

Bank Watch

Midwest

What We're Reading

Selected Links of Interest from Around the Web

Stress Testing

Grant Thornton weighs in on why a community bank should decide to conduct enterprise-wide stress testing:

Link: <http://mer.cr/bod-stress-test>

Promontory also weighs in on stress testing and its importance beyond regulatory compliance in an article here:

Link: <http://mer.cr/stress-test-compliance>

Jay Wilson of Mercer Capital writes on stress testing, specifically for community banks, in the February 2013 issue of BankWatch:

Link: <http://mer.cr/community-bank-stress-testing>

Basel III

The OCC recently issued two guides for community banks related to Basel III and the new capital rules:

Capital Rule Quick Reference Guide: **Link:** <http://mer.cr/occ-capital-rule-guide>

New Capital Rule Community Bank Guide: **Link:** <http://mer.cr/occ-comm-bnk-guide>

Employee Stock Ownership Plans

Josh Patrick discusses employee stock ownership plans (and even references Mercer Capital's ESOP as a case study) in a New York Times article titled: "The Questions to Ask Before Adopting an ESOP"

Link: <http://mer.cr/ny-times-esop>

Mercer Capital's Resources for Depository Institutions

The Financial Institutions Group of Mercer Capital works with hundreds of depository institutions annually providing a broad range of specialized resources for the financial services industry.

Webinars Available for Replay

The Outlook for M&A in 2013

Our expectations for bank M&A in 2013, which follows a modest pick-up in activity in 2012 vis-à-vis 2011, are presented. Investors are anxious for M&A to increase given the earnings outlook, but seller expectations and regulatory actions are acting as a governor—at least for the now.

View replay at <http://mer.cr/bnkweb1>

Understanding Deal Considerations

Key issues that we see when banks combine as it relates to valuing and evaluating a combination are reviewed. This is particularly critical when the consideration consists of shares issued by a buyer (or senior merger partner) whose shares are either privately held or are thinly traded.

View replay at <http://mer.cr/bnkweb2>

How to Profit on a Distressed Transaction

Buyers have been leery of acquiring troubled banks in non-assisted deals. With a slowly recovering economy, we take a look at the opportunities and pitfalls or making an acquisition of a “turnaround” bank.

View replay at <http://mer.cr/bnkweb3>

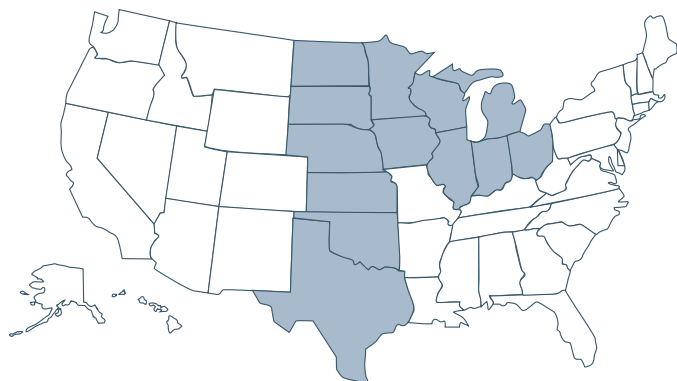
Complimentary Whitepaper



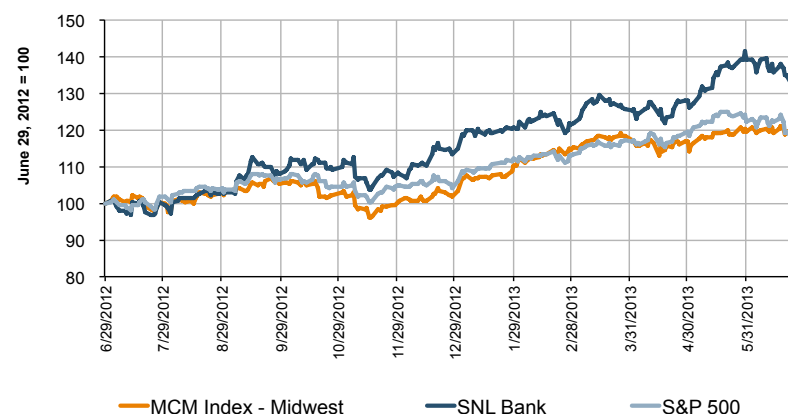
Community Bank Mergers: Creating the Potential for Shared Upside

In this 2013 whitepaper we review financial issues arising when community banks merge or sell to a larger, public institution. It is not intended to answer every question and, in some instances, our intention is to raise questions for directors and managers to evaluate. In a series of follow-up papers and webinars we will address specific topics that merit further scrutiny.

Download whitepaper at <http://mer.cr/community-bank-mergers>



Community Bank Group Index Overview



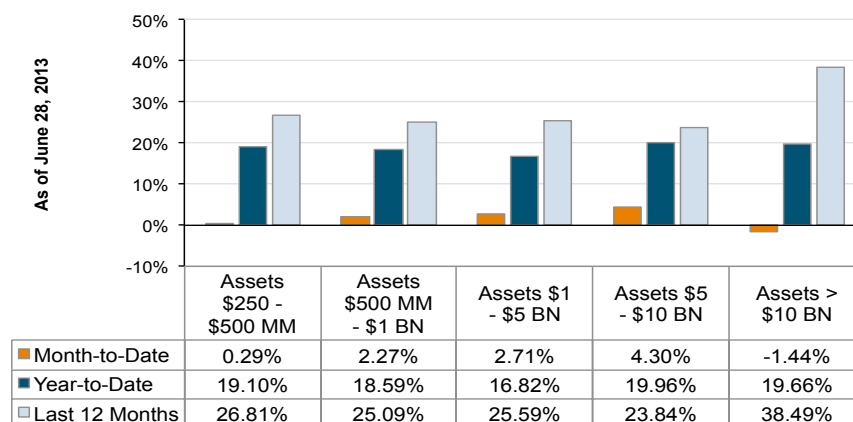
Median Valuation Multiples

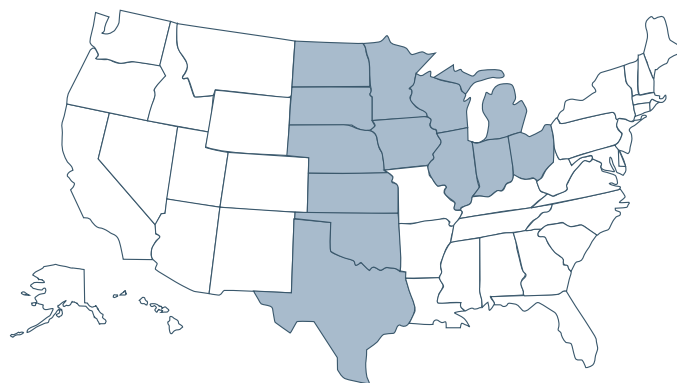
as of June 29, 2013

	Midwest Community Bank Index	National Community Bank Index
Price / LTM EPS	11.48	13.18
Price / 2013 (E) EPS	12.10	13.83
Price / 2014 (E) EPS	12.16	13.19
Price / Book Value	102.11%	106.10%
Price / Tangible Book Value	108.48%	115.12%
Dividend Yield	2.08%	2.39%

Return Stratification of U.S. Banks

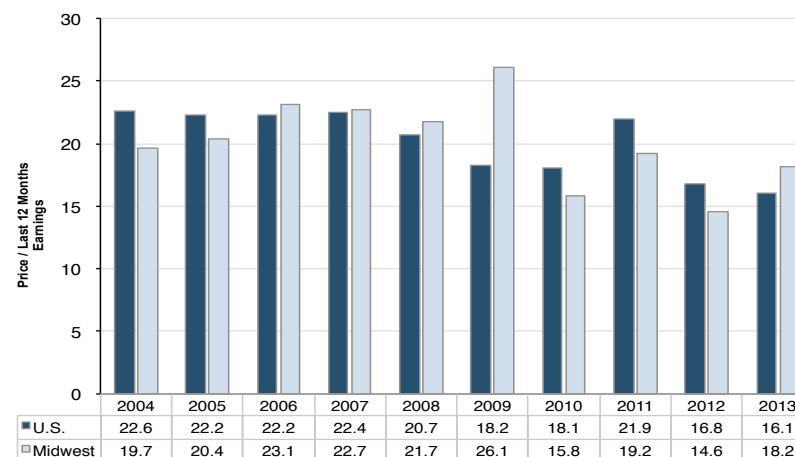
by Asset Size





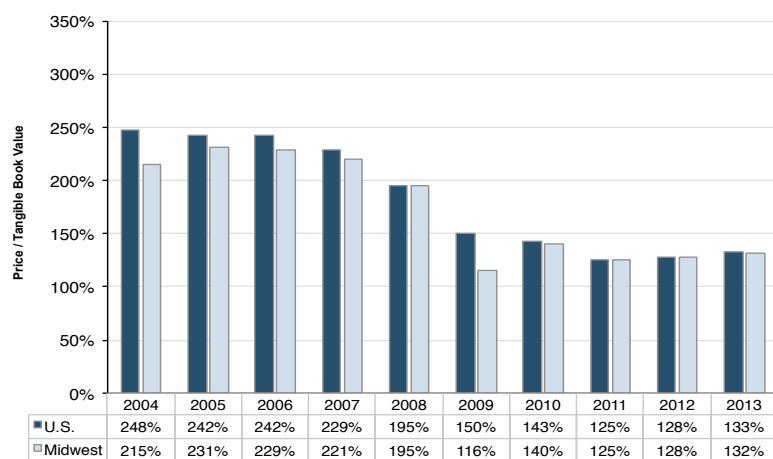
Median Price/Earnings Multiples

Target Banks Assets <\$5BN and LTM ROE >5%



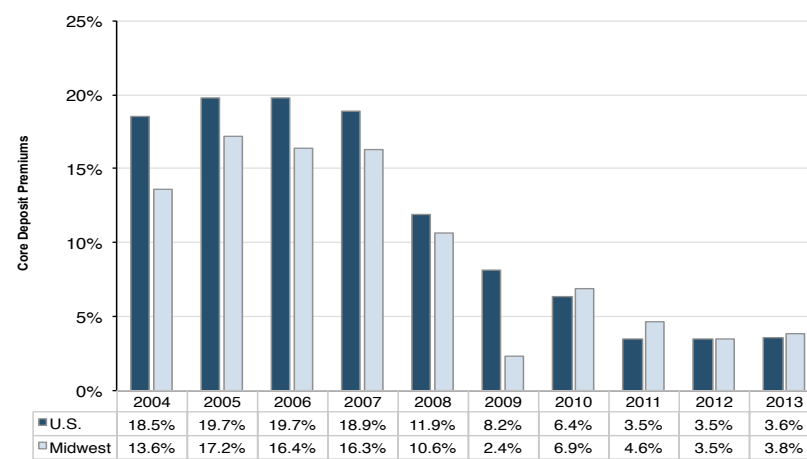
Median Price/Tangible Book Value Multiples

Target Banks Assets <\$5BN and LTM ROE >5%



Median Core Deposit Multiples

Target Banks Assets <\$5BN and LTM ROE >5%



Mercer Capital's Midwest Public Bank Peer Report

July 12, 2013

52 Wk Perf (%)	52 Wk High (\$)	52 Wk Low (\$)	Company Name	Ticker	State	Current Price (\$)	Market Cap (\$M)	LTM (x)	Price / Earnings Core LTM (x)	FY '13 (x)	FY '14 (x)	Price/ BVPS (x)	Price/ Tang. BVPS (x)	Div. Yield (%)	Tangible Equity / Assets (%)	Efficiency Ratio (%)	LTM ROE (%)	LTM ROA (%)	NPA's/ Loans + OREO (%)	NCO's/ Avg. Loans (%)	Loan Loss Reserve/ Loans (%)	Assets (\$M)
3.96	\$23.72	\$18.39	Ames National Corporation	ATLO	IA	\$23.04	\$215	15.16	15.28	NM	NM	1.57	1.65	2.78	10.80	47.87	9.90	1.18	NA	0.04	1.52	\$1,206,914
19.20	\$29.01	\$22.40	Heartland Financial USA, Inc.	HTLF	IA	\$28.12	\$476	10.19	12.45	11.57	11.28	1.44	1.60	1.42	6.09	73.70	12.71	1.07	3.21	0.28	1.30	\$4,900,558
21.83	\$26.50	\$19.31	MidWestOne Financial Group, Inc.	MOFG	IA	\$26.42	\$224	13.21	12.17	12.58	12.75	1.27	1.34	1.89	9.43	58.50	10.08	0.98	1.28	0.13	1.71	\$1,785,645
35.95	\$12.96	\$9.46	West Bancorporation, Inc.	WTBA	IA	\$12.73	\$203	13.84	14.39	13.54	13.54	1.62	1.62	3.14	9.50	52.16	12.07	1.18	1.77	0.21	1.67	\$1,436,722
20.52			Median - Iowa					13.52	13.42	12.58	12.75	1.51	1.61	2.34	9.47	55.33	11.08	1.12	1.77	0.17	1.59	\$1,611,184
1.74	\$5.00	\$4.09	First Busey Corporation	BUSE	IL	\$4.76	\$413	22.67	19.13	18.13	16.14	1.21	1.34	3.36	8.53	68.01	5.12	0.60	2.17	0.97	2.32	\$3,648,310
36.90	\$14.96	\$10.43	First Midwest Bancorp, Inc.	FMBI	IL	\$14.57	\$1,094	NM	NM	16.59	14.08	1.15	1.63	1.10	8.66	66.15	(1.49)	(0.18)	2.75	3.02	1.82	\$8,055,819
31.87	\$29.07	\$17.00	MB Financial, Inc.	MBFI	IL	\$28.17	\$1,543	15.83	15.12	15.30	14.93	1.19	1.83	1.42	9.47	64.15	7.66	1.03	3.29	(0.16)	2.18	\$9,369,659
37.46	\$61.84	\$43.69	Northern Trust Corporation	NTRS	IL	\$61.51	\$14,716	21.81	20.85	19.34	17.02	1.93	2.11	2.02	7.55	71.94	9.26	0.75	1.29	0.10	1.02	\$93,156,800
290.00	\$6.07	\$1.10	Old Second Bancorp, Inc.	OSBC	IL	\$5.46	\$76	22.75	31.24	16.06	27.30	nm	nm	0.00	0.05	73.22	11.71	0.43	11.43	0.55	3.45	\$1,954,044
47.75	\$23.89	\$13.32	PrivateBancorp, Inc.	PVTB	IL	\$22.70	\$1,682	21.21	20.79	16.50	15.50	1.43	1.57	0.18	8.48	53.50	7.02	0.68	2.46	0.85	1.74	\$13,372,230
13.31	\$16.96	\$11.40	QCR Holdings, Inc.	QCRH	IL	\$15.65	\$90	8.41	9.28	8.11	8.53	0.87	0.90	0.51	4.01	68.28	9.19	0.63	1.80	0.23	1.61	\$2,143,991
9.33	\$19.35	\$12.97	Taylor Capital Group, Inc.	TAYC	IL	\$17.81	\$518	9.04	9.19	11.19	11.19	1.46	1.46	0.00	6.02	63.71	13.60	2.77	0.17	2.09	\$5,901,370	
15.34	\$40.49	\$34.40	Wintrust Financial Corporation	WTFC	IL	\$40.14	\$1,513	16.45	17.28	16.07	15.13	0.90	1.16	0.45	7.70	63.20	6.82	0.71	2.34	0.61	0.96	\$17,074,247
31.87			Median - Illinois					18.83	18.21	16.07	15.13	1.20	1.51	0.51	7.70	66.15	7.66	0.68	2.46	0.55	1.82	\$8,055,819
15.88	\$25.98	\$19.70	1st Source Corporation	SRCE	IN	\$25.83	\$622	12.66	12.51	NM	NM	1.11	1.31	2.63	10.76	63.68	9.09	1.11	1.68	0.08	2.48	\$4,558,028
94.48	\$11.50	\$5.42	Ameriana Bancorp	ASBI	IN	\$10.45	\$31	14.72	14.87	NM	NM	0.85	0.88	0.38	7.95	76.35	5.85	0.47	6.69	0.40	1.21	\$449,019
54.82	\$19.57	\$11.28	Community Bank Shares of Indiana, Inc.	CBIN	IN	\$18.06	\$61	8.68	9.81	NM	NM	1.04	1.05	2.44	7.20	62.90	9.10	0.95	5.68	1.25	1.63	\$809,666
12.27	\$33.09	\$28.00	First Financial Corporation	THFF	IN	\$32.65	\$434	13.06	12.96	14.28	14.60	1.15	1.29	2.94	11.53	61.57	9.02	1.14	3.44	0.21	1.39	\$2,964,952
47.11	\$18.80	\$12.40	First Merchants Corporation	FRME	IN	\$18.35	\$528	13.80	13.80	14.28	12.53	1.12	1.64	1.09	7.83	63.22	7.90	1.00	2.27	0.62	2.36	\$4,252,830
21.00	\$25.42	\$19.55	German American Bancorp, Inc.	GABC	IN	\$24.49	\$310	12.76	12.99	13.59	13.64	1.66	1.87	2.45	8.46	56.10	13.39	1.24	0.98	0.18	1.29	\$1,979,022
28.41	\$21.35	\$16.35	Horizon Bancorp	HBNC	IN	\$21.23	\$185	9.23	8.76	9.30	9.81	1.22	1.45	1.88	7.38	58.92	13.54	1.18	2.31	0.45	1.78	\$1,734,250
13.63	\$30.48	\$23.47	Lakeland Financial Corporation	LKFN	IN	\$30.42	\$497	13.89	13.66	13.63	13.28	1.62	1.65	2.50	10.32	50.11	12.24	1.20	2.03	0.17	2.24	\$2,927,702
20.63	\$15.33	\$10.73	MainSource Financial Group, Inc.	MSFG	IN	\$14.09	\$287	12.04	11.44	12.55	11.87	0.93	1.21	1.70	NA	65.72	7.66	0.91	3.57	0.98	2.04	\$2,732,609
48.96	\$16.69	\$10.39	MutualFirst Financial, Inc.	MFSF	IN	\$15.14	\$107	17.01	18.47	16.70	14.79	0.96	0.98	1.59	NA	71.58	5.65	0.54	3.87	0.65	1.63	\$1,413,700
22.15	\$14.85	\$10.87	Old National Bancorp	ONB	IN	\$14.51	\$1,471	15.11	14.38	14.74	13.56	1.23	1.76	2.76	NA	66.71	8.25	1.04	3.44	0.11	1.04	\$9,673,691
52.07	\$24.49	\$15.10	River Valley Bancorp	RIVR	IN	\$22.75	\$35	8.52	10.47	nm	NM	1.13	1.15	3.69	NA	67.66	12.80	1.02	5.61	0.19	1.30	\$482,640
51.34	\$15.00	\$9.46	Tower Financial Corporation	TOFC	IN	\$14.89	\$69	10.71	11.09	11.45	12.20	1.09	1.09	1.88	NA	64.04	10.21	1.00	4.28	0.63	1.72	\$679,069
28.41			Median - Indiana					12.76	12.96	13.63	13.28	1.12	1.29	2.44	8.20	63.68	9.09	1.02	3.44	0.40	1.63	\$1,979,022
13.71	\$22.50	\$18.00	Landmark Bancorp, Inc.	LARK	KS	\$20.50	\$60	10.00	9.75	NM	NM	0.93	1.19	3.71	7.92	63.10	9.73	0.95	3.54	0.71	1.43	\$650,635
13.71			Median - Kansas					10.00	9.75	NM	NM	0.93	1.19	3.71	7.92	63.10	9.73	0.95	3.54	0.71	1.43	\$650,635
33.12	\$28.84	\$20.60	Chemical Financial Corporation	CHFC	MI	\$28.26	\$778	15.03	14.37	14.74	14.24	1.29	1.64	2.97	8.08	59.92	8.74	0.93	3.41	0.53	1.97	\$5,990,528
44.02	\$14.98	\$7.72	Firstbank Corporation	FBMI	MI	\$13.76	\$111	11.10	10.45	10.35	10.75	0.83	1.15	1.74	6.50	62.48	7.40	0.73	3.86	0.70	2.16	\$1,515,503
151.88	\$9.00	\$2.53	Independent Bank Corporation	IBCP	MI	\$7.38	\$70	8.20	8.97	6.42	NM	1.19	1.27	0.00	2.62	79.54	23.17	1.24	12.41	1.04	2.85	\$2,105,347
53.47	\$6.10	\$2.80	Macatawa Bank Corporation	MCBC	MI	\$5.31	\$145	4.32	4.30	16.09	26.55	1.45	1.45	0.00	6.64	74.74	29.82	2.23	11.92	0.16	2.23	\$1,507,438
57.10	\$9.25	\$5.71	Mackinac Financial Corporation	MFNC	MI	\$8.90	\$49	5.43	5.43	nm	NM	0.80	0.80	1.80	11.45	68.34	11.24	1.34	3.14	0.27	1.11	\$541,896
37.09	\$4.37	\$2.21	MBT Financial Corp.	MBTF	MI	\$3.77	\$68	7.85	7.95	nm	NM	0.79	0.79	0.00	6.68	71.94	10.57	0.68	13.81	1.42	2.90	\$1,286,146
8.58	\$19.60	\$13.41	Mercantile Bank Corporation	MBWM	MI	\$19.12	\$166	12.66	12.66	12.39	13.96	1.11	1.11	2.30	10.81	68.53	9.46	1.00	5.64	0.03	2.55	\$1,385,355
44.02			Median - Michigan					8.20	8.97	12.39	14.10	1.11	1.15	1.74	6.68	68.53	10.57	1.00	5.64	0.53	2.23	\$1,507,438

Mercer Capital

Financial Institutions Services

Mercer Capital assists banks, thrifts, and credit unions with significant corporate valuation requirements, transactional advisory services, and other strategic decisions.

Mercer Capital pairs analytical rigor with industry knowledge to deliver unique insight into issues facing banks. These insights underpin the valuation analyses that are at the heart of Mercer Capital's services to depository institutions.

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The Financial Institutions Group of Mercer Capital publishes *Bank Watch*, a monthly e-mail newsletter covering five U.S. regions. In addition, Jeff Davis, Managing Director, is a regular contributor to SNL Financial.

For more information about Mercer Capital, visit www.mercercapital.com.

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