

# [The total assets that is given out as loans](https://assignbuster.com/the-total-assets-that-is-given-out-as-loans/)

[Finance](https://assignbuster.com/essay-subjects/finance/)

Hence, the overall profitability of the bank can drastically be improved by and wealth can be unlocked by increasing the loan ratio, and hence valuing the bank based on present financial performance may lead to undervaluing the bank.
The valuation of the bank can be calculated by either the discounted free cash flow method, or by the price/value multiple ratios.
To calculate the valuation of the First National Bank using the discounted free cash flow or the present value of the future earning process, the extra piece of information required will be the rate of growth of dividends.
However, the valuation of the bank can also be calculated by the price/earnings ratio. Since, as has been discussed above, the present earnings are sub-optimal the bank should not be valued by multiplying the earning by the PE ratio.
Hence, the best method to value the bank would be by multiplying the book value of the bank by the Price/Book value of its peers. For smaller banks, this multiple is 1. 4.
So, a fair price per share of the bank would be 52. 64\*1. 4 = $73. 7.