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2018 Bank M&A Survey

DEC 2017 | RESEARCH

Sponsored by:

 Crowe Horwath.



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Executive Summary

Driven in part by expectations for modest growth in the U.S. economy, almost half of the bank executives and directors participating in the 2018 Bank M&A Survey believe that the current environment for bank M&A is more favorable for deals, and 55 percent say their institution is likely to purchase another bank by the close of 2018. U.S. banks announced 191 deals through October 27, 2017, according to S&P Global Market Intelligence, and is on track to close the year on par with 2016, which closed with 241 deals. With that in mind, it's perhaps no surprise that 40 percent expect a stagnant deal environment.

The 2018 Bank M&A Survey, conducted through September and in early October of 2017, is sponsored by Crowe Horwath LLP. It features the views of 189 chief executive officers, directors and senior executives of U.S. banks on the U.S. economy, the bank M&A environment and their own M&A strategies.

The unfettered optimism felt by the banking industry in the wake of the election of expected deregulator-in-chief Donald Trump has been tempered with the reality that regulatory relief largely hinges on the actions of the U.S. Congress. One-third of bank executives and board members lack confidence that the Republican majority will be able to push through regulatory relief for the banking industry by the end of 2018. But hope springs eternal for most bank leaders. Fifty-nine percent expect modest relief for the industry.

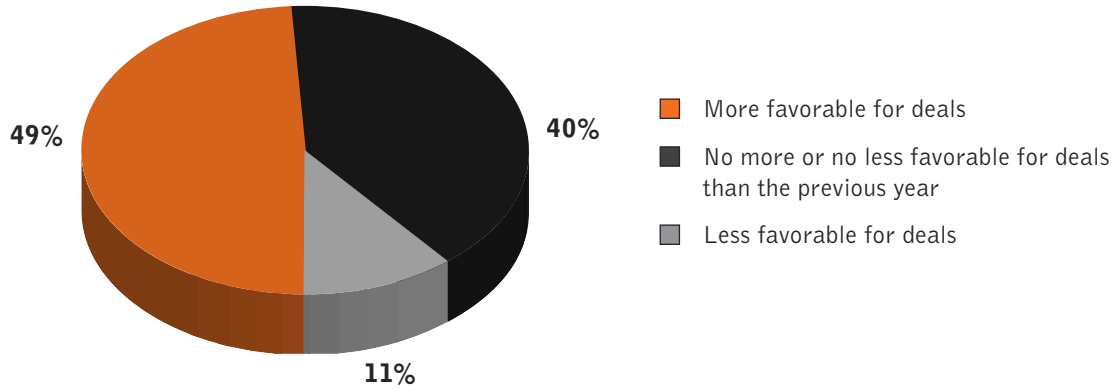
Where President Trump and his administration can best impact the nation's banks is through his appointment of regulators. Fifty-eight percent believe that Donald Trump has had a positive impact on the banking industry. As of November 30, 2017, Trump has appointed Randy Quarles, who's viewed as a moderate deregulator, as vice chairman of supervision for the Federal Reserve, and former OneWest CEO Joseph Otting as Comptroller of the Currency. Janet Yellen will leave the Fed when she is replaced as chairman by current Fed board member Jerome Powell in February 2018. Trump has nominated economist Marvin Goodfriend to fill an open seat on the Fed Board of Governors, and announced he will nominate Fifth Third Bancorp Chief Legal Officer Jelena McWilliams to chair the Federal Deposit Insurance Corp. The permanent leadership of the Consumer Financial Protection Bureau—not addressed in the survey—is also in flux. Ninety-seven percent of respondents believe that these regulatory appointees will be more sympathetic to the banking industry.

Additional findings

- Forty-four percent indicate that rising bank valuations have made it more difficult for their bank to compete for or attract suitable acquisition targets.
- Fifty-five percent say their financial institution is likely to purchase another bank by the end of 2018. Thirty-five percent are likely to purchase a branch, 19 percent a loan portfolio and 26 percent a nondepository line of business.
- When asked about the kinds of acquisitions the bank is willing to make, 83 percent say their board and management team would consider a market extension, and 78 percent an in-market deal. Twenty-eight percent would consider an out-of-market deal.
- Few—just 7 percent—are likely to acquire a fintech company by the end of 2018.

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

**Indicates a base count of less than 10 within a category.*

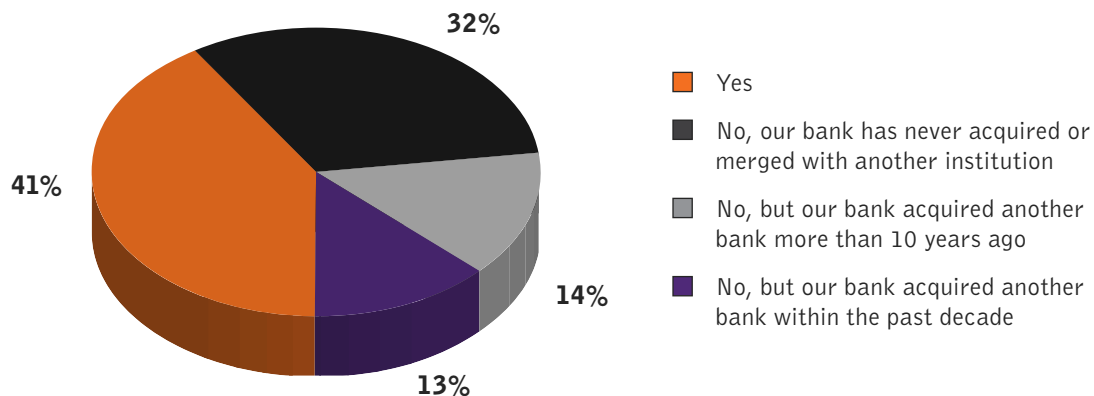


Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
More favorable for deals	36%	58%	50%	43%	52%	57%	49%
No more or no less favorable for deals than the previous year	64%	42%	31%	38%	44%	32%	40%
Less favorable for deals	-	-	19%	19%	4%	11%	11%

Bank Ownership	Public	Private	Mutual*	Total
More favorable for deals	51%	51%	22%	49%
No more or no less favorable for deals than the previous year	43%	36%	44%	40%
Less favorable for deals	5%	14%	33%	11%

2. Has your bank acquired or merged with another institution within the past three years?

**Indicates a base count of less than 10 within a category.*



Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Yes	86%	100%	67%	33%	17%	7%	41%
No, our bank has never acquired or merged with another institution	7%	-	11%	21%	59%	61%	32%
No, but our bank acquired another bank more than 10 years ago	-	-	8%	26%	9%	29%	14%
No, but our bank acquired another bank within the past decade	7%	-	14%	19%	15%	4%	13%

Bank Ownership	Public	Private	Mutual*	Total
Yes	53%	30%	44%	41%
No, our bank has never acquired or merged with another institution	26%	38%	33%	32%
No, but our bank acquired another bank more than 10 years ago	13%	16%	11%	14%
No, but our bank acquired another bank within the past decade	8%	16%	11%	13%

3. By the end of 2018, how likely is it that your institution will purchase the following?

Bank(s)							
Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Very likely	43%	42%	39%	7%	11%	7%	21%
Somewhat likely	29%	33%	42%	32%	39%	21%	34%
Somewhat unlikely	14%	8%	14%	22%	22%	18%	18%
Very unlikely	14%	8%	3%	24%	26%	50%	22%
Unsure	-	8%	3%	15%	2%	4%	6%

Nondepository line(s) of business							
Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Very likely	-	9%	16%	2%	2%	8%	6%
Somewhat likely	17%	27%	19%	17%	24%	12%	20%
Somewhat unlikely	33%	55%	25%	12%	9%	19%	19%
Very unlikely	42%	9%	41%	56%	56%	54%	48%
Unsure	8%	-	-	12%	9%	8%	7%

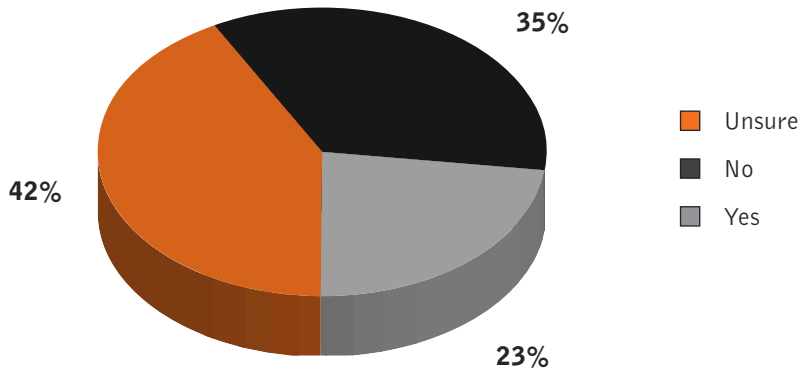
Branch(es)							
Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Very likely	-	8%	6%	2%	5%	8%	5%
Somewhat likely	18%	17%	30%	29%	39%	27%	30%
Somewhat unlikely	18%	42%	27%	24%	23%	15%	24%
Very unlikely	64%	33%	30%	39%	32%	39%	37%
Unsure	-	-	6%	5%	2%	12%	5%

Loan portfolio(s)							
Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Very likely	-	8%	3%	5%	2%	15%	5%
Somewhat likely	42%	25%	12%	10%	11%	8%	14%
Somewhat unlikely	42%	25%	39%	33%	23%	23%	29%
Very unlikely	17%	33%	39%	48%	61%	46%	47%
Unsure	-	8%	6%	5%	2%	8%	5%

Financial technology (fintech) firm							
Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Very likely	8%	-	3%	-	-	7%	2%
Somewhat likely	8%	-	13%	-	-	7%	5%
Somewhat unlikely	17%	17%	9%	10%	11%	4%	11%
Very unlikely	58%	75%	66%	73%	84%	82%	74%
Unsure	8%	8%	9%	17%	5%	-	8%

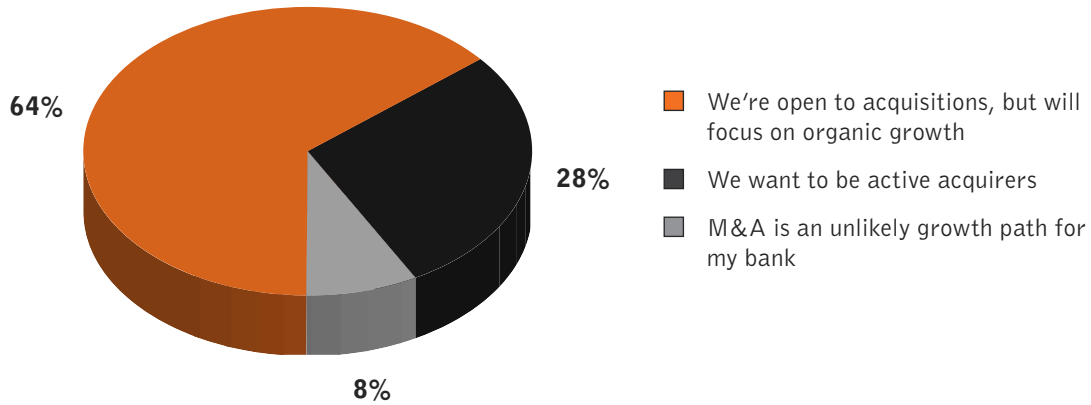
4. Would the board and management team of your bank be open to acquiring a fintech firm if the right target was available?

Question asked of respondents who indicate that the organization is unlikely to purchase or unsure about purchasing a fintech firm by the end of 2018.



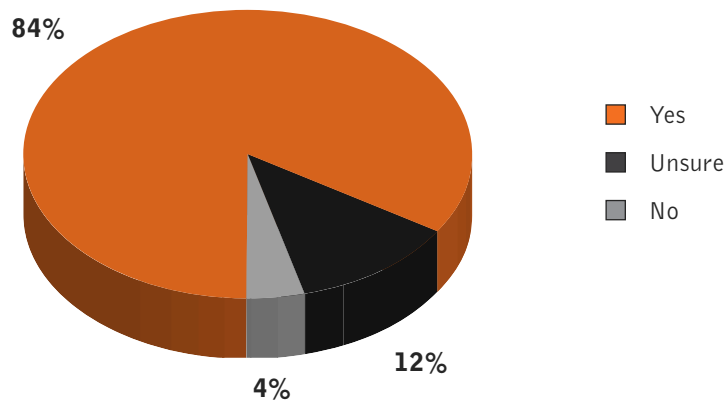
Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Unsure	70%	42%	30%	42%	50%	35%	42%
No	20%	8%	30%	39%	43%	35%	35%
Yes	10%	50%	41%	20%	7%	30%	23%

5. How would you characterize your bank's growth strategy over the next five years?



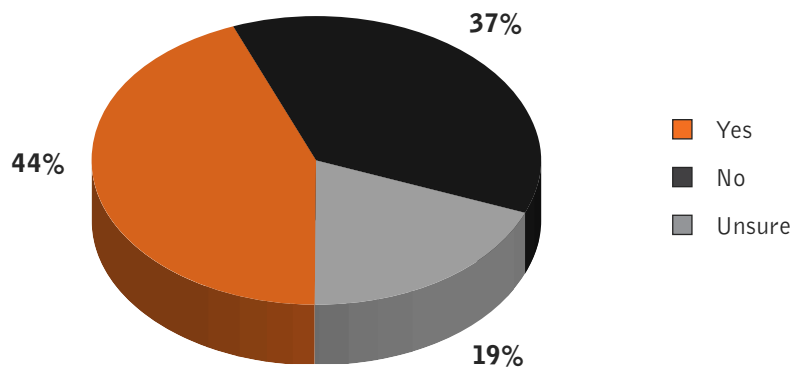
Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
We're open to acquisitions, but will focus on organic growth	50%	58%	50%	76%	74%	57%	64%
We want to be active acquirers	50%	42%	50%	14%	15%	21%	28%
M&A is an unlikely growth path for my bank	-	-	-	10%	11%	21%	8%

6. Have rising bank valuations resulted in higher price expectations on the part of sellers?



Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Yes	79%	92%	92%	88%	83%	68%	84%
Unsure	21%	-	6%	12%	9%	29%	12%
No	-	8%	3%	-	9%	4%	4%

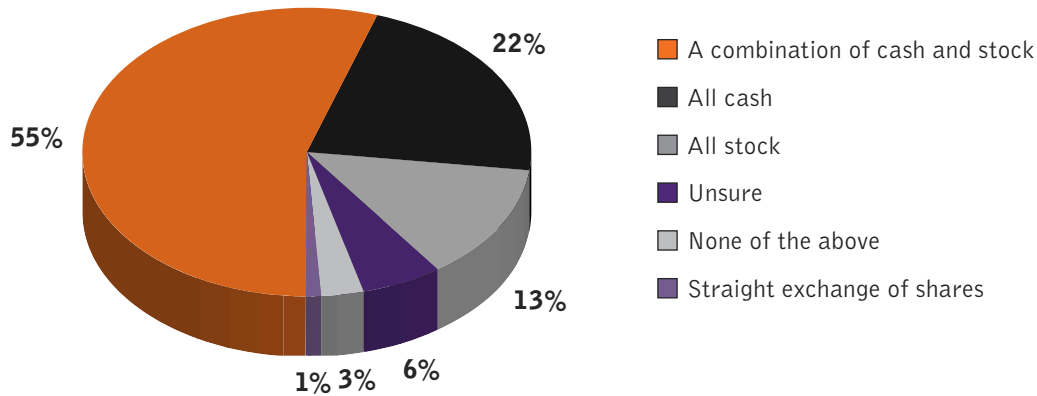
7. Have rising bank valuations made it more difficult for your bank to compete for or attract suitable acquisition targets?



Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Yes	36%	33%	50%	45%	46%	36%	44%
No	43%	67%	33%	38%	35%	29%	37%
Unsure	21%	-	17%	17%	20%	36%	19%

8. If your institution were to acquire another bank, how would you want to structure the transaction?

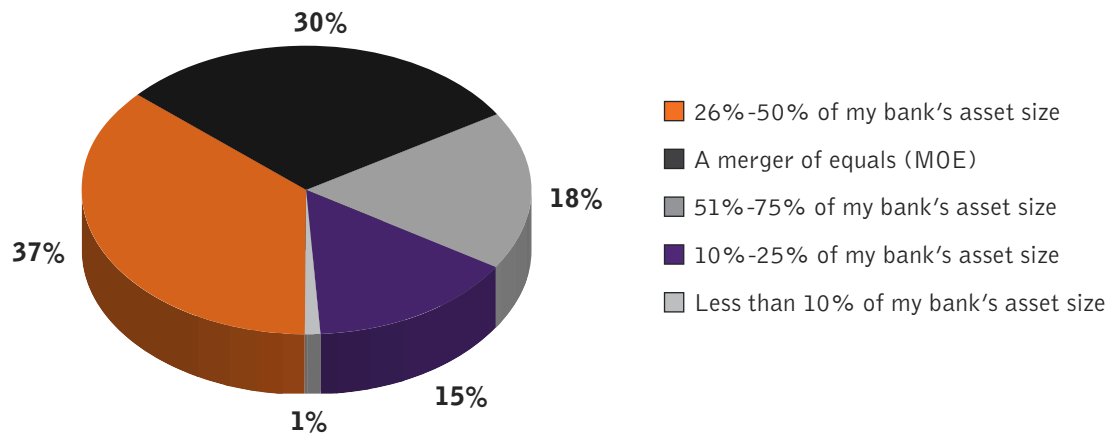
Question asked of respondents who characterize their bank as an active acquirer or open to acquisitions over the next five years. *Indicates a base count of less than 10 within a category.



Bank Ownership	Public	Private	Mutual*	Total
A combination of cash and stock	64%	53%	-	55%
All cash	5%	35%	50%	22%
All stock	24%	5%	-	13%
Unsure	6%	5%	13%	6%
None of the above	2%	-	38%	3%
Straight exchange of shares	-	1%	-	1%

9. If your institution were to acquire another bank, what is the LARGEST institution your board and management team would consider acquiring relative to the size of your own bank?

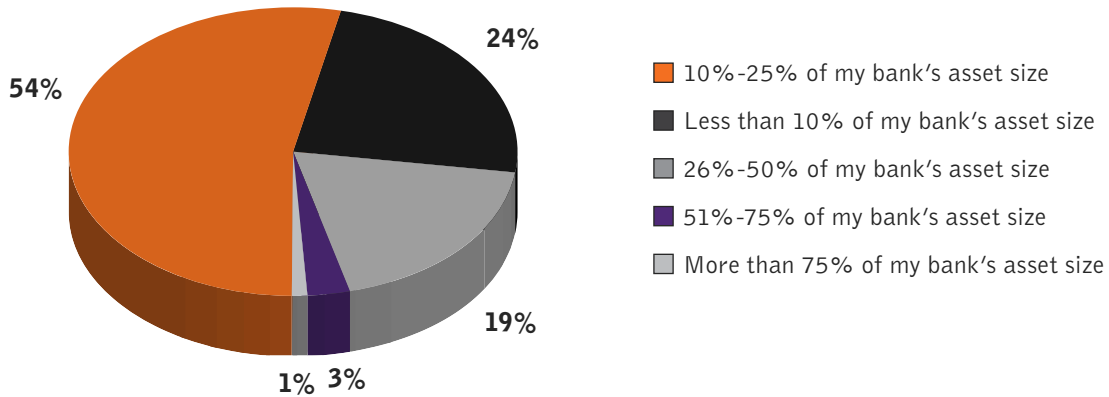
Question asked of respondents who characterize their bank as an active acquirer or open to acquisitions over the next five years. Figures don't add up to 100 percent due to rounding.



Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
26%-50% of my bank's asset size	33%	36%	40%	37%	38%	25%	37%
A merger of equals (MOE)	33%	27%	17%	40%	30%	30%	30%
51%-75% of my bank's asset size	8%	9%	11%	14%	25%	35%	18%
10%-25% of my bank's asset size	25%	27%	29%	9%	8%	10%	15%
Less than 10% of my bank's asset size	-	-	3%	-	-	-	1%

10. If your institution were to acquire another bank, what is the SMALLEST institution your board and management team would consider acquiring relative to the size of your own bank?

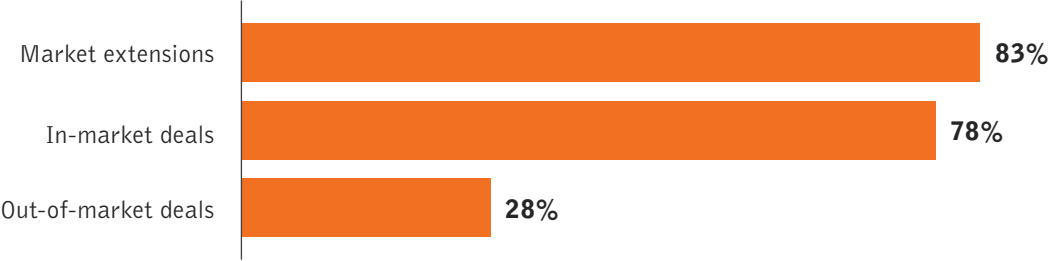
Question asked of respondents who characterize their bank as an active acquirer or open to acquisitions over the next five years. Figures don't add up to 100 percent due to rounding.



Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
10%-25% of my bank's asset size	33%	64%	54%	71%	50%	35%	54%
Less than 10% of my bank's asset size	67%	27%	37%	3%	18%	20%	24%
26%-50% of my bank's asset size	-	9%	6%	23%	30%	30%	19%
51%-75% of my bank's asset size	-	-	3%	3%	3%	10%	3%
More than 75% of my bank's asset size	-	-	-	-	-	5%	1%

11. What kind of acquisitions would the board and management team be willing to consider?

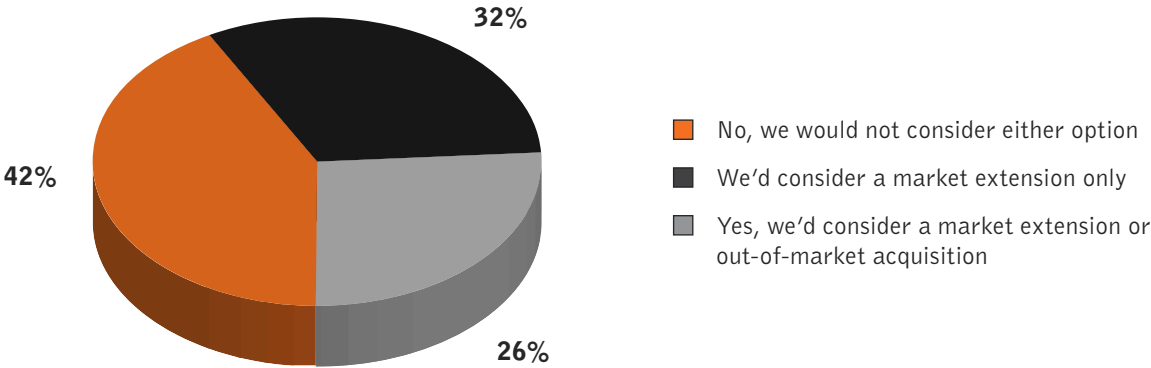
Question asked of respondents who characterize their bank as an active acquirer or open to acquisitions over the next five years. Respondents were asked to select all that apply.



Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Market extensions	67%	100%	89%	86%	80%	75%	83%
In-market deals	92%	91%	86%	69%	73%	80%	78%
Out-of-market deals	33%	27%	31%	29%	28%	25%	28%

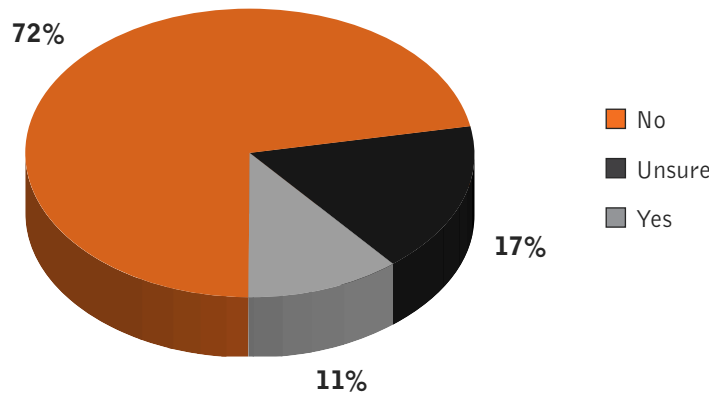
12. Would you be willing to consider a market extension or out-of-market acquisition if it was an attractive franchise at an attractive price?

Question asked of respondents who indicate that the board and management team will consider in-market deals, but not market extensions and/or out-of-market deals.



13. Have changes to the allowance for loan losses (ALLL) under the Current Expected Credit Loss (CECL) model impacted your bank's approach to acquisitions?

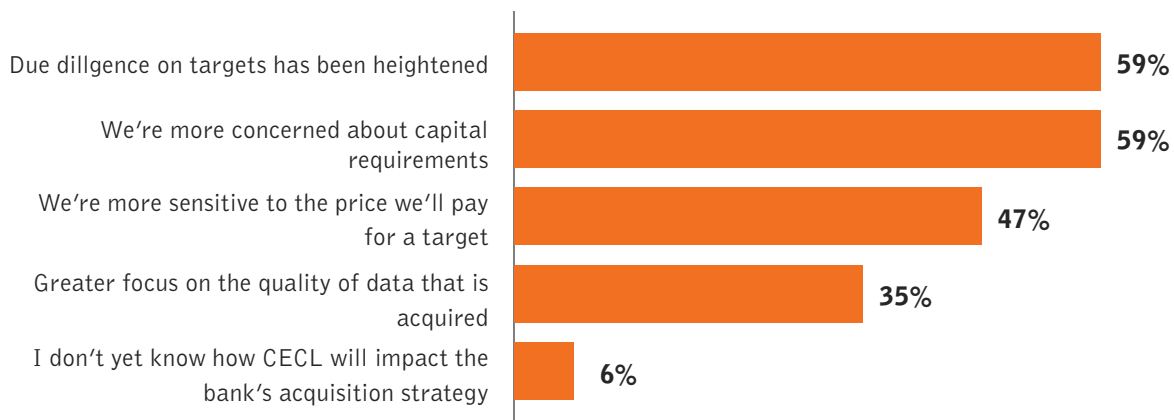
Question asked of respondents who characterize their bank as an active acquirer or open to acquisitions over the next five years.



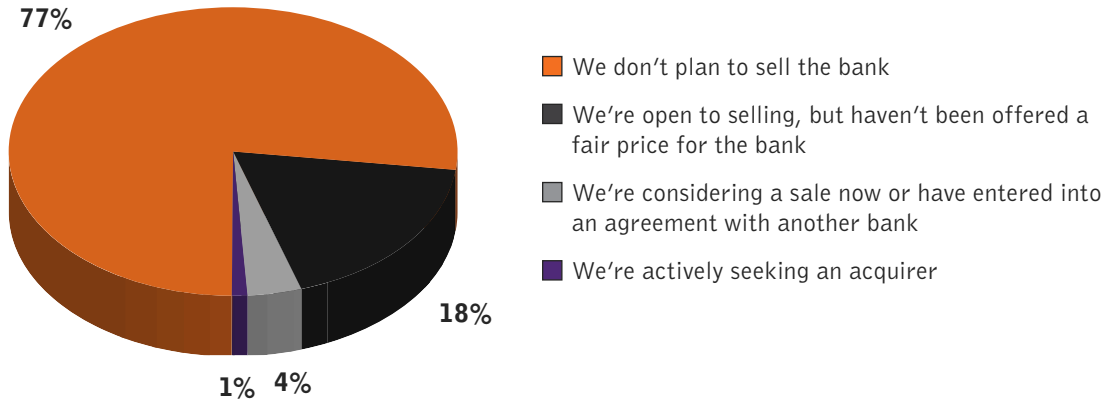
Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
No	58%	82%	75%	71%	73%	70%	72%
Unsure	25%	9%	22%	14%	18%	15%	17%
Yes	17%	9%	3%	14%	10%	15%	11%

14. How has the allowance for loan losses (ALLL) under the Current Expected Credit Loss (CECL) model impacted your bank's acquisition strategy?

Question asked of respondents who indicate that changes related to CECL have impacted the bank's approach to acquisitions. Respondents were asked to select all that apply.



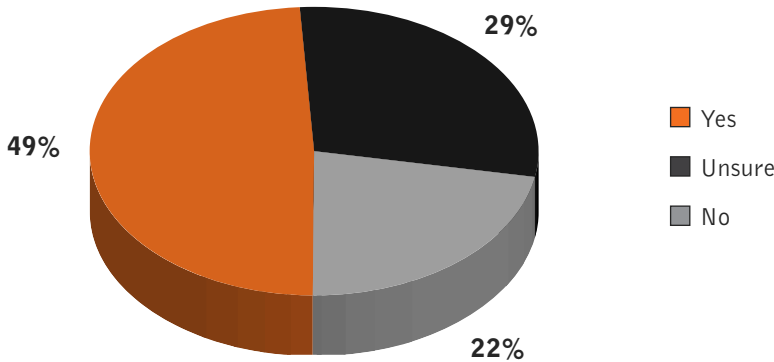
15. How likely is your board to consider the sale of your bank by the end of 2018?



Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
We don't plan to sell the bank	83%	90%	89%	76%	73%	60%	77%
We're open to selling, but haven't been offered a fair price for the bank	8%	-	9%	18%	18%	40%	18%
We're considering a sale now or have entered into an agreement with another bank	8%	10%	3%	5%	5%	-	4%
We're actively seeking an acquirer	-	-	-	-	5%	-	1%

16. If the board and management team chose to sell the bank, would you agree to an all-stock or majority stock transaction, assuming you were satisfied with the quality of the stock?

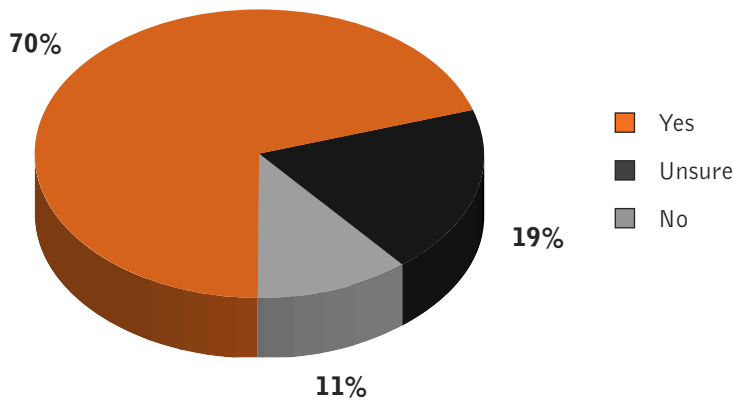
**Indicates a base count of less than 10 within a category.*



Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Yes	42%	73%	49%	50%	48%	40%	49%
Unsure	50%	18%	36%	26%	27%	24%	29%
No	8%	9%	15%	24%	25%	36%	22%

Bank Ownership	Public	Private	Mutual*	Total
Yes	63%	39%	17%	49%
Unsure	24%	33%	50%	29%
No	14%	28%	33%	22%

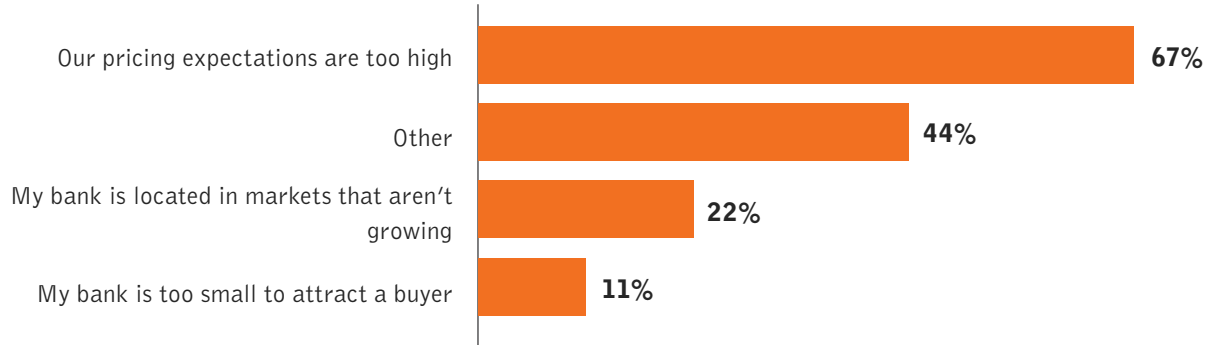
17. If your bank were to seek a sale, do you believe it would be easy to find a buyer for your bank at a fair price?



Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Yes	55%	64%	61%	79%	71%	72%	70%
Unsure	18%	27%	30%	13%	14%	24%	19%
No	27%	9%	9%	8%	16%	4%	11%

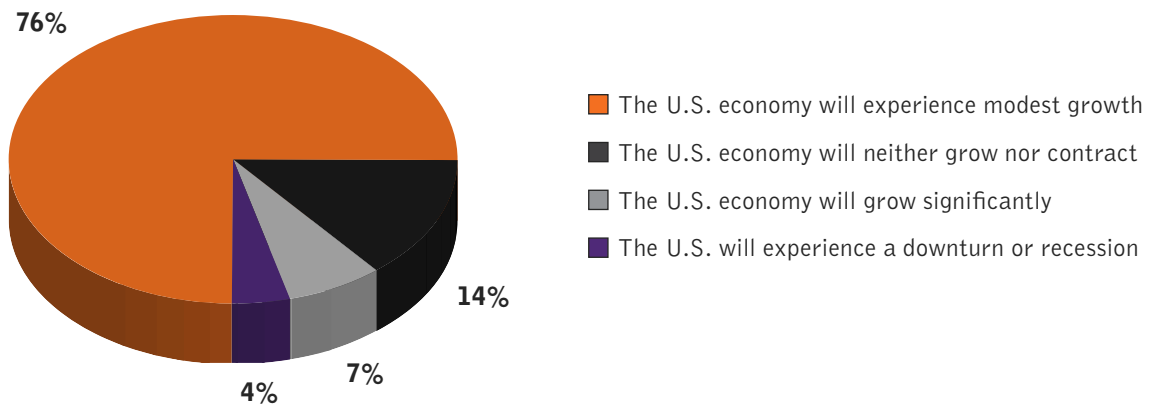
18. Why do you believe that it would be difficult to find a buyer for your bank?

Question asked of respondents who believe that it will be difficult to find a buyer for the bank. Respondents were asked to select all that apply.



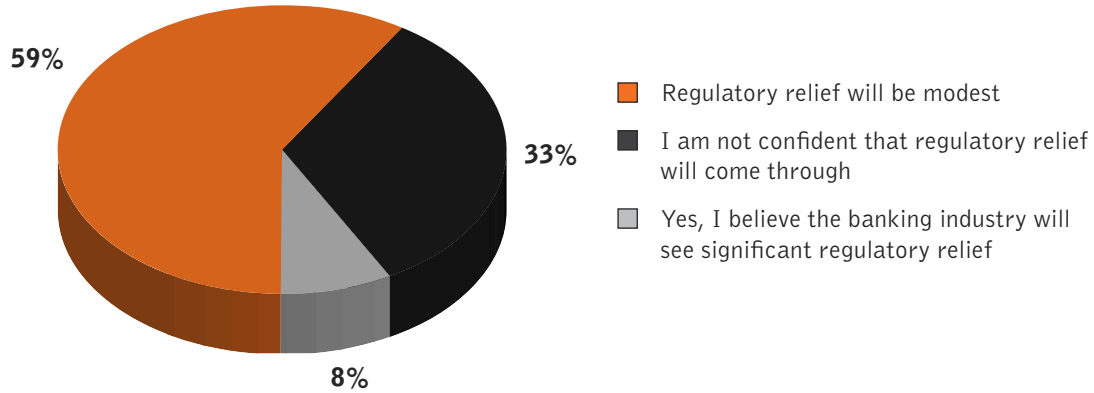
19. What is your outlook for the U.S. economy through the end of 2018?

Figures don't add up to 100 percent due to rounding.



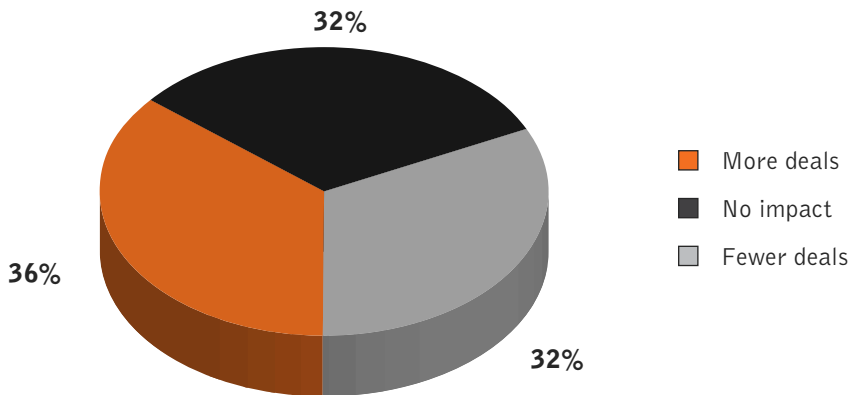
Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
The U.S. economy will experience modest growth	92%	70%	81%	71%	70%	84%	76%
The U.S. economy will neither grow nor contract	8%	10%	11%	21%	16%	8%	14%
The U.S. economy will grow significantly	-	20%	3%	5%	7%	8%	7%
The U.S. will experience a downturn or recession	-	-	6%	3%	7%	-	4%

20. Do you believe that Congress will be able to push through regulatory relief for the banking industry by the end of 2018?



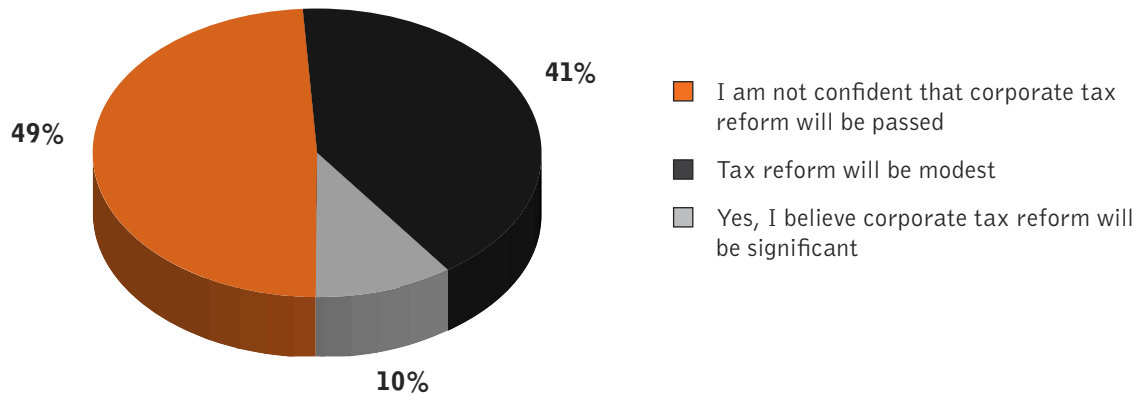
Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Regulatory relief will be modest	92%	50%	56%	63%	55%	52%	59%
I am not confident that regulatory relief will come through	8%	40%	33%	34%	41%	32%	33%
Yes, I believe the banking industry will see significant regulatory relief	-	10%	11%	3%	5%	16%	8%

21. If regulatory relief does not occur, how do you believe bank M&A activity will be impacted?



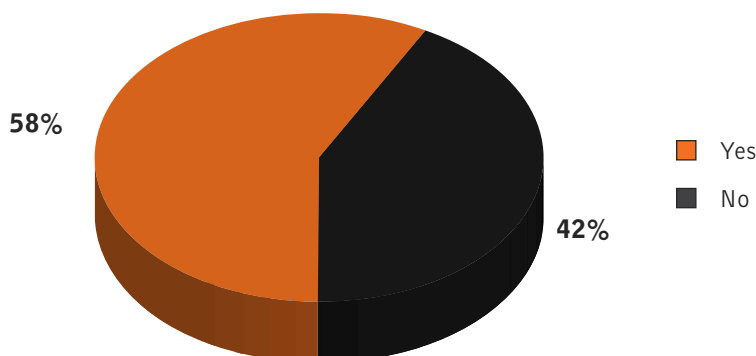
Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
More deals	33%	40%	53%	32%	33%	28%	36%
No impact	33%	10%	33%	42%	37%	16%	32%
Fewer deals	33%	50%	14%	26%	30%	56%	32%

22. Are you confident that Congress will be able to pass corporate tax reform by the end of 2018?



Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
I am not confident that corporate tax reform will be passed	50%	70%	39%	63%	49%	38%	49%
Tax reform will be modest	50%	20%	47%	34%	44%	38%	41%
Yes, I believe corporate tax reform will be significant	-	10%	14%	3%	7%	25%	10%

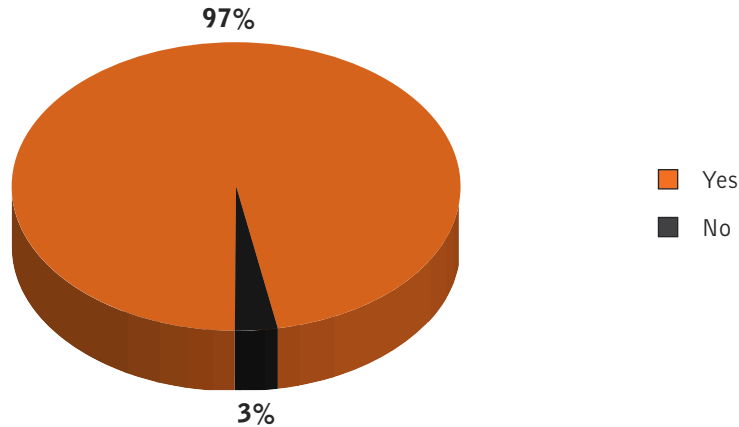
23. As of early September 2017, President Trump has yet to fill positions on the board of the Federal Deposit Insurance Corp. and the Federal Reserve board, and is slated to appoint a new Fed Chair in early 2018. Are you confident that the Trump administration will fill these roles within the next six to nine months?



Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Yes	50%	80%	51%	63%	49%	68%	58%
No	50%	20%	49%	37%	51%	32%	42%

24. Do you believe that the Trump administration will appoint regulators who would be more sympathetic to the banking industry?

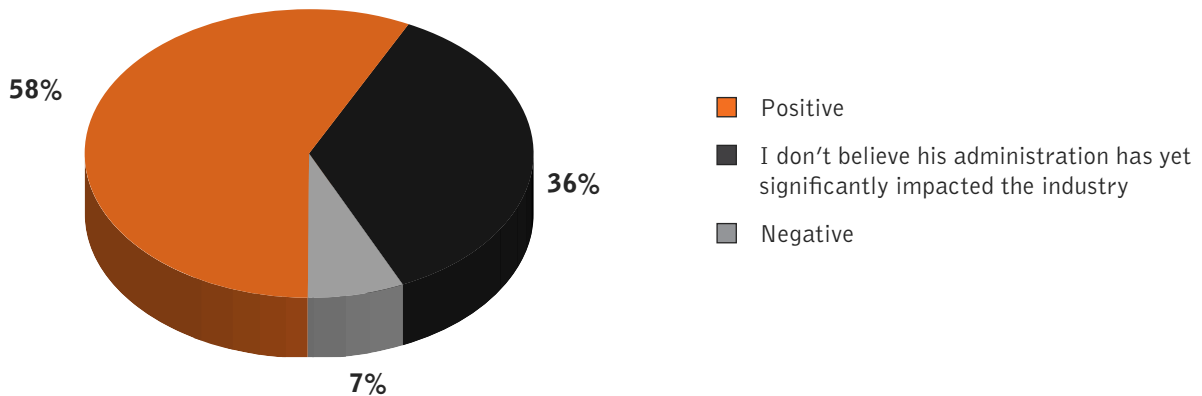
Question asked of respondents who believe that the Trump administration will fill key regulatory roles within the next six to nine months. *Indicates a base count of less than 10 within a category.



Bank Asset Size	>\$10B*	\$5B-\$10B*	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Yes	100%	100%	94%	91%	100%	100%	97%
No	-	-	6%	9%	-	-	3%

25. In your view, has President Trump’s administration had a positive or negative impact on the banking industry?

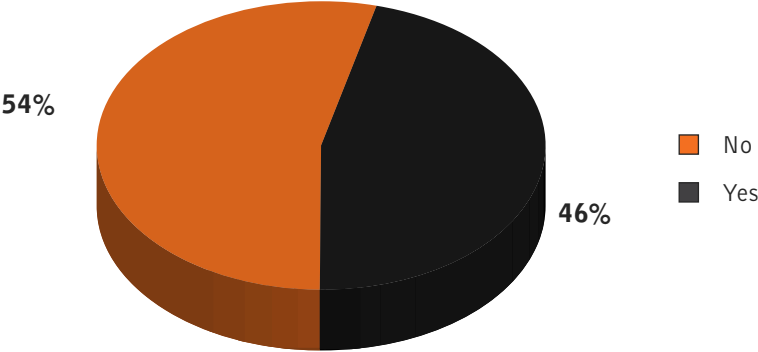
Figures don’t add up to 100 percent due to rounding. *Indicates a base count of less than 10 within a category.



Bank Ownership	Public	Private	Mutual*	Total
Positive	51%	65%	25%	58%
I don't believe his administration has yet significantly impacted the industry	44%	29%	38%	36%
Negative	4%	6%	38%	7%

26. Are you personally satisfied with Donald Trump’s performance as President?

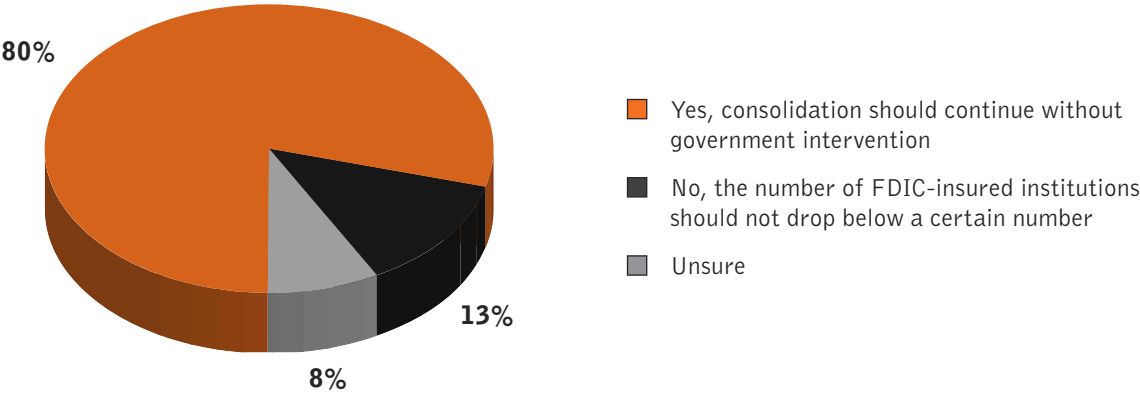
**Indicates a base count of less than 10 within a category.*



Bank Asset Size	>\$10B	\$5B-\$10B*	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
No	75%	67%	63%	47%	50%	44%	54%
Yes	25%	33%	37%	53%	50%	56%	46%

27. There are now approximately 5,000 banks left in the United States. Do you think that M&A-driven consolidation should be allowed to play itself out without any form of government intervention, or do you think the number of institutions should not be allowed to drop below a specific number?

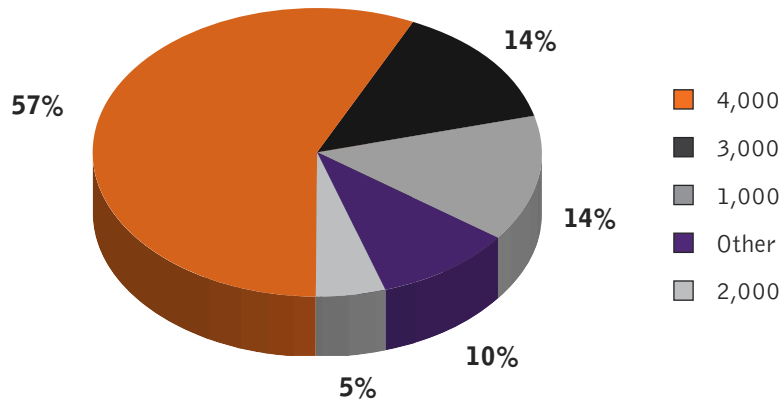
Figures don’t add up to 100 percent due to rounding.



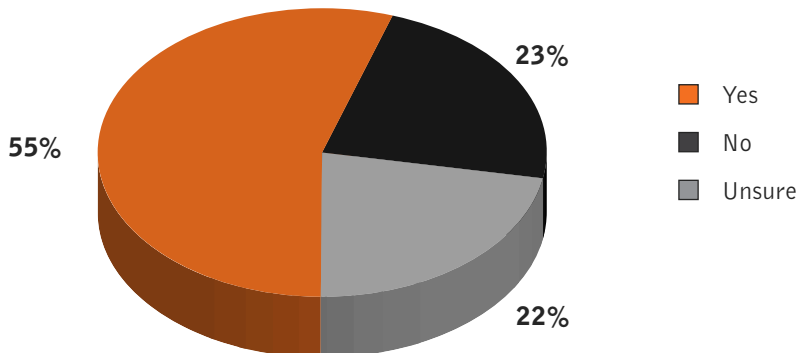
Bank Asset Size	>\$10B	\$5B-\$10B	\$1B-\$5B	\$500M-\$1B	\$250M-\$500M	<\$250M	Total
Yes, consolidation should continue without government intervention	92%	80%	72%	84%	81%	72%	80%
No, the number of FDIC-insured institutions should not drop below a certain number	-	10%	14%	11%	12%	24%	13%
Unsure	8%	10%	14%	5%	7%	4%	8%

28. If the number of FDIC-insured institutions should not drop below a specific number, what should that number be?

Question asked of respondents who indicate that the number of FDIC-insured institutions should not be allowed to drop below a certain number.



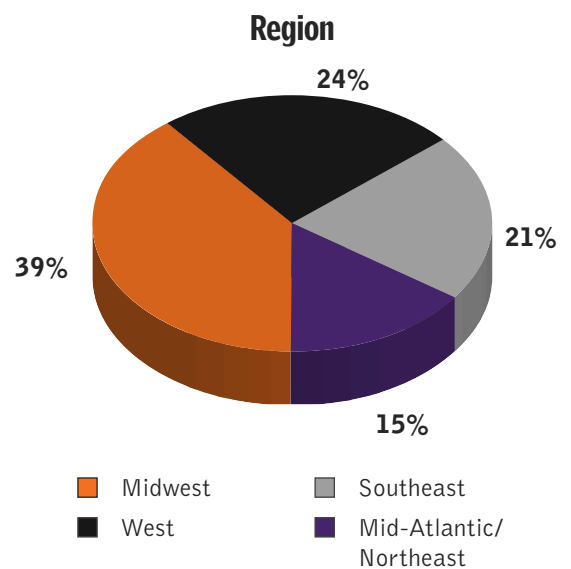
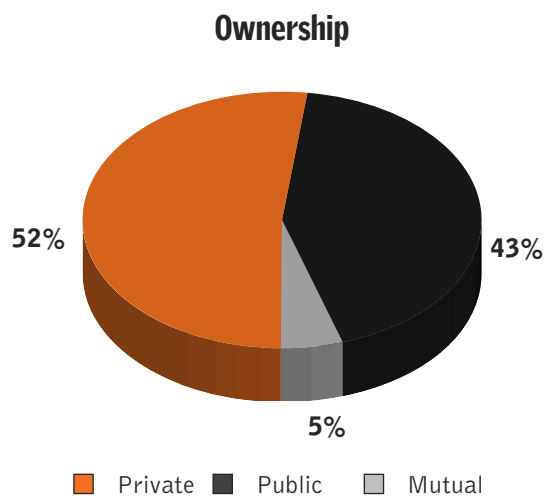
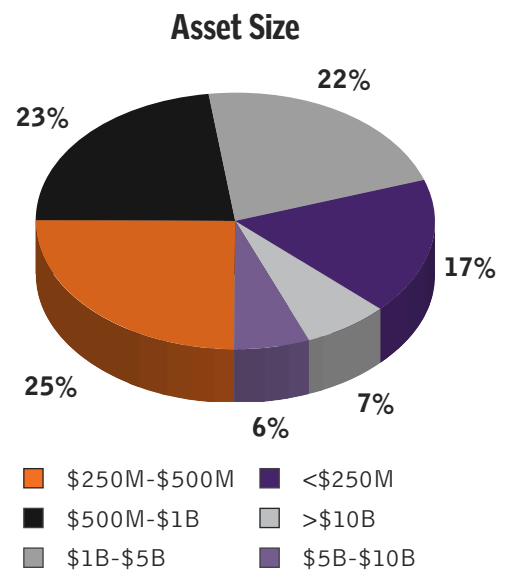
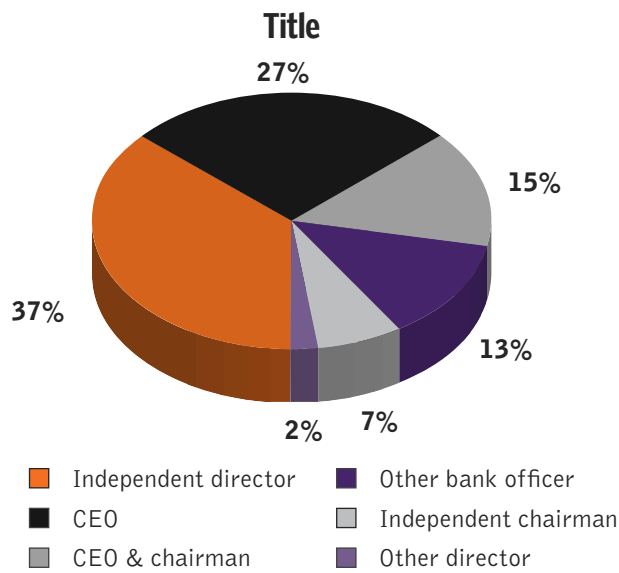
29. Do you believe that the current level of consolidation has been good for banking?



Bank Asset Size	>\$10B	\$5B- \$10B	\$1B- \$5B	\$500M- \$1B	\$250M- \$500M	<\$250M	Total
Yes	58%	60%	77%	53%	35%	56%	55%
No	-	20%	11%	21%	37%	32%	23%
Unsure	42%	20%	11%	26%	28%	12%	22%

ABOUT THE SURVEY

Bank Director’s 2018 Bank M&A Survey, sponsored by Crowe Horwath LLP, surveyed 189 independent directors, chief executive officers and other senior executives of U.S. banks to evaluate the M&A climate, as well as attitudes toward the U.S. economy and legislative and regulatory environment. The survey was conducted in September and early October of 2017. Thirty-five percent of respondents represent financial institutions above \$1 billion in assets. Forty-four percent of respondents are independent members of the bank’s board, and 42 percent serve as the organization’s CEO.



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