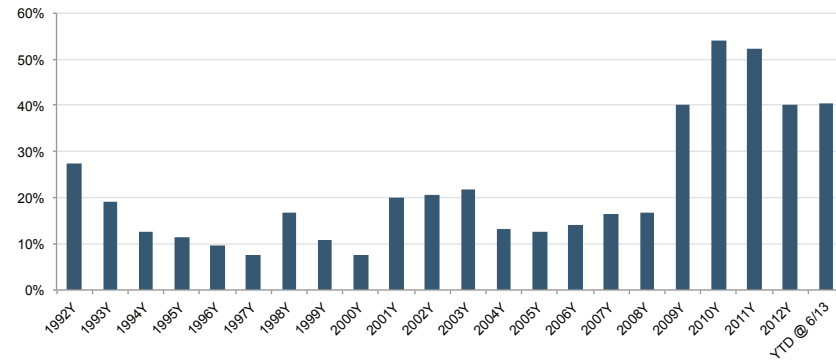


Bank Watch

Loan Growth Resumes, But Remains Slow

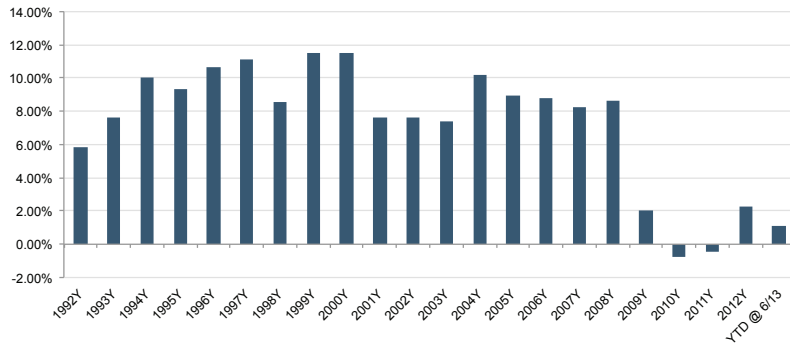
Loan growth continues to remain a struggle for community banks as loan demand remains weak in most regions. Based on *Call Report* data as of June 30, 2013 for approximately 3,750 banks with assets between \$100 million and \$5 billion, more than 50% of banks reported lower loan balances in 2010 and 2011. In 2012 and year-to-date in 2013, approximately 40% of banks have reported lower loan balances.

Percentage of Banks with Annual Loan Growth < 0%



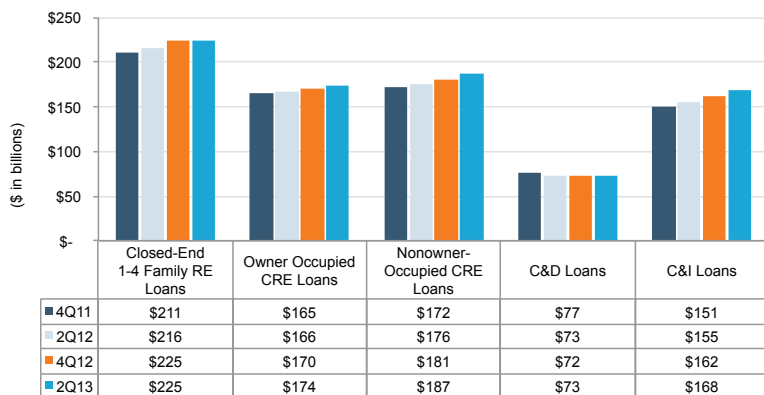
Community banks as a group reported negative median loan growth in 2010 and 2011. Beginning in 2012, loan growth resumed, with the community bank group examined realizing median growth of 2.2%. Year-to-date through June 2013, median growth was 1.1%, or 2.2% annualized, on pace with the 2012 growth figure. The low level of growth in loan portfolios is well below the historical average, including prior recessions. During the 2001-2002 recession, for example, median loan growth was approximately 7.5% for the community bank sample.

Median Annual Loan Growth



The modest loan growth realized in 2012 and year-to-date in 2013 has been spread across portfolio sectors, with all non-agricultural loan categories up 6.8% at June 30, 2013 from year-end 2011. Within the non-ag categories, 1-4 family mortgages were up 6.4%, CRE loans were up 7.4% with most of the increase in nonowner-occupied CRE loans, and commercial/industrial loans were up 11.3%. Construction and development credits were the only sector that saw declines in the last 18 months, with total C&D loans down 4.9% from year-end 2011.

Loan Portfolio Trends



An analysis of mortgage data by *SNL Financial* indicates that residential loan growth has been consistent across the country, with 932 of the 955 metro areas with available data reporting increases in originations.¹ The analysis by SNL looks at comprehensive data filed by lenders pursuant to the Home Mortgage Disclosure Act for the 2012 fiscal year. The analysis shows the largest increases in mortgage lending activity in the areas that were hardest-hit by the recession, including Orlando, Phoenix, Las Vegas, Detroit, and Sacramento, which all posted growth in mortgage lending over 75% in 2012. Overall, funded mortgage loan volume was up 43% from 2011, increasing from \$1.5 trillion to \$2.1 trillion for the metro areas included in the data set.

For the community bank sample, total growth in single-family mortgages was slower than the aggregate mortgage data for all institutions, with loan volume up 6.5% for the 2012 fiscal year, indicating that the majority of loan growth, at least in the residential mortgage sector, was led by larger institutions.

Madeleine G. Davis
Madeleine G. Davis
 davis@mercercapital.com

Endnotes

¹ "Loan Growth Spanned Entire US in 2012," by Sam Carr and Fox, Zach. Published by *SNL Financial, LC*, October 3, 2013.

What We're Reading

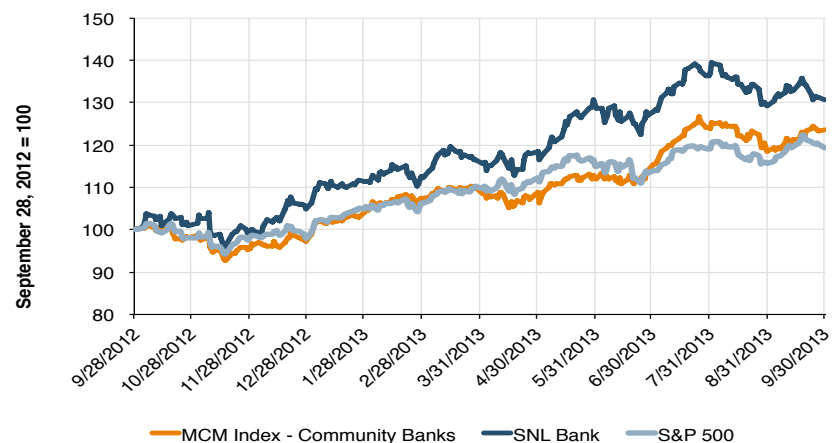
The OCC released an updated version of its Bank Accounting Advisory Series, which includes frequently asked questions about acquired loans and fair-value accounting:

<http://mer.cr/17042iR>

Mercer Capital's own Jeff Davis discussed the pros and cons of leveraged transactions that can often unlock value for equity holders in his presentation entitled "Leveraged Lending, Dividend Recaps, and Solvency Opinions":

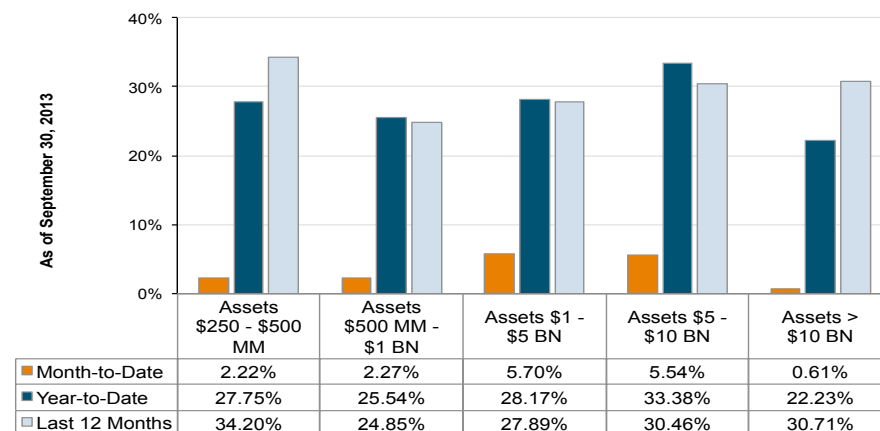
<http://mer.cr/solvency-opinion-ppt>

Mercer Capital's Bank Group Index Overview



Return Stratification of U.S. Banks

by Asset Size

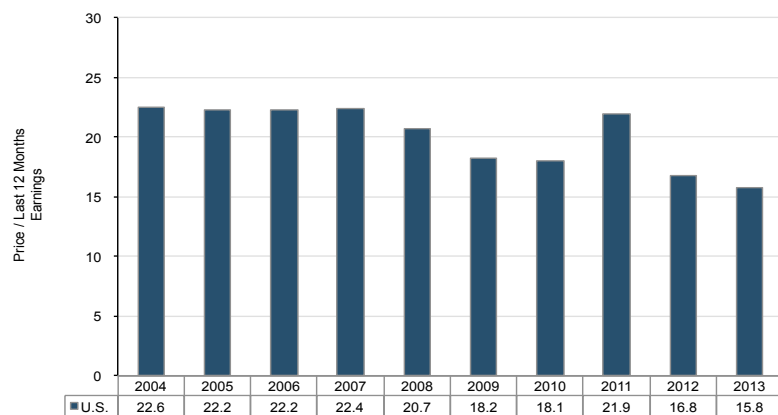


Median Valuation Multiples

| Indices | Median Total Return | | | Valuation Multiples as of September 30, 2013 | | | | | |
|-----------------------|---------------------|---------------|----------------|--|----------------------|----------------------|--------------------|-----------------------------|----------------|
| | Month-to-Date | Year-to-Date | Last 12 Months | Price / LTM EPS | Price / 2013 (E) EPS | Price / 2014 (E) EPS | Price / Book Value | Price / Tangible Book Value | Dividend Yield |
| Atlantic Coast Index | 3.08% | 24.16% | 23.44% | 14.55 | 17.36 | 13.71 | 106.4% | 117.9% | 2.3% |
| Midwest Index | 6.40% | 30.12% | 27.69% | 12.66 | 13.06 | 13.49 | 107.9% | 121.2% | 2.1% |
| Northeast Index | 4.16% | 23.12% | 19.55% | 14.43 | 14.84 | 12.97 | 123.0% | 131.2% | 2.7% |
| Southeast Index | 2.84% | 24.38% | 20.06% | 13.39 | 14.22 | 12.61 | 119.9% | 124.2% | 2.4% |
| West Index | 4.65% | 23.42% | 25.65% | 13.60 | 14.88 | 13.90 | 128.6% | 130.7% | 1.9% |
| Community Bank Index | 4.23% | 24.72% | 23.51% | 13.88 | 14.53 | 13.57 | 116.8% | 127.5% | 2.4% |
| SNL Bank Index | 3.14% | 19.80% | 19.34% | na | na | na | na | na | na |

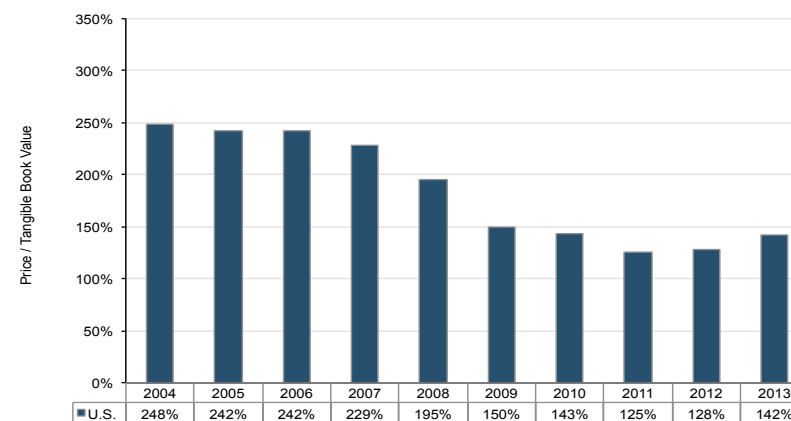
Median Price/Earnings Multiples

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



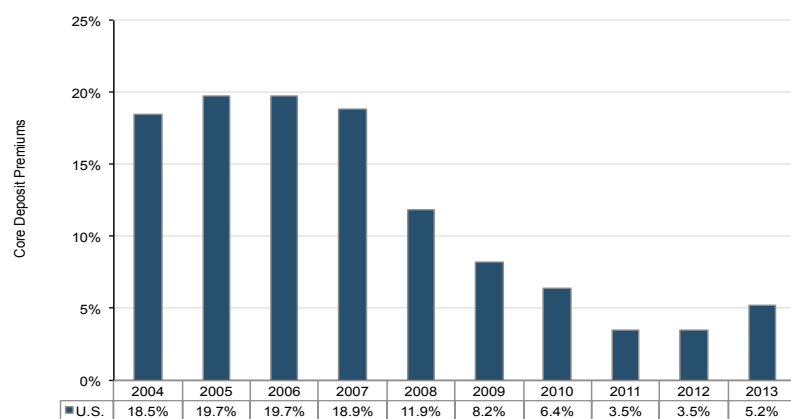
Median Price/Tangible Book Value Multiples

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



Median Core Deposit Multiples

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



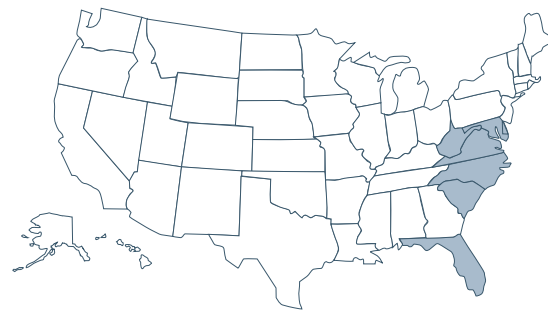
Median Valuation Multiples for M&A Deals

Target Banks Assets <\$5BN and LTM ROE >5%, through September 30, 2013

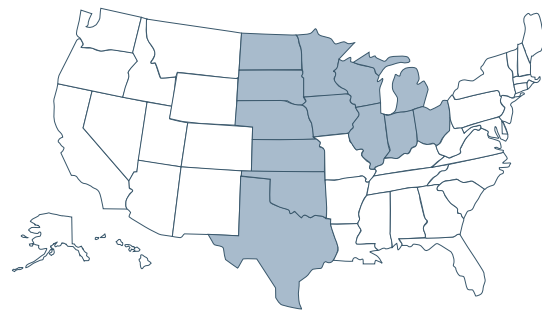
| Regions | Price / LTM Earnings | Price / Tang. BV | Price / Core Dep Premium | No. of Deals | Median Deal Value | Target's Median Assets | Target's Median LTM ROE (%) |
|------------------------------|----------------------|------------------|--------------------------|--------------|-------------------|------------------------|-----------------------------|
| Atlantic Coast | 14.47 | 1.38 | 4.0% | 9 | 77.66 | 741,713 | 7.32% |
| Midwest | 17.12 | 1.44 | 6.3% | 41 | 40.51 | 122,905 | 9.02% |
| Northeast | 16.06 | 1.49 | 7.7% | 4 | 110.80 | 649,359 | 8.02% |
| Southeast | 18.76 | 1.32 | 2.7% | 4 | 122.22 | 1,296,520 | 5.76% |
| West | 10.67 | 1.25 | 2.9% | 12 | 31.82 | 242,113 | 7.15% |
| Nat'l Community Banks | 15.76 | 1.42 | 5.2% | 70 | 43.99 | 232,922 | 8.15% |

Mercer Capital's Regional Public Bank Peer Reports

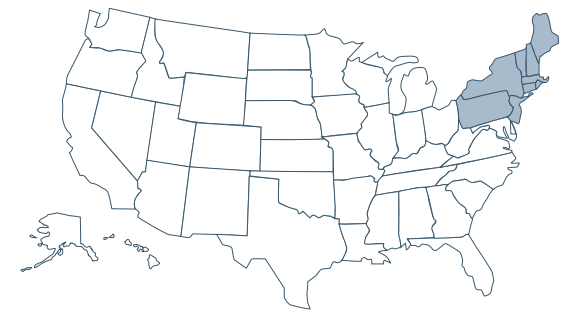
Updated weekly, Mercer Capital's Regional Public Bank Peer Reports offer a closer look at the market pricing and performance of publicly traded banks in the states of five U.S. regions. Click on the map to view the reports from the representative region.



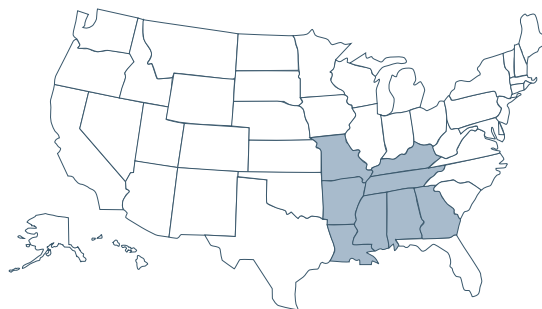
Atlantic Coast



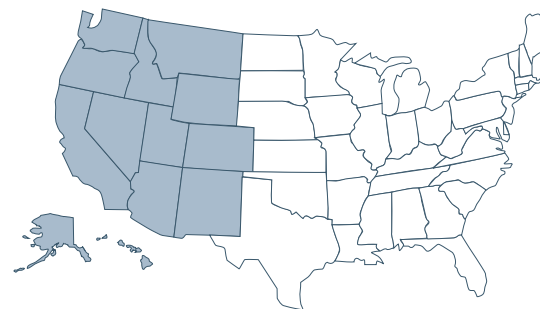
Midwest



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