

# Bank Watch

## 3 Ways a Loan Portfolio Valuation Is Helpful to the Acquirer

Mercer Capital works extensively with both the management of an acquirer and their loan review personnel (both internal and external) to obtain an in-depth understanding of loans being acquired. We provide a detailed valuation model along with extensive documentation to support our analysis of the fair value of the subject loans, reflective of the credit risk embedded therein. Our clients find these analyses helpful both when assessing a target initially and when accounting for the acquired loans at the transaction closing date. Here are three ways that a loan portfolio analysis is helpful to your bank when considering an acquisition.

### **Assess the Target's Credit Risk More Quickly and Accurately**

The successful acquirer typically assumes all the credit risk inherent in the target institution, and failure to properly assess this risk typically hurts the acquirer's ability to generate a profitable return on the capital allocated to complete the acquisition. A timely and accurate valuation of the loan portfolio is necessary to assess the target's credit risk prior to closing, particularly when the target is relatively weak and both information and time are limited.

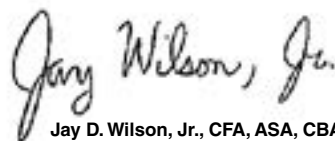
### **Improve the Decision-Making Process**

By obtaining a loan portfolio valuation, managers and directors gain a better understanding of the credit risk inherent in the portfolio, and the outlook for future performance of different segments of and individual credits in the portfolio. This enhances discussions among management and directors and provides a more detailed basis for submitting offers for the target and estimating the pro forma impact on capital ratios and earnings from the acquisition. Additionally, having an independent third party analyze the target's loan portfolio frees up members of the acquirer's due diligence team to assess and resolve other merger-related issues.

## Reduce the Potential for an Accounting Surprise

Merger-related accounting issues for bank acquirers are often complex. An assessment of the loan portfolio prior to closing provides management, directors, and their auditors an opportunity to evaluate, in advance, the methodology employed to value the acquired loans, as well as the potential impact on the acquirer's balance sheet and earnings going forward. This reduces the likelihood of surprises when the fair value of the loan portfolio is determined on the transaction closing date. Further, materially incorrect credit and interest rate marks relative to the loan portfolio valuation at the acquisition closing date leads to delays in subsequent monthly closings and the inability to meet other financial reporting requirements.

In addition to loan portfolio valuation services, we provide acquirers with valuations of other financial assets and liabilities acquired in a bank transaction, including depositor intangible assets, time deposits, and trust preferred securities. We are always happy to discuss your valuation issues in confidence as you plan for a potential acquisition. Give us a call today.



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## What We're Reading

This article from Booz & Company's *Strategy+ Business* blog, titled "When Banks Go Digital, Everyone Wins" by Laura W. Gellar, includes a link to a graphic that details the current fragmentation of the bank-client interaction and offers up a more efficient state that can be achieved by going digital:

<http://mer.cr/14zK1vO>

This article, "New Branches Are Rarer, Smaller and More Expensive Than Ever," from The Financial Brand, summarizes a survey that Bancography conducted with banks and credit unions regarding their branch deployment plans:

<http://mer.cr/16BDTAF>

Lastly, an article titled "The Profitability of the Average Checking Account" from StrategyCorps discusses the profitability of the average checking account:

<http://mer.cr/1bBolnj>

## New Webinar Available for Replay

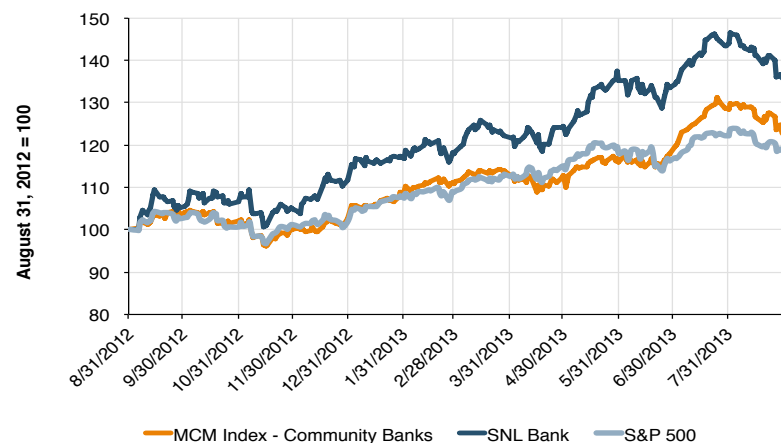


### Basel III Capital Rules Finally Final: What Does It Mean For Community Banks?

Much of the financial rulemaking following the financial crisis set its sights on the largest banks with the community and smaller regional banking sector unaffected or impacted indirectly. However, the new rules regarding capital represent some of the most consequential post-financial crisis rulemakings, affecting banks large and small. Finalized at last, the regulations provide direction for bank capital management decisions. This webinar, co-sponsored by Mercer Capital and Jones Day, reviews the final rules and assesses their impact on community banks.

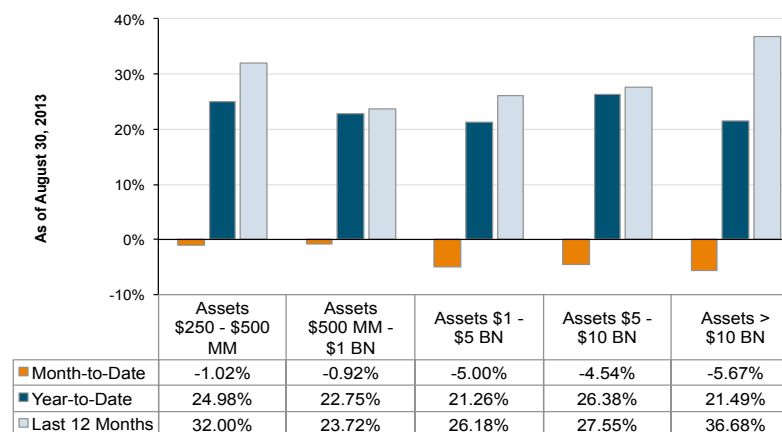
View replay at <http://mer.cr/capital-rules-webinar>

Mercer Capital's Bank Group Index Overview



Return Stratification of U.S. Banks

by Asset Size

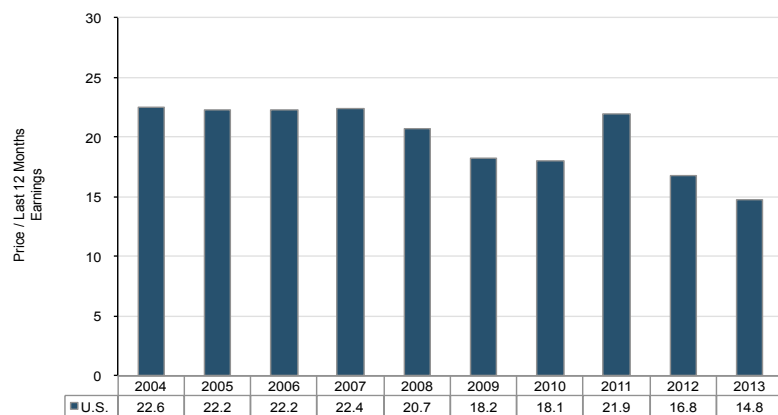


Median Valuation Multiples

Indices	Median Total Return			Valuation Multiples as of August 30, 2013					
	Month-to-Date	Year-to-Date	Last 12 Months	Price / LTM EPS	Price / 2013 (E) EPS	Price / 2014 (E) EPS	Price / Book Value	Price / Tangible Book Value	Dividend Yield
Atlantic Coast Index	-4.31%	20.46%	23.59%	14.59	15.32	12.97	105.5%	119.8%	2.3%
Midwest Index	-3.90%	22.29%	22.83%	11.88	11.78	12.10	106.7%	115.9%	2.2%
Northeast Index	-4.59%	18.21%	19.43%	14.11	14.50	12.68	118.2%	129.7%	2.8%
Southeast Index	-4.54%	20.95%	21.84%	13.48	13.62	12.32	115.2%	116.8%	2.3%
West Index	-4.63%	17.94%	24.71%	13.04	14.53	13.28	121.3%	124.0%	2.1%
Community Bank Index	-4.43%	19.67%	22.78%	13.48	13.58	12.93	112.0%	121.5%	2.4%
<b>SNL Bank Index</b>	<b>-2.90%</b>	<b>16.14%</b>	<b>18.70%</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>	<b>na</b>

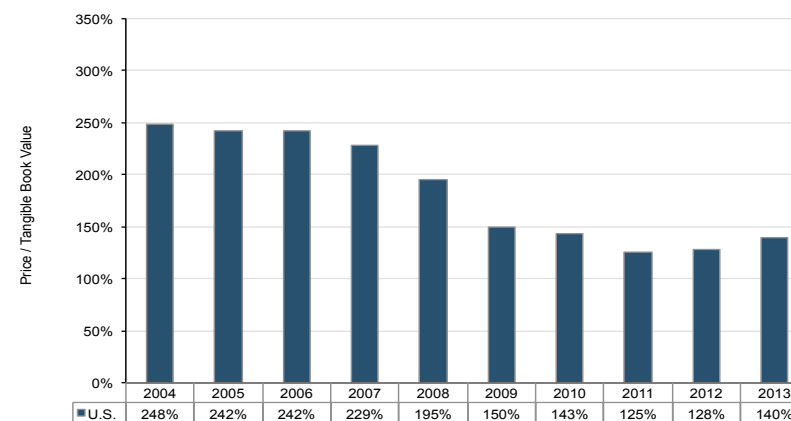
**Median Price/Earnings Multiples**

Target Banks Assets <\$5BN and LTM ROE >5%



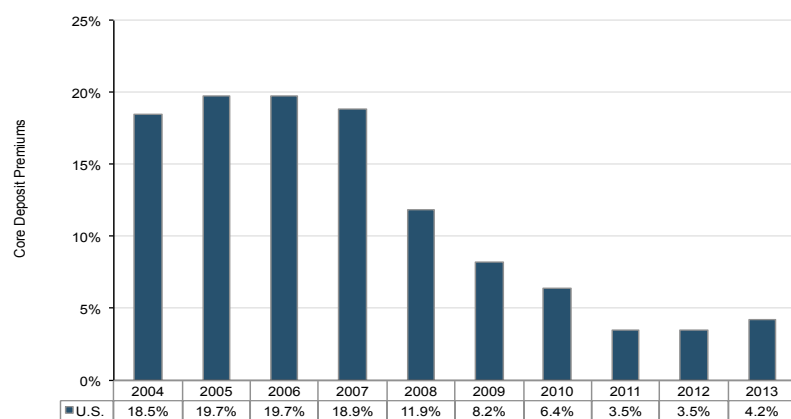
**Median Price/Tangible Book Value Multiples**

Target Banks Assets <\$5BN and LTM ROE >5%



**Median Core Deposit Multiples**

Target Banks Assets <\$5BN and LTM ROE >5%



**Median Valuation Multiples for M&A Deals**

Target Banks Assets <\$5BN and LTM ROE >5%, through August 30, 2013

Regions	Price / LTM Earnings	Price / Tang. BV	Price / Core Dep Premium	No. of Deals	Median Deal Value	Target's Median Assets	Target's Median LTM ROE (%)
Atlantic Coast	15.45	1.31	4.0%	8	220.62	1,782,703	6.48%
Midwest	16.44	1.43	4.5%	38	34.79	125,251	8.89%
Northeast	16.06	1.49	7.7%	4	110.80	649,359	7.85%
Southeast	14.20	1.37	3.3%	3	123.39	1,601,683	6.12%
West	10.06	1.27	2.9%	13	32.51	242,220	7.33%
<b>Nat'l Community Banks</b>	<b>14.77</b>	<b>1.40</b>	<b>4.2%</b>	<b>66</b>	<b>43.99</b>	<b>232,922</b>	<b>8.30%</b>

# Mercer Capital's Regional Public Bank Peer Reports

Updated weekly, Mercer Capital's Regional Public Bank Peer Reports offer a closer look at the market pricing and performance of publicly traded banks in the states of five U.S. regions. Click on the map to view the reports from the representative region.

**Atlantic Coast**

**Midwest**

**Northeast**

**Southeast**

**West**

# Mercer Capital

Financial Institutions Services

Mercer Capital assists banks, thrifts, and credit unions with significant corporate valuation requirements, transactional advisory services, and other strategic decisions.

Mercer Capital pairs analytical rigor with industry knowledge to deliver unique insight into issues facing banks. These insights underpin the valuation analyses that are at the heart of Mercer Capital's services to depository institutions.

Mercer Capital is a thought-leader among valuation firms in the banking industry. In addition to scores of articles and books, *The ESOP Handbook for Banks* (2011), *Acquiring a Failed Bank* (2010), *The Bank Director's Valuation Handbook* (2009), and *Valuing Financial Institutions* (1992), Mercer Capital professionals speak at industry and educational conferences.

The Financial Institutions Group of Mercer Capital publishes *Bank Watch*, a monthly e-mail newsletter covering five U.S. regions. In addition, Jeff Davis, Managing Director, is a regular contributor to SNL Financial.

For more information about Mercer Capital, visit [www.mercercapital.com](http://www.mercercapital.com).

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