

Community banking 'not for the fainthearted,' but revenue opportunities exist

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In the first quarter of 2016 many community banks saw sizable year-over-year growth in operating revenue amid acquisitions, regional pockets of strength and improving loan growth.

This analysis looks at banks with less than \$10 billion in assets that, as of April 22, had reported earnings for the quarter ended March 31. The banks are split into different asset groups — the sub-\$1 billion banks, the \$1 billion to \$5 billion institutions, and those with between \$5 billion and \$10 billion in assets. In each bucket, banks saw year-over-year growth in operating revenue on a median basis.

Vining Sparks chief economist Craig Dismuke said that regional strength, better loan growth and more optimism about the economy could be factors in community banks' strong operating revenue figures. Dismuke also said that small banks are expressing more hope in the economy as they have seen better activity than expected.

The top executive at Howard Bancorp Inc., a bank in Ellicott City, Md., fast approaching \$1 billion in assets, voiced cautious optimism about the economy. Chairman, President and CEO Mary Ann Scully pointed to an environment that is more conducive to organic loan growth than it has been in recent years. "It's very, very competitive as a result," she said. "I think for the last two quarters, you've seen more kind of typical and healthy organic growth that's driven by growth in some of our business clients. It's a different market than it was a year ago."

Despite improvements, the market continues to present challenges. "Community banking is not for the fainthearted, but we do think that there are multiple growth opportunities," Scully said.

Howard Bancorp saw strong growth in its operating revenue, which Scully attributed to the bank's three-pronged strategy of organic commercial loan growth to drive net interest income; growth in noninterest income, and mortgages in particular; and growth through acquisitions.

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Howard Bancorp did a branch deal in 2013, a failed-bank acquisition and another branch deal in 2014, and completed the purchase of Dundalk, Md.-based Patapsco Bancorp Inc. in 2015. The bank has also done lift-outs of lending teams over the past few years. Scully said that more M&A is on the horizon. "I don't know if I can say this year, but you should expect another deal. It is a big part of our strategy," she said.

Among banks with between \$1 billion and \$5 billion in assets, Pacific Premier Bancorp Inc. saw its year-over-year operating revenue growth climb nearly 54%. During the bank's earnings call, executives pointed to the quarter's strong loan production within a seasonally slower period. Management also highlighted Pacific Premier's business and reputation growth in the Southern California market.

"We're able to recruit and attract a more experienced caliber of banker and we're consistently seeing an improvement in the quality of our team," said President and CEO Steven Gardner. "We are seeing this manifest itself in strong loan and deposit pipelines, which are at their highest levels in the history of the company."

In terms of loan originations, Gardner said that the bank finished the first quarter ahead of where it expected to be amid the integration of its Security California Bancorp acquisition.

Nashville, Tenn.-based Pinnacle Financial Partners Inc., which is nearing \$10 billion in assets, grew operating revenue more than 42% year over year. During the company's recent earnings call, management pointed to Pinnacle's organic growth model.

"By way of update on these various growth initiatives, the hiring momentum is as strong as I ever remember," said President and CEO M. Terry Turner. "In the first quarter of 2016, we've hired 14 revenue-producing associates, again a pace similar to what we did in the fourth quarter of 2015."

Pinnacle executives also emphasized the revenue opportunities created by recent deals, including the pending acquisition of Avenue Financial Holdings Inc. Looking ahead, executives at the acquisitive bank pointed out that they are beginning to harvest "revenue synergies" from both of their 2015 deals.

"NARUC leadership have successfully facilitated and integrated this into important committee work," Burk said. "As an inspector, this means a great deal."

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

Earnings reported up to April 22

Rank	Company name (ticker)	City, state	Total assets Q1'16 (\$B)	YOY operating revenue growth (%)	YOY EPS growth (%)	ROAA		Net interest margin	
						(%)	YOY trend	(%)	YOY trend
Highest operating revenue growth									
1	HMN Financial Inc. (HMNF)	Rochester, MN	0.64	28.47	375.00	1.12	▲	4.01	▲
2	Howard Bancorp Inc. (HBMD)	Ellicott City, MD	0.99	26.10	-13.33	0.41	▲	3.93	▼
3	Oak Valley Bancorp (OVLY)	Oakdale, CA	0.91	20.42	0.00	0.67	▼	3.76	▲
4	Royal Bancshares of Pennsylvania Inc. (RBPAA)	Bala Cynwyd, PA	0.80	20.40	50.00	1.14	▲	3.49	▲
5	Provident Bancorp Inc (MHC) (PVBC)	Amesbury, MA	0.74	14.80	NA	0.80	▲	3.59	▲
6	United Security Bancshares (UBFO)	Fresno, CA	0.74	14.37	43.08	0.98	▲	4.10	▼
7	Southwest Georgia Financial Corp. (SGB)	Moultrie, GA	0.41	12.61	28.13	1.01	▲	4.29	▲
8	County Bancorp Inc. (ICBK)	Manitowoc, WI	0.91	11.90	-18.60	0.97	▼	3.19	▼
9	Greene County Bancorp Inc. (MHC) (GCBC) ¹	Catskill, NY	0.85	11.68	19.05	1.05	▲	3.56	▼
10	First South Bancorp Inc. (FSBK)	Washington, NC	0.94	11.62	87.50	0.62	▲	3.60	▲
Lowest operating revenue growth									
1	United Bancshares Inc. (UBOH)	Columbus Grove, OH	0.62	-6.45	21.21	0.85	▲	3.53	▼
2	WVS Financial Corp. (WVFC) ¹	Pittsburgh, PA	0.34	-5.98	-29.17	0.39	▼	NA	NA
3	1st Constitution Bancorp (FCCY)	Cranbury, NJ	0.95	-5.33	-3.57	0.93	▼	3.91	▼
4	Norwood Financial Corp. (NWFL)	Honesdale, PA	0.76	-1.33	-7.27	0.99	▼	3.70	▼
5	DNB Financial Corp. (DNBF)	Downingtown, PA	0.76	-1.03	25.58	0.84	▲	3.02	▼
6	First Community Corp. (FCCO)	Lexington, SC	0.87	0.52	4.76	0.68	▼	3.31	▼
7	Guaranty Federal Bancshares Inc. (GFED)	Springfield, MO	0.66	1.59	-3.33	0.78	▼	3.36	▼
8	Union Bankshares Inc. (UNB)	Morrisville, VT	0.64	2.52	-7.14	1.09	▼	NA	NA
9	SB Financial Group Inc. (SBFG)	Defiance, OH	0.77	3.43	13.04	0.87	▲	3.75	▲
10	Middlefield Banc Corp. (MBCN)	Middlefield, OH	0.73	3.71	0.00	0.81	▼	3.87	▼
Median*				5.40	6.29	0.87	▲	3.75	▲

Data compiled April 25, 2016.

Analysis limited to top 10 banks and thrifts traded on the Nasdaq, NYSE or NYSE MKT with the highest and lowest year-over-year operating revenue growth for the quarter ended March 31, 2016. Only companies with total assets below \$1 billion as of March 31, 2016, that reported earnings up to April 22 are shown.

All data shown is for the quarter ended March 31, 2016.

¹ The quarter ended March 31, 2016, is the fiscal third quarter of 2016 for the company.

* Median for all major exchange-traded banks and thrifts with assets below \$1 billion that have reported earnings up to April 22.

Data is based on GAAP filings.

ROAA = return on average assets; EPS = diluted earnings per share after extraordinary items, if applicable; NA = not available

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

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

Earnings reported up to April 22

Rank	Company name (ticker)	City, state	Total assets Q1'16 (\$B)	YOY operating revenue growth (%)	YOY EPS growth (%)	ROAA		Net interest margin	
						(%)	YOY trend	(%)	YOY trend
Highest operating revenue growth									
1	Farmers National Banc Corp. (FMNB)	Canfield, OH	1.86	66.63	50.00	1.03	▲	4.05	▲
2	Pacific Premier Bancorp Inc. (PPBI)	Irvine, CA	3.56	53.90	266.67	1.04	▲	4.43	▲
3	National Commerce Corp. (NCOM)	Birmingham, AL	1.74	51.68	36.00	0.94	▲	4.19	▼
4	WashingtonFirst Bankshares Inc. (WFBI)	Reston, VA	1.76	49.90	14.29	0.93	▲	3.56	▼
5	Bear State Financial Inc. (BSF)	Little Rock, AR	1.92	32.05	28.57	0.70	▲	3.98	▲
6	Pacific Continental Corp. (PCBK)	Eugene, OR	1.97	25.84	75.00	1.12	▲	4.21	▲
7	BSB Bancorp Inc. (BLMT)	Belmont, MA	1.92	25.50	75.00	0.54	▲	2.53	▲
8	Southwest Bancorp Inc. (OKSB)	Stillwater, OK	2.36	25.39	-58.33	0.32	▼	3.52	▲
9	Farmers Capital Bank Corp. (FFKT)	Frankfort, KY	1.77	24.14	60.78	1.40	▲	3.36	▲
10	Republic First Bancorp Inc. (FRBK)	Philadelphia, PA	1.48	24.04	200.00	0.30	▲	3.35	▲
Lowest operating revenue growth									
1	Wilshire Bancorp Inc. (WIBC)	Los Angeles, CA	4.72	-8.48	-29.17	1.12	▼	3.52	▼
2	AmeriServ Financial Inc. (ASRV) ¹	Johnstown, PA	1.12	-4.37	NM	-0.45	▼	3.31	▼
3	Monarch Financial Holdings Inc. (MNRK)	Chesapeake, VA	1.21	-3.18	17.24	1.43	▲	4.22	▼
4	Fidelity Southern Corp. (LION)	Atlanta, GA	4.10	-2.13	-60.00	0.46	▼	3.23	▼
5	Nicolet Bankshares Inc. (NCBS)	Green Bay, WI	1.24	-1.62	-18.57	0.88	▼	3.91	▼
6	Old Second Bancorp Inc. (OSBC)	Aurora, IL	2.12	-0.95	22.22	0.63	▼	3.23	▲
7	Citizens Holding Co. (CIZN)	Philadelphia, MS	1.00	-0.92	-6.06	0.62	▼	3.02	▼
8	Hanmi Financial Corp. (HAFC)	Los Angeles, CA	4.31	-0.06	31.43	1.40	▲	3.96	▲
9	Waterstone Financial Inc. (WSBF)	Wauwatosa, WI	1.74	0.01	55.56	0.89	▲	2.52	▲
10	CoBiz Financial Inc. (COBZ)	Denver, CO	3.36	0.96	0.00	0.88	▼	3.71	▼
Median*				6.57	8.11	0.89	▲	3.48	▼

Data compiled April 25, 2016.

Analysis limited to top 10 banks and thrifts traded on the Nasdaq, NYSE or NYSE MKT with the highest and lowest year-over-year operating revenue growth for the quarter ended March 31, 2016. Only companies with total assets between \$1 billion and \$5 billion as of March 31, 2016, that reported earnings up to April 22 are shown.

All data shown is for the quarter ended March 31, 2016.

¹ The EPS was a loss of 7 cents per share for the quarter ended March 31, 2016, compared to a gain of 7 cents per share for the year-ago quarter.

* Median for all major exchange-traded banks and thrifts with assets between \$1 billion and \$5 billion that have reported earnings up to April 22.

Data is based on GAAP filings.

ROAA = return on average assets; EPS = diluted earnings per share after extraordinary items, if applicable; NM = not meaningful

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

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

Earnings reported up to April 22

Rank	Company name (ticker)	City, state/territory	Total assets Q1'16 (\$B)	YOY operating revenue growth (%)	YOY EPS growth (%)	ROAA (%)		Net interest margin (%)	
						YOY trend	YOY trend		
Highest operating revenue growth									
1	Pinnacle Financial Partners Inc. (PNFP)	Nashville, TN	9.26	42.16	9.68	1.26	▼	3.69	▲
2	Simmons First National Corp. (SFNC)	Pine Bluff, AR	7.54	38.52	97.44	1.25	▲	4.38	▲
3	Ameris Bancorp (ABCB)	Moultrie, GA	6.10	32.33	15.63	0.88	▼	4.01	▼
4	Home BancShares Inc. (HOMB)	Conway, AR	9.40	28.14	28.26	1.78	▲	4.78	▼
5	BNC Bancorp (BNCN)	High Point, NC	5.70	27.46	29.63	1.02	▲	3.91	▼
6	Banc of California Inc. (BANC)	Irvine, CA	9.62	24.90	24.14	0.89	▲	3.38	▼
7	Yadkin Financial Corp. (YDKN)	Raleigh, NC	7.42	23.44	-33.33	0.57	▼	4.03	▼
8	FCB Financial Holdings Inc. (FCB) ¹	Weston, FL	7.84	21.28	NM	1.19	▲	3.70	▲
9	Customers Bancorp Inc. (CUBI)	Wyomissing, PA	9.04	21.19	16.33	0.85	▲	2.86	▼
10	S&T Bancorp Inc. (STBA)	Indiana, PA	6.48	21.10	12.20	1.01	▲	3.51	▲
Lowest operating revenue growth									
1	OFG Bancorp (OFG) ²	San Juan, PR	6.87	-18.59	NM	0.81	▲	4.66	▼
2	Westamerica Bancorp. (WABC)	San Rafael, CA	5.20	-1.61	-1.75	1.10	▼	3.33	▼
3	Boston Private Financial Holdings Inc. (BPFH)	Boston, MA	7.41	0.34	0.00	1.03	▼	2.98	▼
4	United Financial Bancorp Inc. (UBNK)	Glastonbury, CT	6.32	2.69	-7.69	0.76	▼	3.08	▼
5	CVB Financial Corp. (CVBF)	Ontario, CA	7.92	3.34	46.67	1.21	▲	3.50	▼
6	Union Bankshares Corp. (UBSH)	Richmond, VA	7.83	3.48	8.57	0.87	▲	3.80	▼
7	South State Corp. (SSB)	Columbia, SC	8.67	3.69	2.02	1.15	▼	4.30	▼
8	Tompkins Financial Corp. (TMP)	Ithaca, NY	5.76	4.65	11.90	0.99	▲	3.35	▼
9	Brookline Bancorp Inc. (BRKL)	Boston, MA	6.18	5.05	5.88	0.90	▲	3.43	▼
10	Park National Corp. (PRK)	Newark, OH	7.43	5.34	-1.63	1.01	▼	3.54	▲
Median*				9.24	10.73	1.03	▲	3.60	▼

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All data shown is for the quarter ended March 31, 2016.

¹ The EPS was a gain of 52 cents per share for the quarter ended March 31, 2016, compared to a loss of 41 cents per share for the year-ago quarter.

² The EPS was a gain of 24 cents per share for the quarter ended March 31, 2016, compared to a loss of 14 cents per share for the year-ago quarter.

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