

Talk of M&A signals small-bank scramble to be bigger

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By Kate Garber and Nicole De Dios and Zain Tariq July 27, 2016

Among community banks, having more assets seems to be associated with outsized growth.

S&P Global Market Intelligence analyzed those with less than \$10 billion in assets that had reported earnings as of July 22. For the quarter ended June 30, those within the \$5 billion-to-\$10 billion range grew operating revenue year over year by a median of 8.94%. The median EPS increase was at 4.35%.

Over the same period, the \$1 billion-to-\$5 billion asset bucket saw median operating revenue improve by 8.11%; for EPS, it was by 6.82%. Meanwhile, the smallest banks increased operating revenue by a median of 5.53% — and EPS by 4.95%.

An early look at earnings results showed plenty of noise from recent M&A, mostly of whole banks, plus some insurance agencies. The broader community bank space continues to seek relief from regulatory burdens as the nation's smallest banks bear the highest costs.

"There's no question that some of the larger community banks seem to be doing better," Chris Cole, Independent Community Bankers of America's executive vice president

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

Earnings reported up to July 22

Rank	Company name (ticker)	City, state	Total assets Q2'16 (\$B)	YOY operating revenue change (%)	YOY EPS change (%)	ROAA		Net interest margin	
						(%)	YOY trend [^]	(%)	YOY trend [^]
Highest operating revenue growth									
1	Yadkin Financial Corp. (YDKN) ¹	Raleigh, NC	7.46	57.15	3.03	0.94	▼	3.92	▼
2	Renasant Corp. (RNST)	Tupelo, MS	8.53	49.85	12.50	1.07	▲	4.27	▲
3	Pinnacle Financial Partners Inc. (PNFP)	Nashville, TN	9.74	46.37	14.06	1.32	▼	3.59	▼
4	Ameris Bancorp (ABCB)	Moultrie, GA	6.22	35.34	1,325.00	1.31	▲	3.98	▼
5	Customers Bancorp Inc. (CUBI)	Wyomissing, PA	9.68	34.69	53.85	0.84	▲	2.82	▲
6	BNC Bancorp (BNCN)	High Point, NC	6.48	24.27	2.94	0.99	▼	3.87	▼
7	FCB Financial Holdings Inc. (FCB)	Weston, FL	8.22	22.03	22.22	1.19	▼	3.54	▲
8	Home BancShares Inc. (HOMB)	Conway, AR	9.58	19.65	24.00	1.82	▲	4.80	▼
9	Community Bank System Inc. (CBU)	De Witt, NY	8.74	17.74	0.00	1.19	▼	3.71	▼
10	Beneficial Bancorp Inc. (BNCL)	Philadelphia, PA	5.51	16.66	-55.56	0.21	▼	3.09	▲
Highest operating revenue decline									
1	United Financial Bancorp Inc. (UBNK)	Glastonbury, CT	6.42	-2.87	-33.33	0.57	▼	2.93	▼
2	Westamerica Bancorp. (WABC)	San Rafael, CA	5.18	-2.58	-1.72	1.12	▼	3.26	▼
3	Boston Private Financial Holdings Inc. (BPFH)	Boston, MA	7.58	-2.03	-10.00	0.93	▼	2.93	▲
4	S&T Bancorp Inc. (STBA)	Indiana, PA	6.67	-0.12	-5.77	1.04	▼	3.42	▼
5	WesBanco Inc. (WSBC)	Wheeling, WV	8.40	-0.11	3.57	1.04	▼	3.28	▼
Median*				8.94	4.35	1.10	▼	3.60	▼

Data compiled July 25, 2016.

Analysis limited to top 10 banks and thrifts with the highest year-over-year operating revenue growth and all institutions with a year-over-year operating revenue decline for the quarter ended June 30, 2016. Only companies trading on the Nasdaq, NYSE or NYSE MKT with total assets between \$5 billion and \$10 billion as of June 30, 2016, that reported earnings up to July 22 are included.

Data is for the quarter ended June 30, 2016, and is based on GAAP filings.

[^] The year-over-year comparison represents the change in actual values, not the change in values rounded to two decimal places.

* Median for all major exchange-traded banks and thrifts with assets between \$5 billion and \$10 billion that have reported earnings up to July 22.

¹ Yadkin Financial is the target of an announced merger.

EPS = diluted earnings per share after extraordinary items, if applicable; ROAA = return on average assets

YOY = year over year

Source: SNL Financial, an offering of S&P Global Market Intelligence

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

Earnings reported up to July 22

Rank	Company name (ticker)	City, state	Total assets Q2'16 (\$B)	YOY operating revenue change (%)	YOY EPS change (%)	ROAA		Net interest margin	
						(%)	YOY trend [^]	(%)	YOY trend [^]
Highest operating revenue growth									
1	HarborOne Bancorp Inc. (MHC) (HONE) ¹	Brockton, MA	2.27	83.51	NA	-0.12	▼	2.80	▲
2	Nicolet Bankshares Inc. (NCBS)	Green Bay, WI	2.26	64.67	-40.91	0.67	▼	3.74	▲
3	WashingtonFirst Bankshares Inc. (WFBI)	Reston, VA	1.85	64.16	25.00	0.98	▲	3.42	▼
4	Farmers National Banc Corp. (FMNB)	Canfield, OH	1.93	58.06	375.00	1.06	▲	4.04	▲
5	Entegra Financial Corp. (ENFC)	Franklin, NC	1.19	36.97	-93.10	0.41	▼	3.33	▲
6	Bear State Financial Inc. (BSF)	Little Rock, AR	1.99	36.17	50.00	0.94	▲	3.85	▲
7	Pacific Premier Bancorp Inc. (PPBI)	Irvine, CA	3.60	32.38	2.78	1.17	▼	4.46	▲
8	First Internet Bancorp (INBK)	Fishers, IN	1.70	28.15	14.00	0.71	▼	2.38	▼
9	Preferred Bank (PFBC)	Los Angeles, CA	2.92	26.28	10.91	1.25	▼	3.83	▼
10	BSB Bancorp Inc. (BLMT)	Belmont, MA	1.98	24.32	83.33	0.61	▲	2.49	▲
Highest operating revenue decline									
1	1st Constitution Bancorp (FCCY)	Cranbury, NJ	1.07	-10.96	-3.45	0.94	▲	3.84	▼
2	LCNB Corp. (LCNB)	Lebanon, OH	1.31	-4.65	-9.38	0.91	▼	3.39	▼
3	Farmers Capital Bank Corp. (FFKT)	Frankfort, KY	1.75	-2.72	6.82	0.80	▲	3.28	▼
4	AmeriServ Financial Inc. (ASRV)	Johnstown, PA	1.14	-2.37	0.00	0.48	▼	3.25	▼
5	Community Trust Bancorp Inc. (CTBI)	Pikeville, KY	3.90	-1.30	-7.04	1.19	▼	3.69	▼
6	American National Bankshares Inc. (AMNB)	Danville, VA	1.60	-0.64	42.42	1.03	▲	3.45	▼
7	Citizens & Northern Corp. (CZNC)	Wellsboro, PA	1.23	-0.48	-11.11	1.26	▼	3.50	▼
Median*				8.11	6.82	0.92	▼	3.46	▼

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¹ HarborOne's mutual holding company IPO date is June 30, 2016, therefore, the year-ago EPS data is not available.

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YOY = year over year; NA = not available

Source: SNL Financial, an offering of S&P Global Market Intelligence

and senior regulatory counsel, said in an interview. He estimated the "sweet spot" in asset size to be around \$300 million to \$500 million, above which "there [are] still regulatory pressures, but ... banks can deal with [them] without merging."

Of course, deals abound even well above that half-billion mark. Tupelo, Miss.-based Renasant Corp.; Nashville, Tenn.-based Pinnacle Financial Partners Inc.; and Wyomissing, Pa.-based Customers Bancorp Inc. have all recently completed acquisitions. For Customers, it was

a disbursements business, as it prepares BankMobile's spin-off in order to delay crossing the \$10 billion threshold.

Acquisitions also appealed to Green Bay, Wis.-based Nicolet Bankshares Inc. and Canfield, Ohio-based Farmers National Banc Corp., both revenue growth leaders among banks in the \$1 billion-to-\$5 billion asset group. Nicolet's results were largely driven by the acquisition of Baylake Corp., and Farmers' acquisition of Bowers Insurance Agency was touted as being immediately accretive to earnings.

At Oakdale, Calif.-based Oak Valley Bancorp, the quarter's results were a combination of a December 2015 acquisition and loan growth, CFO Jeffrey Gall said in an interview. An uptick in regional loan demand and its effort to hire more lenders also helped the \$926 million-asset bank, said the finance chief.

And while lobbying for regulatory relief has made some progress, the difference has yet to be felt. Chris Marinac, FIG Partners' director of research, pointed out that the eas-

ing in certain areas, such as reporting requirements, are offset by the higher compliance demanded in others, such as cybersecurity. Leaner call reports are "nice," Marinac said, but certainly not enough.

In the meantime, lower-for-longer rates and emerging credit headwinds are also expected to dent small banks' near-term profitability. S&P Global Market Intelligence now projects a net interest margin of 3.61% for small banks in 2016.

Community bank earnings recap: Less than \$1B in assets

Earnings reported up to July 22

Rank	Company name (ticker)	City, state	Total assets Q2'16 (\$B)	YOY operating revenue change (%)	YOY EPS change (%)	ROAA		Net interest margin	
						(%)	YOY trend [^]	(%)	YOY trend [^]
Highest operating revenue growth									
1	HMN Financial Inc. (HMNF)	Rochester, MN	0.65	35.58	138.46	0.90	▲	4.27	▲
2	Oak Valley Bancorp (OVLY)	Oakdale, CA	0.93	26.95	26.32	0.83	▲	4.03	▲
3	Howard Bancorp Inc. (HBMD)	Ellicott City, MD	0.99	26.45	46.67	0.67	▲	3.66	▼
4	Royal Bancshares of Pennsylvania Inc. (RBPAA)	Bala Cynwyd, PA	0.82	14.79	100.00	1.09	▲	3.40	▲
5	First Financial Northwest Inc. (FFNW)	Renton, WA	1.00	12.19	-35.29	0.59	▼	3.63	▲
6	Provident Bancorp Inc. (MHC) (PVBC) ¹	Amesbury, MA	0.76	11.54	NA	0.73	▼	3.62	▲
7	Plumas Bancorp (PLBC)	Quincy, CA	0.60	10.45	33.33	1.23	▲	4.24	▼
8	Elmira Savings Bank (ESBK)	Elmira, NY	0.57	10.19	3.45	0.75	▲	3.17	▲
9	Bank of the James Financial Group Inc. (BOTJ)	Lynchburg, VA	0.55	9.23	-14.29	0.79	▲	3.79	▲
10	First South Bancorp Inc. (FSBK)	Washington, NC	0.96	8.52	41.67	0.68	▲	3.70	▲
Highest operating revenue decline									
1	United Bancshares Inc. (UBOH)	Columbus Grove, OH	0.62	-9.51	-29.82	0.87	▼	3.50	▼
2	Parke Bancorp Inc. (PKBK)	Sewell, NJ	0.92	-6.35	233.44	3.77	▲	3.99	▼
3	American River Bankshares (AMRB)	Rancho Cordova, CA	0.63	-2.24	5.56	0.83	▼	3.62	▼
4	DNB Financial Corp. (DNBF)	Downingtown, PA	0.76	-1.83	-9.30	0.58	▼	2.97	▼
5	Jacksonville Bancorp Inc. (JXSB)	Jacksonville, IL	0.31	-1.38	-8.51	1.00	▼	3.67	▲
6	Guaranty Federal Bancshares Inc. (GFED)	Springfield, MO	0.68	-1.22	-20.00	0.75	▼	3.33	▼
Median*				5.53	4.95	0.87	▼	3.70	▲

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¹ Provident's mutual holding company IPO date is July 16, 2015, therefore, the year-ago EPS data is not available.

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