



## **Public Bank Stock Performance – May 2017**

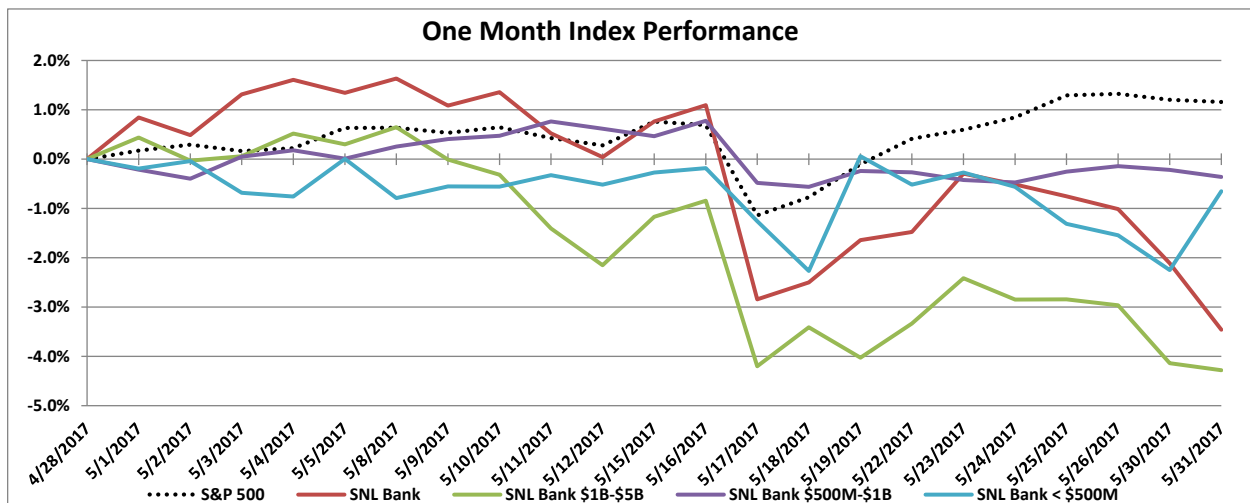
In May 2017, stock markets remained stagnant for the third straight month. As investors worry that political headwinds could manifest as substantial roadblocks in the way of key economic agenda items like tax reform, regulatory reform, and infrastructure spending, the SNL Bank Index decreased 3.5%. Early in the month, the House Financial Services Committee advanced the Financial CHOICE Act, legislation that could provide an off-ramp from Dodd-Frank Act regulations. Further, the U.S. House Republicans pushed through a bill aimed at repealing and replacing the Affordable Care Act, and the U.S. Senate passed a \$1.1 trillion omnibus bill that will fund the federal government through the close of the 2017 fiscal year. Some believe various market factors are cancelling each other out – politics are cancelling out strong earnings and the energy sector is cancelling out optimism about the next three to six months of economic growth. Lastly, after reports surfaced that President Donald Trump had asked former FBI Director James Comey to stop a federal investigation into Michael Flynn, a storm of reaction from members of Congress sent shockwaves through the markets as investors saw dimmer prospects of actual legislative work on pre-election promises, leaving some to believe the market had overbought into the Trump presidency.

In economic news, the U.S. economy was originally reported to have grown only 0.7% for the first quarter of 2017, but a second estimate released revised that number to 1.2%. Economists had originally expected growth of 1%. The report said the GDP growth was pushed along by increasing investment and exports, offset by declining private inventory investment and government spending. Nonfarm payroll employment increased by 211,000 in April, beating consensus expectations. Econoday data made available by Bloomberg indicated that the consensus estimate for month-over-month job gain was an increase of 185,000 jobs.

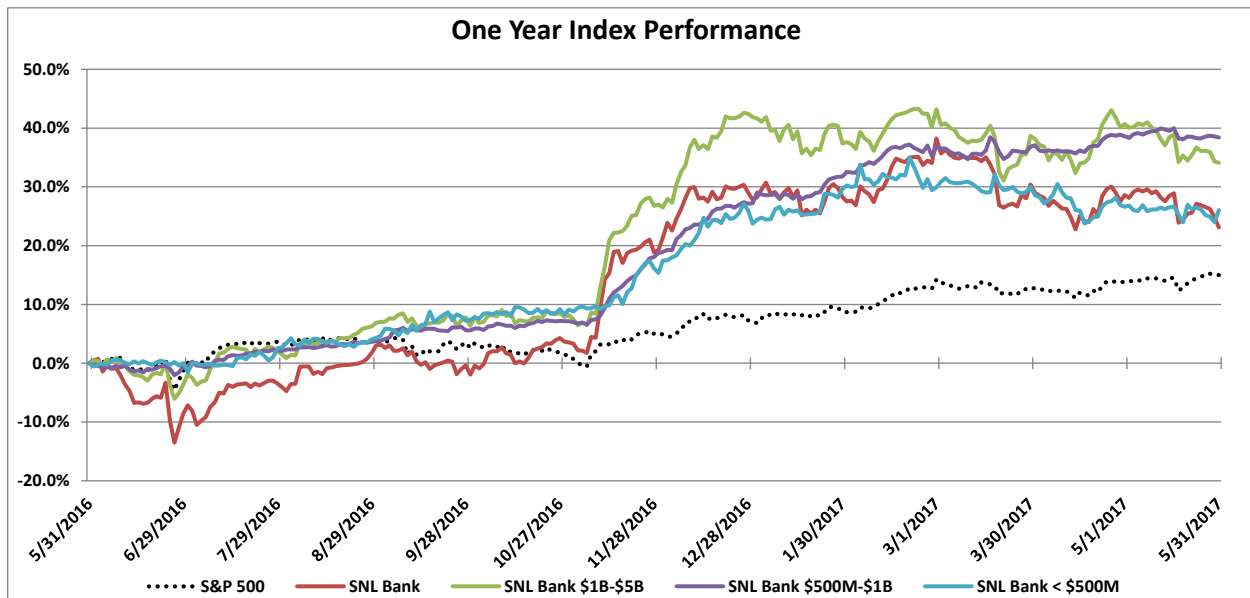
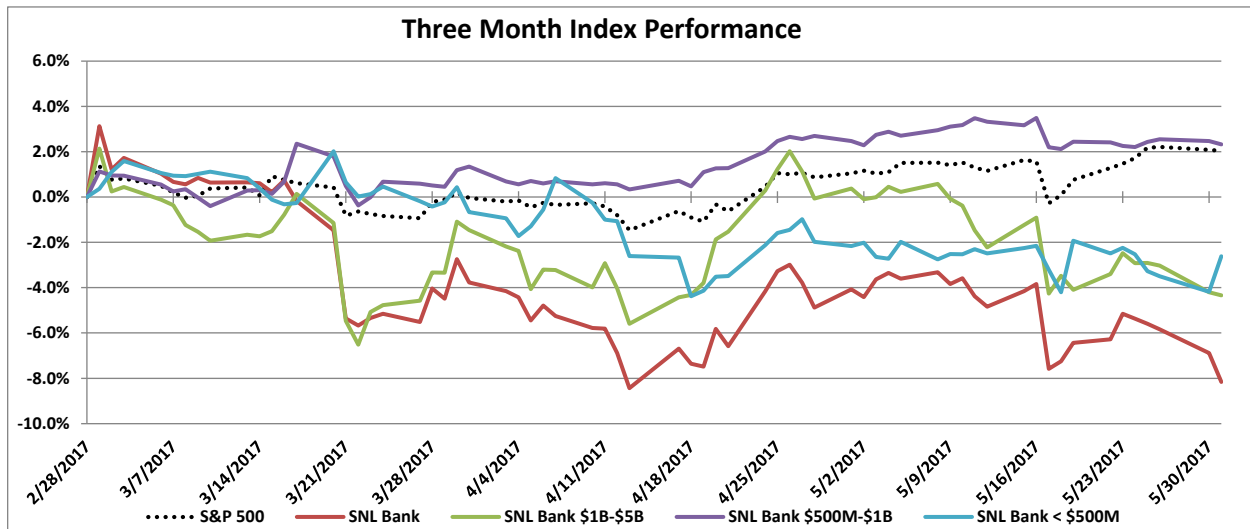
In other news, after seeing inflation below its 2% objective, the Federal Open Market Committee chose to hold the benchmark interest rate at a target of 0.75% to 1.00%. According to the minutes, participants at the May meeting generally viewed the medium-term economic outlook as unchanged from the March meeting. The committee’s overall outlook remained positive, as continued job gains bring down the unemployment rate even as growth in economic activity slowed. Overall, the Fed assessed that it would likely remain “accommodative” in its monetary policy, as markets continue to anticipate a total of three rate hikes in 2017. Many are expecting the Fed to raise rates two more times in 2017, in June and September, and begin normalization of the balance sheet in December.

Bank M&A pricing was up significantly year-to-date through May compared to year-to-date pricing through May 2016 on slightly lower volume.

The SNL Bank Index decreased 3.5% in May, and underperformed the S&P 500 which gained a modest 1.2%, while banks between \$1 billion and \$5 billion decreased 4.3%, banks below \$500 million lost 0.6%, and banks between \$500 million and \$1 billion posted a decrease of 0.4% during the month.



Over the three month period ending May 2017, the SNL Bank Index lost 8.2% while the S&P 500 increased 2.0%. Over the prior twelve months, the SNL Bank Index outperformed the overall market, as it increased 23.1% while the S&P 500 increased 15.0%.



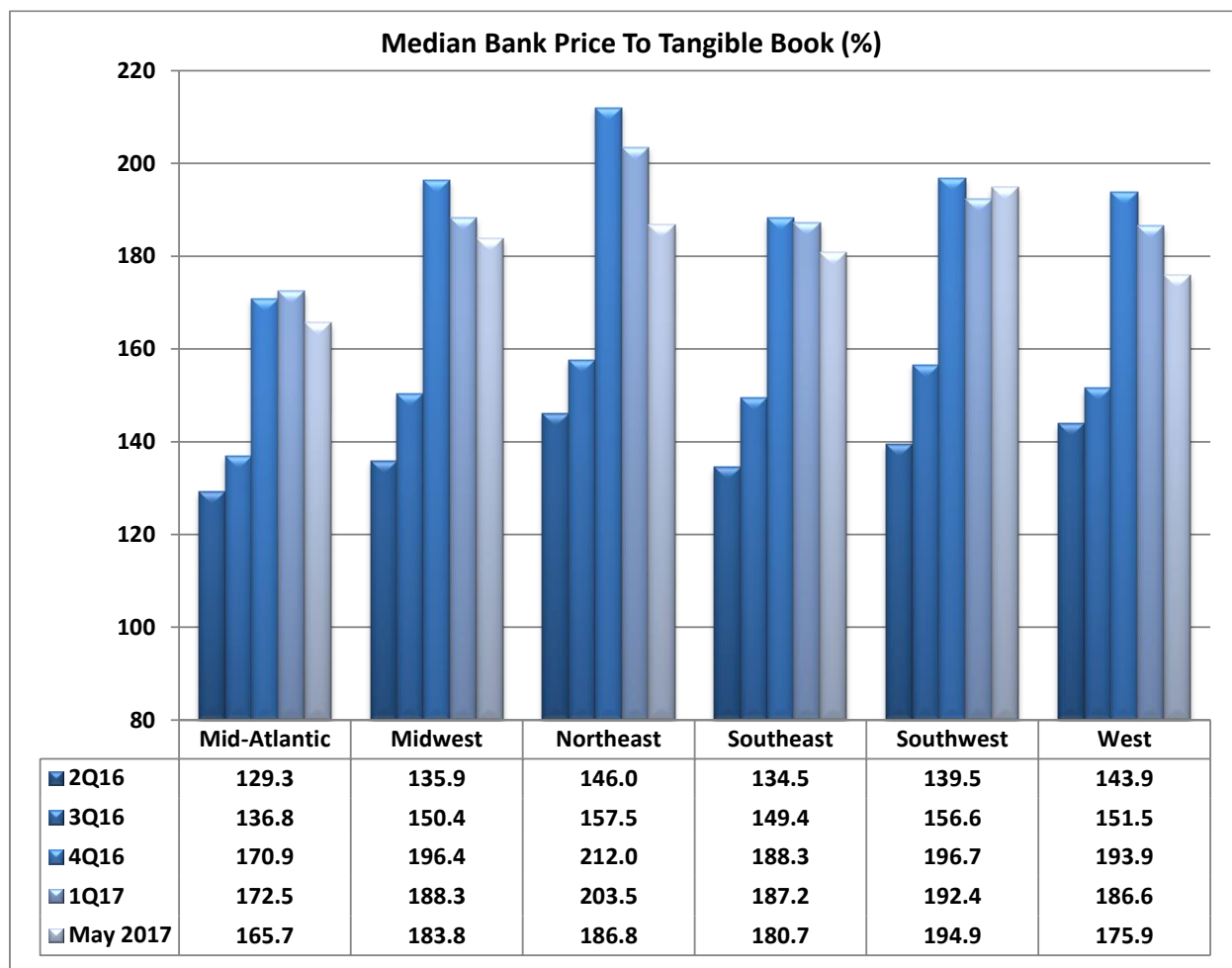
## REGIONAL PRICING HIGHLIGHTS

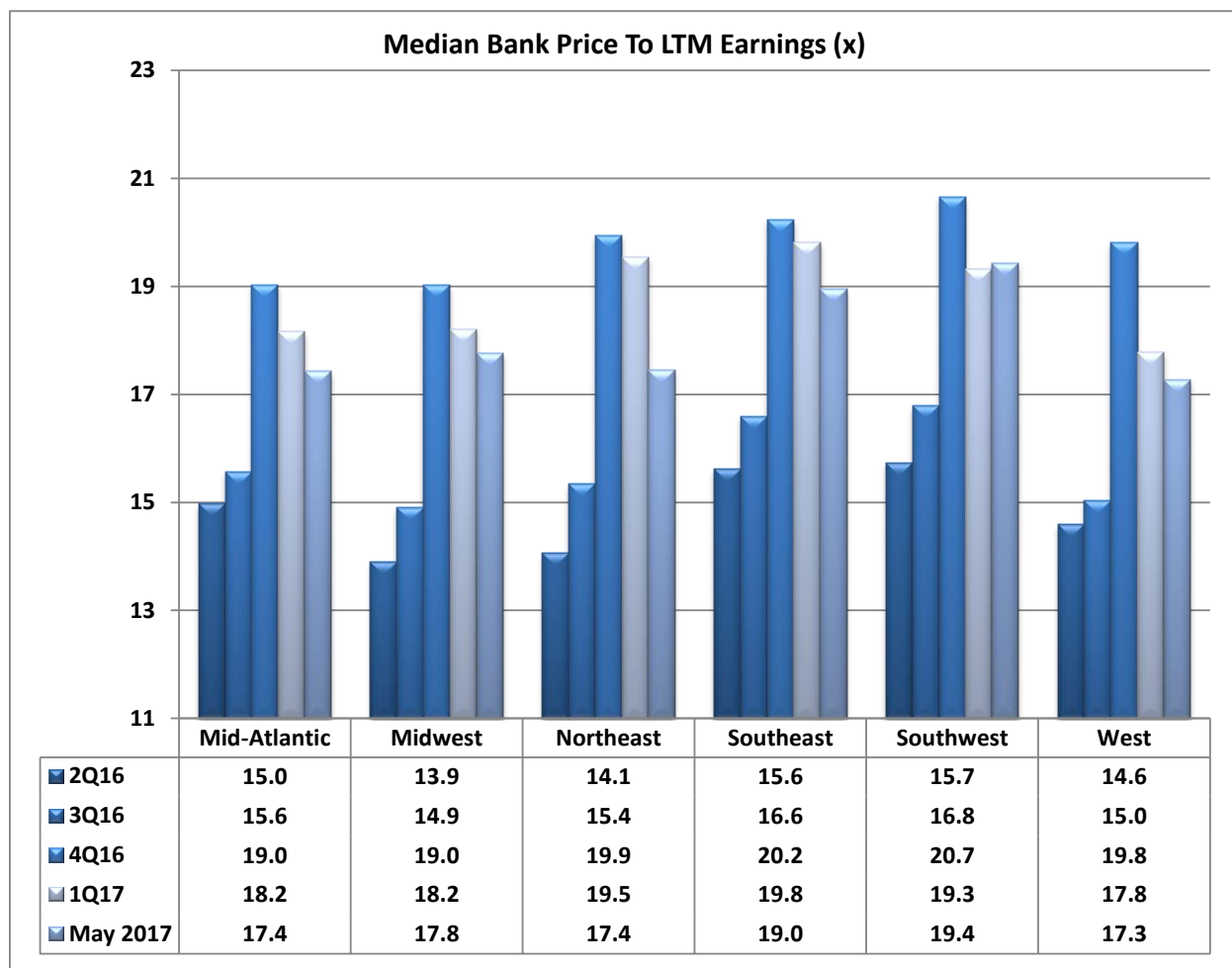
The Southwest region remained the highest priced region at a median price to tangible book of 1.95x and was the only region to maintain its median tangible book multiple (growing 0.1%) in May while the remaining regions saw median tangible book prices decline. A small decline (2.1% decrease) in oil prices in May have helped the Southwest region maintain its pricing as the region is heavily tied to the energy sector. The Southeast saw the largest

decrease (5.9%) in median price to tangible book to 1.81x tangible book and was followed by the West declining 4.8% to a median 1.76x tangible book.

Strong pricing in the Southwest region was supported by performance with median ROAA (0.96%) and Net Interest Margin (3.52%) each coming in below performance in the West (ROAA 1.03% and Net Interest Margin 3.71%, respectively). The Northeast continued to report strong pricing at 1.87x tangible book on strong loan demand reflected in the highest loan to deposit ratio (96.4%). The Mid-Atlantic region reported the lowest median tangible book price of any region at 1.66x, and was down 4.2% from April, while median pricing in the West reported a median 1.76x tangible book after dropping 4.8%.

On a median price to earnings basis, all regions reported lower values within a range of 17.3x and 19.4x LTM earnings. The Southwest reported the highest pricing for the seventh straight month at 19.4x LTM earnings and was followed closely by the Southeast and Midwest, reporting a 19.0x and 17.8x LTM earnings multiple, respectively. All regions dropped on a price to earnings basis, as the Northeast (17.4x) fell the most (7.3%), while the Southwest (2.2%) declined the least.





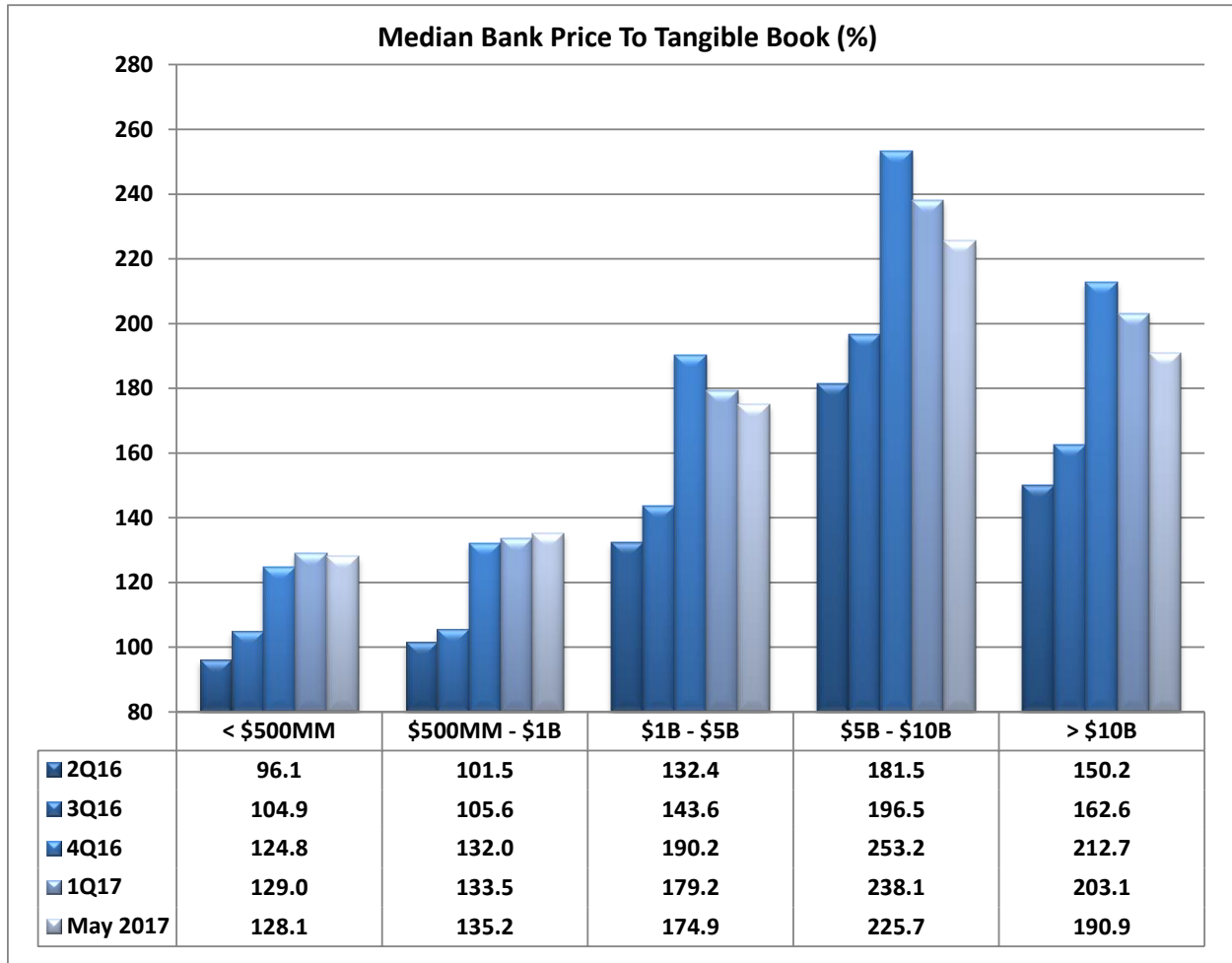
Region	Number of Companies	MRQ* Median Tg. Equity/ Assets (%)	LTM* Median ROAA (%)	MRQ* NPAs/ Assets (%)	MRQ* Loans/ Deposits (%)	LTM Net Interest Margin (%)
SNL Mid-Atlantic	67	8.56	0.89	0.78	94.4	3.37
SNL Midwest	76	9.04	0.99	0.89	89.5	3.51
SNL Northeast	19	8.05	0.86	0.81	96.4	3.28
SNL Southeast	83	9.18	0.94	0.86	88.2	3.52
SNL Southwest	29	9.65	0.96	0.76	82.1	3.52
SNL West	48	9.15	1.03	0.71	81.9	3.71

\* Most Recent Quarter/Last Twelve Months (1Q17 for 99.7% of institutions)

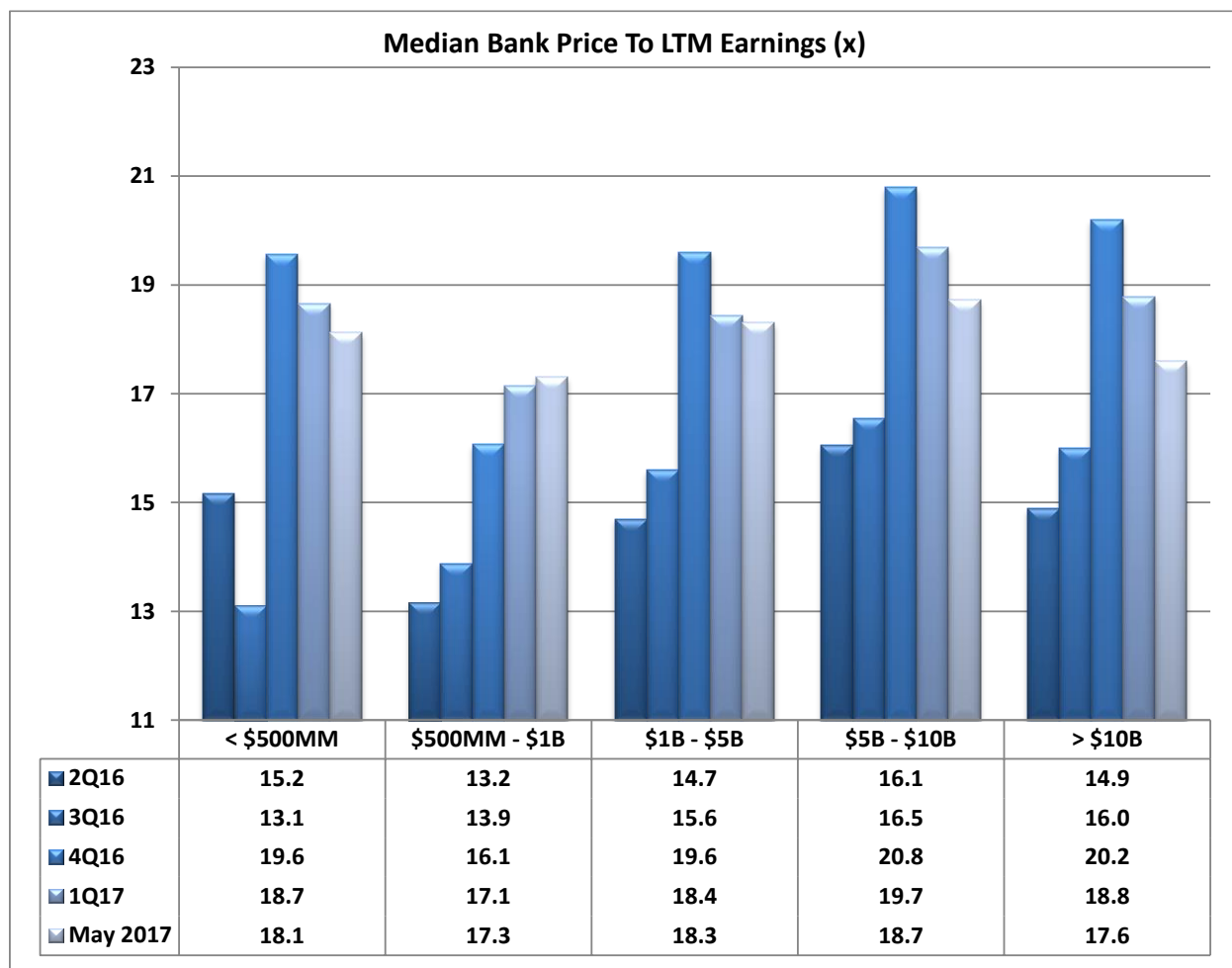
## **PRICING BY SIZE**

While all but one group dropped in pricing, the disparity of pricing based on size remained during May as the two largest groups saw average median tangible book pricing of 2.08x while the two smallest group medians averaged a 1.32x price to tangible book multiple. The banks between \$5 billion and \$10 billion reported a median price of 2.26x tangible book (down 5.0% from April), remaining the highest priced group, followed by banks greater than \$10 billion at a median of 1.91x (down 5.7% from April). The smallest banks, those below \$500 million, were up 0.7% in May to a median of 1.28x, and remain the lowest priced group as banks between \$500 million and \$1 billion decreased 0.4% during the month of May to a median of 1.35x. Mid-sized banks, those between \$1 billion and \$5 billion, decreased 2.6% since April and were priced at a median 1.75x tangible book, essentially midway between the smallest and largest public institutions.

On a median price to LTM earnings basis, the pricing range was similar to the regional groups ranging from 17.3x to 18.7x LTM earnings. Banks over \$1 billion reported the highest pricing with banks between \$1 and \$5 billion reporting a median 18.3x LTM earnings despite after falling 4.4% during May. Banks between \$5 and \$10 billion and those over \$10 billion reported a LTM price to earnings multiple of 18.7x and 17.6x, respectively. The banks with assets less than \$500 million reported a median earnings multiple of 18.1x (down 1.2%) in May but surpassed the banks over \$10 billion (down 6.3% in May) at 17.6x to become the third highest priced group. The banks with assets between \$500 million and \$1 billion decreased 2.6% on a price to LTM earnings basis during May to 17.3x, reporting the lowest median ROAA (0.79%) and weakest asset quality (1.10% NPAs/Assets), and remained the lowest priced group.







Asset Size	Number of Companies	MRQ* Median Tg. Equity/ Tg. Assets (%)	LTM* Median ROAA (%)	MRQ* NPAs/ Assets (%)	MRQ* Loans/ Deposits (%)	LTM Net Interest Margin (%)
< \$500MM	9	8.54	0.84	1.08	91.3	3.64
\$500MM - \$1B	41	9.16	0.79	1.10	90.6	3.50
\$1B - \$5B	150	9.01	0.92	0.86	89.3	3.60
\$5B - \$10B	44	8.80	1.09	0.58	90.0	3.49
> \$10B	69	9.03	1.00	0.74	88.1	3.27

\* Most Recent Quarter/Last Twelve Months (1Q17 for 99.7% of institutions)

## Mergers & Acquisitions by Region

Bank consolidation slowed to a slightly lower pace in 2017 as 93 transactions have announced year-to-date compared to 96 through May 2016. Approximately 63% of the transactions announced year-to-date through May 2017 reported pricing terms, while 60% of the transactions through May 2016 reported terms. However, median year-to-date pricing through May 2017 was substantially higher at a 22.4% increase on tangible book (1.61x), 18.9% increase on price to 8% tangible book (1.67x), 24.6% increase on LTM earnings (22.9x), and 35.2% increase on deposits (21.6%) compared to transactions announced through May 2016. The West region had 14 transactions with a median price to tangible book multiple of 1.78x and price to LTM earnings of 24.2x, while the South had 26 transactions announced (21 with pricing) with a median price to tangible book multiple of 1.74x, the highest of any group as there were eight deals announced in May at an average price to tangible book multiple of 1.79x. The Midwest reported 19 transactions (11 with terms) at a median price to tangible book of 1.66x and price to LTM earnings of 20.0x, on the highest tangible equity/tangible assets (12.0%). The Southwest region reported the lowest pricing multiples on the four transactions which disclosed terms and reported a median price to tangible book of 1.28x but median price to LTM earnings of 26.1x on a low median ROAA of 0.39%. The North Central region reported 14 transactions through May, four transactions that announced terms at a median price to tangible book of 1.45x and price to LTM earnings of 17.3x. The East - New England region reported 9 transactions with terms (out of a total of 13 through May) with a median price to tangible book of 1.38x and price to LTM earnings of 28.3x on a median ROAA of 0.39%.

[Click here to view all the transactions announced in May 2017](#)

M&A Banks & Thrift Transactions Announced Year to Date through May 2017 Median Pricing by Region	Number of Transactions	Number of Transactions With Terms	Price/ Tg Book (x)	Price/ 8% Tg Book (x)	Price/ LTM Earnings (x)	Price/ Deposits (%)
East - New England	13	9	1.38	1.58	28.3	14.7
North Central	14	4	1.45	1.50	17.3	18.4
South	26	21	1.74	1.99	22.9	23.6
Midwest	19	11	1.66	1.97	20.0	22.9
Southwest	7	4	1.28	1.44	26.1	19.1
West	14	10	1.78	1.73	24.2	19.4
<b>United States</b>	<b>93</b>	<b>59</b>	<b>1.61</b>	<b>1.67</b>	<b>22.9</b>	<b>21.6</b>

Year to Date through May 2017 - Median Performance by Region for M&A Deals	Total Assets (\$000)	Equity/ Assets (%)	Tg Equity/ Assets (%)	NPAs/ Assets (%)	ROAA (%)	ROAE (%)	# Brn.
East - New England	263,299	10.1	9.3	1.3	0.39	4.23	4
North Central	110,685	10.8	10.5	0.7	0.78	7.22	3
South	360,868	11.1	10.2	0.7	0.79	7.23	5
Midwest	132,334	12.0	12.0	0.9	0.67	4.96	3
Southwest	153,846	11.0	10.7	0.2	0.39	4.23	2
West	228,374	10.9	9.8	1.2	0.73	8.06	3
United States	202,654	10.99	10.59	0.8	0.72	6.85	4