

Midwest Banking Industry Update



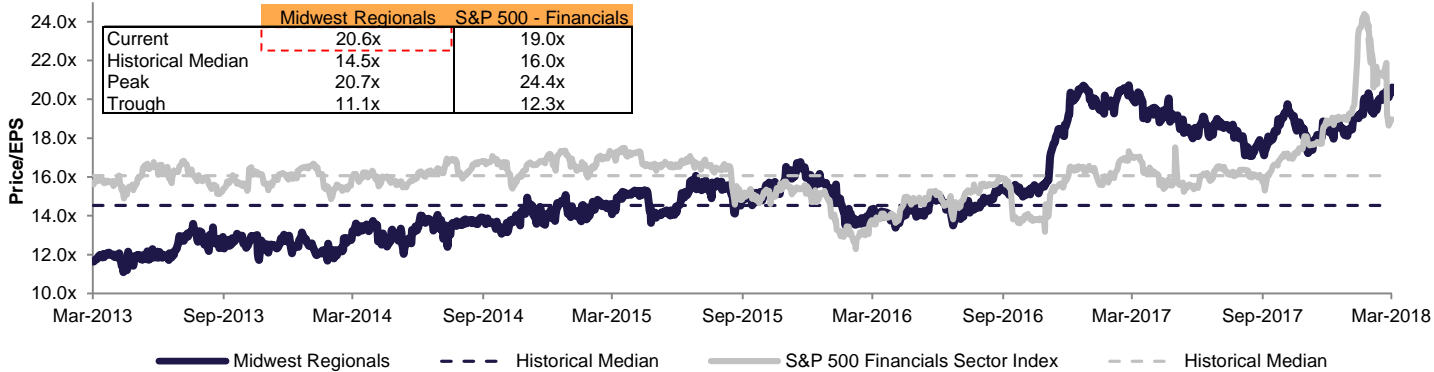
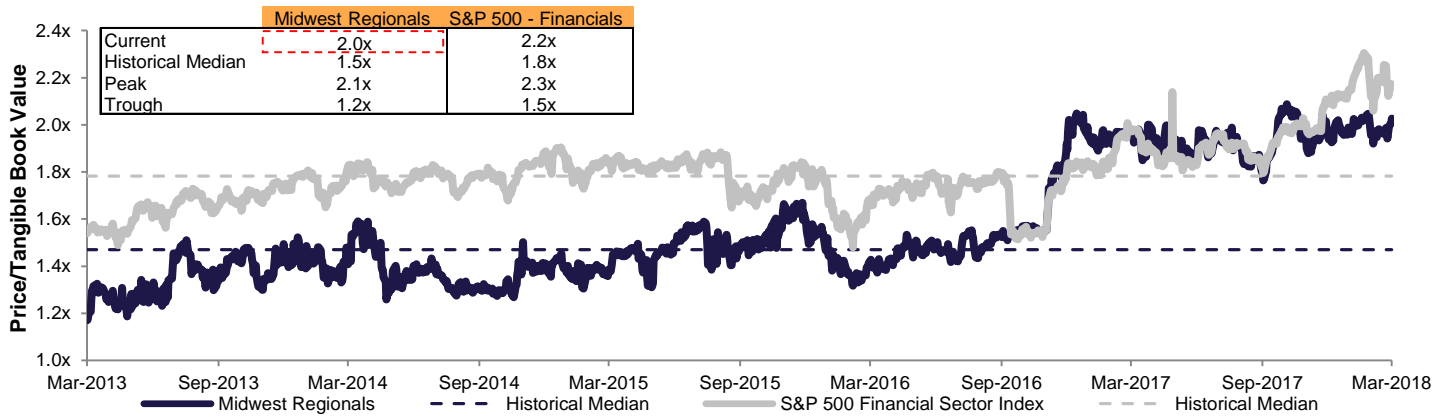
Valuations Remain Elevated as Banks Search for Low Cost Funds

Midwest Regional banks have traditionally traded at discounted valuations relative to the broader S&P Financials Sector Index, but the confluence of the Wells Fargo accounts scandal negatively impacting large banks and the Trump election signaling regulatory relief (more positively buoying smaller banks) have had the effect of eliminating that discount. In fact, the Trump tailwind for Midwestern banks was so strong that their P/E ratios easily outpaced the broader index in 2017. At the onset of 2018, with the impact of tax reform crystallized, larger banks saw their stock prices soar while the paper loss caused by tax reform impacted earnings, thus dramatically increasing both book and earnings multiples. Both Midwest Regionals and S&P 500 Financials currently trade at multiples more than 30% higher than the historical median.

Midwestern bank M&A activity remains robust, as larger banks are increasingly turning toward acquisitions to fuel growth. The industry has displayed a steady trend of consolidation, in which larger banks utilize their greater capital raising abilities to acquire smaller, community sized banks (generally <\$500mm in assets).

Bridgepoint advises that the market is receptive toward sellers who may be seeking near-term monetization options, and this report shines a light on the value of a bank's deposit portfolio in today's M&A market.

Valuation Update – P/TBV & P/EPS



Note: Midwest Regional composite composed of selected public comparables as listed on page 3. Baylake Corp. and Talmer Bancorp, Inc. were included in the composite until being acquired by Nicolet Bankshares Inc. and Chemical Financial Corporation on 04/29/2016 and 08/31/2016, respectively.

Sources: Bridgepoint Merchant Banking, Capital IQ

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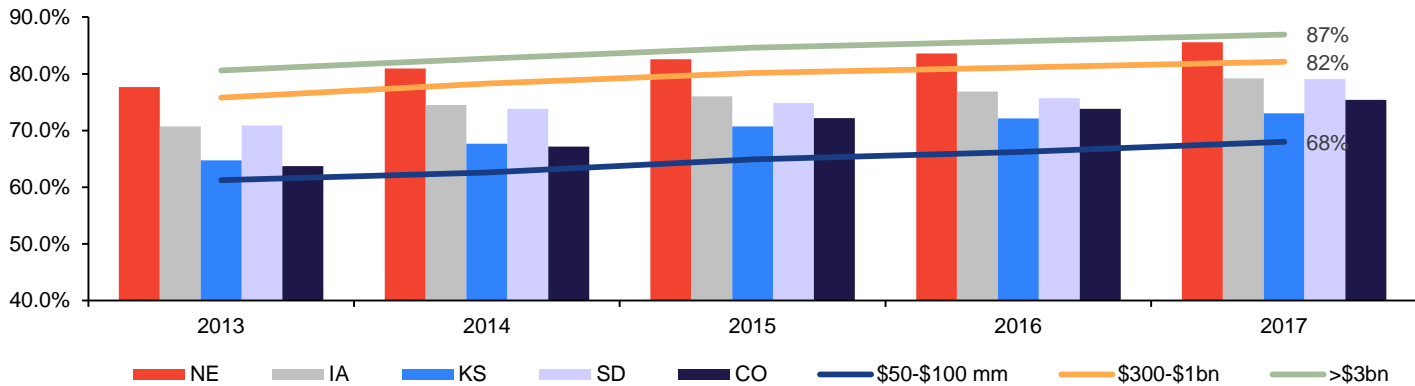
Midwestern Banking Commentary

“A quest for low-cost deposits is starting to spur industry consolidation. Financial institutions that were once drowning in deposits after the financial crisis are finally sensing a need for more liquidity as the economy improves.”

- Jackie Stewart, *American Banker*

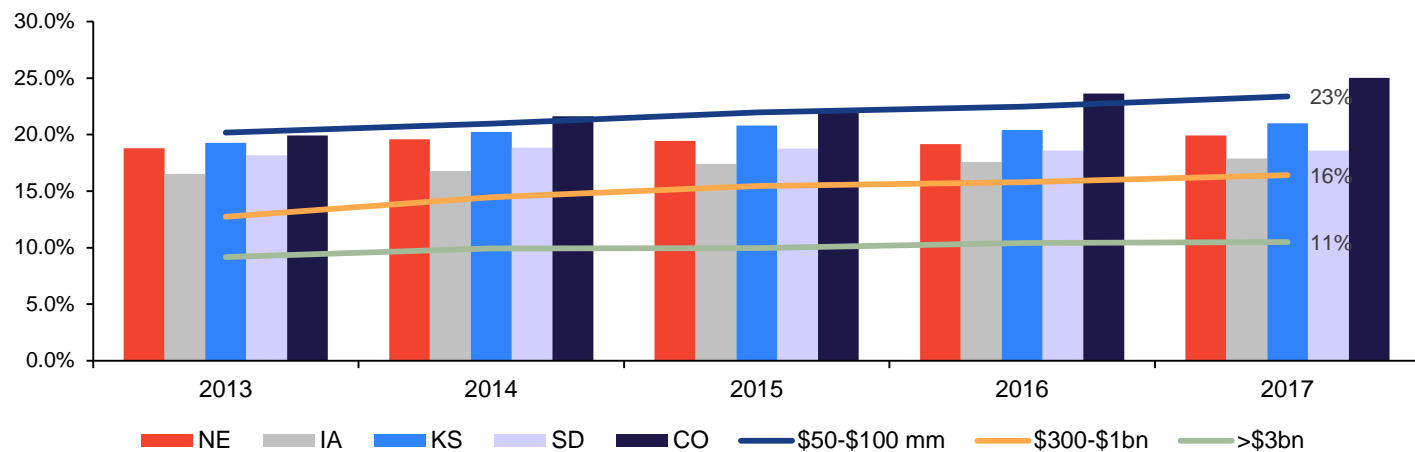
A 3/20/18 *American Banker* article highlights an increased appetite for deposits shaping the acquisition strategy of active buyers. Indeed, it is logical that larger urban banks will go deposit hunting in the community banking sector. As the data in the three charts below illustrate, Midwestern banks, in particular the smallest rural banks, have more liquidity than the larger regional/national banks. Further, the five-state grouping of banks has demonstrated an ability to attract a high percentage of demand deposits, lowering their cost of funds and making them attractive acquisition targets.

Loan to Deposit Ratios



- The two larger groups of banks historically run “hotter” – with higher loan-to-deposit ratios, while the smaller rural banks value liquidity and are more risk averse when allocating capital. Lower loan demand in most rural markets impacts this ratio as well
- A general increasing trend of loan activity is noted, likely influenced by yield-starved depositors looking outside the banking sector for returns while construction activity and general economic prosperity (sans agriculture) drives loan demand
- Nebraska banks traditionally have a loan-to-deposit ratio 5%+ higher than their neighboring states' banks. The state's largest bank boasting a large and growing credit card portfolio influences this number

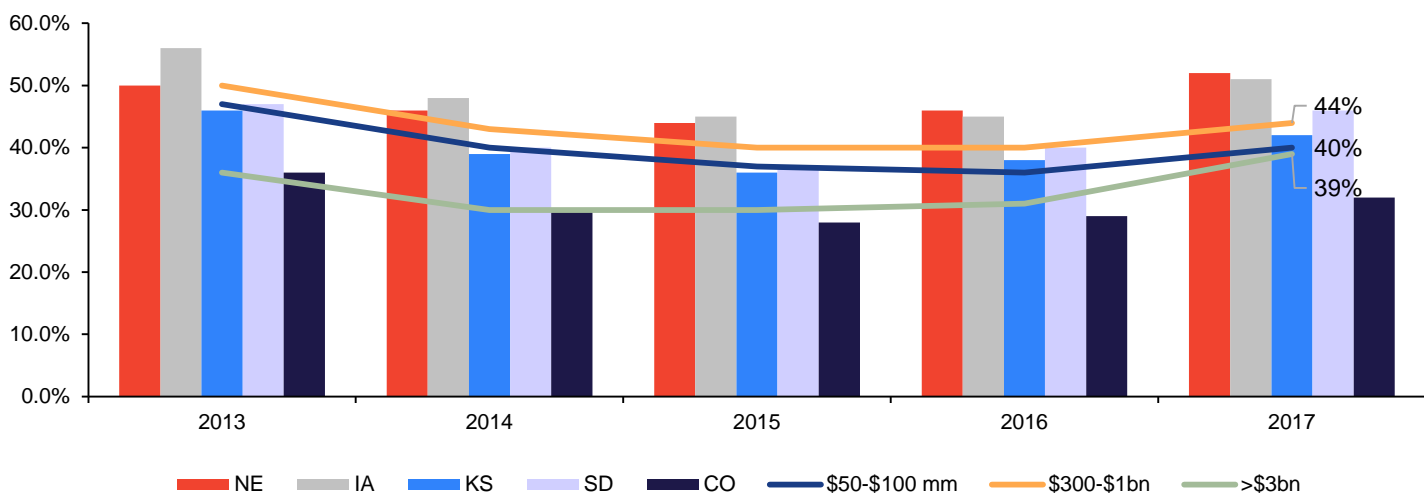
Demand Deposits to Total Deposits



- Rural community banks do a much better job of attracting demand deposits, boasting a ratio of DDA/Total Deposits double that of the largest banks
- Colorado banks have outpaced their regional peers, pushing their DDA ratio to 25%. Interestingly, the Colorado DDA ratio has upside visibility as the \$8 billion cannabis industry becomes bankable. Currently only 368 of 12,000 U.S. financial institutions serve cannabis businesses

Sources: Bridgepoint Merchant Banking, Capital IQ, Federal Deposit Insurance Corporation

Cost of Funds – Interest Expense to Average Total Assets



- After years of a stable and low interest rate environment, the FRB's 100-basis point increase in the Fed Funds rate increased all banks' cost of funds in 2017
- The largest banks were most negatively impacted by the rate hikes, while the smaller banks were able to limit their COF increases to 10-15%
- The states with the highest loan-to-deposit ratios have generally been forced to pay more for deposits, while Colorado's high DDA/Deposits ratio has logically kept COF the lowest

Selected Public Comparables

(\$ in millions, except per share data)

Company Name	State	3/6/2018 Share Price	Equity Value	Total Assets	ROA	ROE	Price / EPS	Price / TBV	Price / BV
							LTM	LTM	LTM
Ames National Corporation	Iowa	\$27.30	\$254.2	\$1,375.1	1.0%	8.2%	18.6x	1.6x	1.5x
BancFirst Corporation	Oklahoma	55.85	1,822.5	7,253.2	1.2%	11.6%	21.1x	2.5x	2.3x
BOK Financial Corporation	Oklahoma	97.79	6,410.2	32,272.2	1.0%	9.8%	19.1x	2.1x	1.8x
County Bancorp, Inc.	Wisconsin	29.90	199.5	1,397.0	0.8%	7.7%	20.1x	1.6x	1.5x
Enterprise Financial Services Corp	Missouri	48.90	1,132.6	5,289.2	1.0%	10.3%	23.6x	2.7x	2.1x
Equity Bancshares, Inc.	Kansas	38.61	563.9	3,170.5	0.8%	6.5%	23.8x	2.2x	1.5x
First Busey Corporation	Illinois	31.15	1,516.5	7,860.6	0.9%	8.2%	21.5x	2.4x	1.6x
First Business Financial Services, Inc.	Wisconsin	24.42	214.0	1,794.1	0.7%	7.2%	18.0x	1.4x	1.3x
First Mid-Illinois Bancshares, Inc.	Illinois	35.28	447.1	2,841.5	0.9%	9.1%	16.6x	1.9x	1.5x
Great Southern Bancorp, Inc.	Missouri	50.35	709.3	4,414.5	1.2%	11.4%	13.8x	1.5x	1.5x
Guaranty Bancorp	Colorado	28.55	823.7	3,698.9	1.1%	10.2%	21.0x	2.5x	2.0x
Heartland Financial USA, Inc.	Iowa	54.55	1,694.0	9,810.7	0.8%	8.7%	20.6x	2.3x	1.6x
Independent Bank Corporation	Michigan	23.60	503.5	2,789.4	0.8%	8.0%	24.8x	1.9x	1.9x
Macatawa Bank Corporation	Michigan	10.17	346.0	1,890.2	0.9%	9.7%	21.2x	2.0x	2.0x
Mercantile Bank Corporation	Michigan	35.30	585.8	3,286.7	1.0%	8.9%	18.6x	1.9x	1.6x
MidWestOne Financial Group, Inc.	Iowa	32.72	400.3	3,212.3	0.6%	5.8%	21.1x	1.5x	1.2x
Old Second Bancorp, Inc.	Illinois	14.15	419.2	2,383.4	0.7%	8.1%	28.3x	2.2x	2.1x
QCR Holdings, Inc.	Illinois	46.00	640.2	3,982.7	1.0%	11.2%	17.6x	2.0x	1.8x
West Bancorporation, Inc.	Iowa	25.25	409.4	2,114.4	1.2%	13.4%	17.9x	2.3x	2.3x
High			\$6,410.2	\$32,272.2	1.2%	13.4%	28.3x	2.7x	2.3x
Mean			954.7	5,172.9	0.9%	9.1%	20.4x	2.0x	1.7x
Median			533.7	3,191.4	0.9%	8.9%	20.6x	2.0x	1.6x
Low			199.5	1,375.1	0.6%	5.8%	13.8x	1.4x	1.2x

Sources: Bridgepoint Merchant Banking, Capital IQ

Selected Midwestern Transactions

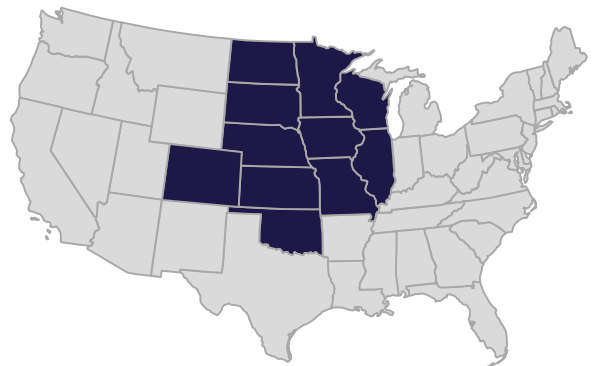
Announced Date	Target	State	Acquiror	State
03/06/2018	Central Bank and Trust Co.	Kansas	RCB Holding Company, Inc.	Oklahoma
02/12/2018	The First State Bank	Kansas	Alva State Bank & Trust Company	Oklahoma
01/01/2018	The Fullerton National Bank	Nebraska	Points West Community Bank	Nebraska
12/02/2017	Guaranty Bank and Trust Company	Iowa	Cedar Rapids Bank and Trust Company	Iowa
11/18/2017	State Bank of Alcester	South Dakota	Premier Bank	Iowa
10/16/2017	Points West Community Bank	Nebraska	Fullerton National Bank	Nebraska
10/10/2017	The City Bank and Trust Company	Oklahoma	TS Banking Group	Iowa
10/02/2017	Morgan Federal Bank	Colorado	Golden Belt Bank	Kansas
08/27/2017	Republic Corporation	Nebraska	Central Bancshares, Inc.	Nebraska
08/24/2017	Peoples Trust & Savings Bank	Iowa	State Bank	Iowa
08/19/2017	Wells Federal Bank	Minnesota	Citizens Community Federal National Association	Wisconsin
08/23/2017	Oregon Trail Bank	Wyoming	Banner Capital Bank	Nebraska
03/29/2017	Bank of Nebraska	Nebraska	Access Bank	Nebraska
01/06/2017	The Murray State Bank	Nebraska	Cornerstone Bank	Nebraska

Sources: Bridgepoint Merchant Banking, Capital IQ

About Us

- \$158+ billion of M&A and capital raising experience
- 43 completed M&A assignments spanning more than \$36 billion
- 75 completed corporate finance transactions, raising more than \$74 billion in capital
- 117+ years cumulative investment banking & private equity experience
- Principals currently sit on 11 Boards
- 18 Investment bankers and professionals focused on Midwest companies

Geographic Focus Area



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