



# MIDWEST BANK QUARTERLY 2Q17 REVIEW

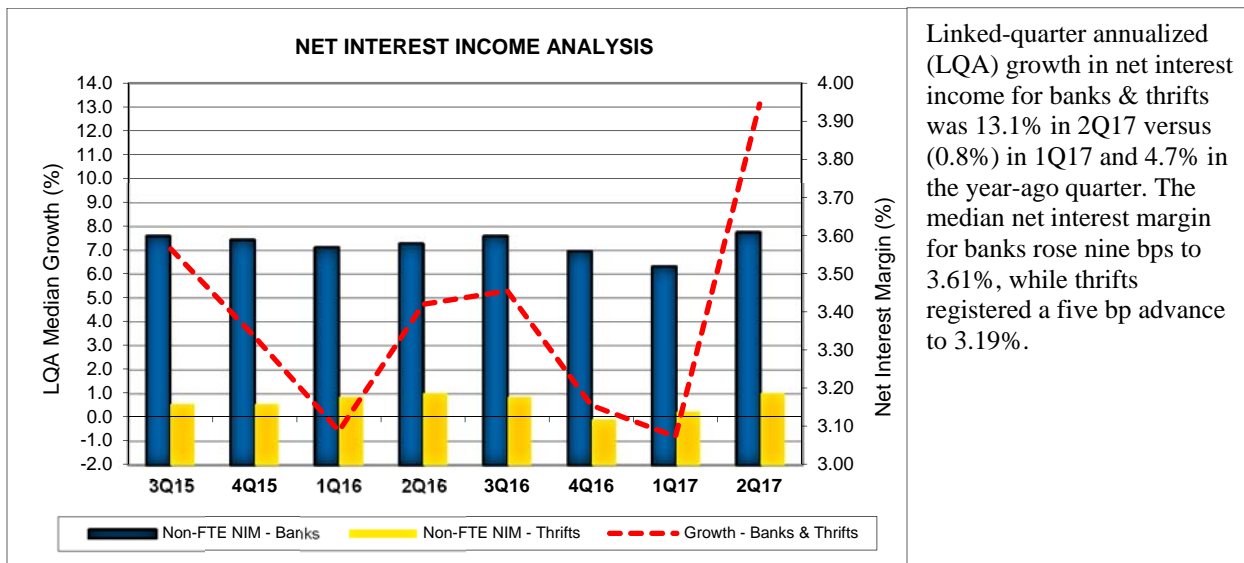
### Banks

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J.J.B. Hilliard, W.L. Lyons, LLC  
August 17, 2017

## FINANCIAL REVIEW

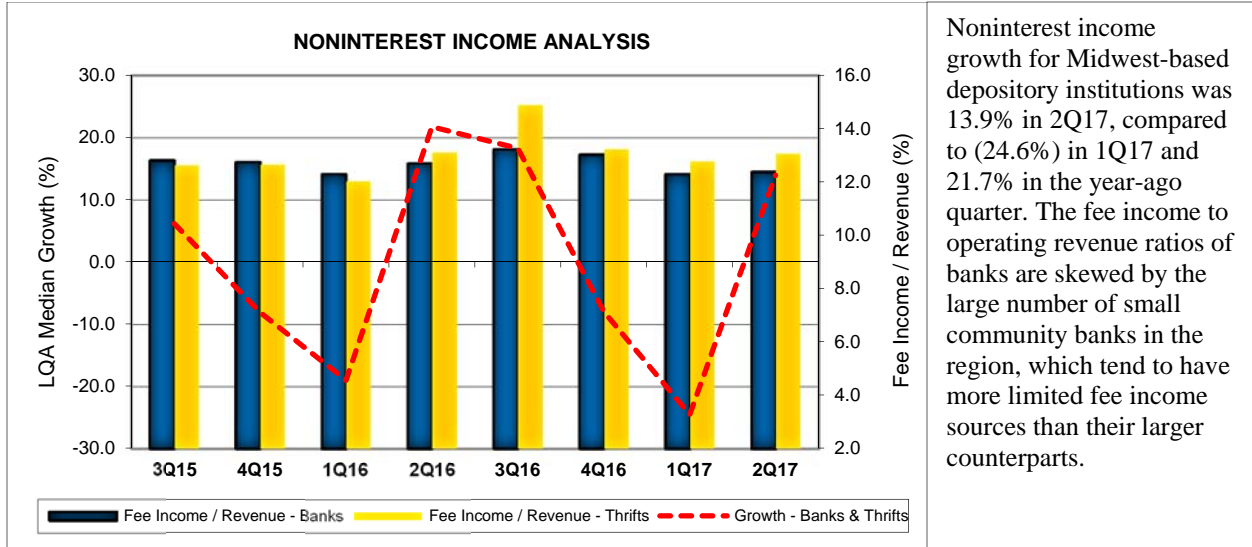
This section presents financial trends realized by the 2,685 financial institutions (2,300 banks and 385 thrifts) headquartered in the Midwest based on regulatory data provided by SNL Financial. The section contains the following subcategories: Income Statement Trends, Asset Quality Trends and Balance Sheet Trends. Unless otherwise noted, data is presented on a median annualized basis. Please note that growth and other statistics can be influenced by acquisition activity.

### Income Statement Trends

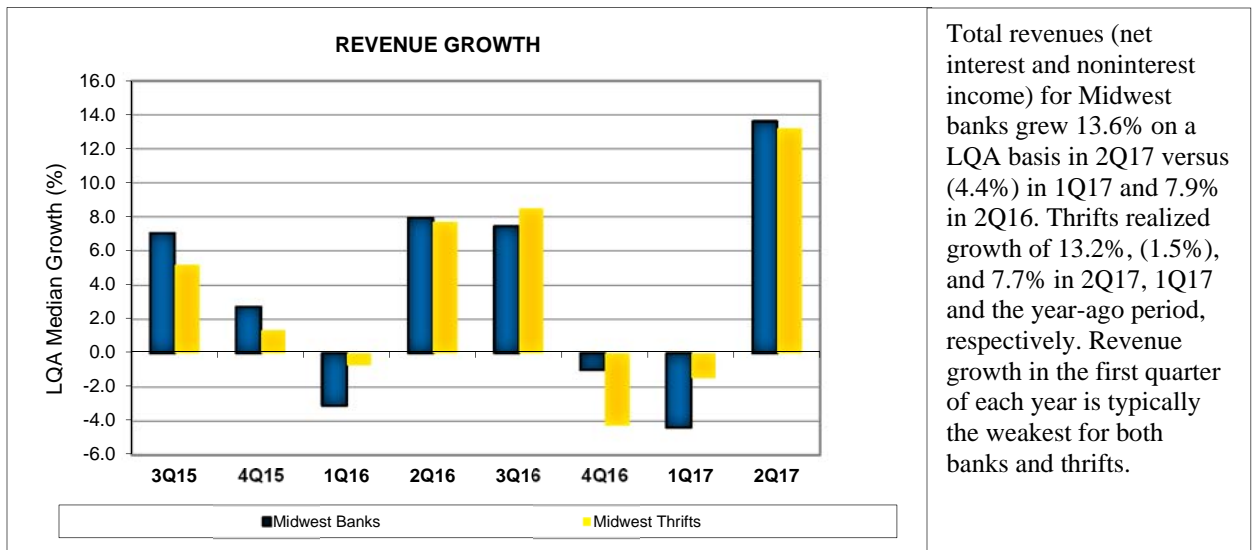


To obtain important disclosure information regarding Hilliard Lyons' rating system, valuation methods, risk factors and potential conflicts of interest with respect to the companies covered in this report, please call (800) 444-1854 ext. 8820, send a request via e-mail to [RsLib@hilliard.com](mailto:RsLib@hilliard.com), or go online to <http://hilliard.com/site/market-info/research-disclosures.html>. Requests should include the name and date of this report and a list of companies for which the disclosure information is requested.

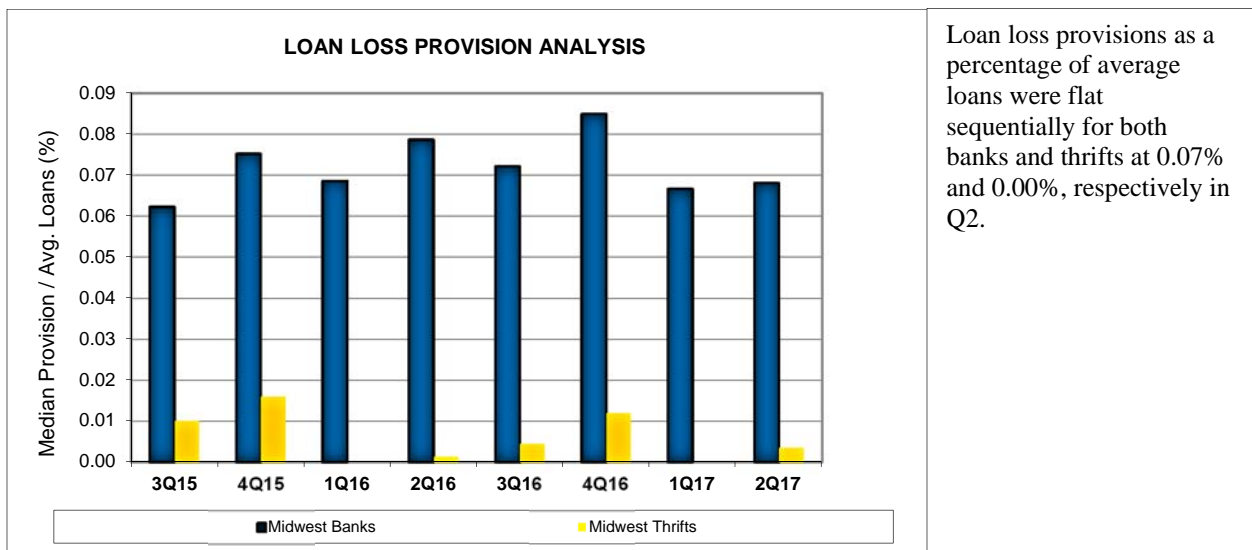
**Note Important Disclosures on page 10**  
**Note Analyst Certification on page 10**



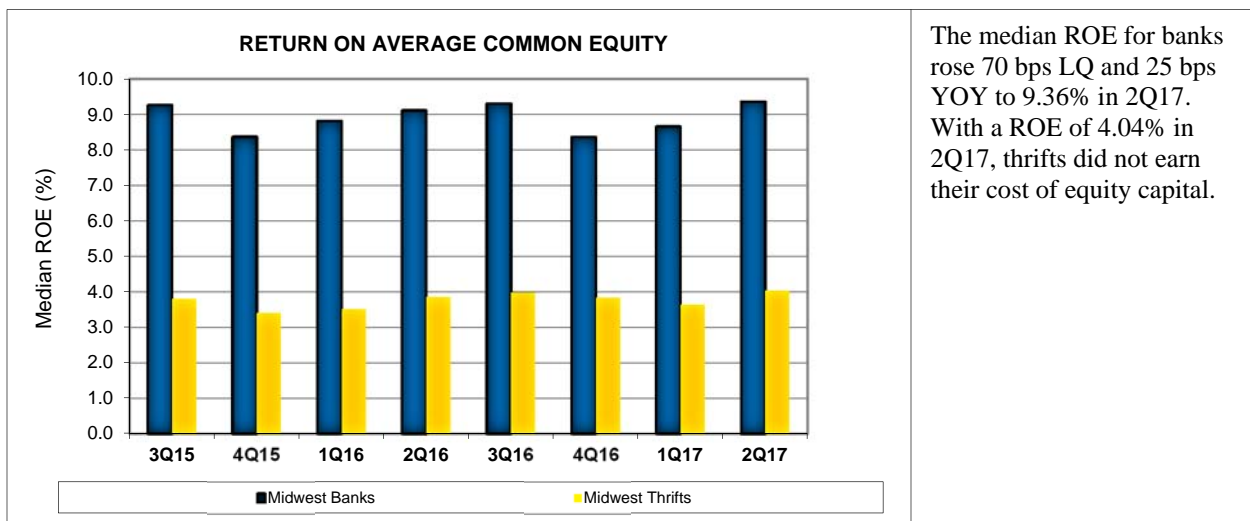
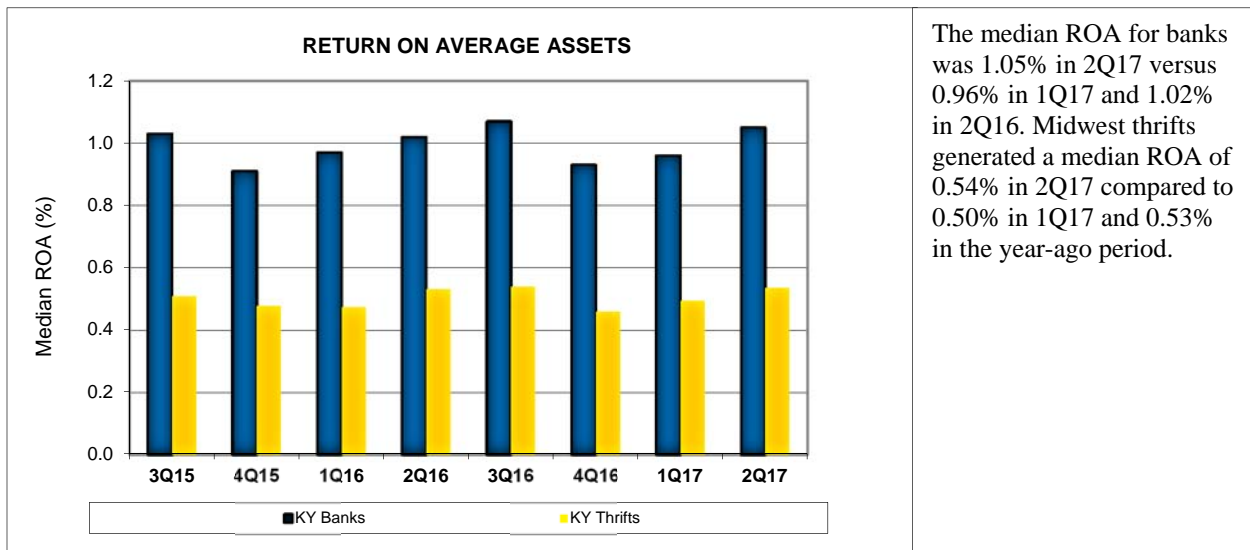
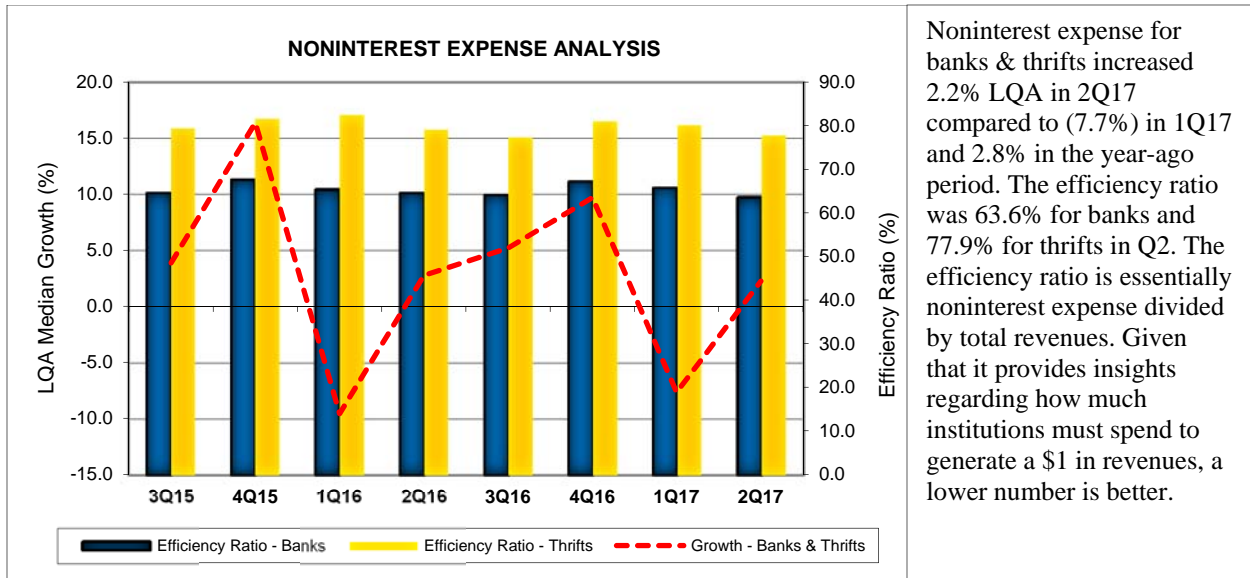
Noninterest income growth for Midwest-based depository institutions was 13.9% in 2Q17, compared to (24.6%) in 1Q17 and 21.7% in the year-ago quarter. The fee income to operating revenue ratios of banks are skewed by the large number of small community banks in the region, which tend to have more limited fee income sources than their larger counterparts.



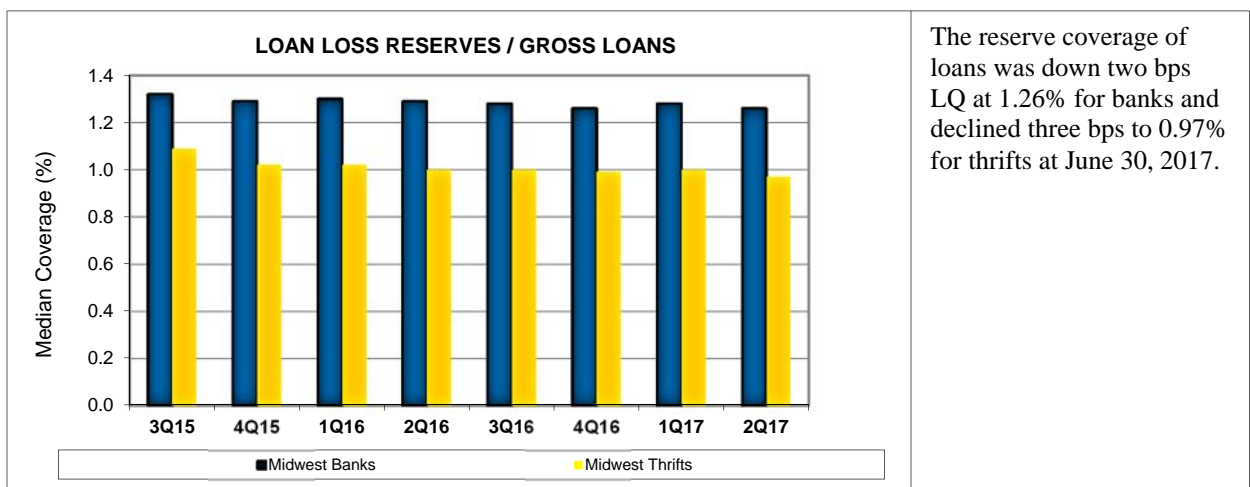
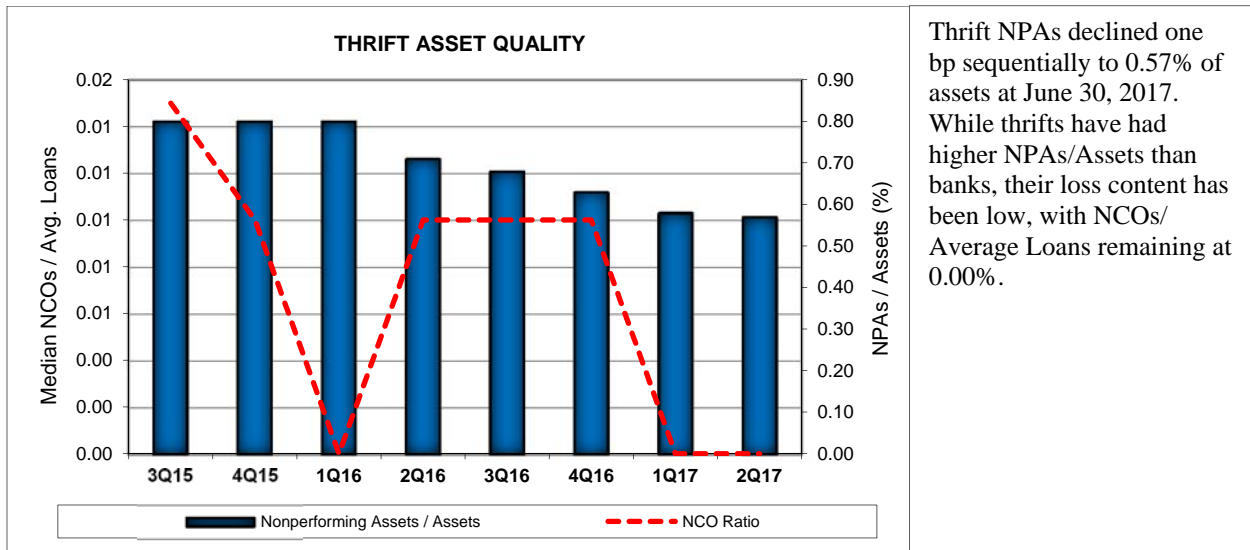
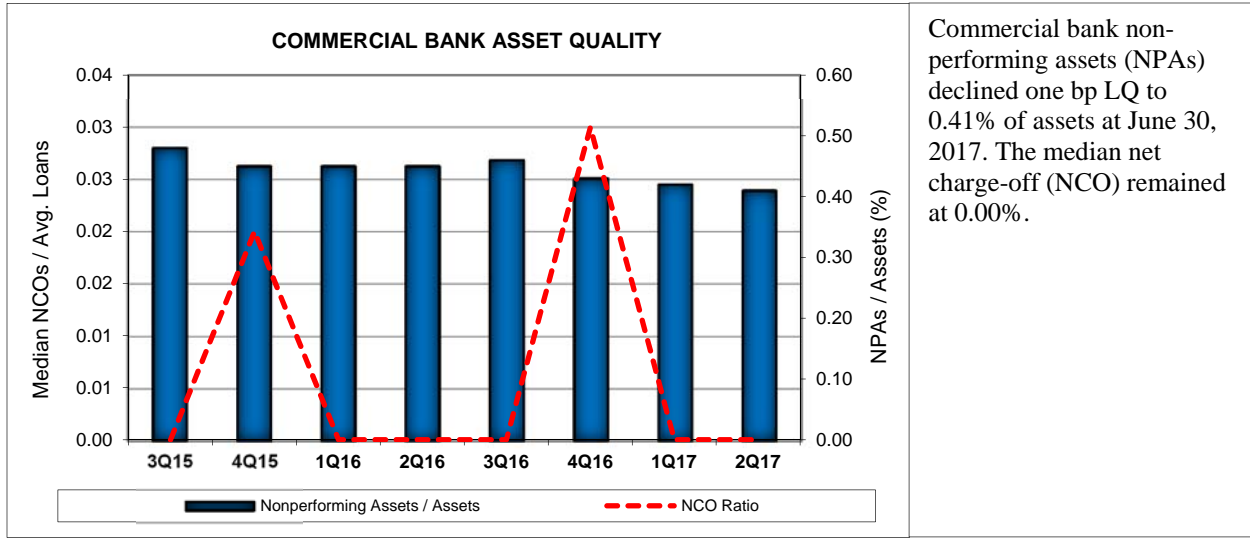
Total revenues (net interest and noninterest income) for Midwest banks grew 13.6% on a LQA basis in 2Q17 versus (4.4%) in 1Q17 and 7.9% in 2Q16. Thrifts realized growth of 13.2%, (1.5%), and 7.7% in 2Q17, 1Q17 and the year-ago period, respectively. Revenue growth in the first quarter of each year is typically the weakest for both banks and thrifts.

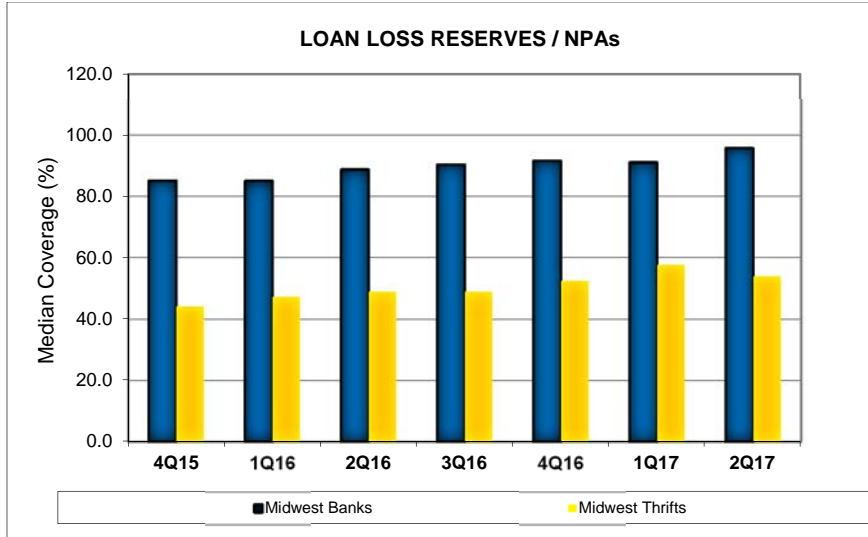


Loan loss provisions as a percentage of average loans were flat sequentially for both banks and thrifts at 0.07% and 0.00%, respectively in Q2.



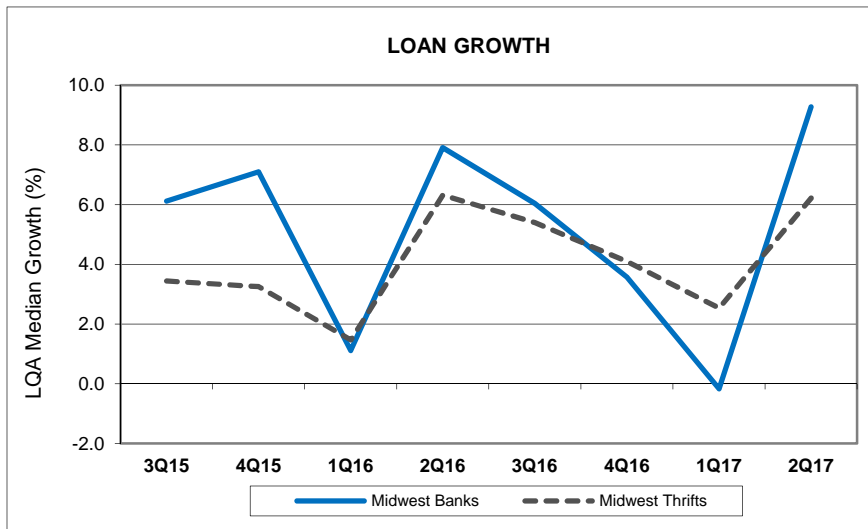
**Asset Quality Trends**



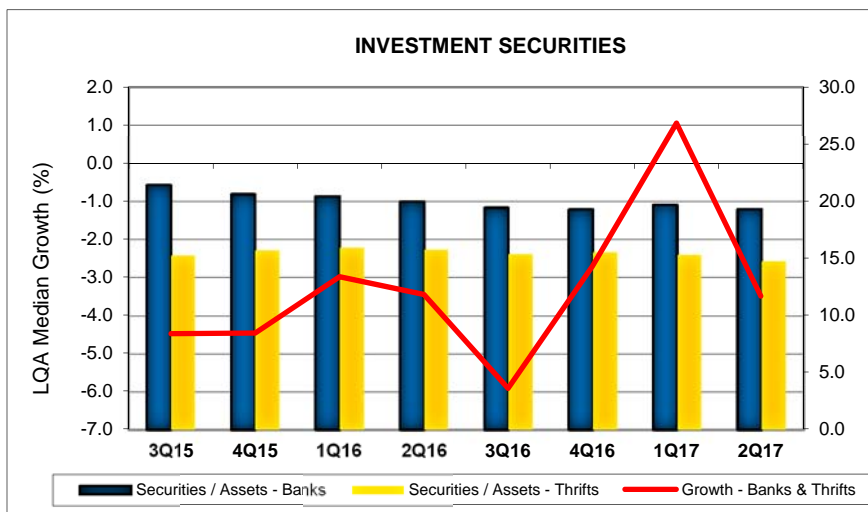


The reserve coverage of NPAs for Midwest banks increased to 95.7% at the end of 2Q17 from 91.0% at March 31, 2017. The NPA coverage for thrifts decreased to 53.8% at June 30, 2017 from 57.6% at the end of 1Q17.

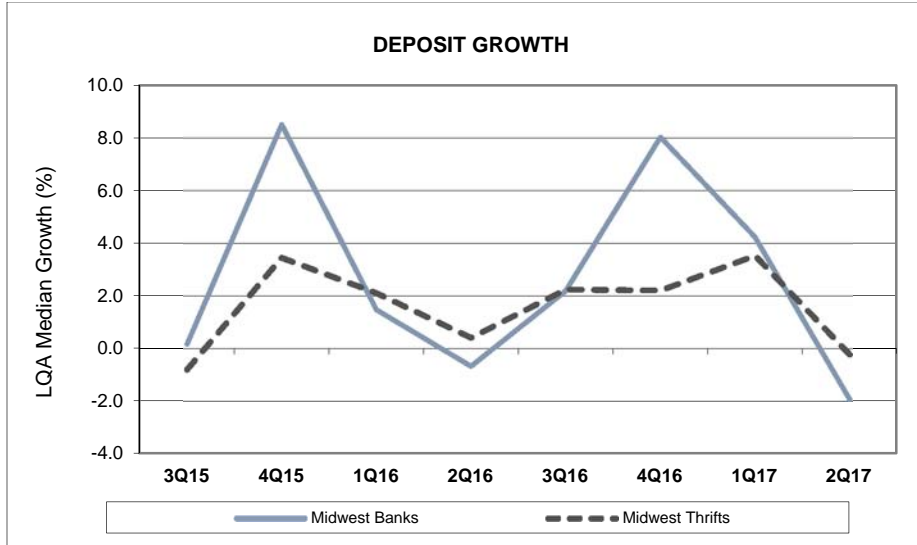
### Balance Sheet Trends



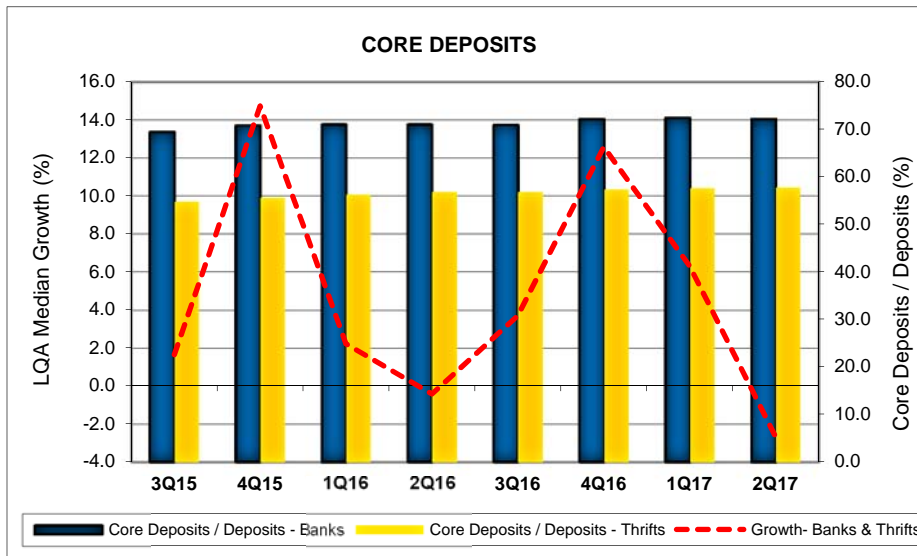
Midwest banks realized LQA growth in loans of 9.3% in 2Q17 versus (0.2%) in 1Q17 and 7.9% in 2Q16. Loan growth for thrifts was 6.2%, 2.5% and 6.3%, respectively, during these periods. Loan growth tends to be seasonally weak for depository institutions in the first quarter of each year.



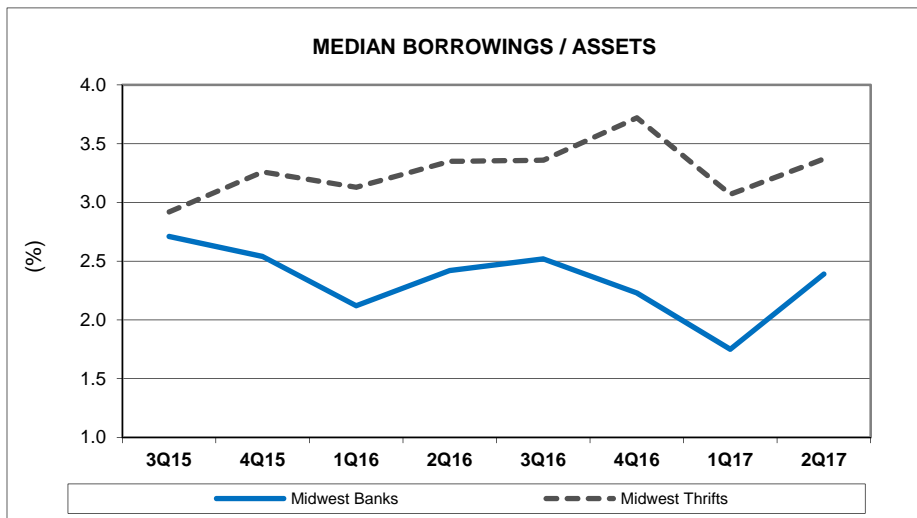
Total securities of Midwest banks & thrifts fell (3.5%) in 2Q17 versus 1.1% in 1Q17 and (3.5%) in the year-ago period. Securities comprised 19.3% of bank assets and 14.7% of thrift assets at June 30, 2017.



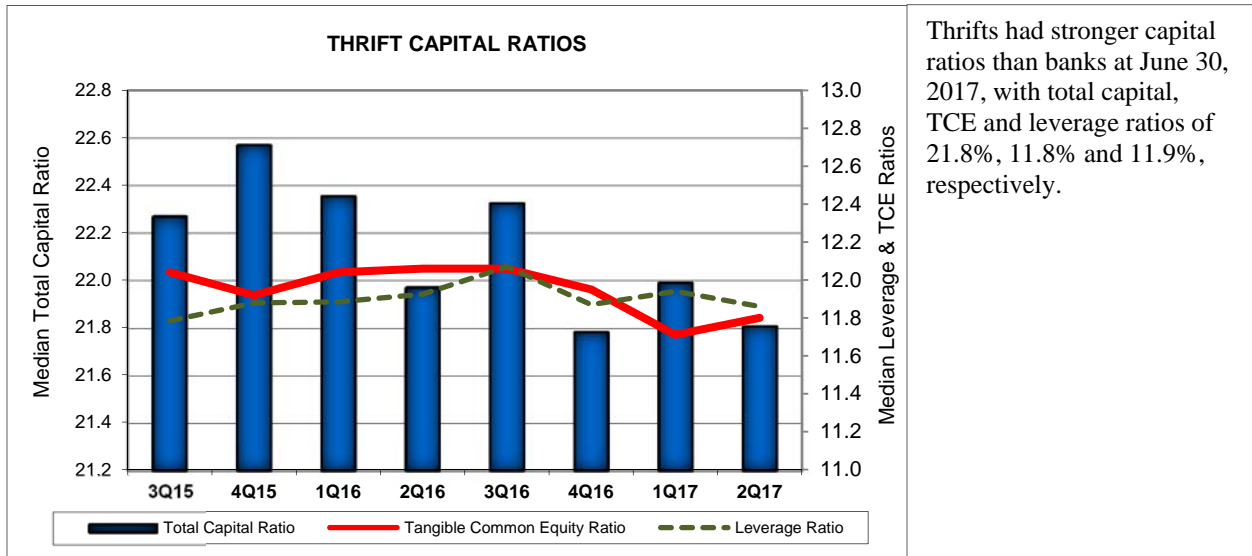
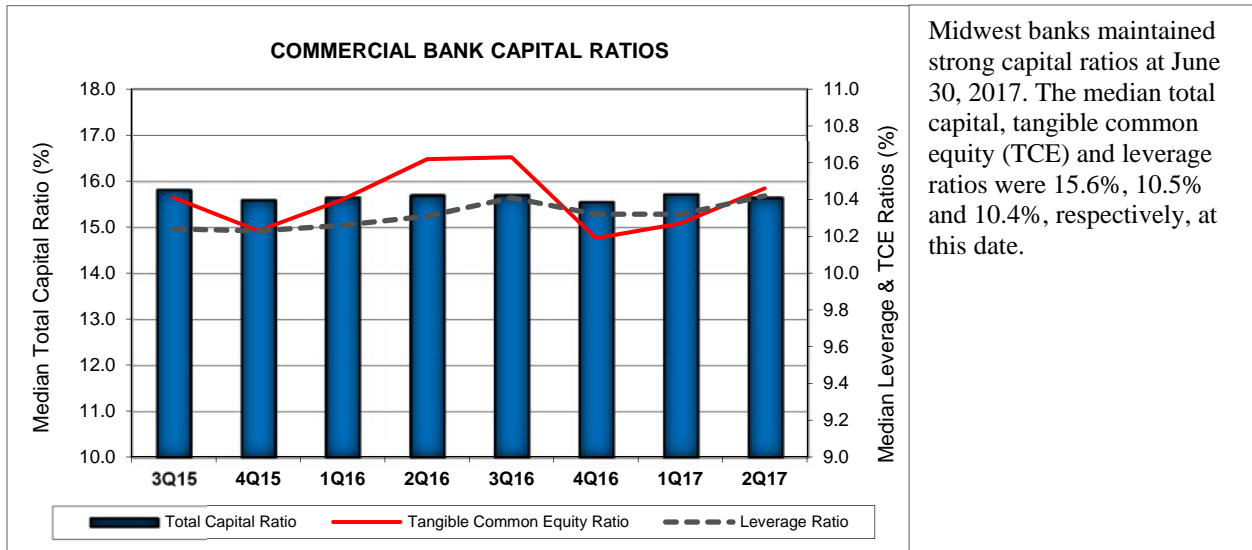
Total deposits of banks decreased (1.9%) on a LQA basis in 2Q17, versus 4.2% in 1Q17 and (0.7%) in the year-ago quarter. Thrifts realized growth of (0.2%), 3.5% and 0.4% respectively, in these periods.



Core deposits (total deposits less time deposits) for banks and thrifts on a LQA basis in 2Q17. They accounted for 72.2% of bank deposits and 57.7% of thrift deposits at June 30, 2017.



Total outside borrowings as a percentage of assets were 2.4% for banks and 3.4% for thrifts at June 30, 2017 versus 1.8% and 3.1%, respectively, at March 31, 2017.



**MERGER & ACQUISITION ACTIVITY**

There were 32 whole bank acquisitions announced since 1Q17 involving Midwest-based financial institutions excluding deals involving private investors. Pricing multiples for these deals are provided in the following table.

**ANALYSIS OF BANK & THRIFT M&A ACTIVITY  
INVOLVING MIDWEST-BASED INSTITUTIONS  
ANNOUNCED AFTER MARCH 31, 2017**

Buyer/ Target Name	Announce Date	Buyer State	Seller State	Pricing @ Announcement		
				Deal Value (\$M)	Deal Value/ Earnings (x)	Deal Value/ Tangible Common Equity (%)
Royal Bancshares, Inc./ State Bank of Cazenovia	4/4/2017	WI	WI	6.7	50.0	104.7
Home S&L Association of Carroll County, F.A./ Carroll County S&L Association	4/4/2017	MO	MO	NA	NA	NA
Piper Holdings, Inc./ Farmers State Bank	4/4/2017	IN	IN	9.4	NM	155.7
M1 Bancshares, Inc./ Bank of Macks Creek	4/14/2017	MO	MO	NA	NA	NA
First Commerce Financial Corporation/ Blue Rapids Bancshares, Inc.	4/26/2017	KS	KS	NA	NA	NA
Mid-America Financial Corporation/ Morgan Federal Bank	4/26/2017	KS	CO	14.6	20.0	117.7
Paramount Financial Group, LLC/ Superior Bank	5/1/2017	MO	MO	NA	NA	NA
Honor Credit Union/ Citizens State Bank of Ontonagon	5/5/2017	MI	MI	NA	NA	NA
First Mutual Holding Co./ Doolin Security Savings Bank, FSB	5/11/2017	OH	WV	NA	NA	NA
Bank First National Corporation/ Waupaca Bancorporation, Inc.	5/12/2017	WI	WI	76.1	NM	105.3
Vintage Bancorp, Inc./ Bank of Whitewater	5/12/2017	KS	KS	NA	NA	NA
Private Investor/ Pikes Peak National Bank	5/12/2017	IN	CO	NA	NA	NA
Horizon Bancorp/ Lafayette Community Bancorp	5/23/2017	IN	IN	32.0	33.8	167.2
Waseca Bancshares, Inc./ Freedom Bancorporation, Inc.	5/23/2017	MN	MN	NA	NA	NA
First American Bancshares, Inc./ Commercial Bancshares, Inc.	5/26/2017	WI	WI	NA	NA	NA
Drayton Bancor, Inc./ Pembina County Bankshares, Ltd.	5/31/2017	ND	ND	NA	NA	NA
QCR Holdings, Inc./ Guaranty Bank and Trust Company	6/8/2017	IL	IA	44.2	27.4	144.2
Horizon Bancorp/ Wolverine Bancorp, Inc.	6/14/2017	IN	MI	91.8	17.8	141.3
National Bank Holdings Corporation/ Peoples, Inc.	6/26/2017	CO	KS	143.6	7.2	173.0
Community State Bancorporation/ Little Sioux Bancshares, Inc.	6/27/2017	IA	IA	NA	NA	NA
Premier Holdings, Ltd./ State Bank of Alcester	6/30/2017	IA	SD	NA	NA	NA
Ozarks Heritage Financial Group, Inc./ Financial Enterprises, Inc.	7/11/2017	MO	MO	7.4	30.8	78.5
Equity Bancshares, Inc./ Eastman National Bancshares, Inc.	7/17/2017	KS	OK	46.6	10.8	192.4
Equity Bancshares, Inc./ Cache Holdings, Inc.	7/17/2017	KS	OK	47.9	12.5	160.8
Associated Banc-Corp/ Bank Mutual Corporation	7/20/2017	WI	WI	482.3	28.8	165.3
First Savings Financial Group, Inc./ First National Bank of Odon	7/21/2017	IN	IN	10.6	15.0	132.3
First Financial Bancorp./ MainSource Financial Group, Inc.	7/25/2017	OH	IN	1,003.2	22.4	266.4
Southern Hills Community Bank/ Adams County Building and Loan Company	8/2/2017	OH	OH	NA	NA	NA
Fishback Financial Corporation/ Peoples Bank of Commerce/State Bank of New Prague	8/3/2017	SD	MN	NA	NA	NA
Lake Michigan Credit Union/ Encore Bank	8/7/2017	MI	FL	NA	NA	NA
Hometown Community Bancorp, Inc./ State Bank of Arthur	8/8/2017	IL	IL	NA	NA	NA
Old National Bancorp/ Anchor Bancorp, Inc.	8/8/2017	IN	MN	303.2	17.1	190.5
<b>Median Multiple</b>					<b>20.0</b>	<b>155.7</b>

Source: SNL Financial



## PUBLIC COMPANY VALUATIONS

There are 225 Midwest-based financial institutions that are traded on the New York Stock Exchange, NASDAQ or over the counter. Current valuation multiples for these stocks are provided in the table below. Micro-cap institutions tend to have thinner tangible book multiples, which we largely attribute to the lack of critical mass to effectively absorb the increase in regulatory compliance costs subsequent to the financial crisis and their limited trading volume.

### ANALYSIS OF COMMON STOCK VALUATIONS MIDWEST-BASED FINANCIAL INSTITUTIONS VALUATION DATA AS OF AUGUST 16, 2017

Market Capitalization	Median Statistics				
	Price/ TTM EPS (X)	Price/ 2017 EPS Est (X)	Price/ 2018 EPS Est (X)	Price/ Tang. Book (%)	Dividend Yield (%)
Large	18.2	14.3	13.2	196.4	2.1
Mid	18.2	15.8	14.2	201.9	2.0
Small	16.6	16.3	14.4	185.4	2.0
Micro	14.4	14.7	13.0	111.8	1.9

Source: SNL Financial

The following table provides market data for publicly traded companies listed in this report.

### MARKET DATA FOR PUBLICLY TRADED COMPANIES REFERENCED IN THIS REPORT VALUATION DATA AS OF AUGUST 16, 2017

Company	City	State	Ticker	Closing Price
Associated Banc-Corp	Green Bay	WI	ASB	22.50
Bank First National Corporation	Manitowoc	WI	BFNC	37.50
Bank Mutual Corporation	Milwaukee	WI	BKMU	9.30
Equity Bancshares, Inc.	Wichita	KS	EQBK	33.92
First Financial Bancorp	Cincinnati	OH	FFBC	24.95
First Savings Financial Group, Inc.	Clarksville	IN	FSFG	52.80
Horizon Bancorp	Michigan City	IN	HBNC	25.76
Lafayette Community Bancorp	Lafayette	IN	LFYC	16.85
MainSource Financial Group, Inc.	Greensburg	IN	MSFG	33.96
National Bank Holdings Corporation	Greenwood Village	CO	NBHC	32.39
Old National Bancorp	Evansville	IN	ONB	16.65
QCR Holdings, Inc.	Moline	IL	QCRH	44.75
Wolverine Bancorp, Inc.	Midland	MI	WBKC	39.80

Source: SNL Financial

*Additional information is available upon request.*

### Analyst Certification

I, Andrew W. Stapp, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

I, Tyler Agee, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

### Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

First Financial Bancorp, Lafayette Community Bancorp, and Old National Bancorp are/were clients of Hilliard Lyons within the past 12 months, received non-investment banking securities related services and Hilliard Lyons received compensation for those services.

### Definitions of Ratings:

**Buy** - We believe the stock has significant total return potential in the coming 12 months.

**Long-term Buy** - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

**Neutral** - We believe the stock is holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

**Underperform** - We believe the stock is vulnerable to a price decline in the next 12 months.

### Definitions of Suitabilities:

1. A large cap, core holding with a solid history.

2. A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks.

3. An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage.

4. Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base.

	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
<b>Rating</b>				
<b>Buy</b>	38	30%	11%	89%
<b>Hold/Neutral</b>	77	61%	8%	92%
<b>Sell</b>	11	9%	0%	100%

*As of 9 August 2017*

**Other Disclosures**

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