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Commerce Street Capital Sees Increased Performance in Banking Industry

Firm Highlights Strategic Growth Options for Community Banks

DALLAS (April 26, 2013) — Commerce Street Capital, LLC ("CSC"), a Dallas-based investment banking firm that advises financial institutions, analyzed the current performance of the banking industry and shared its findings at its 11th Annual Bank Conference. Held at the Four Seasons Resort and Club in Las Colinas, Texas, on April 26, the all-day event included 20 speakers and an audience of 200 community bank executives.

In an industry update presentation, Dory Wiley, President and CEO of Commerce Street Holdings, the holding company for CSC, noted quarterly net income has been on an increasing trend since Q1 2010. This stabilization in core net income should lead to more confidence in the banking sector. Other key indicators include:

Bank stock performance. For the past year, bank stocks have outperformed the S&P 500. As the banking industry continues to improve, the stocks should continue their gains. Historically, small cap and micro cap bank stocks have outperformed the S&P 500 and large cap banks.

Healthier net earnings[i]

- The industry increased earnings in Q4 2012 by 36.9 percent, to $34.7 billion from $25.3 billion net income in Q4 2011
- More than half of all institutions (58 percent) reported year-over-year improvement in quarterly earnings in Q3 2012
- Industry efficiency ratio decreased slightly to 62.6 percent year-over-year from the Q4 2011 level of 63.8 percent
- Slightly greater than half of all institutions (52.7 percent) reported, year-over-year, lower loan loss provisions in Q4 2012, while fewer than one in three (29.7 percent) increased their provisions over Q4 2011 levels

"Overall, I see an industry on the mend," observed Wiley. **"**The number of severe enforcement actions (i.e., prompt corrective action directives, cease-and-desist orders, and formal agreements/consent orders) that were issued in 2012 were the lowest annual total since 2008. The decline in this figure indicates that regulators feel the industry is improving in general as they witness improvements in credit quality and, therefore, have failed fewer and fewer institutions."

Among the numerous topics presented at the bank conference, CSC also illustrated key strategic options on how community banks can continue to grow — even amid a slow-growing economy. Options include:

Status quo — improved profitability. Despite persistent headwinds for margins, banks have been able to increase their profitability since the downturn and have done so more

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efficiently[ii]. They have done this through operational improvements and efficiencies (increase revenues, reduce expenses), improved regulatory standing and business activities that focus on core strengths, among other efforts.

Aggressive and organic growth of the bank. Elevated levels of nonperforming assets prohibit organic growth. However, the banking industry seems to have turned the page in terms of getting rid of nonperforming assets from its balance sheet, in aggregate.[iii] Ways of growing include de novo branching, acquiring branches, hiring relationship manager teams and offering new loan products to generate loan growth.

Strategic merger with a partner. Regulation and earnings pressure should accelerate the pace of bank mergers and acquisitions (M&A) moving forward, and the continuation of long-term industry consolidation will begin to be seen. This can happen through a merger of equals, a merger with a future acquisition candidate or an acquisition by a third party.

Other topics at the bank conference included an M&A overview, issues on SBICs, perspectives on the U.S. economy and building shareholder value. Dr. Harvey Rosenblum, the keynote speaker and the Executive Vice President and Director of Research at the Federal Reserve Bank of Dallas, discussed the too-big-to-fail phenomenon, and Business and Economic Historian John Steele Gordon presented a talk titled “A Short History of a Very Big Debt.” John Goodman, President and CEO of National Center for Policy Analysis, provided a Washington update. Other presenters included community bank chairmen, presidents and CEOs from Texas (Amarillo, Dallas, Houston and McKinney) and Pennsylvania, as well as representatives from the FDIC and the Small Business Administration. Dr. Bob McTeer and other panelists also provided perspectives on the U.S. economy, and Scott MacDonald, Ph.D., President and CEO of Southwestern Graduate School of Banking, moderated a panel discussion about growth and expansion strategies for banks.

About Commerce Street Capital

Commerce Street Capital, LLC (“CSC”), is a private investment banking firm headquartered in Dallas, Texas. Led by veterans of the banking industry, CSC specializes in investment banking services (mergers and acquisitions, valuations and regulatory issue advising) and bank development (on-site consulting, sales and management of bank capital raises, market assessments and the bank regulatory application process). The firm provides tailored solutions for all or part of a financial institution's business lifecycle. For more information, visit www.commercestreetcapital.com or call 214-545-6800. CSC is a member of FINRA/SIPC.

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[i] Source: FDIC
[ii] All banks between $100 million and $10 billion in assets
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