

Bank Watch

Southeast

Bank M&A Market Activity Remains Steady

Significant Consolidation May Be Approaching

This article is excerpted from our recently published whitepaper, “**Community Bank Mergers: Creating the Potential for Shared Upside,**” which examines the issues that can arise when community banks merge or sell to a larger, public institution.

The bank M&A market has defied predictions since 2010 of a broad-based consolidation wave, but M&A activity nonetheless remains steady. A confluence of factors, which could be derailed by a slump in the economy and/or capital markets, ensure in our view that significant consolidation will occur even though the pace is uncertain. In time we expect upwards of one-half of institutions with less than \$1 billion of assets to merge. As of September 30, 2012, there were 7,181 commercial banks and thrifts according to the FDIC, compared to 8,534 at year-end 2007 when the financial crisis began unfolding. There were about 18,000 institutions when the June 1985 Supreme Court decision *Northeast Bancorp, Inc. v. Board of Governors of Federal Reserve* upheld regional interstate banking compacts.

Would-be buyers among public institutions seem to be coalescing around 2014 as the year that activity will become more pronounced as regulators write more rules to codify Dodd-Frank. Also, valuation challenges created by credit marks presumably will be less of an issue to the extent real estate values firm a bit and sellers have another year to mark credits themselves. Still, one catalyst has to be overcome to see a pick-up in activity: would-be sellers' resistance to the reality of today's pricing, which is a function of lower profitability relative to the pre-crisis era. While circumstances can change, much of the industry may see ROE ease further in coming years in spite of another round of cost cutting initiatives. For buyers, the most important controllable variable that determines the return on investment is the price paid.

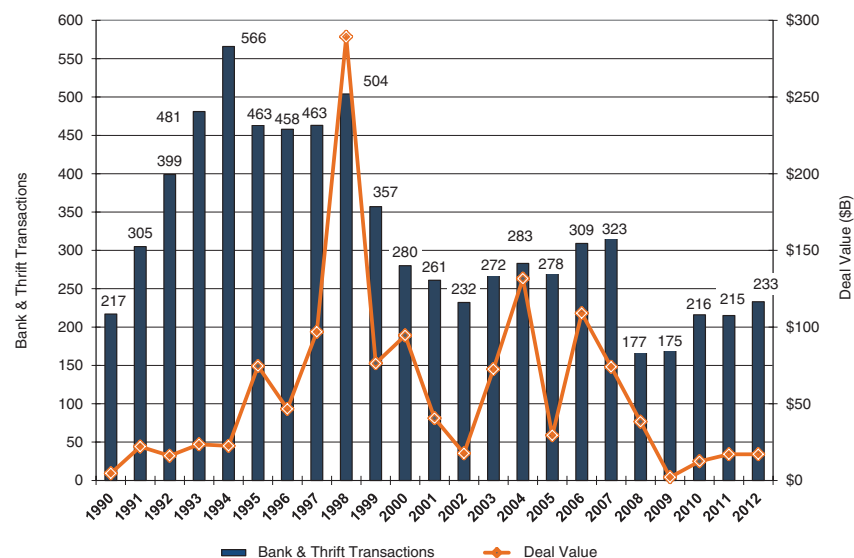
Unlike the frantic activity of the 1990s and to a lesser extent the years leading up to the financial crisis, we believe bank M&A will be dominated by the merger of privately held small banks with each other rather than large-scale, roll-up activity by regional banks. That is not to say regional banks will not be active, but most have a minimum asset threshold of \$500 million to \$1 billion of assets that precludes acquisition of broad swaths of small institutions. Only 559 of the 7,181 FDIC-insured institutions as of September 30, 2012 had assets greater than \$1 billion.

This trend is reflected in M&A metrics for 2012 in which there were 239 non-assisted acquisitions of banks and thrifts, which was the highest number since 2007 when 323 transactions occurred; however, aggregate acquired assets of \$142 billion was the second lowest total in the past 10 years, eclipsed only by the \$95 billion of assets acquired in non-assisted deals during 2009. The aggregate deal value was modest too at \$14 billion in 2012 as shown in Figure 1.

a robust M&A market with plenty of buyers, though perhaps the exam cycle over the next 12 to 18 months will entail a notable migration of “3” rated banks to “2” with improving asset quality and credit metrics.

Get the full whitepaper at <http://mer.cr/community-bank-mergers>

Figure 1: Non-Assisted Bank & Thrift Acquisitions 1990-2012



Source: SNL Financial

As for large bank deals, public policy now explicitly discourages the largest banks from getting bigger—at least until the next crisis. Even Capital One Financial (COF) had trouble getting regulatory approval for its February 2012 acquisition of ING Direct, which had \$77 billion of internet-based deposits compared to \$128 billion for Capital One. The combination of the two was hardly the next JP Morgan Chase (JPM).

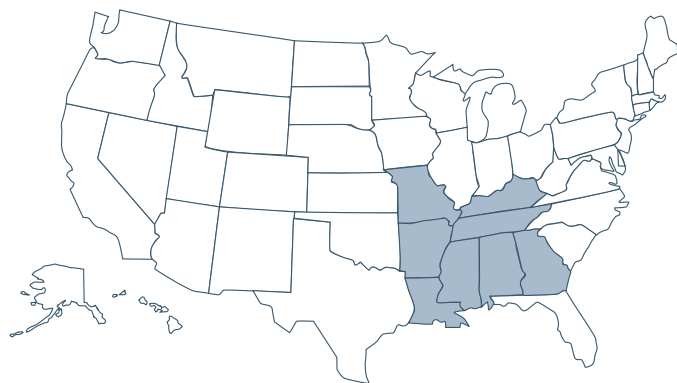
Many bank M&A attorneys regularly remark that the current regulatory environment is the toughest they have ever seen. There also appear to be too few banks rated “2” or better to have

Davis, Gibbs to Speak at 2013 Acquire or Be Acquired Conference

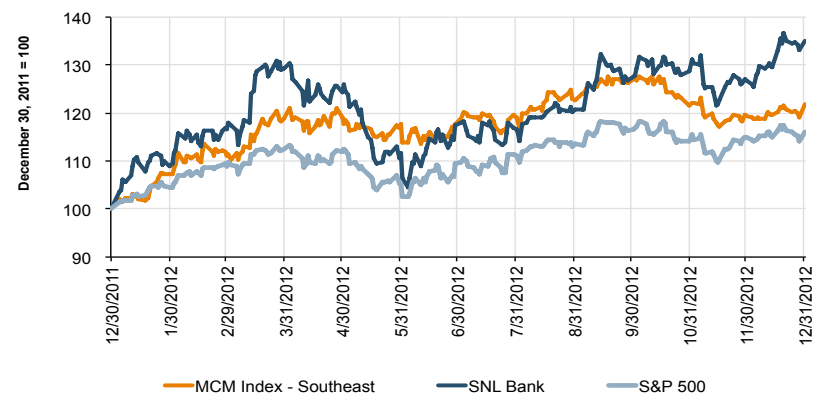
Andy Gibbs and Jeff Davis will be presenting the session “**Capital Management: Alternatives and Uncertainties**,” at the 2013 Acquire or Be Acquired Conference sponsored by *Bank Director* magazine.

The session will take place Monday, January 28th and discuss opportunities beyond bank M&A to manage capital in the current environment.

For more information visit <http://www.bankdirector.com/conferences>



Community Bank Group Index Overview



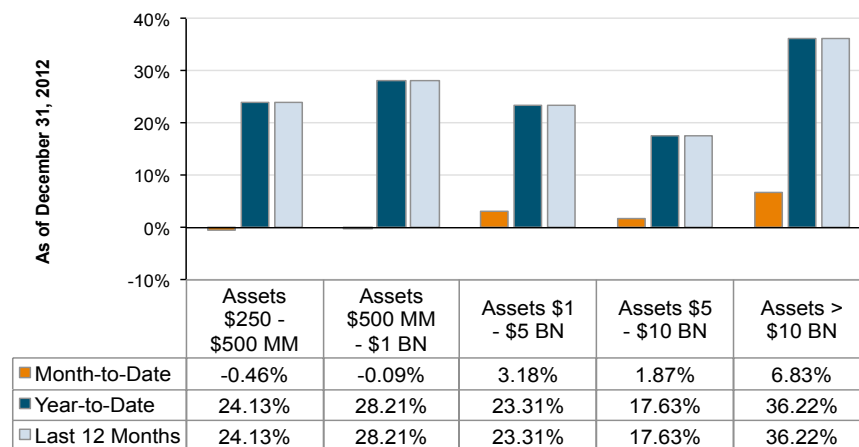
Median Valuation Multiples

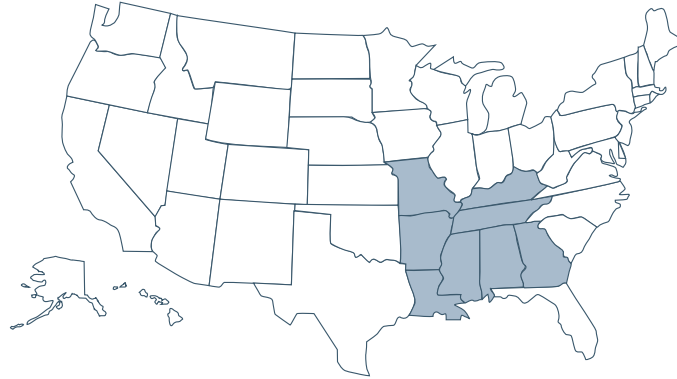
as of December 31, 2012

	Southeast Community Bank Index	National Community Bank Index
Price / LTM EPS	12.12	11.85
Price / 2012 (E) EPS	12.18	12.67
Price / 2013 (E) EPS	11.90	12.37
Price / Book Value	64.15%	92.38%
Price / Tangible Book Value	68.27%	97.52%
Dividend Yield	2.71%	2.67%

Return Stratification of U.S. Banks

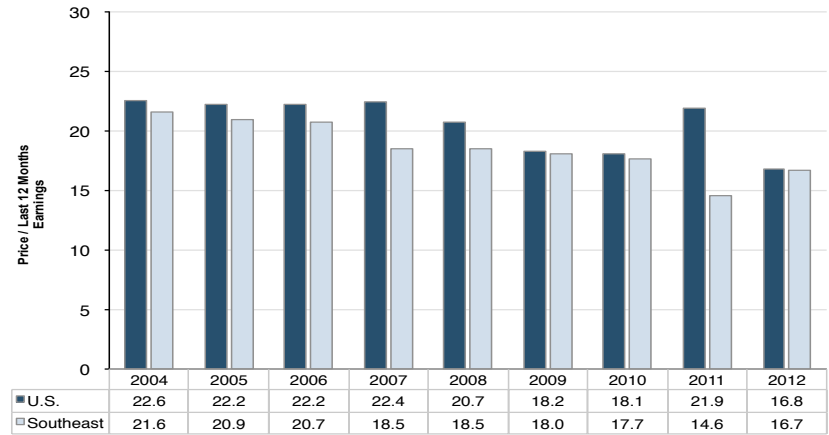
by Asset Size





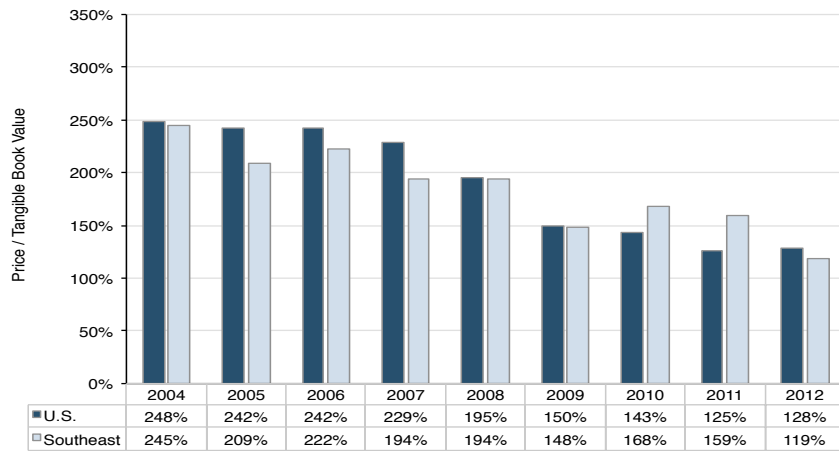
Median Price/Earnings Multiples

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



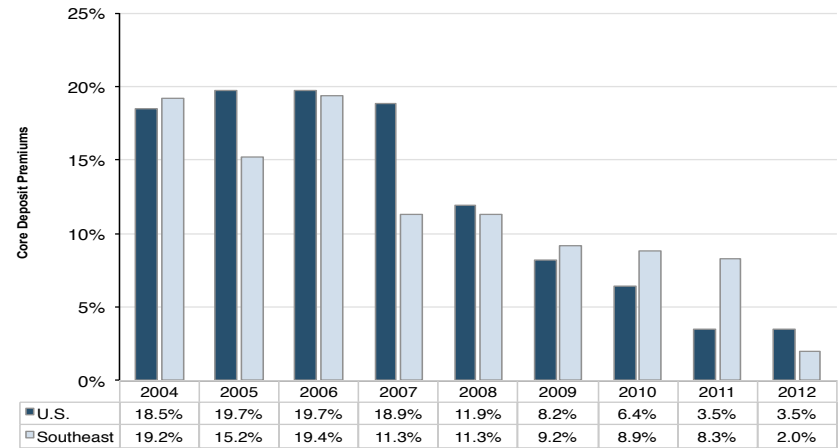
Median Price/Tangible Book Value Multiples

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



Median Core Deposit Multiples

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



Mercer Capital's Southeast Public Bank Peer Report

January 17, 2013

52 Wk Perf (%)	YTD Perf (%)	52 Wk High (\$)	52 Wk Low (\$)	Company Name	Ticker	State	Current Price (\$)	Market Cap (\$M)	LTM (x)	Price / Earnings Core LTM (x)	FY 13 (x)	FY 14 (x)	Price/BVPS (x)	Price/Tang. BVPS (x)	Div. Yield (%)	Tangible Equity + Assets (%)	Dividend Payout (%)	Efficiency Ratio (%)	LTM ROE (%)	LTM ROA (%)	NPAs/Loans + OREO (%)	NCOs/Avg. Loans (%)	Loan Loss Reserve/Loans (%)	Assets (\$M)
13.03	0.72	\$27.00	\$19.25	Auburn National Bancorporation, Inc.	AUBN	AL	\$21.00	\$77	12.21	12.84	NM	NM	1.09	1.09	3.90	9.32	47.38	53.58	9.34	0.83	4.81	0.95	1.50	\$753,467
107.14	4.32	\$3.21	\$1.16	BancTrust Financial Group, Inc.	BTFG	AL	\$2.90	\$52	NM	NM	NM	NM	1.18	1.26	0.00	2.12	NM	73.48	(59.83)	(3.49)	16.66	2.40	4.85	\$1,954,522
56.15	4.49	\$7.73	\$4.75	Regions Financial Corporation	RF	AL	\$7.45	\$10,527	NM	12.02	10.06	9.4	0.71	1.07	0.54	8.45	100.00	60.75	2.03	0.25	7.22	1.65	2.69	\$121,798,000
24.41	(1.12)	\$7.92	\$4.63	United Security Bancshares, Inc.	USBI	AL	\$5.30	\$32	NM	NM	NA	NM	0.47	0.47	0.00	11.66	NM	68.08	(12.08)	(1.33)	12.88	3.15	5.45	\$584,322
40.28	2.52			Median - Alabama					12.21	12.43	10.06	9.44	0.90	1.08	0.27	8.88	73.69	64.42	(5.02)	(0.54)	10.05	2.02	3.77	\$1,353,995
19.18	5.65	\$35.52	\$27.34	Bank of the Ozarks, Inc.	OZRK	AR	\$35.36	\$1,247	16.00	16.12	15.06	14.2	2.46	2.52	1.70	12.31	22.62	46.29	16.68	2.04	1.06	0.36	1.41	\$4,040,207
35.37	3.73	\$35.84	\$24.69	Home BancShares, Inc.	HOMB	AR	\$34.25	\$963	15.36	14.70	NM	13.7	1.87	2.30	1.52	10.08	20.18	45.65	12.75	1.58	NA	0.40	1.86	\$4,242,130
(4.85)	1.22	\$28.54	\$22.36	Simmons First National Corporation	SFNC	AR	\$25.67	\$427	16.78	16.73	16.39	14.8	1.06	1.25	3.12	10.18	51.63	69.81	6.34	0.79	2.87	0.42	1.49	\$3,414,980
19.18	3.73			Median - Arkansas					16.00	16.12	15.72	14.25	1.87	2.30	1.70	10.18	22.62	46.29	12.75	1.58	1.97	0.40	1.49	\$4,040,207
25.05	3.52	\$13.49	\$10.21	Ameris Bancorp	ABCB	GA	\$12.93	\$308	41.71	NA	34.91	12.7	1.24	1.26	0.00	8.27	0.00	68.47	3.71	0.37	6.34	3.07	1.29	\$2,949,383
194.06	55.20	\$8.06	\$1.90	Colony Bancorp, Inc.	CBAN	GA	\$5.59	\$47	46.56	NM	NM	NM	0.69	0.69	0.00	6.23	0.00	80.01	2.53	0.21	11.17	1.44	1.98	\$1,097,437
79.33	7.75	\$10.45	\$5.65	Fidelity Southern Corporation	LION	GA	\$10.29	\$152	7.68	8.83	NM	9.4	1.04	nm	0.00	NA	-	70.12	14.19	1.08	NA	0.56	1.63	\$2,477,291
11.97	11.79	\$11.90	\$7.03	Southwest Georgia Financial Corporati	SGB	GA	\$10.90	\$28	16.52	16.82	NM	NM	0.95	0.97	1.47	8.66	18.18	82.73	5.84	0.54	1.46	0.36	1.36	\$332,232
4.80	1.45	\$18.16	\$14.01	State Bank Financial Corporation	STBZ	GA	\$16.11	\$514	18.31	28.04	18.79	15.8	1.20	1.22	0.74	15.95	3.41	56.13	6.92	1.05	0.67	0.12	4.07	\$2,643,744
44.66	4.30	\$30.79	\$19.81	SunTrust Banks, Inc.	STI	GA	\$29.57	\$15,933	8.24	NA	NM	10.9	nm	nm	0.68	NA	5.57	72.91	9.68	1.13	NA	1.33	1.74	\$173,442,000
68.00	6.94	\$2.71	\$1.58	Synovus Community Corp.	SNV	GA	\$2.62	\$2,061	29.77	39.28	NM	18.4	1.07	1.09	1.53	7.35	45.45	62.92	4.66	0.50	7.97	2.01	2.10	\$25,764,644
41.47	3.71	\$10.30	\$6.12	United Community Banks, Inc.	UCBI	GA	\$9.79	\$415	21.28	23.66	21.30	17.2	1.45	1.47	0.00	5.74	-	59.16	6.63	0.56	6.68	2.45	2.56	\$6,699,235
44.66	6.94			Median - Georgia					19.79	23.66	21.30	14.24	1.07	1.16	0.34	7.81	1.70	69.30	6.23	0.55	6.51	1.39	1.86	\$2,796,564
29.58	6.39	\$28.50	\$20.16	Bank of Kentucky Financial Corporation	BKYF	KY	\$26.31	\$197	10.92	10.70	NM	12.2	1.15	1.35	2.58	8.02	32.78	57.32	11.08	1.05	2.52	0.76	1.37	\$1,844,104
27.12	2.51	\$9.15	\$6.50	Citizens First Corporation	CZFC	KY	\$9.00	\$18	8.11	7.48	NM	NM	0.65	0.79	0.00	5.55	-	64.95	7.84	0.79	NA	0.61	1.91	\$406,556
12.45	(0.70)	\$36.92	\$29.13	Community Trust Bancorp, Inc.	CTBI	KY	\$32.55	\$508	11.26	11.42	11.47	11.4	1.27	1.52	3.87	9.36	43.25	57.81	11.52	1.23	4.02	0.37	1.29	\$3,635,664
222.73	10.12	\$14.10	\$4.18	Farmers Capital Bank Corporation	FFKT	KY	\$13.49	\$101	11.34	11.86	10.98	17.1	0.72	0.73	0.00	7.42	-	69.61	6.69	0.57	10.99	1.05	2.47	\$1,854,982
(10.21)	29.44	\$4.17	\$1.46	First Financial Service Corporation	FFKY	KY	\$2.55	\$12	NM	NM	NM	NM	0.43	0.43	0.00	2.75	NM	89.11	(13.31)	(0.59)	12.50	0.61	3.10	\$1,020,106
(62.98)	38.57	\$3.05	\$0.62	Porter Bancorp, Inc.	PBIB	KY	\$0.97	\$12	NM	NM	NM	NM	0.69	0.77	0.00	1.18	NM	64.42	(86.35)	(5.79)	22.07	4.96	5.67	\$1,286,041
2.33	6.77	\$27.90	\$19.56	Republic Bancorp, Inc.	RBCAA	KY	\$22.56	\$422	3.96	5.68	NM	15.2	0.88	0.90	2.93	15.55	30.74	45.59	22.51	3.35	NA	0.61	0.89	\$3,394,399
12.75	0.13	\$25.29	\$20.55	S.Y. Bancorp, Inc.	SYBT	KY	\$22.45	\$312	12.14	12.14	12.27	12.2	1.55	1.55	3.56	9.55	40.54	55.50	13.27	1.25	2.38	0.65	1.96	\$2,102,589
12.60	6.58			Median - Kentucky					11.09	11.06	11.47	12.2	0.80	0.85	1.29	7.72	31.76	61.11	9.46	0.92	7.50	0.63	1.94	\$1,849,543

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0.20	5.54	\$55.67	\$44.28	IBERIABANK Corporation	IBKC	LA	\$51.84	\$1,527	21.51	19.30	18.94	15.9	1.01	1.40	2.62	9.02	56.43	73.01	4.70	0.60	0.91	0.14	2.39	\$12,534,119
34.67	3.85	\$17.16	\$12.05	MidSouth Bancorp, Inc.	MSL	LA	\$16.98	\$191	22.95	16.33	19.47	13.3	1.31	1.70	1.65	7.51	37.84	70.19	5.71	0.68	1.93	0.31	0.91	\$1,428,936
16.11	3.91	\$42.20	\$35.00	Teche Holding Company	TSH	LA	\$39.35	\$80	11.21	11.45	10.78	11.0	0.96	1.00	3.71	9.42	41.45	71.62	8.80	0.88	1.99	0.26	1.27	\$851,962
16.11	3.91			Median - Louisiana					21.51	16.33	18.94	13.3	1.01	1.40	2.62	9.02	41.45	71.62	5.71	0.68	1.93	0.26	1.27	\$1,428,936
25.95	(5.09)	\$43.97	\$31.96	Cass Information Systems, Inc.	CASS	MO	\$40.05	\$458	19.67	20.78	NM	NM	2.62	2.88	1.80	11.56	30.36	68.84	14.28	1.74	0.91	0.26	1.81	\$1,391,235
3.32	5.39	\$40.70	\$34.45	Commerce Bancshares, Inc.	CBSH	MO	\$36.95	\$3,378	12.74	12.80	12.97	12.6	1.56	nm	2.37	NA	79.47	57.92	12.09	1.31	NA	0.42	1.75	\$22,159,589
(4.69)	5.13	\$15.60	\$9.94	Enterprise Financial Services Corp	EFSC	MO	\$13.74	\$247	9.16	9.00	9.44	9.7	1.06	1.26	1.53	6.19	14.00	56.93	12.08	0.92	2.22	0.60	2.04	\$3,193,692
14.20	3.34	\$31.81	\$20.60	Great Southern Bancorp, Inc.	GSBC	MO	\$26.30	\$357	7.56	18.90	7.95	13.9	1.18	1.20	2.74	7.33	20.69	58.53	14.16	1.23	6.79	2.54	1.67	\$4,056,557
14.46	7.98	\$9.50	\$5.68	Guaranty Federal Bancshares, Inc.	GFED	MO	\$7.44	\$20	24.80	32.08	NM	NM	0.52	0.52	0.00	5.92	-	64.52	3.67	0.30	NA	1.63	1.83	\$660,432
29.51	3.60	\$10.38	\$5.84	Hawthorn Bancshares, Inc.	HWBK	MO	\$7.77	\$38	NM	NM	NM	NM	0.52	0.52	2.57	6.25	NM	66.52	(0.40)	(0.03)	7.76	1.13	2.01	\$1,157,291
3.46	1.78	\$26.70	\$21.07	Southern Missouri Bancorp, Inc.	SMBC	MO	\$22.85	\$74	7.67	7.45	NM	NM	0.96	0.98	2.63	10.19	17.11	50.13	10.90	1.32	1.62	0.10	1.31	\$743,592
18.13	4.77	\$52.61	\$37.90	UMB Financial Corporation	UMBF	MO	\$45.91	\$1,864	14.86	15.97	15.92	15.3	1.44	1.83	1.87	7.82	26.54	73.84	10.16	0.96	0.75	0.39	1.32	\$13,285,845
14.33	4.18			Median - Missouri					12.74	15.97	11.21	13.2	1.12	1.20	2.12	7.33	20.69	61.52	11.49	1.09	1.92	0.51	1.78	\$2,292,464
23.90	3.58	\$15.69	\$10.85	BancorpSouth, Inc.	BXS	MS	\$15.06	\$1,422	17.11	16.72	15.38	15.5	0.98	1.23	0.27	8.91	4.55	70.64	5.90	0.62	4.20	0.81	1.92	\$847,897
4.52	6.42	\$9.89	\$6.56	Britton & Koontz Capital Corporation	BKKB	MS	\$8.78	\$19	NM	115.71	NM	NM	0.48	0.48	0.00	11.71	-	95.30	0.36	0.04	6.65	1.59	1.99	\$725,668
14.26	0.26	\$21.30	\$17.50	Citizens Holding Company	CIZN	MS	\$19.50	\$95	13.93	13.92	NM	NM	1.07	1.11	4.51	10.09	62.86	70.47	7.86	0.81	5.33	0.44	1.97	\$1,553,177
36.45	5.15	\$11.02	\$7.26	First Bancshares, Inc.	FBMS	MS	\$9.91	\$31	9.01	8.15	NM	NM	0.64	0.84	1.51	5.12	13.64	74.14	6.19	0.54	4.18	0.31	1.12	\$18,524,130
151.52	7.31	\$8.99	\$2.94	First M&F Corporation	FMFC	MS	\$7.49	\$69	16.64	18.51	14.36	9.3	0.70	0.73	0.53	6.08	8.89	68.90	5.47	0.39	5.27	0.82	1.65	\$213,434
(0.14)	5.23	\$36.73	\$27.96	Hancock Holding Company	HBHC	MS	\$33.39	\$2,831	23.19	14.07	14.90	12.8	1.16	1.76	2.88	9.09	66.67	64.76	5.16	0.65	2.38	0.36	1.18	\$4,182,781
6.28	10.49	\$12.00	\$8.11	Peoples Financial Corporation	PFBX	MS	\$10.43	\$54	47.41	NM	21.43	26.3	0.48	0.48	1.92	13.65	90.91	87.08	1.09	0.14	16.13	0.82	1.63	\$9,872,159
35.49	1.72	\$20.45	\$14.42	Renasant Corporation	RNST	MS	\$19.47	\$490	18.37	18.60	15.48	13.3	0.98	1.59	3.49	7.70	64.15	72.34	5.38	0.64	NA	0.75	1.56	\$362,532
(2.88)	5.52	\$26.35	\$20.76	Trustmark Corporation	TRMK	MS	\$23.70	\$1,535	13.47	13.35	13.06	12.9	1.20	1.59	3.88	10.13	52.27	61.86	9.14	1.17	2.87	0.32	1.46	\$25,520,140
14.26	5.23			Median - Mississippi					16.88	15.39	15.14	13.1	0.98	1.11	1.92	9.09	52.27	70.64	5.47	0.62	4.74	0.75	1.63	\$1,553,177
1.39	(0.93)	\$13.99	\$12.53	First Advantage Bancorp	FABK	TN	\$12.73	\$55	21.22	28.61	NM	NM	0.75	0.75	2.20	18.34	33.33	73.61	3.74	0.69	3.31	0.18	1.93	\$362,532
19.38	3.63	\$10.99	\$7.44	First Horizon National Corporation	FHN	TN	\$10.27	\$2,538	NM	NA	NM	12.1	1.13	1.22	0.39	8.11	NM	101.50	(0.62)	(0.07)	NA	1.12	1.62	\$25,520,140
(19.89)	31.84	\$3.67	\$1.30	First Security Group, Inc.	FSGI	TN	\$2.94	\$5	NM	NM	NM	NM	0.42	0.45	0.00	1.04	NM	145.52	(48.30)	(2.73)	8.70	2.57	3.03	\$1,117,470
31.63	11.78	\$21.30	\$15.52	Pinnacle Financial Partners, Inc.	PNFP	TN	\$21.06	\$731	19.15	NA	15.08	13.5	1.08	1.70	NA	8.97	-	59.05	6.01	0.86	1.83	0.29	1.85	\$5,040,549
10.38	7.71			Median - Tennessee					20.18	28.61	15.08	12.81	0.91	0.98	0.39	8.54	16.67	87.56	1.56	0.31	3.31	0.70	1.89	\$3,079,010
30.02	7.21			Average					17.36	18.86	15.50	13.74	1.04	1.18	1.59	8.54	29.57	68.76	2.26	0.46	5.79	1.03	2.04	\$11,141,359
18.13	4.49			Median					15.68	14.70	15.06	13.26	1.05	1.16	1.53	8.56	24.58	68.47	6.19	0.68	4.19	0.61	1.81	\$2,102,589

Mercer Capital

Financial Institutions Services

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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.

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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.

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