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## Public Bank Stock Performance – August 2017

In August 2017, bank stocks decreased as geopolitical concerns and devastation caused by Hurricane Harvey were partially offset by positive economic data and a report claiming the GOP is making progress on tax reform, as the SNL Bank Index decreased 2.9% in August. Tensions between the U.S. and North Korean heightened as the latter detonated a powerful nuclear device that it claimed was a hydrogen bomb that could be attached to a missile capable of reaching the United States mainland, causing a selloff in the markets. Further bringing down stock prices were impacts from Hurricane Harvey which caused flooding in Houston, putting pressure on oil refineries and prices; U.S. crude futures fell over concerns that refinery shutdowns could reduce broader demand for American crude, causing investors to flee to safe assets. Lastly, Politico reported that the GOP is making progress on tax reform for both individuals and corporations. The news outlet reported there was a “broad consensus” among Republicans about the way to cut taxes, an improvement from the bare bones framework that Republicans released in July which caused many to question whether they could deliver tax reform.

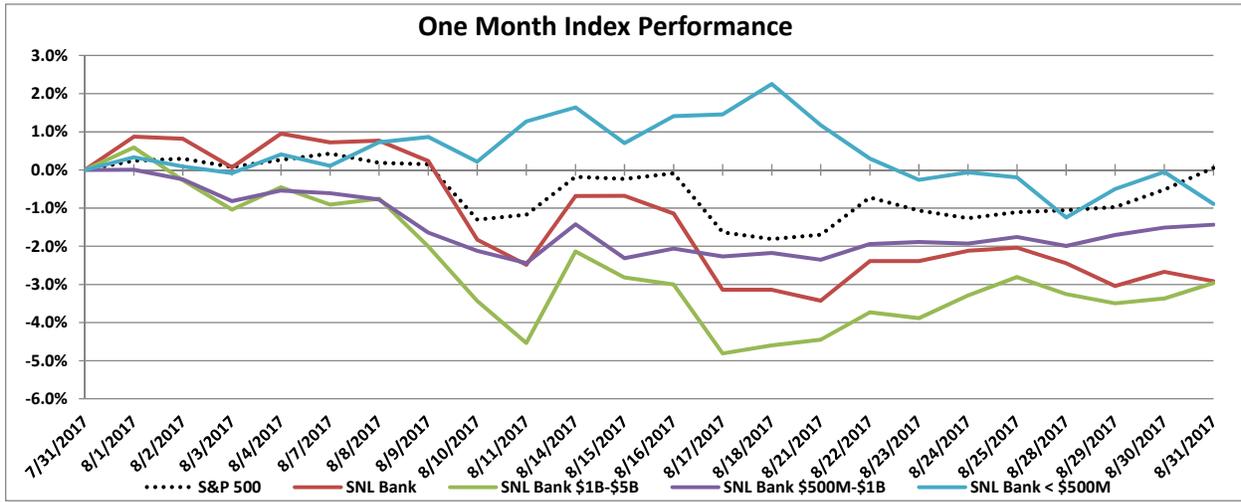
In economic news, jobless claims decreased by 5,000 to a seasonally adjusted 240,000 for the week ended July 29 compared to the prior week, according to a release from the U.S. Labor Department. According to the U.S. Census Bureau, factory goods orders grew 2% in June to \$481.1 billion from May. U.S. business activity in July grew at its fastest pace since January, IHS Markit reported, as its U.S. composite PMI output index rose to 54.6 from 53.9.

The services business activity index went up to 54.7 from 54.2, the biggest expansion in six months. The jobs report early in the month specified 209,000 new nonfarm payrolls with the unemployment rate decreasing to 4.3% from 4.4% in June. The increase beat estimates, giving some reason to speculate the Fed may feel more comfortable kicking off its balance sheet normalization plan in the fall. Further, the Bureau of Labor Statistics said the core Consumer Price Index rose 0.1% in July and 1.7% year over year, which some economists saw as weak. U.S. house prices ticked up 0.1% in June from May, and climbed 1.6% in the second quarter from the previous quarter, according to the Federal Housing Finance Agency. House prices rose 6.6% year over year in the second quarter. Finally, in the late part of the month, the Bureau of Economic Analysis estimated that the U.S. economy expanded at an annual rate of 3.0% in the second quarter, up from a flash estimate of 2.6% and from the revised 1.2% annualized first-quarter growth.

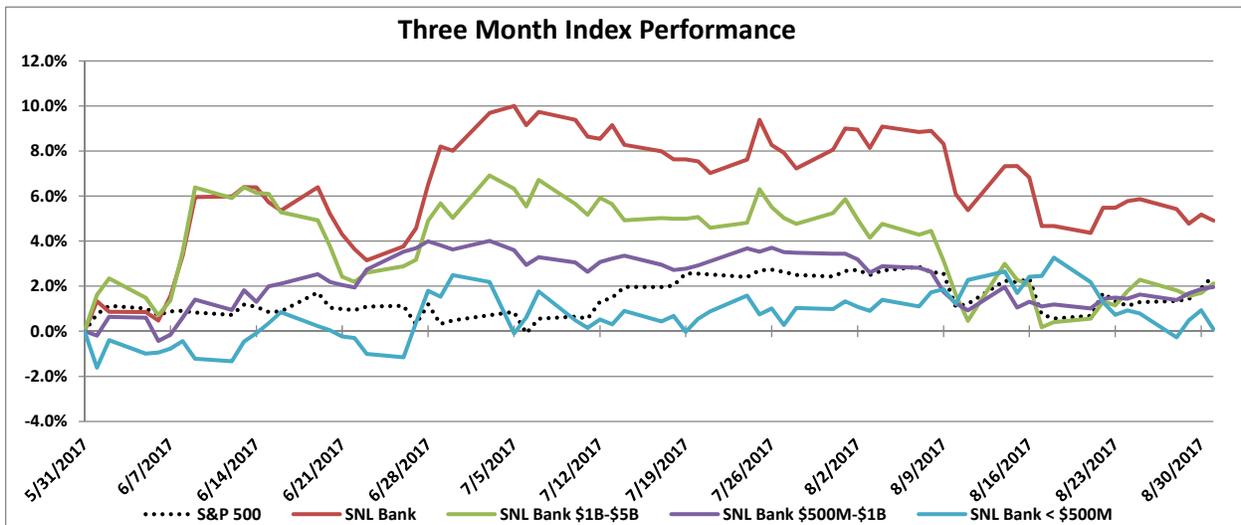
In other news, the Federal Reserve Chair Janet Yellen mostly defended the post-crisis regulatory framework at this year's Federal Reserve economic symposium. Yellen said that she now thinks it is time to consider changes to banking regulation. Her speech mostly applauded banking regulations and the Dodd-Frank framework for increasing loss-absorbing capacity and capital at the largest banks, but acknowledged that some rules should be tailored for smaller banks. She went on to say any adjustments to the regulatory framework should be modest and preserve the increase in resilience at large banks associated with the reforms put in place in recent years.

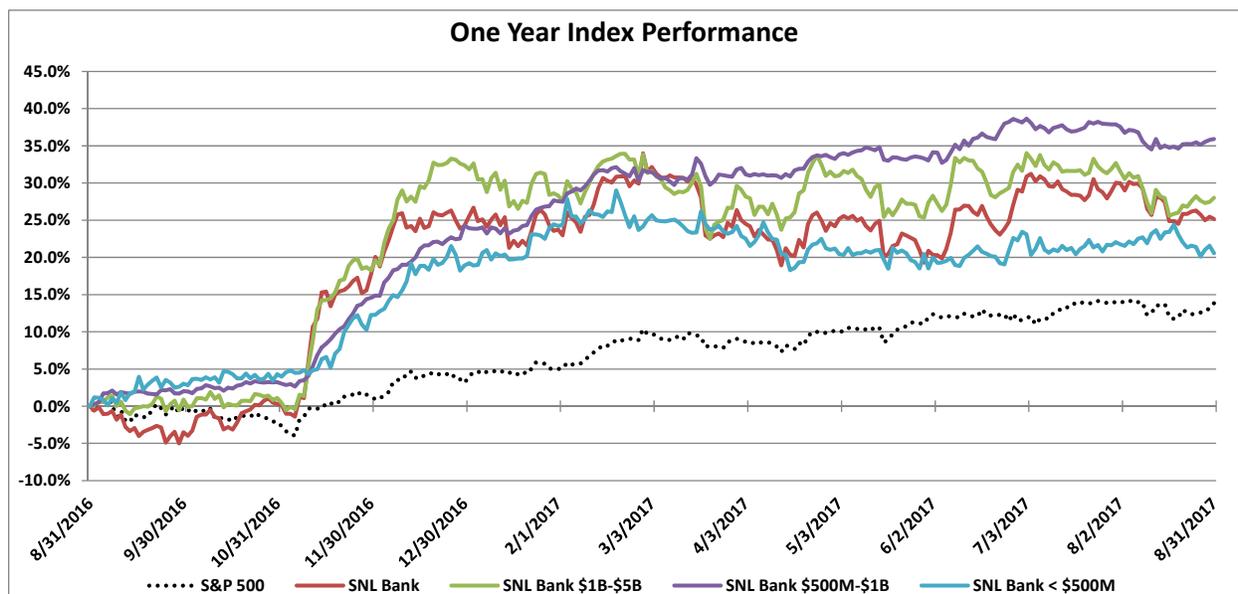
Bank M&A pricing was up significantly year-to-date through August compared to year-to-date pricing through August 2016 on slightly higher volume.

The SNL Bank Index declined 2.9% in August, and underperformed the S&P 500 which gained 0.1% during the month, while banks between \$1 billion and \$5 billion decreased 3%, banks between \$500 million and \$1 billion lost 1.4%, and below \$500 million posted a slight decline of 0.9% during the month.



Over the three month period ending August 2017, the SNL Bank Index gained 4.9% while the S&P 500 increased 2.5%. Over the prior twelve months, the SNL Bank Index outperformed the overall market, as it increased 25.2% while the S&P 500 increased 13.9% and reflected the post election run-up in pricing.



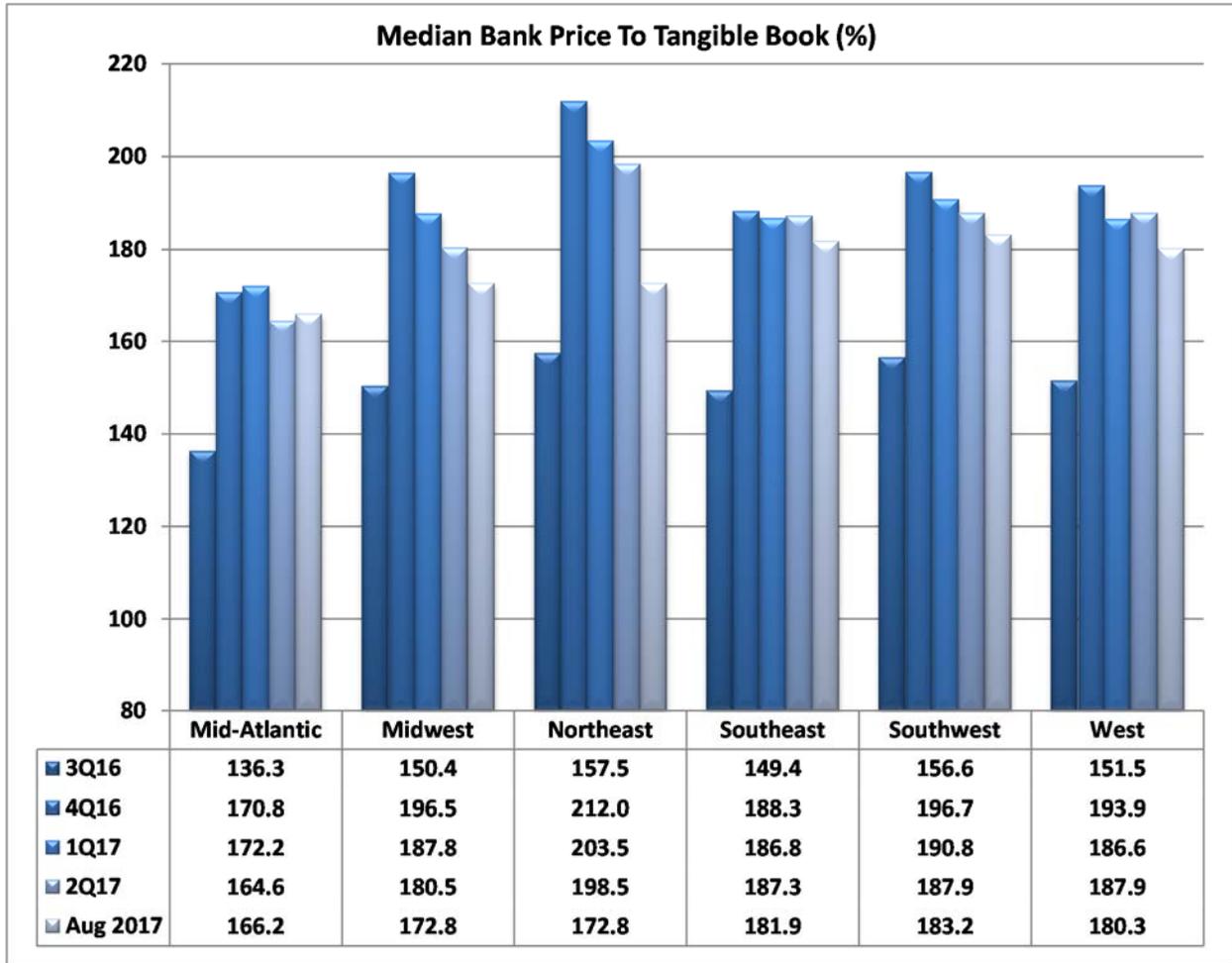


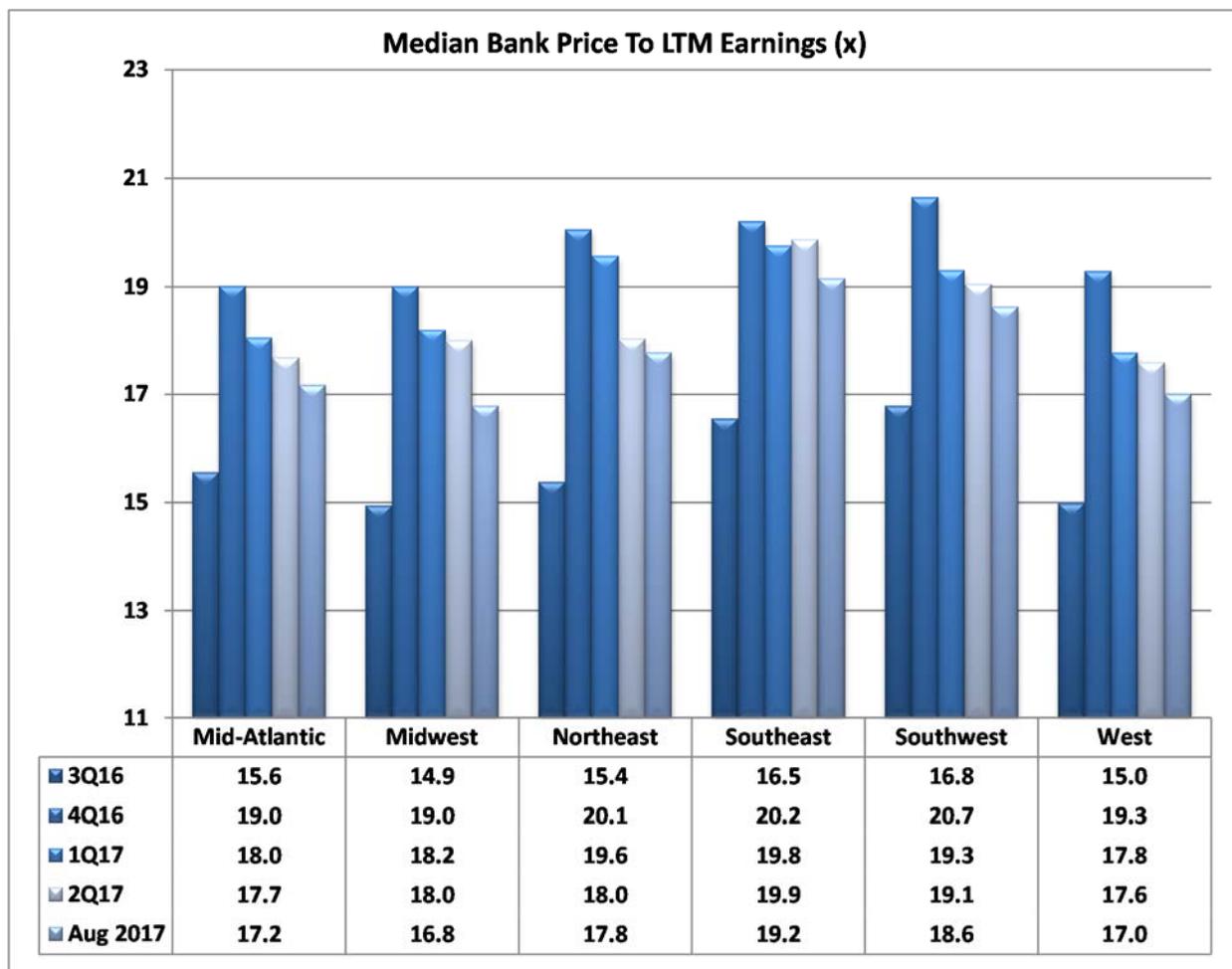
## REGIONAL PRICING HIGHLIGHTS

All regions reported lower price to tangible book and price to earnings multiples in August. The Southwest region remained the highest priced region at a median price to tangible book of 1.83x (although it dropped 6.6%, the most of any region) and the Mid-Atlantic reported the lowest at 1.66x. The Midwest region was the best performer in August, dropping just 1.1% in median price to tangible book in August, down to 1.73x tangible book. The Southeast became the second highest priced region, dropping 3.5% to 1.82x price to tangible book.

Strong pricing among the 29 public banks in the Southwest region was supported by performance with median ROAA (0.98%) and Net Interest Margin (3.51%) each coming in below the performance of the 49 public banks in the West (ROAA 1.03% and Net Interest Margin 3.71%, respectively). The West continued to report strong pricing at 1.80x tangible book.

On a median price to earnings basis, all regions reported lower values within a range of 16.8x and 19.2x LTM earnings. The Midwest region decreased the least on a price to earnings basis (1.5%), as the Southwest decreased the most (5.3%).





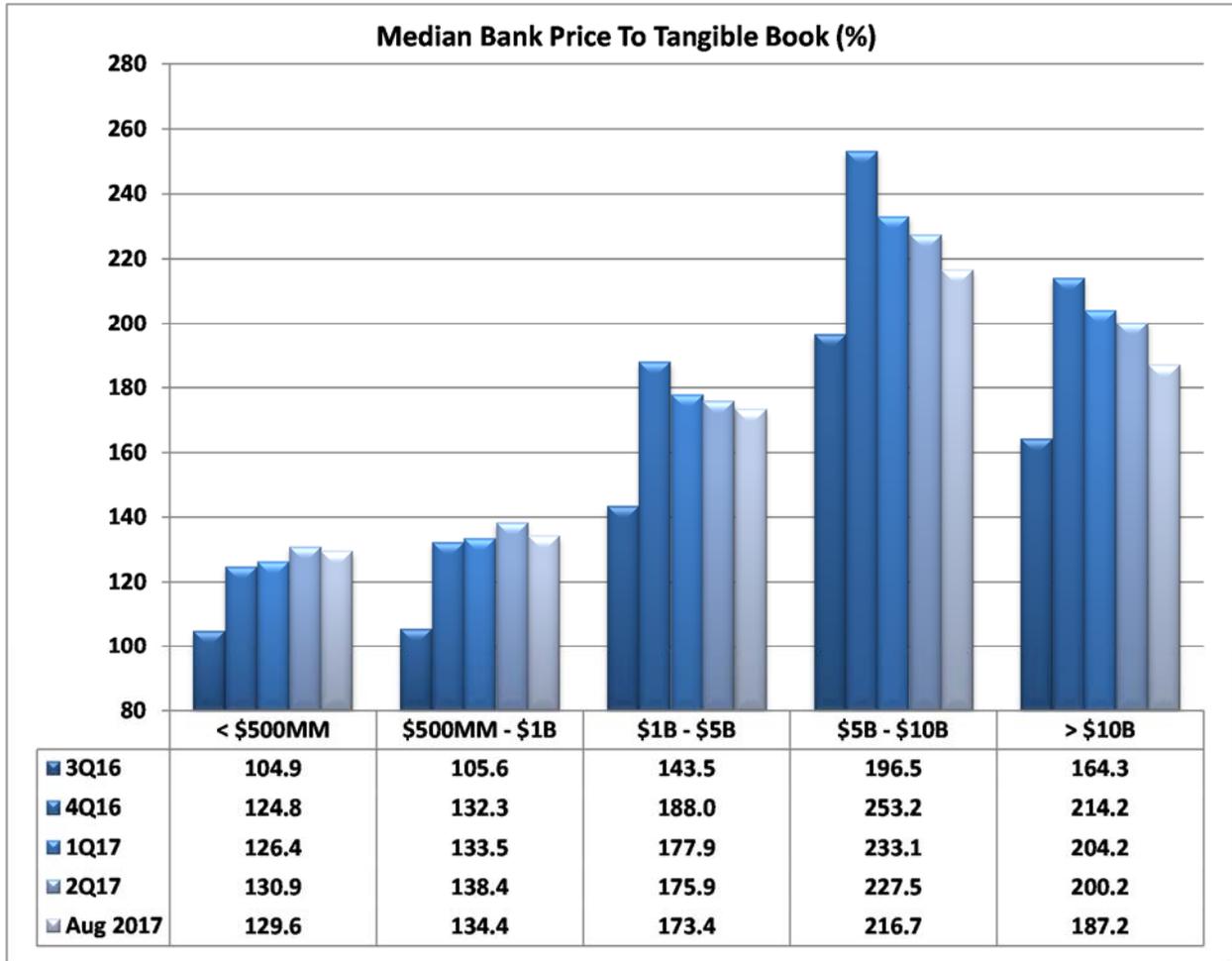
Region	Number of Companies	MRQ* Median Tg. Equity/ Tg. Assets (%)	LTM* Median ROAA (%)	MRQ* NPAs/ Assets (%)	MRQ* Loans/ Deposits (%)	LTM Net Interest Margin (%)
SNL Mid-Atlantic	69	8.70	0.87	0.73	95.9	3.39
SNL Midwest	74	9.18	0.98	0.79	91.6	3.56
SNL Northeast	19	8.37	0.89	0.77	95.9	3.24
SNL Southeast	81	9.29	0.93	0.77	89.2	3.54
SNL Southwest	29	9.78	0.98	0.84	87.0	3.51
SNL West	49	9.59	1.03	0.66	83.0	3.71

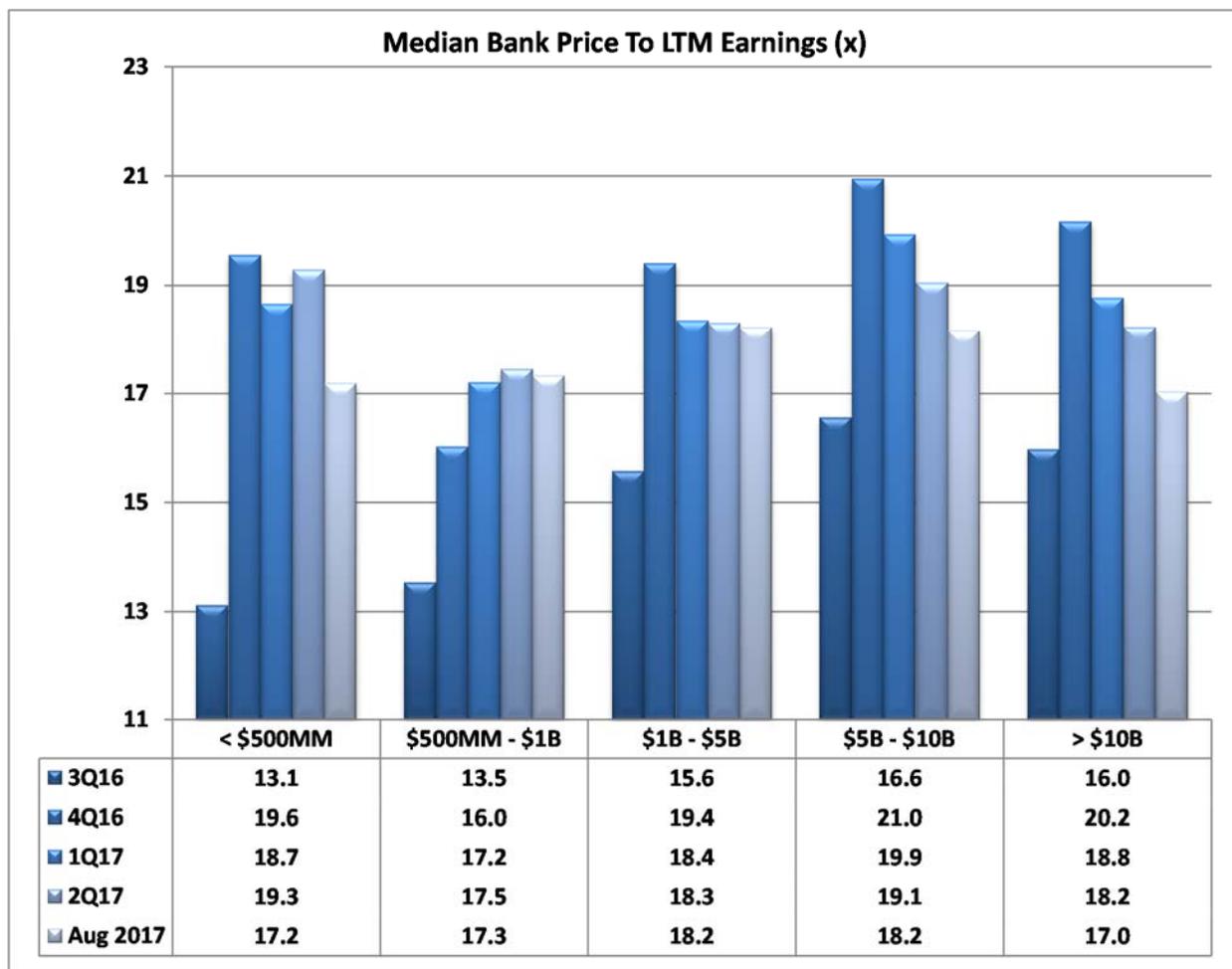
\* Most Recent Quarter/Last Twelve Months (2Q17 for 100.0% of institutions)

## **PRICING BY SIZE**

Over the past year, the largest financial institutions are consistently priced at least 50% higher on a price to tangible book basis. Size affords higher profitability which directly impacts pricing multiples. During August, the three groups with total assets over \$1 billion saw an average median tangible book pricing of 1.92x while the two smallest group medians averaged a 1.32x price to tangible book multiple. On a price to LTM earnings, the three groups with assets over \$1 billion saw an average median price to LTM earnings multiple of 17.8x while the two smallest groups were lower at a 17.3x LTM earnings multiple.

Financial institutions under \$1 billion reported lower LTM ROAA (average of medians 0.79%) and lower asset quality (1.03% average of median NPAs/Assets) than institutions with assets over \$1 billion (average median LTM ROAA 1.01% and NPAs/Assets 0.68%).





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	10	9.01	0.81	0.97	86.8	3.67
\$500MM - \$1B	38	9.55	0.78	1.09	91.5	3.51
\$1B - \$5B	151	9.30	0.93	0.76	91.4	3.64
\$5B - \$10B	42	9.03	1.10	0.56	93.1	3.52
> \$10B	72	9.12	0.99	0.70	90.0	3.29

\* Most Recent Quarter/Last Twelve Months (2Q17 for 100.0% of institutions)

## Mergers & Acquisitions by Region

Bank consolidation slowed to a slightly faster pace in 2017 as 160 transactions have announced year-to-date compared to 155 through August 2016. However, median year-to-date pricing through August 2017 was substantially higher at a 23.3% increase on tangible book (1.65x), 23.2% increase on price to 8% tangible book (1.75x), 16.2% increase on LTM earnings (21.6x), and 25.2% increase on deposits (20.4%) compared to transactions announced through August 2016. Higher prices in 2017 for merger and acquisitions are the direct result of higher public bank stock prices.

The Southwest region reported the highest price to tangible book multiple at 1.92x (10 deals with terms) followed by the West at 1.86x (18 deals with terms) followed closely by the South at 1.75x on 34 transactions with terms (46 total deals). The lowest priced region, the East - New England, reported a tangible book pricing multiple of 1.32x (16 deals with terms) likely due to low LTM ROAA performance of the targets at 0.36%.

M&A Banks & Thrift Transactions Announced Year to Date through August 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	26	16	1.32	1.45	28.3	16.1
North Central	23	8	1.50	1.61	17.0	19.7
South	46	34	1.75	1.93	22.9	22.3
Midwest	24	14	1.66	1.94	20.4	23.7
Southwest	18	10	1.92	1.84	19.2	17.7
West	23	18	1.86	1.82	24.2	19.4
United States	160	100	1.65	1.75	21.6	20.4

Year to Date through August 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	183,225	10.1	9.9	1.3	0.36	3.17	3
North Central	108,962	11.0	11.0	0.6	0.73	6.78	3
South	360,868	10.9	9.6	0.8	0.78	7.21	6
Midwest	145,579	12.0	12.0	0.8	0.81	5.73	3
Southwest	192,886	10.2	9.3	0.7	0.87	7.38	4
West	254,095	10.0	9.6	1.3	0.76	8.12	3
United States	225,121	10.87	10.23	0.8	0.75	6.76	4