

**Bank**Director  
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## 2016 Bank M&A Survey

NOV 2015 | RESEARCH

Sponsored by:

 Crowe Horwath.



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**Executive Summary**

How large does a bank need to be to compete in today’s marketplace? Size may be up for debate, but the 67 percent of respondents to Bank Director’s 2016 Bank M&A Survey, sponsored by Crowe Horwath LLP, believe their bank needs to grow significantly.

What is the “just right” asset size for the industry? A slim majority of respondents—32 percent, mostly from banks below \$1 billion in assets—say that their bank needs to hit that \$1 billion target size to remain competitive in a consolidating industry. Data in recent years shows that most sellers are smaller institutions whose leadership may have believed that the bank could not compete with larger organizations in today’s climate.

Bank Director surveyed chief executive officers, chairmen, independent directors and senior executives of U.S. banks via email to examine current attitudes and challenges regarding bank M&A, and what drives banks to buy and sell. One-third of the 260 respondents serve as their institution’s chief executive, and 45 percent serve as an independent director or chairman. Almost half of respondents report their bank has made an acquisition since the 2008 financial crisis.

The survey also finds that 62 percent of respondents feel that the current environment is more favorable for bank M&A. However, bank leaders also hint at potential credit concerns in the near future: Forty-six percent say they’re beginning to see a deterioration in loan underwriting standards within the industry, which could sow the seeds of asset quality problems during the next economic downturn. If credit quality issues arise again, the impact could be detrimental to financial institutions seeking growth through M&A. Credit quality issues have been among the most often cited barriers for banks being able to complete acquisitions.

**Other Key Findings:**

- Fifty-one percent report their bank intends to purchase a healthy bank within the next 12 months.
- Fifty-six percent have walked away from a deal in the past three years. Of the 43 percent who have turned down a potential acquisition, 60 percent cite deal price. Forty-six percent blame the credit quality of the target institution.
- Of respondents who have not made an acquisition, or haven’t acquired another institution since 2007 or prior, 32 percent say their bank has elected to stay out of the market due to a preference for organic growth.
- For banks that have been acquirers since 2008, credit culture, at 32 percent, and retaining key talent that aligns with the buyer’s culture, at 31 percent, were identified as the most difficult aspects of integration after the bank’s most recent deal closed.
- More institutions are using social media channels like Facebook, Twitter or LinkedIn to communicate with customers following an acquisition. Facebook, at 26 percent, is the most popular channel used by respondents.
- Of the respondents who served as a board member or executive of a bank that was sold from 2012 to 2015, 55 percent say they sold because shareholders wanted to cash out. Twenty-seven percent cite limited growth opportunities. Despite concerns that regulatory costs are causing banks to sell, just 27 percent cite this burden as a primary motivator.

### 1. When did your bank last acquire or merge with another institution?

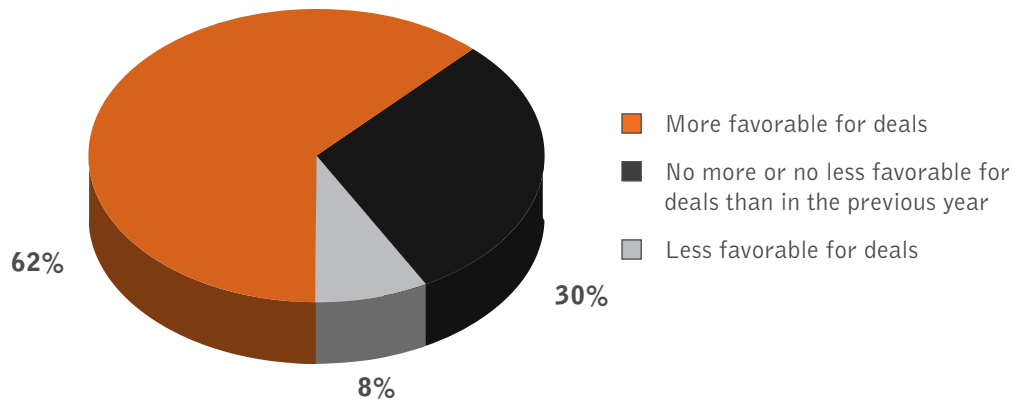
2015	2014	2011-2013	2008-2010	2007 or prior	Our bank has never acquired or merged with another institution
23%	11%	9%	6%	10%	41%

Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
2015	38%	71%	33%	16%	15%	9%	23%
2014	25%	24%	19%	6%	8%	7%	11%
2011-2013	25%	6%	17%	10%	2%	7%	9%
2008-2010	-	-	5%	14%	8%	2%	6%
2007 or prior	6%	-	2%	18%	10%	12%	10%
Our bank has never acquired or merged with another institution	6%	-	24%	37%	58%	63%	41%

Ownership Structure	Public	Private	Mutual	Total
2015	33%	14%	23%	23%
2014	15%	9%	8%	11%
2011-2013	11%	8%	15%	9%
2008-2010	4%	6%	23%	6%
2007 or prior	8%	12%	-	10%
Our bank has never acquired or merged with another institution	30%	52%	31%	41%

Region	South	Northeast	Midwest	West	Total
2015	18%	29%	18%	30%	23%
2014	14%	12%	16%	17%	11%
2011-2013	9%	-	11%	4%	9%
2008-2010	14%	6%	5%	4%	6%
2007 or prior	9%	-	8%	9%	10%
Our bank has never acquired or merged with another institution	36%	53%	42%	35%	41%

**2. How do you feel about the current environment with regard to bank merger and acquisition (M&A) activity?**



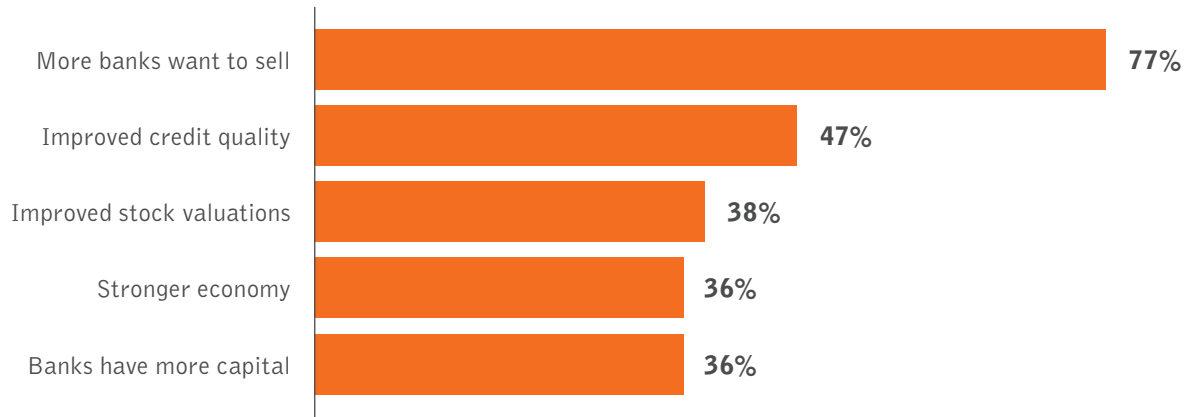
Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
More favorable for deals	62%	47%	71%	61%	67%	54%	62%
No more or no less favorable for deals than in the previous year	38%	35%	21%	29%	25%	39%	30%
Less favorable for deals	-	18%	7%	10%	8%	7%	8%

Ownership Structure	Public	Private	Mutual	Total
More favorable for deals	59%	64%	62%	62%
No more or no less favorable for deals than in the previous year	36%	28%	15%	30%
Less favorable for deals	6%	9%	23%	8%

Region	South	Northeast	Midwest	West	Total
More favorable for deals	59%	53%	68%	52%	62%
No more or no less favorable for deals than in the previous year	36%	35%	19%	35%	30%
Less favorable for deals	5%	12%	14%	13%	8%

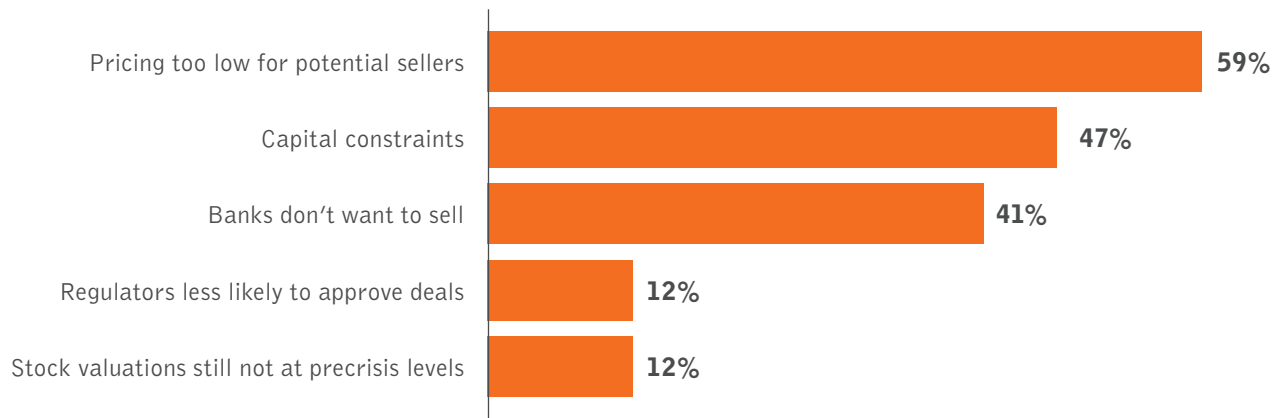
### 3. Why do you think the current climate is **MORE** favorable for bank M&A?

Respondents were asked to select all that apply. Only those indicating that the current climate is more favorable for bank M&A were asked to respond.

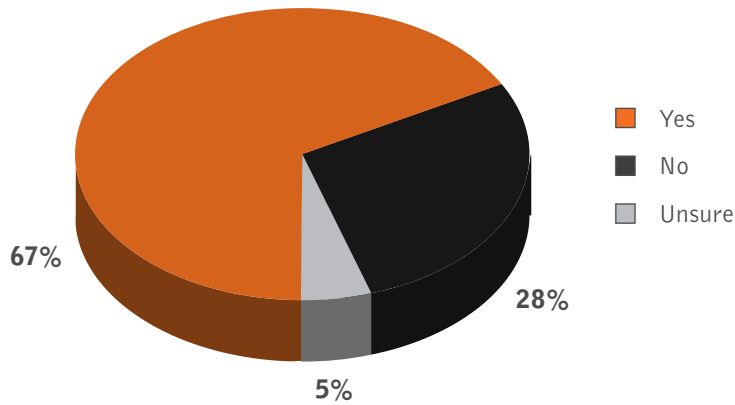


### 4. Why do you think the current climate is **LESS** favorable for bank M&A?

Respondents were asked to select all that apply. Only those indicating that the current climate is less favorable for bank M&A were asked to respond.

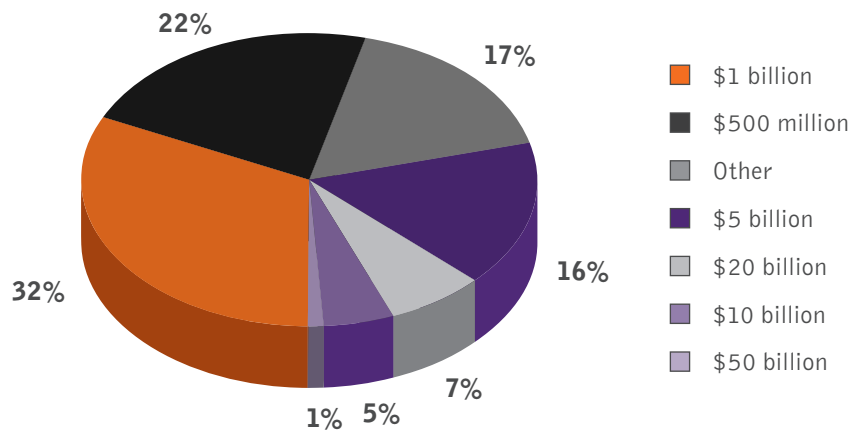


**5. Do you believe your bank needs to grow significantly to compete in today's marketplace?**



Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Yes	80%	59%	60%	73%	69%	66%	67%
No	13%	41%	31%	24%	27%	29%	28%
Unsure	7%	-	10%	2%	4%	5%	5%

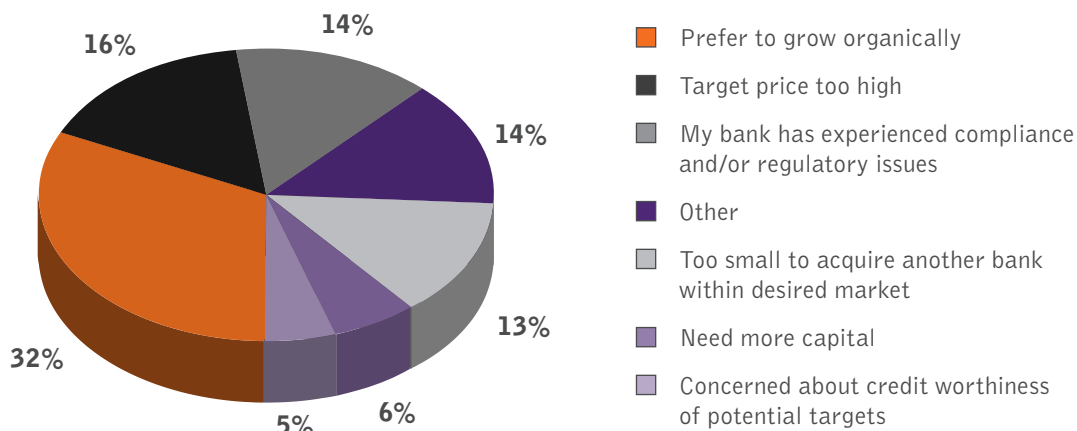
**6. What minimum asset size do you feel your bank needs to attain in order to be competitive?**



Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
\$1 billion	-	-	17%	69%	43%	14%	32%
\$500 million	-	-	4%	3%	43%	46%	22%
Other	33%	10%	17%	3%	6%	38%	17%
\$5 billion	-	10%	54%	22%	9%	-	16%
\$20 billion	42%	50%	-	-	-	3%	7%
\$10 billion	8%	30%	8%	3%	-	-	5%
\$50 billion	17%	-	-	-	-	-	1%

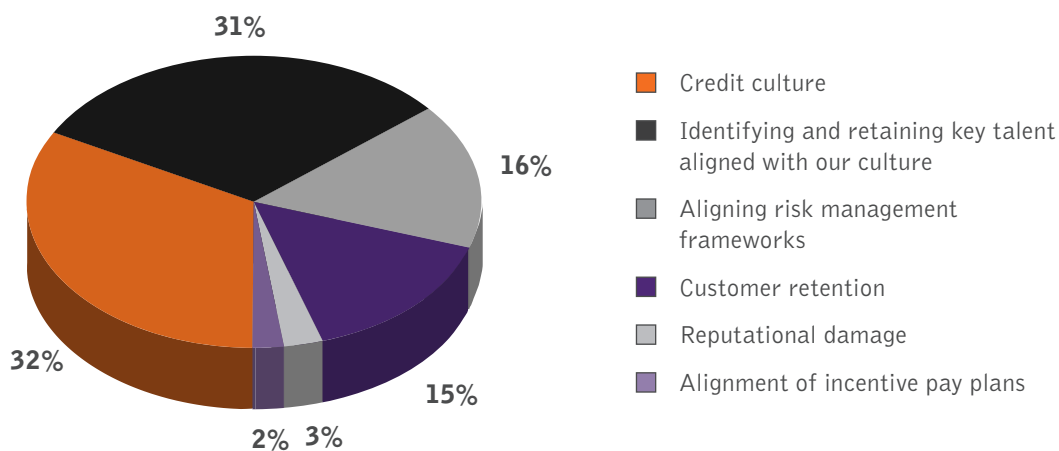
**7. If your bank has not acquired another bank or merged since at least prior to the 2008 financial crisis, what is the primary reason your bank has elected not to acquire?**

Only those indicating that their bank has never made an acquisition, or their bank's most recent acquisition occurred in 2007 or prior, were asked to respond.



**8. Regarding your bank's most recent acquisition, which of the following was the most difficult aspect of integration after the deal closed?**

Only those indicating that their bank acquired another bank from 2008 through 2015 were asked to respond.

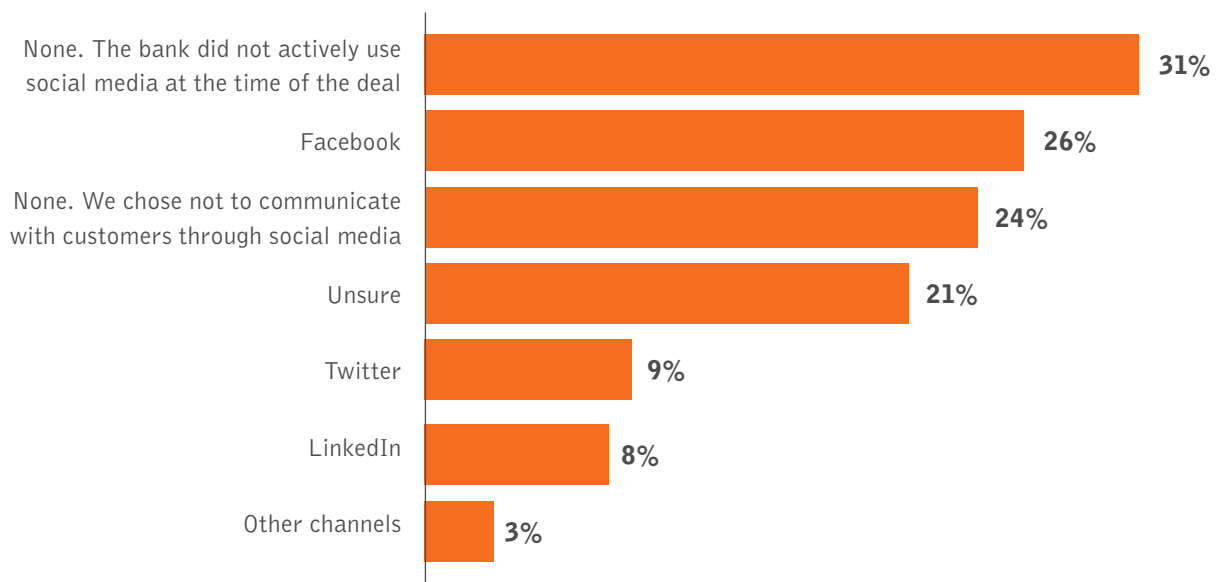


Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Credit culture	17%	29%	19%	41%	56%	36%	32%
Identifying and retaining key talent aligned with our culture	50%	36%	41%	23%	19%	21%	31%
Aligning risk management frameworks	33%	14%	15%	14%	6%	21%	16%
Customer retention	-	21%	15%	18%	19%	14%	15%
Reputational damage	-	-	4%	5%	-	7%	3%
Alignment of incentive pay plans	-	-	7%	-	-	-	2%

Most Recent Acquisition	2015	2014	2011-2013	2008-2010	Total
Credit culture	21%	28%	45%	62%	32%
Identifying and retaining key talent aligned with our culture	40%	36%	15%	15%	31%
Aligning risk management frameworks	15%	16%	30%	-	16%
Customer retention	21%	12%	10%	8%	15%
Reputational damage	-	4%	-	15%	3%
Alignment of incentive pay plans	2%	4%	-	-	2%

**9. Following your bank’s most recent acquisition, were any of the following social media channels used to communicate with customers?**

Respondents were asked to select all that apply. Only those indicating that their bank acquired another bank from 2008 through 2015 were asked to respond.



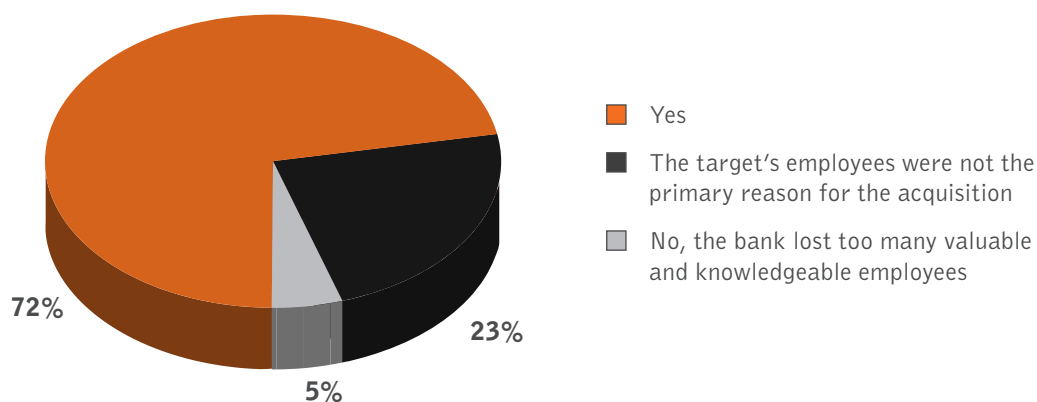
Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
None. The bank did not actively use social media at the time of the deal	50%	7%	17%	62%	25%	31%	31%
Facebook	8%	47%	38%	10%	19%	31%	26%
None. We chose not to communicate with customers through social media	8%	20%	17%	24%	56%	15%	24%
Unsure	33%	27%	28%	14%	6%	15%	21%
Twitter	8%	13%	17%	-	-	15%	9%
LinkedIn	-	-	17%	5%	6%	15%	8%
Other channels	-	-	-	-	-	23%	3%



Most Recent Acquisition	2015	2014	2011-2013	2008-2010	Total
None (The bank chose not to communicate with customers through social media or did not actively use social media at the time of the deal)	46%	44%	58%	86%	53%
Facebook	33%	32%	16%	7%	26%
Unsure	21%	24%	26%	7%	21%
Twitter	10%	8%	11%	7%	9%
LinkedIn	15%	-	5%	7%	8%
Other channels	4%	-	-	7%	3%

### 10. Were you satisfied with the quality and quantity of retained employees following your bank's most recent acquisition?

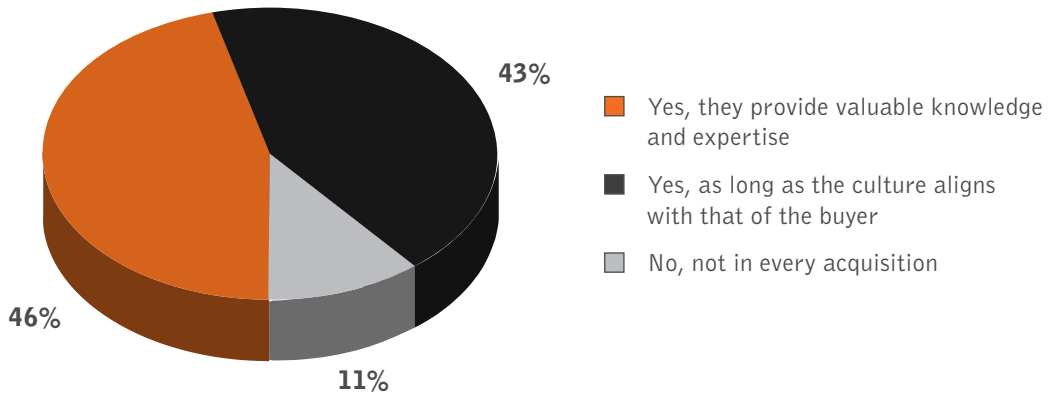
Only those indicating that their bank acquired another bank from 2008 through 2015 were asked to respond.



Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Yes	100%	73%	71%	55%	75%	71%	72%
The target's employees were not the primary reason for the acquisition	-	13%	29%	32%	25%	29%	23%
No, the bank lost too many valuable and knowledgeable employees	-	13%	-	14%	-	-	5%

Most Recent Acquisition	2015	2014	2011-2013	2008-2010	Total
Yes	83%	73%	50%	64%	72%
The target's employees were not the primary reason for the acquisition	17%	19%	35%	36%	23%
No, the bank lost too many valuable and knowledgeable employees	-	8%	15%	-	5%

**11. Do you believe it is important for a bank to retain key employees from the target bank following an acquisition?**  
*Only those indicating that their bank acquired another bank from 2008 through 2015 were asked to respond.*

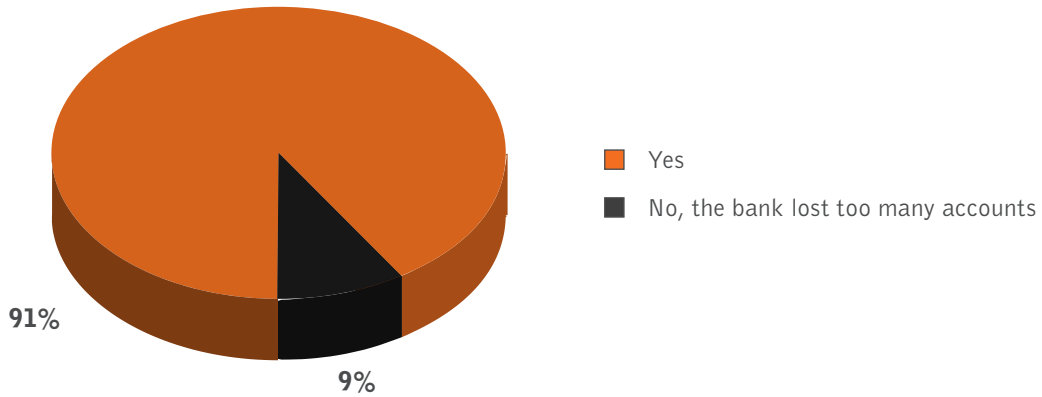


Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Yes, they provide valuable knowledge and expertise	58%	53%	45%	32%	44%	57%	46%
Yes, as long as the culture aligns with that of the buyer	42%	33%	38%	59%	50%	29%	43%
No, not in every acquisition	-	13%	17%	9%	6%	14%	11%

Most Recent Acquisition	2015	2014	2011-2013	2008-2010	Total
Yes, they provide valuable knowledge and expertise	60%	42%	20%	43%	46%
Yes, as long as the culture aligns with that of the buyer	25%	50%	65%	57%	43%
No, not in every acquisition	15%	8%	15%	-	11%

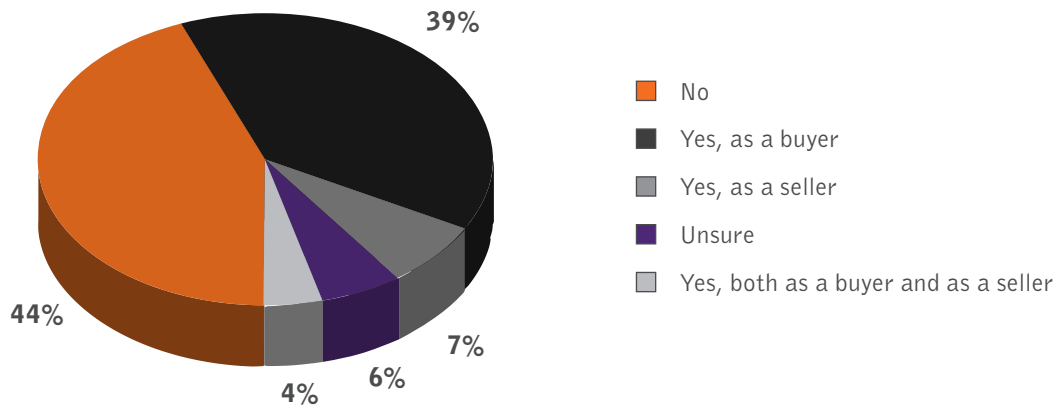
**12. Following your bank’s most recent acquisition, was customer retention maintained at the levels projected before the deal?**

Only those indicating that their bank acquired another bank from 2008 through 2015 were asked to respond.



Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Yes	100%	93%	93%	77%	93%	93%	91%
No, the bank lost too many accounts	-	7%	7%	23%	7%	7%	9%

**13. Has your bank “walked away” from a deal in the past three years?**

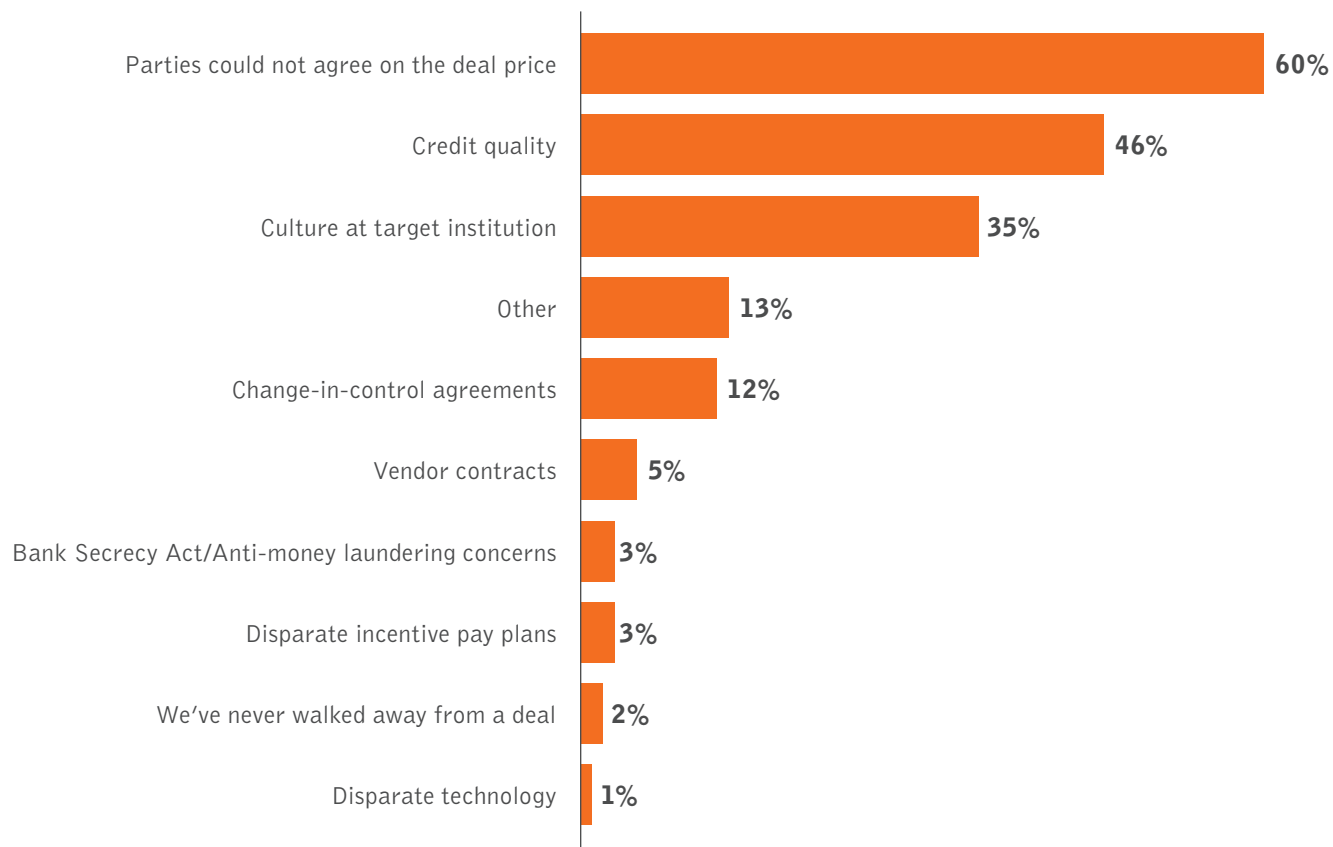


Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
No	43%	20%	41%	51%	38%	51%	44%
Yes, as a buyer	57%	80%	46%	32%	38%	25%	39%
Yes, as a seller	-	-	8%	6%	7%	11%	7%
Unsure	-	-	5%	6%	9%	7%	6%
Yes, both as a buyer and as a seller	-	-	-	4%	9%	5%	4%

Most Recent Acquisition	2015	2014	2011-2013	2008-2010	2007 or prior	Never Acquired	Total
No	35%	23%	30%	43%	43%	58%	44%
Yes, as a buyer	59%	62%	50%	50%	43%	16%	39%
Yes, as a seller	4%	-	10%	7%	9%	9%	7%
Unsure	2%	4%	10%	-	4%	9%	6%
Yes, both as a buyer and as a seller	-	12%	-	-	-	7%	4%

#### 14. As a potential BUYER, which of the following factors have caused your board to turn down a potential target institution?

Respondents asked to select all that apply. Only those indicating that their bank walked away from a deal as a buyer were asked to respond.

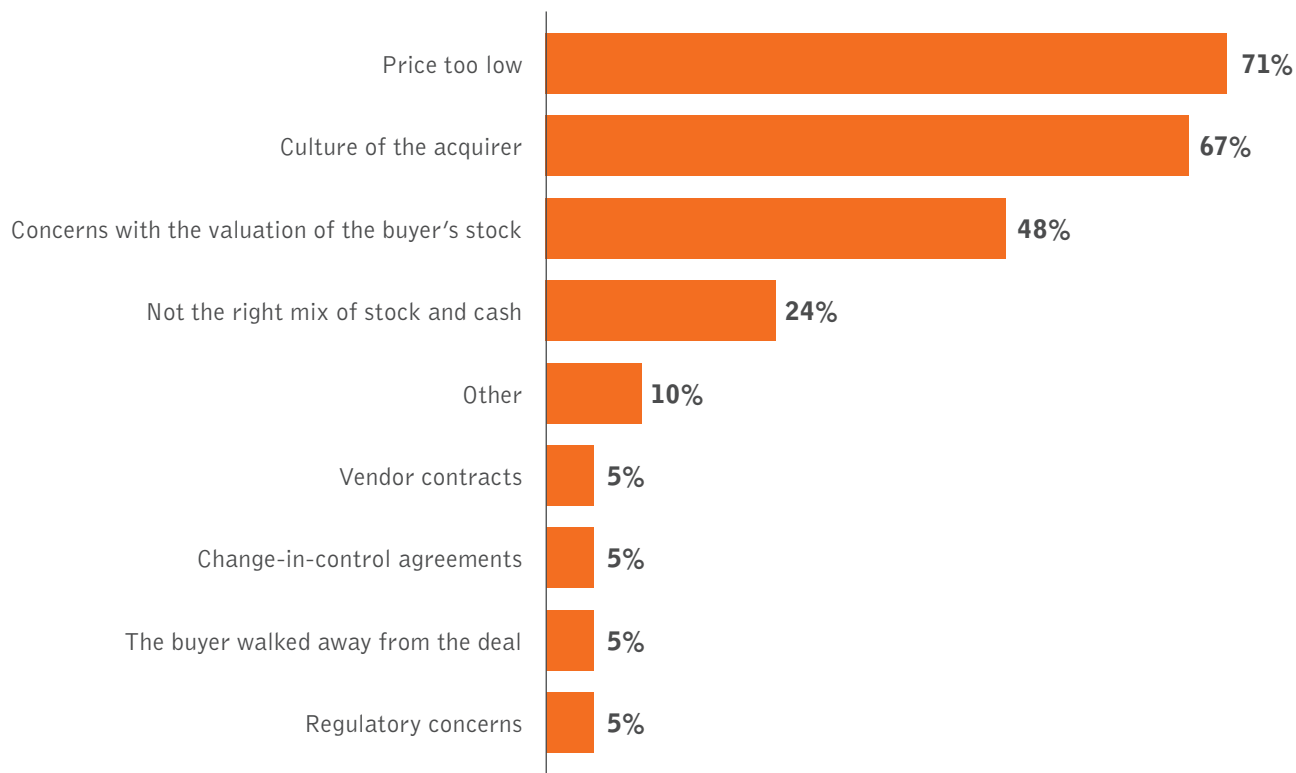


Bank Asset Size	>\$10B*	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Parties could not agree on the deal price	88%	75%	67%	65%	35%	56%	60%
Credit quality	50%	58%	44%	29%	50%	50%	46%
Culture at target institution	12%	42%	28%	35%	40%	44%	35%
Other	-	17%	17%	6%	15%	19%	13%
Change-in-control agreements	-	17%	6%	12%	25%	6%	12%
Vendor contracts	-	8%	6%	-	5%	12%	5%
Bank Secrecy Act/Anti-money laundering concerns	25%	8%	-	-	-	-	3%
Disparate incentive pay plans	-	-	6%	12%	-	-	3%
We've never walked away from a deal	-	-	-	6%	5%	-	2%
Disparate technology	-	-	-	-	5%	-	1%

\*Base size <10 in this category

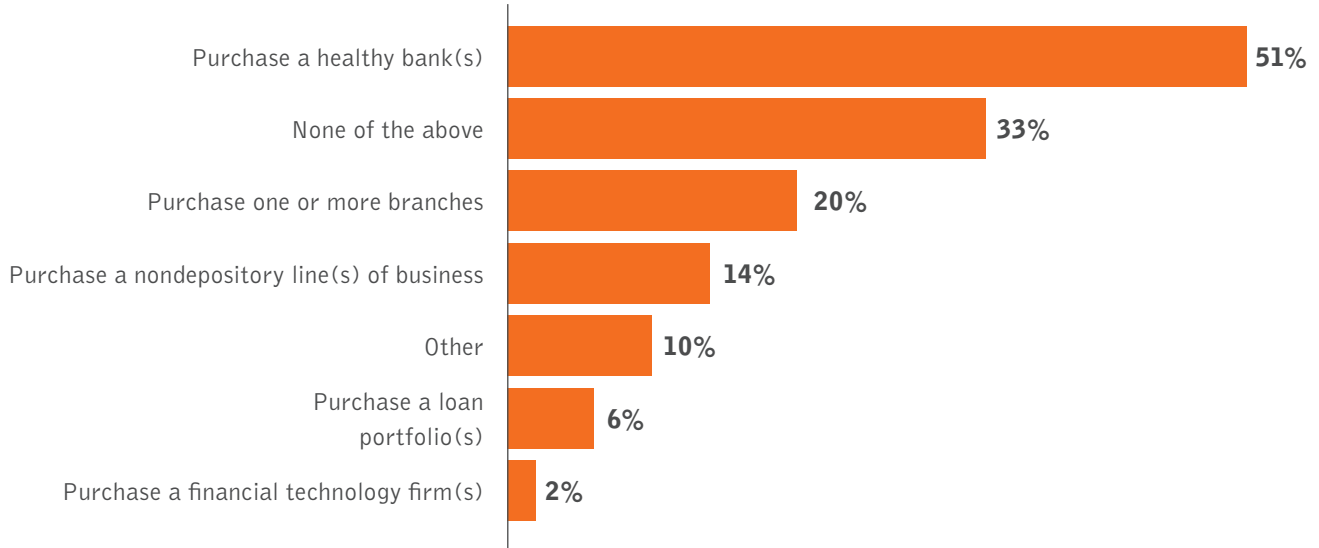
### 15. As a potential SELLER, which of the following factors have caused your board to turn down the sale of your institution?

Respondents asked to select all that apply. Only those indicating that their bank walked away from a deal as a seller were asked to respond.



**16. Over the next 12 months, does your institution intend to participate in any of the following?**

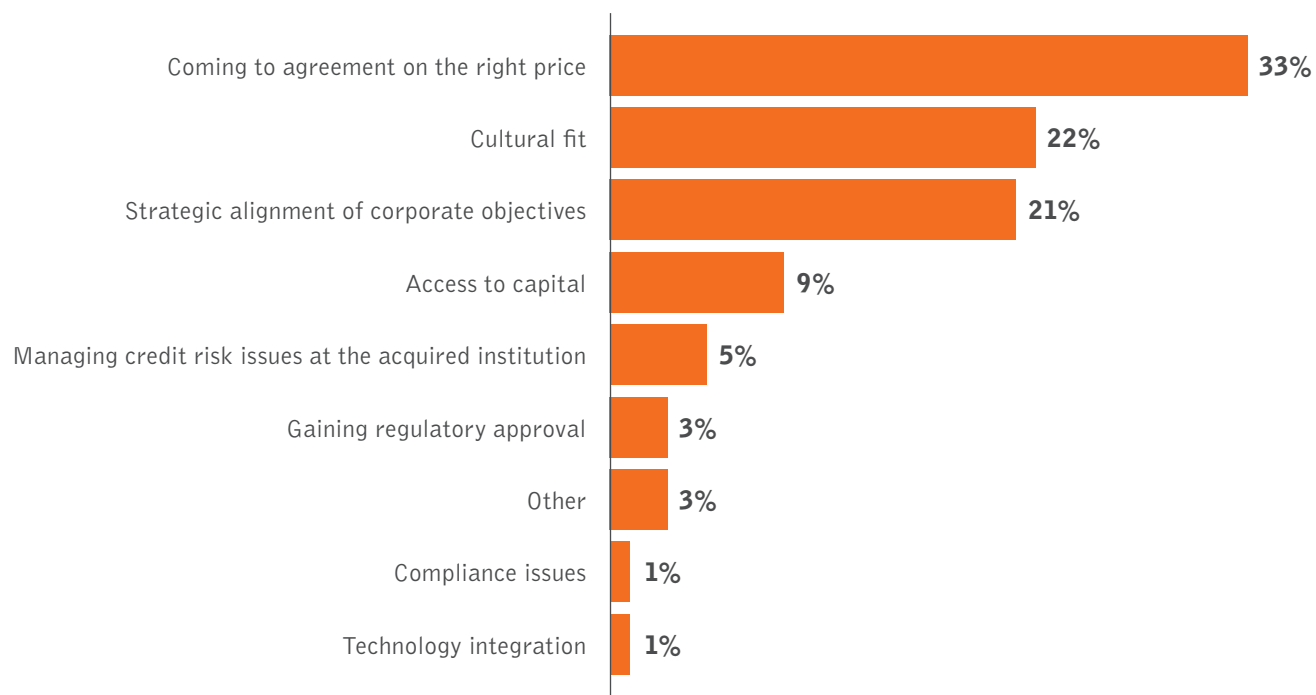
*Respondents asked to select all that apply.*



Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Purchase a healthy bank(s)	86%	87%	69%	55%	44%	20%	51%
None of the above	14%	-	18%	32%	30%	65%	33%
Purchase one or more branches	29%	33%	8%	25%	23%	16%	20%
Purchase a nondepository line(s) of business	21%	40%	18%	9%	9%	8%	14%
Other	-	7%	-	14%	14%	14%	10%
Purchase a loan portfolio(s)	-	20%	5%	16%	-	2%	6%
Purchase a financial technology firm(s)	7%	7%	-	2%	5%	-	2%

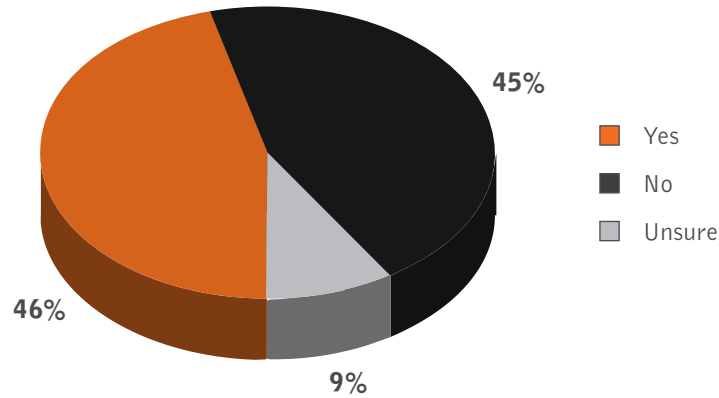
Region	South	Northeast	Midwest	West	Total
Purchase a healthy bank(s)	42%	69%	49%	52%	51%
None of the above	37%	15%	34%	43%	33%
Purchase one or more branches	5%	31%	23%	19%	20%
Purchase a nondepository line(s) of business	-	23%	26%	14%	14%
Other	21%	-	3%	10%	10%
Purchase a loan portfolio(s)	11%	-	3%	5%	6%
Purchase a financial technology firm(s)	-	8%	-	-	2%

**17. What do you see as the greatest challenge your board faces when considering a potential bank acquisition or merger target?**



Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Coming to agreement on the right price	64%	27%	34%	31%	36%	27%	33%
Cultural fit	-	27%	21%	29%	22%	23%	22%
Strategic alignment of corporate objectives	21%	33%	24%	16%	24%	17%	21%
Access to capital	-	-	8%	11%	11%	10%	9%
Managing credit risk issues at the acquired institution	-	7%	8%	4%	2%	8%	5%
Gaining regulatory approval	14%	-	-	2%	2%	6%	3%
Other	-	-	3%	4%	2%	4%	3%
Compliance issues	-	-	3%	-	-	4%	1%
Technology integration	-	7%	-	2%	-	2%	1%

**18. Are you beginning to see any deterioration in loan underwriting standards within the banking industry that could lead to credit quality issues in the future?**

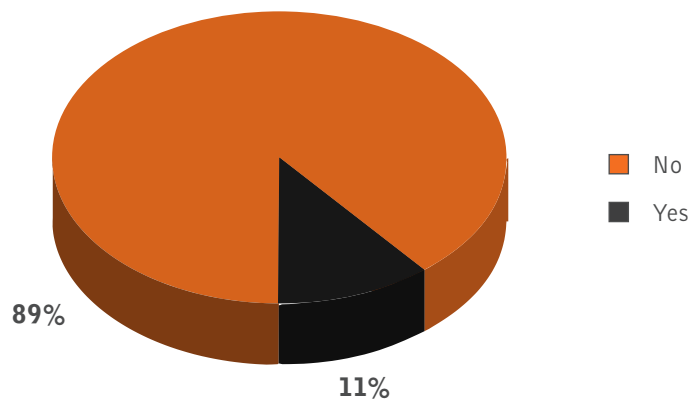


Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Yes	36%	40%	59%	46%	50%	37%	46%
No	36%	47%	31%	46%	46%	56%	45%
Unsure	29%	13%	10%	9%	4%	8%	9%

Region	South	Northeast	Midwest	West	Total
Yes	40%	29%	58%	57%	46%
No	50%	57%	39%	33%	45%
Unsure	10%	14%	3%	10%	9%

**19. Within the past 12 months, has your bank walked away from an acquisition as a result of concerns about the quality of the underwriting standards at the target?**

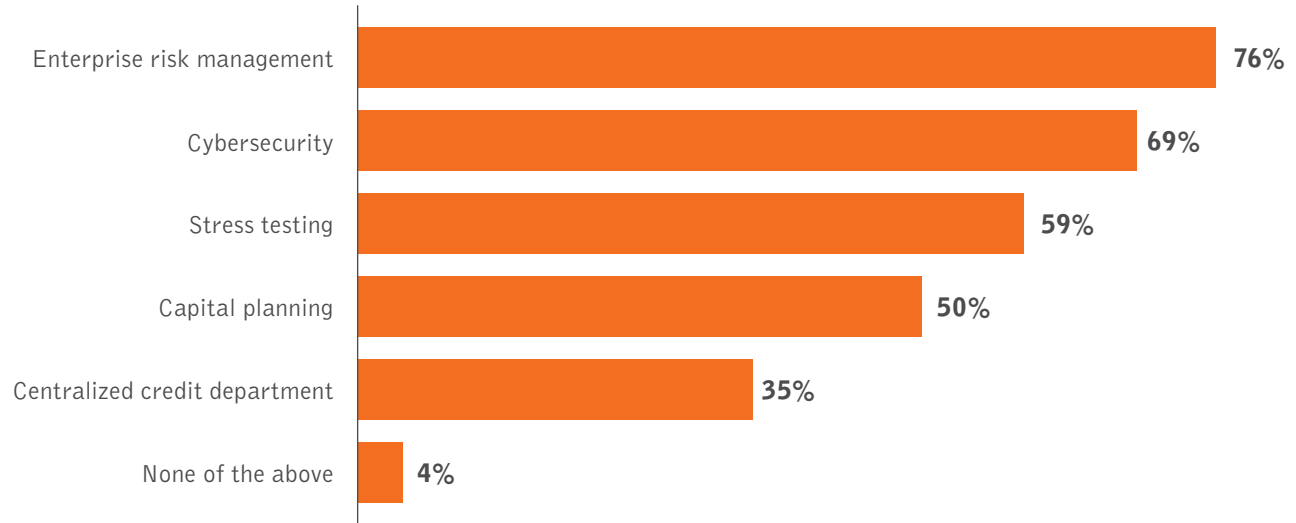
*Only those indicating that they see deterioration in loan underwriting standards were asked to respond.*





## 20. As your bank has grown in the past three years, in what areas has it improved its infrastructure?

Respondents were asked to select all that apply.

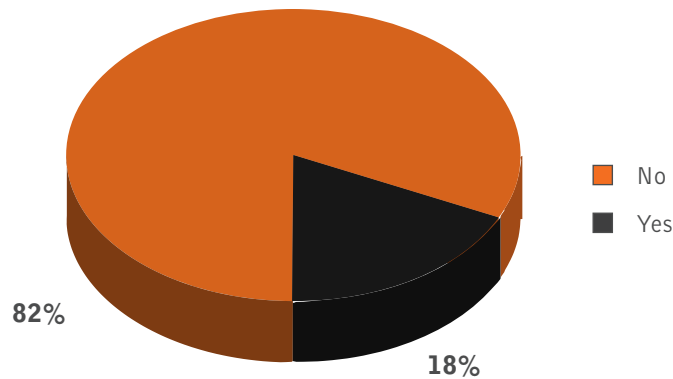


Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Enterprise risk management	100%	100%	92%	83%	64%	57%	76%
Cybersecurity	79%	80%	74%	78%	62%	57%	69%
Stress testing	100%	73%	63%	61%	60%	38%	59%
Capital planning	43%	67%	53%	41%	69%	36%	50%
Centralized credit department	14%	60%	32%	43%	36%	26%	35%
None of the above	-	-	-	-	2%	13%	4%

Ownership Structure	Public	Private	Mutual	Total
Enterprise risk management	84%	69%	83%	76%
Cybersecurity	69%	68%	67%	69%
Stress testing	63%	59%	25%	59%
Capital planning	54%	49%	25%	50%
Centralized credit department	26%	42%	25%	35%
None of the above	2%	4%	17%	4%

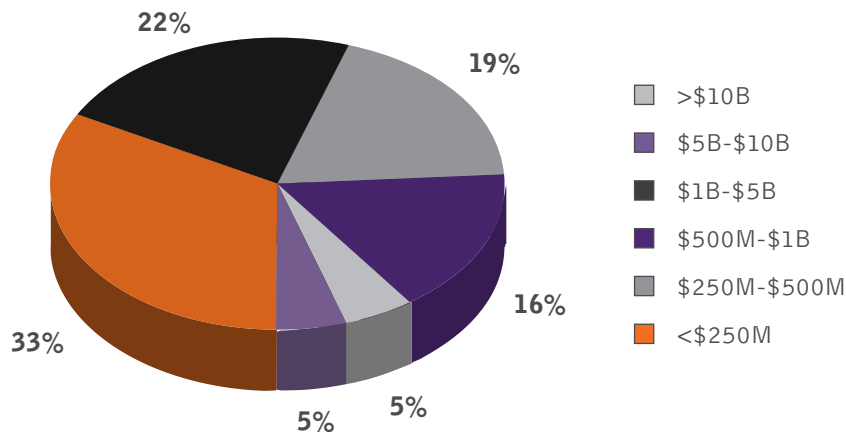
Most Recent Acquisition	2015	2014	2011-2013	2008-2010	2007 or prior	Never Acquired	Total
Enterprise risk management	81%	80%	85%	92%	87%	65%	76%
Cybersecurity	66%	80%	65%	77%	87%	61%	69%
Stress testing	68%	72%	50%	54%	70%	49%	59%
Capital planning	49%	64%	20%	62%	70%	46%	50%
Centralized credit department	43%	32%	45%	54%	26%	28%	35%
None of the above	2%	-	-	-	-	8%	4%

**21. Have you served on a board or as an executive of a financial institution that merged or was acquired in the past three years (2012-2015)?**



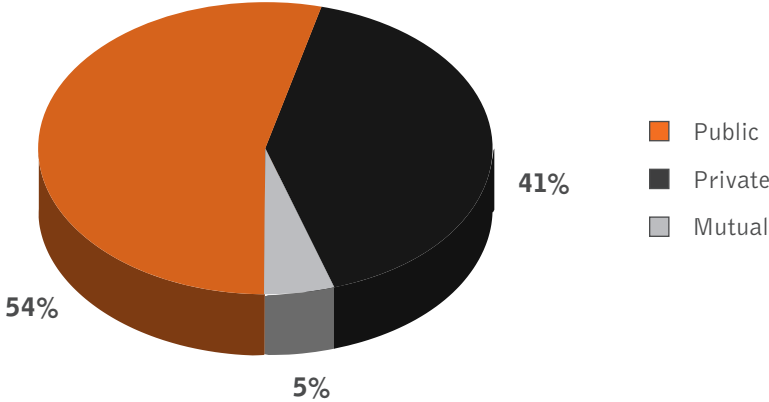
**22. Please select the asset size of the bank that was most recently sold.**

*Only those indicating that they served as a director or an executive of a merged or acquired financial institution were asked to respond.*



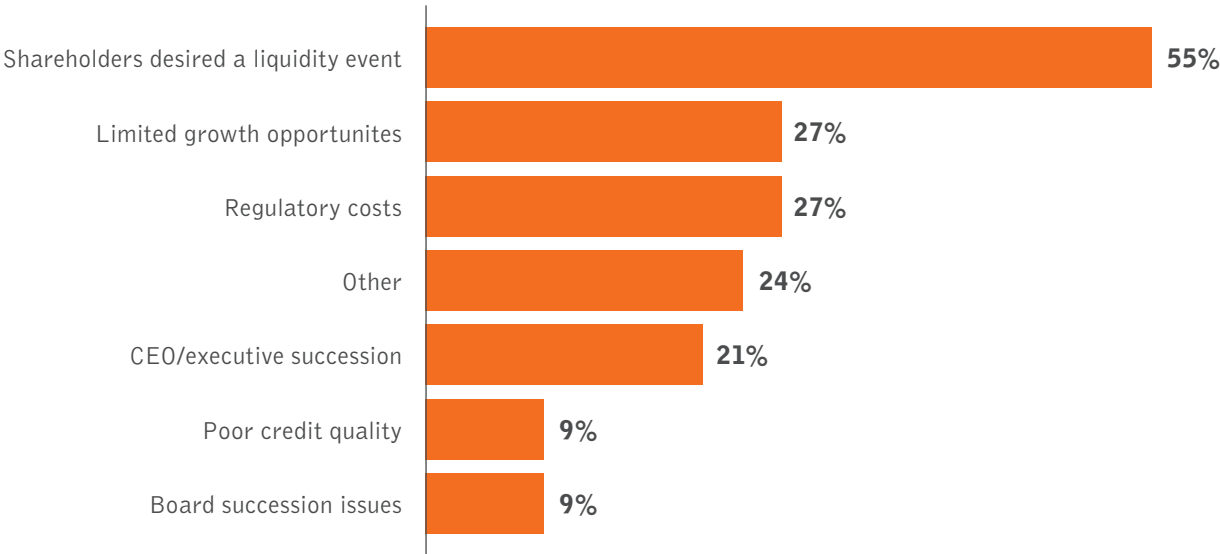
**23. Please select the ownership structure of the bank that was most recently sold.**

Only those indicating that they served as a director or an executive of a merged or acquired financial institution were asked to respond.



**24. What were the primary reasons for selling the institution with which you served?**

Respondents were asked to select all that apply. Only those indicating that they served as a director or an executive of a merged or acquired financial institution were asked to respond.

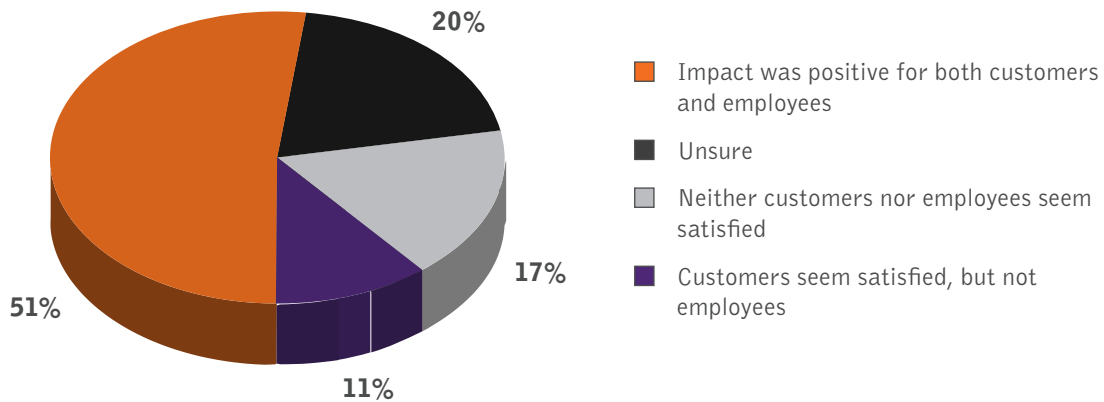


Asset Size of Acquired Bank	>\$1B	<\$1B	Total
Shareholders desired a liquidity event	36%	64%	55%
Limited growth opportunities	45%	18%	27%
Regulatory costs	18%	32%	27%
Other	27%	23%	24%
CEO/executive succession	27%	18%	21%
Poor credit quality	18%	5%	9%
Board succession issues	-	14%	9%

Ownership Structure of Acquired Bank	Public	Private	Total
Shareholders desired a liquidity event	41%	73%	55%
Limited growth opportunities	29%	27%	27%
Regulatory costs	24%	33%	27%
Other	24%	20%	24%
CEO/executive succession	29%	13%	21%
Poor credit quality	18%	-	9%
Board succession issues	12%	7%	9%

**25. Were you satisfied with the impact of the sale on the bank’s former employees and customers?**

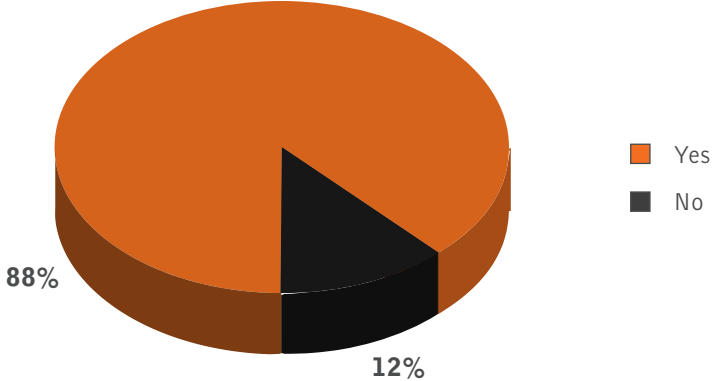
Only those indicating that they served as a director or an executive of a merged or acquired financial institution were asked to respond.



Asset Size of Acquired Bank	>\$1B	<\$1B	Total
Impact was positive for both customers and employees	33%	61%	51%
Unsure	33%	13%	20%
Neither customers nor employees seem satisfied	25%	13%	17%
Customers seem satisfied, but not employees	8%	13%	11%

**26. Were you satisfied with the selling price?**

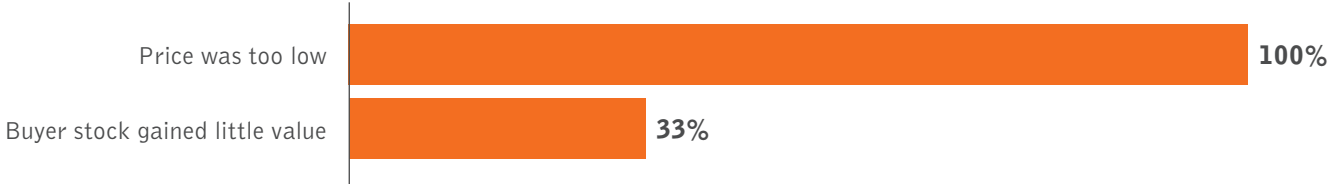
Only those indicating that they served as a director or an executive of a merged or acquired financial institution were asked to respond.



Asset Size of Acquired Bank	>\$1B	<\$1B	Total
Yes	83%	91%	88%
No	17%	9%	12%

**27. Why were you dissatisfied with the selling price of your bank?\***

Respondents were asked to select all that apply. Only those indicating that they served as a director or an executive of a merged or acquired financial institution, and were dissatisfied with the selling price of their bank, were asked to respond.



\*Base size <10 for this question

### ABOUT THE SURVEY

Bank Director’s 2016 Bank M&A Survey, sponsored by Crowe Horwath LLP, surveyed 260 current and former directors, CEOs and other senior executives from banks, ranging from small community banks below \$250 million in assets to those more than \$10 billion. The majority of respondents, at 92 percent, actively serve as an executive or board member of a U.S. financial institution. Forty-five percent serve as an independent director or chairman, and one-third as their institution’s CEO. The survey was conducted online in September 2015.

