

M&A Review

Second Quarter 2006

Transactions by Region

There were 59 bank and 11 thrift deals announced in the second quarter of 2006. The 70 total deals for the quarter is an increase of 16 deals compared with the 54 deals in the first quarter of 2006. The most active states in second quarter of 2006 were Illinois with 10 deals and California, Texas and Florida with seven announced deals each. The Southwest region had 16 bank deals, followed by the Southeast with 15 deals and Midwest with 14 deals. For a breakdown of bank deals by state, see Exhibit 1.

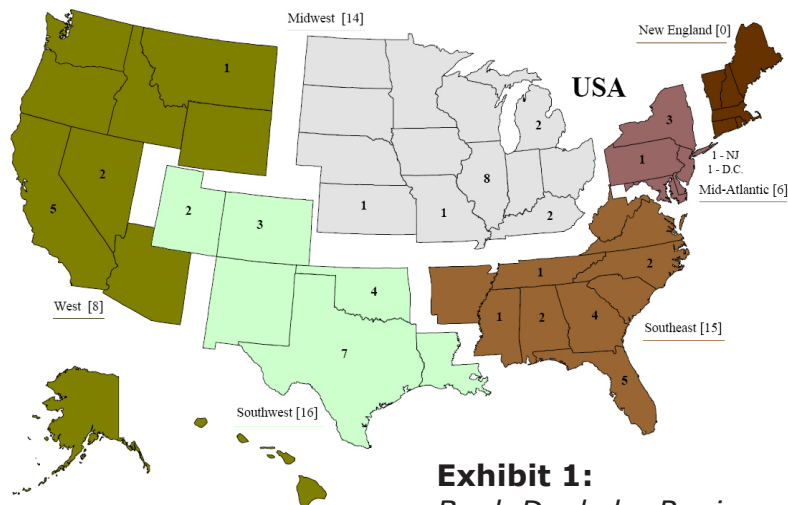


Exhibit 1:
Bank Deals by Region

Transaction Pricing

Bank M&A deal price-to-earnings multiples declined compared with the first quarter of 2006, with a median price-to-earnings multiple of 22.6 compared with 26 in the first quarter. Price-to-tangible book multiples increased from 250 percent to 262 percent in the second quarter. See Exhibit 2. There were 38 bank deals (of 59) in which the selling

assets; seven between \$300 and \$500 million in assets. Overall, 52 of the 59 bank deals in the second quarter involved sellers with less than \$1 billion in assets and 45 of 59 selling banks had less than \$500 million in assets.

Exhibit 2: Transaction Pricing

Bank Deals	2005			2006	
	Q2	Q3	Q4	Q1	Q2
# of Deals	56	63	78	46	59
Price/Tg Book	225%	245%	231%	250%	262%
Price/Earnings	21.5	22.7	24.8	26.0	22.6

Thrift Deals	2005			2006	
	Q2	Q3	Q4	Q1	Q2
# of Deals	12	10	9	8	11
Price/Tg Book	192%	216%	198%	226%	231%
Price/Earnings	25.7	18.1	20.7	16.2	26.7

company had less than \$300 million in assets. In addition, there were 14 other bank deals in which the seller had between \$300 million and \$1.0 billion in

Buyer and Seller Asset Size

The median size of the selling bank during the second quarter of 2006 measured \$202 million while the median size of the buyer in the 59 bank deals measured \$1.7 billion. However, 16 of the buying companies had less than \$500 million in assets, with an additional seven buyers falling in the \$500 million to \$1.0 billion asset range. When comparing the size of the buyer with the size of the seller, 20 of the 59 bank deals in the second quarter involved a buying company no more than three times the size of the selling company (e.g., selling company with \$100 million in assets and buyer company with less than \$300 million in assets).

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Pricing Correlation

In terms of bank deal pricing in relation to the return on average equity (ROAE) of the seller, data show that the 15 selling banks with an ROAE between 5 - 10 percent received, on average, 247 percent of tangible book, while the 14 selling banks with an ROAE between 10 - 15 percent received, on average, 290 percent of tangible book. The 17 banks with an ROAE of less than five percent received an average of 183 percent of tangible book. See Exhibit 3.

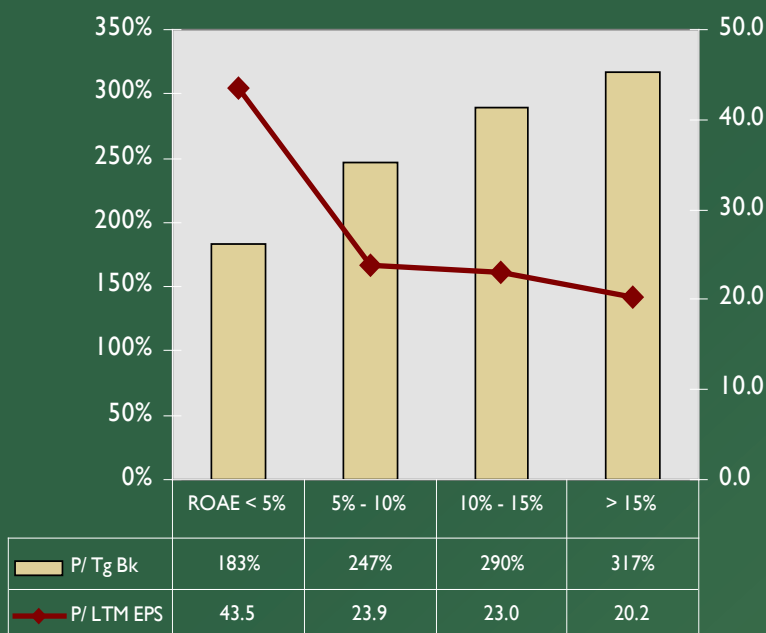


Exhibit 3: Bank Deal Pricing to ROAE

As ROAE increases, Price-to-Earnings declines while Price-to-Tangible Book increases. Is there a limit to this relationship? Check our future articles for additional information analyzing deal pricing and company performance.

There were six bank deals in the second quarter in which the selling bank had more than \$1.0 billion in assets. The two largest deals were Regions Financial purchasing AmSouth (AL) for \$10.1 billion and Banco Bilbao purchasing Texas Regional Bancshares (TX) for \$2.2 billion. See Exhibit 4.

On average, price-to-tangible book multiples for thrift deals equaled 231 percent and 26.7 times earnings for the second quarter of 2006. These multiples represent a slight increase in terms of price-to-tangible book multiples and a large increase in price-to-earnings multiples from the first quarter of 2006.

The two largest thrift transactions in the second quarter of 2006 were Wachovia acquiring Golden West (CA) for \$25.5 billion and Washington Mutual acquiring Commercial Capital (CA) for \$993 million.

About Us

For nearly three decades, Austin Associates has been focused on providing a wide range of consulting services and specialized investment banking expertise to financial institutions. Based in Toledo, Ohio, Austin Associates serves clients primarily in the Midwest, Northeast and Southeast. Austin Associates' team of professionals has over 200 combined years of experience in banking, finance, securities, and accounting practices.

Look for more in-depth articles on the relationship between deal pricing and the financial performance of buyers and sellers in upcoming newsletters. For additional information, please visit our website at www.austinassociates.com.

Exhibit 4

National Bank M&A Summary Statistics

Sale of Control Pricing as of 04/01/06 - 06/30/06*

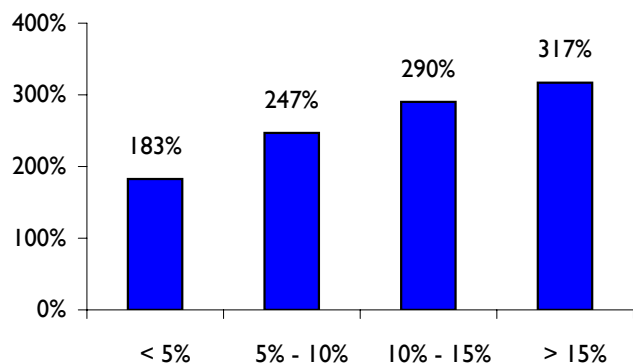
	#	Buyer's Assets (\$000)	Seller's Assets (\$000)	Tangible Equity/ Assets	YTD ROAA	YTD ROAE	Average Price/ Book	Average Price/ Tg Book	Price/ LTM EPS
by Seller's Assets									
> \$5.0 Billion	3	\$46,128,918	\$6,633,994	6.45%	1.37%	16.00%	283%	345%	15.0
\$1.0 - \$5.0 Billion	3	\$18,976,142	\$1,692,678	6.31%	1.11%	10.16%	249%	394%	23.4
\$500 Million - \$1.0 Billion	7	\$6,085,284	\$626,303	6.64%	1.23%	14.37%	288%	356%	20.2
\$300 - \$500 Million	7	\$2,333,268	\$429,972	8.33%	1.15%	13.84%	253%	253%	19.4
\$100 - \$300 Million	20	\$727,094	\$184,073	8.34%	0.70%	7.98%	244%	253%	24.8
< \$100 Million	18	\$794,515	\$57,483	10.24%	0.36%	2.29%	181%	181%	21.1

** Roughly 78% of all second quarter deals comprised of sellers with assets less than \$500 million

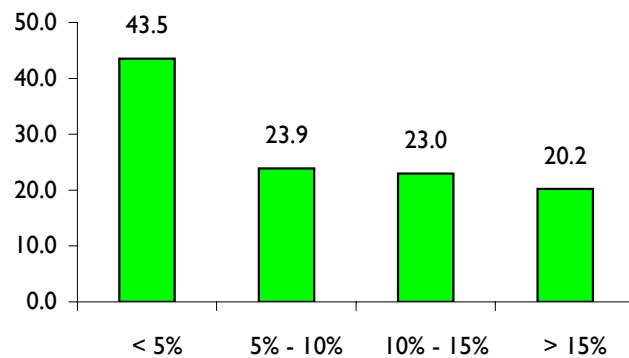
by Seller's ROAE									
> 15%	10	\$6,085,284	\$467,668	7.14%	1.40%	17.03%	314%	317%	20.2
10% - 15%	14	\$3,688,307	\$328,856	8.62%	1.18%	11.84%	251%	290%	23.0
5% - 10%	15	\$653,839	\$147,394	9.22%	0.75%	8.04%	204%	247%	23.9
< 5%	17	\$550,756	\$86,802	8.48%	0.00%	0.00%	180%	183%	43.5

by Region									
Mid Atlantic	6	\$813,196	\$228,504	7.56%	0.35%	4.25%	186%	239%	31.6
Midwest	14	\$1,672,576	\$252,947	8.41%	0.78%	10.06%	236%	243%	22.0
New England	0	-	-	-	-	-	-	-	-
Southeast	15	\$1,547,190	\$163,511	8.09%	0.88%	8.42%	234%	236%	21.8
Southwest	16	\$1,470,177	\$104,997	8.85%	0.74%	7.79%	239%	297%	24.3
West	8	\$2,764,368	\$418,830	9.03%	1.37%	13.98%	267%	296%	21.1

**Deal Price to Tangible Book
Based on Seller's ROAE**



**Deal Price to LTM EPS
Based on Seller's ROAE**



*Based on median statistics unless noted and excludes terminated deals and S-Corporation selling companies have been adjusted to C-Corporation status (including pricing multiples) using 35% tax rate.