

# experience expertise

## VALUATION SERVICES FOR BANK ACQUISITIONS

How does your acquisition affect your financial reporting? You need the right advisor to help you to efficiently and effectively address execution and compliance needs. **We understand the importance of getting it right.** Experience how the resources of a top 10 U.S. CPA and advisory firm can help you achieve success.

### Valuation Services

Whether you need a preliminary estimate of value to help you assess the transaction or specific conclusions of fair value upon transaction close, BKD can help.

### Our Approach

Our valuation professionals have a strong understanding of stakeholder expectations for methodology, depth of analysis and report content, which allows for successful interaction with your independent auditors. The following summarizes the methodology for key acquired assets and assumed liabilities:

**Loan Portfolio** – The income approach is used to determine the fair value of the loan portfolio. In addition to determining the yield adjustment to capture interest rate differences, a credit adjustment estimated by management for the expected losses must be considered. The first step in this process involves determining which loans are to be valued on an individual basis and which can be pooled based on the purpose of loan, interest rate, payment type, collateral and credit quality classification. The present value of each loan or loan pool is based on future benefits through maturity, prepayment rates, credit risk adjustments, liquidity risk and current market rates.

**Foreclosed Assets (Other Real Estate Owned)** – We typically rely on specific loss estimates provided by management in valuing the foreclosed assets acquired. A discounted cash flow method based on anticipated recovery amounts and timing is applied.

**Core Deposit Intangibles (CDI)** – An income approach referred to as the replacement cost method is used to recognize the cost savings represented by the difference of maintaining the core deposit base versus the cost of alternative funding sources. This involves developing an estimate of the future benefits related to the core deposit base, depositor retention rates, servicing costs of maintaining the deposit base, interest cost, cost to service alternative sources of funding and the amount of float inherent in the deposit base.

**Fixed Maturity Deposits** – We use the income approach to determine the fair value of time deposits or CDs. Using the remaining months to maturity and existing rates to calculate the projected value of the time deposits, current market rates for similar deposits are used to discount future benefits to present value.

**Borrowings** – We use the income approach to determine the fair value of long-term borrowings. Current market rates are used to discount future benefits to present value.

**Unfunded Commitments** – Two components of unfunded commitments are considered—the expected discount related to any future funded portion and the opportunity cost of the unfunded portion.

Experience practical direction from a top-tier firm that serves clients in all 50 states and possesses international experience spanning more than 40 countries.

50/40  
states countries



*With a top 10 U.S. CPA and advisory firm, you'll gain from our broad perspective on the issues you face and **experience a clear point of view.***



**Clawback Provision** – In FDIC-assisted transactions, the “true-up” provision is valued according to the formula in the Purchase and Assumption Agreement and present valued using a similar return as the loss share indemnification asset.



**Loss Sharing Agreement** – Typically considered an indemnification asset, the loss sharing agreements related to FDIC-assisted transactions are valued using a discounted cash flow model. Credit adjustments for covered assets as developed for the loan portfolio are the basis for the amounts. The appropriate reimbursement percentage applied over the term deemed by the agreement and discounted to present value.

### **The BKD Advantage**

Valuations require a thorough understanding of current and changing valuation methodology and accounting standards. BKD’s valuation professionals are experienced in identifying not only the issues common to all business valuations, but also those specific to the banking industry.

At BKD, you get the advantage of working with senior professionals who dedicate their time to assisting clients with valuation needs. In addition to holding recognized designations in the profession—Accredited in Business Valuation (ABV), Accredited Senior Appraiser (ASA) and Certified Valuation Analyst (CVA)—our valuation professionals are active leaders in the profession on a statewide and national basis.

BKD National Financial Services Group serves more than 1,200 financial institutions nationwide. With more than 180 professionals dedicated to the industry, we provide audit, tax, regulatory compliance, loan review, valuation and merger and acquisition services as well as insight into the changing bank environment.

### **For More Information**

For more information about our Forensics & Valuation Services division and its services, visit **bkd.com** or contact:

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