



# Hovde

Financial Institutions  
Monthly Overview

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Capital Markets  
Economic Data Review  
M&A Statistics

May 2011

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## May 2011 - Hovde Monthly Overview

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### About Hovde

The Hovde Organization is an asset management and private equity firm focused primarily 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 services the needs of financial services institutions, institutional investors, and private clients both domestically and internationally.

*“Mediocrity is excellent to the eyes of mediocre people.”  
-Joseph Joubert*

As we are on the cusp of second quarter earnings and now that we have all the data to fully analyze first quarter earnings, we wanted to present our quarterly banking industry earnings review. On the surface, earnings for the first three months of the year for the banking industry seem to have rebounded sharply as headline results were, for the most part, either in-line or above sell-side estimates. In fact, an impressive 60% of all banks and thrifts beat consensus, while another 9% were in-line with expectations. However, while there is no denying that there continue to be noticeable improvements for the industry—particularly as they pertain to credit quality—when factoring in the myriad of other aspects associated with bank earnings, it proved to be just another mediocre quarter. Further, while improving credit trends were likely already baked into investor expectations, the resumption of loan contraction was clearly not part of the script. Consequently, as loan balances took another nosedive, we saw a repeat of last year’s “sell in May” investor sentiment, as there is still a high degree of skepticism embedded in the market. This is in response to relatively weak core earnings trends, and—in light of continued softness in the real estate markets and the stubbornly high unemployment rate—renewed worries about the sustainability of even the modest credit improvement the sector has exhibited thus far.

As a whole, the industry posted what seemed to be an impressive net income tally of \$25.6 billion (versus \$18.1 billion in the fourth quarter after adding back Bank of America’s (BAC) goodwill charge). However, the key drivers underlying the rebound were not what investors were hoping for. For starters, the biggest contributor to the sequential earnings growth was a \$12.2 billion increase in trading gains (more than 90% of which came from only five institutions), which stemmed from the heightened interest rate and foreign exchange volatility over the last few months. And secondly, there was a \$10.8 billion reduction in loan loss provisions, which seems to us to be a thinly veiled attempt to declare the credit cycle over—which we do not believe is true.

In fact, had the industry matched provisions to loan losses in order to keep reserves at the same level they were at as of year end 2010, pretax earnings for the first quarter would have been \$12 billion less than reported. Interestingly, 22 of the 25 largest publicly traded banks released \$11.7 billion in reserves, thereby accounting for the industry’s entire “peace dividend,” partly because the sector’s biggest players have outsized credit card and auto loan portfolios which have performed better than expectations and large corporate bankruptcies have quieted down as of late. Conversely, the rest of the industry, which tends to have higher concentrations in real estate loans, was much more measured in its approach to provisioning, as roughly one-third of the remaining publicly traded banks released reserves, while another one-third added somewhat meaningfully to their reserve balances, and the other one-third provisioned more or less in-line with net charge-offs (NCOs).

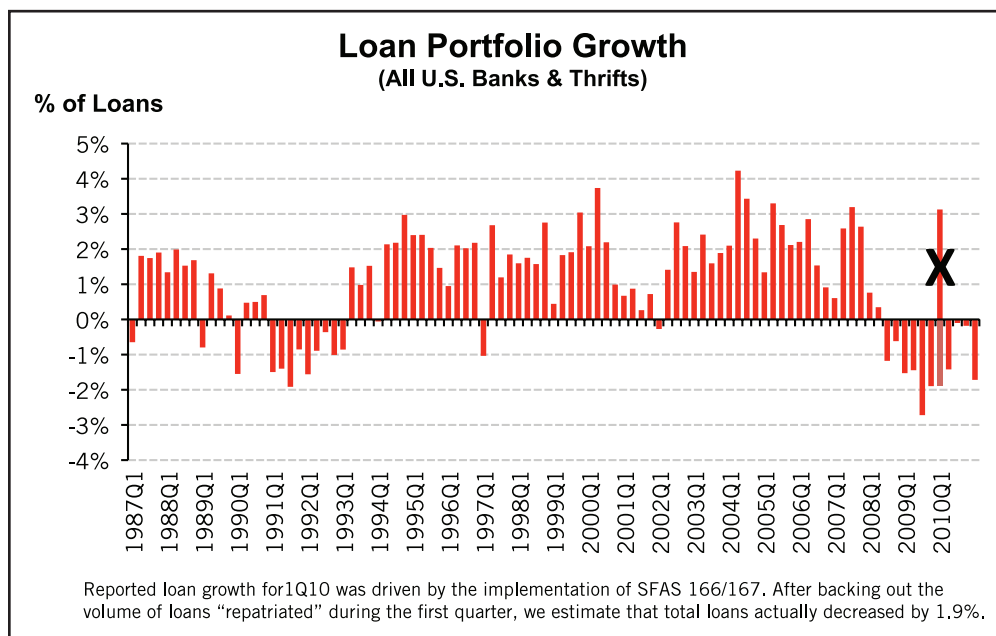
Aside from trading profits and reserve releases, core earnings trends were broadly viewed as a disappointment, particularly because of weak operating revenues. In fact, while we tend not to focus on year-over-year metrics, it is worth mentioning that the FDIC noted that the first quarter’s 3.2% (-\$5.5 billion) decline in net operating revenue marked only the second time in 27 years that revenues have decreased on a year-over-year basis. Relative to the fourth quarter, total revenues—excluding trading as well as securities gains and non-core items—fell at a 6.6% annualized rate based on our analysis, partly due to seasonality in deposit service charges, but also reflective of the depressed economic environment. Loan portfolio contraction, for instance, accelerated again to an average annualized rate of -6.9%, which, in turn, drove another five basis points of net interest margin (NIM) compression, and resulted in a \$1.45 billion sequential decline in net interest income. And, that was in spite of increased contributions from yield accretion related to FDIC-assisted acquisitions.

In addition, mortgage banking revenues fell by about 35% sequentially as the yield on the 10-year Treasury backed up sharply from 2.40% in the middle of the fourth quarter to about 3.75% by early February. More importantly, while the 10-year Treasury yield dropped back below 3% recently, we think the likelihood of another mortgage boom is slim. Among other reasons, this is because the housing market, as we have been predicting, has now officially “double dipped” and, as a result, even fewer people will qualify to refinance from a loan-to-value standpoint. Furthermore, potential home buyers will continue to sit on the sidelines waiting for signs of the true bottom.

Among other noninterest revenue sources, it was an unremarkable quarter at best. While securities gains were down 94% sequentially, that should not have come as a surprise given the steepening of the yield curve. Likewise, while investment banking fees were down 15%, they were largely offset by higher brokerage commissions, insurance/annuity sales, and venture capital gains. And, while deposit service charges were down 3.4%, the drop was perhaps just a bit more than seasonally typical for a first quarter and will probably reverse for the most part in the second quarter.

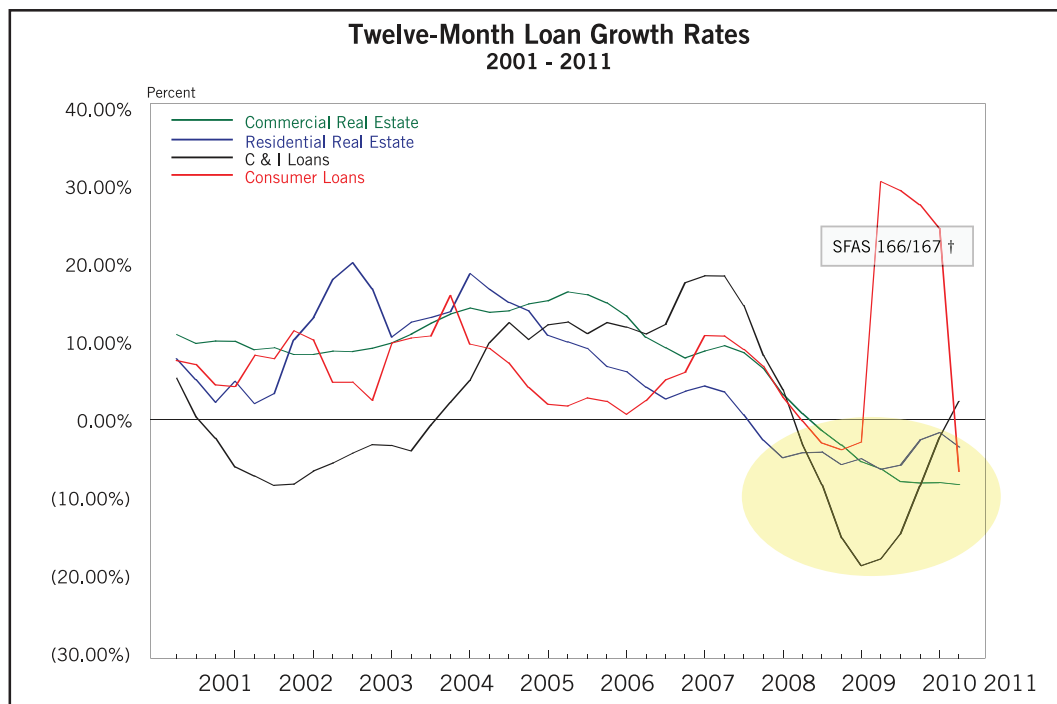
Another major culprit, however, behind the first quarter's unimpressive core operating results and one that could have a more lasting impact on coming quarters was the larger-than-expected bump in overhead costs. Non interest expenses (again, excluding BAC's goodwill writedown in the fourth quarter) grew at nearly a 10% annualized rate sequentially, partly reflective of seasonal FICA increases. However, if one excludes all intangible amortization expenses from both periods, true operating costs grew at an annualized rate slightly above 15%, as foreclosure-related expenses (including disposition losses, taxes, and maintenance) and legal/regulatory costs are starting to have a more material impact on banks' cost structures. And, lastly, tax rates are starting to normalize again; the marginal rate increased from 22.0% to 27.4%, as more companies were "in the black" as a result of massive reserve releases and had fewer tax benefits to utilize.

Before moving onto credit and our assertion that the credit cycle is not over, it is worth spending a little extra time on both margins and loan growth. As we mentioned earlier, lending activity fell off a cliff in the first quarter after having shown signs of approaching an inflection point during the prior two quarters (some of which was attributable to the pull-forward of demand due to favorable accounting treatment for new equipment financing). As a result, total loans at FDIC-insured institutions fell by nearly \$127 billion (or -1.7% unannualized)—the fifth largest quarterly percentage decline in the 28 years that the FDIC has been collecting this data for both banks and thrifts. It also marks the 10th time in the last 11 quarters that loan balances have fallen, with the only exception being the implementation of SFAS 166/167, which brought certain securitized loans onto banks' balance sheets in the first quarter 2010. Excluding that accounting change, the industry's outstanding loans have declined by 13.8% since mid-2008. Consequently, as of quarter end, total loans and leases represented only 52.4% of FDIC-insured institutions' assets—the lowest share since the early 1970's.



Source: Hovde Capital Advisors; SNL Financial

The only bright spot in terms of lending has come in the form of commercial and industrial (C&I) loans, as buyout finance, equipment loans/leases, and small business lending continued to expand in the last few quarters. During the first quarter, C&I loans outstanding increased by 1.5% sequentially. However, all of the other major loan groups fell, led by yet another precipitous drop in consumer loans, which were down 3.2% quarter-over-quarter. In addition, most banks continue to run off their legacy construction and commercial mortgage portfolios, as well as the covered loans picked up in FDIC-assisted acquisitions. Looking ahead, C&I demand is still a mild positive (according to Federal Reserve data, C&I loans are up 1.5% so far this quarter, while all other loans are higher by 0.4%), but competition for high-quality borrowers is reportedly getting fierce. Recent discussions we have had with bank managements suggest that loan pricing has gotten irrational again (in some cases 100 to 150 basis points over Libor), and we are even hearing of loose credit terms.



Source: FDIC. † As noted in the prior chart above, loan growth for 1Q2010 and corresponding spike in the total amount of consumer loans outstanding was driven by the implementation of SFAS 166/167.

Despite the ongoing loan contraction, total assets at FDIC-insured institutions actually *increased* by 0.7% (or \$94.7 billion) from the fourth quarter, as banks continued to park more cash at the Federal Reserve. Such balances increased by 23.5%, or by more than \$116 billion, on which the banks are earning a yield of only 25 basis points. Essentially, the banks are indicating a preference to receive a miniscule return on their excess funds versus going out on the yield curve (for fear of a spike in interest rates) and/or easing loan underwriting criteria further, in light of the still sluggish economic outlook and until more clarity is provided on capital and liquidity requirements stemming from the Dodd-Frank Act.

Consequently, the industry's NIM fell by another five basis points sequentially to 3.66%. However, the big banks saw much more contraction in spreads than the average bank: the NIM for the top 15 banks (on a weighted-average basis) was down 11 basis points to 3.07%. Moreover, we hear that it is the large banks that are being the most aggressive on pricing for new loans and that they have also upped their hold sizes on syndications in order to show positive loan growth. But, at what cost? The recent flattening of the yield curve will also take a toll on NIMs, as yields on floating-rate assets are driven down even as banks have pretty much run out of room to lower their funding costs. So, with reserve releases now doing a lot of the heavy lifting because top-line growth has stalled (with loans, margins, and fees all in various states of decline), banks would appear to have a lot riding on credit continuing to improve.

On that front, generally speaking, credit trends continued to improve in the first quarter as foreclosed properties plus non-covered noncurrent loans (loans that are not covered by an FDIC loss-sharing agreement and are on nonaccrual status or past due at least 90 days) declined by 5.6% for the second quarter in a row. Additionally, as illustrated in the table below, early-stage delinquencies (i.e., loans past due 30-89 days) dropped for the fourth straight quarter—an impressive 9.1% decline. However, as has been the case over the past year, the 20% surge this quarter in mortgage modifications and troubled-debt restructurings (TDRs) were, again, the overwhelming impetus for the decline in non performing assets (NPAs) and early-stage delinquencies. This time around the spike in mortgage modifications and TDRs far more than offset the decline in NPAs as they represented a staggering 173% of the reported decline in NPAs. As a side bar, it is worth mentioning that the FASB is again planning to change the definition of TDRs (scheduled for the third quarter of 2011), which will presumably result in another large spike in reported TDRs in the back half of the year.

	2011Q1	2010Q4	% Chg
NPAs + 90-Day Delinquencies	330,075,775	345,027,054	-4.3%
Gtd By US Gov't	<u>-77,505,879</u>	<u>-77,522,875</u>	0.0%
Non-covered NPA+90s	252,569,896	267,504,179	-5.6%
% of Loans	4.23%	4.41%	
Modified RFMs	59,247,213	55,944,133	5.9%
Other TDRs	<u>95,751,052</u>	<u>73,184,668</u>	30.8%
Mods + TDRs	154,998,265	129,128,801	20.0%
% of Loans	2.61%	2.14%	
30-89 Day Delinquencies	92,932,717	101,102,300	-8.1%
Gtd By US Gov't	<u>-14,200,392</u>	<u>-14,470,629</u>	-1.9%
Non-covered 30-89s	78,732,325	86,631,671	-9.1%
% of Loans	1.33%	1.44%	
Charge-offs	35,622,139	42,437,008	-16.1%
Recoveries	<u>4,667,758</u>	<u>4,661,080</u>	0.1%
Net Charge-offs	30,954,381	37,775,928	-18.1%
% of Loans	2.09%	2.50%	
LLR % of Loans	3.27%	3.42%	-6.0%
Res Cov'g of NPA+90s	77%	77%	
Res Cov'g of NPA+TDR+90s	48%	52%	
Res Cov'g of Total Problem Loans	40%	43%	

Source: FDIC call reports and OTS TFRs

To the banks' benefit, American consumers continued to improve their personal balance sheets by saving a bit more and paying down more of their debt, which led to a further improvement in consumer credit trends. Coupled with first-quarter seasonality (i.e., the receipt of tax refunds) and this year's reduction in payroll taxes, this deleveraging helped drive credit card and auto/student/personal 30-89s lower by nearly 14% and 16%, respectively. Residential first- and second-lien delinquencies also fell at a healthy clip, as those who still qualified to refinance benefited from the huge refinancing wave that occurred late last year. It is interesting to note that in a dynamic unique to this financial crisis—and never before seen—consumers have been opting to pay down other debts, such as credit card and auto loans ahead of—and sometimes in lieu of—their mortgage payments. Why? Because in a housing market where home prices in some of the worst hit areas are lower by over 50% from their peaks, many homeowners would rather pay down other debt first instead of throwing money into an asset (their home) on which they may never be whole again.

	2011Q1	2011Q4	%Chg	% Delinq
HELOC NPL+90s	10,403,056	11,145,807	-6.7%	
HELOC 30-89s	<u>6,487,148</u>	<u>6,996,411</u>	-7.3%	
	16,890,204	18,142,218	-6.9%	3.0%
2nd Lien NPL+90s	4,271,513	4,307,157	-0.8%	
2nd Lien 30-89s	<u>2,819,380</u>	<u>3,079,900</u>	-8.5%	
	7,090,893	7,387,057	-4.0%	5.9%
RFM NPL+90s	155,091,932	157,115,065	-1.3%	
RFM 30-89s	<u>39,390,254</u>	<u>43,423,086</u>	-9.3%	
	194,482,186	200,538,151	-3.0%	14.2%
Card NPL+90s	12,597,765	14,424,503	-12.7%	
Card 30-89s	<u>10,861,528</u>	<u>12,567,283</u>	-13.6%	
	23,459,293	26,991,786	-13.1%	4.0%
Auto/Student/Personal NPL+90s	7,609,962	7,994,308	-4.8%	
Auto/Student/Personal 30-89s	<u>9,733,787</u>	<u>11,572,863</u>	-15.9%	
	17,343,749	19,567,171	-11.4%	3.5%

Source: FDIC call reports and OTS TFRs

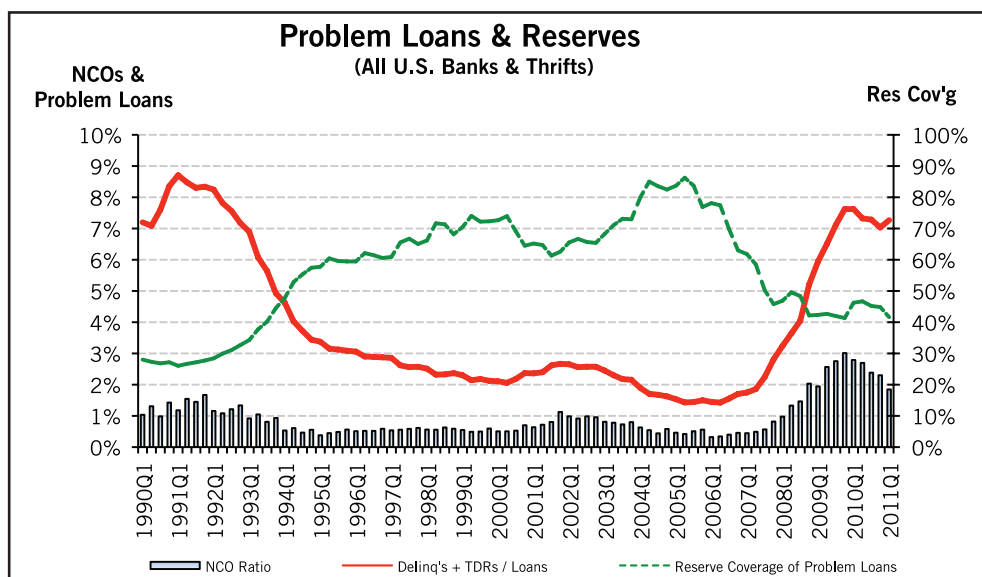
Shifting to commercial delinquencies, credit quality was more of a mixed bag versus the consumer side. While 30-89s did improve among multifamily (-9.2%) and C&I (-5.7%) loans, construction (+2%) and investor properties (up by almost 15%) trends worsened. With new home sales continuing to hover near all-time lows, construction loans could be on the verge of a new round of losses, as even the best developers have now started to run out of cash. As for investor properties, the surge in delinquencies was probably due to the continued deterioration in the commercial real estate market, as property values are now 47% off their October 2007 peak, according to Moody's. Furthermore, per TreppWire, commercial mortgage-backed security delinquencies hit another all-time high of 9.65% in April. As we have stated for the last year or so, we still believe that much of the decline in commercial mortgage delinquencies is being masked by the growth in TDRs.

	2011Q1	2011Q4	%Chg	% Delinq
Construc'n NPA+90s	45,846,480	48,931,975	-6.3%	
Construc'n 30-89s	<u>4,730,269</u>	<u>4,639,155</u>	2.0%	
	50,576,749	53,571,130	-5.6%	24.0%
Multifam NPA+90s	7,718,745	7,913,344	-2.5%	
Multifam 30-89s	<u>1,607,816</u>	<u>1,770,123</u>	-9.2%	
	9,326,561	9,683,467	-3.7%	5.6%
Income Property NPL+90s	20,225,528	20,484,702	-1.3%	
Income Property 30-89s	<u>5,189,559</u>	<u>4,520,379</u>	14.8%	
	25,415,087	25,005,081	1.6%	6.4%
Owner-Occ'd NPL+90s	13,338,095	12,879,937	3.6%	
Owner-Occ'd 30-89s	<u>2,929,284</u>	<u>2,952,006</u>	-0.8%	
	16,267,379	15,831,943	2.8%	4.5%
C&I NPL+90s	19,345,988	25,350,206	-23.7%	
C&I 30-89s	<u>6,161,709</u>	<u>6,531,978</u>	-5.7%	
	25,507,697	31,882,184	-20.0%	2.5%

Source: FDIC call reports and OTS TFRs

Fortunately for banks, because of the immense amount of liquidity sloshing through the financial markets due to quantitative easing (QE), institutions have been able to continue offloading distressed assets as investors have been chasing riskier assets in pursuit of higher yields in this low rate environment. While bulk sales have been less popular of late, many banks are reporting numerous distressed note sales at levels closely approximating carrying value. Combined with slowing inflows of new nonaccruals, one would think that NPA levels would be dropping much more rapidly.

Yet, total problem loans (which by our definition include TDRs and early-stage delinquencies) are still hovering above 7% of total loans, as they increased by 0.6% sequentially and as loan portfolios continued to shrink. The increase during the first quarter was, again, not indicative of higher inflows, but rather lower charge-offs (although certain portions of the country are still exhibiting increased inflows). That said, if inflows were to continue running at this level, it would appear that NCOs (and ORE writedowns, which are not included in the chart below) are going to have to start ramping up again in order to put a meaningful dent in the mountain of problem loans that the banks are sitting on. In the meantime, reserve coverage of problem loans continues to decline and is now just over 40%—thus leaving the banks with less of a buffer to absorb any such increase in credit costs and putting them in a precarious position should the economy weaken enough in coming quarters to cause credit quality to take another turn for the worse.



Source: Hovde Capital Advisors; SNL Financial

Looking ahead, while we would not be surprised to see another round of “stronger” than expected earnings come out of the banking space in the second quarter, the going could, in fact, get tougher in the back half of the year for both the industry and the economy. Consequently, we expect core earnings trends to continue to remain under pressure, particularly as aspects of the Dodd-Frank Act—which continue to be ironed out—stand to translate into lower fee income and higher expenses for the banks. Furthermore, while the settlement being sought by state attorneys general in relation to charges of faulty foreclosure practices continues to be a moving target, it stands to have an impact on the banks’ bottom lines—particularly for the six institutions which control more than three-quarters of the mortgage servicing market (BAC, JP Morgan Chase, Wells Fargo, Citigroup, US Bancorp, and government-majority-owned Ally Financial).

At a more macro level, the economy has already begun to slow, as first quarter real GDP fell to 1.8% from 3.1% in the fourth quarter of 2010, which, in our opinion, is due in large part to QE2 which has caused significant inflation in energy, food, and all other commodity prices. On top of that, the economy (and banks) will also have to contend with an ailing housing market, as prices continue to decline and as sales activity has stalled—existing home sales also continue to hover near all-time lows—in addition to continued declines in commercial real estate values. Again, while credit dynamics have improved for the most part, *all* of these headwinds, coupled with a 9.1% unemployment rate, in our opinion, will lead to a more protracted slowdown and deterioration in credit for the financial services sector and banking industry. As a result, due to the lack of core earnings power, zero to negative loan growth, increased regulatory burdens, and potentially an increase in credit costs, we see third and fourth quarter earnings starting another deteriorating trend.

## Federal Reserve Aggregate Bank Data

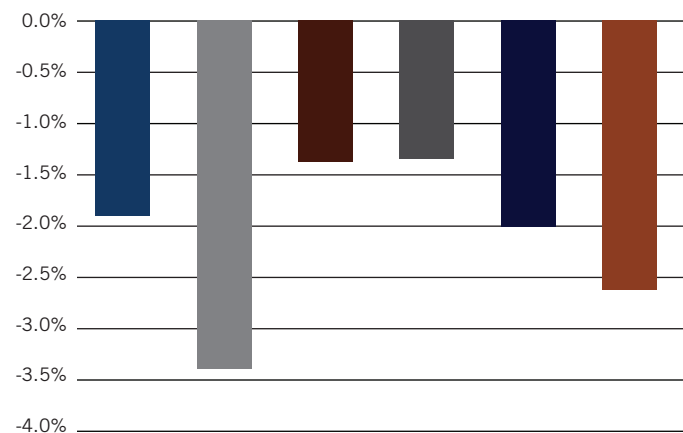
	5/2009	9/2010	10/2010	11/2010	12/2010	1/2011	2/2011	3/2011	4/2011	5/2011	MoM	YoY
<b>ASSETS</b>												
Securities												
Secs in Bank Credit	2,330	2,406	2,437	2,451	2,456	2,426	2,424	2,415	2,431	2,466	1.4%	5.8%
Treasury & Agency	1,500	1,585	1,607	1,632	1,638	1,622	1,622	1,620	1,637	1,682	2.7%	12.1%
Other	830	821	830	820	818	805	802	795	794	784	-1.3%	-5.6%
Loans and Leases												
C&I	1,264	1,241	1,223	1,219	1,212	1,220	1,225	1,230	1,242	1,250	0.7%	-1.1%
Real Estate	3,713	3,649	3,638	3,621	3,621	3,613	3,599	3,572	3,540	3,506	-0.9%	-5.6%
Consumer	1,178	1,161	1,142	1,520	1,120	1,114	1,067	1,076	1,075	1,078	0.3%	-8.5%
Other	777	785	796	811	826	818	840	839	843	866	2.7%	11.4%
Other Assets	1,240	1,242	1,235	1,237	1,246	1,226	1,221	1,220	1,228	1,229	0.0%	-0.9%
<b>Total Assets</b>	<b>11,869</b>	<b>12,054</b>	<b>11,947</b>	<b>12,026</b>	<b>11,974</b>	<b>11,939</b>	<b>11,972</b>	<b>11,815</b>	<b>12,030</b>	<b>12,183</b>	<b>1.3%</b>	<b>2.6%</b>
<b>LIABILITIES</b>												
Deposits												
Large Time	1,800	1,778	1,793	1,793	1,769	1,740	1,741	1,730	1,752	1,784	1.9%	-0.9%
Other	5,867	6,022	6,059	6,102	6,133	6,135	6,168	6,197	6,213	6,253	0.6%	6.6%
Borrowings	1,898	2,000	1,922	1,928	1,900	1,895	1,819	1,810	1,776	1,698	-4.4%	-10.6%
Other Liabilities	434	459	480	484	475	453	445	426	435	436	0.3%	0.6%
<b>Total Liabilities</b>	<b>10,445</b>	<b>10,653</b>	<b>10,631</b>	<b>10,679</b>	<b>10,595</b>	<b>10,583</b>	<b>10,630</b>	<b>10,480</b>	<b>10,613</b>	<b>10,775</b>	<b>1.5%</b>	<b>3.2%</b>
<b>Residual (assets less liabilities)</b>	<b>1,425</b>	<b>1,401</b>	<b>1,316</b>	<b>1,347</b>	<b>1,379</b>	<b>1,356</b>	<b>1,342</b>	<b>1,335</b>	<b>1,417</b>	<b>1,408</b>	<b>-0.6%</b>	<b>-1.1%</b>

all values in \$ billions

SOURCE: Federal Reserve Documents

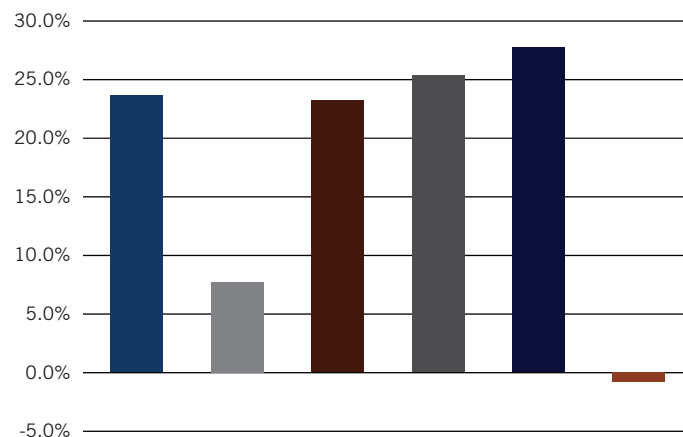
## Major Market Index Performance

May 2011



SOURCE: Bloomberg, LLC

Last Twelve Months



SOURCE: Bloomberg, LLC

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

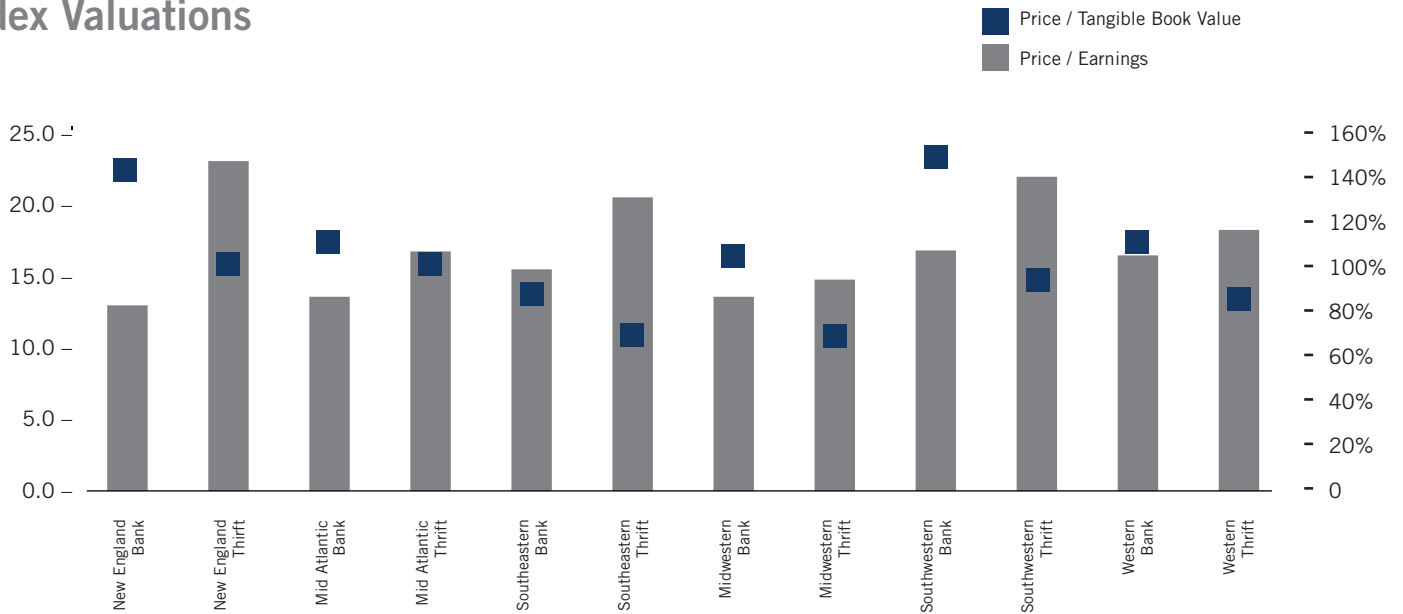
	6/2010	7/2010	8/2010	9/2010	10/2010	11/2010	12/2010	1/2011	2/2011	3/2011	4/2011	5/2011
Dow Jones	-3.6%	7.1%	-4.3%	7.7%	2.6%	-1.0%	5.2%	2.7%	2.8%	0.8%	4.0%	-1.9%
S&P Financial	-6.0%	6.6%	-7.9%	6.0%	1.3%	-0.9%	10.6%	2.8%	2.8%	-2.7%	-0.1%	-3.4%
S&P 500	-5.4%	6.9%	-4.7%	8.8%	3.4%	-0.2%	6.5%	2.3%	3.2%	-0.1%	2.8%	-1.4%
NASDAQ	-6.5%	6.9%	-6.2%	12.0%	5.5%	-0.4%	6.2%	1.8%	3.0%	0.0%	3.3%	-1.3%
Russell 2000	-7.9%	6.8%	-7.5%	12.3%	3.8%	3.4%	7.8%	-0.3%	5.4%	2.4%	2.6%	-2.0%
NASDAQ Bank	-7.0%	3.0%	-10.5%	6.6%	0.3%	-0.9%	13.2%	-0.9%	1.4%	-1.5%	1.0%	-2.6%

SOURCE: Bloomberg, LLC

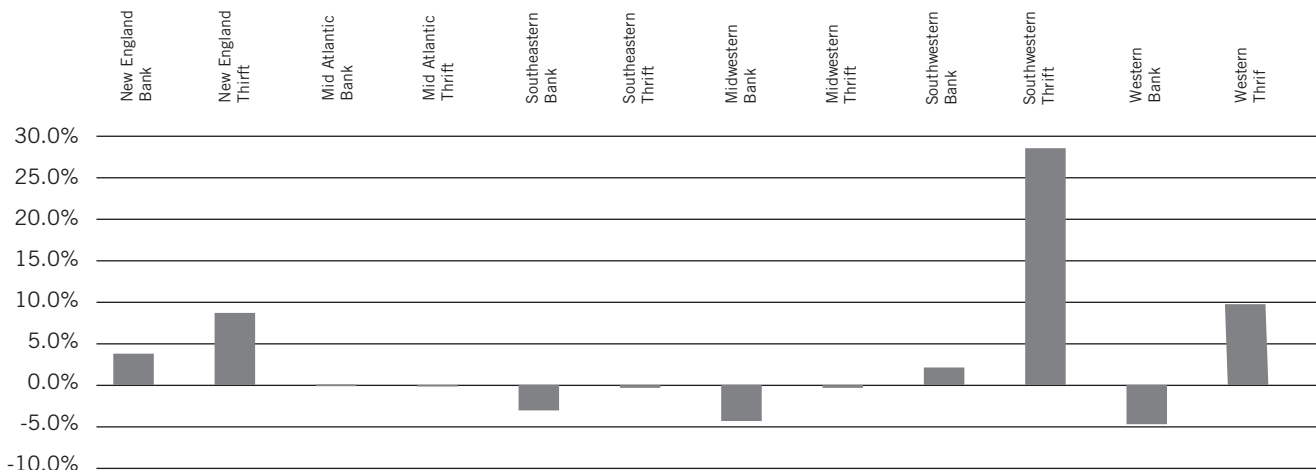
## Bank and Thrift Index Valuations

		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	
<b>New England</b>	Bank	10.8	12.8	113%	115%	138%	140%	-3.9%	3.6%	15.2%	20
	Thrift	14.7	22.8	73%	94%	86%	104%	-2.0%	8.4%	24.3%	22
<b>Mid Atlantic</b>	Bank	11.3	13.5	90%	101%	138%	113%	-2.6%	0.0%	0.7%	85
	Thrift	13.8	16.6	114%	91%	148%	103%	-3.1%	0.0%	4.4%	51
<b>Southeastern</b>	Bank	12.2	15.3	80%	76%	112%	88%	-4.6%	-3.0%	-18.7%	104
	Thrift	7.1	20.1	72%	65%	77%	73%	-6.6%	-0.2%	-21.1%	13
<b>Midwestern</b>	Bank	15.9	13.5	123%	91%	157%	107%	-5.4%	-4.2%	-7.5%	82
	Thrift	14.3	14.5	94%	66%	97%	70%	-3.7%	-0.2%	-12.4%	38
<b>Southwestern</b>	Bank	14.6	16.5	120%	117%	155%	147%	-6.6%	2.0%	10.8%	19
	Thrift	16.4	21.5	134%	93%	135%	93%	-0.4%	27.5%	23.7%	7
<b>Western</b>	Bank	16.7	17.2	111%	97%	133%	114%	-5.7%	-4.6%	-7.9%	50
	Thrift	14.6	18.0	78%	84%	61%	85%	-5.0%	9.7%	8.7%	12

## Index Valuations



## YTD Price Performance



SOURCE: SNL Financial and Bloomberg, LLC

## Economic Data Points - May 2011

Date	Event	Period	Survey	Actual	Prior	Revised	Date	Event	Period	Survey	Actual	Prior	Revised
5/2/11	Construction Spending MoM	MAR	0.40%	1.40%	-1.40%	-2.40%	5/17/11	Housing Starts	APR	569K	523K	549K	593K
5/2/11	ISM Manufacturing	APR	59.5	60.4	61.2	--	5/17/11	Housing Starts MOM%	APR	590K	551K	594K	574K
5/3/11	Factory Orders	MAR	2.00%	3.00%	-0.10%	0.70%	5/17/11	Building Permits	APR	3.60%	-10.60%	7.20%	12.90%
5/3/11	Total Vehicle Sales	APR	13.00M	13.14M	13.06M	--	5/17/11	Building Permits MOM%	APR	0.90%	-4.00%	11.20%	7.50%
5/3/11	Domestic Vehicle Sales	APR	9.90M	10.20M	9.94M	--	5/17/11	Industrial Production	APR	0.40%	0.00%	0.80%	0.60%
5/4/11	MBA Mortgage Applications	29-Apr	--	4.00%	-5.60%	--	5/17/11	Capacity Utilization	APR	77.60%	76.90%	77.40%	76.80%
5/4/11	ADP Employment Change	APR	198K	179K	201K	207K	5/18/11	MBA Mortgage Applications	13-May	--	7.80%	8.20%	--
5/4/11	ISM Non-Manf. Composite	APR	57.5	52.8	57.3	--	5/18/11	Minutes of FOMC Meeting					
5/5/11	Initial Jobless Claims	30-Apr	410K	474K	429K	431K	5/19/11	Initial Jobless Claims	13-May	420K	409K	434K	438K
5/5/11	Continuing Claims	23-Apr	3649K	3733K	3641K	3659K	5/19/11	Continuing Claims	7-May	3728K	3711K	3756K	3792K
5/6/11	Change in Nonfarm Payrolls	APR	185K	244K	216K	221K	5/19/11	Existing Home Sales	APR	5.20M	5.05M	5.10M	5.09M
5/6/11	Change in Private Payrolls	APR	200K	268K	230K	231K	5/19/11	Existing Home Sales MoM	APR	2.00%	-0.80%	3.70%	3.50%
5/6/11	Unemployment Rate	APR	8.80%	9.00%	8.80%	--	5/19/11	Mortgage Delinquencies	1Q	--	8.32%	8.22%	8.25%
5/6/11	Avg Hourly Earning YoY All Emp	APR	1.80%	1.90%	1.70%	2.00%	5/19/11	Philadelphia Fed.	MAY	20	3.9	18.5	--
5/6/11	Consumer Credit	MAR	\$5.000B	\$6.016B	\$7.617B	\$7.553B	5/23/11	Chicago Fed Nat Activity Index	APR	0.2	-0.45	0.26	0.32
5/10/11	NFIB Small Business Optimism	APR	91.8	91.2	91.9	--	5/24/11	New Home Sales	APR	300K	323K	300K	301K
5/10/11	Wholesale Inventories	MAR	1.00%	1.10%	1.00%	--	5/24/11	New Home Sales MoM	APR	0.00%	7.30%	11.10%	8.30%
5/11/11	MBA Mortgage Applications	6-May	--	8.20%	4.00%	--	5/25/11	MBA Mortgage Applications	20-May	--	1.10%	7.80%	--
5/11/11	Trade Balance	MAR	-\$47.0B	-\$48.2B	-\$45.8B	-\$46.0B	5/25/11	Durable Goods Orders	APR	-2.50%	-3.60%	2.50%	4.60%
5/11/11	JOLTS Job Openings	MAR	--	3124	3093	3025	5/25/11	Durables Ex Transportation	APR	0.50%	-1.50%	1.30%	2.60%
5/12/11	Initial Jobless Claims	6-May	430K	434K	474K	478K	5/25/11	Cap Goods Orders Nondef Ex Air	APR	-2.10%	-2.60%	3.70%	5.40%
5/12/11	Continuing Claims	30-Apr	3700K	3756K	3733K	3751K	5/25/11	House Price Index MoM	MAR	-0.50%	-0.30%	-1.60%	-1.50%
5/12/11	Producer Price Index (MoM)	APR	0.60%	0.80%	0.70%	--	5/26/11	GDP QoQ (Annualized)	1Q S	2.20%	1.80%	1.80%	--
5/12/11	PPI Ex Food & Energy (MoM)	APR	0.20%	0.30%	0.30%	--	5/26/11	Personal Consumption	1Q S	2.80%	2.20%	2.70%	2.20%
5/12/11	Producer Price Index (YoY)	APR	6.50%	6.80%	5.80%	--	5/26/11	Initial Jobless Claims	20-May	404K	424K	409K	414K
5/12/11	PPI Ex Food & Energy (YoY)	APR	2.10%	2.10%	1.90%	--	5/26/11	Continuing Claims	14-May	3700K	3690K	3711K	3736K
5/12/11	Advance Retail Sales	APR	0.60%	0.50%	0.40%	0.90%	5/27/11	Personal Spending	APR	0.50%	0.40%	0.60%	0.50%
5/12/11	Retail Sales Less Autos	APR	0.60%	0.60%	0.80%	1.20%	5/27/11	Personal Income	APR	0.40%	0.40%	0.50%	0.40%
5/12/11	Retail Sales Ex Auto & Gas	APR	0.50%	0.20%	0.60%	0.80%	5/27/11	PCE Core (MoM)	APR	0.20%	0.20%	0.10%	--
5/12/11	Business Inventories	MAR	0.90%	1.00%	0.50%	0.70%	5/27/11	U. of Michigan Confidence	MAY F	72.4	74.3	72.4	--
5/13/11	Consumer Price Index (MoM)	APR	0.40%	0.40%	0.50%	--	5/27/11	Pending Home Sales MoM	APR	-1.00%	-11.60%	5.10%	3.50%
5/13/11	CPI Ex Food & Energy (MoM)	APR	0.20%	0.20%	0.10%	--	5/27/11	Pending Home Sales YoY	APR	--	-26.80%	-11.50%	-12.90%
5/13/11	Consumer Price Index (YoY)	APR	3.10%	3.20%	2.70%	--	5/31/11	S&P/CS 20 City MoM% SA	MAR	-0.20%	-0.23%	-0.18%	-0.25%
5/13/11	CPI Ex Food & Energy (YoY)	APR	1.30%	1.30%	1.20%	--	5/31/11	S&P/CS Composite-20 YoY	MAR	-3.40%	-3.61%	-3.33%	-3.35%
5/13/11	U. of Michigan Confidence	MAY P	70	72.4	69.8	--	5/31/11	Chicago Purchasing Manager	MAY	62	56.6	67.6	--
5/16/11	Total Net TIC Flows	MAR	--	\$116.0B	\$97.7B	\$83.4B	5/31/11	Consumer Confidence	MAY	66.6	60.8	65.4	66
5/16/11	NAHB Housing Market Index	MAY	17	16	16	--	5/31/11	Dallas Fed Manf. Activity	MAY	8.5	-7.4	10.5	--

SOURCE: Bloomberg, LLC

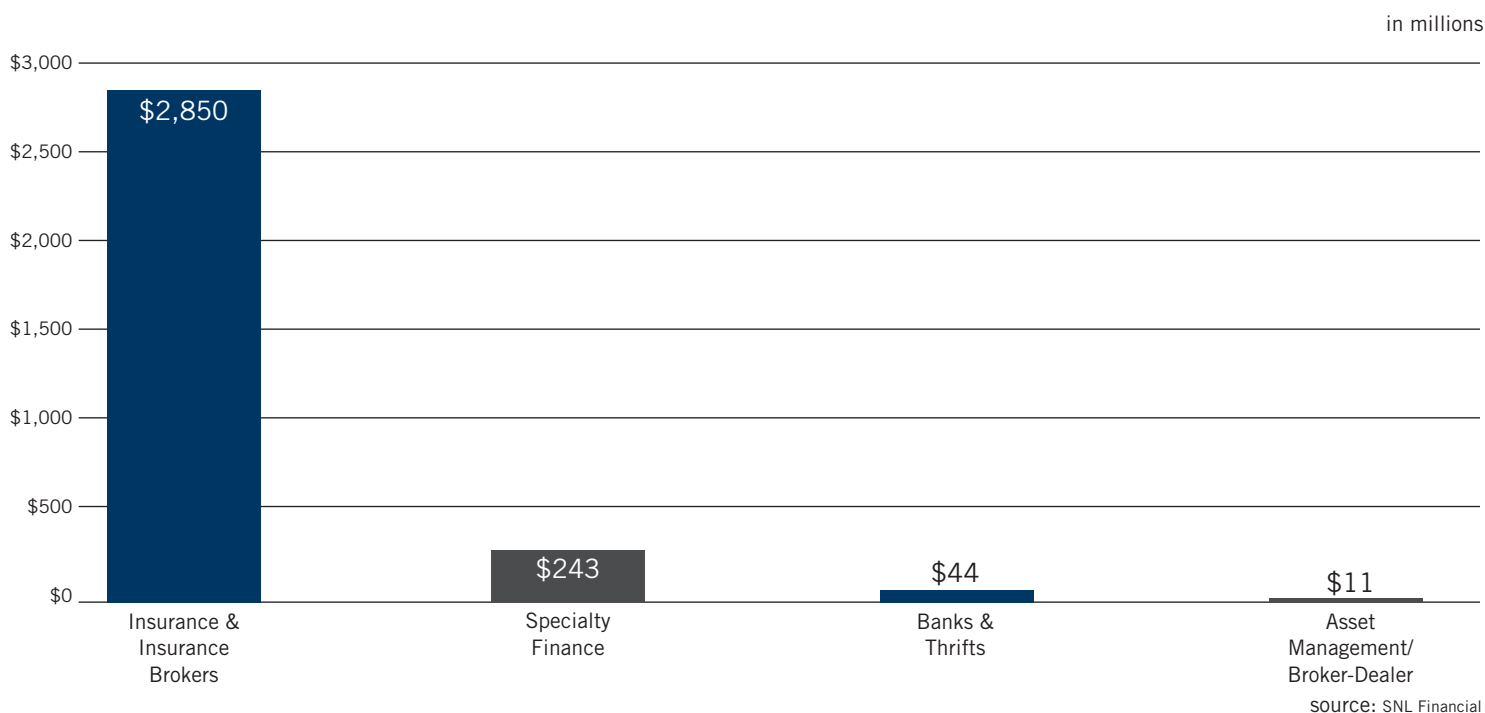
## Economic Data Points - June 2011

Date	Event	Period	Survey	Actual	Prior	Revised	Date	Event	Period	Survey	Actual	Prior	Revised
6/1/11	MBA Mortgage Applications	27-May	--	-4.00%	1.10%	--	6/15/11	NAHB Housing Market Index	JUN	16	13	16	--
6/1/11	ADP Employment Change	MAY	175K	38K	179K	177K	6/16/11	Initial Jobless Claims	11-Jun	420K	414K	427K	430K
6/1/11	Construction Spending MoM	APR	0.30%	0.40%	1.40%	0.10%	6/16/11	Continuing Claims	4-Jun	3670K	3675K	3676K	3696K
6/1/11	ISM Manufacturing	MAY	57.1	53.5	60.4	--	6/16/11	Housing Starts	MAY	545K	560K	523K	541K
6/1/11	Total Vehicle Sales	MAY	12.44M	11.76M	13.14M	--	6/16/11	Housing Starts MoM%	MAY	4.20%	3.50%	-10.60%	-8.80%
6/2/11	Initial Jobless Claims	28-May	417K	422K	424K	428K	6/16/11	Building Permits	MAY	557K	612K	551K	563K
6/2/11	Continuing Claims	21-May	3675K	3711K	3690K	3712K	6/16/11	Building Permits MoM%	MAY	-1.10%	8.70%	-4.00%	-1.90%
6/2/11	Factory Orders	APR	-1.00%	-1.20%	3.00%	3.80%	6/16/11	Philadelphia Fed.	JUN	7	-7.7	3.9	--
6/3/11	Change in Nonfarm Payrolls	MAY	165K	54K	244K	232K	6/17/11	U. of Michigan Confidence	JUN P	74	71.8	74.3	--
6/3/11	Change in Private Payrolls	MAY	170K	83K	268K	251K	6/21/11	Existing Home Sales	MAY	4.85M	--	5.05M	--
6/3/11	Unemployment Rate	MAY	8.90%	9.10%	9.00%	--	6/21/11	Existing Home Sales MoM	MAY	-4.00%	--	-0.80%	--
6/3/11	ISM Non-Manf. Composite	MAY	54	54.6	52.8	--	6/22/11	MBA Mortgage Applications	17-Jun	--	--	13.00%	--
6/7/11	JOLTS Job Openings	APR	--	2972	3124	3123	6/22/11	House Price Index MoM	APR	-0.20%	--	-0.30%	--
6/7/11	Consumer Credit	APR	\$5.000B	\$6.247B	\$6.016B	\$4.818B	6/22/11	FOMC Rate Decision	22-Jun	0.25%	--	0.25%	--
6/8/11	MBA Mortgage Applications	3-Jun	--	-0.40%	-4.00%	--	6/23/11	Chicago Fed Nat Activity Index	MAY	--	--	-0.45	--
6/9/11	Initial Jobless Claims	4-Jun	419K	427K	422K	426K	6/23/11	Initial Jobless Claims	17-Jun	--	--	--	--
6/9/11	Continuing Claims	28-May	3700K	3676K	3711K	3747K	6/23/11	Continuing Claims	11-Jun	--	--	--	--
6/9/11	Trade Balance	APR	-\$48.8B	-\$43.7B	-\$48.2B	-\$46.8B	6/23/11	New Home Sales	MAY	310K	--	323K	--
6/9/11	Wholesale Inventories	APR	1.00%	0.80%	1.10%	1.30%	6/23/11	New Home Sales MoM	MAY	-4.00%	--	7.30%	--
6/14/11	NFIB Small Business Optimism	MAY	90.5	90.9	91.2	--	6/24/11	Durable Goods Orders	MAY	1.60%	--	-3.60%	--
6/14/11	Producer Price Index (MoM)	MAY	0.10%	0.20%	0.80%	--	6/24/11	Durables Ex Transportation	MAY	1.00%	--	-1.50%	-1.60%
6/14/11	PPI Ex Food & Energy (MoM)	MAY	0.20%	0.20%	0.30%	--	6/24/11	Cap Goods Orders Nondef Ex Air	MAY	0.80%	--	-2.60%	--
6/14/11	Producer Price Index (YoY)	MAY	6.80%	7.30%	6.80%	--	6/24/11	GDP QoQ (Annualized)	1Q T	1.90%	--	1.80%	--
6/14/11	PPI Ex Food & Energy (YoY)	MAY	2.10%	2.10%	2.10%	--	6/24/11	Personal Consumption	1Q T	2.20%	--	2.20%	--
6/14/11	Advance Retail Sales	MAY	-0.50%	-0.20%	0.50%	0.30%	6/24/11	Core PCE QoQ	1Q T	1.40%	--	1.40%	--
6/14/11	Retail Sales Less Autos	MAY	0.20%	0.30%	0.60%	0.50%	6/27/11	Personal Income	MAY	0.40%	--	0.40%	--
6/14/11	Retail Sales Ex Auto & Gas	MAY	0.20%	0.30%	0.20%	0.30%	6/27/11	Personal Spending	MAY	0.10%	--	0.40%	--
6/14/11	Business Inventories	APR	0.90%	0.80%	1.00%	1.30%	6/28/11	S&P/CS 20 City MoM% SA	APR	--	--	-0.23%	--
6/15/11	MBA Mortgage Applications	10-Jun	--	13.00%	-0.40%	--	6/28/11	S&P/CS Composite-20 YoY	APR	--	--	-3.61%	--
6/15/11	Consumer Price Index (MoM)	MAY	0.10%	0.20%	0.40%	--	6/28/11	Consumer Confidence	JUN	--	--	60.8	--
6/15/11	CPI Ex Food & Energy (MoM)	MAY	0.20%	0.30%	0.20%	--	6/28/11	Richmond Fed Manuf. Index	JUN	--	--	-6	--
6/15/11	Consumer Price Index (YoY)	MAY	3.40%	3.60%	3.20%	--	6/29/11	MBA Mortgage Applications	24-Jun	--	--	--	--
6/15/11	CPI Ex Food & Energy (YoY)	MAY	1.40%	1.50%	1.30%	--	6/29/11	Pending Home Sales MoM	MAY	--	--	-11.60%	--
6/15/11	Empire Manufacturing	JUN	12	-7.79	11.88	--	6/29/11	Pending Home Sales YoY	MAY	--	--	-26.80%	--
6/15/11	Total Net TIC Flows	APR	--	\$68.2B	\$116.0B	\$127.1B	6/30/11	Initial Jobless Claims	24-Jun	--	--	--	--
6/15/11	Empire Manufacturing	JUN	12	-7.79	11.88	--	6/30/11	Continuing Claims	18-Jun	--	--	--	--
6/15/11	Total Net TIC Flows	APR	--	\$68.2B	\$116.0B	\$127.1B	6/30/11	Chicago Purchasing Manager	JUN	--	--	56.6	--

SOURCE: Bloomberg, LLC

## M&A Transaction Update

### Announced Transactions - May 2011



### Deal Count - May 2011

Insurance & Insurance Brokerage	32
Asset Management & Broker/Dealer	12
Banks & Thrift	8
Specialty Finance	6

SOURCE: SNL Financial

### Deal Count - 2011 YTD

Insurance & Insurance Brokerage	130
Asset Management & Broker/Dealer	64
Banks & Thrift	50
Specialty Finance	26

SOURCE: SNL Financial

### Top Financial Advisors in Bank and Thrift Transactions

Last Five Years, Sell-Side Advisory Transactions

Rank	Firm	# of Deals
1	Keefe, Bruyette & Woods, Inc.	93
2	Sandler O'Neill & Partner, LP	80
3	Hovde Financial	54
4	Raymond James & Associates, Inc.	52
5	Stifel, Nicolaus & Company, Inc.	31
6	Sheshunoff & Co. Investment Banking, LP	27
7	Capital Corporation, LLC.	14
8	Professional Bank Services Inc.	13
9	Austin Associates, LLC	11
10	Carson Medlin Company	10

SOURCE: SNL Financial (data from 5/31/2006-5/31/2011)

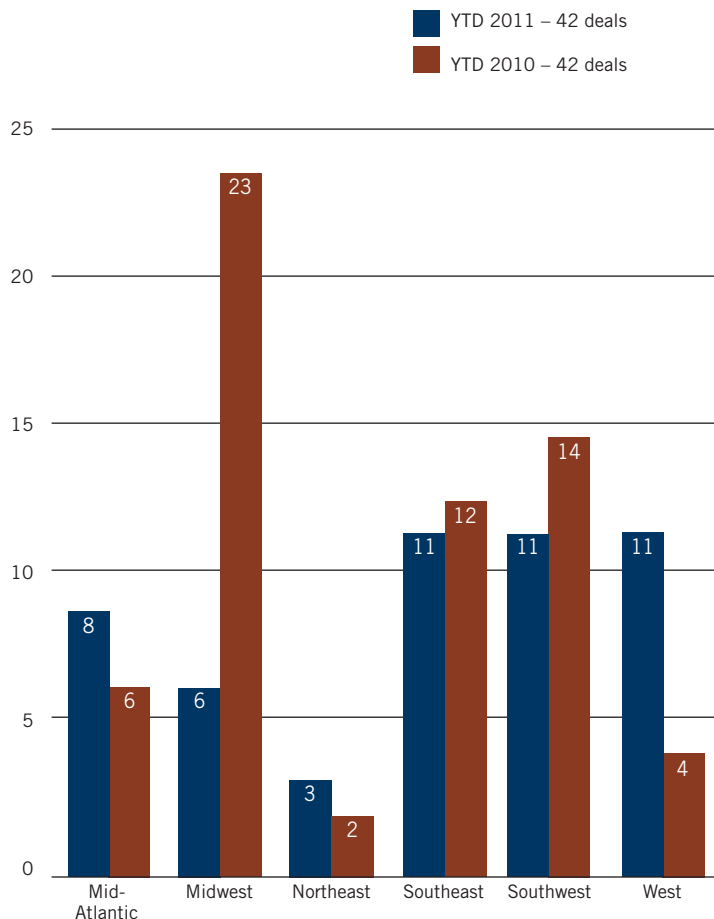
## Bank & Thrift Transactions - May 2011

Buyer	Buyer State	Target	Target State	Announced	DV (\$MM)	P/LTM Ern	P/TBV (%)	Core Deposit Premium (%)
North American Financial Holdings, Inc.	NC	Green Bankshares, Inc.	TN	5/5/11	9.9	NM	8.00	-7.58
Sterne Agee Group, Inc.	AL	Undisclosed bank		5/6/11	NA	NA	NA	NA
Bay Commercial Bank	CA	Global Bancorp	CA	5/16/11	12.2	NM	75.57	-11.39
Southwest Security, Inc.	MS	Merchants & Farmers Bank	LA	5/19/11	NA	NA	NA	NA
Adam Bank Group, Inc.	FL	Brazos Valley Bank, NA	TX	5/21/11	NA	NA	NA	NA
CenterState Banks, Inc.	FL	Federal Trust Corporation	CT	5/22/11	NA	NA	NA	NA
First General Bank	CA	Golden Security Bancorp	CA	5/26/11	4.4	NM	47.14	-4.55
SKBHC Holdings LLC	AZ	Investor group	WA	5/26/11	17.0	NM	111.89	1.72

SOURCE: SNL Financial. Please note that prior data is updated by the source provider on a regular basis.

## Bank & Thrift Transactions

by Region



SOURCE: SNL Financial

## Deal Pricing by Region - 2011 YTD

Region	Deal Value (MM)	Price/TBV (%)	P/ LTM Ern (x)	P/ Core Dep Prem (%)
Mid-Atlantic	\$714	NA	NA	NA
Midwest	\$35	84.66	12.0	(2.09)
Northeast	\$723	188.68	25.7	12.57
Southeast	\$110	58.01	NA	(2.89)
Southwest	\$1,275	139.99	34.5	6.47
West	\$97	82.60	30.0	(1.58)
<b>Total</b>	<b>\$2,954</b>	<b>97.87</b>	<b>24.3</b>	<b>1.01</b>

SOURCE: SNL Financial. Please note that prior data is updated by the source provider on a regular basis.

## Deal Pricing by Quarter

Quarter	Deal Value (MM)	Price/TBV (%)	P/ LTM Ern (x)	P/ Core Dep Prem (%)
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	\$643	102.7	8.4	3.9
4Q2009	\$271	107.8	20.0	5.6
1Q2010	\$271	110.9	33.9	6.0
2Q2010	\$585	100.7	32.0	5.4
3Q2010	\$1,978	99.8	20.0	4.8
4Q2010	\$9,171	103.5	21.8	1.4
1Q2011	\$2,336	108.2	29.4	3.8
2Q2011	\$619	101.0	23.7	-0.7

SOURCE: SNL Financial. Please note that prior data is updated by the source provider on a regular basis.

## Insurance and Insurance Brokerage Transactions - May 2011

Buyer	Target	Announced	DV (\$MM)
Cullen/Frost Bankers, Inc.	Clark Benefit Group, Inc.	5/1/11	NA
Hegland Agency, Inc.	Eagle Country Insurance	5/1/11	NA
Wolverine Mutual Insurance Company	Farmers' Mutual Insurance Company	5/1/11	NA
ESSA Bancorp, Inc.	Private Investors	5/4/11	NA
Prosperity Life Insurance Group, LLC	Shenandoah Life Insurance Company	5/4/11	NA
Brown & Brown, Inc.	Fitzharris Insurance	5/5/11	NA
J.C. Flowers & Co. LLC	Compagnie Européenne de Prévoyance	5/5/11	1,235.1
Brown & Brown, Inc.	Global Intermediaries of Eugene, LLC	5/6/11	NA
Hub International Limited	Lawson-Hawks Insurance Associates, Inc.	5/6/11	NA
Arthur J. Gallagher & Co.	Meyers-Reynolds & Associates, Inc.	5/9/11	NA
Hub International Limited	Mark Tauber Insurance Brokerage, Inc.	5/9/11	NA
NBT Bancorp Inc.	Latremore's Insurance Agency	5/9/11	NA
Ryan Specialty Group, LLC	Investor group	5/9/11	57.5
Pan-American Life Mutual Holding Company	GreenWood International Insurance Services, Inc.	5/10/11	NA
Arthur J. Gallagher & Co.	HLG Holdings, Ltd.	5/12/11	159.6
Management group	Sunflower Insurance Group Inc.	5/12/11	NA
JCF Holdings Inc.	Self-Funded Alternatives, LLC	5/13/11	NA
Baldwin Resource Group, Inc.	Partners Group LTD	5/16/11	NA
Hub International Limited	Intercare Insurance Solutions' book of business	5/16/11	NA
Hub International Limited	Transportation Group, Ltd.	5/16/11	NA
Arrowhead General Insurance Agency Inc.	Trafalgar Marine Insurance Services, Inc.	5/17/11	NA
Allstate Corporation	White Mountains Inc. and Answer Financial Inc.	5/17/11	1,000.0
Integro, Ltd.	Argo Insurance Brokers, Inc.	5/18/11	NA
Markel Corporation	Globen Forsakringar AB/FKH	5/18/11	NA
Catholic United Financial	American Fraternal Union	5/19/11	NA
Genstar Capital, LLC	Private Investor - Remberto Perez	5/23/11	NA
Doctors Company, An Interinsurance Exchange	FPIC Insurance Group, Inc.	5/23/11	360.6
Arthur J. Gallagher & Co.	ITI Solutions Pte Ltd.	5/24/11	NA
Arthur J. Gallagher & Co.	Fish & Schulkamp, Inc.	5/25/11	NA
PBS Insurance Underwriting Corporation	Todd R. Soll Insurance Services, Inc.	5/25/11	NA
First Trinity Financial Corporation	Undisclosed seller	5/25/11	NA
Hub International Limited	First Southeast Insurance Services, Inc.	5/26/11	37.5

SOURCE: SNL Financial

## Asset Management/Broker-Dealer Transactions - May 2011

Buyer	Target	Announced	DV (\$MM)
Nexar Capital Group S.C.A.	Ermitage Limited	5/3/11	NA
Wintrust Financial Corporation	Great Lakes Advisors, Inc.	5/4/11	NA
Wells Fargo & Company	Bank of Ireland's Foreign Currency Exchange Corporation	5/9/11	NA
SunTrust Banks, Inc.	CSI Capital Management Inc	5/11/11	NA
PFM Group	Scott Balice Strategies, LLC	5/16/11	NA
FINNEA Group	Lone Pine Capital Advisors/Leuliette Partners/Novak Group	5/16/11	NA
Provident Financial Services, Inc.	Beacon Trust Company & Beacon Global Asset Management, Inc.	5/19/11	10.5
Saguenay Capital, LLC	Strathmore Capital LLP	5/23/11	NA
Callan Associates Inc.	Milliman's public sector investment consulting business	5/26/11	NA
Marsh & McLennan Companies, Inc.	Evaluation Associates, LLC	5/26/11	NA
Virtu Financial LLC	Madison Tyler Holdings, LLC	5/27/11	NA
Arthur J. Gallagher & Co.	Independent Fiduciary Services, Inc.	5/31/11	NA

SOURCE: SNL Financial

## Specialty Finance Transactions - May 2011

Buyer	Target	Announced	DV (\$MM)
Guaranteed Rate, Inc.	Ameristar Mortgage Corporation	5/2/11	NA
EZCORP, Inc.	Jumping Jack Cash Utah: 7 pawn shops	5/5/11	NA
Discover Financial Services	Tree.com's Home Loan Center Inc.	5/12/11	55.9
Shore Financial Services, Inc.	Hall Financial Corporation	5/23/11	NA
Fortress Investment Group LLC	BAE Systems Asset Management	5/26/11	187.0
Wells Fargo & Company	CP Equity LLC	5/26/11	NA

SOURCE: SNL Financial