

## Financial Institutions Group

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# West End Indiana Bancshares Inc. (OTC:WEIN)



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# West End Indiana Bancshares Inc. (OTC:WEIN)

## Desautels Capital Management

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- Theme #2: Upside Potential Driven By Oligopolistic Position and “Soft Skills”
- Theme #3: Ideal Acquisition Target With Strong Precedent For M&A
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## Section I

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# U.S. Regional Banks Primer

# U.S. Regional Banks Primer

U.S. Bank 101



# Bank 101

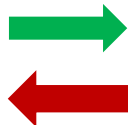
## Unique Business Model

### How Does the Business Work?

#### Liabilities – Interest Expense



**Depositors** give money to the bank to hold and receive a **small interest payment**



#### Assets – Interest Income



**Bank** gives money to people needing loans and receive a **larger interest payment**

### Business Model

- Bank acts as the **intermediary** between the depositor and the borrower
- Generates revenue by offering lower interest rates to the depositor and higher interest rate to the borrower
  - **Net Interest Margin**
- Bank bears the risk on their loans
  - Mitigated through diversification

### Types of Assets and Liabilities

- |  |  |
|--|--|
| <ul style="list-style-type: none"><li>▪ <b>Assets</b><ul style="list-style-type: none"><li>– Commercial loans</li><li>– Real Estate loans</li><li>– Other consumer loans (automobile, line of credit etc.)</li><li>– Federal Funds Sold</li><li>– Trading Assets</li><li>– PP&amp;E, Intangibles</li></ul></li></ul> | <ul style="list-style-type: none"><li>▪ <b>Liabilities</b><ul style="list-style-type: none"><li>– Bank deposits</li><li>– Interest bearing liabilities</li><li>– Federal Funds Purchased</li></ul></li></ul> |
|--|--|

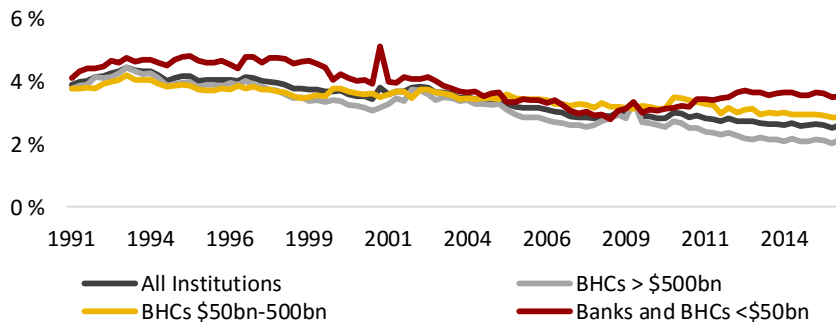
# Bank 101

## Key Terms & Trends

### Key Terms

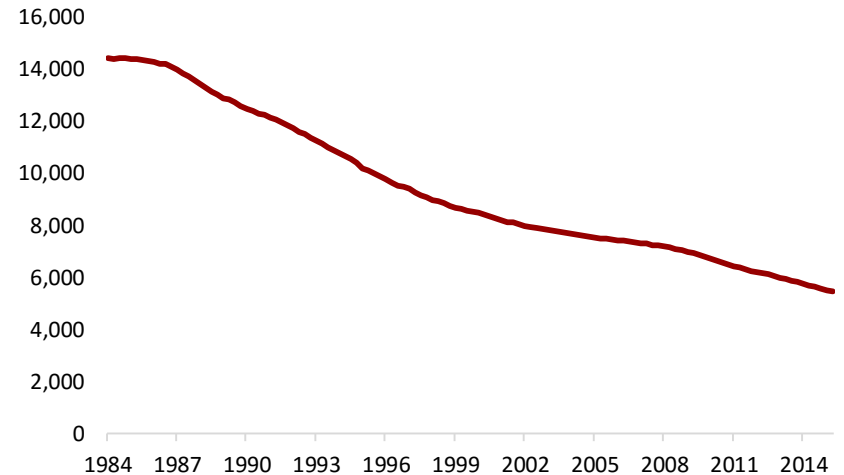
- **Fixed rate loan:** interest rate charge on the loan will remain fixed for that loan's entire term
- **Variable rate loan:** interest rate charged on the outstanding balance varies as market interest rates change
- **Loan loss provision:** expense set aside as an allowance for bad loans (customer defaults, renegotiated terms of loan)
- **Secondary market:** market where previously issues financial instruments are bought and sold
- **Return on assets:** how well management is employing the company's total assets to make a profit
- **Return on equity:** how much profit the company generates with the money shareholders have invested

### Net Interest Margin Trend

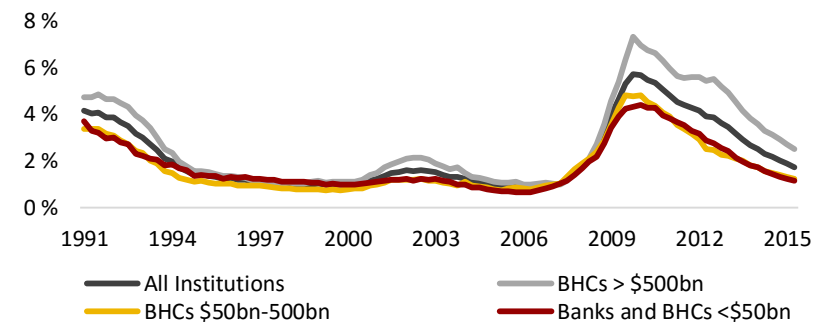


Source: Federal Financial Institutions Examination Council, Federal Reserve Bank of New York.

### Number of Commercial Banks in the U.S.



### Non-Performing Loan Trend



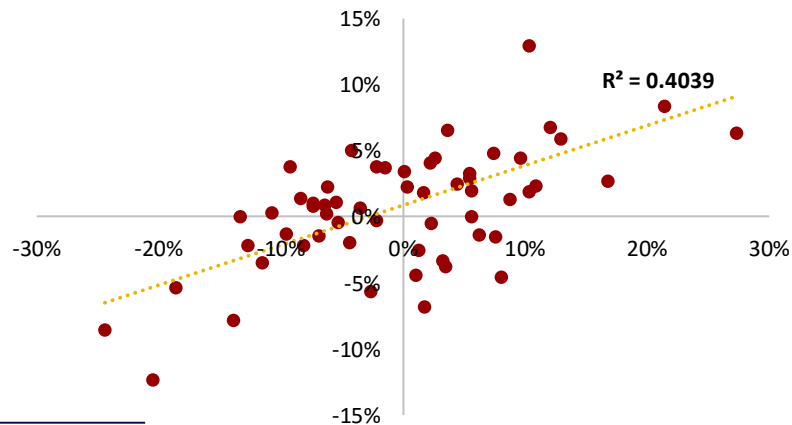
# Bank 101

## Interest Rate Sensitivity

### Importance of Long Term Interest Rates

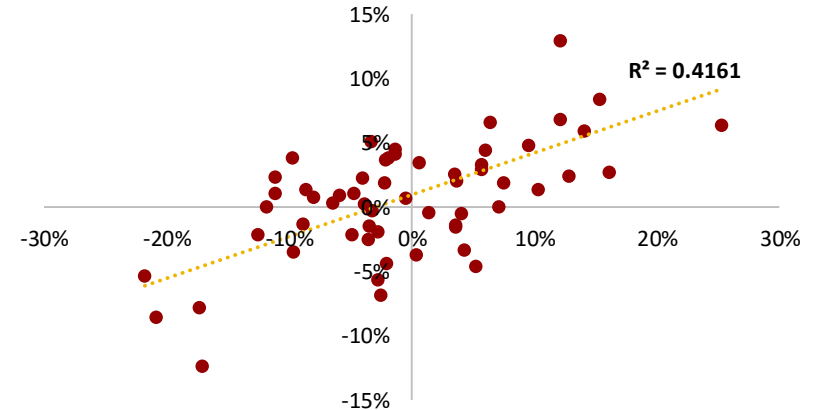
- Empirical evidence suggests that regional bank performance is correlated with **long term interest rates**
  - Due to mismatch in asset-liability duration
- Regional banks are more sensitive to interest rates than large-cap banks
  - Due to their higher relative focus on lending

### 10-Yr Rates vs. Stock Price

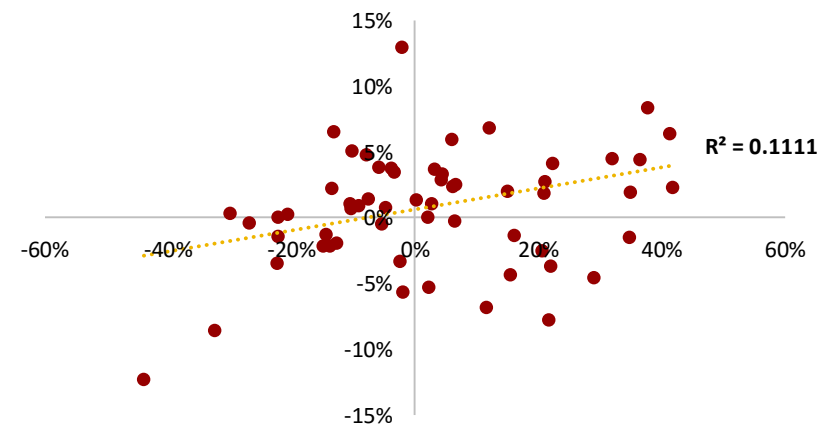


Source: Bloomberg as of 10/24/015.

### Steepness of Curve vs. Stock Price



### 2-Yr Rates vs. Stock Price





# Bank 101

## U.S. Regulatory Capital & Valuation

### Regulatory Capital

- **Basel III** is a set of banking reform measures for that focus on decreasing the risk of a run on the bank by requiring different levels of reserves for different forms of bank deposits
  - Launched in 2011, introduced progressively until 31 March 2019
- **Tier 1 Common Capital:** Common Shareholders' Equity – Goodwill – Non-MSR Intangibles
- **Tier 1 Capital:** Total Shareholders' Equity – Goodwill – Non-MSR Intangibles + Qualifying Hybrid Securities and Noncontrolling Interests
- **Tier 2 Capital:** Subordinated Debt + Non-Qualifying Hybrid Securities + Qualifying Allowance for Loan Losses
- **Total Capital:** Tier 1 Capital + Tier 2 Capital

### Risk-Weighted assets

Risk Weight	Asset Type
0%	Cash and equivalents
35%	Residential mortgages
75%	Credit / auto loans
100%	Commercial real estate
100%	Other assets
By rating	Government securities, Interbank loans, corporate loans

Source: Bank for International Settlements, Davis Polk & Wardwell LLP.

Note: 1. Metrics vary based on size of total consolidated assets.

### Based III Requirements

Ratio / Requirement	Basel III Requirements <sup>1</sup>
<b>Tier 1 Ratio</b> = Tier 1 Capital / Average RWA	6%
<b>Tier 1 Common Ratio</b> = Tier 1 Capital / RWA	4.5%
<b>Total Capital Ratio</b> Total Capital / Average RWA	8%
Tier 2 Capital < Tier 1 Capital	Yes
<b>Leverage Ratio</b> = Tier 1 Capital / Average Tangible Assets	3% (World)
<b>Conservation Buffer</b>	2.5%
<b>Countercyclical Buffer</b>	2.5%
<b>Liquidity Coverage Ratio</b>	Enough liquid assets to cover net cash outflows over 30 days
<b>Net Stable Funding Ratio</b>	Stable funding must exceed what's required over 1-year extended stress period

## Section II

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# West End Indiana Bancshares Inc. (OTC:WEIN)

# Section II

## Company Overview



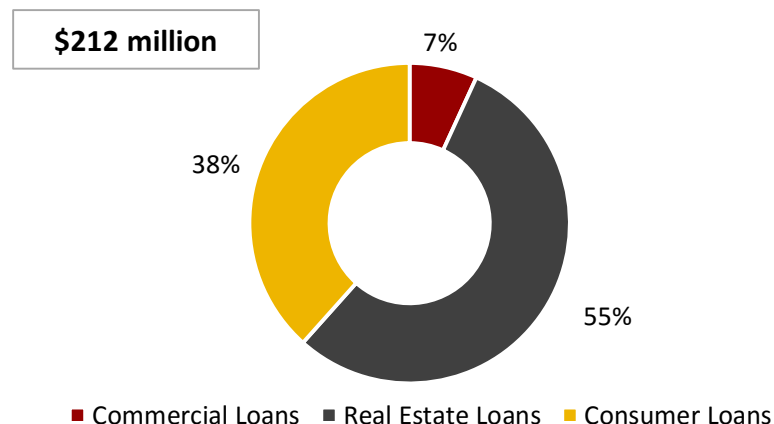
# Company Overview

## Summary

## West End Bank

- West End Indiana Bancshares, Inc. was incorporated in June 2011 for the purpose of becoming the savings and loan holding company for West End Bank
- West End Bank, S.B. is an Indiana-chartered savings bank founded in 1894 and headquartered in Richmond, Indiana
- West End Bank provides various financial products and services to individuals, families and business in Indiana

## Loan Portfolio Mix



Source: West End Indiana Bancshares annual report.

## Public Market Overview

(values in \$M, as of Oct. 28, 2015)

Share Price	\$22.15
Shares Outstanding (mm)	1,269,239
<b>Market Cap.</b>	<b>\$28.11</b>
+ Total Debt	\$0
+ Minority Interest	\$0
+ Preferred Shares	0
- Cash	\$9.41
<b>Enterprise Value</b>	<b>\$18.70</b>

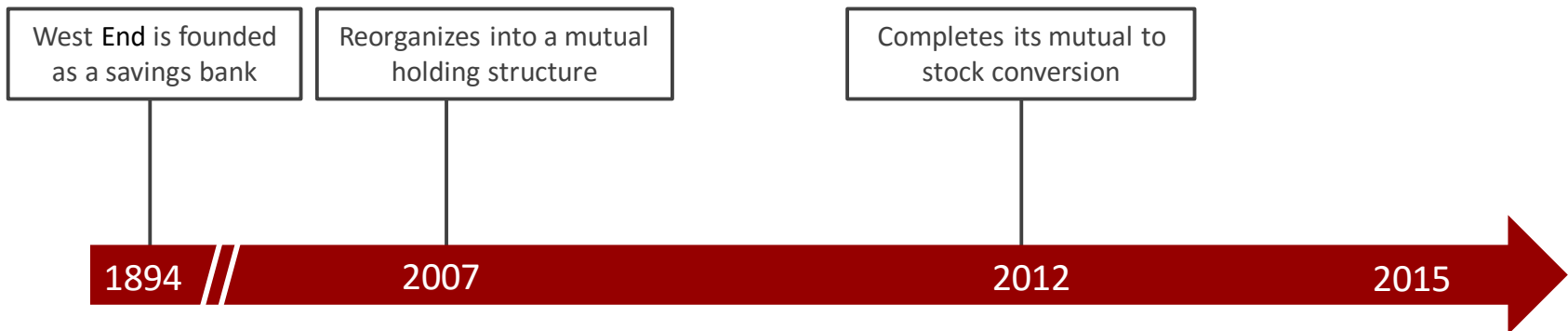
## Balance Sheet

Book Value of Equity	29.89
Total Deposits	209.30
Total Liabilities	241.31
Beta (S&P 500)	0.33
Dividend Yield	1.01%
Insider Ownership	33%
Institutional ownership	
52-Week High	\$23.10
52-Week Low	\$19.75

## Trading Metrics

P/TBV	0.94x
Net Interest Margin	4.33%
Efficiency Ratio	60.96%

## Timeline



## What is a Mutual Company?

- A private company whose ownership is made of its clients or policyholders. The term mutual arise from the fact that the company's customer is also its owner
- The defining feature of a mutual company is since its customers are also its owners, they are entitled to receive profits or income generated by the mutual company
- The mutual company structure is commonly found in the insurance and banking industry

## Demutualization

- The problem with a mutual company: borrowing is the only option for raising large quantities of capital, and it's not always possible to fund a proposed acquisition or expansion through borrowing
- When a bank demutualizes, it is allowed to:
  - 1st year public: to **buy back shares**
  - 2nd year public: pay a **dividend**
  - 3rd year public: **sell** itself

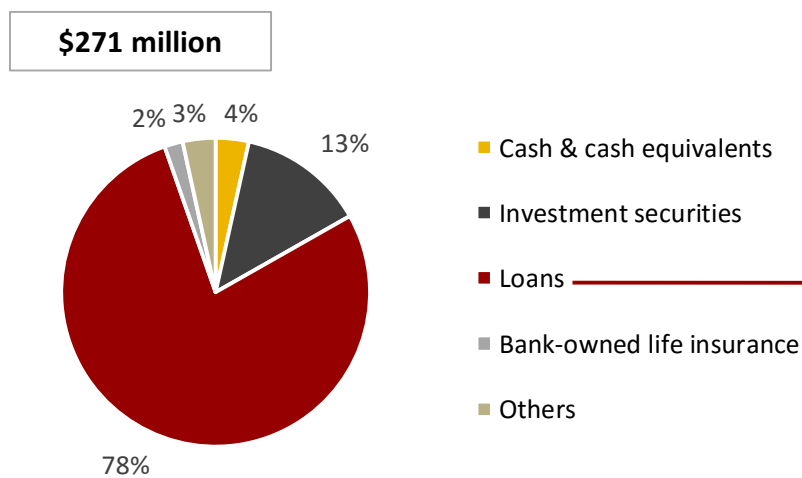
# Business Model

## Pure-Play Retail Bank

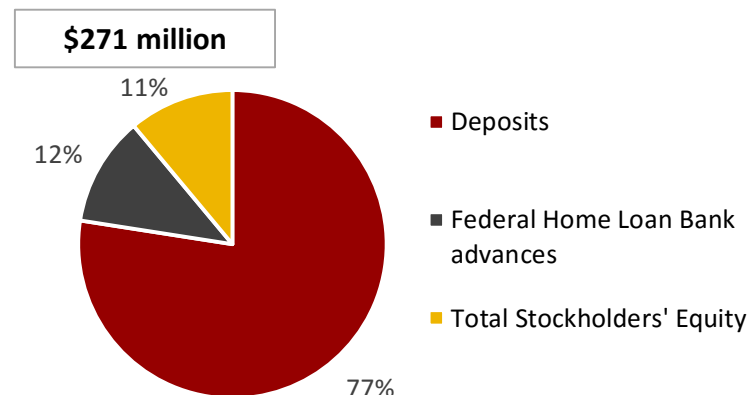
### Simple Retail Bank Business

- WEIN's principal business consists of attracting retail deposits from the general public in the Indiana market area and investing those deposits, together with funds generated from operations and borrowings
- Deposits are invested through the following ways:
  - Loans (residential, commercial, construction, consumer, 2<sup>nd</sup> mortgage and lines of credit)
  - Municipal bonds and mortgaged-backed securities

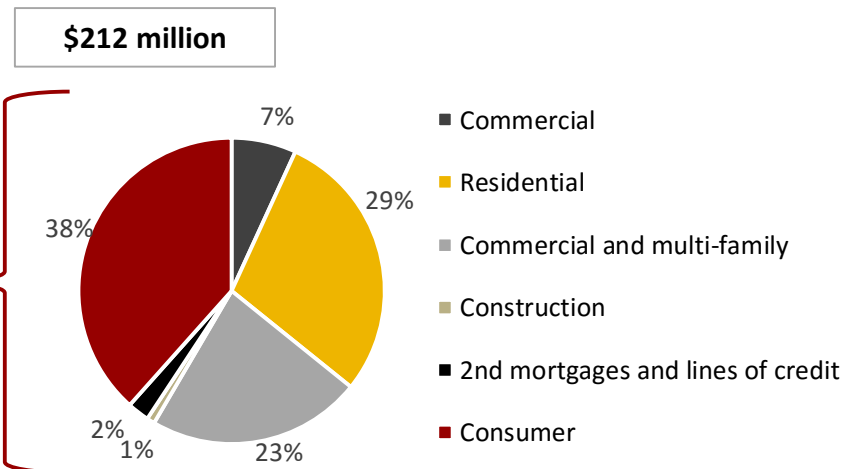
### Assets



### Liabilities & Equity



### Deeper Look in the Loan Portfolio



# Annotated Price chart

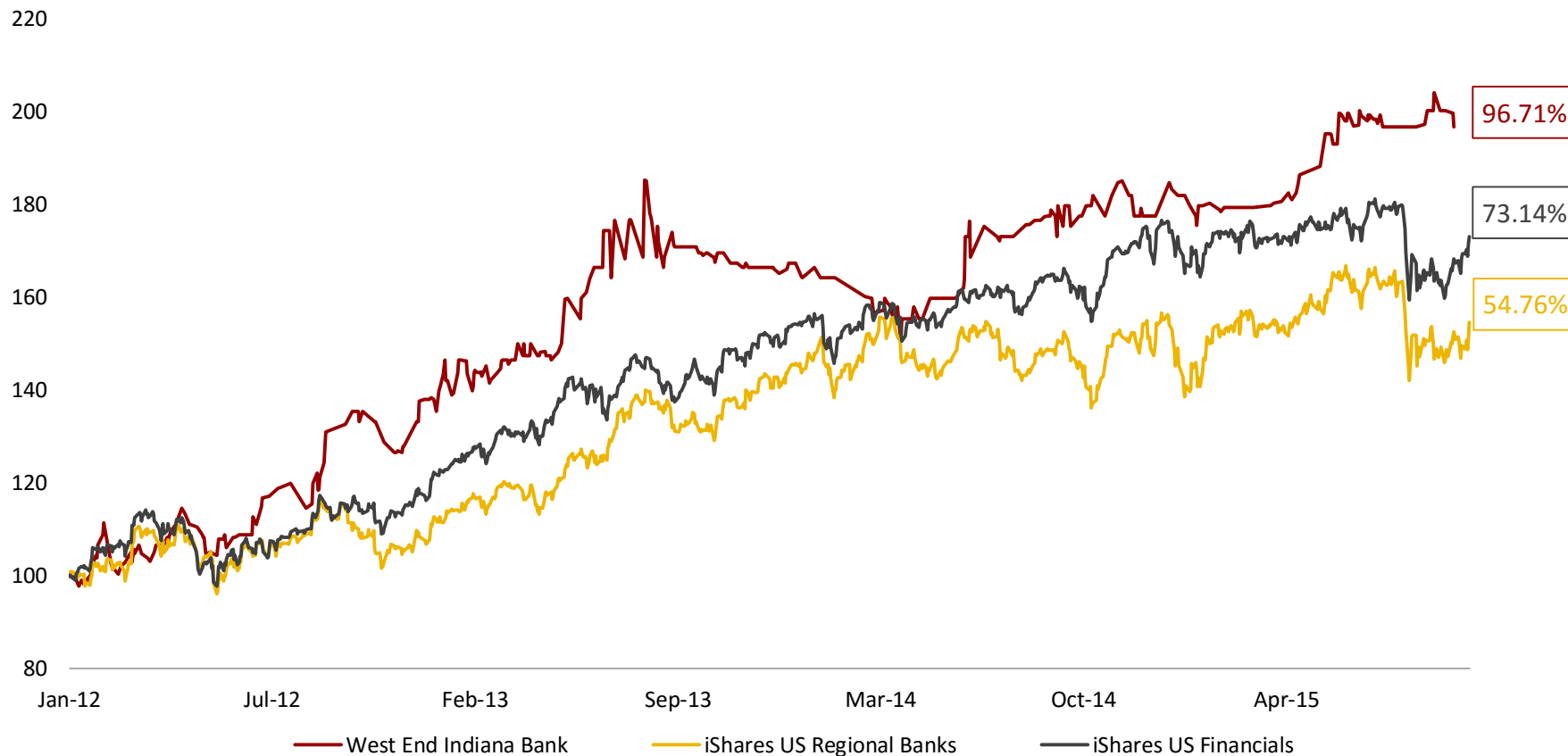
## Performance Since IPO



Source: Street research, Bloomberg as of 9/20/2014.

# U.S. Financials Performance

## Relative Performance



*West End Bank has outperformed the US Financial sector despite an underperformance of US regional banks*

Source: Street research, Bloomberg as of 9/20/2014.

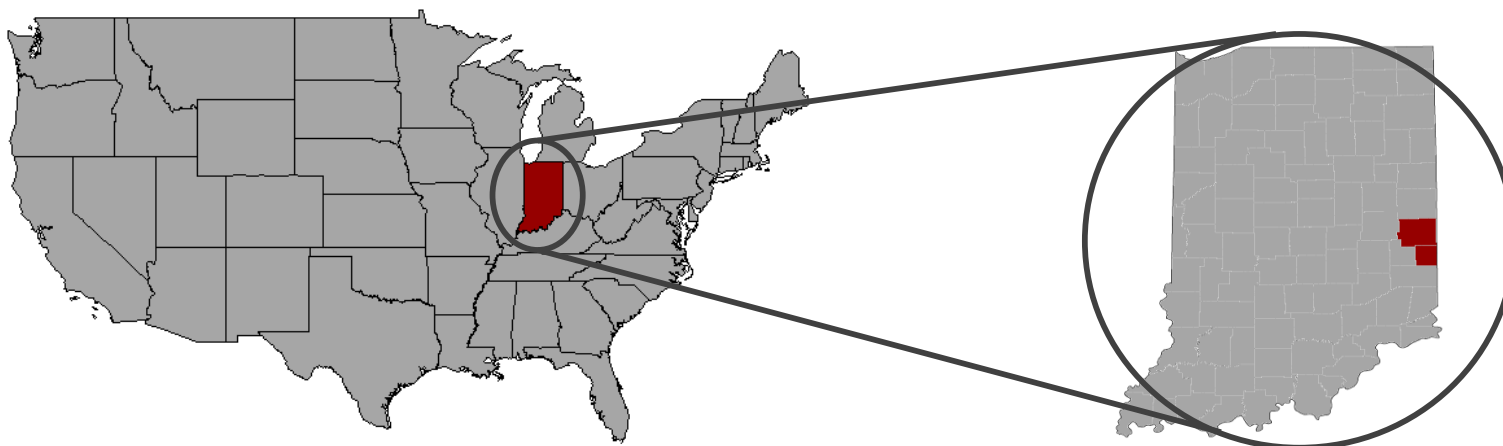


# Area of Operations

## Big Player in a Small World

### Indiana

### Wayne and Union County



### Indiana Real Estate Industry Overview

	Aug-14	Aug-15	+ / -	YTD 2014	YTD 2015	+ / -
New Listings	10,327	10,606	2.7%	83,363	84,895	1.8%
Pending Sales	6,889	7,371	7.0%	51,450	56,742	10.3%
Closed Sales	7,328	7,703	5.1%	49,794	54,227	8.9%
Median Sales Price	130,000	163,923	26.1%	126,000	134,000	6.3%
Inventory of Homes for Sale	47,901	41,240	-13.9%	--	--	

Source: JP Morgan equity research, Bloomberg as of 9/20/2014.

### Indiana Demographic Trends

- Population: 6.5 million, expected to increase by 15% to 7.5 million by 2050
- Percentage of seniors is expected to increase from 13 percent to 20 percent of the total population
- Fort Wayne metro area is projected to grow by one-fifth

# Management

## Experience & Skin in the Game

Timothy R. Frame



### President & CEO

- Stock ownership: \$408,000
- He has been with West Bank since 2003. He was previously COO and Chief Credit Officer
- He has over 29 years of experience in the financial services industry



Shelley D. Miller



### CFO & Executive VP

- Stock ownership: \$605,000
- She was the Controller of the City of Richmond from 1996 to 2000 and Mayor from 2000 to 2003



Robin D. Henry



### Executive VP & Chief HR Officer

- She has over 13 years of experience in the financial services industry.



# Section III

## Investment Thesis



- ✓ **Significant Improvement in Operating Metrics Driven By Strong Management**
  - Since 2012, West End has improved its margins, operations and return to shareholders on various metrics
  - Management has shown its ability to execute their long-term action plan
- ✓ **Upside Potential Driven By Oligopolistic Position and “Soft Skills”**
  - Close cities untouched by competition offer interesting growth prospects as West End dominates
  - Market and customer knowledge remain a key competitive advantage and barrier to entry
  - Diversified industries decrease sensitivity to economic downturn
- ✓ **Ideal Acquisition Target With Strong Precedent For M&A**
  - 3 criteria out of 5 for ideal acquisition target met
  - 1.1x-1.3x P/BV average acquisition multiple
- ✓ **Valuation Yields Significant Upside At Current Price**
  - Cheap on P/TBV compared to peers in all size and geographic segments
  - DDM Model's base case points to 48% upside
  - Monte Carlo Simulation suggests asymmetric risk-return profile

**Bonus #1: Illiquid Stock Discount**

**Bonus #2: Illiquid Stock Stability**

**Bonus #3: Diversification from systematic financial system risk**

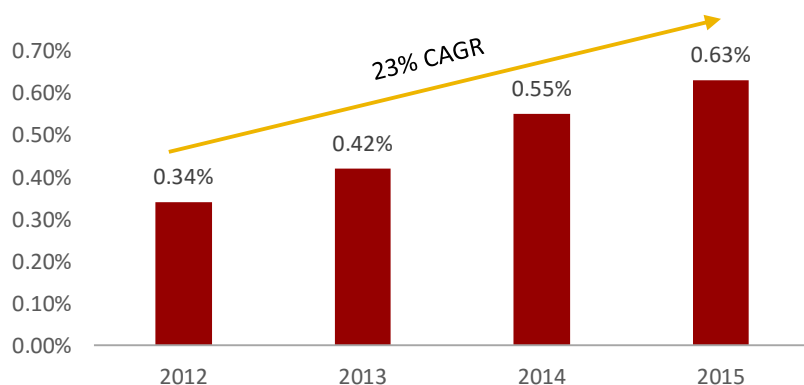
# Investment Theme #1: Quality Company

Surfing That Steep Learning Curve: Improving Operating Metrics

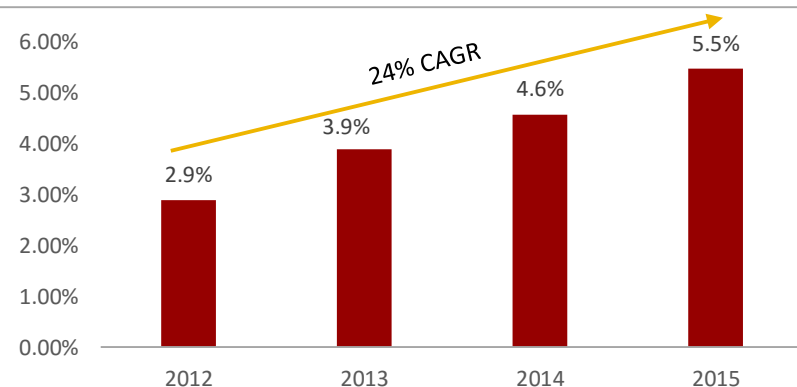
## Better Every Year on Every Metric

- Since 2012, West End has constantly improved its margins, operations and return to shareholders
- Drastic improvements in ROA, ROE and NIM
  - West End management has found the recipe, their locations, and they are thus able to receive higher interest income without bearing additional risk
  - Company is better utilizing their assets to generate profit

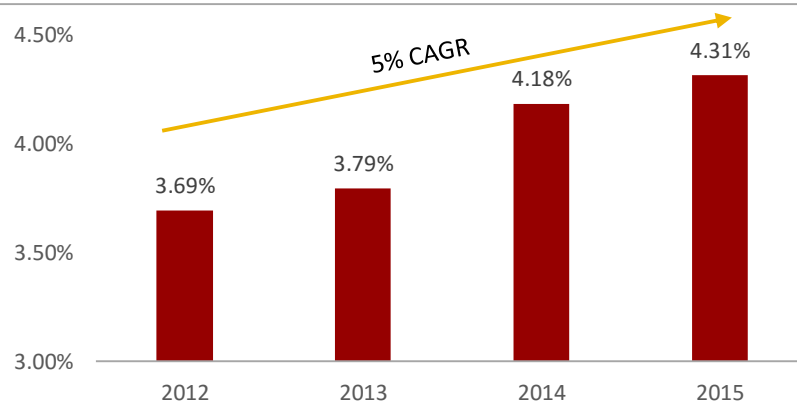
## Return on Assets Growth



## Return on Equity Growth



## Net Interest Margin Growth



Source: Company filings.

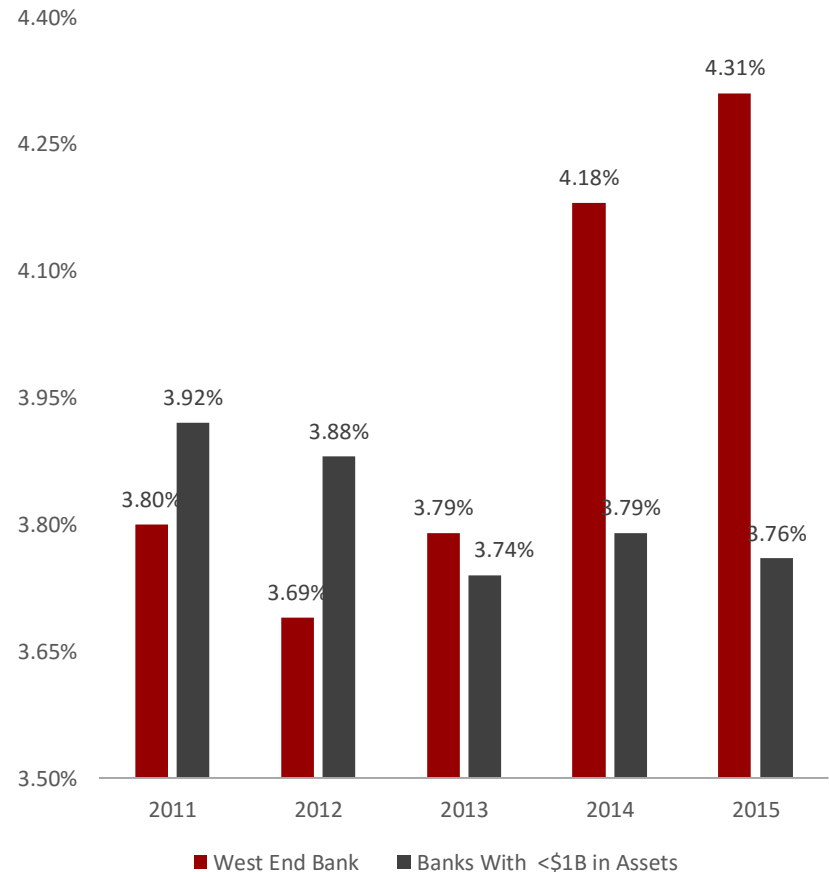
# Investment Theme #1: Quality Company

## Stronger Pricing Power On Loans Than Peers

### Strategic Shift has been driving...

- NIM increase has been driven by a stronger focus on indirect consumer lending, which includes automobile, recreational vehicle, and boat loans
  - This strategy was introduced as part of a bottom-up shift to enhance the net interest margin of the portfolio, while managing the interest rate risk sensitivity
  - The weighted average current term to maturity of the portfolio is 5 years and 4 months
- The aggregate principal balance of automobile loan portfolio was secured by late-model used automobiles

### ...NIM Improvements Outgrowing Peers



Source: Stephens: Midwest Banks, Company filings.

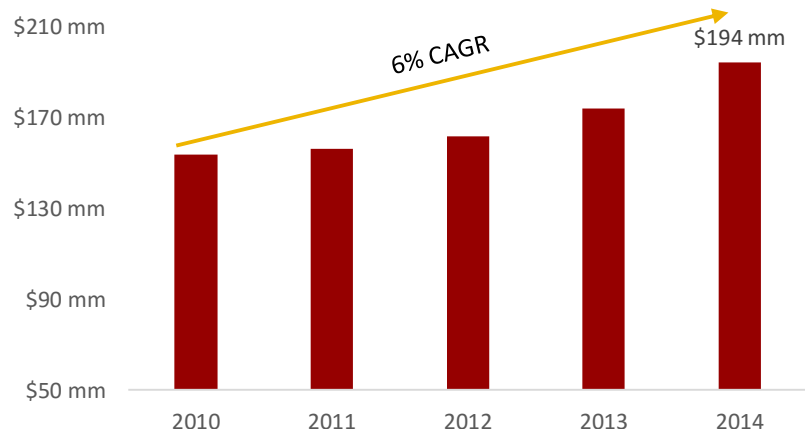
# Investment Theme #1: Quality Company

## Healthy Financial Metrics

### Increased Focus On Margins

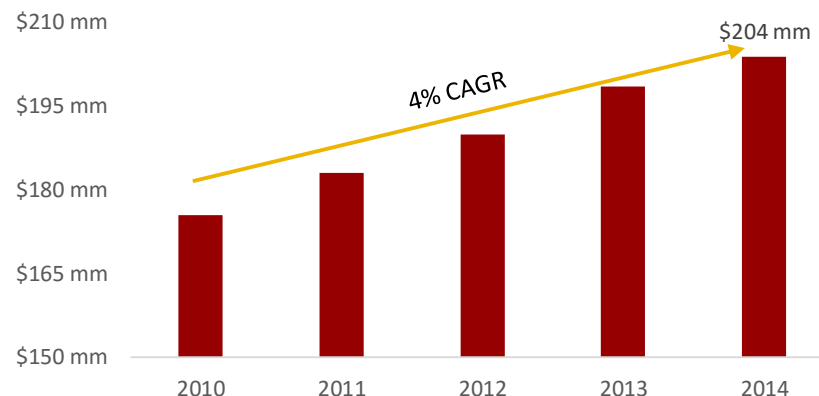
- Since 2012, West End has constantly improved its margins, operations and return to shareholders
- Continuous gradual growth in loan portfolio, total deposits and book value
  - West End management has found the recipe their locations, and they are thus able to receive higher interest income without bearing additional risk
  - Company is better utilizing their assets to generate profit

### Loan Growth

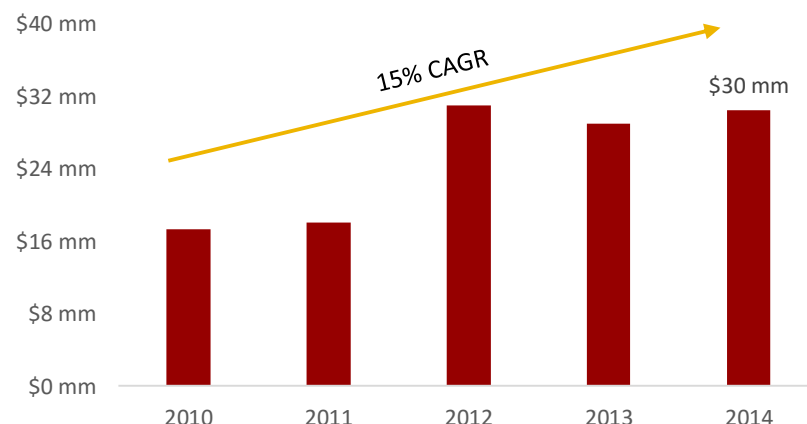


Source: Company filings.

### Total Deposit Growth



### Growth in Book Value



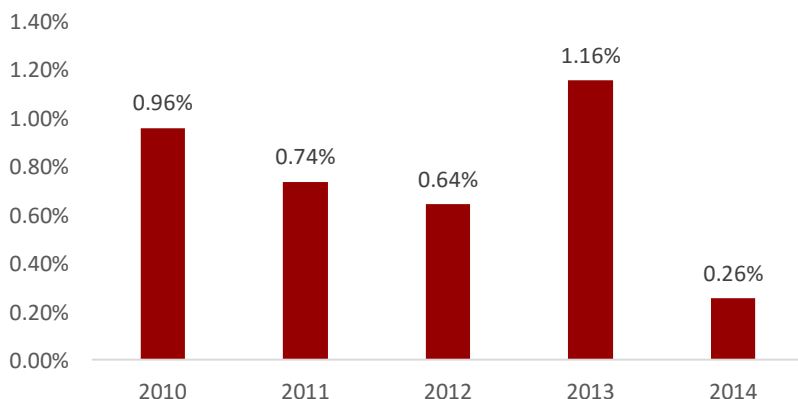
# Investment Theme #1: Quality Company

## Limited Loan and Investment Risk

### Low Riskiness Driven By Diversification

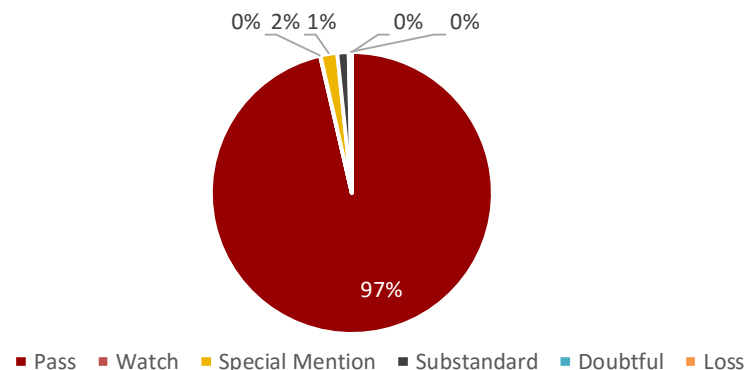
- The borrower max concentration is 15% of West End Bank's unimpaired capital and surplus
  - Up to 25% if the amount in excess of 15% is "readily marketable"
  - Up to 30% for certain residential development loans
- Non-performing loans represent loans charge-offs as % of total loans

### Evolution of Non-Performing Loans

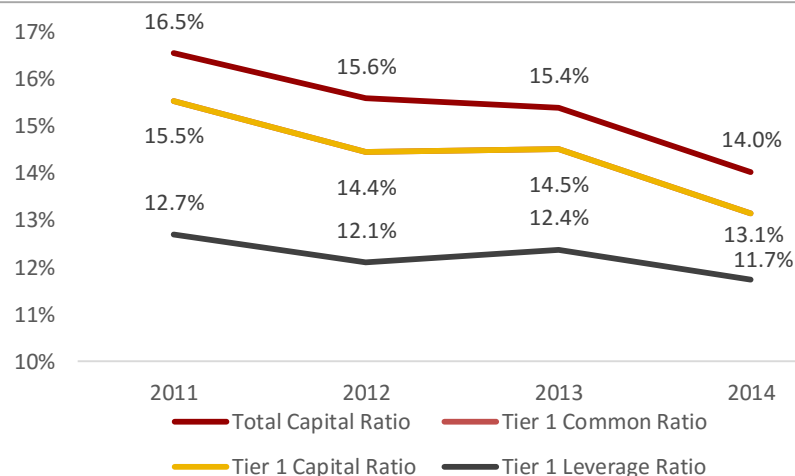


Source: Company filings.

### Credit Worthiness



### Tier 1 Capital Ratio Evolution





# Investment Theme #1: Quality Company

## 2004 Strategy Perfectly Executed. On the Right Track Again

### Management Set Goals in '04...

- In 2004, management implemented a strategy to diversify the traditional thrift focus into a **more community bank-like institution** with a **broadened base of financial products and services** while continuing to emphasize superior customer service

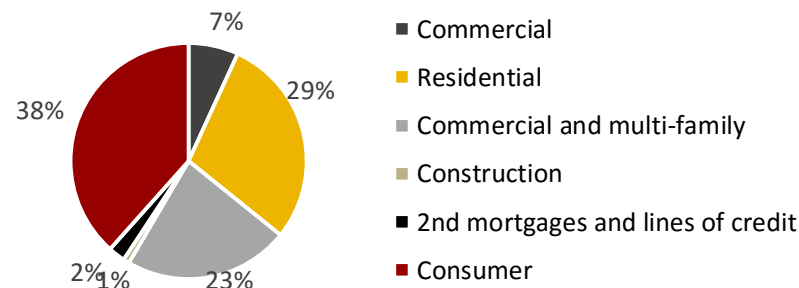
### Why Demutualize?

- Increase capital to enhance financial strength and to support lending and deposit growth
- Enhance lending capacity by increasing regulatory lending limits
- Have greater flexibility to structure and finance opportunities for expansion into new markets
- Grow inorganically or participate in joint ventures
- Retain and attract qualified personnel by establishing stock-based benefit plans for management and employees

Source: Company filings.

### ...and Has Delivered On Their Promise

\$212 million



### Interest Rate Hedging Strategy

- During recent years, in order to reduce vulnerability to changes in interest rates and enhance net interest rate spread
  - Increased acquisitions of indirect automobile loans and commercial and multi-family real estate loans

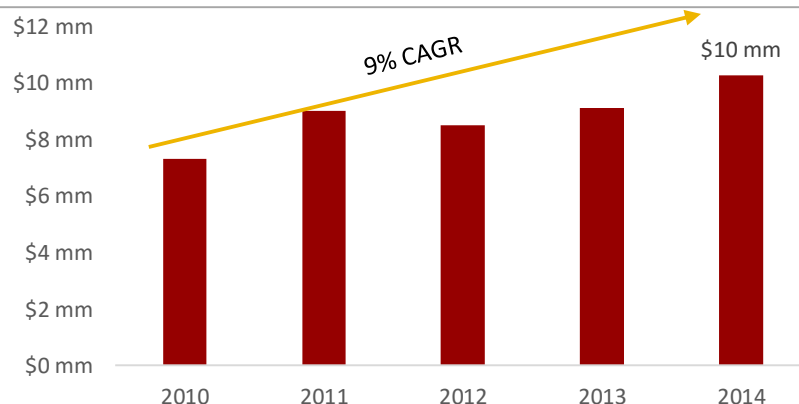
# Investment Theme #1: Quality Company

## Strategy Going Forward

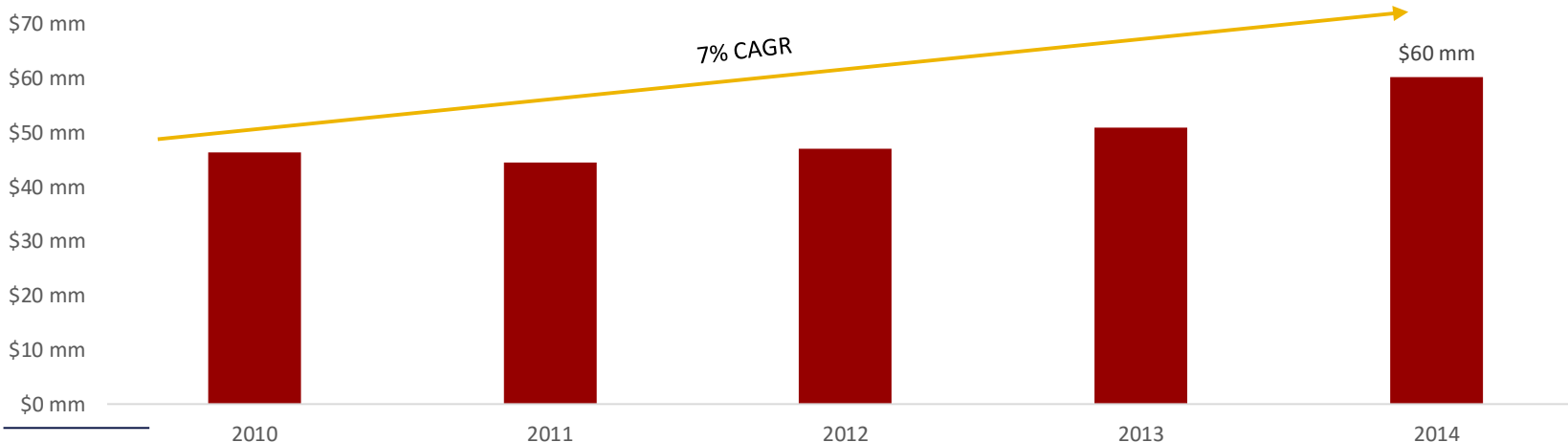
### Automobile & Commercial Loans

- Increased focus on indirect automobile loans and the commercial business loans, which serves to strengthen the overall yield earned on their loans and shorten asset duration
- Increase their acquisitions of indirect automobile loans and commercial and multi-family real estate loans to reduce interest rate exposure

### Increasing Commercial Loans



### Increasing Indirect Consumer Loans



Source: Company filings.

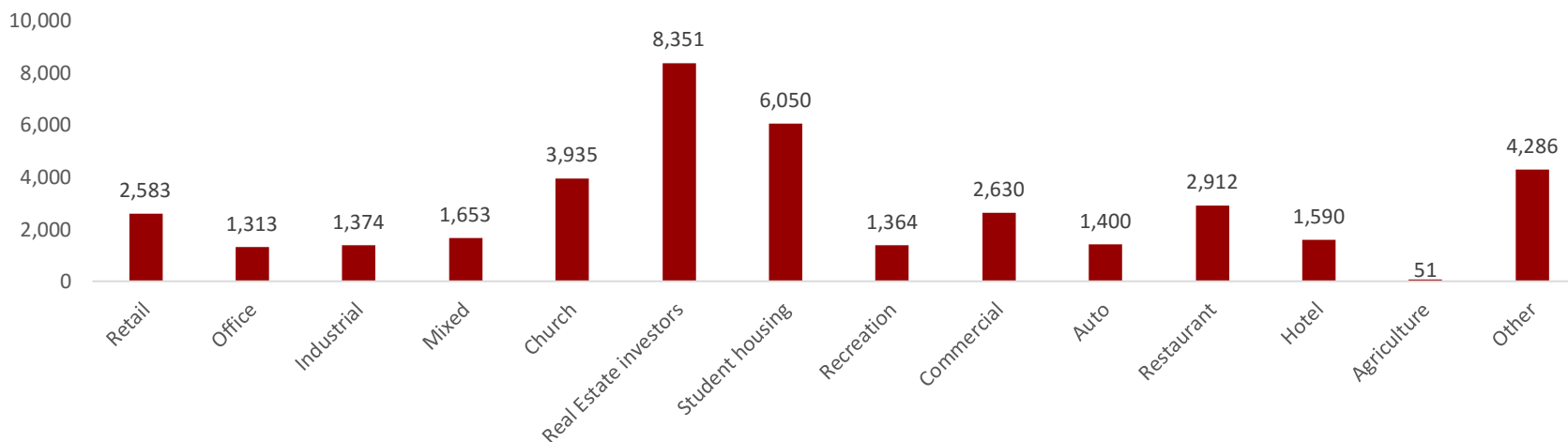
## Investment Theme #2: Oligopolistic Position & Soft Skills

### Few Cities, Big Diversification

### Offices and Operations

- West End's operates in small towns and rural communities located in the Union and Wayne Counties, Indiana
- The Company's properties are:
  - 3 branch offices in Richmond, Hagerstown and Liberty
  - 7 limited service branches in select schools within Richmond Community Schools
  - 1 limited service branch and ATM located within Richmond High School

### Commercial and multi-family real estate loans

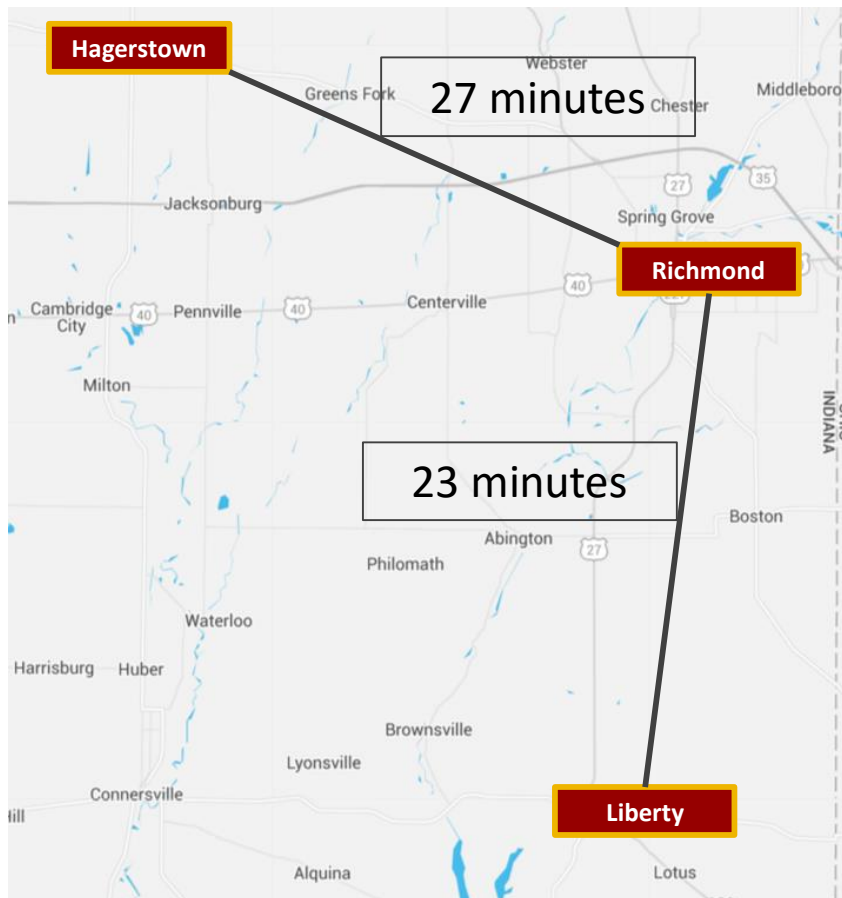


Source: Company filings.

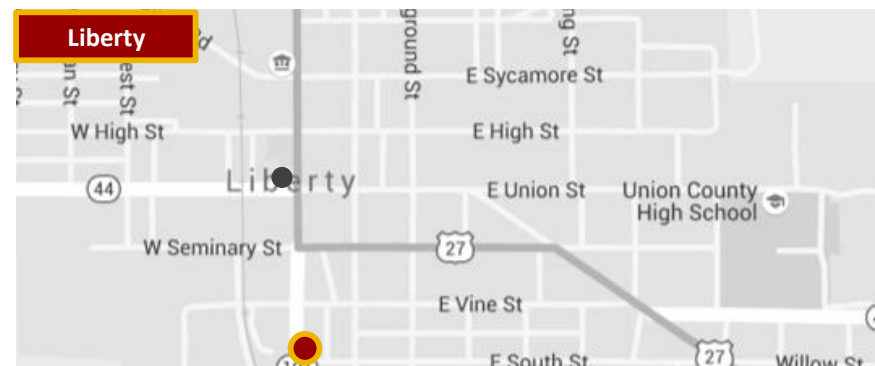
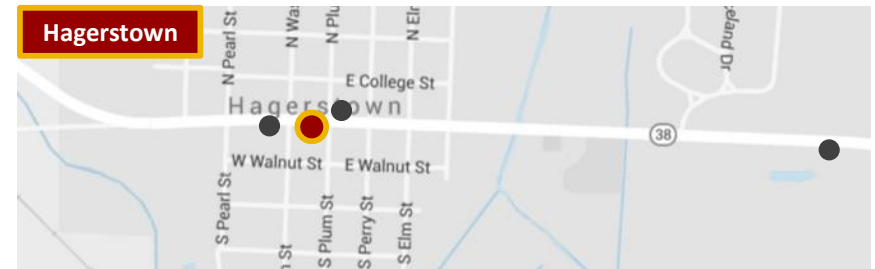
# Investment Theme #2: Oligopolistic Position & Soft Skills

## Branch Offices

### Branch Offices in 3 cities



### Limited Competition



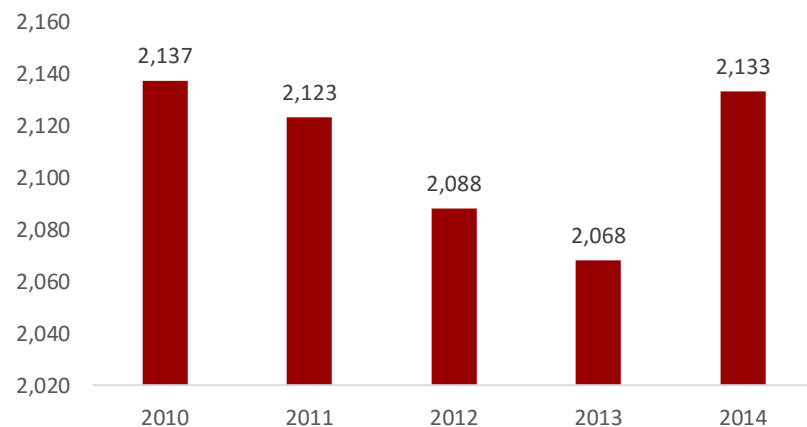
# Investment Theme #2: Oligopolistic Position & Soft Skills

## Wayne & Union Counties Population

### Overview

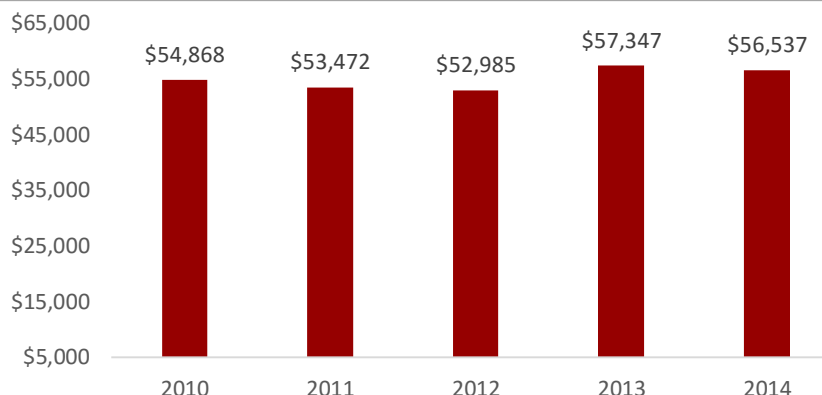
- Hagerstown, Liberty and Richmond are located within Wayne and Union County, in east central Indiana
- We see low stable growth in population and growth in median household income
- Largest employers are the local hospital and community schools
- Home to three universities

### Liberty Population

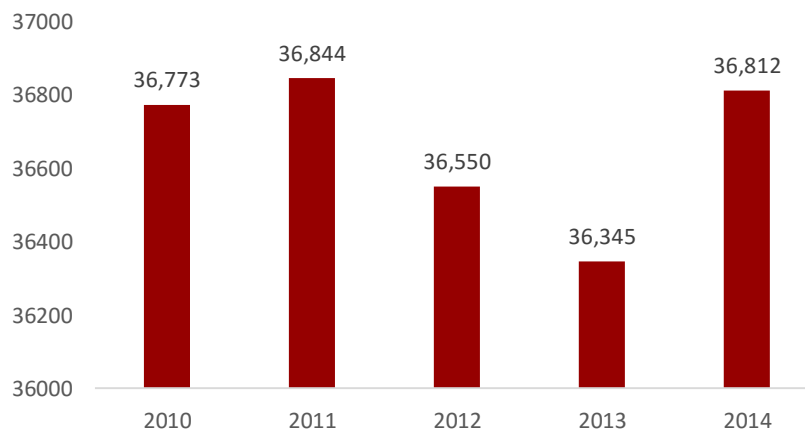


Source: Company filings.

### Hagerstown Population



### Richmond Population



# Investment Theme #2: Oligopolistic Position & Soft Skills

## A True Community Operator

### School Operations Overview

- Provides limited service branches located in 7 elementary schools and high school in Richmond, Indiana
  - Offers more limited banking services and provides banking seminars to students who assist in the branch operations
- These student-operated branches are currently featured in all six Richmond Community Elementary Schools and are in operation once a month

### Increased Focus On Commercial Biz

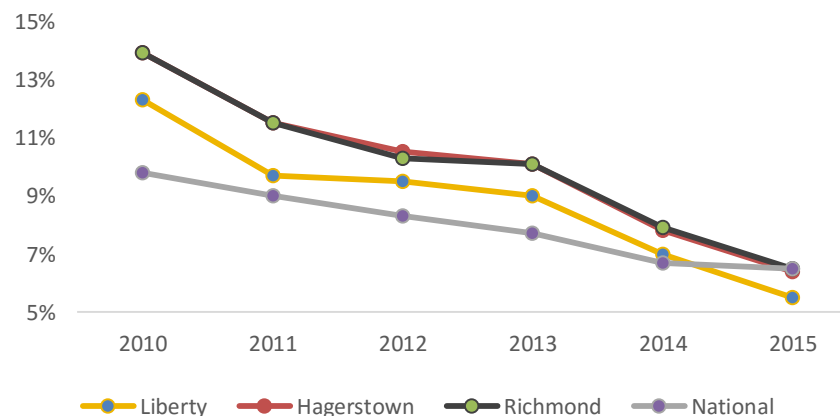
- **Business Links Program** provides a suite of services provided to small- and mid-sized businesses and professionals in our market area
- Marketing strategies include: deposit pick up service, remote capture, mobile banking, enhanced online banking, electronic statements and social media implementation on Facebook, Twitter and LinkedIn

Source: Company filings, Stats Indiana.

### Why Operate in Schools?

- School branch initiative enhances WEIN's ability:
  - Attract smaller deposit relationships
  - Nurture them and in turn grow its brand awareness with a younger generation of potential customers
  - Developing brand equity and developing customer loyalty

### Indiana Improved Education System



## Investment Theme #2: Oligopolistic Position & Soft Skills

### Intimate Customer Relationship & Unique Knowledge

#### Local market knowledge allows to take faster decisions

*"My normal bank (a nationwide bank) was making me jump through hoops for no reason while trying to get approved for an auto loan. I was referred to West-End Bank and went in just to speak with them on a Saturday. They were very friendly and I was pre-approved within 30min since they know my credit history, work experiences and safety of my revenue. I was also very pleased with how fast and smooth the whole process was."*

#### Advantages of being a small operator

*"I have been a customer at West End Bank for almost 15 years and could not be happier! I love having a hometown bank that knows me as a person and not just an account. West End Bank helped me finance my first vehicle as well as my first home and will always be my go-to bank."*

#### Exceptional customer service

*"West End Bank is a great local community bank. Even after moving out of the area, I still prefer to bank with them due to great customer service and use their online banking and bill pay options frequently."*

#### Person to person

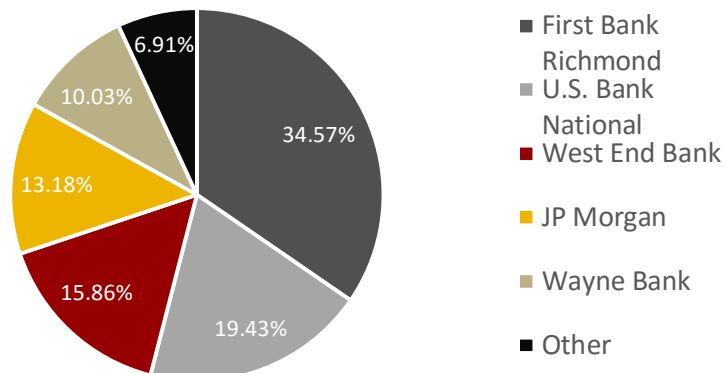
*"For the most part I work with Ben Brock in Commercial Loans. A true professional at covering all opportunities to grow business in Wayne County, Indiana. From Myra at the front desk to Chairman of the Board John McBride, West End has been "distinctly" above the competition."*

Source: Google reviews.

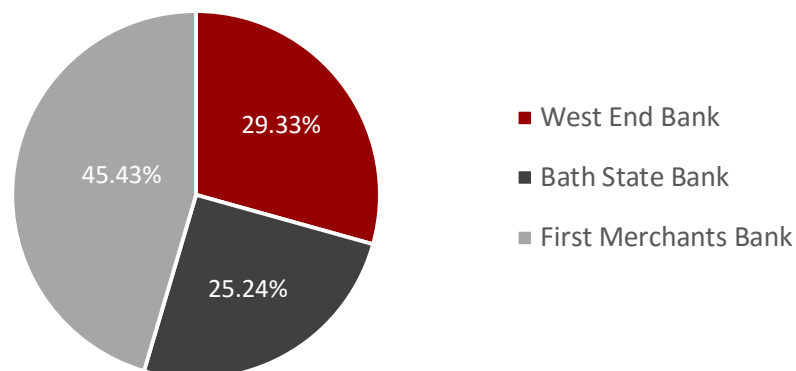
## Investment Theme #2: Oligopolistic Position & Soft Skills

### Competitors & Market Share

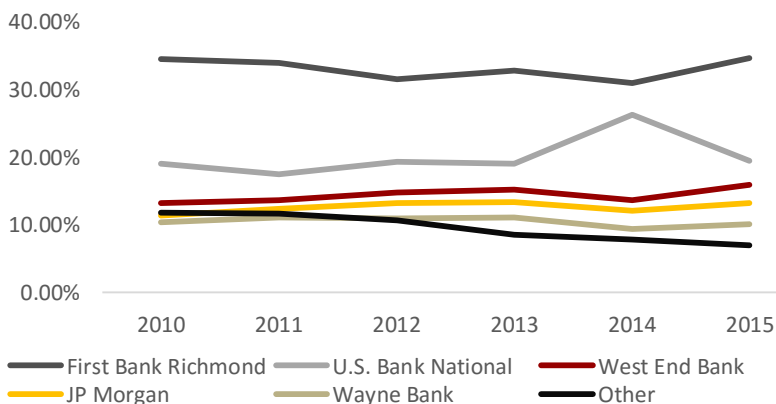
#### Current Market Share – Wayne County



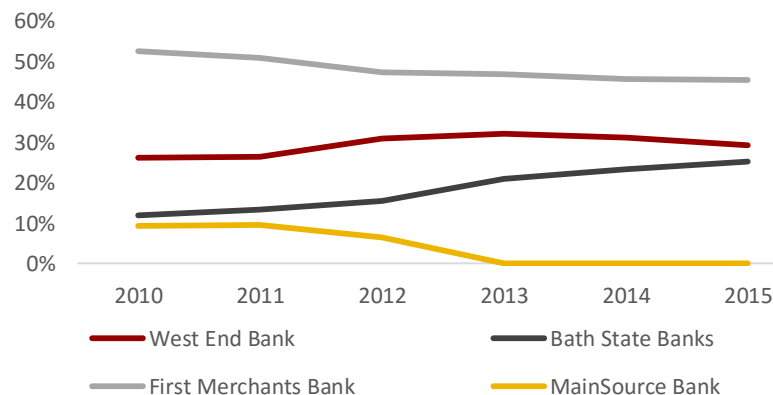
#### Market Share – Union County



#### Market Share Trend – Wayne County



#### Market Share Trend – Union County



Source: Company filings.



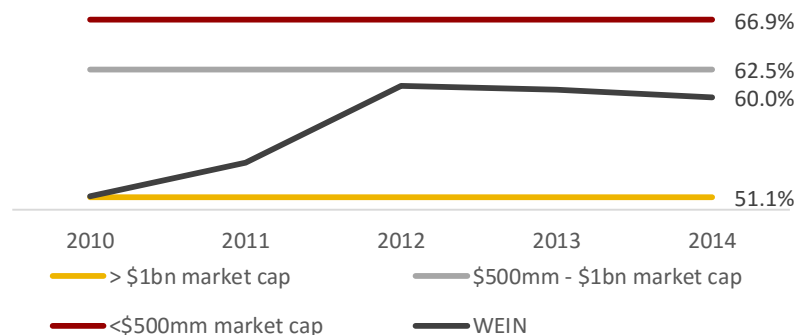
# Investment Theme #3: M&A Target

## Perfect Lunch for Larger Bank

### Common Criteria in Past Transactions

- Asset size less than \$5 billion
- Age of CEO over 60 years old
- Efficiency ratio greater than 70%
- Return on average equity (ROAE) less than 7%
- Core deposits / total deposits greater than 80%

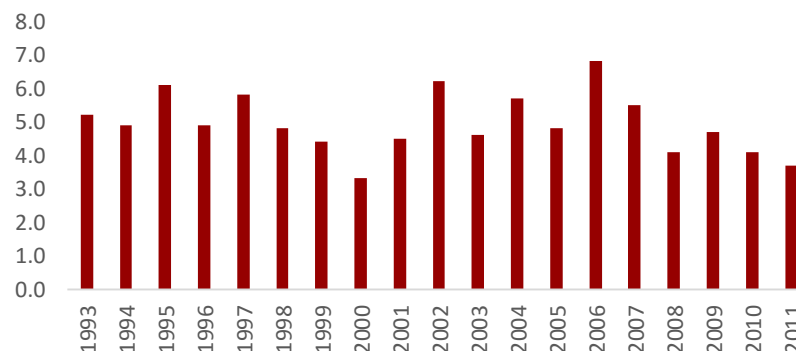
### High Efficiency Ratio = Desirable Target



### Demutualizations Targeted

- Since 1993, on conversion to full stock ownership, approximately 62% of conversions have either merged into or have been acquired by other institutions as an efficient way for management and investors to capitalize on the increased value of equity

### Time Between Conversion – Sale (Years)



A larger bank could acquire West End Indiana and inject more capital into their lending platform fueling growth, capitalizing on the company's efficient auto and commercial platform

Source: Company filings.

## Investment Theme #3: M&A Target Criteria Expanded

### Asset Size < \$5 billion



- Federal Reserve is hesitant to support large bank M&A transactions
- Growing political resistance in Washington DC toward the big banks getting bigger

### Strong Core Deposits & CEO > 60 years

- Banks have been pressed to secure core deposits as their assets continue to grow
- Smaller banks with healthy, 80%+ core deposit ratios would strengthen the balance sheets of their acquirers
- CEOs play a critical role in determining whether an acquisition target would consider selling the bank. The closer to retirement age, the more likely a CEO is to sell

### Efficiency ratio greater than 70%



- Necessary investments in technology and staffing to meet regulatory requirements will be continual force that increases M&A activity
- Today, banks must improve the necessary infrastructure to maintain proper risk controls and procedures, especially in light of increased regulatory scrutiny from the Dodd-Frank Act. Smaller institutions often do not have adequate resources to make the necessary investments that would make financial sense, and thus, elect to sell

### ROAE < 7%



- Following financial crisis, cost of capital for banks is ~10%
- Banks that cannot currently meet this threshold and do not expect to do so are more likely to consider a sale

Source: Company filings.

# Section IV

## Valuation



# Investment Theme #3: M&A Target Precedent Transactions

## By Size

	2008	2009	2010	2011	2012	2013	2014	2015
<b>Deal Stratification by Target Assets: # Deals per Year</b>								
≤ \$100M	73	53	78	57	94	78	94	28
\$100M - \$500M	45	43	64	57	81	98	129	29
\$500M - \$1B	11	6	12	14	20	23	35	3
\$1B - \$5B	6	5	13	10	16	20	23	4
\$5B - \$20B	3	2	6	3	4	3	2	-
> \$20B	4	-	1	2	1	-	1	1

Acquisition targets have been primarily in the range of \$100mm-\$500mm of assets. This is because smaller banks have poor efficiency ratios, presenting an opportunity for larger players to trim fat and realize synergies

Source: Company filings.

# Investment Theme #3: M&A Target Precedent Transactions

## Deal Metric Analysis

Deal Stratification by Target Assets: Deal Statistics								
≤ \$100M	2008	2009	2010	2011	2012	2013	2014	2015
# Deals	73	53	78	57	94	78	94	28
Average Deal Value (\$M)	\$7.9	\$5.3	\$5.3	\$6.5	\$6.7	\$5.4	\$5.8	\$5.0
Consideration: % Cash	80	73	67	62	80	71	67	53
Consideration: % Common Stock	12	8	4	23	12	11	11	22
Consideration: % Preferred/Other	8	16	29	15	8	18	22	25
Median P/BV (x)	1.6 x	1.2 x	1.2 x	1.1 x	1.2 x	1.2 x	1.1 x	1.1 x
Median P/TBV (x)	1.6 x	1.3 x	1.2 x	1.1 x	1.2 x	1.2 x	1.1 x	1.1 x
Median Prem/Core Dep (%)	9.19	5.02	2.92	1.57	2.69	3.20	1.81	1.77
Median P/LTM Earnings (x)	21.7 x	18.3 x	23.0 x	23.1 x	20.5 x	23.1 x	27.6 x	16.4 x
\$100M - \$500M								
# Deals	45	43	64	57	81	98	129	29
Average Deal Value (\$M)	\$26.8	\$14.7	\$18.9	\$20.5	\$24.4	\$25.0	\$30.9	\$35.4
Consideration: % Cash	59	55	75	74	58	64	67	61
Consideration: % Common Stock	30	33	19	26	38	41	41	46
Consideration: % Preferred/Other	10	13	6	0	3	(5)	(8)	(7)
Median P/BV (%)	1.6 x	1.0 x	1.1 x	1.0 x	1.1 x	1.1 x	1.2 x	1.3 x
Median P/TBV (%)	1.7 x	1.0 x	1.2 x	1.0 x	1.1 x	1.1 x	1.3 x	1.3 x
Median Prem/Core Dep (%)	8.18	(0.47)	2.17	0.12	2.44	2.13	4.44	5.43
Median P/LTM Earnings (x)	25.2 x	20.4 x	21.4 x	25.3 x	18.6 x	20.5 x	21.9 x	22.6 x

Historically, targets in the same size range as WEIN have been acquired at 1.0x – 1.3x P/TBV

Source: Company filings.

# Comparable Companies

Trading At An Unwarranted Discount To Small-Mid Competitors

Company		Price	Market Cap (\$M)	Assets (\$M)	ROAA	P/BV	P/TBV	Tier 1 Common	NIM	Efficiency Ratio	NPLs/Loans
<b>Mid Cap</b>											
BancFirst Corporation	BANF	62.67	\$976	\$6,499	1.14%	1.5x	1.7x	14.60%	3.06%	64.2%	0.83%
BNC Bancorp	BNCN	\$22.20	\$953	\$4,279	1.05%	1.8x	2.2x	9.30%	4.24%	55.3%	0.62%
Ameris Bancorp	ABCB	\$28.10	\$905	\$5,206	0.12%	1.9x	2.4x	12.00%	4.13%	50.6%	1.14%
State Bank Financial Corporation	STBZ	20.45	\$731	\$3,300	-0.24%	1.4x	1.5x	19.10%	4.32%	55.5%	0.25%
Southside Bancshares, Inc.	SBSI	\$26.70	\$677	\$4,856	0.93%	1.6x	2.0x	16.10%	3.38%	57.5%	0.97%
Yadkin Financial Corporation	YDKN	21.55	\$669	\$4,327	1.01%	1.2x	1.8x	10.40%	4.28%	57.3%	0.86%
CenterState Banks, Inc.	CSFL	14.69	\$667	\$3,873	1.02%	1.4x	1.8x	14.80%	4.71%	60.4%	1.10%
Independent Bank Group, Inc.	IBTX	37.71	\$645	\$4,376	0.99%	1.2x	2.2x	9.50%	4.09%	56.5%	0.19%
First NBC Bank Holding Company	FNBC	33.54	\$638	\$4,127	1.68%	1.5x	1.5x	10.80%	2.86%	77.4%	1.13%
<b>Mean</b>			<b>\$762</b>	<b>\$4,538</b>	<b>0.86%</b>	<b>1.5x</b>	<b>1.9x</b>	<b>12.96%</b>	<b>3.90%</b>	<b>59.4%</b>	<b>0.79%</b>
<b>Median</b>			<b>\$677</b>	<b>\$4,327</b>	<b>1.01%</b>	<b>1.5x</b>	<b>1.8x</b>	<b>12.00%</b>	<b>4.13%</b>	<b>57.3%</b>	<b>0.86%</b>
<b>West End Bank</b>			<b>\$28</b>	<b>\$271</b>	<b>0.51%</b>	<b>0.92x</b>	<b>0.9x</b>	<b>15.65%</b>	<b>4.33%</b>	<b>61.0%</b>	<b>0.22%</b>
<i>Premium / Discount</i>					-40%	-39%	-52%	21%	11%	3%	-72%

Company		Price	Market Cap (\$M)	Assets (\$M)	ROAA	P/BV	P/TBV	Tier 1 Common	NIM	Efficiency Ratio	NPLs/Loans
<b>Small Cap</b>											
Green Bancorp, Inc.	GNBC	11.84	\$311	\$2,409	0.73%	1.0x	1.2x	12.50%	3.83%	58.8%	0.32%
C1 Financial, Inc.	BNK	18.73	\$302	\$1,678	1.17%	1.6x	1.6x	13.10%	4.70%	60.7%	1.29%
Park Sterling Corporation	PSTB	\$6.72	\$302	\$2,444	0.71%	1.1x	1.3x	14.10%	3.77%	70.3%	0.34%
Capital City Bank Group, Inc.	CCBG	14.68	\$252	\$2,654	0.58%	0.9x	1.3x	15.80%	3.29%	85.0%	1.03%
Franklin Financial Network, Inc.	FSB	22.28	\$234	\$1,767	0.79%	1.4x	1.5x	12.90%	3.50%	62.9%	0.10%
National Commerce Corporation	NCOM	23.09	\$218	\$1,257	0.94%	1.3x	1.6x	12.90%	4.20%	67.1%	0.56%
Veritex Holdings, Inc.	VBTX	15.62	\$167	\$827	0.92%	1.4x	1.7x	14.90%	3.76%	60.3%	0.05%
Avenue Financial Holdings, Inc.	AVNU	13.17	\$135	\$1,076	0.60%	1.5x	1.6x	8.90%	3.29%	68.9%	0.10%
MidSouth Bancorp, Inc.	MSL	11.47	\$130	\$1,949	1.03%	0.8x	1.1x	12.70%	4.36%	68.0%	1.84%
<b>Mean</b>			<b>\$228</b>	<b>\$1,785</b>	<b>0.83%</b>	<b>1.2x</b>	<b>1.4x</b>	<b>13.09%</b>	<b>3.86%</b>	<b>66.9%</b>	<b>0.63%</b>
<b>Median</b>			<b>\$234</b>	<b>\$1,767</b>	<b>0.79%</b>	<b>1.3x</b>	<b>1.5x</b>	<b>12.90%</b>	<b>3.77%</b>	<b>67.1%</b>	<b>0.34%</b>
<b>West End Bank</b>			<b>\$28</b>	<b>\$271</b>	<b>0.51%</b>	<b>0.92x</b>	<b>0.9x</b>	<b>15.65%</b>	<b>4.33%</b>	<b>61.0%</b>	<b>0.22%</b>
<i>Premium / Discount</i>					-38%	-25%	-36%	20%	12%	-9%	-64%

WEIN trades at a significant discount despite exhibiting a better NIM, lower efficiency ratio, lower NPLs and higher Tier 1 Common ratio. However, comps are too large to make a strong conclusion.

Source: S&P capital IQ, DCM valuation model.

# Comparable Companies

## Still Attractive Compared to Smaller Players...

Company	Ticker	Region	Market Price	Assets (\$M)	ROE	Efficiency Ratio	BV	TBV	P / TBV
			\$/share	\$M	%	%	\$/share	\$/share	x
<b>Assets \$100-600M</b>									
Westbury Bancorp, Inc.	WBB	MW	17.1	594,614	2.05	82.3	17.24	17.24	1.0x
1st Century Bancshares, Inc.	FCTY	WE	6.95	585,218	3.65	81.7	6.08	6.08	1.1x
United Security Bancshares, Inc.	USBI	SE	8.28	572,609	3.86	81.9	12.46	12.46	0.7x
La Porte Bancorp, Inc.	LPSB	MW	13.25	518,616	4.86	75.1	14.52	13	1.0x
Uwharrie Capital Corp	UWHR	SE	3.2	518,464	1.36	89.6	4.63	4.63	0.7x
Empire Bancorp Inc.	EMPK	MA	8.3	508,069	0.91	80	9.07	9.07	0.9x
Hopewell Valley Community Bank	HWDY	MA	8.5	483,311	5.3	76.7	9.52	9.52	0.9x
Delmar Bancorp	DBCP	MA	4.06	447,970	5.22	72.3	5.01	5.01	0.8x
Carolina Alliance Bank	CRLN	SE	11.5	418,311	3.83	71.7	10.38	10.17	1.1x
Glen Burnie Bancorp	GLBZ	MA	12.45	394,630	5.66	79.4	12.25	12.25	1.0x
Focus Business Bank	FCSB	WE	9.88	391,283	4.7	81.7	9.49	9.49	1.0x
Metairie Bank & Trust Company	MBKL	SW	18.88	347,305	4.96	84.8	17.78	17.78	1.1x
Frederick County Bancorp, Inc.	FCBI	MA	22.24	343,116	5.04	82.7	18.92	18.92	1.2x
Mauch Chunk Trust Financial Corp.	MCHT	MA	14.13	342,532	6.97	79.8	11.63	11.63	1.2x
Premier Commercial Bancorp	PRCB	WE	5.66	324,350	-4.07	87.7	5.24	5.24	1.1x
Jacksonville Bancorp, Inc.	JXSB	MW	23.21	311,925	5.82	74.4	25.02	23.5	1.0x
York Traditions Bank	YRKB	MA	11.1	300,231	4.53	82.7	12.62	12.62	0.9x
Jefferson Security Bank	JFWV	SE	64.25	285,513	4.96	86.7	71.08	71.08	0.9x
New Resource Bank	NWBN	WE	5.4	247,372	5.36	80.9	5.44	5.44	1.0x
ASB Financial Corp.	ASBN	MW	13	246,837	4.78	82.6	13.2	11.88	1.1x
Pinnacle Bank	PBNK	WE	7.33	230,423	4.54	85	7.33	7.33	1.0x
Mid-Southern Savings Bank, FSB (MHC)	MSVB	MW	9.5	193,941	-0.04	92.4	14.03	14.03	0.7x
Sunshine Financial, Inc.	SSNF	SE	18.05	149,569	1.06	97	20.27	20.16	0.9x
Pan Pacific Bank	PPFC	WE	3.18	120,096	1.67	104.8	3.58	3.58	0.9x
<b>Median</b>				<b>345,211</b>	<b>4.62</b>	<b>82.10</b>	<b>11.94</b>	<b>11.76</b>	<b>0.99x</b>
<b>Median</b>				<b>369,846</b>	<b>3.62</b>	<b>83.08</b>	<b>14.03</b>	<b>13.84</b>	<b>0.97x</b>
West End Indiana Bankshares	WEIN	MW	22.5	271,205	5.39%	60.96%	29.85	24.51	0.92x
				-27%	49%	-27%	113%	77%	-7%

WEIN trades also at a discount to smaller peers (\$100-600M) on P/TBV despite lower efficiency ratio and higher ROE.

Source: S&P capital IQ, DCM valuation model.

# Comparable Companies

## ...Not Caused By A Midwest Discount.

Company	Ticker	Region	Market Price	Assets (\$M)	ROE	Efficiency Ratio	BV	TBV	P / TBV
			\$/share	\$M	%	%	\$/share	\$/share	x
<b>Midwest Banks - Asset &lt; \$1Bn</b>									
Mackinac Financial Corporation	MFNC	MW	11.32	743,785	-3.87	73.2	11.81	11.01	1.0x
Westbury Bancorp, Inc.	WBB	MW	17.1	594,614	2.05	82.3	17.24	17.24	1.0x
Brotherhood Bancshares, Inc.	BHDB	MW	53.38	536,013	1.27	99.3	118.86	118.86	0.4x
La Porte Bancorp, Inc.	LPSB	MW	13.25	518,616	4.86	75.1	14.52	13	1.0x
Jacksonville Bancorp, Inc.	JXSB	MW	23.21	311,925	5.82	74.4	25.02	23.5	1.0x
ASB Financial Corp.	ASBN	MW	13	246,837	4.78	82.6	13.2	11.88	1.1x
Mid-Southern Savings Bank, FSB (MHC)	MSVB	MW	9.5	193,941	-0.04	92.4	14.03	14.03	0.7x
Third Century Bancorp	TDCB	MW	8.13	123,132	4.95	85	12.32	12.32	0.7x
Peoples-Sidney Financial Corporation	PPSF	MW	7.98	112,048	5.34	75.3	12.03	12.03	0.7x
<b>Median</b>				<b>311,925</b>	<b>4.78</b>	<b>82.30</b>	<b>14.03</b>	<b>13.00</b>	<b>0.99x</b>
<b>Median</b>				<b>375,657</b>	<b>2.80</b>	<b>82.18</b>	<b>26.56</b>	<b>25.99</b>	<b>0.84x</b>
West End Indiana Bankshares	WEIN	MW	22.5	271,205	5.39%	60.96%	29.85	24.51	0.92x
				-28%	93%	-26%	12%	-6%	-7%

WEIN is also discounted compared to < \$1Bn Midwest peers – indicating the absence of a regional discount.

Source: S&P capital IQ, DCM valuation model.



# Valuation

## Dividend Discount Model Assumptions

### Bear Case

**Purpose:** Effect of a major recession in Indiana state.

#### Operating Assumptions

- Loan growth: ~2%
- Interest earned/paid spread: compressing spread
- Dividends: historical level, given strong Tier 1 Capital ratios
- Implied market share change: -6.0%

#### Performance Metrics

- 2020E Efficiency ratio: 61%
- 2020E Net interest margin: 3.70%
- 2020E ROE: 2.2%

Price Target: **\$9.22**

Downside: **(59%)**

### Base Case

**Purpose:** Reasonable scenario based on continued historical performance.

#### Operating Assumptions

- Loan growth: Historical ~7%
- Interest earned/paid spread: historical smoothing
- Dividends: historical level, 100% payout
- Implied market share change: -0.1%

#### Performance Metrics

- 2020E Efficiency ratio: 51%
- 2020E Net interest margin: 4.09%
- 2020E ROE: 7.6%

Price Target: **\$30.10**

Upside: **+34%**

### Bull Case

**Purpose:** Improving net interest margins and accelerating growth.

#### Operating Assumptions

- Loan growth: Historical ~10%
- Interest earned/paid spread: widening spread
- Dividends: historical level, 100% payout
- Implied market share change: +7.2%

#### Performance Metrics

- 2020E Efficiency ratio: 44%
- 2020E Net interest margin: 4.04%
- 2020E ROE: 11.7%

Price Target: **\$41.37**

Upside: **+84%**

Source: DCM valuation model.

# Valuation

## Dividend Discount Model

### Model Output

#### DDM Build - Perpetuity Growth Method

##### Assumptions

Minimum Tier 1 Common Ratio	5.00%
Cost of Equity	8.23%
Terminal Earnings Growth Rate	2.5%
Grown 2020E Dividends	3,007,713

##### PV Build

Terminal Value	52,458,450
PV Terminal Value	36,573,243
<i>Terminal Value as % of Total Value</i>	78.6%
PV of Forecast Dividends	9,938,457
<i>Forecast Period as % of Total Value</i>	21.4%
<b>Equity Value</b>	<b>46,511,700</b>
Diluted Shares Outstanding	1,397,039
<b>Equity Value Per Share - Perpetuity</b>	<b>\$33.29</b>
Current Share Price	\$22.50
<i>Implied Upside</i>	48.0%

### Main Assumptions

- Used **Dividend Discount Model** to measure cash dividends to common shareholders
- Assumed **dividend payout**: minimum of net income to common shareholders vs. book value that respects a given minimum Tier 1 Capital Ratio
- Cost of Equity** estimated through both build-up method and Historical beta

Cost of Equity	Terminal Growth				
		2.00%	2.50%	3.50%	4.50%
	9.23%	27.76	29.41	33.55	39.44
	8.23%	31.08	33.29	39.13	48.10
	7.23%	35.65	38.82	47.71	63.10

Cost of Equity	Terminal Multiple				
		0.9x	1.0x	1.1x	1.2x
	9.02%	22.23	23.92	25.62	27.31
	8.02%	23.11	24.89	26.66	28.43
	7.02%	24.04	25.90	27.76	29.62

Dividend discount model using the perpetuity growth method points to an intrinsic value of \$33.29 per share, a 48.0% upside to current share price.

Source: DCM valuation model, Bloomberg, Aswath Damodaran.

# Valuation

## Dividend Discount Model Assumptions

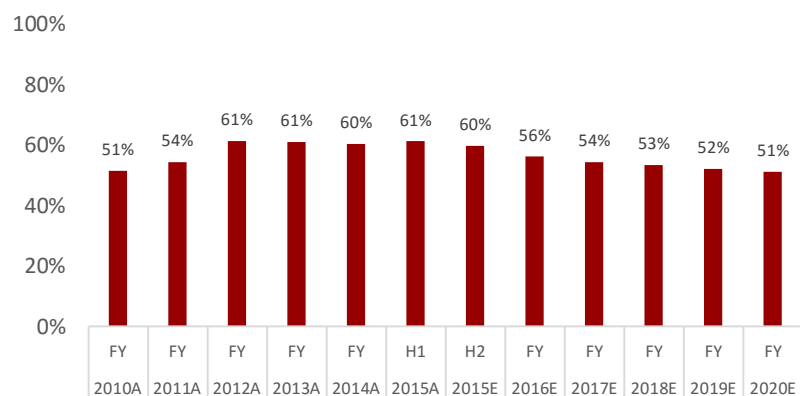
### Cost of Equity

Cost of Equity	
CAPM	
10 Year US Treasury	3.14%
Market risk premium	5.75%
Beta	0.327
Company Specific Premium	4.24%
CAPM Cost of Equity	8.23%

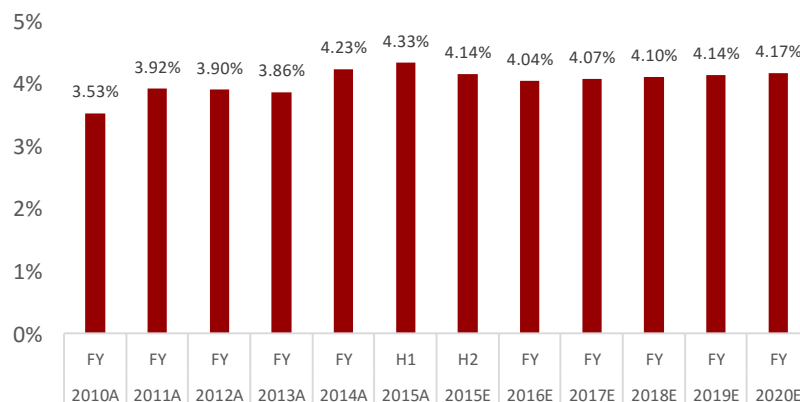
- Historical beta from Bloomberg since IPO
- Equity risk premium from Aswath Damodaran U.S. estimate
- Size premium: Ibbotson SBBI 2013 Valuation, size premium in excess of CAPM
- Sanity check: calculated cost of equity is higher than implied cost of equity from dividend and market price growth

<b>Cost of Equity</b>	<b>8.23%</b>
<i>Implied Cost of Equity from Market</i>	<i>8.13%</i>

### Efficiency Ratio



### Net Interest Margin



Source: Company filings, DCM valuation model.

# Valuation

## Monte Carlo Simulation: Let's Play The Probability Game

### Monte Carlo Simulation

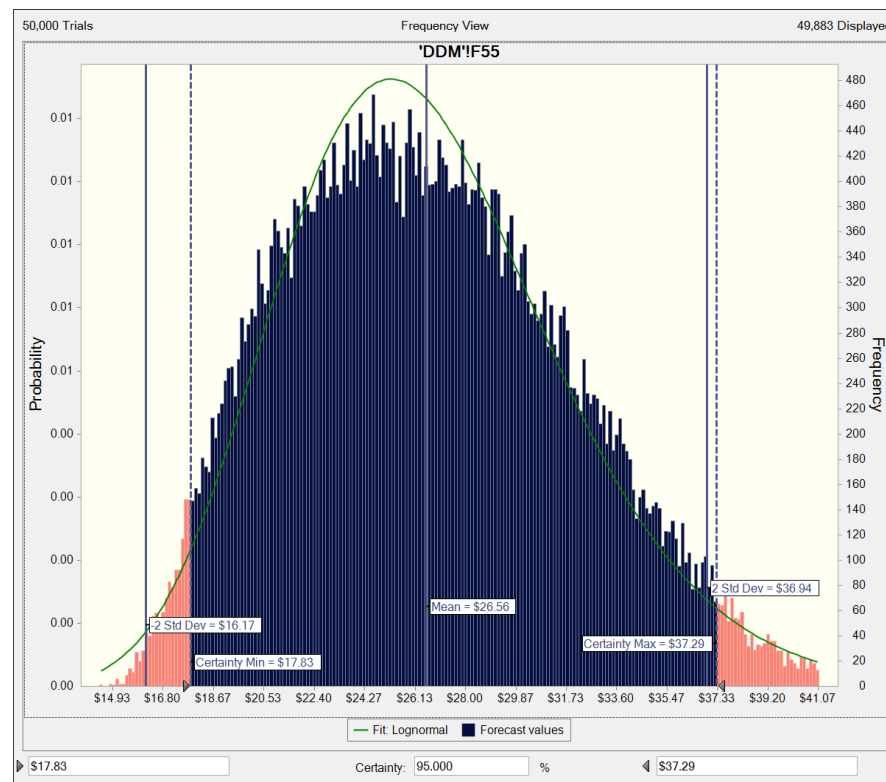
#### Assumptions

Input	Distribution	Range		
		Minimum	Likeliest	Maximum
Cost of Equity	BetaPERT distribution	7.41%	8.23%	22.50%
Terminal Growth	Triangular Distribution	0.50%	2.50%	3.50%

Confidence level	95%
Number of Monte Carlo trials	50,000
Random Number per second	1,016

#### Summary Output

Statistic	Fit: Lognormal	Forecasted Values
Mean	\$26.56	\$26.56
Median	\$20.11	\$20.20
Standard Deviation	\$5.24	\$5.19
Variance	\$27.43	\$26.97
Skewness	0.527	0.3266
Kurtosis	3.50	2.56
Coeff. of Variation	0.1972	0.1956
Mean Std. Error	-	\$0.02
Filtered Values	0	0
	Min	Max
95% Confidence Interval	17.83	37.29
Premium / Discount Current Price	-21%	66%
70% Confidence Interval	20.92	32.29
Premium / Discount Current Price	-7%	44%



Using a probabilistic approach to forecasting growth and discount rate, we can affirm at a 95% confidence level that WEIN's stock price should be between \$17.83 and \$37.29, and with 70% confidence that it should trade between \$20.92 and \$32.29 – suggesting an attractive risk-reward profile.

Source: DCM valuation model.

# Valuation

## What If The Bank Goes Bust? A Downside Analysis.

### Distribution Of Loans By Income

	Residential Income	Small Business
Below Poverty	8%	0%
Low	10%	10%
Moderate	27%	16%
Middle	25%	33%
Upper	30%	41%
Total	100%	100%

### Main Assumptions

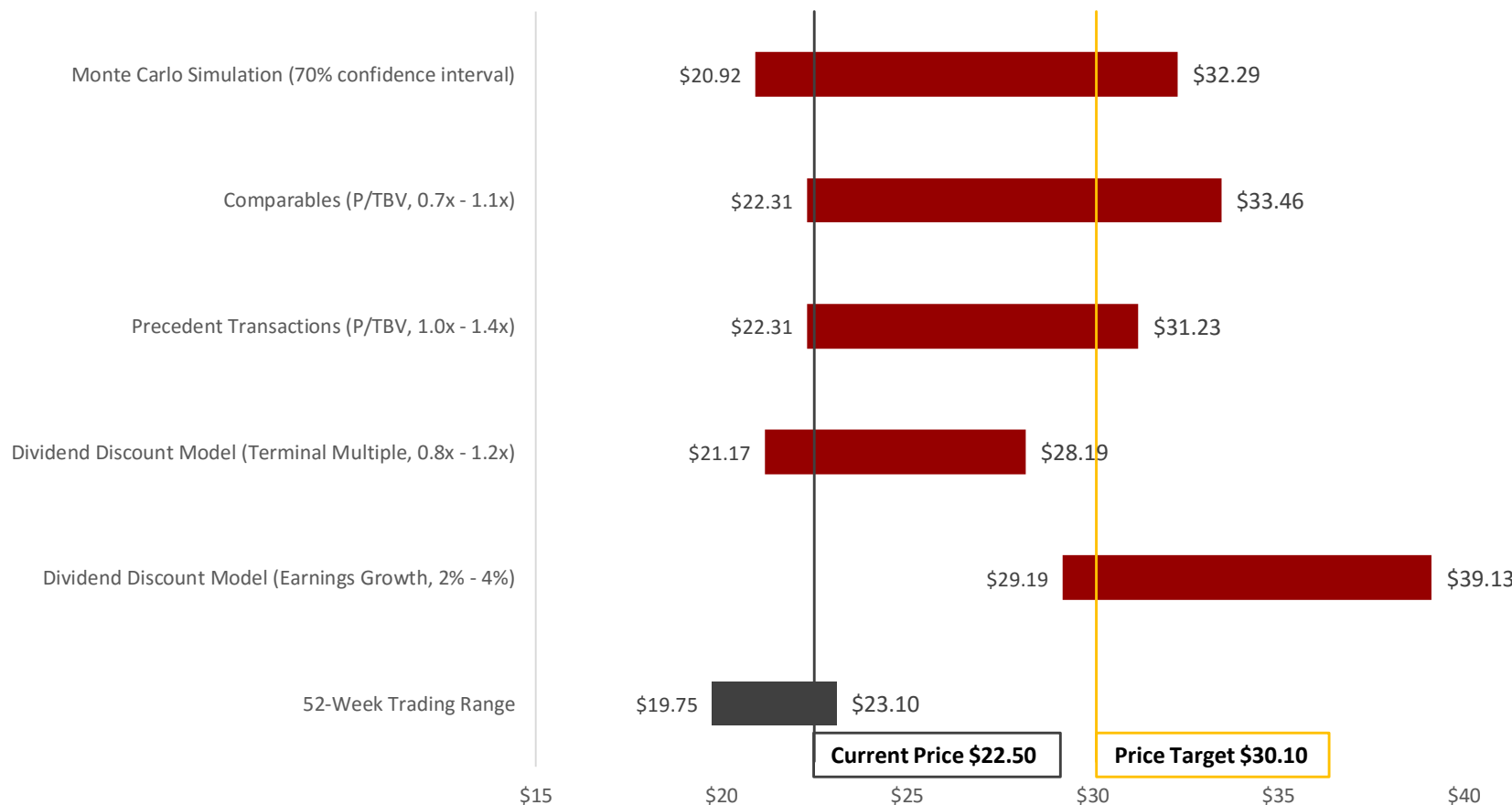
- Assumed no FDIC insurance, although currently 70% of loans are covered
- Assumed all loans in income tranche default
  - Residential tranches by borrowing income
  - Business tranches by census tract
- Default modelled to happen at end of 2016
- Intrinsic value impact using Base case

Scenario	Purpose	Loan Assumption	% Total Loans Default	Intrinsic Value Impact
Small	Local economic struggle (declining employment and income)	<b>Residential:</b> all loans below poverty + low default	10%	\$21.00
		<b>Business:</b> all loans in low category default	18%	
Medium	Major local recession	<b>Residential:</b> all loans below poverty + in low + moderate category default	45%	\$9.02
		<b>Business:</b> all loans in low + moderate category default	26%	
Large	Major U.S. recession or natural disaster	<b>Residential:</b> all loans below poverty + in low to middle category default	70%	\$1.79
		<b>Business:</b> all loans in low + moderate + upper category default	59%	

Small downside scenario shows little impact on intrinsic value. Although large downside scenarios indicate major losses, their probability of happening are extremely low (< 1%).

Source: FDIC Community Reinvestment Act Performance Evaluation (June 11, 2012), DCM valuation model.

# Valuation Football Field



**We set a price target of \$30.10 based on a weighted-average of our valuation methodologies<sup>1</sup>, implying a 34% upside**

Note: (1) Weights used: DDM Perpetuity Growth 50%, DDM Terminal Multiple 20%, Comparables 10%, Precedent Transactions 10%, Monte Carlo Simulation 10%.

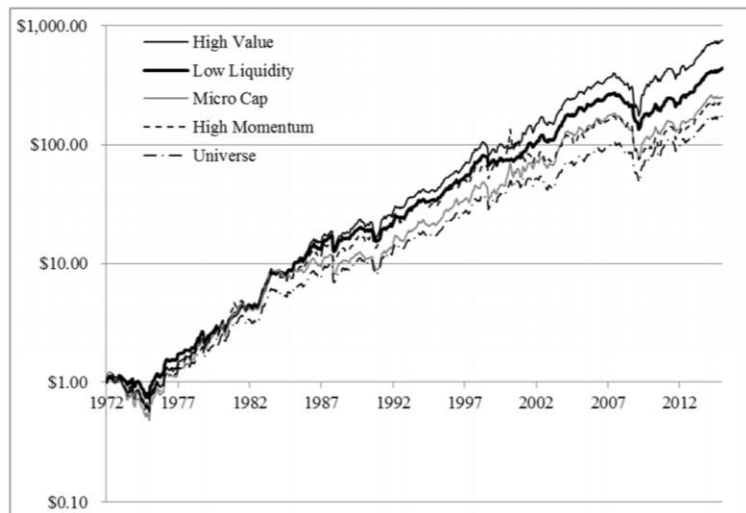
## Section V

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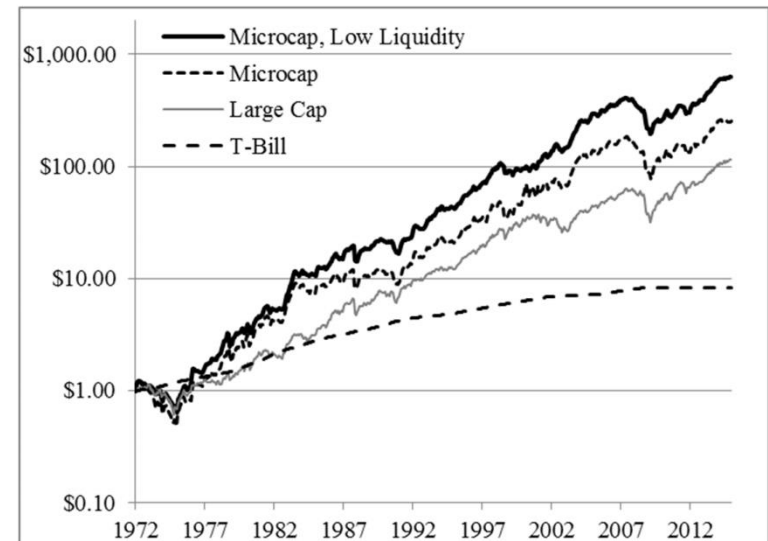
# Appendix



**Figure 1: Comparison of Top-Quartile Style Portfolios 1972 – 2014**



### A. Comparison for liquidity and market cap related portfolios



Source: Ibbotson, Roger G. & Kin, Daniel, Risk and Return Within the Stock Market: What Works Best?