

**Jacksonville Bancorp (JAXB)**

An 8 branch bank located in Florida has received \$80MM in preferred stock financing from the largest investors in 2012. They are trying to keep afloat a bank which has lost a lot of money on their real estate loans. Stock dropped 40% from 1.40 to 0.81 with a market cap of \$5MM. The book value is \$30MM, but if another large provision for loan loss is realized, then the book value can be easily wiped out. Will this stock drop further?

The bank generates a steady net interest margin, which is roughly 3.50%. The bank makes about 5% off their loans, which are mainly real estate mortgage loans, and pays out 1% in debt interest. However, the issue has been their legacy loan portfolio which was hit with a \$37MM provision for loan loss charge in 2012 alone. This reduces net income and reduces the carrying balance of the loans, which are assets. This means the book value will go down as well. The bank's book value is flirting with negative book value, which is a breach in the Tier 1 capital level.

Net Income	70	Cash	70
		Retained Earnings	70
Prov. Loss	50	Cash	70
Adj. NI	20	Assets: Loan	-50
		Retained Earnings	20

dollars in thousands)

	2012	2011	2010	2009	2008
Allowance at beginning of year	\$ 13,024	\$ 13,069	\$ 6,854	\$ 4,705	\$ 3,116
Charge-offs:					
Commercial loans	1,140	222	37	425	1,137
Real estate mortgage loans	30,444	12,193	10,763	1,788	912
Consumer and other loans	136	406	107	22	46
Total Charge-offs	31,720	12,821	10,907	2,235	2,095
Recoveries:					
Commercial loans	71	15	85	10	111
Real estate mortgage loans	715	255	46	9	—
Consumer and other loans	114	114	3	4	3
Total Recoveries	900	384	134	23	114
Net charge-offs	30,820	12,437	10,773	2,212	1,981
Provision for loan losses charged to operating expenses	37,994	12,392	16,988	4,361	3,570
Allowance at end of year	\$ 20,198	\$ 13,024	\$ 13,069	\$ 6,854	\$ 4,705
Ratio of net charge-offs to average loans outstanding <sup>(1)</sup>	6.89%	2.53%	2.67%	0.57%	0.57%
Allowance as a percentage of total loans <sup>(2)</sup>	5.07	2.82	2.55	1.75	1.24

	2012			2011			2010		
	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate	Average Balance	Interest	Average Rate
<i>(Dollars in thousands)</i>									
<b>Interest-earning assets:</b>									
Loans <sup>(1)</sup>	447,06	24,18	%	492,22	28,75	%	403,45	22,95	%
	\$ 1	\$ 3	5.41	\$ 0	\$ 8	5.84	\$ 3	\$ 4	5.69
<b>Securities</b>									
Taxable	65,343	1,236	1.89	46,463	1,071	2.31	19,441	540	2.78
Tax-exempt <sup>(2)</sup>	18,168	760	4.18	19,441	838	4.31	12,405	469	3.78
Other interest-earning assets <sup>(3)</sup>	13,604	73	0.54	7,698	77	1.00	9,623	(1)	(0.01)
<b>Total interest-earning assets</b>	<b>544,17</b>	<b>26,25</b>	<b>4.82</b>	<b>565,82</b>	<b>30,74</b>	<b>5.43</b>	<b>444,92</b>	<b>23,96</b>	<b>5.39</b>
	6	2		2	4		2	2	
<b>Noninterest-earning assets<sup>(4)</sup></b>									
	25,708			46,965			27,570		
<b>Total assets</b>	<b>569,88</b>			<b>612,78</b>			<b>472,49</b>		
	\$ 4			\$ 7			\$ 2		
<b>Interest-bearing liabilities:</b>									
Savings deposits	\$ 10,393	\$ 38	0.37%	\$ 12,112	\$ 88	0.72%	\$ 10,422	\$ 121	1.16%
NOW deposits	21,772	17	0.08	19,431	29	0.15	7,316	13	0.18
Money market deposits	171,222	1,268	0.74	171,769	1,588	0.92	114,640	1,481	1.29
Time deposits	210,559	2,465	1.17	234,328	3,878	1.65	222,060	5,105	2.3
FHLB advances	21,746	324	1.49	20,877	367	1.76	23,365	790	3.38
Federal Reserve and other borrowings <sup>(6)</sup>	3,496	295	8.41	1,997	172	8.61	197	1	0.51
Subordinated debt	16,058	849	5.29	15,993	894	5.59	14,796	770	5.2
Other interest-bearing liabilities <sup>(5)</sup>	36	—	—	46	—	—	119	1	0.84
<b>Total interest-bearing liabilities</b>	<b>455,282</b>	<b>5,256</b>	<b>1.15</b>	<b>476,553</b>	<b>7,016</b>	<b>1.47</b>	<b>392,915</b>	<b>8,282</b>	<b>2.11</b>
Noninterest-bearing liabilities	91,761			82,202			49,077		
<b>Total shareholders' equity</b>	<b>22,841</b>			<b>54,032</b>			<b>30,500</b>		
<b>Total liabilities and shareholders' equity</b>	<b>\$ 569,884</b>			<b>\$ 612,787</b>			<b>\$ 472,492</b>		
<b>Net interest income</b>		<b>20,996</b>			<b>23,728</b>			<b>15,680</b>	
<b>Interest rate spread<sup>(6)</sup></b>			<b>3.67%</b>			<b>3.96%</b>			<b>3.28%</b>
<b>Net interest margin<sup>(7)</sup></b>			<b>3.86%</b>			<b>4.19%</b>			<b>3.52%</b>
<b>Ratio of average interest-earning assets to average interest-bearing liabilities</b>	<b>1.20</b>			<b>1.19</b>			<b>1.13</b>		