

Breakout II: The Impact of AOCI on Capital Planning, Bank Equity Valuations and M&A

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THE IMPACT OF AOCI ON CAPITAL PLANNING, BANK EQUITY VALUATIONS AND M&A

JANUARY 29, 2023
BREAKOUT SESSION
9:35-10:15AM

PRESENTATION BY:

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THE IMPACT OF AOCI ON CAPITAL PLANNING, BANK EQUITY VALUATIONS AND M&A

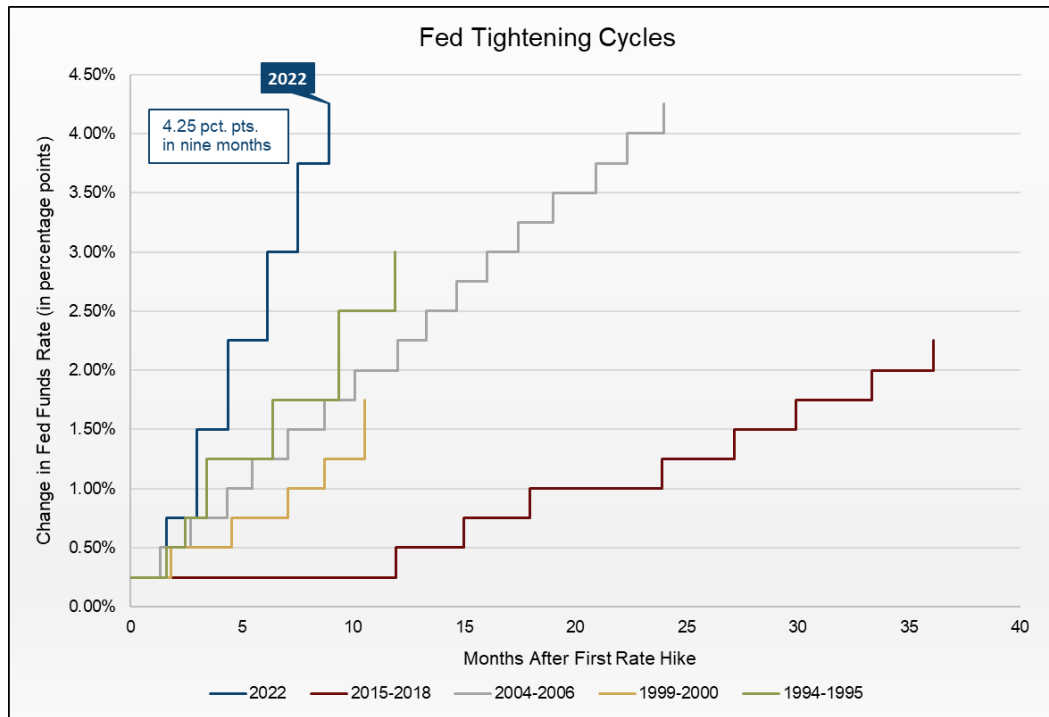
Accumulated Other Comprehensive Income

Unrealized Gain/(Loss) on Available For Sale (AFS) Investments

AOCI

(a four-letter word)

RATE HIKE HISTORY



- Fastest and steepest rate increase over the past 30 years: March to December 2022 (prior to 1990, the Fed didn't explicitly target federal funds rate)

IMPACT OF AOCI ON CAPITAL PLANNING

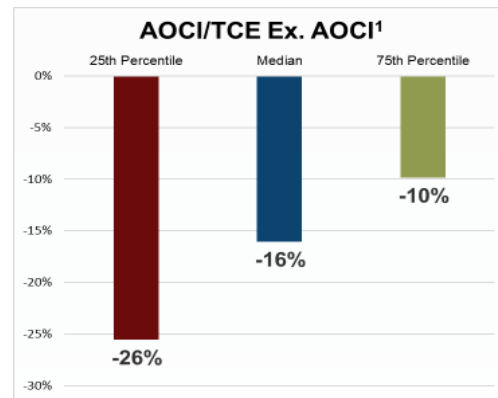
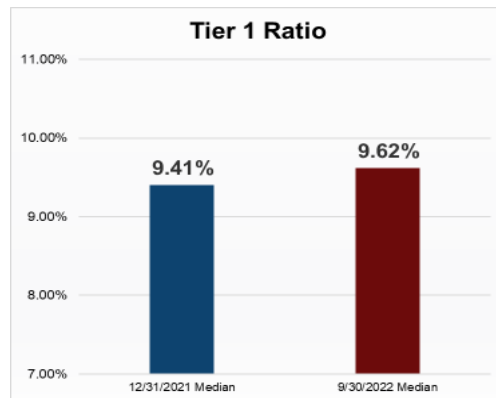
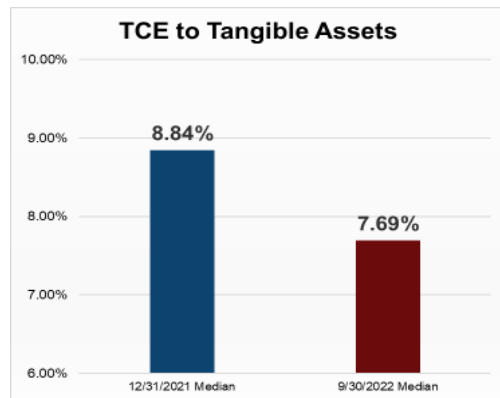
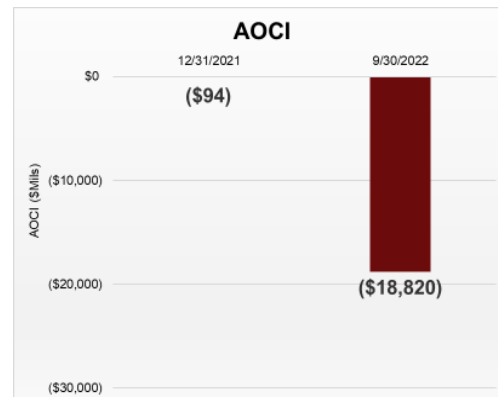
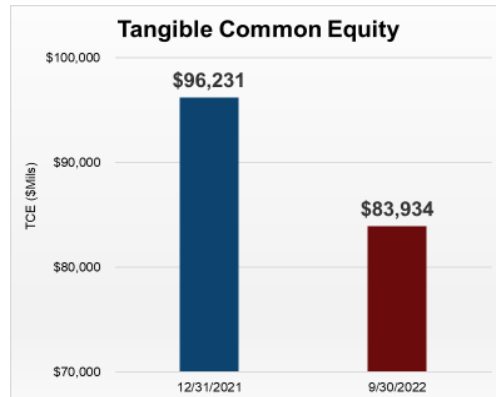
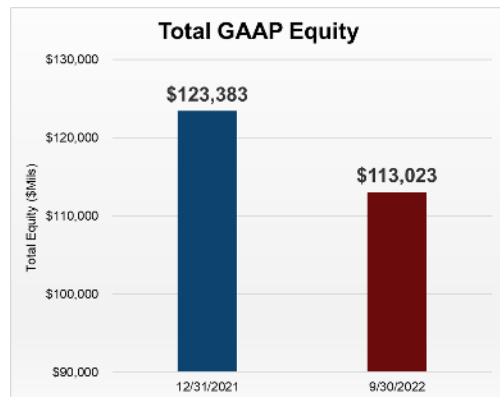


THE IMPACT OF AOCI ON CAPITAL PLANNING

- Banks could face “significant pressure” to recognize unrealized losses
- “The combination of a high level of longer-term assets and a moderate decline in deposits underscores the risk that these unrealized losses could become actual losses should banks need to sell investments to meet liquidity needs”
- A “very substantial” overhang for banks that could soon become “problematic”.

– Martin J. Gruenberg, Acting Chairman of the FDIC (12/1/22)

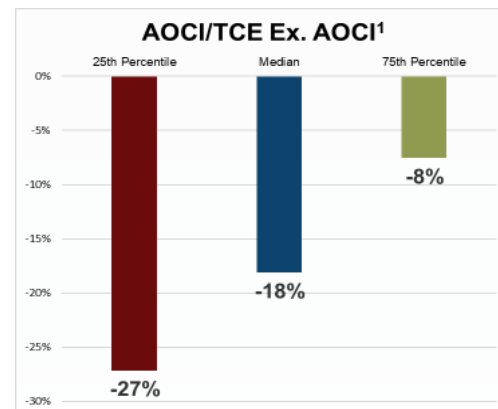
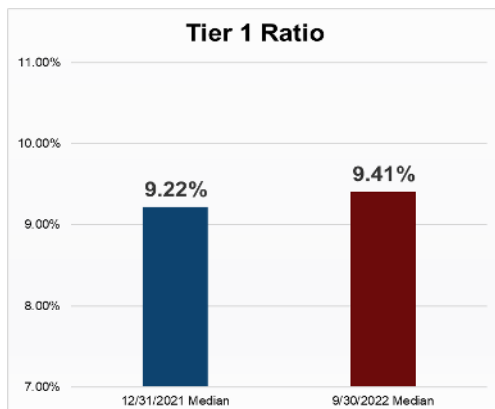
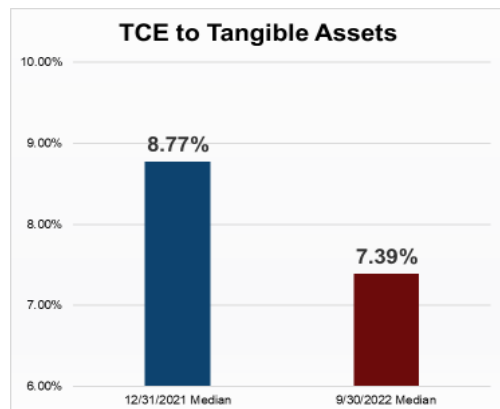
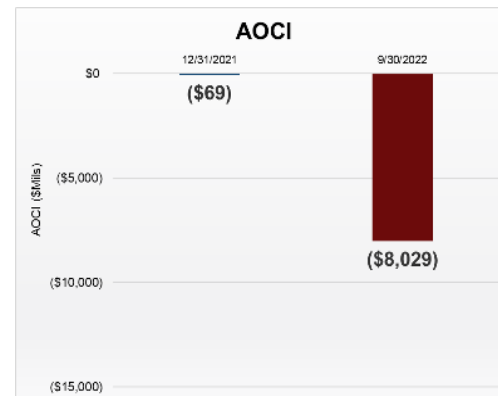
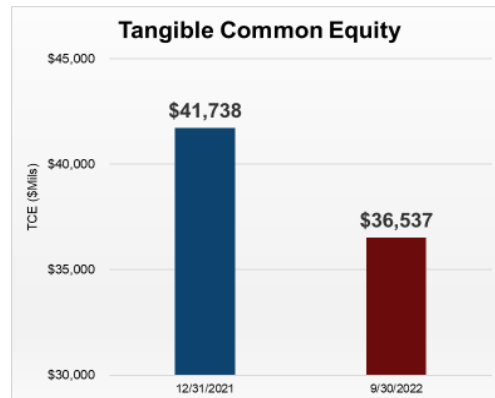
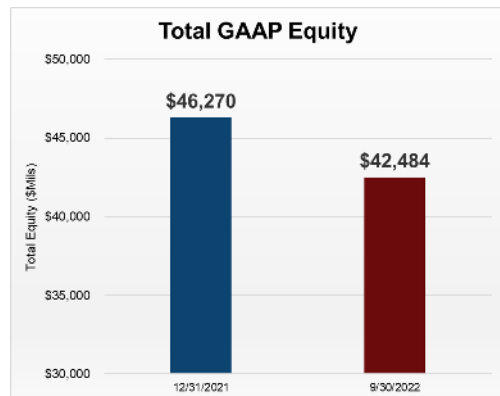
IMPACT OF AOCI ON CAPITAL: PUBLICLY TRADED BANKS \$5 TO \$20 BILLION



Source: S&P Global Market Intelligence, a division of S&P Global. Excludes M&A Targets, all banks and thrifts traded on the OTCM exchange, banks and thrifts with zero trading volume over the last-twelve-months, mutual institutions, and banks and thrifts without financial data as of September 30, 2022.

(1) Financial data is as of September 30, 2022.

IMPACT OF AOCI ON CAPITAL: PUBLICLY TRADED BANKS \$1 TO \$5 BILLION



Source: S&P Global Market Intelligence, a division of S&P Global. Excludes M&A Targets, all banks and thrifts traded on the OTCM exchange, banks and thrifts with zero trading volume over the last-twelve-months, mutual institutions, and banks and thrifts without financial data as of September 30, 2022.

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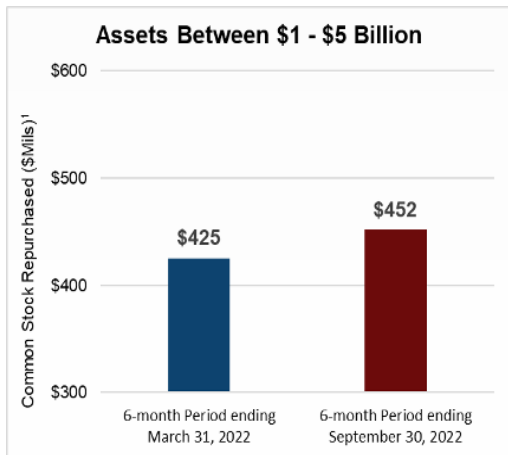
DIVIDEND ANALYSIS – SELECT PUBLICLY TRADED BANKS & THRIFTS: 3Q22 v. 3Q21

	Dividend Analysis - Number of Banks					
	\$1 Billion - \$5 Billion		\$5 Billion - \$20 Billion		Greater Than \$20 Billion	
	#	% of Total	#	% of Total	#	% of Total
No 3Q-22 or 3Q-21 Dividend	46	21%	11	10%	3	5%
Decrease in Dividends (3Q-22 vs 3Q-21)	10	5%	1	1%	0	0%
No Increase (Flat) Dividends (3Q-22 vs 3Q-21)	40	18%	22	20%	22	34%
Increase in Dividends (3Q-22 vs 3Q-21)	121	56%	76	69%	39	61%
Total Number of Banks	217	100%	110	100%	64	100%

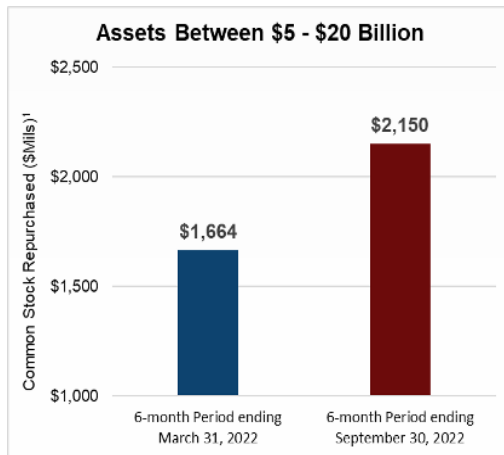
- Only 11 of 391 publicly traded banks with assets over \$1 billion cut dividends per share between 3Q-21 and 3Q-22
- Zero banks over \$20 billion cut dividends per share
- 60% of publicly traded banks over \$1 billion raised dividends per share

Source: S&P Global Market Intelligence
Excludes banks without current pricing or trading volume over the past twelve months, OTCEM banks, MHCs, and M&A targets.

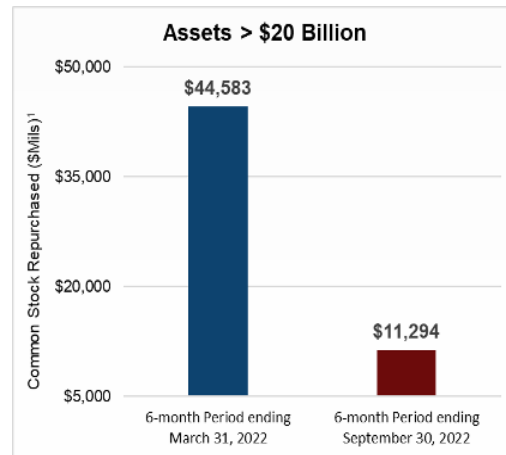
SHARE REPURCHASES – SELECT PUBLICLY TRADED BANKS & THRIFTS



- 113 of 217 (**52.1%**) companies repurchased common stock during the 6-month period ending March 31, 2022.
- 112 of 217 (**51.6%**) companies repurchased common stock during the 6-month period ending September 30, 2022.



- 87 of 110 (**79.1%**) companies repurchased common stock during the 6-month period ending March 31, 2022.
- 83 of 110 (**75.5%**) companies repurchased common stock during the 6-month period ending September 30, 2022.



- 57 of 64 (**89.1%**) companies repurchased common stock during the 6-month period ending March 31, 2022.
- 57 of 64 (**89.1%**) companies repurchased common stock during the 6-month period ending September 30, 2022.

Source: S&P Global Market Intelligence, a division of S&P Global. Excludes M&A Targets, all banks and thrifts traded on the OTCM exchange, banks and thrifts with zero trading volume over the last-twelve-months, mutual institutions, and banks and thrifts without financial data as of September 30, 2022.

(1) Value of common stock repurchased as-reported from cash flow statement for the period. Includes fractional and dissenting shares redeemed on the cash flow statement. This should include all purchases of company stock for treasury stock, compensation plans, recognition and retention plans and acquisitions of common stock by ESOP.

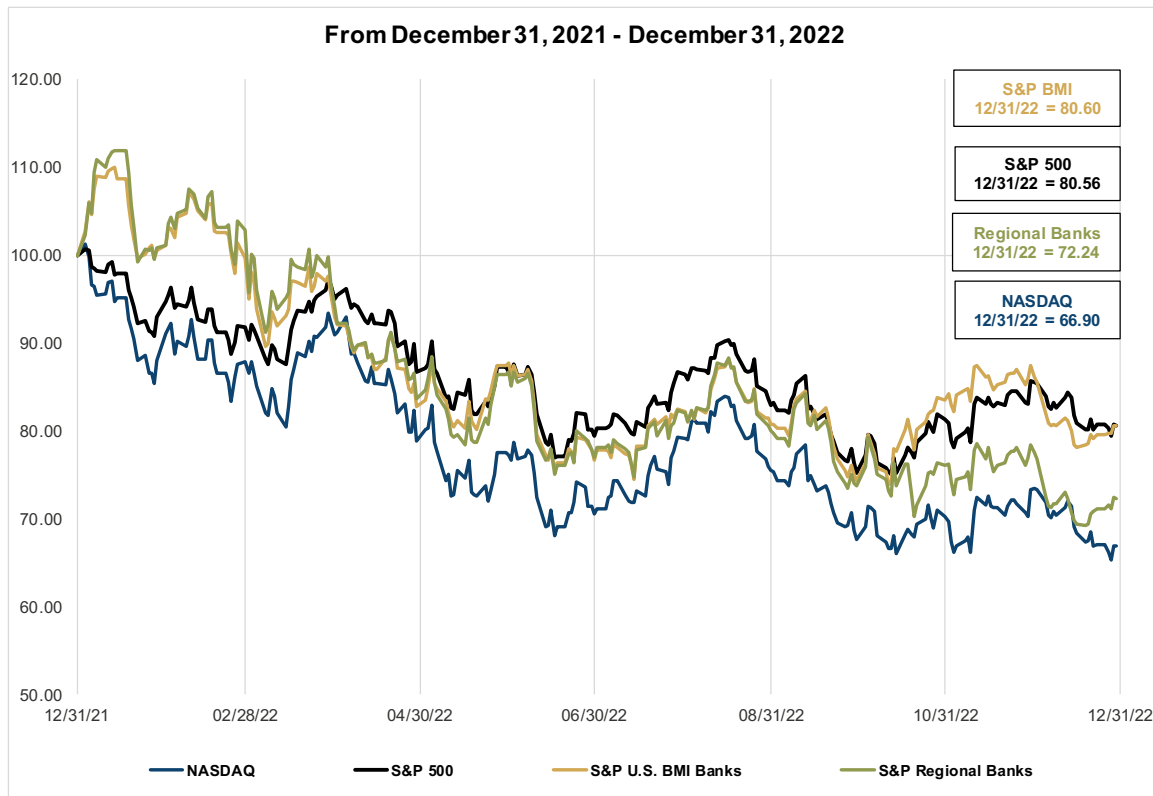
AOCI IMPACT ON CAPITAL PLANNING

- AOCI discount typically between 8% and 27% of TCE (before the discount)
- TCE Ratios are DOWN about 100 to 150 basis points since YE 2021
- Tier 1 Leverage Ratios are UP about 20 basis points since YE 2021
- *Dividends and Share Repurchases have not been impacted (...yet!)*
- Do not expect changes to regulatory capital requirements, but...
- Expect enhanced scrutiny on liquidity analysis, IRR, and capital planning
- *Expect proactive, pre-emptive capital actions by select banks*

IMPACT OF AOCI ON BANK EQUITY VALUATIONS



BANK EQUITY MARKET INDEXES



YTD % Change Since 12/31/2021	
NASDAQ	-33.1%
S&P 500	-19.4%
S&P U.S. BMI Banks	-19.4%
S&P Regional Banks	-27.8%

% Change From YTD 2022 High	
NASDAQ	-33.9%
S&P 500	-20.0%
S&P U.S. BMI Banks	-26.7%
S&P Regional Banks	-35.4%

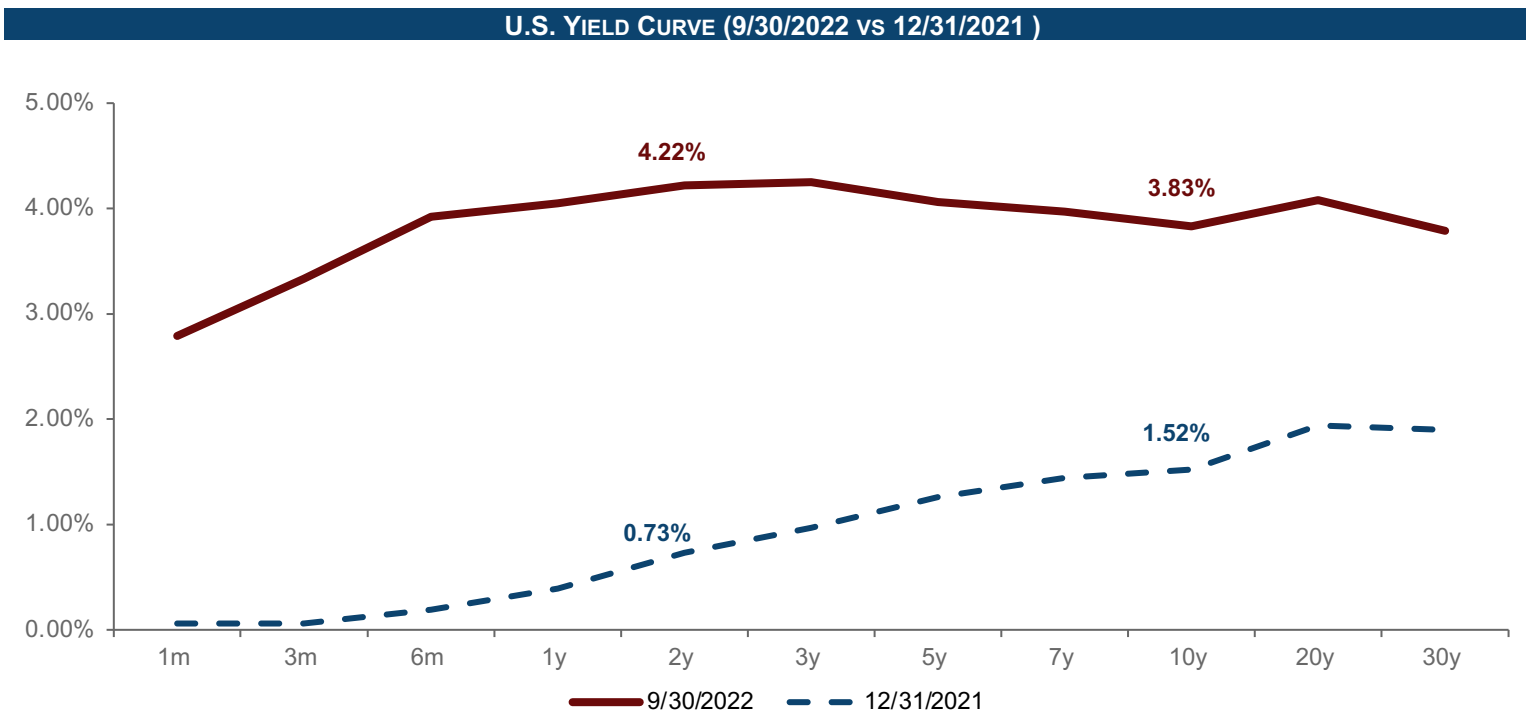
Source: S&P Global Market Intelligence, a division of S&P Global

Note: The S&P U.S. BMI Bank Index is a rules-based index that measures stock market performance. The index covers all publicly traded banks with market capitalization of \$100 million or more, and that meet minimum liquidity criteria measured by median daily value traded figures.

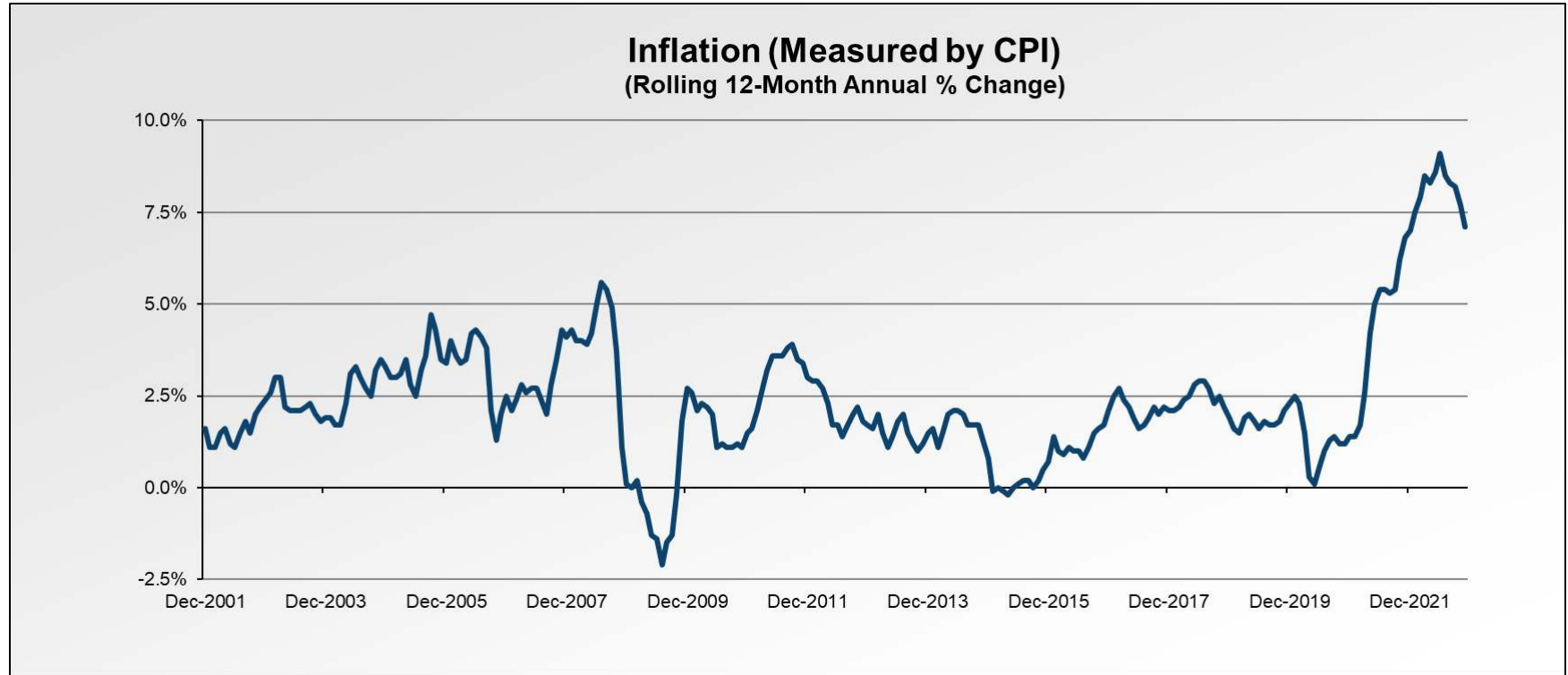
BANK EQUITY VALUATIONS: MACROECONOMIC FACTORS

- Interest Rates
- Inflation
- Employment and Labor Market Data
- GDP – Recession Risk
- Geopolitical Risks – Russia and China

YIELD CURVE COMPARISON

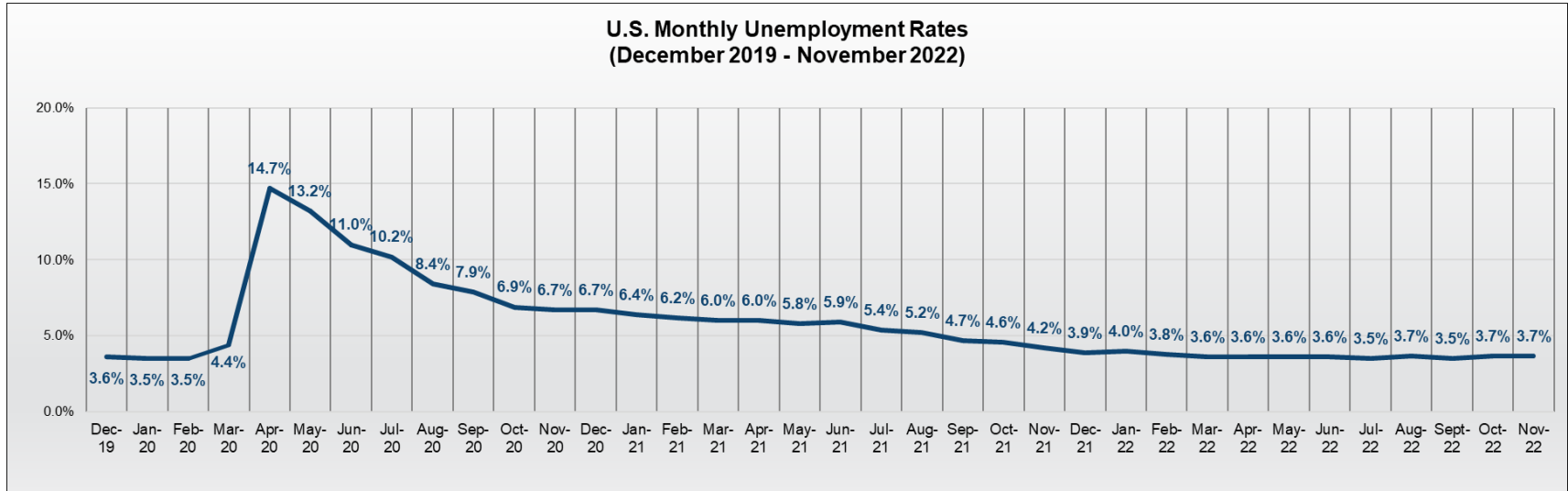


INFLATION TREND FROM DECEMBER 2001 TO NOVEMBER 2022



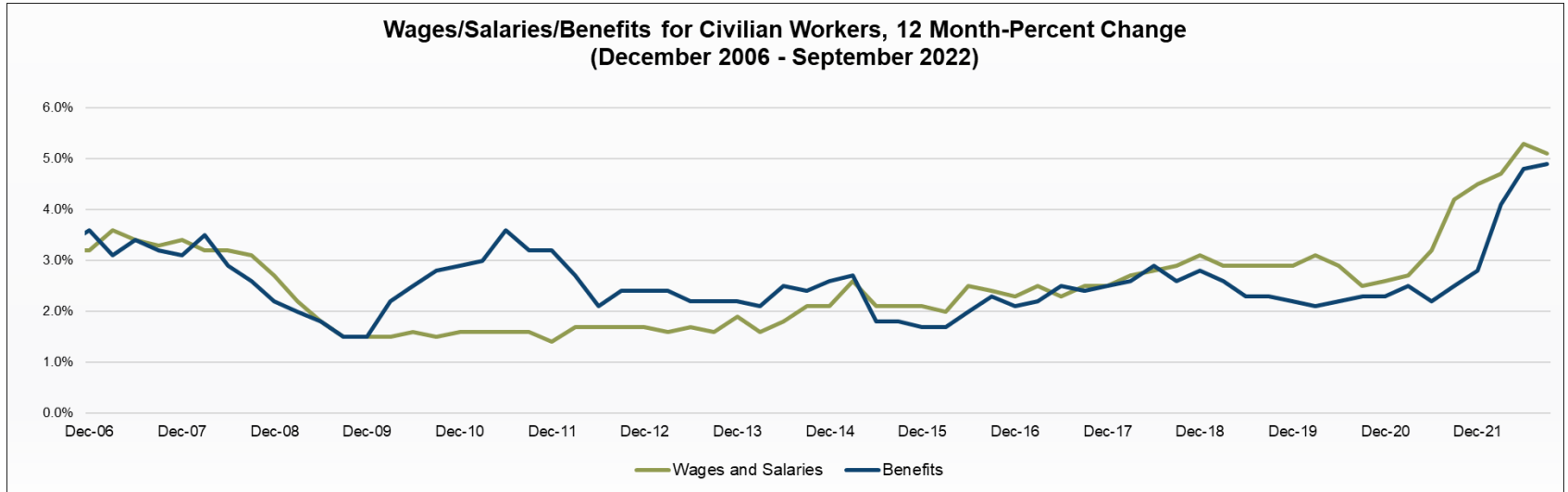
Source: Bureau of Labor Statistics

U.S. MONTHLY UNEMPLOYMENT RATES



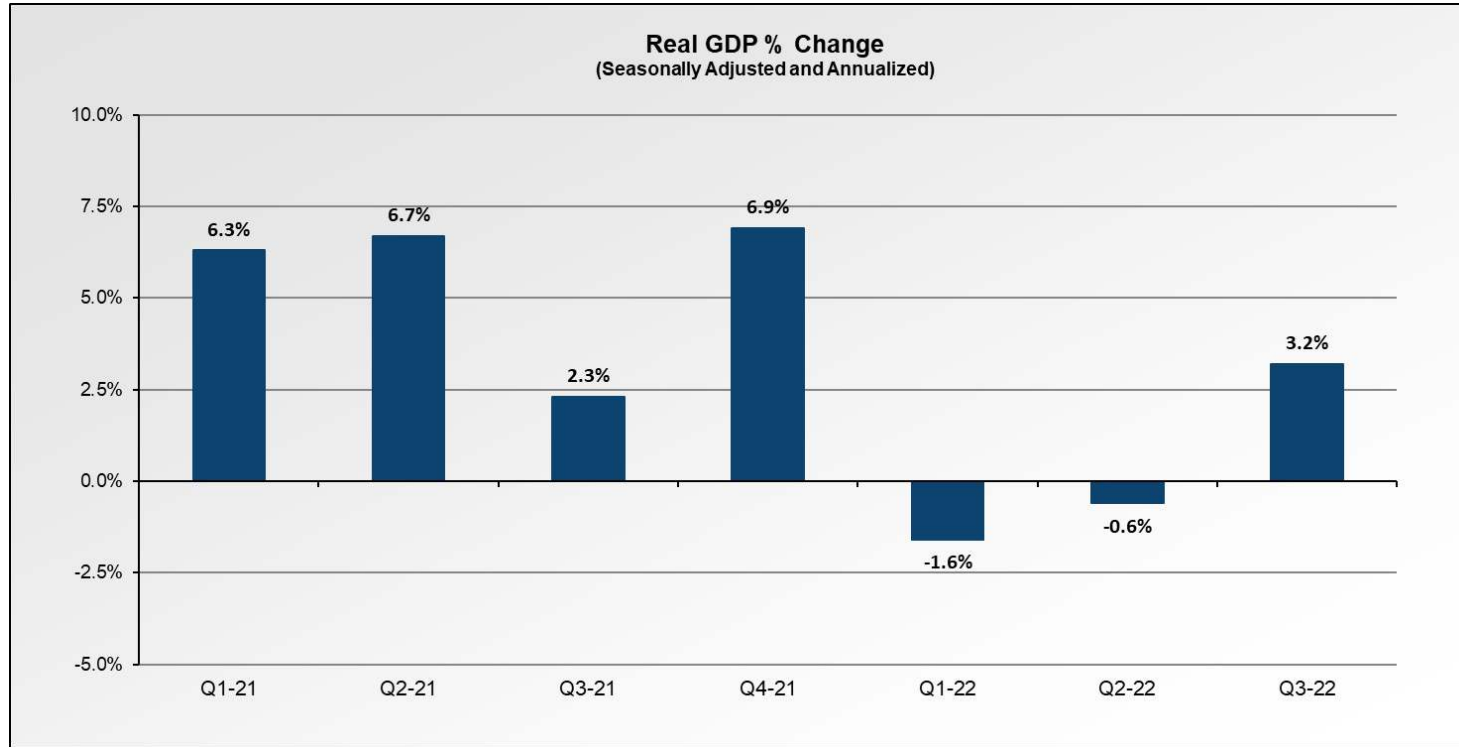
Source: Bureau of Labor Statistics; Seasonally Adjusted

U.S. MONTHLY WAGES/SALARIES/BENEFITS FOR CIVILIAN WORKERS



Source: Bureau of Labor Statistics; Not Seasonally Adjusted

REAL GDP PERCENTAGE CHANGE



Source: FRED (St. Louis Fed)

Real GDP = percent change from preceding period, seasonally adjusted annual rate.

PUBLICLY TRADED COMPANY DATA – BANK & THRIFT EQUITY MARKETS

Bank & Thrift Summary Statistics as of December 31, 2022 - National

	# Banks	Average Price/ BV	Average Price/ TBV	Average P/TBV Ex. AOCI	Price/ LTM EPS ¹	YTD Price Change	% With YTD Price Decline	Total Assets (\$000)	TCE/ Tangible Assets	LTM ROAA ¹	LTM ROATCE ²	NPAs/ Total Assets
By Assets												
> \$5.0 Billion	175	137%	184%	144%	10.3	-10.2%	74.3%	\$13,765,597	7.59%	1.19%	15.79%	0.24%
\$1.0 - \$5.0 Billion	220	127%	142%	111%	9.0	-7.1%	62.7%	\$1,951,943	7.43%	1.07%	13.71%	0.20%
\$500 Million - \$1.0 Billion	124	116%	122%	94%	9.0	-7.6%	71.0%	\$710,865	7.54%	0.96%	12.06%	0.16%
\$300 - \$500 Million	51	117%	120%	90%	9.8	-4.9%	66.7%	\$406,223	8.67%	0.84%	10.24%	0.13%
< \$300 Million	34	92%	92%	76%	11.4	-7.4%	64.7%	\$224,400	8.94%	0.68%	6.55%	0.19%
By LTM ROATCE⁽²⁾												
> 10%	453	133%	160%	122%	9.0	-7.2%	66.2%	\$2,534,498	7.41%	1.14%	14.72%	0.21%
5% - 10%	98	103%	109%	89%	11.7	-12.8%	78.6%	\$985,762	8.39%	0.73%	8.24%	0.19%
0% - 5%	28	87%	87%	78%	25.8	-7.4%	28.6%	\$368,195	11.84%	0.39%	3.10%	0.20%
< 0%	8	87%	87%	74%	NM	-17.6%	100.0%	\$484,086	8.65%	-0.28%	-2.91%	0.24%
NPAs/Total Assets												
<0.25%	349	129%	150%	115%	9.6	-7.9%	68.2%	\$1,575,142	7.44%	1.05%	13.71%	0.11%
0.25% - 1.25%	242	121%	143%	115%	9.5	-7.1%	98.3%	\$2,055,324	7.67%	1.09%	13.51%	0.41%
1.25% - 2.5%	13	100%	115%	90%	9.4	-5.8%	84.6%	\$1,058,991	8.14%	1.02%	9.54%	1.42%
>2.5%	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA	NA
By Region												
Mid Atlantic	132	119%	137%	108%	9.5	-7.8%	66.7%	\$1,832,181	7.46%	1.07%	13.09%	0.27%
Midwest	150	121%	145%	112%	9.4	-8.8%	71.3%	\$1,612,175	7.52%	1.07%	13.34%	0.20%
Northeast	28	124%	146%	116%	10.1	-13.6%	78.6%	\$3,287,656	7.51%	1.08%	13.64%	0.18%
Southeast	133	132%	157%	116%	9.8	-6.4%	69.2%	\$1,383,595	7.59%	1.04%	13.41%	0.20%
Southwest	44	135%	166%	131%	10.8	-7.2%	68.2%	\$3,754,768	7.94%	1.07%	14.34%	0.23%
West	117	125%	140%	115%	9.3	-5.5%	62.4%	\$1,800,167	7.66%	1.08%	13.96%	0.11%
All Banks & Thrifts	604	125%	147%	114%	9.5	-7.4%	68.2%	\$1,794,096	7.59%	1.07%	13.64%	0.21%

(1) Core, if available.

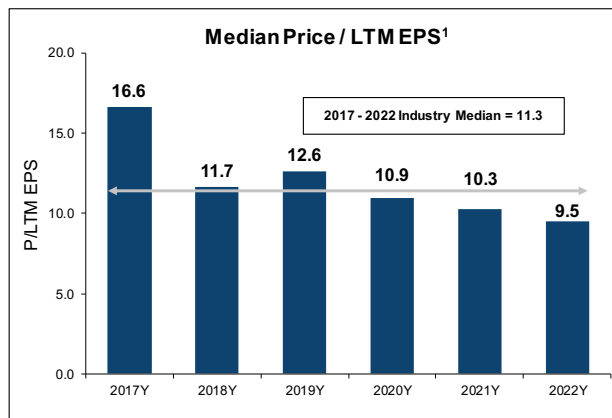
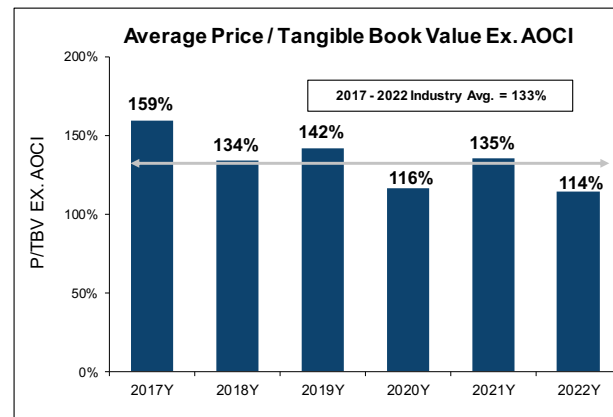
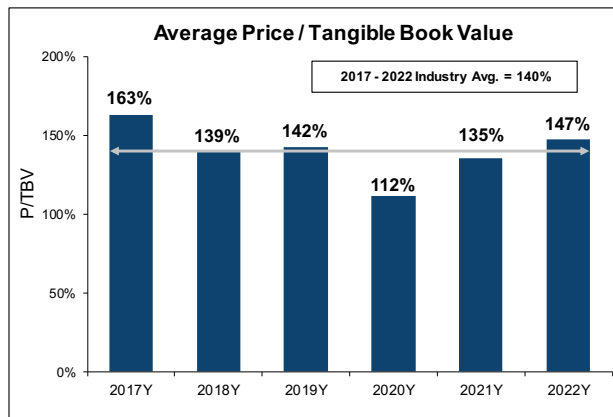
(2) Core if available. If ROATCE (Return on Average Tangible Common Equity) is not reported, based on LTM Core (or Stated) ROAE.

Source: S&P Global Market Intelligence, a division of S&P Global

Note: NPAs exclude restructured loans. Based on median statistics unless noted otherwise.

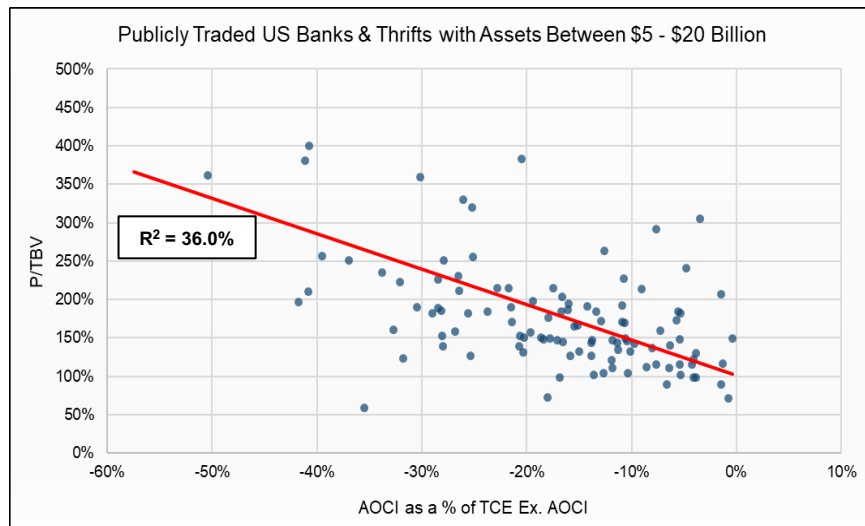
Excludes mutual institutions, M&A targets, companies traded on the OTCM exchange or companies without current pricing information and acquired/defunct companies.

BANK EQUITY MARKETS – PUBLICLY TRADED BANKS & THRIFTS 2017 - 2022

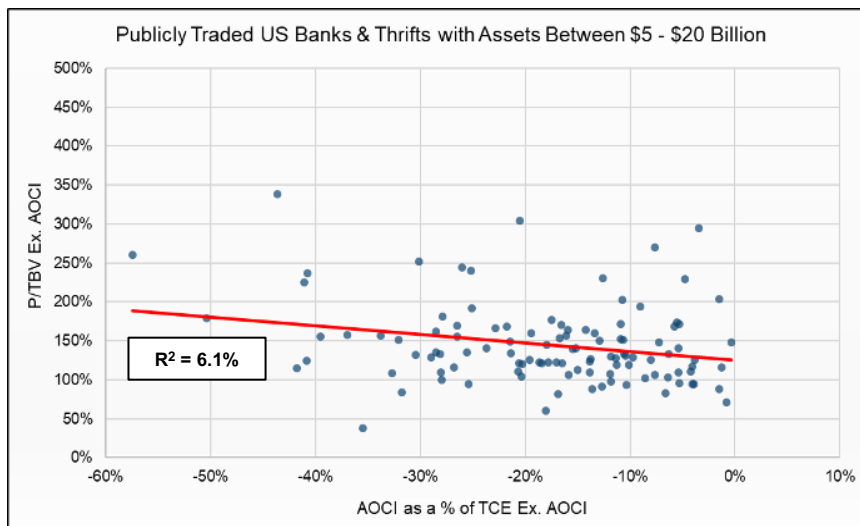


BANK EQUITY MARKETS – MEASURING THE IMPACT OF AOCI

P/TBV



P/TBV Ex. AOCI



Source: S&P Global Market Intelligence, a division of S&P Global. Excludes M&A Targets, all banks and thrifts traded on the OTCM exchange, banks and thrifts with zero trading volume over the last-twelve-months, mutual institutions, and banks and thrifts without financial data as of September 30, 2022.

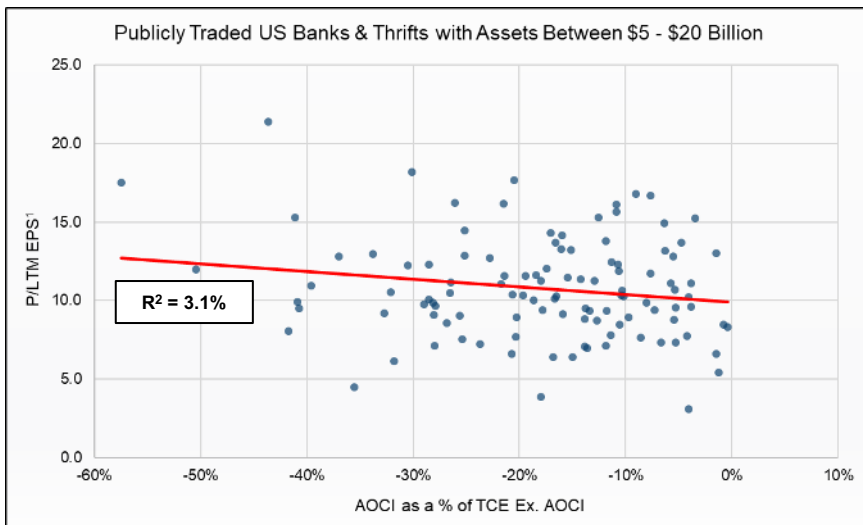
Financial data is as of September 30, 2022. Pricing information is as of December 31, 2022.

Note: Any companies with a greater than 500% P/TBV are not shown on graph, but are included in regression line calculation.

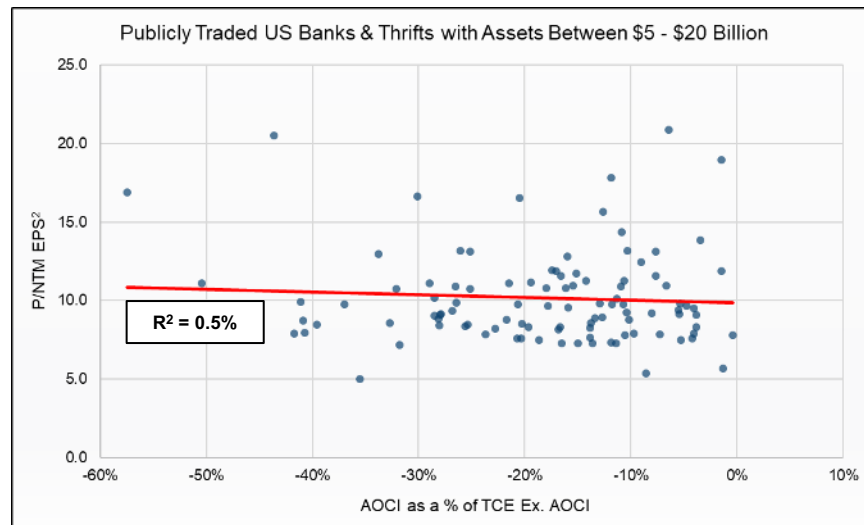
Publicly Traded Banks & Thrifts with Assets Between \$5 - \$20 Billion				
P/TBV	AOCI Discount > 20%		AOCI Discount < 20%	
Ex. AOCI	# of Companies	% of Companies	# of Companies	% of Companies
>150%	20	48.8%	21	30.4%
<150%	21	51.2%	48	69.6%
Total	41	100.0%	69	100.0%

BANK EQUITY MARKETS – MEASURING THE IMPACT OF AOCI

P/LTM EPS



P/Next-Twelve-Months EPS Estimates



Source: S&P Global Market Intelligence, a division of S&P Global. Excludes M&A Targets, all banks and thrifts traded on the OTCCEM exchange, banks and thrifts with zero trading volume over the last-twelve-months, mutual institutions, and banks and thrifts without financial data as of September 30, 2022.

(1) Financial data is as of September 30, 2022. Pricing information is as of December 31, 2022. Core, if available.

(2) S&P Global Market Intelligence Price/CIQ NTM EPS Estimates. 8 companies did not have a reported Price/NTM EPS Estimate.

(3) Number and Percentage of companies excludes companies with a P/NTM EPS greater than 25.0.

Note: Any companies with a greater than 25.0 P/LTM EPS or P/NTM EPS are excluded from graphs.

Publicly Traded Banks & Thrifts with Assets Between \$5 - \$20 Billion				
Price/ NTM EPS	AOCI Discount > 20%		AOCI Discount < 20%	
	# of Companies ³	% of Companies ³	# of Companies ³	% of Companies ³
>9.5	18	46.2%	33	52.4%
<9.5	21	53.8%	30	47.6%
Total	39	100.0%	63	100.0%

CASE STUDY – ECONOMIC VALUE OF TCE IN RISING RATE ENVIRONMENT



Parent Company Information

9/30/22 Parent Equity	\$105,807
9/30/22 AOCI	(\$42,923)
9/30/22 Parent Equity Ex. AOCI	\$148,730
LTM 9/30/22 Net Income	\$18,209

Bank Information

Type	Commercial Bank
Ownership	Private
Tax-Status	C-Corp

Bank Level Financial Information

	2020Y	2021Y	YTD 09/22
Total Assets	\$1,364,147	\$1,532,949	\$1,601,766
Asset Growth (Annualized)	76.6%	12.4%	6.0%
Total Loans	\$973,274	\$978,683	\$1,133,682
Total Deposits	\$1,234,315	\$1,393,946	\$1,417,771
Total Equity	\$124,725	\$133,137	\$113,493
Tier 1 Leverage Ratio	7.84%	7.74%	8.55%
Net Interest Income	\$41,776	\$45,817	\$36,505
Noninterest Income	\$5,762	\$6,231	\$3,876
Noninterest Expense	\$26,755	\$28,148	\$21,588
Pre-Tax Pre-Provision	\$20,783	\$23,900	\$18,793
Net Income	\$13,416	\$16,515	\$14,512
Net Interest Income/AA	3.43%	3.06%	3.04%
Noninterest Income/AA	0.47%	0.42%	0.32%
Noninterest Expense/AA	2.20%	1.88%	1.80%
PTPP/AA	1.71%	1.60%	1.56%
Efficiency Ratio (FTE)	55.6%	53.5%	52.9%
ROAA	1.10%	1.10%	1.21%
ROAE	12.42%	12.80%	16.10%
Nonperforming Loans	\$4,529	\$3,239	\$522
OREO/Repossessed Assets	\$630	\$500	\$950
Total Nonperforming Assets	\$5,159	\$3,739	\$1,472
Restructured Loans	\$943	\$302	\$0
NCOs/Average Loans	0.01%	0.01%	0.35%
ALLL/Total Loans	1.20%	1.53%	1.14%
NPA/Total Assets	0.38%	0.24%	0.09%

CASE STUDY: 12/31/21 ECONOMIC VALUE OF EQUITY (“EVE”) & EARNINGS AT RISK (“EAR”)

Economic Value of Equity & Earnings at Risk						Backtesting the ALM Model	
	Base (Flat)	+100	+200	+300	+400	Actual 9/30/22 (2)	Actual vs. 400 Ramp
EVE (Based on IR Shock) @12/31/21	\$186,848	\$187,724	\$186,926	\$184,960	\$181,848		
EVE % of GAAP Equity [Actual = \$133.1M]	140%	141%	140%	139%	137%		
EVE % of Equity Ex. AOCI [Actual = \$135.4M] (1)	138%	139%	138%	137%	134%		
Pro Forma Rate Ramp (2022 projected)							
Interest Income	\$47,990	\$50,770	\$53,735	\$56,768	\$59,824	\$54,847	(\$4,977)
Interest Expense (Deposits)	<u>\$2,929</u>	<u>\$6,596</u>	<u>\$10,263</u>	<u>\$13,931</u>	<u>\$17,598</u>	<u>\$6,173</u>	(\$11,425)
Net Interest Income	\$45,061	\$44,174	\$43,472	\$42,837	\$42,226	\$48,673	\$6,447
Interest Income / Average Earning Assets	3.07%	3.25%	3.44%	3.64%	3.83%	3.53%	-30
Interest Expense / Average Deposits	0.20%	0.45%	0.71%	0.96%	1.21%	0.43%	-78
Net Interest Income / Average Earning Assets	2.89%	2.83%	2.79%	2.74%	2.71%	3.13%	+43
12/31/22 Average Earning Assets	\$1,560,843				\$1,560,843	\$1,554,402	(\$6,441)
12/31/22 Average Deposits	\$1,455,443				\$1,455,443	\$1,431,920	(\$23,523)

Source: December 31, 2021 ALM package.

(1) Based on stated book value of equity before adjustment for gain/(loss) on AFS securities.

(2) Interest income and expense, along with the resulting net interest income, are based on annualized results for the YTD 9/30/22 period.

CASE STUDY: 9/30/22 ECONOMIC VALUE OF EQUITY (BASE SCENARIO)

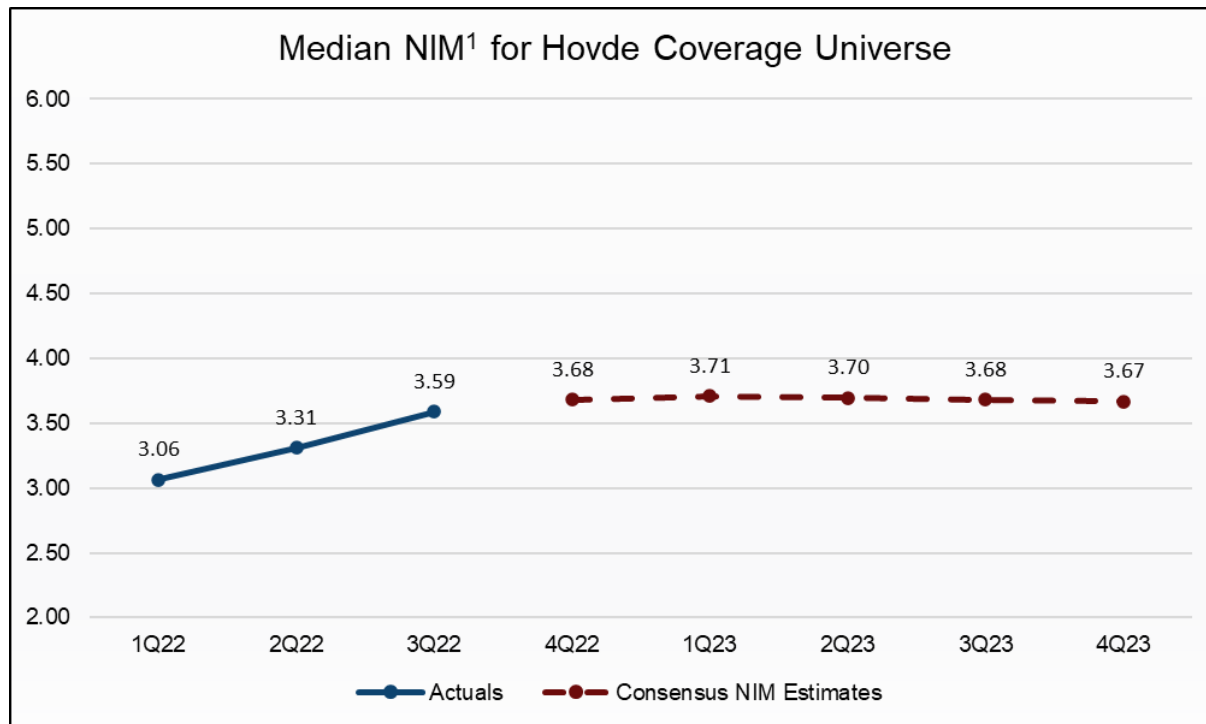
	9/30/22 Book Value	Yield/ Rate	Weighted Avg. Duration (yrs.)	Economic Value (Base)	Premium / Discount
Investments (Ex. AOCI) (1)	\$402,339	2.11%	5.9	\$359,416	(\$42,923)
Loans	\$1,133,682	4.68%	1.7	\$1,086,874	(\$46,808)
Cash and Other Assets	<u>\$110,989</u>			<u>\$110,989</u>	
Total Assets	\$1,647,010			\$1,557,279	
Memo: Earning Assets	\$1,543,439			\$1,496,631	
Deposits	\$1,417,771	0.87%	2.8	\$1,281,248	\$136,523
ST-Borrowings & Other Liabilities	\$72,823			\$72,899	(\$76)
Equity (Ex. AOCI)	<u>\$156,416</u>			<u>\$203,133</u>	<u>\$46,717</u>
Total Liabilities and Equity	\$1,647,010			\$1,557,279	
EVE % of GAAP Equity [Actual = \$113.5M]				179%	
EVE % of Equity Ex. AOCI [Actual = \$156.4M] (2)				130%	

Source: September 30, 2022 ALM package

(1) Based on historical cost of \$402.3 million, market value of \$359.4 million, and unrealized loss (A-T) of \$42.9 million as of 9/30/2022.

(2) Based on stated book value of equity before adjustment for gain/(loss) on AFS securities.

HOVDE EQUITY RESEARCH COVERAGE UNIVERSE



- Expect slight to modest decline in NIM based on increasing deposit betas coupled with changing mix that offset benefits of rising rates
- Likely to result in downward revisions to EPS estimates

Source: S&P Global Market Intelligence

(1) NIM = Net Interest Margin

Note: Consensus NIM Estimates as of December 8, 2022.

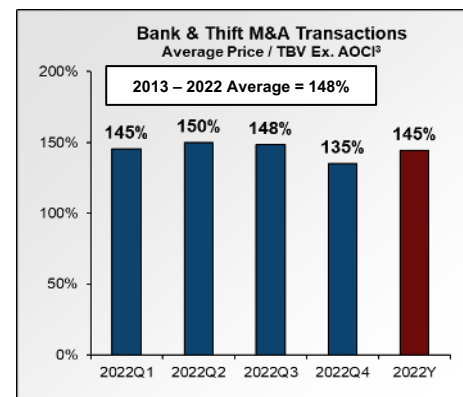
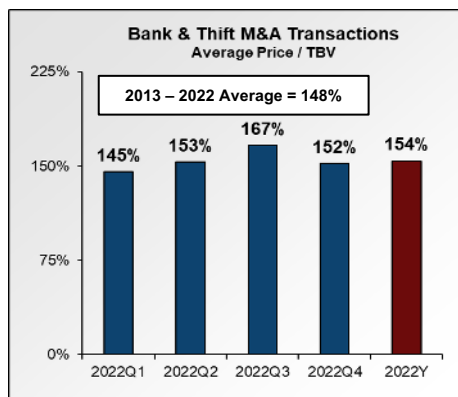
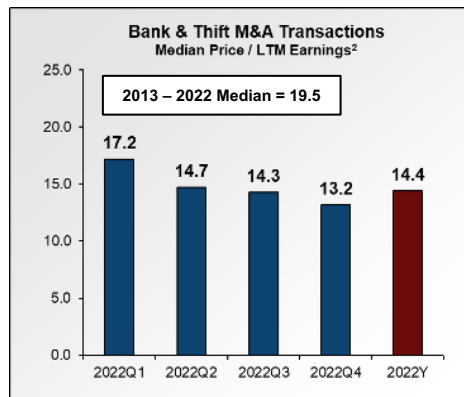
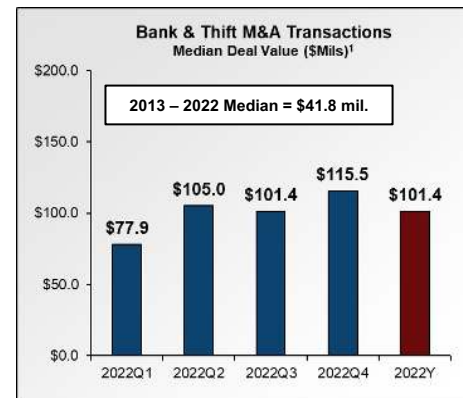
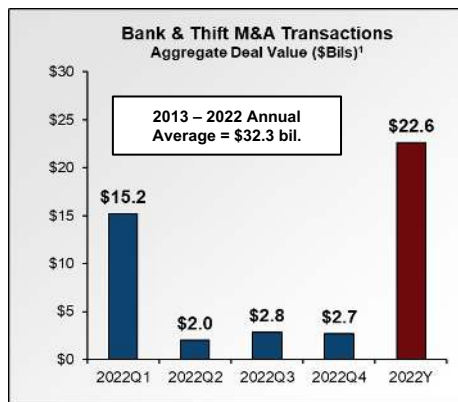
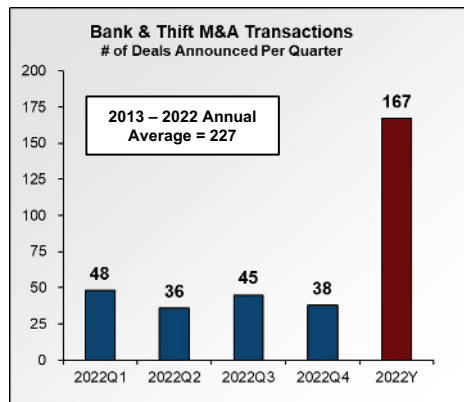
BANK EQUITY VALUATIONS – KEY TAKEAWAYS

- Bank equity market multiples (P/E and P/TBV ex AOCI) well below historical levels
- Market Cap weighted indexes magnify the impact of money center & large regionals
- AOCI discounts have not adversely impacted trading multiples
- *Full balance sheet interest rate “mark-to-market” would increase TCE for most banks*
- 2023 Earnings Headwinds: Increasing deposit betas, pressure on NIM, slower growth, recession (credit costs), and other macroeconomic factors
- Expect more downward EPS revisions than upward revisions
- *2023 “Winners” will be able to: (1) successfully navigate deposit repricing & retention challenges; and (2) generate loan growth*

IMPACT OF AOCI ON BANK M&A



IMPACT OF AOCI ON BANK M&A – 2022 QUARTERLY DEAL METRICS



Source: S&P Global Market Intelligence, a division of S&P Global

(1) 65 of 167 deals reported a deal value.

(2) Based on price-to-core earnings multiple if available.

(3) Excludes Target AOCI (accumulated other comprehensive income) as of the financial date most recently reported prior to announcement.

IMPACT OF AOCI ON BANK M&A – TOP 20 P/TBV DEALS IN 2022

Criteria:

Complete Pricing Information Available
Excludes Terminated Deals

			Target Announcement Financials*				Deal Valuation and Terms							
Buyer	Seller	ST	Total Assets (\$Mil)	Tang. Equity/ Tang. Assets	LTM ROAA	LTM ROAE	Ann. Date	Deal Value (\$Mil)	Type (2)	Price/ Tang. Book	Price/ Adj. Tang. Book (1)	Price/ less Price/TBV	Price/ LTM Earnings	TBV Earnback (Yrs)
1 The Toronto-Dominion Bank	First Horizon Corp.	TN	\$89,092.0	7.66%	1.15%	11.91%	02/28/22	\$13,668.0	CC, C	227%	217%	-10%	14.4	NA
2 Seacoast Bnkg Corp. of FL	Professional Holding Corp.	FL	\$2,661.5	7.89%	0.73%	8.58%	08/08/22	\$470.3	CS	216%	206%	-11%	21.2	2.3
3 Bank First Corporation	Hometown Bancorp Ltd.	WI	\$644.8	11.11%	1.39%	11.59%	07/26/22	\$123.9	C, CS	211%	203%	-8%	14.3	2.5
4 DFCU Financial	First Citrus Bancorp. Inc.	FL	\$689.3	7.23%	1.01%	14.02%	05/12/22	\$105.0	C	211%	211%	0%	15.3	NA
5 Arizona FCU	Horizon Community Bank	AZ	\$539.5	8.05%	1.11%	14.24%	03/10/22	\$91.4	C	210%	205%	-6%	15.4	NA
6 Natl Bank Holdings Corp.	Bncshrs of Jackson Hole Inc	WY	\$1,598.7	7.52%	0.95%	11.70%	04/01/22	\$235.2	C, CS	209%	205%	-3%	20.0	3.0
7 First Cmty Bnkshres Inc	Surrey Bancorp	NC	\$499.8	11.41%	1.30%	11.68%	11/18/22	\$115.5	CS	207%	206%	0%	17.9	2.2
8 TowneBank	Farmers Bankshares Inc.	VA	\$608.6	5.21%	0.90%	9.01%	08/18/22	\$58.9	CS	206%	104%	-102%	9.9	3.0
9 Seacoast Bnkg Corp. of FL	Apollo Bncshrs/Apollo Bank	FL	\$1,044.2	9.36%	0.91%	9.10%	03/29/22	\$168.3	CS	195%	192%	-2%	20.0	2.3
10 Seacoast Bnkg Corp. of FL	Drummond Banking Co.	FL	\$1,025.0	8.27%	1.37%	13.20%	05/04/22	\$173.2	CS	191%	164%	-27%	13.8	1.6
11 Taichung Commercial Bank	American Continental Bancorp	CA	\$324.4	13.26%	1.63%	13.01%	09/30/22	\$82.1	C	190%	190%	0%	15.1	NA
12 Natl Bank Holdings Corp.	Community Bancorp.	UT	\$814.4	8.80%	1.30%	14.22%	04/18/22	\$136.0	C, CS	189%	189%	0%	14.1	2.5
13 City Holding Co.	Citizens Commerce Bcshs Inc	KY	\$336.1	9.55%	1.01%	9.91%	10/18/22	\$60.5	CS	189%	177%	-12%	19.1	1.0
14 Prosperity Bancshares Inc.	Lone Star State Bcshs Inc	TX	\$1,305.4	9.35%	1.42%	12.73%	10/11/22	\$226.4	C, CS	187%	177%	-10%	14.4	2.6
15 Republic Bancorp Inc.	CBank	OH	\$270.4	10.18%	1.37%	12.58%	10/27/22	\$51.0	C	186%	172%	-14%	14.1	NA
16 NBT Bancorp Inc.	Salisbury Bancorp Inc.	CT	\$1,512.1	7.28%	1.07%	11.99%	12/05/22	\$199.6	CS	186%	154%	-32%	12.5	1.4
17 The First Bancshares	Heritage Southeast Bancorp.	GA	\$1,713.0	6.85%	0.83%	9.09%	07/27/22	\$207.6	CS	180%	162%	-18%	10.8	3.0
18 Home Fedl Bncp Inc. LA	Northwest Bancshares Corp.	LA	\$79.4	15.83%	0.97%	6.03%	10/04/22	\$10.1	C, DS	179%	173%	-7%	13.0	NA
19 Peoples Bancorp Inc.	Limestone Bancorp Inc.	KY	\$1,493.7	8.10%	1.19%	13.02%	10/25/22	\$215.6	CS	176%	153%	-24%	12.7	2.8
20 Thumb Bancorp Inc.	Exchange State Bank Corp.	MI	\$212.8	7.75%	0.90%	9.25%	08/29/22	\$29.9	C, CS	174%	122%	-52%	16.0	NA
Average			\$5,323.3	9.03%	1.13%	11.34%				196%	179%	-17%	15.2	2.3
25th Percentile			\$458.9	7.62%	0.94%	9.21%				186%	164%	-20%	13.6	2.8
Median			\$751.9	8.18%	1.09%	11.81%				191%	183%	-10%	14.4	2.5
75th Percentile			\$1,498.3	9.71%	1.32%	13.01%				209%	205%	-3%	16.5	2.2

(1) Excludes Target AOCI (accumulated other comprehensive income) as of the financial date most recently reported prior to announcement.

(2) Deal consideration Type based on the following: C = Cash CC = Capital Contribution CS = Common stock DS = Dividend to Seller

*S-Corporation selling companies have been adjusted to C-Corporation status (including pricing multiples).

Source: S&P Global Market Intelligence, a division of S&P Global.

IMPACT OF AOCI ON BANK M&A – OPTICS ON TBV MULTIPLES

Target Assets		
\$1.2 Billion		
Buyer Assets		
\$4.0 Billion		
Deal Metrics	Scenario 1	Scenario 2
Deal Value (\$Mils)	\$125.0	\$125.0
Investment Portfolio	100% HTM	100% AFS
Unrealized After-Tax Loss in Investments (\$Mils)	\$58.5	\$58.5
Stated Equity (\$Mils)	\$84.0	\$25.5
% of TBV	149%	490%
Multiple of LTM Net Income (x)	12.0	12.0
Earnback Period (Yrs.)	2.9	2.9
Buyer's Avg. 3-Yr. EPS Change	13.5%	13.5%
IRR	15.4%	15.4%

Thumb Bancorp Merger with Exchange State Bank Corp.

MERGER PARTIES

- Thumb Bancorp – Pigeon, MI - \$379 mil. assets – S-Corp
- Exchange State Bank Corp. – Carsonville, MI - \$212 mil. assets – C-Corp

GENERAL TIMELINE

- Negotiations started late summer 2021
- Deal terms agreed to early 2022 (*before Fed moved rates*)
- Announced August 2022 (*after 225 bps of rate increases*)
- Closed December 31, 2022 (*another 200 bps of rate increases since announcement*)

IMPACT OF AOCI ON BANK M&A – CASE STUDY #1

INITIAL DEAL TERMS

- Each share of Exchange common stock will receive 0.5259 shares of Thumb common stock and \$20.67 per share in cash.

- The total value of the transaction was \$30.6 million

Stock Consideration	\$21.3 mil.
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Cash Consideration	<u>\$ 9.3 mil.</u>
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Total	\$30.6 mil.
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- On a pro forma basis, Exchange shareholders will own approximately 40% of the combined organization.
- Thumb will convert from an S- to a C-Corporation as part of the transaction

IMPACT OF AOCI ON BANK M&A – CASE STUDY #1

DEAL ANALYSIS¹

- At June 30, 2022, Exchange's stated equity was \$6.8 mil. less than YE-21 (bank level).

AOCI Issue	YE-21	1Q-22	2Q-22	3Q-22
Fed Rate Hikes		25 bps	125 bps	150 bps
Bank Level Data				
Exchange AOCI ² (\$000)	(518)	(4,719)	(7,312)	(8,900)
% of Pre-AOCI Equity	-2%	-20%	-31%	-37%
Stated Equity (\$000)	22,887	18,661	16,498	15,013

- Pro forma EPS and earnback were impacted by rate increases as follows:
 - Neutral** Both bank's net income (NIM) would increase on a comparable basis
 - Neutral** Both bank's stated equity capital (AOCI) were impacted on a comparable basis
 - Negative** *Fair value marks on Target's investment portfolio would result in less Tier 1 capital at closing; holding company debt increased by like amount*

(1) Since this was a private transaction, certain deal metrics and pro forma results were not released

(2) 100% of Exchange's investment portfolio was AFS

PURCHASE PRICE ADJUSTMENT

- Cost of additional debt was run through merger model
- Sensitivity analysis based on potential changes in AOCI with corresponding debt costs
- **Conclusion: a reduction in the initial price equal to 10% of the total AOCI of Exchange would produce a comparable earnback period**
- Stock consideration – no change (fixed exchange ratio)
- **Cash consideration – \$20.67 per share less the amount determined by multiplying the *unrealized after-tax loss in the investment portfolio of Exchange at closing* by 10% (the “Investment Portfolio Adjustment”)**
- At closing (12/31/22), Exchange’s unrealized loss was \$9.4 mil. resulting in a price adjustment of \$940k (3.0% reduction in aggregate price and 10.1% reduction in the cash consideration)

IMPACT OF AOCI ON BANK M&A – CASE STUDY #2

Buyer: First Bank
HQ: Hamilton, NJ
NASDAQ: FRBA

Consolidated Financial Information			
Fiscal Year Ends - Dec 31st			
	2020Y	2021Y	LTM 09/22
Total Assets	\$2,346,270	\$2,523,744	\$2,638,060
Total Loans	\$2,047,572	\$2,125,437	\$2,263,377
Total Deposits	\$1,903,617	\$2,114,602	\$2,190,192
Total Equity	\$238,108	\$266,666	\$280,749
TCE/Tangible Assets	9.45%	9.85%	9.97%
Core ROAA	0.84%	1.45%	1.38%
Core ROAE	8.09%	13.81%	12.81%
Closing Price	\$9.38	\$14.51	\$13.67
Market Cap. (\$Mils)	\$184.9	\$282.5	\$265.8
Price/TBV	84%	115%	102%
Price/LTM Core EPS	10.1	8.2	7.7
Dividend Yield	1.28%	1.03%	1.76%

Seller: Malvern Bancorp, Inc.
HQ: Paoli, PA
NASDAQ: MLVF

Consolidated Financial Information ¹			
Fiscal Year Ends - Sep 30th			
	2020Y	2021Y	2022Y
Total Assets	\$1,208,275	\$1,209,143	\$1,044,360
Total Loans	\$1,039,327	\$947,652	\$824,724
Total Deposits	\$890,906	\$938,159	\$785,323
Total Equity	\$140,593	\$142,168	\$146,445
TCE/Tangible Assets	11.64%	11.76%	14.02%
Core ROAA	0.03%	-0.06%	0.63%
Core ROAE	0.24%	-0.48%	4.79%
Closing Price	\$11.80	\$16.99	\$14.37
Market Cap. (\$Mils)	\$89.8	\$129.5	\$109.7
Price/TBV	64%	91%	75%
Price/LTM Core EPS	NM	NM	15.6
Dividend Yield	0.00%	0.00%	0.00%

Note: As of September 30, 2022

Investment Portfolio	\$108,611
AOCI (AFS)	(\$3,176)
AOCI/Equity Ex. AOCI	-2.1%
Total Unrealized Loss	(\$6,360)
Unrealized Loss/Investments	-5.9%

TRANSACTION SUMMARY – ANNOUNCED DECEMBER 14, 2022

Transaction	■ First Bank will acquire 100% of Malvern Bancorp, Inc.'s common stock
Consideration Mix	■ 60% Stock / 40% Cash
Fixed Exchange Ratio	■ 0.7733 shares of FRBA stock per share of MLVF common stock
Fixed Cash Per Share	■ \$7.80 per share of MLVF common stock
Per Share Merger Consideration	■ \$19.64 per share of MLVF common stock, based on FRBA's closing price on December 13, 2022
Merger Consideration^(1,2)	■ \$149.5 million
Pro Forma Ownership	■ FRBA: 76.8% / MLVF: 23.2%
Timing & Approval	<ul style="list-style-type: none">■ FRBA and MLVF shareholder approval■ Customary regulatory approvals■ Anticipated to close in the second calendar quarter of 2023

⁽¹⁾ Based on FRBA's December 13, 2022 closing price of \$15.31.

⁽²⁾ Assumes 5.9 million FRBA common shares issued.

Source: Excerpt from First Bank's Transaction Presentation December 14, 2022.

KEY PRO FORMA FINANCIAL RESULTS



Transaction Pricing⁽¹⁾

102.1%
Price-to-
Tangible Book Value

21.5x
Price-to-LTM Earnings

8.2x
Price-to-2023E
Earnings+Cost Savings

0.47%
Premium-to-
Core Deposits

89.6%
Pay-to-Trade Ratio

Key Financial Results (Including AOCI and Rate Marks)

~25%
Internal Rate of Return

12.7%
'23 EPS Accretion

20.5%
'24 EPS Accretion

(9.17%)
TBV Dilution at Close

2.5 Years
TBV Earnback

Key Financial Results⁽²⁾ (Excluding AOCI and Rate Marks)

~24%
Internal Rate of Return

5.16%
'23 EPS Accretion

9.20%
'24 EPS Accretion

(2.79%)
TBV Dilution at Close

1.4 Years
TBV Earnback

(1) Based on FRBA's December 13, 2022 closing price of \$15.31.

(2) Excludes AOCI, Gross Interest Rate Mark and HTM Securities Mark.

Source: Excerpt from First Bank's Transaction Presentation December 14, 2022.

KEY TRANSACTION ASSUMPTIONS

Merger Costs	<ul style="list-style-type: none">One-time merger expenses: \$9.9 million (pre-tax)
Synergies	<ul style="list-style-type: none">Cost savings estimated at 50% of MLVF's estimated noninterest expense<ul style="list-style-type: none">Phased in 50% in 2023 and 100% thereafter
Loan Credit Marks	<ul style="list-style-type: none">Gross Credit Mark of (\$24.9) million, or 3.0% of gross loans<ul style="list-style-type: none">Non-PCD Credit Mark: (\$4.1) million, accreted back into earnings over 5 years (SYD)PCD Credit Mark: (\$20.8) millionEstablishment of new reserve equal to \$4.1 million
Interest Rate Marks	<ul style="list-style-type: none">Gross Interest Rate Mark: (\$22.7) million, accreted back into earnings over 5 years (SYD)Securities Mark: (\$6.0) million, accreted back into earnings over 6.7 years (Straight-line)
Other Assumptions	<ul style="list-style-type: none">Fixed Assets Mark Up: \$7.6 millionCDI: 2.0% of core deposits, amortized over 7 years (SYD)
Due Diligence	<ul style="list-style-type: none">Comprehensive financial, legal, regulatory and operational due diligence conductedOver 90% of MLVF's commercial loan portfolio balances reviewed during due diligence
Corporate Governance	<ul style="list-style-type: none">Increase the number of board of directors by three MLVF directorsKey MLVF senior management to remain with pro forma company to enhance certain business lines

IMPACT OF AOCI ON BANK M&A – KEY TAKEAWAYS

- Unrealized losses in target's investment portfolio are treated the same regardless of whether AFS or HTM
- Duration of target's investment portfolio will drive accretion amounts and “Stated EPS and Earnbacks”
- FV marks impact buyer's Day 1 capital ratios
- Changes in the market value of investment portfolio may need to be considered as part of the price paragraph – more important for comparably sized companies
- Opportunities may exist to execute on M&A if buyers & investors can get over the optics of high “stated” P/TBV multiples
- Evaluating and presenting with and without accounting marks is important in this environment

ABOUT THE PRESENTERS



Craig J. Mancinotti
Senior Managing Director
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Mr. Mancinotti joined Hovde in October 2022 from ProBank Austin along with his colleague Rick Maroney and five additional investment banking professionals. Craig and Rick lead Hovde's newest office in Toledo, Ohio and continue to serve depository institutions in the Midwest and surrounding areas. Craig has a long history advising community banks on mergers and acquisitions, most recently with ProBank Austin, having started his career in 1982 with Austin Associates, LLC, the predecessor to ProBank. In addition to advising on more than 100 successful M&A transactions, Craig has extensive experience in preparing stock valuations, facilitating strategic planning, and evaluating capital planning strategies, among other specialized services. Craig has prepared more than 1,000 valuations of community banks during his career. Craig served as an instructor at the Stonier Graduate School of Banking, the Bank Administration Institute School for Bank Administration and the business school at the University of Toledo. Craig also served for 10 years as director of a \$400 million community bank located in the Midwest. Craig is licensed with the Financial Industry Regulatory Authority as a registered representative and holds the Series 24, 63, 79, and 82 licenses.



Richard F. Maroney, Jr.
Senior Managing Director
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Mr. Maroney joined Hovde in October 2022 from ProBank Austin along with his colleague Craig Mancinotti and five additional investment banking professionals. Rick will help lead Hovde's newest office in Toledo, Ohio and continue to serve depository institutions in the Midwest and surrounding areas. Rick has a long history advising community banks on mergers and acquisitions, most recently with ProBank Austin, having started his career in 1984 with Austin Associates, LLC, the predecessor to ProBank. In addition to advising on more than 100 successful M&A transactions, Rick has extensive experience in preparing stock valuations, facilitating strategic planning, and evaluating capital planning strategies, among other specialized services. Rick served as an instructor at the Stonier Graduate School of Banking and has appeared as a featured speaker at the Acquire or Be Acquired national conference, sponsored by Bank Director Magazine. He is licensed with the Financial Industry Regulatory Authority as a registered representative and holds the Series 7, 63 and 79 licenses.