



# MIDWEST BANK QUARTERLY 1Q17 REVIEW

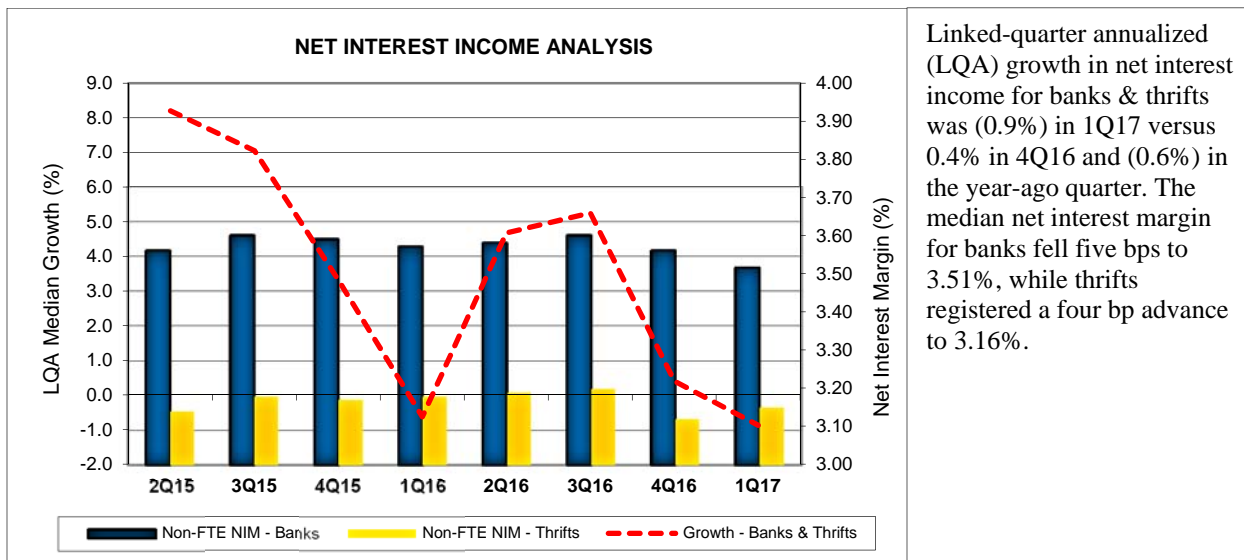
### Banks

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J.J.B. Hilliard, W.L. Lyons, LLC  
May 11, 2017

## FINANCIAL REVIEW

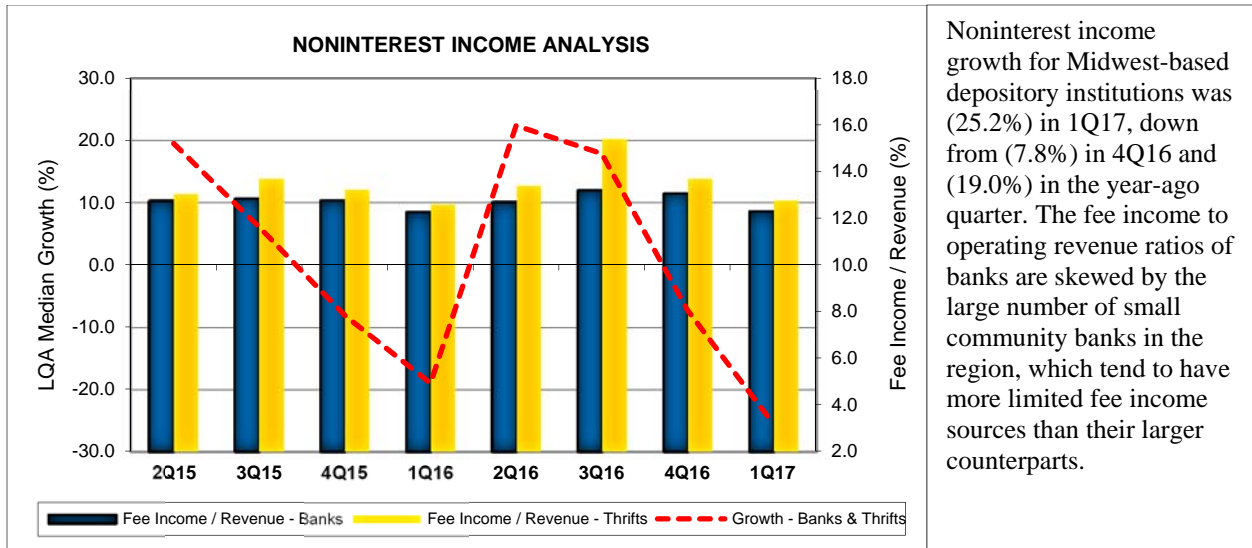
This section presents financial trends realized by the 2,716 financial institutions (2,321 banks and 395 thrifts) headquartered in the Midwest based on regulatory data provided by SNL Financial. The section contains the following subcategories: Income Statement Trends, Asset Quality Trends and Balance 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

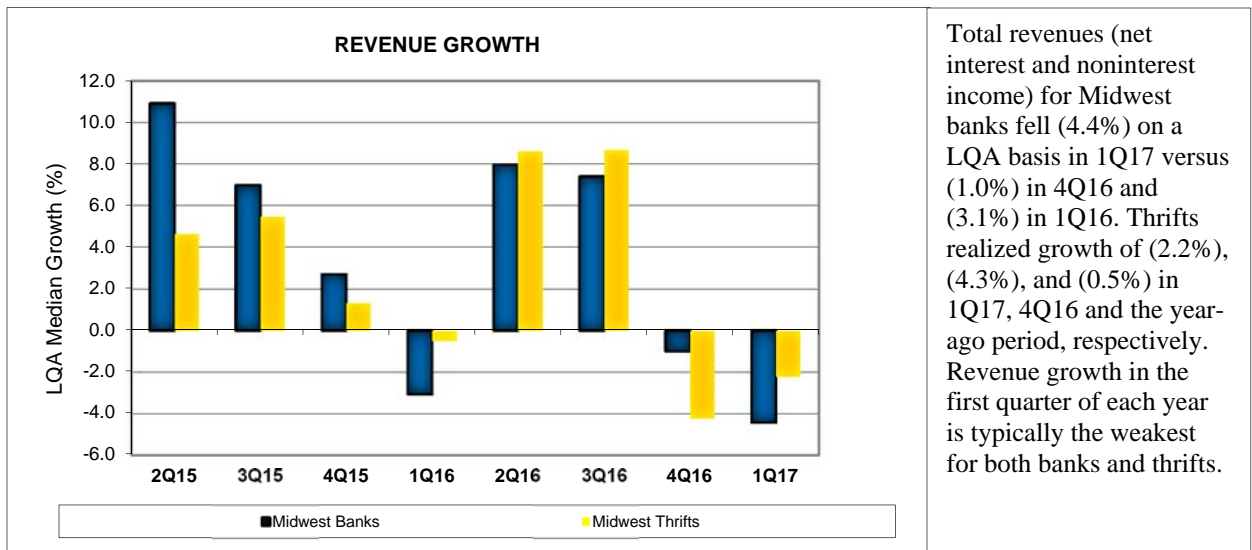


To obtain important disclosure information regarding Hilliard Lyons' rating system, valuation methods, risk factors and potential conflicts of interest with respect to the companies covered in this report, please call (800) 444-1854 ext. 8820, send a request via e-mail to [RsLib@hilliard.com](mailto:RsLib@hilliard.com), 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.

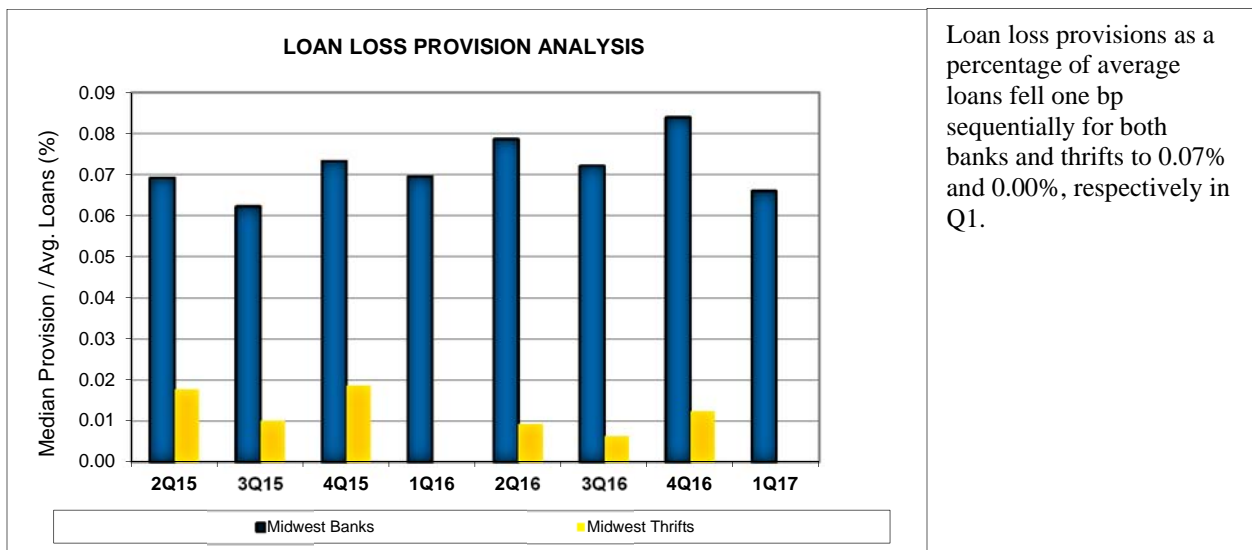
**Note Important Disclosures on page 10**  
**Note Analyst Certification on page 10**



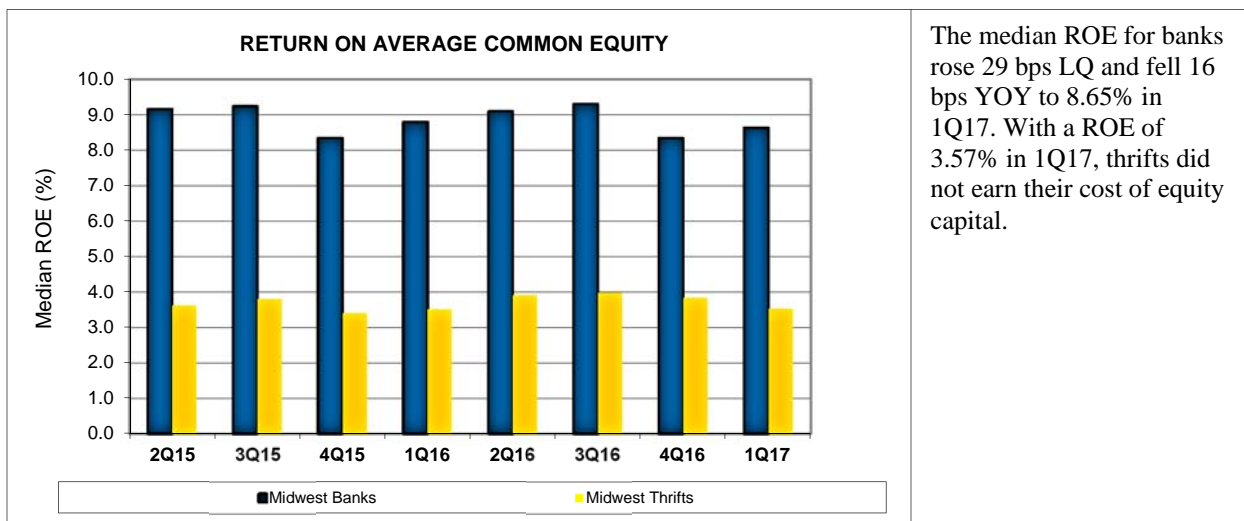
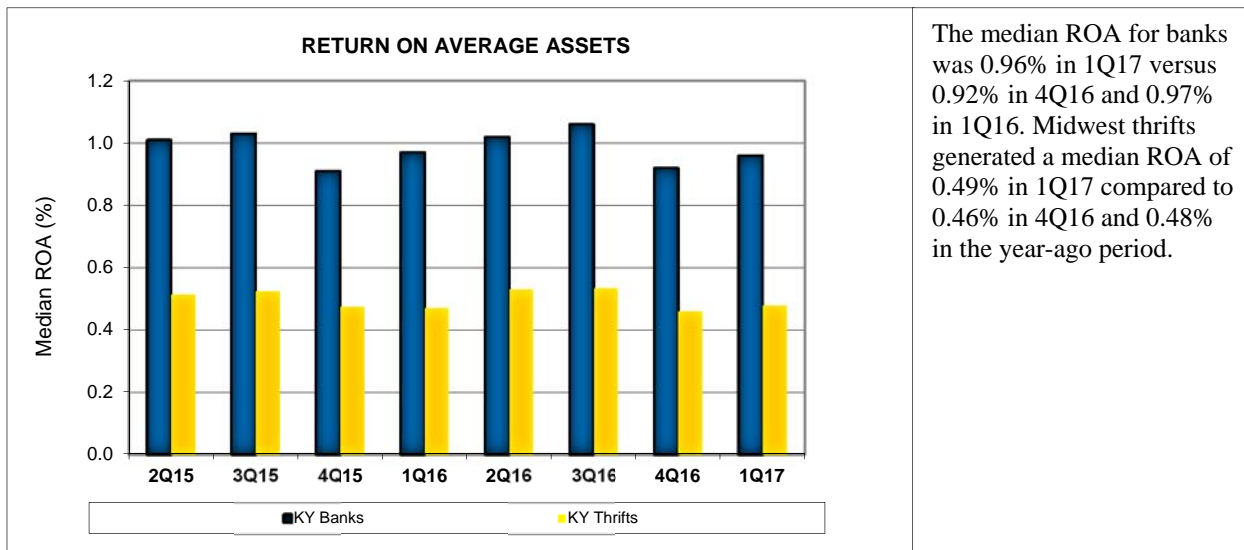
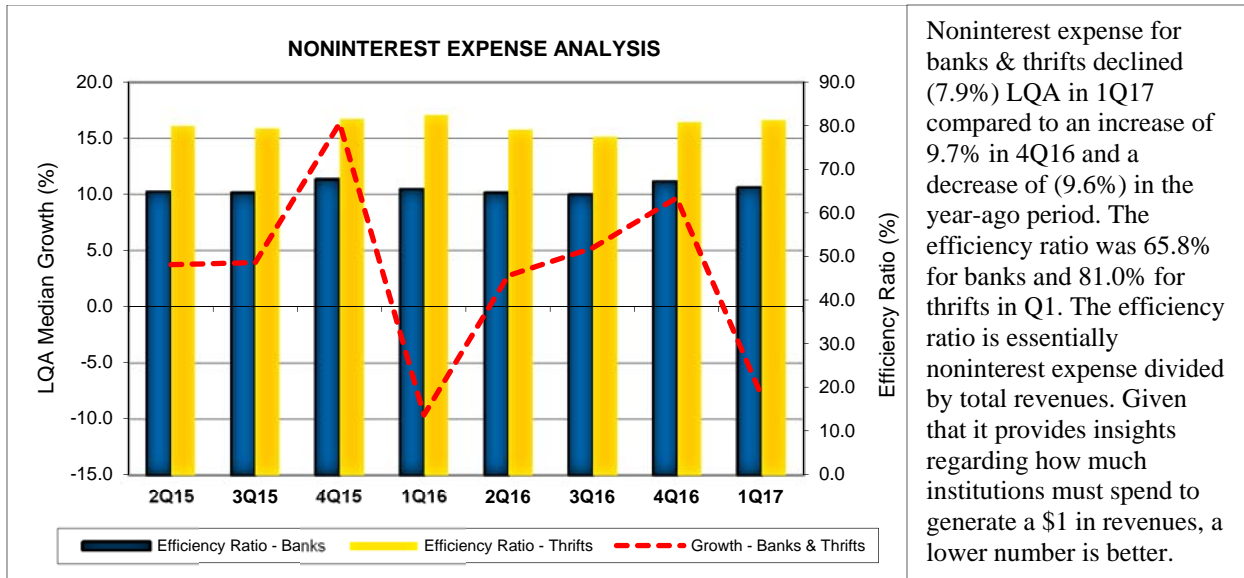
Noninterest income growth for Midwest-based depository institutions was (25.2%) in 1Q17, down from (7.8%) in 4Q16 and (19.0%) in the year-ago quarter. The fee income to operating revenue ratios of banks are skewed by the large number of small community banks in the region, which tend to have more limited fee income sources than their larger counterparts.



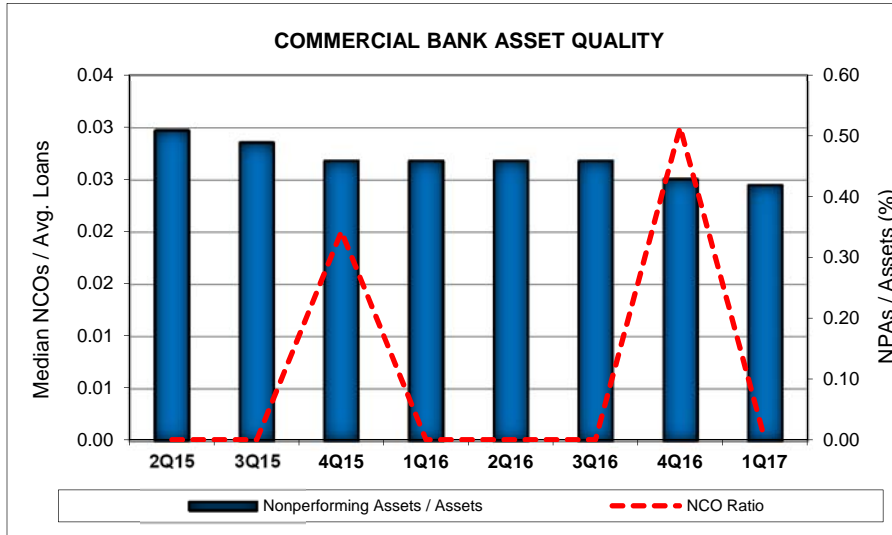
Total revenues (net interest and noninterest income) for Midwest banks fell (4.4%) on a LQA basis in 1Q17 versus (1.0%) in 4Q16 and (3.1%) in 1Q16. Thrifts realized growth of (2.2%), (4.3%), and (0.5%) in 1Q17, 4Q16 and the year-ago period, respectively. Revenue growth in the first quarter of each year is typically the weakest for both banks and thrifts.



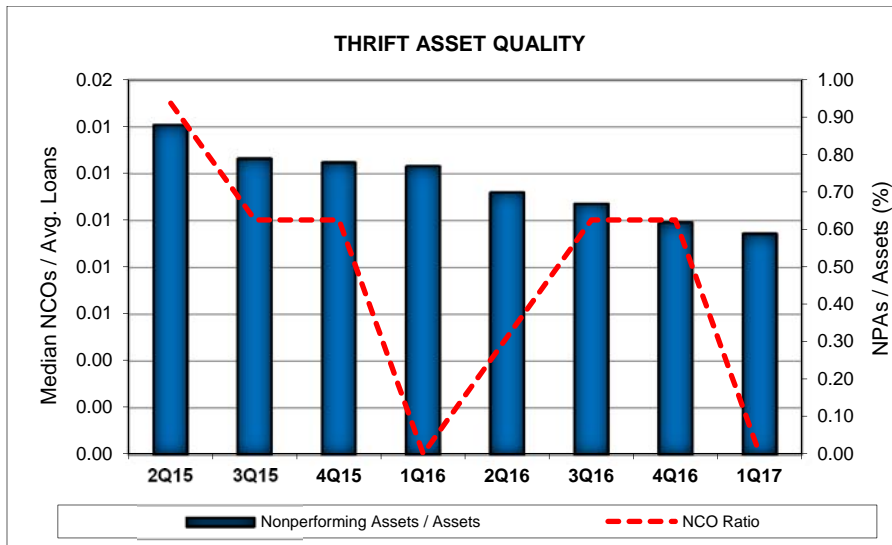
Loan loss provisions as a percentage of average loans fell one bp sequentially for both banks and thrifts to 0.07% and 0.00%, respectively in Q1.



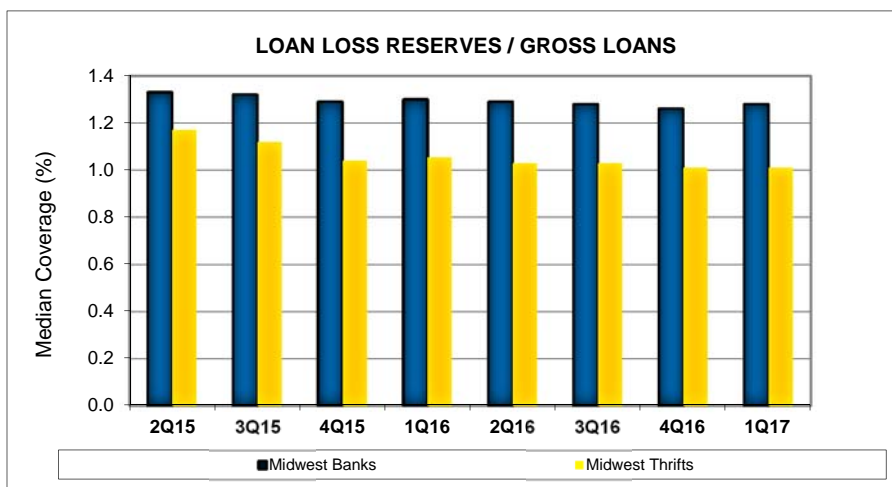
### Asset Quality Trends



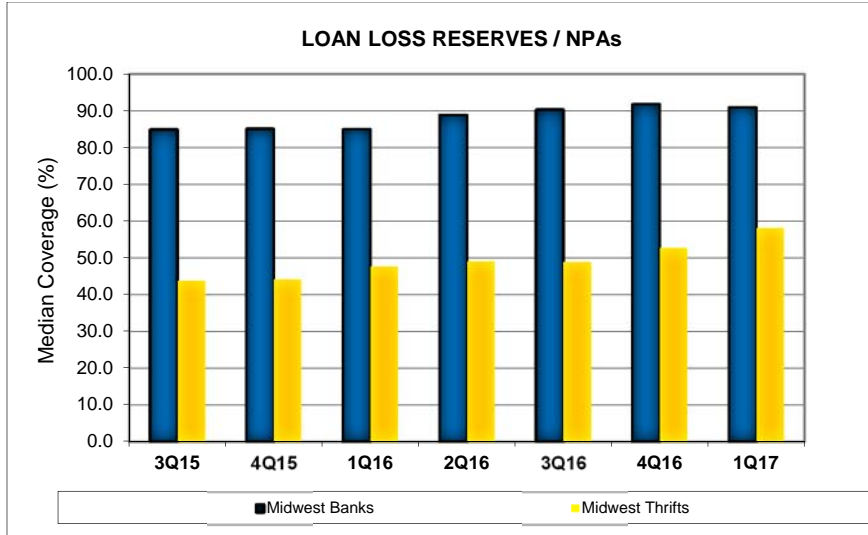
Commercial bank non-performing assets (NPAs) declined one bp LQ to 0.42% of assets at March 31, 2017. The median net charge-off (NCO) fell three bps to 0.00%.



Thrift NPAs declined three bps sequentially to 0.59% of assets at March 31, 2017. While thrifts have had higher NPAs/Assets than banks, their loss content has been low, with NCOs/Average Loans falling one bp sequentially to 0.00%.

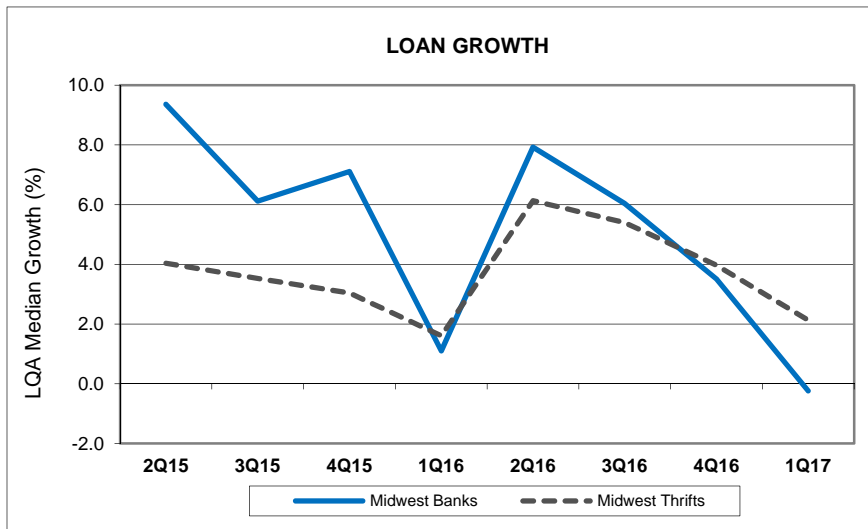


The reserve coverage of loans was up two bps LQ at 1.28% for banks and remained flat at 1.01% for thrifts at March 31, 2017.

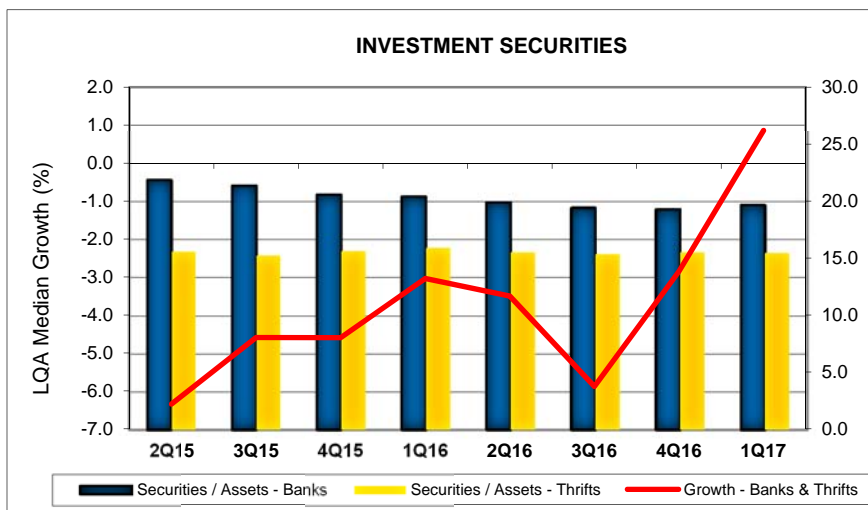


The reserve coverage of NPAs for Midwest banks fell to 90.9% at the end of 1Q17 from 91.8% at December 31, 2016. The NPA coverage for thrifts increased to 58.1% at March 31, 2017 from 52.7% at the end of 4Q16.

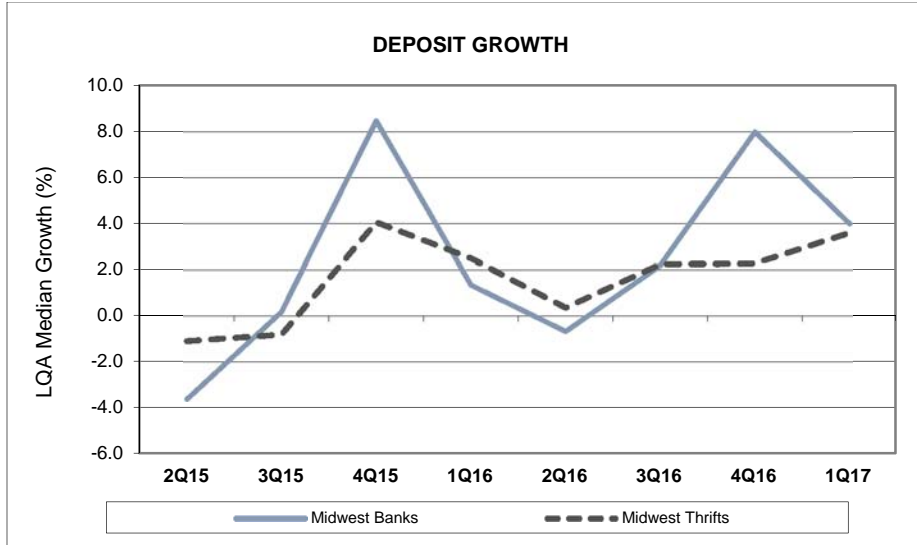
### Balance Sheet Trends



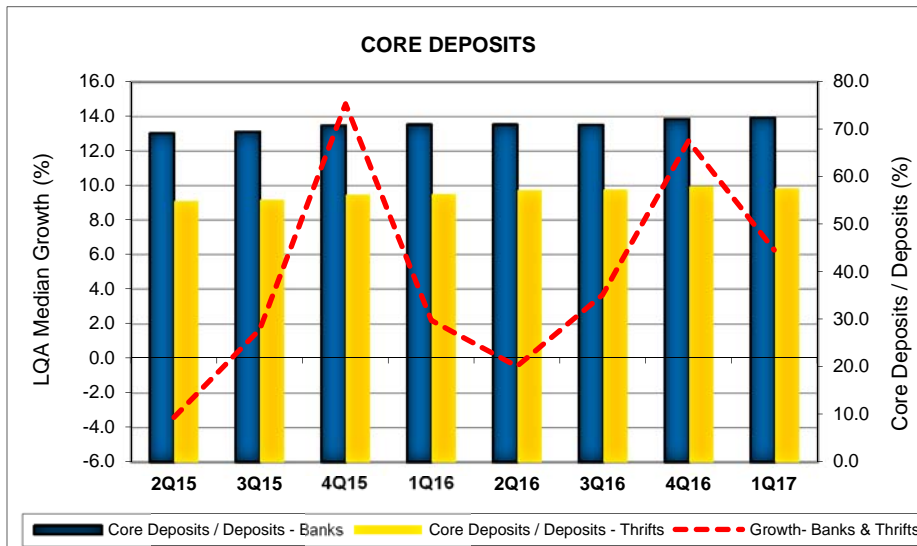
Midwest banks realized a LQA decrease in loans of (0.2%) in 1Q17 versus growth of 3.5% in 4Q16 and 1.1% in 1Q16. Loan growth for thrifts was 2.1%, 4.1% and 1.5%, respectively, during these periods. Loan growth tends to be seasonally weak for depository institutions in the first quarter of each year.



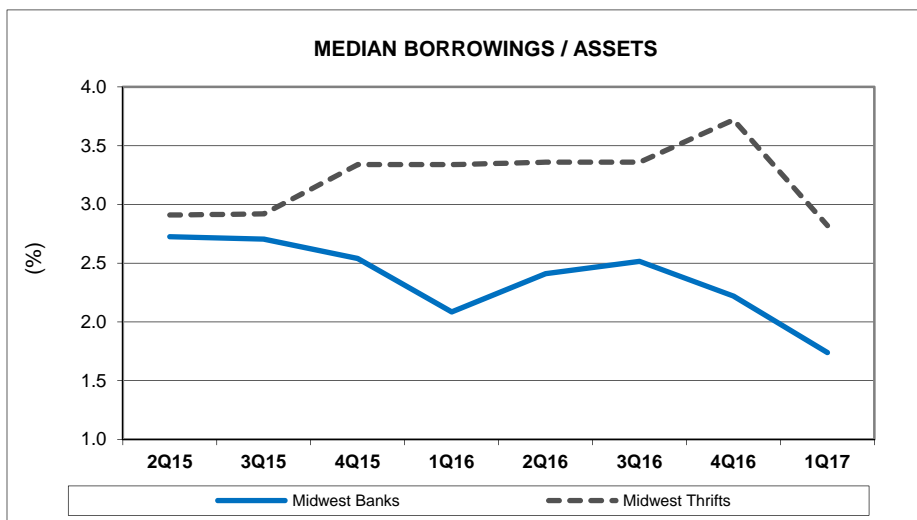
Total securities of Midwest banks & thrifts rose 0.9% in 1Q17 versus declines of (2.9%) in 4Q16 and (3.0%) in the year-ago period. Securities comprised 19.7% of bank assets and 15.5% of thrift assets at March 31, 2017.



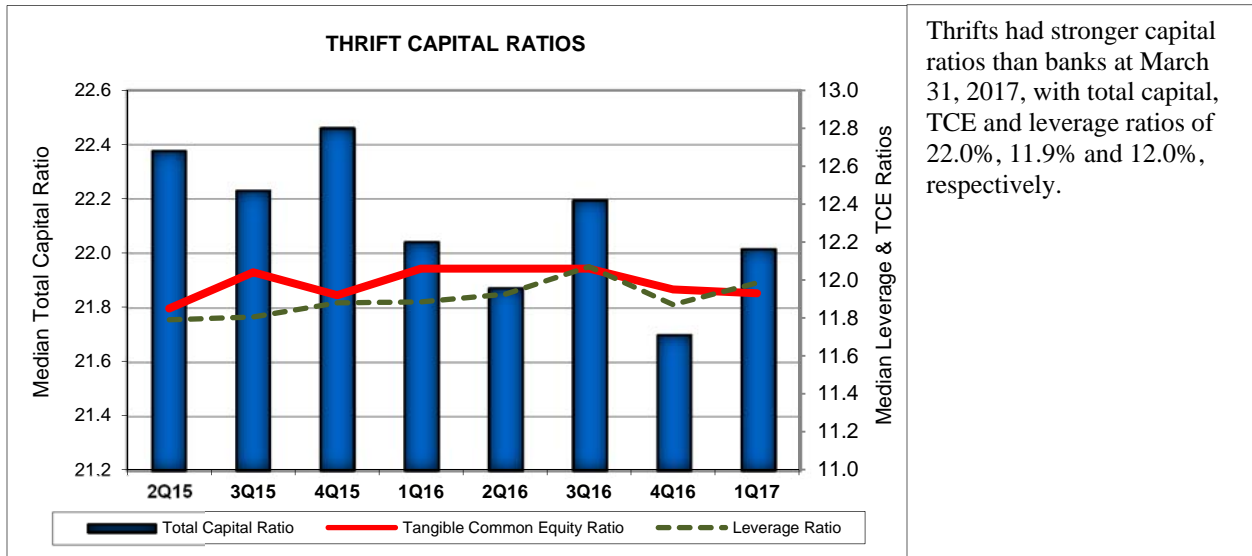
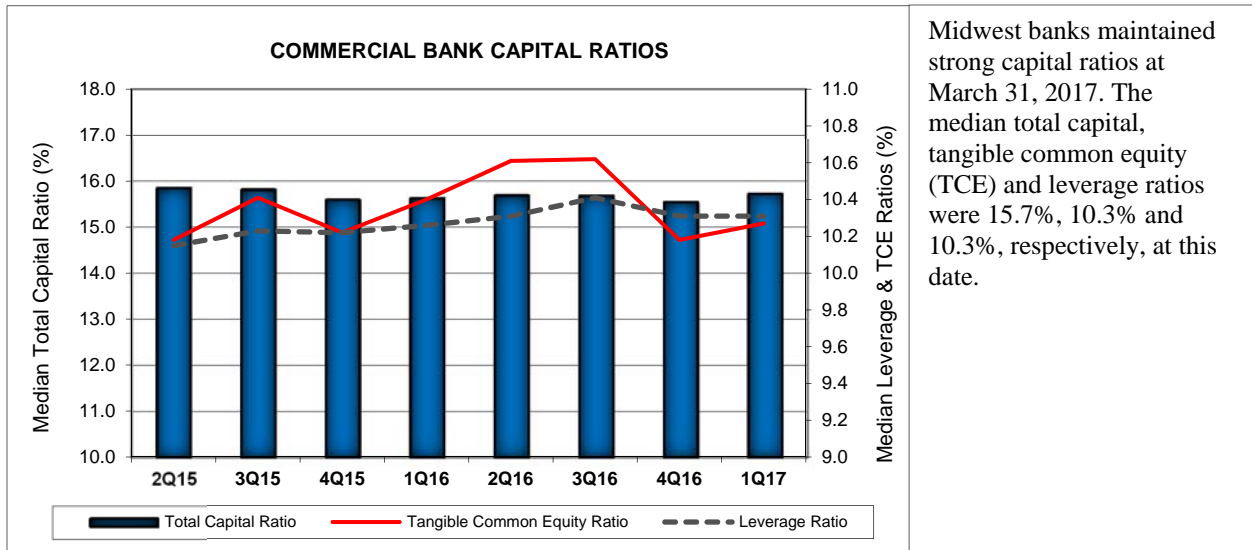
Total deposits of banks increased 4.1% on a LQA basis in 1Q17, versus 8.0% in 4Q16 and 1.4% in the year-ago quarter. Thrifts realized growth of 3.6%, 2.3% and 2.3% respectively, in these periods.



Core deposits (total deposits less time deposits) rose 6.2% for banks and thrifts on a LQA basis in 1Q17. They accounted for 72.4% of bank deposits and 57.5% of thrift deposits at March 31, 2017.



Total outside borrowings as a percentage of assets were 1.7% for banks and 2.8% for thrifts at March 31, 2017 versus 2.2% and 3.7%, respectively, at December 31, 2016.



**MERGER & ACQUISITION ACTIVITY**

There were 31 whole bank acquisitions announced since 4Q16 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 DECEMBER 31, 2016**

Buyer/ Target Name	Announce Date	Buyer State	Seller State	Pricing @ Announcement		Deal Value/ Tangible Common Equity (%)
				Deal Value (\$M)	Deal Value/ Earnings (x)	
Advia Credit Union/ Peoples Bank	1/9/2017	MI	WI	NA	NA	NA
Southern Missouri Bancorp, Inc./ Tammcorp, Inc.	1/11/2017	MO	MO	23.4	21.4	161.9
Wadena Bankshares, Inc./ FNB Acquisition Holding Corporation	1/12/2017	MN	MN	NA	NA	NA
Audobon County Investment Company/ Audobon State Bank	1/18/2017	IA	IA	NA	NA	NA
Central Banc, Inc./ First National Bank and Trust Company of Rochelle	1/24/2017	IL	IL	NA	NA	NA
First Merchants Corporation/ Arlington Bank	1/25/2017	IN	OH	75.8	18.3	226.2
Midland States Bancorp, Inc./ Centru Financial Corporation	1/26/2017	IL	IL	173.8	4.1	140.5
SBT Bancshares, Inc./ Seaway Bank and Trust Company	1/27/2017	TX		NA	NA	NA
MidAmerica National Bancshares, Inc./ Henry State Bank	1/30/2017	IL	IL	NA	NA	NA
Ameri Financial Group, Inc./ First Resource Bank	1/31/2017	MN	MN	NA	NA	NA
WB Bancorp, Inc./ MC Bancorp, Inc.	1/31/2017	IL	IL	5.5	27.0	115.2
First Busey Corporation/ First Community Financial Partners, Inc.	2/6/2017	IL	IL	235.4	20.4	199.7
3MV Bancorp, Inc./ Bank of Nebraska	2/9/2017	NE	NE	NA	NA	NA
Heartland Financial USA, Inc./ Citywide Banks of Colorado, Inc.	2/13/2017	IA	CO	202.7	18.9	181.9
First Merchants Corporation/ Independent Alliance Banks, Inc.	2/17/2017	IN	IN	249.7	27.8	265.1
Connections Bancshares, Inc./ Kirksville Bancorp Inc.	2/22/2017	MO	MO	4.6	8.6	89.4
First Busey Corporation/ Mid Illinois Bancorp, Inc.	3/13/2017	IL	IL	133.4	19.6	167.0
Farmers National Banc Corp./ Monitor Bancorp, Inc.	3/13/2017	OH	OH	7.8	24.5	129.9
Topeka Bancorp Inc./ Kaw Valley Bancorp, Inc.	3/15/2017	KS	KS	29.8	14.4	89.2
Citizens Community Bancorp, Inc./ Wells Financial Corp.	3/17/2017	WI	MN	40.2	16.8	125.0
United Bancshares, Inc./ Benchmark Bancorp, Inc.	3/22/2017	OH	OH	26.8	5.2	168.4
Summerfield Financial Services, LLC/ Byron State, Inc.	3/28/2017	NE	NE	NA	NA	NA
First Bancshares, Inc./ Stockmens Bank	3/29/2017	MO	CO	NA	NA	NA
First Financial Corporation/ First State Bank of Warner, South Dakota	3/31/2017	ND	SD	NA	NA	NA
Home S&L Association of Norborne, F.A./ Carroll County S&L Association	4/4/2017	MO	MO	NA	NA	NA
Royal Bancshares, Inc./ State Bank of Cazenovia	4/4/2017	WI	WI	NA	NA	NA
Piper Holdings, Inc./ Farmers State Bank	4/4/2017	IN	IN	9.4	NM	155.7
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	NA	NA	NA
Honor Credit Union/ Citizens State Bank of Ontonagon	5/5/2017	MI	MI	NA	NA	NA
First Citizens Bancshares, Inc./ Guaranty Bank (MHC)	5/5/2017	NC		NA	NA	NA
<b>Median Multiple</b>					<b>18.9</b>	<b>158.8</b>

Source: SNL Financial



## PUBLIC COMPANY VALUATIONS

There are 228 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 MAY 10, 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	19.3	13.9	12.4	200.8	2.2
Mid	19.7	17.5	15.8	217.8	1.8
Small	18.3	17.1	15.4	198.4	1.8
Micro	14.6	13.5	12.4	112.5	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 MAY 10, 2017

Company	City	State	Ticker	Closing Price
Centrue Financial Corporation	Ottawa	IL	CFCB	26.87
Citizens Community Bancorp, Inc.	Eau Claire	WI	CZWI	14.11
Farmers National Banc Corp.	Canfield	OH	FMNB	14.55
First Bancshares, Inc.	Mountain Grove	MO	FBSI	12.07
First Busey Corporation	Champaign	IL	BUSE	29.93
First Citizens BancShares, Inc.	Raleigh	NC	FCNCA	347.62
First Community Financial Partners, Inc.	Joliet	IL	FCFP	13.05
First Merchants Corporation	Muncie	IN	FRME	41.57
Heartland Financial USA, Inc.	Dubuque	IA	HTLF	48.25
Independent Alliance Banks, Inc.	Fort Wayne	IN	IALB	68.00
Midland States Bancorp, Inc.	Effingham	IL	MSBI	35.32
Southern Mississippi Bancorp, Inc.	Poplar Bluff	MO	SMBC	33.47
United Bancshares	Columbus Grove	OH	UBOH	21.65
Wells Financial Corp.	Wells	MN	WEFP	49.77

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.

#### 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>	32	26%	13%	88%
<b>Hold/Neutral</b>	79	64%	8%	92%
<b>Sell</b>	12	10%	0%	100%

*As of 8 May 2017*

**Other Disclosures**

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