Standard Bank Investment Summary

Transaction Summary

Cohesive Capital Partners, L.P. ("Cohesive") is investing $10 million in the common equity of Standard Bancshares, Inc. ("Standard" or the "Company") as part of the recapitalization of the south-side Chicago-based bank. The transaction is led by Stone Point Capital ("Stone Point"), a prominent financial services focused private equity fund. As the anchor investor in the transaction, Stone Point is investing $70 million for 33% economic ownership (with an associated 14.9% voting interest, limited due to regulatory percent ownership/voting restrictions). In total, Standard is raising $130 million in new capital from eight new investors in exchange for an approximate 60% aggregate ownership interest. The existing owner, a Chicago-based real-estate development family, will continue to own the balance of the equity.

The Company is raising new equity principally because in 2006, Standard borrowed $16 million from LaSalle Bank at its holding company and contributed that amount to its bank's subsidiary to acquire $60 million of downtown Chicago condo construction loans that LaSalle Bank was originating in order to boost growth. These loans were outside of Standard's core market. Many of those loans ultimately generated significant losses during the Great Recession. As a result of those losses, the bank subsidiary's capital position was impaired and the holding company was left without the ability to repay its loan to LaSalle. Consequently, the bank's federal regulators highly encouraged the holding company to raise new equity capital to retire the holding company loan and add capital to the bank subsidiary to bolster its capital position. Standard began that capital raising process in 2010, with Stone Point ultimately agreeing to lead a recapitalization in late 2011. Cohesive verbally committed to invest in the recap in June, while all legal documentation was completed and submitted to the government in early November. The transaction is expected to close in Q1 2013 upon receipt of all regulatory approvals.

Company Description

Founded in 1947, Standard Bank (~$2.2 billion in assets and ~$1.9 billion in deposits) offers traditional community banking services including commercial, mortgage and consumer loans and a range of deposit products to mostly commercial clients for their business and personal banking needs. Other services offered by the Bank include online banking, cash management, insurance brokerage, wealth management and trust services. Standard currently operates 42 branches located primarily throughout the largely working class southwestern Chicago suburbs and also in northwestern Indiana.

Investment Highlights

- *Well-capitalized bank platform:* Post-closing, Standard will be a strong, well-capitalized community banking platform with excess equity available to grow organically and make accretive acquisitions
- *"Well-scrubbed" loan book:* Credit Risk Management (independent loan review specialists) has reviewed Standard's loan portfolio three separate times since 2010 and believes there is sufficient loss protection on existing problem assets to prevent impairment on the recap investors' equity
- *Attractive valuation:* The entry price of 0.78x Price / Adjusted Tangible Book Value (0.87x Price / Adjusted Tangible Book Value if you include our assumptions for additional expected future losses in the bank's loan portfolio) represents a discount to normalized long-term banking multiples
- *High-quality, experienced management team:* President and CEO Larry Kelley has spent over 32 years with Standard in a variety of senior management positions, having worked his way up from part-time teller in 1980
- *Excellent relationship with its regulators*: In their most recent bank examination, Standard's management team received highly complementary written feedback from the regulators
- *Strong market demographics*: Chicago is the third largest economy in the U.S. and a major money-center location; household income and income growth trends are projected to exceed national averages; south-side Chicago is much less competitive than the north-side
- *Low cost and sticky deposit franchise:* Standard's cost of funding is significantly lower than most of its Chicago peers as a result of its long-term relationships with its customer base
- *Numerous acquisition opportunities:* The banking landscape in Chicago is highly fragmented and currently filled with a large number of troubled institutions which could potentially be acquired at attractive prices
- *Good "Jockey" / "Horse" match*: Anchor investor Stone Point Capital has invested in seven different community banking platforms since 2008 and has extensive experience in the financial services sector