

Community bank earnings suggest credit quality improvement leveling off

By Kate Garber and Zain Tariq

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Though still solid overall, hints of early weakness in credit quality are emerging as community bank earnings season unfolds.

SNL looked at the banks with less than \$10 billion in assets that, as of Jan. 22, had reported earnings for the quarter ending Dec. 31, 2015. The analysis will be updated periodically throughout earnings season as more community banks report quarterly results. Among the banks SNL examined, roughly half — 37 out of 71 — reported quarter-

over-quarter increases in their ratio of net charge-offs to average loans.

The U.S. banking industry has enjoyed steadily improving credit quality for the past couple of years, as lenders benefited from tighter credit standards following the 2008 financial crisis and collectively recovered from the depths of the last downturn as the economy gradually improved. Banks lowered loss provisions as credit solidified, and many pushed the savings down to their bottom lines, bolstering earnings in recent quarters.

Nonetheless, observers say that trend cannot last indefinitely, because banks eventually reach a point where provision levels bottom out.

"I don't see anything that suggests there's an imminent collapse of asset quality," Joe Gladue, senior equity analyst at Merion Capital, told SNL. However, he added, when credit quality is as consistently solid as it has been in recent years, the industry reaches a leveling off point. "[T]here's not much place to go but worse," he said.

Community bank earnings recap: less than \$1 billion in assets

Earnings reported between Jan. 1-22

Company name (ticker)	Q4'15 earnings release date	EPS		Net interest margin		NCOs/ average loans	
		(\$)	QOQ trend	(%)	QOQ trend	(%)	QOQ trend
Jacksonville Bancorp Inc. (JXSB)	01/12/16	0.39	-	3.73	▲	NA	NA
Bank of South Carolina Corp. (BKSC)	01/14/16	0.24	-	NA	NA	NA	NA
County Bancorp Inc. (ICBK)	01/20/16	0.48	▼	3.34	▼	-0.14	▲
First Community Corp. (FCCO)	01/20/16	0.24	▼	3.32	▼	0.02	▲
Plumas Bancorp (PLBC)	01/20/16	0.33	▲	4.03	▼	0.04	▼
Union Bankshares Inc. (UNB)	01/20/16	0.44	▼	4.00	▼	NA	NA
Citizens First Corp. (CZFC)	01/21/16	0.45	▲	3.88	▲	0.05	▲
Guaranty Federal Bancshares Inc. (GFED)	01/21/16	0.33	▲	3.41	▲	1.00	▲
Home Federal Bancorp Inc. of Louisiana (HFBL)*	01/21/16	0.35	▼	3.58	▼	-0.02	▲
Provident Bancorp Inc (MHC) (PVBC)	01/21/16	NA	NA	3.65	▲	NA	NA
SB Financial Group Inc. (SBFG)	01/21/16	0.29	▼	3.76	▼	0.17	▲
United Bancshares Inc. (UBOH)	01/21/16	0.42	▼	3.81	▲	NA	NA
Chicopee Bancorp Inc. (CBNK)	01/22/16	0.20	▲	3.49	▲	0.06	▲
DNB Financial Corp. (DNBF)	01/22/16	0.48	▲	3.04	▼	0.07	▼
Greene County Bancorp Inc. (MHC) (GCBC)*	01/22/16	0.55	▲	3.70	▲	0.17	▲

Data compiled Jan. 25, 2016 at 12 p.m. ET.

Analysis includes banks and thrifts traded on the Nasdaq, NYSE or NYSE MKT. Only companies with assets below \$1 billion as of Dec. 31, 2015, are shown.

All data shown is for the quarter ended Dec. 31, 2015.

* The quarter ended Dec. 31, 2015, is the fiscal second quarter of 2016 for Home Federal Bancorp Inc. of Louisiana and Greene County Bancorp Inc.

Companies are ranked by earliest earnings release date.

Data is based on GAAP filings.

NA = not available

NCOs = net charge-offs; EPS = diluted earnings per share after extraordinary items, if applicable

Source: SNL Financial



Community bank earnings recap: \$1 billion to \$5 billion in assets

Earnings reported between Jan. 1-22

Company name (ticker)	Q4'15 earnings release date	EPS		Net interest margin		NCOs/average loans	
		(\$)	QOQ trend	(%)	QOQ trend	(%)	QOQ trend
Citizens & Northern Corp. (CZNC)	01/13/16	0.33	▼	3.48	▼	-0.09	▼
First Defiance Financial Corp. (FDEF)	01/18/16	0.71	▼	3.79	▼	-0.03	▼
AmeriServ Financial Inc. (ASRV)	01/19/16	0.07	▼	3.34	▼	0.16	▲
Century Bancorp Inc. (CNBKA)	01/19/16	1.07	▼	2.13	▼	-0.18	▼
Hingham Institution for Savings (HIFS)	01/19/16	2.44	▲	3.14	▼	-0.05	▼
Mercantile Bank Corp. (MBWM)	01/19/16	0.40	▼	3.83	▼	0.17	▲
Southwest Bancorp Inc. (OKSB)	01/19/16	0.23	▲	3.51	▲	-0.02	▲
Bank Mutual Corp. (BKMU)	01/20/16	0.08	▲	3.08	▲	0.05	▲
Cardinal Financial Corp. (CFNL)	01/20/16	0.27	▼	3.23	▼	0.04	▲
Community Trust Bancorp Inc. (CTBI)	01/20/16	0.68	▲	3.77	▼	0.19	▼
Farmers Capital Bank Corp. (FFKT)	01/20/16	0.48	▼	3.26	▼	0.10	▲
First Bancorp Inc. (FNLC)	01/20/16	0.35	▼	3.11	▼	0.09	▼
First Community Financial Partners Inc. (FCFP)	01/20/16	0.17	-	3.29	▼	-0.27	▼
Great Southern Bancorp Inc. (GSBC)	01/20/16	0.82	▲	4.38	▼	0.38	▲
Old Second Bancorp Inc. (OSBC)	01/20/16	0.13	▲	3.20	▼	0.14	▲
Pacific Continental Corp. (PCBK)	01/20/16	0.28	▲	4.35	▲	-0.05	▼
Pacific Premier Bancorp Inc. (PPBI)	01/20/16	0.37	▲	4.43	▲	0.10	▲
Access National Corp. (ANCX)	01/21/16	0.37	-	3.63	▼	-0.04	▼
American National Bankshares Inc. (AMNB)	01/21/16	0.53	▲	3.68	▲	0.11	▲
Arrow Financial Corp. (AROW)	01/21/16	0.51	▲	3.17	▲	0.05	▼
Bryn Mawr Bank Corp. (BMTC)	01/21/16	-0.37	▼	3.80	▲	0.33	▲
Entegra Financial Corp. (ENFC)	01/21/16	0.30	▼	3.16	▲	0.11	▲
Fidelity Southern Corp. (LION)	01/21/16	0.28	▼	3.26	▲	NA	NA
First Internet Bancorp (INBK)	01/21/16	0.50	▼	2.88	▲	0.03	▲
Merchants Bancshares Inc. (MBVT)	01/21/16	0.36	▼	2.91	▼	0.01	▼
OceanFirst Financial Corp. (OCFC)	01/21/16	0.31	▲	3.34	▲	0.04	▲
Preferred Bank (PFBC)	01/21/16	0.54	▼	3.89	▼	0.36	▲
Sandy Spring Bancorp Inc. (SASR)	01/21/16	0.52	▲	3.47	▲	0.07	▼
Shore Bancshares Inc. (SHBI)	01/21/16	0.17	▲	3.47	▲	0.13	▲
Southern National Bancorp of Virginia Inc. (SONA)	01/21/16	0.19	▼	4.07	▲	0.02	▼
TrustCo Bank Corp NY (TRST)	01/21/16	0.11	▼	3.14	▲	0.21	▲
Ames National Corp. (ATLO)	01/22/16	0.42	▼	3.36	▲	0.00	▲
Bank of Commerce Holdings (BOCH)	01/22/16	0.13	▼	3.55	▼	-0.16	▼
Bear State Financial Inc. (BSF)	01/22/16	0.07	▼	4.17	▲	NA	NA
Carolina Financial Corp. (CARO)	01/22/16	0.36	▼	3.59	▲	-0.11	▼
Civista Bancshares Inc. (CIVB)	01/22/16	0.29	▼	3.99	▼	0.16	▲
Codorus Valley Bancorp Inc. (CVLY)	01/22/16	0.42	▼	3.71	▼	0.32	▲
Republic Bancorp Inc. (RBCAA)	01/22/16	0.36	▲	3.32	▲	0.19	▲

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Community bank earnings recap: \$5 billion to \$10 billion in assets

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		(\$)	QOQ trend	(%)	QOQ trend	(%)	QOQ trend
Bank of the Ozarks Inc. (OZRK)	01/14/16	0.57	▲	5.02	▼	0.17	▲
Pinnacle Financial Partners Inc. (PNFP)	01/19/16	0.65	▲	3.68	▲	0.23	▼
Renasant Corp. (RNST)	01/19/16	0.52	▲	4.37	▲	0.10	▲
Community Bank System Inc. (CBU)	01/20/16	0.47	▼	3.73	▲	0.32	▲
Customers Bancorp Inc. (CUBI)	01/20/16	0.58	▲	2.85	▲	0.26	▼
CVB Financial Corp. (CVBF)	01/20/16	0.27	▲	3.55	▼	-0.11	▲
Eagle Bancorp Inc. (EGBN)	01/20/16	0.65	▲	4.41	▲	0.18	▲
Union Bankshares Corp. (UBSH)	01/20/16	0.40	-	3.80	▼	0.09	▲
United Community Banks Inc. (UCBI)	01/20/16	0.25	▼	3.37	▲	0.09	▼
1st Source Corp. (SRCE)	01/21/16	0.55	▲	3.64	▲	-0.05	▼
BancFirst Corp. (BANF)	01/21/16	0.99	▲	3.26	▲	NA	NA
First Financial Bancorp. (FFBC)	01/21/16	0.32	▲	3.72	▲	0.07	▼
Home BancShares Inc. (HOMB)	01/21/16	0.54	▲	4.99	▼	0.19	▼
Independent Bank Corp. (INDB)	01/21/16	0.74	▲	3.36	▼	-0.01	▼
Simmons First National Corp. (SFNC)	01/21/16	0.78	▲	4.58	▼	0.18	▲
Westamerica Bancorp. (WABC)	01/21/16	0.57	▼	3.33	▲	0.07	▼
Ameris Bancorp (ABCB)	01/22/16	0.43	▼	4.01	▼	0.24	▲
South State Corp. (SSB)	01/22/16	1.05	▲	4.31	▼	NA	NA

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Jon Winick, CEO of bank advisory firm Clark Street Capital, expressed slightly more concern. "I think that the simple fact that charge-offs or nonperforming loans have leveled off is actually the start of a reversal of a trend because they were coming down for so long," Winick told SNL.

What's more, banks in recent quarters have competed fiercely for loans in many parts of the country — vying for business against traditional peers as well as credit unions, online lenders and other nonbanks. Observers say at least some banks loosened lending standards in recent years, and so it would not be surprising if the eased credit terms began to result in modestly higher charge-off levels for at least some banks by the close of 2015.

"There have been whispers of looser loan underwriting for several quarters," Ken Mayland, president of ClearView Economics and a bank adviser, told SNL. "It wouldn't shock me at all if we started seeing a little turn in the credit cycle."

So far during earnings season, most banks have seemed generally upbeat about credit quality. Some lenders have acknowledged minor dings to credit, but most say they

expect any hits to be few in number and manageable as 2016 wears on.

Richmond, Va.-based Union Bankshares Corp. serves as a case in point. Executives said that credit quality remains a source of strength for the bank, but it could lose modest ground on that front this year. The bank reported net income of \$17.8 million and earnings per share of 40 cents for the quarter ended Dec. 31, 2015.

"Credit is very good, so it only perhaps can flat line or get worse," CFO Robert Gorman said during an earnings call. "We continue to monitor that, but I wouldn't expect to see that going too much below what you see now."

Banks with large exposures to energy-heavy markets have proven the exception. Several such lenders have reported higher levels of criticized assets and higher levels of allowances for loan losses. That trend could worsen if the source of woe in the energy sector — a protracted slump in oil prices — continues deep into 2016.

"On an indirect basis, banks in an energy region — whether they lend [in] that space directly or indirectly — are going to be impacted," Winick said.