

Midwest MSAs: Who Owns the Market?

The table below lists some of the largest Metropolitan Statistical Areas (“MSA”) for each of the eight states in the Midwest Region. These MSAs represent some of the most attractive banking markets in the Midwest Region. The MSAs are listed in order from lowest to highest in terms of deposit market share controlled by In-State Banks. In-State Banks for the first three MSAs listed (from Milwaukee, WI to Chicago, IL) have a smaller portion of the deposits in each market relative to Out-of-State Banks. The top five Out-of-State Banks with the highest deposit market share in each of these MSAs averages approximately 58% - indicating these MSAs are mainly controlled by a small number of large Out-of-State Banks.

The bottom five MSAs (from Saint Louis, MO to Kansas City, MO-KS) are markets where In-State Banks possess the majority of deposits in the market. In-State Banks control at least 50% of the deposit market share in these five MSAs. Additionally, the top five In-State banks have a higher deposit market share than the top five Out-of-State Banks suggesting a local stronghold of large In-State Banks.

Deposit Market Share Breakdown: Midwestern Region MSAs					
Midwestern Region MSAs	In-State Banks' Market Share	Out-of-State Banks' Market Share	Top 5		
			In-State Banks' Market Share	Out-of-State Banks' Market Share	
Milwaukee, WI	28.9%	71.1%	14.1%	69.5%	
Minneapolis-St. Paul, MN	36.9%	63.1%	29.6%	62.1%	
Chicago, IL	46.0%	54.0%	27.7%	43.5%	
Saint Louis, MO	53.4%	46.6%	34.5%	33.8%	
Little Rock, AR	58.9%	41.1%	44.1%	40.3%	
Des Moines, IA	60.8%	39.2%	39.9%	37.7%	
Omaha-Council Bluffs, NE-IA	63.1%	36.9%	51.5%	32.7%	
Kansas City, MO-KS	75.1%	24.9%	40.9%	19.9%	

MSAs Controlled by Out-of-State Banks (Milwaukee, MN, Chicago)

MSAs Controlled by In-State Banks (Saint Louis, AR, IA, NE, KS)

Source: SNL Financial; deposit data as of June 30, 2014

The table below provides further information on the Midwest Region MSAs. Specifically, the table displays bank and branch counts, as well as, population statistics for each market.

Population per Bank and Branch							
Pop Rank	Metropolitan Area	2014 Population	Number of Banks	Number of Branches	Branches per Bank	Population per Bank	Population per Branch
1	Chicago, IL	9,557,430	215	2,995	14	44,453	3,191
2	Minneapolis-St. Paul, MN-WI	3,459,074	159	817	5	21,755	4,234
3	Saint Louis, MO	2,798,724	134	920	7	20,886	3,042
4	Kansas City, MO-KS	2,057,706	125	716	6	16,462	2,874
5	Milwaukee, WI	1,573,966	52	550	11	30,269	2,862
6	Omaha-Council Bluffs, NE-IA	898,194	74	331	4	12,138	2,714
7	Little Rock, AR	728,263	33	315	10	22,069	2,312
8	Des Moines, IA	601,313	49	225	5	12,272	2,673

Source: SNL Financial; number of banks and branches as of year-end 2014

Increase in Small Bank Holding Company Threshold to \$1 Billion

New Size of Small Bank Holding Companies

On December 18th, President Barack Obama signed legislation directing the Federal Reserve to propose revisions to the Small Bank Holding Company (“SBHC”) Policy Statement. Currently, banks with consolidated assets under \$500 million are subject to the Policy. Under the new proposal, the SBHC Policy Statement is expected to expand to all bank holding companies with consolidated assets under \$1 billion. This is the second time in which the Federal Reserve will be increasing the defined size limit of SBHC’s, with the last increase occurring in 2006 (from \$150 million in assets to \$500 million assets).

In addition to the consolidated asset size constraint, banks seeking to take advantage of the high SBHC limit will also need to conform to the following items to benefit from the SBHC Policy Statement:

- May not be engaged in significant nonbanking activities
- May not conduct significant off-balance sheet activities
- And, may not have a material amount of debt or equity securities outstanding (excluding trust preferred) that are registered with the SEC

What are the Benefits of Being an SBHC

The primary benefit for banks under \$1 billion in consolidated assets falling under the to be revised SBHC Policy Statement is the ability of these smaller SBHCs to use more debt when financing acquisitions than is permitted to larger bank holding companies. Under the SBHC Policy Statement, SBHCs are permitted to use debt to finance up to 75% of the purchase price of an acquisition. However, the Federal Reserve is also ensuring that excess debt used by SBHCs will not pose an increased potential of default risk – resulting in SBHCs having to demonstrate the ability to service acquisition debt while not straining capital levels of their subsidiary depository institutions. In order to ensure the future reduction of debt, under the SBHC Policy Statement, a SBHC must:

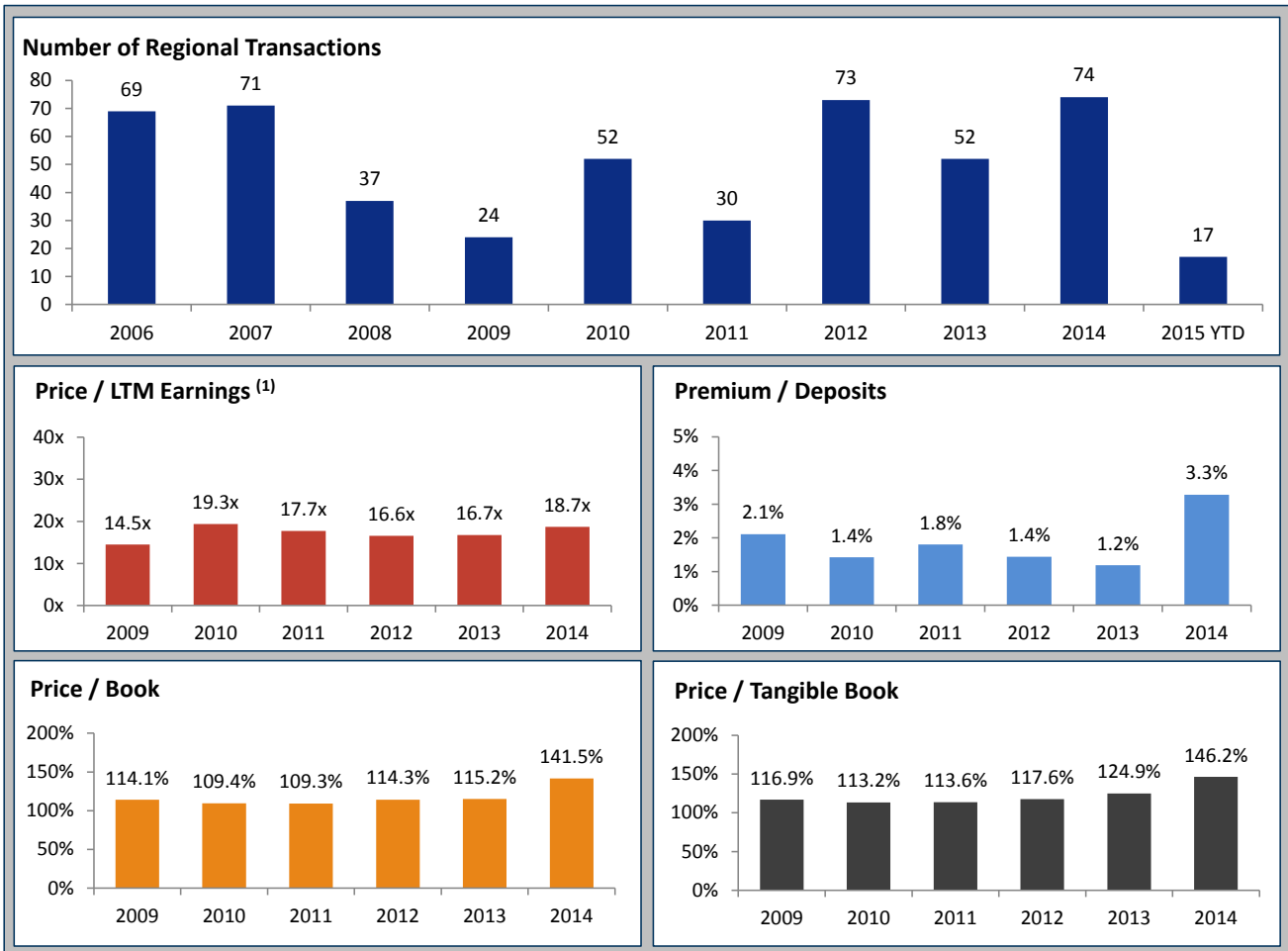
- Reduce parent company debt in such a manner that all debt is retired within 25 years of being incurred
- Reduce the debt to equity ratio to 0.30 to 1 or less within 12 years of the debt being incurred
- Ensure that each of the parent company’s insured depository institution subsidiaries is well capitalized
- Refrain from paying dividends until the debt to equity ratio is 1 to 1 or less

Trust preferred securities (“TRUPS”) are treated in two different ways when determining if an SBHC is compliant under the above leverage reduction action plans. TRUPS are counted towards the calculation of debt representing 75% of the acquisition price and also the calculation of the debt to equity ratio being 1 to 1 before paying dividends. TRUPS are not considered debt when determining adherence to the 12 year debt reduction and 25 year debt retirement plans.

Potential Effects of the Change

SBHCs, which tend to be community banks, will be able to access debt funding for acquisitions as a result of limited equity funding availability for these types of institutions. By increasing the size constraints of the SBHC policy statement, roughly 89% of all bank and savings & loan holding companies will now fall under the exemption. The increase in institutions now falling under the SBHC exemption may increase the number of acquisitions funded through bank stock loans and other debt funding in the bank M&A market.

Regional M&A Transaction Statistics (Includes AR, IA, IL, KS, MN, MO, NE, WI)



Note: Includes announced transactions in AR, IA, IL, KS, MN, MO, NE, WI excluding failed banks

Source: SNL Financial

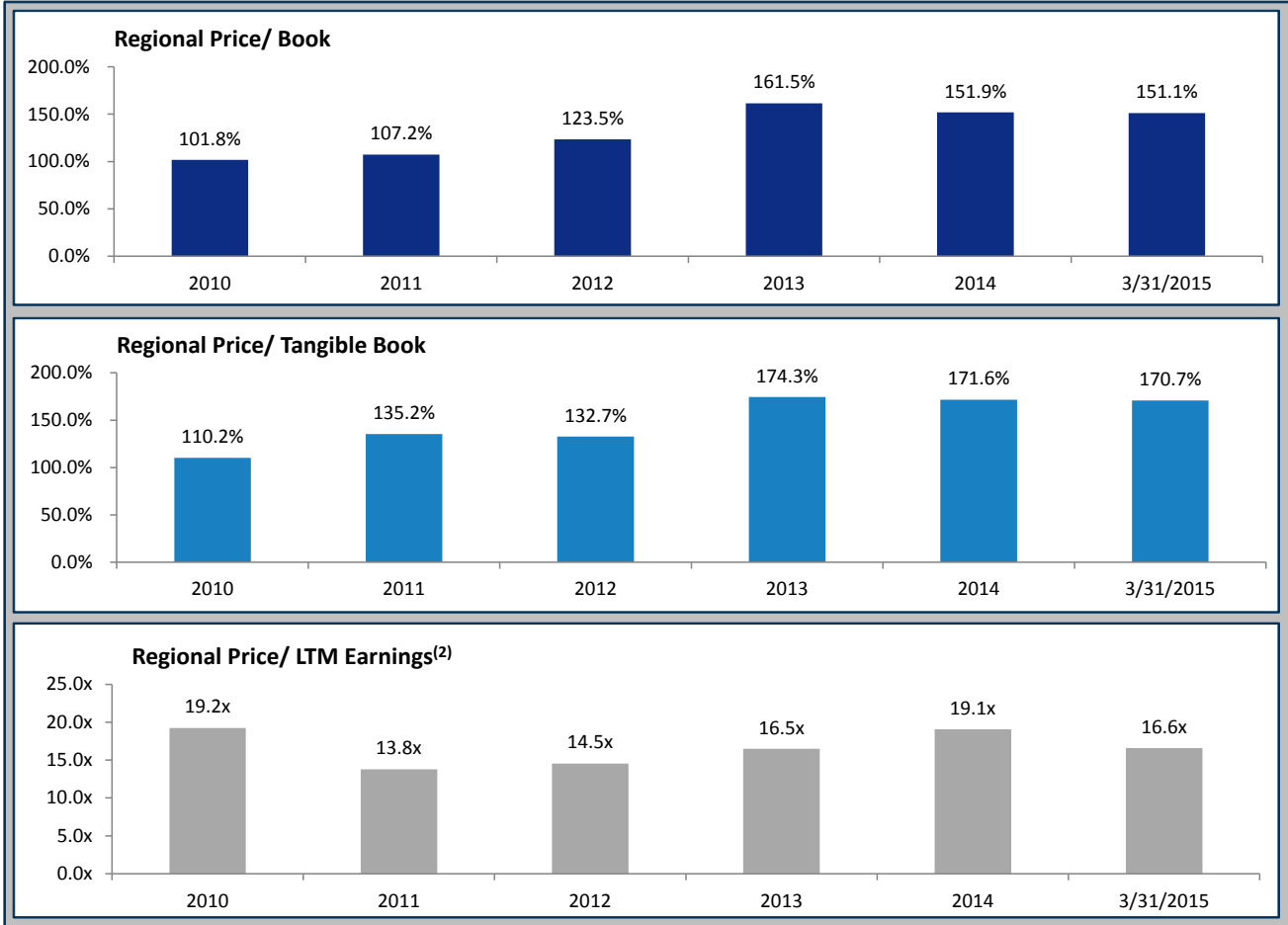
⁽¹⁾ Excludes multiples smaller than 8.0x and larger than 40.0x

Noteworthy Regional M&A Transactions

On March 2nd, Rosemont, Illinois-based **Wintrust Financial Corporation** (\$20.0 billion in assets) agreed to acquire Glen Ellyn, Illinois-based **Community Financial Shares Inc.**, the parent company of **Community Bank-Wheaton/Glen Ellyn** (\$343 million in assets) for approximately \$42 million representing 148% of tangible book value and 7.9x LTM earnings. The transaction consideration paid will be in 50% cash and 50% stock and the transaction is expected to close in the second or third quarter. Wintrust plans to combine Community Bank's three locations with its existing branch network in the second half of 2015.

On March 30th, Rosemont, Illinois-based **Wintrust Financial Corporation** (\$20.0 billion in assets) announced its second deal of the year with the acquisition of Chicago, Illinois-based **North Bank** (\$108 million in assets) for approximately \$17 million in an all-cash deal representing 152% of tangible book value and 29.6x LTM earnings. Wintrust will expand by two branches in Cook County, Illinois to be ranked 10th in deposit market share (2.72% of total market deposits).

Midwest Bank Index (“MWBI”)⁽¹⁾ Historical Trading Multiples

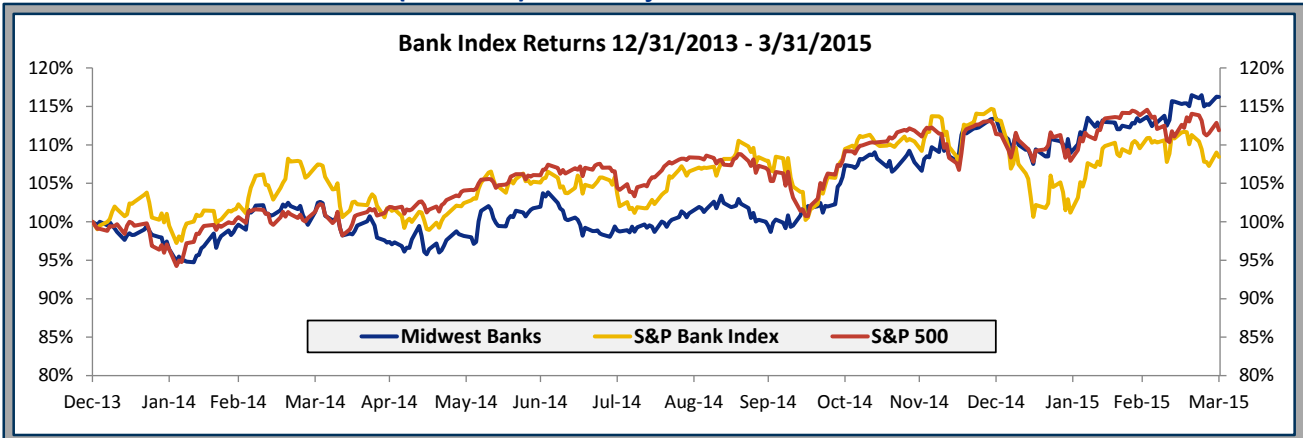


⁽¹⁾ Midwest Bank Index returns are calculated through an equally weighted mean of stock price changes from 21 regional banks in AR, IA, IL, KS, MN, MO, NE, and WI

⁽²⁾ Excludes Price/ LTM Earnings multiples greater than 40.0x

Note: Includes all publicly traded banks in AR, IA, IL, KS, MN, MO, NE, and WI with less than \$10B in assets, greater than 5% TE/TA, 1-year avg. daily trading volume greater than 5,000, and greater than \$3 per share (21 banks)
Source: SNL Financial

Midwest Bank Index Returns (“MWBI”)⁽¹⁾ vs. Major Indices



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Source: SNL Financial



cutting through complexity

Midwest Bank Index (“MWBI”)⁽¹⁾

Bank Name	Symbol	State	Market Cap (\$ in mil)	Stock Price 3/31/15	Stock Price Change		Price / LTM EPS	Price / Book	Price / Tang. Book	NPAs ⁽²⁾ / Assets	LTM ROAA
					Monthly	YTD					
Ames National Corporation	ATLO	IA	\$229	\$24.85	0.8%	(4.20%)	15.2x	149.6%	158.2%	0.84%	1.21%
Bank Mutual Corporation	BKMU	WI	\$338	\$7.32	2.1%	6.71%	23.6x	121.4%	121.5%	0.72%	0.63%
Bank of the Ozarks, Inc.	OZRK	AR	\$3,265	\$36.93	0.9%	(2.61%)	24.3x	324.9%	367.7%	1.41%	2.02%
BankFinancial Corporation	BFIN	IL	\$271	\$13.14	10.2%	10.79%	6.5x	128.3%	129.4%	1.27%	2.83%
Baylake Corp.	BYLK	WI	\$114	\$12.66	1.4%	1.36%	13.1x	108.7%	116.7%	0.92%	0.91%
Bear State Financial, Inc.	BSF	AR	\$333	\$9.89	(8.8%)	(10.01%)	11.8x	193.6%	240.2%	NA	2.24%
Capitol Federal Financial, Inc.	CFFN	KS	\$1,747	\$12.50	0.7%	(2.19%)	21.6x	119.9%	119.9%	0.35%	0.81%
Enterprise Financial Services Corp	EFSC	MO	\$416	\$20.66	2.7%	4.71%	15.3x	129.6%	145.5%	1.20%	0.86%
First Busey Corporation	BUSE	IL	\$579	\$6.69	5.7%	2.76%	18.1x	161.0%	174.2%	0.27%	0.93%
First Business Financial Services, Inc.	FBIZ	WI	\$196	\$43.24	(7.0%)	(9.75%)	12.3x	136.1%	147.9%	0.70%	1.04%
First Midwest Bancorp, Inc.	FMBI	IL	\$1,364	\$17.37	1.6%	1.52%	18.9x	122.6%	176.1%	1.15%	0.80%
Great Southern Bancorp, Inc.	GSBC	MO	\$521	\$39.39	5.3%	(0.71%)	12.7x	149.8%	152.9%	1.95%	1.14%
Heartland Financial USA, Inc.	HTLF	IA	\$697	\$32.63	6.3%	20.41%	14.9x	145.7%	163.2%	0.73%	0.72%
Home BancShares, Inc.	HOMB	AR	\$2,320	\$33.89	7.1%	5.38%	19.9x	225.5%	342.3%	1.17%	1.63%
MidWestOne Financial Group, Inc.	MOFG	IA	\$240	\$28.83	0.2%	0.07%	13.2x	125.0%	130.6%	0.70%	1.05%
Old Second Bancorp, Inc.	OSBC	IL	\$165	\$5.72	4.4%	6.52%	12.4x	114.7%	114.7%	2.86%	0.50%
Pulaski Financial Corp.	PULB	MO	\$155	\$12.37	2.8%	0.32%	13.0x	126.4%	130.9%	2.10%	0.89%
QCR Holdings, Inc.	QCRH	IL	\$144	\$17.85	2.1%	(0.06%)	10.4x	98.5%	102.0%	1.21%	0.61%
Simmons First National Corporation	SFNC	AR	\$1,335	\$45.47	11.0%	11.86%	21.5x	166.1%	224.7%	2.72%	0.80%
Waterstone Financial, Inc.	WSBF	WI	\$444	\$12.84	(0.2%)	(2.36%)	33.8x	98.2%	98.3%	3.18%	0.71%
West Bancorporation, Inc.	WTBA	IA	\$308	\$19.89	13.5%	16.86%	15.9x	227.3%	227.3%	0.23%	1.32%
Average⁽¹⁾			\$723		3.0%	2.7%	16.6x	151.1%	170.7%	1.28%	1.13%
				<i>S&P Bank</i>	<i>(1.0%)</i>	<i>(4.3%)</i>					
				<i>S&P 500</i>	<i>(1.7%)</i>	<i>0.4%</i>					

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Source: SNL Financial

cutting through complexity Pine River Valley Bank Midwest & Northeast Bank has been acquired by an (pending) 	cutting through complexity Horizon Community Bank completed an equity financing	cutting through complexity Valley National Bank operates New Mexico has been acquired by 	cutting through complexity Steele Street Bank & Trust has been acquired by 	cutting through complexity Advantage Bank has been acquired by a Private Investor	cutting through complexity Star Bank has been acquired by an (pending) Investor Group
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cutting through complexity Solera National Bank has acquired a branch of 	cutting through complexity New West Bank has been acquired by 	cutting through complexity First National Bank of Santa Fe has been acquired by Strategic Growth Bancorp, Inc.	cutting through complexity The Eastern Colorado Bank has acquired 	cutting through complexity Grand Valley Bank has acquired a branch of 	cutting through complexity PCM has been acquired by

⁽¹⁾ Includes transactions completed by KPMG CF professionals while employed at another firm, substantially all of whose assets were acquired by KPMG CF

Wesley A. Brown

Managing Director

wesleybrown@kpmg.com

303.295.8883

Adam C. Fiedor

Director

afiedor@kpmg.com

303.295.8873

Michael D. Richter

Director

michaelrichter@kpmg.com

303.295.8847

Michael P. Fleschner

Associate

mfleschner@kpmg.com

303.295.8875

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