

# Severn Bancorp Inc SVBI (NAS)

Last Close	Industry	Sector
3.40 USD	Banks - Regional - US	Financial Services

## Profile

Pricing data through 09 Feb 2012

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Severn Bancorp, Inc. was incorporated under the laws of the State of Maryland. It is a savings and loan holding Company, which conducts its business through three subsidiaries: Severn Savings Bank, FSB, its main subsidiary; Louis Hyatt, Inc., a commercial real estate brokerage and property management Company; and SBI Mortgage Company, which holds mortgages that do not meet the underwriting criteria of the bank, and is the parent company of Crownsville Development Corporation, which acquires real estate for syndication and investment purposes. The bank operates four full-service branch offices, and one administrative office. It operates as a federally chartered savings bank whose main business is attracting deposits from the general public and investing those funds in mortgage and commercial loans. The bank also uses advances, or loans, from the Federal Home Loan Bank of Atlanta, to fund its mortgage activities. The bank provides a range of retail and mortgage banking services. Deposit services include checking, savings, money market, time deposit and individual retirement accounts. Loan services include various types of real estate, consumer, and commercial lending. The bank also provides safe deposit boxes, ATMs, debit cards, and internet and telephone banking. Its main market is Anne Arundel County, Maryland and, to a lesser extent, other parts of Maryland, Delaware and Virginia. The Company competes with a number of local, regional and national financial institutions for customers. The relationship between the Bank and depositors and borrowers is also regulated by federal and state laws, especially in such matters as the ownership of savings accounts and the form and content of mortgage documents utilized by the Bank.

# Severn Bancorp Inc SVBI

**Sales USD Mil** 32    **Mkt Cap USD Mil** 34    **Industry** Banks  
- Regional - US    **Sector** Financial Services

Severn Bancorp is the holding company for Severn Savings Bank, Louis Hyatt (Hyatt Real Estate), and SBI Mortgage Company. Through these subsidiaries, the bank provides deposits and makes a broad variety of loans, a major source of the bank's revenue. Severn operates three banking branches in Anne Arundel County, Maryland, and makes most of its mortgage loans in that area. The company's Hyatt Real Estate subsidiary is a real estate brokerage and property management firm.

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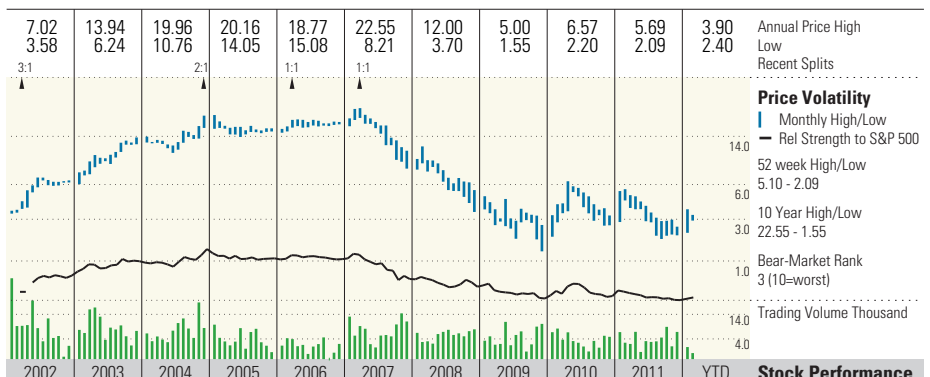
Growth Rates	Compound Annual				
	1 Yr	3 Yr	5 Yr	10 Yr	
Revenue %	13.2	-4.6	-2.8	10.3	
Operating Income %	—	—	—	—	
Earnings/Share %	—	—	—	—	
Dividends %	—	—	—	—	
Book Value/Share %	-0.1	3.6	7.8	—	
Stock Total Return %	-31.3	-5.6	-28.9	1.9	
+/- Industry	-18.0	-18.3	-16.8	3.4	
+/- Market	-33.7	-21.4	-27.7	0.4	

Profitability Analysis	Current	5 Yr Avg	Ind	Mkt
	Return on Equity %	-0.9	4.1	—
Return on Assets %	-0.1	0.3	—	9.5
Revenue/Employee USD K	275.3	276.8	—	1050.6
Compensation Exp/Rev	0.3	0.3	—	—
Operating Margin %	—	—	33.3	16.7
Net Margin %	-3.0	3.9	29.9	11.2
Free Cash Flow/Rev %	4.3	—	—	0.1

Financial Position	12-10 USD Mil	09-11 USD Mil
	Loans (Gross)	812
Less: Allowances	30	30
Net Loans	782	716
Securities	27	40
Trading Assets	—	—
Intangibles	—	—
Other	154	170
Total Assets	963	926
Deposits	715	679
Short-Term Debt	—	—
Long-Term Debt	139	139
Other	2	3
Total Liabilities	856	821
Preferred Stock	0	0
Total Equity	106	105

Valuation Analysis	Current	5 Yr Avg	Ind	Mkt
	Price/Earnings	45.0	—	19.0
Forward P/E	—	—	—	13.5
Price/Free Cash Flow	25.3	—	18.7	17.0
Dividend Yield %	—	—	1.5	2.0
Price/Book	0.3	0.4	0.9	2.0
Price/Sales	1.1	1.3	1.8	1.2
PEG Ratio	—	—	—	1.4

**Morningstar Rating** —    **Last Price** 3.40    **Fair Value** —    **Uncertainty** —    **Economic Moat™** —    **Stewardship Grade** —  
per share prices in USD



2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	YTD	Stock Performance
7.02	13.94	19.96	20.16	18.77	22.55	12.00	5.00	6.57	5.69	3.90	Annual Price High
3.58	6.24	10.76	14.05	15.08	8.21	3.70	1.55	2.20	2.09	2.40	Low
											Recent Splits
											Price Volatility
											Monthly High/Low
											Rel Strength to S&P 500
											52 week High/Low
											10 Year High/Low
											Bear-Market Rank
											Trading Volume Thousand
											3 (10=worst)
											22.55 - 1.55
											5.10 - 2.09
											14.0
											6.0
											3.0
											1.0
											14.0
											4.0

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Financials
0	20	25	30	35	38	34	29	27	30	29	29	Net Interest Inc USD Mil
0	4	5	4	3	4	4	3	3	3	3	3	Fee Income
—	—	—	—	—	—	—	—	—	—	—	—	Oper Income USD Mil
0	9	11	13	15	16	11	4	-17	-1	-1	-1	Net Income USD Mil
—	0.88	1.10	1.29	1.45	1.56	1.10	0.39	-1.68	-0.06	-0.10	-0.10	Earnings Per Share USD
—	0.05	0.14	0.15	0.20	0.22	0.24	0.24	0.09	0.00	0.00	0.00	Dividends USD
—	10	10	10	10	10	10	10	10	10	10	10	Shares Mil
4.32	4.87	5.98	7.22	8.59	9.46	12.28	10.55	10.54	10.45	10.45	10.45	Book Value Per Share USD
46	458	540	704	846	912	962	988	968	963	926	926	Assets USD Mil
1	43	49	60	73	86	95	124	106	106	105	105	Total Equity USD Mil
20	-33	6	2	2	2	2	-24	2	1	1	1	Free Cash Flow

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Profitability
—	3.5	2.2	2.1	1.9	1.8	1.2	0.4	-1.7	-0.1	-0.1	-0.1	Return on Assets %
—	39.4	24.2	23.7	21.9	19.8	12.2	3.6	-14.7	-0.5	-0.9	-0.9	Return on Equity %
—	36.8	37.8	38.5	38.4	37.5	29.3	12.4	-58.2	-1.7	-3.0	-3.0	Net Margin %
—	0.09	0.06	0.05	0.05	0.05	0.04	0.03	0.03	0.03	0.03	0.03	Asset Turnover
—	10.7	11.0	11.7	11.6	10.6	10.1	8.0	9.1	9.1	8.8	8.8	Financial Leverage

2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	09-11	Financial Health
41	419	506	657	779	835	893	896	819	782	716	716	Net Loans USD Mil
44	34	65	110	153	176	196	177	149	139	139	139	Long-Term Debt USD Mil
—	378	420	527	591	627	653	684	710	715	679	679	Deposits USD Mil

2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	TTM	Valuation
7.5	12.0	15.5	11.1	11.4	8.8	10.9	—	—	32.7	45.0	Price/Earnings
—	—	—	—	—	—	—	—	—	1.8	3.1	P/E vs. Market
2.8	4.5	6.0	4.3	4.3	2.6	1.4	0.9	1.1	0.8	1.1	Price/Sales
1.5	2.7	3.3	2.2	2.1	1.0	0.3	0.2	0.3	0.2	0.3	Price/Book

Quarterly Results						
Revenue USD Mil	Dec 10	Mar 11	Jun 11	Sep 11		
Most Recent Period	8.3	8.1	7.8	7.8		
Prior Year Period	7.7	8.2	8.6	7.9		
Rev Growth %	Dec 10	Mar 11	Jun 11	Sep 11		
Most Recent Period	7.0	-0.6	-9.7	-1.8		
Prior Year Period	7.0	16.5	27.6	3.7		
Earnings Per Share USD	Dec 10	Mar 11	Jun 11	Sep 11		
Most Recent Period	0.02	0.00	-0.13	0.01		
Prior Year Period	-0.30	-0.10	0.02	0.01		

Industry Peers by Market Cap				
	Mkt Cap USD Mil	Rev USD Mil	P/E	ROE%
Severn Bancorp Inc	34	32	45.0	-0.9
Wells Fargo & Co	161264	81837	10.7	11.9
Bank of America Corp	82911	90964	—	-1.5

Major Fund Holders		% of shares
		—
		—
		—

TTM data based on rolling quarterly data if available; otherwise most recent annual data shown.



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## Management & Ownership

### Management Activity

Name	Position	Shares Held	Report Date*	InsiderActivity
ALAN J. HYATT	CEO/Chairman of the Board/ President/Director/CEO, Subsidiary/Chairman of the Board, Subsidiary/Presi	1,591,923	29 Jan 2010	-
MELVIN E. MEEKINS, JR	Director	554,959	03 May 2010	-
KEITH STOCK	Director	121,661	15 Jun 2009	-
ALBERT W. SHIELDS	Director	77,331	25 Nov 2009	-
T. THEODORE SCHULTZ	Director	61,175	27 Jan 2010	-
JOHN A. LAMON, III	Director	41,500	14 Dec 2011	1,000
MR. ERIC M. KEITZ	Director	31,000	16 Dec 2011	1,000
KONRAD M. WAYSON	Director	17,525	21 Dec 2011	1,000

\*Report date represents the date on which the owner's common shares held was audited.

### Fund Ownership

Top Owners	Morningstar Rating	% of Shares Held	% of Fund Assets	Change (k)	Portfolio Date
Vanguard Extended Market Idx Inv	QQQQ	0.03	0.00	3	30 Sep 2011
Northern Small Cap Core	QQQ	0.02	0.00	0	31 Dec 2011
Vanguard US Total Market Shares (AU) ETF		0.01	0.00	0	30 Sep 2011
Vanguard Total Stock Mkt Idx		0.01	0.00	0	30 Sep 2011
Fidelity Nasdaq Composite Index Tracking	QQQQ	0.01	0.00	0	31 Dec 2011
Concentrated Holders					
Vanguard Instl Ttl Stk Mkt Idx Instl Pls	QQQQ	0.00	0.00	0	30 Sep 2011
Northern Small Cap Core	QQQ	0.02	0.00	0	31 Dec 2011
Vanguard US Total Market Shares (AU) ETF		0.01	0.00	0	30 Sep 2011
Vanguard Total Stock Mkt Idx		0.01	0.00	0	30 Sep 2011

### Institutional Transactions

Top 5 Buyers	Morningstar Rating	% of Shares Held	% of Fund Assets	Shares Bought/ Sold (k)	Portfolio Date
Vanguard Extended Market Idx Inv	QQQQ	0.03	0.00	3	30 Sep 2011
Vanguard US Total Market Shares (AU) ETF		0.01	0.00	0	30 Sep 2011
Vanguard Total Stock Mkt Idx		0.01	0.00	0	30 Sep 2011
SSgA U.S. Extended Market Index Strategy	QQQ	0.00	0.00	0	30 Jun 2011
Scotia Nasdaq Index	QQQQ	0.00	0.00	0	28 Feb 2011
Top 5 Sellers					
NA		NA	NA	NA	NA

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### Industry Focus: Banks

Michael Kon, CFA  
Senior Stock Analyst

The market is discounting this firm's improving credit quality and attractive business model.

#### Wilshire Will Reward Those Banking on Its Turnaround

08 February 2012

Wilshire Bancorp WIBC is one of our favorite turnaround plays in regional banking. With a new management team at the helm, plenty of reserves for loan losses, and a record level of capital, Wilshire is positioned to return to high profitability. While its focus on the Korean-American market isolates it from the competitive pressures of mainstream banks, its low-cost operating model serves it well when competing with other ethnic banks. The stock trades nearly 40% below our fair value estimate, an unwarranted discount considering Wilshire's successful turnaround and the quality of its franchise.

Wilshire entered the financial crisis and the Great Recession in a slightly better shape than most California banks of a similar size. The bank had more capital and fewer problem loans than many peers and in June 2009 was even chosen by the FDIC to acquire the failed Mirae Bank, a privilege reserved only for banks that score high on periodic regulatory reviews.

However, in early 2009, the bank's nonperforming loans began to creep up and by 2010, the level of nonperforming loans exceeded that of most peers. While Mirae Bank came with a sizable portfolio of nonperforming loans, Wilshire's legacy loans also started to weaken, becoming a major cause for concern. What exacerbated the problem, in our view, was management's lack of action in light of the worsening credit quality. While Wilshire's peers were selling bad credit and jettisoning weak assets at market prices, management stayed put and failed to introduce a credible loan workout plan.

As a result of management's neglect to address the bank's problem loans, during the second half of 2009 and through 2010 nonperforming loans trended well above its ethnic peers and other California banks. Even more troubling was management's failure in managing the bank's capital. Despite the mounting credit problems, Wilshire's

management ignored the bank's growing need to raise capital and continued to argue that capital wasn't an issue because regulatory capital ratios were still above the official requirements. While nonperforming loans were rising, the bank's common equity plunged almost 40%.

To make matters worse, Wilshire was bleeding capital when most of its California peers were building their own. By the first quarter of 2011, Wilshire's tangible common equity deteriorated to half of the level reported by most peers, reaching 3.9% of total tangible assets--a troubling level, in our view. The bank's regulators noticed the deterioration in Wilshire's financial health and slapped it with a memorandum of understanding, a regulatory action reserved for banks that exhibit financial weakness.

Despite Credit Woes, Wilshire's Business Model Was Never Broken

Despite its credit woes, we think Wilshire still has a viable and attractive business model. Underwriting practices aside, Wilshire's focus on the Korean-American population in Southern California provides it with several advantages over mainstream banks: Unlike the general population, the bank's clients value the relationship with an ethnic bank and usually don't shop around for the best available rate. Wilshire's clients tend to be more entrepreneurial than the general population; the rate of small-business owners among the bank's clients is double the U.S. average. Most of the bank's clients live in proximity to one another, reducing the need to build many branches. The Korean-American population is more educated than the general U.S. population, which leads to a higher saving rate (double the U.S. average) among the bank's clients; since clients tend to keep a sizable portion of their savings in CDs, the bank benefits from a stable deposit base. Serving the Korean-American population enables Wilshire to benefit from trade with South Korea, America's sixth-largest trading partner. We think these advantages led Wilshire to earn higher returns on assets during the period that preceded the financial crisis and could help it return to profitability once credit issues are fully resolved.

Turnaround Efforts Bear Fruit

After sitting on its hands during 2010, Wilshire's board

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### Industry Focus: Banks

finally woke up in early 2011 and launched an aggressive turnaround program to resolve its credit issues. In February, Wilshire replaced its CEO. Jae Whan Yoo joined Wilshire after successfully leading one of its largest competitors through a similar credit turnaround. In May, the bank raised \$100 million by issuing new shares to the public. This doubled the bank's common equity and boosted its capital ratios to record levels. In September, the bank appointed Jack Choi as its new chief credit officer.

Also during 2011, Wilshire changed its credit risk management: It separated the loan production and underwriting functions, established an enterprise risk management department, created a cross-team credit task force to improve credit quality and reduce problem assets, and increased its in-house lending limit to single borrowers. With these actions, Wilshire scrapped its previous underwriting practices and adopted a more robust credit culture. We think this had an immediate impact on the bank's performance. Nonperforming loans in the following quarters declined and the flow of new problem loans began to ebb.

While nonperforming loans dropped 50% from their peak, reserves for loan losses actually increased 33% during the same period and exceeded the level reported by peer ethnic banks and other competitors in California in the second half of 2011. Thanks to management's turnaround efforts, Wilshire ended the third quarter of 2011 with more capital, more reserves, and fewer problem loans than most of its main peers.

Wilshire still has work to do, as its nonperforming assets remain above 3%, higher than its historical levels, and returns on assets and equity still trend below past levels. That said, we believe the bank's comeback in 2011 will make the hurdles ahead of it seem not as hard to overcome.

While bank stocks came under pressure on fears of another recession and a spillover from the European sovereign debt crisis, Wilshire's stock cratered more than 50%. Ironically, this sell-off occurred as the bank's financial health strengthened and performance started to improve. We believe the market is ignoring Wilshire's successful turnaround and prospects. We value the stock at \$6 per share, while it trades around \$3.80--a decent discount,

especially given the successful credit turnaround and the quality of the bank's franchise.