

Bank Watch

West

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.

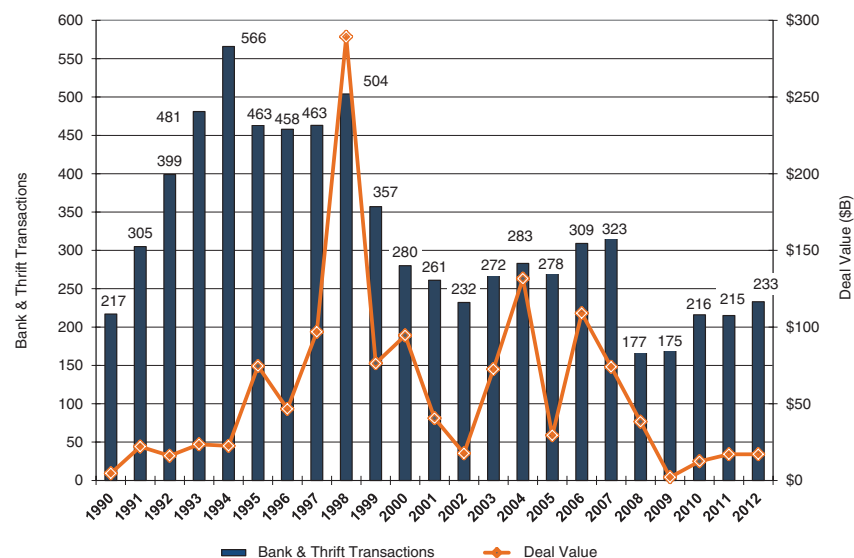
Unlike the frantic activity of the 1990s and to a lesser extent the years leading up to the financial crisis, we believe bank M&A will be dominated by the merger of privately held small banks with each other rather than large-scale, roll-up activity by regional banks. That is not to say regional banks 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).

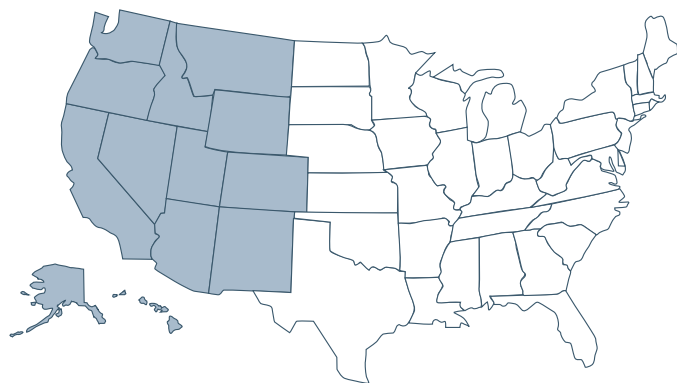
Many bank M&A attorneys regularly remark that the current regulatory environment is the toughest they have ever seen. There also appear to be too few banks rated “2” or better to have

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

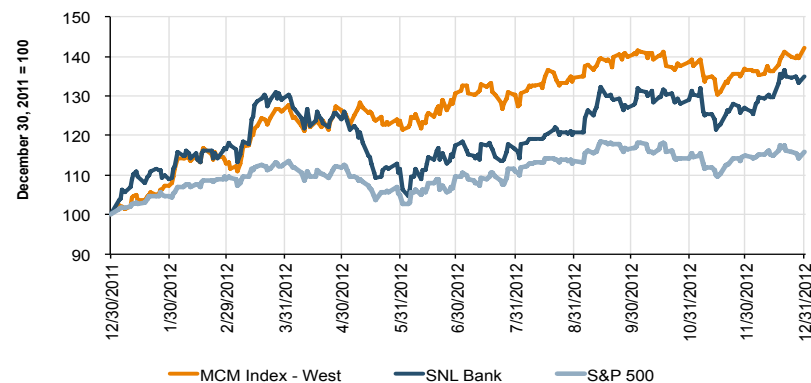
Andy Gibbs and Jeff Davis will be presenting the session “**Capital Management: Alternatives and Uncertainties,**” at the 2013 Acquire or Be Acquired Conference sponsored by *Bank Director* magazine.

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



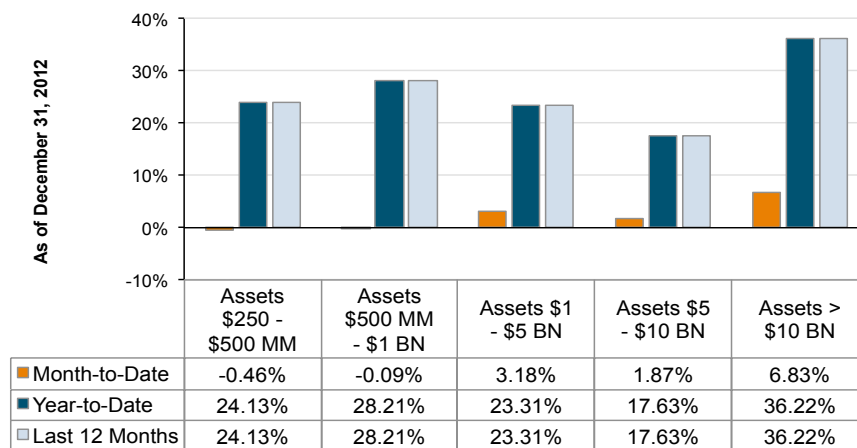
Median Valuation Multiples

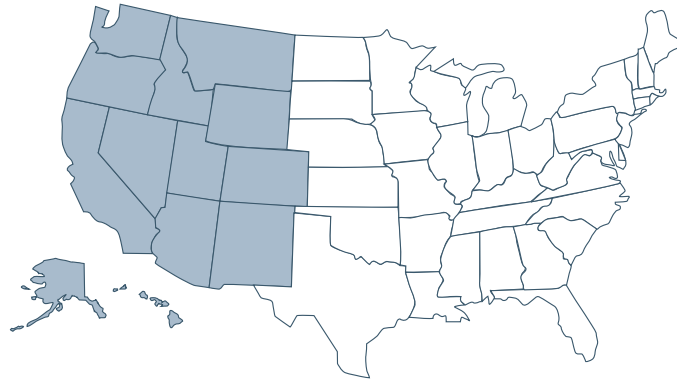
as of December 31, 2012

	West Community Bank Index	National Community Bank Index
Price / LTM EPS	12.88	11.85
Price / 2012 (E) EPS	14.05	12.67
Price / 2013 (E) EPS	13.20	12.37
Price / Book Value	106.58%	92.38%
Price / Tangible Book Value	112.78%	97.52%
Dividend Yield	2.15%	2.67%

Return Stratification of U.S. Banks

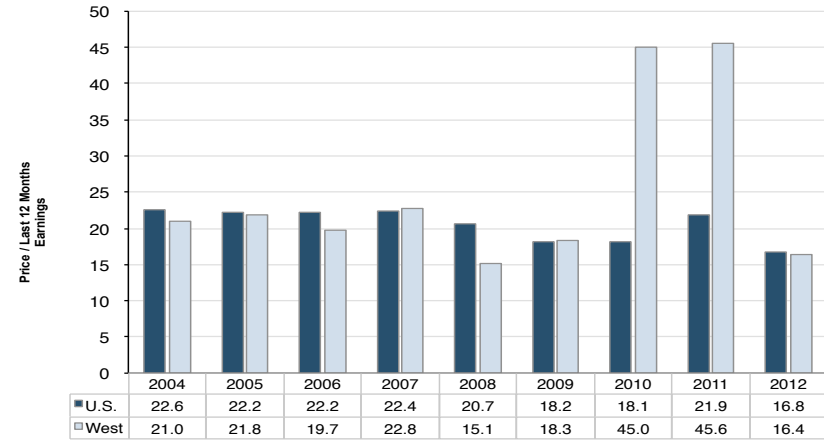
by Asset Size





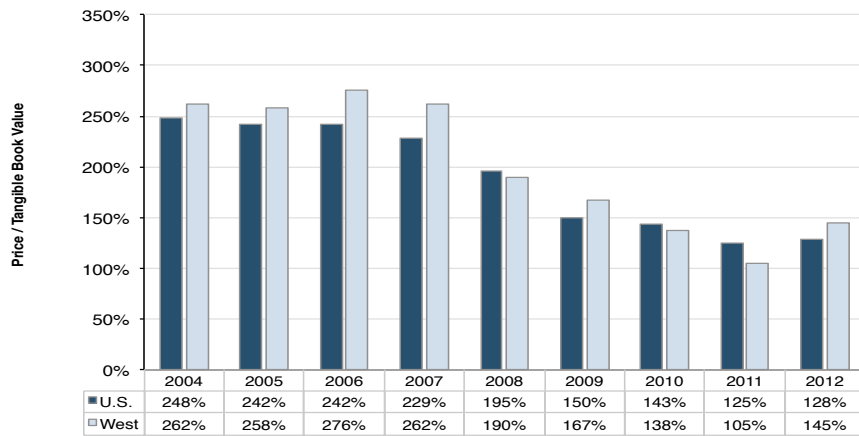
Median Price/Earnings Multiples

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



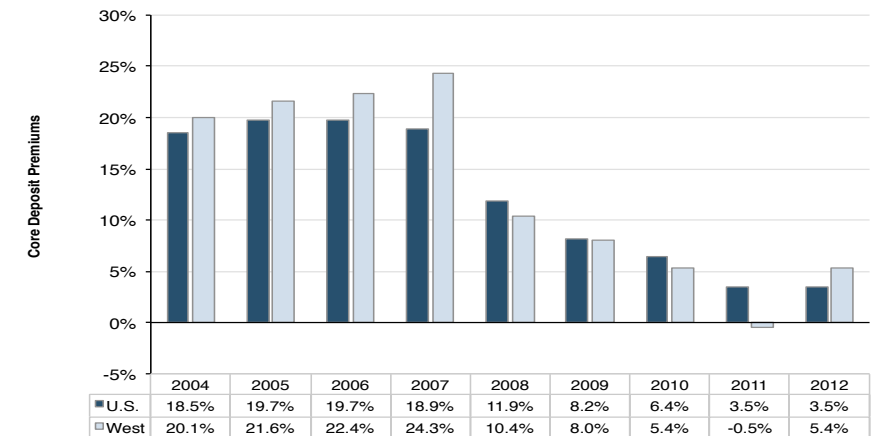
Median Price/Tangible Book Value Multiples

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



Median Core Deposit Multiples

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



Mercer Capital's West 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)	Price / Earnings				Price/BVPS (x)	Price/Tang. BVPS (x)	Div. Yield (%)	Tangible Equity + Assets (%)	Dividend Payout (%)	Efficiency Ratio (%)	LTM ROE (%)	LTM ROA (%)	NPA's/Loans + OREO (%)	NCO's/Avg. Loans (%)	Loan Loss Reserve/Loans (%)	Assets (\$M)
									LTM (x)	Core LTM (x)	FY 13 (x)	FY 14 (x)												
18.18	(4.68)	\$23.12	\$18.25	Northrim BanCorp, Inc.	NRIM	AK	\$21.59	\$140	10.85	NA	10.99	12.76	1.04	1.11	2.78	11.17	27.14	68.17	10.52	1.26	2.59	(0.19)	2.33	\$1,133,798
18.18	(4.68)			Median - Alaska					10.85	...	10.99	12.76	1.04	1.11	2.78	11.17	27.14	68.17	10.52	1.26	2.59	(0.19)	2.33	\$1,133,798
58.05	9.12	\$11.66	\$7.14	Western Alliance Bancorporation	WAL	AZ	\$11.49	\$993	22.10	20.17	16.85	13.04	1.72	1.82	nm	7.16	0.00	58.81	7.19	0.69	5.44	1.05	1.83	\$7,403,603
58.05	9.12			Median - Arizona					22.10	20.17	16.85	13.04	1.72	1.82	...	7.16	-	58.81	7.19	0.69	5.44	1.05	1.83	\$7,403,603
32.98	8.44	\$5.19	\$3.51	1st Century Bancshares, Inc.	FCTY	CA	\$5.00	\$46	17.24	17.24	15.27	5.37	0.94	0.94	nm	10.24	0.00	80.46	5.34	0.57	2.82	0.16	2.02	\$474,363
52.63	0.72	\$8.31	\$4.53	American River Bankshares	AMRB	CA	\$6.96	\$65	20.47	19.98	21.48	19.26	0.69	0.84	0.00	13.64	0.00	63.80	3.60	0.57	12.68	1.13	2.15	\$584,558
21.30	1.09	\$5.24	\$3.52	Bank of Commerce Holdings	BOCH	CA	\$4.65	\$75	10.57	15.03	12.81	8.17	0.82	0.82	2.58	9.65	27.27	56.99	7.71	0.92	6.63	1.05	1.67	\$946,450
1.90	2.54	\$44.09	\$34.50	Bank of Marin Bancorp	BMRC	CA	\$38.41	\$206	12.63	12.31	11.91	12.21	1.40	1.40	1.87	10.27	22.70	53.65	11.76	1.16	3.44	0.47	1.30	\$1,435,114
19.89	4.32	\$13.21	\$9.73	BBCN Bancorp, Inc.	BBCN	CA	\$12.07	\$942	15.68	14.69	12.11	11.24	1.28	1.47	1.66	12.24	0.00	43.98	9.08	1.37	1.87	0.56	1.60	\$5,331,979
48.99	(0.32)	\$16.43	\$10.00	Bridge Capital Holdings	BBNK	CA	\$15.51	\$244	18.25	18.55	16.66	15.86	1.72	1.72	nm	11.39	0.00	64.61	9.44	1.09	2.23	0.20	2.25	\$1,247,554
26.63	1.23	\$20.10	\$15.10	Cathay General Bancorp	CATY	CA	\$19.77	\$1,557	15.45	15.81	14.97	13.31	1.16	1.52	0.20	9.93	3.13	45.59	7.58	1.11	4.46	0.26	2.54	\$10,604,524
68.87	14.69	\$9.25	\$5.25	Central Valley Community Bancorp	CVCY	CA	\$8.90	\$85	11.71	12.98	11.48	11.71	0.77	0.99	0.56	9.99	0.00	69.83	6.79	0.90	4.46	0.40	2.56	\$887,737
13.26	6.38	\$54.83	\$45.03	City National Corporation	CYN	CA	\$52.68	\$2,834	13.90	13.61	13.34	13.44	1.20	1.71	1.90	6.41	25.07	62.82	9.33	0.85	1.47	0.00	2.11	\$26,251,528
89.09	(6.87)	\$3.50	\$1.27	Community West Bancshares	CWBC	CA	\$3.12	\$19	NM	NM	NM	NM	0.53	0.53	0.00	6.38	NM	66.78	(14.57)	(1.28)	9.07	1.97	3.17	\$556,796
5.41	7.02	\$12.95	\$9.43	CVB Financial Corp.	CVBF	CA	\$11.13	\$1,167	15.04	14.77	12.06	12.49	1.53	1.66	3.05	11.17	45.95	51.21	10.31	1.19	3.77	0.05	2.68	\$6,363,364
9.04	6.56	\$24.39	\$19.68	East West Bancorp, Inc.	EWBC	CA	\$22.90	\$3,213	12.51	12.28	12.19	11.48	1.44	1.75	1.75	8.59	19.13	42.03	11.98	1.27	1.98	0.51	1.58	\$21,813,165
98.60	2.85	\$7.96	\$3.91	First California Financial Group, Inc.	FCAL	CA	\$7.94	\$232	20.89	20.96	19.36	15.25	1.10	1.69	0.00	7.18	0.00	70.66	5.31	0.64	3.58	0.19	1.55	\$1,990,804
15.76	9.43	\$36.10	\$29.21	First Republic Bank	FRC	CA	\$35.87	\$4,709	13.00	NA	11.95	11.81	1.62	1.79	1.12	7.72	10.87	48.11	13.22	1.29	0.22	0.01	0.46	\$34,387,677
92.37	15.08	\$16.20	\$7.87	Hanmi Financial Corporation	HAFC	CA	\$15.64	\$493	5.92	5.96	16.01	13.80	1.35	1.36	0.00	12.77	0.00	63.86	27.94	2.98	3.37	2.30	3.36	\$2,841,857
35.17	(1.43)	\$7.18	\$4.79	Heritage Commerce Corp	HTBK	CA	\$6.88	\$181	26.46	27.84	24.74	20.14	1.21	1.23	0.00	10.88	0.00	69.90	5.66	0.76	2.83	0.67	2.39	\$1,356,040
65.71	-	\$6.00	\$3.55	Heritage Oaks Bancorp	HEOP	CA	\$5.80	\$147	11.84	13.32	13.21	13.85	1.24	1.39	0.00	10.11	0.00	65.65	10.56	1.40	3.06	1.63	2.61	\$1,058,679
66.91	12.29	\$15.99	\$9.64	North Valley Bancorp	NOVB	CA	\$15.99	\$109	13.90	17.21	17.53	21.04	1.10	1.11	0.00	11.03	0.00	80.90	8.67	0.86	6.65	0.94	2.33	\$894,551
23.04	13.96	\$8.69	\$5.02	Oak Valley Bancorp	OVLY	CA	\$8.49	\$67	12.49	12.65	NM	NM	1.08	1.08	0.00	9.89	0.00	63.49	8.33	0.97	1.86	0.54	2.05	\$627,817
94.80	(2.38)	\$7.40	\$3.03	Pacific Mercantile Bancorp	PMBC	CA	\$6.14	\$102	4.95	5.35	NM	NM	0.89	0.89	nm	10.44	0.00	73.45	19.87	1.75	8.00	0.66	1.50	\$1,097,870
57.61	3.13	\$11.49	\$6.55	Pacific Premier Bancorp, Inc.	PPBI	CA	\$10.56	\$149	7.76	10.53	7.72	10.70	1.09	1.12	nm	8.94	0.00	57.86	16.00	1.45	1.34	0.20	0.89	\$1,089,336
35.40	9.41	\$27.17	\$20.62	PacWest Bancorp	PACW	CA	\$27.10	\$1,014	17.60	14.65	12.62	11.74	1.72	2.05	3.69	9.21	51.30	62.47	10.01	1.04	NA	0.33	2.56	\$5,463,658
92.85	23.01	\$4.37	\$1.84	Plumas Bancorp	PLBC	CA	\$4.01	\$19	20.05	24.88	NM	NM	0.65	0.65	0.00	6.26	0.00	78.60	4.08	0.36	8.00	1.22	1.84	\$470,073
96.13	3.59	\$15.20	\$7.50	Preferred Bank	PFBC	CA	\$14.71	\$195	8.70	8.84	15.98	16.70	1.07	1.07	0.00	12.26	0.00	46.48	13.29	1.66	6.84	2.29	2.01	\$1,484,216
37.87	5.86	\$13.00	\$8.42	Sierra Bancorp	BSRR	CA	\$12.10	\$171	22.83	23.90	20.56	16.31	0.98	1.01	1.98	11.92	45.28	65.81	4.47	0.56	9.85	2.69	1.51	\$1,423,302
48.88	14.81	\$7.99	\$5.26	Summit State Bank	SSBI	CA	\$7.75	\$37	15.50	44.19	26.64	14.63	0.76	0.83	4.65	10.42	72.00	60.51	4.85	0.74	6.86	1.68	2.23	\$429,722
13.30	9.88	\$67.49	\$51.96	SVB Financial Group	SIVB	CA	\$61.50	\$2,738	17.13	34.74	17.23	17.26	1.53	1.53	0.00	8.27	0.00	66.50	8.18	0.94	0.55	0.30	1.24	\$21,576,934
17.33	(0.18)	\$17.80	\$14.31	TnCo Bancshares	TCBK	CA	\$16.72	\$267	12.86	12.27	13.84	12.41	1.18	1.27	2.15	8.43	27.69	63.03	9.41	0.83	8.21	0.97	2.78	\$2,515,481
20.63	2.49	\$36.60	\$28.77	Wells Fargo & Company	WFC	CA	\$35.03	\$184,479	10.43	10.26	9.63	8.99	1.27	NM	2.51	NA	26.19	54.78	12.81	1.44	NA	1.10	2.01	\$1,422,968,000
(1.97)	4.20	\$49.53	\$40.50	Westamerica Bancorporation	WABC	CA	\$44.38	\$1,208	15.15	14.38	NM	16.04	2.16	2.91	3.33	8.64	50.51	43.67	14.93	1.64	NA	NA	1.43	\$4,952,193
67.03	4.43	\$6.77	\$3.42	Wilshire Bancorp, Inc.	WIBC	CA	\$6.13	\$437	5.19	5.40	5.02	9.17	1.33	1.36	0.00	12.31	0.00	53.99	28.00	3.20	3.29	0.56	3.56	\$2,615,889
35.40	4.32			Median - California					13.90	14.65	13.59	13.31	1.18	1.31	0.56	10.05	-	63.03	9.33	1.04	3.51	0.56	2.05	\$1,435,114

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January 17, 2013

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									LTM (x)	Core LTM (x)	FY 13 (x)	FY 14 (x)												
28.29	2.81	\$7.77	\$5.22	CoBiz Financial Inc.	COBZ	CO	\$7.68	\$305	8.08	7.97	14.68	13.52	1.58	1.60	1.04	7.45	6.32	72.76	17.01	1.58	3.78	0.54	2.56	\$2,559,954
39.73	4.62	\$2.37	\$1.42	Guaranty Bancorp	GBNK	CO	\$2.04	\$206	15.69	13.13	48.07	18.13	1.17	1.24	nm	9.59	0.00	73.92	8.11	0.83	4.30	0.89	2.56	\$1,834,978
34.01	3.71			Median - Colorado					NM	NM	31.38	15.82	1.37	1.42	1.04	8.52	3.16	73.34	12.56	1.21	4.04	0.72	2.56	\$2,197,466
3.74	6.45	\$49.99	\$41.41	Bank of Hawaii Corporation	BOH	HI	\$46.89	\$2,106	12.95	13.09	12.82	13.43	2.06	2.13	3.84	7.44	49.72	57.86	16.18	1.22	1.36	0.28	2.25	\$13,382,425
18.52	2.63	\$16.25	\$12.01	Central Pacific Financial Corp.	CPF	HI	\$16.00	\$670	14.16	14.07	14.15	16.76	1.34	1.38	0.00	11.30	0.00	83.76	9.83	1.13	7.60	0.88	4.54	\$4,309,618
11.13	4.54			Median - Hawaii					13.56	13.58	13.48	15.09	1.70	1.75	1.92	9.37	24.86	70.81	13.01	1.18	4.48	0.58	3.40	\$8,846,022
36.02	8.45	\$14.00	\$8.67	Home Federal Bancorp, Inc.	HOME	ID	\$13.48	\$196	67.40	106.21	NM	NM	1.07	1.08	1.78	17.11	112.50	95.55	1.55	0.27	6.99	0.18	2.91	\$1,060,187
36.02	8.45			Median - Idaho					67.40	106.21	1.07	1.08	1.78	17.11	112.50	95.55	1.55	0.27	6.99	0.18	2.91	\$1,060,187
26.06	3.69	\$16.00	\$13.03	First Interstate BancSystem, Inc.	FIBK	MT	\$16.00	\$272	13.56	13.73	12.73	11.58	0.93	1.24	3.25	7.67	40.68	60.96	7.02	0.74	4.80	1.62	2.37	\$7,461,152
23.57	5.17	\$16.33	\$12.50	Glacier Bancorp, Inc.	GBCI	MT	\$15.47	\$1,113	16.11	15.79	14.68	13.45	1.25	1.43	3.62	10.34	54.17	56.67	7.93	0.94	7.83	0.83	3.87	\$7,632,205
24.82	4.43			Median - Montana					14.84	14.76	13.71	12.52	1.09	1.34	3.43	9.01	47.42	58.82	7.47	0.84	6.32	1.23	3.12	\$7,546,679
37.21	5.43	\$7.00	\$4.23	Cascade Bancorp	CACB	OR	\$6.60	\$312	NM	NM	48.07	15.27	2.24	2.24	0.00	10.74	NM	91.73	(15.00)	(1.62)	7.99	1.24	4.13	\$1,296,429
20.02	2.98	\$10.12	\$8.23	Pacific Continental Corporation	PCBK	OR	\$10.02	\$179	14.52	14.22	13.02	11.62	0.97	1.11	3.19	11.94	44.93	58.57	6.97	0.96	NA	0.06	1.88	\$1,373,487
75.82	(0.62)	\$2.13	\$0.81	PremierWest Bancorp	PRWT	OR	\$1.60	\$16	NM	NM	nm	NM	0.40	0.42	0.00	3.34	NM	87.36	(9.71)	(0.66)	10.03	2.06	2.82	\$1,157,550
1.81	7.46	\$13.88	\$11.17	Umpqua Holdings Corporation	UMPQ	OR	\$12.67	\$1,418	14.91	14.66	14.21	14.64	0.83	1.36	2.84	9.59	37.65	63.04	5.64	0.83	2.61	0.52	1.43	\$11,528,964
42.79	3.97	\$23.10	\$15.85	West Coast Bancorp	WCBO	OR	\$23.03	\$444	13.96	13.95	21.12	19.39	1.41	1.41	0.87	12.72	3.03	72.16	11.19	1.47	4.64	0.35	2.11	\$2,475,980
37.21	3.97			Median - Oregon					14.5	14.2	17.7	15.0	0.97	1.36	0.87	10.74	37.65	72.16	5.64	0.83	6.31	0.52	2.11	\$1,373,487
22.53	5.14	\$22.81	\$16.40	Zions Bancorporation	ZION	UT	\$22.50	\$4,144	22.1	20.2	20.8	13.0	0.86	1.11	0.18	7.17	3.92	69.51	5.62	0.72	3.36	0.64	2.47	\$53,087,001
22.53	5.14			Median - Utah					22.1	20.2	20.8	13.0	0.86	1.11	0.18	7.17	3.92	69.51	5.62	0.72	3.36	0.64	2.47	\$53,087,001
74.45	2.47	\$31.87	\$17.69	Banner Corporation	BANR	WA	\$31.49	\$613	11.93	11.54	10.02	15.64	1.24	1.25	0.13	11.47	1.52	75.98	9.98	1.31	3.76	0.75	2.45	\$4,268,664
(0.11)	7.25	\$23.52	\$16.18	Columbia Banking System, Inc.	COLB	WA	\$19.24	\$764	16.17	14.40	16.97	14.13	1.00	1.21	1.87	13.20	85.71	57.88	6.24	0.99	2.76	0.63	2.75	\$4,903,049
20.62	(0.88)	\$15.57	\$12.37	Heritage Financial Corporation	HFVA	WA	\$14.56	\$221	17.98	17.34	16.58	15.63	1.09	1.17	2.20	13.90	88.89	65.55	6.10	0.92	3.79	0.33	2.85	\$1,366,582
26.48	1.82	\$23.22	\$17.19	Sterling Financial Corporation	STSA	WA	\$21.28	\$1,323	3.51	3.42	3.73	15.89	1.06	1.09	2.82	12.81	2.47	70.73	38.70	4.07	3.98	0.67	2.39	\$9,472,437
20.96	2.79	\$15.03	\$11.75	Washington Banking Company	WBCO	WA	\$14.00	\$216	13.08	11.78	12.92	12.27	1.20	1.24	4.29	10.44	37.38	64.33	9.56	0.99	5.87	1.20	1.64	\$1,680,126
20.96	2.47			Median - Washington					13.08	11.78	12.92	15.63	1.09	1.21	2.20	12.81	37.38	65.55	9.56	0.99	3.79	0.67	2.45	\$4,268,664
38.47	4.95			Average					15.32	17.40	16.11	13.88	1.20	1.33	1.50	10.06	21.31	64.64	9.11	1.04	4.74	0.79	2.28	\$3,826,067.00
28.29	4.20			Median					14.06	14.30	14.18	13.45	1.17	1.25	1.66	10.25	3.52	63.86	8.67	0.97	3.79	0.63	2.25	\$1,990,804.00

Mercer Capital

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