

# Bank Watch

## Atlantic Coast

## What to Make of the Bank Stock Rally?

by Jeff K. Davis, CFA

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Banks and most financials have been frustrating since rebounding from the depths of the second half of 2007 through the first quarter of 2009 panic. Periods of outperformance have been followed by stretches of underperformance. The current cycle is one of outperformance following a steep sell-off in third quarter of 2011 as a result of the Washington debt ceiling debacle and a near Lehman-moment in Europe when the intra-bank funding markets locked-up. Since October 1, 2011 the SNL Small Cap U.S. Bank Index has produced a total return of 49% through February 8 vs. 45% for the Russell 2000. The SNL Large Cap U.S. Bank Index had a total return of 63% vs. 38% for the S&P 500.

The rally is less impressive if it is dated to year-end 2010 with large cap banks underperforming by rising 11% vs. 26% for the S&P 500; small cap banks lagged the Russell 2000 at 16% vs. 20%. Viewed from a bit longer horizon, returns for bank stocks similarly lag if the starting date is March 31, 2010, which coincided with a peaking of many large cap bank stocks following the rally that began on March 9, 2009 when Secretary Geithner indicated there would be no nationalization. Between March 9, 2009 and March 31, 2010, large cap banks posted a 202% total return vs. a mere 101% return for the S&P 500. This rally followed a brutal 21-month sell-off that got underway in mid-2007 when housing was clearly rolling over and securitization markets froze.

I think one aspect of the bigger swing in the large cap banks since 3Q11 reflects the direct and indirect European exposure of JPMorgan Chase & Co. (JPM), Citigroup Inc. (C) and a few other large banks that dominate the index. It was the ECB's announcement in early November 2011 that it would address the funding issues (European banks are much more reliant on wholesale funding than U.S. banks) through the longer-term refinancing operations (LTRO) that became a catalyst to rally European banks and global equities. Also, housing found a bottom in 2012 and has been improving in many markets since then. The turn in housing and attendant demand for distressed assets was important in driving NPAs lower at high NPA banks such as Regions Financial Corporation (RF) and Synovus Financial Corp. (SNV) and thereby aiding last year's rally.

So what to make of the current rally? Valuation is never a catalyst, but it usually is the most important determinant in the return equation, especially over an intermediate-to-long-term investment horizon. For investors, the one critical attribute that they control that impacts their return is the entry price; the lower the better. While valuation is not a catalyst, reversion to the mean is a powerful concept.

As shown in the accompanying table, bank stocks are cheap based upon price/tangible book value (P/TBV) multiples in relation to their 20-year average. The publicly traded universe of banks is sorted into three groups: assets of \$100 million to \$1 billion; \$1 billion to \$10 billion; and greater than \$10 billion.

**Figure One: Recent Trends in Bank Pricing Multiples**

Current Public Banks and Thrifts as of February 8, 2013

	6/30/10	12/31/10	6/30/11	12/31/11	6/30/12	12/31/12	2/8/13	Long-term average
<b>Median Price/TBV (%)</b>								
Assets of \$100 million - \$1 billion	75.3	76.6	75.9	66.7	75.3	81.6	82.0	116.3
Assets of \$1 billion - \$10 billion	106.9	122.3	109.8	105.0	116.7	120.2	122.7	166.3
Assets > \$10 Billion	140.6	155.1	147.0	132.3	136.6	141.8	141.4	221.7
<b>P/TBV as a % of the long-term average<sup>1</sup></b>								
Assets of \$100 million - \$1 billion	64.7	65.9	65.2	57.3	64.7	70.1	70.5	
Assets of \$1 billion - \$10 billion	64.3	73.5	66.0	63.1	70.2	72.3	73.8	
Assets > \$10 Billion	63.4	70.0	66.3	59.7	61.6	64.0	63.8	
<b>Median P/E (x)<sup>2</sup></b>								
Assets of \$100 million - \$1 billion	14.2	13.6	12.6	11.8	12.0	11.6	12.8	13.5
Assets of \$1 billion - \$10 billion	15.4	14.8	13.7	12.9	12.9	12.9	13.3	14.2
Assets > \$10 Billion	15.1	17.5	15.8	13.4	13.4	12.9	13.7	14.8
<b>P/E as a % of the long-term average</b>								
Assets of \$100 million - \$1 billion	104.6	100.1	93.1	86.9	88.6	85.7	94.4	
Assets of \$1 billion - \$10 billion	108.4	104.3	96.8	91.1	91.1	90.9	94.0	
Assets > \$10 Billion	102.1	118.3	107.2	90.7	90.8	87.4	92.9	
<b>Acquisition multiples</b>								
Average P/TBV (%)	122.0	109.0	109.0	97.0	111.0	110.0	104.0	
Median P/E (x)	nm	nm	nm	51.2	nm	34.1	27.6	

<sup>1</sup> Long-term average P/TBV and P/E is based upon quarterly period-end pricing since March 31, 1992;

Source: SNL Financial

<sup>2</sup> P/E is based upon trailing 12 month earnings per share;

Data excludes banks that have been acquired or failed

As of February 8, 2013, the median P/TBV ratio ranged between 64% and 74% of the 20-year average multiple for each respective group. Bank stocks are not as cheap when based upon the latest twelve month (LTM) earnings. As of February 8, the median price/earnings (P/E) ratios ranged from 12.8x for the smallest group to 13.7x for the largest banks. The current P/E multiples equate to 93-94% of the 20-year average.

The conclusion that banks look really cheap in terms of P/TBV multiples may not be the right takeaway even though it does fit well into the reversion to the mean concept. Investors, acquirers and sellers tend to state bank multiples in terms of P/TBV multiples first and earnings second for a couple of reasons. One is that earnings are volatile (after credit costs), and tangible book values are not. Also, the business model is predicated upon leveraging tangible equity to produce net income. Absolute P/TBV multiples notwithstanding, bank investors usually acquire equities because: (a) they believe value will track earnings growth; (b) valuation multiples are expected to expand over time for any number of reasons; (c) tangible book value is expected to compound at a competitive rate over time; and/or (d) the yield and/or prospects for dividend increases are favorable.

Broadly, value defined as P/TBV can be expressed as the product of profitability, leverage and the earnings multiple. And P/E multiples are positively correlated with long-term earnings growth expectations.

$$(\text{Net Income} / \text{Assets}) \times (\text{Assets} / \text{Tangible Equity}) = (\text{Net Income} / \text{Tangible Equity}); \text{ or,}$$

$$\text{ROA} \times \text{Leverage} = \text{ROTE}$$

and

$$(\text{Price} / \text{Net Income}) \times (\text{Net Income} / \text{Tangible Equity}) = (\text{Price} / \text{Tangible Equity}); \text{ or,}$$

$$\text{P/E} \times \text{ROTE} = \text{P/TBV}$$

Historically, when bank multiples rose above the 20-year average, returns tended to be poor over the ensuing 1-2 year period and vice versa. For instance, valuations were below average during the 1990s until 1997 when they began to climb sharply, reflecting an accelerating level of M&A and a robust U.S. economy. Returns from mid-1998 through early 2000 faded as valuations compressed in response to a shift by investors into growth stocks as the dot.com mania peaked. Also, my recollection is that investors were disgusted with poorly executed, high priced deals such as First Union Corporation-CoreStates Financial. While growth stocks rolled over in March 2000, banks, industrials and other value-oriented stocks staged a strong rally. Following the shallow recession of 2001 and the Fed's eventual cutting of the fed funds target to 1.0% in 2003, banks began to climb that peaked with above trend ROEs and valuations. As of year-end 2006, P/Es were 109-123% of the 20-year average and P/TBV multiples were 134-135% of the 20-year average. From there it was all downhill for over two years for large banks and three years for small banks.

So what do we make of current valuations? I tend to view them as not as cheap as they appear given the context of the current operating environment. Those who have followed my musings on this blog know that I think the Street has not gotten its mind around how low NIMs will be in 2014 absent a change in the rate environment as loan portfolio yields are poised to plummet for most banks. Also, mortgage refinancing that has supported earnings will eventually ebb even if long rates do not move much. The same applies to waning credit leverage. I think banks are going to have to work to maintain the current 0.90% ROA that represents the approximate median performance today. Overlaid upon this is the depressive effect on ROE of reducing leverage through using more common equity in the capital structure.

One perspective of how distorted returns were last decade can be seen from comparing ROEs vs. 10-year U.S. Treasuries. During 2000-2007, the average ROE for banks with greater than \$10 billion per the FDIC was 13.6%, which exceeded the yield on the 10-year U.S. Treasuries by 9.1%. Smaller banks did not produce as robust an ROE, but their returns likewise were significantly higher than Treasuries. The average excess ROE during 1984-2012 was 5.0% for banks with \$100 million to \$1 billion of assets and 7.1% for banks with more than \$10 billion of assets. Based upon YTD ROE and Treasury yields through September 30, 2012, the ROE spread was 5.9% and 7.2%. Stated differently, today's ROEs are not so low in the context of the Fed's zero-rate policies and a through-the-cycle view of profitability.

Where from here? I do not think valuations are so high that bank stocks face a sharp correction; however, the downward earnings revision that I expect will represent a headwind for most since valuations on a P/E basis are not cheap to history. The margin of safety may exist among dividend payers with a history and capacity to increase the dividend. Also, so far credit spreads are not signaling danger. Historically, credit spreads have been an excellent indicator for bank stock investors. Spreads are tight today, indicating caution, but they show no sign of a material widening move. One could argue that credit spreads have been distorted by the Fed's actions, but the same can be said about most asset values, including equities.

Secondly, where the best price action for bank equity investors may be is in the micro-cap group. These banks have always tended to trade at a varying discount to larger banks due to lack of visibility with investors and less liquidity. Some of these banks are growth stories that are relegated to the value sector. Some will be acquirers, many more will be sellers in time. Notably, First M&F produced a five-day gain of 45% prior to the announcement on February 7 that Renasant Corporation (RNST) would acquire the company for a price that equates to 122% of TBV. Likewise, Virginia Commerce Bancorp, Inc. (VCBI) produced a 27% return since January 13 (and 50% since January 1) when the company confirmed that it had initiated a

strategic review that culminated with the announcement that it would be acquired by United Bankshares, Inc. (UBSI) on January 30. In effect, the boards of many these banks may have to force reversion to the mean through selling the company as I do not believe the earnings outlook will be an upside catalyst.



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## What We're Reading

*Bloomberg* published an interesting piece titled "Too Big to Fail Rules Hurting Too Small to Compete Banks":

<http://www.bloomberg.com/news/2013-02-28/too-big-to-fail-rules-hurting-too-small-to-compete-banks.html>

Naomi Snyder of *Bank Director* published an interview discussing what bank boards and management should know about bank M&A in 2013:

<http://www.bankdirector.com/index.php/board-issues/manda/what-bank-boards-and-management-need-to-know-about-manda-in-2013>

Big data is a buzz word circulating across a number of industries, and this article by Jim Marous of New Control details some ideas for community banks to start leveraging data more effectively:

<http://www.bankdirector.com/index.php/board-issues/technology/when-it-comes-to-bank-big-data-start-small/>

Deloitte published a list of the top 10 issues impacting banking M&A for 2013:

[http://www.deloitte.com/view/en\\_US/us/Services/additional-services/merger-acquisition-services/9170ccda4f14d310VgnVCM2000003356f70aRCRD.htm](http://www.deloitte.com/view/en_US/us/Services/additional-services/merger-acquisition-services/9170ccda4f14d310VgnVCM2000003356f70aRCRD.htm)

Jay Wilson of Mercer Capital writes on Community Bank Stress Testing in the February 2013 issue of *Bank Watch*:

[http://mercercapital.com/assets/Mercer-Capital\\_Bank-Watch\\_Atlantic-Coast\\_2013-02.pdf](http://mercercapital.com/assets/Mercer-Capital_Bank-Watch_Atlantic-Coast_2013-02.pdf)

# 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.

## Upcoming Webinar Schedule

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### 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.

*Thursday, March 28, 2013 » 12:00 – 12:30pm Central*  
**Register now at [www.mercercapital.com](http://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.

*Tuesday, April 9, 2013 » 12:00 – 12:30pm Central*

## Webinars Available for Replay

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### 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 the now.

*View a replay at <http://mer.cr/bnkweb1>*

### Understanding Deal Considerations

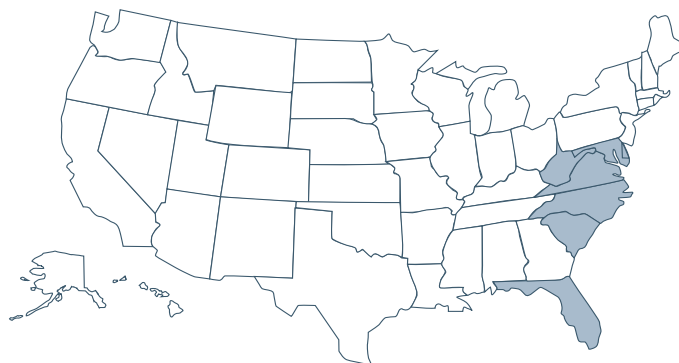
Key issues that we see when banks combine as it relates to valuing and evaluating a combination are reviewed. This is particularly critical when the consideration consists of shares issued by a buyer (or senior merger partner) whose shares are either privately held or are thinly traded.

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

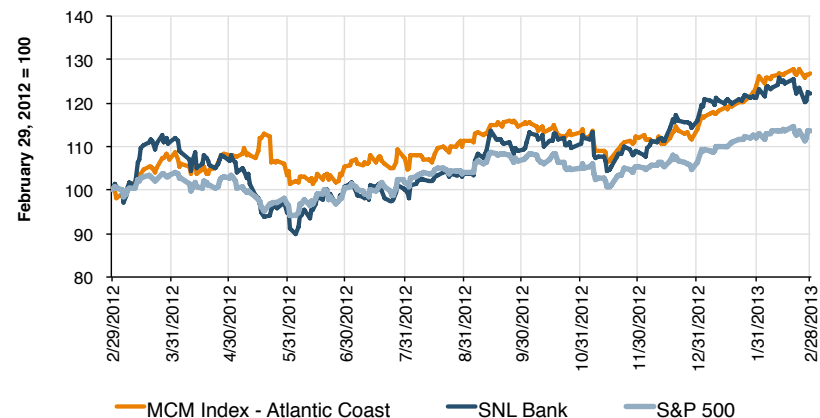
## About the Speaker

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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



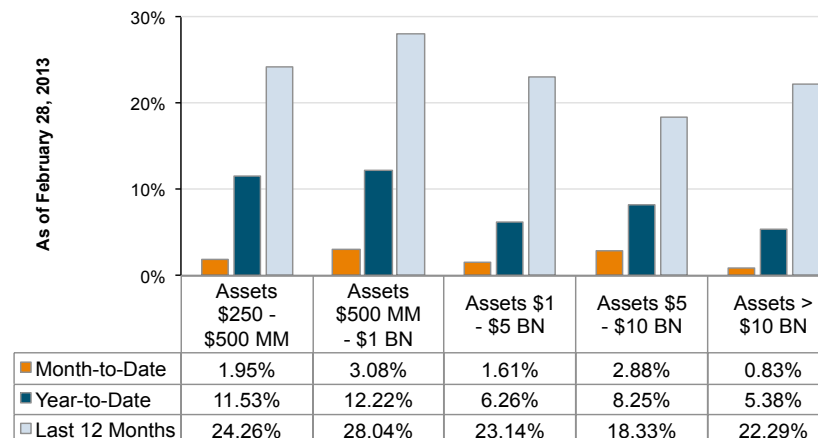
Median Valuation Multiples

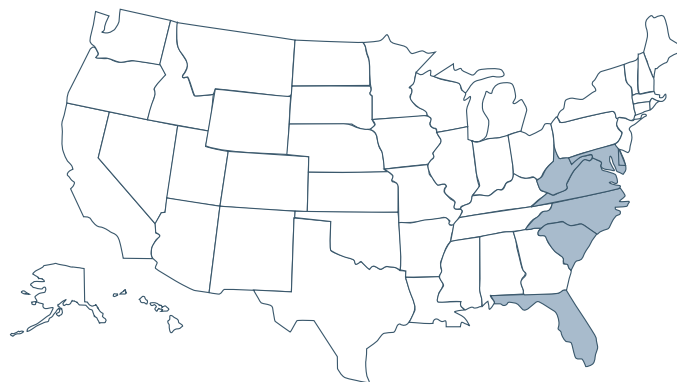
as of February 28, 2013

	Atlantic Coast Community Bank Index	National Community Bank Index
Price / LTM EPS	13.79	12.41
Price / 2013 (E) EPS	14.12	12.87
Price / 2014 (E) EPS	13.49	12.36
Price / Book Value	91.93%	101.35%
Price / Tangible Book Value	111.56%	112.68%
Dividend Yield	2.21%	2.68%

Return Stratification of U.S. Banks

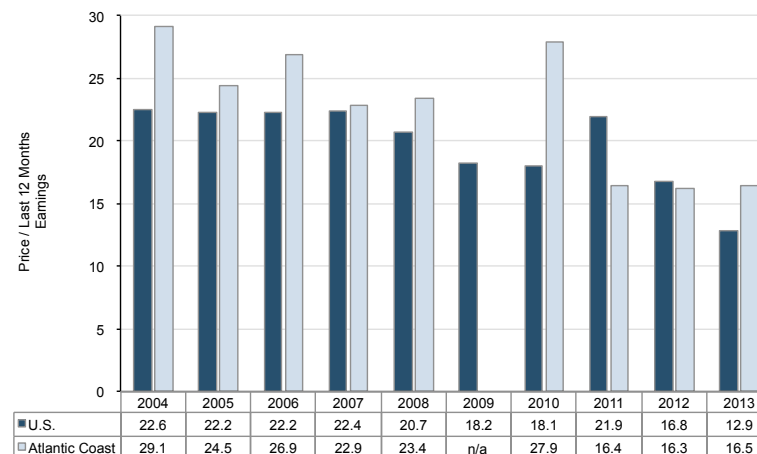
by Asset Size





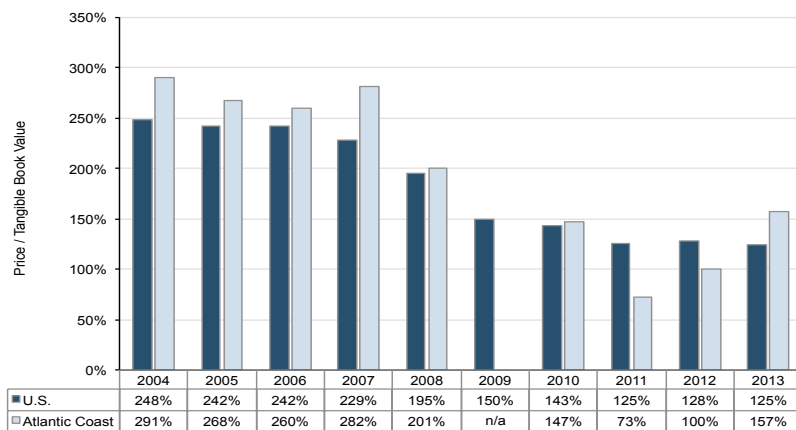
**Median Price/Earnings Multiples**

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



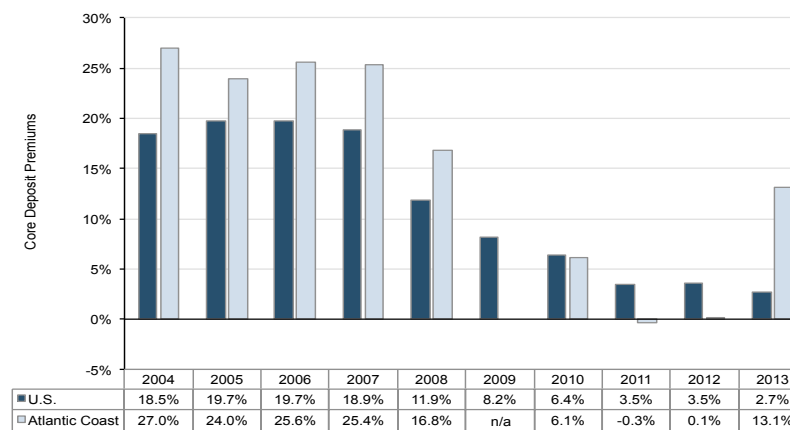
**Median Price/Tangible Book Value Multiples**

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

March 14, 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)
58.88	14.24	8.26	Bancorp, Inc.	TBBK	DE	\$13.60	\$508	27.20	26.64	17.20	11.89	1.13	1.53	nm	8.93	63.93	5.86	0.44	NA	1.04	1.73	3,699,659.00
<b>58.88</b>			<b>Median - Delaware</b>					<b>27.20</b>	<b>26.64</b>	<b>17.20</b>	<b>11.89</b>	<b>1.13</b>	<b>1.53</b>	<b>...</b>	<b>8.93</b>	<b>63.93</b>	<b>5.86</b>	<b>0.44</b>	<b>...</b>	<b>1.04</b>	<b>1.73</b>	<b>\$3,699,659</b>
2.42	\$6.83	\$5.30	1st United Bancorp, Inc.	FUBC	FL	\$6.29	\$214	44.93	40.50	24.60	20.10	0.91	1.22	nm	11.64	80.97	2.03	0.31	7.11	1.67	1.07	\$1,566,779
9.27	\$28.69	\$22.01	BankUnited, Inc.	BKU	FL	\$25.27	\$2,523	12.33	13.15	14.64	14.96	1.33	1.38	3.32%	14.11	43.63	12.45	1.71	0.43	0.09	1.06	\$12,375,953
NA	\$18.62	\$15.14	Capital Bank Financial Corporation	CBF	FL	\$17.97	\$593	16.34	18.19	21.12	13.59	0.87	nm	nm	NA	72.52	5.31	0.84	NA	0.05	1.17	\$7,295,713
54.57	\$12.23	\$6.35	Capital City Bank Group, Inc.	CCBG	FL	\$11.84	\$205	NM	NM	46.48	35.84	0.83	1.26	0.00%	6.35	88.59	0.04	0.00	10.49	1.16	1.92	\$2,633,984
14.82	\$9.22	\$6.55	CenterState Banks, Inc.	CSFL	FL	\$8.67	\$261	26.27	24.34	19.55	16.00	0.95	1.18	0.46%	9.58	74.07	3.68	0.40	3.67	0.93	1.85	\$2,363,240
(52.08)	\$3.60	\$0.75	Jacksonville Bancorp, Inc.	JAXB	FL	\$1.61	\$86	NM	NM	NM	NM	1.09	1.29	nm	1.33	81.51	(142.72)	(8.29)	9.77	4.43	4.14	\$551,551
(33.79)	\$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
19.89	\$2.25	\$1.32	Seacoast Banking Corporation of Florida	SBCF	FL	\$2.17	\$206	NM	NM	36.14	25.37	1.76	1.78	0.00%	5.31	91.05	(0.43)	(0.03)	7.44	1.16	1.75	\$2,173,929
<b>9.27</b>			<b>Median - Florida</b>					<b>21.30</b>	<b>21.26</b>	<b>22.86</b>	<b>18.05</b>	<b>0.95</b>	<b>1.28</b>	<b>0.23%</b>	<b>7.96</b>	<b>80.97</b>	<b>2.03</b>	<b>0.31</b>	<b>7.27</b>	<b>1.16</b>	<b>1.75</b>	<b>\$2,363,240</b>
141.54	\$13.62	\$5.00	Annapolis Bancorp, Inc.	ANNB	MD	\$13.14	\$53	19.32	17.16	NM	NM	1.64	1.64	0.00%	7.20	65.64	8.54	0.70	NA	0.53	2.25	\$446,386
26.04	\$16.48	\$12.25	BCSB Bancorp, Inc.	BCSB	MD	\$16.31	\$52	26.74	22.85	NM	NM	0.93	0.93	0.00%	8.63	77.82	3.67	0.31	5.39	0.28	1.64	\$644,013
50.28	\$5.94	\$3.40	Carrollton Bancorp	CRRB	MD	\$5.41	\$14	NM	NA	NM	NM	0.59	0.59	0.00%	6.42	84.35	(0.32)	(0.03)	NA	0.41	1.57	\$365,415
35.43	\$23.00	\$15.36	Eagle Bancorp, Inc.	EGBN	MD	\$22.63	\$519	14.06	14.01	12.48	11.68	1.77	1.79	0.00%	8.51	51.24	11.68	1.18	NA	0.34	1.38	\$3,409,441
71.32	\$8.87	\$4.05	First United Corporation	FUNC	MD	\$8.60	\$53	17.92	36.10	nm	NM	0.77	0.92	0.00%	4.43	73.37	4.81	0.34	NA	1.41	1.83	\$1,320,783
28.58	\$12.25	\$9.48	Glen Burnie Bancorp	GLBZ	MD	\$11.64	\$32	11.88	12.37	NM	NM	0.95	0.95	3.44%	8.67	75.91	8.20	0.71	NA	NA	NA	\$387,438
17.78	\$9.55	\$5.20	Howard Bancorp, Inc.	HBMD	MD	\$6.36	\$26	20.52	20.52	nm	NM	0.75	0.75	nm	8.50	74.67	3.92	0.45	NA	0.48	0.85	\$401,675
30.97	\$12.99	\$9.22	Old Line Bancshares, Inc.	OLBK	MD	\$12.33	\$84	11.31	NA	10.15	8.99	1.13	1.20	1.30%	8.23	65.14	10.83	0.89	NA	0.23	0.66	\$861,856
11.99	\$20.37	\$16.66	Sandy Spring Bancorp, Inc.	SASR	MD	\$20.01	\$498	13.52	12.62	13.33	13.19	1.03	1.26	2.80%	10.23	60.42	7.85	0.97	2.48	0.42	1.67	\$3,955,206
5.02	\$7.45	\$4.65	Shore Bancshares, Inc.	SHBI	MD	\$6.90	\$58	NM	NM	NM	31.36	0.51	0.60	0.00%	8.36	75.16	(8.07)	(0.82)	12.23	3.20	2.04	\$1,185,807
<b>29.77</b>			<b>Median - Maryland</b>					<b>15.99</b>	<b>17.16</b>	<b>12.48</b>	<b>12.44</b>	<b>0.94</b>	<b>0.94</b>	<b>0.00%</b>	<b>8.43</b>	<b>74.02</b>	<b>6.33</b>	<b>0.58</b>	<b>5.39</b>	<b>0.42</b>	<b>1.64</b>	<b>\$752,935</b>
37.61	\$12.44	\$6.72	Bank of America Corporation	BAC	NC	\$12.11	\$131,034	48.44	39.50	12.14	9.38	0.60	0.91	0.33%	6.71	84.25	1.78	0.19	4.42	1.63	2.61	\$2,209,974,000
7.79	\$34.37	\$26.86	BB&T Corporation	BBT	NC	\$31.73	\$22,208	11.75	11.31	10.83	10.00	1.17	1.92	2.90%	6.56	54.73	10.41	1.14	2.60	1.15	1.70	\$183,872,000
35.42	\$9.65	\$6.72	BNC Bancorp	BNCN	NC	\$9.60	\$196	20.00	134.04	14.26	10.19	1.01	1.17	2.08%	6.63	74.29	4.91	0.41	4.48	1.99	1.93	\$3,083,788
170.73	\$11.15	\$4.10	Carolina Bank Holdings, Inc.	CLBH	NC	\$11.10	\$38	6.00	6.02	nm	NM	0.98	0.98	nm	5.53	63.77	15.04	1.12	NA	0.77	1.68	\$691,868
38.25	\$3.28	\$1.92	Carolina Trust Bank	CART	NC	\$3.00	\$14	NM	NM	NM	NM	0.66	0.68	nm	7.58	77.08	0.82	0.08	7.82	0.92	2.16	\$271,051
9.56	\$6.28	\$3.28	Crescent Financial Bancshares, Inc.	CRFN	NC	\$4.24	\$152	65.33	43.86	16.46	11.89	1.02	1.26	nm	11.42	82.86	2.52	0.42	NA	NA	0.51	\$1,085,225
57.54	\$16.65	\$8.75	ECB Bancorp, Inc.	ECBE	NC	\$14.80	\$43	21.76	NM	nm	nm	0.65	0.65	0.00%	7.32	86.35	3.61	0.32	NA	1.03	2.00	\$899,623
34.21	\$13.99	\$7.68	First Bancorp	FBNC	NC	\$13.40	\$264	NM	NM	15.72	13.70	0.92	1.22	2.39%	6.81	57.81	(6.77)	(0.71)	4.91	3.03	1.92	\$3,244,910
1.94	\$187.72	\$155.00	First Citizens BancShares, Inc.	FCNCA	NC	\$179.95	\$1,724	13.73	13.65	NM	NM	0.93	0.98	0.67%	8.30	65.43	7.01	0.64	2.00	0.38	2.37	\$21,283,652
60.54	\$6.75	\$3.70	First South Bancorp, Inc.	FSBK	NC	\$6.55	\$64	NM	NM	nm	NM	0.86	0.91	0.00%	10.01	67.42	(12.87)	(1.50)	NA	6.14	1.62	\$707,713
(37.08)	\$29.60	\$9.37	FNB United Corp.	FNBN	NC	\$9.96	\$216	NM	NM	nm	NM	2.20	2.49	0.00%	4.05	97.94	(34.88)	(1.75)	13.71	1.93	2.48	\$2,151,565
166.33	\$6.65	\$2.30	New Century Bancorp, Inc.	NCBC	NC	\$6.29	\$43	9.38	NA	NM	NM	0.80	0.81	nm	9.16	79.48	8.79	0.81	NA	(0.12)	2.15	\$588,237
49.38	\$6.48	\$3.74	NewBridge Bancorp	NBBC	NC	\$5.99	\$151	NM	NM	9.27	10.98	1.07	1.11	0.00%	4.96	67.05	(15.18)	(1.46)	2.39	3.24	2.29	\$1,708,707
52.19	\$5.75	\$2.56	Oak Ridge Financial Services, Inc.	BKOR	NC	\$4.52	\$8	NM	NM	NM	NM	0.40	0.40	nm	5.91	78.35	(2.13)	(0.17)	NA	1.80	1.70	\$342,943
20.66	\$6.06	\$3.89	Park Sterling Corporation	PSTB	NC	\$5.84	\$260	48.67	27.74	17.36	15.42	1.02	1.17	nm	11.11	72.15	2.12	0.35	2.83	0.18	0.77	\$2,032,633
41.00	\$11.75	\$7.01	Peoples Bancorp of North Carolina, Inc.	PEBK	NC	\$11.23	\$63	13.06	15.65	nm	NM	0.74	0.74	1.07%	8.41	74.14	5.58	0.56	NA	1.10	2.30	\$1,013,516
68.70	\$4.00	\$2.17	Yadkin Valley Financial Corporation	YAVY	NC	\$3.88	\$167	NM	NM	17.46	11.02	1.17	1.19	0.00%	7.30	69.60	(5.52)	(0.44)	3.66	3.43	1.88	\$1,923,438
<b>38.25</b>			<b>Median - North Carolina</b>					<b>16.86</b>	<b>21.69</b>	<b>14.99</b>	<b>11.00</b>	<b>0.93</b>	<b>0.98</b>	<b>0.33%</b>	<b>7.30</b>	<b>74.14</b>	<b>2.12</b>	<b>0.32</b>	<b>4.04</b>	<b>1.39</b>	<b>1.93</b>	<b>\$1,708,707</b>

Mercer Capital's Atlantic Coast Public Bank Peer Report

March 14, 2013

52 Wk Perf (%)	52 Wk High (\$)	52 Wk Low (\$)	Company Name	Ticker	State	Price / Earnings														Assets (\$M)		
						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 (%)
14.77	\$12.50	\$10.36	Bank of South Carolina Corporation	BKSC	SC	\$12.02	\$53	14.66	14.66	NM	NM	1.58	1.58	3.99%	10.43	60.84	10.97	1.16	2.38	0.01	1.46	\$325,411
23.78	\$9.25	\$7.55	First Community Corporation	FCCO	SC	\$9.10	\$48	11.52	10.20	11.51	11.51	nm	nm	2.20%	NA	73.13	7.57	0.66	2.81	0.17	1.35	\$602,925
111.39	\$21.39	\$8.49	First Financial Holdings, Inc.	FFCH	SC	\$21.38	\$353	14.16	17.46	18.35	18.29	1.51	1.56	0.94%	7.07	67.14	10.08	0.89	2.12	1.24	1.73	\$3,215,558
77.64	\$11.19	\$4.94	Palmetto Bancshares, Inc.	PLMT	SC	\$10.25	\$131	NM	NM	NM	NM	1.33	1.33	0.00%	8.59	76.23	(1.86)	(0.16)	NA	2.75	2.39	\$1,145,456
66.24	\$51.18	\$30.27	SCBT Financial Corporation	SCBT	SC	\$51.17	\$870	25.21	19.94	15.71	12.62	1.71	2.27	1.41%	7.62	67.37	7.15	0.70	2.91	0.72	2.06	\$5,136,446
238.24	\$6.85	\$1.27	Southcoast Financial Corporation	SOCB	SC	\$5.00	\$31	8.77	10.33	NM	NM	0.90	0.90	nm	7.82	76.53	10.81	0.81	6.30	1.10	2.48	\$438,221
79.49	\$11.26	\$6.14	Southern First Bancshares, Inc.	SFST	SC	\$10.90	\$46	17.03	18.62	NM	NM	0.97	0.97	nm	5.99	62.48	6.03	0.50	2.98	0.71	1.41	\$797,998
77.64			Median - South Carolina					14.41	16.06	15.71	12.62	1.42	1.44	1.41%	7.72	67.37	7.57	0.70	2.86	0.72	1.73	\$797,998
68.62	\$18.07	\$10.20	Access National Corporation	ANCK	VA	\$16.27	\$168	9.51	9.51	11.12	12.23	1.84	1.84	2.21%	10.56	65.32	19.68	2.15	NA	0.11	1.72	\$863,914
3.36	\$24.00	\$18.50	American National Bankshares Inc.	AMNB	VA	\$21.38	\$168	10.48	9.88	13.39	14.73	1.03	1.40	4.30%	9.64	54.14	10.08	1.23	NA	0.07	1.51	\$1,283,687
27.35	\$8.37	\$5.15	Bank of the James Financial Group, Inc.	BOTJ	VA	\$7.31	\$25	11.42	NA	NM	NM	0.83	0.83	nm	6.71	74.35	7.76	0.50	2.75	0.73	1.70	\$441,381
(17.78)	\$6.00	\$2.39	Bank of Virginia	BOVA	VA	\$3.33	\$10	NM	NM	NM	NM	0.68	0.68	nm	8.98	141.01	(5.38)	(0.42)	9.71	1.70	3.71	\$170,085
42.26	\$43.42	\$28.25	C&F Financial Corporation	CFFI	VA	\$40.90	\$134	8.42	8.42	NM	NM	1.30	1.46	2.84%	9.47	60.62	16.88	1.74	3.32	1.39	4.79	\$977,018
4.54	\$62.92	\$47.99	Capital One Financial Corporation	COF	VA	\$54.51	\$31,738	8.85	8.21	8.44	8.04	0.80	1.27	0.37%	8.39	54.18	9.42	1.23	2.05	1.89	2.50	\$312,918,000
61.82	\$18.19	\$10.98	Cardinal Financial Corporation	CFNL	VA	\$17.85	\$540	11.82	11.80	12.25	13.13	1.75	1.81	1.12%	9.83	50.13	16.02	1.70	0.58	0.27	1.06	\$3,039,187
139.29	\$3.74	\$1.37	Community Bankers Trust Corporation	ESXB	VA	\$3.35	\$73	15.95	14.35	NM	NM	0.74	0.83	0.00%	7.66	76.41	4.85	0.50	7.21	0.61	2.03	\$1,153,298
110.22	\$6.86	\$3.13	Eastern Virginia Bankshares, Inc.	EVBS	VA	\$6.58	\$40	24.37	NM	nm	11.37	0.54	0.69	0.00%	5.59	81.16	3.21	0.29	3.37	1.65	3.14	\$1,057,770
3.88	\$13.45	\$9.01	Fauquier Bankshares, Inc.	FBSS	VA	\$12.35	\$46	16.92	17.62	nm	nm	0.94	0.94	3.89%	8.04	68.94	5.59	0.46	4.28	1.16	1.47	\$602,032
55.17	\$3.30	\$1.91	First Capital Bancorp, Inc.	FCVA	VA	\$3.15	\$38	NM	NM	NM	NM	0.90	0.90	nm	7.67	100.98	(13.02)	(1.13)	NA	2.97	1.88	\$542,947
26.21	\$16.35	\$11.66	First Community Bankshares, Inc.	FCBC	VA	\$15.87	\$318	11.34	10.39	10.69	11.18	0.94	1.39	3.02%	8.72	55.04	8.53	1.14	2.65	0.41	1.49	\$2,731,097
(46.31)	\$3.65	\$1.01	Hampton Roads Bankshares, Inc.	HMPR	VA	\$1.31	\$223	NM	NA	NM	nm	nm	nm	0.00%	NA	84.44	(15.41)	(1.03)	NA	2.89	3.38	\$2,054,092
23.51	\$20.89	\$15.25	Middleburg Financial Corporation	MBRG	VA	\$19.14	\$135	20.80	28.08	21.69	21.45	1.18	1.25	1.04%	8.77	75.04	7.22	0.66	4.71	0.50	1.81	\$1,236,781
49.43	\$11.40	\$6.88	Monarch Financial Holdings, Inc.	MNRK	VA	\$10.58	\$103	8.46	9.07	9.89	8.23	1.20	1.22	1.89%	6.11	79.86	17.04	1.35	NA	0.42	1.01	\$1,215,578
29.38	\$37.14	\$28.11	National Bankshares, Inc.	NKSH	VA	\$36.68	\$255	14.38	13.85	14.02	14.02	1.70	1.81	3.11%	12.85	41.37	12.01	1.64	1.55	0.48	1.40	\$1,104,361
16.28	\$12.70	\$10.17	Old Point Financial Corporation	OPOF	VA	\$12.64	\$63	15.05	26.53	NM	NM	0.70	0.70	1.58%	9.84	84.66	4.76	0.48	NA	0.75	1.55	\$907,499
50.68	\$12.00	\$6.50	Southern National Bancorp of Virginia, Inc.	SONA	VA	\$9.67	\$112	16.96	21.11	16.79	NM	1.09	1.21	2.07%	13.00	51.54	6.40	0.97	4.77	1.23	1.33	\$723,812
37.03	\$16.50	\$10.97	StellarOne Corporation	STEL	VA	\$16.25	\$372	16.93	16.43	15.76	14.89	0.86	1.19	1.97%	10.80	69.40	5.23	0.75	3.02	0.40	1.41	\$3,023,204
18.84	\$16.16	\$11.75	TowneBank	TOWN	VA	\$14.99	\$481	14.55	15.35	NM	nm	1.13	1.57	2.40%	6.99	65.54	7.26	0.94	3.34	0.51	1.24	\$4,405,923
40.28	\$19.93	\$13.08	Union First Market Bankshares Corporation	UBSH	VA	\$19.63	\$486	14.33	12.96	13.44	13.06	1.14	1.38	2.65%	8.97	63.48	8.13	0.89	3.77	0.56	1.11	\$4,095,865
5.56	\$10.50	\$6.51	Valley Financial Corporation	VYFC	VA	\$9.22	\$44	8.09	9.41	10.13	9.31	0.88	0.88	1.52%	6.54	62.94	10.15	0.83	5.71	0.38	1.49	\$764,584
40.89	\$2.75	\$0.61	Village Bank and Trust Financial Corp.	VBFC	VA	\$2.15	\$9	NM	NM	NM	NM	0.88	0.91	nm	1.97	78.23	(32.33)	(1.95)	NA	3.49	2.85	\$510,087
57.53	\$14.09	\$7.46	Virginia Commerce Bancorp, Inc.	VCBI	VA	\$14.02	\$456	20.93	23.82	16.36	14.84	1.82	1.82	nm	8.69	50.84	10.11	1.01	4.23	0.96	1.94	\$2,823,692
14.64	\$14.00	\$9.75	WashingtonFirst Bankshares, Inc.	WFBI	VA	\$11.98	\$86	19.32	NA	NM	NM	1.02	nm	nm	NA	70.69	3.69	0.35	3.00	0.40	0.83	\$1,147,818
45.01	\$6.15	\$3.51	Xenith Bankshares, Inc.	XBKS	VA	\$5.38	\$56	7.69	NA	24.45	16.81	0.71	0.89	nm	11.55	78.73	8.89	1.42	NA	0.32	1.05	\$563,206
33.21			Median - Virginia					14.36	13.41	13.42	13.10	0.94	1.21	1.97%	8.74	69.17	7.51	0.86	3.35	0.58	1.53	\$1,126,090
14.51	\$38.98	\$30.70	City Holding Company	CHCO	WV	\$38.96	\$608	14.93	13.94	12.84	12.41	1.73	2.15	3.59%	9.40	52.91	11.98	1.37	NA	0.34	0.88	\$2,917,466
10.33	\$17.40	\$13.76	First West Virginia Bancorp, Inc.	FWV	WV	\$16.95	\$29	12.96	14.82	nm	nm	0.81	0.85	4.48%	11.46	69.64	7.03	0.77	3.76	0.01	2.49	\$301,012
56.60	\$12.50	\$6.75	Premier Financial Bancorp, Inc.	PFBI	WV	\$11.16	\$89	9.00	9.78	nm	NM	0.67	0.89	3.94%	9.17	56.74	7.04	0.91	NA	0.38	1.63	\$1,120,787
79.20	\$7.40	\$3.60	Summit Financial Group, Inc.	SMMF	WV	\$7.15	\$53	11.92	14.46	NM	NM	0.54	0.58	0.00%	6.59	54.54	5.36	0.40	11.01	0.85	1.88	\$1,387,104
(6.97)	\$30.91	\$22.54	United Bankshares, Inc.	UBSI	WV	\$26.69	\$1,342	16.27	14.73	14.87	14.07	1.35	2.21	4.65%	7.55	53.10	8.35	0.98	2.16	0.28	1.13	\$8,420,013
24.18	\$24.75	\$19.08	WesBanco, Inc.	WSBC	WV	\$24.26	\$709	13.18	12.59	12.05	11.50	0.99	1.82	3.13%	6.77	59.70	7.54	0.88	2.02	0.67	1.42	\$6,078,717
19.35			Median - West Virginia					13.07	14.20	12.84	12.41	0.90	1.35	3.77%	8.36	55.64	7.29	0.90	2.96	0.36	1.53	\$2,152,285
40.61			Average					17.48	19.77	16.13	14.34	1.05	1.21	1.58%	8.14	70.57	2.13	0.37	4.60	1.14	1.81	\$38,685,915
34.82			Median					14.38	14.70	14.45	13.06	0.96	1.19	1.35%	8.33	70.16	5.94	0.60	3.66	0.74	1.70	\$1,169,548



# Mercer Capital

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