

The View from You

Ideas to Improve Earnings

September 2011

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STERNE AGEE FIXED INCOME STRATEGIES

Discussion Topics

- **Liability Rationalization**
- **Asset Strategies**
- **Noninterest Items**
- **Corporate Finance Alternatives**

Liability Rationalization

- **Noncore deposits**
 - Brokered deposits
 - Municipal deposits
 - Single service CDs
- **Repurchase agreements**
 - Wholesale
 - Corporate
- **FHLB advances**
- **Trust preferred and corporate debt**

FHLB DEBT MODIFICATION

- Modify legacy FHLB advances into floating rate advances

Current Maturity	Current Rate	New Maturity	New Rate
June 19, 2012	4.31%	3 Years	3M LIBOR + 131 bps
December 6, 2013	4.40%	5 Years	3M LIBOR + 229 bps

- Enter into pay fixed interest rate swap



Liability Rationalization

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Trust Preferred and Corporate Debt

Fly in the ointment: Wells Fargo calls some ITS, not all
Despite passing call on 5.80% notes in March, WFC calls 7.70% & 9.75% ITS

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Silicon Valley Bank >

A Member of SVB Financial Group

Offer to Purchase for Cash
Any and All of its Outstanding
5.700% Senior Notes due 2012
6.050% Subordinated Notes due 2017

Asset Strategies

- **“Peak price” securities**
 - High premium mortgages
 - Agencies with high probability of call
- **Mortgage collateral characteristics**
- **Municipals**
- **Loan packages**

Mortgage Collateral Characteristics

Summary of Views: Agency MBS
Fall 2011

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15yr MBS (Conventional)

- FN 15yr 4s currently price near their All-Time high, with a dollar price of at least \$105-16. Conventional 15yr 4s represent the highest credit quality borrowers in the MBS market and have 94-119bps of incentive (4.30-4.55 WAC).
- Yield Book calculates Dwarf 4s to have the shortest duration (1.28yrs), the lowest LOAS (-3.1bps) and the lowest yield (1.66%). It projects Dwarf 4s to have the fastest 1yr and LT speeds: 1yr = 37.3 CPR, LT = 28.1 CPR.
- Although we expect the entire coupon to experience a sharp increase in speeds (esp. '09/'10), pools that have exposure to the most aggressive servicers could be extremely fast. On August 18th, Provident Funding's website advertised a Conventional 15yr rate of 3.25%, with -0.125 origination points.
- We suggest that investors take profits in passthrough and CMOs backed by non-prepayment-protected 15yr 4s. We favor well-structured PACs backed by seasoned 30yr collateral, front SEQ backed by high LTV collateral, front sequentials backed by lower coupon 20yr collateral or seasoned 20yr passthrough.
- 15yr 3.5s have the most negative convexity and most duration drift in the 15yr stack. 15yr 3s are likely to be very directional with rates, but offer a relatively stable projected yield of 2.22% with a 3.60yr duration.

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AAA & AA Taxable Municipals vs. Bullets

Year	Tax Equivalent Yield		
	AAA PRE-RE	AA	Agency Bullet
2012	0.24	0.52	0.19
2013	0.36	0.67	0.34
2014	0.48	0.98	0.54
2015	0.73	1.13	0.59
2016	1.24	1.52	1.18
2017	1.64	1.98	1.44
2018	2.07	2.44	1.69
2019	2.50	2.90	1.80
2020	2.85	3.21	2.04
2021	3.13	3.52	2.60
2022	3.42	3.82	2.80
2023	3.73	4.13	2.95
2024	4.01	4.44	3.15
2025	4.22	4.67	3.30
2026	4.41	4.82	3.40

* assumes 35% marginal tax rate and 10 basis point cost of funds adjustment

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Loan Packages

Client selling over \$100 million in performing loans

- Types:** C&I, CRE, Residential
- Term:** 93% are 5yrs and shorter
- Geography:** 60% of the loans are located in one state
- Servicing:** Seller is open to servicing released sales

Noninterest Items

- **Workout process**
 - Loan officers
 - Special asset personnel
 - Attorneys
- **Deposit service fees**
 - Overdrafts
 - Debit cards
 - Competitive positioning
- **Regulatory environment**
 - FDIC assessments
 - Risk management infrastructure
- **ALM efficiencies**
 - Model validation
 - ALM simulation
 - Investment process and rationale

Corporate Finance Alternatives

- **Hedges for rising rates**
 - Pay fixed swaps
 - Interest rate caps
 - FHLB modifications
- **Capital redemption**
 - Subordinated debt (Silicon Valley)
 - Trust preferred (Wells Fargo)
 - Common stock (Iberia)
- **Dividend policy**
- **Strategic planning**

IBERIABANK Corporation Announces Share Repurchase Program

LAFAYETTE, La., Aug. 2, 2011 /PRNewswire via COMTEX/

IBERIABANK Corporation (NASDAQ: IBKC), holding company of the 124-year-old BERIABANK (www.iberiabank.com), announced today that the Board of Directors of the Company authorized the repurchase of up to 900,000 shares of the Company's outstanding common stock. This repurchase authorization equates to approximately 3% of total shares outstanding.

First Financial Bancorp to Pay Cash Dividend

Reuters

CINCINNATI, Aug. 23, 2011 /PRNewswire/ -- First Financial Bancorp (Nasdaq: [FFBC](http://www.ffbc.com)) ("First Financial" or the "Company") announced today that its board of directors has declared a quarterly cash dividend of \$0.27 per common share. As previously announced, the Company will begin paying 100% of quarterly earnings as cash dividends.

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Summary

- **Understand your position**
- **Know your alternatives**
- **Be nimble**
- **Execute your plan**

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ABOUT THE PRESENTER



KAMAL HOSEIN

Kamal is currently a Managing Director in the Fixed Income Division at Sterne Agee where he develops and aids in the implementation of strategies for optimizing the balance sheets of clients, specifically banks. Prior to joining Sterne, Kamal was an Executive Vice President and Treasurer for the \$25 billion Colonial Bank (now BB&T). His responsibilities included oversight and management of the bank's overall interest rate risk, the fixed income investment and interest rate derivatives portfolios, wholesale funding sources and utilization, as well as loan and deposit pricing. Prior to Colonial, Kamal worked at Compass Bank (now BBVA) for nine years in ascending roles in Treasury, including management of the bank's \$5 billion plus investment and interest rate derivatives portfolios.

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