

Bank Watch



March 2015

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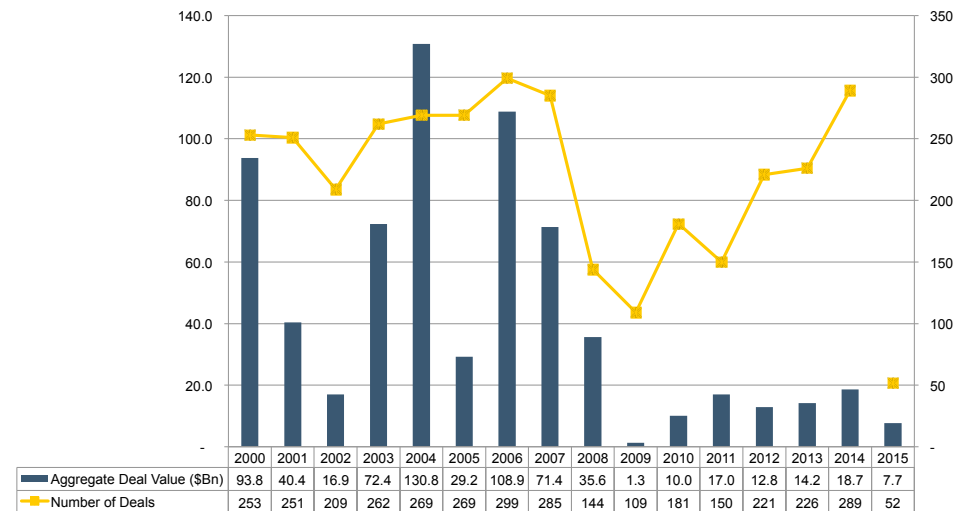
Bank Watch

Bank M&A Review 2014 and Q1 2015

After much speculation that a wave of increased deal activity in the industry was nearing, acquisition data for 2014 and the first quarter of 2015 indicate a return to pre-recession levels by some metrics. 2014 saw 289 bank and thrift transactions announced, similar to the 2005 to 2007 level. Unlike during the pre-recession period, however, deal values have been relatively low, as the uptick in transaction volume has been concentrated among smaller banks. Aggregate deal value for 2014 was about \$20 billion, well below pre-recession levels and barely higher than deal values over the 2009 to 2013 period (Figure 1).

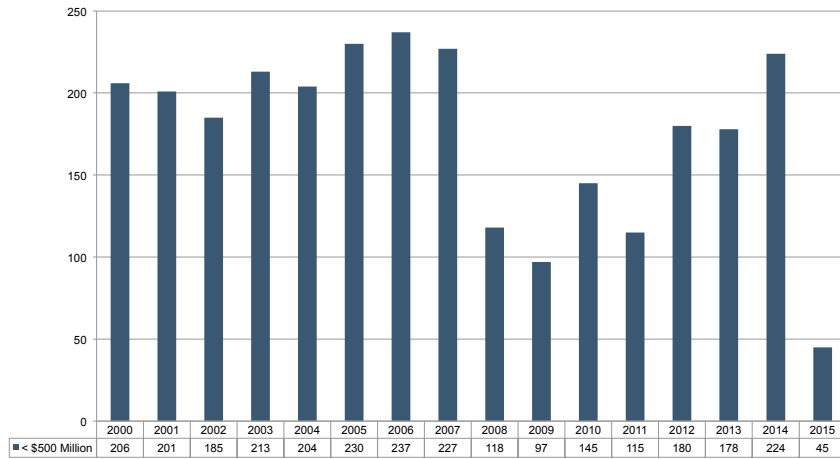
Transaction volume for the smallest banks (those with less than \$500 million in assets) has returned to pre-recession levels and represented more than 75% of the transactions announced in 2014 (Figure 2).

Figure 1: Aggregate Deal Values & Number of Deals



* 2015 is year-to-date through March 24
Source: SNL Financial

Figure 2: Transaction Volume (Banks < \$500M)



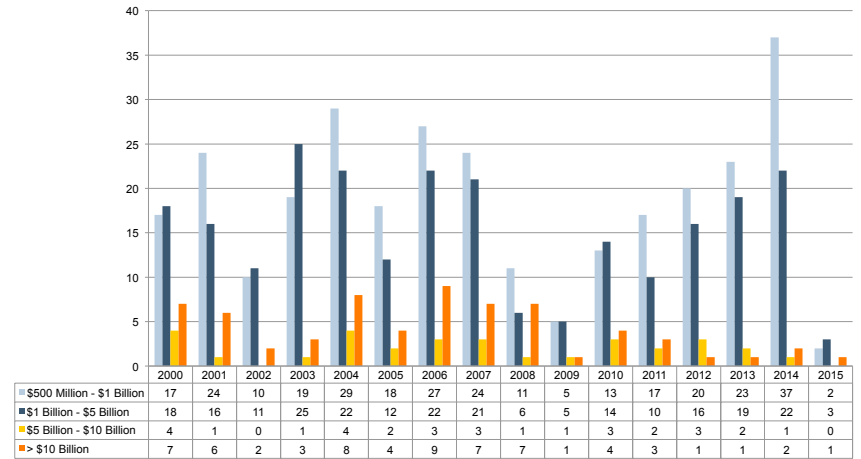
* 2015 is year-to-date through March 24
Source: SNL Financial

For banks with more than \$500 million in assets, transaction volume has remained concentrated among the community banks (Figure 3). Deal activity in 2014 among banks with assets from \$500 million to \$1 billion well exceeded prior high levels, and activity among banks with \$1 to \$5 billion in assets has trended up since recession lows, as well. Among the largest banks, few deals have been announced since 2008.

Deal pricing also has posted some recoveries over the past several years, but pricing is restrained relative to pre-2008 terms primarily due to lower ROTCE (Figure 4). The median price to tangible common book value multiple has ticked up from 110% in 2011 to 141% for deals announced year-to-date in 2015 (through March 24), but is well below the pre-recession levels when median prices exceed 200% of (2003 to 2007).

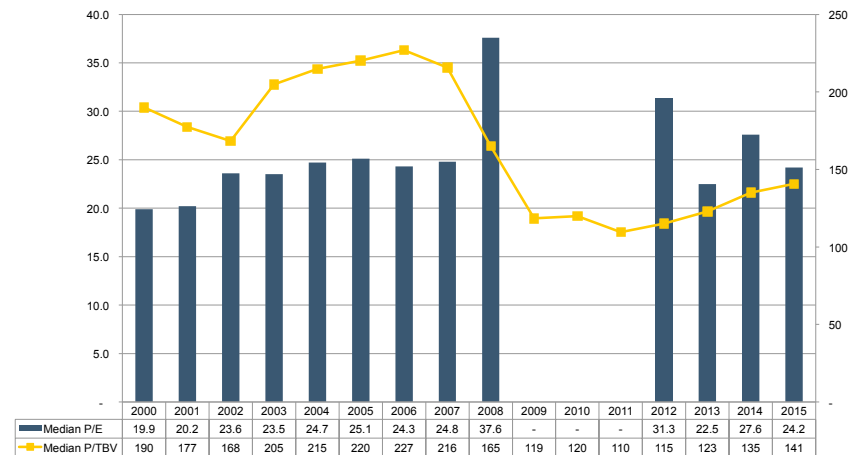
As shown in Figure 5, larger community banks commanded higher premiums to book value than the smallest banks. For banks with more than \$5 billion in assets, transaction volume was too low (with only three such deals announced in 2014) to make meaningful pricing comparisons.

Figure 3: Transaction Volume (Banks > \$500M)



* 2015 is year-to-date through March 24
Source: SNL Financial

Figure 4: Deal Pricing



* 2015 is year-to-date through March 24
Source: SNL Financial

Figure 5: Deal Pricing by Size

2014 Deal Statistics	# Deals	Total Deal Value (\$M)	Median P/E	Median P/TBV
< \$500 Million	224	2,820	27.6x	124%
\$500 Million - \$1 Billion	37	3,074	22.6x	149%
\$1 Billion - \$5 Billion	22	6,243	24.3x	176%
\$5 Billion - \$10 Billion	1	646	14.3x	119%
> \$10 Billion	2	5,870	15.1x	137%

Source: SNL Financial

Figure 6 summarizes transaction activity by region. The Midwest saw the greatest number of deals announced in 2014, but the average deal size was much smaller than in the other regions. The West and Mid-Atlantic by contrast saw fewer deals but deal activity generally involved larger banks. Deal pricing was fairly even across the regions, generally in the 135% to 140% of tangible book range, with somewhat more modest price/tangible book value multiples in the Mid-Atlantic region.

For the first quarter of 2015, pricing seems consistent with the trend observed through 2014, as shown in Figure 4. While the number of deals announced in first quarter 2015 represents a slowdown from 2014 trends, aggregate deal value is up significantly, due to one large transaction (Figure 7). In January 2015, Royal Bank of Canada announced an acquisition of City National Corp., priced at \$5.3 billion. According to SNL Financial, the announced deal value represents approximately 260% of tangible book value and 23x earnings for the \$33 billion asset company, which also has \$48 billion of client assets under management within its various wealth management units. 2014 saw only two acquisitions announced with deal values over \$1 billion. Utah-based CIT Group announced an acquisition of California-based OneWest in a July 2014 deal valued at \$3.4 billion, and BB&T announced an acquisition of Susquehanna in a November 2014 deal valued at \$2.5 billion.

Deal consideration from 2014 through first quarter 2015 (through March 24) has primarily consisted of cash-only deals or some mix of cash and stock (Figure 8).

Figure 6: Deal Pricing by Region

2014 Deal Statistics	# Deals	Total Deal Value (\$M)	Av. Deal Value (\$M)	Median P/E	Median P/TBV
West	28	5,424	194	37.5x	133%
Southeast	56	4,244	76	27.6x	136%
Northeast	11	475	43	26.4x	141%
Midwest	116	2,393	21	26.5x	135%
Mid Atlantic	27	4,831	179	31.3x	121%

Source: SNL Financial

What We're Reading

Mike Baxter of Bain & Company has an interesting piece in *American Banker* entitled "Think Like a Venture Capitalist: Tips for Banks in the Digital Age"

<http://mer.cr/1CMph5f>

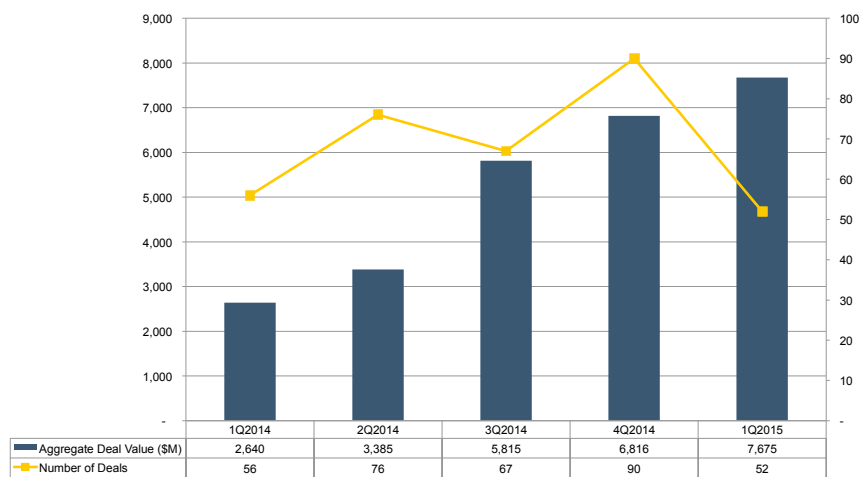
Jonathan Hightower and Reed White of Bryan Cave have a good piece in *Bank Director* entitled "Congress Makes Capital Requirements Easier for Small Banks," which details how capital requirements can impact M&A and strategic planning considerations.

<http://mer.cr/1Cn4vso>

This slideshow in *American Banker* gives bankers an overview of some key insights about the unbanked.

<http://mer.cr/1OxnCFz>

Figure 7: 2014 / Q1 2015 Aggregate Deal Value & Number of Deals



* 2015 is year-to-date through March 24
Source: SNL Financial

Deal volume in 2015 is expected to be facilitated in part by stronger industry profitability and credit quality metrics, which open the door for more potential acquirers and also reduce uncertainty about potential targets. Improved bank stock pricing likewise improves deal currency, increasing the base of potential acquirers. Going forward, deal activity is expected to continue to be dominated by acquisitions and mergers of smaller banks, as elevated compliance costs, pressure on returns and ZIRP (zero interest rate policies) weigh heavily on these smaller institutions.

Mercer Capital has been providing transaction advisory and valuation services for over 30 years. To discuss a transaction or valuation issue in confidence, please contact us.

Madeleine G. Davis
davis@mercercapital.com

Figure 8: Deal Consideration

Deal Consideration	All '14-'15	1Q14	2Q14	3Q14	4Q14	1Q15
All Cash	110	22	25	26	26	11
Cash and Stock	95	14	20	19	24	18
All Stock	49	10	13	8	14	4
Other	7	2	0	3	1	1
Not Available	80	8	18	11	25	18

Source: SNL Financial

Loan Portfolio Valuation Resources



Getting It Right: Loan Valuation and Credit Marks in Today's M&A Market

View the slides from Andrew Gibbs' and Jeff Davis' presentation at *Bank Director's 2015 Acquire or Be Acquired Conference*.

<http://mer.cr/1BoLb9C>



Recent Trends in the Fair Value of Community Bank Loan Portfolios

Consider the recent trends as merger-related accounting issues for bank acquirers have become increasingly important in recent years and the most significant fair value mark typically relates to the determination of the fair value of the loan portfolio.

<http://mer.cr/1yd4qCr>



3 Ways a Loan Portfolio Valuation Is Helpful to the Acquirer

Consider these three ways that a loan portfolio analysis is helpful to your bank when considering an acquisition.

<http://mer.cr/1esk6qN>

Mercer Capital's Resources for Depository Institutions

The Financial Institutions Group of Mercer Capital works with hundreds of depository institutions and other financial institutions annually providing a broad range of specialized resources for the financial services industry.

Newest Webinar



Sponsored by SNL Financial
Presenters from Mercer Capital and
Sutherland Asbill & Brennan

An Introduction to Business Development Companies

In the hunt for yield, investors are increasingly setting their sights on business development companies (BDCs), which offer public equity investors access to portfolios of private equity investments. This webinar explored the features that have contributed to the growth in BDCs, underlying asset classes to which BDCs offer investors exposure, and highlighted the key performance metrics for evaluating BDCs. Our panel discussed relevant regulatory developments affecting BDCs, reviewed the portfolio valuation procedures and assumptions that influence quarterly profits, and explored the relative performance of key market benchmarks.

*View webinar on SNL Financial's site at <http://mer.cr/ZnauO7>
Complimentary Download of Slides at <http://mer.cr/1tuwzal>*

Webinars Available for Replay

An Overview of the Leveraged Lending Market and Bank Participation in the Market

There has been a flurry of media reports this year that regulators—especially the OCC—are intensifying scrutiny of leveraged lending. In this webinar we took a look at one of the fastest growing markets that has emerged post crisis.

*View webinar on SNL Financial's site
at <http://mer.cr/VRc9JV>*

Understanding Deal Considerations

Key issues that we see when banks combine as it relates to valuing and evaluating a combination are reviewed. This is particularly critical when the consideration consists of shares issued by a buyer (or senior merger partner) whose shares are either privately held or are thinly traded.

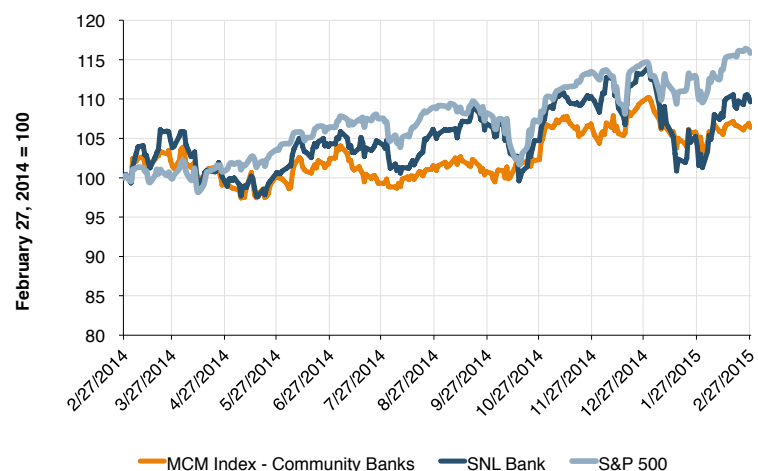
View replay at <http://mer.cr/bnkweb2>

Basel III Capital Rules Finally Final: What Does It Mean for Community Banks?

Finalized at last, the regulations provide direction for bank capital management decisions. This webinar, co-sponsored by Mercer Capital and Jones Day, reviews the final rules and assesses their impact on community banks.

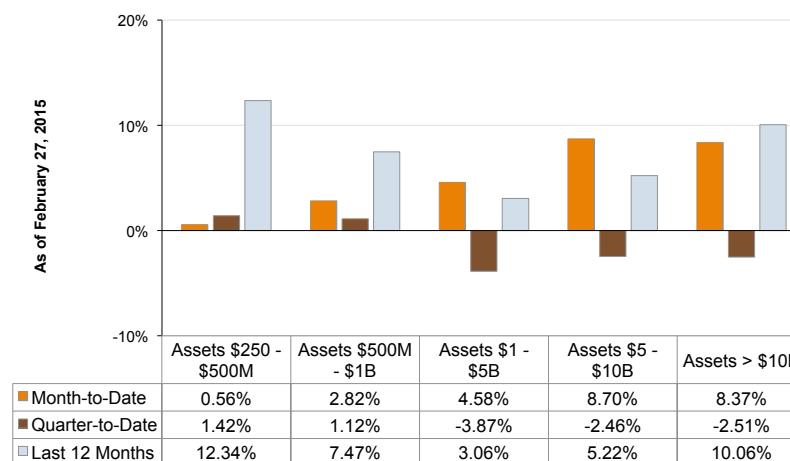
View replay at <http://mer.cr/capital-rules-webinar>

Mercer Capital's Bank Group Index Overview



Return Stratification of U.S. Banks

by Asset Size

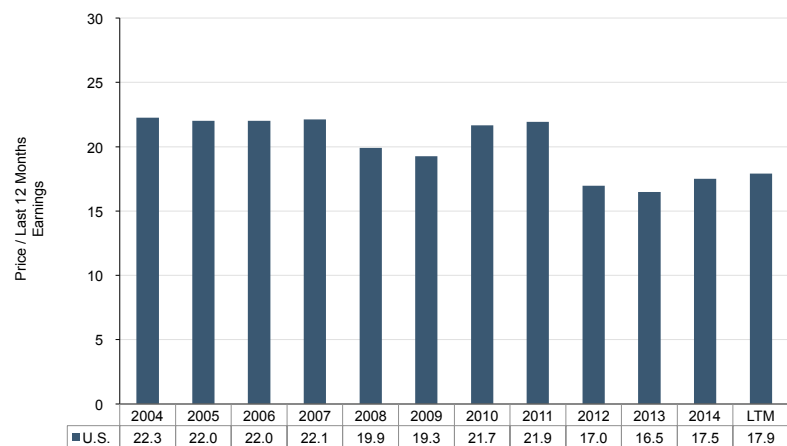


Median Valuation Multiples

Indices	Median Total Return			Median Valuation Multiples as of February 27, 2015					
	Month-to-Date	Quarter-to-Date	Last 12 Months	Price / LTM EPS	Price / 2015 (E) EPS	Price / 2016 (E) EPS	Price / Book Value	Price / Tangible Book Value	Dividend Yield
Atlantic Coast Index	2.09%	-2.71%	7.24%	14.93	15.51	13.02	105.9%	116.0%	2.1%
Midwest Index	3.21%	-2.58%	6.28%	14.59	13.26	12.07	111.7%	118.5%	2.4%
Northeast Index	2.30%	-3.99%	4.54%	13.96	13.76	12.36	112.3%	123.0%	3.0%
Southeast Index	4.78%	-0.89%	16.38%	12.43	13.89	11.92	101.7%	107.0%	1.6%
West Index	3.34%	-3.47%	2.85%	16.09	14.80	13.08	119.7%	129.4%	2.5%
Community Bank Index	3.14%	-3.03%	6.39%	14.66	14.12	12.46	111.1%	118.8%	2.4%
SNL Bank Index	8.22%	-2.54%	9.63%						

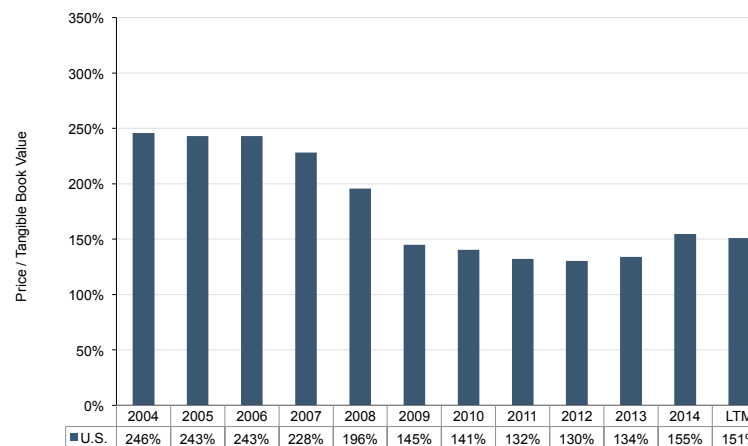
Median Price/Earnings Multiples

Target Banks' Assets <\$5B and LTM ROE >5%



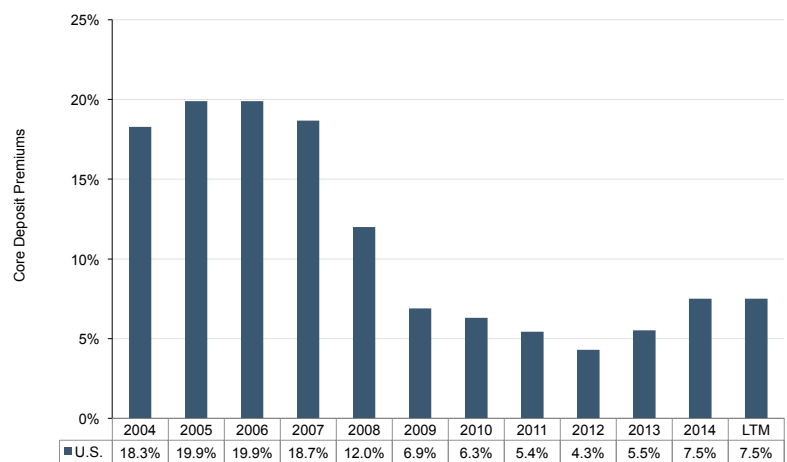
Median Price/Tangible Book Value Multiples

Target Banks' Assets <\$5B and LTM ROE >5%



Median Core Deposit Multiples

Target Banks' Assets <\$5B and LTM ROE >5%



Median Valuation Multiples for M&A Deals

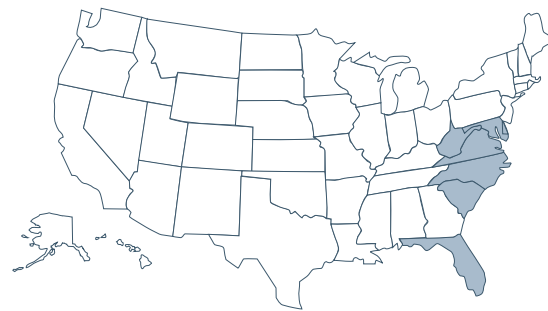
Target Banks' Assets <\$5B and LTM ROE >5%, 12 months ended February 2015

Regions	Price / LTM Earnings	Price / Tang. BV	Price / Core Dep Premium	No. of Deals	Median Deal Value	Target's Median Assets	Target's Median LTM ROAE (%)
Atlantic Coast	19.03	1.61	8.3%	10	56.40	462,003	9.23%
Midwest	18.75	1.57	7.1%	66	41.47	108,662	8.95%
Northeast	18.97	1.71	8.9%	10	101.87	431,132	7.61%
Southeast	15.21	1.41	6.1%	32	48.12	199,160	8.33%
West	17.91	1.48	7.8%	16	59.83	351,597	9.06%
Nat'l Community Banks	17.91	1.51	7.5%	134	51.60	202,923	8.92%

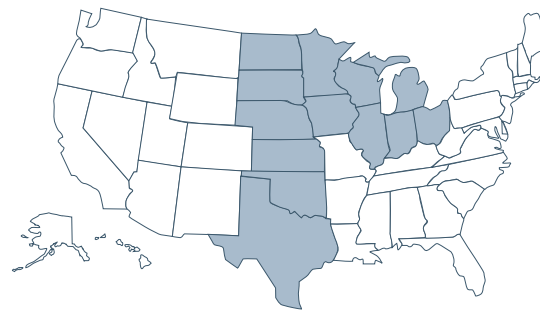
Source: Per SNL Financial

Mercer Capital's Regional Public Bank Peer Reports

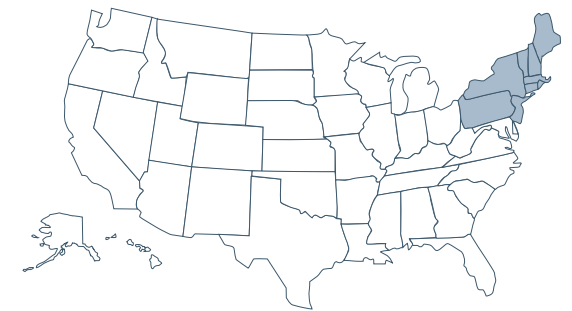
Updated weekly, Mercer Capital's Regional Public Bank Peer Reports offer a closer look at the market pricing and performance of publicly traded banks in the states of five U.S. regions. Click on the map to view the reports from the representative region.



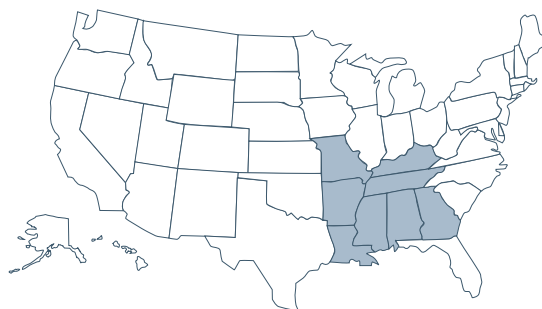
Atlantic Coast



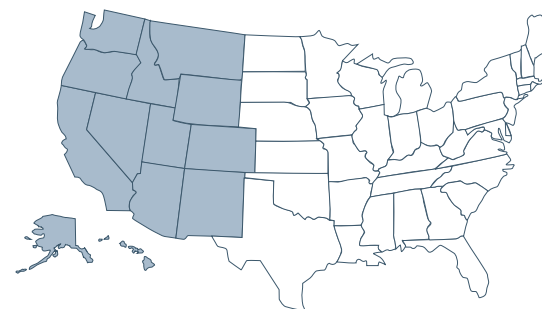
Midwest



Northeast



Southeast



West

Mercer Capital

Financial Institutions Services

Mercer Capital assists banks, thrifts, and credit unions with significant corporate valuation requirements, transactional advisory services, and other strategic decisions.

Mercer Capital pairs analytical rigor with industry knowledge to deliver unique insight into issues facing banks. These insights underpin the valuation analyses that are at the heart of Mercer Capital's services to depository institutions.

Mercer Capital is a thought-leader among valuation firms in the banking industry. In addition to scores of articles and books, *The ESOP Handbook for Banks* (2011), *Acquiring a Failed Bank* (2010), *The Bank Director's Valuation Handbook* (2009), and *Valuing Financial Institutions* (1992), Mercer Capital professionals speak at industry and educational conferences.

The Financial Institutions Group of Mercer Capital publishes *Bank Watch*, a monthly e-mail newsletter covering five U.S. regions. In addition, Jeff Davis, Managing Director, is a regular contributor to SNL Financial.

For more information about Mercer Capital, visit www.mercercapital.com.

Contact Us

Jeff K. Davis, CFA
615.345.0350
jeffdavis@mercercapital.com

Andrew K. Gibbs, CFA, CPA/ABV
901.322.9726
gibbsa@mercercapital.com

Jay D. Wilson, Jr., CFA, ASA, CBA
901.322.9725
wilsonj@mercercapital.com

Mercer Capital
5100 Poplar Avenue, Suite 2600
Memphis, Tennessee 38137
901.685.2120 (P)

www.mercercapital.com