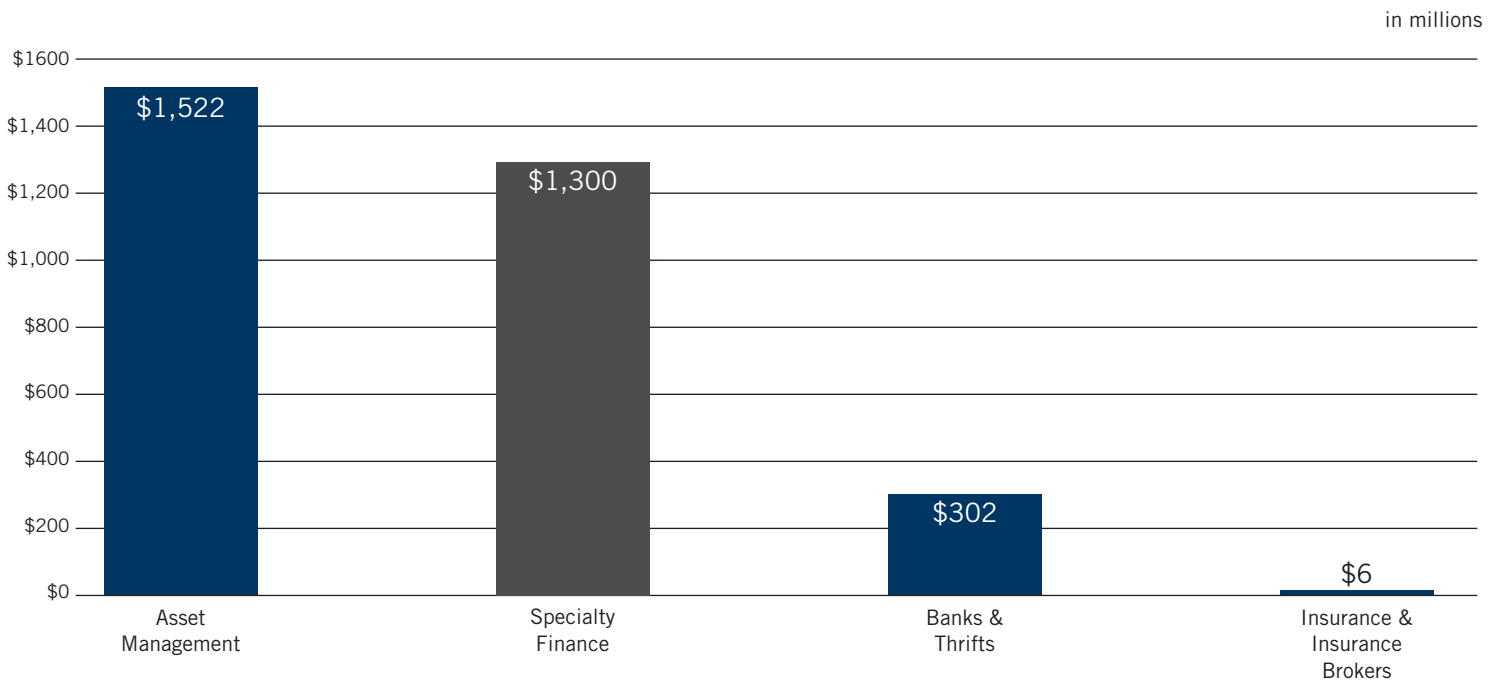
Economic Data Points - June 2010

Date	Event	Period	Survey	Actual	Prior	Revised	Date	Event	Period	Survey	Actual	Prior	Revised
6/1	ISM Manufacturing	MAY	59	59.7	60.4	--	6/16	MBA Mortgage Applications	11-Jun	--	--	-12.20%	--
6/1	Construction Spending MoM	APR	0.00%	2.70%	0.20%	0.40%	6/16	Producer Price Index (MoM)	MAY	-0.50%	--	-0.10%	--
6/2	MBA Mortgage Applications	28-May	--	0.90%	11.30%	--	6/16	PPI Ex Food & Energy (MoM)	MAY	0.10%	--	0.20%	--
6/2	Challenger Job Cuts YoY	MAY	--	-65.10%	-71.10%	--	6/16	Producer Price Index (YoY)	MAY	4.90%	--	5.50%	--
6/2	Pending Home Sales MoM	APR	5.00%	6.00%	5.30%	7.10%	6/16	PPI Ex Food & Energy (YoY)	MAY	1.10%	--	1.00%	--
6/2	Pending Home Sales YoY	APR	20.20%	24.60%	23.50%	25.40%	6/16	Housing Starts	MAY	650K	--	672K	--
6/2	Domestic Vehicle Sales	MAY	8.90M	9.14M	8.78M	--	6/16	Housing Starts MoM	MAY	-3.30%	--	5.80%	--
6/2	Total Vehicle Sales	MAY	11.40M	11.64M	11.21M	--	6/16	Building Permits	MAY	630K	--	606K	610K
6/3	ADP Employment Change	MAY	70K	55K	32K	65K	6/16	Building Permits MoM%	MAY	3.30%	--	-11.50%	-10.90%
6/3	Initial Jobless Claims	29-May	455K	453K	460K	463K	6/16	Industrial Production	MAY	0.80%	--	0.80%	--
6/3	Continuing Claims	22-May	4610K	4666K	4607K	4635K	6/16	Capacity Utilization	MAY	74.50%	--	73.70%	--
6/3	Factory Orders	APR	1.80%	1.20%	1.30%	1.70%	6/17	Consumer Price Index (MoM)	MAY	-0.20%	--	-0.10%	--
6/3	ISM Non-Manf. Composite	MAY	55.6	55.4	55.4	--	6/17	CPI Ex Food & Energy (MoM)	MAY	0.10%	--	0.00%	--
6/3	ICSC Chain Store Sales YoY	MAY	--	2.60%	0.80%	--	6/17	Consumer Price Index (YoY)	MAY	2.00%	--	2.20%	--
6/4	Change in Nonfarm Payrolls	MAY	536K	431K	290K	--	6/17	CPI Ex Food & Energy (YoY)	MAY	0.90%	--	0.90%	--
6/4	Change in Private Payrolls	MAY	180K	41K	231K	218K	6/17	Initial Jobless Claims	12-Jun	453K	--	456K	--
6/4	Change in Manufact. Payrolls	MAY	33K	29K	44K	40K	6/17	Continuing Claims	5-Jun	--	--	4462K	--
6/4	Unemployment Rate	MAY	9.80%	9.70%	9.90%	--	6/22	Existing Home Sales	MAY	--	--	5.77M	--
6/4	Avg Hourly Earning MoM All Emp	MAY	0.10%	0.30%	0.00%	0.10%	6/22	Existing Home Sales MoM	MAY	--	--	7.60%	--
6/4	Avg Hourly Earning YoY All Emp	MAY	1.60%	1.90%	1.60%	1.80%	6/23	MBA Mortgage Applications	18-Jun	--	--	--	--
6/4	Avg Weekly Hours All Employees	MAY	34.1	34.2	34.1	--	6/23	New Home Sales	MAY	--	--	504K	--
6/7	Consumer Credit	APR	-\$1.0B	\$1.0B	\$2.0B	-\$5.4B	6/23	New Home Sales MoM	MAY	--	--	14.80%	--
6/8	NFIB Small Business Optimism	MAY	91	92.2	90.6	--	6/23	FOMC Rate Decision	23-Jun	0.25%	--	0.25%	--
6/9	MBA Mortgage Applications	4-Jun	--	-12.20%	0.90%	--	6/24	Durable Goods Orders	MAY	--	--	2.90%	2.80%
6/9	Wholesale Inventories	APR	0.50%	0.40%	0.40%	0.70%	6/24	Durables Ex Transportation	MAY	--	--	-1.00%	-1.10%
6/9	Fed's Beige Book	9-Jun	--	--	--	--	6/24	Initial Jobless Claims	19-Jun	--	--	--	--
6/10	Trade Balance	APR	-\$41.0B	-\$40.3B	-\$40.4B	-\$40.0B	6/24	Continuing Claims	12-Jun	--	--	--	--
6/10	Initial Jobless Claims	5-Jun	450K	456K	453K	459K	6/25	GDP QoQ (Annualized)	1Q T	--	--	3.00%	--
6/10	Continuing Claims	29-May	4640K	4462K	4666K	4717K	6/25	Personal Consumption	1Q T	--	--	3.50%	--
6/11	Advance Retail Sales	MAY	0.20%	-1.20%	0.40%	0.60%	6/25	U. of Michigan Confidence	JUN F	--	--	--	--
6/11	Retail Sales Less Autos	MAY	0.10%	-1.10%	0.40%	0.60%	6/28	Personal Income	MAY	--	--	0.40%	--
6/11	Retail Sales Ex Auto & Gas	MAY	0.20%	-0.80%	0.40%	0.60%	6/28	Personal Spending	MAY	--	--	0.00%	--
6/11	U. of Michigan Confidence	JUN P	74.5	75.5	73.6	--	6/29	S&P/CS Composite-20 YoY	APR	--	--	2.30%	--
6/15	Empire Manufacturing	JUN	0.50%	0.40%	0.40%	0.70%	6/29	S&P/CS 20 City MoM% SA	APR	--	--	-0.05%	--
6/15	Net Long-term TIC Flows	APR	--	--	\$140.5B	--	6/29	Consumer Confidence	JUN	--	--	63.3	--
6/15	Net Net TIC Flows	APR	--	--	\$10.5B	--	6/30	MBA Mortgage Applications	25-Jun	--	--	--	--
6/15	NAHB Housing Market Index	JUN	22	--	22	--	6/30	ADP Employment Change	JUN	--	--	55K	--

SOURCE: Bloomberg, LLC

M&A Transaction Update

Announced Transactions - May 2010



SOURCE: SNL Financial, Bloomberg, Factiva

Deal Count - April 2010

Insurance & Insurance Brokerage	14
Bank & Thrift	13
Asset Management & Broker/Dealer	5
Specialty Finance	5

SOURCE: SNL Financial, Bloomberg, Factiva

Deal Count - 2009 YTD

Insurance & Insurance Brokerage	89
Asset Management & Broker/Dealer	54
Bank & Thrift	47
Specialty Finance	23

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	Keefe, Bruyette & Woods, Inc.	96
2	Sandler, O'Neill & Partners, L.P.	92
3	Hovde Financial	71
4	Howe Barnes Hoefer & Arnett, Inc.	50
5	Stifel, Nicolaus & Company, Inc.	38
6	Sheshunoff & Co. Investment Banking LP	24
7	Austin Associates, LLC	16
8	Carson Medlin Company	14
8	Morgan Keegan & Company, Inc.	14
10	Professional Bank Services Inc.	13

SOURCE: SNL Financial (data from 5/30/2005-5/28/2010)

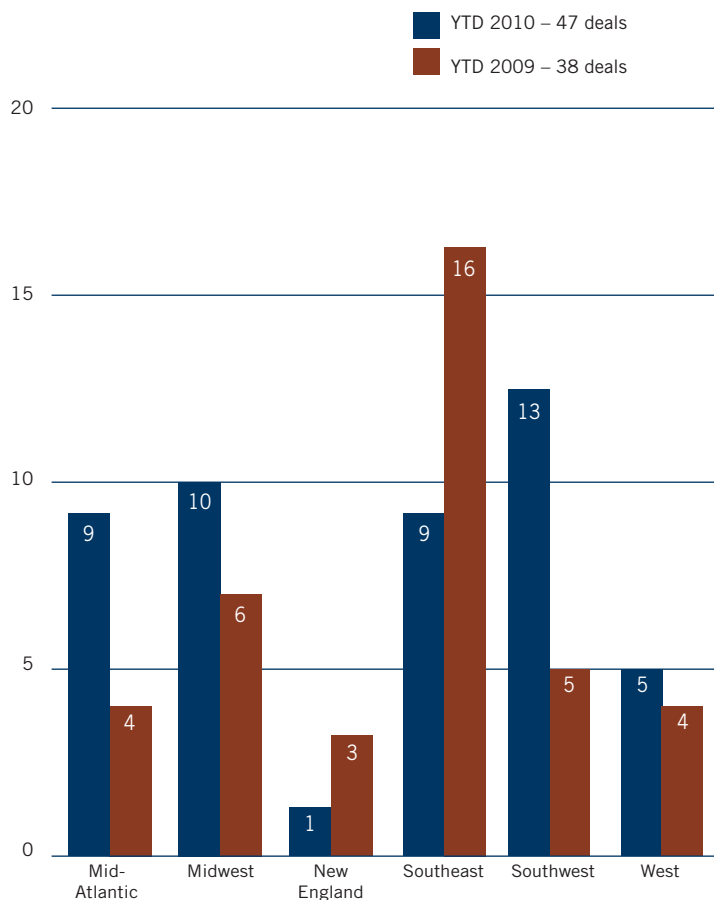
Bank & Thrift Transactions - May 2010

Buyer	Buyer		Target State	Announced	DV (\$MM)	P/LTM Ern	P/TBV (%)	Core Deposit Premium (%)
	State	Target						
Northwest Bancshares, Inc.	PA	NexTier Incorporated	PA	5/5/10	20.3	NM	104.81	0.19
Independent Bank Group, Inc.	TX	First Bank	TX	5/10/10	NA	NA	NA	NA
Jacksonville Bancorp, Inc.	FL	Atlantic BancGroup, Inc.	FL	5/10/10	3.2	NM	32.82	NM
Texas Banc Financial Corp.	TX	Bank, The	TX	5/10/10	NA	NA	NA	NA
Connemara Bancorp, Inc.	TX	First Amherst Bancshares, Incorporated	TX	5/13/10	NA	NA	NA	NA
Continental Bank Holdings, Inc.	PA	First Resource Bank	PA	5/13/10	8.0	NM	85.54	NM
Toronto-Dominion Bank		South Financial Group, Inc.	SC	5/16/10	191.7	NM	17.07	NM
215 Holding Company	MN	White Rock Bank	MN	5/21/10	NA	NA	NA	NA
Bank of Princeton	NJ	MoreBank	PA	5/21/10	5.6	NM	121.11	1.99
Investor group		Palmetto Bancshares, Inc.	SC	5/25/10	NA	NM	69.87	NM
Kearny Financial Corp. (MHC)	NJ	Central Jersey Bancorp	NJ	5/25/10	72.7	NM	153.06	4.61
Woori Finance Holdings Co., Ltd.		Hanmi Financial Corporation	CA	5/25/10	NA	NM	89.19	NM
Max Holding Corporation		Home Bancgroup, Inc.	FL	5/28/10	NA	NA	NA	NA

SOURCE: SNL Financial

Bank & Thrift Transactions

by Region



SOURCE: SNL Financial

Deal Pricing by Region - 2010 YTD

Region	Deal Value (MM)	Price/TBV (%)	P/ LTM Ern (x)	P/ Core Dep Prem (%)
Mid-Atlantic	\$144	103.44	NA	1.70
Midwest	\$147	110.58	12.3	2.88
New England	\$20	123.72	NA	3.86
Southeast	\$217	70.74	NA	9.83
Southwest	\$48	151.04	26.3	7.60
West	\$25	93.35	40.5	8.99
Total	\$601	100.83	26.4	4.55

SOURCE: SNL Financial

Deal Pricing by Quarter

Quarter	Deal Value (MM)	Price/TBV (%)	P/ LTM Ern (x)	P/ Core Dep Prem (%)
4Q2007	\$11,660	197.6	23.5	13.5
1Q2008	\$5,093	189.2	26.9	12.4
2Q2008	\$1,884	176.6	29.3	8.9
3Q2008	\$27,195	152.5	25.9	11.4
4Q2008	\$1,430	116.0	32.6	6.6
1Q2009	\$259	89.5	18.8	3.3
2Q2009	\$402	99.6	19.4	12.6
3Q2009	\$649	101.9	8.4	4.2
4Q2009	\$267	108.0	20.0	5.3
1Q2010	\$256	110.3	31.1	5.4
2Q2010	\$344	90.6	12.3	3.1

SOURCE: SNL Financial

Insurance and Insurance Brokerage Transactions - May 2010

Buyer	Target	Announced	DV (\$MM)
Alaska USA Federal Credit Union	Rainier Pacific Insurance, LLC.	5/4/2010	NA
Security Life Insurance Company of America	Eastern Life and Health Insurance Company	5/4/2010	5.4
Stemler Insurance, Inc.	Lewis Associates, LLC	5/4/2010	NA
Arthur J. Gallagher & Co.	Certain insurance brokerage businesses	5/7/2010	0.4
Fremont Michigan InsuraCorp, Inc.	Northern Mutual Insurance Company	5/12/2010	NA
Brown & Brown, Inc.	DCSR Retail ins agcy and brkge bus	5/13/2010	NA
Aran Insurance Services Group	Health Reinsurance Management Partnership	5/17/2010	NA
Aran Insurance Services Group	MiniCo Insurance Agency, LLC	5/17/2010	NA
Private Investor - Alfred Morelli	Garden State Indemnity Company, Inc.	5/17/2010	NA
Interstate National Corporation	Cardif Holdings, Incorporated	5/20/2010	NA
First Defiance Financial Corp.	Andres O'Neil Employee benefits line of business	5/20/2010	NA
John M. Glover Agency	APS San Angelo Insurance Agency	5/20/2010	NA
Evercore Partners Inc.	James E. Gilmore Agency Inc	5/24/2010	NA
JJR Capital Corp.	KFS subsidiaries	5/26/2010	NA

SOURCE: Factiva, AM Best

Asset Management/Broker-Dealer Transactions - May 2010

Buyer	Target	Announced	DV (\$MM)
Forum Financial Management, LLC	Pinnacle Financial Services	5/3/2010	NA
FXCM Holdings, LLC	ODL Group Ltd	5/5/2010	NA
Lincoln Investment Planning, Inc.	American Financial Brokerage business	5/14/2010	NA
Man Group Plc	GLG Partners, Inc.	5/17/2010	1,522.2
BNP Paribas SA	Hill Street Capital LLC	5/18/2010	NA

SOURCE: Factiva, Bloomberg

Specialty Finance Transactions - May 2010

Buyer	Target	Announced	DV (\$MM)
Flying J, Incorporated	Stearns Financial Services	5/1/2010	NA
Investor group	Red Capital Group	5/10/2010	NA
Olympus Partners	Churchill Financial Holdings LLC	5/12/2010	NA
General Electric Company	RBS Factor S.A.	5/19/2010	NA
Ocwen Financial Corporation	Barclays U.S. mortgage servicing business	5/28/2010	1,300

SOURCE: Factiva, Bloomberg, Reuters