

# 10<sup>th</sup> Annual Banking Law Institute Conference

**Presentation Materials**

*The 10th Annual*

**March 2013**

**Banking  
Law Institute**

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**Current Market Overview**

**M&A Considerations**

**Introduction to River Branch Capital LLC**

# Overview of Current Market Environment

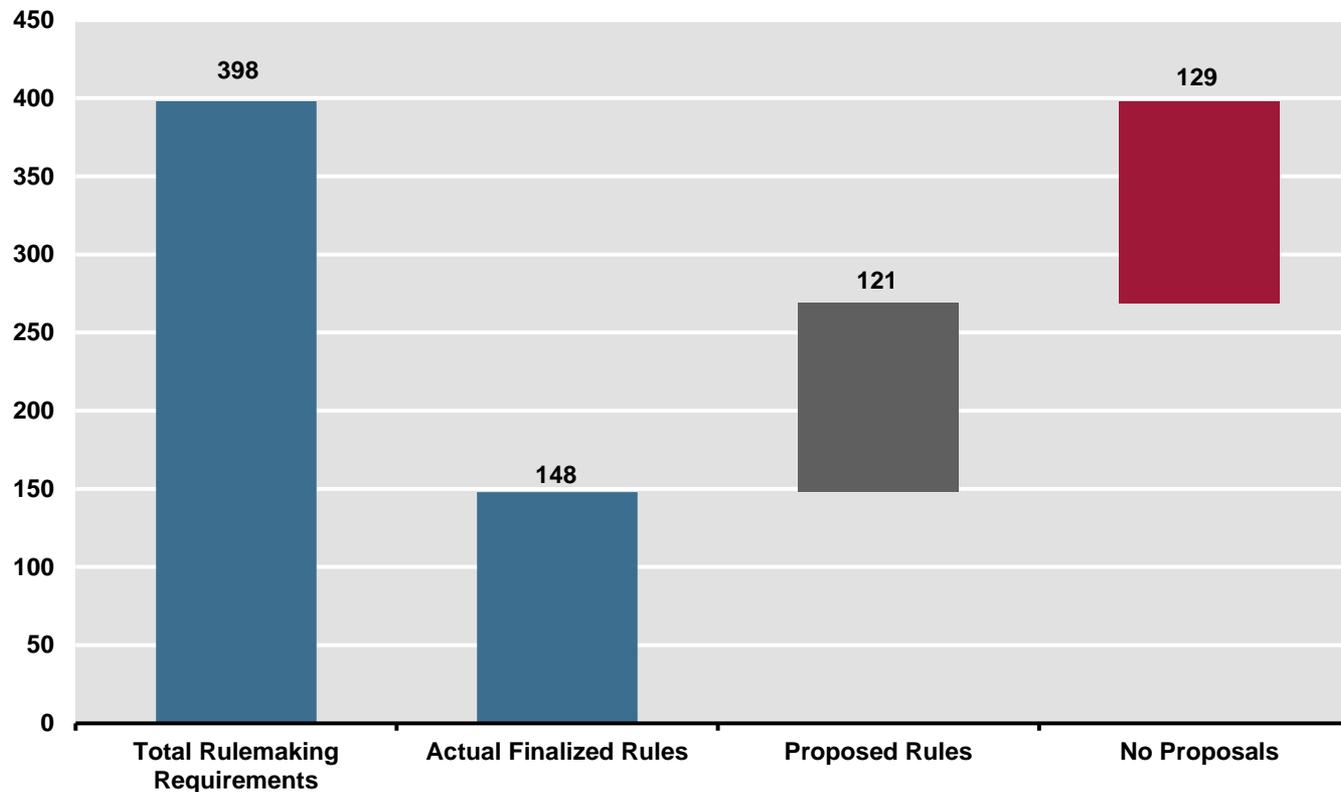
▶ In the face of increasing regulation and operating limitations, M&A is slowly recovering.

<b>Regulatory / Operating Environment</b>	<ul style="list-style-type: none"><li>▶ <b>Substantial regulatory uncertainty remains</b><ul style="list-style-type: none"><li>– Significant rules still to be written</li><li>– Pressures on costs &amp; revenues</li></ul></li><li>▶ <b>Fed zero interest rate policy / flat yield curve</b></li></ul>
<b>Valuations</b>	<ul style="list-style-type: none"><li>▶ <b>New normal for bank profits</b><ul style="list-style-type: none"><li>– Credit impacts to profits are mitigating</li><li>– Returns have rebounded but remain low</li></ul></li><li>▶ <b>Sustainable profits (ROE) will drive valuation</b></li><li>▶ <b>Current valuations reflect these long term concerns</b></li></ul>
<b>Capital and M&amp;A</b>	<ul style="list-style-type: none"><li>▶ <b>Capital has been scarce all-around with the exception of Preferred issuances</b></li><li>▶ <b>Potential buyers have healed, believe thaw is coming</b></li><li>▶ <b>Small banks need strategic exit despite low prices</b></li></ul>

# Regulatory Uncertainty

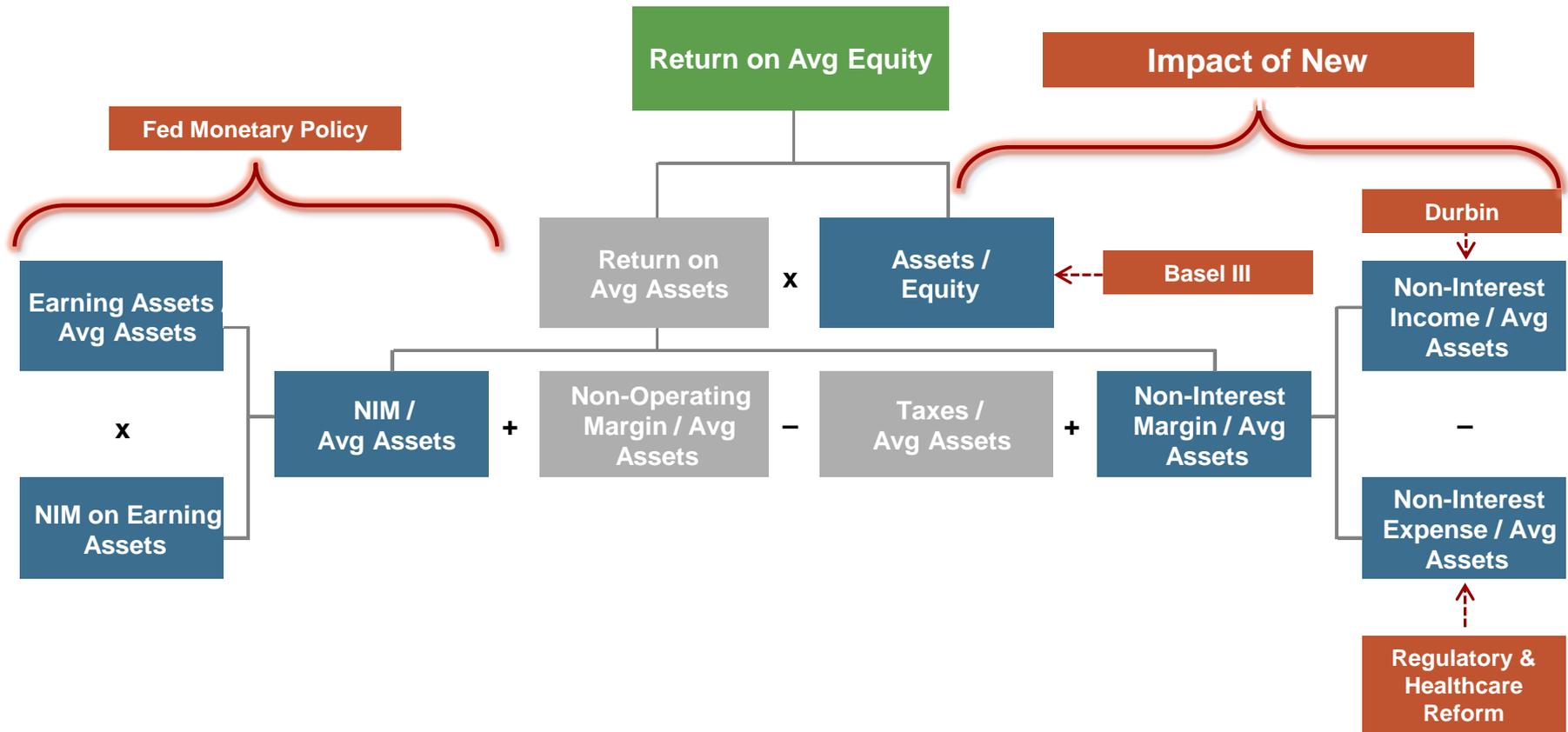
▶ Despite mandated rules-making procedures & deadlines, a lot is left to be determined.

DODD-FRANK RULES TO BE WRITTEN  
(as of March 2013)



# Drivers of Bank RoE

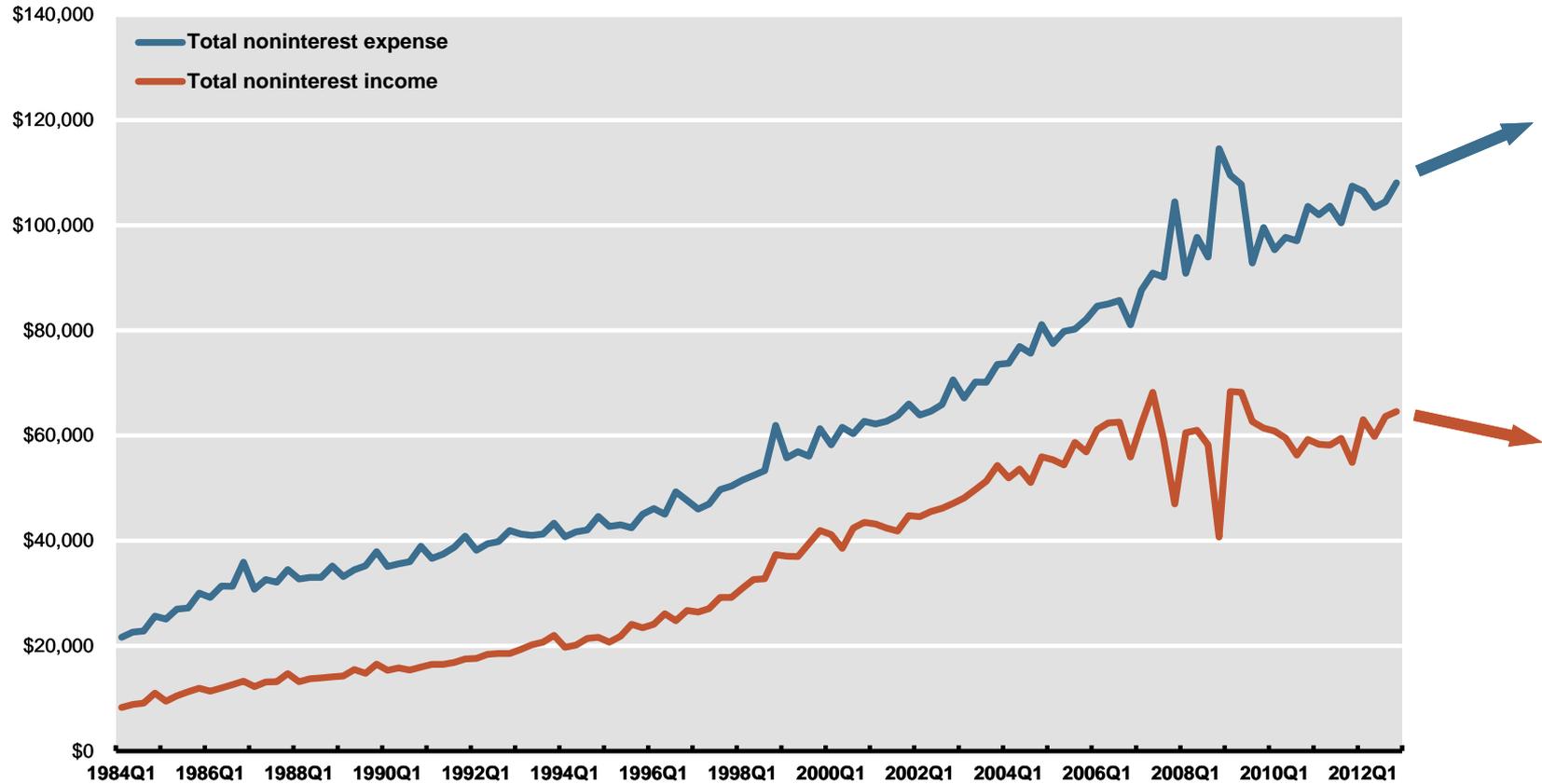
▶ These regulations are directly impacting the fundamental drivers of Bank RoE.



# Cost & Income Pressures Continue

▶ Cost increases and income pressure continue the trend of non-interest margin compression...

**QUARTERLY NON-INTEREST INCOME AND EXPENSE**  
(\$ in millions)

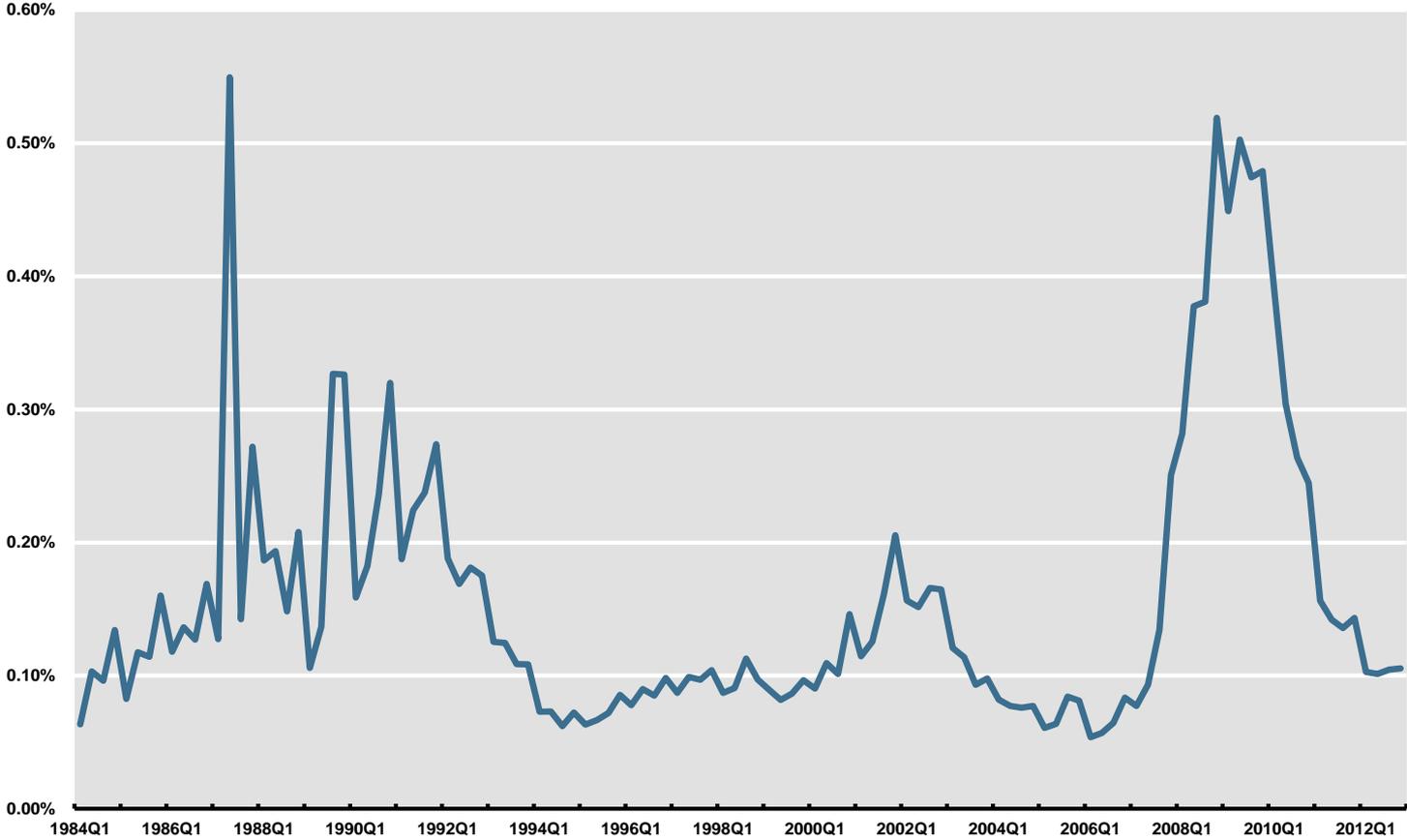


Source: FDIC Quarterly Banking Report.

# Normalizing Credit Costs

► ...but provision expense dropped to near historic norms in 2012...

PROVISION EXPENSE / AVG ASSETS

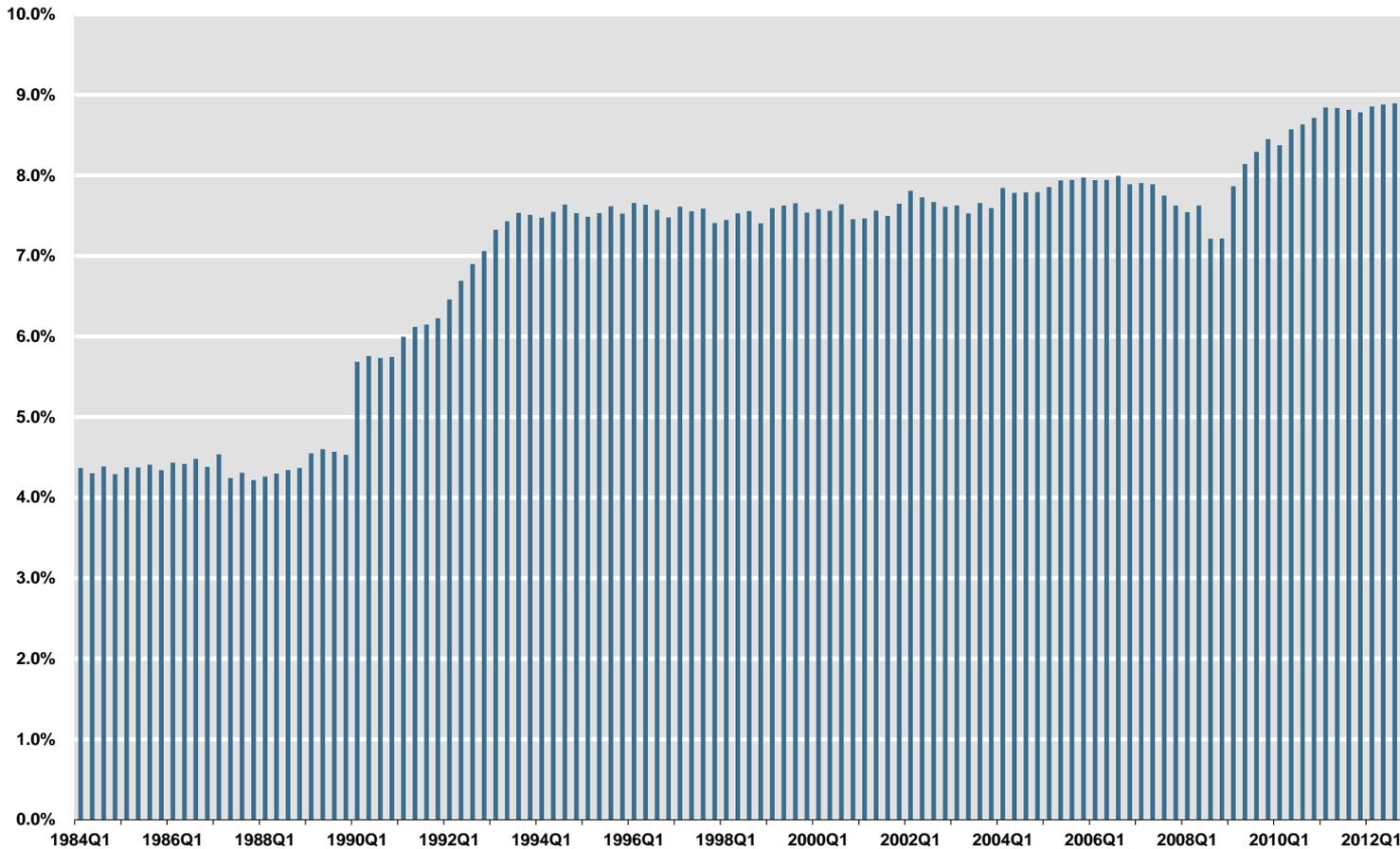


Source: FDIC Quarterly Banking Report.

# Increased Capital Levels

▶ ...as financial leverage is being wrung from the system...

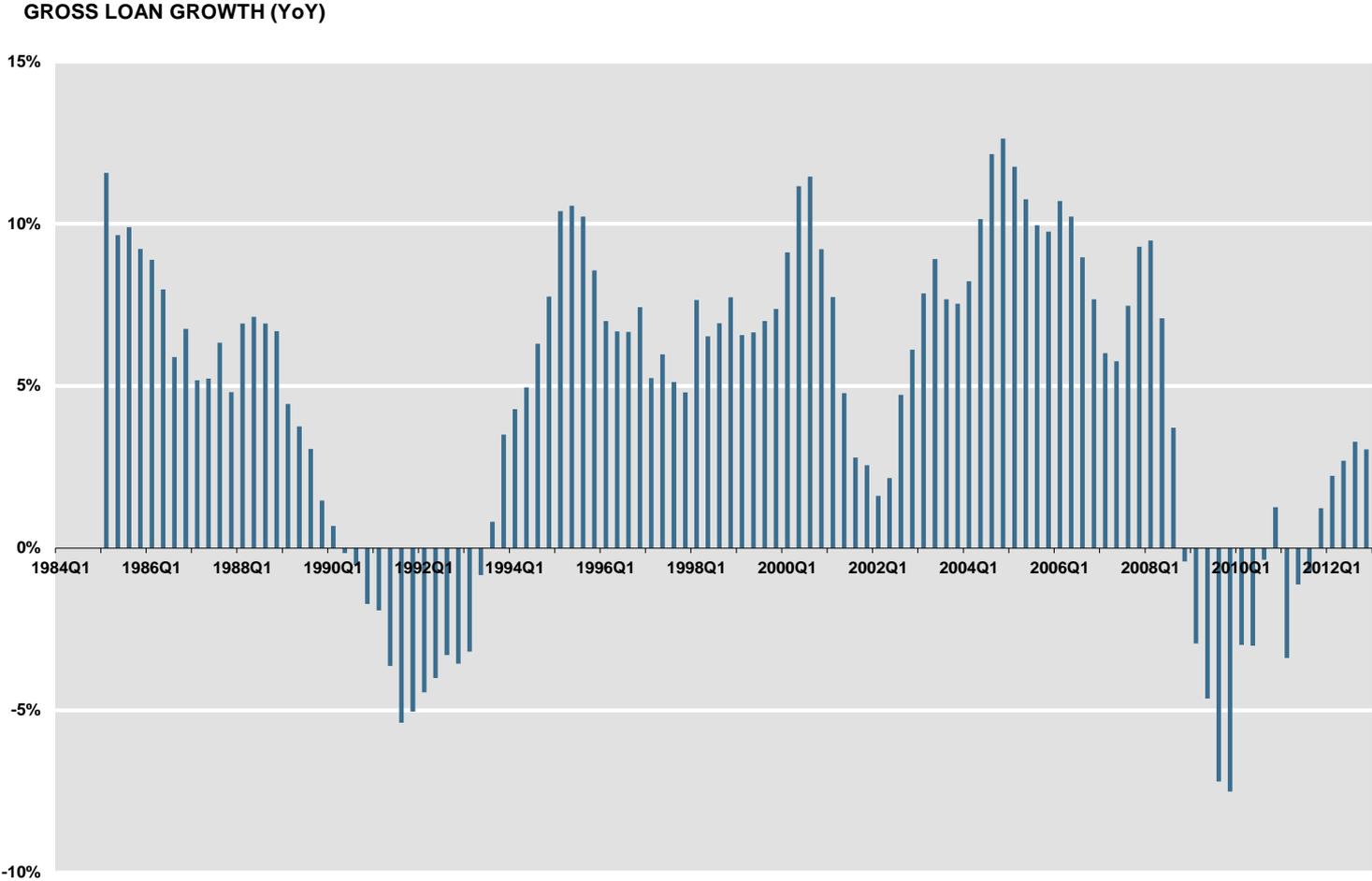
TIER 1 CAPITAL / TOTAL ASSETS



Source: FDIC Quarterly Banking Report.

# In a Low Growth Environment

...with loan growth hard to come by and long-term US growth levels in question...

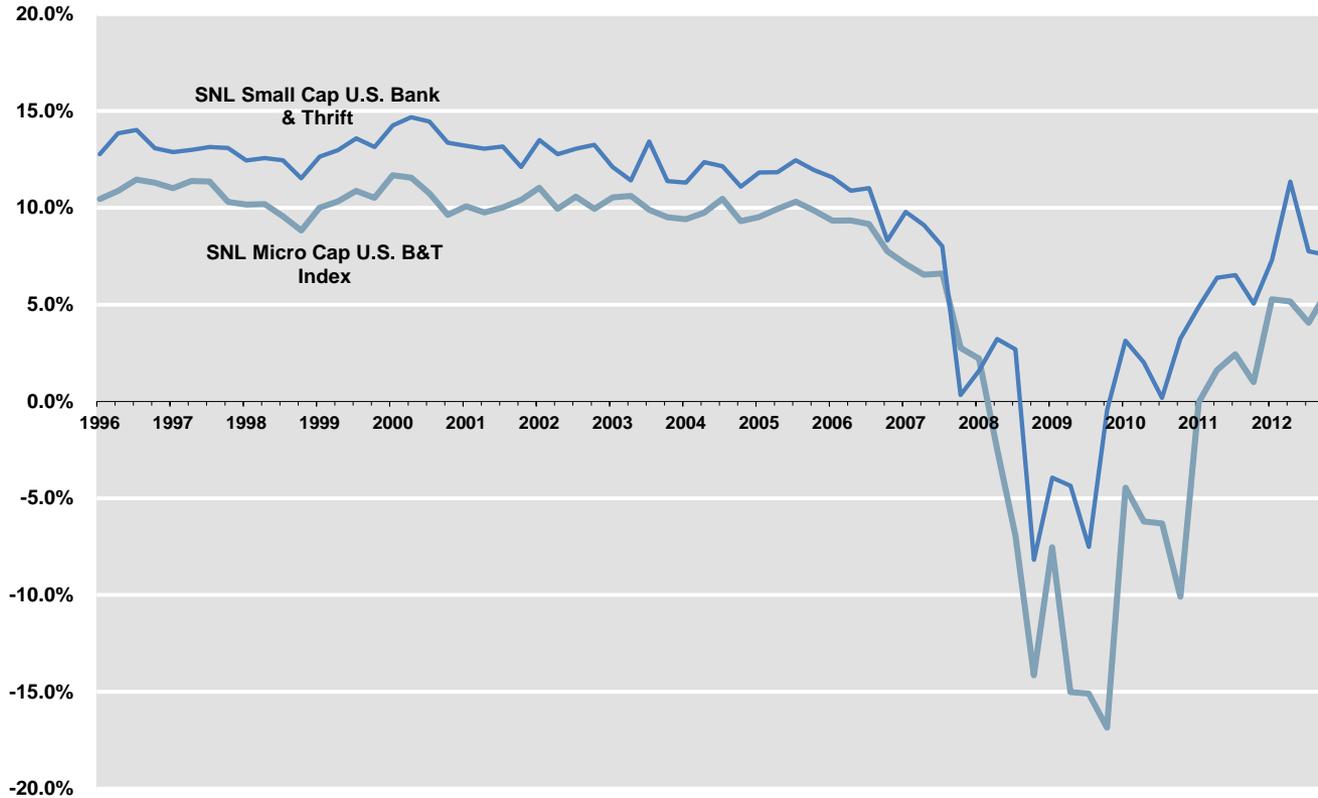


Source: FDIC Quarterly Banking Report.

# Drives Reduced RoEs

► ...all-in-all driving lower returns on capital for the industry.

HISTORICAL CORE ROE



Source: SNL Financial.

Note: SNL Small Cap Bank & Thrift Index includes all public U.S. Banks & Thrifts with \$250 million - \$1 billion market capitalization.

SNL Micro Cap Bank & Thrift Index includes all public U.S. Banks & Thrifts within SNL's coverage universe with <\$250 market capitalization.

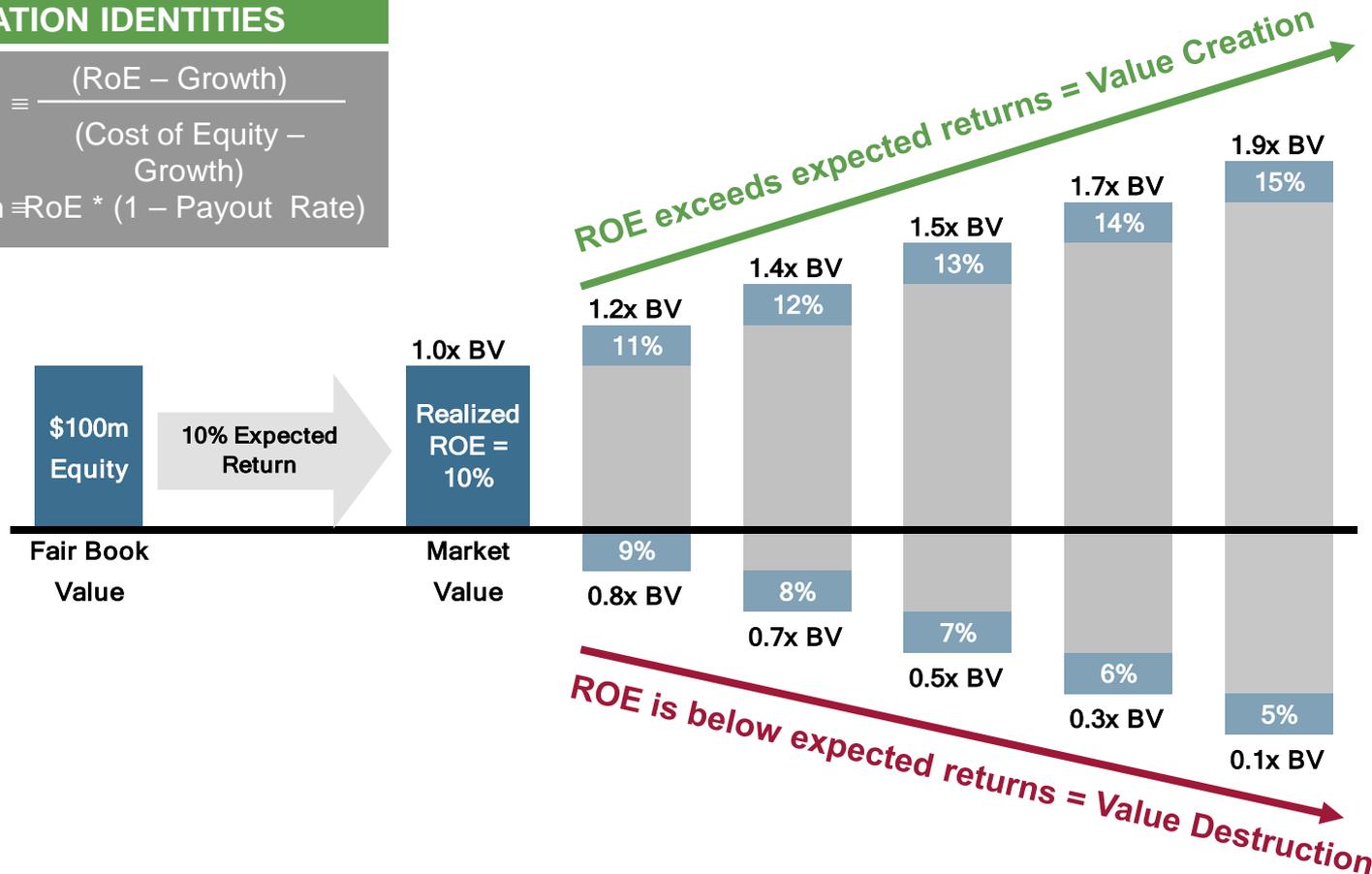
# As We Know: Long-term, Sustainable RoE Drives Value

Realized ROE in excess of expected returns creates value; anything less destroys value & capital.

## VALUATION IDENTITIES

$$\frac{\text{Price}}{\text{Book}} \equiv \frac{(\text{RoE} - \text{Growth})}{(\text{Cost of Equity} - \text{Growth})}$$

$$\text{Growth} \equiv \text{RoE} * (1 - \text{Payout Rate})$$



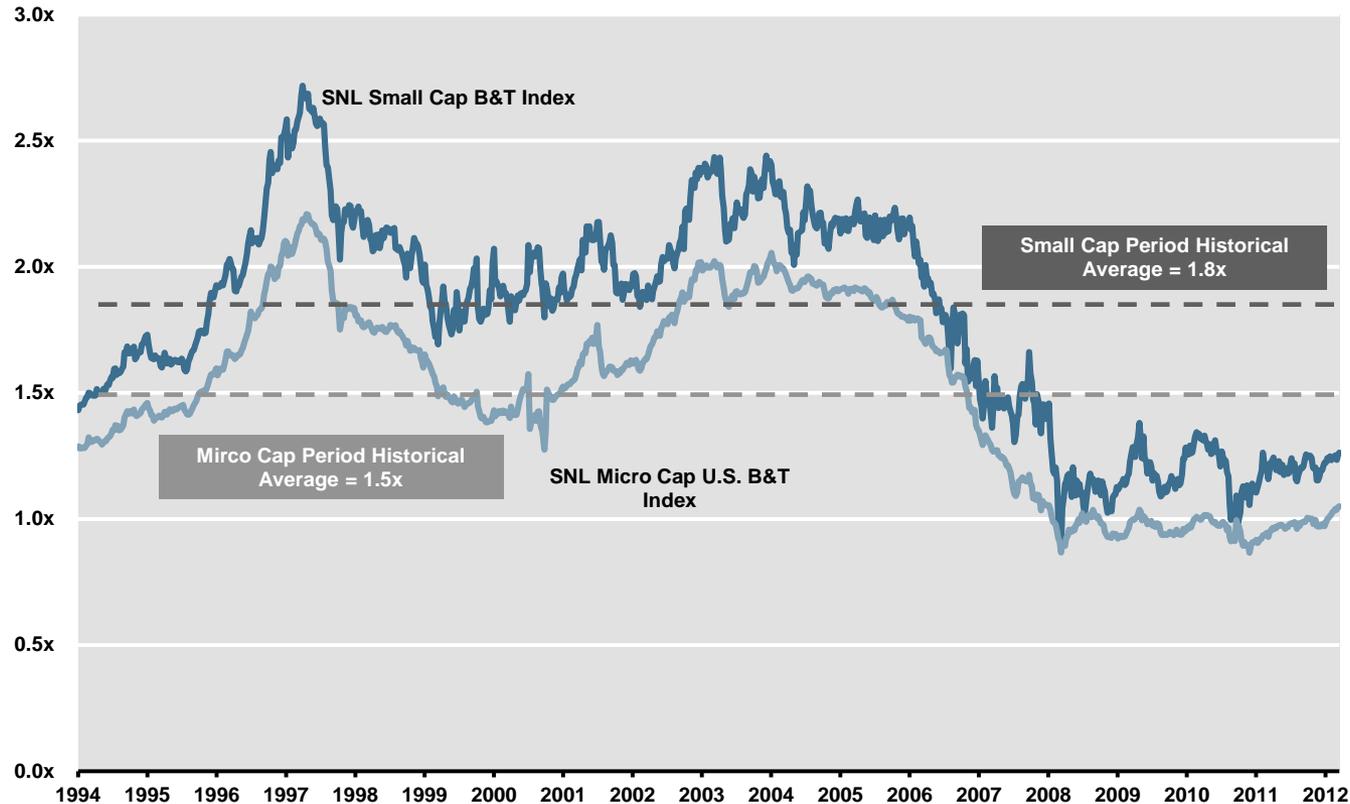
Note: Illustrative book value multiples assume 50% reinvestment rate.

# Concerns Reflected in Public Market Valuations

This concern over long-term, sustainable RoE continues to be reflected in public equity valuations.

## BANK & THRIFT VALUATION

1994 - Present



Source: SNL Financial.

Note: SNL Small Cap Bank & Thrift Index includes all public U.S. Banks & Thrifts with \$250 million - \$1 billion market capitalization.

SNL Micro Cap Bank & Thrift Index includes all public U.S. Banks & Thrifts within SNL's coverage universe with <\$250 market capitalization.

# Illustrative New Normal to Bank Valuation

The financial crisis has altered the standard bank financial model and its valuation calculus.

## ILLUSTRATIVE PRE- / POST-CRISIS BANK VALUATION

	Pre-Crisis Bank		Post-Crisis Bank
Total Assets	\$1,000,000,000		\$1,000,000,000
TCE / TA	6.5%	<i>Increased Regulatory Capital Requirements</i>	8.0%
Tangible Equity	\$65,000,000		\$80,000,000
ROAA	1.20%	<i>Increased Compliance Costs, Low Rates, Fee Limits</i>	0.90%
Net Income	\$12,000,000		\$9,000,000
<b>Implied ROAE</b>	<b>18.5%</b>	<i>Severely Limits Equity Returns</i>	<b>11.3%</b>
Earnings Multiple	14.0x		12.0x
<b>Implied Value</b>	<b>\$168,000,000</b>	<i>Dramatic Impact on Valuations</i>	<b>\$108,000,000</b>
<i>Resulting Multiple of TBV</i>	<i>2.58x</i>		<i>1.35x</i>

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Current Market Environment

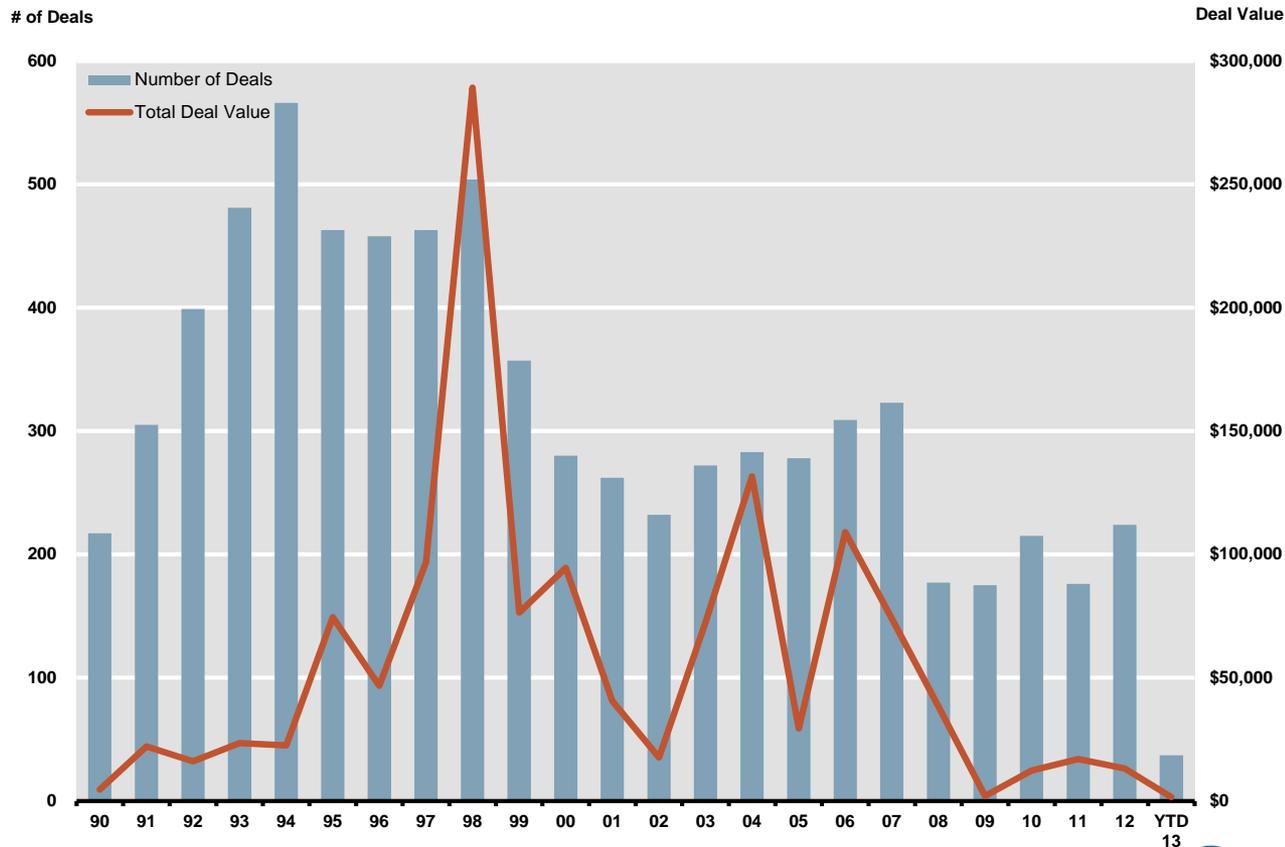
**M&A Considerations**

Introduction to River Branch Capital LLC

# Nationwide M&A Market Volumes

The M&A market remains depressed driven by credit concerns and bilateral perception of value.

**HISTORICAL ANNUAL BANK & THRIFT M&A ACTIVITY**  
(\$ in millions)

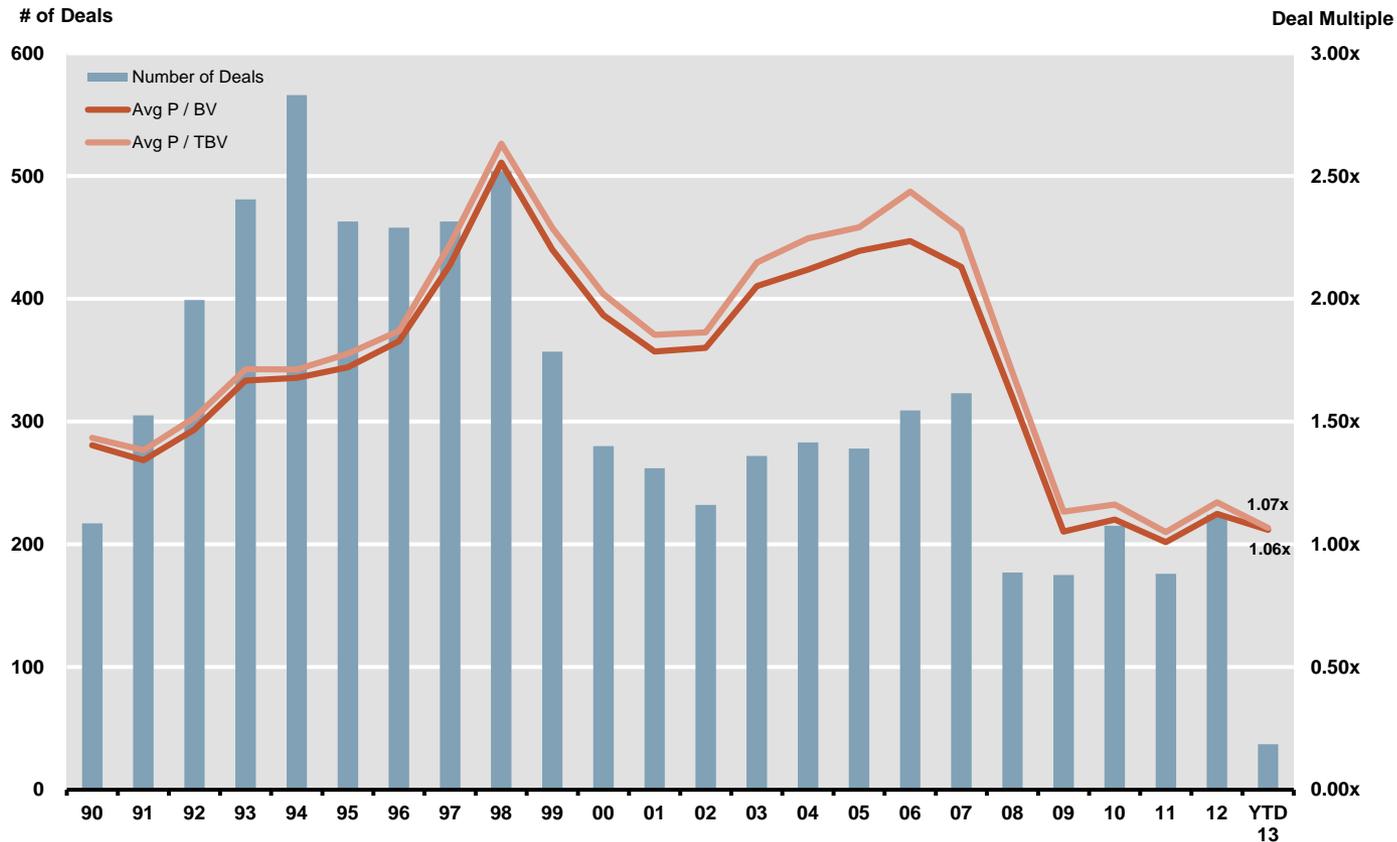


Source: SNL Financial.

# Nationwide M&A Market Valuations

▶ Buyer concerns and seller stress are reflected in current M&A valuations.

HISTORICAL BANK & THRIFT M&A VALUATION

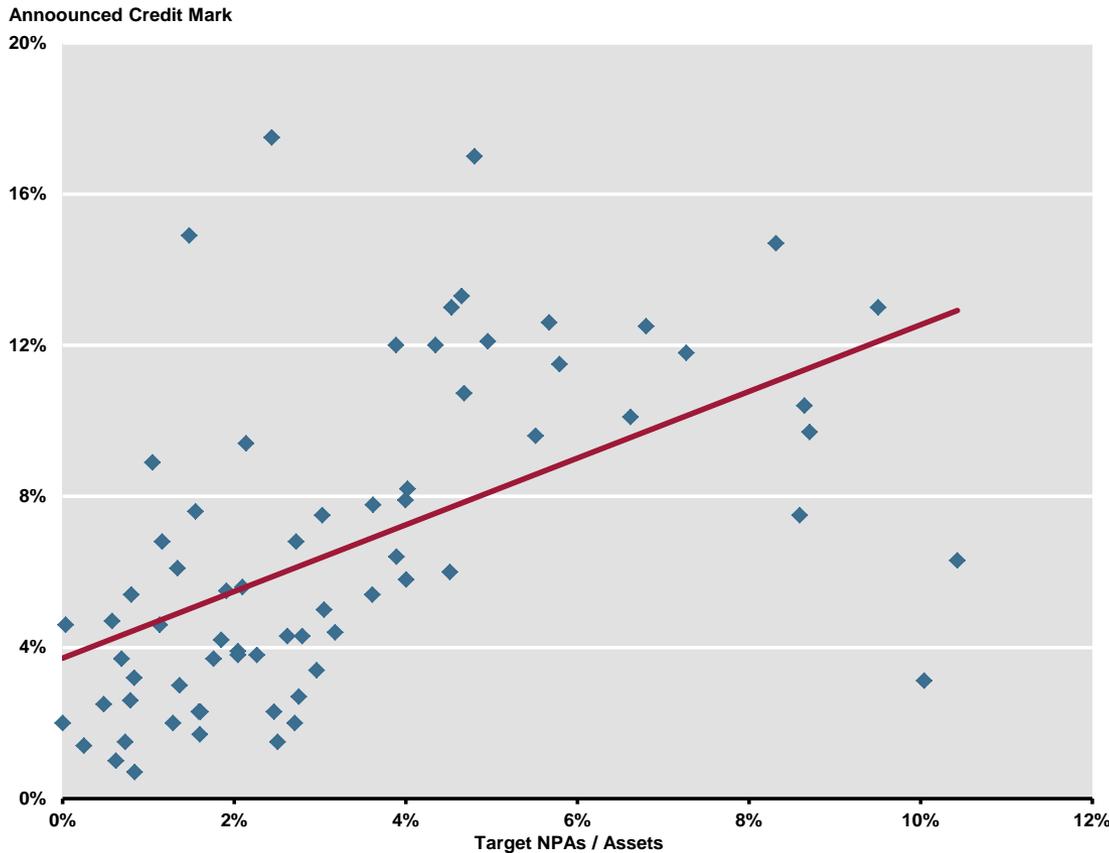


Source: SNL Financial.

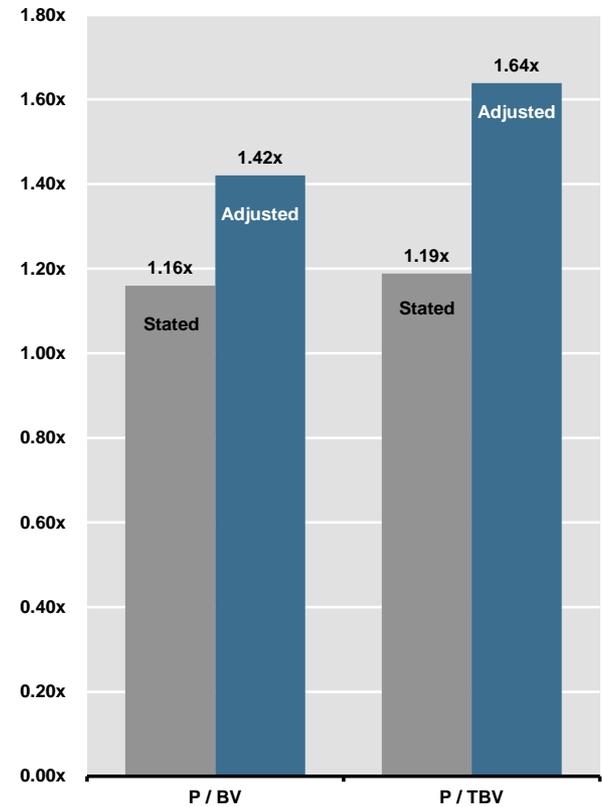
# Credit Marks Drive Value Impacts

▶ Credit marks have tightened but still drive meaningful pricing impacts.

NATIONWIDE TRANSACTIONS WITH ANNOUNCED CREDIT MARKS – SINCE 2008



DEAL VALUE MULTIPLES – ANNOUNCED VS. CREDIT ADJUSTED



Source: SNL Financial, company presentations and news releases, where available.

# Upper Midwest M&A Transactions

Pre- and Post-Crisis M&A for the Upper Midwest region paints a contrasting picture.

MN, IL, SD, ND, IA and WI M&A TRANSACTIONS ANNOUNCED SINCE JANUARY 1, 2005

Deal Value > \$25m

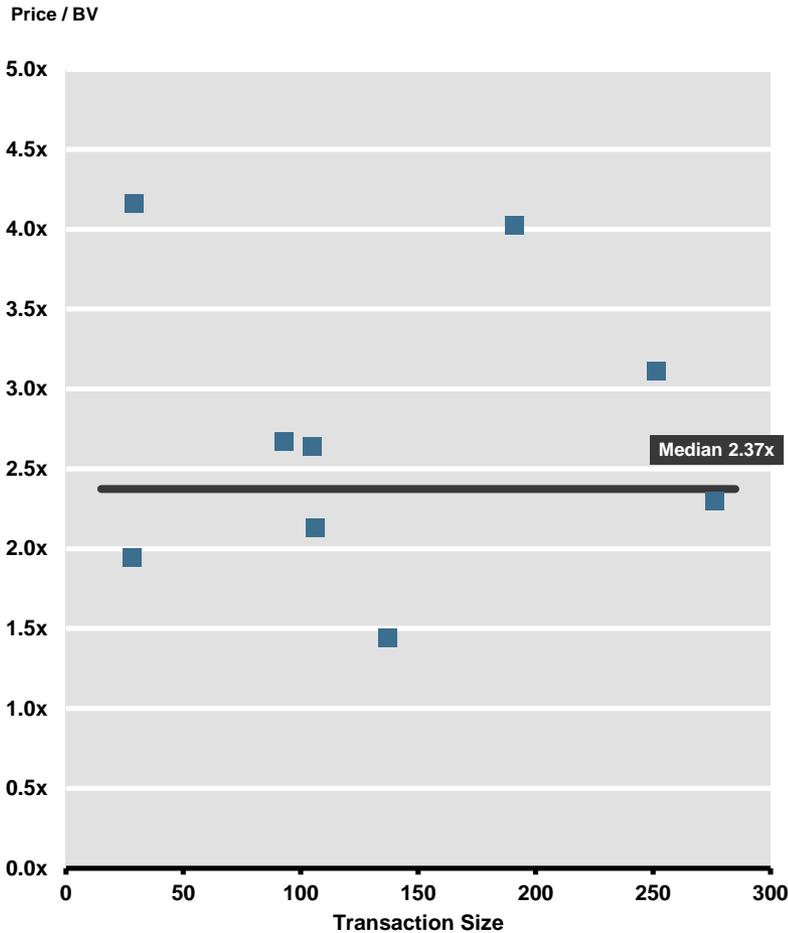
(\$ in millions)

Annc'd Date	Buyer / Target	ST	S-Corp?	Deal Value	Purchase Price /			Target Announcement Financials					
					LTM EPS	BV	TBV	Total Assets	NPAs / Assets	Tg. Eq. / Assets	MRQ ROAA ROAE		
<b>Post-Crisis Transactions: 2008 - 2013YTD</b>													
1/22/13	Wintrust Financial Corporation / First Lansing Bancorp, Inc.	IL	No	38	35.7x	0.94x	0.98x	371	6.29%	10.84%	0.21%	1.9%	
9/18/12	Wintrust Financial Corporation / HPK Financial Corporation	IL	No	28	14.6x	1.01x	1.06x	390	2.21%	8.60%	0.54%	6.6%	
3/12/12	National Australia Bank, Limited / North Central Bancshares, Inc.	IA	No	41	20.0x	0.99x	1.00x	433	3.61%	9.62%	0.59%	5.2%	
10/10/11	First Financial Corporation / Freestar Bank, National Association	IL	Yes	47	13.7x	1.36x	1.65x	402	1.68%	9.29%	0.86%	8.3%	
1/12/11	First Illinois Corporation / HPB Holdings, Inc	IL	No	25	7.1x	0.80x	0.80x	867	0.21%	8.74%	0.62%	7.5%	
9/24/10	Rigler Investment Co. / State Bank & Trust Company	IA	Yes	30	22.2x	1.28x	1.31x	145	0.38%	15.95%	0.92%	6.0%	
1/29/10	National Australia Bank, Limited / F&M Bank-Iowa Central	IA	No	50	NM	1.10x	1.10x	463	0.38%	9.80%	0.03%	0.3%	
1/7/10	Chemical Financial Corporation / O.A.K. Financial Corporation	MI	No	77	NM	1.09x	1.09x	840	2.10%	8.48%	0.15%	1.8%	
11/22/09	United Community Bancorp, Inc. / Brown County State Bank and Marine Bank & Trust	IL	No	28	9.0x	1.34x	1.34x	278	NA	NA	NA	NA	
1/30/08	Bank Iowa Corporation / Hansen Bancorporation	IA	No	31	32.0x	1.55x	1.55x	194	0.62%	11.80%	0.58%	5.1%	
<b>Pre-Crisis Transactions: 2004 - 2007</b>													
9/18/07	First Interstate BancSystem, Inc. / First Western Banks	SD	Yes	251	18.1x	3.11x	3.12x	890	0.17%	NA	1.61%	NA	
9/11/07	ISB Financial Corporation / MidWestOne Financial Group, Inc.	IA	No	92	NM	NM	NM	749	0.51%	6.65%	0.48%	5.7%	
7/11/07	Anchor BanCorp Wisconsin Inc. / S&C Banco, Inc.	WI	No	106	20.1x	2.13x	2.34x	407	1.26%	11.23%	0.98%	8.0%	
7/9/07	BMO Financial Group / Ozaukee Bank	WI	No	191	22.1x	4.02x	4.02x	694	1.48%	7.41%	1.40%	18.7%	
7/9/07	BMO Financial Group / Merchants and Manufacturers Bancorporation, Inc.	WI	No	137	32.2x	1.44x	2.28x	1,502	1.16%	4.09%	0.34%	5.4%	
2/9/07	Marshall & Ilsley Corporation / Excel Bank Corporation	MN	Yes	105	20.7x	2.64x	2.66x	615	0.57%	6.42%	1.25%	19.6%	
1/17/07	Associated Banc-Corp / First National Bank of Hudson	MN	Yes	93	19.2x	2.67x	2.67x	391	0.32%	8.89%	1.26%	14.1%	
1/4/07	Eastwood Financial Corporation / Fortress Bank Minnesota	MN	No	29	NM	4.16x	5.77x	56	0.27%	9.23%	0.36%	3.0%	
7/29/05	Frandsen Financial Corporation / QCF Bancorp, Inc.	MN	No	28	9.9x	1.95x	1.95x	170	0.18%	11.57%	1.60%	14.8%	
3/21/05	Associated Banc-Corp / State Financial Services Corporation	WI	No	276	18.5x	2.30x	3.52x	1,476	0.52%	5.22%	0.94%	12.5%	
<b>2008 - 2013YTD Mean</b>				<b>40</b>	<b>19.3x</b>	<b>1.15x</b>	<b>1.19x</b>	<b>438</b>	<b>1.94%</b>	<b>10.35%</b>	<b>0.50%</b>	<b>4.7%</b>	
<b>2008 - 2013YTD Median</b>				<b>35</b>	<b>17.3x</b>	<b>1.09x</b>	<b>1.10x</b>	<b>396</b>	<b>1.68%</b>	<b>9.62%</b>	<b>0.58%</b>	<b>5.2%</b>	
<b>2004 - 2007 Mean</b>				<b>147</b>	<b>19.3x</b>	<b>2.54x</b>	<b>2.92x</b>	<b>818</b>	<b>0.70%</b>	<b>8.20%</b>	<b>1.09%</b>	<b>11.5%</b>	
<b>2004 - 2007 Median</b>				<b>105</b>	<b>19.2x</b>	<b>2.37x</b>	<b>2.67x</b>	<b>615</b>	<b>0.51%</b>	<b>7.68%</b>	<b>0.94%</b>	<b>11.2%</b>	
<b>Aggregate Mean</b>				<b>104</b>	<b>19.3x</b>	<b>1.96x</b>	<b>2.20x</b>	<b>666</b>	<b>1.16%</b>	<b>9.04%</b>	<b>0.87%</b>	<b>8.8%</b>	
<b>Aggregate Median</b>				<b>50</b>	<b>19.2x</b>	<b>1.55x</b>	<b>1.83x</b>	<b>433</b>	<b>0.54%</b>	<b>8.89%</b>	<b>0.85%</b>	<b>8.0%</b>	

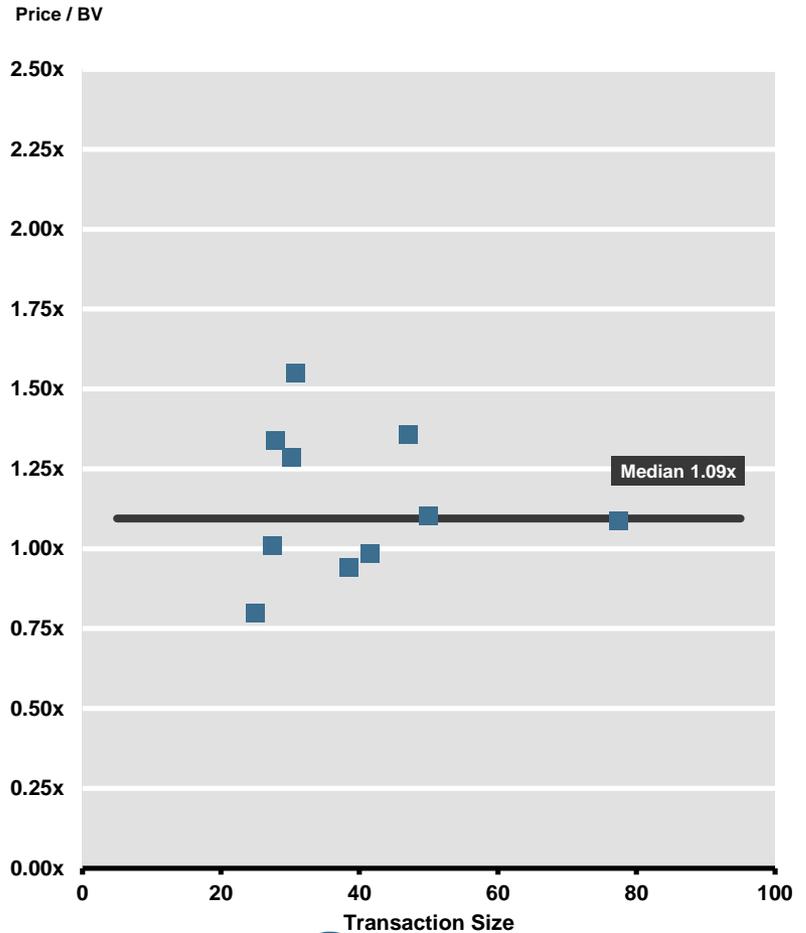
# Select Upper Midwest M&A Comparison

▶ Midwest M&A activity post-crisis is beginning to increase but has not returned to pre-crisis levels.

UPPER MIDWEST M&A TRANSACTIONS 2005 - 2007



UPPER MIDWEST M&A TRANSACTIONS 2008 - 2013YTD



# Minnesota Bank Failures Since 2008

22 bank failures since 2008 has helped thin the field.

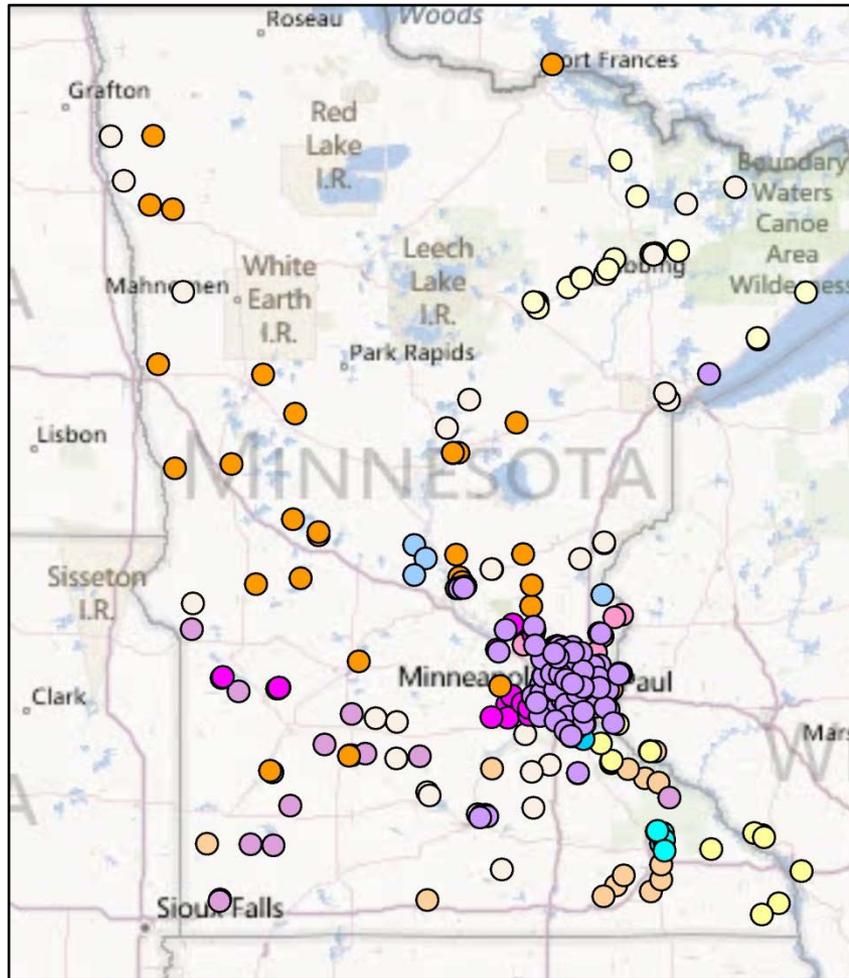
## MINNESOTA BANK FAILURES SINCE 2008

(\$ in thousands)

Failed Bank	Actual Acquirer	Failure Date	Resolution	Assets	Deposits
1st Regents Bank	First Minnesota Bank	1/18/2013	P&A	50,208	49,125
First Commercial Bank	Republic Bank & Trust Company	9/7/2012	P&A	215,867	206,809
Inter Savings Bank, FSB	Great Southern Bank	4/27/2012	P&A	481,589	472,952
Home Savings of America	-	2/24/2012	Liquidation	434,111	432,223
Patriot Bank Minnesota	First Resource Bank	1/27/2012	P&A	105,029	102,833
RiverBank	Central Bank	10/7/2011	P&A	417,417	379,333
Rosemount National Bank	Central Bank	4/15/2011	P&A	37,599	36,550
Community National Bank	Farmers & Merchants Savings Bank	12/17/2010	P&A	31,569	28,844
Community Security Bank	Roundbank	7/23/2010	P&A	107,951	99,732
Pinehurst Bank	Coulee Bank	5/21/2010	P&A	61,215	58,288
Access Bank	PrinsBank	5/7/2010	P&A	31,996	31,969
State Bank of Aurora	Northern State Bank	3/19/2010	P&A	28,159	27,801
1st American State Bank of MN	Community Development Bank, FSB	2/5/2010	P&A	18,155	16,327
Marshall Bank, National Assoc.	United Valley Bank	1/29/2010	P&A	59,852	54,740
St. Stephen State Bank	First State Bank of Saint Joseph	1/15/2010	P&A	24,742	23,383
Prosperan Bank	Alerus Financial, National Association	11/6/2009	P&A	206,600	175,500
Riverview Community Bank	Central Bank	10/23/2009	P&A	108,000	80,000
Jennings State Bank	Central Bank	10/2/2009	P&A	56,300	52,400
Brickwell Community Bank	CorTrust Bank National Association	9/11/2009	P&A	72,000	63,000
Mainstreet Bank	Central Bank	8/28/2009	P&A	435,900	434,000
Horizon Bank	Stearns Bank National Association	6/26/2009	P&A	87,600	69,400
First Integrity Bank, N.A.	First International Bank & Trust	5/30/2008	P&A	54,700	50,300
<b>Sum</b>				<b>3,126,559</b>	<b>2,945,509</b>
<b>Median</b>				<b>66,608</b>	<b>60,644</b>

# Minnesota-Based Banks

A lack of consolidation relative to other US states has left more mid-sized bank players in Minnesota.



## MN Banks (Assets >\$650M & <\$20BN)

Bank	Color
TCF Financial Corporation	Light Purple
Bremer Financial Corporation	Yellow
Klein Financial, Inc.	Pink
Frandsen Financial Corporation	White
Minnwest Corporation	Light Purple
Stearns Financial Services, Inc.	Light Blue
Think Mutual Bank	Light Blue
Anchor Bancorp, Inc.	Light Blue
Merchants Financial Group, Inc.	Yellow
Central Bancshares, Inc.	Pink
University Financial Corp, Inc.	Light Blue
Mesaba Bancshares, Inc.	Yellow
First Farmers & Merchants National Bank	White

## MN Banks (Assets >\$50M & <\$600M)

- Minnesota has approximately 150 banks with assets between \$50M and \$600M and healthy Texas Ratios (less than 30%)
- Minnesota has approximately 25 banks with assets between \$50M and \$600M and elevated Texas Ratios (greater than 70%)

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Current Market Environment

M&A Considerations

**Introduction to River Branch Capital LLC**

# Overview of River Branch Holdings and Its Capabilities

## Merchant Banking Orientation

- River Branch possesses significant expertise in both investment banking & private equity
- Provides insight to both the current transaction environment and investment landscape

## Financial Services Focus

- Over 100 years of combined experience with financial services companies
- Over \$100 billion in combined M&A and Private Equity transaction value

## Senior Team Expertise

- Senior-level involvement throughout our client engagements
- Strong relationship orientation

## Middle-Market Strategy

- Larger firms have focused on consolidation and their largest clients
- Middle-market clients have moved to boutique firms for higher level of service

## Conflict-Free Advice

- Client orientation, not self-interested orientation
- Trusted advisor role rather than product vendor

## International Capabilities

- Global network is a resource for clients seeking international exposure, growth, and capital

# The River Branch Difference

## Approach

River Branch's approach to transactions as an investor and advisor allows us to guide our client to an optimal outcome

## Scope

While our competitors have a limited scope of the market as pure investment banks, River Branch possesses a balanced approach to achieve successful transactions



## Range of Advisory Services Offered

### Sell-Side M&A Advisory

- End-to-end management of sale process
- Knowledge of quality buyers to contact
- Valuation analysis, including fairness opinions

### Buy-Side M&A Advisory

- Negotiation, deal process, and due diligence management
- Valuation analysis, including fairness opinions
- Deep understanding of current industry and regulatory dynamics

### Private Placement

- Debt, equity and hybrid securities
- Wide breadth of investor relationships across different styles and preferences
  - Buyout, growth equity, venture capital, sector-focused, and family offices

### Strategic & Valuation Advisory

- Executive and board-level strategic advisory
- Corporate restructuring and recapitalization advisory
- Comprehensive review of strategic alternatives
- Valuation analytics for compensation plans, share buyback programs, etc.

# Experienced Senior Team Dedicated to Financial Services

## David Olson – Chairman & CEO



### Professional Background

- CEO of Guggenheim Merchant Banking
- Chairman of Credit Suisse Asia-Pacific IBK
- Chairman & CEO of DLJ Asia-Pacific
- Head of DLJ's FIG Practice

### Financial Services Experience

- Over 30 years experience
- Over 100 transactions
- Over \$50B aggregate value

## Steve Kent – President



### Professional Background

- Chicago Office Head at Keefe, Bruyette & Woods
- Head of Financial Institutions practice at Robert W. Baird

### Financial Services Experience

- Over 30 years experience
- Over 100 transactions
- Over \$20B aggregate value

## Chris Cotter – Managing Director



### Professional Background

- Partner at William Blair for 15 years
- Founded William Blair's Financial Services Group
- Investment Banking Associate at Goldman Sachs

### Financial Services Experience

- Over 25 years experience
- Over 75 transactions
- Over \$40B aggregate value

## Louis Klevan – Managing Director



### Professional Background

- Leadership positions focusing in private placements at BMO Capital Markets, Credit Suisse, DLJ, Bank of America, and PaineWebber

### Financial Services Experience

- Over 25 years experience
- Over 170 transactions
- Over \$14B aggregate value

# Biographical Information

## Steven P. Kent, President

Steven P. Kent, President, River Branch Capital  
Office: 312-244-6930  
Mobile: 630-370-3780  
Email: skent@riverbranchcapital.com

Steven P. Kent is President of River Branch Capital LLC (“RBC”) and a member of River Branch Holdings’ (“RBH”) Board of Directors and Investment Committee.

Mr. Kent joined RBC in May 2011 from Keefe, Bruyette & Woods, Inc (“KBW”), where he served as Office Head and a Managing Director for 13 years. At KBW, Mr. Kent led the Chicago office in merger and acquisition transactions and capital markets activities for banks, thrifts and insurance, mortgage banking and finance companies, achieving a number one market share for Midwest regional bank transactions. Prior to joining KBW, Mr. Kent was a Managing Director and Head of the Financial Institutions Group at Robert W. Baird & Co. where he acted as a member of Baird's Board of Directors and Operating and Capital Commitment Committees. Prior to joining Baird in 1982, he was Vice President of Investments for Firststar Corporation.

Mr. Kent received a BA in Economics with honors from Ripon College and an MBA from the University of Wisconsin.

# Unparalleled Senior Leadership M&A Experience

**1990s**

**2000s**

**2010s**

# Case Study: Metropolitan Bank Group, Inc.

Recapitalization of

**Metropolitan  
Bank Group**

**Announced**



*Acted as financial advisor to  
Metropolitan Bank Group, Inc.*

## Transaction Summary

With 91 branches and \$2.7 billion in total assets, Metropolitan Bank Group, Inc. ("Metropolitan") is undergoing a \$204 million recapitalization led by BXM Holdings Inc. Metropolitan represents one of the largest privately-held bank holding companies in the state of Illinois.

The additional equity capital will allow Metropolitan and its subsidiary banks to meet and exceed mandated minimum regulatory capital ratios and support future growth.

The capital raise includes a discounted redemption of the U.S. Treasury's TARP funds, which has been fully negotiated, and is expected to close in the first half of 2013.

## River Branch's Role

River Branch Capital provided financial and strategic advice to Metropolitan's management team and Board of Directors, including advice regarding the following topics:

- Capital alternatives review
- Identifying and negotiating with potential investors
- Transaction structuring
- Pricing benchmarks
- Financial analytics

# Case Study: Capitol Bancorp Ltd.

## Prepackaged Bankruptcy and Recapitalization of



## Announced



*Acted as financial advisor to Capitol Bancorp Ltd.*

## Transaction Summary

The recapitalization of Capitol Bancorp Ltd. (“Capitol”) contemplates an equity infusion of at least \$70 million and up to \$115 million. The company’s plan contemplates the conversion of all current trust preferred security holders, unsecured senior note holders, current preferred equity shareholders and current common equity shareholders into new classes of common stock that will retain slightly over 50% of the voting control and economic value of the restructured company.

Capitol also continues to seek a bulk sale of its nonperforming loans to a nationally recognized third party investor.

## River Branch’s Role

River Branch Capital provided financial and strategic advice to Capitol Bancorp’s management team and Board of Directors, including advice regarding the following topics:

- Capital alternatives review
- Capital raising
- Identifying and negotiating with investors
- Balance sheet restructuring
- Transaction structuring
- Franchise valuations
- Financial analytics

## Case Study: Standard Bancshares, Inc.

### Recapitalization of



**February 2013**



*Acted as financial advisor to Standard Bancshares, Inc.*

### Transaction Summary

The recapitalization of Standard Bancshares, Inc. (“Standard Bank”) represents a \$138 million capital infusion by an investor group led by Stone Point Capital, a leading private equity investor. Standard bank is a 41 branch bank located in southwest Chicago with over \$2.2 billion in total assets.

The capital raise will allow Standard Bank’s management team to shore up its capital position and pursue several attractive strategic initiatives, including multiple low-risk potential acquisitions within its geographic footprint.

### River Branch’s Role

River Branch Capital provided financial and strategic advice to Standard Bank’s management team and Board of Directors, including advice regarding the following topics:

- Capital alternatives review
- Capital raising
- Identifying and negotiating with investors
- Transaction structuring
- Pricing benchmarks
- Financial analytics

An affiliate of River Branch also plans to invest as a principal in the capital raise alongside Stone Point Capital and other co-investors.

## Case Study: Western Bancshares, Inc.

**Sale of**



**to**



**October 2012**



*Acted as financial advisor to Western Bancshares, Inc.*

### Transaction Summary

On July 26, 2012, American National Corp. (“American National”) (Omaha, NE), announced its acquisition of Western Bancshares, Inc. (“Western Bank”) (St. Paul, MN). Western Bank will become a wholly-owned unit of American National, and will continue to operate as a separately chartered bank. Both Western Bank and American National are Private Subchapter S Corporations.

Western Bank’s principal shareholder is the Sands Family, while American National Corp. is wholly owned by the Kotouc and Lozier families of Omaha. The transaction closed in October 2012.

### River Branch’s Role

River Branch Capital provided financial and strategic advice to Western Bank’s management team and Board of Directors, including advice regarding the following topics:

- Capital alternatives review
- Identifying and negotiating with investors
- Transaction structuring
- Pricing benchmarks
- Financial analytics