

# FINC 4320--FALL 2017 SYLLABUS

COURSE NUMBER: FINC 4320W.01

COURSE TITLE: Commercial Banking

INSTRUCTOR: James B. Bexley, Distinguished Professor and Chair, Smith-Hutson Endowed Chair of Banking

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OFFICE HOURS: Tu & Th 8:00 a.m. to 10.50 a.m.  
Other times by appointment.

TEXT: *Commercial Bank Management, 2016, 4ed*  
James W. Kolari and Benton E. Gup

DESCRIPTION OF COURSE: This course incorporates the roles of banks in the financial services industry and the specific functions in a bank. Case studies are utilized to reinforce the materials and provide first-hand experience about bank operations. The course also presents the roles of the regulatory authorities and their interaction with banks. Special attention is given to recent changes in bank regulation.

OBJECTIVES: The major objectives of this course are:

1. To acquaint students with the roles of banks in the financial services industry.
2. To introduce students to banking theory and bank management.
3. To introduce students to specific aspects of the financial services industry.

PREREQUISITES: FINC 3310 and FINC 3320.

CLASS MEETINGS: Classroom BA 106 on Monday and Wednesday, 9:30 a.m. to 10:50 a.m. with the first class meeting on Wednesday, August 23, 2017 and the final exam Wednesday, December 6, 2017\* from 8:00 am to 10:00 am.

\*See University calendar.

TEACHING METHOD: The teaching methods utilized will be lecture, class discussion, problem analysis, case study, class research and presentations. To introduce an element of practicality into the learning experience, the class will be divided into groups for cases, research papers, and presentations. Students will be allowed to select topics, subject to approval of the professor. A written paper and an oral presentation will be required of each student.

**COURSE EVALUATION PROCESS:** There will be three unit examinations and a final examination. In addition there will be outside assignments, a research paper to turn-in and an oral presentation to be made on the research paper. Grade weighting will be as follows:

Examination #1	15%
Examination #2	15%
Examination #3	15%
Cases 1 to 10	4%
Outside Assignment	1%
Lansing Case prep & presentation	10%
Research paper/oral presentation	20%
Final Examination	20%

Course grades are determined by applying the following scale to a student's weighted average:

90 and above	A
80 to 89	B
70 to 79	C
60 to 69	D
Below 60	F

**MAKE-UP EXAMS:** No makeup exam will be given. If an exam is missed, a grade of zero (0) will be assigned for the exam. Each student will be allowed to drop the lowest exam grade and the weight of that exam will be added to the weight of the final exam. If more than one exam is missed, a score of zero (0) will be retained for those missed exams. Assignments must be turned in on the date due. No late assignments will be accepted.

**AMERICANS WITH DISABILITIES ACT:** SHSU adheres to all applicable federal, state, and local laws, regulations, and guidelines with respect to providing reasonable accommodations for students with disabilities. If you have a disability that may affect adversely your work in class, then I encourage you to register with the SHSU Counseling Center in the Lee Drain Building Annex, or by calling extension 4-1720 and let me know how I can best help you. All disclosures of disabilities will be kept strictly confidential. **NOTE:** No accommodation can be made until you register with the Counseling Center.

**STUDENT ABSENCES ON RELIGIOUS HOLY DAYS POLICY:** Section 51.911 (b) of the Texas Education Code requires that an institution excuse a student from attending classes or other required activities, including examinations for observance of a religious holy day, including travel for that purpose. A student whose absence is excused under this subsection may not be penalized for that absence and shall be allowed to take an examination or complete an assignment from which the student is excused within a reasonable time after the absence. University policy 861001 provides the procedures to be followed by the student and the instructor. A student desiring to absent himself/herself from a scheduled class in order to observe (a) religious holy day(s) shall present to each instructor involved a written statement concerning the religious holy day(s). This request must be made in the first fifteen days of the semester or the first seven days of a summer session in which the absence will occur. The instructor will complete a form notifying the student of a reasonable timeframe in which the missed assignment(s) and/or examination(s) are to be completed.

**ATTENDANCE:** Class attendance will be checked for each scheduled class. Perfect attendance will earn 3 bonus points added to the final grade. **Two class periods equal 3 hours (each class is considered 1 and 1/2 hours) can be missed without penalty, except examination days and presentation days. For each hour missed from the 4th through the 7th, 1-point will be subtracted from the final grade for each hour missed. All absences totaling 8 hours or more will result in a grade of F for the course. For 3 late class arrivals 1 point will be deducted from the final average.**

**TENTATIVE SCHEDULE:** Set out below is a tentative schedule that is subject to change:

<u>DATES</u>	<u>SUBJECT</u>
Aug. 23rd	Administrative Issues & Chapter 1 Functions & Forms of Banking
Aug. 28th	Chapter 2 The Bank Regulatory Environment & <b>Case #1</b>
Aug. 30th	<b>Turn in Topics</b> , Chapter 3 Evaluating Bank Performance & <b>Case #2</b>
Sep. 4th	<b>Labor Day—No Classes</b>
Sep. 6th	Chapter 4 Bank Valuation
Sep. 11th	Chapter 5 An Overview of Asset-Liability Management
Sep. 13th	<b>Amegy Bank Visit (Mandy Negrete &amp; Telisa Shead) &amp; Case #3</b>
Sep. 18th	Chapter 6 Techniques of Asset-Liability Management: Futures, Options, and Swaps
Sep. 20th	<b>Exam #1 (Chapters 1-6, notes &amp; lecture)</b>
Sep. 25th	Chapter 7 Investment Management & <b>Case #4</b>
Sep. 27th	<b>Outside Assignment from Class</b>
Oct. 2nd	Chapter 8 Credit Evaluation Process & <b>Case #5</b>
Oct. 4th	<b>Topic #1 Written Reports Due in Class</b> , & Chapter 9 Commercial & Industrial Lending
Oct. 9th	<b>Topic #1 Oral Presentations &amp; Topic #2 Written Reports Due in Class</b>
Oct. 11th	<b>Topic #2 Oral Presentations</b>
Oct. 16th	Chapter 10 Real Estate and Consumer Lending & <b>Case #6</b>
Oct. 18th	Chapter 11 Liquidity Management & Chapter 12 Capital Management <b>Case #7</b>
Oct. 23rd	Chapter 13 Liabilities Management & <b>Topic #3 Written Reports Due in Class &amp; Case #8 &amp; Turn-in Outside Assignments</b>
Oct. 25th	<b>Topic #3 Oral Presentations</b>
Oct. 30th	<b>Exam #2 (Chapters 7-13, notes &amp; lecture)</b>
Nov. 1st	Chapter 14 Off-Balance Sheet Activities
Nov. 6th	Chapter 15 Securities, Investment & Insurance Services & <b>Case #9</b>
Nov. 8th	Chapter 16 Other Financial Services & Strategic Planning for Future Performance & <b>Case #10</b>
Nov. 13th	Chapter 17 Electronic Banking & Chapter 18 Global Financial Services & <b>Turn-in Smith National Bank Power Point and Case Write-up by e-mail not later than Midnight, Nov. 13th</b>
Nov. 15th	<b>Smith National Bank Case (Presented by all groups) to Guest Bankers</b>
Nov. 20th	<b>Exam #3 (Chapters 14-18, Strategic Planning, notes &amp; lecture)</b>
<b>Nov. 22-24</b>	<b>Thanksgiving Holidays—No Classes</b>
Nov. 27th	Delivering Service Quality & Marketing the Bank's Services
Nov. 29th	Review Session
<b>Dec. 6th</b>	<b>9:30 a.m. to 11:30 a.m. FINAL EXAMINATION All Previous Materials</b>

**Case Presentation Instructions**  
**FINC 4320W01**  
**August 2017**

The class will be divided into groups of three or four individuals to prepare and present two cases to the class. A case will be presented by a single team. The case write-up and PowerPoint will be turned in by the presenting group by e-mail no later than Midnight the day before the case is due. All groups will present the **Smith National Bank Case on November 15th**. A member of each team will e-mail the Smith case write-up and Power Point no later than Midnight on **November 13th**.

The purpose of these group sessions is to develop a team solution approach similar to what would be encountered in the actual workplace. Grading for each of the cases will be based upon the following:

Analysis of the problem	1/3rd
Answers to the case questions	1/3rd
Oral presentation	1/3rd

The due date for case 1-10 presentation is shown on the syllabus and must be turned-in no later than Midnight on the night before the case is due to be presented. **More than one person should be able to present the case in the unfortunate event that a presenter does not make it to class. Failure to turn-in and present the case will result in a grade of "0" for all team members.**

In preparing your cases for the class, they should be typed, double-spaced. They should state or analyze the problem presented, give a brief summary of the case and facts, and answer the questions presented with the case (**See How to Present Case Below**). Normally 15 minutes will be allowed for the oral presentation of each case numbers 1 thru 10. Oral presentations for the Lansing case presented by all groups will be limited to 5 minutes for each group. **The case write-up should be in Word format and the presentations should be in Power Point format and both should be e-mailed to [jbbexley@shsu.edu](mailto:jbbexley@shsu.edu) by Midnight the day before the case is due to be presented, except for the Lansing Case which is due Midnight, April 15th. It should be titled 4320-Case#\_\_.ppt (your case # goes in the blank.) For the Lansing Case it should be titled 4320cb-bb-team#\_\_.ppt (your team # goes in the blank.) A hard-copy of your case write-up should be brought to class on the day of presentation.**

**HOW TO PRESENT YOUR CASE SOLUTION**

**XYZ Bank Case #\_\_**  
**John Doe, Mary Smith, & Tom Adams**

**Case Description:** In this area you should describe the subject matter for the case and any secondary issues that arise. As an example here is a sample case description for a case relating to a revolving line of credit-----*The primary subject matter for this case concerns the viability of making a revolving line of credit to an established company. Secondary issues involved in this case turn on analyzing credit issues such as evaluating ratios, evaluating strengths and weaknesses, proposing loan covenants, calculating eligible accounts receivable and inventory.*

**Problems Presented in the Case:** In this area you should address specific problems that you detect in the case. For example, in a case with credit quality issues you might see the following--  
*-The case as presented shows a general weakness in the credit quality. Such items as the ratios are weak, earnings are not consistent, and there does not appear to be enough cash flow to pay existing debt as now structured.*

**General Discussion of the Case:** Here you should discuss the impact of risk, competition, profitability, or the other issues raised in the case.

**Solutions to Questions:** Here you should list the question and solution for each of the questions.

**Term Paper Instructions**  
**FINC 4320W01**  
**August 2017**

As set out in your class schedules, there are three written topic times designated for turn-in and presentation. You will be assigned session #1, #2 or #3. Each student will make a written and an oral presentation at the time determined by the topic number. All topics must be turned-in by **August 30th**. If you have **Topic #1**, the turn-in date for the written research paper is **October 4<sup>th</sup>** and the day oral presentations will be made, is **October 9th**. Written research papers if you have **Topic #2** must be turned-in on **October 9th**, and oral presentations made on **October 11th**. If you have **Topic #3**, the turn-in date for the written research paper is **October 23rd** and the day oral presentations will be made, is **October 25th**. Any paper turned-in late will receive a grade of F. Following-up on the oral instructions given you in class, this set of instructions will give you firm, written directions concerning the written and oral assignments. **The day you are to turn-in your electronic paper and PowerPoint you must turn-in a printed hardcopy of the paper only in class.**

1. The term papers should be written in good manuscript form, utilizing proper grammar, spelling and punctuation. The topics are to be pre-approved by the instructor.
2. Your paper should be double-spaced with a normal margin and be a minimum of **eight** typewritten pages and a maximum of **twelve** typewritten pages in 12 point times or times roman type font.
3. There must be a minimum of two research references, not including the FINC 4320 text. APA format for the references should be utilized.
4. On the class day your research paper is due, you will turn-in your research paper in hard copy (paper), and **by the designated time above** you will also e-mail your research paper and PowerPoint presentation to [jbbexley@shsu.edu](mailto:jbbexley@shsu.edu) with a title of 4320(Your Last Name).ppt and then you will deliver your oral presentation of the term paper to the class the assigned day **using PowerPoint**. The oral presentation will be no less than four minutes nor more than five minutes. This presentation should clearly and concisely present the concepts advanced in your written presentation.

5. As you know, the combination of the term paper and the oral presentation will count 20% of your total final grade.

6. The following topics will be utilized unless the professor approves another topic in advance:

1. How Has The Dodd-Frank Impact Banking?
2. The Importance of Strategic Planning in the Bank's Performance.
3. Risk Management as a Regulatory Tool.
4. The Role of Consumer Lending In Banking.
5. The Role of Commercial Lending In Banking.
6. The Role That Capital Plays in the Functioning of the Bank.
7. Measuring and Evaluating Bank Performance
8. The Future of Community Banking.
9. The Relationship of Management and the Board of Directors in the Bank.
10. The Impact of Sarbanes-Oxley on Community Bank Governance.
11. The Changing Role of Marketing in Banking.
12. Advantages of the Bank Holding Company.
13. Methods of Efficiently Generating Funds To Loan To Bank Customers
14. Impact of Government Regulations on the Banking Industry.
15. The Impact of Bitcoin on the Currency Market
16. Why Have Bank Mergers Become So Attractive?
17. Market Research Methods/Techniques for Commercial Banks
18. Managing and Pricing Deposit Services
19. Credit Analysis and Its Role in The Commercial Loan Approval Process.
20. Using Focus Groups to Help Establish The Bank's Marketing Thrust.
21. How Millennials are Impacting Banking
22. The Status of De Novo Bank Chartering in the U.S.
23. Bank Expansion—Is Branching or Buying Best?
24. What Banking Will Look Like in Five Years?
25. The Effect of Corporate Paper on Commercial Banks
26. The Use of Unconventional Products In Banks
27. Fee Income's Impact On The "Bottom-line"
28. The Federal Reserve Bank's Role in Bank Holding Companies.
29. Measuring and Evaluating Bank Performance
30. Selling Financial Products in a Competitive Environment.
31. How Are Millennials Impacting the Way Banks Serve Customers?
32. Has Credit Quality Diminished In Bank Lending?
33. Will Debit Cards Continue to Be a Viable Product in Banking?
34. Is a Single Bank Regulator System Likely In The U.S.?
35. How Banks Can Achieve High Performance Banking
36. The Effect of Globalization on Commercial Banking.
37. The Role of the Investment Portfolio in the Bank
38. Has the Repeal of the Glass-Steagall Act Hurt Community Banking
39. The Impact Basel Accord or Agreement Will Have on U. S. Bank Capital
40. The Impact of the USA Patriot Act on Banks

41. The Impact of Sub-prime Lending in Banking
42. The Role of Deposit Pricing and Loan Pricing in Bank Profitability
43. Comparing Judgmental Credit Practices to Credit Scoring Practices
44. Pricing Loan Products in a Competitive Environment.
45. Can Community Banks Compete with Investment Firms?
46. Enterprise Risk Management In Banks
47. Activity Based Cost Accounting for Banks
48. How Customers Perceive E-Commerce In Banking
49. How Banks Blend High Tech with High Touch
50. How Service Quality Impacts Banks
51. Compliance and Regulation in Banking
52. Banking In the U. S. Compared To European Banking
53. The Impact of the Economic Meltdown on Bank Lending
54. Would Banks Be Stronger If ALLL Were Eliminated and Capital Increased?
55. Has Regulation Been Too Rigid During the Economic Downturn?
56. Can Community Banks Compete Against Larger Banks In The Current Regulatory Environment?
57. The Impact of Cyber Crimes on Banking.
58. Have Commercial Banks Tighten Credit To The Market Place?
59. A Look At Non-performing Assets and Their Impact On Bank Profits
60. The Impact of “Unconventional Money” on the Banking System.

**Smith Case follows on next page.**

## SMITH NATIONAL BANK

### INTRODUCTION

Smith National Bank (SNB) is located in Smith City, Arkansas, which is the third largest city in Brown County. The bank began operations in 1996. The bank is a unit bank that has been very conservative. It has not been aggressive in soliciting business, and as a result has been the least as active as the other banks in the county.

### BROWN COUNTY DATA

Brown County adjoins one of the largest cities in Arkansas. As a result, the county has experienced substantial growth over the past decade with a year-end 2013 population estimate of 250,000, growing 10.2% since 2010. According to the U. S. Department of Labor Statistics, the civilian labor force in September 2013 was 109,000 people with an unadjusted unemployment rate of 5.75%. There are eight cities located within the county (Alto, Smith, Carl, Myers, Thompson, Columbia, Gruel, and Anderson).

Gruel has experienced substantial growth as a bedroom community, while the Thompson area has had above average growth, primarily related to the oil and gas facilities in the area. The employment and the services segments lead the county at 23.51% each, followed by retailing at 16.71%, manufacturing at 16.02%, and government at 14.94%, and construction at 12.36%.

The percentage of total county population by age at 12/31/13 is as follows:

TABLE 1

Age Range	Percent of Population
Age 0-19	32.0%
Age 20-24	6.1%
Age 25-34	14.0%
Age 35-44	17.0%
Age 45-54	13.8%
Age 55-64	8.3%
Age 65-74	5.1%
Age 75-84	2.8%
Age 85 & Up	0.8%
Median Age-female	33.2
Median Age-male	32.1

### BANKING ISSUES

Carl Johnson has been President and CEO of SNB since its inception. He has been in banking for over 30 years, and as he has gotten older he has tended to become very conservative



according to principal shareholder and Chairman of the Board of Directors Harold Klinger. At a recent board meeting, Mr. Klinger was openly critical of the bank's performance compared to its competitors. He especially mentioned the poor earnings in 2009 and the inconsistency of deposit and loan growth over the years. While he tempered this criticism by stating that Mr. Johnson was a good banker, he still had several issues that he and the board of directors wanted to have addressed by SNB's management. Those issues to be addressed are as follows:

1. Why there is a lack of consistency in the bank's performance?
2. Why the bank had not expanded into other cities within the county as all of its competitors had?
3. What age groups should the SNB target?
4. If the bank should expand, where would it locate the first branch?
5. What can be done to improve the SNB's performance?

Mr. Klinger told Mr. Johnson that he wanted a complete evaluation of all the issues addressed by the board of directors within the next 30 days. He reminded Mr. Johnson that the shareholders had not received a dividend since the bank opened, and that the bank's stock had not provided any appreciation for the shareholders either. This was the first open criticism of Mr. Johnson's leadership since the bank opened, and he saw a need to address the issues and correct the problems before the board found it necessary to replace him and other members of management.

There are seven banks headquartered in Brown County including SNB. The other banks have been very competitive in the market. The banks and their percentage of market share are:

<u>Bank</u>	<u>Assets</u>	<u>Market Share</u>
Smith National Bank	\$16,715	2.05%
First Nat. Bk-Alto	\$93,329	11.42%
First Nat. Bk-Thompson	\$232,560	28.46%
First State Bk-Carl	\$95,637	11.70%
Gruel State Bank	\$122,508	15.00%
Advantage Bank	\$23,980	2.94%
Thompson State Bank	\$232,283	28.43%
Market Total	\$817,012	100.00%

To aid in the evaluation, he obtained a balance sheet (Exhibit 1) and a profit and loss statement for the period ended December 31, 2013. Additionally, he used a private service to get comparative reports (Exhibit 3). SNB's financial ratios are attached (Exhibit 4).

## QUESTIONS

Assuming Mr. Johnson's role, prepare a written report to the board of directors answering the following questions:

1. Why is there a lack of consistency in the bank's performance?
2. Should SNB branch? If so, where should the branch be located?
3. What age groups should the SNB target?
4. Examine SNB's financial ratios and draw some basic conclusions about its performance.
5. What can be done to improve SNB's performance?
6. How should the board react to management's performance?

**Exhibit 1**  
**SMITH NATIONAL BANK**  
**BALANCE SHEET (000 Omitted)**

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
<b>ASSETS</b>					
Cash & bal due: Nonint bearing	1,076	828	1,083	929	1,065
Cash & bal due: Interest bearing	1,000	1,000	2,000	2,000	7,140
Held-to-maturity securities	5,594	6,078	5,015	4,000	998
Available-for-sale securities	0	0	0	0	0
Fed funds sold & sec. purchased to resell	1,635	1,450	2,300	3,850	3,085
Loans & leases, net of unearned income	4,129	3,366	3,436	2,993	3,197
Less: Allowance for loan & lease losses	43	42	40	40	40
Loans and leases, net	4,086	3,324	3,396	2,953	3,157
Trading assets	0	0	0	0	0
Premises and fixed assets	227	206	214	200	899
Other real estate owned	0	0	0	0	0
Investments in unconsolidated subsidiaries	0	0	0	0	0
Customers' liability on acceptances	0	0	0	0	0
Intangible assets	0	0	0	0	69
Other assets	144	151	152	119	190
<b>TOTAL ASSETS</b>	<b>13,762</b>	<b>13,037</b>	<b>14,160</b>	<b>14,051</b>	<b>16,715</b>
<b>LIABILITIES</b>					
Total deposits:	11,488	10,759	11,867	11,714	14,160
Total deposits in domestic offices:	11,488	10,759	11,867	11,714	14,160
Domestic dep: Noninterest bearing	3,442	3,313	3,290	3,283	3,422
Domestic dep: Interest bearing	8,046	7,446	8,577	8,431	10,738
Total deposits in foreign offices:	0	0	0	0	0
Foreign dep: Noninterest bearing	0	0	0	0	0
Foreign dep: Interest bearing	0	0	0	0	0
Fed funds purchased & sec. sold to repurch	0	0	0	0	0
Demand notes issued to U.S. Treasury	0	0	0	0	0
Other borrowed money	0	0	0	0	0
Bank's liability on acceptances	0	0	0	0	0
Subordinated notes and debent., incl. LLPS	0	0	0	0	0
Other liabilities	42	41	40	57	108
<b>TOTAL LIABILITIES</b>	<b>11,530</b>	<b>10,800</b>	<b>11,907</b>	<b>11,771</b>	<b>14,268</b>
<b>EQUITY CAPITAL</b>					
Perpetual preferred stock	0	0	0	0	0
Common stock	750	750	750	750	750
Surplus	750	750	750	750	1,466
Undivided profits and reserves	732	737	753	780	231
Other equity components	0	0	0	0	0
<b>TOTAL EQUITY CAPITAL</b>	<b>2,232</b>	<b>2,237</b>	<b>2,253</b>	<b>2,280</b>	<b>2,447</b>
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>13,762</b>	<b>13,037</b>	<b>14,160</b>	<b>14,051</b>	<b>16,715</b>

**Exhibit 2**  
**SMITH NATIONAL BANK**  
**INCOME STATEMENT (000 Omitted)**

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
<b>INTEREST INCOME</b>					
Interest and fee income on loans:	314	242	270	263	272
Int & fee inc in domestic offices:	314	242	270	263	272
Int & fee inc:Real estate loans	105	91	124	123	138
Int & fee inc:Installment loans	99	74	98	0	98
Int & fee inc:Credit cards	0	3	0	2	0
Int & fee inc:Commercial loans	110	74	48	138	36
Int & fee inc:Foreign offices	0	0	0	0	0
Income from lease fin. receivables:	0	0	0	0	0
Interest income on balances due	12	15	63	100	132
Interest and dividend inc. on secs.:	195	190	160	115	127
U.S. Treasury & agency obligations	192	187	157	112	127
Mortgage-backed securities	0	0	0	0	0
All other securities	3	3	3	3	0
Income from trading accounts	0	0	0	0	0
Interest income on fed funds sold	13	19	62	208	297
<b>TOTAL INTEREST INCOME</b>	<b>534</b>	<b>466</b>	<b>555</b>	<b>686</b>	<b>831</b>
<b>INTEREST EXPENSE</b>					
Interest on deposits:	78	58	81	129	202
Int on dep in domestic offices:	78	58	81	129	202
Transaction accounts	4	4	4	10	9
Savings deposits	15	13	15	20	22
Time deposits over \$100,000	15	13	22	29	65
Time deposits under \$100,000	44	28	40	70	106
Expense of fed funds purchased	0	0	0	0	0
<b>TOTAL INTEREST EXPENSE</b>	<b>78</b>	<b>58</b>	<b>81</b>	<b>129</b>	<b>202</b>
<b>NET INTEREST INCOME</b>	<b>456</b>	<b>408</b>	<b>474</b>	<b>557</b>	<b>629</b>
<b>NET INTEREST INCOME (Tax adj.)</b>	<b>458</b>	<b>410</b>	<b>476</b>	<b>559</b>	<b>629</b>
<b>PROVISIONS</b>					
Provision for credit losses	0	0	0	0	0
<b>NONINTEREST INCOME</b>					
Income from fiduciary activities	0	0	0	0	0
Service charges on deposit accounts	175	172	138	153	140
Other noninterest income	(2)	7	10	2	269
<b>TOTAL NONINTEREST INCOME</b>	<b>173</b>	<b>179</b>	<b>148</b>	<b>155</b>	<b>409</b>
<b>NONINTEREST EXPENSE</b>					
Salaries and employee benefits	240	224	229	242	442
Expenses of premises & fixed assets	39	37	34	37	43
Other noninterest expense	223	225	196	202	210
<b>TOTAL NONINTEREST EXPENSE</b>	<b>502</b>	<b>486</b>	<b>459</b>	<b>481</b>	<b>695</b>
Income before taxes & extraordinary items	127	101	163	231	343
Applicable income taxes	0	0	0	0	0
Income before extraordinary items	127	101	163	231	343
Extraordinary items, net	0	0	0	0	0
<b>NET INCOME (LOSS)</b>	<b>127</b>	<b>101</b>	<b>163</b>	<b>231</b>	<b>343</b>

Exhibit 3

PERFORMANCE RATIOS

Return on Average Assets

Banks	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
Smith National Bank	0.94%	0.75%	1.18%	1.67%	2.14%
First Nat. Bk-Alto	2.91%	2.89%	2.81%	2.99%	2.72%
First Nat. Bk-Thompson	1.51%	2.03%	1.38%	0.48%	0.76%
First State Bk-Carl	0.93%	1.01%	0.95%	1.11%	0.98%
Gruel State Bank	2.84%	2.99%	2.99%	2.91%	2.51%
Advantage Bank	0.00%	0.00%	0.00%	54.99%	-5.97%
Thompson State Bank	1.24%	1.61%	1.80%	1.80%	1.59%
County	1.76%	2.05%	1.91%	1.63%	1.43%

Return on Average Equity

Banks	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
Smith National Bank	5.68%	4.50%	7.22%	10.19%	14.66%
First Nat. Bk-Alto	19.48%	21.17%	22.06%	20.69%	17.65%
First Nat. Bk-Thompson	19.00%	29.90%	22.73%	9.02%	12.30%
First State Bk-Carl	8.24%	8.80%	8.66%	10.42%	8.95%
Gruel State Bank	21.42%	21.94%	21.60%	20.96%	18.07%
Advantage Bank	0.00%	0.00%	0.00%	-8.46%	-20.56%
Thompson State Bank	13.43%	16.92%	18.97%	17.32%	14.78%
County	16.43%	19.64%	18.96%	14.68%	12.78%

Net Interest Margin (TE)/AEA

Banks	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
Smith National Bank	3.82%	3.71%	3.87%	4.43%	4.40%
First Nat. Bk-Alto	5.10%	4.82%	4.48%	5.02%	4.98%
First Nat. Bk-Thompson	2.78%	3.34%	2.74%	1.91%	1.93%
First State Bk-Carl	4.95%	4.79%	5.11%	5.07%	4.89%
Gruel State Bank	5.16%	5.15%	4.97%	4.80%	4.56%
Advantage Bank	0.00%	0.00%	0.00%	1.44%	4.43%
Thompson State Bank	3.98%	4.26%	4.27%	4.27%	4.07%
County	4.12%	4.29%	4.10%	3.95%	3.83%

Non-interest Expense/Avg. Assets

Banks	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
Smith National Bank	3.72%	3.63%	3.34%	3.47%	4.35%
First Nat. Bk-Alto	3.20%	2.77%	2.59%	2.84%	2.93%
First Nat. Bk-Thompson	1.41%	1.36%	1.38%	1.43%	1.35%
First State Bk-Carl	4.94%	5.16%	4.94%	4.61%	4.65%
Gruel State Bank	2.53%	2.54%	2.54%	2.45%	2.18%
Advantage Bank	0.00%	0.00%	0.00%	54.41%	9.02%
Thompson State Bank	2.75%	3.08%	3.06%	3.09%	3.09%
County	2.70%	2.74%	2.70%	2.80%	2.85%

**Exhibit 3 (Continued)**

Non-Interest Income/Avg. Assets

Banks	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
Smith National Bank	1.28%	1.34%	1.08%	1.12%	2.56%
First Nat. Bk-Alto	1.90%	1.64%	1.62%	1.56%	1.44%
First Nat. Bk-Thompson	0.35%	0.29%	0.27%	0.21%	0.30%
First State Bk-Carl	2.21%	2.27%	2.09%	1.87%	1.90%
Gruel State Bank	1.13%	1.10%	1.12%	1.05%	0.89%
Advantage Bank	0.00%	0.00%	0.00%	0.00%	0.25%
Thompson State Bank	1.09%	1.07%	1.08%	1.04%	1.05%
County	1.14%	1.09%	1.08%	1.01%	1.01%

Total Charge Offs

Banks	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
Smith National Bank	0.12%	0.03%	0.06%	0.00%	0.00%
First Nat. Bk-Alto	0.15%	0.14%	0.31%	0.11%	0.11%
First Nat. Bk-Thompson	-0.50%	0.03%	0.07%	-0.03%	0.08%
First State Bk-Carl	0.45%	0.28%	0.28%	0.12%	0.27%
Gruel State Bank	1.27%	-0.42%	0.11%	0.11%	1.46%
Advantage Bank	0.00%	0.00%	0.00%	0.00%	0.02%
Thompson State Bank	0.27%	0.59%	0.16%	0.28%	0.14%
County	0.39%	0.24%	0.18%	0.17%	0.32%

Employees per Million Assets

Banks	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
Smith National Bank	0.44	0.46	0.42	0.43	0.36
First Nat. Bk-Alto	0.37	0.32	0.34	0.29	0.30
First Nat. Bk-Thompson	0.19	0.19	0.18	0.18	0.15
First State Bk-Carl	0.60	0.58	0.49	0.49	0.50
Gruel State Bank	0.34	0.33	0.34	0.31	0.27
Advantage Bank	0.00	0.00	0.00	1.09	0.63
Thompson State Bank	0.41	0.38	0.38	0.41	0.36
County	0.35	0.33	0.33	0.33	0.30

Total Deposit Pricing

Banks	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
Smith National Bank	1.00%	0.77%	1.01%	1.65%	2.09%
First Nat. Bk-Alto	0.85%	0.79%	1.67%	2.00%	2.22%
First Nat. Bk-Thompson	1.57%	1.43%	1.98%	3.24%	3.48%
First State Bk-Carl	1.40%	1.26%	1.58%	2.44%	3.00%
Gruel State Bank	1.00%	0.86%	1.41%	2.23%	2.68%
Advantage Bank	0.00%	0.00%	0.00%	0.14%	3.59%
Thompson State Bank	1.89%	1.28%	1.79%	2.78%	3.27%
County	1.47%	1.18%	1.73%	2.67%	3.08%

**Exhibit 3 (Continued)**

**Total Loan Pricing**

Banks	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
Smith National Bank	7.13%	7.01%	7.60%	8.33%	8.72%
First Nat. Bk-Alto	7.80%	7.38%	7.71%	8.89%	9.06%
First Nat. Bk-Thompson	7.23%	6.60%	6.61%	6.78%	7.01%
First State Bk-Carl	7.52%	7.01%	7.65%	8.11%	8.28%
Gruel State Bank	7.83%	7.71%	7.73%	8.36%	8.68%
Advantage Bank	0.00%	0.00%	0.00%	2.33%	8.20%
Thompson State Bank	6.58%	6.42%	7.13%	7.85%	7.92%
County	7.17%	6.90%	7.38%	8.02%	8.16%

**Pre-tax Income to Salary Expense**

Banks	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
Smith National Bank	\$0.53	\$0.45	\$0.71	\$0.95	\$0.78
First Nat. Bk-Alto	\$1.96	\$2.27	\$2.28	\$2.23	\$2.05
First Nat. Bk-Thompson	\$1.92	\$2.73	\$1.81	\$0.60	\$0.96
First State Bk-Carl	\$0.48	\$0.43	\$0.50	\$0.64	\$0.59
Gruel State Bank	\$1.86	\$1.93	\$1.89	\$1.93	\$1.90
Advantage Bank	\$0.00	\$0.00	\$0.00	(\$19.50)	(\$1.26)
Thompson State Bank	\$1.20	\$1.01	\$1.10	\$1.05	\$0.90
County	\$1.35	\$1.41	\$1.34	\$1.13	\$0.95

**Exhibit 4**

**SNB FINANCIAL RATIOS**

	Dec-09	Dec-10	Dec-11	Dec-12	Dec-13
Int and Fee Income on Loans/AA	2.33%	1.81%	1.96%	1.90%	1.70%
Net Charge Offs/AA	0.04%	0.01%	0.01%	0.00%	0.00%
Total Interest Income/AA	3.96%	3.48%	4.03%	4.95%	5.20%
Deposit Interest Expenses/AA	0.58%	0.43%	0.59%	0.93%	1.26%
Total Interest Expenses/AA	0.58%	0.43%	0.59%	0.93%	1.26%
Net Interest Margin/AA	3.38%	3.05%	3.44%	4.02%	3.93%
Net Interest Margin (Tax Adj.)/AA	3.40%	3.06%	3.46%	4.03%	3.93%
Non-Interest Income/AA	1.28%	1.34%	1.08%	1.12%	2.56%
Non-Interest Expenses/AA	3.72%	3.63%	3.34%	3.47%	4.35%
Salary Expenses/AA	1.78%	1.67%	1.66%	1.75%	2.76%
Occupancy Expenses/AA	0.29%	0.28%	0.25%	0.27%	0.27%
Other Expenses/AA	1.65%	1.68%	1.42%	1.46%	1.31%
Operating Income/AA	0.94%	0.75%	1.18%	1.67%	2.14%
Total Loans/Total Deposits	35.94%	31.29%	28.95%	25.55%	23.37%
Total Loans/Total Assets	30.00%	25.82%	24.27%	21.30%	19.80%
Total Deposits/Total Assets	83.48%	82.53%	83.81%	83.37%	84.71%
AA=Average Assets					