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Middle Atlantic Banking Report

2007 Bank Meltdown: Trend or Aberration?

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This has not been a pleasant year for bankers or for those who invest in banks. Margin pressures have finally translated into disappointing year-to-year earnings performances, and there are no signs of things getting better any time soon. On top of this industry-wide problem, banking has been hit by negative headlines focused on real estate concerns, subprime mortgages in particular, that created a negative perception that has spared few financial services company stocks whether associated with this type of lending or not.

Since stock prices typically reflect near-term moods and perceptions that frequently bear little relation to performance realities, it is tempting to try to dismiss them as a temporary aberration that will go away when the Fed reduces rates. It has happened before, but would this really change the performance of most banks – or are there long-term problems that need to be resolved?

Decisions based on one year's performance, stock market gyrations or a desire to return to a banking environment that may no longer exist can negatively affect the future of a bank, its investors and employees. The long-term is what counts, and what may seem correct today may be totally out-of-line with future realities.

When I look at recent banking industry performance, it is extremely difficult for me not to step back and take a historic perspective. I spent much of the last three years writing a book, Consolidation of Banking: Or How Five Banks Bought 50% of America's Biggest Business, and it is hard to ignore the reality of banking's "roller coaster ride" during the last 35 years. This perspective may have more to say about the future of banking

than the cheap money in 2003 and 2004, the subprime mortgage mess or stock prices in 2007.

For those that have been around banking as long as I have, it is hard to forget that the industry has moved from good times to bad with regularity, and that since 1973, the bad years have out-numbered the good by a 4-to-3 ratio. An optimist could pick 1983 as the starting point and change it to a good-to-bad ratio of 3-to-2, but no matter when you choose to start, it has not been a smooth ride.

This historical perspective and a quick summary of that “roller coaster ride” are helpful in providing background for understanding what to expect next. A quick overview of this ride is roughly that:

- From 1973 through 1982, banking moved from one crisis to another. A carry-over deficit from the Vietnam War, high oil prices, record high interest rates and limitations on what banks and thrifts could pay for funds caused erratic earnings and had funds flowing out of the industry. Making this even harder to accept was that during those years, bank stocks usually traded below book value and seven times earnings sounded good.
- By 1982, the Fed was confident that inflation was under control, and when it lowered interest rates, six good years for banking began.
- Then came 1989, and over the next four years more than 2,000 banks and thrifts failed nationally. These were years most bankers would like to forget.
- Improved economic conditions beginning in 1993 fueled another good run that lasted until mid-1998 as bank earnings literally “came off the floor.” Enthusiasm over the recovery spread to investors and ignited a merger spree with prices not previously seen. By 1998, most bank stocks were trading at better than two times book, and banks were selling for more than three times book.
- In late 1998, rising interest rates and narrowing margins slowed the growth of bank earnings and deposits. This was a mild downturn

compared to earlier ones, but questions were raised about the viability of banking, particularly traditional spread banking.

- In 2002, the negative aura that had hovered over banking for almost four years was forgotten as a dotcom-driven stock market crash sent funds flowing out of stocks into bank deposits and the rates paid on deposits fell dramatically. The deposit glut and low rates resulted in a cost of funds lower than had been seen for decades, and there was a widespread feeling that a new era had arrived. Spread banking and deposit-gathering were in vogue again as annual deposit gains were in double-digits; once maligned branches were considered the key to success; and capital was readily available to banks, new and old.
- Then in 2006, the present banking environment came into being as rising interest rates and the excesses of the preceding years brought back the industry dynamics of the late 1990s. Rates returned to more normal levels; deposit growth slowed sharply; margins continued to narrow; and for most banks, the year-to-year earnings gains were marginal, if there at all. It was the beginning of another dip in the “roller coaster ride.”

Many bankers and bank directors have failed to recognize this latest environment change for what it really is, and an all-too-typical reaction to the slowdown in 2006 was to look back to a highly unusual 2002 to 2005 as the norm – and make a bad situation worse. Instead of controlling expenses and improving margin-cost relationships, banks continued to open branches to chase inexpensive deposits that were no longer there.

So what does banking history say about all this? There is no reason the past has to repeat itself, but what history suggests is:

- The “down” part of the “roller coaster ride” typically lasts three to four years, or to put it in present terms, even if it is assumed that 2006 was part of the downturn, the next upswing would begin in 2009 at the earliest, and probably not until 2010.
- No downturn is quite like the ones that came before in immediate impact or in the length of the recovery period.

- Merger and new bank activity slows as capital is scarce and sellers and investors expect a return of the values of the immediate past.

History, of course, also has shown that nothing is ever exactly the same, and there are two positive factors that make this present downturn a little different from earlier ones. Asset quality is not a serious concern, at least not yet, and each downturn during the last 35 years has been shorter than the previous one. On the latter point, though, the same applies to the length of the upturns.

National Trends

It also is helpful to put what has happened in 2007 in the context of some important long-term trends that go beyond single ups and downs in the “roller coaster ride,” particularly over the last 15 or so years. These trends are reasons why individual “dips” and “rises” are likely to differ somewhat from previous ones.

There are four national trends that have been impacting changes in the banking environment since the early 1990s that are particularly pertinent to what is going on now – and what might happen in the future. These are:

- A dozen years of diminishing bank margins.
- The dramatic gain in the share of bank assets held by five banks.
- A sharp decline in the number of banks.
- The recent excess of branch openings.

The most disturbing of these trends is the persistence of diminishing margins. Danielson Capital has tracked 92 banks east of the Mississippi River for a number of years that, collectively, have experienced a decline in net interest income from 4.46% of average assets in 1994 to 3.51% in 2006. This was almost a percentage point drop over a dozen years, and the only year-to-year increase was a “blip” in 2002. Banks have offset some of the margin decline with more noninterest income and lower operating costs, but these “offsets” have been harder to come by in recent years – and operating costs may be going the other way in 2007.

National Banking Trends, 1990 to 2007

	Five Largest Bank <u>Asset Share</u>	<u>Number of</u>		<u>Net Int. Inc./ Avg. Assets**</u>
		<u>Banks</u>	<u>Banking Offices*</u>	
2006-07	47.5%***	7,380	94,756	3.51%
2000	33.2	8,581	85,506	4.06
1995	23.1	10,452	81,907	4.44
1990	16.2	12,715	84,362	4.46****

*Includes thrifts.

**Medians for 92 publicly-traded banks east of the Mississippi River.

***Includes mergers in process.

****1994.

Source: Various sources.

As for bank consolidation, it is no secret that it has been going on for some time, but it is not widely recognized just how much of the national banking business has found its way into just a few hands. In 1990, the country's five largest bank holding companies had only 16% of domestic bank assets, and the five at the time were primarily money center banks that had been losing asset share in the 1980s. Ten years later, the five largest banks had about one-third of all bank assets, and, by the end of 2006, those five – Citigroup, Bank of America, JPMorgan, Wachovia and Wells Fargo – held almost 50% of bank assets.

There are bankers who still view the large bank expansion as positive in that their impersonal service sends customers running to friendlier local banks. There is an element of truth in this for small business borrowers, but the days when every acquisition by First Union and NationsBank was a customer bonanza for the local competition has long since ended. It has been replaced by a competitive advantage for the large banks in pricing, name recognition, cost efficiency and remote access accounts.

A corollary to the concentration of so much of the banking assets in so few hands has been a reduced number of banks. In 1985, there were more than 14,000 banks in United States. By 2000, there were about 8,600 banks,

and at the end of the first quarter of 2007, there were 7,380 – about half of what there were 20 years earlier.

This trend also understates the situation in the Middle Atlantic states, as states in the middle of the country that were slow to move away from unit banking have far more banks compared to states on the East Coast. Just five such states – Texas, Illinois, Minnesota, Iowa and Kansas – account for about 2,400 banks, or one-third of the total. Maryland, New Jersey and the District of Columbia, collectively, have fewer than 150 banks.

New banks continue to open and create an illusion of a vibrant local banking industry, but they are not opening like they once did – or are they as successful as they once were. The number of new banks in the 1990s was less than half the amount of the 1980s, and the pace of opening in the 2000s has been below that of the late 1990s. Out of the 136 banks opened in the Middle Atlantic states since 1995, only 21, or 15%, had reached a double-digit ROE by 2007.

The last and, perhaps, most troubling of national trends has been the recent surge in branch openings. In the 1990s, there was a decline in total number of bank and thrift offices in the first five years and a gain in the second five years, but the net result for the decade was roughly the same number of banking offices at the end as there were at the beginning. This was consistent with the thinking at the time that there would be a decline in the excess of banking offices. Since 2000, however, there has been a net gain of more than 9,000 banking offices – so much for the expected decline.

This recent surge in branching activity was primarily a response to the flow of funds out of the stock market into banks in the early 2000s at a time when rates were at low levels that had not existed for decades. Thus, these deposits were like “found gold” and provided the cheap funding that created a lending boom, particularly in residential real estate. From 2000 to 2002, savings deposits, which are now overwhelmingly money market demand accounts (“MMDAs”), grew at an annual rate of about 15%, and from 2002 to 2004, the annual increase was 10%. This growth was based on a deposit type that frequently had rates close to or less than 1%. High cost retail certificates of deposits (“CDs”) were running off and had become a much smaller part of the deposit mix.

Growth of Interest-bearing Deposits by Type*

<u>Annual Growth Rate</u>	<u>Savings And MMDA</u>	<u>Retail CDs</u>	<u>Jumbo CDs</u>
2006 – 2007**	.3%	3.7%	(3.5)%
2004 – 2006	4.9	11.7	15.2
2002 – 2004	10.0	(2.1)	8.9
2000 – 2002	15.4	(4.8)	2.1

*Commercial banks only.

**June 30, 2007.

Source: FDIC Statistics on Banking.

With this low rate deposit bonanza, bankers and bank directors were quick to forget the lessons of the late 1990s and rushed to open branches to gather such deposits and get “back to the basics.” The obituaries for spread banking had changed 180 degrees in a matter of three or four years to being banking’s future instead of its past.

Unfortunately, 2000 to 2004 was an unusual period, and from 2004 to 2006, savings deposit growth was below 5%. By early 2007, savings and MMDA growth was virtually nonexistent. Initially, as cheap money became less available, banks turned to high cost CDs, but by 2007, the funding needs were so reduced that there was little growth in deposits of any type. Despite a changed environment, though, banks continue to open branches to chase deposits that are not there, and many struggling to match the earnings of the prior year are hoping to solve the problem by opening even more branches.

The net result is a banking industry with a much diminished number of banks, a growing and overwhelming dominance of a few banks with market and pricing advantages, and far too much “bricks and mortar.” Most concerning is that margins are only about 75% of what they were a dozen years ago.

Middle Atlantic Bank Performance Analysis, 2000 to 2007

The impact of this changed banking environment on the small and mid-size banks in the Middle Atlantic states in the last couple of years has not been good and the worst may be yet to come. The 2002 to 2005 era was an enjoyable upturn in the “roller coaster ride,” but as noted earlier, it was the shortest upturn to date. In 2006, signs of earnings weakness surfaced, and by 2007, the negative dynamics had far outweighed the positive. This was readily apparent among local banks, large and small.

For mid-sized banks in the Middle Atlantic states with assets between \$1 billion to \$20 billion, ROEs in the late 1990s were in the 14% to 15% range and stayed there through 2003. In 2004, the median ROE fell below 15%. A year later it was under 13%, and in 2007’s first quarter, the median ROE was barely in double-digits at 10.65%.

ROE slippage between 2000 and 2005 can be attributed partially to the leveraging through the use of trust preferred that increased returns on tangible capital while traditional ROEs declined. There was no explaining away, though, that the median ROE for Middle Atlantic mid-sized banks fell below 11% in 2007 since the slippage relative to tangible equity was even greater. The median return on tangible capital of these banks rose from 14.48% of assets in 2000 to 19.49% in 2005, but a year later it was 17.76%. In 2007’s first quarter, it was just over 15%. This was where the traditional ROE was a few years earlier.

The primary cause of recent ROE slippage has been continuing margin compression. For Middle Atlantic mid-sized banks, median net interest income fell from 3.64% of average assets in 2000 to 3.32% in 2004. Margins held steady in 2004 and 2005, then in 2006, the margin slide resumed with median net interest income falling to 3.23%. In the first quarter of 2007, median net interest income was down to 3.16% of average assets.

The margin decline since 2000 was initially mitigated by a booming real estate market that generated large amounts of fee income and reduced overhead as a percent of average assets. Noninterest income peaked in 2003 at 1.29% (not shown in the following table), and the steady decline in overhead as a percent of assets ended in 2007.

Middle Atlantic* Mid-sized Bank Income Analysis
\$1 Billion to \$20 Billion in Assets

	<u>2007**</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2000</u>
ROE	10.65%	12.84%	13.62%	13.18%	14.41%
Tangible ROE	15.39	17.76	19.49	16.58	14.48

As a Percent of Average Assets

Net. Int. Income	3.16%	3.23%	3.38%	3.32%	3.64%
Nonint. Income	1.13	1.07	1.12	1.08	.99
Nonint. Expense	2.70	2.61	2.72	2.79	2.75
Net Oper. Income	1.58	1.77	1.81	1.71	1.80

Publicly-listed Banks

EPS	\$1.36	\$1.56	\$1.59	\$1.45	\$1.19
Price to LTM Earnings	13.6X	14.1X	14.8X	16.0X	10.5X
Price to Book***	154%	158%	167%	189%	134%

*Delaware, Maryland, New Jersey, Pennsylvania, Virginia, West Virginia and the District of Columbia.

**1st quarter 2007 except for stock information that is as of July 27, 2007.

***171% of tangible capital as of July 27, 2007.

Source: SNL Financial, Charlottesville, Virginia.

The margin decline has directly impacted net operating income. For the Middle Atlantic mid-sized banks, net operating income was in the 1.70% to 1.80% range of average assets from 2000 through 2005. Slippage was modest in 2006, but in 2007's first quarter, short-term "fixes" were beyond most banks, and median net operating income fell sharply to 1.58%. The performance downturn was reflected in a decline in the median earnings per share ("EPS") from \$1.59 in 2005 to an annualized \$1.36 in the 2007's first quarter.

With this type of performance, a negative impact on the region's mid-sized bank stock prices was inevitable even without the impetus of the furor

over subprime mortgages, and if 2000 is any guide, the decline may have a ways to go. The median stock prices for these mid-sized Middle Atlantic banks had risen from about 10.5 times earnings and 134% of book in 2000 to 16 times earnings and 189% of book by 2004. Since the end of 2004, there has been a steady decline with median prices of 13.6 times earnings and 154% of book in mid-2007, but this is still well above the lows of the last downturn.

Middle Atlantic* Small Bank Income Analysis
\$500 Million to \$1 Billion in Assets

	<u>2007*</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2000</u>
ROE	10.60%	11.92%	11.49%	12.76%	13.22%
Tangible ROE	11.84	13.35	12.80	12.92	13.88

Percent of Average Assets

Net. Int. Income	3.25%	3.39%	3.48%	3.57%	3.73%
Nonint. Income	.95	.96	.93	.94	.62
Nonint. Expense	2.83	2.73	2.77	2.74	2.82
Net Oper. Income	1.38	1.53	1.57	1.63	1.78

Publicly-listed Banks

EPS	\$1.56	\$1.62	\$1.81	\$1.48	\$1.09
Price to LTM Earnings	13.7X	16.4X	15.6X	18.2X	12.4X
Price to Book	143%	204%	185%	224%	161%

*Delaware, Maryland, New Jersey, Pennsylvania, Virginia, West Virginia and the District of Columbia.

**1st quarter 2007 except for stock information that is as of July 27, 2007.

***198% of tangible capital as of July 27, 2007.

Source: SNL Financial, Charlottesville, Virginia.

The numbers for smaller banks in the Middle Atlantic states tell the same story and with less distortion from leverage as common and tangible equity are not that different. Since 2000, the ROE for banks in the region with assets between \$500 million and \$1 billion dropped from 13.22% to

10.60%; net interest income from 3.73% to 3.25% of average assets; and net operating income from 1.78% to 1.38% of average assets. These were substantial declines.

Small banks in the Middle Atlantic states also have paid a stiff price for this performance slippage in market valuation. Publicly-listed banks in the group had a median EPS decline from \$1.81 per share in 2005 to \$1.56 in 2007, and since the end of 2004, the median stock price fell from 18.2 times earnings to 13.7 times earnings. This translated into slippage of the median pricing from 224% of book in 2004 to 143% of book in mid-2007.

Complete second quarter data for the region's banks is not available, but what is available on publicly-traded banks, large and small, is not all bad. Margins and noninterest income are holding steady or are even up marginally. Not so good, though, is a continuing rise in operating expense as a percent of average assets and a modest rise in nonperforming assets.

The deteriorating income statements of these Middle Atlantic banks were not caused by any dramatic change in balance sheets. Asset quality, even if down modestly in 2007's second quarter, was still excellent. There also was no increase in jumbo CDs and borrowed funds as a percent of assets between 2006 and 2007. For the smaller banks, loans were actually up as a percent of assets.

Large Bank Comparison

How does the mid-sized and small bank performance compare with the large banks that dominate the industry? The medians for the big five – Citigroup, Bank of America, JPMorgan, Wachovia and Wells Fargo – indicate that they are not immune to margin decline, but since 2004, they have maintained ROEs near 16.50%; kept net operating income as a percent of average assets above 2%; and had consistently strong EPS gains – much better performance than their smaller brethren.

Particularly noteworthy is that trust preferred at the bigger banks has had much better results than for the smaller banks. The median return on tangible equity of the mid-sized Middle Atlantic banks was a respectable 15.39% in 2007, but it also was a more than four percentage point decline from 2005. Meanwhile the median return for the five largest banks was 29.32% of tangible equity – up two percentage points since 2004.

Bank Earnings Comparison by Size

	<u>2007*</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>	<u>2000</u>
<u>ROE</u>					
Big Five	16.47%	16.20%	16.49%	16.44%	15.97%
Mid-Sized**	10.65	12.84	13.62	13.18	14.41
Small**	10.60	11.92	11.49	12.76	13.22
<u>Tangible ROE</u>					
Big Five	29.32%	28.18%	28.94%	27.01%	22.57%
Mid-sized**	15.39	17.76	19.49	16.58	14.48
Small	11.84	13.35	12.80	12.92	13.88
<u>Net Oper Inc./Avg. Assets</u>					
Big Five	2.14%	2.25%	2.36%	1.97%	2.31%
Mid-Sized**	1.58	1.77	1.81	1.71	1.80
Small**	1.38	1.53	1.57	1.63	1.78
<u>EPS</u>					
Big Five	\$4.64	\$4.31	\$4.04	\$3.26	\$2.26
Mid-Sized**	1.36	1.56	1.59	1.45	1.19
Small**	1.56	1.62	1.81	1.48	1.09

*First quarter.

**Middle Atlantic states as in preceding tables.

Source: SNL Financial, Charlottesville, Virginia.

The big banks favorable variance in net operating income as a percent of average assets is about where it has always been, but their decline in net interest income in recent years still leaves them above 2% of average assets. This provides more flexibility than a net operating income at smaller banks that is moving toward 1% of average assets.

The large bank competitive advantage is particularly pronounced in EPS movement. Their median annualized 2007 first quarter EPS is up 15% over 2004 and twice what it was in 2000. Conversely, the Middle Atlantic

states median mid-sized and small bank EPS was down roughly about 14% since 2004 and only up about 14% since 2000.

In fairness to the mid-sized and small banks, the large banks much lesser dependence on spread income gave them an advantage in 2006 and early 2007, and some of that advantage is likely to go away, or at least diminish, in the next couple of quarters. Present liquidity and economic problems have reduced their income from investment banking and large ticket lending, and the big banks are much more vulnerable to loan losses.

It also is worth noting that these five large banks grossly distort the meaning of the FDIC's quarterly reporting of bank earnings. Since these banks account for more than 46% of all bank assets – a percentage that should go above 48% when Bank of America completes its acquisition of LaSalle National – the FDIC's so-called industry-wide numbers have more to say about the large banks than banks in general.

What Next?

So what can be expected for banks and the banking environment in the future? One can only carry historical precedent so far, but some things are not going to change. The big banks will continue to expand their share of all bank assets. Add in a couple of large foreign banks like HSBC and the Royal Bank of Scotland, and the big banks will be accounting for more than 60% of bank assets, probably within five years. The total number of banks will further decline, and margins will continue to be a major problem for mid-sized and small banks.

Every banking downturn also reduces the number of mid-sized banks including some of the largest. Popular candidates in the press right now to go are Countrywide and Washington Mutual, but National City, SunTrust, BB&T, Sovereign and PNC may be as worn out after this dip in the “roller coaster ride” as Fleet and Bank One were after the last one.

Then there is a relatively recent issue – the excess of bank branches and its negative impact on bank profitability. As banking hours get longer, the deposits needed for the typical bank office to be profitable has moved close to, if not past, \$50 million, and the number may soon be \$75 million. This comes at a time when remote access banking is finally catching on beyond the ATM.

Although not necessarily part of a historic pattern, it can be assumed as banking moves into its next upswing on the “roller coaster ride” in 2009 or 2010 that:

- Interest rates will be down, but the Fed Funds rate will not be near the 1% of 2002 and 2003, and competition for core deposits will continue to be intense.
- Real estate markets will be better than they are now, but with normal growth, not the “boom” of the early 2000s fueled by unusually cheap money.
- Banking will continue to be America’s biggest business growing at a rapid rate.

These generalities, though, do not answer some of the most important questions that are on the minds of bankers everywhere. These are:

- Who besides the large banks will enjoy the benefits of the good growth?
- Will good growth also produce good returns?
- What will be the impact on bank values?

For banks other than the very largest, it is not as much a question of will they have good growth, but whether good growth also results in good profits. Loan growth should be strong when banking gets past this rough patch, but unlike the early 2000s, there will be no cheap funding to support the loan growth. This means continued margin pressures and lower than historic ROEs. It will not be business as usual, and almost certainly will be more Darwinian than in the past.

A good historical parallel is the performance of the thrifts after the landscape changed on them in the late 1970s. Many of them have survived, and some have done very well, but the median ROE of those in the Middle Atlantic states is around 5%, excluding the mutual thrifts that have lesser earning needs than their stock counterparts. In other words, the future for

most banks will not be a question of survival, but how to do so with returns that are meaningful.

Success will be measured by producing good ROEs in an environment that is almost certain to continue to have narrow margins. Bank profitability will still be a game of managing the spread between margins and overhead, but the low margins will put a greater importance on cost controls than has historically been the case. This means productive branches, not just lots of them.

The importance of good ROEs also will be accentuated by a reduced importance of acquisition premiums in bank valuations going forward. A lesser interest in buying unproductive branches and a much reduced number of buyers as the traditional mid-sized acquirers of small banks follow the leads of Mercantile, First Virginia, F&M National and others in not being “the last one to turn out the lights” could result in sale value being almost entirely a function of earnings and cost savings delivered.

How much is a bank worth without a perceived acquisition premium? Projecting value is difficult, but it is worth noting that the nation’s biggest banks, which are too big to be bought, have ROEs around 16% and have had stock prices in the 10 to 12 times earnings range since the millennium began.

This may sound like “gloom and doom,” but all it really says is that banking is a great business and doing well in the future will require banks to do what good firms should do in any business – produce an acceptable return on capital. What is different going forward is that it may be much harder to exit at a good price if performance does not produce a high return.

Price Change of Middle Atlantic Banks – Two Views*

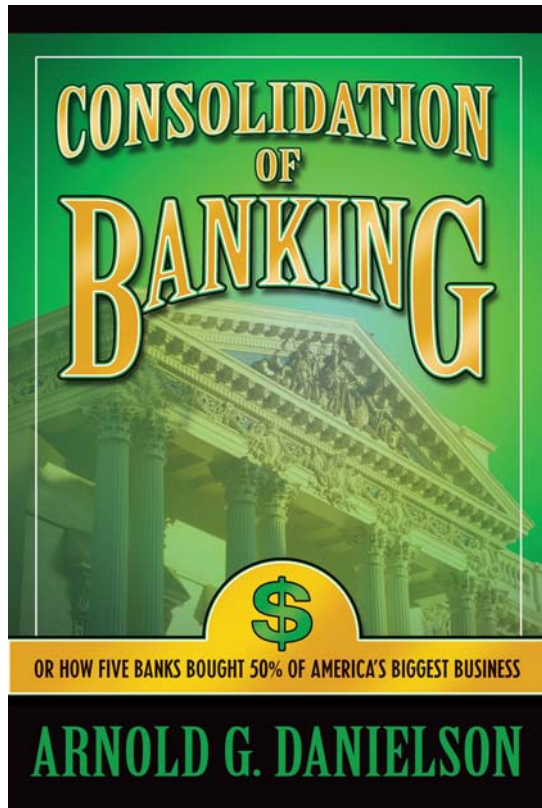
<u>Short Name</u>	Aug. 23, 2007 Closing Price	A Negative View Change from		Change From Lowest Closing Price 2000	Price to	
		<u>Highest Closing Price</u> 2004-06	<u>1997-98</u>		<u>LTM</u> <u>EPS</u>	<u>Tang.</u> <u>Book</u>
City Holding	\$37.46	(10.5)%	(26.5)%	649.2%	12.5X	269%
F.N.B.	17.26	(24.2)	(42.4)	15.0	14.9	379
First Commonwealth	11.50	(27.0)	(34.4)	33.3	16.4	221
First Community	33.68	(17.1)	19.2	191.1	12.9	245
Fulton	14.99	(16.3)	9.4	87.6	14.7	298
Harleysville National	17.60	(34.6)	35.6	136.6	15.0	214
Lakeland	13.31	(19.4)	6.5	95.4	17.1	261
National Penn	18.32	(20.4)	10.2	90.0	13.8	330
Provident	31.77	(17.7)	7.3	152.9	16.4	283
S&T	35.75	(11.2)	23.3	113.4	16.5	330
Sandy Spring	32.23	(17.0)	30.6	152.0	15.4	253
Sun	17.39	(22.6)	(13.0)	325.2	20.5	189
Susquehanna	20.01	(28.1)	(23.0)	63.3	13.4	177
Union	22.02	(32.7)	39.1	269.5	12.4	209
United	31.42	(20.4)	(7.9)	91.1	14.8	271
Valley National	23.13	(10.0)	20.3	88.0	16.5	387
Virginia Commerce	15.73	(34.1)	667.3	962.8	15.1	247
WesBanco	27.72	<u>(18.5)</u>	<u>(11.3)</u>	<u>44.9</u>	<u>12.8</u>	<u>220</u>
Median		(19.9)%	8.3%	104.4%	15.0X	257%
<u>Comparisons</u>						
Bank of America	\$51.87	(5.5)%	18.0%	173.0%	10.9X	362%
Citigroup	48.50	(14.0)	32.9	35.1	11.1	302
JPMorgan	45.95	(6.1)	(10.5)	24.6	9.7	224
Wachovia	49.57	(17.2)	(24.5)	106.5	10.4	325

*Assets between \$2 billion and \$20 billion and listed on a national exchange.

Source: SNL Financial, Charlottesville, Virginia.

Coming in October 2007

A new book by Arnold Danielson



“In 25 years, banking has moved from a decentralized business constrained by state lines to where we are today with five banks having more than 16,000 banking offices and holding almost 50% of all bank assets. It was a process that included more than 10,000 mergers and 2,500 bank and thrift failures.”

Arnold Danielson, founder and chairman of Danielson Capital, LLC, has provided the banker and non-banker alike with a comprehensive and digestible account of how this all happened nationally and by region from the 1970s through 2007 - and what to expect next.”

This is a story Arnold Danielson witnessed from the early 1970s, first from inside a bank holding company, and then, as an adviser to aggressive bank holding companies, community banks and faltering thrifts. He has written about the consolidation of banking since 1985 in his national and regional Danielson Reports.



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