BankDirector

Breakout 2:
Taking Loss on the Installment Method – Impact on Value

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#AOBA24

2024 Acquire or Be Acquired Conference

Taking Securities Losses on the Installment Method – Impact on Value

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Outline for Today's Presentation

Valuation Framework

SECTION I

Rule of Thumb

All industries have rule-of-thumb valuations

Most indirectly speak to economics

Price / tangible book value (P/TBV)

What’s the relevant range and why?

Business model entails leveraging capital 9-12x to produce an acceptable ROE

Equity per se is not the point; what matters is a) earning power; b) the risk profile; and c) expected growth over time while recognizing with inadequate capital earning power is curtailed or at risk

High Level Math

P/TBV = ROE (ROTE) x P/E

ROE = ROA x **Leverage** … or

ROE = (Income / Assets) x (Assets / Equity)

P/E = **Risk Profile** and **Growth Expectations**

Bank investors toggle between what is top of mind depending, in part, on where we are in the economic/credit cycle

Risk and Growth Matter

+ Yield to Maturity on 10 Yr UST		3.00%
+ Equity Premium	5.50%	
x Company Beta	1.00	
=Beta Adj Equity Premium		5.50%
+ Small-Mid Cap Equity Premium		2.50%
+ Company Specific Risks		***1.00%***
= Discount Rate (Equity Cost of Capital)		**12.00%**
- Long-Term Growth Rate (G)		***-5.00%***
= Capitalization Rate		7.00%
= Multiple (1 / Cap Rate)		**14.3x**
Ongoing Earning Power Estimate		$100,000
x Price/Earnings Ratio		14.3x
= Capitalized Earnings Value		$1,430,000

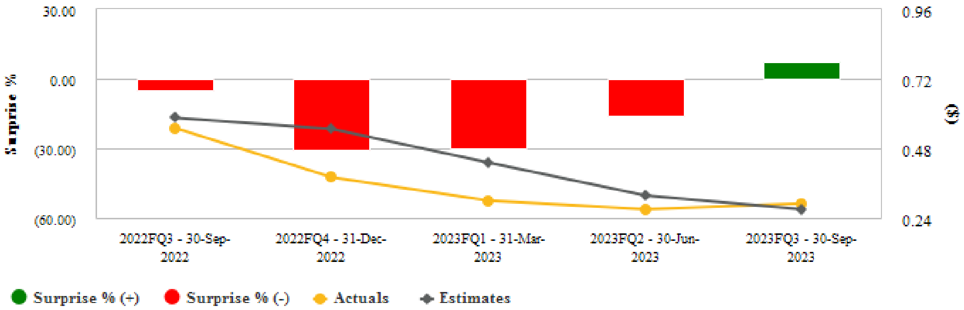
Multiples are negatively correlated with risk … higher risk = ⬇ P/E

Multiples are positively correlated with growth … higher G = ⬆ P/E

Growth matters a lot to value, but so does risk

Fealty to Wall Street?

Wall Street is intensely focused on expected EPS revisions – i.e., Up or Down



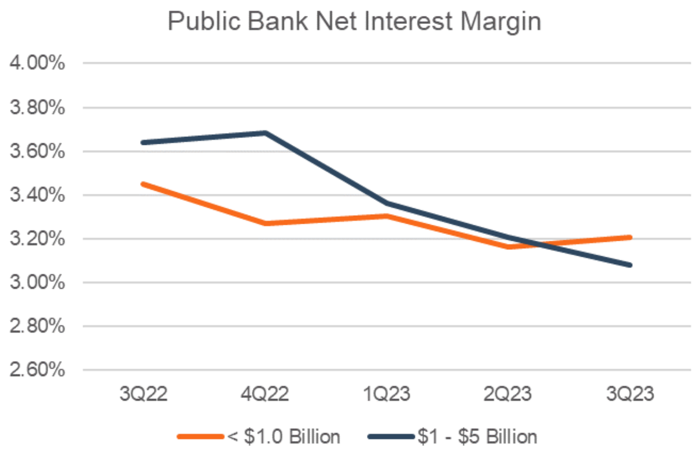
Estimate Revisions			
NYSE:KEY	FY2023	FY2024	FY2025
EPS Normalized ($)	**1.11**	**1.26**	**1.69**
3 Months ago	1.14	1.31	1.62
6 Months ago	1.32	1.48	1.65
9 Months ago	1.76	1.90	2.04
12 Months ago	2.20	2.40	2.42
Net Interest Margin (%)	**2.21**	**2.30**	**2.54**
3 Months ago	2.22	2.26	2.50
6 Months ago	2.29	2.35	2.40
9 Months ago	2.61	2.66	2.50
12 Months ago	2.93	2.93	2.80

Wall Street Consensus Metrics ($)		2023Y	2024Y	2025Y
EPS	**Mean**	**$1.11**	**$1.26**	**$1.69**
	High	1.21	1.40	1.93
	Low	1.02	1.15	1.45
	# of Estimates	17	18	14
Current P/Es @ Price of	**$14.20**	**12.7x**	**11.2x**	**8.4x**
Income Statement ($000)				
Net Interest Income	**Mean**	**3,920,400**	**3,960,909**	**4,447,600**
Loan Loss Provision	Mean	495,846	474,385	485,385
Non-Interest/Fee Income	Mean	2,474,417	2,608,385	2,742,583
Revenue	**Mean**	**6,396,073**	**6,584,905**	**7,265,589**
Non-Interest Expense	Mean	4,536,385	4,458,231	4,580,231
Pre-Tax Income	Mean	1,462,570	1,630,552	2,104,922
Tax Rate (%)	Mean	18.71	18.50	18.60
Net Income	**Mean**	**1,032,338**	**1,194,188**	**1,579,031**
Dividends per Share ($)	Mean	0.82	0.82	0.83
Dil. Shares Outstanding (x)	Mean	932,833,333	935,166,667	934,600,000
Balance Sheet ($000)				
Loans	Mean	115,137,600	115,999,625	119,565,111
Average Deposits	Mean	143,938,667	146,061,800	148,845,600
Tangible BV per Share ($)	**Mean**	**9.06**	**10.09**	**11.19**
Current P/TBVs @ Price of	**$14.20**	**1.57x**	**1.41x**	**1.27x**
Ratios (%)				
Net Interest Margin	Mean	2.21	2.30	2.54
Efficiency Ratio	Mean	69.90	68.19	64.26
NPAs/Assets	Mean	0.44	0.51	0.65
NCOs/Avg. Loans	Mean	0.22	0.39	0.40
ROA	Mean	0.55	0.69	0.88
ROE	Mean	8.67	10.23	12.77

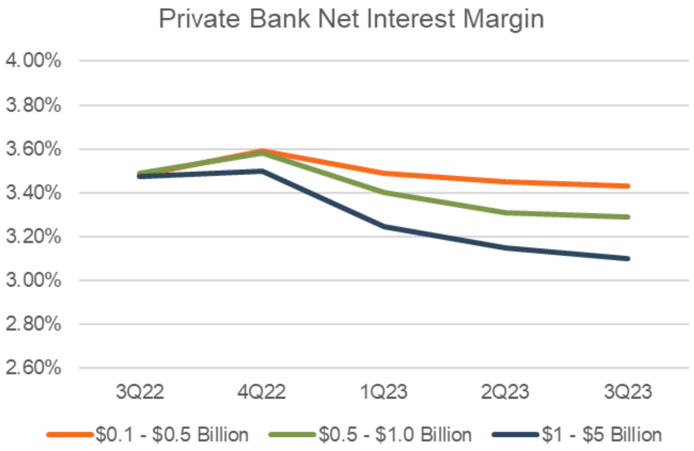
The Challenge:
Unrealized Securities Portfolio Losses

SECTION II

NIM Pressure Leads to…



	Median Change in Net Interest Margin	
Asset Size	3Q23 vs. 2Q23	3Q23 vs. 3Q22
< $1 Billion	-5 bps	-40 bps
$1 - $5 Billion	-9 bps	-49 bps



	Median Change in Net Interest Margin	
Asset Size	3Q23 vs. 2Q23	3Q23 vs. 3Q22
$0.1 - $0.5 Billion	-3 bps	-10 bps
$0.5 - $1.0 Billion	-6 bps	-28 bps
$1 - $5 Billion	-5 bps	-37 bps

… Declining Earnings, but Capital Ratios Are Strong

	Public Banks				
	Median Change in Core Earnings per Share				
Asset Size	3Q23 vs. 2Q23	2Q23 vs. 1Q23	1Q23 vs. 4Q22	1Q23 vs. 4Q22	3Q23 vs. 3Q22
< $1 Billion	4%	-8%	-20%	-20%	-18%
$1 - $5 Billion	-4%	-7%	-13%	1%	-24%

	Private Banks				
	Median Change in Net Income				
Asset Size	3Q23 vs. 2Q23	2Q23 vs. 1Q23	1Q23 vs. 4Q22	1Q23 vs. 4Q22	3Q23 vs. 3Q22
$0.1 - $0.5 Billion	-3%	-3%	-5%	-4%	-11%
$0.5 - $1.0 Billion	-2%	-4%	-10%	-1%	-14%
$1 - $5 Billion	-3%	-4%	-12%	1%	-18%

		Public Banks			
		% of Banks with Leverage Ratios Greater Than …			
Asset Size	Median Leverage Ratio	16%	14%	12%	10%
< $1 Billion	10.8%	0%	0%	7%	19%
$1 - $5 Billion	9.5%	0%	2%	7%	28%

		Private Banks			
		% of Banks with Leverage Ratios Greater Than …			
Asset Size	Median Leverage Ratio	16%	14%	12%	10%
$0.1 - $0.5 Billion	10.7%	8%	16%	32%	64%
$0.5 - $1.0 Billion	10.0%	4%	8%	18%	51%
$1 - $5 Billion	10.0%	4%	7%	18%	50%

Unrealized Securities Losses Will Be Smaller at 12/31/23 vs. 9/30/23 but Still Significant

Asset Size	Leverage Ratio (%)	AFS Sec / Assets (%)	AFS Loss as a % of Cost			AFS Loss as a % of T1 Capital		
			1Q22	1Q23	3Q23	1Q22	1Q23	3Q23
$3B - $10B	10.5%	15%	-4%	-10%	-12%	-10%	-13%	-21%
$1B - $3B	10.9%	16%	-5%	-9%	-12%	-11%	-16%	-24%
$500M - $1B	10.8%	19%	-4%	-9%	-12%	-12%	-16%	-26%
$100M - $500M	11.7%	23%	-4%	-9%	-11%	-13%	-19%	-29%

	3/31/2022	3/31/2023	9/30/2023	12/31/2023
2-Year Treasury at Period-End	2.28%	4.06%	5.03%	4.23%
10-Year Treasury at Period-End	2.32%	3.48%	4.59%	3.88%

A Partial Solution: **Securities Portfolio Restructurings**

SECTION III

Strategic Considerations

Unrealized losses on securities can be taken in one of two ways

1. Immediately, as a loss on sale
2. Over time, through lower net interest income

Recognizing unrealized losses on the "installment" method is a hybrid

1. Losses are spread out over time, thereby preserving capital
2. Losses are accelerated, versus holding securities to maturity, thereby allowing for enhancement of earning asset yields

Strategic Considerations

Partial Restructuring Pros

- Immediate NIM and core earnings enhancement
- Accelerates normalization of asset yields
- Extend duration of near-term bond maturities
- Market receptivity, or at least neutrality
- Retain optionality, versus larger portfolio restructuring
  - If the bond market continues to rally, losses on sale will be lessened (although reinvestment rates will be lower in the future if the bond market strengthens)
  - Retain capital as a hedge against unforeseen credit issues
- Close a chapter in the bank's history
- Demonstrates proactive strategy to regulators

Partial Restructuring Cons

- Immediate reduction in reported earnings
- In the long-run, earnings and TBV may not be enhanced by the restructuring
- Reduction of capital in the face of potentially looming credit losses
- Trade-offs with growth strategies—organic or M&A
- Especially for privately-held banks, the reaction among the investor base and in the local community
- Accounting treatment
- Loss on sale may affect compensation plans tied to reported earnings (but may make hitting profitability targets in compensation plans easier in future years)
- Bid-ask spread

Precedent Transactions

SECTION IV

Transaction Frequency

	3Q23	4Q23
Total Amount of Securities Sold	$1,034	$5,864
Number of Transactions	2	27
Average Amount of Securities Sold	$517	$217

Dollar amounts in $ millions
Source: Company filings, FR Y-9C and Call Report data, Mercer Capital research

- We reviewed public disclosures regarding 29 bond portfolio restructurings completed by publicly-traded banks in 3Q23 and 4Q23 totaling ~$7 billion of par value
- The portfolio restructurings involved transactions ranging in size from $18 million to $1.3 billion (median = $84 million)
- The largest number occurred late in 4Q23

Sample size = 29 transactions
Source: Company filings, FR Y-9C and Call Report data, Mercer Capital research)

Transaction Characteristics

Transaction Metrics	Maximum	3rd Quartile	Median	2nd Quartile	Minimum
Securities Sold % of Total Securities (Cost)	57%	25%	15%	9%	4%

- In precedent transactions, typically the bank sells 10% to 25% of its securities portfolio
- In our experience, the securities sold usually are not the longest duration securities in the portfolio (e.g., munis)
- Some transactions offset other gains, such as sale-leaseback transactions (Atlantic Union Bankshares), equity mark-to-market adjustments (Origin Bancorp), and BOLI transactions (Citizens & Northern Corp. and Midland States Bancorp)

Sample size = 29 transactions
Source: Company filings, FR Y-9C and Call Report data, Mercer Capital research)

Financial Impact: Day 1

Pre-Tax Loss	Maximum	3rd Quartile	Median	2nd Quartile	Minimum
% of Securities Sold	21%	14%	10%	7%	1%
x 3Q23 Core Pre-Tax Earnings	3.0x	1.7x	0.9x	0.3x	0.0x
After-Tax Loss					
% of Tangible Common Equity, Excl. AOCI	6.6%	4.2%	1.6%	0.7%	0.1%
% of Tier 1 Capiital	7.3%	4.4%	2.0%	0.9%	0.1%

- Typically, the loss on sale represents 7% to 15% of the securities sold
- The pre-tax loss represents about 1x 3Q23 core pre-tax earnings (> 2x for 6 of 29 transactions, and 1x – 2x for 6 transactions)
- Generally, the after-tax loss represents 1% to 2% of Tier 1 capital (> 5% for 5 of 29 transactions, and 3% - 5% for 7 transactions

Sample size = 29 transactions
Source: Company filings, FR Y-9C and Call Report data, Mercer Capital research)

Financial Impact: Future

Financial Impact	Maximum	3rd Quartile	Median	2nd Quartile	Minimum
Average Yield on Securities Sold	3.22%	2.35%	1.57%	1.36%	0.83%
Average Yield on Replacement Assets	6.67%	6.00%	5.40%	5.14%	4.83%
Earn-Back Period	4.3 years	3.2 years	2.5 years	1.9 years	0.8 years

- The replacement assets have yields 350-400 bps higher than the assets sold, but this could be lower today given impact of Chairman Powell's dovish comments in late 2023
  - Alternatively, to achieve the same pick-up to interest income, banks could sell more bonds today (at a smaller loss than earlier in 2023) and reinvest in replacement assets (with a lower yield than earlier in 2023)
- Banks generally expect to recoup the loss on sale in 2-3 years, although not all banks reported an earn-back period (earn-back periods exceeded 3 years for 4 of the 14 transactions with reported earn-back periods)
  - As we will see, banks can influence the earn-back period through their selection of the bonds sold

Sample size = 29 transactions
Source: Company filings, FR Y-9C and Call Report data, Mercer Capital research)

Market Reaction

			Reaction of Bank Stock to 8-K				S&P Regional Bank Index (KRE)				Relative Performance			
		Date 8-K was Filed	Release Date -1	Release Date	Release Date +1	Release Date +2	Release Date -1	Release Date	Release Date +1	Release Date +2	Release Date -1	Release Date	Release Date +1	Release Date +2
Atlantic Union Bankshares Corp.	AUB	9/21/2023	-2.7%	0.0%	-1.8%	0.4%	-1.5%	0.0%	-0.7%	0.8%	-1.2%	0.0%	-1.2%	-0.4%
SmartFinancial, Inc.	SMBK	10/23/2023	-1.2%	0.0%	-1.0%	-1.7%	-0.4%	0.0%	-0.6%	-1.0%	-0.8%	0.0%	-0.4%	-0.7%
Heartland Financial USA, Inc.	HTLF	11/15/2023	0.4%	0.0%	-0.4%	1.7%	1.4%	0.0%	-1.3%	0.2%	-0.9%	0.0%	0.9%	1.5%
Pacific Premier Bancorp, Inc.	PPBI	11/20/2023	3.3%	0.0%	-0.6%	-0.3%	-0.1%	0.0%	-2.2%	-1.8%	3.4%	0.0%	1.6%	1.5%
Synovus Financial Corp.	SNV	12/5/2023	-1.8%	0.0%	3.4%	6.6%	-1.2%	0.0%	0.0%	2.0%	-0.6%	0.0%	3.4%	4.6%
First Busey Corp.	BUSE	12/7/2023	2.3%	0.0%	0.3%	0.7%	1.9%	0.0%	1.1%	0.9%	0.3%	0.0%	-0.8%	-0.2%
1895 Bancorp of Wisconsin	BCOW	12/8/2023	0.5%	0.0%	-2.4%	-2.2%	1.1%	0.0%	-0.2%	-1.0%	-0.6%	0.0%	-2.1%	-1.2%
FVCBankcorp, Inc.	FVCB	12/11/2023	-1.9%	0.0%	-1.9%	5.5%	-0.2%	0.0%	-0.8%	5.0%	-1.7%	0.0%	-1.1%	0.4%
Horizon Bancorp, Inc.	HBNC	12/12/2023	-1.2%	0.0%	15.1%	18.0%	-0.8%	0.0%	5.9%	11.0%	-0.4%	0.0%	9.2%	7.0%
CB Financial Services, Inc.	CBFV	12/13/2023	1.2%	0.0%	2.4%	1.7%	5.9%	0.0%	4.8%	3.2%	-4.7%	0.0%	-2.5%	-1.5%
ACNB Corp.	ACNB	12/15/2023	5.7%	0.0%	-5.7%	-7.6%	-1.6%	0.0%	-1.9%	-0.4%	7.3%	0.0%	-3.9%	-7.2%
Hawthorn Bancshares, Inc.	HWBK	12/18/2023	0.0%	0.0%	8.6%	15.3%	-1.9%	0.0%	1.5%	-0.9%	1.9%	0.0%	7.1%	16.2%
Alerus Financial Corp.	ALRS	12/19/2023	0.7%	0.0%	-0.6%	1.5%	1.5%	0.0%	-2.3%	-1.3%	-0.8%	0.0%	1.7%	2.8%
CrossFirst Bankshares, Inc.	CFB	12/19/2023	3.0%	0.0%	0.3%	2.1%	1.5%	0.0%	-2.3%	-1.3%	1.5%	0.0%	2.6%	3.4%
Kearny Financial Corp.	KRNY	12/20/2023	-1.1%	0.0%	0.3%	1.9%	-2.3%	0.0%	1.1%	1.7%	1.2%	0.0%	-0.8%	0.1%
Auburn National Bancorporation, Inc.	AUBN	12/21/2023	-2.4%	0.0%	0.0%	2.1%	1.1%	0.0%	0.6%	2.2%	-3.5%	0.0%	-0.6%	-0.1%
First United Corp.	FUNC	12/21/2023	0.0%	0.0%	3.4%	4.8%	1.1%	0.0%	0.6%	2.2%	-1.1%	0.0%	2.7%	2.6%
United Community Banks, Inc.	UCBI	12/29/2023	-2.2%	0.0%	-0.3%	-4.2%	-1.6%	0.0%	0.3%	-3.0%	-0.7%	0.0%	-0.6%	-1.2%
Citizens & Northern Corp.	CZNC	1/4/2024	-0.5%	0.0%	1.4%	-0.5%	0.5%	0.0%	1.2%	2.1%	-0.9%	0.0%	0.2%	-2.7%
Pioneer Bancorp, Inc.	PBFS	1/4/2024	1.0%	0.0%	-0.6%	-2.0%	0.5%	0.0%	1.2%	2.1%	0.5%	0.0%	-1.8%	-4.2%
AmeriServ Financial, Inc.	ASRV	1/12/2024	-0.9%	0.0%	0.0%	-1.3%	-1.3%	0.0%	0.0%	-1.7%	0.4%	0.0%	0.0%	0.4%
		Median	**0.0%**	**0.0%**	**0.0%**	**1.5%**	**-0.1%**	**0.0%**	**0.0%**	**0.8%**	**0.1%**	**0.0%**	**0.0%**	**0.7%**
		Average	**0.1%**	**0.0%**	**0.9%**	**2.0%**	**0.2%**	**0.0%**	**0.3%**	**1.0%**	**-0.1%**	**0.0%**	**0.7%**	**1.0%**

Public vs. Private Bank Activity

- A small proportion of the unrealized losses existing at 6/30/23 were realized in 3Q23
- Public banks realized more losses, as a proportion of unrealized losses, than private banks
- In our experience, Wall Street analysts eliminate securities losses as non-recurring items, whereas private banks may be more focused on communicating GAAP earnings to their shareholders

	Assets < $10 Billion	
	Private	**Public**
Total AFS Securities Unrealized Loss (9/30/23)	($47,581)	($28,152)
Total Realized Securities Losses (3Q23)	($67)	($125)
Realized Loss (3Q23) % of Unrealized Losses	0.11%	0.20%

$ in millions

Source: Call Reports and Mercer Capital research

Drawbacks & Risks

SECTION V

Overstating the Benefit of the Transaction

- A simple estimate of the benefit of the restructuring compares (a) the foregone yield on the securities sold to (b) the yield on the replacement assets. This likely overstates the benefit of the transaction
- Instead, the bank should consider that the cash available for reinvestment will be less than the principal amount of the bonds sold

Assumptions	
Par Value of Bonds Sold	$1,000
Rate on Bonds Sold	1.50%
Rate on Replacement Assets	5.00%
Price Received for Bonds Sold (% of Par)	85%

In this example, the bank has $850 of cash to reinvest in replacement assets, which will generate $28 of incremental earnings. The simple estimate suggests $35 of incremental earnings.

Conventional Wisdom			
Assets Foregone	$1,000	Assets Purchased	$1,000
Yield on Assets Foregone	1.50%	Yield on Assets Purchased	5.00%
Foregone Interest Income	$15	Incremental Interest Income	$50
Earnings Enhancement (Pre-Tax)	**$35**		

More Realistic Outcome			
Assets Foregone	$1,000	Proceeds from Sale of Bonds	$850
Yield on Assets Foregone	1.50%	Yield on Assets Purchased	5.00%
Foregone Interest Income	$15	Incremental Interest Income	$43
Earnings Enhancement (Pre-Tax)	**$28**		
Difference to Conventional Wisdom	*-21%*		

Effect of the Transaction May Be Neutral

- We compared two scenarios over a six-year period:
  1. The bank holds a bond with a 1.50% rate to maturity in three years, following which it reinvests at market rates
  2. The bank sells the 1.50% rate bond and purchases an identical bond with a current rate maturing in three years. At the end of three years, the bank reinvests at market rates
- We consider all relevant factors, including taxes and the reinvestment of earnings over the forecast period
- Key observations:
  1. At the end of the three-year period, tangible book value is the same in both scenarios
  2. In years one through three, net income is higher in scenario #2 (excluding the loss on sale)
  3. In years four through six, net income is the same in both scenarios
  4. In years one and two, Tier 1 capital is lower in Scenario #2
  5. At the end of years three through six, Tier 1 capital is the same in both scenarios

Effect of the Transaction May Be Neutral

Baseline	Year 0	Bond Sale Adjustments	Pro Forma	Year 1 (Prior to Bond Maturity)	Year 2 (Prior to Bond Maturity)	Year 3 (Prior to Bond Maturity)	Year 4 (After Bond Maturity)	Year 5 (After Bond Maturity)	Year 6 (After Bond Maturity)
Book Value, Excluding AOCI	$41,100		$41,100	$44,959	$48,876	$52,850	$57,280	$61,781	$66,355
Accumulated Other Comprehensive Income	(1,100)		(1,100)	(733)	(367)	0	0	0	0
Total Equity	**$40,000**		**$40,000**	**$44,226**	**$48,509**	**$52,850**	**$57,280**	**$61,781**	**$66,355**
Net Income, Excluding Bond Sale Loss				$3,859	$3,916	$3,974	$4,430	$4,501	$4,574
Loss on Bond Sale				0	0	0	0	0	0
Net Income				**$3,859**	**$3,916**	**$3,974**	**$4,430**	**$4,501**	**$4,574**

With Bond Restructuring	Year 0	Bond Sale Adjustments	Pro Forma	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Book Value, Excluding AOCI	$41,100	($1,100)	$40,000	$44,223	$48,514	$52,874	$57,304	$61,806	$66,380
Accumulated Other Comprehensive Income	(1,100)	1,100	0	0	0	0	0	0	0
Total Equity	**$40,000**	**$0**	**$40,000**	**$44,223**	**$48,514**	**$52,874**	**$57,304**	**$61,806**	**$66,380**
Net Income, Excluding Bond Sale Loss				$4,223	$4,291	$4,360	$4,430	$4,502	$4,574
Loss on Bond Sale				(1,100)	0	0	0	0	0
Net Income				**$3,123**	**$4,291**	**$4,360**	**$4,430**	**$4,502**	**$4,574**

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Difference in Total Equity	($3)	$5	$24	$24	$25	$25
Difference in Net Income, Excluding Bond Sale Loss	$363	$375	$386	$0	$0	$0
% Difference in Net Income, Excluding Bond Sale Loss	*9.4%*	*9.6%*	*9.7%*	*0.0%*	*0.0%*	*0.0%*

Earn-Back Period Is Subjective

- The earn-back period depends on the magnitude of the loss realized upon sale
- Given the shape of the yield curve, the rate earned on the replacement earning assets will be relatively similar. Therefore, the earn-back period is mostly governed by the selected duration of the securities sold

	Maturity of Bonds Sold					
	2 years	3 years	5 years	7 years	10 years	20 years
Rate on Bonds Sold	1.50%	1.50%	1.50%	1.50%	1.50%	1.50%
Rate on Replacement Assets	4.40%	4.17%	4.02%	4.04%	4.05%	4.37%
Value of Bonds Sold	94.6%	92.0%	87.2%	82.8%	76.9%	61.9%
Cash Received from Bonds Sale	$946	$920	$872	$828	$769	$619
Pre-Tax Loss on Sale	($54)	($80)	($128)	($172)	($231)	($381)
(a) After-Tax Loss on Sale	**$41**	**$60**	**$96**	**$129**	**$173**	**$285**
Pre-Tax Earnings on Replacement Bonds	$42	$38	$35	$33	$31	$27
(b) After-Tax Earnings on Replacement Bonds	**$32**	**$29**	**$26**	**$25**	**$23**	**$20**
Earn-Back Period (a) ÷ (b)	**1.3 years**	**2.1 years**	**3.7 years**	**5.2 years**	**7.5 years**	**14.3 years**

Rates on replacement assets are Treasury rates at 1/5/24

Concluding Comments

- Bond portfolios represent a secondary source of liquidity and earning power; however, most portfolios provide neither due to (a) sizable unrealized losses and (b) little spread vs. cost of funds
- Securities losses are real and will be recognized either now or until the bonds mature if held. Loss represents the present value of the differential between current yields and market yields
- Restructurings may have a near-term positive effect on earnings, but the long-term effect on capital and earnings (after the low yielding bonds mature) is likely to be neutral
- When evaluating capital strategies, prioritize organic growth and maintaining an ample cushion against unexpected credit outcomes, but some excess capital may be deployed in a gradual restructuring of the securities portfolio
- Evaluate opportunities to extend near-term bond maturities as (or if) rates back up
- Transactions do not appear to have an adverse effect on stock valuations

Q&A

SECTION VI

Appendix

Precedent Transaction Detail

		Securities Sold as % of Total AFS Portfolio (Cost Basis)	Pre-Tax Loss as % of Securities Sold	After-Tax Loss as % of Equity x-AOCI	After-Tax Loss as % of Tier 1 Capital	Pre-Tax Loss as % of 3Q23 Core Pre-Tax Earnings	Average Yield on Securities Sold	Average Yield on Assets Purchased with Proceeds	Estimated Earn-Back Period (per Company Disclosures)
1895 Bancorp of Wisconsin	BCOW	24%	10%	3%	3%	n/m	n/a	n/a	2.8 Years
ACNB Corp.	ACNB	10%	9%	1%	1%	30%	0.99%	5.01%	2.5 Years
Alerus Financial Corp.	ALRS	22%	14%	4%	5%	161%	2.66%	n/a	3.7 Years
AmeriServ Financial, Inc.	ASRV	10%	5%	0%	1%	90%	3.10%	5.20%	3.7 Years
Atlantic Union Bankshares Corp.	AUB	9%	12%	1%	1%	27%	2.30%	6.00%	n/a
Auburn National Bancorporation, Inc.	AUBN	27%	5%	4%	4%	281%	2.11%	n/a	2.3 Years
Camden National Corp.	CAC	9%	8%	1%	1%	23%	2.31%	6.06%	2.5 Years
CB Financial Services, Inc.	CBFV	38%	13%	6%	6%	244%	1.89%	5.49%	4.3 Years
Citizens & Northern Corp.	CZNC	9%	7%	1%	1%	25%	1.42%	4.83%	Less than 1 Year
CrossFirst Bankshares, Inc.	CFB	9%	1%	0%	0%	4%	n/a	n/a	n/a
Equity Bancshares, Inc.	EQBK	36%	9%	5%	5%	200%	n/a	n/a	n/a
First Busey Corp.	BUSE	4%	5%	0%	1%	11%	1.56%	5.40%	n/a
First United Corp.	FUNC	16%	21%	2%	2%	55%	1.36%	n/a	3.3 Years
FB Financial Corp.	FBK	5%	19%	1%	1%	29%	1.36%	6.00%	n/a
FVCBankcorp, Inc.	FVCB	23%	18%	3%	3%	162%	1.54%	n/a	Less than 3 Years

Source: Company filings, FR Y-9C and Call Report data, Mercer Capital research)

Precedent Transaction Detail

		Securities Sold as % of Total AFS Portfolio (Cost Basis)	Pre-Tax Loss as % of Securities Sold	After-Tax Loss as % of Equity x-AOCI	After-Tax Loss as % of Tier 1 Capital	Pre-Tax Loss as % of 3Q23 Core Pre-Tax Earnings	Average Yield on Securities Sold	Average Yield on Assets Purchased with Proceeds	Estimated Earn-Back Period (per Company Disclosures)
Hawthorn Bancshares, Inc.	HWBK	29%	14%	5%	4%	296%	1.57%	n/a	n/a
Heartland Financial USA, Inc.	HTLF	15%	16%	4%	6%	151%	2.48%	n/a	n/a
Horizon Bancorp, Inc.	HBNC	37%	8%	3%	3%	136%	2.01%	n/a	n/a
JD Bancshares, Inc.	JDVB	12%	12%	4%	4%	118%	1.32%	0.0667	2.8 Years
Kearny Financial Corp.	KRNY	9%	14%	1%	2%	98%	3.22%	n/a	n/a
Midland States Bancorp, Inc.	MSBI	7%	7%	0%	0%	13%	2.46%	0.0607	1.0 Year
Origin Bancorp, Inc.	OBK	11%	4%	0%	1%	20%	3.08%	n/a	1.7 Years
Pacific Premier Bancorp, Inc.	PPBI	57%	20%	5%	7%	294%	0.0134	0.05	n/a
PBCO Financial Corp.	PBCO	21%	14%	5%	5%	243%	n/a	n/a	n/a
Pioneer Bancorp, Inc.	PBFS	17%	8%	2%	2%	99%	0.83%	0.054	n/a
SmartFinancial, Inc.	SMBK	27%	4%	1%	1%	55%	0.0137	n/a	Just Over 1 Year
Synovus Financial Corp.	SNV	12%	8%	1%	1%	47%	n/a	n/a	n/a
Tompkins Financial Corp.	TMP	25%	15%	7%	7%	223%	0.93%	5.12%	n/a
United Community Banks, Inc.	UCBI	9%	17%	1%	2%	58%	1.46%	5.36%	n/a

Source: Company filings, FR Y-9C and Call Report data, Mercer Capital research)

Bank Director

Breakout 2:
Taking Loss on the Installment Method – Impact on Value

Scan here to fill out the evaluation for this session.

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