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November 2023
Research

2024 Bank M&A Survey

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EXECUTIVE SUMMARY

Bank leaders' enthusiasm for M&A appears muted going into 2024, but an appetite for sticky, low cost deposits could motivate some financial institutions to make a deal in the year ahead.

Bank Director's 2024 Bank M&A Survey, sponsored by Crowe LLP, finds that 34% of bank executives and directors believe they are likely to acquire another institution by the end of 2024, down from 39% in 2023 and 48% in 2022. Eighty-five percent point to an attractive deposit base as a top attribute of an acquisition target in today's environment, compared with 58% who said as much a year ago. That was followed by a complementary culture (58%), efficiency gains (55%) and locations in growing markets (48%).

Looking over the next five years, more than half (56%) of bank executives and directors say they are open to acquisitions. Almost a quarter plan to be active acquirers.

By and large, respondents do not expect dramatic swings in their bank's deposit rates over the next 18 months. Forty-five percent expect deposit rates to increase by no more than 50 basis points, and 22% expect them to decline by that amount. If that holds true, that's positive news for the industry. The Federal Reserve's Federal Open Market Committee raised the federal funds rate 11 times over the past 18 months, bringing it to a range of 5.25% - 5.50%. "Deposit acquisition [at] reasonable rates will be the key to profitability," writes the independent director of a private, southwestern bank.

When asked about strategies their bank has employed to generate organic growth in 2022-23, 57% say they've added staff in revenue-generating areas. Forty-two percent expanded their product offering within existing business lines, and 38% added new business lines or products. The percentage who have undertaken new digital efforts to attract deposits fell from 50% in last year's survey to 39% this year.

One respondent points out that digital channels allow customers to move money more quickly, adding, "sticky deposits are not so sticky anymore."

Organic growth has also been tough to come by lately. Respondents cite economic uncertainty or fear of recession (56%), competition from other financial institutions (55%), and limited or sluggish loan demand (34%) as the top three obstacles to achieving organic growth in the current environment. Nearly a quarter (24%) cite staffing constraints as a growth challenge, a sentiment that was echoed in anonymous comments by survey respondents.

"The inability to attract human capital at all levels of the bank remains our largest concern going forward," says the CEO of a midwestern bank. "I see this as our biggest obstacle to the survival of community banks going forward."

Laura Alix is the director of research for Bank Director, an information resource for directors and officers of financial companies. You can connect with her on LinkedIn.

KEY FINDINGS

Transformational Deals

Forty-one percent of respondents say their bank would be open to a merger of equals, while 34% say it would not be. Nearly a quarter are unsure. Two years ago, almost half (48%) said their bank would be open to such a transaction.

Waning Confidence In Valuations

Respondents cite the pricing expectations of potential targets (71%) as a top barrier to M&A, followed by a lack of suitable targets (59%). Among potential acquirers, 35% would be willing to pay up to 1.5 times tangible book value for the right target. However, just over half of respondents would expect a minimum of 1.75 times book value in a sale. For public banks, 40% feel their bank's stock is attractive enough to buy an institution that meets its acquisition criteria, a sharp drop from 51% who said as much last year.

Failed Bank M&A

Three-quarters of bank leaders say they have not discussed the possibility of buying a failed bank, but 17% have discussed it and informed their regulator of their interest.

Trouble On The Horizon

Forty-three percent anticipate more bank failures over the next 18 months, but among those bank leaders, most do not expect to see more than 10 banks fail. A third of respondents do not anticipate any further bank failures in that time period.

Selective Sellers

While a majority (61%) express no preference as to whether a potential acquirer would be a direct competitor, most would rather sell to a regional bank (65%) or community bank (60%) than to a private investor group (18%), multinational bank (12%) or credit union (9%).

Sluggish Fintech Investing

A large majority of respondents (79%) say their bank did not invest in or acquire a fintech firm in 2022 or 2023, consistent with last year's survey results. Of those who did invest in a fintech company, most cite a desire to gain a better understanding of the fintech space.

ACQUISITION PLANS

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

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.

44%	Scale to drive technology and other investments
36%	Geographic expansion
34%	Adding a low-cost deposit base
26%	Customer acquisition
17%	New business lines/revenue opportunities
15%	Pressures on profitability tied to the economic environment and similar factors
13%	Cost savings
11%	Talent acquisition
4%	Loan portfolio diversification

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

Question only asked of those who describe their bank as an active acquirer or open to acquisitions.

71%
Pricing expectations of potential targets

59%
Lack of suitable targets in desired markets/areas

47%
Culture/integration of personnel

42%
Demands on my bank's capital

41%
Valuation differences generated by the seller's unrealized losses

31%
Concerns about asset quality of potential targets

25%
Our stock doesn't trade at a high enough premium

18%
Technology integration

16%
Uncertainty about the future economy

11%
Loan concentrations in office, retail or lodging

11%
Lack of experience in doing acquisition

11%
Uncertainty about the future of banking

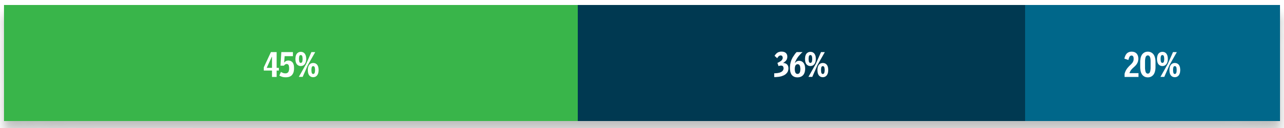
10%
Unfavorable core provider contract terms/conditions

8%
Uncertainty about ability to gain regulatory approval

4%
Other commercial real estate concentration

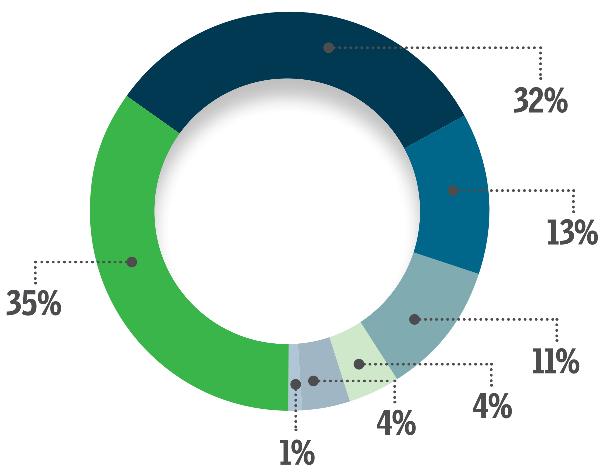
4. In August 2023, the rating firm Moody's downgraded the credit ratings of 10 regional banks and put six more on review for a downgrade. Fitch Ratings also warned that it could downgrade dozens of banks. What impact do you think these actions could have on bank M&A more broadly in 2024?

- It will be more difficult for regional banks to acquire, but it won't affect small bank M&A
- Overall deal activity will remain dampened
- Deal activity will pick up



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

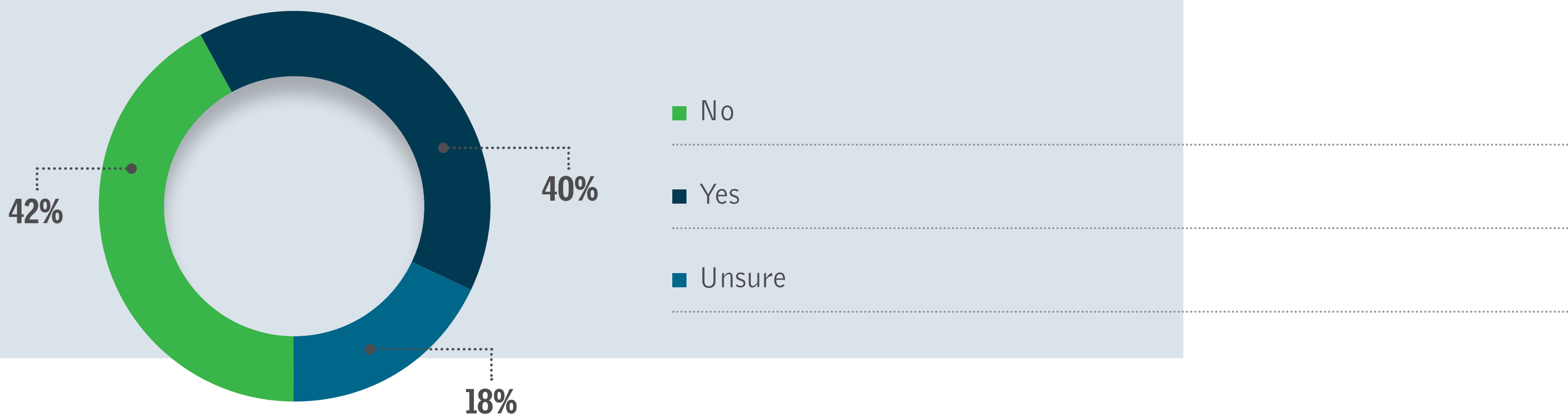
Question only asked of those who describe their bank as an active acquirer or open to acquisitions. Numbers don't add up to 100% due to rounding.



- Up to 1.5 times book
- Up to 1.2 times book
- Up to 1.75 times book
- Up to tangible book value
- Less than tangible book value
- Up to 2 times book
- Up to 2.5 times book

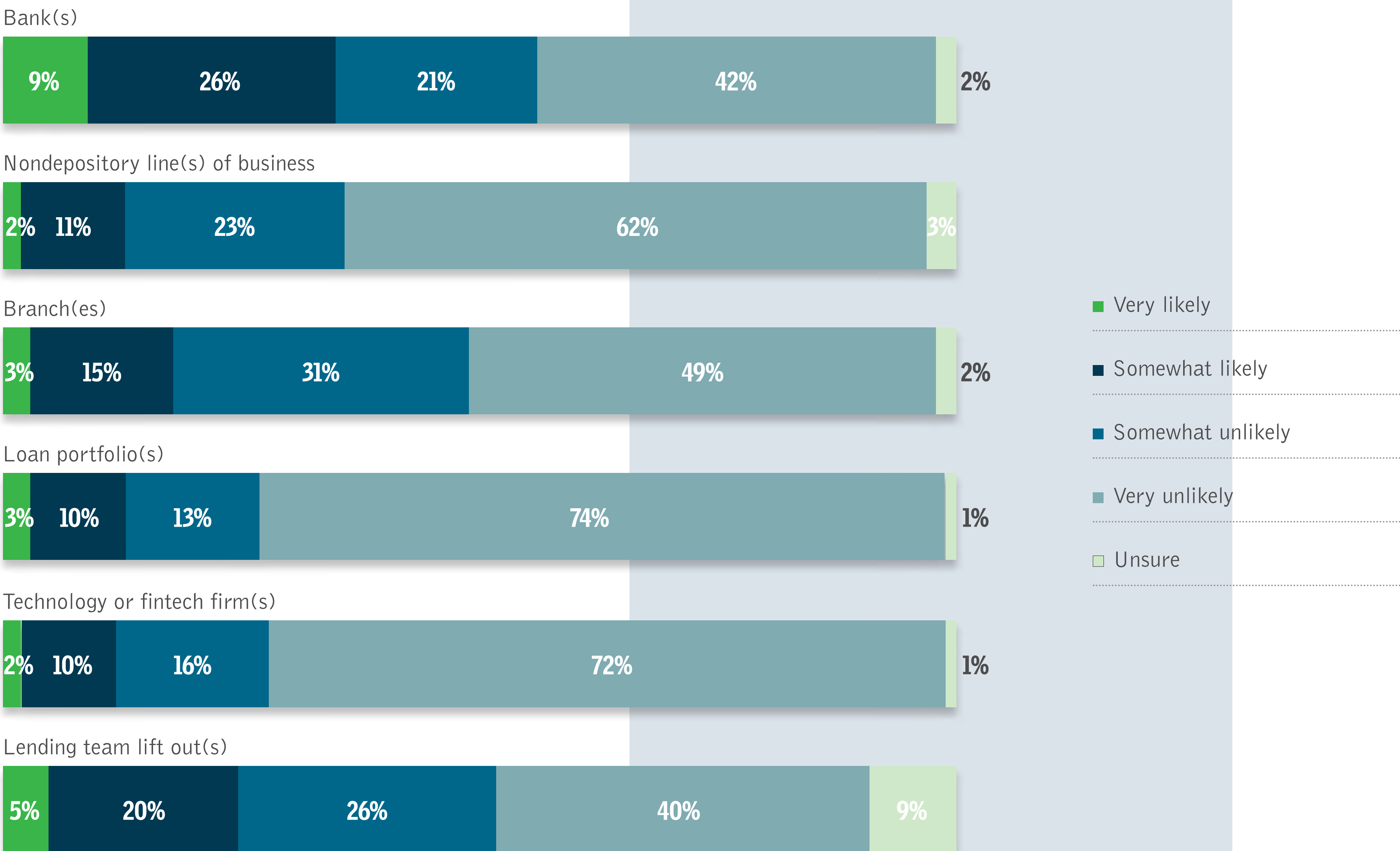
6. Do you believe that the valuation of your bank's stock today would be attractive enough to acquire an institution that meets your acquisition criteria?

Question only asked of respondents from publicly traded banks who indicated their organization is open to M&A or interested in being an active acquirer in the next five years.



7. Given the current environment, how likely is it that your institution will purchase the following by the end of 2024?

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



8. 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.

85% Attractive deposit base

58% Complementary culture

55% Efficiency gains/potential cost saves

48% Locations in growing markets

42% Complementary credit standards and/or consistent credit quality

35% Talented lenders/lending teams

30% Target size

27% Demonstrated/potential loan growth

21% New business lines/sources of revenue

20% Complementary business lines/sources of revenue

13% Target's strong reputation/brand in its market(s)

12% High level of profitability

8% Branch network overlap

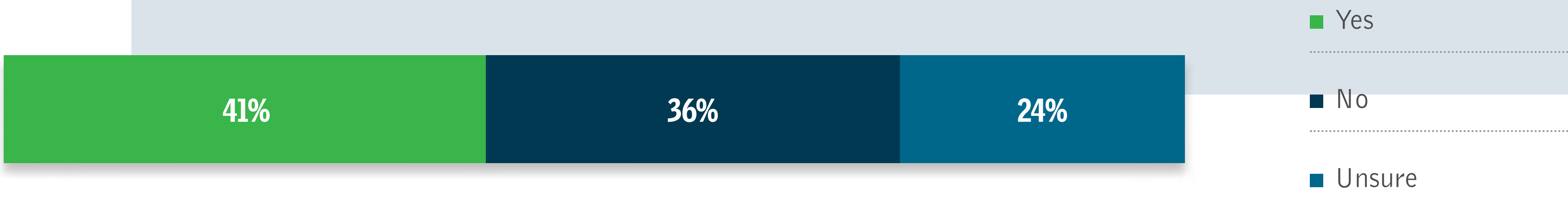
6% Technology platform/infrastructure

6% Strong digital footprint

2% Other key talent

GROWTH & INVESTMENT OPPORTUNITIES

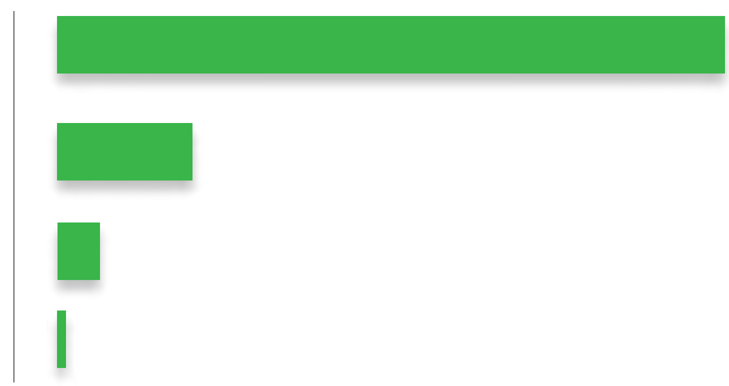
9. Would your board and management team consider a merger of equals (MOE) or similar strategic combination in today's environment?



10. Did your bank directly or indirectly invest in fintechs in 2022-23?

Respondents were asked to select all that apply.

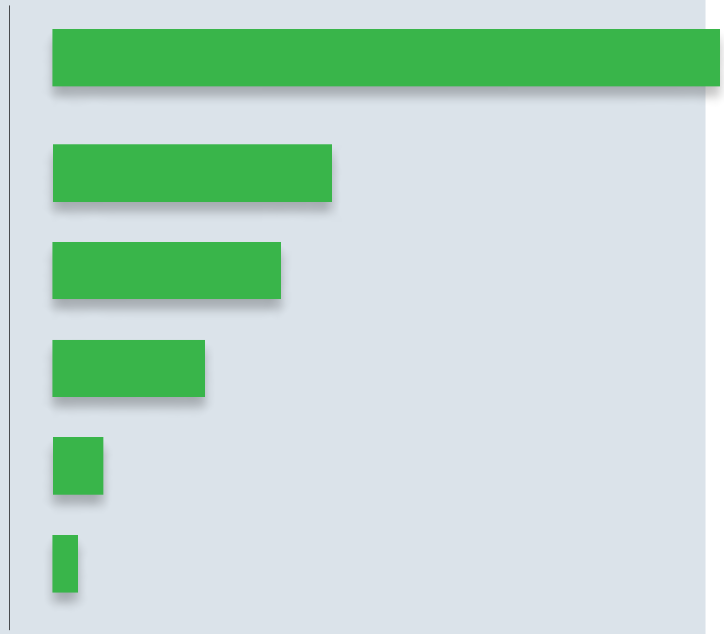
79%	Our bank has not invested in or acquired fintechs
16%	Yes, our bank invested indirectly via participation in a venture capital fund(s) focused on fintechs
5%	Yes, our bank invested directly into fintech companies
1%	Our bank acquired one or more fintechs



11. Why did your bank choose to invest in or acquire a fintech firm(s)?

Question only asked of respondents who indicated their bank had invested in or acquired a fintech firm. Respondents were asked to select all that apply.

79%	Gaining a better understanding of the fintech space/available solutions
33%	Financial returns
27%	Specific technology improvements
18%	New revenue streams/additional business lines
6%	Other
3%	Access to talent



12. In 2022-23, what means of organic growth has your bank engaged in?

Respondents were asked to select all that apply.

57%	Adding staff in revenue-generating areas of the bank
42%	Adding new products within existing business areas
39%	New digital initiatives or upgrades that attract deposits
38%	Adding new business lines or products
38%	New or upgraded customer relationship management tools
37%	De novo expansion (offices or branches) in new markets
33%	Shift in marketing and advertising strategies
30%	New customer referral initiatives
22%	New digital initiatives or upgrades to drive loan originations
4%	Other

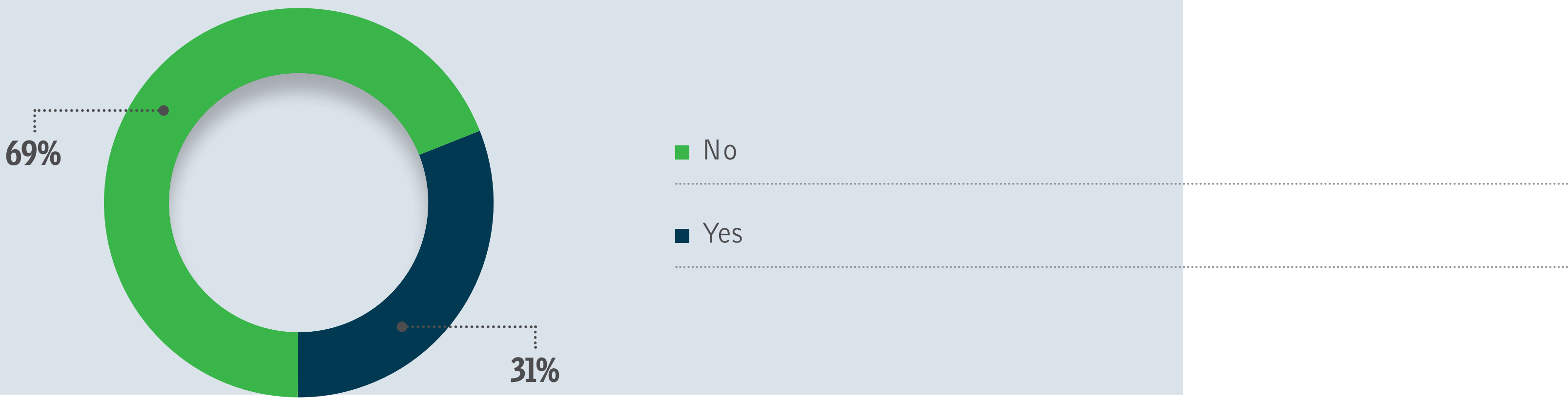
13. What do you see as the top three obstacles to achieving organic growth in the current environment?

Respondents were asked to select no more than three options.

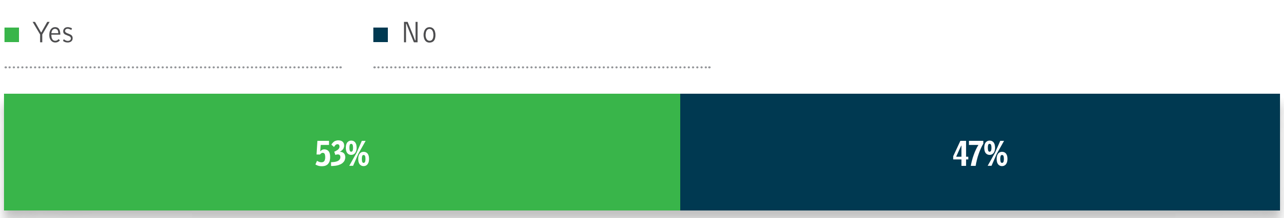
56%	Economic uncertainty or fear of recession
55%	Competition from other financial institutions offering more attractive rates
34%	Limited or sluggish demand for loans
33%	Depositor attrition following bank turmoil (i.e. big banks)
24%	Constraints on talent
22%	Increased compliance burden
16%	Competition from fintechs (i.e .neobanks, online lenders)
16%	Slow new business formation in our markets
12%	Tightened underwriting standards
4%	Regulatory approval needed for new products or services

EVALUATING WHETHER TO SELL

14. To your knowledge, did another financial institution express interest in acquiring your bank in 2022 or 2023?



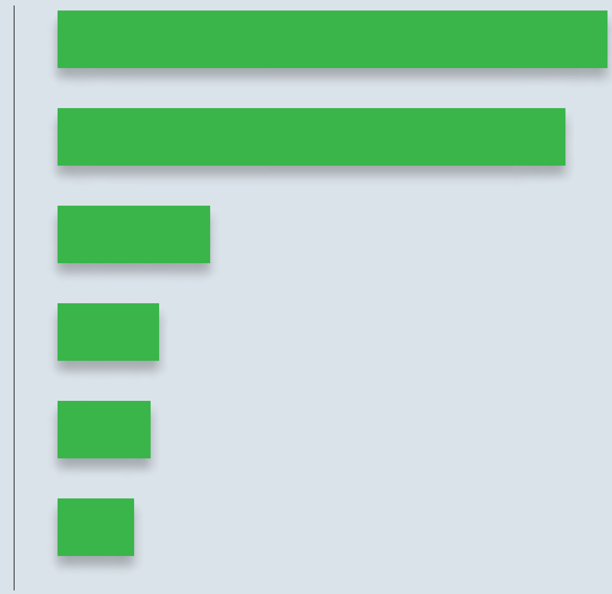
15. Would your board and management team be open to selling the bank over the next five years, at the right price?



16. If you were to consider a sale, which of the following entities would be the preferable acquirer?

Question only asked of respondents who indicated their board and management team would be open to selling their institution over the next five years.

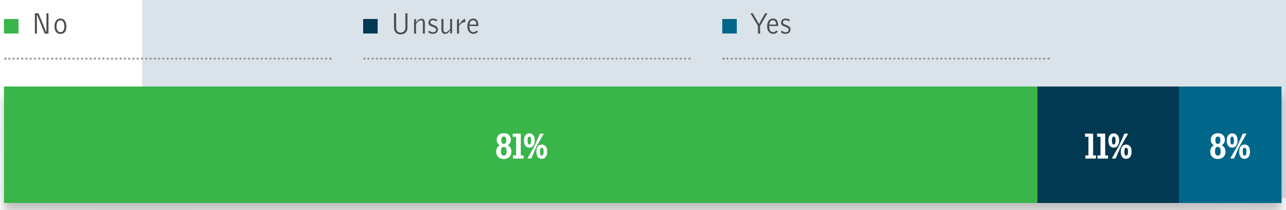
65%	Regional bank
60%	Community bank
18%	Private investor group
12%	Multi-national diversified bank
11%	Tech or fintech company
9%	Credit union



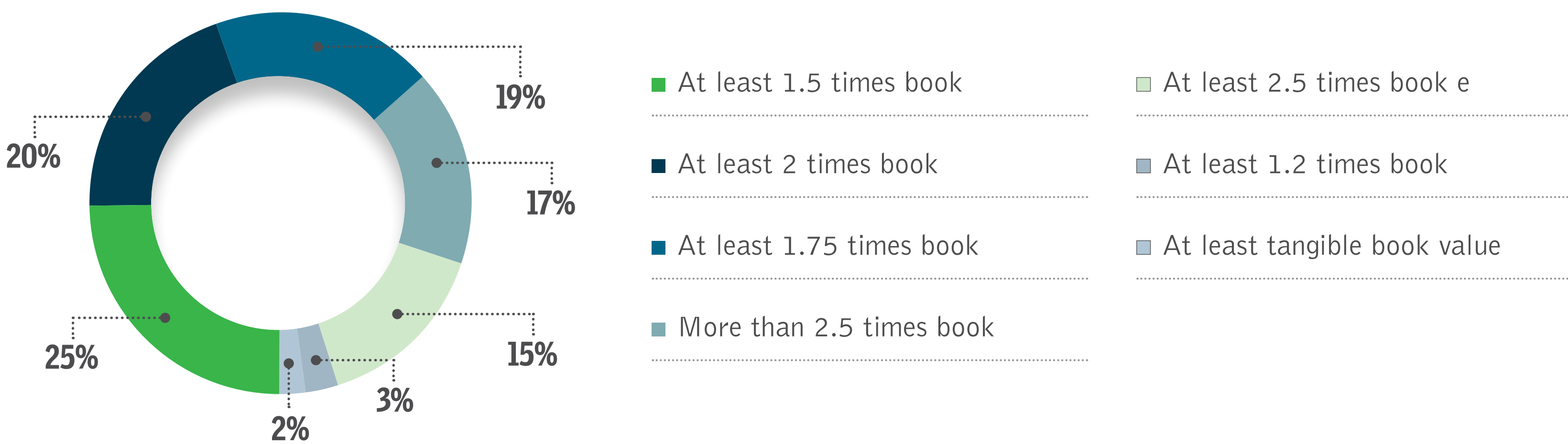
17. Would the preferable acquirer be a direct competitor in your existing market?

Question only asked of respondents who indicated management would be open to selling within the next five years at the right price.

18. Do you believe that pressures on profitability could compel your bank to sell over the next 24 months?

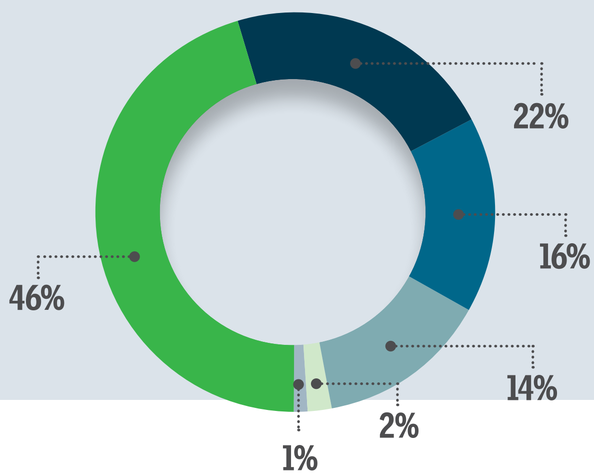


19. If your bank were to consider a sale, what would be the minimum value that you'd be willing to accept for your institution?



OPTIMIZING THE BALANCE SHEET

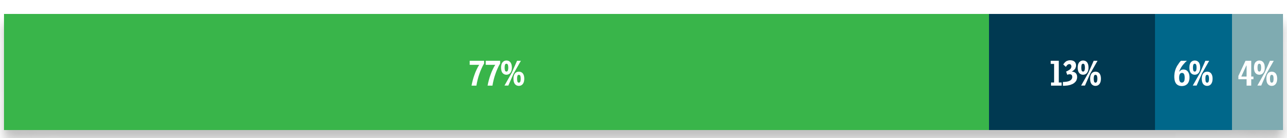
20. How do you envision deposit rates at your bank trending over the next 18 months?



- Increase between 0-50 basis points
- Decrease between 0-50 basis points
- Increase between 50-150 basis points
- Decrease between 50-150 basis points
- Increase more than 150 basis points
- Decrease more than 150 basis points

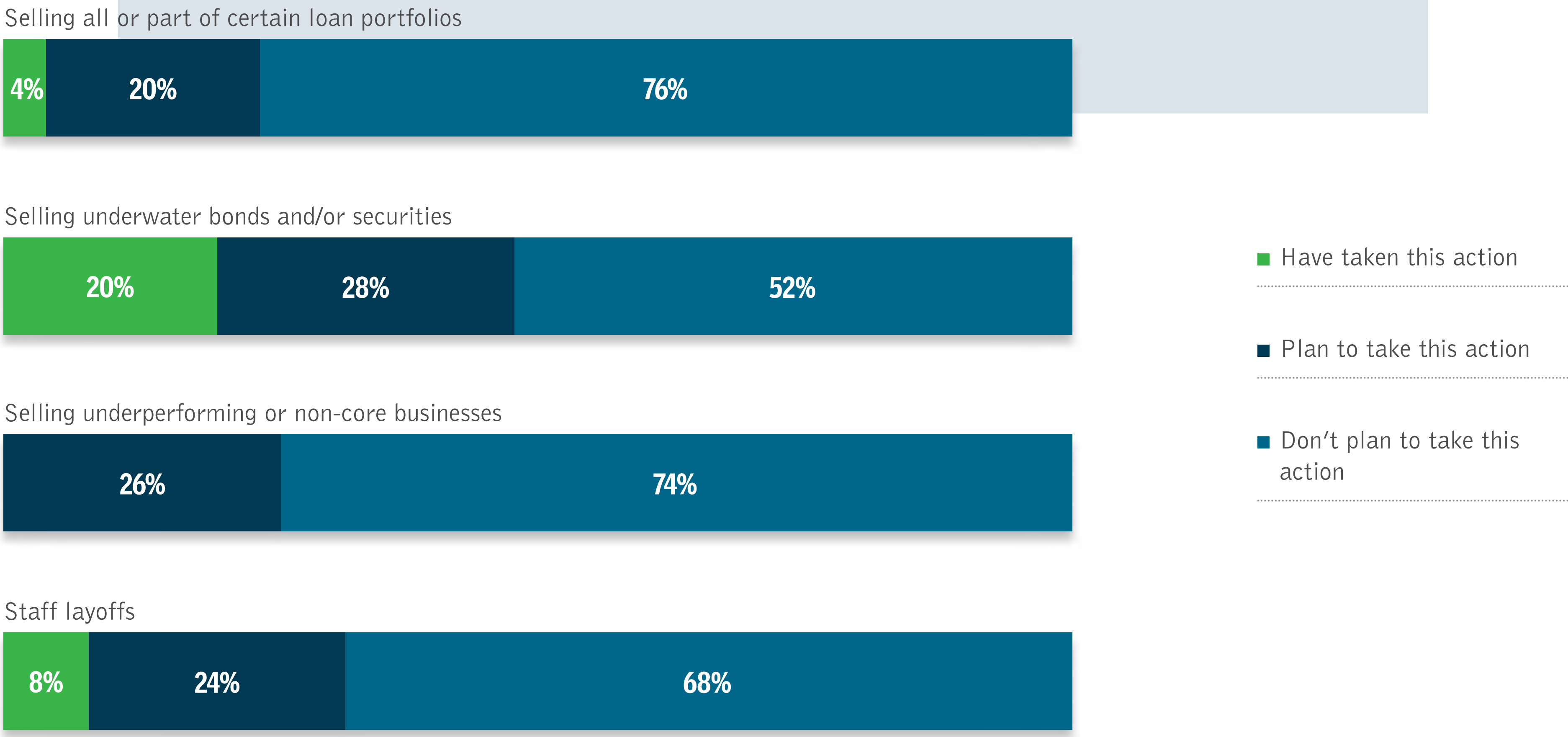
21. Do you plan to shrink your bank's balance sheet in the next 18 months?

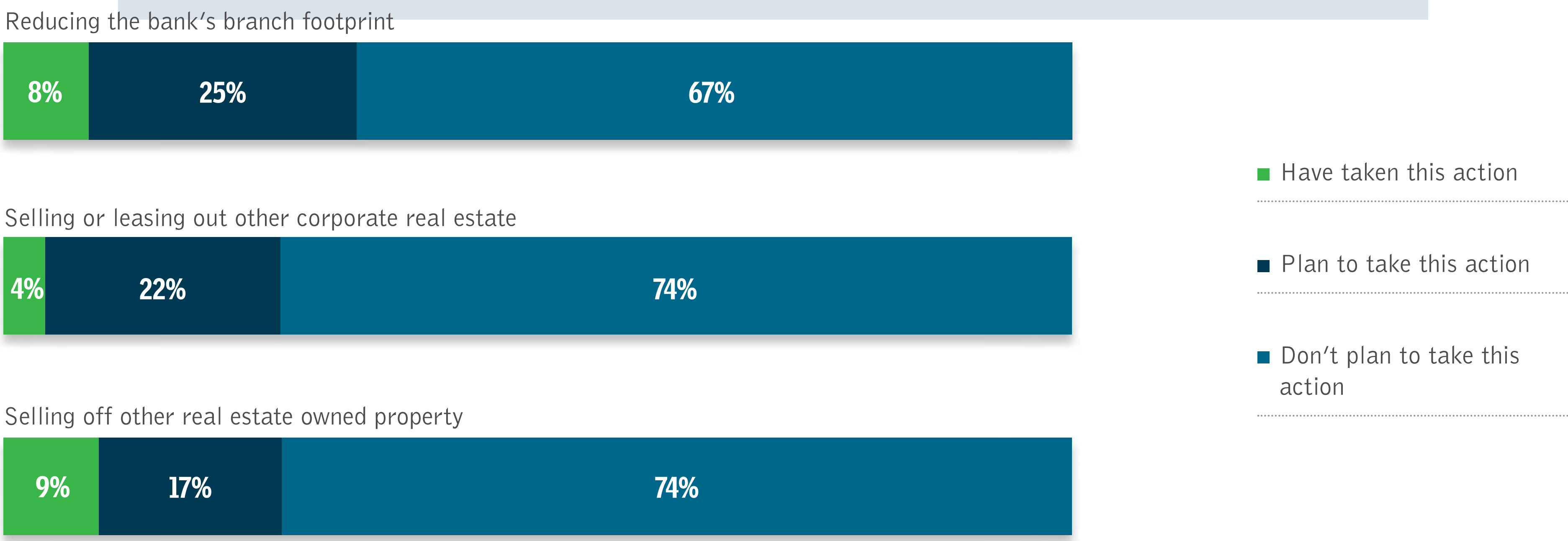
- No
- We've discussed it but made no firm plans to do so at this point
- Unsure
- Yes



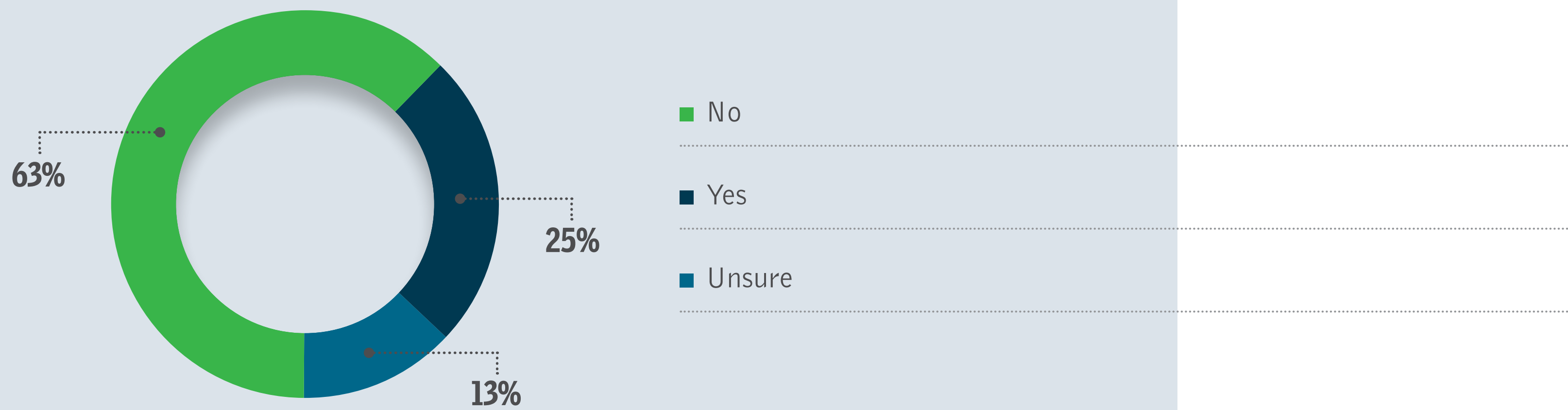
22. What options has your bank's leadership explored in terms of shrinking the balance sheet?

Question only asked of respondents who indicated they plan to shrink the bank's balance sheet or had discussed doing so.



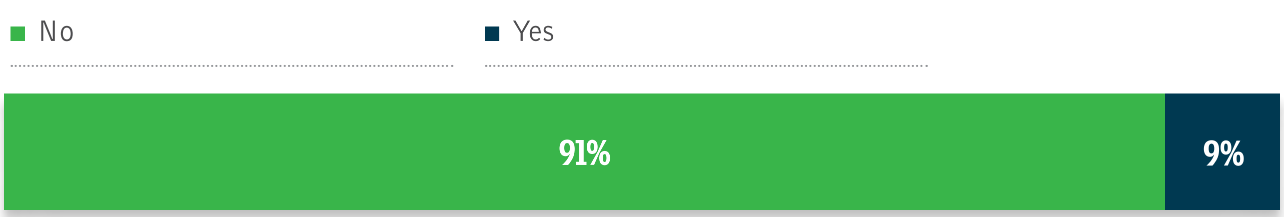

Reducing the bank's branch footprint
8%
25%
67%
Selling or leasing out other corporate real estate
4%
22%
74%
Selling off other real estate owned property
9%
17%
74%
Have taken this action
Plan to take this action
Don't plan to take this action

23. Do you expect that regulators will require your bank to maintain a higher level of capital in 2024-25?



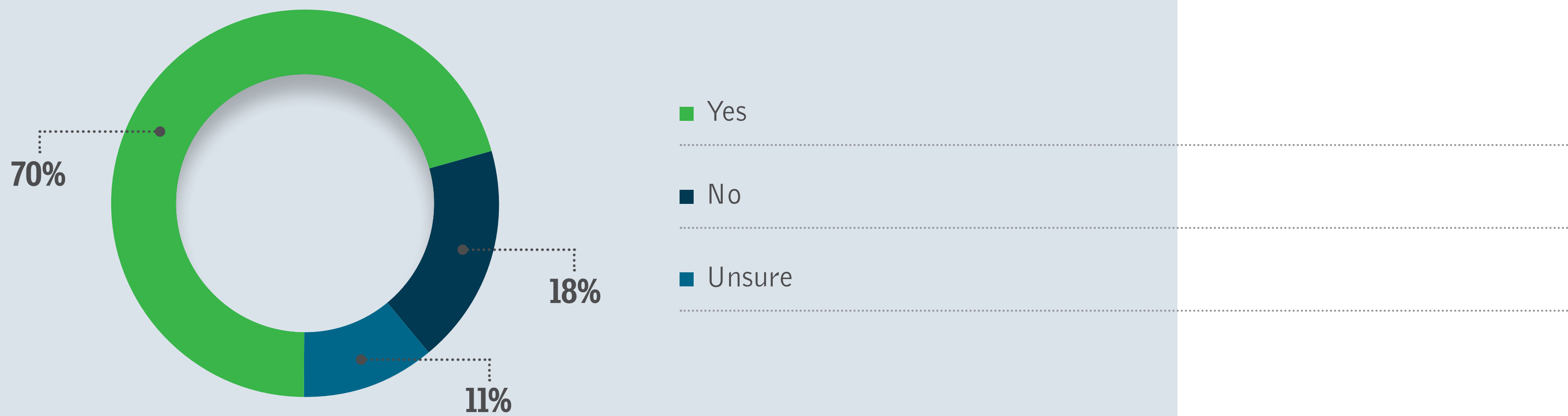
24. The Inflation Reduction Act of 2022 imposed a new excise tax on corporate stock repurchases by covered corporations for transactions occurring after Dec. 31, 2022. Do you anticipate this new excise tax will impact your bank's buyback plans in 2024?

Question only asked of respondents from public banks.



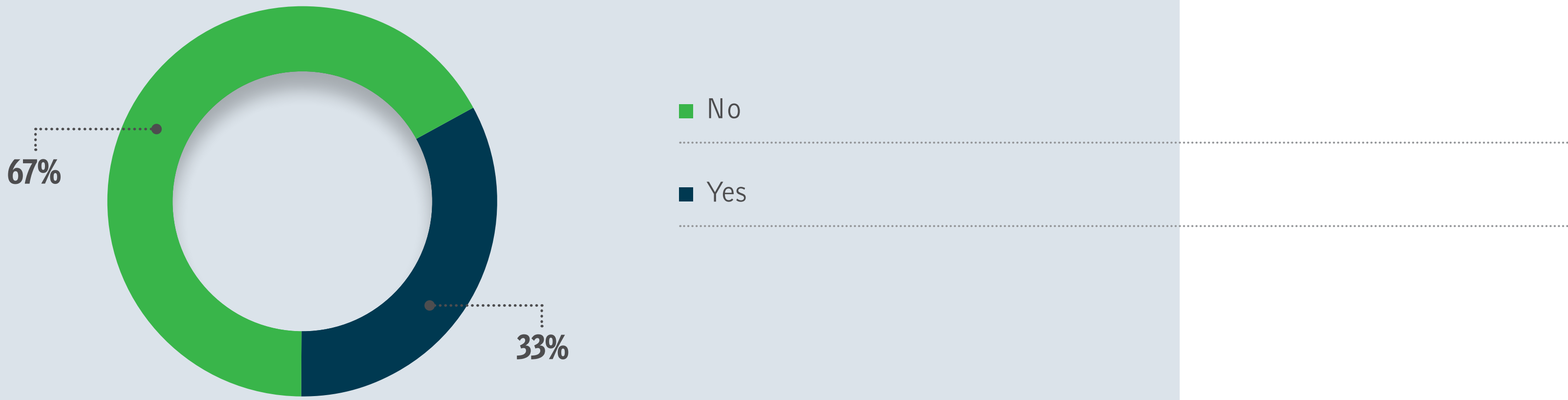
25. Does your leadership team and board intend for your bank to remain under $10 billion of assets?

Question only asked of banks between $1 billion and $10 billion of assets.



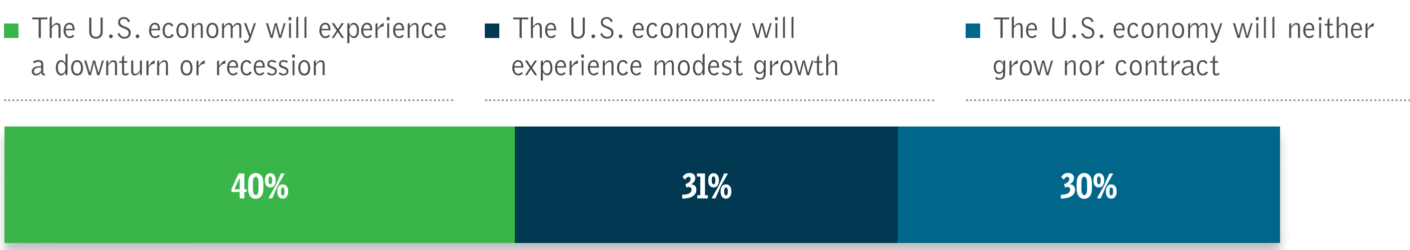
ECONOMIC OUTLOOK

26. Do you believe the U.S. economy is currently experiencing a recession?

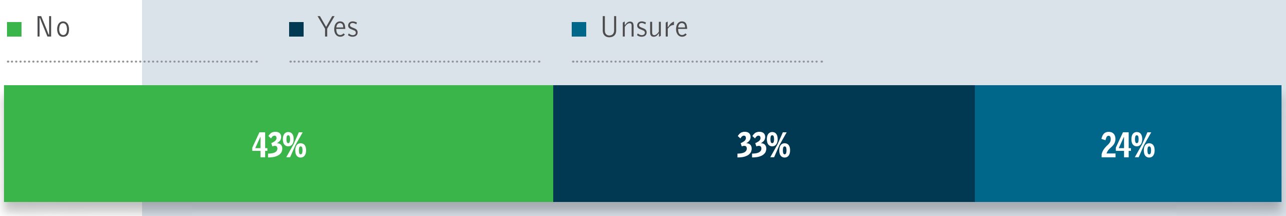


27. What is your outlook for the U.S. economy through the end of 2024, compared to 2023?

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

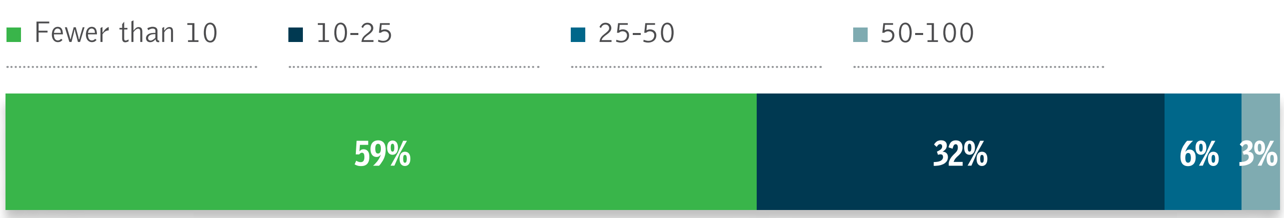


28. Following the first half of 2023, do you anticipate more bank failures over the next 18 months?

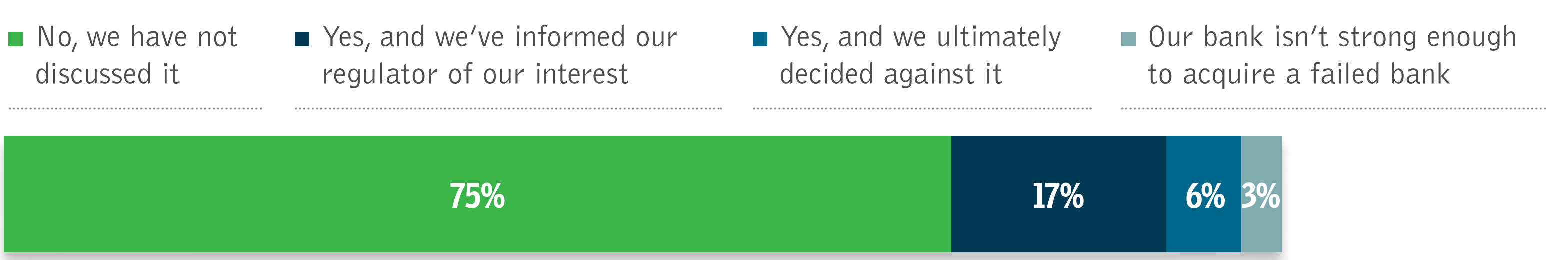


29. How many banks do you believe will fail over the next 18 months?

Question only asked of respondents who indicated they anticipate more bank failures over the next 18 months.



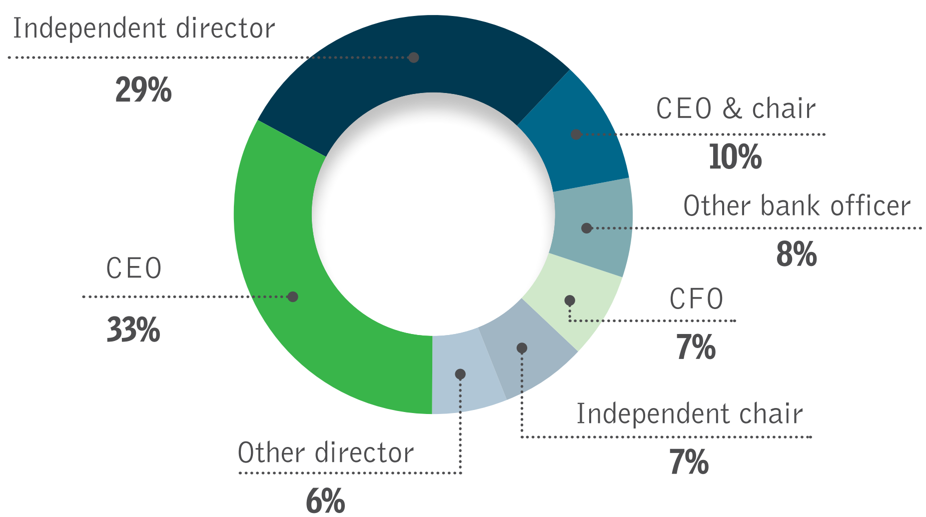
30. Has your bank's leadership discussed the possibility of acquiring a failed bank?



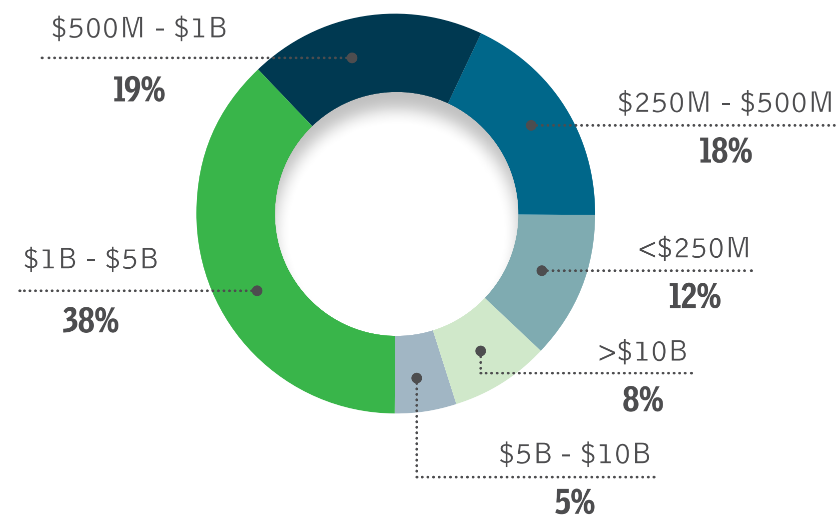
ABOUT THE SURVEY

Bank Director's 2024 Bank M&A Survey, sponsored by Crowe LLP, surveyed 201 independent directors, CEOs, chief financial officers and other senior executives of U.S. banks below $100 billion in assets to examine current growth strategies, particularly M&A. Over half represent banks that are privately held, while 36% represent a publicly traded institution. Forty-three percent serve as the bank's CEO; 36% represent independent board members. The survey was conducted in September 2023.

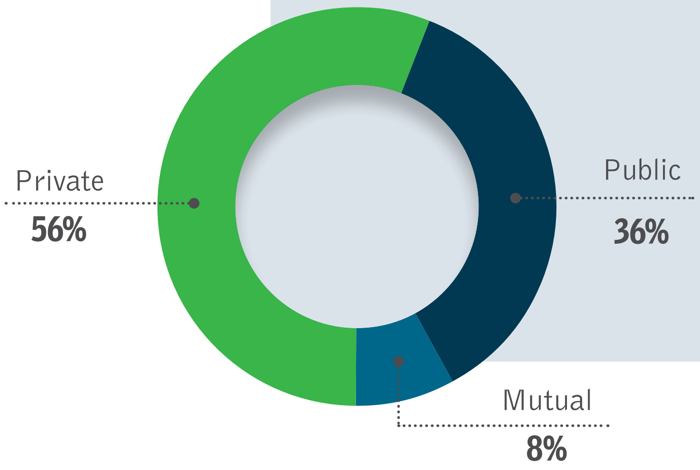
TITLE



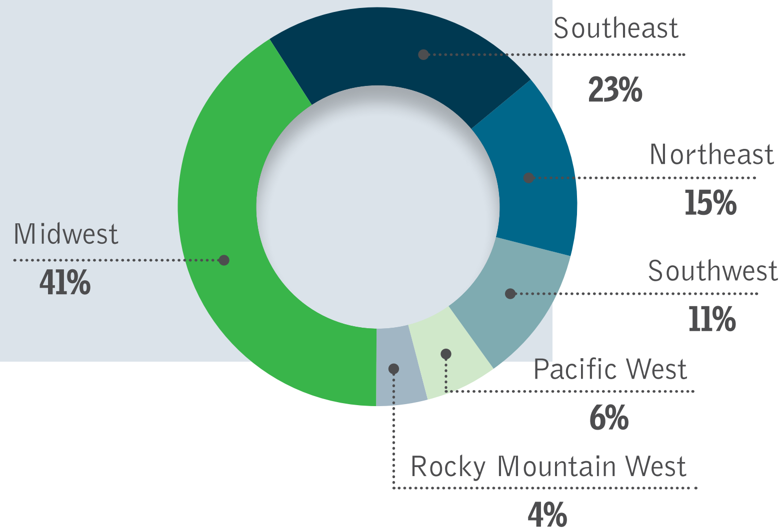
ASSET SIZE



OWNERSHIP



REGION



*Regions defined as follows: Midwest (IL, IN, IA, KS, MI, MN, MO, NE, ND, OH, SD, WI); Northeast (CT, ME, MA, NH, NJ, NY, PA, RI, VT); Pacific West (AK, CA, HI, OR, WA); Rocky Mountain West (CO, ID, MT, NV, UT, WY); Southeast (AL, AR, DE, DC, FL, GA, KY, LA, MD, MS, NC, SC, TN, VA, WV); Southwest (AZ, NM, OK, TX)