

Bank Watch



January 2016

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Bank Watch

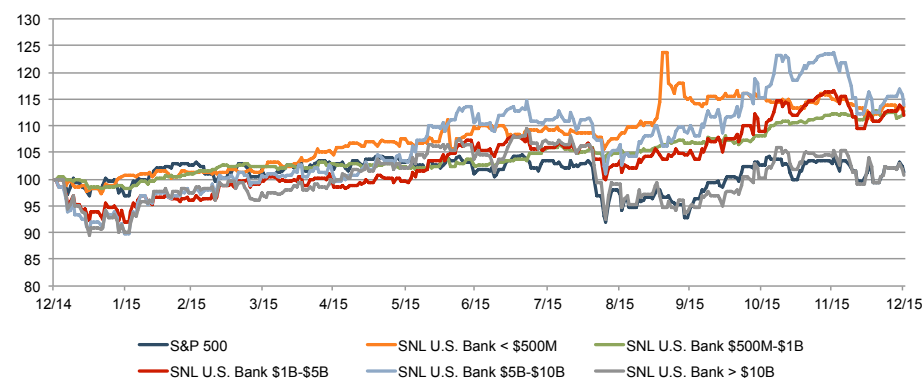
2015: A Good Year for Banks

Summary of Market Performance

After weak broad market performance in the first quarter of the year and slow advances during the summer, U.S. stocks generally saw amplified returns in the fourth quarter of 2015. The largest banks (those with over \$50 billion in assets) generally performed in line with broad market trends, but most banks outperformed the market with total returns on the order of 10% to 15% for the year (Figure 1).

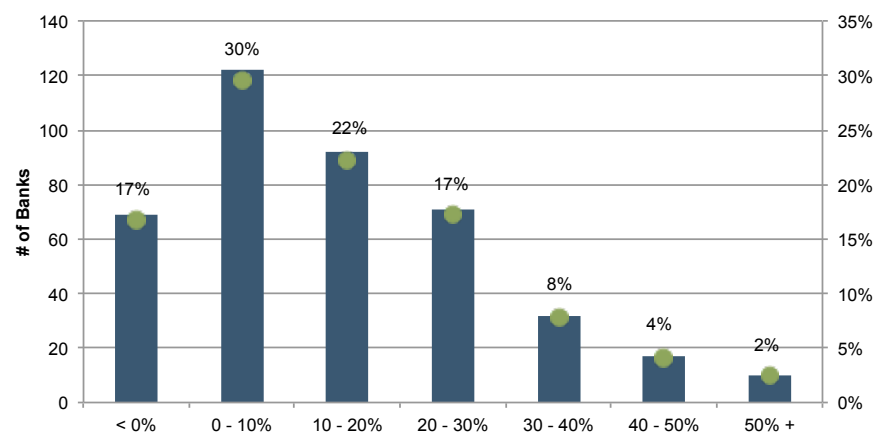
Bank stock performance improved markedly in the fourth quarter as speculation following the FOMC's September meeting suggested rate increases may begin in the fourth quarter. In mid-December, the FOMC met again and, after seven years of its zero interest rate policy, announced an increase in the target fed funds rate. The shift in monetary policy is expected to gradually improve strains on banks' net interest margins and should be most apparent for banks with more asset-sensitive balance sheets, though community banks that may have made more loans with longer fixed terms or loan floors may experience some tightening in the short term.

Figure 1: Total Returns



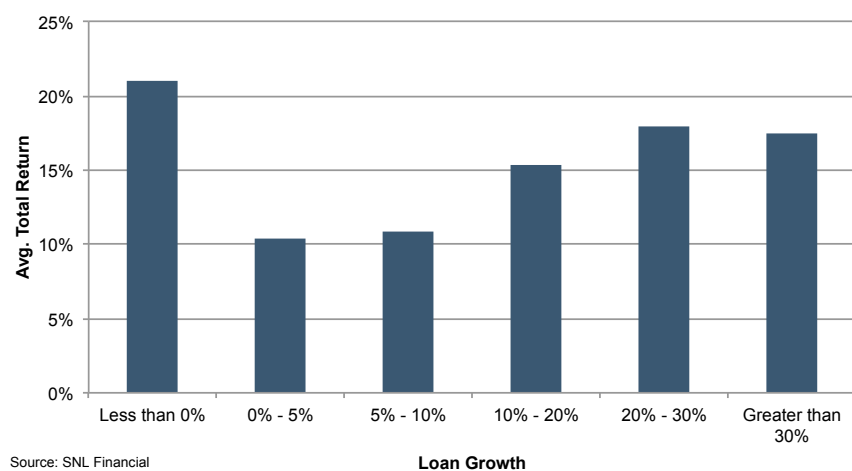
Source: SNL Financial

Figure 2: Total Returns



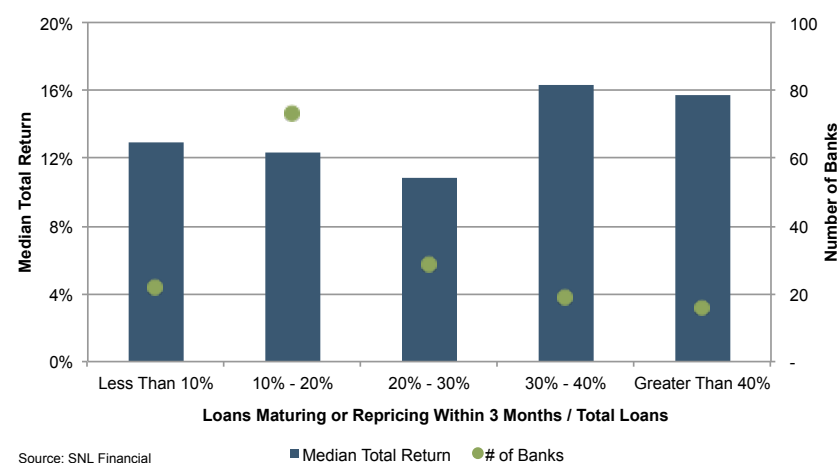
Source: SNL Financial

Figure 3: Total Returns & Loan Growth



Source: SNL Financial

Figure 4: Total Returns & Asset Sensitivity



Source: SNL Financial

Bank returns generally averaged around 0% to 30% in 2015, though 17% of the U.S. banks analyzed (traded on the NASDAQ, NYSE, or NYSE Market exchanges for the full year) realized negative total returns. These included banks continuing to deal with high levels of NPAs; banks that are located in oil-dependent areas such as Louisiana and Texas; and some banks that have been active acquirers that missed Street expectations. On the other end, a few high performers in 2015 include merger targets as well as banks that have seen more success from acquisition activity (Figure 2).

One of the primary factors contributing to stronger returns in 2015 was loan growth. Banks with loan growth over 10% exhibited above-average returns, while those with slower growth tended to exhibit lower returns, with the exception of banks that shrank their portfolios during the year, though for these banks the higher returns likely reflected prior years' underperformance that was priced into the stocks (Figure 3).

Asset-sensitive banks also outperformed in 2015. While asset sensitivity is difficult to evaluate from publicly available data, we measured asset sensitivity by the proportion of loans maturing or repricing in less than three months from September 30, 2015, relative to total loans (both

Figure 5: Pricing Overview

Asset Size	# of Banks	Avg. Price/ Tang Book	Avg. Price/ LTM EPS	Avg. Total Return	Avg. ROAA	Avg. ROATCE	Avg. NPAs/ Loans + ORE
Less than \$500 Million	33	114%	20.0x	17.9%	0.65%	7.1%	3.13%
\$500 Million - \$1 Billion	86	116%	17.1x	18.1%	0.72%	8.9%	3.37%
\$1 - \$5 Billion	182	150%	18.3x	14.9%	0.95%	10.1%	2.06%
\$5 - \$10 Billion	55	202%	18.3x	15.3%	1.05%	12.0%	1.52%
\$10 - \$50 Billion	46	179%	17.2x	6.7%	0.98%	11.3%	1.59%
\$50 Billion +	21	163%	14.8x	0.8%	0.96%	11.9%	1.77%
Total Group	423	151%	17.9x	14.2%	0.90%	10.1%	2.27%

Source: SNL Financial

obtained from FR Y-9C filings). Limiting the analysis to publicly traded banks with assets between \$1 billion to \$5 billion reveals that the most asset sensitive banks returned about 16% in 2015, or 400 basis points more than less asset sensitive banks (Figure 4).

Though the smallest banks generally realized the highest returns in 2015, pricing multiples were strongest for banks with assets between \$1 and \$10 billion, which generally saw better profitability than the smaller banks. Year-over-year, pricing multiples generally remained flat from 2014 (Figure 5).

Mercer Capital is a national business valuation and financial advisory firm. Financial Institutions are the cornerstone of our practice. To discuss a valuation or transaction issue in confidence, feel free to contact us.



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What We're Reading

Harry Terris of *American Banker* has an interesting outlook on bank technology spending for 2016 in a piece entitled "Banks to Spend More on Tech in 2016."
<http://mer.cr/20hxqlC>

Tim Alexander of Triune Global Financial Services considers the benefits of CECL on *American Banker's* article entitled "Why FASB Reserving Model Isn't as Bad as Banks Think."
<http://mer.cr/1ZPvnic>

John Depman and Tim Phelps of KPMG have a nice piece on *BankDirector.com* that outlines the "Five Key Steps to Integration Success."
<http://mer.cr/1Prk70h>

Complimentary Webinar Community Bank Stress Testing: What You Need to Know

March 1, 2016 | 12:00pm - 1:00pm Central

Join **Jay D. Wilson, CFA, ASA, CBA**, on March 1, 2016, as he presents the webinar "Community Bank Stress Testing: What You Need to Know."

While there is no requirement for community banks to perform stress tests, recent regulatory commentary suggests that community banks should be developing and implementing some form of stress testing on at least an annual basis.

The benefits of **stress testing** include enhancing strategic decisions; improving risk management and capital planning; and enhancing the value of the bank. However, community bank stress testing can be a complex exercise for a bank to undertake by itself. There are a variety of potential stress testing methods and economic scenarios for the bank to consider when setting up their test. In addition, the qualitative, written support for the test and its results is often as important as the quantitative results themselves. Therefore, it is important that banks begin building their stress testing expertise sooner rather than later.

Whether you are considering performing the test in-house or with outside assistance, this webinar will be of interest to you. This complimentary 60-minute webinar will:

- » Cover the basics of community bank stress testing
- » Review the economic scenarios published by the Federal Reserve
- » Provide detail on the key steps to developing a sound community bank stress test
- » Discuss how to analyze and act upon the outputs of your stress tests

Register Today

1 hour of CPE Offered

MERCER CAPITAL ATTENDING & SPEAKING AT THE UPCOMING

Acquire or Be Acquired Conference

January 31 – February 2, 2016

Mercer Capital will be attending and speaking at the upcoming 22nd annual **Acquire or Be Acquired Conference** sponsored by **Bank Director** magazine.

The conference takes place January 31 – February 2, 2016 at the Arizona Biltmore hotel in Phoenix, Arizona.

The *Acquire or Be Acquired Conference* is the financial industry's premier bank M&A conference for bank CEOs, senior management and board members. It brings together key leaders from across the country to explore merger and acquisition strategies and financial growth opportunities.

Mercer Capital is, again, one of the sponsors of the event and members of our Financial Institutions Group, **Matt Crow**, **Andy Gibbs**, and **Brooks Hamner**, will be attending. Mercer Capital will also have a booth in the exhibit hall.

On Monday, February 1st, **Matt Crow** and **Brooks Hamner**, who work with clients in the asset management industry, will present:

Valuing a Trust & Wealth Management Franchise

For many banks, trust departments have ceased to simply be an added service and are expected to stand on their own. Trust franchises can add value to banks, but how much? This session will focus on what drives value in trust franchises, and how to build trust and wealth management operations to enhance the value of a bank.

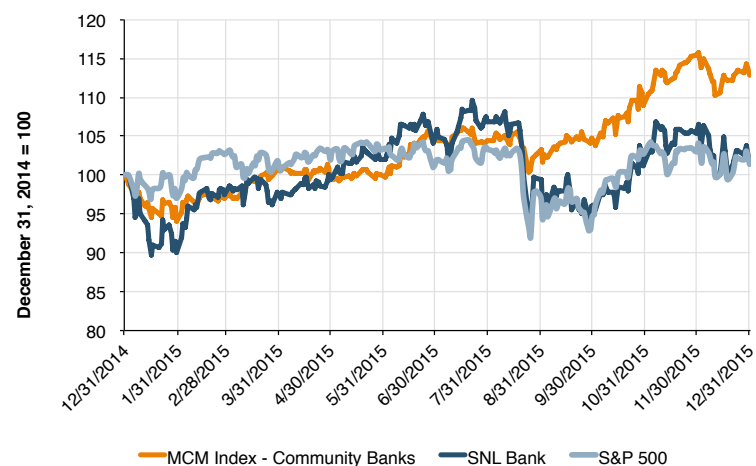
If you will be attending the conference, let us know. Contact any of our participating professionals. We would love to see you there!

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Andy Gibbs | gibbsa@mercercapital.com

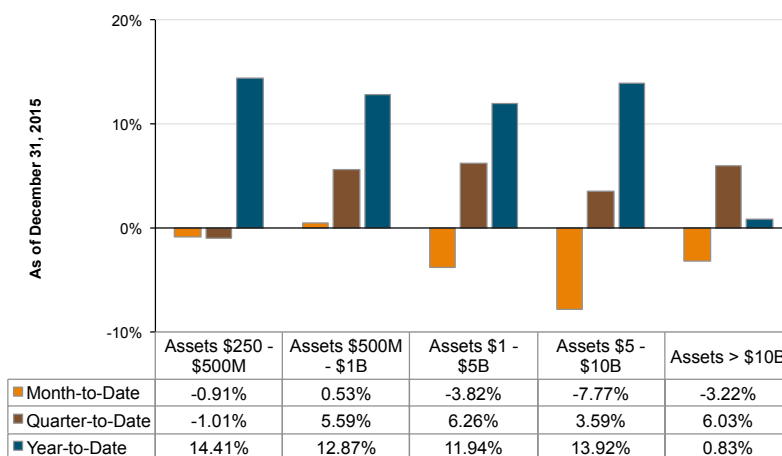
Brooks Hamner | hamnerb@mercercapital.com

Mercer Capital's Bank Group Index Overview



Return Stratification of U.S. Banks

by Asset Size

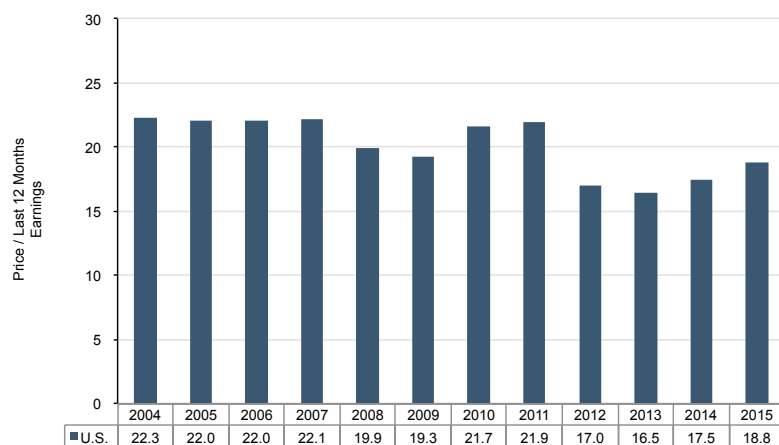


Median Valuation Multiples

Median Total Return				Median Valuation Multiples as of December 31, 2015					
Indices	Month-to-Date	Quarter-to-Date	Year-to-Date	Price / LTM EPS	Price / 2015 (E) EPS	Price / 2016 (E) EPS	Price / Book Value	Price / Tangible Book Value	Dividend Yield
Atlantic Coast Index	0.03%	11.95%	19.08%	16.83	17.55	15.30	110.3%	121.5%	2.0%
Midwest Index	-2.74%	7.41%	12.42%	15.34	14.81	12.74	120.0%	137.8%	2.1%
Northeast Index	-2.64%	6.34%	8.20%	14.37	15.16	13.36	121.1%	133.8%	3.0%
Southeast Index	-2.75%	5.83%	12.04%	13.80	15.30	14.94	116.7%	117.2%	2.1%
West Index	-2.85%	6.70%	15.76%	16.82	17.68	14.38	115.5%	124.5%	2.5%
Community Bank Index	-2.15%	7.79%	12.89%	15.45	15.63	14.15	116.7%	130.7%	2.3%
SNL Bank Index	-3.43%	5.94%	1.71%						

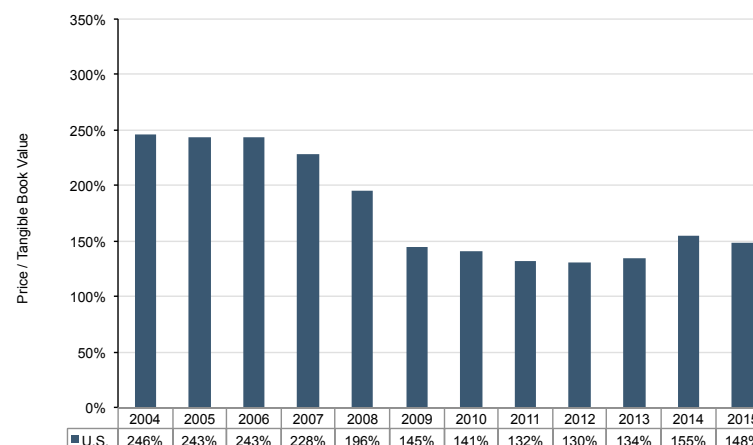
Median Price/Earnings Multiples

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



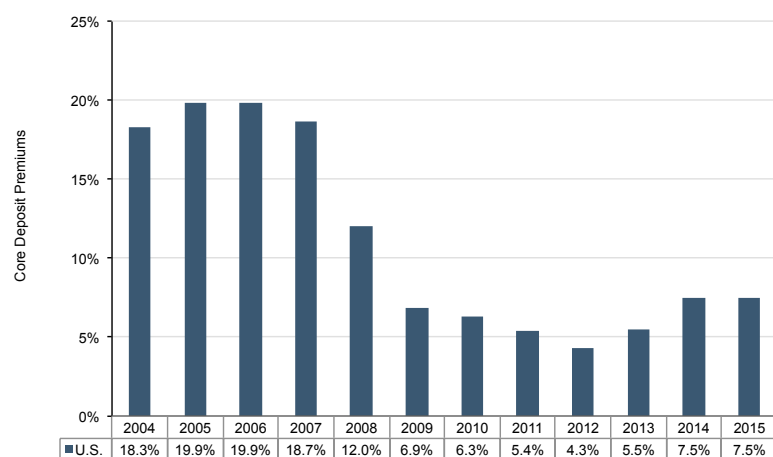
Median Price/Tangible Book Value Multiples

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

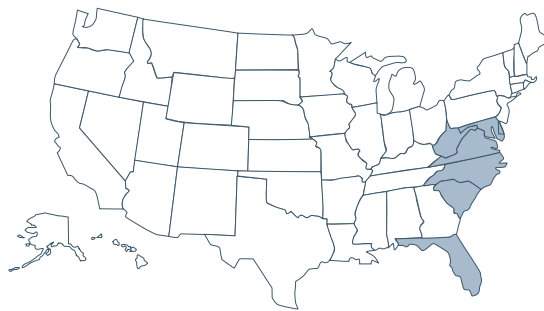
Target Banks' Assets <\$5B and LTM ROE >5%, 12 months ended December 2015

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	20.16	1.56	8.6%	22	96.06	512,613	7.49%
Midwest	18.60	1.52	7.5%	67	37.01	121,420	9.07%
Northeast	22.72	1.48	9.4%	8	55.29	443,643	6.90%
Southeast	17.11	1.41	7.1%	27	33.24	162,355	8.43%
West	16.05	1.48	6.9%	14	56.25	227,002	9.68%
National Community Banks	18.75	1.48	7.5%	138	48.00	201,665	8.68%

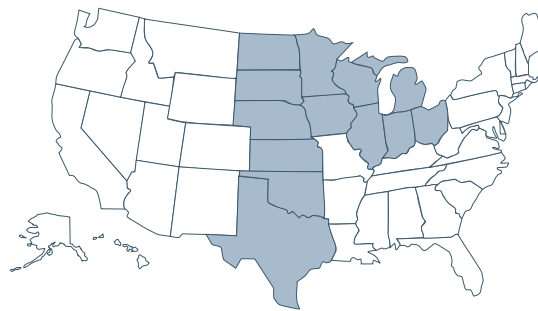
Source: Per SNL Financial

Mercer Capital's Regional Public Bank Peer Reports

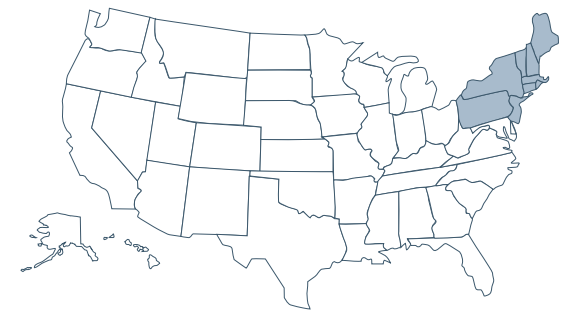
Updated weekly, Mercer Capital's Regional Public Bank Peer Reports offer a closer look at the market pricing and performance of publicly traded banks in the states of five U.S. regions. Click on the map to view the reports from the representative region.



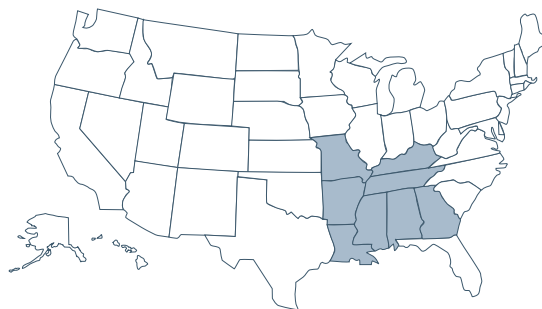
Atlantic Coast



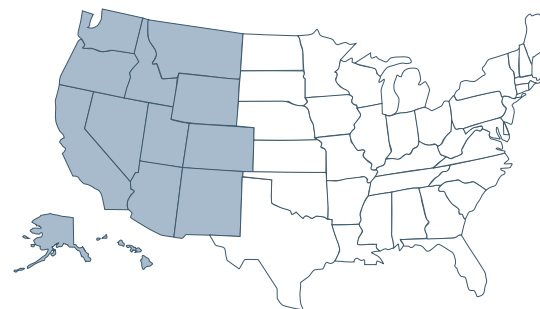
Midwest



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.

- | | |
|---------------------------------|----------------------------|
| » Bank valuation | » Loan portfolio valuation |
| » Financial reporting for banks | » Tax compliance |
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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*, *Acquiring a Failed Bank*, *The Bank Director's Valuation Handbook*, and *Valuing Financial Institutions*, Mercer Capital professionals speak at industry and educational conferences.

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

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