MERCER CAPITAL

Bank Watch

Credit Marks on Acquired Loan Portfolios Trend Down During 2013

Merger related accounting issues for bank acquirers are often complex. In recent years, the credit mark on the acquired loan portfolio has often been cited as an impediment to M&A activity as this mark can be the most critical component that determines whether the pro-forma capital ratios are adequate. As economic conditions have improved in 2013, bank M&A activity has also picked up and we thought it would be useful to take a look at the estimated credit marks for some of the larger deals announced in 2013 (i.e., where the acquirer was publicly traded and the reported deal values were greater than $100 million) to see if any trends emerged.

As detailed below, the estimated credit marks declined during 2013 with only one deal reporting a credit mark larger than 4% after the first quarter of 2013 compared to all deals being in excess of 4% in the first quarter of 2013. The reported estimated credit marks for 2013 were also generally below those reported in larger deals in 2010, 2011, and 2012 when the estimated credit marks were often in excess of 5%.

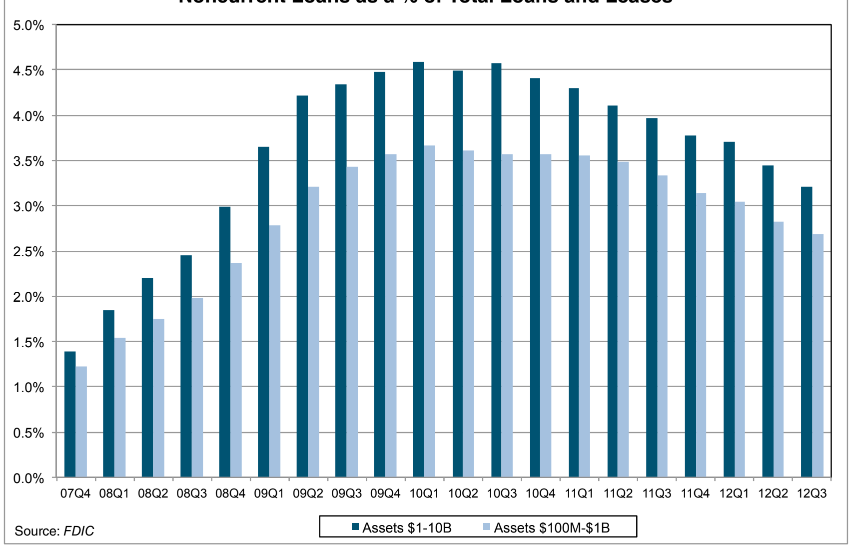
Announce Date	Seller	Credit Mark	Cycle Loss YE07
Jan. 2013	Virginia Commerce	4.0%	11.5%
Feb. 2013	First M&F	5.4%	14.8%
Feb. 2013	First Financial	5.3%	20.7%
April 2013	Sterling Bancorp	2.0%	na
June 2013	StellarOne Corporation	2.5%	na
July 2013	Taylor Capital Group	3.5%	na
Aug. 2013	WNB Bancshares	2.0%	na
Aug. 2013	Firstbank Corporation	2.5%	na
Sep. 2013	Tower Financial	10.2%	na
Oct. 2013	Washington Banking Company	3.0%	na
Oct. 2013	Home Federal	3.2%	na

Source: *SNL Financial and various investor presentations prepared by acquirer*

This trend reflects a number of factors including most notably:

- **Improved economic trends**. Economic data from the Federal Reserve of St. Louis indicates that real GDP was up 1.9% through the first nine months of 2013 while the unemployment rate was down to 7.0% in November 2013 compared to 7.9% in January M2013.
- **Higher real estate values**. For perspective, the 10- and 20-city composites of the S&P/Case-Shiller Home Price indices increased 10.3% and 13.3% through September 30, 2013 (per SNL Financial). Additionally, economic data from the Federal Reserve of St. Louis indicated that commercial real estate prices in the U.S. were up 10.6% over the 12 months ended June 30, 2013.
- **Reduced levels of noncurrent loans**. As detailed below, credit migration continued to be positive throughout 2013 and levels have declined to almost pre-financial crisis levels (third quarter 2013 levels approximated levels last observed in the fourth quarter of 2008).

Noncurrent Loans as a % of Total Loans and Leases



Source: *FDIC*

Mercer Capital has provided a number of valuations for potential acquirers to assist with ascertaining the value and estimated credit mark of the acquired loan portfolio. In addition to loan portfolio valuation services, we also provide acquirers with valuations of other financial assets and liabilities acquired in a bank transaction, including depositor intangible assets, time deposits, and trust preferred securities.

Feel free to give us a call to discuss any valuation issues in confidence as you plan for a potential acquisition.

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What We're Reading

From *American Banker*, Maria Aspan has an article discussing a new program where Lending Club, a peer-to-peer online lender, courts small banks as partners for personal loans.

http://mer.cr/1ejBoMI

Emily McCormick from *Bank Director* provides an overview of the results from their "2014 Bank M&A Survey," a study *Bank Director* produced with Crowe Horwath LLP.

http://mer.cr/18S1KAE

Also from Emily McCormick at *Bank Director*, an article entitled "Banker's View: How Technology is Making the Bank More Efficient."

http://mer.cr/1hfgkoh

Recent Transactions

To discuss a transaction need in confidence, contact Jeff Davis at 615.345.0350.

Home Bancorp, Inc.
Lafayette, Louisiana

acquired

BK Bank N.A. Britton & Koontz
Natchez, Mississippi

Mercer Capital issued a fairness opinion on behalf of Britton & Koontz Capital Corp.

GAVION
Memphis, Tennessee

acquired

CSG
CSG Holdings, LLC
Memphis, Tennessee

Mercer Capital issued a fairness opinion on behalf of CSG Holdings, LLC

Citizens Bancorp Investment, Inc.
Lafayette, Tennessee

has agreed to acquire the minority shareholders of

Liberty State Bank
Lafayette, TN and Liberty, TN

Mercer Capital issued a fairness opinion to both subject parties

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New from Mercer Capital

FinTech Watch

Subscribe to this free newsletter at

http://mer.cr/fintech-nl

Mercer Capital's latest newsletter focuses on the financial technology industry, providing information on corporate valuation, financial reporting, transaction advisory, and related topics.

Each quarter, Mercer Capital's FinTech Watch will provide an overview of the FinTech industry, including public market performance, valuation multiples for public FinTech companies, and articles of interest from around the web. In addition, each issue of this quarterly newsletter will focus on one FinTech segment, including payment processors, technology, and solutions companies, examining general economic and industry trends as well as a summary of M&A and venture capital activity for the segment.

Davis, Gibbs, Crow to Speak at the

2014 Acquire or Be Acquired Conference

Jeff K. Davis, CFA, Managing Director of Financial Institutions, **Andrew K. Gibbs, CFA, CPA/ABV**, Leader, Depository Institutions Group, and **Matthew R. Crow, ASA, CFA**, President of Mercer Capital, are speaking at the 2014 Acquire or Be Acquired Conference sponsored by *Bank Director* magazine.

While industry and economic headwinds challenge banks both large and small, CEOs, CFOs, Chairmen and members of the board continue to attend Bank Director's Acquire or Be Acquired Conference. They do so to network with peers and explore a variety of financial growth, strategy and M&A topics through interactive sessions and presentations. Widely regarded as one of the financial industry's premier M&A conferences, Bank Director's 20th annual "AOBA" explores issues such as strategic alliances, investors' interests and whether now is the right time to be a buyer (or a seller).

Mercer Capital's topic for the 2014 conference is **"Acquisitions of Non-Depositories by Banks."** This session will review the opportunities and pitfalls in acquiring asset management, specialty finance, mortgage, insurance and other financial

Davis

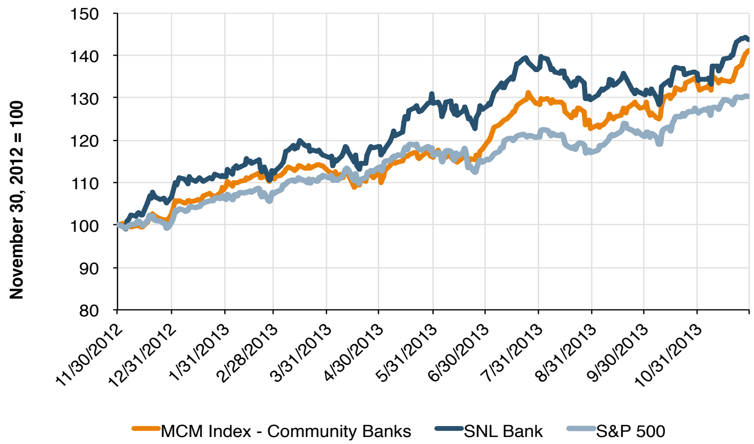
Gibbs

Crow

companies outside the genre of traditional bank M&A. Well-structured and reasonably-priced deals can add to an institution's franchise value through providing revenue diversification that sometimes has cross-sale opportunities and an earnings stream that may receive a higher P/E than traditional banking. If a buyer over-pays, executes poorly or underappreciates cultural differences, such acquisitions can be a disaster. The presenters will offer their views on opportunities for banks in addition to reviewing pricing trends.

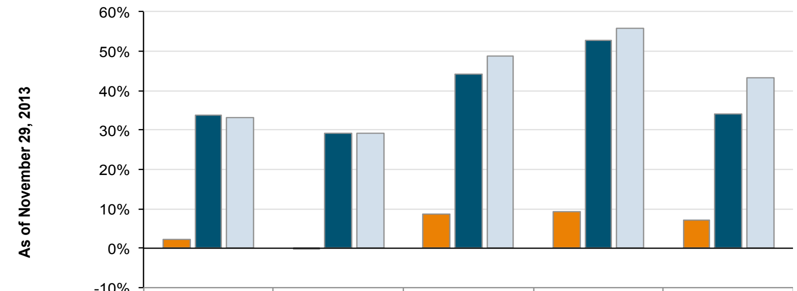
Acquire or Be Acquired is being held January 26-28, 2014 at The Phoenician Hotel in Scottsdale, Arizona.

Mercer Capital's Bank Group Index Overview



Return Stratification of U.S. Banks

by Asset Size



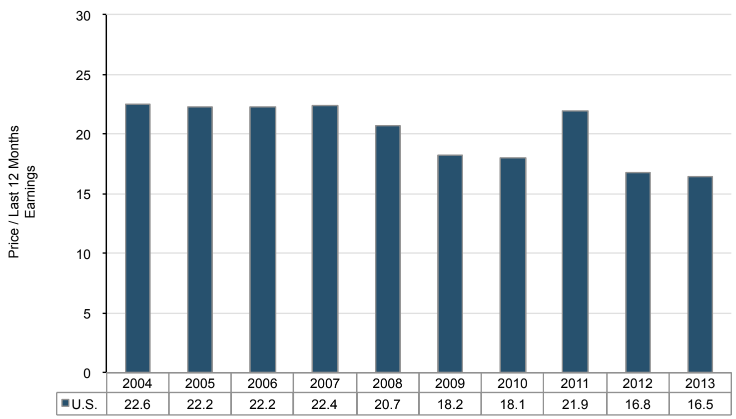
	Assets $250 - $500 MM	Assets $500 MM - $1 BN	Assets $1 - $5 BN	Assets $5 - $10 BN	Assets > $10 BN
Month-to-Date	2.17%	-0.06%	8.56%	9.42%	7.19%
Year-to-Date	33.68%	29.14%	44.30%	52.87%	34.09%
Last 12 Months	33.07%	29.03%	48.89%	55.73%	43.25%

Median Valuation Multiples

	Median Total Return			Median Valuation Multiples as of November 29, 2013					
Indices	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	5.86%	34.38%	37.00%	14.57	15.22	15.60	107.7%	119.0%	2.4%
Midwest Index	5.77%	42.59%	46.18%	13.03	13.99	15.02	118.9%	129.2%	1.9%
Northeast Index	4.88%	33.21%	36.31%	15.45	16.42	14.46	128.3%	135.0%	2.5%
Southeast Index	7.52%	38.80%	41.77%	13.58	14.71	16.47	123.9%	135.8%	1.9%
West Index	7.81%	40.90%	46.66%	15.27	18.04	16.31	136.3%	141.9%	1.7%
Community Bank Index	6.28%	37.50%	41.09%	14.79	15.35	15.60	120.6%	131.8%	2.2%
SNL Bank Index	**7.28%**	**35.00%**	**43.79%**	**na**	**na**	**na**	**na**	**na**	**na**

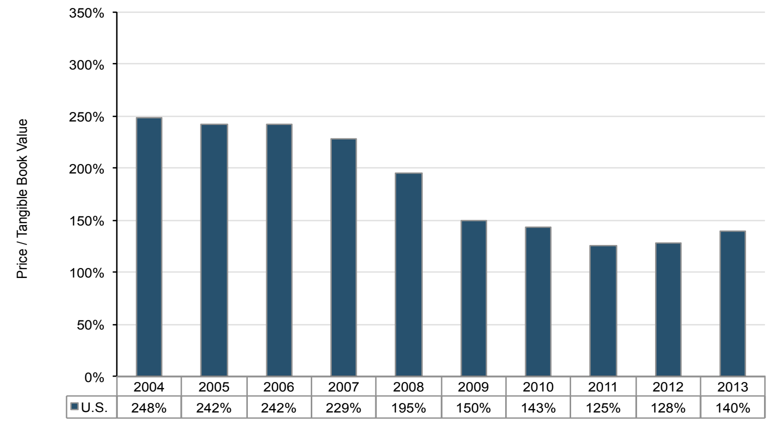
Median Price/Earnings Multiples

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



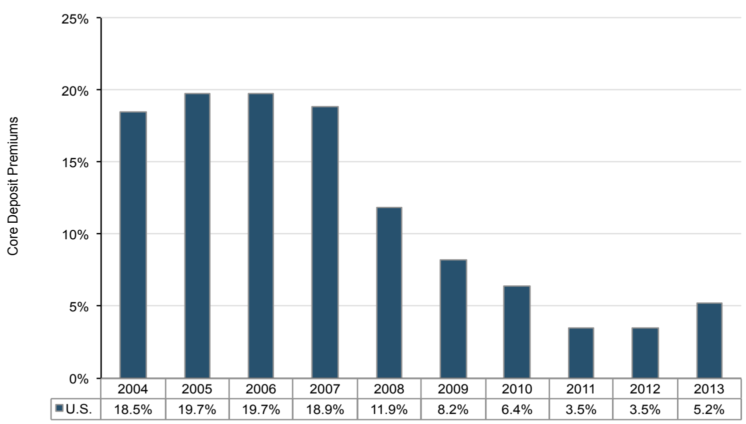
Median Price/Tangible Book Value Multiples

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



Median Core Deposit Multiples

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



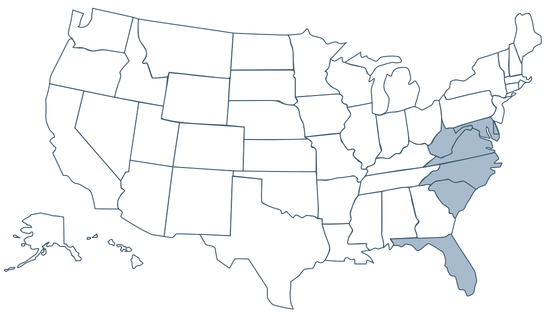
Median Valuation Multiples for M&A Deals

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

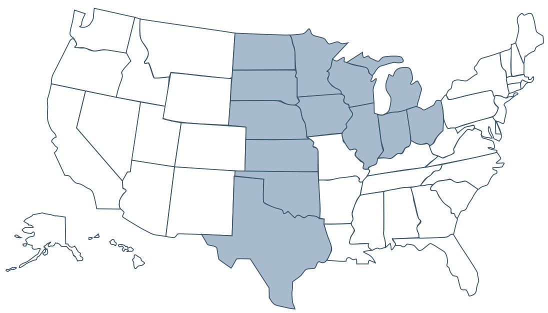
Regions	Price / LTM Earnings	Price / Tang. BV	Price / Core Dep Premium	No. of Deals	Median Deal Value	Target's Median Assets	Target's Median LTM ROAE (%)
Atlantic Coast	14.47	1.38	4.2%	13	54.58	572,324	7.32%
Midwest	17.07	1.45	6.2%	52	26.90	125,251	9.19%
Northeast	17.05	1.47	7.6%	5	65.70	368,930	7.89%
Southeast	14.20	1.29	3.4%	10	25.64	173,961	6.56%
West	16.04	1.31	5.2%	16	35.66	242,484	7.34%
Nat'l Community Banks	**16.47**	**1.40**	**5.2%**	**96**	**35.66**	**210,691**	**8.16%**

Mercer Capital's Regional Public Bank Peer Reports

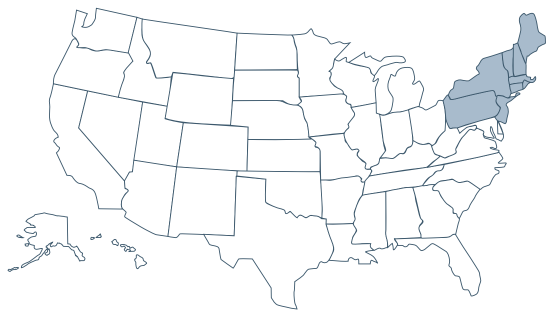
Updated weekly, Mercer Capital's Regional Public Bank Peer Reports offer a closer look at the market pricing and performance of publicly traded banks in the states of five U.S. regions. Click on the map to view the reports from the representative region.



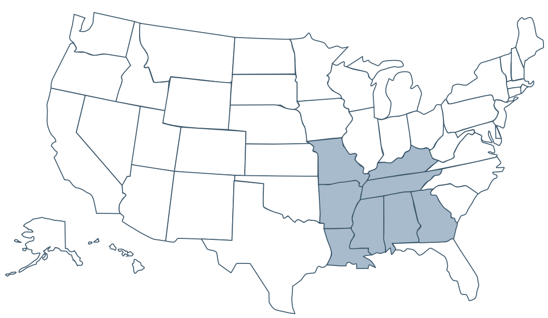
Atlantic Coast



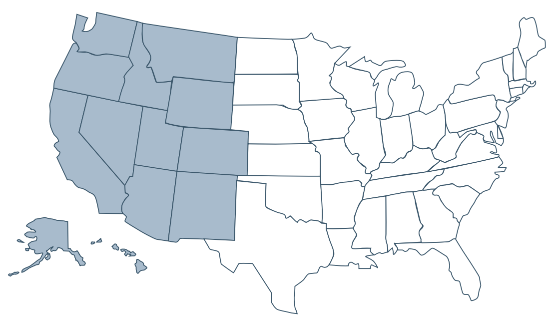
Midwest



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.

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