

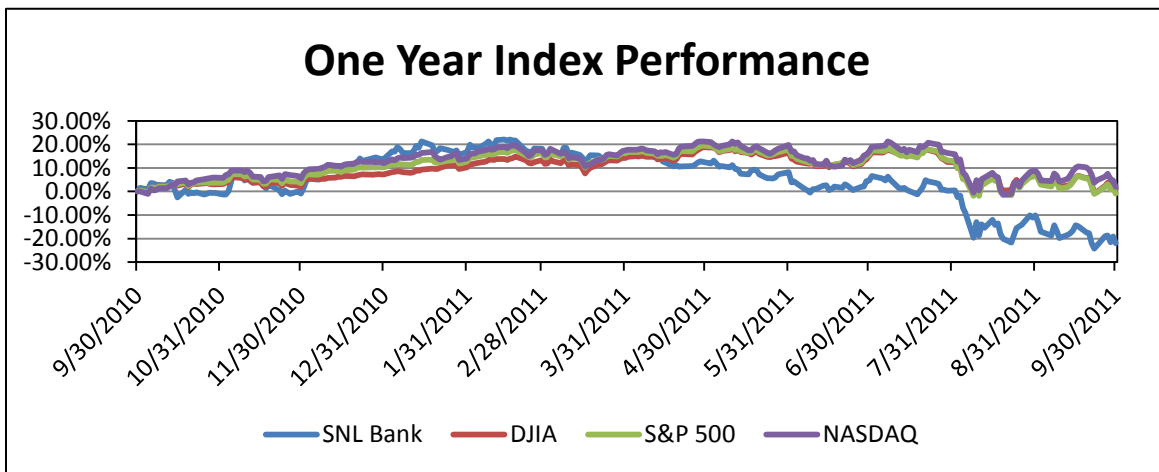
Industry Update

Vining Sparks Community Bank Advisory Group

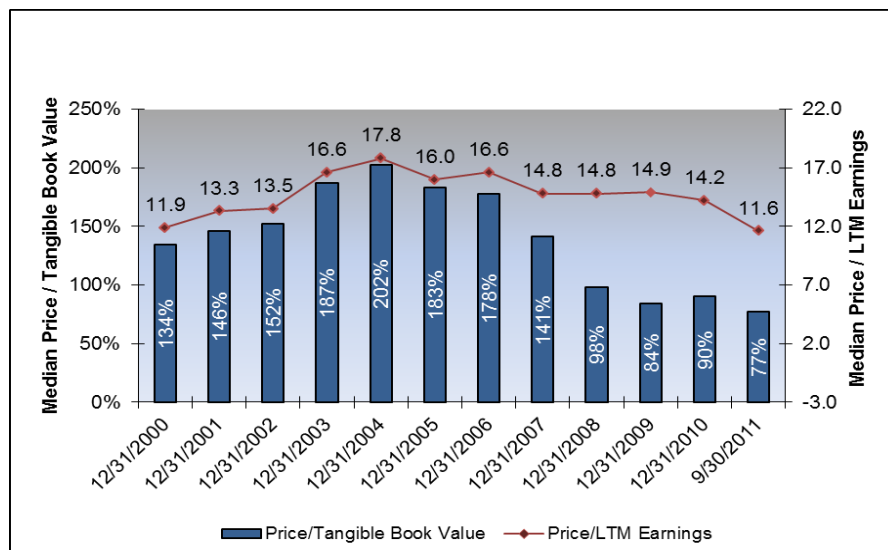
October 2011

Bank Stock Performance

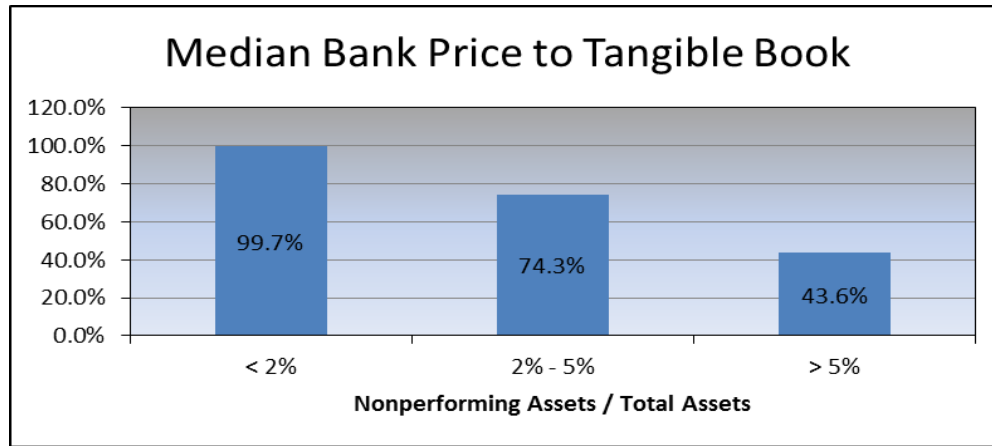
Overall bank stock performance has trailed the major market indices in the last twelve months.



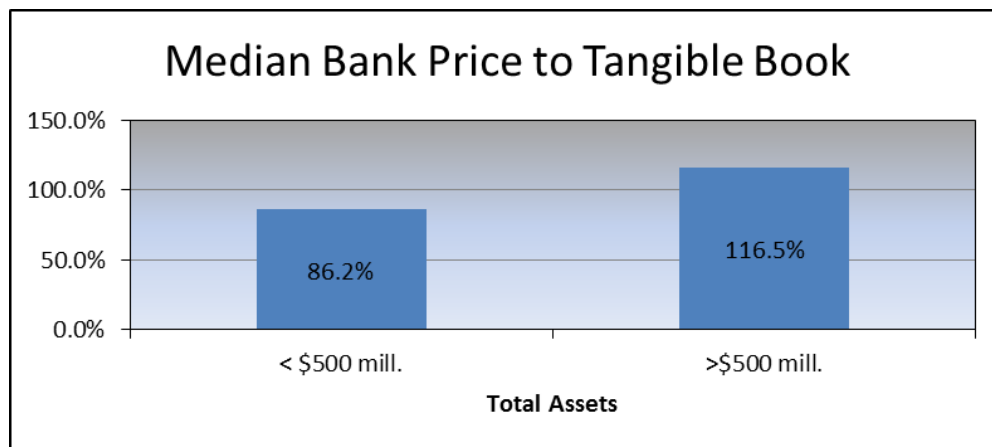
Bank valuations increased from 2000 to 2004 as profitability improved and M&A activity increased. However, beginning in 2005 valuations pulled back due to rising interest rates; the flattening and then inversion of the yield curve; credit quality concerns and the weakening housing markets. Nationally, public banks are currently trading at 77% of tangible book value and 11.6 times earnings.



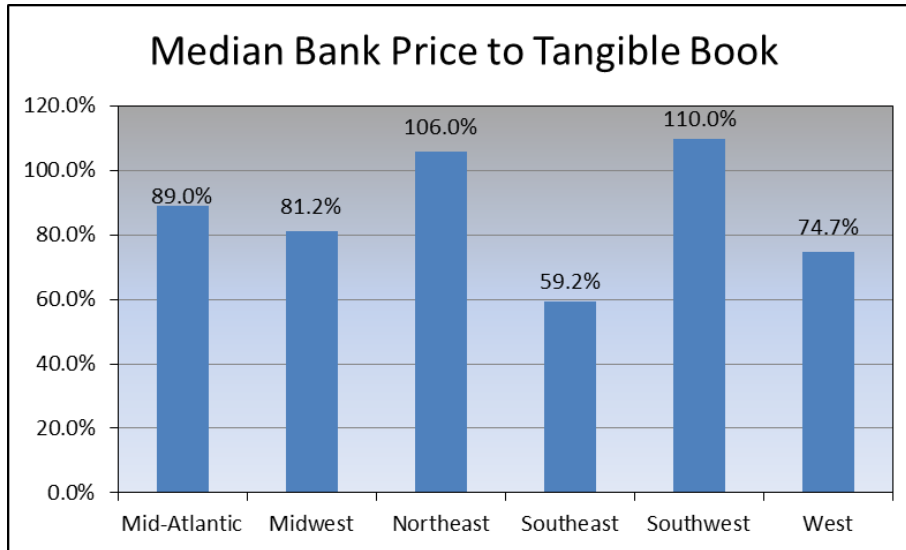
Bank stock pricing is driven by a bank's credit quality, asset size and the local economy. As illustrated below, publicly traded banks with low nonperforming assets command the highest pricing.



Additionally, size matters. Even for banking organizations with similar asset quality (nonperforming assets under 2%), those with total assets above \$500 million were trading at a premium over smaller institutions.



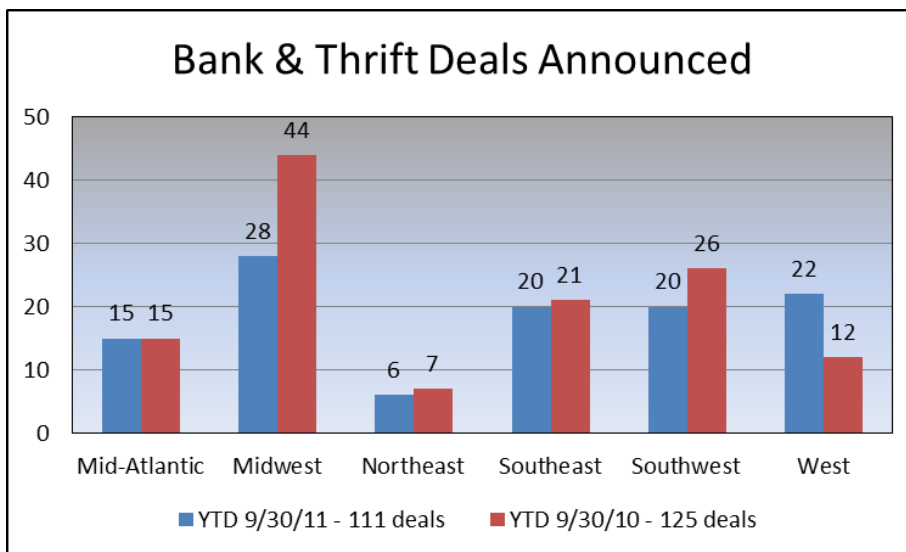
The health of the local economy also plays a role in pricing. The regions of the country that were hardest hit in the housing bust are those that reflect the lowest price to tangible book multiples. The Southwest and Northeast regions appear to be faring the best with median price to tangible book ratios of 110.0% and 106.0%, respectively.



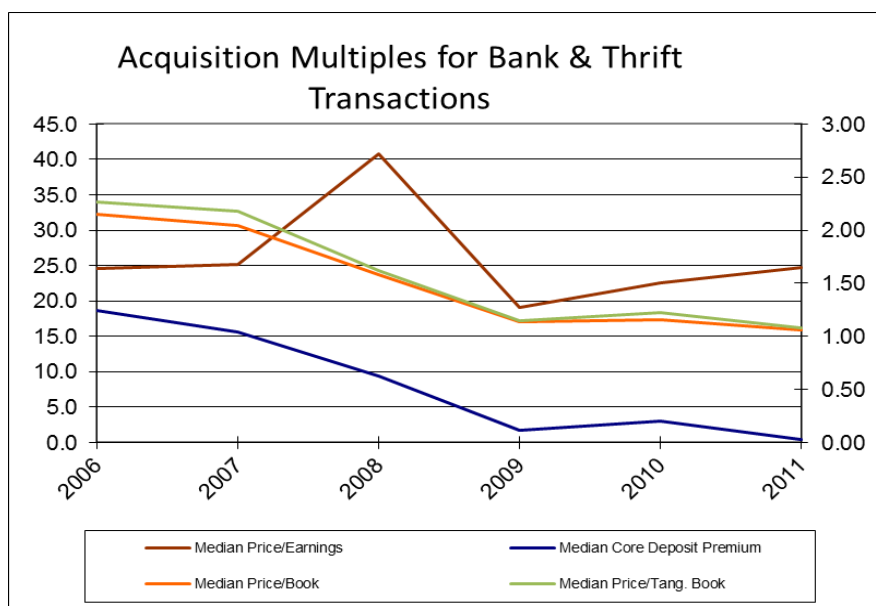
Bank M&A Activity

Although many predicted a resurgence in community bank M&A activity, it has been slow to materialize. Credit quality continues to be one of the biggest stumbling blocks for increased M&A activity. A number of deals fall apart after a prospective buyer's due diligence because of credit issues and severity of market-to-market adjustments. The pricing of a potential buyer's stock is also a deterrent. Many would be buyers are trading well below book value, which makes it difficult to structure an attractively priced transaction that makes sense for the buyer and the seller. Additionally, there is still a large number of problem banks that the FDIC will need to address in the remainder of 2011 and 2012. These government assisted deals will continue to garner the attention of a number of buyers.

There have been 111 whole bank & thrift transactions announced in the first nine months of 2011, which compared with 125 in the first nine months of 2010. The number of transactions announced in each region is shown below.



Acquisition multiples are down from 2006 highs, and are now hovering just above tangible book value at a median of 108%.



Deal pricing continues to be driven by an institution's profitability and credit quality, as well as the regional economy and prospects for growth. An analysis of deals announced since January 1, 2010 reveals a stark contrast in pricing for companies with asset quality issues versus "clean" banks.

U.S. Bank Deals Announced Since 1/1/2010	Price/Book	Price/Tang. Book	Price/Earnings	Price/Assets	Premium/Core Deposits
NPAs/Assets >7.00%	49.0%	49.0%	N/M	2.2%	-2.7%
NPAs/Assets <2.00%	130.0%	130.0%	23.8	14.3%	4.5%

There have been 74 banks and thrifts that have failed in the first nine months of 2011 as compared to 102 in the first nine months of 2010. The average premium on deposits paid was 0.30% and the average discount on assets was 16%.

M&A activity will increase as the industry slowly improves over the next few years and as more sellers recognize the importance of joining forces with other financially sound companies to achieve the size and economies of scale necessary to operate profitably in the current banking environment.

*Financial data was obtained from SNL Financial

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Please feel free to contact us at 512-495-9890 to discuss your valuation or M&A needs.

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