

September 4, 2009

My Bank's Worth What?
If you're good, it's 72% to 88% of book

Each year-end and periodically during the year we value a new bank's illiquid stock based on the pricing multiples of other new banks with a traded stock. We've grown accustomed to the anguish the results can cause and we always try to prepare the president and the board, but the outcome is still often a shock. These results reflect what we know – bank stock pricing for “good banks” is well below book value and banks that have high NPAs or are posting large losses, trade at an even deeper discount.

The negative impact NPAs have on stock price cannot be understated. For the most troubled banks, those with NPAs over 4% of assets, the median stock price is only 46% of tangible book. For those in the middle with NPAs from 2% to 4% of assets, the median is 65%. For those banks that have little-to-no asset quality issues, which is almost half of all new banks, the median price is still well below tangible book at 88%. This is low, but it is still almost double those with serious NPA issues (88% vs. 46%).

Impact of NPAs on New Bank Stock Prices*

<u>Non-Performing Assets Medians (number of banks)</u>	<u>Price/ Earnings**</u>	<u>Price/ Tangible Book**</u>	<u>NPAs/ Assets</u>	<u>Avg. Shares Traded Daily***</u>
Under 2% (57)	17.3X	88%	1.00%	657
Between 2% and 4% (32)	15.5	65	2.50	684
Over 4% (30)	-	46	6.02	1,047
Grand median (119 banks)	16.5X	73%	2.09%	702

*Established since 1990 and located on the east coast from South Carolina up to Maine. Stock pricing as of August 27, 2009, and financial data as of June 30, 2009, or the twelve months ended June 30, 2009

**Stock price as of August 27, 2009 and financial data as of June 30, 2009 or the twelve months ended June 30, 2009.

***One year.

Source: SNL Financial, Charlottesville, Virginia.

Another notable item is the impact of NPAs on the trading volume of new bank stocks. A trend reflected in the previous table is that when a new bank gets in asset quality trouble, investors start selling the stock. The median average daily volume of the banks with NPAs under 4% was under 685 shares versus 1,047 for those with NPAs over 4%.

NPAs have a huge impact on earnings as large loan loss provisions are taken and interest income is reversed, but even for those that are relatively unscathed by the issue, earnings remain low. The table below shows that of the 119 new banks, only one bank had an ROE above 10% and only 16 were between 5% and 10%. Over half of the new banks were losing money (69 of 119).

Impact of Earnings on New Bank Stock Prices

<u>Return on Equity Medians (number of banks)</u>	<u>Price/ Earnings*</u>	<u>Price/ Tangible Book*</u>	<u>NPAs/ Assets</u>	<u>Avg. Shares Traded Daily**</u>
Over 10% (1***)	8.5X	101%	1.46%	5,485
5% to 10% (16)	13.0	86	1.21	701
0% to 5% (33)	32.1	72	1.06	384
Negative (69)	-	61	2.51	843
- losses over 10% (30)	-	52	4.52	1,847

*Stock price as of August 27, 2009 and financial data as of June 30, 2009 or the twelve months

ended June 30, 2009.

**One year.

***Access National Bank, Chantilly, Virginia. Established 1999.

Source: SNL Financial, Charlottesville, Virginia.

Of the banks that posted earnings, median price to tangible book multiples were low. Those 16 banks that posted ROEs between 0% and 5% traded at a median price to tangible book of 72% and those that earned a slightly higher 5% to 10% traded at a median of 86%, still well below tangible book. Only one bank, Access National in Chantilly, Virginia, posted an ROE of more than 10% and it only trades at tangible book.

Once again, the volume of trades tells a story. Those with losses, and in particular those with excessive losses (mostly the same banks with NPA issues), traded much more than those with earnings. The median average daily shares traded for those with ROEs from 5% to 10% was 701 and those with ROEs from 0% to 5% was 384. Comparatively, those banks with losses in excess of 10% of equity traded a median of 1,847 shares daily.

Historical Change New Bank Stock Pricing

<u>Date</u>	<u>Number of Banks in Group</u>	<u>Median</u>		
		<u>Price/ Tangible Book</u>	<u>Price/ Earnings</u>	<u>ROE</u>
8/27/09	119	73%	16.5X	(1.45)%
12/31/08	-*	78	18.1	.69
12/31/07	-*	121	16.2	5.11
12/31/06	-*	163	20.1	7.22

*Utilized same 119 banks for each year.

Source: SNL Financial, Charlottesville, Virginia.

Thus, if you are one of the lucky ones - a bank with NPAs under 2% of assets (57 of 119 new banks) and earning a little bit of money (49 of 119 banks), your stock is roughly worth from 72% to 88% of tangible book. This is a far cry from only a few years ago when almost all bank stocks were highly valued. A look back at this same group of 119 banks shows that their median stock value at the end of 2006 was 163% tangible book, 90 basis points higher than today's 73%.

Respectfully,



David G. Danielson
President