



SOUTHEAST BANK QUARTERLY 2Q17 REVIEW

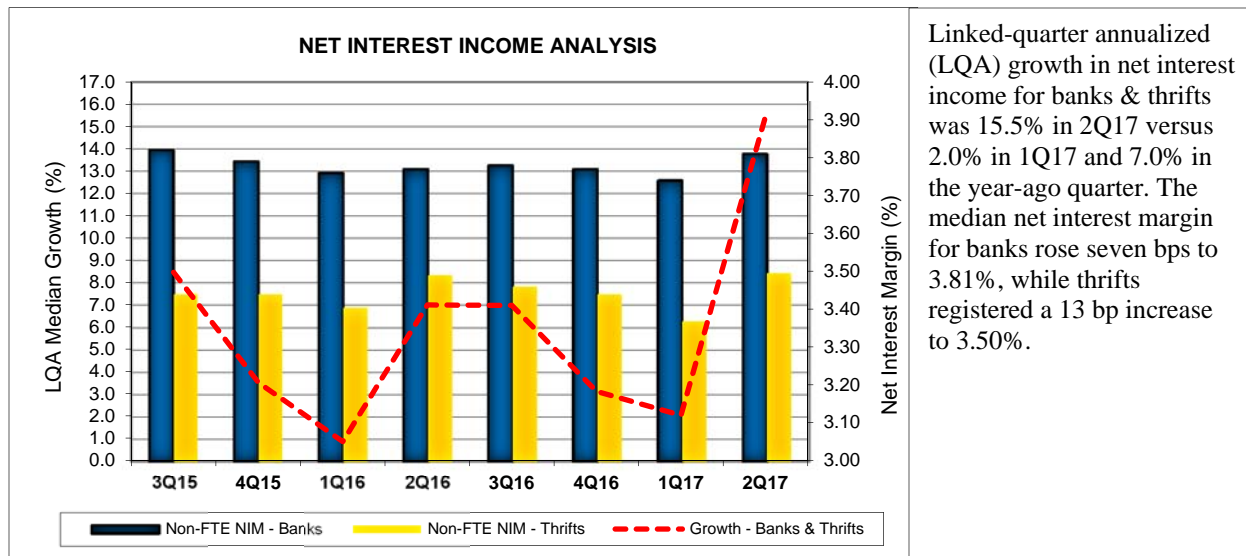
Banks

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FINANCIAL REVIEW

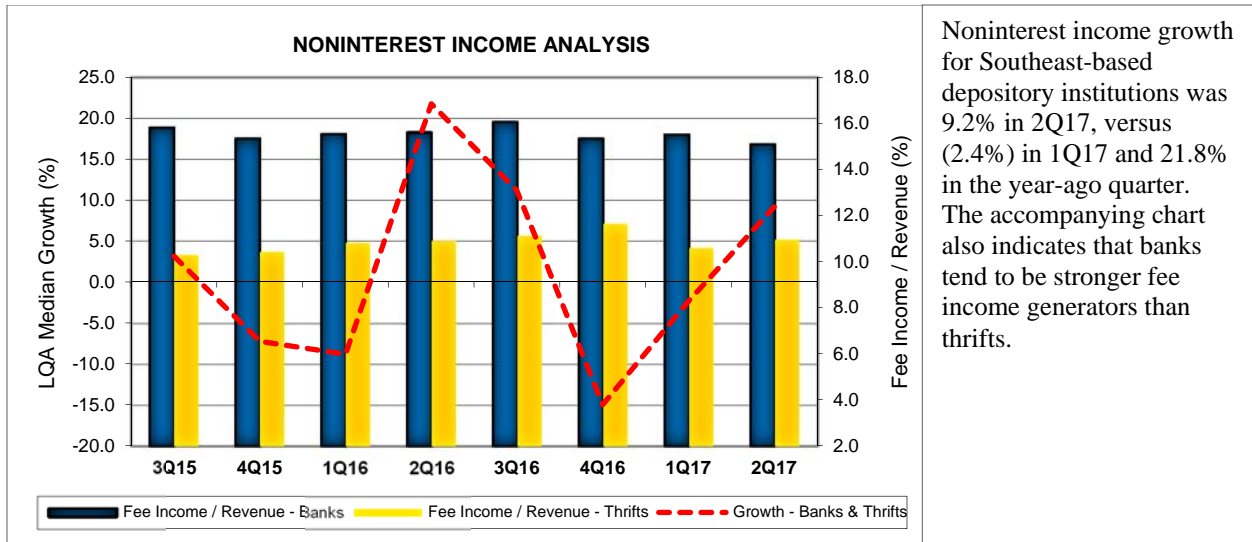
This section presents financial trends realized by the 1,067 financial institutions (948 banks and 119 thrifts) headquartered in the Southeast based on regulatory data provided by SNL Financial. States included in the Southeast region according to SNL’s definition are Alabama, Arkansas, Florida, Georgia, Mississippi, North Carolina, South Carolina, Tennessee, Virginia and West Virginia. The section contains the following subcategories: Income Statement Trends, Asset Quality Trends and Balance Sheet Trends. Unless otherwise noted, data is presented on a median annualized basis. Please note that growth and other statistics can be influenced by acquisition activity.

Income Statement Trends

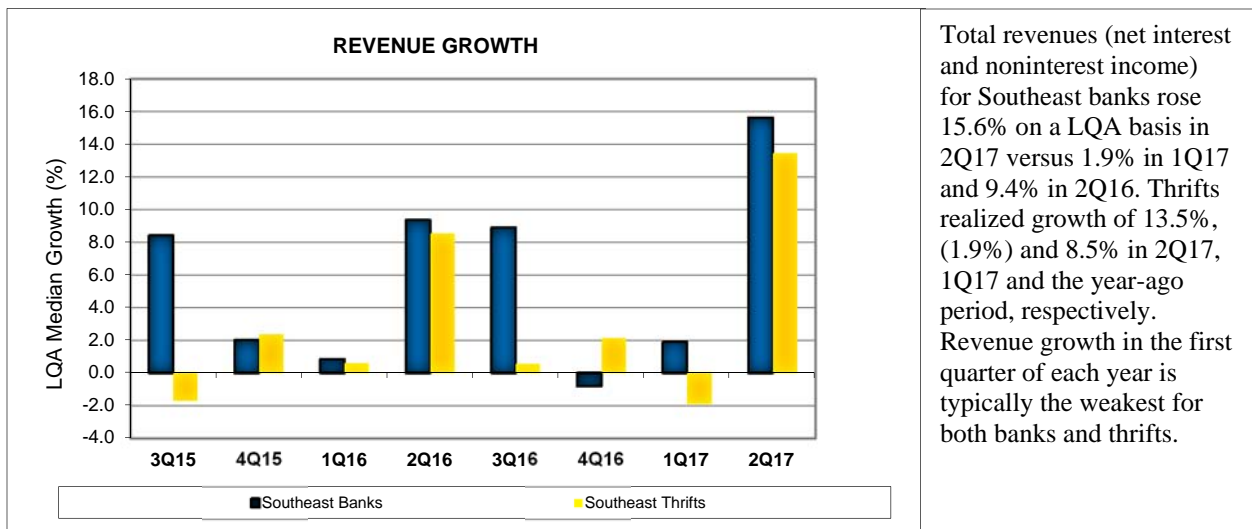


To obtain important disclosure information regarding Hilliard Lyons’ rating system, valuation methods, risk factors and potential conflicts of interest with respect to the companies covered in this report, please call (800) 444-1854 ext. 8820, send a request via e-mail to RsLib@hilliard.com, or go online to <http://hilliard.com/site/market-info/research-disclosures.html>. Requests should include the name and date of this report and a list of companies for which the disclosure information is requested.

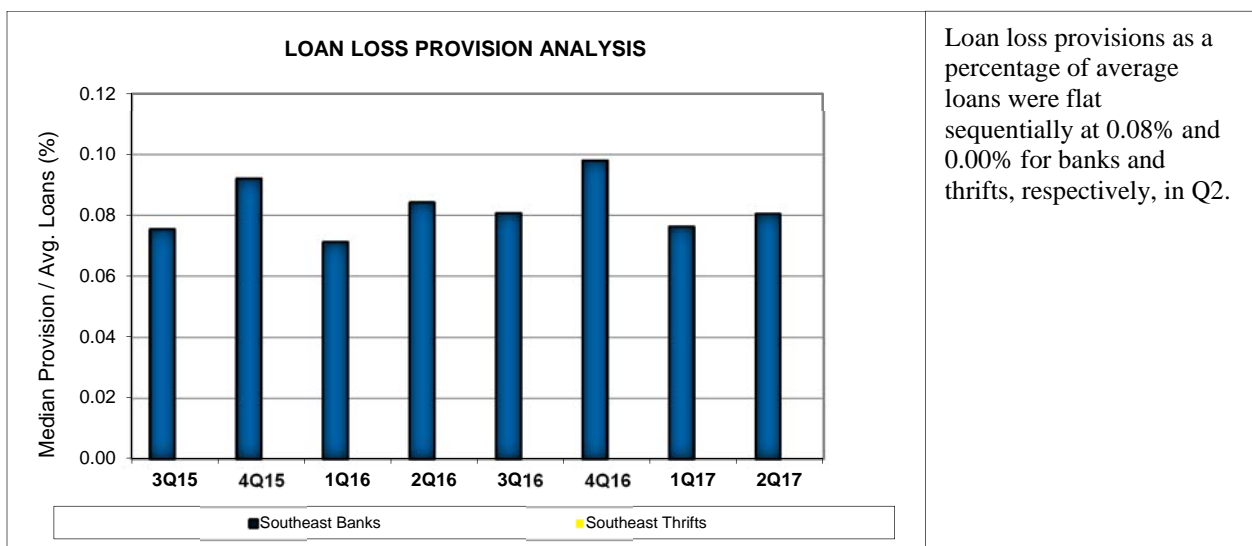
Note Important Disclosures on page 10
Note Analyst Certification on page 10



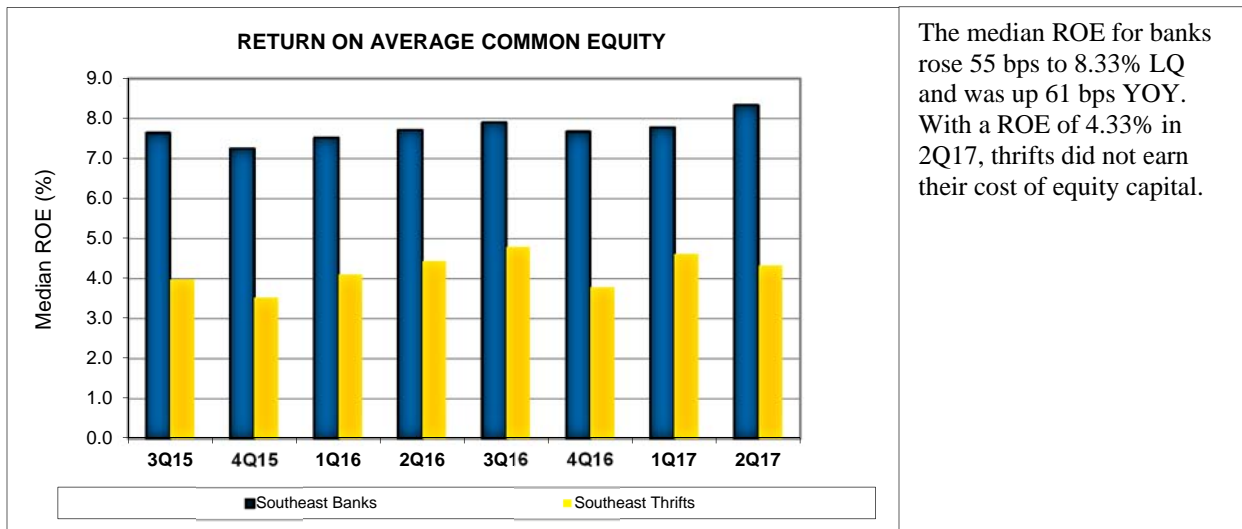
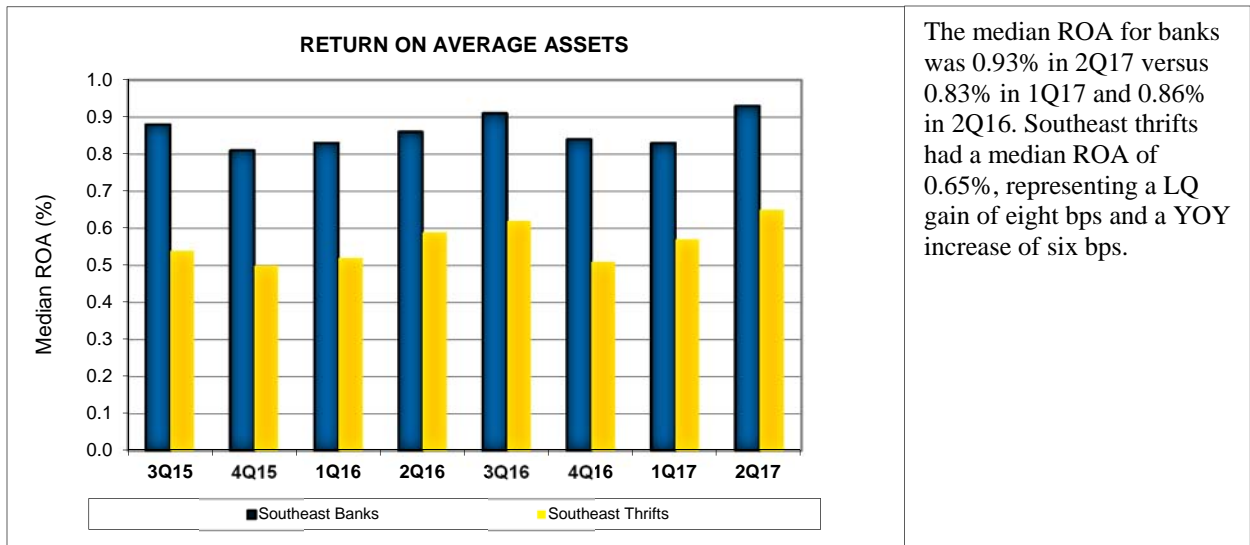
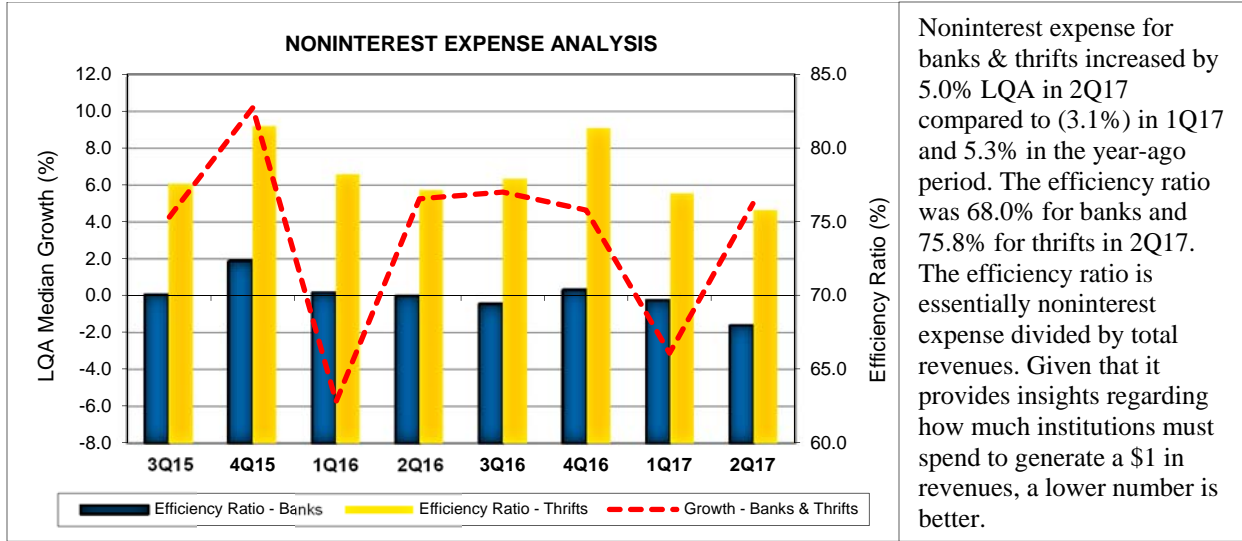
Noninterest income growth for Southeast-based depository institutions was 9.2% in 2Q17, versus (2.4%) in 1Q17 and 21.8% in the year-ago quarter. The accompanying chart also indicates that banks tend to be stronger fee income generators than thrifts.



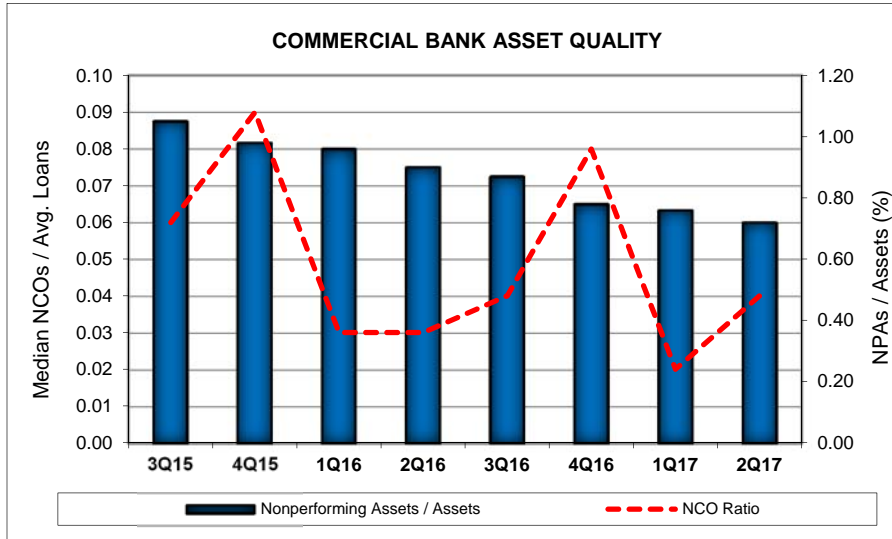
Total revenues (net interest and noninterest income) for Southeast banks rose 15.6% on a LQA basis in 2Q17 versus 1.9% in 1Q17 and 9.4% in 2Q16. Thrifts realized growth of 13.5%, (1.9%) and 8.5% in 2Q17, 1Q17 and the year-ago period, respectively. Revenue growth in the first quarter of each year is typically the weakest for both banks and thrifts.



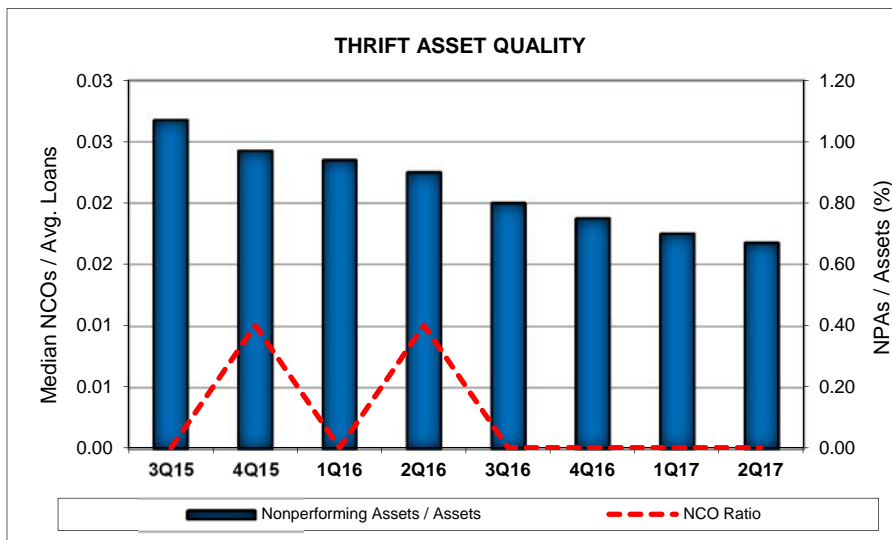
Loan loss provisions as a percentage of average loans were flat sequentially at 0.08% and 0.00% for banks and thrifts, respectively, in Q2.



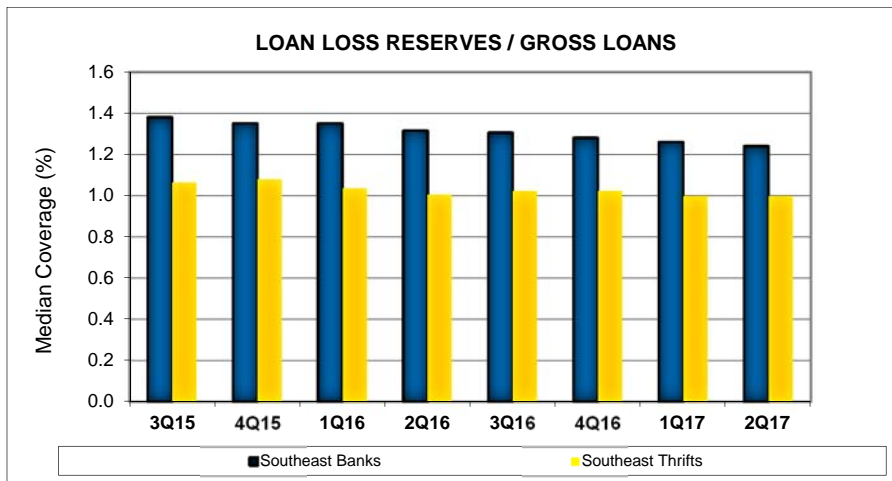
Asset Quality Trends



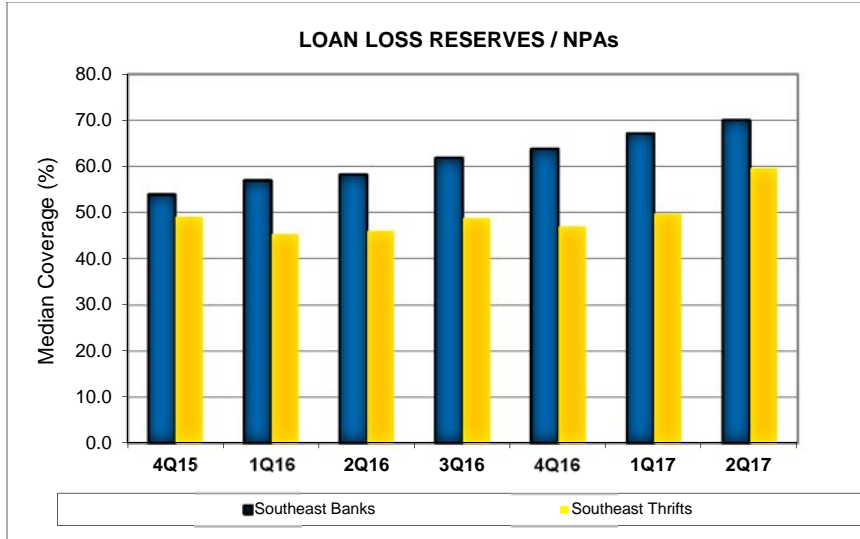
Commercial bank non-performing assets (NPAs) fell four bps LQ to 0.72% of assets at June 30, 2017. The median net charge-off (NCO) ratio ticked up two bps to 0.04%



Thrift NPAs were 0.67% of assets at June 30, 2017, down from 0.70% at the end of 1Q17. The median net charge-off ratio for the group was flat sequentially at 0.00%.

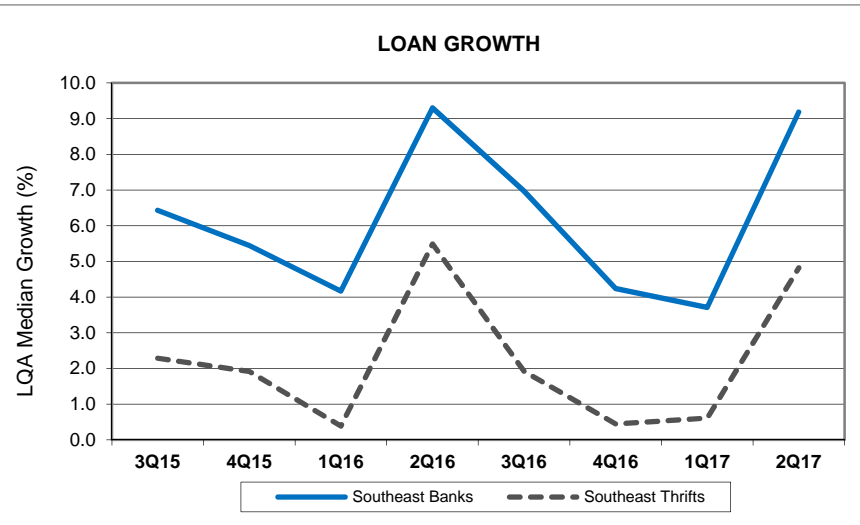


The reserve coverage of loans fell two bps LQ to 1.24% for banks and was flat LQ at 1.00% for thrifts at June 30, 2017.

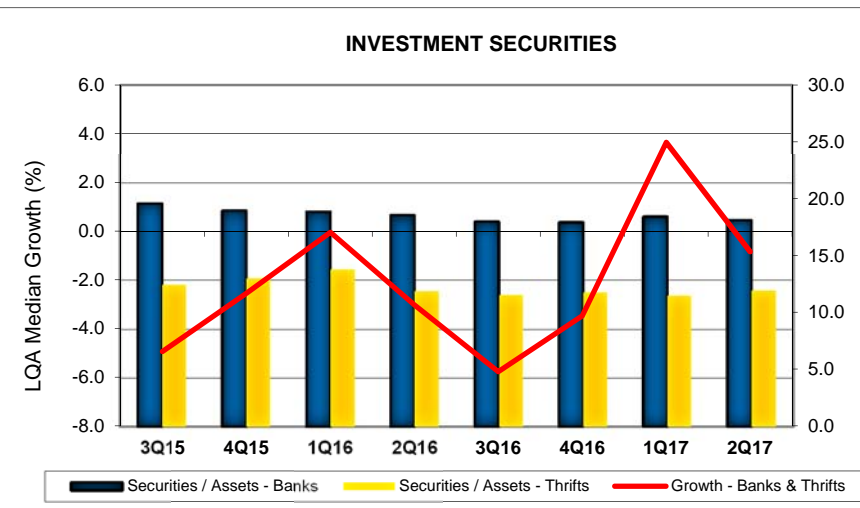


The reserve coverage of NPAs continued its ascent for Southeast banks, rising to 70.0% at the end of 2Q17 from 67.1% at March 31, 2017. The NPA coverage for thrifts rose to 59.6% at June 30, 2017 from 49.8% at the end Q1.

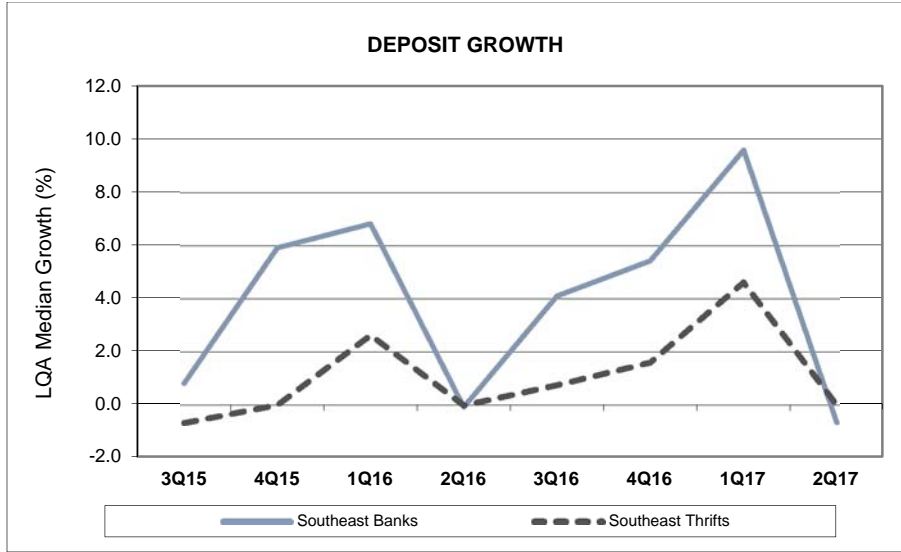
Balance Sheet Trends



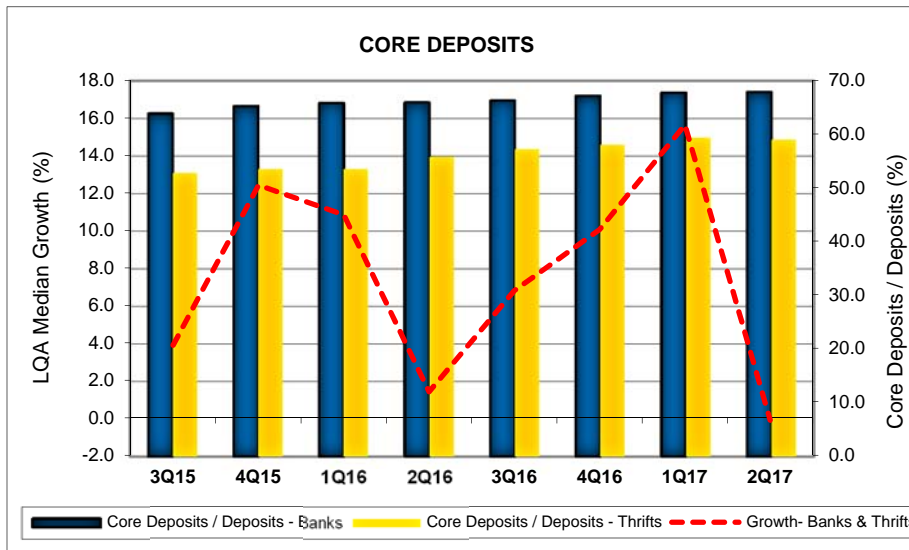
Southeast banks realized a LQA increase in loans of 9.2% in 2Q17 versus growth of 3.7% in 1Q17 and 9.3% in 2Q16. Loan growth for thrifts was 4.8%, 0.6% and 5.5%, respectively, during these periods. Loan growth tends to be seasonally weak for depository institutions in the first quarter of each year.



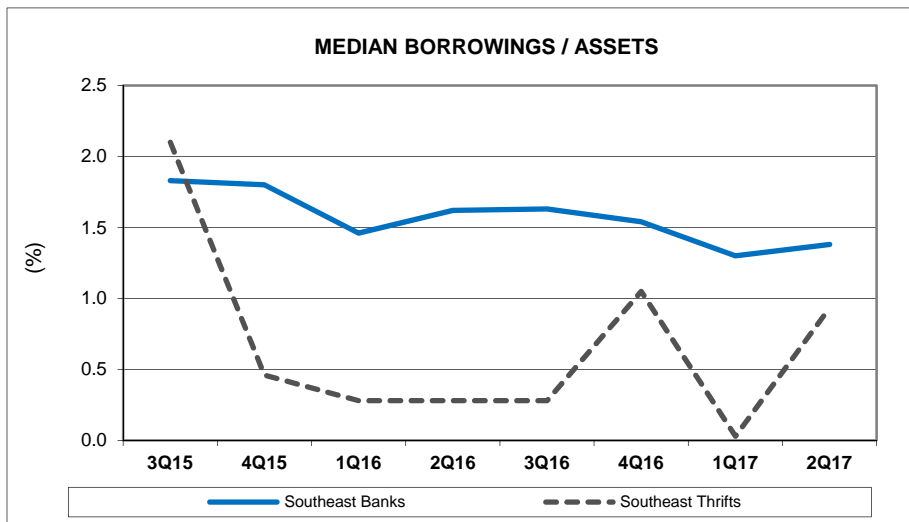
Total securities of Southeast banks & thrifts were down (0.8%) in 2Q17 versus 3.6% in 1Q17 and (3.3%) in the year-ago period. Securities comprised 18.1% of bank assets and 11.9% of thrift assets at June 30, 2017.



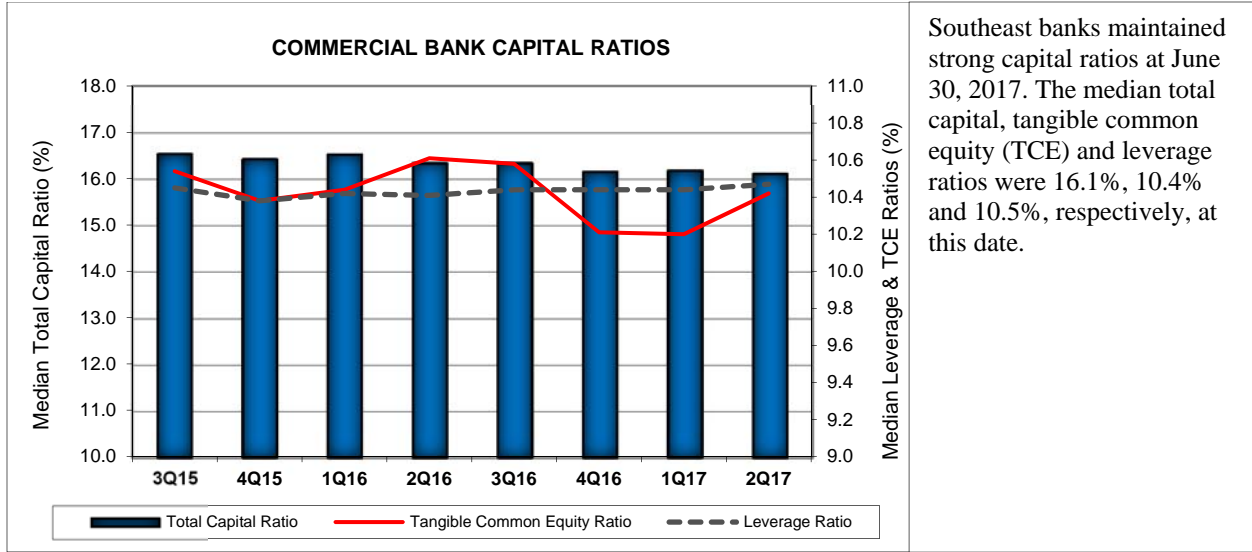
Total deposits of banks fell (0.7%) on a LQA basis in 2Q17, versus 9.6% in 1Q17 and (0.1%) in the year-ago quarter. Thrifts realized growth of 0.0%, 4.6% and 0.0%, respectively, in these periods.



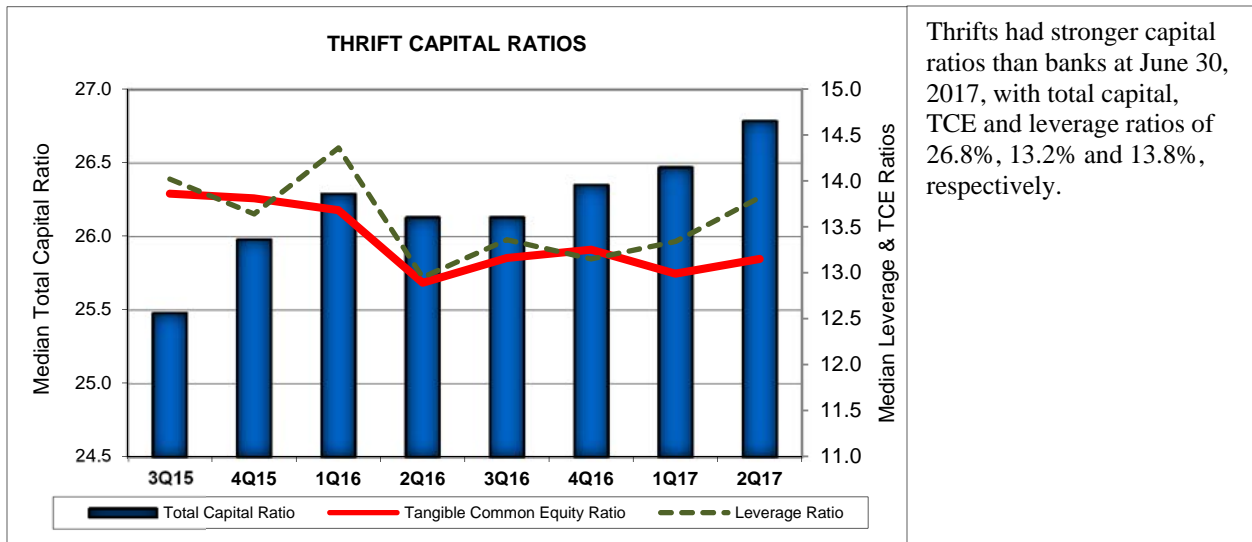
Core deposits (total deposits less time deposits) declined (0.1%) for banks and thrifts on a LQA basis in 2Q17. They accounted for 67.9% of bank deposits and 59.0% of thrift deposits at June 30, 2017.



Total outside borrowings as a percentage of assets were 1.4% for banks and 0.9% for thrifts at June 30, 2017 compared to 1.3% and 0.0%, respectively, at March 31, 2017.



Southeast banks maintained strong capital ratios at June 30, 2017. The median total capital, tangible common equity (TCE) and leverage ratios were 16.1%, 10.4% and 10.5%, respectively, at this date.



Thrifts had stronger capital ratios than banks at June 30, 2017, with total capital, TCE and leverage ratios of 26.8%, 13.2% and 13.8%, respectively.

MERGER & ACQUISITION ACTIVITY

There were 33 whole bank acquisitions announced since 1Q17 involving Southeast-based financial institutions excluding any deals involving private investors. Pricing multiples for these deals are provided in the following table.

**ANALYSIS OF BANK & THRIFT M&A ACTIVITY
INVOLVING SOUTHEAST-BASED INSTITUTIONS
ANNOUNCED AFTER MARCH 31, 2017**

Buyer/ Target Name	Announce Date	Buyer State	Seller State	Pricing @ Announcement		
				Deal Value (\$M)	Deal Value/ Earnings (x)	Deal Value/ Tangible Common Equity (%)
First Community Corporation/ Cornerstone Bancorp	4/12/2017	SC	SC	25.9	34.6	138.9
United Community Banks, Inc./ HCSB Financial Corporation	4/20/2017	GA	SC	66.2	4.5	183.3
National Commerce Corporation/ Patriot Bank	4/24/2017	AL	FL	31.3	25.0	162.2
South State Corporation/ Park Sterling Corporation	4/27/2017	SC	NC	693.4	27.4	237.8
TowneBank/ Paragon Commercial Corporation	4/27/2017	VA	NC	324.0	22.1	237.3
First Bancorp/ ASB Bancorp, Inc.	5/1/2017	NC	NC	174.8	NM	174.3
First Horizon National Corporation/ Capital Bank Financial Corp.	5/4/2017	TN	NC	2,189.5	28.2	203.1
Seacoast Banking Corporation of Florida/ Palm Beach Community Bank	5/4/2017	FL	FL	69.9	19.6	167.5
Emclaire Financial Corp/ Northern Hancock Bank & Trust Company	5/4/2017	PA	WV	1.9	NM	59.9
First Mutual Holding Co./ Doolin Security Savings Bank, FSB	5/11/2017	OH	WV	NA	NA	NA
Sandy Springs Bancorp, Inc./ WashingtonFirst Bankshares, Inc.	5/16/2017	MD	VA	499.6	26.4	261.3
Seacoast Banking Corporation of Florida/ NorthStar Banking Corporation	5/18/2017	FL	FL	29.7	38.4	136.0
SmartFinancial, Inc./ Capstone Bancshares, Inc.	5/22/2017	TN	AL	84.2	23.0	161.5
Union Bankshares Corporation/ Xenith Bankshares, Inc.	5/22/2017	VA	VA	701.0	10.1	156.2
Firstbanc of Alabama, Inc./ Swann Bancshares, Inc.	5/25/2017	AL	AL	NA	NA	NA
Charter Financial Corporation/ Resurgens Bancorp	6/1/2017	GA	GA	26.3	17.5	164.5
Carolina Financial Corporation/ First South Bancorp, Inc.	6/12/2017	SC	NC	161.7	21.7	192.2
State Bank Financial Corporation/ AloStar Bank of Commerce	6/15/2017	GA	AL	196.0	17.2	101.4
WB&T Bankshares, Inc./ Pelham Banking Company	6/15/2017	GA	GA	NA	NA	NA
FSB LLC/ First Southern Bancshares, Inc.	6/27/2017	AL	AL	20.6	12.9	169.2
Entegra Financial Corp./ Chattahoochee Bank of Georgia	6/27/2017	NC	GA	34.9	23.8	154.3
United Community Banks, Inc./ Four Oaks Fincorp, Inc.	6/27/2017	GA	NC	124.6	16.4	178.8
Bank of McKenney/ CCB Bankshares, Inc.	6/28/2017	VA	VA	19.0	24.6	99.0
First National Corporation of Wynne/ Bank of McCrory	7/17/2017	AR	AR	NA	NA	NA
Select Bancorp, Inc./ Premara Financial, Inc.	7/21/2017	NC	NC	39.5	52.5	164.5
Southeastern Bancorp, Inc./ Cumberland Bancorp, Inc.	7/21/2017	TN	TN	NA	NA	NA
Atlantic Bay Mortgage Group LLC/ Virginia Community Bank	7/25/2017	VA	VA	NA	NA	NA
Valley National Bancorp/ USAmeriBancorp, Inc.	7/26/2017	NJ	FL	815.7	17.6	246.1
PB Financial Corporation/ CB Financial Corporation	8/1/2017		NC	11.2	64.6	140.1
Lake Michigan Credit Union/ Encore Bank	8/7/2017	MI	FL	NA	NA	NA
CenterState Banks, Inc./ Sunshine Bancorp, Inc.	8/14/2017	FL	FL	177.0	54.6	181.1
CenterState Banks, Inc./ HCBF Holding Company, Inc.	8/14/2017	FL	FL	415.7	55.7	208.3
Commercial Bancgroup, Inc./ Citizens Bank	8/15/2017	TN	TN	NA	NA	NA
Median Multiple					23.8	167.5

Source: SNL Financial

PUBLIC COMPANY VALUATIONS

There are 215 Southeast-based financial institutions that are traded on the New York Stock Exchange, NASDAQ or over the counter. Current valuation multiples for these stocks are provided in the table below. Micro-cap institutions tend to have thinner tangible book multiples, which we largely attribute to the lack of critical mass to effectively absorb the increase in regulatory compliance costs subsequent to the financial crisis and their limited trading volume.

ANALYSIS OF COMMON STOCK VALUATIONS SOUTHEAST-BASED FINANCIAL INSTITUTIONS VALUATION DATA AS OF AUGUST 15, 2017

Market Capitalization	Median Statistics				
	Price/ TTM EPS (X)	Price/ 2017 EPS Est (X)	Price/ 2018 EPS Est (X)	Price/ Tang. Book (%)	Dividend Yield (%)
Large	15.2	14.3	12.7	157.3	2.0
Mid	17.9	16.4	15.1	191.8	1.9
Small	19.4	17.8	14.9	192.2	1.5
Micro	16.5	19.4	15.5	119.2	1.3

Source: SNL Financial

The following table provides market data for publicly traded companies listed in this report.

MARKET DATA FOR PUBLICLY TRADED COMPANIES REFERENCED IN THIS REPORT VALUATION DATA AS OF AUGUST 15, 2017

Company	City	State	Ticker	Closing Price
ASB Bancorp, Inc.	Asheville	NC	ASBB	43.65
Bank of McKenney	McKenney	VA	BOMK	12.48
Capital Bank Financial Corp.	Charlotte	NC	CBF	37.95
Carolina Financial Corporation	Charleston	SC	CARO	32.83
CB Financial Corporation	Wilson	NC	CBFA	0.22
CCB Bankshares, Inc.	South Hill	VA	CZYB	11.50
CenterState Banks, Inc.	Winter Haven	FL	CSFL	24.70
Charter Financial Corporation	West Point	GA	CHFNC	16.43
Cornerstone Bancorp	Easley	SC	CTOT	10.81
Emclair Financial Corp.	Emlenton	PA	EMCF	27.99
Entegra Financial Corp.	Franklin	NC	ENFC	23.10
First Bancorp	Southern Pines	NC	FBNC	30.57
First Community Corporation	Lexington	SC	FCCO	20.60
First Horizon National Corporation	Memphis	TN	FHN	17.55
First South Bancorp, Inc.	Washington	NC	FSBK	16.76
Four Oaks Fincorp, Inc.	Four Oaks	NC	FOFN	17.95
Hancock Holding Company	Gulfport	MS	HBHC	43.75
National Commerce Corporation	Birmingham	AL	NCOM	39.45
Paragon Commercial Corporation	Raleigh	NC	PBNC	51.74
Park Sterling Corporation	Charlotte	NC	PSTB	11.45
Premara Financial, Inc.	Charlotte	NC	PARA	11.45
Sandy Spring Bancorp, Inc.	Olney	MD	SASR	38.49
Seacoast Banking Corporation of Florida	Stuart	FL	SBCF	23.04
Select Bancorp, Inc.	Dunn	NC	SLCT	11.30
SmartFinancial, Inc.	Knoxville	TN	SMBK	23.98
South State Corporation	Columbia	SC	SSB	82.10
State Bank Financial Corporation	Atlanta	GA	STBZ	26.80
Sunshine Bancorp, Inc.	Plant City	FL	SBCP	21.60
TowneBank	Portsmouth	VA	TOWN	30.75
Union Bankshares Corporation	Richmond	VA	UBSH	31.80
United Community Banks, Inc.	Blairsville	GA	UCBI	26.34
USAmeriBancorp, Inc.	Clearwater	FL	USAB	100.00
Valley National Bancorp	Wayne	NJ	VLY	11.49
WashingtonFirst Bankshares, Inc.	Reston	VA	WFBI	33.17
Xenith Bankshares, Inc.	Richmond	VA	XBKS	29.18

Source: SNL Financial

Additional information is available upon request.

Analyst Certification

I, Andrew W. Stapp, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

I, Tyler Agee, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Definitions of Ratings:

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price decline in the next 12 months.

Definitions of Suitabilities:

1. A large cap, core holding with a solid history.
2. A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks.
3. An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage.
4. Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of <u>Stocks Covered</u>	% of <u>Stocks Covered</u>	<u>Banking</u>	<u>No Banking</u>
Rating				
Buy	38	30%	11%	89%
Hold/Neutral	77	61%	8%	92%
Sell	11	9%	0%	100%

As of 9 August 2017

Other Disclosures

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