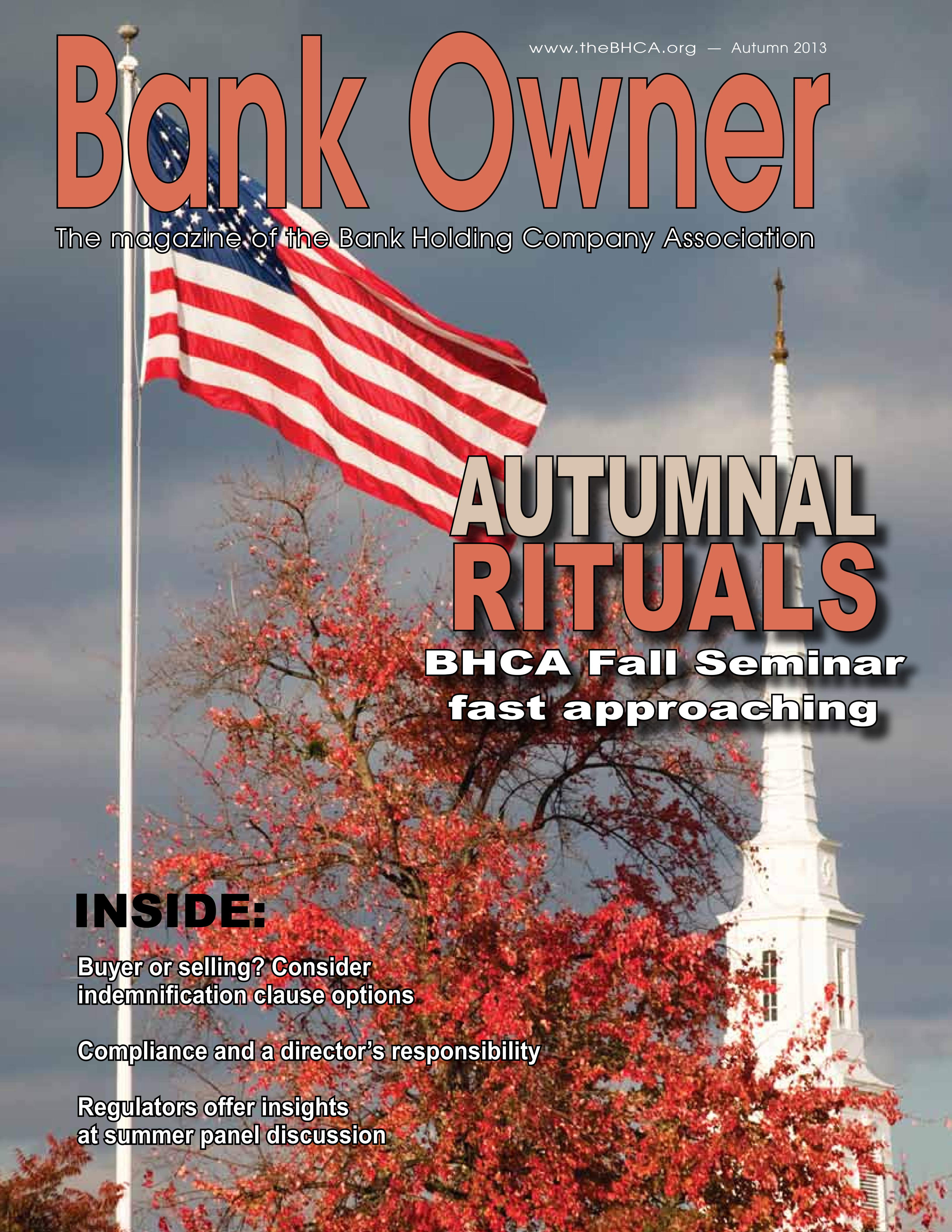

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Bank Owner

The magazine of the Bank Holding Company Association

AUTUMNAL RITUALS

BHCA Fall Seminar fast approaching

INSIDE:

Buyer or selling? Consider indemnification clause options

Compliance and a director's responsibility

Regulators offer insights at summer panel discussion

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Minneapolis
Greg Larson, senior vice president
612-317-4710

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Mark Blake, partner
800-931-7782

Barack Ferrazzano
Chicago
Joseph Ceithaml, attorney
312-629-5143

Baune Dosen & Co., LLP
Minneapolis
Brad Reich, partner
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Jason Mork, director-fixed income
414-212-4212

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Joshua Kiefer, investment officer
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member services
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Fifth Third Bank
Chicago
Brian Riley,
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Paul Bees, partner
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Douglas Winn, president
651-224-1200

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Edward J. Drenttel
attorney/shareholder
612-604-6400

Wipfli
Minneapolis
David Saber, senior consultant
952-548-3400

The Bank Holding Company Association

Our mission:
The mission of the Bank Holding Company Association is to provide educational information through seminars, webinars, forums and publications useful to bank owners, directors and holding company managers.

Our organization:
The Bank Holding Company Association, founded in 1981, welcomes Members from around the country. Holding companies of all sizes from throughout the Midwest make up a majority of the current membership. Companies that serve bank owners, their holding companies and banks, are welcomed as Associate Members. The BHCA is run by a 10-member board of directors and a managing director.

Our magazine:
Bank Owner magazine is the quarterly publication of the BHCA. It is your best source for information about bank holding company and bank ownership issues. The magazine also is your best source for BHCA information, including upcoming events. Members receive the magazine in the mail and have access to an online version in the members-only section of our web site, www.theBHCA.org. The magazine also is distributed to bank owners and holding company professionals who are excellent candidates for membership.

The Bank Holding Company Association
7400 Metro Blvd., Suite 217
Minneapolis, MN 55439
Tel. (952) 835-2248
Toll Free: (800) 813-4754
Fax: (952) 835-2295
www.theBHCA.org

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Bank Owner

Autumn 2013

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Note the date

CALENDAR

Oct. 3-4 — 2013 Fall Seminar
Oct. 4 — BHCA annual meeting
Oct. 4 — Night out at the Chanhassen Theatre
Oct. 17 — Webinar: *"What to consider when raising capital"*
TBD — Directors webinar series

Register for events online at www.theBHCA.org

Fall Seminar for 2013 is Your Playbook for Success

By Douglas Farmer
Golden Oak Bancshares, Inc., Holmen, Wis.

The annual Fall Seminar is just a few weeks away; if you have not already registered, I hope you will register today. We have included a registration form in this edition of *Bank Owner*; simply fill it out and mail it in with your check. Or, you can go to our website at www.theBHCA.org to register online and pay with a credit card. If you are traveling from out of town and need to reserve a hotel room at the Minneapolis Airport Marriott Hotel in Bloomington, Minn., where we are again hosting the seminar, make your reservations before Sept. 19 to get the discounted room rate. Call the hotel direct at 952-854-7441. The Bank Holding Company Association has assembled a great team of industry leaders for the Fall seminar, which is set for Thursday and Friday, Oct. 3-4.

Matt Birk, a member of the Baltimore Ravens team that won the Super Bowl last January, is our lead-off-speaker on Thursday evening. Matt, who grew up in Minnesota, played for the Vikings for 11 seasons, and played in the Pro Bowl six times, shares his insight into intentional leadership. He explains how to engage the entire staff to make the most of your team.

Friday features intelligence from two noted economists: Dimitri Delis, director of BMO Capital Markets Fixed Income Group, and Narayana Kocherlakota, president of the Federal Reserve Bank of Minneapolis. Delis uses his Ph.D. in nuclear physics to develop investment strategies and econometric models. He will summarize major events and trends in today's economy and put them into meaningful context for community bank owners and managers. Kocherlakota will offer comments from his perspective as a member of the Federal Open Markets Committee, and as the chief regulator for holding companies and Fed member banks in the Ninth District.

Industry consultant Don Musso, president of New Jersey-based FinPro, will offer strategies for succeeding in an uncertain environment. Musso will describe his firm's "decision-tree" planning methodology that results in a pathway to success for holding companies and banks.

Virginia Heyburn, vice president of insights and advocacy for Fiserv, articulates the community bank advantage in technology and payment system strategies. With the technology gap closing between large and small banks, Heyburn says community banks have a clear advantage in cultivating profitable relationships.

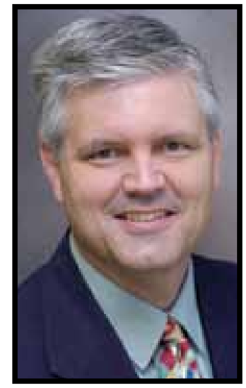
Breakout sessions will address technology and security, investments, mergers and acquisitions, and more. The entire schedule of events, including the four breakout session options, are presented on page 10 next to the registration form in this magazine.

Also, be sure to join us for a wonderful night out, Friday, Oct. 4, at the Chanhassen Dinner Theatre. A group of BHCA members and guests will enjoy dinner and the opening night presentation of the timeless musical classic, Fiddler on the Roof. This is a fun show filled with familiar music, such as "Matchmaker, Matchmaker," "If I Were A Rich Man," and "Sunrise, Sunset." This is a purely social event; we take care of everything including transportation to and from the Chanhassen Dinner Theatre. We have our own private seating area and participants will be able to order off the dinner menu. So, if you are coming in from out of town for the seminar, why not extend your stay into the weekend, bring your spouse and enjoy an evening of good food and theatre.

The seminar is one of the best educational programs offered in the industry; consider inviting additional members of your staff or your directors. If you have questions, give me a call.

I look forward to seeing you, Oct. 3-4!

BHCA speaker from 2007 still offering inspiration



By Tom Bengtson
BHCA Managing Director

I'm not much of a runner but every now and then I get on a treadmill and work up a sweat. The last time I was running, I recalled Dick Beardsley, one of the best marathon runners ever to come out of Minnesota. Some of you may remember that Beardsley was the after-dinner speaker at the 2007 BHCA Fall Seminar.

Beardsley shared the thrill of being one of the world's leading marathoners and the agony of struggling with a drug addiction that nearly killed him. The likeable, 6-foot-2 runner invited us to support his foundation, which assists chemically-dependent people undergoing treatment.

After washing out of football, Beardsley tried out for his high school's cross country team, a much better fit for the 135-pound junior. He had never run competitively before, and at the first practice of the season, he found himself walking the last mile of a three-mile run. With practice and persistence, he became a steady runner for his senior year season in 1974.

"There are no short cuts to success," he said. "You've got to believe in yourself. If you are willing to put in the work, the sky is the limit."

Beardsley graduated from high school never having run in the state high school championship. His college career, at the University of Minnesota-Waseca, did not bring him fame, although he was encouraged by his coach who repeatedly told him he "could be as good as he wanted to be."

In 1981, he ran Grandma's marathon in Duluth, Minnesota. He was feeling well-prepared and, mysteriously, picked up subliminal messages that he would run the course in two hours and nine minutes. He recently had recorded a time of 2:12 in the London marathon. Amazingly, he won Grandma's with a time of 2:09:36.

The pinnacle of Beardsley's career was the Boston marathon, ten months later. Six miles into the race, running shoulder to shoulder with Cuban-born Alberto Salazar, Beardsley told himself he could win the race. He felt terrible those first miles of the race, but a quarter of the way into the marathon, he knew he could compete with Salazar, the world's top runner at the time.

Beardsley found himself about two blocks behind Salazar with a little more than three miles to go. Beardsley sprinted forward to catch up. On the last left turn before the finish line, one of four motorcycles escorting the leaders turned in front of Beardsley, forcing him to take several extra steps. The difference was too much to overcome. Salazar won the race with a time of 2:08:51; Beardsley came in about a second and a half behind at 2:08:52.

Although others said it was clear the motorcycle cost him the race, Beardsley refused to blame anyone for his second-place finish.

Beardsley's career, which had sky-rocketed him to international fame, took a dive after that. An injury prevented him from competing in the 1984 Olympics. Then, on Nov. 13, 1989, he suffered an accident on a farm that changed the course of his life. He broke several bones in the accident, and nearly lost his leg.

Over several years of treatment, he became addicted to pain-killing drugs. He said by the mid 1990s, he was downing 80 to 90 pills per day. He said he would go from doctor to doctor, seeking prescriptions. When he couldn't get them, he would forge his own.

Beardsley eventually was caught and locked up in a drug ward in Fargo, N.D. He went through a lengthy, painful, and expensive rehabilitation process.

"Good things can come from bad situations," Beardsley summarized, noting the launch of his foundation, which is accessible through www.DickBeardsleyfoundation.org.

"You can live forty days without food, seven days without water and a few minutes without air, but not one moment without hope," Beardsley said.

I got the opportunity to meet and talk with Beardsley that night at the BHCA Fall Seminar. I remember a bright-eyed, personable man with a compelling story to tell. He has brought hope to many people over the years and I am sure he will continue to do so. His visit to the BHCA six years ago is still making an impression on me.

TWO OTHER NOTES: The BHCA Board of Directors is proposing updates to its bylaws. The association's annual meeting will take place prior to the Fall Seminar general session on Oct. 4. A vote to ratify the new bylaws will be conducted at the meeting. We recently sent a copy of the old bylaws and the proposed new bylaws to a representative of each regular BHCA member. If you believe you should have received an email but were omitted, please contact me at Tom@theBHCA.org. The current bylaws have been in place since 1990.

Also, the BHCA would like to implement a more convenient method for collecting annual dues. We are collecting information from our members that will make it possible for us to collect dues by electronic transfer of funds through ACH. An email is being sent to a representative of each regular member institution along with a form that solicits the pertinent information. Please fill the form out and return via fax promptly. Thank you very much for your help. Our goal is to provide great service so that your BHCA membership experience meets or exceeds your expectations. ▯

A sample of M&A negotiations: The indemnification clause

By Beau J. Hurtig

Many industry experts anticipate an increase in mergers and acquisitions over the next couple of years, and M&A activity has become a common discussion topic in a number of banking circles. These discussions generally focus on purchase or sale opportunities and the general process involved in such activities. Although bankers anticipate that negotiation of a purchase agreement is a necessary step in the process, many who have not experienced purchase agreement negotiations first-hand may envision delegating this process to their advisors. However, professionals representing bankers greatly value informed input from their clients when negotiating an M&A-related definitive agreement as the strategic decisions involving the duration, cap and basket amount of the indemnification clause illustrate.

Background

Once a buyer and seller enter into a letter of intent, complete due diligence, and generally agree on price, the next step is typically the negotiation of a definitive agreement. Depending on the structure of the transaction, the definitive agreement is typically 35 to 45 pages in length and is generally a Merger Agreement, Stock Purchase Agreement, or Asset Purchase and Assumption Agreement. Although each agreement is specifically tailored to the transaction's structure, they all have several provisions in common; for example, any definitive agreement will contain a number of representations and warranties. Simply put, the seller makes promises to the buyer that the bank's operations, loan files, employment related issues, real estate, etc., are in good order, and the buyer makes limited representations and warranties to the seller. The seller's representations and warranties are naturally much more encompassing since they are vouching for their bank. If these representations and warranties later prove to be false, the indemnification clause is the primary enforcement mechanism through which the aggrieved party can obtain redress from the breaching party. In short, the indemnification clause determines how long, and for how much, a party (primarily the seller) is on the hook following closing.

Important considerations when negotiating the indemnification provision

Again, the indemnification provision provides teeth for enforcing the promises made by a seller or buyer regarding the condition of their respective organizations. The indemnification provision requires the party whose promises are untrue to indemnify or reimburse the aggrieved party for any damages the other party sustains as a result of the untrue promises. For instance, if seller promises their loan files have all original notes, and buyer later discovers during foreclosure proceedings that no original note exists in a file, buyer could demand seller indemnify buyer for any damages resulting from the lack of the original note.

Typically, the parties are interested in negotiating three aspects of the indemnification clause—duration, cap, and basket amount—each of which is explained in greater detail below. When negotiating such provisions, clients and their professional advisors should discuss and carefully consider overall objectives and all the provisions of the definitive agreement.

Duration of the indemnification obligation

A seller does not want to be on the hook for its promises forever, and the buyer is aware that at some point, the business becomes the sole responsibility of the buyer and buyer can no longer look to seller if something goes wrong. At the same time, buyer typically requires some assurance that if something goes wrong, for a limited time following the transaction, seller will stand behind its promises. Therefore, buyers and sellers can often agree that the indemnification obligation will expire after a certain period of time. It is up to the parties to negotiate the expiration date.

Prior to the financial crisis, the indemnification period rarely extended beyond two years from the date of closing, and sellers were sometimes even able to negotiate the closing date as the date of expiration of the indemnification period. Naturally, at the height of the financial crisis, the market favored buyers, and buyers increasingly asked for extended indemnification periods. Buyers routinely asked for five years, and the parties often agreed on indemnification periods ranging from two to three years. Current indemnification periods range from one to four years, and greatly depend upon the individual circumstances of the bank. A seller whose institution enjoys a good

M&A, *Continued on page 19*

Compliance: A director's role

By Linda Albrecht

The financial industry is experiencing change like no other in recent history. The "alphabet soup" list of regulations is growing. The expectation of board members is not that you know all the details, but that you provide a supportive environment that gives bank staff the necessary tools to do their jobs in order to comply. New regulations to protect consumers are being presented at a pace that makes it difficult to keep up, let alone understand and implement policies and procedures to comply. With the potential for more than 30 new consumer regulations as a result of the Dodd-Frank Wall Street Reform and Consumer Protection Act, the need for Board support is greater than ever. Consumer compliance is demanding more of a bank's resources. As a board member, it is important that you understand the need to allocate adequate resources to this area.

Your responsibility as a director is to provide your bank with a compliance management program that includes preventive, detective and corrective measures to ensure compliance.

Preventive measures

Components of a compliance management program intended to prevent violations from happening include policies, procedures, internal controls and staff training. A strong foundation of detailed policies and procedures complemented with a robust training program will ensure staff has the tools necessary to comply with required laws and regulations. Preventive controls can also include the use of computer software for disclosing required information to consumers when required.

Detective measures

A second component of a strong compliance management program is one that includes detective measures designed to identify errors or violations of law. Methods designed to detect undesirable activities include audits or operational monitoring procedures, board and management oversight, risk monitoring and management information systems (MIS). Employing various detective measures will allow for early detection of errors, limiting the adverse impact they would have on the bank.

Corrective measures

Corrective measures are actions taken when violations and errors are found. Corrective actions must include correction of errors identified by internal and external monitoring procedures, as well as violations and recommendations identified by your primary regulator. Regardless of who identified the violation or error, corrective action must be taken seriously.

Corrective action plans should include individual or group responsibility, due dates for completion and periodic status reports to communicate progress. The corrective action process should include the identification of weaknesses that led to the error. It is important to determine if errors are isolated or systemic, a result of inadequate policies and procedures, or deficiencies in the training program.

Areas of particular concern

A director's responsibility is not to be a legal expert; however, there are some laws and regulations you should be familiar with because they may apply directly to you as a director or come with significant penalties for noncompliance. Those of particular concern are:

- Bank Secrecy Act/Anti-Money Laundering (BSA/AML) Regulations
- Office of Foreign Assets Control (OFAC)
- Loans to Executive Officers, Directors and Principal Shareholders – Regulation O
- Privacy of Consumer Financial Information – Regulation P
- Fair and Accurate Credit Transaction (FACT) Act – Regulation V
- Community Reinvestment Act (CRA) – Regulation BB
- Equal Credit Opportunity Act – Regulation B
- Flood Disaster Protection Act
- Truth in Lending Act – Regulation Z
- Real Estate Settlement Procedures Act – HUD Regulation X
- Truth in Savings Act – Regulation DD
- Electronic Fund Transfer Act – Regulation E
- Expedited Funds Availability Act – Regulation CC

This is not meant to be an all-inclusive list, but rather to give you an idea of some of the laws and regulations that can present greater risks to your organization.

Consequences of noncompliance

Consequences for noncompliance can result in informal and formal regulatory enforcement actions. Informal actions can be in the form of board resolutions, commitment letters or memorandums of understanding (MOU). Formal actions can be written agreements, cease and desist orders (C & D), prompt corrective action directives, civil money penalties (CMPs) and prohibition and removal actions.

Penalties for noncompliance can come with a high price tag; some easy to determine, others not so easy. Direct costs related to reimbursement to customers can be easily quantified, the indirect costs resulting from damaged customer confidence, a damaged reputation and time taken from more productive activities is harder to determine. In any case, the costs are high.■

Linda Albrecht is a principal with Eide Bailly LLP, a BHCA Associate Member. **This article, which appeared in the firm's newsletter, is reprinted with permission.**

By Tom Bengtson

Regulators describe improvements, continuing concerns for regions' banks

Regulators participating in a summer panel discussion agreed that industry conditions are improving, although low interest rates, soft loan demand and limited fee income opportunity means banking will remain challenging for the foreseeable future.

The Bank Holding Company Association teamed with the Independent Community Bankers of Minnesota July 17 to host regulators from the Federal Reserve Bank of Minneapolis, the FDIC, the Minnesota Department of Commerce and the Office of the Comptroller of the Currency in a two-and-a-half-hour discussion before about 50 bankers and guests at the Stonebrook Golf Course in Shakopee, Minn.

"The industry has gone through six or seven years of fairly traumatic times," commented Steve Flaten, FDIC field supervisor based in Minneapolis. "It is amazing to me how quickly the tide is turning positive. That is a reflection of the economy but also of the fact that the industry rolled up its sleeves and got to work fixing its own problems."

The improvement is reflected in the numbers. Flaten said 21 percent of Minnesota's banks are on the agency's "problem" bank list, which is down from the peak of 38 percent in 2009. A bank appears on the problem list if it has a composite CAMELS rating of three, four or five. Michael Rothman, Minnesota's commerce commissioner, said 64 of the state's 279 state chartered banks are on his department's watch list, also a collection of 3-, 4- and 5-rated banks. "We have 39 that are rated four or five. At this time last year, there were 88 on the list, with 52 rated three and 36 rated four or five." He said the trend in CAMELS ratings is toward improvement. "There is no doubt fives are becoming fours; fours are becoming threes; threes are becoming twos," he said.

Assistant Deputy Comptroller Nancy Sundstrom said 95 of the 519 national banks in the OCC's Central District are rated three, four or five. "That compares with 142 at the end of 2011," she said. "In Minnesota, we are down to 12 problem banks."


Sundstrom

The declining number of bank failures also indicates a strengthening industry. Flaten noted that there have been some 450 bank failures since 2007; so far this year, there have been 13. "Early projections for this year were in the four to five range, but we will be hard-pressed to make even that number," Flaten commented. Rothman noted that during his first year on the job in 2011, there was a bank failure in Minnesota almost every month. This year there has been only one bank failure in Minnesota.

"First quarter 2013 statistics show positive trends in our state banking sector," Rothman summarized. "The average past-due loan ratio has declined to 1.65 percent from 3.11 percent one year ago. The allowance for loan and lease losses to total loans ratio is 1.99 percent. The average Tier 1 leverage capital ratio is 9.82 percent; average return on average assets is 0.97 percent. Banks showing a loss total 17 compared to 35 one year ago."

But banking continues to face significant headwinds. "Low interest rates, weak loan demand, and lower fee income continue to impact a bank's ability generate revenue," Sundstrom said. "Historically low interest rates continue to put pressure on net interest margins. Competitive pressures are leading banks to cut rates in order to compete for the limited lending opportunities that are available. Margins are also being stressed as banks are reinvesting their proceeds from higher-yielding products into lower-yielding investments."

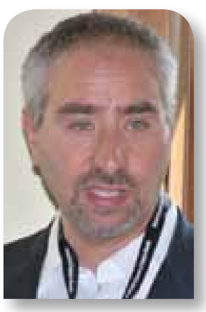

Rothman

Sundstrom cited concerns mentioned in the OCC's most recent report from its national risk management committee. "Strategic risks remain high," she said. "Revenue growth challenges from the slow economy are going to continue to pressure profitability; we are concerned about banks reaching for yield. We have concern that competition for limited lending opportunities may be weakening underwriting standards. And there is concern with the level of cyber threats."

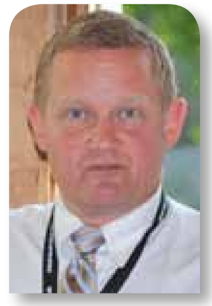
"As we strive to increase earnings we have got to keep in mind that we need to maintain a risk profile that is acceptable to your institution," Flaten said. "We are seeing some things where we believe people are stretching for earnings. In the classic case they look at the bond portfolios and look at the durations. A lot of institutions are lengthening. Lengthening for a few more basis points really can have a negative impact if rates rise."

Ron Feldman, senior vice president at the Federal Reserve Bank of Minneapolis, said many banks and their holding companies are dealing with trust preferred securities. A few banks have exhausted the five-year deferral period for dividend payments and many more banks are expected to reach that point in the next six months to a year. It is unclear what will happen if banks are unable to make the payments. Feldman said the uncertainty can be a barrier to completing a sale or acquisition.

"A number of banks would like to purchase their trups at a discount, but we have not seen that work," Feldman said. And while the concept of arranging a pre-packaged bankruptcy is generating a lot of industry buzz, Feldman said the strategy has been used only rarely.


Feldman

Flaten said he has received a lot of calls recently about negative provisioning for loan losses. Flaten stressed that bankers are allowed to take funds out of their provision for loan and lease losses in appropriate situations. He said bankers planning to take such funds should write a letter to the FDIC explaining the basis for the action; he urged bankers to copy the State of Minnesota on the letter. Flaten further suggested that if a bank has an exam scheduled in the near future, the banker should wait until after the exam to take the funds out of the loan loss reserve. "At the Washington level, there has been some concern expressed about negative provisioning, that bankers are taking money out of the reserve too quickly, but I have not seen that in my portfolio of banks," said Flaten, who oversees banks in Minnesota.


Flaten

Three other issues Flaten said are of concern to the FDIC: management succession, interest rate risk, and technology. Flaten said it is becoming more common for second- and third-generation bankers to say they are not interested in remaining in the industry. Flaten urged bankers to initiate conversations with owners and the board of directors.

On interest rate risk, Flaten urged bankers to "look at your economic value of equity model. What impact would a change of rates have not only on your income stream but on the value of your capital account?" Flaten encouraged bankers to visit with their accountants about effective models for understanding various economic scenarios.

And on technology, Flaten warned bankers to closely examine their ACH transactions. He said as more parties seek to use the ACH network, banks run the risk of aiding illicit activity. "We are very concerned with third party processors and aggregators," he said. "Banks need to have very robust controls and due diligence procedures and financial monitoring of their ACH customers." He said anything involving a payday lender will attract extra regulatory scrutiny.

Feldman shared two insights regarding the smooth consideration of merger and acquisition applications. He said the Fed has seen agreements reached prior to the actual transaction where an acquiring bank has put restrictions on the activities of a target bank. Feldman said the Fed frowns on such requirements. Furthermore, he said examples have arisen where an acquiring bank attempts to obtain confidential supervisory information about the target banks. Feldman said the Fed insists such information remain confidential. Feldman said if the acquirer does the standard due diligence associated with an acquisition, it is likely to figure out anything that might be in the confidential report.

Through mid-July, 11 merger and acquisition transactions between holding companies had occurred in the Ninth District, Feldman said. In addition, the three pre-filing applications were filed. Feldman encouraged bankers to use the pre-filing process. He said it is a reliable way to smooth the application process.

The OCC recently published a book, "A Common Sense Guide to Community Banking." Sundstrom said it examines differences between banks that thrive, those that just get by and those that don't survive. She said the publication urges bankers to accurately identify and monitor risk to the institution; map out a vision and a business plan that includes sufficient capital support, and understand the supervisory process and how to benefit from it.

Rothman also noted technology and succession planning are important issues for Minnesota banks. But he said state leaders need to be considering the role of community banks in the state's economy for the long term. "We are at a cross roads, a turning point, where we all need to be thinking about not only where we have been, but where are we going. That conversation has to acknowledge that community banking is an important feature for all of Minnesota and our economy," he said. "What is the future of state banking for Minnesota? That is a conversation I want to have." ■

Your Playbook for Success!

Minneapolis Airport Marriott Hotel, Bloomington, Minn.

THURSDAY, OCT. 3, 2013

5:00 p.m. to 6:30 p.m. ~ Registration and social

6:30 p.m. to 8:30 p.m. ~ Dinner and program

"Warrior Leadership"
Matt Birk comes off his Super Bowl Championship with the Baltimore Ravens to share his insights into what it takes to be a winner. Birk, who grew up in Minnesota and played 11 seasons for the Vikings, details an intense and intentional method of leadership that focuses on engaging your entire workforce, top to bottom. Amazing things happen when there is "full participation" in understanding and striving to accomplish the mission of your bank. Learn what people want from their leaders and how you can give it to them.

8:30 p.m. to 9:15 p.m. ~ Bonus social and networking

FRIDAY, OCT. 4, 2013 ~ GENERAL SESSION

7:30 a.m. to 3:00 p.m. ~ Registration

8:15 a.m. to 8:30 a.m. ~ BHCA annual business meeting

8:30 a.m. to 9:30 a.m.

"Economic Considerations for your Competitive Playbook"
BMO Harris Economist **Dimitri Delis** explains that while the Fed has supported asset prices and reduced financial tail risks, the U.S. economy still faces significant challenges. Delis, who holds a Ph.D. in nuclear physics, will look at the issues presented by the U.S. housing and labor markets. He will examine the implications of declining demographics and the changing labor market. Furthermore, he will take a look at U.S. interest rate drivers.

9:30 a.m. to 10:30 a.m.

"Succeeding in an Uncertain Environment"
Execution of strategies that leverage your strengths and mitigate risks separates successful banks from the rest of the pack. Consultant **Donald J. Musso**, president and CEO of FinPro, will utilize his firm's decision-tree planning methodology in a session that will lay out rewarding alternative paths for holding companies and banks. The session will dwell on actionable strategies to position your bank for success.

10:30 a.m. to 11:00 a.m. ~ Break

11:00 a.m. to noon ~ Breakout Sessions

Choose from four lively topics.

Noon to 12:45 p.m. ~ Lunch

12:45 p.m. to 1:40 p.m.

"View from the Fed"
Named one of the "top 100 Global Thinkers" by *Foreign Policy* magazine, **Narayana Kocherlakota,** president of the Federal Reserve Bank of Minneapolis since 2009, will share his perspective as a member of the Federal Open Market Committee on U.S. monetary policy. He will also consider trends in supervision, regulation and the financial services marketplace in a unique look at banking across the Upper Midwest as well as across the country.

1:40 p.m. to 2 p.m. ~ Dessert Break

2:00 p.m. to 3 p.m.

"Advantage Community Banks: Technology and Payments Strategies for Profitable Growth"
By reading and responding to trends, **Virginia Heyburn**, vice president of insights and advocacy for Fiserv, sees community financial institutions gaining a key advantage over large banks. Customers who are looking for timely and convenient service are turning to smaller institutions where technology is closing the gap between the industry's largest players and its smallest. Leveraging her knowledge of markets and banks across the country, Heyburn offers new insights and fresh ideas for your organization.

3:00 p.m. ~ Adjourn

FRIDAY'S BREAKOUT SESSIONS

Session A

"M&A Update"
Scott Coleman, Steven Johnson and **Kevin J. Costley,** attorneys from the Minneapolis law firm of Lindquist & Vennum, will discuss recent trends and developments in community bank acquisitions. The focus will be on practical concerns from both the buyer's and seller's perspective, and the strategies/techniques utilized to resolve these concerns.

Session B

"IT Security for the 21st Century"
Cyber threats are a growing problem for banks and holding companies of all sizes. Regulators are encouraging banks to prepare for a variety of threats, including increasing denial of service attacks. Security experts **Roger Schmitz** and **Jon Hendry** of Alerus Financial, Grand Forks, N.D., will walk us through the most common IT security issues, offering ideas for ways banks can protect themselves.

Session C

"Interest Rate Swaps in Community Banks"
Net interest margins continue to decline across the industry, and banks, desperate for yield, are adding duration in assets like never before. At the same time, interest rates have become more volatile with short rates anchored at zero and longer rates rising significantly. **Dallas Wells** of Country Club Capital Markets Asset Management Group will explore how a growing number of community banks are using low risk, plain vanilla interest rate swaps to hedge the growing risk while still being able to compete for the best customers.

Session D

"2013 Bank Tax Planning: A New Era of Taxation"
With several key pieces of tax legislation taking effect this year, it is important for community banks and their owners to keep abreast of key tax developments and implement strategies to minimize the impact of the changes. **Paul Sirek** and **Rhea Hemish**, both partners with the Eide Bailly accounting firm, summarize recent changes in tax law which will impact your tax liability. They will discuss new planning strategies and various opportunities for tax savings and efficiencies.

Bank Holding Company Association
Fall Seminar Registration ~ Oct. 3-4, 2013

Personal Information:

Name ____

Company Name ______________________________________

Address ____

City ______________________ State ______________ ZIP__________

Guest Name(s) _____________________________________

____

____

Are you a BHCA member or associate member? **Yes**____ **No**_____

Mail completed registration form with your check to:

Bank Holding Company Association
7400 Metro Blvd., No. 217
Edina, MN 55439

For additional information, call
952-835-2248 or **1-800-813-4754**
Fax: 952-835-2295

www.theBHCA.org

REGISTRATION OPTIONS:

Thursday, Oct. 3– Reception, Dinner and Program

Fee Schedule Per Person:		Number	Amount
Members, Associate Members and their Guests:	$75	______	_____
Outside directors from member institutions:	$50	______	_____
*Non-members:	$150	______	_____

Friday, Oct. 4 – Seminar

Fee Schedule Per Person:		Number	Amount
Members, Associate Members and their Guests	$225	______	_____
Outside directors from member institutions	$125	______	_____
*Non-members	$350	______	_____

Friday evening at the Chanhassen Dinner Theatre		Number	Amount
Includes transportation, dinner and one ticket to "Fiddler on the Roof"	$125	______	_____

Memberships dues, if applicable Amount

Annual dues for ***new members only***: _____

Total amount enclosed: **$**_________

Please indicate dietary restrictions here: ______________________________

For overnight hotel reservations, contact the Minneapolis Airport Marriott Hotel direct at 952-854-7441. The room rate is $146 per night if you register before Sept. 19.

The cost of the meals, entertainment and breaks included in the registration fee for this meeting are estimated at $50 for the Thursday evening session and at $75 for the Friday seminar session. This information is provided for your tax records in keeping with IRS deductibility provisions.

Cancellation Policy: Paid registrants who cancel their seminar registration at least 72 hours before the program will receive a full refund; if fewer than 72 hours, a $50 administrative fee will be deducted.

Not yet a member of BHCA?

*If you are not currently a BHCA Member or Associate Member, you may choose to pay the non-member rate, **or become a member with this registration and pay the member rate.** Include your 2013 dues to begin your membership immediately.

Member dues are as follows (select one):

- ❑ For bank holding companies with assets of less than $50 million: **$400**
- ❑ For bank holding companies with assets of $50 million to $100 million: **$500**
- ❑ For bank holding companies with assets of $100 million to $250 million: **$600**
- ❑ For bank holding companies with assets of $250 million to $500 million: **$750**
- ❑ For bank holding companies with asset over $500 million: **$1,000**
- ❑ Associate membership (companies that are not bank holding companies): **$500**

By Ben Crabtree

Community banks win a round: Basel III rules accommodate smaller banks

For several years, the banking industry has been given a major portion of the blame for the financial meltdown of 2008-2010, and not entirely without some justification – the use of overly leveraged balance sheets, a focus on non-traditional services such as derivatives, the adoption of an "originate and sell" business model and an accompanying degrading of underwriting standards, a willingness to depend on questionable rating agencies, and compensation systems that paid out on short-term results and therefore encouraged excessive risk-taking are only some of the factors that caused the banking industry (and the economy) to implode. Consequently, it should not be surprising that the banking industry faced retribution from regulators, legislators and the press for the damage done to the economy in the late 2000s.

The trouble is, this retribution, in terms of regulation and tightened standards, seemed to have been (in typical fashion) applied in a broad-brush manner, hitting not just the giant (mostly Wall Street) banks that heavily contributed to the financial meltdown, but also the community bank sector, which was largely uninvolved in the destructive business practices mentioned above, and which had a relatively minor role in the financial meltdown of our economy. Amazing to us is that it seems as though the Wall Street brokerage firms (e.g., Goldman Sachs or the gone and unlamented Bear Stearns) have escaped any significant regulatory retribution, at least relative to the true banks.

In sum, community banks have been treated like the poor relatives in the banking industry – even though these banks have largely stuck to traditional banking services, and traditional banking services were not what got us into the meltdown, this did not protect them from being caught up in the flood of legislative and regulatory "remedies" that were proposed for the banking industry. And unfortunately for the community banks, their relatively smaller size seemed to leave them without the Washington "clout" of the big banks in dealing with these remedies.

Remarkably enough, however, things seem to have taken a more positive turn; as of July 9, all three major bank regulators (the Federal Reserve, the OCC, and the FDIC) have presented new final rules regarding the implementation of Basel III rules that show a greater willingness to differentiate between smaller banks (with traditional banking business models) and the larger, "systemically important" diversified financial institutions that still have the potential to do considerable damage to the economy if they were to once again run into serious financial difficulties. For example:

1. To be adequately capitalized, all banks would need to have a common equity ratio of 4.5 percent, a Tier 1 ratio of 6.0 percent, and a Total Capital ratio of 8.0 percent of risk-weighted assets, plus a capital conservation buffer that would affect a bank's ability to pay dividend payments or certain discretionary bonuses. If that capital conservation exceeds 2.5 percent of risk-weighted assets, there would be no limitations; as this ratio goes below 2.5 percent, the bank would be subject to increasingly stringent restrictions. For community banks, the capital conservation requirement will be phased in between January 2016 and January 2019. Importantly, many of the largest institutions will also need to maintain an additional 3.0 percent of supplemental capital, which is intended to capture the risks of off-balance sheet activities and foreign exposure; obviously, this will not apply to community banks, which does show some regulatory sensitivity. In fact, it appears that even tougher standards may be on the way for the eight largest "systemically important" banks, according to comments by Fed Governor Daniel Tarullo. It would appear that regulators are aiming to minimize the risk presented by the "too big to fail" banks by making sure that those banks have abundant capital.

Indeed, U.S. regulators have proposed that the nation's biggest banks adhere to a 5 percent leverage ratio with their FDIC-insured bank subsidiaries subject to a 6 percent ratio (to be accomplished by the end of 2017), double the requirement set by Basel III, and versus the 4 percent leverage ratio to be required for smaller banks. Presumably, the 3 percent Supplemental Capital would be added on top of this for the biggest banks. Finally, the Financial Stability Oversight Council voted to formally designate nonbank financial firms AIG and GE Capital as systemically important, and there are expectations that Prudential

Financial and MetLife might get the same treatment.

A key point of differentiation here is that (according the Fed) 90 percent of all banks under $10 billion of assets already meet the new "common equity plus buffer" Tier 1 required ratio. On the other hand, most of the largest banks (except for Wells Fargo and Bank of America) seem to have some ground to cover to meet their tougher requirements, and they are actively complaining.

2. In another particularly favorable development, smaller banks would be given a one-time chance to opt-out from the regulatory capital recognition of accumulated other comprehensive income (AOCI); unrealized gains and losses would not need to be included in capital calculations – a good thing, given the probability of higher interest rates in the future, which would create unrealized losses in banks' investment portfolios. On the negative side, mortgage servicing rights and deferred tax assets would be excluded from regulatory capital.

3. Trust-preferred and cumulative convertible preferred securities issued before May 19, 2010 may now be counted as Tier 1 capital for banks with less than $15 billion of assets, a welcome and quite important change from the earlier proposal that would have gradually eliminated such a treatment for all banks. The big banks will lose this favorable treatment, but they typically are publicly traded, and can more easily raise new equity than can many community banks.

4. Risk weightings for residential mortgages will continue as in the past, maintaining the two risk weighting categories (50 percent and 100 percent) instead of a more complex and less favorable system originally proposed, and commercial real estate loans would have a risk rating of 100 percent, with a higher 150 percent weighting on "high volatility" CRE loans.

All of these changes are clearly wins for community banks. It would be too much to call them positive developments on an absolute basis, but the new regulations are significantly less negative than the initial proposals, and community banks certainly did fare better than did the very large banks – and that is as it should be, in our opinion. Furthermore, and even though the regulatory burden is clearly higher than it was five year ago, we suspect that the initiation of these new regulatory steps means that future regulatory risk should be relatively modest, at least for some years.

It's one thing to win a battle, but it's another to win the war. Although it seems reasonable to think that bankers can now stop worrying about an onslaught of new regulatory pressures, this doesn't mean that there aren't other things to be concerned about. Foremost among these would seem to be two issues related to the sluggish economy: limited loan demand and very low interest rates. Given the slow economic recovery, the subdued level of business and consumer confidence, and the general trend toward deleveraging, it is not surprising that the demand for credit is modest, nor is it reasonable to expect it to rebound vigorously anytime soon. Add in the low level of inflation and the open-handed Federal Reserve, and it is equally as unsurprising that interest rates are near all-time lows; this makes for downward pressure on earning asset yields and net interest margins.

With margins under pressure and volumes relatively stagnant, the near-term outlook for community bank revenue increases is not very positive. Furthermore, the increasing pricing competition from banks anxious to generate some sort of revenue growth is making the earnings growth outlook even less rosy.

Given the higher equity requirements under the new regulations, returns on equity for the average healthy bank seem destined to be barely into the low double digits for some time, rather than the mid-teens that we saw 10 to 15 years ago. Perhaps we are being too simplistic, but we see a fundamental supply/demand imbalance operating here – too many banks chasing a limited amount of demand for credit. Although continued economic growth should work to alleviate this somewhat, we believe that only a considerable amount of consolidation – a change in the supply/demand equation – offers much hope of improving profitability and bringing returns on equity back up to levels that represent an attractive return for most community bank shareholders. Although that may not be easy to accomplish – there are some challenges facing the acquirers in the form of acquisition pricing and access to incremental capital – we do think that economics will force a significant shrinkage in the number of community banks over the next five years or so, and that those banks well-positioned enough, well-managed enough, and with well thought-out strategies, should be able to succeed in an environment of active consolidation, and see their returns move back up to acceptable levels. ■

Ben Crabtree is a senior advisor at Oak Ridge Financial, a BHCA Associate Member. This essay originally appeared in *Community Bank Monitor* and is reprinted with permission.

Fed Notes

Fed Notes is provided through a partnership the Bank Holding Company Association shares with the Federal Reserve Bank of Minneapolis. If there are topics you would like to see addressed in this column, please contact Ron Feldman, senior vice president, Federal Reserve Bank of Minneapolis, at 612-204-5176 or ron.feldman@mpls.frb.org

Several factors guide Fed's analysis of capital distributions

By Stephanie Weber

Federal Reserve Bank of Minneapolis staff frequently receives questions regarding factors we consider when analyzing a holding company's request to make a capital distribution, including paying a dividend (including subchapter S distributions), redeeming stock (including Trust Preferred Securities or TPS), or making interest payments on TPS. This article discusses what Federal Reserve Bank staff review in their analysis of capital distributions.

When is consultation or approval required?

Depending on the circumstances, a holding company may need to consult, provide notice, or seek approval from the Federal Reserve System or the Reserve Bank for a capital distribution. Holding companies should consider the requirements of SR 09-4: Applying Supervisory Guidance and Regulations on the Payment of Dividends, Stock Redemptions, and Stock Repurchases at Bank Holding Companies. SR letter 09-4 generally requires consultation when a weak firm makes a distribution or any firm makes a large distribution relative to its financial resources (e.g., declaring or paying a dividend that exceeds earnings for the period or purchasing stock equal to or greater than 10 percent of net worth).

In addition, prior approval to redeem TPS or securities issued under the Troubled Asset Relief Program is required by the terms of the instruments. Finally, supervisory actions, both formal and informal, usually require prior approval of capital distributions.

What factors does the Federal Reserve consider?

In addition to providing guidance to bankers, SR letter 09-4 is used by Reserve Bank staff for guidance in our analysis of dividends, stock redemptions, or stock repurchases. We are more likely to require firms to eliminate, defer or reduce dividends if these payments are not fully covered by the net income available to shareholders for the past four quarters, earnings retention is not consistent with capital needs or the holding company is in danger of not meeting minimum regulatory capital adequacy ratios. For stock redemption proposals, we consider the negative effects on capital if voting common stock is replaced with lower forms of capital, such as non-voting stock, cumulative preferred stock, or subordinated debt, or if the funds would better serve the capital base or financial needs of the organization. We also assess the company's ability to service any debt incurred in a redemption without unduly burdening the subsidiary bank.

Staff also considers the rating of the holding company and subsidiary bank and related enforcement actions. For firms in good condition, the primary focus of reviews is earnings relative to the dividend or redemption. For firms in weaker condition or under an action, the areas of focus include maintenance of capital ratios above targeted amounts, strength of earnings, and current and trend of overall condition. Problem BHCs are not allowed, as a general rule, to make a distribution. It is important to note that the small BHC policy statement prevents a dividend payment when the debt-to-equity ratio is greater than 1:1.

For holding companies in satisfactory financial condition we review the organization's earnings to ensure the dividend or redemption is covered by earnings. For larger holding companies reporting on a consolidated basis, the proposed dividend or redemption should not cause the holding company to report ratios below the well-capitalized levels. If the holding company is in less-than-satisfactory condition and subject to enforcement action or the subsidiary bank's enforcement action includes minimum capital ratio requirements, we ensure the subsidiary bank exceeds its minimum capital ratio requirements, the organization has positive earnings, and consider the trend in the subsidiary banks' condition. Finally, if a dividend is required from the subsidiary bank, we consider the views of the primary bank regulator.

We encourage firms to contact Applications, or Safety and Soundness staff at your local Federal Reserve Bank for additional information if you have questions on any capital distribution. ▯

Stephanie Weber is an examiner with the Federal Reserve Bank of Minneapolis. A nine-year Federal Reserve Bank employee, she has responsibility for oversight of enforcement actions.

Holding Company Transaction Report

Here are selected transactions from June, July and August 2013 published by the Federal Reserve Banks of Chicago, Minneapolis and Kansas City.

▷ Lake Shore III Corporation, Glenwood City, Wis., authorized to become a bank holding company by acquiring Hiawatha National Bank, Hager City, Wis.

▷ First National Bank of Hampton, Iowa will retain membership in the Federal Reserve System on conversion to a state-chartered bank to be known as First Bank Hampton.

▷ AJS Bancorp, MHC, a federally chartered mutual holding company, filed to convert to stock form and merge with AJS Bancorp, Inc., a federal corporation, both in Midlothian, Ill. AJS Bancorp, Inc., will be merged into a new Maryland corporation named AJS Bancorp, Inc., which proposes to become a savings and loan holding company by acquiring A.J. Smith Federal Savings Bank, Midlothian.

▷ Clear Lake Bank & Trust Co., Clear Lake, Iowa, filed to purchase the assets and assume the liabilities of two Mason City, Iowa, branch offices of Community National Bank, Waterloo, Iowa.

▷ Notice filed by Maureen Sue Breckenridge, George Breckenridge Trust, Gregory Alan Wessel and Wayne Donn Wrage, all of Yates City, Ill., to control more than 25 percent of the outstanding shares of First Bancorp, Yates City, and thereby control Bank of Yates City.

▷ Change in Control Notice filed by Gale M. Hoese, Glencoe, Minn., to acquire 10 percent or more of Flagship Financial Group, Inc., Eden Prairie, Minn., and thereby gain control of Flagship Bank Minnesota, Wayzata, Minn. In addition, Hoese and others filed as a group to control 25 percent or more of Flagship Financial Group, Inc.

▷ Lamplighter Financial, MHC, a federally chartered mutual holding company, filed to convert to stock form and merge with Waterstone Financial, Inc., a federal corporation, both in Wauwatosa, Wis. Waterstone Financial, Inc., will be merged into a new Maryland corporation named Waterstone Financial, Inc., which proposes to become a savings and loan holding company by acquiring WaterStone Bank SSB, a Wisconsin stock savings bank.

▷ DS Holding Company, Inc., parent of Omaha State Bank, to acquire Ashland Bancshares, Inc., parent of Centennial Bank, all of Omaha, Neb. Ashland Bancshares, Inc., will merge into DS Holding Company, Inc., and immediately thereafter, Omaha State Bank will merge with and into Centennial Bank, to be known as Core Bank.

▷ Notice filed by Kristine Lubar MacDonald, Minneapolis, to join the existing Lubar Family Control Group through the acquisition of voting shares of Ixonia Bancshares, Inc., Ixonia, Wis., and the indirect acquisition of shares of Ixonia Bank, Ixonia.

▷ Notice by Town Center Bancorp, Inc., New Lenox, Ill., filed to become a bank holding company by acquiring Town Center Bank, Frankfort, Ill.

▷ Notice filed by First American Bank Corporation, Elk Grove Village, Ill., to acquire up to 100 percent of PNA Bank, Chicago, through the merger of PNA Bank into First American Bank, Elk Grove Village, and thereby operate a savings association.

▷ Notification filed by the Jennifer L. Wolgamott 2012 Legacy Trust and others to acquire First State Bancshares, Inc., parent of First State Bank, both of Scottsbluff, Neb., and Security First Bank, Cheyenne, Wyo.

▷ Home Bancorp Wisconsin, Inc., Madison, Wis., filed to become a bank holding company through the acquisition of all of the outstanding stock of Home Savings Bank, Madison. The bank holding company will be formed in connection with the proposed mutual-to-stock conversion of Home Savings Bank, a state chartered mutual savings bank.

▷ Tolna Bancorp, Inc., Tolna, N.D., filed to acquire McVille Financial Services, Inc., McVille, N.D., and thereby acquire McVille State Bank, McVille.

▷ Veranda L. Dickens filed to acquire shares of Seaway Bancshares, Inc., Chicago, and thereby acquire Seaway Bank and Trust Company, Chicago.

▷ Chief Iowa Investment Corporation, Clive, Iowa, authorized to become a bank holding company by acquiring Montezuma State Bank, Montezuma, Iowa.

▷ Dacotah Banks, Inc., Aberdeen, S.D., filed to merge with Donnelly Bancshares, Inc., and thereby acquire United Farmers and Merchants State Bank, both of Morris, Minn. In addition, Dacotah Bank filed to merge with United Farmers and Merchants State Bank.

▷ STC Bancshares Corp., St. Charles, Ill., filed to acquire Bank of Palatine, Ill.

▷ Jay D. Bergman, Joliet, Ill., filed to acquire Community Holdings Corp., Palos Hills, Ill.

▷ United Community Bancorp, Inc., Chatham, Ill., filed to acquire Mercantile Bank, Quincy, Ill.

▷ Citizens National Corporation, Wisner, Neb., authorized to acquire additional shares of Republic Corporation, Omaha, and its subsidiary, United Republic Bank.

▷ Heartland Financial USA, Inc., Dubuque, Iowa authorized to acquire Morrill Bancshares, Inc., Merriam, Kan., and thereby acquire Morrill & Janes Bank and Trust Company, Overland Park, Kan.

▷ Notification by Norman W. Waitt, Jr., Dakota Dunes, S.D., and to acquire Premier Bancshares, Inc., parent of Premier Bank, both in Omaha, Neb.

ILLINOIS BANK HOLDING COMPANIES, Part 2 of 2

HOLDING COMPANY, LOCATION / Subsidiary Bank, Location	CONSOLIDATED ASSETS*	SUBSIDIARY ASSETS*
183.RICH LAND BANCORP, INC., OLNEY	**174,876**	
TRUSTBANK, OLNEY		174,879
184.EB FINANCIAL GROUP, INC., LAKE FOREST	**172,805**	
BAYTREE NATIONAL BANK & TRUST CO., LAKE FOREST		172,603
185.FIRST PERSONAL FIN'L. CORP., ORLAND PARK	**171,365**	
FIRST PERSONAL BANK, ORLAND PARK		170,467
186.AMBOY BANCORP, INC., AMBOY	**168,424**	
FIRST NATIONAL BANK IN AMBOY		168,424
187.UNION BANCSHARES, MHC, FREEPORT	**167,529**	
UNION SAVINGS BANK, FREEPORT		167,529
188.STC BANCSHARES CORP., SAINT CHARLES	**165,207**	
STC CAPITAL BANK, SAINT CHARLES		164,994
189.CEDAR BANCORP, INC., MOUNT VERNON	**164,907**	
COMMUNITY FIRST BANK OF THE HEARTLAND, MT VERNON		164,596
190.RARITAN STATE BANCORP, INC., RARITAN	**164,014**	
RARITAN STATE BANK, RARITAN		164,014
191.METROPOLITAN CAPITAL BNCRP., INC., CHICAGO	**162,863**	
METROPOLITAN CAPITAL BANK & TRUST, CHICAGO		162,061
192.WEST CENTRAL BANCSHARES, INC., ASHLAND	**161,502**	
WEST CENTRAL BANK, ASHLAND		161,221
193.STATELINE COMM. BNCSHRS., INC., ORANGEVILLE	**159,974**	
COMMUNITY BANK, WINSLOW		159,974
194.PGB HOLDINGS, INC., CHICAGO	**159,520**	
PACIFIC GLOBAL BANK, CHICAGO		159,161
195.COMMUNITY BANCSHARES OF ELMHURST, INC.	**158,986**	
COMMUNITY BANK OF ELMHURST, ELMHURST		158,986
196.HOMETOWN FINANCIAL GROUP, INC., FLANAGAN	**158,713**	
FLANAGAN STATE BANK, FLANAGAN		158,082
197.E. DUBUQUE BANCSHARES, INC., E. DUBUQUE	**158,067**	
EAST DUBUQUE SAVINGS BANK, DUBUQUE		157,938
198.SCOTT BANCSHARES, INC. , BETHANY	**157,654**	
SCOTT STATE BANK, BETHANY		100,676
STATE BANK OF NIANTIC		56,978
199.SHANNON BANCORP, INC., SHANNON	**156,452**	
FIRST STATE BANK SHANNON-POLO, SHANNON		156,443
200.MINIER FINANCIAL, INC., MINIER	**154,900**	
FIRST FARMERS STATE BANK, MINIER		154,900
201.MCLAUGHLIN HOLDING COMPANY, MOLINE	**154,525**	
SOUTHEAST NATIONAL BANK, DAVENPORT		149,661
202.FIRST MCHENRY CORP., MCHENRY	**154,157**	
FIRST NATIONAL BANK OF MCHENRY		154,059
203.1ST BROOKFIELD, INC., BROOKFIELD	**154,073**	
FIRST NATIONAL BANK OF BROOKFIELD, BROOKFIELD		151,921
204.FIRST ALGONQUIN COMPANY, ALGONQUIN	**149,878**	
ALGONQUIN STATE BANK, N.A. , ALGONQUIN		149,390
205.SOUTHERN COLORADO CORP., INVERNESS	**149,736**	
CITIZENS BANK OF PAGOSA SPRINGS		71,818
MANCOS VALLEY BANK, MANCOS		77,917
206.NBP FINANCIAL SERVICES, INC. , PETERSBURG	**149,243**	
NATIONAL BANK OF PETERSBURG		149,243
207.RAYMOND BANCORP, INC, RAYMOND	**147,562**	
FIRST NATIONAL BANK OF RAYMOND		147,522
208.FIRST NOKOMIS BANCORP, INC., NOKOMIS	**147,002**	
FIRST NATIONAL BANK OF NOKOMIS		147,002
209.FIRST NAT'L. BANCORP. IN CARLYLE, CARLYLE	**146,994**	
FIRST NATIONAL BANK IN CARLYLE		146,994
210.FIRST COMMUNITY BANCORP, INC., BEECHER	**146,823**	
FIRST CMNTY BANK AND TRUST, BEECHER		145,532
211.OMNI BANCORP, INC., EFFINGHAM	**144,821**	
CROSSROADS BANK, EFFINGHAM		144,775
212.QUINCY BANCSHARES, INC. , QUINCY	**143,051**	
BANK OF QUINCY		143,051
213.FARMERS STATE BANCORP., INC., HOFFMAN	**142,666**	
FARMERS STATE BANK OF HOFFMAN		142,666
214.AGRICULTURAL BANKING CORP. , PAXTON	**142,145**	
CISSNA PARK STATE BANK, CISSNA PARK		63,952
FIRST NATIONAL BANK IN PAXTON		76,131
215.JSB BANCORP, INC. , JERSEYVILLE	**142,030**	
JERSEY STATE BANK, JERSEYVILLE		141,618

HOLDING COMPANY, LOCATION / Subsidiary Bank, Location	CONSOLIDATED ASSETS*	SUBSIDIARY ASSETS*
216.GOLDEN EAGLE BANCORP, INC., WOODSTOCK	**140,595**	
GOLDEN EAGLE COMMUNITY BANK, WOODSTOCK		140,470
217.FIRST DWIGHT CORP., DWIGHT	**137,039**	
FIRST NATIONAL BANK OF DWIGHT		137,034
218.MANHATTAN BANCSHARES, INC., MANHATTAN	**136,825**	
FIRST BANK OF MANHATTAN		136,691
219.GALVA INVESTMENT, INC., GALVA	**136,704**	
COMMUNITY STATE BANK, GALVA		136,504
220.FORREST BANCSHARES, INC., FORREST	**134,987**	
FIRST STATE BANK OF FORREST		130,925
221.BRICKYARD BANCORP, INC., LINCOLNWOOD	**134,347**	
BRICKYARD BANK, LINCOLNWOOD		134,347
222.SBW BANCSHARES, INC., WATERLOO	**134,125**	
STATE BANK OF WATERLOO		134,113
223.PUTNAM COUNTY BANCORP, INC., HENNEPIN	**131,035**	
NORTH CENTRAL BANK, HENNEPIN		131,035
224.PIPER BANKSHARES, INC., PIPER CITY	**130,881**	
VERMILION VALLEY BANK, PIPER CITY		130,866
225.SCHAUMBURG BANCSHARES, INC., SCHMBRG.	**130,787**	
HERITAGE BANK OF SCHAUMBURG		130,691
226.WB BANCORP, INC., NEW BERLIN	**130,694**	
WARREN-BOYNTON STATE BANK, NEW BERLIN		129,402
227.LWCBANCORP, INC., NEW LENOX	**129,573**	
LINCOLNWAY COMMUNITY BANK, NEW LENOX		129,573
228.GIFFORD BANCORP, INC., GIFFORD	**129,176**	
GIFFORD STATE BANK, GIFFORD		129,176
229.MARENGO BANCSHARES, INC., MARENGO	**128,963**	
PRAIRIE COMMUNITY BANK, MARENGO		128,962
230.ALPHA BANCO, INC., ALPHA	**126,198**	
FARMERS STATE BANK OF WESTERN ILLINOIS, ALPHA		125,965
231.ALLIED FIRST BANCORP, INC., OSWEGO	**126,142**	
ALLIED FIRST BANK, SB , OSWEGO		125,226
232.ATHENS BANCORP, INC., ATHENS	**125,489**	
ATHENS STATE BANK, ATHENS		125,497
233.FARMINGTON BANCORP, INC. , FARMINGTON	**124,398**	
BANK OF FARMINGTON		124,519
234.TREMONT BANCORP, INC., TREMONT	**123,197**	
FIRST NATIONAL BANK IN TREMONT		123,197
235.BEMENT BANCSHARES, INC, BEMENT	**119,234**	
STATE BANK OF BEMENT		78,543
STATE BANK OF CERRO GORDO		25,435
236.CLAY CITY BANK SHARES, INC., CLAY CITY	**117,513**	
CLAY CITY BANKING CO., CLAY CITY		117,515
237.HENRY STATE BANCORP, INC. , HENRY	**116,660**	
HENRY STATE BANK, HENRY		116,650
238.WSB FINANCIAL, LTD, WILLIAMSVILLE	**115,761**	
WILLIAMSVILLE STATE BANK & TRUST, WILLIAMSVILLE		116,691
239.ARTHUR BANCSHARES CORP, ARTHUR	**114,827**	
STATE BANK OF ARTHUR		113,799
240.ROYAL FINANCIAL, INC., CHICAGO	**114,048**	
ROYAL SAVINGS BANK, CHICAGO		113,783
241.WHITTINGTON BANCORP, INC. , BENTON	**112,672**	
STATE BANK OF WHITTINGTON, BENTON		113,284
242.FIRST EQUITY CORP, SKOKIE	**112,578**	
1ST EQUITY BANK, SKOKIE		112,577
243.AMER. HEARTLAND BCSHRS, INC. , SUGAR GRV.	**111,256**	
AMERICAN HEARTLAND BANK & TRUST, SUGAR GROVE		108,315
244.F M BANCORP, INC., PAXTON	**111,234**	
FARMERS-MERCHANTS NATIONAL BANK OF PAXTON		111,354
245.LSBANCORP, INC., LA SALLE	**110,488**	
LA SALLE STATE BANK, LA SALLE		110,488
246.BURLING BANCORP, INC., CHICAGO	**108,840**	
BURLING BANK, CHICAGO		108,823
247.KAMPSVILLE BANCSHARES, INC., KAMPSVILLE	**107,841**	
BANK OF KAMPSVILLE		107,682
248.SECURITY BANCORP, INC., HERRIN	**106,647**	
HERRIN SECURITY BANK, HERRIN		106,666
249.GRANT PARK BANCSHARES, INC., GRANT PARK	**105,983**	
FIRST NATIONAL BANK OF GRANT PARK		104,844

*Source: Regulatory financial reports filed by bank holding companies and banks, data as of December 31, 2012. *Dollar amounts in thousands*

ILLINOIS BANK HOLDING COMPANIES, Part 2 of 2

HOLDING COMPANY, LOCATION Subsidiary Bank, Location	CONSOLIDATED ASSETS*	SUBSIDIARY ASSETS*
250.FIRST CLINTON BANCORP., INC., CLINTON	**105,459**	
FIRST NATIONAL BANK AND TRUST COMPANY, CLINTON		105,459
251.PEOPLES BANCORP, INC., ARLINGTON HEIGHTS	**105,392**	
PEOPLES' BANK OF ARLINGTON , ARLINGTON HEIGHTS		105,004
252.MASCOUTEN BANCORP, INC., BEARDSTOWN	**104,712**	
FIRST NATIONAL BANK OF BEARDSTOWN		104,711
253.CAMPBELL HILL BNCSHRS., INC., CAMPBELL HILL	**103,866**	
FIRST STATE BANK OF CAMPBELL HILL		103,845
254.ISB BANCORP, INC., TONICA	**102,963**	
ILLINI STATE BANK, OGLESBY		102,774
255.MURPHY-WALL BANCORP, INC., PINCKNEYVILLE	**101,414**	
MURPHY-WALL STATE BANK AND TRUST CO., PINCKNEYVILLE		101,009
256.CLAYTON BANCSHARES, INC., PLEASANT HILL	**100,200**	
CENTRAL STATE BANK, CLAYTON		99,998
257.ISB BANCSHARES, INC., IPAVA	**99,333**	
IPAVA STATE BANK, IPAVA		99,333
258.FIRST MONTGOMERY BANCORP, INC., LITCHFIELD	**97,110**	
FIRST NATIONAL BANK OF LITCHFIELD		97,110
259.SAVANNA-THOMSON INVESTMENT, INC., SAVANNA	**96,697**	
SAVANNA-THOMSON STATE BANK, THOMSON		94,679
260.PERRY COUNTY BANCORP, INC., DU QUOIN	**95,744**	
DU QUOIN STATE BANK, DU QUOIN		95,769
261.CHERRY BANCORP., INC., CHERRY	**95,608**	
STATE BANK OF CHERRY		95,602
262.FIRST PORT BYRON BANCORP, INC., PORT BYRON	**93,929**	
PORT BYRON STATE BANK, PORT BYRON		85,977
263.FISHER BANCORP, INC., FISHER	**93,455**	
FISHER NATIONAL BANK, FISHER		93,077
264.GENEVA BANCSHARES, INC., GENEVA	**93,403**	
STATE BANK OF GENEVA		86,086
265.MILLEDGEVILLE BANCORP, INC., MILLEDGEVILLE	**92,982**	
MILLEDGEVILLE STATE BANK, MILLEDGEVILLE		92,982
266.RUSHVILLE BANCSHARES, INC., RUSHVILLE	**92,977**	
RUSHVILLE STATE BANK, RUSHVILLE		92,977
267.COMMUNITY BANCSHARES, INC., IRVINGTON	**92,473**	
COMMUNITY TRUST BANK, IRVINGTON		91,668
268.FIRST MAZON BANCORP, INC., MAZON	**90,875**	
MAZON STATE BANK, MAZON		83,766
269.LITCHFIELD BANCSHARES COMPANY, LITCHFIELD	**90,480**	
LITCHFIELD NATIONAL BANK, LITCHFIELD		90,586
270.EDGEBROOK BANCORP, INC., CHICAGO	**89,757**	
EDGEBROOK BANK, CHICAGO		89,819
271.S & H HOLDINGS, INC, IROQUOIS	**88,072**	
IROQUOIS FARMERS STATE BANK, IROQUOIS		88,072
272.DURAND BANCORP, INC., DURAND	**87,892**	
DURAND STATE BANK, DURAND		87,875
273.ADMIRAL FAMILY BANKS, INC., ALSIP	**87,775**	
FEDERATED BANK, ONARGA		83,353
274.GATEWAY BANC CORP., ROSCOE	**87,472**	
GATEWAY COMMUNITY BANK, ROSCOE		87,469
275.TNB BANCORP, INC., TUSCOLA	**86,792**	
TUSCOLA NATIONAL BANK, TUSCOLA		86,799
276.NBE BANCSHARES, INC., EARLVILLE	**86,461**	
NATIONAL BANK OF EARLVILLE, EARLVILLE		60,784
STATE BANK OF PAW PAW ILLINOIS, PAW PAW		25,981
277.YANKEE RIDGE, INC., ALLERTON	**86,173**	
PHILO EXCHANGE BANK, PHILO		86,173
278.ARTHUR R MURRAY, INC., MILFORD	**85,227**	
CITIZENS STATE BANK OF MILFORD		57,870
DEWEY BANK, DEWEY		25,718
279.WELLINGTON BANCORP, INC., SPRINGFIELD	**85,218**	
COMMUNITY BANK, HOOPESTON		85,123
280.LANARK BANCSHARES, INC., LANARK	**84,061**	
EXCHANGE STATE BANK, LANARK		83,941
281.FBL BANCSHARES, INC., LIBERTY	**83,793**	
FARMERS BANK OF LIBERTY, LIBERTY		83,511
282.MOUNT STERLING BANCORP, INC., MT. STERLING	**83,575**	
FARMERS STATE BANK & TRUST CO., MOUNT STERLING		83,602
283.HIGHLAND COMMUNITY COMPANY, CHICAGO	**82,975**	
HIGHLAND COMMUNITY BANK, CHICAGO		82,975

HOLDING COMPANY, LOCATION Subsidiary Bank, Location	CONSOLIDATED ASSETS*	SUBSIDIARY ASSETS*
284.AZTECAMERICA BANCORP, INC., BERWYN	**82,126**	
AZTECAMERICA BANK, BERWYN		81,144
285.ANDERSON BANCORP, INC., ONEIDA	**81,959**	
ANDERSON STATE BANK, ONEIDA		81,602
286.CHESTER BANCORP, INC., CHESTER	**81,889**	
CHESTER NATIONAL BANK, CHESTER		81,889
287.GRANVILLE BANCSHARES, INC., GRANVILLE	**80,367**	
GRANVILLE NATIONAL BANK, GRANVILLE		52,042
SHERIDAN STATE BANK, SHERIDAN		28,325
288.CLAY CTY. STATE BANCSHARES, INC, LOUISVILLE	**80,095**	
CLAY COUNTY STATE BANK, LOUISVILLE		80,095
289.FIRST BANCORP OF SPARTA, LTD, SPARTA	**79,661**	
FIRST NATIONAL BANK OF SPARTA		79,657
290.AMERICAN METRO BANCORP, INC., CHICAGO	**79,529**	
AMERICAN METRO BANK, CHICAGO		79,529
291.FIRST COMM. BANC HOLDING CO., HILLSBORO	**77,942**	
FIRST COMMUNITY BANK OF HILLSBORO		77,942
292.SULLIVAN BANCSHARES, INC., SULLIVAN	**77,534**	
FIRST NATIONAL BANK OF SULLIVAN		77,534
293.HBANCORP., INC., LAWRENCEVILLE	**76,960**	
HERITAGE STATE BANK, LAWRENCEVILLE		76,838
294.VILLAGE BANCSHARES, INC., SAINT LIBORY	**76,728**	
VILLAGE BANK, SAINT LIBORY		76,728
295.FIRST PERRY BANCORP INC., PINCKNEYVILLE	**76,580**	
FIRST NATIONAL BANK IN PINCKNEYVILLE		75,885
296.HARDIN COUNTY BANCORP, INC., ROSICLARE	**76,557**	
AREA BANK, ROSICLARE		76,558
297.VILLA GROVE BANCSHARES, INC., VILLA GROVE	**76,419**	
VILLA GROVE STATE BANK, VILLA GROVE		70,363
298.MACKINAW VALLEY FINANCIAL SERVICES, INC.	**75,955**	
FIRST SECURITY BANK, MACKINAW		75,373
299.ROCHESTER STATE BANKSHARES, INC., RCHSTR.	**74,950**	
ROCHESTER STATE BANK, ROCHESTER		74,818
300.GOODFIELD FINANCIAL CORP., GOODFIELD	**74,936**	
GOODFIELD STATE BANK, GOODFIELD		74,936
301.GERBER BANCSHARES, INC., ARGENTA	**74,890**	
GERBER STATE BANK, ARGENTA		74,890
302.MASON CITY BANCORP, INC., MASON CITY	**74,403**	
MASON CITY NATIONAL BANK, MASON CITY		74,403
303.UNITED COMM. BANCSHARES, INC., NORTHBROOK	**73,995**	
CENTRUST BANK, N.A., NORTHBROOK		73,947
304.CBT BANCORP, INC., TRENTON	**73,865**	
COMMUNITY BANK OF TRENTON		73,830
305.PRAIRIE STATE BANCORP, INC., DANFORTH	**73,099**	
FARMERS STATE BANK OF DANFORTH		66,802
306.MAIN STREET BANCORP, INC., PRINCEVILLE	**71,447**	
PRINCEVILLE STATE BANK, PRINCEVILLE		71,447
307.MGB BANCSHARES, INC., MATTOON	**71,328**	
FIRST NATIONAL BANK, MATTOON		71,226
308.FIRST OF MURPHYSBORO CORP, MURPHYSBORO	**70,905**	
FIRST BANK AND TRUST COMPANY OF MURPHYSBORO		70,905
309.ILLINOIS HOLDING CO., MOLINE	**70,383**	
1ST COMMUNITY BANK, SHERRARD		65,246
310.ASB MANAGEMENT CORP, ANNA	**69,485**	
ANNA STATE BANK, ANNA		69,485
311.ARENZVILLE BANCORP, INC., ARENZVILLE	**69,418**	
FIRST NATIONAL BANK OF ARENZVILLE, ARENZVILLE		69,418
312.PREMIER COMMERCE BANCORP, INC., WHEATON	**69,190**	
GRAND RIDGE NATIONAL BANK, GRAND RIDGE		69,190
313.F F HOLDING CORP., CHICAGO	**69,123**	
DUPAGE NATIONAL BANK, WEST CHICAGO		64,406
314.TRI-COUNTY BANCSHARES, INC., BEECHER CITY	**67,496**	
FIRST STATE BANK OF BEECHER CITY		67,480
315.FIRST BANCORP, INC., YATES CITY	**67,184**	
BANK OF YATES CITY		60,566
316.CLAY BANCSHARES, INC., FLORA	**66,958**	
FLORA BANK & TRUST, FLORA		66,951
317.BCC BANCSHARES, INC., HARDIN	**66,327**	
BANK OF CALHOUN COUNTY, HARDIN		66,239

*Data as of Dec. 31, 2012.*Dollar amounts in thousands*

ILLINOIS BANK HOLDING COMPANIES, Part 2 of 2

See the Summer edition of *Bank Owner* for Part 1 of this list.

HOLDING COMPANY, LOCATION Subsidiary Bank, Location	CONSOLIDATED ASSETS*	SUBSIDIARY ASSETS*
318.WCB HOLDING COMPANY OF ILL., INC., WINFIELD	**65,693**	
WINFIELD COMMUNITY BANK, WINFIELD		65,480
319.GRIGGSVILLE BANCSHARES, INC. , GRIGGSVILLE	**64,359**	
FARMERS NATIONAL BANK OF GRIGGSVILLE		64,295
320.FIRST CHILLICOTHE CORP., CHILLICOTHE	**64,043**	
FIRST NATIONAL BANK OF CHILLICOTH		64,016
321.OKAWVILLE BANCSHARES, INC., OKAWVILLE	**62,875**	
OLD EXCHANGE NATIONAL BANK OF OKAWVILLE		62,749
322.PRAIRIE FIN'L. BANCORP, INC., STEWARDSON	**61,795**	
PRAIRIE NATIONAL BANK, STEWARDSON		55,031
323.FIRST LACON CORP., LACON	**61,645**	
FIRST NATIONAL BANK OF LACON		61,645
324.HEADQUARTERS HOLDING COMPANY, AVA	**61,179**	
FIRST NATIONAL BANK OF AVA		61,131
325.ANB BANCORP, INC., ATLANTA	**61,016**	
ATLANTA NATIONAL BANK, ATLANTA		61,016
326.COMMUNITY HOLDINGS CORP., PALOS HILLS	**60,887**	
FIRSTSECURE BANK AND TRUST CO., PALOS HILLS		60,950
327.PRAIRIELAND BANCORP, INC., BUSHNELL	**60,165**	
FARMERS AND MERCHANTS STATE BANK OF BUSHNELL		58,459
328.CITIZENS BANCSHARES, INC., WALNUT	**59,462**	
CITIZENS FIRST STATE BANK OF WALNUT		59,462
329.H.F. GEHANT BANCORP, INC., WEST BROOKLYN	**59,211**	
H.F. GEHANT BANKING CO., WEST BROOKLYN		58,582
330.ELMWOOD BANCSHARES, INC., ELMWOOD	**58,644**	
FARMERS STATE BANK, ELMWOOD		58,117
331.LEMONT BANCORP, INC., LEMONT	**58,325**	
LEMONT NATIONAL BANK, LEMONT		58,325
332.SCOTT MORGAN BANCORP, INC., BLUFFS	**58,321**	
BANK OF BLUFFS		58,044
333.BANCPAL, INC., PALATINE	**57,795**	
BANK OF PALATINE		57,780
334.R&B MANAGEMENT CORP., WASHINGTON	**57,319**	
WASHINGTON STATE BANK, WASHINGTON		56,630
335.SCHUYLER BANCORP, INC., SPRINGFIELD	**54,078**	
SCHUYLER STATE BANK, RUSHVILLE		54,073
336.ST. JACOB BANCSHARES, INC., SAINT JACOB	**53,775**	
STATE BANK OF ST. JACOB		54,095
337.STAUN BANCORP, INC., STAUNTON	**53,693**	
FIRST COMMUNITY STATE BANK, STAUNTON		54,264
338.NORTHWEST EQUITY CORP., BUFFALO GROVE	**53,346**	
1ST EQUITY BANK NORTHWEST, BUFFALO GROVE		53,052
339.PEARL CITY BANCORP, INC., PEARL CITY	**52,265**	
STATE BANK OF PEARL CITY		47,209
340.MILLENNIUM BANCORP, INC., DES PLAINES	**50,887**	
MILLENNIUM BANK, DES PLAINES		50,887
341.TG BANCSHARES, INC., TABLE GROVE	**50,265**	
TABLE GROVE STATE BANK, TABLE GROVE		50,265
342.ST. ANNE BANCORP, INC. , MANTENO	**49,652**	
NATIONAL BANK OF ST. ANNE		49,651
343.COWDEN BANCORP, INC., SPRINGFIELD	**49,057**	
COMMUNITY BANKS OF SHELBY COUNTY, COWDEN		49,053
344.MIDLAND BANCSHARES, INC., KINCAID	**48,932**	
MIDLAND COMMUNITY BANK, KINCAID		48,932
345.LINCOLN BANCORP, INC, ROCHELLE	**48,859**	
LINCOLN STATE BANK, S.B., ROCHELLE		48,917
346.LIMA BANCSHARES, INC., LIMA	**48,450**	
STATE BANK OF LIMA		36,170
347.PREFERRED BANCORP, INC., CASEY	**47,962**	
PREFERRED BANK, CASEY		47,962
348.FIRST SANDOVAL BANCORP, INC., SANDOVAL	**47,922**	
FIRST NATIONAL BANK OF SANDOVAL		47,922
349.BLUESTEM DEVELOPMENT CORP., JOY	**47,473**	
JOY STATE BANK, JOY		47,380
350.MARSEILLES BANCORP., INC, MARSEILLES	**47,185**	
MARSEILLES BANK, MARSEILLES		47,026
351.MC BANCORP, INC., MODESTO	**46,714**	
BANK OF MODESTO		42,532
352.SOUTHERNTRUST BANCSHARES, INC., GOREVILLE	**46,006**	
SOUTHERN TRUST BANK, GOREVILLE		46,006
353.BUCKLEY BANCORP, INC., BUCKLEY	**45,774**	
BUCKLEY STATE BANK, BUCKLEY		45,767
354.IUKA BANCSHARES, INC., IUKA	**45,157**	
IUKA STATE BANK, IUKA		45,157
355.BUTLER POINT, INC., CATLIN	**45,147**	
FIRST NATIONAL BANK OF CATLIN		45,147
356.COLUMBIA BANCSHARES, INC., COLUMBIA	**44,860**	
COLUMBIA NATIONAL BANK, COLUMBIA		44,860
357.FSB CORP., SUBLETTE	**44,018**	
FARMERS STATE BANK OF SUBLETTE		43,845
358.FSBO HOLDINGS, INC., OLMSTED	**42,866**	
FIRST STATE BANK OF OLMSTED		42,856
359.CHRISMAN BANCORP, INC., SPRINGFIELD	**42,133**	
FIRST NATIONAL BANK OF CHRISMAN		42,053
360.FRANKLIN BANCSHARES, INC., FRANKLIN	**41,900**	
FRANKLIN BANK, FRANKLIN		41,896
361.HUTSONVILLE BANC CORP., HUTSONVILLE	**41,836**	
FARMERS & MERCHANTS BANK OF HUTSONVILLE		41,836
362.GREAT RIVER BANCSHARES, INC., QUINCY	**41,704**	
HILL-DODGE BANKING COMPANY, WARSAW		37,134
363.VAN ORIN BANCORP, INC., VAN ORIN	**41,673**	
FIRST STATE BANK OF VAN ORIN		41,673
364.OAKWOOD BANCORP, INC., SPRINGFIELD	**41,335**	
UNITED COMMUNITY BANK, OAKWOOD		41,318
365.WATERMAN BANCSHARES, INC., WATERMAN	**40,804**	
WATERMAN STATE BANK, WATERMAN		40,797
366.SOUTH CENTRAL BANCORP, INC, KINMUNDY	**38,960**	
FIRST NATIONAL BANK OF KINMUNDY		38,960
367.MONTGOMERY BANCSHARES, INC., MONTGOMERY	**38,638**	
BANK OF MONTGOMERY		38,638
368.NORTH ADAMS BANCSHARES, INC., URSA	**38,226**	
NORTH ADAMS STATE BANK, URSA		36,590
369.PEOPLES FINANCIAL CORP., COLFAX	**37,743**	
PEOPLES STATE BANK OF COLFAX		37,743
370.FIRST COMMUNITY BANCSHARES, XENIA	**36,977**	
FIRST COMMUNITY BANK XENIA-FLORA, XENIA		36,979
371.FIRST BROWNSTOWN BANCORP, INC., BRNSTWN.	**36,198**	
FIRST NATIONAL BANK OF BROWNSTOWN		36,198
372.BLUE MOUND BANCSHARES, INC., BLUE MOUND	**34,135**	
STATE BANK OF BLUE MOUND		33,946
373.WENONA BANCORP, INC., WENONA	**33,682**	
WENONA STATE BANK, WENONA		33,715
374.ST. PETER BANCSHARS, INC., SAINT PETER	**32,626**	
FIRST STATE BANK OF ST. PETER		32,626
375.MARSHALL PUTNAM CTY. BANCORP., INC, VARNA	**32,093**	
MARSHALL COUNTY STATE BANK, VARNA		28,349
376.FIRSTATE BANCORP, INC., MASON CITY	**28,098**	
1ST STATE BANK OF MASON CITY		28,098
377.EASTON BANCSHARES, INC., EASTON	**28,084**	
COMMUNITY BANK OF EASTON		27,951
378.BARKER BROTHERS, INC., SPRINGFIELD	**26,017**	
MIDDLETOWN STATE BANK, MIDDLETOWN		25,424
379.FAYETTE COUNTY BANCSHARES, INC., ST. ELMO	**25,762**	
FAYETTE COUNTY BANK, SAINT ELMO		25,517
380.MOULTRIE BANCORP, INC., LOVINGTON	**24,240**	
HARDWARE STATE BANK, LOVINGTON		24,053
381.TRI-COUNTY HOLDINGS, INC., DONGOLA	**22,649**	
FIRST STATE BANK OF DONGOLA		22,649
382.SIDELL BANCORP, INC., SIDELL	**22,277**	
SIDELL STATE BANK, SIDELL		22,209
383.PNB BANCSHARES, INC., PEKIN	**22,136**	
PEKIN NATIONAL BANK, PEKIN		22,132
384.CAMP GROVE BANCORP, INC., CAMP GROVE	**19,706**	
CAMP GROVE STATE BANK, CAMP GROVE		19,705
385.ANCHOR BANCORP., INC., ANCHOR	**15,607**	
ANCHOR STATE BANK, ANCHOR		15,562
386.TEXICO BANCSHARES CORP., TEXICO	**9,758**	
TEXICO STATE BANK, TEXICO		9,762

Source: Regulatory financial reports filed by bank holding companies and banks, data as of December 31, 2012.
**Dollar amounts in thousands*

New to BHCA

Join the growing list of Bank Holding Company Association Members and Associate Members. The value of the education members receive through our seminars, publications and unparalleled networking opportunities far exceeds our modest annual dues.

The Bank Holding Company Association welcomes the following holding companies which recently have joined the association:

Marti Rodamaker, president
First Citizens Financial Corp.
Mason City, Iowa

Michael Bresnahan, president
Bancommunity Service Corporation
St. Peter, Minn.

John Baer, president
Tiffany Baer Paine, secretary
Ryan Baer, treasurer
Security Bancshares of Bemidji, Inc.
Bemidji, Minn.

M&A, *Continued from page 6*

CAMELS rating and clean loan portfolio is often successful in obtaining a shorter duration while a seller whose institution is subject to enforcement actions can generally expect a longer duration.

Cap on the indemnification amount and escrows

Sellers often want to know the extent of their liability following the sale, and buyers often realize that since they will be running the business, buyers might be subject to large unforeseen risks. Therefore, buyers and sellers are often able to agree upon an indemnification cap. This cap limits the dollar amount that the breaching party will have to pay the aggrieved party resulting from damages sustained from breaches of the purchase agreement terms, including untrue representations and warranties. The cap can vary greatly and depends on the size of the deal, but generally should not exceed the purchase price. Sellers should try to institute some cap to avoid unlimited liability.

Basket amount

The basket amount is similar to a deductible in the context of insurance. Since the parties recognize that some dollar thresholds are not material enough to administer the indemnification process, the parties will often agree to a basket amount, and they will not approach each other for indemnification payments that are less than the basket amount. A basket can be either a regular basket or tipping basket. A regular basket is truly like an insurance deductible. A party's indemnification obligation only applies to the extent the damages exceed the basket amount, thus leaving the aggrieved party on the hook for the basket amount. A tipping basket differs in that while a party still has no indemnification obligation until damages exceed the basket, once damages exceed the basket amount, the basket "tips" and the indemnification obligation goes back to dollar one of damages so that the aggrieved party is not responsible for any damages. In the typical community bank transaction, basket amounts range from $25,000 to $100,000, but the basket can be larger depending on the size of the transaction.

Keeping the big picture in mind

When negotiating the indemnification clause, the parties must be sure to consider other terms of the agreement and their overall strategic goals. For example, a seller may be willing to agree to more thorough representations and warranties with few "knowledge qualifiers" if they can obtain a shorter indemnification duration and lower cap. Similarly, a seller who wants to be out of the business of banking as soon as possible may be willing to agree to a lower purchase price if buyer will accept less thorough representations and warranties subject to a shorter duration and lower cap.

Takeaway

When negotiating any provision of a definitive agreement, bankers should keep the big picture in mind and communicate their overall strategic objectives to their counsel so that the indemnification clause and other provisions may be negotiated accordingly.

Beau Hurtig is a shareholder at Fredrikson & Byron, a BHCA Associate Member. This article is reprinted with permission from the firm's newsletter "FredNEWS: Bank & Finance."

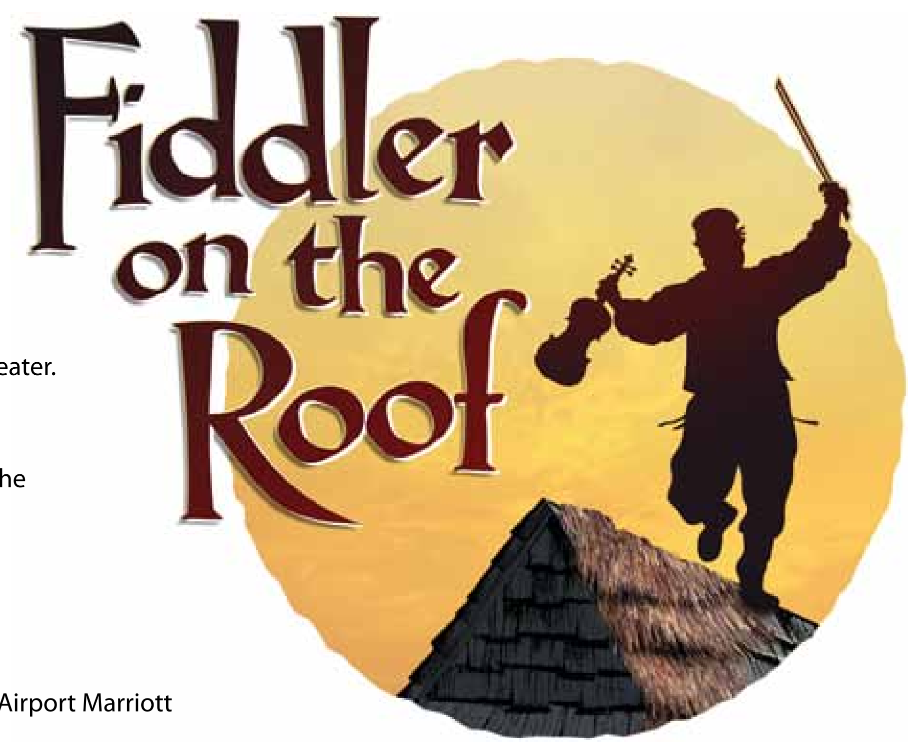
BANK OWNER
7400 Metro Blvd., #217
Minneapolis, MN 55439

A Friday Night Out at Chanhassen Dinner Theatres

Join your BHCA friends and colleagues for a special evening performance of the timeless classic **Fiddler on the Roof** on Oct. 4, 2013.

In the tiny village of Anatevka, a poor milkman named Tevye tries to keep the family traditions alive. Yet, times are changing and he must choose between his daughters' happiness and those beloved traditions that keep the outside world at bay.

Fiddler On The Roof has a rousing, heartwarming score, including: "Tradition," "Matchmaker, Matchmaker," "If I Were A Rich Man," "Far From the Home I Love," "Do You Love Me," "Sunrise, Sunset" and many more. No other musical has so magically woven music, dance, poignancy and laughter into such an electrifying, unforgettable experience.



Our evening starts with dinner at the theater. Round trip coach transportation from the hotel is included. So plan to bring your spouse or special guest and make the most of your seminar experience by participating in this fabulous evening of musical theater.

Evening agenda:

4:30 p.m. to 5:30 p.m. ~ Coach transportation to the Chanhassen Dinner Theater

5:30 p.m. to 6:00 p.m. ~ Cash Bar reception

6:00 p.m. to 7:30 p.m. ~ Dinner

7:30 p.m. to 10:15 p.m. ~ Show

10:30 p.m. ~ Return by coach to the Minneapolis Airport Marriott

Special package rate: $125 per person

Register at: www.theBHCA.org