

Bank Watch

Atlantic Coast

Community Bank Stress Testing

by Jay D. Wilson, Jr., CFA, CBA

While community banks may be insulated from certain more onerous stress testing and capital expectations placed upon larger financial institutions, recent regulatory guidance suggests that community banks should be developing and implementing some form of stress testing and/or scenario analyses. The OCC's supervisory guidance in October 2012 stated "community banks, regardless of size, should have the capacity to analyze the potential impact of adverse outcomes on their financial conditions."¹ Further, the OCC's guidance considers "some form of stress testing or sensitivity analysis of loan portfolios on at least an annual basis to be a key part of sound risk management for community banks."² A stress test can be defined as "the evaluation of a bank's financial position under a severe but plausible scenario to assist in decision making with the bank."³

The hallmark of community banking has historically been the diversity across institutions and the guidance from the OCC suggests that community banks should keep this in mind when adopting appropriate stress testing methods by taking into account each bank's attributes, including the unique business strategy, size, products, sophistication, and overall risk profile. While not prescriptive in regards to the particular stress testing methods, the guidance suggests a wide range of effective methods depending on the Bank's complexity and portfolio risk. However, the guidance does note that stress testing can be applied at various levels of the organization including:

- » **Transaction Level Stress Testing:** This method is a "bottom up" analysis that looks at key loan relationships individually, assesses the potential impact of adverse economic conditions on those borrowers, and estimates loan losses for each loan.
- » **Portfolio Level Stress Testing:** This method involves the determination of the potential financial impact on earnings and capital following the identification of key portfolio concentration issues and assessment of the impact of adverse events or economic conditions on credit quality. This method can be applied either "bottom up," by assessing the results of individual transaction level stress tests and then aggregating the results, or "top down," by estimating stress loss rates under different adverse scenarios on pools of loans with common characteristics.

» **Enterprise-Wide Level Stress Testing:** This method attempts to take risk management out of the silo and consider the enterprise-wide impact of a stress scenario by analyzing "multiple types of risk and their interrelated effects on the overall financial impact."⁴ The risks might include credit risk, counter-party credit risk, interest rate risk, and liquidity risk. In its simplest form, enterprise-wide stress testing can entail aggregating the transaction and/or portfolio level stress testing results to consider related impacts across the firm from the stressed scenario previously considered.

Further, stress tests can be applied in "reverse" whereby a specific adverse outcome is assumed that is sufficient to breach the bank's capital ratios (often referred to as a "break the bank" scenario). Management then considers what types of events could lead to such outcomes. Once identified, management can then consider how likely those conditions are and what contingency plans or additional steps should be made to mitigate this risk.

Regardless of the stress testing method, determining the appropriate stress event to consider is an important element of the process. Little guidance was provided although the OCC's guidance did note that the scenarios should include a base case and a more adverse scenario based on macro and local economic data. Examples of adverse economic scenarios that might be considered include a severe recession, downturn in the local economy, loss of a major client, or economic weakness across a particular industry for which the bank has a concentration issue.

The simplest method described in the OCC guidance as a starting point for stress testing was the "top-down" portfolio level stress test. The "Hypothetical Stress Testing Example" that follows provides an illustrative example of a portfolio level stress test based largely on the guidance and the example provided from the OCC.

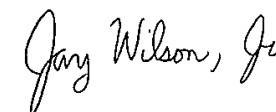
What Should We Do with the Stress Test Results?

The answer to this question will likely depend on the bank's specific situation. For example, let's assume that your bank is relatively strong in terms of capital, asset quality, and recent earnings performance and has taken a proactive approach to stress testing. A well-reasoned and documented stress test could serve to provide regulators, directors, and management with the knowledge to consider the bank's capital levels more than adequate and develop and approve the deployment of that excess capital through a shareholder buyback plan, elevated dividend, capital raise, merger, or strategic acquisition. Alternatively, let's consider the situation of a distressed bank, which is in a relatively weaker position and facing heightened regulatory

scrutiny in the form of elevated capital requirements. In this case, the stress test may be more reactive as regulators and directors are requesting a more robust stress test be performed. In this case, the results may provide key insight that leads to developing an action plan around filling the capital shortfall (if one is determined) or demonstrating to regulators and directors that the distressed bank's existing capital is adequate. The results of the stress test should enhance the bank's decision-making process and be incorporated into other areas of the bank's management of risk, asset/liability strategies, capital and strategic planning.

How Mercer Capital Can Help

Having successfully completed thousands of community bank engagements over the last 30 years, Mercer Capital has the experience to solve complex financial issues impacting community banks. Mercer Capital can help scale and improve your bank's stress testing by assisting your bank in a variety of ways, ranging from providing advice and support for assumptions within your Bank's pre-existing stress test to developing a unique, custom stress test that incorporates your bank's desired level of complexity and adequately captures the unique risks facing your bank. Regardless of the approach, the desired outcome is a stress test that can be utilized by managers, directors, and regulators to monitor capital adequacy, manage risk, enhance the bank's performance, and improve strategic decisions. Feel free to call Mercer Capital to discuss your bank's unique situation in confidence.



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Endnotes

- ¹ OCC 2012-33 "Supervisory Guidance" on Community Bank Stress Testing dated October 18, 2012 and accessed at www.occ.gov/news-issuances/bulletins/2012/bulletin-2012-33.html.
- ² *Ibid.*
- ³ "Stress Testing for Community Banks" presentation by Robert C. Aaron, Arnold & Porter LLP, November 11, 2011.
- ⁴ OCC 2012-33 "Supervisory Guidance" on Community Bank Stress Testing dated October 18, 2012 and accessed at www.occ.gov/news-issuances/bulletins/2012/bulletin-2012-33.html.

Hypothetical Stress Testing Example

The following provides an illustrative example of the primary steps to construct a “top-down” portfolio-level stress test.

Determine the Economic Scenarios to Consider

While this step will vary depending upon a variety of factors, one way to determine your bank's economic scenario could be to look to utilize the supervisory scenarios announced (in November 2012) by the Federal Reserve for the stress tests of the largest financial institutions in the U.S. While the more global economic conditions detailed in the supervisory scenarios may not be applicable to community banks, certain detail within the scenarios presented could be useful when determining the economic scenarios to model at your bank. Consider the following U.S. economic conditions included in the scenarios presented by the Federal Reserve:

- » **Supervisory Adverse Scenario.** Includes a moderate recession in the U.S. beginning in late 2012 and lasting until early 2014, including further weakening in housing (a decline of 6% in house prices during 2013), a decline in equity prices of approximately 25% in 2013, and the unemployment rate rising to above 9% in early 2013 and reaching 10% by mid-2015.
- » **Supervisory Severely Adverse Scenario.** Includes a substantial weakening in economic activity, including further weakening in housing (a decline of more than 20% in house prices by 2014), a decline in equity prices of more than 50%, and the unemployment rate reaching 12% by mid-2014.

Based upon these scenarios, one might then decide to consider applying the following two scenarios within your community bank's stress test:

- » **Community Bank Adverse Scenario.** Includes a moderate recession in the U.S. and moderately weak economic conditions within the local communities served by the bank, which will include a decline in collateral values (notably housing and CRE of roughly 5-10%) and a rise in the unemployment rate to over 9%; and,
- » **Community Bank Severely Adverse Scenario.** Includes a strong recession for both the U.S. and very weak economic conditions within the local communities served by the bank, which will include a decline in collateral values (notably housing and CRE of more than 20%) and the unemployment rate reaching 12.0%.

Segment the Loan Portfolio

This step entails segmenting the loan portfolio into smaller groups of loans with similar loss characteristics. One way cited in the OCC guidance is to segment the loans through Call Report categories in Schedule RC-C (such as construction and development, agricultural, commercial real estate, etc.). Additional segmentation may be needed beyond Call Report categories to address other key elements such as risk grade, collateral type, lien position, loan subtype, concentration risk and/or the vintage of the loan portfolio (i.e., loans primarily originated pre- or post-financial crisis). Other assets that could decline significantly in value, such as the investment portfolio and/or other real estate owned, may also need to be considered. Further, certain loans (or segments of loans) such as larger, higher risk grade loans may need to be segregated as they lend themselves to a more “bottom up” type of analysis (i.e., evaluated individually to determine their likely loss rate in a stress environment).

Estimate Loan Portfolio Stress Losses

Once the assets have been segmented appropriately, the next step involves estimating the potential loan losses over a two-year stress test horizon (or potentially longer) for the entire loan portfolio. In order to estimate the losses, the OCC guidance suggests using the bank's historical default and loss experience during prior recessions or financial stress periods as a starting point. Beyond that, the bank may also look to outside references for ranges of loss rates for community banks during stress periods and/or certain other peer average loss rates during financial stress periods.

Let's assume that the subject bank is headquartered in Chicago, has \$500 million in loans, and has experienced historical loss rates moderately in line with its peers (one comprised of banks located in the same geographic area and the other consisting of banks located throughout the U.S.). To estimate the appropriate loss rates during the stress periods, one might then consider annual charge-off rates as a percentage of average loans of the two peer groups for each loan portfolio segment (Construction & Development segment shown below).

Figure 1: NCOs/Average Loans for Peer Groups

C&D Loan Portfolio Segment	Net Charge-Offs / Average Loans					
	2012	2011	2010	2009	2008	2007
Chicago Banks, Assets from \$250MM to \$1BN at 12/09	4.14%	6.51%	5.41%	5.69%	1.56%	0.19%
U.S. Banks, Assets from \$250MM to \$5BN at 12/12	1.84%	3.43%	4.06%	4.24%	1.82%	0.33%

Source: SNL Financial, Mercer Capital Financial Institutions Group Research

- » **Severely Adverse Scenario.** To estimate stress period losses under the severely adverse scenarios, one might rely primarily on the peer group losses observed from 2009 through 2011. For perspective, the unemployment rate in the Chicago MSA was 11.8% in January of 2010 and above 10% from May 2009 through August 2010. The S&P Case Sheller Home Price Index for the Chicago MSA was 125.11 in January of 2010, down 25.8% since peaking in September of 2006.
- » **Adverse Scenario.** To estimate losses under the adverse scenario, one could focus on periods when economic conditions were still relatively weak but improved from the depth of the financial crisis and consider the charge-off levels observed in 2008 and 2012. A similar process could then be repeated for other loan portfolio segments to derive the appropriate two-year stressed loss rates.

The following table details a hypothetical example of estimating loan portfolio stress period losses (loss rates shown for the C&D portfolio are based on Figure 1 while loss rates for the other segments are for illustrative purposes only).

Figure 2: Estimating Stress Period Losses

Loan Portfolio Segment	Adverse Case			Severely Adverse Case		
	Actual Balances (\$M)	Two-Year Stress Period Loss Rate (%)	Two-Year Stress Period Losses (\$M)	Actual Balances (\$M)	Two-Year Stress Period Loss Rate (%)	Two-Year Stress Period Losses (\$M)
Construction and Development	50.0	5.0%	2.5	50.0	10.0%	5.0
Agricultural (Production & Farmland)	50.0	1.0%	0.5	50.0	2.0%	1.0
1-4 Family Residential	150.0	1.0%	1.5	150.0	2.0%	3.0
HELOC (2nd Lien)	50.0	10.0%	5.0	50.0	20.0%	10.0
Commercial Real Estate	100.0	2.0%	2.0	100.0	4.0%	4.0
Commercial and Industrial	50.0	1.0%	0.5	50.0	3.0%	1.5
Consumer & Other Loans	50.0	2.0%	1.0	50.0	4.0%	2.0
Total	500.0		13.0	500.0		26.5

Source: Mercer Capital Financial Institutions Group Research

Estimate the Impact of Stress on Earnings

Now that the loan portfolio losses have been determined, the next step entails estimating the potential impact on net income from the scenario(s) analyzed previously. Estimating pre-provision, pre-tax income in the different scenarios can be tricky as the impact of higher non-performing assets on revenue (i.e., nonaccrual loans) and expenses (i.e., collection costs) should be considered. Further, the impact on liquidity (i.e., funding costs) and interest rate risk (i.e., net interest margin) should also be considered.

Once pre-provision, pre-tax income has been determined the next step entails estimating the appropriate provision over the stressed period. The provision can be broken into two components: the provision necessary to cover losses estimated in Figure 2 and the portion of provision necessary to maintain an adequate allowance for loan losses (ALLL) at the end of the two-year period. When determining the portion of provision necessary to maintain an adequate ALLL at the end of the stress period, management should consider that stressed environments may increase the need for a higher ALLL. Finally, the income tax expense/benefit arising from the estimate of pre-tax income should be applied.

The following table details an example of this step.

Figure 3: Impact of Losses on Pro Forma Earnings

	Previous Two Years Actual (\$M)	Pro Forma Adverse (\$M)	Pro Forma Severely Adverse (\$M)
Pre-Provision, Pre-Tax Income	34.5	30.0	27.0
Less: Provision to Cover Two Year Losses	(12.0)	(13.0)	(26.5)
Less: Provision to Maintain Adequate ALLL	0.0	(10.0)	(11.0)
Pre-Tax Income	22.5	7.0	(10.5)
Income Tax (Expense) / Benefit	(7.9)	(2.5)	3.7
Net Income	14.6	4.5	(6.8)

Source: Mercer Capital Financial Institutions Group Research

Other key considerations here might include: How will loan migrations in the different scenarios impact pre-provision net income? How might the economic scenarios forecast impact pre-provision net income? How will the elevated level of losses over the stress periods impact the provision necessary to maintain an adequate ALLL? How will the losses impact the bank's tax expense/benefit?

Estimate the Impact of Stress on Capital

This step entails estimating the bank's capital ratios at the end of the stressed period. To accomplish this, the estimated changes in equity, Tier 1 capital, average assets, and risk-weighted assets during the stressed period should be considered.

The following table details an example of this step.

Figure 4: Impact of Losses on Pro Forma Capital

	Actual (\$M)	Pro Forma Adverse (\$M)	Pro Forma Severely Adverse (\$M)
Tier 1 Capital	50.00	50.00	50.00
Net Change in Tier 1 From Stress Period	N/A	4.55	-6.83
Adjusted Tier 1 Capital	50.00	54.55	43.17
Quarterly Average Assets	625.00	625.00	625.00
Tier 1 Leverage Ratio (%)	8.0%	8.7%	6.9%

Source: Mercer Capital Financial Institutions Group Research

Other key considerations here might include: What are the potential impacts on capital and risk-weighted assets from Basel III? What is the projected balance sheet growth/contraction over the stressed period?

What We're Reading

A cash-efficient benefit strategy was discussed in this article entitled "Stock Bonus Plans for Community Banks":

<http://www.bankdirector.com/index.php/committees/compensation/stock-bonus-plans-for-community-banks/>

The Dallas Fed published a report examining the importance of community banks to U.S. financial stability and the perils of "Too Big to Fail":

<http://www.dallasfed.org/microsites/fed/annual/2012/indexw.cfm>

The FDIC published a community banking study:

<http://www.fdic.gov/regulations/resources/cbi/study.html>

Mercer Capital's own Jeff Davis weighs in on FASB's forward-looking reserve methodology called Current Expected Credit Losses Model, or CECL (*subscription required*):

<http://www.snl.com/InteractiveX/article.aspx?Id=16785179&KPLT=2>

The current state of bank M&A activity as well as the results of a recent survey from *Bank Director* and Crowe Horwath were discussed:

<http://www.bankdirector.com/index.php/board-issues/manda/bank-manda-expectations-in-2013/>

Mercer Capital's 2013 Webinar Series

Learn more and register at
<http://mer.cr/bank-webinar>

The Financial Institutions Group of Mercer Capital works with hundreds of depository institutions annually providing a broad range of specialized advisory services to the financial services industry.

Join us in 2013 for a complimentary series of short, topical, and targeted webinars on issues important to your institution in today's current banking environment.

Webinar Schedule

The Outlook for M&A in 2013

Our expectations for bank M&A in 2013, which follows a modest pick-up in activity in 2012 vis-à-vis 2011, are presented. Investors are anxious for M&A to increase given the earnings outlook, but seller expectations and regulatory actions are acting as a governor—at least for now.

View a replay of this webinar at www.mercercapital.com

How to Profit on a Distressed Transaction

Buyers have been leery of acquiring troubled banks in non-assisted deals. With a slowly recovering economy, we take a look at the opportunities and pitfalls or making an acquisition of a “turnaround” bank.

Tuesday, March 12, 2013 » 12:00 – 12:30pm Central

Understand the Deal Considerations That Impact You

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.

*Thursday, February 28, 2013 » 12:00 – 12:30pm Central
Registration now open at www.mercercapital.com*

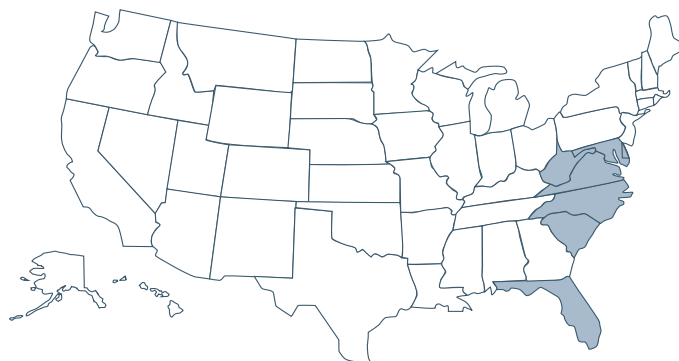
Are You a Potential Buyer?

The #1 factor that a buyer controls in determining the return is the price paid. Deals occurring later in a credit cycle tend to entail a higher price and worse outcome for the buyer. We review price and other issues from the buyer's perspective that we think matter in ensuring a successful merger.

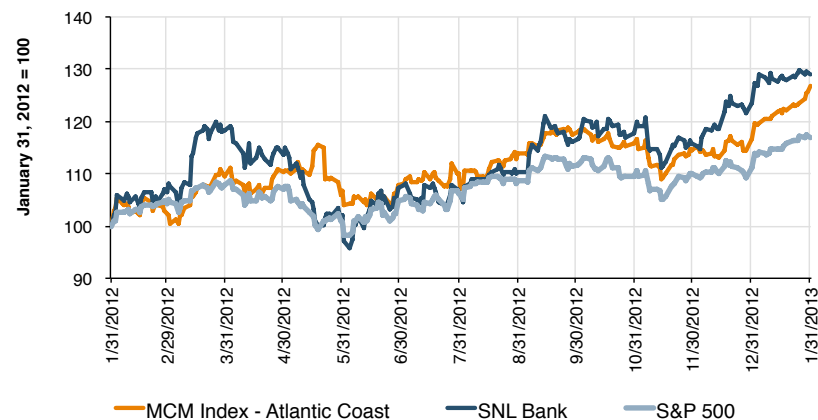
Thursday, March 28, 2013 » 12:00 – 12:30pm Central

About the Speaker

Jeff K. Davis, Managing Director of Mercer Capital's Financial Institutions Group, will be the featured speaker for each listed webinar. Jeff spent 13 years as a sell-side analyst providing coverage of publicly traded banks and specialty finance companies to institutional investors evaluating common equity and fixed income investment opportunities. Presently, he is an editorial contributor to SNL Financial.



Community Bank Group Index Overview



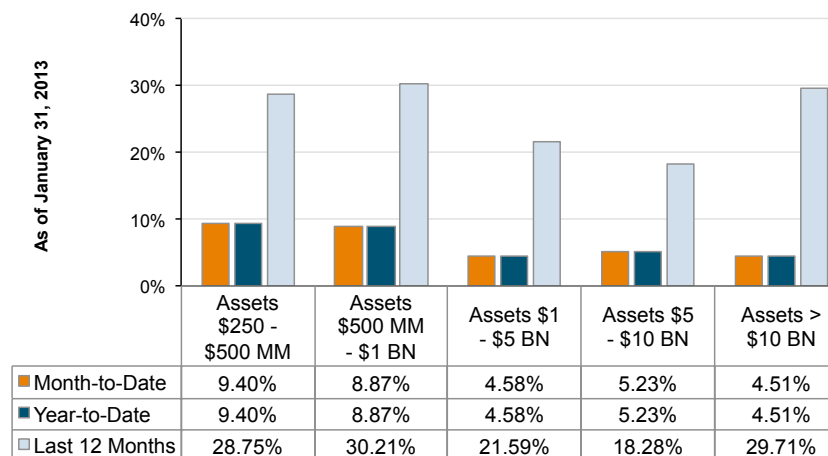
Median Valuation Multiples

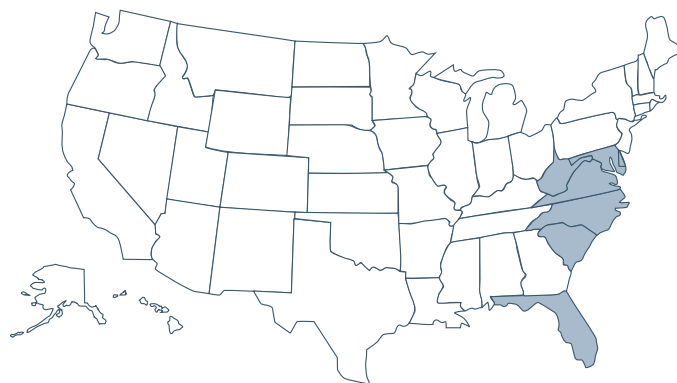
as of January 31, 2013

	Atlantic Coast Community Bank Index	National Community Bank Index
Price / LTM EPS	14.13	12.22
Price / 2013 (E) EPS	13.65	12.80
Price / 2014 (E) EPS	13.08	12.26
Price / Book Value	94.04%	98.64%
Price / Tangible Book Value	102.45%	106.10%
Dividend Yield	2.20%	2.71%

Return Stratification of U.S. Banks

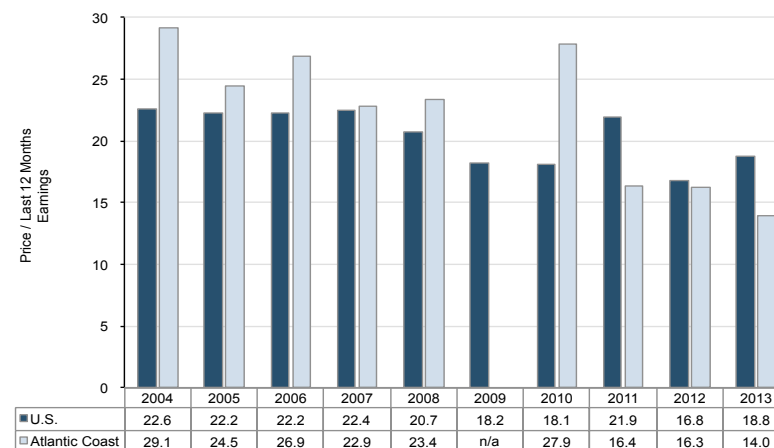
by Asset Size





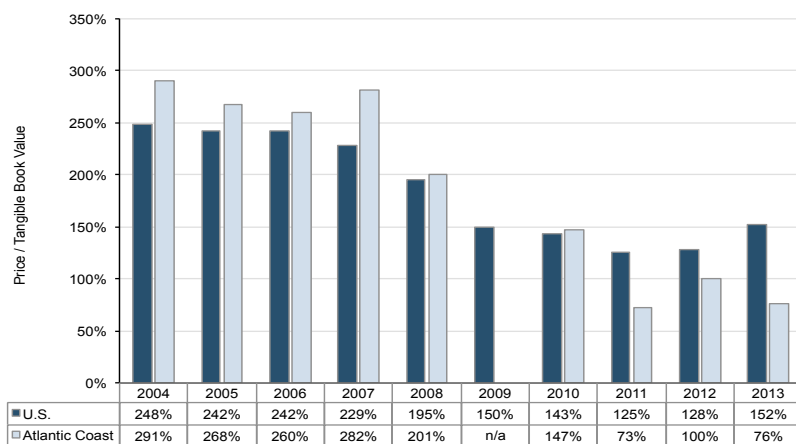
Median Price/Earnings Multiples

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



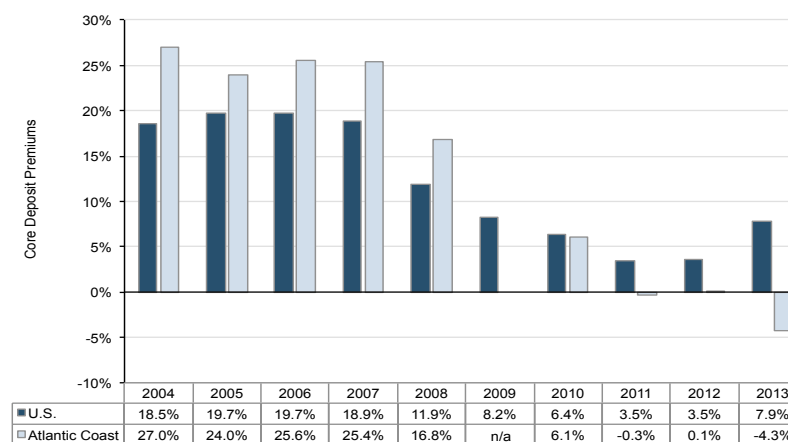
Median Price/Tangible Book Value Multiples

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



Median Core Deposit Multiples

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



Mercer Capital's Atlantic Coast Public Bank Peer Report

February 13, 2013

Price / Earnings																						
52 Wk Perf (%)	52 Wk High (\$)	52 Wk Low (\$)	Company Name	Ticker	State	Current Price (\$)	Market Cap (\$M)	LTM (x)	Core LTM (x)	FY 13	FY 14	Price/BVPS(x)	Price/Tang. BVPS (x)	Div. Yield(%)	Tang. Eq./Assets (%)	Eff. Ratio (%)	LTM ROE (%)	LTM ROA (%)	NPAs/Loans + OREO (%)	NCOs/Avg. Loans(%)	Loan Loss Res./Loans (%)	Assets (\$M)
51.88	12.79	7.95	Bancorp, Inc.	TBBK	DE	\$12.53	\$468	25.06	24.54	16.75	12.25	1.03	1.41	nm	8.93	63.93	5.86	0.44	NA	1.04	1.73	3,699,659.00
51.88			Median - Delaware					25.06	24.54	16.75	12.25	1.03	1.41	...	8.93	63.93	5.86	0.44	...	1.04	1.73	\$3,699,659
6.80	\$6.83	\$5.30	1st United Bancorp, Inc.	FUBC	FL	\$6.16	\$210	44.00	39.66	24.82	20.69	0.89	1.20	nm	11.64	80.97	2.03	0.31	7.11	1.67	1.07	\$1,566,779
23.14	\$27.63	\$22.01	BankUnited, Inc.	BKU	FL	\$27.51	\$2,614	13.42	14.31	15.76	16.22	1.45	1.50	3.05%	14.11	43.63	12.45	1.71	NA	0.09	1.06	\$12,375,953
NA	\$18.62	\$15.14	Capital Bank Financial Corporation	CBF	FL	\$17.41	\$575	15.83	17.62	19.31	12.36	0.84	nm	nm	NA	72.52	5.31	0.84	NA	0.05	1.17	\$7,295,713
29.55	\$12.23	\$6.35	Capital City Bank Group, Inc.	CCBG	FL	\$11.53	\$199	NM	NM	45.88	36.19	0.80	1.23	0.00%	6.35	88.59	0.04	0.00	10.49	1.16	1.92	\$2,633,984
19.64	\$9.22	\$6.54	CenterState Banks, Inc.	CSFL	FL	\$8.70	\$262	26.36	24.42	20.24	16.56	0.96	1.18	0.46%	9.58	74.77	3.68	0.40	3.67	0.93	1.85	\$2,363,240
(24.27)	\$3.60	\$0.75	Jacksonville Bancorp, Inc.	JAXB	FL	\$2.34	\$14	NM	NM	NM	NM	1.58	1.88	nm	1.33	81.51	(142.72)	(8.29)	9.77	4.43	4.14	\$551,551
(29.87)	\$5.43	\$0.40	OptimumBank Holdings, Inc.	OPHC	FL	\$0.51	\$16	NM	NA	NM	NM	nm	nm	nm	NA	NA	NA	NA	NA	NA	NA	NA
17.44	\$2.05	\$1.32	Seacoast Banking Corporation of Florida	SBCF	FL	\$2.02	\$192	NM	NM	39.22	24.51	1.64	1.66	0.00%	5.31	91.05	(0.43)	(0.03)	NA	1.16	1.75	\$2,173,929
17.44			Median - Florida					21.10	21.02	22.53	18.62	0.96	1.37	0.23%	7.96	80.97	2.03	0.31	8.44	1.16	1.75	\$2,363,240
220.48	\$13.62	\$4.10	Annapolis Bancorp, Inc.	ANNB	MD	\$13.46	\$54	19.79	17.58	NM	NM	1.68	1.68	0.00%	7.20	65.64	8.54	0.70	NA	0.53	2.25	\$446,386
16.63	\$15.75	\$12.25	BCSB Bancorp, Inc.	BCSB	MD	\$15.50	\$49	25.41	NA	NM	NM	0.89	0.89	0.00%	8.63	77.82	3.67	0.31	NA	0.28	1.64	\$644,013
63.99	\$5.94	\$3.35	Carrollton Bancorp	CRRB	MD	\$5.51	\$14	NM	NA	NM	NM	0.61	0.61	0.00%	6.42	84.35	(0.32)	(0.03)	NA	0.41	1.57	\$365,415
37.61	\$23.00	\$14.80	Eagle Bancorp, Inc.	EGBN	MD	\$22.50	\$516	13.98	13.93	12.70	11.94	1.76	1.78	0.00%	8.51	51.24	11.68	1.18	NA	0.34	1.38	\$3,409,441
129.35	\$8.87	\$3.74	First United Corporation	FUNC	MD	\$8.40	\$52	49.41	NM	nm	NM	0.76	0.90	0.00%	4.27	73.90	2.80	0.20	7.58	1.77	1.84	\$1,359,397
28.29	\$12.25	\$9.30	Glen Burnie Bancorp	GLBZ	MD	\$11.75	\$32	11.41	11.90	NM	NM	0.96	0.96	3.40%	8.78	74.56	8.83	0.76	2.22	0.07	1.54	\$379,292
38.18	\$9.55	\$4.51	Howard Bancorp, Inc.	HBMD	MD	\$6.84	\$28	22.06	22.06	nm	NM	0.81	0.81	nm	8.50	74.67	3.92	0.45	NA	0.48	0.85	\$401,675
45.55	\$12.99	\$7.90	Old Line Bancshares, Inc.	OLBK	MD	\$12.09	\$83	11.09	NA	10.00	8.85	1.11	1.17	1.32%	8.23	65.14	10.83	0.89	NA	0.23	0.66	\$861,856
8.94	\$20.37	\$16.66	Sandy Spring Bancorp, Inc.	SASR	MD	\$19.56	\$487	13.22	12.33	13.13	13.05	1.01	1.23	2.86%	10.23	60.42	7.85	0.97	2.48	0.42	1.67	\$3,955,206
4.66	\$7.45	\$4.65	Shore Bancshares, Inc.	SHBI	MD	\$6.07	\$51	NM	NM	NM	21.68	0.45	0.53	0.00%	8.36	75.16	(8.07)	(0.82)	12.23	3.20	2.04	\$1,185,807
37.90			Median - Maryland					16.88	13.93	12.70	12.49	0.93	0.93	0.00%	8.43	74.23	5.88	0.58	5.03	0.42	1.61	\$752,935
48.23	\$12.42	\$6.72	Bank of America Corporation	BAC	NC	\$12.17	\$131,171	48.68	39.39	12.31	9.52	0.60	nm	0.33%	NA	84.37	1.78	0.19	NA	1.63	2.61	\$2,209,974,000
6.37	\$34.37	\$26.86	BB&T Corporation	BBT	NC	\$30.52	\$21,356	11.30	10.88	10.33	9.65	1.12	1.85	3.01%	6.56	54.73	10.41	1.14	2.58	1.15	1.70	\$183,872,000
15.09	\$9.00	\$6.72	BNC Bancorp	BNCN	NC	\$8.63	\$177	17.98	120.49	12.77	9.12	0.91	1.05	2.32%	6.63	74.29	4.91	0.41	4.48	1.99	1.93	\$3,083,788
145.68	\$10.11	\$4.00	Carolina Bank Holdings, Inc.	CLBH	NC	\$9.95	\$34	5.38	5.40	nm	NM	0.88	0.88	nm	5.53	63.77	15.04	1.12	NA	0.77	1.68	\$691,868
22.22	\$3.00	\$1.92	Carolina Trust Bank	CART	NC	\$2.75	\$13	NM	NM	NM	NM	0.61	0.62	nm	7.58	77.08	0.82	0.08	7.82	0.92	2.16	\$271,051
27.83	\$6.28	\$3.28	Crescent Financial Bancshares, Inc.	CRFN	NC	\$4.41	\$158	67.95	45.62	22.55	30.07	1.06	1.31	nm	11.42	82.86	2.52	0.42	NA	NA	0.51	\$1,085,225
48.50	\$16.65	\$8.00	ECB Bancorp, Inc.	ECBE	NC	\$14.82	\$43	NA	NA	nm	nm	nm	nm	0.00%	NA	NA	NA	NA	NA	NA	NA	NA
23.76	\$13.78	\$7.68	First Bancorp	FBNC	NC	\$13.39	\$263	NM	NM	14.88	13.10	0.92	1.22	2.39%	6.81	57.81	(6.77)	(0.71)	4.91	3.03	1.92	\$3,244,910
(0.80)	\$187.72	\$155.00	First Citizens BancShares, Inc.	FCNCA	NC	\$178.66	\$1,820	12.83	12.61	NM	NM	0.93	0.98	0.67%	8.86	62.54	7.54	0.68	2.08	0.44	2.06	\$21,173,620
71.24	\$6.65	\$3.52	First South Bancorp, Inc.	FSBK	NC	\$6.49	\$63	25.96	51.70	nm	NM	0.72	0.75	0.00%	11.76	67.13	2.77	0.32	12.72	2.04	3.05	\$717,162
(25.44)	\$29.60	\$10.50	FNB United Corp.	FNBN	NC	\$10.99	\$237	NM	NM	nm	NM	2.22	2.49	0.00%	4.28	108.44	(72.73)	(2.86)	12.91	2.52	2.49	\$2,238,065
195.05	\$6.65	\$2.30	New Century Bancorp, Inc.	NCBC	NC	\$6.55	\$45	9.92	10.39	NM	NM	0.84	0.85	nm	9.24	71.70	8.73	0.77	5.52	(0.10)	2.22	\$577,833
49.63	\$6.48	\$3.74	NewBridge Bancorp	NBBC	NC	\$6.09	\$95	NM	NM	9.86	11.43	1.09	1.13	0.00%	4.96	67.05	(15.18)	(1.46)	2.39	3.24	2.29	\$1,708,707
34.92	\$5.75	\$2.56	Oak Ridge Financial Services, Inc.	BKOR	NC	\$4.25	\$8	NM	NM	NM	NM	0.38	0.38	nm	5.91	78.35	(2.13)	(0.17)	NA	1.80	1.70	\$342,943
22.18	\$6.06	\$3.89	Park Sterling Corporation	PSTB	NC	\$5.84	\$260	48.67	27.74	16.63	15.41	1.02	1.17	nm	11.11	72.15	2.12	0.35	2.83	0.18	0.77	\$2,032,633
58.96	\$10.60	\$6.70	Peoples Bancorp of North Carolina, Inc.	PEBK	NC	\$10.50	\$59	12.21	14.63	nm	NM	0.69	0.69	0.76%	8.41	74.14	5.58	0.56	NA	1.10	2.30	\$1,013,516
63.89	\$3.74	\$2.01	Yadkin Valley Financial Corporation	YAVY	NC	\$3.54	\$146	NM	NM	15.97	10.88	nm	nm	0.00%	NA	69.60	(5.52)	(0.44)	3.66	3.43	1.88	\$1,923,438
34.92			Median - North Carolina					15.40	21.19	13.83	11.15	0.91	1.02	0.33%	7.20	71.92	2.32	0.33	4.48	1.63	1.99	\$1,816,073

Mercer Capital's Atlantic Coast Public Bank Peer Report

February 13, 2013

Price / Earnings																						
52 Wk Perf (%)	52 Wk High (\$)	52 Wk Low (\$)	Company Name	Ticker	State	Current Price (\$)	Market Cap (\$M)	LTM (x)	Core LTM (x)	FY 13	FY 14	Price/BVPS(x)	Price/Tang. BVPS (x)	Div. Yield(%)	Tang. Eq./Assets (%)	Eff. Ratio (%)	LTM ROE (%)	LTM ROA (%)	NPAs/Loans + OREO (%)	NCOs/Avg. Loans(%)	Loan Loss Res./Loans (%)	Assets (\$M)
15.54	\$12.50	\$10.34	Bank of South Carolina Corporation	BKSC	SC	\$11.70	\$52	14.27	NA	NM	NM	1.53	1.53	4.10%	10.43	NA	10.97	1.14	NA	NA	NA	\$325,289
30.59	\$9.25	\$7.20	First Community Corporation	FCCO	SC	\$9.21	\$48	11.66	10.32	NM	NM	nm	nm	2.17%	NA	73.13	7.57	0.66	2.81	0.17	1.35	\$602,925
73.64	\$16.74	\$8.49	First Financial Holdings, Inc.	FFCH	SC	\$16.57	\$274	10.97	13.53	14.15	14.58	1.17	1.21	1.21%	7.07	67.14	10.08	0.89	1.94	1.14	1.73	\$3,215,558
71.48	\$9.86	\$4.94	Palmetto Bancshares, Inc.	PLMT	SC	\$9.86	\$126	NM	NM	NM	NM	1.28	1.28	0.00%	8.59	76.23	(1.88)	(0.16)	NA	2.76	2.39	\$1,145,456
32.00	\$43.40	\$29.26	SCBT Financial Corporation	SCBT	SC	\$42.90	\$727	21.13	16.72	13.30	12.60	1.43	1.90	1.68%	7.62	67.37	7.15	0.70	NA	0.72	2.06	\$5,136,446
266.47	\$6.85	\$1.17	Southcoast Financial Corporation	SOCB	SC	\$4.78	\$29	8.39	NA	NM	NM	0.86	0.86	nm	7.82	73.31	10.78	0.81	NA	1.09	2.48	\$438,220
63.61	\$10.04	\$6.05	Southern First Bancshares, Inc.	SFST	SC	\$10.04	\$43	15.94	NA	NM	NM	0.89	0.89	nm	5.99	62.42	6.03	0.50	NA	0.71	1.41	\$797,998
63.61			Median - South Carolina					12.96	13.53	13.73	13.59	1.22	1.24	1.68%	7.72	70.25	7.57	0.70	2.37	0.91	1.90	\$797,998
68.63	\$16.05	\$9.95	Access National Corporation	ANCK	VA	\$15.73	\$162	9.20	9.20	11.01	12.11	1.78	1.78	2.29%	10.56	65.32	19.68	2.15	NA	0.11	1.72	\$863,914
0.34	\$24.00	\$18.50	American National Bankshares Inc.	AMNB	VA	\$20.04	\$157	9.82	9.26	12.82	14.11	0.96	1.32	4.59%	9.64	54.14	10.08	1.23	NA	0.07	1.51	\$1,283,687
60.00	\$8.37	\$4.75	Bank of the James Financial Group, Inc.	BOTJ	VA	\$8.00	\$27	12.50	NA	NM	NM	0.91	0.91	nm	6.71	74.35	7.76	0.50	2.75	0.73	1.70	\$441,381
15.49	\$6.00	\$2.39	Bank of Virginia	BOVA	VA	\$4.10	\$13	NM	NM	NM	NM	0.83	0.83	nm	8.98	141.01	(5.38)	(0.42)	9.71	1.70	3.71	\$170,085
48.42	\$43.42	\$28.00	C&F Financial Corporation	CFFI	VA	\$40.66	\$133	8.37	NA	NM	NM	1.30	1.45	2.85%	9.47	62.18	16.88	1.74	3.32	1.39	4.79	\$977,018
13.98	\$62.92	\$47.49	Capital One Financial Corporation	COF	VA	\$55.07	\$32,062	8.94	NA	8.59	8.12	0.81	nm	0.36%	NA	54.23	9.43	1.23	NA	1.89	2.50	\$312,918,000
46.13	\$16.90	\$10.28	Cardinal Financial Corporation	CFNL	VA	\$16.58	\$501	10.98	10.96	11.36	12.26	1.63	1.68	1.21%	9.83	50.43	16.02	1.70	NA	0.27	1.06	\$3,039,187
153.79	\$3.42	\$1.29	Community Bankers Trust Corporation	BTC	VA	\$3.35	\$73	15.95	14.35	NM	NM	0.74	0.83	0.00%	7.66	76.41	4.85	0.50	NA	0.61	2.03	\$1,153,288
105.57	\$6.45	\$2.95	Eastern Virginia Bankshares, Inc.	EVBS	VA	\$6.27	\$38	23.22	NM	nm	10.60	0.51	0.65	0.00%	5.59	81.16	3.21	0.29	3.37	1.65	3.14	\$1,057,770
4.37	\$13.45	\$9.01	Fauquier Bankshares, Inc.	FBSS	VA	\$12.11	\$45	16.59	17.28	nm	nm	0.92	0.92	3.96%	8.04	68.94	5.59	0.46	4.28	1.16	1.47	\$602,032
16.98	\$3.30	\$1.91	First Capital Bancorp, Inc.	FCVA	VA	\$3.10	\$37	NM	NM	14.77	NM	0.89	0.89	nm	7.67	100.98	(13.02)	(1.13)	NA	2.97	1.88	\$542,947
25.69	\$16.35	\$11.66	First Community Bankshares, Inc.	FCBC	VA	\$15.28	\$306	10.91	10.00	10.44	10.99	0.90	1.34	3.14%	8.72	55.04	8.53	1.14	2.25	0.41	1.49	\$2,731,097
(59.87)	\$3.65	\$1.01	Hampton Roads Bankshares, Inc.	HMPR	VA	\$1.22	\$208	NM	NA	NM	nm	nm	nm	0.00%	NA	84.44	(15.41)	(1.03)	NA	2.89	3.38	\$2,054,092
24.52	\$19.00	\$15.08	Middleburg Financial Corporation	MBRG	VA	\$18.62	\$131	20.24	27.32	20.33	20.10	1.15	1.22	1.07%	8.77	75.04	7.22	0.66	4.71	0.50	1.81	\$1,236,781
30.94	\$9.94	\$6.88	Monarch Financial Holdings, Inc.	MNRK	VA	\$9.14	\$78	7.31	7.83	8.75	7.28	1.04	1.05	2.19%	6.11	79.86	17.04	1.35	NA	0.42	1.01	\$1,215,578
23.07	\$37.14	\$25.91	National Bankshares, Inc.	NKSH	VA	\$33.81	\$235	13.10	12.63	13.67	13.73	1.56	1.67	3.37%	13.14	40.02	12.35	1.68	1.70	0.64	1.39	\$1,080,972
17.25	\$12.65	\$10.04	Old Point Financial Corporation	OPOF	VA	\$12.05	\$60	14.35	25.29	NM	NM	0.67	0.67	1.66%	9.84	84.66	4.76	0.48	NA	0.75	1.55	\$907,499
63.41	\$10.07	\$6.31	Southern National Bancorp of Virginia, Inc.	SONA	VA	\$9.95	\$115	17.46	21.72	17.21	NM	1.12	1.24	2.01%	13.03	51.54	6.42	0.97	NA	1.36	1.33	\$722,103
19.36	\$15.39	\$10.83	StellarOne Corporation	STEL	VA	\$15.02	\$344	15.65	15.19	14.58	14.04	0.80	1.10	2.13%	10.80	69.40	5.23	0.75	3.02	0.40	1.41	\$3,023,204
13.26	\$16.16	\$11.75	TowneBank	TOWN	VA	\$15.05	\$474	14.61	15.31	NM	nm	1.13	1.58	2.39%	6.99	70.06	7.26	0.94	NA	0.51	1.29	\$4,405,923
27.50	\$18.22	\$13.00	Union First Market Bankshares Corporation	UBSH	VA	\$17.80	\$450	12.99	11.75	12.79	12.41	1.03	1.25	2.92%	8.97	63.48	8.13	0.89	3.77	0.56	1.11	\$4,095,865
31.57	\$11.67	\$6.51	Valley Financial Corporation	VYFC	VA	\$9.35	\$45	8.20	9.54	10.03	9.22	0.89	0.89	1.50%	6.54	62.94	10.15	0.83	5.71	0.38	1.49	\$764,584
12.47	\$2.75	\$0.61	Village Bank and Trust Financial Corp.	VBFC	VA	\$1.80	\$8	NM	NM	NM	NM	0.73	0.76	nm	1.97	78.23	(32.33)	(1.95)	NA	3.49	2.85	\$510,087
42.72	\$13.55	\$7.46	Virginia Commerce Bancorp, Inc.	VCBI	VA	\$13.53	\$434	20.19	25.72	15.75	14.39	1.76	1.76	nm	8.69	50.84	10.11	1.01	4.23	0.96	1.94	\$2,823,692
21.03	\$14.00	\$9.75	WashingtonFirst Bankshares, Inc.	WFBI	VA	\$11.80	\$72	18.70	NA	NM	NM	0.92	1.01	nm	5.76	64.74	3.80	0.38	2.05	0.45	1.33	\$596,104
63.89	\$6.15	\$3.50	Xenith Bankshares, Inc.	XBKS	VA	\$5.90	\$62	8.81	8.77	24.89	21.67	0.78	0.98	nm	11.57	79.71	8.95	1.46	1.53	0.27	1.12	\$558,011
25.10			Median - Virginia					13.05	12.63	12.82	12.34	0.92	1.07	2.13%	8.74	69.17	7.51	0.86	3.34	0.62	1.53	\$1,069,371
11.39	\$38.60	\$30.70	City Holding Company	CHCO	WV	\$38.53	\$601	14.76	13.78	12.82	12.40	1.71	2.13	3.63%	9.40	52.91	11.98	1.37	NA	0.34	0.88	\$2,917,466
9.74	\$17.28	\$13.76	First West Virginia Bancorp, Inc.	FWV	WV	\$15.83	\$27	12.11	13.84	nm	nm	0.76	0.79	4.62%	11.46	69.64	7.03	0.77	3.76	0.01	2.49	\$301,012
95.94	\$11.70	\$5.59	Premier Financial Bancorp, Inc.	PFBI	WV	\$11.51	\$91	9.59	10.25	nm	NM	0.70	0.94	3.82%	8.88	61.17	6.81	0.88	8.49	0.75	1.55	\$1,133,700
104.28	\$7.40	\$3.50	Summit Financial Group, Inc.	SMMF	WV	\$7.15	\$53	11.92	14.96	NM	NM	0.54	0.58	0.00%	6.59	54.54	5.36	0.40	NA	0.85	1.88	\$1,387,104
(5.52)	\$30.91	\$22.54	United Bankshares, Inc.	UBSI	WV	\$26.12	\$1,313	15.93	14.42	14.52	13.77	1.32	2.17	4.75%	7.55	53.10	8.35	0.98	2.16	0.28	1.13	\$8,420,013
19.90	\$23.47	\$18.60	WesBanco, Inc.	WSBC	WV	\$23.19	\$677	12.60	12.04	11.64	11.20	0.95	1.74	3.10%	6.77	60.70	7.54	0.88	2.02	0.67	1.42	\$6,078,717
15.65			Median - West Virginia					12.35	13.81	12.82	12.40	0.85	1.34	3.73%	8.22	57.62	7.29	0.88	2.96	0.50	1.49	\$2,152,285
42.90			Average					17.71	19.77	15.96	14.45	1.03	1.19	1.62%	8.19	70.51	1.79	0.38	4.90	1.10	1.84	\$39,195,820
28.06			Median					13.98	14.33	13.91	12.51	0.92	1.17	1.41%	8.41	69.85	6.03	0.66	3.67	0.75	1.71	\$1,185,807

Mercer Capital

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