



EDUCATIONAL WORKSHOP

Bank Valuation: Understanding Your Bank's Value in Today's Market

December 2013

Earn
CPE Credits!



Introductions and Bios

Paula Johannsen, CFA, ASA Managing Director, Monroe Financial Partners, Inc.

- 20 years with Carson Medlin/Monroe Financial Partners providing investment banking services to community financial institutions
- Career began with the Federal Reserve Bank of Atlanta as a commercial bank examiner
- ASA, Accredited Senior Appraiser in Business Valuations, American Society of Appraisers
- CFA®, Chartered Financial Analyst®, CFA Institute

Eric Kolesnikov Associate, Monroe Financial Partners, Inc.

- Investment banking analyst with responsibilities including community bank valuation reports, financial appraisals, merger transaction analysis and capital raise analysis
- Performs quarterly statistical reviews for the firm

Overview of Webinar and Learning Objectives

- When is it appropriate to get a third party valuation of your bank
- Valuation Methodology: definitions, standards and methodologies
- The difference between trading values and sale of control values
- The key factors that determine the value of a Bank
- A review of Current Market Conditions
- A Sample Bank Stock Valuation illustration

Reasons To Value Your Stock

For those banks that do not have a publicly traded stock, there are a variety of reasons that may require an independent stock valuation including:

- Stock Offerings – Common, Convertible Preferred, Convertible Subordinated Debentures
- Stock Warrants issued as part of an offering
- Stock Options, Stock Appreciation Rights
- Acquisitions utilizing Stock
 - Buyers Issuing Stock
 - Sellers Taking Stock
- Employee Stock Ownership Plans (ESOPs)
- 401(k) or Other Employee Benefit Plans utilizing bank stock
- Stock Repurchase Programs
- Shareholder Reporting Purposes (e.g. IRA reporting)
- Dissenters Rights (Buyout of Minority Shareholders, other stockholder disputes, etc.)
- Estate and Gift Taxes

These valuations typically require a “trading” (i.e. minority interest) value for the stock, but there may be a need for a sale of control (i.e., controlling interest) value. The particular circumstances will dictate the level of value required.

Polling Question #1

How frequently does your bank get a current valuation on its stock?

- A Annually*
- B Quarterly*
- C Occasionally*
- D Never*

Valuation Methodology

Definition of Value

FAIR MARKET VALUE

Assumes a hypothetical arm's length sale without regard to a specific buyer or seller. It is the most common definition of value and is generally defined as the amount at which property would change hands between a willing buyer and a willing seller when neither is acting under compulsion and both have a reasonable knowledge of the relevant facts.

Fair market value is determined by reference to current valuation standards, including those set forth in IRS Revenue Ruling 59-60. In particular, Revenue Ruling 59-60 requires that, in the valuation of the stock of closely held companies, the following factors should be considered:

- (a) the company's nature and history since inception;
- (b) current conditions and outlook for the industry and the economy;
- (c) book value and financial condition of the company;
- (d) earnings capacity of the company;
- (e) dividend capacity of the company;
- (f) intangible assets of the company;
- (g) sales of the company's stock and the size of the block being valued; and
- (h) market price of similar companies whose stock is actively traded.

Other types of value: Fair Value (Statutory or Accounting), Investment/Intrinsic Value

Valuation Approaches – Three Major Approaches

The **MARKET APPROACH** relies on a bank's value as reflected by the price at which its common stock trades (if actively traded) or by comparison to market values of publicly traded banks, i.e., guideline companies.

- **Transactions Method**
- **Guideline Company Method: Capitalization of Earnings (Price to Earnings)**
- **Guideline Company Method: Capitalization of Book Value (Price to Book Value)**

The **INCOME APPROACH** utilizes a bank's earnings to determine value. One method to deriving value under the income approach is to "capitalize" the current level of earnings by applying a capitalization multiple. Another income approach method involves present value analysis which discounts a stream of future earnings back to the present at a certain cost of capital or required rate of return (the discount rate).

- **Guideline Company Method: Capitalization of Earnings (Market Approach)**
- **Present Value of Future Earnings Method**
- **Discounted Cash Flow Method**

The **ASSET BASED APPROACH** concentrates on the value of a bank's assets and liabilities, either as stated or as adjusted for current market and economic conditions. The objective is to determine net asset value which is defined as the difference between the adjusted value of all the assets and liabilities. Net asset value concentrates on valuing assets and, as such implicitly assumes liquidation of those assets. This method is not typically used in the valuation of banks, although the book value is sometimes used as a proxy for the net asset value and utilized under the market approach.

- **Guideline Company Method: Capitalization of Book Value (Market Approach)**

Publicly Traded vs. Privately Held – Marketability Discounts

Marketability relates to the liquidity of an investment and the discount for the lack of marketability measures the difference in value between two securities according to liquidity. There is usually a substantial difference in the marketability of a publicly traded bank compared to a privately held bank. In general, privately held banks tend to be less valuable than publicly traded banks (on a trading value basis).

Many factors affect the liquidity of an investment, including the following:

- (a) number of shareholders;
- (b) size of the block of stock being valued;
- (c) restrictions on its sale by agreement or law;
- (d) the absence of registration;
- (e) level and payment of dividends;
- (f) size of the company;
- (g) attractiveness of the industry;
- (h) likelihood of a public offering; and
- (i) earnings quality and history of profitable operations.

It is not unusual to see a wide range of discounts for illiquid, closely held banks. A minority shareholder of a non publicly traded bank that is neither repurchasing its stock nor paying cash dividends should expect to have a long holding period which would increase the level of risk in owning the shares thus indicating a higher discount for lack of marketability. Stocks that have some level of imbedded liquidity, such as ESOPs which are subject to a put option or buy/sell agreements, would likely have a lower marketability discount.

Levels of Value – Minority Compared to Sale of Control

Reflects acquiror’s strategic synergies. Obtain indirectly by reference to marketable minority values (via control premium)

Control Premium

Sale of Control Value



Minority Interest Discount
 $= (1 - (1 / (1 + \text{Control Premium})))$

Valuation Methodology

Sale of control transactions, PV and DCF methods. Minority interest methods plus control premium

Reflects minority interest discount from sale of control value; obtain indirectly by reference to a control valuation (via minority interest discount)

Marketable Minority Interest Value (Publicly Traded Value)

Guideline company minority interest trading values. PV and DCF methods. Sale of control less minority interest discounts

Marketability Discount



Reflects lack of marketability discount from freely tradable value. Obtain indirectly from control valuation by successive application of minority interest discount and marketability discount

Nonmarketable Minority Interest Value (Closely Held Trading Value)

Minority interest valuation less marketability discount

← **Typical Trading Value Level for Community Bank Stocks**

Sample of a Guideline Company Peer Group (Market Approach)

<i>Southeastern Independent Bank Review™</i>																	
	# of Banks	Market Ratios			Balance Sheet Highlights				Performance Ratios								
		9/30/13			\$millions (6/30/13)				Year-to-date 6/30/13								
		Price to Earnings X	Price to Tang. Book X	Dividend Yield %	Assets \$	Loans \$	Deposits \$	Equity \$	ROAA %	ROAE %	Net Int. Margin %	Equity / Assets %	NPA / Assets %	NPA / Assets %	NCO / Avg. Lns %	Efficiency Ratio %	
State Averages		X	X	%	\$	\$	\$	\$	%	%	%	%	%	%	%	%	
Alabama	2	12.9	1.07	3.4	662	360	572	67	0.78	7.4	4.56	10.46	5.34	3.38	2.59	69.0	
Florida	4	21.8	1.35	0.6	1,889	1,141	1,559	220	0.49	3.9	4.27	9.81	3.95	3.32	0.46	75.8	
Georgia	7	9.9	1.06	1.5	1,364	865	1,128	159	0.77	8.3	4.37	10.32	4.84	3.11	0.31	76.2	
North Carolina	11	14.6	1.11	1.6	1,424	1,010	1,185	131	0.80	7.1	3.93	9.09	3.50	2.90	0.42	71.0	
South Carolina	7	12.2	1.01	2.6	469	325	373	43	0.72	7.8	3.54	9.73	3.79	3.50	0.31	74.7	
Tennessee	3	15.6	1.38	0.0	2,036	1,474	1,563	255	0.78	7.1	3.54	9.25	3.06	2.63	0.43	68.8	
Virginia	10	11.4	1.11	2.5	724	509	588	73	0.89	9.2	4.15	8.94	1.96	2.11	0.37	68.4	
Average		12.7	1.13	2.0	1,145	771	935	122	0.77	7.6	4.02	9.5	3.49	2.89	0.48	72.0	
Median		12.1	1.11	2.4	651	459	550	60	0.69	8.0	3.68	9.3	2.69	2.20	0.38	70.7	
Maximum		25.2	2.33	4.0	5,373	3,953	4,097	697	1.93	17.4	7.65	15.9	17.46	10.07	4.84	107.8	
Minimum		4.2	0.30	0.4	235	170	190	22	(0.16)	(5.7)	2.75	2.7	0.00	0.49	(0.53)	52.0	

Typical Guideline Company Selection Criteria

Geography (State, Metro, Rural)

Bank Size

Asset Quality

Capitalization Levels

Profitability Levels

Other Operating Characteristics (e.g. Mortgage Banking, Wealth Management, Trust, etc.)

Factors that Contribute to a Bank's Value

Environmental Factors	Market Factors	Bank Factors	
		Financial Performance	Nonfinancial Factors
Economy	Level of Competition	Profitability	Management Talent
Capital Markets	Availability of Affiliates	Historical Earnings	Customer Base
Bank Stock Prices	Demographics	Future Earnings Potential	Commercial Orientation
	Growth	Net Interest Margins	Concentrations
	Wealth	Noninterest Rev. - Nontraditional	Cross Sell Potential
	Local Economy	Overhead Expense Level	Facilities
	Diversity	Asset Quality	Condition of Facilities
	Franchise Uniqueness	Loan Portfolio Diversity	If Leased, Terms
	Stock Price	Capital (Excess Capital?)	Equipment & Systems
			Capacity and Adaptability
			Long Term Contracts
			Board of Directors
			Continuing Involvement
			Influence in the Community

Polling Question #2

In your opinion, what is the most important factor currently impacting your Bank's Value?

- A Asset Quality*
- B Lack of Earnings*
- C Liquidity of Stock*
- D Bank Size*
- E Other*

Current Market Conditions

Current Landscape for Community Banks

Primary Industry Issues

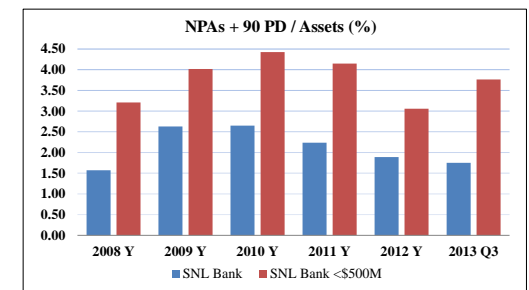
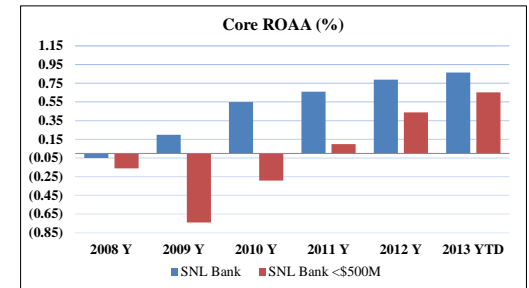
- Lower Net Interest Margins: Low rate environment expected to continue. Loans Repricing Lower, Further Deposit Repricing Unlikely, Inability to Deploy Excess Liquidity
- Competitive Pressures resulting in lower loan yields, longer fixed terms, more A/L risk
- Credit Risk declining/Interest Rate Risk Increasing
- Lack of diverse revenue sources for community banks; few non traditional fee income sources
- Higher Overhead/Compliance Costs Expected
- Credit Costs declining; ALLL recapture temporarily contributing to income
- *Future profitability will be difficult to achieve without significant size and efficiencies*

Capital is King

- Many banks are slowing growth or actually shrinking their balance sheets to preserve capital in response to regulatory pressure
- Regulators demanding higher capital levels. BASEL III impact on industry.
- Sources of capital are scarce and capital being raised is at discounts to book value. New capital is available for offensive capital purposes only, i.e. those banks with a compelling growth story.

Next Wave of M&A Emerging/Valuations Still Muted

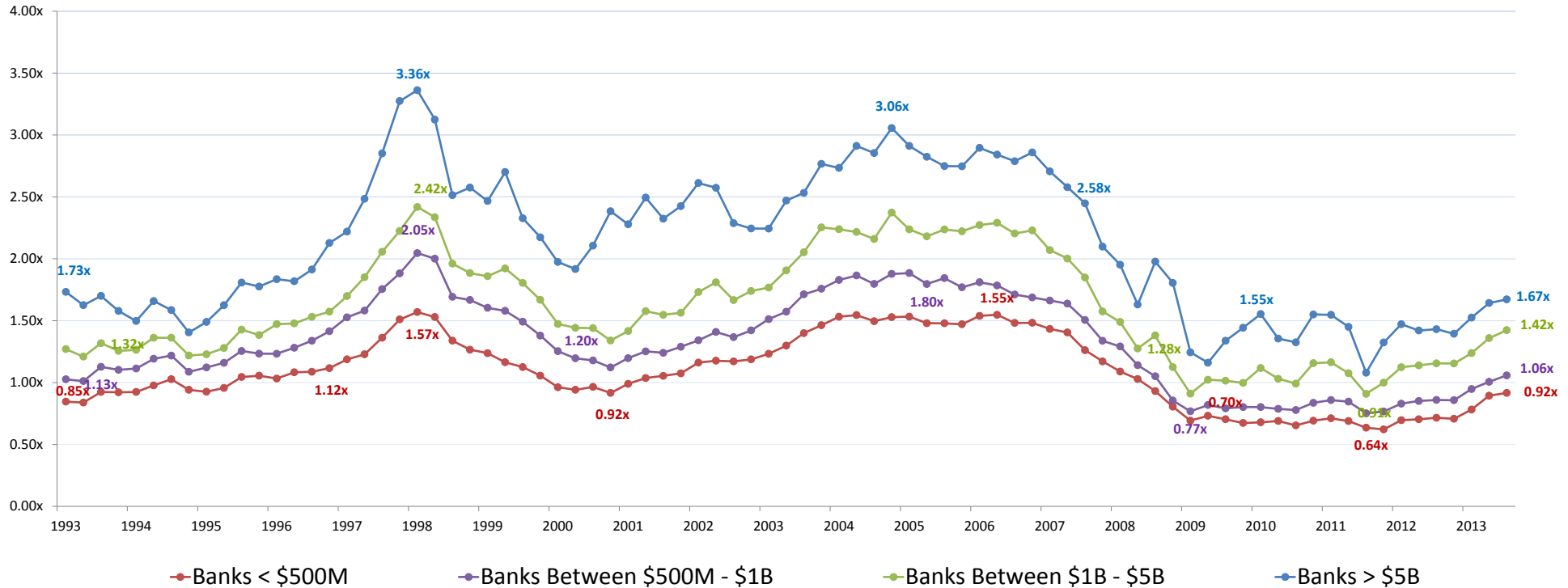
- FDIC activity peaked in 2010; buyers now focused on open bank deals but reluctant to take on dilution for distressed sellers.
- “Adjusted” book value is the typical starting point for M&A transactions.
- There will be future consolidation but the “old” premiums won’t be back for several years, if ever. 1.5X book is the new 3X book (higher capital, lower profitability impact).
- Higher valuations available for size and quality



Key Expectations:
Lower Margins, Higher
Capital Requirements,
Higher Costs =
Lower Profitability →
Lower ROE/Potentially
Lower Valuations

Long Term Price to Tangible Book Value Trading Multiples

Bank Stock Performance
Price to Tangible Book Ratios



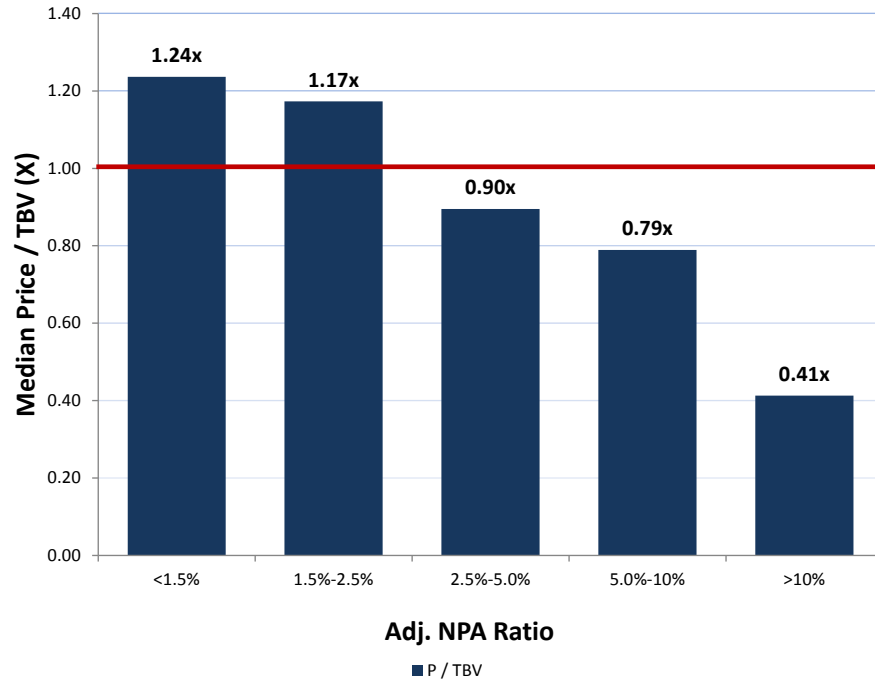
- Community banks trade at a discount to larger banks due to (a) lesser marketability/liquidity; (b) lack of access to capital; and (c) lower overall profitability

Low Trading Valuations Compound Challenges

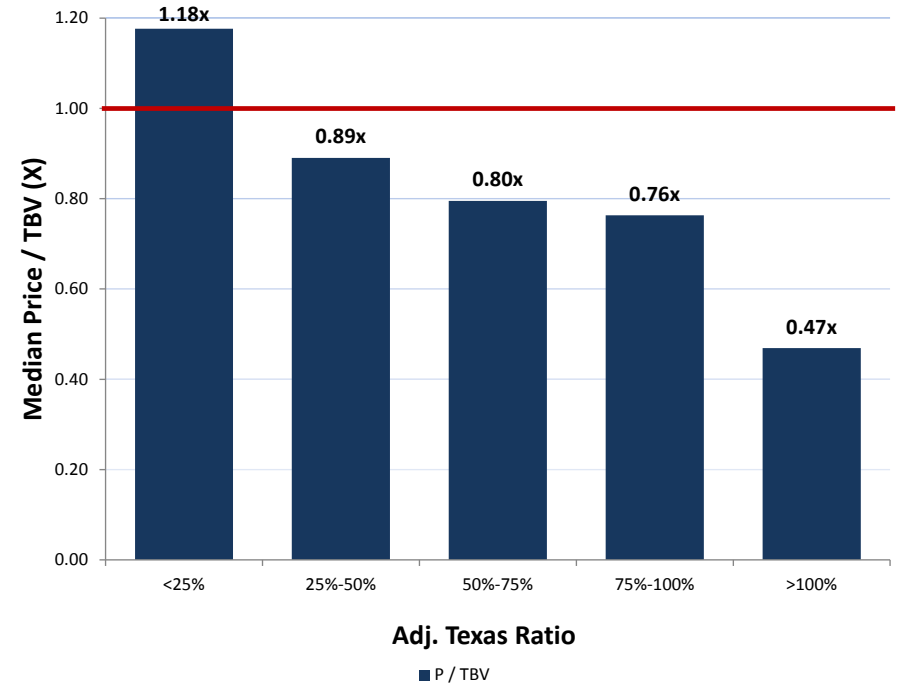
- Survivors: More expensive to raise non dilutive capital
- Sellers: More difficult to get attractive values
- Buyers: More difficult to close accretive acquisitions (unless flush with capital)

Asset Quality Impact on Trading Valuation

NPAs / Assets

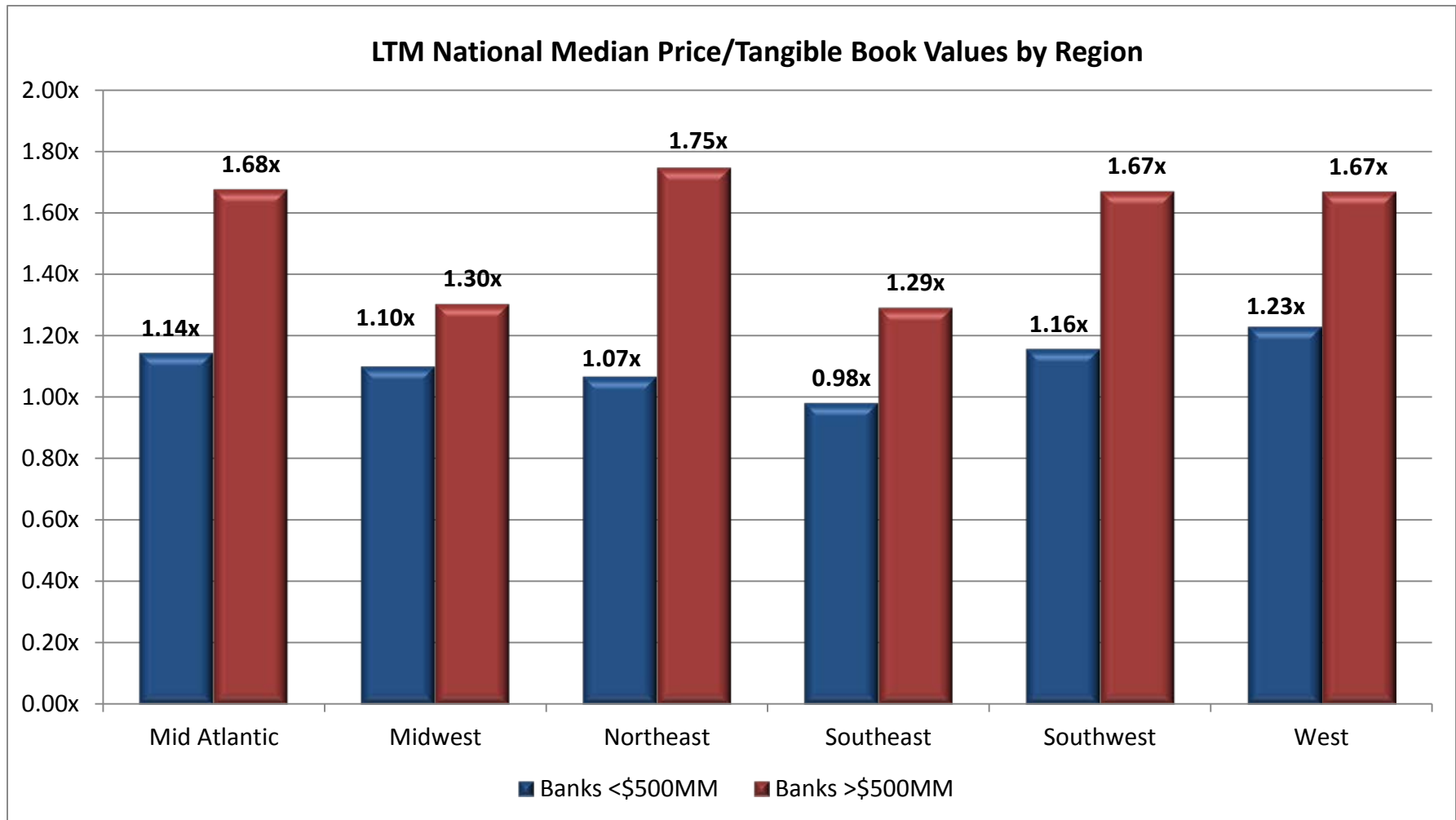


Texas Ratio



- Asset quality continues to be a primary determinant of trading multiples.
- We expect future trading values to be driven by earnings quality.

Merger Pricing By Region and Asset Size



➤ Banks in the most stable economic regions have received higher pricing in the current merger market. The importance of creating size and efficiencies has driven pricing multiples.

Polling Question #3

If your Bank issues stock options, do they get a fair market value on grant date?

- A *Yes*
- B *No*
- C *Not Sure*
- D *Bank doesn't issue options*

Sample Valuation Analysis

Selected Financial Information

(\$ Millions, except per share data) Description:	Sep-13	For the Year Ended December 31,					Growth Rates	
	2013	2012	2011	2010	2009	2008	12-13	08-12
BALANCE SHEET DATA:								
Total Assets	\$659.5	\$577.8	\$465.1	\$349.9	\$271.7	\$193.5	14%	31%
Earning Assets	630.4	517.8	423.5	317.4	252.9	182.4	22%	30%
Investments: Held to Maturity	49.1	33.8	8.5	7.5	8.0	3.5	45%	76%
Available for Sale	<u>188.1</u>	<u>186.1</u>	<u>186.7</u>	<u>119.0</u>	<u>78.1</u>	<u>87.9</u>	1%	21%
Total Securities	237.2	219.9	195.1	126.5	86.1	91.4	8%	25%
Loans, net of unearned income	387.4	299.5	229.6	192.1	167.6	90.8	29%	35%
Loan Loss Reserve	4.4	4.0	3.4	3.2	2.2	1.1	11%	37%
Fixed Assets	3.4	2.9	2.7	3.2	2.6	2.2	17%	7%
Mortgage Servicing Rights	2.7	2.4	2.3	2.3	1.7	0.0	13%	nm
Goodwill & Other Intangibles	0.2	0.2	0.2	0.2	0.2	0.2	0%	0%
Deposits:								
Noninterest Demand	63.3	48.1	31.1	20.9	12.0	6.7	32%	64%
Other Core Deposits	373.2	392.7	311.8	203.9	125.4	97.7	(5%)	42%
CDs > \$100,000	<u>89.5</u>	<u>73.9</u>	<u>62.7</u>	<u>81.2</u>	<u>89.2</u>	<u>36.7</u>	21%	19%
Total Deposits	526.0	514.6	405.6	306.0	226.6	141.1	2%	38%
Borrowings	67.6	9.6	10.4	9.1	14.5	22.0	nm	(19%)
Preferred Stock (SBLF)	10.0	10.0	10.0	0.0	0.0	0.0	0%	nm
Common Stock	<u>42.4</u>	<u>41.4</u>	<u>37.4</u>	<u>33.5</u>	<u>29.2</u>	<u>26.6</u>	2%	12%
Stockholders' Equity	52.4	51.4	47.4	33.5	29.2	26.6	2%	18%
Preferred Shares Outstanding	10,000	10,000	10,000	0	0	0	0%	nm
Common Shares Outstanding	3,621,154	3,621,154	3,550,988	3,535,901	3,125,478	2,787,667	0%	7%
Book Value per Common Share	\$11.70	\$11.42	\$10.53	\$9.48	\$9.35	\$9.52	2%	5%
Tangible Book Value per Share	\$11.66	\$11.38	\$10.48	\$9.44	\$9.30	\$9.47	2%	5%
INCOME STATEMENT DATA:								
Net Interest Income	\$14.657	\$15.956	\$12.136	\$8.919	\$7.204	\$3.762	<i>Annualized</i> 22%	44%
Provision for Loan Losses	0.457	1.548	0.680	1.269	1.407	1.161	(61%)	7%
Securities Gains (Losses)	0.078	0.991	0.672	1.110	0.450	0.087	(90%)	84%
Other Income	4.837	7.654	3.788	4.319	3.333	0.283	(16%)	128%
Other Expenses	<u>13.663</u>	<u>16.857</u>	<u>13.651</u>	<u>12.105</u>	<u>10.196</u>	<u>5.477</u>	8%	32%
Income Before Taxes	5.452	6.196	2.265	0.973	(0.616)	(2.506)	17%	nm
Tax Provision	<u>2.066</u>	<u>2.056</u>	<u>0.111</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	34%	nm
Net Income	\$3.386	\$4.140	\$2.154	\$0.973	(\$0.616)	(\$2.506)	9%	nm
Preferred Dividends	0.075	0.100	0.000	0.000	0.000	0.000	(0%)	nm
Net Income Available to Common	\$3.311	\$4.040	\$2.154	\$0.973	(\$0.616)	(\$2.506)	9%	nm
Earnings Per Common Share	\$0.91	\$1.12	\$0.61	\$0.28	(\$0.20)	(\$0.90)	9%	nm
Dividends Per Share	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	nm	nm

Sources: Audited Financial Statements, Call Reports and UBPRs



Selected Financial Performance

Description:	Sep-13	For the Year Ended December 31,				
	2013	2012	2011	2010	2009	2008
Profitability						
ROAA	0.73%	0.79%	0.53%	0.31%	(0.26%)	(2.08%)
ROAE	8.7%	8.4%	5.3%	3.1%	(2.2%)	(9.6%)
Net Interest Margin						
Earning Assets Yield	3.96%	4.02%	4.51%	4.65%	4.95%	5.66%
Cost of Int. Bearing Funds	0.69%	0.95%	1.29%	1.67%	1.94%	2.77%
Net Interest Margin	3.31%	3.21%	3.40%	3.19%	3.25%	3.54%
Overhead / Avg Assets	2.94%	3.23%	3.35%	3.89%	4.38%	4.55%
Earning Assets / Assets	95.6%	89.6%	91.0%	90.7%	93.1%	94.3%
Loans / Deposits	73.7%	58.2%	56.6%	62.8%	74.0%	64.3%
Capital Adequacy						
Equity / Assets	7.9%	8.9%	10.2%	9.6%	10.7%	13.7%
Tang. Common Equity / Assets	6.4%	7.1%	8.0%	9.5%	10.7%	13.6%
Total Risk Based Capital Ratio	15.3%	15.5%	17.6%	16.6%	16.5%	25.0%
Tier 1 Risk Based Ratio	14.3%	14.3%	16.3%	15.3%	15.2%	23.8%
Leverage Ratio	9.9%	9.3%	10.8%	10.1%	11.0%	14.3%
Asset Quality						
Nonperforming Assets (\$000)						
Restructured Loans	\$0	\$0	\$0	\$0	\$0	\$0
Loans Past Due Over 90 Days	0	0	0	358	507	0
Nonaccrual Loans	2,621	2,677	3,431	2,399	5,144	0
Other Real Estate Owned	<u>761</u>	<u>2,089</u>	<u>744</u>	<u>2,184</u>	<u>1,600</u>	<u>1,750</u>
Total Nonperforming Assets	\$3,382	\$4,766	\$4,175	\$4,940	\$7,251	\$1,750
NPA's / Total Assets	0.51%	0.82%	0.90%	1.41%	2.67%	0.90%
Loss Reserve / Loans	1.14%	1.33%	1.49%	1.65%	1.31%	1.25%
Net Charge-Offs / Average Loans	0.00%	0.37%	0.21%	0.16%	0.27%	0.18%

Sources: Audited Financial Statements, Call Reports and UBPRs

Example of Market Approach: Transactions Method

Stock Activity				
<u>Transaction</u>	<u>Date</u>	<u>Total Shares</u>	<u>% of Outstanding</u>	<u>Price Per Share</u>
Reported Arm's Length Trans.	2013	50,000	1.38%	\$13.00
<u>Transaction</u>	<u>Date</u>	<u>Total Shares</u>	<u>% of Outstanding</u>	<u>Price Per Share</u>
Common Stock Warrants	Nov-12	54,000	1.49%	\$12.00
Common Stock Offering	Mar-10	375,000	10.36%	\$10.00
Common Stock Offering	Nov-09	250,000	6.90%	\$10.00
Common Stock Offering	Nov-08	150,000	4.14%	\$11.95

Market Approach: Selected Guideline Companies

Company	TKR	City	State	Market Ratios 9/30/13		Balance Sheet Highlights As of 9/30/2013				Financial Performance Year to Date Ended 9/30/2013					
				Price / LTM EPS (X)	Price/ T. Book (X)	Assets (\$Mil)	Loans (\$Mil)	Deposits (\$Mil)	Equity (\$Mil)	ROAA (%)	ROAE (%)	Net Int. Margin (%)	T. Equity / T. Assets (%)	NPAs/ Assets (%)	Efficiency Ratio (%)
LCNB Corp.	LCNB	Lebanon	OH	17.0	1.93	942	563	808	92	0.91	9.2	3.42	8.2	1.97	69.8
Harleysville Savings Financial Corporation	HARL	Harleysville	PA	14.6	1.14	810	477	538	62	0.59	7.7	2.37	7.5	1.37	62.6
Community National Bank	CBNY	Great Neck	NY	NM	1.25	797	607	693	71	0.37	3.7	3.80	8.9	0.97	69.9
1st Constitution Bancorp	FCCY	Cranbury	NJ	11.2	1.02	790	370	687	67	0.72	8.9	3.38	7.9	1.83	69.1
Auburn National Bancorporation, Inc.	AUBN	Auburn	AL	12.6	1.35	745	377	650	66	0.94	10.4	2.97	8.9	1.43	66.2
Pacific Financial Corporation	PFLC	Aberdeen	WA	14.8	1.25	716	485	619	68	0.59	5.8	3.89	7.8	1.80	88.4
PSB Holdings, Inc.	PSBQ	Wausau	WI	10.1	0.88	706	518	554	56	0.62	7.5	3.37	7.9	1.44	60.6
DNB Financial Corporation	DNBF	Downingtown	PA	14.1	1.29	650	395	552	58	0.56	6.4	3.27	8.9	1.45	71.1
First Community Corporation	FCCO	Lexington	SC	12.8	1.06	636	343	509	53	0.71	8.1	3.16	8.2	1.37	75.6
Fauquier Bankshares, Inc.	FBSS	Warrenton	VA	17.4	0.98	595	449	523	49	0.66	8.1	3.63	8.2	1.90	74.7
Elmira Savings Bank	ESBK	Elmira	NY	11.2	1.86	520	384	397	57	1.01	9.0	3.33	8.8	0.64	65.5
Eagle Bancorp Montana, Inc.	EBMT	Helena	MT	19.1	1.05	514	254	428	48	0.59	5.9	3.07	8.0	0.25	96.6
Empire Bancorp Inc.	EMPK	Islandia	NY	24.4	0.81	470	268	372	39	0.27	3.1	3.29	8.3	0.99	85.5
Bank of the James Financial Group, Inc.	BOTJ	Lynchburg	VA	8.7	0.93	435	331	393	29	0.87	10.1	4.13	8.4	1.44	72.6
First Bank	FRBA	Hamilton	NJ	11.7	0.89	426	309	378	32	0.49	6.0	3.57	7.4	1.12	69.3
Wellesley Bancorp, Inc.	WEBK	Wellesley	MA	17.3	0.92	421	356	327	46	0.78	8.6	3.54	8.6	1.41	63.2
Santa Cruz County Bank	SCZC	Santa Cruz	CA	10.8	1.13	403	234	366	32	0.88	10.7	4.10	7.8	0.84	67.6
Glen Burnie Bancorp	GLBZ	Glen Burnie	MD	12.8	1.05	379	261	323	31	0.70	8.3	3.38	8.2	1.13	78.5
Southwest Georgia Financial Corporation	SGB	Moultrie	GA	10.4	0.82	372	218	309	31	0.66	7.8	3.82	8.2	0.52	81.3
First West Virginia Bancorp, Inc.	FWV	Wheeling	WV	13.7	0.96	352	93	294	32	0.53	4.9	2.74	8.5	0.30	85.3
Bay Banks of Virginia, Inc.	BAYK	Kilmarnock	VA	19.2	0.71	335	246	272	37	0.43	4.7	3.53	8.5	1.98	83.5
VSB Bancorp, Inc.	VSBN	Staten Island	NY	19.8	0.69	300	75	271	28	0.43	4.6	2.76	8.9	1.71	75.2
National Peer Group Average				14.5	1.09	560	346	467	49	0.65	7.2	3.39	8.3	1.27	74.2
First Community Corporation	FCCO	Lexington	SC	12.8	1.06	636	343	509	53	0.71	8.1	3.16	8.2	1.37	75.6
Xenith Bankshares, Inc.	XBKS	Richmond	VA	NM	0.99	606	467	496	88	0.44	2.9	4.03	12.0	0.74	78.3
Fauquier Bankshares, Inc.	FBSS	Warrenton	VA	17.4	0.98	595	449	523	49	0.66	8.1	3.63	8.2	1.90	74.7
Bank of the James Financial Group, Inc.	BOTJ	Lynchburg	VA	8.7	0.93	435	331	393	29	0.87	10.1	4.13	8.4	1.44	72.6
First West Virginia Bancorp, Inc.	FWV	Wheeling	WV	13.7	0.96	352	95	294	32	0.53	4.9	2.74	8.5	0.30	85.3
Bank of South Carolina Corporation	BKSC	Charleston	SC	15.5	1.85	334	230	299	34	1.28	12.6	4.47	10.3	0.90	61.5
Southeast Peer Group Average				13.6	1.13	493	319	419	47	0.75	7.8	3.69	9.3	1.11	74.7
Average Guideline Companies				14.0	1.11										
Sample Bank						660	387	526	52	0.73	8.7	3.31	7.9	0.51	70.1

Source: SNL Financial

We considered two different comparable trading groups (the guideline companies):

- **National Banks**– Profitable banks with assets from \$300mm-\$1B, NPAs<2%, and Equity/Assets from 7-9%
- **Southeast Banks**- Profitable banks in the Southeast with assets from \$300mm-\$1B and NPAs<2%



Example of Market Approach: Guideline Company Method

	<u>National Banks</u>	<u>Southeast Banks</u>
<u>Capitalization of Earnings Method:</u>		
LTM Earnings Per Common Share	\$1.36	\$1.36
Price to Trail. 12 Mos. Earnings Multiple	<u>14.5</u>	<u>13.6</u>
Indicated Value Per Common Share	\$19.72	\$18.50
Discount for Lack of Marketability	<u>10%</u>	<u>10%</u>
Indicated Value Per Common Share	\$17.75	\$16.65
<u>Capitalization of Book Value:</u>		
Tangible Book Value per share (9/30/2013)	\$11.66	\$11.66
Price to Tangible Book Value Multiple	<u>1.09</u>	<u>1.13</u>
Indicated Value Per Common Share	\$12.71	\$13.18
Discount for Lack of Marketability	<u>10%</u>	<u>10%</u>
Indicated Value Per Common Share	\$11.44	\$11.86

Projected Financial Performance

(\$ millions, except per share)	Actual				Projected					CAGR 2013-2017
	2010	2011	2012	Sept. 30 2013	2013	For the year ending December 31, 2014 2015 2016 2017				
Growth and Profitability Assumptions										
Total Assets	\$349.877	\$465.122	\$577.762	\$659.540	\$675.000	\$756.000	\$831.600	\$898.128	\$943.034	8.7%
Asset Growth Rate	28.8%	32.9%	24.2%	14.2%	16.8%	12.0%	10.0%	8.0%	5.0%	
Financial Results:										
Preferred Equity (SBLF)	\$0.000	\$10.000	\$10.000	\$10.000	\$10.000	\$10.000	\$10.000	\$0.000	\$0.000	
Common Equity	\$33.529	\$37.378	\$41.356	\$42.381	\$43.668	\$49.149	\$55.479	\$62.891	\$71.177	13.0%
Total Stated Equity	\$33.529	\$47.378	\$51.356	\$52.381	\$53.668	\$59.149	\$65.479	\$62.891	\$71.177	
Intangible Assets	\$0.157	\$0.157	\$0.157	\$0.157	\$0.157	\$0.157	\$0.157	\$0.157	\$0.157	
Tangible Equity	\$33.371	\$47.220	\$51.199	\$52.224	\$53.510	\$58.991	\$65.321	\$62.734	\$71.019	
Tangible Common Equity	\$33.371	\$37.220	\$41.199	\$42.224	\$43.510	\$48.991	\$55.321	\$62.734	\$71.019	
Dividend Payout Ratio	0.0%	0.0%	0.0%	0.0%	0.0%	15.0%	20.0%	20.0%	20.0%	
Dividends Per Share	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.23	\$0.35	\$0.40	\$0.45	
Tangible Book Value Per Share	\$9.44	\$10.48	\$11.38	\$11.66	\$11.93	\$13.36	\$15.02	\$16.96	\$19.12	
Tangible Equity / Tangible Assets	9.5%	10.2%	8.9%	7.9%	7.9%	7.8%	7.9%	7.0%	7.5%	
Net Income	\$0.973	\$2.154	\$4.140	\$3.386	\$4.698	\$5.581	\$6.430	\$7.438	\$8.285	15.2%
Preferred Dividends	\$0.000	\$0.000	\$0.100	\$0.075	\$0.100	\$0.100	\$0.100	\$0.025	\$0.000	
Net Income to Common Shareholders	\$0.973	\$2.154	\$4.040	\$3.311	\$4.598	\$5.481	\$6.330	\$7.413	\$8.285	
Common Shares Outstanding	3.536	3.551	3.621	3.621	3.646	3.666	3.684	3.700	3.714	
Earnings Per Common Share	\$0.28	\$0.61	\$1.12	\$0.91	\$1.26	\$1.50	\$1.72	\$2.00	\$2.23	15.3%
ROAA	0.31%	0.53%	0.79%	0.73%	0.75%	0.78%	0.81%	0.86%	0.90%	
ROAE	3.1%	5.3%	8.4%	8.7%	9.0%	9.9%	10.3%	11.6%	12.4%	

Source: Management projections

Example of Income Approach: Present Value of Future Earnings Method

(\$ in millions, except per share)

Year	Assets	Growth Rate	Common ROAA	Common Proj. EPS	Common Dividends	Tangible Com. Equity	Disc Rate	Discount Rate:	
							13.50%		
Sept. 30, 2013	\$659.540					\$42.224	Present Value	30 Yr Bond (9/30/13)	3.69%
							\$ Per Share	Equity Risk Premium	5.00%
2013	\$675.000	16.8%	0.75%	\$0.35	\$0.00	\$43.510	\$0.34	Average Market Return	8.69%
2014	\$756.000	12.0%	0.78%	\$1.50	\$0.23	\$48.991	\$1.28	Risk Premium for Size	3.81%
2015	\$831.600	10.0%	0.81%	\$1.72	\$0.35	\$55.321	\$1.29	Company & Industry Risk Factor	1.00%
2016	\$898.128	8.0%	0.86%	\$2.00	\$0.40	\$62.734	\$1.33		<u>13.50%</u>
2017	\$943.034	5.0%	0.90%	\$2.23	\$0.45	\$71.019	\$1.30		
Terminal Yr.	\$971.325	3.0%	0.90%	\$2.32					
I. Present Value of Earnings Stream							\$5.53	(a)	
II. Present Value of Terminal Value (Proxy for Earnings in Perpetuity)									
Terminal Year Earnings Per Share						\$2.32			
						(13.50%-3.0%)			
Capitalized Terminal Value (1)/PV of Terminal Value						\$22.09	\$12.90	(b)	
III. Total Indicated Present Value							\$18.43	a+b	
IV. Discount for Lack of Marketability							10%		
V. Indicated Value - Present Value of Future Earnings Method							\$16.59		

(1) Capitalized Terminal Value = $\frac{I}{(\text{Disc. Rate} - G)}$ I = terminal year net income
G = terminal year growth rate

Source: Management Projections

This method of value says that a bank's value is the sum of its earnings stream. This value is then discounted to the present value at rate that reflects the return an investor would require for an investment with similar risk characteristics. To create more value, a bank would need to grow faster, earn more or some higher combination of growth and earnings.

Example of Income Approach: Discounted Cash Flow Method

(\$ millions, except per share data)

Year	Assets	Growth Rate	Common Proj. EPS	Common ROAA	Common Dividends	Tang. BVPS	Disct Rate	
							13.50%	
Sept. 30, 2013	\$659.540					\$11.38	Present Value \$ Per Share	
2013	\$675.000	2.3%	\$0.35	0.75%	\$0.00	\$11.93	\$0.00	
2014	\$756.000	12.0%	\$1.50	0.78%	\$0.23	\$13.36	\$0.19	
2015	\$831.600	10.0%	\$1.72	0.81%	\$0.35	\$15.02	\$0.26	
2016	\$898.128	8.0%	\$2.00	0.86%	\$0.40	\$16.96	\$0.27	
2017	\$943.034	5.0%	\$2.23	0.90%	\$0.45	\$19.12	<u>\$0.26</u>	
I. Present Value of Dividend Stream							\$0.98	(a)
II. Present Value of Trading Value in 5 Years								
2017 Earnings						2.23		
P/E Multiple (1)						14.0x		
Trading Price						31.23	<u>\$18.23</u>	(b)
III. Total Present Value							\$19.22	a+b
IV. Discount for Lack of Marketability							10%	
V. Indicated Value Per Share - After DLOM							\$17.30	

Source: Management Projections

(1) average of peer multiples

This method is similar to the Present Value of Future Earnings except it measures cash flows to shareholders (in this case dividends) and utilizes the average trading multiple of the guideline companies (P/E) to determine the terminal value cash flows.

Summary of Valuation Indicators

		<u>\$ per share</u>
<u>MARKET APPROACH</u>		
<i>Transactions Method</i>		
2013 Arm's Length Transactions		\$13.00
<i>Guideline Company Method</i>		
Capitalization of Earnings		
	National Banks	\$17.75
	Southeast Banks	\$16.65
Capitalization of Book Value		
	National Banks	\$11.44
	Southeast Banks	\$11.86
<u>INCOME APPROACH</u>		
<i>Present Value of Future Earnings Method</i>		
<i>Discounted Cash Flows Method</i>		
RANGE OF VALUES:		\$11.44 to \$17.75
FINAL FAIR MARKET VALUE PER COMMON SHARE		\$15.00

P/ TBV	1.29
P/ LTM EPS	11.0

Polling Question #4

Would you recommend that your Bank obtain a third party valuation for strategic planning purposes?

- A Highly Recommend*
- B Think it Should be Considered*
- C Don't Think It's Necessary*
- D Would Not Recommend*

Selecting a Valuation Provider

Valuation service providers include CPAs, investment bankers and valuation firms. With so many options available, how do you select the right one? Here are basic requirements:

Professional Credentials – Your advisor should hold nationally recognized certifications and/or accreditations such as:

- ASA - Accredited Senior Appraiser, granted by the American Society of Appraisers
- ABV – Accredited in Business Valuation, granted by the American Institute of Certified Public Accountants (AICPA)
- CBA – Certified Business Appraiser, granted by the Institute of Business Appraisers
- CVA – Certified Valuation Analyst, granted by the National Association of Certified Valuation Analysts (NACVA)
- CFA® – Chartered Financial Analyst®, granted by CFA Institute

Objectivity – Insist on independence and objectivity free from conflicts of interest.

Standards Compliance – Adherence to professional and regulatory standards is a must.

- Uniform Standards of Professional Appraisal Practice (USPAP) of the multidisciplinary Appraisal Foundation
- AICPA Statement of Standards for Valuation Services (SSVS)
- Business Valuation Standards of the American Society of Appraisers

Industry Knowledge – Select a banking industry expert, not just a valuations expert.

Thank You For Attending!

Contact Information

TAMPA

PAULA JOHANNSEN
PJ@MONROEFP.COM
607 W. BAY STREET
TAMPA, FL 33606
(813) 289-1154 (OFFICE)
(813) 205-1870 (CELL)

CHICAGO

ERIC KOLESNIKOV
ERIC@MONROEFP.COM
100 N. RIVERSIDE PLAZA, SUITE 1620
CHICAGO, IL 60606
(312) 327-2530 (OFFICE)
(727) 776-7729 (CELL)

