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Bank Owner

The magazine of the Bank Holding Company Association

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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.

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Bank Owner

Winter 2013

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Reflections on an eventful year

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

It has been a big year at the Bank Holding Company Association, and I'm glad you were a part of it. As we approach the conclusion of 2013, I reflect back on several events and developments resulting from this association that have contributed to a successful year.

First and foremost, we had two outstanding seminars; I hope you had the opportunity to attend one or both of them. The Spring Seminar attracted nearly 300 people, making it one of the largest events this association has hosted in quite some time. I am still thinking about some of the messages that came from our speakers at that meeting. Remember David Kemp who described some of the industry challenges for us? Or David Mead, the young man from Utah who urged us to consider why we are doing what we are doing? Or Rick Kupchella, who described some of the changes taking place in the media industry? Sounds somewhat like changes we are dealing with in banking.

And our Fall Seminar was every bit as compelling, with a speaker lineup that included professional football player Matt Birk, as well as Federal Reserve Bank of Minneapolis President Narayana Kocherlakota. It was really interesting to get perspectives from two economists (Kocherlakota and Dimitri Delis of BMO Capital Markets), both looking at the same situation and seeing slightly different things. Don Musso, clearly a seasoned industry professional, gave us a thorough overview of some of the issues our industry faces, and Virginia Heyburn of Fiserv offered an upbeat assessment of the future. You will find coverage of the Fall Seminar in this edition of *Bank Owner*.

We have taken a number of small but important steps to elevate the quality of our seminars. For example, we upgraded the breakfast, and added networking time after the opening dinner. In addition, we made improvements to the sound and lighting arrangements, which made the staging more effective.

In addition to the seminars, we delivered education through seven webinars. For the second year in a row, we offered our regular quarterly webinars, and a three-part series aimed at outside directors. Our webinar topics included succession planning, unique approaches to bank acquisitions, managing OREO, and raising capital. Keep in mind that even if you didn't sit in on any of the webinars, you still can purchase them on our website, www.theBHCA.org, and listen to them at any time.

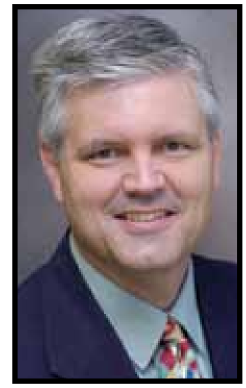
We also jointly hosted a regulatory panel in July. We welcomed representatives from the OCC, FDIC, the Federal Reserve Bank of Minneapolis, and the Minnesota Department of Commerce. It was the fifth year in a row that we teamed with the Independent Community Bankers of Minnesota to present this event. A number of the participants stuck around to play a round of golf in the afternoon.

There were also a couple of important administrative changes we made this year that will contribute to a smooth-running organization in the future. First, we updated our bylaws, formalizing a few changes that will permit the association to make better use of electronic communications and otherwise operate more efficiently. Second, we began offering our members the opportunity to pay their annual dues via automatic debit. A majority of our members chose to pay via the ACH network, simplifying our own processes and perhaps saving a few trees.

It has been a great privilege for me to be president of the Bank Holding Company Association this year. I appreciate your support and look forward to handing over the reins to Bill Rosacker of United Bankers Bank. The association is building real momentum and I am confident the industry will benefit from BHCA endeavors for years to come.

Best wishes to you and yours during the Holiday season and throughout the coming year. ❑

A few predictions for 2014, and taking the time for gratitude



By Tom Bengtson
BHCA Managing Director

As we conclude 2013, we can make a number of assumptions about the coming year, which may be important in terms of business planning. Here are some things I expect for 2014:

Interest rates will remain low. Until the job market improves, the Fed will keep rates low. Given the sputtering economy, I don't see many companies rushing to hire more people The Fed, which presumably will be under the direction of Janet Yellen, will not deem it necessary to stem any inflationary tendencies.

The economics of the agricultural sector will change. High commodity prices in the ag sector have driven the price of land up and helped farmers to make a lot of money. But that's changing. Commodity prices are dropping, which will lead to a return to more rational pricing for farmland. In 2014 farmers will probably be able to tap reserves for their operating lines, but some will have to go to the local bank for an operating loan – something many of them haven't done in a few years. By 2015, most farmers will need operating capital from their bank.

Tax planning will become more important. Taxes are going up and the IRS will find new ways to squeeze more dollars out of more people. Congress and state lawmakers alike will look for additional ways to raise revenue. This means we are all going to have to make a lot more money just to keep our income levels constant with where they are now.

The mergers and acquisitions market will remain steady. I know most of the experts are predicting activity will pick up and we all know the reasons – lack of a succession plan, increased regulation, fatigue – but I think more owners will stick it out until times improve. Prices are modest and many bank owners will decide it is better to keep working than it is to accept a price far below what they had been hoping for.

There will be a resurgence of entrepreneurship. With so many smart college grads unable to find suitable work, and an increasing number of people disillusioned by typical corporate career tracks, we will see many more people choosing entrepreneurial employment routes. While entrepreneurism traditionally has been strong in rural areas, the resurgence will be particularly noticeable in urban areas. Technology is making entrepreneurship easier and, as confusion over the Affordable Care Act grows, health insurance will become less effective at holding people in jobs they only marginally enjoy.

A time for gratitude

One of the things I have always appreciated about smaller banks or family-owned businesses is that their management can think long term. They don't have quite the earnings pressure which managers at publically-held firms face.

But in the current interest rate environment, even managers of closely-held companies are being forced to think short term. I recently heard an economist urge bankers to think short term when managing their investment portfolios. Managers who tie up their assets for years to come in search of yield will get burned when rates start to rise. Bankers know the tension between duration and yield all too well.

It is good to get a reminder every now and then about the importance of thinking in the present. It is too easy to focus on the future at the expense of the present. Rather than being grateful for the present, we end up being presumptuous about the future. I think we can alleviate a lot of stress in our lives by acknowledging what we have today rather than focusing exclusively on what we want for tomorrow. Gratitude is cultivated by thinking more about what you have than about what you want. Most of us have so much to be thankful for. What a good thing to remember at this time of year.

A colleague of mine always urges fellow managers to acknowledge the support and help of those around them. For many, that starts with family and friends. Staff, colleagues and customers are right there as well. When we think about what we have, it is the relationships with those closest to us that make gratitude easy.

There are 525,600 minutes in a year. If we can easily count each minute, then let's make an effort to really live each minute. Long-term thinking is important but I can see that it's not enough. Whether managing your investment portfolio, your bank or your life, the best long-term plans start with a profound appreciation for the present.

One of the things for which I am grateful is the BHCA volunteer leadership. It has been a great pleasure to work with Doug Farmer, the BHCA president for 2013. We have an excellent board and it has been wonderful working with each member of the board throughout the year.

I am also very grateful for the entire BHCA membership, both our holding company members and associate members. In today's world, I know you have a lot of options for spending your membership dollars. I am humbled that you continue to choose to be a part of the BHCA.

Thanks very much and best wishes to all.

SAVE THE DATE

Monday-Tuesday, May 5-6, 2014 — 2014 Spring Seminar
Minneapolis Airport Marriott Hotel, Bloomington, Minn.

Monday-Tuesday, Oct. 6-7, 2014 — 2014 Fall Seminar
Location TBA

Register for events online at www.theBHCA.org

By Matt Doffing

Weak employment means low rates, possible consolidation

BANKERS CAN EXPECT HISTORICALLY low interest rates to continue to press net interest margins and drive more banks to look for acquisition opportunities, according to economists and M&A experts at the Bank Holding Company Association's Fall Seminar, conducted October 3-4, in Bloomington, Minn.

"The Fed needs to pursue a goal-orientated monetary policy that focuses on driving down unemployment, even if that means continued historic lows for interest rates," said Narayana Kocherlakota, president of the Federal Reserve Bank of Minneapolis and a member of the Federal Open Market Committee.

Minneapolis Fed Bank President Kocherlakota likes goal-oriented monetary policy.

"With goal-oriented policy, communications and actions work together in a powerful fashion," he continued during a lunch-time presentation. "Communications tell the public where the FOMC is taking the economy. Then, every subsequent action gives the public confidence that the committee is willing and able to take the economy in that direction."

Kocherlakota lamented the widespread perception that monetary policymakers lack either the tools or the will to solve the employment problem. "The perception of monetary policy ineffectiveness is itself a key factor in generating the problem," Kocherlakota said. "If the public thinks that monetary policy is ineffective, then it will expect relatively weak macroeconomic conditions in the future. If households expect their incomes to be low in the future, they will save more and spend less today. If businesses expect low future demand for their products, they will invest less today and hire fewer people today."

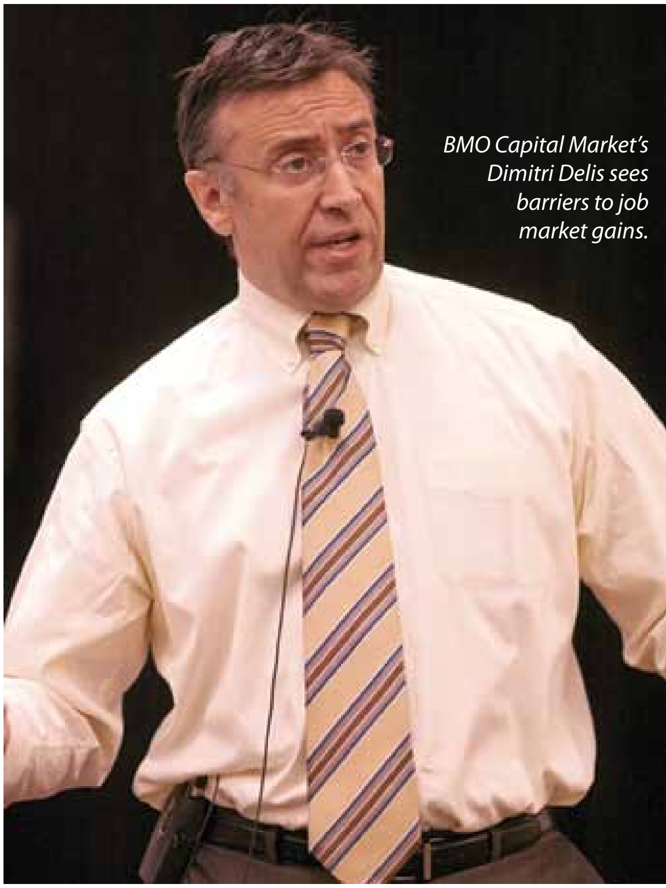
In this way, the perception of FOMC ineffectiveness is hurting current employment, Kocherlakota said. For that reason, the FOMC should do whatever it takes in the next few years to return employment to maximum levels, while still keeping inflation low, he said.

Doing whatever it takes "will mean that the FOMC is willing to continue to use the unconventional monetary policy tools that it has employed in the past few years," he explained. "It will mean that the FOMC is willing to use any of its congressionally authorized tools to achieve the goal of higher employment, no matter how unconventional those tools might be."

The first action Kocherlakota listed was keeping rates near historic lows and keeping them there until employment improves. "It may not be easy to stick to this path," he said. "But I anticipate that the benefits of doing so, in terms of employment gains, will be significant," said Kocherlakota, noting that he endorses continued unusual monetary stimulus even if economic growth improves, per capita employment rises appreciably, asset prices rise to unusually high levels and the inflation outlook rises above 2 percent.

"Accelerating the progress toward [the Fed's dual mandate] will improve the overall well-being of households and businesses, including banks. Put another way, the fate of community banks rests on the health of their communities. Achieving the dual mandate more rapidly aims to improve the conditions of those communities," Kocherlakota said.

"The aim is to help households and businesses in general," he concluded. "But banks that have to make decisions with implications many years in the future should find such communication and predictability particularly helpful."



BMO Capital Market's Dimitri Delis sees barriers to job market gains.

Rates down environment

Dimitri Delis, Chicago-based director of BMO Capital Markets Fixed Income Group, said that in pursuit of fulfilling its dual mandate, the Fed will hold interest rates low in both the short and long term. "Our economy has not seen a robust recovery in the labor market," he said. "This is important because the Fed has told us they will not move rates upward until unemployment drops significantly."

On Oct. 3, the most recent report from the U.S. Bureau of Labor Statistics said the unemployment rate was 7.3 percent. "The true unemployment rate is likely over 10 percent," Delis said. And, "of the one million jobs created this year, 80 percent were part time," he reported. "That's another thing that doesn't bode well for the economy."

Delis gave two additional reasons for his conclusion of weakness in the job market. His first reason is the employment rate for people between ages 25 to 55. "Folks over 55 years of age didn't lose any jobs between 2007 and 2009. As a matter of fact, they gained close to a million jobs," Delis explained. "It was those ages 25 to 55 who have been the big losers since 2007. They have lost close to 7 million jobs."

It's not a bad thing for that older segment to have jobs, Delis said. "But you need those 25 to 55 years old to gain jobs to have a sustainable recovery. These are the people in their prime with families. They buy homes and cars. They send their kids to college. They are the ones who are now building their wealth," explained Delis, who noted that this demographic is 66 percent of the consumer population.

Delis's second reason is the Affordable Care Act. "Many people are locked in what's called employment lock — they work for employment benefits," he said. "If they can get free healthcare benefits and they can get public aid, why should they work? They can have all the free time in the world," he added, forecasting that unemployment will jump a half percentage point in the next 12 months as a result of healthcare reform.

Driving M&A

The past few years have been difficult for mergers and acquisitions but now circumstances have shifted and bankers can expect an uptick in activity, according to M&A attorney Kevin Costley, of Minneapolis law firm Lindquist & Vennum.

In the last few years, there have been no buyers as the banks with the capital and the courage to buy other banks chased FDIC deals, Costley said. "In addition, there was no confidence in the adequacy of loan loss reserves," he said. "You didn't even know the value of your own portfolio much less that of someone else. Also, real estate values were in free fall, there was no financing available, regulators were afraid to approve transactions and these all caused a dramatic collapse in the value of banks."

But now the low interest rate environment and the corresponding pressure on margins are driving buyers back to the market, Costly said. "Now, there are buyers out there who are looking for regular banks to buy. They see that if they can buy the bank in the next town over, they can eliminate a competitor. They also see that they can run the bank on half the overhead it is currently running on, as they do not need the CFO, CEO, CCO or IT personnel."

Many of the factors that hampered the market have subsided, Costley reported. "Real estate values have stabilized," he said. "Regulators are even saying you can take provision out of your loan loss reserve, which is 180 degrees different than it was three years ago, and you can get financing again from bank stock lenders."

Costley said that Lindquist & Vennum completed 13 acquisitions in the first three quarters of 2013. "That's nearly as many as the 14 deals we completed in 2012 in Wisconsin, Minnesota, the Dakotas and Montana," he said.

"From our perspective, the great consolidation that people have foretold is here," Costley said. ■

By Matt Doffing

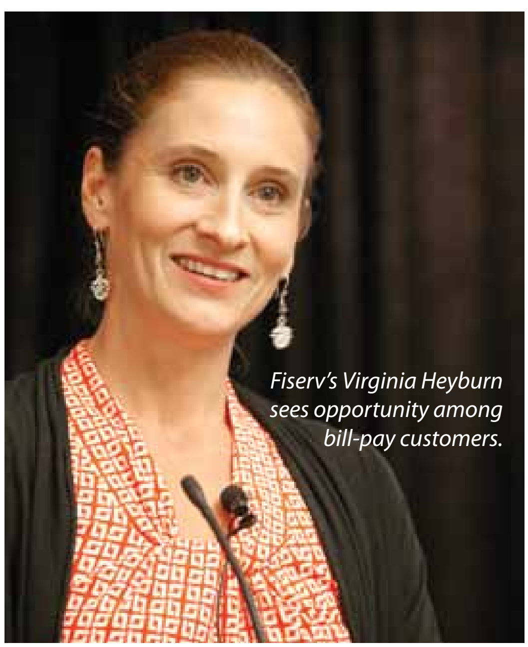
Community banks can dominate digital banking

LARGE BANKS HAVE DOMINATED retail banking for years. But as customers expect a consistent banking experience across internet-based channels and across devices, community banks have a much better chance to meet customers' needs, according to Virginia Heyburn, vice president of insights and advocacy for Fiserv. Heyburn was the concluding speaker at the Bank Holding Company Association's Fall Seminar conducted Oct. 4 at the Minneapolis Airport Marriott Hotel in Bloomington, Minn.

"Yes, big banks have the money," she said, "but they have made enormous investments in individual technologies across channels. For example, they sometimes have multiple deposit systems running in the back office. This makes them slower to adapt with a lower quality experience for customers across channels."

Heyburn gave the example of a customer who wants to start the process of opening a checking account in one channel and complete it in another. "Let's say I am sitting in the airport and I take out my tablet and start to enter my information," she said. "After five minutes I need to board my plane, so I put my tablet away and board. On the tarmac, takeoff is delayed so I whip out my other mobile device, my iPhone, and I pick up exactly where I left off. Then, put the iPhone away for takeoff. When I get home I pull up the application on my desktop and I continue where I left off and complete the process."

Community banks must prepare to offer customers this ability, Heyburn said. "Why?" she posed. "Big banks will not be able to offer this to their customers quickly, easily or cheaply. They have one vendor for mobile, another for desktop, maybe they built something themselves for tablet. They can't get that kind of process consistency. That is our greatest advantage as community banks; the lesser complexity of our bank processes allows us to get to market faster with products that allow customers to start something in one channel and finish in another. That is where competitive differentiation will be in digital channels in the future."



Fiserv's Virginia Heyburn sees opportunity among bill-pay customers.

Attracting new revenue

And it's not just deposit relationships that community banks can expect from dominating digital banking — technology also will bring new revenue opportunities, Heyburn said. By bringing technology to customers, community banks can forge relationships with the up-and-coming generation, a group that has shown it will pay for convenience, she said.

Heyburn shared that she has a daughter who attends the University of Florida who routinely racks up ATM fees. Heyburn once visited her and noted the location of the ATMs in the area. She found that her daughter was willing to walk two blocks to pay $5 to withdraw $20, but she wasn't willing to walk two more blocks to get the money for free. "When I asked her why, she told me she was willing to pay for the convenience," Heyburn recalled.

Young people do not want to pay for infrastructure like checking accounts but they will pay for convenience, she said. "This generation expects to be able to go onto amazon.com, buy something, and get it the same day," she reported. "They want it now and on their terms. They do not want to go to the CD store to buy music; they want to buy it on iTunes and download it to their phone."

Community banks have a challenge in reaching younger customers, Heyburn said. "There are 100 million people in generation Y," she said. "This generation is larger than the baby boom generation. But they communicate in different ways. If I call my children, the call goes straight to voicemail. Then I get a text message that says, 'What?' If they need something, they will call. But they never leave a voice mail."

Heyburn said that this makes it difficult to reach young people with advertisements. "They respond to the advice of a friend, a family member, a teacher who said they had a great experience

Larry Peterson, First Financial Services, Moose Lake, Minn.

Erick Gandrud, Eagle Investment Company, Glenwood, Minn.

Scott Coleman, Lindquist & Vennum, Minneapolis

with a bank," she said. "Peer references are what resonate. Online and mobile banking is requisite to even get them into the bank but that doesn't mean they only want to interact with you through the mobile device or the desktop. They will walk into the branch or call into your call center when they need something."

Another revenue opportunity is customers who use bill pay but do not use eBill, Heyburn said. "About 40 percent of U.S. households pay bills online but only 13 percent receive bills through the online banking site," she reported. "This is the case even though the capability is available to receive bills this way. Most people do not want to have anything to do with eBill because they do not understand it.

"Educating your customers on the merits of eBill and closing that gap is an important point of focus," she continued. "eBill users buy twice the revenue-generating products of non-eBill users. Banks need to build education campaigns around eBill and focus on closing the gap."

Building stickiness

Technology is a loyalty builder, Heyburn said, noting the results of Fiserv's consumer trend survey. "We have seen that if people are satisfied with their online banking service, they are less likely to switch financial institutions," she said. "That's interesting; a website creates stickiness."

There are 28 million small businesses in the United States and nearly 78 percent of those businesses do not have payroll, Heyburn said. "They are effectively consumers," she said. "They want solutions to make their finances easier and they want them from their bank."

Heyburn gave the example of her husband who owns several rental properties in Florida. "It used to be a big pain in the back side to go collect rent. He'd have to drive around to pick up checks and sometimes people paid in cash," she said. "Now, he collects half the payments through person-to-person payments. The rest are checks but he doesn't run to the bank anymore. He uses his iPad to deposit the checks. Technology has brought serious efficiency to his business."

The time is now

Heyburn said innumerable bankers have told her they would like to wait and see what happens with technology. "They told me they'd wait for a competitor to pick up a product before they'd get it," she said. "Sometimes that is a good thing. But when consumers are desperate for technology and will go somewhere else to get it, we need to change our approach."

Recently, bankers have been saying they cannot wait anymore, Heyburn said. "We used to be able to follow our competitors or the large banks. Now community bankers need to lead," she said. "Now, 16 percent of online households in the United States use mobile bill-pay. About 25 percent bill pay via tablet. These channels didn't even exist a few years ago."

In many respects, merchants are in the driver's seat when it comes to payments, Heyburn said.

"Look at the Durbin amendment and the power they had there," she noted. "Also, look at what is happening with Square. It allows my juice store to come out to my car with their iPad and take my order. I do not need to give them payment information or take a receipt, and they bring my drink out to me. This is the reason I chose that store. It's not because they have better juice than anyone else. In a scenario where the payment experience is fun and innovative, it transforms the view you have of that retailer. Merchants have an interest in alternative payments. They will quickly become main stream." ■

By Matt Doffing

Lindquist & Vennum reports on the M&A landscape

Scott Coleman, Steven Johnson and Kevin Costley, attorneys from the Minneapolis law firm of Lindquist & Vennum who spoke on merger-and-acquisition activity at the Bank Holding Company Association's Fall Seminar, gave bankers an answer to a popular question: How much are banks selling for today?

Coleman reported that in the last few years, Lindquist & Vennum has assisted with only one transaction that sold for less than tangible book value. About 10 percent of the firm's transactions went for tangible book, while 50 percent of its deals had a purchase price between 1.1 and 1.3 times tangible book.

Costley told bankers not to trust the reports coming out of SNL and other firms that report prices based on mergers and acquisitions of public companies. "In 2012, SNL said that community banks sold for tangible book value of 103 percent," he reported. "The numbers from these firms are only part of the story."

Firms like SNL use publicly traded bank data to derive their values, Costley explained. "The data isn't from banks that are privately held," he said.

"Now, you might reply that anyone can get the application from the Fed which discloses the purchase price," Costley continued. "But you should know that banks can request confidential treatment for the purchase price. We require in our agreements that buyers seek this confidentiality. In fact, it is prudent to do so. If you are the buyer, you want confidential treatment of that information so it is not used against you in the future."

Coleman also gave bankers a tip for finding out the purchase price of a Minnesota bank. "There is one secret we can tell you," he said. "While regulators routinely afford confidential treatment to the purchase price, for Minnesota transactions this is not the case." The state regulator applies Minnesota banking laws such that nothing is held confidential in a purchase application besides the bankers' individual net worth and Social Security Number, Coleman said. "If you really do want to know what a Minnesota bank is selling for, go to the Department of Commerce and request the application. Your accountant can likely back into the purchase price for you."

Bill Rosacker, United Bankers' Bank, Bloomington, Minn., introduces a panel of Lindquist & Vennum attorneys: Steven Johnson, Kevin Costley and Scott Coleman.

New structures

Lindquist & Vennum has seen some new structures to transactions in recent years, according to Johnson. "In a typical transaction either bank stock or holding company stock was sold. You might see some asset sales but it was pretty straight forward," he said. Today, asset sales have become more common. During the crisis, banks were shedding branches to improve capital positions. "We have seen a fair amount of asset and branch sale transactions," Johnson said.

One change Johnson noted was that more buyers have expressed a preference for a merger transaction, particularly at the bank level and sometime simultaneously at the holding company level. "They are doing this because of preference for one regulatory agency over another," Johnson said. "The regulator of the surviving bank will be the one to review and approve that transaction. In a holding company merger, the regulator will generally be the Federal Reserve. The Fed is much more likely to reference prior three year earnings and performance history, Johnson said. It is less satisfied with recent trends. The FDIC and OCC pay more attention to asset quality and recent trends in earnings.

One thing Johnson said has not

Gary Keller, Bell State Bank & Trust, Fargo, N.D., visits with Joe Ceithaml, Barack Ferrazzano, Minneapolis.

Roger Schmitz, Alerus Financial, Grand Forks, N.D., offers tech update.

Dallas Wells of Country Club Bank, Prairie Village, Kan., shares thoughts on asset liability management.

changed is the merger of equals transaction. "I had a transaction once where the two bankers were absolutely confident that they had ironed everything out; they just wanted to come in and get the merger agreement done," he said. "So we sat down in the conference room and I ask them what the name of the surviving bank would be. Both answered at the same time but I got two different answers. I cannot remember in 30 years of doing this that there has been a true merger of equals."

Many times those social or political issues are as important as the financial issues such as the surviving bank's name, its managers and its board of directors, Johnson said.

Cash or credit

Sellers often want to be paid in cash for the purchase price, Johnson said. He offered reasons for considering a promissory note. "What are you going to do with the cash?" he asked, noting that bankers often want to put the money in a safe investment like CDs. "In the right situation, sellers should consider taking the purchase price or a significant portion of the purchase price in a promissory note," he said. "I say that because you can defer tax on the transaction until you receive principal payment. You're investing more money in a pretax amount. If you receive all cash, you pay all the taxes and you reinvest at an after-tax amount."

Another attraction to a promissory note is that the seller is often given the bank's stock back as collateral, Costly said. "You know your portfolio better than anyone else. You know the value of that asset," he said. "If you go out and you buy stock on the stock market, you do not know what you are buying."

Promissory notes offer an attractive risk-to-reward ratio, Costley said. "Your buyer had to prove to a regulator that they could pay off their debt," he said. "I have seen rates on these notes between 3 percent and 7 percent."

Johnson encouraged sellers to keep this option in mind. "But I do not want to sugarcoat it too much," he said. "If you give the buyer a promissory note then you still have risk to the buyer. That's something you have to manage."

Earnings drive price

The worth of a bank, for the seller or the buyer, is based on earnings, Coleman said. "In a way, that is confusing because prices are published in terms of multiples of book," he said. "The value of an asset is what you can earn from it."

Having said that, Coleman said there are other strategic variables that affect price on a transaction-by-transaction basis. "The factors to look for are: Is the bank in a mature market? Is there room for growth? Does it fit in your footprint? Are you eliminating a competitor? Can you significantly reduce operational expenses? Can you shed locations and real estate, staff and expensive service contracts? Can you bring loans back that had been participated out? All of these can create fluctuation in the price," he explained. ■

By Tom Bengtson

Fed official examines Sec. 3 application pitfalls

Complications that slow the processing of a Section 3 application to the Federal Reserve Bank typically revolve around issues such as financial conditions, BSA/AML compliance, and prior control. Jacquelyn Brunmeier, assistant vice president and chief risk officer in the Supervision, Regulation and Credit division of the Federal Reserve Bank of Minneapolis, described the issues in a webinar presented by the Bank Holding Company Association on Nov. 7.

Brunmeier was one of two Federal Reserve Bank officials who presented during the one-hour webinar, "Supervisory Issues Facing Holding Company Directors." It was the first of three webinars in a series aimed at community bank and holding company directors. This is the second year in a row that the BHCA has hosted the directors' webinar series.

A Section 3 application is filed with the Federal Reserve when a new bank holding company is formed, or when an existing holding company acquires another bank. Brunmeier explained that when such an application is filed, Federal Reserve Bank staff will consider the financial condition of the acquiring institution and the target institution; it also will look at the safety and soundness rating, compliance rating and CRA rating of the acquirer and the target.

The acquiring institution will not have access to regulatory ratings for the target institution, as such information is confidential. Brunmeier said an acquiring bank generally can estimate the condition of a target institution through the normal due diligence process. Using its own ratings as a point of reference, the acquirer should pay special attention to the target's asset quality, management and compliance situation.

Brunmeier urged caution about purchase agreements that require the target to provide full access to its books and records. She said the Fed may require modification of the agreement to respect attorney/client privilege at the target institution. Or, she said, the Fed may expect the application filed by the acquirer to state it won't enforce such a provision with respect to privileged information.

The Fed also will carefully consider any debt the holding company takes on in order to carry out the acquisition. For bank holding companies with fewer than $500 million in assets, the Fed will want to see the debt decrease to no more than 30 percent within 12 years of the acquisition. The Fed will also expect the holding company to meet the debt repayment obligations of its bank stock lender, Brunmeier said. "So, for example, if the loan you have with the bank stock lender says you will need to pay the loan off in full in five years, you need to be able to demonstrate that you have the ability to do that while retaining adequate capital and retaining the bank's well-capitalized position," she said.

Furthermore, a holding company's acquisition debt cannot exceed 75 percent of the purchase price of the bank being acquired.

"Under the small bank holding company policy statement, the parent is not allowed to pay dividends while the debt-to-equity ratio is greater than one-to-one," Brunmeier advised. "So, think about that when deciding how much leverage you want when acquiring another institution or setting up another holding company. It's really important to understand there is a restriction on dividends, and that does include subchapter S distributions."

The application will require a detailed debt repayment plan. Brunmeier said the Fed will look closely at the assumptions regarding future revenue stream and growth. She said the bank will look at historical averages for the institutions involved going back three and five years. She said if an applicant uses assumptions substantially different from historical averages, it should provide explanation validating the assumptions.

Another point that is important in the application process is compliance with the Bank Secrecy Act and anti-money laundering requirements. If either the acquirer or target has deficiencies in these areas of compliance, Brunmeier said it could delay the processing of the application. If an acquirer is aware of compliance issues at the target bank, its application should describe the steps it plans to take to correct the situation after the application is approved.

Brunmeier also discussed the Fed's concern with practices which indicate an acquirer may be attempting to control the target bank prior to consummation of the acquisition. "An example we frequently see is there will be a restriction on the ability of the target company to make salary adjustments during the period between signing the purchase agreement and consummation, or there will be restrictions on making a loan over a certain size," she explained.

Brunmeier explained it is acceptable for the buyer to restrict transactions which are outside the normal course of business but "we don't want to see buyers restricting transactions that are usual and customary for the target institution. So, for example, if you have a restriction on loans, set the amount of loans that need prior approval above the level of what you would normally see in the ordinary course of business at the target."

She suggested that if the target bank typically makes loans in excess of $1 million but rarely goes over $2 million, the acquirer should set the threshold "closer to two million."

"We also have the issue come up with respect to capital investments," she said, "where the target is restricted from making capital investments of over, say, $5,000. That one is pretty easy for you to just say 'the bank hasn't made any investments of this sort in the last five years. This is an unusual transaction.' What we don't want is for you to be able, as an acquirer, to control or prevent normal course of business transactions prior to actually acquiring control."

The full webinar is available for purchase at www.theBHCA.org. The other webinars in the series are: "Bank Secrecy Act Training," and "Insights into Risk Management." Both also are available for purchase at the BHCA web site. ■

By Terry Saber

Executive compensation review: It's that time of year!

Across the country, Board Compensation Committees are gearing up for the annual review of CEO compensation, made more challenging by the current regulatory climate, the passage of Dodd-Frank, and the related need for risk assessed compensation. In many respects, the movement toward more active and engaged board participation on executive compensation is long overdue.

What does this more active involvement by the board mean?

First and foremost, there is now a Compensation Committee of the board in most financial institutions. Some of the committee duties include the following:

• Ensuring an updated compensation philosophy that generally outlines the guidelines for compensation components and aligns compensation with both short- and long-term interests of the shareholders as well as with strategic plan priorities. (Yes! The regulators appear serious about the need for meaningful strategic plans that go beyond "motherhood and apple pie" and address critical profitability, growth, and leadership strategies under the umbrella of an updated capital plan.)

• Having a specific Compensation Committee chaired by an independent outside director and a team of outside directors. (3-4 members would be the norm.)

• Having an annual, documented formal evaluation of the CEO. (Most CEOs welcome this and look forward to a meaningful evaluation related to execution of strategic direction.)

• Reviewing the total compensation package and the competitiveness of such package related to market competitive base salary, annual cash incentive, long-term vested incentive, benefits/perquisites, and deferred compensation that closes a portion of the gap of retirement income. (Typically pays out upon retirement and is an established annual amount for a specified period of time, typically 10-15 years.) The larger the financial institution, the lower the percentage of base salary as a component of the total compensation package. In other words, the larger the institution, the more opportunity for both annual and long-term awards.

These general industry guidelines suggest that the tolerance for risk-based variable compensation increases as asset size increases. This trend underscores the critical importance of developing appropriate incentive compensation plans that balance risk and reward to protect the safety and soundness of the institution. No plan should encourage imprudent risk taking for short-term gains that may expose the bank to long-term risks.

Secondly, Dodd-Frank mandates, as a best practice, the risk assessment of all compensation plans, especially variable plans that provide cash awards. Clawback provisions have become more common, especially as they relate to asset quality. Effective performance management mandates that a meaningful system be in place with well-documented accountability for the results that culminate in variable compensation awards, namely annual cash incentives and longer term vested awards such as stock appreciation rights (SARS) and stock options including options, restricted stock, and phantom stock.

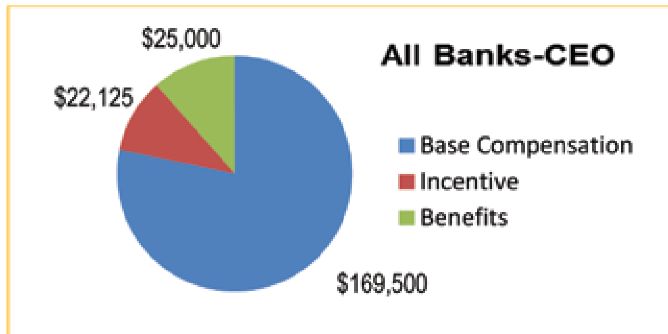
Wipfli has recently released the results of its annual Executive Officer and Directors Compensation Survey, produced for the past eight consecutive years. The survey spans Minnesota, Wisconsin, and Illinois. This year 107 banks participated. Among the findings are the following key points for consideration as boards plan 2014 President/CEO compensation:

• Asset size remains the most significant and reliable demographic sort for banks.

• The median base compensation for the President/CEO role experienced flat growth for 2013 versus 2012 and, in some cases, experienced a decline.

• Relative to total compensation, banks with assets in excess of $500M demonstrated a 24.7 percent increase in compensation for 2013 versus 2012.

• The total cash compensation for the President/CEO role for all banks increased 9.7 percent for 2013 versus 2012.



Source: Wipfli's 2013 Executive Officer & Director Compensation & Benefits Survey for Community Banks

• 39 percent of respondents base annual incentive/bonus on a combination of formula and discretionary determinants, whereas only 18 percent base it strictly on a formula.

• 99 percent of participating banks offer a qualified retirement plan with a 5 percent average annual contribution.

• 52 percent provide a company car/allowance and 61 percent sponsor cell phone/smartphone expense.

As the 2013 year-end approaches, board Compensation Committees are well served to provide the needed attention to executive compensation to ensure the retention of key talent in a highly competitive marketplace. Total compensation best practices begin with effective plan design to encompass each compensation component discussed above as aligned with the strategic plan. In addition, an annual formal evaluation of the CEO against the goals established at the beginning of the year aids in better ensuring the appropriate award of incentives for financial institution performance.

Terry Saber is a partner at Wipfli and can be reached tsaber@wipfli.com.

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

Federal Reserve Bank analysis of parent-company-only financial statements

By Michelle Weatherson and Paul Ljung, Federal Reserve Bank of Minneapolis, and Kathy Mai-Vu, Federal Reserve Bank of San Francisco

This article offers a glimpse into some of the analysis being performed on the FR Y-9SP, Parent Only Financial Statements for Small Holding Companies, and the FR Y-9LP, Parent Only Financial Statements for Large Holding Companies, and discusses how the Reserve Bank identifies possible errors on them and other regulatory reports. All of the interested stakeholders benefit when these reports are submitted accurately and timely because it minimizes corrections and follow-ups. Also, because the reports are readily available to the public, the data are more reliable for users.

Although the FR Y-9SP/LP reports are not overly complex in terms of the data collected, some accounting and reporting issues are encountered from time to time. Federal Reserve analysts perform period-to-period consistency checks and verify that the data and any edit explanations provided are consistent with accounting rules and reporting interpretations. In addition, analysts rely on other data sources such as the Call Report, structure reports, and SEC reports, if available, to enhance data accuracy.

Several items on the FR Y-9SP/LP reports ought to reconcile with Call Report data. The following examples assume that a holding company owns 100 percent of the bank subsidiary's equity. In cases of less than 100 percent ownership, a pro-rata calculation is used.

- The HC's dividend income from its bank subsidiary (SP: Schedule SI item 1a, LP: Schedule PI item 1a1) should equal the bank subsidiary's declared dividends (Schedule RI-A items 8 and 9)
- The HC's equity in undistributed earnings of its bank subsidiary (SP: Schedule SI item 12a, LP: Schedule PI item 7a) should equal the bank subsidiary's net income/(loss) less any declared dividends (Schedule RI item 12 less Schedule RI-A items 8 and 9)
- The HC's equity investment in its bank subsidiary (SP: Schedule SC item 4a, LP: Schedule PC-A item 1a1) should equal the bank subsidiary's total equity capital (Schedule RC item 28).
- The HC's accumulated other comprehensive income (SP: Schedule SC item 16d, LP: Schedule PC item 20e) should equal the bank subsidiary's accumulated other comprehensive income (Schedule RC item 26b) plus/minus any adjustments for assets held at the HC or at consolidated nonbank subsidiaries that are subject to AOCI.

Also, the HC's consolidated total assets (SP: Schedule SC-M item 1), should reflect the bank subsidiary's total assets, regardless of percentage ownership, plus any assets held directly by the HC and any consolidated nonbank subsidiaries.

Some line items on the FR Y-9SP/LP reports also provide for a cross-check with the FR Y-10 and FR Y-6 structure reports. Because the equity method of accounting is used, discrepancies between the FR Y-9SP/LP reports and Call Report data may indicate that an FR Y-10 report should be filed to report a change in ownership percentage. In addition, other items on Schedule SC and Schedule SC-M may have balances that indicate the HC has commenced or ceased some nonbanking activities. Reserve Bank staff cross-check this information with organizational structure data reported on the FR Y-10 report. If the nonbanking company or activity does not coincide with the FR Y-9SP/LP report data, a follow-up call is made to request an FR Y-10 report or revisions to the FR Y-9SP/LP report.

The Statistical & Structure Reporting section at the Federal Reserve Bank of Minneapolis works to ensure that accurate and timely data are collected in accordance with the regulations and reporting instructions. The Federal Reserve Bank of Minneapolis conducts outreach to educate HCs and to help ensure more accurate and timely reporting, particularly when there are changes to reporting forms. Some of these outreach efforts include:

- "Ask the Fed" sessions and webinars on various reporting topics,
- Announcements of Federal Register publications describing proposed reporting form or accounting changes, and
- Quarterly letters highlighting implemented changes to report forms and updated report instructions.

Staff at the Federal Reserve Bank of Minneapolis is available to assist HCs with any reporting questions. You can contact the Statistics & Structure Reporting section at the Federal Reserve Bank of Minneapolis at mpls.statistics@mpls.frb.org, (612) 204-6445, or (888) 887-0926 if calling from outside the Minneapolis/St. Paul metropolitan area. ▯

Holding Company Transaction Report

Here are selected transactions from September, October and November 2013 published by the Federal Reserve Banks of Chicago, Minneapolis and Kansas City.

▷ Larch Bancorporation Inc., Larchwood, Iowa, granted a waiver of application to acquire Security Savings Bank, Canton, S.D., an interim bank formed to merge with Larch's subsidiary, Security Savings Bank, Larchwood, to facilitate the conversion of its state charter from Iowa to South Dakota.

▷ Central Bank, Storm Lake, Iowa, filed to purchase 7 branches of Liberty Bank, FSB, West Des Moines, Iowa.

▷ D. Robert Downing, Indianola, Iowa, filed to gain control of Central South Bancorporation, Inc., Indianola, Iowa, and thereby Peoples Savings Bank, Indianola.

▷ Hinsdale Bank & Trust Company, Hinsdale, Ill., filed to purchase a branch in Elmhurst, Ill., from North Shore Community Bank & Trust Company, Wilmette, Ill.

▷ Iowa State Bank, Hull, Iowa, filed to merge with Iowa State Bank, Remsen, Iowa. As a result, Iowa State Bank will establish a branch in Remsen.

▷ Notice of Change in Bank Control filed by E. David Locke and others, all of Middleton, Wis., to acquire a controlling interest in Northern Bankshares, Inc., McFarland, Wis., and its subsidiary, McFarland State Bank, McFarland.

▷ Abdo Investments, Inc., Edina, Minn., filed to increase its ownership interest to 28 percent of Rivers Ridge Holding Company, Edina, which owns BankVista, Sartell, Minn.

▷ Choice Financial Holdings, Inc., Grafton, N.D., filed to acquire Great Plains National Bank, Belfield, N.D.

▷ Independent Bancshares, Inc., Clarkfield, Minn., filed to acquire The Citizens State Bank of Olivia, Minn.

▷ Lake Shore III Corporation, Glenwood City, Wis., filed to acquire Union Bank of Blair, Wis.

▷ Peoples Bank of Wisconsin, Hayward, Wis., filed to merge with Summit Community Bank, Maplewood, Minn., and establish a branch.

▷ Banner County Ban Corporation Employee Stock Plan and Trust filed to acquire up to an additional 11.17 percent for a total of 40.78 percent of Banner County Ban Corporation, parent of Banner Capital Bank, all of Harrisburg, Neb.

▷ Enterprise Bank, N.A., Omaha, Neb., filed to retain its membership in the Federal Reserve System following its conversion from a national to a state charter.

▷ Farmers State Bank, Wallace, Neb., filed to establish a branch in North Platte, Neb.

▷ Geneva State Company, Geneva, Neb., filed to acquire Riverdale Bancshares, Inc., parent of State Bank of Riverdale, both in Riverdale, Neb.

▷ American Heritage Holding Company, Saint Cloud, Minn., authorized to become a bank holding company by acquiring American Heritage National Bank, Long Prairie, Minn.

▷ Forstrom Bancorporation, Inc., Clara City, Minn., authorized to acquire First Bank of Lincoln, Mont.

▷ Elkton Holding Company, Elkton, S.D., filed to acquire The First National Bank of Volga, S.D.

▷ Notice filed by the Richard W. Agee Marital Trust and others, all of Lincoln, Neb., to acquire control of First of Minden Financial Corporation, parent of First Bank and Trust Company, both in Minden, Neb.

▷ Dairy State Bancorp, Inc., Rice Lake, Wis., filed to acquire Bank of Turtle Lake, Wis.

▷ Pioneer Bank, Mapleton, Minn., filed to merge with Farmers State Bank of Madelia, Inc., Madelia, Minn., and establish branches in Madelia and Lewisville, Minn.

▷ Coffeyville Bancorp, Inc., Coffeyville, Kan., authorized to acquire Coffeyville Financial Corporation, Omaha, Neb., and its subsidiary, Condon Bank & Trust, Coffeyville, Kan.

▷ Jay D. Bergman, Joliet, Ill., filed to acquire up to 100 percent of Community Holdings Corp., Palos Hills, Ill.

▷ MB Financial, Inc., Chicago, filed to merge with Taylor Capital Group, Inc., Rosemont, Ill., and thereby acquire Cole Taylor Bank, Chicago.

▷ Midland States Bancorp, Inc., Effingham, Ill., filed to acquire Heartland Bank, St. Louis. Also Midland States Bank, Effingham, filed to merge with Heartland Bank, St. Louis, and to retain the acquired facilities as branches.

▷ James M. and Devon J. Goetz Family Trust Four filed to acquire 39.53 percent of Oliver Bancorporation, Inc., Center, N.D., and thereby acquire Security First Bank of North Dakota, New Salem, N.D.

▷ Summerfield Financial Services, LLC, Lincoln, Neb., filed to acquire State Bank of Chester, Neb.

▷ Wintrust Financial Corp., Rosemont, Ill., authorized to merge with Diamond Bancorp, Inc., Schaumburg, and acquire Diamond Bank, FSB, and thereby operate a savings association; and for Wintrust Financial's subsidiary, North Shore Community Bank & Trust Company, Wilmette, to merge with Diamond Bank and establish branches.

▷ Cedar Rapids Bank and Trust Company, Cedar Rapids, Iowa, authorized to merge with Community National Bank, Waterloo, and thereby establish branches.

NEBRASKA BANK HOLDING COMPANIES

HOLDING COMPANY, LOCATION Subsidiary Bank, Location	CONSOLIDATED ASSETS*	SUBSIDIARY ASSETS*
1.FIRST NATIONAL OF NEBRASKA, INC., OMAHA	**15,466,494**	
FIRST NATIONAL BANK, NORTH PLATTE		458,272
FIRST NATIONAL BANK OF OMAHA		13,762,924
FIRST NATIONAL BANK SOUTH DAKOTA, YANKTON, SD		370,627
FIRST NATIONAL BANK & TRUST CO. OF COLUMBUS		437,693
FREMONT NATIONAL BANK AND TRUST CO., FREMONT		312,333
PLATTE VALLEY STATE BANK AND TRUST CO., KEARNEY		428,030
2.PINNACLE BANCORP, INC., CENTRAL CITY	**7,491,515**	
BANK OF COLORADO, FORT COLLINS, CO		2,479,763
PINNACLE BANK, KEENE, TX		569,137
PINNACLE BANK, LINCOLN		3,743,314
PINNACLE BANK – WYOMING, TORRINGTON, WY		671,099
3.FARMERS & MERCHANTS INV., INC., LINCOLN	**2,702,550**	
UNION BANK AND TRUST CO., LINCOLN		2,648,424
4.AMERICAN NATIONAL CORP., OMAHA	**2,464,835**	
AMERICAN NATIONAL BANK, OMAHA		2,022,178
WESTERN BANK, N.A., SAINT PAUL, MN		439,253
5.LAURITZEN CORP., OMAHA	**1,721,768**	
HOUGHTON STATE BANK, RED OAK, IA		163,189
SHELBY COUNTY STATE BANK, HARLAN, IA		245,925
WASHINGTON COUNTY BANK, BLAIR		301,904
YORK STATE BANK, YORK		138,960
6.FIRST YORK BAN CORP., YORK	**1,224,442**	
CORNERSTONE BANK, YORK		1,224,390
7.HOMETOWN BANC CORP, GRAND ISLAND	**1,078,518**	
FIVE POINTS BANK OF HASTINGS		233,159
FIVE POINTS BANK, GRAND ISLAND		844,850
8.SECURITY NATIONAL CORP., OMAHA	**765,320**	
SECURITY NATIONAL BANK OF OMAHA		765,320
9.PLATTE VLY FIN'L SVCS CO., INC. , SCOTTSBLUFF	**725,597**	
PLATTE VALLEY BANK, TORRINGTON, WY		224,576
PLATTE VALLEY BANK, SCOTTSBLUFF		435,417
TRI-COUNTY BANK, CHEYENNE, WY		61,597
10.FEO INVESTMENTS, INC., NORFOLK	**595,046**	
ELKHORN VALLEY BANK & TRUST, NORFOLK		595,039
11.ADBANC, INC., OGALLALA	**589,829**	
ADAMS BANK & TRUST, OGALLALA		575,261
12.MIDWEST BANC HOLDING CO., PIERCE	**576,754**	
MIDWEST BANK N.A., PIERCE		574,390
13.HERITAGE GROUP, INC. , AURORA	**572,717**	
HERITAGE BANK, WOOD RIVER		572,237
14.FIRST NEBRASKA BANCS, INC., SIDNEY	**546,912**	
POINTS WEST COMMUNITY BANK, JULESBURG, CO		202,898
POINTS WEST COMMUNITY BANK, SIDNEY		340,252
15.NEBRASKALAND FIN'L SVCS, INC., NO. PLATTE	**495,218**	
NEBRASKALAND NATIONAL BANK, NORTH PLATTE		491,577
16.COUNTRY BANK SHARES, INC., MILFORD	**494,247**	
FARMERS AND MERCHANTS BANK, MILFORD		493,786
17.EXCHANGE CO., KEARNEY	**476,637**	
EXCHANGE BANK, GIBBON		471,064
18.FRONTIER HOLDINGS, LLC , OMAHA	**467,979**	
FRONTIER BANK, MADISON		202,978
PENDER STATE BANK, PENDER		147,466
RICHARDSON COUNTY BANK & TRUST CO., FALLS CITY		119,429
19.CORNHUSKER GROWTH CORP., LINCOLN	**410,207**	
CORNHUSKER BANK, LINCOLN		409,367
20.FIRST STATE HOLDING CO., LINCOLN	**392,289**	
FIRST STATE BANK NEBRASKA, LINCOLN		388,943
21.C.S.B. CO., COZAD	**383,988**	
FIRST NATIONAL BANK OF CHADRON		121,770
HOMESTEAD BANK, COZAD		261,308
22.WEST POINT BANCORP, INC. , WEST POINT	**379,983**	
F&M BANK, WEST POINT		251,564
TOWN & COUNTRY BANK, LAS VEGAS, NV		126,355
23.WEST GATE BANSHARES, INC. , LINCOLN	**373,615**	
WEST GATE BANK, LINCOLN		368,689
24.CITIZENS NATIONAL CORP., WISNER	**359,841**	
CITIZENS STATE BANK, WISNER		325,286
25.FIRST STATE BANCSHARES, INC., SCOTTSBLUFF	**344,839**	
FIRST STATE BANK, SCOTTSBLUFF		229,020
SECURITY FIRST BANK, CHEYENNE, WY		65,668
26.FIRST EXPRESS OF NEBRASKA, INC. , GERING	**325,978**	
VALLEY BANK AND TRUST CO., SCOTTSBLUFF		325,677
27.MNB FINANCIAL GROUP, INC., MCCOOK	**305,438**	
MCCOOK NATIONAL BANK, MCCOOK		303,849
28.BRUNING BANCSHARES, INC., BRUNING	**297,958**	
BRUNING STATE BANK, BRUNING		296,286
29.NORTH CENTRAL BANCORP, INC., NORFOLK	**292,732**	
BANKFIRST, NORFOLK		290,873
30.DS HOLDING CO., INC., OMAHA	**290,621**	
CORE BANK , OMAHA		279,900
31.FIRST GOTHENBURG BNCSHS, INC., GOTHENBURG	**282,465**	
FIRST STATE BANK, GOTHENBURG		282,017
32.MIDWEST BANCO CORP., COZAD	**277,351**	
FIRST BANK AND TRUST CO., COZAD		276,478
33.FARM & HOME INSURANCE AGENCY, INC., LYONS	**274,559**	
FIRST NATIONAL BANK NORTHEAST, LYONS		272,305
34.GENEVA STATE CO., GENEVA	**266,159**	
GENEVA STATE BANK, GENEVA		259,840
35.VALLEY BANK SHARES, INC., VALLEY	**266,063**	
FIRST NEBRASKA BANK, VALLEY		265,287
36.AMFIRST FINANCIAL SERVICES, INC., MCCOOK	**246,089**	
AMFIRST BANK, N.A., MCCOOK		244,529
37.AMERIWEST CORP., OMAHA	**241,058**	
FIRST WESTROADS BANK, INC., OMAHA		230,176
38.JONES NATIONAL CORP., SEWARD	**231,058**	
JONES NATIONAL BANK AND TRUST CO. OF SEWARD		231,057
FIRST STATE FREMONT, INC., FREMONT		222,144
FIRST STATE BANK & TRUST CO., FREMONT		213,113
39.CATTLE CROSSING, INC. , SEWARD	**211,741**	
CATTLE NATIONAL BANK & TRUST CO., SEWARD		210,454
40.BANK MANAGEMENT, INC., WAHOO	**205,678**	
FIRST NATIONAL BANK OF WAHOO		205,173
41.ENTERPRISE HOLDING CO., OMAHA	**205,323**	
ENTERPRISE BANK, N.A., OMAHA		204,313
42.COMMFIRST BANCORP., INC., SOUTH SIOUX CITY	**203,556**	
IOWA-NEBRASKA STATE BANK, SOUTH SIOUX CITY		203,160
43.LAURITZEN INVESTMENTS, INC., OMAHA	**203,250**	
FARMERS AND MERCHANTS STATE BANK, BLOOMFIELD		117,723
44.NATIONWIDE BANKSHARES, INC., WEST POINT	**195,518**	
CHARTER WEST NATIONAL BANK, WEST POINT		195,158
45.VIKING CORP., OMAHA	**189,503**	
CRAWFORD CTY TRUST AND SAVINGS BANK, DENISON, IA		126,925
LANDMANDS BANK, AUDUBON, IA		61,223
46.3MV BANCORP, INC., OMAHA	**186,435**	
ACCESS BANK, OMAHA		186,390
47.FIRST CENTRAL NEBRASKA CO., BROKEN BOW	**181,962**	
NEBRASKA STATE BANK AND TRUST CO., BROKEN BOW		181,697
48.HENDERSON STATE CO., HENDERSON	**181,073**	
HENDERSON STATE BANK, HENDERSON		178,045
49.TCM CO., CRETE	**176,330**	
CITY BANK & TRUST CO., LINCOLN		175,747
50.FIRST LAUREL SECURITY CO., LAUREL	**173,592**	
SECURITY BANK, LAUREL		170,573
51.CENTRAL BANCSHARES, INC., CAMBRIDGE	**170,080**	
FIRST CENTRAL BANK, CAMBRIDGE		85,917
FIRST CENTRAL BANK MCCOOK		82,614
52.ISHAM MANAGEMENT CO., GORDON	**166,124**	
FIRST NATIONAL BANK OF GORDON		165,302
53.FIRST KENESAW CO., KENESAW	**164,477**	
ADAMS COUNTY BANK, KENESAW		164,364
54.MINDEN EXCHANGE CO., MINDEN	**149,057**	
MINDEN EXCHANGE BANK & TRUST CO., MINDEN		149,057
55.PLATTE VALLEY CATTLE CO., GRAND ISLAND	**148,529**	
TOWN & COUNTRY BANK, RAVENNA		148,256
56.NBC BANCSHARES LLC, LINCOLN	**145,212**	
MOUNTAIN VIEW BANK OF COMMERCE, WESTMINSTER, CO		58,095
NEBRASKA BANK OF COMMERCE, LINCOLN		85,072
57.PATHWAY BANCORP, CAIRO	**144,426**	
PATHWAY BANK, CAIRO		145,157

*Source: Regulatory financial reports filed by bank holding companies and banks, data as of June 30, 2013. *Dollar amounts in thousands*

NEBRASKA BANK HOLDING COMPANIES

HOLDING COMPANY, LOCATION / Subsidiary Bank, Location	CONSOLIDATED ASSETS*	SUBSIDIARY ASSETS*
58.FIRST NATIONAL FAIRBURY CORP., FAIRBURY	144,245	
FIRST NATIONAL BANK OF FAIRBURY		144,228
59.LOOMIS CO., OMAHA	140,987	
FIRST STATE BANK, LOOMIS		139,205
60.STATE NATIONAL BANCSHARES, INC., WAYNE	137,139	
STATE NATIONAL BANK & TRUST CO., WAYNE		137,139
61.ARLINGTON STATE BANC HOLDING CO., BLAIR	137,065	
TWO RIVERS STATE BANK, BLAIR		137,065
62.FINANCIAL BANCSHARES, INC. , LA VISTA	137,043	
BANK OF NEBRASKA, LA VISTA		137,044
63.PREMIER BANCSHARES, INC., OMAHA	132,740	
PREMIER BANK, OMAHA		132,740
64.MACKEY BANCO, INC., ANSLEY	132,691	
SECURITY STATE BANK, ANSLEY		131,171
65.FIRST BEEMER CORP., BEEMER	126,263	
FIRST COMMUNITY BANK, BEEMER		125,454
66.WILLIAMS FINANCIAL CORP., GOTHENBURG	123,308	
GOTHENBURG STATE BANK AND TRUST CO., GOTHENBURG		122,344
67.SANDHILLS FINANCIAL SERVICES, LLC, BASSETT	123,088	
SANDHILLS STATE BANK, BASSETT		122,938
68.BELLWOOD COMMUNITY HLDNG CO., BELLWOOD	122,278	
BANK OF THE VALLEY, BELLWOOD		122,346
69.AMERICAN INTERSTATE BANCORP., INC., OMAHA	121,395	
AMERICAN INTERSTATE BANK, ELKHORN		111,496
70.BBJ INCORPORATED, ORD	117,356	
FIRST NATIONAL BANK IN ORD		117,262
71.AMBAGE, INC., WEST POINT	113,230	
F&M BANK, FALLS CITY		113,108
72.BANNER CITY BAN CORP., HARRISBURG	111,558	
BANNER CAPITAL BANK, HARRISBURG		111,574
73.FIRST HOLDREGE BANCSHARES, INC., HOLDREGE	110,108	
FIRST NATIONAL BANK OF HOLDREGE		110,108
74.CAMPBELL STATE CO., LINCOLN	107,697	
SOUTH CENTRAL STATE BANK, CAMPBELL		107,697
75.COFFEYVILLE FINANCIAL CORP., OMAHA	103,210	
CONDON BANK & TRUST, COFFEYVILLE, KS		103,210
76.UNIBANC CORP., MAYWOOD	101,618	
FARMERS STATE BANK, MAYWOOD		101,220
77.REPUBLIC CORP., OMAHA	97,613	
UNITED REPUBLIC BANK, OMAHA		97,614
78.COMMERCIAL INVESTMENT CO., INC., AINSWORTH	96,595	
WEST PLAINS BANK, AINSWORTH		96,355
79.FARMERS STATE BANCSHARES, INC., DODGE	96,342	
FARMERS STATE BANK, DODGE		86,310
80.DONIPHAN BANCSHARES, INC., DONIPHAN	95,955	
BANK OF DONIPHAN		95,955
81.AMERICAN NATIONAL SIDNEY CORP., SIDNEY	92,101	
AMERICAN NATIONAL BANK OF SIDNEY		86,115
82.RIVERDALE BANCSHARES, INC., RIVERDALE	90,661	
STATE BANK OF RIVERDALE		90,661
83.TILDEN BANCSHARES, INC., TILDEN	90,149	
TILDEN BANK, TILDEN		80,987
84.BANCOOK CORP., COOK	89,701	
FARMERS BANK OF COOK		85,357
85.TRI-COUNTY CO., STUART	87,467	
TRI-COUNTY BANK, STUART		87,345
86.SCHNEIDER BANCORP., PLATTSMOUTH	85,297	
PLATTSMOUTH STATE BANK, PLATTSMOUTH		84,167
87.BSB BANCSHARES, INC., BRUNSWICK	83,542	
BRUNSWICK STATE BANK, BRUNSWICK		83,542
88.CYPRESS CORP., OMAHA	82,746	
SIBLEY STATE BANK, SIBLEY		82,654
89.KINGSBURY BDC FIN'L SERVICES, INC., PONCA	80,690	
BANK OF DIXON COUNTY, PONCA		80,685
90.FIRST OF MINDEN FINANCIAL CORP., MINDEN	80,127	
FIRST BANK AND TRUST CO., MINDEN		78,552
91.WAUSA BANSHARES, INC., WAUSA	79,597	
COMMERCIAL STATE BANK, WAUSA		78,473
92.UB, INC., UNADILLA	77,435	
COUNTRYSIDE BANK, UNADILLA		77,434
93.FIRST NAT'L JOHNSON BNCSHRS, INC. ,JOHNSON	76,641	
FIRST NATIONAL BANK OF JOHNSON		75,045
94.LOUISVILLE CO., LOUISVILLE	76,564	
HOME STATE BANK, LOUISVILLE		76,240
95.PEOPLES BANCORP., RED CLOUD	72,484	
PEOPLES-WEBSTER COUNTY BANK, RED CLOUD		72,484
96.VALPARAISO ENTERPRISES, INC., VALPARAISO	70,173	
OAK CREEK VALLEY BANK, VALPARAISO		70,313
97.FARMERS AND MERCHANTS FIN'L CORP., ASHLAND	69,810	
FARMERS AND MERCHANTS BANK OF ASHLAND		69,794
98.HILLTOP BANCSHARES, INC., BENNINGTON	69,766	
BANK OF BENNINGTON		69,641
99.FIRST NATIONAL HOLDING CO., INC., FULLERTON	69,452	
FIRST BANK AND TRUST OF FULLERTON		68,815
100.HOHL FINANCIAL, INC., WAHOO	69,152	
WAHOO STATE BANK, WAHOO		68,738
101.NEBANCO, INC., WALLACE	68,266	
FARMERS STATE BANK, WALLACE		50,409
102.CEDAR BANCORP., HARTINGTON	67,143	
BANK OF HARTINGTON		67,101
103.SCRIBNER BANSHARES, INC., SCRIBNER	65,109	
SCRIBNER BANK, SCRIBNER		64,845
104.PLATTE VALLEY BANCORP, INC., NORTH BEND	64,977	
PLATTE VALLEY BANK, NORTH BEND		64,976
105.WESTERN BANCSHARES, INC., CURTIS	64,029	
WESTERN NEBRASKA BANK, CURTIS		64,029
106.KEYSTONE INVESTMENT, INC., KEYSTONE	61,867	
BANK OF KEYSTONE, KEYSTONE		61,768
107.COMM. STATE HOLDING CO., INC., REPUB. CITY	60,305	
COMMERCIAL STATE BANK, REPUBLICAN CITY		60,151
108.CHAMBANCO, INC., CHAMBERS	60,014	
CHAMBERS STATE BANK, CHAMBERS		40,605
FARMERS STATE BANK, EWING		19,101
109.FIRST NATIONAL UTICA CO., UTICA	59,780	
FIRST BANK OF UTICA		59,166
110.AMERIGROUP, INC., HERSHEY	59,012	
HERSHEY STATE BANK, HERSHEY		58,991
111.WHEELER COUNTY BANCSHARES, INC., ERICSON	58,530	
ERICSON STATE BANK, ERICSON		58,513
112.CLARKSON MANAGEMENT CO., CLARKSON	58,167	
CLARKSON BANK, CLARKSON		58,153
113.DUROC INVESTMENT CO., TABLE ROCK	56,565	
STATE BANK OF TABLE ROCK		56,330
114.THAYER AGENCY, INC., HEBRON	56,446	
THAYER COUNTY BANK, HEBRON		56,437
115.FOUNDATION FIRST CORP., OMAHA	56,204	
FOUNDATION FIRST BANK, WATERLOO		55,607
116.SWANTON AGENCY, INC. , SWANTON	55,870	
FIRST TRI-COUNTY BANK, SWANTON		55,852
117.ANTELOPE BANCSHARES, INC., ELGIN	55,163	
BANK OF ELGIN		55,163
118.F M CO., KEARNEY	54,039	
FARMERS AND MERCHANTS BANK, MILLIGAN		53,433
119.FIRST STATE BANCORP, INC, RANDOLPH	50,820	
FIRST STATE BANK, RANDOLPH		50,815
120.FRANKLIN STATE BANCSHARES, INC., FRANKLIN	50,463	
FRANKLIN STATE BANK, FRANKLIN		50,463
121.CERESCO BANCORP, INC., CERESCO	50,396	
CERESCOBANK, CERESCO		43,957
122.SIOUXLAND NATIONAL CORP., SO. SIOUX CITY	50,342	
SIOUXLAND NATIONAL BANK, SOUTH SIOUX CITY		50,336
123.NEBRASKA BANKSHARES, INC., FARNAM	49,882	
FIRST STATE BANK, FARNAM		49,496
124.FARMERS BANCSHARES, INC., NEBRASKA CITY	49,575	
FARMERS BANK & TRUST CO., NEBRASKA CITY		48,961
125.CASS COUNTY STATE CO., PLATTSMOUTH	48,131	
CASS COUNTY BANK, PLATTSMOUTH		47,935

*Data as of data as of June 30, 2013.*Dollar amounts in thousands*

NEBRASKA BANK HOLDING COMPANIES

HOLDING COMPANY, LOCATION Subsidiary Bank, Location	CONSOLIDATED ASSETS*	SUBSIDIARY ASSETS*
126.O & F CATTLE CO., OSHKOSH	47,651	
NEBRASKA STATE BANK, OSHKOSH		47,616
127.CEDAR FINANCIAL HOLDING, INC., FORDYCE	47,536	
CEDAR SECURITY BANK, FORDYCE		47,536
128.STAMFORD BANCO, INC., STAMFORD	47,520	
COMMUNITY BANK, ALMA		47,103
129.AMERICAN EXCHANGE CO., ELMWOOD	46,803	
AMERICAN EXCHANGE BANK, ELMWOOD		40,558
130.BUTTE STATE CO., BUTTE	46,182	
BUTTE STATE BANK, BUTTE		41,531
131.SWEDLUND MANAGEMENT CO., MURRAY	44,750	
MURRAY STATE BANK, MURRAY		48,278
132.JEFFERSON COUNTY BANCSHARES, INC., DAYKIN	44,731	
JEFFERSON COUNTY BANK, DAYKIN		44,719
133.BYRON STATE, INC., BYRON	43,680	
BYRON STATE BANK, BYRON		43,667
134.SPRINGFIELD BANK CO., INC., SPRINGFIELD	43,263	
SPRINGFIELD STATE BANK, SPRINGFIELD		43,256
135.C L C ENTERPRISES, INC., NELSON	43,114	
COMMERCIAL BANK OF NELSON		38,032
136.FIRST NATIONAL AGENCY, INC, WAYNE	42,926	
FIRST NEBRASKA BANK OF WAYNE		41,761
137.WOODSTOCK LAND AND CATTLE CO., FULLERTON	42,874	
FULLERTON NATIONAL BANK, FULLERTON		38,791
138.EBERLY INVESTMENT, CO., STANTON	41,924	
STANTON STATE BANK, STANTON		41,583
139.LINDSAY STATE CO., LINDSAY	38,552	
BANK OF LINDSAY		38,435
140.CLARK BANCSHARES, INC., CLARKS	38,388	
BANK OF CLARKS		38,129
141.FIRST NEWMAN GROVE BANKSHARES CORP.	37,189	
BANK OF NEWMAN GROVE		37,188
142.ENEVOLDSEN MANAGEMENT CO., POTTER	36,941	
POTTER STATE BANK OF POTTER		36,942
143.SUMMERFIELD FIN'L SERVICES, LLC, LINCOLN	36,193	
WESTERN NATIONAL BANK, SUMMERFIELD, KS		36,051
144.TRI VALLEY BANCHARES, INC., TALMAGE	35,927	
TRI VALLEY BANK, TALMAGE		35,927
145.FIRSTAND CO., HORDVILLE	35,230	
FIRST STATE BANK, HORDVILLE		35,174
146.MARQUETTE NATIONAL CO., MARQUETTE	34,636	
BANK OF MARQUETTE		34,829
147.MALMO BANCORP, INC., MALMO	34,556	
SECURITY HOME BANK, MALMO		34,535
148.CEDAR RAPIDS STATE CO., CEDAR RAPIDS	34,090	
CEDAR RAPIDS STATE BANK, CEDAR RAPIDS		33,685
149.HILDRETH STATE CO., INC., HILDRETH	32,883	
STATE BANK OF HILDRETH		32,875
150.RAE VALLEY FINANCIALS, INC. , PETERSBURG	32,121	
PETERSBURG STATE BANK, PETERSBURG		32,117
151.EMSWATER FINANCIAL, LLC, EXETER	31,684	
GENERATIONS BANK, EXETER		30,799
152.MCHUGH INVESTMENT CO., MURDOCK	29,244	
CORN GROWERS STATE BANK, MURDOCK		28,049
153.HASSENSTAB MANAGEMENT CO., INC., HUMPHREY	29,198	
FARMERS STATE BANK, HUMPHREY		29,074
154.ORCHARD BANCORP, ORCHARD	28,476	
BANK OF ORCHARD		25,210
155.SELKO BANCO, INC., MEAD	27,862	
BANK OF MEAD		27,560
156.BATTLE CREEK STATE CO., INC., BATTLE CREEK	27,840	
BATTLE CREEK STATE BANK, BATTLE CREEK		27,494
157.CHESTER INSURANCE AGENCY, INC., CHESTER	27,786	
STATE BANK OF CHESTER		27,768
158.S. & S. INVESTMENT CO., ODELL	27,122	
STATE BANK OF ODELL		26,999
159.LISCO STATE CO., LISCO	27,025	
LISCO STATE BANK, LISCO		18,099
160.CARROLL BANCORP., CARROLL	26,790	
FARMERS STATE BANK, CARROLL		26,634
161.WINSIDE BANCSHARES, INC., WINSIDE	24,281	
WINSIDE STATE BANK, WINSIDE		24,282
162.LEWELLEN NATIONAL CORP., LEWELLEN	24,119	
BANK OF LEWELLEN		24,115
163.STAPLETON INVESTMENT CO., STAPLETON	22,712	
BANK OF STAPLETON		22,684
164.PRAGUE CO., VALLEY	22,147	
BANK OF PRAGUE		22,118
165.LOUP VALLEY BANCSHARES, INC. , NORTH LOUP	21,782	
NORTH LOUP VALLEY BANK, NORTH LOUP		21,084
166.WALLCO, INC., NEHAWKA	18,260	
NEHAWKA BANK, NEHAWKA		18,259
167.CARLETON AGENCY, INC., CARLETON	17,530	
CITIZENS STATE BANK, CARLETON		17,517
168.EAGLE BANCSHARES, INC., EAGLE	17,169	
EAGLE STATE BANK, EAGLE		17,167
169.JDJ BANCO, INC., LYNCH	13,884	
NEBRASKA STATE BANK, LYNCH		13,884
170.STEINAUER BANCORP, STEINAUER	11,300	
BANK OF STEINAUER		11,300

Source: Regulatory financial reports filed by bank holding companies and banks, data as of June 30, 2013.
**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:

Dan M. Carey, President/CEO
VisionBank, Fargo, N.D.

Boyd Hopkins, President
Jack Hopkins, Vice President
Jeff Smith, CFO
Hopkins Financial Corp., Mitchell, S.D.

Tom Geiger, President
Heritage Bancshares Group, Willmar, Minn.

The BHCA: A UNIQUE VALUE
for bank owners, officers and directors

If you are a bank owner, the Bank Holding Company Association is the *right* organization for you. Whether your ownership consists of a few shares or 100 percent, you will find BHCA membership delivers unique value to bank owners like you.

Seminars

Members receive discounted registration fees on BHCA's annual Spring and Fall Seminars.
The BHCA seminars consistently deliver informative presentations from industry experts, consultants and analysts. They educate as well as entertain. Break-out sessions give seminar participants the opportunity to go in-depth on very specific topics to bank owners, such as succession planning, tax issues, merger and acquisition preparation, legal/accounting issues and more.

Networking

Get access to other bank owners.
One of the most valuable features of our twice-a-year seminars is the opportunity to visit with other bank owners between scheduled presentations.
It has been said that more merger and acquisition deals have been initiated at BHCA seminars than almost anywhere else.
No other group brings together so many bank owners from across the Upper Midwest.

Insight

Appreciate our regional focus.
With holding company members from Minnesota, Wisconsin, North Dakota, South Dakota, Iowa and Illinois, the BHCA brings together bank owners, directors and officers with common regional interests, but if you don't want to talk to a competitor, you can always find similarly-situated members from outside your holding company's trade area.

Access

Gain access to regulators.
BHCA frequently hosts events featuring representatives from the Federal Reserve, Federal Deposit Insurance Corp., Office of the Comptroller of the Currency, and state regulatory agencies.
Forums permit anonymous questions, as well as opportunities for you to visit directly with regulators.

Gain access to experts.
The BHCA features a healthy associate membership sector, providing bank owners with access to attorneys, accountants, investment professionals, consultants and others who can address virtually any need a bank owner may have.

Read what some long-time BHCA members have to say:

Serious, useful education…

"We chose to join BHCA in about 1990, shortly after we formed a new holding company to purchase a divested First Bank System bank in 1987. We were new at the process and thought that joining BHCA would be a great educational experience. Since that time several of us have managed to attend nearly every seminar.

Ideas we implemented from the seminars include mandatory retirement of both bank and holding company directors, general director responsibilities, audit and compliance committee ideas, and excellent presentations by economists over the years to assist us in funds management. And, of course, there is always the exchange of ideas with fellow bankers." *- Gary Paulson, First Holding Company, Park River, N.D.*

Bottom-line Impact…

"At the October 2008 seminar, one of the breakout speakers showed that Municipals were under-valued relative to Treasuries. Realizing the Fed would be lowering rates to zero sooner or later, we moved ALL our Fed Funds into Municipals — not longer than five years, and Midwest only. That locked in $70,000 of income per year. For a $40 million bank, that has made a difference." *- Douglas Farmer, Golden Oak Bancshares, Inc., Holmen, Wis.*

A great value…

"Our holding company is a charter member of the BHCA. The association provides excellent value as evidenced by the networking opportunities, top-notch speakers, and the wide range of educational opportunities available through the concurrent breakout sessions. In this day of aggressive cost-cutting, our BHCA membership is a certain renewal!" *- Pat Gates, Security Financial Services, Inc., Hibbing, Minn.*

Membership:

Annual dues to the Bank Holding Company Association range from $400 to $1,000 per year, depending on the size of your organization.

For more information, please call us at 952-835-2248 or 1-800-813-4754

www.theBHCA.org

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

Season's Greetings

The Bank Holding Company Association
extends its best wishes
for a wonderful holiday season
and much success in the new year.