

2022 Bank M&A Survey



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EXECUTIVE SUMMARY



Emily McCormick is the vice president of research for Bank Director, an information resource for directors and officers of financial companies. You can follow her on Twitter or get connected on LinkedIn.

On Oct. 12, banking industry observers awoke to a surprise: Umpqua Holdings Corp. and Columbia Banking System announced their intent to form a \$50 billion-plus franchise on the West Coast. Prior to the deal, Umpqua appeared to prioritize its organic growth strategy, Piper Sandler & Co. Managing Director Matthew Clark explained in a note published later that day. Columbia, on the other hand, seemed more interested in smaller deals.

The combination is the latest transformative, scale-building deal announced in 2021, including M&T Bank Corp. and People's United Financial, Webster Financial Corp. and Sterling Bancorp, and New York Community Bancorp and Flagstar Bancorp. The rationale of those deals aligns with the M&A drivers identified by senior executives and board members in Bank Director's 2022 Bank M&A Survey, sponsored by Crowe LLP. When asked about the primary factors that make M&A an important piece of their bank's growth strategy, more than half seek to achieve scale to invest in technology and other key areas. Further, respondents point to a complementary culture (64%), locations in growing markets (58%) and efficiency gains (56%) when asked to identify the attributes of an effective target.

"This is an exciting combination that brings together two well-respected organizations and talented teams, accelerating our shared strategic objectives to create the leading regional bank headquartered in the West," said Umpqua CEO Cort O'Haver in a press release. Added scale will allow further investment in technology and expand the bank's offerings, enhancing its competitive position across "high-growth, attractive markets" in Oregon, Washington, California, Idaho and Nevada.

In an environment characterized by digital acceleration, high competition for customers and talent, and continued low interest rates, a strategic combination may prove too compelling for some to pass up.

Almost half of survey respondents say their institution is likely to purchase another bank by the end of 2022 — a significant increase compared to the previous year, and more in line with the pre-pandemic environment. Given the usual pace of M&A, it's unlikely that most of these prospective acquirers will find a willing target. But the same factors that spur acquirers to build scale also propel sellers: 42% of respondents to Bank Director's 2022 Bank M&A Survey say that an inability to keep pace with the digital evolution could drive their bank to sell.

KEY FINDINGS

→ The Right Price

Price remains a key barrier to deals, as noted by 73% of respondents. The plurality of prospective buyers (43%) indicate they're willing to pay up to 1.5 times tangible book value for a target. Nineteen percent say they'd pay up to 1.75 times book; 9% would pay more.

→ Many Open to MOEs

Almost half of respondents say they'd consider a merger of equals or similar strategic combination in today's environment. Of these, 39% say their board and management team is more likely to consider such a deal compared to before the pandemic — representing a shift in mindset for some bank leaders.

→ Increased Focus on ESG in M&A

While most banks are unlikely to take a comprehensive view of environmental, social and governance (ESG) issues when examining a potential deal, the majority of banks consider ESG factors when assessing strategic fit. Key among those are cultural alignment (89%), reputational risks and opportunities (73%), employee relationships/engagement (62%) and data security/privacy (51%), which can be classified as social or governance within the ESG umbrella.

→ Optimism About the Economy

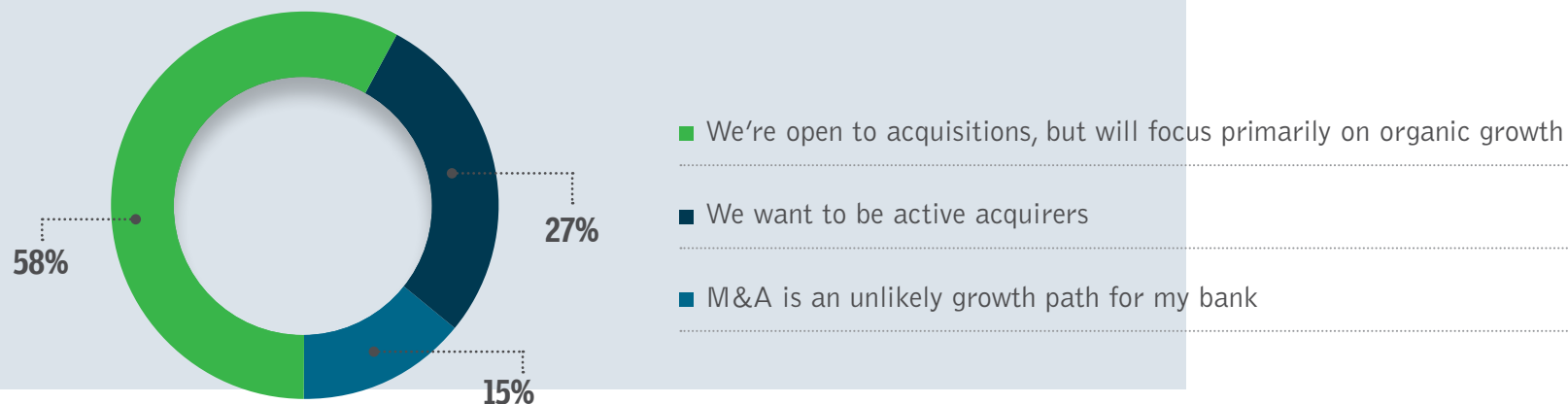
Almost three-quarters of respondents believe the U.S. economy will experience modest growth in 2022; 14% say it will grow significantly. Further, almost all say that businesses have recovered in their markets, though some sectors remain stressed. And while 88% report that business clients express concerns about supply chain disruptions and labor shortages, most believe that this won't have a material impact on credit quality.

→ Reduced Credit Risk Concerns

Last year's survey found the top barrier to deals was asset quality; 63% of respondents named it the top concern. This year, just 36% express concerns about asset quality. In addition, fewer express concerns about loan concentrations in commercial real estate, retail or the oil sector.

GROWTH STRATEGY

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



Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
We're open to acquisitions, but will focus primarily on organic growth	44%	53%	75%	63%	53%	58%
We want to be active acquirers	56%	37%	14%	11%	5%	27%
M&A is an unlikely growth path for my bank	-	11%	11%	26%	42%	15%

2. What are the two primary factors that make M&A an important piece of your bank's growth strategy?

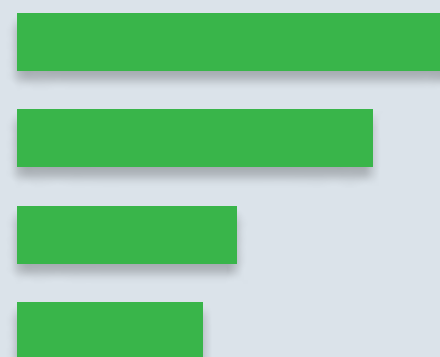
Respondents were asked to select no more than two options. Question only asked of those who describe their bank as an active acquirer or open to acquisitions.

52% Scale to drive technology and other investments

42% Geographic expansion

26% Customer acquisition

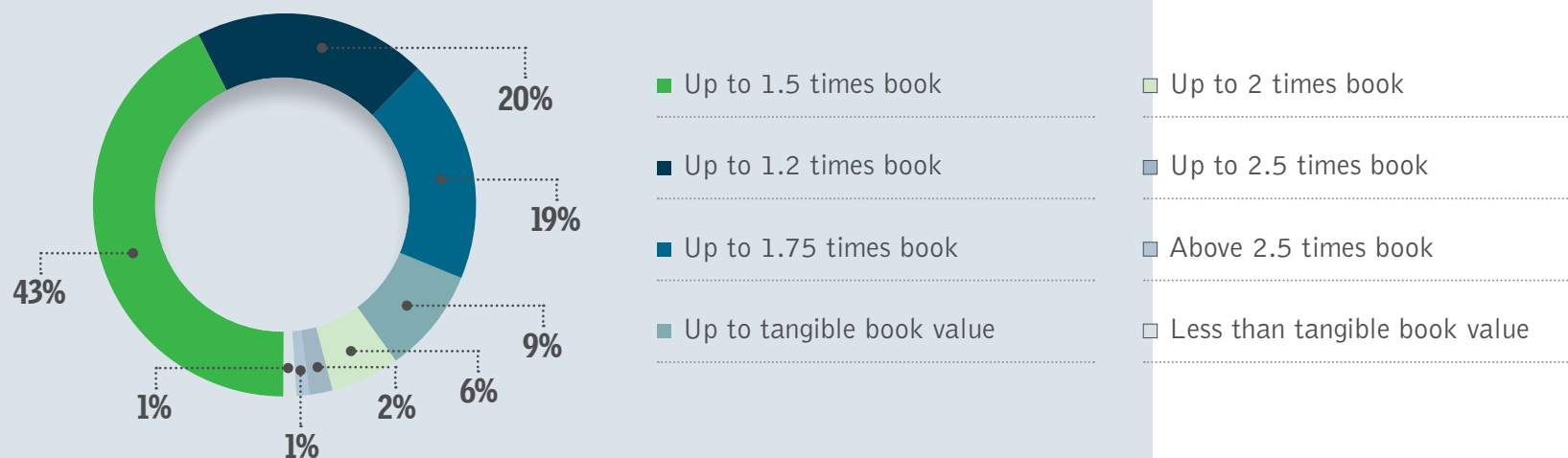
22% New business lines/revenue opportunities



Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Scale to drive technology and other investments	44%	58%	59%	39%	27%	52%
Geographic expansion	39%	37%	44%	54%	55%	42%
Customer acquisition	22%	21%	13%	50%	46%	26%
New business lines/revenue opportunities	44%	22%	28%	-	18%	22%
Talent acquisition	-	16%	25%	19%	27%	17%
Margin concerns due to high inflation and low interest rates	28%	17%	19%	12%	9%	17%
Loan portfolio diversification	6%	15%	9%	8%	9%	11%
Cost savings	11%	11%	3%	15%	9%	10%

3. At most, how much are you willing to pay today to acquire another institution that meets your target acquisition strategy?

Question only asked of those who describe their bank as an active acquirer or open to acquisitions. Numbers don't add up to 100% due to rounding.



Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Up to 1.5 times book	25%	43%	41%	58%	40%	43%
Up to 1.2 times book	19%	21%	19%	17%	20%	20%
Up to 1.75 times book	19%	25%	16%	4%	20%	19%
Up to tangible book value	13%	4%	13%	17%	20%	9%
Up to 2 times book	13%	7%	3%	4%	-	6%
Up to 2.5 times book	-	-	9%	-	-	2%
Above 2.5 times book	13%	-	-	-	-	1%
Less than tangible book value	-	1%	-	-	-	1%

4. Given the current environment, how likely is it that your institution will purchase the following by the end of 2022?

Bank(s)						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Very likely	56%	17%	14%	6%	11%	18%
Somewhat likely	17%	43%	19%	23%	6%	30%
Somewhat unlikely	17%	16%	42%	31%	28%	25%
Very unlikely	-	22%	17%	37%	56%	25%
Unsure	11%	2%	8%	3%	-	4%

Nondepository line(s) of business						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Very likely	17%	7%	-	3%	6%	6%
Somewhat likely	44%	21%	24%	13%	6%	21%
Somewhat unlikely	22%	25%	21%	22%	17%	23%
Very unlikely	6%	43%	53%	56%	72%	46%
Unsure	11%	5%	3%	6%	-	5%

Branch(es)						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Very likely	-	2%	3%	12%	6%	4%
Somewhat likely	-	21%	25%	12%	17%	18%
Somewhat unlikely	35%	29%	16%	36%	17%	27%
Very unlikely	65%	42%	53%	36%	61%	47%
Unsure	-	6%	3%	3%	-	4%

Loan portfolio(s)						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Very likely	-	6%	-	-	6%	3%
Somewhat likely	29%	23%	21%	32%	17%	24%
Somewhat unlikely	24%	26%	36%	36%	11%	28%
Very unlikely	47%	41%	42%	29%	67%	42%
Unsure	-	5%	-	3%	-	3%

Technology or fintech firm(s)						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Very likely	-	3%	3%	3%	6%	3%
Somewhat likely	24%	7%	12%	7%	11%	10%
Somewhat unlikely	47%	28%	18%	26%	17%	27%
Very unlikely	24%	55%	64%	65%	67%	56%
Unsure	6%	7%	3%	-	-	4%

Credit union(s)						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Very likely	-	-	3%	-	6%	1%
Somewhat likely	-	1%	3%	-	-	1%
Somewhat unlikely	6%	6%	6%	7%	6%	6%
Very unlikely	94%	91%	85%	94%	83%	90%
Unsure	-	2%	3%	-	6%	2%

Lending team lift out(s)

Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Very likely	18%	20%	12%	9%	6%	15%
Somewhat likely	18%	30%	27%	22%	-	24%
Somewhat unlikely	18%	23%	18%	16%	17%	20%
Very unlikely	24%	19%	42%	41%	72%	32%
Unsure	24%	9%	-	13%	6%	9%

5. Which of the following types of nondepository acquisition targets are most attractive to your bank?

Respondents were asked to select all that apply. Question only asked of respondents indicating their bank is likely to make a nondepository acquisition.

65% Investment management, wealth management and/or trust business

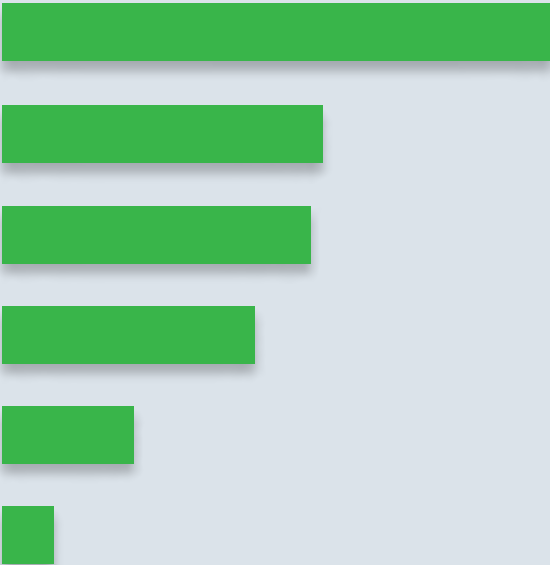
39% Specialty lending

37% Insurance brokerage and/or agency

31% Residential mortgage origination

16% Leasing company

6% Other



6. Why do you believe your institution would be unlikely to purchase a technology or fintech firm by the end of 2022?

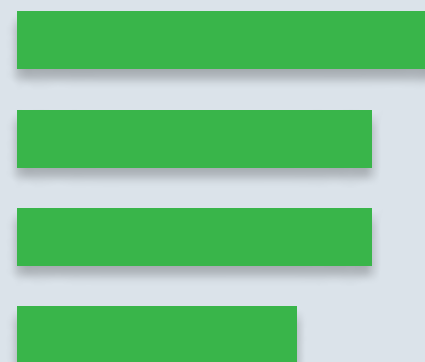
Respondents were asked to select all that apply. Question only asked of respondents who say their bank is unlikely to buy a technology or fintech firm.

50% Cultural mismatch

42% Uncertain how to value these companies

42% Strategic mismatch

33% Integration concerns



Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Cultural mismatch	67%	38%	54%	61%	64%	50%
Uncertain how to value these companies	50%	41%	31%	50%	43%	42%
Strategic mismatch	58%	44%	42%	43%	14%	42%
Integration concerns	50%	34%	35%	25%	29%	33%
Unable to identify targets	17%	24%	35%	36%	50%	30%
Valuations are too high	50%	16%	19%	14%	29%	20%
Concerns about regulatory approval for such a deal	25%	11%	12%	25%	43%	18%

7. In your opinion, what would be the top five attributes of a target in today's environment?

Respondents were asked to select no more than five options.

Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Complementary culture	87%	66%	66%	48%	56%	64%
Locations in growing markets	40%	70%	56%	48%	38%	58%
Efficiency gains	53%	56%	56%	61%	44%	56%
Talented lenders/lending teams	27%	45%	66%	42%	63%	48%
Disciplined credit culture	40%	31%	47%	45%	38%	38%
Attractive deposit base	20%	32%	31%	58%	38%	36%
Complementary business lines/sources of revenue	20%	33%	53%	19%	25%	33%
Target size	27%	21%	38%	36%	31%	28%
New business lines/sources of revenue	47%	27%	19%	13%	31%	25%
Demonstrated loan growth	33%	23%	9%	23%	31%	22%
Target's strong reputation/brand in its market(s)	33%	21%	13%	26%	19%	21%
High level of profitability	27%	12%	16%	16%	19%	15%
Technology platform/infrastructure	13%	17%	9%	13%	19%	15%
Branch network overlap	13%	10%	6%	10%	25%	11%
Strong digital footprint	-	11%	3%	13%	13%	9%

8. In assessing the strategic fit of acquisition targets, would your leadership team evaluate any of the following environmental, social and governance (ESG) factors?


Respondents were asked to select all that apply. Question only asked of those who describe their bank as an active acquirer or open to acquisitions. *Indicates fewer than 10 responses within a category.

89% 

Cultural alignment

73% 

Reputational risks and opportunities

62% 

Employee relationships/engagement

51% 

Data security/privacy

Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M*	Total
Cultural alignment	100%	93%	75%	78%	100%	89%
Reputational risks and opportunities	86%	76%	57%	70%	78%	73%
Employee relationships/engagement	50%	71%	43%	65%	56%	62%
Data security/privacy	79%	53%	39%	39%	56%	51%
Corporate/social responsibility	43%	32%	32%	26%	44%	33%
Climate/environment risks and opportunities	14%	15%	4%	30%	-	14%
We don't factor ESG considerations into our assessment of targets	7%	11%	25%	9%	-	12%
Other	-	1%	-	-	-	1%

9. What would you consider the top five barriers to your bank in making an acquisition in today's environment?

Respondents were asked to select no more than five options.

Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Pricing expectations of potential targets	73%	79%	84%	63%	47%	73%
Culture/integration of personnel	60%	62%	52%	53%	41%	56%
Lack of suitable targets in desired markets/areas	73%	50%	65%	59%	47%	56%
Demands on my bank's capital	20%	30%	42%	66%	53%	40%
Concerns about asset quality of potential targets	47%	38%	36%	28%	29%	36%
Our stock doesn't trade at a high enough premium	7%	31%	26%	16%	6%	23%
Technology integration	47%	13%	13%	38%	24%	21%
Unfavorable core provider contract terms/conditions	-	21%	26%	25%	12%	20%
Lack of experience in doing acquisitions	-	10%	16%	38%	41%	18%
Continued low interest rate environment	20%	17%	16%	16%	29%	18%
Uncertainty about the future economy	7%	7%	26%	13%	18%	12%
Commercial real estate concentration	27%	8%	7%	3%	12%	9%
Accounting concerns, such as CECL	-	6%	-	6%	6%	5%
Uncertainty about the future of banking	7%	2%	3%	9%	6%	5%
Loan concentrations in retail	7%	4%	-	6%	6%	4%
Loan concentrations in the oil sector	13%	2%	3%	-	-	3%
Uncertainty about gaining regulatory approval	7%	-	-	13%	-	3%

SELLING THE BANK

10. What are the primary strategic reasons that might drive your bank to sell in today's environment?

Respondents were asked to select no more than five options.

47%



Inability to provide a competitive return to shareholders

42%



Inability to keep pace with digital evolution

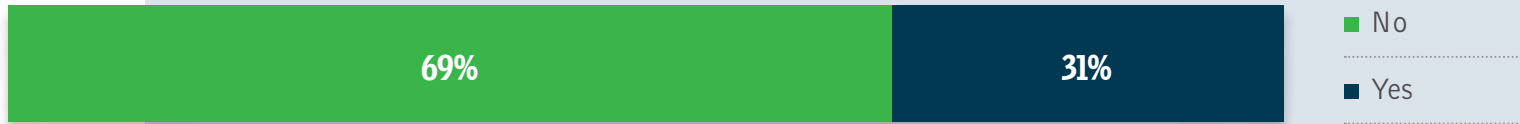
29%



Inability to operate efficiently

Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Inability to provide a competitive return to shareholders	54%	52%	36%	44%	47%	47%
Inability to keep pace with digital evolution	62%	42%	36%	30%	60%	42%
Inability to operate efficiently	23%	28%	29%	37%	27%	29%
Regulatory compliance burden	31%	17%	39%	37%	40%	28%
CEO succession	46%	23%	32%	19%	40%	28%
Senior management succession	8%	15%	21%	15%	7%	15%
Too many competitors in our market(s)	-	9%	14%	11%	7%	10%

11. To your knowledge, has another financial institution expressed interest in acquiring your bank in 2020 or 2021?



Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
No	93%	65%	59%	74%	77%	69%
Yes	7%	35%	41%	26%	24%	31%

12. Did a credit union express interest in acquiring your bank in 2020 or 2021?

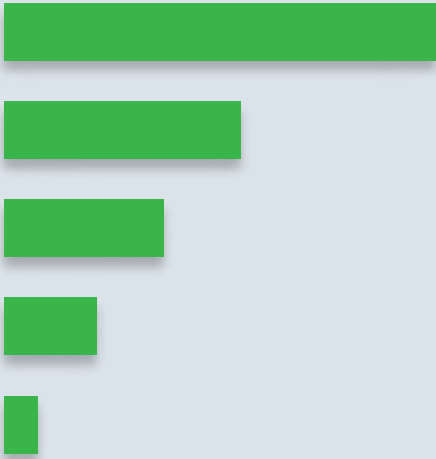
Question only asked of respondents indicating that another financial institution expressed interest in acquiring their bank in 2020-21.



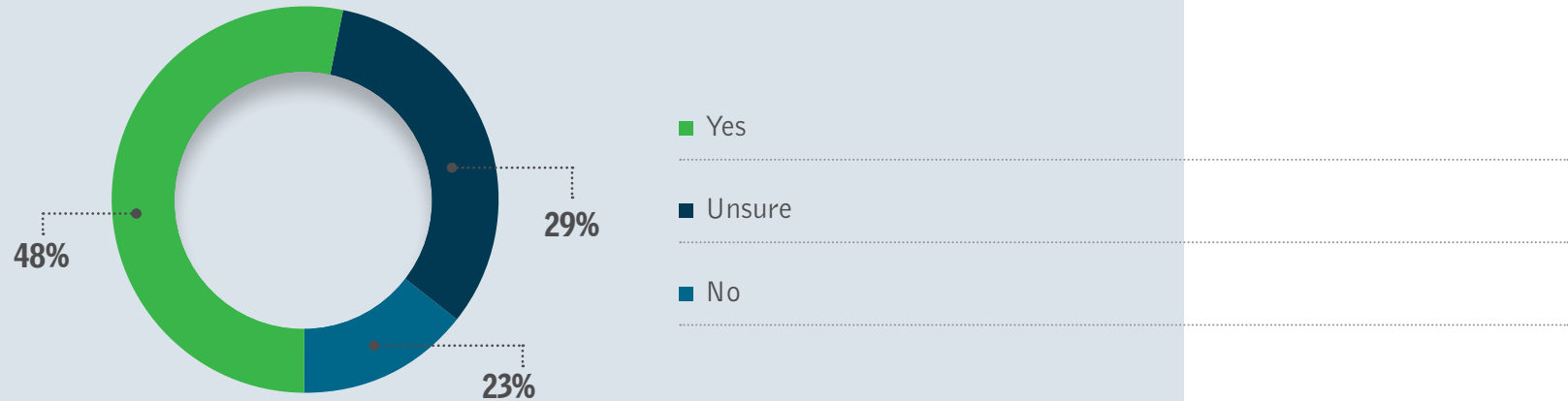
13. What were the results of your bank’s discussions with the prospective acquirer(s)?

Respondents were asked to select all that apply. Question only asked of respondents indicating that another financial institution expressed interest in acquiring their bank in 2020-21.

- 52%** Other
- 28%** We couldn’t come to terms on price
- 19%** We determined that the cultures were too dissimilar
- 11%** We broke off discussions due to the Covid-19 pandemic
- 4%** We’re moving forward with selling the bank

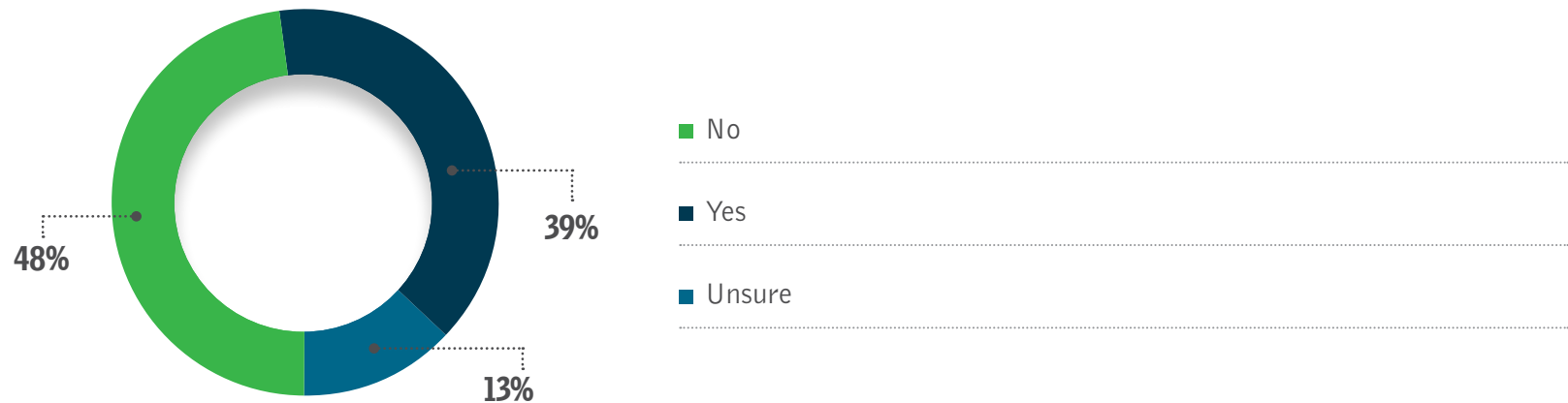


14. Would your board and management team consider a merger of equals (MOE) or similar strategic combination in today's environment?



15. Is the board and management team more likely to consider an MOE or similar strategic combination than they would have been before the pandemic?

Question only asked of respondents indicating that their board and management team would consider an MOE or similar combination.



ECONOMIC RECOVERY & OUTLOOK

16. Overall, how would you describe the economic recovery in the markets where your bank operates?

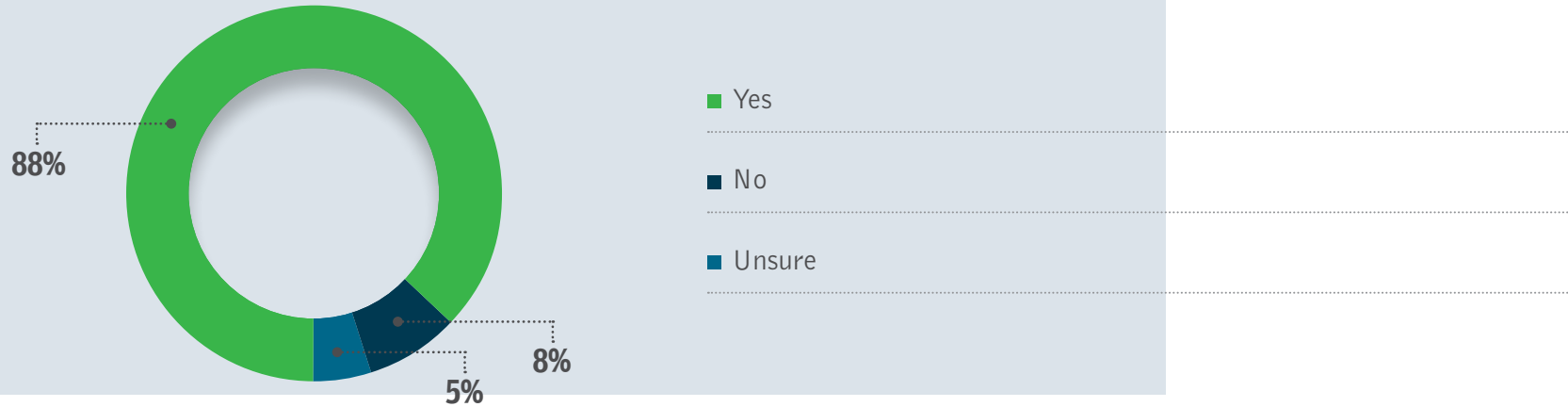
Numbers don't add up to 100% due to rounding.



Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Businesses have recovered, though some sectors remain stressed	93%	85%	78%	81%	88%	84%
Businesses have recovered completely	-	12%	19%	13%	12%	12%
Most businesses remain stressed	7%	2%	3%	7%	-	3%

17. Some sectors of the U.S. economy have experienced supply chain disruptions and/or labor shortages. Are your bank's business customers reporting concerns in either of these areas?

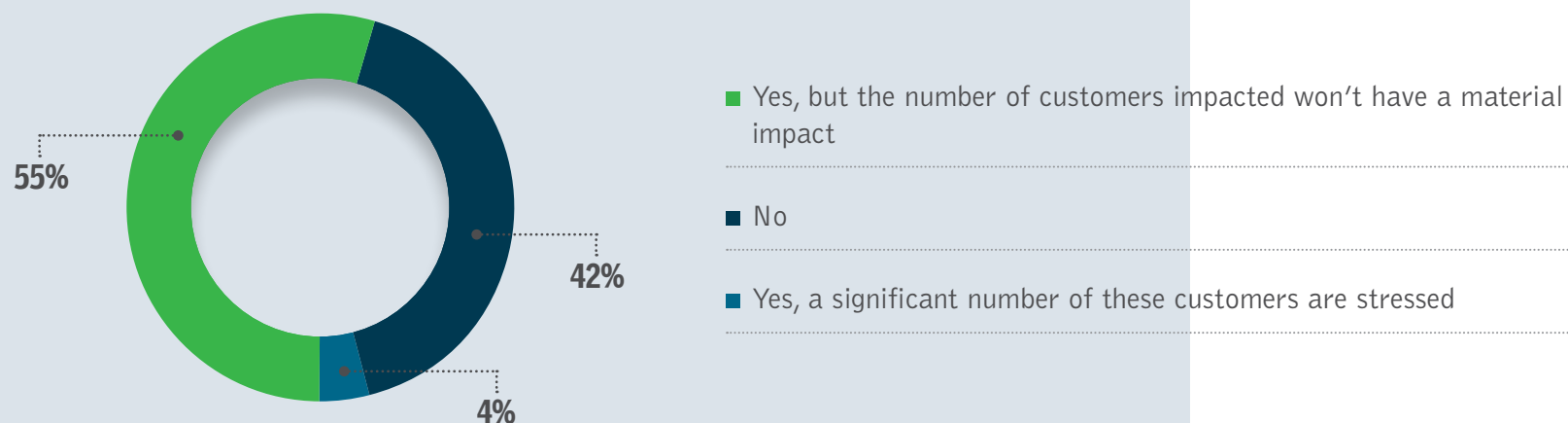
Numbers don't add up to 100% due to rounding.



Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Yes	93%	89%	88%	87%	77%	88%
No	-	6%	9%	13%	12%	8%
Unsure	7%	5%	3%	-	12%	5%

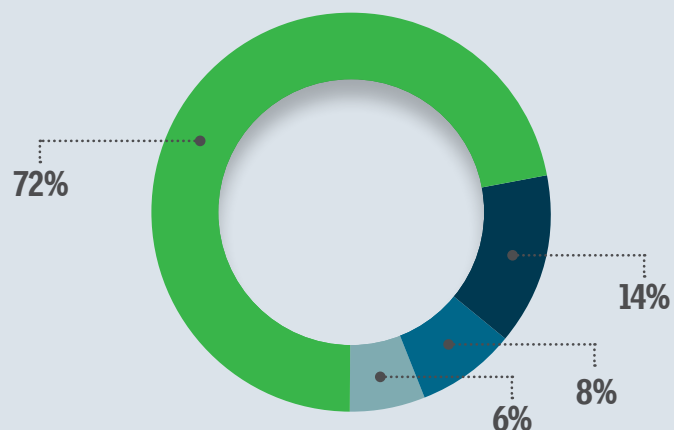
18. Are you concerned about your business customers' ability to repay loans due to these disruptions in supply and labor?

Question only asked of respondents indicating that business customers have reported concerns about supply chain disruptions and/or labor shortages. Numbers don't add up to 100% due to rounding.



Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Yes, but the number of customers impacted won't have a material impact	71%	63%	36%	48%	46%	55%
No	21%	36%	57%	48%	46%	42%
Yes, a significant number of these customers are stressed	7%	1%	7%	4%	8%	4%

19. What is your outlook for the U.S. economy through the end of 2022?



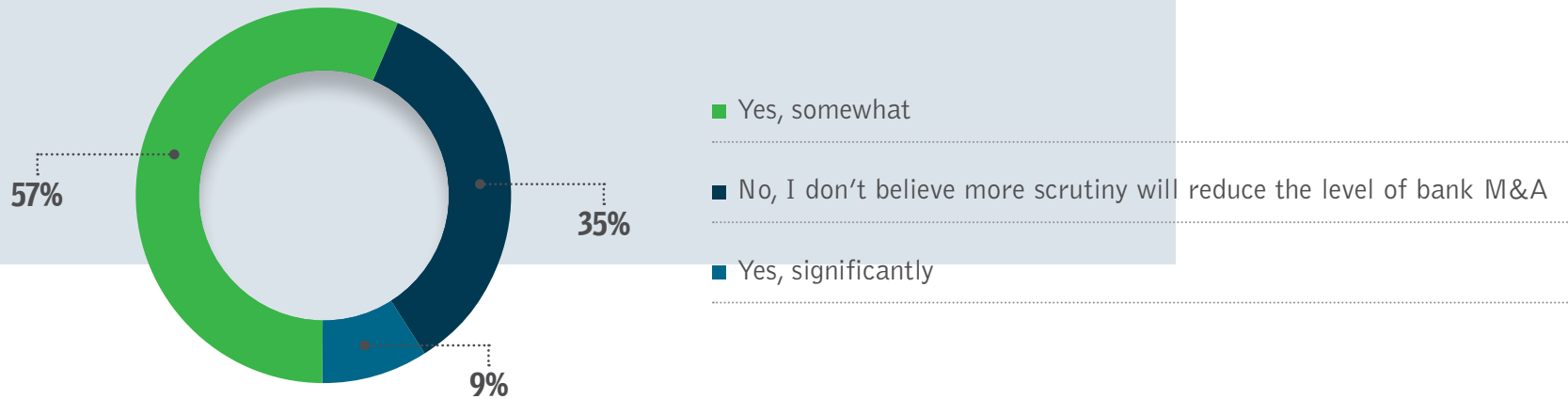
- The U.S. economy will experience modest growth
- The U.S. economy will grow significantly
- The U.S. economy will neither grow nor contract
- The U.S. economy will experience another downturn or recession

Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
The U.S. economy will experience modest growth	73%	70%	91%	65%	65%	72%
The U.S. economy will grow significantly	13%	20%	3%	16%	6%	14%
The U.S. economy will neither grow nor contract	-	7%	6%	13%	12%	8%
The U.S. economy will experience another downturn or recession	13%	4%	-	7%	18%	6%

REGULATORY MATTERS

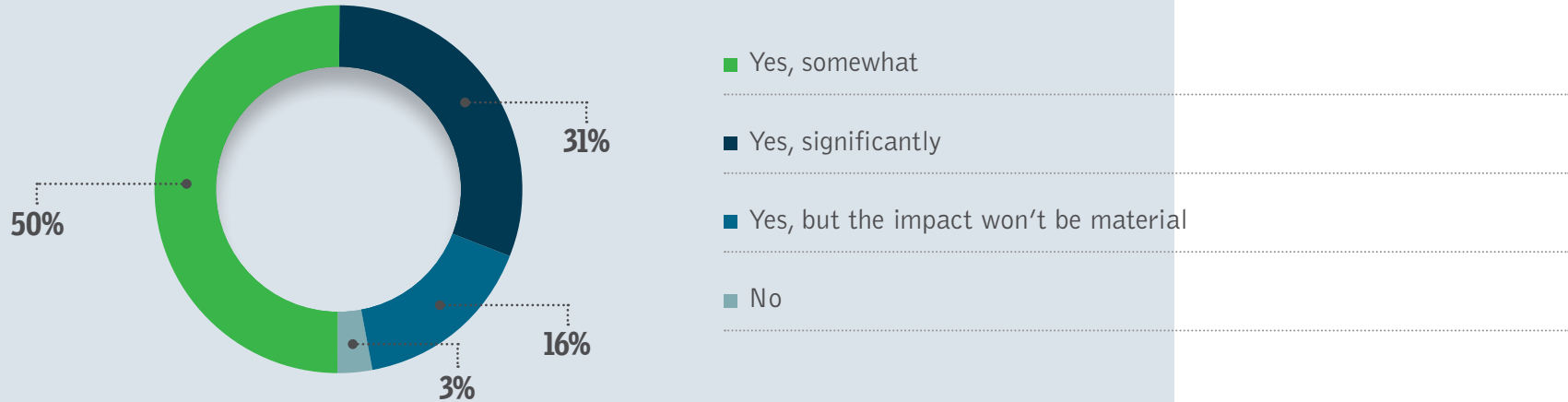
20. On July 9, President Joe Biden signed an executive order that aims to provide more scrutiny of bank mergers. Do you believe that this will slow the pace of consolidation of the U.S. banking industry?

Numbers don't add up to 100% due to rounding.



Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Yes, somewhat	53%	61%	48%	55%	59%	57%
No, I don't believe more scrutiny will reduce the level of bank M&A	20%	35%	48%	32%	29%	35%
Yes, significantly	27%	5%	3%	13%	12%	9%

21. Do you believe that regulation under the Biden administration will dampen bank profitability over the next few years?



Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Yes, somewhat	53%	52%	48%	42%	53%	50%
Yes, significantly	33%	24%	29%	48%	35%	31%
Yes, but the impact won't be material	13%	21%	16%	7%	12%	16%
No	-	4%	7%	3%	-	3%

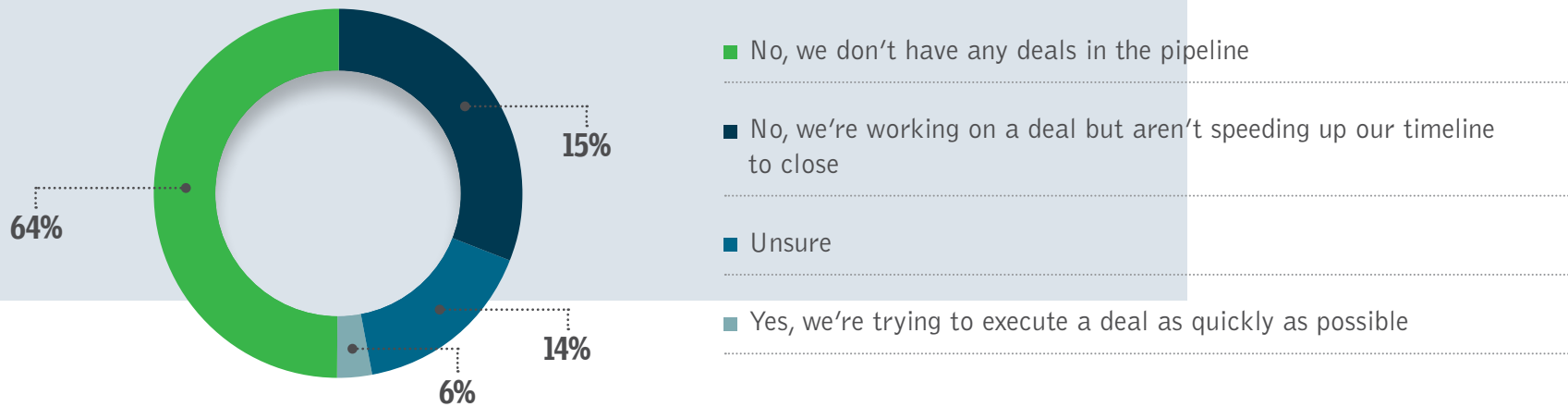
22. Do you believe that enhanced scrutiny around climate change and similar environmental, social and governance (ESG) disclosures could dampen bank M&A activity and/or profitability?

Profitability						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Yes	47%	57%	61%	65%	65%	59%
No	40%	30%	36%	19%	18%	29%
Unsure	13%	14%	3%	16%	18%	13%

Bank M&A activity						
Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
Yes	40%	31%	29%	45%	29%	34%
No	40%	45%	48%	32%	53%	44%
Unsure	20%	24%	23%	23%	18%	22%

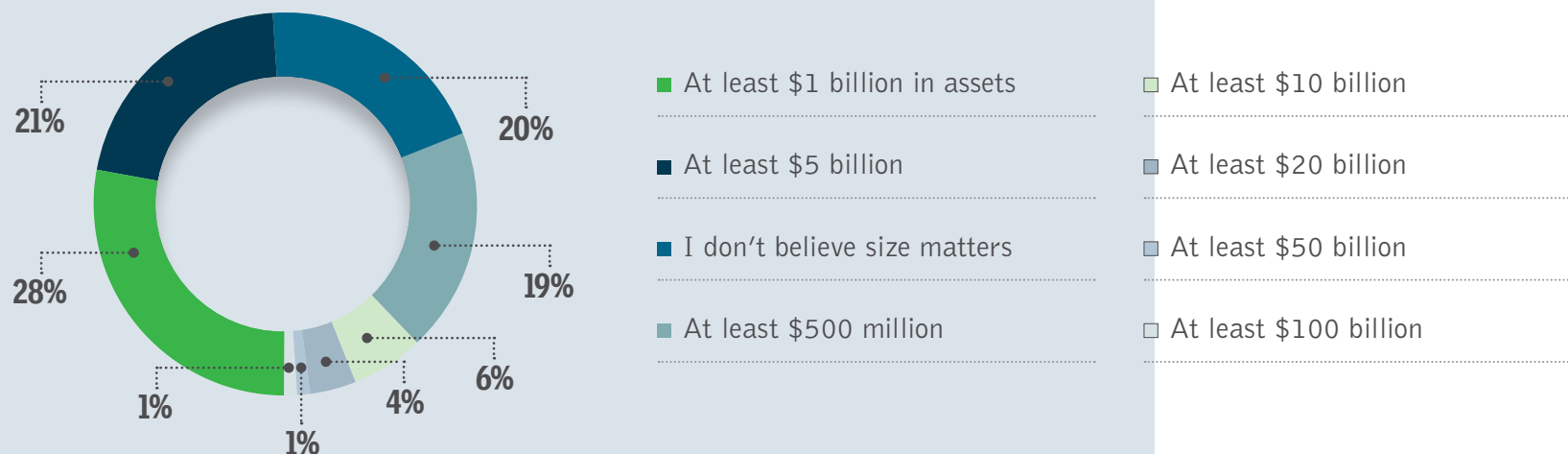
23. As of September, the Biden administration proposed raising the top federal tax rate on long-term capital gains and qualified dividends, almost doubling it from 20% to 39.6%. Is a potential tax increase escalating your bank's M&A plans?

Question only asked of those who describe their bank as an active acquirer or open to acquisitions. Numbers don't add up to 100% due to rounding.



24. How large do you believe a bank needs to be to effectively compete in today's economy?

Respondents were asked to select the option that best aligns with their views.

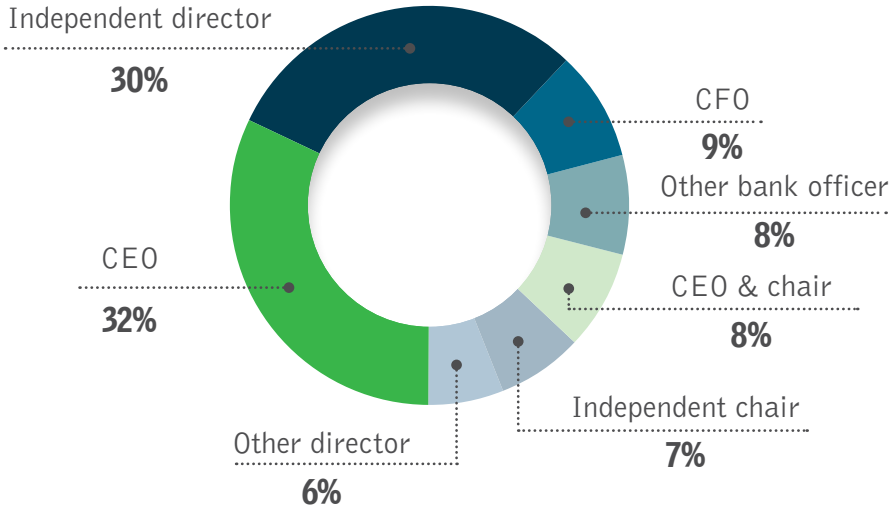


Bank Asset Size	>\$10B	\$1B - \$10B	\$500M - \$1B	\$250M - \$500M	<\$250M	Total
At least \$1 billion in assets	13%	30%	32%	37%	6%	28%
At least \$5 billion	20%	34%	19%	3%	-	21%
I don't believe size matters	33%	8%	23%	33%	41%	20%
At least \$500 million	-	11%	23%	27%	47%	19%
At least \$10 billion	-	14%	-	-	-	6%
At least \$20 billion	27%	4%	-	-	-	4%
At least \$100 billion	7%	-	-	-	6%	1%
At least \$50 billion	-	-	3%	-	-	1%

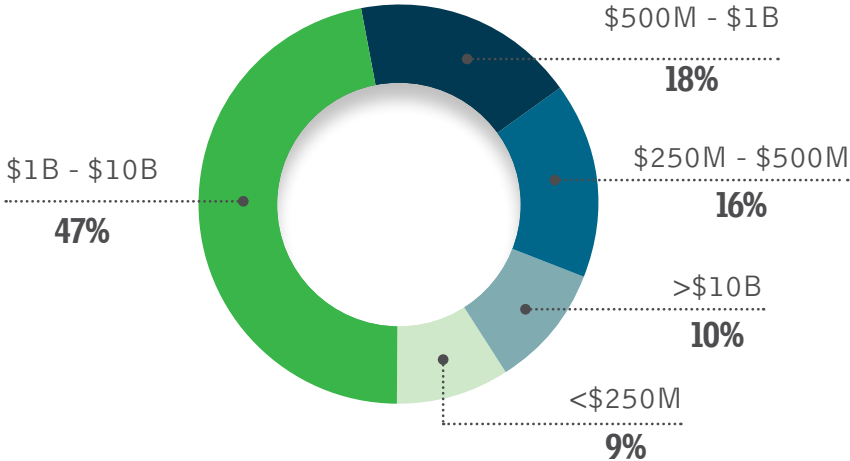
ABOUT THE SURVEY

Bank Director’s 2022 Bank M&A Survey, sponsored by Crowe LLP, surveyed 229 independent directors, chief executive officers, chief financial officers and other senior executives of U.S. banks below \$600 billion in assets to understand current growth strategies, particularly M&A. The survey was conducted in September 2021. Almost half of the respondents represent financial institutions between \$1 billion and \$10 billion in assets. Thirty-seven percent represent independent board members, and 40% serve as their bank’s CEO.

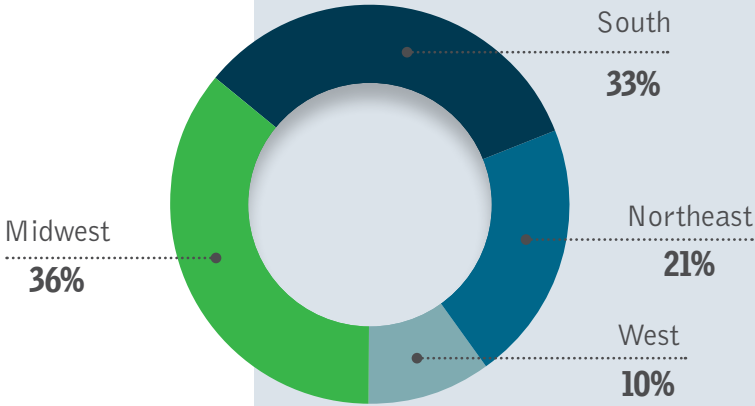
TITLE



ASSET SIZE

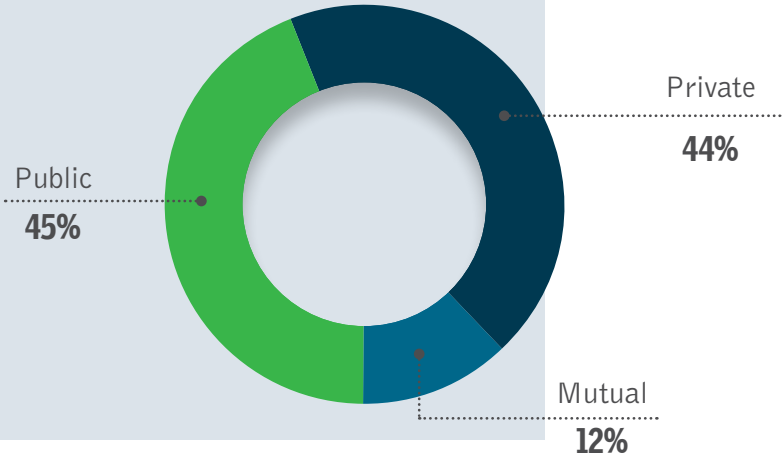


REGION



OWNERSHIP

Numbers don't add up to 100% due to rounding.



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