

# Bank Watch

## Northeast

## 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."<sup>1</sup> 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."<sup>2</sup> 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."<sup>3</sup>

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.”<sup>1</sup> 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

- <sup>1</sup> 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](http://www.occ.gov/news-issuances/bulletins/2012/bulletin-2012-33.html).
- <sup>2</sup> *Ibid.*
- <sup>3</sup> “Stress Testing for Community Banks” presentation by Robert C. Aaron, Arnold & Porter LLP, November 11, 2011.
- <sup>4</sup> 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](http://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
<b>Total</b>	<b>500.0</b>		<b>13.0</b>	<b>500.0</b>		<b>26.5</b>

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
<b>Net Income</b>	<b>14.6</b>	<b>4.5</b>	<b>(6.8)</b>

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
<b>Adjusted Tier 1 Capital</b>	<b>50.00</b>	<b>54.55</b>	<b>43.17</b>
Quarterly Average Assets	625.00	625.00	625.00
<b>Tier 1 Leverage Ratio (%)</b>	<b>8.0%</b>	<b>8.7%</b>	<b>6.9%</b>

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

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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 now.

*View a replay of this webinar at [www.mercercapital.com](http://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](http://www.mercercapital.com)**

#### Are You a Potential Buyer?

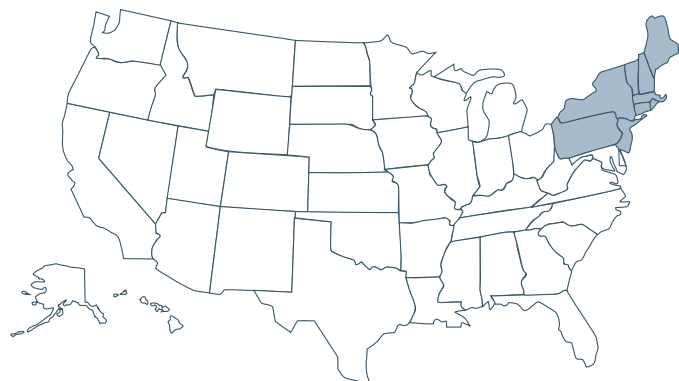
The #1 factor that a buyer controls in determining the return is the price paid. Deals occurring later in a credit cycle tend to entail a higher price and worse outcome for the buyer. We review price and other issues from the buyer's perspective that we think matter in ensuring a successful merger.

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

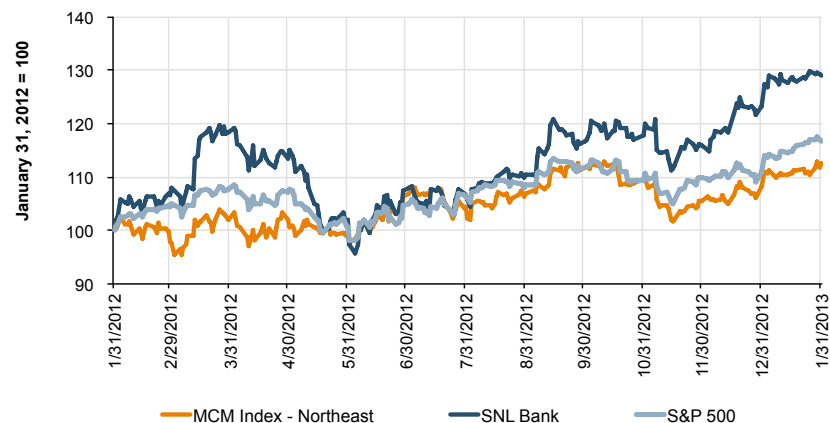
### About the Speaker

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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



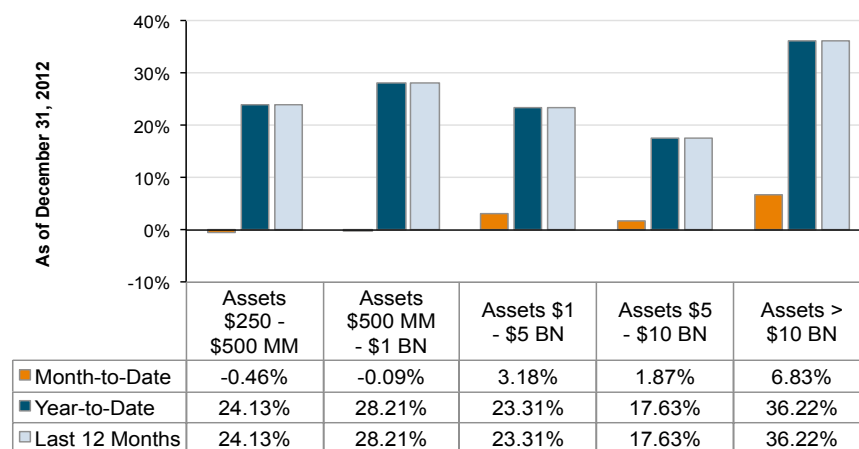
Median Valuation Multiples

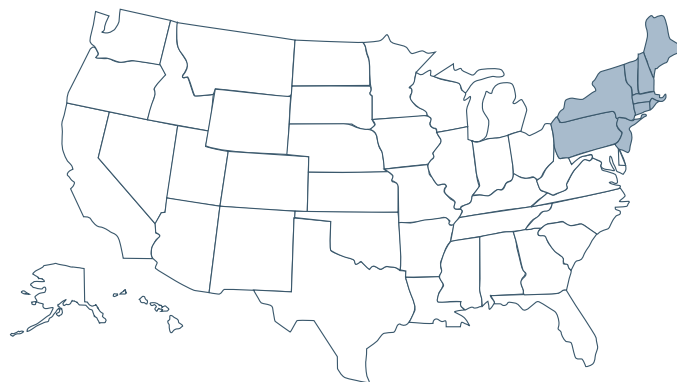
as of January 31, 2013

	Northeast Community Bank Index	National Community Bank Index
Price / LTM EPS	12.84	12.22
Price / 2013 (E) EPS	12.68	12.80
Price / 2014 (E) EPS	11.97	12.26
Price / Book Value	105.91%	98.64%
Price / Tangible Book Value	117.91%	106.10%
Dividend Yield	3.39%	2.71%

Return Stratification of U.S. Banks

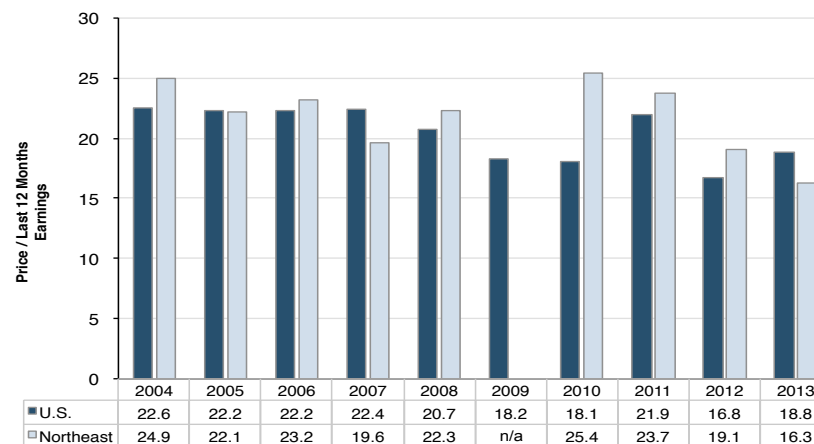
by Asset Size





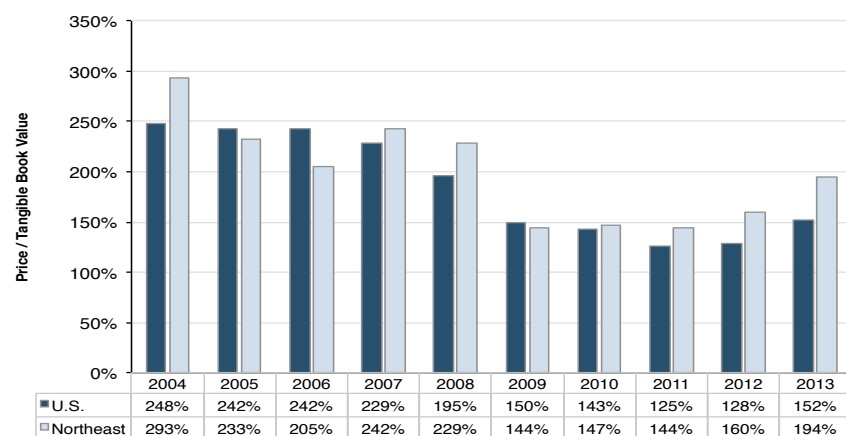
**Median Price/Earnings Multiples**

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



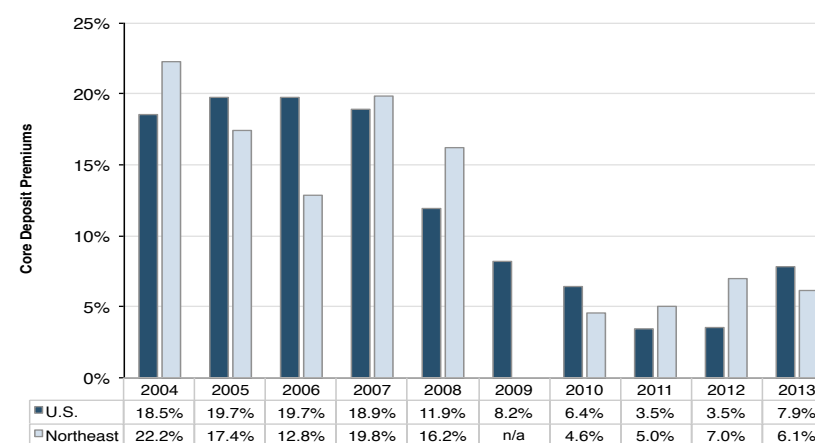
**Median Price/Tangible Book Value Multiples**

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



**Median Core Deposit Multiples**

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





Mercer Capital's Northeast Public Bank Peer Report

February 13, 2013

52 Wk Perf (%)	YTD Perf (%)	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 (%)	Efficiency Ratio (%)	LTM ROE (%)	LTM ROA (%)	NPAs/ Loans + OREO (%)	NCOs/ Avg. Loans (%)	Loan Loss Reserve/ Loans (%)	Assets (\$M)
(12.37)	30.40	\$1.03	Patriot National Bancorp, Inc.	PNBK	CT	\$1.63	\$63	54.33	50.62	NM	NM	1.23	1.23	0.00	8.30	115.26	2.65	0.21	7.49	0.18	1.33	\$615,348
6.57	8.18	\$22.75	Salisbury Bancorp, Inc.	SAL	CT	\$25.25	\$43	11.07	9.30	NM	NM	0.76	0.94	4.44	7.69	68.37	5.86	0.67	NA	0.21	1.10	\$600,813
148.65	85.86	\$0.92	Southern Connecticut Bancorp, Inc.	SSE	CT	\$3.68	\$10	NM	NM	NM	NM	0.87	0.87	nm	9.59	93.85	(16.39)	(1.44)	7.73	2.09	2.10	\$122,666
0.19	11.05	\$18.88	Webster Financial Corporation	WBS	CT	\$22.82	\$1,947	12.27	11.98	12.11	12.01	1.00	1.39	1.75	7.15	62.97	8.92	0.90	NA	0.67	1.46	\$20,146,765
<b>3.38</b>	<b>20.72</b>		<b>Median - Connecticut</b>					<b>12.27</b>	<b>11.98</b>	<b>12.11</b>	<b>12.01</b>	<b>0.94</b>	<b>1.08</b>	<b>1.75</b>	<b>8.00</b>	<b>81.11</b>	<b>4.26</b>	<b>0.44</b>	<b>7.61</b>	<b>0.44</b>	<b>1.40</b>	<b>\$608,081</b>
4.54	4.00	\$7.65	Boston Private Financial Holdings, Inc.	BPFH	MA	\$9.37	\$738	15.36	NA	13.04	11.83	1.35	nm	2.13	NA	73.97	9.72	0.89	NA	0.18	1.64	\$6,465,005
0.98	6.94	\$7.54	Brookline Bancorp, Inc.	BRKL	MA	\$9.09	\$640	17.15	15.00	14.30	12.94	1.05	1.41	3.74	9.08	55.95	5.44	0.75	NA	0.16	0.98	\$5,147,534
24.88	1.61	\$23.51	Century Bancorp, Inc.	CNBKA	MA	\$33.48	\$119	9.76	10.37	NM	NM	1.03	1.05	1.43	5.75	69.91	11.06	0.65	0.68	0.15	1.73	\$3,086,209
(5.02)	(1.88)	\$14.01	Enterprise Bancorp, Inc.	EBTC	MA	\$16.21	\$157	12.66	12.82	NM	NM	1.12	1.17	2.84	8.07	71.24	9.27	0.78	NA	0.13	1.77	\$1,665,726
14.86	8.77	\$25.85	Independent Bank Corp.	INDB	MA	\$31.49	\$717	16.15	14.45	13.32	12.79	1.35	1.95	2.67	6.56	64.13	8.66	0.83	1.95	0.36	1.13	\$5,756,985
44.98	21.40	\$38.95	State Street Corporation	STT	MA	\$57.07	\$26,176	13.59	13.89	12.99	11.36	1.28	2.21	1.68	5.54	71.08	10.21	1.06	NA	(0.03)	0.18	\$222,582,000
<b>9.70</b>	<b>5.47</b>		<b>Median - Massachusetts</b>					<b>14.47</b>	<b>13.89</b>	<b>13.18</b>	<b>12.31</b>	<b>1.20</b>	<b>1.41</b>	<b>2.40</b>	<b>6.56</b>	<b>70.50</b>	<b>9.49</b>	<b>0.81</b>	<b>NM</b>	<b>0.16</b>	<b>1.39</b>	<b>\$5,452,260</b>
21.68	4.01	\$30.00	Bar Harbor Bankshares	BHB	ME	\$35.00	\$137	11.01	11.13	10.91	10.58	1.07	NM	3.49	NA	54.74	9.93	1.00	NA	0.23	0.99	\$1,302,935
1.69	0.12	\$30.63	Camden National Corporation	CAC	ME	\$34.01	\$259	11.15	11.00	NA	NM	1.11	1.44	2.94	7.19	58.63	10.31	0.98	1.86	0.24	1.47	\$2,564,757
12.59	3.70	\$13.41	First Bancorp, Inc.	FNLC	ME	\$17.08	\$168	14.00	NA	NM	NM	1.17	1.45	4.57	8.34	50.16	8.20	0.90	NA	0.95	1.44	\$1,415,401
(27.04)	3.32	\$8.00	Northeast Bancorp	NBN	ME	\$9.45	\$89	23.05	28.05	14.39	NM	0.85	0.88	3.81	15.84	84.15	3.86	0.58	NA	0.21	0.22	\$704,710
<b>7.14</b>	<b>3.51</b>		<b>Median - Maine</b>					<b>12.58</b>	<b>11.13</b>	<b>12.65</b>	<b>10.58</b>	<b>1.09</b>	<b>1.44</b>	<b>3.65</b>	<b>8.34</b>	<b>56.68</b>	<b>9.06</b>	<b>0.94</b>	<b>1.86</b>	<b>0.24</b>	<b>1.21</b>	<b>\$1,359,168</b>
16.84	8.84	\$5.62	1st Constitution Bancorp	FCCY	NJ	\$9.08	\$54	10.09	9.75	8.51	7.77	0.83	0.91	nm	7.17	71.32	8.67	0.65	NA	0.11	1.28	\$840,968
40.39	(10.07)	\$9.05	Bancorp of New Jersey, Inc.	BKJ	NJ	\$12.59	\$66	15.54	NA	nm	NM	1.22	1.22	1.91	9.40	NA	7.90	0.80	NA	0.15	1.16	\$571,374
(2.45)	2.43	\$8.71	BCB Bancorp, Inc.	BCBP	NJ	\$9.68	\$82	NM	19.59	NM	NM	0.99	0.99	4.96	7.23	71.80	(2.22)	(0.18)	7.26	0.35	1.39	\$1,154,823
27.88	8.55	\$9.42	Center Bancorp, Inc.	CNBC	NJ	\$12.57	\$205	11.97	13.16	11.23	10.71	1.38	1.55	1.75	8.22	49.35	11.69	1.14	1.32	(0.04)	1.15	\$1,629,765
16.67	12.70	\$5.24	Community Partners Bancorp	CPBC	NJ	\$6.30	\$50	11.67	11.63	NM	NM	0.63	0.82	nm	8.61	65.30	5.37	0.69	3.28	0.13	1.40	\$733,895
3.09	(7.66)	\$8.16	Lakeland Bancorp, Inc.	LBAI	NJ	\$9.40	\$279	12.37	12.48	11.71	11.00	0.99	1.44	2.98	6.84	59.18	8.42	0.77	1.74	0.69	1.35	\$2,918,703
31.00	43.87	\$4.59	Parke Bancorp, Inc.	PKBK	NJ	\$7.15	\$38	6.11	6.94	6.22	5.81	nm	nm	nm	NA	37.96	10.00	1.04	NA	1.25	3.01	\$770,477
17.26	1.92	\$12.03	Peapack-Gladstone Financial Corporation	PGC	NJ	\$14.35	\$126	13.67	16.26	NM	NM	1.03	1.04	1.39	7.29	67.28	8.42	0.61	1.87	0.80	1.10	\$1,667,836
34.36	22.15	\$7.95	Somerset Hills Bancorp	SOMH	NJ	\$10.98	\$59	17.43	19.28	17.25	16.49	1.41	1.41	2.91	11.34	64.17	8.15	0.95	0.61	0.05	1.27	\$368,930
(3.03)	30.65	\$3.40	Stewardship Financial Corporation	SSFN	NJ	\$5.20	\$31	NM	NM	NM	NM	0.72	0.72	0.77	6.28	64.97	(0.31)	(0.03)	7.96	2.50	2.87	\$683,812
17.65	(3.95)	\$2.21	Sun Bancorp, Inc.	SNBC	NJ	\$3.40	\$293	NM	NM	NM	35.18	1.12	1.33	nm	6.95	89.38	(17.19)	(1.60)	NA	2.27	1.94	\$3,224,031
33.33	30.11	\$4.40	Sussex Bancorp	SBBX	NJ	\$7.00	\$24	31.82	NM	NM	NM	0.59	0.63	0.00	7.34	74.40	1.81	0.14	6.73	1.93	1.43	\$514,734
1.16	(2.71)	\$5.50	Unity Bancorp, Inc.	UNTY	NJ	\$6.07	\$46	17.85	20.52	NM	NM	0.80	0.82	0.00	6.83	69.05	5.67	0.53	5.29	0.94	2.51	\$819,730
(8.23)	8.49	\$8.65	Valley National Bancorp	VLY	NJ	\$10.09	\$2,002	13.82	13.59	14.60	15.44	1.33	nm	6.44	NA	60.20	9.57	0.91	2.81	0.23	1.17	\$16,012,646
<b>17.05</b>	<b>8.52</b>		<b>Median - New Jersey</b>					<b>13.67</b>	<b>13.37</b>	<b>11.47</b>	<b>11.00</b>	<b>0.99</b>	<b>1.01</b>	<b>1.83</b>	<b>7.26</b>	<b>65.30</b>	<b>8.02</b>	<b>0.67</b>	<b>3.04</b>	<b>0.52</b>	<b>1.37</b>	<b>\$830,349</b>

# Mercer Capital's Northeast Public Bank Peer Report

February 13, 2013

52 Wk Perf (%)	YTD Perf (%)	52 Wk Low (\$)	Company Name	Ticker	State	Current Price (\$)	Market Cap (\$M)	LTM (x)	Price / Earnings Core LTM (x)	Earnings FY 13 (x)	FY 14 (x)	Price/ BVPS (x)	Price/ Tang. BVPS (x)	Div. Yield (%)	Tangible Equity / Assets (%)	Efficiency Ratio (%)	LTM ROE (%)	LTM ROA (%)	NPAs/ Loans + OREO (%)	NCOs/ Avg. Loans (%)	Loan Loss Reserve/ Loans (%)	Assets (\$M)
48.96	3.82	\$28.55	Alliance Financial Corporation	ALNC	NY	\$45.17	\$216	23.53	18.09	19.29	19.12	1.47	1.98	2.83	7.98	72.39	6.40	0.65	0.89	0.21	0.92	\$1,406,357
1.15	(1.40)	\$22.60	Arrow Financial Corporation	AROW	NY	\$24.60	\$298	13.30	13.55	13.68	13.46	1.70	1.99	4.07	7.52	58.95	12.88	1.11	0.77	0.05	1.30	\$2,022,796
34.77	9.61	\$19.30	Bank of New York Mellon Corporation	BK	NY	\$28.17	\$32,776	13.88	12.22	12.31	10.90	0.93	2.63	1.85	3.71	73.11	7.09	0.80	NA	0.07	0.57	\$358,990,000
19.92	1.22	\$6.29	Berkshire Bancorp Inc.	BERK	NY	\$8.30	\$120	10.64	10.83	NM	NM	0.90	0.90	1.93	15.63	68.97	9.19	1.30	1.35	0.00	4.38	\$847,271
8.63	7.08	\$18.68	Bridge Bancorp, Inc.	BDGE	NY	\$21.78	\$194	14.72	16.78	13.58	12.23	1.63	1.67	4.22	7.17	59.45	11.78	0.88	NA	0.20	1.81	\$1,624,713
33.99	11.22	\$24.61	Citigroup Inc.	C	NY	\$44.00	\$133,272	18.03	13.60	9.61	8.48	0.71	NM	0.09	NA	69.32	4.17	0.41	NA	2.21	3.88	\$1,864,660,000
31.78	(0.43)	\$23.51	Chemung Financial Corporation	CHMG	NY	\$29.76	\$138	12.50	12.51	12.55	11.90	1.06	1.33	3.36	8.53	72.66	8.41	0.88	1.24	0.02	1.17	\$1,248,160
7.08	5.99	\$25.38	Community Bank System, Inc.	CBU	NY	\$29.00	\$1,149	15.03	13.90	14.03	13.77	1.27	2.23	3.72	7.25	57.94	8.82	1.08	NA	0.23	1.11	\$7,496,800
49.96	3.56	\$15.97	Elmira Savings Bank	ESBK	NY	\$23.55	\$55	15.60	15.47	NM	NM	1.27	1.80	3.72	5.81	60.84	7.92	0.99	NA	0.01	0.98	\$536,936
35.53	12.90	\$13.80	Evans Bancorp, Inc.	EVBN	NY	\$17.50	\$73	8.97	8.73	10.28	9.19	0.98	1.10	2.74	8.29	70.05	11.20	1.04	NA	0.29	1.67	\$809,676
16.50	7.73	\$15.22	Financial Institutions, Inc.	FISI	NY	\$20.07	\$277	12.54	11.51	10.86	10.33	1.17	1.49	3.19	6.84	59.43	9.46	0.93	NA	0.36	1.45	\$2,764,034
(9.84)	3.53	\$7.08	First Niagara Financial Group, Inc.	FNFG	NY	\$8.21	\$2,895	20.53	NA	10.98	10.22	0.63	1.47	3.90	5.77	58.54	3.45	0.48	2.02	0.26	0.82	\$36,808,729
15.03	4.66	\$25.10	First of Long Island Corporation	FLIC	NY	\$29.64	\$267	13.06	14.76	12.09	11.45	1.30	1.30	3.37	9.73	56.30	10.19	0.99	0.51	0.15	1.62	\$2,108,290
(3.88)	1.41	\$13.23	Hudson Valley Holding Corp.	HVB	NY	\$15.79	\$312	10.60	15.09	20.16	17.79	1.07	1.17	1.52	9.29	65.06	10.10	1.02	NA	0.76	1.81	\$2,891,246
66.34	32.13	\$3.06	Intervest Bancshares Corporation	IBCA	NY	\$5.14	\$111	10.71	10.33	NM	NM	0.60	0.60	0.00	11.19	36.24	6.00	0.66	7.99	0.20	2.54	\$1,665,792
30.83	10.71	\$30.83	JPMorgan Chase & Co.	JPM	NY	\$48.68	\$185,179	9.36	10.49	9.06	8.55	0.95	1.28	2.47	6.28	68.28	11.05	0.94	NA	1.25	2.99	\$2,359,141,000
34.04	6.30	\$76.92	M&T Bank Corporation	MTB	NY	\$104.67	\$13,422	13.88	12.67	12.57	11.88	1.44	2.36	2.68	7.17	55.92	10.61	1.29	NA	0.30	1.39	\$83,008,803
(3.81)	3.60	\$18.92	NBT Bancorp Inc.	NBTB	NY	\$21.00	\$710	12.96	12.18	12.38	12.11	1.22	NM	3.81	NA	63.70	9.72	0.93	NA	0.55	1.62	\$6,042,259
29.84	6.74	\$57.40	Signature Bank	SBNY	NY	\$76.15	\$3,597	19.48	19.74	17.46	15.86	2.18	2.18	nm	9.45	37.48	12.18	1.17	NA	0.24	1.06	\$17,456,057
12.05	12.95	\$8.30	Sterling Bancorp	STL	NY	\$10.29	\$319	15.83	16.81	13.85	12.88	1.40	1.56	3.50	7.50	70.32	8.79	0.78	NA	0.49	1.26	\$2,749,711
12.73	8.17	\$11.03	Suffolk Bancorp	SUBK	NY	\$14.17	\$164	NM	NM	NM	NM	1.00	1.00	0.00	10.06	86.15	(1.22)	(0.11)	3.69	3.57	2.27	\$1,622,464
4.42	4.36	\$35.82	Tompkins Financial Corporation	TMP	NY	\$41.37	\$595	17.02	12.64	11.72	11.57	1.35	NM	3.67	NA	63.01	8.34	0.77	2.71	0.52	0.83	\$4,837,197
1.19	4.02	\$9.65	VSBCorp, Inc.	VSBN	NY	\$10.34	\$18	15.43	NA	NM	NM	0.67	0.67	2.32	10.29	76.07	4.32	0.47	NA	(0.07)	2.14	\$269,704
<b>16.50</b>	<b>5.99</b>		<b>Median - New York</b>					<b>13.88</b>	<b>13.11</b>	<b>12.47</b>	<b>11.89</b>	<b>1.17</b>	<b>1.48</b>	<b>3.01</b>	<b>7.75</b>	<b>63.70</b>	<b>8.82</b>	<b>0.93</b>	<b>1.35</b>	<b>0.24</b>	<b>1.45</b>	<b>\$2,749,711</b>

# Mercer Capital's Northeast Public Bank Peer Report

February 13, 2013

52 Wk Perf (%)	YTD Perf (%)	52 Wk Low (\$)	Company Name	Ticker	State	Current Price (\$)	Market Cap (\$M)	LTM (x)	Price / Core LTM (x)	Earnings FY 13 (x)	FY 14 (x)	Price/ BVPS (x)	Price/ Tang. BVPS (x)	Div. Yield (%)	Tangible Equity / Assets (%)	Efficiency Ratio (%)	LTM ROE (%)	LTM ROA (%)	NPAs/ Loans + OREO (%)	NCOs/ Avg. Loans (%)	Loan Loss Reserve/ Loans (%)	Assets (\$M)
21.48	3.39	\$14.06	ACNB Corporation	ACNB	PA	\$16.73	\$100	11.86	11.37	NM	NM	0.98	1.07	4.54	8.80	61.66	8.50	0.82	2.56	0.66	2.27	\$1,063,023
29.61	0.33	\$2.25	AmeriServ Financial, Inc.	ASRV	PA	\$3.02	\$58	14.38	14.41	NM	NM	0.65	0.75	0.00	7.74	86.22	4.51	0.51	NA	0.19	1.69	\$1,005,828
17.86	4.76	\$19.14	Bryn Mawr Bank Corporation	BMTC	PA	\$23.33	\$313	14.58	13.12	12.56	12.13	1.54	2.11	2.91	7.50	63.51	10.91	1.15	1.69	0.18	1.03	\$2,035,885
0.27	4.23	\$16.79	Citizens & Northern Corporation	CZNC	PA	\$19.70	\$242	10.65	10.82	11.52	12.09	1.32	1.42	5.08	13.39	51.44	12.91	1.74	1.67	0.16	1.00	\$1,286,907
11.61	3.85	\$14.24	CNB Financial Corporation	CCNE	PA	\$17.01	\$212	12.33	13.01	11.59	11.13	1.46	NM	3.88	NA	55.82	12.17	1.00	2.70	0.55	1.51	\$1,773,079
74.44	10.63	\$9.67	Codorus Valley Bancorp, Inc.	CVLY	PA	\$16.65	\$75	8.33	8.57	NM	NM	0.98	0.98	2.64	7.19	61.87	9.56	0.90	NA	0.16	1.26	\$1,059,737
39.20	7.10	\$12.04	DNB Financial Corporation	DNBF	PA	\$16.60	\$45	9.27	9.82	NM	NM	1.03	NM	1.20	NA	67.31	9.66	0.84	NA	NA	1.72	\$639,568
47.30	11.13	\$16.44	Emclair Financial Corp.	EMCF	PA	\$23.17	\$41	12.87	15.84	NM	NM	0.98	1.11	3.11	7.31	69.98	7.06	0.70	NA	NA	NA	\$509,014
4.75	13.28	\$9.89	F.N.B. Corporation	FNB	PA	\$12.03	\$1,683	15.23	13.65	13.92	13.23	1.20	2.44	3.99	6.09	57.84	8.02	0.94	NA	0.35	1.28	\$12,023,976
31.49	7.62	\$5.57	First Commonwealth Financial Corporation	FCF	PA	\$7.34	\$731	18.35	17.57	15.54	13.96	0.98	1.25	2.72	10.01	67.11	5.46	0.71	2.89	0.35	1.60	\$5,995,390
19.65	16.86	\$8.75	Fulton Financial Corporation	FULT	PA	\$11.23	\$2,222	14.04	14.40	13.28	12.56	1.07	1.45	2.85	9.67	58.09	7.79	0.98	NA	1.05	1.83	\$16,528,153
49.78	27.46	\$10.00	Metro Bancorp, Inc.	METR	PA	\$16.85	\$238	21.88	NA	20.42	17.85	1.02	1.02	nm	8.90	74.28	4.76	0.44	3.53	0.43	1.64	\$2,634,875
31.39	3.66	\$8.97	Mid Penn Bancorp, Inc.	MPB	PA	\$11.60	\$40	9.13	NA	NM	NM	NM	NM	1.72	NA	73.44	NA	NA	NA	NA	NA	\$705,200
14.41	5.69	\$8.18	National Penn Bancshares, Inc.	NPBC	PA	\$9.85	\$1,430	14.92	14.55	17.13	13.64	1.23	1.60	4.06	10.80	55.84	8.25	1.17	1.12	0.46	2.12	\$8,529,522
23.36	3.90	\$25.25	Norwood Financial Corp.	NWFL	PA	\$30.91	\$102	12.07	13.36	NM	NM	1.10	1.24	4.01	12.40	52.67	9.22	1.23	NA	0.50	1.15	\$672,299
85.28	52.80	\$7.45	Orrstown Financial Services, Inc.	ORRF	PA	\$14.73	\$119	NM	NM	24.79	13.00	1.36	1.37	0.00	7.05	73.63	(35.22)	(2.84)	3.21	8.01	3.26	\$1,232,668
4.75	7.08	\$35.70	Penns Woods Bancorp, Inc.	PWOD	PA	\$40.06	\$154	11.10	11.73	NM	NM	1.64	1.70	4.69	10.63	50.86	15.36	1.70	NA	0.44	1.48	\$856,535
9.60	10.05	\$53.36	PNC Financial Services Group, Inc.	PNC	PA	\$64.17	\$33,882	12.11	NA	9.94	9.53	0.96	NM	2.49	NA	66.42	7.49	1.02	NA	0.72	2.13	\$305,107,000
28.12	16.43	\$1.77	Republic First Bancorp, Inc.	FRBK	PA	\$2.41	\$63	17.21	NA	21.18	15.72	0.90	0.90	nm	7.07	85.78	5.36	0.37	NA	0.63	1.54	\$988,658
0.70	19.18	\$0.95	Royal Bancshares of Pennsylvania, Inc.	RBPA	PA	\$1.43	\$19	NM	NM	NM	NM	0.52	0.52	0.00	4.44	105.63	(12.50)	(1.12)	14.24	1.47	5.04	\$801,681
(13.45)	1.88	\$15.68	S&T Bancorp, Inc.	STBA	PA	\$18.41	\$547	15.60	14.74	12.90	12.72	1.02	NM	3.26	NA	61.91	6.63	0.79	NA	0.78	1.38	\$4,526,702
27.07	12.60	\$8.73	Susquehanna Bancshares, Inc.	SUSQ	PA	\$11.80	\$2,201	15.32	13.12	12.49	11.90	0.85	1.71	2.37	7.68	58.57	5.62	0.81	1.55	0.55	1.43	\$18,037,667
7.18	(1.75)	\$14.78	Univest Corporation of Pennsylvania	UVSP	PA	\$16.80	\$282	13.55	14.74	12.99	12.06	0.99	NM	4.76	NA	65.26	7.39	0.95	3.20	1.03	1.66	\$2,304,841
<b>21.51</b>	<b>7.36</b>		<b>Median - Pennsylvania</b>					<b>13.79</b>	<b>13.51</b>	<b>13.13</b>	<b>12.64</b>	<b>1.02</b>	<b>1.31</b>	<b>2.88</b>	<b>7.71</b>	<b>64.39</b>	<b>7.49</b>	<b>0.90</b>	<b>2.79</b>	<b>0.50</b>	<b>1.57</b>	<b>\$1,529,993</b>
11.72	0.95	\$22.53	Washington Trust Bancorp, Inc.	WASH	RI	\$26.56	\$435	12.47	12.76	11.95	11.84	1.47	1.88	4.76	7.69	64.63	11.97	1.16	NA	0.07	1.32	\$3,071,884
<b>11.72</b>	<b>0.95</b>		<b>Median - Rhode Island</b>					<b>12.47</b>	<b>12.76</b>	<b>11.95</b>	<b>11.84</b>	<b>1.47</b>	<b>1.88</b>	<b>4.76</b>	<b>7.69</b>	<b>64.63</b>	<b>11.97</b>	<b>1.16</b>	<b>...</b>	<b>0.07</b>	<b>1.32</b>	<b>\$3,071,884</b>
2.37	7.62	\$25.07	Merchants Bancshares, Inc.	MBVT	VT	\$28.81	\$172	11.90	12.77	12.01	11.32	1.45	1.45	3.89	6.92	66.48	13.37	0.92	NA	(0.00)	1.07	\$1,708,550
10.72	3.74	\$18.75	Union Bankshares, Inc.	UNB	VT	\$20.27	\$90	13.16	14.17	nm	nm	2.01	2.18	4.93	7.22	73.09	16.51	1.22	NA	0.05	1.02	\$577,256
<b>6.55</b>	<b>5.68</b>		<b>Median - Vermont</b>					<b>12.53</b>	<b>13.47</b>	<b>12.01</b>	<b>11.32</b>	<b>1.73</b>	<b>1.82</b>	<b>4.41</b>	<b>7.07</b>	<b>69.79</b>	<b>14.94</b>	<b>1.07</b>	<b>...</b>	<b>0.03</b>	<b>1.05</b>	<b>\$1,142,903</b>
<b>18.51</b>	<b>8.81</b>		<b>Average</b>					<b>14.81</b>	<b>14.46</b>	<b>13.52</b>	<b>12.84</b>	<b>1.13</b>	<b>1.39</b>	<b>2.73</b>	<b>8.22</b>	<b>66.01</b>	<b>6.88</b>	<b>0.72</b>	<b>3.27</b>	<b>0.64</b>	<b>1.62</b>	<b>\$75,521,337</b>
<b>15.76</b>	<b>6.52</b>		<b>Median</b>					<b>13.74</b>	<b>13.55</b>	<b>12.90</b>	<b>12.09</b>	<b>1.09</b>	<b>1.35</b>	<b>2.85</b>	<b>7.51</b>	<b>65.26</b>	<b>8.41</b>	<b>0.88</b>	<b>2.02</b>	<b>0.29</b>	<b>1.43</b>	<b>\$1,688,193</b>

# Mercer Capital

Financial Institutions Services

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